

2026 Private Equity Outlook

We continue to believe private equity can play a vital role in portfolios by broadening equity exposure beyond public markets and accessing active returns through engaged ownership and operational improvement. That said, the industry is no longer a narrow asset class. Private equity is large, varied, and increasingly complex. Outcomes will vary meaningfully by manager, strategy, vintage year, and market environment which is why we believe investors should take a diversified and programmatic approach to the asset class. The headline narrative often describes the largest managers and transactions, but that is only part of the story.

Because private equity continues to draw questions from investors—some encouraged by the rebound in the second half of 2025, others concerned by the industry’s recent liquidity challenges—we thought it worthwhile to review 2025 and offer our outlook for the future.

2025 Retrospective

Private equity entered 2025 with favorable expectations, only to see activity pause as policy uncertainty widened the gap between buyers and sellers. As the year progressed, however, financing conditions improved as banks re-entered sponsor lending markets and private credit remained active. By year-end, U.S. private equity deal value had exceeded \$1 trillion¹—only the second such year on record (2021 was the first). The recovery was especially visible in large transactions, including a resurgence of megadeals and take-privates.

The more important development was the improvement in exits. After several years in which sponsors largely held assets rather than selling into a difficult market, 2025 brought a meaningful increase in realizations. Exit value and exit count both improved, and the IPO market showed signs of reopening. This was encouraging because liquidity has been the industry’s most pressing issue for investors. Still, the recovery was uneven. Large, high-quality companies accounted for a disproportionate share of exit value, while many middle-market and lower-quality assets remained in portfolios. In other words, 2025 eased the distribution drought, but it did not end it.

Fundraising reflected that reality, as capital formation declined meaningfully. Despite better exit activity, the ability of limited partners (“LPs”) to commit to new private funds remained constrained by several years of limited distributions. Overall, allocations increasingly favored the largest and longest-standing managers, while emerging and first-time managers faced a difficult fundraising environment.

Market Outlook

Private equity activity cooled in the first quarter of 2026. While deal count held up reasonably well, aggregate deal value declined. Several risks bear watching.

First, software is being reassessed. For much of the past decade, software was one of private equity’s favored hunting grounds due to its recurring revenue, high margins, low capital intensity, and strong secular growth. AI has introduced new questions about the durability of that model. We do not believe software is “dead,” but underwriting must become more discerning.

Second, credit conditions may be less forgiving. In 2025, spread compression and lender demand helped sponsors refinance and recapitalize. In early 2026, spreads widened and private credit sentiment weakened. Many companies acquired near peak valuations are approaching debt maturity walls, which may force hard decisions around refinancing, selling, or marking assets.

Third, evergreen and semi-liquid private market vehicles are likely here to stay, but they raise questions around transparency, valuation, liquidity management, and conflicts—particularly for managers who may now be allocating to opportunities across traditional funds, evergreen structures, and private credit.

¹PitchBook’s 2025 Annual US PE Breakdown

The venture and growth equity market remains bifurcated. AI continues to attract extraordinary capital, and the largest companies are capturing a disproportionate share of investment capital. At the same time, liquidity remains tight for much of the market, and many companies that raised capital at elevated valuations in 2020 and 2021 still lack clear exit paths.

Despite these risks, we are optimistic that the asset class will continue to offer potential opportunities for disciplined investors. The market remains well capitalized, buyers are active, and businesses with resilient earnings and credible growth prospects continue to attract capital. We also expect operating capability to matter more than financial engineering. In a higher-rate world, returns will need to come from revenue growth, margin improvement, integration, pricing discipline, and strategic repositioning—not simply from leverage and multiple expansion.

Scale and Alignment in Private Equity

A recent LNW paper, *Private Equity at 50: Hold Everything*, framed the current state of the private equity market in a way that aligns well with our views. Private equity was built on a simple model: buy and improve companies, sell them and return capital. For decades, fund managers earned the right to raise the next fund by returning capital from the last one.

Scale has complicated that model. As the industry has grown, particularly among the largest platforms, management fees have become more meaningful. For some firms, assets under management growth has become a business objective in its own right. Continuation vehicles, NAV loans, dividend recapitalizations, general partner (“GP”) stake sales, and semi-liquid funds all provide new ways to manage liquidity, extend holding periods, and preserve fee-generating assets. These tools are not inherently bad, but these structures require careful evaluation because they can change the alignment between managers and their investors.

While headline critiques around private equity are often overly simplistic, investor frustration over slower distributions, extended hold periods, and incentive drift among some of the largest sponsors is justified. But conclusions that private equity itself is broken are flawed. The original model is alive and well in less efficient parts of the market, particularly where managers remain sufficiently focused and performance-dependent that exits still define success.

Our Approach

Our approach at Gerber Taylor remains largely unchanged. We continue to favor less efficient areas of the private markets, where competition is lower, sourcing is more relationship-driven, and managers can more easily create value through active ownership. We also continue to believe manager selection is especially important in private equity, and particularly in the current environment. As LNW describes it, the distinction between “Investors” and “Asset Gatherers” is becoming more meaningful, and we seek to focus on managers whose incentives we believe are aligned with those of investors.

2025 reinforced these views. We observed company-level execution across buyouts, venture/growth, and co-investments and solid distributions even as they seemed to remain constrained across the broader industry. Not everything moved in the same direction, and we saw both markups and markdowns, which is to be expected. The broader takeaway is that diversification by strategy, vintage year, sector, geography, and manager remains essential.

Private equity is larger, more complex, and less uniformly aligned than it once was. That requires more scrutiny and discernment. The old model—buy, improve, sell, return capital—can still work, but investors must be more thoughtful about where they seek it. As we look ahead, we believe patient, selective, and disciplined long-term investors can be better positioned to navigate the space.

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Sean Montesi

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