Private markets: three ideas for 2023

An increasingly varied universe, private markets may offer interesting entry points for investors amid volatility in public markets and demand for capital. We highlight three areas to consider.

1. Private credit: evaluate opportunities in two areas

European mid-cap lending:

- With balance sheets under pressure, banks could prioritise lending to investment-grade companies. That move could create potential opportunities for private markets investors in other areas of the market.
- Higher returns in lending to lower-rated companies may provide more cushion to absorb potential losses in an economic slowdown – and mean investors are well positioned for when conditions improve.

Trade finance:

- A short-term, semi-liquid asset class with limited risk of losses from non-payment or changes in interest rates, trade finance can help investors build portfolio returns.
- Investors may be able to play a part in helping banks meet strong demand for trade finance. And it can serve as an asset class to search for opportunities while waiting for longer-dated credit markets to reset.

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2. Partnerships and secondary markets: more potential deals

Co-investments:

- In a tougher market for fundraising, we expect private equity firms (also called general partners or GPs) to seek out partners for deals, a process known as co-investment.
- Large and trusted partners are expected to be particularly sought after to help fund deals as distribution becomes more challenging in softer markets.

Secondary market deals:

- Another potential opportunity for investors are GP-led secondary market deals and continuation funds, set up to take on the portfolio investments of a fund close to the end of its lifespan.
- Large partners are expected to be in demand to help fund deals in a market that has swelled by double-digit rates over the past 20 years to an estimated USD 134 billion in 2021.[1]

1. https://www.buyoutsinsider.com/secondaries-continues-to-attracts-new-investors-particularly-as-the-gp-led-trend-dominates/

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3. Infrastructure: two factors to think about

Energy:

- We see a huge need for capital to fund both the transition to more sustainable sources and to ensure the security of future energy supplies.
- The scale of investment required is vast. Globally, cumulative investment of USD of 35 trillion is needed by 2030 to help fund the energy transition,[1] with a focus on efficiency, electrification, grid expansion and flexibility.

Inflation:

- Infrastructure assets often have features and contractual protections to enable investors to navigate periods of high inflation.
- Investment opportunities may arise as companies seek to offload assets as inflation squeezes profit margins. We see these openings emerging across equity, high-yield and investment-grade credit.

Learn more: 2023 outlook: private markets at a crossroads | Allianz Global Investors (allianzgi.com)

1. Investment Needs of USD 35 trillion by 2030 for Successful Energy Transition (irena.org) International Renewable Energy Agency, 28 March 2023

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