Private equity's resilience during major crises: a 25-year analysis

Schroders capital

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Introduction

Over the last four years, financial markets have been subject to a series of shocks that have had far-reaching implications. From the global pandemic and subsequent shutdown of major economies to recent geopolitical tensions, the market environment has been rife with uncertainty. Amidst this turbulence, private equity still managed to deliver impressive absolute and relative performance. Over the period 2019 to 2023, global private equity experienced 16% annualised performance, outperforming the MSCI ACWI gross index by 8%.

Has private equity simply been fortunate during this recent period, or has its success extended to other crises? Using periods of elevated volatility to identify crises, the past 25 years saw five major financial crises: the Dotcom Crash, the Global Financial Crisis (GFC), the Eurozone Crisis, the COVID-19 Outbreak, and the Return of Inflation.

During the major crises of the last 25 years, private equity has outperformed public markets

ANNUALISED PERFORMANCE

	Dotcom Crash	Global Financial Crisis	Eurozone Crisis	Covid-19 Outbreak	Return of Inflation	Average
Global Private Equity Index	-16%	-6%	+16%	+18%	-8%	+1%
MSCI ACWI Gross Index	-18%	-9%	+7%	+2%	-18%	-7%
Outperformance vs. MSCI ACWI Gross Index	+2%	+3%	+9%	+16%	+10%	+8%

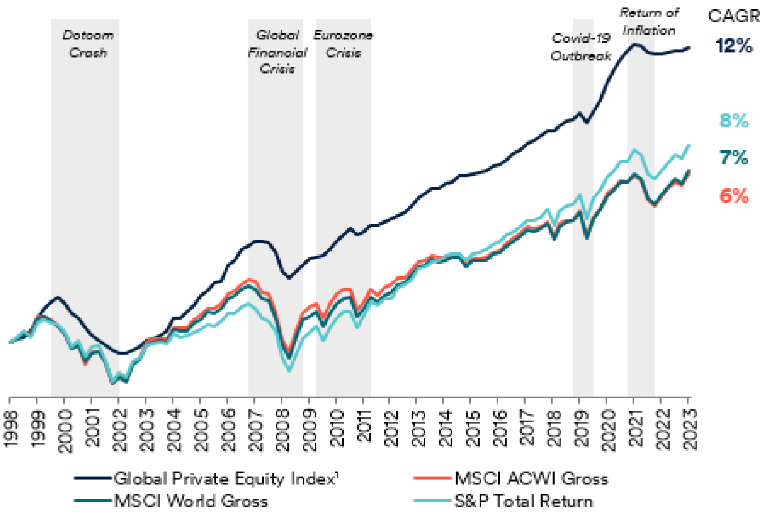
Past performance is not a guide to future performance and may not be repeated.
Source: MSCI (Burgiss), as of 6 August 2024, LSEG, Schroders Capital, 2024.
Annualised performance based on pooled quarterly time-weighted returns in $, net of all fees to Limited Partners.
Global Private Equity Index refers to MSCI's Burgiss Global Private Equity Funds Index, which is a capitalisation-weighted index consisting of Buyout, Venture Capital, and Growth funds.
Maximum drawdown is defined as the maximum loss from peak to trough of an index, before a new peak is attained.
Market disruption periods: Dotcom Crash from June 2000 to March 2003; Global Financial Crisis from December 2007 to March 2010; Eurozone Crisis from March 2010 to March 2012; COVID-19 Outbreak from December 2019 to September 2020; Return of Inflation from December 2021 to December 2022.

Global private equity outperformed the MSCI ACWI Gross Index during each of the major disruptions with an average annualised excess return of 8%.

When comparing performance to the S&P 500 Total Return Index, global private equity has also consistently outperformed during all five crises, with an average outperformance of 4%.

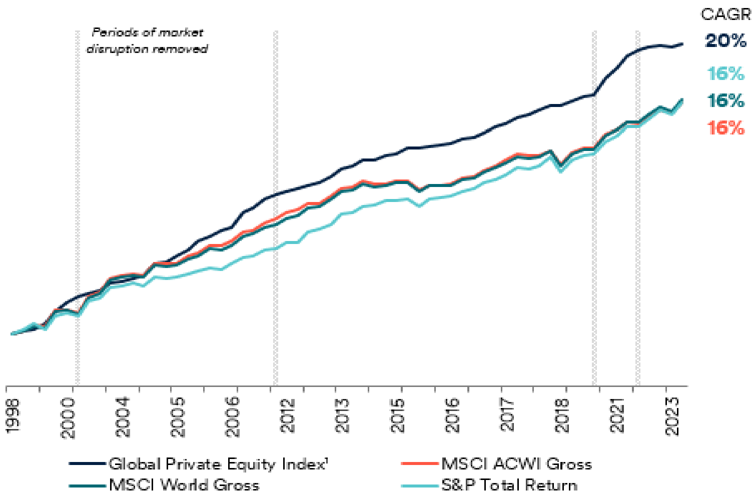
Private equity shone during crises, delivering twice the outperformance relative to undisturbed periods

ACTUAL PERFORMANCE WITH MARKET DISRUPTIONS
CUMULATIVE PERFORMANCE (LOG SCALE) Q4 1998=100



Global private equity has delivered a compound annual return of 12% over the last 25 years, outperforming the MSCI ACWI Gross, MSCI World Gross, and S&P 500 Total Return indices. The key driver behind this outperformance has been the resilience of private equity during crises. Private equity delivered an annualised excess return of 8% during the five crises and half this during undisturbed periods.

SIMULATED PERFORMANCE WITHOUT MARKET DISRUPTIONS
CUMULATIVE PERFORMANCE (LOG SCALE) Q4 1998=100



Past performance is not a guide to future performance.
Source: MSCI (Burgiss), Schroders Capital, 2024.
[1]MSCI's Burgiss Global Private Equity Funds Index is a capitalisation-weighted index consisting of Buyout, Venture Capital, and Growth funds. The performance figures are based on pooled quarterly time-weighted returns in $, net of all fees to Limited Partners.
Note: Simulated performance without crises assumes periods with market disruptions are excluded. The CAGR is calculated over a shorter effective period to reflect the removal of these periods.

These results are driven by structural, fundamental, and technical factors specific to private equity

A typical private equity fund structure has locked-in capital, allowing GPs to hold onto assets in down markets and call capital to invest at lower valuations. Furthermore, private equity firms typically target less cyclical industries and recurring revenue business models. Reported returns may also be less volatile as they partly reflect unrealised gains, which are based on changes in portfolio valuations not market transactions.

Diversification within private equity is key as different strategies drove performance during each crisis

During all disruptions except the Eurozone Crisis, private equity performance varied strongly between strategies and regions. Interestingly, all private equity strategies performed consistently well during the Eurozone Crisis, including in Europe. However, in each of the other crises, diversification was key to achieving resilient returns. Furthermore, small/mid buyouts were the best performing strategy or among the best performing strategies in four of the five crises.

Investors should also be cautious of strategy and region-specific exuberance

Four of the five disruptions were characterised by boom-bust scenarios. Venture Capital (VC)/Growth was the best performing strategy throughout the Dotcom bubble ahead of the crash. However, after the collapse in technology valuations, it became the worst performing strategy by the end of the disruption.

Similarly, in the lead up to the GFC, buyout funds raised substantial amounts of capital, and many small/mid funds ballooned into large funds. However, when liquidity dried up, large buyout funds with highly levered portfolio companies experienced significant drawdowns and negative returns.

Conclusion

Private equity has historically demonstrated resilience and superior performance during the greatest market disruptions of the last 25 years. Despite challenges such as high interest rates, inflation, and economic volatility, private equity outperformed public markets and experienced smaller drawdowns, with LP distributions becoming less volatile during this time.

A closer look at which private equity strategies performed best during crises underscores the importance of diversification within private equity. This analysis highlights private equity's potential as a robust component of investment portfolios, especially during periods of economic uncertainty.