Why Private Equity Matters (Part One)

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Deal-making is poised to rebound, thanks to lower interest rates, a strong economy, and an overall favorable macro environment. So why does the media persist in predicting a gloomy outlook for private equity?

There are certainly less optimistic data about the industry. Fundraising, for example, has slowed. According to PitchBook, PE firms raised $320 billion last year (through September 30). This is a far cry from the $650 billion three years ago, making 2025 one of the worst fundraising vintages in ten years. The number of funds created has plummeted as well.

How about exits? In 2025 an estimated 1,250 companies were sold by private equity firms. That's down from 1,450 in 2022 and from a high-water mark of 1,950 in 2021. US PE inventory now stands at nearly 13,000 portfolio companies, of which 30% are at least seven years into their hold period.

Maybe most importantly, returns are down. According to most recent data from Burgiss, between 2022 and Sept. 30, 2025, U.S. PE firms generated annualized returns of 6.1%, including investor fees. The S&P 500 produced roughly 12% annualized returns over that same period. That was not the case in the zero-gravity world prior to 2022, when PE outperformed public equities for many years.

Just since Covid, private equity managers have endured inflation, labor shortages, supply chain disruptions, higher interest rates, open-and-shut public credit markets, and tariffs. No wonder fundraising, exits, and returns were suppressed as sponsors toiled through these macro challenges. Nevertheless, the best managers are also superior operators, and most portfolio companies are in good shape today. The ice cube of unsold companies is melting. As we've said before, Rome wasn't bought in a day; it won't be sold in a day.

Over the next few weeks, we'll take a closer look at dynamics surrounding private equity, particularly how middle market firms are distinguished from large cap ones. We'll provide context and a bit of history as to private equity's role in capital formation. And critically, how it supports US corporate strategies and offers investors opportunities for income and growth.

We'll discuss how the best PE sponsors compete amid these ever-changing market conditions, how they manage with higher interest rates, and how they find ways to keep investors happy enough in a slow realization environment to still put money into new funds.

Finally, we'll examine ways top firms turn good performing companies into great ones, how they work with strong management teams to build enterprise value, which industries are ripe for consolidation by market leaders, and the role financing partnerships play in optimizing value for managers and their investors.