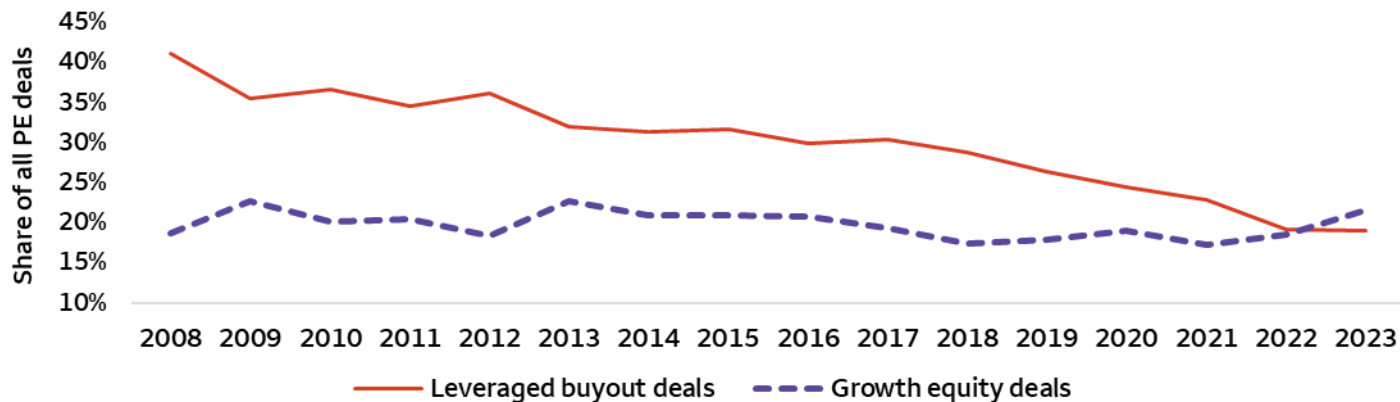


## Chart of the Week

Weekly market analysis on key market indexes

February 13, 2024

### Macro environment favorable for Growth Equity strategy



Sources: Wells Fargo Investment Institute and Pitchbook 2023 Annual U.S. PE Breakdown. PE = private equity. Data from January 1, 2008 through December 31, 2023. Investments, such as hedge funds, private equity, private debt and private real estate funds are not appropriate for all investors and are only open to “accredited” or “qualified” investors within the meaning of U.S. securities laws.

#### Growth Equity strategy gains share amid high cost and limited availability of leverage

Private equity deal activity continued its decline in 2023, and the most pronounced downturn was seen in traditional leveraged buyouts (LBOs). LBOs typically rely heavily on access to new debt, and the high cost and limited availability of leverage have posed significant challenges in financing LBOs. This dynamic has prompted a shift to other private equity deal types that are less reliant on new debt. Growth equity, for instance, increased its share of private equity deal value in 2023, and for the first time, it accounted for a greater share of all private equity transactions than LBOs (see chart).

The rise in deployment of growth equity can be attributed to several advantages we believe it offers in the current macroeconomic environment. Growth equity deals are typically 100% equity financed and thus unaffected by the current high cost of debt. Moreover, the strategy generally targets high-growth, profitable companies and relies on operating leverage rather than financial leverage to drive returns.<sup>1</sup> Additionally, the valuation multiple on which growth equity deals are typically priced (enterprise value to revenue) contracted by approximately 40% year over year in 2023.

#### What it may mean for investors

While we are neutral on Private Equity, we have high conviction in certain strategies such as Growth Equity, on which we are favorable. We believe it is well suited to current market dynamics and anticipate continued momentum in 2024, providing investors with a pathway to sustainable value creation in uncertain times. More generally, we see alternatives as a way for qualified investors to diversify risks given the currently elevated correlation between stock and bond prices.

**Nick Sprague, CFA; Investment Research Analyst**

Excerpted from *Investment Strategy* (February 12)

1. Operating leverage relates to a company's cost structure and its impact on profitability; financial leverage pertains to the use of debt financing and its effect on a company's risk and return profile.

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### **Risk Considerations**

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