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Press Release

The resilience of the Private Equity asset class

Berlin, 09 June 2022 — Financial markets are currently characterized by three factors: surging inflation, rising interest rates and new geopolitics. In such an environment it is understandable for investors to shy away from investments. However, historical data proves that this strategy is not advisable.[1]

In this challenging environment, investors who opt for a balanced portfolio and diversify as broadly as possible into assets that are less affected by inflation, such as private equity (PE), stand the best chance of continuing to generate high returns. Studies show that PE's highest returns tend to follow economic downturn periods. In fact, research indicates that in the 2008 financial crisis the private equity model was resilient, flexible and with access to sufficient capital even in times of recession.[2]

“Inflation means that investors are now penalized for keeping money in the bank. They must think of alternatives – products like ours are long term and generally beat inflation, which makes our offering highly attractive in an inflationary environment“, said Sweta Chattopadhyay, Head of Investments Europe at Moonfare. “Our investors appreciate the long-term nature and consistent return profile, as well as trusting managers who have both preserved capital and made returns over market cycles.”

Two of the main reasons for the resilience of the PE asset class to economic downturns is the long term nature of the investment. What's more, PE companies now have even more capital to deploy than in 2008. The global private equity industry currently has more “dry powder”—unallocated capital that firms have disposable to invest—than ever before. Studies recorded dry powder of $1.32 trillion as recently as September 2021[3]. This means funds have sufficient capital to invest in promising companies that are temporarily distressed due to macroeconomic changes.

In addition, experienced PE fund managers have numerous tools at their disposal to mitigate inflation effects through active management of their portfolio companies, be it via value enhancement through improved management, mergers and acquisitions or other expansion opportunities. Changing the portfolio companies' business models or adjusting the timing of exits can also be supportive.

"Equity markets are still highly priced and will remain volatile in the long term. At the same time, in an environment of rising interest rates and inflation, the wheat will be separated from the chaff in the PE industry. What is needed now are managers with many years of experience, who have already been through inflationary cycles and have a proven ability to create organic value, not only in boom but also in recessionary periods. Investors should pay very close attention to these criteria when selecting their investment partners," says Sweta Chattopadhyay.

For more information see our latest blogpost on how history shows private equity's resilience to recession and stay posted for our upcoming webinar with Steffen Pauls, CEO and Founder of Moonfare, on the topic of private equity and changing macroeconomic conditions.

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1. https://www.dai.de/fileadmin/user_upload/211231_EuroStoxx-Rendite-Dreieck_Web.pdf
2. How private equity will respond to the next economic downturn | EY - Global
3. 2022 Preqin Global Private Equity Report | Preqin

About Moonfare

Moonfare offers individual investors and their advisors access to top-tier private equity investment opportunities for the first time. With a digital onboarding process and asset management platform, Moonfare allows clients to register and invest in as little as 15 minutes. To date, Moonfare has offered 50 private market funds from top general partners worldwide with an emphasis on private equity buyouts, venture, growth, and real asset categories such as infrastructure

Moonfare's investment team conducts ground-up due diligence on all funds. Fewer than 5% of available funds pass this process and make it onto the Moonfare platform. This focus on quality is one reason why Moonfare has won the trust of more than 2,700 clients who have invested more than €1.7 billion on its platform. Headquartered in Berlin, Moonfare operates in 22 countries across Europe, Asia, America and has offices in New York, Hong Kong, London, Luxembourg and Singapore with more to open soon.

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