

# Asset Allocation: Outlook 2024



# A mixed picture for private markets in 2024

Higher interest rates and longer-term trends will determine private market returns

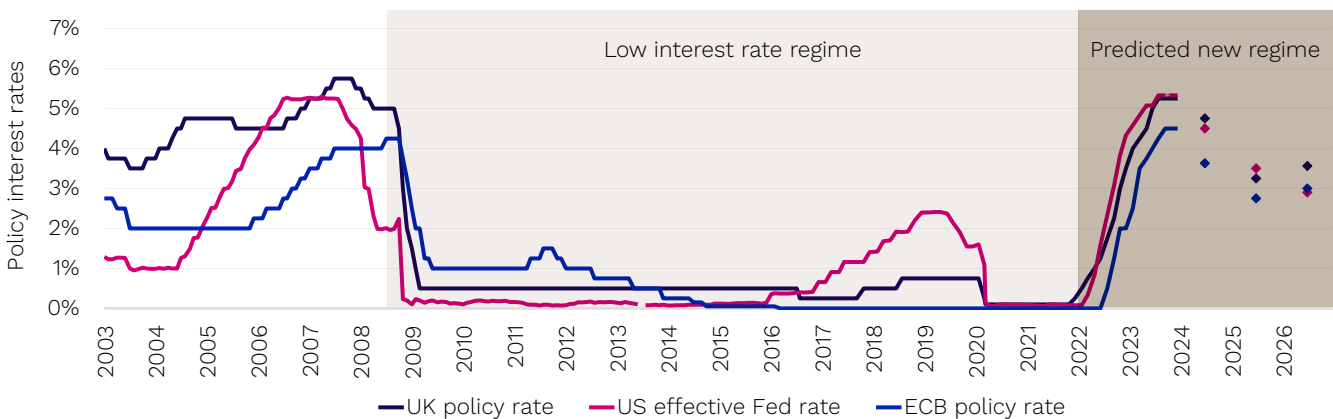
As 2024 begins, inflation is down from the 2023 peak across developed markets and a soft landing is seen as the probable path for the US economy. Public equities and fixed income performed well last year, rebounding from 2022 lows despite the downbeat predictions at the start of 2023.<sup>1</sup> Economic forecasts were gloomy, with recessions expected for major economies. Expectations of ‘higher-for-longer’ interest rates were also over-hanging investment and asset allocation decisions, with liquidity seemingly drying up, traditional financing more difficult to secure, and M&A muted. However, other headwinds present in 2023 have abated only slightly. Interest rates are yet to fall, while quarter-on-quarter economic growth is sluggish, and potential supply shocks, for example recent re-routing of shipping routes to avoid the Red Sea, may lead to inflation surprises that could thwart any progress made.

These factors reinforce the ‘higher-for-longer’ narrative, with interest rates likely to fall but with big questions remaining over the speed and the potential transitory nature of the cuts. Rates are widely expected to fall in 2024 and 2025, but potentially rise again in 2026 in the EU and the UK (Fig. 1). The start of a new regime is beginning to take shape, replacing the era of near-zero rates in which cheap debt supported asset valuations.

<sup>1</sup> Except Chinese equities, which have been on a downward spiral over the last three years.

**Fig. 1: US and European central bank policy rates expected to fall in 2024**

Past policy rates and consensus forecasts



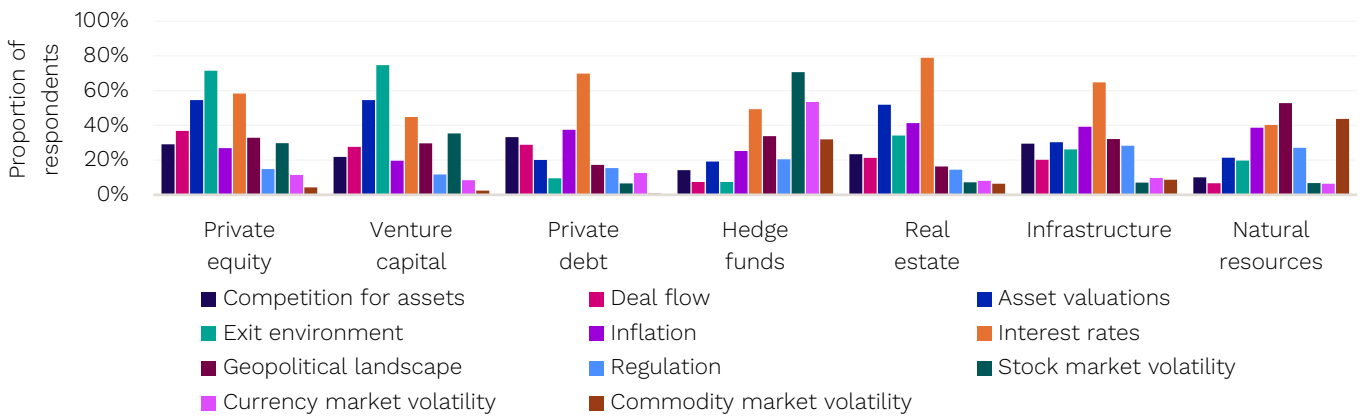
Source: Bank of England, Board of Governors of the Federal Reserve System, European Central Bank, National Interbank Funding Center, Consensus forecasts – FactSet. Data as of December, 2023.

**Despite challenges private markets AUM will continue to grow**

Private market investments represent a wide range of strategies, capable of serving different investor objectives, and are not exposed to market factors in the same way as public markets investments. Nevertheless, a sustained higher-interest rate regime should re-focus investors on strategic asset allocation to ensure diversification across sectors and geographies, as correlation between assets can change in new macroeconomic regimes. Investors recently cited interest rates as one of the biggest challenges to return generation in the next 12 months (Fig. 2). There will also be opportunities for asset allocators to gain exposure to mega themes that will impact the global economy, while valuations, risk, and liquidity management will play a big role in investment and commitment decisions.

**Fig. 2: Interest rates a major concern across asset classes**

Investors were asked: 'What do you see as being the main challenges to return generation in the next 12 months in the following asset classes?'



Source: Preqin Investor Outlook Survey, November 2023

Deal flow is a sign of healthy private markets for private equity and venture capital (VC), but levels are not expected to reach the heights of the post-pandemic boom. The exit environment was cited by 71.5% and 74.7% of investors in these asset classes, respectively, as the greatest challenge, and valuations by 54.6% each. However, signs of a slow revival in deal flow were present at the tail end of 2023 and will likely seep into 2024 as funds and companies find avenues to move assets to secondary buyers, or through IPOs, and improve distributed to paid-in capital measures.<sup>2</sup> Dry powder, in absolute terms, also reached record highs in 2023 and will need to be deployed.

Interest rates are the biggest concern for real estate investors, with 78.9% citing them as the main challenge to returns over the next 12 months. The asset class remains challenged, and valuations appear tightly constrained by debt financing costs, but opportunities exist for funds or direct investors who can take advantage of downward pressure on valuations and invest at a potential market trough in 2024. Similarly, interest rates are also the main challenge cited by 64.8% of infrastructure investors, as a long-duration asset class. However, unlike real estate, the asset class has historically offered more downside protection for investors and is also the potential beneficiary of many longer-term structural changes in the economy, such as decarbonization and de-globalization (see more, below).

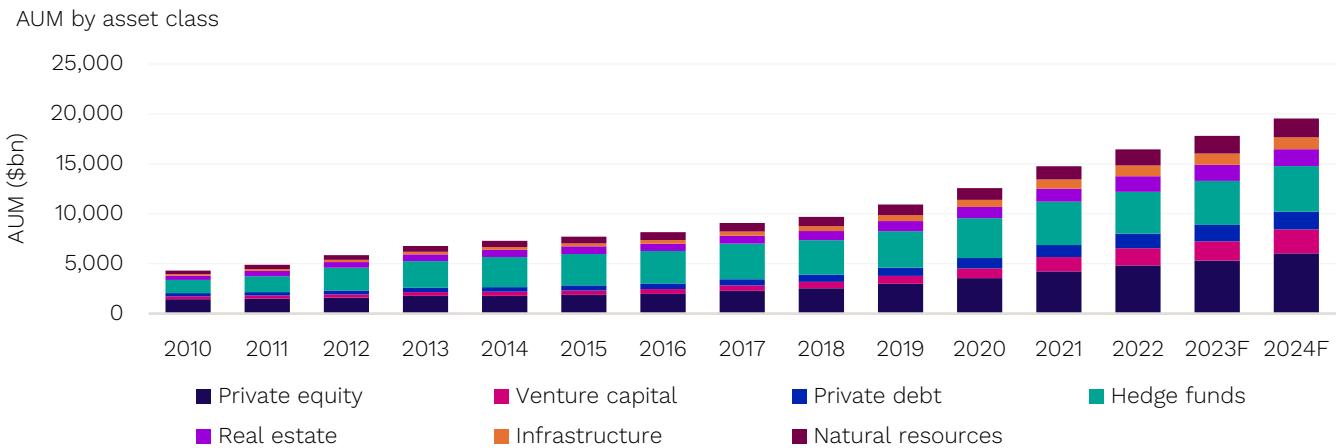
<sup>2</sup> <https://www.preqin.com/insights/global-reports/2024-private-equity>

Conversely, private debt has benefited from floating rates, which drove double-digit yields for these funds. Interest rates remain the focus among 69.8% of private debt investors, the highest proportion. If rates were to fall fast and significantly in response to a recession, many fear that would hurt deal flow while putting downward pressure on yields.

Meanwhile, the outlook for hedge funds varies depending on the strategy, but with the largest proportion of hedge funds assets under management (AUM) focused on public equities, it is unsurprising that 70.6% of investors consider volatility in public equities in 2024 the biggest challenge. Macro strategies are potentially suited to take advantage of any global divergence across asset classes and geographies, while the growing volatility witnessed in 2023 in the US bond market creates opportunities for credit hedge funds.

The holding period of private assets is a feature of these investments, along with the focus on the longer-term outlook and results. As such and despite the challenges, short-term noise, even over a year, is unlikely to sway the long-term allocation decisions of investors. But expectations around regime changes and structural-level changes will continue to impact the prospects of private investments. For 2024, considering these factors, we forecast AUM for private capital and hedge funds to continue to grow and reach \$19.5tn by the end of year (Fig. 3). Some of the growth is driven by fundraising and under-utilized dry powder but increases to unrealized value will also contribute.

**Fig. 3: Private capital and hedge funds AUM to near \$20tn in 2024**



Source: Preqin Pro

Considering the probable ‘higher-for-longer’ regime, we forecast lower returns for 2022 to 2028 than for 2016 to 2022. The latter period was characterized by the cheap, debt-fueled regime of the past decade (Fig. 4).<sup>3</sup> Lower Internal-rate-of-return (IRR) growth is expected for all asset classes except private debt, which is forecast to outperform the previous period in 2022 to 2028 (9.1% versus 9.8%). From an absolute perspective, VC is forecast to return the most (14.3%) on average, while natural resources is expected to achieve the lowest absolute returns (6.9%) and returns for the asset class are expected to fall the most.

**Fig. 4: Private debt alone in having higher forecast IRR**

Asset class performance, historical and forecast

Performance*	IRR 2016–2022	IRR 2022–2028F
Private equity	16.0%	12.6%
Venture capital	16.9%	14.3%
Private debt	9.1%	9.8%
Real estate	8.6%	8.2%
Infrastructure	11.3%	10.9%
Natural resources	11.0%	6.9%
Secondaries	13.4%	11.5%

\*AUM figures exclude funds denominated in Yuan Renminbi

Source: Preqin Future of Alternatives 2028

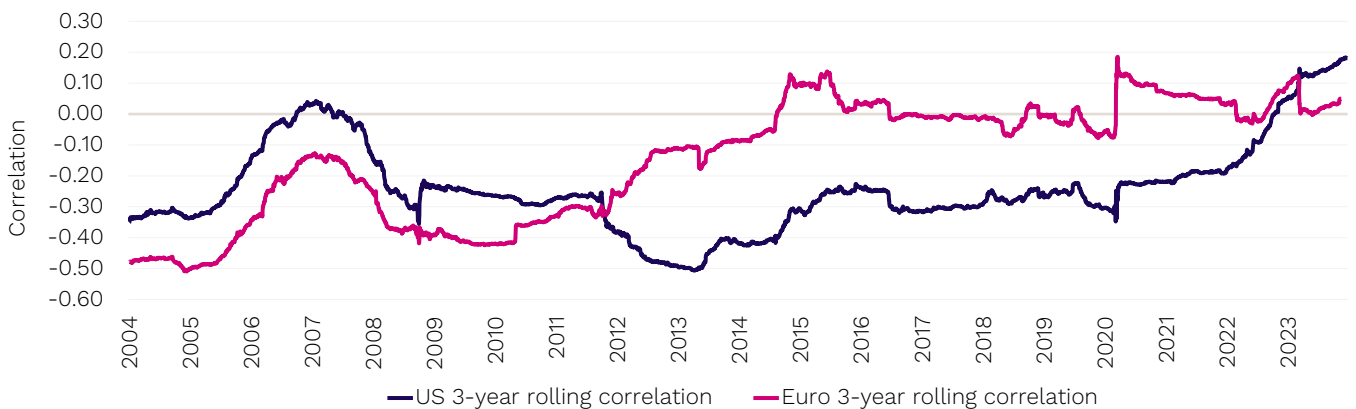
**Diversification assumptions will continue to be tested in 2024**

An important question in the past two years has been diversification in traditional 60/40 portfolios and the level of correlation between equities and bonds. This appears to be shifting with higher interest rates. Based on our analysis, three-year rolling correlation between US equities and bonds reached a long-term high in 2023. Correlation between equities in countries that use the euro and euro-denominated bonds peaked in 2020 during the COVID-19 pandemic (Fig. 5). The implication is that the potential benefit of alternative assets to support

<sup>3</sup> <https://www.preqin.com/insights/research/reports/future-of-alternatives-2028>

**Fig. 5: US equities and bonds correlation turns positive**

Correlation between US and Euro-denominated bonds and equities over time



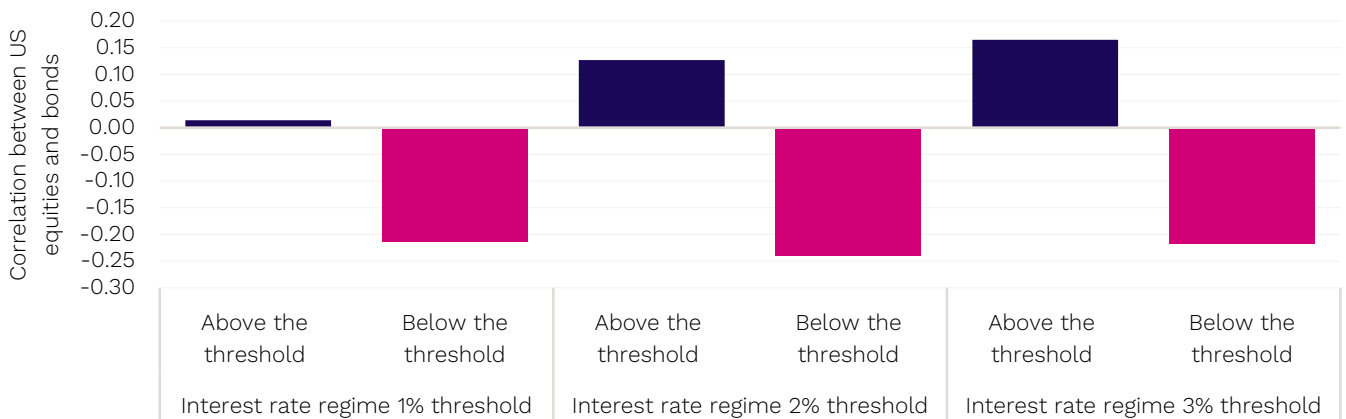
Source: FactSet, Preqin

diversification in a heavily US-exposed portfolio becomes greater if US public equities and bonds increasingly start to move together, especially in times of market or economic distress.

Further analysis of US-specific correlation during certain interest-rate regimes suggests that correlation between equities and bonds is higher when interest rates exceed certain thresholds (Fig. 6). In three scenarios, where interest rates are greater than 1%, 2%, or 3%, compared with when they are below these thresholds, correlations are consistently higher and positive in the higher-interest-rate category. If the narrative of ‘higher for longer’ holds up throughout 2024, this analysis provides additional insight into possible portfolio implications.

**Fig. 6: US equities and bonds better correlated in higher interest regimes**

Correlation between US equities and bonds in high and low interest regimes



Source: FactSet, Prequin

**Note:** For the US, correlation data is from the S&P 500 TR Index and Bloomberg US Aggregate Bond TR Index. For Euro-based countries, data is from the MSCI Euro TR Index and the Bloomberg Euro Aggregate Bond Index

# Asset outlook: directional view

This section highlights our views of the prevailing market conditions and investment sentiment over the next 12 months across asset classes.

## Assessment

- House view is given to assets assessed to have tailwinds that are **less favorable** than headwinds over the next 12 months and which could mean that assets perform **below** historical averages given the risk profile.
- House view is given to assets assessed to have tailwinds that are **balanced** with headwinds over the next 12 months that could mean that assets perform **below** historical averages given the risk profile.
- House view is given to assets assessed to have tailwinds that are **more favorable** than headwinds over the next 12 months and which could mean that assets perform **above** historical averages given the risk profile.

## Investor sentiment

### Planned commitment:


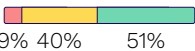
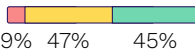
- **Less capital invested** in the next 12 months, compared with last 12 months
- **Same amount of capital invested** in the next 12 months, compared with last 12 months
- **More capital invested** in the next 12 months, compared with last 12 months


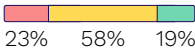
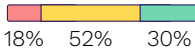
### Performance expectations:


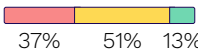
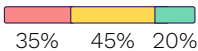
- Will perform **worse** in the next 12 months than in the last 12 months
- Will perform the **same** in the next 12 months than in the last 12 months
- Will perform **better** in the next 12 months than in the last 12 months


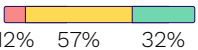
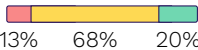
<b>Asset class</b>	Private equity	
<b>Assessment</b>		
<b>Investor sentiment</b>	Planned commitment 18% 53% 32%	Performance expectations 21% 35% 44%
<b>5-year annual IRR forecast</b>	12.6%	
<b>Tailwinds</b>	<ul style="list-style-type: none"> <li>• Early signs of recovery in deal flow</li> <li>• Growth of secondaries market for both acquisition and exits of companies at reasonable discounts</li> <li>• Record in absolute dry powder to secure new deals</li> <li>• Timing could be ripe to take advantage of lower entry multiples</li> <li>• If a recession does happen, vintages during recessions tend to perform well</li> <li>• Strong appetite from investors, including rise in private wealth channels</li> </ul>	
<b>Headwinds</b>	<ul style="list-style-type: none"> <li>• Reduced exit opportunities, which is weighing on IRR as investment periods are extended</li> <li>• Limited LP capital to re-deploy – low DPI and denominator effect limiting further investment in the space</li> <li>• Cost of debt increase hampering buyout activity</li> <li>• Geographic challenges – under-performance of Europe private equity relative to US private equity expected to continue</li> </ul>	

<b>Asset class</b>	Venture capital	
<b>Assessment</b>		
<b>Investor sentiment</b>	Planned commitment 33% 50% 18%	Performance expectations 30% 32% 38%
<b>5-year annual IRR forecast</b>	14.3%	
<b>Tailwinds</b>	<ul style="list-style-type: none"> <li>• Early signs of recovery in deal flow</li> <li>• Growth of secondaries market for both acquisition and exits of companies at reasonable discounts</li> <li>• Record in absolute dry powder to secure new deals</li> <li>• Timing could be ripe to take advantage of lower entry multiples</li> <li>• If a recession does happen, vintages during recessions tend to perform well</li> <li>• Strong appetite from investors, including rise in private wealth channels</li> </ul>	
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<b>Asset class</b>	Private debt	
<b>Assessment</b>		
<b>Investor sentiment</b>	Planned commitment  9% 40% 51%	Performance expectations  9% 47% 45%
<b>5-year annual IRR forecast</b>	9.8%	
<b>Tailwinds</b>	<ul style="list-style-type: none"> <li>• Tightening in the banking sector and restrictive lending. More companies turning to private debt for ease and speed of execution</li> <li>• Distressed-credit opportunities increasing with slow rise in default rates a sign of potential opportunity</li> <li>• Direct-lending opportunities to companies seeking alternative finance</li> <li>• Significant private equity sponsor opportunities – existing relationships with private equity GPs helps with ease of deal-making</li> <li>• Deal flow slowly picking up in private equity, which means more opportunities for private debt</li> </ul>	
<b>Headwinds</b>	<ul style="list-style-type: none"> <li>• A slowing economy or recession, coupled with high floating rates would mean lower interest coverage ratios and greater risk of default</li> <li>• Defaults remain near historical lows but are slightly elevated</li> <li>• Floating rate could move in the opposite direction. If it falls fast due to recession, then there will be a negative impact on private debt. However, the asset class offers some security as it is mostly senior debt</li> </ul>	

<b>Asset class</b>	Hedge funds	
<b>Assessment</b>		
<b>Investor sentiment</b>	Planned commitment  23% 58% 19%	Performance expectations  18% 52% 30%
<b>5-year annual IRR forecast</b>	N/A	
<b>Tailwinds</b>	<ul style="list-style-type: none"> <li>• Hedge funds strategies tend to outperform the S&amp;P500 in higher inflationary environments</li> <li>• Low global synchronization across geographies or asset classes could benefit macro hedge funds as it did in 2022</li> <li>• Low correlated strategies, such as CTAs, continue to support diversification efforts</li> <li>• Niche strategies’ outperformance to be fueled by crypto exposure (especially bitcoin)</li> <li>• Volatility levels measured by the MOVE index is above 20-year average, indicating a more volatile bond market. This could benefit credit hedge funds</li> </ul>	
<b>Headwinds</b>	<ul style="list-style-type: none"> <li>• Equity strategy hedge funds returns are highly correlated to the wider equities market. If a surprise hard landing happens then hedge funds performance could move in a downward direction</li> <li>• Liquidations exceed launches in several regions</li> <li>• Equities volatility was low in the last quarter of 2023 and a continuation of this trend could limit the advantages of hedge funds that find opportunities in higher-volatility environments</li> </ul>	

<b>Asset class</b>	Real estate	
<b>Assessment</b>		
<b>Investor sentiment</b>	Planned commitment  37% 51% 13%	Performance expectations  35% 45% 20%
<b>5-year annual IRR forecast</b>	8.2%	
<b>Tailwinds</b>	<ul style="list-style-type: none"> <li>• Decrease in interest rates in support of a soft landing should help real estate overall</li> <li>• Near two-year contraction in deal numbers and potential bottom of the market could present buying opportunities</li> <li>• Preference for opportunistic strategies – distressed real estate could be acquired at attractive discounts</li> <li>• Return to the office with occupancy increases in bright hotspots – utilization rates in APAC higher</li> <li>• Residential and industrials are potential bright spots, with hotels/tourism properties benefiting from return to normal travel patterns</li> </ul>	
<b>Headwinds</b>	<ul style="list-style-type: none"> <li>• Room for valuations to fall further as high rates continue to put pressure on real estate values, especially if there is a hard landing</li> <li>• Income-focused investors have seen net income diminishing from leasing, hurting asset class attractiveness</li> <li>• Structural trends affecting underlying demand factors (such as hybrid working and work from home)</li> <li>• Fragility of Chinese real estate market</li> </ul>	

<b>Asset class</b>	Infrastructure	
<b>Assessment</b>		
<b>Investor sentiment</b>	Planned commitment  12% 57% 32%	Performance expectations  13% 68% 20%
<b>5-year annual IRR forecast</b>	9.8%	
<b>Tailwinds</b>	<ul style="list-style-type: none"> <li>• Supportive US and EU legislative agenda to promote greater infrastructure investment</li> <li>• More resilient to any impending economic downturns by providing essential services</li> <li>• Set to benefit from mega themes such as de-globalization and de-carbonization, as well as the desire for energy independence</li> </ul>	
<b>Headwinds</b>	<ul style="list-style-type: none"> <li>• Inflationary challenges for primary deals</li> <li>• Geopolitical risks – deglobalization and supply chain risk (e.g. restrictions on battery storage technology from China)</li> <li>• US election may change infrastructure agenda</li> <li>• Absolute return of private debt could draw investment to private debt instead of infrastructure</li> </ul>	

**Mega themes impacting the alternatives outlook**

As well as the macroeconomic environment and questions regarding the correlation of public and private assets, four overarching mega themes will also impact institutional investment asset allocation decisions and performance return profiles:

**1. Demographics – older cohorts to expand, changing economic dynamics**

Real estate is linked to changes in demographics, due to the way that population trends affect urbanization, buying and renting behaviors for residential properties, the need for healthcare and social care-related properties to support an aging population, demand for digital living and increased data consumption impacting requirements for data centers, and because e-commerce impacts commercial and warehouse property requirements.

In the coming decades and leading into the twenty-second century, the global population is expected to age and the traditional dynamic of the working population supporting the non-working population will be increasingly unbalanced. In the G7, the population distribution is forecast to move toward older demographics for both males and females (Fig. 7). The implication is significant, as the cost to support an elderly population will rise, and without changes in the age groups associated with working participation (assumed to be 18 to 64 in our analysis), a large labor gap is expected.

**Fig. 7: Demographic shifts mean higher share of older age groups in 2100**

G7 population by age and gender in 2023 and 2100

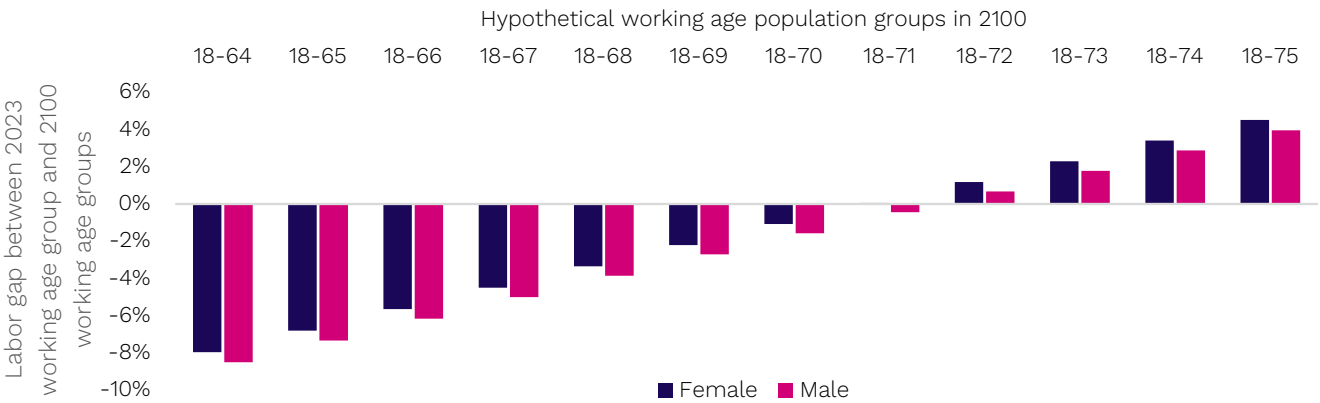


Source: United Nations Department of Economic and Social Affairs, World Population Prospects 2022, Preqin Analysis

The working-age population as a proportion of the total is expected to decrease by 8% from 2023 to 2100 (Fig. 8). There would therefore be fewer people providing income tax to the revenue base. One solution is to raise the working age, but this will only go so far as participation rates also have to sustain current trends. Human capital is a key input into economic growing accounting, and this downward pressure on human capital will likely have a negative impact on GDP growth. A silver lining is that any decline in labor may be offset by increased productivity that some think AI could bring.<sup>4</sup>

**Fig. 8: Older workforce likely required in 2100**

Labor gap between 2023 working age group (18-64) and hypothetical 2100 working groups



Source: United Nations Department of Economic and Social Affairs, World Population Prospects 2022, Preqin Analysis

Demographic shifts will also be felt in the shorter term, in the form of population growth dynamics for emerging economies. Even for the countries that have driven growth in the past 20 years, things are changing. For example, China is going through its own change in population structure, similar to that seen previously with G7 nations, and population dynamics now favor countries such as India, which has overtaken China as the most populated country in 2023 and has a younger demographic split. It is also forecast to grow faster in terms of real GDP than China for the next five years, supported by its labor dynamics.<sup>5</sup>

**2. De-globalization changes the investment opportunity**

De-globalization is a mixed bag for private assets, but infrastructure stands to benefit as countries look to support the investment environment for large-scope projects and invest heavily in local capabilities and infrastructure. Opportunities for both debt and equity within renewable energy also stand out, with energy storage and security key themes of de-globalization and overlapping with decarbonization (see below).

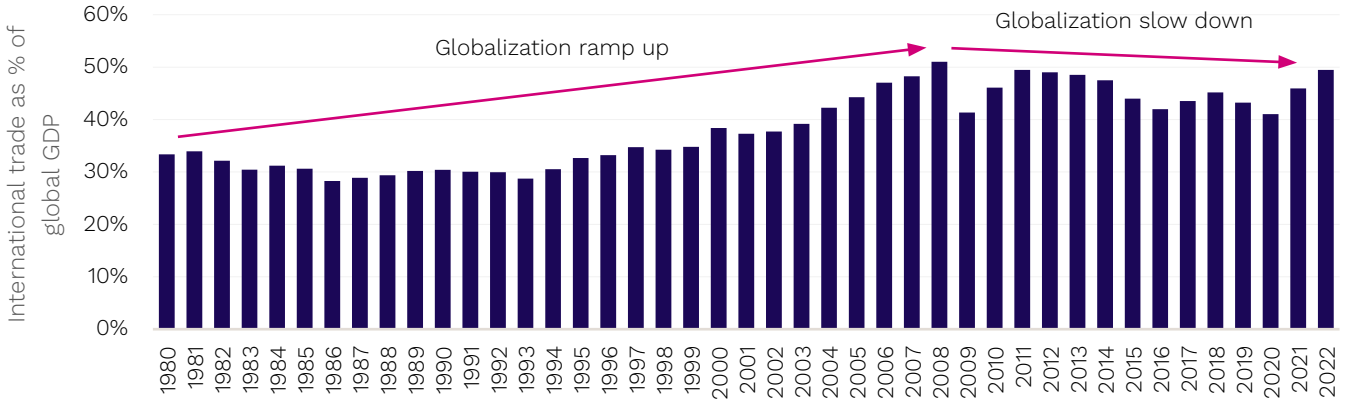
<sup>4</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4573321](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4573321)

<sup>5</sup> IMF World Economic Outlook, October 2023

Regional conflicts and the pandemic have stalled globalization as nations look inward for security, energy independence, and supply chain resilience. But, global trade data suggests that de-globalization began to slow as early as after the GFC, as trade became a less important contributor to global GDP (Fig. 9).

**Fig. 9: Global trade growth has stalled since 2008**

Share of international trade making up global GDP



Source: IMF – Direction of Trade Statistics

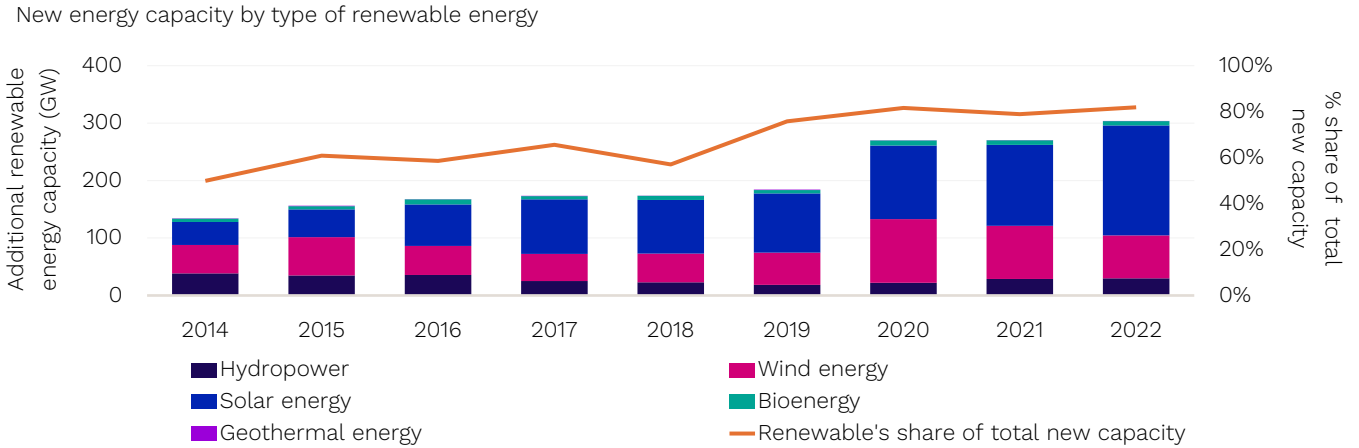
Many jurisdictions have reconsidered national supply chains in critical industries such as raw materials, energy, and food. Moreover, the US economy is no longer as dominant and regional economic blocs support multiple spheres of influence. The recent dominance of the G7 is being challenged by the expansion of BRICS, which welcomed Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates to the fold at the start of the year. From a broader asset allocation perspective, portfolios heavily oriented to the US are likely to consider targeted exposure to high-growth countries. De-globalization could also bring with it other negative economic impacts, including inflationary pressure caused by a decrease in international trade relative to GDP, and the challenge of fiscal debt sustainability as countries subsidize local industries and services.

**3. Decarbonization and the quest for net zero**

Infrastructure is also well positioned to reap the benefits of the race to net zero. Decarbonization offers a broad opportunity set across energy production, storage, and distribution networks. Landmark legislation is also at play, such as the Inflation Reduction Act in the US, that focuses on energy security and climate change. VC and climate tech are also beneficiaries.

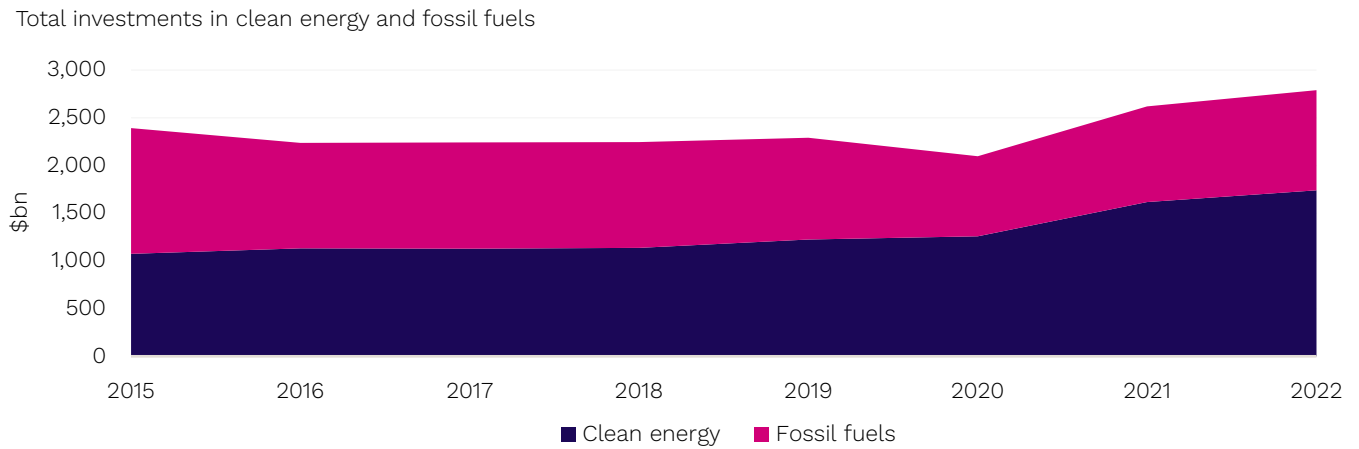
Capital flows have shifted to help meet the commitments that numerous jurisdictions have made to reducing global heating to 1.5C in response to the climate crisis. Renewable energy has taken an increasingly large share of new energy capacity in the past few years, while the total amount invested in clean energy, compared with fossil fuels, has increased in absolute terms (Figs. 10 and 11).

**Fig. 10: Renewable energy made up 82% of additional energy capacity in 2022**



Source: IRENA

**Fig. 11: Investment in clean energy outstrips investment in fossil fuels**



Source: OECD - IEA, Preqin Analysis

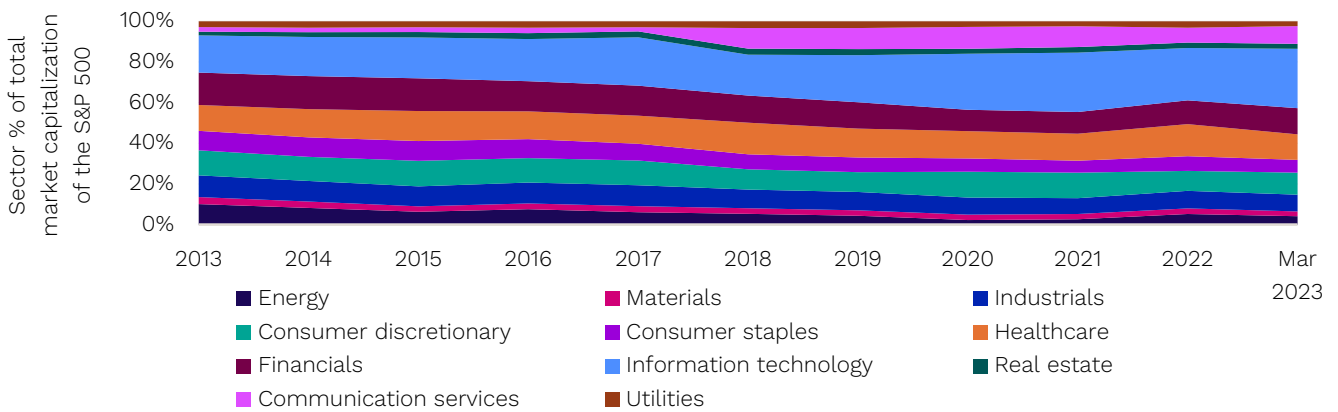
From a consumer standpoint, this trend has also resulted in wider adoption of electric vehicles, which increases the need for charging infrastructure, and raw materials and facilities for battery production. Carbon-emissions trading is starting to mature, and carbon credit/allowance prices are on an upward trajectory. From a risk management perspective, institutional investors are incorporating physical- and transition-risk assessments into their asset allocation decision-making.

**4. Digitalization – digital living and AI to become ubiquitous**

Digitalization refers to the wider adoption of digital living and our daily reliance on technology. This is tied to artificial intelligence (AI) in more recent years, and the technology is expected to be the primary engine for change in the years to come. For both public equity markets and the private equity buyout market, digitalization has impacted the growth of the IT sector over the last decade. IT has become the largest sector in terms of market capitalization in the S&P 500 and also the largest-weighted sector in the Preqin Asset-Level Buyout Index (Fig. 12). Accordingly, Private equity and VC are well positioned to capture growth associated with the digital revolution. In particular, GPs can and have begun to prioritize both investment into and implementation of AI at portfolio companies, while VC is able to invest early in companies that support adoption of AI across the real economy.

**Fig. 12: Tech sector has come to dominate public markets...**

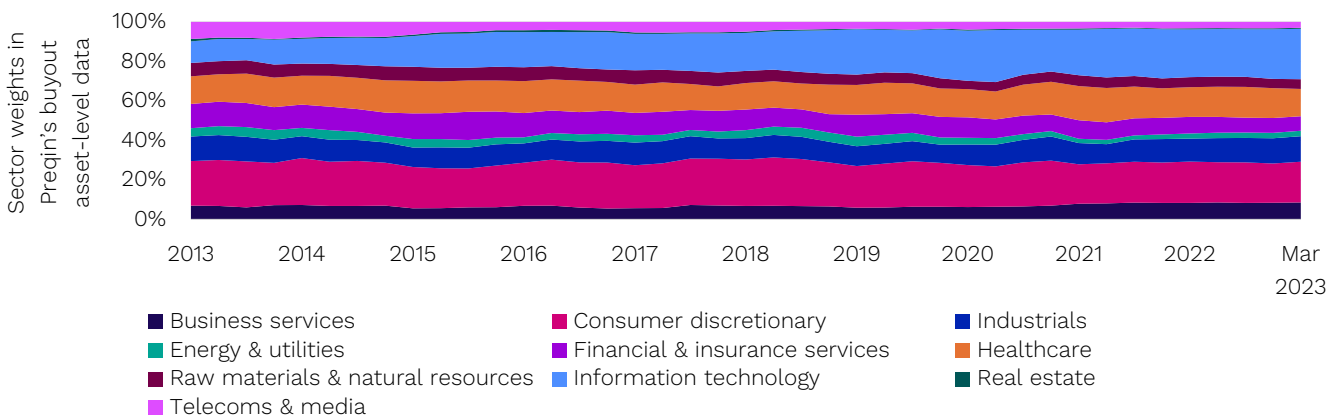
Sector contribution to total market capitalization of the S&P 500



Source: Preqin Pro

**...and private markets too**

Sector contribution to total market capitalization using the Preqin Asset-Level Buyout Index

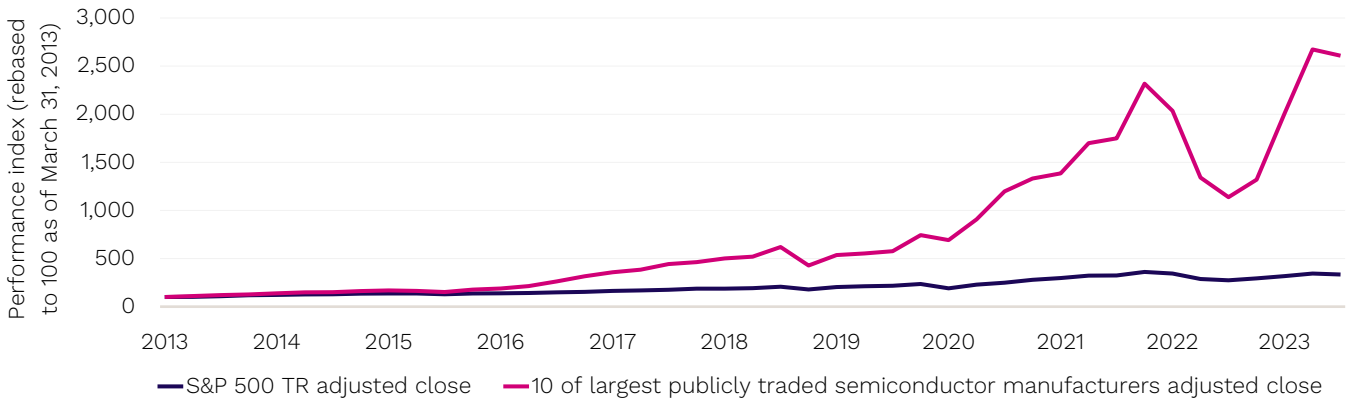


Source: Preqin Pro

To develop AI further and to support the wider digital revolution investment has flooded into the hardware required to support rapid expansion, such as semiconductors and graphics processing units (GPUs). This has driven huge increases in the valuations of companies that aid in the production or supply chain of this hardware. This is reflected in the share price of 10 of the largest semiconductor manufacturers globally (Fig. 13). The average share price of these companies has grown 26-fold since 2013, outpacing the S&P 500 Total Return Index.

**Fig. 13: Semiconductor industry overshoots the S&P 500**

Returns of the S&P 500 and a custom semiconductor index of the 10 largest semiconductor manufacturers globally



Source: S&P CIQ, Preqin

Quarterly equal weighting index data from Q1 2013 to Q3 2023. Companies in the index are NVIDIA, Taiwan Semiconductor Manufacturing, Broadcom, ASML Holding NV, Advanced Micro Devices, Intel, Qualcomm, Applied Materials, Texas Instruments, Analog Devices

However, there are some important factors to consider, such as the impact of regulation for example the EU's AI Act, which aims to combat some of the risks AI presents. There are also potential negative consequences on employment and the effect of technological advances on labor-force participation.<sup>6</sup>

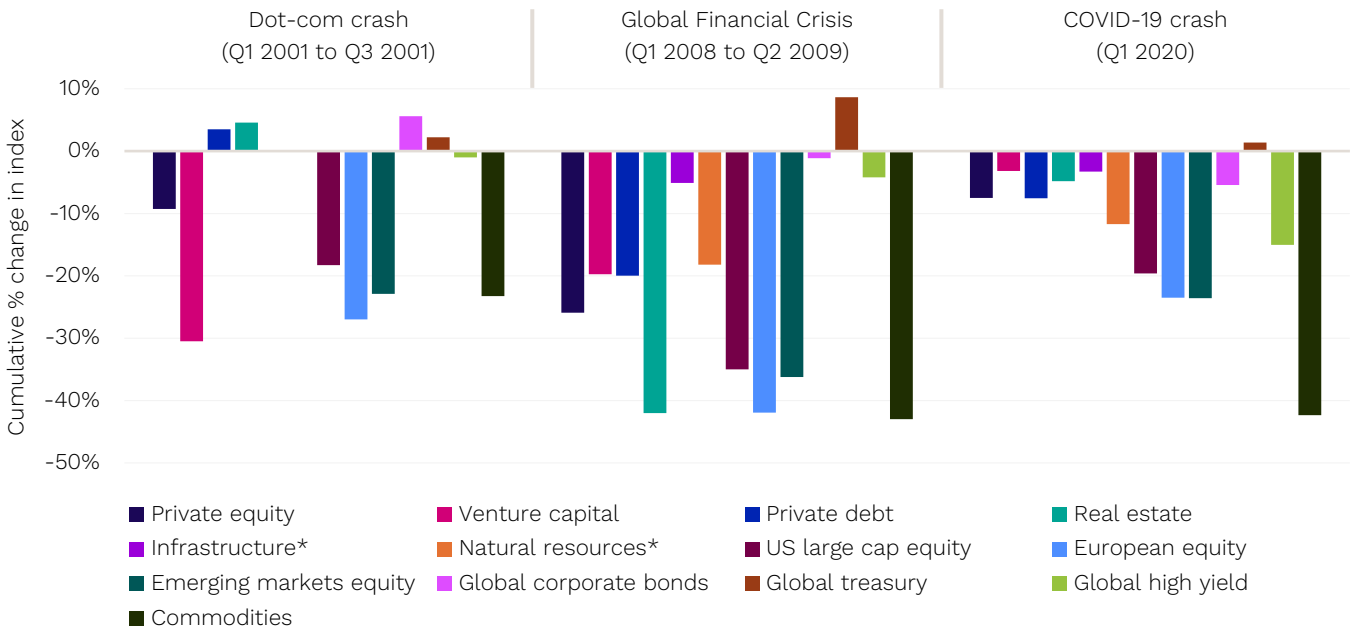
<sup>6</sup> <https://www.europarl.europa.eu/news/en/headlines/society/20230601STO93804/eu-ai-act-first-regulation-on-artificial-intelligence>

### How private assets performed in past recessions

Despite a soft landing for the US economy currently forecast by the US Federal Reserve (Fed),<sup>7</sup> analysis of past recessions can provide a picture for a possible worst-case scenario for 2024, if the economy were to go into a recession. Preqin's Quarterly Returns Index can help determine asset-class-specific lows during these periods (Fig. 14).<sup>8</sup>

**Fig. 14: Private market performance varies by recession and asset type**

Asset class performance during three recessionary cycles



\*Asset classes data limited to two recessions

Source: FactSet, S&P CIQ, Preqin Pro

**Note:** Indexes used in order of asset classes displayed. Preqin Private Equity Index, Preqin Venture Capital Index, Preqin Private Debt Index, Preqin Real Estate Index, Preqin Infrastructure Index, Preqin Natural Resources Index, S&P 500 TR, MSCI Emerging Markets TR, MSCI Europe TR, Bloomberg Global Treasury TR, Bloomberg Global Aggregate Corporate Bond TR, Bloomberg Global High Yield TR, S&P GSCI TR.

After the dot-com bubble burst public equities fell but global Treasury and corporate bonds held up, delivering positive cumulative returns for the period. The recession that followed was relatively shallow compared with the other recession periods analyzed, with real GDP contracting by around 0.5%, and effective federal rates falling from 5.4% at the end of March 2021 to 3.1% by the end of September 2001. Private debt and real estate funds managed to post positive cumulative returns for the period. Preqin's Private Equity Index decreased but was less exposed to public sentiment seen with the drop in public equities. The cumulative returns for VC, which is tied heavily to swings of the technology sector, fell the most of all assets reviewed.

<sup>7</sup> <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20231213.pdf>

<sup>8</sup> Recession dates for the US economy are from NBER's Business Cycle Dating Committee. The data is monthly so to match with quarterly returns data, quarters are chosen to incorporate the largest impacts rather than try to incorporate all quarters that would include irrelevant months. <https://www.nber.org/research/business-cycle-dating#:~:text=The%20NBER's%20Business%20Cycle%20Dating,subsequent%20trough%2C%20or%20lowest%20point.>

The GFC exhibits the longest recessionary period in the three examined here, and also includes the largest decreases in cumulative returns across asset classes. US real GDP fell by 14.5% by the end of June 2009, from the start of 2008, while policy rates fell from 4.1% to 0.2% over the period. Private equity under-performed VC but both still fared better than public equities. Private debt suffered a similar decrease in cumulative returns to equity based private assets. This could be explained by the drop in economic activity and rates during the GFC. Real estate was the most severely impacted private asset class. This is perhaps unsurprising because it was the subprime mortgage crisis that led to the housing crash, which impacted real estate valuations significantly and ultimately catalyzed the GFC. Infrastructure was the least affected during this period, posting a single-digit decrease.

The recent crash following the outbreak of COVID-19 was unique, as it resulted in short-lived drawdowns across markets due to a short, but significant, recession. Markets rebounded quickly resulting in positive deal flow for private markets. However, all private market assets were negatively impacted at the start of the pandemic, with negative single-digit returns, except for natural resources, which saw a larger drop. During the first quarter of 2020, commodities fell the most, followed by public equities, high-yield, and corporate debt. Global Treasury bond returns for the period were small, but positive.

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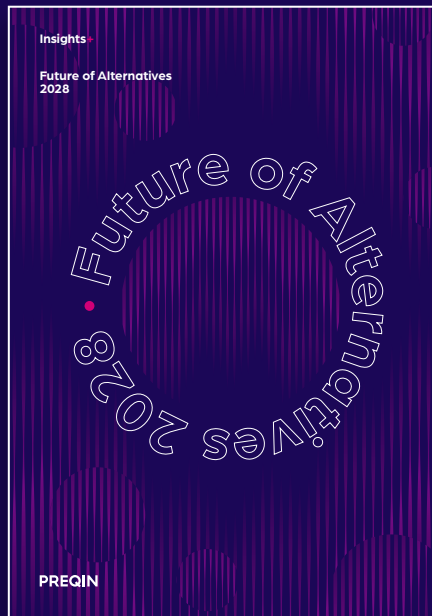
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