

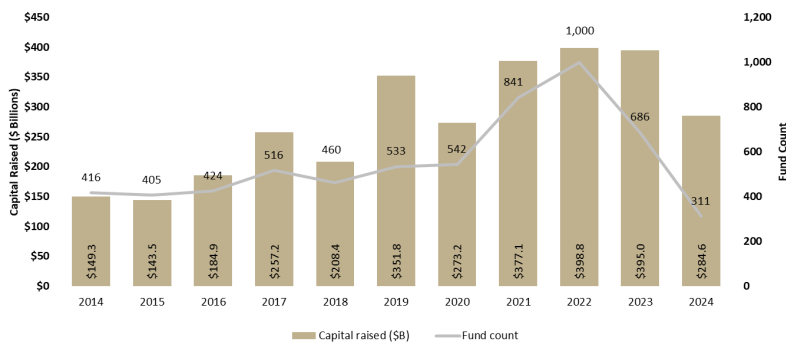
## Lower Interest Rates Help Private Equity

Rising rates in 2022 and 2023 put pressure on private equity. Higher interest rates make financing private equity deals more expensive, which reduces deal activity. Less demand for deals puts pressure on valuations, and lower valuations means lower returns for investors who are trying to exit those deals. The slower pace of exits also means that it takes longer for fund managers to return money to fund investors. As a result, investors have less money to redeploy into private equity funds, slowing the pace of fundraising.

This cycle started to reverse in 2024 when the Fed began cutting interest rates. Private equity deal and exit activity ticked higher for the first time in three years. Valuations also rose, but notably, only in terms of earnings multiples, not revenue multiples. This is because investors put a greater premium on profitability when times are tough, rather than focusing on topline revenue growth. This flowed through to performance, with private equity funds returning about 9% in 2024, according to Pitchbook.

Private equity fundraising, however, still declined overall in 2024, with only about \$285 billion raised across 311 funds. In 2023, \$395 billion was raised across 686 funds. As mentioned, investors need to receive their money back before they can redeploy it. Fundraising is thus a lagging indicator in private assets. With exit activity and returns picking up, fundraising should eventually start to recover, too.

### U.S. Private Equity Fundraising



Source: Pitchbook, as of December 31, 2024.

### Economy

#### Last Week

- **Leading Economic Indicators (Dec.):** -0.1%, resuming streak of negative monthly readings (22 of 24).
- **Initial & Continuing Jobless Claims:** largely unchanged 223K initial, 1,899K continuing
- **U. of Mich. Sentiment (Jan. P):** slight decline from December (71 vs. 73)
- **Existing Home Sales (Dec.):** 2.2% MoM, beating expectations yet slower from November.

#### This Week

- **Conf. Board Consumer Confidence (Jan.):** 1/28
- **FOMC Rate Decision:** 1/29
- **U.S. GDP (4Q '24):** 1/30
- **Personal Income, Spending, and PCE Inflation (Dec.):** 1/31

### Equities

Index	Level	Returns (%)					
		1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
S&P 500	6012	0.28	2.29	2.29	24.60	12.74	14.88
Russell 1000 Growth	4063	-0.82	0.52	0.52	28.92	15.99	18.74
Russell 1000 Value	1915	1.59	5.10	5.10	19.70	8.41	9.71
FTSE High Dividend Yield*	472	0.79	4.03	4.03	20.90	9.57	10.82
S&P Small and Mid Cap	18032	0.18	3.59	3.59	17.57	8.60	10.56
MSCI EAFE	2361	2.03	4.45	4.45	9.68	5.80	6.53
MSCI EM	1088	0.66	1.25	1.25	13.57	-0.03	2.54

#### Characteristics

Index	NTM P/E	NTM P/E (20Y med)	Div Yield	S&P Sector Returns YTD
S&P 500	22.2	15.3	1.3	10
Russell 1000 Growth	29.6	17.7	0.6	
Russell 1000 Value	17.0	13.4	2.2	
FTSE High Dividend Yield*	12.8	13.1	4.2	
S&P Small and Mid Cap	16.2	15.5	1.8	
MSCI EAFE	14.8	13.4	3.1	
MSCI EM	12.0	11.1	2.8	

\* Bloomberg U.S. Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

### Fixed Income

Index	Yield	Returns (%)					
		1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
U.S. Aggregate	4.84	0.65	0.63	0.63	3.22	-1.50	-0.48
U.S. Int. Gov/Credit	4.54	0.45	0.55	0.55	4.02	0.51	0.78
U.S. Corporates	5.28	0.79	0.75	0.75	4.01	-0.90	0.09
High Yield	7.23	0.39	1.23	1.23	9.59	4.32	4.44
Municipals (1-10)	3.27	0.52	0.52	0.52	2.23	1.07	0.89

#### Levels (%)

Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	5 Yrs Ago
2-yr Treasury	4.20	4.28	4.24	4.24	4.34	1.16	1.42
10-yr Treasury	4.54	4.58	4.57	4.57	4.03	1.77	1.59
30-yr Treasury	4.77	4.81	4.78	4.78	4.25	2.08	2.04
SOFR	4.34	4.29	4.49	4.49	5.31	0.05	1.53
6-mo. CD rate	4.36	4.36	4.33	4.33	5.30	0.59	1.78
Prime Rate	7.50	7.50	7.50	7.50	8.50	3.25	4.75
30-yr fixed mortgage	7.03	7.10	7.28	7.28	6.96	3.74	3.66