Private markets have not been immune to the impact of the COVID-19 coronavirus outbreak on financial markets. Equity market volatility has prompted some private equity groups to delay public exits. And venture capital deal activity in China has fallen by 60% in the last six weeks compared with the same period last year, according to Pitchbook data.

With travel restrictions in place, due diligence, on-site visits, and other deal sourcing activities are being delayed.

As with previous episodes of financial market dislocations, some repricing of private equity valuations could be expected in line with public equities, albeit at a lag. But this is not necessarily a bad thing. As we see limited risk of a material long-term negative impact on the global economy, we view the current situation as an attractive opportunity for investors.

- Historically, the best vintages for private equity firms have often coincided with dislocations in public equity markets, for example in the years 2001 and 2008.
- The current disruption may present opportunities to gain exposure to Asian companies at more attractive valuation levels. Longer term, we are bullish on the region given powerful secular drivers.
- Opportunities for funds specializing in turnaround and distressed situations are likely to increase the longer the disruption continues.
- If market disruption persists, falling public equity markets may leave some institutional investors with a higher-than-desired allocation to private markets, forcing them to rebalance. Secondary funds may be presented with opportunities to buy at discounted values from institutions looking to reduce their private market exposure.

Fund managers are well funded, with record levels of dry powder, so they have the necessary ammunition to snap up bargains when they arise. We think cycle-tested managers, with a prudent approach to capital deployment, are best equipped to navigate this environment.

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