

Is There Opportunity for Private Equity and Hedge Funds on the Horizon?

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The COVID-19 crisis has devastated the national economy. Tens of millions of Americans have lost their jobs and the stock market has fallen significantly. However, these brutal market conditions may have created an opportunity for private equity funds and hedge funds.

In a recent report, [J. P. Morgan Asset Management](#) upgraded their forecasts for both hedge fund and private equity returns, and explained why they are optimistic.

Opportunity for Hedge Funds

The past few years have been challenging for hedge funds due to a steady rise in equity markets. Hedging strategies were not as profitable and volatility stayed low, so it was difficult to generate Alpha. 2020 has been a completely different story.

Massive volatility has led to some impressive industry performance. [Pregin](#) found that hedge funds across all investment strategies outperformed the S&P 500 by nearly 10% in Q1, with CTAs, macro strategy, and relative value strategy funds outperforming the market by around 20%.

As investors see better hedge fund performance and face losses in their own portfolios, it could lead to higher fund inflows. In addition, now that asset prices have dropped, there could be more profitable investment entry points versus 2019, when markets were at record highs.

All these factors could create a medium-term opportunity for hedge fund performance. Preqin noted that several major hedge funds launched new flagship vehicles to capitalize on these conditions.

Opportunity for PE Funds

The J.P. Morgan analysts also like the prospects for private equity funds, especially those holding “dry powder” cash on their balance sheets. With a drop in markets and valuations, PE funds now have the opportunity for lower entry multiples than they did in the past. While debt servicing costs could be higher going forward, the J.P. Morgan analysts believe that the PE sector will move ahead.

This positive outlook drove their forecast for the sector from 8.8% in September 2019 to 9.8% in March 2020. This upgrade is especially notable given that 2019 was already a fantastic year for private equity funds. It still looks possible their strong run may continue.

Long-Term Market Forecasts

Besides their bullish medium-term outlook for PE and hedge funds, J.P. Morgan is also positive about long-term market prospects as a whole. They believe aggressive fiscal and monetary support from the government will continue to prop up markets, though they noted that this support will boost equities more than bonds.

The report also concludes that over the next decade international equities will outperform U.S. equities. Morgan upgraded their forecast for U.S. real estate compared to last year, believing that this sector will also rebound and avoid losses similar to the ones which occurred during the financial crisis. They predict a return of 6.6% for U.S. core real estate, versus their previous forecast of 5.8%.

Ultimately, the strong long-term fundamentals of the economy will help create a rebound once the COVID-19 crisis ends. Until then, the extra volatility and lower valuations may have given PE and hedge fund managers a chance to boost their returns.

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