SARANAC
PARTNERS

# *Investment roadmap*

**FEBRUARY 2025**

## AT A GLANCE

— The special feature this month is on **investing in emerging market equities**. These include a diverse array of countries, unified to some extent as having lower per capita incomes and potentially faster rates of economic growth than their developed market counterparts. However, significant equity issuance, corporate government challenges and over-exposure to cyclical sectors has meant that this does not systematically translate into outperformance of developed markets, whose constituents can also benefit from firmer economic growth. Current challenges also include the potential adverse impact of higher US tariffs. However, emerging market equity valuations remain unchallenging, and Saranac retains some exposure in multi-asset equity portfolios.

— The potential impact of **Trump's policies** seem likely to be 'stagflationary', reflecting the impact of labour force repatriation, higher tariffs, political constraints on the Fed and fiscal challenges. The magnitude of any potential impact is, however, still far from clear and potential benefits could emerge from additional deregulation. Saranac is maintaining equity exposure in multi-asset portfolios, but cash weights are somewhat higher than normal, as is the level of equity protection through options, reflecting the more uncertain outlook.

— Two other features suggest **a cautious investment stance** is appropriate. First, market pricing is not generous. Global equity valuations are higher than normal, largely reflecting extended megacap valuations in the US, although valuations elsewhere are in line with historic averages. In addition, credit spreads are relatively low. Second, while US growth continues to hold up, it remains depressed in both Europe and China, limiting the scope for sustained robust corporate earnings growth. However, this slow growth may facilitate lower policy rates this year, although the scope for monetary easing in the US is more constrained.

— We continue to see intermediate rather than long maturities as the 'sweet spot' for **fixed income markets**. Short-term inflation risks have become increasingly well-priced, but less so the longer maturities. Longer-term fiscal risks in many countries also make us sceptical about longer-duration exposures.

— In **commodity markets**, precious metals have remained the strongest performers. Gold in particular continues to benefit from higher political and inflation risks, and from significant central bank purchases. Energy, industrial and agricultural prices have been in flatter or weaker trends.

— We review recent **secondary market developments** in the private markets section.

## Investing in emerging markets

Investing in emerging markets has long been promoted as a strategy to capture higher growth rates, diversify portfolios, and gain exposure to rapidly evolving economies. Yet, despite widespread acceptance of the term "emerging markets", there remains no universally agreed-upon definition for which countries qualify. This ambiguity arises from differing criteria used by economists, index providers, and investors, typically revolving around per-capita income thresholds, capital market accessibility, and overall economic growth potential.

Still, for nearly four decades, the phrase "emerging markets" has carried significant weight in both financial and policy circles. Countless institutions, individual investors, and governments have used it to describe the dynamic (though often more volatile) economies that stand between the status of frontier and developed. In this article, we will explore the major drivers of returns in emerging equity markets, examine the changing composition of stock indices, and assess the opportunities and risks these markets present in an evolving global geopolitical environment. Finally, we will consider potential policy shifts in the US, and how those might affect emerging market economies over the coming years.

## The elusive definition of emerging markets

While the term "emerging markets" is now ingrained in the lexicon of international finance, there is no single, broadly accepted definition. Some focus on levels of poverty or per-capita income, others on measures of capital market development, and still others on projected growth potential. Given this multifaceted approach, disagreement often arises over whether a specific country should remain or be newly categorised as emerging.

South Korea illustrates this debate well. By many measures – whether GDP per capita, the size of its economy (among the world's 15 largest), or its advanced infrastructure – South Korea seems comparable to developed economies. And yet, some major index providers classify South Korea as an emerging market primarily because of certain capital market restrictions, while others place it in the developed market category. This discrepancy is not purely academic: index classification directly

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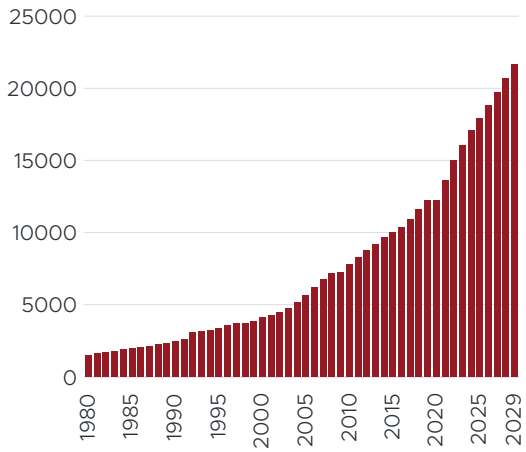
**Chart 1: Emerging economies GDP per capita, current prices (purchasing power parity)**




Source: International Monetary Fund.

influences how capital is allocated, as global institutional investors often rely on these benchmark classifications to determine portfolio weights.

The term emerging markets itself traces back to 1981, coined by the World Bank's International Finance Corporation (IFC). At the time, investing in what were then called "developing" or "Third World" countries held little appeal for most global investors. The IFC sought to alter negative perceptions and encourage foreign investment by promoting the potentially highly attractive returns from these underinvested equity markets.

Despite the relatively recent coinage, emerging markets have existed for centuries. Most of today's developed countries were once "emerging" by any plausible definition – yet the speed and consistency of their development varied. Sometimes, countries that have reached developed status regress back to emerging due to political, economic, or institutional upheavals.

Argentina is a good example of this. At the start of the 20th century, it was among the wealthiest countries in the world, boasting the 10th highest per-capita income by 1913. A combination of political mismanagement, economic crises, and systemic breakdowns in governance led to a substantial deterioration from the 1930s onward. By the 1970s, the country was firmly reclassified as an emerging market.

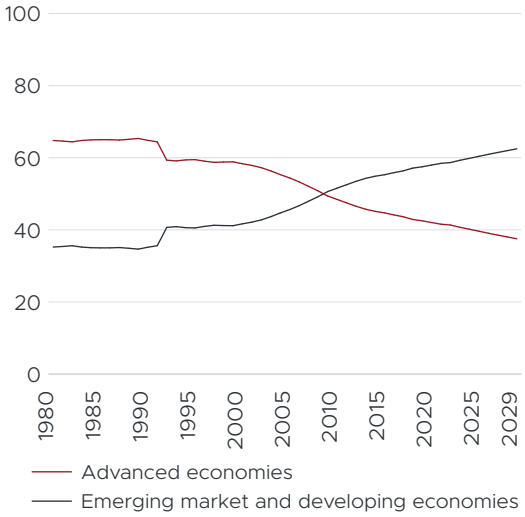
*At the start of the 20th century, Argentina was among the wealthiest countries in the world, boasting the 10th highest per-capita income by 1913.*

**The evolution of the emerging markets index**

Today the most widely used stock market index tracking the performance of emerging market equities is the MSCI Emerging Markets (EM) Index. Established in 1988 with ten countries that collectively accounted for less than 1% of the MSCI All Country World Index (ACWI) market capitalisation, the MSCI EM Index has grown substantially. Today, emerging markets comprise about 10% of the ACWI, with the MSCI EM Index encompassing 26 countries.

Historically, the EM index was dominated by Latin American nations like Brazil and Mexico, along with South Africa. In the 1990s and early 2000s, many US institutions made their first dedicated allocations to emerging markets, anchored by this index.

**Chart 2: GDP based on PPP, share of world %**




Source: International Monetary Fund.

Since then, however, the composition of the EM benchmark has shifted significantly – today, China, Taiwan, Korea, and India make up roughly three-quarters of the MSCI EM Index.

The classification of South Korea and Taiwan as "emerging" further highlights the definitional dilemma. Both are "high income" economies by the International Monetary Fund's (IMF) standards. Moreover, China – the world's second-largest economy – still technically qualifies as a "middle income" country on a per-capita basis, yet it dwarfs many traditionally developed markets. This leads some investors to question whether the EM designation truly aligns with economic and market realities. At the very least, the heavy weighting of Asian countries in the MSCI EM benchmark now exposes investors to a more concentrated regional risk.

**The changing nature of emerging markets**

The cyclical nature of sector and country weightings in the EM index is a crucial aspect for investors to understand. Over the past two decades, Brazil has seen multiple booms (often coinciding with commodity rallies) and busts (associated with dips in commodity demand and political turmoil). Commodity super-cycles in emerging markets are often driven by demand from countries such as China, but as China transitions from a debt-fuelled infrastructure model to a consumption-oriented one, demand for raw materials has sometimes waned, taking countries like Brazil and South Africa along for the ride.

Moreover, the sector composition of the EM universe has evolved. While in the past it was dominated by commodity exposed sectors such as Energy and Materials, the EM index now has significant weight in Consumer Discretionary and Information Technology sectors. This shift is partially due to the rapid growth of tech giants and other innovative companies in China, South Korea, and Taiwan. As a result, a broader array of industries – from e-commerce to semiconductors – now have much greater bearing on the performance of the broader index, reducing the once all-encompassing influence of commodities on EM returns.

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**Chart 3: Price-to-earnings ratio**

Source: Saranac, Bloomberg.

*Despite higher expected economic growth rates, emerging market stock indices typically trade at lower valuations than their developed-market counterparts, particularly compared to U.S. equities.*

**Why invest in emerging market equities?**

The answer may seem obvious at first glance – emerging economies are expected to grow faster, on average, than their developed market peers. As rising incomes, increased productivity, and capital inflows fuel these economies, theoretically, companies based in high-growth economies should enjoy stronger earnings growth.

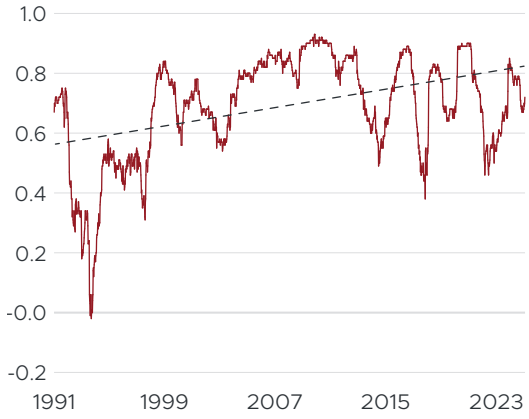
The growth argument is fundamental to the allure of emerging markets. Economies starting from a lower base can experience significant improvements in per-capita income with relatively modest investment in infrastructure or productivity growth. Demographic tailwinds, including younger populations and rising middle classes, only add to the allure. However, while emerging economies have generally outpaced developed ones over the past two decades, growth rates do moderate as countries move up the economic ladder. China's meteoric rise in GDP growth over the past 30 years, for instance, is projected to slow to around 3–4% annually by 2030 which brings it closer to some developed economies.

Despite higher expected economic growth rates, emerging market stock indices typically trade at lower valuations than their developed-market counterparts, particularly compared to US equities. The argument goes that as earnings catch up with larger developed markets, capital markets mature and foreign ownership increases, this valuation discount should narrow, translating into higher returns from emerging markets equities over developed markets.

**Have higher growth rates translated into higher returns?**

Since the inception of the MSCI EM Index, emerging market equities have produced acceptable returns, although they have generally lagged the US equity market, except a few periods of strongly rising commodity prices. Despite that they have outperformed many developed markets outside of the US. Still, there is an apparent paradox: while emerging economies have exhibited higher GDP growth, this has not necessarily translated into meaningfully higher earnings growth or shareholder returns compared to developed markets. There

**Chart 4: 1-year correlation of DM and EM**




Source: Saranac, Bloomberg.

are likely several factors to blame. First, emerging market companies often issue new shares to fund growth, which can dilute existing shareholders and profitability metrics. By contrast, US corporations have, on average, a much better track record of returning excess cash to shareholders, either via dividends or share repurchases, which ultimately lifts total shareholder returns. Secondly, governance practices in many parts outside of the developed markets may not necessarily view minority shareholders' interest as their priority, instead focusing on job creation, social stability, or other strategic aims, often at the expense of growth and profitability. Thirdly, in an increasingly interconnected world It is not always local firms alone that benefit from broader economic growth. Multinational companies listed in developed markets (e.g., in Europe or the US) often have substantial sales exposure to emerging markets, thereby competing away revenues and profits that would otherwise be earned by local firms.

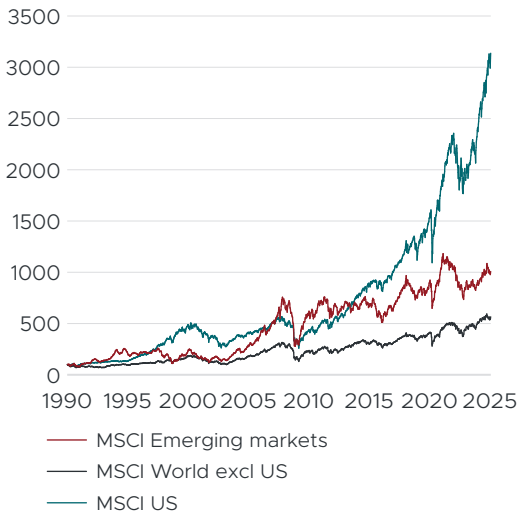
Those considering an allocation to broader emerging market indices must also be mindful that EMs come with higher volatility compared to developed markets, both in terms of underlying share prices as well as the currencies they are denominated in as political instability, regulatory uncertainty, and liquidity constraints can all fuel swift and indiscriminate capital outflows in periods of risk aversion. Meanwhile, the often cited diversification benefits of allocating to emerging markets in global portfolios are perhaps less relevant today. Globalisation and the integration of local supply chains, alongside the rise of passive investment strategies has inevitably led to higher correlations between emerging and developed markets.

*Those considering an allocation to broader emerging market indices must also be mindful that EMs come with higher volatility compared to developed markets.*

**The geopolitical landscape matters**

Donald Trump's second term in office will likely have profound implications for global markets beyond US soil. Through a combination of proposed tax cuts, higher tariffs, and tighter immigration policies, bond markets have already started to reflect expectations of higher near-term inflation, which in turn may well limit the extent to which the Federal Reserve can cut interest rates further from here. Inevitably this

**Chart 5: Total return**




Source: Saranac, Bloomberg.

will curb the ability of EM central banks to continue their own easing cycles in an effort to protect their currencies from depreciating further. Beyond that, the new US administration may well use tariffs (or the threat thereof) to further bolster domestic US manufacturing at the expense of emerging market manufacturers importing into the US. While some of these threats may serve as negotiating tools, the likelihood of permanently elevated tariffs on China is real. Additional Chinese stimulus might buffer the impact, but many emerging markets linked to Chinese supply chains will feel the ripple effects.

The administration's pledge to increase deportations and reinforce the southern border with Mexico could intensify domestic labour shortages in sectors like construction. Meanwhile reduced remittances and rising numbers of deportees have the potential to strain public services and exacerbate social tensions in Latin America. Mexico and Colombia, due to significant flows of migrant labour in the past, appear especially vulnerable. Trump's foreign policy approach also shapes EM risk sentiment. He has promised a swift resolution to the Ukraine-Russia conflict, though observers doubt his ability to deliver a lasting peace. In the Middle East, his hawkish stance on Iran and staunch support for Israel could drive volatility in energy markets, affecting EM commodity exporters.

Overall, President Trump's second term promises to revive many of his earlier economic and geopolitical themes, albeit with fewer constraints and potentially more enduring consequences. For emerging markets, these policies mean navigating tighter global financing conditions, ongoing trade disputes, and shifting supply chains. Whether they represent opportunities or obstacles hinges largely on how effectively these economies adapt to the White House's evolving agenda.

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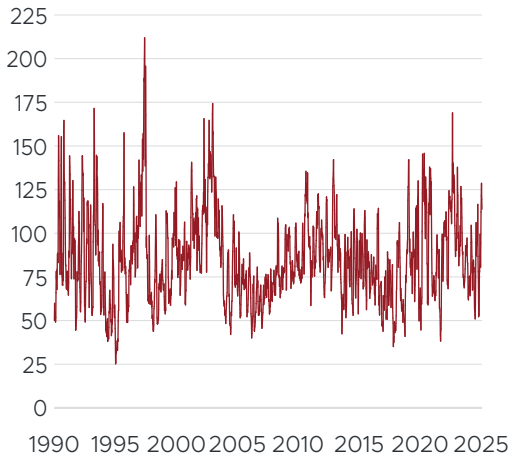
**Looking to the future**

Emerging markets will remain a critical engine of global economic growth. They already account for the lion's share of incremental GDP expansion and host the majority of the world's population. As incomes rise and financial markets continue to develop, the long-term trend of capital flowing into

**Chart 6: Relative volatility DM vs EM %**




Source: Saranac, Bloomberg.

EMs will likely persist. Demographics, technological adoption, and the potential for infrastructure development to unlock productivity gains all offer compelling growth narratives.

However, there will be bumps along the road. The middle-income trap challenges many EM economies, threatening the transition from resource- or cheap-labour-driven growth to innovation-led, consumption-driven growth. Political risks such as populism, corruption, and policy reversals, can derail progress, as can external shocks or commodity price swings.

In either case, emerging markets are no longer merely the "Third World" economies once characterised by agrarian sectors, fledgling manufacturing bases, and closed-off capital markets. Today's EM landscape includes industrial powerhouses like China and South Korea, along with smaller frontier-like economies working to carve out their own niche. Therefore, the case for investing in emerging markets remains compelling on multiple fronts. Many EMs offer faster population and economic growth than advanced economies, improving infrastructure, and diverse investment opportunities ranging from consumer tech to renewable energy. Attractive valuations and the potential for capital inflows also bolster the argument for a strategic allocation. For the time being, however, emerging market equity allocations within Saranac multi asset portfolios remain moderate, reflecting the broadly balanced probability of risks. While the fundamental long-term growth investment thesis for the region remains intact, we are mindful that the more immediate outlook has become more uncertain, in part because of the new US administration.

# *Public markets*

## EQUITIES

**Valuation**

**Earnings**

**Positive**
Infrastructure & Resource Scarcity; MedTech; US financials

**Negative**
Low quality, high valuation companies; Emerging Markets

**Market background**
Equity markets started the year full of optimism. However, a dark cloud emerged in the form of DeepSeek, a new AI model from China, which weighed on the IT sector as well as industrial companies and utilities. 4th quarter earnings season is in full swing where the reports and commentary from management have thus far been encouraging. Towards month end, fears of tariffs being applied to Mexican, Canadian and Chinese goods surfaced.

**Targeted exposure**
Our allocation to US equities has risen as we have rejigged our financials exposure to take advantage of any deregulation. The turbulence caused by DeepSeek exposed the portfolio's sensitivity to the AI theme. Even though the news brought into question the US's dominance in the space we continue to believe in the infrastructure build-out story. Health systems are striving to improve efficiency as they prepare for an ageing population which we believe will benefit healthcare companies.

# *Public markets*

## GOVERNMENT BONDS

– Asset class outlook +

**Short maturity**

**Long maturity**

**Positive**
US 5-7Y Treasuries, US Agency MBS, Australian Sovereign and Agency bonds across tenors

**Negative**
Japanese government bonds

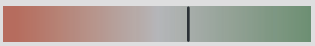
**Market background**
January began with inflation concerns dominating investor sentiment, particularly due to potential tariff measures from the new Trump administration. These concerns were reinforced by strong economic data. These data releases triggered a notable sell-off in global bond markets as investors reassessed. However, these movements began to reverse when inflation data suggested some moderation expectations for central bank rate cuts. End of January, Treasury yields ended 3-5bp lower, whilst the Gilt yield rallied at the front-end on expectation of more rate cuts from the BoE. Amidst a stagnating European economy, the ECB cut rates by 25bp on January 30, lowering the deposit rate to 2.75% and signalling further reductions ahead. In contrast, the BOJ diverged from the easing trend, implementing a rate hike to 0.5% amid faster-than-expected inflation.

**Targeted exposure**
As inflation break-even spiked in January over US tariffs threats, we took profit on some TIPS positions, reallocating to nominal treasuries. We maintain significant exposures to MBS, as we believe the asset class will be supported by (i) its stable convexity profile (ii) the phasing-out of the Federal Reserve Quantitative Tightening program in 1H25 and (ii) increased US bank demand, as the regulation designed to increase bank capital requirements gets shelved by the Trump administration. Finally, at a time where fiscal angst is on the rise in the US, the UK and continental Europe (France), we believe the Australian SSA market offers attractive return prospects, with elevated yields, a slowing economy and a healthy fiscal position (limited public deficit, debt to GDP <40%). Conversely, we believe that the autumn UK budget increases fiscal risks in the UK. As such, we favour a short-to-intermediate GBP duration stance.

# *Public markets*

## CORPORATE AND EMERGING MARKET DEBT

**Investment grade credit**



**High yield**

**SUB**

**EM debt**

**Positive**
Investment Grade securitisation

**Negative**
Long-dated US High Yield, Emerging High Yield Sovereign

**Market background**
Despite elevated intra-month volatility, January ended on a relatively strong note for credit markets, characterised by (i) broad-based spread tightening, (ii) outperformance of HY and Subordinated bonds over IG and (iii) £ and $ duration tailwinds. IG spreads modestly tightened in January with a significant spread outperformance of €IG: $IG -1bp @ 82bp / £IG -3bp @ 91bp / €IG -11bp @ 91bp. HY markets broadly tightened with the $HY outperforming: $HY -26bp @ 284bp / £HY +5bp @ 382bp / €HY -9bp @ 326bp. Note that $HY spreads made a new post-GFC record tight during the month at a low of 277bp. AT1s tightened by 26bp to 284bp, still trading off their all-time spread lows reached in 2018 (249bp). AT1s returned +1.46% in January, the best performing credit sector that we track.

**Targeted exposure**
We now think credit spreads offer little room for further spread compression, in particular in USD markets. Still, we expect demand for credit to remain extremely robust in 2025, supported by attractive corporate yields, wide open primary markets enabling refinancing operations and low credit defaults. Geographically, Europe continues to offer attractive relative value compared to $ credit. Overall, we think rates risk is now better priced than credit risk and we have therefore been switching some investment grade corporate positions to duration positions such as US Agency MBS. In High Yield, we prefer to harvest elevated yields at the front-end of the curve (1-3Y) in order to limit sensitivity to a potential widening in credit spreads. Combining floating coupons and attractive spreads, we think securitised credit offers an attractive relative value proposition compared to traditional credit.

# *Public markets*

## HEDGE FUNDS

Despite the brief dip in the first half of January, global equities rallied back to early December highs and hedge fund performance broadly got off to a strong start. The pullback in the last week of the month due to Deep Seek was short lived and hasn't made a lasting impact on broad market performance or positioning as of month end. One key observation made by the JP Morgan Data Assets & Alpha Group has been the outperformance of Europe over the US. Among CTAs, European positioning saw the largest increase (now at 80th percentile). In addition, HF net flows have been biased towards buying Europe and selling North America (and APAC) towards the end of the month. Over in Asia, flows have turned negative, especially in the second half of Jan. The net selling has been strongest in Japan with short additions doing most of the work. Shorts were added broadly across Japanese sectors.

Positioning broadly remains elevated, gross leverage levels globally sitting at the 100th percentile since 2017 and 98th percentile over the last 12 months across all strategies (source: JP Morgan). Net leverage levels remain elevated across all strategies (c.90th percentile over the last 12 months). CTA positioning remains broadly unchanged although an increase in Europe was most notable. Looking at combined flows across hedge funds, ETFs and Retail, strong flows in Industrials and Materials were witnessed, while Utilities and Financials also remained positive. Healthcare flows improved to more neutral levels, while Cons Disc saw flows revert lower and become most sold. Info Tech saw small net selling for the month.

# *Public markets*

## CURRENCIES

**Dollar**

**Sterling**

**Euro**

**Yen**

**Market background**
The DXY dollar index has had a volatile start to the year and is trading in a reactive mode to political headlines. Following Trump's inauguration and the fact that tariffs were not unleashed at the outset, the USD softened as markets had been expecting and positioned for trade wars. The pullback in the dollar was short-lived until we had news that 25% incremental tariffs were in scope against Mexico and Canada, as well as further actions against China. Tariffs are seen as USD positive, however despite the initial knee-jerk 3% USD gain against the Mexican Peso at the time of the announcement, the USD has since weakened again as trade tensions appear to have at least been parked for now.

**Targeted exposure**
The takeaway for investors in our view is that we are going to be operating in more volatile currency markets for some time and the US dollar will remain highly sensitive to trade headlines. Our bias remains to be partial sellers of USD on spikes, with a view to rotating into weaker currencies that offer a more favourable positioning and valuation backdrop, we continue to seek out attractive investment targets denominated in EUR, NOK and JPY.

# *Public markets*

## COMMODITIES

**Gold**

**Energy**

**Industrial metals**

**Softs**

**Market background**
The multi-year bull market in gold continued in the first few weeks of the year. The main sources of support has been strong central bank purchases, and also increasing demand from investors seeking to hedge higher inflation and political risks. Lower real interest rates may also have contributed, but the relationship between yields and the gold price have weakened in recent years. Other commodity prices – industrial metals, agriculture and energy prices – have remained in flatter trends.

**Targeted exposure**
We continue to prefer gold as the best source of return in the commodities universe. The strong start to the year may have left it somewhat overbought, but this is likely to be only a short-term constraint. Given the heightened global economic and political background, there is still scope for additional gains in the gold price, although we acknowledge that industrial and commercial demand may weaken in the face of higher prices. We are more sceptical about returns from other commodities, given subdued global growth, although we regard uranium as having better prospects.

# *Private markets*

## Secondary market update

### Market overview

The secondary market experienced a record-breaking year in 2024, with total transaction volume reaching $165 billion, representing a ~40% year-over-year increase. This growth was fuelled by public equities trading at or near all-time highs and renewed optimism in the global economy resulting in a resurgence in investor risk appetite.

Secondary funds scaled their deployment capabilities, while asset managers entered the space or expanded their secondary buyside platforms. Additionally, large global limited partners (LPs) announced initiatives to play a more active role as both buyers and sellers, further strengthening liquidity in the market. The record transaction volume was also supported by tremendous inflows from retail and private wealth channels, contributing to an expansion in the breadth of secondary market participants. As the market continues to evolve, new entrants and innovative transaction structures have played a significant role in its continued expansion.

### Investor sentiment and demand

Investor sentiment in the secondary market remained strong in 2024, with increasing demand across all transaction types. LP-led transactions accounted for $79 billion, benefiting from improved asset valuations, growing interest from retail capital, and broader diversification into non-buyout asset classes such as private credit and infrastructure. GP-led transactions totalled $74 billion, reflecting a growing adoption of Fund Continuation Vehicles (FCVs) across multiple industries, including oil & gas, software, and private credit. Additionally, Structured Liquidity Solutions (SLS)—which include fund-level preferred equity and net asset value (NAV) loans—gained traction, reaching $12 billion as alternative liquidity mechanisms became more widely adopted.

### LP-led market insight

The LP-led secondary market witnessed one of the best pricing environments in recent years, driven by strong retail capital inflows and improved underlying asset valuations. This demand was particularly evident in private credit and infrastructure assets, which continued to expand as alternatives to traditional buyout transactions.

In addition to strong demand, leading secondary funds actively used the secondary market as a sell-side tool, engaging in portfolio rebalancing and strategic asset sales. The trend toward larger transaction sizes was also evident, with LPs regularly marketing portfolios exceeding $1 billion as part of active portfolio management strategies.

### GP-led market insight

GP-led transactions remained a significant driver of secondary market volume, with both first-time continuation vehicles (CV) issuers and repeat sponsors bringing substantial supply to market in 2024. The GP-led segment saw an increasing variety of industry and asset-class exposures, particularly in oil & gas, software, and private credit.

The second half of 2024 saw an acceleration in GP-led transactions, as investors gained greater clarity on interest rate policies and the outlook for the U.S. political landscape. Many sponsors opted to use large-scale CVs exceeding $1 billion to retain marquee assets while simultaneously providing liquidity to their LPs. As a result, investor commitments to single-asset and multi-asset CVs increased, reflecting confidence in these vehicles as effective liquidity management tools.

### Structured liquidity solutions (SLS)

Structured Liquidity Solutions (SLS) gained prominence as alternative fundraising tools. Rated Feeders and Collateralised Fund Obligations (CFOs) saw greater adoption, providing additional liquidity channels amid a more challenging fundraising landscape. NAV loans and fund-level preferred equity solutions became standard liquidity-enhancing tools for both LPs and GPs, enabling capital unlocking without diluting existing equity positions.

As more non-traditional investors entered the secondary market, the demand for GP-led transactions and structured solutions is expected to continue increasing in 2025, supported by lower-cost capital and growing buyside participation.

### Outlook for 2025

Looking ahead, 2025 is expected to be another record-setting year for the secondary market, with transaction volumes continuing to rise. The demand for secondary market liquidity will likely be driven by LPs looking to rebalance portfolios and GPs seeking alternative liquidity solutions for trophy assets.

Key trends to watch include:

— Increased competition among buyers, potentially driving higher pricing for high-quality LP portfolios.

— A broader adoption of GP-led transactions, particularly for single-asset CVs exceeding $2 billion.

— Expansion of secondary transactions beyond private equity, with growing focus on infrastructure, private credit, and venture capital assets.

— Greater integration of Structured Liquidity Solutions (SLS), as NAV loans, preferred equity, and CFOs become mainstream liquidity tools.

— Continued inflows from retail capital, with ’40 Act funds and other vehicles playing an increasingly important role in secondary market dynamics.

With these tailwinds in place, the secondary market is poised for another year of robust growth, supported by a combination of buoyant investor sentiment, expanding transaction structures, and increasing institutional participation.

*Data source: PJT Park Hill*

# *Private markets*

## ALTERNATIVE SOURCES OF RETURN

### Secondaries

Undercapitalisation of the secondary market has created a structural imbalance between supply and demand, creating an attractive environment for long-term allocation to secondaries

### Special situations

Favourable market environment given the likely stress corporates will face in a higher rate environment

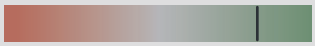
### Venture capital

Early-stage venture has benefited from the correction in late-stage valuations, providing an opportune time to invest in long-term productivity gains, labour replacement and other venture investment qualities

### Infrastructure

Attractive, long-term asset class given supply chain issues, regulatory initiatives and geopolitical uncertainty are driving demand for new / the development of infrastructure higher

### Real estate



As cap rates have expanded and lending has tightened, we see opportunities to acquire high-quality assets at attractive entry prices

### GP stakes and financing

Opportunity for higher yield and greater structural protection as a result of limited GP liquidity

### Real assets

At risk from weak growth environment

### Private debt

A negative economic outlook with the potential for above-trend default rates and extension risk make private direct lending unattractive on a risk-adjusted basis

### Leveraged buyouts

Softened valuations, reduced debt levels, and increasing focus on corporate carve-out opportunities has created a window for investors to deploy into operationally focused private equity strategies

### Mid-market growth

A prolonged period of weak/negative earnings growth as a result of a weak economic environment and increased cost of capital will see valuations struggle in the short term

## ABOUT SARANAC PARTNERS

We founded Saranac Partners to do things differently. To create a community based around like-minded people, shared wisdom and collective learning. To work as partners, creating compelling opportunities and effective solutions. To offer unfailing support, honest challenge and thoughtful inspiration.

Our business combines the personal touch of a private office with the capability and breadth of a large institution. Our firm has strategic shareholders, outstanding technology, broad capabilities and the highest standards of corporate governance. Saranac Partners is a signatory to the United Nations Principles of Responsible Investing (UNPRI).

## OUR SERVICES

We start with the question. We listen and seek to understand. We don't make assumptions or force solutions. Rather we co-create a path with our clients.

**Strategy.** Planning, governance and oversight

**Financing.** Access to diverse sources of capital

**Investments.** Allocation and deployment of capital

**Corporate advisory.** Supporting corporates and business owners

## IMPORTANT INFORMATION

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