

Reality Check: Assessing Private Equity's 2022 Predictions

In Q4 2021, Lincoln International [surveyed nearly 400 private equity investors](#) on their expectations for dealmaking in the year ahead. In the three quarters since, public equity markets have seen marked volatility. The economic uncertainty is impacting mergers and acquisitions (M&A) decision-making as investors keep a close eye on global regulators' ability to curb rising inflation without sending the economy into a recession.

While much about the dealmaking environment has changed since Q4 2021, some constants remain continued priorities for investors, despite the changing economic landscape. Below we check in on several of private equity's (PE) top predictions—and how they played out.

EXPECTATION

70% of PE investors expected deal volume to remain the same or increase in 2022

79% named deploying capital as their number one priority

REALITY

Entering 2022, investors had little visibility into the challenges the year would bring. Credit markets and private company valuations were strong, buoyed by solid business performance. As the year progressed, a perfect storm of uncertainty grew, from record inflation to a war in Ukraine to rising interest rates. The result? Global M&A volume in H1 2022 is down 12% compared to the same period in 2021, according to S&P Global.

LOOKING AHEAD

PE is still sitting on record levels of dry powder, translating to deals getting done even in tougher economic conditions. While investors' desire to deploy capital remains strong, market conditions have made them more selective, lowering the availability of quality assets that are sure to remain healthy through the lifetime of the hold period. These dynamics can lead to pricing standoffs, with sellers looking to secure high multiples seen several months ago and buyers looking to snag deals as recession worries percolate. In today's environment, new complexities mean dealmakers must tread carefully alongside a trusted advisor.

EXPECTATION

54% of PE investors named competition for excellent talent as their top concern

REALITY

While labor shortages and the Great Resignation certainly continue to impact a number of industries, several other challenges have taken center stage, pushing labor to the back burner.

LOOKING AHEAD

In the current economic environment, concerns of inflation, supply chain challenges and labor shortages are on the minds of all investors. But one concern comes out on top: the threat of a downturn. All private market players are asking whether a recession is coming—or if we are already in one. As the economic situation plays out, Lincoln expects dealmakers to put an increasing focus on the due diligence process to ensure their investments are well-positioned for resilience during a recession.

EXPECTATION

47% of PE investors said environmental, social and governance (ESG) factors are very important to their investment strategy

REALITY

Lincoln has observed many investors remaining steadfast in their ESG allocations despite worsening market conditions. ESG is no longer a sideline effort, but rather a top of the agenda priority.

LOOKING AHEAD

We expect continued pressure from limited partners (LPs) and stakeholders to push companies to stick to stated ESG goals. Even with a potential economic downturn on the horizon, momentum behind ESG investing will endure as LPs indicate preferences for ESG-conscious assets in their capital allocations and PE sponsors align their portfolios in turn.