EXPERT COMMENTARY

*The volume of sellers and capitalization of buyers can drive the secondaries market to reach yet another record year in 2025, says Yann Robard, managing partner at Dawson Partners*

# Predicting a $200bn year for secondaries

Most will have heard by now that 2024 was a banner year for the secondaries market – with global secondaries volume reaching over $160 billion, per Evercore. In fact, volume was up 41 percent year-on-year from 2023, eclipsing the prior record of $130 billion achieved in 2021. There was a heightened level of activity in both LP- and GP-led transactions as many LPs dealt with portfolio overallocation issues and many GPs sought to leverage continuation vehicles as a tool to send distributions back to investors.

It's important to contextualize this volume. Just a decade earlier, the secondaries market was at just $40 billion in volume, according to Evercore. This means it has quadrupled in just 10 years – through innovation, specialization and maturation.

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So why are we predicting another record year for the secondaries market in 2025? As we enter 2025, we are seeing many of the same themes we saw in 2024. Many LPs remain overallocated to private equity. Many GPs are increasingly looking for liquidity options. And, while fundraising has not kept pace with deployment, there has been a growing amount of capital flowing into the secondaries market. In an admittedly challenging fundraising environment for PE overall, secondaries fundraising has been a bright spot in a tough market.

### What's ahead for 2025?

As we head into the second half of 2025, we predict the secondaries market could hit a new record in volume – between $175 billion and $200 billion for the year. What's driving our prediction? We believe there are two key factors providing tailwinds in achieving this milestone: the volume of sellers and the capitalization of buyers.

## Volume of sellers

Over the past three to four years, it has not been easy to manage PE portfolios. As *Buyouts* reported, in 2021 many PE investors fared extraordinarily well and because of significant outperformance, they found themselves victims of their own success. In fact, many PE investors ended 2021 overallocated for the right reasons: their PE portfolios outperformed public markets by a wide margin. The MSCI Private Capital Universe PE return was up 39 percent, while the Russell 3000 was up 26 percent.

In 2022, markets shifted. The Russell 3000 declined by 19 percent, and this compounded overallocation issues as PE valuations per the MSCI Private Capital Universe PE return fared better than public markets. In 2023 and 2024, liquidity and distributions in PE started to dry up with investors only receiving 11 percent and 15 percent of portfolio NAV back, respectively, versus the 15-year average of 26 percent, according to MSCI Private Capital Universe.

The waterfall of events over the past four years has wreaked havoc on many investors' portfolio allocations and created a need for some rebalancing. In comes the secondaries market to help fill that void.

While there was some renewed optimism at the end of 2024, 2025 has been off to a choppy start at best. So far, the year has been marked by tariffs, a new world order and geopolitical uncertainty, which we believe will result in a general slowdown of dealmaking in Q2 and could further push out much-needed distributions for PE investors. We predict an era of uncertainty will loom large over allocators and that there will be compounding overallocation as the denominator effect may start to re-emerge.

As a result of recent volatility, many LPs will likely remain overallocated to PE in the short to medium term. In fact, at the end of 2024, before this renewed bout of volatility, nearly 50 percent of LPs reported being overallocated to PE according to *Buyouts*. A meaningful increase from only 22 percent five years ago.

While some may believe that liquidity returning to the market will help resolve this overallocation, we believe that as distributions increase, so too will capital calls as the market and dealflow pick up. In other words, we see a period where LPs will be running on a treadmill with increasing distributions offset by increased capital calls. We expect this to drive volume to the secondaries market for the foreseeable future.

Case in point: Q1 2025. PJT Partners estimates that secondaries volume was ~$45 billion, which represents a ~50 percent year-on-year increase relative to Q1 2024 and a run rate of $180 billion. And while we expect a slight pause in secondaries activity in Q2, we believe this will be short lived. As secondaries buyers and sellers digest that uncertainty is the new certainty, we see secondaries activity returning quickly and in scale in the second half of 2025.

Focusing now on GP-led activity. It's no secret that many GPs have embraced the secondaries market to help send distributions back to LPs in a low-liquidity environment. In fact, according to Evercore, the GP-led market has averaged 45-50 percent of the total secondaries market since 2021. In 2024, the GP-led market totaled $71 billion, with over $25 billion closing in Q4 alone.

The market has continued to show impressive 39 percent year-on-year growth, and we don't see why this market can't reach $100 billion in 2025.

> *"As we enter 2025, we are seeing many of the same themes we saw in 2024"*

## Capitalization of buyers

For us, the question is less on the volume side, it's on capitalization. Will the secondaries market recapitalize quickly enough to achieve $200 billion this year? We see this as a "raise and deploy" market. Given the high volume of dealflow reported in the secondaries market, there have been more deals completed than dollars raised.

Despite many pointing to 2024 as a record-breaking year for fundraising, we continue to see the market as being vastly undercapitalized. For example, in the past four years there has been $514 billion deployed, and yet only $339 billion raised, per affiliate title *Secondaries Investor*. Put another way, only 66 cents raised for every dollar deployed in the market and looking at last year alone – $162 billion deployed and yet only $98 billion raised.

Dry powder has continued to shrink – not grow – in this market. Our analysis suggests there is less than one year of dry powder remaining, assuming no additional fundraising. So, for us, the real question is how successful secondaries funds will be in raising capital in 2025 during a challenging fundraising environment. If this continues to be a bright spot, if LPs choose to use their scarce dollars to allocate to secondaries funds, then we certainly see the market achieving $200 billion. In our view, the key to hitting $200 billion is capitalization, not dealflow.

## Final thoughts

As we look at the rest of this year, we see the secondaries market reaching a new high-water mark. We believe transaction volume could reach as high as $200 billion in 2025 – approximately $100 billion in LP sales and $100 billion in GP-leds. Given continued tailwinds in the industry, we maintain conviction in our prior prediction of a $1 trillion secondaries market by 2031. Only time will tell. ■