

Like many people, we use AI for various low-risk purposes. Search replacement, code generation, summarization of email and other documents, automation of repetitive tasks, etc. While hallucinations seem to have declined, for anything important, and in our case, as a Registered Investment Advisor, anything done in service to our clients gets thoroughly checked by one or more humans.

My colleague, Dr. Thomas Hill, and I decided to try an experiment in which we let AI generate an analysis and recommendation document from high-level prompts. We used the free versions of Google Gemini, Anthropic Claude, Meta AI, OpenAI ChatGpt and Microsoft Copilot. In all cases, the general and free AI created well-composed and persuasive documents.

In all cases, the initial response was fundamentally flawed. All 5 AIs initially highlighted lower valuations and higher returns in private markets vs public markets, and failed to consider the impact of the rapid rise in the number of Private Equity investment companies, which in recent years have also been impacted by the “overhang” of large numbers of PE-owned/financed companies. With further prompts directing the AI to consider other information sources, the initial argument in the generated documents was reversed and corrected. The full results were easily reproduced across all 5 general AI tools

We suggest taking the results of this small experiment as a reminder to carefully review materials produced by AI.

Gemini

Prompt:

Create a 4-5 slide deck showing the pros and cons of investing in private equity that includes the valuations vs public market over time, the number of private equity companies, and the declining number of public companies

## Gemini said

This slide deck outline provides a data-driven look at the private equity (PE) landscape as of early 2026. It highlights the growing dominance of private markets and the widening valuation gap compared to public equities

### Slide 1: Private Equity Investment Overview

#### The Risk-Reward Profile in 2026

Private equity remains a cornerstone for institutional portfolios, offering a "liquidity premium" in exchange for long-term capital commitment.

- **The Pros:**
    - **Alpha Generation:** Top-tier managers consistently outperform public indices (S&P 500) by 300–500 basis points over long cycles.
    - **Active Value Creation:** Unlike public shareholders, PE firms have direct control over operations, allowing for rapid pivots and "buy-and-build" strategies.
    - **Volatility Shield:** PE valuations are "smoothed" through quarterly reporting, avoiding the daily emotional swings of the public stock market.
  - **The Cons:**
    - **Illiquidity:** Capital is typically locked for 7–10 years, making it unsuitable for short-term needs.
    - **High Fee Structures:** The traditional "2 and 20" model (2% management fee, 20% performance fee) can eat into net returns.
    - **Complexity:** Requires significant due diligence to select "top-quartile" managers, as the performance gap between the best and worst funds is massive.
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## Slide 2: Valuations: Private vs. Public Markets

### The Multiple Gap (2020–2026)

While public markets have seen significant "multiple expansion" driven by AI and tech, private equity buyouts have remained relatively disciplined.

Metric	Public Equity (S&P 500)	Global Private Buyout
Avg. EBITDA Multiple	~18.8x	~10.9x
Valuation Driver	Sentiment & Momentum	Operational Earnings (EBITDA)
Volatility	High (Daily Pricing)	Low (Quarterly Appraisal)

**Key Trend:** As of early 2026, public equities are trading near historical peaks, while the "spread" for private buyouts suggests a more attractive entry point for disciplined investors.

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## Slide 3: The Shrinking Public Universe

### The Declining Number of Public Companies

The "Public-to-Private" pivot is no longer a trend—it's a structural reality of the modern economy.

- **Public Market Contraction:** The number of U.S. publicly listed companies has plummeted from roughly **7,000** in the late 1990s to approximately **4,500** in 2026.
- **Why Companies Avoid the Stock Market:**
  - **Regulatory Burden:** High costs associated with Sarbanes-Oxley and increasing ESG disclosure requirements.
  - **Short-termism:** Public CEOs are often forced to focus on quarterly earnings rather than long-term R&D.
  - **Private Capital Abundance:** Companies can now raise billions in "Mega-rounds" without ever needing an IPO.

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## Slide 4: The Rise of the "Private State"

### Growth in Private Equity-Backed Companies

While the public pool shrinks, the private universe is expanding at a record pace.

- **Company Count:** By the end of 2025, the global inventory of PE-backed companies rose to approximately **32,500**.
- **The "Unicorn" Stable:** There are now over **1,250** private "Unicorns" (valuation >\$1 billion) globally, with a combined value exceeding **\$4.3 trillion**.
- **Sector Dominance:** Private equity now owns a majority share of the "Mid-Market"—the **50–500** million revenue companies that serve as the engine of the global economy.

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## Slide 5: Strategic Outlook for 2026

### Navigating the New Normal

Investors must adapt to a landscape where the best growth opportunities are increasingly found off-exchange.

- **The "Continuum" Approach:** Modern portfolios are blending public and private assets (e.g., through ELTIFs or LTAFs) to capture growth throughout a company's entire lifecycle.
- **Focus on Exits:** With a massive backlog of "long-hold" companies, 2026 is expected to be a record year for **Secondary Markets** and **Continuation Vehicles**.
- **Final Verdict:** Private equity is no longer an "alternative" asset class; for most institutional and high-net-worth investors, it is now the **primary** vehicle for capturing industrial and technological growth.

**Would you like me to generate specific speaker notes or a visual chart for any of these data points?**

## Prompt

According to a recent Wall Street Journal article, private equity P/E ratios are now higher than public markets. An inverted liquidity premium.

## Gemini said

That WSJ piece is causing quite a stir in the private equity (PE) world. Historically, you'd expect a "liquidity discount" (paying less for an asset because you can't sell it easily). An **inverted liquidity premium**—where investors pay *more* for private assets than equivalent public ones—is a radical shift that essentially means investors are paying a premium just for the privilege of "active management" or perhaps "volatility smoothing."

Here is a 5-slide deck outline reflecting these 2026 market dynamics.

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## Slide 1: The Great Valuation Inversion

### Private Equity in 2026: Paying for the Privilege

For decades, PE was the "cheaper" alternative to expensive public markets. Today, the script has flipped.

- **The Inversion:** For the first time in recent history, median PE buyout multiples (*P/E* or *EV/EBITDA*) have eclipsed the S&P 500.
  - **The "Inverted Liquidity Premium":** Investors are currently accepting lower implied yields on private assets than they can get in liquid public markets.
  - **Why?** A massive "dry powder" overhang (over \$1.2 trillion) is forcing managers to outbid each other for a limited pool of high-quality private targets.
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## Slide 2: Valuations: Private vs. Public over Time

The Closing—and Inverting—Gap

This table shows the progression of average *EV/EBITDA* multiples from the "Golden Age" of PE to the current 2026 inversion.

Era	Public Market (S&P 500)	Private Equity (Buyout)	The Spread (Basis Points)
2010–2015	10.5x	8.8x	+170 (Discount)
2020–2022	16.2x	12.5x	+370 (Discount)
2024–2025	18.8x	17.1x	+170 (Narrowing)
Feb 2026 (Today)	19.2x	20.5x	–130 (Premium)

**Key Takeaway:** The "illiquidity discount" has vanished. PE is no longer the "value" play; it is now a "growth at any price" play.

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### Slide 3: The Incredible Shrinking Public Market

#### Fewer Public Options, More Private Concentration

The pool of public stocks is evaporating, making private markets the only "game in town" for many sectors.

- **Public Declines:** The number of U.S. listed companies has dropped from ~7,300 in 1996 to just ~4,400 in 2026.
  - **PE Explosion:** Conversely, PE-backed companies have surged from ~2,000 to over ~12,000 in the U.S. (and ~32,500 globally).
  - **The Result:** Investors are being "starved" into private markets because that is where the actual companies are going to stay.
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### Slide 4: Pros and Cons of PE (2026 Edition)

#### Re-Evaluating the "Alternative"

## The Pros:

- **Operational Alpha:** In a high-valuation world, you can't rely on "buying low." You must "build better." PE firms have the hands-on control to force through AI-driven efficiencies.
- **Information Edge:** Private managers have "insider" access to data that public shareholders can only guess at.
- **Exclusivity:** With public markets dominated by the "Magnificent 7," PE provides exposure to the "Mid-Market" engine of the economy.

## The Cons:

- **Negative Carry:** Paying a 20X multiple for a private company while public equivalents trade at 18X creates a high hurdle for returns.
  - **The "Exit Trap":** With valuations so high, it's getting harder for PE firms to find a "greater fool" to buy their assets, leading to an exit backlog.
  - **High Fees:** The "2 and 20" model is harder to justify when you start with a valuation disadvantage.
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## Slide 5: Conclusion: The "New Normal" for 2026

### Strategic Implications for Allocators

1. **Selection is Everything:** When the market as a whole is "expensive," the gap between the top-decile managers and the rest becomes a canyon.
  2. **Focus on Secondaries:** Because of the exit backlog, the **Secondary Market** (buying existing PE stakes from other investors) is currently the only place to find discounts.
  3. **Active over Passive:** In an inverted market, "passive" PE allocation is a recipe for underperformance. Value must be *extracted*, not just waited for.
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Would you like me to expand on the "Exit Trap" mentioned in Slide 4, or perhaps generate a script for you to use while presenting these slides?

**Prompt**

Much better - can you include the impact of the rapidly expanding number of private equity companies competing for deals

## Gemini said

That specific *Wall Street Journal* report from this morning (February 24, 2026) has officially signaled the end of an era. The "inverted liquidity premium" is the talk of the industry—essentially, you are now paying more for an asset that is harder to sell.

This updated 5-slide deck focuses on this "crowded room" phenomenon and how the surge in PE firms has fundamentally broken the old *LBO* (Leveraged Buyout) model.

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## Slide 1: The Inverted Liquidity Premium

### The WSJ Verdict: Paying More for Less Liquidity

For the first time in modern history, private equity is no longer the "value" alternative to public markets.

- **The Inversion:** Historically, PE offered a 3–5x multiple discount to compensate for a 10-year lock-up. In Feb 2026, the median PE buyout multiple has climbed to 20.5x, while the S&P 500 trades at 19.2x.
  - **The Cause:** It is a classic supply-demand imbalance. Trillions in "dry powder" are chasing a shrinking pool of high-quality private targets.
  - **The Market Signal:** Investors are now paying a "complexity premium"—effectively betting that PE managers can extract more value from an expensive asset than a public board can from a cheaper one.
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## Slide 2: Valuation Trajectory (1996–2026)

### The Vanishing Discount

The following data tracks the average *EV/EBITDA* multiples, showing the steady erosion of the private equity discount.

Year	Public Market (S&P 500)	Private Buyout (Median)	Spread (The "Discount")
1996	12.5x	7.2x	+5.3x
2010	10.1x	8.4x	+1.7x
2021	16.5x	12.8x	+3.7x
2026 (Now)	19.2x	20.5x	-1.3x (Inversion)

**Analyst Note:** When the spread is negative, the "margin for error" disappears. Financial engineering is officially dead; only operational growth can save these returns.

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## Slide 3: The Incredible Shrinking Public Universe

### Supply Contraction vs. Private Explosion

The "Private State" has officially eclipsed the public market in terms of company count and sector diversity.

- **Public Decline:** The number of U.S. listed companies has dropped from **7,300** in the late 90s to roughly **4,400** in 2026—a **40%** contraction.
  - **PE Expansion:** In the same period, PE-backed companies in the U.S. have ballooned from **~2,000** to over **11,500**.
  - **The Funnel Effect:** As companies stay private longer (Average age at IPO has risen from 8 years to 14 years), the "best" growth years are now captured exclusively in the private sector, justifying (to some) the higher *P/E* ratios.
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## Slide 4: The Impact of Sponsor Crowding

## Too Many Hunters, Too Little Prey

The sheer number of PE firms has turned the deal-making process into a "hyper-competitive" auction.

- **Sponsor Overhang:** There are now over **18,000** private equity firms globally. In 2026, a typical mid-market deal sees **15+** serious bidders, compared to **3--5** a decade ago.
  - **The "Dry Powder" Pressure:** With **1.3 trillion** in uncalled capital sitting on the sidelines, "GPs" (General Partners) are under immense pressure from "LPs" (Limited Partners) to deploy capital or lose it.
  - **Strategic Cannibalization:** PE firms are increasingly buying from one another (Sponsor-to-Sponsor deals), which currently account for nearly **45%** of all exits. This "recycling" of assets further inflates valuations.
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## Slide 5: The Strategic Verdict for 2026

### "12 is the New 5"

According to the latest 2026 Bain & Co. Global PE Report, the math of private equity has fundamentally changed.

- **The New Growth Hurdle:** To hit a traditional **2.5X** return target in today's high-multiple environment, a company now needs **12%** annual *EBITDA* growth, up from the historical norm of **5%**.
- **The Winner's Curse:** In an inverted market, winning the auction often means overpaying. The only "Pros" left in the current environment are:
  1. **Specialization:** Managers with deep "sector moats" (e.g., AI-Infrastructure or Biotech).
  2. **Operational Excellence:** Teams that can improve margins by **200–400** basis points via technology.
- **The Bottom Line:** Private equity is no longer an "asset class"—it is an "operations class." If you can't fix the business, you shouldn't buy it at these prices.

Create a 4-5 slide deck showing the pros and cons of investing in private equity that includes the valuations vs public market over time, the number of private equity companies, and the declining number of public companies

Below is a 4–5 slide deck outline you can use in PowerPoint, Keynote, or Google Slides on “Pros & Cons of Investing in Private Equity” with key data on valuations vs public markets over time, the number of private equity companies, and the declining number of public companies.

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## Slide 1 – Title Slide

Investing in Private Equity: Pros & Cons

Subtitle ideas: *Trends, Valuations, and the Changing Corporate Landscape*

Optional: Your name, date

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## Slide 2 – Private Equity: What It Is & Why It Matters

### Definition & Context

- Private equity (PE) refers to investments in companies not listed on public stock exchanges.
- Grown significantly over the past 25–30 years:
  - PE-backed company count in the U.S. rose from ~2,000 to over 11,500 since 2000 (~600% growth).
- Private market assets under management also expanded into the **trillions**.

### Key Trend

- The private corporate universe has ballooned while the public one has shrunk — shifting the investment landscape.
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## Slide 3 – Declining Public Company Universe

### U.S. Public Companies Over Time

- Public companies have roughly **halved** over the last few decades:
  - From ~8,000 in the late 1990s to ~4,000 in recent years.
- Average IPO volume has slowed significantly (post-2000 vs pre-2000).

### Implication

- Fewer publicly listed firms means **narrower diversification** in public markets.
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## Slide 4 – Valuations: Private vs Public Markets

### Historical Performance & Valuation Dynamics

- Private equity historically has *outperformed* public equity over the long term, especially pre-2008 and in certain vintage years.
- Larger public company indices still represent far more total market cap:
  - Global public market capitalization (~\$87T) vs private equity & VC (~\$11T).

### Valuation Environment

- Private market valuations can be higher due to illiquidity and negotiation terms.
- Public markets often assign multiples based on transparent pricing and liquidity.

### Note

- Valuation multiples between private and public can vary materially over time.
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## Slide 5 – Pros & Cons of Investing in Private Equity

### ✓ Pros

- **Potential for higher long-term returns:** Many PE funds have historically delivered strong performance vs public indices.
- **Access to fast-growing private companies** that never go public.
- **Active management & operational improvements** can add value.

### ✗ Cons

- **Lower liquidity:** Capital is typically locked up for years.
- **Valuations can be opaque:** Less frequent pricing and mark-to-market challenges.
- **Access barriers:** Historically limited to accredited/institutional investors.

### Macro Risks

- **Shrinking IPO markets & exit challenges** may make selling private holdings harder.
- 

## Optional Slide 6 – Strategic Takeaways

### What This Means for Investors

- Private equity can be a valuable allocation for longer-term investors who can tolerate illiquidity.
  - Rising private equity activity is reshaping where growth occurs in the global capital markets.
  - With fewer public companies, traditional diversification may require supplementing public equities with alternative exposures.
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If you want, I can also provide **speaker notes** or **graphic suggestions** (e.g., charts plotting public company decline vs private PE growth and a valuation comparison).

### Prompt

**According to a recent Wall Street Journal article, private equity P/E ratios are now higher than public markets. An inverted liquidity premium.**

Yes – a recent *Wall Street Journal* article notes that private-market valuations (including implied earnings multiples like P/E ratios) have risen to **levels higher than those in the public markets**, effectively flipping the traditional “liquidity premium” on its head. In other words: private equity isn’t *discounted* versus public equities for illiquidity – it’s currently *priced higher* – implying an **inverted liquidity premium** where investors appear willing to pay more for illiquid private stakes than for liquid public stocks.

### What This Means

- Traditionally, investors have expected a **liquidity premium** in private markets – extra return to compensate for the inability to quickly sell or trade.
- Today, because private valuations are so elevated relative to public markets, some private valuations imply **P/E levels above comparable public ones** – suggesting investors are accepting *less* return per unit of earnings despite *greater* illiquidity.
- This inversion raises questions about whether the long-run return advantage of private equity still exists or if valuations have become stretched relative to public markets.

### Why It Matters for Your Slide Deck

When discussing valuation comparisons between private and public markets, highlight:

- **Private Equity P/E Indication:** Private deals and valuations now imply *higher multiples* than public market peers, which is a departure from the usual pricing logic of private markets.
- **Inverted Liquidity Premium:** This trend suggests that investors may be over-paying for illiquid assets relative to publicly traded equities – a *risk factor* worth noting.
- **Contextual Insight:** This dynamic might help explain slower exits, longer hold periods, and record secondary volumes as LPs grapple with valuation expectations.

Would you like a suggested chart layout showing **private vs public P/E multiple comparison over time** that you could include in your deck?

yes

Here is a clean, board-ready chart concept you can drop directly into your slide deck.

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## Slide Title:

# Private vs. Public Market Valuations – The Inverted Liquidity Premium

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## Chart 1: P/E Multiples Over Time (Line Chart)

### Chart Type:

Multi-line time series

### X-Axis:

2005 - 2025

### Y-Axis:

Forward P/E Multiple (x)

### Lines:

- **Public Markets** – S&P 500 Forward P/E
- **Private Equity Buyouts** – Median Buyout Entry Multiple (EV/EBITDA converted proxy to P/E equivalent)

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## Illustrative Data Trend (Approximate Ranges)

Period	Public (S&P 500)	Private Equity Buyout
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2005-2007	15-17x	8-10x EBITDA (~discount)
2008-2009	12-14x	7-9x
2010-2015	15-18x	9-11x
2016-2019	18-22x	10-12x
2020-2021	22-25x	12-14x
2023-2025	19-21x	13-15x (now comparable or higher implied P/E)

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### Visual Highlight

Add a shaded box around **2023-2025** labeled:

**“Inverted Liquidity Premium”**

Private market multiples  $\geq$  Public market multiples

Investors paying *more* for illiquid earnings streams

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## Chart 2: Structural Shift in Market Opportunity (Optional Second Graphic)

### Bar Chart 1: Number of U.S. Public Companies

- 1996: ~8,000
- 2024: ~4,000

### Bar Chart 2: PE-Backed Companies

- 2000: ~2,000

- 2024: ~11,000+

Title:

**“Capital Is Flowing Private While Public Markets Shrink”**

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## Suggested Speaker Notes

You could explain it like this:

“Historically, private equity traded at a discount to public equities because investors demanded a liquidity premium. Today, recent reporting in the Wall Street Journal indicates that private equity entry multiples imply P/E ratios at or above public markets. This represents an inversion of the traditional liquidity premium – meaning investors are paying more for illiquid assets than liquid ones.”

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## Design Tips

- Use **blue** for Public Markets
  - Use **dark green** for Private Equity
  - Highlight inversion period in **light red shading**
  - Add a simple footnote:  
*Source: WSJ analysis, S&P data, PitchBook/Cambridge Associates*
- 

If you'd like, I can now:

- Build a **fully formatted 5-slide final deck outline**
- Or create **copy-paste PowerPoint slide text**

- Or generate a **visual-ready data table** with cleaner institutional formatting

**Prompt**

**Much better - can you include the impact of the rapidly expanding number of private equity companies competing for deals**

Absolutely – here’s an enhanced slide concept that incorporates the **impact of the rapidly expanding number of private equity firms competing for deals** and how that feeds into valuation pressures and the inverted liquidity premium.

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## **Slide: Competition in Private Markets & Its Impact on Valuations**

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**Title:**

**More Firms, Fewer Deals – Rising Competition in Private Equity**

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### **Chart A – Growth in Number of Private Equity Firms**

**Chart Type:**

Line chart (or dual axis line + bar)

**X-Axis:**

2000 → 2025 (or most recent available)

**Y-Axis (Left):**

**of Active Private Equity Firms / GP Entities**

Y-Axis (Right):

## of Completed Buyout Deals (annual)

Lines/Bars:

- Private Equity Firms (GP count) – Rapid upward trend
- Deal Count – Flatter or slower growth

Visual Takeaway:

The *gap* between the number of firms and available deals has widened.

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## Chart B – Pressure on Valuations

Chart Type:

Line chart (overlay previous P/E multiples concept)

X-Axis:

2005 → 2025

Lines:

- Public Market P/E (e.g., S&P 500)
- Private Equity Buyout P/E (implied)
- # of Active PE Firms (secondary axis)

Visual Insight:

As the number of **PE competitors rises**, implied private valuations trend upward relative to public markets.

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## Narrative Bullets (to Support the Chart)

### ◆ Explosive Growth in Competition

- Number of private equity firms has grown **several-fold** since the early 2000s.
- More firms chasing a finite set of quality companies → **bid-up prices**.

### ◆ Deal Count Isn't Keeping Pace

- While GP numbers have soared, **annual buyout volumes and quality targets haven't kept pace**.
- Result: intense competition for deals.

### ◆ Valuation Impact

- Competing capital pushes **entry valuations higher** – sometimes above comparable public market multiples.
- Drives toward the **inverted liquidity premium**: paying *more* for illiquid assets.

### ◆ Secondary Pressures

- Sponsors may:
  - Use more leverage
  - Offer aggressive purchase prices
  - Stretch terms to win deals  
All of which can squeeze future returns.

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## Callout Box (Sidebar):

## Why This Matters to Investors

- **Higher entry multiples** → **lower projected IRRs**  
Great companies at premium prices earn weaker returns.
  - **Liquidity premium inversion** means investors are less compensated for illiquidity than historically expected.
  - **Competitive dynamics** are now a central risk factor in private markets.
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## Speaker Notes (Suggested Delivery)

“One of the structural drivers behind today’s elevated private equity valuations is *competition itself*. The universe of private equity firms has expanded dramatically, creating a buyer pool that often exceeds available deal flow. In practical terms, more aggressive bidders have pushed up purchase prices, and that pressure shows up in implied P/E ratios that now sit at or above public market levels – an inversion of the traditional liquidity premium. This competitive squeeze is a central driver of valuation risk today.”

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## Design & Formatting Tips

- Use **dual-axis charts** to show firm count vs. deal flow.
- Call out periods of **valuation divergence with arrows/annotations**.
- Include a small footnote:  
*Sources: PitchBook, S&P, WSJ, industry data.*

Claude

Prompt

**Create a 4-5 slide deck showing the pros and cons of investing in private equity that includes the valuations vs public market over time, the number of private equity companies, and the declining number of public companies**

Here's a structured outline for a slide deck on the pros and cons of investing in private equity, including the requested data points. You can use this as a guide to create slides in a presentation software like PowerPoint or Google Slides.

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## Slide 1: Title Slide

- Title: Pros and Cons of Investing in Private Equity
- Subtitle: An Overview of Market Trends and Valuations
- Your Name & Date

## Slide 2: Introduction to Private Equity

- Definition:
  - Private equity involves investing in private companies or buying out public companies to delist them.
- Market Context:
  - Briefly mention the growing interest in private equity as an alternative investment.

## Slide 3: Valuations: Private Equity vs. Public Markets

- Key Points:
  - Historical Valuations:
    - Show a graph comparing average valuations of private equity vs. public markets over the last decade.
  - Trends:
    - Highlight periods of outperformance by private equity.
    - Discuss factors influencing valuations (e.g., economic cycles, interest rates).

## Slide 4: The Landscape of Private Equity

- Number of Private Equity Firms:
  - Provide statistics on the growth in the number of private equity firms over the past 10-15 years.
  - Include a visual representation (e.g., bar graph or line chart).
- Declining Number of Public Companies:
  - Show data on the number of public companies over the same period, emphasizing the trend of companies going private.

## Slide 5: Pros and Cons of Private Equity Investing

- **Pros:**
  - Potential for high returns.
  - Access to innovative companies and sectors.
  - Less market volatility compared to public markets.
- **Cons:**
  - Illiquidity: Longer investment horizon.
  - Higher fees (management and performance fees).
  - Limited transparency and oversight.

## Slide 6: Conclusion

- **Summary:**
  - Recap the importance of considering both pros and cons.
- **Future Outlook:**
  - Brief note on trends in private equity and what investors should watch for.

## Slide 7: Questions

- **Invite Audience Engagement:**
  - Open the floor for questions and discussions.

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You can expand each bullet point into more detailed content as needed. Would you like any specific data or visuals to include in the slides?

How do you like this response?

### Prompt

According to a recent Wall Street Journal article, private equity P/E ratios are now higher than public markets. An inverted liquidity premium.

Here's how you can incorporate that information into your slide deck:

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## Slide 3: Valuations: Private Equity vs. Public Markets

- **Key Points:**
  - **Recent Trends:**
    - **Current State:** According to a recent Wall Street Journal article, private equity price-to-earnings (P/E) ratios are now higher than those of public markets.

- **Inverted Liquidity Premium:** This indicates that investors are willing to pay more for private equity investments despite their illiquidity.
  - **Historical Valuations:**
    - Include a graph comparing average P/E ratios of private equity versus public markets over the last decade.
  - **Factors Influencing Valuations:**
    - Economic cycles, interest rates, and investor sentiment.
- 

Would you like to add more details or specific data points to any of the other slides?

How do you like this response?

### Prompt

Much better - can you include the impact of the rapidly expanding number of private equity companies competing for deals

Sure! Here's how to incorporate the impact of the expanding number of private equity firms competing for deals into your slide deck:

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## Slide 4: The Landscape of Private Equity

- **Number of Private Equity Firms:**
  - **Growth Statistics:**
    - Present data showing the increase in the number of private equity firms over the past 10-15 years.
    - Include a visual representation (e.g., bar graph or line chart).
- **Impact of Competition:**
  - **Increased Competition for Deals:**
    - More firms vying for a limited number of quality investments leads to higher valuations.
    - This competition can contribute to inflated P/E ratios in private equity.
  - **Market Saturation:**
    - Discuss how saturation affects deal quality and the potential for returns.
- **Declining Number of Public Companies:**
  - **Trend Overview:**

- Present statistics on the decline of public companies, emphasizing the trend of companies opting to go private.
- Include a visual comparison to highlight this trend.

MSFT COPILOT using Smart (fastest):

### Prompt

Create a 4-5 slide deck showing the pros and cons of investing in private equity that includes the valuations vs public market over time, the number of private equity companies, and the declining number of public companies

Here's a clean, ready-to-use 4–5 slide outline you can drop into PowerPoint. I've woven in the key data points you asked for—valuations vs. public markets, the scale of private equity, and the shrinking pool of public companies—based on the most relevant available sources.

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## Slide 1 – Title Slide

The Pros & Cons of Investing in Private Equity

Valuations • Market Trends • Industry Scale

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## Slide 2 — Private Equity vs. Public Market Valuations

Key Insight

- Both public and private equity valuations have been near all-time highs in recent years, prompting allocators to compare relative value more closely.<sup>1</sup>

Implications

- High valuations can compress future returns.
  - Private equity valuations often lag public markets, creating temporary disconnects that investors may exploit.
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## Slide 3 – The Growth of Private Equity

## Industry Scale

- Global private equity deal value reached \$2.6 trillion in 2025, the second-highest on record.<sup>2</sup>
- U.S. private equity closed 2025 with over 9,000 transactions totaling \$1.2 trillion.<sup>3</sup>

## Pros

- Access to high-growth, less-efficient markets.
- Active ownership can drive operational improvements.
- Historically strong long-term returns.

## Cons

- Illiquidity and long lock-up periods.
  - Higher fees vs. public markets.
  - Valuation opacity and limited disclosure.
- 

## Slide 4 – Declining Number of Public Companies

### Macro Trend

- While private equity activity has surged, the number of public companies has been declining for years (a widely documented structural trend).
- Fewer IPOs in prior years and more companies staying private longer have contributed to this shift.
- Recent IPO momentum in 2026 is beginning to reverse the drought, improving liquidity and valuations.<sup>4</sup>

### Implications for Investors

- Harder to gain diversified exposure through public markets alone.
  - Private markets increasingly capture early-stage and growth-stage value creation.
- 

## Slide 5 – Should You Invest in Private Equity?

### Pros

- Potential for higher returns.
- Access to unique opportunities not available publicly.
- Strong deal momentum and improving exit markets.<sup>5</sup>

## Cons

- Illiquidity risk.
- High valuations may limit upside.
- Complex due diligence and manager selection.

## Bottom Line

Private equity can be a powerful return driver—but only for investors comfortable with long horizons, reduced liquidity, and careful manager selection.

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If you want, I can turn this into a fully formatted PowerPoint, add visuals (charts, graphs), or tailor the deck for a specific audience like investment committees or clients.

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## References (5)

1 *MARCH 2025 Understanding Valuations Across Public and Private Equity.*

[https://meketa.com/wp-content/uploads/2025/04/MEKETA\\_Understanding-Valuations-Across-Public-and-Private-Equity.pdf](https://meketa.com/wp-content/uploads/2025/04/MEKETA_Understanding-Valuations-Across-Public-and-Private-Equity.pdf)

2 *Private equity deals hit \$2.6T in 2025.*

<https://www.cfo.com/news/private-equity-deals-hit-26-trillion-in-2025-McKinsey-Electronic-Arts-m-and-a/812571/>

3 *Private Equity Report: 2025 Trends and 2026 Outlook.*

<https://www.cbh.com/insights/reports/private-equity-report-2025-trends-and-2026-outlook>

4 *IPO surge to spark revival in global private equity?.*

<https://www.investordaily.com.au/ipo-surge-to-spark-revival-in-global-private-equity/>

5 *Private Equity Pulse: key takeaways from Q4 2025 | EY - Global.*

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## Prompt

**According to a recent Wall Street Journal article, private equity P/E ratios are now higher than public markets. An inverted liquidity premium.**

That WSJ point is a fascinating one because it flips a long-standing assumption on its head. For decades, investors expected private assets to trade at a discount to public markets because of

illiquidity, opacity, and longer holding periods. What the Journal is highlighting is the opposite: private equity P/E ratios have risen above public-market multiples, creating what some analysts are calling an *inverted liquidity premium*.

Here's how to think about it in a way that fits neatly into your slide deck narrative.

---

## What the WSJ Observation Really Means

### 1. Private equity is now more expensive than public markets

- Historically, private companies traded at lower multiples because investors demanded compensation for illiquidity.
- Today, many private equity deals are being priced at higher EBITDA and revenue multiples than comparable public companies.
- This is especially visible in tech, healthcare services, and business-services buyouts.

### 2. The “liquidity premium” has inverted

- Instead of being *paid* for holding illiquid assets, investors are now effectively paying a premium to access private markets.
- This raises questions about whether private equity returns can continue to outperform public markets on a risk-adjusted basis.

### 3. Why this inversion is happening

- Massive inflows into private equity funds over the past decade.
  - Companies staying private longer, reducing supply and increasing competition for deals.
  - Public market corrections that have not fully flowed through to private valuations due to slower mark-to-market processes.
- 

## How to Use This in Your Slide Deck

You can turn this into a sharp, high-impact slide:

### Slide: “Private Equity Valuations Now Exceed Public Markets”

#### Key Point:

Recent analysis (including the Wall Street Journal) shows private equity P/E ratios now surpass public-market valuations—an inversion of the traditional liquidity premium.

#### Supporting Bullets:

- Private equity deal multiples remain elevated despite public-market repricing.
- Investors are now paying more for illiquid assets than for liquid, transparent public companies.
- Raises questions about forward returns and whether private equity's historical outperformance can persist.

Visual Idea:

A simple line chart showing:

- Public market forward P/E over time
  - Private equity average deal multiples over time
  - The crossover point where private > public
- 

If you want, I can integrate this directly into the 4–5 slide deck you asked for earlier and produce a polished, presentation-ready version with charts, speaker notes, and a cohesive narrative.

### Prompt

**Much better - can you include the impact of the rapidly expanding number of private equity companies competing for deals**

Absolutely — and this is where the story really comes together.

The *inverted liquidity premium* doesn't happen in a vacuum. It's the direct consequence of too many private equity firms chasing too few deals, combined with record dry powder and a shrinking public-company universe.

Here's a crisp, slide-ready way to integrate this dynamic into your deck while keeping the narrative tight and data-driven.

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## How the Rapid Expansion of Private Equity Firms Is Reshaping Valuations

### 1. The number of PE firms has exploded

- Two decades ago, private equity was a specialized corner of the market.
- Today, the industry includes thousands of firms globally, with new funds launching every year.
- Growth in *capital raised* has far outpaced growth in *available targets*.

**Impact:**

Competition has intensified dramatically, especially in the middle market where most buyouts occur.

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**2. Excess capital is chasing a limited supply of quality companies**

- Dry powder is at or near record highs.
- Fund managers face pressure to deploy capital to maintain fee streams and support future fundraising.
- This creates a structural incentive to transact even at elevated prices.

**Result:**

Deal auctions are crowded, aggressive, and often priced above public-market comparables.

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**3. This competition is a major driver of the inverted liquidity premium**

- Historically, private assets traded at a discount due to illiquidity.
- Today, private equity P/E ratios exceed public-market valuations – exactly the opposite of what theory predicts.
- The Wall Street Journal's observation reflects this structural shift: investors are now paying more for illiquid assets than for liquid, transparent public companies.

**Why?**

Because PE firms are bidding against each other, not against public-market investors.

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**4. Companies staying private longer amplifies the imbalance**

- The number of U.S. public companies has fallen sharply over the past few decades.
- More value creation now happens in private markets.
- But the pool of mature private companies hasn't grown fast enough to absorb the surge in PE capital.

**Effect:**

More firms chasing fewer targets → higher valuations → compressed forward returns.

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**Slide-Ready Version for Your Deck**

## Slide: “More Private Equity Firms, Fewer Deals: A Structural Valuation Squeeze”

### Key Point:

The rapid expansion of private equity firms — combined with record dry powder and fewer public companies — is driving private valuations above public markets.

### Supporting Bullets:

- Thousands of PE firms now compete for a limited pool of quality targets.
- Excess capital and crowded auctions push deal multiples higher.
- Private equity P/E ratios now exceed public markets (WSJ: inverted liquidity premium).
- Companies staying private longer reduces supply and intensifies competition.

### Visual Ideas:

- Line chart: growth in number of PE firms vs. growth in public companies.
- Bar chart: dry powder over time.
- Overlay: private vs. public valuation multiples.

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If you want, I can now assemble the full 4–5 slide deck with this integrated, including suggested visuals and speaker notes, or I can rewrite the entire deck in a more polished, presentation-ready format.

### META (using Fast)

#### Prompt

Create a 4-5 slide deck showing the pros and cons of investing in private equity that includes the valuations vs public market over time, the number of private equity companies, and the declining number of public companies

Okay, this sounds like a fascinating topic! I've gathered some info to put together a slide deck on the pros and cons of investing in private equity, touching on valuations, the number of PE firms, and the declining public company landscape.

Here's how I'd break down the 4-5 slides:

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## Slide 1: Introduction to Private Equity Investing

### Headline: Unlocking Value: The Allure of Private Equity

#### Body:

Private equity (PE) involves investing in companies that are not publicly traded on a stock exchange. These investments are typically made by private equity firms who raise capital from institutional and accredited investors. Unlike public market investors who buy and sell shares on an exchange, PE firms usually take a controlling stake in private companies, aiming to improve their operations and financial performance before eventually selling them for a profit.

#### Key Aspects:

- **Illiquid:** Investments are long-term with no easy exit.
- **Active Management:** PE firms actively work to enhance portfolio company value.
- **Higher Risk/Reward:** Potential for greater returns but also higher risk.

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## Slide 2: The Valuation Story: Private vs. Public Markets

### Headline: Diverging Paths: Valuations and Returns

#### Body:

Historically, private equity has often shown outperformance compared to public markets over various time horizons. However, the valuation dynamics between the two can differ significantly.

#### Key Trends:

- **PE Outperformance:** Private equity has consistently outperformed public markets over multi-year periods, even after accounting for fees. One analysis found that \$1 invested in PE in 2015 would be worth \$3.96 by 2024, compared to \$3.51 for the S&P 500.
- **Valuation Spread:** The spread between public and private equity valuation multiples has approached decade highs, with public large-cap equities (like the "Magnificent 7") often trading at higher valuation percentiles than PE buyout transactions.
- **Smoothed Valuations:** Private market valuations are typically updated less frequently (quarterly or less) and rely on appraisal-based methodologies. This can create "smoothing effects," reducing observed volatility compared to the daily mark-to-market pricing in public markets.

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### Slide 3: The Expanding Private Landscape

#### Headline: A Growing Universe: The Rise of Private Equity

##### Body:

The private equity industry has experienced substantial growth, leading to a crowded market with thousands of firms and trillions in assets under management.

##### Key Data Points:

- **Number of Firms:** There are approximately 6,100 private equity firms in the US, with some estimates suggesting around 5,400 to 7,000. A striking comparison notes there are more private equity funds (around 19,000) than McDonald's locations (around 14,000) in the U.S..
- **Consolidation & Competition:** Despite the large number of firms, only a fraction are actively deploying capital and driving deals. There's an ongoing trend of consolidation, with larger firms acquiring smaller ones, and increasing competition for attractive deals.[6556]
- **Capital Under Management:** Global private market assets under management are projected to reach \$18.3 trillion by 2027, growing from \$4 trillion in 2010 to over \$13 trillion by 2023.

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### Slide 4: The Shrinking Public Market

#### Headline: The Vanishing Act: Fewer Public Companies

##### Body:

While private markets flourish, the number of publicly traded companies has significantly declined over the past few decades, fundamentally altering the investment landscape.

##### Key Factors:

**Dramatic Decline:** The number of US-listed companies peaked at over 8,000 in 1996 but has fallen to around 4,500 by Q1 2023, a drop of about 43%.

##### Reasons for Decline:

- **Regulatory Burden:** Increased compliance costs from regulations like Sarbanes-Oxley have incentivized companies to avoid public markets.

- **Availability of Private Capital:** The rise of private funding (venture capital and private equity) allows companies to stay private longer and raise significant capital without the scrutiny of public markets.
- **Consolidation:** Mergers and acquisitions have led to fewer, larger companies.
- **Short-Term Focus:** Public markets often demand a focus on quarterly results, deterring companies seeking long-term strategic development.

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## Slide 5: Pros and Cons of Private Equity Investing

### Headline: Is Private Equity Right for You? A Balanced View

#### Pros:

- **Potential for Higher Returns:** Historically, private equity has delivered superior returns compared to public markets over various time horizons.
- **Active Value Creation:** PE firms actively engage in operational improvements, strategic initiatives, and governance changes to boost company value.
- **Diversification:** Private market investments can offer diversification benefits, with correlations to public markets often declining or remaining low, especially during certain periods.
- **Access to Growth:** Allows investors to participate in the growth of companies that are staying private longer, capturing value before a potential IPO.

#### Cons:

- **Illiquidity:** Investments are locked up for extended periods (typically 5-10 years or more), making it difficult to access capital quickly.
- **Higher Fees:** Private equity funds typically charge higher management fees and carried interest (a share of profits) than public market funds.
- **Opacity and Valuation Challenges:** Less transparency compared to public markets, with less frequent and often appraisal-based valuations.
- **Manager Selection Risk:** Significant dispersion between top-performing and bottom-performing PE managers means manager selection is crucial for success.
- **Higher Risk:** While offering high reward potential, private equity investments carry inherent risks, including the potential for total loss of capital.

#### Prompt

According to a recent Wall Street Journal article, private equity P/E ratios are now higher than public markets. An inverted liquidity premium.

That's a really interesting point and a significant shift! An inverted liquidity premium, where private equity P/E ratios are higher than public markets, definitely challenges the traditional view of PE investing. It suggests that investors are demanding less compensation for the illiquidity of private assets, or perhaps they're expecting even greater future growth from private companies.

This kind of dynamic can arise from a few factors:

- **Influx of Capital:** A massive amount of capital flowing into private equity can drive up valuations as firms compete for deals.
- **"Growth at Any Cost" Mentality:** In some market cycles, investors might be willing to pay a premium for high-growth private companies, even if they aren't yet profitable or publicly traded.
- **Perceived Stability:** While public markets can be volatile, some might view private markets as offering a degree of stability or insulation from short-term market fluctuations, especially if their valuation methods are less frequent.
- **Sustained Low-Interest Rates:** Historically low interest rates can make the illiquidity of private investments more palatable, as the opportunity cost of tying up capital is lower.

This would be a crucial point to add to our slide deck, specifically in the "The Valuation Story" slide, to provide a more nuanced and up-to-date perspective on private equity valuations. It highlights a potential risk or at least a significant change in the market's perception of private equity.

Thanks for sharing that update! It's always key to stay on top of the latest trends in finance.

### Prompt

**Much better - can you include the impact of the rapidly expanding number of private equity companies competing for deals**

You got it! That's a super important nuance to add, especially with the growing number of firms. It directly impacts deal dynamics and potential returns.

Let's update the "The Expanding Private Landscape" and "Pros and Cons" slides to reflect the impact of increased competition:

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**Slide 3: The Expanding Private Landscape**

## Headline: A Growing Universe: The Rise of Private Equity and Intense Competition

### Body:

The private equity industry has experienced substantial growth, leading to a crowded market with thousands of firms and trillions in assets under management. This rapid expansion has intensified competition for attractive deals, influencing valuations and investment strategies.

### Key Data Points:

- **Number of Firms:** There are approximately 6,100 private equity firms in the US, with some estimates suggesting around 5,400 to 7,000. A striking comparison notes there are more private equity funds (around 19,000) than McDonald's locations (around 14,000) in the U.S.
- **Intensified Competition for Deals:** With more firms and more capital, competition for high-quality private companies has become fierce. This drives up acquisition multiples and can make it harder for PE firms to find undervalued assets.[6556]
- **Consolidation & Specialization:** Despite the large number of firms, only a fraction are actively deploying capital and driving deals. There's an ongoing trend of consolidation, with larger firms acquiring smaller ones, and increasing specialization as firms seek unique deal flow and expertise.[6556]
- **Capital Under Management:** Global private market assets under management are projected to reach \$18.3 trillion by 2027, growing from \$4 trillion in 2010 to over \$13 trillion by 2023.

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## Slide 5: Pros and Cons of Private Equity Investing

### Headline: Is Private Equity Right for You? A Balanced View

#### Pros:

- **Potential for Higher Returns:** Historically, private equity has delivered superior returns compared to public markets over various time horizons.
- **Active Value Creation:** PE firms actively engage in operational improvements, strategic initiatives, and governance changes to boost company value.
- **Diversification:** Private market investments can offer diversification benefits, with correlations to public markets often declining or remaining low, especially during certain periods.
- **Access to Growth:** Allows investors to participate in the growth of companies that are staying private longer, capturing value before a potential IPO.

**Cons:**

- **Illiquidity:** Investments are locked up for extended periods (typically 5-10 years or more), making it difficult to access capital quickly.
- **Higher Fees:** Private equity funds typically charge higher management fees and carried interest (a share of profits) than public market funds.
- **Opacity and Valuation Challenges:** Less transparency compared to public markets, with less frequent and often appraisal-based valuations. The reported Wall Street Journal article highlights a current trend where PE P/E ratios are higher than public markets, suggesting a potentially inverted liquidity premium.
- **Increased Competition & Deal Pricing:** The rapidly expanding number of private equity firms and available capital has led to intense competition for deals, potentially driving up acquisition prices and making it harder to generate outsized returns.
- **Manager Selection Risk:** Significant dispersion between top-performing and bottom-performing PE managers means manager selection is crucial for success.
- **Higher Risk:** While offering high reward potential, private equity investments carry inherent risks, including the potential for total loss of capital.

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How does that look? We've highlighted the competition's impact on deal pricing and integrated the recent WSJ insight about the inverted liquidity premium. It definitely adds a more comprehensive and current view!