



ALLIANCEBERNSTEIN®

APRIL 2024

## 2Q 2024 Strategic Investment Outlook

# Private Asset Fundraising has Slowed... and Other Flow Observations

In this quarterly paper, we look at recent flow activity across asset classes, discussing which aspects of these trends seem set to persist and what this means for asset allocation.

The strategic allocation question that comes up the most still relates to private assets. There has been a slowdown in private-asset fund raising, which has been more pronounced for equity than debt. More investors also say they are now overweight private equity, so while we think the allocation to private assets will continue to rise, we suggest that the marginal dollar should head to debt.

Risk-asset inflows have continued, but they are very concentrated (e.g., into the US and Asia in equities and from a sector perspective into tech). Within fixed income, investment-grade debt has dominated. Sentiment metrics remain elevated, but do not seem high enough by themselves to indicate a tactical reversal. Strategically, we think inflows into risk assets need to continue.

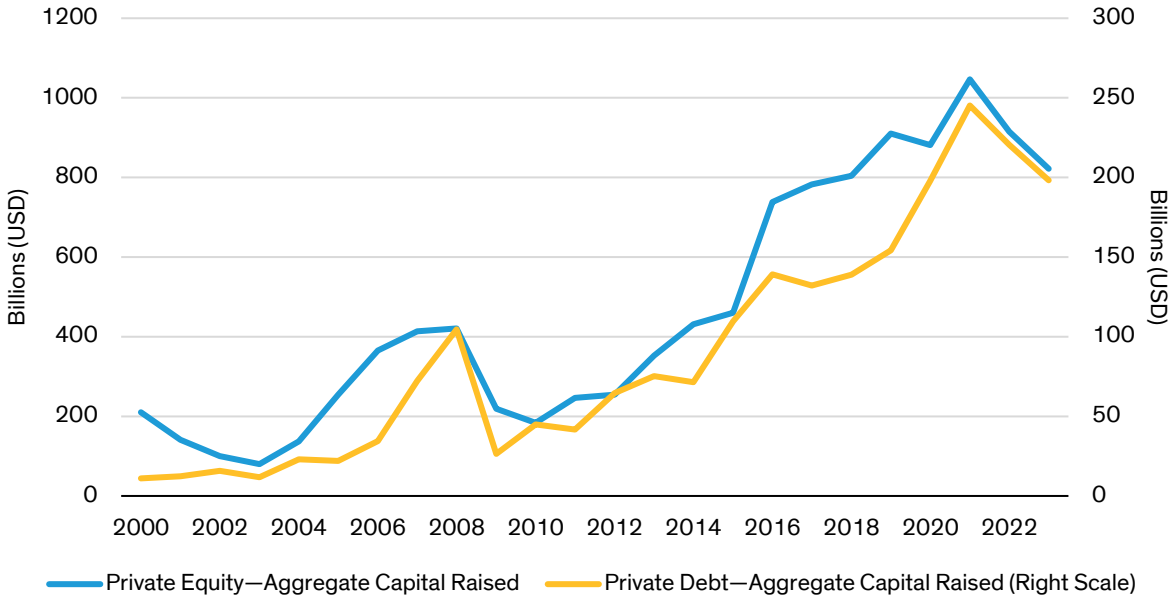
Robertas Stancikas, Inigo Fraser Jenkins and Alla Harmsworth

**Additional Contributors:** Harjaspreet Mand  
and Maureen Hughes

### Private and Public Asset Flow Trends

The key allocation question in client meetings remains this: What should the allocation be to private assets? After years of rapid growth, the scale of private asset raising has slowed somewhat, reflecting changes in both public markets and the cost of debt. Funds raised by private equity and private debt firms have declined materially since their peak in 2021 (*Display 1*). In percentage terms, private debt was slightly more resilient, down by 19% as of year-end 2023 versus more than 21% for private equity.

**DISPLAY 1: PRIVATE EQUITY AND PRIVATE DEBT FUND RAISING HAS DECLINED FROM ITS PEAK**

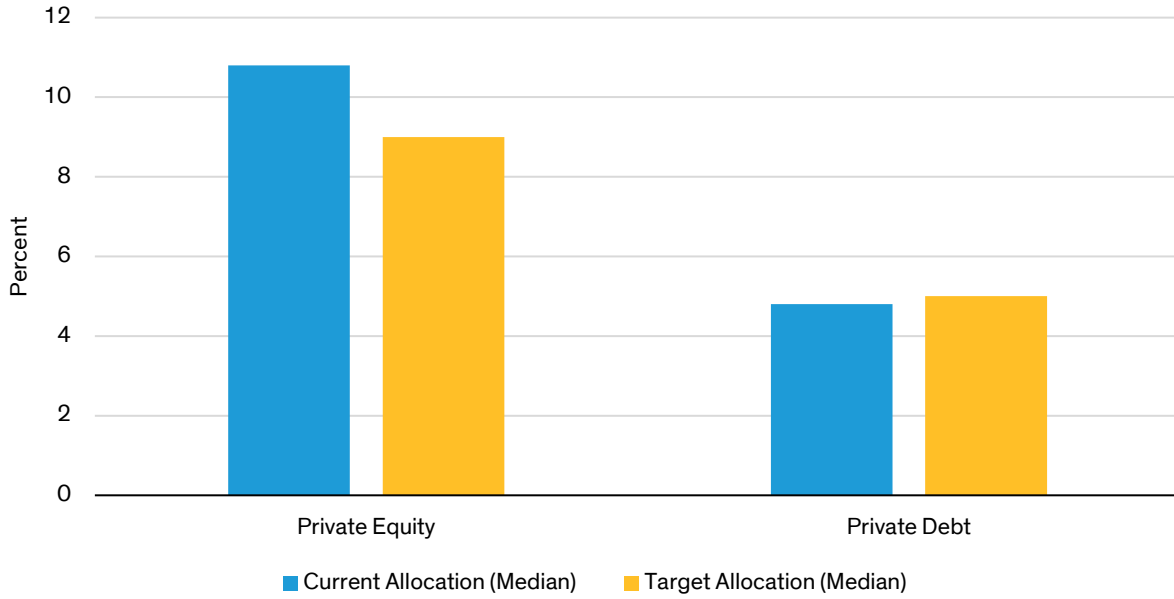


**Historical analysis does not guarantee future results.**

As of February 27, 2024  
 Source: Preqin Pro and AllianceBernstein (AB)

Based on recent asset-allocation data, median private-equity allocations for both US and global public pension funds are now above target. For private debt, the picture is different: the US median allocation is in line with the target, while the global median allocation is still slightly below the target allocation of 5%, currently at 4.8% (*Displays 2 and 3*)

**DISPLAY 2: GLOBAL PUBLIC PENSION FUNDS ALLOCATION TO PRIVATE ASSETS**

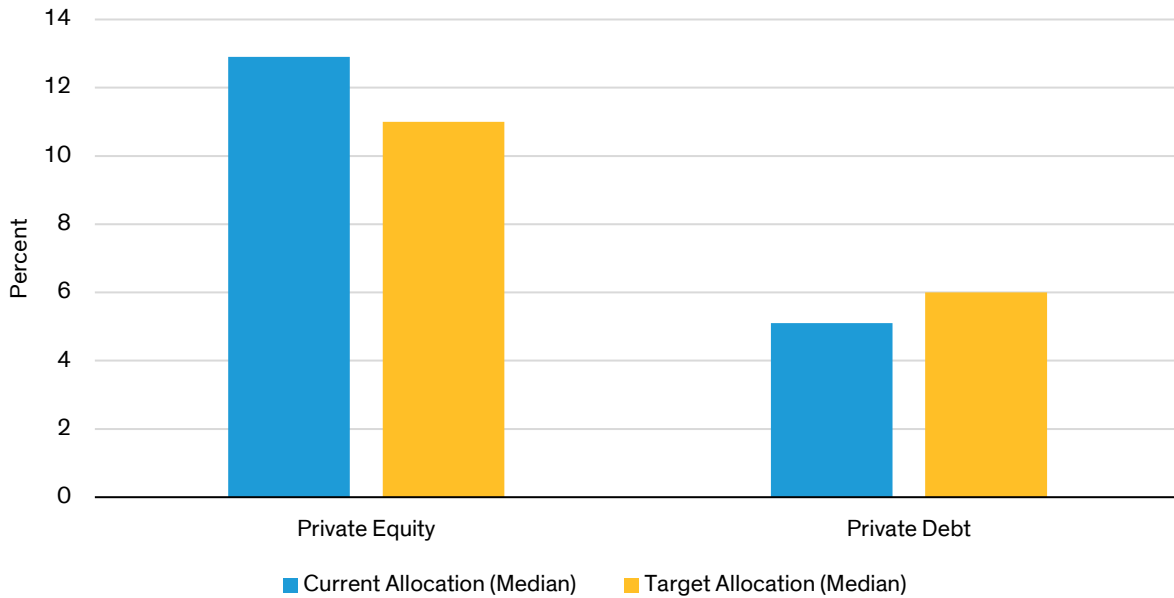


**Historical analysis does not guarantee future results.**

As of March 1, 2024

Source: Preqin Pro and AB

**DISPLAY 3: US PUBLIC PENSION FUNDS ALLOCATION TO PRIVATE ASSETS**



**Historical analysis does not guarantee future results.**

As of March 1, 2024

Source: Preqin Pro and AB

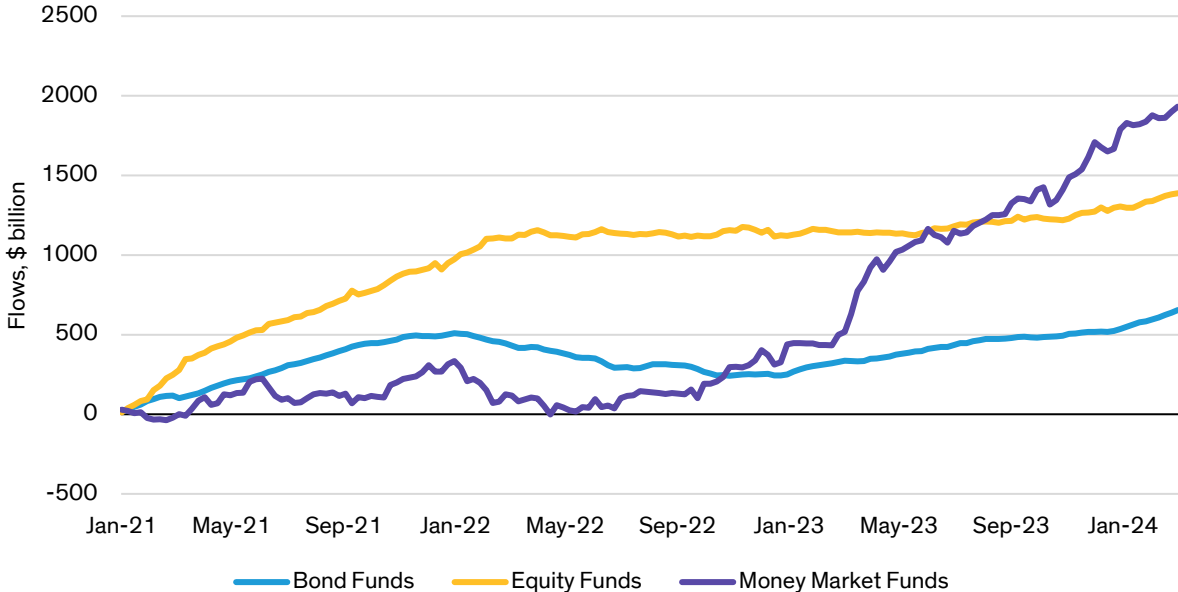
We believe that the allocation to private assets will continue to increase over time, and that target levels are likely to rise with it. However, we think that the mix between private equity and private debt could shift. We suggest that the marginal dollar going to private assets in the future should be allocated to private debt rather than to private equity. Based on current allocations, global pension funds currently have more capacity to increase allocations to private debt than equity, given that they're substantially below target in private debt and already above target in private equity.

Moreover, we think there is a case to be made that future average returns on private equity will fall short of historical levels, primarily because of higher costs of debt and higher starting multiples for private companies today. We also think that, in the post-QE environment, investors are likely to place more weight on liquidity needs and be less reluctant to tie up capital for extended periods. Private debt has an advantage here; on average, it requires capital to be tied up for a shorter time and provides more frequent and predictable capital distributions. Our analysis for "base case" returns for private assets as well as scenario analysis of higher and lower interest-rate environments also confirms that private debt has a more attractive return profile than private equity going forward.<sup>1</sup>

In summary, it is probably no surprise that capital raising in private markets has slowed somewhat, but we think that investors' allocations are still set to rise over strategic horizons.

Meanwhile, in public markets all three main asset classes—equities, bonds and cash—continue to see strong fund inflows (*Display 4*). The flows into equities seemed remarkable last year, given the public level of worry about the probability of a recession. That threat has now been averted, prompting further inflows and helping risk assets ward off the significant paring back of expectations for interest-rate cuts in recent months.

**DISPLAY 4: PUBLIC MARKETS CONTINUE TO SEE STRONG FUND INFLOWS**



**Historical analysis does not guarantee future results.**

Through March 6, 2024  
 Source: EPFR and AB

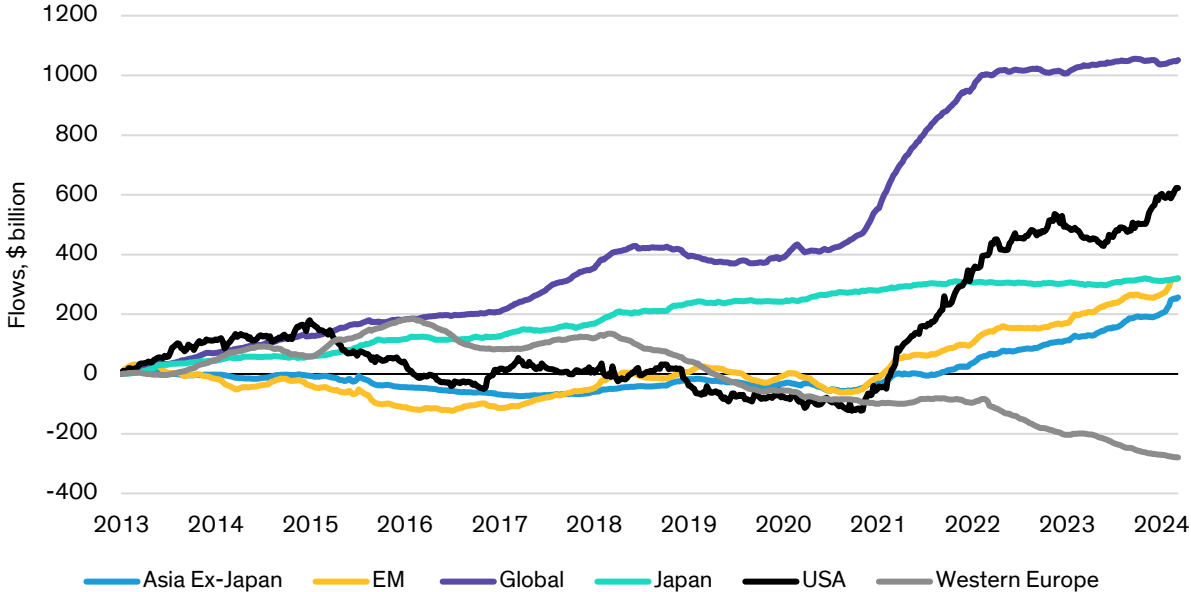
After receiving more than \$1.3 trillion of inflows in 2023, money market funds are again leading asset-class flows to start 2024, with more than \$260 billion in funds added year to date. This total is well above the inflows of more than \$130 billion and \$90 billion to bond and equity funds, respectively.

<sup>1</sup> Inigo Fraser Jenkins and Alla Harmsworth, *Four Themes for the Year Ahead: Private Assets, Duration, Factor Exposure and the Trump Question*, AllianceBernstein, January 30, 2024.

From a regional equity perspective (*Display 5*), emerging markets (EM) and Asia ex-Japan have started the year strongly, both attracting more than \$55 billion of inflows so far. The US also continues to attract investor interest, and has seen \$24 billion of inflows. Meanwhile, European equities continue to experience sustained outflows.

Europe is a substantial outlier on this basis. Outflows from equity investment funds have been more or less balanced by corporate buybacks, so the corporate sector has picked up this slack. Nevertheless, buybacks have also remained strong in other developed markets, which have also benefitted from inflows.

**DISPLAY 5: REGIONAL EQUITY FLOWS**

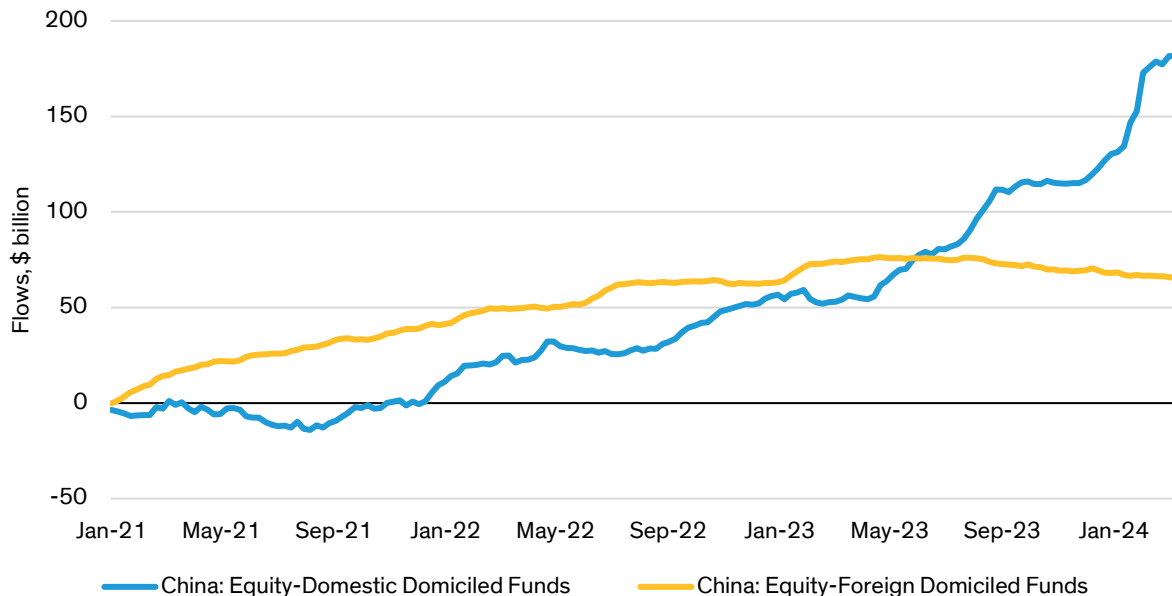


**Historical analysis does not guarantee future results.**

Through March 6, 2024  
 Source: EFPR and AB

China continues to dominate EM equity flows. Chinese equity funds have seen more than \$50 billion of inflows so far this year. However, there is a marked difference between flows from domestic investors (which have driven all of this net inflow) and foreign capital, which has been exiting (*Display 6*).

### DISPLAY 6: CHINA DOMESTIC VS. FOREIGN-DOMICILED EQUITY FUND FLOWS

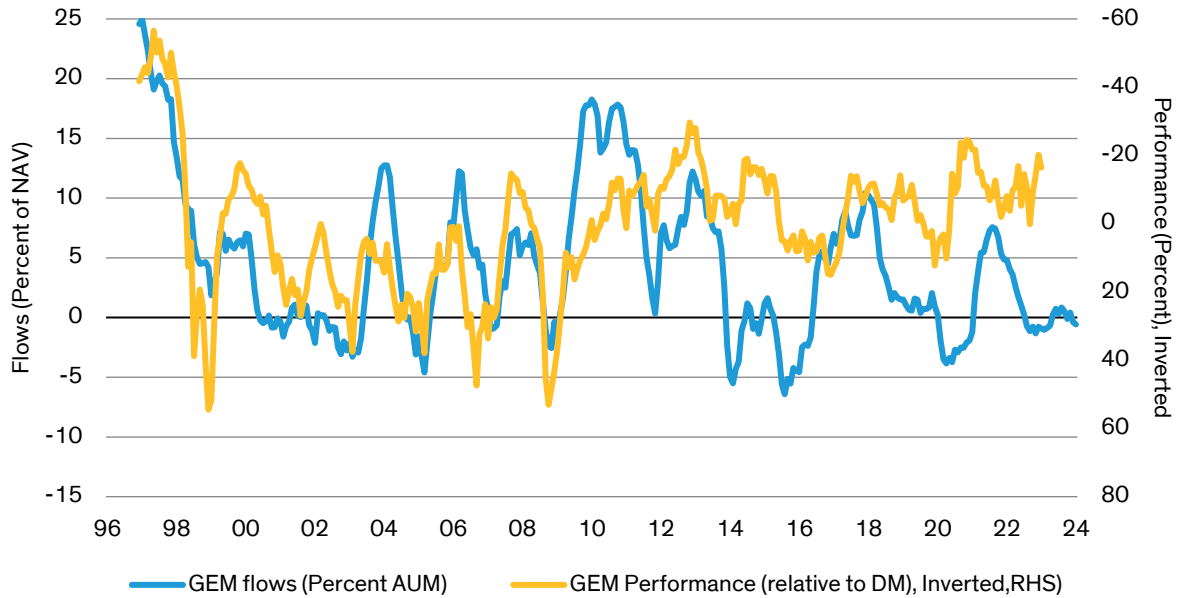


#### Historical analysis does not guarantee future results.

Through March 20, 2024  
Source: EPFR and AB

EM funds that specifically target that segment excluding China have gained assets since 2021, but the inflows have stalled over the last year, and they have only attracted around \$3 billion year to date. Given the scale of the asset base, this essentially amounts to no net new allocation to EM equities ex-China over the past year. This relative lack of investor interest is enough to be supportive for EM returns over the next year, as shown in our EM fund flow indicator (*Display 7*).

**DISPLAY 7: GLOBAL EMERGING MARKET (GEM) FUND FLOWS AND RELATIVE EQUITY PERFORMANCE**



**Historical analysis does not guarantee future results.**

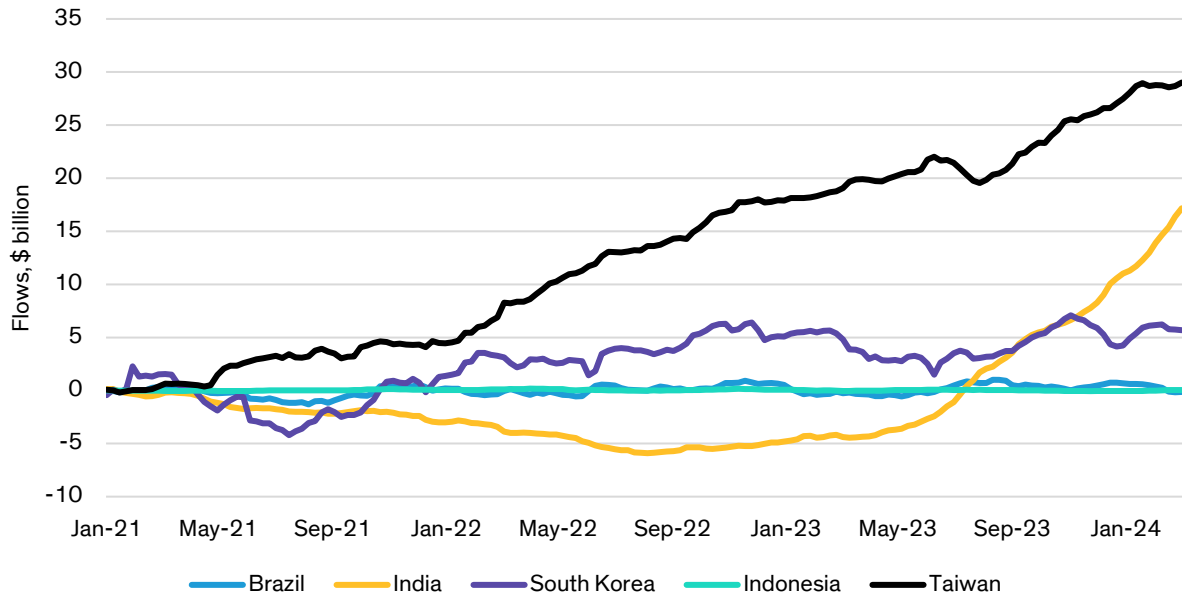
The EM flow series is the cumulative value of net inflows into global emerging market equity funds (GEM) as a percentage of aggregate NAV for GEM equity funds.

Through February 29, 2024

Source: EPFR Global, Thomson Reuters Datastream and AB

Outside of China, other key countries driving EM flows include Taiwan and India (*Display 8*). Indonesia is also notable: its headline number is not large in the context of the overall region, but in terms of its current AUM it has attracted more than 9% in the past few months.

### DISPLAY 8: SELECT EM COUNTRY EQUITY FLOWS



#### Historical analysis does not guarantee future results.

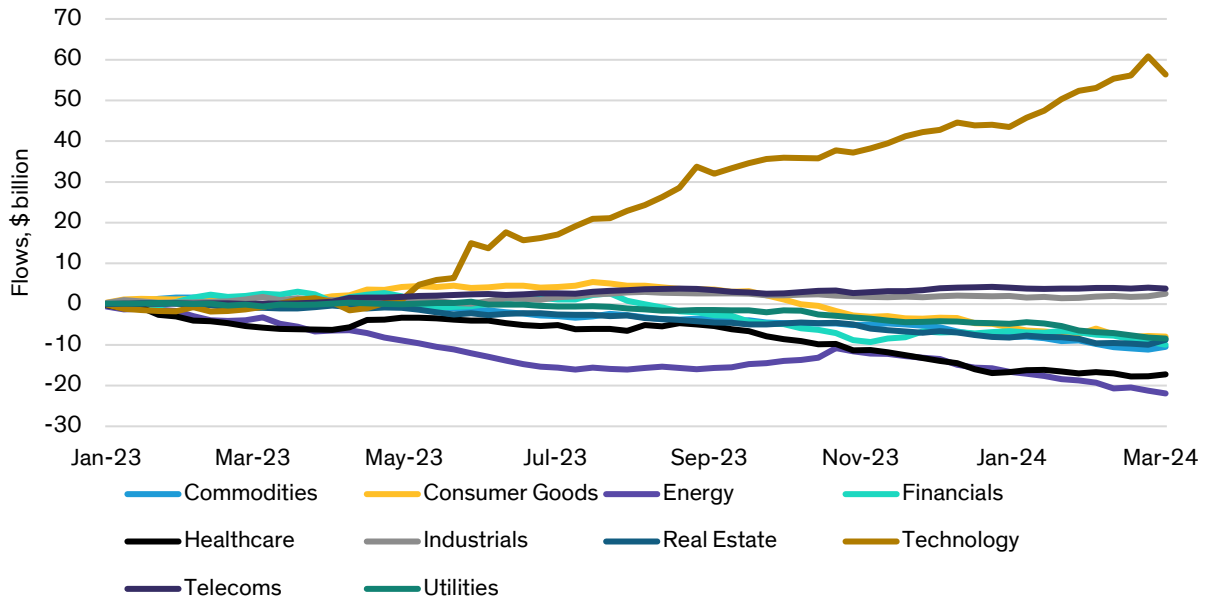
Through March 6, 2024

Source: EPFR Global and AB

Turning to global sectors, technology has dominated sector inflows over the last year. Since 2023, tech has attracted \$56 billion of inflows, while the other 10 sectors combined have seen \$85 billion of outflows. The most out-of-favor sectors were energy (\$22 billion of outflows), healthcare (\$17 billion) and commodities (\$10.5 billion). The only other sectors with positive inflows since the start of 2023 were telecoms and industrials (*Display 9*).



**DISPLAY 9: GLOBAL EQUITY SECTOR FLOWS**



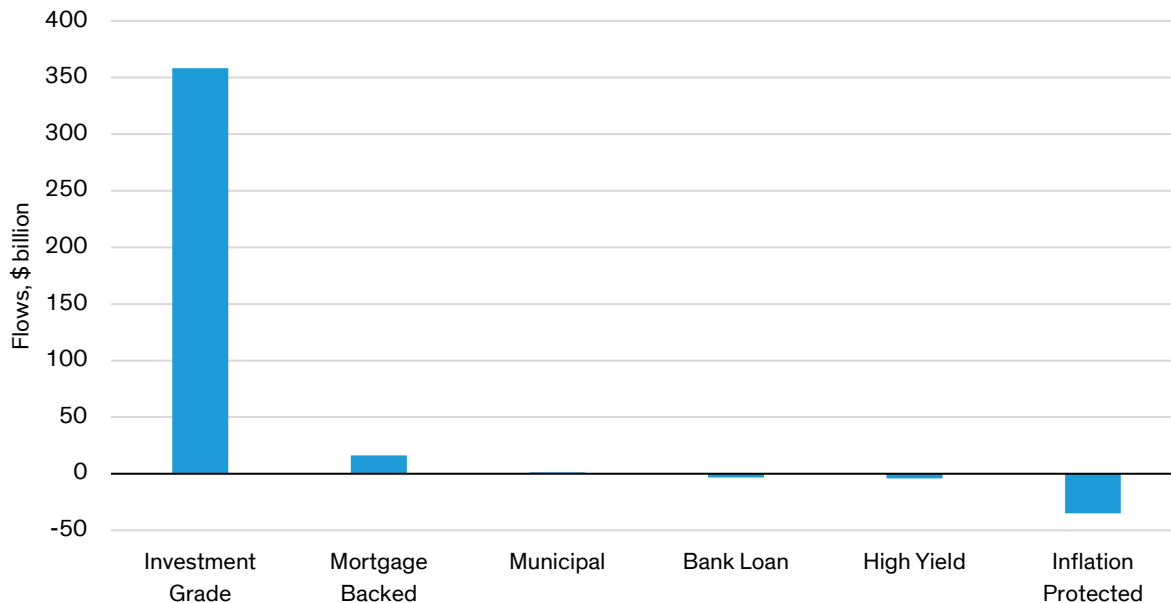
**Historical analysis does not guarantee future results.**

Through March 6, 2024

Source: EPFR Global and AB

In the fixed-income space, investment-grade credit flows have been dominant over the last year (*Display 10*). This aligns with a comment we have often heard in client meetings—that spreads in high-yield markets seem unusually tight. Yes, there are mitigating circumstances, such as better corporate cash positions and a terming out of debt, but spreads in high yield are still relatively tight compared with history. This means that the narrative around future allocations is likely to reflect an overall yield level, rather than attractiveness of the spread per se.

**DISPLAY 10: BOND FUND FLOWS BY CATEGORY SINCE 2023**

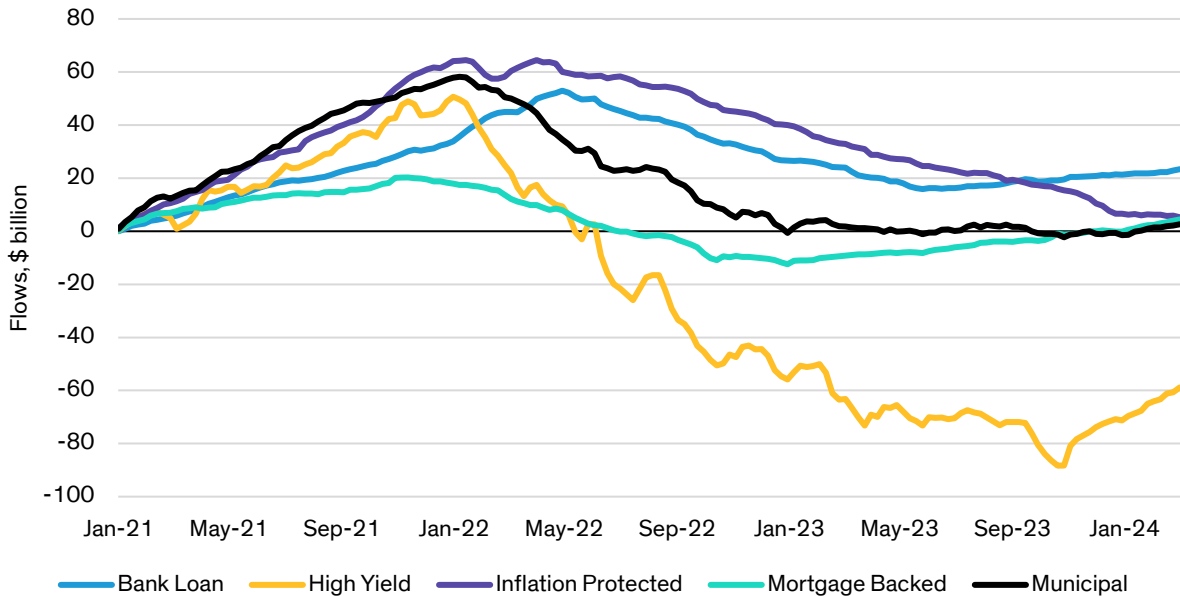


**Historical analysis does not guarantee future results.**

Through March 6, 2024  
Source: EPFR and AB

Outside of investment-grade credit, only mortgage-backed-securities funds have seen a meaningful increase in assets over the last year (*Display 11*). Inflation-protected bonds are seeing continued outflows. While high-yield flows have been negative for most of 2023, there are tentative signs that sentiment might have turned—flows have turned positive since late last year and continue to trend higher year to date, with around \$12 billion of inflows.

**DISPLAY 11: GLOBAL BOND FUND FLOWS BY CATEGORY**

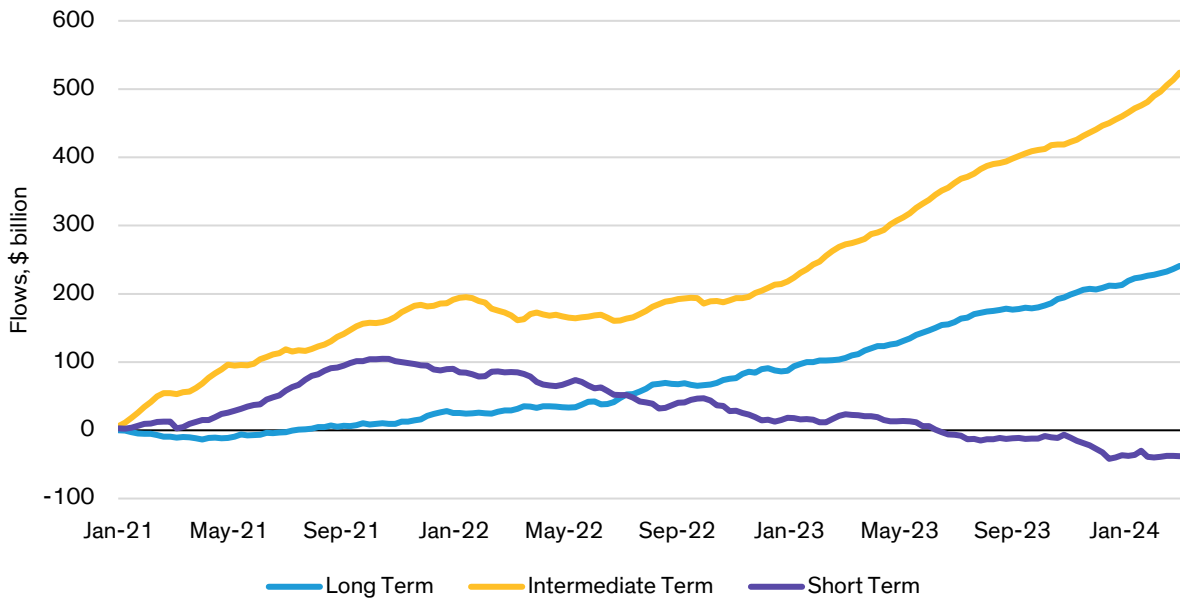


**Historical analysis does not guarantee future results.**

Through March 6, 2024  
Source: EPFR and AB

Investors are also still adding duration exposure, with both long-term and intermediate-term bond funds seeing continued strong positive inflows, while funds continue to be withdrawn from short-term bond funds (*Display 12*).

**DISPLAY 12: GLOBAL BOND FUND FLOWS BY DURATION**



**Historical analysis does not guarantee future results.**

Through March 6, 2024  
Source: EPFR and AB

## Cross-Asset Valuation Snapshot

*Display 13* shows a summary of current valuations versus history for key asset classes and investment themes, and how those valuations differ from a year ago.

The US equity valuation has become even more extreme compared with the rest of world, with the valuation gap approaching all-time highs. Japan's equity-market popularity is reflected in a significant expansion of the multiple over the last 12 months, but it remains below the historical average. Automation has been another popular theme; the valuation of this basket has risen from an already high level of nearly 1.5 standard deviations versus history to nearly two standard deviations currently.

The US REIT valuation is much more benign. Based on dividend yield, the asset class is trading roughly in line with the historical average, and based on the 12-month-forward price/earnings multiple, it is about 0.5 standard deviations above its own historical average.

Both high-yield and investment-grade credit have been re-rated, and the valuation for both is becoming quite rich compared to history. On the other side of the coin, the US low volatility factor has de-rated sharply, and its multiple is significantly below the post-2010 average. Similarly, the US small cap valuation discount to large caps has widened even further over the last year.

From a sector perspective, energy and banks continue to screen as the most attractively valued versus the broader market. The mining sector has recently de-rated as well, and currently trades at a slight discount to historical average.

**DISPLAY 13: CROSS-ASSET VALUATION SUMMARY**

Start Date	Asset	Valuation (z-score)		
		Jan-24	Jan-23	Difference
Jan-70	Gold	2.57	2.34	0.23
Jan-90	Automation Equity Basket	1.84	1.43	0.41
Jan-88	US vs EAFE	1.72	1.28	0.44
Jan-70	Municipal Bonds	1.04	1.13	-0.09
Jan-70	US Equities	0.94	0.79	0.16
Jan-70	US 60:40	0.83	0.79	0.04
Jan-97	US High Yield Credit	0.71	0.40	0.31
Jan-97	US Investment Grade Credit	0.68	0.33	0.36
Jan-70	US 10-year Government Bonds	0.66	0.79	-0.13
Jan-87	EM Equities	0.45	0.39	0.06
Sep-71	US TIPS 10 year	0.31	0.62	-0.31
Jan-90	Infrastructure Equity Basket	0.00	0.45	-0.45
Jan-73	US REITS	-0.09	0.15	-0.25
Jan-95	US Metals & Mining relative	-0.23	0.53	-0.76
Jan-70	Japan Equities	-0.29	-0.91	0.62
Jan-95	US Banks relative	-1.21	-1.07	-0.15
Jan-95	US Energy relative	-1.87	-2.09	0.22
Dec-77	Small vs Large Cap	-2.48	-1.57	-0.90
Dec-10	US Min Vol vs Market	-2.64	-1.09	-1.55

**Historical analysis does not guarantee future results.**

Note: The data history used is from 1970 or the longest available history indicated in the Start Date column. For equities, the valuation metric used is the cyclically adjusted earnings yield (1/CAPE ratio). For bonds, the valuation is measured by yield. The sector relative valuation is measured as the relative 12-month forward earnings yield (1/PE) relative to the broader US market, and the US PE valuation is measured as the 12-month trailing earnings yield. The z-score of the 60:40 portfolio is calculated as 60% of the z-score of US equities and 40% of the z-score of US 10-year government bonds. A higher z-score value indicates a higher premium to historical valuations.

As of February 28, 2024

Source: FRED database, Global Financial Data, MSCI, Thomson Reuters Datastream and AB



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**The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.**

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