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2025 M&A Outlook: Fundraising, Lending and Distressed Deals

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The M&A landscape continues to evolve, shaped by shifting economic conditions, a new political regime and dynamic corporate strategies. As we move into the new year, ***Mergers & Acquisitions*** presents a week-long special series: **The 2025 M&A Outlook**. In it, we gather insights from dealmakers across all corners of the M&A world to explore key trends, emerging opportunities and potential challenges that will define the dealmaking environment in the coming year.

Today we hear from our experts on several topics of interest to Private Equity including projections on fundraising, lending and the distressed markets.

What is your outlook for fundraising in 2025?

James Cassel, Co-Founder, **Cassel Salpeter:** There is a lot of optimism now that the coming year will be good. But there is still a lot of money to deploy and LPs still have not been returned the distributions they expected. Brand name funds never seem to have any kind of challenges in raising the next fund. Smaller funds that haven't had liquidity yet will have some challenges. People are very optimistic that deals will get done and that will free up cash for investors. If cash gets freed up, funds will get raised.

David Duke, Partner, **Kian Capital Partners:** The market may remain tough as LPs have experienced limited distributions from older GP investments (e.g., DPI for 2018 vintage is well below .75x) which has constrained allocations to new funds. We are hearing that the lower end of the middle market has remained attractive to LPs given the historical alpha returns from that asset class.

Vivek Subramanyam, CEO of **Technology Holdings:** Private equity funds are quite optimistic about the prospects for 2025. There's robust demand for businesses looking to strengthen market positions with easing capital costs. Strategic drivers are in place and also the promise of a more accommodating regulatory environment after the elections. They're sitting on record levels of undeployed capital from recent fundraises while grappling with underperforming portfolios, given the last couple of years haven't been easy for companies globally, right? And they've been waiting for favorable exit valuations. So, all of these are factors that we believe will lead to increased deal activity and also a much better environment for fundraising. The mood has turned dramatically from a year back.

Scott Voss, Managing Director, **HarbourVest:** Despite the public markets delivering record returns since their late 2022 trough, private market KPIs including exits, investment activity, and fundraising have continued to decline through 2024. We believe 2025 will be a reversal across all measures. More certainty regarding the path ahead for interest rates, inflation, and politics will drive exit activity and new deal volume. We expect fundraising, which has historically lagged a broader market rebound, will increase and accelerate into the second half of 2025 as GPs burn through the dry powder they accumulated in 2021 and 2022.

What is your outlook on the lending market?

James Bardenwerper, Director, **Configure Partners:** Credit funds have ample dry powder and are eager to lend for all transaction types: acquisition, refinancing and dividend recapitalizations. Furthermore, banks are wading back into the cash flow market and pursuing new opportunities. Current supply / demand imbalance (limited deals with ample capital) is driving high competition.

Wayne Kawarabayashi, Head of M&A, **Union Square Advisors:** Declining interest rates will be a tailwind for financing as access to capital will be more prevalent and cheaper for corporates and private equity firms for buyside M&A deals and for companies looking to raise capital for internal growth, acquisitions, or refinance maturing or expensive debt.

What's your outlook on the distressed market in 2025?

James Bardenwerper, Director, **Configure Partners:** Increase as lenders finally exit dated investments, but partially offset by more favorable interest rate environment easing cash burdens, which allows more "kicking the can." As lenders have an opportunity to deploy more capital, they can strategically exit positions that are stressed / distressed or owned. Without new deals to partially mask underperforming positions, LPs and managers place a greater emphasis on issues in the portfolio.

Andrea Guerzoni, Global Vice Chair of Strategy & Transactions, **EY:** The combination of lower growth, subdued demand, elevated capital and input costs, a shifting competitive landscape and rapid technology-driven innovation is creating a challenging environment. Major companies are already making significant changes to address these issues, and smaller companies, being more vulnerable, will likely drive an increase in distressed sales.