Private Equity Perspectives | July 2026

2026 private equity midyear update: Private longer, public later

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- Many companies are remaining private for longer and scaling to larger valuations. Private equity (PE) provides investors with access to emerging businesses earlier in their lifecycle, before public market entry.
- We believe attractive opportunities continue to exist in secondary markets and select software investments, where AI-driven price volatility has created compelling entry points. A surging IPO market could also serve as a catalyst for improved exit activity.
- We maintain our belief that a diversified, global PE portfolio can outperform global public equities over the long term by approximately 320 basis points, or 3.2% annually. Vanguard's 10-year median expected annual return for global buyout PE is 8.49% relative to 5.27% for global public equity.

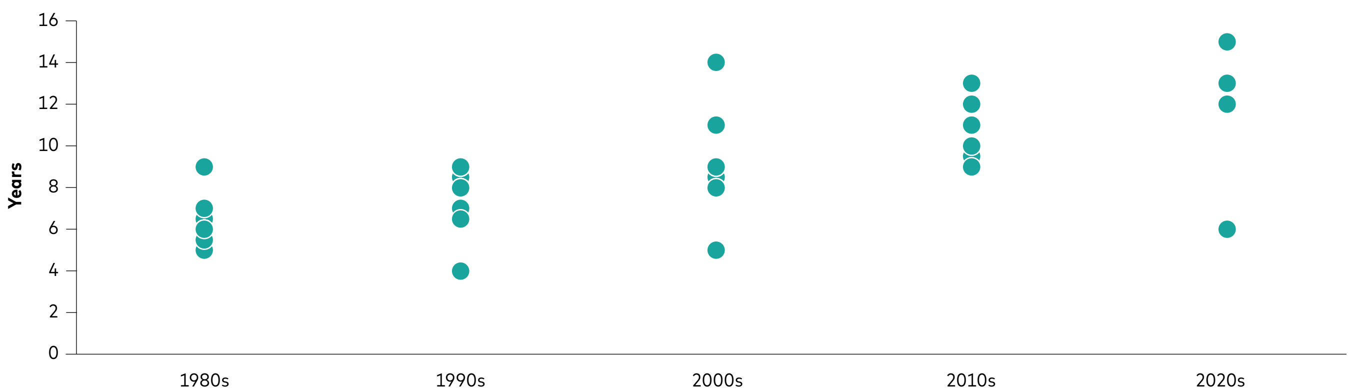
Value creation increasingly shifts toward private markets

As the largest sector in both the public and private equity markets, technology companies are a key driver of broad equity market returns. At the same time, emerging tech companies are increasingly delaying public listings and turning to private capital to fund their growth. As shown in **Figure 1**, the median age of technology companies at IPO has steadily risen over the past 40 years—from approximately six years in the 1980s to a peak of 15 years as recently as 2022.

This shift was likely driven by two factors: (1) access to private capital has significantly expanded the financing options available to companies, providing a longer growth runway without the need for public markets, and (2) remaining private enables firms to maintain greater control, prioritize long-term strategic objectives over short-term earnings pressures, and operate within a simplified regulatory framework.

FIGURE 1

The median age of technology companies at IPO has steadily risen over time

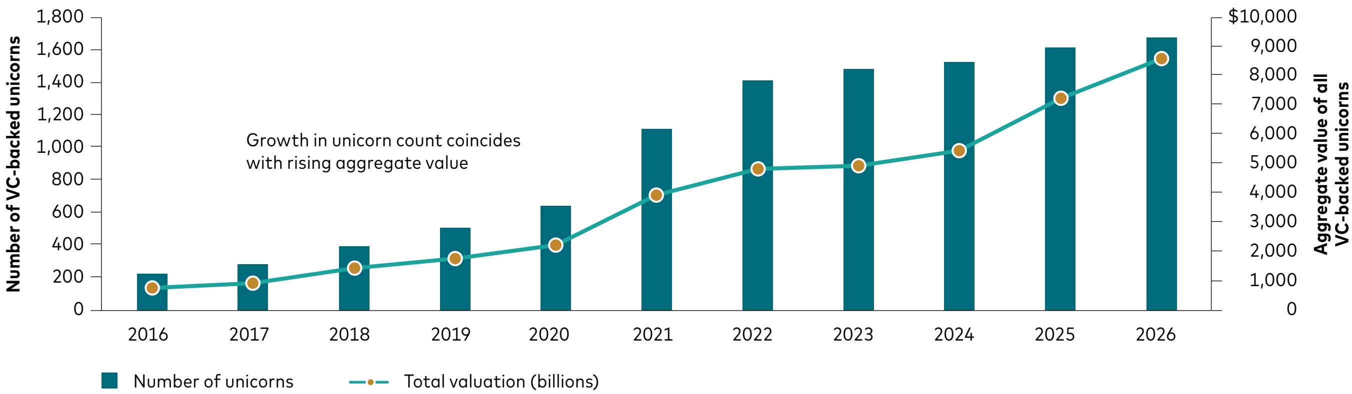


Source: Jay R. Ritter, *Initial Public Offerings: Updated Statistics*, University of Florida Warrington College of Business, as of December 31, 2025. Each dot represents the median age of tech IPOs for a given year. In some cases, a single dot reflects multiple years of data.

These trends are further underscored by the rapid growth in global unicorns.[1] As illustrated in **Figure 2**, the number of unicorns has grown from just 228 companies with a combined value of roughly $800 billion in 2016 to approximately 1,700 companies worth an aggregate $8.6 trillion today. High-profile companies such as OpenAI and Anthropic are widely expected to debut in the public markets at valuations exceeding $1 trillion, while SpaceX has already surpassed that threshold with its record listing in June 2026. As more value creation occurs pre-listing, investors focused solely on public markets are arriving later, after much of the early growth has already been realized.

FIGURE 2

The number of unicorns has skyrocketed, with ~1,700 companies now worth an aggregate $8.6 trillion



Source: PitchBook data as of March 31, 2026.

1 Defined as venture capital-backed companies valued at $1 billion or more.

Private longer, public later: Implications for U.S. small-cap stocks

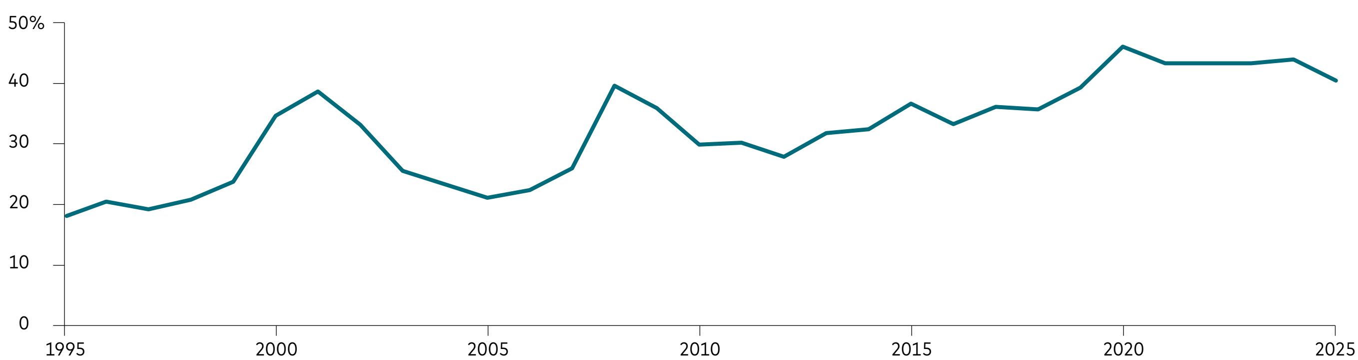
As companies remain private longer and reach higher valuations, profitability among public small-cap stocks has steadily declined.

As illustrated in **Figure 3**, the share of unprofitable companies in the Russell 2000 Index—a widely used proxy for U.S. small-cap stocks—has more than doubled from 18% in 1995 to about 40% today. The IPO market has contributed to this upward trend, as many companies are staying private for longer and going public at large-cap levels, if at all. The result is a smaller segment of profitable small-cap companies for investors to choose from.

PE can help bridge this gap by offering investors the opportunity to tap into a significantly larger universe of small and midsize companies. Through disciplined underwriting and active management, skilled PE managers can generate outperformance while avoiding lower-quality businesses. This is supported by historical performance as private equity buyout funds have outperformed the Russell 2000 Index by 4.67% annually over the decade ending December 31, 2025.[2]

FIGURE 3

The share of small-cap companies with negative earnings has more than doubled



Source: FactSet data as of December 31, 2025. Analysis uses the Russell 2000 Index as a proxy for U.S. small-cap stocks.

2 MSCI data as of December 31, 2025. Analysis uses Direct Alpha of all private equity buyout funds versus the Russell 2000 Index for the 10-year period ending December 31, 2025. Returns net of fees. **Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index**.

Trends we're monitoring in the second half of 2026

1. PE secondary market is poised to sustain momentum

The PE secondary market is poised to maintain its strong momentum after setting a record for deal volume in 2025. A multiyear slowdown across traditional exit channels has created an attractive opportunity set of quality assets at discounted prices for secondary buyers. Continued growth in secondary-focused fundraising, coupled with expected inflows into semiliquid evergreen vehicles, should also serve as tailwinds for market expansion. While a rebound in traditional exits may temper growth at the margin, secondaries are now firmly established as a core strategy within PE and are likely to remain a durable part of the market.

2. Will the IPO market lead to a broader recovery for PE exits?

The 2026 IPO market appears to be positioned for a dramatic rebound, with several high-profile companies widely expected to go public at historic valuations. A successful IPO window could serve as a key catalyst for a broader exit market recovery, unlocking liquidity and encouraging general partners to start exiting their backlog of unsold portfolio companies. This would accelerate distributions to LPs and likely support improved fundraising and performance.

3. Opportunities in software

Artificial intelligence (AI) has caused a repricing in the software industry by changing how products are built, sold, and priced. However, not all software companies face the same AI-driven risk. Further, we believe that AI-driven volatility presents an opportunity for selective buying where value and durability exist. While AI is likely to disrupt weaker software models, the winners are likely to harness its benefits and emerge stronger and more productive.

Vanguard's PE outlook

Vanguard's outlook for global public equities remains guarded, with expected returns below historical averages. Within this context, PE may play an increasingly important role as a source of relative outperformance.

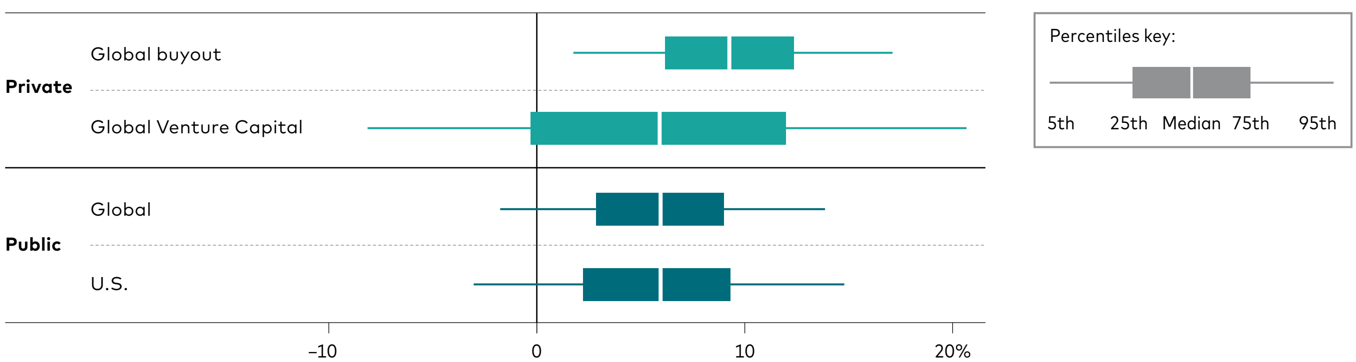
As shown in **Figure 4**, Vanguard's 10-year outlook for global buyout PE ranges from 5.5% to 11.6% annualized (25th to 75th percentile), with a median expected return of 8.5%. For venture capital, Vanguard forecasts annualized returns of –0.3% to 10.9% (25th to 75th percentile), with a median of 5.3%. These estimates compare favorably with our outlook for global public equities, which ranges from 2.2% to 8.3% annualized (25th to 75th percentile), with a median return of 5.3%.

Looking ahead

Capturing PE's return premium in a more cautious macroeconomic environment requires a thoughtful plan. By consistently accessing highly skilled managers, embracing diversification, and adhering to a disciplined commitment program, investors have the opportunity to fully realize PE's return and diversification benefits.

FIGURE 4

Vanguard's 10-year forecast for global public and PE



Notes: Global public equity = 60% U.S. equity, 40% international equity (unhedged). Return assumptions depend on current market conditions and may change over time. The PE return expectations are net of fund fees and assume zero manager alpha and a typical risk profile when a diversified program of funds is held. If an investor were able to identify and access high-quality managers with reasonable fees, the private equity return expectations would be higher.

Source: Vanguard calculations, using asset-return projections from the Vanguard Capital Markets Model (VCMM).

IMPORTANT: The projections and other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for each modeled asset class. Simulations are as of April 30, 2026. Results from the model may vary with each use and over time. For more information, please see the related notes in the Appendix.

Appendix

More about the Vanguard Capital Markets Model (VCMM)

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The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More important, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based.

The Vanguard Capital Markets Model is a proprietary financial simulation tool developed and maintained by Vanguard's primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money markets, commodities, and certain alternative investment strategies. The theoretical and empirical foundation for the Vanguard Capital Markets Model is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes, as well as uncertainty and randomness over time. The model generates a large set of simulated outcomes for each asset class over several time horizons. Forecasts are obtained by computing measures of central tendency in these simulations. Results produced by the tool will vary with each use and over time.

Asset classes and proxy indexes

- **U.S. equity:** MSCI US Broad Market Index
- **Non-U.S. equity:** MSCI All Country World ex USA Index
- **Private equity:** MSCI ACWI + 320 basis points

With private equity ("PE") investments, there are five primary risk considerations: market, asset liquidity, funding liquidity, valuation, and selection. Certain risks are believed to be compensated risks in the form of higher long-term expected returns, with the possible exceptions being valuation risk and selection risk. For selection risk, excess returns would be the potential compensation, however, limited partners ("LPs") must perform robust diligence to identify and gain access to managers with the skill to outperform. PE investments are speculative in nature and may lose value.

Market risk: Private equity, as a form of equity capital, shares similar economic exposures as public equities. As such, investments in each can be expected to earn the equity risk premium, or compensation for assuming the nondiversifiable portion of equity risk. However, unlike public equity, private equity's sensitivity to public markets is likely greatest during the late stages of the fund's life because the level of equity markets around the time of portfolio company exits can negatively affect PE realizations. Though PE managers have the flexibility to potentially time portfolio company exits to complete transactions in more favorable market environments, there's still the risk of capital loss from adverse financial conditions.

Asset liquidity risk: Various attributes can influence a security's liquidity; specifically, the ability to buy and sell a security in a timely manner and at a fair price. Transaction costs, complexity, and the number of willing buyers and sellers are only a few examples of the factors that can affect liquidity. In the case of private equity, while secondary markets for PE fund interests exist and have matured, liquidity remains extremely limited and highly correlated with business conditions. LPs hoping to dispose of their fund interests early - especially during periods of market stress - are likely to do so at a discount.

Funding liquidity risk: The uncertainty of PE fund cash flows and the contractual obligation LPs have to meet their respective capital commitments - regardless of the market environment - make funding risk (also known as commitment risk) a key risk LPs must manage appropriately. LPs must be diligent about maintaining ample liquidity in other areas of the portfolio, or external sources, to meet capital calls upon request from the General Partners ("GPs").

Valuation risk: Relative to public equity, where company share prices are published throughout the day and are determined by market transactions, private equity NAVs are reported quarterly, or less frequently, and reflect GP and/or third-party valuation provider estimates of portfolio fair value. Though the private equity industry has improved its practices for estimating the current value of portfolio holdings, reported NAVs likely differ from what would be the current "market price", if holdings were transacted.

Selection risk: Whether making direct investments in private companies, PE funds, or outsourcing PE fund selection and portfolio construction to a third party, investors assume selection risk. This is because private equity doesn't have an investable index, or rather a passive implementation option for investors to select as a means to gain broad private equity exposure. While there are measures an investor can take to limit risk, such as broad diversification and robust manager diligence, this idiosyncratic risk can't be removed entirely or separated from other systematic drivers of return. Thus, in the absence of a passive alternative and significant performance dispersion, consistent access to top managers is essential for PE program success.

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Private investments involve a high degree of risk and, therefore, should be undertaken only by prospective investors capable of evaluating and bearing the risks such an investment represents.

This document is not meant to constitute investment advice or recommendations.

Investors in private equity generally must meet certain minimum financial qualifications that may make it unsuitable for specific market participants.

All investing is subject to risk, including the possible loss of the money you invest. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

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