

The bigger the logjam gets, the harder it will be to raise new funds.

Rate Rise Deepens Private Equity's Struggles

Fed's hike is expected to wreak havoc on funds already languishing

BY MATT WIRZ AND MARK MAURER

The zombie nightmare haunting private-equity firms isn't ending anytime soon.

The Federal Reserve's decision to raise interest rates on Wednesday will deepen problems in their portfolios of funds from a generation of buyouts that are stuck. Investors have been clamoring to recover a record \$349 billion in these "zombie funds," but higher rates will make deals even more difficult, meaning that number is likely to grow.

The bigger the logjam gets, the harder it will be to raise new funds, reducing the fee income private-equity firms rely on, a cycle that can spiral.

"I do think you will see a squeezing of the number of managers and maybe some managers that grew really rapidly over the last decade will have to contract back down," Apollo Global Management Co-President Scott Kleinman told analysts at a conference Monday. Apollo continues to attract private-equity investors because its recent funds have delivered stronger returns than the average, he said.

Private-equity firms came into 2026 hoping for relief. President Trump appointed Kevin Warsh as the Fed's new chairman, and the expectation was for rates to be cut. Deals were picking up.

This month, the stocks of big alternative fund managers like Apollo, Blackstone and

KKR have dropped while talk of rate increases picked up.

Higher interest rates hit private-equity funds on several fronts, including by increasing what companies they own must pay on loans and making it harder to sell the companies at a good price.

Many private-equity fund managers are also grappling with potential losses from big bets on software companies at risk of disruption from artificial intelligence. And their other big business, private credit, faces turmoil if rates keep rising.

Private-equity funds now control more than \$2 trillion in the U.S., according to data from PitchBook, and their pain is reverberating through the financial system.

Typically, private-equity firms launch funds with some of their own money and raise the rest from pensions, insurers and other investors. They buy companies—like videogame maker Electronic Arts—using a mix of money from the funds and from loans borrowed by the companies themselves. If all goes as planned, the firms sell the companies for a profit within 10 years, pay back the loans, collect a fee and return the balance to their investors.

Rising interest rates throw a wrench into that calculus, because the rates of their loans move in lockstep with benchmarks. Potential buyers of the companies are less likely to pay the prices private-equity funds need to turn a profit when borrowing costs go up, making it difficult to close deals.

Sales of private-equity owned companies slowed after the Federal Reserve raised rates in 2022. Investments stranded in zombie funds—those that had passed the 10-year mark—surged by about 65% from the end of 2021 to the end of 2025, according to PitchBook.

"It would be ridiculous to say that the glory days of private equity are never coming back, because markets are cyclical, but there's a question of how long these funds can really wait to see the valuations that they want," said Sara Werner, a partner at law firm L o w e n s t e i n S a n d l e r.

Deal activity revived last year when rates declined, fueling hopes for a banger year in 2026. Instead, interest costs kept marching higher and activity froze up again, increasing the risk that the roughly \$500 billion in seven- to 10-year-old private-equity funds won't be returned on time either.

"You're going to see an increase in funds entering that zombie zone," said Mitchell Mansfield, a managing director at Kroll who advises investors on how to restructure aging private-equity funds. "The longer these funds stay in existence, the more your return on capital as an investor plateaus, then declines."

Private-equity funds delivered average returns of around 7% in 2025, their weakest performance since 2011 despite robust U.S. economic growth, according to PitchBook.

The declining performance makes it harder for pension funds, insurers and endowments to meet their funding targets, especially when they can't get their money out of the funds to reinvest in better options.

Going forward, investors "are only going to reup with very particular special relationships that they have confidence in," said Angela Rodell, senior adviser to Star Mountain Capital and former chief executive of Alaska Permanent Fund. "You'll see a few more private-equity funds close as a result."

Private-equity fundraising is on pace for its worst year since at least 2020, as institutional investors slow the pace of their commitments. The industry has raised \$211.9 billion this year through Sept. 11, according to PitchBook. Fundraising totaled \$334.4 billion in full-year 2025, down from \$376.9 billion a year earlier.

Even large fund managers that are in no danger of closing down are feeling the squeeze. Many were already on the defensive because they put an average 14% of their money into software companies over the past decade, according to PitchBook.

Private equity bought a bumper crop of software deals when interest rates were low in 2020 and 2021 that are increasingly under pressure from the advancement of artificial intelligence. Defaults are expected to mount next year and in 2028 as the loans backing the buyouts come due.

Thoma Bravo, a longtime tech investor, lost a \$5 billion investment in customer-service software maker Medallia this year when the company defaulted and lenders took over control. The fund manager has been in talks with debt investors to extend the loans it used to buy several other more stable software makers, including cybersecurity company Sophos.

Clearlake Capital used its technology-investing expertise—and a recent acquisition—to help increase the money the firm manages to \$185 billion from around \$8 billion in 2017. Now, some of the Santa Monica, Calif., firm's software investments are hitting headwinds.

Lenders have marked down by more than 30% their valuations of a \$2.1 billion loan to human-resources software maker Cornerstone OnDemand and a roughly \$1.5 billion loan to healthcare software company Symplr Software, according to regulatory filings by private-credit funds. Clearlake is discussing options with holders of both loans.

Higher interest rates intensify the cash crunch on these companies, said Anant Kumar, a portfolio manager at private-credit fund manager Benefit Street Partners.

"Over the long term, if the high rates are long lasting, those companies are getting squeezed and defaulting at higher rates," Kumar said.

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