Private equity firms increasingly selling assets to themselves

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The expanding role of private equity (PE) firms within the US financial system is giving rise to concerns that their activities, increasingly based on ever-more complex mechanisms, could be the trigger for market turbulence.

Private equity firms operate by financing large debt deals for firms, organising mergers, and buying up companies and then restructuring them to sell them off at a profit.

Much of their activity, which has grown by leaps and bounds since the financial crisis of 2008 and is aimed at circumventing some of the limited restrictions imposed on banks, is carried on out of sight.

Major financial institutions, including the International Monetary Fund, the Bank for International Settlements and the US Federal Reserve, have continually referred to this sector of the financial markets as "opaque" and have warned that this could potentially be the source of problems in the broader market.

Such concerns were raised by the sudden bankruptcy of the auto industry connected firms Tricolor and First Brands last year. They had complex and largely hidden connections to private equity groups and indirectly to banks. JPMorgan chief Jamie Dimon likened the bankruptcies to the appearance of cockroaches, where if you see one there are always more.

While much of the activity of private equity is not immediately apparent, information does come to light.

One such example is an article published at the end of last year in the *Financial Times* (FT) which reported on an increasingly common practice in which private equity groups make money by selling off assets they hold to themselves, making a profit in the process. In 2025, it said, this practice had occurred at a record rate.

One might well wonder how this is even possible or legal. In fact, it is both.

It takes place when a private equity group sets up a so-called continuation vehicle supplied with money from new investors but owned by the parent firm which then sells assets it holds to the new entity.

This operation is employed when the parent PE firm cannot sell off an asset it had previously purchased at what it regards as a sufficient price.

According to Sunaina Sinha Haldea, global head of private capital advisory at the financial firm Raymond James, as reported by the FT, "roughly a fifth of all PE sales this year [2025] involved groups raising money from new investors to acquire businesses from their older funds, up from 12-13 percent the previous year."

She said that the final figures for 2025 were "set to break all records" with expected sales by this means to reach $107 billion, up from $70 billion in 2024.

The FT said the use of this mechanism had "boomed in recent years as buyout firms have struggled to secure the valuations they want from external buyers and public markets."

Sinha Haldea said such transactions had become "a popular and effective win-win-win liquidity solution in a stressed exit environment, where exit values are still recovering from 2024 lows."

The PE companies involved in such deals not only make profit from the higher price of the asset which they essentially sell to themselves but also claim large management fees for organising the deals.

Milo Minderbender, the fictional character in Joseph Heller's novel *Catch 22*, who made "win-win" deals involving buying and selling with both sides in World War II, would have been completely at home in this world.

While such operations constitute only a relatively small portion of the PE financial system, they have the potential to generate significant consequences for broader financial markets because PE backers include banks and pension funds.

Nor surprisingly, the consultancy firm Bain found in a recent survey that almost two-thirds of private investors in private equity funds would prefer that the asset be disposed of in a conventional manner. But they have little choice in the matter having invested in PE to chase higher returns.

Concern over private equity is growing, but as the New Year unfolds attention in financial markets is largely focused on the impact of artificial intelligence (AI) and the boom it has induced on Wall Street.

One of the chief beneficiaries has been the chipmaker Nvidia, the market value of which has doubled since April. At one point it became the first $5 trillion company before its share price came down somewhat.

There are numerous warnings that the AI boom is a bubble which will burst and the data point in that direction. According to one measurement, based on a 10-year price/earnings ratio, the S&P 500 index is higher than it was before the 1929 crash and well above its level before the 2008 crisis.

Another significant figure is the market capitalisation of the S&P 500 as a share of US GDP. Since the release of ChatGPT in October 2022, setting off the AI boom, it has risen from 142 percent to a record 214 percent. The ratio of the market capitalisation of tech stocks has more than doubled from 44 percent to 101 percent.

The market is increasingly dominated by the so-called hyperscalers in AI investment—Amazon, Alphabet (the owners of Google) Microsoft, Meta (the owner of Facebook) and Oracle—which account for 19 percent of the S&P 500. The semiconductor makers Nvidia and Broadcom account for another 9 percent.

Even as mass layoffs take place, the US economy has experienced stronger growth this year, but this is highly skewed. According to the OECD, investment in data centres and other such information technology accounted for all of US GDP growth in the first half of 2025.

Summarising the instability of the financial system as 2026 begins, long-time FT columnist John Plender warned that the world was reliving the Roaring Twenties.

"[A]rtificial intelligence euphoria is rampant, crypto lunacy is rife, credit is bubbling in private markets, and the US is once again at the heart of a global fiscal and financial maelstrom. Close to a hundred years on, we have to ask: does another 1929 crash loom?"

His answer was that it could take place, but that as they had done before the central banks would put a safety net under financial markets. That may well be the case. But the question must also be raised, under conditions of mounting debt in the US, loss of confidence in the American dollar and the rise of geopolitical tensions, as to how long it will be viable.

It is not possible to predict the exact outcome of the deepening crisis. But what is certain is the attacks on the working class will intensify. If the AI bubble bursts, the ensuing financial crisis will bring devastation for wide sections of the working class as the crisis of 2008 showed.

And if the AI boom does bring about an increase in productivity and generate sufficient revenue to pay off the trillions of dollars in investments, these outcomes will only be achieved through massive cost cutting achieved above all by the slashing of the labour force.

As every economic indicator, from the private equity markets and their arcane operations to the stock market, the AI boom and the mass layoffs already taking place across the economy flashes red, the task placed before the working class is to develop a political offensive to meet the deepening crisis of the capitalist system in the fight for a socialist program.