Some are calling it “the most telegraphed recession of all time,” but it is difficult to predict the depth of what most believe is a looming economic downturn. “I think we’re at a super interesting point in history right now,” says Rob Langley, co-founder and managing partner of Dallas-based middle market firm Align Capital Partners. With stocks crashing—$9 trillion was lost in the market through the first three quarters of 2022—many are contemplating non-stock investments to help diversify. “You continue to see big pools of capital and investors increase their allocation to alternatives,” Langley says.

Some have turned to commodities, with global currencies taking a tumble. The dollar rose to a 20-year high over six major currencies this spring, and by September, Bloomberg reported the dollar up “against every single major currency.” “It’s all going to be a commodity currency situation for probably the next five years,” says Kelly Ann Winget, founder of Alternative Wealth Partners, a Flower Mound-based private equity firm focused on assets not tied to traditional markets.

Winget explains that supply chains are still fettered with challenges and demand for items such as oil, coffee, precious metals, is rising, so owners of these commodities can significantly mark up prices. Luxury coffee, Winget says, is an early example of this as U.S. and Chinese buyers are beginning to compete with a market traditionally occupied heavily by the Japanese. “It’s going to be expensive for coffee,” she says, adding that a coffee company her firm invested in less than a year ago already has a few interested buyers.

She cites a similar supply squeeze in ammunition, where panic buying, new legislation, drops in U.S. ammunition imports, and a shortage in primer—a component of bullets that ignites propellent powder—drove the prices of some calibers up by as much as 400 percent in 2021. Winget believes this phenomenon will bleed into other products over the next few years. “Our strategy is to own as many types of things as possible, because when everybody has all this money, they’ll pay anything for it,” she says, referencing the funds investors pulled from falling markets and are looking to reinvest.

Healthy VC Market

Some of those dollars will go toward funding new companies via venture capital. Dallas investors are on pace to top $3.1 billion in venture capital funding in 2022—a record high, says Samantha Colletti, managing director of Silicon Valley Bank’s Dallas office. “To put that in perspective, the last high we had was around $2.8 billion,” she says. “That area of the market is still very healthy.” The region’s record activity comes at a time when the dollars deployed by VC firms nationally is down 22 percent year over year.

Colletti says current conditions are spurring investors to take stock of the situation, pausing new activity to evaluate their next moves. Things vary by industry, but most are experiencing some sort of headwinds. Fintech has been hit hard this year, she notes, and real estate may also be in for a tough ride, but enterprise software has barely slowed. “We’re forecasting the tech sector [in North Texas] to continue to do very well,” Colletti says. She adds that innovation in the startup community may even take off during. “If anything, it’s going to accelerate in these hard times as these super creative entrepreneurs think about ways to solve challenges and the struggles that people are having right now,” she says.

Langley echoes Colletti’s sentiments about opportunities in crisis and believes private equity will see an influx of investments, too. “You’re going to continue to see capital flow to the private equity firms and into alternative vehicles; good operators think a lot of disruption creates opportunity,” he says. But deal volume may take a hit.

Carryover from a record year in 2021 helped fuel continued closings in the first half of 2022, but now, Langley, whose firm manages more than $1.4 billion in committed capital between its offices in Cleveland and Dallas, says deal flow is softening. “You’ve seen a dramatic slowing of private equity transaction volume that started mid-year and is continuing today,” he says.

Langley blames rising interest rates, which mean higher borrowing costs for companies, and losses at large investment banks. “We’re seeing more lenders—big banks as well as private debt funds—just step back from the market right now,” he says. Investors in those funds, he adds, are shifting to public debt, which is trading at a discount, among other avenues. “We’re at a moment in time where there’s some dislocation in the market,” he says.

Langley adds that the dislocation and decline in deal volume is what the Federal Reserve hopes to see in its mission to slow inflation.

A stabilization of interest rates will end the slump in deal volume—and Langley is hopeful that will happen in 2023. “Next year will be a tough year,” he says. “I think the debate is, is it a soft landing or not a soft landing? Either way, it’s some sort of landing.”