

Private Markets Outlook 2026

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Author

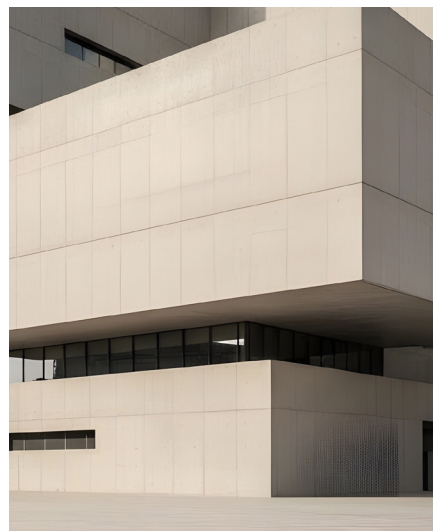
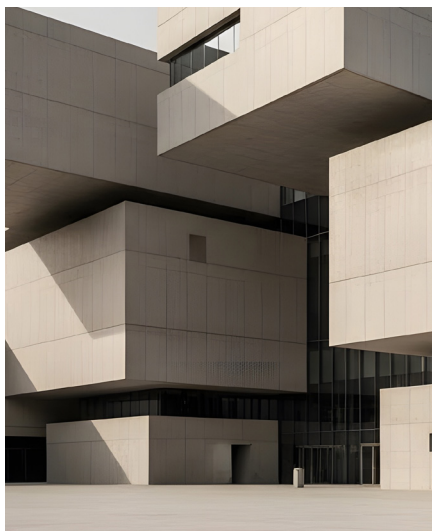
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The opinions expressed in this document are as at 16 January 2026 and are subject to change without notice.

Key takeaways

2026 will not reward broad exposure to private markets, rather the deliberate exposure to the right strategies, structures and managers.

- 1 Private markets have entered a post-complacency phase**

The era of abundant liquidity and indiscriminate capital deployment is over. Dispersion across managers has widened materially, making selectivity and governance the primary drivers of long-term returns.
- 2 Infrastructure is now a core allocation**

The infrastructure transition combines structural growth, regulatory support and defensive cash-flow profiles, positioning it as a key stabiliser and long-term value driver for portfolios.
- 3 Financial engineering is increasingly central to market functioning**

Tools such as significant risk transfers and continuation vehicles are now structural components of private markets, supporting liquidity and capital efficiency while at the same time bringing a form of tail risk.
- 4 Private credit is evolving from yield-driven momentum to underwriting-driven idiosyncracies**

Late-cycle conditions favour strategies with strong collateral, cash-flow visibility, amortisation and conservative structures. Performances will increasingly depend on manager quality and strategy selection rather than market momentum.
- 5 Banks and private credit are deeply interconnected**

The credit cycle is now shaped by feedback loops between banks and private funds through leverage, warehousing and risk-transfer mechanisms, reinforcing the need for holistic risk assessment while visibility is challenged.
- 6 Private wealth flows remain structurally supportive, but are not risk-free**

Private wealth vehicles are expanding access to private markets, but their liquidity mechanics remain largely untested in stress scenarios, warranting contained optimism.

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Foreword

Complacency is over

Time of momentum-driven allocations appears to be behind. Value creation, idiosyncratic risk and rigorous allocation will be the rewarded factors.

2025 is wrapping up and, as in previous years, the initial plan deviated. Geopolitics were complex, with 'Liberation Day' and the 'Big Beautiful Bill' in the US reshaping trade dynamics, while Trump 2.0 proved more volatile and less predictable than Trump 1.0. Markets experienced significant bouts of volatility but ended on a strong note at time of writing, thanks to resilient consumer data, an improving inflation trajectory and a decisive pivot in global monetary policy expectations.

In this environment, private markets broadly delivered what was expected, yet the sense is growing that the 'golden age' is now behind us. The asset class entered a phase where discipline replaced exuberance: allocation discipline tightened, underwriting standards normalised, and dispersion across managers widened materially, as illustrated in the business development company (BDC) segment where credit losses, pricing differentials and liquidity considerations exposed inconsistent underwriting quality. Capital formation slowed meaningfully, and the valuation reset continued to separate durable franchises – i.e. those anchored in operating strength, governance depth and balanced capital structures – from models relying too heavily on financial engineering.

This is not a crisis; it is a transition. Private markets are by no means broken, they are maturing. The industry is moving from a decade of cheap liquidity and relentless growth to an environment where capital is somehow scarcer, information asymmetry is narrowing, and investors are demanding more transparency on risk and liquidity. Selectivity, liquidity awareness and a clear understanding of the risk premia harvested emerged as the defining themes of 2025; they will strengthen further in 2026 as allocators rotate towards managers with genuine sourcing advantages, resilient balance sheets and the ability to generate returns through operational value creation rather than leverage alone.

The next cycle will reward clarity, discipline and governance. The time for complacency is behind us; private markets are entering a phase in which judgment, not momentum, will define outcomes.

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The return of financial engineering

Liquidity is scarce. Distributions are slow. Valuations are sticky. Engineering is back at the centre of private markets, but is it for the greater good?

Financial engineering never disappeared, but in 2025 it became a more prominent tool used within private markets to deal with liquidity, risk dissemination, and asset rotation. Significant risk transfers (SRT), continuation vehicles, and the rise of limited partner (LP)/general partner (GP)-led secondaries are now an integral part of managers' operational reality. Going into 2026, it is anticipated that financial engineering will take up an even greater part of activity, posing the question: what are the implications for the industry and market structure?

Significant risk transfers: support for credit flows yet opaque

Significant risk transfer (SRT) transactions are one of the fastest-growing areas of the financial markets, offering private credit investors direct access to diversified credit risk pools. The rapid growth of this market contrasts sharply with the more muted activity in the traditional securitisation market.

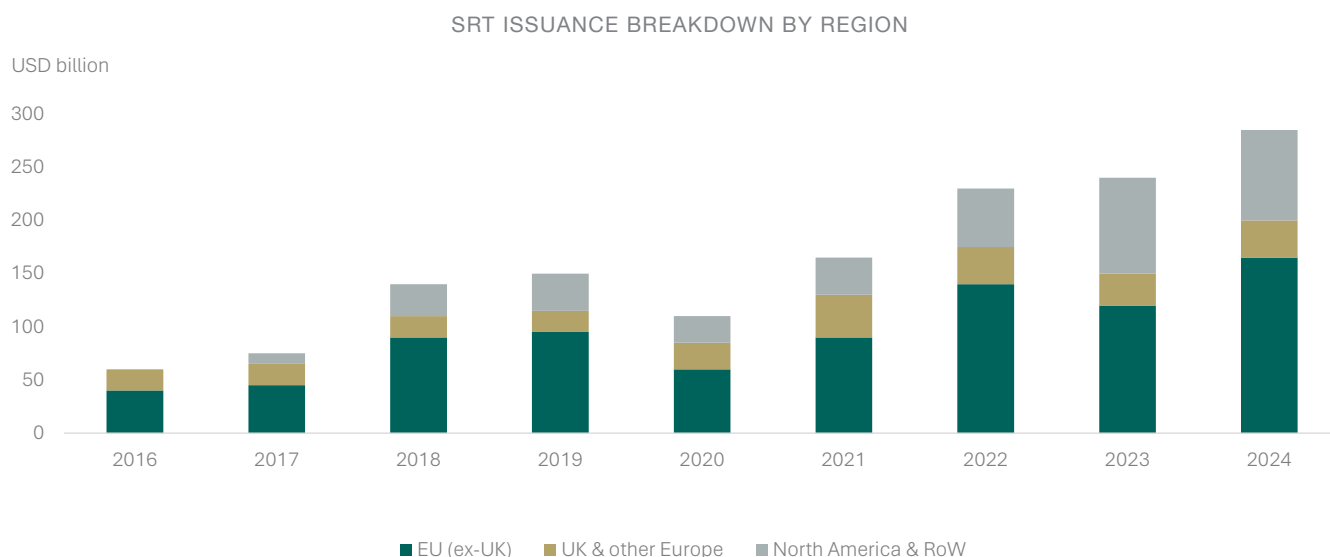
Essentially, SRT deals transfer credit risk on a reference pool of bank assets to private investors and are used by banks for regulatory capital optimisation. As banks are optimising their balance sheets to continue to originate deals, SRTs are an essential tool for maintaining issuance momentum while carefully managing risk-weighted assets (RWAs). Initially, SRTs were focused on corporate loans, but the market has expanded to broader and more exotic assets, such as net asset value (NAV) loans, subscription credit lines, and AI debt, as recently illustrated by the potential Morgan Stanley deal.

Private credit investors have become more interested in SRT deals as a means to deploy capital quickly. SRTs provide compensation through a coupon paid by the protection buyer (the bank). Because they usually reference high-grade corporate or institutional bank portfolios, they are considered high-quality private investments within the growing universe of asset-backed finance. The reduction in RWAs achieved by a bank directly improves their regulatory capital ratios, establishing SRTs as a non-cyclical, regulation-driven flow of attractive private credit assets.

However, SRTs also introduce opaque concentrations of tail risk: investors rely heavily on banks' internal models and underwriting standards, which are not always fully transparent or independently validated. In a severe downturn, correlation across reference pools could rise sharply, causing losses to become more simultaneous than historical data would suggest.

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Source(s): IMF Working Paper

GP-led secondaries: inside the ecosystem of continuation vehicles

Investors are starting to feel the pain of a generalised slowdown in exits. Although the reasons behind this have been widely discussed, it is nonetheless a major hurdle for investors and managers alike. This lack of exit liquidity has amplified the use of general-partner (GP)-led secondary transactions, especially so-called continuation vehicles (CVs). These transactions allow a sponsor to move high-conviction assets from an existing vehicle into a new one, enabling continued management control while providing necessary liquidity options for existing and exiting investors. This adaptability has been essential given the difficult environment for raising capital and illiquid markets.

However, the rapid growth and structural nature of CVs have attracted heightened regulatory and investor scrutiny, with some investors fighting against some proposals. For its part, the regulators have been vocal about the lack of disclosure of potential conflicts of interest.

The long-term health and scaling of the CV market is thus contingent on managers demonstrating solid governance and transactional transparency. Although it is now widely recognised and accepted that CVs are necessary tools for solving liquidity pressure, they introduce complexity to valuations and fiduciary responsibilities. Investors entering this market in 2026 must demand rigorous due diligence on the GP’s internal governance processes in order to mitigate the risks associated with these potentially conflicted transactions.

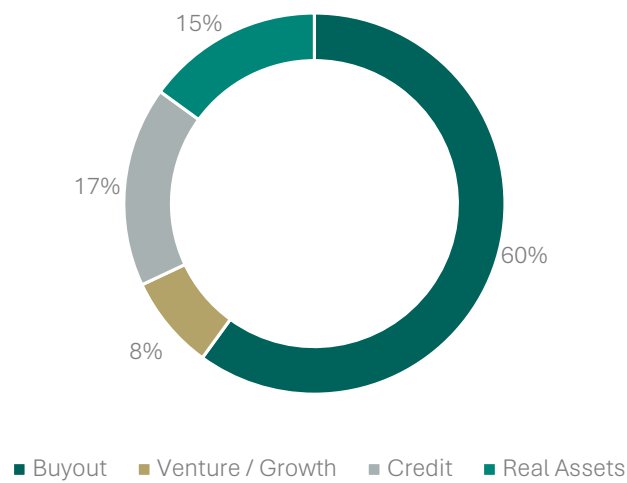
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ANNUAL CAPITAL CALLED UP AND DISTRIBUTED



Source(s): Preqin

GP-LED TRANSACTIONS VOLUME BY SECTOR, H1 2025



Source(s): Jefferies Research

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Private markets and private wealth: the love story continues

The democratisation of private markets seems unstoppable. From private wealth funds to insurance and pension funds, the investment universe is evolving rapidly and has long-lasting consequences.

Private markets and private wealth are entering a new phase of structural convergence and growth. What began as a targeted expansion into the private wealth segment has now accelerated into a broad, global demand that is significantly reshaping industry economics. In 2025, another inflection point emerged: the credible perspective of the inclusion of private markets into defined-contribution plans, which would unlock one of the largest untapped capital pools in the world.

For asset managers, these changes are more transformative across the board: wealth channels are now the fastest-growing source of recurring fees, while the retail ecosystem is now looking beyond private credit and is keen to expand into other areas. At the same time, regulatory momentum in the US suggests that retirement savings vehicles may soon become a scalable, long-duration source of capital for alternatives. According to Goldman Sachs, the 'semi-liquid' NAV stood at USD 426 billion in Q3 2025, following a 40% compound annual growth rate (CAGR) since 2021.

Private wealth vehicles that package illiquid assets and strategies into interval funds or semi-liquid funds are also becoming an integral part of the asset allocation toolkit. But it must be remembered that these vehicles have not yet been tested in a coordinated stress scenario, and caution about their use must remain the base case rather than that of the general excitement.

Together, these developments signal a durable realignment: private markets are becoming an integral part of household balance sheets, not just institutional portfolios. The implications for product design, liquidity management, and capital formation will define the next decade of investments in the industry.

Supportive flows from private wealth

Private wealth remains a solid structural growth driver for alternative asset managers, securing its position as the fastest-growing source of revenue for the industry. According to Goldman Sachs, as at September 2025, the total net asset value of wealth-focused vehicles had reached approximately USD 430 billion, reflecting robust organic growth.

While private credit (mostly direct lending) currently dominates the landscape and accounts for approximately 50% of the private wealth retail NAV based on Goldman Sachs' data, the market is actively diversifying. The noise experienced in private credit in H2 2025 generated some concerns about credit quality, although BDC data (the bellwether of private credit) continues to point towards idiosyncratic issues rather than systemic flaws.

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The key strategic trend in private wealth is the rapid expansion out of private credit into private equity and infrastructure. These asset classes collectively represent a NAV of roughly USD 125 billion, increasing 80% year-on-year. Gross inflows across these diversified products show strong momentum, printing a 60–70% annualised growth rate in Q3. The new product pipeline is shifting away from pure direct-lending vehicles towards broader private markets, and away from funds focusing on secondary transactions to core and transition infrastructure. In the private wealth segment, real estate continues to lag behind in terms of development, as some funds activated gates in 2022 and suffered significant NAV impairment.

NET NEW ASSET RATE (TRAILING TWELVE MONTHS)

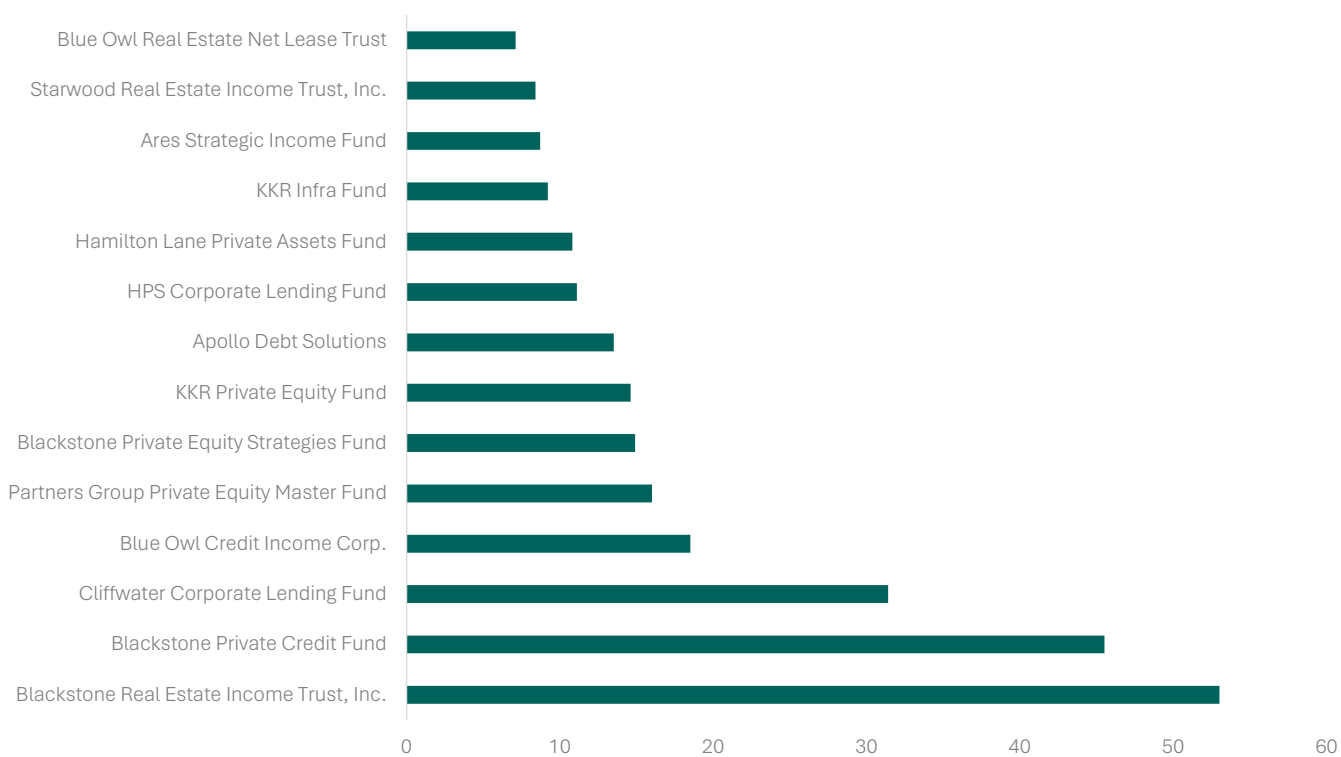


Source(s): Goldman Sachs, UBP

While the proliferation of new investment vehicles has broadened access to private markets, it is also introducing structural friction into how the asset class functions. Open-ended and semi-liquid fund structures impose a requirement for continuous capital deployment, a constraint that sits uneasily with the inherently lumpy, cyclical and opportunity-driven nature of private market deal flows. To manage this mismatch, private wealth vehicles are increasingly relying on secondary transactions as a deployment and liquidity management tool. This has created a self-reinforcing dynamic: structurally higher demand for secondaries has compressed discounts, eroding the liquidity and complexity premia that have historically underpinned the strategy’s appeal. In effect, a tool designed to mitigate structural constraints is now reshaping the economics of the secondary market itself.

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NAV OF TARGETS PRIVATE WEALTH VEHICLES (USD BILLION)



Source(s): Goldman Sachs Research

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Retirement plans about to enter the game

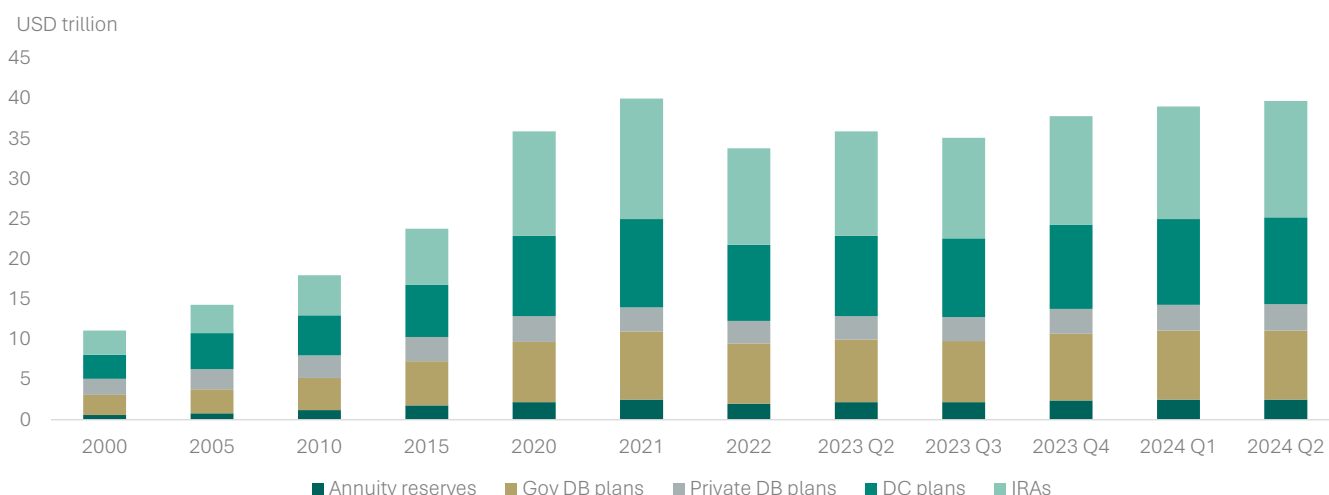
The idea of opening corporate defined-contribution (DC) plans, or 401(k)s, to private markets gained new momentum following an executive order signed by President Donald Trump in early August 2025. This order tasked the Department of Labor (DoL) and the Securities and Exchange Commission (SEC) with detailing how illiquid assets such as private equity, real estate, infrastructure, and digital assets could be incorporated into these retirement portfolios. The DC market is massive, representing over 90 million participants and an estimated value of USD 12 trillion, making it a significant potential market for private asset managers.

The 2025 order seeks to provide both regulatory clarity and legal protection by directing the DoL to re-examine its guidance under the Employee Retirement Income Security Act (ERISA) and shape ‘safe-harbor provisions’. These provisions are vital, as extended litigation, such as the Intel v. Sulyma case, has intensified plan sponsors’ reluctance to add complex, illiquid assets without clear guidance.

However, the path to execution is challenging, with success not yet guaranteed due to remaining fee pressures, liquidity constraints, and governance hurdles. Private asset managers are looking at target-date funds (TDFs), which capture most inflows and represent about 40% of 401(k) assets, as the obvious entry point.

However, TDFs are highly cost-competitive, and adding private assets would inevitably raise fees, posing a commercial risk. Furthermore, managing illiquid assets requires complex technical solutions for daily liquidity, like redemption windows. Although Trump’s executive order set a 180-day deadline for regulatory guidance, mid-2026 or early 2027 appears to be a more realistic timeline for meaningful flows to begin. Initial allocations in adopting plans are expected to be modest, and are conservatively capped at 5–6%.

BREAKDOWN OF US RETIREMENT ASSETS



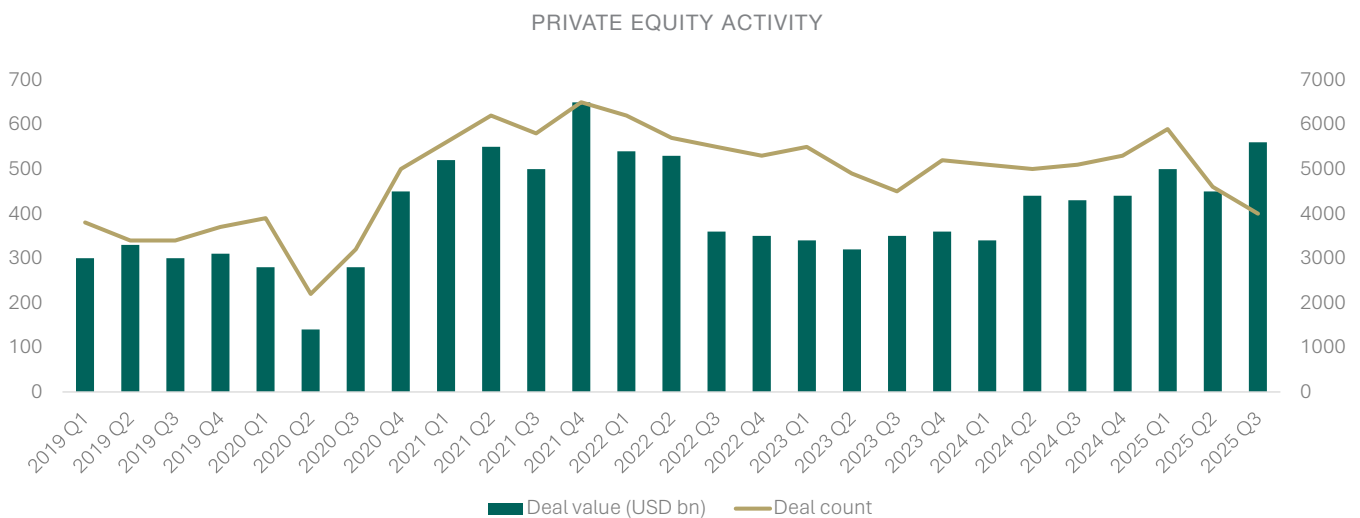
Source(s): J.P. Morgan, Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division., UBP S.A.

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Private Equity

Gradual improvements, selective opportunities

Private equity is entering 2026 having moved past several quarters of adjustment but is not yet into a full cyclical recovery. After two years of valuation resets, slower capital formation and constrained distributions, the asset class is stabilising. Deal activity resumed meaningfully in 2025, with global private equity investment reaching approximately USD 1.15 trillion through Q3 and is on track to approach USD 1.4 trillion for the full year (its highest level since 2021) on the back of easing financing conditions and narrowing valuation gaps.

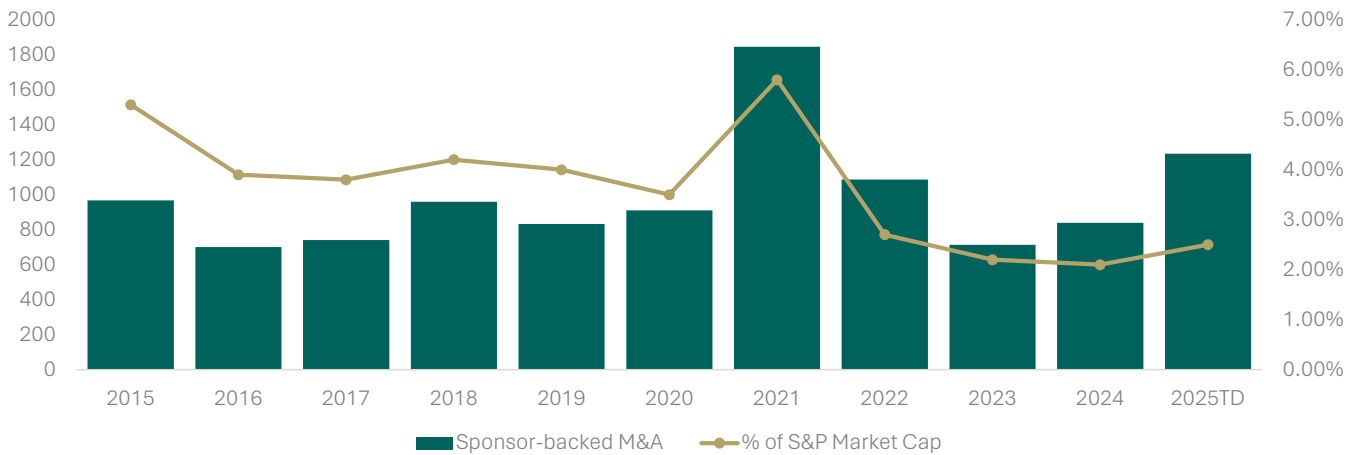


Source(s): Pitchbook, Preqin

Importantly, this re-acceleration is taking place with much greater underwriting discipline. Average buyout multiples in the US are ratcheting back towards pre-pandemic levels, while leverage is being applied more selectively. In turn, value creation is driven by operational execution rather than financial engineering and leverage, which is a welcome development for investors. This shift is reflected in the continued performance edge of mid-market strategies: over the past decade, mid-market buyout funds have outperformed large-cap peers by an estimated 5–7% per annum, benefitting from lower entry valuations, less competition and greater scope for operational improvement.

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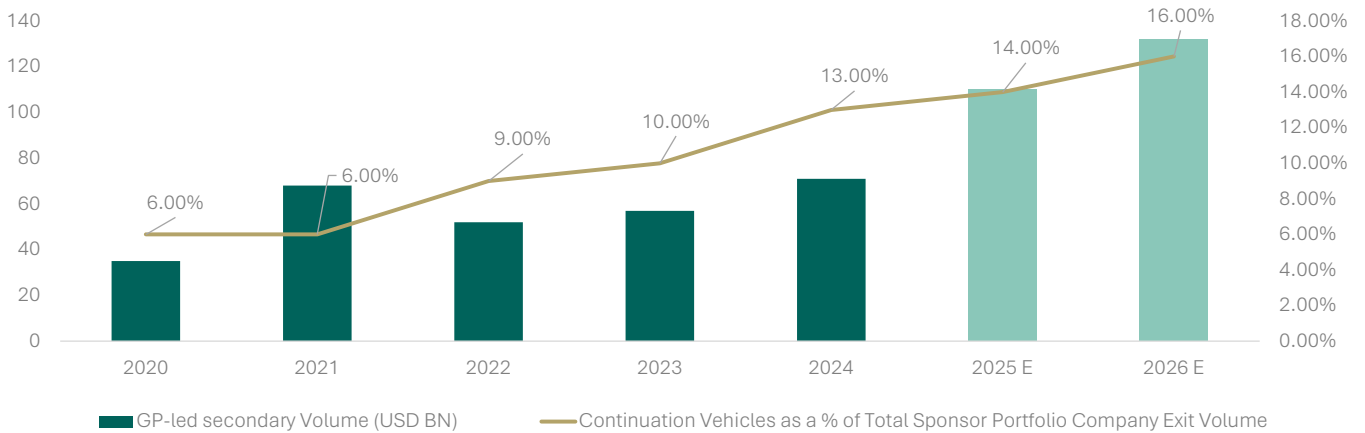
ANNOUNCED SPONSOR-BACKED MERGERS AND ACQUISITIONS (M&A)



Source(s): Goldman Sachs, UBP

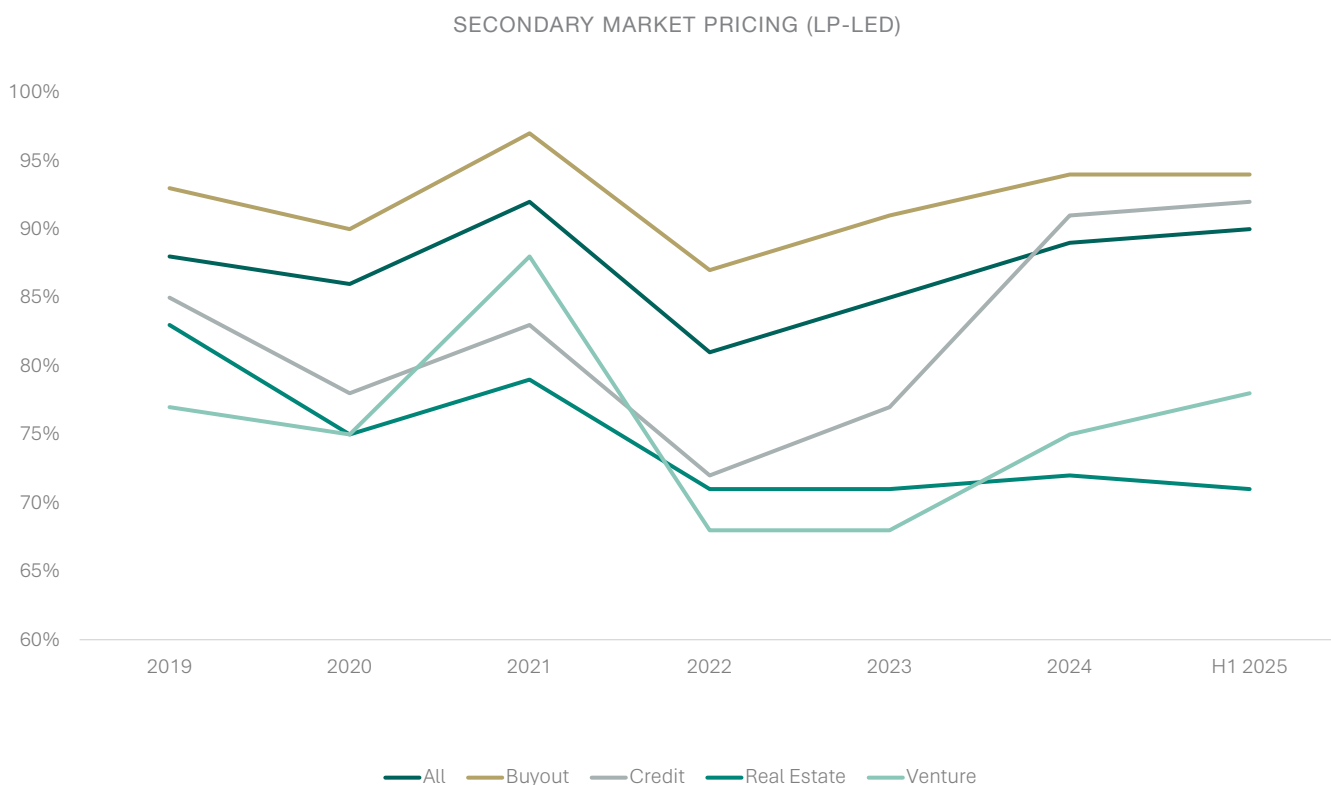
The pain point remains the exit conditions, which are only improving on the margins. Global private equity exit values are on pace to reach close to USD 1 trillion in 2025, up more than 30% year-on-year, supported by sponsor-to-sponsor transactions and selective IPO reopenings. At the same time, the secondary market has become a structural liquidity channel rather than a tactical response to stress, with record transaction volumes exceeding USD 100 billion in the first half of 2025 and pricing stabilising at around 90% of NAV. As previously discussed, although it is now widely acknowledged that secondaries are a totally acceptable exit route, more natural exits would be welcomed.

SECONDARIES AS % OF EXITS



Source(s): Goldman Sachs Investment Bank, UBP

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Source(s): Jeffries

For 2026, private equity should be approached as a selective allocation rather than a cyclical recovery play. In a market defined by dispersion and constrained exit optionality, outcomes will increasingly depend on manager skill, operational execution and access to complex transactions, rather than multiple expansion or leverage.

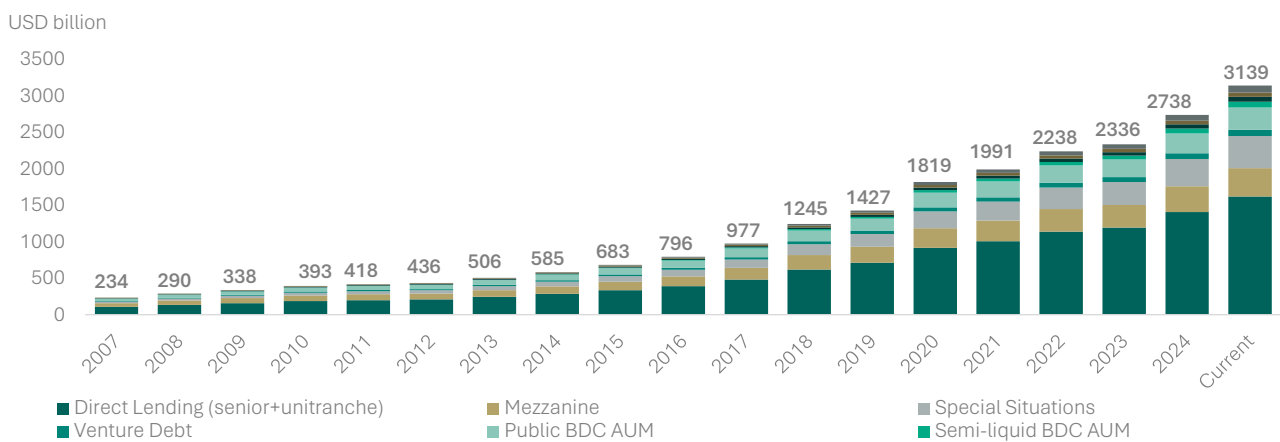
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Private Credit

Cutting through the noise

Private credit was (and probably still is) the darling of private wealth investors for accessing private markets, due mainly to its attractive combination of high-distribution yield and above-average total returns. The asset class has therefore grown tremendously over the past two decades, now surpassing global high yield in terms of AUM. At the same time, private credit has expanded well beyond traditional direct lending into a broader ecosystem that includes mezzanine, asset-based finance, real estate credit, and secondaries.

GROWTH AND COMPOSITION OF PRIVATE CREDIT



Source(s): Pitchbook LCD, Preqin, LSEG Data and Analytics, BDC Collateral, Goldman Sachs Global Investment Research, UBP S.A.

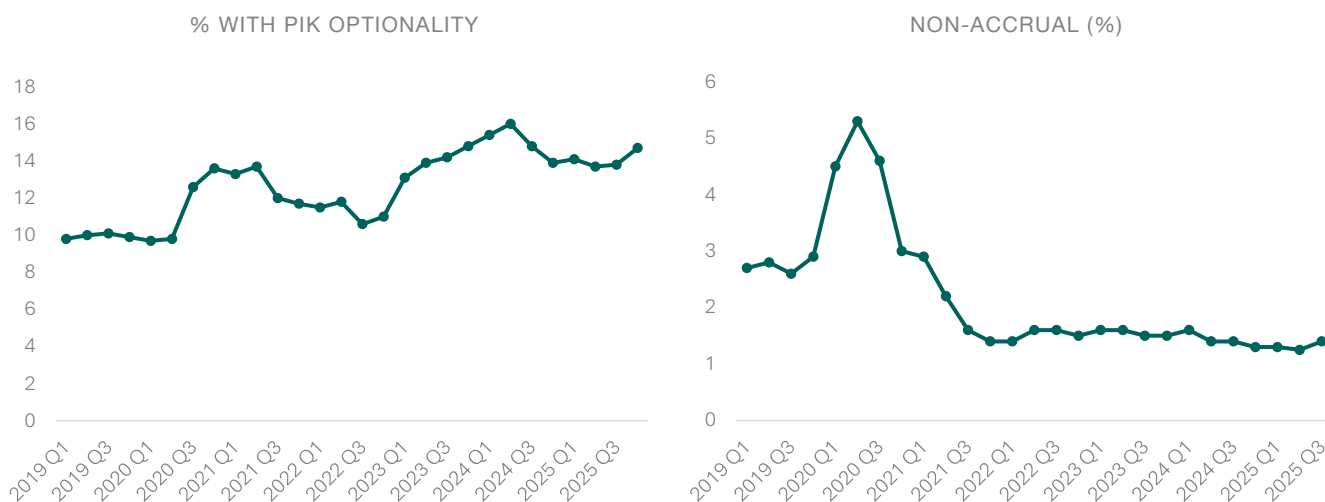
2025 was not, however, as smooth a year for private credit as in previous years, at least on the surface, as several accidents that have been widely discussed tarnished the strategy and prompted intense scrutiny. However, cutting through the noise to form a view based on actual metrics has helped mitigate this stress.

In the case of direct lending, publicly listed business development companies (BDCs) provide a useful bellwether for the underlying health of the private credit market. Although not a like-for-like proxy, they

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offer quarterly look-throughs into the portfolio behaviour of roughly USD 450 billion in direct-lending exposures, which is close to one-third of the market, with some overlap in borrowers between BDCs and institutional private credit funds.

Recent BDC results suggest that 2025 marked a phase of normalisation rather than deterioration. Non-accruals, which are a good metric to measure problematic loans, remain contained at around 1.4% of costs, which is still below long-term averages, although there is significant dispersion between managers. It is worth mentioning one important divergence between public BDCs and private credit funds: most of the structures exhibiting stressed metrics such as higher leverage and higher pay-in-kind (PIK) usage are public BDCs, while private and semi-liquid BDCs continue to display stronger credit metrics, lower non-accrual rates, and more conservative balance sheets. PIK usage is probably a tricky metric to look at: PIK, when embedded at origination, is not the same as when driven by borrower stress. 2025 BDC data (up to Q3, as Q4 has not been published at time of writing) is not pointing towards a form of systemic stress build-up, but rather to late-cycle differentiation.

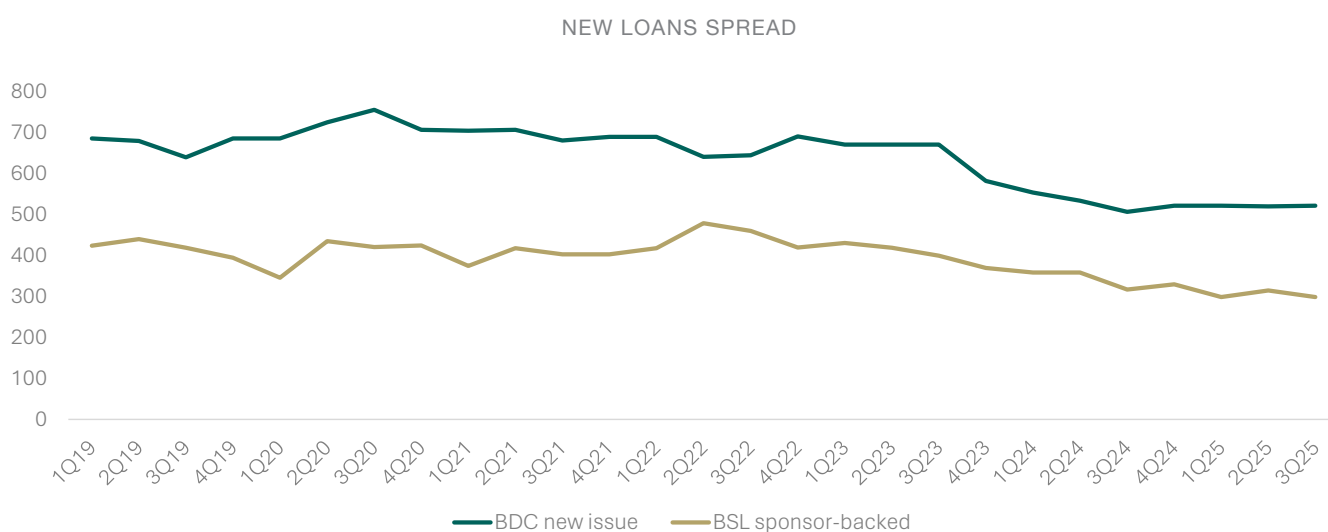


Source(s): LSEG Data and Analytics, BDC Collateral, Goldman Sachs Global Investment Research

Looking ahead to 2026, direct lending is likely to evolve from a period of broad-based strength into a period defined by dispersion, selectivity and underwriting quality. Credit losses should continue to normalise gradually and idiosyncratic events should probably be more frequent without creating cross-contamination. Encouragingly, borrower fundamentals remain broadly constructive, with solid earnings before interest, taxes depreciation and amortisation (EBITDA) margins and interest coverage on newly originated loans, even as leverage on new deals has somehow ticked higher. US spreads appear to be stabilising at around 500 bps, while sponsor deployment pipelines are strengthening.

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In this context, direct lending remains a compelling allocation for private wealth portfolios, but performance will depend more on manager/deal selection than on market beta, and will be moderate compared with the higher-yield years of 2023 and 2024 when base rates were elevated.



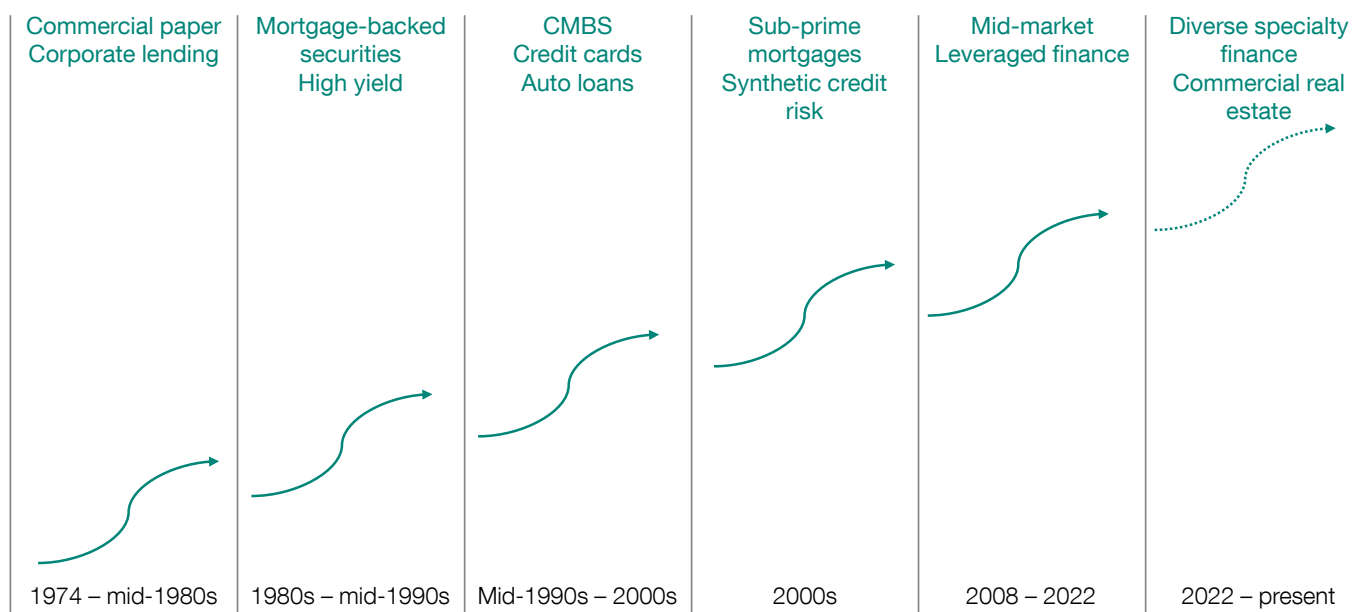
Source(s): Goldman Sachs, UBP S.A.

Although the bulk of private wealth allocation is to direct lending, there is a whole world behind this strategy, and, given the central assumption is late-cycle, some strategies are better suited than others; asset-based finance (ABF), for example, is expected to see robust demand in 2026. Asset-based finance refers to lending where the credit risk is primarily underwritten against assets that generate cash flows, with repayment of loans tied to the performance or monetisation of those assets. Classic ABF collateral includes receivables, inventories, equipment, intellectual property, real estate cash flows (such as mortgages), and contractual revenue streams backed by any type of asset. ABF strategies are usually shorter-duration and could exhibit lower correlation to corporate credit cycles than traditional direct lending. The granularity of ABF strategies enables investors to build portfolios of diversified sources of cash flows that remain too small to appear on the radar of mega-funds.

Speciality finance, whose differences from ABF can be unclear, is another interesting play. It addresses non-traditional lending or financing solutions that are providing a solution to some specific frictions such as regulatory issues and speed. Speciality finance stretches into areas where the collateral can be weaker than ABF, such as consumer finance, warehouse financing, litigation/legal funding, and trade finance. Although optically riskier than the traditional ABF sleeves, speciality finance enables more bespoke elements and greater structuring that usually translates into quality cash flows for investors with structural protections.

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WAVES OF BANK DISINTERMEDIATION



Source(s): Oliver Wyman analysis

Going into 2026, private credit is clearly migrating from a momentum-driven allocation to a strategic one. The era in which broad exposure to direct lending was sufficient to deliver attractive risk-adjusted returns is slowly fading, replaced by an environment in which outcomes are increasingly shaped by underwriting discipline and strategy selection. Late-cycle conditions favour credit strategies that prioritise collateral, cash-flow visibility, self-amortisation, and downside protection over leverage and financial engineering. For investors, this argues for a more granular, diversified approach to private credit to harvest private credit to its full extent.

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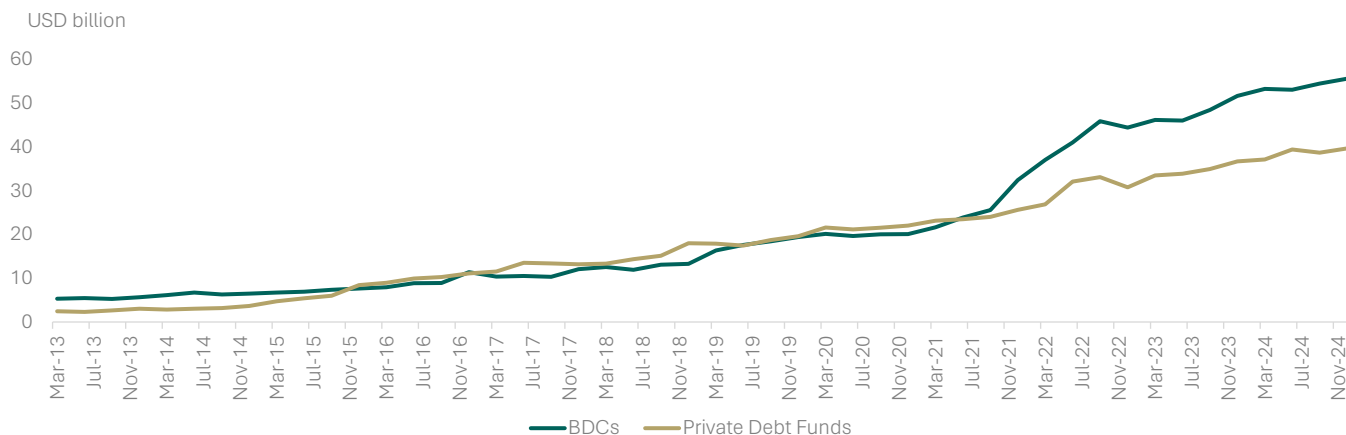
Market lens: Banks and Private Credit

A relationship that now defines the credit cycle

Banks and private credit are no longer parallel sources of financing but operate within a single, increasingly interconnected credit ecosystem. Banks underpin the growth of private credit by providing subscription lines, back-leverage against loan portfolios, warehousing facilities and risk transfer solutions. In parallel, private credit has become a strategic outlet for banks to optimise balance sheets, notably through significant risk transfer transactions that redistribute credit exposure while preserving origination capacity.

This circularity has supported credit flows and market efficiency, but it also concentrates leverage and liquidity risk within the system. In a late-cycle environment, rising use of NAV financing, PIK features, and floating-rate structures can obscure underlying credit deterioration and amplify stress during periods of market volatility. For investors, this reinforces the importance of assessing private credit not solely on asset quality or yield, but on structural leverage, funding sources and liquidity terms. Understanding these interdependencies is essential to navigating dispersion and protecting capital as the cycle matures.

BANK LENDING TO PRIVATE CREDIT VEHICLES



Source(s): FR Y-14 Q Schedule H.1.

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Real Estate

Real Estate: Granularity and selectivity prevail

After an extended period of valuation reset, real estate is poised to start 2026 on a positive note. Lower interest rates, potentially easing financial conditions, and some very interesting microeconomic dynamics are creating a constructive framework for real estate investors. That said, this upbeat tone comes with a note of caution: this is not a beta-driven recovery; selectivity and granularity, assessment of local supply/demand imbalances, as well as identification of emerging trends reshaping cities, are and will continue to be the main performance drivers.

Starting with emerging trends, build-to-rent (BTR) is gaining traction among institutional investors. BTR is a typology of transaction/operation where purpose-built residential assets are developed specifically for long-term rental and are typically held and operated by a professional platform rather than sold piece by piece to private owners. BTR platforms often seek exits by selling the operations to an institutional investor who is looking to buy a portfolio of operated assets with predictable cash flows and lower vacancy risks.

The BTR segment is expanding rapidly on the back of social trends. Urbanisation and densification, especially in southern Europe, are facing a housing supply that is structurally too low, while affordability constraints are pushing potential owners into renting. For the younger crowd (e.g. students, young professionals and nomads), renting offers financial flexibility, mobility and access to newly built housing without the capital commitment of ownership. Last, renters often have access to a digitised experience and an all-in payment that includes all amenities and services. From an investor point of view, BTR benefits from tenant diversification, predictable income profiles and rental growth that is supported by constrained new construction and demographic momentum. This model enables efficiencies of scale in asset management and capex. BTR is often structured as a private equity operation supported by a real estate asset. BTR is now emerging as a core real estate allocation thanks to defensive characteristics.

The case of Spain is particularly interesting in the BTR space. Spain is now the most advanced BTR market in southern Europe, with volumes having reached critical mass. According to CBRE, the broader living sector (BTR, the private rented sector (PRS) and flexible living) recorded around EUR 3.7 billion of transactions as of Q3 2025, which represents approximately 29% of total real estate investment in Spain, with around EUR 1.17 billion attributable to BTR alone. In a classic combination of an increase in residential rents, low vacancies, institutional capital available and struggling supply, Spain is structurally an excellent candidate for BTR operations.

Another strong thematic that can be seen across multiple markets is logistics. The tailwinds supporting this typology are structural: uninterrupted growth of e-commerce, re-/near-shoring, as well as the

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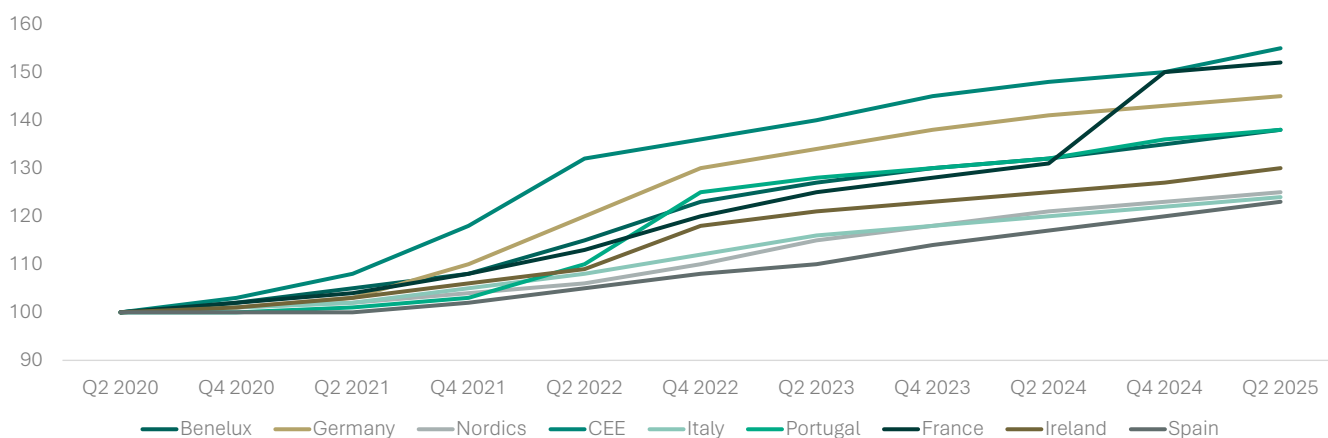
reconfiguration of several supply chains. Additionally, the Belt and Road Initiative continues to put pressure on existing logistics infrastructures with more volume. While yields have compressed in historical terms, logistics remain attractive where location quality, tenant covenant strength, and asset modernity are preserved. Opportunities do exist in both brownfield and greenfield areas, with some locations, such as in Piraeus in Greece, ripe for transformation and upgrades, as it is literally the entrance to the Balkans and south-east Europe, thus providing an excellent transit route through the eastern Mediterranean.

At European level, logistics vacancy rates are expected to fall below 5% in 2026, reflecting limited speculative development, elevated construction costs, and increasingly restrictive planning frameworks. These constraints are particularly acute in southern Europe, where development pipelines remain narrow and barriers to entry are high. Companies are putting the emphasis on proximity to consumption hubs, port infrastructure and multimodal corridors in order to lower transportation costs. Southern Europe, at the crossroads of Asia, the Middle East and northern Europe, continues to play its role as central hub for pan-European distribution networks.

A critical differentiator in logistics for the next phase of growth will be asset quality and the ability to implement modern/digital warehousing solutions. In Europe, grid connection delays and capacity constraints are already limiting new developments which in turn is enhancing the value of existing assets in well-located corridors. Southern European markets, where modern stock remains scarce, stand to benefit disproportionately from this dynamic.

From an investor perspective, logistics in southern Europe offer an attractive combination of income resilience and medium-term rental upside, supported by low vacancy rates, limited new supply, and improving tenant risk profiles. The relative value compared with core northern European hubs remains compelling, particularly for prime assets with long-term tenants and modern specifications.

PRIME LOGISTICS HEADLINE RENT



Source(s): Cushman & Wakefield

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Last, in two major sectors (offices and residential), the divergence continues to be strong. As discussed with BTR, residential remains a very compelling sector across Europe and other developed markets: demand is outpacing new supply and rental growth remains resilient, vacancy rates are low, and affordability pressures increasingly support rental rather than ownership dynamics. For offices, the sector remains under pressure, with structural oversupply of secondary stock and persistently weak demand for non-prime assets. That said, micro-opportunities exist in best-in-class CBD buildings that meet environmental, social and governance (ESG), energy efficiency, and experience criteria.

2026 is not about owning building exposure to real estate, but rather about owning the right typology of assets in the right market. BTR, logistics and residential deserve attention, while offices will likely continue to struggle, although some idiosyncratic pockets of good opportunities may appear.



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2

Market lens: Non-performing loans

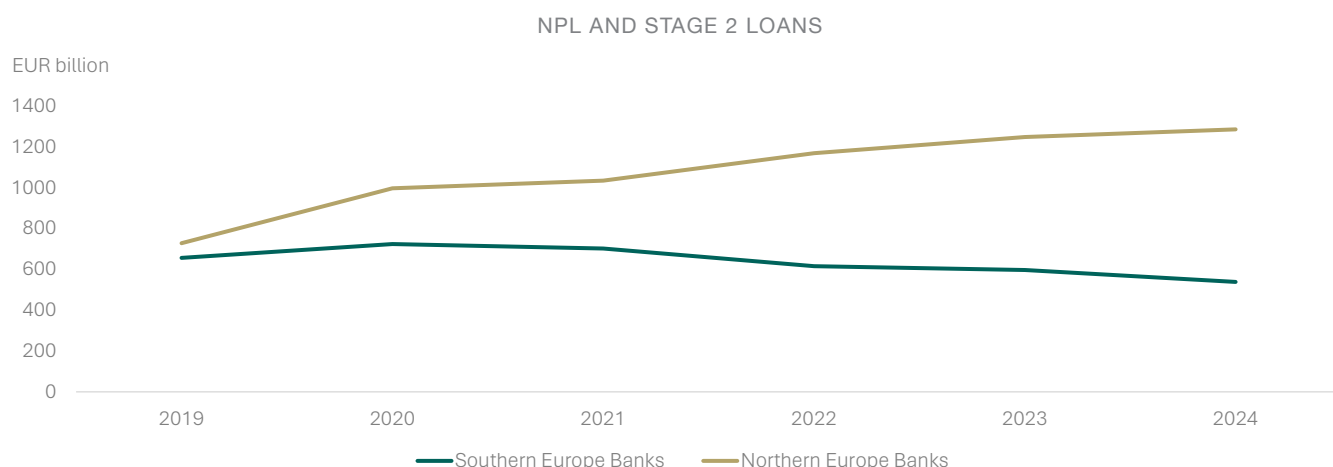
How the tables have turned

Mention non-performing loans to any Europe-based investor and dire memories of the European crisis and the infamous PIIGS acronym immediately rear their heads. However, that phase of crisis resolution is largely over in southern Europe, where banks have successfully offloaded non-performing loans (NPLs) and are now growing and harvesting a healthy loan book. The proportion of real estate NPLs is consequently falling in the south of the continent and the banking crisis is a thing of the past. Can the same be said for all of Europe?

The focus today has changed dramatically, with several opportunities in northern and central Europe. Markets that were historically stable, such as Germany (+0.23%), the Netherlands (+0.12%), and France (+0.07%), are now seeing their stock of NPLs increasing. This is an indication that the credit cycle is entering a late-stage phase that will be evidenced with new rounds of impairments and restrictive lending.

This regime change is visible in the real estate sector. The economy is cooling, putting pressure on the commercial sector, and causing developers to file for bankruptcy. In Germany, NPL volumes for commercial real estate rose sharply in 2024 to their highest levels in 10 years, increasing from EUR 8.4 billion to EUR 10.3 billion.

This new and rising supply in northern markets is creating an attractive entry point for turnaround investors to purchase assets at steep discounts with a view to restructuring loans or repositioning the underlying asset. Although still nascent, it is a trend that is worth watching closely.



Source(s): EBA Risk Dashboard

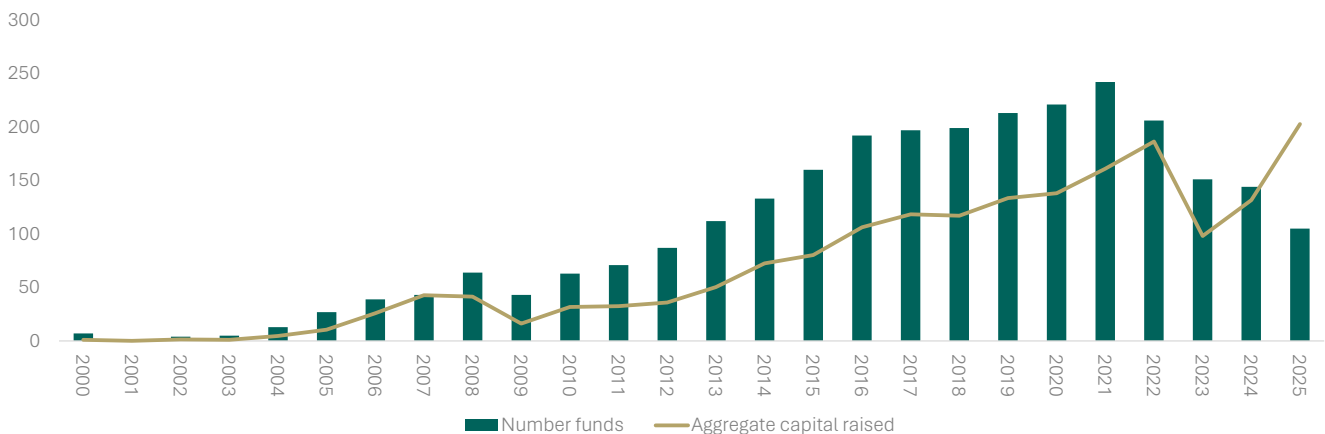
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Infrastructure

Transition infrastructure no longer a satellite theme

Infrastructure enters 2026 as one of the most interesting investment opportunities within private markets, benefiting from a clear alignment of structural growth drivers, asset demand, policy support and defensive portfolio characteristics that remain underappreciated. One thematic emerged some time ago but is now starting to become a consensus choice: transition infrastructure and electrification. Those two thematics are no longer satellite allocations, but form the central pillar of the infrastructure opportunity set.

HISTORICAL INFRASTRUCTURE FUNDRAISING



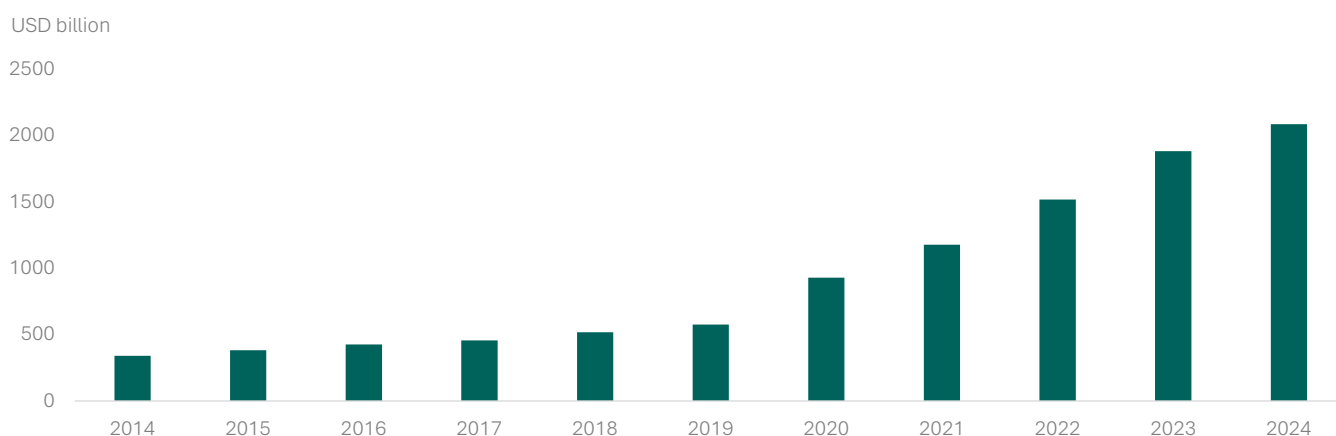
Source(s): Preqin

The global energy system is undergoing a profound and irreversible transformation. Power demand continues to accelerate, driven not only by the obvious AI adoption that is fuelling demand for data centres, but also by the electrification of transport and industry, smart cities, and long-term demographic and urbanisation trends. At the same time, modern cities built on ageing energy grids and binding decarbonation targets (although this is more an EU constraint, there is a form of pressure globally) are forcing a major capex cycle across renewables, transmission and distribution networks, storage solutions and charging infrastructure. Electrification sits as the cornerstone of this transformation, acting as the link between energy transition and digitalisation. Decentralised renewable systems cannot scale without massive upgrades to grids, real-time data-management, and storage capacity, thus turning these assets

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into critical bottlenecks – and highly attractive investment targets. According to McKinsey, it is estimated that the required investments in power infrastructure will reach USD 23 trillion by 2040. This figure is, however, very volatile, as AI is reshaping entire industries and the world lacks the visibility into how deep those transformations will impact energy demand. The costs of renewables, particularly solar and wind, as well as batteries, have significantly decreased over the past decade and it is estimated that clean power will account for half of emission reductions, with 76% of electricity consumed generated by solar and wind sources by 2050, according to Foresight Group.

GLOBAL INVESTMENT IN ENERGY TRANSITION (IN USD BN)



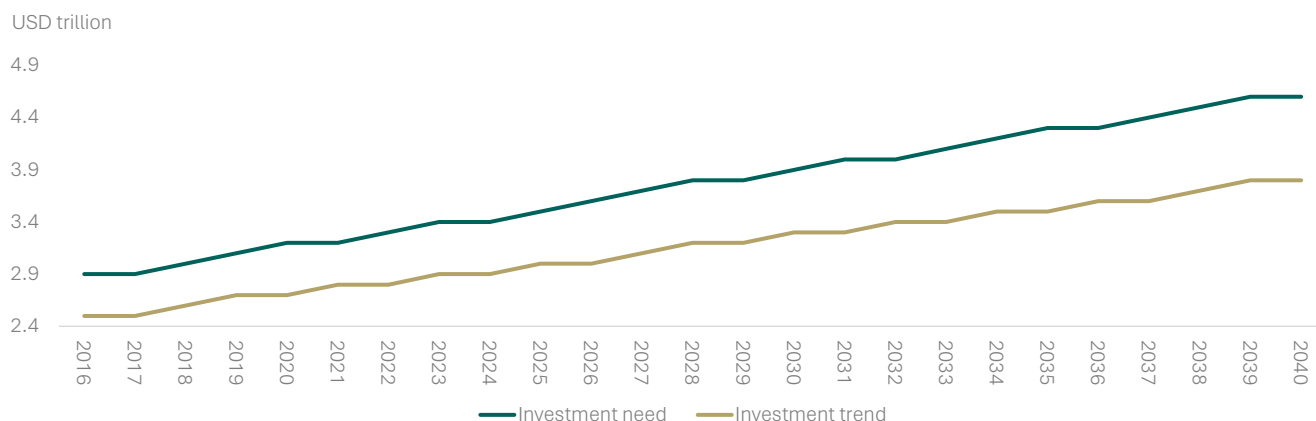
Source(s): International Energy Agency, Bloomberg Finance L.P

The scale of the transition creates a structural funding gap that public balance sheets alone cannot absorb, and there is no way back on this front. Private capital is the key driver of infrastructure spending, although public-private partnerships will continue to matter. The need to modernise power systems, enhance energy independence and support digital sovereignty is far outpacing government spending capacity and priorities, positioning private capital as a necessary partner rather than a marginal financier. This structural need for private capital to fund the infamous ‘infrastructure funding gap’ is one of the strategy’s key structural supports.

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GLOBAL INFRASTRUCTURE NEED VS. INVESTMENT TREND (USD TN)



Source(s): Global Infrastructure Outlook

Beyond the growth narrative, the infrastructure transition increasingly exhibits the characteristics of a modern safe haven: these assets provide essential services with largely inelastic demand, benefit from high barriers to entry and long economic lives, and are typically supported by contracted or regulated revenues with inflation linkage. This hybrid profile between equity via an option on growth and fixed income thanks to cash flow visibility allows infrastructure to deliver safe-haven-like returns that can be summed up with (i) consistent cash flows, (ii) exposure to a unique risk factor, and (iii) a unique source of diversification. Additionally, the infrastructure transition provides resilience across market cycles while preserving long-term upsides. These characteristics could become increasingly valuable in a portfolio context.

From an allocation perspective, infrastructure should therefore not be viewed as a substitute for equities or fixed income, but as an independent engine of portfolio resilience. Its low-correlation profile, ability to pass through inflation, and exposure to non-financial risk premia make it a powerful diversifier. However, as capital pools deepen and competition intensifies, the opportunity set is becoming more granular. Returns will increasingly be driven by disciplined underwriting, regulatory insight and asset-level selectivity, rather than broad beta exposure. For long-term investors, the infrastructure transition and electrification offer a rare convergence of necessity, defensiveness and structural growth, cementing infrastructure's role as both a cornerstone and as a stabiliser of private market portfolios in 2026 and beyond.

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Market lens: Practical electrification

The case of interconnectors

When thinking about electrification, nuclear reactors are probably what comes to mind first, but electricity interconnectors are a least-visible yet highly strategic piece of the electricity infrastructure. In a nutshell, an electricity interconnector is a high-voltage cable, usually sub-sea or subterranean, linking the power grids of neighbouring regions, and allowing them to balance supply and demand, and share renewable energy, making grids resilient by ensuring power flows from where it is abundant to where it is needed. These assets are increasingly central to how power systems absorb rising demand, integrate renewables and deliver decarbonisation at scale.

Projects such as MaresConnect between Ireland and Great Britain, and GREGY connecting Egypt and Greece, are practical illustrations of how interconnectors operate. In the case of Ireland, the country is rapidly expanding offshore wind capacity due to its topology, but remains structurally exposed to intermittency and limited domestic balancing capacity; an interconnector enables excess renewable generation to be exported when supply is abundant and imported when local production falls short. It has the effect of reducing restrictions, improving grid stability and lowering the overall cost of electricity for end users. Additionally, in an era of data centres, being able to balance supply and demand smoothly is a net positive.

The Greece–Egypt interconnector, also known by its project name GREGY, takes the concept one step further. By linking renewable-rich regions in North Africa with southern Europe, the project enables large-scale solar and wind power to serve European demand directly. From a system perspective, this massively extends the effective geography of renewable power, allowing Europe to decarbonise faster by importing green electricity without relying solely on domestic generation of non-fossil-fuel energy. Interconnectors do not generate electricity, but they are an essential element in enhancing energy grids.

From an investment standpoint, interconnectors are typically highly defensive assets: they are capital-intensive with long economic lives, barriers to entry are high, and revenues are often governed through regulated frameworks or long-term agreements. Demand is driven by structural electrification trends and climate targets, at least in Europe. Last, there is also an element of energy security consideration. Interconnectors are an important piece of the infrastructure toolkit, making renewable energy systems more efficient, allowing the export of decarbonisation sources while providing investors with this sought-after stream of stable cash flow tied to an essential public good.

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Greece-Egypt (GREGY)

3,000 megawatts

100% renewable*

760,000 households

MaresConnect

750 megawatts

100% renewable*

570,000 households

*Wind and solar

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What could go wrong?

1 Private wealth vehicles facing liquidity stress

The underlying assumption that underpins the growth of private wealth vehicles is orderly flows, staggered redemptions and functional secondary liquidity. This risk, or this assumption, remains a strong one, as these structures have (i) been created and (ii) expanded during a benign regime that combined positive performance, sustained and steady inflows against a backdrop of very limited synchronised stress. A regime shift triggered by weaker returns, relative value re-positioning or a major shift in narrative could challenge the assumptions simultaneously, forcing liquidity decisions at very sub-optimal pricing points. This would not necessarily imply impairment at underlying asset level, but it could generate significant pressure on liquidity, exposing which vehicles are the weakest in the herd, triggering mismatches between reported NAVs and realised liquidity, increasing volatility in capital availability across private allocations.

2 Private equity's increasing reliance on secondaries for exits

Private equity exits are becoming more reliant on secondary transactions as a structural and new natural liquidity channel rather than just a temporary fallback. Although it could be argued that secondaries moving from a cyclical to a permanent tool is simply an evolution of the market, secondaries in their current form are also servicing private wealth vehicles. As private wealth basis for functioning is constant deployment, which is not compatible with private equity, the use of secondaries is an absolute must. However, the vicious circle starts here: increases in private wealth flows increase into secondaries, compressing the discount and removing the risk premia. Additionally, the dynamic surrounding secondaries embeds an element of circularity, with exit liquidity increasingly sourced from within the same ecosystem. Should discounts compress and distributions not improve, one part of the arguments for secondaries falls apart.

3 Banks-private credit interdependency and hidden correlation risk

Private credit was first an incumbent to banks but more recently, banks and private credit have become tightly interconnected through leverage facilities, warehousing arrangements and risk transfer mechanisms. This interdependence is mostly underappreciated because credit performance remains broadly resilient, and these links sit below the surface of portfolio reporting. However, in the case of a stress scenario, funding pressures, regulatory adjustments or failure of an entity could feed rapidly into private credit through liquidity and financing channels rather than credit losses. The main risk lies in the assumption of diversified strategies whose risks converge, particularly when liquidity and leverage dynamics reprice simultaneously.

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Tactical views

Asset allocation as at January 2026

	High Conviction Negative			High Conviction Positive	
	1	2	3	4	5
PRIVATE MARKETS					
Private Equity					
Private Credit					
Infrastructure					
Real Estate					

High Conviction Negative 1 2 | Baseline Allocation 3 | High Conviction Positive 4 5 | Previous view ● (no dot means no change)

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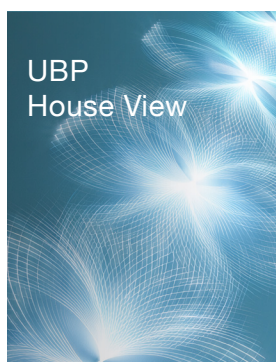
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