JANUARY 2026



GLOBAL OUTLOOK 2026



EXECUTIVE SUMMARY

With contributions from key members of our community, the Private Equity Wire® Global Outlook 2026 report shines a light on sentiment, strategy, and opportunity across the private markets universe.

Only 7% of the thematic content in this report relates to volatility and uncertainty – an outcome that would have been unthinkable in the macroeconomic whirlwind that was 2025. At the same time, the prevailing sentiment doesn't quite mirror the bubbling optimism that had built up towards the end of 2024.

Instead, the key word for 2026 is discipline. Whether it relates to the focus on operational value creation in the buyout space; valuation scrutiny in AI and infrastructure; governance in continuation vehicles; liquidity management for wealth and retail investors; or covenants and loan structuring in direct lending – the underlying principle holds true as one of considered selectivity.

Still, provided past lessons are drawn upon, and growth doesn't decouple itself from fundamentals of patience, quality, and value – there is plenty of ground to be gained this year.

Global financial strongholds are as resilient as ever, though capital in search of diversification will create opportunities for a new suite of disciplined, value-oriented managers worldwide. On the radar will be the structural shifts in Europe, the innovation drivers in MENA, the energy opportunity around AI, the maturity arbitrage opportunity in the lower-mid-market, and the prolific world of specialty lending.

Private markets, it would appear, are nearing the completion of a structural shift that allows them to be more resilient yet responsive to market shocks, while retaining their thesis of patient capital.

Read about it all in this report, and do get in touch this year as we continue to unpack what these developments mean for a diversifying ecosystem of investors, managers and service providers.

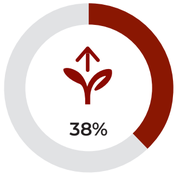
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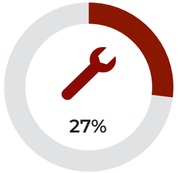
144 positive references in the articles

Compared to **70 cautious**

DOMINANT THEMES AND SENTIMENTS



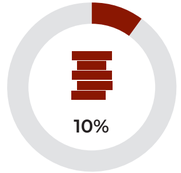
Constructive growth and opportunity



Value creation and fundamentals



Risk, selectivity and discipline



Liquidity and structural adaptation



Volatility and uncertainty

DOMINANT THEMES BY INVESTMENT STRATEGY

Private equity → Constructive and selective

Secondaries → Pragmatic and solution-oriented

Infrastructure → Conviction-led and resilient

Private credit → Cautiously stable

2026 is defined by disciplined optimism – growth is back, but only for those who can execute

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FROM 30,000 FEET

IN THIS SECTION

- Macroeconomic volatility eases, but growth remains constrained
- Structural forces – not cycles – are driving investment into 2026
- Return dispersion widens as fundamentals reassert primacy
- Operational discipline replaces financial engineering as the primary driver of returns

STRUCTURAL AND CYCLICAL DRIVERS



NILS RODE

CIO

SCHRODERS CAPITAL

Resilience has become the key word for investors in an era shaped by persistent uncertainty – emerging as the top priority for investors heading into 2026 in Schroders's Global Investor Insights Survey for 2025. Amid ongoing volatility, private markets investors must look beyond short-term momentum and focus on the durability of returns and bottom-up value creation.

While public market valuations are near record highs, private markets have recently experienced a reset in fundraising, deal activity, and valuations. This offers more attractive entry points and yield potential, while structural trends continue to drive long-term growth. But not all private market strategies are equally positioned. The current environment favours those where inefficiencies, disruption, unique risks, and tangible asset backing converge.

With fundraising, deal activity, and exits still subdued, and longer holding periods becoming the norm, balance and discipline are being restored – resulting in less competition, more selective deployment, and a wider dispersion in pricing. Three themes – local champions, transformative growth, and multi-polar innovation – remain complementary sources of resilience.

Small- and mid-market buyouts offer attractive entry valuations that are on average 40–50% below large buyouts and listed small-cap public peers. They rely less on leverage and more on operational agility and value creation, often focusing on service-oriented, domestically or regionally focused companies. This limits exposure to global capital market swings and provides steadier exit routes through trade sales and sponsor transactions.

Early-stage venture provides opportunities to tap into innovation. Beyond AI – where rising valuations warrant later stage caution – biotechnology, climate technology, fintech, and deep tech offer more compelling entry valuations. Continuation investments unlock access to new phases of growth, aligning value creation with liquidity by combining shorter holding periods, efficient fees, and more predictable returns.

In private debt and credit alternatives, corporate and consumer balance sheets remain solid, though some stress persists at the lower-income or higher-leverage end. As policymakers' focus shifts from inflation to employment, a more accommodative stance from central banks, among other factors, points to a relatively contained default outlook across the credit spectrum. Meanwhile, as assets transition to yield-oriented investors, such as insurers, income allocations are increasing.

With this demand, risk premiums are compressing, especially in syndicated markets, making inefficient markets increasingly attractive.

In real estate debt, development, construction, and heavy refurbishment bridge loans offer some of the highest potential returns in real assets. Infrastructure debt remains a reliable source of stable, defensive income, while asset-based finance supports diversification and attractive spreads. Insurance-linked securities (ILS) offer further diversification by relying on outcomes of insured events instead of economic growth.

In infrastructure equity, the energy transition is compelling, offering inflation linkage, stable income and premium growth, and portfolio diversification through differentiated risk premia such as energy prices. Emerging technologies – including hydrogen, heat pumps and EV charging – are critical to achieving deep decarbonisation in sectors including transport, heating and heavy industry.

Simultaneously, the rapid expansion of data centres and digital infrastructure is increasing demand for clean, reliable power. We currently see the strongest opportunities in Europe and Asia, where governments are strengthening policy and accelerating commitments. We're focused on high-quality operating and construction-phase assets with strong cashflow visibility, and scope for enhanced returns through active management.

In real estate, evidence suggests a market inflection point, with attractive valuations appearing across multiple sectors. Living and operational segments have strong fundamentals, offering inflation pass-through and lower economic sensitivity. The current environment is also catalysing recapitalisation and secondaries opportunities across platforms.

Spurred on by cyclical and structural forces, private markets are now vital components in resilient investment portfolios.

THE BEST AND THE REST



STEFFEN PAULS

FOUNDER AND CEO

MOONFARE

Private equity is often spoken about in cycles, but 2026 could mark something more fundamental. Performance is diverging, and manager selection is becoming more critical than at any point since the global financial crisis. Activity rebounded through the second half of 2025 as deal pipelines reopened, public markets improved and exit values rose above the totals of the previous three years.

It may be a healthier backdrop than the industry has seen for some time, but it's not a return to the old cycle. Elevated interest rates and lower exit multiples continue to limit returns from financial engineering and multiple expansion, meaning managers are doubling down on factors they can control – by improving portfolio company operations. In many ways it's back-to-basics, not unlike my time at KKR, when value creation started on the shop floor and in the P&L, not in the spreadsheet.

Revenue growth accounted for the majority of value creation in 2024 exits, a material change from five years ago. In practice, this means deeper sector expertise, more deliberate playbooks, and greater use of data and analytics to drive commercial, operating, and pricing improvements.
Many firms are still early in building the teams required to execute this consistently, and those with the strongest operating capabilities are already pulling away from the rest. This is something we see first hand in our fund selection process at Moonfare and among the top-quartile managers we work with.

That widening capability gap feeds directly into the second defining theme of the year: the importance of manager selection. High return dispersions are not new, but the gap between the best and rest is expected to widen as outperformance concentrates among firms able to build value in a more volatile environment, versus legacy models.

With distributions in sharp focus, adding value is only part of the story – managers must also realise it. The result is an increasingly bifurcated fundraising market. Established managers with clear differentiation continue to raise large pools of capital, while others face longer timelines and less certainty. This pattern is particularly visible in Europe, where mid-market funds attracted a greater share of commitments in 2025 and look set to remain at the forefront this year.

Elsewhere, as the backlog of unrealised value persists, secondaries remain a central release valve. Record secondaries transaction volume in 2025 reflects both cyclical and structural forces: LPs rebalancing portfolios, GPs offering liquidity while retaining ownership of strong assets, and growing activity across private credit, real estate and infrastructure. With holding periods lengthening and more than $3tn in unrealised value sitting in global buyout portfolios, the secondary market's importance to capital flows will only increase. Finally, AI and supporting infrastructure are emerging as major crosscurrents in private markets. At the portfolio level, managers are accelerating the use of AI to to improve efficiency, deepen commercial insight, and strengthen decision-making. Firms are investing in data science and analytics at a pace that would have been unthinkable even two years ago. At the same time, the demand for data centre capacity and the power to run it is creating opportunities across technology, energy, and essential services. This is likely to dictate a meaningful share of investment activity ahead.

If 2025 marked the reopening of the market, 2026 may prove to be a reset around clarity of purpose. Operational strength, thoughtful manager selection, disciplined pacing, and a focus on long-term structural themes will matter more than ever.

BUYOUT VOLUME EXPECTATIONS



GEORGE LYONS

PARTNER

ASANTE CAPITAL

Consensus across private markets is increasingly clear: 2026 is shaping up to be a materially stronger year for buyout activity, with both deal and exit volumes expected to rise meaningfully. Markets enter the year with a degree of macro predictability not seen since before the pandemic. Interest rates and inflation have settled into stable ranges and managers will carry positive momentum from the back half of 2025 into the year ahead despite moderate macro growth.

THE EXIT ENVIRONMENT

A defining catalyst has been the re-awakening of the US public equity markets as a viable exit route – 2025 concluded with the strongest quarter for IPO issuance since 2021, driven by a wave of high-profile technology and AI listings. At the same time, GPs face intensifying pressure to deliver DPI. Europe's largest managers are collectively targeting over three times more capital compared to last year.

For many, returning further capital quickly will be directly linked to achieving ambitious fundraising goals.

This urgency coincides with record levels of dry powder, as well as a gradual narrowing of the bid-ask spread between buyers and sellers. Longer hold periods have allowed time for natural deleveraging, while GPs are increasingly required to bring weaker assets to market to reset portfolios as older fund vehicles reach term.

RISKS TO RECOVERY

Despite positive sentiment, several risks remain. A significant share of US equity market performance performance in 2024 and 2025 stemmed from AI infrastructure spending. Stripping this out, underlying US economic growth has been roughly flat. Should sentiment around AI-linked equities reverse, the resulting pullback could trigger a renewed denominator effect, narrowing the IPO window and tightening LP allocations to private markets.

GP behaviour itself poses risk. Clearing out weaker vintages improves long-term portfolio health, but doing so in 2026 may create short-term performance volatility that complicates fundraising.

WINNERS BY SEGMENT AND GEOGRAPHY

Against this backdrop, 2026 offers an opportunity for managers to return to fundamentals: growing earnings, innovating within business models, and executing operationally. Capital is flowing to small and lower-mid-market managers where the thesis is that smaller companies have greater scope for "back to basics" value creation. With IPO markets reopening, the market will be looking to the engine of the industry at the large cap to unclog unrealised portfolios and deliver meaningful DPI.

Meanwhile assets structurally insulated from, or directly benefiting from, AI adoption should continue to enjoy strong tailwinds, even as more traditional business models confront disruption. Geographically LPs, increasingly mindful of US concentration risk, are rebalancing to Europe and Asia. Both markets are less mature than the US, promising relative value in terms of entry pricing and opportunities for value creation.

A DEFINING YEAR

Confidence across the industry has returned. Managers appear to have navigated the headwinds of the past several years – including rates volatility, inflation shocks, valuation uncertainty – and are entering 2026 with healthier portfolios, clearer visibility, and the conviction to deploy capital.

If current conditions persist, 2026 could be the strongest vintage for exits and deployment since before the pandemic.

CONTRARIAN AND CONVICTION-LED



JEAN-PHILIPPE RICHAUD

DEPUTY CEO & CIO

SWEN CAPITAL PARTNERS

This year marks the midpoint of a decade meant to deliver a transition toward a more sustainable economy, but it has been met with instability. On the one hand this has been geopolitical, with military conflict and protectionist trade, and on the other societal, with national populist movements in Europe and beyond.

For France, which aspired to become Europe's champion in innovation and pro-climate commitment, political uncertainty has continued to constrain its ability to act. It has also dampened the ability and willingness of entrepreneurs and financial investors to commit capital.

At the same time, the explosion of artificial intelligence has brought opportunities and challenges. Broader uncertainty has combined with fears about the impacts of AI to stop people feeling confident about the future.

A setback in climate commitments, a European industrial base struggling to stand firmly amid American and Chinese pressures, and an interlude marked by political instability and an unclear direction. All these factors make running a business more complex, and the need for disciplined, impact-oriented capital more apparent.

In this volatile period, private markets retain essential qualities to help drive progress: the ability to adapt in uncertain times, long-term positioning that smooths economic cycles, and strong ties to real-world activity.

Institutional investors have generally reached their target exposure levels. Fundraising is now driven by asset rotation and the opening of private markets to retail investors. Climate change adaptation challenges, though less pressing than before, remain relevant: private capital is the key lever for the transformations that must be undertaken and a central pillar of long-term value creation.

In a context of high volatility, Infrastructure continues to rely on its resilient characteristics, with secondary-market discounts generally lower in other private-market segments. Its cash-flow profile and long-term fundamentals make it a haven. Sector dynamics are strong in digital, especially AI-related data centres, and energy and transport, particularly projects focusing on decarbonisation and those driven by major public sector programs.

These are precisely the sectors where targeted impact strategies can align long-term financial performance with climate objectives. Growth prospects through 2030 are robust, with nearly $3tn in projected assets under management and a compound annual growth rate of 14.5%, according to data from Preqin.

The transition is also not limited to carbon: nature and biodiversity are emerging as core pillars of impact-led investing. 95% of our food comes from soil. In Europe, 70% of soils are in poor condition, causing an annual loss of €1.3bn in agricultural productivity. While 75% of crops depend on insect pollinators, 80% of insects and 421 million birds have disappeared in Europe since 1980, according to the CNRS.

Ultimately, in a year when sustainability has fallen out of fashion in the headlines, the fundamentals behind it have only grown more material. Short-term sentiment has led markets to overlook, and at times misprice, transition and nature-based assets, but this creates precisely the kind of opening where disciplined impact investors can separate substance from signalling.

By staying anchored in long-term value drivers, decarbonisation, adaptation, and the protection of natural capital, private markets are uniquely placed to capture the contrarian, conviction-led capital opportunities set.

THE SPECIALISATION EDGE



YESIM KANBUROGLU ILBAK

PARTNER

AFENDIS CAPITAL MANAGEMENT

If 2024 was the final chapter of a turbulent period for businesses, 2025 was perhaps the epilogue. The trend of sharp inflation was behind us, but certain costs like energy and logistics remained structurally higher than pre-2021 levels. In fact, the European Commission reported that hourly labour costs in the EU rose by 4% in Q2 of 2025, versus the same quarter in the previous year.

This encouraged a deal market where cost efficiency and margin recovery was – and remains – the biggest deal driver, with operational value creation mattering more than multiple expansion. While the sharp shocks may be behind us, the legacy of that turbulence will continue to shape deal dynamics and priorities for some time.

A RETURN TO 'NORMAL'

In the food and pharmaceutical sectors where Afendis specialises, 2025 was the first 'normalisation year' after a multi-year inflation and supply chain cycle. Input cost volatility didn't disappear, but subsided enough for management teams to plan again and for investors to model forecast horizons with some confidence. This was a noticeable change to previous years.

For Afendis, our investment activity continued, with the acquisition of Fresca ($100m revenue), a US organic snacks business, and YSCO (€600m revenue), one of the largest ice cream manufacturers in Europe.

APPETITE FOR CARVE-OUTS

This backdrop has also led to more carve-out opportunities for businesses. In particular, large corporations have looked to streamline portfolios, exiting mature brands and underutilised sites. Alongside this, debt markets tentatively reopened, providing financing opportunities for resilient cash-generative assets.

Despite these green shoots, there was still caution at play, as sellers began to recalibrate expectations, narrowing the valuation gap that had previously paralysed processes. It wasn't a boom year by any means, but it was a year in which the dealmaking wheels began to turn again.

AN UPTICK IN DEAL FLOW

Against this backdrop, we believe the outlook for 2026 will be decidedly more constructive. We expect deal flow to increase modestly as confidence improves — not a surge perhaps but a definite improvement on the previous year. For Afendis, we will be looking at how we can build scale within our existing portfolio, through targeted bolt-ons or by doubling down on operational value creation.

In the Europe deal market specifically, we expect both consolidation and carve outs. This is particularly the case because of rising labour costs which will either push companies to seek scale for automation investments, or cause a re-focusing on core categories and stricter capital discipline. On the other side, we expect investors will become more demanding, expecting clear actionable value creation levers, not theoretical synergy stories.

SPECIALISM WILL MAKE THE DIFFERENCE

That is where specialist investors will distinguish themselves in 2026. External volatility means internal complexity, and so a supportive investor with experts who genuinely understand the sector can help management teams navigate the headwinds that remain.

Unlike generalists, they recognise which business areas can scale and where financial discipline can be improved without impacting the fundamentals of the commercial model. This expertise allows them to move faster, price risk more accurately, and support management through the inevitable ups and downs of input cycles.

In a market where confidence is slowly returning but caution still rules, speed, conviction, and operational depth will define outperformance.

And in 2026, that gives specialist investors a decisive edge.



REGIONAL SPOTLIGHTS

IN THIS SECTION

- US growth holds as productivity, policy and AI investment align
- Digital sovereignty becomes a defining European growth theme
- European reset creates renewed mid-market opportunity
- MENA solidifies as a scalable, innovation-led growth engine

THE EUROPEAN MID-MARKET



ALAN GAULD

SENIOR INVESTMENT DIRECTOR

PATRIA PRIVATE EQUITY TRUST

The question on everyone's mind for next year is when strong momentum in private equity deal-flow will return.

Just 12 months ago, we were cautiously optimistic that the exit market would begin to recover. But geopolitical uncertainty — notably US tariff rhetoric — dampened M&A activity materially in the first half of the year.

Only in the second half did we start to see exits pick up again. If this is the beginning of a sustained period of stability for markets, 2026 could be a turning point.

LIQUIDITY INNOVATION

When investor confidence returns, we expect M&A to accelerate, with around $1.2tn in dry powder looking for suitable deployment. The rise in interest rates during 2022/23 and subdued deal-flow thereafter has helped to align buyer and seller expectations. Investors have also found other, more innovative ways to obtain liquidity.

One example of this is the secondary market, an increasingly dynamic area which we expect to reach record levels, both this year and next. Innovation has also been impressive with continuation vehicles, including single-asset secondaries, now establishing a strategic place within the portfolio management toolkit.

TECHNOLOGY AND AI'S IMPACT

Every new opportunity across our desk is now subject to intensive scrutiny around how AI can enhance margins, reduce costs, and improve products and services, as well as whether it poses an existential threat to the business model. This is especially relevant in software and service sectors, both staple hunting grounds for private equity investors since the global financial crisis.

We've backed fantastic conversational AI businesses like Boost.ai and Omilia in the past. But the landscape is shifting quickly: the rise of Gen AI and LLM-based applications introduces real risk coupled with real opportunity. The technology sector will adapt, but sector specialism is now critical to identifying the winners from the AI revolution.

LOOK TWICE AT UNLOVED SECTORS

Europe's wave of investment into defence presents a tailwind for industry. We recently invested in RENK Group, a specialist in drivetrain technology, which was listed on the Frankfurt exchange last year and has so far thrived as a public company.

We also keep a close eye on unloved sectors, since they often have more attractive valuations when out of favour. Healthcare is a good example, as it was temporarily buoyed by the post-COVID era of high spending. Many companies were bought at peak valuations and earnings, but have been brought down to earth in the last couple of years. The green transition is another theme well represented across the European mid-market. Sustainability remains important in the long term, despite recent challenges around investor mood and policy wobbles. These headwinds could provide attractive entry points for PE investors as valuations reset.

PROMISING VINTAGES FOR FUTURE RETURNS

Private equity portfolios have continued to deliver strong performances despite muted M&A. While some indigestion from 2021's high-price environment has been apparent, we believe the 2023–2025 vintages offer compelling return potential. With less competition among buyers and more disciplined pricing, these investments are likely to be strong value drivers in the years ahead.

Many investors come in at the height of the market, when asset pricing is at its peak, but turn on the brakes when times are tough. The irony is that this is when many of the best opportunities arise. The asset class has weathered rising rates and geopolitical shocks, but the underlying growth in portfolios and the quality of private businesses in the European mid-market continues to give us confidence. As more companies choose to stay private longer, private equity remains a powerful engine for growth.

EUROPE'S DIGITAL SOVEREIGNTY MOMENT



ANTONY EDWARDS

MANAGING DIRECTOR

PSG EQUITY

In 2025, Europe confronted a long-ignored truth: its digital landscape is overwhelmingly controlled by non-European companies. Most, 85% of the continent's data-centre capacity is operated by non-EU providers; most payment processing runs on non-European rails; digital signatures often fall short of eIDAS standards; and many hospitals depend on non-EU software to function.

In a geopolitical environment characterised by volatility and strategic uncertainty, this dependence is no longer sustainable. Digital infrastructure is now national infrastructure.

DIGITAL SOVEREIGNTY GOES MAINSTREAM

The concept of European digital sovereignty – the need for the continent to control its core digital infrastructure – was barely referenced before 2022. By 2025, it has become a priority for almost every European national government. This shift to achieve digital sovereignty has the potential to create huge growth opportunities for European software companies in 2026 and beyond – but capturing this will require a scaling ambition that goes far beyond domestic markets. National champions will need to become pan-European champions.

A HIGH-GROWTH SAAS MARKET

Europe is already one of the world's most attractive SaaS markets globally. In 2025, total European SaaS revenues reached an estimated $224bn, but there remains substantial room for growth.

Only 30% of European enterprises have more than half their workloads in the cloud, leaving a vast migration runway.

AI is catalysing this shift. 92% of European enterprises expect to invest in cloud-based AI within three years. This is supported by public initiatives such as InvestAI, the European Commission programme mobilising €200bn to accelerate AI adoption.

REBALANCING MARKET POWER

Until very recently, non-European vendors held the dominant position across most enterprise software categories. But digital sovereignty is rapidly reshaping this dynamic. In 2024, 72% of European businesses prioritised data sovereignty when choosing software vendors, and this figure is expected to rise further through 2026.

Today, 40% of EU enterprises use local cloud providers and 81% say they plan to in the future. European SaaS sales teams consistently report that sovereignty is now a decisive factor in enterprise procurement. This shift gives European vendors something they have long lacked – a strong structural right-to-win in their home market.

PAN-EUROPEAN CHAMPIONS

Historically, the European landscape has been highly fragmented, dominated by national leaders. Lack of talent or innovation has never been the issue, but scale has. Achieving true digital sovereignty will require pan-European leaders to emerge in key segments such as digital signatures, payments, core HR and electronic medical records.

But expanding across Europe is not straightforward. Each market has its own regulatory, cultural and commercial nuances. This has historically pushed SaaS vendors – and software investors – to remain country-focused. But recent success stories demonstrate that pan-European scale is achievable.

A DEFINING YEAR AGEAD

Digital sovereignty is reshaping Europe's software landscape and creating one of the most significant growth opportunities the sector has seen. European vendors finally have the market momentum and strategic imperative on their side.

To seize this opportunity, both SaaS companies and investors must focus on transforming strong national players into pan-European champions. The opportunity is large, urgent and increasingly unavoidable. 2026 will be the year Europe moves from recognising the need for digital sovereignty, to building it.

AMERICA'S PROMISE AND RESILIENCE



GUNNAR OVERSTROM

PARNTER

CORSAIR CAPITAL

Driven by continued strength in employment, consumer spending, and capital investment, 2026 is likely to be a good year for the US domestic economy. While the low unemployment rate remains a tailwind, it is being driven, at least in part, by a shrinking labour pool due to lower immigration and an aging population. This is a trend worth monitoring because it will likely become a headwind to GDP growth if it continues.

Consumer spending should remain healthy, though likely moderating from recent elevated levels. Capital expenditure will continue to be a key driver of growth, fuelled by ongoing investment in AI and energy, the onshoring of supply chains, and continued tax incentives.

We are also witnessing a productivity boom that the US has not seen since the 1990s — labour productivity has increased by an average of 2.3% over the past four quarters, up from roughly 1% in prior periods, and we expect this to accelerate. Ongoing fiscal deficits will also spur the economy, as will declining short-term interest rates, which seem all but guaranteed under a new Trump-appointed Federal Reserve chair.

More broadly, the administration's vision for America is one of faster growth, lower taxes, and less regulation. With a supportive House and Senate, it's hard to see how some of this doesn't make its way into policy, the prospect of which has already unleashed Keynes's "animal spirits", driving economic growth.

POTENTIAL HEADWINDS

While the overall picture is strong, a few circumstances could get in the way and warrant close monitoring. The uncertainty and volatility that come with the Trump administration — including concerns about Federal Reserve independence, cabinet competence, political revenge, NATO support, and China rhetoric — can, and likely will, inject short-term tremors.

Higher long-term interest rates could also pose a challenge — if lower taxes are not accompanied by lower government spending, smaller deficits, and/or lower inflation, the bond market could react poorly, offsetting some of the favourable conditions described above. Still, we anticipate the country will get through these challenges in the near-term.

M&A OPTIMISM

With equity markets at all-time highs, supportive credit conditions, a dovish Fed, and increasingly constructive regulatory policy, the stage is set for a robust M&A environment. This is particularly the case for strategic buyers and, to a lesser extent, large-cap financial sponsors. The financial services industry also stands to benefit, a sector which Corsair has maintained a core focus through its private equity business.

We expect significant activity across several financial services sub-verticals, including banking, traditional and alternative asset management, payments, accounting and tax services, wealth management, insurance brokerage, and insurance MGAs, driven by more accommodating regulatory policy.

Private equity has been busy in wealth management, insurance brokerage, and accounting services. It appears to now be turning to insurance MGAs. In payments, where equity market performance has been weaker, industry realignment seems likely.

THE ROLE OF AI

From automating data analysis and compliance to improving operational efficiency, underwriting, and customer experience, AI will reshape how financial institutions manage risk and deploy capital. Over the long term, AI's integration into financial services will transform business models, revolutionising deal sourcing and value creation across the private equity sector.

Beyond AI, the most important mega trends impacting financial services in the coming years will be distributed ledger technology, digital currencies, and deregulation. Combined with strong markets, constructive credit conditions, and supportive policy, these structural shifts point to continued strength across dealmaking and financial services activity in the next few years.

MENA: THE INNOVATION ENGINE



SIMON SHARP

SENIOR PARTNER

GLOBAL VENTURES

As we enter 2026, MENA stands at a strategic inflection point. Once defined by hydrocarbons and heavy industry, the region is now reshaping itself around innovation, technology, and private-sector growth.

The narrative has shifted: MENA has become a centre of high-growth entrepreneurship, government-backed innovation, and disciplined capital formation. With over 20,000 active startups, $24bn in cumulative venture funding since 2018, and a population where 60% are under 30, the region is no longer an emerging-market outlier, it is an emerging-market engine. MENA is helping set global innovation trends. The implications for investors, founders and allocators in 2026 will be profound.

BUILT FOR INSTITUTIONAL CAPITAL

The region's ascent is underpinned by highly coordinated innovation ecosystems and government-backed platforms that help to derisk early-stage and growth-stage company building. Initiatives like Hub71, ADIO, DIFC Innovation Hub and KAUST are creating structured environments where founders gain access to capital, regulatory support, and cross-border networks from day one.

For LPs, this translates into a clearer, more investable landscape, predictable regulatory pathways, institutional-grade founder support, and a pipeline of companies capable of absorbing meaningful capital. This robust foundation enables two critical drivers of growth – diversification and digital adoption.

DIVERSIFICATION MEETS DIGITAL SCALE

Diversification agendas across Saudi Arabia, the UAE, Qatar, and beyond have moved from policy documents to operational reality. Vision 2030, D33, and related national strategies have channeled billions into high-productivity sectors like digital infrastructure, renewable energy, fintech and health tech. These programmes matter for LPs because they create long-term stability, sectoral depth, and public-private alignment. At the same time, digital adoption is reshaping how quickly companies can scale.

Across the region, with internet penetration now above 80% in many markets and mobile usage widespread, founders can reach mass audiences with far lower capital expenditure than in legacy markets.

Companies such as Paymob underscore this momentum, having processed the equivalent of half a percent of Egypt's GDP in 2023. Today, its digital-first platform supports over 40 payment methods across five markets.

For allocators, this convergence of diversification and digital adoption creates portfolio opportunities that blend frontier-market growth with increasingly strong fundamentals, from better unit economics to faster regional scalability.

AI AT WORK

The rapid adoption of AI is also redefining what a "scalable" MENA business looks like and gives MENA founders the ability to leapfrog legacy systems entirely. According to MAGNiTT, during the first six months of 2025, AI-driven MENA startups' funding surpassed the entire 2024 total by 16%, with one in four deals also related to an AI start-up.

Healthcare innovators like Altibbi use AI to power an LLM trained on millions of medical conversations, while Tarjama applies proprietary AI to deliver Arabic-focused translation, localisation, and content services. Together, leveraging AI, they are helping improve healthcare quality for millions.

For investors, this is significant.

MENA startups are not scaling through labour or logistics; they are scaling through efficiency. This creates businesses that grow faster, expand more easily across borders, and can maintain healthier margins. In other words, better performance without the commensurate increase in cost base.

FROM MOMENTUM TO MATURITY

As 2026 unfolds, MENA is evolving from an investment "theme" to an investment "thesis". A young, tech-driven population; accelerating digital adoption; AI-enabled productivity; and disciplined capital stewardship have created the architecture of a sustainable innovation economy.

For LPs, MENA in 2026 no longer represents an 'alternative' emerging-market bet, it is a structural opportunity driven by demographic strength, productivity acceleration and a rapidly maturing infrastructure. The question for investors is not whether to engage, but how quickly.

ECONOMIES OF GROWTH IN EUROPE



KARSTEN LANGER

MANAGING PARTNER

RIVERSIDE EUROPE

After several years in which global capital has seemed magnetically drawn to the United States, Europe began last year to re-establish itself as one of the most attractive hunting grounds for private equity. A combination of moderating inflation, increasingly supportive monetary policy, and a powerful slate of structural investment drivers have been quietly reshaping sentiment across the region. For investors who have long viewed Europe as slow-moving or politically fragmented, the picture today, as we stand at the start of a new investment year, is markedly different: one of resilience, improving competitiveness, and unusually compelling entry points.

Europe's economic backdrop has strengthened. Inflation, once a defining concern, eased materially last year, giving the European Central Bank room to cut rates sooner and more decisively than the Federal Reserve. With financing costs declining and visibility improving, deal activity remained dynamic – particularly in the private markets segment where stable debt structures and disciplined underwriting matter most. Importantly, Europe's inflation-targeting mandate delivered predictability at a time when the US policy environment felt more variable and data-dependent.

Currency dynamics added further support. A stronger euro last year signaled renewed confidence in the region's fundamentals and acted as a built-in tailwind for non-European investors allocating to euro-denominated assets. While FX should never be the core of an investment thesis, this served to reinforce the broader shift in sentiment.

Beyond macro conditions, three long-term themes began to forcefully reshape Europe's investment landscape: defence mobilisation, energy transformation, and industrial re-anchoring. Each represents not just policy rhetoric but large, multi-year capital programmes.

The war in Ukraine triggered the most consequential reassessment of European defence posture in decades. Across the continent, governments are committing to long-term spending trajectories that will funnel capital into aerospace, cybersecurity, advanced materials, and complex manufacturing supply chains. For private investors, these ecosystems are rich with niche, high-skill businesses that stand to benefit from durable demand.

The thrust for energy independence has spurred another wave of opportunity. Europe's rapid pivot toward renewables, efficiency technologies, and smart grid management is spawning a new generation of software- and services-led businesses that sit adjacent to traditional infrastructure. As renewable penetration rises and energy systems become more data-intensive, specialised companies – often founder-led and undercapitalised – require support to scale.

The push to reshore manufacturing capacity represents a third structural tailwind. From pharmaceutical ingredients to precision engineering and next-generation components, Europe has begun to rebuild its industrial depth after years of globalised supply chains. This transition demands investment, operational expertise, and professionalisation – areas where private equity excels.

All of this feeds into the lower mid-market private equity opportunity where Europe remains both vast and under-intermediated. The majority of European enterprises fall into this mid-market bracket where valuations remain meaningfully below US equivalents, competition for deals is lighter, and fragmentation enables disciplined investors to create value through operational improvement and buy-and-build strategies. Crucially, liquidity in this segment is robust.

For investors seeking resilient economics, diversified return drivers, and exposure to long-term structural change, Europe today stands out as a market where fundamentals and valuations converge. After years of under-allocation, the continent has moved from afterthought to opportunity – and private equity is beginning to respond.

ALTERNATIVES IN SAUDI ARABIA



HUSNI ALMOUSLI & FARIS ALZAMIL

PARTNER & ASSOCIATE

KIRKLAND & ELLIS, RIYADH

Alternative capital, including private credit, acts as a bridge between traditional bank lending and equity finance, extending liquidity to corporates that require tailored solutions. The rise of alternative capital solutions has been associated with cyclical patterns in credit. When traditional lenders withdraw, alternative lending fills the funding gap.

Saudi Arabia's financial sector is expanding rapidly. Bank loan growth continues to outpace deposit accumulation. Loan-to-deposit ratio estimates are around 110%, with liquidity demand and rapid economic growth underscored by the second highest PMI figures in 11 years. Alternative capital can provide flexible, less dilutive solutions to large corporates venturing into emerging sectors and innovation economy companies that have restricted access to bank finance as well as companies looking to optimise their capital structures. Solutions are industry neutral. They can be used to unlock value and generate liquidity in sports, large infrastructure, industrials, as well as consumer facing businesses, depending on investor strategies.

MACRO INCENTIVES

Saudi Arabia's macroeconomic environment is influenced by the dynamic liquidity demands of a vibrant and growing economy. Commercial banks face balance-sheet pressure from credit expansion while investment initiatives require continued capital deployment. Government expenditure is supporting innovation-rich sectors such as artificial intelligence, digital infrastructure, and advanced manufacturing. These dynamics are widening the opportunity set for alternative capital providers looking for enhanced uncorrelated yields and better diversification prospects.

STRUCTURAL DRIVING FORCES

There are three long-term forces underpinning opportunities in alternative capital, specifically private credit, in the Kingdom.

Number one is infrastructure and digital transformation. Nearly 90% of new regional greenfield projects are in Saudi Arabia and the UAE, focusing on logistics, technology, and green energy. These asset-heavy sectors lend themselves to securitised and asset-based financing and operational liquidity solutions.

Second, demographic momentum is favourable. Labour-force participation grew significantly since 2010, settling at just over 67% in the second quarter of 2025. This trend supports the expansion of household credit demand, widening the range of consumer and SME financing assets suitable for securitisation.

And thirdly, capital markets are advancing. The GCC now ranks among the top five regions globally for IPO issuance and the same infrastructure is supporting growth in local debt markets. As corporate leverage increases, structured credit becomes the intermediary between equity expansion and institutional debt.

Together, these dynamics suggest a durable opportunity for investors capable of combining local insight with global structuring expertise.

STRUCTURING CONSIDERATIONS

Saudi Arabia's credit markets are entering a phase of structural advancement. The combination of enhanced legal certainty, sophisticated infrastructure, capital structure depth and policy alignment toward productive sectors marks a transition from a bank dominated system to a multilayered institutional market.

Modernised rules for taking security in financial transactions, the conduct of civil transactions, and bankruptcy frameworks further attract international investors to look at private capital opportunities in the Kingdom – benefiting from enhanced transaction certainty and predictability. Credit investments should comply with the applicable rules and regulations, including Sharia principles and those of the Saudi Central Bank (SAMA). The increased depth of Saudi capital markets will further support the diversification of capital structures – including senior secured, mezzanine, subordinated and hybrid capital, offering different pricing, economics, risks, and contractual frameworks to corporates and investors.

SECTOR SPOTLIGHTS

IN THIS SECTION

- AI-driven power demand reshapes energy and infrastructure investment
- European real assets benefit from structural undersupply
- Healthcare shifts toward patient-centric, consumer-led platforms
- Stabilising macro conditions unlock long-term innovation-led value

SPOTLIGHT ON EUROPEAN REAL ESTATE



ZUBAER MAHBOOB

SENIOR VICE PRESIDENT AND HEAD OF EUROPEAN INVESTMENT RESEARCH

HEITMAN

Europe's alternative property sectors present attractive and resilient opportunities for investment in a global climate that is increasingly marked by volatility and uncertainty.

In Heitman's longstanding view, performance in European alternatives is driven by a confluence of favourable factors: structural demand strength, persistent shortages of supply, and large scope for active management and value creation.

Over 30 years, Heitman has executed strategies in European alternatives in a wide range of countries, sectors and risk-return categories, via assets and portfolios that are able to deliver outperformance across changing economic conditions.

The alternative sectors typically include rented residential, student housing, senior living, healthcare, and self-storage. These categories share some commonalities: demand tends to be needs-driven, linked to long-term demographic shifts and life-stage transitions. The needs-based nature of demand makes it less sensitive to the macro cycle and more predictable over time.

THE EUROPEAN BACKDROP

In Europe, the alternative sectors face considerable constraints on supply. These range from planning rigidities and widespread NIMBYism to escalating costs and shortages of labour. Not only do these constraints make it difficult to build at scale, but they have also proved to be stubbornly persistent over time.

As a result, most European markets begin from a position of chronic undersupply. JLL estimates that Europe is missing some 16 million housing units across its cities, relative to demand. Whether it is residential, student beds, or senior living units, demand consistently outpaces available inventory. This scarcity can provide a natural buffer against downside risk and typically results in high occupancy rates and strong real rent growth.

VALUE CREATION STRATEGIES

European alternatives can also offer significant scope for value creation, compared to US counterparts. The key difference lies in the maturity and structure of the markets. While the US has long been a leader in innovation in sectors like self-storage, student and senior housing, in Europe they remain relatively nascent, fragmented, and under-institutionalised. This creates fertile ground for physical, operational, and platform-level enhancements.

Since the sectors are still dominated by small-scale, often family-run, businesses, assets and portfolios tend to be subscale, operationally inefficient, and mispriced. Often, they lack access to the latest technology. The high degree of fragmentation presents an opportunity for institutional investors to consolidate ownership, introduce best practices, and unlock value. Although they currently own only a fraction of existing stock, large global institutions have a pivotal role to play in future development and stock modernisation, bringing greater scale and sophistication to European markets.

Value creation extends beyond mere physical upgrades and asset facelifts. Across its many European portfolios, Heitman has repeatedly executed operational improvements. These include revenue management, dynamic pricing, IT integration, and data analytics, enhancing performance and returns. At the platform level, strategic changes like restructuring leadership and aligning incentive structures can also help to deliver gains in scale, performance and efficiency.

EUROPE'S INVESTMENT CASE

In essence, Europe's early-stage market dynamics, combined with the ability to import tested institutional models, create an environment where predictable and outsized value creation is not only possible but highly scalable.

This, combined with discounted pricing and attractive demand-supply fundamentals, makes European alternative real estate a compelling opportunity for international investors – they offer upside growth potential, downside protection, and some of the best risk-adjusted returns available in the market.

THE ENERGY BEHIND AI



OSCAR PÉREZ

MANAGING PARTNER AND CEO

QUALITAS ENERGY

Artificial intelligence has fundamentally altered the landscape of power demand. The true inflection point arrived with the dawn of ChatGPT in 2022, triggering one of the most significant structural shifts in global data centre deployment. Previous investment cycles – cryptomining included – created short-lived surges. AI is different. When AI went mainstream, it reset expectations for data centre growth. Next year, it is set to be a defining force shaping private capital flows into energy and infrastructure.

RESHAPING ENERGY INFRASTRUCTURE

Two constraints limit the pace of AI expansion: water and power. Cooling consumes significant amounts of water, with data centres relying on evaporating systems which will become a sustainability issue as hyperscalers multiply. By 2027, AI's annual water use could reach 6.6bn cubic metres.

However, the key constraint for the foreseeable future is power. An AI query consumes 10x more electricity than a traditional search. Multiply that by surging AI adoption and the training of ever-larger models, and the demand curve continues to steepen. Forecasts expect data centre power demand to quadruple this decade.

Data centres are among the fastest-growing sources of new power loads, with expansion concentrated in China and the US. In the US alone, data centre consumption should reach a meaningful share of household electricity use by 2030.

For infrastructure investors, this shift is a long-term investment play. Power availability has become a driving factor in hyperscaler site selection, influencing land values, accelerating transmission investment, and pulling private capital toward regions capable of rapid grid expansion.

FILLING THE INVESTMENT GAP

With AI-driven demand outpacing legacy systems, the question now is how to invest efficiently.

Nuclear power offers a clean baseload, but new reactors are too slow to market, scarce, and costly. Small modular reactors may eventually play a role but remain a distant reality. Gas offers the fastest backstop – familiar, dispatchable, and widely available – but its price volatility and emissions exposure limit its appeal for institutional capital.

This leaves renewables as the near-term centre of gravity for investment. While not flawless, they can scale quickly and affordably. Utility-scale solar or onshore wind can reach commercial operation years faster than thermal or nuclear alternatives. Investors can gain both demand certainty and attractive offtake profiles.

WHERE PRIVATE CAPITAL VALUE EMERGES

Wind and solar align with the way private markets deploy capital. Projects can move from investment decision to power generation within a few years, keeping pace with data centre expansion and providing early returns.

Scalability is also crucial. Renewables are now the lowest-cost source of new electricity in most major markets. Long-term power purchase agreements signed by hyperscalers create the certainty investors need to finance projects efficiently and replicate them across portfolios.

Renewables also offer the advantage of flexibility. Assets can be built in modular phases and co-located near the data centre clusters driving demand.

Moreover, hybridisation – combining wind, solar, and storage – can create clean power for most AI workloads. Developers are increasingly targeting sites near substations and data hubs, while some hyperscalers are pairing data centres with adjacent renewable parks. The result: shorter transmission distances and fewer interconnection delays.

THE INVESTMENT OUTLOOK

With the right investment, renewables and hybrid systems can shoulder much of the AI load and make grids cleaner in the process. The winners of this cycle will be those who secure scarce grid capacity, originate key sites, and deploy capital into scalable renewable and hybrid platforms near emerging AI corridors. The firms that build, own, and operate this critical digital infrastructure will shape the next decade of vital energy and digital infrastructure investment.

THE SHIFT TO PATIENT-CENTRIC



SIMONE SALLUSTIO

MANAGING DIRECTOR

VERLINVEST

As we look ahead to 2026, the healthcare landscape is entering a pivotal period. Deal activity is recovering, patient expectations are shifting, and outpatient models are scaling across Europe at an unprecedented pace. At the same time, 2025 has marked a clear turning point: patients are acting increasingly like consumers, demanding convenience, transparency, and preventive solutions, while entire care pathways move into digitally enabled, retail-like settings. Together, these forces are not simply reshaping the sector — they are creating a new class of healthcare platforms built around brand, access, and experience.
For Verlinvest, this represents one of the most compelling value creation propositions in the years ahead.

THE NEW OPPORTUNITY SET

Against this backdrop, our focus in 2026 is to back a select group of consumer-facing healthcare platforms with the potential to scale across multiple geographies. We see particularly compelling momentum in medical aesthetics, oral care, pet health, fertility, ophthalmology, and other outpatient specialties that benefit from long-term demographic and behavioral tailwinds. These categories sit at the intersection of rising demand, growing willingness to pay, and operational fragmentation — an environment in which Verlinvest's consumer heritage and evergreen capital model provide a meaningful strategic advantage. Across several verticals — dental and ophthalmology in particular — the market has evolved rapidly. More procedures are shifting from hospital settings to ambulatory environments, creating additional room for scale players. Investors today are approaching these sectors with a more nuanced lens. Barriers to entry remain relatively low, and differentiation increasingly hinges on clinical quality, customer experience, and the ability to build a trusted brand at scale.

NAVIGATING THIS ENVIRONMENT

Operators are asking fundamental strategic questions. Should they deepen specialisation into areas such as dermatology or advanced oral care? Should they broaden their treatment portfolio to capture more of the patient journey? How do they create a defensible moat in markets where consumer preferences, talent constraints, and regulatory frameworks are all moving simultaneously?

We believe the next generation of category winners will be companies that combine industrialised operating models with a superior patient proposition. Platforms that invest early in clinical governance, digital enablement, talent attraction, and brand development will be best positioned to outperform as the sector matures. We already observe strong investor appetite for these themes, with increasing activity in sub-scale transactions built around clear differentiation strategies rather than pure consolidation.

VERLINVEST'S APPROACH

In recent years, we have built a portfolio of high-growth healthcare platforms — including Bludental, Nesto, and Faceland — that are executing disciplined buy-and-build strategies to create pan-European leaders. At the same time, we are actively evaluating emerging segments such as gastroenterology, intimate health, and family planning, where similar structural shifts are underway and where institutional capital can play a transformative role. As an evergreen investor, Verlinvest benefits from permanent capital and the flexibility to support platform development over an extended ownership horizon.

Looking ahead, we believe that healthcare value creation will increasingly be driven by patient-centric, digitally-enabled service models that combine clinical excellence with a consistent, high-quality experience. This is where we intend to deploy our resources in 2026 and beyond, backing platforms that set new standards for care around the world.

PROMISE IN HEALTHCARE AND BIOTECH



FRANK KUNG

MANAGING PARTNER

VIVO CAPITAL

After a prolonged period of macro uncertainty and volatile capital markets, the economic environment for healthcare and biotech investing is gradually improving. Rate cuts across major markets, coupled with improved visibility on trade and industrial policy, are narrowing valuation gaps and setting the stage for a healthier deal environment in 2026.

For a sector driven by long-duration innovation cycles rather than short-term sentiment, this return to stability is meaningful and welcome. It creates space for fundamentals to reassert themselves, and for investors with deep scientific and operational expertise to lean into opportunities with greater conviction.

ACCELERATING DEAL FLOW

Across the biopharma ecosystem, strategic buyers are moving with renewed urgency. The patent cliff facing many of the world's largest pharmaceutical companies is beginning to reshape their acquisition priorities, prompting a more intense search for innovative assets and enabling technologies.
This shift, combined with a more constructive financing environment, is creating a wider set of exit options for private investors than we have seen in several years. The resulting alignment between strategic demand and private-market readiness is one of the most important dynamics that will shape the industry in 2026. In just the third quarter of 2025 alone, biopharma M&A totaled over $30bn in completed transactions, according to JPMorgan — a marked acceleration in strategic deal-making set to continue into next year.

DRUG DEVELOPMENT INFRASTRUCTURE

One of the clearest areas where we are seeing growth momentum is in the infrastructure that underpins drug development: advanced manufacturing, specialised services, and technologies that improve reliability, speed, and scalability across the entire R&D and production lifecycle. As biopharma companies expand domestic and near-shore manufacturing footprints, driven by the need for supply-chain resiliency and the rise of advanced modalities, the demand for high-quality, differentiated service providers continues to grow.

These businesses, long considered behind the scenes, are increasingly essential to achieving the twin aims of scientific progress and commercial viability. They offer a range of attractive exit possibilities, from strategic acquirers to global platforms consolidating key capabilities.

WHERE AI COMES IN

AI-enabled tools and platforms are accelerating these trends. After several years of experimentation, their impact is now visible in real operational gains that improve efficiency, strengthen outcomes, and lower costs across the healthcare system. While the full potential of AI is still years from being realised, the technologies that deliver measurable improvements to cost, speed, and quality are gaining the most traction.
Over time, these technologies will likely reshape how healthcare organisations operate — from discovery to commercial execution — and the companies best positioned are those embedding this into their foundational workflows rather than treating it as a standalone feature.

STRUCTURAL SHIFTS

All this change will take place against a backdrop of the structural forces shaping healthcare — and, by extension, biotech investing — continuing to make their presence felt. Scientific innovation is accelerating at a remarkable pace. The demographic and economic pressures driving demand for more efficient, accessible care are only intensifying. And the industry's shift toward more resilient, more technologically sophisticated production capabilities is creating one of the most compelling investment landscapes the sector has seen for years.

For those investors with a global platform and deep sector specialisation, 2026 is likely to prove far more than a mere rebound year, but a turning point for long-term value creation.



MICHAEL SAND

MANAGING DIRECTOR

AMERICAN SECURITIES

POWER DEMAND AND SUPPLY

As we approach 2026, rising power demand, increasing utility spend, the shifting power supply mix, and the continued importance of conventional energy systems are creating compelling investment opportunities.

Three themes stand out: The rising demand for new power generation capacity; the need to extend the lifespan and performance of legacy hydrocarbon infrastructure; and increasing utility spending to deliver power safely and reliably from a new mix of sources.

ACCELERATING DEMAND

For nearly two decades, efficiency improvements in lighting, appliances, and industrial equipment helped offset the incremental growth in the US's power needs. Plateauing efficiency gains and the buildout of data centers have changed this paradigm, with domestic power demand now forecasted to grow and each new forecast seemingly predicting higher growth.

At the same time, how we obtain power is evolving. Solar deployment has accelerated, coal's share of supply has declined, and natural gas remains central to meeting baseload needs. We see this supporting growth within our portfolio. Our talented partners at SOLV Energy, a leading solar EPC provider, are building capacity to continue to lead the market in the construction and maintenance of utility-scale solar and storage infrastructure. Through a recent acquisition that added high-voltage transmission construction capabilities, SOLV is broadening its opportunities to serve this attractive market.

MAXIMISING LONGEVITY

As a result of growing power demand, owners of aging infrastructure will need to increase maintenance spending to meet safety and reliability requirements. We expect this to positively impact legacy energy infrastructure asset protection and utility services companies.

This aligns with trends in the broader energy value chain – aging but essential assets that must run longer and harder, presenting opportunities for companies with differentiated technologies, services, and operational expertise.

Our 2025 investment in Integrated Global Services is a prime example of a company well-positioned to benefit from these trends. Its proprietary coating technology offers a differentiated approach to prolonging the life of aging energy infrastructure while enhancing safety and reliability.

A CONSTRUCTIVE OUTLOOK FOR 2026

The resurgent growth in power demand is a key theme impacting industrial markets. We continue to seek special companies across the power and energy ecosystem that we can help grow. Our long history in this sector makes us a good partner for companies that are capitalising on these trends.

THE ART OF VALUE CREATION

IN THIS SECTION

- Advantage concentrates among specialist value builders
- Lower middle market advantages persist amid capital imbalance
- Strategic buyers become central to private equity value creation
- Sustainability shifts from ESG overlay to financial value driver

THE MIDDLE-MARKET VALUE RAMP



LUKE SARSFIELD

CHAIRMAN OF THE BOARD, DIRECTOR, AND CHIEF EXECUTIVE OFFICER

P10

The past year reaffirmed the middle and lower middle markets as among the most attractive segments in private equity. As investors evaluated their portfolios in an environment marked by slower exits and fewer large-cap opportunities, many turned to areas where structural inefficiencies persist, and differentiated alpha is more attainable.

Industry data illustrates this clearly. More than 80,000 commercially active US companies have between $10m and $250m in revenue, which represents approximately 93% of the total universe of US-based companies with revenues greater than $10m according to S&P Capital IQ. However, Pitchbook data suggests this large and attractive market space accounts for only 16% of the available capital across US private equity. This mismatch of available capital and lower-middle market companies continues to create a favorable supply-demand backdrop that supports long-term value creation, though there is no guarantee these favourable conditions will persist.

These structural advantages shaped performance throughout 2025. Entry valuations in the lower middle market tend to be one-to-three turns lower on EBITDA, and leverage levels are generally two turns lower than what we see in larger transactions. The opportunity set is also highly fragmented, as many companies that are still led by founders have significant room to benefit from professionalisation.

This creates a clearer path to value creation for managers with operational expertise.

In contrast, companies that have cycled through multiple sponsors often have fewer levers available and more mature capital structures. In the lower middle market, the combination of lower purchase prices, lighter balance sheets, and meaningful operational uplift has helped managers preserve momentum even as industry-wide holding periods extended.

Companies of this size also benefit from a wide range of exit pathways, supported by strategic acquirers and sponsor buyers who are consolidating across sectors. This has enabled liquidity to remain more consistent, contributing to stronger median outcomes and a wider range of potential outperformance for top managers.

Looking ahead to 2026, these dynamics are likely to grow in importance. Private markets are undergoing a period of consolidation, and investors are increasingly seeking relationships with partners who can provide access to a range of strategies, vehicles, and geographies.

This trend is evident across private equity, credit, venture capital, and secondaries. The shift reflects a broader need for scale, data, and more consistent underwriting as the asset class matures. It also reflects the reality that dispersion between managers is widest in the lower middle market, where the difference between disciplined operational investors and generalists is most pronounced. Platforms that combine specialised insights with multi-strategy access will be essential in helping investors navigate a large and fragmented landscape and in identifying opportunities where structural advantages can be most fully realised.

The fundamentals that define the lower middle market remain firmly in place. The opportunity set is broad, and the capital imbalance continues.

The ability to drive returns through operational improvements, professionalisation, and disciplined underwriting is strong. As investors seek more resilient and differentiated sources of performance, I expect this segment to play an even more central role in portfolio construction. The platforms that bring together scale, specialisation, and coordinated access across asset classes will be well-positioned to support that shift and to help shape the next phase of private equity performance.

REDEFINING COMPETITIVE ADVANTAGE



IGNO VAN WAESBERGHE

MANAGING PARTNER

AQUILINE CAPITAL PARTNERS

This year saw a long-heralded return of dealmaking, with large-scale M&A re-emerging. In services and technology, we saw Global Payment's acquisition of Worldpay, and Franklin Templeton's purchase of Putnam Investments, while mid- and small-cap deals continued to drive momentum across the lower end of the market.

THE STRATEGIC BUYER PERSPECTIVE

Looking ahead, we believe this rebound demonstrates a trend which has developed over the past decade: the deepening relationship between strategic buyers and private equity. Strategic buyers no longer view sponsors as transactional intermediaries. Instead, they are cultivating long-term relationships with select GPs whose portfolios provide access to capabilities they cannot build themselves.

This shift is becoming especially pronounced in financial services and healthcare, where major platforms have always relied on strategic M&A to grow and expand, making the sector an early proving ground for this sponsor-strategic dynamic.

We see strategic players mapping the GP universe to identify sponsors whose investment philosophy, value creation capabilities, and portfolio construction align with their long-term needs.

NEW STRATEGIES

GPs need to have discipline in building scalable and durable platforms, and a track record of creating genuinely strategic assets — not merely financially optimised ones. Modern markets will reward GPs who have spent the past decade building these relationships. At Aquiline, we see this firsthand. In just the past year, we have exited Quintes to US insurance leader Brown & Brown, Datavant to Ontellus, and signed a transaction to sell specialist insurer IQUW to Starr Companies.

For GPs, this demands a change in approach. Traditional 3–5-year playbooks of multiple arbitrage-driven roll-ups, or investments based in LBO modelling, are no longer enough. Instead, value creation must be grounded in strategic and operational substance.

One of the most important elements is sustained, multi-level dialogue with strategic partners. It is not sufficient to know the C-suite. GPs must engage business unit leaders, product owners, and operational teams, understanding the dynamics which determine whether a business can scale within a strategic platform.

This demands time and resources, but it delivers results. A portfolio company being acquired by a strategic is proof that private-equity ownership delivers genuine value. Proceeds from strategic exits are typically cash at closing, helping resolve LP liquidity concerns. Finally, these strategic relationships can help drive future investment opportunities in the form of divestments and carve-outs, as we have seen with our acquisition of SEI's Archway platform.

AQUILINE'S APPROACH

We start every investment journey by assessing industry-wide headwinds and opportunities. Our strategy is to target companies which address these factors, to lay the groundwork for a strategically relevant business at exit.

During our hold, all focus is on further enhancing strategic attractiveness. That means institutionalising our businesses, because strategic acquirers need to be able to integrate easily. It also means expanding addressable markets, in product and geographical terms, to show buyers the roadmap for continued growth.

Finally, it involves bringing the prospective buyers along on this journey, guiding the trajectory of the company so it becomes, and remains, strategically relevant.

For 2026 and beyond, this shift will reward GPs able to develop and refine a distinctive focus, aligning expertise with the capability gaps of strategic partners. To generate true outperformance, GPs must construct portfolios around businesses that matter to strategics. The partnership between strategic LPs and specialised GPs is becoming the new basis of competitive advantage in private equity.

THREE-STEP SUSTAINABLE VALUE CREATION



JAMES WOOLLEY

SENIOR CONSULTANT, SUSTAINABLE INVESTMENT AND SUSTAINABLE CREDIT SPECIALIST

HOLTARA

Looking to 2026, we expect sustainability to become a core value creation driver in private equity and a critical value preservation component in private credit. Since the inception of ESG, research has explored how costs, revenues, risks, and valuations are influenced by ESG performance, often through ratings providers like MSCI and Sustainalytics. Numerous studies confirm a positive relationship between ESG performance and financial outperformance. For example, an EY–EBS University (2023) study found that funds with better ESG profiles achieved internal rates of return up to 7.8 percentage points higher. While measuring this relationship is a good start, we are entering a new era – the next generation of ESG integration must move from ratings-based assessments to bottom-up, company-level financial modeling.

OUR APPROACH

Our approach focuses on quantifying how sustainability decisions affect core financial drivers – that is cost, revenue, and risk. This means examining the financial implications of three different states – inaction, action and outcomes. Each of these can have positive and/or negative financial implications, with a direct bearing on sustainability-integrated value creation strategies.

FINANCIAL IMPLICATIONS OF INACTION

Failing to act on material ESG issues directly erodes value. Companies with weak carbon management increasingly lose out in supplier selection. Those with weak employee engagement struggle with attrition. And others with inadequate cybersecurity incur financial losses and regulatory fines. Quantifying these dynamics allows management teams to treat ESG not as a disclosure exercise but as a profit-and-loss consideration.

As an example, consider a mid-market UK company bidding for an NHS contract that could increase revenue by 20%. At present, its carbon footprint management is reactive. It operates with inefficient energy systems, has limited visibility over value-chain emissions, and lacks a carbon reduction plan. Under current NHS procurement standards, its lack of a credible carbon reduction plan could disqualify it from winning the tender – a clear revenue risk. Meanwhile, inefficient heating infrastructure increases both emissions and operating costs. Traditional ESG assessments would highlight the environmental impact of such a company but miss these substantial financial implications.

FINANCIAL IMPLICATIONS OF ACTION

With the above in mind, companies can take targeted action to strengthen ESG performance. Electrifying a vehicle fleet, implementing employee retention programs, or certifying cybersecurity practices are all actions that require investment, and modeling these clarifies decision order and payback periods.

Using the same example, creating an emissions reduction pathway to achieve net zero by 2045 would help this company meet NHS requirements. To achieve this, the company would incur administrative costs associated with the creation of an emissions reduction pathway and capital expenditure associated with retrofitting including vehicle electrification, solar panels and insulation.

FINANCIAL IMPLICATIONS OF OUTCOMES

The implementation of ESG actions over time can lead to payback on company expenditure and the realisation of value. It is at this point that management teams should look to assess the impact of these ESG actions on cost, revenue, and risk.

Returning to our example, the implementation of above actions would have a payback time and reduce operating expenditure. These actions would also mitigate risks associated with fossil fuel price volatility and prepare the company for future regulatory changes. In addition, the company would capture revenues from meeting the NHS net zero supplier requirements. The outcome is a stronger balance sheet, competitive positioning, and an improved valuation multiple.

CONCLUSION

Ultimately, viewing ESG through the lenses of inaction, action, and decision transforms it from a passive overlay into a strategic driver. Our conviction is clear: sustainable value creation is not external to financial analysis, it is financial analysis.



WEALTH AND LIQUIDITY

IN THIS SECTION

- Wealth demand accelerates the re-engineering of fund structures
- Public–private market boundaries continue to erode
- Liquidity design moves from constraint to portfolio feature
- Advisor engagement becomes critical to scaling private capital

TAPPING INTO PRIVATE WEALTH



JIM WALKER

PARTNER

ADAMS STREET PARTNERS

Private equity's reach is expanding as managers turn to a vast and relatively untapped pool of capital: private wealth. While private markets have mainly been the preserve of institutional investors, high-net-worth individuals are increasingly being drawn to the asset class. This trend is expected to accelerate in 2026 and beyond.

SIGNIFICANT OPPORTUNITY SET

Individual investors are a strategic growth vector for private markets now that some of the historical barriers to entry are being reduced. The introduction of new fund structures that feature simplified tax reporting — favoured by individual investors — along with enhanced liquidity features, has significantly broadened their appeal. Private equity's historical outperformance versus public markets is a key draw, as is the diversification the asset class provides over publicly traded equities and debt instruments.

SPOTLIGHT ON ADVISORS

This puts financial advisors at the centre of the conversation. Many haven't traditionally been trained to combine alternatives with public market assets, as there hasn't been client demand.

Engaging the advisor community is typically a two-stage process. First, platform approval is obtained through a process of fund and operational due diligence. Second, building relationships — which includes providing education on private market strategies — is critical to help individual advisors get comfortable with the funds. Confidence in the strategy and the manager are prerequisites for an advisor to recommend an investment to their client.

INNOVATION OPENS THE DOOR

Product innovation is another key driver, with semi-liquid, evergreen fund structures emerging as the preferred vehicle for most individual investors. Compared with typical closed-end private market funds, these typically feature lower minimums, simplified tax reporting, and periodic liquidity options. These features make evergreen funds more accessible and user friendly than their more traditional private fund counterparts.

But this has operational implications for managers, as running semi-liquid funds requires them to rethink everything from compliance and client servicing to middle- and back-office systems.

EDUCATION GAP

Brand also matters, as even well-established private market firms may find that advisors are encountering them for the first time. Managers must determine each advisor's level of understanding and adjust their messaging appropriately, ensuring comfort by delivering content that aligns with the advisor's baseline knowledge.

Investor psychology also differs from institutional behavior, with the illiquid nature of private markets having the potential to save investors from actions they may otherwise regret. Investors used to the daily liquidity of public markets may be more inclined to sell when markets wobble. But private equity rewards patience. Preparing advisors and clients for that reality is essential to long-term success.

FOCUSED SCALING

Capturing the private wealth market at scale is a complex proposition. Individual investors write smaller tickets, meaning firms need broader distribution networks and client servicing that's consistent with the needs of wealth advisors. But the pool of professionals who understand both wealth management and private markets is limited.

There are also far more people experienced in selling private investments to institutions than there are who understand how to serve the wealth channel. That requires private markets managers to make deliberate choices about coverage.

With thousands of banks, broker-dealers, registered investment advisors, and family offices across the US alone, managers have to be selective.

STAYING TRUE TO CORE STRENGTHS

Such discipline will be key as competition for individual capital grows. The temptation will be to launch new products or enter markets that aren't your core competency. But private wealth investors, like institutions, are ultimately drawn to sustained, long-term returns. Firms need to stay true to what they do best.

THE FLEXIBILITY OF EVERGREENS



CARA HUBBARD

DIRECTOR, PRIVATE INVESTMENTS

WELLINGTON MANAGEMENT

Private markets are currently in a state of flux. Their continued convergence with public markets, a need for liquidity, and growing demand from wealth clients are all allowing the evergreen structures, which have subscription and redemption features, to have their time in the spotlight.

Wellington's research into evergreens revealed that the market grew to $230bn by the end of Q3 2025, a 22% increase since the end of 2024. Ease of implementation and adoption among wealth advisors is also contributing to significant demand. Like others, we expect that the evergreen market AUM will grow over 50% in the next five years. So what does 2026 bring for evergreen strategies?

RISING WEALTH AND RETAIL DEMAND

The increasing demand from the wealth channels for private market exposure is an area that all asset managers are exploring, particularly as traditional sources of capital in the institutional market remain constrained and overallocated. Retail allocations to private capital are due to grow exponentially, with Deloitte predicting they will more than triple in the EU by 2030, from €924bn to €3.3tn.

Given the scale of the private wealth market, evergreen funds are likely to become more popular in the coming years. In fact, according to data from PitchBook, there was $427bn in wealth-focused evergreen funds as of year-end 2024, a figure that's projected to swell to more than $1tn by the end of the decade.

Wellington Management recently appointed Mike Trihy as Head of Portfolio Management for Venture Growth Evergreen, Private Investments, to lead the expansion of its private investing capabilities for wealth clients with a focus on growth and venture investments.

THE BLURRING OF LINES

The once-distinct worlds of public and private equity markets are continuing to converge. With private companies staying private for longer and private equity ownership in the US expanding more than tenfold in two decades, investors can no longer rely on public markets alone to access innovation and growth. Many of the most transformative opportunities now emerge first, and often remain longest, in the private sphere. However, the largest public companies continue to scale, reinforcing the need for asset owners to navigate both ecosystems holistically.

EVOLVING LIQUIDITY PATHWAYS

In the late-stage growth ecosystem, we are seeing a gradual return of liquidity. IPO markets built meaningful momentum in 2025, with EY's Q3 report showing that volumes rose by 20% and proceeds increased by 84% over the most recent 12 months. Secondary transactions have also become an important liquidity lever, with activity on track to exceed $210bn in 2025, according to Ropes & Gray.

We are seeing similar with private credit. Middle-market direct lending has grown roughly five times faster than the broader leveraged credit market over the past decade, and is now similar in size to the broadly syndicated loan and high yield markets. The flow of deals between public and private markets has increased, and this has contributed to greater variability in underwriting standards and covenant protection.

Even though liquidity pockets are improving, with IPOs reopening, credit markets expanding, and secondaries scaling, it is still unpredictable and uneven. Investors, therefore, are looking for ways to combine private market return potential with more controlled access to liquidity. This is where evergreen funds come in.

Public and private markets are becoming more interconnected, liquidity pathways are expanding, and a wider set of investors is seeking access to private assets. Evergreen structures are well placed to support this evolution. They offer a practical way for investors to balance opportunity, flexibility, and disciplined risk management within a rapidly changing market environment.

SECONDARIES IN MOTION

IN THIS SECTION

- Secondaries transition from tactical liquidity to strategic market infrastructure
- Analytical depth overtakes scale as the basis of underwriting advantage
- GP-led solutions institutionalise asset retention and portfolio reshaping
- NAV overhang and liquidity pressure fuel sustained secondaries expansion

PROACTIVE WITH PORTFOLIOS



SANJEEV PHAKEY

HEAD OF SECONDARIES

FEDERATED HERMES PRIVATE EQUITY

Against the backdrop of a challenging exit environment, secondaries are taking on an increasingly vital role as both GPs and LPs seek liquidity. Managers face mounting pressure to deliver distributions to investors, while allocators are turning to the secondary market to free up capital for new commitments. The urgency to unlock liquidity is reflected in the historic lows of distributions paid to investors.

As a result, secondary market activity has reached unprecedented levels, with record-breaking volumes in excess of $100bn in first half of 2025, building on 2024's all-year high of $162bn. Industry estimates suggest that 2025 full-year volumes could exceed $210bn, setting another record.

Even at these levels, secondaries remain a relatively small slice of the private equity market, fueling expectations of continued growth as managers and investors look for creative solutions to generate liquidity.

Much of secondaries growth has been driven by GP-led transactions, which now make up 45-50% of deal volumes according to industry data. It's a notable shift for a market once dominated by LP-led deals, and all signs point to GP-leds continuing their upward trajectory. The GP-led segment has earned its place by solving real challenges across stakeholders, evolving into a sophisticated, strategic liquidity tool.

A GP-led deal can be a three-way win: LPs can elect for liquidity when they want to cash out, GPs retain strong-performing assets to keep creating value, and incoming secondary buyers can access high-quality portfolios. These transactions have matured into a genuine exit route alongside the traditional options and are likely to remain a significant component of the secondary market, regardless of when the M&A market rebounds. Continued growth in the segment depends on transparency and alignment of interests between LPs and GPs. This can be achieved through robust pricing processes, early engagement with the Limited Partner Advisory Committee, clear conflict management, and by providing investors with options to sell, roll, or partially roll, helping foster trust and long-term value creation.

LP-led deals are still expected to see continued growth in volumes. Industry data from the first six months of 2025 showed LP-led volumes at $56bn, already on par with the total for all of 2022. The supply of LP-led transactions was partly boosted by LPs that were overallocated to private equity due to the lack of liquidity. Strong pricing is still sustaining high LP-led volumes, as sellers can access liquidity without taking the steep discounts seen in prior years. Pricing strength is supported in part by the growing prominence of evergreen funds, which are likely to remain a key feature of the market going forward.

Secondaries offer a proactive approach to liquidity management, from generating early liquidity on otherwise illiquid assets to creating bespoke programmes aligned with investors' desired holding periods. In current market conditions, the ability to act early and with discipline is critical.

At Federated Hermes Private Equity, our dedicated secondaries team not only invests in secondary opportunities through our secondaries fund but also focuses on driving liquidity for our investors. Leveraging deep experience and a strong track record, we have completed seven transactions over the last five years, delivering approximately $1.4bn in distributions. Our toolkit continues to expand, from tail-end sales and managed fund solutions to preferred equity structures, reflecting our commitment to innovation. We believe managers with specialist in-house secondaries expertise and proven execution capabilities will be best positioned to offer innovative liquidity solutions that unlock value and meet the evolving needs of investors.

AI AND SECONDARIES VALUE CREATION



BENOIT VERBRUGGHE

MANAGING PARTNER

CLIPWAY

The secondaries market enters 2026 on a more balanced footing, supported by sustained activity and improving market sentiment. Valuations are gradually normalising across vintages and investors are showing greater willingness to transact as confidence improves. Liquidity needs remain elevated, but alignment between buyers and sellers is stronger than it was a year ago, and this is contributing to a steady increase in both the number and variety of portfolios coming to market.

A key feature of the current environment, however, is dispersion. Underlying company performance varies widely across managers, sectors, and geographies, and headline marks continue to mask significant differences in equity value creation. Competitive dynamics and pricing in secondaries processes can also be erratic and non-linear across different transactions. These factors are shaping buyer behaviour. As more LPs explore secondary solutions, the universe of opportunities is expanding, but so too is the need to be highly disciplined and conduct thorough bottom-up analysis.

Looking ahead, we expect 2026 to be defined by a more selective and analytical approach to underwriting. Buyers increasingly want to understand portfolios at the level of the operating company, rather than rely on aggregated fund-level metrics. This requires the ability to examine thousands of companies efficiently, form clear views on revenue resilience, margin durability, and free cash flow characteristics, and assess how these drivers differ across managers. With data sets now spanning tens of thousands of companies, the ability to interpret them accurately is becoming central to investment decision making.

Advanced analytics, AI, and machine learning will play an important role in meeting this need. These tools allow investors to process larger parts of the market with speed, identify areas of mispricing, and highlight the assets where fundamentals and entry valuations align.

Clipway's Tech-Enabled Secondaries System, TESS, has continued to support this shift by enabling rapid, company-level analysis and deeper visibility into performance patterns across a broad and growing opportunity set. The combination of structured data extraction, company level forecasting, and experienced judgement helps ensure capital is deployed into situations backed by resilient fundamentals.

Sourcing will also continue to evolve in 2026. While intermediated activity is expected to rise, we anticipate a meaningful flow of proprietary and relationship-driven transactions as LPs manage exposure and GPs consider targeted liquidity options. Veteran teams with established networks, supported by scalable technology, are likely to be well positioned as this mix develops.

Data governance remains an important part of differentiation. LPs are demanding greater transparency around how information is collected and validated, and managers with coherent, institutional-grade processes will stand out as expectations rise.

Overall, the outlook for 2026 is constructive. A more balanced pricing environment and a broadening range of opportunities should support continued growth in transaction volumes. While there are early indications that exit conditions may stabilise, visibility remains limited and caution is warranted. The buyers who are likely to outperform are those who combine selectivity with disciplined, data-driven underwriting and who can distinguish genuine value creation from surface-level growth. As the market continues to expand, analytical advantage will remain a defining factor in generating durable returns.

ADOPTION, PENETRATION, AND OPPORTUNITY



MAURO PFISTER

MANAGING DIRECTOR, SECONDARIES

CAPITAL DYNAMICS

For the past five years, both LP- and GP-led deals have grown at broadly similar rates. Our view is that 2026 may be the year where GP-led deal growth starts outpacing the LP-led market, in turn becoming the majority of the secondary market deal activity.

The global secondaries market is primed for further expansion. In the last year, the expansion of the market has been driven by both growth in assets under management, as well as the wider involvement in the market of both LPs and GPs, which we expect to continue.

A large base of potential secondary assets is supportive to market growth. As net asset value (NAV) in private equity funds more broadly accelerated – across buyout, growth, and turnaround – particularly the US and Europe, private equity was sitting on around two-and-a-half times as much in NAV between 2020 and 2024 as five years before.

This fast NAV growth was driven by strong capital flows into the private equity sector before 2022, and then by a slowdown in distribution activity since. However, with fundraising having recovered but not snapped back into long-term growth, and realisation activity now in full swing, private equity NAV is expected to remain steady at best, or even decline.

The consequence of this is that the market will have to grow through adoption and penetration alone going forward, which can be difficult with the largest LPs. As a result, record large secondaries funds and their sister semi-liquid products will face pressure to deploy at higher prices in LP-led deals. In response, we predict these funds will become increasingly focused on GP-led deals.
GPs will eagerly take the opportunity to up their assets under management and fee income by holding on to their well performing companies. While fee rates are lower on GP-led deals, the increased base for the fee at the new invested cost more than makes up for this, resulting in additional fee income for the same work.

Attractive pricing and deal selectivity will remain in 2026. While fundraising has remained uncertain at the smaller end of the market, and most of the dry powder is concentrated within large funds, buy-side capital is limited. However, on the supply side, this market can still grow meaningfully through continuous penetration, with LPs doing secondaries deals, particularly with the large cohort of investors that have entered private equity in the last decade. Better pricing and the ability for buyers to choose which deals to pursue across a flood of deal flow is likely to make the smaller end of the market more attractive for years to come.

PRIVATE CREDIT FOCUS

IN THIS SECTION

- Europe’s private credit market shifts structurally beyond bank lending
- Competition intensifies as discipline becomes the key differentiator
- Mid-market direct lending offers resilient yield and stronger protections
- Direct lending stabilises as spreads compress but fundamentals improve



MARCEL SCHINDLER

HEAD OF PRIVATE DEBT FOR EMEA

STEPSTONE GROUP

DIRECT LENDING DRIVES ON

THE BUYOUT BACKDROP

Market sentiment entering the end of 2024 was notably positive, buoyed by expectations of sustained economic growth and a significant acceleration in M&A activity, driven in part by an anticipated deregulatory push under the new US administration. These expectations did not materialise in 2025.

Instead, unpredictable trade policies introduced substantial uncertainty into the macroeconomic environment. This heightened volatility, and associated challenges with valuing businesses, acted as a constraint on buyouts and broader M&A volumes. This reduced the possible number of transactions available to private lenders, further increasing competitiveness. As a result, the borrower-friendly conditions that began to take shape in the second half of 2024 continued to prevail throughout 2025, and might continue into 2026.

LENDING TERMS

Overall direct lending issuance remained healthy in 2025, but still remained insufficient to absorb the considerable capital raised by private credit managers during prior fundraising cycles. The resulting supply-demand imbalance intensified competition, which contributed to a further compression of gross spreads – that is, contractual spread plus original issue discount – during 2025. Competitive pressures were most evident in the upper middle-market and large-cap segments, where loan documentation exhibited a notable loosening of terms, including increased prevalence of cov-lite structures and the broader acceptance of payment-in-kind (PIK) and PIK-toggle features.

While credit documentation in the lower and core middle market remained comparatively more conservative, the overall market trend reflected a continuation of increasingly accommodative conditions for borrowers. Nonetheless, relative to the broadly syndicated loan market, direct lending continues to offer a meaningful spread premium, and documentation remains structurally tighter.

MIDDLE-MARKET BORROWERS

Middle-market borrowers have generally demonstrated resilience amid ongoing macroeconomic headwinds. Earnings growth has remained positive across the majority of sectors, though signs of softness have emerged in the consumer sector. Credit metrics have shown stabilisation, with interest coverage ratios improving modestly in recent quarters. In addition, leverage levels and loan-to-value ratios have continued to decline, suggesting strengthening balance sheets and progressive improvement in overall financial stability for middle-market companies. Despite these constructive indicators, a modest rise in payment defaults is anticipated. Several credit accommodations employed in prior quarters, such as maturity extensions or PIK, are unlikely to prove sufficient for the weakest of issuers, some of which are expected ultimately to enter default regardless of earlier measures.

GOING INTO 2026

Looking ahead, the financial health of middle-market borrowers is expected to continue improving, supported by lower base rates that will reduce interest expenses and enable further deleveraging. However, from a pricing standpoint, material spread widening remains unlikely in the first half of the year. A meaningful widening of spreads would likely require a renewed acceleration in buyout activity, which would reduce competition among lenders and help rebalance market supply and demand.

Although uncertainty has gradually moderated since the second quarter of 2025, and the most recent quarter has shown early indications of M&A recovery, transaction volumes are still expected to fall short of the levels needed to absorb available lending capital. That said, uncertainty may decline further as the US administration approaches the 2026 midterm elections. In this context, a potential moderation in erratic policy communications could help restore business confidence and, in turn, may provide additional support for M&A activity.

Given the limited room for further spread compression, a constrained pipeline of additional rate cuts, and only a moderate anticipated increase in defaults, gross asset yields in direct lending portfolios are expected to decline only slightly before stabilising at levels above historical averages. Under these conditions, direct lending is positioned to continue offering compelling risk-adjusted returns.



MATHEW CESTAR

PRESIDENT

ARINI

MIDDLE-MARKET LENDING

Europe's middle market has been through a significant secular reset. For decades, the region functioned almost entirely with a bank-led lending ecosystem, whereby mid-sized companies would rely on their local institutions for capital. That era is now firmly in the past. Regulatory pressure, capital constraints and shifting bank priorities mean traditional lenders can no longer serve the market in the way they once did. The result is a structural financing gap, one that direct lenders are increasingly stepping into, providing flexible capital to the businesses that make up Europe's economic backbone.

At the same time, global investors are rethinking where they deploy capital. US private credit returns have tightened, and deal terms at the large end of the market have softened. Against that backdrop, Europe stands out for offering both the rule-of-law foundations investors expect and a genuine spread premium. Private loans in Europe typically price around 50 basis points above comparable risk in the US, largely due to the continent's legal complexity and the relative lack of scaled private credit competition across jurisdictions.

THE MID-MARKET'S ATTRACTION

Within this reshaped landscape, the non-sponsored middle market remains the most underserved, and presents attractive relative value in today's environment. These are often family-owned, locally embedded businesses that have not traditionally engaged with private credit firms. This means they require lenders who can deliver tailored, relationship-driven capital.

This part of the market tends to offer stronger documentation, lower leverage, and better covenant protection than equivalent sponsor-led deals. The return premium, roughly 150 basis points on average, is not a function of taking more risk, but of operating in a less intermediated, more structurally conservative ecosystem.

Importantly, these mid-sized companies have demonstrated resilience through a challenging macro environment. Over the past two years of elevated rates, inflation, and supply-chain disruption, many of these businesses have proven more adaptable than the broader market assumes.

MAKING THE MOST OF IT

Accessing this opportunity, however, is not straightforward. Non-sponsored direct lending requires on-the-ground networks, long-term relationships, and a clear understanding of local, legal, and commercial frameworks. It is fundamentally reliant on deep and differentiated origination.

Firms with the ability to source proprietary opportunities across Europe's major economies are well-positioned to capture both spread and structural protections that are difficult to obtain in more competitive corners of the private credit market. But it is not just the non-sponsor segment that presents a compelling opportunity. While a much more competitive landscape, there is also significant value to be found amongst the middle market sponsors that are truly differentiated in terms of sector focus and operational expertise. Much of the private credit industry has chased scale in recent years, pushing further into larger and larger transactions, and competing directly with the syndicated loan market. That has led to thinner margins and weaker terms.

In contrast, the non-sponsored middle market has held its ground. Documentation remains robust, covenants have not been diluted to the same extent, and lender protections are meaningfully stronger.

THE PATH FORWARD

Looking ahead, Europe's capital needs will continue to shift. Mid-sized companies require financing not just for buyouts, but for succession planning, expansion, capital expenditure, and working capital. Direct lending, particularly in the non-sponsored segment, is increasingly the most viable way to meet those needs.

In 2026, Europe's non-sponsored middle market will continue to be supported by a convergence of factors: a structural withdrawal of bank lending, limited competition, and, on average, attractive pricing and stronger documentation than is available elsewhere across private credit.

For investors seeking dependable yield, meaningful downside protection, and real diversification, this segment is one of the most attractive opportunites.



STUART MATHIESON

HEAD OF EUROPEAN PRIVATE CREDIT AND CAPITAL SOLUTIONS

BARINGS

RESILIENCE AND RISK

The global direct lending market has expanded at an extraordinary pace, attracting unprecedented capital and a broader borrower base across North America, Europe, and Asia Pacific. This surge has unlocked opportunities but also introduced new layers of complexity. Heightened competition has led some lenders to stretch leverage, accept tighter pricing, or ease documentation standards.

Sustainable performance isn't about chasing momentum, it's about discipline. Resilient managers stay rooted to core strengths and underwriting standards. Not all direct lending is equal – the traditional middle market continues to offer attractive risk-adjusted returns, especially first-lien senior debt supported by strong documentation.

Despite tighter spreads, origination yields have held steady at roughly 9% for the last 12 months through June, with premiums over broadly syndicated loans of 100-150 basis points in North America and 200-250 basis points in Europe. Sponsors remain willing to pay for resilience and certainty of execution. Muted M&A has slowed deal flow for some, but established lenders with scale, a large existing portfolio and permanent capital remain well-placed to source distinctive opportunities through off-market origination and add-ons from incumbent borrowers. Direct lending is maturing. Success now depends on discipline, scale, and deep relationships to navigate heightened competition.

ARE DEFAULTS A CONCERN?

Context matters. Defaults making news have been isolated, idiosyncratic events, more about fraud than credit stress, and outside core middle market lending, but they've prompted questions about risk amid macro divergence. AI-driven investment supports some sectors, while labour markets and consumer sentiment show strain. Policy volatility adds complexity.

A modest uptick in defaults is likely, especially in cyclical segments or where underwriting slipped. Managers are responding with proactive monitoring, swift remediation, and contractual levers to protect capital. The "red pen" signals prudent stewardship.

We're seeing a renewed focus on diligence and documentation: tighter covenants, stricter limits on incremental debt, and enhanced reporting. Investors are asking tougher questions, and managers are codifying risk controls in legal terms. Even in competitive environments, walking away from deals that fail standards is essential.

WHAT ROLE DOES PIK PLAY?

Payment-in-kind (PIK) features have attracted attention, but they remain immaterial in our portfolios. Our focus remains on performing senior secured, cash-pay loans. In Europe, borrowers may opt for PIK if needed, but uptake is limited – minimum cash-pay requirements of around 4% are standard. PIK may feature in the broader market, but it is not core to our approach or the middle market.

REGIONAL DYNAMICS

North America remains the largest and most mature market, though tariff impacts and margin pressure demand careful underwriting. Europe is undergoing structural change – non-bank lending is gaining share, and risk-adjusted returns remain attractive. Developed Asia Pacific offers selective diversification opportunities for those with local expertise. The ability to adjust exposures toward regions with the most compelling risk-adjusted returns is now a hallmark of sophisticated portfolio construction.

KEY TAKEAWAY FOR 2026

Direct lending is evolving – not fading. Headlines amplify noise, but the real story is a market rewarding discipline, risk management, and regional nuance. Success will hinge on partnering with managers focused on fundamentals and able to recalibrate as conditions shift.



PRIVATE EQUITY WIRE®

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