2026 Private Markets Outlook

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Manager selection and diversification matter

FRANKLIN TEMPLETON | Institute

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"As private market valuations have reset from their lofty 2021 levels, we believe that allocating capital in the coming year looks attractive across much of the private market ecosystem. We believe funds that deploy capital in today's market environment can negotiate favorable pricing, terms and covenants."

Executive summary

- *Our cyclical themes for 2026 are **broadening**, **steepening**, and **weakening**.*
- *We foresee **broadening opportunities** across global capital markets, driven by attractive profits growth outside the United States and by global monetary policy easing.*
- *Yield curves are apt to **steepen**, which would likely cause the dollar to remain **weak**.*
- *In private markets, we see the best opportunities in **private equity secondaries, real estate** and **real estate debt**.*

Global-macro outlook

For 2026, we see three macro themes emerging: *broadening, steepening, and weakening.*

Broadening reflects our conviction that investment opportunities across regions and asset classes are expanding. ***Steepening*** refers to yield curves, where falling short-term interest rates should incentivize many investors to move out of cash holdings and into risk assets, including equities, credit and duration fixed income. ***Weakening*** regards our view of the US dollar, which we think augurs well for emerging debt and equity markets, and would also be an important development for portfolio management and hedging strategies.

US equity outperformance has dominated investment returns in recent years. The United States boasts superior profitability, liquidity and a breadth of investment options—which we believe are unmatched anywhere.

But the global investment landscape is changing. New opportunities are arising based on improving profitability and more attractive valuations in other regions and markets. We anticipate earnings growth in emerging markets will rival that of the United States over the next 12 months. The prospects for Europe also appear set to improve, supported by monetary and fiscal policy easing.

As central banks cut interest rates, including the Federal Reserve (Fed), yield curves are likely to steepen. Investors will face rollover risks in their cash holdings. That should prompt many to shift into longer-duration and credit fixed income (public as well as private) assets.

Other factors will likely contribute to steeper yield curves. One is the surging demand for capital to fund innovation in artificial intelligence (AI) and energy infrastructure. Another is the wave of new government borrowing required to finance large budget deficits in many major economies.

Falling cash yields and steeper yield curves will also incentivize many investors to move into alternative assets, including private credit and private real estate, as they seek to boost income and find ways to diversify portfolio holdings.

Regarding the US dollar, various factors suggest to us that its decline is not yet over. Among them are probable further Fed rate cuts to offset a softening US labor market. Also, shifting global portfolio flows, reflecting more attractive equity and fixed income opportunities outside the United States, could contribute to dollar weakness.

The potential beneficiaries of dollar weakness include emerging market debt, where lower inflation (as import prices fall) will permit central banks to ease. Commodity markets also typically benefit from dollar weakness, as evidenced by 2025’s strong surge in precious metals’ prices. Accordingly, a weaker US dollar also reinforces a broadening of returns across capital markets, by region, sector and asset class.

Private market implications

As we shift our focus to 2026, we see a backdrop of new highs in equity markets, a resumption of the Fed's rate-cutting cycle and still-stubborn inflation. Geopolitical risks around the world remain elevated, with the markets still digesting the impact of trade tariffs and the long-term implications.

From a private markets perspective, there are a few issues that we are watching carefully: a modest pickup in exits (initial public offerings [IPOs] and merger-and-acquisition [M&A] activity), strong capital inflows, and a compression of direct lending spreads. Despite some high-profile defaults, we have not seen a meaningful change in default rates overall. Based on the current market backdrop, we see the following opportunities in private markets.

Private equity (PE): While exits have picked up modestly and valuations are down, we still favor secondaries due to attractive fundamentals and their built-in structural advantages. Many institutions and family offices still find themselves overallocated to PE and/or require liquidity to fund future commitments. To exasperate the stress, many have also committed capital for future deals, with distributions well below historical levels. Consequently, many institutions have instituted a formal secondary program to meet their liquidity needs.

From an investor perspective, secondaries have several built-in structural advantages that are particularly important in today's market environment. Because secondaries managers are buying seasoned assets, they are shortening the J-curve and returning capital to investors quicker. Secondary managers can diversify the holdings across vintage, general partner (GP), geography, industry and stage (venture capital, growth and buyout).

Private credit: In 2024, nearly 60% of global flows were allocated to direct lending; however, in 2025 deal flow (comprising 38% of capital raised) slowed dramatically.[1] Consequently, direct lending spreads have compressed and there are growing concerns about future performance.

While direct lending seemed to be late-cycle, we find more attractive opportunities with asset-based finance (ABF) and commercial real estate (CRE) debt, which have their own unique risk, return and correlation characteristics.

Our favorite investment in private credit is CRE debt, due in large part to the "wall of debt" that will need to refinance in the next several years. Banks have been reluctant to lend capital to this sector, and private credit managers can step in to fill the void, negotiating favorable pricing, terms and covenants.

Real estate: Real estate valuations are down substantially from 2021 peak valuations due to the headwinds faced and concerns about the office sector. In fact, many properties are now available below their replacement costs. We still have concerns about the office sector, but believe that multi-family, industrial warehouse and other sectors can provide attractive opportunities.

We think there is a real difference in putting capital to work today given the favorable backdrop, versus 2020-2021, when valuations were substantially higher. We believe investors should seek managers with dry powder to deploy capital, with experience navigating through multiple market cycles.

Infrastructure: We believe infrastructure represents an emerging opportunity. While many people think of infrastructure as roads, tunnels and bridges, we see the most attractive opportunities in areas such as digital infrastructure, decarbonization, deglobalization and demographics.

Digital infrastructure includes data centers, fiber optics and cell towers. Decarbonization and energy transformation reflect the growing emphasis on climate change and the need to respond and rebuild. Deglobalization is a trend reflecting the need to reshore our supply chains and logistics; demographics is the need to respond to population growth in certain regions and aging demographics in others.

1. Source: PitchBook. As of June 30, 2025.

Exhibit 1: Short-Term and Long-Term Returns

As of June 30, 2025

Strategy	1-year	3-year	5-year	10-year
Equity	15.06%	16.26%	12.57%	8.98%
Private Equity	10.13%	5.37%	14.91%	13.62%
Global Secondaries-All Strategies	6.19%	4.42%	15.46%	11.89%
Fixed Income	8.45%	2.31%	-1.58%	0.74%
Private Credit	6.87%	7.38%	7.59%	6.04%
Private Real Estate	0.39%	-3.09%	5.13%	5.89%
Private Real Estate Debt	4.27%	5.84%	6.59%	8.01%
Listed Infrastructure	26.00%	10.92%	11.52%	6.20%
Private Infrastructure	11.70%	9.44%	11.23%	9.71%

Sources: MSCI Indexes, SPDJI, MSCI Private Capital Solutions, Cliffwater, Bloomberg, Macrobond, Giliberto-Levy, PitchBook. Analysis by Franklin Templeton Institute. As of June 30, 2025. Not representative of the performance or portfolio composition of any Franklin Templeton fund.

Notes: Returns exceeding a year are annualized. The indexes are total returns in US dollar terms. All returns are net of fees, valued on a quarterly basis. The methodology for calculating the net of fee returns are in the Appendix. Indexes used: Equity: MSCI ACWI Total Return Index; Fixed Income: Bloomberg Global Aggregate Total Return Index Value Unhedged USD; Listed Infrastructure: S&P Global Infrastructure Total Return Index; Private Equity: MSCI Private Capital Solutions - Private Equity (all categories) across all regions; Private Credit: Cliffwater Direct Lending Index; Private Real Estate: MSCI Private Capital Solutions - Private Real Estate across all regions; Private Real Estate Debt: Giliberto-Levy High-Yield Real Estate Debt Index; Private Infrastructure: MSCI Private Capital Solutions - Private Infrastructure across all regions; Secondaries: MSCI Private Capital Solutions search results for global secondaries across all the strategies within the secondary market. Indexes are unmanaged and one cannot directly invest in them. **Past performance is not an indicator or a guarantee of future results**. Important data provider notices and terms available at www.franklintempletondatasources.com.

As the data in Exhibit 1 illustrates, over the long-run private markets have historically provided an illiquidity premium relative to their public-market equivalents. Over the short run, there can be periods like the last three years where the equity markets delivered above-average returns, and private equity returns lagged.

Over the last several years, we have experienced multiple market regimes, from easy money and near-zero interest rates, to rising rates and inflation, and then falling rates, stubborn inflation and elevated geopolitical risks. Consequently, we believe that manager/fund selection will be critical in distinguishing between the winners and losers, where we anticipate a larger dispersion of returns. We also believe that there will be a big difference in deploying capital today versus older vintages (2020-2021).

Overall, we remain constructive regarding the opportunities in private markets and believe that the current market environment creates headwinds for certain areas and tailwinds for others. We will explore the respective asset classes and related opportunities in the designated sections that follow.

Private equity: Secondaries continue to flourish

In 2025, we saw a modest pickup in exits, with several notable IPOs and M&A transactions. We also witnessed some high-profile institutions seeking liquidity in their private equity portfolios. We continue to believe that secondaries represent a core private equity allocation based on their investment merits and structural advantages.

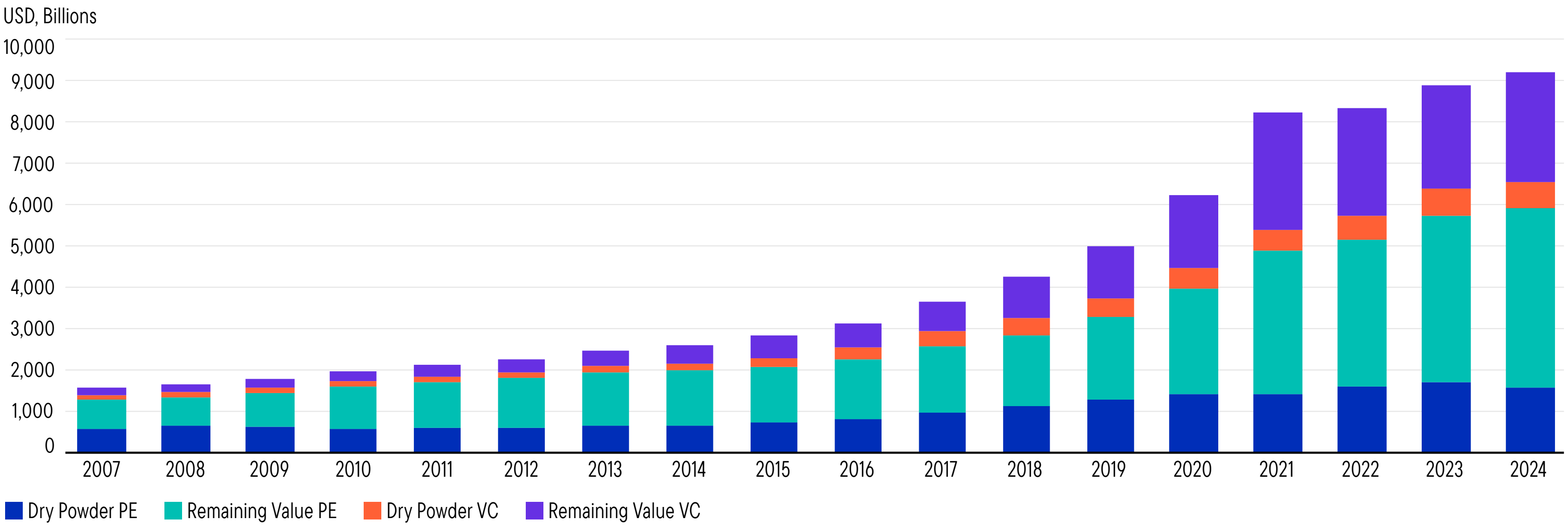
As credit and IPO markets reopen, sponsors are recalibrating valuation expectations, paving the way for increased deal flow. The growing demand from limited partners (LPs) for liquidity continues to shape market dynamics, highlighting its critical role and signaling further growth and evolution in the private equity sector.

To appreciate today's market environment, we need to reflect on the last several years. Leading up to 2021, there was incredible demand for PE, with record inflows pushing up valuations. Since 2022, exits have stalled, and distributions have declined precipitously. According to a 2025 Preqin survey, roughly 45% of institutional respondents say they are overweight private equity, while about 30% report overweight positions in real estate, private debt and infrastructure.

Exhibit 2: Rapid Growth of Private Equity

Global Private Equity (PE) and Venture Capital (VC) AUM

As of December 31, 2024



Source: PitchBook, Analysis by Franklin Templeton Institute.
Note: The term "Remaining Value" typically refers to the current value of assets that are still held by a private equity (PE) or venture capital (VC) fund, rather than having been sold or distributed. This means the investments that the fund still owns and has not yet exited, and it represents the unrealized portion of the fund's portfolio.

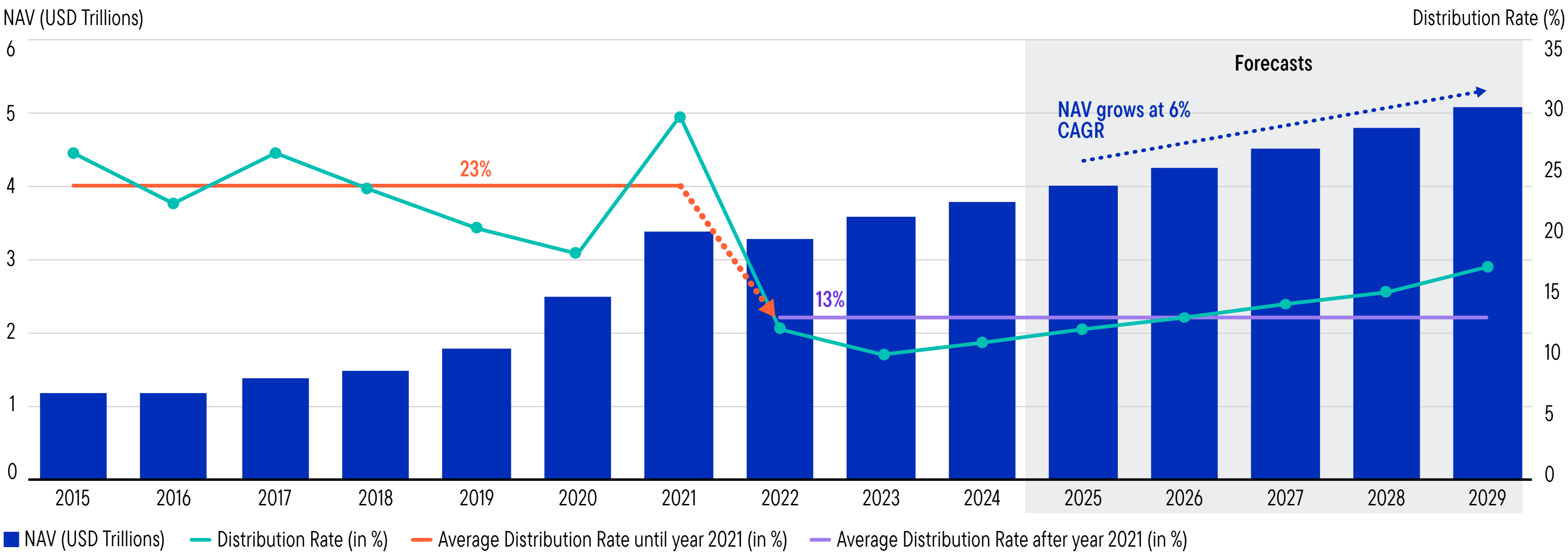
PE firms were distributing about 20% per year back to LPs in the years leading up to 2021, reflecting a period of robust exit activity and strong investor returns. However, in the current environment, distributions have declined significantly, with annual payout rates now hovering closer to 10% (see Exhibit 3). This sharp reduction is largely attributable to the slowdown in exit opportunities, such as IPOs and M&A transactions, which has resulted in fewer liquidity events for investors. Consequently, many institutions have found themselves overallocated to private equity, compounded by their ongoing commitments to new funds even as distribution rates have fallen. This dynamic has created a challenging environment for LPs, who must carefully manage both their existing allocations and future capital calls amid reduced cash flows from PE investments.

Amid lingering uncertainty, the secondary market has become an essential tool for institutional investors, empowering them to actively manage their portfolios by selling interests in older fund commitments and redeploying capital into emerging opportunities. This dynamic not only bolsters investor confidence but also creates a virtuous cycle—healthy secondary market activity supports a robust primary market by providing the flexibility needed for new commitments. Still, the secondary market remains undercapitalized, with available assets outpacing the capital ready to be invested.

Exhibit 3: Distributions Have Declined

Distribution Rate and NAV in Global Private Equity

As of March 31, 2025



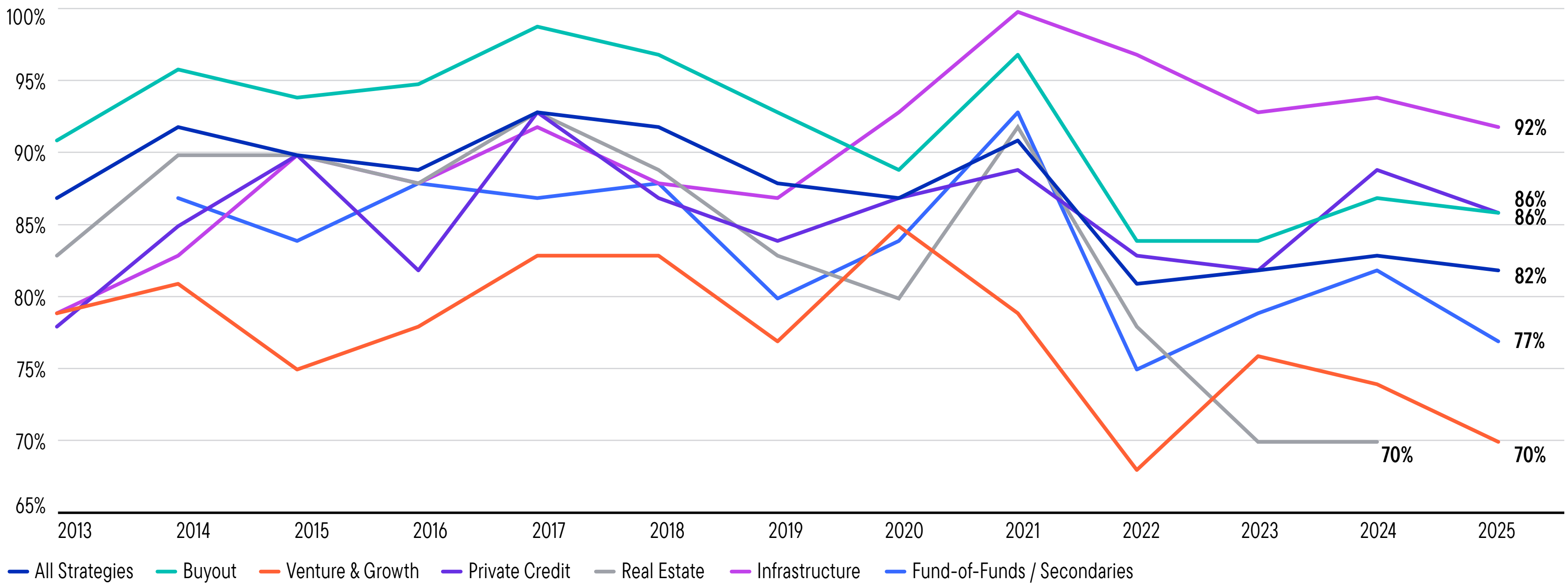
NAV = net asset value

Source: Lexington estimates, MSCI Private Capital Solutions Manager Universe. As of March 31, 2025. Notes: Global Private Equity includes Generalist, VC, Expansion Capital and Buyout. Distribution rate is calculated as annual distributions divided by prior year NAV. 2025-2028E hypothetical NAV grows at 6% CAGR. 2025-2028E includes hypothetical distribution rate growing at ~1% per year to reach 17% in 2029. Estimates are subject to change without notice. There can be no assurance that historical trends will continue, or that projections and assumptions will prove to be accurate.

Exhibit 4: Global Secondary Discounts

Historical Secondary Pricing (% of NAV)

As of June 30, 2025



Source: Mizuho Greenhill.

Because of the supply-demand imbalance, many institutions sought liquidity in the marketplace, and secondary managers stepped in to provide the needed liquidity. Secondary managers are often able to negotiate a discount to the assets' intrinsic value (see Exhibit 4).

Over the last several years, the secondary market has experienced unprecedented growth, with this year poised to reach US$200 billion in transactions (Mizuho Greenhill data). Elevated deal activity, a broader range of sellers, and expanding transaction types underscore the market's evolution into a more dynamic phase. It is worth noting that many institutions have developed formal secondary programs where they systematically sell positions to diversify their holdings and free up capital for future allocations.

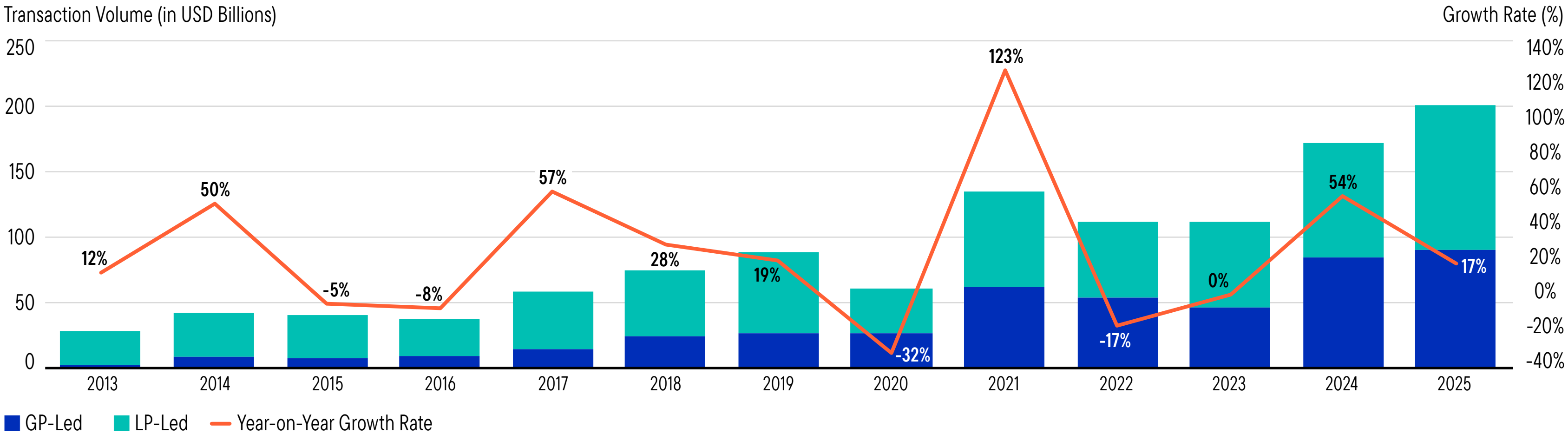
The opportunity set remains robust, driven by private equity's substantial inventory of assets that have been held for extended periods. This dynamic creates a fertile environment for secondary transactions, as many investors seek liquidity solutions amid persistently low distribution yields and fewer traditional exit opportunities. The prevalence of portfolio companies remaining unsold for a long time has increased the supply of assets available in the secondary market.

In recent years, we have seen an acceleration of both LP-led and GP-led transactions. Since 2015, secondary transaction volume has grown fivefold, with the proportion of GP-led transactions increasing from 18% in 2015 to an anticipated 45% in 2025, according to Mizuho Greenhill data (see Exhibit 5).

Exhibit 5: Secondary Market Has Grown Rapidly and Offers More Opportunities

Secondary Market Transaction Volume (in USD Billions): GP-led vs LP-led

As of June 30, 2025



Source: Mizuho Greenhill. As of June 30, 2025, representing estimates for full year of 2025. There is no assurance that any estimate, forecast or projection will be realized.
Notes: The secondary transaction volume for the year 2025 is projected to reach US$200 billion, comprising US$105 billion recorded in the first half of the year and an estimated US$95 billion for the second half according to Mizuho Greenhill. GP-led transactions are those initiated by the General Partner (GP) of a fund. A GP is an individual or entity responsible for managing a private equity fund. LP-led transactions are those initiated by the Limited Partners (LPs) themselves. An LP is an investor who provides capital to a private equity or venture capital fund. LPs are not involved in the day-to-day management of the fund.

LP-led transactions help institutions seeking liquidity, and GP-led transactions include both single-asset and multi-asset continuation vehicles (CVs). Single-asset continuation vehicles (SCVs) have emerged as an attractive exit option. With the IPO market experiencing ongoing weakness and traditional exit routes remaining subdued, these vehicles enable sponsors to provide liquidity to existing investors while maintaining exposure to high-conviction assets.

The continued evolution of secondary transactions, especially the rise of GP-led deals, marks a fundamental shift in the private equity landscape. As hold periods extend and more assets remain private for longer, both LP-led and GP-led transactions are expected to play key roles in providing liquidity and flexibility. Market participants should anticipate sustained and balanced activity in both transaction types, making secondary solutions an essential component of portfolio strategy and capital management in the years ahead.

GP-led secondary transactions have evolved into a strategic tool rather than a sign of distress. They enable general partners to extend ownership of high-performing assets beyond the original fund life, ensuring continuity in value creation and optimizing exit timing. For LPs, these deals offer flexibility—providing liquidity for those seeking portfolio rebalancing and rollover options for those wanting continued exposure under improved terms.

There is sometimes a misconception about GP-led transactions, assuming that they represent poor asset quality, but that view has evolved as the market has matured. Today, competitive processes and fairness opinions have become standard, and GP-led deals often involve premium assets supported by strong buyer demand and significant dry powder. Single-asset continuation funds, in particular, are gaining traction, offering concentrated exposure to top-performing companies.

SCVs account for 40% of GP-led volume and represent the fastest-growing segment within the broader secondary market. The volume of SCV transactions has grown sixfold since 2018, surpassing US$30 billion in 2024, and 2025 is on track to surpass that record. Nearly 70% of 2025's transactions have come from first-time issuers, underscoring the potential for further expansion.

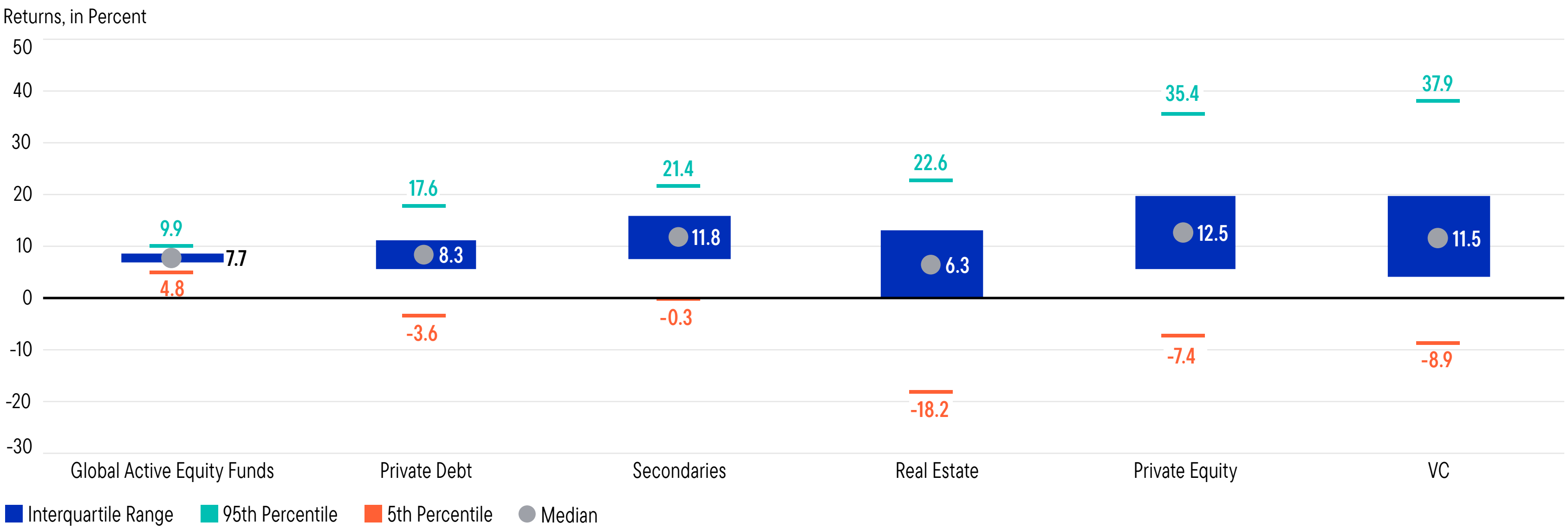
As a result, the expansion of continuation vehicles further diversifies and strengthens the opportunity set within the secondary market, enabling both buyers and sellers to achieve their strategic objectives despite current market constraints.

With liquidity still tight, the secondary market is the primary release valve for pent-up portfolio pressure. As the overhang dissipates, buyers should find multi-year opportunities to acquire quality assets at compelling discounts.

We believe that the ultimate beneficiary of the growth of this market is the investor who gains diversified PE exposure, a shorter J-curve and distributions. The diversification is typically across vintage, GP, geography and industry. Collectively, these structural advantages lead to a more predictable return pattern, narrowing the dispersion of returns of primary PE funds.

Exhibit 6: Dispersion of Returns: Public vs. Private Markets

As of June 30, 2025

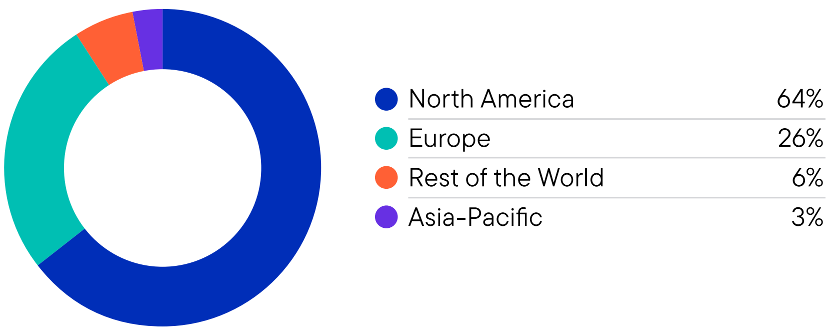


Sources: MSCI Private Capital Solutions, Morningstar. As of June 30, 2025. Notes: The returns for Global Active Equity Funds reflect the annualized returns for the period January 1, 2005 to June 30, 2025. The returns for real estate, secondaries, private equity, venture capital (VC) and private debt are the internal rate of return (IRR) of the funds with vintage years 2005 to 2018, as of June 30, 2025, for funds across all regions. **Past performance is not an indicator or a guarantee of future results.** See www.franklintempletondatasources.com for additional data provider information.

The secondary market demonstrates strong regional diversification, with North America and Europe serving as primary drivers of transaction volume, while Asia-Pacific delivers consistent growth. Robust activity in both large LP portfolio sales and GP-led transactions characterizes the North American market, fueled by ample buyer demand and substantial reserves of dry powder. European LPs are increasingly engaging in the secondary market, mirroring North American trends and contributing to pricing stability across various strategies. Meanwhile, Asia-Pacific continues to build momentum, particularly in continuation vehicles spearheaded by leading sponsors. This geographic spread not only enhances market resilience but also can provide investors with access to varied opportunities and mitigates the impact of broader macroeconomic risks.

Exhibit 7: Secondary Market Transaction Volume by Region

H1 2025



Source: Mizuho Greenhill. As of June 30, 2025. H1 = first half.
Note: Reported percentages may not total exactly 100% as a result of rounding.

Growth equity: Valuations have reset

For the larger private equity ecosystem, valuations have come down dramatically from 2021's peak, and we are beginning to see a pickup in exits. We believe this may be a good environment to selectively deploy capital in growth equity, especially for patient capital.

While generative AI garners most of the headlines, as if there is a single solution, we would argue that AI impacts multiple businesses, in a myriad of ways, both directly and indirectly. AI provides scale and efficiencies and potentially eliminates more menial tasks. It cuts across financial services, energy, data storage, transportation and biotech, among other areas.

The defense technology sector is emerging as a significant private capital opportunity, fueled by evolving global conflicts and growing demand for advanced security solutions. The US defense industry has seen major structural shifts over time; the post-World War II and Cold-War era supported a large, diversified industrial base, but after the Soviet Union's collapse and a reduction in defense spending, the sector consolidated from roughly 50 major contractors to just five today.

While consolidation brought efficiencies, it also reduced competition and slowed innovation. Today's landscape reflects a broader "techno-security competition," with nations vying for advantage in non-traditional arenas such as space, cyber and even social media. This environment requires a more diversified, technologically advanced defense base—one that includes both traditional defense players and emerging technology firms. The need for rapid innovation has been drawing in private capital and venture investment.

Key takeaway

Secondaries continue to look attractive and provide a number of structural advantages. As the market matures, we are seeing the growth of both LP-led and GP-led transactions. We believe that growth equity looks more attractive than in recent years, and there may be selective opportunities to deploy capital.

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Private credit: A diverse set of opportunities

The private credit market has evolved into a robust and diverse asset class, extending far beyond its origins in direct lending. Today, it encompasses a broad range of strategies, including ABF and CRE debt, both of which have experienced accelerated growth as traditional banks retreat from middle-market and asset-backed lending. This ongoing transformation, shaped by shifting macroeconomic conditions and regulatory frameworks, has created a wide array of opportunities for investors seeking alternatives to conventional fixed income.

Asset-based finance has emerged as a particularly dynamic segment within private credit. By providing exposure to both financial and tangible assets—ranging from consumer loans and equipment leasing to intellectual property—ABF offers contractual cash flows secured by collateral. This structure can enhance portfolio diversification and generate attractive yields, especially as intensified competition in direct lending exerts downward pressure on returns. The ability to access income streams tied to a variety of underlying assets enable investors to mitigate downside risk while capturing differentiated sources of potential return.

CRE debt represents another cornerstone of the private credit landscape, notable for its scale (with approximately US$6.1 trillion in outstanding debt[2]) and resilience across economic cycles. The sector's diverse lender base and persistent refinancing needs—exacerbated by stringent bank lending standards—have created fertile ground for private credit managers to negotiate attractive terms. Historically, CRE debt has delivered compelling risk-adjusted returns and exhibited low-to-negative correlations with other asset classes, reinforcing its value as a portfolio diversifier and reliable income generator.

As private credit continues to evolve into new verticals, it is well-positioned to address evolving borrowers and investor needs. In our view, the ongoing shift in the lending landscape, combined with persistent demand for alternative sources of income and diversification, points to continued robust growth and increasing relevance within institutional portfolios.

Private credit's evolution from direct lending into other verticals like ABF and CRE debt offers institutional investors compelling opportunities for attractive yield, diversification and improved risk-adjusted returns. Private credit has proven to be a resilient and versatile investment which we believe to be especially well-suited for today's changing market conditions.

The current macroeconomic environment—characterized by persistent inflation, changing interest rates and evolving regulatory pressures—has constrained traditional lending channels, particularly among banks. This has created a funding gap that private credit managers are well-positioned to address. At the same time, institutional investors are increasingly allocating to private credit strategies in pursuit of attractive risk-adjusted returns and low correlations to public markets, further fueling the sector's expansion.

As private credit continues to mature, strategic allocation decisions should reflect the evolving risk-return characteristics. Investors should assess liquidity needs before committing to illiquid strategies, diversify across private credit sub-strategies—including direct lending, ABF, and CRE debt—and remain vigilant to macroeconomic and sector-specific risks. Engaging with experienced managers who demonstrate rigorous underwriting and risk management is essential to optimizing outcomes.

2. Source: Trepp, Inc. As of September 30, 2024.

Commercial real estate debt

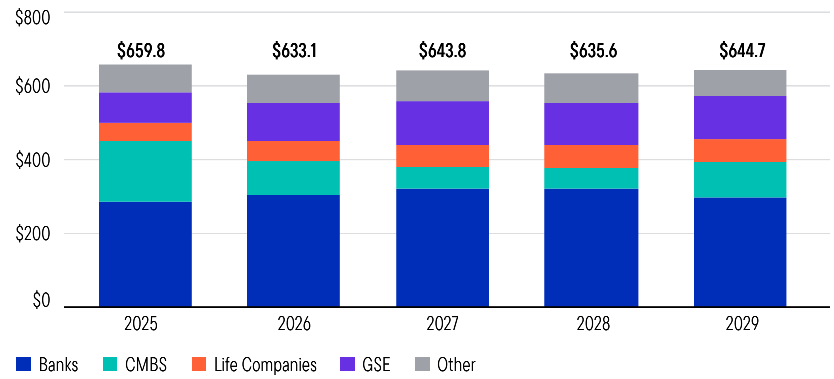
We believe CRE debt represents a compelling opportunity in today's market as a tool to diversify portfolios, seek incremental returns and access new sources of income. CRE debt has historically provided low-to-negative correlation to both traditional investments and other alternative investments.[3]

After the collapse of Silicon Valley Bank in 2023, regional banks have been reluctant to lend capital, which has left a void in the marketplace. The real estate market has significant refinancing needs, with an estimated US$2.6 trillion in real estate debt expected to require refinancing between 2026 and 2029 (see Exhibit 8).

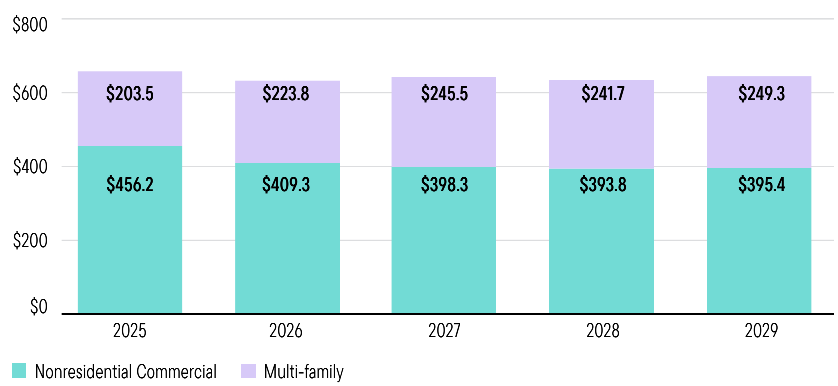
Multi-family and office sectors hold the largest outstanding debt, with offices facing ongoing stress and potential declines in valuation. Reports from Morgan Stanley highlight a "wall of debt" approaching, with valuations for office and retail properties potentially dropping by as much as 40% from peak levels. This environment creates both risks and opportunities; conservative lending standards and more realistic valuations may favor lenders, while distressed assets present the potential for attractive returns.

Exhibit 8: Wall of Debt Maturities for Commercial Real Estate Loans

By Lender
Debt Maturing (USD Billions)



By Property Type
Debt Maturing (USD Billions)



Source: Trepp. As of third quarter 2024. Note: "Other" category is primarily comprised of multifamily lending by Fannie Mae and Freddie Mac. This could also include financial companies (private debt funds, real estate investment trusts, collateralized loan obligations, etc.), pension funds, government or other sources.

3. Ten-year correlation as of June 30, 2025. Sources: MSCI Indexes, Bloomberg, ICE BofA Indices, Morningstar, PitchBook LCD, MSCI Private Capital Solutions, Cliffwater, Preqin, Giliberto-Levy, PitchBook, Macrobond, Analysis by Franklin Templeton Institute.

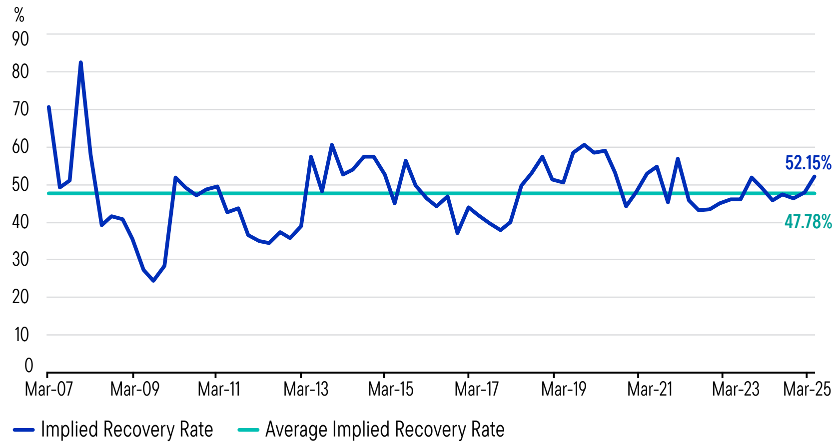
Looking ahead

The private credit sector is experiencing rapid transformation,[4] with individual investors driving record inflows and new fund launches, especially in the United States and Europe. While the market offers attractive yields and stability, rising competition and industry-specific challenges may impact future returns. Investors should closely monitor fund structures, manager quality and market dynamics when considering allocations to private credit.

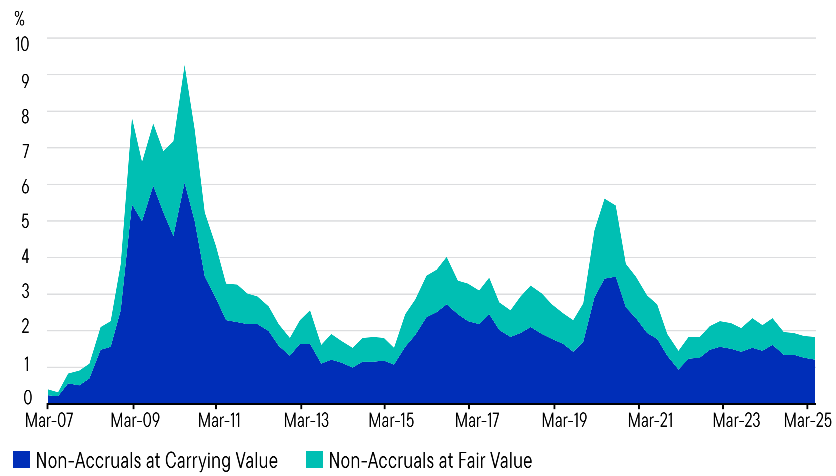
Some pundits have speculated that default rates could increase as spreads have compressed and payment-in-kind (PIK) loans are elevated based on historical levels. While the share of PIK loans has risen back to the highs seen in 2020, much of this increase reflects PIK-at-origination structures rather than stress-driven amendments. Further, this rise in the PIK loans has been in business development company (BDC) portfolios and is distinct from the trends of the broader market.[5] Besides, the share of loans in non-accrual status for the broader market remains stable with recovery rates witnessing an uptick to 52.15%, above the long-term average of 47.78% from 2007 to 2025 (see Exhibit 9). Also, borrowers in the direct lending market, much like their counterparts in the broadly syndicated loan market, have generally benefited from meaningful relief in funding costs, and the prospect of further Fed rate cuts points to additional relief ahead as base rates decline.

Exhibit 9: Direct Lending Recovery Rate Improves as Non-Accurals Remain Contained

Direct Lending's Recovery Rate



Direct Lending's Non-Accruals



Source: Cliffwater. As of June 30, 2025.
Index used: Cliffwater Direct Lending Index. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.

4. Source: "Wealthy Americans pour record sums into private credit funds." Financial Times. August 31, 2025.
5. Sources: LSEG Data and Analytics, BDC Collateral, Benefit Street Partners. PIK loans represent 14.1% of BDC portfolios, compared to approximately 10%-11% as of June 30, 2022.

PIK loans and bonds allow issuers to pay interest with additional debt instead of cash, helping conserve cash during growth or restructuring. While PIKs can offer higher yields to investors, they also can increase risk by deferring payments and potentially masking financial stress, which may lead to greater default risk if the borrower's performance does not improve.

As such, when evaluating PIK exposure, investors should assess whether the PIK feature is a proactive tool reflecting sound financial planning ("good" PIK), or a reactive measure in the face of financial trouble ("bad" PIK). This nuanced understanding helps investors better gauge risk and identify sustainable opportunities within private credit portfolios.

"Good" PIKs are structured at loan origination for companies with predictable cash flows, while "bad" PIKs are amendments to existing loans due to financial trouble. Investors should differentiate between proactive and reactive PIKs to better assess risk in private credit portfolios.

PIK can aid growth or leveraged deals, but may lead to compounding debt, higher default risk, and equity dilution, which could worry many investors. Its effectiveness depends on a company's financial position; for strong firms, it's a useful short-term tool, but for distressed ones, it may hide deeper issues and cause more debt. Careful evaluation is essential to determine if PIK supports long-term value.

While there has been a lot of attention focused on the amount of capital raised in provide credit, approximately 60% has been raised in direct lending (see Exhibit 11). We believe that that ABF and CRE debt represent early-cycle opportunities that are backed by collateral.

Beyond direct lending, private markets offer strong opportunities, notably in ABF and CRE debt. ABF leverages tangible assets like receivables or equipment for funding and tends to be less correlated with credit cycles, providing stability in volatile markets. CRE debt offers the potential for attractive risk-adjusted returns and is often backed by prime properties with structural protections. Resilient sectors such as industrial, multi-family, health care, and necessity retail help preserve income, making CRE debt a defensive choice for diversified portfolios, particularly as lower rates may further boost real estate.

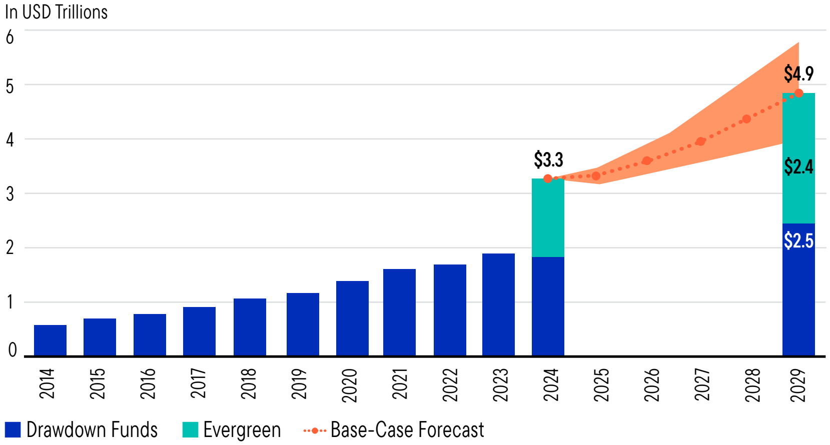
Additionally, infrastructure debt and specialty finance are drawing increased investor interest. Specialty finance, including lending to niche markets or underserved sectors, can provide differentiated sources of return that are less sensitive to broader credit market trends.

PitchBook predicts assets under management (AUM) in global private credit drawdown funds will grow 5.8% annually, reaching US$2.5 trillion by 2029, and global private credit evergreen funds will grow at 11% annually to US$2.4 trillion by 2029 (see Exhibit 10).

Exhibit 10: Forecast for Private Credit AUM and Composition

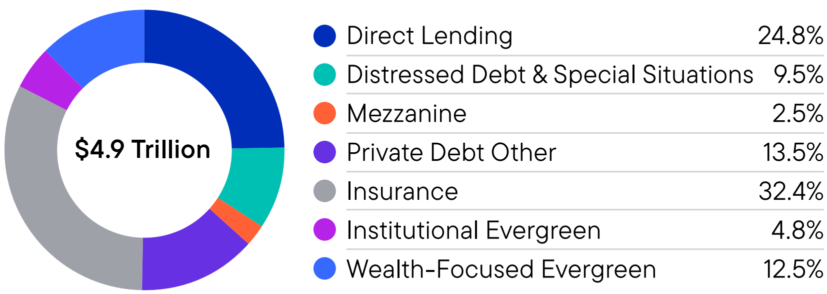
Private Credit AUM Forecast

Estimates as of April 14, 2025



Share of Base-Case 2029 Private Credit AUM Forecast by Substrategy

Estimates as of April 14, 2025



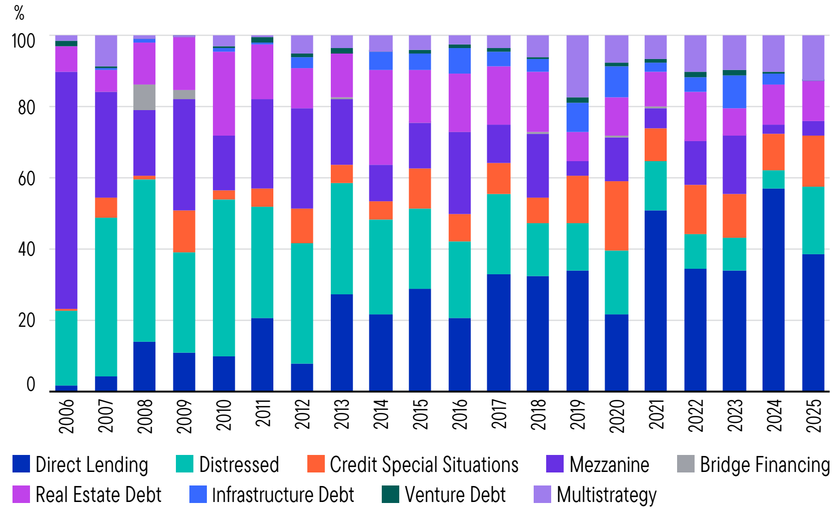
Source: PitchBook. Region: global. As of April 14, 2025. Notes: PitchBook forecasts as provided in its "2029 Private Market Horizons" report. Historical data does not include evergreen structures. Forecasts were generated on April 14, 2025. Above chart: "Evergreen" includes insurance AUM from Blackstone, KKR, Blue Owl Capital, The Carlyle Group, Ares Management Apollo Global Management and Brookfield. Below chart: Other debt includes our general debt category: real estate debt, venture debt and bridge financing. There is no assurance that any estimate, forecast or projection will be realized.

With PitchBook's expectations of an accelerated growth in evergreen funds for private credit, fund structures that offer some liquidity would favor segments of the private credit market that offer steady and predictable cash flows.

Exhibit 11: Direct Lending Accounted for about 60% of Capital Raised in 2024 as Other Strategies Paused

Share of Global Private Debt Capital Raised (USD Billions) by Type

As of June 30, 2025



Source: PitchBook. As of June 30, 2025.

With respect to the challenges in direct lending, we don't believe there is a systemic risk to the marketplace. Direct lending funds typically maintain portfolios that span various industries, geographies and company sizes. This diversification helps insulate the market from the impact of any single company's financial troubles.

Private credit represents a diverse set of opportunities, and we need to be careful and avoid painting all loans with the same brush. Rising defaults will likely occur in the lower-middle market, while default rates are expected to remain relatively restrained in the upper-middle market.[6] Nonetheless, the spreads are compressed in the upper-middle markets.[7] This necessitates more rigorous due diligence and diversification.

Most private credit managers tout their rigorous due diligence and risk-assessment processes before extending credit. They structure loans to minimize losses through collateral requirements, covenants and ongoing monitoring. These practices reduce the likelihood that an isolated event would trigger widespread issues. Smaller debt facilities in the upper middle market tend to feature tighter maintenance covenants, reflecting lenders' emphasis on preserving credit quality and mitigating risk in less diversified capital structures. For example, deals under US$350 million show a 97% prevalence of maintenance covenants, while those exceeding US$1 billion drop sharply to 38%, underscoring how covenant strictness diminishes as deal size grows.[8]

Persistent demand for private credit continues to underpin the market, even as macroeconomic headwinds and tighter lending standards persist. Flexible management of distressed issuers, including proactive risk assessment, tailored restructuring strategies and adaptive loan terms enables credit managers to navigate challenges and often preserve value for both lenders and borrowers.

Moreover, if M&A activity picks up, direct lending stands to benefit. Increased M&A activity drives demand for financing, as companies look for capital to support deals and expansion. Direct-lending funds, which tailor credit solutions for middle-market firms, are well-placed to meet this need. Active M&A can boost deal flow and yield opportunities, making direct lending more appealing to investors looking for diversification and higher returns.

With the prospect of interest-rate cuts on the horizon, the interest burden on leveraged floating-rate assets is likely to decrease. This reduction in funding costs can ease financial pressure on borrowers, which in turn may help to stabilize or even lower default rates within the private credit market. Combined, these factors support a constructive outlook for private credit, as diversified portfolios and skilled management help mitigate risks and capitalize on evolving opportunities.

Key takeaways

While some have expressed concerns about the amount of capital flowing into direct lending and compressed spreads, we believe that there are attractive opportunities in ABF and CRE debt. Within direct lending, we think there are attractive opportunities in the middle market for seasoned managers.

6. As of October 20, 2025, the expected default rates are 3.00% for direct lending in the lower middle market, 1.25% for direct lending sponsored debt, and 1.50% for the overall direct lending market. Sources: KBRA Analytics, Benefit Street Partners. There is no assurance that estimates materialize as predicted.
7. Spreads in the upper-middle market have compressed from the highs of 636 basis points from February 28, 2023 to 514 as of September 30, 2025. Sources: KBRA Analytics, Benefit Street Partners.
8. Data from S&P and Morgan Stanley Research, sourced from Benefit Street Partners' article titled "Public insights on private credit: The evolving landscape of upper middle-market direct lending" dated November 21, 2025.

Real estate: Valuations have reset

Real estate fundamentals have stabilized and valuations now look more attractive to us. We believe that private real estate valuations have come down to reflect the higher interest rate environment and see potential opportunities in industrial warehouse, multi-family, health care sectors and necessity retail.

With real estate having generated a lot of negative headlines, particularly with ongoing concerns about the office sector, valuations fell significantly from 2023 to mid-2024. While it is difficult to call market peaks and troughs, it is tough to argue that there are better opportunities to deploy capital than today in real estate as compared to the last several years. In addition to the valuation story, we believe falling rates and the lower cost of capital should be positive for the real estate market (equity and debt).

As we have discussed in past outlooks, we need to dig a little deeper when discussing allocating to real estate. The office sector has faced considerable headwinds which pre-date COVID-19. On the other hand, the industrial warehouse sector has had tailwinds, with the explosive growth of ecommerce and re-shoring, due to concerns about our supply chains and moving manufacturing back to the United States.

Excluding the office segment, other real estate sectors—such as industrial warehouse, multi-family, health care and necessity retail—have demonstrated resilient operational performance despite recent downward adjustments in valuations. This operational strength has helped preserve the income-generating characteristics of these assets, reinforcing their appeal for investors focused on stable cash flows. We believe the ability of these sectors to maintain robust fundamentals, even in a higher interest-rate environment and amid broader market volatility, underscores their defensive qualities and potential for consistent yield within a diversified portfolio.

Exhibit 12: Real Estate Sector Performance

As of September 30, 2025

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Retail 12.89%	Industrial 13.42%	Retail 15.27%	Industrial 9.22%	Industrial 12.77%	Industrial 14.30%	Industrial 13.37%	Industrial 11.77%	Industrial 43.34%	Industrial 14.54%	Hotels 10.32%	Hotels 6.52%	Retail 5.10%
Industrial 12.32%	Retail 13.12%	Industrial 14.39%	Retail 9.04%	All Property 7.06%	Hotels 7.57%	Offices 6.60%	Apartments 1.82%	Apartments 19.91%	Hotels 9.96%	Retail -0.90%	Retail 5.34%	Apartments 4.25%
All Property 11.01%	All Property 11.97%	All Property 13.50%	All Property 8.00%	Offices 6.25%	Offices 6.85%	All Property 6.42%	All Property 1.61%	All Property 17.70%	Apartments 7.07%	Industrial -4.07%	Industrial 2.65%	All Property 3.72%
Apartments 10.42%	Offices 11.91%	Hotels 13.22%	Apartments 7.32%	Apartments 6.17%	All Property 6.71%	Apartments 5.52%	Offices 1.57%	Offices 6.11%	All Property 5.52%	Apartments -7.33%	Apartments 1.48%	Industrial 3.39%
Offices 9.92%	Hotels 11.06%	Offices 12.92%	Offices 6.27%	Retail 5.67%	Apartments 6.07%	Hotels 3.51%	Retail -7.48%	Hotels 5.48%	Retail 2.70%	All Property -7.94%	All Property 0.43%	Hotels 2.64%
Hotels 7.69%	Apartments 10.36%	Apartments 11.98%	Hotels 4.72%	Hotels 4.93%	Retail 2.18%	Retail 1.90%	Hotels -25.57%	Retail 4.23%	Offices -3.36%	Offices -17.63%	Offices -7.74%	Offices 2.56%

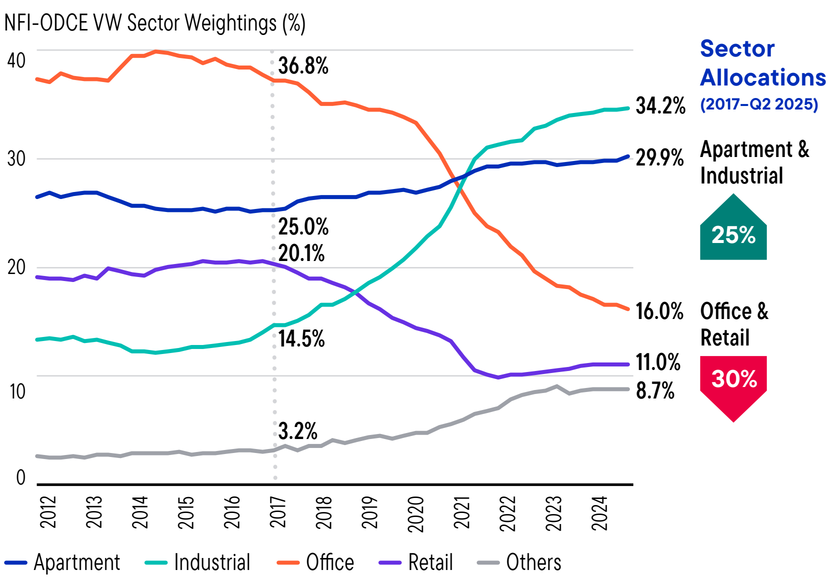
Sources: NCREIF, Macrobond. Analysis by Franklin Templeton Institute. As of September 30, 2025. Not reflective of the performance or portfolio composition of any Franklin Templeton fund.
Notes: Indexes used: NCREIF National Property Index, NCREIF Office Property Index, NCREIF Apartment Property Index, NCREIF Industrial Property Index, NCREIF Retail Property Index and NCREIF Hotel Property Index. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.** See www.franklintempletondatasources.com for additional data provider information.

As illustrated in Exhibit 13, allocations to the office and retail sectors have been falling over the last several years, while the industrial and multi-family sectors as well as the alternative sectors have been rising. Despite the challenges with retail, necessity retail, like grocery-anchored centers, continues to show strong fundamentals across supply and demand and continues to be a target for investment. These are secular trends that we think will persist in the coming years.

Real estate is not a monolithic investment decision—it is a diverse set of strategies that will respond differently to macro and geopolitical trends. We believe seasoned managers who can identify good properties, at attractive valuations, should thrive in this challenging environment; those who lack the experience and resources may struggle in deploying capital.

Exhibit 13: Private Real Estate Sector Allocations

As of Q2 2025



Sources: NCREIF; Clarion Partners Investment Research. As of the second quarter 2025. Note: NFI-ODCE VW is NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE) Value Weighted. The NFI-ODCE is a capitalization-weighted index based on each fund's net invested capital, which is defined as beginning market value net assets (BMV), adjusted for weighted cash flows (WCF) during the period. The "Others" category includes health care, self-storage, senior living, etc. See www.franklintempletondatasources.com for additional data provider information.

Macro themes

As noted in our 2025 outlook, there are a number of macro themes that we think will drive performance across the sectors that should persist for the foreseeable future: demographics, innovation, shifting globalization, housing and resiliency.

Demographics: Shifting demographic trends—with Millennials and Gen-Z driving consumption and housing demand—are boosting industrial, retail and multi-family sectors. Baby boomers are migrating to southern, tax-friendly states, increasing demand for senior care and medical facilities.

Technology and innovation: The surge in interest and spending around AI serves as a reminder of technological innovation. While the technology itself is expected to drive spending in data centers, chip facilities and energy, it will also likely drive demand toward the "innovation" clusters that create, invest in and build innovative technology. E-commerce will likely continue to drive the growth of fulfillment centers and industrial parks. The ongoing boom should continue to benefit life sciences, health care, and supply-chain facilities.

Shifting globalization: Supply-chain failures during the COVID-19 pandemic, alongside growing geopolitical tensions, have increased focus and action on diversifying and bringing supply chains closer to home. This will likely lead to more robust and localized supply chains, creating new potential investment opportunities such as mission-critical manufacturing and research and development facilities, driving the need for new industrial real estate space, properties serving last-mile delivery and e-fulfillment centers.

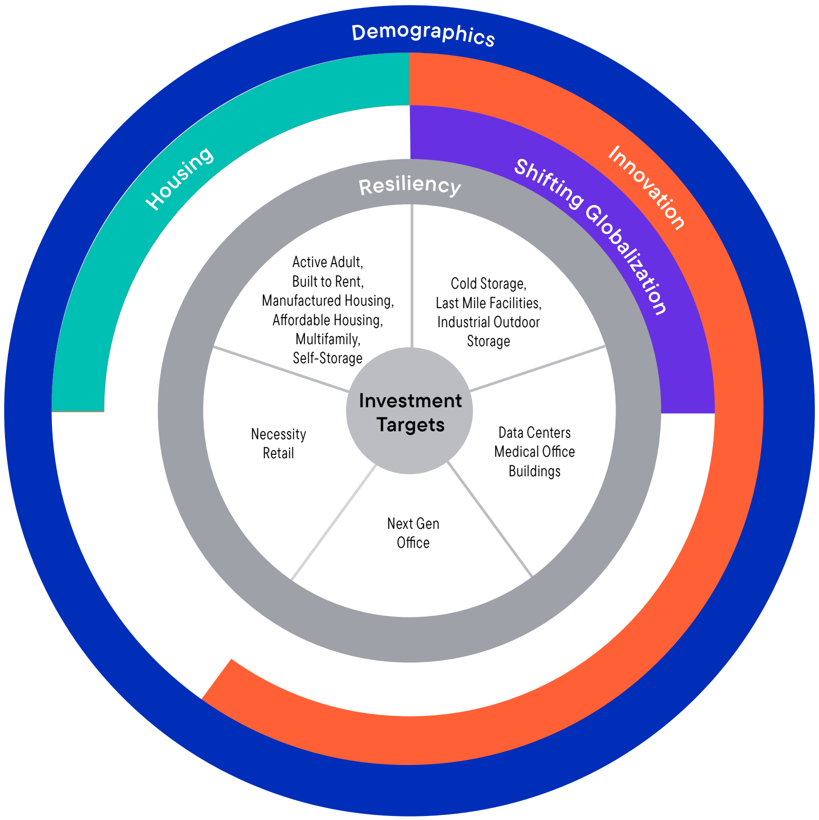
Housing: Housing affordability and inventory levels are near all-time lows, amid underbuilding, strong demand and high mortgage rates. Strong demographic tailwinds from Millennials and Gen-Z household formation are leading to fundamental strength in housing demand, while affordability challenges are leading to a strong push into rental housing. This dynamic offers investors multiple opportunities to address the sector's challenges, including opportunities in traditional multi-family, single-family rentals (SFR) and affordable housing.

Resiliency: Severe weather events in the past several years have helped sharpen focus on the resilience of properties. Sustainable building processes are critical to providing repeatable cash flows through economic cycles and can lead to significant financial benefits. Sustainable buildings thus often command valuation and rent premiums, while updating obsolete buildings represents a large opportunity.

How does this translate into opportunities?

The current investment landscape, and the above macro themes, lead us to a few areas of opportunity: multi-family, industrial warehouse, senior housing, medical offices and necessity retail. Additionally, within the traditional sectors, extended sectors also exist. These sectors—which include health care, housing and distribution—expand beyond the traditional four property types and are driven by the same themes. Examples of these extended sectors are industrial outdoor storage, senior housing, student housing, build-to-rent and self-storage.

Exhibit 14: Macro Themes Offer a Large and Diverse Investment Opportunity Set



Source: Clarion Partners Investment Research.

Multi-family: This sector sits at the center of demographic change and the need for housing. Millennials and Gen-Z have unique needs and tastes for housing. As baby boomers retire and downsize, this is driving demand for age-targeted housing. Historically low housing affordability, driven in part by high mortgage rates but structurally by low supply, is increasing demand for the rental market.

Industrial warehouse: The strong demand and performance of this sector is likely to continue, in our view. We believe steady consumption growth, buoyed by the higher earnings of the digitally native Millennial and Gen-Z cohorts, will drive e-commerce and thus warehouse demand. This sector could also benefit from the shifting trade patterns that have led to reshoring and onshoring manufacturing.

Senior housing and medical office: We believe aging demographics and the resultant need for specialized care will drive growth and demand in senior housing facilities across independent and assisted living, as well as medical office buildings and specialty outpatient health care facilities. Over the long run, we think this same trend—coupled with technological innovation—will drive the life sciences sector, which includes biotechnology, pharmaceuticals, medical devices and genome research, among other areas.

Necessity retail: As Millennials and Gen-Z enter their prime earning and spending years, necessity retail properties will likely benefit, alongside e-commerce, which would be positive for grocery and necessity formats. Technological advancements in omnichannel retail are driving demand near consumers, and we expect this trend to continue.

Key takeaways

We believe that real estate broadly looks attractive, with valuations down substantially from the peak in 2021. We remain concerned about the office sector, but believe there are attractive opportunities in multi-family, industrial manufacturing, senior living, and necessity retail.

Infrastructure: Digital, deglobalization, decarbonization and demographics

Historically, infrastructure referred to the essential physical systems underpinning a society: transportation networks, utilities and public facilities. Today, its scope has broadened to include digital infrastructure (cell towers, data centers, fiber-optic cables), energy storage, water treatment and other systems vital for societal connectivity and economic activity. The ability to connect communities, facilitate economic growth and support essential services characterizes infrastructure assets.

Modern infrastructure projects can be public, private or hybrid, and typically involve large-scale, long-duration investments that generate tangible assets and preserve real value over time. Their essential nature results in less elastic demand, limited competition due to high barriers to entry and often regulatory oversight—attributes that insulate them from standard market cycles.

There is significant and growing demand for infrastructure development, energy transition solutions and enhanced digital transformation capabilities. The increasing movement of supply chains back to domestic markets through reshoring and onshoring initiatives further exacerbates this demand. These strategic shifts are driving investment and innovation across multiple sectors.

However, ongoing global economic uncertainty, active discussions around tariffs, and broader geopolitical instability are moderating the momentum for dealmaking. These factors are contributing to a more cautious approach among investors and dealmakers, even as underlying demand for modernization and resilience in critical sectors remains robust.

While ongoing global economic uncertainty, active discussions around tariffs, and broader geopolitical instability continue to influence dealmaking dynamics, it is important to note that the impact varies across sectors. Despite these headwinds, fundraising has reached record levels, and deal activity in digital and energy sectors remains exceptionally strong, partially fueled by advancements in AI.

Meanwhile, areas such as transport and US domestic renewables—particularly offshore wind—face more pronounced challenges that may moderate deal momentum in those specific pockets. Overall, investor and dealmaker caution is evident, but underlying demand for modernization and resilience in critical sectors continues to drive robust activity where conditions are favorable.

Exhibit 15: Broad Sectors and Examples of Infrastructure

Sector	What It Is	Illustrative Assets
Transportation	Movement of people and goods	Toll roads/bridges; airports; rail/transit; ports/terminals
Power	Generation and networks delivering electricity	Regulated utilities; renewables (solar/wind/hydro); transmission & distribution; battery/storage
Energy Infrastructure	Logistics enabling energy flows	Pipelines; gathering & processing; storage
Digital Connectivity	Networks enabling data & connectivity	Towers; fiber (backbone/last mile); data centers
Social Facilities	Public services facilities	Schools; hospitals; public safety/civic assets

Source: Franklin Templeton Institute.

Current trends: The new era of infrastructure investment

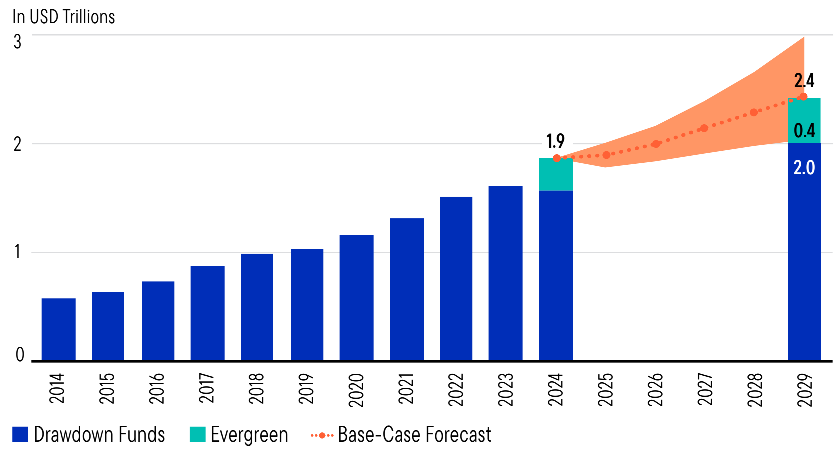
Private infrastructure has matured into a deep, diversified opportunity set supported by both capital formation and system-level investment needs. Real assets fundraising has averaged approximately US$135 billion per year globally since 2017, with total assets under management ("AUM") of approximately US$1.5 trillion and rising.[9] Deal flow remains robust—with approximately 1,951 transactions totaling US$311.2 billion in 2024—underscoring breadth across sectors and strategies. Meanwhile, the global investment gap persists; infrastructure needs are projected at about US$94 trillion by 2040, with a shortfall of US$15 trillion versus current trends.[10]

Infrastructure investment appears set to climb as governments and companies rethink supply chains. PitchBook predicts assets under management (AUM) in global real assets will grow 5.4% annually, reaching US$2.4 trillion by 2029—with about 75% in infrastructure (see Exhibit 16). Advances in AI, the energy transition and shifting global trade are driving increased demand for real assets and boosting investor confidence.

Exhibit 16: Forecast for Real Assets AUM and Composition

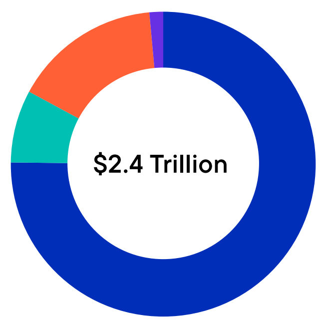
Real Assets AUM Forecast

Estimates as of April 14, 2025



Share of Base-Case 2029 Real Assets AUM Forecast by Sub-Strategy

Estimates as of April 14, 2025



Infrastructure	75.2%
Natural Resources	7.7%
Institutional Evergreen	15.7%
Wealth-Focused Evergreen	1.5%

Source: PitchBook. Region: global. Note: PitchBook's forecasts provided in its "2029 Private Market Horizons" report. Historical data does not include evergreen structures. Forecasts were generated on April 14, 2025. There is no assurance that any estimate, forecast or projection will be realized.

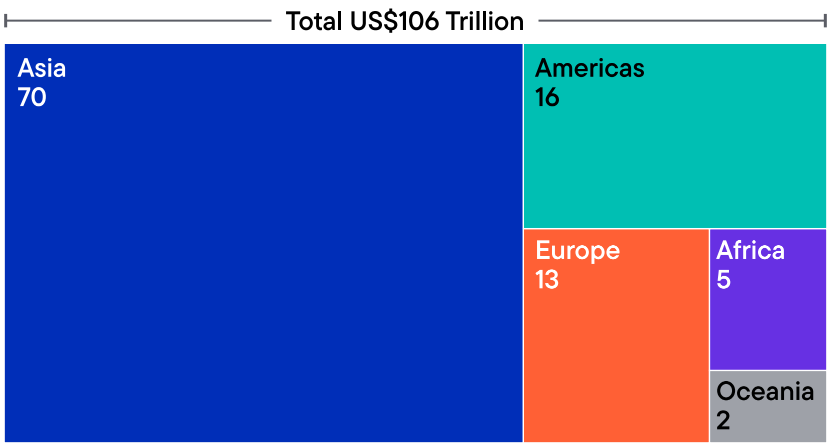
9. Source: PitchBook. As of December 31, 2024.
10. Source: Global Infrastructure Hub (a G20 Initiative) and Oxford Economics report titled "Global Infrastructure Outlook," published in July 2017. There is no assurance that any estimate, forecast or projection will be realized.

Globally, regions are intensifying investment in infrastructure to address economic growth, climate imperatives and technological change. Digital infrastructure in particular requires robust local and global communication systems spanning wireless, wired fiber and data centers. As internet and data demand escalate, the need for investment across these subsectors is expected to increase substantially.

According to McKinsey, more than half of the infrastructure need will come from developing economies over the next decade.[11] Thus, we expect developing economies to create a significant investment opportunity.

Exhibit 17: A Developing Opportunity in Developing Markets

Total Infrastructure Investment Projected through 2040, by Region in USD Trillion



Sources: McKinsey & Company's report titled, "The Infrastructure Moment" dated September 9, 2025; Food and Agriculture Organization; Global Infrastructure Hub; International Energy Agency; International Monetary Fund; Organisation for Economic Co-operation and Development; Preqin; United Nations; World Bank; World Economic Forum. There is no assurance that any estimates, forecasts or projections will be realized.

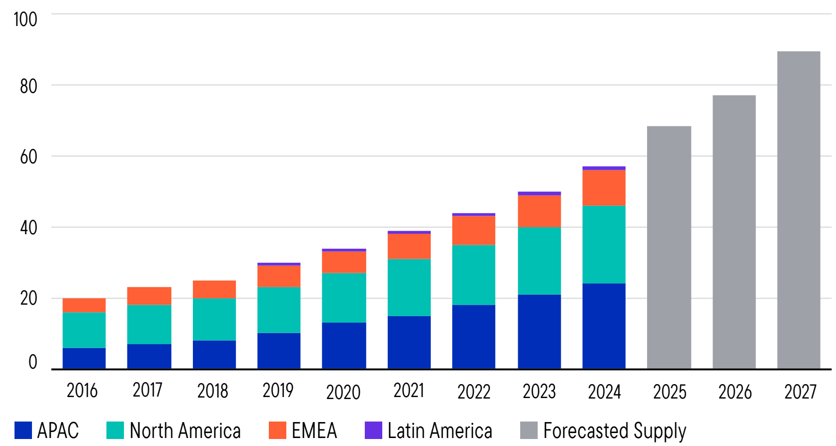
Mega-trends: Secular drivers of infrastructure growth

Four key mega-trends are propelling global infrastructure investment.

1. **Digital infrastructure:** The surge in AI, cloud computing and remote work has spiked demand for data centers, fiber networks and mobile connectivity (see Exhibit 18). As per Boston Consulting Group, in 2024 alone, investments in data centers soared to US$50 billion, up from US$11 billion in 2020,[12] highlighting exponential growth.

Exhibit 18: Investments in Data Centers Surging

Data Center Supply Worldwide, by Region (in Gigawatts)



Sources: Goldman Sachs; Statista. As of February 2025. Forecasts are provided by Goldman Sachs. There is no assurance that any estimate, forecast or projection will be realized.

11. Source: "The infrastructure moment." McKinsey & Company. September 9, 2025.
12. Source: "BCG: Private Infrastructure Investment is Regaining Momentum." Data Centre Magazine. March 18, 2025.

2. **Decarbonization and energy transition:** Climate goals require doubling annual investment in power grids to US$600 billion by 2030.[13] Renewables, grid modernization and battery storage are essential for integrating variable power sources and enhancing grid stability (see Exhibit 19). New technologies will need to bring these solutions to a broader base in a more efficient and affordable fashion.

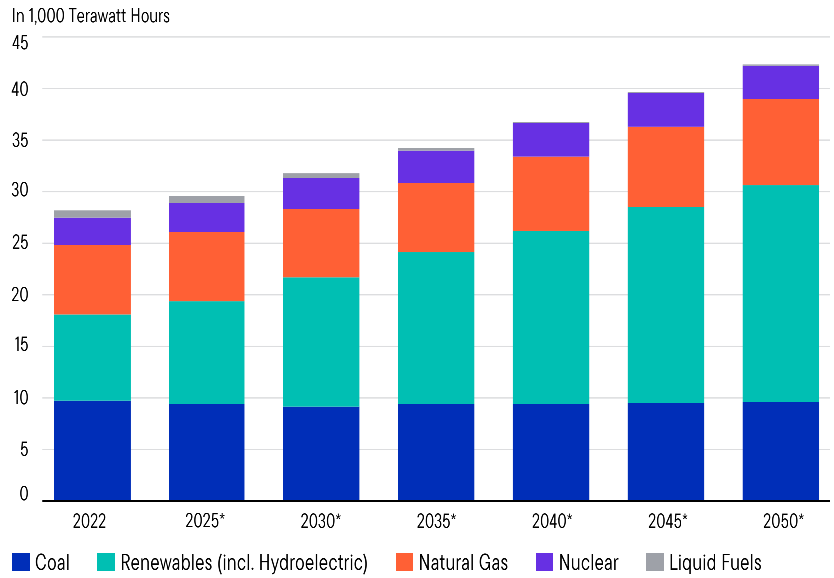
   According to the latest estimates from McKinsey analysis, meeting net-zero targets will require spending US$9.2 trillion a year on physical assets between now and 2050, up from US$3.5 trillion today.[14] In terms of energy consumption, emerging markets are projected to drive global energy demand, both in absolute terms and in growth rate (see Exhibit 20).

3. **Deglobalization and critical supply chains:** Supply chains are being reconfigured for resilience, with logistics, energy and industrial infrastructure supporting domestic manufacturing and essential industries.

4. **Demographics and changing societal needs:** Urbanization and population growth—projected to reach 9.7 billion by 2050[15]—are intensifying demand for social infrastructure, mass transit, utilities, life sciences and agri-tech.

Exhibit 19: Powering the Future—Investments on the Rise

Global Outlook on Electricity Generation 2022-2050, by Energy Source



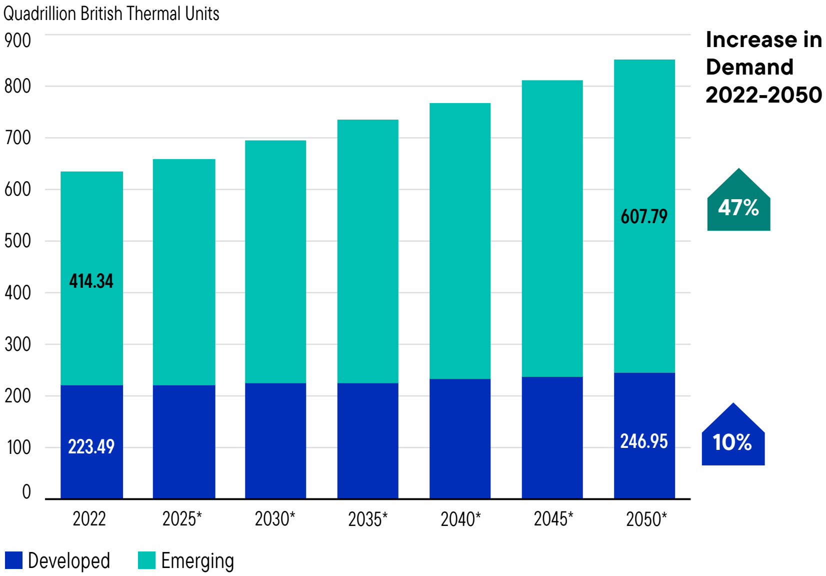
Sources: The U.S. Energy Information Administration (EIA); Statista. As of October 2023. Forecasts are provided by EIA. *Forecasts are from year 2025 onwards. There is no assurance that any estimate, forecast or projection will be realized.

4 Private market implications
6 Private equity
12 Private credit
18 Real estate
22 Infrastructure
27 Key takeaways

13. Source: "Electricity Grids and Secure Energy Transitions." International Energy Administration. November 2023.
14. Sources: "The net-zero transition: What it would cost, what it could bring," McKinsey Global Institute, January 2022; and "Accelerating progress on future-ready infrastructure," McKinsey Global Institute, February 2024.
15. Source: United Nations Department of Economic and Social Affairs, World Population Prospects 2024

Exhibit 20: Global Demand for Energy

Global Total Primary Energy Consumption Forecasts: Developed vs Emerging Countries



Source: The U.S. Energy Information Administration. Analysis by Franklin Templeton Institute. As of October 2023. Developed countries include the United States, Canada, Western Europe, Japan, Australia and New Zealand. Emerging countries include Mexico, Brazil, other Americas, Eastern Europe, Russia, South Korea, China, India, other Asia Pacific, Africa and Middle East. Forecasts are provided by EIA. *Forecasts are from year 2025 onwards. There is no assurance that any estimate, forecast or projection will be realized.

Major trends are reshaping both new and existing infrastructure. Utilities, especially electric transmission systems, face pressure to support decarbonization and the rapid expansion of data centers. Waste management is key for sustainable growth and reindustrialization, enabling environmental stewardship amid urbanization. Transport (rail, ports, highways) and water systems are being modernized for shifting trade, electric vehicles and climate resilience, with digital solutions like smart metering and leak detection. For investors, upgrading and modernizing legacy infrastructure is as critical as new development, supporting sustainability and meeting evolving global demands.

Key takeaways

We believe infrastructure represents an attractive opportunity for the years to come, and that digital, decarbonization, demographics and deglobalization are the key themes that will drive growth.

Key takeaways: Manager selection and diversification matter

Volatility has become a defining feature of today's investment landscape, from geopolitical risks to changing trade policies and social unrest. The markets have moved from a period of easy money, near-zero interest rates and tame inflation to an environment of rising rates, high inflation and elevated geopolitical risks, and subsequently to an environment of falling rates, stubborn inflation and slowing growth.

Consequently, yesterday's playbook will need to be adapted to today's market environment. Correlations across most traditional investments have increased over the last several decades, especially in periods of market shocks and uncertainty. Therefore, in our view, diversification is no longer an option for dampening portfolio volatility—it is an essential tool in building better portfolios.

In response to these persistent uncertainties, a growing number of investors are allocating more capital to private markets. Asset classes such as private equity, private credit, real estate and infrastructure offer the potential for attractive, differentiated returns and can serve as a buffer against the volatility and unpredictability of public markets. These alternatives are becoming crucial tools for building portfolio resilience and ensuring long-term financial stability.

- **Not all private markets will thrive in today's market.** While we are overall constructive on the private markets, not all asset classes will experience the same outcome. Within private equity, we favor secondaries, and we're beginning to see green shoots in growth equity. For private credit, we think CRE debt looks like the best opportunity given the "wall of debt" that will need to be refinanced. We think real estate valuations look more attractive today than in recent years, but sector allocation will matter a great deal in the years to come. We like infrastructure and think there should be great opportunities in connecting the world.
- **Diversification across investment stages, earning profiles and vintages is vital.** By spreading investments across various stages of company development (such as early stage, growth and mature businesses), as well as across different earning profiles and fund vintages, investors can reduce concentrated risk and capture a broader range of return drivers.
- **Diversification across strategies and vintages is also important.** Allocating capital to a mix of strategies helps construct a steady stream of cash flows, including buyouts, growth capital, infrastructure and private credit—along with investments in funds of different vintages. This approach aims to enhance liquidity management and mitigate the impact of market downturns on any single segment of the portfolio.
- **Manager selection will be crucial in the years to come:** With the increasing flow of capital, we believe manager selection will be of critical importance. Identifying the best managers and avoiding the laggards will likely lead to dramatically different results. When considering a manager or fund, begin by focusing on the "four-Ps:" people, process, philosophy and performance.

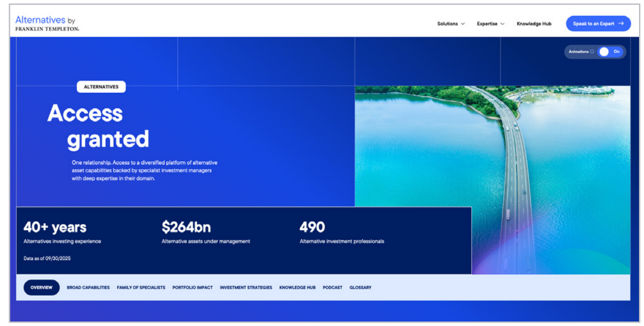
Ultimately, integrating private market investments and diversifying across multiple dimensions equips investors to better withstand market disruptions, pursue consistent returns and adapt to the evolving complexities of the global economy.

We believe successful investors will gravitate toward managers with deep and dedicated resources—those with decades of experience in deploying capital. Seasoned managers will be best equipped to navigate the changing market environment.

Additional Insights

Franklin Templeton Private Markets

One relationship. Access to a diversified platform of alternative asset capabilities backed by specialist investment managers with deep expertise in their domain.



Top 10 private market trends for 2026 and beyond

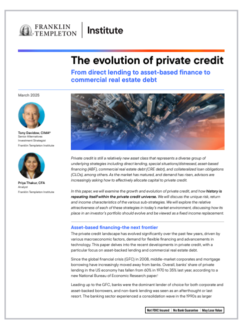
We detail the ten trends that we believe will define private markets in 2026 and shape their trajectory for many years to come.

Infrastructure: Making inroads in the wealth channel

Franklin Templeton Institute believes infrastructure represents a compelling investment option due to its unique characteristics, the prevailing market environment, and the versatile role these types of assets can play in client portfolios.

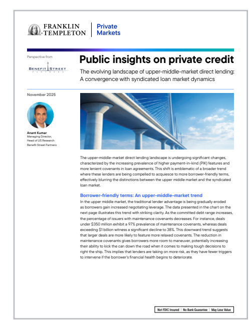
The evolution of private credit

Franklin Templeton Institute examines the evolution of private credit, its risk/return characteristics, and why commercial real estate debt represents a viable alternative to traditional fixed income options.



Public insights on private credit: The evolving landscape of upper middle-market direct lending

A convergence with syndicated loan market dynamics. Benefit Street Partners believes the upper middle-market direct lending landscape is evolving in response to changing market dynamics.



Alternative Allocations

with Tony Davidow

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Appendix (for Exhibit 1)

Methodology: Calculating net of fee returns for the Short & Long-Term Performance Table

Asset Class	Index	Methodology for Net Returns
Equity	MSCI ACWI Total Return Index	A fee of 1.46% p.a. is subtracted from the quarterly returns
Fixed income	Bloomberg Global Aggregate Total Return Index Value Unhedged USD	A fee of 0.43% p.a. is subtracted from the quarterly returns
Listed Infrastructure	S&P Global Infrastructure Total Return Index	A fee of 1.46% p.a. is subtracted from the quarterly returns
Alternative investments		
Private equity	MSCI Private Capital Solutions - Private Equity (all categories) across all regions	Based on fund returns, which are net of fees.
Private credit	Cliffwater Direct Lending Index	A fee of 1.381% p.a. is subtracted from the quarterly returns. Additionally, a carried interest percentage of 16.669% is charged on positive returns. This fee and carried interest is average for private credit funds during 2016 to 2025 (data from PitchBook). In case of a negative quarterly return, carried interest is not charged until losses are reversed. The hurdle rate to charge the carried interest is 7% p.a., based on search results data from PitchBook as of 2025.
Private Real Estate	MSCI Private Capital Solutions - Private Real Estate across all regions	Based on fund returns, which are net of fees.
Private Real Estate Debt	Giliberto-Levy High-Yield Real Estate Debt Index	Net returns are supplied by the index provider.
Private Infrastructure	MSCI Private Capital Solutions - Private Infrastructure across all regions	Based on fund returns, which are net of fees.
Secondaries	MSCI Private Capital Solutions search results for global secondaries across all the strategies within the secondary market.	Based on fund returns, which are net of fees.

Sources: MSCI Indexes, SPDJI, MSCI Private Capital Solutions, Cliffwater, Bloomberg, Macrobond, Giliberto-Levy, PitchBook. Analysis by Franklin Templeton Institute. The indexes are total returns in US dollar terms. Indexes are unmanaged and one cannot directly invest in them. Past performance is not an indicator or a guarantee of future results. Important data provider notices and terms available at www.franklintempletondatasources.com.

Key terms

Assets under management (AUM): The total market value of investments managed by a financial institution or individual on behalf of their clients. It helps assess the scale and scope of a manager's operations and investment capabilities.

Business development company (BDC): A type of investment company that provides financing to small and mid-sized private companies. They act as lenders and investors, offering capital that these companies might not be able to easily obtain from traditional sources like banks. BDCs are structured as closed-end funds and often distribute a significant portion of their income to shareholders as dividends.

Cash yields: The income generated by an investment, typically expressed as a percentage of the initial investment amount. For fixed income securities like bonds or loans, cash yield is calculated based on the interest or coupon payments received, excluding any changes in the price of the investment. A higher cash yield indicates that the investor receives more income relative to the amount invested, making it an important metric for evaluating the attractiveness of income-generating assets.

Collateralized loan obligation (CLO): Structured financial products that pool corporate loans and sell them to investors in different risk categories known as tranches. CLOs allow banks to reduce regulatory capital requirements by selling large portions of their commercial loan portfolios to international markets, reducing the risks associated with lending.

Committed capital: In the context of private markets, committed capital refers to the total amount of money that investors, such as Limited Partners (LPs), agree to provide to a private fund over its investment period. This capital is pledged at the outset, but is not necessarily invested immediately; instead, fund managers (General Partners or GPs) draw down on these commitments as attractive investment opportunities arise. Committed capital represents the pool of resources a fund manager can deploy into deals and is an important metric for understanding the size and investment capacity of private market funds.

Continuation vehicle: A secondary structure where General Partners transfer assets from a maturing fund into a new vehicle, enabling the retention and reinvestment in high-quality assets. Continuation Vehicles can provide liquidity options and potentially enhance returns by allowing GPs to manage assets beyond the initial fund term.

Distributions: In the context of private markets, distributions refer to the payments made by a private fund to its investors, such as Limited Partners (LPs). These payments usually represent proceeds from investments, which can include realized gains from asset sales, dividends, interest income, or return of capital.

Dry Powder: The amount of committed but uninvested capital that private market funds, such as private equity or venture capital funds, still have available for new investments. In private markets, dry powder is a key metric that indicates how much money fund managers have at their disposal to deploy into future deals.

Duration: How sensitive a bond's price is to changes in interest rates. It reflects the weighted average time it takes to receive all cash flows (interest and principal) from a bond. Generally, the higher the duration, the more a bond's price will fluctuate when interest rates change. Duration helps investors assess interest rate risk and manage their bond portfolios accordingly.

Exit: In the context of private credit, exit refers to the final stage of an investment project, wherein an investor ends their involvement.

General Partner (GP): An entity responsible for managing a private fund, making investment decisions, and overseeing operations. Understanding the role and responsibilities of the GP helps evaluate the management team's capabilities and potential for generating returns.

J-curve: The J-curve describes the trajectory of a private asset fund's cash flows and returns over time, characterized by initial negative returns followed by positive returns as investments mature. Understanding the J-curve assists in effectively managing liquidity and meeting capital calls during the early stages of the investment.

Limited Partner (LP): An entity that invests capital in a private fund but does not participate in its day-to-day management.

Middle market: In the context of direct lending private credit, middle market typically includes businesses with annual revenues ranging from approximately US$50 million to US$1 billion. These companies often seek financing for growth, acquisitions, or refinancing but may not have easy access to traditional capital markets or large syndicated loans. Direct lending to the middle market involves private credit managers or funds providing loans directly to these businesses, offering tailored financing solutions that may not be available from banks.

Non-accrual: In the context of the direct lending market, non-accrual refers to a loan status where the lender stops recognizing interest income (interest is not accruing on a loan) because the borrower is significantly behind on payments, typically due to financial distress or default. When a loan is placed on non-accrual, it indicates that the lender does not expect to receive scheduled interest or principal payments in the near term, and the loan is considered at higher risk of loss.

- CV (Carrying Value): This refers to the value of the loan as it appears on the lender's balance sheet. The carrying value typically represents the outstanding principal amount of the loan, adjusted for any write-downs, charge-offs, or allowances for credit losses.

- FV (Fair Value): Fair value is an estimate of the amount that would be received to sell the loan in an orderly transaction between market participants at the measurement date.

Payment-in-kind (PIK) loans: These loans refer to a type of loan where, instead of making regular cash interest payments, the borrower has the option (or is required) to pay interest by issuing additional debt to the lender. This means that the interest owed is added to the loan balance, increasing the total amount to be repaid at maturity.

Primaries: Investments are made directly in newly formed private equity funds to gain exposure to privately held companies.

Real rates: The interest rates on fixed income securities after accounting for inflation. In other words, the real rate represents the actual increase in purchasing power an investor receives from a bond or other fixed income investment, beyond the effects of rising prices. Real rates are calculated by subtracting the inflation rate from the nominal (stated) interest rate.

Refinancing: The process of replacing an existing loan, such as a mortgage, corporate debt, or other types of financing, with a new loan that typically has different terms. The main goal of refinancing is often to obtain more favorable rates, adjust the repayment schedule, or access additional capital.

Secondaries: Private equity secondaries are transactions that offer liquidity solutions to owners of interests in private equity and other alternative investment funds.

Vintage: In private markets, vintage refers to the year in which a private fund begins investing its capital. The vintage year is important because it provides context for evaluating a fund's performance relative to market conditions at the time investments were made.

Yield curve: The yield curve charts interest rates against bond maturities, typically for government bonds. A normal upward slope means longer-term bonds pay higher yields. If the curve flattens or inverts, it may signal economic uncertainty or an upcoming recession. When the yield curve steepens—meaning the difference between short-term and long-term rates widens—it often reflects expectations of stronger economic growth or rising inflation. Investors and policymakers use the yield curve to gauge economic conditions and inform decisions.

Benchmark definitions

1. Global Equities: MSCI All Country World Index (ACWI) - The MSCI ACWI captures large and mid-cap representation across Developed Markets (DM) and Emerging Markets (EM) countries. The index covers approximately 85% of the global investable equity opportunity set.

2. Global Aggregate Bonds: Bloomberg Global Aggregate Index - The Bloomberg Global Aggregate Index is a measure of global investment grade debt from a multitude of local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

3. Global Listed Infrastructure: S&P Global Infrastructure Total Return Index -The S&P Global Infrastructure Index is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.

4. Private Equity: The returns refer to Private Equity funds across all regions in the private market, as determined by fund search results from MSCI Private Capital Solutions.

5. Private Credit: Cliffwater Direct Lending Index - Cliffwater Direct Lending Index - The Cliffwater Direct Lending Index (CDLI) seeks to measure the unlevered, gross of fee performance of U.S. middle market corporate loans, as represented by the asset-weighted performance of the underlying assets of Business Development Companies (BDCs), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements.

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6. Private Real Estate: The returns refer to Private Real Estate funds across all regions in the private market, as determined by fund search results from MSCI Private Capital Solutions.

7. Private Real Estate Debt: The Giliberto-Levy High-Yield Real Estate Debt Index (GL-2) measures total return and its components for many forms of high-yield commercial real estate (CRE) debt, including:

   - Mezzanine loans: A form of financing for commercial real estate that is junior to the first mortgage debt.
   - Leveraged whole loans: Debt that is larger than what a single lender can provide and is often syndicated or sold off in pieces to multiple investors.
   - B-notes: A subordinate, riskier piece of a commercial mortgage, representing a second-tier claim to a property's cash flow.

8. Global Private Infrastructure: The returns refer to Private Infrastructure funds across all regions in the private market, as determined by fund search results from MSCI Private Capital Solutions.

9. Secondaries: MSCI Private Capital Solutions search results for global secondaries across all the strategies within the secondary market.

10. The NCREIF Property Index (NPI) is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only, weighted by market value. Only operating apartment, hotel, industrial, office and retail properties are included in the NPI. An operating property is defined as existing and at least 60% leased. The property can be wholly owned or held in a joint venture structure.

- The NCREIF Office Property Index is a quarterly, unleveraged composite total return for private office properties held for investment purposes only, weighted by market value. Only operating office properties are included in the NPI. An operating property is defined as existing and at least 60% leased. The property can be wholly owned or held in a joint venture structure.
- The NCREIF Apartment Property Index is a quarterly, unleveraged composite total return for private apartment properties held for investment purposes only, weighted by market value. Only operating apartment properties are included in the NPI. An operating property is defined as existing and at least 60% leased. The property can be wholly owned or held in a joint venture structure.
- The NCREIF Industrial Property Index is a quarterly, unleveraged composite total return for private industrial properties held for investment purposes only, weighted by market value. Only operating industrial properties are included in the NPI. An operating property is defined as existing and at least 60% leased. The property can be wholly owned or held in a joint venture structure.

- The NCREIF Retail Property Index is a quarterly, unleveraged composite total return for private retail properties held for investment purposes only, weighted by market value. Only operating retail properties are included in the NPI. An operating property is defined as existing and at least 60% leased. The property can be wholly owned or held in a joint venture structure.
- The NCREIF Hotel Property Index is a quarterly, unleveraged composite total return for private hotel properties held for investment purposes only, weighted by market value. Only operating hotel properties are included in the NPI. An operating property is defined as existing and at least 60% leased. The property can be wholly owned or held in a joint venture structure.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Investment strategies involving private markets (such as private credit, private equity and real estate) are complex and speculative, entail significant risk and should not be considered a complete investment program. Such investments viewed as illiquid and may require a long-term commitment with no certainty of return. Depending on the product invested in, such investments and strategies may provide for only **limited liquidity** and are suitable only for persons who can afford to lose the entire amount of their investment. **Private investments** present certain challenges and involve incremental risks as opposed to investments in public companies, such as dealing with the lack of available information about these companies as well as their general lack of liquidity. There also can be no assurance that companies will list their securities on a securities exchange, as such, the lack of an established, liquid secondary market for some investments may have an adverse effect on the market value of those investments and on an investor's ability to dispose of them at a favorable time or price.

Diversification does not guarantee a profit or protect against a loss.

Risks of investing in **real estate investments** include but are not limited to fluctuations in lease occupancy rates and operating expenses, variations in rental schedules, which in turn may be adversely affected by local, state, national or international economic conditions. Such conditions may be impacted by the supply and demand for real estate properties, zoning laws, rent control laws, real property taxes, the availability and costs of financing, and environmental laws. Furthermore, investments in real estate are also impacted by market disruptions caused by regional concerns, political upheaval, sovereign debt crises, and uninsured losses (generally from catastrophic events such as earthquakes, floods and wars). Investments in real estate-related securities, such as asset-backed or mortgage-backed securities are subject to prepayment and extension risks.

Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. Changes in the **credit rating** of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

Equity securities are subject to price fluctuation and possible loss of principal. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks.

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