

# Private Markets View

## 2026 Outlook

December 2025

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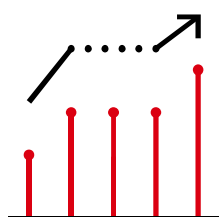
Q1 2026

# Strategy Snapshot

Our key perspectives for each Private Markets Strategy

## Private Credit

Investor appetite for private credit remains strong, thanks to its stability, yield premium, and steady income



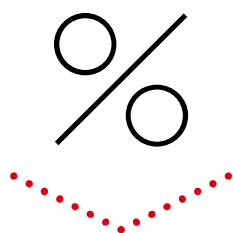
## Real Estate

High property yields and rental growth support total returns



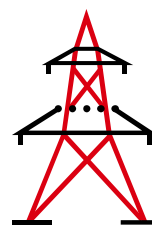
## Private Equity

Lower financing costs support buyouts and refinancings



## Infrastructure

Digitalisation and electrification driving infrastructure investment



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Source: HSBC Asset Management, December 2025

# Proposed Strategy Views

In our view, the opportunity set for Private Market strategies remains deep. Within the sub-sector of Private Credit, we continue to hold a **'Positive'** outlook. Investor appetite for private credit remains strong, thanks to its stability, yield premium, and consistent income, but deployment challenges and rising regulatory scrutiny are shaping the landscape. While the incidence of defaults is low, moderate credit deterioration is expected. However, lender flexibility and potential rate cuts in 2026 could support deal activity and should position experienced investors for compelling, risk-adjusted returns

We maintain our stance on Private Equity at **'Neutral Positive'**. We continue to have a cautiously optimistic outlook as falling interest rates and resilient equity markets boost exit activity, especially within technology and healthcare, while lower financing costs support buyouts and refinancings. We remain cognizant of uncertainty emanating from delayed economic data in the US, as well as ongoing policy and geopolitical risks which may pose challenges for dealmaking and future rate decisions

In Real Estate, we continue to hold a **'Positive'** outlook for the asset class. Higher property yields and steady rental growth—driven by limited new supply and tenant demand for prime assets—support total returns, though elevated interest rates keep risk premiums tight.

Digitalisation and electrification are driving infrastructure investment, with US electricity demand expected to rise sharply due to industrial, data centre, and transport electrification. Investors are targeting both established areas—like grid upgrades and renewable energy—and emerging sub-sectors such as electrified transport, data centre power solutions, and repowering older assets, all of which offer strong potential for value-add returns. As such, we remain **'Positive'** on the outlook for Infrastructure.

Private Market Asset Class	Negative	Neutral / Negative	Neutral	Neutral / Positive	Positive
Private Credit					●
Private Equity				●	
Real Estate					●
Infrastructure					●

● Q1 2026

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Source: HSBC Alternatives, as of December 2025.

# Our Asset Class Views

## ↑ Private Credit Positive

### Review of Q3 2025

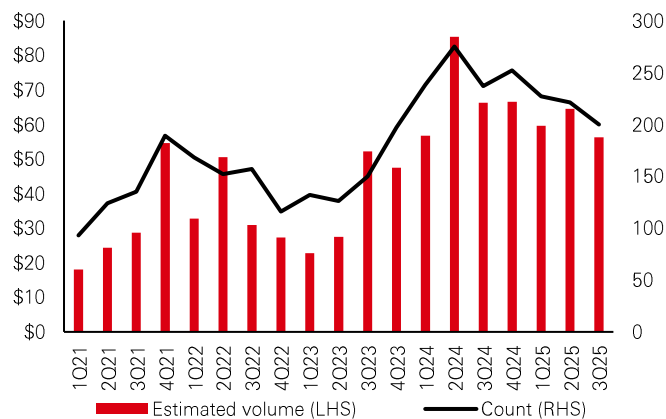
Although the immediate turbulence from tariffs and Q2 volatility has subsided, its ripple effects persisted into Q3. Private credit-financed deal activity in the US market slowed, with deal count and volume down roughly 13% year over year. With fewer deals supporting buyouts and M&A, the imbalance between demand for private credit and available supply has deepened in recent months. In contrast, stress and default risk, which dominated Q2 concerns, have since taken a backseat.

Spread compression in the US market continue to persist, as private credit lenders compete with the syndicated loan market. Market participants say S+450 and S+475 spreads are now common. Among buyout financings, nearly half of private credit loans are priced below S+500.

In a competitive tug-of-war for deal flow, direct lenders captured roughly \$26bn from the BSL market this year, offset by a comparable flow in the other direction.

### Direct lending activity was down in Q3 2025 as M&A activity remains at low levels

Direct Lending estimated volume (US, \$bn) and deal count



Source: HSBC Alternatives, LCD Pitchbook

In Europe, Direct lending activity is set to beat 2024 issuance, with deal count and estimated volume of 117 and €30.5bn, respectively. This is compared to 85 transactions and €25.1bn issuance in the same period in 2024. Spreads in the region continue to tighten – c.64% of LBOs in 2025 have been priced below 550 bps.

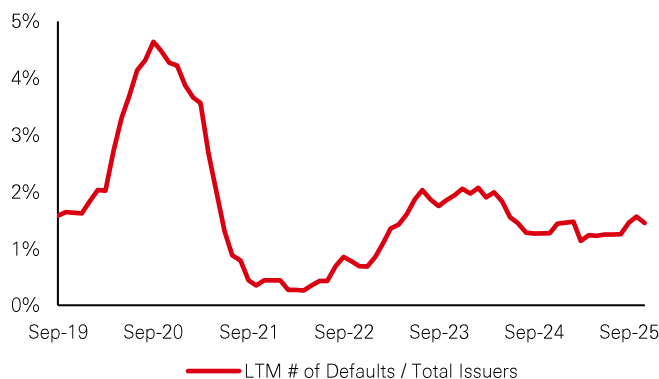
European lenders are steering towards the lower mid-market space, with buyouts also showing a trend towards smaller transactions. There were many more buyouts funded by direct lending (17) than by broadly syndicated loans (6) in Q3. However, larger buyout deals went to the BSL market in Q3, leading to a higher volume (€5.6bn from the BSL market).

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Source: HSBC Alternatives, LCD Pitchbook, as of November 2025.

### Default rates remain resilient

Leveraged Loans Index Default Rates



Source: HSBC Alternatives, LCD Pitchbook

### 12-month outlook

Investor demand for private credit remains strong, including inflows from the wealth channel for open-ended products, bolstered by the asset class's relative stability and yield premium over public markets combined with regular income derived from underlying interest payments.

Deployment and origination of transactions remains the industry's top challenge, resulting in continued spread compression and slower pace of deployment. Furthermore, regulatory scrutiny for Private Credit will increase as the asset class continues to grow.

Although default rates continue to remain low by historical standards, modest credit deterioration may persist, but proactive equity sponsor support combined with lender flexibility should contain a broader fallout.

During periods of stress, sponsors are expected to rely heavily on tools allowing for flexibility— including PIK toggles and extended maturities — to navigate rate volatility and borrower-level headwinds. Further rate cuts in 2026 could continue to ease pressure on borrowers and further revive deal activity, positioning experienced lenders for attractive, risk-adjusted returns.

# Our Asset Class Views

## Private Equity

Neutral/Positive

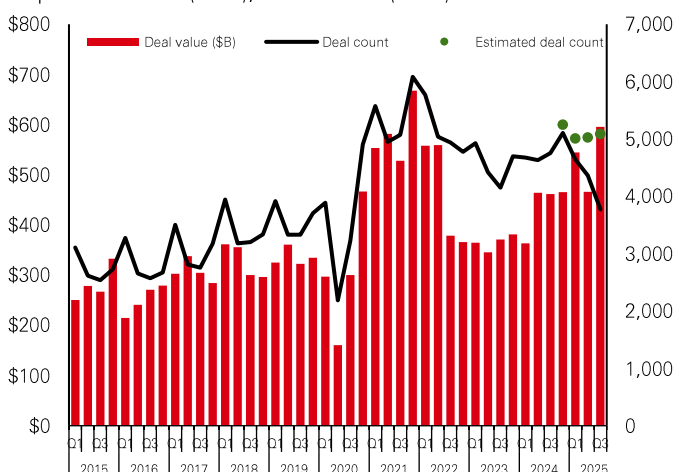
### Review of Q3 2025

There was a marked pick up in global deal activity in the third quarter of 2025 as market uncertainty over tariffs and US policy subsided. Global deal value was up 27.7% from Q2 levels and up 129% over year, and these numbers may rise as data comes through. Growth was mainly in leveraged buyouts and, in terms of sectors, deal value in technology was up 90% over the quarter, driven by a record c\$55 billion deal to take US video game company Electronic Arts private.

Deal count increased marginally over the quarter implying that the large-cap \$1 billion+ deals continue to dominate.

#### Global PE deal activity by quarter

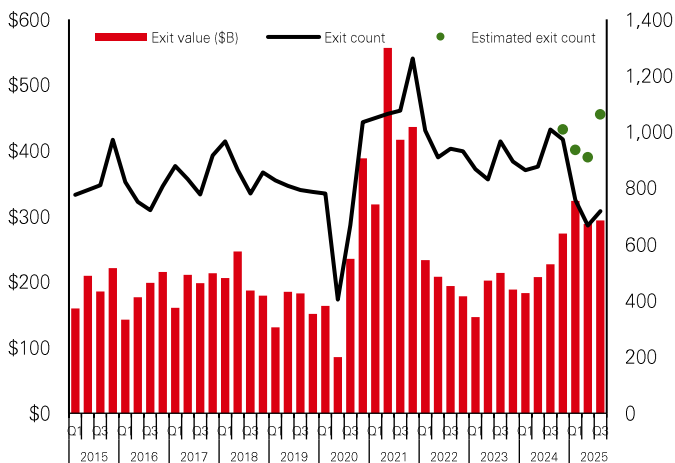
Capital Invested (LHS), Deal Count (RHS)



Source: HSBC Alternatives, Pitchbook

#### Global PE exit activity by quarter

Exit Value (LHS), Exit Count (RHS)



Source: HSBC Alternatives, Pitchbook

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Source: HSBC Alternatives, Pitchbook, as of November 2025. 5

Q3 2025 saw a small increase in exit value of 2% from Q2 levels and up 29.5% over the year. This is a positive development, although a continued rise in exits will be required to materially ease the existing backlog of deals. Growth in exit value was concentrated in Europe, which saw an almost doubling of exit value, and Asia, where exit value rose 53%. The number of exits was up 16.8% in Q3 indicating more assets are moving through the system.

Encouragingly, traditional exit routes-IPOs, M&A and strategic sales are strengthening as confidence returns to the market. GP-led secondaries (continuation vehicles) are also an increasingly attractive route for investors to generate partial or full liquidity.

### 12-Month Outlook

As we approach the end of 2025, the outlook for private equity has improved amid falling interest rates and a more conducive market environment. Equity indices remain at elevated levels, exit activity continues to pick up, and the IPO window is showing signs of sustained reopening, particularly in technology and healthcare. The Federal Reserve has cut rates twice to the 3.75%-4.00% range, and markets anticipate further rate cuts in 2026, offering relief of financing costs. However, the US government shutdown has likely hurt economic growth and delayed the release of key economic data on inflation and jobs, complicating Federal Reserve policymaking.

#### Tailwinds

- ◆ **Rate Relief** – With the Fed cutting rates in September and October, financing conditions for buyouts and refinancings are materially improving.
- ◆ **Exit Rebound** – Elevated equity markets are helping to reopen IPO and trade sale channels, particularly in technology and healthcare portfolios.
- ◆ **Corporate Earnings** – Technology and industrial sectors reporting solid earnings, pointing towards overall market resilience.

#### Headwinds

- ◆ **Rate Uncertainty** – The US government shutdown has delayed release of critical market data, creating uncertainty around future rate cuts.
- ◆ **Policy & Geopolitical Risks** – Ongoing political tensions and policy shifts continue to contribute to market volatility.

# Our Asset Class Views

## ↑ Real Estate Positive

### Review of Q3 2025

Having declined by 16% between 2022 and 2024, global capital values have modestly increased for four consecutive quarters, according to data from MSCI. In Q3 2025, capital value growth amounted to 0.2% due to ongoing income growth. There is evidence of investment liquidity improving as a moderating supply backdrop has boosted rental growth projections. Moreover, interest rates have fallen, and lending spreads are tightening, especially for high quality assets.

Globally, office vacancy rates remain high, though there were signs of stabilisation in Q3 as tenants look to secure Grade A space in an environment where new development is falling sharply. For example, year-to-date (to Q3) leasing in Manhattan has been significantly above the long-term average, contributing to a decline in the vacancy rate, and healthy prime rental growth. Similar trends are being seen in other global cities such as London, Paris, and Tokyo where demand for modern, sustainable buildings is strong.

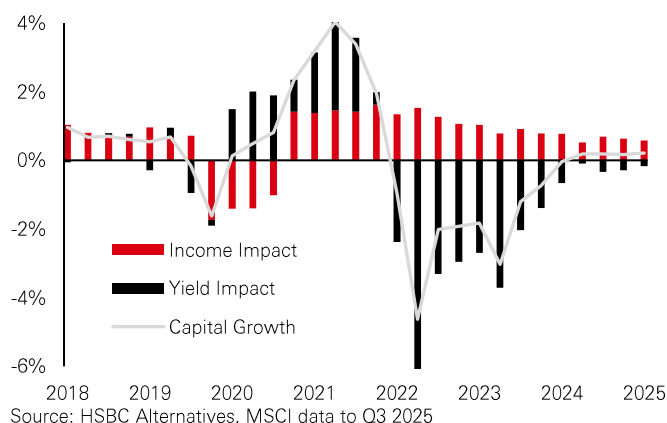
Although MSCI reported retail vacancy rates softening in Q3, property fundamentals for prime retail assets are in good health with landlords reporting strong leasing demand from retailers, and near record short watchlists. Landlords of grocery-anchored open-air shopping centres with tenants focused on services (health and fitness, casual dining) are reporting particularly strong sales comps, strong tenant demand and the ability to raise rents. Prime high streets in cities with strong tourism flows, such as Tokyo's Ginza or Madrid's Gran Vía, are also benefiting from a rebound in footfall.

Logistics vacancy rates remain in a soft patch as a recent wave of new supply continues to weigh on vacancy rates, though there are signs of improved leasing and slowing completions. The US vacancy rate appears to have stabilised at 7.1% (C&W) in Q3, slightly above pre-pandemic levels. In Europe, rates are declining in the UK and Eastern Europe but rising in France and Germany. Asia-Pacific remains more varied, with tight conditions in Sydney and Melbourne but weaker fundamentals in Singapore (trade uncertainty) and Tokyo (significant new supply).

The residential sector continues to record the lowest vacancy rates globally, according to MSCI, although the US multifamily vacancy rate rose to 4.4% in Q3 (CBRE), predominantly due to supply related softness in the Sun Belt, whereas coastal metros have been relatively more resilient, with notable strength in San Francisco. In Europe and Asia, a widespread lack of development and ongoing structural demand continue to support firm fundamentals for living sectors, for example in Tokyo's Central 23 Wards the vacancy rate fell to 3.9% (Savills), with strengthening rental growth.

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Source: HSBC Alternatives, MSCI, CBRE, as of September 2025. 6

### Income continues to underpin capital growth Decomposition of Global Capital Growth (% Q-o-Q)



### 12-Month Outlook

The rebasing of property yields to materially higher levels has created a more favourable outlook for total returns, though with elevated interest rates the risk premium remains to the lower end of historic ranges. Capital value growth will be driven by rental income rather than yield compression while above target inflation keeps interest rates elevated, and yield spreads remain tight. Rapidly declining new supply and tenant preference for new space should support steady rental growth for prime assets across all property types.

Retail yields, which had been rising prior to the pandemic, offer a positive spread over office, logistics and residential yields, whilst a decade of minimal new supply and resilient leasing demand point to stable retail rental growth. Given the fragile economic outlook, assets with a non-discretionary focus should outperform, though "A" malls in affluent neighbourhoods and prime high street retail in strong tourist cities should perform well. Secondary retail will remain challenging.

While the structural tailwinds for logistics property remain intact – e-commerce, reshoring, supply-chain resilience – 2026 rental growth is expected to moderate as recent new supply weighs on fundamentals. As the supply pipeline fades, fundamentals should gradually improve as we move through 2026, particularly in high density, supply constrained urban markets.

The office sector is expected to remain particularly bifurcated, with subdued overall demand but prime assets in global cities benefitting from strong demand and limited new supply. Gateway markets such as New York, London, and Tokyo should outperform. For markets such as Hong Kong and San Francisco, which have been under particular pressure over recent years, but have possibly bottomed in 2025, are expected to continue their recovery, though

# Our Asset Class Views

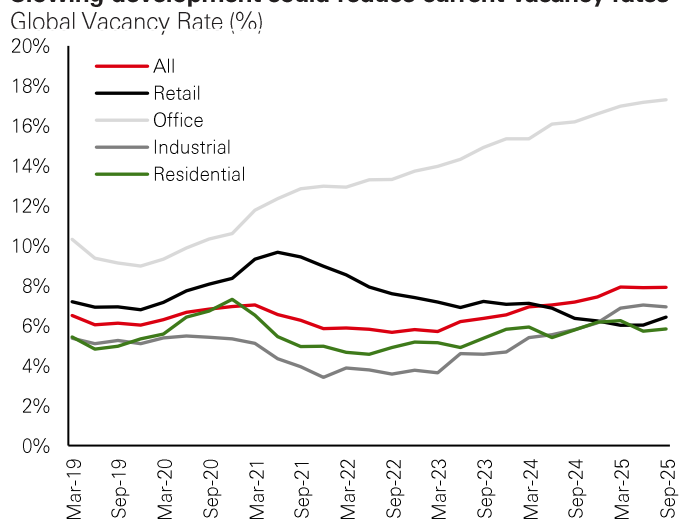
## ↑ Real Estate Positive

### 12-Month Outlook (continued)

negative rental reversions will continue to pressure landlord incomes in 2026.

The living sector’s outlook remains resilient, supported by stable cash flows, low vacancy, regular marking to market of rents resulting from short leases, and structural demand drivers such as urbanisation. For US multifamily, coastal markets should continue to outperform the Sunbelt, although we expect the latter to stabilise in the coming 12-months. Stronger performance may be found in Asia, for example Singapore where household incomes are rising strongly or Tokyo where strong urban demand and a lack of new supply is sustaining rental growth.

### Slowing development could reduce current vacancy rates



Source: HSBC Alternatives, MSCI, data to Q3 2025

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Source: HSBC Alternatives, Bloomberg, MSCI as of September 2025.

# Our Asset Class Views

## Infrastructure Positive

### Review of Q3 2025

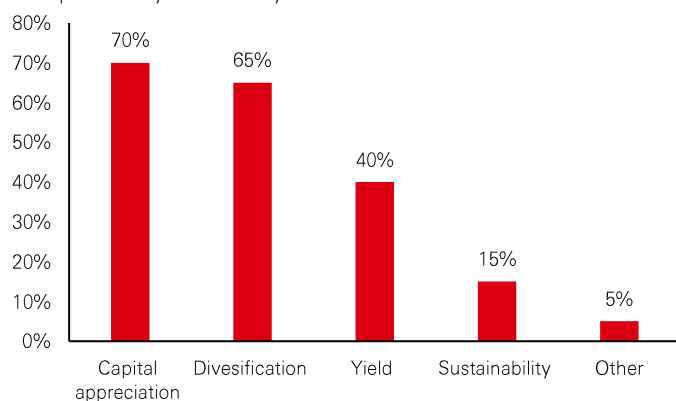
Q3 saw continued steady performance from evergreen infrastructure funds, with annualised returns across the industry in the range of 7-12%.

According to IJ Global, infrastructure funds that reached final close in the first 3 quarters of the year (to the end of September 2025) raised \$175.95 billion, a 91% increase compared to the \$92.13 billion raised in Q1-Q3 2024. In Q3 2025 alone \$57.51 billion was raised. We consider that this continuing fundraising momentum is illustrative of the attractiveness of infrastructure as a stable asset class in an overall investment universe that faces significant challenges.

The placement agent Campbell Lutyens has surveyed the reasons why Limited Partners make an allocation to private infrastructure equity. Historically, infrastructure has been seen as a source of yield and as a diversifier within a wider alternatives allocation. The survey results show that capital appreciation has become the primary reason for allocating to infrastructure alongside its portfolio diversification benefit. The capital appreciation objective helps explain the growing preference among infrastructure LPs to invest in value-add infrastructure funds

### Reasons for Infrastructure allocations in portfolios

Campbell Lutyens Survey



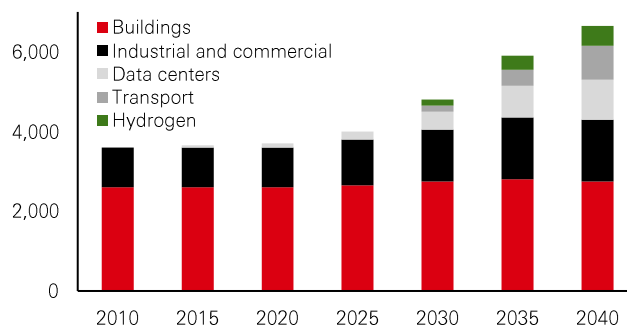
Source: HSBC Alternatives, Campbell Lutyens

### 12-Month Outlook

Digitalisation and electrification remain the dominant themes in infrastructure investing. The extent to which these themes interact is partially illustrated in the chart below, forecasting the future growth of electricity in the United States<sup>1</sup>. Having been flat for decades, electricity consumption is forecast to increase by 3.5% p.a. The principal drivers of this growth are the electrification of industrial production, significant expansion of the data centre segment, and electrification of transport.

### Significant Growth expected in US power demand

Decomposition US power demand by sector (terawatt-hours)



Source: HSBC Alternatives, US Energy Information Administration (EIA)

We see multi-sector, digital, and energy and climate transition infrastructure funds following the commercial logic of projected demand for electrification by investing in a variety of existing and emerging infrastructure sub-sectors which are associated with satisfying the demand for new power sources. Some are longstanding such as investments in extending and hardening of electricity transmission networks and the delivery of ever more solar and wind powered energy generation and associated battery storage systems.

Other sub-sectors have emerged relatively recently, including:

- ◆ Electrification of buses and commercial vehicles;
- ◆ Providing dedicated behind the meter power sources to power new data centres;
- ◆ Development of powered land to be sold to data centre developers;
- ◆ Building and contracting vessels to construct and support offshore wind farms;
- ◆ Buying existing onshore wind farms nearing the end of their operating lives with a view to repowering with new turbines to deliver additional energy production capacity;
- ◆ Buying existing peaker gas turbines and developing renewable energy and battery storage assets on the same site to make more effective use of the site's electricity transmission capacity.

All of these emerging sub-sectors offer the potential to generate significant revenue growth, supporting the delivery of value add (12-16% net) infrastructure returns.

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Source: HSBC Alternatives, Campbell Lutyens, as of December 2025. <sup>1</sup>US Energy Information Administration (EIA), McKinsey & Co..



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