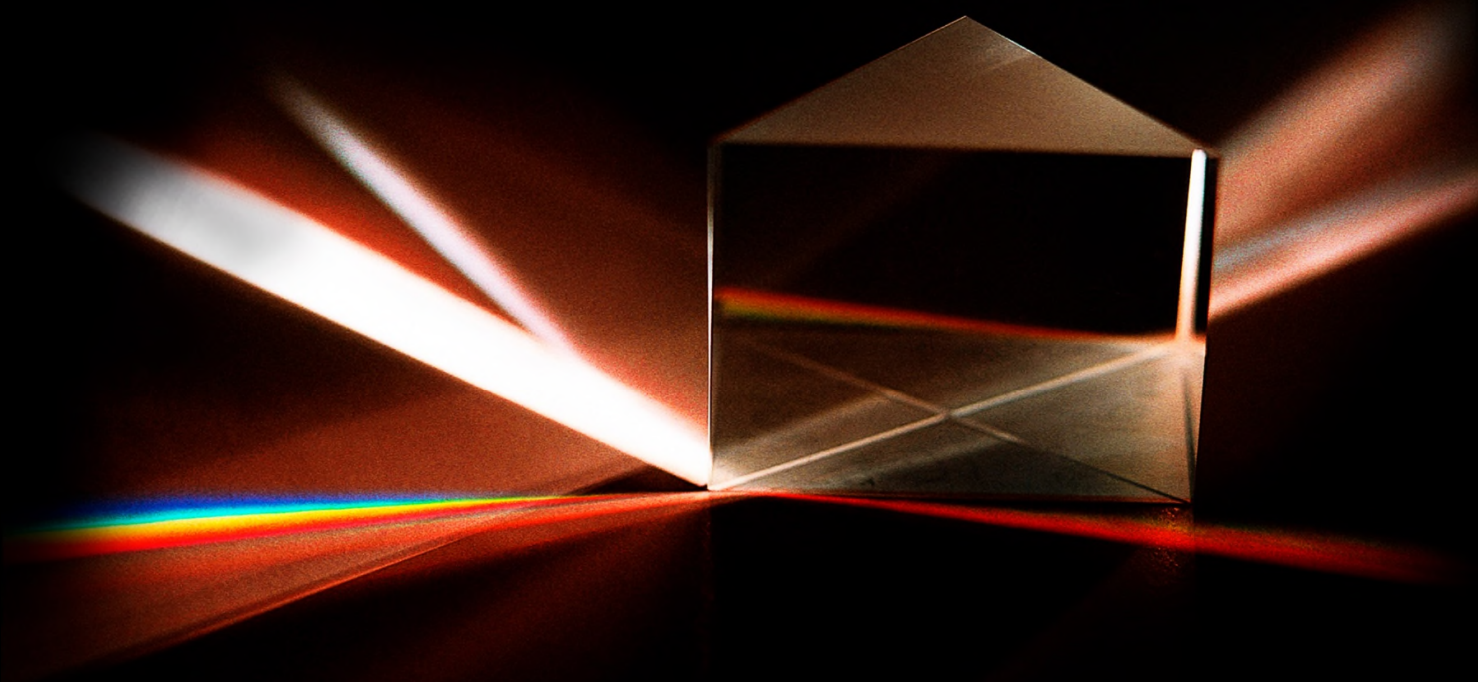


Private Markets View

2026 Outlook

March 2026



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HSBC Asset Management

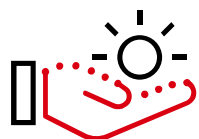
Q2

Strategy Snapshot

Our key perspectives for each Private Markets Strategy

Private Credit

Fundamentals remain intact, and yields remain attractive, despite near-term headwinds.



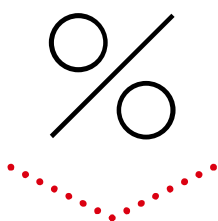
Real Estate

Total returns expected to be driven by income, rather than yield compression.



Private Equity

Cautious optimism as deal and exit activity strengthen, with significant dry powder ready for deployment.



Infrastructure

Continues to offer stable, index-linked yields, with increased interest in European and Asian markets.



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Source: HSBC Asset Management, as of March 2026.

Proposed Strategy Views

We believe the opportunity set for Private Market strategies remains deep.

- ◆ We have revised our Private Credit outlook to **'Neutral / Positive'**. Private credit fundamentals remain intact, and yields remain attractive, but ongoing geopolitical headwinds and evolving market sentiment regarding liquidity alignment and redemptions in the space could result in spill-over effects across the broader Private Credit market.
- ◆ We maintain our stance on Private Equity at **'Neutral / Positive'**. The outlook is cautiously optimistic with exit markets having recovered from earlier challenges, supported by rate cuts, strong corporate earnings, and resurging M&A and IPO activity. However, elevated geopolitical risks and ongoing tariff uncertainties remain key concerns.
- ◆ In Real Estate, we hold a **'Neutral / Positive'** outlook for the asset class. As investor sentiment has improved, investment volumes increased in 2025, driven by a strong end to the year. Total returns in Real Estate are expected to be driven by income, rather than yield compression as high-quality office and retail sectors are expected to perform particularly well.
- ◆ Infrastructure investment trends continue to be shaped by the Trump administration's policies, with increased interest in European and Asian markets due to stable environments and diversification benefits. We maintain a **'Positive'** view on the asset class.

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

● Q2 2026

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Source: HSBC Alternatives, as of March 2026.

Our Asset Class Views

Private Credit

Neutral / Positive

Review of Q4

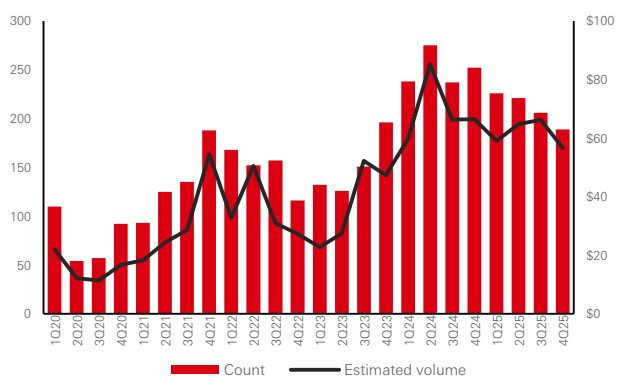
Private credit-financed deal activity in the US market slowed in Q4, with deal count down 25.0% and volume down roughly 14.8% year-over-year. With fewer deals supporting buyouts and M&A, the imbalance between demand for private credit and available supply continues to deepen.

In contrast, stress and default risk, which dominated Q2 concerns, have since taken a backseat. However, 2025 overall was the second-busiest year for direct lenders in at least 8 years, although down from record 2024. US deal volume in 2025 was 11% down and deal activity was 16% down from 2024.

In the US, average direct lending spreads held steady at 475bps. In a competitive tug-of-war for deal flow, direct lenders in the US captured roughly \$37bn from the BSL market this year, offset by a slightly smaller flow in the other direction.

US direct lending activity was down in Q4 2025 but 2025 was a strong year overall

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



Source: HSBC Alternatives, LCD Pitchbook as of Dec 2025

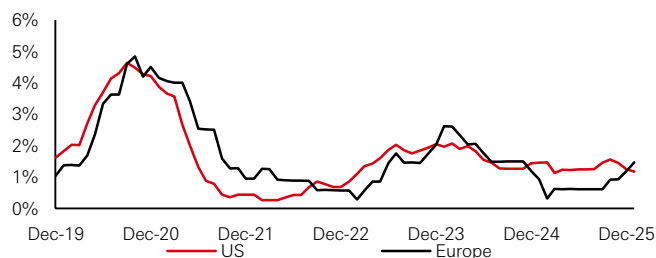
In Europe, direct lending broke records in 2025. Year-end data shows that the total estimated volume and deal flow in this market – at €41.4 billion and 160 transactions – surpassed 2024 levels. Refinancings and recaps drove activity levels – Such deals accounted for a significant €18.3 billion in 2025, up from €14.2 billion in 2024.

Spreads in Europe continue to tighten. More than a third of buyouts were priced below 500 bps in 2025, compared to none in 2023-2024, while average spreads across all direct lending transactions are now 100 bps tighter than in 2022.

European lenders are steering towards the lower mid-market space, with buyouts also showing a trend toward smaller transactions. Direct lenders funded more than four times as many buyouts than in the broadly syndicated market in the fourth quarter of 2025.

Default rates remain resilient

Leveraged Loans Index Default Rates



Source: HSBC Alternatives, LCD Pitchbook as of Dec 2025

12-month outlook

In Q4 2025, the US BDC market experienced elevated levels of redemptions from retail investors. We expect this to continue in Q1 2026, mainly driven by retail investor reaction to negative headlines regarding private credit and concerns around software exposure in these vehicles, which has contributed to valuation pressures.

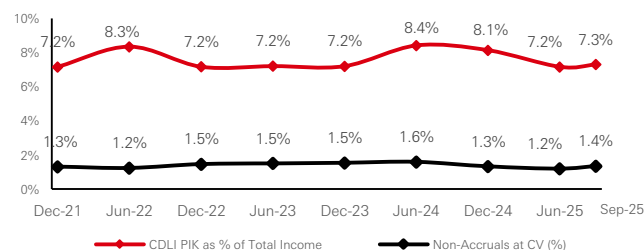
Regulatory oversight of private credit may intensify in light of recent activity within the BDC market. The focus of these developments has been on liquidity alignment and market expectations, rather than credit quality deterioration.

Direct lending continues to show stability and yield premium over public markets combined with regular income derived from underlying interest payments. Loan origination remains an area of focus, resulting in continued spread compression and slower pace of deployment.

Although default rates and non-accruals 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.

PIK income increased modestly in Q3 2025 but remains in line with the five-year average

Cliffwater CDLI – PIK as a % of Total Income & Non-Accruals



Source: HSBC Alternatives, Cliffwater as of Sept 2025

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Our Asset Class Views

Private Equity

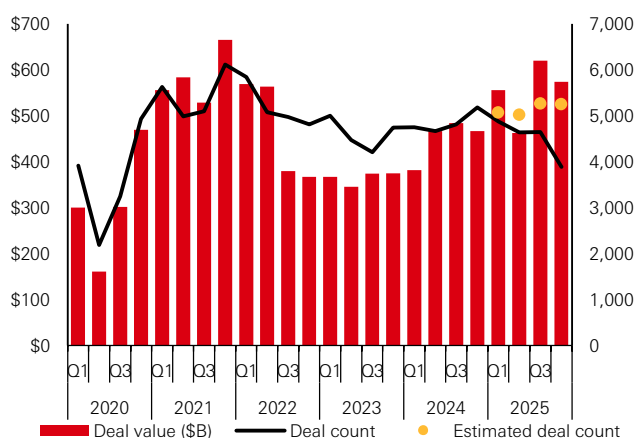
Neutral / Positive

Review of Q4

Dealmaking recovered rapidly in the second half of 2025 on easing concerns of tariff escalation, falling interest rates and narrowing bid-ask spreads. Q4 2025 show deal value of \$573.3bn, following a stellar Q3 where deal value reached \$619.9bn. Overall, in 2025, Global PE dealmaking totalled \$2.21tn, the highest level since 2021, and 23% higher than 2024. Deal count in 2025 was 6% higher than 2024 levels (based on estimated deal count).

US PE deal activity by quarter

Capital Invested (LHS), Deal Count (RHS)

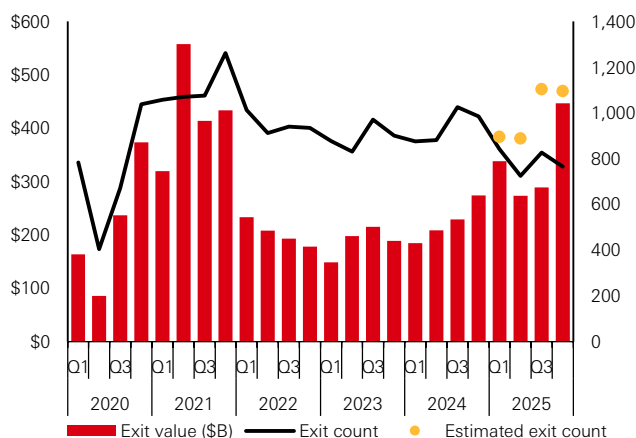


Source: HSBC Alternatives, Pitchbook as of Dec 2025

Activity in high-growth sectors – including AI/technology, healthcare, defence, and the energy transition – has driven much of the headline figures.

US PE exit activity by quarter

Exit Value (LHS), Exit Count (RHS)



Source: HSBC Alternatives, Pitchbook as of Dec 2025

2025 has been the strongest year for exits since 2021. Exit value over the year was \$1.35tn, 50% higher than in 2024. Exit count rose over 5% in 2025 compared to 2024. Q4 2025 saw total exit value rising to \$446.7bn, the highest level since Q2 2021, with technology and healthcare sectors leading the way. Among the key drivers of strong exit activity in H2 2025 has been a resurgence in M&A. There was a strong rebound in M&A, which reached a record high of nearly \$5 trillion in deal value in 2025, driven by several billion-dollar-plus transactions. IPOs are also recovering.

Secondaries remain an attractive exit route. Secondaries value was 57% of total exit value (up sharply from previous quarters) and secondaries volume (count) represented 21% of total exit volume. Importantly, net asset values are increasing across private equity portfolios, reflecting healthy portfolio company performance.

12-Month Outlook

Encouraging Q4 2025 data suggests a cautiously optimistic outlook for 2026. Easing rate pressure, narrowing bid-ask spreads, and improved buyer confidence have supported a recovery in M&A, trade sales, and IPO activity. As exits increase, the system is beginning to absorb liquidity needs, however rising geopolitical risks are on the horizon.

Tailwinds

- ◆ **Rate Relief** – With the Fed expected to cut rates further this year, financing conditions for buyouts and refinancings should ease further.
- ◆ **Exit Rebound** – Elevated equity markets are reopening 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

- ◆ **Elevated geopolitical risks** – The conflict between US-Israel and Iran could be a headwind for global growth. Higher oil prices could increase inflationary pressures and costs for consumer and businesses.
- ◆ **AI disruption risks** – In recent weeks, we have seen concerns that advancements in AI could threaten the business models of certain SaaS companies. Disruption could also create new winners and challengers in the software and tech space.

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Our Asset Class Views

Real Estate

Neutral / Positive

Review of Q4

Investors increasingly consider real estate as offering fair value, reflected by the stabilisation in capital values in 2025 and a growing appreciation of its defensive qualities. As investor sentiment has improved, investment volumes increased in 2025, driven by a strong end to the year. Still, volumes remained below the five-year average.

In the office sector, a sharp reduction in new development has supported a stabilisation in vacancy rates. Prime CBD space in gateway cities is increasingly scarce – London new-build vacancy is just 1.3% (JLL), Tokyo Grade A is 1.4% (CBRE) and year-to-date Manhattan leasing was well above the long-term average – driving healthy prime rental growth. Wider US office vacancy rates rose to c20% (C&W), underscoring the bifurcation between prime and secondary.

Retail vacancy rates are near record lows following a decade of minimal new supply across the US, Europe and much of Asia, including Hong Kong, where Grade A retail rents rose for the first time since 2019. Consumer resilience has driven robust retailer leasing activity, rising occupancy, and widespread rental growth, particularly for grocery-anchored retail parks and regional malls in affluent neighbourhoods.

Conditions in the logistics sector have been soft after a stellar performance during the pandemic, as new supply continued to enter the market, though indications suggest the market is stabilising. The US logistics vacancy rate was flat at 7.1% (C&W) in Q4 2025, while European vacancy rates appear to have peaked and are slowly declining in the UK, Eastern Europe and Spain. In Asia-Pacific market fundamentals are mixed, though regional rental growth is trending lower.

The residential sector has the lowest vacancy rates, supported by ongoing urbanisation trends, a lack of new supply and widespread affordability constraints for buying.

Global data centre fundamentals remained exceptionally strong throughout 2025, with vacancy rates near historic lows and pre-commitments on new supply approaching 80% (JLL), reflecting strong demand from AI and hyperscalers. Availability of power is a key factor constraining new supply.

12-Month Outlook

With limited scope for yield compression while interest rates remain elevated, total returns are expected to be driven by income rather than capital growth. The widespread improvement in occupier sentiment in 2025 points to a stronger leasing backdrop in 2026, supporting income growth across sectors.

Whilst the impact of AI on white collar work is unknown, the weight of opinion is that it will reduce overall demand for office space but concentrate occupiers on higher-quality space. A modest development pipeline, combined with the repurposing of obsolete stock for other uses, should sustain upward rental pressure for the best-quality space.

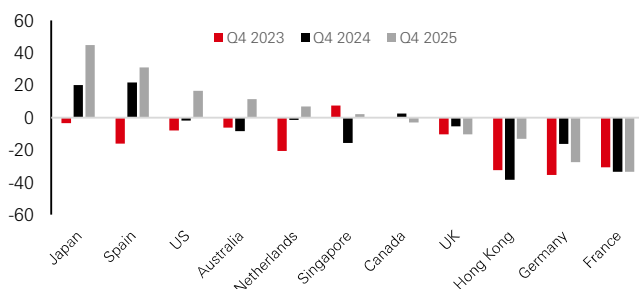
Retail is well positioned to outperform. Property yields offer an attractive spread over other property types, development pipelines are minimal, and leasing demand is resilient. Grocery-anchored neighbourhood retail is the favoured sub-sector, given high occupancy and depth of demand.

We remain cautious on logistics in the near-term. Yields are compressed and income growth, while still positive, is expected to be modest in 2026. That said, the year should mark a transition point as new supply moderates, demand is supported by e-commerce growth and supply chain resilience strategies and increased European defence spending may provide additional leasing impetus.

Residential should remain resilient, underpinned by stable demand and low vacancy rates. US coastal multifamily should outperform the Sunbelt, though the gap is expected to narrow. Senior housing offers the most compelling growth outlook as the population ages. In Asian, Japan and Singapore offer strong multifamily fundamentals.

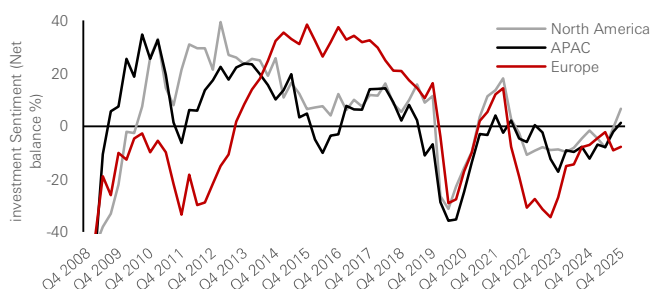
The ongoing conflict in the Middle East is a key downside risk. Elevated oil prices have pushed government bond yields higher, potentially pushing up property yield, while a protracted conflict would weigh on occupier sentiment – particularly in cyclically sensitive sectors such as offices and retail. More defensive sectors would include high occupancy residential, and sectors with structural demand tailwinds: senior housing, data centres, and logistics.

Occupier Sentiment Index*



Source: HSBC Alternatives, as of Dec 2025. * The OSI is constructed by taking an unweighted average of three key series, measured on a net balance basis: Leasing demand, Level of incentives offered to tenants, 3-month rental expectations.

Investment Sentiment Index*



Source: HSBC Alternatives, as of Dec 2025. * The Investment Sentiment Index (ISI) is constructed by taking an unweighted average of net balance readings from three key investment-focused questions: Investment Enquiries, 12-month Capital Value Expectations, Supply of commercial property currently for sale.

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Our Asset Class Views

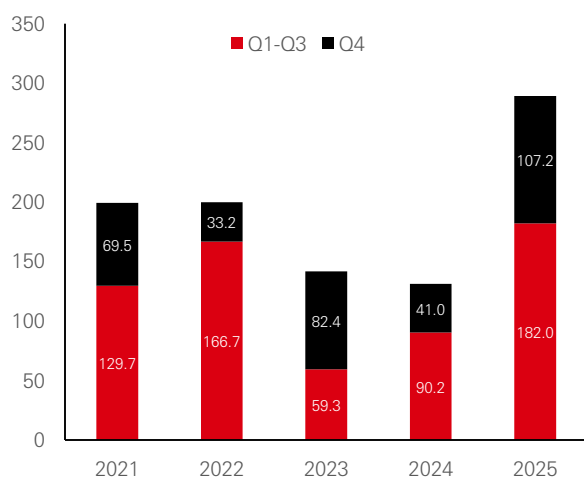
↑ Infrastructure Positive

Review of Q4

Q4 2025 marked a record year for private infrastructure capital fundraising, with \$289.2bn raised far exceeding the total for 2024. We consider that it is illustrative of the attractiveness of infrastructure as a stable asset class in an overall investment universe that faces significant challenges.

Infrastructure fundraising sees significant uptick

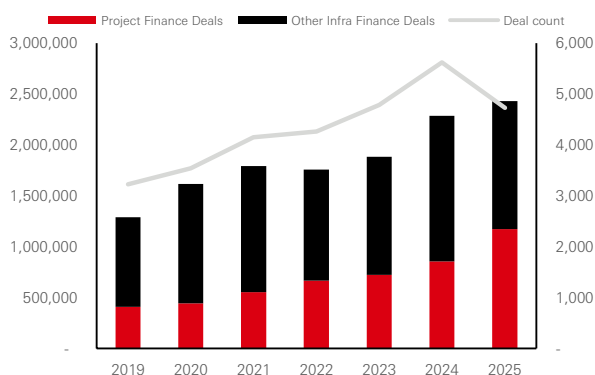
Private Infrastructure Capital Raised (\$bn) in the past 5 years



Source: HSBC Alternatives, Institutional Investor, data as of Dec 2025

Importantly, financing markets have reopened, and deal volumes are increasing after the rate shock of 2022–23. Diverse funding sources support resilience across market cycles. Activity has been strong across value-add and core/core+ transactions. With more capital chasing assets, underwriting discipline and sourcing advantage are critical.

Global infrastructure finance value (\$m) and volume, 2019-2025



Source: HSBC Alternatives, data as of Dec 2025

12-Month Outlook

The outlook for infrastructure remains dominated by the Trump administration. We see signs that this may lead to greater investor interest in European and Asian infrastructure. The former can be seen as having a more stable policy environment and the latter offers geographical diversification and, in general, the potential for enhanced returns. We continue to monitor US policies on aspects of infrastructure investing:

- i. The Big Beautiful Bill Act significantly curtails the tax benefits available to solar and wind energy investments. This is likely to lead to a short-term surge in renewable energy investment activity in the United States followed by a lull when the deadline for eligibility for tax credits expires. Ultimately, however, this sector will resume its growth because onshore wind and solar are price competitive without tax breaks and can be developed more quickly than gas fired power plants. In the energy sector, we favour diversifying investment across North America, western Europe and developed Asia.
- ii. Inflation: Any increase in tariffs and the prospect of a growing US fiscal deficit may lead to the Federal Reserve keeping interest rates higher for longer. Infrastructure assets tend to be positively correlated with inflation (because their income streams are often index linked) and robust to the interest rate cycle (because they often have long term, fixed rate financing).

Digital infrastructure was the single largest global infrastructure sector in 2025, largely due to data centre investing. We see many data centre investment opportunities with very attractive potential returns. A lot of these are, however, heavily dependent on the maintenance of current high earnings multiple valuations five to eight years from now. This dependence is unlike a classic infrastructure risk profile in which a large proportion of returns are generated from high operating margins, delivering significant distributions. We prefer mature portfolios of operating data centres with limited exposure to the development of new capacity, which offer more moderate returns in exchange for lower risk.

The conflict in the Middle East could introduce short-term volatility for private infrastructure through higher energy prices, supply chain disruption, and elevated geopolitical risk. However, it may also reinforce long-term investment in domestic energy security and power grids. If the conflict is protracted, this should reinforce the benefits of infrastructure’s contracted revenues and inflation-linked cashflows, which are not linked to the economic cycle, and that provide resilience when risks are elevated.

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