SS&C | ALPS ADVISORS

Investment Committee Review

Outlook Q3 2026

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Asset Class Reviews

SS&C ALPS Advisors is an open architecture boutique investment manager offering portfolio building blocks, active insight and an unwavering drive to guide clients to investment outcomes across sustainable income, thematic and alternative growth strategies.

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Introduction

Q2 2026 Review

US financial conditions eased during the second quarter as improving global risk sentiment and supportive liquidity outweighed temporary volatility from the Iranian conflict and commodity price shocks. Global money supply continues to expand, fiscal liquidity has improved through Federal Reserve (Fed) balance sheet growth and Treasury cash drawdowns, and inflation has moderated overall despite higher energy, shipping, and input costs that may keep near-term price pressures elevated. Economic growth remains resilient, with expansionary ISM manufacturing and services readings, stronger commercial lending, improving employment trends, and expectations for continued trend Gross Domestic Product (GDP) growth supported by artificial intelligence (AI) investment and broader corporate profitability. Corporate earnings expectations have strengthened significantly, with forward earnings estimates and profit margins improving across a wider range of companies, reflecting broad-based growth. The continued adoption of advanced AI technologies is driving productivity gains, supporting profit growth beyond AI infrastructure providers, and reinforcing a constructive outlook for both the economy and equity markets.

Equities

The second quarter marked a sharp rebound in global equity markets as easing geopolitical tensions in the Middle East led to a reversal of the first quarter's energy shock, with all major US Equity Indexes posting strong gains. Equity returns also broadened beyond large-cap technology toward cyclical and growth-oriented industries. Smaller-cap stocks outperformed, signaling healthier market participation despite energy remaining the top-performing sector year to date. Looking ahead, the outlook remains constructive but emphasizes a barbell strategy that combines an overweight to energy as a hedge against renewed geopolitical risks with international and emerging market equities positioned to benefit if tensions continue to ease. We favor high-quality, free cash flow-generating companies while remaining cautious on expensive growth stocks. Key risks include a resurgence of Middle East conflict, a slowdown in AI infrastructure investment, and inflation remaining elevated enough to keep interest rates higher for longer, reinforcing the importance of diversification and portfolio flexibility.

Fixed Income

Fixed income markets faced a challenging second quarter as Middle East tensions drove oil prices higher and a more hawkish Fed stance shifted investor expectations from potential rate cuts toward possible rate hikes, creating increased volatility across the yield curve. Despite these pressures, investment-grade bonds posted modest gains in the first half of 2026, with credit-oriented sectors outperforming as strong corporate fundamentals and attractive income helped offset rising rate volatility. Treasury markets experienced a bear flattening of the yield curve, with short-term yields rising most sharply as investors priced in tighter monetary policy, while higher-quality and shorter-duration exposures performed best. Looking ahead, the outlook favors active fixed income management focused on credit selection, selective duration exposure, and diversification, as moderating inflation and trend growth could eventually support a more favorable rate environment. Key risks remain elevated, including renewed energy shocks, persistent inflation, fiscal uncertainty, and changing Fed policy, reinforcing the importance of quality, flexibility, and disciplined positioning.

Real Estate

Real Estate Investment Trusts (REITs) extended their recovery in Q2 2026, returning 10.73% as improving fundamentals and attractive valuations supported broad-based gains, with lodging and office sectors leading performance while cell towers remained the primary laggard. Valuations continue to appear compelling relative to equities, with higher dividend yields and favorable implied cap rates. Sector fundamentals improved across much of the market, driven by stronger office leasing, resilient demand for data centers and health care properties, slowing new construction, and better supply-demand balance in residential, industrial, and self-storage assets. Looking ahead, the outlook remains favorable as earnings growth, stabilizing interest rates, and AI-driven demand support continued recovery, although higher interest rates, tariff-related costs, and slower AI investment remain key risks to monitor.

Commodities

Commodity markets corrected in Q2 2026 after a strong 12-month rally, with the Bloomberg Commodity Index declining 8.08% as profit-taking, a stronger US dollar, higher interest rate expectations, and easing geopolitical risk pressured broad commodity prices. Nonetheless, the Index remains up more than 25% over the past year. Performance diverged across sectors, with industrial metals posting gains on strong structural demand from AI infrastructure, electrification, and constrained supply, while energy and precious metals experienced significant pullbacks and agriculture declined modestly. Looking ahead, the long-term outlook remains constructive, and commodities continue to offer diversification benefits during periods of persistent inflation and slower economic growth, supporting a favorable investment outlook.

Private Markets

Private markets showed improving activity in Q2 2026, but gains remained concentrated among the largest managers and AI-related transactions, with liquidity and exit opportunities still uneven across the broader market. Private equity dealmaking slowed as geopolitical uncertainty and inflation concerns weighed on larger leveraged transactions, while venture capital (VC) remained strong due to AI megadeals. In private credit, concerns expanded beyond software exposure to include the rapid growth and concentration of AI infrastructure lending, as elevated redemptions, increasing competition from syndicated loans, and mounting risks around AI-related financing tempered the sector's outlook.

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Macro Summary

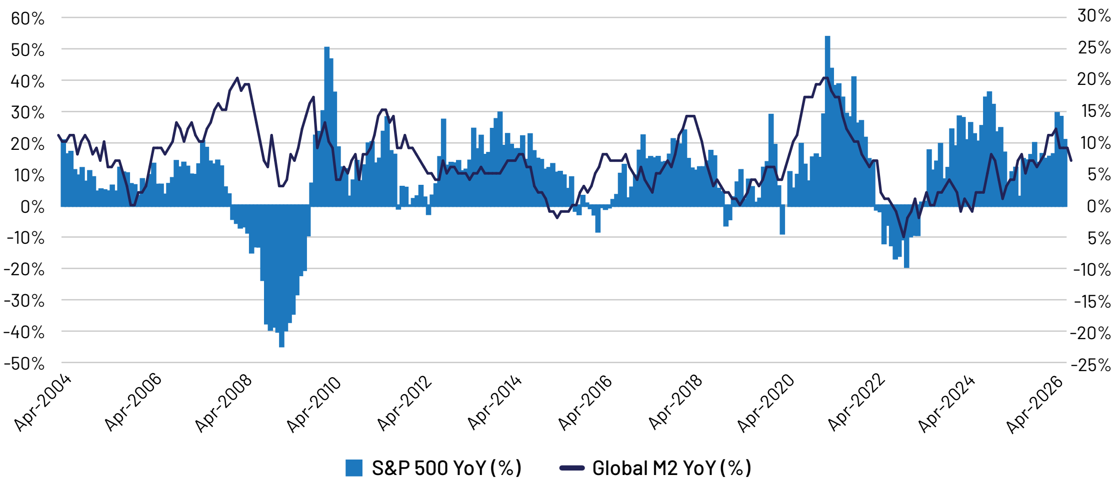
Liquidity Cycle

US market-based financial conditions relaxed in the second quarter of 2026 in response to a rebound in the global risk backdrop. While a multi month-long Iranian conflict in the Middle East disrupted oil transportation, introduced a commodity price shock, and a bout of market volatility, benign liquidity conditions supported the selloff catalyzed by a wave of new frontier artificial intelligence (AI) model development and anticipated equity offerings.

The pace of global money supply growth continues to increase alongside solid manufacturing and services business sentiment, although at a slower rate compared to the inflection we quantified back in March. US Treasury yields rose meaningfully across the curve during the quarter, with the belly moving highest to price in uncertainty around previously expected accommodative adjustments to monetary policy.

Fiscal liquidity impulses are mildly positive. The Fed's balance sheet is once again slowly expanding and the Treasury General Account (TGA) saw its largest five-week decrease since last summer at the end of May, helping create the largest monthly expansion of money supply in the US since May of 2021. Global money supply growth remains on trend from its 2022 low but is now at the low end of that trend range partly due to recent year-over-year (YoY) US Dollar strength.

Global M2 YoY (%) & S&P 500 YoY (%)



Source: Bloomberg, 4/30/2004 - 6/30/2026
Past performance is no guarantee of future results. *One may not invest directly in an index.*

Inflation Cycle

June headline inflation came in at 3.5% and core at 2.6%, with the three-month annualized rate now running below 3% for both measures. The commodity supply shock associated with the Iranian conflict led to an increase in headline inflation that printed 4.2% in May. The leading indicators in global manufacturing and services, both in expansionary territory, may also keep prices relatively firm.

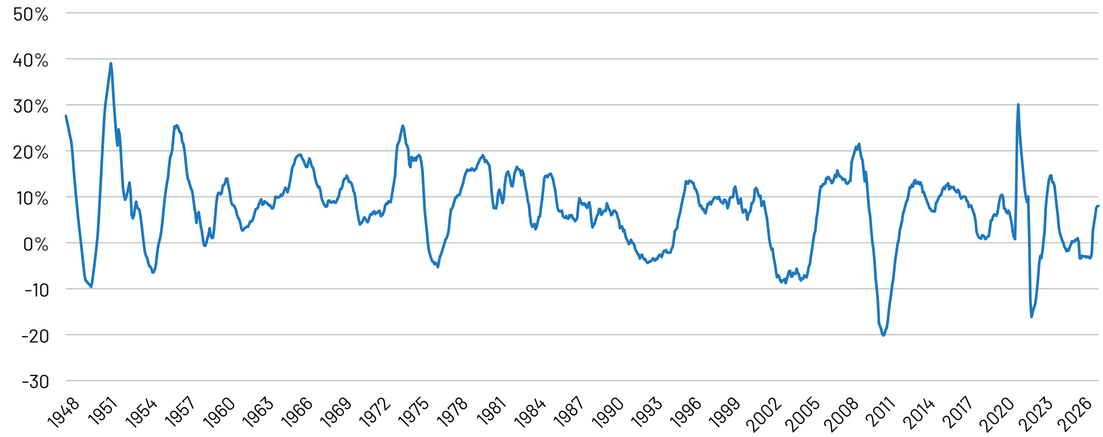
The Sticky Consumer Price Index (CPI), heavily weighted by shelter costs, remains below 3% alongside the three-month median Atlanta Fed Wage Growth. Other wage and income measures remain in the normalized 3% to 5% range, while both prime age labor force participation and the 55-and-older cohort are dropping to multi-year lows. The Shanghai-to-LA Container Rates have doubled over the last three months while oil and many spot feedstock chemicals remain up over 50% year-to-date (YTD). The rise in these input prices may also keep inflation relatively firm in the short term.

Growth Cycle

Both ISM Manufacturing and Services surveys continue to print at expansionary levels. In last quarter's note we stated that this renewed signal of demand, combined with the ongoing acceleration in global money supply, were macroeconomic indicators underpinning the market-based financial conditions recovery thesis for the coming quarters. That recovery happened in just one quarter and is translating into a broadening of market fundamentals and realized returns.

Another factor supporting the broadening of the equity market is traditional Commercial and Industrial lending breaking out in 2026. After 18 months of near-flat balances, banks added over $83 billion in new loans in January and February alone, with a YoY growth rate reaching 8% by June. Both procyclical and all nonfarm payrolls continue their recovery from recessionary levels we were tracking closely in 2025. Real-time payroll receipts continue to print solid readings. US GDP for Q1 was revised up to 2.1% and the Atlanta Fed's GDPNow estimate for Q2 stands at 1.5%. Our base case remains continued trend growth supported by AI investment and improving corporate profits breadth.

Commercial & Industrial Loans, All Commercial Banks YoY Percent Change

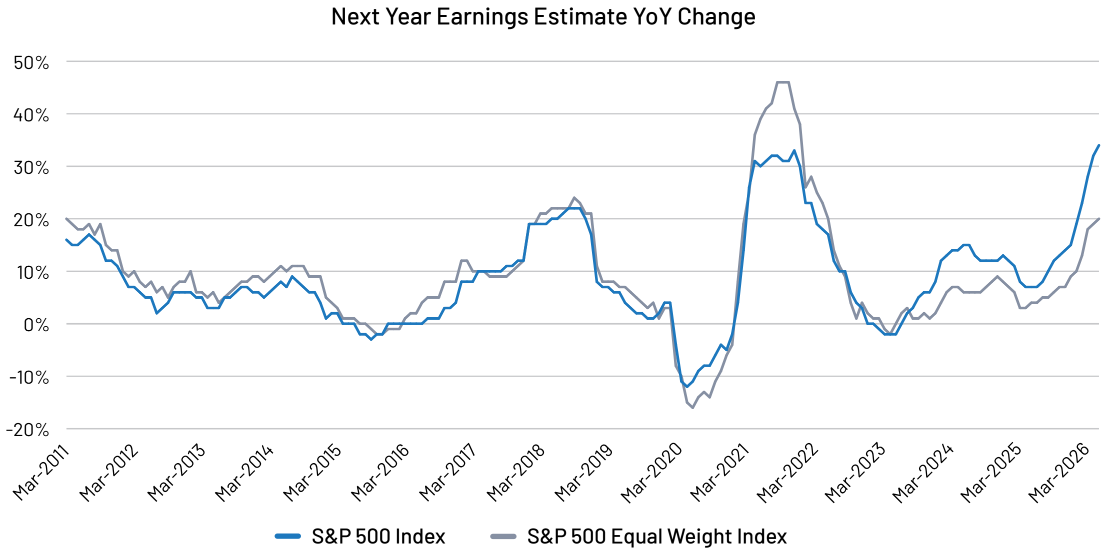


Source: Bloomberg, SS&C ALPS Advisors Proprietary Research, 1/1/1948 - 6/1/2026

Profit Cycle

S&P 500 Index forward earnings estimates have once again continued to move higher and broaden. The change in the index's next-year earnings per share (EPS) estimate is now +35% YoY, up from +23% in March, while the equal-weighted index has moved to +21% from +14%. Profit margin revisions have similarly improved. The YoY rise in the capitalization-weighted earnings estimate is at some of the highest levels we've seen in the historical data, and generally in periods of an economic recovery.

As the frontier AI tools transition from simple chatbots to agent-orchestrators and reasoning loops, firms adopting them are reporting internal improvements in productivity and efficiency. Some of them are subsequently reducing their workforce from the high levels induced by the job hoarding that followed the COVID-19 pandemic. This combination appears to be already shifting profits higher broadly and in many cases with aggressive investment. As sophisticated AI tool adoption expands over the coming quarters, we expect to continue to see a broadening of profit growth from the primary suppliers of AI to its earliest adopters.



Source: Bloomberg, SS&C ALPS Advisors Proprietary Research, 3/31/2011 - 6/30/2026
Past performance is no guarantee of future results. *One may not invest directly in an index.*

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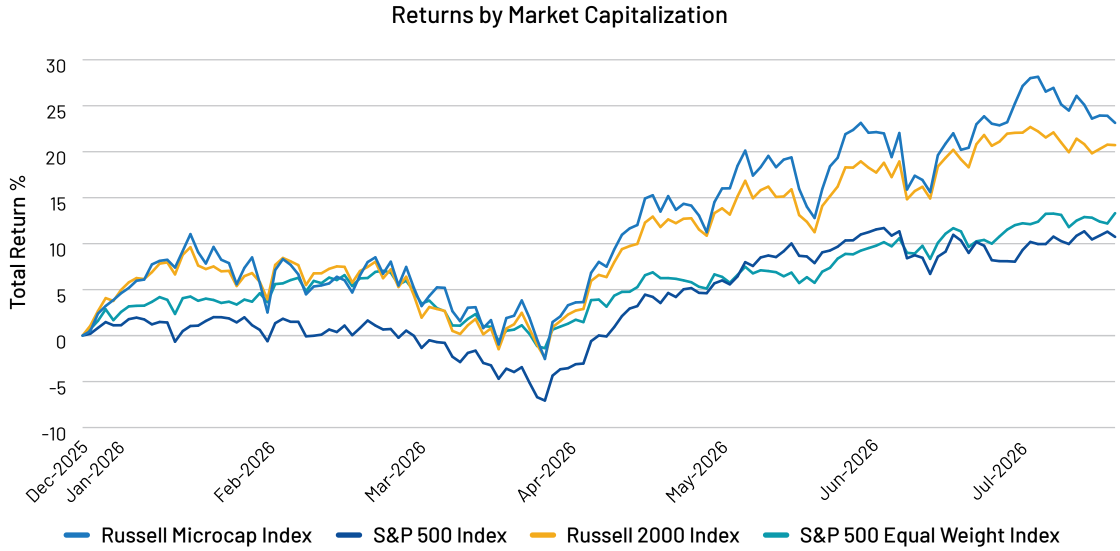
Equities Summary

Q2 2026 Review

The second quarter delivered a violent reversal of the first quarter's energy shock, as the fragile Strait of Hormuz ceasefire held and markets unwound the geopolitical risk premium that had frozen them in March. Risk assets snapped back with force: the S&P 500 Index gained 15.20%, the Nasdaq 100 Index surged 27.73% as the megacap technology names that had borne the brunt of the first-quarter selloff led the recovery, and the Dow Jones Industrial Average advanced 13.38%.

Beneath the headline indices, the quarter was defined by a continued broadening of market leadership. Smaller-capitalization indices led the advance and participation widened dramatically across the size spectrum, as the chart below illustrates.



Source: Bloomberg, 12/31/2025 - 7/16/2026
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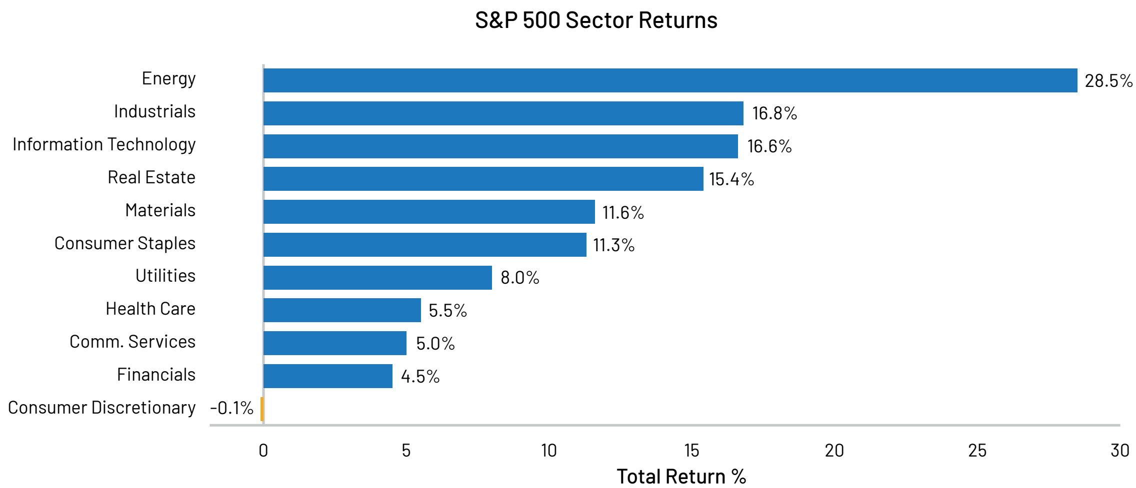
The rotation was equally stark at the sector level. Energy, the standout performer of the first quarter, gave back a meaningful share of its gains as crude retraced from its wartime peak and the risk premium compressed. Even so, Energy remained the top-performing sector on a YTD basis. Leadership within the quarter rotated back toward the cyclical and growth-sensitive corners of the market, most notably among the continued strong advance of cyclical memory semiconductor companies.



Source: Bloomberg, 12/31/2025 - 7/16/2026
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Our long-held preference for international and emerging market equities has been challenged by the conflict in the Middle East. The US dollar strengthened through the crisis, as international markets bore the brunt of the energy shock. Should the conflict resolve, we expect a renewed tailwind for non-US assets and a reinforcement of the diversification case we have made throughout the cycle; conversely, a continued escalation would leave these markets struggling.

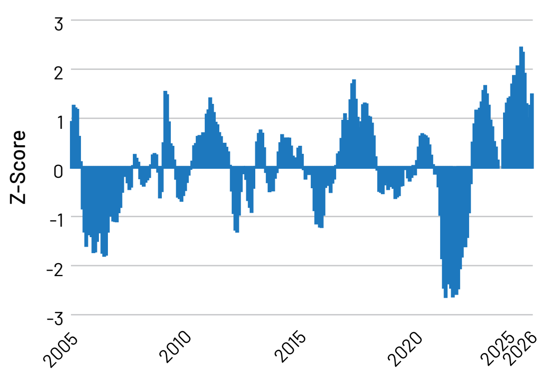
Q3 2026 Outlook

We enter the third quarter constructive on the broad market but deliberately barbelled—pairing an Energy overweight as a geopolitical hedge against continued conflict, and international and emerging markets as the primary vehicle for the resolution trade. The apparent de-escalation of the Hormuz crisis has not eliminated the risk; ongoing tensions and periodic escalations keep the fat tail alive, and we are unwilling to take action as though the conflict is behind us.

Energy remains the cleanest hedge against that tail. Its correlation to the broader market has turned decisively negative—Energy has rallied when equities sold off and given back when they recovered—which makes an overweight a form of insurance we are paid to hold rather than a directional bet. The structural case reinforces the tactical one: with the US Strategic Petroleum Reserve at its lowest level on record and coordinated stockpile releases still to be replenished, a contractually obligated bid sits beneath crude irrespective of how the diplomatic picture resolves.

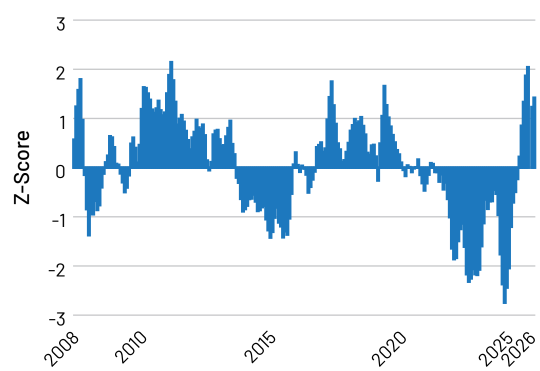
On factors, revenue growth remains expensive despite its recent underperformance, as the chart below shows. We continue to favor stable free cash flow and quality factors, underweighting the most expensive growth factors while retaining the flexibility to lean into cyclicals should the conflict resolve durably and the data hold. Low volatility stocks also appear undervalued at a time when the market may be vulnerable.

Z-Score Valuation Spread Between Top and Bottom Quintiles Based on Quality



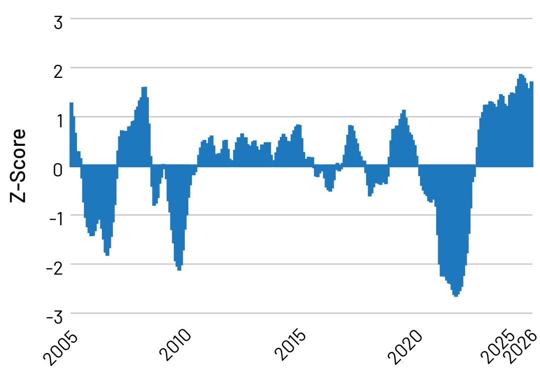
Source: Bloomberg, Bloomberg US 1000 Index, 2/28/2005 - 6/30/2026; quality is the trailing twelve month return on invested capital (ROIC)

Z-Score Valuation Spread Between Top and Bottom Quintiles Based on FCF Volatility



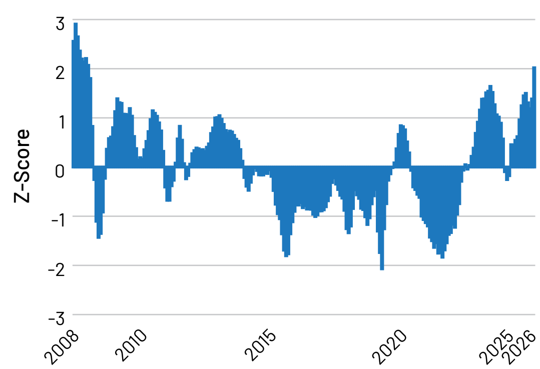
Source: Bloomberg, Bloomberg US 1000 Index, 4/30/2008 - 6/30/2026; free cash flow volatility is the standard deviation of last twelve quarters of free cash flow

Z-Score Valuation Spread Between Top and Bottom Quintiles Based on Revenue Growth



Source: Bloomberg, Bloomberg US 1000 Index, 2/28/2005 - 6/30/2026; revenue growth is the last twelve months revenue growth

Z-Score Valuation Spread Between Top and Bottom Quintiles Based on Volatility



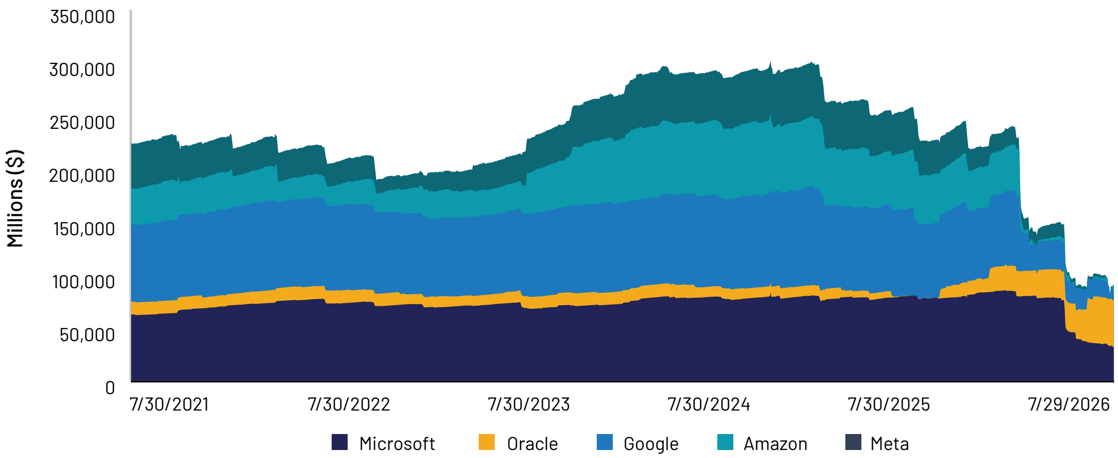
Source: Bloomberg, Bloomberg US 1000 Index, 1/31/2008 - 6/30/2026; volatility is the standard deviation of last 36 months stock price

Key Risks

The distribution of outcomes remains wide with three risks dominating our thinking:

- **The AI buildout has outrun its own cash generation.** The largest technology companies have exhausted the internal free cash flow that once funded their capital expenditure (Capex) and are now financing the build-out through debt and equity issuance. Four of the five largest hyperscalers now generate negative expected free cash flow, as the chart below illustrates. The tail risk is reflexive: should a single participant signal Capex restraint and be rewarded for it, the re-rating could cascade into a broader unwind of the AI-buildout trade, with the market's concentration in semiconductor companies amplifying the fallout.

Aggregate Estimated Free Cash Flow of Hyperscalers



Source: Bloomberg, 7/30/2021 - 7/29/2026

- **The Middle East is not resolved.** A renewed escalation could drive oil sharply higher against strategic and commercial reserves that have already been drawn to depleted levels, leaving little buffer to absorb a supply shock and reigniting the inflationary impulse that unsettled markets in the first quarter.
- **Inflation may force the Fed's hand.** With price pressures running above the Fed's target and Energy a persistent upside risk, the central bank may be compelled to keep policy tight, or resume hiking, rather than deliver the cuts the market had priced earlier in the year. This backdrop would pressure the most leveraged and most richly valued corners of the market.

The third quarter calls for a continued barbell. An Energy overweight guards against a Hormuz relapse; international and emerging market equities capture the resolution upside and the structural dollar downtrend; and a quality, free cash flow-oriented core anchors the portfolio through whatever comes between. With the range of outcomes this wide, discipline, genuine diversification, and the flexibility to rotate as the geopolitical and inflation picture clarifies will matter more than any single directional call.

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Fixed Income Summary

Q2 2026 Review — Entering a New Regime

The fixed income markets were shaped by two significant developments during the quarter: escalating geopolitical conflict in the Middle East, which drove a sharp increase in oil prices, and a hawkish shift in Fed policy under its new leadership. Together, these dynamics prompted a notable change in market expectations, with investors repricing from anticipated rate cuts to near-term rate hikes. Despite these headwinds, fixed income delivered modest performance in the first half of 2026, as the Bloomberg US Aggregate Bond Index—an established benchmark for investment-grade bonds—advanced 0.62%.

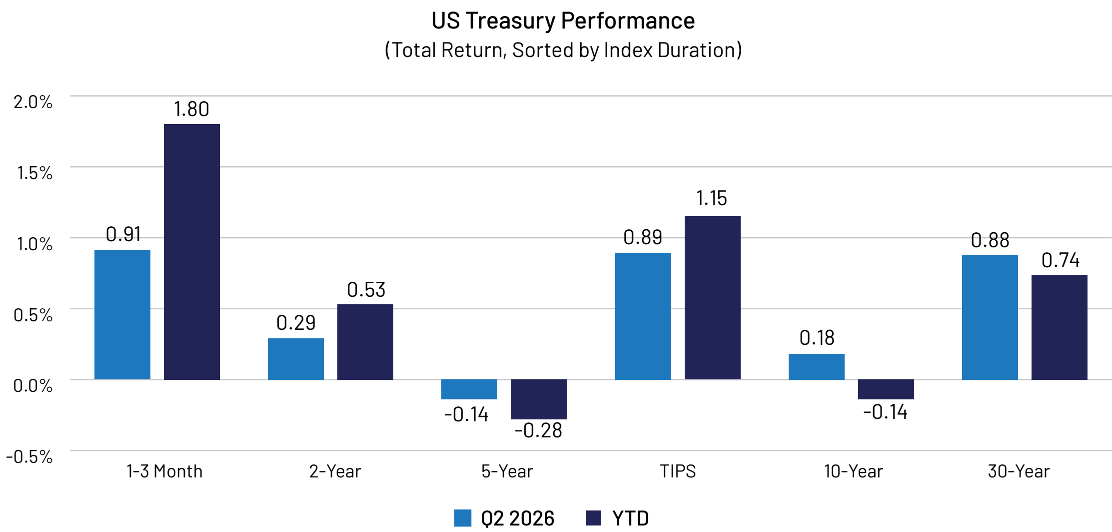
Elevated inflation remained a key constraint on bond returns, driven in part by higher energy prices, while economic growth proved more resilient than expected, supported by steady consumer spending and a firm labor market. However, the most consequential development for fixed income investors was the transition in Fed leadership. The new Chair has signaled a shift toward a less transparent policy framework, with reduced forward guidance and an increased emphasis on incoming core inflation data, introducing a greater degree of uncertainty into the policy outlook.

Within this evolving regime, US Treasury securities—given their high sensitivity to interest rates and deep liquidity—experienced heightened volatility. The yield curve flattened, led by a rise in short-term yields, reflecting the market concern around policy tightening relative to long-term growth expectations. Longer term treasury yields ended the quarter near the 5% high water mark established earlier in this rate cycle.

But credit-oriented sectors outperformed, benefiting from higher spread income that helped offset interest rate volatility. These sectors were further supported by solid corporate earnings and sustained investor demand for income-generating assets. At the same time, market behavior during the first half of the year indicated a growing preference for higher-quality exposures, suggesting a more cautious stance as the credit cycle progresses.

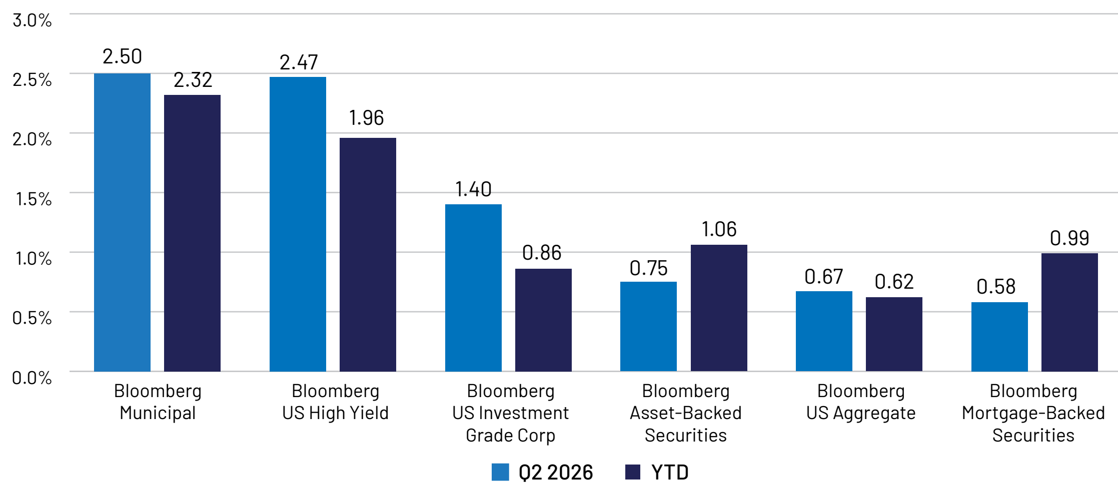
Performance Highlights (See Charts)

- In Treasuries (Rates), short duration and TIPs generated the largest returns.
- Within credit, higher-quality sectors (even within the high-yield sector) outperformed.
- Core Treasuries sold off when geopolitical events raised inflation fears, rather than rallying as a hedge as they typically have in the past.



Source: Bloomberg, total returns as of 6/30/2026
Past performance is no guarantee of future results.

US Core Bond and Credit Sector Performance
(Sorted by Total Return)



Source: Bloomberg, total returns as of 6/30/2026
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Remaining 2026 Outlook — Maintain Exposure

We expect 2026 to continue favoring nimble, actively managed fixed income strategies, where disciplined credit selection and thoughtful positioning can convert volatility into alpha. Rate volatility is likely to remain elevated as markets adapt to a new and still-evolving Fed regime.

Geopolitical developments—including the risk of disruption in critical energy transit routes such as the Strait of Hormuz—alongside midterm elections may introduce episodic dislocations. A sustained increase in oil prices stemming from such disruptions would present a meaningful downside risk, potentially reigniting inflationary pressures, tightening financial conditions, and constraining the Fed's ability to maintain a neutral stance. These dynamics could lead to renewed upward pressure on yields and increased market volatility.

Yet, our base case remains one of moderating inflation and trend-level GDP growth, which should allow the Fed to remain broadly neutral to modestly supportive for fixed income. However, the path is likely to be uneven, with macro and geopolitical shocks creating both risks and opportunities for active investors to capitalize on shifting fundamentals.

Against this backdrop, we anticipate continued positive flows into US fixed income, supported by comparatively attractive yields versus other developed markets and favorable relative valuations versus equities on a historical basis. While credit spreads remain tight, this reinforces the importance of security selection as dispersion increases—particularly as winners and losers emerge in this AI-driven, debt-fueled economic cycle.

Policy Landscape

Monetary Policy: A New Game Plan

As the Fed develops its evolving analytical and communication framework, the Chair's initial remarks make clear that the following elements will be hallmarks of the regime:

- A renewed focus on combatting inflation.
- More reliance on higher-quality, real-time data.
- The elimination of telegraphing future interest rate moves (forward guidance).

We view all of these new factors as constructive for fixed income once they are fully implemented. While they are likely to contribute to increased market volatility, it also creates a more nuanced environment that can benefit active managers.

Market pricing currently reflects one additional rate hike by year-end. While this is not our base case, a shift away from that expectation—particularly if growth begins to soften—would likely be supportive of core fixed income and longer-duration assets. In such a scenario, renewed growth concerns would help anchor yields and reinforce demand for high-quality bonds.

It remains too early to determine whether AI will ultimately prove to be a net deflationary force, though it is already influencing the Fed's policy framework. Near-term data largely suggest that AI-related capital spending is inflationary, given its contribution to elevated investment and demand. However, the Fed appears increasingly focused on its longer-term implications, particularly the potential for adoption of AI to reduce unit labor costs and exert downward pressure on prices over time.

Fiscal Policy: Running Out of Room for Additional Support

Fiscal policy and the upcoming midterm elections remain key potential disruptors for bond markets this year, particularly with respect to fiscal credibility and long-term debt management. The Treasury currently has limited flexibility to issue incremental debt beyond already announced funding plans, and federal spending is expected to proceed largely as projected, with deficits remaining near $2 trillion. Relative to prior cycles, we anticipate closer coordination between the Treasury and the Fed, particularly in managing balance sheet dynamics and market liquidity.

At the same time, fiscal restraint has re-emerged as a more prominent theme across the political spectrum. While a meaningful reduction in government spending appears unlikely in the next few years—absent a significant increase in tax revenues—there is also limited appetite for additional tax cuts. This dynamic suggests a degree of policy gridlock, but one that may help stabilize expectations around future deficits.

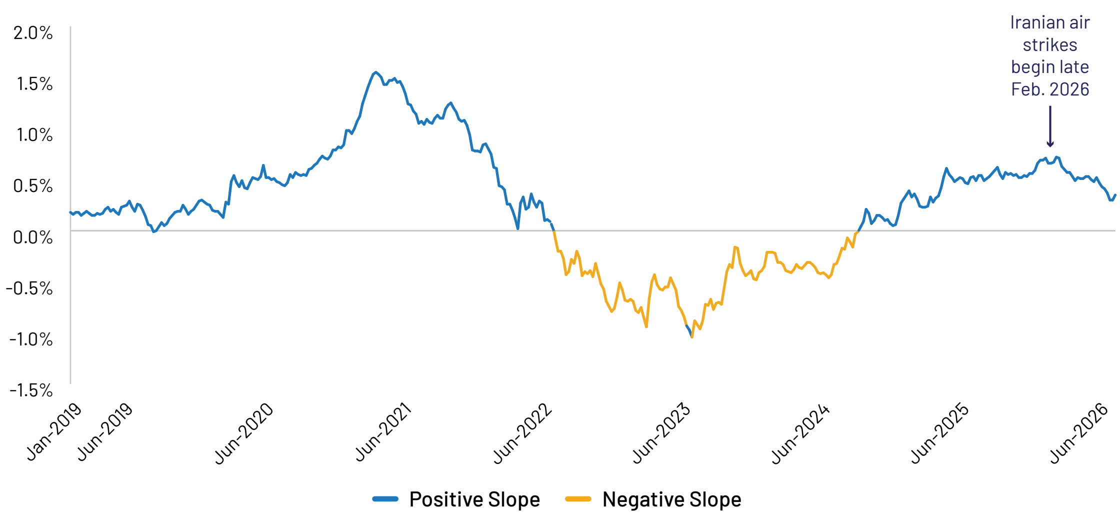
Finally, while concerns occasionally arise regarding the market's capacity to absorb increased issuance of longer-dated Treasuries, recent auction results have demonstrated solid investor demand. This continued sponsorship provides an important offset to fiscal uncertainty and supports overall market functioning.

Market Dynamics: Yield Curve and Flows

The yield curve provides a useful read on near-term Fed policy expectations, as well as investors' views on the future course of economic growth and inflation. After the Iran conflict began in late February, oil prices spiked, and the yield curve entered a flattening phase as short rates moved up higher than longer term rates on the expectation for rate hikes. Intermediate maturity rates also moved up on the repricing of the inflation premium required by the latest price data, which were all well above policy targets. However, the long end yield moved up only marginally, weighing the term premium with a longer-term lens of a new Fed that abandoned an easing bias.

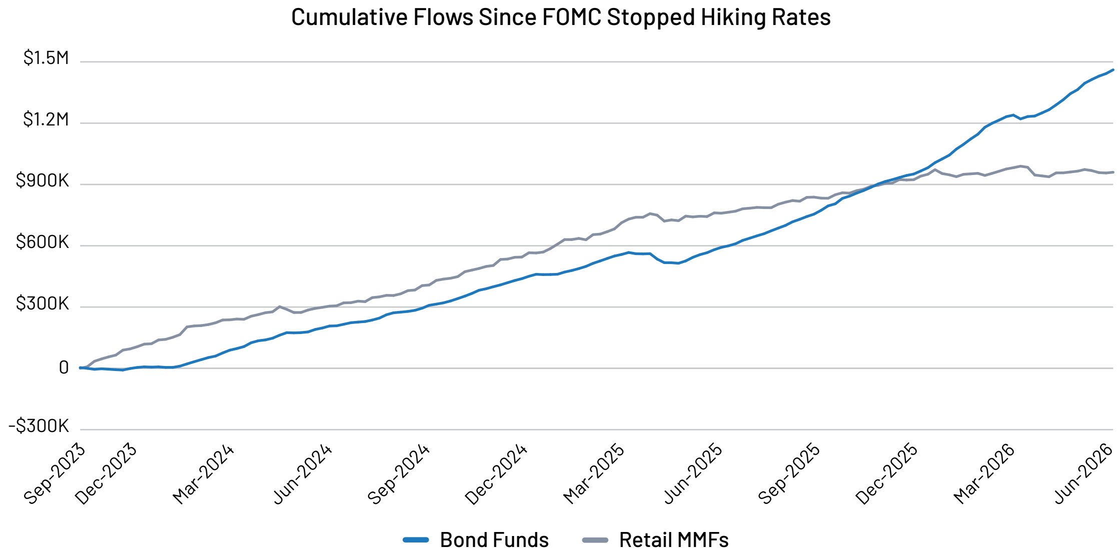
Slope of the Yield Curve

Constant 10-Yr Maturity Treasury Minus Constant 2-Yr Maturity Treasury



Source: Federal Reserve Economic Data-FRED, 10-Year Treasury constant maturity minus the 2-Year Treasury constant maturity yield, percent, weekly, not seasonally adjusted. 1/23/2019 - 6/30/2026

However, even with a bear market flattener in the books for Q2, demand for fixed income remains strong, underpinned by increasing retail participation in auctions, demographic tailwinds, strong international and foreign flows, and re-allocations into fixed income due to continued strong equity performance. A Fed hike in the second-half of 2026 could slow or reverse these flows into money market funds again, but the demand for higher income producing fixed income assets would not abate in this scenario.



Source: Bloomberg, SS&C ALPS Advisors Proprietary Research, 9/20/2023 - 6/30/2026
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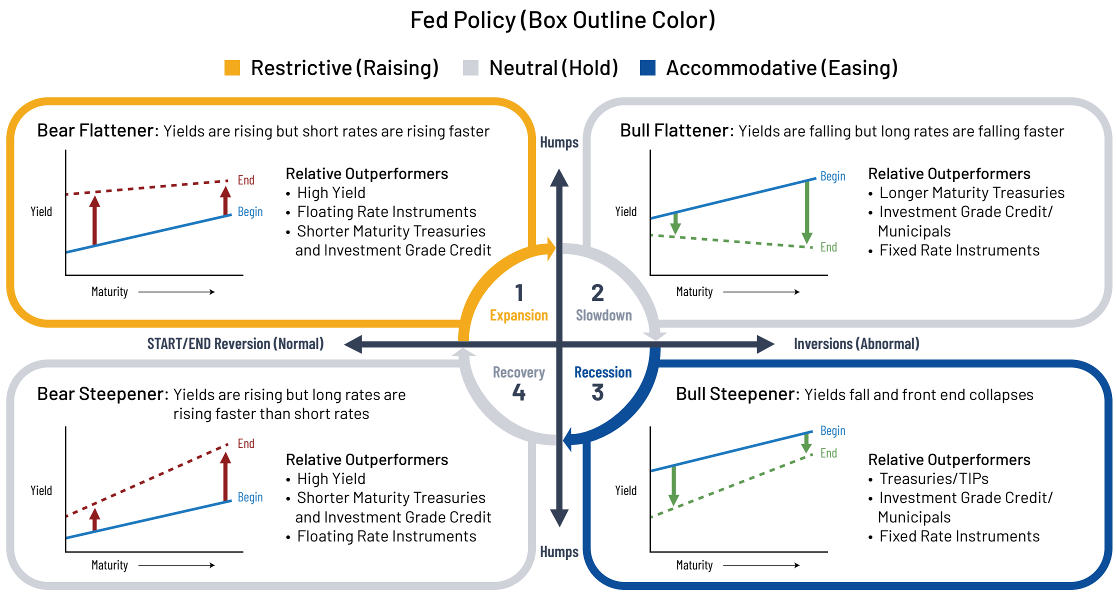
Positioning Themes — Recalibrating the Clock

Exogenous events (like oil shocks) and policy changes (like a new Fed Chair) disrupt the natural cycle of the yield curve expectation clock (see below). Prior to Q2 the market was in a bull steepener phase (Box 3) but moved quickly to a Bear Flattener (Box 1). Bear flatteners are typically experienced in an expansion phase with well-above average GDP trend coupled with a Fed that is raising rates. However, real GDP growth in each of the past three years has fallen (from 2.9% in 2023 to 2.1% in 2025). First-half 2026 growth has been slightly ahead of last year's pace, but market positioning remains best described as positioned for stagflation—given the uncertainty around the impact of the Iranian strikes.



Source: SS&C ALPS Advisors Proprietary Research
For Illustrative Purposes Only

Stagflation positioning could last as long as CPI remains sticky, however, our expectation (and the Fed's) is for more modest inflation, full employment and slightly slower growth. This would result in a re-normalization of the yield curve, moving around the clock to land in one of the more favorable yield curve environments for fixed income (Box 2 or 3 again). Of course, getting there is not a given, and volatility is the result of every crossroad in the above chart.

Recommendations: Fertile Ground for Active Management

We expect 2026 to continue favoring nimble, actively managed fixed income strategies, where disciplined credit selection and thoughtful positioning can convert volatility into alpha. Rate volatility is likely to remain elevated as markets adapt to a new and still-evolving Fed regime.

Geopolitical developments and midterm elections may introduce episodic dislocations, creating opportunities for active investors to capitalize on shifting fundamental trends. Our base case assumes a backdrop of moderating inflation and trend-level GDP growth, which should allow the Fed to maintain a neutral to modestly supportive stance toward fixed income over the next year.

Against this environment, we anticipate continued positive flows into US fixed income, supported by comparatively attractive yields versus other developed markets and favorable relative valuations versus equities on a historical basis. While credit spreads remain tight, this reinforces the importance of security selection as dispersion increases—particularly as winners and losers emerge within an AI-driven, debt-fueled economic cycle.

- **Extend duration selectively:** Position along the 3–10-year portion of the curve in high quality sectors (or Funds that target these exposures).
- **Prioritize quality** as the risk/reward for lower-rated (B- and below) is less attractive. Sectors such as quality financials, consumer staples, and health care remain defensive opportunities.
- **Stay active and diversified** by incorporating foreign issuers, US agency, commercial mortgage-backed securities (CMBS), REITs, and municipal bonds (in taxable accounts) for higher quality income diversification.

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Real Estate Summary

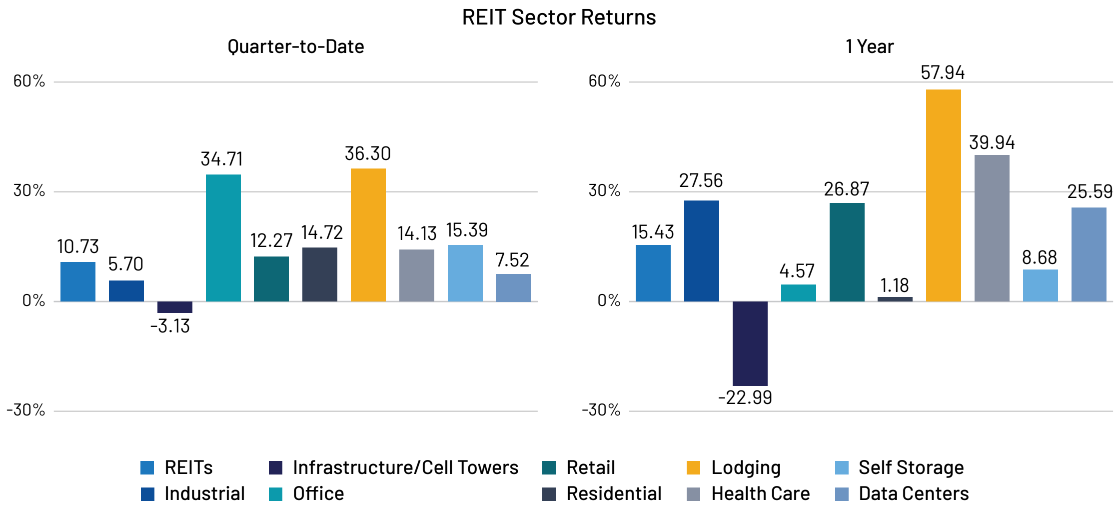
Q2 2026 Review

REITs continued their long-awaited recovery, finishing the quarter up 10.73%, which was higher than the 3.76% posted in Q1. Fundamentals continued to improve, and returns across sectors were generally positive, with Lodging (36.30%) and Office (34.71%) up sharply from prior quarters. Cell Towers (-3.13% for the quarter, -22.99% over the trailing year) remained the weakest-performing sector, weighed down by carrier consolidation, decelerating overall demand growth, rising competitive and rate pressures, and uneven 5G Capex trends as carriers weigh the potential margin enhancements from increases in network spending.

Overall, REITs continue to trade at favorable valuations:

- Implied cap rates are around 5.9% vs. 10-year treasuries at around 4.4%.
- Higher dividend yields (3.7%) vs. the S&P 500 (~1%).
- Lower valuations vs. equities–Equities are trading at 1.3x the valuations of REITs; historically, the long-term ratio of price-to-earnings (P/E) divided by price-to-funds from operations (P/FFO) has been 1.0x.

We note that quarterly gains of this magnitude are historically unusual, and their durability is worth monitoring as sector fundamentals continue to normalize.



Source: Bloomberg, quarter-to-date total returns 4/1/2026 - 6/30/2026; 1 year total returns 5/1/2025 - 6/30/2026
Past performance is no guarantee of future results. *One may not invest directly in an index.*
REITs are represented by the FTSE NAREIT All Equity REITs Index; Industrial by the FTSE NAREIT Equity Industrial Index; Infrastructure/Cell Towers by the FTSE NAREIT Infrastructure REITs Index; Office by the FTSE NAREIT Equity Office Index; Retail by the FTSE NAREIT Equity Retail Index; Residential by the FTSE NAREIT Equity Residential Index; Lodging by the FTSE NAREIT Equity Lodging/Resorts Index; Health Care by the FTSE NAREIT Equity Health Care Index; Self Storage by the FTSE NAREIT Equity Self Storage Index; and Data Centers by the FTSE NAREIT Equity Data Centers Index.

Sector	Q2 Conditions and Catalysts
Industrial	• Supply/demand returning to balance after post-pandemic oversupply; leasing volumes improving. • Reshoring and third-party logistics driving demand. • Flight to quality accelerating with older assets losing tenants to modern facilities. • Tariff-related slowdown is the key risk to watch.
Infrastructure/Cell Towers	• 5G/6G spectrum deployment and densification are primary demand drivers. • Crown Castle cut dividend 32% after fiber divestiture. • American Tower expanding into data center infrastructure alongside towers. • Institutional capital shift toward telecom/infrastructure underway.
Office	• Bouncing back in select metros where in-person work has increased. • Sharp bifurcation: premium rents for trophy assets, structural vacancy for older stock. • Renewals increasingly tenant-favorable with higher allowances and free rent. • Full recovery expected to unfold over several years, not quarters.

Sector	Q2 Conditions and Catalysts
Retail	• Limited new supply pushing valuations to decade highs (ex-regional malls). • Grocery-anchored and neighborhood strip centers continue to outperform and drive demand. • Regional malls remain structurally challenged.
Residential	• National apartment vacancies near peak; expected to decline as new construction slows. • Pricing power expected to return to landlords later in 2026. • Sun Belt markets face elevated supply; coastal/supply-constrained markets outperforming. • Supply/demand continuing to normalize. • Multifamily REITs trade at the steepest discount to NAV (~19%) in the sector.
Lodging	• New supply remains muted, providing a floor for fundamentals. • Key headwinds: pullback in government travel, fewer international visitors, and weaker discretionary spending. • Group and luxury segments holding up; budget and leisure more vulnerable.
Health Care	• Highest-conviction sector for many managers; private-pay senior housing is the standout. • Senior housing completions down 73% since 2021, driving occupancy gains. • Outpatient medical buildings offer stable, steady income.
Self Storage	• Slow recovery underway; low single-digit same-store revenue and net operating income (NOI) growth expected. • Housing constraints and flexible lifestyle trends supporting demand. • New supply declining significantly, giving existing owners increasing pricing power. • Storage condo" subsegment emerging as a niche opportunity for individuals and small businesses.
Data Centers	• AI and cloud demand driving near-full occupancy; national vacancy below 2%. • Most facilities pre-leased before completion. • Revenue compound annual growth rate (CAGR) of ~7% projected; key markets include Northern Virginia, Dallas, and Chicago. • Power availability is now the defining constraint on expansion. • Long-term tenant contracts provide recession-resistant, recurring revenue.

Q2 Sector Focus — Office

Office leasing showed notable signs of recovery in the second quarter, driven by AI/tech demand, tightening return-to-office mandates, and improving activity in premium assets. While the broader market continues to face bifurcation and excess supply challenges, gateway city trophy properties posted strong leasing volumes, higher rents, and occupancy gains—signaling a gradual rebalancing in high-quality segments.

Driver	Key Points
AI Firms and Structural Demand	• AI firms pushed tech's share of US office leasing to nearly 23% in Q1 2026. • AI companies leased 1M sq. ft. in Manhattan in 2025—up 152% from 2024—paying premium rents of ~$88/sq. ft. vs. the $78 citywide average. • Anthropic, Palantir, OpenAI, and others signing 10-year commitments at above-market rents.
Leasing Volume at Multi-Year Highs	• Q1 2026 recorded the highest volume of signed office leases since 2018—roughly 120M sq. ft. nationwide. • Tenant demand is up 13% YoY across seven major gateway markets. • Manhattan vacancies fell to 13.5% as rents climbed more than $1/sq. ft. in the quarter.
Strong REIT-Level Results	• SL Green signed 929,000 sq. ft. in Q1 2026 at a record average starting rent of $105/sq. ft.; Manhattan occupancy rose to 94.4%. • BXP executed 1.1M sq. ft. of leases in Q1 with occupancy up 70 basis points. • Vornado hit a decade-high 4.6M sq. ft. of leasing in 2025 and broke ground on 350 Park Avenue with Citadel.

Driver	Key Points
Return-to-Office Mandates Tightening	• Employers pushing harder on return to office mandates as hiring slows and workers lose leverage. • Legal and Finance firms drove quarterly office demand up 41% and 54%, respectively. • By 2025, 61% of full-time employees were fully onsite; only 12% fully remote.
Bifurcation Caveat	• Recovery is not uniform—Class B and C buildings outside premium corridors continue to struggle. • Market has shed only about half its post-COVID-19 pandemic excess supply. • Trophy assets in gateway cities are leading; broader office market still lagging.

Q3 2026 Outlook

We anticipate that REITs are likely to continue their recovery into 2026 and beyond, driven by earnings growth, valuation discounts, improving supply-demand balances, slowing new construction in many sectors, and stabilizing interest rates.

The overall outlook for Q3 2026 remains generally constructive, with strong secular tailwinds in data centers and health care alongside broad-based benefits from easing supply pressures. Key risks to this view include a renewed rise in interest rates, escalating tariff-related costs, and any slowdown in AI-related capital spending, which has been a primary driver of recent office and data center demand.

Fundamentals continue to improve and valuations continue to be attractive; we maintain our **Favorable** outlook for REITs and real estate.

Category	Headline	Outlook — Next Quarter / Next 12 Months
REITs Overall	Constructive with improving fundamentals; valuation convergence the key catalyst.	• FFO growth accelerating to ~5–6% in 2026 with 4%+ dividend yields supporting mid-to-high single-digit total returns. • New supply declining sharply (20–70%) across major sectors, restoring pricing power. • Attractive public valuations relative to private real estate and broader equities.
Industrial	Gradual recovery; rent growth returns as supply eases.	• Vacancy peaking below 8% before declining in 2027 with strong absorption. • Net rents turning positive in 2026, inflationary by 2027. • Nearshoring supports medium-term demand despite tariff risks.
Infrastructure/ Cell Towers	Stable core leasing; data center pivot adds growth.	• Steady 5G/6G densification driving mid-single-digit organic growth. • Improving balance sheets.
Office	Early-stage recovery in premium assets; bifurcation persists.	• Strong leasing momentum in gateway Class A/trophy assets with rent growth. • Accelerating supply reduction. • Full recovery multi-year; Class B/C assets continue to lag.
Retail	Strong fundamentals sustained by supply scarcity.	• Grocery-anchored and neighborhood centers benefiting from limited supply. • NOI growth is accelerating as leases commence. • Regional malls remain structurally challenged.
Residential	Improving as supply cycle peaks; coastal markets lead.	• Multifamily completions sharply lower in 2026–2027. • Rent growth returning in supply-constrained coastal markets. • Sun Belt still digesting excess supply.
Lodging	Normalization with modest growth; events provide lift.	• Luxury and group segments are outperforming. • Major events (World Cup, Super Bowl) offering tailwinds to key markets.
Health Care	Strongest conviction sector; demographics + supply tailwinds.	• Senior housing supply extremely constrained through 2027. • Occupancy and rent gains are accelerating. • Medical office provides stable defensive income.

Category	Headline	Outlook — Next Quarter / Next 12 Months
Self-Storage	Gradual recovery; supply moderation key for upside.	• Annual supply growth is slowing to ~1.5%. • Housing turnover critical for stronger revenue growth. • Pricing power improving as deliveries ease.
Data Centers	Secular tailwinds powerful; power is the main constraint.	• AI/cloud demand driving ultra-low vacancies and pre-leasing. • Robust revenue growth with long-term contracts. • Power availability the primary growth limiter.

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Commodities Summary

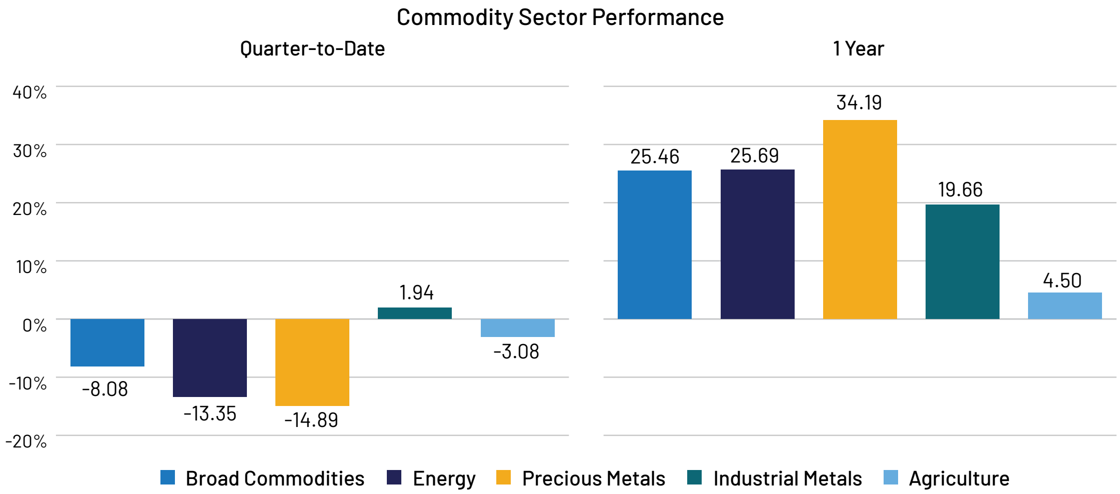
Q2 2026 Review

After a very strong first quarter, commodity markets entered the second quarter with elevated valuations and crowded investor positioning. Broad commodities, represented by the Bloomberg Commodity Index, declined 8.08% during Q2 2026, as commodity markets underwent a broad-based correction following a strong 12-month rally. The selloff was driven by profit-taking, a stronger US dollar, and higher-for-longer interest rate expectations. Geopolitical risk premiums also eased over the quarter, particularly in energy markets.

Despite the quarterly weakness, the index remains up 25.46% over the past year, reflecting continued support from long-term structural themes including constrained supply, infrastructure investment, electrification, and resilient demand for industrial metals. Overall, the second-quarter decline appears to represent a normalization in prices rather than a fundamental shift in the longer-term outlook for commodities.

While broad commodities declined during Q2, industrial metals continued to outperform. Investors increasingly differentiated between cyclical commodities affected by macroeconomic conditions and commodities supported by long-term structural demand. Copper remained a focal point, benefiting from expectations for sustained investment in AI infrastructure, electrification, power grid expansion, and constrained global supply, reinforcing its role as one of the strongest secular themes within the commodity market.

The market appears to be moving away from a "buy all commodities" trade toward a selective ownership of structural winners, with copper and critical minerals emerging as the primary beneficiaries.



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Past performance is no guarantee of future results. *One may not invest directly in an index.*
Broad Commodities are represented by the Bloomberg Commodity Index; Energy by the Bloomberg Energy Subindex; Precious Metals by the Bloomberg Precious Metals Subindex; Industrial Metals by the Bloomberg Industrial Metals Subindex; and Agriculture by the Bloomberg Agriculture Subindex.

Category	Q2 Conditions and Catalysts
Energy **-13.35%**	• Steep quarterly decline as the geopolitical risk premium in oil prices faded. • Easing concerns over supply disruptions reduced crude oil prices. • Improved confidence in the global supply outlook prompted investors to reduce energy exposure.
Precious Metals **-14.89%**	• Largest quarterly correction after reaching record highs. • Significant profit-taking following exceptional gains over the previous year. • Higher real interest rates and a stronger US dollar reduced the appeal of gold and other precious metals. • Despite the pullback, the sector remains the strongest performer over the past year.

Category	Q2 Conditions and Catalysts
Industrial Metals +1.94%	• Only commodity subsector to post positive returns during the quarter. • Continued support from demand related to electrification, AI infrastructure, renewable energy, and power grid investment. • Supply constraints in key metals, particularly copper, helped offset broader market weakness.
Agriculture -3.08%	• Relatively modest decline compared with other commodity sectors. • Improved crop conditions and easing supply concerns moderated prices. • Seasonal harvest expectations and balanced supply-demand conditions limited volatility. • Performance remained primarily driven by weather and crop fundamentals rather than macroeconomic factors.

Key Commodity Themes to Monitor

Commodity markets are expected to remain highly segmented over the next 12 months, with returns increasingly driven by durable supply-demand trends rather than broad-based commodity exposure. The following themes highlight the primary forces shaping commodity markets, including infrastructure investment, geopolitical uncertainty, resource security, and evolving global demand patterns.

Theme	Relevance
AI Infrastructure & Electrification	Expansion of AI data centers, power transmission, grid modernization, and electrification continues to drive long-term demand for industrial metals. Copper, aluminum, and silver are expected to remain key beneficiaries as investment in digital infrastructure and the energy transition accelerates.
Geopolitical Risk & Energy Security	Commodity markets remain highly sensitive to geopolitical developments, trade disputes, sanctions, and supply disruptions. Although the Q2 correction reduced geopolitical risk premiums, energy markets are expected to remain volatile as governments continue to prioritize energy security and resilient supply chains.
Critical Minerals & Resource Nationalism	Governments are increasingly treating critical minerals as strategic assets, leading to export restrictions, tariffs, and incentives for domestic production. These policies may constrain supply, increase price volatility, and reinforce the long-term value of strategically important commodities.
Central Bank Gold Demand	Central banks continue to diversify foreign exchange reserves by increasing gold holdings, providing a stable source of structural demand. This trend supports gold prices even during periods of higher interest rates or weaker investment flows.
Weather & Food Security	Agricultural markets remain generally well supplied, but weather events, fertilizer availability, water scarcity, and geopolitical disruptions continue to create localized supply risks. These factors are expected to drive periodic price volatility despite a relatively balanced global supply-demand outlook.

Q3 2026 Outlook

Commodity markets are transitioning from a broad-based rally to a more selective investment environment. Going forward, investors are likely to differentiate between sectors supported by long-term structural demand—particularly industrial metals benefiting from AI infrastructure, electrification, and power grid expansion—and sectors whose performance is more closely tied to cyclical growth or geopolitical risk premiums. While the Q2 correction reduced valuations across much of the commodity complex, long-term fundamentals remain constructive, supporting an active and diversified approach to commodity investing.

During periods of persistent inflation and slowing growth, commodities—particularly broad indices and gold—have historically provided a differentiated source of return relative to equities and fixed income, offering a diversification benefit that traditional asset classes may not consistently provide.

We maintain our **Favorable** outlook for Commodities.

Category	Headline	Outlook — Next Quarter / Next 12 Months
Broad Commodities	Selective Opportunities Amid Slowing Growth.	• Commodity markets are expected to remain supported by constrained supply, geopolitical uncertainty, and continued infrastructure investment, although returns are likely to become increasingly sector-specific. • Slowing global growth alongside persistent inflation could provide a supportive backdrop for diversified commodity exposure. • Performance is expected to diverge across sectors, with industrial metals and energy supported by stronger fundamentals while agriculture remains relatively subdued. • Following the Q2 correction, valuations have become more attractive, though volatility is expected to remain elevated.
Energy	Geopolitics Drive Near-Term Volatility.	• Middle East developments and global supply disruptions remain the primary upside risk to oil prices—materialized once in H1 2026, driving a sharp oil price spike before easing in Q2. • Increased OPEC+ spare capacity and recovering non-OPEC production should help moderate prices over the medium term, limiting sustained upside. • Global liquefied natural gas (LNG) demand and electricity generation continue to support natural gas fundamentals. • Energy markets are expected to remain highly sensitive to geopolitical events and supply disruptions over the next 12 months.
Precious Metals	Structural Bull Market, Tactical Consolidation.	• Central bank gold purchases continue to provide a strong structural source of demand despite periods of investor profit-taking. • Gold and silver remain supported by geopolitical uncertainty, fiscal deficits, and ongoing diversification away from traditional reserve assets. • Higher real interest rates and a stronger US dollar may limit near-term upside, resulting in periods of consolidation. • Longer term, precious metals continue to serve as effective portfolio diversifiers during periods of elevated macroeconomic uncertainty.
Industrial Metals	Secular Demand Offsets Policy Risks.	• Long-term demand from AI infrastructure, power grid expansion, electrification, and renewable energy continues to support copper and other industrial metals. • Limited mine development, declining ore grades, and permitting challenges are expected to constrain future supply growth. • Trade policy, tariffs, and geopolitical developments may create short-term volatility but are unlikely to alter long-term structural demand trends. • Industrial metals remain one of the strongest long-term investment themes within the commodity complex.
Agriculture	Well Supplied, but Increasingly Weather-Dependent.	• Global grain markets remain relatively well supplied, keeping broad agricultural price pressures contained. • Weather conditions, including drought and adverse growing conditions, remain the largest source of upside price risk over the coming growing seasons. • Fertilizer availability, transportation costs, and geopolitical disruptions could influence regional food prices even if overall agricultural indices remain subdued. • Agricultural commodities are expected to remain more influenced by seasonal and weather-related factors than broader macroeconomic conditions.

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Private Markets Summary

Summary

Private markets entered Q2 2026 in an uneven manner—activity picked up, but gains were concentrated among top managers. Mergers and acquisitions (M&A) deal value and counts reached multi-year highs while software M&A was resilient despite lingering concerns over asset quality. Liquidity—the transmission mechanism that turns private markets capital into realized, investable returns—is returning unevenly: strong in pockets (AI-linked mega-exits, top-tier managers), tepid elsewhere, and highly dependent on deal scale and sector positioning more than a broad-based recovery.

Private Equity: Q2 buyout dealmaking was considerably softer than what many headlines have indicated. Deal value fell to its lowest level since late 2023, as the Iran conflict, rising energy prices, and renewed inflation concerns pushed sponsors toward smaller, less leveraged transactions.

The exit picture reinforces our prior concerns: realizations remain concentrated at the top of the market, with mega-exits accounting for roughly 70% of exit value, leaving mid-market and smaller sponsors with little distribution relief. Sentiment is bifurcated as a result—firms remain enthusiastic about AI-driven opportunities, but most investors expect exit conditions to stay difficult or deteriorate further over the next six months, notwithstanding portfolio realization as the industry's top stated priority. A genuine improvement in distributions to paid-in-capital (DPI) depends on a broader recovery in exits, with the 2026 IPO pipeline offering some near-term optimism.

Venture Capital (VC): VC momentum from Q1 carried into Q2, with deal value easing only slightly from Q1's record pace to the second-highest quarterly total of the decade. First-half deployment exceeds full-year 2025, with megadeals absorbing most of the capital—Anthropic's $65B round alone lifted its valuation to $965B. As we noted last quarter, unrealized value and DPI remain at or near record lows industry-wide, and that has not materially changed: VC net cash flow is still negative, with distributions well below historical norms. The path to improvement runs primarily through the IPO market—the recent SpaceX IPO, and pending OpenAI and Anthropic IPOs, will largely determine whether today's valuations hold and the exit environment genuinely reopens, or whether the recovery stays narrow and momentum stalls into 2027.

Private Credit: The concerns we flagged last quarter regarding software companies debt exposure continue to dominate the sentiment for private credit as redemption activity remained elevated for several large nontraded credit vehicles. Meanwhile, new concerns have emerged regarding the pace and size of the AI infrastructure build-out. Venture-growth-stage debt tied to datacenter and compute buildouts topped $54 billion in H1 2026 alone, surpassing prior peaks—and that concentration is drawing scrutiny alongside the sector's existing software worries. A key concern is circularity: the capital raised across multiple private credit vehicles is increasingly financing the same AI-linked borrowers and their Capex plans, which create opaque layers that are difficult to analyze. Private credit's outstanding loans to AI-related companies have surged from near zero to over $200 billion in just the past few years, and Morgan Stanley projects an additional $800 billion in data center financing from private credit alone over the next two years. Notably, direct lenders lost market share to broadly syndicated loans in Q2—a reversal from recent years—as fewer sponsors had deals worth financing and pricing became more competitive.

Private Infrastructure: Private infrastructure fundraising remains the strongest story in private markets—a record $221 billion raised last year, with roughly 700 funds currently in market targeting a combined $555 billion. Funds are closing faster than in prior cycles, which is a strong sign of investor appetite for exposure. McKinsey estimates $106 trillion in global infrastructure investment will be needed through 2040, with energy and power alone requiring $23 trillion and nearly $7 trillion needed for datacenter capacity through 2030—demand that is outpacing what's actually being built, leaving a significant backlog of planned projects not yet under construction. Sentiment across the category remains firmly positive.

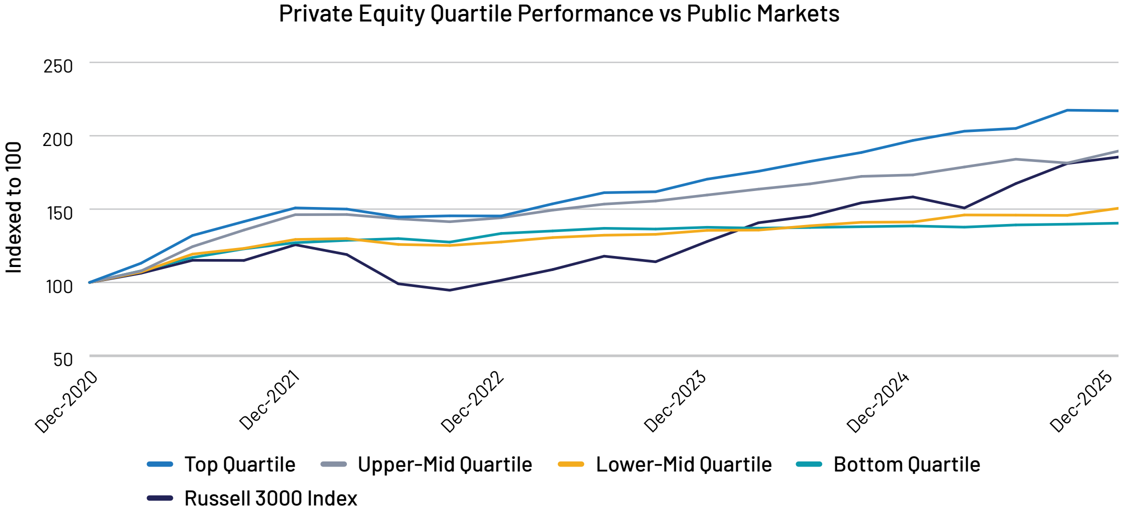
Private Real Estate: The positive sentiment momentum we noted in past quarters continues after several difficult years. Managers generally believe the asset class has hit its bottom as distressed-fund fundraising has essentially stopped, signaling that the bulk of the repricing has been completed. Closed-end fundraising itself remains historically weak—Q1 2026 came in at just $14.4B across 37 vehicles, extending a multi-year decline—but time-to-close has compressed to its fastest pace in years, suggesting the limited partnerships (LPs) still committing are doing so with more conviction even as overall dollars stay light. REIT megadeals dominated the quarter's largest global transactions, including a $6.6B take-private of First Capital REIT and a $6.2B merger between Equity Residential and AvalonBay. Private valuations are still catching up to a public market that has repriced faster, but as cap rates stabilize and public real estate's recovery gains momentum, private real estate is increasingly positioned to participate in the broader upswing.

Retail/Wealth Channel: Retail access continued to expand in Q2, with accredited-investor and 401(k) reform advancing in the US alongside similar initiatives abroad, and evergreen structures increasingly serving as the primary access vehicle. Wealth-channel investors in semi-liquid vehicles are quickly discovering that "liquidity" in these structures is capped and discretionary, not on-demand, often when demand is highest. The tension between liquidity and longer-term capital deployment highlights the trade-offs inherent in evergreen vehicles. Private markets returns have historically depended on locking up capital and limiting access to top-tier managers, while semi-liquid vehicles are effectively designed to deliver strong performance, ready liquidity, and manager access simultaneously. As retail access scales, and as the broader industry's exit and distribution drought persists, expect this tension to keep shaping both investor expectations and regulatory scrutiny.

Sector	Current Conditions
IPO and Mergers & Acquisitions[1]	• The record M&A number is mostly one deal—Paramount Skydance's $110B buy of Warner Brothers Discovery. • Sponsors have $1.1T+ in dry powder but platform buyouts are down to under 19% of deal mix, add-ons up to nearly 75%. • The post-2025 rebound is yet to materialize, as AI worries around software and services keep buyers selective.
Valuations[1]	• Strength is concentrated in a few outliers (OpenAI, Anthropic, SpaceX) while the broader market is compressing. • Secondaries are picking up the slack, with 2025 volume ($106B) approaching combined IPO and M&A exit value. • PE returns have cooled (short-term internal rate of returns (IRRs) ~7% vs. mid-teens long-term), pushing more conservative deal pricing.
Fundraising[2]	• Capital is consolidating—five firms took 73% of Q1 VC dollars; top 10 PE funds expected to capture 40%+ of 2026 fundraising. • Increased difficulty—lack of exits/liquidity; longer timelines, tougher LPs, some managers skipping successor funds. • Firms continue to emphasize retail—evergreen/semi-liquid funds hit $534.6B, up 25%+ YoY.
Regulatory	• Antitrust continues to ease, with regulators favoring remedies over blocking deals—helping clear the path for larger M&A. • Tariffs remain a wildcard after the Supreme Court ruling and reimposed duties, adding caution around cross-border deals. • Opening 401(k) plans to private assets is the big swing factor for retail fundraising—broad adoption is likely years off.

Performance Review

Private markets continue to exhibit high dispersion of returns across each of the major asset categories. Manager selection, deal sourcing, deal underwriting, and risk management are all crucial consideratoins for allocators.



Sources: Pitchbook Private Equity Index, Morningstar, as of 12/31/2025. Latest information available.
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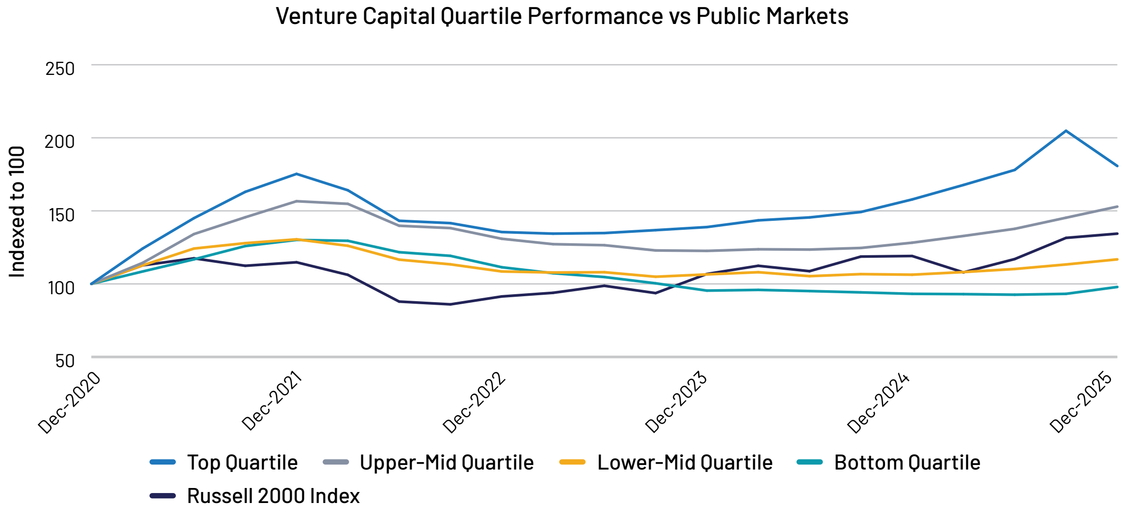

Sources: Pitchbook Venture Capital Index, Morningstar, as of 12/31/2025. Latest information available.
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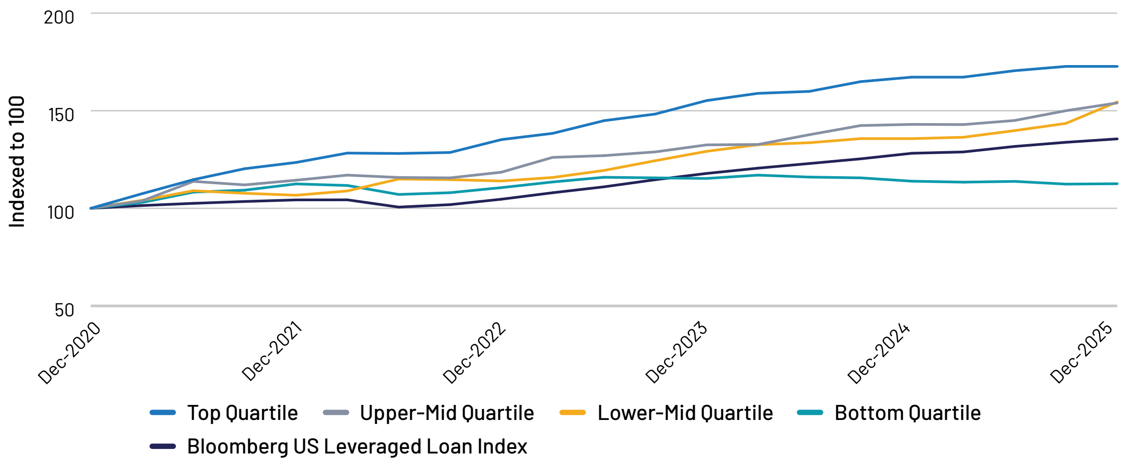
Private Credit Quartile Performance vs Public Markets



Sources: Pitchbook Private Debt Index, Morningstar, as of 12/31/2025. Latest information available.
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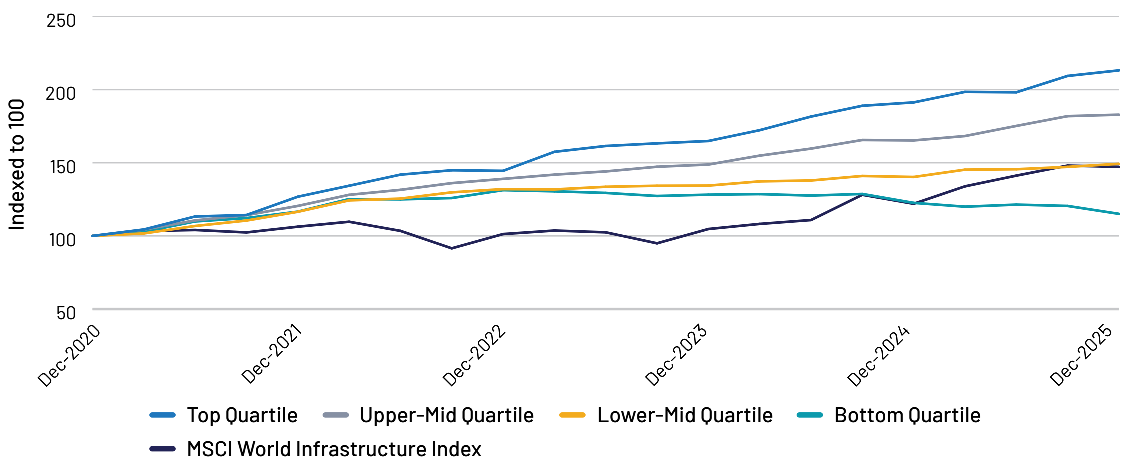
Private Infrastructure/Real Assets Quartile Performance vs Public Markets



Sources: Pitchbook Private Real Assets Index, Morningstar, as of 12/31/2025. Latest information available.
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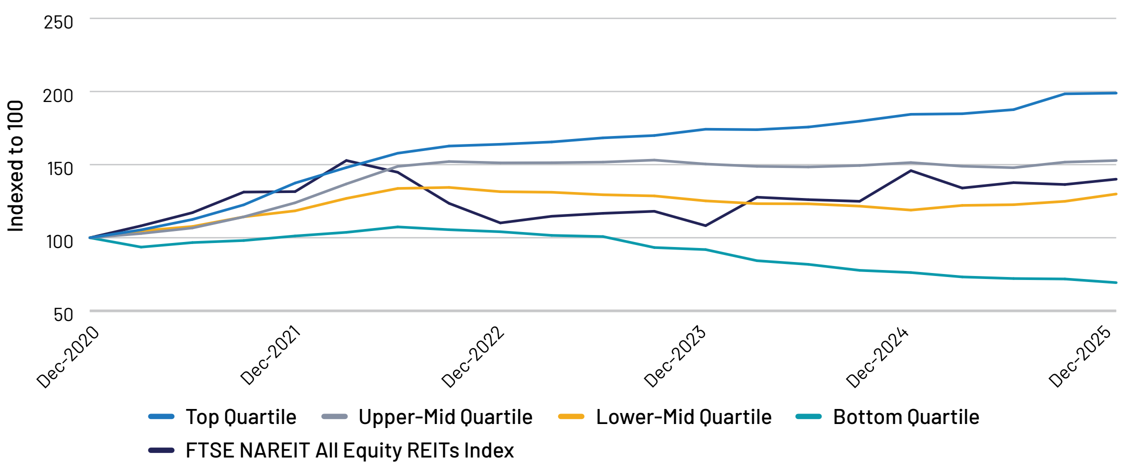
Private Real Estate Quartile Performance vs Public Markets



Sources: Pitchbook Private Real Estate Index, Morningstar, as of 12/31/2025. Latest information available.
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Outlook Q3 2026 and Beyond

Category	Positive Factors	Negative Factors and Risks	Outlook
Private Equity	• Even as Q2 deal value fell to its lowest level since late 2023, a handful of large transactions still got done—Helix Digital Infrastructure (~$10B) and Cleco (~$6B). • Mid-market strategies showing pockets of resilience even as overall dealmaking pulled back. • Fundraising, while muted, is being propped up by evergreen—US evergreen PE assets nearly doubled over the past year to $99B. • Corporate acquirers are paying up for fewer, larger deals—corporate exit value rose 44.7% YoY in 2025 to $299.3B, even as deal count declined. • Continuation funds remain a durable liquidity option even as usage cools from 2025's record pace—sponsors appear to be waiting out the exit market rather than accepting discounted pricing, a signal of conviction in underlying valuations rather than distress.	• PE inventory has grown to 13,509 companies as of Q2 2026, with roughly 27% held seven-plus years—exit pace remains well below what's needed to clear the backlog at a normal cadence. • Unrealized value and slow monetization remain a defining constraint for both PE and VC—PE distributions remain 10-15% below the 25-year average. • The 2021 vintage—a record dealmaking year—is exiting far slower than prior cohorts: just 18% monetized at four years, versus 31.9% for the 2017. • AI is viewed as a double-edged sword —ranked the top macroeconomic force by PE practitioners, but also a top-cited risk given its potential to disrupt existing portfolio company business models. • Deal volume has declined for a second consecutive year as sponsors prioritize fewer, larger transactions over broad-based dealmaking.	**Private Equity (Overall) — Negative:** PE remains weighed down by a deepening, structural exit backlog and distributions still below trend. **Continuation/ Secondaries — Positive:** Abundant opportunities to acquire quality assets at a discount to NAV
Venture Capital	• Q2 deal value was the second-highest quarterly total of the decade, trailing only Q1. • H1 2026 capital deployment already exceeds all of full-year 2025. • Anthropic's $65B round (to a $965B valuation) reflects continued conviction in AI-linked leaders. • SpaceX's ~$1.75T IPO was a landmark liquidity event, with OpenAI and Anthropic expected in H2 2026.	• Capital is heavily concentrated in megadeals (87.5% of H1 dollars). • Fundraising concentration is worsening—funds over $1B captured 71.9% of YTD commitments, up sharply from 34.2% in 2025. • VC net cash flow remains negative, with distributions well below historical norms. • Near-term trajectory is almost entirely dependent on how a handful of mega-IPOs are received. • Deals under $100M have compressed to just 12.5% of value, underscoring how thin the broader market has become.	**Neutral:** VC's near-term trajectory is the success of the upcoming mega-IPOs. Strong sentiment and record deal value is offset by extreme capital concentration and a very narrow path to broader recovery.

Category	Positive Factors	Negative Factors and Risks	Outlook
Private Credit	• Attractive income potential and generally strong credit metrics for non-concentrated strategies. • Institutions have continued to commit capital primarily to closed-end, drawdown structures. • The fastest growing area now is Asset-backed finance which is secured and easier to value based on monthly cash flow metrics. • Many managers are instituting more frequent valuation and tighter underwriting policies intended to instill more investor confidence in the asset class. • Niche managers and those with an established direct origination pipeline are widening the performance gap.	• Continued retail/wealth outflows are creating liquidity pressure and NAV stress across a wide swath of vehicles (BDC, interval and tender offer). • Many prominent players have "gated" their funds which reinforces negative sentiment. • Software and technology exposure is the largest sector in many direct lending vehicles, subject to AI disruption risks. • AI infrastructure lending is expected to grow to nearly $1T with raising circularity concerns–same private credit vehicles increasingly finance the same AI-linked borrowers and their Capex. • It is highly likely that these sector loans, particularly unsecured and in COVID-19 pandemic-era vintage, have not been fully marked to market. • "Higher for Longer" short rates, together with increases in Paid-in-Kind and Secondary Fund launches are not positive leading credit attributes.	**Direct Lending** Unfavorable **Asset-Backed Finance** Neutral to Favorable **Infra/Real Estate** Favorable
Private Infrastructure	• Fundraising remains the strongest in private markets—record $221B raised last year, with ~700 funds targeting $555B currently in market. • Funds are closing faster than in prior cycles, signaling strong LP conviction. • Demand fundamentals are structurally strong—McKinsey estimates $106T in global infrastructure investment needed through 2040, including ~$7T for data centers through 2030. • AI-driven demand for power and data centers are a clear tailwind. • Energy transition and critical minerals strategies are riding the same secular demand wave.	• Rising construction and equipment costs, power/grid interconnection bottlenecks, and permitting delays are extending project timelines. • Public infrastructure and utility equities have outpaced private markets in the near term. • Local opposition and community/ regulatory pushback are a growing headwind to project execution. • Execution risk (not capital availability) is now the binding constraint on deployment.	**Positive:** Infrastructure continues as one of the most attractive segments in private markets, with record fundraising and durable, structural demand from AI, power, and data centers supporting continued growth.
Private Real Estate	• Managers broadly believe the asset class has hit its bottom; distressed-fund fundraising has essentially stopped. • Fundraising time-to-close has compressed to its fastest pace in years, signaling more decisive LP commitment. • REIT megadeals dominated Q2's largest global transactions ($6.6B First Capital REIT take-private, $6.2B Equity Residential/AvalonBay merger). • Cap rates are stabilizing after a multi-year reset. • Public real estate's recovery gaining momentum is expected to pull private marks along.	• Closed-end fundraising remains historically weak (just $14.4B across 37 vehicles in Q1 2026), continuing a multi-year decline. • Private valuations continue to lag a public market that has already re-rated higher. • Elevated rates, inflation, and tariff risk could keep the cost of capital higher for longer. • Returns have diverged sharply across sectors, regions, and strategies—broad market exposure is inadequate for allocators.	**Positive:** Valuations remain well below prior-cycle peaks and sentiment has turned decisively more constructive, creating an attractive entry point for patient capital ahead of a broader recovery.

Sources: Pitchbook, McKinsey, Bain & Company, Bloomberg, S&P Capital IQ, NAREIT.

Endnotes

[1] *Pitchbook. (2026, March 31). Global M&A Report, Q1 2026.*

[2] *Pitchbook. (2026, March 31). Global Private Market Fundraising Report, Q1 2026.*

Definitions

Alpha: a measure of performance on a risk-adjusted basis; often considered the active return on an investment, the ratio gauges the performance of an investment against a market index used as a benchmark.

Barbell Strategy: balances investment risks by focusing on the extremes of high-risk and risk-free stocks and bonds.

Basis Point (bps): a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

Bear Flattener: when short-term rates increase faster than long-term rates, leading to a flatter yield curve and indicating potential economic contraction.

Beta: a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market or a benchmark. The beta of the market or benchmark is 1.00 by definition. An investment with a beta above 1 is more volatile than the overall market, while an investment with a beta below 1 is less volatile.

Bloomberg Agriculture Subindex (BCOMAGTR Index): formerly known as the Dow Jones-UBS Agriculture Subindex (DJUBAGTR), the index is a commodity group subindex of the Bloomberg CITR. The index is composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat. It reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Commodity Index: an unmanaged index used as a measurement of change in commodity market conditions based on the performance of a basket of different commodities.

Bloomberg Energy Subindex (BCOMENTR Index): a commodity index composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

Bloomberg Industrial Metals Subindex (BCOMINTR Index): reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

Bloomberg Intermediate US High Yield Index: measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The intermediate duration segment of the index includes bonds with maturities of 1 to 10 years.

Bloomberg Municipal Index: serves as a benchmark for the US municipal bond market.

Bloomberg Precious Metals Subindex (BCOMPRTR Index): reflects the returns that are potentially available through an unleveraged investment in the futures contracts on precious metals commodities. The Index currently consists of two precious metals commodities futures contracts (gold and silver).

Bloomberg US Aggregate Bond Index: a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS and CMBS (agency and non-agency).

Bloomberg US Asset-Backed Securities Index: a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index only includes ABS securities.

Bloomberg US Corporate Bond Index: measures the investment grade, fixed-rate, taxable corporate bond market.

Bloomberg US Corporate High Yield Bond Index: measures the USD-denominated, high yield, fixed-rate corporate bond market.

Bloomberg US Leveraged Loan Index: measures the performance of USD denominated, high-yield, floating-rate, institutional leveraged loan market.

Bloomberg US Treasury US TIPS Index: measures the performance of the US treasury inflation-linked bond market.

Cash Flow: the net balance (inflows minus outflows) of cash moving into and out of a business at a specific point in time.

Consumer Price Index (CPI): a measure of the average change over time in the prices paid by urban consumers for a representative basket of consumer goods and services.

Core Inflation: a measure of the change in the costs of goods and services, excluding the costs of energy and food sectors.

Credit Quality: the risk of default, often in reference to a debt instrument.

Dow Jones Industrial Average: a stock market index of 30 prominent companies listed on stock exchanges in the United States. The DJIA is one of the oldest and most commonly followed equity indexes.

Dry Powder: the amount of committed, but unallocated capital a firm has on hand. In other words, it's an unspent cash reserve that's waiting to be invested.

Duration: A measure of the weighted average term to maturity of a bond's expected cash flows.

Enterprise Multiple (EV/EBITDA): a ratio used to determine the value of a company by considering the company's debt. The enterprise multiple is the enterprise value (EV) (market capitalization + total debt – cash and cash equivalents) divided by EBITDA (earnings before interest, taxes, depreciation and amortization).

Enterprise Value-to-Revenue Multiple (EV/R): a stock valuation technique that compares a company's enterprise value to its revenue.

Federal Funds Rate: the target interest rate set by the Federal Open Market Committee (FOMC). This target is the rate at which the Fed suggests commercial banks borrow and lend their excess reserves to each other overnight.

Free Cash Flow (FCF): A measure of cash earnings that excludes the non-cash expenses of the income statement but includes capital assets as well as changes in working capital from the balance sheet.

FTSE NAREIT All Equity REITs Index: a free-float adjusted, market capitalization-weighted index of US equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

FTSE NAREIT Equity Data Centers Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Data Center REITs in the parent index.

FTSE NAREIT Equity Health Care Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Health Care REITs in the parent index.

FTSE NAREIT Equity Industrial Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Industrial REITs in the parent index.

FTSE NAREIT Equity Lodging/Resorts Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Lodging/Resorts REITs in the parent index.

FTSE NAREIT Equity Office Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Office REITs in the parent index.

FTSE NAREIT Equity Residential REIT Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Equity Residential REITs in the parent index.

FTSE NAREIT Equity Retail Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Retail REITs in the parent index.

FTSE NAREIT Equity Self Storage Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Self Storage REITs in the parent index.

FTSE NAREIT Infrastructure REITs Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Infrastructure REITs in the parent index.

GDPNow: a forecasting model published by the Federal Reserve Bank of Atlanta that provides a "nowcast" of the official GDP estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the US Bureau of Economic Analysis.

Headline Inflation: the raw inflation figure reported through the Consumer Price Index (CPI) that is released monthly by the Bureau of Labor Statistics which is derived from the cost to purchase a fixed basket of goods.

Headwind: an external factor that negatively impacts a company, industry or the economy, resisting growth and hindering performance.

High Yield: commonly referred to as "junk" or "junk bonds," fixed income securities rated below investment grade (below BBB). High yield bonds pay higher interest rates because they have lower credit ratings than investment grade bonds.

Hyperscalers: large-scale cloud service providers that manage massive, scalable data center infrastructures to provide computing, storage, and AI services.

Investment Grade (IG): a rating that signifies that a municipal or corporate bond presents a relatively low risk of default. To be considered an investment grade issue, the company must be rated at 'BBB' or higher by Standard and Poor's or Moody's. Anything below this 'BBB' rating is considered non-investment grade.

ISM Manufacturing PMI: measures the change in production levels across the US Economy from month to month.

ISM Services PMI: a composite index based on the diffusion indexes for four service economy indicators with equal weights: Business Activity (seasonally adjusted), New Orders (seasonally adjusted), Employment (seasonally adjusted) and Supplier Deliveries.

Liquidity: the degree to which an asset or security can be bought or sold in the market without affecting the asset's price.

Mortgage-Backed Securities (MBS): bonds secured by home and other real estate loans. They are created when a number of these loans, usually with similar characteristics, are pooled together.

MSCI World Infrastructure Index: captures the global opportunity set of companies that are owners or operators of infrastructure assets.

Municipal Bond: a debt security issued by a state, municipality, or county to finance its capital expenditures, including the construction of highways, bridges, or schools. They can be thought of as loans that investors make to local governments. Municipal bonds are often exempt from federal taxes and most state and local taxes (for residents), making them especially attractive to people in higher income tax brackets.

NASDAQ 100 Index: one of the world's preeminent large-cap growth indexes. It includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

NAV (Net Asset Value): The per-share dollar amount of the fund is derived by dividing the total value of all the securities in its portfolio, less any liabilities, by the number of fund shares outstanding.

Pitchbook Private Debt Index: a quarterly return benchmark for private credit built from Pitchbook's cash flow and NAV data. The indexes provided are meant to be estimates of asset class performance, hypothetically creating a return if one had access to all active funds in the category on a capital-weighted basis. Constituent funds are bucketed into quartile rankings based on their fund categorization and vintage year. Quartiles are determined by Total Value Paid In (TVPI) as of the most recent available data.

Pitchbook Private Equity Index: a quarterly return benchmark for private equity built from Pitchbook's cash flow and NAV data. The indexes provided are meant to be estimates of asset class performance, hypothetically creating a return if one had access to all active funds in the category on a capital-weighted basis. Constituent funds are bucketed into quartile rankings based on their fund categorization and vintage year. Quartiles are determined by Total Value Paid In (TVPI) as of the most recent available data.

Pitchbook Private Real Assets Index: a quarterly return benchmark for private real assets/infrastructure built from Pitchbook's cash flow and NAV data. The indexes provided are meant to be estimates of asset class performance, hypothetically creating a return if one had access to all active funds in the category on a capital-weighted basis. Constituent funds are bucketed into quartile rankings based on their fund categorization and vintage year. Quartiles are determined by Total Value Paid In (TVPI) as of the most recent available data.

Pitchbook Private Real Estate Index: a quarterly return benchmark for private real estate built from Pitchbook's cash flow and NAV data. The indexes provided are meant to be estimates of asset class performance, hypothetically creating a return if one had access to all active funds in the category on a capital-weighted basis. Constituent funds are bucketed into quartile rankings based on their fund categorization and vintage year. Quartiles are determined by Total Value Paid In (TVPI) as of the most recent available data.

Pitchbook Venture Capital Index: a quarterly return benchmark for venture capital built from Pitchbook's cash flow and NAV data. The indexes provided are meant to be estimates of asset class performance, hypothetically creating a return if one had access to all active funds in the category on a capital-weighted basis. Constituent funds are bucketed into quartile rankings based on their fund categorization and vintage year. Quartiles are determined by Total Value Paid In (TVPI) as of the most recent available data.

Price/Earnings (P/E) Ratio: a valuation ratio of a company's current share price compared to its per-share earnings.

Price/Funds from Operations (P/FFO) Ratio: a valuation ratio of a company's current share price compared to its per-share funds from operations.

Real Estate Investment Trust (REIT): companies that own or finance income-producing real estate across a range of property sectors. Listed REITs have characteristics of both the income potential of bonds and growth potential of stocks.

Russell 2000 Index: measures the performance of the small-cap segment of the US equity universe.

Russell 3000 Index: measures the performance of the largest 3,000 US companies representing approximately 97% of the investable US equity market.

Russell Microcap Index: measures the performance of the microcap segment of the US equity market.

S&P 500 Energy Sector Index: a capitalization-weighted index designed to replicate performance of the Energy Sector of the S&P 500.

S&P 500 Equal Weight Index: the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the index is allocated a fixed weight.

S&P 500 Ex-Energy Sector Index: designed to measure the broad US market, excluding members of the GICS Energy sector.

S&P 500 Index: widely regarded as the best single gauge of large-cap US equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

Sticky Price Consumer Price Index (CPI): calculated from a subset of goods and services included in the CPI that change price relatively infrequently. Because these goods and services change price relatively infrequently, they are thought to incorporate expectations about future inflation to a greater degree than prices that change on a more frequent basis.

Tailwind: a certain situation or condition that may lead to higher profits, revenue or growth.

West Texas Intermediate (WTI): a light, sweet crude oil primarily sourced from Texas, known for its high quality and ease of refining. WTI serves as a key benchmark for oil pricing in North America.

Yield Curve: a graphical representation of the yields (y-axis) on debt instruments with different maturities (x-axis).

Z-Score: a numerical measurement that describes a value's relationship to the mean of a group of values, measured as standard deviations from the mean. If a Z-score is 0, it indicates that the data point's score is identical to the mean score. A Z-score of 1.0 would indicate a value that is one standard deviation from the mean.

One may not invest directly in an index.

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