PANTHEON

JANUARY 2026

PRIVATE MARKETS IN 2026

IN CONVERSATION WITH OUR ASSET CLASS LEADERS

We believe private markets are positioned for another year of solid performance, though risks to the global economy remain elevated. As we enter 2026, we look closely at the macroeconomic and market trends of the past year and discuss how we are positioning for the next.

Pantheon's investment leadership team provides further insights into these trends and highlights key areas of focus for the coming year, with commentary from our asset class heads in private equity, private credit, and infrastructure.

MACRO OVERVIEW

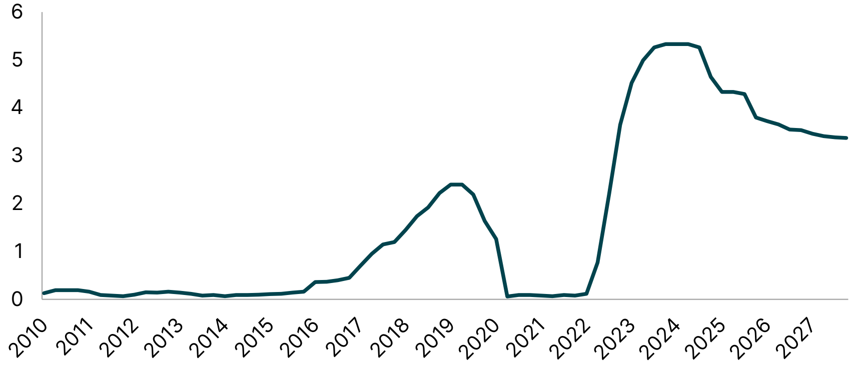
2025 was a memorable year for markets and the macroeconomy. While the optimism priced in the first quarter was unwound by tariff fears in April, there was a strong market rebound once the terms of that policy became clearer and the initial effects were not as impactful as feared. Optimism around AI was reflected in both very strong capex, which contributed meaningfully to US GDP, and strong equity returns for certain top-performing technology stocks. Both activity and returns were also supported by a dovish pivot by the Federal Open Market Committee (FOMC), responding to a decelerating labor market and pressure from the White House, and supportive fiscal policy, not just in the US but also notably in Germany and Japan.

Interpreting the path from here is not easy. In the 316 FOMC meetings since Greenspan became Fed Chair in 1987, there have only been six in which voters dissented in both a hawkish and a dovish direction—including the last two. But amidst this uncertainty, there are a few key views that are anchoring our investment approach:

Rates are coming down but should remain elevated by recent historical standards. This is a context in which valuations are less likely to be a meaningful source of returns, and focusing on the middle market with a range of value creation levers is beneficial.

Fed funds rate, actual and futures pricing, percent

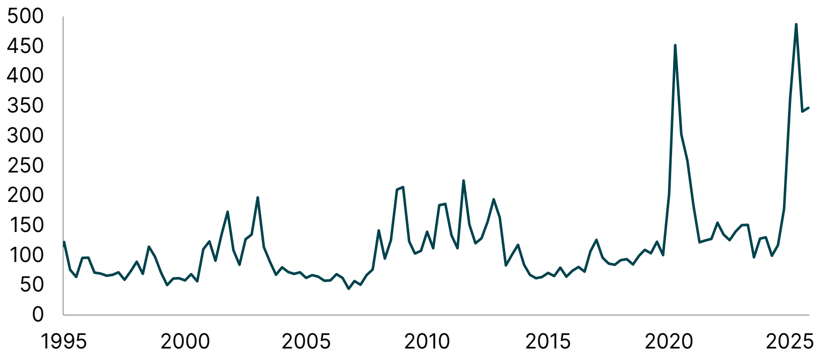
Source: Fed funds rate from St. Louis fed and fed funds futures from Refinitiv as of 14 January 2026



Uncertainty remains elevated. Political volatility remains high, which is creating a greater variance around policy direction and election outcomes. As the number of shocks increases, fund managers have to be able to separate the background noise emanating out of this uncertainty from real investment signals.

US economic policy uncertainty index

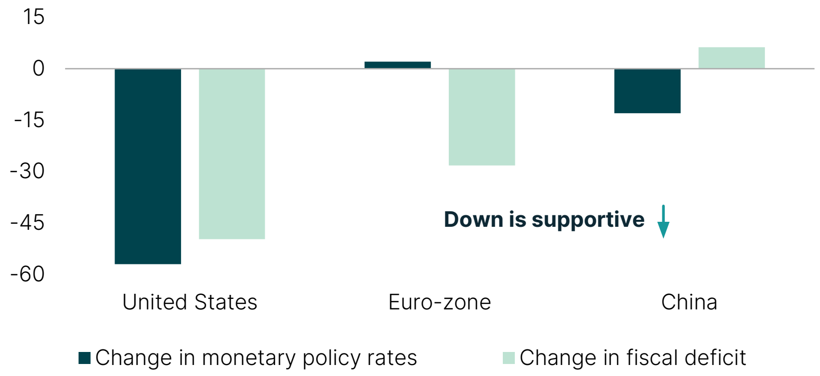
Source: Baker Bloom Davis via St. Louis federal reserve



The synchronized post-COVID cycles are fading. Economies are diverging across policy impulses, fiscal paths, and levels of exposure to the AI revolution. In this context, the value of both diversification and asset selection has increased.

Expected change in policy support 2026, bps

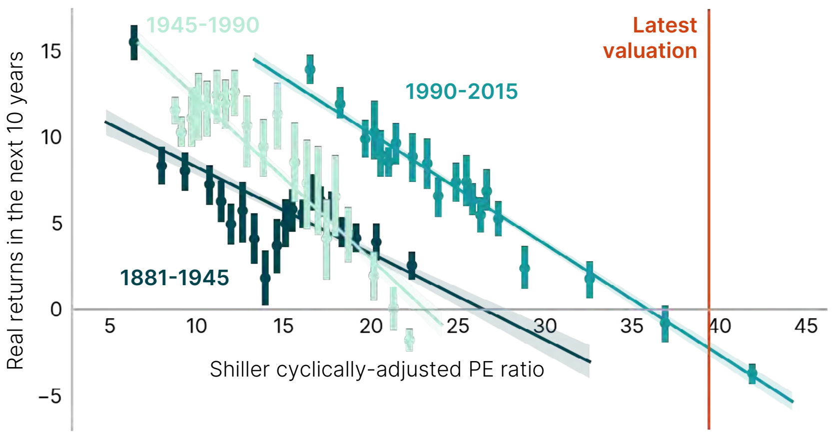
Source: Policy rates from Bloomberg monetary policy implied rates; fiscal deficits from IMF's October 2025 WEO database



Public markets are now very concentrated and richly valued. Currently, Magnificent Seven stocks are close to a third of the S&P 500. One company is 7% of the index with a price-to-earnings ratio (PE) close to 50. The overall cyclically-adjusted PE ratio is substantially above its 1929 peak and close to its dotcom bubble peak. From these valuation levels, history suggests one should expect depressed public equity returns over the next ten years.

Valuations vs future public equity returns, S&P 500, binned scatter plot

Source: Robert Shiller, Pantheon calculations.



PRIVATE EQUITY

JEFFREY MILLER

Chief Investment Officer

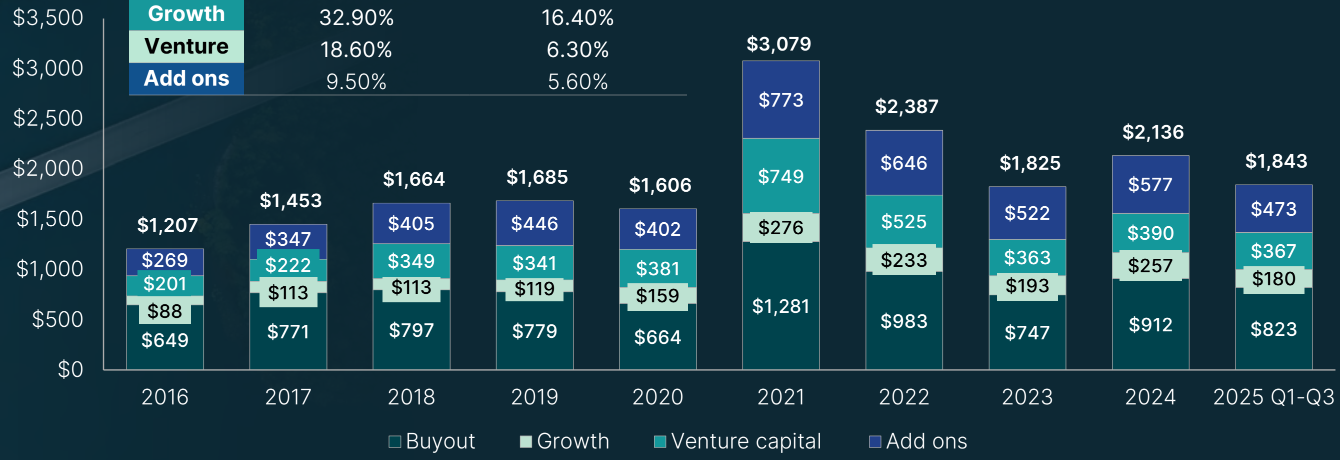
What are your expectations for private equity deal flow in 2026?

The market backdrop is pretty constructive heading into 2026, with positive sentiment and the momentum of private equity deal flow starting to build. In the third quarter of 2025, global leveraged buyout volumes topped $320 billion, eclipsing every quarter besides Q2 2022[1]. This surge is being driven by the improving macroeconomic backdrop, with inflation moderating and rates coming down. Strong public market performance and the availability of credit are also boosting confidence for transacting in the market.

Global deal flow by type ($bn)

Source: Pitchbook, as of September 30, 2025.

	2024 Q1–Q3 to 2025 Q1–Q3 Growth	2019 – 2024 CAGR
Buyout	22.40%	1.60%
Growth	32.90%	16.40%
Venture	18.60%	6.30%
Add ons	9.50%	5.60%



We've also seen deal size increase, with the average private equity transaction up 26% for the first three quarters of 2025 from the same period in 2024. And while we have seen several headline-grabbing larger transactions, such as the $55 billion Electronic Arts transaction, we are still seeing robust growth in deals happening in the small and mid-cap segments.

Despite record transaction volume in the secondaries market in 2024 and 2025, the outlook for secondaries deal flow is still strong. There is still a large back-up in exit activity and aging NAV in portfolios and secondary sales will continue to be part of the solution. We are also continuing to see increasing adoption of GP-led solutions, where deal volumes were up over 30% in 2025.

[1] Pitchbook Q3 2025 Global PE First Look.

What can we anticipate for distributions?

Distributions remain below longer-term trends, as they have been for the last few years. In 2025, global private equity distributions as a percentage of NAV stood at around 13%, while the average over the last 10 years was 16%[2]. There have been more exits coming through the portfolios as the market is loosening and activity is picking up, providing more confidence that we believe will lead to greater exit activity. The floodgates may not be about to open, but the picture is certainly improving for exits. While this will take some time to feed through to new distributions, there is certainly strong positive momentum moving through into 2026.

What trends do you anticipate in fundraising?

There is still some softness because of the liquidity challenges the market is facing and more muted performance across the asset class over the last three years. Fundraising statistics across the board were down across 2025. Global private equity fundraising was $310 billion in the first three quarters of 2025, down from $399 billion in the same period of 2024. We've seen LPs both cutting back on the number of managers they back and taking smaller bites in funds, given they have less capital being returned from their portfolios. This is creating some bifurcation in the market as certain high-demand managers continue to raise capital and grow their fund size while others are struggling or taking longer.

What is your outlook for valuations?

Multiples have come down from the peak, and they needed to, given performance from the 2021 peak vintage is disappointing. The market is bifurcating somewhat, and we're seeing better pricing in certain parts than others. That's certainly being driven by a rush to quality still, and good companies are still very much trading at fuller valuations.

Capital structures continue to be healthy, and there's been a step down in buyout entry multiples from post-Covid highs. The recent higher rate environment has moderated the leverage on deals by requiring higher equity contributions, and these stand around 50% or more on average.

How is pricing across secondaries being impacted?

While the headlines have been focused on the eye-catching valuations in public markets, we have seen some more modest changes in private market pricing. In the secondaries market, discounts have narrowed a bit, particularly at the large cap end of the market. This certainly reflects competition, but also improvement in portfolio quality as holding valuations have compressed some, due to overall valuation multiple softening and portfolio companies growing into their marks. Having a wide funnel with a real diligence angle on certain portfolios has allowed us to maintain underwriting discipline.

Looking forward, one benefit from the slightly softer fundraising environment is that dry powder is relatively flat over the past few years and actually declined in 2025. This sets up better supply and demand dynamics going forward, and should be a positive leading indicator on valuations and returns in the future.

Interestingly, dry powder levels are higher on a relative basis for large-cap strategies. As of 2025, mid-market focused dry powder accounted for around 62% of the total available, down from around 76% back in 2015[3]. This is being driven by large cap funds accounting for a larger share of fundraising—the ten largest PE funds accounted for 46% of total PE fundraising this year, which is the highest percentage in over 10 years[4]. This should be a positive for relative mid-market performance from here.

What are you looking forward to for returns?

While overall private equity returns have been disappointing of late, the five- and ten-year returns are still attractive at 16% and 14%, respectively[5]. And we did see some pick-up in returns in 2025. The improvements were notable, in particular for venture and growth strategies, which had seen the greatest headwinds to returns in recent years.

A pick-up in exits should provide some boost and valuation multiples have compressed in portfolios given the broader industry step down in valuations, but hopefully much of that pain has been taken. Public markets have been strong in recent years and have meaningfully outperformed private equity, but the public markets have been disproportionately impacted by a set of concentrated stocks and AI themes. And given current public market valuations, which are robust, one should expect more muted performance in the coming years and a greater opportunity for private equity to outperform.

What else should investors be paying attention to?

There is a feeling we could see more dispersion in manager returns in the coming years, so reviewing one's manager roster and re-underwriting their value-add capabilities will be important. Asset and industry selection will also be increasingly important. The secondary market is becoming increasingly competitive, so really defining your edge and where you focus is important. There is no longer a sense that a tide of rising valuations and really low rates will lift all boats, so in that sense the market is tougher than it was. But better valuation multiples and investment selection, managers, and deals, should still provide the opportunity for attractive performance. That's where a manager's relationships, expertise, and experience really come into play.

[2] Source: Preqin, as of October 30, 2025.
[3] Source: Preqin, as of September 30, 2025. Size classification by Fund Size (Middle Market: Under $5B; Large Cap: Over $5B). Private equity: includes Balanced, Buyout, Co-investment, Co-investment Multi-Manager, Growth, Hybrid, PIPE, and Turnaround.
[4] Business Insider, December 2025, "These 3 charts show how the biggest private equity funds keep winning in a fundraising slowdown"
[5] Source: Preqin Private Equity Index, as of June 30, 2025.

PRIVATE CREDIT

RAKESH (RICK) JAIN

Global Head of Private Credit

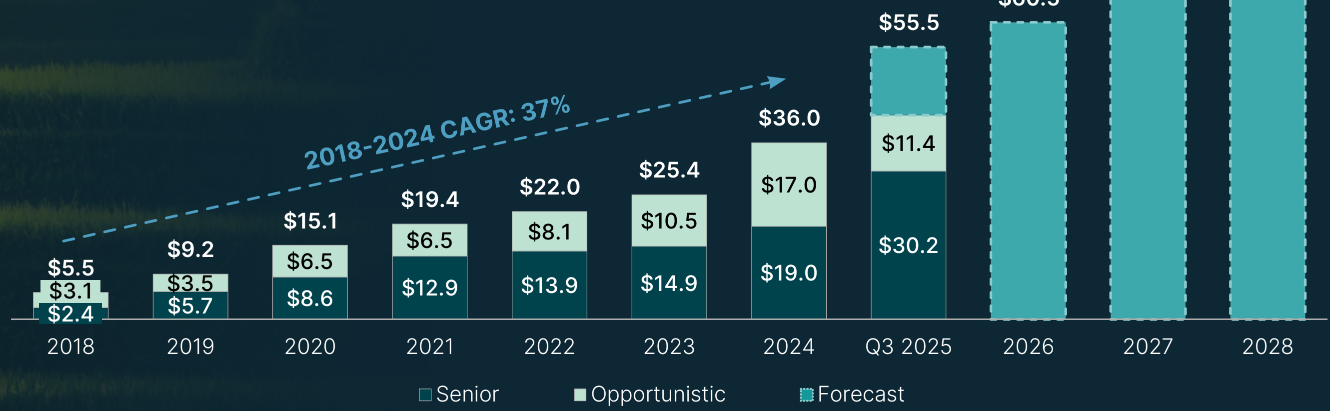
What are you most excited about in 2026? Where do you think investors are going to find value?

Credit secondaries will continue to grow and scale significantly as the private credit asset class matures, and enters a new rate cycle and an inflection point of performance. We are seeing value across the US and Europe, often in large-scale transactions.

We expect 2026 to bring continued growth in deal volume and number of transactions as market participants embrace and adopt credit secondaries as a tool to manage liquidity. This market growth rate has been tracking above other, more mature secondaries markets such as private equity, and we've seen significant growth in the number of credit secondaries transactions sized at over $1 billion in gross asset value. While demand for LP portfolio rebalancing has continued to grow, 2025 has been "the year of GP liquidity solutions" and we see continued momentum throughout the new year. Investors should be able to benefit from that tailwind.

Private credit secondary deal flow by fund type
(2018 – Q3 2025 actual, Q3 2025 – 2028 forecast) Volume ($bn)

Source: Pantheon internal data. Total deal exposure inclusive of NAV and unfunded as of September 30, 2025. Forecasted deal flow based on Preqin Global Private Debt Report 2025's AUM growth forecast of 9%. There is no guarantee that these trends will continue or that forecasts will come to fruition.



We also believe the probability of increased risk-adjusted returns from market dislocation is getting higher. Valuations are at cyclical highs, competition for assets has never been more intense, and spreads in credit are at historical tights. Return and performance dispersion, which has always existed across private credit, will become more pronounced as the asset class matures, along with a heightened focus on liquidity. As a result of these market conditions, the opportunity to capture increased alpha through market dislocations is more prevalent, creating attractive value entry points for investors.

What could be the implications of the shifting rate cycle?

The new rate cycle will provide a range of outcomes for private credit and credit secondaries portfolios. While declining base rates will impact yield-oriented strategies in the near term, we expect some spread widening, which should mitigate some of the return compression. Importantly, total returns for private credit are expected to remain attractive on both an absolute and risk-adjusted basis. Rate declines are expected to delay or mitigate capital structure and liquidity challenges in credit portfolios, and that's a positive trend for improved credit quality, shorter durations, and lower potential default and loss activity.

In addition, this environment is likely to continue to encourage holders of direct lending exposure to reallocate to other strategies, providing an increased pipeline of investment opportunities.

How will the shifting supply/demand dynamics impact the market?

There's an abundance of supply (deal flow) in the two regions we participate in —the US and Europe—and that's creating opportunities across credit secondary secondaries. Increased deal flow allows investors to be even more selective and in addition, deal sizes are getting larger and more complex.

On the demand side, the overall market is getting more capitalized but still faces significant capital and skill shortfalls compared to the market opportunity. As transaction volumes and scale of investments increase markedly, the market continues to bifurcate between large incumbent players and those that participate superficially in the strategy. Secondaries players with dedicated full-time credit secondary teams, transaction expertise, the ability to provide solution capital for large/complex transactions, and deep data/long- standing GP relationships are best competitively positioned for the attractive supply dynamics in the market.

What is the outlook for private credit in general?

We are optimistic about the outlook for private credit in terms of market growth and investment performance. In particular, we anticipate there is going to be greater dispersion of returns across private credit GPs, and we are likely to see more manager consolidation as well. Credit quality is strong overall, with select pockets of weakness across specific sectors such as consumer and logistics.

Credit secondaries are ideally positioned in this market environment. This is a market that mitigates many of the risks we have identified in the private credit asset class, including valuation inconsistencies, negative convexity, lack of diversification, GP and vintage year concentration, fund management, and return dispersion. For those investors seeking to address many of these risks while accessing liquidity-driven alpha, private credit secondaries can provide an attractive complement to LPs' allocations.

What is your key message for investors going into 2026?

Investors are best served in partnering with GPs that have substantial experience, relationships, and competitive advantages to deliver credit alpha at scale.

This year looks to be a very attractive one in terms of the supply/demand dynamics in private credit secondaries, and investors can capitalize on these trends through downside protection through diversification and attractive entry prices.

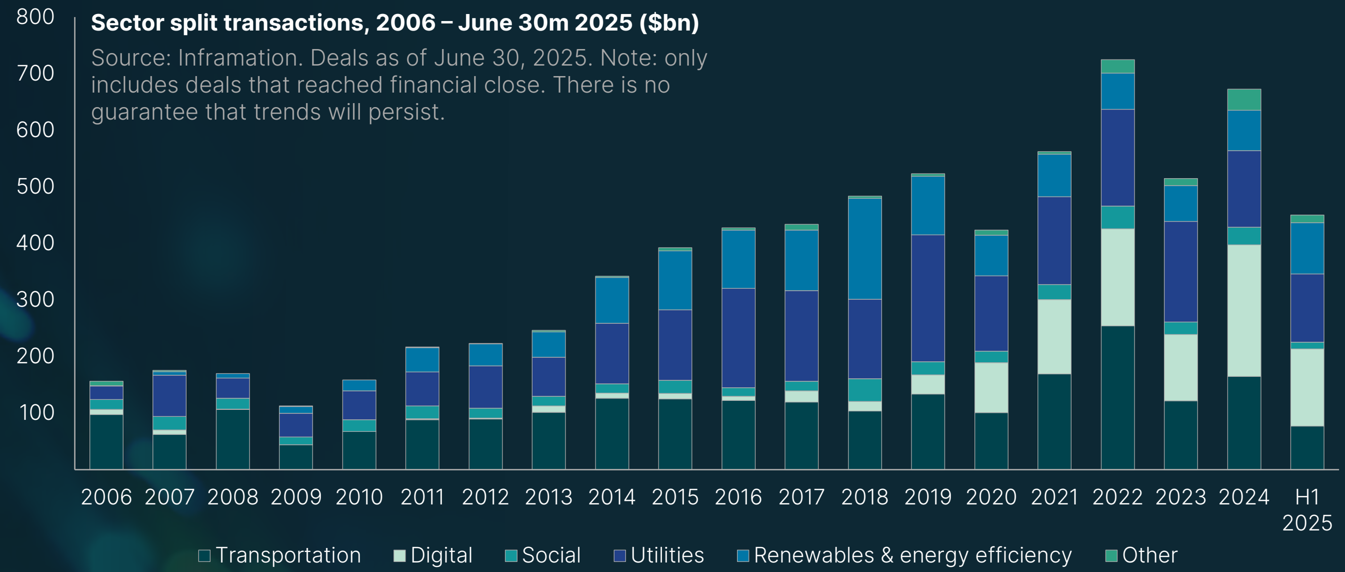
INFRASTRUCTURE

ANDREA ECHBERG

Global Head of Infrastructure

What do you expect of the infrastructure secondaries market in 2026?

We hit a record for infrastructure secondaries transaction volumes in 2024. That's expected to be surpassed in 2025 and there's strong momentum going into the new year.



230	308	272	275	454	519	636	769	1158	1269	1517	1447	1609	1702	1046	1196	1432	1325	1439	1043
0.68	0.57	0.63	0.41	0.35	0.42	0.35	0.32	0.30	0.31	0.28	0.30	0.30	0.31	0.40	0.47	0.51	0.39	0.47	0.43

Total number of deals completed **Avg. deal size ($bn)**

There's a lot of growth still to come: turnover rates are still low relative to other private markets such as private equity, but as the asset class matures investors are using secondaries more for day-to-day portfolio management. The liquidity squeeze also won't go away overnight, and so there will be opportunities as that works its way through the system. We feel positive about our market position and expertise in the infrastructure secondaries sector. First and foremost, we are infrastructure investors who specialize in secondaries—not the other way around—so that gives us a unique positioning, underwriting, structuring, and sourcing advantage when it comes to finding the best deals in the market.

What's happening with secondaries pricing?

The market backdrop has been resilient, and pricing remains strong, especially given the increased competition on the buyside and the pressure to deploy. However, we are seeing greater differentiation by sectors and, in the secondaries market, more diversified portfolios are attracting stronger pricing.

If we see no other destabilizing factors in the market, high-quality portfolios are likely to continue to price with discounts in the single digits, potentially rising to 10–15% depending on the vintage, scale, and concentration.

Where do you still see value?

We're seeing a lot of benefit in leaning into the mid-market. As the markets begin to recover, it's proving easier to source these portfolios directly from non-private market funds such as family funds. That can be an attractive way to acquire mid-market assets as the entry prices are interesting, and there's lots of potential for improvement.

Our data shows that mid-market assets are available at lower entry multiples, and that a higher proportion of value growth is driven by value creation rather than margin compression. When you get to the exit, it is easier to sell smaller assets when their value has doubled. There's less risk of stranded assets and better pricing. The scale of a mid-market company at exit remains small enough to attract interest from multiple GPs while being large enough to consider alternative exit routes, such as listings or trade sales.

What keeps you up at night?

Sleeping became a little easier over the course of 2025 as we saw that volatility of the second quarter ebb. But infrastructure as an asset class has been well-positioned, with its defensive nature, its strong downside protection, and stable, predictable, inflation linked cash flows from long-term contracts. This is an asset class that has grown over the uneasiness while others have shrunk. It's done what it's supposed to do, and proved its place in portfolios.

How are clients adapting their allocations?

Investor appetite for infrastructure in general is picking up. According to Preqin's investor survey, 40% of investors expect to allocate more capital to infrastructure over the next 12 months.

But there's been particular interest in shifting from traditional infrastructure allocations and into secondaries, including those making their first forays into the space. Certainly, the attractiveness of secondaries is clear: they're less prone to cyclicality, they offer earlier opportunities to access distribution to paid-in capital (DPI), they provide diversification, and they give strong deployment and early returns.

There's strong momentum in core plus strategies, which hit record volumes in 2025 on the back of the shifting rate environment and are still showing strong momentum.

What are the key themes you're seeing dominate the infrastructure market?

There are three key themes that we're tracking for infrastructure: decarbonization, deglobalization, and digitalization.

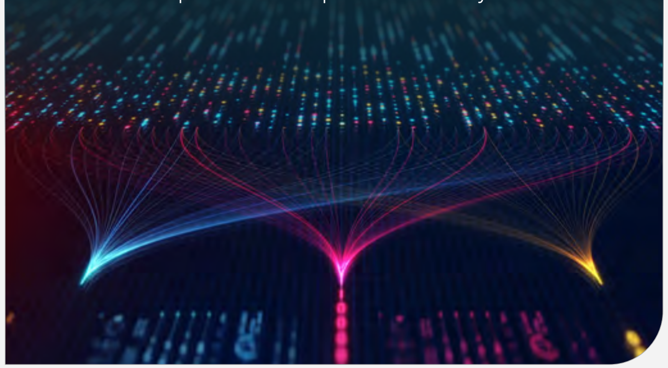
For decarbonization, we see strong potential tailwinds in renewables and energy efficiency, primarily driven by regulatory changes and the focus on Net Zero. The energy transition is seeing less of a push in the US, but it is supported by policy in Europe for security of supply reasons as well as environmental. We do see opportunities in power generation, including renewables in the US. This may seem counterintuitive given the current administration, but the demand for power driven by AI and electrification is so strong that there are very attractive investment opportunities there for assets on a B2B basis that don't rely on government subsidies.

As the world deglobalizes, we're seeing the need for a lot of investment in logistics. Onshoring supply chains means investment in re-wiring the logistics paths and there's a need for cold storage units, localized transportation, and the electrification of fleets. We're leaning away from consumer-linked or GDP-linked opportunities, or any transportation hubs that could be impacted by tariffs or supply chain risks.

Digitalization has had a lot of interest in the last couple of years with the surge in AI, and that's attracted a lot of investment. There are some potential headwinds in the digital sector though, with high growth, high-capex models facing increased debt costs and rising costs for construction and materials that can't always be passed onto customers. For investors, it's important to look beyond the data centers to deeper, structural opportunities.

How do you look for those opportunities beyond AI and data centers?

Our investment approach is not about jumping on the latest idea, but rather building our exposure to proven assets enjoying tailwinds. In the case of digitalization, that's about looking at energy generation and power grids. Data centers are already taking up more than 10% of power usage globally, while the average age of regional power grids around the world is over 30 years. This requires investment, and tying in with the other trends of deglobalization and decarbonization we believe this is where the real opportunities lie. We're considering the wave of digitalization—whether through AI, the industries powering it, or more traditional power requirements—and considering how it can be really worked into our infrastructure portfolio to improve efficiency and returns.



SUSTAINABILITY IN FOCUS

EIMEAR PALMER

Global Head of Sustainability

Our sustainability considerations for the upcoming year are focused on the three Ds: deregulation, decarbonization, and defense.

Deregulation

With the row back on the EU Corporate Sustainability Reporting Directive (CSRD) earlier in the year, we have now entered a deregulatory environment. This has been recognized as a positive development by most, with the understanding that a large but inefficient regulatory burden undermines real progress. Although transparency is important, excessive reporting requirements impose recurring costs from administrative obligations that directly destroy enterprise value, and the same capital could instead be used for high-IRR sustainability projects with real environmental impact, such as improving energy efficiency, installing heat recovery equipment, or upgrading an asset's HVAC system. These projects are also likely to create the most value for investors.

Decarbonization

Pantheon played an active role in developing the private markets-specific Private Markets Decarbonisation Roadmap ("PMDR")[6], a simple, clear, and low-cost framework that is rapidly becoming an industry standard. The PMDR is emerging to be a shared standard in private markets for how assets disclose their decarbonization evolution. It recognizes firms' early-stage progress and builds on existing frameworks, giving firms the flexibility they need to decide what and how to disclose. Pantheon rolled out the PMDR for our infrastructure strategy for the first time in 2025, where 38 infrastructure managers (~80% of participating GPs) provided data to us on the PMDR alignment of their assets. This will allow us to track and review portfolio-level decarbonization progress over time. We are now tracking more than 1000 assets and are exploring use cases across the wider Pantheon platform.

Defense

The geopolitical backdrop is driving a shift in government policies, with higher strategic commitments to defense. Although the defense industry has historically been automatically excluded from ESG-focused funds, this is now evolving. The European Commission has clarified that defense and security investments are not inherently excluded from sustainable finance frameworks, now categorizing the industry under "societal resilience", while in the UK policy updates have noted that investments in defense and national resilience should not be treated as inconsistent with ESG duties. While caution around this sector is recommended, certain investors are now accelerating their capital deployment to support European defense, and we're seeing particular interest from Nordic funds. Dual-use technologies, with both civilian and military applications, have been particularly in focus. In just the first quarter of 2025, S&P reported that global private equity and venture capital investment in aerospace and defense reached $4.27 billion, nearly equaling the $4.31 billion invested in the entire year of 2024.

[6] Private Markets Decarbonization Roadmap 2.0, November 2024.

YOUR INVESTMENT TAKEAWAYS

1 THERE IS VALUE IN THE MID-MARKET

While discounts remain broadly attractive across all private markets and valuations are becoming more reasonable after several quarters of lower fundraising, the mid-market seems to offer the most attractive terms. Multiples on assets in this part of the market can be two to three turns below their large-cap equivalents, and that's a good leading indicator for continued strong returns looking ahead.

2 REALIZE THE POTENTIAL OF SECONDARIES

Secondaries are increasingly recognized as an important tool for GPs to continue to generate value and for LPs to manage their portfolios. But with the market becoming more and more competitive, it is important to find a manager that has strong investment acumen, and the depth of relationships that enables them to source and diligence the best deals available.

3 FOCUS ON THOUGHTFUL ASSET SELECTION

Market uncertainty has decreased, but not disappeared. There is higher leverage in the system, plenty of noise around geopolitics, and the uncertainty that comes from the increased use of AI and deglobalization trends. Investors should keep investing and deploy across the cycle, but more market dispersion in asset selection is critical. Ensure your manager has access to the widest funnel of opportunities, cultivating the strongest relationships possible to be able to access proprietary deals, and is leaning into those assets where there are likely to be thematic strengths.

IMPORTANT DISCLOSURE

www.pantheon.com