Citizens PRIVATE WEALTH™

FROM THE OFFICE OF THE CIO

2026 Investment Outlook:

Navigating uncertainty with potential opportunity

A word from the Chief Investment Officer

While 2025 certainly had its surprises – notably the market selloff during the April tariff announcement and numerous geopolitical events – our prior market outlook fared relatively well as the economy averted recession, risk assets flourished, and diversified portfolios across global markets and alternatives added value. The year also dispelled a prevailing narrative in the financial media: the supposed death of the 60/40 portfolio and diversification itself. In fact, 2025 was one of the strongest periods of performance we have seen for well-diversified portfolios, offering clients unique opportunities to benefit from thoughtfully implementing select alternative investment strategies that we highlight in our outlook.

Although investors tend to focus on calendar year performance when gauging the success of their portfolios, economic and market trends are much more fluid and have a longer-term horizon. As we turn the page on a strong year of performance across nearly all asset classes, we highlight the momentum that remains in place across the global economy, monetary and fiscal policy, and the broader markets. Accordingly, we have maintained many of the views and positions we outlined in prior reports, namely our constructive view on the U.S. economy. We also note that closing the books on 2025 does not dictate a material departure in our stance. While elevated valuations have set a high bar and have long-term implications, we see continued opportunities for investors.

Our 2026 outlook underscores a year of transition as slower labor dynamics and persistent inflation challenge global policymakers. Structural growth themes like AI investment and fiscal stimulus are poised to provide support for above-trend U.S. economic growth. For investors, navigating 2026 will require balancing high valuations with long-term opportunities to capture upside growth — while thoughtfully positioning against policy and labor market risks.

Navigating today's financial markets requires a disciplined, collaborative approach. Our team of highly qualified advisors stands ready to provide thoughtful and personalized guidance. We appreciate your continued engagement and invite ongoing dialogue throughout 2026 as we respond to evolving market dynamics.

Best wishes for a happy, healthy, and prosperous new year!

Michael Hans
Chief Investment Officer, Citizens Private Wealth

KEY TAKEAWAYS

U.S. economic momentum is projected to continue in 2026. Labor market weakness remains in focus while tariff and inflation concerns linger.

The Federal Reserve shifted to a more accommodative stance, cutting rates late in 2025. We anticipate further easing in 2026, with policy decisions remaining data-dependent and focused on the health of the labor market.

Artificial intelligence underpins the structural growth theme in the U.S. economy and equity markets. We continue to call for additional market broadening by style and sector. We emphasize names with earnings visibility, reasonable capital expenditure plans, and pricing power.

International equities continue to possess upside potential, benefiting from targeted fiscal stimulus, accommodative monetary policy and improving earnings clarity.

Intermediate maturity investment grade bonds are favored, providing income generation and capital appreciation potential as the Fed eases. Strong corporate profits benefit corporate issuers; however, valuations are elevated.

We expect the dollar to be range bound relative to major trading partners coming off a year of weakness and considerable negativity. Monetary policy divergence will lead to volatility; however, demand for U.S. dollar denominated assets remains an ongoing theme.

Within alternatives, private market strategies offer compelling return potential relative to public markets. We continue to favor private equity secondaries and have initiated a positive outlook on asset-based lending strategies.

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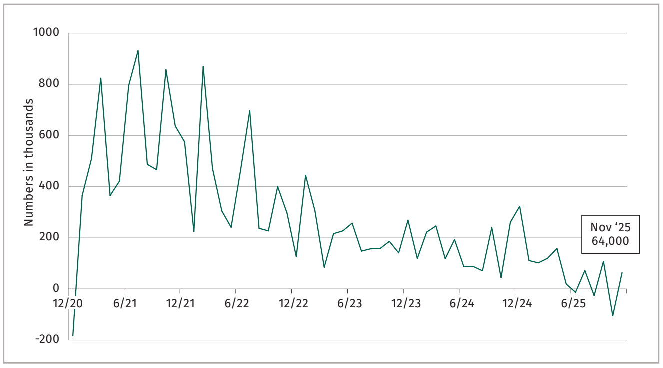
Economic Outlook

The U.S. economy enters 2026 with a mixed backdrop of continued policy uncertainty, slowing labor dynamics and persistent inflation pressures, yet overall growth remains resilient. Importantly, these dynamics have received considerable attention, as the Federal Reserve has been vocal about calibrating policy in light of these issues. At its December meeting, the Fed increased its projected gross domestic product (GDP) output for the 2026 calendar year to 2.3% from 1.8%. Although some of the increase can be attributed to a short-term uptick in growth following the conclusion of the government shutdown in Q4 2025, Chairman Powell cited the AI infrastructure buildout, resilient consumer spending and projected fiscal stimulus as the main drivers of economic growth.

The ongoing health of the labor market is the Fed's primary concern, as the lack of new job creation within the "no-hire, no-fire" environment warrants attention. There has been a continued uptick in announced layoffs, but we have yet to see a sustained jump in unemployment claims reflected in the data. At the same time, Job Opening and Labor Turnover Survey (JOLTS) data indicate that job openings are abundant and employers are looking to hire. The November non-farm payroll number of 64,000 was slightly better than expected, indicating a low level of job creation in the economy. (See Figure 1.)

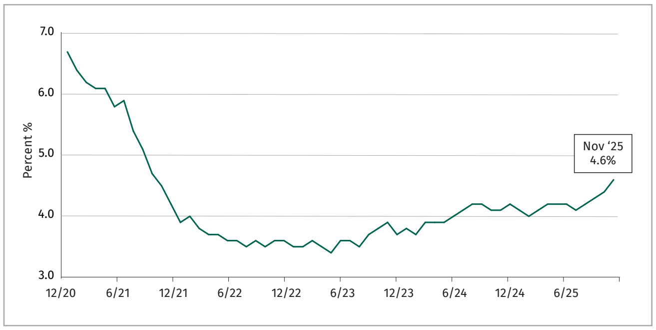
Figure 1: U.S. Non-Farm Payroll – Job Creation
December 2020 - November 2025



Source: Bureau of Labor Statistics via Factset.

At the same time, the unemployment rate increased to 4.6%, its highest reading since July 2021. (See Figure 2.)

Figure 2: U.S. Unemployment Rate
December 2020 - November 2025



Source: Bureau of Labor Statistics via Factset.

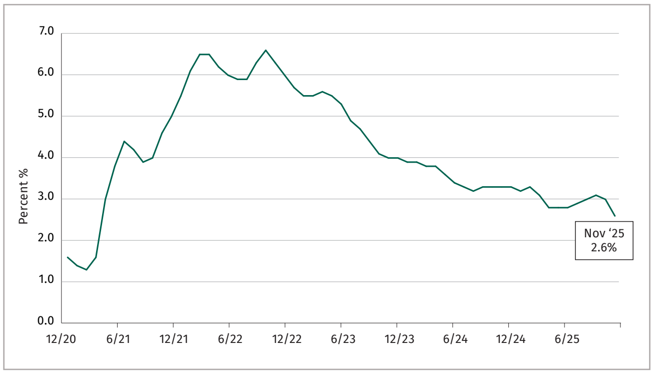
As always, monetary policy is an essential consideration in our forward-looking outlook. The Fed cut rates at each of the final three meetings of 2025, bringing the target rate to 3.50—3.75%. The Fed framed the cuts as "risk management" rather than the start of a rapid easing cycle, emphasizing that policy decisions will continue to be guided by economic data, notably employment. Our interpretation is that they are seeking to extend a healthy economic cycle, rather than infusing considerable monetary easing into a weakening environment. We anticipate that accommodative financial conditions will help stabilize employment in 2026, although near-term risks remain elevated. Adding uncertainty to the equation, a new Fed Chair will be appointed in the first weeks of the year, and we expect to refine our view once new leadership is confirmed by the Senate.

The consumer is in relatively good shape, although sentiment has been subdued for much of the year, according to numerous consumer confidence surveys. Affordability is a concern and we expect to hear the term used frequently in 2026 alongside "K-shaped" economy. We see steady consumer spending, most notably from the upper-income

cohort to drive consumption. Supported by real income gains and tax relief from the One Big Beautiful Bill Act (OBBBA), disposable income is projected to rise by 0.7%, while April tax refunds may also provide a temporary lift to spending. Strong equity market performance could provide an incremental boost, especially for higher-income households. Business spending will continue to emanate from the AI infrastructure buildout; however, outside of technology, investment in other areas of the economy is projected to remain soft as lower interest rates slowly work through the financial system.

Inflation exhibited further moderation in November as Core CPI (excluding food and energy) registered a reading of 2.6% — the lowest since 2021. (See Figure 3.) However,

Figure 3: U.S. Inflation — Core CPI (YOY)
December 2020 - November 2025



Source: Bureau of Labor Statistics via Factset.

tariff-related cost pressures and corporate pricing strategies are expected to keep consumer prices elevated and above the Fed's long-term 2% target. Rising health care costs are also anticipated to contribute to higher inflation readings. Conversely, shelter inflation is forecast to ease as owner-equivalent rents drift downward. Notable structural considerations including deglobalization, aging demographics, U.S. immigration policy and persistent fiscal deficits round out the U.S. inflationary backdrop, even as longer-term, AI-driven productivity gains are projected to offset higher costs.

Potential downside risks to the U.S. economy center on labor-market fragility weighing on consumer health. If hiring fails to rebound and layoffs accelerate, the odds of a recession, currently estimated at less than one in three, could rise. Policy uncertainty remains another key risk, not only regarding potential changes in Fed governance, but also due to a possible controversial Supreme Court ruling on the legality of tariffs. Conversely, upside potential exists if AI-driven productivity gains materialize faster than expected, bolstering growth and easing inflation pressures.

International developed economies

Divergence in monetary policy between the Fed and global central banks will impact global currency and rates in 2026. While 2025 began with sharp dollar weakness and widespread pessimism around the dollar, we anticipate that it will be more measured and range bound in 2026, as demand for U.S. assets remains robust. The Fed's dovish posture relative to other major central banks and the prospects for above-trend economic growth should offer stability. Outside of the U.S., economic conditions across developed economies are expected to remain broadly supportive in 2026, underpinned by easing inflation, accommodative monetary policy, and targeted fiscal initiatives. While regional and country-specific dynamics vary, economic resilience persists amid differing policy landscapes. On the monetary front, the European Central Bank (ECB) appears to have concluded its easing cycle in mid-2025, holding the rate at 2%, down from a peak of 4% in 2024. We anticipate that the ECB rate will remain unchanged throughout 2026, although it would not be surprising to begin hearing talk of possible rate increases.

The Eurozone appears poised for steady growth supported by moderating inflation, low interest rates and resilient consumer demand. A multi-year low in oil prices, a stronger euro, and abundant Chinese imports are expected to further ease price pressures. Fiscal policy will play an increasingly prominent role, particularly in Germany, buoyed by a trillion Eurodollar multi-year infrastructure and defense spending program. This marks a decisive shift from years of fiscal conservatism. Germany's spending cycle will provide a meaningful boost to regional growth. Outside the eurozone, the United Kingdom faces a more challenging environment as economic growth is likely to moderate as recent tax increases weigh on businesses and households. A softening labor market and subdued consumer confidence could constrain spending, allowing inflation to ease further and giving the Bank of England room for additional accommodation.

In developed Asia, Japan's outlook is characterized by strengthening domestic demand and improving external economic conditions. Solid wage growth is expected to support household consumption, while easing trade tensions and robust global demand for semiconductors should bolster exports. Auto exports, aided by the U.S.-Japan trade agreement, continue to show signs of recovery. Fiscal policy will remain a key driver as measures aimed at boosting growth and stabilizing inflation under new Prime Minister Sanae Takaichi may exert upward pressure on prices, potentially prompting the Bank of Japan to resume rate hikes. Japan's divergence from the broadly accommodative stance of other major central banks could create unique dynamics for Japanese markets in 2026.

Emerging economies

Emerging markets enter 2026 with diverging growth trajectories, shaped by structural challenges and geopolitical developments. We highlight the outlook of two emerging countries, China and India, due to their size and growth potential.

The resilience of Chinese exports in 2025 was a notable surprise amidst trade tensions with the United States. U.S. tariffs surged to over 100% in April before easing to 30% in May, yet Chinese exports held firm thanks to successful sales into Europe and other regions. Looking ahead, China's economic outlook is clouded by ongoing structural challenges. GDP is projected to grow by 5%, although we believe that sustaining that pace will be difficult. A prolonged property downturn, weak labor market conditions and the reversal of prior consumption tailwinds have created a deflationary environment, weighing on consumer confidence and investment. However, growth in emerging sectors including new energy, electric vehicles, batteries, and semiconductors positions several parts of the economy for growth benefiting from the broader AI buildout.

India's economy continues to demonstrate resilience, outperforming many peers despite tariff-related and geopolitical challenges in 2025. India's structural advantages and reform-driven trajectory position it as a key driver of emerging market expansion. Growth is expected to moderate in 2026 but should remain above that of most developed and emerging economies. Domestic demand, monetary easing and expansion in digital-related sectors will underpin economic activity.

Equities:

Positioning for a maturing expansion

Despite ongoing policy crosscurrents, 2025 saw broad equity market strength, with secular growth themes — particularly AI adoption and infrastructure investment — driving market sentiment, supporting robust earnings growth and contributing to moderate multiple expansion. Looking ahead to 2026, the U.S. equity market reflects a maturing bull cycle, with returns increasingly dependent on the durability of earnings. While the Fed has raised its economic growth outlook for 2026, uncertainty remains due to the appointment of a new Fed governor, the effects of tariffs and ongoing geopolitical risks. Additionally, U.S. equity valuations are elevated compared to historical averages. Expectations for earnings growth are high (see Figure 4), which leaves market sentiment more susceptible to disappointment and reduces the margin for error.

Figure 4: 2026 Consensus Earnings and Sales Growth Estimates

	Earnings	Sales
U.S. Large Cap	14.2%	6.8%
U.S. Mid Cap	19.8%	5.3%
U.S. Small Cap	16.2%	4.8%
International Developed	10.2%	3.4%
Emerging Markets	17.4%	10.7%
World	13.5%	6.3%

Source: Factset; data as of December 2025.
Underlying Index data represented in order as: S&P 500, S&P Mid Cap 400, S&P 600, MSCI EAFE, MSCI Emerging Markets and MSCI All Country World.

We anticipate that sector leadership will continue to favor companies with strong pricing power, significant scale, and the ability to consistently generate cash flow at this stage of the cycle. In this environment, investors should focus on structural growth and earnings predictability, while being more selective in segments where performance relies heavily on momentum, speculation, or substantial valuation increases. By prioritizing quality and earnings resilience, investors can better navigate periods of volatility and position themselves for sustained performance as the market cycle matures.

Regional positioning: United States over international markets

We continue to favor U.S. over international equities heading into 2026. While international equities benefited in 2025 from U.S. dollar weakness and valuation rerating, we believe the earnings foundation remains structurally stronger in the United States. American companies maintain superior pricing power, higher margins and stronger free-cash-flow conversion — particularly among large-cap growth — that have demonstrated their ability to compound earnings through the cycle. The U.S. market retains disproportionate exposure to secular growth themes including AI, cloud infrastructure, digital advertising, automation and industrial modernization. These drivers are not only fueling innovation but also providing resilience, even if headline economic growth moderates. By contrast, international markets remain more dependent on continued cyclical recovery, policy execution and external demand conditions. Earnings trajectories in these regions are less visible, with greater sensitivity to global trade dynamics, currency fluctuations and local political developments.

U.S. markets: large cap over small cap

While small-cap equities may tactically benefit from further Fed rate cuts, we believe U.S. large caps are better positioned to perform throughout 2026 in totality, as markets fully digest the shift in monetary policy and easing financial conditions. Large caps offer greater earnings visibility, stronger balance sheets and less reliance on external financing, which are critical advantages in an environment where rates may fall slower than anticipated and credit conditions remain selective. Many large-cap companies continue to compound earnings through internal reinvestment and productivity gains, rather than relying on cyclical demand acceleration. The Magnificent 7's exceptional earnings growth continues to support their premium valuations, reflecting strong fundamentals and sustained leadership in key growth sectors. While negative headlines in late 2025 focused on debt issuance among this group, we view its ability to access capital markets efficiently as a sign of financial strength and operational flexibility, rather than a source of concern. In contrast, small-cap equities remain more sensitive to domestic growth variability, financing conditions and margin pressure. While valuation support exists, we believe the risk-adjusted case favors an overweight to large-cap leadership, rather than a down the capitalization spectrum in 2026.

SECTOR POSITIONING

Overweight Industrials

Industrials emerge as a preferred sector heading into 2026, supported by multi-year capital investment cycles rather than late-cycle consumption. Infrastructure modernization, reshoring, defense spending, electrical grid upgrades and automation investment support a sustained order backlog. Margin expansion opportunities remain as productivity improves and pricing discipline holds, particularly among high-quality operators. Importantly, industrial earnings in this cycle are less dependent on pure GDP acceleration and more tied to secular capex priorities, improving durability.

Overweight Communication Services

Communication Services remains a core overweight, benefiting from structural growth and operating leverage. Digital advertising, streaming and platform-based media continue to gain share despite slower macro growth. Large communication platforms combine growth characteristics with strong balance sheets and free cash flow, offering attractive risk-adjusted exposure relative to traditional growth sectors. This sector also benefits from barbell characteristics, providing exposure to disruptive innovation while retaining defensive cash-flow attributes that help anchor portfolios in periods of volatility.

Underweight Real Estate

We remain underweight Real Estate, due to challenged fundamentals. Financing costs and refinancing risk remain elevated, even as policy rates stabilize, constraining cash flows and valuation support. Oversupply in certain property types and uneven demand limit upside potential and earnings visibility. We believe real estate requires a clearer reset in valuation and capital structure before becoming attractive on a broad basis. While lower borrowing costs may eventually create viable investment opportunities, we remain patient and selective, focusing on assets that can benefit from refinancing at a lower cost of capital and demonstrate sustainable demand.

Underweight Utilities

We remain underweight Utilities due to asymmetric risk-reward. Valuations are elevated relative to long-term fundamentals, despite structurally limited growth. High capital requirements and sensitivity to interest rates constrain upside even in a stabilizing environment. Regulatory frameworks limit full pass-through of costs, pressuring returns on invested capital. While select utility names may benefit from infrastructure buildout related to AI and electrification, the sector faces persistent profit constraints that limit the potential for sustained valuation expansion.

International positioning: international developed over emerging markets

Outside of the U.S., we continue to favor international developed over emerging markets. Developed markets offer greater institutional stability, more predictable policy frameworks and improving earnings visibility, particularly in Europe and Japan. Fiscal support, defense spending and accommodative monetary policy should benefit developed markets without introducing excessive macro volatility. Additionally, market composition in developed regions tend to favor companies with higher-quality balance sheets and consistent dividend payments, attributes that align well in a maturing bull market environment.

Emerging equities, while projected to have higher earnings and economic growth potential remain burdened by trade uncertainty, political risk and uneven capital access. China's ongoing structural challenges and reliance on policy support remain a key swing factor, particularly after a period of price appreciation driven by multiple expansion. While select emerging market countries such as India and Mexico remain compelling on an active basis due to fundamentals and structural tailwinds, we do not see a strong case for broad EM outperformance relative to developed peers in 2026. (See Figure 5.)

Figure 5: Recommended Equity Positioning

Global Equities	U.S. over International Markets
U.S. Equities	Large Cap over Small Cap Overweight: Industrials & Communication Services Underweight: Real Estate & Utilities
Within International Equities	International Developed over Emerging

Equity outlook summary

The 2026 equity landscape demands selectivity rather than broad rotation. We recommend positioning portfolios toward U.S. equities, with particular emphasis on large-cap leaders that offer earnings visibility and are poised to benefit from financial resilience. Sector allocations should focus on areas driven by productivity, scale, and long-term structural investment where innovation and operating leverage support durable growth. Prioritizing companies with proven earnings durability, robust balance sheets and disciplined management is important as the cycle matures and the margin for error narrows.

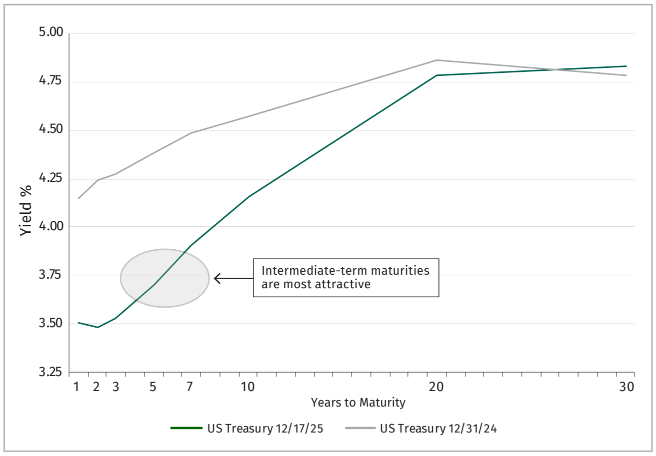
While international and smaller-cap equities may experience episodic rallies, we believe sustained performance will be anchored in quality and structural growth. In our view, U.S. large-cap companies remain best positioned to deliver consistent results, benefiting from secular growth drivers and the ability to navigate late-cycle dynamics with discipline and agility.

Fixed income:

Intermediate maturity positioning is key as policy risk shifts

As 2026 progresses, we expect the drivers of Fed policy to continue to shift away from inflation concerns toward broader cyclical considerations including economic growth and labor-market conditions. Productivity gains, including those tied to technology and AI investment, have helped maintain economic resilience, but job-market indicators continue to show signs of cooling. This environment supports our expectation for a classic "bull steepener" scenario. We anticipate larger declines in the yields of short- and intermediate-term securities amidst incremental easing by the Fed. We view the intermediate (5-to-7 year) maturity segment as the most efficient part of the curve for capturing policy-driven rate declines (see Figure 6), without being negatively impacted by possible curve steepening. Should the 10-year maturity area experience a meaningful sell-off, we may selectively add exposure given an improving medium-term policy backdrop.

Figure 6: U.S. Treasury Yield Curves December 31, 2024 and December 17, 2025



Source: Factset; data as of December 2025.

Our outlook favors a disciplined approach with a flexible duration mandate as we navigate through changing leadership at the Fed and evolving economic data. After several years in which short-dated instruments provided strong current income while generating returns amid the decline in yields, the opportunity cost of remaining underexposed to intermediate maturities has increased. Our focus seeks to balance income generation, capital appreciation and volatility management as monetary policy continues its transition toward a lower neutral rate.

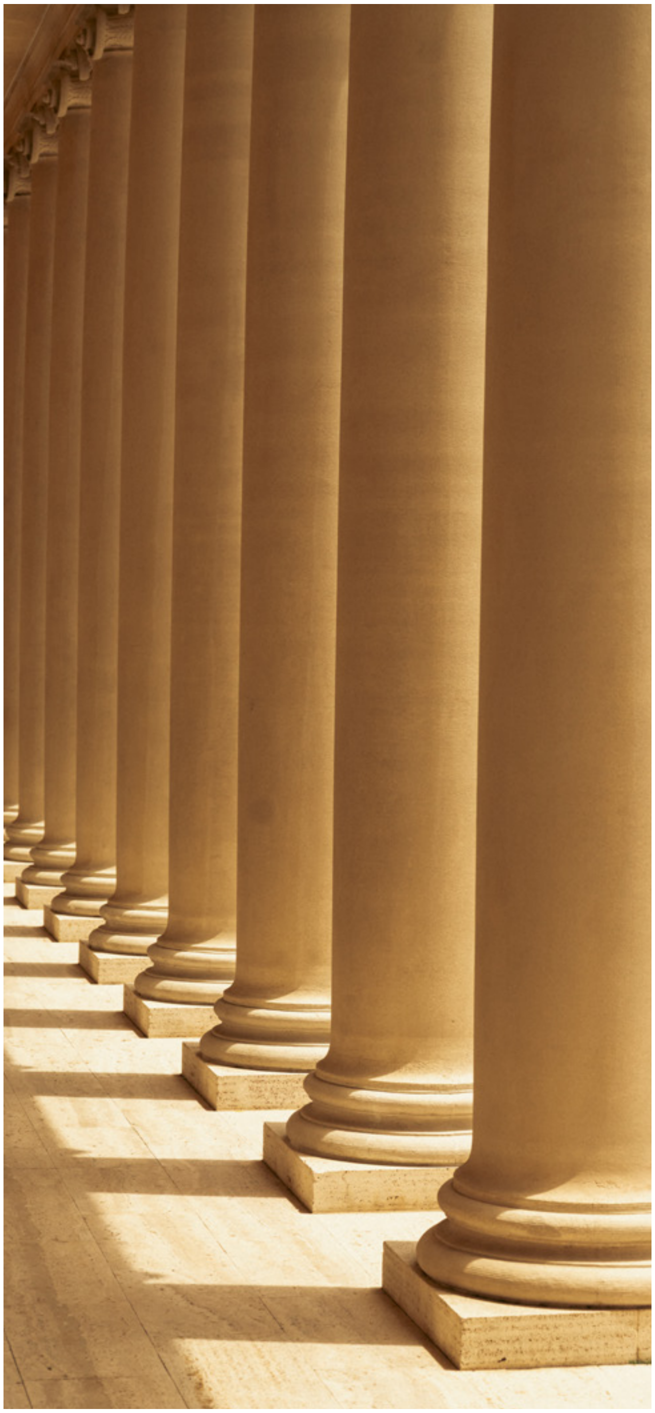
Credit

Entering 2026, the outlook for U.S. investment grade (IG) corporate credit remains constructive, supported by a balanced macroeconomic backdrop and resilient fundamentals, though it is tempered by rising supply amidst high valuations. The IG market continues to offer strong yields backed by high credit quality. At the index level, we believe total return is expected to be lower compared to 2025 but should remain positive, driven by the favorable rate environment.

We anticipate modest spread widening by year-end 2026, fueled largely by net issuance that has been prompted by increased M&A activity and a significant uptick in volume from the technology and media sectors. We forecast that net issuance will be higher than in previous years as investors will seek attractive yields offered by high-quality issuers. In terms of curve positioning, front-end and select intermediate term yields present opportunity as spreads are likely to remain stable or tighten modestly.

Looking at credit fundamentals at the index level, IG issuers remain in good health, with leverage and coverage ratios stable amidst robust earnings growth and healthy margins. Credit rating trends show a slowing but still positive upgrade momentum. However, there are more lower rated with "negative outlook" relative to this time last year. We believe the overall credit profile remains sound but has created an environment where active issuer selection will be key to navigating the year ahead. We favor quality and defensive sectors. We are overweight banks and financials, which are poised to benefit from solid fundamentals, regulatory tailwinds, and attractive valuations. Conversely, we remain underweight technology, which faces heavy issuance pressure. Media and entertainment are challenged by fundamental and technical risks, including M&A-related uncertainties and weakening advertising trends. Lastly, consumer sectors remain underweight due to tariff pressures and a potentially weaker lower-end consumer.

Portfolios should benefit from diversified credit exposures; however, an active and nimble approach is warranted given the tight credit spreads and volatility of asset classes like high yield corporates and emerging markets. Multi-sector and non-traditional fixed income strategies are best suited to deliver this exposure and, given a favorable macro backdrop, remain important elements of well-diversified portfolios.



Municipals

After a year marked by heavy supply, shifting federal policy dynamics and elevated rate volatility, the municipal market offers investors compelling tax-adjusted income against a strong fundamental backdrop. With yields still anchored at comparatively attractive levels, investors can expect solid coupon carry and incremental price appreciation should the Fed continue to ease. In this environment, active management and rigorous credit work will be essential to capture opportunities while navigating an increasingly complex municipal landscape.

States head into fiscal 2026 with historically strong reserve positions, even as revenue growth normalizes from the extraordinary post-pandemic surge. Rainy-day funds remain near record highs, providing a meaningful cushion against cyclical softening. However, reserve drawdowns have accelerated in recent months as temporary federal support sunsets and expenditure pressures — including health care costs, workforce demands, and infrastructure needs — continue to rise. Nevertheless, municipal credit fundamentals remain broadly sound. That said, after multiple years of historically high issuance and shifting local priorities, particularly in areas such as housing, transit, public safety and health care,

select downward rating pressure is possible. We expect greater differentiation among issuers with variable exposure to federal funding, economic cyclicality, or structural budget challenges.

As always, supply-and-demand dynamics will define performance within the tax-exempt market. Early indicators point to another year of elevated supply stemming from short-term bridge financing, higher construction costs, expanded social-service obligations and continued refunding activity. While robust issuance supports market breadth, it raises the bar for sustained investor engagement. Similarly, a projected surge in investment-grade corporate issuance could widen spreads across taxable markets, potentially forcing municipals to reprice at higher levels as well.

Municipals are positioned to retain their appeal for higher-tax-bracket investors seeking durable, tax-advantaged income and a defensive anchor in diversified fixed-income portfolios. Our view remains biased toward issuers demonstrating prudent fiscal stewardship, governance strength and diversified, sustainable revenue streams. Essential service revenue bonds — particularly water and sewer utilities with stable rate-setting authority — continue to offer strong credit profiles, while some state and local general obligations remain a preferred high-quality anchor in portfolios. Conversely, issuers overly dependent on federal pass-through funding, including Medicaid-reliant hospitals and federally subsidized transit systems, warrant continued caution. Legal, regulatory, and reimbursement risks in these sectors remain elevated and we expect to see further credit dispersion.

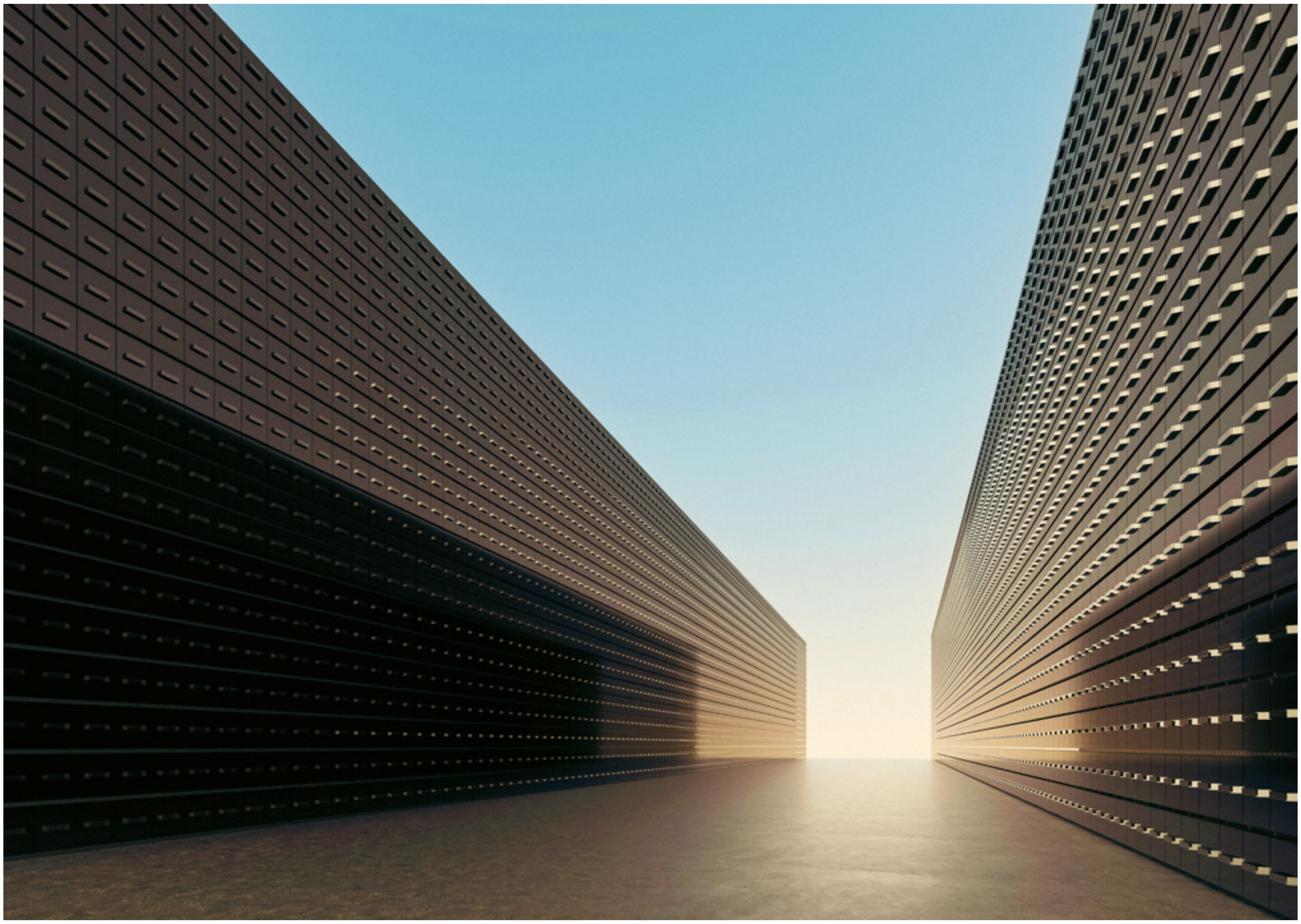
Alternatives

Opportunities within private markets

Alternative investments offer the potential to enhance returns and reduce overall portfolio volatility. Historically, incorporating alternatives has provided strong strategic benefits, often resulting in improved portfolio outcomes. Looking at current market conditions, we believe 2026 presents an attractive opportunity for investors to initiate or increase allocations to select private markets. This environment is particularly favorable for risk-aware investors seeking alternative strategies as a complement to traditional public market holdings.

Private equity

The environment for private equity is improving. The past year's deal volume was held back by tariffs and other government policy uncertainty, but we nevertheless saw a number of large successful exits via strategic M&A deals and IPOs, as well as increasing use of general partner-led secondary sales. We believe this represents a normalization that going forward should create a virtuous cycle of investor confidence. Fundamentals are also strengthening. Fed rate cuts and the expanding



supply of credit are expected to improve deal financing, leading to more profitable equity exits. Overall, we see this backdrop as a tailwind for the private equity market entering 2026.

Within private equity, we continue to see upside potential in secondaries, our highest conviction recommendation from last year. Secondary market deal volume is estimated to reach an all-time high of over $200 billion in 2025[1] and, while secondaries growth may moderate, this volume will continue to be an important means for managing portfolio exposure by both general and limited partners. Secondary portfolios contain mature assets poised to benefit from the aforementioned capital market activity, which leads to faster-than-expected exits.

We also see broadening of opportunity across buyout, growth and late-stage venture strategies. Although early-stage venture is seeing increased deal activity, it remains vulnerable to cyclical pullbacks, hence we remain cautious. We see windows of opportunity for thematic growth investments that are highly targeted, such as minority ownership stakes in sports franchises whose value compounds over long horizons. We also see opportunity among very broad themes, the largest being AI. From fast-tracking the roll-out of disruptive innovation in growth-stage businesses to enhancing economies of scale in large buyouts, it remains an exciting area that we are watching closely.

Private credit

Private credit is a $1.7 trillion asset class[2] whose growth continues unabated. For many private wealth investors, the first exposure to alternative investments has been an allocation to private credit, which can offer higher yields and lower volatility than public credit markets. We believe that private credit remains a compelling strategic opportunity for income-focused investors. The opportunity may be greater in 2026 than in 2025, as interest rates have fallen and the private credit yield premium is a disproportionally larger contributor to potential return.

Direct lending

Direct Lending (DL) was our primary emphasis in 2025 given its yield premium and historically smooth return profile, and it has delivered as expected. Looking forward to 2026, we expect DL to continue providing an illiquidity premium, generating a spread over public credit yields. We anticipate that yields will be lower in 2026 in parallel with the overall decline in interest rates. Some of this decline might potentially be offset if we see reacceleration in private equity deal activity, though our base case sees spreads stabilizing at current levels (at least 4.5% over base rates).

Asset-based lending

Another area of interest, Asset Based Lending (ABL), addresses a more diverse borrower base than DL with cash flows coming from corporate, consumer and real estate sources. We believe its underlying diversity helps provide resiliency across cycles. We see ABL as a solid complement to DL providing portfolio diversification while maintaining high expected yield. Given the broad diversity of underlying assets, one may expect to see a wide range of performance outcomes across strategies making manager selection especially important in this space.

Real estate

We have previously been skeptical of the risk/reward in real estate, and our skepticism was validated in 2025 as performance was the weakest of alternative asset classes.[3] Our rationale has been that, in aggregate, the risk of future drawdowns from institutional owner capitulation is not offset by the relatively low yields currently generated. We are cognizant that the Fed's reductions in interest rates create tail winds for real estate as financing costs come down and assets revalue upwards. Looking forward to 2026, we are now neutral on the space.

We remain skeptical of deep value turnarounds, as many assets with beaten-down valuations may not have reversion potential, namely aging office and/or challenged retail. However, we see greater potential for new development of high-quality assets that match current demand.

[1] Source: Jefferies. July 2025. H1 2025 Global Secondary Market Review.
[2] Source: Preqin. 2025 Global Report: Private Debt. JPMorgan Alternative Investments Outlook 2026.
[3] Cambridge Associates Real Estate Index: +1.13% trailing one-year return as of most recent data Q2 2024.

This may include opportunities for industrial warehouse and logistic assets that meet needs from onshoring and ecommerce trends, as well as targeted solutions addressing the long-term undersupply of housing. In all these segments, opportunities may have more variable outcomes than is generally appreciated. We expect to look more closely at opportunities in 2026.

Hedge funds

Hedge funds are typically seen as generators of uncorrelated absolute returns that diversify traditional stock/bond portfolios. As a group, though, hedge funds' ability to meet risk/return expectations has been challenging. We currently see private investments providing a superior role to hedge funds as portfolio diversifiers and maintain a neutral outlook in 2026.

Within hedge funds, we remain cautious on long/short equity and event driven strategies, whose correlation to equity markets in drawdowns is often underestimated. However, we see potential in broadly diversified strategies that can pivot to harvest dislocations efficiently. This includes multi-strategy funds, many of which have delivered consistent high single-digit returns through diversification, efficient deployment of capital and effective risk control. Diversified strategies also include some macro/managed futures approaches that have been effective in providing upside when other assets are persistently challenged. While the tactical case for these strategies is not necessarily strong, we expect to be looking more closely at these in 2026 as strategic diversifiers.

Conclusion

Alternative investments comprise a diverse set of strategies, representing a variety of risk/reward profiles. We see the potential of select, well-researched strategies to complement public market exposures, adding uncorrelated return streams to diversified portfolios. Investment outcomes may depend heavily on managers' expertise, as we are focused on partnering with those who are high-quality, with a track record of delivering what their respective asset classes have to offer.

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