The Alternative Investments Meta Outlook 2025

April 2025

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Introduction

Donald Trump's radical policy agenda has created some financial market uncertainty. The stock markets tumble since his inauguration and his new tariff plans to impose 10% universal levies and even higher duties on major partners, including the EU, does not just buffle economist, but is leading the entire world into an open-ended trade war. The global community will probably respond quickly and harshly. The measures and countermeasures have not yet been fully determined at the time of writing this year's BAI Private Markets Outlook. In addition, many of the Outlooks quoted here were created before the escalating tariffs.

The capital markets are finding it difficult to predict future market developments this year. Many asset managers have been late in releasing their macro and asset class outlooks. Almost everyone is much more cautious with regard to sweet spot naming. Most managers remain rather vague. You can hardly blame them. Of course, this has to do with the major market and political uncertainties and thus the higher expected volatility. Political reports have been coming thick and fast in recent weeks. It is also not surprising that most macro outlooks are "fitted" to the investment firms' existing offerings. Nevertheless, it is already clear: You have to stay flexible in your approach. Never has it been so difficult and yet so important to look into the future of the private markets.

In this review, we'll delve into the latest analyses covering various scenarios, opportunities, and risks in private markets. We summarize the key takeaways, so you don't have to read them all and, we back it up with some interesting graphics. We'll start by summarizing key takeaways from the macro outlook, then shift our focus to various alternative asset classes.

As we progress through 2025, a synthesis of macroeconomic insights from leading asset managers reveals several intersecting themes poised to influence global markets. In summary, 2025 is marked by a complex interplay of high interest rates, geopolitical tensions, rapid AI advancements, and an ongoing energy transition. These factors collectively contribute to a dynamic and uncertain market environment, necessitating vigilant monitoring and adaptive strategies from investors and policymakers:

1. **Interest Rates and Inflation:** Persistent inflationary pressures are leading central banks to maintain elevated interest rates. While there is potential for rate cuts if economic growth falters, the overarching trend suggests a cautious approach to monetary easing.

2. **Geopolitical Tensions and Trade Dynamics:** Escalating geopolitical tensions, notably trade disputes and tariff implementations, are disrupting global supply chains and labor markets. These developments introduce volatility and pose risks to economic growth.

3. **Artificial Intelligence (AI) Integration:** AI continues to be a significant driver of economic transformation. The expansion of AI technologies is amplifying energy demands, particularly in data centers, which may conflict with decarbonization objectives dependent on the energy source.

4. **Energy Transition and Sustainability:** The global shift towards renewable energy persists, with substantial investments directed at enhancing infrastructure. However, geopolitical fragmentation and market disruptions are challenging energy security and complicating the clean energy transition. Germany is looking forward to a new separate infrastructure funding.

5. **Market Fragmentation and Protectionism:** A trend towards economic fragmentation is emerging, characterized by increased protectionism and a reevaluation of globalization. This shift is altering international alliances and trading relationships, impacting global economic integration.

Macro Outlook 2025

Most of the data in our Meta Macro Outlook was compiled before January 2025 and is of course subject to in-constant changes in the respective investment houses.

Macro Outlook 2025	Global		USA				Europe				Germany	
	GDP	Inflation	GDP	Inflation	Interest rates	Unemployment	GDP	Inflation	Interest rates	Unemployment	GDP	Inflation
Bloomberg's Consensus	2.1%	2.3%	1.9%	2.3%	4.5%	4.3%	1.2%	2%	3%	6.5%	0.8%	2.1%
IMF	3.3%	4.2%	2.7%	~2%			1%	~2%			0.3%	2.1%
Vanguard		~2%	2.1%	2.5%	3.75-4%	4.4%	0.5%	1.9%	1.75%	6.9%		
Barclays			2.1%	2.3%	Further cuts	4.1%	0.7%	1.9%	<2%	6.6%		
Goldman Sachs	2.7%	3%	2.5%	2.4%	3-3.25%		0.8%	2%	1.75%	6.7%	0.3%	
KPMG	2.7%	3.5%	1.6%	2%		4.3%	1.6%	1.9%		6.7%	1.6%	2.1%
Deutsche Bank	3.1%		2%	2.4%	3.75-4%	4.2%	0.9%	2%	2%	6.3%	0.6%	2.3%
Wells Fargo	2.5%	3.8%	1.5%	3%	3.75%	4.1%	1%	2.2%	1.75%		-	-
Amundi	3%	3.3%	2%	1.8%	3.5%	4.6%	1%	2%	2.25%		0.7%	2.1%
UBP	3.1%		2–2.5%				1.0%				0.7%	
BNY			1.5–2.5%	2%-3%	~4%	~4.1%	1–1.5%	2%				
JP Morgan	2.4%	2.6%	2%	2.4%			1.4%	2%				
Dechert LLP	3.1%	2%					1.5%					
DWS			2%	2.4%	3.75%-4%		0.9%	2%	2%			
Morgan Stanley	3%		2.1%	~2%		4.5%	~1%					

Source: Various outlooks and news channels of the respective investment houses as of the reporting date 01.01.2025.

Alternatives Outlook 2025

Private Markets Overview

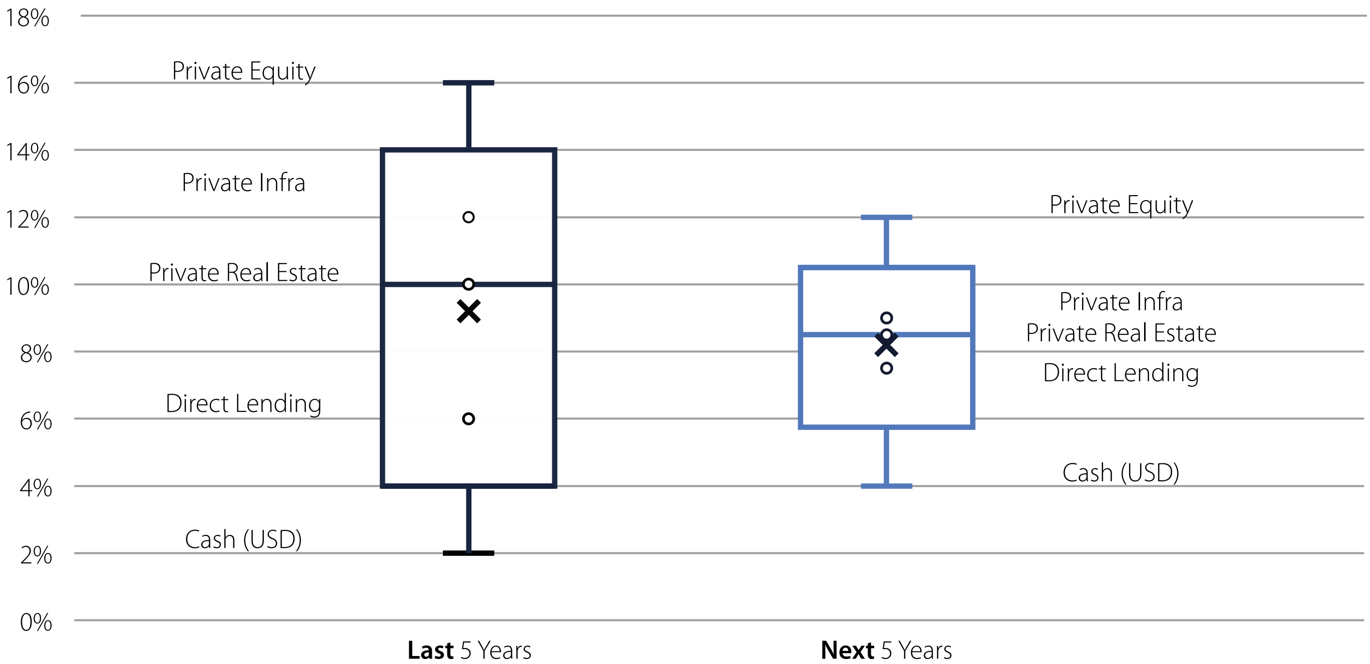
BlackRock

Private markets are poised for significant growth, with assets under management projected to rise from $13 trillion to over $20 trillion by 2030. This expansion is fueled by increased investment activity, moderated financing costs, and rising demand for long-term capital. Additionally, investors can tap into AI-driven opportunities across Infrastructure, Private Debt, Private Equity, and Real Estate.

KKR

For capital allocators, the key takeaway is that overall returns are compressing, making alpha generation through manager selection and asset diversification increasingly critical. In this evolving global macroeconomic landscape, Alternatives—such as Private Equity, Infrastructure, Real Estate, and Credit—along with short-duration Liquid Credit and Cash, are expected to play a more significant role, while reliance on Government Bonds may decline.

Expected Return Range of Outcomes in %



Source: KKR Global Macro & Asset Allocation Analysis, data as of June30,2024.

Blackstone

The macroeconomic environment has always shaped optimal asset allocation, but today's fundamentally different landscape calls for a reassessment of traditional frameworks.

With unstable stock-bond correlations, higher interest rates, and stretched public equity valuations, investors need new alpha drivers to achieve outperformance while managing risk. In this context, Blackstone believes private market assets present a compelling solution.

Schroders Capital

Private market asset classes continue to offer strong return potential, portfolio resilience, and exposure to key global megatrends, making 2025 a compelling vintage for investment. Favorable cycle alignments create opportunities across various strategies, including interest rate cuts, technological advancements like Generative AI and energy transition, and attractive private market valuations.

Amid geopolitical tensions, private markets enhance portfolio stability, while the ongoing shift toward decarbonization remains a key investment theme. Increased demand for renewable energy, driven by data centers, highlights private markets' role in sustainability. Beyond decarbonization, they also support the circular economy through investments in recycling, waste reduction, resource efficiency, and climate insurance to mitigate climate-related risks and enhance resilience.

JP Morgan

Pro-growth policies may not be universal worldwide, but Private Equity, Private Debt, and parts of Real Estate are poised to benefit from U.S. tax reform, deregulation, and the associated boosts to, economic growth. Infrastructure may also benefit from public and private spending around the world. Investors seeking to capitalize on trade shifts can consider transport assets. To protect against potential inflation shocks, infrastructure, real estate, and transport are particularly well positioned. Concisely, a new economic era is coming into view. Higher base rates, rising capital investment, geopolitical tensions, and inflation volatility are reshaping JP Morgan's 2025 return assumptions for private markets. JP Morgan still expects real assets and financial alternatives to offer alpha, income and diversification, but with a wider dispersion of returns over the coming 10 to 15 years. These changes impact alternatives, including the following:

- Timberland: Valuations remain resilient, bolstered by constrained supply and rising global demand.
- Transport: Geopolitical tensions, disrupted trade routes, and supply chain pressures reshape the sector. The maritime industry benefits from higher volumes and longer cargo routes.

Median Manager Forecasts for Many Financial Alternatives Improve Modestly

Financial Alternatives	2024	2025
Private Equity (USD)		
Cap-weighted composite	9.7	9.9
PE - small cap	9.7	10.1
PE - mid cap	9.5	9.8
PE - large mega cap	9.7	9.8
Private Debt (USD)		
Direct Lending	8.5	8.2
Venture Capital (USD)		
Venture Capital (USD)	9.2	8.8
Hedge Funds (USD)		
Equity Long Bias	4.7	5
Event-driven	5	4.9
Relative Value	4.9	5
Macro	3.6	3.8
Diversified *	5	4.9
Conservative (Return for Multi-strategy HF)	3.7	3.4

2025 LTCMA Financial Alternative Assumptions (Levered, net of fees,%)

*Source: **JP Morgan Asset Management**; estimates as of September 30, 2023 & 2024.*

Amundi

Private markets shine bright amid slowing economic growth, weakening domestic demand, and anticipated interest rate cuts. In this environment, private market and real estate asset classes offer attractive opportunities, along with valuable risk and return diversification.

Private Markets Views for H1 2025				
Private Markets	**Private Equity**	**Private Debt**	**Real Estate**	**Infrastructure**
2025 Outlook	↕	↗	↕↗	↗↗
Inflation Protection	↕	↗↗	↗	↗↗
Diversification Benefit	↗	↗	↗↗	↗↗↗
Entry opportunities over the next 4 years	↗	↗	↕	↕

Source: Amundi Investment Institute as of 6 September 2024, on a scale ranging from ↙↙↙ to ↗↗↗.

Apollo

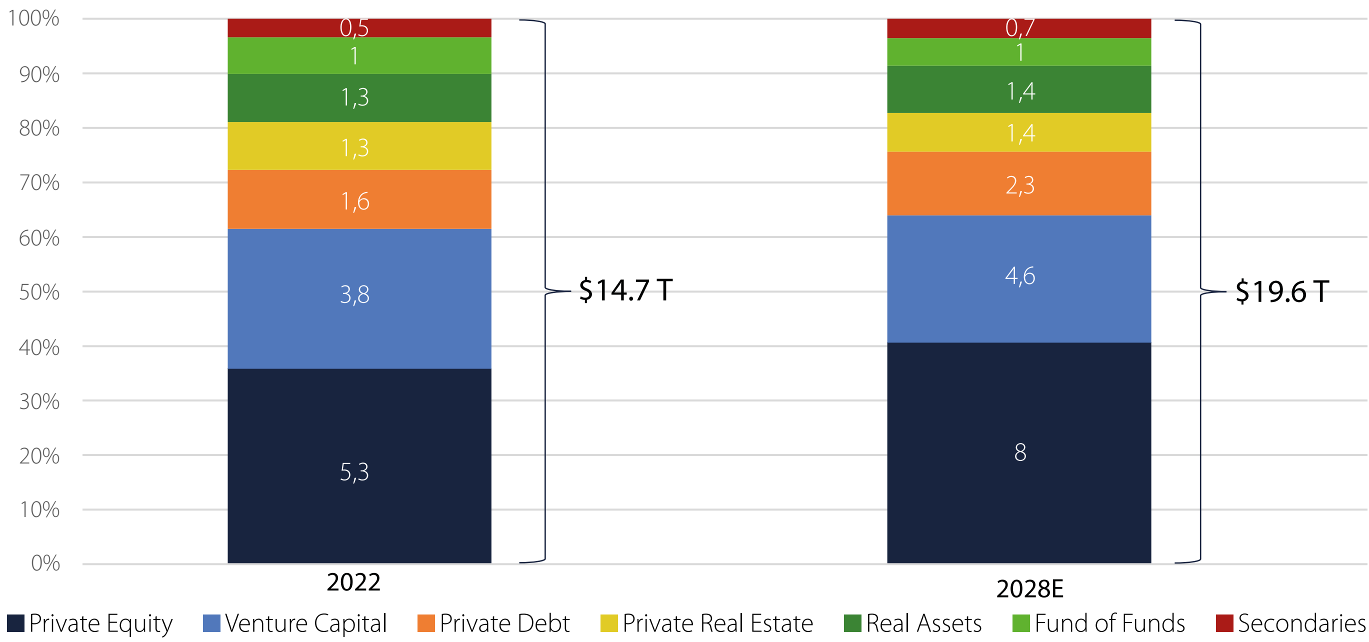
Considering the probability of the U.S. recession, large budget deficit and ballooning debt, and geopolitics that may alter [Apollo's 2025 Economic outlook](), they believe that the potential for long-term alpha generation is increasingly attractive through further portfolio diversification with the inclusion of both Private Equity and Credit.

Franklin Templeton

A new dawn for private markets as an integral part of the global capital markets can potentially start in 2025 since most of the key uncertainties of recent years have receded and the long-term growth trajectory for this asset class remains exceptionally robust.

With ever-increasing interest in Alternatives, Franklin Templeton believes the most promising opportunities will lie under the hood of the investment process, such as manager selection and delving into less competitive parts of each sub-asset class.

Global Private Capital Closed-End AuM Forecast ($T)

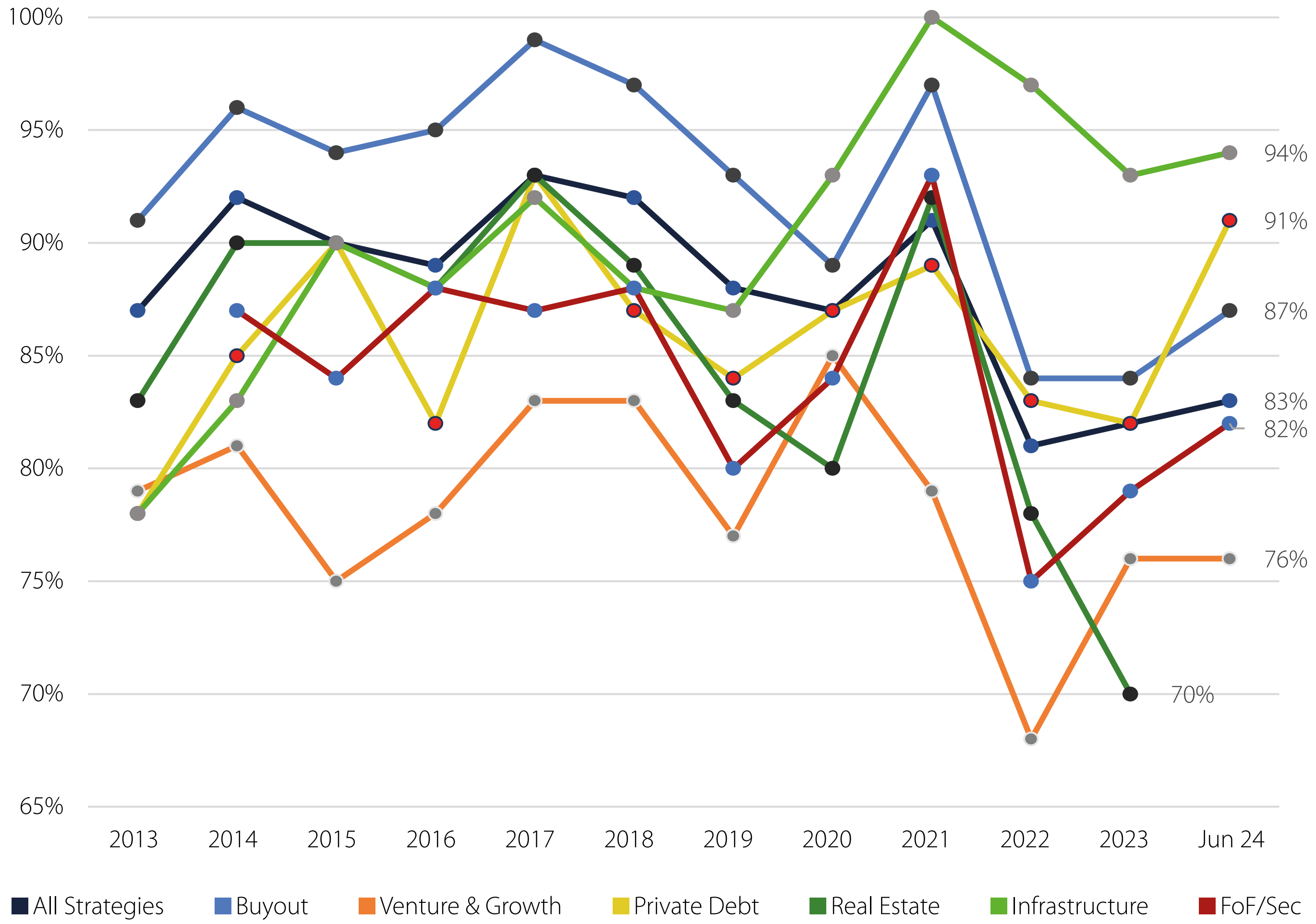


Source: Pitchbook. Private Capital's path to $20 Trillon. AuM & forecasts as of 4/19/2024

Given substantial capital raised in private markets and shifting economic regimes—from easy money and low inflation to rising rates and high inflation, and now to falling rates with persistent inflation—a greater disparity between winners and losers is expected in the coming decade. However, managers deploying capital today can benefit from more attractive valuations and stronger negotiating power, positioning themselves as "term-makers" rather than "term-takers" (i.e., the ability to dictate terms). So, this means:

- Dispersion of returns is likely to increase, separating the winners and losers.
- This is a better environment for allocating capital than in recent years.

Historical Secondary Pricing Discounts (% of NAV)



Source: Jefferies 2H2024 Global Secondary Market Review. Data as of January 2025.

Morgan Stanley

The potential impact of generative Artificial Intelligence (AI) on private market performance is expected to be a key theme in 2025. While Private Equity is expected to engage in both investing in "AI-natives" and companies leveraging for growth, Morgan Stanley identifies some of the earliest opportunities in private infrastructure. Two key mega infrastructure-related themes driving this, the digitization of society and economies and the global energy transition, intersect where data requirements lead to power demand, creating extensive investment opportunities.

BNP Paribas

Key Themes for 2025 in Private Markets:

- **Sustainability Priorities:** Transition finance, climate adaptation investment, and natural capital allocations are becoming top priorities for ESG investors. Growing climate challenges and evolving regulations will shape the investment agenda, while increased access to private markets makes these themes more available to a wider investor base.

- **European Private Market Growth & ELTIF 2.0:** The introduction of ELTIF 2.0, potentially structured as evergreen funds, is expected to drive substantial growth in European private markets. Capital flows into ELTIFs are forecasted to reach between **€35 billion by 2026** (Scope Group) and up to **€100 billion by 2028** (European Parliament), highlighting strong confidence in the long-term fund regime.

- **Expanding Private Credit(Debt) Market through ELTIF 2.0:** The PD sector is maturing, broadening its reach, and increasingly opening up to retail investors, further diversifying investment opportunities as interest rates decline.

Adams Street

- **Deal Activity & Market Conditions:** A stabilizing interest rate environment, ample credit availability, and a narrowing bid/ask spread between buyers and sellers are expected to drive robust deal activity. Besides that, after subdued exit levels in 2022 and 2023 following exceptional peaks in 2020 and 2021, exit activity is expected to continue recovering in 2025. However, with rising competition, selectivity and manager selection remain crucial in investment strategies to generate strong returns.

- **Economic Resilience & Strong Company Performance:** There are no clear signs of an impending economic slowdown, and company operating performance is expected to remain strong.

- **Post-Pandemic Normalization & Regulatory Easing in the US:** A stable investment environment and post-pandemic market normalization are anticipated, with expectations of significant regulatory easing under the Trump administration.

Dechert LLP

As PE firms have battled through a tough 18 months, a renewed vigor has emerged in the market as we enter 2025. However, four key factors could separate the outperformers from the also-rans: focusing on thriving rather than just surviving, maintaining a close watch on the Private Debt market, keeping up with the democratization of the market, and monitoring exposure to China.

According to Dechert LLPs' research, Co-Investments are gaining popularity among LPs and GPs alike, especially for firms in North America. In their survey, 60% of PE firms offer a Co-investment program, and nearly half of those are structured as Opportunistic programs.

Fidelity International

The outlook for earnings growth globally remains robust and their view on equities going into 2025 is generally positive. However, with valuations high, smart money will be searching for the right shelters as the economic cycle turns.

Neuberger Berman

A relaxation of the previous administration's strict anti-trust policies would be a major positive for private markets. If current projections hold, above-trend economic growth, stable public equity valuations, and a steady interest rate environment are expected next year. Banks have re-entered the syndicated loan market, while private credit funds have raised significant capital, creating favorable financing conditions and tight credit spreads. This sets the stage for increased dealmaking, with M&A activity showing strong momentum. The positive sentiment is reflected in the strong stock performance of private market asset managers following November 5.

While some exit backlog from the past two years is expected to clear by 2025, many mature private equity portfolios remain, and investor overallocation to private markets will sustain demand for liquidity through secondaries and co-investments. However, primary fundraising will likely remain challenging, particularly for newer or less established managers.

Citi Wealth

Within alternatives, their multi-year outlook for private asset classes is positive.

They believe alternatives' popularity could increase further as suitable and qualified investors seek returns and portfolio diversification.

Asset Class	Private Equity	Private Credit	Real Estate	Public Equity	Fixed Income
Strategic Return Estimate	13.1%	7.6%	10.8%	5.5%	4.4%

Source: Citi Wealth Strategic Asset Allocation & Quantitative Research Team

Nuveen

Their cross-asset class views indicate where they predict the best relative opportunities within global financial markets. These are not intended to represent a specific portfolio but rather to answer the question: "What are our highest conviction views when it comes to putting new money to work?" These views assume a U.S. dollar-based investor seeking long-term growth and represent a one-year time horizon.

Relative merits of each asset class based on the collective assessment of Nuveen's Global Investment Committee

Heat map for 2025 Outlook	Less Positive	Neutral	Positive	More Positive
Private Equity		√		
Private Credit				√
Real Assets			√	
Listed Infrastructure			√ (red)	
Listed REITs			√	
Farmland			√	
Private Infrastructure			√	
Commodities	√ (red)			
Real Estate Debt			√ (green)	
Private Real Estate			√ (green)	

*Source: Nuveen. red tick: downgraded relative to last year; green tick: upgraded outlook relative to last year; black tick: constant relative to last year. *These views assume a U.S. dollar-based investor seeking long-term growth and represent a one-year time horizon.*

Invesco

Invesco favors Private Debt and hedged strategies versus Private Equity as they currently prefer assets that do not rely on leverage to generate returns.

BNY

BNY believes we reached an inflection point in private assets due to the potential deregulatory environment and declining interest rates boosting these markets' activity. Hence, they declare that rigorously researched, carefully selected private funds and direct investments are the best way to access these asset classes to yield higher returns. They highlight 5 key views for 2025:

1. Global Growth Steadies
2. Cash Loses Its Luster
3. Bonds as a Ballast
4. Equities Have Room to Run
5. Private Assets Inflection Point

Allianz GI

After a slowdown in 2023, deal activity and fundraising rebounded in 2024, with expectations of continued momentum in 2025 driven by increased deal origination. Allianz GI anticipates further fundraising growth as investor confidence strengthens, supported by resilient private market performance in a volatile environment. With interest rates declining, the market is rebalancing, creating attractive investment opportunities. While transaction volumes are rising, valuations have yet to return to pre-inflation, rate hikes, and energy crisis levels, but price normalization is driving increased deal activity.

Furthermore, the so-called democratization of private markets via the introduction of the European Long-Term Investment Fund (ELTIF) 2.0 regulation made these markets more accessible to retail investors, enabling them to deploy further private capital to realize this asset class's transformational growth potential.

HarbourVest

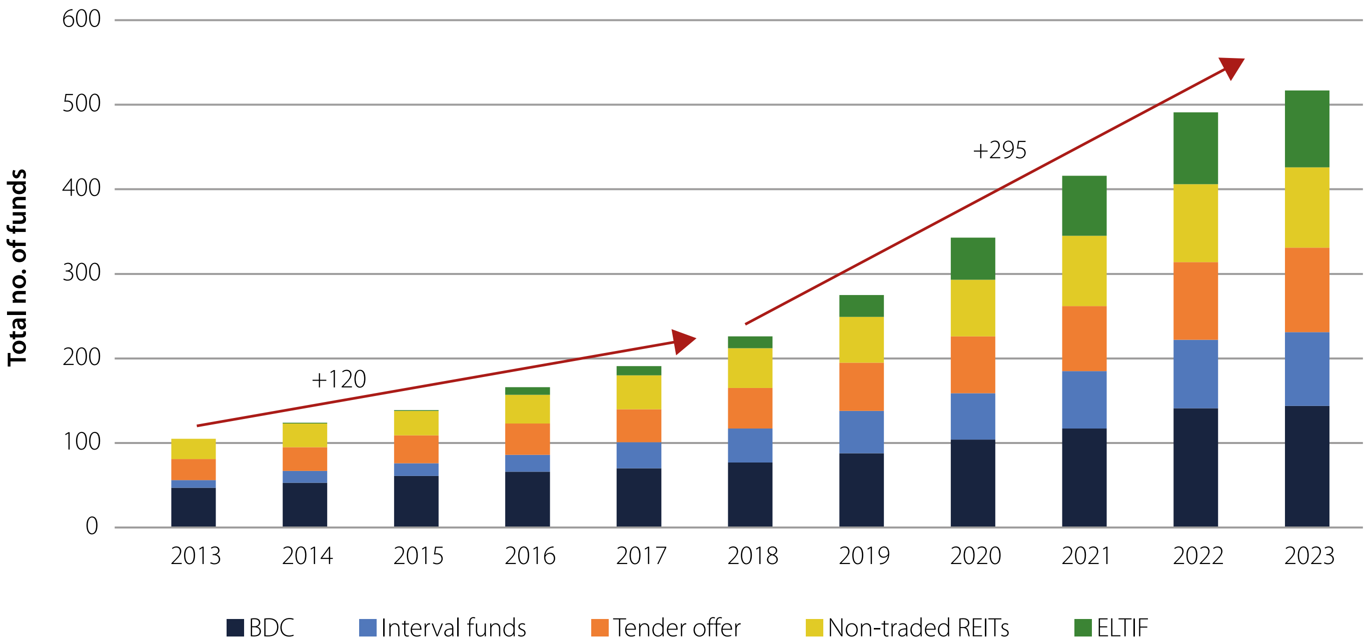
Three major trends for 2025:

- **Secondaries** fundraising continues apace as LPs increasingly see exposure to this market as a core part of their portfolio and as capital from high-net-worth investors enters the market via evergreen vehicles. Even so, the deepening pool of available assets in the underlying private markets space means there is still plenty of scope for growth over the coming years.

- **New deal activity** in private markets is gaining momentum in 2025 since investment flows stabilized in 2024, with quarter-on-quarter increases in buyout deals across the US and Europe, whereas venture capital rounds in these regions appear to have bottomed out. A major barrier to deal closures—the gap between buyer and seller price expectations—is now beginning to narrow, further accelerating deal activity.

- **Evergreen** funds are emerging as one way of solving high-net-worth investors' desire for more liquidity. While early adopters of evergreen solutions were in the credit, real estate, and infrastructure markets, more recently, the number of these vehicles targeting wealthy clients more than doubled between 2018 and 2023.

Cumulative number of evergreen fund structures (excluding LTAF)



Source: Preqin Pro. Data as of January 2024.

FERI

They introduce Biodiversity, Green bonds, Technological innovation, international harmonizations, and ESG impact measurement as five key themes for the year 2025 amid active monetary easing, while the Trump agenda harbors inflation and tangible geopolitical risks.

Moreover, crude oil serves as a geopolitical hedge only in certain phases; industrial metals stand to benefit from long-term supply shortages; and gold enters the new year with high valuations but intact strategic appeal. Thus, in private markets, investors can Utilize diverging trends in individual market segments while being selective as falling interest rates unveil attractive investment opportunities.

Private Equity

BlackRock

Market Momentum & Deal Activity:

- M&A and IPO activity is rising, driving more exits and distributions across Private Equity.
- PE deal activity in 2024 is up, surpassing the pre-pandemic average.
- A more supportive rate environment and increased credit availability are expected to further boost deal-making in 2025.
- The growing adoption of secondaries by both LPs and GPs is creating a buyer's market, offering new liquidity solutions.
- A more active exit market, coupled with an increased focus from GPs on returning capital, is providing relief to investors.
- Distributions overtook capital calls for the first time in eight years, signaling a shift in capital flows.

Valuations & Investment Attractiveness:

- Purchase price multiples for private deals remain attractive relative to public markets.
- Private Equity valuations continue to lag public markets, representing a strong entry point for investment.
- European public markets are trading at a discount, making take-privates and corporate carveouts particularly appealing.
- While public markets have repriced quickly, Private Equity valuations have been slower to adjust, creating further opportunities.

Sector & Strategy Trends:

- Artificial intelligence is expected to fuel LBO activity, particularly among businesses leveraging large language models and data-driven strategies.
- Healthcare remains a key focus, with strong opportunities in take-private deals and corporate carveouts.
- Mid-life recapitalizations are becoming mainstream, accounting for 4% of transactions in 2024, up from 1% in 2017. These deals provide liquidity, growth potential, and balance-sheet optimization.
- The middle-market buyout sector is a standout opportunity, leveraging lower leverage and operational growth strategies.
- LP confidence in PE investments is rising, fueled by increasing exits, distributions, and renewed market activity.

Looking Ahead: 2025 & Beyond:

- The Private Equity landscape is shifting, with 2025 expected to bring a wave of deal activity stimulated by lower interest rates and improving market conditions.

- While sentiment remains cautious for new deals, high-quality transactions continue to command strong valuations.
- Managers who can enhance portfolio company performance and drive operational improvements will be key to generating strong returns.
- The tide is turning for Private Equity, with firms looking to deploy dry powder in a rebalancing market.

KKR

KKR predicts that private equity has the potential to outperform Public Equities, especially in Europe and many Asian markets. PE continues to be the asset class with the highest return potential, especially on a go-forward basis amidst pressures on Public Equities driven by elevated valuations, higher inflation volatility, and higher interest rates.

Blackstone

The current Private Equity market presents an attractive entry point, especially as historical outperformance over public markets supports its role in portfolio optimization.

With elevated public market valuations—the S&P 500 at 27x earnings—long-term return expectations have moderated, making PE an increasingly compelling alternative for higher potential returns.

Schroders Capital

Small and mid-market buyouts remain highly attractive, benefiting from direct sourcing from founders and families and lower entry multiples—more than 4x EBITDA below large buyouts. It is worth recalling that the small and mid-market represents a more than 10x larger investment universe than large buyouts.

Continuation funds present a compelling opportunity for accessing Private Equity due to low competition from other exit opportunities and high demand for liquidity from investors as distributions remain below historical averages.

Amundi

Pricing has stabilized while volumes are progressively ticking up in Private Equity, helped by interest rate cuts. Trading is also taking place in high-quality, non-cyclical sectors (e.g., business services, healthcare, and software areas). These are profiting from strong structural growth, pricing power, and robust cash-flow generation. Meanwhile, high valuation multiples in the listed market ensure that the private market's relative valuation levels are offering more attractive entry points than they were a year ago.

JP Morgan

Private Equity: Higher capital costs, elevated purchase price multiples and a difficult exit environment create headwinds, but high growth investment options are emerging with artificial intelligence (AI). JP Morgan Asset Management declares that PE exit activity has started showing signs of improvement, with continuation vehicles gaining popularity as a way for general partners to retain ownership of high-value investments while still offering liquidity.

The expansion of alternative investments into the private wealth sector has also driven the growth of semi-liquid structures, which often depend on secondaries for liquidity and investment opportunities. While discounts have stabilized, PE secondaries continue to trade at valuations comparable to pre-pandemic levels.

Venture Capital: They maintain a cautiously optimistic outlook as technology adoption accelerates, but manager selection is key.

Bank of America (CIO View)

Thematically, PE strategies have been dealing with a slower velocity of capital recycling; however, exit activity surged in Q2 and Q3, rising over 50% year-over-year. As the prospect of lower interest rates emerges, deal activity is expected to accelerate further into 2025. Meanwhile, capital demand remains high across private markets, particularly in the startup ecosystem, where VC and PE growth investors have scaled back. Despite currently facing higher interest rates, Bank of America anticipates a potential improvement in the relative outlook for PE strategies on the horizon.

Apollo

Lower rates could spark a new wave of deals as, on the one hand, sponsors seek to deploy capital raised in the past three years and, on the other, managers may be willing to part with existing investments as cheaper borrowing costs may bolster valuations.

Therefore, Secondaries remain attractive, and structured finance, including hybrid strategies, are particularly offering lucrative opportunities as well.

Franklin Templeton

Franklin Templeton declares that secondaries will continue to benefit from slowed exits and institutions' growing need for liquidity. As private market valuations adjust from their 2021 highs, the investment landscape for the coming year appears increasingly attractive across the private market ecosystem. Secondaries, in particular, present compelling fundamentals, offering valuation advantages and liquidity solutions for individuals and institutions. The combination of a deceleration in exits, the availability of discounted secondary transactions, and institutions' ongoing portfolio diversification efforts reinforces the appeal of this segment.

Looking ahead, exit activity is expected to accelerate, driven by a pro-business environment under President Trump, marked by deregulation, lower taxes, and policies aimed at stimulating economic growth. Additionally, a lower cost of capital is likely to fuel M&A activity and increase IPO volumes. While exit opportunities are expected to rise, institutions will likely continue utilizing the secondary market to rebalance portfolios and secure liquidity for future investments. As this market evolves, its role in Private Equity is set to expand, offering sustainable growth and diversification opportunities in an increasingly dynamic investment environment.

Morgan Stanley

- They anticipate investor cash flows to rebound as market activity increases, creating an attractive entry point for asset pricing. While Private Equity investing emphasizes mitigating exposure to external risks, the outcome of the U.S. election is expected to accelerate deal-making, though its impact on growth opportunities and sector-specific risks may vary.

- The prospect of deregulation could drive greater opportunities in financials and healthcare, while reduced antitrust scrutiny may spur broader M&A activity. However, with pro-growth policies potentially fueling inflation, the focus remains on middle-market strategies that are less dependent on leverage and instead prioritize asset management initiatives to enhance margins and drive sustainable earnings growth.

- Operational improvements will be key in generating EBITDA growth and boosting profitability. Meanwhile, accumulated dry powder, along with a stabilizing market environment and increased investor confidence, is expected to support transaction volume and sustain valuation multiples, with buyout valuations are expected to align in 2025. Additionally, demand for growth equity capital is projected to rise as venture-backed companies stay private for longer.

Adams Street

"*Looking towards 2025, as leading artificial intelligence companies continue to improve output efficacy and demonstrate tangible return on investment, we believe the growth equity market is set to experience a significant surge in investments focused on genAI use cases.*", Adams Street claims.

They also expect that market activity and the supply of opportunities to remain strong moving into 2025 as market participants increasingly view secondaries as a permanent fixture in portfolio management and liquidity plans.

They anticipate that the competitive deal environment—driven by record Private Equity dry powder following lower deployment in recent years—will lead to elevated purchase prices, particularly for high-quality assets. This underscores the need for diversified portfolios across sectors, time, company size, and geography, partnering with GPs with significant sector experience or a well-defined value creation plan.

Additionally, they believe Private Equity-owned businesses in sectors benefiting from growth, dislocation, and change—such as technology, healthcare, and advanced manufacturing—are well-positioned to outperform. They also expect co-investment strategies to gain prominence, given their critical role in the buyout ecosystem and the growing demand from cost-conscious investors for fee-efficient access to high-quality, diversified PE exposure.

TPG

The conviction for buyouts in 2025 is that the deal market will operate in two distinct gears: routine sponsor-to-sponsor transactions will return in full force, while creative and unconventional opportunities, such as carve-outs, corporate partnerships, and structured deals, will remain a key focus. Additionally, corporate carve-outs are expected to be a standout area, offering disciplined sponsors with ample dry powder significant opportunities to generate attractive returns.

The mid-market is also poised to shine, with smaller, nimble companies driving M&A activity and scaling to attract large-cap interest. Preferred shares are predicted to gain traction as companies seek flexible financing options to manage rising costs.

Fidelity International

Private Equity remains the largest growing asset class. Given the quiet IPO markets, mid-market investments are seen as offering the best risk-return opportunities.

Dechert LLP

The key is to accelerate the PE cycle, and this process has already begun. Interest rate reductions can facilitate more exits, enabling PE firms to launch new fundraisings and eventually invest in new deals.

There are early signs of improvement, with the PE sector cautiously optimistic about a brighter political climate and a stronger global economy, potentially aided by looser monetary policies.

Despite this optimism, challenges remain: geopolitical tensions, economic uncertainty—especially with issues in China—and the continued effects of de-globalization. PE firms are adapting with agility, employing strategies to navigate risks and drive progress. The key to recovery lies in accelerating the PE cycle, as interest rate reductions could enable more exits, unlocking capital for new fundraising and investments. Encouragingly, this acceleration has already begun.

Neuberger Berman

Looking ahead to 2025, Private Equity is expected to play a key role in investment strategies, with smaller companies and businesses in the technology, consumer, and industrial sectors poised to benefit most from fiscal and regulatory shifts. Additionally, the surge of M&A activity and broader adoption of technological advancements, such as artificial intelligence, will further support private market growth.

Their analysis suggests that PE returns depend a lot more on the general economic backdrop than on interest rates alone.

Furthermore, their findings indicate that a continued soft landing for the U.S. economy would be beneficial for U.S. Private Equity in the near to mid-term. Notably, historical trends suggest that lower interest rates are typically associated with higher PE distributions.

Finally, NB's analysis also suggests that top-performing PE funds may be better able to capitalize on favorable economic conditions, lower rates, and tighter loan spreads than lower-quartile funds.

Citi Wealth

Secondaries' deal volume hit $115 billion as of September 30, 2024, a near-record performance. GP-led transactions – where Citi Wealth sees potential – accounted for roughly half of that.

One challenge with secondaries is that they are passive strategies, where the secondary managers do not control the ultimate disposal of the underlying assets. However, the terms of continuation vehicles tend to be significantly shorter than typical PE funds.

They also apperceive potential for private market strategies targeting early-stage and growth-stage companies working on innovative solutions in software and computing as artificial intelligence is getting more real.

Furthermore, strategies focused on biotechnology, where many small, PE-owned companies are at the forefront of developing innovative healthcare treatments—healthcare's prescription for longevity— offer sectoral opportunities.

Nuveen

Private Equity markets remain under some pressure (especially given still-high interest rates), but they do see value in secondary PE markets, where demand is stronger and should continue to grow.

Goldman Sachs Asset Management

A stabilizing macro backdrop and recalibrated investor expectations are expected to catalyze a more normalized Private Equity buyout environment in 2025. Signs of this shift are already emerging, improving conditions for exits and new capital deployment, though some market segments remain more attractive than others.

A key factor behind muted exit activity since 2021 has been GPs allowing portfolio companies more time to reach target exit values, using EBITDA growth to bridge valuation gaps caused by the interest rate regime shift. Broader macroeconomic uncertainty has also played a role. Today, valuations have largely stabilized, with the gap between median holding and exit valuations narrowing. Exit valuations have rebounded from their 2023 lows while holding valuations have slightly declined from their 2023 peaks. As uncertainty around economic growth, inflation, and interest rates fades, investor confidence is returning. Many portfolio companies now appear better positioned for exits at or near GPs' return targets. However, the rebound is unlikely to be uniform—larger companies with fewer strategic buyers may experience longer sale processes, particularly if reliant on IPO markets.

For new capital deployment, they anticipate that a restored market balance in 2025 and a strengthening dealmaking environment will create attractive entry opportunities for the coming vintage—and potentially, in hindsight, for the past couple of vintages as well.

Additionally, there is a growing need for growth equity capital as venture-backed companies stay private longer and require funding for their next stages. In the US, approximately 750 unicorns (private companies valued at $1 billion or more) remain in the pipeline. At the historical IPO rate, this backlog would take a decade to clear, increasing demand for growth capital to support the transition from late-stage venture funding to independent enterprises.

Invesco

Dry powder continues to remain largely untapped as public market valuations remain high and "take-private" transactions are at record low levels. Lower interest rates and tighter spreads will likely improve the leveraged buyout (LBO) outlook as a thawing exit market would provide much-needed relief for PE managers and investors.

BNY

BNY states that we have reached an inflection point because of declining interest rates will provide a boost to Private Equity deal activity. Total PE deal value is up this year through September, which is close to long-term averages. Within PE, they favor buyouts and venture capital funds, both of which have consistently delivered an illiquidity premium over passive public investments in exchange for their longer holding period. Besides that, VC firms complement public market exposure to technology, particularly artificial intelligence, due to their focus on innovation.

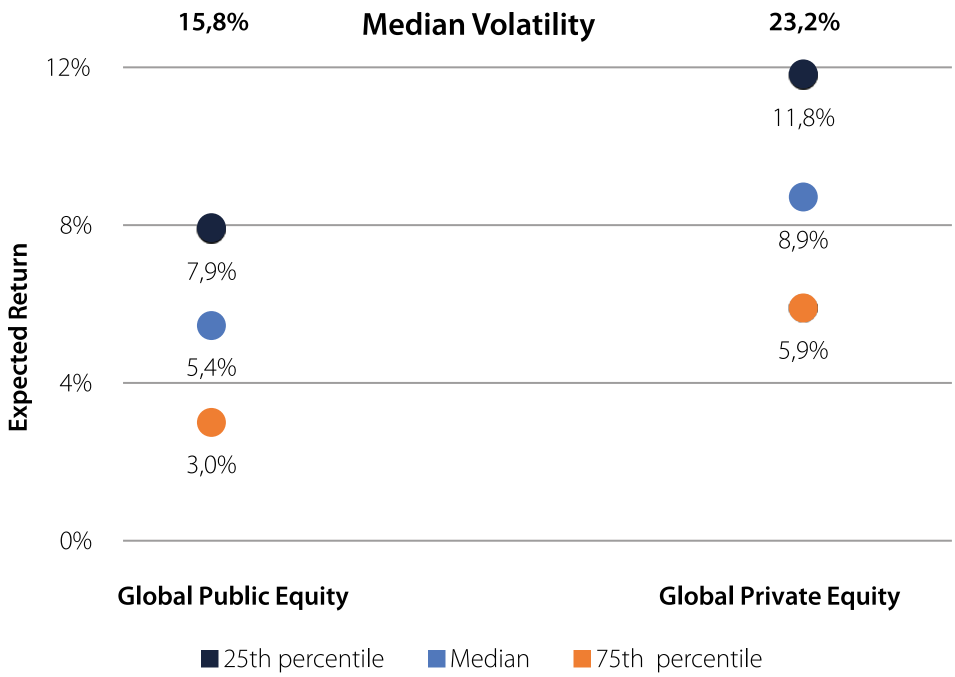
Secondaries also attract BNY's attention as they potentially provide more attractive entry points as well as diversification with less risk than primary PE investments due to their shorter holding periods and increased discounts relative to PE. Although secondaries represent only about 1% of the total PE universe, they expect this segment of the market to continue to grow.

Vanguard

Vanguard believes three actions will be critical for investors to realize PE's return and diversification potential: invest with highly skilled managers, embrace diversification, and adhere to a disciplined commitment program.

- Private Equity exit markets are on the path to recovery as global PE exit activity rebounded sharply at the end of 2024. For 2025, they maintain their view that exit markets hold the key to rejuvenating the private capital life cycle.

- While waiting for PE exit markets to fully recover, investor demand for liquidity propelled the secondary market to record deal volumes in 2024. This creates a highly attractive opportunity in 2025 for skilled, well-capitalized investors to find high-quality assets at attractive prices.



Source: Vanguard

Note: Global Public Equity = 60% U.S. equity & 40% International equity-unhedged.

- Long-term returns for PE compare favorably to public markets, even though the recent run-up in technology stocks has helped propel public equities over the past several years. Vanguard points out a diversified, global PE portfolio can outperform global public equities over the long term by ~350 basis points, or 3.5%, annually.

- Vanguard's 10-year median expected annualized return for global PE is 8.9% compared with 5.4% for global public equity, based on the December 31, 2024, running of the Vanguard Capital Markets Model®. Amidst an environment with a more cautious equity outlook, PE can be a useful tool to deliver outperformance relative to public equities for suitable investors with a tolerance for illiquidity and active risk. After a challenging two-year decline in transaction volumes, the global PE exit market is nearing a turning point, with the rebound expected to continue in 2025.

Vanguard's 10-year return forecast for global public and Private Equity 10-year annualized forecasts

PE Share of Total Equity Allocation

						PE Share of Total Equity Allocation			Difference between 30% PE Scenario & 70/30 Portfolio	
Median 10-Year Projections	**U.S. Equities**	**International Equities**	**Global Equities**	**Private Equity**	**70/30 Portfolio**	**10%**	**20%**	**30%**	**Abso-lute**	**Percen-tage**
Return	3,9%	8,1%	5,4%	8,9%	6,0%	6,2%	6,5%	6,8%	0,8%	13,8%
Prob. of meeting >6% Return Target	31,1%	71,5%	43,7%	74,0%	49,4%	54,1%	58,8%	64,7%	15,3%	30,9%
Volatility	16,1%	17,6%	15,8%	23,2%	10,9%	11,2%	11,6%	12,0%	1,1%	10,1%
Sharpe Ratio	0.08x	0.32x	0.17x	0.33x	0.24x	0.26x	0.28x	0.29x	0.06x	23.2%

Note*: 70/30 portfolio consists of a 70% allocation to equities (42% to U.S. equities, 28% to non-U.S. equities) and 30% allocation to fixed income (21% to U.S. bonds and 9% to non-U.S. bonds).

Source: Vanguard; simulations as of December 31, 2024.

McKinsey & Company

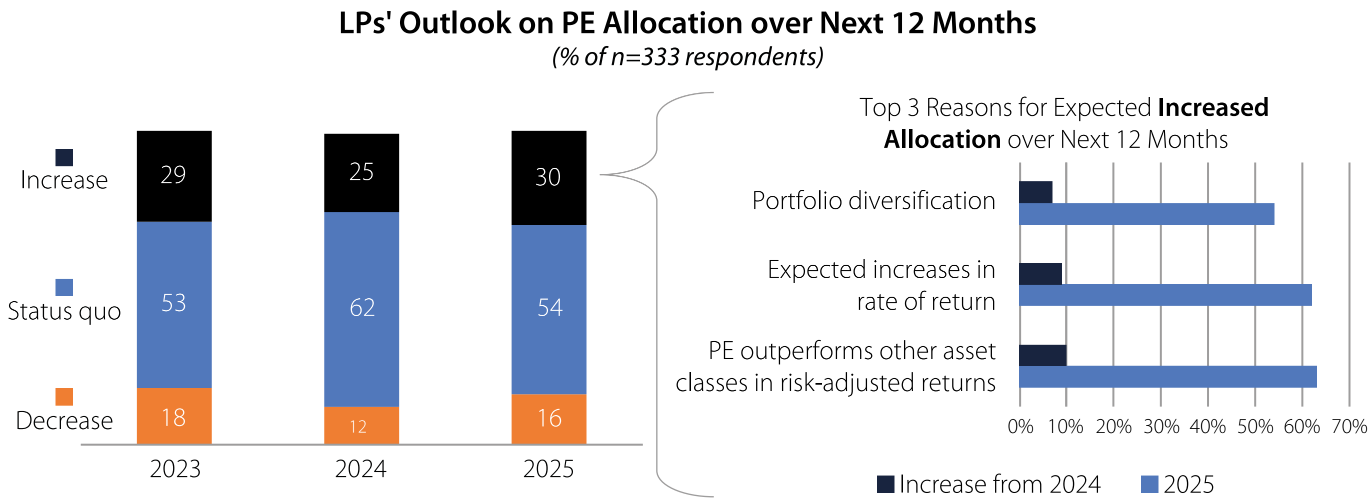
Four trends shaping how operators are creating value within their portfolios:

1. According to McKinsey's proprietary survey of Private Equity operating groups conducted in 2024, the average operating group size across funds of all sizes has more than doubled in the past three years alone. GPs are realizing that achieving returns demands dedicated specialist help and scrutiny, regardless of their AUM size.

2. M&A remains a key enabler of returns as add-on acquisitions (especially when the synergy case is clear) are gaining popularity comprising approximately 40% of total PE deal value in 2024.

3. Organic cash generation is key to managing leverage as the toxic mix of rising interest rates and profitability challenges led to triggered covenants and (in some cases) loss of sponsor control.

4. Portfolio companies are taking the lead on exit preparation, addressing valuation problems and high interest rates through investing in growth and operational improvement initiatives ahead of the sale process amidst increased buy-side scrutiny. (see figure below)



**Only includes buyout; in percentage points*

Source: McKinsey LP & GP Survey, as of January 2025.

StepStone

- With inflation moderating, short-term rates should continue to decline, although central banks remain disciplined regarding the pace of reduction.

- Improvement in credit availability, base rates, and debt terms continues to drive activity in 2025.

- Fundraising challenges will be persistent without distributions normalizing. Thus, more GPs will rely on Co-investment capital to extend the fundraising period.

- Complementing PE portfolios by cutting fee burdens and/or adding alpha, Co-investment remains a thriving allocation amongst LPs as well.

- A greater proportion of older deals ready for exit connotes that sellers will seek every opportunity to generate liquidity. Meanwhile, more LPs are looking at smaller to middle market GPs, which have not grown as quickly as large/global GPs, to find more diversification in exit avenues.

- With dry powder concentrated in larger funds and an increasing number of sponsor and corporate buyers seeking add-on acquisitions, the small to mid-market PE space presents an attractive opportunity for strategic investments. Its relatively lower reliance on leverage, competitive pricing, and operational inefficiencies make it a favorable environment for prudent capital deployment.

- PE NAV has significantly increased as a share of PE exposure, creating strong opportunities for secondary buyers. Growing liquidity needs are also driving alternative deal sources, including GP-led secondary transactions.

- A healthier public market after the U.S. election could prompt more large-cap GPs to seek liquidity through IPOs. Since the IPO market hit its lowest point in 2023, a recovery typically takes 3-5 years.

Falling Interest Rates & Rebounding Deal Activity as Key Themes in European PE

In the short term, high interest rates may reduce demand in industries that rely on strong business or consumer confidence. By contrast, in the medium term, borrowing costs for new deals and refinancing are expected to decrease. This could lead to better investment returns, though rising prices from increased debt availability might balance it out. Rebalancing the market opportunities towards larger deals can also attract leverage at relatively attractive pricing from banks and private debt funds.

Dry powder and holding periods at historical highs urge buyers to deploy capital and sellers to generate distributions in 2025. As market conditions improve, this increasing pressure will encourage capital deployment and rebound in deal activity.

LGIM

Despite a challenging environment, PE and VC delivered positive returns over the past 12 months, according to PreqinPro data. LGIM attributes this to GPs' reluctance to mark down asset values, creating a pricing mismatch between buyers and sellers and contributing to the market slowdown.

Lower interest rates should help bridge this gap, though buyers are expected to remain focused on fundamentals as GPs work through the backlog of portfolio companies accumulated since 2022, keeping valuation multiples in check.

While questions remain about the valuation and long-term profitability of artificial intelligence companies, the sector is expected to continue driving investment activity in 2025.

Federated Hermes

Private Equity is now a mature asset class and investors need to pick their spots in order to continue generating investment returns in line with expectations. The lower end of the market continues to be an exciting area that is less efficient, less competitive, less intermediated, with significant opportunity for needle moving operational value add to help companies reach scale and reward investors with outsized investment returns.

The 'democratization' of Private Equity will continue as the wealth and retail market offers the industry the largest opportunity for raising new capital. Artificial intelligence dominated the conversation in 2024, and that trend will most likely continue. Whether Artificial intelligence represents a full-scale technological revolution or productivity enhancement on the margin and under what timeline will continue to be debated. Separating the hype from reality will be important for investors. Regardless, technology and innovation will continue to present some of the most attractive investment opportunities across the US.

Europe remains the leader in addressing climate change, presenting a significant investment opportunity backed up by regulatory tailwinds, government support, and institutional appetite. Although cross-border investment in China remains muted due to geopolitical uncertainty, other regional countries will benefit as a portion of that capital will flow to India, Japan, and Southeast Asia.

Thus, Federated Hermes Managers presume that investors with global reach, significant deal flow, rigorous underwriting standards, and flexible investment frameworks will continue to be rewarded.

Allianz GI

The trend Allianz Global Investors expect to continue is the growth of **Secondaries**. While these are established instruments on the Private Equity side, the market for Private Debt and Infrastructure Equity Secondaries is still being established. Secondaries not only speed up the deployment of capital but also help diversify a portfolio. Given the size of the Private Debt and Infrastructure primary markets, in combination with liquidity constraints, they envisage many more secondary transactions in 2025. These will be available to those who have a well-nested network as primary investor, the in-house knowledge to execute these transactions, and the negotiating power to close relevant deals at significant discounts.

Harbour Vest

In the ongoing search for liquidity, **Secondaries** continue to surge. Even if, as HarbourVest anticipates, the exit market picks up through 2025, Secondaries transaction volume is expected to remain robust for both LP-led and GP-led deals.

Private Debt (Credit)

BlackRock

Private Debt is gaining momentum as CFOs increasingly seek to diversify funding beyond banks, while trillions of dollars in loans migrate from bank balance sheets to longer-term investors such as insurance companies, pension funds, and wealth managers.

In 2025, BLK anticipates greater performance dispersion, making granular credit selection crucial. This year's vintages are expected to benefit from increased clarity on monetary policy, with a base case of supportive U.S. growth and a favorable yield environment.

Currently, private lenders hold an estimated 5% market share in asset-backed finance and are well-positioned to fill gaps left by banks, as seen in Corporate Credit and Real Estate. This trend is expected to accelerate in 2025, driven by growing global demand for Private Debt investments, particularly from U.S. insurers.

Private Debt is also becoming more global. While North America accounts for over 60% of total PD assets under management (AuM), Europe and Asia-Pacific are expanding. These regions, still heavily reliant on bank financing, present significant opportunities for PD to grow, mirroring the diversification seen in U.S. markets. However, regional expertise is essential to navigating these fragmented markets, which offer unique risks and variations in competition and pricing.

Even amid growth and expansion, investors should remain conscious that dispersion will likely remain the case across Private Debt, highlighting the importance of granular credit selection and structural protections

As Private Debt continues to expand, taking on a larger share of deals that previously belonged to banks and public markets, they expect 2025 to be a favorable investing environment for PD.

KKR

Their bottom line is that credit valuations are probably closer to 'fair' versus 'rich,' despite what headline metrics would indicate, with fixed income returns being higher on a go-forward basis.

KKR also expects significant growth in non-bank lending, including Liquid Credit and Private Credit (PC), as this theme gains further momentum across Asia.

Blackstone

Investors increasingly favor Private Debt for its high yields and shorter duration, particularly in corporate lending and asset-backed finance (ABF). Institutional demand remains strong, with ABF offering investment-grade opportunities in sectors like aircraft financing and consumer debt.

Schroders Capital

In an environment anticipating modest reinflationary pressures, a gradual normalization of central bank policy rates, and potential for enhanced economic growth, Schroders foresees steeper yield curves creating sustained income opportunities. With liquid markets offering minimal risk premiums, private markets are poised to deliver attractive alternative income sources and stable cash flows in 2025. As Private Debt alternatives continue to offer better risk premiums, several segments are especially interesting in the current environment:

- **Commercial Real Estate (CRE) loans** offer opportunistic income potential, driven by elevated interest rates and risk premiums influenced by investor sentiment and weak fundamentals in theoffice sector. As maturities become challenging with rising interest rates, high selectivity is key.

- **Infrastructure Debt** provides stable, defensive income with low-volatility cash flows and benefits from similar return-enhancing dynamics at a time of higher rates.

- **Specialty and asset-based finance** benefit from inefficiencies in the banking space, offering valuable income, diversification, and flexibility through structuring.

- **Insurance-linked securities (ILS)** offer uncorrelated income and capitalize on inefficiency in the insurance provision and reinsurance markets.

- **Collateralized loan obligations (CLOs)** are a very promising opportunity given that lower overnight rates immediately benefit the borrower, and a stronger economy, coupled with lower-margin financing from bond markets, means very attractive equity return potential. As debt premium is higher, relative value favors secured debts.

Amundi

As regards Private Debt, companies are still benefiting from strong bargaining power in negotiating lending contracts, partly due to bank financing remaining constrained—albeit this constraint has eased somewhat over the last six months.

JP Morgan

Return assumptions for Direct Lending decline slightly due to increased credit costs and higher projected default rates. Higher financing costs could put pressure on lower-quality borrowers in private credit.

Near-term opportunities exist in global transport, PE Secondaries, and U.S. Real Estate. The exhibit below depicts AISS Q4 2024 active alternatives investment views utilized for deployment of marginal capital.

Asset Class		Relative Value Conviction			Trend
		Low	Medium	High	
Private Real Estate	U.S. Real Estate		■		▶
	Europe Real Estate		■		
	APAC Real Estate		■		▶
Private Real Assets	Global Infrastructure		■		
	Global Transport			■	
	Global Timberland	■			
Listed Alternatives	U.S. REITS			■	◀
	Global Listed Real Assets		■		▶
Private Alternatives Credit	U.S. RE Mezzanine Debt		■		▶
	U.S.CMLs	■			
	Private Credit Secondaries			■	◀
Private Equity	Private Equity Secondaries			■	

Source: JP Morgan Asset Management. Data as of Dec. 31,2024.

Bank of America (CIO View)

Private Credit has continued to perform well despite higher interest rates. In Q2, it generated avg. returns of 1.7%, bringing the one-year internal rate of return to 8.3%. While Private Credit has remained resilient amid scepticisms, market dynamics throughout the year have led to declining yields and spreads, with anticipated interest rate cuts likely to push yields even lower.

The once "Goldilocks" environment for Private Debt has been gradually fading as new headwinds emerge. Credit losses, expected to rise from historically low levels due to high borrowing costs, remain a concern, yet a broad market contagion is unlikely. In fact, Private Credit spreads tightened in Q2 and Q3 amid competition from public leveraged credit markets, bringing yields down to approximately 10.7%. Despite these pressures, high starting yields suggest that mid-to-high single-digit returns remain achievable over the next 12 months, even under conservative scenarios with higher-than-expected default rates and lower-than-historical recovery rates.

Another challenge has been deployment, driven by short-term supply and demand imbalances. New Private Credit issuance has remained subdued, while syndicated leveraged loan markets have aggressively refinanced large volumes of PD loans and competed for new deals. Strong demand from institutional and retail investors has further constrained deployment opportunities. However, a resurgence in PE deal activity could help rebalance the market and reinforce Private Credit's long-term growth trajectory. With $1.7 trillion in global PE dry powder awaiting investment, annual PD financing needs could reach hundreds of billions of dollars.

Apollo

Higher rates for longer can manifest higher yields in Private Debt, especially for newer vintages, as investors seek potential substitution for on-the-run bonds (which, given tight spreads, are expensive). With the private-public spread still elevated, Apollo managers see better value in Private Credit and find more attractive opportunities high in the capital structure, with first-lien, first-dollar opportunities. Middle-market opportunities are still plentiful. Besides that, they detect opportunities in direct lending and origination, especially in the asset-backed finance world.

Franklin Templeton

Private Credit has filled a void that traditional lenders have created.

The Private Debt industry exploded after the global financial crisis (GFC) when banks were reticent to lend capital. PD managers seized the opportunity. This trend only accelerated after the collapse of Silicon Valley Bank and concerns about contagion across real estate. With banks unwilling to lend to help refinance troubled assets, PD managers stepped in to fill the void. This has created an interesting opportunity for Commercial Real Estate (CRE) Debt.

The wall of debt creates opportunities for seasoned lenders. With banks' reluctance to lend, Private Credit firms now have leverage and can negotiate favorable terms and covenants. Thus, Franklin Templeton believes this opportunity for seasoned managers with capital to deploy will persist for the foreseeable future.

Morgan Stanley

Private loan pricing and terms are now in line with the long-term average, but high rates and muted defaults are keeping total return expectations elevated. As corporates continue to seek ways to manage cash flow, special situations strategies are able to capitalize on favorable pricing/terms for opportunities that fall in the white space between more rigid mandates.

Robust Private Equity Activity Has Potential to Bolster Private Credit

1. Sponsored middle market loan activity remained relatively resilient during 2024, partly supported by demand for incremental or add-on financings.

2. Morgan Stanley believes direct lending deal flow will continue to increase due to generally constructive financing markets, substantial PE dry powder in need of deployment, and increased pressure to return capital to investors.

3. They also observe opportunities for growth across the diverse PD horizon, including asset-based lending, opportunistic capital, the unsponsored deal segment, growth companies requiring Hybrid Capital, and Real Estate Lending.

BNP Paribas

Importantly, Private Debt should not be seen as an opportunistic asset class but rather a long-term one linked to the structural bank disintermediation trend.

For those looking to diversify into the market in 2025, the key is to look for a partner with access to borrowers, experience in negotiating, closing, and monitoring loans, and a credible framework to manage liquidity.

In 2025, BNP Paribas remarks that private credit is also positioned to attract inflows, as the fundamentals of companies across Europe are very strong after extensive deleveraging of balance sheets. Investors are searching for yield, as witnessed by the strength of public credit markets. So, for those investors with an appropriate investment horizon, PD can generate attractive risk-adjusted returns relative to traditional fixed income. This can be all the more valuable at a time of the indexation and commoditization of public bond markets and with savers seeking high-quality investment income for their retirement.

The new upgrade of the European Union's Long-Term Investment Fund regulation, referred to as ELTIF 2.0, heralds a democratization of Private Debt, enabling the creation and distribution of funds accessible to retail investors, unlike the closed-ended funds through which large investors have typically allocated to the asset class, vehicles operating under ELTIF 2.0 can be structured as **evergreen funds** or open-ended funds with no fixed end-date, investing in loans of different maturities or vintages with more investment flexibility.

Adams Street

Adams Street remains bullish on the outlook for Private Debt. In their opinion, Private Credit is particularly well-suited for the current environment for a number of reasons, as the secular supply/demand imbalance favoring PD investors remains intact.

With historically better yields, better creditor protections, more conservative capital structures, and lower losses, they believe the core middle market presents an attractive sector within Private Debt amid prevailing uncertainty around global economic and geopolitical outlooks.

Wellington Management

In this outlook, they discuss five of the key themes of Private Credit in the year 2025, aligned with their belief in the continuation of the persistent growth in the asset class as a decade-plus trend, underlining its role in complementing and diversifying traditional investment portfolios.

Long-term opportunities lie in the blurred line between Private Debt and public lenders offering integrated solutions and flexible structurings, such as broadly syndicated loans and middle-market direct lending to finance their mega projects in Real Estate, Infrastructure, electricity, and data storage centers boosting AI technologies.

Thus, the role of financial covenants in underwritings, the evolving partnership role of banks with private lenders in providing joint credit products, security selection in a high-interest environment, and growth financing in pioneering sectors are the main key themes in focus for 2025.

Fidelity International

Senior direct lending continues to offer interesting options for exposure to secured private loans, with interest rates expected to stay at relatively raised levels for longer.

Citi Wealth

Private Credit can enable borrowers to negotiate more customized terms than they would get from a bank. Hence, this market has grown from $621 billion in 2017 to $1.5 trillion in 2024 and may expand to $2.6 trillion in AuM by 2029. The flipside is higher risks, including borrowers failing to make interest, principal payments, and illiquidity, meaning cash distributions only occur as the loans mature or are refinanced.

Nuveen

Private Credit remains key for income seekers as investor interest remains high, demand is strong, deal volume continues to rise, and Nuveen expects M&A activity to increase in 2025, which should also provide a tailwind. Moreover, they are particularly optimistic toward middle-market loans and more defensive areas of the market. Overall, they believe that relative spreads and credit selection, not risk-free rates, will drive returns in debt markets because interest rates will likely be lowered more slowly than previously anticipated.

Goldman Sachs Asset Management

Overall, Goldman Sachs anticipates ongoing interest in Private Debt as many institutional investors declare being under-allocated to this asset class. They also expect interest to expand across areas, such as directly-originated investment-grade credit, real assets (Real Estate & Infrastructure) Credit as well as asset finance, which encompasses lending against assets as varied as consumer loans, industrial machinery, and private market fund LP commitments.

With traditional lenders pulling back and borrower demand remaining strong, Private Debt is well-positioned to fill the gap and capitalize on these expanding opportunities. Goldman Sachs also sees potential in hybrid capital—flexible financing solutions that address various needs. These include reoptimizing balance sheets to support business operations, strengthening strategic transactions while redirecting cash to operational uses, and stabilizing the balance sheets of sponsor-backed companies until a successful exit.

Invesco

While Invesco may see some compression in direct lending spreads and original issue discounts (OID), they still believe that all-in yields will remain attractive relative to liquid credit strategies. Real asset and alternative credit yields continue to remain elevated relative to their long-term averages.

BNY

Private Credit is an all-weather allocation in BNY's recommended portfolios. This market has expanded tenfold since 2007 as of year-end 2023, as banks' role in credit markets diminished. This roughly compares to the size of the global high-yield bond market.

LGIM

LGIM envisages a revival in M&A activity in 2025, supported by deregulation under Trump and further rate cuts, which can tilt market dynamics in favor of Private Debt lenders, as an increase in investment opportunities is likely to reduce the pressure on credit spreads. However, given the general macro uncertainty and competitive pressure from banks, they underline the importance of robust underwriting and structural protection and being sufficiently rewarded for any risk taken.

With more rate cuts expected on the horizon, they believe lower future returns are more likely. However, they still think the all-in yield (about 5-8% for IG, 8-12% for sub-IG debt) should be attractive in comparison to the very tight spreads in public credit.

Federated Hermes

The 2025 outlook for Private Credit remains very favorable as it continues to attract institutional investors seeking exposure to the attractive risk-reward parameters on offer from this asset class.

With interest rates slowly falling, they expect transaction flow to increase within the direct lending segment of Private Credit. Increases in company valuations, on the back of lower interest rates, will increase M&A volumes, which should benefit direct lenders. Yields on loans will hold steady as the expected reductions in interest rates will be offset by higher margins on the loans as a result of the implementation of Basel IV regulations, which should increase the cost of capital for many banks. This will reduce pricing competition for direct lenders. With continued geopolitical and economic risks on the horizon, in the form of weaknesses in many of the European economies and the threat of potential tariffs by the US on some European companies, the focus by investors will continue to be on low-risk Direct Lending strategies, which should be better suited to manage this uncertainty. Whilst defaults will continue to increase in the short term on the back of high interest rate costs, they expect this to stabilize as interest rates start to fall more significantly. Conservative and disciplined lenders should enjoy a strong year in Direct Lending as transaction volumes increase. Within the asset-backed lending segment, European senior secured Real Estate Debt is currently favored. With transaction volumes increasing, particularly in the mid-market, the market is currently offering lenders attractive investment opportunities. Furthermore, since real estate valuations have experienced significant declines over the past couple of years, new financings are currently being structured based on conservative valuations. With the Real Estate occupier markets remaining strong and rents holding up well in all major markets, they expect the debt per square meter ratio to be significantly lower on new loan transactions. This, coupled with the fact that the expected continued reduction in interest rates will support asset values and maintain debt affordability, leads us to believe that 2025 is shaping to be a great year for this asset class.

Both Direct Lending and Real Estate Debt are set to have excellent years – however, this remains a year to be disciplined, and with a number of risks on the horizon, they expect the more conservative strategies to enjoy greater success.

Allianz GI

In Private Debt, especially, there is a large and expanding universe for investors to choose from, with new opportunities in impact, Secondaries, Infrastructure Debt, and Private Credit thematics – as well as in trade finance where institutional investors have gained importance.

The urgent need for investment highlights Private Capital's Role in Europe's Investment Needs:

A recent report by Mario Draghi, former president of the European Central Bank, estimates that the European Union must invest €750-800 billion annually to remain competitive in key areas such as digital transformation, the green transition, and defense.

Despite the urgent need for investment, rising public deficits mean these projects cannot proceed without private capital. This presents a significant opportunity for investors, offering an attractive risk-return profile due to project revaluations.

Major initiatives—including road and public transport modernization, digital infrastructure and data center expansion, as well as social infrastructure and utilities—require financing. To succeed, they need experienced partners with a strong track record in long-term projects.

HarbourVest

They expect an uptick of deal activity across private markets as a mosaic of factors contributing to a more positive deal environment as the pipelines for Private Credit are particularly robust, reflected through higher transaction activity. Given that, they believe junior credit will continue to play an important role in financing new deals and refinancing existing portfolio companies through 2025, presenting a particular opportunity for seasoned and agile managers.

Infrastructure

BlackRock

The Artificial Intelligence Boom and the Rising Demand for Data Centers and Power:

The race to develop next-generation AI technology is accelerating, with its transformative impact on industries and daily life becoming increasingly clear. As AI adoption grows, substantial investment in infrastructure—particularly data centers and power—is essential to support this rapid expansion.

AI requires unprecedented computational power, making data centers the backbone of AI training and inference. While data center demand was already strong due to data growth and cloud adoption, AI has triggered an additional surge, driving a global effort to develop over 150GW of incremental capacity by 2030. Total capital expenditure for data center development is projected to exceed $1.5 trillion over this period.

Data center demand is expected to grow at a 22% CAGR, requiring significant investment in both AI data centers and the integration of power infrastructure. BlackRock sees this as a key opportunity for experienced infrastructure investors across digital infrastructure and energy.

According to McKinsey, U.S. data centers could require 600 TWh of electricity by 2030, a threefold increase from 200 TWh in 2023. This surge underscores the urgent need for additional power generation and transmission infrastructure, driven by structural megatrends such as demographic divergence, digital disruption, AI expansion, geopolitical shifts, financial evolution, and the low-carbon transition.

Schroders Capital

Following a valuation reset, Infrastructure Equity now offers compelling yields, particularly in renewable energy assets, which benefit from established cash flows, economic viability, and inflation correlation.

Renewables are currently in a buyer's market, as equity returns have been recalibrated due to higher interest rates and reduced dry powder following a fundraising slowdown. This has created a supply-demand gap between available capital and the funding required to develop renewable projects that align with net-zero commitments.

This environment presents opportunities for investors employing active management strategies to enhance cash flows across the energy transition spectrum—ranging from Core/Core+ operational assets to targeted construction and development of emerging technologies.

JP Morgan

With access to long-term debt financing, Infrastructure may offer inflation protection in a volatile rate environment and benefit from increased government spending.

Many alternatives, however, may not only survive but thrive in this environment, benefiting from tariff-related disruptions or providing inflation protection to investors. The prospect of higher future prices and supply chain disruptions could result in inventory stockpiling in the near term, benefiting industrial real estate and transportation. Companies focused on building resilient supply chains are likely to place greater emphasis on last-mile delivery, logistics, and domestic warehousing in order to be positioned closer to end consumers, store goods for longer periods, and ensure that products can reach consumers even in the face of global uncertainties. As supply chains reconfigure in response to tariffs, transport assets may also benefit from more complex trade routes, higher shipping rates, and increased demand for domestic rail and trucking services. Trade tensions could create risks to corporate profits and offset some of the deregulatory and tax reform benefits.

In the event of any greater uncertainty regarding supply chains, the probability of passing the higher absorbed costs onto the consumer side and being less equipped to navigate any increase in inflation would leave profit and valuation headwinds for both large and small private portfolio companies, respectively.

Amundi

Amundi favors infrastructure investment for its strong growth potential and steady cash flow. While transaction volumes remain below previous highs, the market remains active, with lower interest rate expectations boosting activity.

Looking ahead, the energy transition is expected to be a key growth driver. Governments are increasingly supportive of private capital, recognizing its role in complementing public funding to develop renewable energy infrastructure, advance transport electrification, and drive digitalization across industries and supply chains.

Bank of America (CIO View)

Within the Real Assets space, Infrastructure remains a key long-term theme. The U.S. has a widely acknowledged aging infrastructure base that will require significant public and private investment. Hundreds of billions of dollars have already been earmarked for infrastructure spending through several federal bills in recent years. This also directly ties to the energy transition theme, which will play out over the coming decades. In addition, infrastructure has historically performed well relative to inflationary periods, which can potentially improve diversification in portfolios. Notably, in this era of higher inflation, PE deal activity, Notably, in today's high-inflation environment, PE deal activity has shifted over the past three years away from technology and toward infrastructure, reflecting its potential for higher long-term returns.

Morgan Stanley

Private infrastructure continues to capitalize on investment opportunities driven by the mega-trends of digitization and power generation. These themes intersect as data services increasingly depend on energy, with the rise of generative AI exposing gaps in the current power supply regarding capacity, density, and reliability. Private investors play a crucial role in developing this essential infrastructure, presenting attractive growth prospects.

Infrastructure deal activity is also increasing across various sectors, with transportation seeing renewed momentum as airport and toll road usage rebounds following the mobility disruptions caused by COVID-19.

In the U.S., investors must take a selective approach to align their strategies with evolving policy changes. While Morgan Stanley views cost-efficient onshore wind and solar investments as having strong, lasting momentum, support for early-stage and subsidized projects like offshore wind and hydrogen may be at risk, with a potential shift toward expanding conventional oil and gas production. So far, there has been bipartisan backing for nuclear power and broader broadband access, but future policy decisions will need careful consideration as more details emerge.

Fidelity International

Infrastructure is likely to provide more opportunities, as the supply-demand imbalance across both sectors supports growth in digital infrastructure and renewable energy assets.

Nuveen

The AI boom has contributed to exponential energy demand growth, yet new energy production and transmission infrastructure are struggling to keep pace. This imbalance is one reason Nuveen expects structural inflation to rise, though it also presents attractive investment opportunities.

They favor continued investment in green energy, including solar and wind infrastructure worldwide, particularly in the U.S., where capital is expected to flow toward profitable projects despite political shifts. Additionally, demand for nuclear energy, local electricity transmission facilities, natural gas-related investments, and rapid data center expansion is set to increase.

They also see growing opportunities in energy-related financing, such as Commercial Property Assessed Clean Energy (C-PACE) financing, which is crucial in funding energy upgrades and efficiency improvements.

Goldman Sachs Asset Management

Infrastructure has performed well amid recent high inflation, which aligns with historical experience. However, moderating inflation and heightened geopolitical issues present headwinds to future cash flow upside for assets whose revenue growth comes primarily from inflation sensitivity. This may put pressure on upside growth potential, particularly in core strategies. Limited relief from the interest rate environment may also pressure core returns. Thus, Goldman Sachs believes fundamental asset growth will become more critical to attractive upside generation.

Asset owners with the ability to pull operational levers to drive fundamentals are likely to be best positioned in 2025. They believe value-add strategies are well positioned in this regard as their business model derives more of its return from operational value creation initiatives in cash flow-generating assets. The key risk is execution skill, which can be mitigated by careful manager selection.

Much like in Private Equity, GS believes the middle market offers an attractive balance of potential value creation from systematic operational initiatives and a flexible exit strategy, amplified by recent fundraising trends. The industry is evolving, with large funds accounting for a bigger share of fundraising, which Goldman Sachs believes will lead to greater competition to deploy capital at the upper end of the market. However, this presents attractive exit opportunities for mid-cap funds that can grow their investments during their holding periods. Competition for new assets in the large-cap market could also widen the existing valuation spread between middle-market and large-cap assets, amplifying multiple expansion tailwinds for mid-market assets from entry to exit.

More broadly, while structural change is always subject to some degree of uncertainty, Goldman Sachs expects thematic opportunities to remain in focus in 2025 as Infrastructure evolves:

- The shift towards more **sustainable energy** consumption is driving investments across renewable energy storage and electrified transport.

- **AI's accelerating adoption** is another structural force; driven by AI, data center investment is poised to more than double by 2030.

- **Trade fragmentation** represents another structural change for the asset class as companies reconfigure supply chains for resiliency and evolving geopolitical realities. This is impacting transport and logistics requirements to support changing locations of manufacturing and storage facilities, as well as trade routes to deliver goods to customers.

- **Aging populations** may also contribute to a growing demand for private infrastructure funding as public budget priorities in societies with aging populations shift to support retirees' income and healthcare needs and leave less public money available for public works spending.

DWS

Private Infrastructure Equity total return was under pressure over 2024 as the higher rate environment impacted performance and valuations. However, as the impact was relatively contained, and the transaction and fundraising markets have stabilized, DWS's outlook for 2025 is rather more positive.

Policy: Over 2025, the threat of tariffs will likely energize European Union (EU) policymakers to ensure that previous initiatives, such as the Net Zero Industry Act (NZIA) and EU Chips Plan, continue to be pushed forward. At the time of writing, French and German governments were in flux, but DWS remains of the view that there is a broad consensus around the strategic drivers of investment needed in European infrastructure, which insulates investment from political volatility. Further, given recent comments from President Trump regarding the EU's access to US energy supplies, they also expect continued focus on policy areas such as REPowerEU, the 2024 Energy Markets Reform, and the Renewable Energy Directives, all of which should continue to improve the investment climate and industrial capacity of Europe. In the context of clean energy investment appeal, the comparison between markets where governments are looking to promote and support low-carbon options versus those that may be looking to reduce support is essential.

The anticipated recovery in transaction volumes failed to materialize in late 2024, as delayed interest rate cuts, persistent buyer-seller pricing gaps, and limited liquidity stalled deal activity. However, from a longer-term perspective, this slowdown reflects a normalization after the post-Covid surge in transactions and fundraising. With record amounts of capital targeting fundraising and bullish growth expectations for the asset class, the transaction market is expected to regain momentum in 2025.

Higher capital expenditure costs have led to rationalized investment pipelines, resulting in lower valuations across sectors such as renewable energy developers, fiber networks, EV charging infrastructure, and other capital-intensive sectors. Therefore, 2025 will be a pivotal year to assess whether the broader market recovery extends to these areas, as investors may see lower valuations as an entry point into long-term growth sectors.

More broadly, DWS remains optimistic about the resurgence of transport deals, supported by the post-Covid recovery and the opportunity to reposition traditional transport assets to align with net-zero objectives.

Consequently, 2025 will be a crucial year for the European DC market as the region looks to fulfill its economic independence goals by investing in its digital infrastructure.

Invesco

The eurozone and the UK experienced very slow growth or recession in the last year, but Invesco expects growth there to gradually pick up momentum through 2025 due to ECB rate cuts and moderate real wage growth, favoring the risk assets. Despite elevated valuations and record levels of dry powder in Infrastructure, an easing of policy may provide a runway for investors to deploy capital. Nevertheless, Invesco remains neutral on allocating risk within its alternatives portfolio due to elevated downside growth risks.

LGIM

In 2024, while total returns remained resilient on average, fundraising and transaction volumes remained under pressure, likely due to the elevated interest-rate environment. Infrastructure valuations stabilized, albeit at a somewhat subdued level compared to historical averages. Given the US election result, LGIM's view is that inflation and interest rate trajectories will remain crucial for Infrastructure capital flows and valuations in 2025.

Moreover, it is believed that digital and clean energy sectors remain key areas of growth. Nuances, however, are emerging with respect to their earnings and growth potential.

While the risks are very real, LGIM predicts clean energy demand to be boosted significantly due to strong growth in power-intensive data centre capacity in the US. Wind and solar remain among the cheapest forms of new capacity in the US and many key markets globally.

Digital infrastructure bucked the broader trend of falling capital flows and transaction volumes in 2024. As artificial intelligence-related (AI) growth is expected to accelerate, LGIM expects the demand for digital infrastructure assets to remain robust in 2025. Given the hard constraints on available asset supply, they consider that the demand-supply imbalance should continue supporting asset pricing and capital flows. "The insatiable demand for data has driven data center power capacity forecasts towards at least doubling by 2030."

Finally, LGIM perceives the data center buildout as aligning with environmental, social, and governance (ESG) targets, suggesting greater regulation on power efficiency and increasing renewables developments to come, particularly in Europe. In their view, the balance between fully embracing AI's capabilities while ensuring safety and security and adhering to climate targets will be central to the future of digital infrastructure development.

UBS

The infrastructure sector has faced challenges in recent years, with skeptics finding reasons to avoid investment. However, UBS believes the landscape has now shifted, leaving bearish investors with fewer arguments against the asset class.

With a more favorable macro environment, moderating valuations, and a reduced impact from the denominator effect, conditions are aligning for strong Infrastructure investment in 2025.

Furthermore, Infrastructure Debt, with the looming maturity wall, is uniquely positioned in 2025 to take advantage of higher for longer base rates and strong deal opportunities.

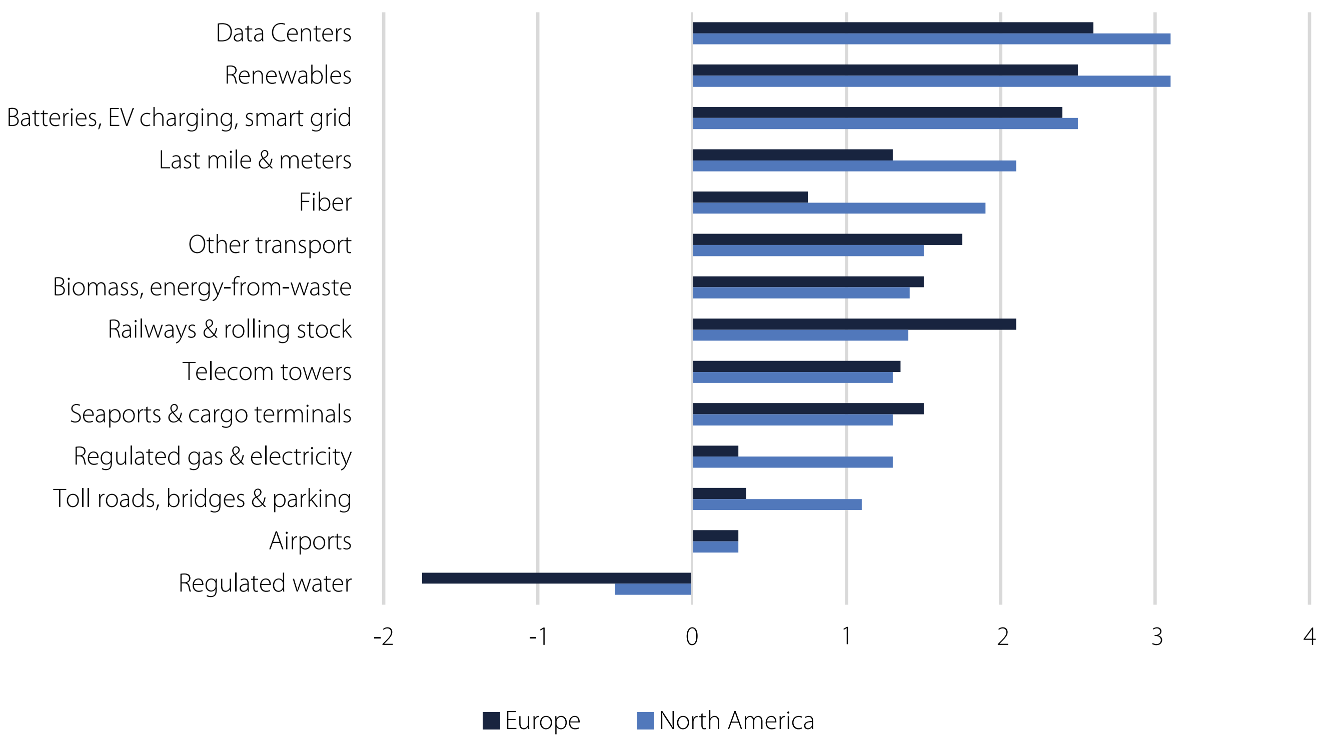
Secular themes will also continue to provide tailwinds for the asset class, but investors will need to be thoughtful about their investment process and avoid a herd mentality, especially within 'hot' businesses. There appear to be overlooked sectors and strategies, such as power, utilities, transportation, and Infrastructure Debt, that should look more attractive in 2025, especially given a stabilized macro environment.

At present, markets are underestimating the potential pushback against the IRA under the Trump administration. However, the clean energy industry will continue to adapt to changes, especially since electricity demand remains strong.

A "herd mentality" concern is reasonable, as the same debate is already happening in public markets, where technological disruptions have led to questions about crowded trades and high valuations. Infrastructure is also exposed to disruptive trends and secular themes like the 4Ds decarbonization, digitalization, deglobalization, and demographic change.

Outlook for Infrastructure in The Next 12 Months

(GP Survey in favorability scale: -5 to 5)



Source: GIIA, Alvarez &Marsal Infrastructure Pulse Survey, July 2024.

Federated Hermes

The challenges faced by the UK's first Labour Government for nearly 15 years are familiar and interconnected: low growth, intense competition for global capital, and underinvestment in infrastructure. The erosion of the post-WWII global consensus and resulting geopolitical volatility make resolving them harder. The proposed solutions, set out in the Autumn Budget, are familiar, too: government funds for strategic investment, new bodies to direct and regulate it, and renewed focus on value for public money. Will it work? Possibly.

Those Infrastructure sub-sectors prioritized by the Government align with strong market tailwinds, and there is the capacity to scale – renewable energy, data centers, and next-generation batteries. Compounding technological advancement is driving costs low and demand high, such that the government can focus on its core political role—stakeholder management—to unlock new projects in the public interest and leave efficient capital allocation to investors. While achieving a net zero power network by 2030 remains ambitious, removing the ban on onshore wind and proposed changes to the National Planning Policy Framework and NSIPs regime have the potential to be genuine solutions.

Delivering the next generation of infrastructure required to decarbonize the economy whilst adapting to the long-term impacts of climate change requires creating entirely new markets and investment models. The Autumn Budget contained positive signals for these new sectors, but the detail and execution will determine whether they can attract the private capital needed for them to thrive. For those investors able to identify these sectors and access proprietary opportunities, there is potential for significant returns.

Allianz GI

Many huge projects, such as the modernization of roads and public transport and the build-out of digital infrastructure and data centers, as well as social infrastructure and utilities, require financing.

They need partners with a proven track record and experience with long-term projects. Infrastructure is driving countries' economic and societal development. During the intense election cycle of 2024, Allianz GI noticed some projects being delayed, but given the critical nature of these basic services, the backlog of projects will be tackled when new governments are formed. The provision of essential services is particularly important against a backdrop of growing populism, which is causing political instability.

Investing in the future means investing in Infrastructure. From digitization to energy transition in addition to the upgrading of existing infrastructure, huge investments are needed to accelerate progress and growth. Thus, they expect more opportunities in 2025, particularly in **Infrastructure Debt**.

HarbourVest

The Secondaries market is expanding in line with the increasing diversity of private market assets. Thus, Secondaries are well suited to the long investment horizons of Infrastructure assets, and this part of the market has grown over recent years as GP-led Infra Secondaries made up 8% of secondaries transaction volume for H1 2024.

Real Estate

BlackRock

Cyclical and structural tailwinds are driving the opportunities within Real Estate. BlackRock believes valuations are turning around across many Real Estate markets while fundamentals remain solid.

Many RE valuations are nearing their bottoms, creating opportunities, though price recovery will take time, with wide dispersion among sectors and regions.

In RE, a rising tide does not lift all ships. BlackRock expects dispersion in performance both within and between sectors and markets. In the new real estate cycle, the gap between the winners and losers will widen, which will also create greater potential for alpha generation.

While the overall population may remain stable, demographic changes are driving a projected rise in the number of households in major European cities. One example of demographic-driven opportunities is residential property in Europe. While population growth may be slowing in Europe over the medium term, household formation is increasing. This is driven by the growth of single-person households, which drives new demand in key European cities where residential supply remains constrained.

Within housing, BlackRock favors markets with stable or growing populations and diverse industry bases. In the U.S., those are mostly concentrated in Sunbelt markets. Additionally, they anticipate a decline in housing supply starting in Q3 2025, which positions the sector well for strong rent growth in 2026 and after.

Schroders Capital

Supply restrictions protect Real Estate yields

Recent market corrections in Real Estate Equity have improved yields in sectors with limited supply, such as logistics and prime office spaces. As construction costs remain high and debt financing tight, a scarcity of high-quality, ESG-compliant properties supports stable rental income for existing assets, supported by increasing regulatory demand for sustainable infrastructure. As noted above, opportunities are currently sequential across real estate markets, with repriced opportunities creating attractive valuation entry points to access the traditional benefits of these markets as a source of strong, long-term income. The focus is initially on the UK and Nordic markets, followed by the US and select continental European markets.

Their models indicate 2025 will be a strong vintage year for Real Estate Equity

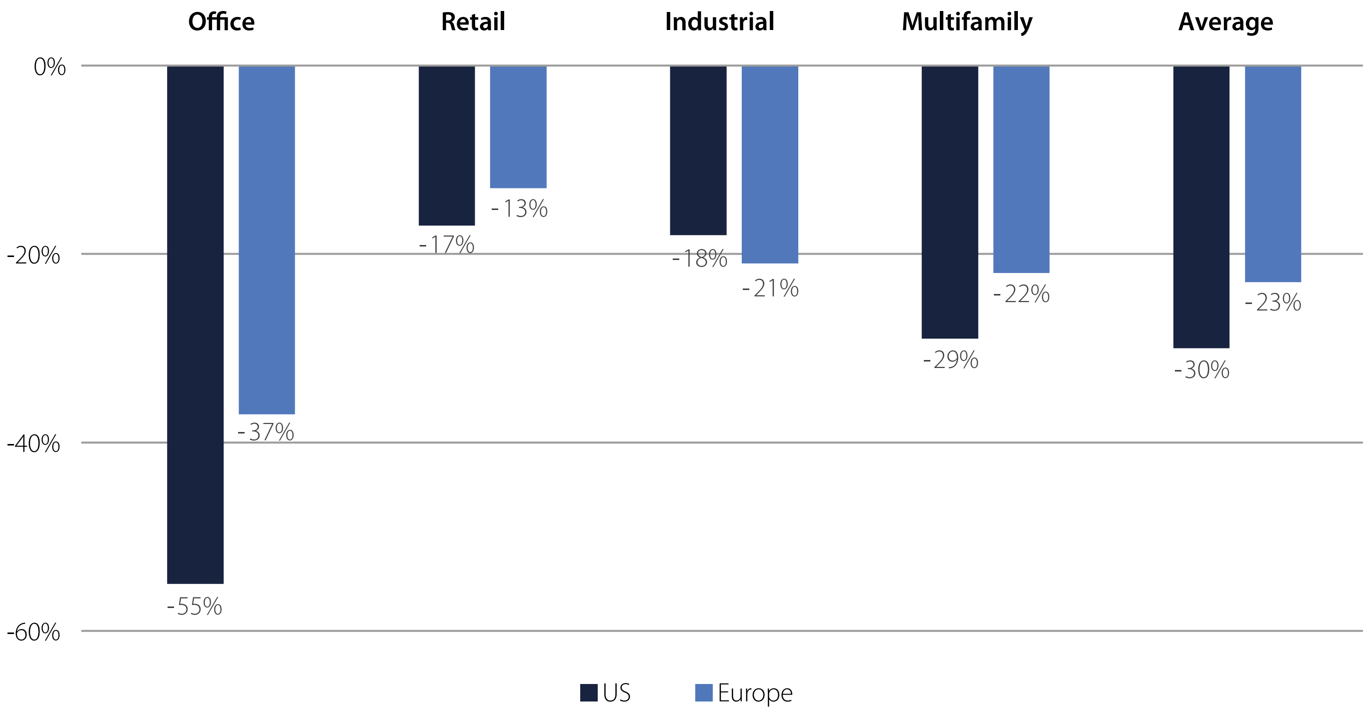
Among different private market strategies, RE Equity has experienced the most severe correction in fundraising, deal activity, and valuations (see chart). Globally, the office sector in the US has been most affected for both cyclical and structural reasons.

Schroders Capital currently observes a bottom building in global RE valuations, and its models indicate that 2025 will be an attractive vintage year. Besides that, they remark on a sequential opportunity across regions and sectors that reflects the varied extent of repricing to date. In the UK, for example, repricing is well advanced and has created strong relative value, especially in the industrial sector. Warehousing and logistics also stand out due to solid fundamentals, with demand supported by supply constraints in ESG-compliant spaces and rising construction costs.

Value-add opportunities are prominent, allowing investors to enhance portfolios by creating operational platforms and modernizing properties to meet evolving tenant needs. Upgrading buildings for sustainability and tenant-focused functionality is increasingly beneficial amid limited debt capital and regulatory shifts, making these sectors prime for growth in 2025.

Extent of Real Estate price declines creating a window of opportunity.

US and European Transaction Prices Declines from Recent Peak through Q2 2024



Source: Green Street Advisors, Schroders Capital, as of September 2024.

KKR

Real Assets, including Infrastructure and now Real Estate Equity, screen as attractive: KKR thinks that cash flows from Real Assets become more appealing in an environment of higher nominal GDP growth. That thesis has been the backbone of KKR's decision to overweight collateral-based cash flows in recent years. In particular, they continue to think that Real Assets, especially Infrastructure, Real Estate, and Asset-Based Finance, should be a more significant part of investors' portfolios. Because of their collateral, these hard assets also can act as important 'shock absorbers' if they are right that stocks and bonds will continue to sell off together (i.e., are now positively correlated) or if economic growth slows more than expected, asset classes such as Real Estate Equity now appear to have some 'catch up' return potential during the next five years, in KKR's view.

JP Morgan

Elevated rates and challenging debt markets have driven down commercial Real Estate values, creating attractive entry points. This shift improves return expectations for core assets

due to higher entry yields in the U.S., Europe, and the UK. REITs, benefiting from diversified funding sources, are well-positioned to weather the current rate cycle. Recently, higher rates and uncertainty about property values have rocked the commercial mortgage loan market, but JP Morgan expects tighter spreads, stable base rates, and increased transaction activity.

In Commercial Real Estate, "amend and extend" strategies have been used to prolong outstanding loans in hopes of a lower-rate environment that may not materialize. If interest rates remain higher than anticipated, concerns about office real estate could resurface, as delinquencies are already elevated. Other loans issued at peak market valuations between late 2021 and early 2022 may also face challenges. More broadly, rising base rates affect capitalization rates used to value commercial properties and increase acquisition financing costs, potentially leading to lower transaction volumes and a slower recovery in property values.

Conversely, residential real estate benefits from more favorable market fundamentals, even in a higher-rate environment. Limited housing supply continues to support valuations, while elevated mortgage rates push potential homebuyers toward rentals, sustaining demand for multifamily and single-family rental properties.

Overall, U.S. real estate remains attractive due to its compelling valuations, growth potential, and ability to serve as a hedge against inflation.

Amundi

Concerning Real Estate (RE), the outlook for 2025 is more attractive than it was for 2024.

Although investment turnover in European commercial RE is still low, it has increased year-on-year over H1 2024. This was helped by the repricing that had taken place. In particular, signs of stabilization have been seen in prime RE yields, and Amundi expects the year-on-year investment volume growth achieved earlier this year by this sector to persist in 2025. However, they anticipate it will not reach the 2021 level, and the market should remain very segmented.

In the leasing sector, rents should benefit from the relatively scarce supply of the most sought-after assets; conversely, the rent outlook for non-prime offices is weak. Finally, ESG issues are key, and investors are factoring these into investments' cash-flow forecasts.

Bank of America (CIO View)

Private Real Estate (PRE) has shown some signs of stabilization, although prices in Q3 were still modestly negative. Cap rates have similarly been relatively steady over the course of the year, though variations across sectors and geographies remain. PRE entered the year with optimism that the asset class would bottom out and find market-clearing prices. Performance momentum and fair value estimates have seemed to bolster that view. Expectations of interest rate declines also fueled part of the improving outlook, but recent moves in rate markets suggest higher-for-longer could reemerge as a risk. Accordingly, deal activity has remained weak if stable Year-over-Year.

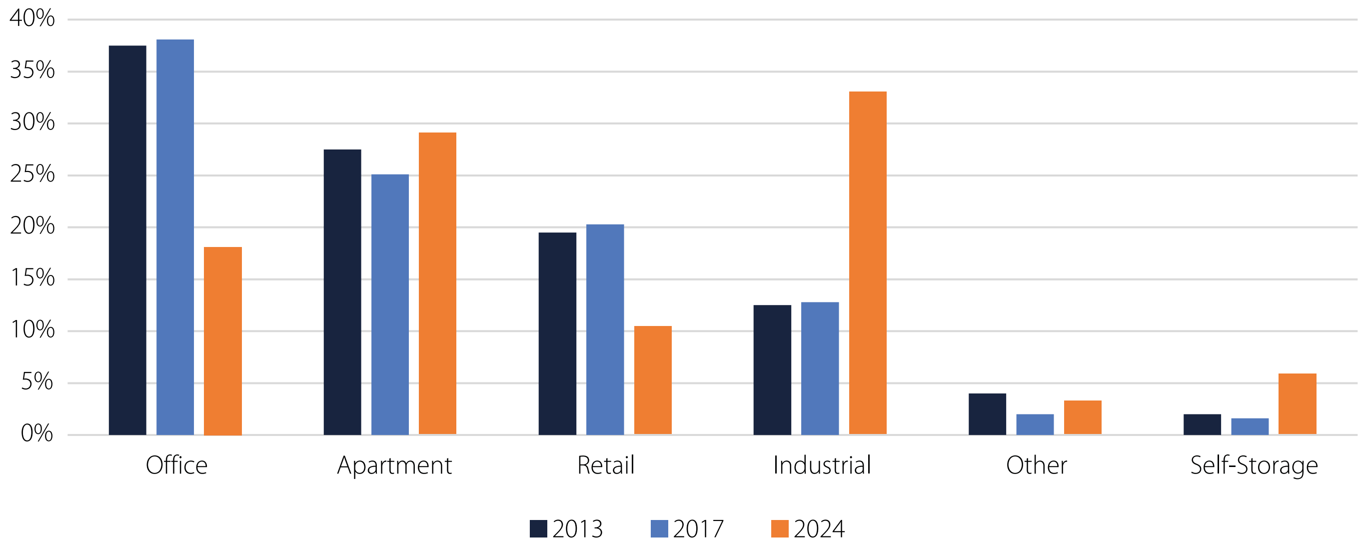
Furthermore, PRE values have declined 2% over the last twelve months and approximately 12% from their recent peak, suggesting the valuation reset has been working its way through the system. New supply is hampering rent growth in certain sectors and geographies, such as apartments and industrial; however, supply growth is projected to ease in 2025.

Overall, Bank of America apprises systemic issues to be contained but for the PRE cycle to continue to play out as a slow burn. As suggested, reduced interest rate uncertainty would likely spur transaction activity and aid in price discovery. For the longer term, PRE continues to make sense as a strategic allocation, given the potential diversification benefits and income features. With publicly listed real estate investment trusts (REITs) trading at a premium relative to net asset value, public markets appear to no longer view PRE as overvalued. Market participants are still hoping for a pickup in activity in the coming year, driven by clarity on the interest rate picture and improving return expectations.

Franklin Templeton

As illustrated below, the office and retail sectors have been falling over the last several years, while the industrial and apartment sectors have been rising. These are secular trends that FT think will persist in the coming years.

Private Real Real Estate Sector Allocation by Vintage as of Q4 2023



Source: Clariton Partners Investment Research NCREIF,2023Q4.

Real estate is not a monolithic investment decision—it is a diverse set of strategies that will respond differently to macro and geopolitical trends. They believe that seasoned managers who can identify good properties at attractive valuations should thrive in this challenging environment; those who lack the experience and resources may struggle to deploy capital.

Morgan Stanley

Commercial Core Real Estate achieved a positive total return in the third quarter, marking the end of seven consecutive negative quarters. This prolonged adjustment was primarily driven by rising debt costs and areas of increased supply. A significant amount of CRE Debt matures this year and in 2025, which is expected to drive higher transaction volumes with attractive entry valuations. Long-term demand tailwinds in key sectors remain in place as supply issues are starting to subside.

Morgan Stanley expects these dynamics to lead to further improved pricing and represent a compelling opportunity:

1. Compelling investment opportunities from volatile and asynchronous macro and capital markets environment.

2. Real estate returns turn positive following two negative years, boosted by stable or lower yields and net operating income (NOI) growth.

3. Wider performance dispersion between "haves" and "have nots" as occupier and investor preferences further narrow.

TPG

Private market lenders are expected to be crucial in providing real estate loans as the market adjusts, offering opportunities for strong returns due to high demand and limited lending from traditional market sources. Thus, four factors—elevated interest rates, downside protection from valuation resets, widening credit spreads, and traditional lenders retreating amidst significant refinancing needs—strongly support the expansion of Private Real Estate Credit.

Fidelity International

European office space is on the verge of recovery and, with prices currently low, has the potential for strong returns over the next two to three years.

Citi Wealth

Citi Wealth presumes the presence of some attractive possibilities in hospitality real estate as this segment is benefiting as leisure and business travelers make up for missing out during COVID-19.

They also observe potential opportunities in industrial real estate, including manufacturing, storage, and distribution facilities as demand for many industrial properties is strong and could remain so for the time being.

One driver is the effort to move supply chain facilities away from China and into the U.S. and Europe, which necessitates new development and repositioning of existing logistics and distribution centers to incorporate technologies such as robotics-enabled warehousing and AI-powered supply chains as an unstoppable trend.

Nuveen

Moving private Real Estate to an overweight position given the market has already bottomed is one of the most noticeable shifts of Nuveen's view in their heat map for 2025; because the stiff technical headwinds that held the asset class back for an extended period appear to be fading, and also, hiked global rates are now in the rearview mirror, which is a plus for private RE.

Moreover, there is more clarity around pricing, and the spot market has stabilized. Simultaneously, investor demand is rising, Commercial Real Estate Lending is growing, and overall liquidity is improving.

While many headlines focus on high office vacancy rates (Nuveen agrees that the office sector will remain under pressure), Nuveen observes ample opportunities across other areas of the market, including industrial and alternative segments.

Goldman Sachs Asset Management

The trajectory of real estate markets will largely depend on the path of yields. Lower interest rates are expected to boost transaction activity as cheaper financing improves deal economics.

This impact may be most immediate in core and core-plus strategies, where return spreads over debt costs are narrower, but it will ultimately benefit a broad range of strategies across the risk-return spectrum.

A rebound in transactions will help establish fair value. Currently, REITs trade at discounts to net asset value (NAV), reflecting investor expectations of where fair value may settle. However, these discounts may be overly severe and not fully aligned with private asset sale prices. While this valuation adjustment may be painful for some assets, it is seen as a necessary step toward market recovery and renewed investor confidence.

Looking ahead, secular trends will continue shaping Real Estate fundamentals: Demographics, technological advancements, and the shift toward sustainability will remain key drivers of global RE demand. The attractiveness of assets in relation to these themes will vary by region and asset quality.

Overall, Goldman Sachs believes current market dynamics present opportunities to pick assets out at attractive prices and grow net operating income through active management and accretive capital programs. There is also scope to develop, redevelop or reposition assets to cater to changing demands for space.

DWS

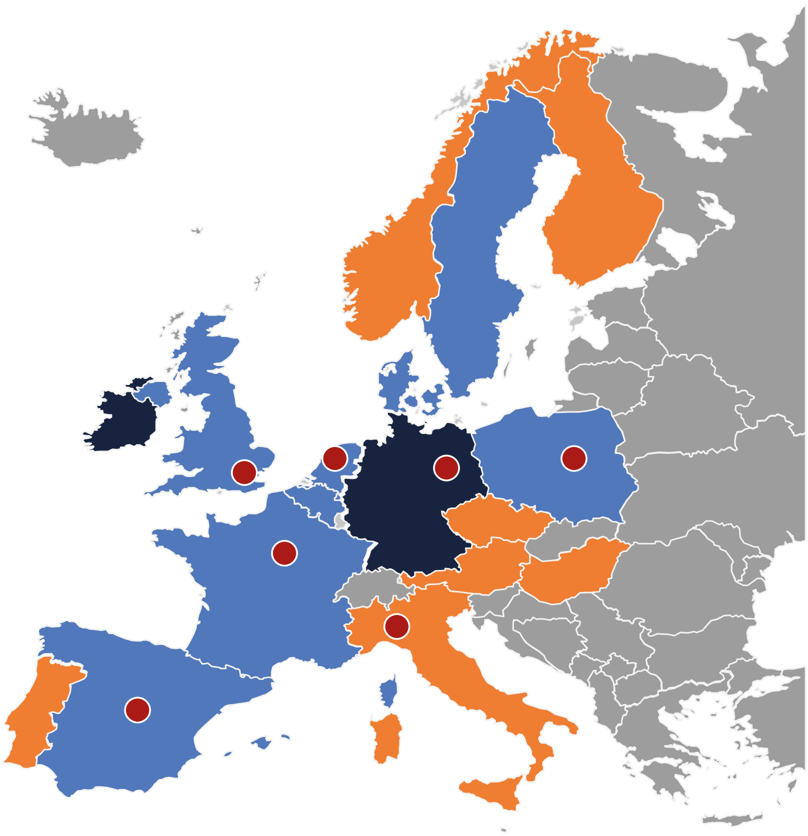
DWS keeps favouring logistics and residential, as both sectors remain on an upward trajectory that began over summer. Additionally, the retail sector reappears on the investment agenda, while offices mostly remain out of favour.

The European real estate market presents a compelling value-add opportunity for investors, particularly in the living sector. Strong fundamentals, such as low vacancy rates, falling supply, and robust rent growth, coupled with a pricing correction, create a unique window for investors.

Germany's real estate market is recovering slowly and unevenly. Instead of looking at short-term changes, DWS prefers to take a five-year view on its rebound. Despite the current pessimism, Germany still holds strong investment potential. It remains DWS's top choice due to solid market fundamentals. The housing market lacks supply, office development is slowing, and logistics is thriving with low vacancies. In fact, DWS focuses on the top seven markets across different sectors.

Cities like Berlin, Paris, London and Amsterdam, with their robust infrastructure and dynamic economic activities, are set to lead the recovery.

Market Calls (all sectors average)



Source: DWS, December 2024

Note: Based on DWS in house real estate return five-year forecasts for office, logistics, residential and shopping centres.
Dark Blue = Positive, Light Blue = Neutral, Orange = Negative.

Invesco

A positive inflection point for private Real Estate investor sentiment was marked by The Fed's September policy rate cut of 50 basis point. Although a cut was anticipated, the impact on RE is remarkable.

From a **capital markets perspective**, declining policy rates are expected to lower Real Estate Debt costs and restore a positive spread between cap rates and debt costs. This shift should increase the availability of positive leverage, which in turn could reignite transaction activity and drive property prices higher.

From a **fundamental perspective**, lower policy rates will help reduce capital costs for commercial and residential tenants. As interest rate cuts filter through the broader economy, tenant demand is expected to rise, further supporting real estate market growth.

Within Commercial Real Estate, a trough in valuations and stabilization of cap rates at tight levels have driven confidence that the start of a new transaction cycle is close at hand.

LGIM

Identifying the locational and sectoral tilts to beat these averages is, of course, key. The market consensus remains broadly focused on living and industrial sectors, which is understandable given compelling structural tailwinds. LGIM believes selectivity is critical for relative performance, preferring multi-let and urban logistics relative to regional logistics and a very geographically targeted residential allocation across specific tenures.

Despite the risks, LGIM expects 2025 to be a much stronger year for asset performance and market liquidity.

In their view, market pricing and valuation, which bifurcated in 2022, now appear closer, suggesting most of the correction has now happened and that there is greater confidence in fund and asset valuations. Valuation yields also look very close to where our models suggest 'they should be', albeit with the UK marginally ahead of the US and Europe.

Federated Hermes

As expected, UK real estate pricing has responded to the rapid normalization of rates, with capital value declines most extreme for offices, while the living, logistics, and life science sectors are seeing modest declines.

Structural trends continue to reshape the built environment, significantly influencing occupational demand patterns. A growing bifurcation is emerging in the office sector, where top-tier office spaces—offering premium amenities, accessibility, and adherence to environmental standards—attract strong demand, while whole swathes of 'stranded' building assets face demolition or repositioning.

This polarization in office demand mirrors what has already occurred in the retail sector, where online shopping, out-of-town retail competition, and post-COVID shifts in urban work patterns have led to widespread capital value erosion.

Looking ahead, Federated Hermes anticipates a shift toward integrated operating models among long-term real estate investors. Many institutional investors are likely to internalize their operations by acquiring specialist development management platforms, enabling them to fully integrate environmental, social, and related risks into their risk management strategies.

Hedge Funds & Liquid Alternatives

Abrdn

Abrdn offers a positive outlook for Equity Hedge's two sub-strategies, Equity Long/Short and Equity Market Neutral, as they believe this means they can outperform their historic returns. Conversely, this shift has led Abrdn to neutral outlooks for strategies that perform better through periods of market dislocation, credit stress, and high volatility. Thus, they expect returns for these strategies to be in line with historic returns.

Sub-strategies such as Macro's Discretionary Thematic and Relative Value: Volatility plays a crucial role in portfolios due to their ability to capitalize on market dislocations.

Moreover, Macro's Discretionary Thematic can adeptly navigate changing economic landscapes and geopolitical events, while Relative Value: Volatility strategies can exploit pricing inefficiencies and volatility spikes, providing valuable diversification and risk management in turbulent market conditions.

Beta would possibly remain a tailwind, with continued upward movement in equity markets. Lower pairwise correlations and increased dispersion across developed markets support the environment for positive alpha, meaning idiosyncratic risk will drive performance more than macro risk. While global equity valuations remain expensive, they are heavily influenced by a high concentration in single stocks. Continued rate cuts could further drive earnings growth and stimulate more capital market activity, which typically benefits small and mid-cap (SMID-cap) companies. Therewith, Hedge Fund crowding in narrow equity markets reveals signs of easing.

The main narrative is **alpha**, specifically with Equity Hedges. A mild environment for risk assets combined with a positive outlook for stock-picking alpha should generate high returns for long-biased equity long/short managers.

Bank of America (CIO View)

With pair-wise stock correlations below long-term averages and idiosyncratic risk above average over the last two decades, Bank of America still predicts a conducive environment for fundamental Equity Hedge (EH) strategies. Notably, quantitative EH strategies have also performed well over the course of the year, sidestepping the spikes in volatility and large factor rotations.

Macro HF strategies, meanwhile, bounced back in September with a positive performance. Trend-following strategies benefited from agricultural commodities and Equities, while energy and rates diminished. The rise in interest rate volatility and potential re-emergence of the higher-for-longer risk could create opportunities for Macro strategies.

Amundi

Moving to the next phase of the cycle, alpha engines should turn gradually. Amundi would allocate space for more directionality in Long/Short (L/S) Equity and EM L/S Credit, with a Global Macro revival. Alpha is likely to remain abundant in (L/S) Equity, supported by a broadening in stock markets, low stock correlation, and an increased focus on companies' fundamentals.

Alpha potential could be compressed by lower dispersion, though, as they believe investors should add directionality, rebalancing L/S neutral with a more L/S diversified bias.

L/S Credit HF provide an appealing gateway at affordable risk. Amundi would move the cursor in favor of EM-focused managers at the expense of DM-focused, where valuation and dispersion now provide more limited alpha opportunities.

With easing monetary policy, moderating macro uncertainties, and a focus on more traditional growth drivers, the backdrop is becoming more favorable for Global Macro, which has been revised up while staying neutral on CTAs.

Morgan Stanley

Hedge funds are profiting from a constructive market environment for skill-based managers. Hence, Morgan Stanley maintains a preference for market neutral, Relative Value Equity and Macro Strategies. Within Macro Strategies, they favor discretionary strategies that are tactically oriented, given supportive levels of market and fundamental economic dispersion.

Within Equity Strategies, they continue to have conviction not only in fundamental L/S Equity but also in increasing confidence in quantitative equity strategies that are benefiting from the reduction in asset price correlation at the stock level caused by macroeconomic and geopolitical uncertainty.

Environment May Boost Hedge Funds

1. The U.S. presidential election has ushered in an era of U.S. Exceptionalism, which Morgan Stanley expects to remain a theme in 2025, in spite of remaining cautious that recent speculative behavior may signal a market top.

2. They also emphasize the need for specialist portfolio managers believed to be best positioned to analyze policy impacts on security prices and capture the potential opportunity in increased capital markets activity. They highlight the need for specialist portfolio managers who are best equipped to analyze policy impacts on security prices and capitalize on rising capital markets activity.

3. Morgan Stanley declares that Hedge Funds continue to serve a critical role in portfolios, with their ability to capitalize on a rapidly changing environment while delivering a source of uncorrelated return and diversification within portfolios.

Citi Wealth

Citi Wealth believes larger Multi-Strategy Funds could present opportunities. Among the reasons for this are that they tend to more easily attract and retain talented managers and have historically performed better than their smaller counterparts. They daresay that a viable choice would be flexible Hedge Fund credit strategies considering lots of asset classes to build a portfolio of high-conviction ideas. They often focus on more complex, less liquid credits where they see potentially higher yields and total returns. Away from U.S. large caps, active management via Hedge Funds has the potential to exploit market dispersion and volatility to potentially benefit portfolios.

Goldman Sachs Asset Management

Resurgence in Hedge Fund demand and returns in a post-QE environment. The post-quantitative easing environment is creating a favorable backdrop for Hedge Fund demand and returns. With lower beta/market return expectations and unstable correlations between fixed income and equities, uncorrelated Hedge Fund returns have become increasingly valuable to asset allocators.

Rising volatility and dispersion have further enhanced the potential for positive Hedge Fund performance. As a result, interest in HFs and liquid alternatives has surged, alongside the revival of portable alpha and extension strategies, which expand the traditional long-only investment approach.

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The Bundesverband Alternative Investments e.V. (BAI) is the asset class- and product-spanning representation of interest for Alternative Investments in Germany.

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