# PRIVATE CREDIT

## No free lunch but plenty of private debt opportunities in European SMEs

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European private debt enters 2026 supported by persistent investor demand for yield, diversification, and real-economy impact. Despite a softer macro backdrop and isolated defaults that attracted media attention, we belive that the market remains fundamentally robust and offers many opportunities for disciplined lenders with sector expertise and strong sponsor relationships. Against this backdrop, three themes are guiding our approach.

### 1. A deteriorating economic environment

Economic activity across Europe is decelerating as tighter financial conditions, slower consumer demand, and geopolitical uncertainty weigh on growth. Recent bankruptcies, particularly in the US, hit headlines, but for us, they form part of the normal cycle of risk and are neither unprecedented nor systemic. Instead, they reinforce a key point: weaker environments demand stronger underwriting. We pay closer attention to stress scenarios, refinancing risks, and sectors where pricing power is eroding. We see a healthy opportunity set, which as always requires precision and selectivity.

### 2. Reassessing risk

With higher for longer financing costs and banks continuing to retrench, private lenders play a crucial role, but must be vigilant. We concentrate on first lien secured positions, disciplined leverage, and hard covenants to protect investors. Strong sponsor alignment remains essential. Deal flow remains robust, particularly in the European lower mid-market, where SMEs continue to seek long-term, relationship-based financing solutions.

### 3. The expanding role of ESG-aligned private debt and SMEs

SMEs build ESG considerations into the foundations of their business models, rather than retrofitting later like more unwieldly large companies. These SMEs companies are creating the products and services needed for a changing world, and they are tomorrow's industry leaders. But while SMEs lead on innovation, they are underserved by traditional banks. Private debt can directly support these innovative companies through financing tied to clear, measurable KPIs. Investor expectations are moving in the same direction: over 80% of global investors now require asset managers to demonstrate a sustainable-investing strategy[1]. With climate-related economic losses surpassing €300bn globally in 2024[2], we believe deepening ESG integration is a responsibility, not a trend, as well as an opportunity.

Overall, we believe 2026 will reward investors who are selective, sustainability-aligned, and solutions-oriented; and able to navigate macro uncertainty while financing Europe's next generation of corporate leaders.

## Private credit secondaries markets will see a breakthrough year

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As we move into 2026, we believe the private credit secondaries market is transitioning from an emerging liquidity tool into a strategic pillar of private markets allocation. Transaction volume is being driven by a combination of structural growth, evolving market infrastructure, and shifting investor needs. The private credit asset class now stands at approximately $1.7 trillion and is projected to grow at an annual rate of 15%, creating a substantial base from which secondary transactions will emerge[3].

This growth is being reinforced by increasing market volatility, which is prompting investors to seek the relatively stable and predictable returns associated with private credit. Secondaries have become a preferred tool for liquidity, portfolio rebalancing, and return enhancement. Transaction volumes have risen sharply, climbing from $3–5 billion annually to over $10 billion in recent years. We anticipate they will reach $40–50 billion per year within the next 3–5 years, driven by the increasing investor adoption rate investors. The deal sizes now frequently range from $100 million to $1 billion, reflecting the increasing scale and sophistication of the market[4].

What , we believe, meaningfully elevates the appeal of private credit secondaries is the ability to acquire seasoned portfolios, often at a discount. This can result in an immediate uplift in total value to paid-in capital and allow investors to benefit from shorter durations, quicker capital deployment, and a faster distribution profile. These portfolios typically consist of funds near or past their investment period, already focused on monetization and providing regular interest payments from the underlying performing loans. That combination of yield and capital efficiency is difficult to replicate elsewhere in private markets.

The infrastructure supporting the market has matured significantly. Specialist funds and advisers have emerged with capital structures aligned to credit returns, enabling more complex transactions, including portfolios of funds, LP-led sales, GP-led solutions, continuation vehicles and balance sheet transactions. On the sell side, LPs are using secondaries proactively, not just for liquidity but to consolidate GP relationships and shift toward more opportunistic exposures. GPs are also contributing to deal flow by seeking to accelerate distributions and expanding the investor base mostly through continuation vehicles.

There are still characteristics of a developing market. Bid-ask spreads persist in certain segments, such as credit opportunities funds, and underwriting can be nuanced – focused on income generation, capital preservation, and identifying embedded value, such as 'pull to par' opportunities. But these are exactly the dynamics that, we believe, reward managers with deep credit expertise and strong sourcing capabilities.

In short, the opportunity set is expanding rapidly, and we believe private credit secondaries are on track for continued and potentially accelerated growth through 2026 and beyond.

[1] Source: Morgan Stanley, December 2024.
[2] Source: Munich Re, 2025
[3] Source: Brookfield, March 2025
[4] Source: Jefferies, July 2025

## US direct lending deal flow expected to accelerate in 2026

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The US direct lending market continued its expansion in 2025, surpassing one trillion dollars in size[1]. We believe direct lending deal flow is positioned to accelerate in 2026, driven by elevated private equity ('PE') dry powder, aging PE portfolio company holdings, and a more constructive interest rate environment.

PE sponsors are the primary driver of direct lending deal flow, comprising 75% of transaction volume in 2025[2]. We believe PE is poised to enter 2026 with historically high levels of dry powder after several years of strong fundraising and a muted M&A environment. US PE AUM reached $3.6 trillion at year-end 2024, with approximately one trillion dollars of dry powder – about 25% of the asset class and roughly equivalent to the size of the entire direct lending market.3 As valuation expectations normalize, we think sponsors are increasingly motivated to pursue new platform investments and add-on acquisitions, reinforcing demand for direct lending solutions due to the certainty of execution and structural flexibility.

The combination of elevated purchase multiples from prior vintages and macro uncertainty has resulted in longer PE portfolio company hold periods. The median hold period for PE-backed companies has reached 3.8 years, the longest since 2011, creating pressure to return LP capital[3]. As these companies grow into their valuations, we believe sponsors will increasingly look to exit their positions.

Prospects for additional rate cuts in 2026 should narrow valuation gaps, improve borrower affordability, and strengthen sponsors' conviction to transact. A more accommodative policy backdrop also boosts overall M&A activity, which we think creates a broader tailwind for leveraged deal flow which allows lenders to be more selective.

Taken together, we believe these dynamics suggest that 2026 could mark a meaningful inflection point for direct lending, characterized by rising transaction volumes, healthier borrower–lender dynamics, and expanded opportunities for direct lenders to deliver tailored capital solutions to a highly engaged sponsor universe.

[1] Source: BofA Global Research, "CLO Weekly - 2026 Private Credit Outlook: Peak interest vs PIK interest" (16 November 2025).
[2] Source: Morgan Stanley, "Weighing in on Direct Lending: Analyzing Durability & The Supply-Demand Balance" (October 2025).
[3] Source: Pitchbook LCD, "Q3 2025 US PE Breakdown" (30 September 2025).

# REAL ESTATE

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## Solid fundamentals in resilient European real estate

The European economic outlook is gradually improving despite broader geopolitical uncertainty and trade-related volatility seen earlier in the year. Growth across the euro area is expected to remain stable, supported by rising real wages, resilient labour markets, and targeted fiscal spending, particularly in infrastructure and defence. While higher US tariffs weigh on exports, the reduction in policy uncertainty and expectations of further easing in financing conditions may improve market sentiment. Looking ahead, inflation is projected to stabilise around the ECB's 2% medium target, while risks to growth remain skewed to the downside with global trade tensions and potentially weak foreign demand acting as potential headwinds. Against this improving backdrop, we believe logistics, offices, retail, hospitality, and commercial real estate debt will be compelling themes in European real estate going into 2026.

The European logistics sector remains attractive, supported by sustained e-commerce growth and a shift from 'just-in-time' to 'just-in-case' supply chain models. Demand for well-located assets along major transport corridors is strong, driven by low vacancy rates and limited new supply. These assets can offer solid reversionary potential, underpinning future cash flow growth.

The office sector is experiencing pronounced differentiation, with prime, well-positioned assets commanding sustained demand from occupiers prioritising location quality, tenant amenities, and ESG credentials. Large corporations can afford to prioritise quality office space over cost savings, since real estate represents a minor portion of their overall spending. Supply constraints across major markets, combined with limited new completions in prime locations, are positioning rental growth as a structural feature of the near-to-medium term, particularly within key Central Business Districts (CBDs).

Retail has adapted to the challenges of online shopping and a decade of rental pressure. Dominant shopping centres in key catchment areas are performing well. With asset values adjusted and new supply at historic lows, the sector shows resilience and a positive outlook.

Hospitality is benefiting from global tourism growth, driving renovations and new developments. Leisure travel leads the recovery, while demand expands in culturally rich urban markets. The sector offers opportunities for value-add and long-term core strategies.

Finally, in commercial real estate debt, alternative lending is gaining traction as banks adopt a cautious stance. Non-bank lenders are filling the gap with senior real estate loans featuring floating rates and conservative LTV ratios (~50-60%). These structures typically provide resilience in volatile markets and hedge against rising interest rates, making them an attractive option for investors seeking stability.

Source: Generali Real Estate S.p.A. Società di gestione del risparmio as of end of November 2025.

# INFRASTRUCTURE

infranity

## A rich opportunity set in European infrastructure

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Infrastructure continues to stand out as a resilient and dynamic asset class, with a continuous strong outlook for 2026.

Europe's infrastructure market presents a compelling and resilient investment opportunity, underpinned by structural megatrends and robust policy support. The twin imperatives of decarbonization and digitalization are reshaping economies, creating unprecedented demand for capital to finance essential assets. According to the European Commission, an additional €5.4 trillion will be required between 2025 and 2031 to meet climate and connectivity goals, with an annual funding gap of €400–600 billion that private markets must bridge.

Institutional investors are increasingly drawn to infrastructure for its distinctive characteristics: stable, inflation-linked cash flows, low correlation to public markets, and downside protection. These features make infrastructure a powerful diversifier and a source of predictable income across cycles. In Europe, the opportunity spans both equity and debt strategies, offering flexibility across the capital structure. Enhanced-return debt strategies can deliver yields of Euribor + 550–600 bps, while core-plus equity investments target gross IRRs of 13%+, combining yield with long-term value creation[1].

Our sector conviction for 2026 and beyond are underpinned by strong, long-term fundamentals:

- Energy Transition: Decarbonization has moved from policy aspiration to economic necessity, also fueled by the need for greater energy security. Renewable power generation – solar, wind, hydro, biogas – and battery energy storage systems form the backbone of the energy transition.
- Digital Transformation: Strong data growth, cloud computing, and artificial intelligence are driving exponential demand for data centers, fiber networks, and 5G connectivity. Sustainable digital infrastructure is now as critical as transport or power grids once were.
- Decarbonized Transport: Electrification of personal and public transport, and investment in freight rail and public transit systems are redefining mobility and logistics while supporting decarbonization targets.
- Environment, Water & Waste: Circular-economy regulation and resource scarcity are catalyzing investment in recycling platforms, water-treatment facilities, and industrial efficiency solutions. By 2030, the EU aims to recycle 65% of packaging waste and landfill less than 10% of total waste, creating a large addressable market for sustainable operators.

While the investment needs in these sectors are extremely large, a significant part of the opportunities to deploy capital are to be found in the mid-market segment, which can offer some of the most attractive value proposition. For investors, European infrastructure can offer a rare combination of scale, sustainability, and resilience. With proven managers deploying capital at pace and integrating ESG objectives, we believe the asset class stands as a cornerstone for portfolios seeking long-term, risk-adjusted performance for 2026 and the coming years.

## Defensive returns, literally: How Europe's clean energy build-out is gaining a new structural tailwind

sosteneo
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For institutional investors, 2026 marks a pivotal moment in Europe's energy landscape that will see Europe entering a phase where clean energy deployment, system resilience and security considerations are increasingly interconnected. Across policy, industry and investment circles, there is a growing recognition that energy systems must be more resilient and less dependent on imported fuels or concentrated sources of supply. As a result, greenfield renewable infrastructure is shifting from a climate-aligned priority to a central pillar of Europe's long-term stability planning.

Recent disruptions have shown how weaknesses in energy systems can quickly translate into broader economic exposure. This has prompted policymakers to strengthen domestic generation, diversify energy inputs and enhance flexibility. Within this landscape, renewable power, battery storage and new grid infrastructure is valued not only for decarbonisation but also for the security advantages that come from dispersed generation, greater redundancy, and reduced reliance on concentrated energy sources as well as energy imports from abroad.

Importantly for investors, the shift in sentiment towards defence and resilience is accelerating capital formation. Public institutions are directing more resources towards dual-use innovation and infrastructure that supports industrial competitiveness, while private capital is increasingly targeting assets aligned to these long-term system needs. In practice, this is creating a rising flow of investment into technologies that underpin secure electrification, reliable power supply and operational continuity. This represents a durable tailwind for new-build clean infrastructure, with clear positive commercial and financial implications for investors allocating to the asset class.

For Sosteneo, these dynamics reinforce the relevance of our strategy. Greenfield renewable power, battery storage and enhanced grid infrastructure provide the resilient, future-proofed supply Europe is seeking to scale. Our industrial angle and ability to partner with utilities enables these projects to be delivered rapidly while benefiting from long-term contracted revenues well suited to institutional portfolios. The result is access to essential infrastructure that solves system-level challenges, which may offer long-term contracted revenues and cash flow characteristics typically associated with infrastructure assets.

In 2026, the interplay between energy system resilience and the broader security agenda will continue to shape infrastructure investment across Europe. Investors aligned with specialist managers able to originate, structure and deliver new critical clean-energy assets will be well placed to capture the next phase of growth.

[1] Source: Infranity as at end of November.

# Thank you.

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