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Clearer view, tougher terrain

McKinsey Global Private Markets Report 2026

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Welcome to McKinsey's Global Private Markets Report 2026

In 2025, stakeholders across the private capital ecosystem confronted profound uncertainty. How might economic trends and geopolitical events affect global dealmaking, capital flows, and investment returns? Which models for value creation would prove most effective in a high-rate environment? Which approaches for dealmakers, operators, fundraisers, and limited partners would prove most effective? And when—at long last—would the fog begin to clear?

Now, in 2026, the fog has burned off. A harder terrain has revealed itself: What had been a smooth surface for years has become a far more challenging road. To separate from peers, distinctive players are taking the measure of these more technical, demanding conditions and actively driving performance. The opportunities are substantial, but they won't be realized by gliding down a highway. It's tougher going.

This year's report explores this new terrain across four chapters. In **Private Equity**, we analyze the pivot toward "operational alpha" as the primary engine of returns in a maturing market. In **Real Estate**, we explore the transition from broad stabilization to selective acceleration, particularly in specialty sectors such as data centers and logistics. Our **Infrastructure** chapter examines the $106 trillion global investment gap and the surge of private capital meeting the urgent requirements of the energy transition. Finally, our **Private Credit** chapter details a maturing asset class that is navigating a multiyear transition toward a more complex ecosystem, and refocusing from deploying capital at pace to allocating it with precision.

The perspectives shared here are based on our long-running research, proprietary data, and experience serving stakeholders across the private capital sector. As we move further into 2026, the key question is no longer when the terrain will change, but how quickly leaders can adapt to the ground already beneath them—and to the road that's rapidly emerging ahead.

We hope you enjoy the report.

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Private equity

Clearer view, tougher terrain

Private equity weather has improved, revealing more demanding, more technical ground. Here's what our analyses indicate for dealmakers, operators, fundraisers, and LPs as they look to the road ahead.

by Alexander Edlich, Chris Llewellyn, Christopher Croke, Rahel Schneider, and Warren Teichner

After three years of dampened dealmaking, we observed early in 2025 that the global private equity (PE) industry was "emerging from the fog." Now, the fog has finally burned off. Dealmaking returned in 2025 in force: Buyouts surged, exits rebounded, and initial public offerings (IPOs) reemerged.

Indeed, buyout and growth deals larger than $500 million in deal size[1]—a typical barometer for industry health—increased 44 percent to over $1 trillion in value, eclipsing 2021's total to become the highest year on record for deals of this size. Deal value, when measured across all buyout and growth deal sizes, increased 17 percent. The value of PE-backed exits globally surged as well—up more than 40 percent—aided by a nearly 100 percent increase in PE exit deal volume via IPO. "Megadeals" (that is, transactions larger than $2.5 billion) also returned, reflecting the changed environment of 2025 compared with the recent past. Not only did 2025 see the largest PE deal in history (the announced $55 billion take-private of Electronic Arts by a syndicate of firms), but it also marked the third-highest year ever for take-private activity by either total deal count or value.

Now, with improved visibility, we can more clearly observe how much the private equity terrain has changed. Shifts in deployment, returns, value creation, and traditional fundraising—previously considered to be episodic—are more likely structural features of a maturing industry. Moreover, the rapid innovation and implementation of AI is reshaping industry structures, introducing new competitors, and promising significant productivity increases. The technology offers both investment risks and opportunities (and could significantly change how PE firms themselves operate). The landscape is, therefore, now both more technical and more demanding, even for experienced drivers. Success on the road ahead will depend less on speed than on having the right vehicle—fit for the changed terrain, properly equipped, and driven with discipline.

More technical, more demanding terrain

For the typical private equity dealmaker, many assets have never been more expensive. The median private equity purchase multiple increased from 11.3x EBITDA in 2024 to 11.8x in 2025. When compared with public markets, PE returns remain subdued. The backlog of PE-owned companies still on the books has never been bigger. We estimate that more than 16,000 companies globally have been held for more than four years, equivalent to 52 percent of total buyout-backed inventory as of 2025—the highest on record, and ten percentage points higher than the past five-year average. Holding periods also remain well above historical levels. The typical company in the portfolio of a general partner (GP) is now held on average for more than six and a half years.

Moreover, liquidity for investors remains more a trickle than a flood. Trends that first appeared to be "niche" or temporary solutions after the dealmaking exuberance of 2020 and 2021, including the growth in secondaries, the rise of continuation vehicles, and the emergence of net asset value (NAV) lending, now appear to be enduring—even growing—elements of this more technically demanding private equity terrain.

[1] Defined as the total amount of capital invested in a company by an investor or group of investors for a specific transaction and includes all equity, debt, and grants involved in the transaction.

What's more, even while dealmaking value rose globally, capital deployment has remained challenging. The count of buyouts of all sizes fell 5 percent, and the effect held true in all regions. North America slowed the most, with buyout count declining 7 percent; European buyout counts were down 4 percent, while Asia–Pacific (APAC) dipped 3 percent. The dry powder available to PE sponsors is getting even drier—historically, it has never been older. We estimate that more than 40 percent of the dry powder ready for deployment by GPs today has been available for the past two years (15 percentage points higher than the five-year average).

PE returns—especially compared with active public markets awash with AI exuberance—continue to be modest at best. In 2025, top-quartile global buyout returns averaged 8 percent (measured on a pooled internal-rate-of-return [IRR] basis), less than half of the returns generated by companies in the S&P 500 (18 percent) and MSCI World (22 percent) indexes. Older buyout vintages are a major driver of this dynamic: The 2015–17 vintages are generating roughly 2 percent IRRs, pulling average buyout return from 2015 to 2025 to about 6 percent despite newer vintages showing—largely unrealized—15 percent IRR.

Without the tailwinds of multiple expansion and cheap leverage (which accounted for 59 percent of returns between 2010 and 2022), success will depend on what's under the hood rather than the slope of the road itself. Operational value creation, which often used to be more a marketing narrative than a true institutional capability, is now likely to be the primary source of returns for GPs and their limited partners (LPs). GPs are increasingly recognizing the importance of underwriting value creation improvements as core parts of their deal theses and are building out capabilities to best capture the full potential of these initiatives. And AI will be a catalytic force.

Core closed-end fundraising has become more competitive, selective, and time consuming. While North American fundraising increased 8 percent year on year to $432 billion, Asia–Pacific fundraising continued to struggle, experiencing a 49 percent decline to $49 billion raised. Additionally, European fundraising fell 41 percent to $118 billion in 2025, though that occurred in large part because some of its largest buyout funds successfully closed their fundraising in 2023 and 2024.

Shifts in deployment, returns, value creation, and traditional fundraising—previously considered to be episodic—are more likely structural features of a maturing industry.

Taken together, these indicators at first glance could be read as pointing to an increasingly steep—if not, at times, impassable—road ahead for private equity. But on closer inspection, the dynamics are more likely the signs of an industry *maturing*, where competition is intensifying, market structure is shifting, and stakeholders are becoming more sophisticated.

In this environment, outcomes are increasingly shaped less by exposure to the asset class and more by deliberate choices about how firms source deals (including discipline on the multiples and prices they pay), create value from operational improvements, build leadership, and operate through longer and more complex holding periods. Even as conditions become more demanding, LPs recognize that the best private equity firms remain difficult to beat. As in any mature industry, scaled and differentiated managers tend to outperform. In fact, over the last ten years, the top quartile of buyout funds (24 percent IRR) has historically beaten both the S&P 500 (15 percent total shareholder return) and MSCI World (13 percent total shareholder return) indexes. Indeed, in our survey of 300 global LPs from January 2026, about 70 percent reported plans to maintain or increase their private equity allocations in 2026.

Different equipment needed going forward

With greater visibility from 2025's improved conditions, we see clear road signs that now mark the need for different equipment to navigate that more technical terrain ahead. What kind of vehicle—size, engine, drivetrain, fuel, and suspension—will be required to perform reliably on a steeper and rougher road?

First, the sheer size of the vehicle matters. Smaller vehicles may not have the traction that they once did, especially without differentiation. We observed in 2025 that funds raising less than $500 million account for a smaller share of fundraising compared with five years ago (13 percent versus 17 percent), just as funds over $5 billion account for a significantly larger share. Today, there are also fewer first-time funds than at any point in the past decade. Correspondingly, announced strategic M&A activity among the 100 largest GPs by size almost doubled from nearly $18 billion in 2024 to more than $34 billion in 2025.

Second, improved navigation and instrumentation are also critical, especially to discern mispriced assets. For dealmakers, the resurgence in take-private deals speaks to an embracing of complexity. Globally, take-private value increased 43 percent in 2025 (North America take-privates, in particular, rose 72 percent), a recognition that there may be more alpha in discounted public assets than in private ones. So too for carve-outs, where complexity may have more operational value creation potential than other comparable investment opportunities. When we examine returns data, we also observe that specialist funds (which, for example, focus on specific sectors) appear to be doing better than their generalist peers.

Third, engine horsepower matters, because alpha increasingly needs to be generated (it does not simply materialize). Especially with often higher purchase multiples, increased macroeconomic uncertainty, and greater equity contributions (coupled with relatively elevated interest rates), GPs are increasingly recognizing the importance of underwriting operational value creation as core parts of their deal theses. They are rapidly building capabilities to capture the full potential of these initiatives, and to do so quickly and consistently.

GPs are increasingly recognizing the importance of underwriting operational value creation as core parts of their deal theses.

Fourth, AI will undoubtedly help GPs create alpha in ways they never envisaged. Today, only 6 percent of GPs see AI delivering high impact in their own internal operations and investment processes—but 70 percent of GPs expect high impact in three to five years. In this current demanding PE environment, AI is already emerging as a force multiplier for the best firms: sharpening underwriting, accelerating operational improvements, and enabling faster, more disciplined decision-making across the investment life cycle.

Fifth, high-performing vehicles are also using different fuel types. Alternative fund structures are going mainstream—or are, at least, becoming less alternative. As we noted last year, alternative forms of capital are growing quickly and becoming more mainstream—for example, fundraising into United States semiliquid private equity vehicles has more than doubled since 2023 to $204 billion in 2025, according to Robert A. Stanger & Company. Fundraising for these structures demands new capabilities from GPs—new distribution channels, fund vehicles, distribution partners, and marketing and brand competencies, to name a few. Not to mention that semiliquid products require heightened liquidity, risk management, and compliance capabilities. Considering the broader universe of alternative fundraising, a case can be made that overall private equity fundraising modestly *increased* in 2025, notwithstanding the decline for closed-end funds.

Finally, GPs' vehicles will need to become more reliable, stalling less. Liquidity pressures are reshaping the private equity industry. That dynamic is likely to continue. In our survey of 300 of the world's leading LPs, distributions to paid-in capital (DPI) is now tied with multiple of invested capital (MOIC) for the second-most-important metric shaping their allocation decisions (IRR remains the leading focus). The LPs have a point. DPI as a share of total PE assets under management (AUM) was 6 percent in the 12-month period ended June 2025, compared with the 2015–19 average of 16 percent. More important, five-year rolling DPI as a share of total PE AUM hit its lowest recorded level, about 10 percent, in June 2025. In other words, as a share of the size of assets in the industry, cash outflows have never been lower. The explosive growth in PE secondaries volume (the traded value of which increased 48 percent in 2025) and fundraising (up 5 percent in 2025) is all driven by the same reality: LPs want to *realize* meaningful returns.

The year 2025 may have marked a sunnier environment for the private equity industry after several challenging years, but the visibly technical terrain ahead has a stark implication: This maturing industry will need to continue to adapt.

For GPs and LPs alike, the overarching implication is that private equity is increasingly less about timing the next cycle and more about clarity of position on the road ahead. GPs should be asking whether their vehicle is built for this terrain: one where alpha is made, purchase-price discipline is ever more critical, leadership quality is demanded, operational value creation is continuous and active across the life cycle, and operational resilience is nonnegotiable. The more rapidly evolving market structure invites foundational questions for GPs about their size, their access to the right distribution channels, or whether they are specialized enough to thrive. LPs, in turn, face a sharper sorting question: Which managers are genuinely equipped to navigate these conditions, and which are still driving with maps designed for smoother roads and are assuming faster exits, cheaper leverage, and favorable tailwinds? How these questions are answered will increasingly determine which vehicles pull ahead and which struggle to stay on the road.

In this report, we analyze how PE fared in 2025 and what we think awaits from the perspective of four groups: dealmakers, operators of privately held companies, fundraisers, and LPs. We provide, too, the key questions that each group should be asking right now.

Heat map

The heat map shows key metrics across private equity asset classes.

Global private equity (PE), all deal sizes

Negative for PE industry — Positive for PE industry

Macro environment — GPs — LPs

	2019	2020	2021	2022	2023	2024	2025
Interest rate (%)[1]	1.6	0.1	0.1	4.4	5.4	4.4	3.9
Inflation rate (%)	3.6	3.3	4.7	8.7	6.7	5.8	4.2
Deal value (% year-over-year [YOY] growth)	2	–5	91	–22	–24	20	19
Deal count (% YOY growth)	4	4	41	–5	–15	–4	–9
PE-backed exit deal value (% YOY growth)[2]	–28	32	101	–53	–8	20	41
PE-backed exit deal count (% YOY growth)[2]	–8	–10	54	–15	–6	5	–15
Median buyout entry multiples (purchase price/ EBITDA)[3]	10.1×	11.3×	12.2×	12.1×	11.2×	12.0×	12.3×
Fundraising of close-end commingled funds (% YOY growth)	14	–11	40	–3	–7	–21	–17
LP private equity effective allocation (%)[4]	6	7	7	8	10	10	10
Capital calls in excess of distributions (% of distributions)[5]	21	22	12	24	33	3	–6
1-year pooled IRR for 2000–21 vintage funds (%)[5]	18	34	40	–8	6	5	8

Note: Deal size filter affects only deal value, deal count, PE-backed exit deal value, and PE-backed exit deal count metrics.
[1]Central Bank policy rate, end of period; United States' is used as a proxy for North America, China's is used as a proxy for Asia, and Eurozone's is used as a proxy for Europe.
[2]Exits of PE investments. PE investments include those made by PE investors and investments made by some additional investor types into mature companies. Excludes venture capital.
[3]Median entry multiples data reported only globally. Buyout figures displayed for buyout. Multiples across all PE deal types displayed are for all PE.
[4]LP PE effective allocation data reported only for all global PE.
[5]Capital calls in excess of distributions, IRR, and median buyout entry multiples data as of Q3 2025. A negative value for capital calls in excess of distributions indicates that distributions have exceeded contributions in given year.
Source: CEM Benchmarking; European Central Bank; Federal Reserve Bank of St. Louis; International Monetary Fund; MSCI; People's Bank of China; PitchBook; Preqin; StepStone

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Dealmakers: Deal value rises, but challenges increase, too

Deal value surged in 2025 for entries and exits. But the road ahead is hardly a superhighway. A closer analysis reveals both challenges and opportunities.

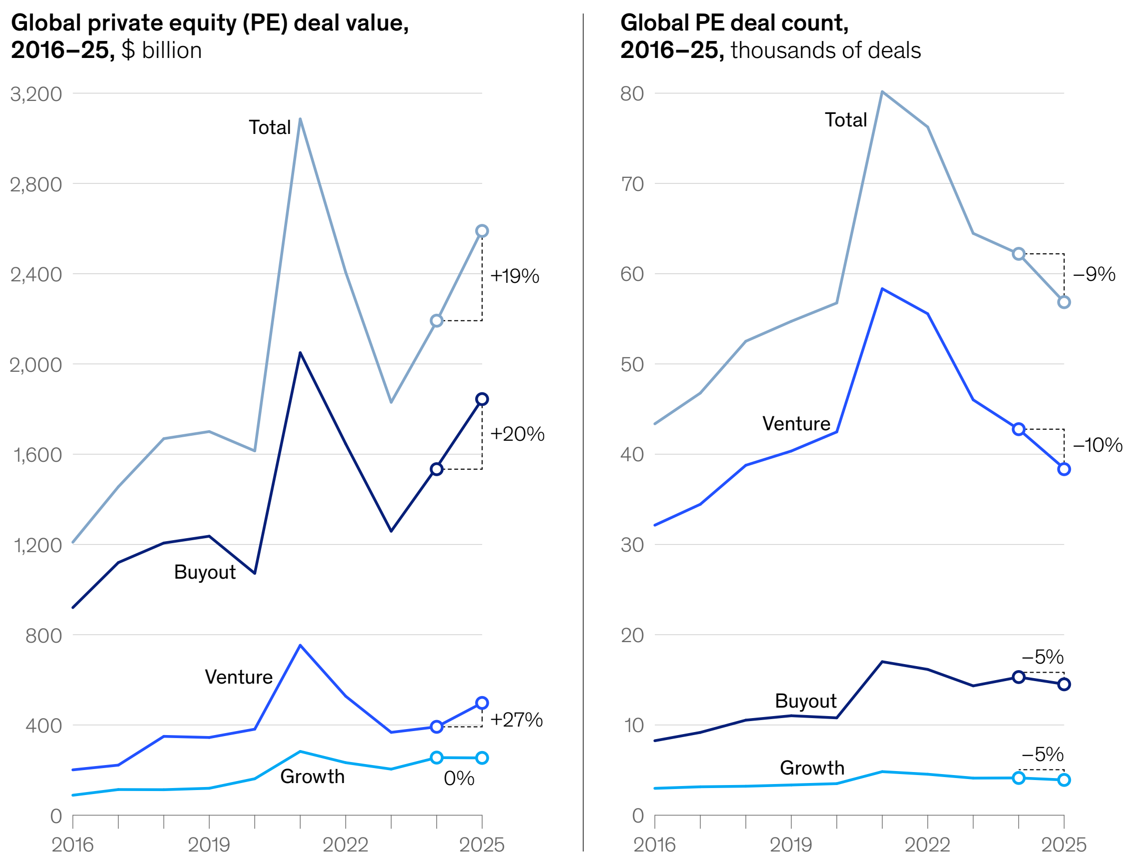
Entries

Private equity deal value rebounded in 2025, increasing 19 percent to $2.6 trillion. Global buyout dealmaking value across all sizes reached its second-highest year on record, nearly $1.8 trillion—a 20 percent increase over 2024. Buyout accounted for nearly three-quarters of the total increase in private equity deal value in 2025 (Exhibit 1).

A look at larger deals, a critical metric in assessing overall industry health, is revealing. For buyout and growth deals larger than $500 million, 2025 was a record year, increasing 44 percent versus 2024 to $1.1 trillion, higher than 2021's previous peak. Buyout deals larger than $500 million increased 51 percent in value to more than $900 billion, and buyout deals larger than $2.5 billion increased 72 percent to over $600 billion. While buyout deal count across all transaction sizes

Exhibit 1

The increase in 2025 deal value was driven by bigger deals, as overall deal value went up but the number of deals went down.



Note: Includes PE buyout and LBO (add-on, asset acquisition, carve-out, corporate divestiture, debt conversion, distressed acquisition, management buyout, management buy-in, privatization, recapitalization, public to private, and secondary buyout); platform creation, angel, and seed early-stage venture capital (VC); later-stage VC; and restart angel, early-stage, and later-stage VC.
Source: PitchBook

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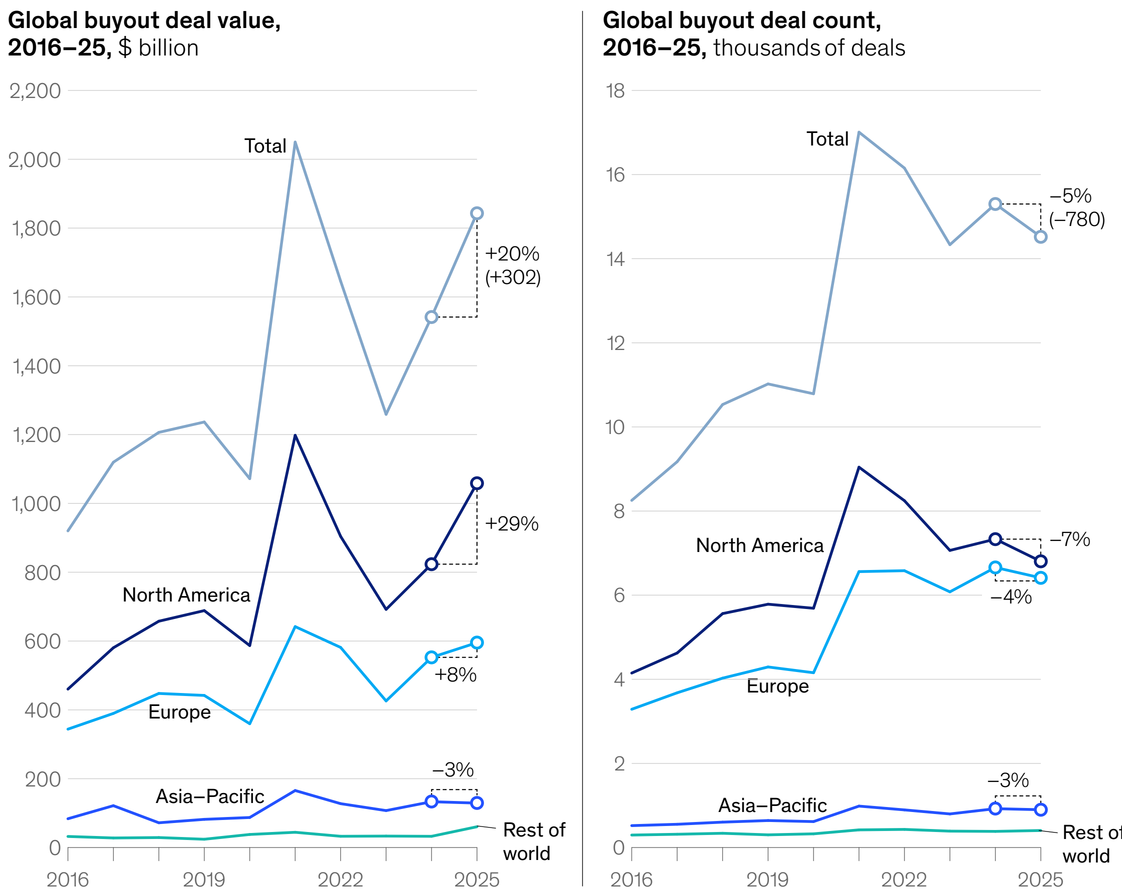
dropped 5 percent, the number of buyout deals over $500 million *rose* 20 percent. That led to an average deal size just above $910 million for buyouts overall (compared with just over $610 million in 2024). These results highlight a critical dynamic of the dealmaking landscape: Larger fund managers, with the ability to drive megadeals, have an increasingly outsize ability to determine the movement of overall value and deal count industry-wide.

New highs in deal value, coupled with simultaneous declines in deal count, reflect the cautious navigation of 2025's geopolitical flashpoints and uncertain cross-border trade environments, leading to more cautious underwriting and deal timing. Indeed, the second quarter of 2025 saw buyout deal value across all sizes drop 13 percent from the first quarter. Yet despite these hurdles, the resiliency of private equity as an industry shone through.

Geographical perspective sharpens the picture. In North America, buyout deal value increased 29 percent, accounting for 57 percent of total global buyout deal value (Exhibit 2). Europe also saw an increase (8 percent), but APAC declined (3 percent). This type of differentiation was

Exhibit 2

North America led the increase in buyout deal value, while Asia fared less well.



Note: Includes private equity (PE) buyout and LBO (add-on, asset acquisition, carve-out, corporate divestiture, debt conversion, distressed acquisition, management buyout, management buy-in, privatization, recapitalization, public to private, and secondary buyout) and PE growth and expansion (recapitalization, dividend recapitalization, and leveraged recapitalization) and platform creation.
Source: PitchBook

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mirrored in buyout deals of more than $500 million in value: North America experienced a 74 percent increase (accounting for 64 percent of global value), Europe increased 19 percent, and APAC declined 5 percent.

Our analyses point to four critical, global trends in capital deployment:

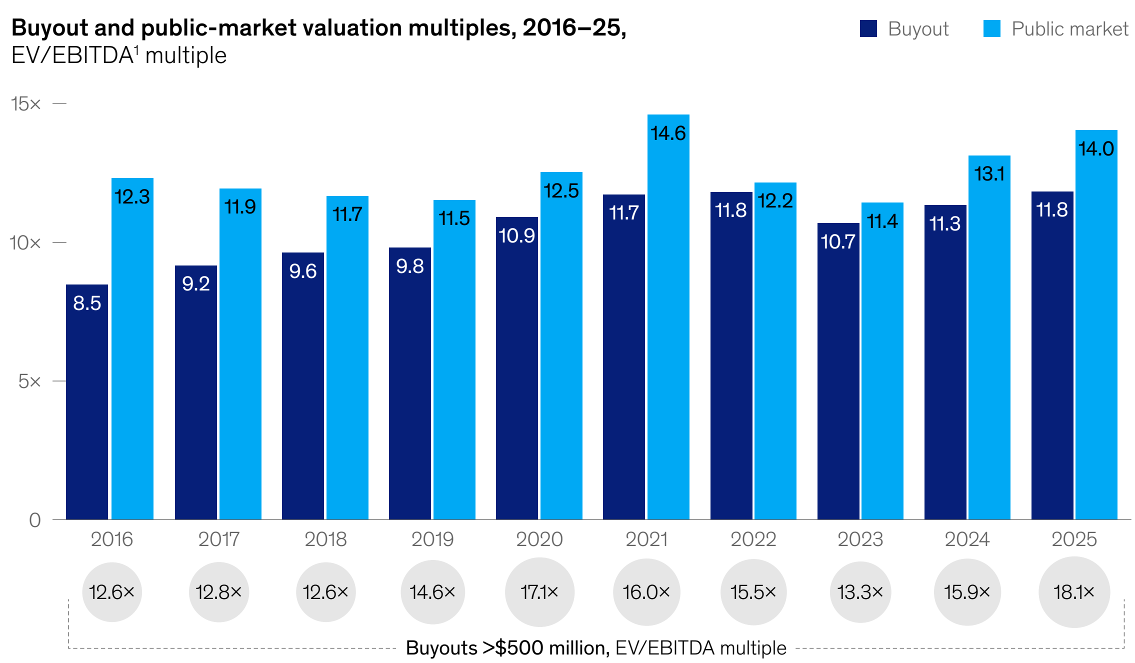
1. Bigger deals are back: Deployment pressure is combining with buyers paying more for quality. The rebound in deal value occurred because acquirers are paying more, rather than doing more deals. The median EBITDA multiples that buyout firms paid reached a record high of 11.8 times in 2025, marginally surpassing the previous high of 2022 (Exhibit 3).

Some of that change is simply a function of more, and bigger, deals in the mix of overall transactions. Bigger deals typically trade at higher multiples, reflecting that scaled companies often have greater earnings stability. The average of median multiples for deals above $500 million in the last five years is 15.8 times, compared with an overall average of median multiples of 11.5 times over the same period. Those multiples are rising in part because quality is scarce and deployment pressures are exerting themselves.

Exhibit 3

Buyout valuation multiples reached a record high.

Buyout and public-market valuation multiples, 2016–25,
EV/EBITDA[1] multiple



Note: MSCI World Index average multiples. Data as of Sept 30, 2025.
[1]Ratio of total enterprise value to EBITDA.
Source: Bloomberg; MSCI; SPI by StepStone

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GPs may be amenable to spending more, given the greater accumulation of aging dry powder at their disposal. Indeed, the share of dry powder two years or older (approximately 40 percent) hit a new peak in June 2025, compared with the midyear levels of the last seven years (Exhibit 4). We suspect that some GPs may feel the pressure to deploy these funds, leading to increased willingness to deploy equity into deals and at a higher percentage.

That deployment pressure is also colliding with a limited supply of resilient assets. This is fueling a flight to quality, where we see GPs willing to pay premium multiples for durability and downside protection in an uncertain macro environment.

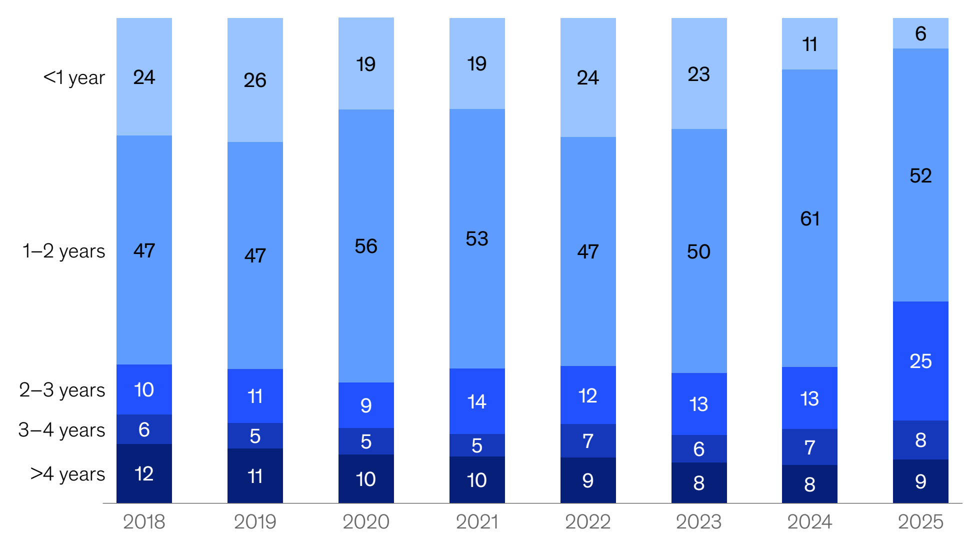
All this has important consequences: The more an acquirer pays at entry, the greater its need to deliver material, operational value creation.

That imperative is becoming more acute because buyout sizes are rising without a corresponding increase in leverage. Even as financing costs have eased, buyers are contributing more equity in absolute terms.[2] This means GPs can rely even less on leverage (which accounted for about 45 percent of returns between 2010 and 2022) to produce outsize returns.

Exhibit 4

The dry powder available to GPs is aging.

Global buyout dry powder, 2018–25, by vintage, % of total



Note: Figures may not sum to 100%, because of rounding. Data as of June 30 of each calendar year.
Source: Preqin

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[2] The difference in US bank–syndicated loans and US direct lending spreads declined from 214 basis points in 2023 to 153 basis points in 2025, still lower than 2020 levels when spreads were at 199 basis points.

2. AI is raising the bar on asset quality and reshaping capital flows across sectors.
Healthcare (51 percent), technology (29 percent), and energy (28 percent) sectors saw the greatest increases in buyout deal value in 2025, the second-highest year on record for all three sectors. When looking at buyout deals greater than $500 million, the top three sectors that saw the most growth in 2025 by deal value were healthcare (173 percent), energy (70 percent), and financial services (61 percent).

These dynamics could be explained in part as an effort to chase returns in sectors that are likely to benefit from the dividends of AI-informed productivity (for example, technology) or the backbone required to deliver AI services (as with energy). But in other sectors, such as healthcare, the resurgence may be a function of investors seeking areas less likely to be disrupted in the near term.

AI is profoundly reshaping how dealmakers underwrite risk and value. We observe that, in the past 12 months, the focus has shifted away from broad, sector-level disruption narratives toward a more granular assessment of asset quality, as companies operating in the same industries and markets increasingly diverge based on verifiable competitive moats, data advantages, embedded workflows, and execution capability. For deal teams, this raises the bar on underwriting. Sector exposure alone matters less than whether a specific asset can use AI to protect margins, accelerate growth, or sustain its competitive position. The dynamic is most visible in tech-enabled services and manual or factory services, where assets with strong data moats and credible paths to AI-enabled productivity or defenses are attracting disproportionate interest.

While experimentation with AI is now widespread in deal sourcing, diligence, and monitoring, the translation of that activity into consistently realized efficiencies remains uneven within GPs' own internal processes. AI is improving the speed and consistency of sourcing, diligence, and portfolio monitoring. Some GPs report productivity gains of 30 to 40 percent in analyst-intensive tasks, but adoption remains uneven and often limited to lighthouse use cases.

There is, however, an emerging and clear gap between the leading AI-forward sponsors and the rest. Leading firms increasingly reflect AI upside and downside directly in diligence, investment committee materials, and operational value creation plans—across pricing, sales effectiveness, customer support, software development, and back-office automation. Some GPs are ceasing to underwrite AI as a long-dated option and are instead focusing on near-term, executable use cases that can move performance within the holding period. Indeed, multiple funds focused on AI-based transformations have formed. Assets that can translate AI into tangible operating improvements are being underwritten with greater confidence; those that cannot are facing sharper scrutiny.

3. GPs are running toward rather than away from complexity.
Reflecting the changing terrain, GPs are becoming more creative dealmakers. Deal value for take-private transactions increased 43 percent in 2025, compared with 20 percent for all buyout deals. This was most clear in North America, where take-private value for deals larger than $500 million grew 72 percent to $240 billion from 2024. As we noted last year, despite the challenges involved with executing public transactions, dealmakers are increasingly finding publicly listed companies that trade below their intrinsic value; 2025 was the third-highest year on record for the number of take-private transactions globally.

Additionally, GPs announced several large multiyear partnerships with companies, especially on topics related to AI, data centers, and power infrastructure, as a means of deploying capital and benefiting from industry expertise across asset classes.

4. Transatlantic disparities are widening.
The difference in North American and European multiples widened slightly in 2025, from 1.0 times in 2024 to 2.0 times in 2025. Multiple GPs view this disparity as an opportunity, investing in quality European assets at lower entry multiples and repositioning them to be more North America focused, with the goal of achieving a valuation at North American levels.

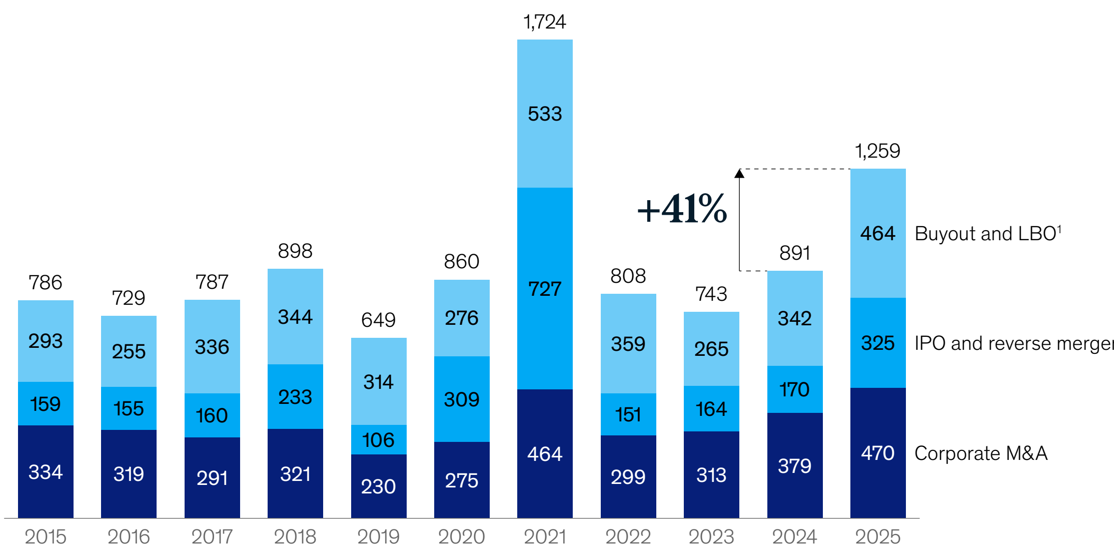
Exits
Exit value, too, experienced a rebound in 2025, increasing 41 percent to $1.3 trillion—the second-highest year on record (Exhibit 5). Growth was driven in large part by a recovery in PE-backed IPO markets, which nearly doubled in value year over year to over $320 billion. But total exit *count* declined 15 percent. In fact, when measured by count, all exit types experienced a slowdown except for IPOs, which increased 8 percent over 2024.

The 98 percent increase in IPO exit value was nearly all due to larger (above $2.5 billion) IPOs, which grew 148 percent, from $98 billion in 2024 to $246 billion in 2025. The year 2025 was also the second-highest year on record among large (more than $2.5 billion) IPOs. Market participants note improving investor confidence in the IPO market, as well as public-market confidence in the quality of PE-owned assets. These dynamics may sway GPs to exit their assets via the public

Exhibit 5

Exit value increased by more than 40 percent to its second-highest year on record, driven by private-equity-backed IPO exits.

Private-equity-backed exit value, 2015–25, by transaction type, $ billion



Note: Figures do not sum, because of rounding.
[1]Includes investor buyout by management.
Source: PitchBook

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market, where valuations are more likely to meet their expectations. While IPOs comprised only 5 percent of total exits by count, in 2025 they accounted for 23 percent of PE-backed exits above $500 million by count.

The reopening of the IPO window mattered most for larger sponsors. But there is likely still a lag between an IPO *occurring* and a sponsor ultimately *realizing* an exit. Under new, more complex market conditions, GPs typically float less of a company initially and need to sell their stakes down over time—a different reality for sponsors accustomed to having their assets be marked monthly or quarterly.

Four key trends characterized the 2025 exit landscape:

1. An improving exit environment for some barely dents the backlog.
Global PE-backed exit value as a percentage of total new buyouts reached 68 percent in 2025, its highest level since 2021 and an increase of ten percentage points over 2024. Yet that mark remains below the long-term trend (the average between 2015 and 2020 was 72 percent). Similarly, average holding periods of 6.6 years lag behind the 6.1-year average observed between 2011 and 2020.

The net effect is that the total backlog increased from approximately 13,000 to 16,000 companies held in the portfolio for four years or longer globally. That means more than half (52 percent) of buyout-backed portfolio companies have been in portfolios for four years or longer in 2025, up from 43 percent in 2024. Exuberant dealmaking in 2021 caused that jump. Historically (from 2011 to 2020), GPs had sold 30 percent of their investments by year four, but just 19 percent of the 2021 acquisitions had been sold by 2025.

GPs announced several large multiyear partnerships with companies, especially on topics related to AI, data centers, and power infrastructure, as a means of deploying capital and benefiting from industry expertise across asset classes.

2. Bid/ask spreads have converged.

The valuation gap between held and exited PE-backed assets has closed, after expanding between 2021 and 2024 (Exhibit 6). The median PE-backed company now exits at 0.3 turns higher than held values. We observe from market participants that higher-quality ("A"-grade) assets are the most likely to succeed at exit in this environment, which is reflected in the 1.6x turns of EBITDA increase in exit multiples. Sponsors, furthermore, do not appear to be marking up their own books meaningfully at these already high values.

Despite closing the valuation gap prior to 2025, for many assets—particularly those below "A"-grade—there is a spread between buyer and seller expectations: Buyers underwrite softer demand and late-cycle risk, while sellers underwrite resilient growth and view consumer concerns as overstated. Geopolitical disruptions and volatility further impact this disparity in valuation expectations.

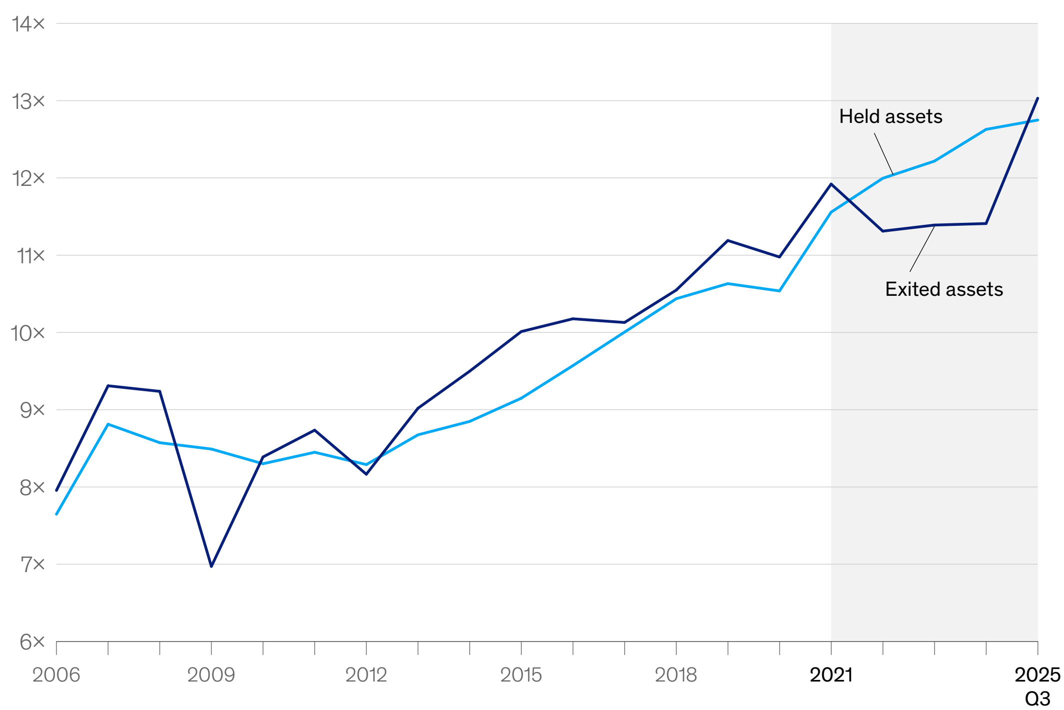
3. Liquidity solutions remain king . . .

LPs demand more than paper returns. Their understandable imperative is causing LPs and GPs alike to turn to a full suite of liquidity solutions, such as partial realizations and a more robust secondaries market.

Exhibit 6

The difference between median valuation multiples of held and exited assets has converged since its widening in 2021.

Median valuation multiples of held and exited assets, 2006–Q3 2025, EV/EBITDA multiple



Source: MSCI

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Partial realizations provide GPs with temporary liquidity relief they can extend to LPs, which are increasingly calling up capital. The uptick in median hold periods at the time of first, partial realizations demonstrate GPs' growing recognition of the viability in gaining liquidity from aging assets.

Secondaries transaction values, after reaching all-time highs in 2024, reached new records in 2025, growing 48 percent to $240 billion,[3] driven by a continued search for liquidity in a low-distribution environment. Average LP deal size grew to $450 million in 2025 compared with $425 million in 2024, reflecting strong buyer capitalization. Meanwhile, GP-led volume reached $115 billion in 2025, fueled by an ever-greater use of continuation vehicles, even as the IPO market rebounded. However, *average* buyout pricing declined 200 basis points to 92 percent of NAV, as more mature portfolios came to market.

4. . . . and are here to stay.

Liquidity solutions, like GP-led secondary transactions (the majority of which are continuation vehicles), have more than tripled in value in the last five years, rising from $35 billion in 2020 to $115 billion in 2025. It is currently estimated that 14 percent of all sponsor-backed exits go through continuation vehicles.[4] LPs forecast that figure to increase further; they expect 20 percent of deals reaching the end of their term to pass through continuation vehicles today, and 29 percent to pass through continuation vehicles five years from now.

Key questions for dealmakers

Underwriting the full life cycle, not just entry

1. Do you own "zombies"?
2. Where are you paying for "quality" at entry without a clear line of sight to who will pay for it again, and on what basis, at exit?
3. Which of your assets would command the same premium from the next buyer today, and which are implicitly underwritten to a market recovery?
4. Are you underwriting AI, value creation, and exit readiness as an integrated thesis, or are you assuming that the exit market will just paper over the gaps?
5. If exit conditions remain selective and holding periods get longer, which of your deals still clear return hurdles, and why?

However, LPs express concern that continuation vehicles may be used to hide underperforming assets. Our survey indicates that about 30 percent of LPs consider assets in these vehicles as "distressed" or "challenged," and 22 percent categorize them as "complicated." This underscores the need for transparency and alignment between GPs and LPs as the PE industry navigates a more complex investment life cycle. Nevertheless, our survey also indicates that LPs will typically not penalize GPs that use continuation vehicles to extend the lifetime of assets; nearly two-thirds of surveyed LPs reported at least a neutral if not positive likelihood to invest in GPs that more frequently use continuation vehicles.

Additional evidence suggests that continuation vehicles might be unfairly tagged with a bad reputation. First-quartile continuation funds outperform first-quartile buyout funds by 0.2 times turns of net MOIC among 2018–23 vintages, and 0.1 times turns for both median and third-quartile funds, according to MSCI.

The results raise the question: Is there a "new normal" for private equity? At present, a strong case can be made that the traditional five-year holding period is in the rearview mirror, and new, adaptive liquidity solutions will remain a permanent and significant part of private markets infrastructure going forward.

[3] See *Global Secondary Market Review*, Jefferies, January 2026.
[4] See *Global Secondary Market Review*, Jefferies, January 2026.

Operators: The primacy of operational value creation

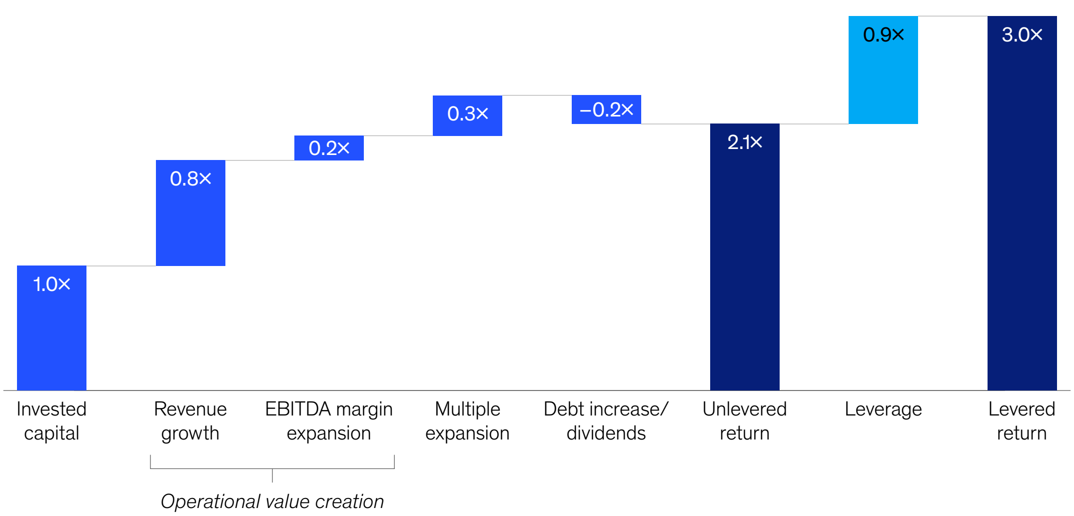
As we noted last year, the traditional drivers of past private equity returns (low purchase prices, multiple expansion, and cheap leverage) are largely spent. Beyond better deal sourcing (including greater entry-multiple discipline), the next decade will need to rely far more on operational value creation.

Analysis by StepStone Group indicates that, for deals done between 2010 and 2022, leverage and multiple expansion comprised 59 percent of returns. The remaining 41 percent came from revenue growth and EBITDA margin expansion net of dividends and debt paydown (Exhibit 7). Over the past decade, however, the share of debt as a percentage of entry multiples has declined from 44 percent in 2016 to 37 percent in 2025, reflecting that GPs are relying less on leverage to generate returns. In addition, the increase in entry multiples over the last decade has forced managers to focus on operational improvements to achieve their target returns.[5] As a result, operators' ability to increase top-line revenue and improve margins is increasingly under scrutiny from GPs and LPs.

Exhibit 7

Leverage and multiple expansion drove 59 percent of investment returns for buyout deals between 2010 and 2022.

Drivers of investment returns for buyouts, 2010–22, realized-deal multiple[1]



[1]3,830 buyout deals globally entered between 2010 and 2022.
Source: SPI by StepStone

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[5] Entry multiples reached a new high in 2025 at 11.8 times EBITDA, edging past the prior 2022 peak by less than 0.1 turns and far exceeding the 2010 to 2022 average of 9.1 times. Over the same period, debt accounted for 37 percent of entry multiples, seven percentage points below the 2010 to 2022 average of 44 percent. Together, rising multiples and lower leverage contribution point to a reduced reliance on debt to drive returns, placing greater emphasis on value creation to achieve comparable or higher outcomes.

The case for GPs to be more proactive with value creation,[6] particularly earlier in the holding period, is underscored by the fact that value creation's share of total enterprise value uplift has not changed much. In fact, it remained broadly stable from 2010 to 2022. Returns also aren't linear. Consider deals that have successfully exited in the past decade: Value creation is not evenly distributed across the holding period. Instead, it tends to accelerate as exit approaches. For deals exited since 2019, 6 percent of the total ending EBITDA margin is generated in the final year, while 4 percent is derived in the penultimate holding year with roughly 1 percent accrued each holding year prior to that.

These patterns suggest that value creation is often back-loaded. Like cramming for an exam, a lot of effort is concentrated later in the process, when an asset is prepared for sale, rather than evenly expended consistently from start to end (that is, over the entire holding period). In our experience, using the full duration of ownership to execute value creation levers continually generates better returns. Now, in an environment where operational value creation must carry more of the returns burden, shifting from late-stage acceleration to earlier and sustained execution will increasingly be essential. In fact, value creation is a full life cycle effort: establishing momentum early, formally recalibrating midcycle, and ensuring that the business is genuinely exit-ready well before a sale process begins. Now, more than ever, GPs must be asset *managers*, not asset *holders*. For some, that means their approach will need to change.

As private equity enters a more mature and technically demanding phase, the center of gravity is shifting decisively. Operators are no longer just supporting the investment thesis; they are increasingly determining whether the investment succeeds or fails. Four key trends are particularly notable when reflecting on what it takes to truly create value in private equity today.

1. GPs and LPs alike recognize the new reality and are adapting to it.
Underwriting value creation during the diligence phase is rapidly becoming table stakes. Yet there is still a chasm between the "best and the rest" when it comes to delivering impact during the holding period. In an environment where holding periods are likely longer, there are also more opportunities to course-correct to get things right.

Now, in an environment where operational value creation must carry more of the returns burden, shifting from late-stage acceleration to earlier and sustained execution will increasingly be essential.

[6] The share of enterprise value uplift attributable to revenue growth and EBITDA margin expansion.

Top performers spring to action with comprehensive postclose value creation plans (VCPs) that identify the full-potential opportunity. The most effective postclose VCPs translate the investment thesis into a practical plan, defining the baseline “momentum case,” assessing the full potential (clean-sheet, best-of-best performance) for improvement across value creation levers, detailing priority initiatives, and developing a robust execution plan to close the gap. Many of these activities start during diligence and continue *pre*close, so management teams can start the needed changes sooner.

These top performers also revisit value creation opportunities *throughout* the deal life cycle. Successful midcycle VCPs evaluate the hits and misses to date, reassess the sponsor’s view on market evolution (especially relevant in recent years due to the convulsive shocks of AI), determine how much closer the companies are to achieving the full-potential opportunity, and focus on select, high-impact levers that can generate a second wave of value creation to create additional momentum for exit.

To support this increased emphasis on value creation, many GPs have been expanding the size of their operating teams. We found that firms have more than doubled the size of operating groups on average since 2021, independent of fund AUM. Increased size has come with an increase in specialization, too. As firms have added functional specialists in this period, they have increased their frequency of engagement with portfolio companies on specific topics, led by IT and technology infrastructure (up 13 percentage points), procurement and supply chain (up nine percentage points), and digital and AI (up nine percentage points). Firms also have been engaging operating group members earlier in the deal life cycle, with 60 percent of respondents using operating group members to identify and quantify bankable performance improvements during diligence processes. From our experience, the most successful PE operating groups align with the portfolio company CEO’s operating model, instead of approaching value creation with a one-size-fits-all playbook. This involves hiring talent with the relevant industry expertise, and being aware of what new talent can bring to the table.

Operational value creation can not only improve returns; it can also help to attract LP capital: 53 percent of 300 LPs surveyed in January 2026 ranked a GP’s value creation strategy a top-five metric in selecting a manager. This placed it third most important on manager selection criteria (behind performance and quality of investment team and diligence), replacing sectoral expertise as the third-most-important metric when LPs were surveyed one year earlier. What’s more, the ability to consistently create value is closely correlated with distribution performance[7]—another critical LP consideration. By investing in their in-house operating capabilities, GPs more effectively meet their LPs’ key needs.

2. AI raises the stakes across the ownership life cycle.
AI is increasingly forcing sponsors to re-underwrite their portfolios, not just assess new deals differently. As AI alters cost curves and affects competitive dynamics in uneven ways, both within and across sectors, sponsors are actively reevaluating portfolio companies and moving more decisively on where to invest, reposition, or exit. We observe that, in practice, a more detailed portfolio triage is taking place. Sponsors are either doubling down on companies where AI can meaningfully accelerate growth or margin expansion, trimming exposure where execution risk is rising, accelerating exits where AI may erode value faster than value can be created, or subtly repositioning a company if AI poses a threat in one area but an opportunity in another.

[7] *MSCI Research & Insights*, “Sprint to the exit: Beware the late-stage margin growth in buyout companies,” blog entry by Abdulla Zaid and Ralph Eissler, September 11, 2025.

From our experience, the most successful PE operating groups align with the portfolio company CEO's operating model, instead of approaching value creation with a one-size-fits-all playbook.

While experimentation with AI is now widespread across portfolio companies, the translation of that activity into sustained, P&L-level impact remains uneven. For most operators, early gains have come through productivity and decision support, while fully embedded, scaled use cases are still emerging.

Leading operators are embedding AI directly into traditional value creation levers and are now doing so earlier in the ownership cycle. Rather than treating AI as a stand-alone initiative, sponsors are applying it to familiar drivers such as pricing, marketing effectiveness, sales productivity, customer support, software development, and back-office automation. They are helping their companies to take a broader, often domain-based approach (rather than just pilots or select use cases) to reimagine how processes should work and ensure that improvements translate to the bottom line.

Increasingly, initiatives begin in the earliest days of ownership and sometimes even during diligence. Exit preparation is also starting earlier: Operators are working to "AI-ify" portfolio companies well ahead of sale, ensuring that productivity gains, operating metrics, and decision processes are institutionalized and visible to buyers. When the process is done well, AI strengthens the exit narrative and supports valuation. When it's done poorly, AI can be dismissed as experimental or superficial.

3. CEO selection and development are key drivers of portfolio company alpha.
The greater emphasis on operational value creation demands exceptional leadership. We call this "CEO Alpha"—the value created from CEOs' outperforming in private equity. Without the right leader in place—that is, fit for purpose to the investment thesis and timing—even well-designed operational initiatives risk falling short.

The challenge is significant and more important than realized. Our data and other reports show that 60 to 70 percent of PE-backed companies experience a CEO change during ownership, often within the first few years, and the majority of these replacements (more than 60 percent) are first-time CEOs. That dynamic will only intensify as more companies go private worldwide and the pool of experienced candidates shrinks relative to the growth in global private company demand. For sponsors, this makes institutionalizing CEO outperformance—by recruiting, selecting, onboarding, developing, supporting, and building the next generation of CEOs—increasingly critical.

Capturing CEO Alpha requires rigor in both selection and ongoing development. Development often comes second to selection—a missed opportunity. What happens after the hire can be game changing. A GP should not wait, hoping that a CEO's existing capabilities will be sufficient for the demands of the particular circumstances. Instead, GPs should systematically onboard, support, and develop their operating company leaders.

Based on our work with nearly 300 PE-backed CEOs, as well as research conducted in collaboration with Harvard Business School and published in *Harvard Business Review*, we have identified a set of leadership practices that consistently distinguish top-performing CEOs. These practices include leading and owning full-potential diligence, building a fit-for-purpose leadership team, rigorously reassessing both cost structures and revenue quality, executing with relentless focus, and treating time as a scarce asset.

Equally as critical as having the right CEO is building a high-performing executive leadership team around them. This ensures bench strength, with a clear succession plan and the right horsepower to drive the value creation thesis. For example, hiring an A-plus chief transformation officer is an often overlooked but critical decision.

4. Geopolitics is now a core consideration on the road ahead.
Operating excellence also requires navigating complex geopolitical currents. Trade fragmentation, reshoring, and regional industrial policy are reshaping supply chains, input costs, and routes to market for many portfolio companies. As holding periods lengthen, the ability to anticipate and actively manage these geopolitical exposures, rather than treat them as episodic shocks, has become an essential part of value preservation and creation.

Key questions for operators

Creating momentum early, and then sustaining it

1. What is the full-potential opportunity when you remove constraints? What does "best of the best" look like, not just "top quartile"?

2. What would it take for the company to achieve the five-year performance improvement in two years? And how does that change your actions now?

3. Are AI and digital tools embedded into your core value creation levers or still treated as side initiatives that sit outside day-to-day execution?

4. How do you start to prepare for exit now, rather than waiting 12 to 18 months before, particularly given the impact of AI?

Fundraisers: From open road to off road, fundraising charts a new path

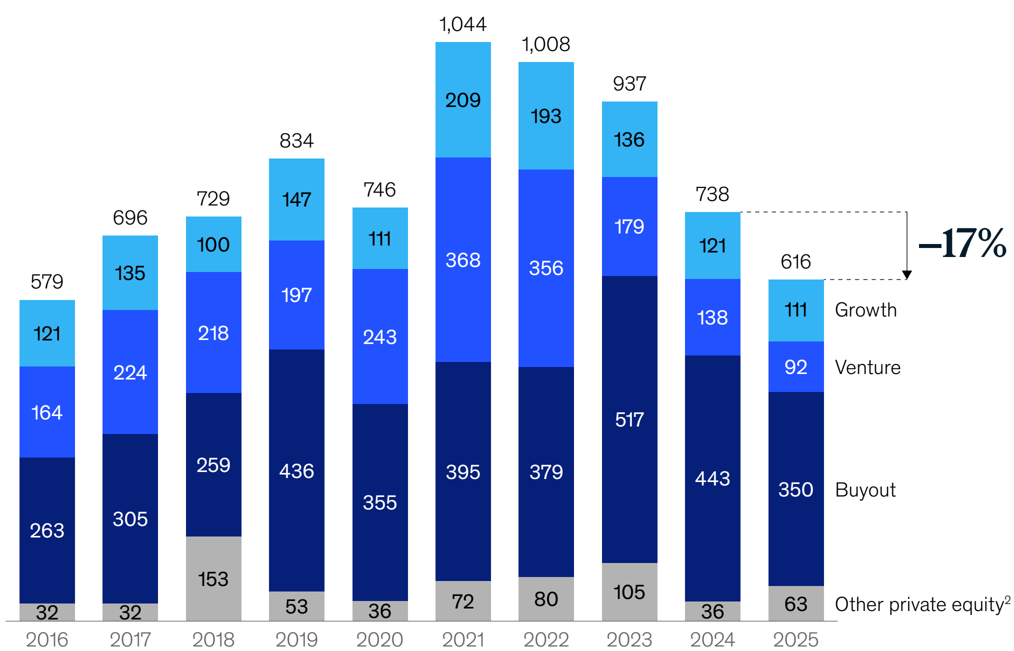
Headlines of declines in closed-end private equity fundraising in 2025 obscure a more nuanced story. Closed-end PE fundraising at a global level declined 17 percent year over year, to approximately $616 billion (Exhibit 8). But taken alone, that data point conceals important regional variation, subasset class variation, the impact of geopolitical uncertainty, and novel forms of capital formation.

When looking at regions, fundraising in the largest and most mature market, North America, *increased* in 2025. North American fundraising in closed-end structures rose 8 percent. In contrast, Europe fell 41 percent, and APAC declined 49 percent to $49 billion. Much of the European decline can be attributed to the successful 2023 and 2024 closures of flagship, megacap buyout funds. Notably, CVC IX (which closed in 2023) and EQT X (which closed in 2024) each raised more than $20 billion.

Exhibit 8

Fundraising trends by subasset class mirrored the overall fundraising trend for private equity, while growth had a stronger year.

Global closed-end private equity fundraising, 2011–25, by asset subclass, $ billion[1]



Note: Figures may not sum, because of rounding.
[1]Excludes secondaries, funds of funds, and co-investment vehicles to avoid double counting of capital raised.
[2]Includes turnaround private equity funds and private equity funds with unspecified strategy.
Source: Preqin

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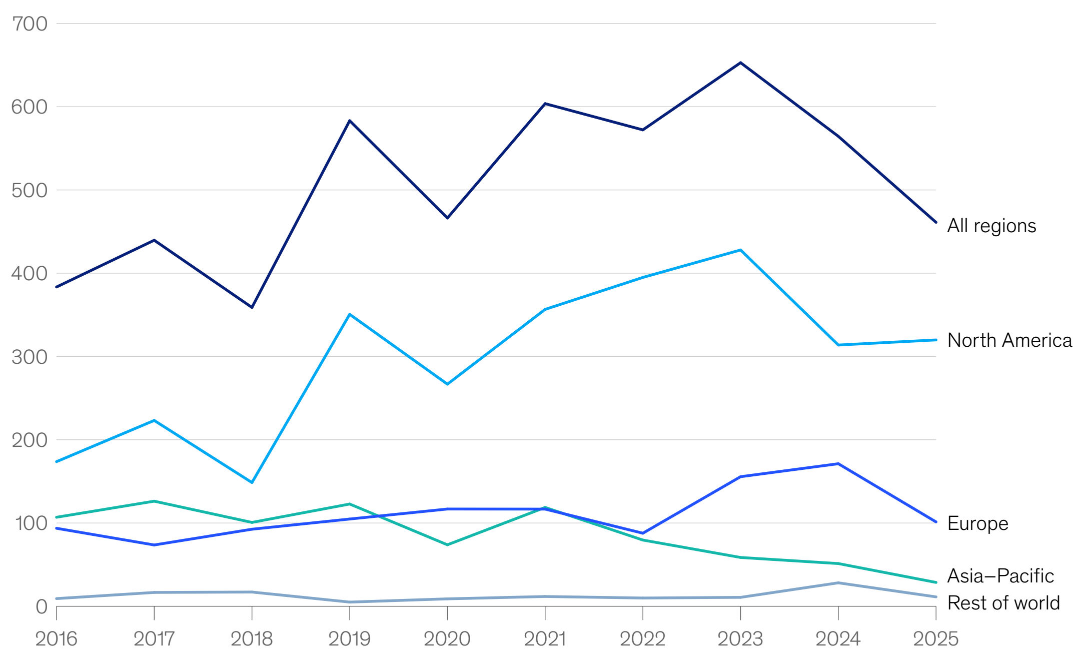
When looking at PE subasset classes, declines were consistent at the global level. Yet there were pockets of resilience (Exhibit 9). For example, growth-equity fundraising rose in North America (16 percent) and Europe (8 percent). Additionally, while global buyout fundraising appeared depressed, North America's buyout fundraising decline was less than 2 percent. Finally, closed-end fundraising figures—a traditional but partial measure—fail to take into account funds raised in nontraditional structures, such as separately managed accounts, semiliquid funds, and permanent capital. Growth across these nontraditional fund structures has accelerated. For example, in the United States, retail capital flowing into alternative structures[8] reached $204 billion in 2025, more than double the 2023 level of $92 billion.[9]

Precise values for nontraditional PE fundraising are hard to come by. One helpful proxy is to look at the broader private capital AUM reported by GPs. By that measure, AUM across all alternative forms of capital grew approximately 10 to 15 percent year on year in 2025 from $8 trillion to $8.5 trillion. This growth clearly outpaced the roughly 5 to 10 percent year-on-year increase in traditional closed-end commingled AUM, which reached $16 trillion to $16.5 trillion.

Exhibit 9

Buyout and growth fundraising in North America grew in 2025 amid global declines.

Global buyout and growth fundraising, 2016–25, $ billion[1]



[1]Excludes secondaries, funds of funds, turnaround private equity funds, private equity funds with unspecified strategy, venture capital, and co-investment vehicles. Includes only funds that held final closes in calendar year 2025.
Source: Preqin; McKinsey analysis

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[8] According to Robert A. Stranger & Company, as of January 28, 2026.
[9] According to Robert A. Stranger & Company, as of January 28, 2026.

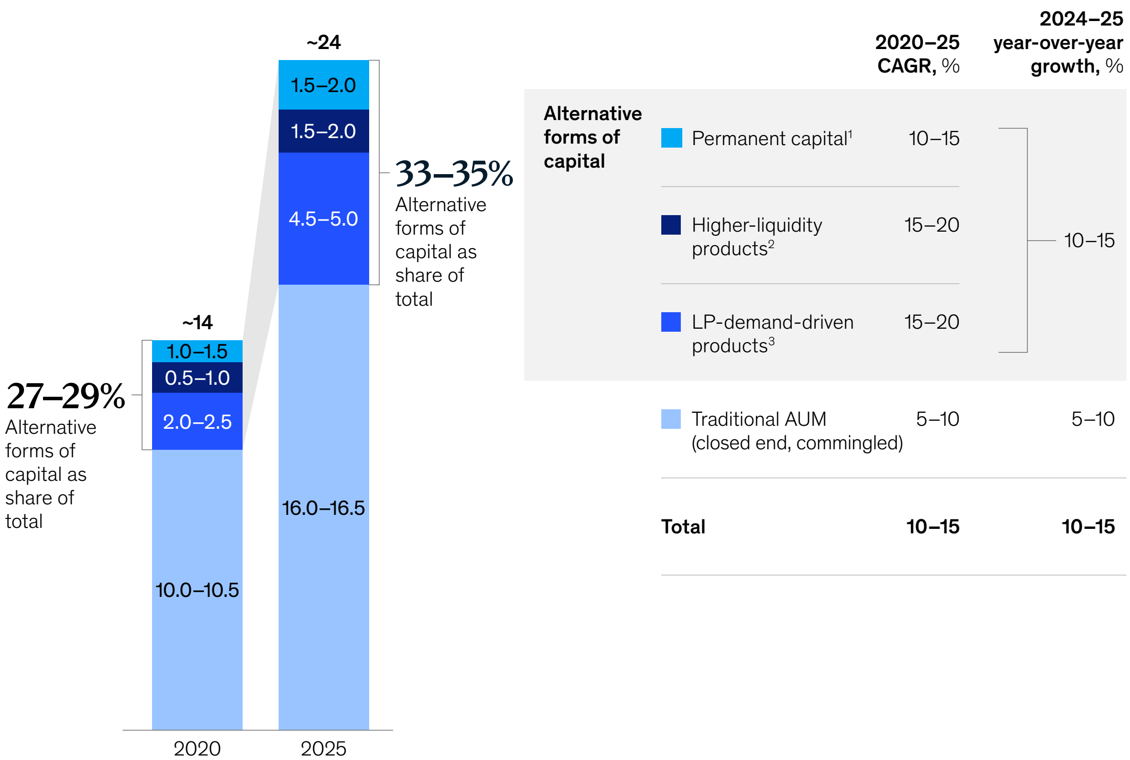
In the “alternative” investment market, custom options (such as private accounts and side deals) are now the biggest and fastest-growing category (Exhibit 10); they grew 10 to 15 percent in 2025 and have averaged 15 to 20 percent growth since 2020, making up more than half of the total year-on-year growth in alternative AUM. Higher-liquidity products (such as interval funds, tender-offer funds, and private business development companies) accounted for 25 to 30 percent of year-on-year alternative AUM growth, posted the highest recent year-on-year growth rate (20 to 25 percent), and grew at 15 to 20 percent per year from 2020 to 2025. Finally, permanent-capital vehicles (for example, insurance balance sheet capital and perpetual-life structures) accounted for 15 to 20 percent of year-on-year alternative AUM growth and grew 10 to 15 percent year on year, and 10 to 15 percent per year from 2020 to 2025. While deployment trends influence reported AUM, the persistence of double-digit growth across alternative segments underscores stronger momentum for nontraditional vehicles relative to traditional closed-end funds.

Growth in these channels is likely to increase. Our survey of more than 1,300 financial advisors in the United States showed that they expect retail investors to increase allocations to private markets. For example, 42 percent of registered investment advisors in the United States expect

Exhibit 10

Alternative forms of capital now represent 33 to 35 percent of total private capital assets under management.

Estimated private capital assets under management (AUM), 2020 and 2025, $ trillion



[1]Insurance capital held on balance sheets.
[2]Includes evergreen, intermittent-liquidity, private, and perpetual-life business development companies.
[3]Includes separately managed accounts and co-investments.
Source: CEM Benchmarking; Cerulli; Kohlberg Kravis Roberts; Preqin; Sovereign Wealth Fund Institute; StepStone; McKinsey analysis

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that more than 25 percent of their clients will be invested in private market alternatives by 2030. Our analysis highlights four implications for fundraisers.

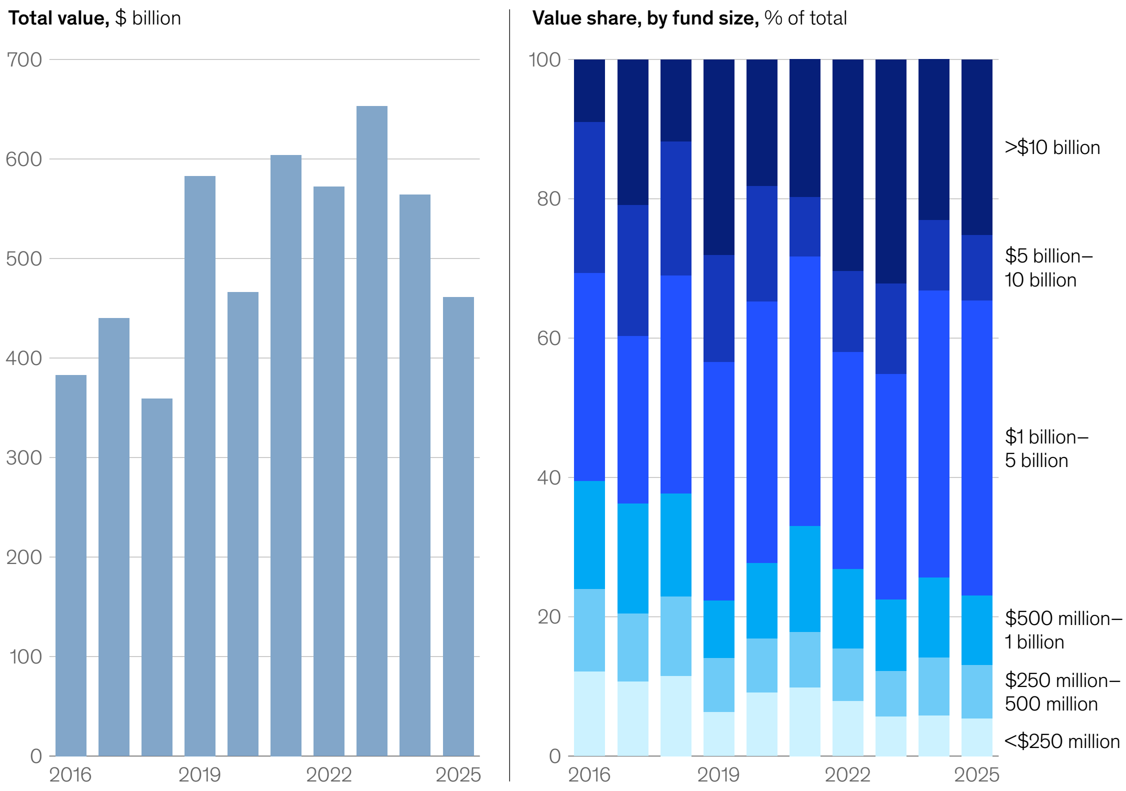
1. Scale is creating its own gravitational pull.

Scale has become an increasingly important advantage. Larger buyout and growth platforms have again benefited disproportionately, often at the expense of the smallest managers. In 2020, funds smaller than $500 million raised $79 billion (17 percent of total fundraising). In 2025, funds smaller than $500 million raised $60 billion (13 percent of the total). Much of the capital accounting for this decline was shifted to funds larger than $5 billion (28 percent in 2021 of total fundraising versus 35 percent in 2025) (Exhibit 11).[10] (The last time this concentration occurred was 2008.)

Exhibit 11

Larger managers continued to account for a greater share of capital raised in 2025, compared with their smaller counterparts.

Global buyout and growth fundraising[1]



[1]Excludes secondaries, funds of funds, turnaround private equity funds, private equity funds with unspecified strategy, venture capital, and co-investment vehicles. Include only funds that held final closes in calendar year.
Source: Preqin; McKinsey analysis

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[10] This may understate the movement toward larger funds, as they capture an even greater share of alternative capital formation channels (for example, interval funds and separately managed accounts).

Space for new entrants has narrowed materially, competition has intensified, and consolidation of GPs appears to be accelerating. Between 2020 and 2025, the number of new PE firms declined approximately 18 percent per annum globally, while the number of first-time buyout fundraisers fell 15 percent per year. Significantly, competitive pressure is evident in the rising number of what are, for all practical purposes, *inactive*[11] PE firms, which reached 304 in 2025, the highest level on record, largely driven by APAC.

Yet, despite recent discussion about managers struggling to raise successor funds, our analysis does not show that those challenges increased in 2025. Over the past 20 years, over 80 percent of managers have raised a subsequent flagship buyout fund within seven years of their previous generation's close. The year 2025 was in line with that historical range. The observation holds true even when segmenting by region and fund size, where we do not yet see an uptick in the share of GPs failing to raise successor flagship funds. That could change, however, if delayed distributions continue to constrain LP liquidity; experience suggests that LPs will increasingly press GPs to return cash in a timely fashion.

Finally, we observe growing consolidation. Total M&A deal value involving the top 100 alternative asset managers acquiring other asset managers reached its highest value since 2006 in 2025 (approximately $34 billion), close to double the 2024 level (approximately $18 billion).

2. Specialization enables differentiation.

Not everyone can be big. But those that are not big had better be specialized. Buyout managers are increasingly differentiating themselves from generalist buyout peers through stronger performance and more resilient value creation. Across 2010–22 vintages, specialist buyout funds generated better returns than their generalist peers. Typically, they saw higher pooled IRRs (17 percent versus 13 percent) and total value multiples (2.2 times versus 2.1 times), and lower loss ratios (9 percent versus 12 percent) than generalist buyout funds did. The stronger performance of specialists is underpinned by a distinct focus on operational value creation. Compared with generalist buyout funds across the 2010–22 vintages, specialists generated nearly four times as much equity value from EBITDA margin expansion (43 percent versus 10 percent), while deriving a similarly high share of value from revenue growth (86 percent versus 82 percent). Specialists' returns were also largely independent of multiple expansion (5 percent versus 35 percent for generalists), highlighting a more resilient and less-market-dependent return profile.

3. Alternative fund structures aren't so alternative anymore—they're becoming core growth channels.

Managers continue to adapt their fundraising models to a more selective environment by offering greater flexibility, customization, and durability of capital.

Just as an unpaved road demands more from a driver, the prominence of these vehicles demands more from an investment manager. GPs need different capabilities, including navigating periodic liquidity and conducting more frequent valuations, comporting with heightened disclosure and fiduciary requirements, building retail-ready distribution and investor education capabilities, and operating at greater scale with institutional-grade compliance, data, and operating infrastructure. Those demands can necessitate significant operational change.

[11] Calculated by taking the number of private equity (PE) firms at the start of the year, adding the number of new PE firms formed in the prior year, and then subtracting the number of PE firms at the start of the prior year.

The challenges are underpinned by the accelerating growth of retail capital into alternative private equity vehicles. Retail appetite for private markets remains strong, with financial advisors expecting a pronounced shift from low allocations (below 5 percent) toward double-digit exposure across all advisor channels by 2030. Regulatory reforms, led by developments in North America and Europe, are also increasingly facilitating retail access to private markets. In the United States, an executive order issued in August 2025 directed regulators to revisit guidance affecting whether and how defined contribution plans, such as 401(k)s, can offer asset allocation funds that include alternative assets. Moreover, the Securities and Exchange Commission has removed private asset allocation limits for closed-end funds, allowing them to be sold to retail brokerage clients even when investing more than 15 percent in underlying private funds. Similarly, the United Kingdom has launched pension fund reforms that set explicit targets for increased private asset allocations by 2030.

4. Closed-end PE fundraising is down—but not out for the count.

Amid these turbulent dynamics, there are signs that closed-end private equity fundraising has begun to stabilize. While the average time to close for buyout funds remains elevated, it declined in 2025 for the first time since 2019. New PE firms are still being launched—more than 400 in the past year—but at a slower pace than during the decade-long expansion following the global financial crisis of 2008. In addition, the share of flagship buyout funds reraising at a step up relative to their prior vintage has remained stable; 75 percent of flagship series reraised at a step up in 2025, in line with the previous five-year average, indicating that established managers with strong track records continue to access capital. The average time between fundraises also remained stable at 4.7 years in 2025, which slightly edges over the prior 15-year average of 4.6 years.

But while private equity fundraising has faced a challenging past few years, the evidence points to a market that entered maturity rather than made a precipitous retreat. Fundraising has transitioned from a simpler environment to a more uneven and selective one, where success requires either scale, specialization, or structural innovation. The one crucial determinant of successful GP fundraising is that GPs clearly exit their portfolio company backlog and return cash to LPs. In this sense, private equity fundraising has not stalled; it has simply gone off-road.

Key questions for fundraisers

Demonstrating durability, not just momentum

1. Where is your fundraising story still anchored in past performance, rather than in evidence that your platform can deliver returns through longer holds, higher prices, and tougher exits?

2. How clearly can you explain how value is created today across your platform, not just how much was created in prior vintages?

3. Are your fund structures, pacing, and liquidity tools aligned with LP priorities around DPI and flexibility, or are they optimized for a market that has already moved on?

4. Are your fundraising strategies, sources of capital, and capital-raising resources grounded in the past—or where capital is coming from now? Have you adapted to the right geographies and institutional and retail segments, and can you meet the sophisticated requirements of many LPs? Are you trying to be all things to all LPs or have you figured out a distinct value proposition that works for a select number of LP segments?

LPs: The demand to show traction

LPs, too, appear to be shifting gears for this more technically demanding road ahead. Effective allocations to private equity declined for the first time in more than a decade, despite target allocations remaining stable.

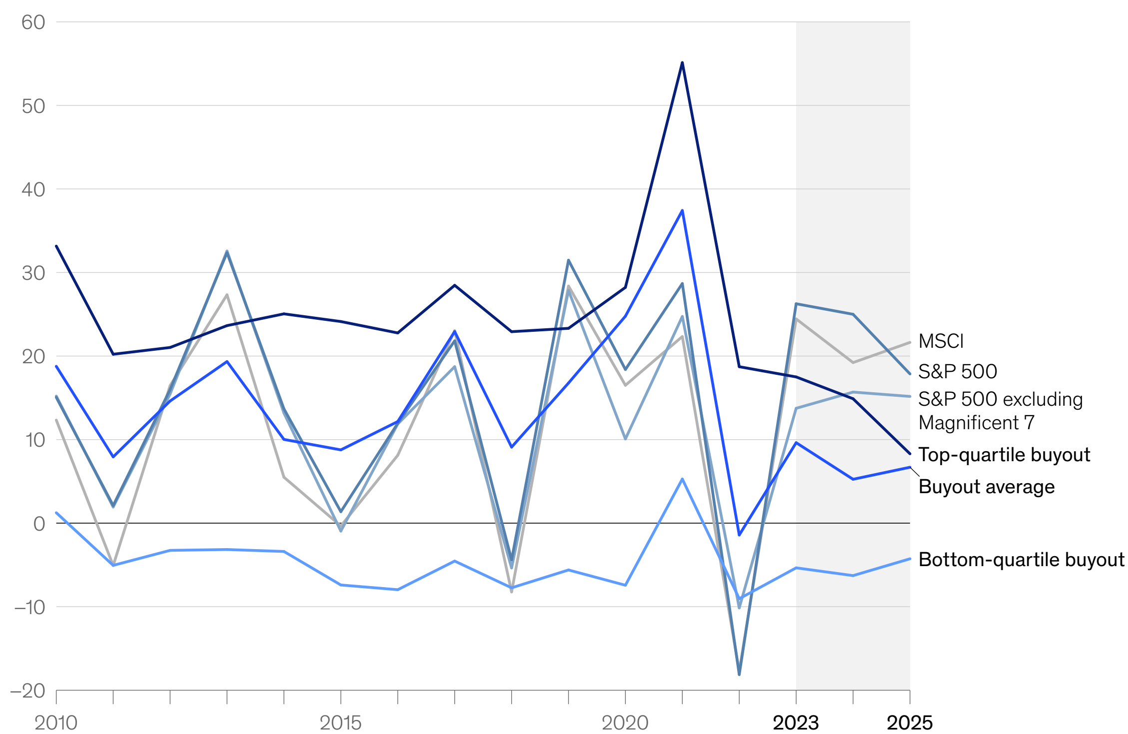
Two key factors are likely at play: the contrast between strong public-market performance and persistently muted private equity returns, and the rising importance of liquidity in LP decision-making. Together, those factors are shifting LP private equity allocations.

1. Recent public-market outperformance has overshadowed muted PE returns.
PE returns have not only trended downward over time; they appear to be at a historic low. Buyout fund IRRs reached a post-2002 trough between 2022 and 2025, averaging 5.7 percent on a pooled basis and ranking as the second-lowest period on a median basis at 5.4 percent (Exhibit 12). This deterioration reflects a combination of paying more (entry valuations are higher),

Exhibit 12

Private equity underperformed public equity for the third consecutive year in 2025.

IRR of buyout funds and related indexes for 2000–22 vintages, %[1]



[1]Fund performance assessed using 1-year pooled IRR, calculated by grouping performance of 2000–22 funds during 2010–25. Some data not available for certain periods. IRR for 2025 is year to date as of Sept 30, 2025.
Source: Private Asset Solutions by MSCI

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macroeconomic uncertainty (inflation and higher interest rates especially hurt overall returns), and a persistently challenged realization environment (assets are harder to sell).

These pressures were evident again in 2025, when buyout funds underperformed US and global public equities for the third consecutive year, generating returns of approximately 7 percent compared with the S&P 500's 18 percent and MSCI World's 22 percent. Notably, the performance gap persisted even when excluding the Magnificent Seven,[12] underscoring that PE underperformance cannot be attributed solely to a narrow concentration of public-market winners.

Even the best performers are affected by the bumpier terrain. Top-quartile buyout fund performance has declined over time; while IRRs from top-quartile buyout funds across the 2016–25 calendar years outperformed the S&P 500 and the MSCI World indexes over the same period (24 percent versus 15 percent and 13 percent, respectively), their performance has deteriorated. Average top-quartile buyout IRRs have decreased, falling from the mid-20s (approximately 25 percent) for between 2010 and 2014 to the low-20s (approximately 23 percent) for between 2018 and 2022 when excluding the outsize 2021 cohort. A further compression toward the mid-teens (and below) is evident post-2021, representing an additional decline of nearly seven percentage points in the most recent period.

2. The liquidity imperative.
Growth in asset values is important but not determinative; cash matters, too. LP priorities have shifted decisively toward liquidity. Our findings show that DPI is now considered "critical" or "most critical" by 54 percent of LPs, tied with MOIC as the second-most-important performance metric. More broadly, performance and liquidity challenges dominate LP sentiment: "Delayed exits from GPs/lack of liquidity" and "valuations write-downs" rank among the top three LP concerns, at 70 percent and 62 percent, respectively.

Average top-quartile buyout IRRs have decreased, falling from the mid-20s (approximately 25 percent) for between 2010 and 2014 to the low-20s (approximately 23 percent for between 2018 and 2022 when excluding the outsize 2021 cohort).

[12] The Magnificent Seven companies are Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

LPs have a point. The outlook on liquidity in private markets remains mixed, with five-year rolling DPI as a share of AUM for buyout funds hitting its lowest recorded level in 2025 (Exhibit 13). Additionally, distributions as a percentage of AUM declined to approximately 6 percent in the six-month period ending June 2025—eight percentage points less than the ten-year (2015 to 2024) average of 14 percent. It is not all bad news for LPs, however. In 2025, buyout fund distributions exceeded capital calls for the second year in a row.

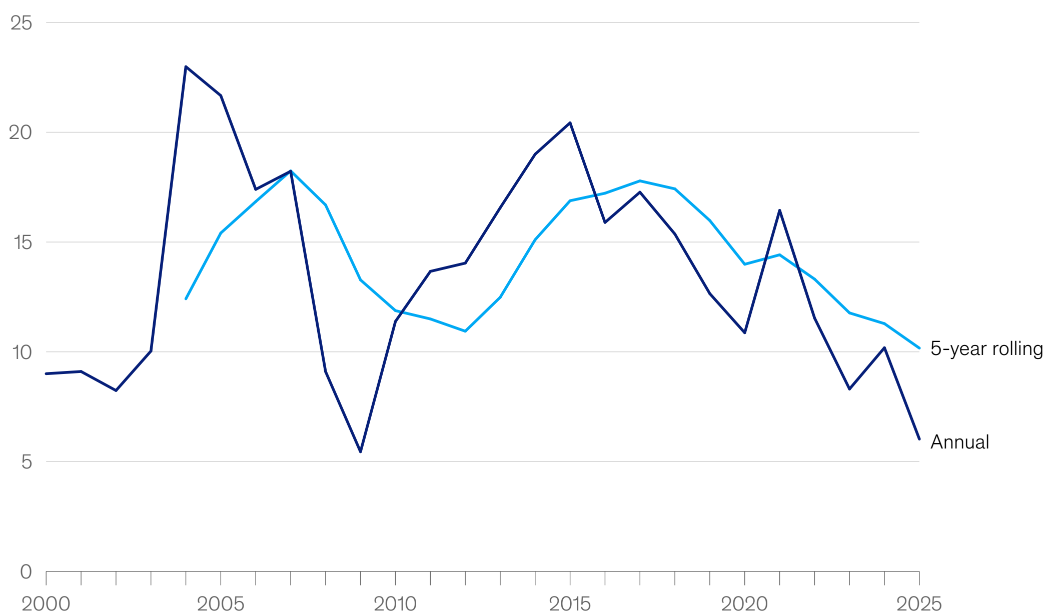
Longer holding periods and slower exits are directly limiting distributions to LPs, suppressing DPI. Moreover, extended holding periods further erode IRRs through time decay. Together, these dynamics create a reinforcing cycle of lower realized performance and reduced cash returns.

Recent buyout performance shows how longer holding periods are weighing on returns. From January 2022 through September 2025, buyout funds generated average returns of about

Exhibit 13

Five-year rolling distribution to paid-in capital as a share of assets under management hit its lowest recorded level in 2025.

Distributions as a share of assets under management,[1] 2000–25, %



[1]Annual numbers reflect 12-month trailing averages. 2025 value is as of June 2025; all other values are as of Dec of that year.
Source: Preqin

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6 percent (Exhibit 14). While newer vintages posted double-digit IRRs during this period (almost 15 percent for funds launched between 2022 and 2024), older vintages lagged meaningfully (approximately 2 percent for assets bought between 2015 and 2017). The weaker overall performance over the past three years has been driven largely by older funds holding assets well beyond typical five-year timelines, without generating enough value to offset the drag of time on IRR. This dynamic also raises a question for newer vintages: Much of their strong performance remains *unrealized*. If exit conditions remain constrained, these funds could face similar pressure on returns over time.

3. Despite frustrations, LP allocations to PE remain relatively stable.

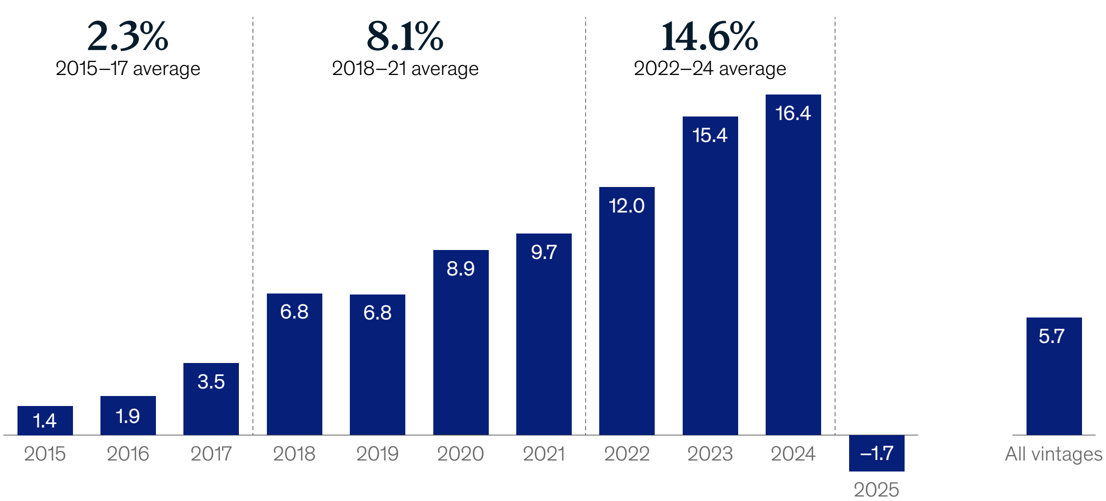
Despite these headwinds, most LPs are not abandoning private equity. In fact, LP allocations to private equity are expected to be broadly sustained. Our survey of 300 LPs indicates that, at an aggregate level, the share of LPs planning to maintain or increase PE deployment in 2026 remained stable: about 70 percent of LPs in H2 2026 versus 68 percent in the first half of the year.

Why? The same survey revealed that 77 percent of LPs indicated that they planned to either maintain or increase their allocation to buyouts over the next three years, driven mainly by expected increases in returns and better comparable performance than other asset classes in risk-adjusted returns. LPs' evaluation criteria for committing capital, however, will evolve in

Exhibit 14

The drag in private equity IRRs in recent years is primarily because of older vintages; newer vintage returns are mainly derived from holding values.

Buyout pooled IRR for 2022–25, by vintage, %[1]



[1]Jan 1, 2022–Sept 30, 2025. Not all vintages shown.
Source: MSCI

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Key questions for LPs

Choosing the right vehicles for a challenging road

1. Which of your managers can still generate returns when leverage, multiple expansion, and fast exits are no longer doing the work?

2. Do you have a clear line of sight into how each general partner generates returns today, or are you still relying on historical IRRs and brand comfort?

3. Are you prepared for longer holds, uneven exits, and partial liquidity—and is your portfolio constructed to withstand that reality?

4. Are you deliberately concentrating capital behind scale, differentiation, and operating capability, or are you spreading exposure across managers without any clear edge?

lockstep with the increasing maturity the industry is experiencing. Capital commitment decisions will still be driven primarily by a GP's historical IRR, but as discussed earlier, DPI will play a more important role going forward. Additional factors such as the availability of co-investment opportunities have also increasingly become a baseline expectation for LPs, putting pressure on traditional "2 and 20" GP economics. In our survey, 52 percent indicated that access to co-investments is a requirement for committing to a fund; roughly half of those LPs require co-investments to represent at least 20 percent of committed capital. Among LPs that do not formally require co-investment rights, 39 percent nonetheless expressed a preference for managers that at least offer opportunities for co-investment.

LPs know that the road ahead will be uneven. But rather than making a U-turn, they are choosing to stay the course and are shifting gears to navigate a more demanding terrain. Conviction in private equity remains intact; what is changing is how LPs allocate, evaluate, and engage as the industry trends toward greater maturity.

Private equity in 2026 is now a mature industry—a dramatic shift from a decade ago. This year, in fact, marks the tenth edition of McKinsey's *Global Private Markets Report*. Our inaugural report in 2017 was titled *A routinely exceptional year*, a fitting reflection of an era when fundraising, deal value, and assets under management were all rising in tandem, powered by strong macro tailwinds.

As we noted last year, the conditions that once amplified returns—declining interest rates, expanding multiples, and abundant leverage—have passed. This year has only brought that changed terrain into clearer view. Over the next decade, outcomes will increasingly be shaped by deliberate choices: how GPs exert sufficient discipline on asset selection and entry multiple; how early and consistently they create operational value; how successfully they navigate and leverage AI for their portfolio companies and themselves; how rigorously they develop leadership; and how effectively they manage liquidity and risk through longer and more complex holding periods. Under those conditions, alpha is less likely to emerge from market dynamics alone. It will increasingly be made.

A maturing industry sharpens the need for differentiation. Scale, specialization, and operating discipline will matter more; generic strategies and reliance on past playbooks will matter less. Some firms will adapt quickly and extend their advantage. Others will struggle—not because private equity has lost relevance, but because the standards for performance have risen and the sources and formats of capital are changing. Industry market structure will change, too, particularly with continued M&A. For LPs, this calls for sharper selectivity and confidence that managers are equipped for longer holds, uneven exits, and a world where operational value creation must do more of the work. For GPs, it demands clarity about what kind of platforms they are building and whether they are truly fit for this next phase.

Private equity remains a powerful long-term model. But like other mature industries, it will increasingly reward those prepared to operate with discipline, depth, and a long-term view of value creation. The challenges ahead are real, but so are the opportunities for those prepared to meet them. The road ahead, while steeper and more demanding, remains very much open. Especially for the right vehicles.

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Real estate

Building on new terrain

Real estate moved from stabilization to selective acceleration in 2025—but the most profound changes have only just begun.

by Aditya Sanghvi, Alex Wolkomir, Ben Dimson, Tripp Norton, and Vaibhav Gujral

With 2025 in the rearview and the year ahead coming into sharper focus, the real estate industry is showing signs of selective acceleration rather than broad normalization. Capital is moving again, but momentum is concentrated in specific sectors and strategies. Overall investment and deal activity remain well below historical highs. There likely won't be a return to prior-cycle exuberance, at least in the near term.

When will real estate get back to *normal*?

The question misses the point. Foundations of the real estate industry are shifting, and the old normal is not returning; instead, the industry is evolving. While falling cap rates and rising valuations drove returns in the last cycle, that tailwind is fading. The prevailing cycle is defined by strong execution, capital structure discipline, and platform scale. These dynamics create significant opportunities—and new challenges—for value creation. Across private and public capital, general partners (GPs), limited partners (LPs), and operators alike are confronting a new terrain.

A look at 2025: What the metrics show

Global real estate deal value reached $873 billion in 2025, up about 12 percent year over year, even as transaction count remained broadly flat (Exhibit 1).[1] The value increase primarily reflected larger average ticket sizes rather than a broad-based surge in activity, which suggests, in turn, that capital is concentrating on more targeted opportunities. Specialty property (such as data centers, senior and student housing, and flex industrial) has been gaining share each year since 2023. In 2025, that trend continued: Specialty property accounted for 14 percent of the 2025 total deal volume. Within this shift, data center deal volumes surged 37 percent, making the sector one of the fastest-growing segments globally. Additionally, in traditional real estate, office deal volume jumped approximately 17 percent year over year, driven by a "flight to quality" in

After sharp drawdowns in 2023 and an uneven recovery in 2024, returns turned modestly positive in 2025 across most real estate strategies.

1 Real Capital Analytics, MSCI, accessed January 31, 2026.

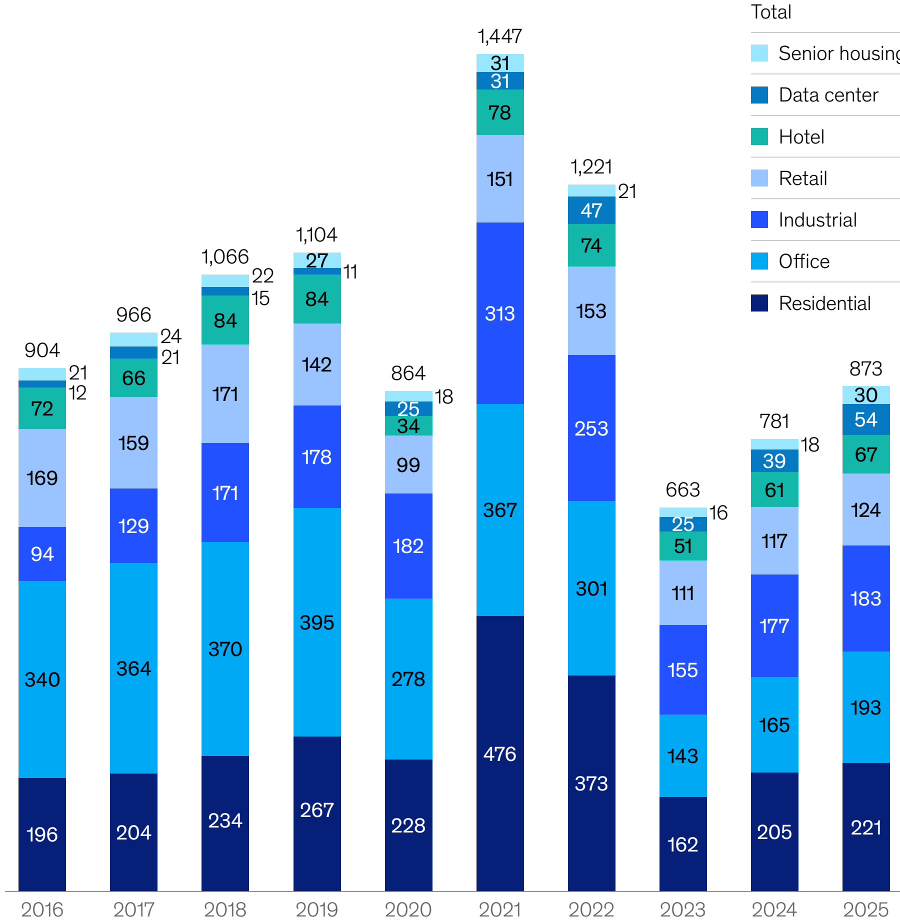
Class A assets (where deal volumes grew 34 percent year over year in the United States). Lower-quality segments continue to face distress amid concerns about structural obsolescence (such as outdated layouts or weaker amenities) and difficulty in conversion to alternative uses.

Private-market volumes are still below prior-cycle levels, as public and private valuations remain diverged. Public markets repriced more rapidly—today, listed real estate operates at implied cap rates that are about 130 basis points (bps) higher than private-market appraisals (down from an approximate 240 basis point difference in 2023).[2] While the private–public gap has narrowed meaningfully, private valuations remain less conservative than public pricing. Alignment is still

Exhibit 1

Global real estate deal volume showed signs of selective acceleration.

Global real estate deal volume, $ billion



	2016–25 CAGR, %	2024–25 growth, %
Total	–0.4	11.7
Senior housing[1]	4.0	71.5
Data center	17.8	37.4
Hotel	–0.8	10.3
Retail	–3.4	6.2
Industrial	7.7	3.9
Office	–6.1	16.5
Residential	1.4	8.0

Note: Figures may not sum, because of rounding.
[1]Senior housing figures not available for Asia.
Source: Real Capital Analytics

McKinsey & Company

[2] *Market Commentary Blog*, "Lingering public-private real estate valuation gap signals potential REIT benefits," blog entry by Edward F. Pierzak, Nareit, September 12, 2025.

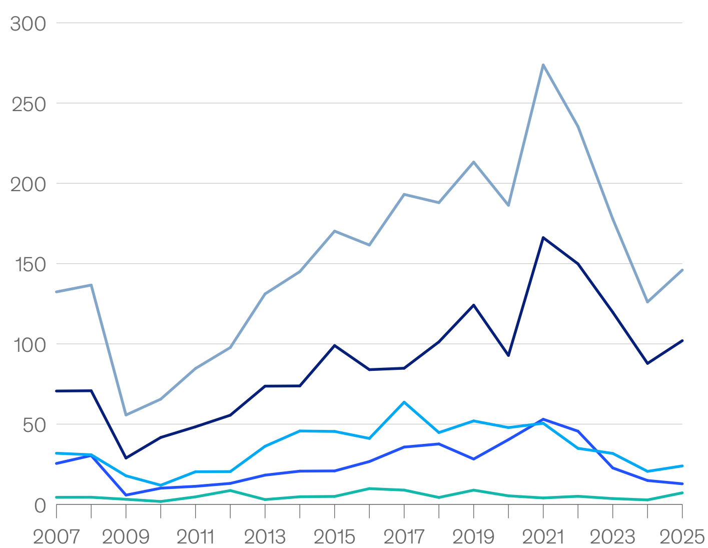
in process and gradual, as evidenced by moderating appraisal uncertainty in private markets (reflected in transaction amounts and deal volumes) and continued discounts to net asset value (NAV) in public markets (at a median of 18 percent).[3] These dynamics are more conducive to take-private transactions.

Fundraising in 2025 showed early signs of recovery but remained selective. Closed-end real estate fundraising rebounded about 16 percent year over year to $146 billion—though that level constitutes the second-lowest annual total of the past decade and is approximately 50 percent below prepandemic peaks. Value-add strategies have declined each year since 2022 (from $93 billion that year to roughly $27 billion in 2025), while opportunistic strategies have gained traction as LPs seek to capitalize on market dislocations (with fundraising up 65 percent year over year in 2025). North America and Europe returned to growth (both up 16 percent) for the first time since 2022, while Asia declined for a third consecutive year (14 percent) (Exhibit 2). A McKinsey survey finds that LP sentiment toward Western Europe and Asia–Pacific (excluding China) strengthened significantly, with a net 32 percent and 54 percent of investors planning to increase their exposure over the next three years to these regions (respectively), compared with 28 percent for the United States. Open-ended commitments in the United States rebounded to $18 billion in 2025, up 70 percent year over year—an impressive gain, but still significantly below the highs of just a few years ago ($31 billion in 2022).

Exhibit 2

All regions except Asia recorded an increase in real estate fundraising for the first time since 2022.

Global closed-end real estate fundraising, by region,[1] $ billions



	2020–25 CAGR, %	2024–25 growth, %	2023–25 growth, %
All regions	–4.8	15.8	–9.4
North America	1.9	16.1	–7.7
Europe	–12.9	16.4	–13.1
Asia	–20.5	–13.7	–24.8
Rest of world[2]	6.2	157.7	40.9

[1]Secondaries and funds of funds are excluded to avoid double counting of capital fundraised.
[2]Includes Africa, Middle East, South America, and others.
Source: Preqin

McKinsey & Company

[3] Arpita Banerjee and Ronamil Portes, "NAV Monitor: US REITs close November at lower median discount to net asset value," S&P Global Market Intelligence, December 4, 2025.

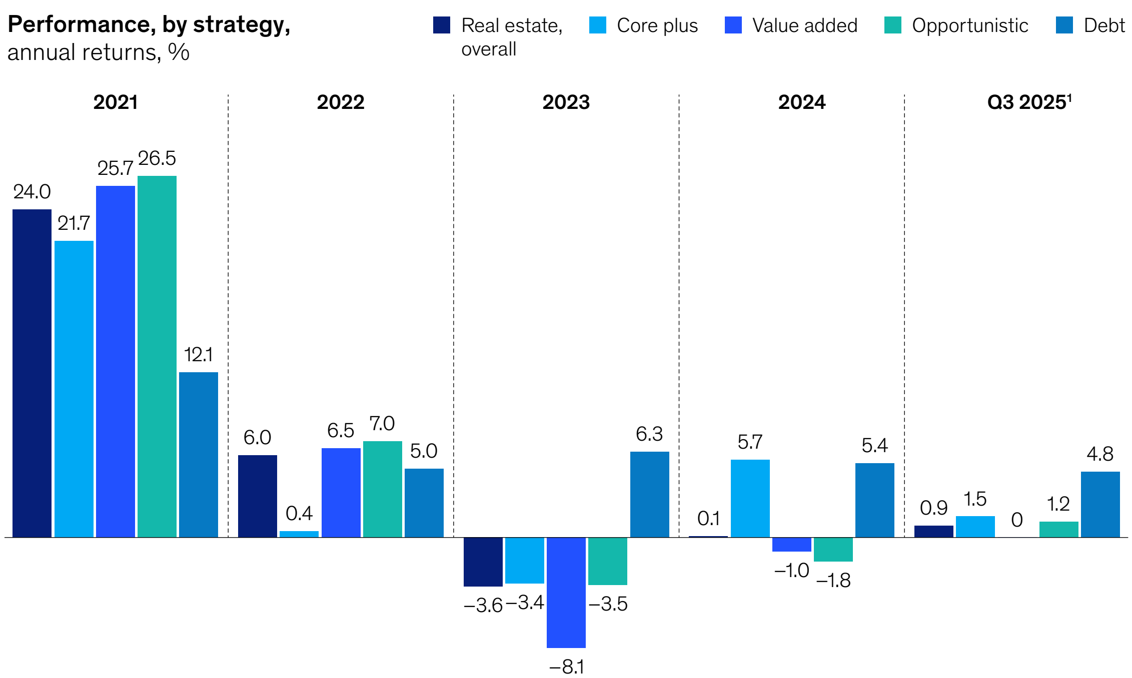
Retail fundraising remains well below cycle highs (nontraded real estate investment trusts [REITs] totaled $5.7 billion in 2025, down 6 percent year over year and more than 80 percent from 2021),[4] but performance has improved meaningfully over the past two years. The Stanger NAV REIT Total Return Index, after declining 3.0 percent in 2023, rebounded 1.1 percent in 2024; it's expected to finish 2025 up 5.8 percent, reaching an all-time high. This suggests that even if retail flows have yet to recover fully, fundamentals are stabilizing.

After sharp drawdowns in 2023 and an uneven recovery in 2024, returns turned modestly positive in 2025 across most real estate strategies. Debt and core-plus categories led the rebound (with 4.8 percent and 1.5 percent annual returns, respectively), while opportunistic strategies more recently moved back into positive territory (1.2 percent annual returns) (Exhibit 3). Yet returns remain well below the peak levels seen in 2021—pointing to a gradual, rather than complete, recovery. The current environment may favor strategies that have a stronger income orientation and more robust downside protection; higher-risk strategies may require a more sustained improvement in fundamentals to generate outsize returns. Although returns have improved recently, cumulative three-year performance remains negative across much of the debt and core-plus categories (a 2.6 percent decline overall), indicating that while the market may have stabilized, it has not fully recovered.

Exhibit 3

Real estate returns turned modestly positive in 2025 after a sharp correction in 2023—but performance remains well below 2021 peaks.

Performance, by strategy,
annual returns, %



[1]Returns for 2025 are year-to-date returns through Q3.
Source: Preqin

McKinsey & Company

[4] Nina Dale, "Alternative investment growth hits $203.7B in 2025," CRE Daily, January 29, 2026.

Although the sharp 2025 maturity spike has largely been absorbed through extensions and refinancing—with only about 17 percent of projected 2025 maturities actually coming due—overall refinancing pressures remain elevated. Approximately $2.1 trillion of US commercial real estate loans are scheduled to mature over the next three years (broadly in line with last year's estimate), indicating that the "wall of maturities" has shifted forward rather than materially declined. At its core, this maturity wave reflects equity impairment: As valuations declined, many assets pushed toward extension, restructuring, or recapitalization rather than immediate sale. Meanwhile, monetary policy eased across major economies in 2025. The Federal Reserve cut interest rates by 75 bps over the year, the Bank of England reduced its Bank Rate by 100 bps, and the European Central Bank lowered rates by approximately 50 bps—reflecting differing inflation and growth dynamics across regions.[5] At present, markets appear to be pricing in additional reductions in 2026, which, if sustained, could support current valuations and encourage transaction activity.

At the same time, geopolitical instability, election cycles, and diverging regional growth trajectories continued to elevate uncertainty across capital markets.[6] A shift toward more protectionist and security-oriented policies has further complicated cross-border capital flows. Against this backdrop, investors have looked to real estate for durable cash flows, contractual income streams, and inflation-linked characteristics. At the same time, the sector's position in portfolios is shaped by liquidity, pricing, and leverage. While sustainability has encountered pushback in the United States, it remains embedded in Europe's regulatory agenda (as evidenced, for example, by recent refinements to the European Union's Corporate Sustainability Reporting Directive [CSRD],[7] and the United Kingdom's tightening of energy performance certificate requirements).[8] In fact, 78 percent of institutions in Europe, the Middle East, and Africa reported that environmental, social, and governance factors influence their investment process (compared with 13 percent of US institutions and 40 percent globally).[9]

Capturing value on new terrain: Five global, foundational trends

Across the real estate industry, value creation is shifting from market beta to operational alpha: Outcomes are increasingly driven by manager execution at the asset and subasset levels, rather than by rising valuations or favorable market cycles. Firms that embed operating capabilities—and, increasingly, AI and advanced analytics—into core workflows are positioning themselves to gain share. Leading allocators, for their part, are rethinking platform design, vertical integration, and capital formation to compete in a market that rewards scale and execution (see sidebar, "An evolving industry: Key implications for industry participants").

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[5] Molly Grace, "The Fed made its third cut of the year. Here's what borrowers and savers can expect," *Wall Street Journal*, December 10, 2025; "Bank Rate reduced to 4.5%," Bank of England, February 2025; "Bank Rate reduced to 3.75%," Bank of England, December 2025; "Monetary policy decisions," European Central Bank, January 30, 2025; "Monetary policy decisions," European Central Bank, June 5, 2025.

[6] "Global Economics Intelligence executive summary, January 2026," McKinsey, February 24, 2026; "Geopolitics and the geometry of global trade: 2025 update," McKinsey Global Institute, January 27, 2025.

[7] *S&P Global Research Blog*, "New CSRD sustainability reporting covering more companies and more disclosures," blog entry by Michael Taschner, October 31, 2023.

[8] "Reforms to the Energy Performance of Buildings regime–partial government response," UK Ministry of Housing, Communities & Local Government and Department for Energy Security & Net Zero, January 21, 2026.

[9] Real Estate 2025 Allocations Monitor, Hodes Weill, accessed February 2026.

An evolving industry: Key implications for industry participants

Multiple, global trends—including capital flows, operating models, technology adoption, and asset allocation—have critical implications for participants across the real estate industry. Most notably, these include the following:

— *AI is transitioning from an efficiency tool to a competitive moat.* Platforms that embed AI holistically will move faster, make more consistent decisions, and reduce execution leakage. The gap between firms that redesign workflows and those that simply layer on tools will likely compound over time.

— *This is no longer a beta market—it's a capability market.* As conditions become more complex, the winners will be those who can consistently extract operational alpha at the asset level through clear differentiation (through scale, niche specialization, or proprietary sourcing). Broad, undifferentiated positions will become increasingly difficult to sustain; capital won't easily flow to those who merely keep pace.

— *Operating models are becoming more important.* Firms that treat property management and asset operations as *strategic* capabilities—as opposed to outsourced utilities—will have a significant competitive advantage. At the same time, capital structure creativity at both the asset and fund levels will be critical to managing refinancing risk, unlocking liquidity, and protecting equity.

— *Scale is becoming a differentiated enabler.* Scale increasingly underpins competitive advantage. Larger platforms are better positioned to invest behind strategic priorities, revamp operating models (for example, by improving verticalization or better enabling AI), and meet growing limited partner preference for larger managers with demonstrated performance outcomes.

— *Competition for high-growth sectors is intensifying.* As infrastructure capital expands into sectors such as data centers, logistics, and other long-duration assets, competition for the most value-creating real estate segments will increase. Investors who can underwrite flexibly across real estate and infrastructure categories will be better positioned to compete.

Real estate isn't getting back to normal, at least in the traditional sense. Instead, the industry is advancing into new terrain. Our analysis highlights five global trends that will be increasingly consequential.

AI: Accelerating from pilot to production

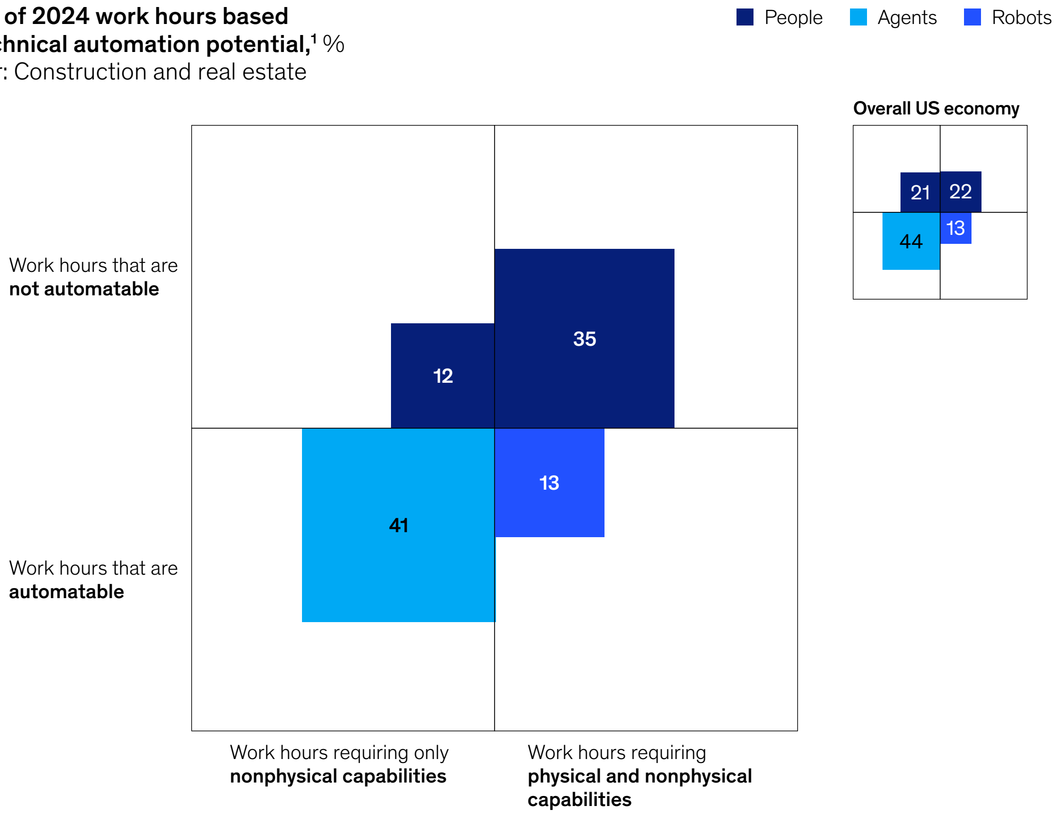
Generative AI is catalyzing value creation across the real estate ecosystem. Agentic AI represents the next wave, enabling a more effective partnership between humans and autonomous AI systems, deploying human judgment where it matters most. Leaders are no longer asking, "Can a model write a polished paragraph?" but rather, "Can technology safely take the next step in a workflow, directly inside the systems that run the business?" Critically, this next step is about enabling greater focus on human decision-making (such as weighing trade-offs, interpreting ambiguity, and applying judgment in uncertain contexts) as AI surfaces insights and accelerates workflows. Already, priorities are shifting from *piloting* isolated use cases to *redesigning* entire domains, many of which are candidates for people–agent collaboration (Exhibit 4). The potential value is significant: Agentic AI could generate roughly $430 billion to $550 billion in value annually across real estate, construction, and development globally.[10]

[10] Dependent on adoption depth and integration quality; analysis in 2024 US dollars.

Exhibit 4

People, agents, and robots will all play significant roles in the workforce of the future.

Share of 2024 work hours based on technical automation potential,[1] %
Sector: Construction and real estate



[1]Automation potential is based on current technological capabilities to perform human work. The automation potential shown reflects the late scenario of expert estimates. In the early scenario, global technical automation potential ranges from 60 to 70% of current work hours.
Source: Current Population Survey, US Census Bureau; O*NET; US Bureau of Labor Statistics; McKinsey Global Institute analysis

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Capturing this value, however, requires more than experimentation; it demands structured data, integration into core operating systems, disciplined workflow redesign, and clear controls (rules, approvals, monitoring) to manage risk. Without these foundations, AI will remain in the pilot phase. With them, it can become a meaningful performance lever.

Four domains offer particularly high-impact points for redesign:

Maintenance and facilities: From 'dispatch' to 'done automatically.' Maintenance operations can be redesigned around end-to-end incident workflows rather than fragmented handoffs, enabling agentic systems to triage requests, route crews, manage updates, and automatically document actions. The opportunity is not to build one "maintenance agent" but instead to rewire the full end-to-end process (across detection, triage, access, dispatching, and beyond). By handling routine coordination and escalating only when needed, AI can reduce preventable delays and inconsistencies. The shift would free maintenance staff to focus on solving problems on-site—automating steps aggressively while protecting human judgment at critical moments.

Real estate isn't getting back to normal, at least in the traditional sense. Instead, the industry is advancing into new terrain.

Leasing and renewals: Service, speed, and compliance. Agentic AI can reduce the friction in leasing and renewals that is typically associated with high-volume coordination tasks (such as responding to inquiries, scheduling tours, managing documentation, and supporting applications) while maintaining consistent tone, transparency, and compliance guardrails. Rather than layering chatbots onto existing processes, domain redesign embeds agents directly into customer relationship management and property management systems, enabling seamless routine coordination. By embedding escalation rules and audit trails, next-generation systems can improve responsiveness and documentation without sacrificing human judgment—where empathy and discretion matter most.

Asset management and investing: Faster cycles and clearer judgment. Asset management workflows often suffer from manual data gathering, fragmented systems, and repetitive reporting. Agentic AI should address those deficiencies: It can centralize and structure lease and performance data, automate recurring analyses and materials, and surface early warning signals, reducing delays in decision-making. The goal, in fact, is not to replace judgment, but to remove friction around judgment: assembling context, drafting materials with sourcing, logging outcomes, and creating a traceable audit trail. The result will be faster, more consistent, and more defensible investment processes, with humans spending less time on low-value, rote work and more time on judgment-intensive decisions such as capital allocation and portfolio strategy.

Construction and capital expenditures: Controlling complexity. Construction and capital expenditure processes are characterized by extensive documentation, sequencing, and change management, making them well-suited to workflow automation. Agentic systems can organize project documents, manage requests for information and permitting workflows, monitor schedule risks, and flag cost overruns or change orders that require human review.

At scale, AI-enabled operating models favor larger platforms. Firms with greater capital, richer data sets, and tighter control over end-to-end workflows can invest more consequentially, embed tools across functions, and generate compounding learning advantages over time. While the AI opportunity exists across regions, in Europe, stricter regulatory regimes focused on consumer protection (such as the General Data Protection Regulation and the EU AI Act) could increase implementation costs and governance requirements, especially for pricing and leasing. More vertically integrated platforms, which control core functions in-house, are positioned to capture greater AI benefits given increased oversight over workflows and data. In the near term, early movers can achieve differentiation through execution; over the longer term, AI capabilities will likely become table stakes. Those dynamics will shift the advantage to those who own the workflows, control data traces, and continuously refine their operating models.

Notably, AI also introduces risks that extend beyond execution. As technology reshapes how economic activity is conducted, services are delivered, and space is used, it may alter underlying asset fundamentals. For example, offices leased to call centers or consolidated front-, middle-, and back-office functions may face greater exposure. As a result, AI could shift use patterns, tenant demand, and long-term asset relevance in ways that are still unfolding. (For a deeper exploration of the implications of AI in real estate, see "How agentic AI can reshape real estate's operating model.")

Investment: Shifting from market selection to asset selection (and operational execution)
Broad exposure on its own is becoming less sufficient to drive real estate performance. Asset selection accounted for approximately 70 percent of performance differentials in 2025 (relative to country-specific benchmarks), materially outweighing the effect of country- or property-type allocation decisions.[11] This marks a meaningful increase from 2020 to 2022, when asset selection accounted for less than 50 percent of return dispersion, and reflects widening dispersion *within* sectors, where choosing the right submarkets, tenant profiles, and capital structures can matter as much, if not more, than broad asset-class exposure. In 2025, capital increasingly flowed not toward entire property categories but toward more specific *subcategories*. As a dispersion in outcomes within asset classes has widened, players are more frequently adopting niche positioning to differentiate beyond broad market exposure, particularly as capital has concentrated in select high-growth themes where demand momentum is strong but return outcomes may vary meaningfully depending on entry pricing, capital intensity, and execution.

Data centers illustrate this shift. Due to the uptick in demand for the asset class in recent years, power-constrained, top-tier hubs are becoming increasingly consolidated, pushing incremental development and leasing into power-rich, next-tier markets. In the United States, nearly eight gigawatts of leasing in 2025 occurred in next-tier locations as hyperscale and AI demand chased available power rather than traditional core markets. A similar dynamic is emerging in Europe, where demand is shifting from constrained tier-one hubs (such as Amsterdam, Frankfurt, London, and Paris) to next-tier markets such as Iceland and Sines, Portugal, where power availability and cost are more favorable.[12] At the same time, financial structures are evolving: Data center–related debt issuance surpassed $17 billion in 2025, with cryptocurrency miners raising more than

In the near term, early movers can achieve differentiation through execution; over the longer term, AI capabilities will likely become table stakes.

[11] Niel Harmse, "Real-estate asset selection drove performance," MSCI, July 25, 2025.
[12] "Data centers & the AI surge: Is the best still ahead?," Green Street webinar, February 5, 2026.

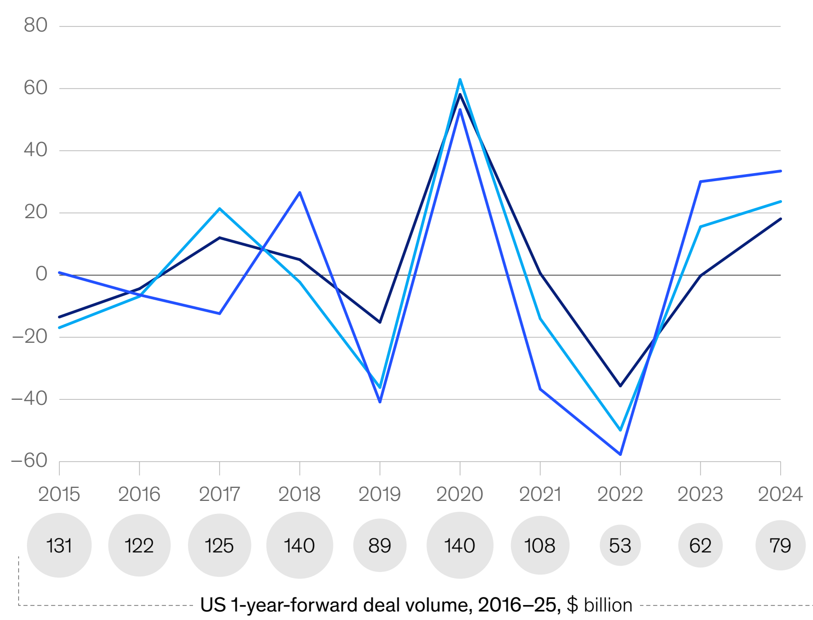
$10 billion in secured and convertible debt within six months. The investment thesis, therefore, is no longer simply exposure to data centers (and capitalization of demand), but advantages in power access, tenant mix, capital structure, and geographic positioning that can support durable returns.

A similar dynamic is visible in the office category, where a clear flight to quality continues to drive the recovery amid vacancy pressures across much of the sector. Overall, US office deal volume rose more than 25 percent year over year in 2025. But the recovery has been highly selective. Activity was concentrated in higher-quality, well-located assets, as Class A deal volume increased 34 percent year over year in the United States, reflecting a preference for assets perceived as more resilient in a structurally evolving demand environment (Exhibit 5). As performance remains highly asset-specific, leading occupiers are redesigning the workplace to support collaboration and hybrid work, with some experts projecting the share of space dedicated to collaboration in Class A offices to increase by more than 20 percent by 2030.[13] Increasingly, companies are optimizing and reallocating space—introducing modular floor plans, reducing fixed desks and stand-alone offices, and investing in tech enablement and

Exhibit 5

Class A office transaction volumes have grown the fastest over the past two years, by more than 30 percent each year.

US annual deal volume growth, %



	2016–25 volume CAGR, %	2024–25 volume CAGR, %
Class A	–8.8	33.5
Class B	–3.8	23.7
Class C[1]	1.6	18.1

[1]Including negligible unclassified and Class F volume.
Source: CoStar; Real Capital Analytics

McKinsey & Company

[13] CBRE Workplace & Occupancy Benchmarking Program.

Overall, US office deal volume rose more than 25 percent year over year in 2025. But the recovery has been highly selective.

amenity-rich spaces—to create more flexible, experience-led workplaces. Several large European employers have also formalized return-to-office mandates of three or more days per week, reinforcing the demand for high-quality, well-located spaces. For example, HSBC has linked bonus eligibility to in-office attendance requirements,[14] and Barclays has increased the number of days its employees must be in the office.[15] In key Asian cities, premium Class A office demand is particularly strong; employees consistently spend more time in the office than many of their European peers (averaging, for example, 4.0 days per week across Hong Kong, Shanghai, Shenzhen, and Singapore, versus 2.7 days in London).[16] This dynamic is also evident in critical parts of the Middle East, where Class A occupancy has reached near-record highs (exceeding 90 percent) in Saudi Arabia and the United Arab Emirates.[17]

Within the residential category, senior housing is reemerging. Its share of total US apartment-related deal volume in the past year increased from 8 percent to 11 percent, the highest level in the past decade, while transaction activity rose 47 percent year over year (Exhibit 6). Additionally, 71 percent of surveyed investors now expect further cap rate compression in 2026—a dramatic reversal from 2023, when 68 percent anticipated additional cap rate expansion, and even from 2025, when only 33 percent expected declines. The shift underscores a pronounced swing in sentiment, reflecting renewed institutional demand and growing confidence in the sector's trajectory, although it remains sensitive to operational intensity and local supply–demand conditions, meaning realized returns will depend heavily on operator quality rather than demographic tailwinds alone.[18]

This trend of growing interest in specialized residential segments is reflected outside of the United States, as well. For example, although more nascent, demand for senior housing is emerging in the Middle East due to rising life expectancy, increasing prevalence of chronic diseases, and a growing market for long-term and home-based care solutions.[19] At the same time, residential markets across Saudi Arabia and the Gulf States are experiencing strong demand for apartments and luxury villas supported by urbanization, select megaprojects, policy reforms, and population growth.[20]

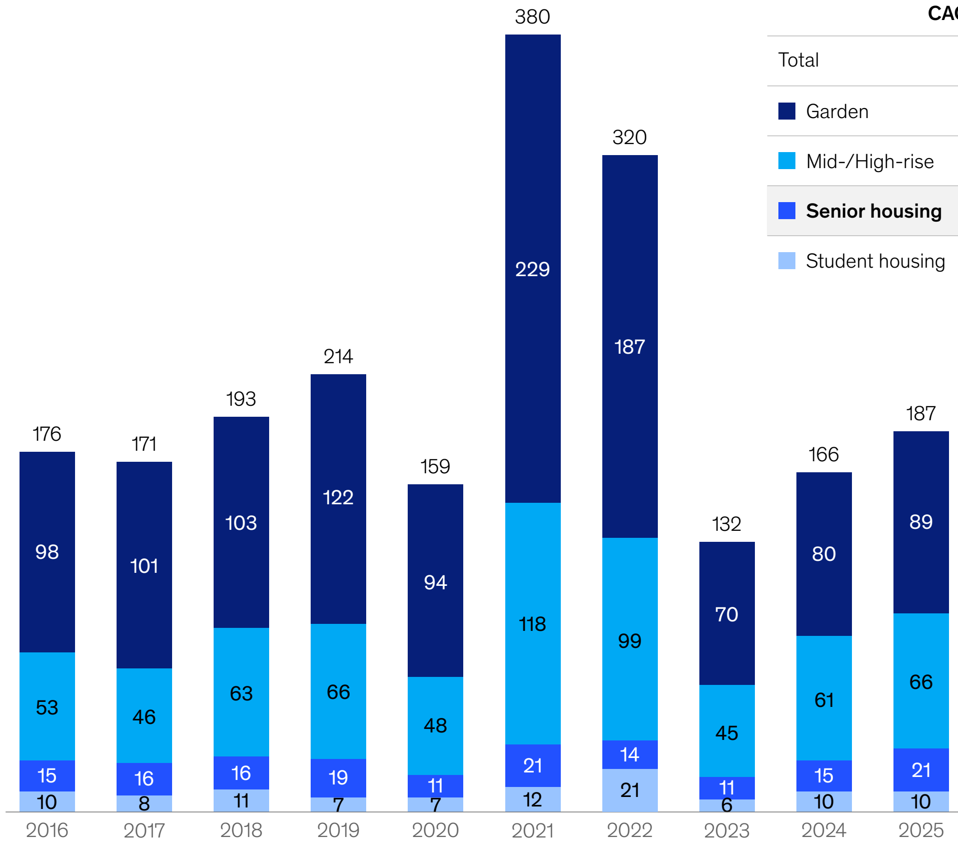
[14] Alessandra Pacelli, "HSBC links staff bonuses to in-office presence under hybrid policy," HRreview, May 23, 2025.
[15] Akila Quinio, Ivan Levingston, and Ortenca Aliaj, "Barclays tightens working-from-home rules," *Financial Times*, January 29, 2025.
[16] Julia Kollewe, "London workers slower to return to office than New York or Paris, study says," *Guardian*, September 3, 2024.
[17] "Saudi leads rental growth as office occupiers snap up prime space across the GCC," Knight Frank, December 3, 2025.
[18] "Senior living & care: Investor survey highlights – H1 2026," Cushman & Wakefield, February 6, 2026.
[19] *Middle East elderly care market*, Mobility Foresights, April 26, 2025.
[20] See, for example, *KSA real estate predictions 2025*, Deloitte; and *Dubai real estate predictions 2025*, Deloitte.

Exhibit 6

Senior housing deal activity is rebounding, with its share of total volume accelerating in recent years.

US apartment deal volume, $ billion

	2021–25 volume CAGR, %	2024–25 volume CAGR, %
Total	–16.3	12.8
Garden	–21.0	11.9
Mid-/High-rise	–13.5	7.7
Senior housing	**0.6**	**47.4**
Student housing	–5.3	0.7



Note: Figures may not sum, because of rounding.
Source: Real Capital Analytics

McKinsey & Company

These shifts also reflect a more demanding capital environment across sectors. Higher financing costs, uneven rent growth, and tighter underwriting standards have reduced the margin for error (including in sectors currently attracting significant capital inflows). As a result, GPs increasingly require evidence-backed, highly specific theses within each asset class and must demonstrate that performance derives both from *selecting* the right niches and *executing* within them. For LPs, this environment underscores the importance of manager selection (for example, prioritizing sponsors with demonstrated underwriting discipline and track records of execution). For operators and developers, success will likely hinge on stronger execution (for example, driving cost control and improving leasing) to create value, as strong thematic demand alone may not be sufficient to ensure attractive risk-adjusted returns.

Vertical integration: A structural advantage

Across the real estate industry, vertical integration is increasingly emerging as a structural advantage rather than a tactical choice. Leading allocators are bringing operating capabilities in-house, so that the same organization making investment decisions can also control day-to-day execution. When capital deployment and operational oversight sit under one roof, performance insights from the asset level typically create a tighter feedback loop, feeding directly into underwriting, portfolio construction, and capital allocation decisions. Scale strengthens this advantage by spreading investments (including in technology, data systems, and specialized operating talent) across larger portfolios to generate operating leverage more rapidly.

At present, the primary enabler of verticalization is M&A. Leading capital allocators are acquiring embedded property management, property development, and asset-level execution capabilities. For example, Apollo's acquisition of Bridge Investment Group expands its real estate footprint while adding Bridge's vertically integrated operating model (including origination, asset management, and sector-specific execution capabilities).[21] Moreover, Brookfield's announced agreement to acquire Peakstone Realty Trust is intended to enhance its industrial and net lease platform by adding scaled assets alongside embedded leasing and asset management infrastructure.[22]

While larger, more scaled funds have delivered an improved return profile in more recent vintages (Exhibit 7), the vertical integration trend is not limited to megafunds. For example, an Affinius Capital–led consortium recently agreed to acquire multifamily REIT Veris Residential for $3.4 billion, taking the company private and securing its Class A, Northeast-focused operating platform to gain direct control over property-level execution.[23]

Vertical integration is not without complexity. Achieving true operating leverage requires time, cultural alignment, and sufficient portfolio scale. Unfortunately, subscale integration can increase overhead without improving outcomes. A performance advantage materializes when integration actually drives execution—not when functions are simply consolidated on paper.

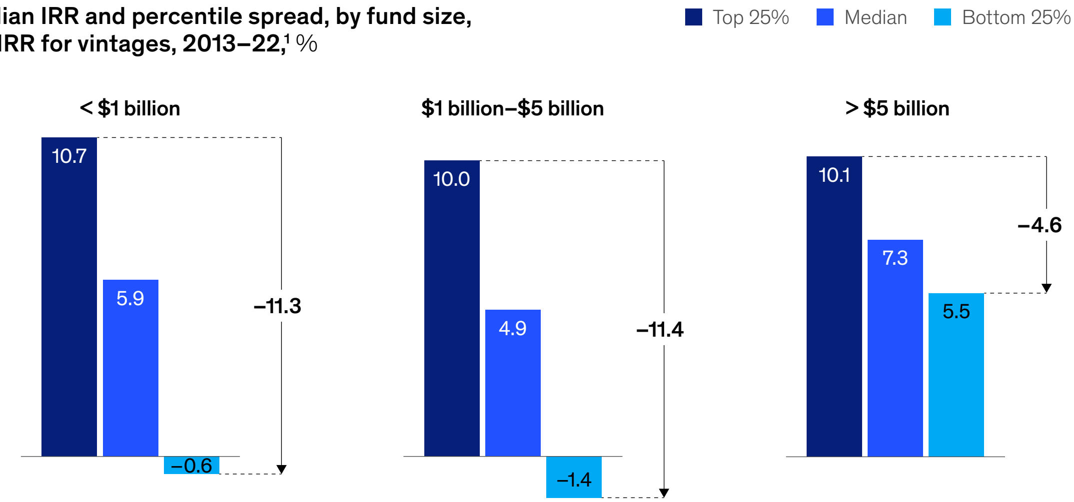
Leading capital allocators are acquiring embedded property management, property development, and asset-level execution capabilities.

[21] "Apollo to acquire Bridge Investment Group," Apollo Global Management, February 24, 2025.
[22] "Brookfield to acquire Peakstone Realty Trust in a $1.2 billion all-cash transaction," Peakstone Realty Trust, February 2, 2026.
[23] Anthony Russo, "Affinius Capital-led group makes $3.4B acquisition of multifamily REIT," GlobeSt., February 23, 2026.

Exhibit 7

Real estate funds above $5 billion have offered a greater degree of downside protection and lower performance dispersion.

Median IRR and percentile spread, by fund size, net IRR for vintages, 2013–22,[1] %



[1]IRR spreads were calculated for funds within vintage years separately and then averaged out. Median IRR was calculated by taking the average of the median IRR for funds within each vintage year. Net IRR to date through Sept 30, 2025.
Source: MSCI Private Capital Solutions

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For allocators, these developments raise a strategic question: How can pure capital allocators compete most effectively against platforms that can integrate both capital and operations? Potential avenues for outperformance include specializing in a narrow asset class or geography to build differentiated expertise, forming deeply embedded partnerships with best-in-class operators, or employing creative capital structure solutions—at both the asset and fund levels. These may include NAV loans, continuation vehicles, structured secondaries, and hybrid capital structures designed to extend hold periods, bridge liquidity gaps, or reposition portfolios. For LPs, solutions may imply an increasing tilt toward managers that control execution in priority sectors, particularly if vertically integrated platforms can demonstrate stronger performance, greater resilience, and more repeatable value creation.

Consolidation: Concentrating capital and reshaping the manager landscape

Consolidation is gaining momentum across real estate and the broader private-markets ecosystem. Larger platforms are acquiring managers, taking minority stakes in GPs, and expanding into adjacent capabilities. Many LPs, for their part, are streamlining their GP rosters, allocating to fewer managers overall, and directing a greater share of capital to scaled, institutionalized platforms. The result is a reshaping of both the GP landscape and the capital flows that underpin it.

On the GP side, transactions such as Ares Management's acquisition of GLP Capital Partners (GCP) illustrate the strategic rationale at a larger scale. GCP, which managed $44 billion of third-party assets under management (AUM) at the time of the announcement, significantly expanded Ares' real estate platform. The acquisition added meaningful scale in Europe and established a truly global footprint with presence in Japan[24]; beyond the increase in AUM, the acquisition enhanced Ares' vertically integrated logistics platform, adding established local operating teams and further sourcing capabilities across key global markets.

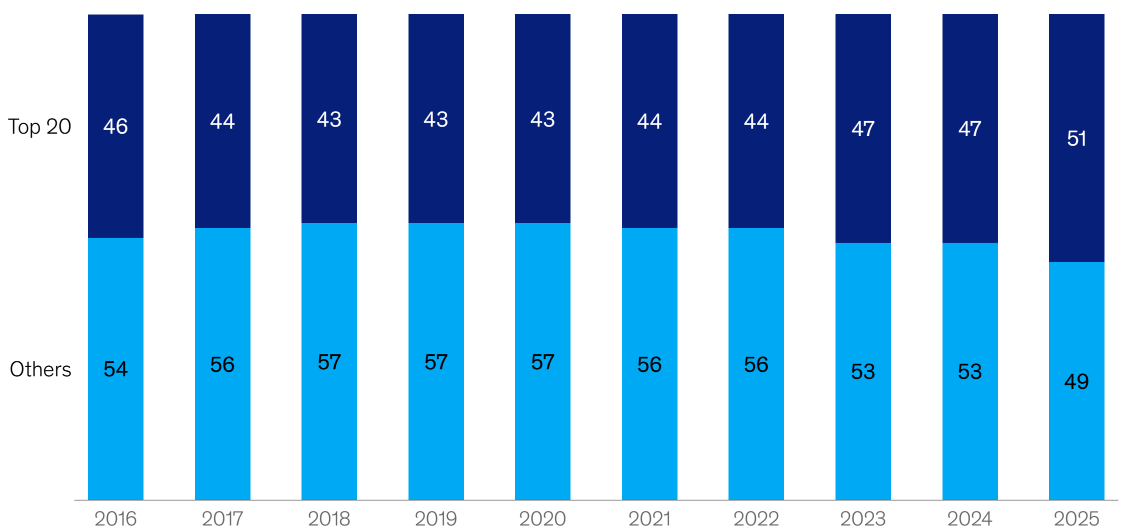
Minority GP stake sales have emerged as an additional dimension of consolidation, accounting for approximately 57 percent of manager M&A activity—the highest level since 2020.[25] In Asia, a proposed merger between giants Capital Investments ($117 billion AUM) and Mapletree ($31 billion AUM) would be driven in large part by the potential to accelerate private funds management, an explicitly stated strategic priority for both parties. In effect, GP stake investing is becoming another lever through which capital, control, and growth accrue to larger managers.

LPs are increasingly seeking to capture the benefits of scale. One primary enabler is to streamline their GP roster; 17 percent of institutions expect to decrease the number of managers in their rosters (in the short term), continuing a steady, multiyear trend. Fundraising patterns reflect this shift. The top 20 managers' share of trailing five-year closed-end real estate fundraising increased to roughly 51 percent in 2025, approximately five percentage points higher than in 2016 (Exhibit 8). As LPs consolidate their deployments, they are scaling their relationships toward platforms that are viewed as diversified and capable of deploying capital at scale.

Exhibit 8

The top 20 managers saw an increase in their share of fundraising again.

Share of trailing 5-year real estate fundraising,[1] %



Note: Figures may not sum, because of rounding.
[1]Excludes secondaries, funds of funds, and coinvestment vehicles.
Source: Preqin; McKinsey analysis

McKinsey & Company

[24] "Ares Management Corporation to acquire GCP International," Business Wire, October 8, 2024.
[25] *2025 mid-year M&A market review*, Hodes Weill, August 12, 2025.

Additionally, where feasible, there have also been instances of LPs merging and pursuing scale more structurally. Recent examples include CareSuper's merger with the Meat Industry Employees' Superannuation Fund in Australia[26] and the continued pooling of Local Government Pension Scheme assets in the United Kingdom.[27] As these institutions scale, they gain greater leverage to negotiate bespoke mandates, enhanced co-investment rights, and differentiated access. Co-investment opportunities are becoming increasingly important to LPs, with more than 20 percent of pension funds, sovereign wealth funds, and private wealth offices reporting that manager-sponsored co-investments have grown in importance.[28] Collectively, these dynamics reinforce capital concentration toward managers capable of underwriting and deploying larger commitments.

Taken together, consolidation will likely favor large, diversified platforms and highly specialized niche operators that have a distinct edge. For midmarket GPs, the strategic choice is increasingly stark: either scale up through mergers, acquisitions, and partnerships, or specialize deeply (such as by sector specialization, geographic advantage, or proprietary sourcing relationships). Managers caught in the middle—without the balance sheet of scaled players or the differentiation of specialists—can expect harder going.

Transcending categories: The boundary between real estate and infrastructure is becoming increasingly blurred

The traditional distinction between real estate and infrastructure is becoming less clear. Although infrastructure and real estate capital can pursue different objectives (with infrastructure investors typically underwriting longer-duration, lower-leverage profiles), a growing set of asset types now sits at the intersection of these two categories. These assets combine high capital intensity and essential service roles; examples include data centers, logistics networks, select storage formats, data infrastructure complexes, and life sciences facilities.

From a performance lens, infrastructure has recently delivered stronger downside resilience than real estate strategies.

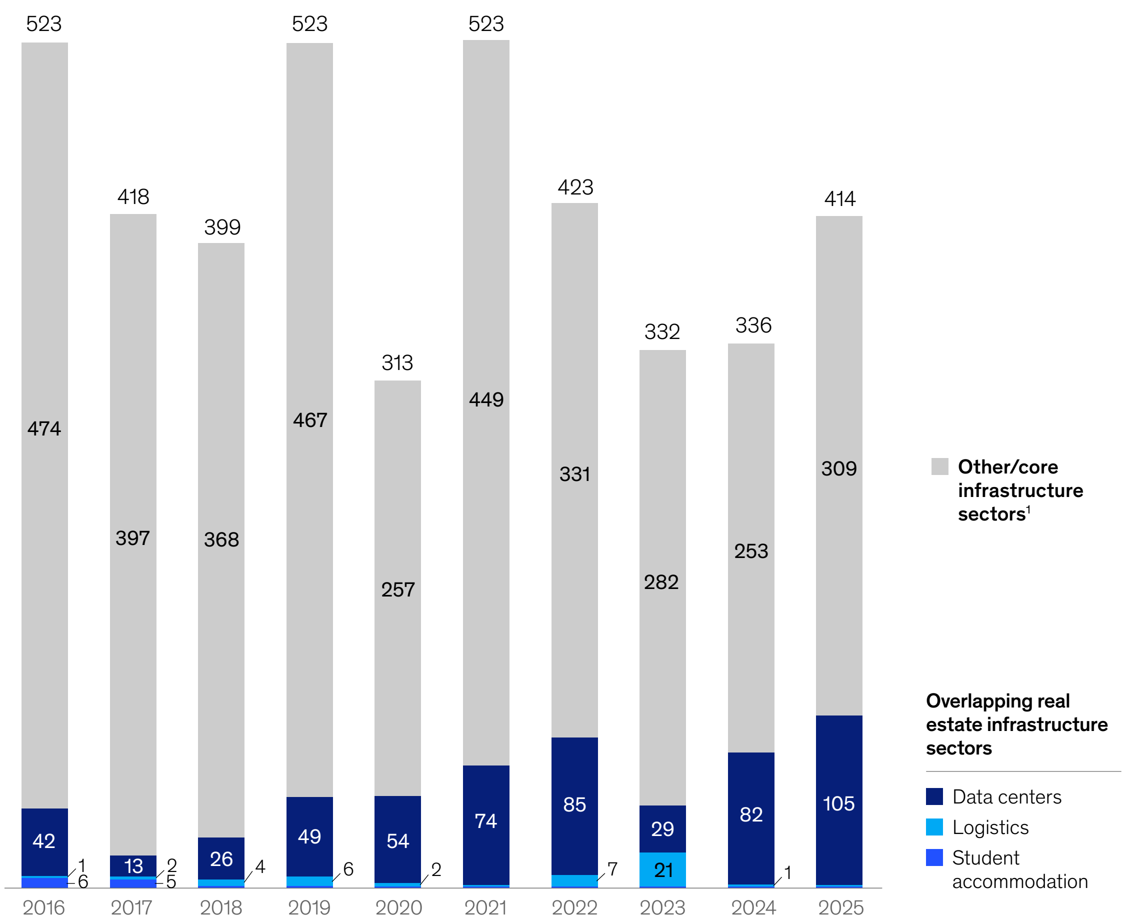
[26] "CareSuper and Meat Industry Employees' Superannuation Fund (MIESF) sign merger agreement," CareSuper, March 17, 2025.
[27] "Local Government Pension Scheme: Pooling Reforms," HM Treasury, July 2023.
[28] Over the past three years; McKinsey 2026 LP Survey.

Within global infrastructure deal activity, traditionally real estate–focused sectors (such as data centers, student housing, and logistics) have increased their share of total infrastructure volume in recent years (25 percent in 2025) (Exhibit 9). Importantly, several of these sectors (particularly data centers and logistics) have historically been among the most structurally attractive areas of real estate, meaning that, in some cases, investors can access the highest-quality segments of the real estate market through infrastructure investments. While the pursuit of robust returns likely bodes well for investors, it could pose challenges for legacy capital allocators; as infrastructure-themed funds increasingly expand into real estate–like assets, traditional real estate managers will face heightened competition for deals.

Exhibit 9

Overlapping real estate infrastructure sectors are capturing a growing share of global infrastructure deal activity.

Global infrastructure deal volume, by sector, $ billion



Note: Figures may not sum, because of rounding.
[1]Including all other infrastructure deals (ie, not "overlapping" with real estate).
Source: Preqin

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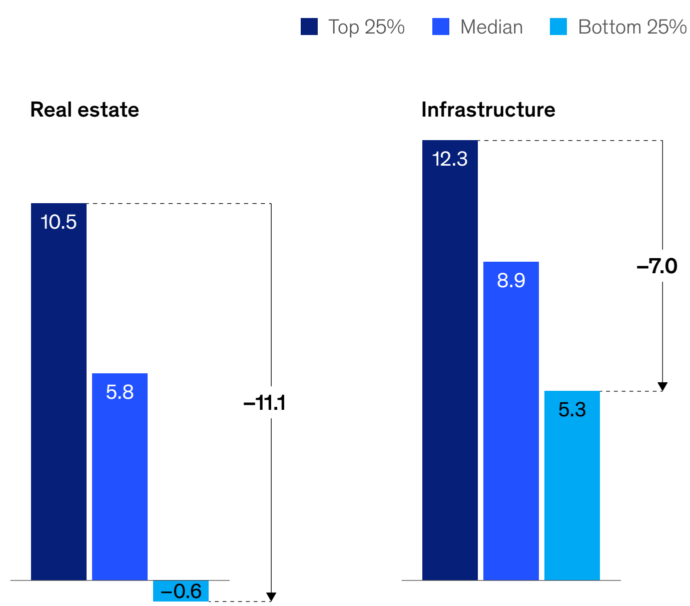
From a performance perspective, infrastructure has recently delivered stronger downside resilience than real estate strategies. In the lowest quartile of 2013–22 vintages, infrastructure funds generated approximately 5 percent internal rate of return (IRR), compared with negative outcomes for real estate. This further underscores the asset class's strength in preserving capital, even when fund outcomes are weakest (Exhibit 10).

Institutional target allocations indicate that infrastructure is capturing a growing share of overall real asset exposure, rising from approximately 32 percent of total real asset allocations in 2023 to approximately 36 percent in 2025. While investors have increased their target allocations to infrastructure, actual allocations have not yet fully caught up; infrastructure continues to exhibit a larger gap to target allocations relative to real estate (average gap of 114 bps versus 50 bps over the past three years), suggesting additional room for capital deployment and a potential tailwind for fundraising activity.[29] In many respects, the era of broad asset-class exposure as a sufficient strategy is fading; outcomes are increasingly determined by the specific asset, its demand drivers, capital structure, and operating model—not whether it is labeled as infrastructure or real estate.

Exhibit 10

Infrastructure has recently outperformed real estate strategies across quartiles.

Performance, by asset class, median IRR, and percentile spreads for 2013–22 vintage funds,[1] %



[1]Internal rate of return (IRR) spreads calculated for separate vintage years for 2013–22 and then averaged out. Median IRR was calculated by taking the average of the median IRR for funds within each vintage year. Net IRR to date through Sept 30, 2025.
Source: MSCI Private Capital Solutions

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[29] *2025 Institutional Real Estate Allocations Monitor*, Hodes Weill, 2025; *2025 Institutional Infrastructure Allocations Monitor*, Hodes Weill, 2025.

In response, select managers are actively addressing this convergence by integrating real estate and infrastructure capabilities under unified "real asset" platforms. Firms such as KKR have aligned their digital infrastructure and real estate teams to more holistically underwrite assets such as data centers and energy-adjacent facilities, leveraging shared sector expertise and capital flexibility.[30] Similarly, Blackstone has increasingly structured mandates that span energy transition and built-environment strategies, reflecting a more integrated approach to assets that sit at the intersection of infrastructure and real estate.[31] Stonepeak, traditionally one of the world's largest infrastructure investors, has built and scaled a dedicated real estate platform (closing its inaugural $764 million property fund in 2024).[32]

With infrastructure funds increasingly competing for real estate–like assets such as data centers, cell towers, and certain logistics facilities, managers may find themselves limited if they cling to a traditional segment approach. By contrast, managers who can operate flexibly *across* real estate and infrastructure frameworks should be better positioned to capture hybrid opportunities. (For additional perspectives on the intersection of real estate and infrastructure, see "The outlook for real estate and infrastructure in a changing world.")

As real estate recovers from its recent declines, it's tempting to conclude that the industry is stabilizing. But that term is inexact. More precisely, real estate is *evolving* rapidly, with new opportunities—and obstacles—for players across the ecosystem. The past year has been marked by selective acceleration. But the full implications from the industry's five most important global trends have only just begun.

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[30] Allison McNeely, "KKR combines $157 billion infrastructure, real estate businesses," Bloomberg, January 22, 2025.
[31] "Blackstone to invest more than $25 billion in Pennsylvania's digital and energy infrastructure, plus catalyze an additional $60 billion investment," Blackstone, July 15, 2025.
[32] Evelyn Lee, "Next Contenders 2025: Asset managers ramping up in real estate," *PERE*, February 3, 2025.

Infrastructure

Investing to support global growth

Private capital's role in meeting the world's growing need for infrastructure continues to grow, with record fundraising and deployment in 2025.

by Adrian Kwok, Alastair Green, and Connor Mangan, with Charlie Regan, Kali Na, and Roman Strelov

The world needs infrastructure more acutely than ever. A cumulative $106 trillion in investments is imperative to meet global infrastructure requirements through 2040, not only for traditional assets such as roads, ports, bridges, and power grids but also for the next generation of those assets—*and* an emerging intersection of systems and facilities across verticals, including data centers, charging stations, fiber-optic networks, and more. This unprecedented call for capital can no longer be answered by the public sector alone.

Private capital is meeting the moment. In 2025, global infrastructure fundraising reached a record of nearly $200 billion, surpassing the previous high of $180 billion in 2022. Limited partners (LPs) continue to name infrastructure as the asset class they most want to increase their allocations to (increasingly for both diversification and performance) and are also displaying a willingness to move up the risk curve. General partners (GPs) are doing larger, more complex deals, with notably large funds (several holding $5 billion or more of committed capital) gaining share as the industry matures.

While overall trends in fundraising and deployment are positive, potentially tougher conditions ahead are evident, particularly as holding periods lengthen and investors seek commensurate, risk-adjusted returns. The ability to drive value creation will become increasingly foundational.

A prodigious need for infrastructure and a promising response from investors

The world has an immense need for infrastructure, a global mandate that is being met in large part with a massive influx of private capital. Over the past few years, private capital has been flowing into infrastructure assets at an unprecedented rate. In 2025, the surge set a record for fundraising and deployment.

The world's $106 trillion infrastructure need

As we've recently detailed, to meet the demands of global population growth and enable parabolic technological advancement, the world requires an estimated $106 trillion in infrastructure investment by 2040. This enormous capital requirement coincides with an evolving landscape where the very conception of "infrastructure" is expanding across multiple verticals and emerging, intersecting sectors—from dams to data centers and railways to renewables.

A cumulative $106 trillion in investments is imperative to meet global infrastructure requirements through 2040.

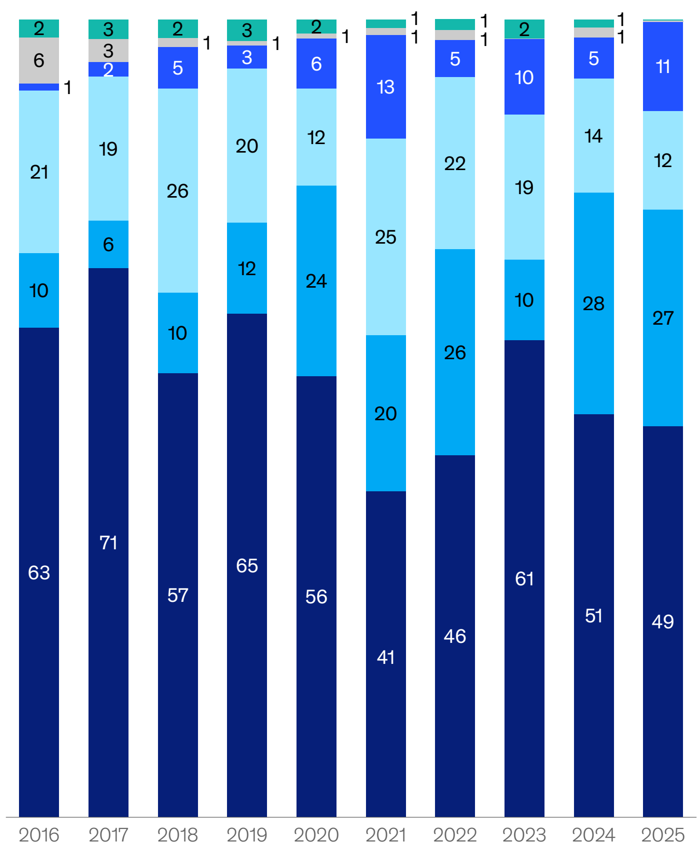
Moreover, across geographical regions, certain infrastructure categories are growing notably faster. Energy and power will require $23 trillion in infrastructure investment through 2040, driven by the dual forces of the global energy transition and demand growth. In the United States, after almost 15 years of growth below 1 percent, power demand is expected to increase by more than 3 percent a year—with the sector needing to overcome challenges such as energy affordability, energy supply chain issues, extreme weather, labor availability, project permit bottlenecks, and resource adequacy. Nearly $7 trillion in data center investment (part of digital infrastructure) may be needed through 2030 to keep pace with the demand for compute power.

Compared with total global infrastructure needs through 2040 (where the energy and digital sectors account for about 40 percent of the $106 trillion needed), the composition of recent deal value shows an outsize presence of private capital in these infrastructure verticals (about 75 percent). Energy and power needs were collectively responsible for nearly half of 2025 infrastructure deals by value, with the digital and telecommunications sector capturing an additional quarter of total infrastructure deal activity (Exhibit 1). At the moment, the scale and

Exhibit 1

Telecommunications has captured a larger share of investment over the past five years than it did prior to 2020.

Global infrastructure deal, by sector, % total deal volume



	2016–25 CAGR, %	2024–25 growth, %
Total	–2.6	23.1
Waste and water	–26.7	–78.4
Other	–35.5	–86.6
Cross-sector	28.5	166.9
Transport	–7.8	7.1
Telecommunications	**9.7**	**20.1**
Energy	–5.0	19.5

Note: Figures may not sum to 100%, because of rounding.
Source: Preqin

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speed of required capital deployment in these spaces may favor private investment, as public capital can encounter longer approval cycles and significant funding constraints.

2025: The surge of private capital

Even by global standards, $106 trillion is a staggering amount. But private capital, by its nature, flows toward demand and—in a virtuous cycle—serves as a critical enabler of long-term economic growth.

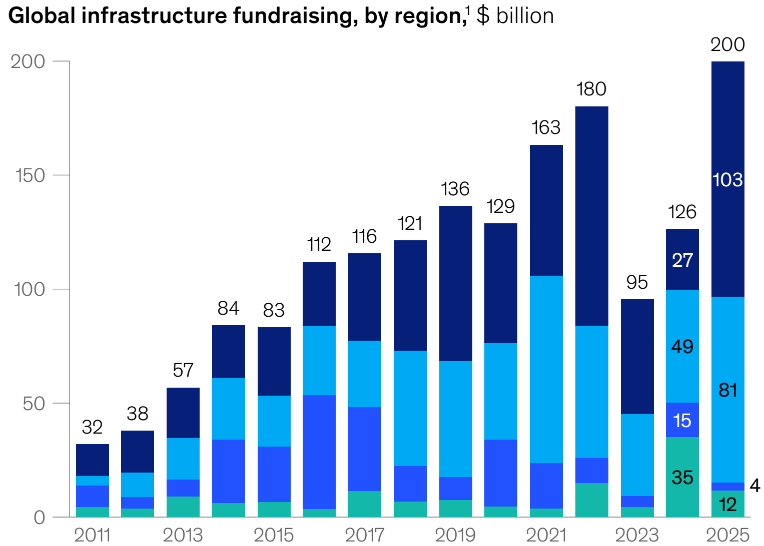
The year 2025 marked a record for infrastructure fundraising. Closed-end fundraising in infrastructure rose to nearly $200 billion—a new high, and a nearly 60 percent increase over 2024. This surpassed the previous record of $180 billion in 2022, which preceded a fall in 2023 (when interest rates rose and some investors, at least temporarily, pivoted to debt-based alternatives). Yet, as has been the case for decades, infrastructure investments corrected to an upward course. In 2024, global private investments in infrastructure climbed from $95 billion in 2023 to $126 billion—and then accelerated to 2025's record of nearly $200 billion.

Deconstructing 2025 data, we can observe that fundraising dipped in the Asia–Pacific regions but grew robustly in Europe, rising by approximately 65 percent. In North America, it increased by approximately 285 percent (Exhibit 2). And in both Europe and North America, the large capital deployments were significantly enabled by "megafunds" (that is, funds with $5 billion or more in committed capital).

Exhibit 2

Fundraising in North America nearly tripled in 2025, while other geographies experienced a more modest growth or decline.

Global infrastructure fundraising, by region,[1] $ billion



	2020–25 CAGR, %	2024–25 growth, %
Total	9.2	58.2
North America	**14.4**	**285.1**
Europe	13.9	65.1
Asia–Pacific	–33.4	–74.8
Rest of world	21.1	–67.0

[1] Secondaries and fund of funds are excluded to avoid double counting of fundraised capital.
Source: Preqin

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LPs increase allocations

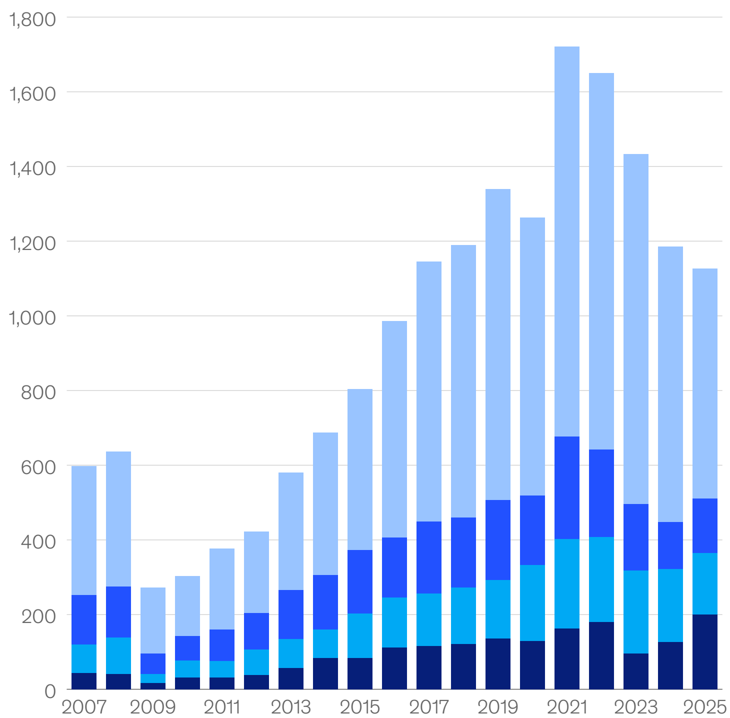
LPs are increasingly including infrastructure investments in their core strategies. Indeed, in McKinsey's recent survey of approximately 300 global LPs, we found that 51 percent of respondents plan to raise their allocations to infrastructure over the next three years—results that strengthen the category's position as the leading asset class by this metric, notably ahead of buyout (35 percent) and real estate (30 percent). Among different groups of LPs, respondent sovereign wealth funds, insurers, and family offices show the highest increase in plans to increase their infrastructure allocations, displaying a robust ten-percentage-point increase compared with 2024.

As a result, infrastructure is outpacing other private-market categories, with fundraising growing at a 9 percent CAGR (2020 to 2025) compared with declines of about 3 to 5 percent across other asset classes. This trend was even more pronounced in 2025 when, compared with 2024, infrastructure fundraising grew more than 58 percent. By comparison, real estate grew by about 16 percent year over year, and fundraising for several other asset classes declined (Exhibit 3).

Exhibit 3

While overall fundraising in private markets declined, infrastructure resumed growth in 2024 and 2025.

Global private markets fundraising, by asset class,[1] $ billion



	2020–25 CAGR, %	**2024–25 growth, %**
Total	–2.3	–5.0
Private equity	–3.7	–16.5
Real estate	–4.8	15.8
Private debt	–4.1	–15.6
Infrastructure	**9.2**	**58.2**

[1]Private markets refers to private equity, real estate private equity (ie, closed-end funds), private debt closed-end funds, and infrastructure closed-end funds. Secondaries and fund of funds are excluded to avoid double counting of fundraised capital.
Source: Preqin

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While diversification remains a primary motivation for LP asset allocation (68 percent), more than one-half of the LPs we surveyed place expected return improvements (52 percent of LPs, an 11-point jump compared with our 2024 survey) and asset class performance (48 percent of LPs) among their top three reasons for intended boosts to infrastructure allocations (Exhibit 4).

As the infrastructure sector matures and investors seek higher returns, they are increasingly willing to shift from “traditional core” up the risk curve—to “core plus” and “value added”—to pursue higher returns (Exhibit 5).

In fact, most infrastructure fundraising occurred in the value-added and core-plus categories, which grew approximately 30 percent and 390 percent, respectively; core, by contrast, declined by nearly 19 percent (Exhibit 6).

Of course, while higher-risk strategies offer greater upside, they carry greater risk. Such investments may include greenfield and brownfield projects, as well as the acquisition of assets that require turnarounds or stronger operating capabilities. Investing in these strategies can also include allocations toward infrastructure-adjacent services and technology providers. Yet private capital is decidedly moving toward those and other less traditional areas.

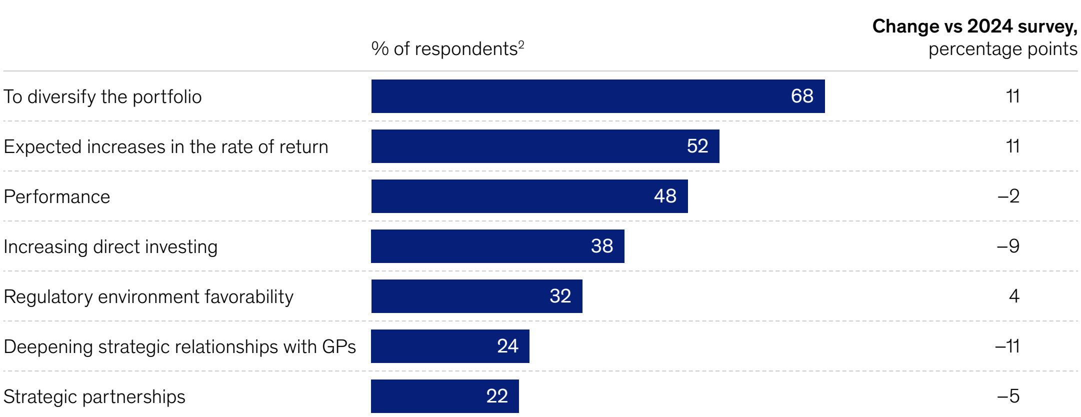
Markers of a maturing industry

There are strong indications that the infrastructure industry is maturing. Those markers include levels of dry powder—which are moderating—and an increasing willingness by GPs to deploy more capital and strategically pivot toward bigger, more sophisticated transactions. Moreover, deal theses are broadening as GPs respond to LPs’ needs.

Exhibit 4

About 50 percent of LPs expect to increase infrastructure allocations, increasingly driven by expected returns growth and diversification.

Reasons for limited partners (LPs) increasing infrastructure allocation, ranked[1]



[1]Over the next 12 months and next 3 years, do you anticipate your target allocation to the following asset classes to increase, stay the same, or decrease? You noted an increase in allocation to [X] over the next 12 months. What are the top 3 reasons?
[2]Respondents for this question are those who selected "increase" in infrastructure for the next 12 months.
Source: LP Survey January 2026 (n = 296)

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Exhibit 5

LPs increasingly prefer value-added strategy in infrastructure.

Target asset allocation expectations,[1] 2026

■ Decrease ■ Increase

	Next 12 months, % of respondents: Decrease	Next 12 months, % of respondents: Increase	Next 3 years, % of respondents: Decrease	Next 3 years, % of respondents: Increase	Net increase rate,[2] %: 2025	Net increase rate,[2] %: 2026
Core	7	34	10	42	+27	+32
Value added	4	49	6	56	+45	+50
Growth	8	40	8	51	+32	+43
Opportunistic	10	41	12	46	+31	+34
Debt	11	35	15	38	+24	+23

Value added is the most prominent asset class LPs intend to increase allocation to, with 56% of LPs indicating they will increase infrastructure allocation over the next 3 years, the highest of any subasset class.

[1]Over the next 12 months and next 3 years, do you anticipate your target allocation to the following infrastructure subasset classes to increase, stay the same, or decrease?
[2]Calculated as % of respondents who responded "increase" – "decrease."
Source: LP Survey, Jan 2026 (n = 296)

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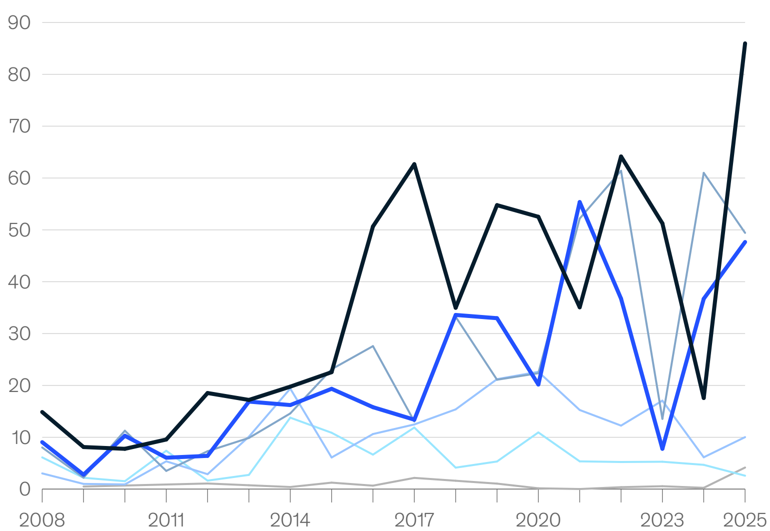
Exhibit 6

Fundraising for core plus and value-added strategies grew the fastest over the past several years.

Global infrastructure fundraising, by strategy,[1] $ billion



	2020–25 CAGR, %	2024–25 growth, %
Core plus	10.36	389.23
Core	17.19	–18.98
Value added	18.76	29.83
Debt	–15.02	63.24
Opportunistic	–25.04	–44.73
Other	91.74	1,566.89

[1]Excludes secondaries and fund of funds; excludes funds with undefined strategy (~1% of fundraising).
Source: Preqin

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Dry powder moderates

In recent decades, LPs' demand for infrastructure has outpaced deal supply, contributing to fund fragmentation and increasing the level of dry powder. For much of 2009 to 2017, unallocated funds hovered around 40 percent of assets under management (AUM). This reflected, in part, a shortage of the "right deals" for GPs; more than a third of the committed capital was not deployed.

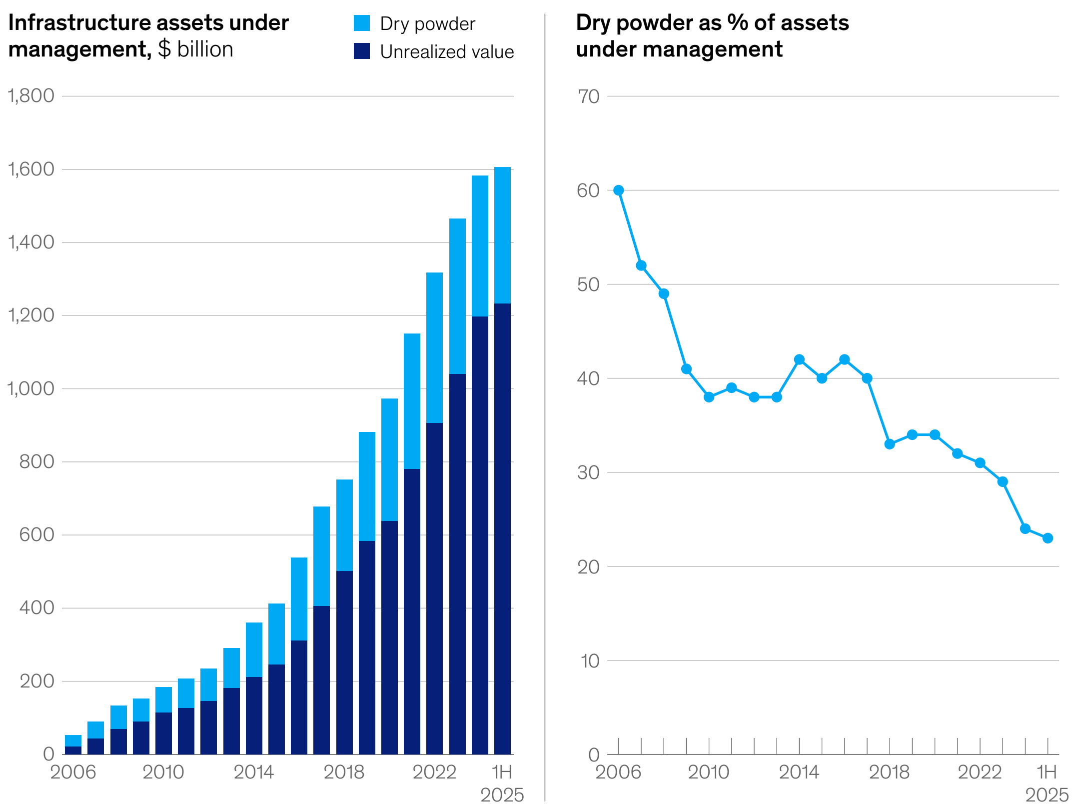
More recently, however, dry powder has moderated as signs of structural maturity have emerged. Capital deployment is better at keeping up with fundraising. Infrastructure dry powder is decreasing as a percentage of AUM and has nearly halved from the prior decade's highs to 23 percent by the middle of 2025 (Exhibit 7).

Bigger, more innovative deals

GPs are not only deploying more capital, they are concentrating more of it on big deals. As the market matures, total deal value in 2025 rose by 23 percent (even as deal count declined by about 24 percent), and average deal sizes increased 78 percent year over year. Liquidity mechanisms are strengthening, as well; the number of secondary infrastructure funds rose in 2025 from a single $5.3 billion fund to four funds totaling $4.3 billion in 2025. Private and public investors are also funding investments together. Several telecom players, for example, have partnered with private

Exhibit 7

Infrastructure is entering a moderate growth phase, with declining dry powder leading to healthier deployed-to-uncalled capital ratio.



Source: Preqin

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sponsors over the past few years to commit to multibillion-dollar projects for fiber infrastructure expansion, providing more reliable, higher-speed internet access in millions of locations in the United States.

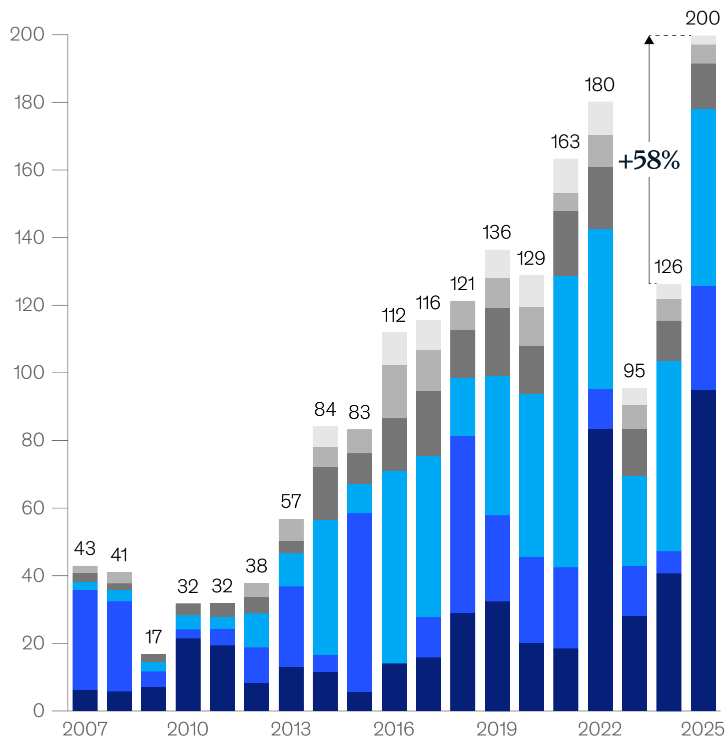
Broadening deal theses

Deal theses are broadening across key dimensions: up the risk spectrum (driven by LP demand), into intersections between infrastructure verticals, and into infrastructure services. That dynamic is consistent with the expanding conception of what "infrastructure" now encompasses. Increasingly, deal theses include not only traditional targets (such as transport and energy assets) but also more interconnected and complex models. Consider the overlap of energy, digital, and transportation. Energy and digital intersect for data centers; multiple large funds have been raised with clear mandates to invest in *both* data centers and supporting power infrastructure, given the criticality of power access. Digital and transport intersect for electric-vehicle networks, such as deploying 5G connectivity on highway corridors. Energy and transport intersect for waste management, such as by processing waste to produce sustainable aviation fuels. Larger and more diversified platforms are well positioned to take advantage of these trends; we observe that capital is concentrating in bigger funds that can deploy capital in multiple situations and tend to outperform smaller peers across multiple sectors (Exhibit 8).

Exhibit 8

Infrastructure fundraising in 2025 was more heavily concentrated in funds larger than $10 billion than in previous years.

Global infrastructure fundraising, by fund size, $ billion



	2020–25 CAGR, %	2024–25 growth, %
<$250 million	–21.9	–39.6
$250 million–$500 million	–12.8	–9.6
$500 million–$1 billion	–1.2	11.6
$1 billion–$5 billion	1.6	–7.2
$5 billion–$10 billion	3.9	382.6
>$10 billion	36.5	132.9

[1]Secondaries and fund of funds are excluded to avoid double counting of fundraised capital.
Source: Preqin

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Challenges and opportunities under evolving conditions

As the infrastructure market matures, private capital faces the complex challenge of aligning risk with returns over increasingly extended holding periods. Industry tailwinds won't be sufficient to maintain and accelerate the amounts of capital required to be deployed over the longer term. Instead, managers will need to accelerate their shift toward active value creation. A few market leaders are already showing the way.

Capital investment for the long term

Infrastructure investments, by their nature, have never been a short-term undertaking. They represent a deliberate choice to prioritize durable, generational returns over instant liquidity.

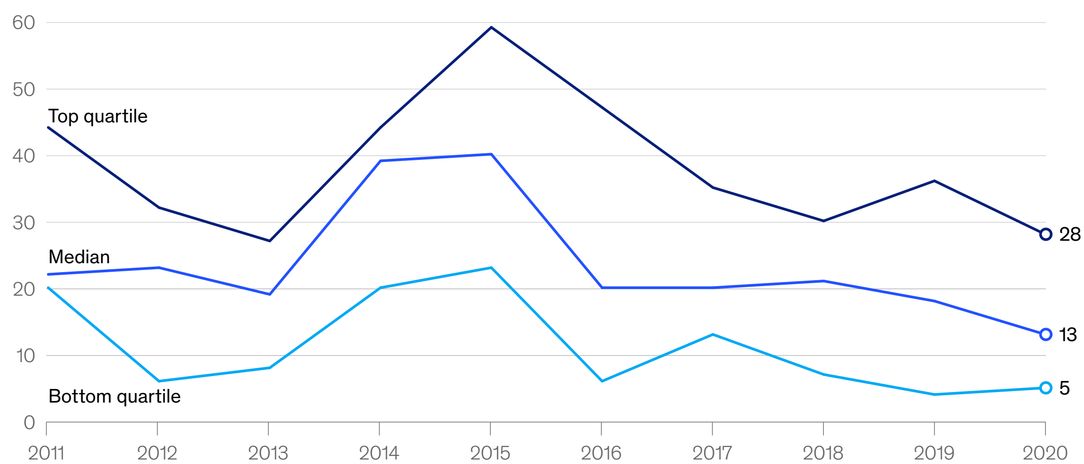
Yet as infrastructure evolves from traditional assets to more complex, intersecting verticals, challenges will mount as holding periods lengthen. Capital cycles in infrastructure investing are already trending longer, characterized by more measured exit activity and effectively longer holding periods; the average age of holdings (that is, investments made and not yet exited) has elevated from 3.1 to 3.3 years in 2017–22 to 3.5 to 3.8 years in 2023–24.[1]

Liquidity pressures will likely mount—not just for infrastructure but across asset classes. In our survey of 300 of the world's leading LPs, distributions to paid-in capital (DPI) is now tied with multiple of invested capital (MOIC) for the second-most-important metric shaping LPs' allocation decisions. Precisely because the lengthening capital cycles in infrastructure can become so pressing, it's to be expected that infrastructure investors would pay increasing scrutiny to net cash on cash. Five-year DPI peaked (at a median of about 40 percent) during the elevated

Exhibit 9

Five-year distribution to paid-in capital hit its lowest recorded level in 2025.

5-year DPI,[1] by vintage year, %



[1]Distributions to paid-in capital.
Source: MSCI Private Capital Solutions

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[1] SPI by StepStone, provided March 1, 2026.

The infrastructure sector has historically lagged in digital adoption, but it now stands to benefit disproportionately given its reliance on complex, unstructured data.

exit cycle of the mid-2010s; it has since declined to approximately 13 percent (Exhibit 9). While DPI for infrastructure is less volatile than for private equity, its clear downward trend aligns with tightening liquidity conditions more broadly.

Investors also continue to prioritize internal rate of return (IRR); indeed, the LP investors we surveyed identify it as their most important metric. While DPI measures realized distributions to investors, IRR seeks to capture the annualized percentage return of an investment, considering the magnitude *and timing* of cash flows over the length of the investment period. This makes it a favored metric for LPs and GPs alike.[2] Yet traditional IRR targets face mounting pressure, both from a higher cost of debt—exceeding 2009–20 levels—and elevated public and private multiples that drive up purchase prices for infrastructure assets. Challenges are further compounded by the "crowded auction" processes of a maturing field, and more selective exit conditions. These dynamics strengthen the need for robust value creation programs that can improve asset performance even (or perhaps, *especially*) when investments take longer to pay off compared with a more regimented, fixed approach of paying down debt.

Solving for value creation

As liquidity needs heighten and mandates for robust returns amplify, the days when private capital could passively ride market tailwinds or just "check the box" as a sectoral or diversification play are gone. Infrastructure now finds itself on new terrain.

Increasingly, investors will need to generate true alpha. Return drivers are shifting from multiples expansion and financial structuring to operational performance and capital productivity. As LPs expect higher returns from infrastructure, they are placing greater emphasis on managerial excellence. And as infrastructure investments shift from core to core plus and value added, sponsors are acquiring stakes in earlier-stage investments (including greenfield and brownfield platforms and assets) and higher-complexity businesses at the intersection of verticals—as well as services businesses. Delivering returns for those types of investments requires the ability to design, build, and support more complex operating models. For example, a large-scale data center may require one or more off-the-grid power sources to ensure utility-scale power is available regardless of regional supply-and-demand dynamics. We're seeing strategic-minded players who seek to identify and, at times, even *build* a power source—a significant expansion from traditional, infrastructure-investing ground rules—often investing in green- or brownfield projects.

[2] For more on internal rate of return and its benefits—and limitations—see Tim Koller, Marc Goedhart, and David Wessels, *Valuation: Measuring and Managing the Value of Companies*, eighth edition, John Wiley & Sons, 2025.

Distinctive owners and operators are pursuing value creation across the entire life cycle of infrastructure assets. This starts with capital expenditures and moves across planning and site selection for new greenfield projects and optimizing build timelines. It then extends to operations, including advanced predictive maintenance and reduction of contract leakage. Finally, creating value goes beyond just cost savings to include top-line levers, such as more effective pricing and expansion into adjacencies.

Moreover, and increasingly critically, value creation leaders are beginning to leverage advanced technology, particularly AI. The infrastructure sector has historically lagged in digital adoption, but it now stands to benefit disproportionately given its reliance on complex, unstructured data. Specific, asset-performance-focused use cases of AI are now being piloted and are likely to become a major part of value creation programs in the future. For example, AI-enabled capital productivity is emerging as a key lever; multiple businesses for which capital expenditure deployment is critical are now employing generative scheduling tools that use advanced analytics to model resource-loaded project plans, test multiple "what if" scenarios, and optimize sequencing to reduce build timelines and costs. Moreover, in renewables projects (such as wind farms and solar power), AI can support the full greenfield cycle, from site identification and permitting analysis to construction sequencing, enhancing capital efficiency. Those types of value enablers are particularly important because a growing share of infrastructure investment is greenfield (such as renewable build-outs), where execution discipline directly drives IRR.

Private capital will be essential to help meet the $106 trillion needed for global infrastructure investments through 2040. In 2025, fundraising reached new heights, as the market continued to mature. Yet, even though overall trends for fundraising and deployment are positive, more challenging conditions may lie ahead—particularly as holding periods lengthen and investors seek robust, sustainable returns. Fortunately, investors and operators across the expanding infrastructure ecosystem are stepping up to drive value creation—and meet the world's acute infrastructure needs.

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Private credit

A maturing industry navigates change in 2025

Complexity is increasing and competitive pressures are on the rise. The asset class is becoming less about deploying capital at pace—and more about deploying it with precision.

by Hyder Kazimi, John Spivey, and Warren Teichner

Private credit is maturing—and facing new pressures and uncertainties. In 2025, the asset class continued to navigate a multiyear transition, advancing from its earlier, relatively simpler beginnings as a sector dominated by leveraged corporate lending toward a more complex ecosystem of diverse strategies, vehicle structures, and capital pools. It's growing, but not as fast. And it's facing, potentially, the most challenging performance environment it has yet experienced, with a new set of cyclical and structural risks.

Future outcomes remain unclear and could vary significantly. Leading metrics in 2025 reflect this lack of equilibrium. Dealmakers sustained near-record origination volumes in 2025 but did fewer and larger deals, amid intensifying competition and tightening spreads. Strategies beyond direct lending—most notably asset-backed finance and credit secondaries—scaled rapidly, absorbing capital that is seeking diversification away from a compressed core market. Fundraising proved resilient, though its composition continued to evolve: Wealth and insurance capital accounted for a rising share of inflows across a more diverse set of vehicles, reshaping the deployment cadence and liability profile of the asset class.

Yet challenges seem to be mounting. A series of defaults and losses in leveraged credit have grabbed headlines. Public business development company (BDC) share prices traded down to levels well below net asset value (NAV). Liquidity concerns emerged for many semiliquid vehicles. And in early 2026, rising apprehension over AI and its potential to disrupt the software industry reached new heights. These developments have increased scrutiny on credit quality and managers' approach to due diligence, raising questions not only about the risk–return proposition of the asset class but also about the interlinkages with the broader financial system.

While this chapter examines trends and emerging sectoral developments that may affect private credit's prospects in the coming year (and beyond), our review here focuses primarily on what *actually happened* in 2025. In particular, we examine the asset class from the perspective of three key groups: dealmakers, fundraisers, and limited partners (LPs). We also examine emerging opportunities and highlight capabilities that are enabling leaders to gain and sustain competitive advantage.

Direct lending volumes in the United States moderated in 2025, with estimated volume declining by approximately 10 percent and deal count declining by about 16 percent.

Dealmakers: A borrowers' market

For dealmakers, 2025 represented a continuation of many of the prior year's trends. Direct lending volumes held near historic highs, even as deal counts slipped. An influx of capital and higher deployment expectations furthered a realignment of lender and borrower relationships and terms. As deployable deal inventory tightened against a growing capital base, intensifying competition put meaningful pressure on the characteristics of new issuances.

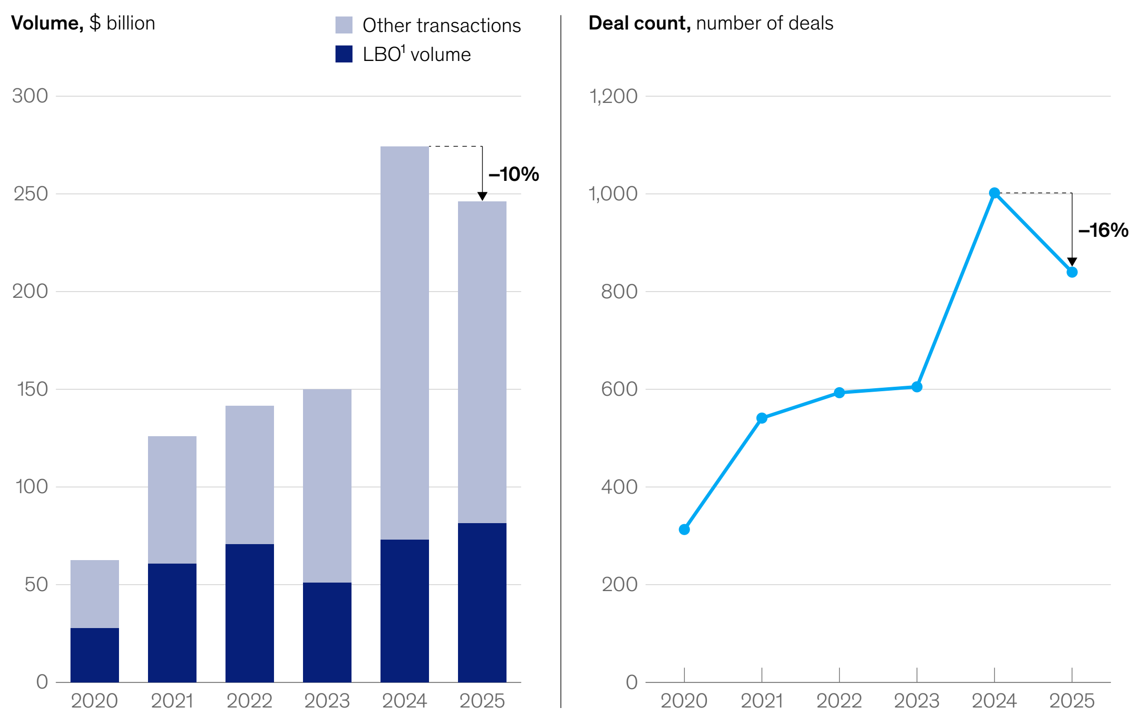
Dealmaking retrenches

Comprehensive data on private credit deal volumes across strategies and geographies is limited by the opaque nature of activity in the sector. Even so, the segment with the clearest disclosure—direct lending—suggests the market's direction. Direct lending volumes in the United States moderated in 2025, with estimated volume declining by approximately 10 percent and deal count declining by about 16 percent (Exhibit 1).[1] Activity nevertheless remained well above pre-2024 levels, underscoring that the market modestly dipped from elevated levels rather than precipitously fell.

Exhibit 1

US direct lending volumes and deal count declined from 2024 to 2025.

Annual US direct lending



[1]Leveraged buyout.
Source: LCD 2026, PitchBook

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[1] Deal volume data can diverge significantly depending on the underlying database and tracking methodology. However, while reported figures for direct lending volumes vary, general trends broadly are in line, even as total dollar amounts differ.

Leveraged buyout (LBO) financings rose to $81 billion in 2025 from $73 billion in 2024, the highest level on record, even as LBO deal count declined to 214 (from 248).[2] In other words, buyout financing grew through larger but fewer deals, in line with the broader recovery and direction in private equity (PE) activity. This increase was more than offset by a decline in non-LBO activity, including refinancings and recapitalizations, which slipped by nearly 20 percent from the prior year.[3] That said, volume remained substantially elevated relative to pre-2024 levels as borrowers sought to take advantage of better market terms.

The scale of the shift toward larger deals is striking: Average LBO deal size for direct lending, for example, rose by 29 percent, reaching approximately $380 million (compared with about $295 million in 2024 and $200 million in 2020).[4] This trend is also evident in the €6.5 billion unitranche refinancing for Norwegian online classifieds group, Adevinta—the largest direct lending deal on record.[5] Deals of that magnitude epitomize the ongoing up-market migration of the strategy. This capability expands the addressable market for direct lending but also places it into more frequent direct competition with providers of syndicated and public credit.

Competition intensifies

While deal activity retrenched modestly, competition for deals intensified. Closed-end direct lending dry powder was approximately $500 billion as of the first half of 2025—near all-time highs—underscoring the scale of capital competing for a finite set of deals. This competitive dynamic is further amplified by the growth of semiliquid private credit vehicles. Because these vehicles raise capital continuously (instead of calling capital as needed), managers are under greater pressure to deploy rapidly to begin generating yield.

Competition from banks and the broadly syndicated loan (BSL) market also sharpened. Traditional lenders are increasingly competing not only as facilitators of syndicated debt but as direct principals. For example, J.P. Morgan carved out a $50 billion sleeve of its own balance sheet to originate private-credit-style loans in a bid to compete directly with nonbank managers on speed, certainty of execution, and hold size.[6] Moreover, new BSL issuances remained near record highs,[7] and refinancing flows between the two markets approached near-parity. Approximately $37 billion of BSL loans refinanced into direct lending, while $34 billion of direct lending loans moved in the other direction.[8] That marks a clear break from prior years, when flows were largely one-directional from BSL to direct lending.

[2] McKinsey analysis based on PitchBook LCD data.
[3] McKinsey analysis based on PitchBook LCD data.
[4] McKinsey analysis based on volume and deal count data from PitchBook LCD; average deal size calculated as total volume divided by deal count.
[5] "Blackstone and Permira weigh debt options for €6.5bn Adevinta deal," Private Equity Wire, February 27, 2025.
[6] "J.P. Morgan increases direct lending commitment to $50 billion," J.P. Morgan press release, February 24, 2025.
[7] US Private Credit Monitor, PitchBook, January 2026.
[8] McKinsey analysis based on PitchBook LCD data; Taron Wade, "European direct lending slows, with refinancing flows balanced between key markets," PitchBook, November 20, 2025.

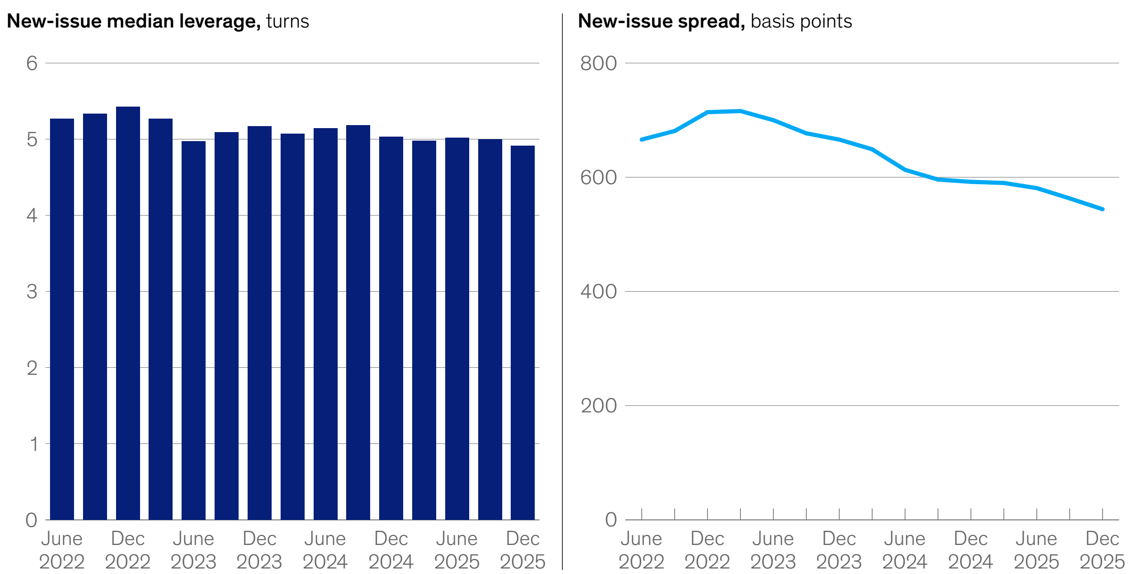
As competition for deals intensified, pricing and terms continued to shift in favor of borrowers. Spread compression is the most visible indication of this trend: After peaking at 716 basis points in March 2023, global new-issue, direct loan median spreads fell to 666 basis points at year-end 2023, 596 basis points at year-end 2024, and 544 basis points at year-end 2025 (Exhibit 2).[9] Up-front fee economics also declined; origination prices rose to 99.1 percent of par (from 98.4 percent in 2023).[10] Together with declining base rates (three-month secured overnight financing rate averaged 4.35 percent in 2025, down from 5.27 percent in 2024), these shifts pushed all-in new-issue yields in 2025 down to approximately 9.3 percent, a decline from 10.5 percent in 2024.[11] Leverage ratios on new-issue transactions have not declined commensurately; averaging 4.9 times EBITDA in 2025, compared with 5.0 times EBITDA in 2024 and 5.2 times EBITDA in 2023.[12]

Loan documentation has become more borrower-friendly as well, especially at the upper end of the market, which competes directly with syndicated financing packages. Overall, covenant-lite transactions rose to 21 percent of direct lending deals in 2025, up from 4 percent in 2023.[13]

Exhibit 2

First lien spread per unit of leverage has declined since 2022.

Global private credit first lien



Source: Kroll StepStone Private Credit Benchmarks

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9 Kroll StepStone Private Credit Benchmarks, global new-issue spread data, 2023–25.
10 Kroll StepStone Private Credit Benchmarks, new-issue origination price by region (as percent of par).
11 "10-year treasury constant maturity rate," Federal Reserve Bank of St. Louis, April 11, 2026.
12 Kroll StepStone Private Credit Benchmarks, new-issue median leverage, global data.
13 Sami Vukelj, "Despite covenant-lite trend, lender protections are stronger in private credit than in BSL market – Proskauer," PitchBook, February 12, 2026; *15th Annual Private Credit Insights Report*, Proskauer Rose, February 2026.

Fundraisers: The evolution of capital formation

By traditional fundraising metrics, private credit softened in 2025: closed-end fundraising fell 16 percent year over year to approximately $165 billion (Exhibit 3).[14] This continued a multiyear contraction in closed-end fundraising dating back to 2021 and mirrored, albeit somewhat less starkly, the decline seen in private equity over the same period (–9 percent versus –12 percent per annum, respectively). Increasingly, however, a growing share of private credit capital formation is occurring outside the closed-end structures tracked by traditional fundraising statistics. By broadening the scope to include BDCs, evergreen funds, interval funds, insurance mandates, and other permanent-capital vehicles, a different story emerges: one of a structural shift in how capital enters the asset class, rather than a retreat from it.

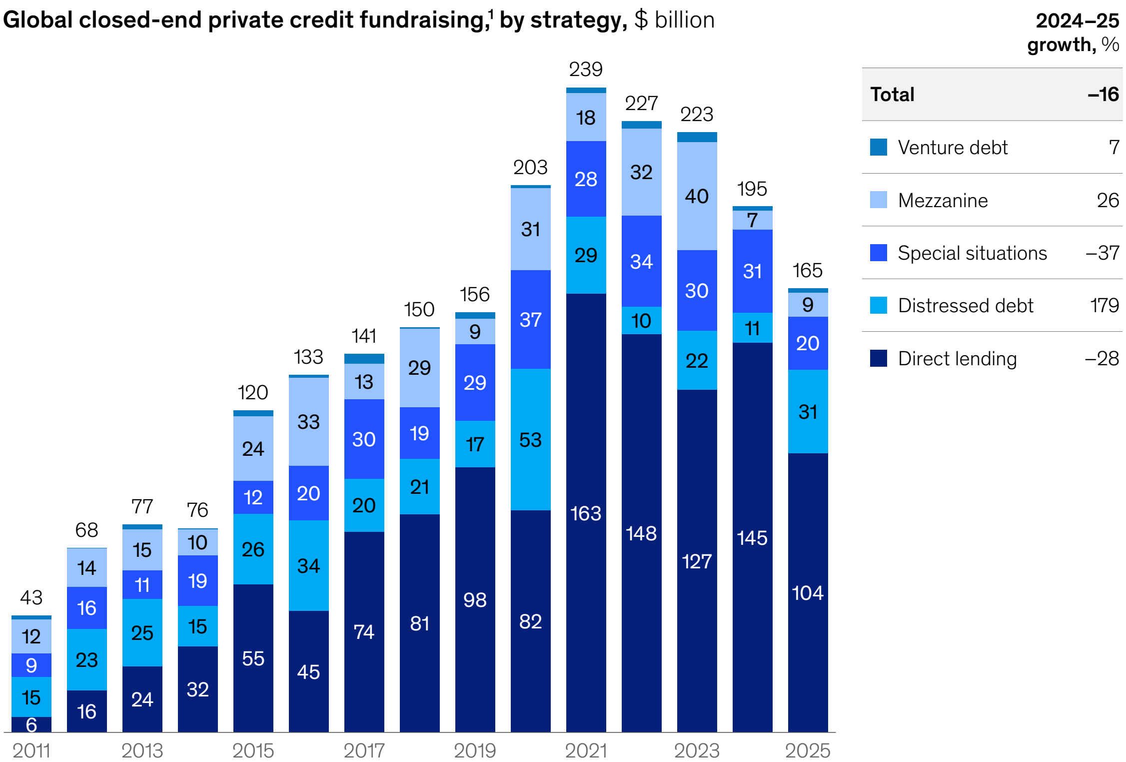
Trends across private credit strategies and regions

Fundraising trends for closed-end funds varied meaningfully by strategy. Direct lending funds fell 28 percent,[15] likely driven in part by the strategy's prevalence in open-end-fund structures, as well as by a shift in investor preferences away from a more competitive market segment.

Exhibit 3

Private credit closed-end fundraising declined 16 percent in 2025.

Global closed-end private credit fundraising,[1] by strategy, $ billion



Note: Figures may not sum to totals, because of rounding.
[1]Excludes secondaries and funds of funds.
Source: Preqin

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[14] McKinsey analysis in Exhibit 3 based on Preqin data.
[15] McKinsey analysis in Exhibit 3 based on Preqin data.

Collectively, strategies outside direct lending showed year-over-year growth of 22 percent from 2024 to 2025. Distressed debt led the way, surging nearly 180 percent,[16] anchored by the largest distressed debt fund in history, Oaktree Capital Management's $16 billion Opportunities Fund XII.[17] Growing interest in the strategy may indicate that investors anticipate attractive distressed opportunities to arise in 2026. Mezzanine fundraising rebounded approximately 26 percent after a sharp 80 percent decline in 2024, and special situation funds declined 37 percent year over year, largely reflecting a normalization after an outsize 2024. Both mezzanine and special situations strategies are highly concentrated and can experience significant year-to-year volatility based on the timing of a small number of large fund closures.[18]

Private credit fundraising for closed-end funds declined across all major regions in 2025, reflecting a broad-based global moderation in capital raising. North America remained the largest market, accounting for 64 percent of global fundraising, followed by Europe at 32 percent. North America and European closed-end fundraising have followed a similar multiyear trend, declining at CAGRs of –8 percent and –9 percent, respectively, since 2021.

Market concentration and advantages of scale

Even in a softer fundraising market, scaled managers continued to raise record-size vehicles, underscoring that capital is being concentrated in fewer hands. For example, Ares Management raised €17.1 billion in LP commitments for its sixth flagship European fund, marking the largest closed-end private credit vehicle ever on the basis of LP commitments.[19]

Indeed, private credit fundraising for closed-end funds in 2025 continued to trend toward concentration (Exhibit 4). The top 25 managers accounted for approximately 72 percent of total fundraising,[20] and the seven largest private credit platforms increased assets under management (AUM) at approximately 20 percent annually from 2022 to 2025, outpacing the overall market.[21] What is clear is that scale matters considerably. It enables broader product offerings, timelier liquidity, and larger diversified holds—capabilities that smaller managers can often struggle to replicate.

Wealth channel and intermittent-liquidity vehicles

Private credit capital formation is increasingly taking place outside the closed-end structures that traditional fundraising statistics capture. Our analysis indicates that evergreen and open-end private credit AUM grew approximately 27 percent year over year in 2025, with growth across BDCs, interval funds, and tender offer vehicles.

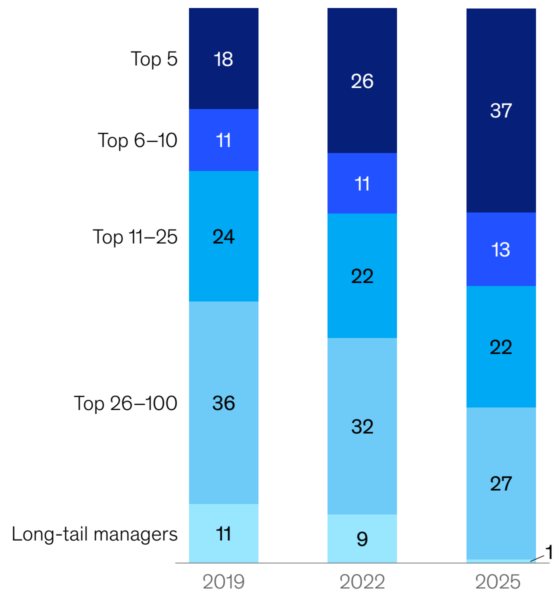
Many of these vehicles are structured to provide intermittent liquidity—typically through quarterly redemption windows—in order to better suit investors in the wealth channel. Managers have often referred to capital raised in the wealth channel as "permanent," and indeed the capital has historically proven fairly sticky. A different dynamic emerged in late 2025, however, as concerns over credit quality and broader market sentiment prompted a sharp increase in redemption activity. Based on an analysis of BDCs by Fitch Ratings, redemptions in the fourth quarter of 2025 nearly tripled over the prior quarter, averaging 4.5 percent of NAV. Five BDCs received (and honored) redemption requests in excess of their 5 percent quarterly caps. The rush to withdraw

[16] McKinsey analysis in Exhibit 3 based on Preqin data.
[17] Chris Cumming, "Oaktree closes largest distressed-debt fund ever raised," *Wall Street Journal*, February 11, 2025.
[18] McKinsey analysis in Exhibit 3 based on Preqin data.
[19] "Ares Management raises €30 billion for European direct lending strategy," Ares Management press release, January 14, 2025.
[20] McKinsey analysis based on Preqin data, accessed April 2026.
[21] McKinsey analysis based on available annual filings and investor presentations.

Exhibit 4

Private credit fundraising for closed-end funds in 2025 continued to trend toward concentration.

Share of annual closed-end private credit fundraising,[1] %



Note: "Top" refers to leading manager by closed-end fundraising volume for the respective year.
[1]Excludes secondaries and funds of funds.
Source: Preqin

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capital continued to accelerate in the first quarter of 2026 and is shaping up to be one of the prime tests for the asset class over the coming year, particularly for managers that have sourced a large portion of their capital base from the wealth channel.[22]

Insurance partnerships

Insurance and private credit continued to converge in 2025, driven by a structural alignment: Private credit has historically offered the predictable, yield-generating cash flows insurers seek, while insurers have provided stable, long-duration capital that reduces managers' dependence on cyclical fundraising. Partnerships continued to proliferate in 2025: MetLife Investment Management acquired PineBridge Investments,[23] and Manulife acquired a 75 percent stake in Comvest Credit Partners.[24]

The trend is arguably still in the early innings: Goldman Sachs Asset Management's 2025 Global Insurance Survey found private credit to be the most in-demand exposure for insurance chief investment officers representing $14 trillion in assets, with 58 percent planning to increase allocations. Notably, much of this capital is flowing into investment-grade strategies and structures, with 40 percent of insurers planning to increase allocations to investment-grade private credit, and 36 percent to asset-backed finance, reflecting insurers' preference for investment-grade-rated risk and positioning them as a key catalyst for private credit's ongoing expansion beyond leveraged lending.[25]

[22] "Perpetually non-traded BDCs see higher redemptions, slower fundraising," Fitch Ratings, February 17, 2026.
[23] "MetLife Investment Management completes acquisition of PineBridge Investments," MetLife press release, December 30, 2025.
[24] "Manulife completes acquisition of Comvest Credit Partners," PR Newswire, November 3, 2025.
[25] Great Pivot: 14th Annual Global Insurance Survey, Goldman Sachs Asset Management, March 2025.

Limited partners: Conviction through the transition

In 2025, LPs navigated a market where the consistency that had defined private credit over the past decade gave way to more varied conditions. A series of notable defaults and a modest rise in certain credit quality indicators prompted increased scrutiny of existing portfolios for potential softness. Despite these concerns, private credit's performance in 2025 held largely in line with historical levels.

Performance held steady

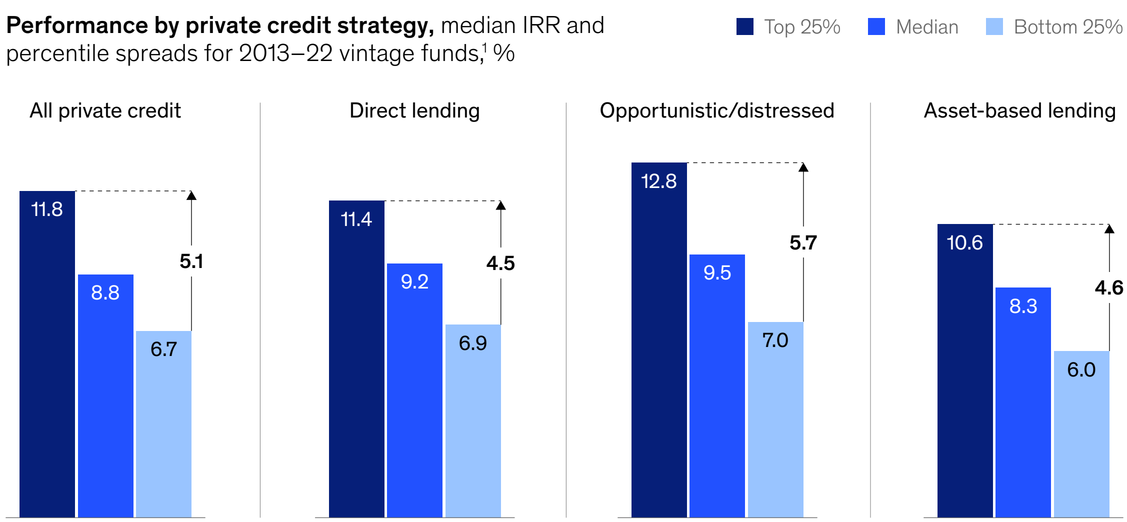
Pooled net internal rate of return (IRR) for private credit was 8.5 percent in 2025, compared with 7.0 percent for 2024. Despite declining new-issue yields and mounting concerns of higher defaults and losses, the asset class continued to perform well.

Private credit's 2025 performance broadly tracks with the asset class's long-term performance—median IRR for 2013–2022 vintages was 8.8 percent. Return dispersion remained the narrowest of all private market asset classes, with a 5.1-percentage-point spread between top- and bottom-quartile managers—compared to approximately 14.3 percentage points in private equity and 6.7 in infrastructure.[26] Across strategies, absolute returns as well as dispersion are smaller in strategies such as direct lending and asset-based lending but higher in more risk-seeking strategies such as opportunistic and distressed credit (Exhibit 5). Manager selection becomes increasingly critical as investors move up the risk curve.

Exhibit 5

Private credit returns vary across strategies.

Performance by private credit strategy, median IRR and percentile spreads for 2013–22 vintage funds,[1] %



[1]IRR spreads calculated for separate vintage years for 2013–22 and then averaged out. Median IRR was calculated by taking the average of the median IRR for funds within each vintage year. Net IRR to date through Dec 31, 2025.
Source: MSCI Private Capital Solutions

McKinsey & Company

[26] MSCI Private Capital Solutions (formerly Burgiss), accessed March 2025.

The metrics used to assess the health of private credit portfolios—and therefore the outlook for future performance—have important structural limitations. Most important, they reflect portfolio conditions from one to two quarters ago and may not capture current conditions.

Nevertheless, available indicators of underlying credit quality appeared largely within historical ranges in 2025. Global median interest coverage for senior and subordinated corporate debt improved to 2.09 times EBITDA in the third quarter of 2025, up from 1.83 times EBITDA a year earlier.[27] Cliffwater reports that payment-in-kind income as a percentage of total investment income in direct lending declined to 7.3 percent in the fourth quarter of 2025 from 8.1 percent a year earlier, broadly in line with 2022–23 levels.[28] And while managers did mark positions down slightly in the fourth quarter, the share of loans marked below 90 remained within recent historical ranges. At year-end 2025, approximately 5.5 percent of US first-lien credit loans were marked below 90 (5.4 percent globally), up from 4.9 percent (4.6 percent globally) at year-end 2024.[29] This level remains significantly less severe than during the COVID-19 pandemic.

Investor appetite bifurcates

Institutional LP conviction in private credit remains firm. McKinsey's January 2026 LP Survey found that 40 percent of LPs plan to increase private credit allocations over the next 12 months (versus 26 percent who plan to decrease)—up from 38 percent who planned to increase in the prior year and exceeding the share planning to increase private equity or real estate commitments.[30] This positive sentiment signals that private credit's senior position in the capital structure, predictable income profile, and narrow return dispersion continue to appeal to institutional investors, at least through the beginning of this calendar year.

The picture is murkier for the wealth channel, where momentum has stalled. Net inflows were positive over the course of 2025, despite the spike in redemption requests, but the trajectory of fundraising thus far in 2026 suggests that that growth may stall or reverse. Private credit capital held in semiliquid structures now represents significant portions of the AUM of several large managers, which have invested heavily to raise capital in the wealth channel over the past five years. The durability of this capital has become a central question for the asset class in 2026.

Private credit on new terrain

As private credit matures, it is expanding to new areas of the financing economy, meeting the needs of investors who seek greater diversification and providing solutions for new classes of borrowers. Two prominent growth areas are asset-backed finance (ABF) and credit secondaries.

Asset-backed finance

In prior reports, we've tracked private credit's long-term expansion into ABF, a trend which progressed significantly in 2025.[31] Based on available data for deal volume and performance, we estimate that closed-end funds that pursue ABF opportunities[32] raised approximately $27.1 billion through 2025 to capture 16.4 percent of all closed-end private credit fundraising.[33]

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[27] Kroll StepStone Private Credit Benchmarks.
[28] Cliffwater Direct Lending Index (CDLI), fourth quarter 2025 report.
[29] Kroll StepStone Private Credit Benchmarks.
[30] McKinsey Global Limited Partners (LP) Survey, January 2026 (n = 296); 40 percent of LPs plan to increase private credit allocations over the next 12 months, up from 38 percent in the prior year survey.
[31] "The next era of private credit," McKinsey, September 12, 2024.
[32] ABF-focused funds are classified within and across the primary private credit strategies shown in Exhibit 3 (such as direct lending or mezzanine) and are not broken out as a separate category in that view.
[33] McKinsey analysis based on Preqin data, accessed April 2026.

That's a notable jump from a 10.6 percent market share in 2024.[34] Including capital raised for real estate and infrastructure credit funds (which is categorized under their respective asset classes), ABF fundraising totaled $70 billion in 2025. While that growth illustrates the growing prevalence of ABF closed-end funds, it understates the scale of managed assets in the private ABF market as a whole, much of which is backed by insurance-linked and other forms of capital that are not captured in traditional fundraising statistics.

The strategic significance of ABF extends beyond recent fundraising trends. The addressable market for private credit in the United States alone could exceed $30 trillion—with ABF, infrastructure, residential mortgages, and commercial real estate among the asset classes most likely to transition from bank balance sheets to nonbank lenders.[35] An estimated $5 trillion to $6 trillion of such assets could shift into the nonbank ecosystem over the next decade, dramatically expanding private credit's footprint. This development is also fueled by megatrends in digitalization, decarbonization, and deglobalization, which are projected to drive $106 trillion in infrastructure investment over the next 14 years.[36] Infrastructure credit has emerged as a particularly fast-growing segment of ABF, driven by the enormous capital needs of the AI build-out, including data centers, fiber networks, and power generation. Meta's choice to tap the private markets for $29 billion to finance the construction of a Louisiana data center last year illustrates the scale of this opportunity.[37]

Credit secondaries

A second prominent growth area is private credit secondaries, for which deal volumes nearly doubled (to $20 billion) from 2024 to 2025. GP-led volume tripled year over year to $12 billion in 2025 (60 percent of total volume). The closing of multibillion-dollar continuation vehicles—including TPG Twin Brook Capital Partners ($3 billion), Crescent Capital ($3.2 billion), and Benefit Street Partners ($2.3 billion)—reflects increasing investor demand for liquidity solutions in a maturing asset class.[38] LP-led volume, meanwhile, grew by 16 percent to $8 billion.[39] From a fundraising perspective, dedicated secondaries buyers raised significant amounts of capital to meet demand, highlighted by Ares Management ($7.1 billion)[40] and Coller Capital ($6.8 billion).[41]

The rapid growth of private credit secondaries reflects several converging forces: the maturation of a large pool of 2019–22 vintage funds generating natural liquidity demand, redemption pressures at semiliquid vehicles prompting managers to use secondary sales as a portfolio management tool, and the entry of dedicated secondaries capital. For the broader private credit ecosystem, secondaries represent an important structural development that parallels an evolution in PE, introducing a layer of price discovery and liquidity into what has traditionally been a hold-to-maturity asset class.

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[34] McKinsey analysis based on Preqin data, accessed April 2026.
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[39] "2025 global secondary market review: Another record-breaking year," Jefferies Financial Group, February 10, 2026.
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Looking ahead

If 2025 was a year of maturation for private credit, the associated growing pains arguably emerged in the first three months of 2026. BDC share prices have traded down even further, and redemption requests have increased (with initial estimates of 16 percent of NAV in the first quarter of 2026),[42] in several cases prompting managers to limit fulfillment. Concerns over underlying loan quality have moved from specialist commentary into mainstream financial coverage. The broader economic backdrop has become more fraught as well. Rapid advances in large language models have raised fundamental questions about the long-term prospects of software businesses that comprise a significant portion of private credit portfolios. Geopolitical tensions continue to weigh on borrower confidence, and the trajectory of employment and interest rates remains uncertain.

For managers, the implication is clear: Private credit is becoming less about deploying capital at pace and more about deploying it with precision. The platforms best positioned for this environment command origination networks that reach beyond the crowded upper-middle market, maintain underwriting discipline under competitive pressure, and possess the infrastructure required to manage the liquidity demands of semiliquid capital alongside a maturing credit book. That's an opportunity—and a challenge. Managers that excel in disciplined underwriting, transparent portfolio reporting, and proactive credit management, while making bold moves into new growth areas as conditions and capabilities warrant, will be best positioned to capitalize on the new set of market dynamics.

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