

Private capital in 2026: Foundations for a changing market



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KEY CONSIDERATIONS FOR 2026

1. **Seize the constructive backdrop - with discipline:** Lower interest rates and rising M&A may support greater deal activity, but a focus on quality assets, disciplined underwriting and resilient business models remain important to mitigate potential risks.
2. **Avoid the crowd:** U.S. traditional middle market lending – particularly in sponsor-backed deals – has seen evolving participation trends in recent years, offering the potential for modest leverage, compelling yields, and an attractive diversification opportunity for investors looking to complete their private credit exposure.
3. **Value full-spectrum capabilities:** Faced with unpredictable conditions, sponsors will increasingly seek trusted capital partners who consistently provide flexibility, a full range of creative solutions and certainty of execution, regardless of the macro backdrop.
4. **Navigate accelerating manager differentiation:** Relative performance will come into sharper focus as returns diverge further, leading to increased bifurcation in an increasingly discerning fundraising market.

Lower financing costs, improving buyer-seller alignment and pressure on sponsors to transact may create a more constructive environment for private capital this year. Recent experience, however, has reinforced the limits of forecasting. Against this backdrop, we focus on four enduring foundations that we believe matter regardless of how the macro environment evolves.

WHY WE'RE NOT LETTING HOPE TRIUMPH OVER EXPERIENCE

We believe the lesson from recent years is not that macro conditions are irrelevant, but that precise forecasting has proven to be an unreliable foundation for investment decision-making. In an environment shaped by policy shifts, trade dynamics and political uncertainty, outcomes are increasingly driven less by predicting macro scenarios and more by discipline, experience, a consistent investment pace and the ability to manage through uncertainty.

This forecasting challenge is evident in transaction activity. In prior outlooks, we, along with many others, anticipated a faster rebound in M&A as conditions normalized. While global M&A activity increased in 2025 — with deal value projected to reach approximately \$2 trillion and volumes rising roughly 9% by year end¹ — the recovery proved uneven, with strong momentum early in the year, a pause following tariff announcements and a rebound in activity in the second half.

At the same time, the broader U.S. economy proved more resilient than expected. Initial estimates put GDP growth at 4.3% in the third quarter of 2025.² While the government shutdown may have created noise in the numbers, this is a far stronger result than anyone could have foreseen earlier in the year. Despite this, interest rates declined further from their 2023 peaks. We believe these crosscurrents underscore the limits of point-in-time forecasts

in a dynamic environment, and the importance of continuing to deploy capital programmatically rather than trying to time the market.

The private capital industry (defined throughout this paper as private credit and private equity) has matured significantly, expanding across strategies, structures and risk profiles, becoming an increasingly vital part of the U.S. economy's growth engine. With this evolution has come heightened scrutiny, particularly within private credit, as manager discipline has been subject to closer examination. Recent commentary has raised familiar questions: "Are there cracks in portfolios?" and "Is there too much capital chasing too few deals?" As an industry, we welcome the opportunity to provide greater transparency and help educate a broader set of stakeholders about what we do and how we do it.

In unpredictable markets, performance dispersion tends to widen and differentiation matters more.³ For limited partners, this environment increasingly favors established platforms with scale, experience and repeatable processes across cycles. Volatility, rather than being an obstacle, has become a clarifying force.

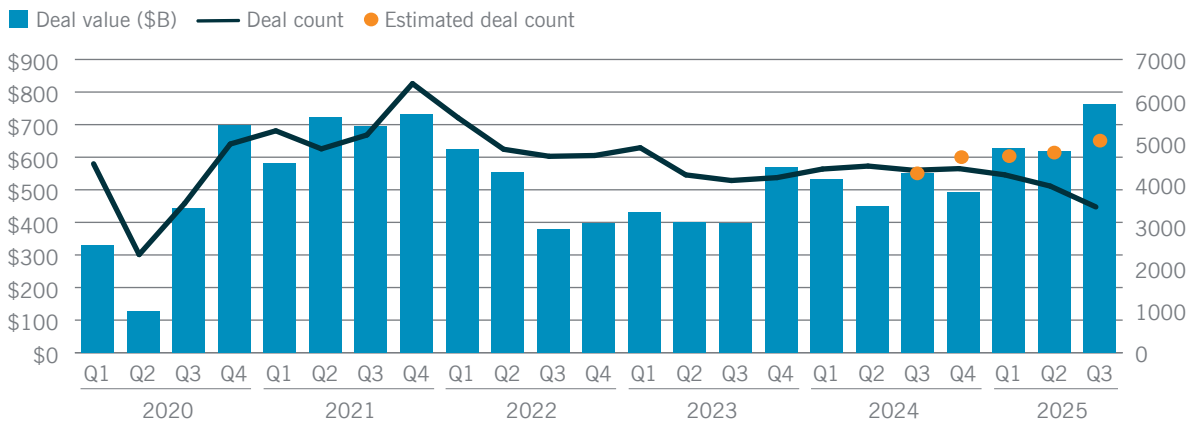
We therefore approach 2026 not through the lens of prediction, but through four enduring foundations we believe are critical to navigating the year ahead and positioning private capital for durable, long-term outcomes.

1. A CONSTRUCTIVE BACKDROP, WITH DISCIPLINE REQUIRED

Despite forecasting challenges, several concrete factors support strong deal activity in 2026. Interest rate hikes appear to be behind us, and the U.S. Federal Reserve (Fed) delivered its third rate cut of 2025 in December.⁴ Lower financing costs are improving conditions for M&A, which regained traction in the third quarter of 2025: deal value rose 23%, while deal count remained steady, up 5% (Figure 1).⁵

Figure 1. M&A is gaining momentum

North America M&A deal activity



Source: PitchBook, Q3 2025 Global M&A Report

Private equity and private credit activity has historically followed improvements in M&A, and recent data points to renewed momentum. By the end of 2025, U.S. private equity deal value had reached \$1.16 trillion, the second highest total on record, despite a brief pause following tariff announcements earlier in the year.⁶ As rate cuts improved sentiment, U.S. private capital pipelines continued to rebuild.

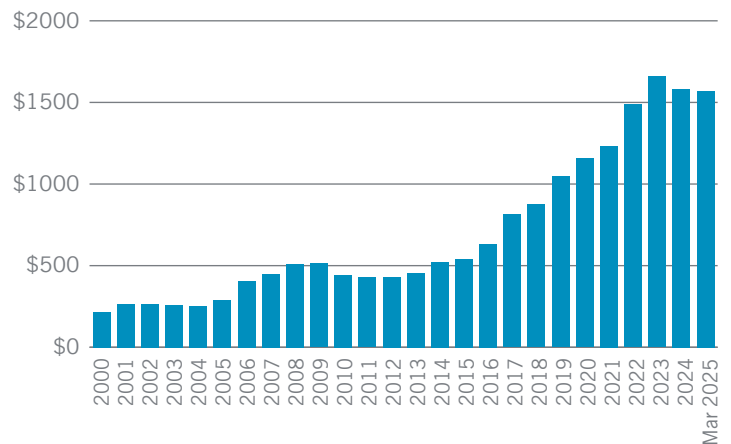
For several years, a difficult exit environment has extended holding periods, constrained distributions to LPs and increased pressure across the system. While median U.S. exit holding periods declined from a 2023 peak of seven years, they remained elevated at six years as of the third quarter 2025.⁷ Against this backdrop, North America private equity dry powder totalled \$1.6 trillion as of March 2025 – down from peak levels, but still high by historical standards.⁸ These factors can create incentives to transact as investment periods mature.

Buyer–seller alignment is also improving. One of the most persistent obstacles to dealmaking in recent years - valuation gaps - have begun to narrow. In the third quarter of 2025, nearly two-thirds of GPs surveyed by EY indicated that valuation gaps had narrowed over the prior 12 months,⁹ paving the way for more sustained exit and deal activity.

In this environment, discipline, relationships and execution matter. Our latest private equity survey found that sponsors prioritize speed, certainty of execution and relationship depth when selecting a financing partner,¹⁰ considerations that have assumed greater importance amid episodic volatility.

Figure 2. North America private equity dry powder remains high

North America private equity dry powder (\$bn)



Source: Preqin, as of March 2025

2. U.S. PRIVATE CREDIT DYNAMICS FAVOR THE TRADITIONAL MIDDLE MARKET

Overall private markets continue to expand, with alternatives AUM projected to grow from approximately \$20 trillion in 2025 to more than \$30 trillion by 2030.¹¹ Growth at this scale is sustaining competition across parts of the market, reinforcing the importance of discipline and selectivity even as activity improves.

Yet dynamics vary meaningfully by segment. Despite overall growth in the U.S. private credit market, traditional middle market lending (companies with sub-\$100 million in EBITDA) has become arguably less crowded in recent years. We have observed some participants shifting up the deal-size spectrum and dipping into public debt markets, while many smaller managers have moved downward. This is despite several attractive underlying fundamentals.

Traditional middle market buyouts, for example, benefit from lower entry valuations and higher earnings growth than other parts of the market. As of the third quarter 2025, average entry valuations stood at 10.8x EV/EBITDA for middle market private equity, compared with 11.4x for larger transactions, while EBITDA growth averaged 18%, versus 6% for large-cap (Figure 3).¹²

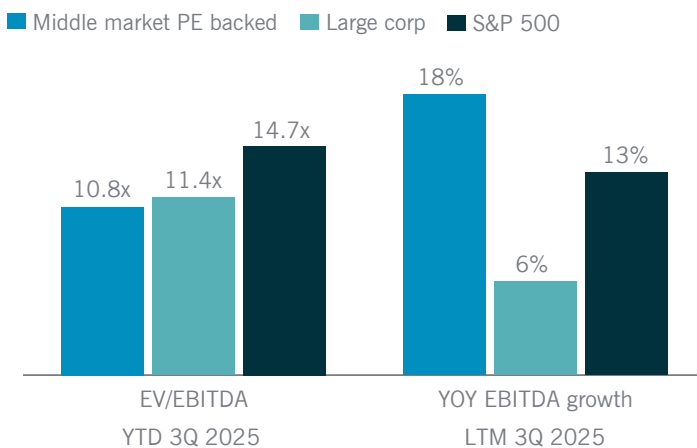
Increased sponsor activity is expected to translate into strong pipelines for middle market lending in 2026. Importantly, we believe these pipelines are developing against a more durable backdrop than in recent years, which may create an attractive risk-adjusted return opportunity.

Following a period marked by relatively low buyout activity, heightened broadly syndicated loan competition and elevated private credit dry powder, spreads compressed across deal sizes in 2025.¹³ More recently, traditional middle market lending spreads have stabilized in the 500-550 basis point (bps) range,¹⁴ broadly in line with the 10-year historical average. As buyout deals increase, spreads may remain steady or adjust modestly from current levels, reflecting a more balanced supply-demand relationship.

Leverage levels have also stabilized, at 4.6x EBITDA in the U.S. in Q4 2025 – below the 4.7x average from

Figure 3. Middle market buyouts feature healthy valuations and higher growth than larger transactions

Valuations and earning growth



Source: EV/EBITDA - Middle Market PE-Backed & Large Corporate: LSEG LPC, 3Q25 Private Deals Analysis. S&P 500: Bloomberg Finance L.P., as of 3Q25. YOY EBITDA Growth - Middle Market PE-Backed: Churchill Gryphon Senior Lending Index, as of 3Q25. Please see end of document for additional disclosures regarding Gryphon index. Large Corporate: PitchBook LCD, YOY 12-Month Growth, as of 3Q25. S&P 500: Bloomberg Finance L.P., as of 3Q25.

the last five years.¹⁵ This moderation reflects the sharp rise in interest rates beginning in 2022. With interest rates trending lower, there may be scope for modest increases in leverage and renewed unitranche activity, although discipline remains important.

Lower interest rates naturally lead to lower base rates and yields on floating rate investments, including for middle market loans.¹⁶ However, direct lending has historically demonstrated value in rising and declining rate environments, thanks to interest rate floors and its relative performance advantages (Figure 5).

In the sponsor-backed middle market, where leverage levels tend to be moderate and equity cushions may provide a degree of downside protection, yields remain attractive on an absolute basis. A recent analysis of middle market direct lending in BDCs found that third-quarter 2025 yields remained elevated at 9.76%, even after 150 bps of Fed rate cuts. Over the same period, trailing one-year realized losses were 0.66%, well below the long-term historical average of approximately 1%.¹⁷

Lower interest rates also tend to support credit fundamentals more broadly: they have the potential to enhance portfolio company cash flow and access to capital, enabling strategic reinvestment and growth. This can create opportunities for lenders to provide additional financing for acquisitions and expansion within existing portfolios. Lower rates can also catalyze M&A activity, as evidenced currently, broadening the universe of new deals.

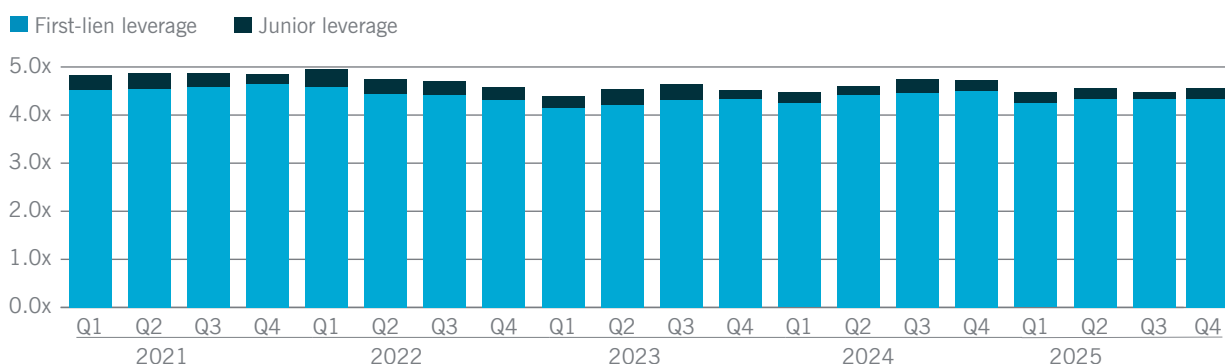
While always vital, downside protection through strong documentation and robust covenant packages are a particular focus during macro uncertainty. Lenders often balance protective terms with sufficient borrower flexibility to navigate

potential volatility (explored further in Section 3). In a more active market, documentation standards tend to tighten accordingly.¹⁸

This environment may provide opportunities that prove favorable for deploying capital in the traditional middle market. Refinancings within existing portfolios and new deal origination are expected contribute to deal flow through 2026. A fundamental principle in private credit (and private capital investing more generally) is consistent deployment through market cycles, with diversified portfolios designed to provide investors exposure to different market environments.

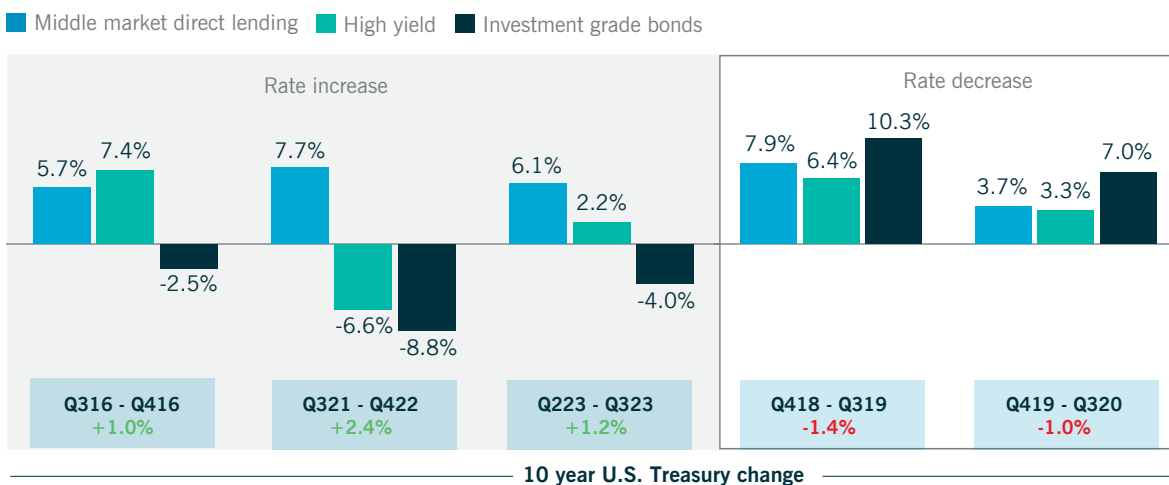
Figure 4. Traditional middle market lending leverage has stabilized

Average debt to EBITDA: PE-backed middle market



Source: LSEG LPC Private Equity Backed Middle Market Debt to EBITDA. (U.S. sponsored middle-market private deals universe; “middle market” defined by LPC as borrower revenues and total loan package each ≤ US\$500M, or EBITDA < US\$100M; universe combines LPC public Loan Connector data and LPC private data collection for reported volumes, with other sections based on private collection unless otherwise noted).

Figure 5. Direct lending still provides value in lower interest rate environments



Sources: Index data is presented for the period since earliest common inception date on 30 Sep 2015. Periods shown above represent significant rate increases or decreases totalling approximately 1% or more. None of the indices presented are benchmarks or targets for the Company. Please see end of document for additional disclosures regarding indices presented. 1 “MM Direct Lending” is represented by the Cliffwater Direct Lending Index. “High Yield” is represented by the Bloomberg US Corporate High Yield Total Return Index. “Investment Grade Bonds” is represented by the Bloomberg US Aggregate Bond Index. 2.10-Year U.S. Treasury Change: Board of Governors of the Federal Reserve System (US).

3. A COMPLEX ENVIRONMENT REQUIRES CREATIVE GP SOLUTIONS

Private equity GPs place significant value on relationships when selecting capital partners. In the current environment, partnership extends well beyond the provision of senior lending. Faced with uneven exit markets, fundraising headwinds and evolving portfolio needs, GPs increasingly value capital partners that can deliver flexibility, creativity and certainty of execution across a range of transaction scenarios.

The ability to provide tailored, full-spectrum solutions has become a critical differentiator today. Building on the constructive but uneven backdrop and the traditional middle market's structural advantages, we see four areas where deeper partnerships are likely to matter most in 2026.

Secondary market solutions for liquidity and value creation. Extended holding periods have increased pressure on private equity GPs to return capital to investors. GP-led continuation vehicles have emerged as a potentially durable and increasingly mainstream response, offering LPs liquidity options while enabling GPs to retain and continue building value in high-performing assets.

GP-led transactions totaled approximately \$47 billion in the first half of 2025, representing nearly half of all secondary market activity and a meaningful year-over-year increase (Figure 6). Continuation vehicles accounted for most of these transactions, underscoring their growing role in portfolio management strategies.¹⁹

By providing capital to support these transactions, investors can potentially strengthen sponsor relationships while gaining access to opportunities with competitive risk-adjusted return potential. Definitive performance conclusions remain premature, but early unrealized portfolio data appears encouraging,²⁰ and the growth of GP-led deals reinforces their increasing role in the secondaries market.²¹

Questions about the sustainability of GP-led activity in a more robust exit environment persist. However, recent survey data suggest continued momentum: in our mid-year sponsor survey, only 40% of respondents had executed a continuation vehicle in the prior two years, implying substantial runway

for adoption. Notably, 80% indicated they expect to sustain or increase continuation vehicle use even as M&A activity improves and interest rates decline.²²

Co-investment capital for high-conviction opportunities. Beyond liquidity solutions, sponsors continue to seek capital efficiency in new investments. In a constrained fundraising environment, private equity GPs are increasingly focused on maximizing existing dry powder. In this context, equity co-investment capital can serve as a tool for top sponsors to pursue high-quality opportunities while preserving fund capacity.

Co-investment activity remained robust in 2025,²³ and we expect elevated deal flow to persist into 2026. However, co-investment structures' attractive economics, typically fee-free and carry-free for participating LPs, have driven competition, making access increasingly relationship-driven. GPs tend to allocate co-investment opportunities to their most trusted LP partners, often granting early access and first look on high-conviction deals.

Junior capital for enhanced flexibility.

While continuation vehicles and co-investment can address equity needs, sponsors also require flexible credit capital structures that can adapt to portfolio company circumstances. Within private credit, junior capital tranches have the potential to provide sponsor-backed companies with greater balance sheet flexibility.

Bifurcated capital structures incorporating PIK-toggle features have emerged as particularly effective tools, allowing borrowers to defer interest payments and reinvest capital into value-creation initiatives. For lenders, these structures may offer enhanced cash yields, illiquidity premiums and potential equity participation through warrants, kickers or conversion features, with the goal of aligning borrower flexibility with lender risk-adjusted return objectives.

Supporting existing portfolios with constructive capital.

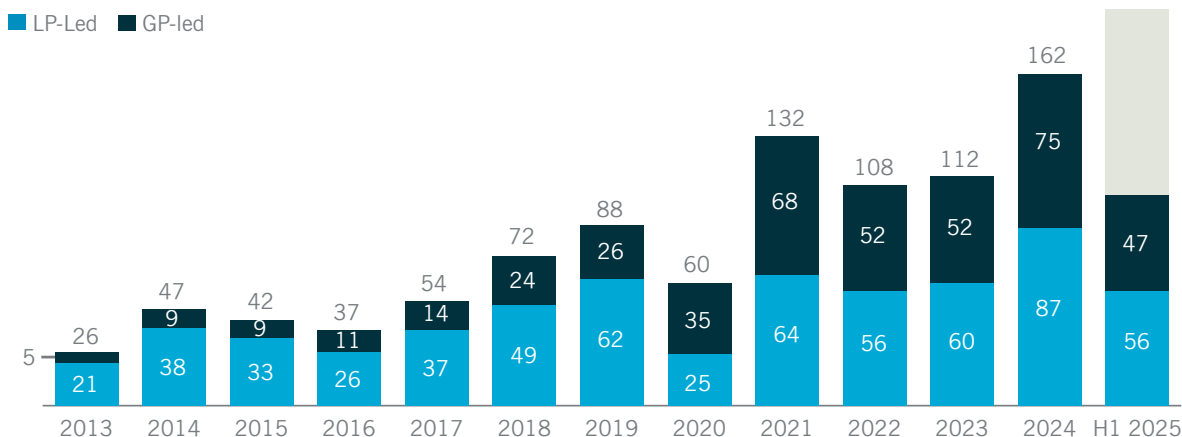
Beyond new deal origination, sponsors increasingly need partners to support existing portfolio companies through periods of dislocation. Potential opportunities exist to provide constructive capital solutions that may extend runways for fundamentally sound businesses facing idiosyncratic challenges or capital structure constraints.

When deployed with discipline, these situations are positioned to offer counter-cyclical entry points, enhanced downside protection and opportunities to deepen sponsor relationships, while supporting long-term portfolio value creation.

We believe these dynamics underscore how delivering recurring capital solutions at scale, while selectively supporting portfolios through periods of volatility, is increasingly shaping outcomes across private markets.

Figure 6. GP-led deals continue to rise

Secondaries market transaction volume (\$ billions)



Source: Jefferies, Global Secondary Market Review, July 2025

4. WIDENING RETURN DISPERSION ELEVATES MANAGER SELECTION

Across private markets, LPs will increasingly prioritize relative performance analysis and manager selection. The gap between top-tier managers and the rest is widening, and institutional investors that fail to adapt their selection frameworks risk compounding underperformance.

Private equity: dispersion at multi-year highs. Return dispersion in private equity has expanded materially in recent vintages. As shown in Figure 7, the spread in returns among 2021 vintage funds globally is the widest since the 2014 vintage, as of November 30, 2025.²⁴ Elevated interest rates

and slower growth have exposed a divergence in portfolio company operational performance, exit execution and capital deployment discipline.

Private credit: Latent stress may drive further divergence. While the broader private capital environment remains constructive, underlying stress is building in parts of the market. Many portfolio companies have weathered higher interest rates and more challenging operating conditions than initially underwritten. Current default rates remain modest, Proskauer’s Q3 2025 Private Credit Default Index reported a 1.84% default rate, consistent with the second quarter’s 1.76%, but stress typically manifests with a lag.²⁵

Return dispersion across private credit is already elevated (Figure 8),²⁶ and we expect it to widen further as performance issues surface among managers that:

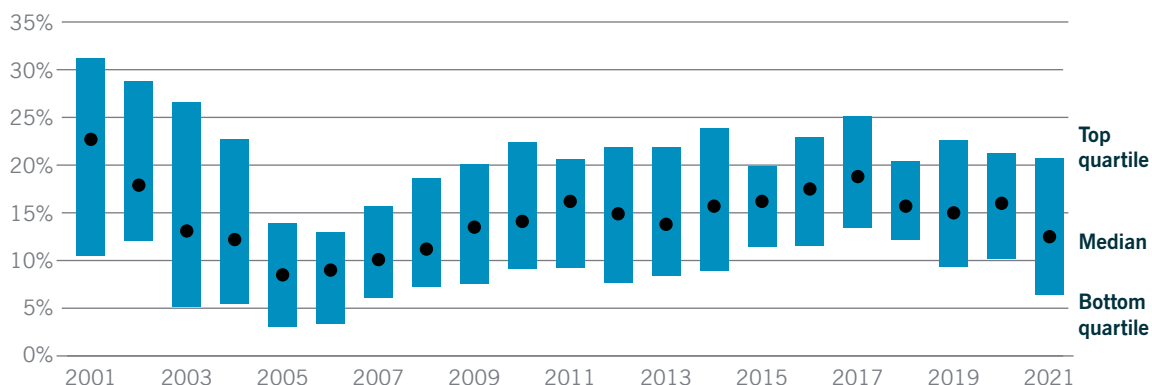
- Competed aggressively for deals in crowded markets
- Relaxed leverage, documentation or structural protections during peak deployment periods
- Drifted from core strategies in pursuit of scale

Conversely, top-quartile performers will likely be experienced, disciplined managers with established sponsor relationships, consistent underwriting frameworks and access to proprietary deal flow.

Capital concentration among proven managers. This divergence is already reshaping fundraising patterns. Experienced managers (those who have raised more than three funds) are capturing a disproportionate share of LP commitments. In the first half of 2025, these managers attracted nearly 95% of all private credit capital raised and accounted for 78% of the number of funds closed, up sharply from 78.6% and 54%, respectively, in 2015.²⁷

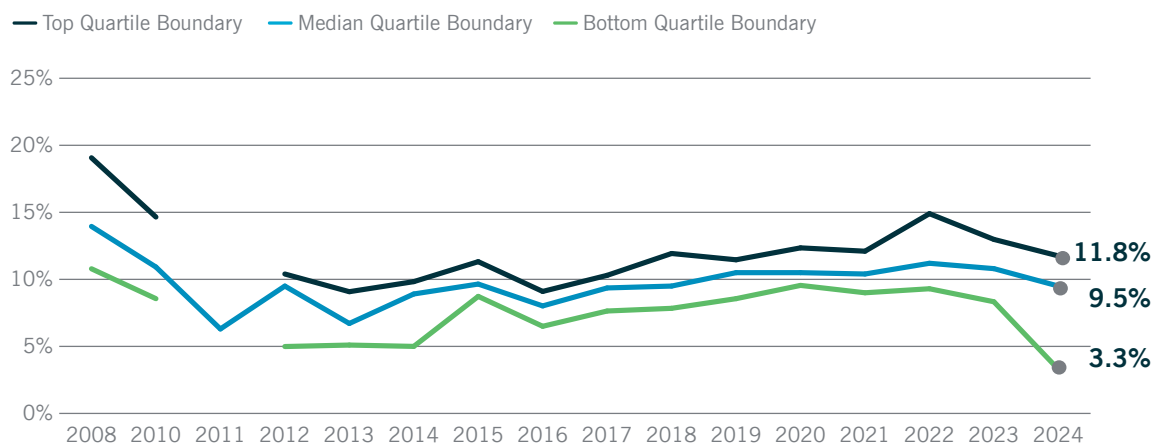
The market is increasingly bifurcating into haves and have-nots, and we expect this gap will only widen. For institutional investors, rigorous manager selection, ongoing performance monitoring and a willingness to concentrate capital with proven franchises will be essential to navigating this environment successfully.

Figure 7. Private equity return dispersion is widening
Global private equity internal rate of return (IRR)



Source: JP Morgan, Guide to Alternatives, Q4 2025

Figure 8. Direct lending return dispersion is high
North America direct lending internal rate of return (IRR)



Source: Prequin, as of Q4 2025. Direct lending IRR returns include both leveraged and unleveraged funds.

BUILDING ON STRONG FOUNDATIONS

Private capital enters 2026 against a more constructive, though still complex, backdrop. While recent media attention has focused on questions around portfolios, deployment and competition, investor demand for private markets remains resilient. A recent Nuveen study found that two-thirds of institutional investors plan to increase their private asset allocations over the next five years,²⁸ reflecting continued confidence in the role private capital can play in diversified portfolios.

The structural opportunity is compelling. In public markets, value has become increasingly concentrated, with the 10 largest S&P 500 companies now accounting for 40% of total market capitalization.²⁹ By contrast, private capital provides access to a far broader and more diverse opportunity set, including nearly 200,000 middle market companies in the U.S. alone,³⁰ spanning industries, business models and positions across the risk-return spectrum.

While market conditions continue to evolve, we believe the core drivers of long-term success remain consistent. Disciplined underwriting, strong partnerships and consistent, thoughtful capital deployment across cycles matter more than macro precision. For investors, maintaining a long-term perspective, committing capital programmatically and partnering with experienced managers capable of navigating complexity will be critical to achieving durable outcomes over time.

KEY PRIORITIES FOR 2026

There are three main priorities we believe investors should consider for 2026:

- **Diversify your exposure.** Investing across a range of private credit and private equity strategies may provide an illiquidity premium and protection from volatility.
- **Who you partner with matters.** Managers with institutional scale, operational depth, established sponsor relationships, and track records across market cycles are best positioned to construct diversified, resilient portfolios that deliver consistent risk-adjusted returns.
- **You can't time or predict the market.** Steady, programmatic commitment pacing across vintage years can help smooth performance variability and maintain access to opportunities throughout different market environments.

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Mat Linett serves as Head of Senior Lending and oversees origination, capital markets, underwriting and portfolio management.

For more information, please visit nuveen.com.

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Endnotes

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The Churchill Gryphon Index measures the year-over-year revenue and EBITDA growth of over 230 middle market private equity-owned companies in the Churchill loan portfolio that reported LTM financials for the current quarter (Q3 2025) and one year ago (Q3 2024). The index is produced by Churchill in collaboration with the Portfolio Analytics & Allocation team.

Revenue figures may not be pro forma and may not capture all growth from add-on acquisitions. The index includes only borrowers for which Churchill received financial information as of 30 June 2024 and 30 June 2025. The data referenced herein may not reflect all companies in the loan portfolio of Churchill during the time periods indicated.

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The **Cliffwater Direct Lending Index (CDLI)** seeks to measure the unlevered, gross-of-fees performance of U.S. middle-market corporate loans, as represented by the asset-weighted performance of the underlying assets held by eligible Business Development Companies (BDCs), including both exchange-traded and unlisted BDCs.

The **Bloomberg U.S. Corporate High Yield Index** measures the U.S. dollar-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating from Moody's, Fitch, and S&P is Ba1/BB+/BB+ or lower. The index excludes emerging market debt.

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