

Private Market Environment

Pathway Research

Third Quarter 2026

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3Q26 Market Review

Private Equity Update

Regional Trends

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3Q26 Market Review

Macro View

Themes we are watching in 3Q26

1

Public Markets Remain Resilient Despite Continued Uncertainty

Public equities continued to advance in the third quarter, supported by strong earnings and enthusiasm around AI despite an unsettled macroeconomic backdrop. The S&P 500 returned 2.3%, bringing its year-to-date gain to 12.7%, although performance remained uneven, with smaller companies and the equal-weight index declining. The Federal Reserve's September rate increase underscored the persistence of inflation, as renewed energy price pressures complicated its multiyear effort to restore price stability. By quarter-end, markets were anticipating further tightening, a sharp reversal from earlier expectations for additional cuts. Rising rate expectations contributed to a broader sell-off in government bonds, pushing the 10-year Treasury yield to approximately 5.3%, its highest level since 2002.

2

Venture Investment Surges To All-Time High

U.S. venture capital investment value continued its rapid growth in the third quarter, already bringing the year-to-date total to more than double the same period in 2025. The growth has been concentrated in late-stage AI financings, with the sector accounting for 83% of all capital invested during the year, headlined by notable rounds raised by Anthropic, OpenAI, Databricks, and others. The rapid growth in valuations seen by many of these companies has contributed to strong performance across the asset class over the past year. Its 1-year return of 28.8% ranks at the top among private market asset classes, although the concentrated nature of the current environment has driven a wide dispersion in returns among managers.

3

An Eye on Exit Markets

Exit markets continued to improve through the third quarter, with global PE-backed M&A exit value increasing 16% year over year through September, on pace for the second-strongest year on record behind 2021. The third quarter notched the fourth-consecutive quarter with over $200 billion in activity, although it remained concentrated in a handful of large transactions. Strategic buyers accounted for the quarter's four largest deals, including Aon's announced $17.0 billion acquisition of USI Insurance from KKR. IPO markets remained "open" but highly selective, with mixed post-listing performance limiting a broader recovery. The market remains closely watching the expected IPO of Anthropic, which filed an S-1 in late October and is expected to list at a valuation of $1.5 to $2.0 trillion—a landmark event for its many private investors.

Macro View (continued)

Themes we are watching in 3Q26

4

Buyout Markets Adapt to a Changing Technology Landscape

Buyout activity continued at a measured pace through the third quarter, with conditions varying across sectors and transaction sizes. While U.S. buyout value declined 21% year over year, the decline was driven primarily by weaker mega-cap activity rather than by buyout volume, which remains closely in line with the pace of 2025. The more meaningful change has been where investors are deploying capital. Market concern around the impact of AI disruption on the software sector has materially reduced activity. Although public software multiples have recovered from their June lows, uncertainty around growth prospects and the durability of business models continues to complicate pricing and risk assessment in the sector. At the same time, the AI infrastructure build-out has directed investment toward energy, power, and industrial services, creating opportunities for GPs to target a wide range of products and services needed to support that expansion.

5

Institutional Private Credit Fundraising Remains Strong Despite Retail Sentiment

Institutional demand for private credit remained strong through the third quarter: $300 billion was raised through September, putting the asset class on pace for a record year. This support provides a constructive counterweight to weaker retail sentiment, where redemption requests moderated but remained elevated in 3Q. Direct lending activity was subdued amid market uncertainty and a shortage of large, sponsor-backed LBOs. Continued scrutiny of software borrowers also contributed to diverging lending conditions, as competition for attractive non-software credits compressed spreads in other sectors. With interest rates back on the rise, lenders remain focused on borrower resilience and evaluating active portfolios for signs of stress as levered borrowers face higher borrowing costs.

6

Secondaries Market on Pace for Record Year

The secondaries market has continued to expand rapidly in 2026, supported by strong investor demand and broader adoption of secondaries as a portfolio management tool. Full-year transaction volume is expected to reach approximately $260 billion, above the prior record of $240 billion in 2025. While the market has continued to maintain a near 50/50 split between LP- and GP-led transactions, single-asset continuation vehicles have been the largest area of growth, increasing 88% year over year during 1H26, with most pricing at or above par. Investor interest has broadened across traditional institutional LPs, as well as retail and private wealth channels, encouraging the growth of evergreen and other semi-liquid vehicles alongside traditional secondary funds.

Private Equity Update

Private Equity Highlights

YTD 3Q26 Market Snapshot

-21%
U.S. buyout value, YoY

83%
AI share of U.S. VC value

+16%
M&A exit value, YoY

+6%
Global buyout fundraising, YoY

Buyouts

Buyout activity has remained resilient during 2026 despite elevated financing costs and macroeconomic uncertainty; software market volatility continues to impact overall deal value.

- Buyout volume stayed broadly flat YoY, but weaker large-cap activity reduced total deal value.
- AI-driven market trends have shifted deal mix, rotating capital out of software and into areas like energy & power, infrastructure, and healthcare.
- Higher interest rates continue to promote a selective market, although financing remains widely available in most segments.

Venture Capital

Venture investment remained on a record pace through 3Q26, though capital remains concentrated in a handful of large AI companies.

- The pace of growth and valuation heights reached for category leading AI companies continues to surpass prior records.
- AI-driven value gains continue to underpin strong venture performance.
- Delayed IPOs and limited exits kept liquidity uneven despite positive market momentum.

Exits

M&A exit markets remain on track for a strong overall year; however, activity remains concentrated, and broader improvement is needed to ease liquidity pressures on LPs.

- Stronger exit markets should support distributions as sponsors work through a growing inventory of mature assets.
- Bid-ask spreads remain elevated, particularly in the middle market.
- IPO market performance has remained mixed, which has limited new offerings outside of a handful of high-profile companies.

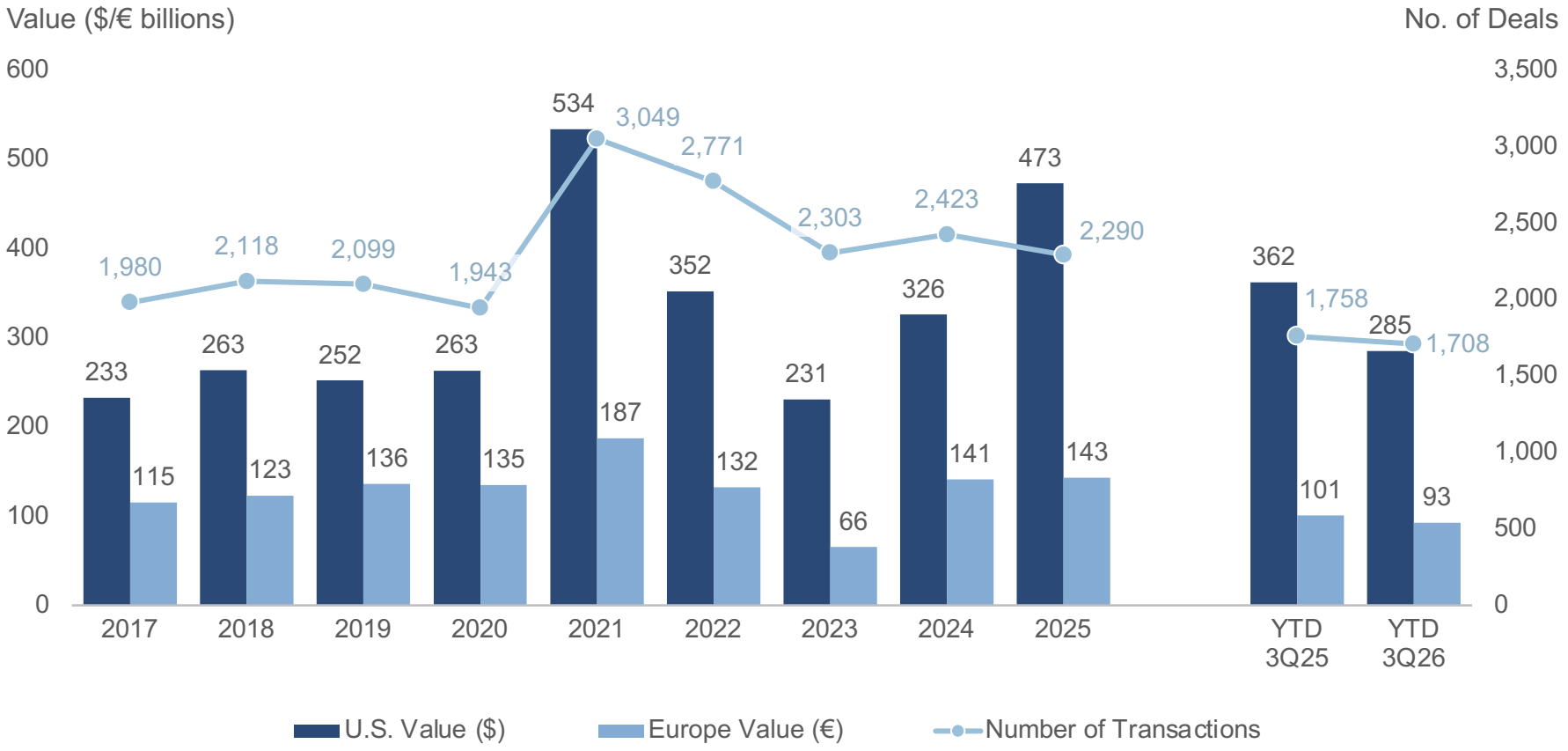
Fundraising

The fundraising market remains highly selective, although momentum in certain venture and lower-middle-market segments has driven improvement.

- Liquidity constraints and performance relative to public markets continue to limit LP commitment capacity.
- Venture fundraising increased 85% YoY, supported by AI tailwinds and improved performance.
- Fundraising success remains widely split between experienced and less-proven managers.

Buyout Activity Has Slowed Moderately in 2026 but Remains on Track for a Healthy Showing

Buyout Investment Activity



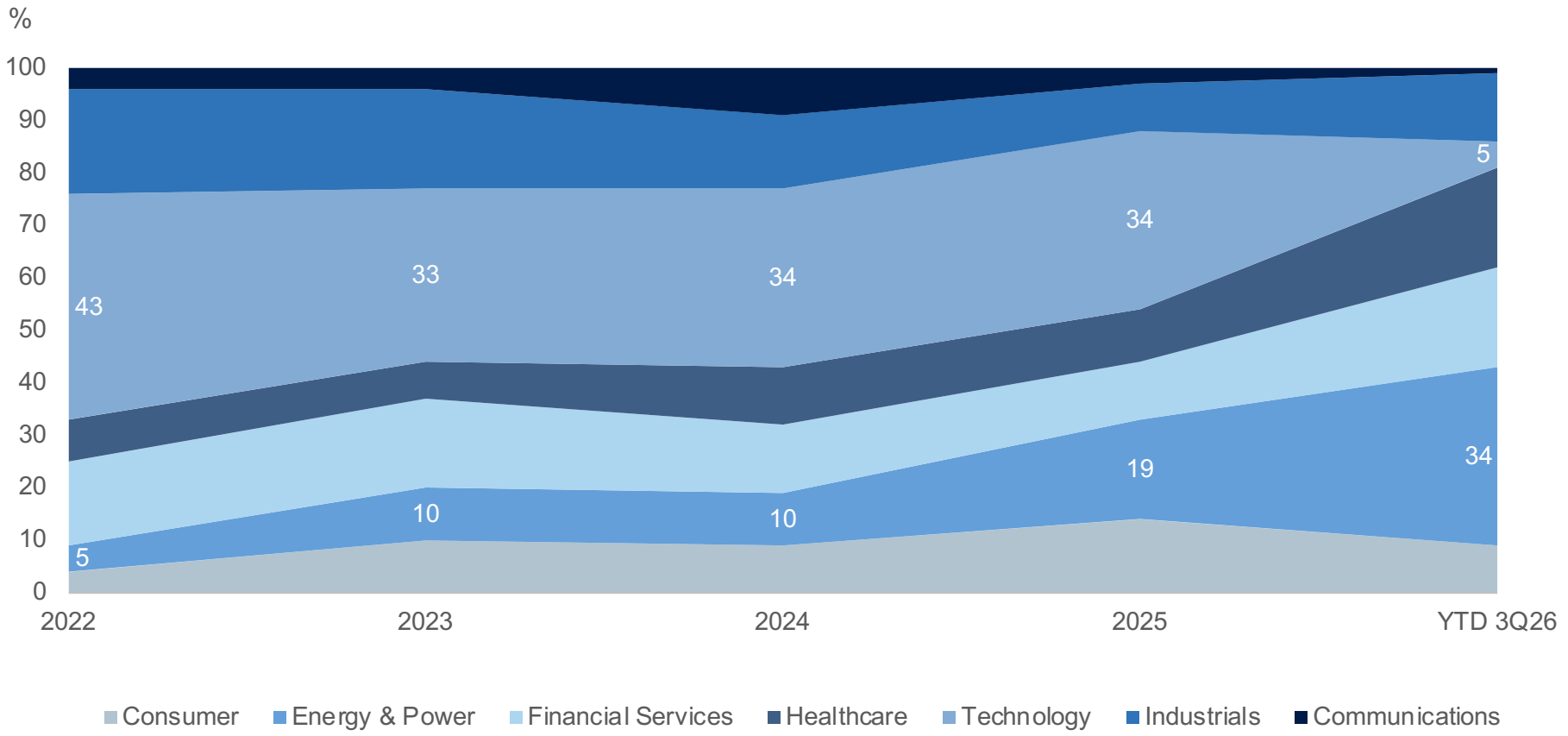
At a Glance:

- Deal volume remains on pace with 2025 despite a 21% decline in U.S. buyout value.
- Operating performance has remained healthy in most industry segments.
- Purchase-price multiples have declined modestly although variance remains across sectors.
- Market uncertainty has continued to present attractive opportunities for experienced managers.

SOURCE: Mergermarket; LSEG Data & Analytics; Pathway Research. NOTE: As of September 30, 2026.

Macro Developments Have Driven a Meaningful Shift in Buyout Sector Mix in 2026

U.S. Buyout Activity by Sector



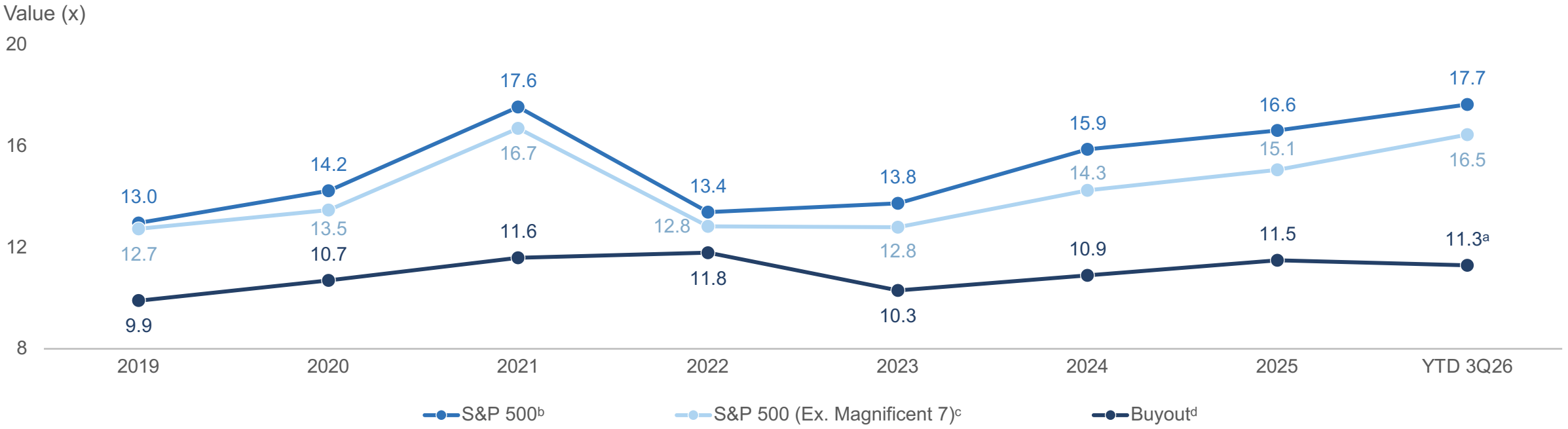
At a Glance:

- Software buyout activity remains stalled as GPs reassess business models and valuations amid AI disruption.
- Public SaaS valuations fell to 3.0x revenue in June but recovered to 5.0x in late October, consistent with YE 2025.[a]
- Energy, power, and infrastructure-related services and products are taking a larger share as AI-driven data-center demand rises.

SOURCE: Mergermarket; LSEG Data & Analytics; Pathway Research. NOTE: As of September 30, 2026. [a]SOURCE: Software Equity Group (SEG) SaaS Index. NOTE: Represents the daily median EV/TTM Revenue multiple for companies in the SEG SaaS Index.

The Gap between Public and Private Market Valuation Multiples Has Continued to Grow

Public Market vs. Private Market EV/EBITDA Multiples



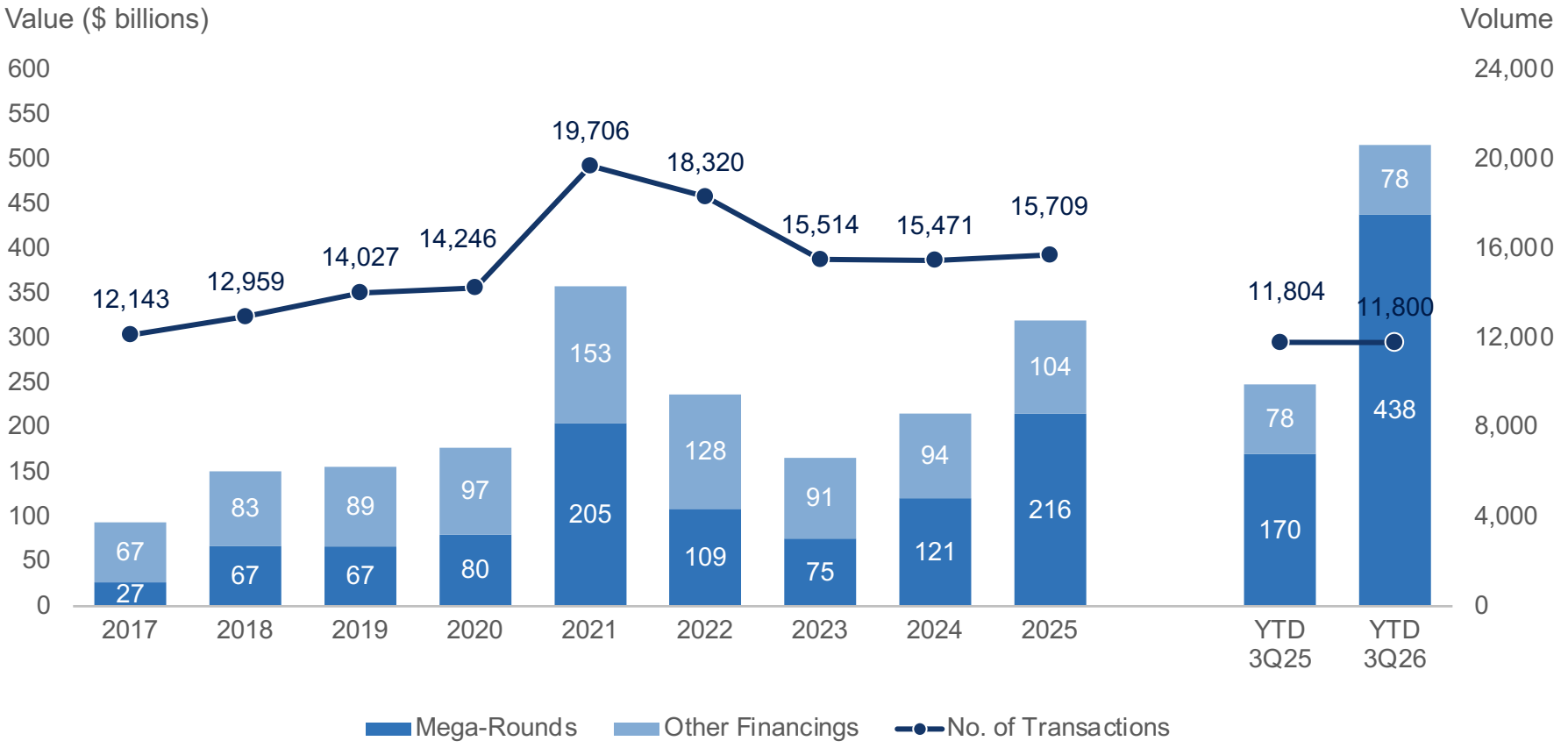
Public-private valuation premium remains elevated:
YTD 2026 premium is 56% versus a 36% 10-year average.

Public market expansion is increasingly broad-based:
Public valuations ex-Mag 7 have narrowed relative to the overall market.

NOTES: As of September 30, 2026. [a]As of June 30, 2026, the latest available data. Investors should consider the limitations inherent in comparisons between public and private markets; private market investments may pose additional and/or different risks. [b]SOURCE: Bloomberg. NOTE: Represents the average daily EV/TTM EBITDA multiple of all companies included in the S&P 500 index, as of the years listed. [c]SOURCE: Bloomberg. NOTE: Represents the average daily EV/TTM EBITDA multiple of all companies included in the S&P 500 (ex. Magnificent 7) index, as of the years listed. [d]SOURCE: MSCI Private Capital Solutions. NOTE: Represents the average trailing EV/EBITDA multiple for all transactions included in the MSCI data set during the years listed.

Record Venture Funding Is Increasingly Concentrated in Larger Rounds

U.S. VC Investment Activity



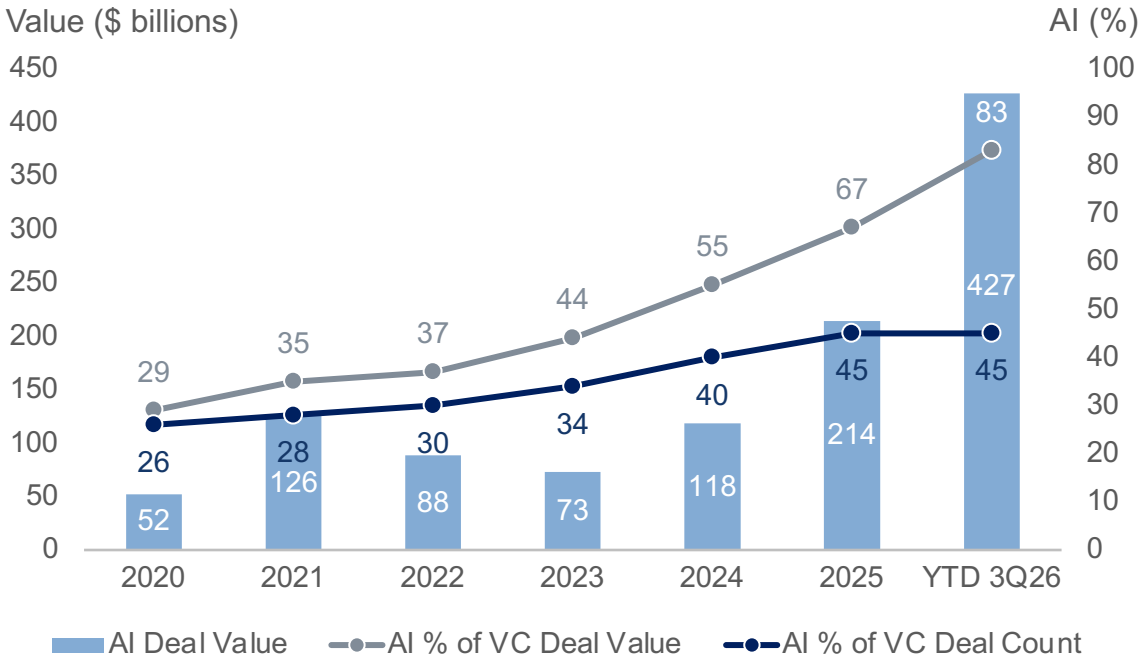
At a Glance:

- 2026 is on pace to nearly double the prior annual record for investment value.
- AI has accounted for a record 83% of VC investment value YTD 3Q26.
- Growth in deal value continues to be driven by the scale of later-stage rounds.
- The asset class's 1-year return of 28.8% ranks the highest among private market segments.[a]

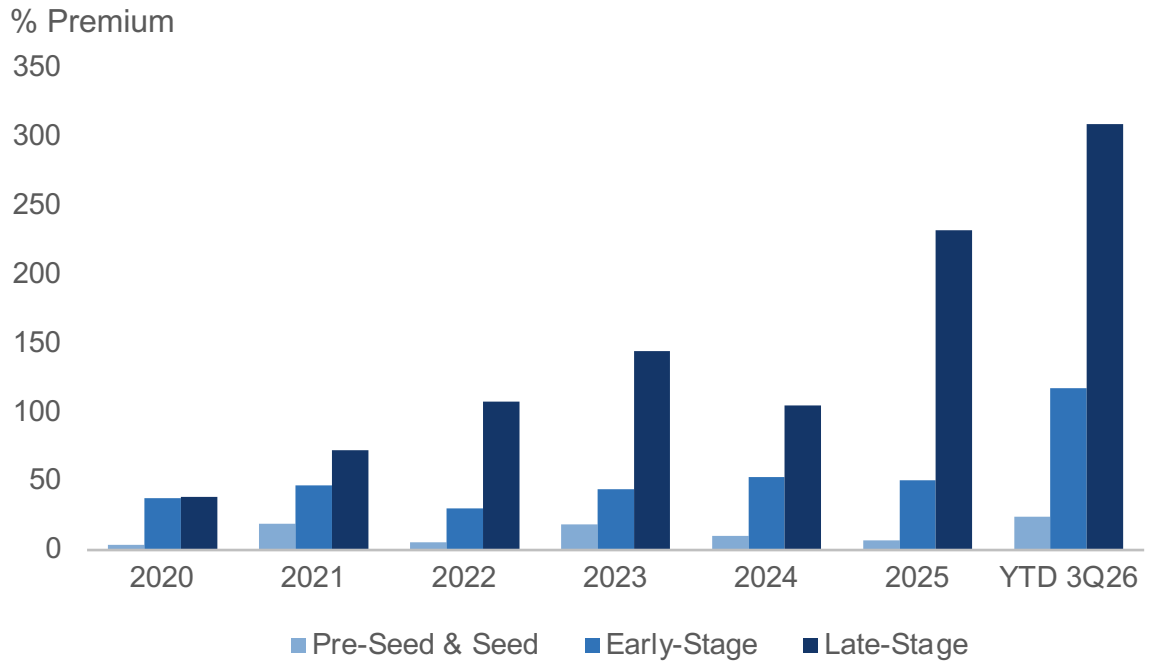
SOURCE: PitchBook-NVCA Venture Monitor Report. NOTE: As of September 30, 2026. [a]SOURCE: MSCI Private Capital Solutions.

AI Is Attracting Record Capital and Commanding a Steep Valuation Premium

U.S. Venture Capital Investment in AI



Median Valuation Premium (AI vs. Non-AI)[a]



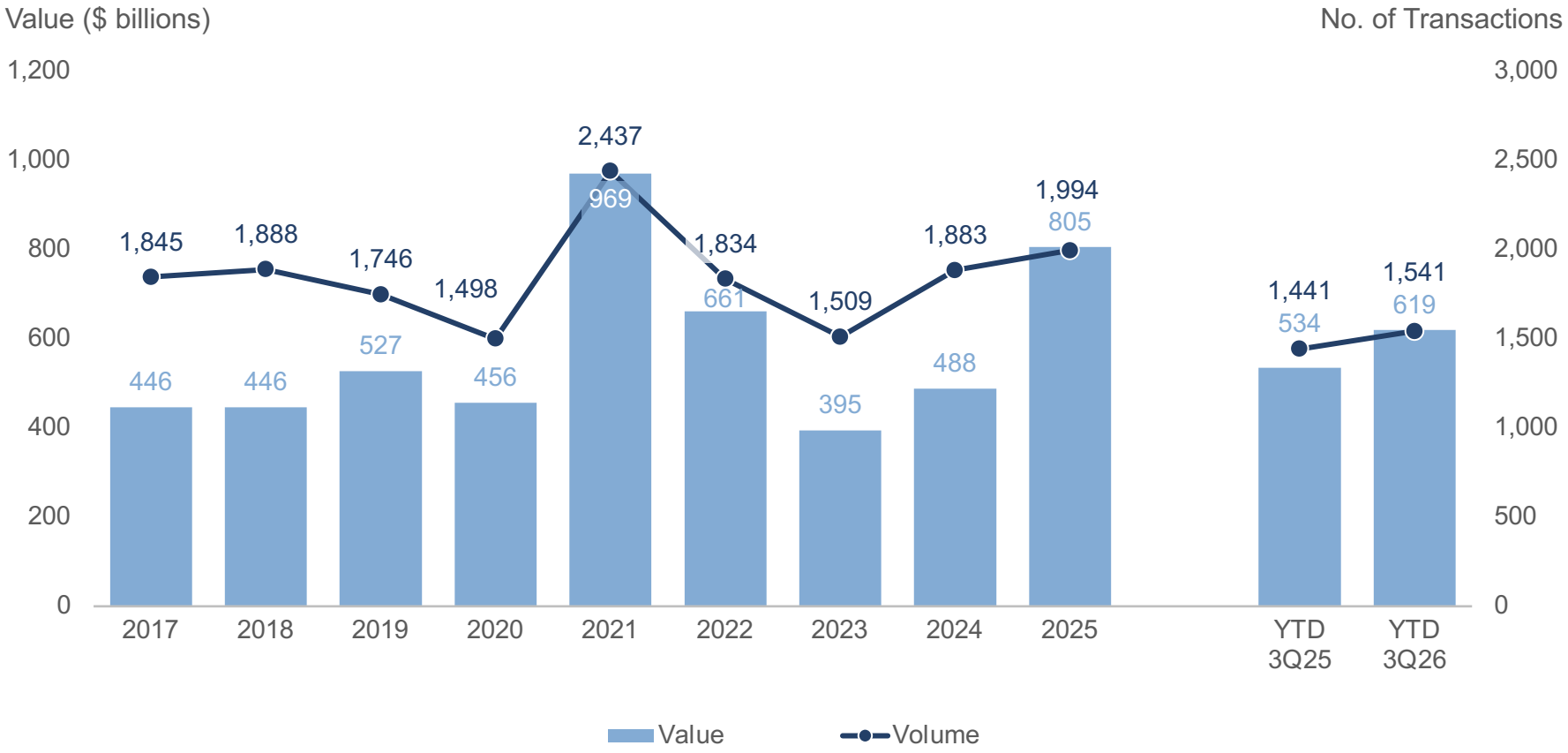
VC investment in AI in 2026 alone is on pace to nearly match the total amount invested over the past decade.

Median late-stage pre-money valuations for AI companies are over 3x higher than for non-AI companies.

SOURCE: PitchBook-NVCA Venture Monitor Report. NOTE: As of September 30, 2026. Early-stage is defined as Series A and B. Late-stage is defined as Series C and later. [a]Represents the percentage premium in median pre-money valuations for U.S. venture-backed AI versus non-AI companies.

M&A Exit Markets Maintain Healthy Pace Despite Market Uncertainty

Global PE-Backed M&A Exit Activity



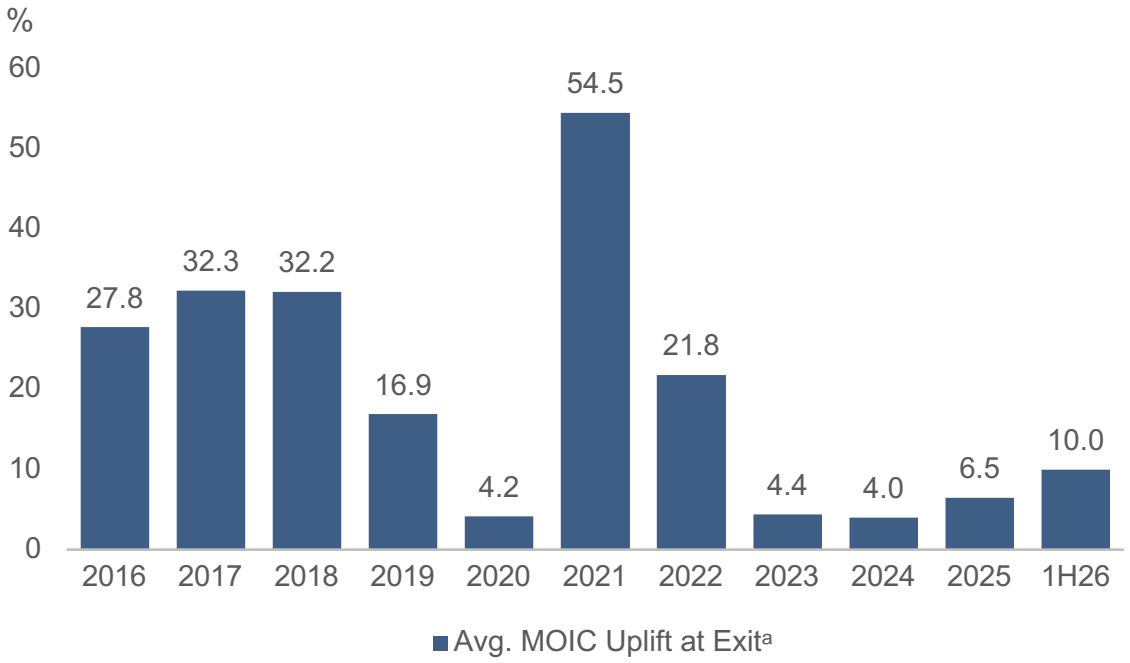
At a Glance:

- Both exit value and count are on pace for their second-strongest years on record.
- Activity surpassed $200bn for the fourth-consecutive quarter.
- Strategic buyers accounted for all four of the third quarter's exits above $10bn in size.
- Macroeconomic uncertainty and rising interest rates have potential to temper near-term enthusiasm.

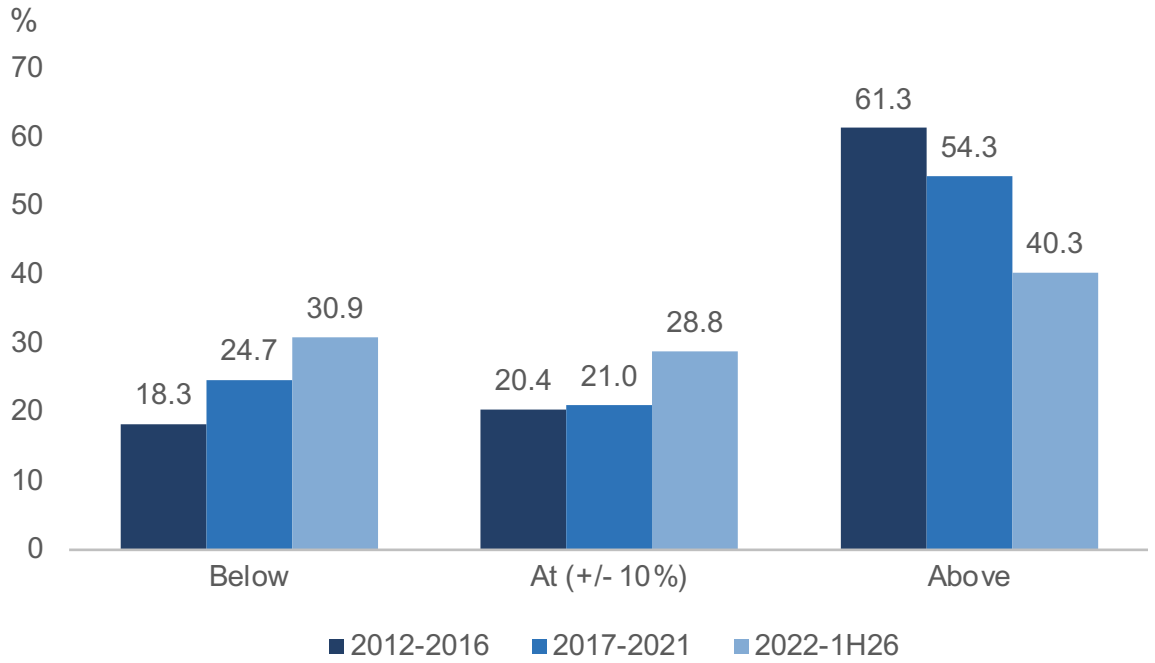
SOURCE: Mergermarket. NOTE: As of September 30, 2026.

PE-Backed Exits Have Continued to Show Consistent Uplift Relative to Prior Valuations

Average MOIC Uplift at Exit[a]



% of Companies Exited Relative to Prior-Year Valuation[b]



Average MOIC uplift recovered to 10% in 1H26 after bottoming at 4.0% in 2024.

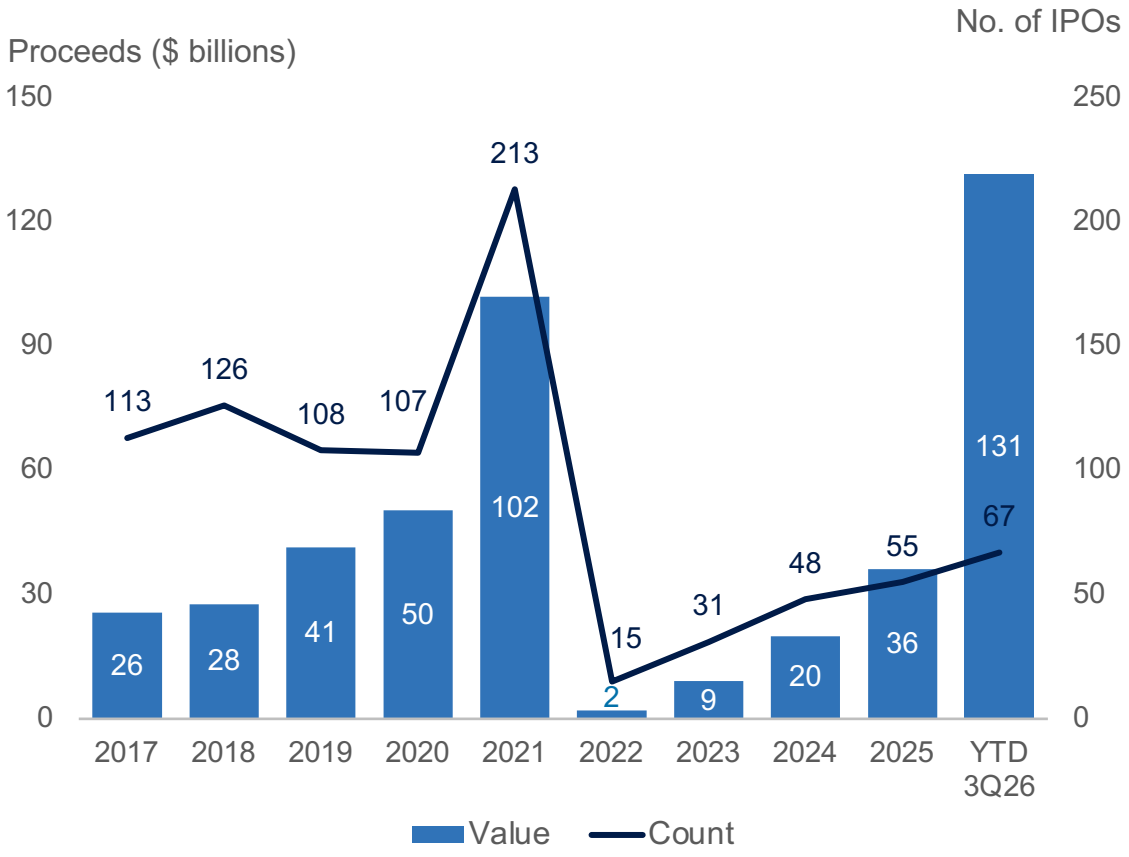
Despite a challenging exit environment, nearly 70% of buyout exits have sold at or above prior valuations.

SOURCE: Pathway Research. NOTE: Based on buyout investments in Pathway's database with exit dates from 2012 to June 30, 2026. Data comprises over 2,900 underlying investments. [a]Represents the average percentage uplift in MOIC for underlying investments relative to their valuations one year prior to exit. [b]Represents the percentage of companies exited above, at (+/- 10%), or below their valuations one year prior to exit.

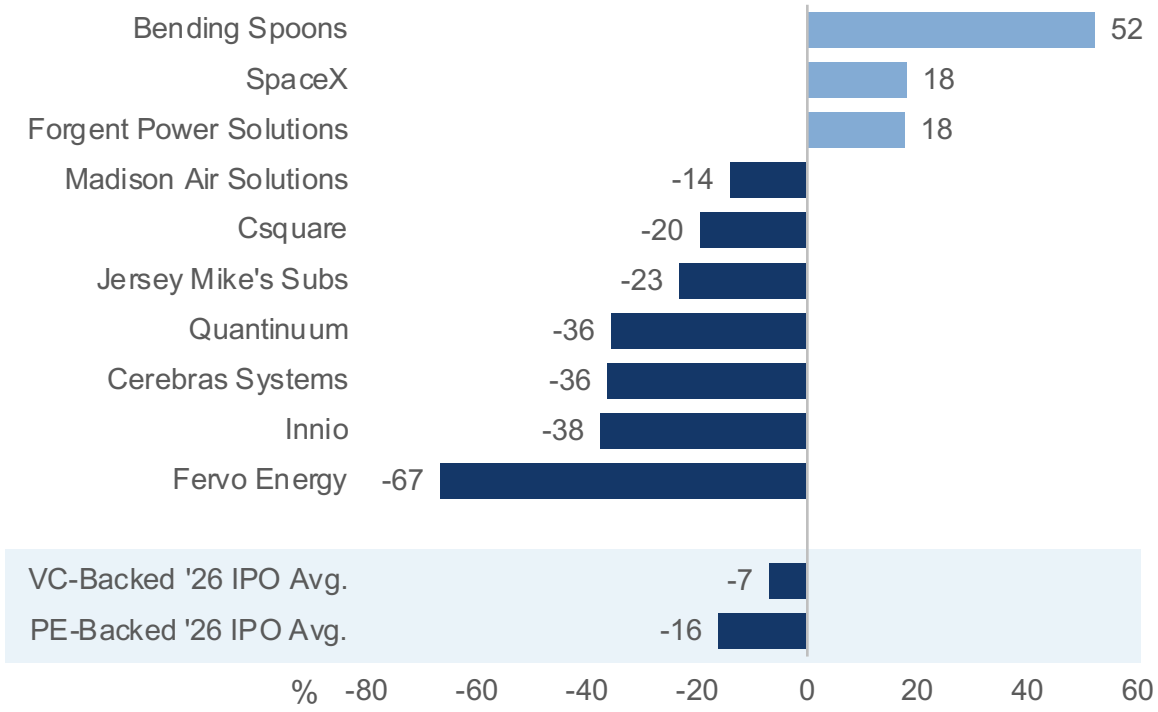
IPO Markets Demonstrate Moderate Improvement but Remain Highly Selective

71% of the year's record IPO proceeds belong to 2 companies; mixed post-IPO performance and equity market volatility have delayed several notable planned listings.

U.S. PE-Backed IPO Issuance[a]



Mixed Performance for Notable 2026 IPOs[b]

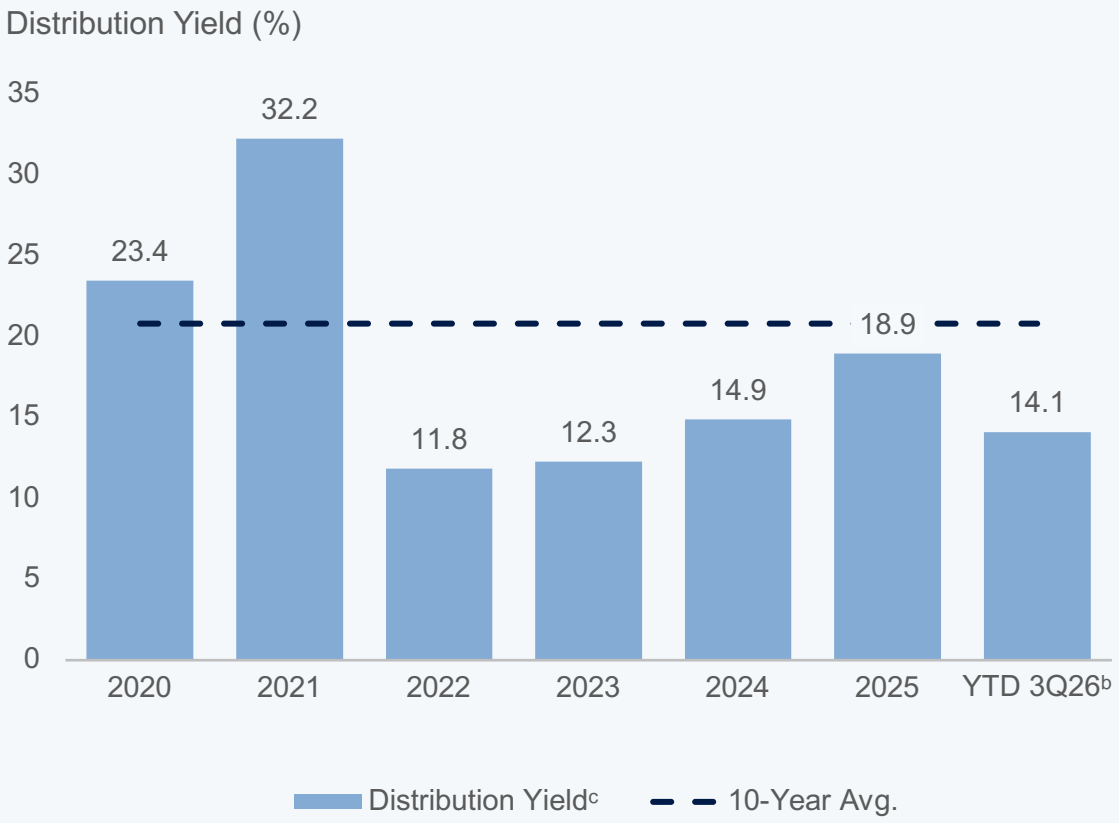


[a]SOURCE: Bloomberg; Renaissance Capital; Pathway Research. NOTE: As of September 30, 2026. [b]SOURCE: Bloomberg; NOTE: As of October 21, 2026.

Distributions Remain below Long-Term Average Despite Healthy Net Cash-Flow Trends

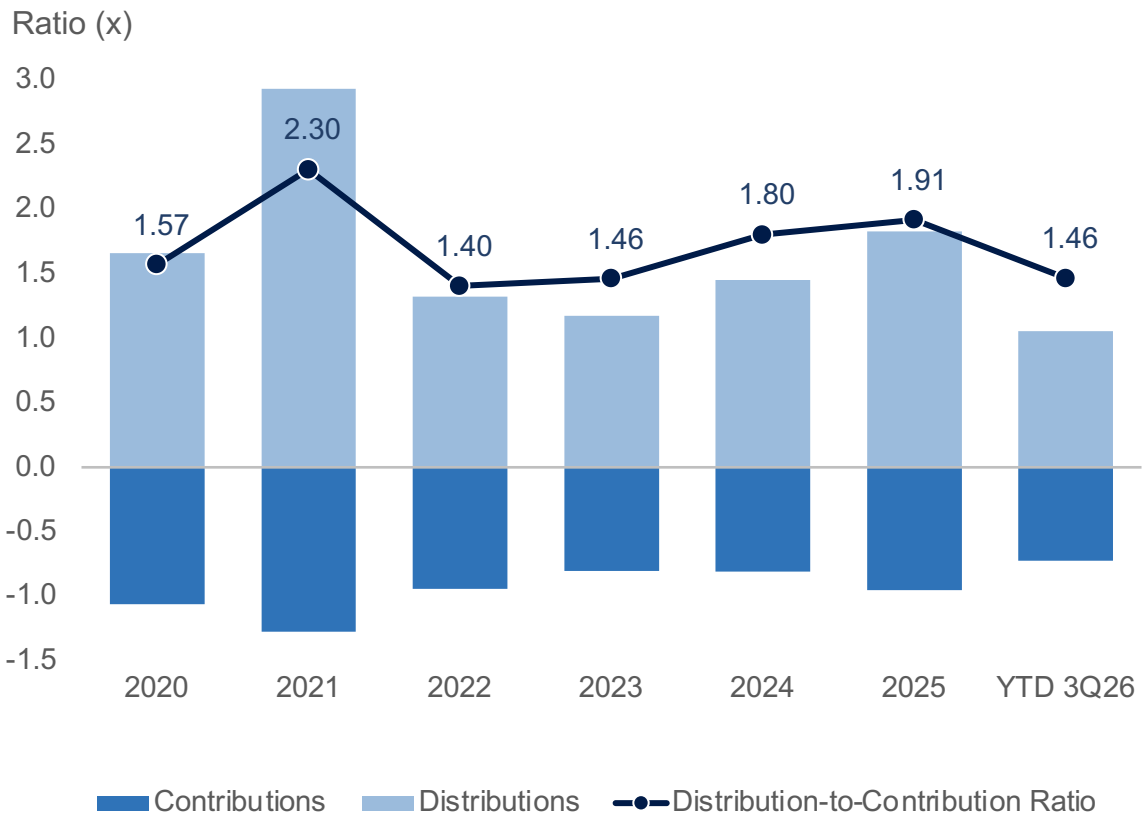
Distribution Yield

Assumes Consistent Annual Commitment Pace[a]



Net Cash Flow Trends

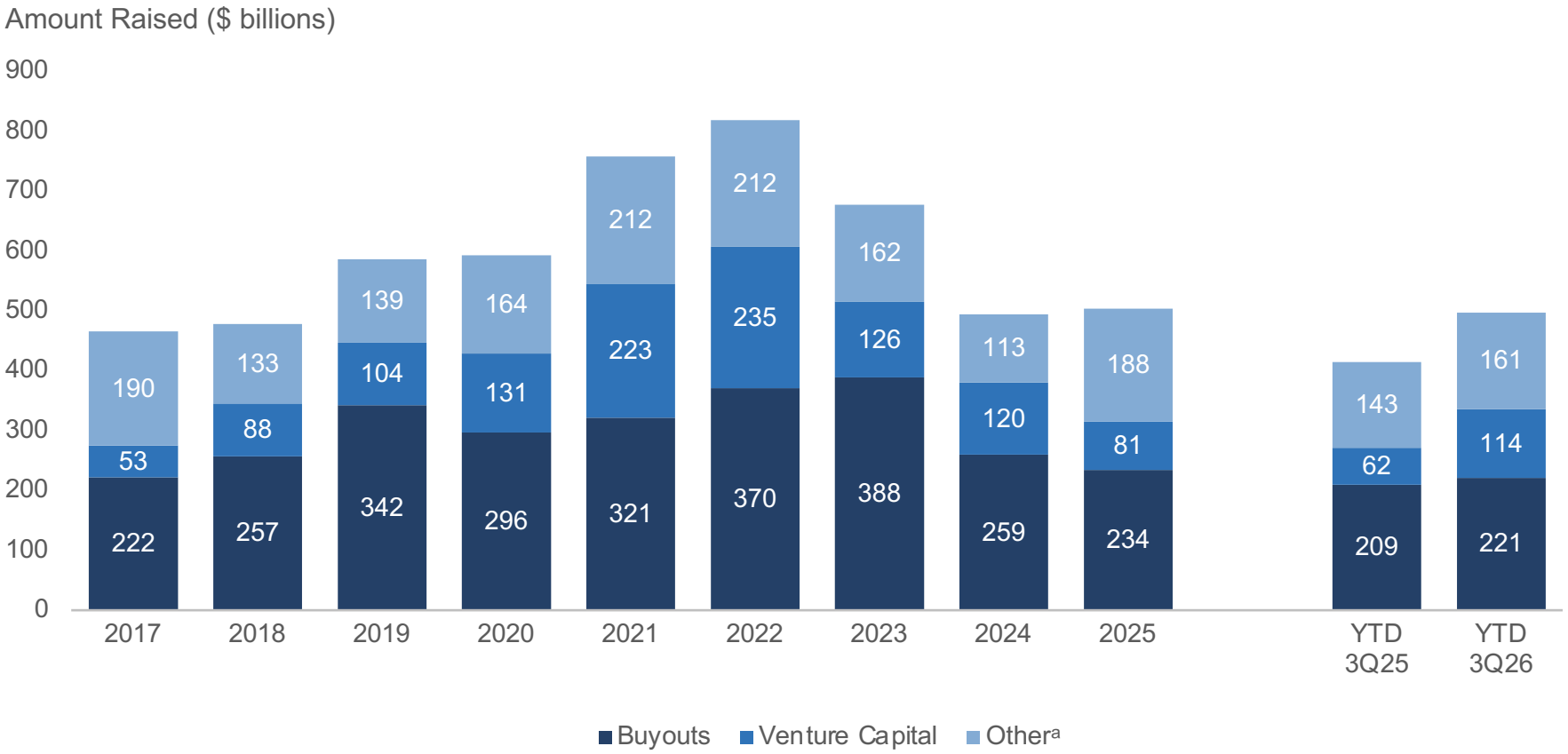
Assumes Consistent Annual Commitment Pace[a]



SOURCE: Pathway Research. NOTES: As of September 30, 2026. Data based on a representative sample of private equity portfolios tracked by Pathway, which comprise over $67 billion contributed from 1993 to 3Q26. [a]Reflects modeled cash-flow trends for a portfolio committing consistent annual amounts per year, indexed for inflation, to primary private equity funds beginning in 1993. Data is intended to be representative of a mature private equity portfolio and may differ from overall market statistics. [b]Annualized. [c]Defined as annual distributions divided by the prior period ending market value.

Private Equity Fundraising Has Recovered Modestly in 2026 but Remains Highly Competitive

Global Fundraising by Strategy



At a Glance:

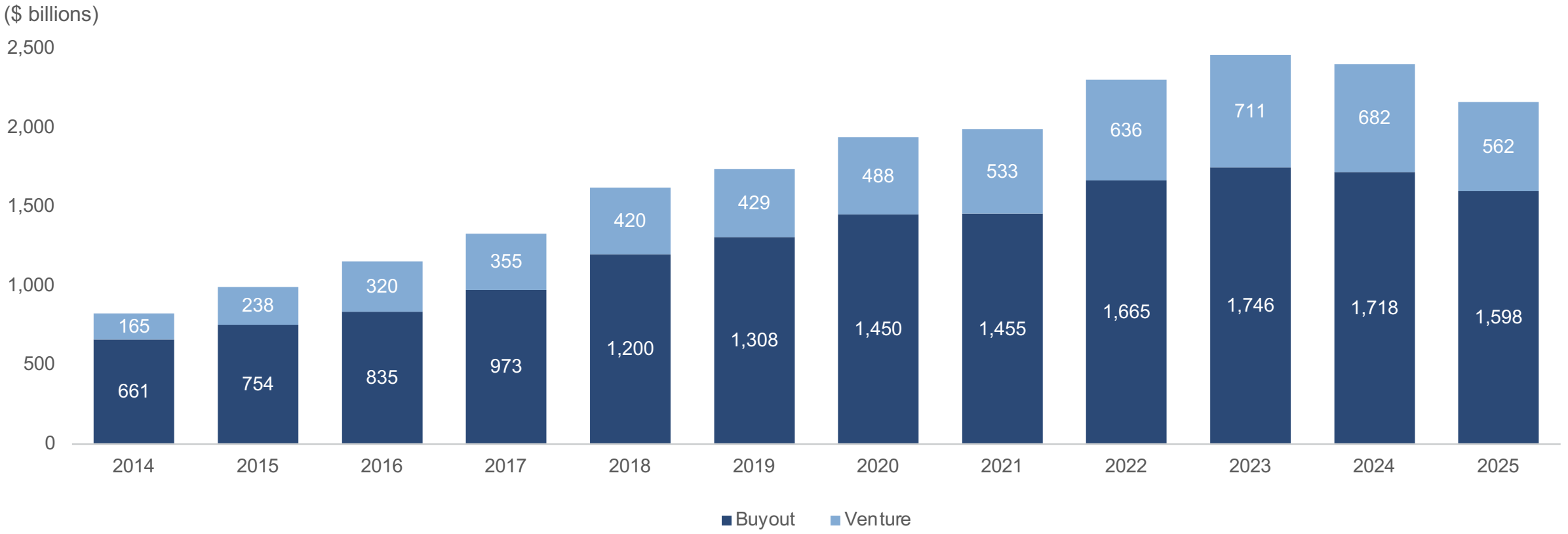
- Liquidity constraints and underperformance relative to public markets have weighed on investor enthusiasm.
- Venture capital fundraising increased 85% YoY, driven by improving performance.
- Non-institutional fundraising remains active: evergreen fund assets have grown 107% since YE 2024, to $108bn.[b]

SOURCE: LSEG Data & Analytics; Pathway Research. NOTES: As of September 30, 2026. Data is continuously updated and therefore subject to change. Amounts may not foot due to rounding. [a]Comprises distressed debt, growth equity and other fund strategies not classified as buyout- or venture capital–focused. [b]Source: PitchBook Data, Inc.

Private Equity Dry Powder Has Fallen for Two Consecutive Years

This follows 9 consecutive years of growth, reflecting both several years of slower fundraising and recent improvements in M&A markets.

Private Equity Dry Powder



SOURCE: PitchBook Data, Inc. NOTES: As of September 30, 2026.

Regional Trends

North America



Investment Activity

- Buyout activity remained resilient through 3Q26 despite elevated financing costs and a more selective M&A environment.
- Energy & power accounted for 34% of U.S. buyout value YTD, up from 19% in 2025, reflecting growing investment tied to AI infrastructure and electricity demand.
- Technology's share of U.S. buyout value declined to just 5%, versus 34% in 2025, as software investment remained under pressure.
- U.S. venture investment more than doubled YoY while financing volume remained essentially flat, highlighting continued concentration in large AI financings.

Exit Markets

- M&A exit activity remained strong in 3Q26, although exit opportunities were concentrated in the highest-quality assets.
- U.S. PE-backed M&A exit value remained flat YoY at $303 billion through 3Q26; large-cap activity continues to be supported by strategic buyer participation.
- U.S. exit count increased 9% YoY to 570 transactions, indicating a broadening recovery in liquidity.
- U.S. PE-backed IPO proceeds reached $131 billion YTD 3Q26, although issuance moderated following the record 2Q.

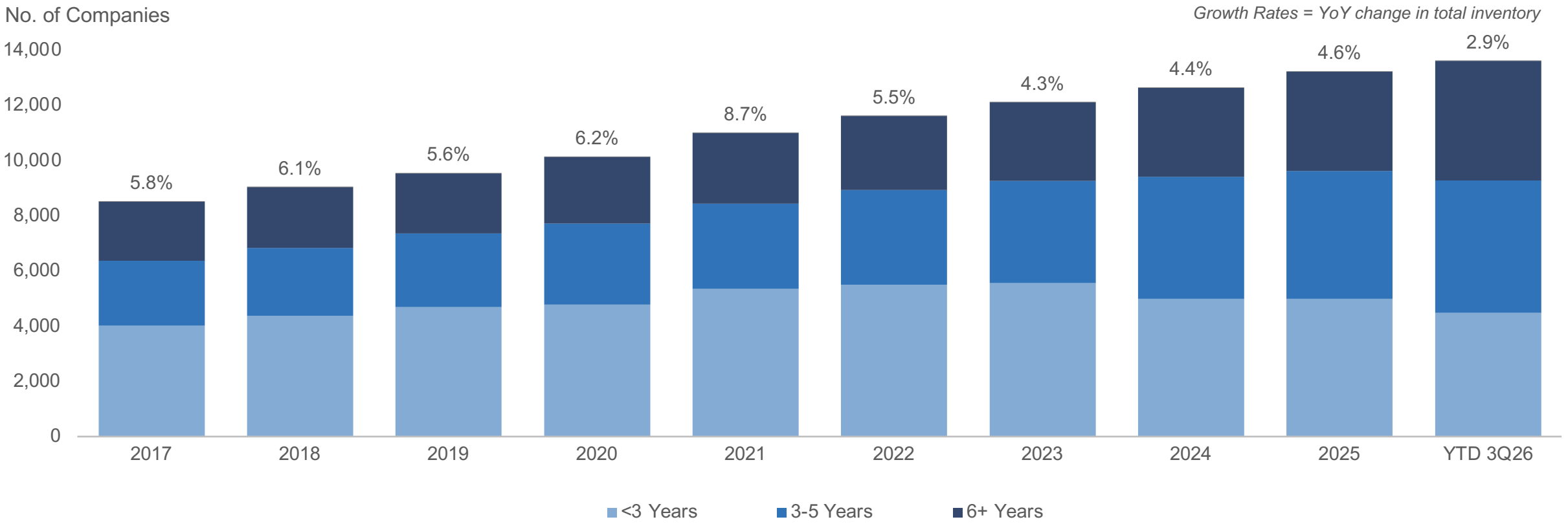
Fundraising

- U.S. PE fundraising remained highly selective throughout 2026, with experienced managers continuing to attract the vast majority of LP commitments.
- Distributions remained below historical levels, limiting LP liquidity and capacity for new fund commitments.
- Venture fundraising continued to recover in 2026, supported by AI-related investment enthusiasm and improving performance.
- The competitive fundraising environment has created attractive opportunities for LPs to access new relationships.

Chart in Focus: PE Inventory Continues to Expand but Is On Pace for Its Slowest Growth in a Decade

U.S. PE-backed company inventory surpassed 13,000, though improving exit markets have reduced the rate of growth.

U.S. PE-Backed Company Inventory



SOURCE: PitchBook Data, Inc.

Europe



Investment Activity

- European buyout activity totaled €24 billion in 3Q26, down 37% QoQ and 28% below the trailing 5-year quarterly average.
  - The third quarter is traditionally slow, down from the prior quarter in 11 of the past 15 years (on average by ~35%).
- The slowdown in large-cap deals was notable: value fell 51% from the LTM quarterly average.
  - Mid-market activity remained resilient, increasing 9% QoQ to €7.0 billion, only 2% below the trailing 3-year quarterly average.
- YTD 3Q26 deal value reached €92.6 billion, down 8% YoY.
- Software rerating, ECB rate hikes, and renewed macro uncertainty have weighed on sponsor conviction.

Region, Sector, and Deal Trends

- The UK and Ireland remained the primary source of activity, accounting for 52% of quarterly deal value–the region's third-highest share in the past decade.
  - 3 of the quarter's 5 largest deals targeted UK companies.
- Take-privates were a key UK theme, supported by relatively lower valuations compared with global markets.
  - CD&R-backed OCS's €3.9 billion acquisition of Mitie led the quarter's take-privates, alongside smaller deals in Pinewood and Gooch & Housego.
  - Several larger take-privates remained pending, pointing to continued momentum in the theme.
- Technology activity improved as AI-related uncertainty moderated, though sector deal value remained 52% below its 5-year average.

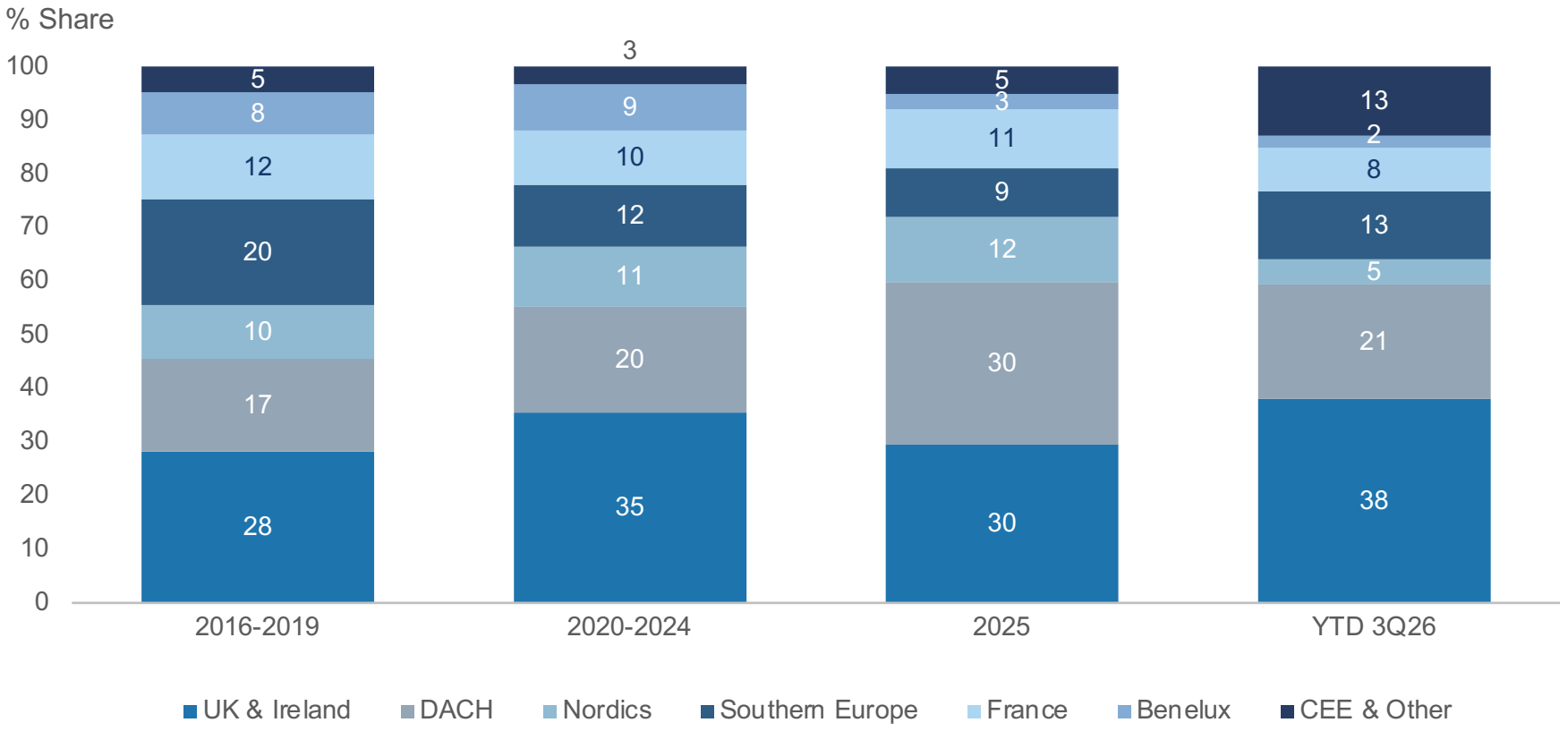
Exit Markets

- Following a strong second quarter, exit activity declined 31% QoQ to €67 billion.
  - The year, however, remains on pace to exceed 2025 levels.
- Southern Europe was the most active exit region, accounting for 33% of value.
- PE-backed IPO activity remained subdued, with proceeds declining 50% QoQ, as large European companies continued to list abroad.
  - Several of the year's largest listings, including Innio and Bending Spoons, took place in the U.S.

Chart in Focus: The UK and Ireland Drove European Buyout Activity for the Quarter

The UK and Ireland accounted for over half of 3Q26 deal value as the rest of the continent slowed amid 2 ECB rate hikes.

European Buyout Value by Region



+52%

3Q26 value in the UK & Ireland vs. 5-year average

8 of 10

Largest 3Q26 deals in the UK

-48%

3Q26 value excluding the UK & Ireland vs. 5-year average

SOURCE: LSEG Data & Analytics. NOTE: As of September 30, 2026.

Asia



Investment Activity

- Asia PE investment value reached $54.7 billion in 3Q26 (+104% YoY), marking the second-consecutive quarter above $50 billion.
  - YTD 3Q26 activity totaled $152 billion, positioning 2026 as the region's strongest year for dealmaking since 2021.
- Regional activity has been driven by a resurgence in China, which recorded $28.3 billion (+251% YoY) in investment value in 3Q26.
- AI and hard-tech companies continued to underpin investment activity, including Moonshot AI's $3.5 billion funding round and Kling AI's $3.0 billion raise.
- Digital infrastructure played a prominent role, headlined by KKR and Singtel's $5.2 billion acquisition of ST Telemedia Global Data Centres.

IPO Markets

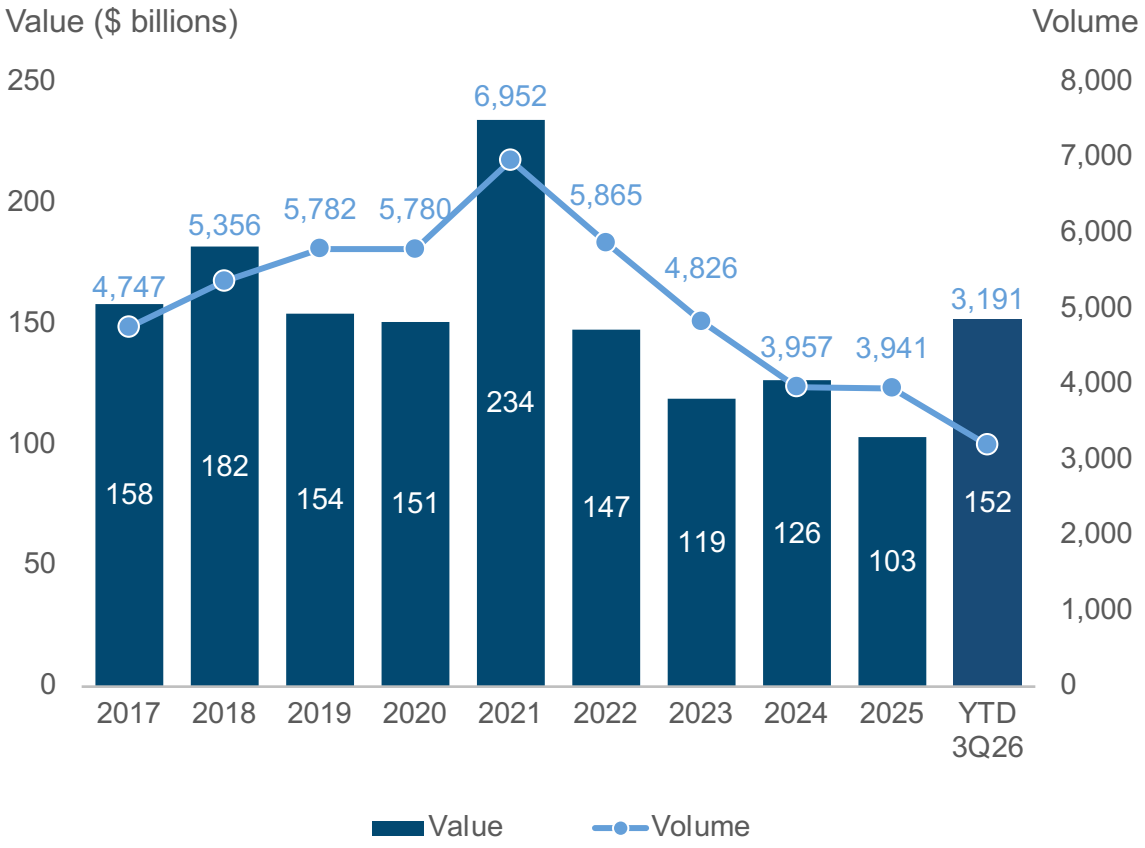
- IPOs in Asia raised $45.7 billion across 268 listings in 3Q26, more than double the prior-year and prior-quarter levels. YTD 3Q26 proceeds have already surpassed full-year 2025 totals.
- PE-backed IPOs raised $18.4 billion across 47 listings (40% of total proceeds), nearly triple that of 2Q26.
  - China accounted for 86% of issuance, led by CXMT's $9.5 billion listing, alongside AI-chip and robotics issuers such as Enflame and Unitree.
- Hong Kong and Shanghai were the region's leading venues, with Hong Kong ranking second globally YTD behind Nasdaq. India also rebounded to $6.0 billion of proceeds, led by the $1.0 billion PE-backed listing of Manipal Health.

Exit Markets

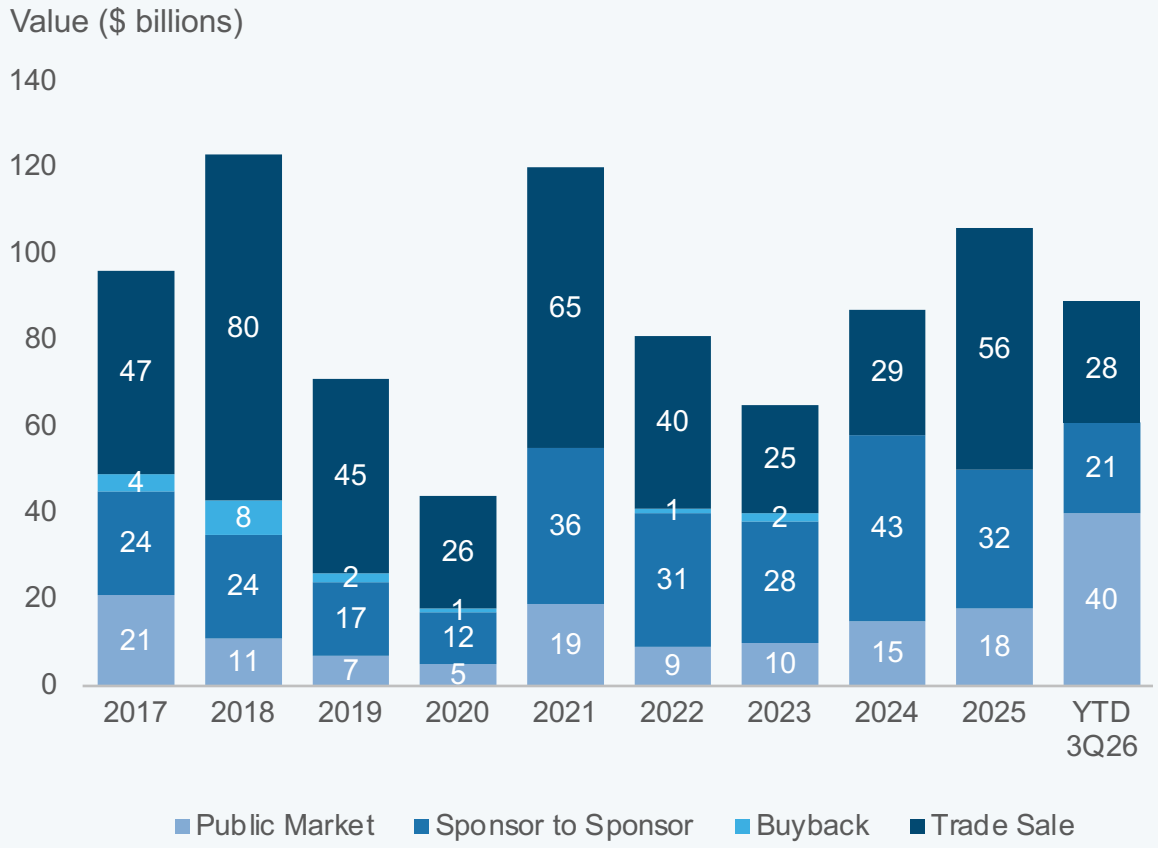
- Exit value totaled $89 billion YTD 3Q26, putting the market on pace to reach the $106 billion recorded in 2025.
- M&A has accounted for 55% of exit value, compared with 83% in 2025, as IPO activity recovered.
  - CXMT Corporation went public in July 2026, raising $9.5 billion.
- Exits remain concentrated in a handful of large transactions, while overall deal count remains below prior-year levels.

Chart in Focus: Asia PE Markets Sustained Momentum in 3Q26; Strong IPO Activity Boosted Exits, While M&A Remained the Primary Driver of Liquidity

Asia PE Investment Activity



Asia PE Exits by Type



SOURCE: Mergermarket; Pathway Research. NOTE: As of September 30, 2026.

Secondaries Update

Secondaries Market Highlights

Secondaries Market Maintains Record Pace

- Global secondary volume reached $118 billion in 1H26, a first-half record, which represents 15% YoY growth.
  - Full-year 2026 outlook increased to ~$260 billion, up from its initial $250 billion expectation and above 2025's record volume of $240 billion.
- Dedicated available capital for secondaries transactions remained robust at $290 billion at the end of 1H26, slightly down from the record $327 billion at year-end 2025.
  - Secondaries fundraising totaled $80.5 billion for 1Q–3Q26 (3Q down 18% YoY), while deployment broadened across secondary funds, evergreen vehicles, retail/private wealth, and traditional LPs.

Single-Asset CVs Remain Growth Engine

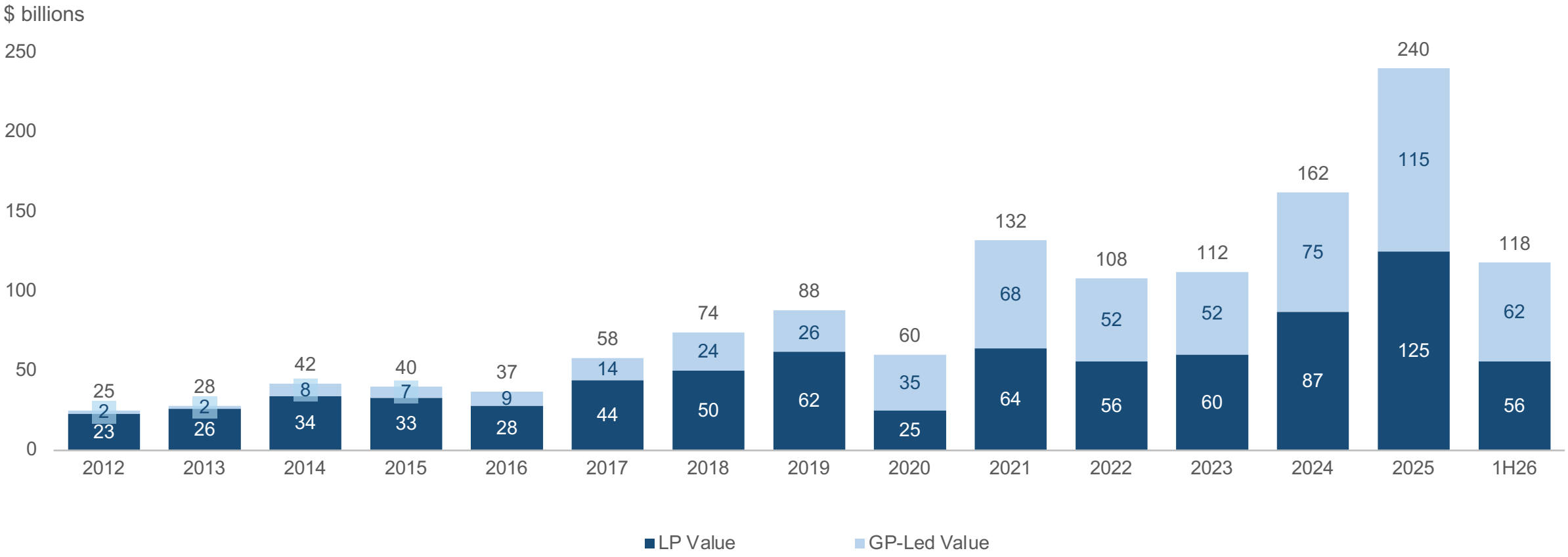
- The market is expected to remain balanced between GP-led (51% of 2026E volume) and LP transactions (49%); single-asset continuation funds continue to drive GP-led growth.
  - GP-led volume is estimated to grow 17% YoY through 2026, and single-asset continuation vehicles reached ~$34 billion in 1H26 (+88% YoY), with most pricing at par or above NAV.
  - Software represented only ~10% of 1H26 GP-led volume (vs. 18% in 2025) on AI disruption concerns; healthcare, financial services, industrials, and business services made up for the decline.

Credit Secondaries Experience Accelerating Demand

- Credit secondaries are tracking toward another record year after a $20 billion 1H26—a 122% increase YoY that already exceeds full-year 2025.
  - BDCs, semi-liquid vehicles, and interval funds are expected to drive ~25% of 2026 credit secondary volume, and over 90% of credit buyers expect to raise capital within 12 months.
  - GP-led transactions were ~83% of 1H26 credit volume and priced at ~99% of fair market value, reflecting granular borrower-level underwriting.

Continued Supply of and Robust Demand for LP- and GP-Led Deals Has Fueled an Active Market

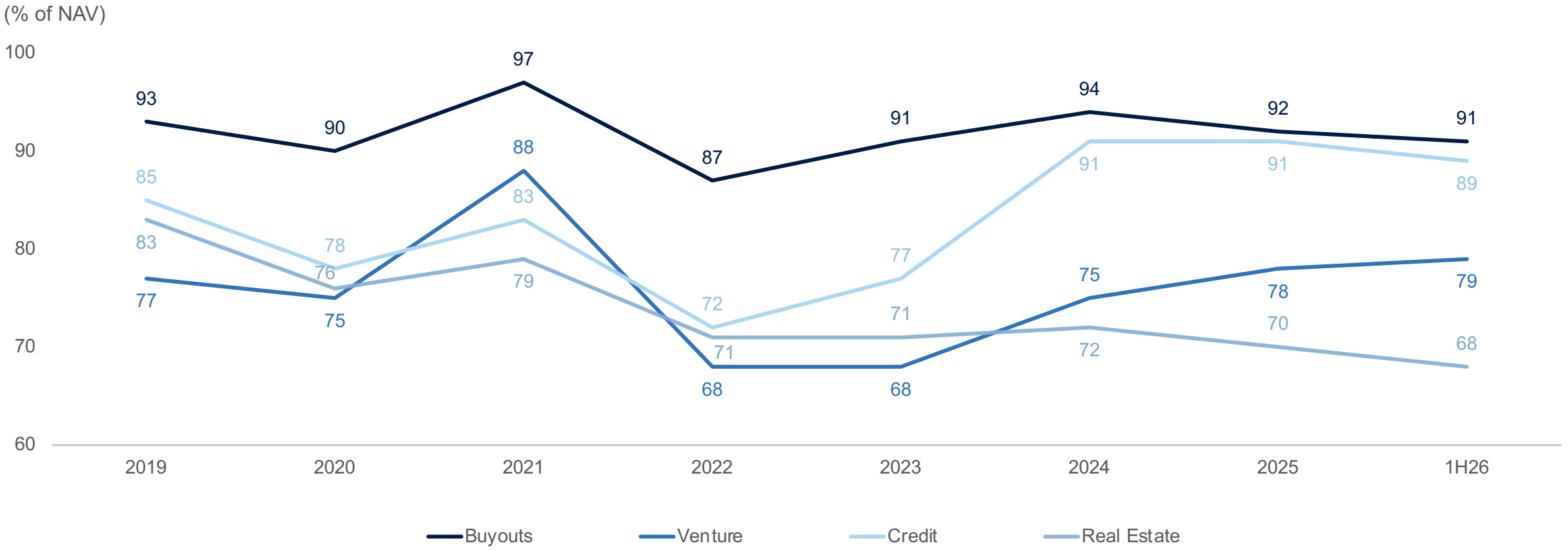
Secondaries Transaction Value



SOURCE: Jefferies 1H26 Global Secondary Market Review. NOTE: The information presented has been developed internally and/or obtained from sources believed to be reliable; however, Pathway does not guarantee the accuracy, adequacy, or completeness of such information. Pathway has not independently verified such information and accepts no responsibility or liability for any error, omission, or inaccuracy of such information.

Secondary Market Pricing Has Remained Strong in 2026

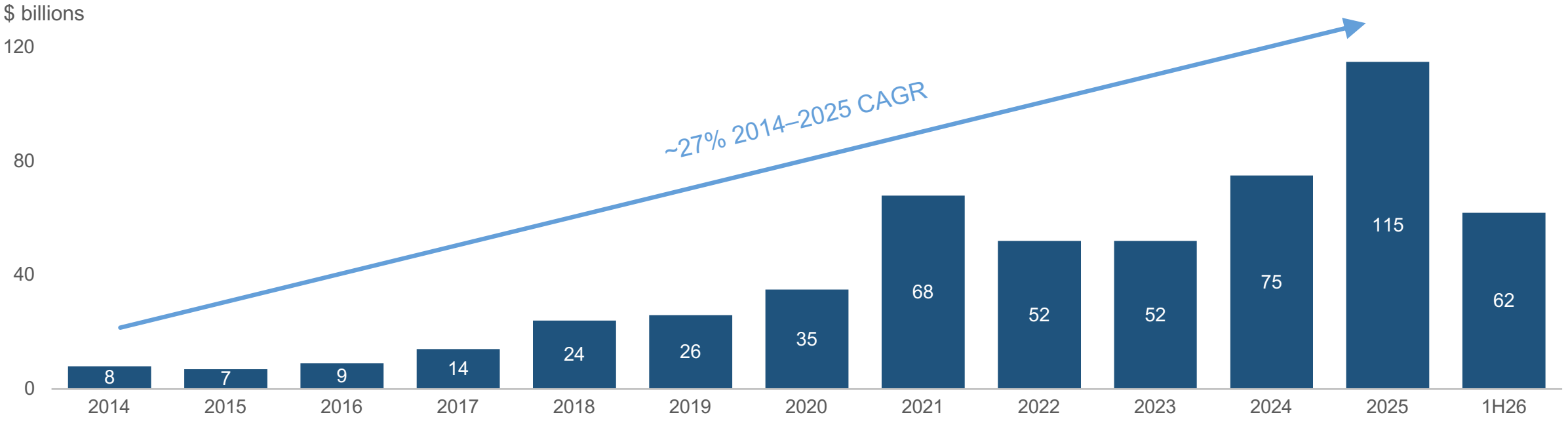
LP Portfolio Pricing



SOURCE: Jefferies 1H26 Global Secondary Market Review. NOTE: The information presented has been developed internally and/or obtained from sources believed to be reliable; however, Pathway does not guarantee the accuracy, adequacy, or completeness of such information. Pathway has not independently verified such information and accepts no responsibility or liability for any error, omission, or inaccuracy of such information.

GP-Led Market Continues to Grow as a Portfolio-Management Tool for High-Conviction Assets

GP-Led Annual Transaction Value



53%
Of secondaries value is GP-led

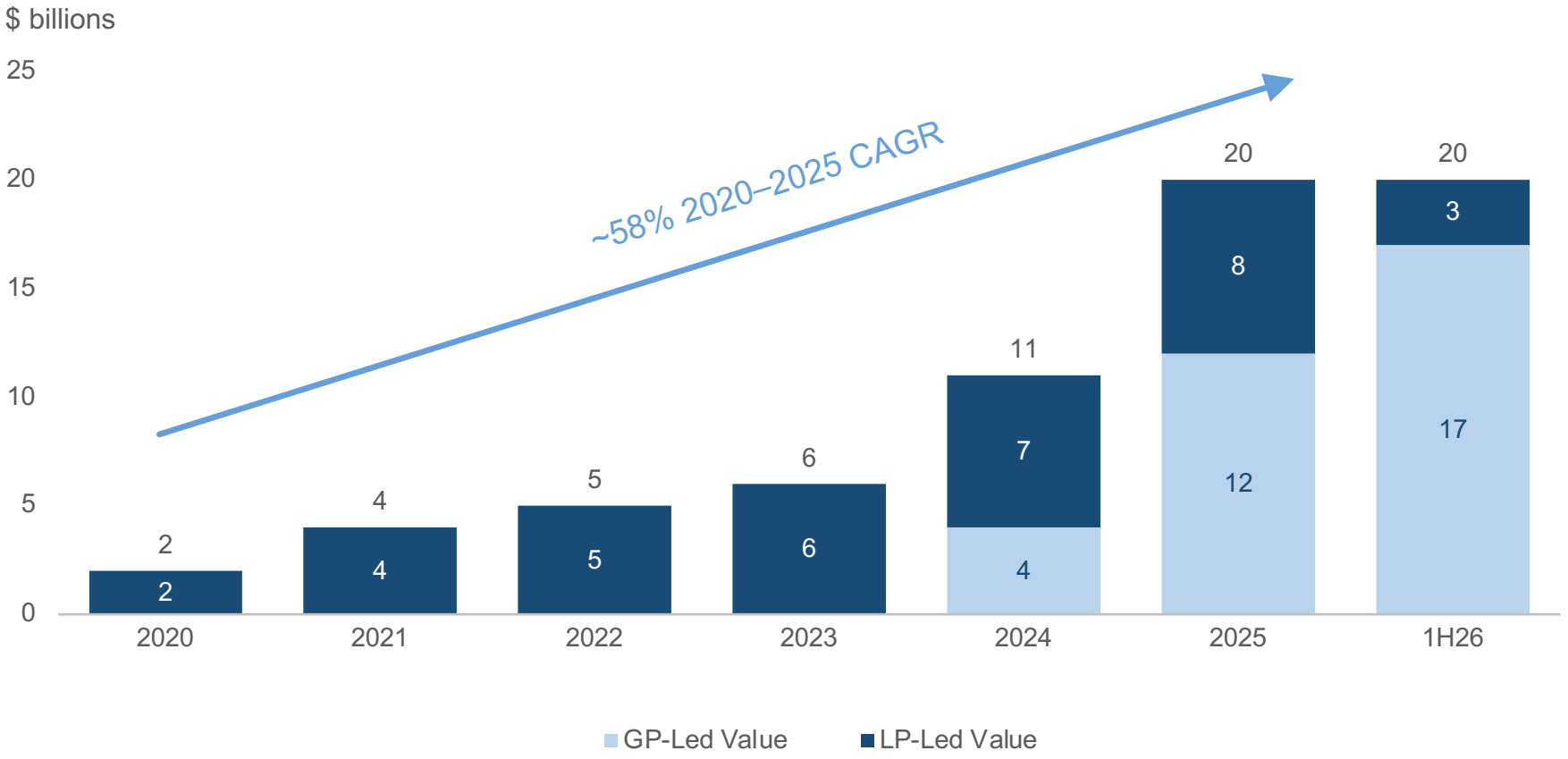
14%
GP-led value (% share of M&A exit value)

89%
Continuation fund transactions (% share of GP-led value)

SOURCE: Jefferies 1H26 Global Secondary Market Review. NOTE: The information presented has been developed internally and/or obtained from sources believed to be reliable; however, Pathway does not guarantee the accuracy, adequacy, or completeness of such information. Pathway has not independently verified such information and accepts no responsibility or liability for any error, omission, or inaccuracy of such information.

Credit Secondaries Demonstrate Significant Growth, Becoming the Second-Largest GP-Led Strategy

Credit Secondaries Transaction Value



Credit secondaries account for 17% of 1H26 total secondary volume

Near 3x increase YoY in credit CVs

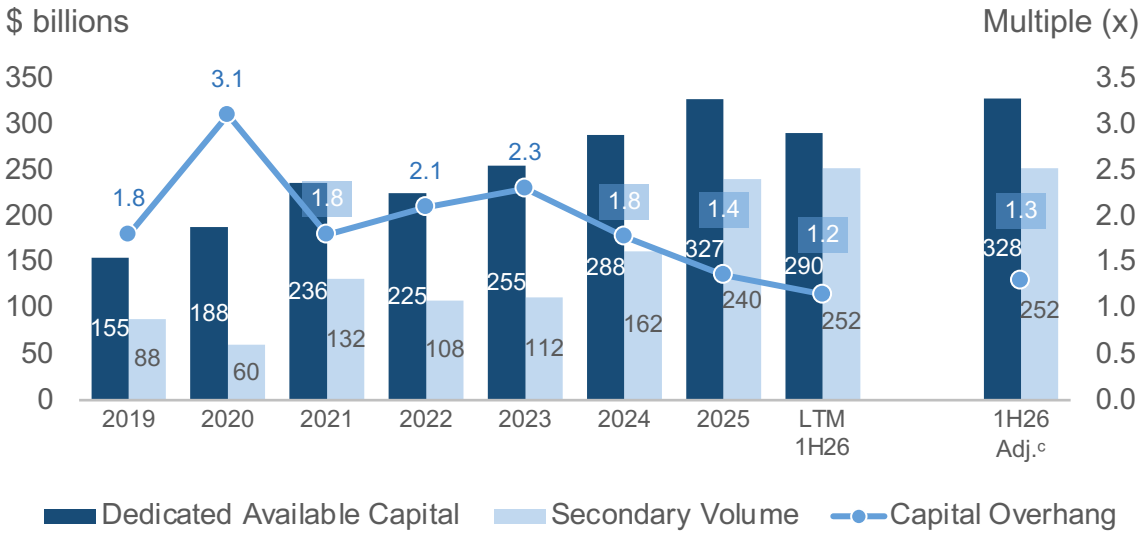
Quantity of $1.0B+ CVs grows YoY from 1 deal to 5 deals

Yields are higher compared with new direct lending assets[a,b]

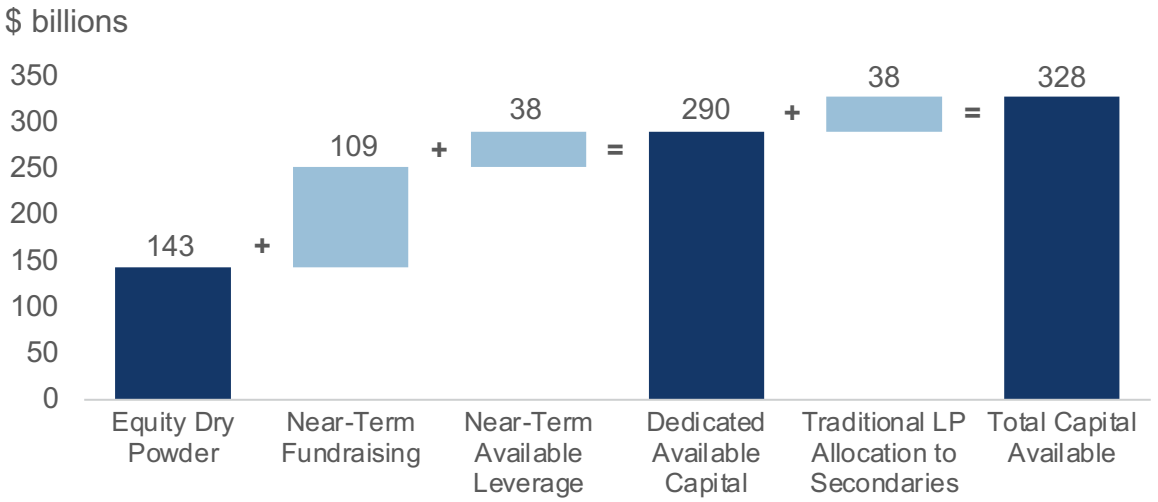
SOURCE: Jefferies 1H26 Credit Secondary Market Review; Evercore July 2026 Global Secondary Market Review; Reuters (April 2026). NOTE: The information presented has been developed internally and/or obtained from sources believed to be reliable; however, Pathway does not guarantee the accuracy, adequacy, or completeness of such information. Pathway has not independently verified such information and accepts no responsibility or liability for any error, omission, or inaccuracy of such information. [a]SOURCE: Jefferies estimates; Jefferies Credit Secondary database; Jefferies FY2025 Credit Secondaries Buyer Survey. NOTE: Credit secondary transactions in 2025 typically have spreads between ~550 and 600bps. [b]SOURCE: PitchBook LCD Private Credit Monitor. NOTE: Direct lending spread data reflects senior secured first-lien loans and unitranche facilities with spreads between ~450 and 550bps.

Strong Investor Interest Has Driven Substantial Growth in Secondaries Dry Powder

Capital Overhang Multiple[a]



Dedicated Available Capital[a,b]



Capital Overhang Key Stats

$290B
Dedicated Available Capital

$240B
2025 Secondary Volume

1.2x
Secondary Market Capital Overhang

1.3x
Adj. Secondary Market Capital Overhang[c]

[a]SOURCE: Jefferies 1H26 Global Secondary Market Review. NOTES: The information presented has been developed internally and/or obtained from sources believed to be reliable; however, Pathway does not guarantee the accuracy, adequacy, or completeness of such information. Pathway has not independently verified such information and accepts no responsibility or liability for any error, omission, or inaccuracy of such information. [b]Available leverage estimated at 15% of equity dry powder plus current fundraising. [c]SOURCE: Jefferies Capital Markets Intelligence. Midpoint of estimated $100-$200 billion traditional LP capital allocated to secondaries.

Private Credit Update

Private Credit Highlights

Sentiment Remains Subdued in Private Credit Market

- Private credit sentiment remains under pressure, as geopolitical uncertainty, rising inflation, and the Fed's first rate hike since 2023 keep lenders focused on borrower resilience.
- M&A and buyout activity was subdued with large private credit-financed buyouts largely absent. Direct lending LBO activity declined again in 3Q26, totaling $10.7 billion across 47 deals, down 21% from 2Q26 and 60% from 3Q25.
- Pricing bifurcation intensified as lenders competed for higher-quality, non-software borrowers. Software remains under scrutiny, with private credit lenders becoming more selective on legacy software credits.
  - Software accounted for 12% of PE-backed direct lending deal count YTD 3Q26, down from 16% in 2025, and 15% of PE-backed direct lending volume, down from 22% last year.

Credit Stress Edged Higher in 3Q26

- Stress indicators continued to rise across BDC portfolios in the third quarter, with the most acute weakness concentrated in software and second-lien debt.
- Distressed debt (i.e., loans marked below 80 cents) across BDCs has risen 64% YoY to $6.8 billion, with software and second-lien debt accounting for 89% of the increase.

Institutional Demand For Private Credit Remains Healthy

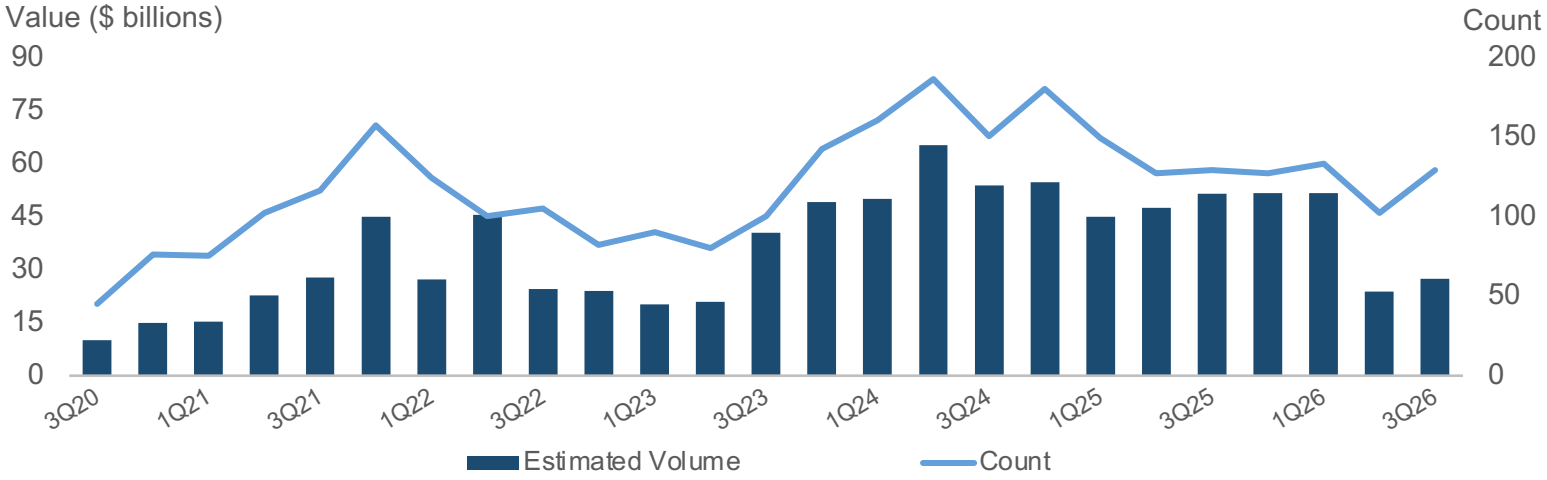
- Despite some negative headlines in the retail segment, institutional demand for the private credit asset class remains robust.
  - YTD 3Q26 fundraising for private credit has totaled $300 billion, on track for a record fundraising year if momentum continues.
- CLO issuance rebounded to $45.8 billion across 99 transactions in 3Q26, up 37% from 2Q, while leveraged loan primary market activity totaled $195 billion in 3Q, in line with the previous quarter.

AI Infrastructure Emerges as Major Deployment Theme

- AI infrastructure has grown quickly as a meaningful exposure for private credit, even as lenders remained cautious on legacy software exposure.
  - Headline deals include NVIDIA's planned $500 billion financing platform with a consortium of lenders, as well as other private credit–financed data center buildout/GPU purchase projects.

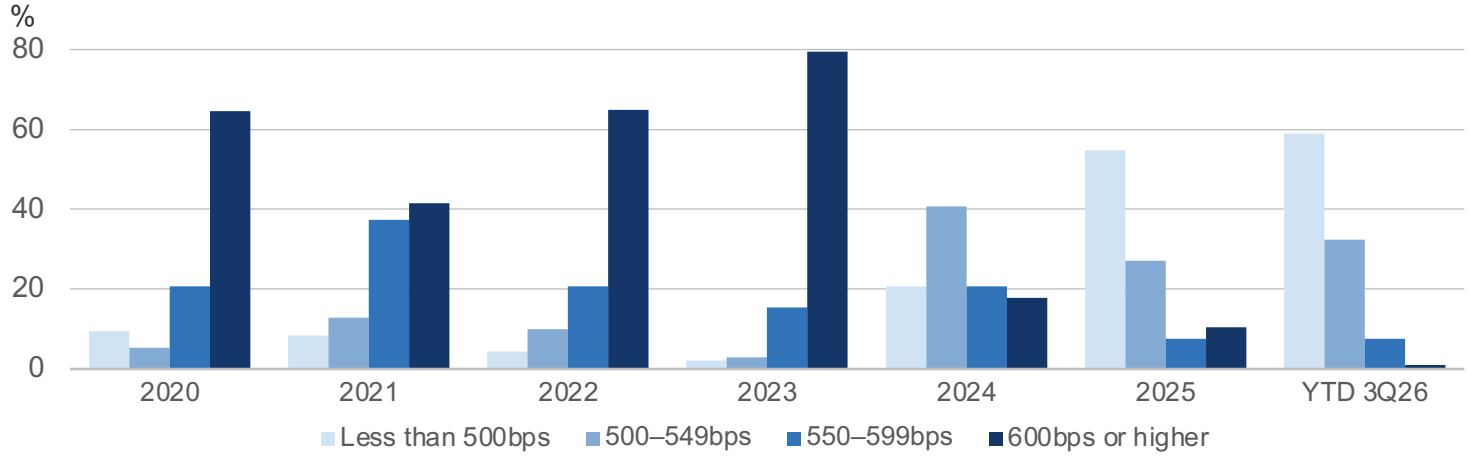
Direct Lending Activity Remains Slow amid Market Risks; Spreads Bifurcate between Borrowers

U.S. PE-Backed Direct Lending Deal Count and Estimated Volume



SOURCE: PitchBook LCD. NOTE: As of September 30, 2026.

Spread Distribution of PE-Backed Private Credit Loans



SOURCE: PitchBook LCD; Pathway Research. NOTE: As of September 30, 2026.

- Industry-wide private credit pricing has converged in the S+450-550 range, which represents ~87% of all LBO transactions (up from 78% in 2025).
  - Competition for attractive deals has resulted in less price dispersion.
- Investors look to industrials and non-software businesses to diversify portfolios away from tech, with competition driving down spreads for borrowers in these sectors by ~25-50 bps.
- With the Federal Reserve raising rates for the first time since 2023 in September, lenders are focused on signs of portfolio stress as levered borrowers face higher borrowing costs.

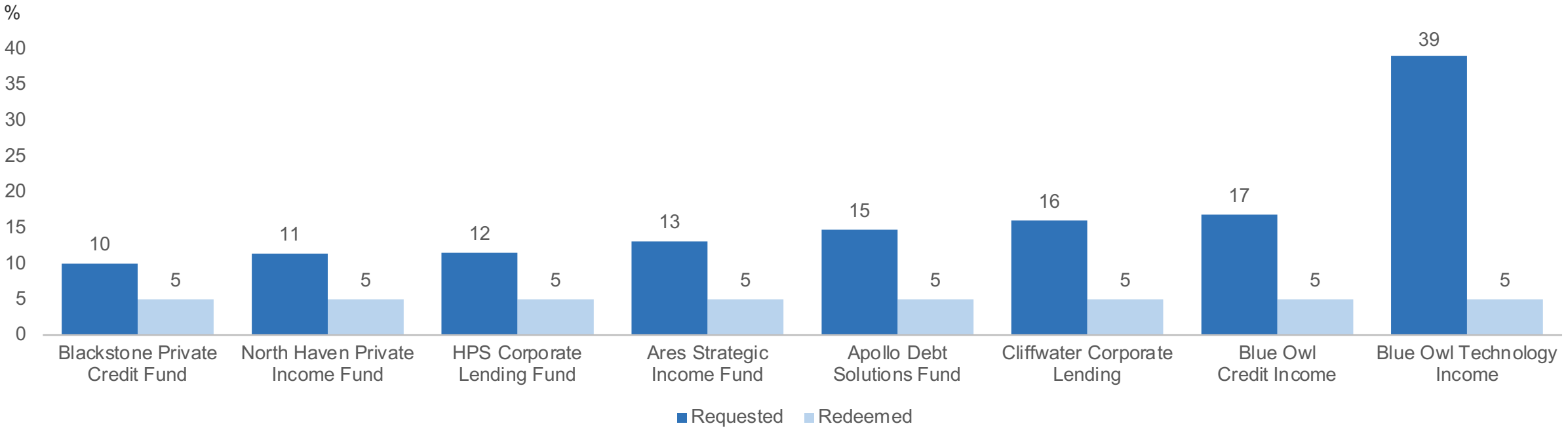
Direct Lending Market Conditions: Sponsored Middle Market

	2021	1H23	3Q26
Credit Documentation ▶▶▶	Less Restrictive	More Restrictive	Restrictive
Middle-Market Spread ▶▶▶	500–600bps	600–725bps	450–550bps
3-Month SOFR ▶▶▶	~0.0%	~5.0%	~4.0%
OID ▶▶▶	98	97	98/99
Unitranche Leverage Multiples ▶▶▶	Up to 6.5x	Up to 5.5x	Up to 6.0x
Unitranche Loan-to-Value ▶▶▶	Up to 65%	Up to 50%	Up to 60%
Average Equity Contribution % ▶▶▶	35%–50%	50%–60%	40%–55%
Unitranche Yield-to-3-Year Call ▶▶▶	6.5%–8.0%	11.5%–13.0%	9.5%–10.5%

SOURCE: Pathway Capital Management. NOTES: Based on Pathway's general observations of current market data and are subject to change depending on the market environment. Not all deals will have all these characteristics. Past performance does not guarantee future results.

Redemption Requests at Semi-liquid Funds Eased Slightly during the Quarter

3Q26 Redemption Activity for Select BDCs and Interval Funds

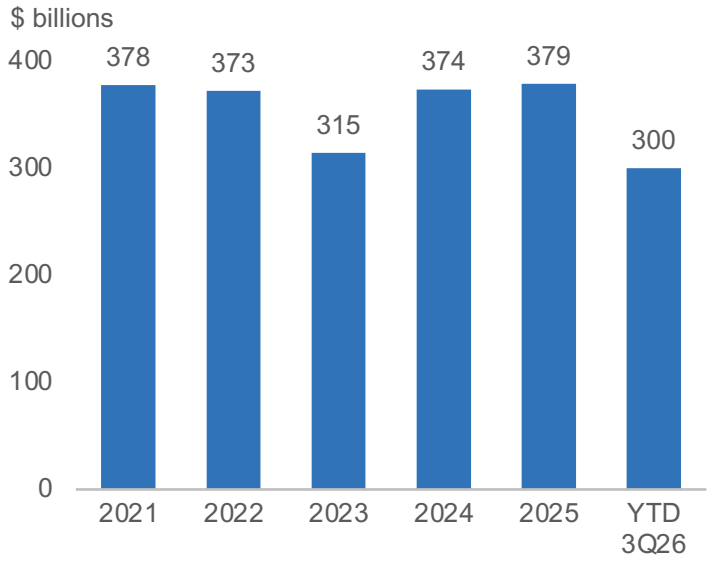


- Non-traded BDC and interval fund redemption requests moderated in 3Q26, although requests remain backlogged and persist at several of the larger funds.
  - Across the BDCs that have reported 3Q results, redemption requests totaled 11.5% of NAV, down from 12.7% in 2Q.
  - The decline in redemption requests may signal that demand has peaked, although unfulfilled requests are expected to roll forward and keep pressure elevated in the coming quarters.
- Fundraising weakness intensified across both private and non-traded BDCs, with non-traded fundraising taking the largest hit.
  - Non-traded BDCs raised $8.1 billion in 3Q, down 74% compared to 3Q25. Private BDCs raised $8.9 billion, representing a YoY decline of 22%.
  - Liquidity paid out over the first 3 quarters of the year outpaces total fundraising by ~$1.2 billion—a rather moderate figure in the context of the spotlighted dislocation.

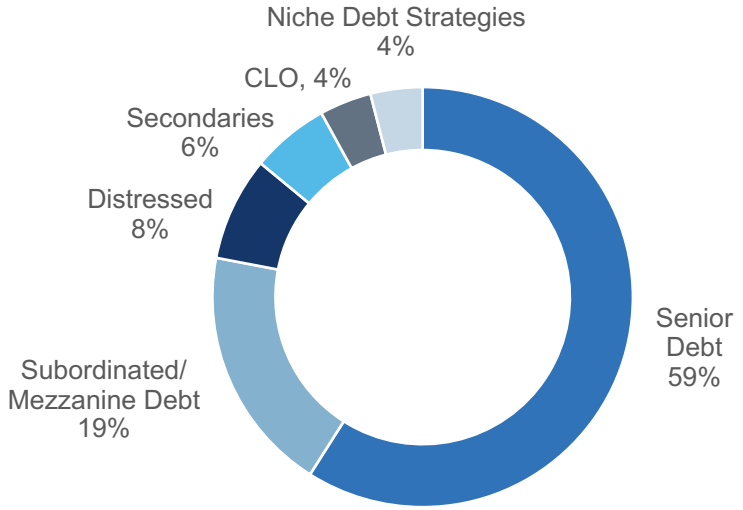
SOURCE: Pathway Research; Kadenwood Capital.

Institutional Private Credit Fundraising Momentum Continued Despite Retail Sentiment

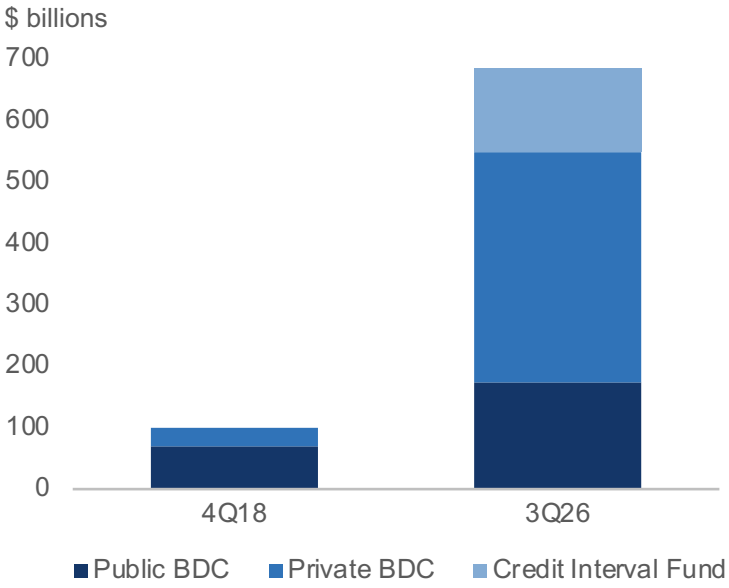
Annual Private Credit Fundraising[a]



Fundraising by Strategy[a]



AUM Growth of BDC and Credit Interval Funds[b]



Private debt fundraising totaled $300 billion YTD 3Q26, on pace for its strongest year since the data became available in 2021.

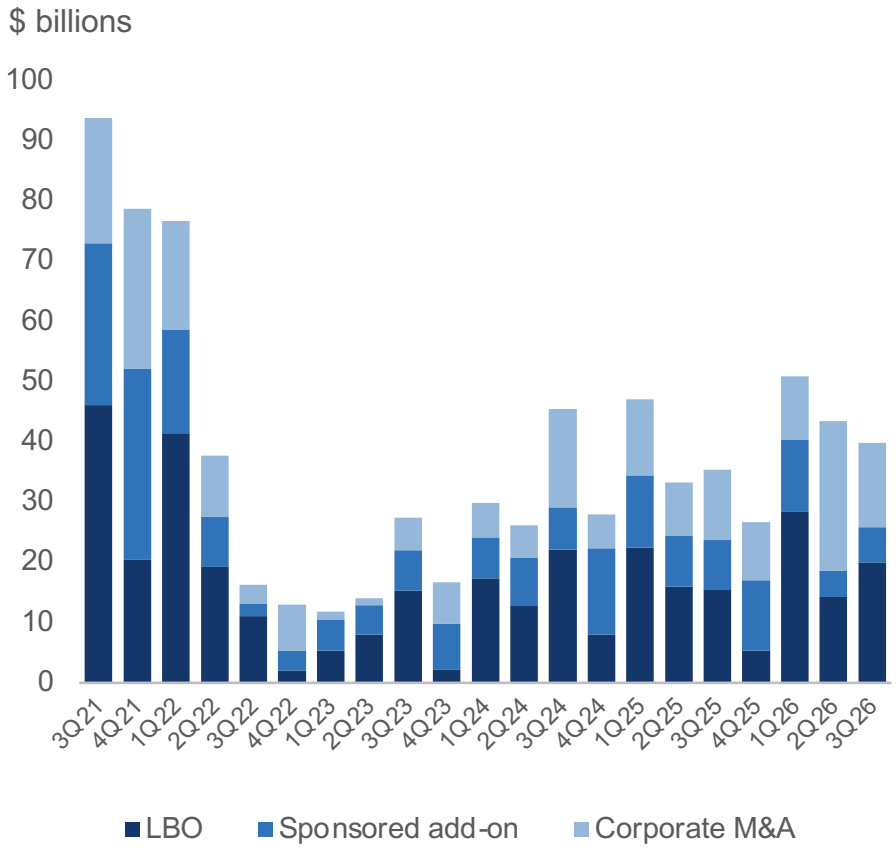
Senior debt strategies dominated fundraising, accounting for 59% of capital raised, up from 43% in 2025. Investor demand appears to have shifted toward safer, more-senior strategies amid concerns over market volatility.

Public BDC AUM has mostly remained flat YTD; the Raymond James BDC Index was down approximately 9% YTD. There were no new or follow-on offerings for public BDCs YTD 3Q26.

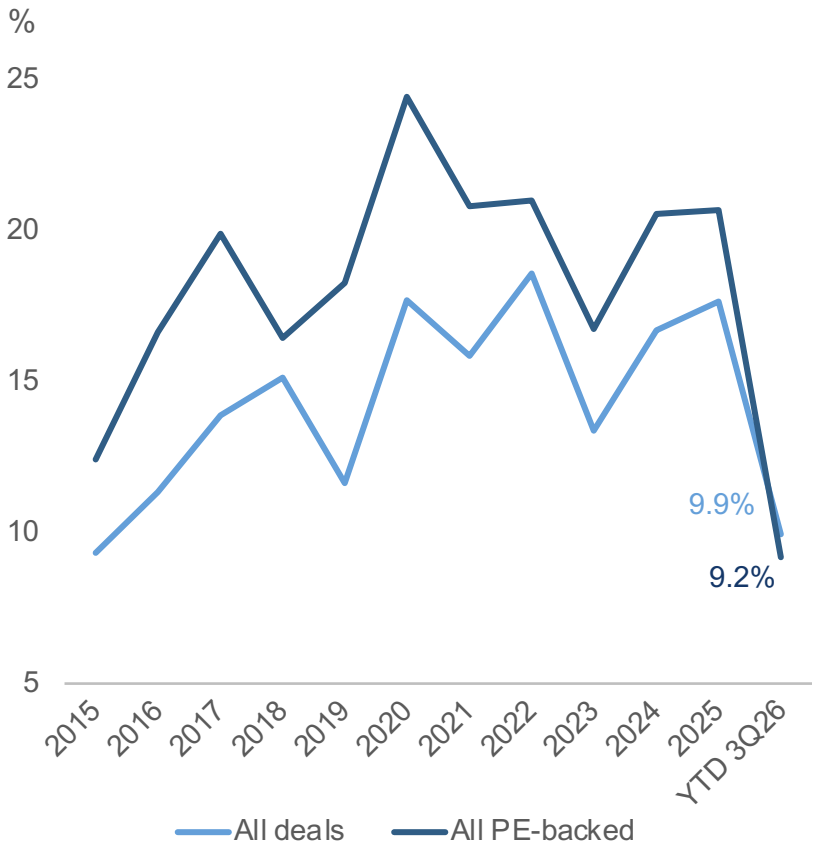
[a]SOURCE: Private Debt Investor (PDI) 2026 Fundraising Report. NOTE: As of September 30, 2026. [b]SOURCE: Interval Fund Tracker; Raymond James BDC Weekly Insight. NOTE: As of September 30, 2026.

BSL Activity Remains Resilient with Support Primarily from Non-software Sectors

U.S. Institutional M&A Loan Issuance[a]



Software Share of BSL Issuance[a]



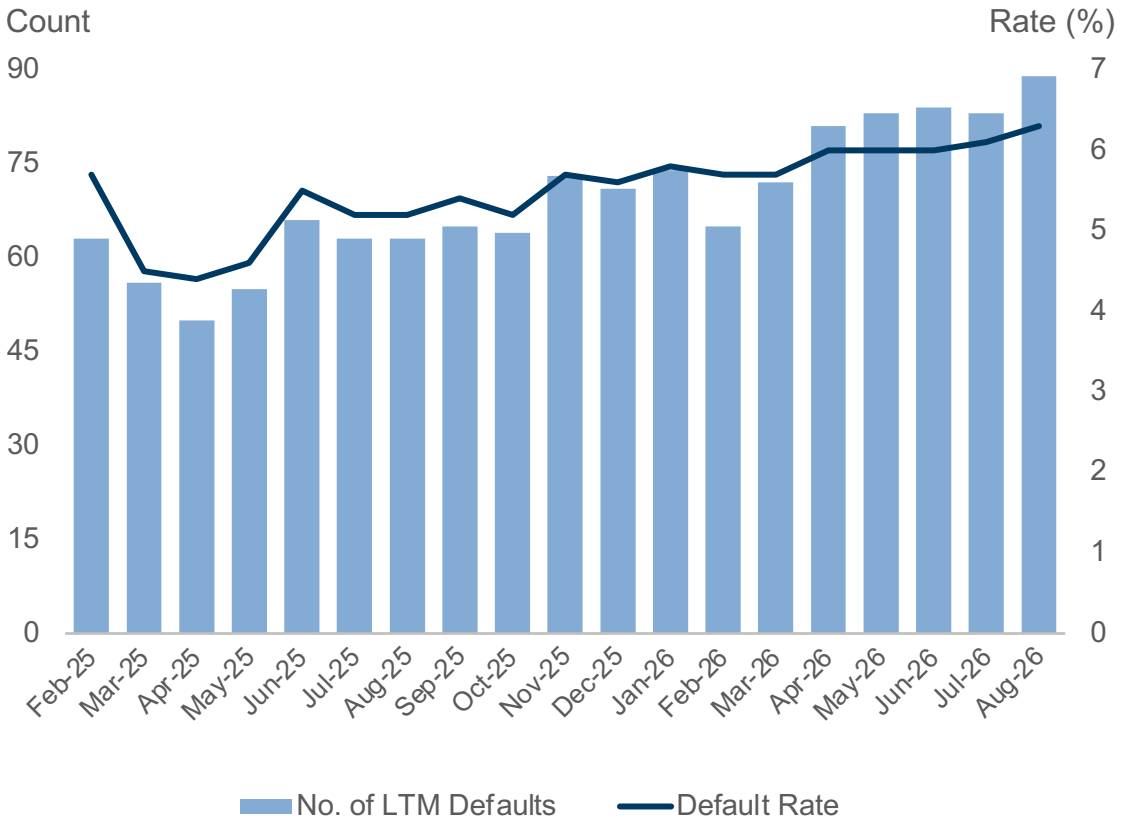
- M&A loan issuance remained constructive, with institutional M&A loan volume reaching $40 billion in 3Q26, up 13% YoY.
- Software deal volume remains compressed; less than 10% of all new-issue BSLs in 2026 have come from software companies—the lowest level since 2015.
- CLO volume rebounded from $33 billion in 2Q—the lowest quarterly CLO volume in 2½ years—to $46 billion in 3Q26.

[a]SOURCE: PitchBook LCD. NOTE: As of September 30, 2026.

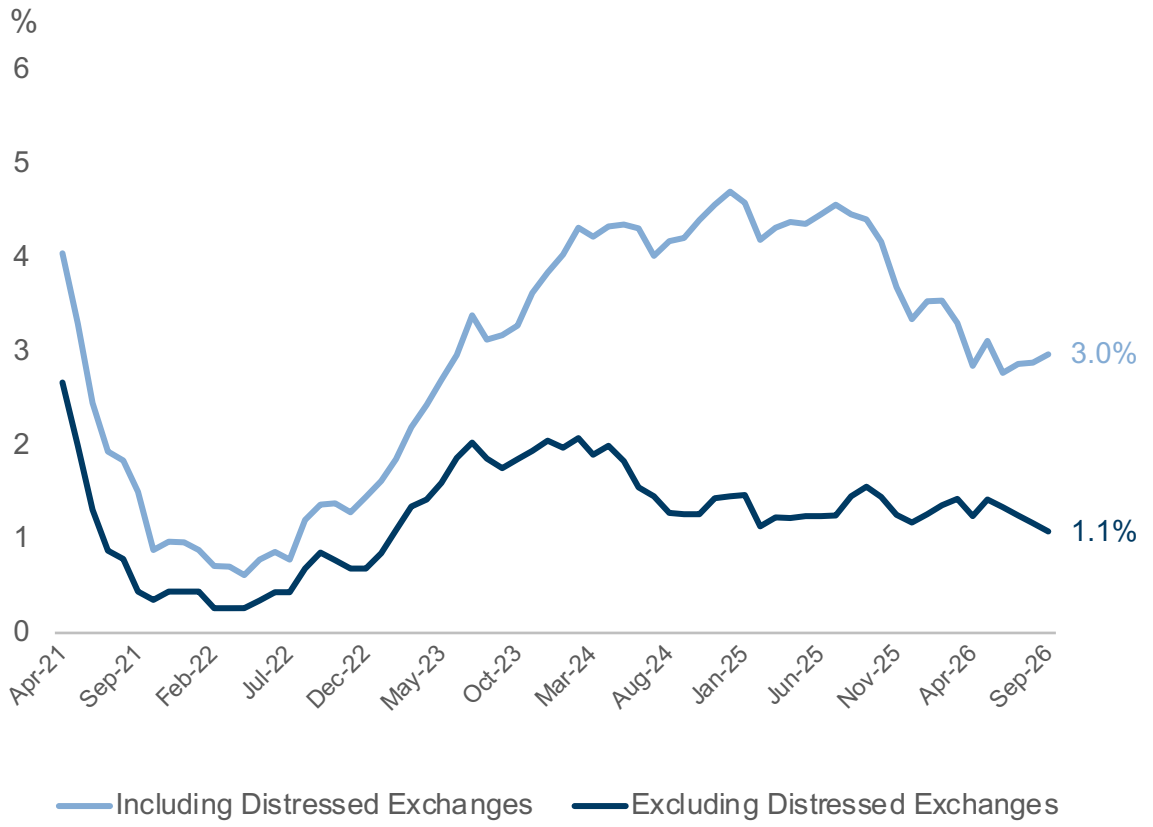
PIK Conversions and DDEs Elevate Default Rates; Bankruptcies and Payment Defaults Remain Low

The Fitch Private Credit Default Rate, which includes interest deferrals and PIK conversions, is at the highest level since inception; the default rate including only payment defaults and bankruptcies was less than 1%.

Fitch Private Credit Default Rate[a]



LSTA U.S. Leveraged Loan Default Rate[b]



[a]SOURCE: Fitch Ratings PRO U.S. Private Credit Default Rate. NOTE: As of August 31, 2026. [b]SOURCE: PitchBook LCD. NOTE: As of September 30, 2026.

Infrastructure Update

Infrastructure Market Highlights

Long-Term Structural Demand Supports Infrastructure Investment

- Global infrastructure investment needs are projected to exceed $150 trillion through 2050, driven by electrification, digitalization, aging assets, and economic growth.
- Significant investment is required across power and digital infrastructure, as well as in traditional sectors such as transportation (roads, bridges, airports) and social infrastructure (healthcare and education).
- The U.S. faces particularly substantial infrastructure investment needs, reinforcing a favorable long-term investment environment.

Dealmaking Momentum Remains Strong

- Infrastructure dealmaking maintained its pace through 3Q26, supported by broad-based global demand and continued investment across traditional and emerging infrastructure sectors.
- 2026 remains on track for a record-setting year if current trends persist.

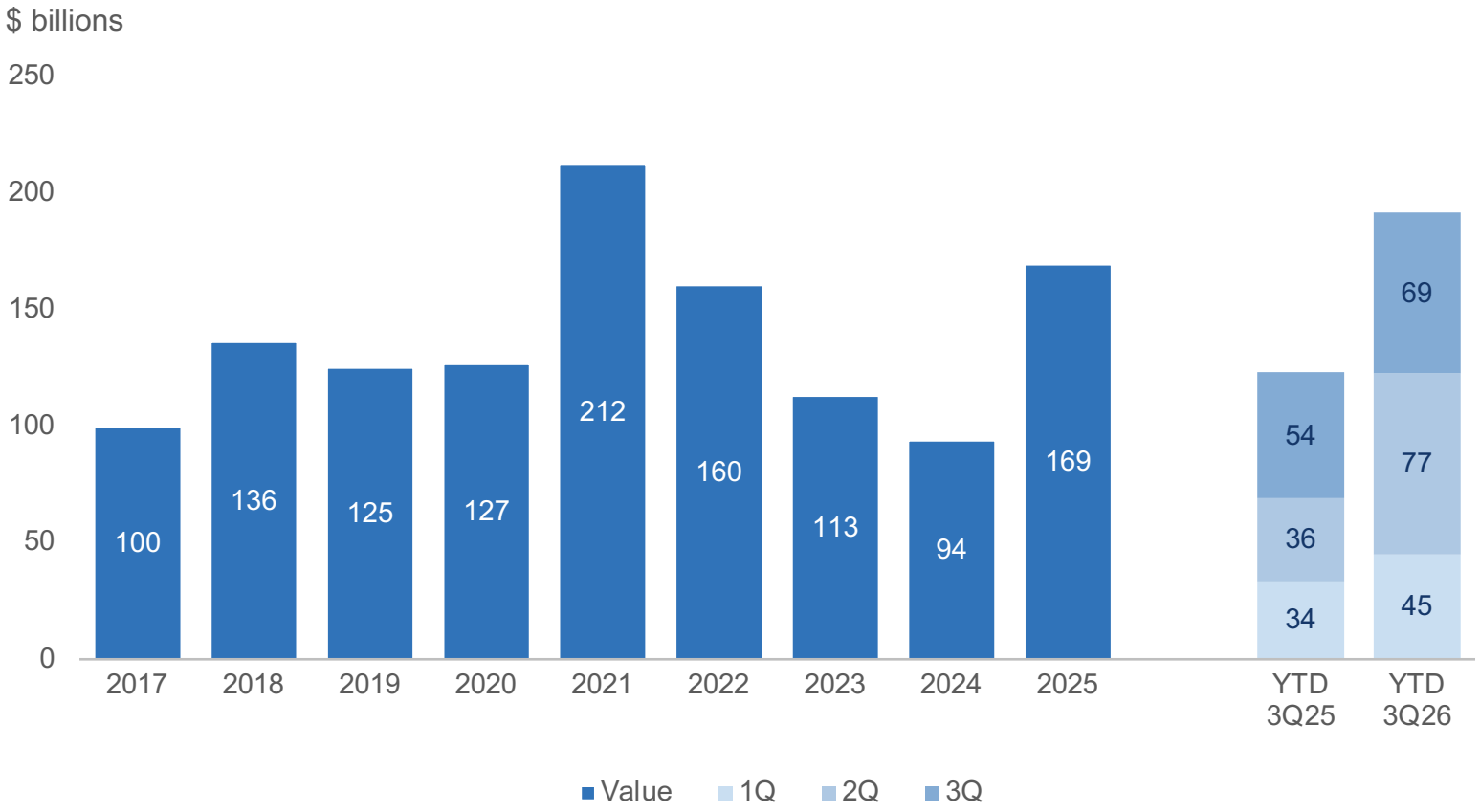
Fundraising Rebounds Significantly

- Following a slower 2Q, infrastructure fundraising increased significantly in 3Q, bringing YTD fundraising to 42% above the same period in 2025.
- Growth reflects the timing of several mega-fund closings, with fundraising on pace for a record year.

SOURCE: Pathway Research. PwC, Global Infrastructure Outlook 2025–50, April 2026; Oxford Economics analysis. PwC, U.S. Infrastructure Outlook, May 2026; PwC-Oxford Economics Global Infrastructure Outlook 2025–50.

Infrastructure Deal Activity Continued to Accelerate in 3Q26, on Pace for a Record Year

Infrastructure Deal Value



3Q26 Notable Deals

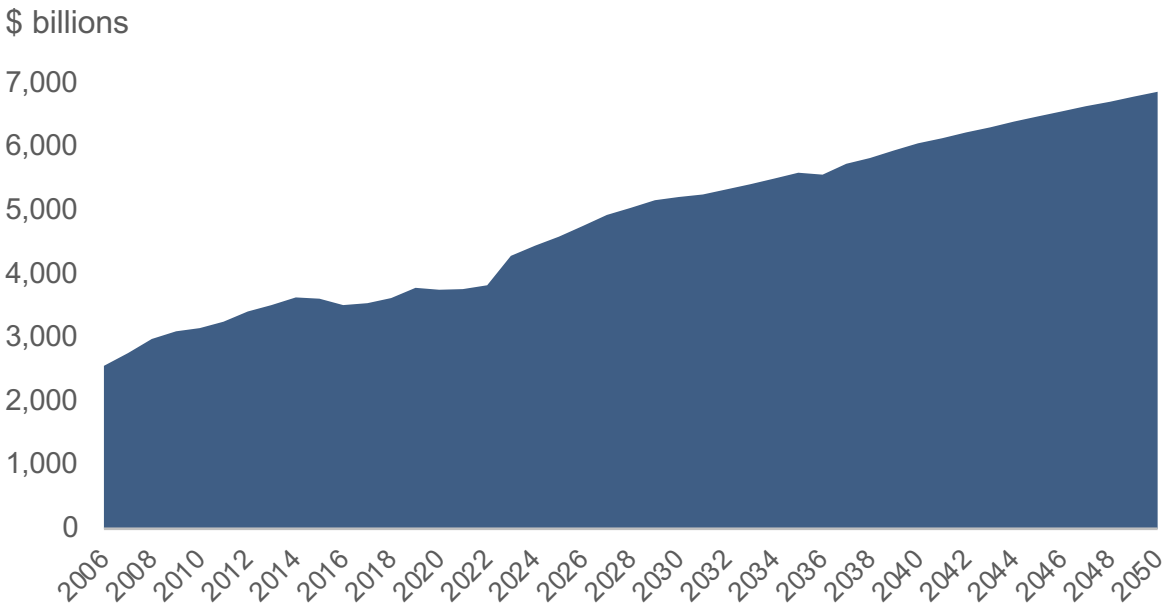
Target	Acquirer	Deal Size ($MM)
Sempra Infrastructure	KKR	10,000
Boralex	La Caisse / Brookfield	8,400
DCC Energy	KKR / ECP	7,700
Aypa Power	Brookfield	7,000
Greenlight Electricity Centre	Morgan Stanley	4,300

SOURCE: PitchBook Data, Inc.; Pathway Research. NOTE: As of September 30, 2026.

Infrastructure Investment Is Entering a Long-Term Growth Cycle

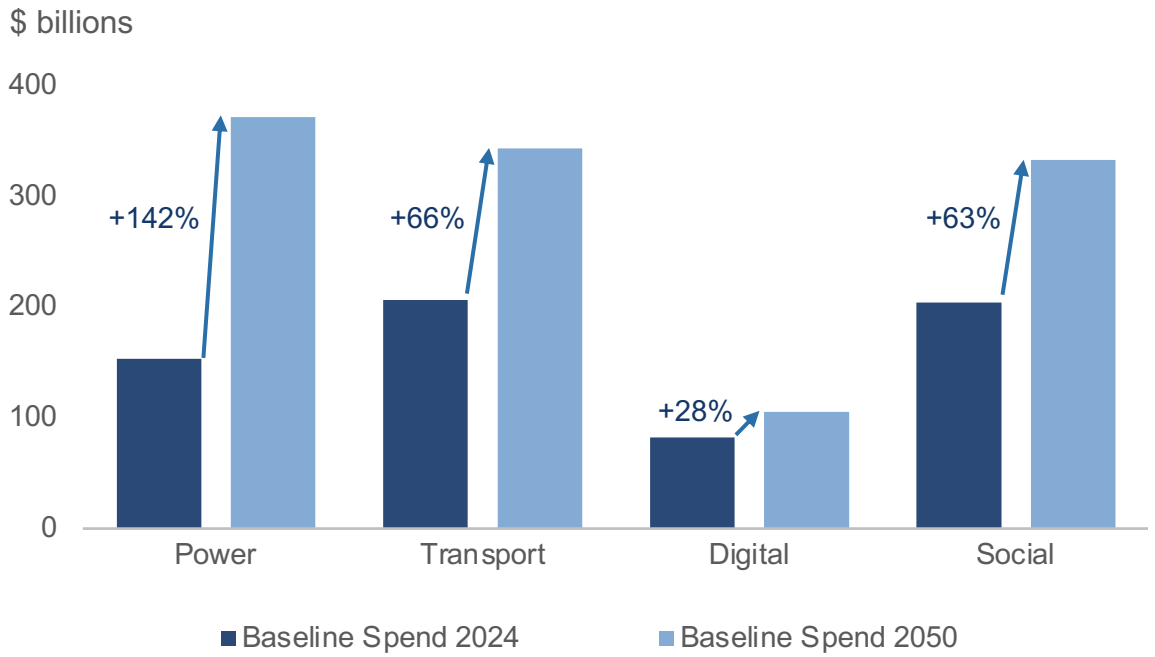
Global Infrastructure Needs Are Mounting[a]

Projected Global Infrastructure Spend (2025–2050)



The U.S. Alone Is Driving Significant Demand[b]

Projected Baseline Infrastructure Spend in the U.S. (2024–2050)



- Global infrastructure investment needs are expected to reach more than $150 trillion through 2050, reflecting the significant capital required to develop, upgrade, and maintain the infrastructure necessary to support long-term economic growth and societal needs.

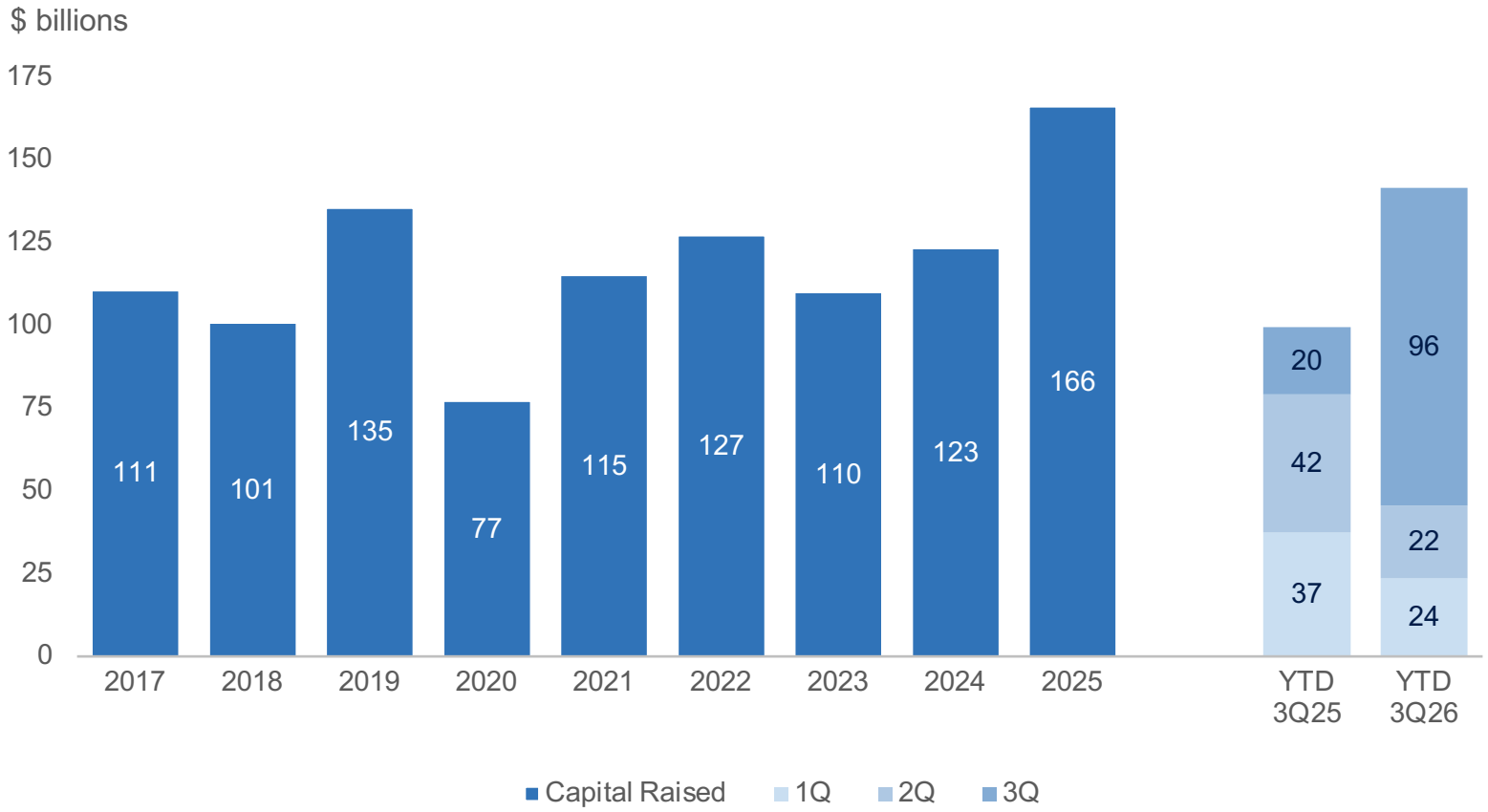
- The U.S. is expected to require $32.7 trillion of baseline infrastructure investment through 2050, rising to $42 trillion under a “desired” spending scenario. At nearly 22% of global infrastructure spending, more than 1 in every 5 dollars may be invested in the U.S.

[a]SOURCE: PwC, Global Infrastructure Outlook 2025–50, April 2026; Oxford Economics analysis. [b]SOURCE: PwC, U.S. Infrastructure Outlook, May 2026; PwC-Oxford Economics Global Infrastructure Outlook 2025–50.

Infrastructure Fundraising Reached a Record High in 3Q26

Investor demand remains strong, supporting record infrastructure investment across the broader landscape.

Global Private Infrastructure Capital Raised



Notable Funds Raised in 3Q26

Fund	Regional Focus	Size ($MM)
CPP Brookfield Maple Fund[a]	Canada	36,100
KKR Global Infrastructure Investors V	Global	19,200
Partners Group Direct Infrastructure IV	Global	15,000
Energy Capital Partners VI	North America & Europe	8,100
Partners Group Infrastructure Secondaries Program	Global	5,500

SOURCE: PitchBook Data, Inc.; Infrastructure Investor; Pathway Research. NOTE: As of September 30, 2026. [a]Represents the launch of the C$50 billion strategic joint venture between CPP (Canada Pension Plan) and Brookfield Asset Management.

Appendix

Important Information

This report has been prepared by Pathway Capital Management, LP ("Pathway"), for informational purposes only. It does not constitute investment advice or a recommendation, an offer to sell, or the solicitation of an offer to buy any security, fund interest, or advisory service and should not provide the basis for any investment decision. The views expressed herein contain Pathway's views, opinions, and/or market observations as of the date of this report and are subject to change without notice. Statements that are not historical facts, including those using words such as "expect," "on pace," "on track," "projected," or "estimate," are forward-looking statements. They are based on current assumptions and estimates (including those of third parties), are not guarantees of future events or performance, and actual outcomes may differ materially. There is no guarantee that any projections, forecasts, predictions, or forward-looking statements will prove accurate or lead to any investment performance, and Pathway is under no obligation to update them. Past performance is not necessarily indicative of future results.

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