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Investment Perspectives Mid-Year Outlook 2026: Rally vs reality

June 2026



Contents

Introduction.....	3
Risk, rallies and resilience: A market between growth and constraint.....	4
Valuation framework: Assessing valuation signals across a spectrum of asset classes	8
CIO Perspective: A new rulebook, or lack thereof.....	12
CIO Perspective: Global forces, selective opportunities	17
CIO Perspective: Selectivity defining private markets in 2026.....	23
Groundhog Day for real estate: A recovery paused, not reversed.....	26

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Introduction

In the first half of 2026, a striking divergence has emerged: equity and bond markets appear to be dancing to very different beats.

Bond markets are pricing in the risk that higher energy prices will fuel inflation, along with fiscal concerns. Six months ago, we noted that, with inflation remaining sticky, interest rate cuts were far from inevitable. The conflict in Iran has now pushed back the timing of cuts, and possibly increased the chances of hikes.

Equity investors, by contrast, have largely looked through the macroeconomic headwinds, focusing instead on the soaring demand for AI. Enthusiasm remains undimmed – but can equity markets continue to be sustained by the AI trade alone? A wave of blockbuster IPOs from AI firms in the months ahead will go some way to testing the strength of investor appetite.

In this Mid-Year edition of Investment Perspectives, we explore what this asset class conundrum – the rally and reality – means for investors. In today's complex markets, our CIOs for Fixed Income, Private Markets and Equities, Multi Asset and Sustainability stress the importance of selectivity and a broad horizon: qualities they believe can help investors uncover overlooked opportunities and build resilient portfolios against an uncertain backdrop.

Risk, rallies and resilience: A market between growth and constraint

Key takeaways

- Markets are currently navigating two conflicting narratives: equity market optimism versus bond market constraint.
- Investors are being confronted by different asset classes reflecting very different views of the future.
- Building portfolio resilience is now more important than ever with investors acutely aware of which factors their assets are exposed to.

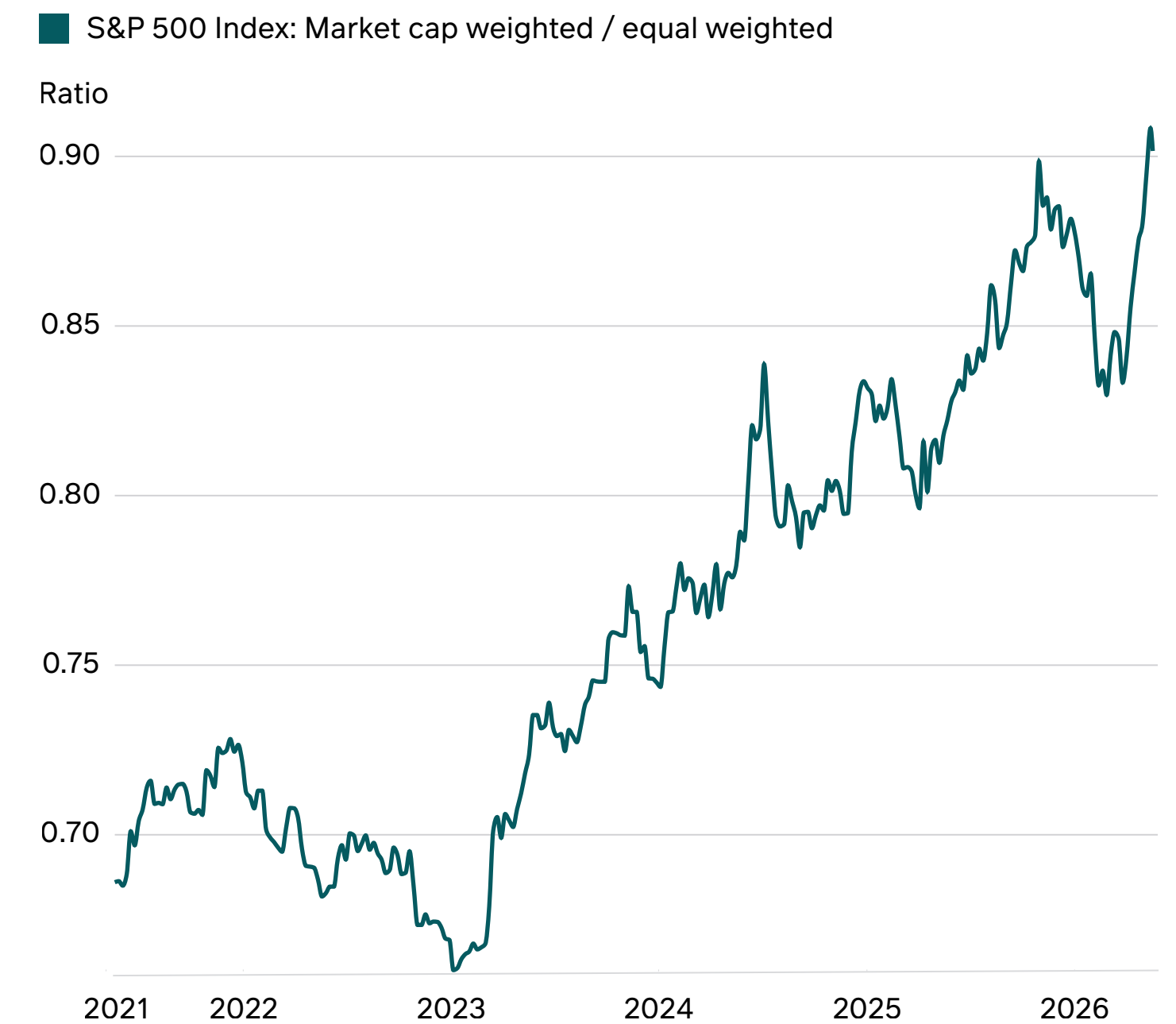
In the first half of 2026, markets largely continued the pattern seen in 2025, with frequent shocks and volatility, yet equities continued to rally. At the same time, signals across asset classes have begun to diverge more noticeably: equities remain supported by earnings and a strong AI-led narrative, appearing relatively resilient to geopolitical developments, while bond markets reflect a more constrained backdrop shaped by inflation and higher borrowing costs. Does this represent a conflict between risk and reality?

Making sense of mixed messages

Different parts of the market are sending very different signals. For equities, the narrative continues to centre on growth, underpinned by earnings strength, particularly within technology. The AI theme remains the dominant driver, supported by sustained investment in infrastructure and continued demand across semiconductors, compute and memory.

However, the apparent resilient index performance is clouding extreme concentration where a narrow cohort of AI-linked companies are driving performance. Equity indices are increasingly reflecting capital concentration, not economic breadth.

Beneath the rally, a narrowing market



Source: Bloomberg, 20 May 2026.

Bond markets, meanwhile, are anchored in a different set of considerations. Inflation dynamics remain a central concern, particularly given the sensitivity of prices to energy markets, while the trajectory of interest rates continues to shape returns. In this sense, fixed income is providing a more direct read-through of macroeconomic conditions than has been evident in recent years.

The AI narrative has also extended into credit markets. Large technology firms, particularly hyperscalers, have increasingly accessed debt markets to finance investment plans.

Beyond inflation, fiscal trends are also coming into sharper focus. Government borrowing levels remain elevated across developed economies, contributing to higher yields as investors demand greater compensation for holding sovereign debt. Sentiment in credit markets differs though, being more aligned with equity markets, with spreads remaining tight and defaults low suggesting low levels of system stress.

The conundrum

The result is a more nuanced market landscape, where different asset classes are effectively expressing different views of the future. Eventually, something will probably have to give.

Structural dynamics also play a role. Continued inflows into passive strategies are supporting index performance and reinforcing concentration trends, with less emphasis on traditional price discovery, allowing momentum in leading names to persist even as underlying conditions appear more balanced.

The bottom line for investors? Uncertainty is likely to persist. There is unlikely to be a settled macro view, which offers a clear direction for markets and asset classes – a more likely scenario is one where evidence emerges impacting different assets, at different times, in different ways.

Relying on resilience

Portfolio resilience is a noble aim, but how do you achieve this in practice? The key is to become even more discriminating and selective, not least because traditional diversification approaches to asset allocation may not be as effective in the current investment landscape.

Amid the excitement and expectations for AI-related equities, investors certainly need to be discriminating. The question is not whether AI will be a transformative technology (spoiler alert, it will), but rather how much of its exponential future growth is already priced in? Are current valuations a true and fair representation of the facts and fundamentals?

Fabiana Fedeli, our CIO for Equities, Multi Asset and Sustainability, believes this is a good time to be an active investor. Owning assets you thoroughly understand sits at the core of constructing a resilient portfolio. Knowing what you have bought, its sensitivity to different factors, and what it is actually exposed to, is crucial and asset class agnostic. It applies equally to assets held within equities, bonds or private markets.

Emmanuel Deblanc, our Private Markets CIO, for example, makes the additional point that investments such as private credit may not be what you think. Far from being, in our view, a risky investment, it may offer enhanced protection with the often-close relationship between lender and borrower.

And within bond markets, Andrew Chorlton, head of our Fixed Income team, believes the tools exist with which to build resilience into portfolios. With fears higher inflation may become structural rather than transitory, tools such as inflation-linked bonds, duration management and yield curve exposure exist which can offer inflation protection.

Conversely, should global growth weaken, bonds can perform their traditional role as insurance against a growth shock. And while sovereign debt levels are high, arguably fiscal and macroeconomic risks are largely priced into yields.

Selectivity and discrimination

The conclusion? The rally reflects one version of the future, while the reality reflects the limits of the present. Widening dispersion reinforces the importance of valuation and fundamentals. The challenge is less about identifying the 'right' theme, and more about recognising how unevenly that theme is reflected across markets. Investors may converge on similar ideas, but diverge significantly in how those ideas are priced and positioned.

Encouragingly, the opportunity set remains broad. Within each asset class, a range of strategies and instruments exists, offering different exposures to growth, inflation and risk. This provides the flexibility needed to build portfolios that are resilient across a range of outcomes.

As we enter the second half of 2026, we believe now more than ever is the time to embrace an active approach to investing, adopting a broad, value-focused approach to asset selection and building resilient portfolios likely to deliver compelling long-term returns.

Contributors: Mason Woodworth and Stefano Amato, M&G Macro & Multi Asset team.

Valuation framework: Assessing valuation signals across a spectrum of asset classes

Stuart Canning,
Global Macro Fund Manager

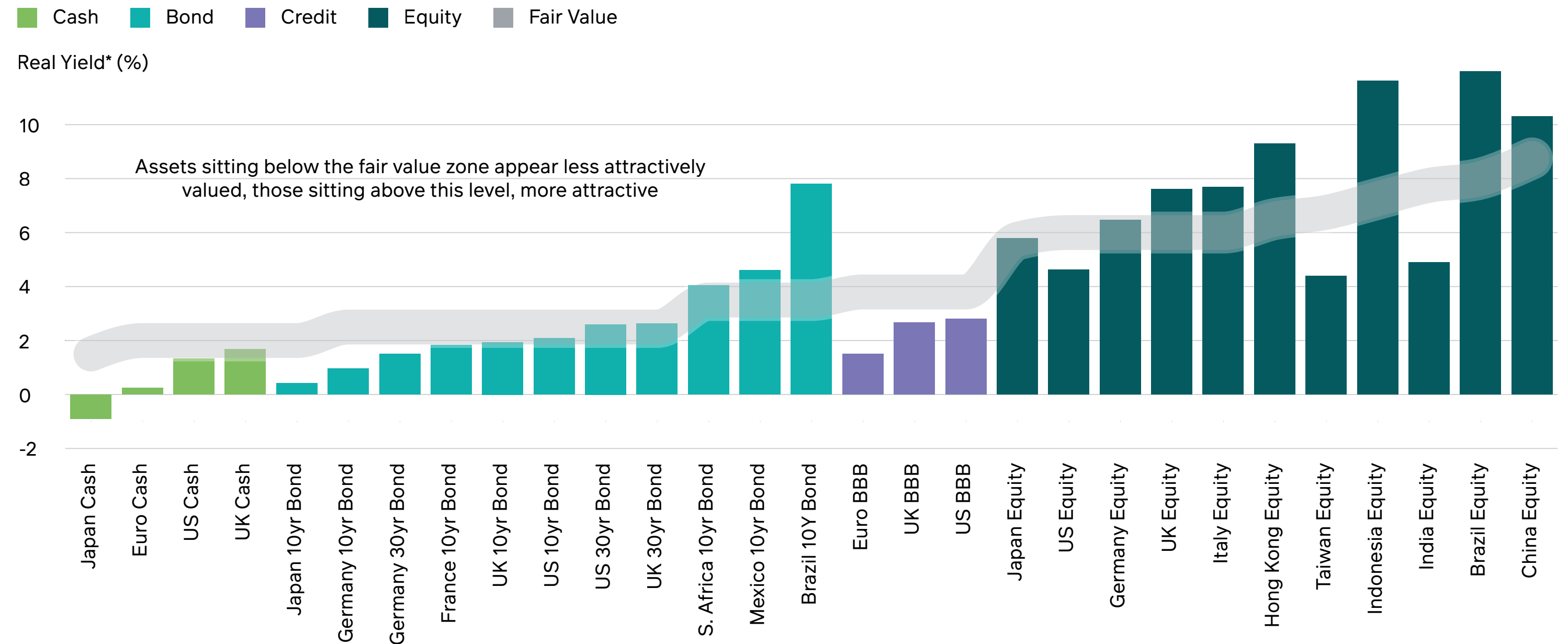
Key observations

- Perhaps the most staggering feature of valuation signals in June 2026 is how little they have changed since January 2026.
- This is in spite of the risk associated with the conflict in Iran, and the acceleration in the world-changing impacts of the AI build out.
- In spite of extremely strong gains in tech-related equity markets, the concurrent strength of earnings means that valuations are unchanged, or have even improved.
- Fears of longer lasting inflation, driven by higher oil prices, have served to increase yields on government bonds.
- In emerging markets, concerns over Chinese growth have slightly improved valuations in related equity markets.

The valuation framework compares the real yields of a spectrum of global assets with an assessment of their 'fair value', which is calculated using the M&G Global Macro team's proprietary analysis.

When an asset's real yield is higher than the estimate of fair value, it is considered to be attractively valued; if lower, the asset's current valuation would be considered expensive. Such valuation signals typically have low predictive power over shorter time periods but can be a guide to prospective returns over the longer term.

Valuation signals: Real yield* of a spectrum of global assets against an assessment of fair value



*Real yield: Cash and bonds are nominal yields deflated by 10y breakeven inflation (or long term consensus expectations where breakeven figures are not available). Equity earnings yields use 12m forward EPS deflated by Bloomberg consensus 12m forward inflation expectations. The above data is a hypothetical representation for illustrative purposes only and is not representative of any M&G product or strategy. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

Source: Bloomberg, M&G, Consensus Economics, 5 June 2026.

Valuation overview

The following observations relate to the valuation framework.

The bigger picture

Iran fails to move the dial

Despite some volatility and very real geopolitical fears, the Iranian crisis has done little to change the main observation that most global assets appear neutrally valued today.

Selected equities more attractive, for differing reasons

A few equity markets have become more attractive because earnings have grown more than prices, others because prices have fallen.

Investors more worried about inflation than growth

Most government bond yields have risen over the period, reflecting some worry about inflation, but equities remain fair-to-richly valued, in the main, and credit spreads are tight.

Equities

Little concern over a hit to earnings from Iran

There were some price declines in March as the Iranian conflict intensified but the recovery has been swift; only in a few cases did valuations move to outright 'cheap' levels relative to history.

Some equities more attractive for the 'right' reasons

Some equity markets, including the US, have become more attractive despite strong returns because profits have grown even faster. Korea is an extreme example of this. The AI build out story is a key reason why events in Iran have failed to disrupt equity gains.

Other equities more attractive for the 'wrong' reasons

Concerns over Chinese growth and idiosyncratic weakness in countries like Brazil and Indonesia have driven weaker returns and, in turn, more attractive valuations.

Bonds

Bond yields generally higher

Higher oil prices, ongoing debt fears, and a strong US economy have served to drive government bonds yields higher around the world. In the UK, prospects for political change that may usher in higher government spending have at times intensified these moves.

Pockets of value in emerging markets

Yields in countries like Brazil and Indonesia have increased from elevated levels. Domestic politics also prompted heightened yield volatility in Colombia (not shown in chart).

Corporate bonds still offering historically modest compensation for risk

The extra yield on offer from buying developed market corporate bonds relative to bonds issued by governments remains modest. This reflects an environment in which investors appear to have little concern about risks to global growth today.

Cash

Rate cuts off the table?

The inflationary impulse from the oil price spike means that markets no longer expect policy easing in most developed market economies and, in some cases, expect interest rate increases in the near future.

US economic resilience

While some may question whether it would be appropriate to tighten interest rates in response to an oil price shock, it also true that, in the case of the US at least, underlying economic strength has been just as important in removing an obvious need for rate cuts.

Regional divergence persists

UK and US cash rates could offer reasonable real returns, in our view, if long-term inflation returns to 2 or 3%. In the case of Japan and Europe, cash rates still look very unattractive in the context of most economists' long-term estimates of inflation.

CIO Perspective: A new rulebook, or lack thereof

Fabiana Fedeli,
CIO Equities, Multi Asset and Sustainability

Key takeaways

- These are some of the most complex markets I have seen in a while, with different asset classes seemingly following different drivers, at times contradicting each other, and extreme moves in equity prices.
- Even if the Middle East conflict were to find an enduring peace, we face the prospect of higher-for-longer energy prices and a potential global demand slowdown. We don't believe this is priced in, and the journey from optimism to complacency can be a short one.
- Equities have been strong to date, outperforming bonds, but performance has been concentrated around the AI theme. With traditional 'rules of thumb' becoming less reliable and perceived safe havens being challenged, investors are having to reassess their approach to portfolio diversification.
- While we are mindful of the potential risks and challenges ahead, we have learnt the perils of being 'all-in' or 'all-out', and the importance of having balanced views. We appreciate that, even in difficult times, exceptional companies are still able to achieve exceptional results.
- We continue to see opportunities in themes with structural tailwinds, such as Infrastructure, the Low Carbon Economy and Innovation. Such themes are reinforced by the issues of energy security and infrastructure resilience, brought to the fore by the Middle East conflict.

Dancing to their own beat

These are some of the most complex markets I have seen in a while. I have had my share of bull runs, bubble bursts and more or less epic crashes. For most of them, the explanation behind the moves was clear, often mono-directional. Now, different asset classes seem to be following different drivers, at times contradicting each other.

Even if the Middle East conflict were to find a lasting peace soon, energy prices are likely to stay elevated due to the backlogs and damage to facilities. This could feed into a global demand slowdown.

In the face of higher energy prices, equities have been strong and outperformed government bonds. Such performance, however, has been concentrated around the AI theme and has driven some extreme share price moves. All of this means that investors are having to adapt to a new investment landscape.

Tackling the new normal

In a world where the traditional 'rules of thumb' of investing and perceived safe havens are being challenged, investors are having to reassess their approach to portfolio diversification.

Even among the largest asset owners in the world, we are starting to see decision-makers think more dynamically and less dogmatically about allocating to specific asset classes in their large portfolios.

Increasingly, we are seeing investors with large pools of assets incorporating the principles of TPA (Total Portfolio Approach); looking at changes in fundamentals that can modify the underlying characteristic of each asset class and allocating based on relative attractiveness rather than fixed allocations.

For example, with mounting levels of government debt in developed countries, should developed market bonds still be considered a 'risk-free' asset? Even US Treasuries have, arguably, lost their safe haven status. And consider the traditional correlation between equities and bonds where equities would suffer at times of heightened geopolitical risk while bonds would benefit. This relationship has, at least for now, broken down.

One thing is clear, the rulebook has changed...or perhaps we have done away with set rules altogether.

Opportunities in the AI theme

Meanwhile, extreme price moves in equity markets, where stocks can rise several-fold over a matter of weeks, and potentially drop just as quickly thereafter, have become a feature of markets this year. Whether this is due to fast-moving narrative-driven strategies or an increase of active retail participation in equities, it is creating some meaningful price dislocations.

Some stocks that the market has connected with the AI theme, either because it views them as beneficiaries, or because it believes their businesses could be undermined by advancements in AI, have seen extreme price reactions. There are pockets where stocks have reached excessive valuations, and areas where we've seen, what we consider to be, unwarranted share price falls.

This dichotomy means that there is significant opportunity for active investors to rotate exposures within the AI theme – not only within the technology sector but also expanding to stocks outside of technology that are likely to see their businesses improve thanks to the use of AI. These are companies across different sectors, including energy, industrials, healthcare, finance and even consumer.

One area where we are currently finding attractive opportunities is among the software and services names caught up in the so-called 'SaaSocalypse' earlier this year, which saw perceived 'AI losers' selling off amid concerns around AI's impact on incumbent business models. While some companies are likely to lose the AI race, others will be able to successfully integrate AI agents as a feature of their platform, rather than being replaced by them.

“there is significant opportunity for active investors to rotate exposures within the AI theme”

Risk, reality and resilience

While the latest earnings season has, on balance, been robust, there is more than one scenario ahead where the world will have to face higher energy prices well into 2027. Even in the event of a lasting peace in the Middle East, the damage to energy infrastructure and the time it will take to clear the backlog is likely to keep energy prices elevated and weigh on global demand.

These risks are yet to be fully priced in by equity markets, and there's a risk that optimism is leading to complacency. When times are good, and indices keep hitting new highs, there is little appetite for taking stock. However, at some point, investors' animal spirits may be tempered by reality.

This doesn't mean that we should all panic and run for the exits. We've all learnt that if we miss the rebound in markets after a drawdown, we can miss out on significant returns. Instead, we need to make sure that we select our investments taking into consideration their resilience to higher energy prices and to a slowdown in discretionary areas of demand. Let's also not forget that some companies thrive in a weakening economic environment as they offer better value-for-money products and services to their clients.

Stay invested, adapt and take active charge of your portfolio

While we are mindful of the potential risks and challenges ahead, we have learnt the perils of being 'all-in' or 'all-out', and the importance of having balanced views. We appreciate that, even in difficult times, exceptional companies are still able to achieve exceptional results. While it is not all plain sailing, we believe this is a good time to be an active investor.

In the current environment, being exposed to the market at an index level, where market cap is concentrated in a small number of stocks (50% of market cap in the S&P 500 Index is concentrated in only 24 stocks¹), exposes portfolios to outsized moves by a few names, should these sell off. An active approach allows for a more selective choice of the companies that we believe will be the winners of the structural changes we are witnessing at the moment.

¹Source: Bloomberg, 17 June 2026.

We see opportunities globally where price dislocations are creating attractive entry points, not least due to the increased dispersion of returns both across and within sectors – return dispersion for stocks in the MSCI AC World Index is trending above its 10-year median.²

If we look at the US market alone, year-to-date, 255 stocks in the S&P 500 Index have outperformed the median return of the so-called Mag-7 stocks³. So there are attractive opportunities to be found across sectors and regions for active investors who dig a little deeper beyond the headline indices.

Structural themes

Longer term, there are a number of themes that we believe have enduring structural tailwinds, and are offering attractive investment opportunities, areas where capital is destined to flow for the foreseeable future. These include Infrastructure, the Low Carbon Economy and Innovation (with AI as the key enabling component). The current conflict in the Middle East has brought all three of these to the fore.

Importantly, these are not all mutually exclusive themes. We only need to think about energy security (which in Europe will coincide with the expansion and optimal utilisation of low carbon energy sources), along with rampant data centre build-out to support AI-driven demand, and the energy transmission/grid capability required to support this.

Investment in both physical and digital infrastructure is needed across many areas to meet current and future demand – in areas such as communications, transport, utilities, energy, education and healthcare to name a few.

We remain alert to both the risks and opportunities that the shifting macroeconomic and geopolitical landscape is creating, while focusing on where we can add the most value; discerning stock selection and fully understanding the growth drivers and exposures of the underlying companies we invest in. However the rulebook gets re-written, generating alpha in this environment requires a combination of sticking to well-proven investment processes, and adapting to what we believe are structural changes unfolding.

²Source: M&G, 17 June 2026. 3m rolling average stock return dispersion relative to 10-year median.

³Source: M&G, Bloomberg, 17 June 2026. Analysis based on returns of constituents of the S&P 500 Index. Top stock bands defined by absolute returns year to date. The Mag 7 are Alphabet (Google), Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla.

CIO Perspective: Global forces, selective opportunities

Andrew Chorlton,
CIO, Fixed Income

Key takeaways

- Positive real yields mean fixed income could play a genuine role in portfolios as a source of growth and return.
- Inflation remains the key complication but the dispersion created by divergent central bank paths, fiscal positions and inflation dynamics create a compelling opportunity set in government bonds.
- Credit spreads remain historically tight but dispersion across sectors and issuers is increasing, creating opportunities for active managers with the capability for careful credit selection.
- We believe both emerging market debt and Asian fixed income can provide diversification and positive growth momentum against an uncertain macroeconomic backdrop.

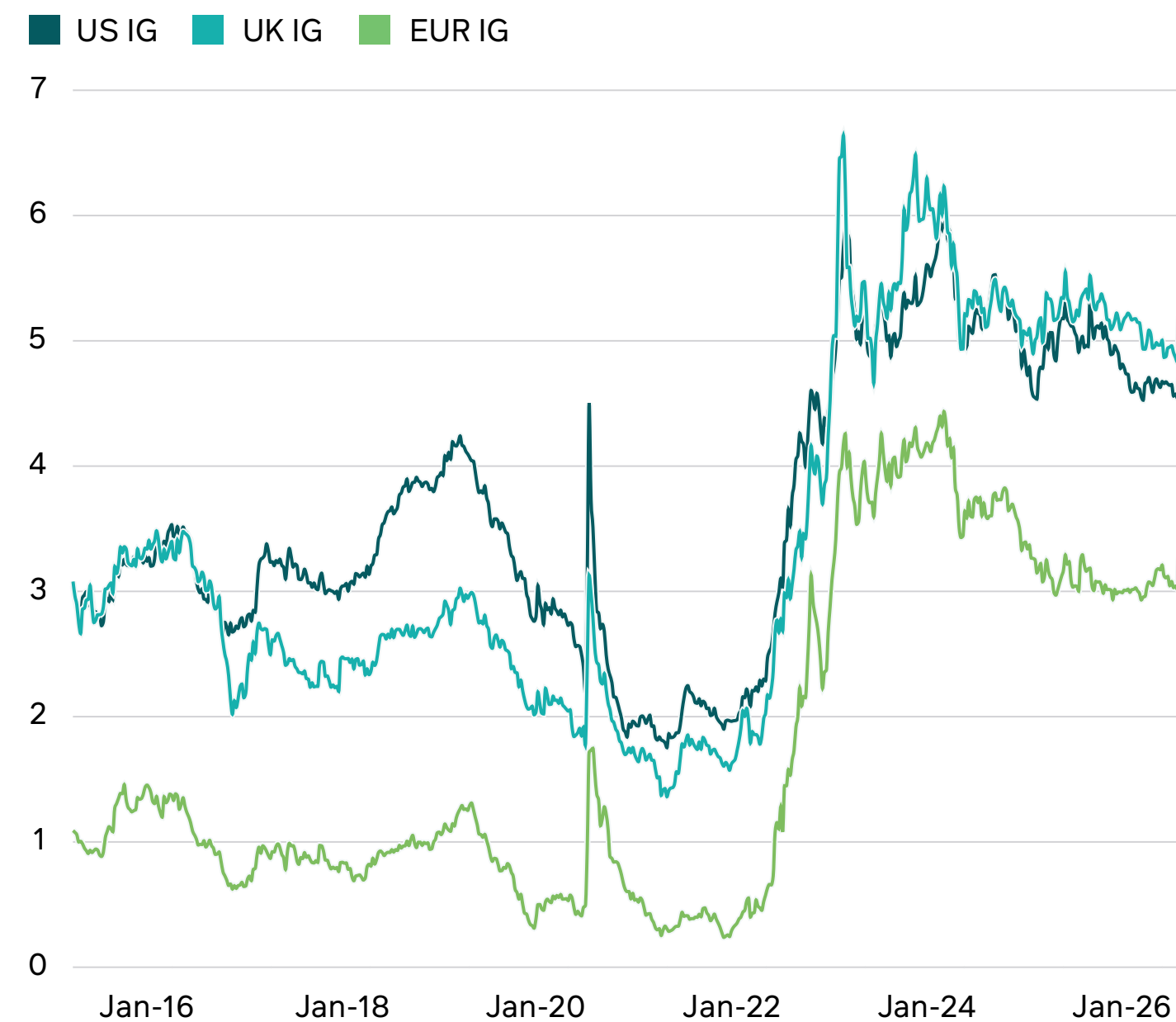
The real (yield) advantage

The positive outlook for fixed income going into the second half of the year is underpinned by one key factor: the return of the positive real yield. In our view, this is a meaningful shift from the regime investors became used to in the years after the global financial crisis, when yields were compressed and fixed income offered far lower returns. Positive real yields, the return adjusted for inflation, mean fixed income could once again play a genuine role in portfolios as a source of growth and return.

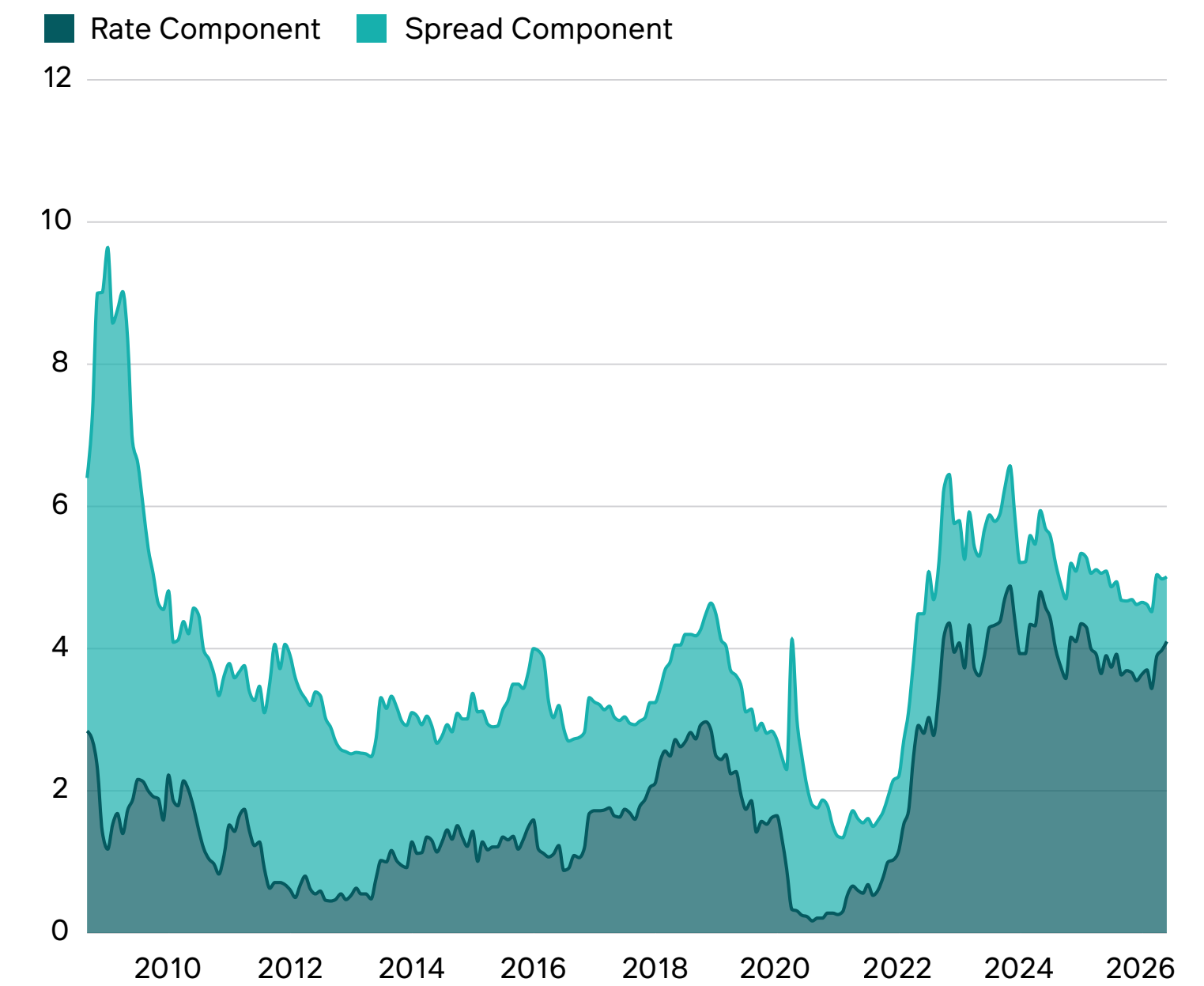
The market has spent much of 2026 preoccupied with inflationary fears as a result of rising commodity prices due to the war in Iran. There has been an expectation that it will play out akin to the inflationary bout following the 2022 Russian invasion of Ukraine. However, today's starting point is significantly different. All-in yields are currently attractive across many parts of the market. But investors need to be clear where that yield is coming from; much of the current opportunity sits in the rates component, rather than in credit spreads.

From a yield perspective, the entry point appears good

Elevated Yields with reliable income (Yield to maturity, %)



Investment Grade: Yield components - 5 year treasuries and credit spread (%)



Source: Bloomberg, ICE BoA Indices, 30 April 2026. Information is subject to change and is not a guarantee of future results.

This has created a more nuanced environment, where investors need to be selective, valuation aware and disciplined about where they are being paid to take risk. We are constructive on fixed income, but not indiscriminately bullish.

Inflation and the opportunity set

Inflation remains the key complication. The recent rise in short-dated inflation expectations show how quickly markets can reassess the outlook when energy prices, geopolitical developments and supply shocks re-enter the picture.

Against this backdrop, central bankers are in a difficult position; cutting rates too early would risk undermining central bank credibility. The experience of 2022 is still fresh, and policymakers are unlikely to want to repeat the mistake of reacting too slowly to inflation pressures and allowing expectations to become embedded at higher levels. We believe that central banks will likely err on the side of caution.

Recent years have shown that investors have tended to expect lower interest rates than those that have been delivered by central banks. For the remainder of 2026, we believe the opportunity lies not in making a large directional call on rates, but in using the dispersion created by divergent central bank paths, fiscal positions and inflation dynamics.

Government bonds remain central to the opportunity set. While there are fiscal and macroeconomic risks, they are largely priced in, while higher sovereign issuance, more attractive yield levels and greater dispersion between markets create a richer environment for active managers.

Investors should focus on relative value, curve shape and cross-market opportunities. We see scope to move up in sovereign quality without necessarily sacrificing yield. Markets such as Australia, Norway and New Zealand are examples of where fiscal strength and curve opportunities can combine attractively.

“Investors should focus on relative value, curve shape and cross-market opportunities.”

Japan is also interesting again. For many investors, this is the first time in their careers that Japanese rates have offered a compelling opportunity, helped by a much steeper curve and attractive long-dated yields.

While short-term inflation expectations have risen, longer-term expectations have been more stable, suggesting markets may be underestimating the risk that inflation proves more persistent in the long term than expected. Clearly in this environment, inflation protection deserves renewed attention. In contrast to 2022, positive real yields provide a supportive backdrop for inflation-linked bonds.

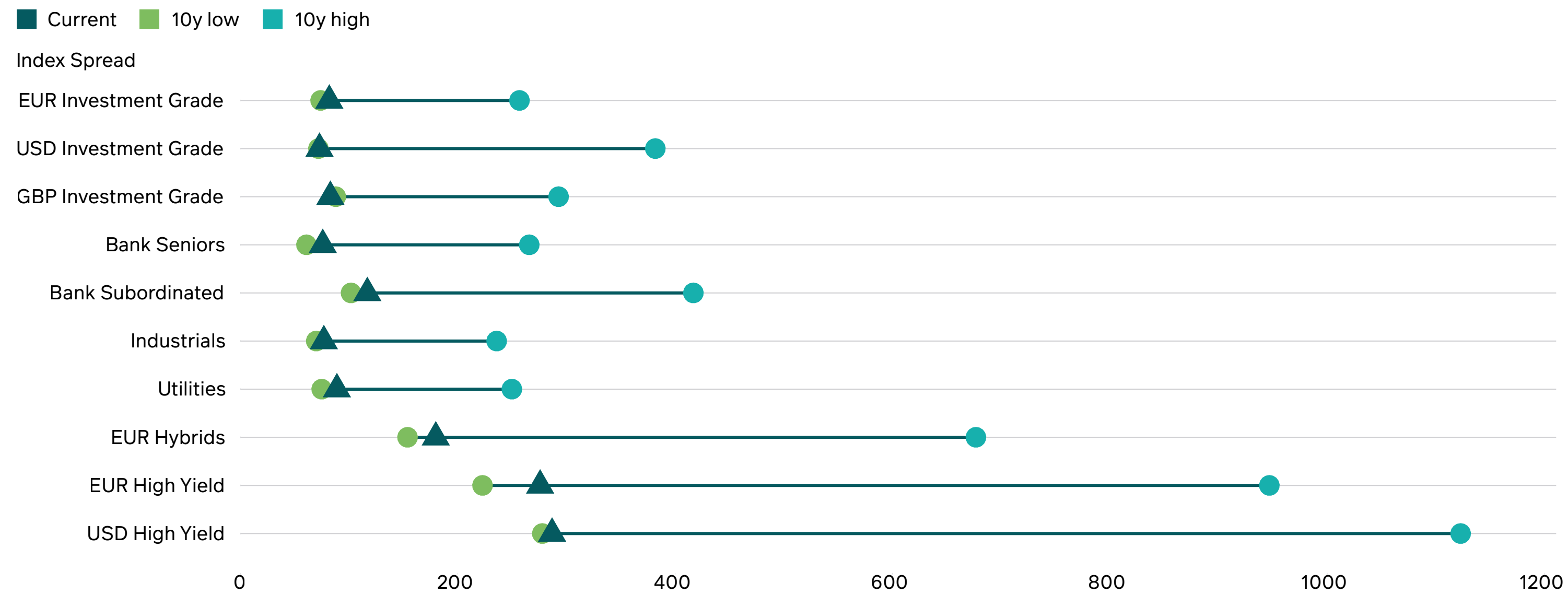
However, implementation matters. Inflation protection should not be treated as a blunt allocation. Duration, yield curve exposure, credit risk and the mix between nominal and inflation-linked bonds all need to be considered.

Credit markets require caution and discipline

Credit spreads remain tight by historical standards. That does not mean investors should avoid credit altogether, but it does mean margin for error is limited. Spread compression has meant that the opportunity cost of moving up in quality is low. It is important to remain invested, but with discipline. This means we can earn income today, preserve resilience if spreads widen and have the flexibility to add risk when valuations become more attractive. It also means resisting the temptation to try to time credit markets, because spread widening can happen very quickly and it is difficult to know in advance where the wises will be or how long they will last.

Global credit valuations

Credit spreads are uniformly expensive, relative to 10-year history



Source: M&G, Bloomberg, index spreads, 30 April 2026.

Meanwhile, dispersion across sectors and issuers is increasing, creating opportunities for active managers with the capability for careful credit selection. This is evident in the rapid growth of tech sector issuance. With more than \$370 billion of US sales of AI debt this year,⁴ selectivity is required.

⁴Bloomberg, 'AI bubble is coming to credit markets', (Bloomberg.com), June 2026.

Emerging market debt – a structural allocation?

Going forward, we believe emerging market debt (EMD) should increasingly be viewed as a structural allocation, not simply a tactical trade.

Despite the ongoing geopolitical volatility and resurging inflationary threat thus far in 2026, EMD has remained resilient. The asset class is supported by stronger growth prospects, better demographics, improving policy credibility and attractive all-in yields. As a result, the volatility between emerging and developed market debt has converged. Given higher yields, improving fundamentals and comparable volatility, there is a strong strategic case for EMD going forward.

The growing opportunity set in Asian fixed income

Asian fixed income remains an important part of the global opportunity set. The region benefits from structural growth, improving market depth and a growing investment grade universe. It can provide a potentially defensive way to access income and diversification in a more uncertain macro environment. However, Asia should not be treated as a single exposure. Investors need to distinguish between countries, sectors, currencies and credit quality.

Conclusion

This is an environment where active management matters. Fixed income offers a far better starting point than it has for many years, in our view, but the opportunity set is complex. Investors need to separate income from spread risk, nominal yield from real yield, and broad market exposure from genuine relative value.

CIO Perspective: Selectivity defining private markets in 2026

Emmanuel Deblanc,
CIO, Private Markets

Key takeaways

- Broad based, if uneven, advances across private markets asset classes.
- Despite the noise, private credit remains resilient with manageable pockets of stress.
- Secular trends presenting opportunities in Infrastructure.
- Private equity secondaries offering up a path to private equity liquidity.

The recovery continues

Private markets entered 2026 in a more constructive position than many may have anticipated a year ago. Transaction activity is improving, and financing markets have remained broadly stable notwithstanding the geopolitical environment.

Private markets are heterogeneous, and we believe a deep understanding of the underlying asset class is key to investors understanding where opportunity and risk actually lie.

Private credit proving its resilience

Looking at individual strategies, private credit continues to prove resilient. The structural tailwinds for the asset class remain intact as continued bank retrenchment, and a steady appetite for income driven floating-rate assets, both provide strong support.

Much has been written about perceived risks around private credit this year, prompted by some high-profile defaults

and redemptions from Business Development Companies (BDCs) in the US. While some risk has become more visible, this has been concentrated and, at this stage, there is no reason to suggest it will become systemic. Investors should be alert to differences even within sectors such as software, where there is dispersion between companies vulnerable to AI and those that are not.

Default rates have risen slightly, but more in the US than in Europe. While conscious of complacency, these defaults have largely been 'soft' credit events i.e. payment-in-kind (PIK) switches, maturity extensions etc. The defensive nature of private credit, with senior status in the capital stack and covenant protection, provides security in uncertain times. The closer relationship between lenders and borrowers in private contexts allows for early warning and engagement on potential financial stress enabling remedial steps to be taken and defaults avoided. European direct lending is thus broadly better placed, in our view – specifically the sponsorless segment with negligible software exposure and more creditor protection.

Infrastructure and inflation-linked assets to the fore

Heightened inflation risks and secular drivers including energy transition, the build out of the AI complex and de-globalisation have put the infrastructure opportunity into the spotlight. There is an estimated €12 trillion infrastructure investment need in Europe up to 2040¹, based on needs around digital infrastructure, transport resilience and social needs.

Inflationary pressures may also mean a higher for longer rates environment which may favour floating rate private credit asset classes, including asset-based financings, which are fast emerging as a home for capital seeking security and diversification from corporate credit. Infrastructure debt in particular is set up to satisfy the financing needs of today as well as provide investors with access to defensive assets with inflation-linked revenues and long duration stable cashflows, in our view.

¹Boston Consulting Group. 'Infrastructure for a Competitive Europe', October 2025.

Alternative liquidity paths

Turning to private equity, the story is mixed. Yes, there has been an uptick in transaction activity, but it remains far below the levels seen during the ultra-low-rates era, in particular in the mid-market segment – the jumbo deals in the US blurring the picture. Sponsors have also started to return, encouraged by greater financing availability and better visibility on earnings. But sentiment has been tempered by episodes of macro volatility and a rates environment with risks to the upside.

The IPO market is core to private equity, being the primary exit route for private equity to realise investments, make distributions and recycle capital. Following on from last year, there has again been continued improvement in activity, but the ‘exit backlog’ remains large and is hampering GPs from returning capital.

In response, private equity managers are resorting to alternative liquidity mechanisms, such as continuation vehicles and GP-led secondary processes. The secondaries market has indeed continued to expand in 2026, having

already surpassed a record volume of \$225 billion in 2025². Secondaries are becoming an increasingly core part of investors’ liquidity management toolkit, as well as being a source of opportunity in its own right.

The rise in alternative liquidity tools is a natural part of the maturing of the private markets complex and opens up paths to greater capital recycling and, with it, further investment into the space.

Vigilance and selectivity key for 2026

Looking over the next 6 months, there are several factors which likely will set the direction for private markets. The first is the path for inflation, policy rates, and credit spreads. Even modest easing would help with valuations, debt affordability, and exit activity. More likely though is the ‘higher-for-longer’ scenario which would reward cash-generative assets, those with inflation revenue linkage and conservative capital structures.

The second important factor will be the increased influence policy and geopolitics are set to play in determining private

markets outcomes: trade fragmentation, industrial policy, defence spending and domestic infrastructure priorities will shape sector opportunities with clear implications across private market strategies.

A final observation would be that markets are increasingly discriminating not only between different private markets assets, but between private market managers. In an environment defined by slower fundraising, greater underwriting complexity, scale and sourcing advantage, the gap between top-tier and weaker managers is going to widen further. And with liquidity remaining central, investors are likely to favour managers able to show credible distribution pathways and flexibility across primary, secondary and co-investment strategies across a spectrum of private markets assets.

Overall, for the remainder of 2026, we believe private markets should remain attractive, but not uniformly so. The rest of this year is likely to reward selectivity over beta, liquidity discipline over mere deployment, and strategic exposure to structural themes over reliance on cyclical recovery alone.

² JP Morgan, ‘Private market secondaries are booming amid an IPO slowdown’, April 2026.

Groundhog Day for real estate: A recovery paused, not reversed

Richard Gwilliam,
Head of Property Research

Key takeaways

- Recovery remains intact but is progressing more slowly as uncertainty continues to weigh on market momentum.
- Structural undersupply is supporting tighter rental markets and helping sustain income resilience.
- Market performance is becoming increasingly differentiated, with opportunities emerging on a more asset specific basis rather than through broad market dislocation.

The sense of déjà vu in real estate markets is hard to ignore. Just as recovery begins to gain momentum, another external shock intervenes. Today, geopolitical tensions centred on Iran are reinforcing uncertainty and again slowing the pace of improvement.

For real estate, the pattern is familiar. Transaction activity softens, pricing becomes more contested and sentiment turns more cautious. The optimism that characterised the start of the year has moderated. Recovery has slowed, but importantly, it has not reversed.

What stands out is how this uncertainty interacts with underlying fundamentals – shaping yields, influencing values and revealing areas of resilience within the asset class.

“The recovery was always expected to be primarily income-driven, with only limited scope for yield compression, and the current environment reinforces that dynamic.”

Yield pressure against a resilient income backdrop

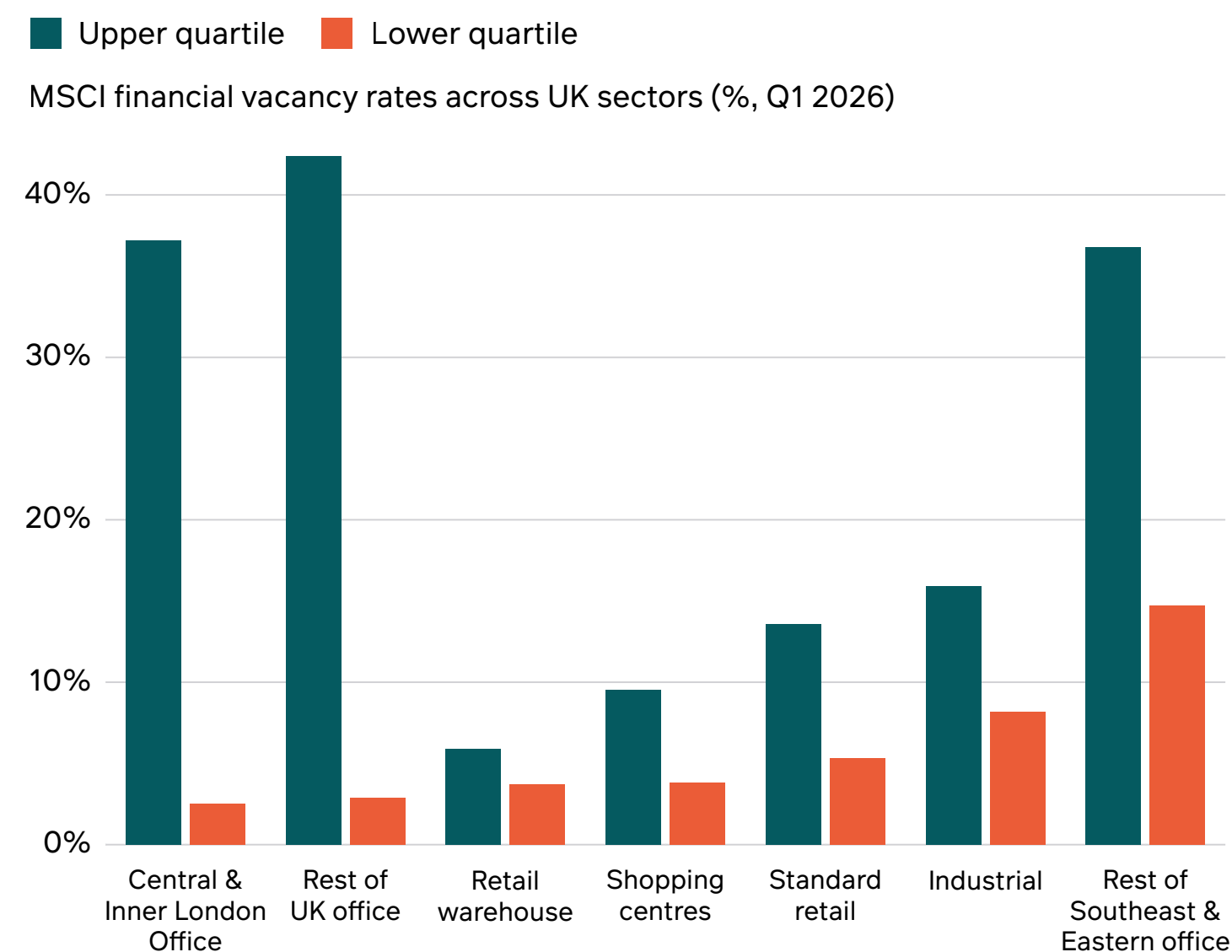
Higher borrowing costs and elevated bond yields remain a key constraint. The recovery was always expected to be primarily income-driven, with only limited scope for yield compression, and the current environment reinforces that dynamic. As a result, capital value recovery remains gradual.

Even where rental demand is robust, the interest rate environment remains a dominant influence on pricing. Investor behaviour has become increasingly selective, and what was expected to be a steady recovery is instead slower and more uneven. If geopolitical uncertainty persists or risk-free rates remain elevated, some modest further yield softening is possible, with implications for values.

At the same time, underlying fundamentals are beginning to assert themselves. Prolonged underdevelopment has constrained supply, with activity in some regions at historic lows – US office development at an all time low and European starts at their weakest since 2010⁵ – leaving a subdued pipeline, particularly in living, prime retail and high quality offices.

That supply story is now feeding through more clearly into occupier markets. Vacancy rates are stabilising or falling, while demand is increasingly concentrated in higher quality assets. Taking European offices as an example, this is reflected in leasing – with Grade A space accounting for a record 52% of take up in 2025 – and availability, where vacancy has tightened to 3.3% for Grade A space and 2.8% in core locations⁶.

Occupier demand remains firmly focused on higher quality assets, driving stark vacancy differentials



Source: MSCI UK Quarterly Index, Q1 2026.

Notes: Lower quartile represents lower yielding, higher quality assets; upper quartile represents higher yielding, lower quality assets.

Tight rental markets are supporting income resilience, with prime rents rising across most sectors globally. ‘Beds and sheds’ continue to benefit from structural tailwinds, though growth has moderated from recent peaks. In offices and retail, strong occupier demand for scarce top quality space is driving healthy prime rent increases despite negative sentiment⁷. Income streams across the sectors are therefore holding up well, supporting capital values. If current conditions persist and continue to limit new supply, this could underpin further rental growth over the medium term.

⁵ JLL, ‘Global Real Estate Outlook’, (jll.com), December 2025.

⁶ Cushman & Wakefield, ‘European Offices: Shrinking Supply’, (cushmanwakefield.com), 2026.

⁷ PMA, April 2026.

A more differentiated market is emerging

As these dynamics unfold, the market is becoming less uniform, with performance increasingly driven by asset-level characteristics such as quality, location and leasing risk.

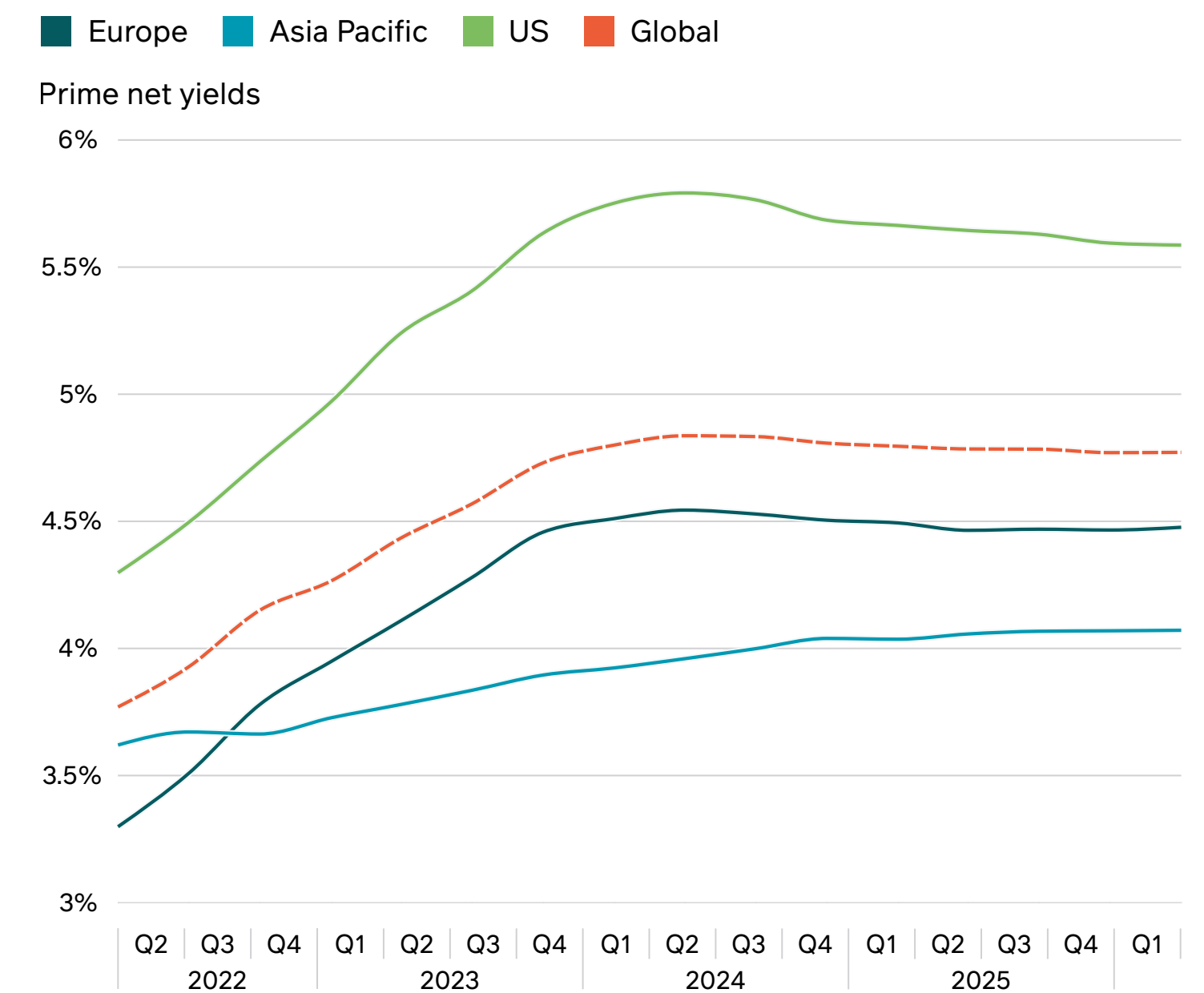
Assets with stable, predictable cash flows appear better placed. Living sectors illustrate this, supported by their defensive characteristics and a structural supply -demand imbalance in most markets enabling occupancy to be sustained with a relatively resilient ability to capture rental growth.

Elsewhere, the picture is more mixed. Retail and office markets can appear attractively valued, but performance remains uneven. Stronger assets in the right locations continue to attract interest, while weaker assets lag. The divide between prime and non-prime remains pronounced, reinforcing a market adjusting at different speeds.

Opportunity within constraint

The current environment is also shaping how opportunities emerge. A more cautious investor base has reduced competitive intensity, leading to more negotiable pricing, longer transaction timelines and softer volumes – with global activity down 5% in Q1 2026 after two quarters of growth⁸.

Prime yields have now largely stabilised across all regions, indicative of a more balanced investment environment



Source: PMA, Q1 2026.

⁸Savills, 'Global Capital Markets, Q1 2026', (pdf.savills.com), April 2026.

At the same time, there is little indication of widespread forced selling. Across many markets, pricing appears broadly stable, leaving opportunities more situational and driven by asset-specific factors and investor positioning.

Limited supply adds an important dimension. While near-term pressures may weigh on capital values, they also reinforce conditions for future rental growth, supporting real estate's role as an income-generating asset with inflation-protection characteristics.

The investment landscape is also broadening, with activity expanding into real estate debt and more operationally intensive strategies, reflecting a market evolving across both sectors and the capital stack.

Overall, the recovery appears dampened rather than derailed. Average capital values in most global real estate markets bottomed out in 2024, but the rebound since has been underwhelming. It seems likely that a broad based acceleration in the cyclical upswing will take longer to materialise. Uncertainty continues to shape yields and pricing, but rental fundamentals remain supportive, particularly where supply is constrained.

Rather than moving in unison towards a clear turning point, the market is adjusting gradually and unevenly. Looking ahead, the focus should shift from timing recovery to understanding how these structural forces shape outcomes for assets over the cycle.

“Uncertainty continues to shape yields and pricing, but rental fundamentals remain supportive, particularly where supply is constrained.”



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