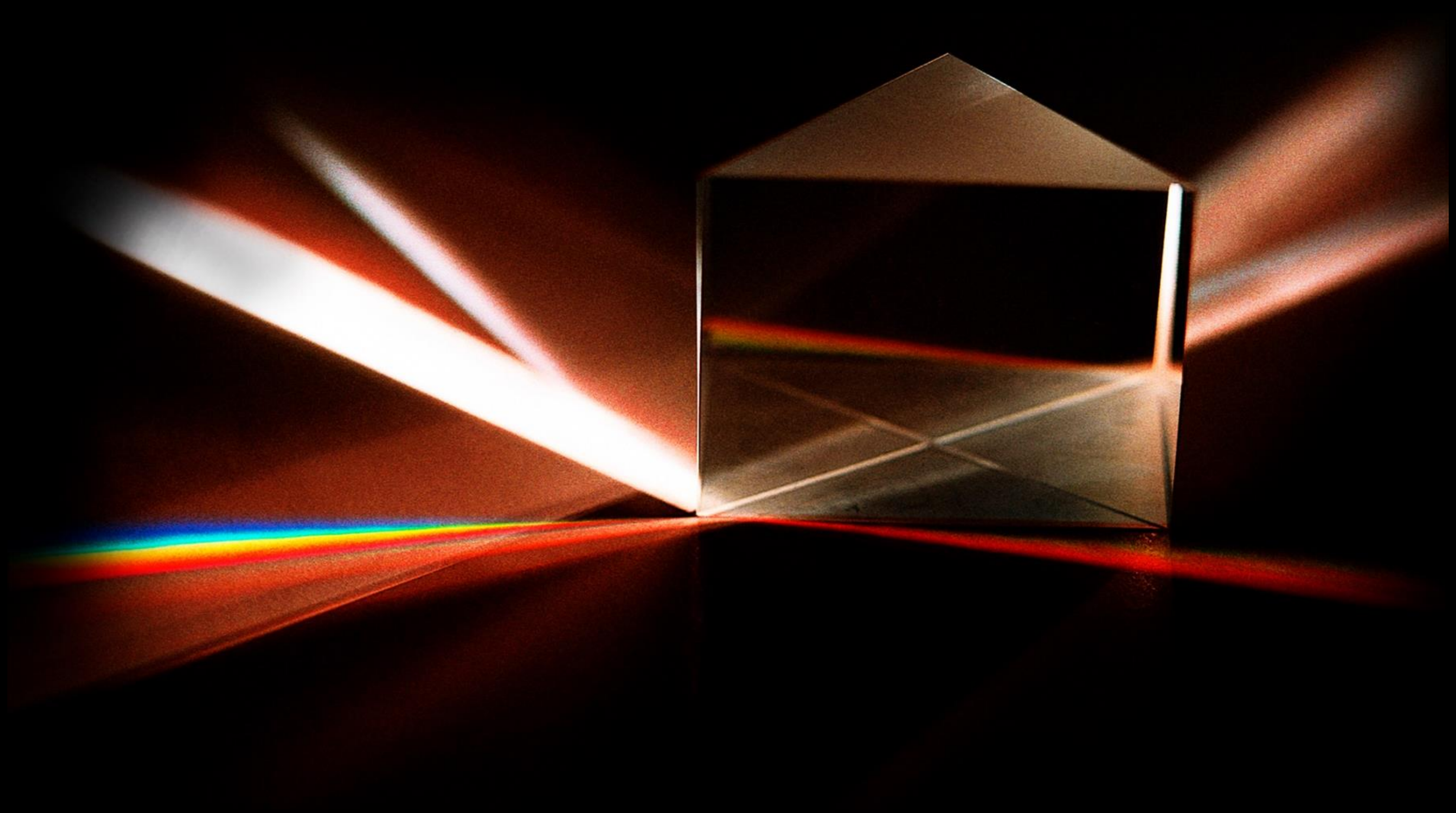
Private Markets View

2025/26 Outlook

March 2025



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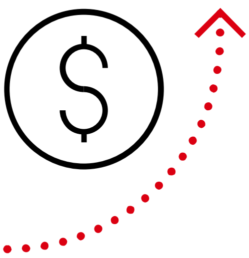
HSBC Asset Management

Q2

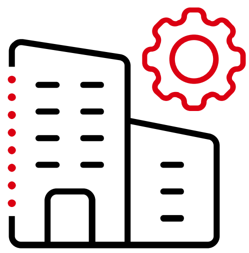
Strategy Snapshot

Our key perspectives for each Private Markets Strategy

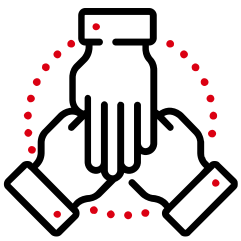
Private Credit
Continued investor appetite for higher yields benefits private credit managers



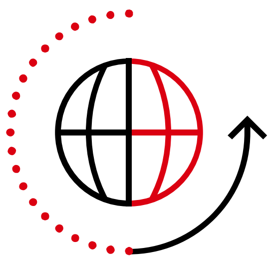
Real Estate
Ample opportunity for capital growth despite higher rate picture



Private Equity
Potential for deregulation supports Private Equity allocations



Infrastructure
Diverse global prospects remain, especially in Europe



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Source: HSBC Asset Management

Proposed Strategy Views

In our view, a wide opportunity set for Private markets strategies is still present in the market. Within the sub-sector of Private Credit, we continue to hold a '**Positive**' outlook, driven by the pertinent investor demand for higher yields and stable income.

We maintain our stance on Private Equity at '**Neutral Positive**' where the expected revival in deal volumes has commenced. With rate cuts on the horizon, this should be a tailwind for sponsors and M&A markets more broadly. Overall M&A activity should also benefit from de-regulation under new political regimes.

In Real Estate, we continue to hold a '**Positive**' outlook for the asset class, with the expectation of an increase in capital values over 2025 being underpinned by the potential for growing incomes. From Cloud computing to Senior housing, several sectors also contribute to this favourable outlook.

Lastly, the outlook for the Infrastructure sector continues to offer a variety of opportunities for investors. US uncertainty opens investment prospects globally, but especially in Europe. As such, we remain optimistic about the asset class, holding a '**Positive**' outlook.

Evergreen Asset Class	Negative	Neutral / Negative	Neutral	Neutral / Positive	Positive
Private Credit					●
Private Equity				●	
Real Estate					●
Infrastructure					●

● Q1 2025

● Q2 2025

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Note: The change in colour from black to red would indicate a change in view between the quarters.
Source: HSBC Alternatives, as of March 2025.

Our Asset Class Views

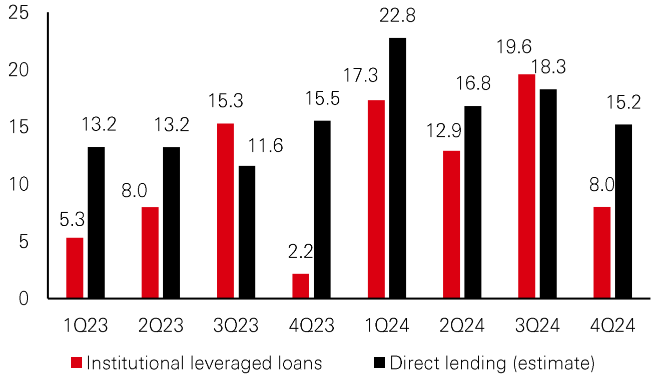
Private Credit
Positive

Review of Q4

Private credit deal-making gained momentum in Q4 2024, outpacing the levels seen in Q3 with much of the activity driven by refinancings and add-on financings to support portfolio company growth. M&A activity also picked up modestly in late 2024, aided by improving equity valuations and record private equity dry powder, though sponsor-backed M&A remained below historical peaks.

Direct lending maintains the upper hand

New-issue loan volume financing LBOs ($bn)



Source: HSBC Alternatives, LCD Pitchbook

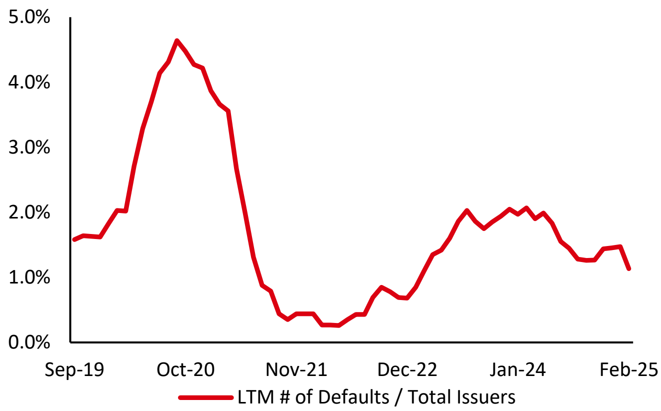
Spreads are still under pressure but appeared to stabilise during Q4, following a modest tightening earlier in the year. Higher base rates kept all-in yields (in USD) in the low double digits for many direct lending deals.

Default rates edged up slightly from Q3 but remain below historical averages. Many borrowers are managing elevated rates through sponsor support, covenants amendments, or short-term solutions like 'Paid-in-Kind' (PIK) toggles facilitating underlying business growth and avoiding technical defaults.

Refinancing structures often included amend-and-extend provision or PIK features to conserve borrower liquidity. The use of PIK interest continued to rise, though outright payment defaults remain limited. The trailing 12-month default rate for leveraged loans ended Q4 at 1.5%, a slight uptick from 1.3% in Q3. The usage of PIK can signal increased risk of default however when issued prudently as part of a broader plan, PIK can buy time for a borrower to grow into their business plan without immediate default. Furthermore, recent occurrences of longer loan tenors, amendments, and debt-to-equity swaps are often being utilised opportunistically by managers to realise upside and provide rescue financing to protect fundamentally strong business models going through headwinds.

Default rates remain resilient

Leveraged Loans Index Default Rates



Source: HSBC Alternatives, LCD Pitchbook

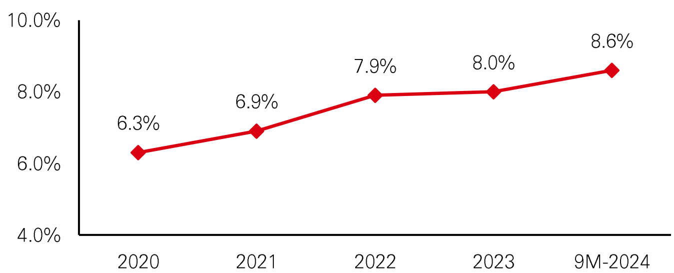
12-month outlook

Private credit demand remains strong as investors seek higher yields and stable income, even in a 'higher for longer' rate environment. Spreads have slightly compressed from 2023 peaks due to competition among lenders, though they continue to offer a premium over public markets. Default rates are rising gradually but remain in the low single digits, thanks for ongoing sponsor support and disciplined structures. Many sponsors are opting for amend-and-extend deals or PIK toggles to navigate tightening credit conditions and preserve liquidity.

Over the next 12 months, the market is expected to see only modest increases in defaults, with proactive refinancing tactics continuing to mitigate credit issues. Potential interest rate cuts in late 2025 could support borrower cash flows, while robust fundraising momentum ensures a steady supply of private credit capital. Overall, experienced managers with flexible strategies, prudent underwriting, and active portfolio monitoring should continue to capture attractive risk-adjusted returns.

PIK Income has continued to rise

Fitch-Rated BDCs – PIK Income/Interest & Dividend Income



Source: HSBC Alternatives, Fitch Ratings

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Our Asset Class Views

Private Equity

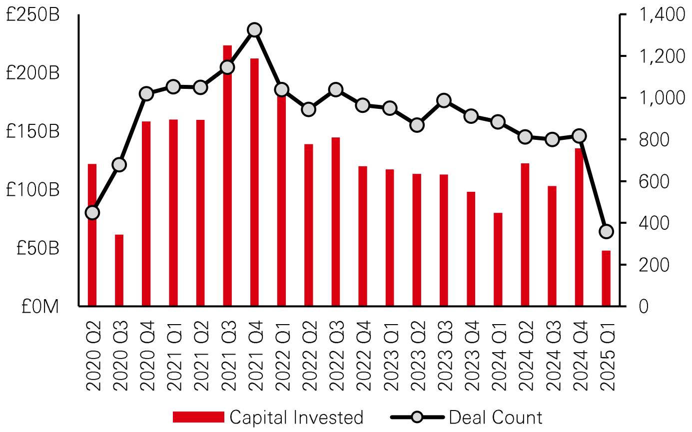
Neutral/Positive

Review of Q4

We are currently witnessing a recovery in private equity deal activity. Improving sentiment is translating more directly into deal activity, synonymous with increased exits. M&A and IPO activity are set to increase, supported by softening interest rates and inflationary pressure, driving more favourable conditions. Capital invested from Q4 2023 to Q4 2024 increased by +25% in value, supported by the Fed cutting rates by 50 basis points in September 2024 and then 25 basis points in both November and December 2024.

Capital investment has increased year-on-year

Capital Invested (LHS), Deal Count (RHS)

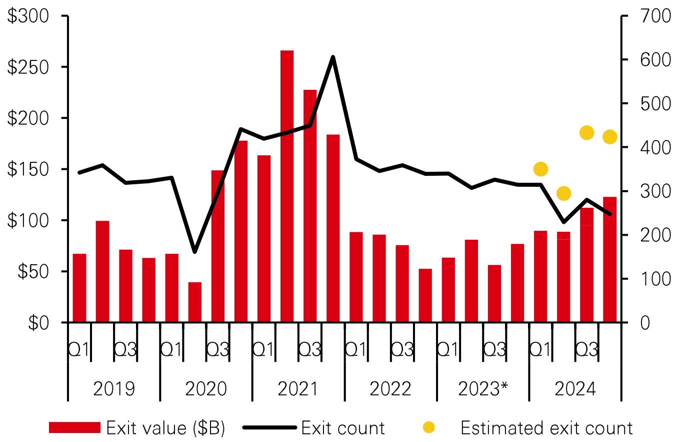


Source: HSBC Alternatives, Pitchbook

With an estimated 394 exits for an aggregate of $107.1 billion in Q3 2024, exit activity appears to be on an upward curve into recovery. Both exit count and exit value saw QoQ growth and greater improvement on a YoY basis.

Upward trajectory for exit activity

Exit Value (LHS), Exit Count (RHS)



Source: HSBC Alternatives, Pitchbook

Distributions exceeded capital calls for the first half of 2024, putting 2024 on track to be the first full year since 2015 where Private Equity LPs saw net positive cash flows. This suggests that persistent demands from investors for liquidity were proactively addressed by GPs. This resurgence was powered by a much more benign financing environment, the cost of financing a buyout has declined.

12-Month Outlook

US rate cuts should be a strong tailwind for sponsors and the M&A markets more broadly, and in supporting confidence around macro conditions and target valuations.

There are several potential tailwinds and headwinds currently at play:

Tailwinds

- **M&A de-regulation** – Prospect of de-regulation under the new Trump administration (flexible approach to anti-trust remedies). De-regulation measures could result in increased M&A activity, leading to more exits.
- **Lower rate environment** – There is a possibility that rates could be cut later this year. Rates are currently held at a target range of 4.25% - 4.50% (this has been maintained since January 2025).

Headwinds

- **Tariffs** – Canada and Mexico – President Trump introduced a 25% tariff (as of 4th March) on a range of goods imported form these markets. A month-long reprieve has now been announced, suspending the tariffs. China – An additional 10% tariff was applied to Chinese goods (as of 4th February). As of 4th March, this increased to 20%. Tariffs are forecasted to elevate consumer prices in the U.S. Higher inflation could result in the Fed keeping rates higher for longer.
- **Tax cuts** – President Trump has proposed reductions in income taxes on Social Security benefits, tips and overtime pay. A lower tax rate environment could prove to be inflationary, de-incentivising Fed rate cuts.

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Source: HSBC Alternatives, Pitchbook, as of March 2025.

Our Asset Class Views

Real Estate

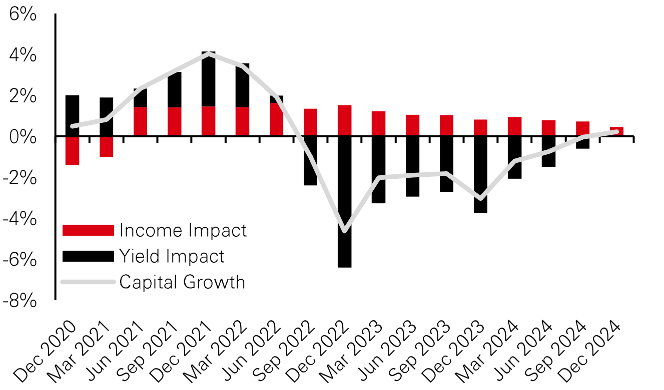
Positive

Review of Q4

According to MSCI data, following a global cumulative decline of 16% between Q2 2022 and Q3 2024, global real estate capital values edged up by 0.2% in Q4 2024 as property yields were stable whilst incomes grew. Investment activity increased by 31% in Q4 2024 compared with Q4 2023 as investors took advantage of stabilising interest rates and lower valuations. However, this momentum may have slowed in early 2025 as economic uncertainty relating to trade policy, inflation expectations and public spending has pushed up bond yields.

Uptick in capital growth rates

Decomposition of Capital Growth



Source: HSBC Alternatives, MSCI

Occupier fundamentals are being supported by a widespread decline in development activity, as rising costs have made new development uneconomic. The decline in new supply is most notable in the retail sector, which saw little new space being developed even in the years before the pandemic. Q4 2024 saw a continuation of stable leasing and further declines in vacancy rates, especially for neighbourhood retail with a non-discretionary grocery focus, supporting widespread rental growth.

Office sector vacancy rates were largely stable in Q4 2024, having risen across all regions since 2020. Vacancy rates remain notably higher in the US (and particularly the West Coast markets) than in Europe or Asia. Despite elevated overall vacancy rates, prime office rental growth persists as tenants continue to focus on high quality buildings in global gateway markets such London, Paris, and Tokyo. In the US, the Sunbelt office markets have been more resilient.

Logistics leasing remained subdued in many markets in Q4 2024 as tenants focussed on better utilisation of existing space, while a wave of new developments pushed vacancy rates higher. This has led to rents declining in the US and Canada in 2024 and rental growth slowing elsewhere.

Residential vacancy rates tend to be low and stable. Chronic under supply of new housing is a global theme and city populations continue to grow. Meanwhile, high interest rates sustain the relative appeal of renting over buying. The US Sunbelt multifamily sector is a notable exception as new supply continues to weigh on the ability of landlords to grow rents

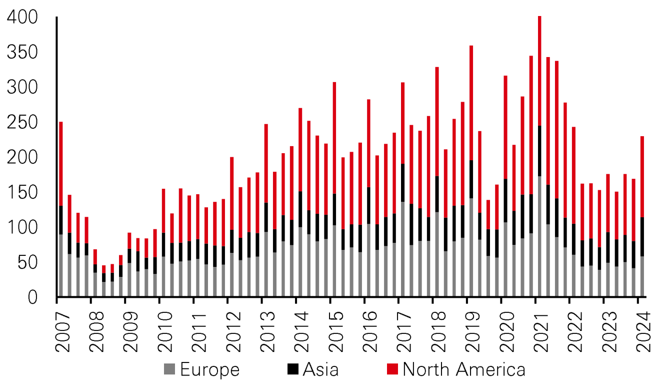
Non-traditional property sectors continue to deliver the strongest rental growth. Senior housing continues to benefit from ageing demographics, particularly in the US and Canada. Data centre leasing had a notably strong end to 2024, with demand from hyperscalers (such as Alphabet, Amazon, and Microsoft) growing in Asia and Europe, as those markets catch up with the US.

12-Month Outlook

The recent US trade policy announcements have stoked inflation concerns and fears of a possible economic slowdown. Despite the uncertainty, our base case is for capital values to grow in 2025, underpinned by growing incomes, rather than yield compression. Although the outlook for leasing is mixed, the widespread lack of development activity should support property fundamentals across sectors.

Global Investment Activity

Investment Volume ($bn)



Source: HSBC Alternatives, Real Capital Analytics

Investors are expected to continue targeting property types that are underpinned by long-term demand tailwinds such as urbanisation (urban logistics), demographic shifts (senior housing), and the rise of artificial intelligence (data centres).

Confidence in data centres was shaken in January 2025 when China's DeepSeek cast doubt on the need for the vast capital expenditures made by US tech companies.

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Source: HSBC Alternatives, MSCI, Real Capital Analytics, as of March 2025.

Our Asset Class Views

Real Estate

Positive

12-Month Outlook (continued)

However, cheaper AI is likely to expand use cases, ultimately boosting demand. Meanwhile, strong demand from cloud computing and the ongoing digitization of work (video conferencing), entertainment (streaming), and retail (e-commerce) remains steady. Persistent challenges in securing power connections also limit new supply, keeping upward pressure on rents.

Senior housing is expected to continue to be one of the strongest sectors for real estate investors, particularly in North America where the sector is most established. The growth of an over 80 age cohort with substantial housing equity, combined with a drop in new supply, has created the conditions for the sector to continue to perform well.

Though logistics sector fundamentals have notably softened, an inflection point is anticipated in 2025 as new supply dries up whilst leasing demand recovers, underpinned by e-commerce and supply chain adjustments. Moreover, significant rental reversion will continue to support income growth in the US, Europe, and parts of Asia (such as Australia) as in place rents are marked to market levels.

Source: HSBC Alternatives, Bloomberg, Real Capital Analytics as of December 2024.

Our Asset Class Views

Infrastructure

Positive

Review of Q4

Q4 saw continued steady performance by evergreen infrastructure funds, with annualised returns across the industry in the range of 8-12%.

Managers remain focused on digitalisation and electrification, two of the dominant investment themes of our time. Digitalisation is driving enormous demand for investment in data centres and networks. We continue to see a variety of opportunities to invest in data centre platforms which are seeking to generate explosive growth in capacity. We consider that these investment opportunities need to be reviewed carefully. There are a number of risks in large scale data centre development, including: securing permitting for ever larger sites; securing power availability in a manner that isn't seen to weaken the availability of power for the grid; risks to construction arising from contractor and labour capacity constraints and the potential impact of US tariffs on the price of steel and other building materials; contracting risk for any sites which are developed without having secured long term capacity usage agreements; and valuation risk on exit, particularly given the possibility that, in time, supply of data centre capacity may exceed demand.

Over the past twelve months, we have extended our investing focus into value-add infrastructure, while continuing to invest in the more traditional core and core plus markets. Much of our investment focus is on Europe and North America, although we also invest selectively in other markets, particularly in Asia. Our approach is very much on trend. A survey of Limited Partners by Infrastructure Investor found that 29% of LPs are intending to increase their investment allocation to value-add infrastructure in 2025, double that of any other infrastructure market sector.

The same survey provides a good perspective on the regional preferences of infrastructure LPs. North America and Western Europe are, unsurprisingly the most popular, with interest in developed APAC also showing some strength. All other regions have seen a decline in interest as investors seek safe jurisdictions for their infrastructure investments.

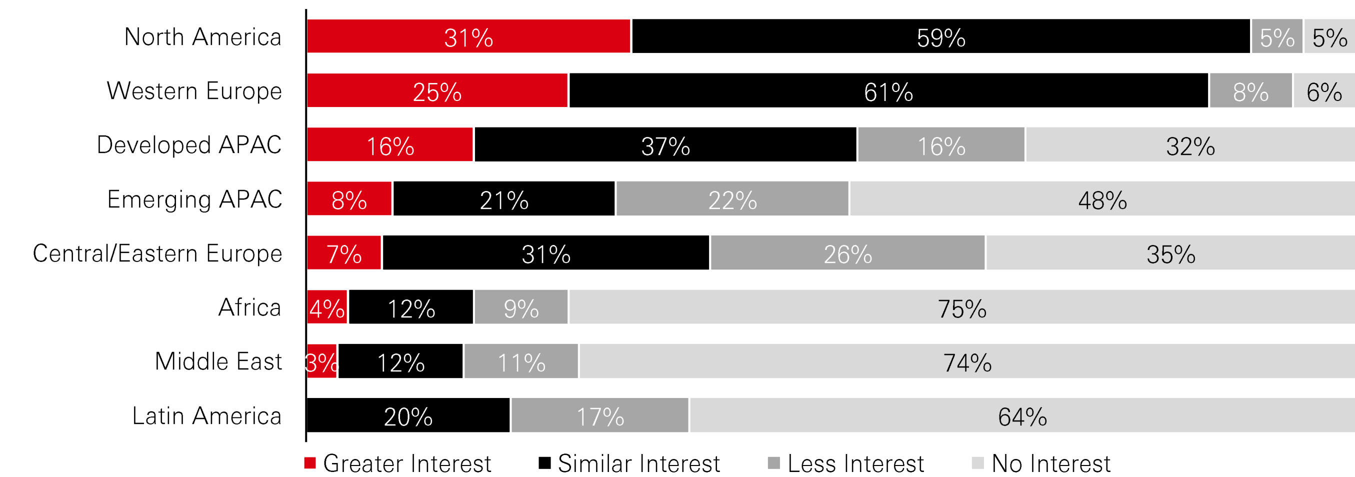
12-Month Outlook

The outlook for infrastructure remains dominated by the new US federal government. We see signs that this may lead to greater investor interest in European infrastructure, which can be seen as having a more stable policy environment.

We continue to monitor the policies of the Trump government and their impact on three aspects of infrastructure investing:

(i) Potential redrawing of the scope and value of tax benefits available under the Inflation Reduction Act and other Biden era policies. This could be driven by the President's own stated climate scepticism, by his fondness for the oil & gas industry, and by the desire of some Republicans to fund the continuation of the previous Trump government's tax cuts by reducing subsidies. We don't anticipate any tax benefits being removed from existing and in construction renewable energy projects. If tax breaks are removed for new renewable energy projects that may have some adverse impact on projected investment returns, but investment in this sector will continue to grow because onshore wind and solar are price competitive without tax breaks.

LP Regional Preference for 2025



Source: HSBC Alternatives, Infrastructure Investor

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Source: HSBC Alternatives, as of March 2025

Our Asset Class Views

Infrastructure

Positive

12-month outlook (continued)

What we have observed so far is that US offshore wind will see development activity significantly constrained by the refusal of the administration to grant permits for new projects. The sector will, however, remain strong in Europe and is set to grow in North Asia in particular. We also anticipate that US grants for new EVs will be removed. This will have some impact on the growth prospects for the EV charging infrastructure sector.

(ii) Tariffs: to the extent that tariffs on imports lead to greater onshoring of production in the USA this is generally expected to be positive for the energy sector as it can be another contributor to greater demand for power. Large and sudden tariff increases can lead to short to medium term disruption to supply chains and delays and cost increases for construction projects. In the 2022-24 inflation cycle, additional costs to build renewable power projects have ultimately been rebalanced by an increase in the prices available from purchasers of power. The effect of tariffs on redirecting trade flows could be adverse in some cases for fixed transport assets such as ports and toll roads, though on the whole both asset types will be positively correlated to US GDP growth;

(iii) Inflation: a general increase in tariffs could result in an increase in US inflation. That and the prospect of a growing US fiscal deficit may lead to the Federal Reserve keeping interest rates higher for longer. The recent inflationary and interest rate cycle has demonstrated that infrastructure assets tend to be positively correlated with inflation (because their income streams are often index linked) and robust to the interest rate cycle (because they often have long term, fixed rate financing).

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Source: HSBC Alternatives, as of March 2025

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- **Long-term Horizon** - Investors should expect to be locked-in for the full term of the investment, which is subject to extensions
- **No Capital Protection** - Investors may lose the entirety of invested capital
- **Unpredictable Cashflows** - Capital may be called and distributed at short notice
- **Economic Conditions** - Ability to realize/divest from existing investments depends on market conditions and the regulatory environment
- **Risk of Forfeiture** - Failure to make call payments could result in forfeiture of commitment, including invested capital, without compensation
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- **Reliance on Third-party Management Teams** - Underlying investments will be managed by various third-party management teams that will in aggregate determine the eventual returns for the investor, if any

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