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Economic Backdrop

The first half of 2026 was defined by a positive market environment interrupted by a short but volatile geopolitical conflict starting February 28 between the US and Iran that spiked energy prices and fear, though most markets quickly reverted to pre-conflict trends. Indeed, had one stepped away from the markets for March and April, most markets would have seemed steady. Annualized core inflation of 2.9% in May remained higher than the Federal Reserve's 2.0% target, while CPI including energy and food was 4.2% for the same period.¹ Comments from newly appointed Federal Reserve Chairman, Kevin Warsh, reduced expectations for Fed Funds Target Rate cuts in 2026, demonstrated an important degree of political independence, and foreshadowed changes in how the Fed communicates.² And while US equity markets have been concentrated since 2023 on those companies investing their earnings most heavily into Artificial Intelligence, the first half of 2026 reveals significant capital investment into AI via public debt, private debt, private equity, and private infrastructure.³

Public Fixed Income

Second quarter returns across US fixed income markets were positive, driven by a strong April that saw a swift re-embrace of risk appetite following March's pullback at the onset of the war with Iran. Healthy interest income earned across maturities and market segments helped to offset areas which experienced upward movement in market yields. The US Treasury curve flattened during the quarter as markets priced in the evaporating likelihood of a Fed Funds Rate reduction occurring in 2026. The 10-year US Treasury yield increased an additional 0.14% during the second quarter to reach 4.44% as of June 30.⁴ Meanwhile, the shorter end of the US Treasury curve as represented by the 2-year yield, increased 0.35% during the second quarter to reach 4.14% as of June 30. And the 30-year yield ended the quarter at 4.91%, despite moving above 5% for a few days early on in June.

¹ [Consumer Price Index News Release - 2026 M05 Results](#)

² [Federal Reserve issues FOMC statement](#)

³ Syntrinsic 2026 Mid-Year Capital Markets Sentiment

⁴ U.S. Department of Treasury: [Daily Treasury Rates | U.S. Department of the Treasury](#)

Following the June 14-15 meeting of the Federal Reserve, post-meeting yield-curve reaction has reflected a market that sees the Fed as more committed than it was before to restraining inflation. If investors believe the Fed's renewed credibility with respect to inflation will anchor long-term inflation expectations, that could help stabilize the long end of the yield curve. However, persistent fiscal concerns, energy volatility, and uncertainty over balance sheet policy may keep term premia⁵ elevated. In other words, a more credible Fed can moderate the long end of the yield curve, but it does not remove all upward pressure on long rates.

Within US fixed income, credit-sensitive sectors led performance in 2Q 2026 as risk appetite improved and spreads tightened. High yield was the strongest-performing major fixed income segment, returning 2.47% for the quarter,⁶ supported by resilient corporate fundamentals, spread compression, and elevated coupon income. Among primary core bond segments, investment-grade corporates led performance, while securitized sectors including ABS, CMBS, and agency MBS also generated positive returns. Treasury-heavy exposures lagged as higher market yields and interest-rate volatility offset interest income. Overall, the quarter reflected a risk-on backdrop for fixed income, with carry and spread tightening serving as the primary drivers of returns.

Public Equities

Public equity markets rebounded sharply during the second quarter of 2026 following broad-based weakness in March, when oil price shocks and heightened geopolitical uncertainty related to the Iran conflict weighed on risk assets. As energy markets stabilized and the initial geopolitical shock moderated, investor sentiment improved, supporting a recovery across most major equity regions. Artificial intelligence again served as a strong driver of performance during the second quarter.

Unlike the first quarter, the US market regained market leadership during the period, outperforming non-US developed markets, while emerging markets continued to deliver the strongest returns on both a quarterly and year-to-date basis. For the quarter and year to date ending June 30, 2026, global equities market returned 14.93% and 11.25% respectively, the US market returned 15.44% and 10.88%, non-US developed markets returned 10.82% and 9.44%, and emerging markets returned 24.05% and 23.85%.⁷

Within the US market, performance was supported by strong corporate earnings and a rotation back into growth-oriented sectors. First quarter earnings, reported during the second quarter, increased approximately 28% year over year, with communication services and technology leading results.⁸ This

⁵ Term premia is defined as the additional return bond investors expect for investing in longer maturity issues.

⁶ Morningstar: Bloomberg US Corporate High Yield Index

⁷ Morningstar: Global Equities Market (MSCI ACWI), Emerging Markets (MSCI EM), Non-US Developed Markets (MSCI EAFE), US Market (Russell 3000)

⁸ Charles Schwab: [First Quarter 2026 Earnings: Feelin' Alright | Charles Schwab](#)

represented the fastest first-quarter US earnings growth rate since 2021⁹ and contributed to upward revisions in forward earnings expectations, with full-year earnings per share growth of the S&P 500 now projected at approximately 23% year over year versus 13% at the beginning of the year.¹⁰ Market breadth also improved, with US small- and mid-cap equities outperforming large-cap equities by 5.06% during the quarter and 12.50% year to date.¹¹

Outside the US, non-US developed markets also delivered positive returns, supported by currency tailwinds from a weaker US dollar and improving sentiment as geopolitical tensions moderated. European equities recovered as crude oil prices declined, while increased government-funded artificial intelligence investment across the European Union provided additional support to technology-oriented segments of the market.

Emerging markets continued to lead regional performance both for the quarter and year to date. Earnings upgrades in Asia have been an important driver of relative outperformance, helping compress valuation discounts and attract incremental capital to the region. Major emerging markets indices also maintain greater exposure to technology-related industries, including hardware, semiconductors, and platform companies, which have benefited from the global artificial intelligence and capital expenditure cycle. This industry composition has provided a structural growth tailwind relative to more diversified developed market indices.

Private Equity

The rapid interest rate increases implemented by the Federal Reserve in 2022 and 2023 to combat inflation significantly disrupted private equity markets. Higher financing costs and a widening in bid-ask spreads contributed to a sharp decline in deal activity, exits, fundraising, valuations, and overall industry returns. The slowdown in realizations reduced distributions to limited partners (LPs), creating negative net cash flow profiles and increasing liquidity pressures across institutional portfolios.

The Federal Reserve's three rate cuts in 2024 supported a gradual recovery in private equity activity from the cyclical lows experienced in 2023. Heading into 2025, investors broadly expected that additional monetary easing, coupled with a more business-friendly regulatory environment, would stimulate exit activity, particularly through strategic and sponsor-backed M&A transactions, with a more modest contribution from the IPO market.

While financing conditions improved, the anticipated rebound in realizations did not fully materialize. Ongoing economic uncertainty, driven by evolving U.S. policy initiatives, tariff-related volatility, and differing perspectives among Federal Open Market Committee (FOMC) members regarding the future

⁹ BlackRock: [Equity outlook after more magnificent earnings | BlackRock](#)

¹⁰ Bloomberg: Consensus Analyst Estimates

¹¹ Morningstar: US Large Cap Equities (S&P 500) and US Small and Mid Cap Equities (Russell 2500)

path of interest rates, continued to weigh on corporate decision-making and transaction activity. Uncertainty surrounding the timing and magnitude of future rate cuts contributed to a cautious approach among both buyers and sellers, limiting transaction volumes despite improved capital market conditions.

As a result, private equity exit activity remained relatively subdued through much of 2025, though market conditions improved during the second half of the year. Exit volume declined 13% year-over-year, reflecting a slower realization environment, fewer transaction opportunities, and continued extensions of portfolio company holding periods across the industry. Despite lower transaction counts, total exit value increased 78%, driven primarily by a small number of large-scale realizations, particularly transactions exceeding \$1 billion.¹² This divergence underscores an increasingly bifurcated market, where high-quality, scaled assets with resilient earnings profiles continued to attract strong buyer demand and premium valuations, while exits for smaller or less differentiated companies remained more challenging.

Entering 2026, investor sentiment was broadly constructive, supported by improving market conditions during the second half of 2025. However, like the disruption caused by tariff-related uncertainty in early 2025, private equity faced renewed headwinds in the first quarter of 2026 as geopolitical tensions stemming from the war with Iran weighed on market activity and investor confidence.

Against this backdrop, private equity deal activity softened meaningfully. Deal value declined 27% quarter-over-quarter and 21% year-over-year, while deal count fell 14% and 24%, respectively. At the same time, the industry's longstanding need for realizations and liquidity remained a primary concern for limited partners (LPs). Unfortunately, the exit environment deteriorated further during the quarter, with exit value declining 35% quarter-over-quarter and 40% year-over-year, and exit count decreased 21% and 28%, respectively.¹³

The prolonged slowdown in realizations has heightened LP focus on cash distributions, resulting in a growing emphasis on distributed-to-paid-in capital (DPI) alongside traditional performance measures such as internal rate of return (IRR). In response to constrained exit markets, both general partners (GPs) and LPs have increasingly utilized alternative liquidity solutions, including net asset value (NAV) financing, dividend recapitalizations, GP-led continuation vehicles, and secondary market transactions. These tools have become important mechanisms for generating liquidity and extending portfolio management flexibility while traditional exit channels remain challenged.

We think the private equity exit environment will remain relatively subdued throughout 2026, as ongoing market uncertainty, elevated interest rates, and a constrained realizations backdrop continue to weigh on transaction activity.

Given the continued pressures on liquidity and distributions, we maintain a favorable view of secondary strategies, which can provide attractive entry valuations, enhanced portfolio diversification, and the

¹² [Pitchbook 2025 Annual US PE Breakdown](#)

¹³ [Pitchbook Q1 2026 US PE Breakdown](#)

potential for accelerated cash flows. We also believe the current higher-for-longer interest rate environment is supportive of growth equity strategies, as growth-oriented companies increasingly seek equity capital to fund expansion rather than relying on more expensive debt financing.

From a market segment perspective, we continue to favor the lower and middle-market buyout universe. These segments tend to be less efficient and less competitively priced than the upper-market and mega-cap segments, creating greater opportunities for skilled managers to generate value through operational improvements and strategic execution. We also view co-investments favorably, as they allow investors to increase exposure to high-conviction opportunities alongside established managers while benefiting from a more cost-efficient fee structure.

Private Debt

While the negative private debt headlines have decreased during the quarter, concerns around software concentration, potential Artificial Intelligence (AI) disruption, valuation markdowns, and refinancing risks linger. Combined with interest rates and inflation expectations staying higher for longer, we expect tighter credit standards, representing a shift away from the borrower-friendly trends observed in recent years. Although direct lending remains a core consideration in portfolios, we see compelling opportunities to diversify into additional private debt segments within this allocation.

In 1Q 2026, the Cliffwater Direct Lending Index (CDLI) returned 1.1% for the quarter. Income contributed 2.3% to the return but total return has continued to trend down as base rates declined. Net unrealized losses, reflecting valuation markdowns for the quarter, detracted 1.1%, while realized losses, reflecting the crystallization of prior markdowns, detracted 0.1%.¹⁴ On a trailing four-quarter basis, the CDLI returned 8.2% compared to the Morningstar LSTA US Leveraged Loan Index and the Bloomberg US Corporate High Yield Index, which returned 4.8% and 7.0% respectively, demonstrating a persistent return premium for direct lending over liquid and public debt.¹⁵

Middle market direct lending returns are likely to normalize towards a high single-digit range. Our view that spreads are approaching a floor is unchanged. Sponsor-backed first lien direct lending spreads in the CDLI ticked up to 5.1% in the first quarter from 4.9% in the previous quarter. Credit health remains stable. Payment-in-kind (PIK) declined to 6.8% from 7.3%, while recovery rates were little changed at 53.1%. Non-accruals at cost value and fair value ticked up to 1.9% and 1.0%, respectively, while the trailing four-quarter default rate rose to 2.1%.¹⁶ Non-accruals and defaults remain below levels seen in previous dislocations and within long-term averages.

¹⁴ Q1 2026 CDLI Report

¹⁵ Morningstar

¹⁶ Cliffwater

Redemption requests in semi-liquid evergreen private debt funds remained elevated in the first quarter, again exceeding repurchase limits at many funds and resulting in pro rata redemptions.¹⁷ Even so, capital raising continues for semi-liquid private debt funds, albeit at a slower pace. More broadly, private debt fundraising on a trailing twelve-month basis reached \$138 billion in the first quarter, based on Pitchbook data. Institutional investors continue to allocate to US private debt, although the pace has slowed from the peak in 2021. Capital raised remains concentrated in direct lending funds, with a notable increase in dollar allocations toward specialty finance and special situation funds.

Borrower-friendly trends observed in recent years are shifting in favor of lenders, while credit fundamentals remain stable and in line with long-term averages. Diversification within private debt allocations is becoming increasingly important, and we think that there is opportunity in less trafficked private debt segments with attractive risk and return characteristics, such as specialty finance, opportunistic debt, and non-sponsored direct lending.

Private Infrastructure

Infrastructure assets provide essential services that underpin economic activity and daily life, while potentially benefiting from high barriers to entry, long asset lives, and, in many cases, regulated or contracted revenue streams with inflation-linked characteristics. These attributes historically have contributed to resilient cash flows and relative stability across varying market and economic environments. Looking ahead, the asset class remains well-positioned to benefit from powerful secular tailwinds, including demographic growth, decarbonization and energy transition initiatives, urbanization, accelerating digitalization, supportive fiscal policy, and the growing need for private capital to fund significant infrastructure investment requirements globally.

It is important to note that reporting in the private infrastructure market remains subject to a lag, with most industry data available as of June 2026 still dated as of year-end 2025. Nevertheless, private infrastructure has continued to demonstrate strong fundraising momentum, standing in contrast to the more challenging capital-raising environment experienced across many other private market segments. Growing investor demand has been supported by a favorable long-term outlook, as many limited partners expect to increase their infrastructure allocations over the next three years. Global closed-end infrastructure fundraising increased from approximately \$95 billion in 2023 to \$126 billion in 2024 and reached nearly \$200 billion in 2025, surpassing the previous record of roughly \$180 billion set in 2022. Fundraising activity remained concentrated among larger managers, with mega-funds of \$5 billion or more accounting for a significant share of capital raised.¹⁸

¹⁷ [The Wealthy Investors That Powered Private Credit Are Rushing for the Exits - WSJ](#)

¹⁸ [McKinsey Global Infrastructure Report 2026](#)

Deal activity also remains strong in terms of value, but the shape of the market has changed. Total infrastructure deal value was roughly \$1.56 trillion in 2025, up from \$1.12 trillion in 2024 and above the prior 2022 peak of \$1.26 trillion. Even though deal value increased in 2025, deal count declined. Small and mid-size deals still account for more than 95% of transaction count, even though large deals represent an outsize share of transaction value. So, while the market is active, it is not evenly distributed: capital is plentiful for the best and biggest themes, while smaller and more idiosyncratic assets trade in a more selective environment.¹⁹

Realization activity continues to improve as buyers, sellers, and limited partners demonstrate a greater willingness to transact. However, the exit environment has yet to fully normalize, and broad-based traditional exits remain below historical standards. Increasing liquidity pressure across the market are elevating the importance of operational value creation as a driver of returns, while investors are showing a preference for negotiated transactions over competitive auction processes.

Overall, exit conditions are meaningfully better than those experienced in 2023 and 2024, but the recovery is being driven primarily by alternative liquidity solutions—including secondary transactions, continuation vehicles, and structured portfolio sales—rather than by a widespread resurgence in multiple expansion and traditional exit activity.

Digital infrastructure remains one of the most sought-after segments within the broader infrastructure market, supported by strong secular demand for data centers, fiber networks, and communications towers. However, increasing investor interest has intensified competition and driven valuations higher, with entry multiples that historically ranged from approximately 16–18x EBITDA now frequently exceeding 20x.²⁰ As a result, many managers are finding more compelling risk-adjusted opportunities in sectors adjacent to digital infrastructure, where strong growth characteristics can be accessed at more attractive valuations.

The middle market also continues to present a favorable investment environment relative to the large- and mega-cap segments. Small- and mid-cap infrastructure assets are currently transacting at entry multiples of approximately 17x EBITDA, compared to 20x or more for larger assets.²¹ This valuation differential, combined with lower levels of fundraising activity and competition in the middle market, creates a broader opportunity set and a more attractive landscape for disciplined capital deployment. Consequently, many infrastructure managers view the middle market as a particularly attractive hunting ground for sourcing differentiated investments and generating long-term value.

The opportunity set remains most attractive in areas benefiting from accelerating AI-driven digital infrastructure demand that intersect with constrained power availability. Market conditions also continue

¹⁹ [McKinsey Global Infrastructure Report 2026](#)

²⁰ [McKinsey Global Infrastructure Report 2026](#)

²¹ Hamilton Lane 2025 Infrastructure Market Report

to favor scaled managers and those with highly differentiated capabilities. Across the private infrastructure landscape, the strongest risk-adjusted opportunities are in strategies that address market complexity and liquidity needs, as well as core/core-plus/value-add strategies, mid-market investments, co-investments, secondaries, and structured credit—rather than in highly competitive, large-scale assets where elevated valuations can compress future returns.

DEFINITIONS

Internal Rate of Return (IRR)

The annualized rate of return at which the net present value of all cash flows (inflows and outflows) from an investment equals zero, reflecting the time value of money.

Multiple on Invested Capital (MOIC)

A ratio showing how much money has been made or is expected to be made on an investment relative to the amount invested. Calculated as the total value divided by invested capital.

Return on Invested Capital (ROIC)

Measures how efficiently a fund uses its invested capital to generate profits, calculated by dividing aggregate net operating profit after tax by total invested capital.

Total Value to Paid-In Capital (TVPI)

A metric that shows a fund's aggregate returns as a multiple of its cost basis. Calculated as cumulative distributions plus residual value divided by paid-in-capital.

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