Private Markets Macro Outlook 2027

# AI, energy and a less predictable world



IFM Investors

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**Jeff Chee**
*Global Head of Investment Research*

# Introduction

**Much of what happens in 2027 will come down to two things: how fast AI investment keeps growing, and how often energy supply is disrupted. Neither is easy to forecast, which makes resilience in portfolio construction more important than any single call.**

Our Chief Economist, Alex Joiner, sets out the economic picture for 2027 in detail. Here, we draw out what his themes mean for private markets investors.

## Geopolitics and resilience

The geopolitical risks caused by recent conflicts will continue to play out. Populism adds another layer, as voters in France, Italy and Spain go to the polls. Populist governments may favour short-term spending over reform, and put pressure on central banks and other institutions that underpin policy credibility.

Alongside this, the shift from efficiency to national interests will continue, as even champions of free trade accept the need for greater economic resilience. That should support investor interest in essential infrastructure and specialised real estate, particularly where defence, energy security and domestic supply chains are concerned.

## Inflation and growth

With fuel markets expected to stay tight well into 2027, and crude supply dependent on de-escalation, investors will face continued inflationary pressures. Even if these are less extreme than the shocks of recent years, they are likely to be more frequent. This type of environment favours assets with credible inflation pass-through, though the quality of that protection varies by asset. Growth will also be unevenly spread. Countries more exposed to energy shocks will be at a disadvantage, as will those with less digitally enabled workforces. Others stand to benefit more from AI, both from building its infrastructure and from having workforces able to use it.

## AI and adjacent opportunities

AI has established itself as the defining global investment cycle, and 2026 saw the first trillion-dollar listing, with more in the pipeline.

But investors should consider whether the opportunity is AI, or the opportunities are in what enables AI or is created by it. Are data centres the only way to deploy capital, or is investing in the growing demand for energy that AI creates another way into the trend? The same question applies to other long-term trends. Electrification needs networks, and renewable energy needs storage and grids. The opportunities adjacent to trends may increasingly feature in 2027.

## What this means for portfolio construction

Together, these themes point to more frequent supply shocks, which undermine the assumptions most portfolios were built on. Investors need portfolios that can hold up across several possible futures, built around assets that are essential, inflation-linked and conservatively leveraged, whatever their asset class label.

The pages that follow set out Alex Joiner's economic outlook for 2027, how we are thinking about longer-term themes and structural shifts, and what this all means for infrastructure equity, infrastructure debt, diversified credit and real estate – and our approach to portfolio construction.



**Alex Joiner**
*Chief Economist*

# 2027 economic outlook: Economic resilience amid structural change

Following volatile geopolitical conditions during 2026, the global economy enters a new year with unusual resilience – while facing longer-term questions about how higher interest rates, populism and megatrends will impact investment choices.

## Key takeaways

1. **Economic and investment outcomes are increasingly diverging across countries, sectors and asset classes as geopolitical fragmentation, industrial policy, defence spending and rising state intervention reshape economies in different ways.**
2. **Investment linked to AI is creating new sources of demand for energy, infrastructure and industrial capacity.**
3. **The most valuable assets may be those that enable economic transformation while retaining the capacity to withstand supply shocks, demand shocks and a structurally more demanding cost-of-capital environment.**

The global economy enters 2027 having proved more resilient than many anticipated. Yet resilience should not be mistaken for stability. Economic and investment outcomes are increasingly diverging across countries, sectors and asset classes as geopolitical fragmentation, industrial policy, defence spending and rising state intervention reshape economies in different ways.

At the same time, investment linked to AI is creating new sources of demand for energy, infrastructure and industrial capacity. For investors, the defining feature of 2027 might be less about whether growth is stronger or weaker, and more about the growing dispersion of outcomes across markets and assets.



## Geopolitical risk, populism and the shift from efficiency to sovereign resilience

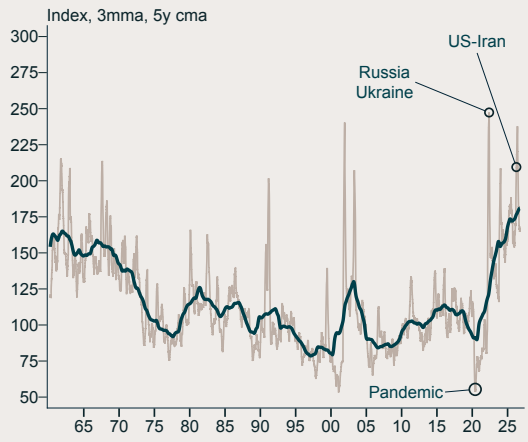
For much of the post-Cold War period, economic policy and corporate strategy were organised around efficiency. Governments supported trade integration, fiscal restraint and market liberalisation, while companies built globally distributed supply chains designed to minimise costs and inventories. That model delivered substantial gains, but also left large parts of the economy exposed to the risk of supply chain shocks.

Geopolitical events are no longer brief, isolated sources of market volatility. Strategic competition, energy-security concerns and growing trade and technology restrictions are becoming structural influences on inflation, exacerbated by the barrel price of oil repeatedly approaching or exceeding US$110 during 2026. Protectionism and domestic self-sufficiency may improve sovereign resilience, but risk weakening productivity and long-run economic potential.

Geopolitical risk may also increasingly be defined by the rise of populism, particularly in economies that have traditionally been pillars of the global order. The next 12 months will see elections held in a number of European countries where populist parties are increasingly competitive – notably Spain, France and Italy – while recent successes enjoyed by Germany's far-right Alternative für Deutschland are unsettling an already weakened federal coalition. Populist governments may favour visible fiscal measures over productivity-enhancing reform, while placing greater pressure on central banks and other institutions responsible for policy credibility, undermining wider economic confidence.

**GRAPH 1**

**GEOPOLITICAL RISK INDEX, 1960 TO PRESENT**




**Source:** IFM Investors, Matteo Iacoviello

Governments and businesses are left reassessing domestic industrial capacity and access to what are now regarded as politically sensitive technologies. Redundancy, once viewed simply as a cost, is increasingly understood as insurance and strategic capability.

The macroeconomic effects are likely to be stagflationary at the margin. Trade fragmentation, duplicated capacity and disrupted energy or commodity flows can raise inflation while reducing productivity and potential growth. Fiscal support, defence spending and industrial subsidies may cushion activity, but can also increase public borrowing and limit central banks' scope to ease. Many fiscally constrained governments face mounting pressure to lift defence spending towards NATO's 3.5% GDP target – 5% including defence-related infrastructure – while already in deficit.

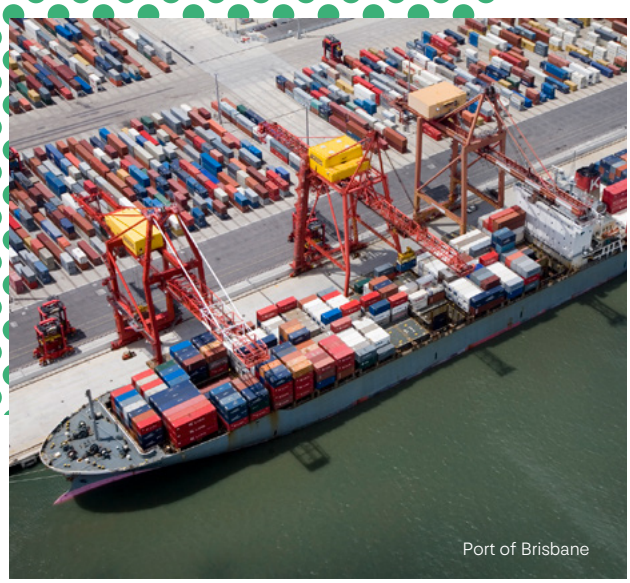
These mildly stagflationary dynamics should support investor interest in essential infrastructure, specialised real estate, adaptable businesses and flexible financing. Assets with durable revenues, credible inflation pass-through and manageable refinancing exposure should be best placed.

## AI is the next global investment cycle

Artificial intelligence is the most compelling source of long-term upside in the outlook, but it should initially be understood as an investment cycle rather than simply a technology theme. Adoption at scale requires data centres, electricity generation and transmission, semiconductors, communications infrastructure, cooling, water and storage – placing private markets near the centre of a cycle needing to balance finite labour with limited, in-demand equipment.

The economic upside will depend on how effectively firms adopt and use AI. Any potential upside will further depend on the extent to which task-level efficiencies translate into economy-wide productivity. Firms will retrain workers and re-engineer workflows, but it will take time for any potential gains to become sustained output growth and improved productivity.

In the near term, the infrastructure build-out should support investment and growth. It will also significantly increase electricity demand and intensify competition for already scarce resources – capital, construction materials and workers – with ambiguous effects on inflation and upward pressure on rates. If adoption disappoints, a retrenchment in capital expenditure, valuations and hiring could become a material demand shock. Investor uncertainty around whether AI developers' revenues would match their substantial investment continues to be expressed in equity market volatility and spread widening in debt markets.


Port of Brisbane

## The opportunity increasingly sits adjacent to the theme

The strongest risk-adjusted opportunities may lie not in the headline theme itself, but in the assets that enable it. Data centres require electricity and transmission; renewable generation needs storage and grid capacity; supply-chain resilience depends on ports, logistics and transport; and defence capability requires manufacturing capacity, secure communications and critical inputs.

These connections will increasingly blur traditional asset-class boundaries. A data centre can simultaneously be categorised as a digital asset and a property development – while the sector's growth will see a structural increase in energy demand. Advanced manufacturing and logistics systems similarly combine land, power, water, transport and communications.

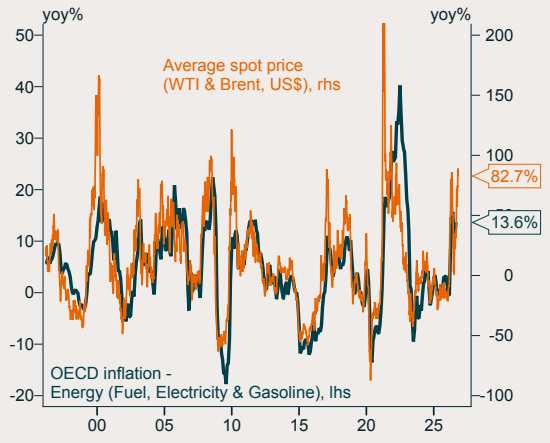
Adjacent assets can share the structural tailwinds of the headline theme while benefiting from the barriers to entry created, including long lead times and demand for a limited number of experts. Portfolios may benefit from both the investment trend and owning the constraints to its expansion across the wider private markets spectrum – spanning infrastructure, real estate, private equity and private credit.

## Inflation shocks may be less extreme, but more frequent

The pre-pandemic environment built around globalisation, with abundant labour and persistent disinflation, is giving way to more frequent cost pressures associated with geopolitical disruption, leading to more assertive industrial policy. The conflicts in Ukraine and the Middle East are leading to increased defence spending and further fuelling the energy transition. The pandemic, tariff tensions and conflicts illustrate how supply shocks can raise inflation while weakening potential output. Future shocks need not match the extremes experienced earlier in the decade to sustain uncertainty around monetary policy and risk-free rates. This view is supported by the steady revision upwards of private and public sector forecasts of inflation for both 2026 and 2027. This comes from existing domestic pressures, technology tailwinds turning to headwinds and the continued impact from oil and energy supply shocks.

**GRAPH 2**

**ENERGY PRICE INFLATION AND OIL PRICES**




**Source:** IFM Investors, OECD, International Energy Agency

The result is a less favourable growth-inflation trade-off. Repeated cost shocks can compress real incomes and margins while leaving inflation above target, limiting central banks' ability to support weaker activity. Even when policy rates fall, inflation uncertainty could keep risk premia and long-term yields above the levels of the previous decade.

For private assets, inflation protection cannot be assessed by labels alone. Infrastructure may offer explicit or implicit inflation linkage, but its quality depends on regulation, and the extent of permissible cost pass-through. Meanwhile, real estate outcomes depend on a range of conditions, including lease structures, supply conditions and whether rents adjust faster than operating and financing costs. Private credit can benefit from floating-rate income, but only while borrowers can service the higher interest burden.

## Modest but dispersed growth, rising bond yields and the importance of the next shock

Global growth in 2027 is likely to remain below trend but resilient to material downside risks, with limited scope for a strong upswing. Outcomes will vary more by country, depending on exposure to energy shocks and the other risks above.

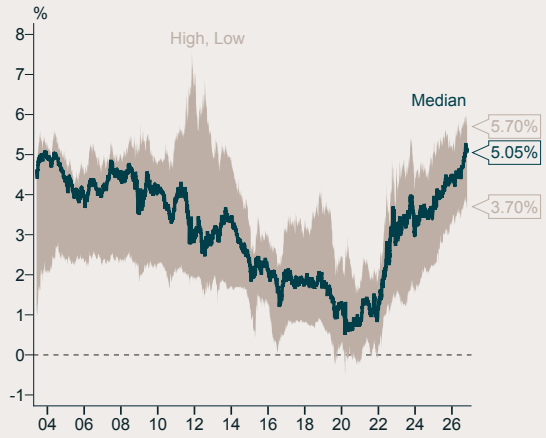
The US is best placed to capture the near-term effects of the AI investment cycle because of its capital markets, technology ecosystem and digital infrastructure. Countries most exposed to the AI opportunity could see larger productivity gains if adoption succeeds, but also face greater downside risk.

This reinforces the wider theme of modest but increasingly dispersed growth. Geopolitical fragmentation and populism may support activity in sectors benefiting from industrial policy, defence spending and supply-chain reconfiguration, but could weaken aggregate productivity and potential growth. AI and investment in enabling infrastructure may provide a counterweight by supporting capital expenditure and eventually expanding productive capacity.

A further concern is the rise in long-end government bond yields. Persistent inflation uncertainty is part of the explanation, but the impact of rising borrowing costs on deficits and fiscal sustainability should not be underestimated. Public borrowing for defence, industrial policy, ageing populations, strategic autonomy and the energy transition is competing with substantial private financing requirements associated with AI and infrastructure investment.

GRAPH 3

G7 30-YEAR BOND YIELDS




**Source:** IFM Investors, Bloomberg, IMF

Higher long-term yields matter even if central banks were to cease increasing policy rates – which cannot be guaranteed in 2027, as many G7 economies, notably the US, seek to reduce inflation.

The valuation implications are equally important due to the link between sovereign yields and discount rates across public and private markets. Real estate and infrastructure are exposed through both discount rates and refinancing costs, although contractual revenues and fixed-term financing offer some protection. Private credit may benefit from higher contractual income, but would face increased risks where borrowers face more difficult refinancing or declining collateral values. Changes in risk-free rates are a whole-of-portfolio issue, not just a fixed-income concern.

**Global growth in 2027 is likely to remain below trend but resilient to material downside risks, with limited scope for a strong upswing.**

## Is a demand-led downturn likely?

Recent history suggests the next economic shock is at least as likely to originate from supply as from demand. The pandemic has given way to conflict-led energy and trade disruption, demonstrating how constraints on any one area of the production cycle can raise inflation while weakening activity.

The distinction matters for both policy and portfolios. Demand shocks generally push growth and inflation in the same direction, allowing monetary policy to address both objectives. Adverse supply shocks weaken activity while raising prices, forcing central banks to choose between supporting growth and containing inflation. Monetary policy can manage demand, but it cannot directly replace disrupted energy supplies, unavailable workers or lost productive capacity.

Prolonged geopolitical tensions, increased protectionism or an energy interruption would operate mainly through supply, raising costs, weakening potential growth and delaying rate cuts. Other scenarios, including a confidence shock or financial-market correction, would be more conventionally demand driven. AI could generate either outcome: successful adoption could expand productive capacity and support non-inflationary growth, while excessive investment followed by disappointment could produce a correction in capital expenditure, employment and asset valuations.

Within private markets, asset resilience must mean the capacity to perform across supply and demand shocks and a wider range of interest-rate outcomes.

For private market investors, the opportunity lies where fragmentation, AI and persistent cost pressures intersect: power, transmission, storage, digital infrastructure, logistics and specialised property, alongside adaptable businesses and carefully structured credit. The most valuable assets may be those that enable economic transformation while retaining the capacity to withstand supply shocks, demand shocks and a structurally more demanding cost-of-capital environment.



**Kyle Mangini**
Global Head of Infrastructure

# Infrastructure equity: From asset class to national priority

Sovereign resilience, accelerating demand for AI infrastructure and the convergence of energy security and decarbonisation are set to create new opportunities for long-term institutional capital in 2027.

## Key takeaways

1. **A sharper focus on sovereign resilience is expanding infrastructure investment opportunities.** As governments reassess defence, energy and supply chain security, they may increasingly look to private infrastructure management expertise to support greater infrastructure expenditure in these areas.
2. **AI will remain a dominant infrastructure investment theme, but the gap between investment demand and bankable opportunities is likely to widen.** Access to reliable power, sustainable commercial arrangements and social licence will increasingly differentiate successful data centres.
3. **Energy security and decarbonisation are converging as policy priorities.** We see a focus on onshore wind, utility-scale solar and batteries, underpinned by digital infrastructure, as an effective way to capture exposure to structural growth trends.

For much of the past two decades, infrastructure investment has been shaped by globalisation, efficiency and the energy transition. In 2027, a more fragmented geopolitical environment, the accelerating demands of artificial intelligence and renewed concerns over energy security are reshaping investment priorities.

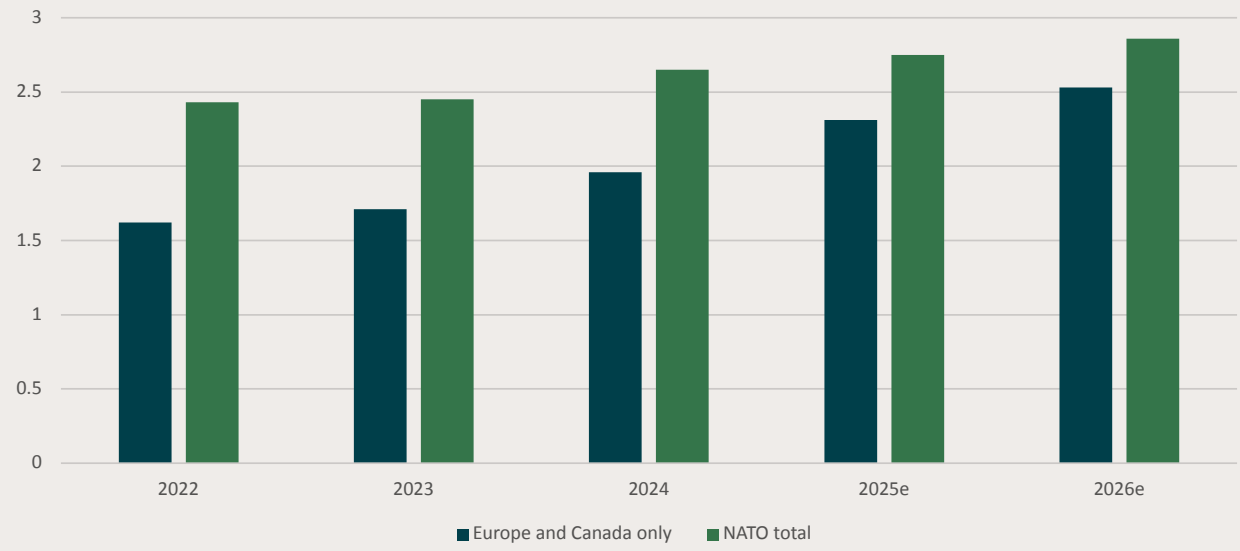
We expect long-term megatrends around electrification, digital infrastructure and renewables to remain dominant investment themes in the coming year. In addition, a re-examination of sovereign resilience is broadening the opportunity set for infrastructure investments. Defence, critical infrastructure and energy supply chains are joining the list of priorities for 2027 and beyond.

Geopolitical fragmentation, tariff shocks, reshoring and rising defence spending are pushing governments and long-term capital providers to treat certain infrastructure assets not just as an investment class but as a core national capability. Energy, ports, defence and digital networks are at the centre of this trend.[1]

[1] Luba Nikulina (2026), Infrastructure: the times they are a-changin', IFM Investors

GRAPH 1

**NATO MEMBERS ARE INCREASING THEIR DEFENCE SPENDING, ACTUAL AND FORECAST SPENDING AS A PERCENTAGE OF GDP**




**Source:** NATO

In short, governments are shifting from a just-in-time model to a just-in-case one. This involves building excess capacity into key systems and focusing more closely on reliable trade partners and alliances for essential imports and support.

This has wide-ranging implications for infrastructure. A just-in-case logic applies directly to liquid fuel supplies and digital connectivity, impacting two growth sectors. Many countries are looking to tap local supplies while introducing export controls or stockpiling raw materials. This change in mindset impacts all supply chains, with stockpiling increasing prices in the short term and altering the flow of goods through major ports.

## Defence: The emerging mobilisation of private capital

In a more competitive world, national security is emerging as a key driver of infrastructure spending. In the area of defence alone, McKinsey estimates that at least US$2 trillion needs to be spent on defence-related infrastructure by 2040.[2] Increasing defence expenditure is creating an opportunity for governments to reconsider how nationally significant infrastructure is financed, developed and maintained.

While institutional investors today play a limited role in defence infrastructure, the wider sector is opening up to private capital.

The UK, for example, is actively studying ways to engage institutional investors as it scales up defence spending.[3] Similarly, as part of 2026's National Defence Strategy, Australia estimated that it would seek A$15 billion in private capital over the next decade. The funding would help with construction and maintenance of infrastructure, with a third of that expected by the end of the decade.[4]

With long-term sustainability considerations in mind, potential infrastructure opportunities are best suited to infrastructure that supports defensive capabilities, rather than munitions or other offensive capabilities.

As the numbers demonstrate, the opportunities are measured in terms of percentage of GDP – a significant opportunity. Infrastructure with dual-use capabilities, such as airfield runways, ports and strategic refinery infrastructure, offers potential access points. This will translate into direct opportunities in both standalone infrastructure and for dual-use transport, logistics, ports and seaports.

[2] McKinsey & Company (2025), The infrastructure moment: Investing in the expanding foundations of modern society, p. 2
[3] UK government (2026), Unlocking private capital to drive UK defence as an engine of growth
[4] Australian government (2026), 2026 National Defence Strategy, p. 86

For its part, IFM Investors has decades of experience in this emerging sector, including the Australian Defence Force's Joint Operations Command and Darwin Airport, where the runway is shared with the Royal Australian Air Force Base Darwin.

## AI infrastructure: Structural growth demands greater investment discipline

If sovereign resilience is about protecting existing infrastructure, AI is about building an entirely new category of it. However, the scale of projected investment should not be confused with the certainty of investment returns.

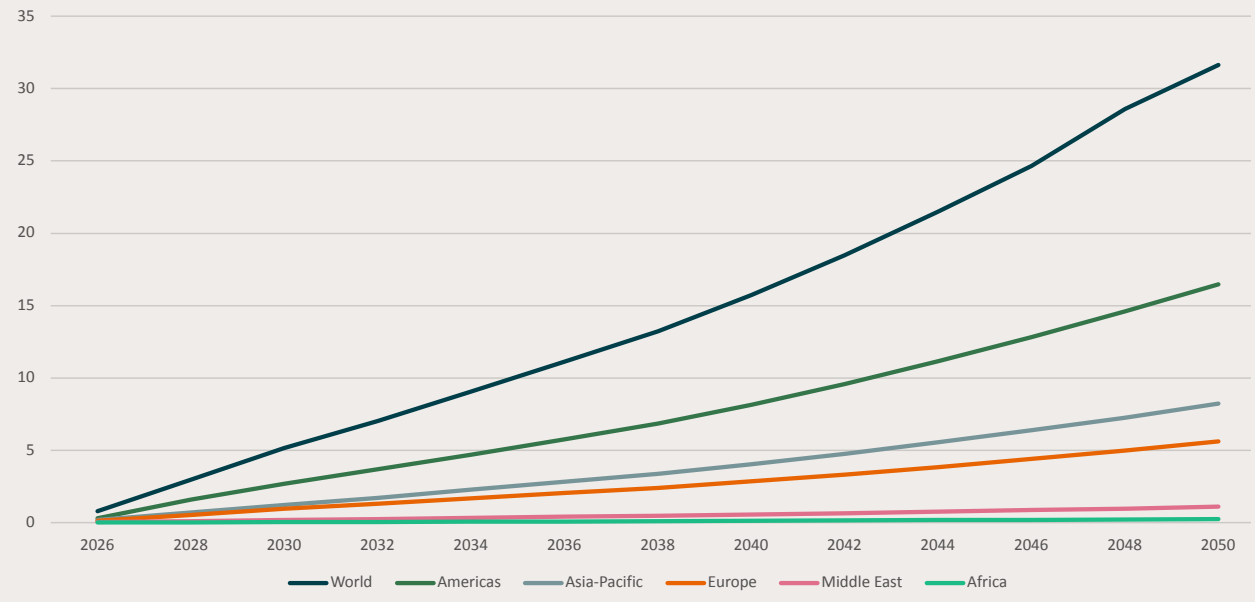
As the sector matures, we expect a widening distinction between projects underpinned by sustainable commercial arrangements and businesses dependent on continued exponential growth forecasts. Access to reliable power, development capabilities, creditworthy customers and long-term contractual protections will increasingly determine which projects can translate structural demand into attractive infrastructure investments. In the near term, BloombergNEF estimates that the 14 largest investors in the sector – including Microsoft, Amazon, Google and Meta – will spend US$3.3 trillion on data centres through to 2029.[5]

Power availability is emerging as a critical determinant of development feasibility. As AI workloads become increasingly energy-intensive, the ability to secure reliable electricity at competitive prices, together with timely grid connections, is becoming a key differentiator between projects.

The scale of the capacity expansion needed calls for investment in generation, storage and transmission infrastructure. The International Energy Agency's base case sees data centre electricity use doubling to 945 TWh by 2030. In the US, which is leading the growth of data centres globally, the US Energy Information Administration predicted that the 2026 build-out would need to include a record 86 GW of planned capacity additions, consisting of solar (43.4 GW), wind (11.8 GW), storage (24.3 GW), and natural gas (6.3 GW).[6]

**GRAPH 2**

**FORECAST GLOBAL DATA CENTRE CAPEX IN US$TRN, 2026-2050**



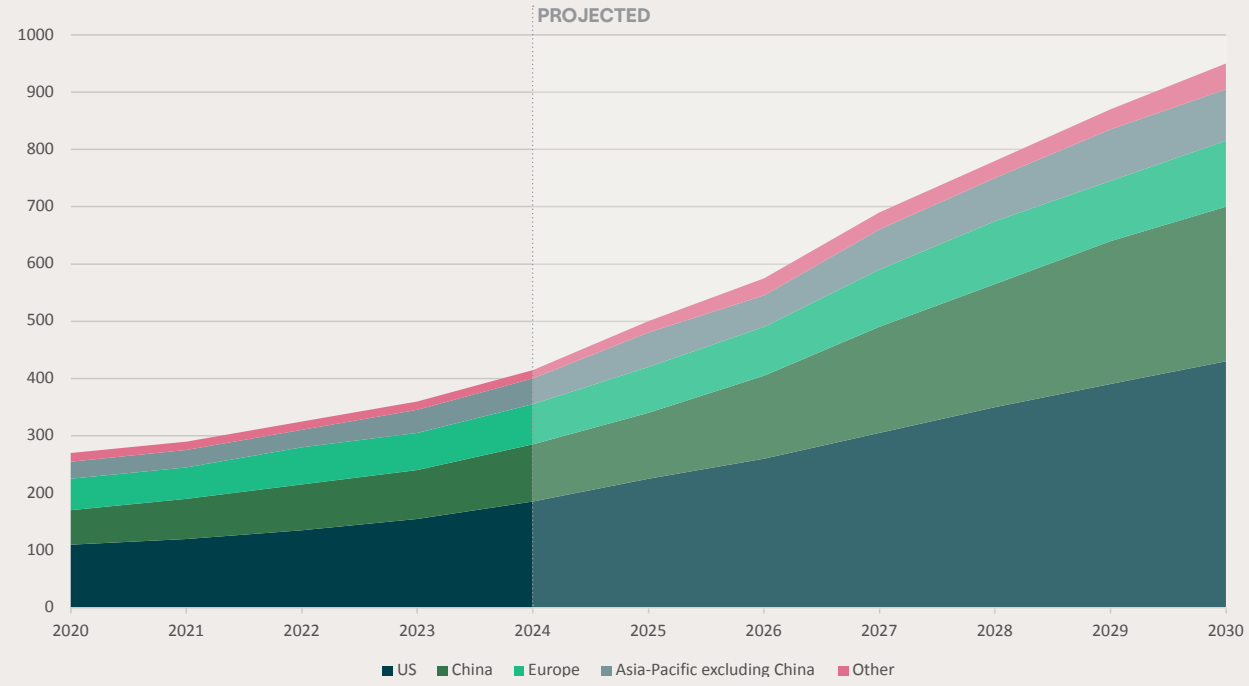

**Source:** PwC's Global Data Centre Outlook 2026–50; forecast modelling by Oxford Economics for report's central scenario

[5] Bloomberg (2026) estimate captures Alibaba Cloud, Amazon, CoreWeave, Digital Realty, Equinix, GDS Holdings, Google, IREN, Meta, Microsoft, Nebius, NTT Global Data Centres, Oracle and Tencent

[6] US Energy Information Administration (2026), New U.S. electric generating capacity expected to reach a record high in 2026

GRAPH 3

**DATA CENTRE ELECTRICITY CONSUMPTION IN TWH BY REGION, INTERNATIONAL ENERGY AGENCY BASE CASE, 2020-2030**




**Source:** International Energy Agency

Periods of rapid industry expansion inevitably raise questions about the sustainability of growth. The extraordinary pace of AI investment has intensified debate around the commercial returns generated by underlying customers, substantial capital requirements and the potential emergence of an investment bubble.

We believe investors can navigate these risks by focusing on project quality. In data centres, three elements make up the bankability trifecta: a long-term contract with a creditworthy end-customer; a fixed-price and schedule-certain construction plan; and strong access to global capital markets – given the multi-billion-dollar cost of individual projects.

We are mindful of other potential brakes on the AI cycle, including growing social licence challenges associated with power, water and proximity to communities. These pressures are not confined to the US and Europe, with Australia also facing increased scrutiny of where and how facilities are developed. Policy measures supporting additional electricity supply funded by data centre operators may help address power constraints. However, appropriate site selection and community engagement remain critical to earning community acceptance.

The monetisation of AI investments in a rising interest rate environment is also uncertain – although strong earnings in the US technology sector have dampened some concerns.

Looking ahead, sovereign resilience provides an additional structural driver of digital infrastructure demand. Governments are increasingly focused on securing domestic computing capacity, protecting sensitive data and reducing strategic dependencies on foreign infrastructure providers.

While AI will continue to create significant infrastructure investment opportunities, we expect a widening distinction between projects capable of delivering sustainable long-term returns and those reliant on continued exponential growth. Disciplined underwriting, responsible development and active asset management will be critical to capturing this opportunity.

## Tracking the fallout from higher prices

Supply-side shocks and geopolitical disruption mean inflation is likely to remain a concern in 2027.

International Monetary Fund (IMF) projections call for modest growth and more frequent inflation shocks. Global growth in 2027 is pegged at around 3.4%, with advanced economies languishing at 1.8%. Global headline inflation is projected to spike before partially retreating towards 4.1% – still well above the pre-pandemic norm that most major central banks are targeting.[7]

Infrastructure is unusually well positioned within this environment, provided assets carry genuine pricing power.

Regulatory building-block models and contracts with built-in annual price escalation mean core infrastructure is well insulated from inflation exposure and better placed than businesses in more competitive markets to pass costs through.

Higher prices, however, also pose risks for infrastructure. A spike in jet fuel prices, for example, can lead to lower airport landing fees if airlines cut capacity. Similarly, toll roads are exposed to a drop in petrol vehicle usage. These effects are often temporary and depend on each asset's demand profile and pricing power.

Negative effects are likely to be felt most keenly in developing economies where consumers have less capacity to afford the higher input costs. Food security is also likely to rise up the agenda if farmers are unable to afford or source the diesel, fertiliser and other petroleum-based products needed for crop production.

## Electrification accelerates as resilience takes priority

We are now seeing evidence that the Middle Eastern conflict's impact on global energy markets is accelerating a structural shift to electrification. Sales of electric vehicles (EVs) overtook petrol car sales in Australia for the first time in August 2026, with similar trends noted in Europe.[8]

The energy crisis is also changing the terms of the transition debate. We expect 2027 to bring less emphasis on decarbonisation for its own sake and



[7] International Monetary Fund (2026), World Economic Outlook: Resilience Under Strain, Urgent Choices, p. 10
[8] Department of Climate Change, Energy, the Environment and Water (2026), EV sales overtake petrol cars for the first time




more on energy security and resilience. Projects that make energy systems more reliable tend to win support across the political spectrum, while those that deliver lower emissions at a higher cost or with lower reliability face a harder pathway.

In Australia, where the strong uptake of rooftop solar means wholesale prices can slip into negative territory, standalone solar is less compelling for institutional investors. Solar power paired with battery storage, however, is a different proposition, as the combination allows power to be dispatched when renewables are not generating.

In Europe, too, the rapid build-out of solar generation in markets such as Spain has hurt pricing and limited appetite for new projects. Energy transition infrastructure remains a focus, but opportunities vary across markets and technologies. We see growth in transmission, onshore wind and battery storage, but less attractive returns in offshore wind, where auction prices do not always reflect the long development timelines and risks involved.

Low-carbon liquid fuels follow the same logic. As drop-in replacements for aviation fuel and diesel, they require no new pipelines or storage, and the UK and EU have led on policy support. For investors, it is no longer enough for energy to be renewable; it must also be resilient.

While inflation and geopolitical uncertainty will remain important considerations in 2027, the outlook for infrastructure is also being reshaped by powerful structural forces. Sovereign resilience, accelerating demand for AI and digital infrastructure, and the convergence of energy security and decarbonisation are creating new opportunities for long-term institutional capital.

As infrastructure adapts to a more fragmented and uncertain world, we believe successful investment will increasingly depend on disciplined asset selection, resilient revenue models and the ability to navigate regulatory, technological and operational complexity. Contracted or regulated cashflows and genuine pricing power can provide protection against inflation and market volatility, while active asset management and operational expertise will be critical to maintaining essential services and protecting long-term value.



**Rich Randall**
*Global Head of Debt Investments*

# Infrastructure debt: AI hyperscalers set to extend debt market dominance

AI hyperscalers' financing needs, shifting energy priorities and a focus on sovereign resilience are reshaping infrastructure debt markets. In 2027, power availability, counterparty strength and concentration risk will be key considerations as lenders assess opportunities across North America and Europe.

## Key takeaways

1. **AI hyperscalers' financing needs are reshaping infrastructure debt markets, with power availability, counterparty strength and concentration risk key considerations for lenders.**
2. **A pullback in US government support for renewables has changed the economics for certain projects and led investors to look again at carbon-based energy providers.**
3. **A higher and more uncertain rate environment means a recalibration of both financing costs and construction budgets.**

As institutional investors weigh their private markets allocations, infrastructure debt continues to make its case as a defensive, inflation-linked complement to public bond and equity holdings – even as the sector faces a more complicated political, regulatory and macroeconomic backdrop.

We expect sovereign resilience will be an increasingly important theme for the infrastructure debt market. There is a broad reassessment among governments and investors of the strength of supply chains, defence and national infrastructure, sharpened by geopolitical tensions.

Likewise, AI-related infrastructure will remain a core focus in 2027 and beyond, with hyperscalers ramping up construction of data centres and related infrastructure such as power stations.



A higher and more uncertain rate environment that reshapes financing structures will also be a feature of the new year. The US Federal Reserve raised rates in September 2026 to a target range of 3.75%–4.00%, its first hike since 2023. The European Central Bank and the Reserve Bank of Australia have moved in the same direction, raising their policy rates amid a rising inflationary environment, with analysts predicting further hikes.

The practical consequence of this for infrastructure lending is a recalibration of financing costs and construction budgets. Contingency provisions, pass-throughs and inflation escalators will take on renewed importance, helping reduce construction risk in the underlying transactions. This will leave the borrower to shoulder the risks rather than the lender. Alongside these will be a continued borrower preference for shorter-duration, floating-rate construction financing over locking in long-term permanent debt.

IFM Investors' own spread data as of the first half of 2026 shows the shape of this repricing across markets. North American BBB-rated infrastructure debt has been priced in the 175–250 basis point range over base rates, with BB credits at 250–400 basis points and B-rated paper above 400. European spreads have run somewhat tighter, while Australia, supported by strong bank competition in a relatively concentrated market, has consistently offered some of the tightest spreads globally, even as rate expectations there have grown more cautious.

## The outlook for North America

While most countries are prioritising sovereign resilience, we argue that the US and Europe are diverging in certain areas. On energy infrastructure priorities, US federal support is shifting away from a focus on renewable energy and towards onshoring, domestic manufacturing and supply chain resilience.

Despite a materially less supportive US federal policy backdrop, renewable energy remains the most active corner of the US power market because it can be built faster than the alternatives.

Utilities continue to issue long-term power purchase agreements, and with wind turbines and solar panels readily available, renewable projects can be brought online far more quickly than new gas-fired plants, which often face lead times of three to six years. Battery storage continues to benefit from favourable federal tax credit treatment.

Conventional power in North America has continued to attract investor interest even as overall new deal flow in the sector has been comparatively

lower. Nevertheless, opportunities are likely to arise for deal refinancings, compensating for the relative lack of newer deals, which take longer to come to market and execute. Midstream and LNG assets have remained resilient, supported by structurally rising electricity demand.

Renewables in the US are still in play but are now more susceptible to regulatory risk and have less federal funding available. Since late 2025, the US government has ordered a suspension of several East Coast projects. These include Ørsted's Revolution Wind off Rhode Island, which was roughly 80% complete at the time of the order, and Equinor's Empire Wind off New York. Developers have challenged the orders in court and construction is resuming on some projects only after judicial review.

The pullback in federal support has hurt smaller renewable energy projects, underscoring the need for investors to focus on quality. For example, during this period IFM Investors financed a diversified 300 MW distributed solar platform spanning more than 200 assets across 19 US states. The transaction was structured with a roughly 30% equity capital cushion and revenues drawn predominantly from long-term power purchase agreements and net metering arrangements. It is the kind of scaled, contracted platform that is increasingly favoured over smaller, less capitalised developers.[1]

Transport modernisation is a growing part of next year's opportunity set, with an increase in rail M&A financing activity. But it remains the case that little in the 2027 outlook looms larger than the financing needs of the AI build-out.

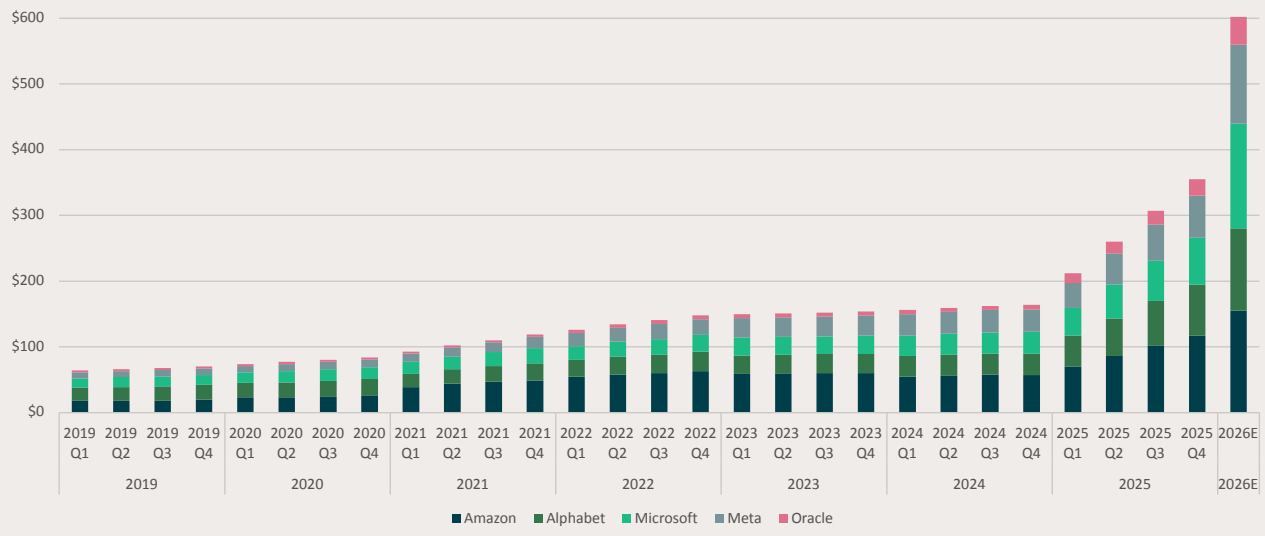
## Hyperscaler spending

Hyperscaler capital expenditure across the sector as a whole totals around US$800 billion in 2026, with the five largest cloud platforms – Amazon, Alphabet, Microsoft, Oracle and Meta Platforms – forecast to spend US$1.2 trillion in 2027, according to Goldman Sachs.[2]

Already, just over a dozen large-cap AI-focused technology names account for more than US$1 trillion of outstanding interest-bearing debt, MUFG data shows.[3] Looking ahead, MUFG forecasts that hyperscalers will finance around half of their global data centre spend from cash flow, with the remainder financed through private credit and other debt arrangements.

**GRAPH 1**

**TOP FIVE HYPERSCALERS SET TO SPEND US$602 BILLION IN 2026**




**Source:** MUFG

[1] This case study was selected to illustrate our experience in structuring scaled, contracted solar platform transactions, and not based on its investment performance or financial outcome.

[2] Marton Kasnyik (2026), Goldman Sees Hyperscaler AI Capex Rising 50% to $1.2 Trillion

[3] MUFG (2025), AI Chart Weekly: Financing the AI Supercycle

The growth drivers behind this appear compelling: to take just one metric, AI adoption is progressing faster than the adoption of personal computers or the internet at comparable stages when those were first developed. But we remind investors that they should remain cautious. When backing data centre capacity expansion, investors should focus on location, power availability, grid access and hyperscaler tenant quality. These factors now separate the most bankable assets from the rest.

In a move that underscores the importance of project selection, Oracle in September issued force majeure notices to the developer of a new data centre in New Mexico in an effort to protect itself from costs if the facility were to be delayed.[4] The decision came at a time when some rating agencies, such as Fitch, were already re-evaluating the company's debt, as credit default swap spreads approached two-decade highs.[5] More widely, the news underscores the way in which technology firms are stretching themselves in the race to dominate AI.

We see a potential threat to growth from a recent phenomenon in the US of local communities and politicians pushing back against data centre developments amid concerns over water consumption, energy costs and architectural impact.

In the US, political sentiment is shifting quickly in some of the fastest-growing data centre hubs, with Texas and Virginia both moving to reduce the pace of permitting and build-out. This adds development risk for investors, as sites may be mothballed by local planners.

As pricing on both investment-grade and sub-investment-grade data centre debt has begun to tick up amid heavy issuance, another pressing question for lenders is concentration risk. Concentration should be considered not only through direct lending to a facility, but also through corporate debt issuance, associated chip financings and residual guarantees that are extended further up the credit chain.

Data centre demand is also one of the principal drivers of rising US electricity consumption, presenting fresh financing opportunities for energy infrastructure including nuclear and small modular reactors, a novel technology which we believe holds significant potential.

## The outlook for Europe

In contrast to the regulatory pressures slowing the US renewables rollout, Europe's focus on decarbonisation and electrification will require decades of investment in clean energy and grid capacity. EU electricity output, essentially flat for more than a decade, is now forecast to grow at 2% to 5% annually through 2030.

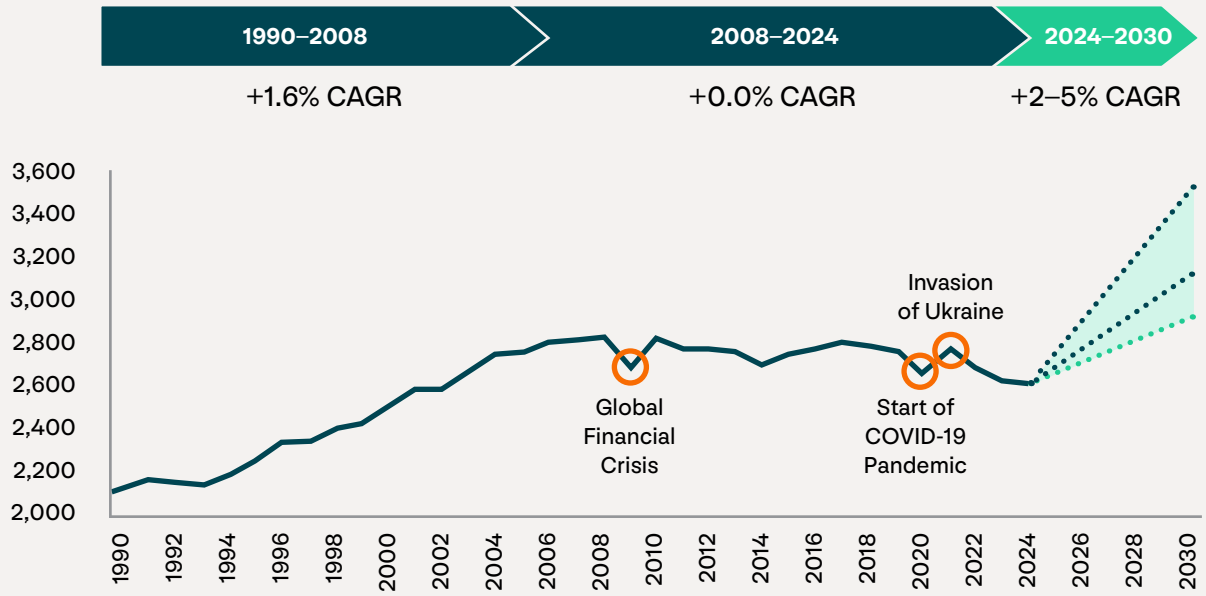
The European Union's AccelerateEU initiative and binding requirements for zero-emission buildings by 2050 further reinforce long-term demand for electrification, clean power, grid capacity and energy-efficient infrastructure. These requirements also account for some of the demand increases for which suppliers will have to provide in the immediate term.



[4] Caleb Mutua (2026), Oracle Notice to Weigh on Data Center Debt, Morgan Stanley Says
[5] Vasundhara Sawalka (2026), Oracle's Credit Risk Nears an 18-Year High: Can AI Backlog Save Stock?

GRAPH 2

**EUROPEAN UNION NET ELECTRICITY GENERATION BY YEAR (TWh)**




**Source:** IFM Investors, Eurostat

Additionally, while the pipeline for potential data centres is more significant in the US, European developments will remain vital for the continent's growth prospects, and will place further upward pressure on energy demand. Consideration should be given to any data centre developer's ability to secure both the required energy and equipment in advance. Not all proposed data centre developments are likely to meet their intended construction schedules – or begin construction at all – and investors should carefully consider their risk appetite before exploring the sector. Strong counterparties and secured access to energy should be key considerations for any future builds.

This shows up as a preference for strategic locations with secured power access and strong counterparties. The resulting transactions include a €550 million, seven-year facility that IFM helped finance for a hyperscale data centre platform across Frankfurt, London and Amsterdam. Fully leased to top-tier cloud tenants, it is backed by institutional sponsors DigitalBridge and La Caisse.[6]

In other parts of the digital sector, we expect fibre growth to continue – aided in part by the need for greater rural connectivity and growing competition between legacy and new fibre providers expanding their networks. Investors will have noted that TalkTalk, one of the UK's largest providers, recently entered administration. This highlights the market's challenges, with borrowing costs rising and competition for customers placing downward pressure on prices.

Overall, infrastructure debt enters 2027 in a strong position when compared with the broader credit market.

Even as geopolitical shocks from the war in Iran have pushed energy prices higher and stoked inflation concerns, infrastructure debt spreads have stayed comparatively tight. This is despite some areas of the US private credit market showing rising loan defaults and investor withdrawals, with an increase in CDS activity. We believe that contracted cashflows, the backing of real assets and sustained institutional demand continue to be strong bulwarks against volatility.

[6] This transaction was selected to illustrate our digital infrastructure financing capabilities and our focus on projects with secured power access and strong counterparties. It was not chosen based on its investment performance or financial returns.



**Lillian Nunez**
*Co-Head of Asia-Pacific Diversified Credit*



**Hiran Wanigasekera**
*Co-Head of Asia-Pacific Diversified Credit*

# Diversified credit: Patience pays in a higher-rate world

Amid a backdrop of persistent inflation and rising rates, diversified credit offers investors the opportunity for higher yields, although increased borrowing costs are placing further pressure on corporate balance sheets.

## Key takeaways

1. **A higher and more uncertain rate environment and persistent inflation will test investors' ability to differentiate between borrowers in a challenging operating environment.**
2. **A period of stress in Australian real estate credit can create opportunities for patient, long-term investors in a dislocated market.**
3. **Asia's maturing credit markets are structural opportunities for investors focused on quality borrowers and long-term megatrends.**

The past year has seen investors contend with surprising monetary policy changes and inflation expectations firmly establishing themselves as risks. In a higher-rate world, we look to capture opportunities as the cost of credit is repriced across the broader Asia-Pacific region. Investors, however, will need to be selective in this changing environment, and we believe those focusing on quality, reliable borrowers will be able to withstand 2027's turbulence.

Investors had to adjust their rate expectations multiple times throughout 2026. Five interest rate increases by the Reserve Bank of Australia as of November 2026 have brought the cash rate to 4.85%, the highest since 2008. The US Federal Reserve has also raised interest rates for the first time since 2023.

Policy will remain a source of uncertainty going into 2027. In Australia and in many developed markets, central banks will stay on guard against the threat of inflation, fuelled by supply chain disruption and geopolitical tensions.



This backdrop holds mixed blessings for credit. While higher rates can put pressure on corporate balance sheets, higher yields mean that investors need to take less risk to meet their return targets, and may have an opportunity for high single-digit returns in both Australia and less mature markets across Asia-Pacific.

## A new normal for borrowing costs

After a year of policy surprises, we are facing a higher and more uncertain rate environment. Inflation risks limiting the scope for sustained monetary easing in major economies including the US and Japan, and higher energy prices are keeping inflation on the agenda. Heightened geopolitical risk and fiscal deficits – especially in the US – also mean investors are likely to demand a greater term premium, keeping benchmark yields elevated. The challenge will increase as a result of the significant funding needed to support the expansion of AI-linked data centres.

In Australia, we see the greater risk not as an inflationary spiral but as stagnation, in which low growth prevents businesses from passing on rising costs and squeezes margins.

Private credit is well placed for this environment. Unlike the public bond markets, floating-rate loans reset higher as base rates rise. Relatively short tenors also provide investors with repricing power should spreads move more dramatically.

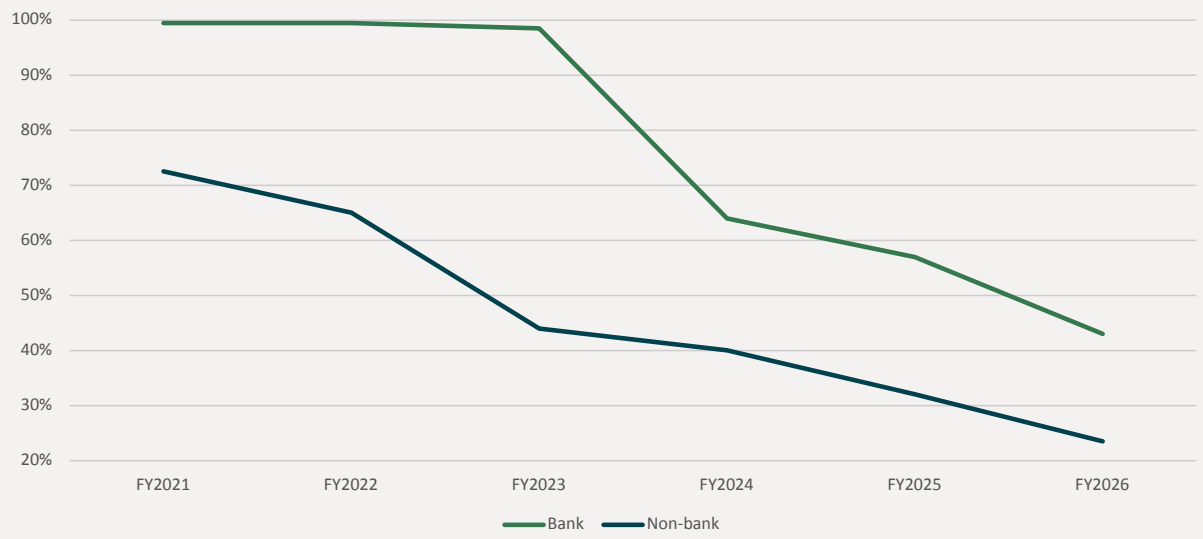
The key question is whether borrowers can cope. Higher rates and rising costs are negative for corporate balance sheets, but we expect greater differentiation. Companies with genuine pricing power will pass on higher costs, while others will have to accept narrowing margins, resulting in higher credit risk. To paraphrase Warren Buffett, it is only when the tide goes out that you discover who has been swimming naked – and rising interest rates are often a sea change for corporate credit.

For investors, higher yields change the risk-reward calculation. With government bond yields also pushing higher, we are alert to attractive risk-adjusted opportunities across the credit spectrum, including in public markets and structured credit.

> **In Australia and in many developed markets, central banks will stay on guard against the threat of inflation, fuelled by supply chain disruption and geopolitical tensions.**

GRAPH 1

**NON-BANKS MAINTAINING A GAP AGAINST BANKS ON PRESALE DEBT COVERAGE REQUIREMENTS**




**Source:** Ashurst Perkins Coie Australia Real Estate Finance Market Update 2026

## Finding value amid disruption

These dynamics, coupled with signs of stress in the Australian corporate sector, are likely to spur a flight to quality in Australian credit.

The recent collapse of a Sydney developer owing more than A$3 billion to around 40 private lenders is one of the largest construction insolvencies in recent Australian history.[1] The insolvency has led private credit investors to refocus on the capability of lenders to assess risk within a rapidly changing market landscape. A continued softening of the Australian residential housing market will present opportunities for lenders able to navigate these risks. Banks traditionally granted development loans subject to full presale debt coverage. In recent years, the number of units covered by presale has declined to less than half due to increasing competition arising from strong capital inflows into bank and non-bank lenders.

Developers who obtained financing with low presale requirements in 2023–24 will have to refinance unsold units into residual stock loans, and with presale levels in the following years even lower (Graph 1), we expect demand for the residual stock loan market to grow further in the near term.

It will be up to lenders to assess what the appropriate risk premium should be for a residential development or residual stock loan in a slowing housing market. Regulators are also paying attention: ASIC Commissioner Simone Constant warned in September that “the first significant cracks” are beginning to emerge, as the sector’s weaknesses are tested at scale for the first time.[2]

We expect a period of consolidation of lenders in Australian private credit as the market absorbs these stresses. Examples of gating at semi-liquid investment vehicles could also weaken sentiment towards the sector.

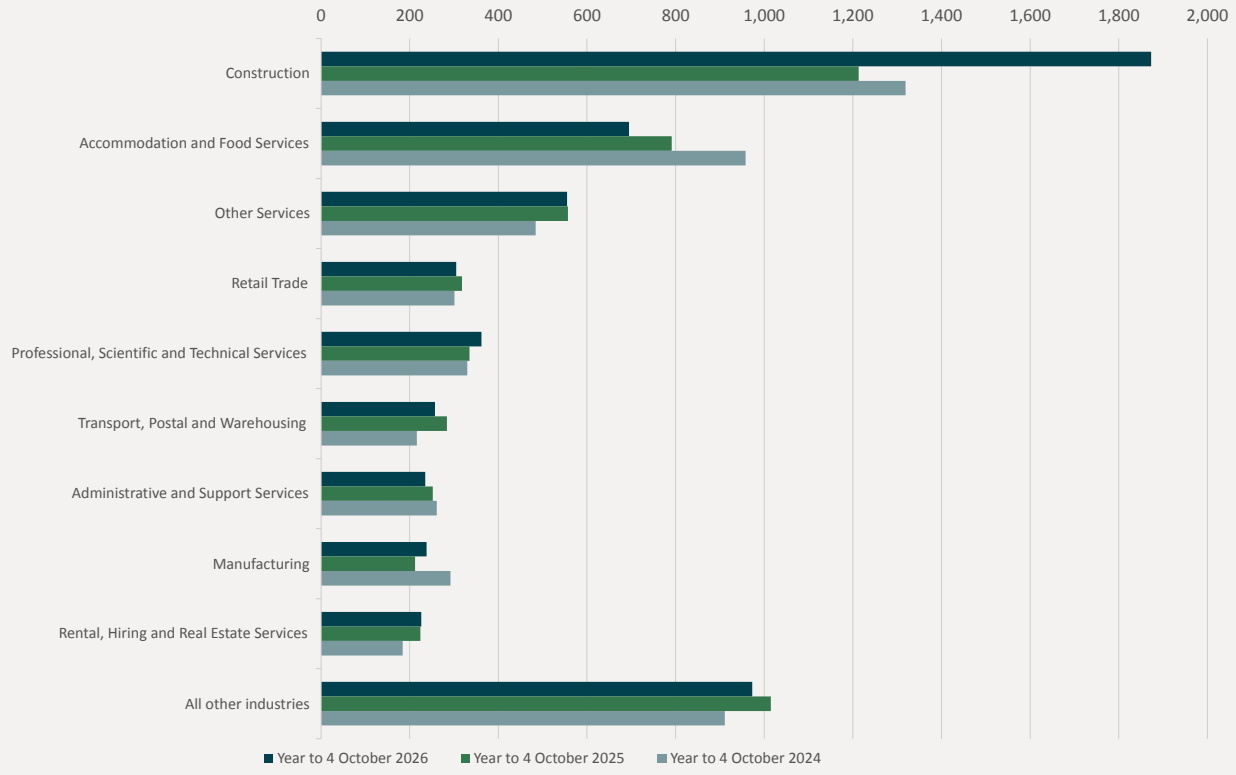
We believe long-term investors can view this adjustment not as a cause for alarm but as a healthy shake-out in a rapidly growing market. The growth of private credit in Australia has mirrored global trends, and it is worth noting that similar stresses elsewhere have not dented enthusiasm for private credit as an asset class.[3]

We also take comfort from historically low default rates and broad diversification in Australian corporate credit, where technology-related borrowers make up a much smaller slice of the overall pie than they do in the US, for instance. Patient, well-capitalised investors will have plenty of opportunities to find value in a dislocated market.

[1] Primrose Riordan, Max Mason (2026), Bathla’s collapse is slowly revealing a long trail of shadow lending
[2] Australian Securities and Investments Commission (2026), The case for private credit standards: if not, why not?
[3] Preqin (2026), Private Credit Q2 2026: Preqin Quarterly Update

GRAPH 2

**CONSTRUCTION LEADS A RISE IN AUSTRALIAN CORPORATE INSOLVENCIES**




**Source:** ASIC Australian insolvency statistics

Private equity-led refinancing can be another potential source of opportunity. With muted M&A activity and limited access to the IPO markets, many private equity firms are looking to refinance existing agreements on amended terms. Refinancings – rather than new-money investments – have also dominated syndicated loan volumes in the US and Europe over the past year.

Competition among lenders has allowed pricing on these refinancings to grind tighter. Where lenders have hit their return floors, we have seen cases where some were willing to give ground on terms, accepting looser covenants or weaker collateral requirements. Higher rates and a renewed focus on quality are likely to limit this trend, presenting more compelling opportunities for long-term investors.

## Riding the AI investment wave

The scale of investment in data centres is transforming credit markets globally – and Asia-Pacific is no exception.

Data centre deals have become much larger, with A$1 billion-plus projects now increasingly common. Developers are beginning to explore GPU financings and securitisation to meet surging demand for capital. Grid upgrades and energy projects are rising up the priority list.

We see significant opportunities in this area, with two key concerns. The first is the default risk on more marginal projects, if construction schedules slip or end-customers fail to monetise their AI investments. The second is the risk of a crowding-out effect as financing for the AI build-out competes with other investment requirements, potentially pushing spreads higher across all credit segments.

We mitigate these risks by focusing on fundamentals and investor protection. In digital infrastructure, we concentrate our attention on top-tier borrowers and established assets, resisting the temptation to chase returns. Bankability is a priority – in credit as much as in other asset classes.

## Asia as a growth engine

Asia also stands out as a relative value play and structural opportunity. Economic growth and bond yields are attractive, and we believe there is a premium to be earned from emerging Asian markets relative to developed markets. Many of the region's emerging economies have proven their resilience in 2026 despite reliance on imported fuel and tariff-induced supply chain disruptions fuelling inflation. As economies in the region mature and move through their own cycles, financing is becoming more sophisticated, with notable growth in non-bank credit.

Asia-Pacific private credit is projected to grow by nearly 56% to US$92 billion in the four years to 2027, according to the Alternative Investment Management Association.[4] Even so, the region remains underpenetrated: it accounts for more than a third of global GDP but only around 6–7% of global private credit assets, and its companies still rely heavily on bank lending.

The AI build-out is also accelerating this structural transformation in Asia. Banks remain the dominant source of credit in the region, but their capacity to fund new projects is not limitless. As banks look to recycle their capital, we expect non-bank lenders to play a greater role in the region's credit markets.

## The return of M&A?

Early signs of a rebound in M&A activity point to the upside potential for private credit across Asia-Pacific.

Higher rates will accelerate the revaluation of growth businesses and could close the valuation gap between buyers and sellers. International interest in Asia-Pacific is also growing.

While not our base case, we expect to see more lending opportunities across corporate credit if M&A bounces back strongly.

The data so far shows how much ground there is to make up. In Australia and New Zealand, announced M&A deal value fell by one-third in the 2026 financial year to around US$83 billion – its lowest level in a decade and well below the record US$246 billion of four years earlier – even as global dealmaking rose 45% over the same period.[5] The absence of large deals was the most notable feature, and inbound transactions fell to their lowest level since 2017.

Looking ahead to 2027, higher yields offer opportunities, but borrower resilience will remain critical. Stress in parts of the Australian market, the AI build-out and Asia's maturing credit markets each present scope for patient investors to find value, alongside risks that demand careful assessment. Across these opportunities, our focus remains on quality borrowers, disciplined pricing and strong investor protections. In a normalising world, patience means being ready to act when those fundamentals align – not chasing returns at the expense of lending standards.

[4] AIMA (2025), Report highlights Asia-Pacific's growing global private credit market
[5] Boston Consulting Group (2026), Australia and New Zealand M&A 2026: Headwinds Call for Targeted Dealmaking



**Scott Mosely**
*Head of Real Estate*

# Australian real estate: Near-term caution, long-term opportunity

Higher interest rates and slower growth call for caution in Australian real estate in 2027. But constrained supply, resilient demand and potential repricing could create opportunities for patient investors focused on quality assets.

## Key takeaways

1. **Higher interest rates and economic uncertainty are making commercial tenants more cautious, while retail spending has remained resilient.**
2. **We expect steady improvement in office markets over the next 12 months as supply moderates.**
3. **Upward pressure on capitalisation rates will likely drag on near-term returns, but any fall in prices could create buying opportunities for patient investors. High-quality assets in core locations are likely to prove the most resilient.**

Australia's real estate market is under pressure from rising interest rates and an uncertain economic outlook. Yet many segments continue to offer value, and a slowdown in supply can be constructive for long-term investors and portfolios built around durable cashflows and resilient demand.

November's interest rate decision pushed Australia's cash rate to the highest since 2008 – and further tightening cannot be ruled out. Unlike the period following the 2008 Global Financial Crisis, when Australian real estate investors who entered the market were rewarded across most types of assets and locations, this cycle will produce both winners and losers. Investors with the required operational capability will be able to unlock value. While IFM Investors' senior leadership has been through softening cycles before, with the platform benefiting from a strong operational capability, these are uncharted waters for less seasoned owners and investors.



In a higher-rate environment, coupled with persistent inflation and slower growth, tenants who might otherwise have sought new premises will be more cautious about moving, particularly in the office and industrial segments, to avoid relocation costs. However, the bifurcation of the office market will continue, with tenants willing to move gravitating towards high-quality buildings close to public amenities. This occurs against a backdrop of a significant slowing in office development, and the industrial sector is set to follow that trend.

Ongoing efforts to cool the economy warrant a cautious outlook. That said, we anticipate higher capitalisation rates – and the resulting pressure on asset prices – to create long-term buying opportunities, and we will continue to seek returns from high-quality real estate assets across multiple segments.

## Buying or developing?

In the office market, the strength of tenant demand gives us confidence going into 2027. Demand has held firm in Brisbane and Sydney, with Melbourne showing signs of recovery despite its central business district continuing to have the highest office vacancy rate among comparable markets. Canberra, meanwhile, has struggled, with new supply meeting muted interest.[1]

Despite recent commentary around the impact of AI on white-collar careers, we do not predict an immediate impact on office demand. AI-linked staffing changes should be taken seriously, but not viewed in isolation.[2] Many recent employment decisions – often linked to AI-led efficiencies in press coverage – instead reflect the economic cycle and market and margin pressure. In the medium term, some roles are likely to be reduced, others redefined. New functions will emerge, offering opportunities for upskilling, as businesses learn how to use the technology effectively. In light of these developments, a place will remain within the community for high-quality office sites that attract workers through their amenity.

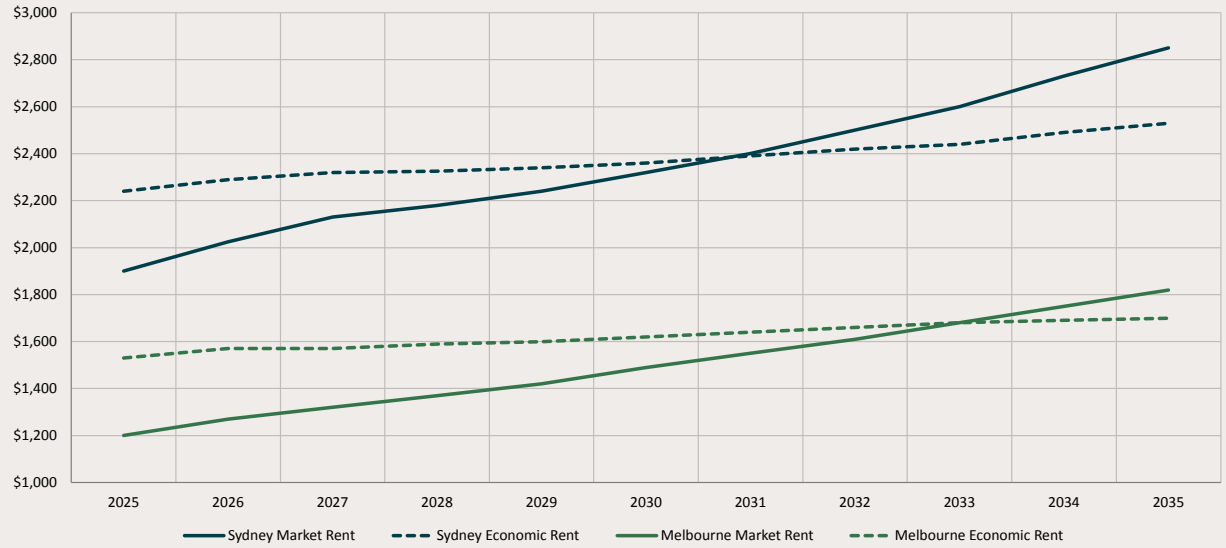
Looking at the year ahead, the challenge facing the sector now is one of feasibility. Investors able to deploy capital into the office sector in 2027 will need to ask whether new office developments stack up. On the evidence, it appears some will struggle.

[1] Property Council of Australia (2026), Melbourne office market stabilising, but nation's highest vacancy underscores work ahead on better policy and tax settings; Brisbane bucks the trend as CBD office vacancy plunges; Sydney CBD vacancy falls as premium demand drives office recovery; Canberra office vacancy jumps as new supply lands, but Civic remains the critical challenge.

[2] Bradley Speers, Maximus Girgis (2026), The impact of AI on the office sector

**GRAPH 1**

**MARKET VS ECONOMIC RENT FORECASTS FOR SYDNEY AND MELBOURNE**




**Source:** Cushman & Wakefield

Across state capitals, even the strongest markets are unable to charge the rents required to cover the cost of construction. Sydney, the office market where the gap is smallest, was reporting market rents 18% below economic rents – a rift that widened to a chasm when looking at Perth, where the gap was 39%.[3]

Faced with harsh economic realities, some owners of existing A-grade office stock will begin 2027 holding valuations higher in the expectation that capitalisation rates will compress. This means patient and agile investors with a strong balance sheet will still be able to grow their office holdings. This is despite forecasts of only 200,000 square metres of new floor space completing in both 2027 and 2028, across Australia's five largest cities – compared to close to 600,000 square metres completed in Sydney alone during 2024.[4] With construction costs rising, CBRE projects the next five years to be the lowest for new office supply since the 1990s.[5]

The slowdown in new developments combined with falling vacancy will ultimately shift negotiating power in favour of landlords, and we expect rental income to hold up well as a flight to quality continues.

## Stagnating per capita spending requires asset resilience

Across other sectors, durable cashflows and pricing power take on increased importance in the current environment.

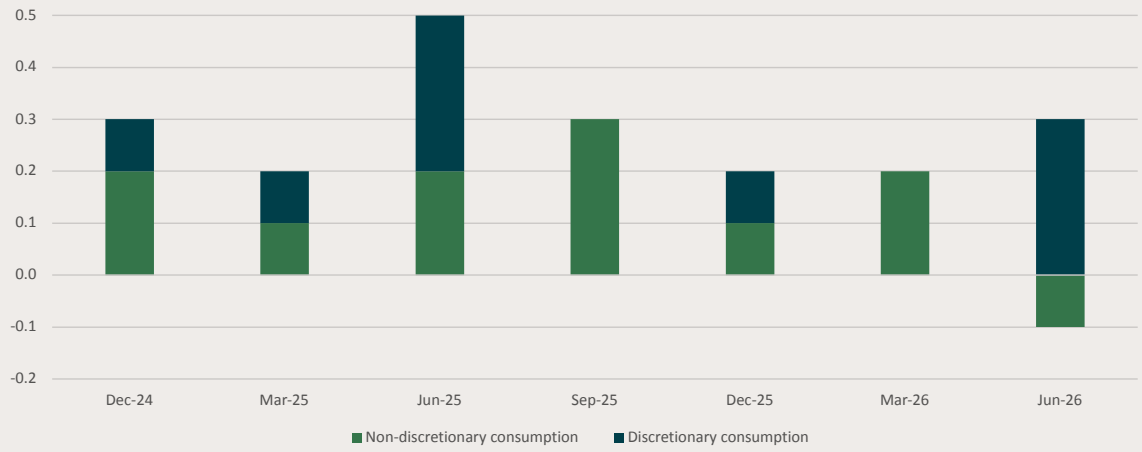
In industrial real estate, vacancy rates have moved higher in Sydney, Melbourne and Adelaide, albeit from lows not often seen in the market.[6] Nonetheless, we see room for improvement over the coming year. Warehouses and logistics, in particular, are likely to benefit from long-term demand as geopolitical risks drive Australian businesses to move more of their supply chains and inventory closer to home.

Retail, meanwhile, remains broadly resilient – as we noted in our 2026 outlook. Household spending was up 6.8% year-on-year in August 2026, according to the Australian Bureau of Statistics. This supported our positioning, although there are signs that high energy prices and interest rate increases are starting to have a cooling effect on discretionary spending.[7]

[3] Cushman & Wakefield (2026), The cost to build: Rising economic rents are constraining new office supply, p. 5
[4] Ibid., p. 4
[5] CBRE (2026), Why 2026 is the year of the office for investors
[6] CBRE (2026), Australia's national industrial & logistics vacancy remains steady at 3.2%
[7] Australian Bureau of Statistics (2026), Household spending unchanged in August

GRAPH 2

**DISCRETIONARY AND NON-DISCRETIONARY CONSUMPTION CONTRIBUTIONS TO QUARTERLY GROWTH IN GDP**




**Source:** Australian Bureau of Statistics

According to Deloitte Access Economics,[8] this is forecast to slow to 0.7% in 2026-27, down from 1.9% the previous financial year. Additionally, much of recent retail growth has been nominal, and once inflation is stripped out, the figures for per capita spending paint a more subdued picture – illustrating how much of Australia's recent success has been aided by population growth.

Local demand for grocery and convenience provides a solid foundation for neighbourhood and regional retail sites going into 2027. Developments anchored by grocery stores and other non-discretionary spending will likely be more protected as household spending is pinched, with the June 2026 quarter decline in non-discretionary spending visible in Graph 2 largely attributable to lower fuel costs resulting from the reduction in fuel excise duty. CBD locations may benefit as foot traffic builds back towards pre-pandemic levels. Major national brands continue to seek out sites they expect to perform strongly beyond the current cycle.

## A market facing headwinds

The economic backdrop means the next 12 months are set to be more challenging overall for Australian real estate. Recent rate increases are likely to have the intended effect of reducing consumer spending, with knock-on impacts for the wider real estate market.

Investors with core strategies are likely to be well positioned for this cycle. Those with a strong focus on proven assets in markets with lower vacancy rates and real pricing power may be able to protect against inflation.

## Healthy outlook for healthcare, life sciences and education

Australia's ageing population and growing university sector will continue to generate opportunities in the healthcare, life sciences and education sectors. While recent reforms to the aged care system placed renewed emphasis on in-home support, this only slightly reduces the growing demand for retirement living options.

Healthcare precincts will also grow in importance. By offering an ageing population the ability to have their medical needs met in one place, they have the potential to improve healthcare outcomes. The University of NSW's Health Translation Hub, an asset within IFM Investors' real estate portfolio, illustrates how the sector might evolve. It brings acute healthcare services under the same roof as researchers and the next generation of healthcare professionals.

[8] Deloitte Access Economics (2026), Deloitte Access Economics Retail Forecasts

## Alternative real estate

Some alternative segments of the real estate market are well placed to outperform in the current cycle.

The rapid growth in data centres – sitting at the intersection of the real estate and infrastructure markets – will likely lead to increased competition for land suitable for industrial real estate. However, we do not anticipate data centres and industrial projects to crowd each other out over the longer term, given Australia still has ample potential industrial land and development sites. Developers are more likely to compete over whether banked land is used for one or the other, allowing rapid development to meet growing demand in both sectors. In the short term, developers in Australia will need to address the challenge of their social licence if they wish to succeed. This is most apparent where developments are proposed within residential neighbourhoods, often requiring significant upgrades to existing power infrastructure and measures to address local concerns about noise.

An emerging risk for the education and student accommodation sectors centres on a potential reduction in Australia's migration intake and its impact on attracting international students, as political parties debate the level of acceptable immigration.

Beyond the near-term cycle, the investment case for Australian real estate remains supported by constrained new supply, structural demand across several sectors and opportunities created by repricing. For investors, current market conditions may create attractive entry points into high-quality assets positioned to benefit as the cycle turns.





**Jeff Chee**
*Global Head of Investment Research*

# Building for multiple futures: A 2027 outlook through the lens of uncertainty

Megatrends are set to drive and disrupt inflation dynamics over the coming year and beyond. As their effects cut across traditional asset classes, do investors need a new framework for building robust portfolios?

## Key takeaways

1. **Some of the most attractive opportunities in private markets will be the assets that sit at key bottlenecks within the system and address the intersection of multiple structural changes.**
2. **Becoming increasingly agnostic to labels and understanding the characteristics of assets, sectors and economies that create positive and negative exposures to structural shifts should lead to more robust portfolios.**
3. **The assets most likely to hold up consistently across plausible futures are those that are essential to the economy and society, have explicit inflation linkage/pass-through and are conservatively leveraged.**

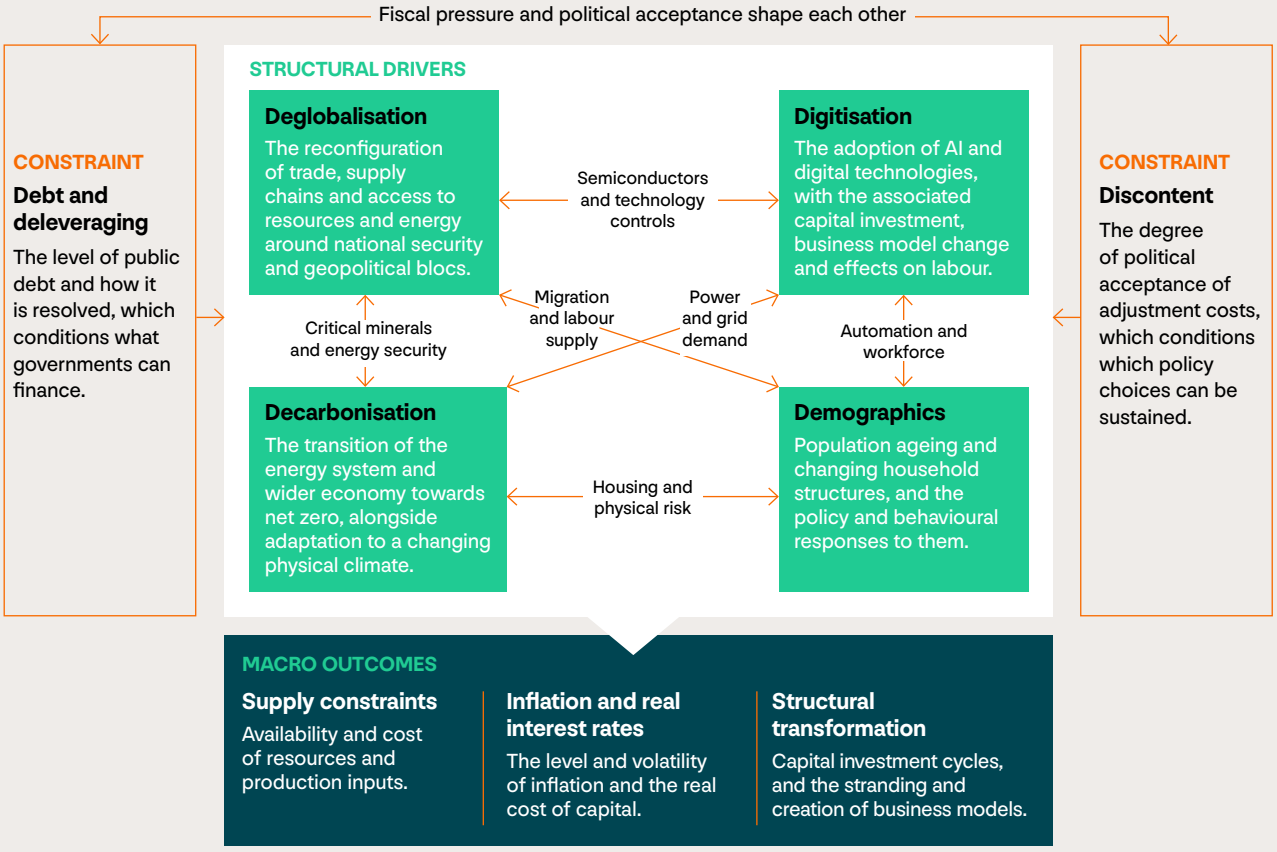
For most of the three decades before the pandemic, portfolio construction often rested on three assumptions. The equity risk premium was a reliable engine of long-term returns. Diversifying across asset classes made portfolios more robust. And bond and equity returns were uncorrelated or negatively correlated.

Those assumptions held in a relatively benign environment of low, stable inflation. But in the background, four structural shifts were building: deglobalisation, digitisation, decarbonisation and demographics. Their economic and market impacts are becoming more evident.

Recent events show how quickly these shifts can become real-world constraints. The war in the Middle East that began in February 2026 was followed by what the International Energy Agency calls the largest supply disruption in the history of the oil market. That has raised the importance of energy security, and with it the role of the energy grid. The grid now sits at the centre of three shifts

GRAPH 1

THE KEY STRUCTURAL SHIFTS SHAPING LONG-TERM OUTCOMES




**Source:** IFM Investors. Structural framework, not a forecast.

at once: decarbonisation needs it to connect new, clean power sources; digitisation to power data centres, and deglobalisation to replace imported fuels with local alternatives. The pressure is already showing. More than 2,500 GW of renewable, storage and large-load projects are waiting in grid connection queues worldwide[1] while data centre electricity demand rose 17% in 2025 – a taste of the doubling of demand expected by 2030.[2]

Each of the four shifts needs physical assets to be built, and they increasingly compete for the same equipment, grid capacity, skilled labour and public balance sheets. Private capital can scale quickly. Equipment, grid capacity and skilled labour cannot. That competition risks making supply shocks more frequent, which pushes inflation higher and makes it more volatile. In those conditions, equities may struggle at the same time that bonds fall. This undermines the assumptions many portfolios were built on.

How these shifts play out will shape the economy for years to come. With public balance sheets stretched, more of the investment they require will need to come from private capital. For private market investors, who commit capital for many years at a time, that makes the shifts central to investment decisions. The aim is to build portfolios that can hold up across several possible futures.

## A framework for thinking about structural shifts

The key structural shifts that will drive long-term outcomes and some of the important interconnections between them are set out in Graph 1.

The investment implications of the four main structural drivers – deglobalisation, digitisation, decarbonisation and demographics – reach portfolios in one of two ways. Bottom up, they will

[1] International Energy Agency (2026), Electricity 2026: Analysis and forecast to 2030
[2] International Energy Agency (2026), Key Questions on Energy and AI

reshape demand, create new essential assets and/or business models, strand others and widen dispersion within asset classes. Top down, they can change the regime itself, for example which constraints bind and how often – as well as how inflation and real rates behave.

## Bottlenecks and intersections present bottom-up opportunities

When thinking about bottom-up opportunities, it is important to consider the various constraints that determine what combinations of the structural shifts are feasible:

**Supply constraints** – each structural shift either increases demand for, or creates limitations on, resources, energy, labour and other key inputs which are inherently finite in nature.

**Fiscal capacity** – stretched public balance sheets raise the risk premium on government debt and increase reliance on private capital to fund the investment required to support structural shifts.

**Social cohesion** – the structural shifts will result in adjustment costs and other impacts which need to be societally acceptable and sustainable.

Combining these with the interconnected nature of these structural shifts suggests that some of the most attractive opportunities in private markets will be the scarce and/or essential assets that sit at the key bottlenecks within the system. In particular, these opportunities will address the intersection of multiple structural changes.

Another important implication of this is that attractive opportunities often sit next to a structural shift rather than being highly dependent on picking winners. Digitisation, deglobalisation and national resilience, and decarbonisation cannot proceed without essential supporting network, storage or power supply assets. This, however, needs to be overlaid with an awareness of the extent to which regulated/allowed returns may be constrained by the level of adjustment costs that are socially acceptable.

## Top-down exposures can complement traditional asset class labels

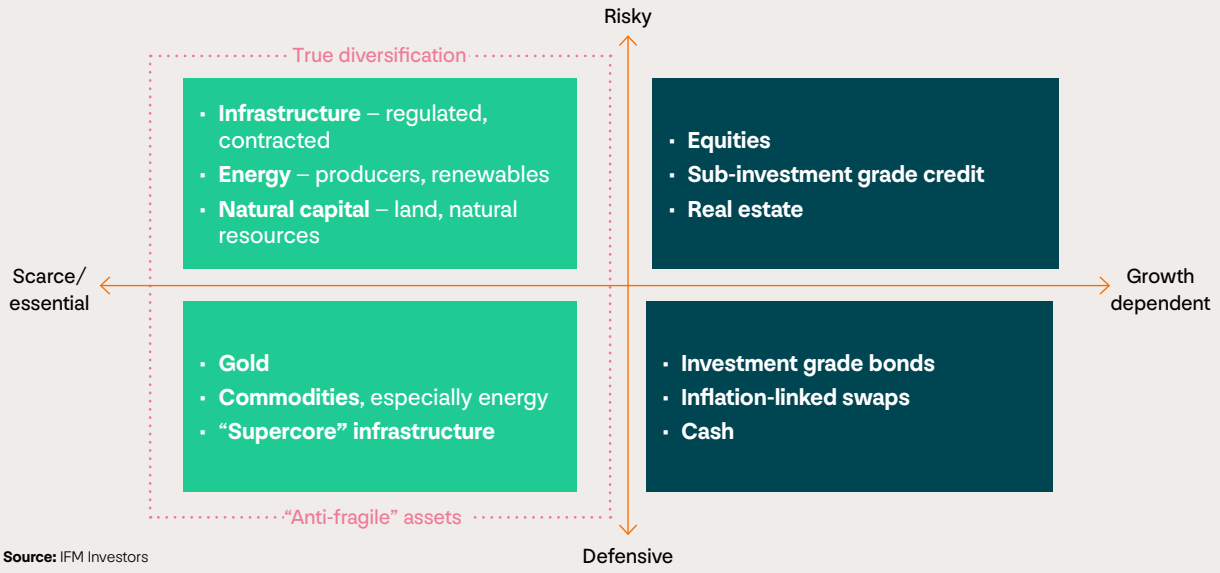
From a top-down perspective, structural shifts challenge traditional asset allocation and portfolio construction processes for two reasons, suggesting instead that investors should adopt a more holistic view.

First, the four structural shifts set out previously can be mapped on to the various sectors of the economic system. Demographics will drive consumer sectors and social/health services. Digitisation will spur investment in technology and communications, and decarbonisation in energy and utilities. And deglobalisation will fuel growth in trade and materials. Investors should not assume that the differential returns driven by structural shifts will continue to flow to conventional asset classes and the labels that underpin strategic asset allocation approaches to investing. Instead, becoming increasingly agnostic to labels and understanding the characteristics of assets, sectors and economies that will create positive and negative exposures to structural shifts should lead to more robust portfolios.

Second, as noted earlier, deglobalisation, digitisation, decarbonisation and demographics all need physical investment, and all compete for the same limited investment, equipment and labour. Competition for scarce inputs increases the frequency of supply shocks and therefore inflation volatility and structural inflation levels. These in turn create the exact conditions that undermine and even break traditional portfolio construction. In such scenarios, investors could see equities deliver poor returns at the same time that bond and equity returns are positively correlated. This suggests that scarce and essential assets, for example regulated and contracted infrastructure, energy, land and natural resources, should be emphasised in terms of their diversifying and defensive characteristics. An alternative way of classifying asset classes through this lens is illustrated in Graph 2.

GRAPH 2

ALTERNATIVE CLASSIFICATION OF ASSET CLASSES




**Source:** IFM Investors

## Monitoring change to understand plausible futures

Future pathways for the deglobalisation, decarbonisation and digitisation themes have evolved significantly in recent years. The evolution points to the challenge in predicting the global economy's end-state in 10, 20 and 30 years. Outcomes depend on how each of the factors interacts with economic performance and the demands these changes place on society. Investors will need to continuously monitor developments to understand which plausible futures are becoming more or less likely to occur, how the changes impact the scenarios they are monitoring and how shifts change which assets and portfolios are likely to be more robust going forward.

Reflecting the challenges associated with scarcity, grid investment, expected to approach US$550 billion in 2026[3], must contend with labour and equipment shortages, and construction delays caused by overwhelmed permitting systems. Similarly, governments and local communities remain at odds in many countries over how enthusiastically and tightly to embrace proposed data centres, casting doubt over AI growth ambitions without the desired capacity.

The need to monitor developments continuously should not be confused with the need to adjust portfolios frequently. From a private markets perspective, the key is to use insights on the likely future state of the world to inform commitment pacing, support underwriting activities and identify assets and strategies that are likely to be robust to a range of different futures. The divergent and rapidly changing nature of long-term outcomes also suggests that flexibility and structural liquidity are likely to be increasingly attractive features of private market solutions now and in the future.

Table 1 sets out four plausible futures/regimes, the likely macro outcomes under these, and a set of signposts that could be used for real-time monitoring. These are neither forecasts nor exhaustive and no probabilities are attached.

Looking across the four plausible futures set out in Table 1, the assets most likely to hold up consistently share the same traits: assets that are essential to the economy and society, possess an explicit inflation linkage/pass-through and are conservatively leveraged. The equity/bond correlation turns negative in only one plausible future, and only there does inflation eventually anchor. Although in that environment conventional equity-heavy portfolios will likely outperform portfolios designed with robustness in mind, the case for robustness does not require high inflation to be the most likely outcome, only that the range of outcomes is wider and lumpier than conventional portfolios were built for.

[3] International Energy Agency (2026), World Energy Investment 2026

TABLE 1

**FOUR ILLUSTRATIVE PLAUSIBLE FUTURES (NOT FORECASTS)[4]**

| Plausible future | Macro character | Signposts |
|---|---|---|
| **Recurring supply shocks** Security-driven duplication, chokepoint disruption and labour scarcity keep supply tight. | Inflation higher and volatile; growth modest; real long rates elevated through term premia; equity/bond correlation mostly positive. | Frequency of export controls and chokepoint disruptions; wage growth relative to productivity in ageing economies; term premium estimates. |
| **Capex-led productivity** AI and electrification investment lifts measured productivity and eases bottlenecks over time. | Inflation elevated during the build, then easing; growth stronger; real rates higher on investment demand; correlation drifting negative as inflation anchors. | Productivity in AI-adopting sectors; grid connection and equipment lead times; share of capex funded from cash flow rather than debt. |
| **Fiscal dominance** Debt service, defence, ageing and transition spending outrun consolidation, and inflation is tolerated. | Inflation moderately higher and persistent; growth modest; short real rates suppressed, long rates volatile; correlation positive. | Interest costs as a share of revenue; pressure on central bank independence; regulation steering savings into government debt. |
| **Disorderly adjustment** Combined adjustment costs exceed political tolerance, policy reverses and a leverage or liquidity accident amplifies the shock. | Inflation unstable in either direction; contraction then uneven recovery; rates volatile; correlation unstable. | Frequency of major policy reversals; redemption queues in semi-liquid vehicles; stress in non-bank leverage. |

## Implications for private markets

In 2027, we believe investors should consider how to change both their mindset and practices when identifying opportunities and risks in private markets in light of major structural shifts.

Bottom-up considerations suggest that some of the most attractive opportunities sit at bottlenecks in the economic and social systems where supply constraints bite and/or where multiple structural shifts intersect. Top-down considerations imply that structural shifts are likely to create conditions that make traditional asset class labels less useful for understanding how structural shifts will impact portfolio returns. The same situation will also fundamentally change which assets are likely to be most useful for improving portfolio robustness.

The plausible futures arising from the major structural shifts imply highly differentiated economic outcomes. These perspectives can be supported by developing a set of scenarios or plausible futures that capture the combined impact of different evolutions of the key structural shifts and a set of signposts for these that can be monitored in real time.

The assets most likely to hold up consistently across these plausible futures are those that are essential to the economy and society, have explicit inflation linkage/pass-through and are conservatively leveraged. From a product structuring perspective, elevated uncertainty over long-term outcomes increases the value of portfolio flexibility and therefore structural liquidity.

[4] Plausible future scenarios presented are for illustrative purposes only. Plausible futures are based on certain assumptions that may not materialise and other information that may prove inaccurate. These assumptions generally involve considering macroeconomic characteristics, long-run economic conditions, among other criteria. There is no guarantee that the scenarios presented will materialise.

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