IFM Investors

The Private Markets Macro Outlook

Megatrends prevail despite uncertainty

By Alex Joiner, Julio Garcia, Rich Randall, Lillian Nunez, Hiran Wanigasekera and John Dynon

Outlook for 2026

Global markets ended 2025 on firmer footing than expected in what was a turbulent year. Tariff shocks faded, but policy uncertainty, and trade and geopolitical tensions loom for 2026. Advanced economies face modest growth, loose fiscal stances, and idiosyncratic monetary easing. Equity market gains need to broaden out to be sustained, while fixed income offers limited upside and real assets remain a defensive play.

Across infrastructure equity, we expect to see a continuation of megatrends that have dominated the sectors for the past decade, with investors continuing to deploy capital both into traditional and renewable energy sectors, as well as funding the growth of digital infrastructure.

Meanwhile, Infrastructure debt is expected to remain resilient in 2026, with continued strong investor appetite for power, energy, and digital assets across developed markets.

Debt remains an important part of the capital structure for infrastructure, which supports a consistent supply of investment opportunities to fund improvements, expansion, mergers and acquisitions and general corporate operations of infrastructure businesses.

Following a year that has seen public credit spreads tighten – in some segments becoming exceptionally tight – with private credit following the trend, we expect that investors seeking opportunities in private credit will have to be more selective in 2026, working with managers to identify superior relative value. Despite this, we still expect see opportunities for attractive risk-adjusted returns, even if the coming year sees a continued slowing in the rallying of credit spreads.

The Australian property market enters 2026 with a cautiously optimistic tone, underpinned by resilient consumer demand and structural shifts across key sectors. Looking across Australian real estate markets, we predict that the retail sector may offer the most growth potential in the coming year.

Alex Joiner
Chief Economist

Economic Update

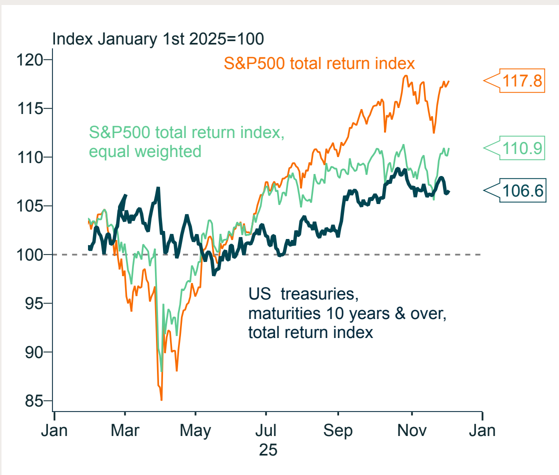
Key takeaways

1. **Equity markets:** Non-AI sectors will need to lift to support US markets and US policy volatility underpins the other developed market bid.
2. **Fixed income:** Bond yields drifting given the economic, fiscal and monetary outlook, resistance to move materially lower.
3. **Real assets:** Unlisted infrastructure attractive as a hedge against uncertainty.

Global markets ended 2025 on firmer footing than expected in what was a turbulent year. Tariff shocks faded, but trade tensions and policy uncertainty loom for 2026. Advanced economies face modest growth, loose fiscal stances, and idiosyncratic monetary easing. Equity market gains need to broaden out to be sustained, while fixed income offers limited upside; real assets remain a defensive play.

FIGURE 1

US EQUITIES AND LONG -DURATION TREASURIES



Source: IFM Investors, Bloomberg, Macrobond

Global economic state of play

As 2025 drew to a close it appeared that the global economy, and advanced economies in particular, had entered a period of relative stability – a somewhat surprising one given the tumultuous year 2025 had been. The shock to confidence, economies and markets from tariff announcements had largely passed. Trade tensions have not, however, and further volatility in this space likely to be a theme of 2026. Indeed, the relatively benign economic forecasts for advanced economies for 2026 (see Graph 02) risk being a placeholder for more volatility to come. And this comes as a risk to equity markets in particular, that have swung from being as much as 15% lower, (taking the US as an example), in the wake of 'Liberation Day' to as much as close to 18% higher. The sell-off in recent weeks has also been brief, even though the drivers behind it - Fed uncertainty, compounded by the US government shutdown, concerns over AI-hype and a pull-back in broader sentiment – were valid, particularly as we approach an uncertain 2026. European markets (notably smaller ones) and selected emerging markets are also returning very well. Australian equity market gains are relatively modest by comparison. Fixed income also had a turning point mid-year underpinned by a choppy rally of US long duration government bonds. Moving up the credit curve gained investors some return pick up as spreads remained tight despite economic risks.

FIGURE 2

DEVELOPED MARKET REAL GDP FORECASTS

Source: IFM Investors, Bloomberg, Macrobond

Despite global policy rates falling through the year global long duration (over 10 years) bonds underperformed the rally across the rest of the curve. The 10s30s yield curve across G7 countries steepened, driven by an increase in 30-year bond yields and, at the time of writing was at 4.2% - a rate not seen since 2011. This comes as scepticism around fiscal discipline remains a thematic and investors seek a greater term premium to fund government largesse. Fiscal accommodation and large deficits seem likely to persist through 2026. Discontent with many advanced economy governments and the the undercurrent of populism present in some countries presents those in power with a difficult path towards tightening fiscal policy: the UK may be a notable test case through the year. Pressures also stem from the need to increase defence spending across many jurisdictions. The cessation of the Russia-Ukraine conflict is a key geopolitical risk; however, the conflict's end would not remove this need.

In a world where fiscal policy remains relatively loose then the room or need for further monetary easing remains modest. The Fed may find itself easing more than most of its peer central banks even though the outlook for US inflation remains on the high side. And central banks like that in Europe may ease more modestly even though its inflation rate allows it to go further. Central bank responses across advanced economies will be far more idiosyncratic in 2026. Outside of Japan, where modest hikes are expected, the trend will be to ease and hold. This is as policymakers feel for the real interest rate prevailing when the economy is functional, or r*, hoping for stabilised labour markets and grappling with a weaker disinflationary pulse and accommodative fiscal stances.

Recession risks across advanced economies were not high going into 2026 given the absence of any specific disruptive shock on the horizon, even though events seen so far in January indicating that geopolitical uncertainty will remain high. Indeed, economic growth for 2026 is expected to be much as it was in 2025, at trend, at best. Eurozone growth is expected to slow from 2025's pace, despite a pickup in the larger economies, notably Germany. There's little improvement expected in the UK or Japan. While no material improvement is expected in growth in the US its rate of growth is likely to be well above most advanced economy peers. Fiscal and financial condition tailwinds, the AI-investment super-cycle and what has been solid productivity growth should all underpin this differentiation.

As noted, a key thematic for economies and equity markets is AI. We will likely need a clearer path demonstrating how AI investment is to be monetised. This is important for the US equity market as, at the time of writing, the 12.3% price return year to date can be decomposed into 6.9ppts from AI companies and 5.4ppts from the rest of the index. For equity market returns in the US to again be solid in 2026 we'd expect economic performance will need to underpin earnings in non-AI sectors, especially if AI-hype takes a breather.

“In a world where fiscal policy remains relatively loose then the room or need for further monetary easing remains modest.

Julio Garcia
Head of Infrastructure, North America

Infrastructure equity

Key takeaways

1. Maintaining, modernising and evolving existing infrastructure to support economic growth is driving a capex supercycle.
2. We believe that AI, digitisation and electrification, and the increased power demand resulting from these trends, will help boost growth across global energy markets.
3. Investors will increasingly see opportunities arising in renewable energy storage as grids decarbonise, with energy one of the many sectors facing a significant capital shortfall over the next decade which could be addressed by private sector funding.

The coming year will see a continuation of megatrends that have dominated the infrastructure equity sector for the past decade. Investors will continue to deploy capital into traditional and renewable energy sectors, and fund the growth in digital infrastructure. Capital will also support the renewal and maintenance of existing cornerstone assets that underpin the day-to-day functioning of society, while contending with inflationary pressures stemming from rising construction costs. We believe the growth in digital and energy assets, in particular, will support the expansion of data centres as interest in AI grows ever stronger.

In an increasingly fragmented global landscape, deglobalisation has emerged as an inflationary force. Tariffs, protectionist trade policies and restrictive immigration measures are tightening labour supply and elevating input costs. Additionally, the construction sector is facing inflationary pressures and lacks enough skilled workers to fulfill ambitious growth agendas. Businesses will need to carefully cost and manage their projects to navigate these issues.

We believe that the growing use of AI across developed economies will have a mixed effect on inflation. In the short term, ongoing demand for more data centres and the greater power generation they will require is likely to prove inflationary and is expected to provide investment opportunities. In the medium to long term, AI could act as a deflationary force, reducing the cost of business for many companies and helping to improve productivity.

Recent commentary around data centres has raised the spectre of over-investment in the sector. However, we believe that robust assessments of any providers' business model can help mitigate such associated risks. As with any business, it is important to consider track record, client base and prospects. Data centre providers that heavily rely on revenues from a single client or serve a single industry segment, will be riskier than those that earn diversified income streams from across a range of AI and traditional IT users and can regularly secure and retain new clients.

Additionally, evaluating whether plans for data centre expansion fully take account of emerging supply chain risks, construction cost pressures, and land acquisition needs is crucial to safeguard returns against cost overruns. We also believe that data centre providers should focus on the highest levels of sustainability with any new builds, minimising the ongoing costs associated with water and energy usage.

The Capex supercycle

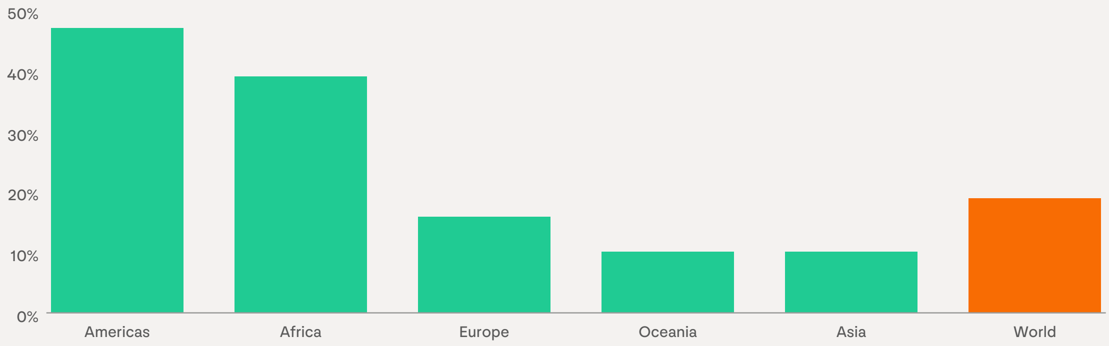
As a long-term investor, we understand the need to maintain, modernise and evolve existing infrastructure, while helping build the assets and networks needed to support a modern economy. Many parts of the developed world have significantly underinvested in infrastructure, and combined with the rapid rate of technological change and its impact on most aspects of everyday life, we anticipate a capex supercycle in infrastructure will be required to enhance and build the transportation, energy, utility and communications assets of tomorrow. This is a trend we already see emerging within our own portfolios.

For investors, we expect opportunities across traditional and renewable energy, transport and transport-adjacent sectors, electricity grid expansion, and digital infrastructure projects.

However, as research by the G20's Global Infrastructure Hub[1] demonstrates, the gap between infrastructure needs and infrastructure funding is expected to remain stark, most notably in the Americas, and across the energy and transport sectors, especially road infrastructure (see Figure 1 and 2).

FIGURE 1

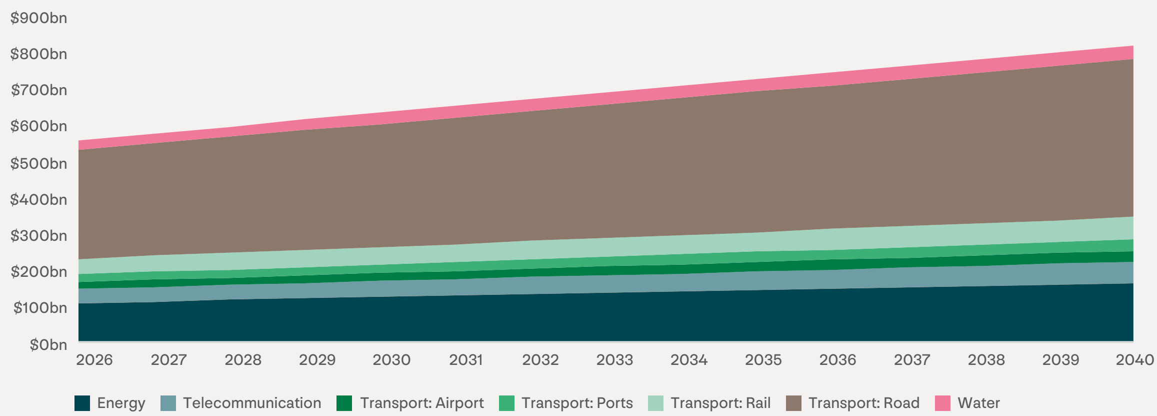
INFRASTRUCTURE INVESTMENT GAP BY REGION, 2016-2040



Source: Global Infrastructure Outlook - A G20 INITIATIVE

FIGURE 2

INFRASTRUCTURE INVESTMENT GAPS BY SECTOR



Source: Global Infrastructure Outlook - A G20 INITIATIVE

[1] Global Infrastructure Outlook - A G20 INITIATIVE

Figure 2 demonstrates that significant capital is needed to support the repair and expansion of road networks, both as demand increases and the types of vehicles using roads evolves. Across toll roads, investors will face the need to fund upgrades to roadside infrastructure to provide additional capacity and adapt to the growing number of electric vehicles (EVs). This is likely to include the installation of roadside charging or supporting emerging opportunities in new technologies such as dynamic under-road charging.

However, EV roadside infrastructure opportunities will vary. The overall number of EVs sold or registered continues to rise year-on-year, with sales rising by 20% globally to 20.7 million, with over 62% of those sales occurring in China.[2] The country remains the largest manufacturer of EVs globally[3], with local companies beginning to grow their presence overseas – BYD, for example, more than doubling exports of cars to 1 million in 2025. EV registrations also increased by 33% in Europe over the course of last year to 4.3 million, with annual 15% growth in sales forecast for 2026, just shy of the global growth trend of 15.7%.[4] In contrast, sales in the US suffered from cuts to tax incentives in 2025, falling by 4% compared to the year prior.

In other areas of transport, we also expect the aviation sector to continue its growth momentum, with the expected continued profitability and sustained demand trends reinforcing long-term value.[5] We believe these characteristics support the strong case for private investment in airport terminals and new runways, allowing the private sector to assume the role of capital provider where the public purse may be constrained or eager to focus limited funds on more electorally appealing social infrastructure, such as new hospitals and housing.

Renewing the energy system

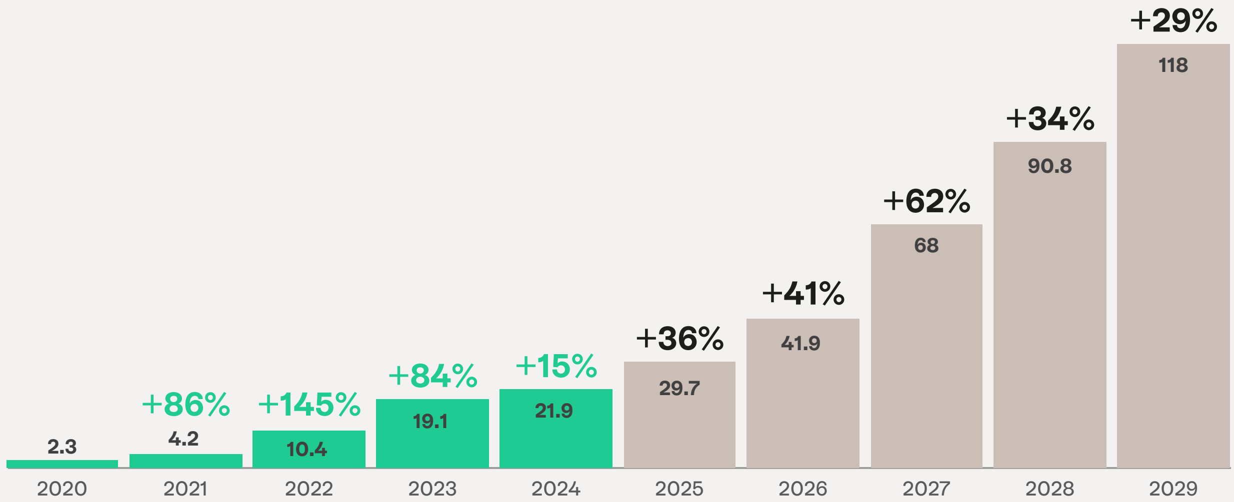
The current focus on the energy transition, and energy security, comes at a time when energy demand continues to rise, requiring not only a like-for-like replacement of older and more polluting sources of power, but a steep growth in output to keep pace with demand. These demands will come from a range of sectors, including the further electrification of transport and rise of AI.

According to one McKinsey scenario forecasting only continued momentum of growth in AI, rather than accelerated demand, the newly built data centres

[2] Global EV sales growth likely to slow after 20% jump in rocky 2025, research firm says | Reuters
[3] Trends in the electric car industry – Global EV Outlook 2025 – Analysis - IEA
[4] Global EV sales growth likely to slow after 20% jump in rocky 2025, research firm says | Reuters
[5] IATA - Global Outlook for Air Transport June 2025

FIGURE 3

ANNUAL NEW BESS CAPACITY IN EU 27, UK AND SWITZERLAND (2020 – 2029F)[5] (GWH)



Source: Solar Power Europe – European Market Outlook for Battery Storage 2025 – 2029 (assumed Medium Scenario)[10]

needed to support global growth would require an additional 124 GW of power by 2030, at a capital cost of around US$300 billion.[6] The accelerated demand scenario would see power requirements rise to 205 GW at a cost of US$600 billion. For scale, the US was predicted to see a record-breaking 64 GW in new capacity come online in 2025.[7] These figures illustrate not only the growing appetite for energy of a single sector, but also the investment opportunities available at present.

While the expected growth in US capacity last year was largely fuelled by solar, wind and battery energy storage systems, accounting for nearly 93% of new capacity, new gas plants continued to enter the market as well. The continued role of traditional fuels is also visible elsewhere. The International Energy Agency (IEA) now predicts a deceleration in how rapidly the shift away from fossil fuels to renewable energy will occur – with fossil fuel consumption now expected to rise for the next 25 years, rather than peaking by 2030[8]. However, as the IEA has consistently predicted, its most recent World Energy Outlook also demonstrates the size of the investment opportunity when it comes to cleaner forms of power. Spending on new grid infrastructure needed to connect renewables projects has lagged behind demand, despite spending on electricity generation now reaching US$1trn annually.[9]

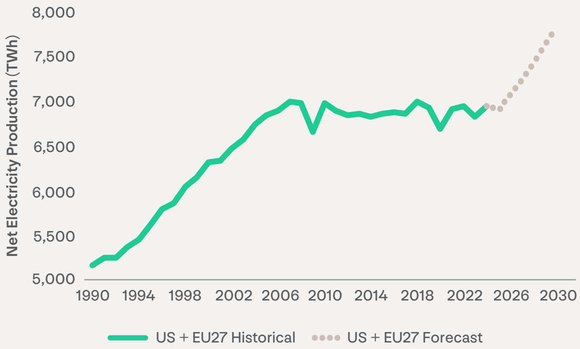
One way to sidestep delays in connecting to new power generation is through a co-location model, where power-hungry consumers construct plants meeting their energy needs adjacent to their data centres and other industrial sites. We have seen such co-location opportunities emerge across our portfolio, with such projects in particular benefitting data centres that otherwise may have been years away from having their energy needs met due to grid

> **Growth battery storage will likely be even more pronounced in comparatively less mature markets such as Australia, where new storage capacity has traditionally been relatively small relative to new generation capacity.**

[6] The cost of compute power: A $7 trillion race | McKinsey
[7] U.S. developers report half of new electric generating capacity will come from solar - U.S. Energy Information Administration (EIA)
[8] Oil and gas demand to rise for 25 years without global change of course, says IEA
[9] Executive summary – World Energy Outlook 2025 – Analysis - IEA
[10] Solar Power Europe – European Market Outlook for Battery Storage 2025 – 2029 (assumed Medium Scenario)

FIGURE 4

US + EU27 NET ELECTRICITY PRODUCTION (1990 - 2030F)[4,5,6,7]



Source: (1) Eurostat, "Gross and net production of electricity and derived heat by type of plant and operator" (2) Eurostat, "Net electricity generation by type of fuel – monthly data" (3) Forecast Sources: Eurelectric, ENTSO-E and ENTSOG TYNDP 2024 Scenarios Report, Oliver Wyman analysis

connection delays.

Additionally, we predict steep growth in battery energy storage systems (BESS), as markets expanding their renewables supply look to better store surplus renewable energy. Looking ahead, growth is expected to re-accelerate from 2025 in response to new renewable energy capacity and favourable economics as seen in Figure 3 for the European market.

Growth will likely be even more pronounced in comparatively less mature markets such as Australia, where new storage capacity has traditionally been relatively small relative to new generation capacity. For instance, a Q1 2025 report by Australia's Clean Energy Council noted that, from 2017 to Q1 2025, c. 18 GW of renewable generation capacity was commissioned, compared to only c. 2.2 GW of energy storage over the same period. In contrast, the same report found that the current pipeline of projects (in financial commitment or under construction) showed c. 12.5 GW of new generation and c. 12.5 GW of new storage.

> **Much of the capital investment into infrastructure over the coming year will be directed at supporting the productivity-enhancing opportunities stemming from AI.**

Crucially, we believe that AI, digitisation and electrification, and the upward pressure these trends will place on power demand, will help boost growth across global energy markets, as is illustrated in Eurostat's analysis of the European power market.[11]

While BESS and onshore wind, solar and facilities using food scraps and other waste to produce energy and low-carbon liquid fuels are likely to remain attractive, offshore wind projects face the dual headwinds of changing political sentiment and community resistance.

Overall, we anticipate that much of the capital investment into infrastructure over the coming year will be directed at supporting the productivity-enhancing opportunities stemming from AI, meeting increasing energy demand, and decarbonising the global economy. We believe managers of established infrastructure portfolios such as IFM Investors will also benefit from embedded investment opportunities within portfolio companies. These include investments to expand and enhance existing airports, toll roads and other core infrastructure to meet growing customer demand, enhance the customer experience, and support the growth of local economies.

[11] The Convergence of Renewable Energy and Digital Infrastructure, Slide 8.

Rich Randall
Global Head of Debt Investment

Infrastructure Debt

Key takeaways

1. **North America:** Conventional power and digital infrastructure are expected to remain key drivers of transaction activity, with strong investor appetite amid electrification trends and surging data centre demand.
2. **Europe:** Renewables and digital infrastructure issuance is anticipated to hold steady despite structural challenges, as the continent continues to diversify and stabilise its energy supply.
3. **Australia:** Political support for decarbonisation of the country's energy grid, and an emphasis on the build of social and affordable housing should offer opportunities.

Infrastructure debt is expected to remain resilient in 2026, with continued strong investor appetite for power, energy, and digital assets across developed markets. Debt remains an important part of the capital structure for infrastructure, which supports a consistent supply of investment opportunities to fund improvements, expansion, mergers and acquisitions and general corporate operations of infrastructure businesses.

Data centre expansion and electrification trends will continue to underpin global deal flow. Liquefied Natural Gas (LNG) and midstream opportunities will remain of interest in North America in light of the current political environment that is supportive of conventional energy. In contrast, we expect Europe to continue its drive to stabilise and diversify its energy sources with an emphasis on low and zero-carbon energy sources. Across regions, it is likely that the accelerating digital transformation will shape issuance, creating a favourable backdrop for investors.

North America

Renewable power assets are expected to continue to face headwinds amid an unfavourable policy environment under the Trump administration. Rising material costs, reduced subsidies, and ongoing permitting challenges constrained new project development over the course of 2025 and muted transaction activity. We expect this to continue in 2026. As a result, renewable spreads have remained largely unchanged, diverging from the tightening trend seen across other areas of infrastructure lending. In contrast, LNG and midstream opportunities are gaining momentum, as accelerated permitting for several LNG projects are expected to bring a new wave of assets to market for construction financing. While spreads remain tight, the opportunity set is expected to expand into 2026.

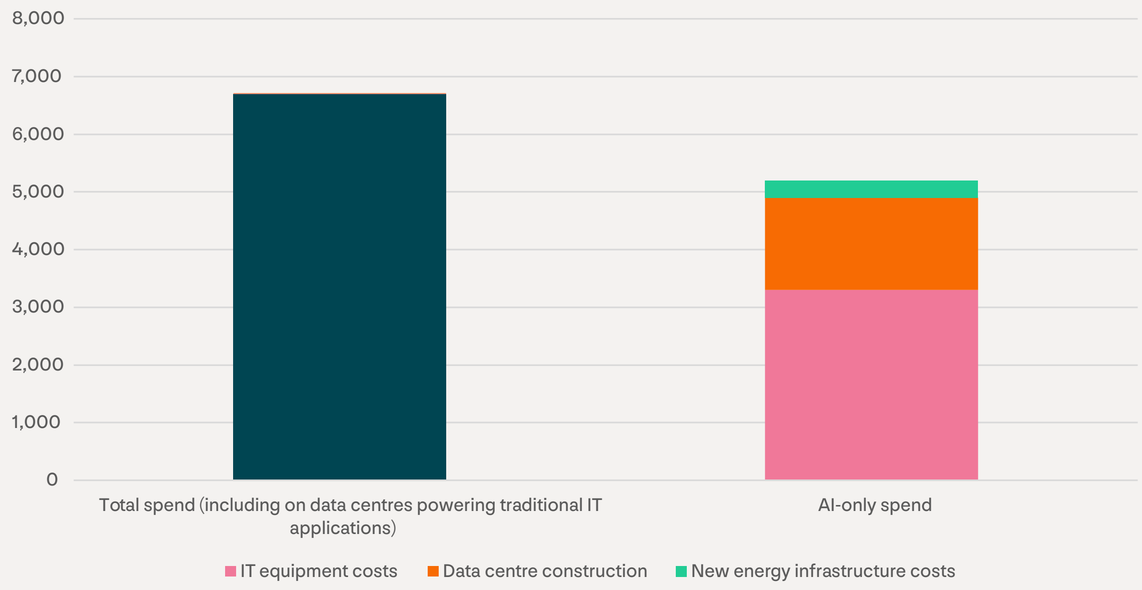
Further, this year will see digital infrastructure remain one of the most in-demand sectors. There is a need to improve fibre connectivity outside of urban areas and we see opportunity to support fibre rollouts. Sustained AI-driven capital expenditure and accelerated global data centre growth is also creating debt investment opportunities. Consultancy McKinsey estimates a capital need of US$6.7 trillion by 2030 to support the current pace of data centre growth, of which US$5.2 trillion would flow towards data centres needed to support AI.[1]

> **LNG and midstream opportunities are gaining momentum, as accelerated permitting is expected bring a new wave of assets to market.**

[1] The cost of compute power: A $7 trillion race | McKinsey

FIGURE 1

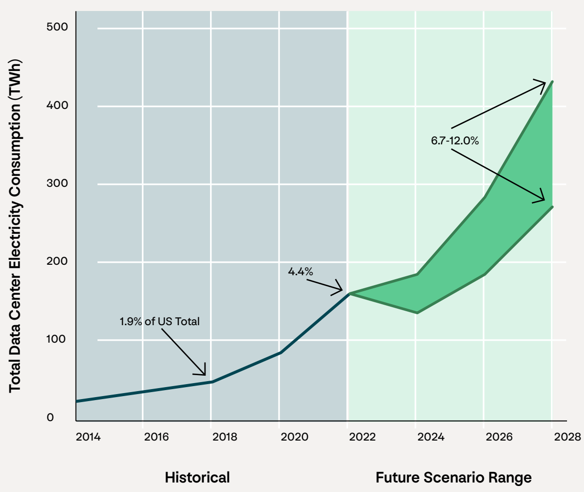
CAPITAL INVESTMENT TO SUPPORT DATA CENTRE GROWTH BY 2030 IN US$BN



Source: The cost of compute power: A $7 trillion race | McKinsey

FIGURE 4

TOTAL DATA CENTRE ELECTRICITY USE FROM 2014 THROUGH 2028



Source: United States Data Centre Energy Usage Report. Lawrence Berkeley National Laboratory

Investors may see permission to build or expand data centres contingent on investment in additional power supply. Importantly, we see co-location of new power plants and data centres a potential solution to delays associated with connecting to local grids, while also meeting a development's own energy needs. The US Department of Energy predicts that the sector will consume as much as 580 TWh by 2028, equivalent to 12% of the US's entire energy needs, compared to only 76 TWH, or 1.9%, in 2018. This growing source of energy demand will present opportunity for investors in energy as well.

In contrast to the headwinds facing renewable power, we expect the conventional power sector in the US to attract significant investor interest through 2026, underpinned by a favourable regulatory environment. While overall US LNG production remains largely flat, exports of US LNG are expected to increase by 151% over 2024 levels by 2029 if export terminals under construction come online as planned.[2] To facilitate further growth, the Federal Energy Regulatory Commission has indicated it will consider a blanket permit regime rather than individual project assessments – while also signalling a desire to see continued proactive maintenance of existing LNG infrastructure.[3]

[2] North America's LNG export capacity could more than double by 2029 - U.S. Energy Information Administration (EIA)
[3] Trump Moves to Supercharge U.S. LNG as Exports Hit New Highs

Europe

Over the winter months, European countries are continuing to shift their energy reliance away from Russian gas to other sources, achieving the shift through collective buying schemes to import LNG, while also continuing to build out renewables. In France, a major pipeline interruption could restrict LNG impact capacity this winter as the outage is expected to last until at least the spring. This highlights some of the challenges Europe faces in securing energy independence through a diverse mix of sources and continuing the energy transition.

The coming year is likely to see a continued strong trend of renewables and digital infrastructure issuance. Based on 2025 trends, there are indications renewable energy companies are reallocating capital out of the US and into Europe, as suggested by BloombergNEF, led by offshore wind, and causing a US$30bn, 63% increase in renewable energy capital flows into the European Union during the first six months of 2025 when compared to the second half of 2024.[4] In the digital sector, European firms across the economic spectrum are expected to increase their spend on AI-optimised data centres by 19%, to US$46.8bn, as employers place greater emphasis on software to incorporate AI into business flows.[5] Similarly, European companies are expected to grow spending on generative AI models by 78.2% next year, indicating data centre demand will continue to rise.

We are also expecting to see interesting opportunities in the transportation sector related to bus and rail electrification. Interest in the electric vehicle (EV) market will require further buildout of charging networks to address consumer range anxiety and make at-home charging more accessible. Despite a slowdown in 2024, the share of battery electric vehicles continues to rise in Europe, accounting for close to 1.5 million new registrations over the year to October 2025, equivalent to 16.4% of all sales[6], an increase over 2024's share at 13%. We are seeing an increasing number of EV related financing opportunities in Europe. EV adoption rates vary widely by country in Europe, and we are cautious around having too much exposure to consumer utilisation rates. The predictability and stability of revenues available to service debt, understanding fluctuating policies, and varying adoption rates are important factors to understanding the EV landscape.

Australia

The Labor government was re-elected in May 2025. The government intends to support energy infrastructure renewal through the 'Rewiring the Nation' and 'Capacity Investment' schemes will help drive issuance in the domestic market, helped by the respective program's focus on investing in expanded transmission infrastructure and supporting new renewable energy projects by underwriting prices. These initiatives aim to modernise the electricity grid and encourage the build-out of renewables power storage and gas firming capacity, will be of growing importance following the unveiling of the 2035 carbon reduction target in late 2025. The new targets require doubling the effort to decarbonise the grid.

Labor will also continue to support new rounds of the A$10bn Housing Australia Future Fund which aims to increase the supply stock of social and affordable housing through quasi-Public-Private Partnership (PPP) funding arrangements. Round 3 of the initiative will support 21300 new dwellings, with funding announcements due in early in 2026.[7] Each of these initiatives is likely to support potential investment opportunities in the broader infrastructure and energy sectors during 2026.

> **Investors may see permission to build or expand data centres contingent on investment in additional power supply. Importantly, we see co-location of new power plants and data centres a potential solution.**

[4] Global Renewable Energy Investment Still Reaches New Record as Investors Reassess Risks | BloombergNEF
[5] Gartner Forecasts IT Spending in Europe to Grow 11% in 2026
[6] New car registrations: +1.4% in October 2025 year-to-date; battery-electric 16.4% market share - ACEA - European Automobile Manufacturers' Association
[7] Housing Australia launches Round 3 to fund 21,350 new social and affordable homes | Housing Australia

Lillian Nunez and
Hiran Wanigasekera
Co-Heads of Australian Diversified Credit

Diversified Credit

Key takeaways

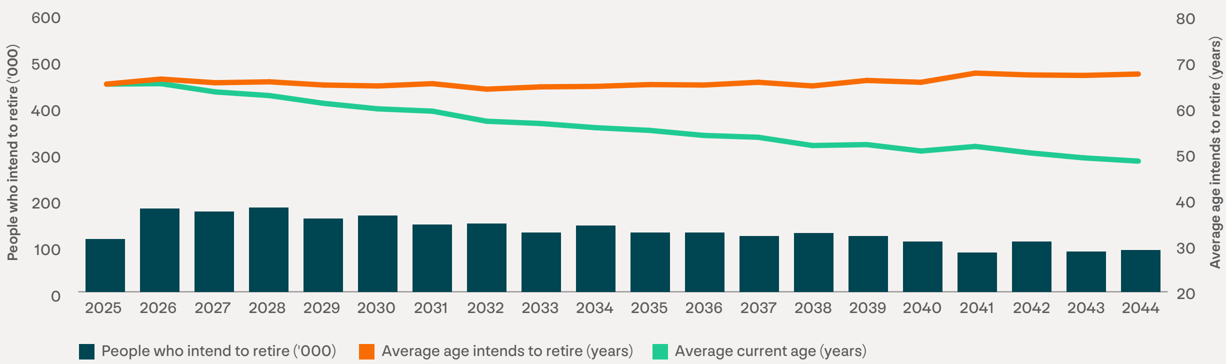
1. After a year that has seen both public and private credit spreads tightening, we anticipate 2026 will see investors becoming more selective in their deployment, working with likeminded managers to identify superior value.
2. Building on 2025's improving profitability and margins, we predict that 2026 will see borrowers become increasingly expansive in their investment activity – to the benefit of deal flow.
3. The positive economic outlook for Australia could see a growing interest by overseas investors in the Asia-Pacific, as we believe the APAC region provides investors better compensation for risk taken.

Following a year that has seen public credit spreads tighten – in some segments becoming exceptionally tight – with private credit following the trend, we expect that investors seeking opportunities in private credit will have to be more selective in 2026, working with managers to identify superior relative value. Despite this, we expect to see opportunities for returns, even if the coming year sees a continued slowing in the rallying of credit spreads.

The composition of the Australian market has begun shifting – and appears to be supportive for credit. Superannuation funds are growing faster than the local market itself, resulting in a glut of capital in need of deployment. An ageing population means more money flowing into income-generating products with predictable cash flows. Importantly, the growing demand base is structural, not cyclical, as can be seen in Figure 1, and reinforces why we believe Australian credit may be more resilient than people assume if global markets enter a risk-off phase. Similar increases to the retirement age population are occurring across the developed world, including Korea, Singapore and, most notably, Japan.

FIGURE 1

AUSTRALIANS WHO INTEND TO RETIRE, BY YEAR OF RETIREMENT



Source: Australian Bureau of Statistics, Retirement and Retirement Intentions, Australia

Narrowing of private credit pricing

Private credit market pricing has narrowed broadly following the trend in public markets as the banks and the syndicated bank loan market have become more competitive. The situation has been exacerbated throughout 2025 due to the limited merger and acquisition (M&A) activity, as demand for funding was outweighed by supply, which we expect to continue. Credit fundamentals remain sound and are improving for most borrowers as they see margins expand amid improving profitability. We expect this backdrop to provide greater support for expansionary deal flow in 2026 as improving confidence leads to a reversal of the trend in recent years. IFM Investors' private debt deal flow has been the most active for a number of years during the second half of 2025 as sponsors and corporate borrowers started to become increasingly expansive in their investment activity. Improving profitability and margins, receding inflation and stable interest rates coupled with improving confidence in the economic environment and outlook for business likely will see greater deal flow in 2026.

Structured finance markets see shifts in premiums

In our view, securitisation, including Residential Mortgage-backed Securities (RMBS) and Asset-backed Securities (ABS), has seen a material shift in the premium offered over corporate credit.

We are beginning to see some stabilisation of spreads in some parts of the structured finance markets, particularly at the higher-grade end of the spectrum. Tightening of pricing was much more pronounced during 2025 in the lower quality end of the spectrum – so, the price tightening in BB and B assets, continues to be quite rapid. Despite this tightening, we continue to see attractive opportunities in private transactions. In this segment, the relative private-public premium continues to be maintained. With consumer confidence improving, we expect 2026 will see a greater flow of volume through the non-bank segment, fuelling the need for additional warehousing capacity in 2026.

Towards the end of 2025, pricing in some of those segments had begun falling below the corporate market, whereas traditionally, securitisation and structured finance assets tended to price at a premium relative to corporate debt. While some of the premium stems from structured financing assets being structurally subordinated, we are starting to regularly see structured finance assets rated BB price below equivalent quality corporates, a trend that is set to continue. We haven't seen that change in the dynamic between the corporate and structured finance market in nearly two decades now. This has delivered strong returns from the segment to investors in 2025 but expect 2026 deliver performance more in line with historical averages.

The opportunities in real estate

Similar to structured finance, in real estate the supply of assets is limited and demand is outpacing it, leading to increased competition between non-bank lenders and banks.

While the commercial real estate sector has in recent years seen a lack of investment as valuations bottomed out, we can see activity and interest levels returning to a level seen prior to COVID-19. Towards the end of 2025, we began seeing more opportunities in the commercial real estate space compared to previous quarters, where activity focused on development finance for residential housing. We expect both areas to remain of interest in 2026 as State and Commonwealth governments continue their support for residential construction, both in the private and community housing sectors.

> **On a relative basis, we believe the APAC region provides investors better compensation for risk taken.**

Asia-Pacific lures new investors

We predict that these factors will see a greater number of investors becoming open to looking at the APAC markets more broadly as the aggressive movement in pricing has been more pronounced elsewhere, such as North America and Europe. On a relative basis, we believe the APAC region provides investors better compensation for risk taken.

Across public market debt, growing overseas interest is expected to continue to drive the credit spread performance witnessed in 2025 – especially if investors remain uncertain about US debt if trade and geopolitical tensions continue to flare due to further tariff announcements in 2026.

Corporate bonds echoing the Asset-backed Securities trend

Similar trends have emerged in the corporate bond market, and are likely to remain present in 2026. Companies that are towards the lower end of the credit spectrum, while still investment grade – albeit in the BBB, BBB- range – have in recent months begun outperforming. This outperformance is a continuation of trends first seen toward the end of the second quarter of 2025, where investors seeking yield were agnostic as to the level of credit risk-taking – resulting in corporate bond markets seeing an increase in activity. This has already seen a number of new issuers enter the market, and with demand remaining strong, we expect to see the number of new entrants grow further.

An end to the rally

We believe 2026 will need to see an end to the rally in credit spreads – especially at the speed witnessed in the second half of this year – as the trend is likely not sustainable, and a pause or some moderation would be helpful for the market. Fundamentally, the outlook for Australian credit is expected to remain positive, and we have not witnessed deterioration across the names to which IFM Investors is exposed – quite the opposite, in fact. Strong corporate balance sheets, improved profitability and margins and the technical bid suggest the domestic market will remain well positioned to weather volatility.

John Dynon,
Head of Real Estate

Australian Real Estate

Key takeaways

1. Retail performance likely to see positive growth continue, as yield compression outstrips other sectors.
2. Office tenants continue “flight to quality” and “flight to centre”, with Sydney, Brisbane and Canberra expected to deliver stronger returns next year.
3. Industrial assets are seeing vacancy levels return to long-term market equilibrium values on back of speculative developments planned over recent years entering the market, following sub-1% vacancy levels in 2022-23.

The Australian property market enters 2026 with a cautiously optimistic tone, underpinned by resilient consumer demand and structural shifts across key sectors.

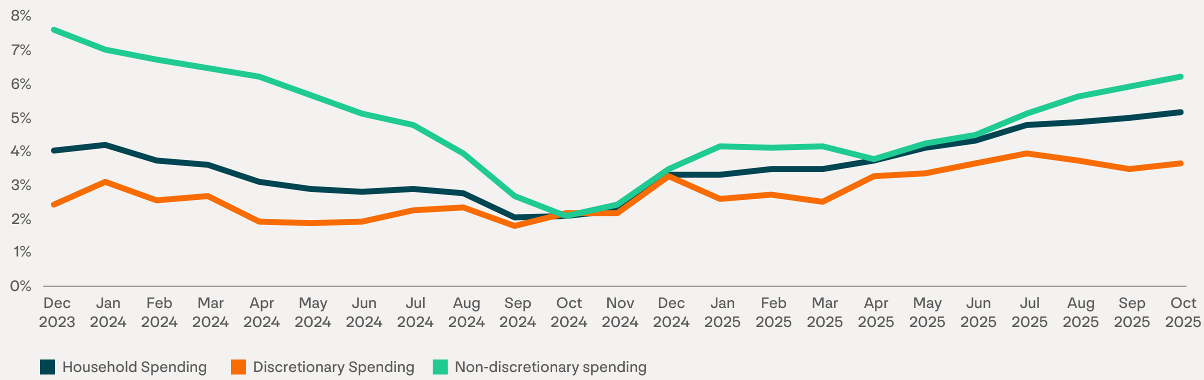
Retail on the rise

Looking across Australian real estate markets, we predict that the retail sector may offer the most growth potential in the coming year.

Performance since 2024 has already been positive, on the back of yield compression that has exceeded office and industrial sectors. A rise in consumer confidence as cost-of-living pressures recede has underpinned higher growth in household discretionary spending (Figure 1), and we expect this trend to continue – especially as related factors, such as the number of completed residential dwellings rises again, and new residents increase their spend on whitegoods and other household necessities.

FIGURE 1

ANNUAL CHANGE IN HOUSEHOLD SPENDING - AUSTRALIA



Source: ABS, IFM Investors

Industrial vacancy trending towards long-term equilibrium

Other sectors, including the office and industrial markets, are stabilising in terms of occupier demand and valuations. Industrial vacancy is expected to rise slightly over the coming year with new supply at the national level expected to be around the 10-year average. Partly resulting from elevated levels of speculative builds over recent years, we have seen an increase in national industrial vacancy rates, which were sub-1% over 2022-23 on back of the sudden growth in online retail, to a more market equilibrium 3-4% vacancy rate. However, this is still well below the pre-pandemic national vacancy rate of 6.3% recorded in 2H 2019 and should still be seen as a net positive overall and proof that fundamentals remain sound. It is also worth noting that industrial activity remains roughly analogous with the retail sector (given that consumer goods typically sit in a warehouse first), which also witnessed slight slowing in 2024 but has seen improved conditions evident in retail turnover.

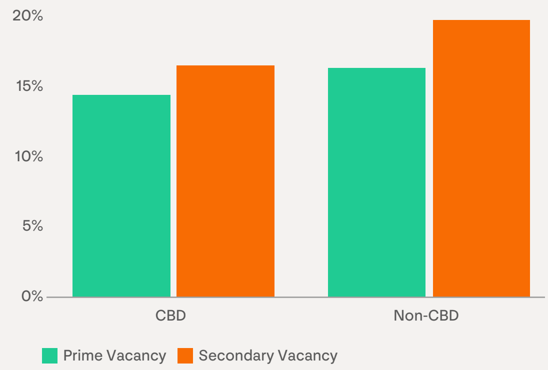
Office stabilisation amid right-sizing by tenants

We expect office markets to continue stabilising following the recent period of falling values and occupier markets impacted by right-sizing and hybrid work adjustments. Conditions vary between capital cities, with Sydney, Brisbane and Canberra expected to deliver returns in the year ahead. Within cities, we expect prime CBD assets will continue to benefit from “flight to quality” and “flight to centre” tenant moves already witnessed in recent years, at the expense of non-CBD office markets that will likely continue to struggle with elevated vacancy rates (Figure 2) – exceeding 20% in some markets. These economic realities could undermine concerted efforts by several state governments to establish enduring polycentric cities, with the likelihood of some secondary-grade office space being demolished or undergoing residential conversion and a marked slowing of new offices built outside of the CBD.

“Potential investment opportunities include social infrastructure and life sciences precincts where co-location of universities and hospitals enhances demand.

FIGURE 2

CBD V NON-CBD OFFICE VACANCY RATE – CAPITAL CITY AVERAGE



Source: JLL, IFM Investors

Residential price levels support supply growth

Residential markets will likely continue to face supply constraints – conditions likely to cause acceleration of price and rental growth. While this poses affordability challenges, it can improve the economics of delivering new supply; consequently, we expect more apartment projects will commence construction over the coming years. Build-to-rent (BTR) in particular will be helped by federal government efforts to meet the Housing Accord targets, as Housing Australia is set to conclude Round 3 of the Housing Australia Future Fund and National Housing Accord Facility funding in early 2026, targeting the delivery of over 21,300 new dwellings – more than half of the 40,000 new homes envisaged under the five-year Accord.

Something to keep an eye on is modular construction emerging as part of the potential solution to construction labour shortages and rising costs. Scalability remains a medium-term challenge, but modular construction ultimately could become more prominent in smaller, standardised forms of accommodation such as studio BTR, student accommodation and land lease communities. For larger apartments, construction could increasingly adapt to incorporate modular elements – such as bathrooms and kitchens – into traditional builds as a way of improving speed of delivery and moderating rising cost pressures.

Tailored retirement communities for ageing population

Land lease communities, retirement and aged care facilities will continue to experience demand growth as the initial wave of baby boomers increasingly seek these types of residential accommodation. The percentage of Australia's population over 65 now at 17%, and set to increase.[1] Offering this cohort the ability to downsize into purpose-built accommodation tailored to their needs fulfills both the societal purpose of freeing up existing housing stock, while potentially offering attractive investment opportunities in a market in need of capital.

Despite seeming bipartisan appetite to curb the number of international students, a lack of concrete action on that front will also see continued interest in purpose-built student accommodation. Similar to the opportunities in retirement living, such ventures will reduce the pressure placed by students on local housing markets, freeing up properties for rental by other groups.

Potential investment opportunities include social infrastructure (childcare facilities, schools, hospitals, courts) and life sciences precincts where co-location of universities and hospitals enhances demand.

Overall, 2026 is expected to deliver steady growth in retail and residential sectors, gradual recovery in office and industrial, and niche expansion in social infrastructure sub-sectors including health and education. Investors should remain alert to interest rate movements, construction cost inflation, and demographic trends as key drivers shaping performance.

[1] Regional population by age and sex, 2024 | Australian Bureau of Statistics, as at 30 June 2024

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