



Outlook 2026: The road less traveled

Jacob Miller outlines why 2026 will reward selective investing as markets diverge across assets and sectors.

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Foreword

We founded Opto to fix a broken private markets system. We recognized that the old model - built on asset gathering, static menus, and misalignment - was ill-equipped for a changing world. We built Opto to enable high-conviction investing, where success is defined not by access alone, but by the alignment of long-term goals with elite opportunities.

In Robert Frost's telling of two roads diverging, the moment that matters is not the road itself, but the choice. In 2026, investors will face a similar fork. One path follows the familiar trail of broad exposure and passive allocation. The other requires selectivity, judgment, and the willingness to move where capital is scarcer. The difference between them will matter.

We founded Opto to reinvent a private markets system that was built for the first path. For years, asset gathering, static menus, and misaligned incentives worked because the environment made them work. Falling interest rates and the deflationary forces of globalization lifted assets together. In that world, passive beta could masquerade as alpha, and access alone was enough. That era - what we call "[Easy Mode](#)" - is over.

As we look toward 2026, the investment landscape is defined by pressure rather than tailwinds. Massive fiscal spending and AI-driven capital investment are colliding with trade protectionism, supply constraints, and structurally higher rates. These forces will not move markets in unison. Instead, they will create divergence - across asset classes, sectors, managers, and deals. Average returns may be more muted, but dispersion between winners and losers will be wide.

Great navigators find a way to use any wind on the way to their destination. The discriminating active investor will continue their forward motion, tacking into these strong winds regardless of their direction, while passive allocators will face strong and unpredictable headwinds.

This is why choice has become decisive. Passive investors, staying on the well-worn path, will increasingly face unpredictable swings as correlations break down, or worse, go to one, between assets that previously provided them safe harbor. Active investors, willing to take the road less traveled, will still encounter challenges - but they will also find opportunity where capital is selective, underwriting matters, and conviction is rewarded. Private markets are uniquely suited to this environment, but only when approached with discipline and intent.

This Outlook is our guide to navigating that fork in the road. Using our framework, we align macro realities with idiosyncratic themes to identify the areas where we have the highest conviction. In a year defined by divergence, we believe the road less traveled - active, selective investing - is the one that will make all the difference.

We look forward to partnering with you and walking this new path together.



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The 2026 framework: The era of convergence is over

If the post-crisis period was largely defined by convergence, with most asset classes rising together on the back of cheap capital, 2026 will be defined by divergence.

The overarching macro backdrop is not a clean recovery or a classic recession. It is a relatively normal economic cycle that remains resilient but is clearly decelerating, layered on top of a set of policy-driven and exogenous forces, which are highly pro-growth and pro-inflation.

These exogenous factors are far too large to ignore. We see a generational surge in AI-driven capital expenditures, regulatory relief, and aggressive fiscal expansion. Together, these forces are injecting meaningful demand into the economy, while tariffs and trade frictions push input and import prices higher.

The underlying endogenous growth cycle looks solid but cooling, with relatively typical late-cycle behavior. Employment remains healthy but is showing cracks and consumer spending is holding up but households are burdened by rising costs. Meanwhile, higher rates are weighing on borrowing activity and residential investment which can be key prime movers in standard credit cycles.

The “road more traveled” would be the classic—higher-than-target inflation leads to fiscal pullback and rising rates, which leads to declining borrowing and spending, which ends the upward swing of the credit cycle until the Fed steps in and cuts rates.

We are already on the road less traveled. Fiscal spending and deregulation are picking up before the downturn, and capex is accelerating much faster than demand. Spending is not the sole, nor even the largest, driver of inflation, with shifts in trade and tariffs being a far larger contributor. Anyone using the old maps will quickly realize they are lost.

Shown below, the normal relationship between the endogenous (credit cycle) and exogenous (Fed action, government spending and regulation, and to a lesser extent corporate capex in excess of maintenance) factors of the economy is inverse; when one rises, the other falls, balancing the economy. This dampens accelerations in the late cycle and puts a floor on downturns.



We are leaving that normal relationship behind as we enter 2026. While there is some cooling, the endogenous cycle remains strong, but the exogenous factors have gone from restrictive to highly supportive quickly, and before the credit cycle turned.

This tension creates a unique investment landscape. Nominal growth will likely remain robust (surprising consensus to the upside), but real growth will be constrained by capacity and costs. The result: **a high-pressure system** with an economy running hotter than trend, sticky inflation (2.5% - 3.0%), and rates that remain "higher for longer."

Consistent with the framework we introduced in 2025, we believe the best entry points for private investments occur where top-down forces and bottom-up conviction intersect.

In 2026, the macro layer will be turbulent. The beta trade is risky. Therefore, the weight of our conviction shifts heavily toward the **idiosyncratic layer** - specific themes, sectoral shifts, and operational value creation that can outrun macro drag.

We see four large forces that will determine the winners and losers of 2026:

- **The AI capex cycle:** Moving beyond the "hype" to the "buildout" - power, infrastructure, and the massive capex plans made by the corporate sector, both on computer and chip manufacturing.
- **The fiscal accelerator:** Government spending that creates a floor for growth but keeps the yield curve steep.
- **The tariff tax:** A supply shock that punishes globalized multinationals, while creating a fortress for domestic lower middle-market producers.
- **The deregulation offset:** A supply-side release valve that will unlock capacity in financials, energy, and M&A.

It is worth noting that none of these forces will apply broadly. AI capex will be a boon to certain sectors (construction, energy, technology, etc.), but not all. Fiscal stimulus through tax cuts and direct programs in defense and energy infrastructure affects different segments of the population and different sectors in vastly different ways. Tariffs hurt sectors that are highly internationalized but support domestic sectors that will build out capacity. Deregulation of the financial sector should be more generally supportive, but will have varying impacts on private markets, as many of the regulations that created the growth of mega-cap private credit are being unwound, and how these firms will adapt to renewed pressure from banks remains to be seen.

First, we'll walk through these four forces, their likely macro impact, and how they will impact private markets. Then we will layer this analysis on top of the themes and trends we're seeing in the market and in our conversations with leading investment managers, and use that synthesis to focus on the opportunities where Opto has the highest conviction.

While we don't know where this road less traveled ends, we can describe what we see on the path ahead in 2026

Mapping the collision of the four forces

To navigate the coming year, we need to throw out the traditional business cycle roadmap. We are not in a standard oscillation between "recovery" and "recession," and this is not the "Goldilocks" regime of the 2010s. Instead, we are entering a high-pressure system - an economic regime defined by the violent collision of deliberate, contradictory policy choices.

The US economy is currently operating with one foot on the gas and one foot on the brake. On one side, we have the accelerators: a generational capital expenditure boom and aggressive fiscal spending that inject demand directly into the economy's veins. On the other side, we have the "frictioneers": a protectionist trade regime that acts as a supply shock, taxing growth and creating a floor for inflation.

The result is an economy that runs hot. We project nominal GDP will remain robust - likely surprising consensus to the upside - but the composition of that growth, and the cost of capital required to fund it, shifts dramatically.

These are the financial mechanics of the four forces driving this divergence.

1

The AI capex cycle: demand now/ productivity later

The first force is physical, massive, and inflationary. We are unequivocally moving beyond the "hype" phase of Large Language Models (LLMs), which was characterized by software valuations and speculative VC rounds, and into the build-out phase of industrial infrastructure.

Sizing the boom

The scale of this investment cycle is distorting the typical capex trendline. We project US AI and semiconductor capital expenditures will reach \$120B to \$140B in 2026, representing a 30% to 50% year-over-year increase. While this specific bucket represents only 5% to 6% of total US business investment, its marginal impact on growth is outsized. We estimate that this single investment theme is responsible for contributing approximately 0.55 percentage points to real GDP growth in 2026. To put the magnitude in perspective, capital outlays by the top five hyperscalers alone are expected to surge to nearly \$510 billion by 2027 from \$370B in 2025.

The "physical multiplier"

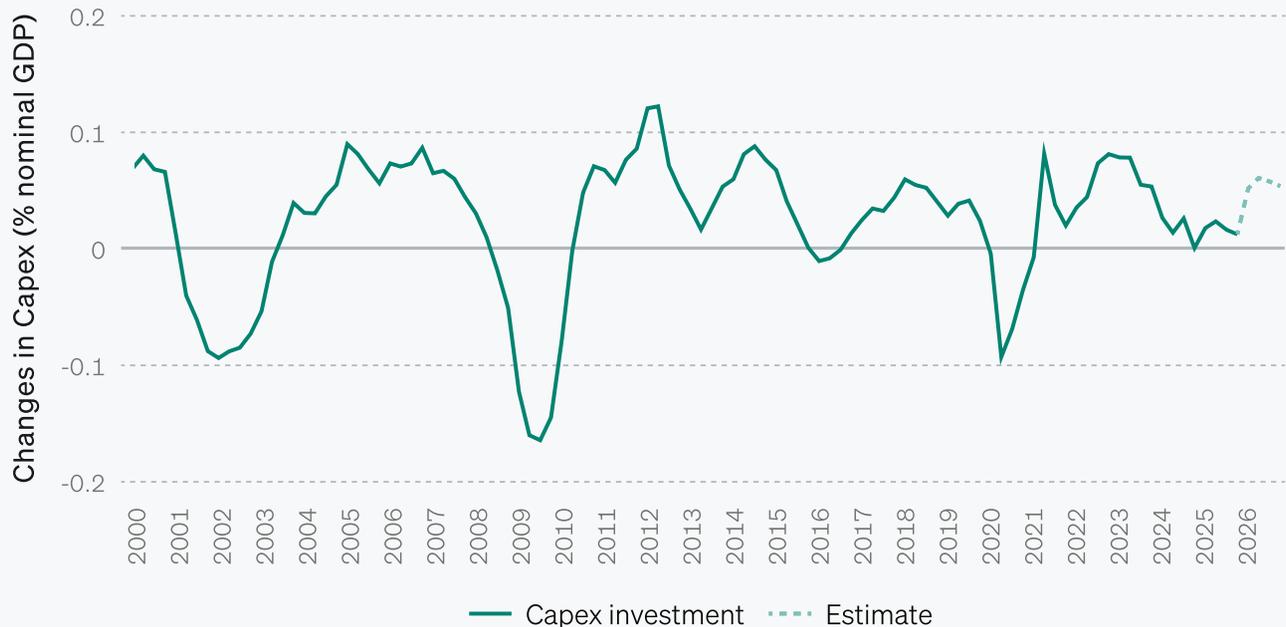
It's crucial to note that the economic impact of this spending differs structurally from the software boom of the last decade. Software investment is deflationary and asset-light; while AI infrastructure investment is inflationary and asset-heavy, requiring steel, copper, concrete, and, most importantly, skilled labor.

- **The power constraint:** The buildout is no longer limited by the availability of GPUs, but by the availability of gigawatts. This creates a high-pressure environment for the utility sector and grid infrastructure, forcing a reprioritization of national power assets.
- **The labor pinch:** Unlike a SaaS expansion, you cannot copy-paste a data center. The demand for specialized construction labor, including electricians, HVAC and civil engineers, is creating localized wage inflation that ripples through the broader industrial economy.

The economic reality

For 2026, the story is not about the productivity gains from AI, which will take years to diffuse through the service economy. The story is about the spending itself. This is a classic demand shock. The hundreds of billions of dollars pouring into physical structures create a hard floor under industrial commodity prices and construction activity. While we remain bullish on the long-term deflationary dividend of AI, the near-term reality is an investment cycle that competes for finite resources, keeping the economy running at maximum capacity.

Capex plans extend out a decade, but the impact in 2026 is real



Source: Federal Reserve Economic Data, Publicly announced Capex Plans from Economic Data Gathering, Analysis, and Retrieval (EDGAR) and Quarterly Earnings Calls.

2

The fiscal accelerator: the floor and the ceiling

The second force ensures that while the economy may bend, it is unlikely to break. However, this insurance policy comes with a steep premium in the bond market. 2026 marks a shift from "fiscal support" to "fiscal dominance."

The floor: a high-multiplier impulse

Even without new legislation, the fiscal impulse from existing programs, specifically defense modernization and re-industrialization, is set to add 0.5 to 0.8 percentage points to real GDP growth in 2026. The composition of this spending matters immensely. Unlike broad tax cuts, which often have a low fiscal multiplier (~0.4) because a portion is saved by households, direct government spending on aerospace, defense, and infrastructure has a multiplier of ~1.0+. Every dollar spent flows directly into contracts, materials, and wages. This creates a "hard floor" under employment; and we project this fiscal accelerator will support an additional 0.3 to 0.5 million jobs in 2026, keeping the unemployment rate structurally tight.

The ceiling: the cost of capital

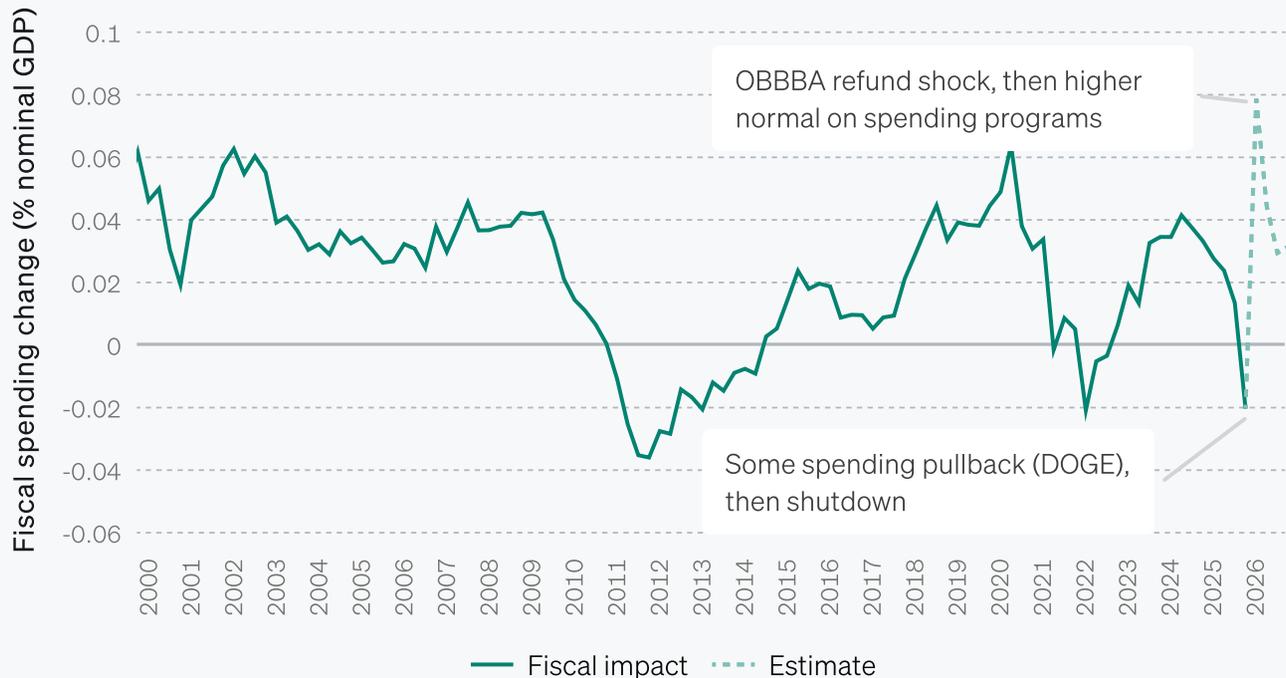
The cost of this floor is a projected federal deficit of 6.8% of GDP. Historically, deficits of this magnitude were reserved for deep recessions (to stimulate demand) or major wars. Running a 6.8% deficit when the economy is already at full employment is unprecedented in peacetime.

The market consequence: crowding out

This dynamic fundamentally alters the risk profile of fixed income. The US Treasury must issue a massive volume of new debt to fund these deficits. Because the economy is already running hot, this government borrowing "crowds out" private borrowers (see chart on the next page).

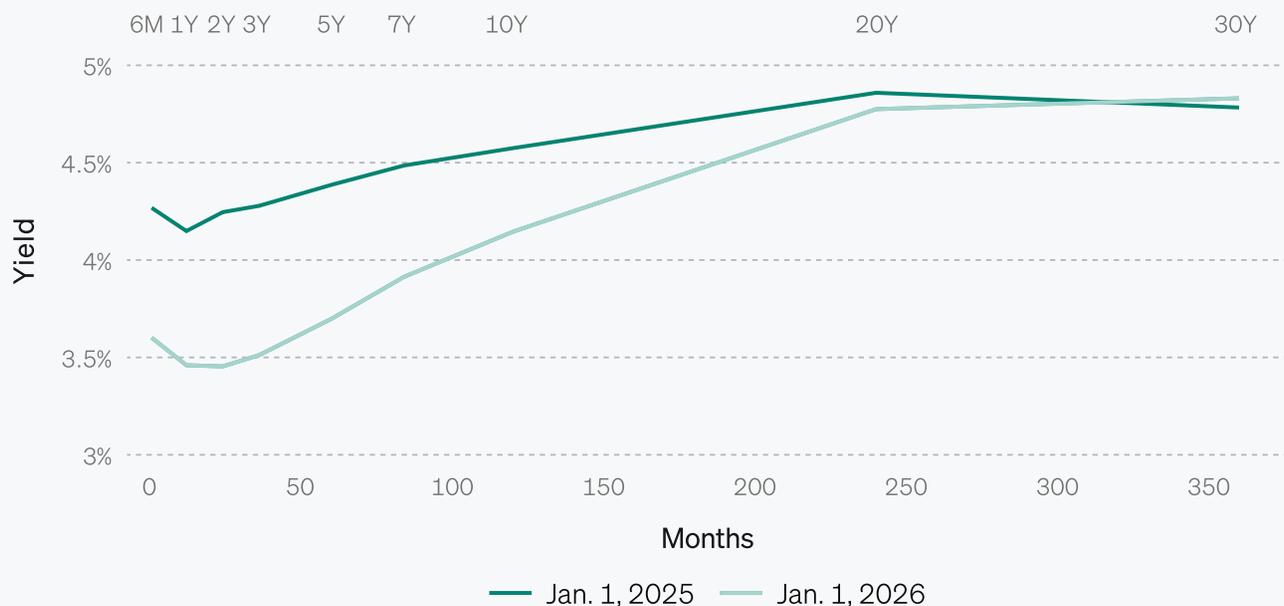
- **The term premium:** Investors must be compensated for the risk of persistent inflation and supply indigestion. This puts sustained upward pressure on the term premium (the extra yield investors demand to hold long-term bonds).
- **The yield curve:** Consequently, we believe the "risk-free" rate is no longer free. We expect the 10-year Treasury yield to drift in a **3.8% to 4.3% range**. Even if the Federal Reserve cuts short-term rates, the long end of the curve will likely remain steep, acting as a natural ceiling on valuation multiples for long-duration assets.

The shutdown impact is real, but spending and tax cuts drive a massive reversal



Source: Federal Reserve Economic Data.

Short end easing, persistent long end pressure



Source: London Stock Exchange Group.

3

The tariff tax: the great separator

The third force is the "frictioneer." Trade protectionism acts as a wedge, driving a stagflationary gap between headline data and real economic health. Investors must be careful not to be misled by the "GDP illusion" of 2026.

The GDP illusion: netting the math

Headline GDP is a flawed metric for sizing trade wars because of how it accounts for imports. Mathematically, shrinking imports boosts the headline GDP number. We estimate the trade war could mechanically add **~0.5 percentage points** to 2026 GDP simply by reducing the import ledger. However, this is an accounting quirk, not prosperity. We are effectively trading real efficiency for nominal noise.

The consumer tax

When we "net" the impact, tariffs act as a direct, regressive tax on consumption. Higher import taxes raise the cost of goods - from apparel to electronics to autos - eroding real wage gains.

Research suggests the 2026 tariff regime will effectively reduce real purchasing power, acting as a drag on discretionary volumes even as nominal wages rise. We estimate this friction will contribute to keeping Core CPI elevated in the **2.5% to 3.0% range**, preventing the "immaculate disinflation" the market hopes for (see chart on the next page).

The corporate squeeze: a tale of two markets

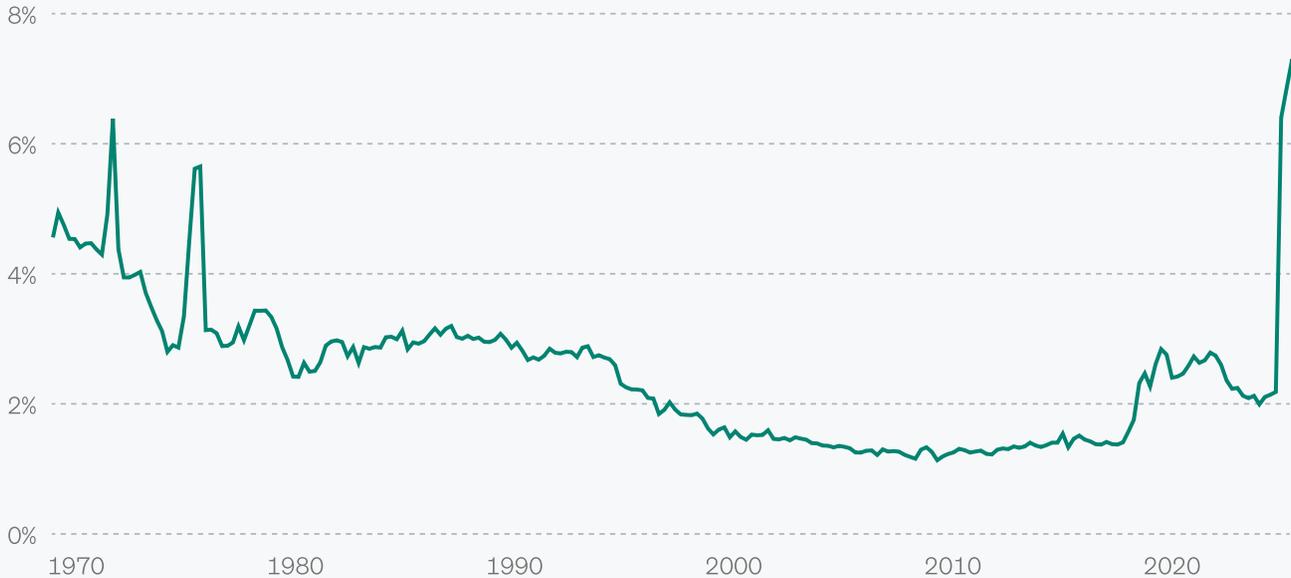
Most critically for allocators, the pain of this regime is not distributed equally. It creates a historic bifurcation between the "global" and the "domestic" economy:

- **The losers (S&P 500):** The S&P 500 generates approximately **41% of its revenue** outside the US. These multi-nationals face a double-squeeze: rising input costs at home due to tariffs, and lost sales abroad due to retaliation.
- **The winners (private middle market):** In contrast, the typical US private equity portfolio company generates **less than 15%** of its revenue abroad. These firms are structurally overweight domestic manufacturing and services. For them, tariffs act as a competitive moat, raising the cost of foreign alternatives and allowing domestic producers to capture market share or raise prices.

This **divergence** is the single most important alpha signal for this vintage.

2026 is a year to own the "insulated" domestic economy, and avoid the "exposed" globalized trade.

Tariff cost (customs duties as a percentage of nominal imports)



Source: Federal Reserve Economic Data.

4

The deregulation offset: the supply valve

If tariffs are the brake, deregulation is the release valve. This supply-side force is the most underappreciated variable in the 2026 equation, acting as a quiet counterweight to the inflationary pressures of fiscal and trade policy.

The mechanism: unlocking capacity

While fiscal stimulus pumps demand, deregulation unlocks capacity. We anticipate a sweeping rollback of federal regulations, specifically targeting **energy permitting (NEPA reforms)** and **bank capital standards (Basel III adjustments)**. The administration's stated goal is to ensure the incremental cost of new regulations is negative, reversing the trend of the last decade.

The financial impact

This is not abstract. It shows up in specific line items for 2026:

- **Private capex:** We project an incremental **\$50B to \$60B** in private capital expenditures in 2026 specifically attributable to easier permitting. Projects that were previously stuck in multi-year environmental reviews - pipelines, transmission lines, and factories - are expected to break ground sooner.
- **Lending capacity:** The rollback of strict bank capital rules effectively unlocks "**hundreds of billions**" in lending capacity. This is critical for the middle market. As the bond market remains tight (due to Treasury crowding out), this deregulated bank channel provides a vital lifeline of credit to small and medium enterprises (SMEs).

The net result

Economically, deregulation acts as a disinflationary force. By reducing compliance costs and shortening project timelines, we estimate it will add **0.3% to 0.4% to the level of real GDP** while shaving ~0.1% off inflation. It allows the economy to run hotter without overheating quite as fast, providing the Federal Reserve with a small but necessary degree of breathing room (see chart 1 on the next page).

Netting the forces, we see a higher for longer, **high-pressure system**. The late cycle can go on for longer than people think, and often does. We don't yet see the cracks forming to say the sky is falling (minor weakness in jobs data is not sufficient), and the exogenous pro-growth pro-inflation shocks could propel the economy for at least another year or more.

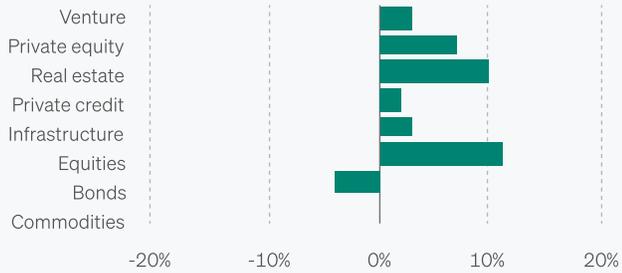
It may be useful to revisit how we think these conditions affect all assets (see chart 2 on the next page):

Chart 1: Easing standards + lower rates = more loans

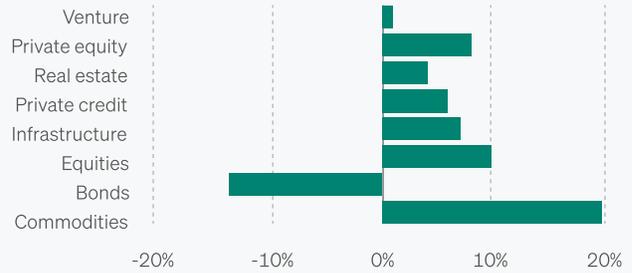


Source: Federal Reserve Economic Data.

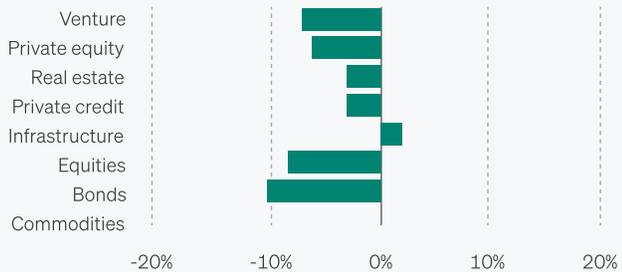
Chart 2: Growth bias



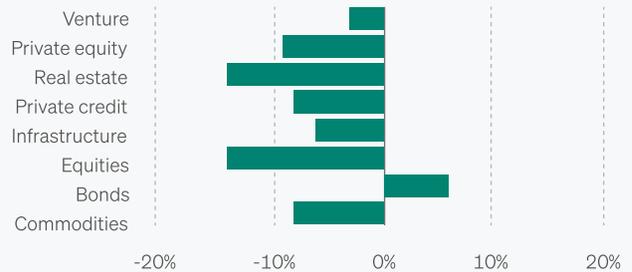
Inflation bias



Interest rate bias



Risk premium bias



Source: Burgiss, Federal Reserve, LSEG, Opto analysis. Sensitivity defined as quarterly beta to quarterly changes in macroeconomic factors of growth, inflation, discount rates, and risk premia. Data for time period 2000-2020.

Equities may continue their run, but margin pressure and foreign exposure (given tariffs) could be a headwind for S&P performance. Growth, inflation, and government spending should put continued pressure on the long end of the curve, making bonds far from a safe haven. Commodities may serve as a buffer, as they benefit from a high-pressure economy running at capacity - the AI capex cycle, fiscal spending, and tariff-driven reshoring all create sustained demand for industrial inputs like copper, steel, and energy. Gold, which has rallied sharply over the past year, remains supported by sticky inflation and the risk that political pressure on the Federal Reserve compromises its independence, reinforcing its role as a hedge against both currency debasement and institutional uncertainty.

Private equity: domestic focus, operations, and artificial intelligence

In a year defined by divergence, the lower middle market represents the clearest expression of the forces facing the economy and the opportunity those forces create. These are the companies most insulated from the forces pressuring large-cap equities - and most directly exposed to the tailwinds reshaping the domestic economy.

The math is straightforward. The typical lower middle market portfolio company generates less than 15% of revenue abroad, making tariffs a competitive moat rather than a margin headwind. These firms are disproportionately concentrated in the sectors where fiscal and capex dollars will land: industrial services, specialty manufacturing, construction trades, healthcare services, and defense-adjacent supply chains. And as bank lending capacity expands under a deregulated regime, these borrowers - historically underserved by the mega-fund syndicated loan market - stand to benefit from improved access to growth capital. But the opportunity is not merely sector exposure. It is an operational multiplier.

Middle market private equity also represents a different way to benefit from growth in AI. We all know the flashy part - high software valuations, foundation model competition, and the speculative front-end applications that dominate venture portfolios. For lower middle market operators, the value creation

opportunity lies elsewhere: in the quiet, compounding gains from deploying vertical AI into process-heavy workflows that have resisted automation for decades.

Consider the back office. A typical lower middle market industrial services company still runs accounts payable through a patchwork of spreadsheets, email approvals, and manual data entry. Invoice processing, three-way matching, and exception handling consume hours of skilled labor per week. Vertical AI tools purpose-built for these workflows - document extraction, automated reconciliation, anomaly flagging - can reduce processing costs by 40-60% while improving accuracy. The same logic applies across the administrative stack: payroll processing, benefits administration, vendor onboarding, and compliance documentation.

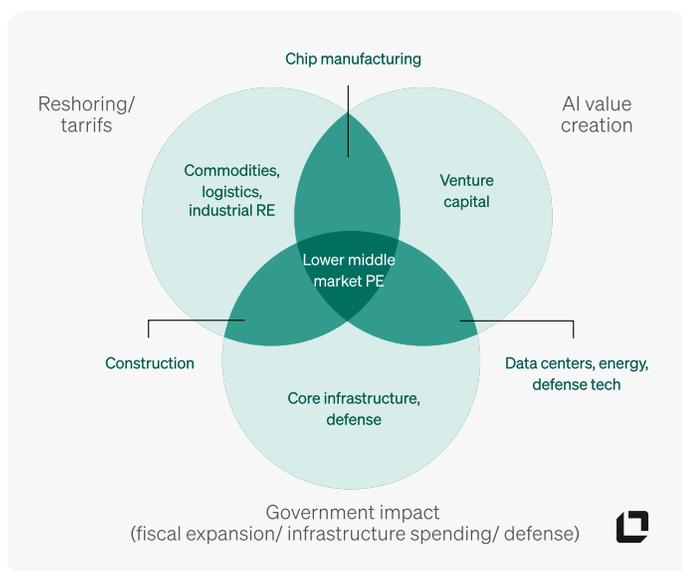
The gains compound when applied to revenue-generating operations. In construction and infrastructure services - sectors directly in the path of AI capex and fiscal spending - firms that can accelerate project timelines will capture disproportionate share. Permitting and regulatory compliance represent a persistent bottleneck. A typical commercial construction project requires coordination across dozens of municipal forms, environmental reviews, and inspection schedules. AI-enabled permit management - automated form population, deadline tracking, agency communication - can compress timelines by weeks. In an environment where gigawatts and skilled labor are the binding constraints, speed to completion is a genuine competitive advantage.

Healthcare services offer a parallel opportunity. Revenue cycle management - the complex process of coding, billing, prior authorization, and collections - remains one of the most labor-intensive functions in the sector. A mid-sized physician practice or specialty clinic may dedicate 15% to 20% of staff to billing and administrative functions. Vertical AI applications targeting prior authorization workflows, claims scrubbing, and denial management are demonstrating 30-50% reductions in administrative labor while accelerating cash collection. For PE-backed healthcare platforms pursuing buy-and-build strategies, these tools represent a genuine operational edge in integration and margin expansion.

The pattern repeats across verticals. In specialty manufacturing, AI-driven quality inspection and predictive maintenance reduce downtime and scrap rates. In field services, intelligent scheduling and route optimization improve technician utilization. In professional services, document analysis and contract review accelerate deal flow without proportional headcount growth.

The productivity dividend from vertical AI is not uniformly distributed. Large enterprises face integration complexity, legacy system dependencies, and organizational inertia. Startups lack the process volume to justify implementation. The lower middle market occupies a sweet spot: companies large enough to have meaningful, repetitive workflows, but small enough to implement new systems without multi-year transformation programs.

This is not about betting on AI as a sector. It is about recognizing that AI, deployed vertically and operationally, is becoming a core value creation lever - one that compounds the structural advantages already present in domestically oriented, real-economy businesses. This new tool for value creation coinciding with fundamental pressures supporting domestically oriented, smaller, and real economy businesses creates a strong case for 2026 lower middle market private equity vintages.



Venture capital: selectivity and focus

Venture capital remains attractive in 2026, though our conviction has moderated from last year. The case for early-stage exposure is structurally sound - the best investors identifying transformational founders and genuine market gaps will generate returns regardless of economic conditions. But the asset class faces headwinds that demand greater selectivity: AI concentration risk, persistently low DPI, and late-stage valuation compression that has yet to fully clear.

The fundamental logic of early-stage venture capital is relatively insensitive to macro turbulence. Investments with five- to 15-year horizons succeed by capturing market share or creating new markets entirely, not by riding economic cycles. The best early-stage managers continue to raise without difficulty, and the structural opportunity set - particularly in sectors where the AI buildout intersects with real-world complexity - remains compelling.

The caveat is concentration. Too much capital has flowed into a narrow band of generative AI companies at valuations that assume market dominance before product-market fit is established. We are skeptical of front-end applications competing on undifferentiated model access. These will likely face steep competition from the model providers themselves if they prove demand. The more durable opportunity lies deeper in the stack: the infrastructure, tooling, and vertical frameworks that will undergird the next decade of enterprise software.

Specifically, we see value accruing to firms building the picks and shovels of the AI wave - developer infrastructure, data pipelines, evaluation and monitoring tools, and the security layer that enterprises will demand as AI moves from experimentation to production. These are the unglamorous, high-retention businesses that compound quietly while speculative applications chase headlines.

The adjacent opportunity is equally compelling: AI-native applications in domains where regulatory moats, data complexity, and workflow integration create genuine barriers to entry. Biotech - particularly computational drug discovery and clinical trial optimization - offers asymmetric upside as AI accelerates the research cycle. Cybersecurity, already benefiting from rising threat surfaces and enterprise spending, is being transformed by AI-driven detection and response capabilities. Defense technology, propelled by both tariff-driven procurement shifts and strategic onshoring, presents a rare combination of thematic tailwind and structural barriers that favors patient early-stage capital at a moment when defense procurement is being fundamentally reconsidered and technology is redefining what the battlefield of the 21st century and beyond will look like.

Late-stage venture capital faces a more challenging setup. DPI remains depressed, with many 2020-2021 vintage funds still sitting on unrealized positions that were marked at peak valuations. While the exit environment should improve under a more permissive regulatory regime - M&A activity is likely to accelerate - the backlog is substantial. Managers who raised at the top of the cycle face pressure on fundraising, and LPs are increasingly discriminating between track records built on realized versus paper returns.

The exogenous forces shaping 2026 favor venture in specific ways: the AI capex cycle creates demand for the tooling and infrastructure startups build; deregulation accelerates M&A exits; and tariff-driven supply chain shifts benefit domestic-focused

enterprise software. But these tailwinds are not evenly distributed. Selectivity - by stage, by sector, and by manager - is the governing principle for this vintage.

Early-stage managers with genuine technical networks and sector expertise - particularly in infrastructure, biotech, cybersecurity, and defense - can generate attractive returns. Late-stage deployment requires more caution, both on valuation discipline and manager selection.

Private credit: banks, balance sheets, and the barbell

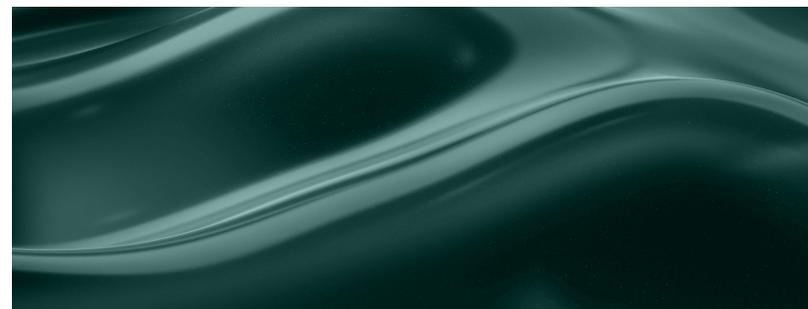
Private credit faces the most challenging setup among private asset classes in 2026. The confluence of bank deregulation, compressed spreads, and balance sheet stress creates headwinds for the large-loan segment that has dominated capital flows and headlines. Our conviction has declined meaningfully from last year, though this is at the asset class level, and we still see strong opportunities in specialty sectors.

The deregulation offset we described earlier has direct implications for private credit. The rollback of Basel III capital standards effectively unlocks hundreds of billions in bank lending capacity - capacity that will compete directly with the mega-BDCs and large direct lenders that have captured the bulk of private credit AUM over the past five years. These lenders built their franchises in an environment where banks were constrained; that constraint is loosening.

All else equal, the competitive pressure will manifest in spread compression and covenant erosion, dynamics already visible in 2025. Upper middle-market borrowers - precisely the segment where BDCs concentrate - have alternatives they did not have two years ago. For lenders whose cost of capital is not meaningfully below bank funding costs, the math becomes difficult.

The rate environment compounds the challenge. While short-term rates may ease modestly, the higher-for-longer regime keeps debt service burdens elevated for borrowers who termed out floating-rate exposure at cycle highs. Corporate balance sheets in the broadly syndicated and upper middle-market segments show stress: coverage ratios have deteriorated. The refinancing walls are still several years out, but the weak underwriting and borrower-friendly covenants of the 2022-2025 (and likely 2026 with bank supply coming online) origination wave mean the eventual reckoning could be severe.

The tariff tax adds pressure for borrowers with international supply chain exposure - precisely the larger, more sophisticated companies that comprise BDC portfolios. Domestic-focused lower middle-market borrowers face less direct impact, but margin pressure from input cost inflation remains a risk.



The picture is not uniformly negative. Specialist and opportunistic credit strategies operating at smaller loan sizes - typically below the threshold where banks compete aggressively - retain structural advantages. These lenders benefit from sourcing networks, sector expertise, and relationship-driven origination that cannot be easily replicated. Spreads remain wider, covenants stronger, and competitive dynamics more favorable.

The AI capex wave will eventually create substantial new borrowing demand - infrastructure buildout, power generation, and industrial expansion all require debt financing. But the bulk of this demand will not materialize in 2026; project timelines, permitting (even with NEPA reforms), and capital planning cycles push meaningful deployment into 2027 and beyond. Patient capital positioned for this wave may find attractive entry points, but it is not a 2026 story.

For this vintage, we see private credit as a barbell: avoid the crowded middle where bank competition and spread compression erode returns, and focus on either scale players with genuine cost advantages or specialist platforms with defensible sourcing in smaller, more complex transactions.

Real assets: property, power, and patience

As we look back on 2025 and ahead to 2026, US commercial real estate remains a market that rewards selectivity. Transaction activity has begun to recover, trending back toward long-term averages, but higher-for-longer interest rates continue to pressure asset values across many property types. Cap rates that were pushed down during the zero-rate era have not fully reset, making the math challenging for buyers relying on leverage. In this environment, commercial real estate is less about broad exposure and more about careful navigation at the sector and local market level.

Our overall conviction on real estate has improved modestly from 2025, but this reflects the net of sharp divergences rather than broad optimism. The four forces will not impact property types evenly - and in some cases, the same force creates both headwinds and tailwinds depending on strategy and geography.

That dynamic is playing out differently across property types. Office, long out of favor, has begun to show signs of recovery, particularly in markets like New York where leasing activity is improving and new supply is limited. With capital largely sidelined, both on the equity and debt side, improving fundamentals are creating an interesting setup for investors willing to take measured risk. Even the San Francisco office

market, which was the hardest-hit post-COVID, is showing early signs of stabilization driven in part by AI-related hiring and renewed demand.

By contrast, multi-family continues to face headwinds. While deliveries are expected to slow in 2026, recent supply has pushed vacancies higher and rents lower in many markets. At the same time, expenses, particularly insurance and taxes, are rising faster than revenues, making NOI growth harder to achieve. Cap rates remain relatively low, and achieving positive leverage on core or light value-add assets is still challenging. These pressures are most visible in historically favored Sunbelt markets, where a growing number of properties are operating below a 1.0x debt service coverage ratio.

For development strategies, the picture is mixed. The tariff tax will push construction input costs higher - steel, electrical equipment, and building materials all face price pressure - which compresses margins for projects that cannot pass through increases to tenants. However, the deregulation offset provides a partial counterweight: NEPA reforms and accelerated permitting should shorten project timelines in select markets, improving the return profile for developers who can navigate the approval process. The net effect favors operators with cost discipline and local entitlement expertise over those relying on broad market appreciation.

Industrial and data centers remain supported by strong secular demand, but they are increasingly crowded trades. Capital continues to flow into the space from a broad investor base that now includes infrastructure funds, venture capital, and strategic operators. While fundamentals remain solid, the sheer volume of capital and the high cost of development suggest forward returns may be more muted than many expect. We address data centers and digital infrastructure more fully in our infrastructure discussion, where the investment case ties more directly to the AI capex cycle; within real estate, we focus on the physical logistics and warehouse assets where domestic manufacturing tailwinds from the tariff regime create genuine demand drivers.

Infrastructure faces a similar tension between compelling demand and crowded capital. The AI capex cycle has made the power constraint unmistakably clear - data centers require gigawatts, and the grid was not built to deliver them. Energy generation, transmission upgrades, and grid modernization represent genuine multi-decade investment themes, and the fiscal accelerator adds further demand through defense and re-industrialization spending. Yet capital has recognized this opportunity in force. Fundraising for infrastructure has surged,

	Venture capital	Private equity	Real estate	Private credit	Infrastructure	
Fundamental signal	0.2	0.45	-0.15	-0.3	0.25	
Macro sensitivity	16%	42%	56%	37%	34%	
Idiosyncratic signal	0.65	0.55	0.2	-0.2	0.3	
Overall conviction	0.85	1	0.05	-0.5	0.55	

valuations have followed, and the gap between announced projects and operational capacity remains wide. Permitting reform will help at the margin, but execution risk is real: labor constraints, interconnection queues, and regulatory uncertainty at the state level all create friction. We remain constructive on the long-term thesis, but near-term deployment requires discipline - the best risk-adjusted opportunities may lie in smaller, less competitive segments of the market rather than the marquee energy transition assets attracting the most attention.

Against this backdrop, our approach remains cautious toward core and light value-add strategies, with greater emphasis on opportunistic lending for income-oriented investors and selective development opportunities for clients with higher risk tolerance and longer time horizons (see chart on the previous page).

Relative to 2025, our conviction in private market segments closely linked to the real economy - namely private equity, with a focus on the lower middle market - has increased, while at the asset class level, our conviction in private credit has decreased due to the bifurcated (and concentrated) corporate sector, balance sheet health, and increased competition from bank lenders following deregulation. Venture capital remains attractive, particularly at early stages where the intersection of AI infrastructure and real-world applications creates genuine opportunity, though we are more cautious than last year given valuation concentration and persistently low DPI. Real estate is now slightly positive, but this is the net of divergences within the asset class by vertical and geography. Infrastructure benefits from strong secular demand around energy and grid modernization, but crowded capital and execution risk temper near-term enthusiasm.

Conclusion: all the difference

Frost's traveler stood at a fork in a yellow wood. He could not see where either path led - only that one was well-worn, and the other was grassy and wanted wear. He chose the second. And that, as we know, made all the difference.

In 2026, markets diverge. The well-worn path - broad exposure, passive allocation, the quiet hope that beta does the work - was built for an era that has ended. The road less traveled demands more: selectivity when capital is abundant, patience when markets reward speed, and conviction when the noise is loud.

This is the road Opto was built to walk. Not because it is easier, but because it is where judgment compounds, where alignment matters, and where the choices made today will echo for years.

Robert Frost walked the road less traveled alone. We get to boldly walk this road together.



To learn more about Opto Investments, please visit our website at: www.optoinvest.com, or send us an email to inquiries@optoinvest.com

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