Callan Institute

Third Quarter 2026

Capital Markets Review

So What Good Are Economic Data?

ECONOMY

2 PAGE

Despite what would normally be stiff headwinds (tariffs, slowing job growth, rising oil prices, still-high inflation), the U.S. economy remains by most measures healthy. How can that be, and what does that mean for economic forecasting and for the future of the economy?

Nonprofits, Public DB Plans Top Benchmark

INSTITUTIONAL INVESTORS

4 PAGE

Nonprofits and public defined benefit (DB) plans topped a stocks/bonds benchmark over the trailing year ended 3Q26. Investors focused on the Fed and its fight against inflation; AI-related spending; and rising stocks, falling bonds, and crude oil prices hitting new highs.

Large Caps Led in U.S.; Value Globally

EQUITY

6 PAGE

The S&P 500 rose 2.3% driven by AI growth, but only 4 of 11 S&P sectors gained. Small caps underperformed large caps, while value outperformed growth. Non-U.S. markets lagged the U.S., as emerging markets underperformed. Globally, value led growth.

Fed Rate Hike Fuels Rise in U.S. Yields

FIXED INCOME

8 PAGE

The Fed's first rate hike since 2023 sent Treasury yields higher across the curve. IG credit spreads remained near historically tight levels. Long-term yields rose across developed markets, driven by energy prices and heavy government debt burdens.

Private RE Stabilizes; Listeds Diverge

REAL ESTATE/REAL ASSETS

10 PAGE

Real assets diverged in 3Q26 as private real estate continued to stabilize and rising bond yields pressured listed property and infrastructure. Commodities rallied, led by energy, while demand for power and data centers continued to support private infrastructure investment.

All Strategies Gain in 2Q26, Led by VC

PRIVATE EQUITY

11 PAGE

Private equity gained 5.3% in 2Q26, rebounding from a roughly flat 1Q, with increases across all strategies. Venture capital performed the best. Buyout fundraising is on track for a third straight annual decline, while VC fundraising has passed 2025's total.

Fundraising Surges as Spreads Compress

PRIVATE CREDIT

12 PAGE

Fundraising surged to approximately $100 billion in 2Q26, despite relatively few fund closes. Direct lending spreads continue to compress, with 86% of YTD 2026 deals pricing below 550 bps, compared to just 3% in 2022. Higher-spread opportunities have nearly disappeared.

Macro Strategies the Top Performer YTD

HEDGE FUNDS/MACs

13 PAGE

Macro strategies gained during 3Q26, but all other strategies fell. FOFs also saw modest declines. Industry capital hit a record, with macro strategies seeing the largest gains, and more funds launched then were liquidated in the first half of 2026.

Index Rebounds; Passive Highest Ever

DEFINED CONTRIBUTION

15 PAGE

The Callan DC Index™ gained 11.2% during 2Q26, bringing the trailing one-year return to 18.4%. Turnover (i.e., net transfer activity within DC plans) was just 0.01% in 4Q25, its lowest level ever. Passively managed strategies hit the highest level since the Index's inception.

Broad Market Quarterly Returns

U.S. Equity
Russell 3000

▲ **1.4%**

Global ex-U.S. Equity
MSCI ACWI ex USA

▲ **0.5%**

U.S. Fixed Income
Bloomberg Agg

▼ **-3.5%**

Global ex-U.S. Fixed Income
Bloomberg Global Agg ex US

▼ **-1.6%**

Sources: Bloomberg, FTSE Russell, MSCI

So What Good Are Economic Data If It Does Not Support My Beliefs?

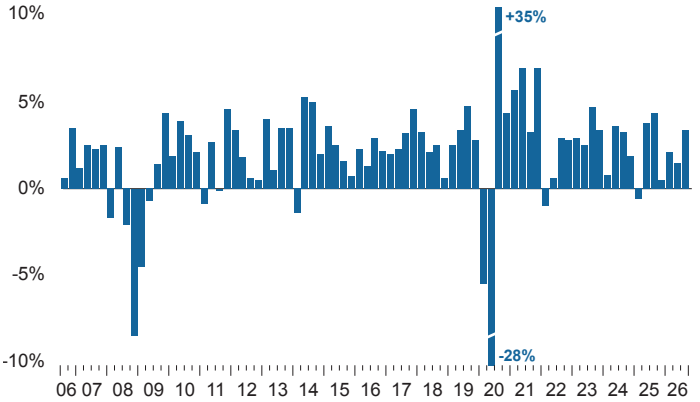
ECONOMY | Jay Kloepfer

Real GDP grew by a robust 3.4% in 3Q26, fueled by investment in computing equipment and private inventory building, as well as consumer spending and even an increase in government spending. The AI capital investment story continues to drive growth in the U.S. real economy as well as both the stock and bond markets. Exports declined in 3Q, as might be expected in a global tariff war; however, imports increased, which seems to run counter to expectations for tariffs. One explanation is that U.S. consumer and business demand for imports is relatively inelastic. Another is that there are few ready substitutions for the imported goods we favor in the U.S. As a result, the higher value of imports reflects higher prices paid due to imposed tariffs. A third, contradictory explanation is that consumer and business demand remains strong despite higher prices to drive import spending, adding to the story of a robustness without end within the U.S. economy.

Economists (like this author) have given up referring to formerly time-tested rules of thumb for economic indicators and what their current readings mean for growth. As a community, capital markets forecasters have called for impending recession in each of the last four years. What good are indicators like an inverted yield curve or slowing job growth or rising inflation when they do not seem to lead to outcomes seen in past economic cycles? Has U.S. exceptionalism truly come to pass? Or are we, most likely, still dealing with the overhang of unprecedented monetary and fiscal stimulus during and after the pandemic? We might need a full decade to wring the excesses out of the global economy. Whatever economic model one believes, the current data does not seem to support formerly held beliefs.

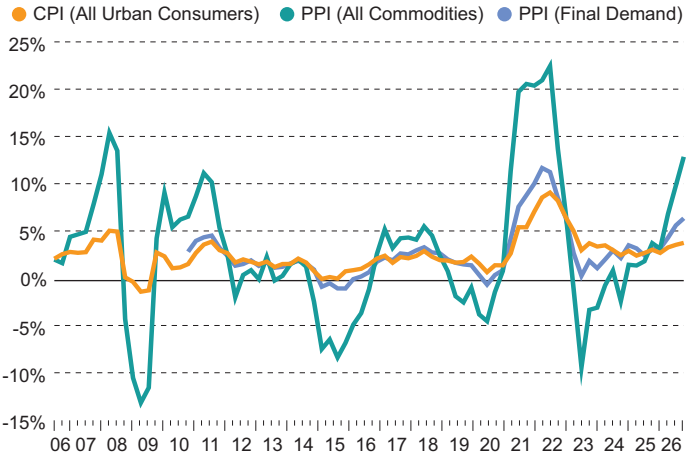
Imports are a key component of the National Income and Product Accounts, and politicians have long pointed to "net exports" as a key measure of our global economic fitness—are we selling more to the rest of the world than we are buying? In macroeconomic theory, net exports are a useful metric, but positive net exports are not necessarily a signal of virtue, they are just a summation of the current situation. We should also note that imports are not part of the current GDP calculation, as it only includes domestic

Quarterly Real GDP Growth (20 Years)



Source: Bureau of Economic Analysis

Inflation Year-Over-Year



Source: Bureau of Labor Statistics

economic activity, while imports describe economic activity that happens offshore. Higher imports can impact future GDP, as the purchase of a product made elsewhere implies a reduction in the purchase of the same product made in the U.S.

The challenge for the current tariff policy is that the intended re-onshoring of economic activity that should be encouraged by tariffs may take years to show up in the real U.S. economy. In contrast, higher prices for imported goods have a more immediate impact, and U.S. importers and purchasers of their goods and services are the ones that pay, not the exporters from the country of origin. We are raising our own prices, intentionally,

to encourage domestic economic activity, and the U.S.-based production will still cost more than the pre-tariff imports.

The labor market data highlights the conundrum for the tea-leaf-reading macro economists. The labor market has trended steadily downward for 18 months, and the latest reading shows further signs of moderation. Nonfarm payrolls increased by just 29,000 in September. For the past 12 months, the job market averaged a monthly gain of 45,000, well below the 117,000 average notched during the prior decade. My now-obsolete rule of thumb used to be the U.S. economy needed job growth in the 100,000 range or above to be considered expansionary. Anything this close to zero meant the recession red lights are flashing. However, the unemployment rate is holding steady, inching up to 4.2% from 4.1% even as more workers entered the labor force. Despite slower hiring, layoffs remained limited, evidenced by initial unemployment claims falling to 197,000, near a multi-decade low. Our new macro catchphrase: we are in a "low hire, low fire" environment.

The Federal Reserve uses interest rates to fight inflation and to spur the economy after a downturn. The Fed has control over one rate—the inter-bank lending rate known as the Fed Funds Rate—but its real influence stems from the confidence the market has in interpreting the intended direction of the full yield curve and the goals of Fed policy. If that confidence wanes, so goes the power of the Fed to influence market behavior, consumers, and thereby inflation. The Treasury secretary and the Fed chair argued for caution in raising rates, but the bond market ultimately forced investors to reconsider exactly who was setting the odds. The 10-year Treasury yield rose during 3Q to levels not seen in over two decades as investors confronted a combination of renewed inflation pressures, resilient economic growth tied to the AI buildout, and mounting fiscal concerns.

The Long-Term View

Index	3Q26	Periods Ended 9/30/26 1 Yr	5 Yrs	10 Yrs	25 Yrs
U.S. Equity					
Russell 3000	1.4	15.1	12.6	14.7	10.4
S&P 500	2.3	15.7	13.8	15.3	10.4
Russell 2000	-7.2	16.2	6.3	9.8	9.5
Global ex-U.S. Equity					
MSCI EAFE	0.8	15.7	9.3	9.1	7.1
MSCI ACWI ex USA	0.5	20.0	9.6	9.2	7.6
MSCI Emerging Markets	-0.4	29.2	8.9	9.1	10.6
MSCI ACWI ex USA Small Cap	2.1	14.7	6.7	8.5	9.7
Fixed Income					
Bloomberg Agg	-3.5	-1.8	-0.6	1.1	3.3
90-Day T-Bill	0.9	3.6	3.7	2.4	1.8
Bloomberg Long G/C	-7.7	-7.1	-5.4	-0.2	4.4
Bloomberg GI Agg ex US	-1.6	-3.0	-2.9	-0.9	2.8
Real Estate					
NCREIF Property	1.4	5.2	2.6	4.7	7.3
FTSE Nareit Equity	-6.1	8.9	4.4	5.6	9.0
Alternatives					
Cambridge PE*	5.3	12.1	6.6	13.9	11.8
Cambridge Senior Debt*	0.5	2.6	6.8	7.4	4.9
HFRI Fund Weighted	-0.6	9.7	6.5	6.9	6.2
Bloomberg Commodity	16.2	40.6	11.3	7.9	3.4
Inflation – CPI-U	0.9	3.7	4.2	3.4	2.6

*Data for most recent period lags. Data as of 2Q26.
Sources: Bloomberg, Bureau of Economic Analysis, FTSE Russell, Hedge Fund Research, MSCI, NCREIF, Refinitiv/Cambridge, S&P Dow Jones Indices

What will upset this remarkably resilient economic apple cart? It seems like we have tried everything over the past two years: higher for longer interest rates; constantly shifting tariffs; the attack on Iran and a sharply disrupted global petroleum supply chain, leading to spiking oil prices; persistent inflation; and political division seemingly everywhere. With all that, we can't seem to tip over the cart.

Recent Quarterly Economic Indicators

	3Q26	2Q26	1Q26	4Q25	3Q25	2Q25
Employment Cost: Total Compensation Growth	3.4%	3.4%	3.4%	3.4%	3.5%	3.6%
Nonfarm Business: Productivity Growth	3.6%	2.1%	1.4%	1.2%	4.5%	4.2%
GDP Growth	3.4%	2.2%	2.5%	0.2%	3.9%	4.0%
Manufacturing Capacity Utilization	75.9%	75.9%	75.1%	74.9%	75.9%	75.6%
Consumer Sentiment Index (1966=100)	51.7	48.0	55.4	52.5	58.3	55.0

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, IHS Economics, Reuters/University of Michigan

Nonprofits, Public DB Plans Top Benchmark

INSTITUTIONAL INVESTORS

Investor Performance

- Nonprofits soundly topped a 60% stocks/40% bonds benchmark in the year ending 3Q26. Public plans also bested the benchmark, while bond-heavy corporate plans lagged significantly.
- Longer time periods make the performance comparison tougher. All investor types have lagged the benchmark over the last 3, 5, 10, and 20 years.

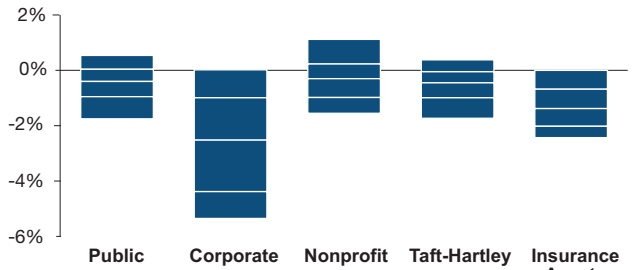
Macroeconomic Issues

- The Fed enacted its first rate hike under new chair Kevin Warsh.
- Inflation remains above the Fed's target.
- Consumer spending and business investment, including AI-related spending, continued to support growth.
- Equities continue to rise, while bonds have fallen with higher yields. Crude oil prices have surged due to the Iran conflict.

Major Issues Across Investor Types

- **Public DB plans:** Funded status and trimming U.S. equity allocations
- **Corporate DB plans:** Shift in goals as plans hit new peak in funded status
- **DC plans:** Focus on compliance amid discussions about retirement income and private markets in plans
- **Nonprofits**: Renewed appetite for private real estate

Quarterly Returns, Callan Database Groups (9/30/26)



	Public	Corporate	Nonprofit	Taft-Hartley	Insurance Assets
10th Percentile	0.5	0.0	1.1	0.4	0.0
25th Percentile	0.0	-1.0	0.2	-0.1	-0.7
Median	-0.4	-2.5	-0.3	-0.5	-1.4
75th Percentile	-1.0	-4.4	-1.0	-1.0	-2.0
90th Percentile	-1.8	-5.4	-1.6	-1.7	-2.4

Source: Callan

Public DB Plans

- According to the proprietary Callan Consultant Survey about our clients, private credit interest dropped in 3Q26 from 1Q26, perhaps in part due to growing headline issues regarding the asset class.

Callan Database Median and Index Returns* for Periods Ended 9/30/26

Database Group	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
Public Database	**-0.4**	**9.3**	**13.0**	**6.7**	**8.7**	**7.2**
Corporate Database	**-2.5**	**3.7**	**9.9**	**3.1**	**6.2**	**6.2**
Nonprofit Database	**-0.3**	**9.7**	**13.4**	**7.0**	**8.6**	**7.1**
Taft-Hartley Database	**-0.5**	**8.8**	**12.6**	**6.5**	**8.2**	**7.0**
Insurance Assets Database	**-1.4**	**3.9**	**8.1**	**3.7**	**4.5**	**4.6**
All Institutional Investors	**-0.7**	**8.6**	**12.6**	**6.4**	**8.2**	**6.9**
Large (>$1 billion)	**-0.2**	**8.9**	**12.1**	**6.6**	**8.6**	**7.1**
Medium ($100mm - $1bn)	**-0.5**	**8.9**	**13.0**	**6.6**	**8.4**	**7.1**
Small (<$100 million)	**-0.9**	**9.0**	**13.5**	**6.5**	**8.2**	**6.8**
60% S&P 500/40% Bloomberg Agg	0.0	8.7	15.3	8.0	9.8	8.2

*Returns less than one year are not annualized.

Source: Callan. Callan's database includes the following groups: public defined benefit (DB) plans, corporate DB plans, nonprofits, insurance assets, and Taft-Hartley plans. Approximately 10% to 15% of the database constituents are Callan's clients. All database group returns presented gross of fees. Past performance is no guarantee of future results. Reference to or inclusion in this report of any product, service, or entity should not be construed as a recommendation, approval, affiliation, or endorsement of such product, service, or entity by Callan.

- As one consultant noted: Clients have mixed feelings "regarding illiquid, private markets investments, including private equity and private credit. While some are concerned, others are embracing these asset classes."
- For public markets, the trends generally followed historical patterns:
  - A continued desire to cut U.S. equity allocations
  - A desire to increase fixed income allocations
  - Global ex-U.S. equity broke the pattern. In previous quarters a balanced share of clients planned to increase or decrease allocations; this quarter more planned cuts.
  - Overall, clients planned no dramatic changes with any public markets asset classes.

Corporate DB Plans

- In 3Q21, we started asking consultants about corporate DB plans with a focus on three key areas: funded status, funded basis, and plan goals.
- Illustrating the improvements in plans' funding, hibernation was the primary goal in 3Q26 and at its highest level since the survey started. Closing the funding gap as a goal dropped dramatically to its lowest level ever.
- This tracks with the share of plans with a funded status above 100%, which again hit the highest level since we started asking these questions.
- For some clients, the challenge was a relatively straightforward one: "Managing a well-funded open pension plan."

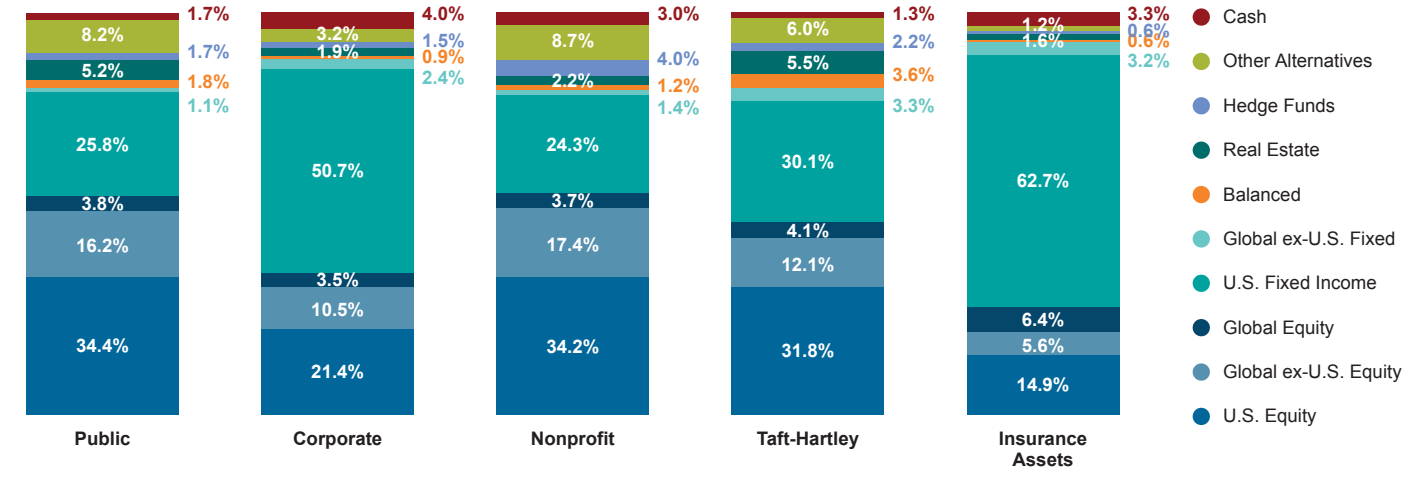
Nonprofits

- Interest in increasing allocations to private real estate rebounded after hitting 0% in 1Q26. This is roughly in line with the 10% of nonprofit clients over time that have planned to add to the asset class.
- Interest in adding to private equity also rose this quarter and hit the highest level since 3Q22.
- One client, a consultant said, "is interested in introducing venture capital to capture the benefits of technology innovation."
- Clients' plans for increasing private credit continue.
- Clients continue to show little interest in increasing or decreasing their allocations to hedge funds.

DC Plans

- While fees have been the top issue for DC clients for years, compliance and investment structure have shifted over time as Nos. 2 and 3. This quarter was compliance's turn.
- "Fees are always No. 1, but I have seen more interest in recordkeeper reviews, managed accounts, retirement income and trends around alternatives in DC plans, and those have the committees' attention."
- The share of clients with entirely passive target date funds (TDFs) continues to sit at high levels, at roughly 2 out of 5 clients.

Average Asset Allocation, Callan Database Groups



Note: Charts may not sum to 100% due to rounding. Other alternatives include but is not limited to: diversified multi-asset, private credit, private equity, and real assets.
Source: Callan

Equity

U.S. Equities

Large caps led a narrow market advance

- The S&P 500 Index advanced as AI remained a key market theme, although the momentum factor underperformed during the quarter.
- Market breadth was narrow, with only four of the 11 S&P 500 sectors posting gains. Energy led, supported by higher oil prices, followed by Health Care, Information Technology, and Communication Services. Rising interest rates weighed on Utilities and Real Estate.
- Small caps underperformed large caps, reversing recent trends. Higher rates pressured small caps, in part because of their greater reliance on floating-rate debt, while a rebound in several mega-cap stocks supported large-cap returns.
- Value outperformed growth across the market-cap spectrum. July's reversal in the AI trade favored value, while growth's recovery in August and September was insufficient to erase value's quarterly lead.

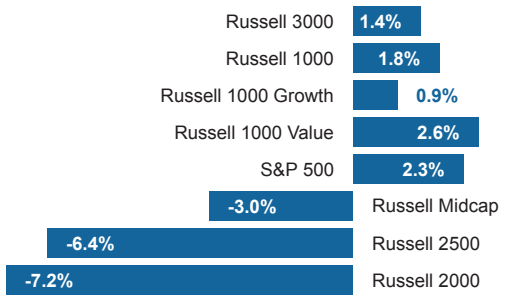
Narrow markets created a headwind for active managers

- The cap-weighted S&P 500 Index gained 2.3% in 3Q26, while its equal-weight counterpart declined 1.9%, highlighting the narrow market breadth.
- Underweights in a small group of winners proved costly, making it harder for diversified portfolios to keep pace with cap-weighted benchmarks.

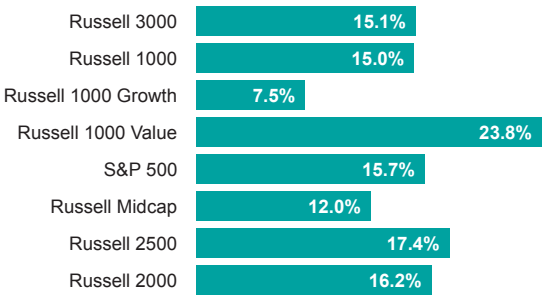
AI remains a dominant driver of U.S. equities

- AI-related industries represent more than half of the S&P 500, giving the theme substantial influence over index performance.
- Sustained AI spending and evidence of monetization remain important supports. Disappointments could weigh heavily on the broader market.

U.S. Equity: Quarterly Returns (9/30/26)

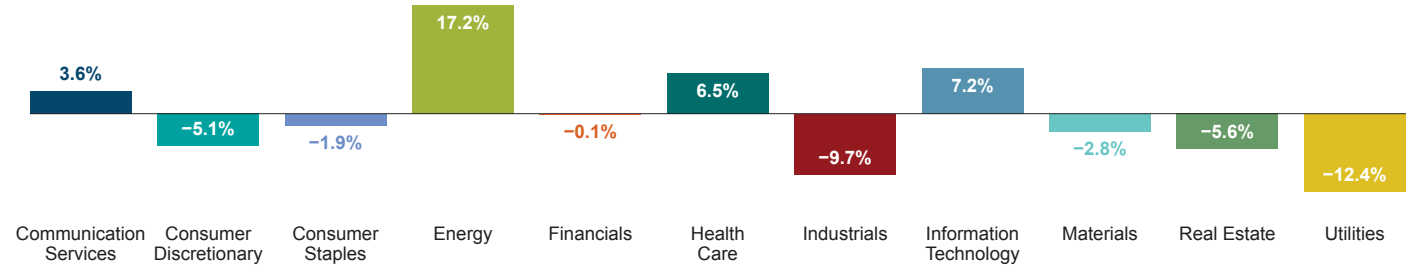


U.S. Equity: One-Year Returns (9/30/26)



Sources: FTSE Russell and S&P Dow Jones Indices

Quarterly Performance of Industry Sectors (9/30/26)



Source: S&P Dow Jones Indices

Global Equities

Value leads amid AI headwinds

Broad market

- Non-U.S. markets lagged the U.S. in 3Q26 (S&P 500 up 2.3%) as emerging markets underperformed amid heightened volatility in semiconductor-heavy markets.
- Japan led developed ex-U.S. markets in 3Q26, supported by strong earnings growth, while Europe ex-U.K. lagged.
- South Korea weighed on emerging markets as semiconductor stocks reversed sharply on concerns over AI valuations. China continued to experience sluggish consumer spending and property market weakness, although its equity market posted modest gains.

Growth vs. value

- The prior quarter's trend flipped once again as value outperformed growth in 3Q26 across global markets.
- AI-related stocks experienced increased volatility as investors reassessed valuations and rotated toward other technology segments and value-oriented sectors.

U.S. dollar

- The U.S. dollar was relatively flat in 3Q26 after a sharp rebound in September. Higher Treasury yields and increasing expectations for additional Fed interest rate hikes supported the currency.

Signs of broader participation

- AI and semiconductor stocks dominated market leadership during the first half of 2026. However, several winners reversed during 3Q26.
- Whether the rotation signals sustained broadening or a temporary momentum reversal remains uncertain.

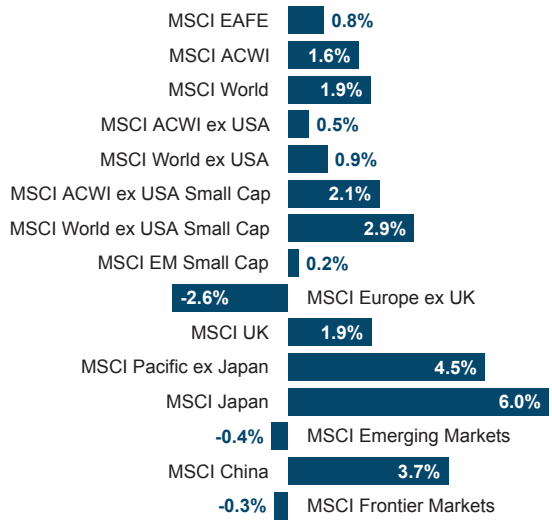
Manager outcomes converge

- Non-U.S. equity manager return dispersion declined after reaching its five-year peak in 2Q26.
- Broader participation may benefit managers with less exposure to crowded AI and momentum trades.

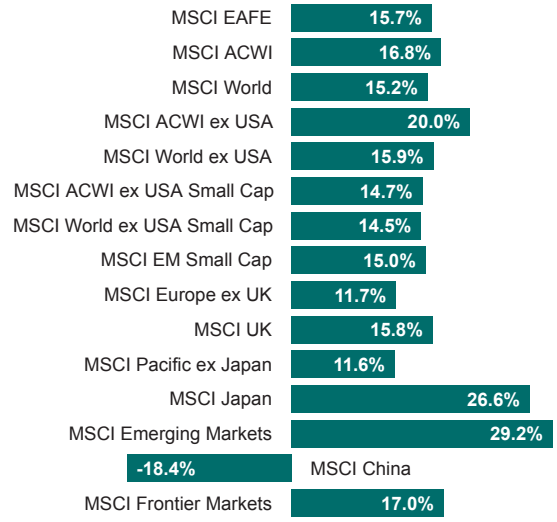
Portfolio turnover rising

- Average quarterly turnover in Callan's Global ex-U.S. Equity Peer Group increased from 14.5% in 4Q25 to 29.8% in 3Q26.
- Both fundamental and quantitative non-U.S. equity strategies exhibited increased turnover in 2026, with quantitative strategies maintaining higher turnover levels.

Global ex-U.S. Equity: Quarterly Returns (U.S. Dollar, 9/30/26)



Global ex-U.S. Equity: One-Year Returns (U.S. Dollar, 9/30/26)



Source: MSCI

Fixed Income

U.S. Fixed Income

Macro: Hawkish sentiment turns into action

- The Fed hiked rates for the first time since 2023.
- Market participants expect another by year-end.
- Treasury yields rose across the curve, led by the 5- to 10-year portion.

Performance: A rates story

- Longer-duration sectors fell the most.
- IG credit spreads remain near historic tights.
- Lower-quality portion of the HY market widened meaningfully late in the quarter.

Outlook: Real yield is back

- 10-year Treasuries now paying nearly 3% real yields, up from 2.2% in 2Q
- Rate volatility could widen the performance gap between managers.

Municipal Bonds

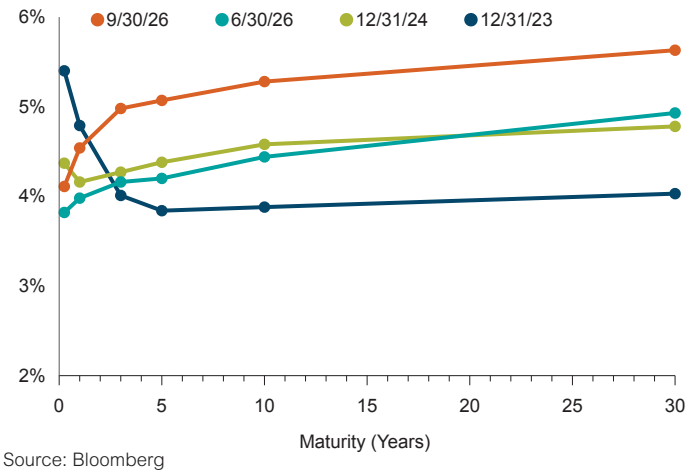
One of the worst quarters ever

- AAA municipal yields rose across the curve, with more pronounced increases at shorter and intermediate maturities resulting in a flatter yield curve.
- Both general obligation (-6.3%) and revenue bonds (-6.4%) posted huge declines amid broad-based market weakness, resulting in one of the worst quarters in 40 years.
- Performance was relatively uniform across investment grade categories.

Supply/demand pressure in the municipal bond market

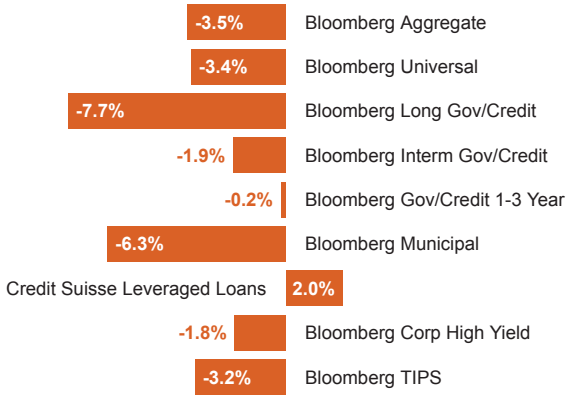
- Rising yields and tax-loss harvesting contributed to selling pressure, amplifying negative returns during the quarter.
- September issuance reached approximately $54 billion, a record for the month.
- Despite September outflows, year-to-date municipal fund demand remained robust, with annual inflows on pace to reach the second-highest level on record.

U.S. Treasury Yield Curves

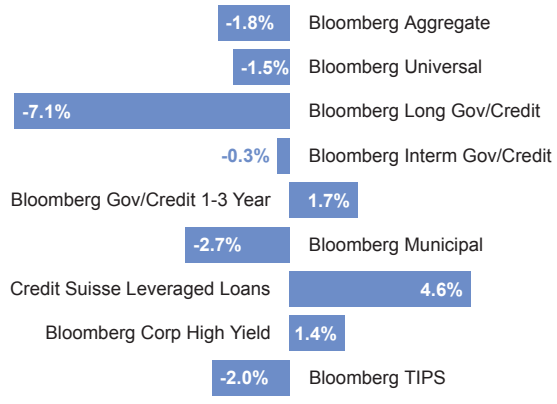


Source: Bloomberg

U.S. Fixed Income: Quarterly Returns (9/30/26)



U.S. Fixed Income: One-Year Returns (9/30/26)



Sources: Bloomberg and Credit Suisse

Muni valuations

- Muni-to-Treasury yield ratios widened to levels not seen since the Global Financial Crisis, improving the relative attractiveness of tax-exempt bonds.

Global Fixed Income

Long-end pressure goes global

- Long-term yields rose across developed markets.
- Shared drivers: energy-driven inflation and heavy government debt burdens
- Japanese 10-year yields reached 3% for the first time since 1996.

The dollar falls then rebounds

- The dollar fell into early September, then rebounded as U.S. yields spiked and ended the quarter flat after sizable swings.

Emerging markets: Local currency outperforms

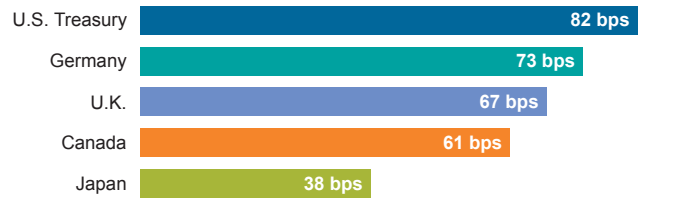
- Dollar-denominated EM debt fell with U.S. Treasuries
- Local debt was cushioned by its ties to local rates rather than U.S. rates

High yields are attractive, but managers must be selective

- Yields rose in 3Q, reaching multi-decade highs in several major developed markets.
- In Europe, spreads over German bunds reflect differing risk profiles, with French 10-year spreads recently reaching the widest levels since the 2011 European debt crisis given debt level concerns and political uncertainty
- Debt sustainability is in focus across global developed markets, not just in the U.S.
- While high absolute yields may be attractive, global fixed income managers must incorporate prudent country selection decisions.

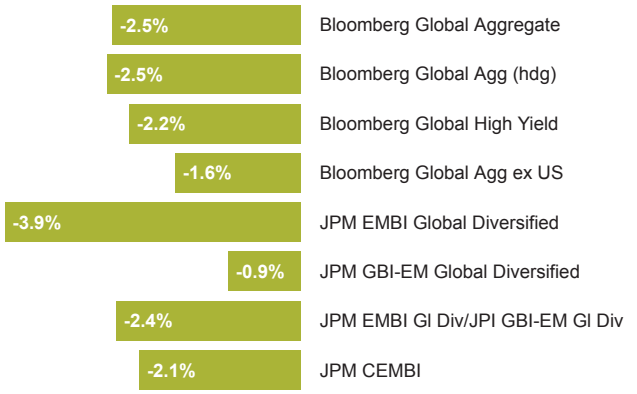
Change in 10-Year Global Government Bond Yields

2Q26 to 3Q26



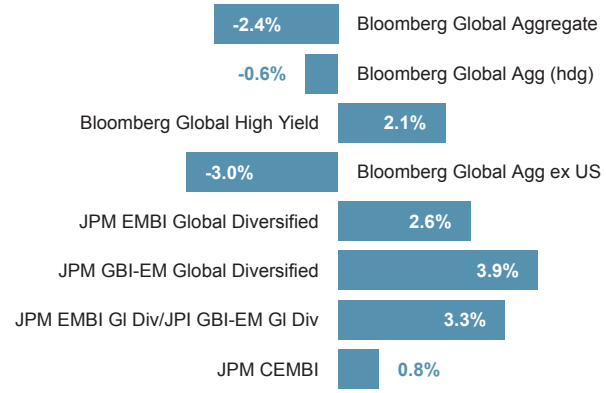
Source: Bloomberg

Global Fixed Income: Quarterly Returns (9/30/26)



Sources: Bloomberg and JPMorgan Chase

Global Fixed Income: One-Year Returns (9/30/26)



Sources: Bloomberg and JPMorgan Chase

Private Real Estate Stabilizes as Listed Markets Diverge

REAL ESTATE/REAL ASSETS | Kimberly Weiss and Sean Yamamoto

Real assets diverged in 3Q26 as private real estate continued to stabilize and rising bond yields pressured listed property and infrastructure. Commodities rallied, led by energy, while demand for power and data centers continued to support private infrastructure investment. Across private real estate, income remained the main source of returns, redemption queues declined, and transaction activity continued its recovery.

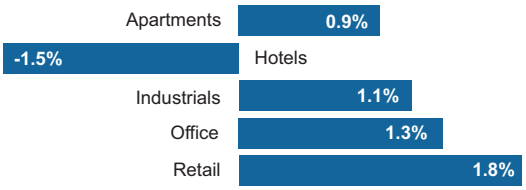
Private Real Estate Performance in 3Q26

The NCREIF Open-End Diversified Core Equity (ODCE) Index gained 1.7% before fees, comprising a 1.0% income return and 0.7% appreciation. The NCREIF Property Index advanced 1.4% before fees. Residential and Office values declined, while Industrial, Retail, Self-Storage, and Senior Housing generated positive appreciation. Senior Housing led by a wide margin.

The Midwest led regional performance. The West lagged, with flat appreciation reflecting softer industrial conditions in Southern California. Manager return dispersion within the ODCE Index remained elevated, driven by portfolio composition and sector exposure.

Core portfolios continued to shift toward Industrial and Multifamily properties as Office and Retail allocations declined. Alternative property types also gained ground as managers sought sectors with lower capital expenditure requirements and less sensitivity to economic growth. Geographic exposure remained concentrated in coastal regions.

Sector Quarterly Returns by Property Type (9/30/26)



Source: NCREIF

Liquidity improved. ODCE redemption queues stood at approximately 8.7% of net asset value (NAV), with a median of 7.4%, according to 2Q26 data, the latest available. Queues have fallen sharply from their 19.3% peak in 1Q24. Larger redemption payments and rescinded requests drove the decline, with loyalty fee programs contributing in some cases. Nevertheless, outstanding requests among most large funds ranged from approximately zero to 38% of NAV.

Rolling four-quarter transaction volume increased and exceeded five-year averages, although activity remained below the recent peak in 1H22. During 3Q26, the number of transactions rose from the previous quarter while total transaction value declined.

Callan Database Median and Index Returns* for Periods Ended 9/30/26

Private Real Assets	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	20 Years
Real Estate ODCE Style	**1.4**	**4.6**	**0.3**	**1.2**	**4.3**	**4.2**	**4.2**
NFI-ODCE (value-weighted, net)	1.5	4.6	-0.2	0.9	3.7	4.4	4.5
NCREIF Property	1.4	5.2	2.2	2.6	4.7	6.0	6.0
NCREIF Farmland	0.9	0.2	0.8	3.6	4.6	9.2	9.2
NCREIF Timberland	0.6	4.4	6.2	8.2	5.5	6.0	6.0
Public Real Estate							
Global Real Estate Style	**-5.8**	**3.5**	**10.4**	**1.6**	**4.7**	**4.6**	**5.6**
FTSE EPRA Nareit Developed	-7.4	2.8	12.7	5.9	6.4	6.9	7.6
Global ex-U.S. Real Estate Style	**-5.9**	**-4.9**	**6.4**	**-2.5**	**2.7**	**--**	**3.8**
FTSE EPRA Nareit Dev ex US	-5.7	-6.5	6.8	-2.8	0.7	1.4	2.2
U.S. REIT Style	**-5.9**	**7.7**	**12.1**	**3.7**	**5.9**	**6.5**	**7.2**
FTSE EPRA Nareit Equity REITs	-6.1	8.9	12.9	4.4	5.6	6.0	6.8

*Returns less than one year are not annualized. Sources: Callan, FTSE Russell, NCREIF

All Strategies Gain in 2Q26

PRIVATE EQUITY | Aidan Davison

Private equity gained 5.3% in 2Q26, rebounding from a roughly flat 1Q, with increases across all strategies. Venture capital performed the best. Buyout fundraising is on track for a third straight annual decline, while VC fundraising has passed 2025's total, led by several mega-fund raises.

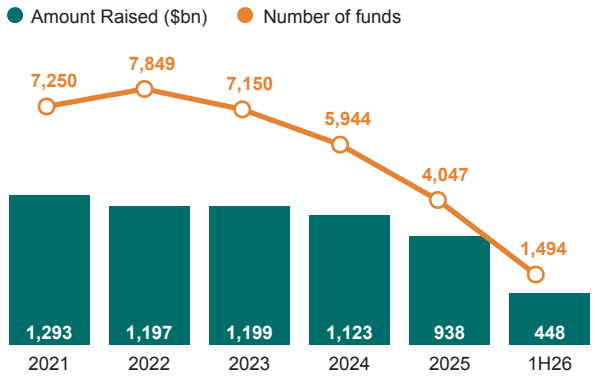
Performance ▶ Private equity gained 5.3% in 2Q26, rebounding from a roughly flat 1Q, with increases across all strategies, but trailed the Russell 3000 PME (15.4%) as public equities rallied.

Venture capital again led, returning 12.2% for the quarter and 33.0% over the trailing year, alongside SpaceX's 2Q IPO and continued AI mega-rounds. Growth equity (4.4%) and buyouts (2.8%) posted more modest gains.

Venture capital led over 1, 3, and 10 years, while buyouts' steadier compounding kept it narrowly ahead over 5 years, as the 2022-23 drawdown still weighs on VC. Over the 10- and 20-year periods, all four strategies returned between 12% and 17%. Private equity outperformed the Russell 3000 PME over 20 years but trailed it over 10 years, reflecting strong public equity returns in recent years.

Fundraising ▶ Capital raised has held up in 2026, but it is flowing to fewer, larger funds. Buyout fundraising is on track for a third straight annual decline, while VC fundraising has passed 2025's total, led by several mega-fund raises. LPs are favoring managers with realized distributions (DPI), with exits still uneven.

Annual Fundraising (6/30/26)



Source: Pitchbook

Deal Activity ▶ 1H26 deal value is pacing ahead of 2025, driven by venture, while deal count is pacing below as capital concentrates in fewer, larger deals. Buyout dealmaking slowed in 2Q on the SaaS correction, inflation, wider credit spreads, and rate uncertainty. Activity did rebound moderately in 3Q.

The Fed's September rate hike was directionally negative for PE but gave sponsors clarity on financing conditions. The future rate path could be a meaningful factor for leverage and exits in 2027. VC deal count was led by mega-rounds in 1H26, although it tapered in 3Q26, while first-time financings are on pace for a record year.

Private Equity Performance (%) (Pooled Horizon IRRs through 6/30/26*)

Strategy	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
Venture Capital	12.2%	33.0%	14.0%	6.7%	16.7%	13.4%
Growth Equity	4.4%	10.4%	8.3%	4.2%	14.0%	12.8%
Buyouts	2.8%	5.1%	7.3%	7.1%	14.0%	11.8%
Private Equity	**5.3%**	**12.1%**	**8.9%**	**6.6%**	**14.0%**	**12.0%**

Note: Private equity returns are net of fees. Sources: LSEG/Cambridge and S&P Dow Jones Indices
*Most recent data available at time of publication

Note: Transaction count and dollar volume figures across all private equity measures are preliminary figures and are subject to update in subsequent versions of the *Capital Markets Review* and other Callan publications.

Fundraising Surges as Spreads Compress

PRIVATE CREDIT | Cos Braswell

Fundraising surged despite few fund closes. Spreads continued to compress, with almost no deals year to date (YTD) pricing at 700 basis points or higher. Artificial intelligence remains a key focus for private credit, particularly lending to software companies and financing AI data center development. Over the past 10 years the asset class has generated a net IRR of 8.9%, outperforming leveraged loans and high yield. Higher-risk strategies continue to lead, with subordinated debt at 10.7% versus 7.4% for senior debt over the past decade.

Key Trends in Private Credit

Fundraising ▶ Fundraising surged to approximately $100 billion in 2Q26, one of the strongest quarters in recent years.

Capital raised increased sharply despite relatively few fund closes, highlighting concentration among larger managers. The four largest closes totaled roughly $38 billion, representing nearly 40% of quarterly fundraising. Fundraising was diversified across direct lending, mezzanine, and asset-backed financing, led by established platforms

Spreads ▶ Direct lending spreads continue to compress, with 86% of YTD 2026 deals pricing below 550 bps, compared to just 3% in 2022. Higher-spread opportunities have nearly disappeared, with 0% of YTD deals pricing between 600–699 bps and just 1% at 700 bps or higher. Pricing has shifted sharply toward tighter spreads, with 54% of YTD deals pricing at 450–499 bps, up from 4% in 2022.

Issuance ▶ Direct lending has gained a big share of large buyout financing, accounting for approximately one-third of global buyouts over $1 billion in YTD 2026, up from less than 10% in 2015. Direct lending's market share has moderated from its 2023 peak, as syndicated loan markets have regained competitiveness. Syndicated loans remain a significant financing source, highlighting continued competition between private credit and broadly syndicated lenders for large buyouts.

Artificial Intelligence ▶ Technology exposure remains a key focus for private credit, particularly lending to software companies and financing AI data center development. Software represents an estimated 20% of private credit lending, historically favored for its recurring revenues and predictable cash flows. AI disruption is challenging traditional software underwriting assumptions, raising concerns around competitive pressures, slowing growth, and declining valuations.

Rapid AI data center development has also raised concerns around potential overinvestment and whether future demand will justify capital deployment.

Returns ▶ Over the past 10 years the asset class has generated a net IRR of 8.9%, outperforming leveraged loans and high yield. Higher-risk strategies continue to lead, with subordinated debt at 10.7% versus 7.4% for senior debt over the past decade. Private credit rose 1.6% in 2Q26, underperforming both public indices. Within private credit, senior debt was the main detractor of performance.

Private Credit Performance (%) (Pooled Horizon IRRs by Strategy through 6/30/26*)

Strategy	Quarter	1 Year	5 Years	10 Years	20 Years
Senior Debt	0.5	2.6	7.0	7.4	7.6
Subordinated	1.0	5.2	9.0	10.7	10.6
Credit Opportunities	2.4	8.6	8.4	9.1	9.0
Total Private Credit	**1.6**	**6.3**	**8.1**	**8.9**	**9.1**

Source: LSEG/Cambridge
*Most recent data available at time of publication

Macro Strategies the Top Performer YTD

HEDGE FUNDS/MACs | Joe McGuane

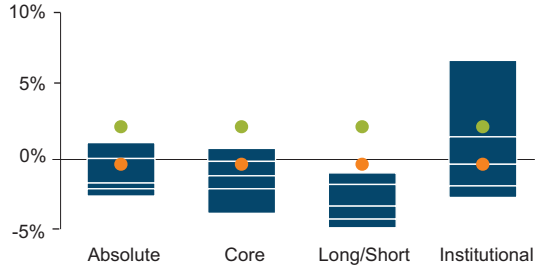
Macro strategies outperformed

- Macro strategies finished higher during 3Q26, benefiting from a sharp rise in interest rates, strength in commodities, and heightened volatility. Macro remains the strongest performer over the trailing year.
- Equity hedge strategies declined as rising interest rates weighed on equity-sensitive positioning, but results remain strong over the trailing year.
- Event-driven strategies ended lower amid reduced risk sentiment but have generated positive returns over the past year.
- Relative value strategies posted a modest loss but held up better than equity-sensitive strategies.

FOFs saw modest declines

- Fund-of-funds (FOFs) with more equity beta saw the largest declines during 3Q.
- FOFs with more diversification and higher weights to macro and relative value strategies were better insulated from the pullback.

Hedge Fund Style Group Returns (9/30/26)



	Absolute Return FOF	Core Div. FOF	Long/Short Equity FOF	Institutional Hedge Funds
10th Percentile	1.0	0.6	-1.1	6.7
25th Percentile	-0.1	-0.3	-1.9	1.4
Median	-1.8	-1.3	-3.4	-0.5
75th Percentile	-2.2	-2.2	-4.3	-2.0
90th Percentile	-2.7	-3.9	-4.9	-2.8
HFRI Fund Wtd Index	-0.5	-0.5	-0.5	-0.5
90-Day T-Bills +5%	2.1	2.1	2.1	2.1

Sources: Callan, Credit Suisse, Federal Reserve

Callan Peer Group Median and Index Returns* for Periods Ended 9/30/26

Hedge Fund Universe	Quarter	1 Year	3 Years	5 Years	10 Years	15 Years
Callan Institutional Hedge Fund Peer Group	**-0.5**	**6.8**	**9.1**	**8.1**	**7.9**	**7.9**
Callan Fund-of-Funds Peer Group	**-1.8**	**11.2**	**11.1**	**6.7**	**6.9**	**6.3**
Callan Absolute Return FOF Style	**-1.8**	**4.0**	**7.4**	**6.1**	**5.1**	**5.4**
Callan Core Diversified FOF Style	**-1.3**	**12.3**	**11.2**	**7.7**	**6.9**	**6.6**
Callan Long/Short Equity FOF Style	**-3.4**	**11.3**	**12.5**	**6.2**	**7.4**	**6.4**
HFRI Fund Weighted Index	-0.5	9.7	11.2	6.5	6.9	6.1
HFRI Fixed Convertible Arbitrage	-1.6	4.8	8.9	6.1	6.4	6.1
HFRI Distressed/Restructuring	-2.7	11.8	11.8	6.8	7.3	6.5
HFRI Emerging Markets	-0.2	8.9	13.2	5.4	6.4	5.3
HFRI Equity Market Neutral	1.5	7.6	9.4	6.8	4.8	4.5
HFRI Event-Driven	-1.7	7.5	10.6	6.4	6.8	6.3
HFRI Relative Value	-0.5	4.7	7.4	5.1	5.0	5.2
HFRI Macro	4.5	14.9	7.5	6.3	4.8	3.4
HFRI Equity Hedge	-2.1	10.3	14.3	7.2	8.4	7.4
HFRI Multi-Strategy	-1.6	7.7	12.9	6.2	6.0	5.3
HFRI Merger Arbitrage	0.9	6.7	8.1	6.0	6.0	5.1
90-Day T-Bill + 5%	2.1	8.6	9.5	8.7	7.4	6.6

*Net of fees. Sources: Callan, Credit Suisse, Hedge Fund Research

MACs ended the quarter mixed

- The median Callan Long Biased Multi-Asset Class (MAC) manager rose 0.5% in 3Q26, above the 60% ACWI/40% Agg, which fell 0.4%, as commodity strength offset weakness in credit and equities.
- The median Callan Risk Parity MAC manager fell 0.9%, as positioning to equities and fixed income weighed on performance during the quarter.

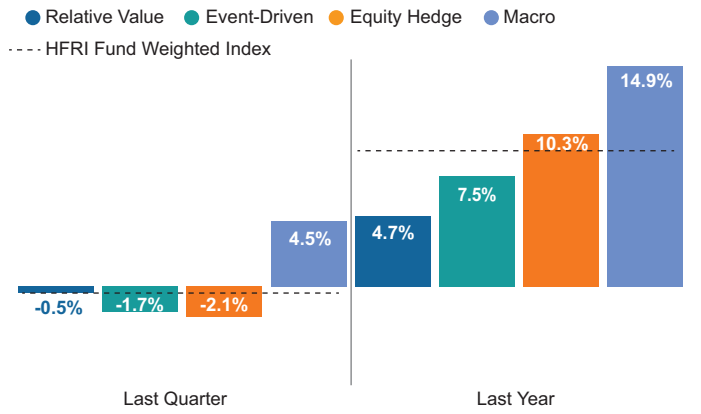
Equity hedge struggled in 3Q

- Equity hedge managers were observed rotating out of momentum and into quality companies.
- Managers began adding back to gross exposure in September, as it was reduced in July and August.
- Health care and technology positions were hit the hardest during the quarter.

Interest rates were volatile

- The 10-year Treasury yield rose from 4.47% to 5.29%, its highest level since 2007, and the 30-year rose above 5.5%, a level last seen in 2004.
- The Federal Reserve, in a unanimous vote, raised the Federal Funds Rate by 25 bps during the quarter to 3.75% – 4.00%.

HFRI Hedge Fund-Weighted Strategy Returns (9/30/26)



Source: HFRI

Hedge fund capital growth

- Industry capital reached a record $5.64 trillion at 3Q26, according to HFR Industry Reports, up $480.4 billion, or 9.3%, from year-end 2025.
- Net inflows totaled $124.1 billion through 3Q, including $34.5 billion in the quarter, supporting the rise in industry assets.
- The estimated number of funds excluding funds of funds increased to 8,631, 100 above year-end 2025.

Asset growth

- Total industry assets edged up $7.1 billion in 3Q26 to a record $5.64 trillion, according to HFR, following strong growth in 1H26.
- Macro posted the largest quarterly gain, rising $40.0 billion to $897.5 billion; Relative value increased $19.2 billion to $1.45 trillion.
- Equity hedge declined $31.6 billion to $1.72 trillion and event-driven fell $20.5 billion to $1.57 trillion, partially offsetting the gains.

Funds launched/liquidated

- HFR estimates 266 fund launches and 199 liquidations in 1H26, resulting in a net increase of 67 funds.
- Launches exceeded liquidations in both quarters: 166 versus 129 in 1Q and 100 versus 70 in 2Q.
- Formation and closure activity remains well below the elevated levels recorded before and during the Global Financial Crisis.

Hedge fund outlook

- Cash-rich and short-selling strategies still earn positive interest and rebate income, although the benefit is below the 2023 peak-rate environment.
- Elevated funding costs and tighter bank balance sheets continue to create opportunities in stressed credit, private lending, and event-driven capital solutions.

Index Rebounds; Passive Hits Highest Level Ever

DEFINED CONTRIBUTION | Scotty Lee

Performance: Index Rebounds Following 1Q26 Decline

– The Callan DC Index™ gained 11.2% during 2Q26, reversing the 1.9% decline in the prior quarter and bringing the trailing one-year return to 18.4%.

Growth Sources: Investment Gains Outpace Net Outflows

– Participant balances increased 10.1% during the quarter, reversing a 1.2% decline in 1Q26. Investment returns added 11.2%, the Index's fourth-strongest quarterly return since inception, partially offset by net outflows of 1.1%.

Turnover: Net Transfer Activity Remains Negligible

– Turnover (i.e., net transfer activity within DC plans) was just 0.01% in 4Q25, its lowest level since Index inception and well below the historical average of 0.51%.

Net Cash Flow Analysis: Big Inflows to Fixed Income

– U.S. fixed income received 78.9% of total inflows during the quarter. Outflows were heaviest in some of the quarter's strongest-performing asset classes, with U.S. large cap equity (15.3%) and U.S. small/mid cap equity (17.7%) accounting for 70% of outflows.

Equity Allocation: Reaches a New High

– The Index's overall equity allocation increased from 74.8% to 75.9% during the quarter, the highest level since the Index's inception.

Asset Allocation: TDFs Remain the Largest Allocation

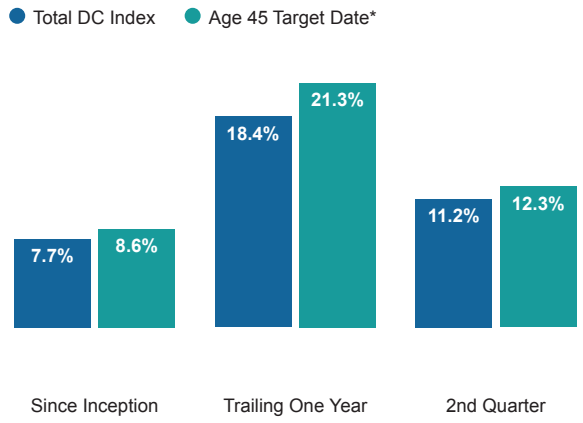
– Target date funds represent 38.0% of Index assets, a record high, up from 37.6% at the end of the prior quarter. U.S. large cap equity remains the largest standalone allocation at 28.5% of assets. Passively managed strategies represent 44.2% of Index assets, the highest level since the Index's inception, up from 42.2% at the end of 2Q25.

Prevalence of Asset Class: TDFs Remain Core Offerings

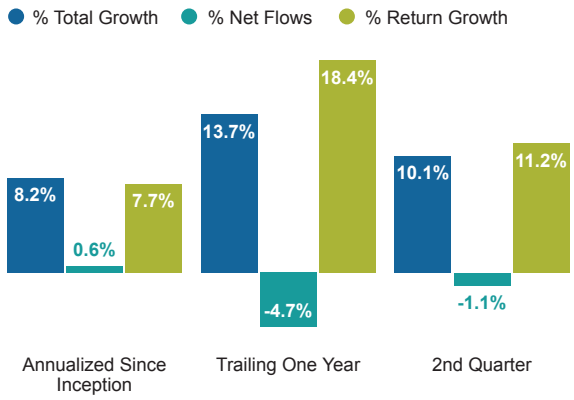
– Target date funds remain the most widely offered multi-asset solution, available in 89% of plans within the Index. U.S. large cap equity, non-U.S. equity, and U.S. fixed income are each offered in all but one plan.

Underlying fund performance, asset allocation, and cash flows of more than 100 large defined contribution plans representing approximately $400 billion in assets are tracked in the Callan DC Index.

Investment Performance (6/30/26⁺)



Growth Sources (6/30/26⁺)



Net Cash Flow Analysis 2Q26⁺
(Top Two and Bottom Two Asset Gatherers)

Asset Class	Flows as % of Total Net Flows
U.S. Fixed	78.9%
Money Market	6.7%
U.S. Small/Mid Cap	-22.5%
U.S. Large Cap	-47.6%
Total Turnover**	**0.1%**

⁺ Data provided here is the most recent available at time of publication.

Source: Callan DC Index

Note: DC Index inception date is January 2006.

* The Age 45 Fund transitioned from the average 2040 TDF to the 2045 TDF in June 2023.

** Total Index "turnover" measures the percentage of total invested assets (transfers only, excluding contributions and withdrawals) that moved between asset classes.

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The *Capital Markets Review* is a quarterly macroeconomic indicator newsletter that provides thoughtful insights on the economy and recent performance in the equity, fixed income, alternatives, real estate, and other capital markets.

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