

Alternative Asset Themes

EQUIPPED FOR CHANGING TERRAIN

2026

The investment landscape is undergoing a profound transformation as artificial intelligence (AI), infrastructure demands, evolving credit markets, and sophisticated risk-management strategies reshape where and how value is created. Across alternative markets, we believe five themes stand out as the defining forces for 2026 and beyond.

01

Turbocharging Innovation: AI's Supercycle Reshaping Private Equity and Venture Capital

Position portfolios at the forefront of AI's earliest growth phases.

02

Firing Up the Cylinders: Infrastructure and the Energy Transition

Access durable infrastructure opportunities fueled by AI expansion.

03

Core Private Credit: Engineered for Distance

Discover private credit's growing role in modern portfolio construction.

04

Overhauling the Engine: The Distressed Credit Advantage

Invest where market stress reshapes valuations.

05

Hedge Funds: Shock Absorbers for Bumpy Patches

Improve portfolio efficiency across market environments.

THEME 01

TURBOCHARGING INNOVATION: AI'S SUPERCYCLE RESHAPING PRIVATE EQUITY

Artificial intelligence (AI) is defining where value is created and captured, giving private market investors earlier access to innovation and growth.

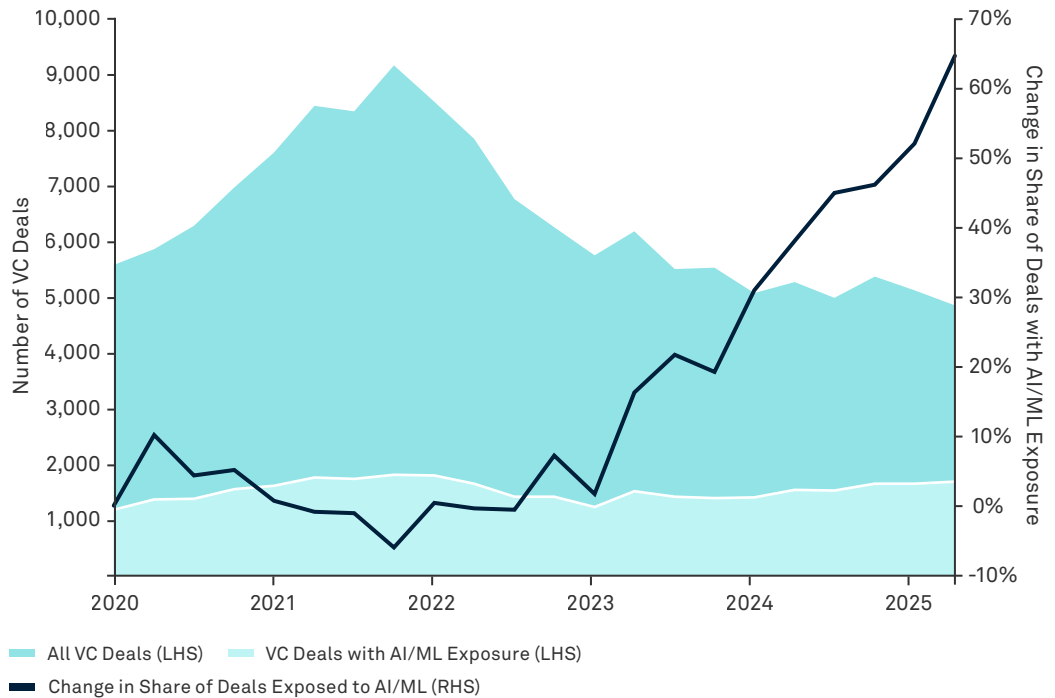
Two major shifts are reshaping today's investment landscape, and they're opening new doors for investors.

First, artificial intelligence (AI) is becoming a foundational force across the global economy. Its adoption is moving faster than any prior technology wave, transforming how companies operate, compete, and grow. AI is no longer limited to a single industry; it's increasingly embedded across areas like software, healthcare, productivity tools, and climate solutions. Its broad reach makes AI a once-in-a-generation growth opportunity.

Second, companies are staying private for much longer. In the past, many fast-growing firms went public early in their life cycle. Today, abundant private capital allows companies to raise large amounts of funding without entering public markets. As a result, much of a company's most important growth and value creation is now happening before an initial public offering. Together, these shifts are changing where innovation happens and who gets access to it. A growing share of breakthrough AI development is taking place inside private companies, giving private-market investors earlier exposure to transformational businesses. At the same time, the number of publicly listed small- and mid-size companies has declined over the past decade, making private markets an increasingly important way to participate in emerging growth trends.

Much of the value created by AI is likely to flow to private firms.

AI Dominating VC Deal Volume



Source: Preqin, Preqin’s State of the Market (H1 2026). Data as of November 2025.

We believe the key question is no longer whether AI will create value, but where that value will show up. Many of today’s most valuable companies — such as OpenAI, SpaceX, Anthropic, Databricks, Stripe, ByteDance, and Reliance Retail — remain private, each with valuations above \$100 billion. Looking ahead, the next wave of AI innovation, including autonomous systems and specialized AI applications, is likely to require long development timelines and patient capital. This dynamic naturally favors private markets.

KEY TAKEAWAY

AI and private markets are increasingly where innovation and growth begin — giving investors earlier access to transformative opportunities beyond public stocks.

THEME 02

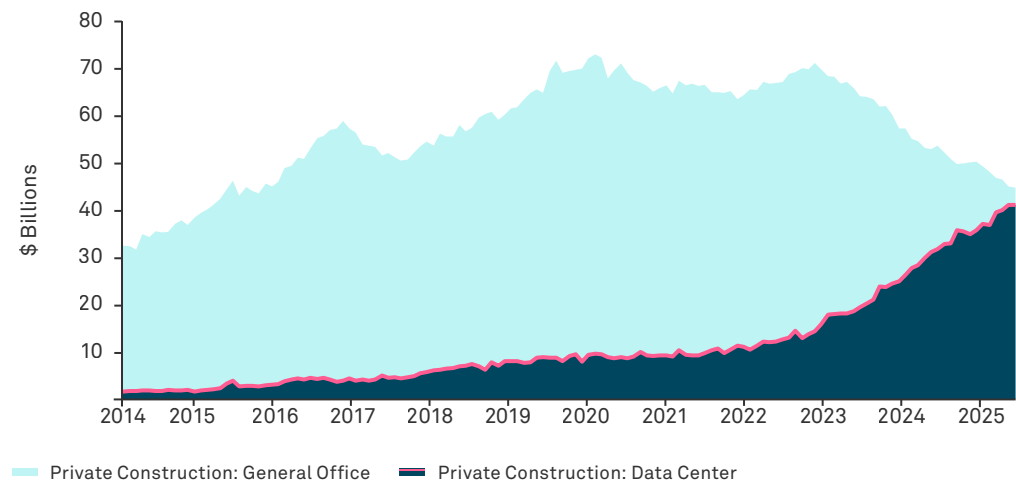
FIRING UP THE CYLINDERS: INFRASTRUCTURE AND THE ENERGY TRANSITION

AI's surging computing demand is fueling strong investor appetite for data centers and related infrastructure.

AI isn't just changing business, it's driving a major rebuild of the physical economy. As AI adoption accelerates, demand is surging for the infrastructure needed to support it, including data centers, semiconductor manufacturing, and electricity generation. The computing power required to run advanced AI systems is growing rapidly, pushing cloud providers and hyperscale companies to invest at record levels.

In 2025 alone, these companies invested roughly \$734 billion in data center infrastructure, a sharp increase from the prior year. And this trend is far from over. Over the next five years, global investment in data centers, AI infrastructure, and power supplies could exceed \$5 trillion, with annual spending needs continuing to rise.

AI Is Driving an Unprecedented Data Center Construction Boom



Source: Strategas. Data as of October 31, 2025.

Hyperscalers and cloud platforms are committing unprecedented levels of capital.

That said, the scale of this buildout is creating real challenges. Power grids are under strain, supply chains remain tight, and shortages of critical equipment — such as turbines — are extending construction timelines. In response, operators are exploring alternative solutions, including smaller turbines, nuclear power, and extending the life of existing plants. While these approaches can help bridge gaps, they also introduce higher costs, regulatory complexity, and execution risk.

For investors, this massive expansion in infrastructure brings meaningful opportunities, especially in clean energy. AI workloads are expected to drive a sharp increase in electricity demand over the coming decade, potentially accounting for close to 10% of total U.S. power usage by 2030.³ In this environment, renewable energy sources like solar and wind are particularly well positioned. Compared with traditional power generation, renewables generally have faster development timelines, lower operating costs, and fewer fuel-supply constraints, while also supporting long-term sustainability goals.

Despite these strong tailwinds, infrastructure exposure remains relatively small in many portfolios. Research shows that real assets beyond real estate make up only a modest share of investor allocations. This disconnect suggests that infrastructure-related investments may be underappreciated, even as they offer potential benefits such as inflation mitigation, long-duration cash flows, and exposure to essential services.

Beyond power and data centers, AI is also enabling more efficient use of resources across the economy. By helping companies reduce waste, optimize production, and build more circular systems, AI is opening the door to investment opportunities in areas like advanced recycling and sustainable manufacturing. These trends support long-term resilience in a world facing growing resource constraints.

KEY TAKEAWAY

AI is driving a massive buildout of infrastructure and clean energy, creating long-term investment opportunities that remain underrepresented in many portfolios.

THEME 03

CORE PRIVATE CREDIT: ENGINEERED FOR DISTANCE

The private credit landscape offers investors significant potential for durable returns.

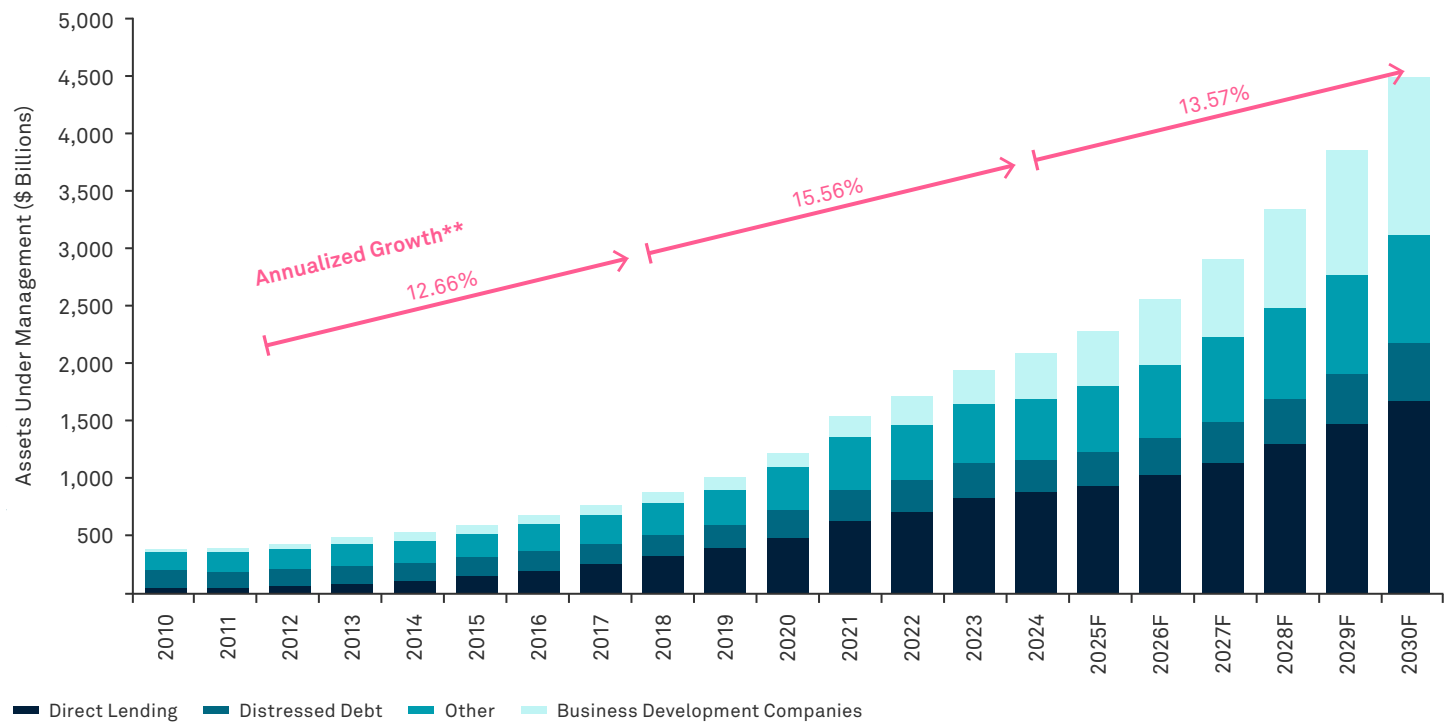
The way companies borrow money is changing. Today, many mid-sized businesses move back and forth between public bond markets and private lenders depending on pricing, market conditions, and how quickly they need financing. This shift has made private credit an increasingly important part of the broader lending ecosystem.

Private credit stands out because it offers speed, flexibility, and customized solutions — especially for more complex financing needs. While public debt markets may sometimes offer slightly lower rates for simple loans, private lenders can tailor terms to a borrower's situation and move more quickly. As a result, many companies now rely on a mix of public and private debt, reflecting a long-term structural shift rather than a temporary trend.

This dynamic becomes most visible during periods of market stress. When public markets become volatile or banks pull back — as seen during recent rate-hiking cycles — private lenders often step in to fill financing gaps. Over time, private credit has followed a path similar to high yield bonds: once considered niche, it has steadily become a more mainstream investment option.

Over the past decade, private credit has grown significantly and is now estimated to manage between \$1 trillion and \$1.5 trillion in assets. Several forces are driving this growth. Banks are less willing to hold long-term loans on their balance sheets, regulations have changed how lending works, and borrowers increasingly want flexible, relationship-driven capital. Institutional investors have stepped in to meet this demand.

Private Credit Assets Under Management to Double by 2030



Source: Preqin. AUM figures exclude funds denominated in yuan renminbi. **Values relate to end of year. The degree of incline for the annualized growth line is not proportional to the rate of growth. To avoid double-counting, total column excludes funds of funds. Total includes BDCs but excludes all other semi-liquid funds. Data as of April 2025.

Private credit remains a resilient, all-weather allocation for diversified portfolios.

From an investor’s perspective, private credit offers several structural advantages. Loans are often senior in the capital structure, meaning they get paid before equity holders. Many loans have floating interest rates, which can help income keep pace when rates rise. In addition, private lenders typically conduct detailed underwriting and negotiate strong protections, such as covenants that help manage risk. Together, these features have helped private credit deliver attractive income with lower volatility than many public credit investments.

KEY TAKEAWAY

Private credit offers investors steady income, diversification, and downside risk mitigation — making it an increasingly important core allocation in today’s portfolios.

THEME 04

OVERHAULING THE ENGINE: THE DISTRESSED CREDIT ADVANTAGE

Distressed strategies can offer investors the potential for equity-like upside with credit-like downside risk mitigation.

While traditional private credit remains healthy, a more specialized area — distressed private credit — is becoming increasingly attractive as pockets of financial stress emerge across the corporate landscape. This strategy focuses on investing in the debt of companies facing financial challenges, often at prices well below their long-term value. When done carefully, this approach can offer higher return potential while still benefiting from the protections built into credit investing.

Corporate stress is not unusual or temporary. Companies regularly move through cycles of stronger and weaker performance, influenced by economic conditions, interest rates, and industry dynamics. Today's environment is amplifying these pressures. Higher borrowing costs, tighter access to financing, and rising input costs are making it harder for heavily indebted companies to refinance their obligations. As a result, more businesses are seeking alternative capital sources.

This has created opportunities for private credit managers to provide “rescue financing” — customized, short-term funding designed to stabilize companies and bridge liquidity gaps when traditional lenders step back. These opportunities are often company specific and not signs of broader market stress. While overall default rates remain manageable, many individual loans are trading at steep discounts due to investor caution or liquidity needs rather than fundamental collapse.

Pockets of corporate stress are emerging.

Late-Stage Credit Cycles Driving Deep Value Opportunities



Source: PitchBook. Data as of February 28, 2026.

Distressed private credit can play a useful tactical role in portfolios during periods of uncertainty. As refinancing windows narrow and market volatility persists, this strategy offers a differentiated way to pursue higher returns while preserving many of the risk management features that define private credit.

KEY TAKEAWAY

Distressed private credit allows investors to seek higher returns by investing in stressed companies — while still benefiting from the downside risk mitigation of secured lending.

THEME 05

HEDGE FUNDS: SHOCK ABSORBERS FOR BUMPY PATCHES

Hedge funds are proving indispensable for delivering uncorrelated returns and stabilizing multi-asset portfolios.

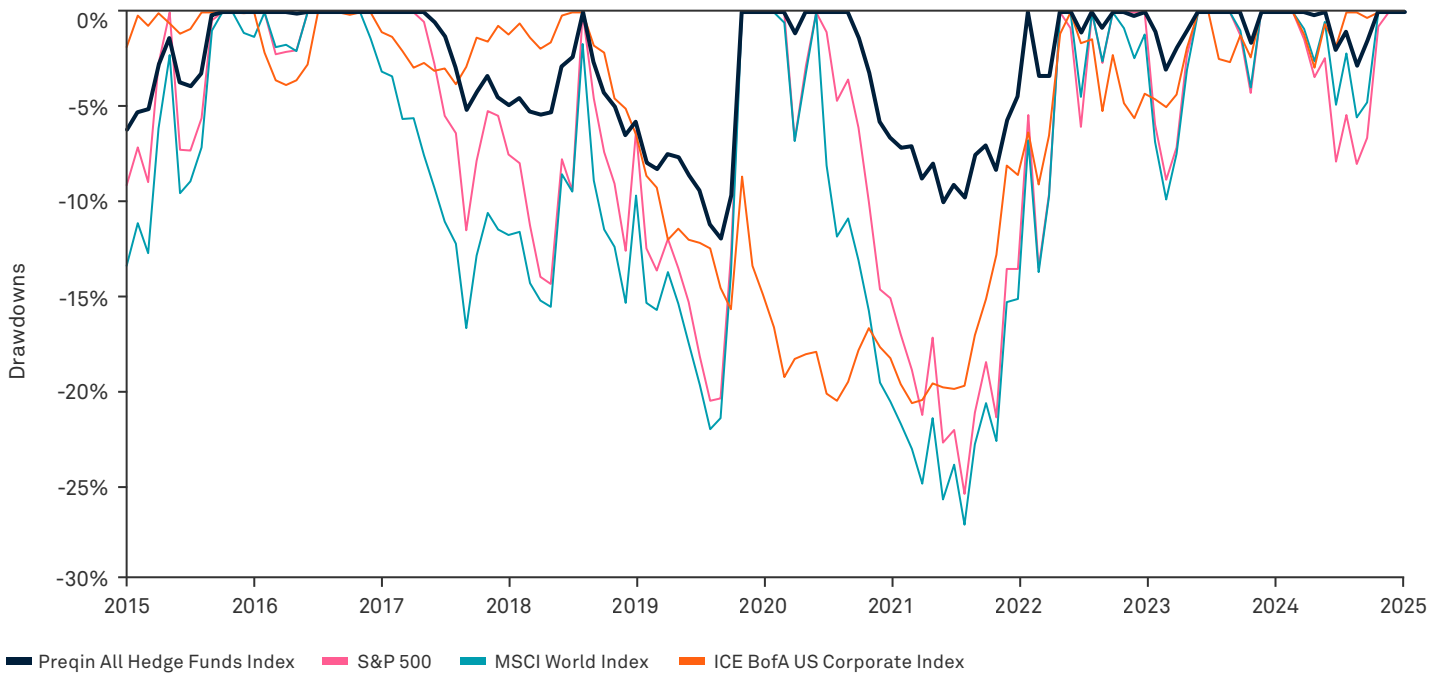
Today's markets are more unpredictable than many investors are used to. Interest rates move quickly, inflation remains uneven, and geopolitical events can trigger sudden market swings. In this environment, strategies that rely solely on rising stock markets may struggle to deliver consistent results. This is where hedge funds can play an important role.

Hedge funds are designed to be flexible. Unlike traditional investments that depend heavily on market direction, many hedge fund strategies aim to generate returns regardless of whether markets are rising or falling. Managers can shift between asset classes, adjust risk levels, and use both long and short positions to respond to changing conditions. This flexibility allows hedge funds to seek opportunities while also managing downside risk.

Investor behavior suggests growing confidence in this approach. Hedge funds assets have continued to rise, reflecting increased demand for diversification and stability. As traditional stock-and-bond portfolios have sometimes struggled to cushion market shocks, more investors are turning to hedge funds for returns that are less tied to broad market movements.

Looking over longer periods, hedge funds have shown an ability to hold up better during market drawdowns than public equities. Market-neutral and multi-strategy funds, in particular, have helped reduce portfolio volatility by limiting exposure to sharp market declines. As stock markets broaden and individual company performance becomes more uneven, hedge fund managers look to take advantage of these differences — profiting from strong companies while positioning defensively against weaker ones.

Hedge Funds Have Offered Stability During Market Stress



Source: Preqin, State of Hedge Funds Report, 2025. Data as of December 31, 2025.

Hedge funds can serve both defensive and opportunistic roles.

As investors look ahead, hedge funds are increasingly being viewed not as niche investments, but as practical tools for navigating uncertainty. Their ability to adapt, manage risk, and seek uncorrelated returns positions them as useful complements to traditional portfolios — particularly during volatile or inflation-sensitive market environments.

KEY TAKEAWAY

Hedge funds can help stabilize portfolios by reducing market risk and providing diversification during periods of volatility.

NAVIGATING COMPLEX TERRAIN

Powerful structural forces — AI-driven innovation, evolving capital markets, infrastructure transformation, and shifting credit dynamics — are reshaping today's investment landscape, requiring a more deliberate and adaptive approach to portfolio construction. In this environment, alternative investments are no longer supplemental; they are increasingly central to building resilient, forward-looking portfolios.

Each strategy explored here serves a distinct purpose. Private equity and venture capital provide access to innovation and long-term growth. Infrastructure and real assets offer inflation risk mitigation and exposure to essential systems. Private credit delivers durable income and risk mitigation, while distressed strategies and hedge funds add flexibility and the potential to capitalize on dislocation. The opportunity is compelling — but so is the complexity.

Success in alternatives depends not on individual exposures, but on thoughtful integration. Investors must clearly define their objectives, understand their tolerance for illiquidity, and select strategies that work together across market cycles. Discipline in pacing, manager selection, and portfolio construction are critical to transforming structural change into sustainable outcomes.

Experienced partnership plays a vital role in this process. Rigorous due diligence, deep market insight, and active portfolio oversight help ensure that allocations remain aligned with evolving conditions and investor goals. With the right framework, alternatives can enhance diversification, reduce reliance on public market beta, and improve portfolio resilience over time.

The opportunity ahead is clear: investors who take a proactive approach to portfolio design today are best positioned to navigate uncertainty and capture long-term value tomorrow. Our team at BNY stands ready to help investors translate complexity into clarity and build portfolios designed for the structural shifts shaping the years ahead.

ENDNOTES

¹ Source: International Energy Agency: World Energy Outlook Special Report - Energy and AI. Data as of April 2025.

DISCLOSURES

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