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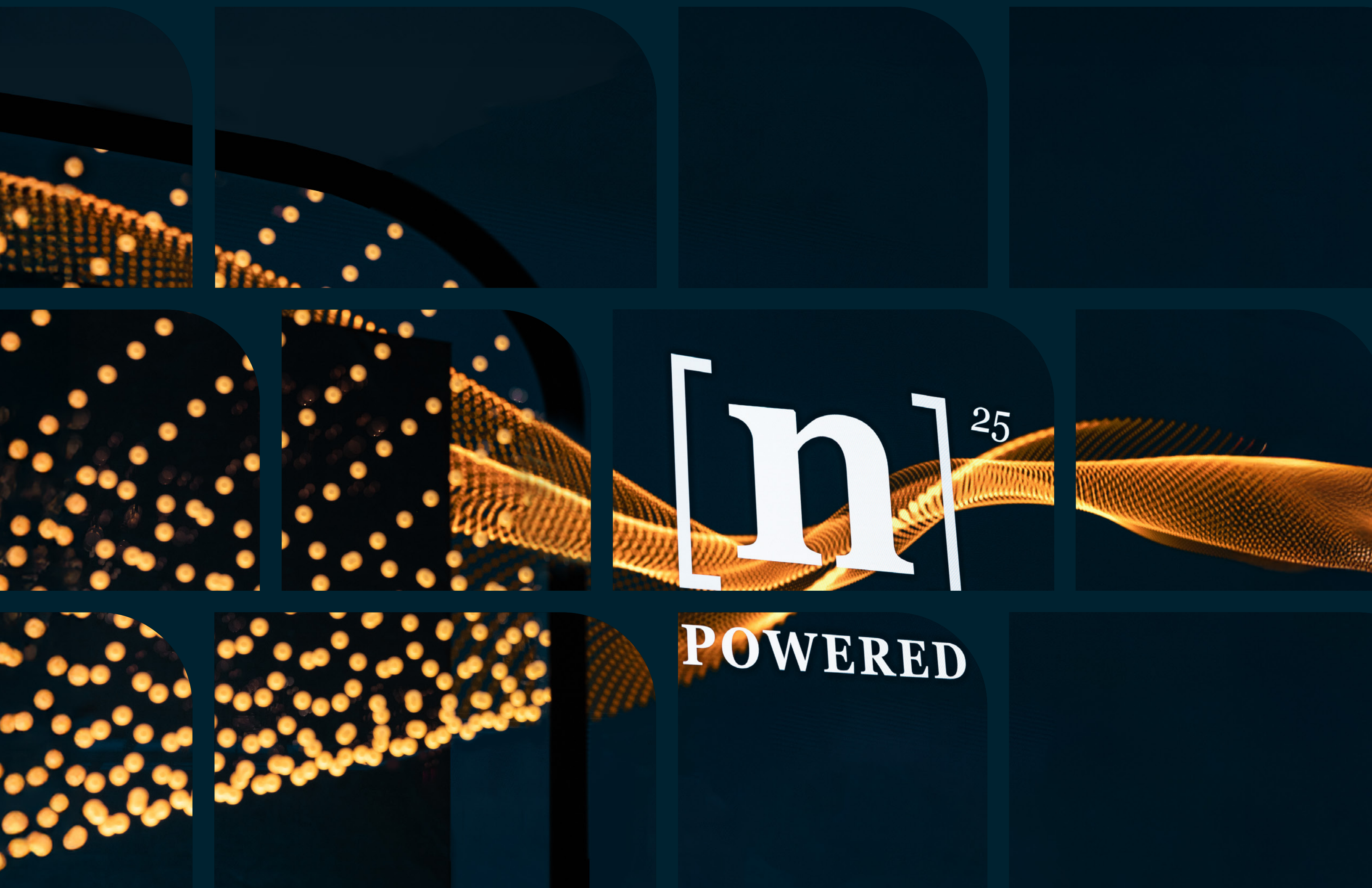
The future of alternatives

INSIGHTS FROM NPOWERED[25]



OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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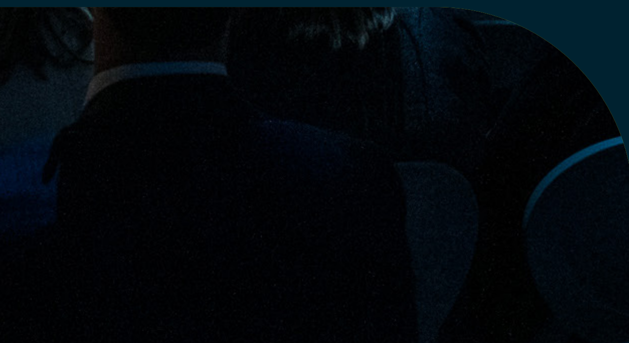

Positioning for 2026 and beyond

What do today's dynamic markets offer long-term investors? How can they reconcile complex structural shifts with the latest innovations in asset classes and portfolio construction?

To help answer these questions, Nuveen recently gathered leading experts, policymakers, practitioners and investors at our annual alternatives event, nPOWERED: Where alternatives and the future meet. We summarize the main trends that are shaping capital allocation strategies in 2026 and beyond.

Four themes for 2026

1. The acceleration of AI and digital infrastructure investing
2. The convergence and complexity of public and private markets
3. The tail risks of geopolitics, fiscal imbalances and demographics
4. The integration of the energy transition and sustainability in portfolios

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1 The acceleration of AI and digital infrastructure investing

AI adoption, as well as the proliferation of digitization more broadly, has greatly increased demand for supporting infrastructure. Data centers, electrification, grid modernization, sustainable water usage and all forms of power generation, particularly reliable baseload and nuclear, will require trillions of dollars in capital flows. An estimated $7 trillion will be needed, for example, just to power computing processing over the next five years.[1]

Investment considerations:

- While there is little doubt that AI is fundamentally transforming how society and the economy function, the majority of productivity gains and sectoral applications are still to come, suggesting a multi-year runway for investment returns.
- We see opportunities to broaden AI-related exposures beyond public equities into credit markets (including municipal and utility bonds), real estate debt, infrastructure debt and private markets.
- The widespread adoption of AI and digitization makes the associated infrastructure a necessity. As a result, investments are likely to be long-term, inflation-linked and with contractually backed cash flows — meaning they can provide institutional investors with a powerful combination of duration, yield and inflation protection.
- AI and digital investments come with new risks that institutional investors must actively manage. These include obsolescence if the assets do not keep up with technological innovations, concentration risk if assets are clustered around a specific technology, sector or geography, and regulatory risks, ranging from different regional approaches to geopolitical factors.

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2 The convergence and complexity of public and private markets

The dividing lines between public and private markets — especially in credit — continue to blur, offering enhanced liquidity and flexibility compared with the past. After the Global Financial Crisis, many investors steadily shifted allocations towards private markets, driven by the search for yield and diversified sources of risk and return. Financial products have evolved to meet this demand, with new investment vehicles such as evergreen funds, rated note feeders and hybrid structures, making private market assets now more easily available to a wider range of investors. However, as rates and volatility have increased in recent years, public fixed income's role in portfolios is gaining ground.

Investment considerations:

- Views on public fixed income are changing. Increasing rates over the last few years means these assets have become more attractive since core yields have risen and the relative compensation (spread) compared with privates has narrowed. We are seeing a renewed appreciation for the liquidity benefits of public markets — not just for managing potential cash flows, but also for the ability to reposition portfolios dynamically in the face of fast-evolving risks.
- Private markets, primarily through private credit and asset-backed funds, are financing real economy needs such as infrastructure, energy transition and digital buildout. These developments align with investors' desires to support productive capital formation and meet broader societal and sustainability goals.
- Private allocations continue to offer access to new sources of return, particularly the illiquidity premium and structural protections, that help meet and potentially exceed the risk and return requirements of liability-driven portfolios.
- The innovation in product structures make private markets more accessible, scalable and customizable for investors, including individual investors. Along with new blended public and private strategies, secondary markets for private assets will likely develop. As private markets become systemically significant, greater regulatory scrutiny can be expected, which could come with additional risks.
- Crowded trades, looser underwriting and headline risk (notably the recent idiosyncratic blow-ups at First Brands and Tricolor) now affect both public and private segments, requiring even more sophisticated risk and manager due diligence, transparency and understanding of structure and sourcing. Access to proprietary deal flow, relationships and manager skill will be greater differentiators than ever.

3 The tail risks of geopolitics, fiscal imbalances and demographics

Geopolitics, fiscal sustainability and demographics represent significant long-term structural risks to portfolios. These are multi-decade forces that will reshape asset allocation, return expectations and risk management frameworks.

Geopolitical events, from pandemics to armed conflict, have repeatedly caused unexpected economic disruptions. But these events will likely form new investment opportunities supported by government and macro tailwinds.

Unsustainable fiscal policies are a long-term structural threat, with potentially destabilizing and inflationary consequences, as markets are unlikely to allow them to proliferate. The current U.S. deficit is greater than 6% of GDP, which is unprecedented outside of wartime or crisis. It is all the more concerning given that two-thirds of nPOWERED attendees thought there is a medium to high chance that the U.S. will experience a recession in the next 18 months.[2]

The demographic challenge (aging populations, declining fertility and growing dependency ratio) compounds the fiscal problem, creating a multi-decade challenge for institutional investors managing long-dated liabilities. But this is also likely to be a source of investment opportunity for products and services that can help solve for some of these issues (for example in health care, housing and education).

Investment considerations:

- Investors need to prepare for these risks, and already we see a clear trend of moving into more diversified, alternatives-heavy, inflation-protected strategies.
- Stress testing portfolios for tail risks is becoming more frequent. Institutional investors are acknowledging the potential for a market-driven crisis to force fiscal discipline, which could significantly disrupt bond portfolios, currency hedging strategies, international diversification and private market valuations.
- The risks reinforce the need for diversification across geographies and asset types. Investors can exploit the different risk and return characteristics that result from the different geopolitical, fiscal and demographic profiles. Private market assets historically are more resilient to monetary shocks, less correlated with public assets and better suited to funding long-term liabilities. At the event, private real estate, direct lending and private infrastructure were the top three assets attendees were looking to add to portfolios over the next 12 months.[3]
- The U.S. fiscal trajectory remains deeply concerning given the size of the deficit and the growing mandatory spending from demographic pressures. The possibility of politicization of central banks, notably any loss of independence and pressure to keep rates artificially low, creates uncertainty. Specifically, many investors are focused on the possibility of the U.S. dollar's reserve currency status diminishing and the potential for higher long-term rates and inflation. Investors can reduce exposure to these risks with assets that are less sensitive to U.S. sovereign risk, such as infrastructure and real assets, and by increasing non-U.S. exposure.

4 The integration of the energy transition and sustainability in portfolios

Investors are mobilizing significant capital to take advantage of the energy transition and ongoing focus on sustainability across both public and private markets. We are seeing greater interest in infrastructure, clean energy and asset-backed finance, in particular. Investors are also adapting underwriting, governance and manager selection to ensure these complex, evolving investments deliver robust, risk-adjusted returns as the world's energy systems transform. Sustainability is increasingly integrated as a core feature of portfolios — not just for impact, but also for diversification, yield and long-term risk management.

Investment considerations:

- Policymakers and investors are recognizing that clean energy infrastructure, transmission upgrades, digital/AI-driven power demand and supply chain localization will drive macroeconomic productivity. As such, the public policy and regulatory developments, including the U.S. Inflation Reduction Act and targeted tariffs and subsidies for clean energy and supply chain resilience, are providing strong tailwinds for investing in these areas. These measures are encouraging direct investment in renewables, batteries, electric vehicles and alternative energy.
- Institutional investors and asset managers are deploying capital into a broad mix of assets. Key areas include private and public infrastructure (with a focus on clean energy generation, transmission and storage), asset-backed finance for "green" projects (such as energy-efficient real estate, data centers with lower emissions profiles and Commercial Property Assessed Clean Energy or C-PACE loans) and longer-dated debt associated with environmental impact.
- Sustainability-linked strategies are being integrated into wider portfolio construction — not just as niche allocations, but as core, long-term growth and risk mitigation pillars.
- Due diligence and underwriting practices are changing to address new risks and opportunities unique to energy transition (e.g., rapidly evolving technology, the need for secured power for data centers, water and grid capacity constraints, and policy uncertainty). Manager selection and deep sector expertise are becoming more critical, especially as innovation in products and regulations outpace legacy frameworks.

"Sustainability is increasingly integrated as a core feature of portfolios — not just for impact, but also for diversification, yield and long-term risk management."

Positioning for 2026 and beyond

These four themes present opportunities and risks for investors. They are a potential source of attractive long-term risk-adjusted returns, they can help protect against inflation and volatility, and they allow for diversification across geographies and asset classes.

To turn insight into action, investors need to combine strategic vision with practical portfolio construction. Partnering with an experienced asset manager who has sector expertise, established relationships and proven capabilities across traditional and alternative strategies will be essential to achieving long-term investment success.

For more information, please visit nuveen.com.

Endnotes

1 https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/the-cost-of-compute-a-7-trillion-dollar-race-to-scale-data-centers

2 Survey of 328 global investors at Nuveen's nPOWERED conference held in November 2025.

3 Survey of global investors at Nuveen's nPOWERED conference held in November 2025. Q: Which asset classes and/or investments are you seeking to add to your portfolio in the next 12 months? Private real estate (72%); Direct lending (62%); Private infrastructure (60%); Secondaries (36%); Private ABF (28%); Private IG corporate credit (23%); Natural capital (16%); Fund finance (16%); Credit tenant loans (9%)

Sources

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