Private Equity Pulse: key takeaways from Q1 2026

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Private equity navigates a more complex geopolitical and macroeconomic environment.

In brief

Private equity entered 2026 from a position of strength, with sustained deployment underscoring continued confidence despite a more complex macro backdrop.

A more targeted approach to tech investing is emerging, with general partners (GPs) leveraging sector expertise and enhanced diligence to identify differentiated opportunities.

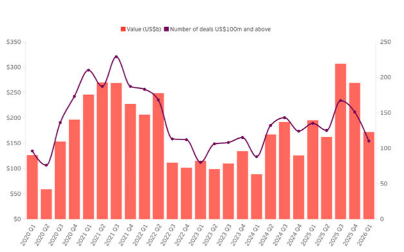
Portfolio outlooks remain stable; firms expect steady performance driven by operational value creation, reinforcing PE's ability to perform through cycles.

Private equity (PE) entered 2026 with strong momentum, driven by supportive fundamentals and rising activity in the second half of 2025. Against this backdrop, the first quarter saw a shift toward a more selective investment environment, driven by (1) geopolitical developments in the Middle East and, more significantly, (2) an increasing focus on AI-related disruption within the software sector. The result has been a recalibration of sentiment across the market and a more measured pace of activity.

This selectivity extended to the leveraged financing markets, where wider spreads, softer retail demand and a greater premium for higher-quality credits contributed to a more disciplined underwriting environment, even as capital remained available for well-structured transactions.

In aggregate, PE firms announced 110 deals in Q1 valued at US$172b, a 12% decline by value vs. the first quarter of last year.

PE firms remained active in Q1 2026, albeit at a reduced pace from H2 2025



Bar chart showing PE deal value in Q1 2026 (US$172b which has decreased compared to Q1 2025's $195b)

Underlying market strength remains evident — over the last twelve months, firms have announced more than US$900b in deals, a 34% increase compared with the prior period. This sustained level of deployment reflects continued confidence in the asset class and highlights the sector's resilience in executing on investment strategies in a rapidly changing market environment.

Market value: last twelve months

US$909b

in PE deal value.

Market value: prior twelve months

US$679b

in PE deal value - an increase of 34%.

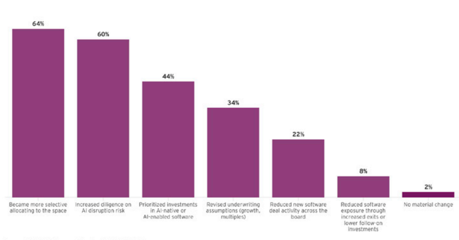
Firms adjust their approach to software amid AI-led disruption concerns

A defining feature of the current market is a sharp shift in sentiment around technology, and software in particular. While the space has been a locus of deployment over the last decade, the rapid evolution of AI capabilities has introduced greater differentiation in how investors assess opportunity and risk.

Technology accounted for approximately 30% of global PE deployment by value last year, but fell to just over 10% in Q1 2026. Indeed, a "normal" level of tech investment in first quarter would have seen aggregate PE deployment increase by roughly 12% year on year, rather than the 12% decline that was observed.

Across the market, firms are becoming more selective in their exposure. While high-quality assets continue to attract strong interest, generalist investors are placing elevated emphasis on diversification, while specialist investors are highlighting their ability to distinguish between business models that are well-positioned to benefit from AI and those that may face disruption.

How have you adjusted your approach to software investments in response to current market dynamics and AI disruption risk?



Source: Q1 EY PE Pulse report conducted by AlphaSights

Bar chart showing PE responses to AI driven software risk: increased selectivity (64%) and increased diligence on AI disruption risk (60%) lead, followed by focus on AI enabled software (44%)

The survey data indicates that this shift is translating into tangible changes in strategy — nearly two-thirds of GPs report that they're pursuing a more targeted investment approach, concentrating on areas where they have conviction and sector expertise while another 60% report that they've increased their level of diligence on AI disruption risks. Still others are investing opportunistically in AI-native or AI-enabled software as they seek to take advantage of generational opportunities in the way that software is created, sold and used.

Key approaches for diligence in the Age of AI

Effective diligence begins with a clear assessment of how AI could reshape the target company's industry, including potential impacts on pricing power, customer behavior, and barriers to entry. This requires going beyond traditional market analysis to evaluate both the pace and direction of technological adoption.

- Firms are expanding commercial diligence and merging it with technical diligence in some important ways in order to explicitly assess AI-driven industry disruption. This includes evaluating how AI may reshape competitive dynamics, pricing models and barriers to entry over time. Investors are increasingly focused on the type of moat a company has, including the size, duration and time.

- There is a growing emphasis on company-level AI readiness. This involves assessing the scalability of technology infrastructure, the quality of data assets, and the organization's ability to operationalize AI initiatives. Management capability is a critical component, with leading investors evaluating whether leadership teams have a clear and actionable strategy for integrating AI into core business processes.

- Firms are incorporating scenario-based analysis into underwriting. Rather than relying on a single base case, investors are modeling a range of outcomes to capture both incremental efficiency gains and more transformative shifts in cost structures or revenue streams. This approach supports more resilient investment decisions in an environment where the pace and impact of AI adoption remain uncertain.

Sector rotation meets macro complexity

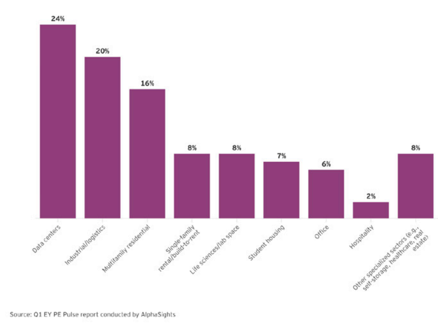
Alongside evolving views on technology, a gradual shift toward more asset-heavy sectors is underway. Areas such as infrastructure and energy are attracting increased attention as investors seek exposure to assets with tangible cash flows and inflation-linked characteristics. Q1 saw 13 deals announced in the utilities and energy space with an aggregate value of US$67b; that's the most in a single quarter on record.

This rotation is taking place within a macro environment that is becoming more dynamic, as geopolitical developments shape commodities markets and pricing across asset-heavy sectors. With expectations for a higher-for-longer rate environment continuing to build, firms are leveraging underwriting discipline and strategic flexibility to pursue diversification while navigating evolving pricing dynamics.

Real estate back in focus

Real estate is also reemerging as an area of focus within this broader rotation, with investors selectively increasing exposure following a period of repricing across key markets. Sectors with structural demand tailwinds, including logistics, data centers, and certain segments of residential, are attracting interest given their linkage to long-term secular trends and, in some cases, inflation-sensitive income streams. This is consistent with a wider shift toward assets that offer greater visibility on cash flows and downside protection.

Which real estate sectors do you view as the most attractive for investment over the next 12–24 months?



Source: Q1 EY PE Pulse report conducted by AlphaSights

Bar chart showing preferred real estate sectors: data centers lead, followed by industrial/ logistics and multifamily, office and hospitality trail

At the same time, the asset class continues to reflect the influence of the current macro environment. Elevated interest rates and evolving financing conditions are shaping underwriting assumptions, while valuation recovery remains uneven across geographies and asset types. As a result, investors are approaching real estate with a high degree of selectivity, focusing on assets where pricing has adjusted, operational upside is clear, and capital structures can support resilience under a range of scenarios.

(CONTINUED IN NEXT EDITION)

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He has previously led the Africa EMEIA Desk for three years in London where he led Africa footprint projects for multi-country cross-border transaction and tax advisory support. Kwasi is a Chartered Accountant, a Chartered Tax Practitioner, and a Lawyer - a qualified Barrister, England & Wales, and a Barrister and Solicitor of the Supreme Court of Ghana.

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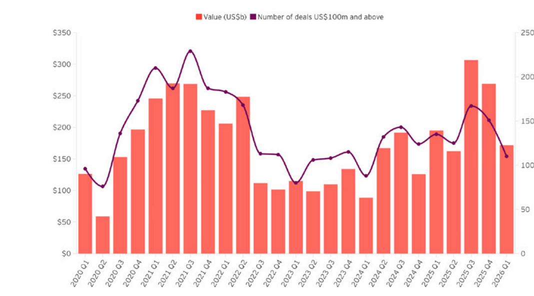
Continued from previous edition

Exits remain roughly in line with recent trends
Firms announced US$171b in total exit deals during the first quarter, a decline from Q4 but roughly in line with trends over the last 12 months. Trade sales accounted for US$121b of exit value, while secondaries reached US$45b and IPO activity totaled US$5b. Overall volumes declined 29% to 95 transactions, reflecting a more curated approach to bringing assets to market during the quarter.

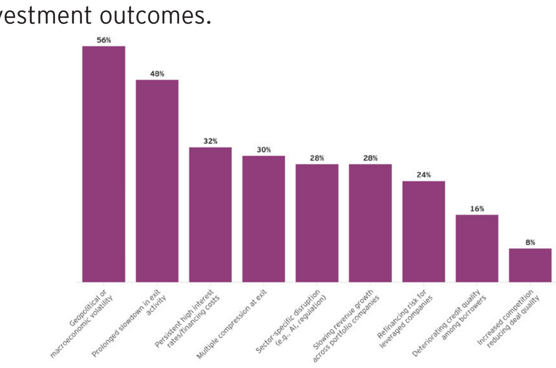
Despite the slowdown in new acquisitions, exit activity — the primary barometer of the industry's health — remains roughly in line with recent trends.



Bar and line chart showing global PE exit value and deal volumes by quarter. Firms announced US$171b in total exit deals during the first quarter, a decline from Q4.

Outlook
The survey responses indicate that geopolitical developments are the primary external factor expected to influence portfolio performance over the next 12–24 months, followed by exit timing considerations as firms continue to monitor market conditions. This underscores the growing importance of external dynamics in investment outcomes.

Firms cite geopolitical risk as the leading risk factor to portfolio performance over the next 12–24 months, followed by exit concerns.



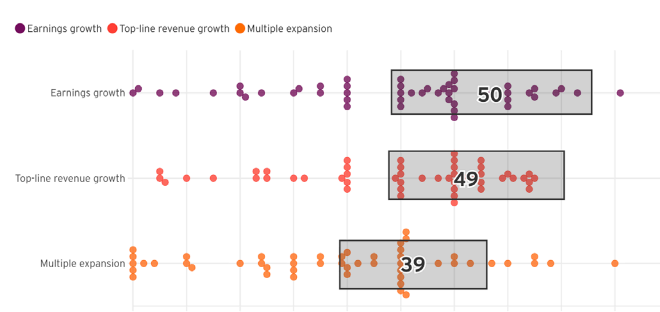
Source: Q1 EY PE Pulse report conducted by AlphaSights

Bar chart showing leading risks to PE portfolio performance over the next 12–24 months; geopolitical or macroeconomic volatility ranks highest (56%), followed by prolonged slowdown in exit activity (48%) and then high interest rates or financing costs (32%)

Notwithstanding these factors, firms report a broadly stable outlook for portfolio performance. Expectations for earnings growth and top-line revenue remain largely in line with current levels, suggesting confidence in the resilience of portfolio companies and the continued impact of operational value creation initiatives.

Despite macro headwinds and market shocks, firms remain optimistic about the outlook for the portfolio over the next 12 months. We asked GPs to rate their base-case outlook for portfolio performance on a scale of 1-100, where 1 = significant deceleration, 50 = no change vs current levels, and 100 = significant acceleration.

Outlook for the portfolio over the next 12 months



Source: Q1 EY PE Pulse report conducted by AlphaSights

Dot and distribution chart showing GP outlook for portfolio performance on a 1–100 scale; mean expectations are stable for earnings growth (50) and topline revenue (49), with lower expectations for multiple expansion (39), indicating returns driven more by operations than valuation uplift.

Expectations for multiple expansions are more measured, indicating that returns are likely to be driven more by underlying business performance than by valuation uplift.

Overall, the data points to the continued strength of the PE model and its ability to help portfolio companies navigate a wide range of dynamic externalities. Indeed, it's precisely in periods of elevated uncertainty where PE's core strengths — its role as an engaged and active manager and its alignment of interests across the enterprise — come to the fore.

Summary

Private equity started 2026 with strong momentum, but fresh market volatility shifted dynamics toward greater selectivity. Investors are now focusing on high-quality, well-structured deals, particularly in asset-heavy sectors like energy, utilities, infrastructure and select real estate, where cash flows are visible and inflation linked. AI-led disruption is reshaping software investment strategies, prompting enhanced diligence and targeted investments in AI-ready companies. Exit markets remain steady, supporting a positive outlook centered on operational value creation. Overall, private equity demonstrates resilience and adaptability amid evolving geopolitical and macroeconomic challenges.

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