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Contents

The big picture: Investing in 2026



7 **What matters most to investors in 2026 and what it means for companies**

Even before the Middle East conflict began, geopolitics surged as the foremost investor concern. AI disruption and capital allocation discipline are also top of mind.



19 **What a new investor survey reveals about consensus estimates**

New findings show misses matter only when they signal a weaker outlook. Plus, guidance on disclosures, earnings calls, and long-term communication.



30 **Harnessing the power of gen AI in private markets**

Investors are looking for data and tools to accelerate decades-old processes. But today's obvious answer could become tomorrow's cautionary tale.



33 **India's private markets: The global limited partner view**

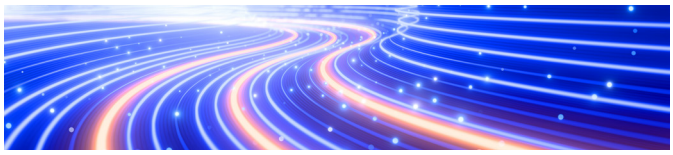
Our survey finds limited partners are bullish on India, yet more can be done to grow investor momentum.

The future of wealth



53 **The global balance sheet 2026: Imbalance and divergence**

Several asset classes grew further out of balance with the economy, raising the possibility of corrections through inflation, asset valuation losses, or, optimally, productivity.



75 **The signal in the sell-off: Wealth management's value in the AI era**

Wealth managers must pivot from producing outputs to delivering outcomes anchored in human trust and defensible control points.



80 **US wealth management in 2035: A transformative decade begins**

Over the next decade, the convergence of AI, demographic change, and evolving client trust will challenge wealth managers to reinvent how they compete and serve clients.



90 **Five client-led shifts reshaping European wealth management**

Survey results point to changing consumer preferences that are disrupting and transforming the industry in Europe—and highlight the need for a new set of strategic imperatives.

Contents (continued)

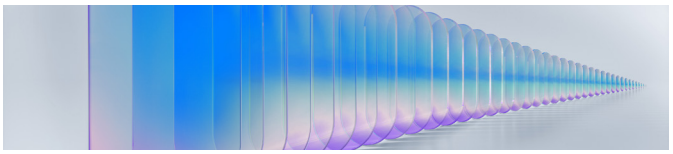
Creating value through private markets



101 **How to build businesses faster and better with AI**
Artificial intelligence is rewriting the rules of creating corporate ventures. Here is a strategic playbook for business leaders ready to seize a defining growth opportunity.



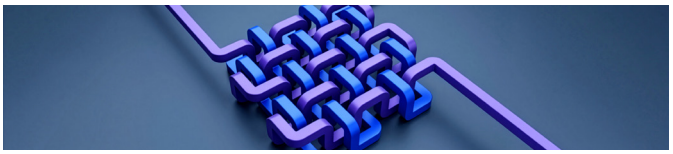
108 **How corporate–scale up partnering can boost Europe's tech competitiveness**
Stronger, more systematic partnerships between corporates and scale-ups can enable both to thrive.



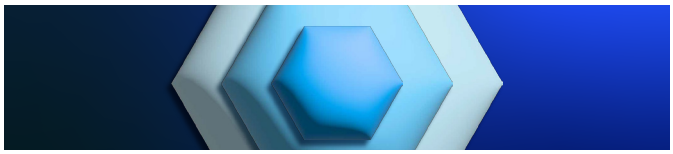
118 **Beyond productivity: How AI creates value in private equity**
Private equity–backed companies that broadly embrace AI have median revenue multiples more than twice those of companies focused solely on productivity initiatives.



127 **Private equity confirms a timeless principle: Purchase price matters**
Recent data shows that buyout firms that maintain strict price discipline are delivering significantly higher MOIC than their peers.



131 **How private equity is using M&A integrations to overcome headwinds**
Amid valuation challenges, portfolio roll-ups, combinations, and capabilities integrations, private capital firms can find strategies that deliver.



138 **The second look: An adaptive approach to reunderwriting**
The best-performing PE firms build on deal diligence in a disciplined way throughout the hold period, revisiting and retuning their exit options and equity stories.



145 **Travel industry trends and the opportunity for private equity**
The travel industry is experiencing dynamic growth. For private equity firms, understanding travel industry trends can help guide investments.



154 **From reckoning to renewal: An interview with KKR's Philipp Freise**
Europe's resilience is being tested. Investor Philipp Freise explains why the continent's current challenges could spark its next wave of growth.

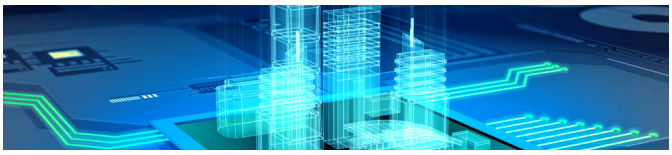
Contents (continued)

Investing in the built environment



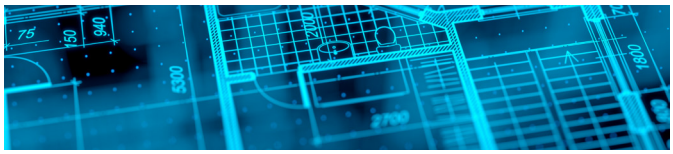
160 **Colocation data centers: The infrastructure race behind AI**

Amid surging data center capital expenditures, competitiveness depends on securing advanced accelerators, reliable electricity, and fast project delivery.



169 **How agentic AI can reshape real estate's operating model**

To create value from AI agents and humans working together, focus on redesigning entire domains, not just launching a few use cases. Here's where to start.



179 **How AI is reshaping the future of the AEC industry**

As AI rewires architecture, engineering, and construction, firms should reimagine workflows, improve data use, and automate worksites.



189 **Value plays in US home services: Where opportunity meets reliability**

Solid market fundamentals and significant value creation opportunities make the US home services market highly attractive to investors.



197 **European infrastructure is evolving—and investors are, too**

Investors in European infrastructure continue to broaden their exposure and deploy high levels of dry powder.



207 **The new advantage in the age of AI: Building in the real world**

Laura Hines-Pierce, co-CEO of Hines, explains why execution—not capital—will define the next era of value creation.

Introduction

Welcome to the 12th volume of *McKinsey on Investing*, our flagship compendium of insights relevant to investors of all stripes: active and passive, traditional and alternative, and asset owners and investment managers, as well as their ultimate beneficiaries.

2026 has been marked by uncertainty, with the economic signals guiding investment decisions having become harder to interpret. Take the shape-shifting US yield curve: In one week during July, it twisted like a rope as yields at the short end fell while those at the long end rose; at the time of publication, the curve was flattening again amid persistent inflation and growing expectations of another rate hike. Elevated crude oil prices amid multiple threats of conflict globally have further complicated the investment landscape. Beyond these macroeconomic and geopolitical pressures, investors are also reckoning with a transformation of a different kind: the rapid advance of AI and the challenge for organizations to realize its value at scale.

We begin this issue with some facts and figures highlighting structural shifts in wealth, technology, and infrastructure. We then consider some of the big questions shaping investors' outlook: the role of consensus estimates in assessing management credibility, the value (and limitations) of using large language models for investment analysis, and the growing investment appeal of India's private markets. In the second chapter, we turn to the future of wealth, examining the imbalances shaping the global balance sheet and the forces transforming wealth management across the United States and Europe. Next, we explore how private market investors can create value amid continued headwinds—such as using AI to transform businesses, reunderwriting investments, executing M&A integrations, and investing in growing sectors such as travel. We also hear from prominent industry voices and look to Europe, where KKR's Philipp Freise explores how today's challenges could catalyze the continent's next wave of growth.

Last, we turn to the physical infrastructure underpinning the AI economy. Hines co-CEO Laura Hines-Pierce explains why, as AI accelerates the digital economy, the constraints on growth are increasingly physical—such as housing, power, and infrastructure—and why execution could define the next era of value creation. Elsewhere in the chapter, we examine how agentic AI could reshape real estate operations, how infrastructure investing is evolving in Europe, and where opportunities are emerging in US home services.

We hope you enjoy this collection of perspectives. You can find these and other insights relevant to investing at McKinsey.com/Investing.

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Notable facts and figures

Structural shifts in wealth, technology, and infrastructure are creating significant new investment opportunities across markets and asset classes.



$1,790 trillion

Estimated size of the global balance sheet in 2025

(see page 59)

$106 trillion

Cumulative infrastructure investment needed globally through 2040 to meet the need for new and updated infrastructure

(see page 198)

$22 trillion

Cumulative assets expected to be inherited by Generation X and millennial households in the United States in the next ten years

(see page 81)

$430 billion–$550 billion

Global annual value to be unlocked by applying automation to knowledge work in real estate, construction, and development

(see page 170)



67 percent

Share of investors who believe gen AI will have a transformational impact on their institution in five years' time

(see page 31)

Two-thirds

Share of global household wealth held in real estate assets

(see page 59)

3.5×

Expected increase in AI-related demand for data centers from 2025 to 2030

(see page 161)



1.5–2.0×

Projected growth in retail alternatives in the next five years

(see page 84)

The big picture: Investing in 2026



7
What matters most to investors in 2026 and what it means for companies

19
What a new investor survey reveals about consensus estimates

30
Harnessing the power of gen AI in private markets

33
India's private markets: The global limited partner view

What matters most to investors in 2026 and what it means for companies

Even before the Middle East conflict began, geopolitics surged as the foremost investor concern. AI disruption and capital allocation discipline are also top of mind.

This article is a collaborative effort by Ezra Greenberg, Jennifer Heller, Ryan Davies, and Sébastien Lacroix, with John Evers, representing views from McKinsey's Strategy & Corporate Finance Practice.

June 25, 2026



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Surveys of investor sentiment tend to reveal a similar list of issues from year to year. But how investors rank those concerns can change dramatically, signaling where companies need to focus their messaging. McKinsey's latest investor survey (see sidebar, "Our methodology") reveals that geopolitics surged ahead of other preoccupations even before the conflict in Iran began at the end of February. The survey reveals two other themes—AI disruption and capital allocation discipline—to which investors are paying maximum attention.

Each of these themes is important for companies to bear in mind as they communicate with investors. But our experience suggests they are best addressed in tandem. Companies that can demonstrate resilience, connect AI to operating economics, and show disciplined capital allocation are more likely to earn long-duration investor commitment.

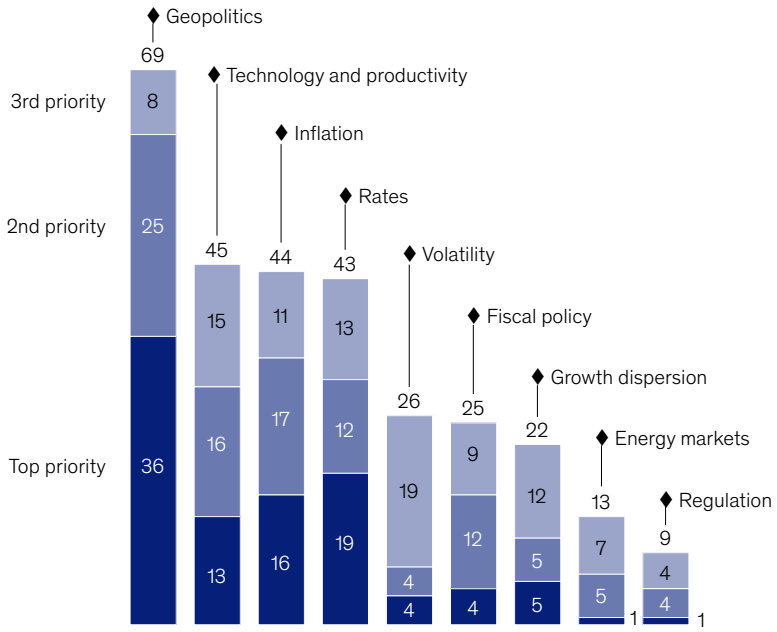
Geopolitics has become a top concern for investors

Sixty-nine percent of respondents place geopolitics among the top three macro themes influencing their investment decisions this year (Exhibit 1). This finding echoes the results of McKinsey's previous CFO survey, where geopolitics was also top of mind for finance team leaders. Over a third of investor respondents rank it as their very top concern, nearly double the rate of any other single theme, and also rank it as the most underpriced risk in markets and their top concern for the investment climate.

Exhibit 1

A majority of respondents say geopolitics will be a leading influence on their investment decisions in 2026.

Themes that will most influence investment decisions in 2026,[1] % of respondents (top 3 choices)



[1]Question: Which macro or market themes will most influence investment decisions in 2026?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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Our methodology

The 2026 McKinsey Investor Survey captured perspectives from 112 predominantly intrinsic, long-only investors. McKinsey has traditionally defined intrinsic investors as those who base decisions on a true understanding of company strategy, performance, and long-term value creation potential. Respondents to this survey come from both public and private markets, with fund sizes ranging predominantly from $500 million to over $5 billion in assets under management. The survey ran between January 20 and February 9, 2026. The sample was geographically balanced, split evenly between the United States and Canada, and Europe.

Three themes are roughly tied for the second-most-cited topics that are influencing investment decisions this year: technology and productivity, inflation, and interest rates. By contrast, in the next-most-recent survey, conducted in late 2024, investors ranked geopolitics, inflation, and interest rates as of roughly equal importance.

Investors are intensely concerned about geopolitical risks

Respondents not only rank geopolitics at the top of their lists of preoccupations but also express high degrees of worry about it (Exhibit 2). Sixty-nine percent of investors report high levels of concern about geopolitical instability (giving it a 4 or 5 rating on a five-point scale), including 18 percent who select "extremely concerned." Notably, no respondents select "not concerned."

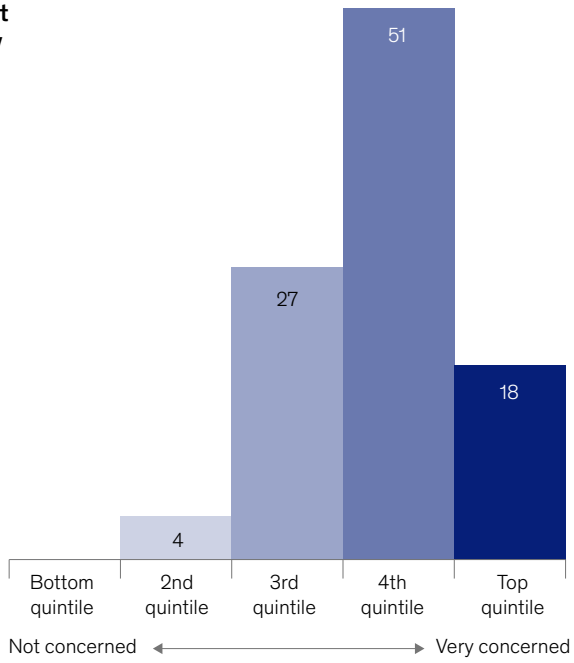
Within geopolitics, respondents appear most focused on great-power systemic risks, as opposed to regional instability. When asked to choose their three most pressing geopolitical concerns, 74 percent of respondents choose "trade restrictions and tariffs," 67 percent "major power conflicts," and about half "sanctions or fragmentation of global systems." About a quarter include emerging-market political instability, and just under a quarter choose energy security.

Seventy-four percent of respondents listed 'trade restrictions and tariffs' among their top three geopolitical concerns.

Exhibit 2

A majority of respondents express high levels of concern about geopolitical instability affecting global markets in 2026.

Level of concern about geopolitical instability affecting global markets in 2026,[1]
% of respondents



[1]Question: How concerned are you about geopolitical instability affecting global markets in 2026?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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Investors believe geopolitical risk is underpriced

A question asking respondents to choose up to ten underpriced risks reveals perhaps the most consequential finding of this survey: Respondents most frequently choose (at 32 mentions) geopolitical conflict as the most underpriced risk, well ahead of persistent inflation (20 mentions), tariff uncertainty (18), financial liquidity (10), climate transition (9), and AI disruption (9) (Exhibit 3).

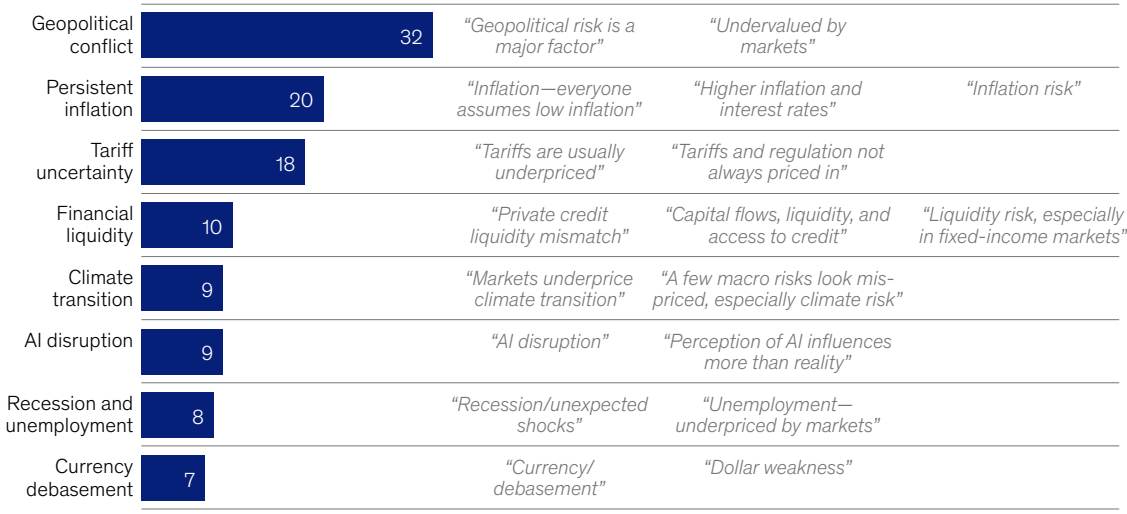
When investors say a risk is "underpriced," they mean markets are too complacent and that the probability or magnitude of a negative outcome is higher than current valuations reflect. This perception matters because it indicates where investors look for differentiation: If they believe geopolitical risk is underpriced, they are likely to actively probe whether a company's management team has quantified its exposure or is simply hoping the risk doesn't materialize.

Perceptions of mispricing have practical implications for corporate leaders. Investors who believe a risk is underpriced are acutely sensitive to companies' exposure. They are likely to feel more positively about management teams that articulate their approaches to tariff pass-through mechanics, supply-chain resilience, and geographic-revenue concentration.

Exhibit 3

Respondents are most concerned that geopolitical risk is underpriced by markets, followed by inflation and tariffs.

Macro risks investors perceive as most asymmetrically priced ,[1] % of respondents (with example responses)



[1]Question: Which macro risks appear most asymmetrically priced by markets? Sum of responses for each theme exceed the total number of responses, as individual responses may touch multiple themes.
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 110)

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Investors now consider AI adoption crucial—but want to see results

In this survey, respondents resoundingly express how important it is for a company to have a clear and dynamic approach to AI adoption. That's a big change from just four years ago, when AI didn't even come up as a topic in our 2022 investor survey, and from two years ago, when it was a rising but not yet central theme.

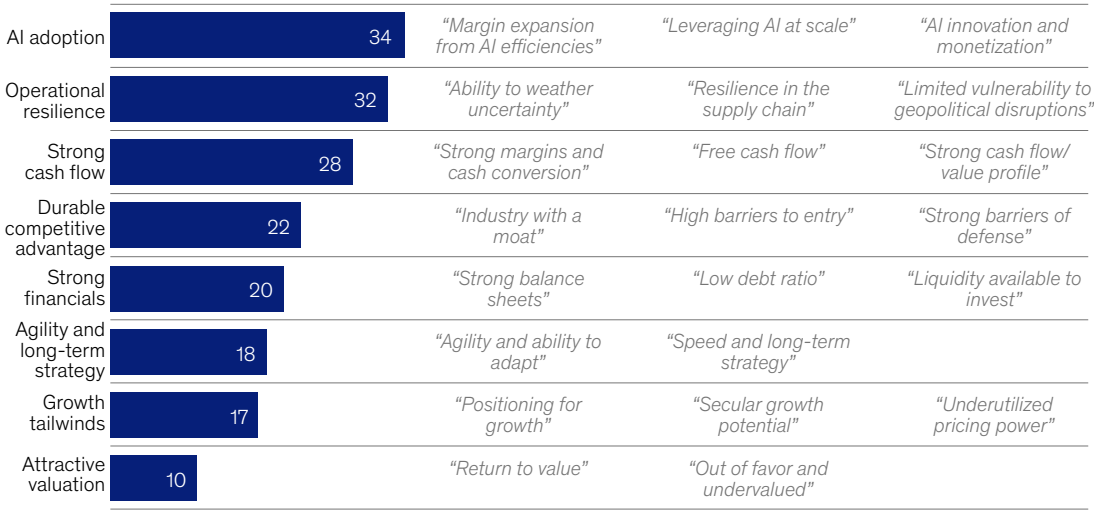
But another notable shift since the previous survey is the emergence of AI-related anxiety. "AI bubble risk" and "market concentration" now rank fourth and fifth among investment climate concerns.

Respondents think AI adoption and tech clarity make companies winners …
In open-ended descriptions of what makes a company a "winner" in 2026, respondents most frequently (34 times) mention something relating to AI, followed by topics relating to operational resilience (32), strong cash flow (28), and durable competitive advantage (22) (Exhibit 4). In our 2024 survey, only 31 percent of respondents even included AI and technology utilization as a characteristic of a winning company.

Exhibit 4

Respondents say AI adoption, operational resilience, and strong cash flow are key to winning in 2026.

Top winning themes for companies in 2026,[1] % of respondents (with example responses)



[1]Question: What are the key company characteristics you see winning in 2026?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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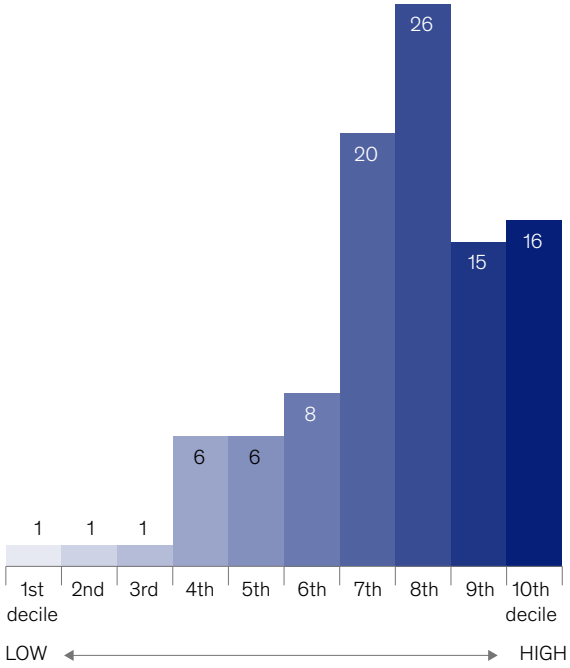
In the 2026 survey, 77 percent of respondents rate AI and a clear tech angle as highly important (7 or above, on a 1 to 10 scale), and 31 percent rate it as a 9 or 10. Only 3 percent assign relatively low importance to AI adoption (Exhibit 5).

Respondents resoundingly express how important it is for a company to have a clear and dynamic approach to AI adoption.

Exhibit 5

The vast majority of respondents say AI and a clear technology angle are highly important.

Importance of AI and a clear tech angle for investors,[1] % of respondents



[1]Question: How important is AI and a clear tech angle for you as an investor?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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… but when it comes to AI, respondents want to see results

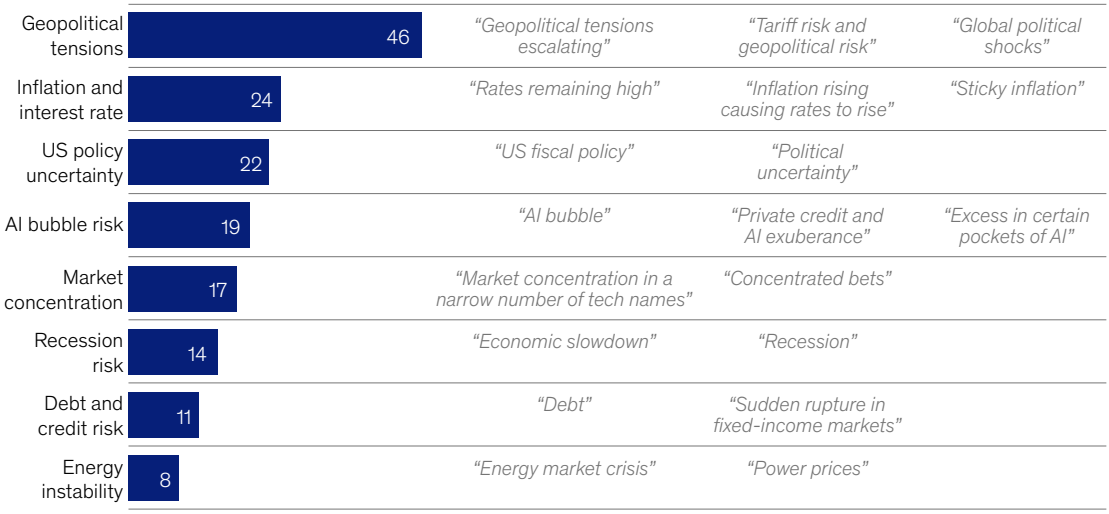
A question about what investors view as the greatest risks to the investment climate reinforced that geopolitics and inflation and interest rates are major concerns. But large numbers of responses also reflect worries about "AI bubble risk" and "market concentration" (Exhibit 6).

We surmise that investors make a distinction between companies that connect AI investments to measurable operating outcomes—margin improvement, productivity gains, customer acquisition economics, or defensible technical advantage—and those that aren't clear about the profit-and-loss impact of their AI investments. Given rising concerns that AI enthusiasm may have outpaced reality, it's unsurprising that investors are demanding tight capital discipline and a clear path to ROI.

Exhibit 6

Geopolitical, interest rate, and policy risks are top investment climate concerns, but AI bubble risk and tech concentration also rank high.

Top concerns for the investment climate in 2026,[1] % of respondents (with example responses)



[1]What are the top concerns you see for the investment climate in 2026? Sum of responses for each theme exceed the total number of responses, as individual responses may touch multiple themes.
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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Capital allocation discipline: The constant across every survey

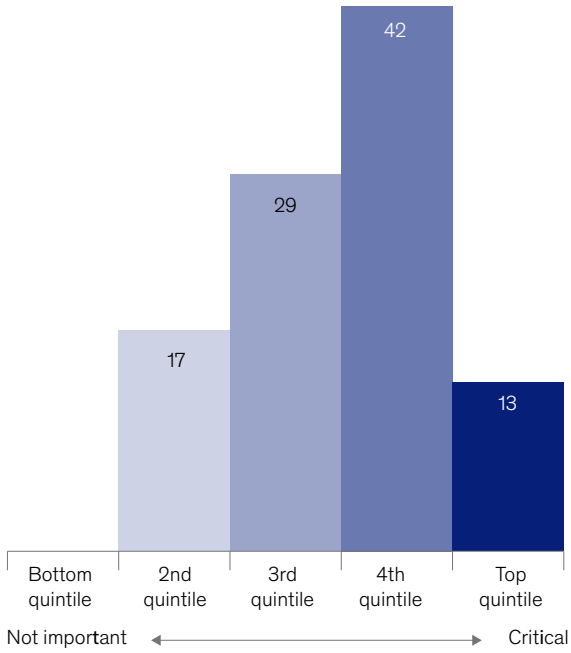
A majority of respondents considers disciplined capital allocation to be a core condition of their long-term investment theses (Exhibit 7).

It's unsurprising that investors are demanding tight capital discipline and a clear path to ROI with AI investments.

Exhibit 7

Respondents place high importance on capital allocation discipline when evaluating long-term investments.

Importance of capital allocation discipline to long-term investment thesis,[1] % of respondents



Note: Figures may not sum to 100%, because of rounding.
[1]Question: How important is capital allocation discipline to your long-term investment thesis?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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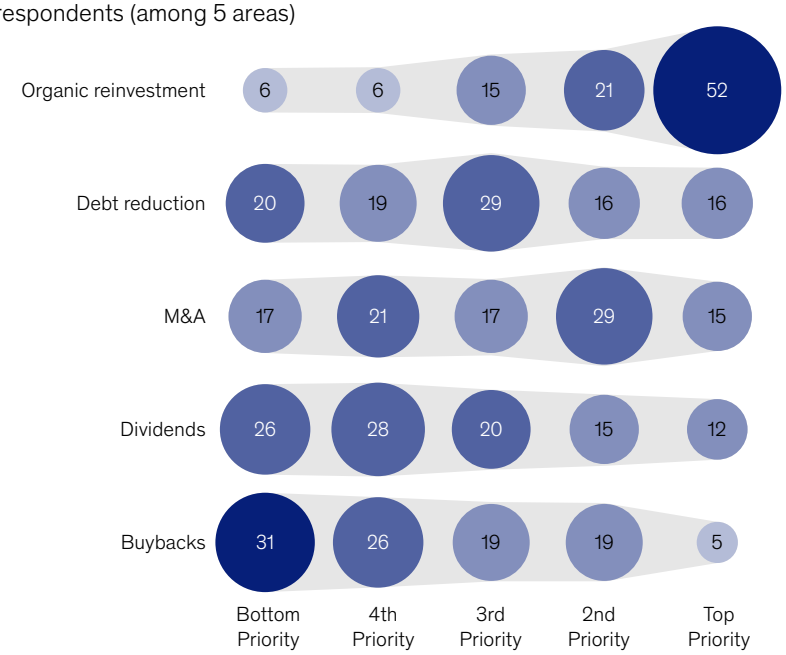
It's important to note that organic reinvestment leads as the preferred use of capital (52 percent of respondents rank it first) (Exhibit 8).

For 63 percent of respondents, ROIC discipline is the hallmark of a quality capital allocator while 54 percent look for a clear allocation framework (Exhibit 9). These responses echo our survey from 2022, when capital productivity ranked among the top three drivers of long-term value creation, and our 2024 survey, when half of respondents said they prioritize EBITDA to evaluate company performance and a third said they prioritize ROIC.

Exhibit 8

Most respondents say organic reinvestment is their preferred use of capital.

Prioritization of uses of capital over a multiyear horizon,[1]
% of respondents (among 5 areas)



[1]Question: How do you generally prioritize the following uses of capital over a multiyear horizon?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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In short, even as the macro backdrop changes, some investor expectations do not: Intrinsic investors want to see disciplined capital allocation governed by return on capital.

Implication for companies

In our experience, investors assess three elements to gauge how attractive a company is as an investment:

— *Resilience:* How able is the company to make strategic bets amid uncertainty?

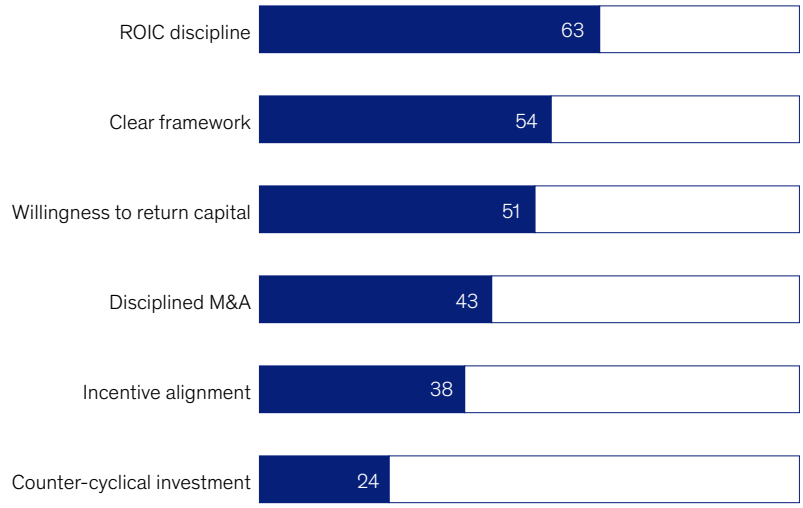
— *AI credibility:* Is the company's AI story grounded in operating economics? Can it connect investments to margins, productivity, and/or defensible advantage?

— *Cash and capital discipline:* Does the company generate cash and allocate it rigorously, even amid uncertainty?

Exhibit 9

Respondents see ROIC discipline and a clear framework as hallmarks of a high-quality capital allocator.

Characteristics that most distinguish a high-quality capital allocator,[1] % of respondents (multiselect)



[1]Question: Which characteristics most distinguish a high-quality capital allocator?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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These considerations work best in unison. A strong AI story without geopolitical resilience could leave investors worried about concentration risk. Cash discipline without a credible growth narrative makes investors wonder where compounding will come from. Our read of the data is that companies best positioned to attract long-duration capital are those that can address all three filters in a coherent, integrated way.

In light of investors' current concerns and priorities, we propose the following recommendations for companies:

— *Respond to geopolitical risks tactically and strategically.* Many companies have done a good job offering investors a clear-eyed view of exposure and resilience in the face of uncertainty. The best communicators explain what percentage of revenue is exposed to tariff-affected corridors, what the pass-through mechanics look like, and what contingency plans exist if a second-order disruption (such as sanctions escalation or supply chain rerouting) materializes. However, this kind of tactical resilience is now table stakes, while strategic resilience can set management teams apart. Those able to make strategic bets, even under conditions of uncertainty, are more likely to capture investor attention.

— *Connect AI investment to operating economics.* AI has swiftly moved from an emerging theme to the most-cited "winner" characteristic, but investors are also concerned about overshooting the target. Companies should be prepared to explain how their AI investments translate into financial results, whether through margin expansion, productivity improvement, customer acquisition economics, or a defensible technical moat.

— *Emphasize capital allocation and cash discipline in the company's equity story.* Investors will be interested not just in whether companies have a capital allocation framework, but whether it holds under stress. The strongest signal a management team can send is that AI investment, M&A, and organic reinvestment are all governed by the same ROIC discipline, and that the framework has been pressure-tested against the scenarios of greatest concern to investors.

Taken together, these recommendations speak to what investors are really looking for: not a strategy that changes with every headline, but one that was stress-tested against a range of macro scenarios. Strategies need to be flexible enough to absorb geopolitical shocks, disciplined enough to hold the line on capital allocation, and—if relevant—grounded enough in AI that the investment thesis holds even if the market reprices. Rapid tactical responses to unexpected risks are now table stakes. The leaders who can create a robust strategy in the face of uncertainty and stick to it are likely to lead their companies to outperformance.

Ezra Greenberg is a partner in McKinsey's Connecticut office, **Jennifer Heller** is a partner in the Bay Area office, **Ryan Davies** is a senior partner in the Washington, DC, office, **Sébastien Lacroix** is a senior partner in the Paris office, and **John Evers** is a knowledge expert in the Toronto office.

This article was edited by Katy McLaughlin, an executive editor in the Southern California office.

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What a new investor survey reveals about consensus estimates

New findings show misses matter only when they signal a weaker outlook. Plus, guidance on disclosures, earnings calls, and long-term communication.

by Jennifer Heller, Ryan Davies, and Sébastien Lacroix
with John Evers

June 29, 2026



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Historically, the prevailing wisdom has been that meeting or beating consensus estimates is critical to valuation. But in McKinsey's 2026 Global Investor Survey, respondents indicate that they do not respond to misses themselves. Instead, intrinsic investors say that they tolerate occasional misses when the long-term value-creation story remains intact, and that what matters far more than any single quarter is consistency of execution against a credible strategic framework. These findings dovetail with our long-standing view that many companies overindex on consensus earnings (see sidebar "McKinsey research on consensus misses").

This and other survey findings provide insights that can help shape today's most effective investor communications efforts. Respondents report that they rely less on sell-side research than they did in the past and more on AI tools to analyze reports and disclosures. In large numbers, they express a desire for greater opportunities to probe management on quarterly calls, getting more financial detail and transparency and fewer prepared remarks. Finally, intrinsic investors identify segment-level disclosure as a significant area where they crave improvement so that they can build independent models.

This article shares the data from our current survey (see sidebar "Our methodology"), along with reflections on how these findings line up with previous McKinsey research and analyses. We conclude with four recommendations for companies to improve their interaction and communication with their most important investors.

McKinsey research on consensus misses

Decades ago, the debate about investor reporting centered on frequency: Should companies guide quarterly? Semiannually? Annually? McKinsey's findings over the years have been consistent: Quarterly earnings per share (EPS) guidance provides no meaningful benefit to valuation or share price stability but consumes management time and reinforces short-term decision-making. On that basis, we've recommended companies curb or discontinue EPS guidance and instead anchor investor communications on long-term value drivers and multiyear performance ambitions.

The latest McKinsey research on consensus and share price behavior sharpens the implication further: Share prices decline after a fiscal-year miss only when analysts subsequently revise the consensus estimates for the next fiscal year (FY+1) and the second forecasted fiscal year (FY+2) downward—that is, only when the miss signals deterioration in the long-term outlook. When forward-year estimates remain stable or rise, the share price effect is neutral to positive. In roughly 40 percent of miss cases, the share price actually increases. And while isolated misses have limited impact, repeated misses compound, likely because sustained underperformance triggers negative revisions to the long-term consensus.

Our methodology

The 2026 McKinsey Investor Survey captured perspectives from 112 predominantly intrinsic, long-only investors. McKinsey has traditionally defined intrinsic investors as those who base decisions on a true understanding of company strategy, performance, and long-term value creation potential. Respondents to this survey come from across public and private markets, with fund sizes ranging predominantly from $500 million to over $5 billion in assets under management. The survey ran between January 20 and February 9, 2026. The sample was geographically balanced, split evenly between North America (United States/Canada) and Europe.

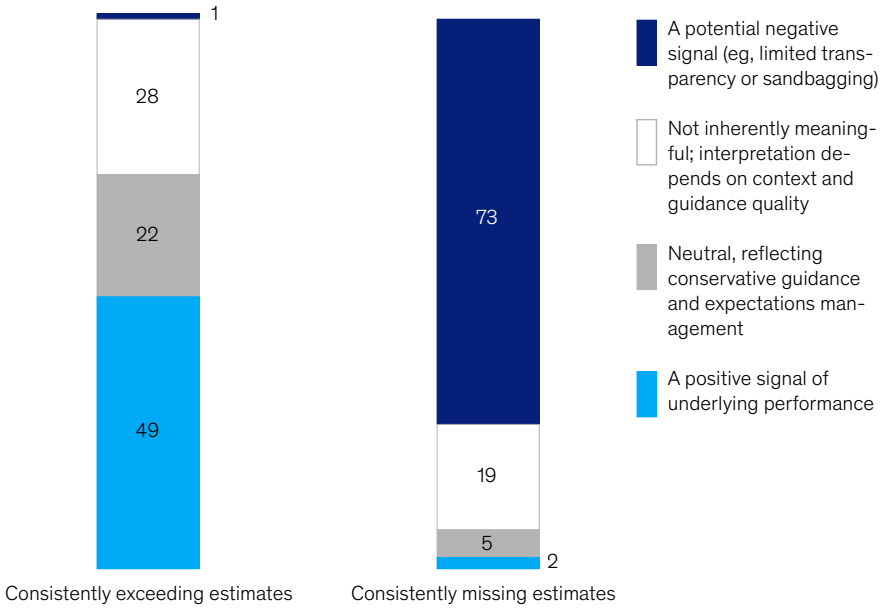
Respondents punish surprise consensus outcomes more than they reward patterns of greater-than-expected performance

Consistently meeting or exceeding consensus earnings estimates matters to a majority of respondents: 59 percent rate it as important or very important. But when asked to choose what matters more over time, 62 percent pick "occasional misses but strong long-term value creation" over "consistently meeting consensus." Notably, only 17 percent select the latter. The asymmetry in how respondents read patterns is revealing. When a company consistently exceeds estimates, only 49 percent treat it as a positive performance signal; 22 percent read it as conservative guidance, and 28 percent say it depends on context (Exhibit 1). But when a company consistently misses, 73 percent treat it as a negative signal of transparency or control. In short, this is a market that uses consensus as a lens into management credibility rather than as an end in itself.

Exhibit 1

Consistently missing consensus estimates is largely viewed negatively, while consistently meeting or exceeding them is viewed only moderately positively.

Perception of consistently exceeding or missing consensus estimates over multiple periods,[1] % of respondents



Note: Figures may not sum to 100%, because of rounding.
[1]Question: When a company consistently exceeds consensus estimates over multiple periods, this is typically perceived as what?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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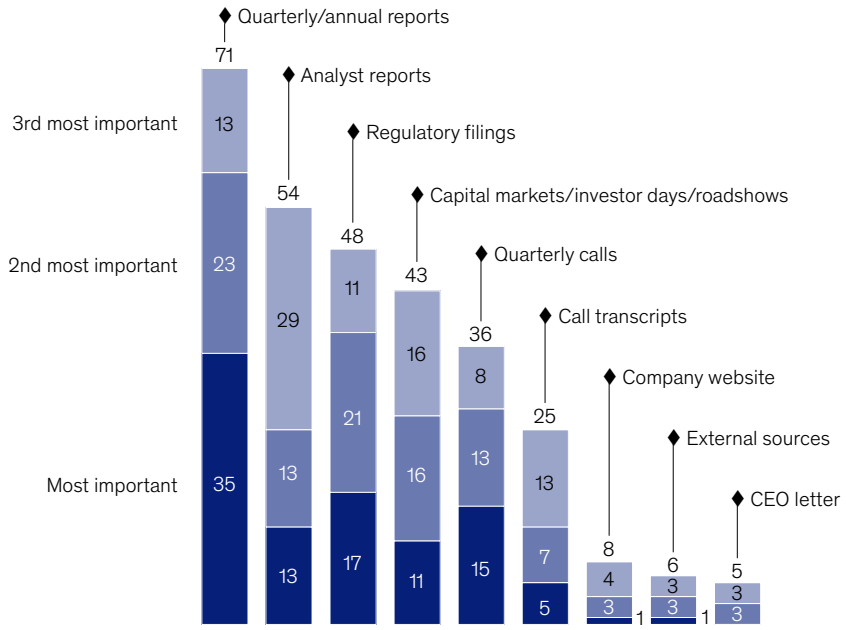
Investor reliance on sell-side analyst reports has decreased, while their use of AI has increased

Investors' primary information sources have not changed: 71 percent of respondents rank quarterly and annual reports among their top inputs, 54 percent cite analyst reports, and 48 percent cite regulatory filings (Exhibit 2).

Exhibit 2

Investors primarily rely on formal financial disclosures and third-party analysis for due diligence.

Top sources of information used in investment processes and due diligence,[1] % of respondents (top 3 choices)



Note: Figures may not sum to totals, because of rounding.
[1]Question: What are the primary sources of information used in your investment process and due diligence, and why?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

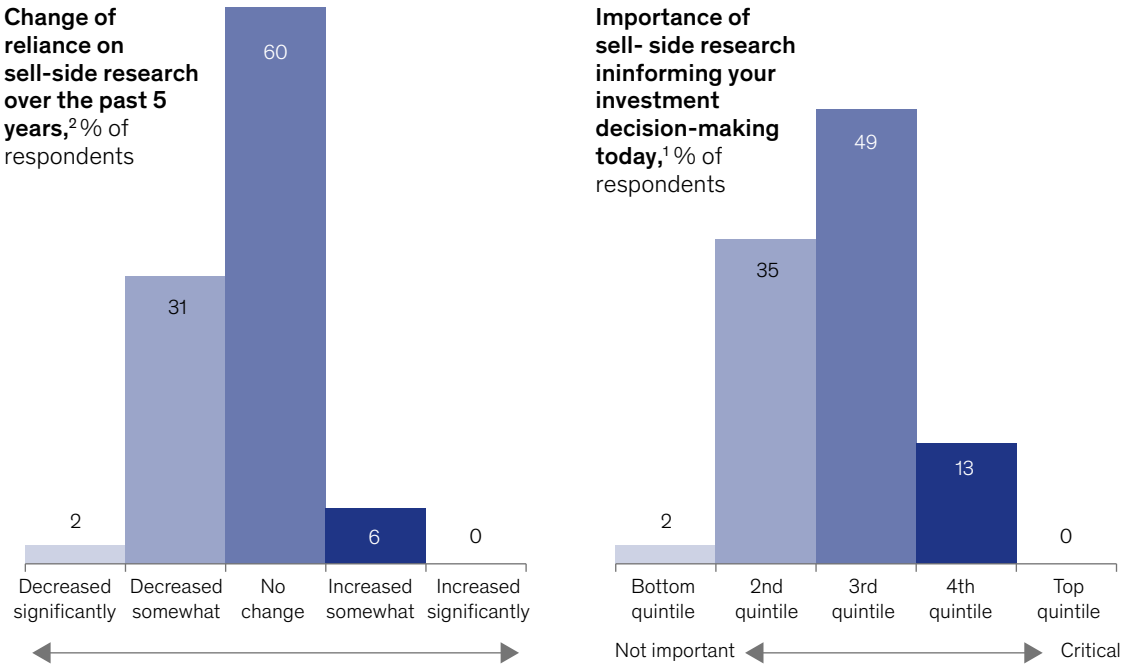
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What has changed is the intermediary layer. Only 13 percent of respondents consider sell-side research very important; none consider it critical.

And over the past five years, 33 percent report that their reliance on sell-side research has decreased, and only 6 percent say it has increased.

Exhibit 3

Investors rely on sell-side research to some degree, but a third of respondents note that reliance has decreased in the past five years.



Note: Figures do not sum to 100%, because of rounding.
[1]Question: How important is sell-side research in informing your investment decision-making today?
[2]Question: How has your overall reliance on sell-side research changed over the past 5 years?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 83)

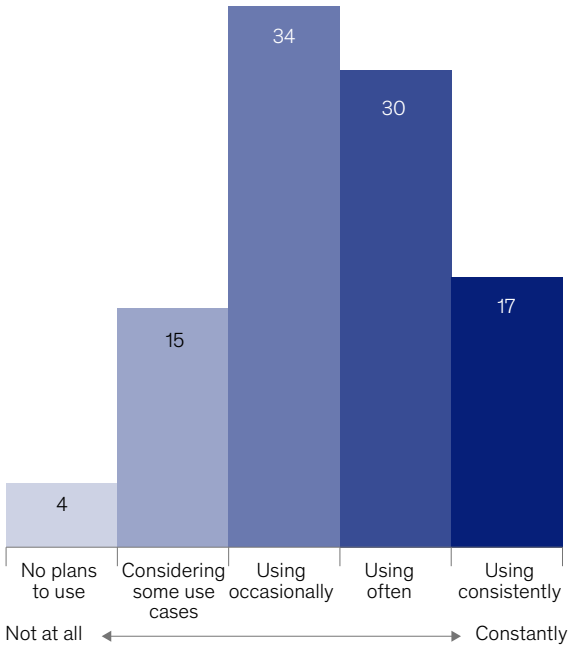
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At the same time, new tools are entering the workflow. Forty-seven percent of investors now use generative AI tools often or consistently in due diligence, and 81 percent use them at least occasionally. Only 4 percent have no plans to adopt them (Exhibit 4).

Exhibit 4

Nearly half of respondents use gen AI tools often or consistently to perform due diligence.

Extent of using ChatGPT (or equivalent open-source gen AI tools) as part of due diligence process,[1]
% of respondents



[1]Question: To what extent are you planning to use ChatGPT (or equivalent open-source generative AI software) as part of your investment process or due diligence?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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AI usage represents a structural shift in how disclosures are consumed. In the past, inconsistencies such as changes in definitions, adjustments that don't reconcile, or shifts in segment reporting were only picked up if a particularly careful analyst noticed them. Today, algorithms can scan for these issues, cross-checking disclosures across periods and across peers. As a result, inconsistencies are surfaced systematically and can quickly raise questions about the company's transparency and the reliability of its disclosures.

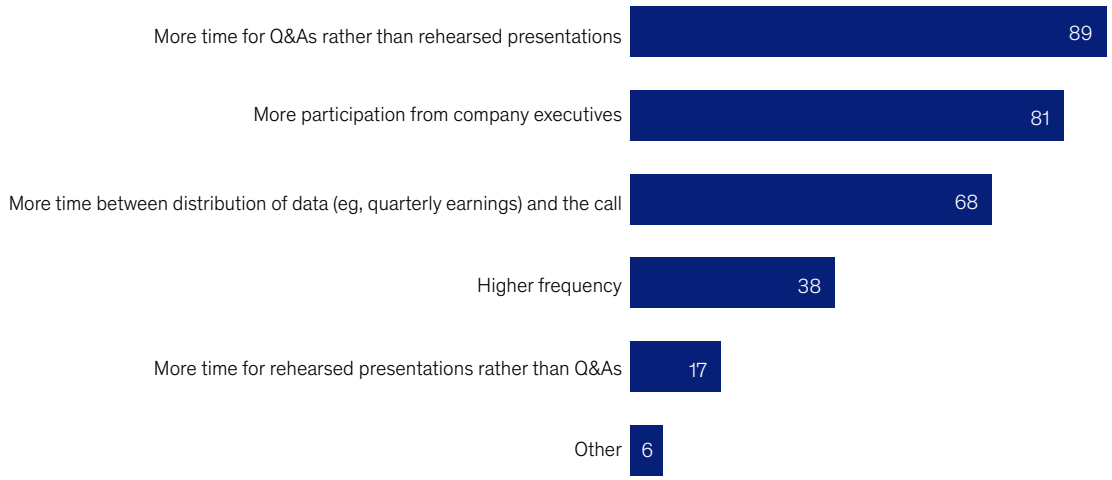
The quarterly call: Investors want interaction, not a script

Asked how to improve quarterly calls, investors converge on a single theme: They want more leeway to probe management. Nearly nine in ten investors want more time for Q&As; eight in ten want more executives present; and two-thirds want a longer lag between data distribution and the call so they can prepare targeted questions. Higher frequency ranks as the fourth-most-requested improvement (Exhibit 5).

Exhibit 5

Investors overwhelmingly prefer more interactive and less scripted engagement with management.

Top 3 areas where companies should improve investor communications,[1] % of respondents (top 3 choices)



[1]Question: What would you like to improve in how companies handle investor communications?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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In contrast, more rehearsed presentations rank last. Investors have long told us that prepared patter is not what they're looking for. Instead, they largely want opportunities to engage on the numbers with management. Best-in-class calls respect these preferences.

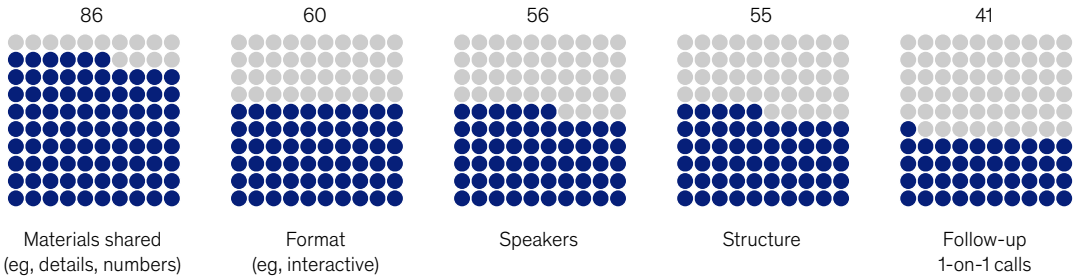
Even more important to respondents is the depth and specificity of materials shared. Eighty-six percent of respondents rank it as the most important differentiator—above format, speakers, or structure (Exhibit 6).

These responses match those of previous surveys; respondents consistently describe excellent calls as ones with transparency and candor, financial detail about segment breakdowns and relevant KPIs, and consistent structure quarter to quarter. They also point to capital markets days (CMDs) and other investor interactions as particularly valuable formats for this kind of dialogue, offering the time, depth, and executive access that quarterly earnings calls cannot match.

Exhibit 6

Respondents favor quarterly earnings calls that can deliver financial details and transparency.

Top reasons that distinguish the best quarterly earnings calls,[1] % of respondents (top 3 choices)



[1]Question: Do you listen to quarterly earnings calls? If so, among the earnings calls you listen to or participate in most often, what distinguishes the best examples from others?
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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Respondents want more segment-level disclosure than they typically get

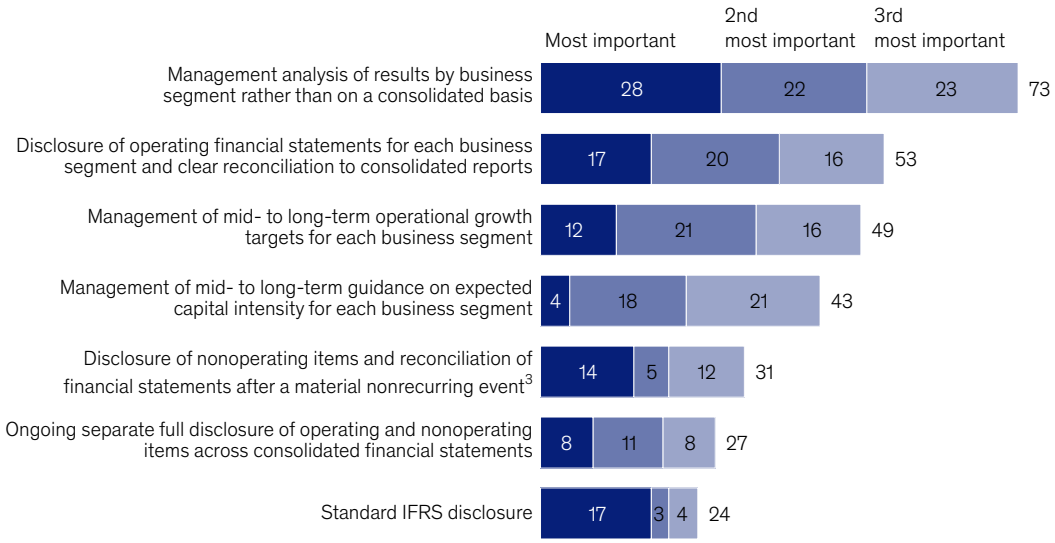
Investors want more segment-level disclosure from companies with multiple business lines than most companies provide. Seventy-three percent of respondents identify segment-level management analysis as one of their top three desired disclosure enhancements, while 53 percent select segment operating statements with clear reconciliation. Forward-looking segment detail is also in demand: 49 percent of respondents seek mid- to long-term growth targets by segment, and 43 percent want capital intensity guidance by segment. Just under a quarter are satisfied with standard International Financial Reporting Standards (IFRS) disclosure alone (Exhibit 7).

These preferences make sense: Investors underwrite by understanding the performance of individual business segments and need to know which parts of the portfolio are compounding, which are consuming capital, and whether management is allocating rationally among them. Companies that only report at the consolidated level force investors to guess—and investors often discount what they cannot verify.

Exhibit 7

Investors strongly prefer deeper segment-level analysis beyond accepted standard reporting.

Preferred disclosures[1] beyond generally accepted accounting principles (GAAP)[2]/International Financial Reporting Standards (IFRS),[2] % of respondents



[1]Question: For a company with multiple business segments beyond required GAAP/IFRS disclosures, what kind of financial disclosure would you like to see to inform your investment process or due diligence?
[2]GAAP refers to US generally accepted accounting principles; IFRS refers to International Financial Reporting Standards used in most jurisdictions outside the US.
[3]For example, after a major asset acquisition or sale.
Source: McKinsey Investor Survey, Jan–Feb 2026 (n = 112)

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Implications for companies

The latest survey results point to four areas companies can address directly in their investor communication efforts. The first—reframing how the company views and responds to consensus outcomes—is arguably the most complex, because it requires a change of mindset and behavior, in addition to a new approach to outreach.

— *Don't worry too much about a single consensus miss unless it is an early indicator of genuine long-term deterioration.* And don't try to avoid a miss at all costs through short-term earnings management tactics (such as accelerating asset sales, cutting R&D, or pulling forward revenue). These tactics may temporarily protect the consensus outcome but damage the forward-earnings base. Remember that a miss alone rarely moves the stock and, in fact, share prices rise after about 40 percent of misses. Intrinsic investors punish not the short-term shortfall but a weakened long-term outlook.

  Instead, focus on three communication disciplines:

  - *First, make the long-term thesis clear.* Articulate explicit medium-term targets (for example, three-to-five-year revenue growth corridors, margin trajectories, and ROIC thresholds) and report progress against them each quarter, so investors can independently assess whether the business is on track.

  - *Second, reduce surprises through proactive expectation management.* If a headwind is building, flag it early with quantified impact ranges rather than waiting for it to show up in a miss. Survey responses indicate that investors distinguish between management teams that get ahead of bad news and those that let consensus drift until the gap becomes undeniable.

  - *Third, build a delivery track record by setting specific commitments that can be scored.* For example, instead of vague comments such as, "We expect margin improvement," provide data such as, "We are targeting 50 to 75 basis points of operating margin expansion in fiscal year 2027 through three specific initiatives." Over time, a pattern of setting and meeting concrete commitments earns the credibility that lets investors look through a single quarter's noise.

— *Prepare reports and disclosures for the era of AI.* Investors increasingly use AI-powered tools to parse filings, compare language across quarters, and benchmark disclosures against peers. Inconsistencies that once may have gone unnoticed can now surface instantly. The practical implication is not just to avoid errors but to design documents with machine readability in mind. Use consistent segment definitions, KPI labels, and reporting periods across every published document, including earnings releases, 10-Ks, investor presentations, and CMD transcripts. When metrics change, explicitly bridge the old definition to the new one. Companies can also use AI tools to audit their own disclosure suite for internal consistency before publication. For example, they can use an AI tool to compare a draft earnings release with the most recent investor day transcript and a peer set's latest filings and fix the discrepancies before an analyst's model does.

— *Make better use of earnings calls.* Shorten prepared remarks, allow more time for Q&A, put the executives who own the numbers in the room, and build in a lag between data release and the call so that investors have time to prepare their questions. Consider augmenting earnings calls with capital markets days to provide investors with more access to management and with deeper insights into strategic direction.

— *Give investors more segment-level data.* As the survey demonstrated, most investors want management analysis and operating statements by segment; only a quarter are satisfied with standard IFRS alone. The reason most companies don't go further is well understood: allocation complexity, differences between internal management views and statutory reporting segments, and concern about exposing segment-level margins to competitors. But as McKinsey research on segment reporting has argued, the cost of minimal disclosure is that investors are forced to estimate segment returns on their own —and those estimates are often far from the reality of the business's performance and valuation.

The fix does not require disclosing everything. At a minimum, aim to report enough for investors to estimate the return on capital by segment, such as the segment's operating profit, depreciation and amortization, and a breakdown of assets including property, plant, and equipment; intangibles; and goodwill. Companies like Roche, Maersk, and Deere demonstrate that this level of transparency is achievable across industries: Roche reports operating assets at the segment level, Maersk discloses invested capital by segment, and Deere provides full income and balance sheet separation for its financing arm. Where competitive sensitivity is a genuine constraint, directional indicators such as revenue mix, growth rates, and margin trajectories by segment give investors enough to build independent models without publishing exact figures that a competitor could exploit.

This survey reinforces what McKinsey research has long shown: Consensus estimates matter most to intrinsic investors for what they imply about management credibility. What these investors care about more are opportunities to dive into company data and discuss it with management. New AI tools make it even more important for companies to provide high-quality information. Companies that aspire to best-in-class investor communications will focus on providing their most important investors with the level of insight and analysis that they desire.

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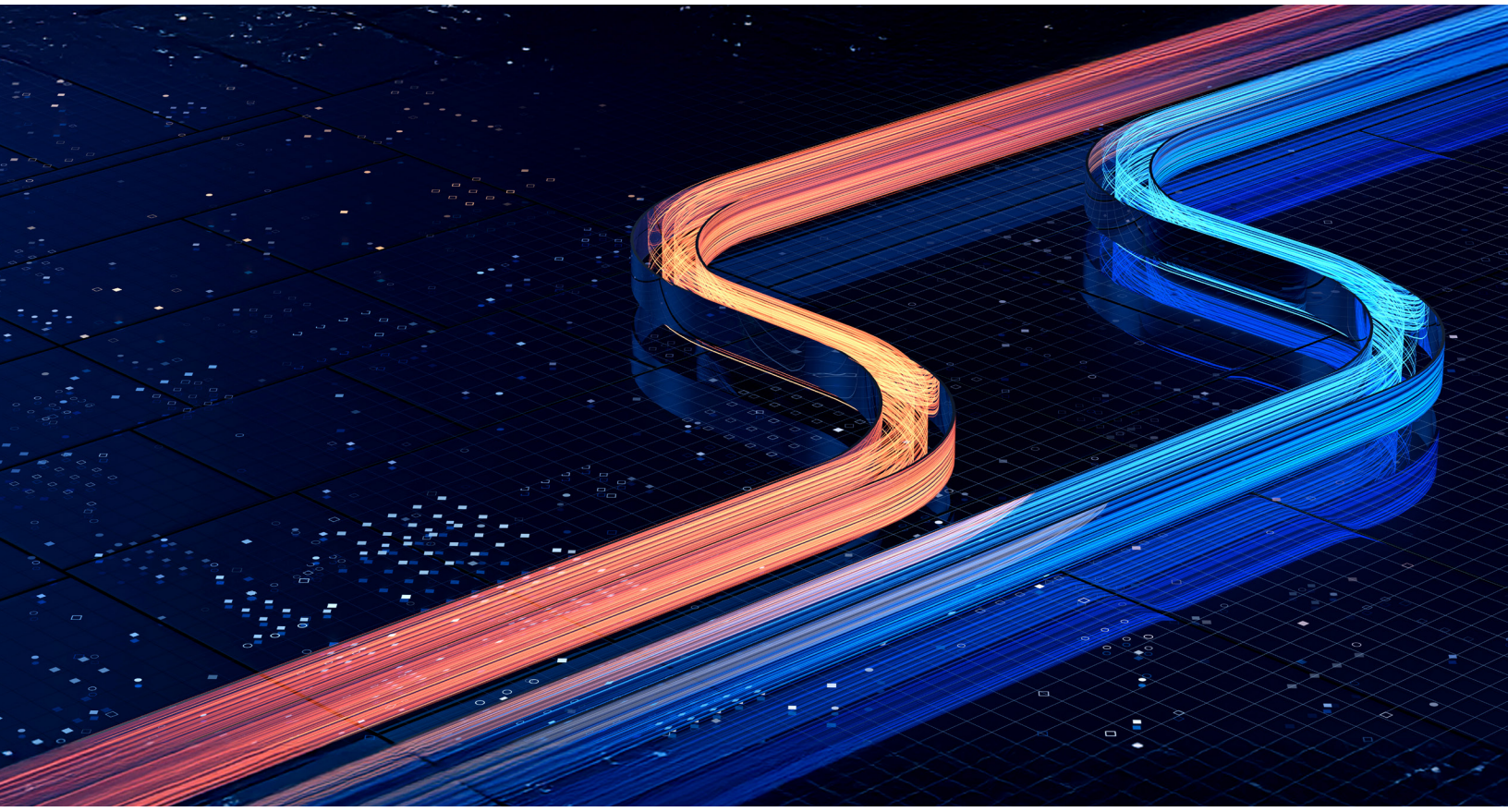
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Harnessing the power of gen AI in private markets

Investors are looking for data and tools to accelerate decades-old processes. But today's obvious answer could become tomorrow's cautionary tale.

This article is a collaborative effort by Alfonso Pulido, Andrew Mullin, and Chris Mulligan, with Gunnar Gregory and Nabel Khatut, representing views from McKinsey's Private Capital Practice.

January 5, 2026



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As more investment dollars seek great opportunities, every competitive edge matters. Gen AI presents a seemingly powerful option: the ability to leverage large language models (LLMs) to quickly analyze investment ideas with previously unimaginable speed. Already, some 67 percent of investors believe gen AI will have a "transformational" impact on their business in five years' time, and 82 percent view its use as a high priority.[1]

LLM-derived investment analysis is undisputedly rapid, and the landscape of companies offering products for investment firms and dealmakers has never been more diverse or fast-moving. But intelligent investors need to harness that speed through a first-class process that serves the firm's culture by quickly discovering risks and reallocating resources toward the very best opportunities. As one investment firm leader told us: "I'm paid to be right. Not to be fast."

Recognizing the limitations of gen AI

Investment decisions demand precision. One challenge that investment teams face with the largest enterprise LLMs is that when these models draw from a wide data pool (such as the public internet), they are subject to biases and unintended divergences and contradictions. They may present answers as authoritative but offer false precision that investors are otherwise trained to filter out. That can be a serious problem: For instance, overly optimistic or simplistic early reads may drive misallocation of investment teams' time on deals that may otherwise have been a quick "pencils down."

A better approach, based on our recent analysis, is for investment teams to use proprietary research data to compare and contrast the answers provided by the largest enterprise LLMs. For example, notes from an investment team's meeting with management teams or financial advisers can be valuable supplementary sources of detail on the development of various companies, industry unit economics, or the potential of new products. Indeed, when we examined expert interviews alongside the output of large enterprise LLMs—conducting more than 100 separate structured queries on given topics, products, or companies—we found the following:

'Happy talk' bias

In seven out of ten industries analyzed, gen AI deep-research reports portrayed a much more optimistic outlook—or "happy talk"—than reports based on expert interviews. The latter reports were more likely to ground the analysis in cautious realism, reflecting both market potential and on-the-ground challenges. For instance, the penetration of a given product might be presented as universally successful by a large enterprise LLM. By contrast, industry participants (experts) may provide more nuance by indicating positive performance among enterprise buyers and less need for the product among customer segments within small and medium-size businesses.

Divergences and contradictions

Our findings identified some insights from LLM-generated reports that diverged from what industry experts shared. And these divergences were often not minor—they spanned core metrics such as market size, growth rates, pricing dynamics, and margin structures, highlighting the risk of relying on unvalidated public data. Such misalignments warrant investment teams doing more work—or moving on.

Key omissions

About 40 percent of important data points uncovered in expert interviews were absent from the corresponding LLM answers on the same topics or questions and could not be uncovered with additional user prompting. These missing insights included vital data that are often critical in deals but invisible to the corpus of data accessible by public LLMs—from conventional contract structures in an industry to unit

[1] McKinsey State of AI for Private Equity Investment Teams: A survey among investors regarding adoption of and outlook for gen AI.

economics, channel breakdowns, and regulatory hurdles. When we examined the US market for baby and kids' apparel, for instance, the report based on expert-interview insights painted a sector that was resilient and incrementally expanding. It found growth was "stable and growing" in the low single digits annually, with some experts citing incremental postpandemic tailwinds. Spending per child was said to be rising faster than inflation, and initial online penetration signaled room for future growth.

Yet the gen AI report attested confidently that online sales were far higher—at about half of total sales. It further suggested annual average spending per child of just a few hundred dollars, compared with experts' assessment of more than $1,000. The LLM-sourced report also stated that the market had shrunk from 2010 to 2020 and risked stagnating or declining. Finally, it was missing additional details required to make informed investment decisions such as data on gross margin benchmarks, sales numbers among age groups, economics for boutique retailers, and norms for inventory turns. Much of this information was included in the expert-interview report.

Adopting a balanced approach

In none of these three categories—happy-talk bias, divergences and contradictions, and key omissions—are we contending that whatever proprietary data a user may have is universally correct versus a public-LLM answer. In fact, often neither source will on its own yield a full and exhaustive answer to an investment team. We believe these misalignments are something investment teams should actively look for and use as a tool for allocation of time and resources in the research and underwriting process. It's through this process that they can land on their own view of the most material open questions that will determine the success of an opportunity.

An approach in which investment teams complement the use of LLM products with proprietary data provides more balance. Investment teams should consider utilizing industry-specific expert-driven insights to gain a realistic understanding of operational realities and market-specific risks. Furthermore, investment teams should adopt a rigorous culture and set of processes for checking all sources of information. Gen AI may accelerate the discovery of information, but it will not safeguard for quality without user guidance.

This approach can yield analytical thoroughness, allowing stakeholders to confidently identify genuine growth opportunities and anticipate potential operational pitfalls. It also creates a level of investment rigor by supporting teams' due diligence with comprehensive and industry-specific data that can directly affect valuation accuracy and risk assessments.

When stakeholders have a large amount of granular, traceable data at their fingertips, they are able to make better decisions about how to allocate capital and time throughout the investment process. Indeed, optimizing investment teams' information intake is becoming a critical part of managing a strong investment research process.

One leader at a North American investment fund used a nutrition analogy to describe changing dynamics in the investment process. "[In the past] we were always hunting and gathering for those few pieces of information with which we could gain conviction for our deals," he said. "Now, [with gen AI] we have to put ourselves on a deliberate diet. We have to be careful what information we consume and allow into our investment process and not to overdo it on the junk."

Alfonso Pulido is a senior partner in McKinsey's Bay Area office; **Andrew Mullin** is a senior partner in the Toronto office; and **Chris Mulligan** is a partner in the New York office, where **Gunnar Gregory** is an associate partner and **Nabel Khatut** is an asset leader.

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India's private markets: The global limited partner view

Our survey finds limited partners are bullish on India, yet more can be done to grow investor momentum.

by Peeyush Dalmia and Vivek Pandit
with Debanwita Roy

March 11, 2026



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Investment activity in private markets across Asia–Pacific has generally contracted in recent years, pressured by everything from significant geopolitical shifts to the reorientation of global supply chains and foreign exchange volatility. However, India has emerged as an increasingly attractive destination for limited partner (LP) allocators. Its regional weight has increased amid China's slowdown, and improved performance has seen investment activity from private equity and venture capital deals expand 1.6-fold to $207 billion between 2016–20 and 2021–25.[1] Exits for the same period more than doubled to around $120 billion.[2]

Yet India also faces challenges. While its regional standing has improved, its capital pool remains narrow. Private-capital intensity relative to GDP has stagnated: Deployment is heavily concentrated in a limited set of sectors, while other sectors central to India's growth ambitions do not attract meaningful private-market investment. This concentration extends to fundraising among fund managers. While fundraising by domestic private equity firms has increased, capital remains skewed, akin to a winner-take-all dynamic: The six largest general partners (GPs) accounted for 64 percent of the total of $13.68 billion raised between 2022 and 2024, up from 59 percent from 2016 to 2018.[3]

Addressing structural constraints limiting the breadth and depth of India's private markets could create additional investable opportunities and enable a more diversified capital pool across sectors, asset classes, and fund managers.

To better understand the country's investment dynamics and measures that broaden its appeal, we surveyed more than 50 global LPs about their perceptions, preferences, and anticipated activities in India (see sidebar, "About our research").[4] Here's what we found.

About our research

McKinsey collaborated with the Indian Venture and Alternate Capital Association (IVCA) to conduct a survey of limited partners (LPs) about India's private markets. The survey leveraged the IVCA LP Council network to gather insights from more than 50 LPs on the current state of private-market investment in the country and future expectations. Respondents were located in North America (19 respondents), Asia–Pacific (14), India (seven), Europe (six), and the Middle East (four). Some 40 percent represented funds of funds, 18 percent family offices, 14 percent pension funds, 12 percent endowments and foundations, 6 percent development finance institutions, 6 percent insurers, and 4 percent other institutions. The three most prevalent allocation channels used by respondents were multiple channels (32 percent), global funds (28 percent), and India-dedicated funds (20 percent), followed by Asia regional funds and direct investments.

[1] Preqin, accessed January 31, 2026; S&P Capital IQ, accessed January 31, 2026; Venture Intelligence, accessed January 31, 2026; McKinsey analysis.
[2] Venture Intelligence, accessed January 31, 2026, and McKinsey analysis.
[3] Preqin, accessed January 31, 2025, and McKinsey analysis.
[4] McKinsey-IVCA LP Survey, November 2025.

1. India's private markets outperform regionally

After attracting just $6.4 billion in investment in 2006, India's private markets are today central to the country's economic growth.[5] Private-capital deployment across asset classes was $44 billion in 2025, with its share relative to the country's GDP more than doubling to 1.42 percent in the past decade compared with 0.68 percent from 2006 to 2015.[6]

India has also emerged as a relative outperformer in Asia–Pacific's contracting private-markets landscape.[7] While the country has not been immune to the regional slowdown—private-capital deployment has plateaued since peaking at $74 billion in 2021—India's total share of Asia–Pacific private equity (PE) and venture capital (VC) deployment has increased from around 12 percent between 2015 and 2019 to about 21 percent from 2020 to 2024 (Exhibit 1).[8] And its attractiveness as a destination for alternatives investors seeking diversified long-term growth may further increase; India's share of global GDP is projected to rise from 3.7 percent in 2025 to 7.0 percent by 2050.[9]

Limited partners are increasingly prioritizing India

India accounts for more than a third of all Asia–Pacific investment exposure among surveyed LPs. Europe-based LPs indicated the highest exposure (around 60 percent), while exposure among those based in the Middle East, Asia–Pacific, and North America was about 20 to 30 percent of their total Asia–Pacific capital (Exhibit 2).

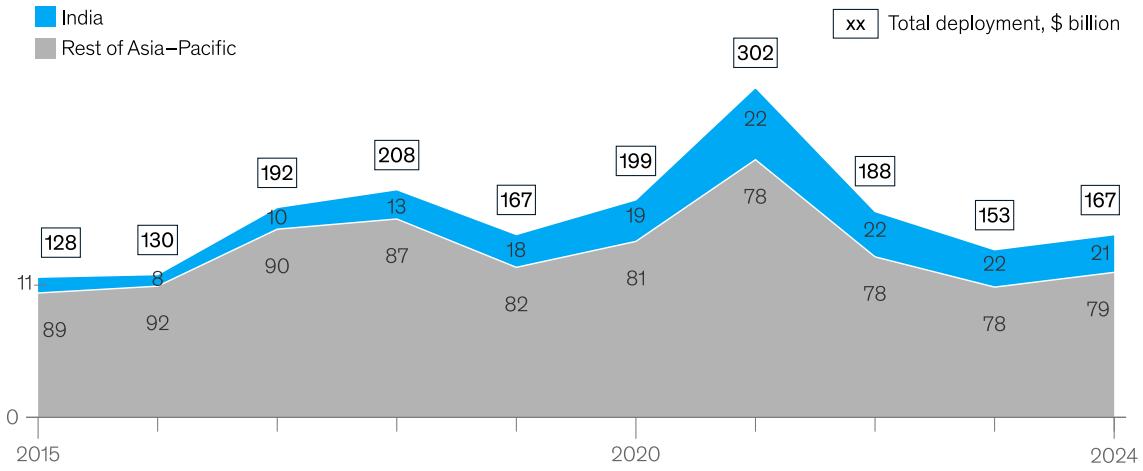
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[5] Preqin, accessed January 31, 2026; S&P Capital IQ, accessed January 31, 2026; Venture Intelligence, accessed January 31, 2026; McKinsey analysis.
[6] These data do not include private credit and secondaries. Oxford Economics, accessed January 31, 2026; Preqin, accessed January 31, 2026; S&P Capital IQ, accessed January 31, 2026; Venture Intelligence, accessed January 31, 2026; McKinsey analysis.
[7] PitchBook, accessed January 31, 2025; Preqin, accessed January 31, 2025; S&P Capital IQ, accessed January 31, 2025; Venture Intelligence, accessed January 31, 2025; McKinsey analysis.
[8] Preqin, accessed January 31, 2026; S&P Capital IQ, accessed January 31, 2026; Venture Intelligence, accessed January 31, 2026; McKinsey analysis.
[9] Oxford Economics, accessed January 31, 2026.

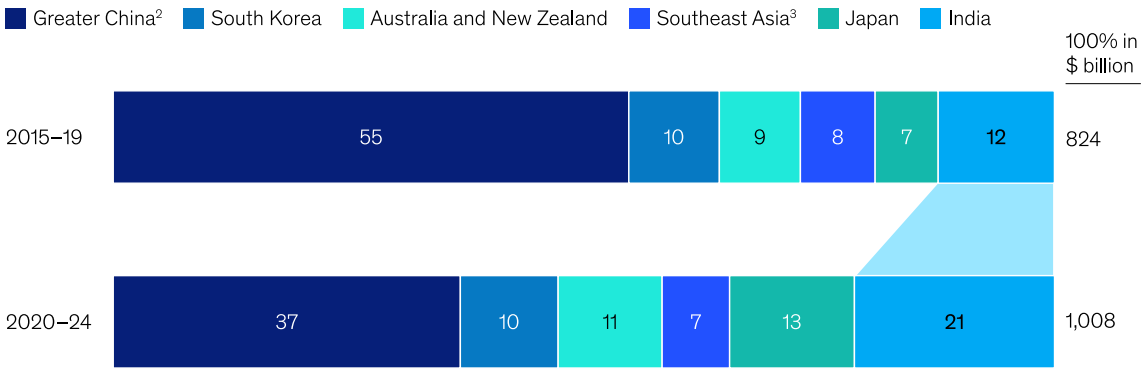
Exhibit 1

India's deployment has increased to represent a fifth of Asia–Pacific.

Share of Asia–Pacific private equity (PE) and venture capital (VC) deployment,[1] %



PE and VC deployment by country, %

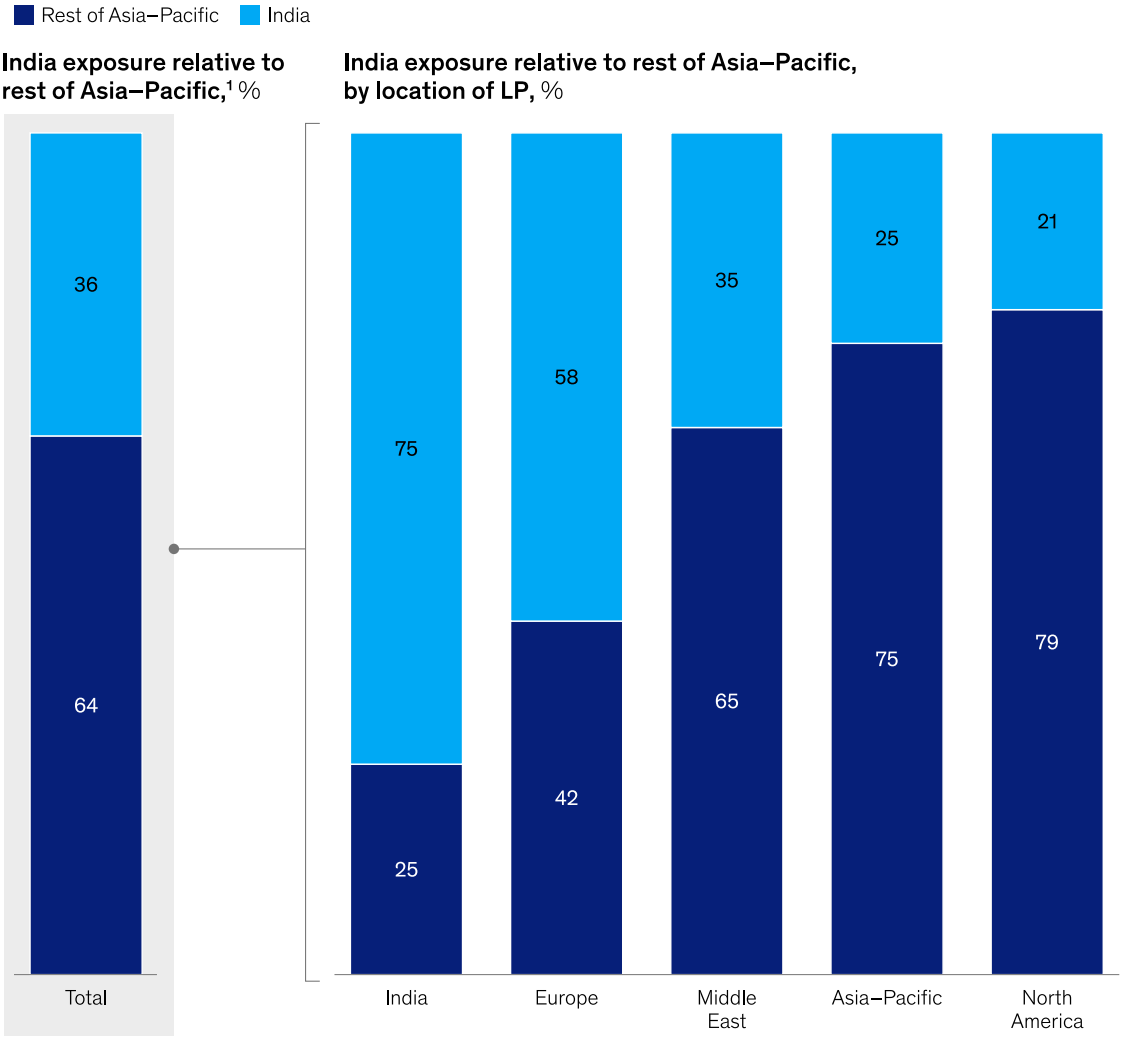


Note: n = 54,762 deals closed and in definitive agreements; figures may not sum to 100%, because of rounding.
[1]Includes buyout, expansion and growth, private investment in public equity, seed and R&D, start-up and early stage, late-stage VC, and mezzanine and pre-IPO.
[2]Greater China includes Mainland China, Hong Kong, Macau, and Taiwan.
[3]Includes Brunei, Cambodia, Fiji, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.
Source: S&P Capital IQ; PitchBook; Venture Intelligence; Preqin; McKinsey analysis

McKinsey & Company

Exhibit 2

About a third of surveyed LPs' exposure to Asia–Pacific is represented by India.



Question: How much is your India allocation as a share of Asia–Pacific allocation (option ranges: 0–10%, 10–20%, 20–30%, 30–40%, 40–50%, and >50%)?
[1]Calculated by LP location as the weighted average of respondent selections across India allocation ranges (range midpoints applied); rest of Asia–Pacific represents the residual to 100%.
Source: McKinsey-IVCA LP survey, Nov 2025

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2. Investors have two lenses on India

Two views of India's attractiveness as an investment destination have emerged. High-allocator LPs—major global investors characterized by a proactive stance to Asian exposure for growth and diversification, sustained allocations, higher future allocation intent, active co-investment participation with GP partners, and more frequent on-ground visits—tend to view the country as a complex, yet scalable, opportunity-rich private-markets destination. Moderate allocators, which carefully weigh known opportunities at home against emerging market risks, episodic exposure and track records, and more muted allocation intent, view India as a bright spot for GDP growth supported by a reform-oriented government. Yet while they feel accessing India's opportunities remains highly contested and richly valued, it requires a look beyond the macro context and they approach the country with greater caution.[10] As one group bets on India's future, the other is more anchored on its past record.

India is a complex environment, where granular opportunity identification often matters far more than macro bets, with opposing views on whether India's opportunities outweigh its risks. Consistent with those attributes, respondents provided insights into measures investors and policymakers can take to improve the country's attractiveness as an investment destination. The survey compared high and moderate allocators across three areas: their views of India's macro environment, PE market fundamentals, and private-market manager quality and selection considerations.

The limited partner view of India's macro environment

Both high and moderate allocators broadly agree on India's macro strengths, such as its political and economic stability, and on its key challenges, including currency risk, a complicated tax regime, and the difficulty of doing business and contract enforceability. However, they diverge in their degree of confidence on factors such as quality of governance, regulatory consistency, and foreign investment policy (Exhibit 3), which likely drives a different view of macro risks associated with in-country investments and, subsequently, capital allocation decisions.

Assessing the structural attractiveness of India's private equity market

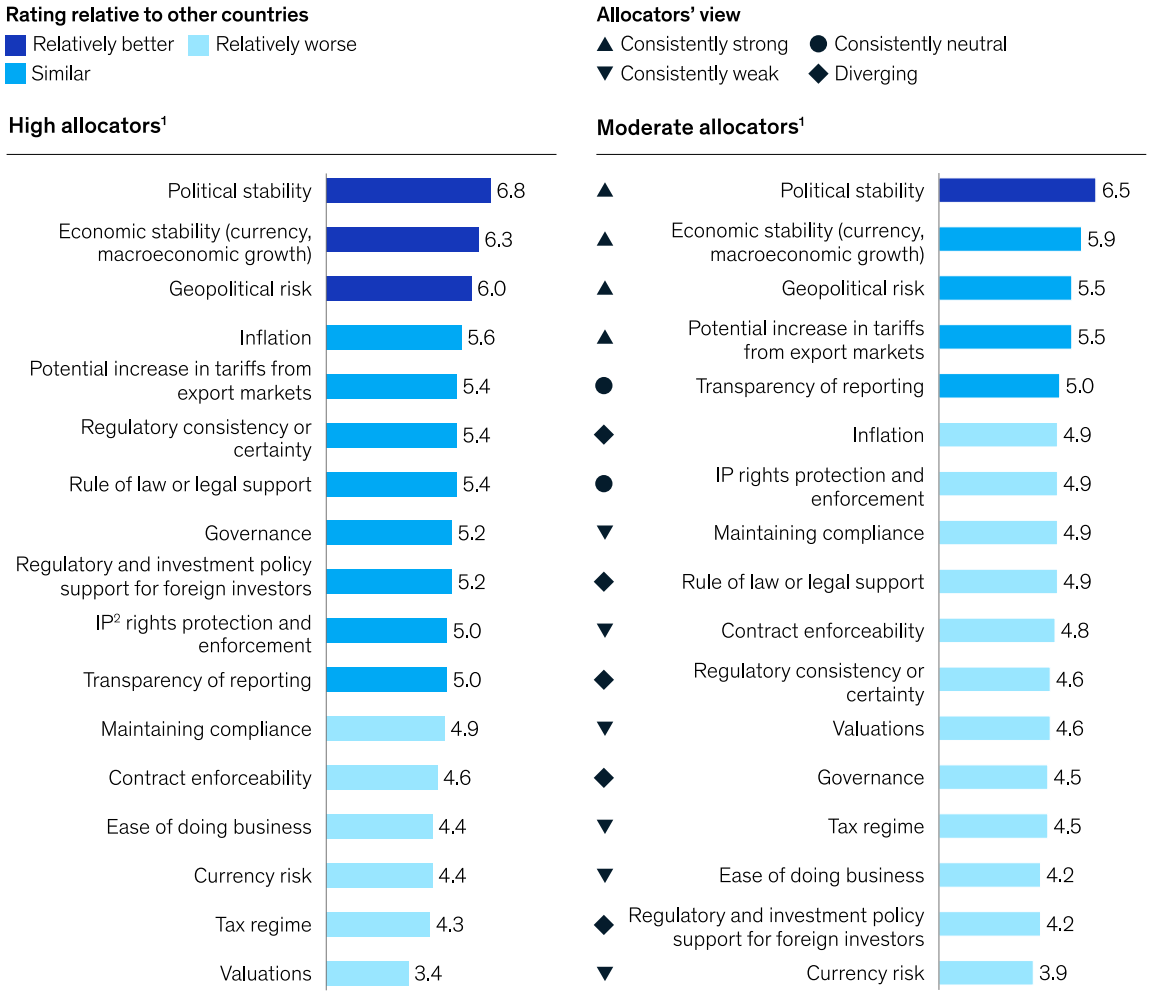
High and moderate allocators broadly align on the structural drivers of India's private markets, such as entrepreneurial talent, economic growth, and domestic manufacturing and consumption. High allocators view exit potential, availability of quality targets, and depth of capital markets as relative strengths, reflecting confidence in India's ability to support full investment cycles, but moderate allocators are more cautious, scoring these factors lower and, in some cases, weaker than other markets (Exhibit 4). Both high and moderate allocators rate ease of access—driven by visa and capital control considerations—and valuations as weaknesses compared with other markets, explaining the relatively defensive or cautious stand several allocators take toward India.

[10] Moderate allocators are defined as LPs allocating 0.0 to 30 percent of their total India allocation to private markets, while high allocators allocate 70 to 100 percent. McKinsey-IVCA LP Survey, November 2025.

Exhibit 3

High- and moderate-allocator LPs differ in their assessment of India's macro factors.

India's rating by limited partners on macro factors vs other countries, average score on a scale of 1–10



Question: Relative to other markets where you invest, how do you rate India on the following factors?
[1]High allocators are defined as LPs allocating 70–100% of their total India alternatives allocation to private markets, while moderate allocators allocate 0–30%.
[2]Intellectual property.
Source: McKinsey-IVCA LP survey, Nov 2025

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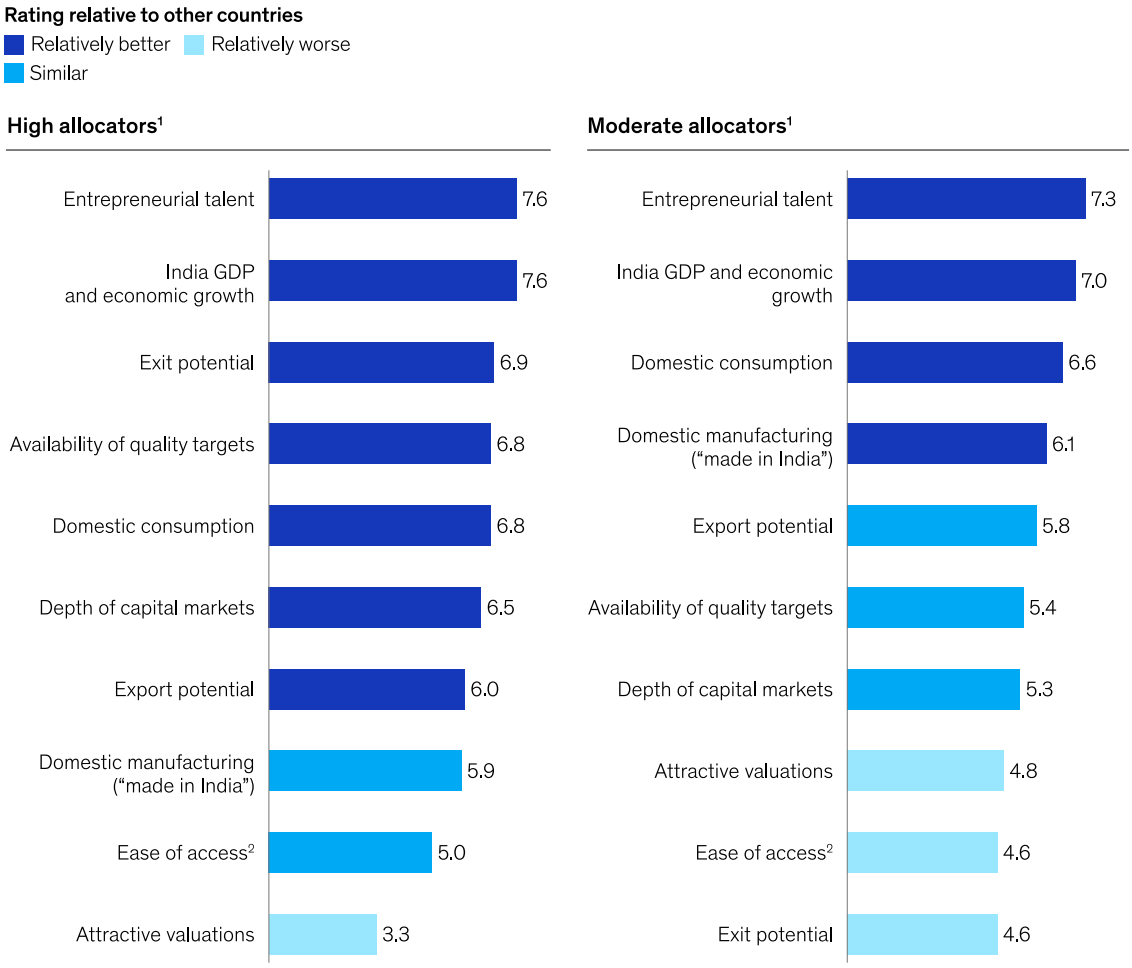
Private-market manager allocation considerations of limited partners

High-allocator LPs prioritize deployment opportunities (quality of deal pipeline and flow), risk-adjusted internal rates of return (IRR), and manager (team) quality as differentiators when considering private-market manager allocation. Moderate allocators focus on a longer checklist, including exit record as measured by distributed to paid-in capital (DPI), governance and disclosures, risk-adjusted IRR, and manager fees and costs as their dominant manager selection criteria (Exhibit 5). The significant difference in how high and moderate allocators weight manager selection criteria may explain LP diligence emphasis: While high-allocator LPs seek to understand drivers of return outperformance, moderate allocators focus on risk, liquidity, and governance.

Exhibit 4

Generally, LPs favorably assess the structural growth drivers of India's private equity market.

India's rating by limited partners on PE growth drivers vs other countries, average score on a scale of 1–10



Question: Relative to other markets where you invest, how do you rate India on the following factors?
[1]High allocators are defined as LPs allocating 70–100% of their total India alternatives allocation to private markets, while moderate allocators allocate 0–30%.
[2]Includes visa regimes and capital controls.
Source: McKinsey-IVCA LP survey, Nov 2025

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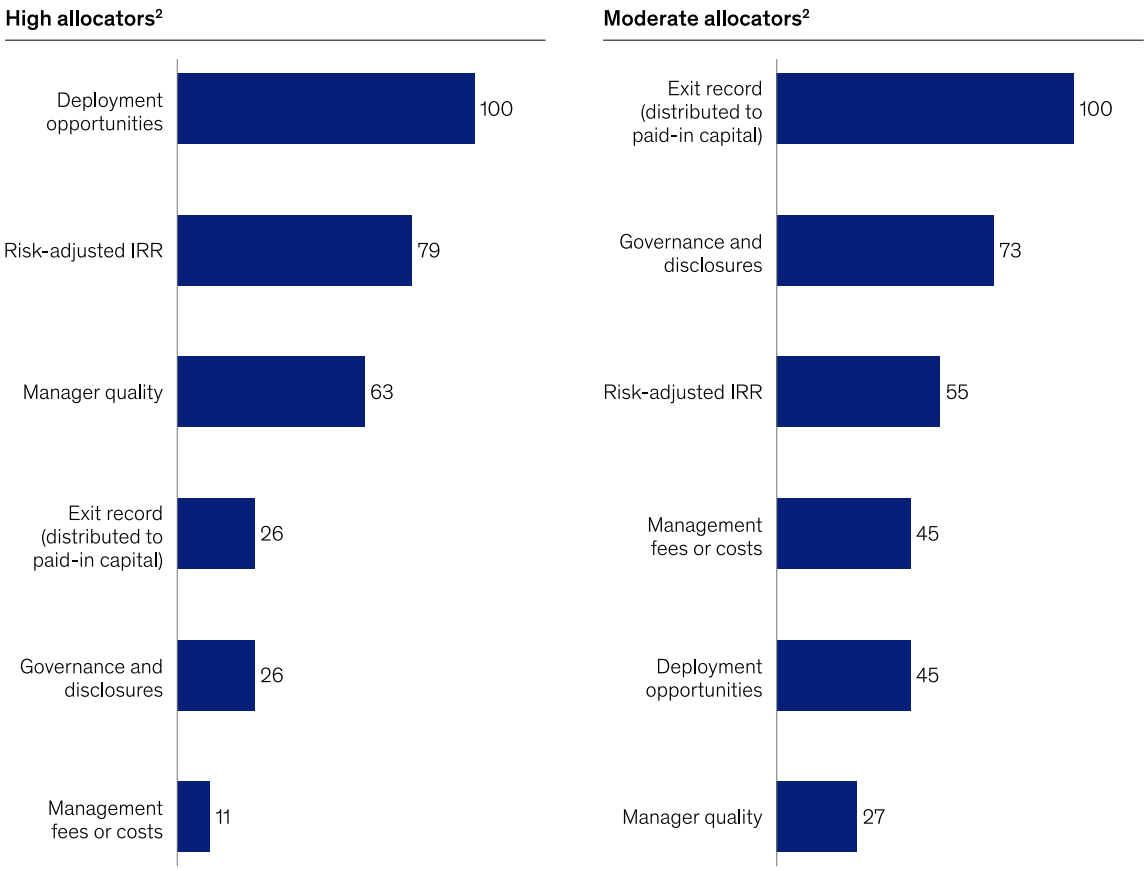
3. Investor perceptions of the India opportunity

How do LPs view the opportunity presented by India? It depends. While participation in India has become more intentional, it is deliberate and risk managed. LP preferences are consistent with historical deployment trends around asset class, strategy, sector, and co-investment choices, and are designed to mitigate perceived macro and local private-market risks and access opportunities. Our survey examined these elements in depth, as well as attitudes toward allocations to India-based general partners (GPs).

Exhibit 5

High and moderate allocators focus on different factors when considering private market manager selection criteria for India.

Top allocation considerations for Indian private market manager selection among limited partners, number of mentions of top factor is scaled to 100[1]



Question: What are the top 3 reasons for higher vs moderate allocation to private markets vs public markets?
[1]"Number of mentions" for each factor indicates how many times each factor was cited among the top three considerations for private market allocation.
[2]High allocators are defined as LPs allocating 70–100% of their total India alternatives allocation to private markets, while moderate allocators allocate 0–30%.
Source: McKinsey-IVCA LP survey, Nov 2025

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Among India's alternative asset classes, private markets are favored

Surveyed LPs allocate 64 percent of their India alternatives exposure to private markets, which are favored by investors from all geographies: LPs domiciled in Europe allocate 95 percent to private markets, while LPs in the Middle East allocate 73 percent, those in India allocate 71 percent, those in Asia–Pacific allocate 60 percent, and LPs in North America allocate 51 percent.[11] There is more variation among LP institutions, with funds of funds heavily weighted toward private alternatives and pension funds preferring public alternatives (Exhibit 6).

Investors expect buyout and growth strategies to dominate

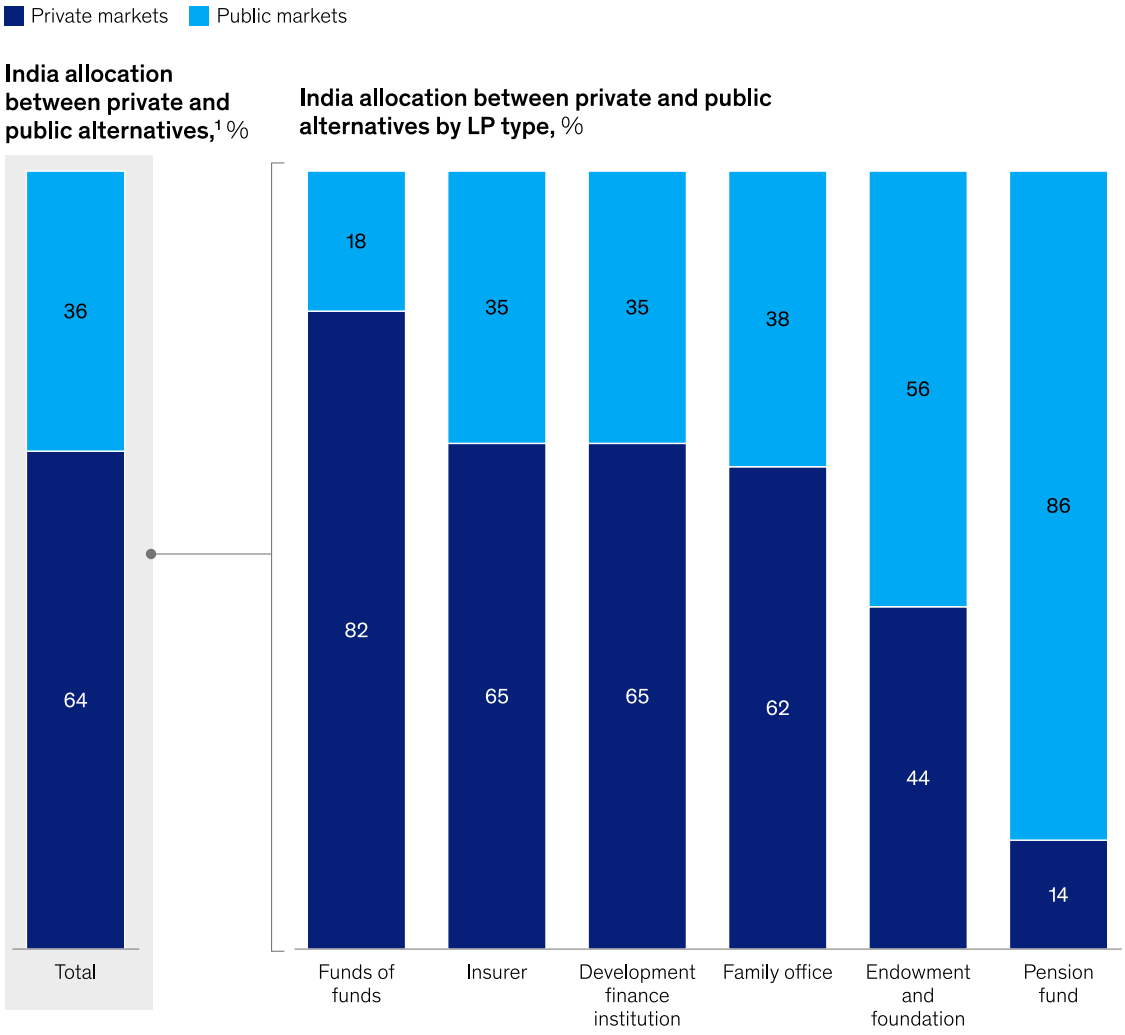
As the industry matures, investors increasingly prefer historically successful strategies with higher persistence. LPs indicate a preference for buyout and growth strategies over the next five years, while several other strategies, such as VC, remain under strong consideration. Control in buyouts provides greater influence over value creation and exit timing, which helps mitigate exit risk—a key concern of moderate allocators. Earlier-stage strategies, however, see relatively lower preference, reflecting perceptions of market saturation, meeting power law returns that justify risk, and in achieving timely public market exits (Exhibit 7).

As the industry matures, investors increasingly prefer historically successful strategies with higher persistence.

[11] McKinsey-IVCA LP Survey, November 2025.

Exhibit 6

India's private markets are favored across LP types.



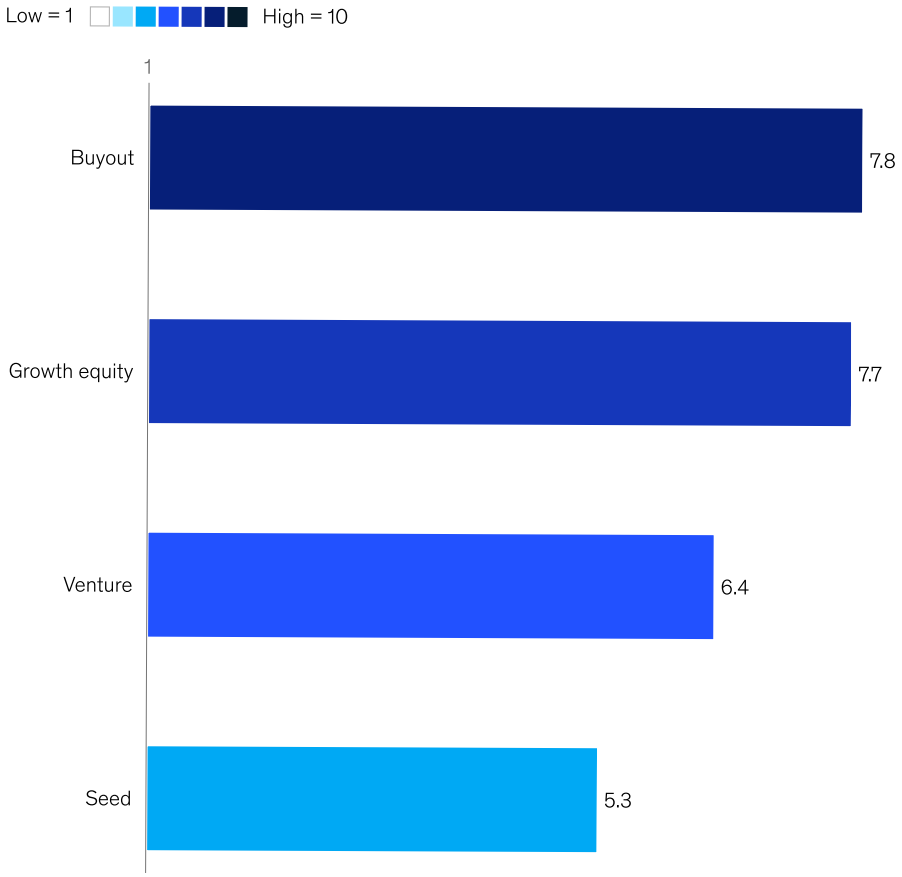
Question: What % of your India allocation is in private markets (option ranges: 0–10%, 10–20%, 20–30%, 30–40%, 40–50%, and >50%)?
[1]Calculated for each LP type as the weighted average of respondent selections across private markets allocation ranges (range midpoints applied); public markets allocation represents the residual to 100%.
Source: McKinsey-IVCA LP survey, Nov 2025

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Exhibit 7

Buyout and growth strategies find favor with surveyed LPs.

LP interest by private equity strategy in India over the next 5 years, average score on a scale of 1–10



Question: How enthusiastic are you about the following strategies in India over the next 5 years?
Source: McKinsey-IVCA LP survey, Nov 2025

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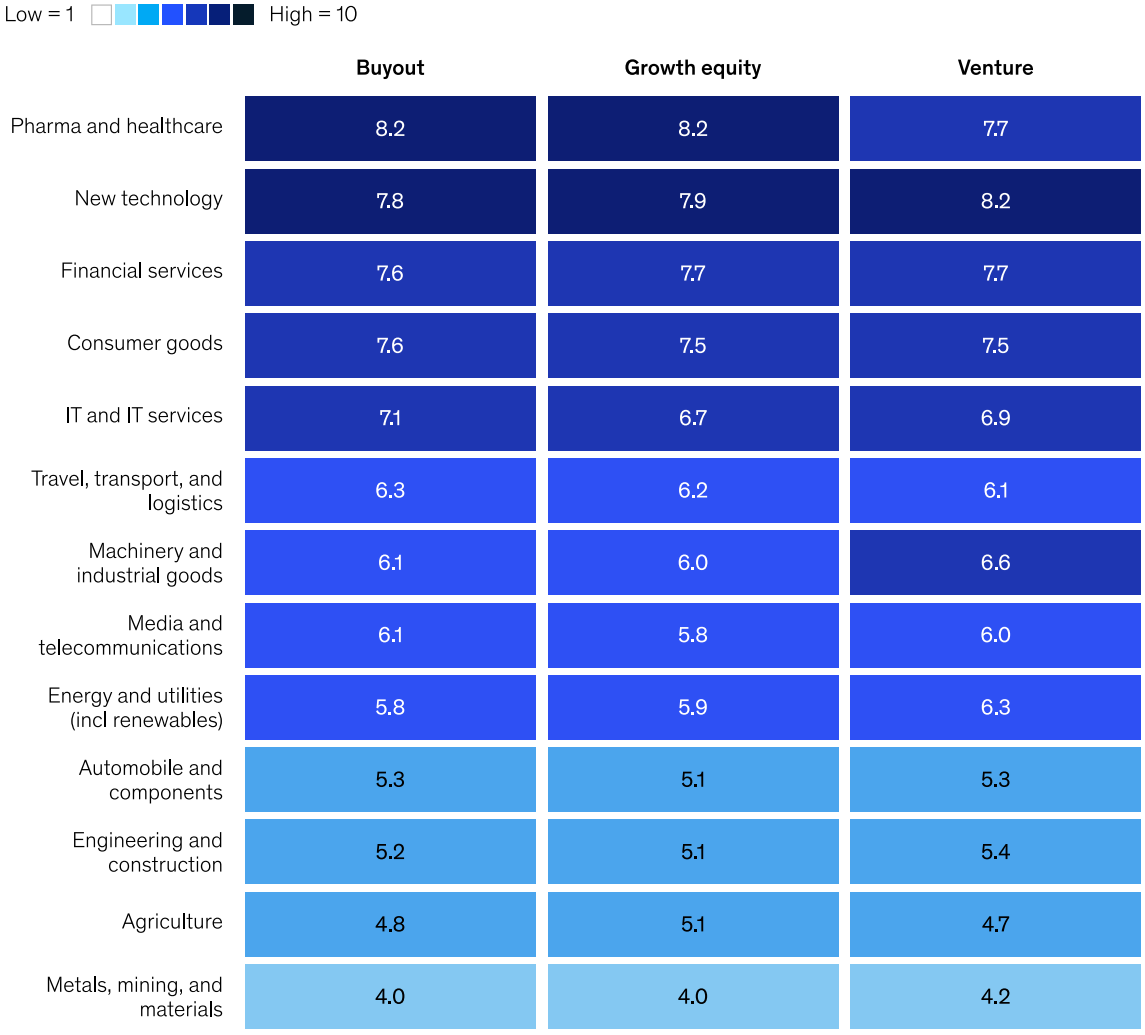
Investment is concentrated in scalable and relatively defensive demand-driven industries

Sector preferences follow similar logic. LPs tilt toward export-oriented, consumption-led, and talent-backed export sectors such as pharmaceuticals, IT, and financial services rather than sectors more exposed to regulatory complexity, high capital investment, and execution and timing risks. This pattern is remarkably consistent across buyout, growth, and venture strategies, with the same core sectors emerging as preferred areas of allocation (Exhibit 8). Almost three-quarters of PE capital in India was concentrated across five core sectors from 2021 to 2025: technology (29 percent), financial services (15 percent), IT and

Exhibit 8

Limited partner sector preferences remain consistent across strategies.

LP interest by sector and strategy in India over the next 5 years, average score on a scale of 1 to 10



Question: How enthusiastic are you about the following sectors in India over the next 5 years?
Source: McKinsey-IVCA LP survey, Nov 2025

McKinsey & Company

IT services (13 percent), pharmaceuticals and healthcare (10 percent), and consumer goods (6 percent).[12] LP interest is expected to remain focused on sectors that act as natural hedges against macro risks in the next five years, which includes risks and opportunities related to AI as investors seek more digital infrastructure opportunities and re-rate the IT services industry. Notably, core manufacturing, agricultural, construction, and metals and mining sectors solicit muted interest despite growth.

The appetite for co-investment is high

Co-investment has become a popular pricing feature for LPs. In addition to offering favorable economics, it allows LPs to express sector preferences that mitigate perceived macro and private-market risks in India. Co-investment participation—which was negligible two decades ago—has grown to account for about 25 to 28 percent of deployment value and 20 percent of deployment volume over the past five years. Historically, co-investment activity has also been concentrated in the same five core sectors (Exhibit 9). The preferred co-investment strategy is largely buyout—which provides greater control on exit timing—while co-investment sectors are skewed toward those that are currency and inflation hedged, such as pharmaceuticals, financial services, and IT services. Some 60 percent of LPs surveyed have participated in co-investments, with 54 percent of those LPs reporting outperformance relative to underlying fund investments and another 42 percent saying the performance of co-investments was on par with fund investments. Just 4 percent of LPs undertaking co-investments reported underperformance.[13] LPs note that Indian GPs prefer to maintain fee pricing in exchange for generous co-investment opportunities that allow larger LPs to double down on large and attractive exposures.

Private equity leads asset class preferences

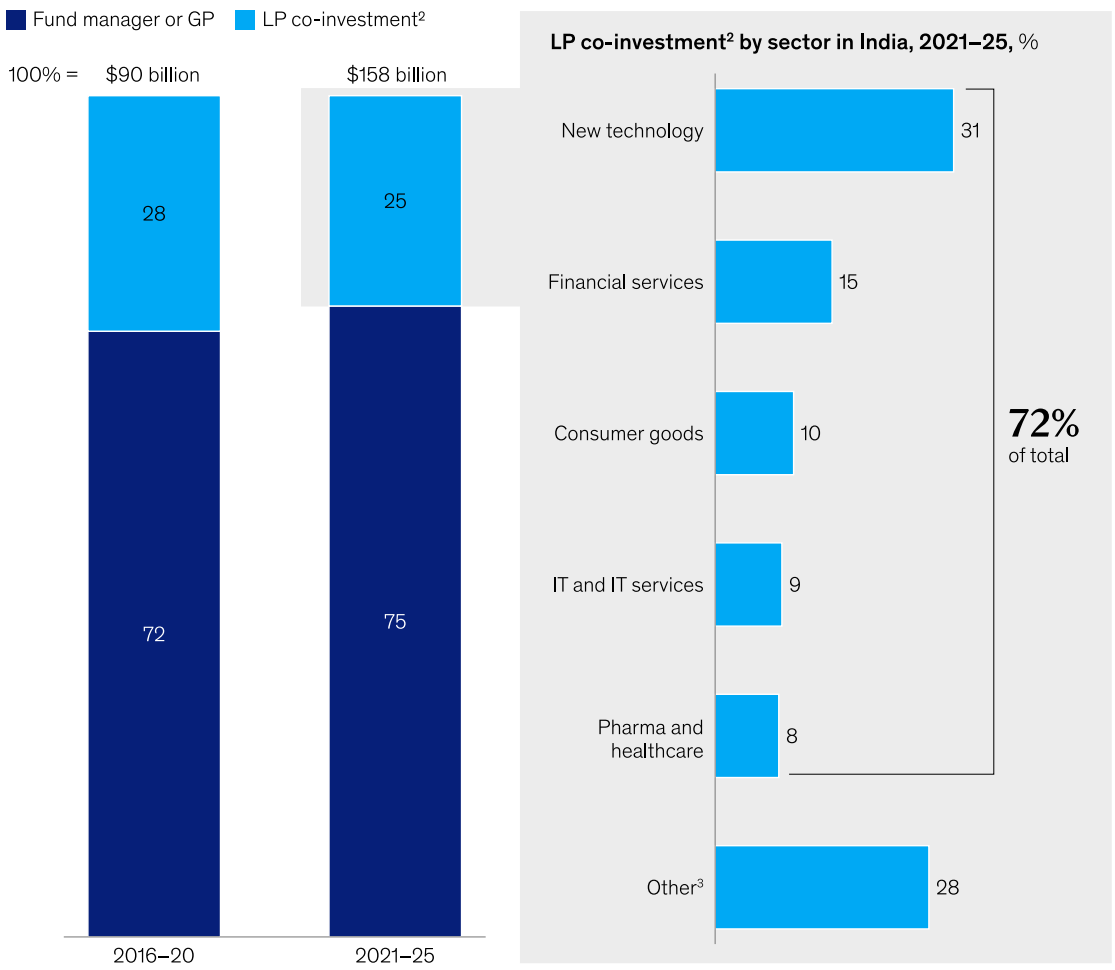
Private equity emerges as the preferred asset class among LPs in India, followed by secondaries and climate and sustainability, while infrastructure and private credit are viewed as broadly comparable to other markets (Exhibit 10). Real estate ranks as the least preferred asset class, likely reflecting LP caution given its higher exposure to several macro risks identified by respondents, such as regulatory complexity, historical concerns with past closed-end funds, contract enforceability, and permitting processes. Participation in real estate is dominated by partnerships with developers that create core pipelines for real estate investment trust (REIT) listings and asset-specific special purpose vehicles (SPVs). LPs noted that several GPs are in discussion on private credit–related opportunities despite a limited track record.

PE emerges as the preferred asset class among LPs in India, followed by secondaries and climate and sustainability.

[12] Preqin, accessed January 31, 2026; S&P Capital IQ, accessed January 31, 2026; Venture Intelligence, accessed January 31, 2026; McKinsey analysis.
[13] McKinsey-IVCA LP Survey, November 2025.

Exhibit 9

Limited partner co-investments account for 25 percent of total India deployment, with high sector concentration.



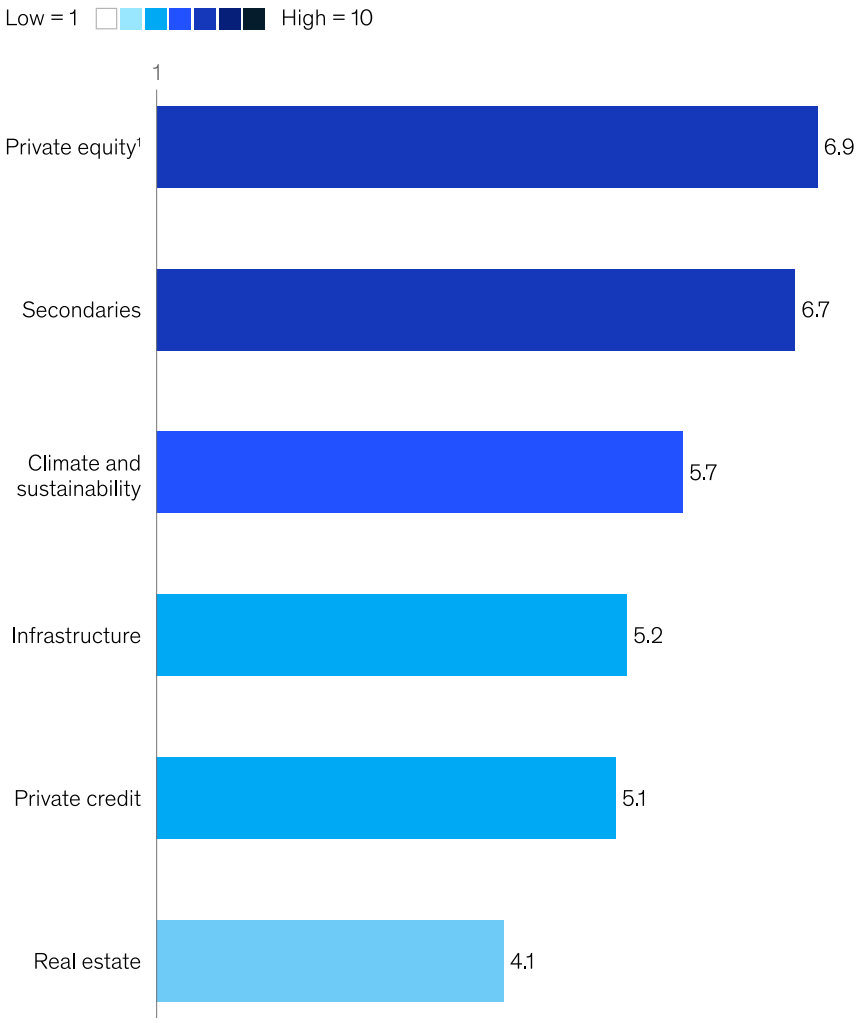
[1]Includes buyout, private investment in private equity, growth capital, turnaround, and mezzanine and pre-IPO. Venture capital is not included.
[2]Strategic makes up a small section of the overall deployment and is included under LP co-investment.
[3]Other includes media and telecom; travel, transport, and logistics; machinery and industrial goods; energy and utilities; engineering and construction; automobile and components; agriculture; and metals, mining, and materials.
Source: Preqin; S&P Capital IQ; Venture Intelligence; McKinsey analysis

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Exhibit 10

Private equity leads limited partners' future asset class preferences.

LP interest by asset class in India over the next 5 years, average score on a scale of 1–10



Question: How enthusiastic are you about the following asset classes in India over the next 5 years?
[1]Includes score for venture capital.
Source: McKinsey-IVCA LP survey, Nov 2025

4. Several pathways can enhance India's position as a destination for greater pools of foreign investment capital

Investor belief in the potential of India's private market is strong and growing. Yet, relative to the size of the Indian economy, private-capital investments remain modest. Unlocking additional capital would require addressing execution and structural gaps, including the comparatively lower ranking of Indian GPs on DPI and exit record, and ease-of-doing-business factors (especially in manufacturing and capital-intensive sectors), as well as the need to mitigate several perceived country-specific risks. High allocators appear to be able to navigate some of these risks through their manager selection construction and investment portfolios and sector construction, pointing the way to the kinds of measures required to broaden India's investment attractiveness.

India general partners retain significant room to grow

Returns on PE deals in which exits have occurred have improved over time, with the median IRR rising from 18.0 percent for the 2008 vintage year to 33.1 percent for the 2019 vintage year.[14] Yet even though exit activity has improved in the past five years, a meaningful share of invested capital remains unrealized. Survey respondents ranked India's GPs relatively modestly compared with other market GPs across numerous important selection metrics, including performance and IRR, exit record, diligence record, and the quality and tenure of investment teams (Exhibit 11). There remains wide variance among LPs based on their individual exposures and experiences. For example, top- versus bottom-quintile scores for both IRR and DPI were 7.0 versus 4.0.

Strengthening liquidity and exit pathways will be critical to improving global competitiveness. Measures such as expanding listing opportunities, deepening domestic capital markets, and easing cross-border capital flow could enhance options for investors to exit and improve DPI outcomes over time.

Making doing business easier and mitigating macro risk

LPs highlighted the need for a more predictable and less complex tax regime, faster regulatory approvals, clearer capital flow processes, and easier talent mobility. While currency risk persists, LPs account for annual Indian rupee depreciation of 2 to 3 percent in their underwriting. Some also view a weaker Indian rupee as a lever to raise the cost of imports, boosting demand among Indian domestic producers and export competitiveness.

To address macro risks, LPs highlight streamlining processes, enhancing regulatory clarity to make doing business easier, and facilitating smoother capital flows into and out of India, which includes greater clarity around valuation norms and tax treatment (including carried interest taxation and pass-through status), and simplifying approval processes for cross-border transactions. It also encompasses shaping next-generation reforms for alternative investment funds; enabling structures that better accommodate long-term institutional capital (such as longer-duration vehicles with periodic liquidity windows); and aligning regulatory, capital gains tax, and disclosure standards more closely with global norms.

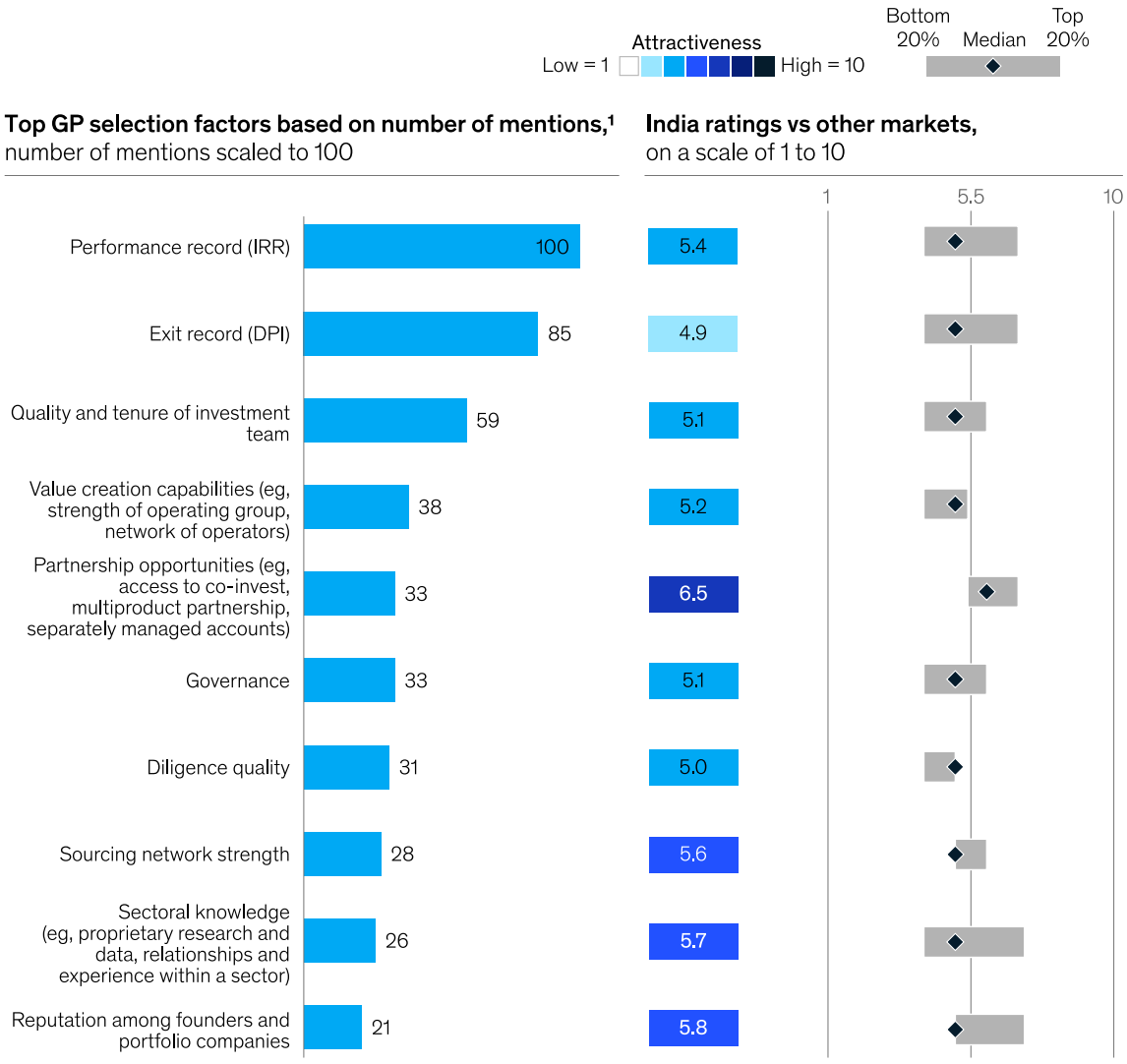
Addressing structural issues could support sector diversification

High capital concentration in a limited set of sectors contributes to valuation pressure. Addressing structural constraints could unlock capital into India's emerging growth arenas, such as those identified by the McKinsey Global Institute, including AI software and services, urban construction, medical devices, aerospace and defense, leasing, digital infrastructure (for example, data centers), specialty chemicals, and

[14] Venture Intelligence, accessed January 31, 2024, and McKinsey analysis.

Exhibit 11

While Indian GPs score modestly on average, there is high variation across LPs on important selection criteria.



Questions: What are the top 5 most important criteria to consider when evaluating a GP in India? How would you rate Indian private equity managers relative to managers in other markets against the selected factors?
[1]"Number of mentions" indicates how many times each factor was cited among the top five reasons for selecting a GP by survey respondents.
Source: McKinsey-IVCA LP survey, Nov 2025

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cloud services.[15] These sectors present opportunities for growth equity, roll-ups, and platform plays, particularly where deal sizes have historically been subscale and India's endowments are favorable. However, LPs and GPs note several sunrise sectors are capital intensive, and ease-of-doing-business delays increase risk and impact returns.

[15] Bhavesh Mittal, Kevin Russell, Rajat Dhawan, and Mamta Deswal, "India's future arenas: Engines of growth and dynamism," McKinsey, June 19, 2025.

Broadening asset class participation can expand the market

Beyond traditional PE and VC, there are opportunities across additional asset classes. Infrastructure and infrastructure investment trusts have seen renewed interest as investors seek predictable, long-duration cash flows. Roads, renewables, transmission, and pipelines offer predictable cash flow attractive to stable low beta yield-oriented investors. Real estate has gained momentum, with around $25 billion deployed from 2021 to 2025,[16] particularly in logistics and warehousing. Structural growth in e-commerce, manufacturing, and supply chain localization is driving demand for high-quality industrial assets.

Recent updates to REITs and infrastructure investment trust (InvITs) regulations[17]—including expanded investment flexibility, streamlined issuance pathways, tax benefits, and broader eligibility for institutional capital—are designed to enhance operational efficiency and portfolio optionality. Together, these measures could support deeper institutional participation and improve liquidity across India's real estate and infrastructure investment trusts.

Private credit is also an emerging opportunity. About $36 billion was deployed in India from 2020 to 2024,[18] driven by factors including demand for bespoke financing, improved creditor resolution frameworks, and persistent funding gaps for mid-market enterprises. Indeed, LPs note that several domestic funds have launched plans to participate in select credit areas, including investment-grade bonds, senior or subordinated debt, mezzanine financing, and distressed private credit.

Finally, recent moves by India's pension regulator to widen investment options for private pension funds to alternative investment funds (AIFs) is expected to bring more capital to domestic funds, providing a much-needed expansion of the LP base beyond foreign investors.

India is an increasingly attractive institutional investment destination within Asia–Pacific. Yet while firms with both high and moderate allocations agree on the country's strengths, addressing weaknesses they have identified and areas where their views diverge is critical to making India more attractive as an investment destination. Doing so could not only unlock a deeper pool of investable opportunities but foster a more diversified capital pool to power an increasingly critical driver of the country's economic growth in high-potential sunrise sectors.

Peeyush Dalmia and **Vivek Pandit** are senior partners in McKinsey's Mumbai office, where **Debanwita Roy** is a consultant.

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[16] Preqin, accessed January 31, 2026; Venture Intelligence, January 31, 2026; and McKinsey analysis.
[17] Brajesh Kumar, "SEBI proposes easing rules for InvITs, REITs; seeks to broaden investment flexibility," Moneycontrol, February 5, 2026.
[18] Preqin, accessed January 31, 2025; Venture Intelligence, accessed January 31, 2025; and McKinsey analysis.

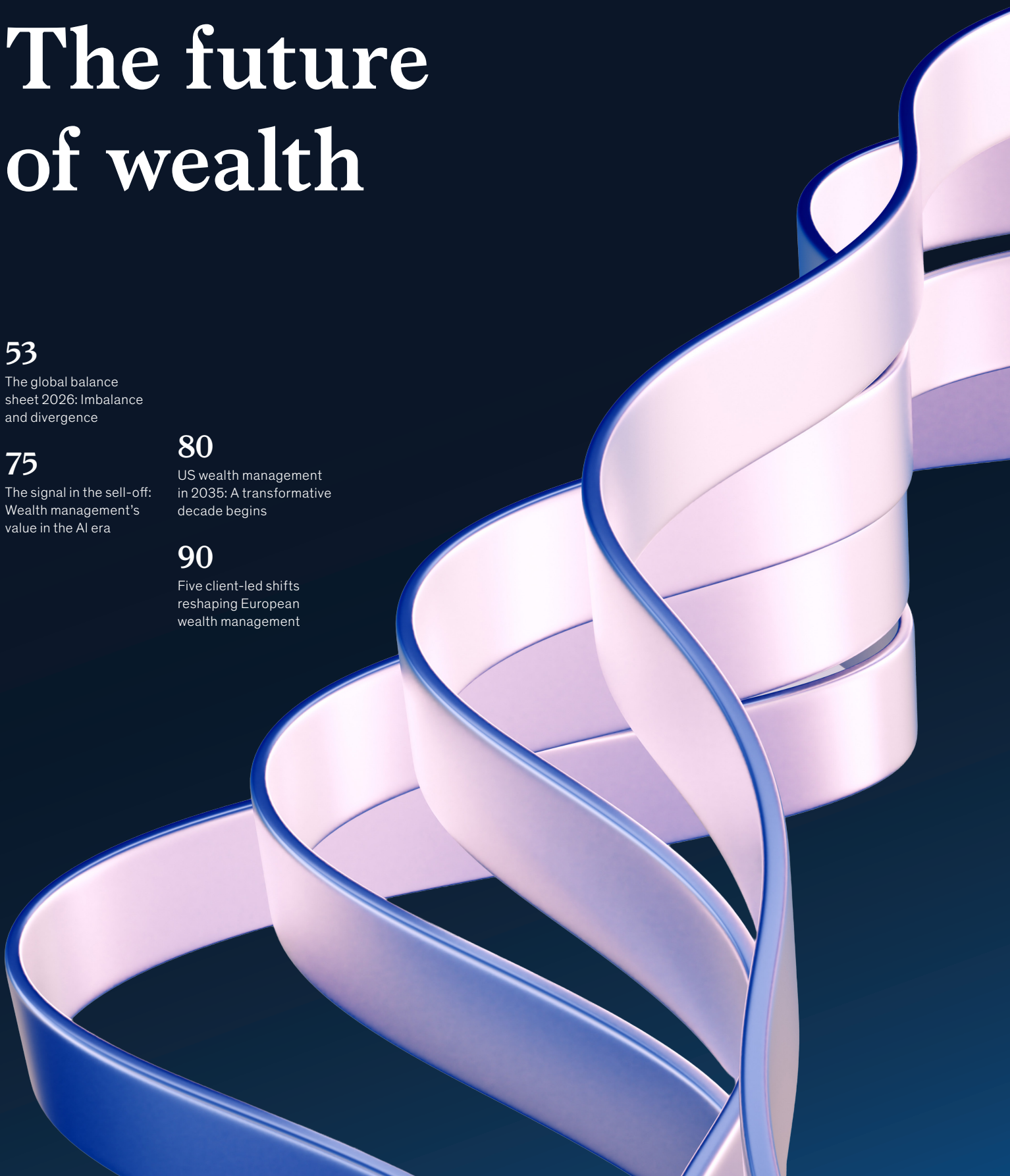
The future of wealth

53
The global balance sheet 2026: Imbalance and divergence

75
The signal in the sell-off: Wealth management's value in the AI era

80
US wealth management in 2035: A transformative decade begins

90
Five client-led shifts reshaping European wealth management



The global balance sheet 2026: Imbalance and divergence

Several asset classes grew further out of balance with the economy, raising the possibility of corrections through inflation, asset valuation losses, or, optimally, productivity.

by Rebecca J. Anderson, Jan Mischke, Arvind Govindarajan, Sylvain Johansson, Nick Leung, Shubham Singhal, and Carlo Tanghetti

July 23, 2026



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Businesses use both income statements and balance sheets to develop a complete picture of their financial health. Analysts of the global economy tend to focus on the former. Since 2021, MGI has developed a "global balance sheet" to fill this gap, representing a clearer view into the world economy's wealth and health (Exhibit 1).

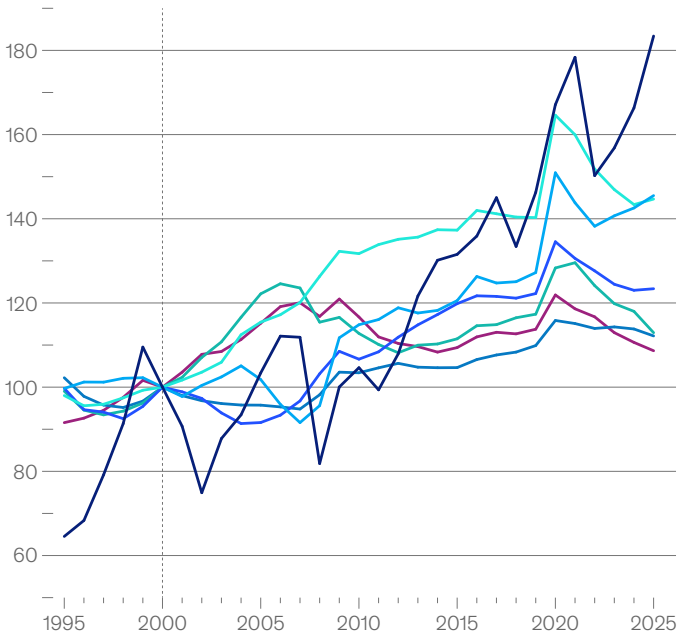
Our previous reports found that from the mid-1990s to the COVID-19 pandemic, household wealth expanded faster than gross domestic product. Asset prices for real estate, equities, and bonds grew, as did debt and deposits. This occurred amid declining (and eventually rock-bottom) interest rates, rapidly expanding US profits, and a property boom in China. Productivity did not keep pace across advanced economies, nor did real wealth formation through net new investment.

In this report, we provide an update on the global balance sheet in 2025, exploring to what extent its recent expansion, and by extension wealth growth, has been "in balance". The analysis finds that wealth was, to an even greater extent than previously, rooted in asset values rising faster than real economy investment and growth, creating record levels of global wealth "on paper".

Exhibit 1

Equity, government debt, and liquidity remain near historic highs while other items have shifted more 'in balance' with GDP.

Global balance sheet's largest items as multiple of GDP, index (year 2000 = 100)



	GDP multiple	
	2025	2000–24 average
Equity[1]	2.8	1.9
Government debt[2]	0.9	0.8
Currency and deposits	1.7	1.5
Corporate debt[3]	0.9	0.8
Household real estate	2.4	2.4
Productive assets[4]	1.3	1.2
Household debt	0.7	0.8
Household wealth	**4.8**	**4.4**

Note: The global average is an extrapolation derived from a weighted average of 23 economies accounting for ~70% of global GDP as of 2025.
[1]Includes shares in publicly and privately held corporations.
[2]Reflects gross government debt for all countries, including central and local governments, as reported by the International Monetary Fund (IMF). We use a different source for this item because balance sheet values typically are at market value rather than face value, while the latter matters more for public debt sustainability.
[3]Includes loans and bond liabilities for nonfinancial corporations.
[4]Includes infrastructure, machinery and equipment, and intellectual property.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; IMF; McKinsey Global Institute analysis

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Although many economies that were studied experienced wealth and balance sheet swings, the global picture was largely driven by its two biggest: the United States and China. Higher US equity values and the accumulation of China's public and private debt brought some near-term economic benefits but left their economies more vulnerable to potential corrections.

When the balance sheet outruns the underlying economy, weaknesses can be exposed. When real estate and equity values rise faster than GDP, capital may disproportionately go to asset repurchases, sometimes with a lot of leverage. This may push up valuations but leave the economy deprived of the type of investment that generates long-run growth. For households, wealth rises but merely on paper, with heightened risks of eventual corrections. Growing asset values also tend to exacerbate wealth inequality, as existing owners of wealth see large gains while entering asset markets becomes harder for others (for example, young households trying to buy a home).

Elevated balance sheets may correct in one of three ways. A *productivity acceleration* scenario involves higher income supporting high asset values and debt; this is the most preferred outcome. A *sustained inflation* scenario brings down the real values of assets and debt, recalibrating the balance sheet with higher nominal GDP. But it can erode inflation-adjusted wealth along with other undesirable side effects. A *balance sheet reset* scenario, entailing a drop in asset values, deleveraging, and defaults, would shrink the balance sheet in absolute terms, with severe wealth losses and, often, lengthy periods of lost economic growth. Or the balance sheet may just stay high, particularly under secular-stagnation-like conditions of low investment and interest rates, as seen in the United States and Europe in the 2010s. That's seemingly good for wealth, but at the cost of low growth and rising leverage.

Historically, most balance sheet corrections have taken place through higher inflation. Indeed, the inflation coming out of the COVID-19 pandemic in the United States and Europe brought a correction in the balance sheet (and wealth) ratio to GDP. In China, a drop in property values drove a decline in wealth to GDP.

In 2025, global wealth reached a higher dollar value than ever before. But how "healthy" was this new growth? After postpandemic corrections, some balance sheet items have resumed expansion and reached new heights. This was particularly the case for US equity as AI fueled market optimism and corporate earnings continued to climb. Rising government debt relative to GDP remains a challenge in many economies amid higher interest rates. Stocks of currency and deposits remain high compared to longer-term historical norms. Altogether, this has culminated in even more wealth on paper than in the past several decades and raises the stakes for US corporate earnings to deliver.

Balance sheets, and macroeconomic factors like productivity and inflation, point to diverging trends across major economies. Recognizing the swing factors that can shift an economy to productivity acceleration is more urgent than ever: for the United States, corporate earnings and greater government saving (in other words, less borrowing); for Europe, greater investment; for China, higher domestic consumption.

Future global wealth and stability may depend on it.

The global balance sheet: Latest totals

In 2025, the global balance sheet totaled $1.8 quadrilion, including $570 trillion of household wealth. In both cases, this is the highest number ever.

In 2025, MGI's estimates show, the global balance sheet reached nearly $1.8 quadrillion in total assets, up from $1.7 quadrillion a year earlier (Exhibit 2).[1]

Building from the bottom up, real assets include the real estate, infrastructure, machinery and equipment, and intellectual property held across households, governments, and corporations. These totaled $620 trillion, constituting global net worth across sectors.

Financial assets held outside the financial sector include equity, bonds, loans, currency and deposits, and pensions, among other assets. Every financial asset has a corresponding liability, netting out at the global level.[2] This "financial layer" serves to separate wealth from asset ownership, and it was close to the total value of real assets.

The financial sector, in turn, intermediates these financial assets and liabilities. At $550 trillion, it has reached 90 percent of the value of real assets.

Wealth is ultimately the balancing item on balance sheets, equaling total assets less liabilities. It was $600 trillion in 2025.

Each major economic sector has its own balance sheet. They play different roles in the economy and, as a result, have different compositions. Both nonfinancial and financial corporations tend to have very little wealth, because corporate equity is considered a liability to owners of the shares. However, their asset compositions are quite different, with real assets (for example, machinery) playing a significant role for nonfinancial corporations. Governments tend to have some wealth, unless their debt liabilities exceed all assets.

Total wealth across all sectors was $600 trillion in 2025, with 95 percent owned by households. About half of household wealth is in real assets, mostly property. The other half is financial assets, notably governments through their bonds, nonfinancial corporations via equities, and financial corporations through things like investment fund shares and pension assets.

In this report, we focus on household rather than total wealth because it has immediate economic relevance for spending and saving decisions.

The interconnectedness of the balance sheet means that stress in other sectors may ultimately affect household wealth. It is thus important to understand the full balance sheet to gauge how household wealth might evolve.

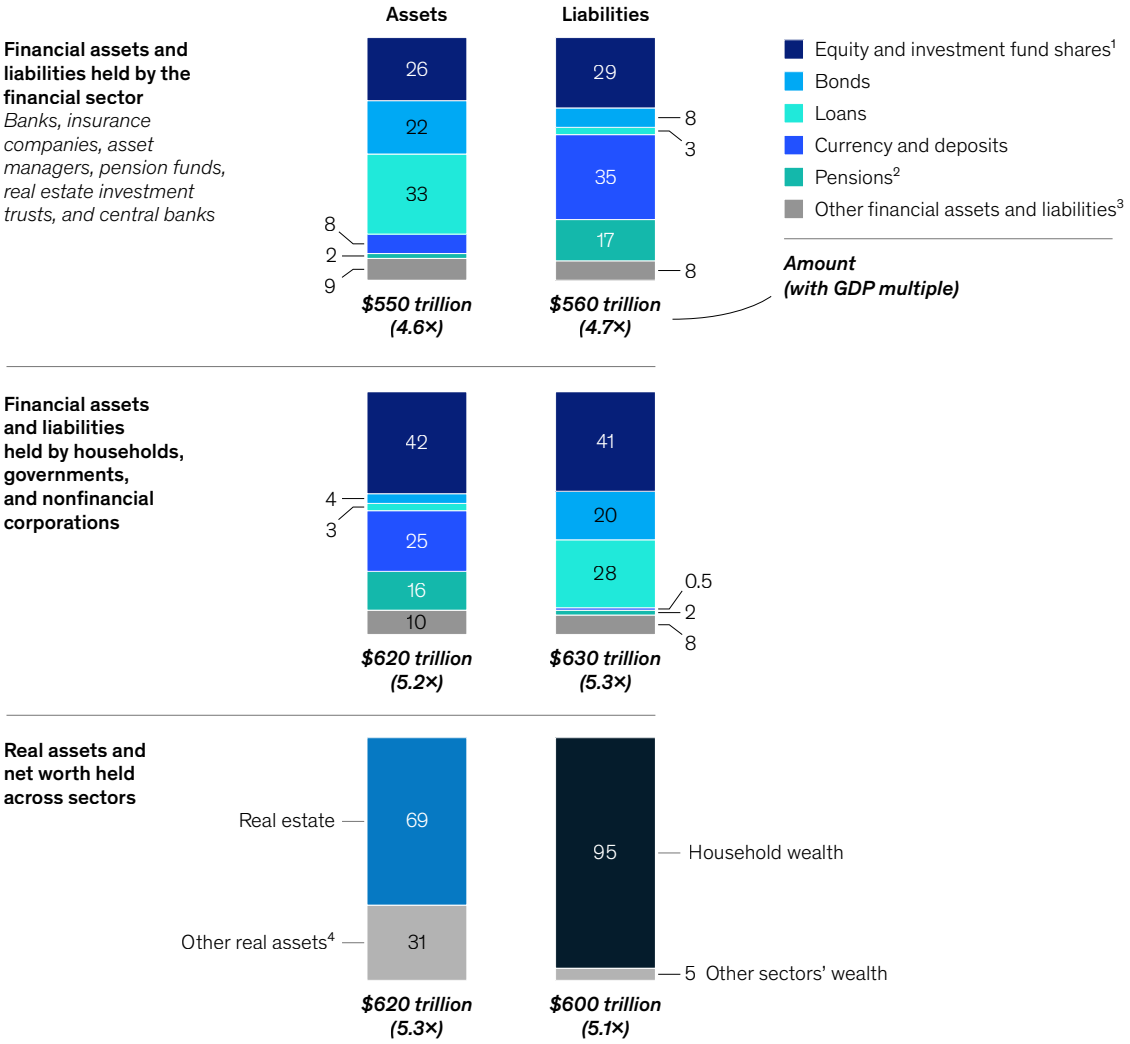
[1] The global balance sheet is constructed using data and insights from national statistics offices, international organizations, and academic research. All balance sheet items are valued at market prices. This "global" picture incorporates data from a set of major economies that represent about 70 percent of global GDP: Australia, Austria, Belgium, Canada, China, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Mexico, the Netherlands, Poland, Portugal, Romania, South Korea, Spain, Sweden, the United Kingdom, and the United States.

[2] Financial assets and liabilities do not equal each other in our estimates because we use a sample of countries to represent the global total.

Exhibit 2

The global balance sheet takes stock of global wealth and health.

Composition of 3 interlocking layers of the global balance sheet, 2025 estimate, %



[1]Includes shares in publicly and privately held corporations. Investment fund shares include mutual funds and money market funds.
[2]Pensions, not including pay-as-you-go systems, are considered a form of financial assets and liabilities; funded pensions with defined contributions are often baskets of stocks, fixed-income securities, property, and cash, among other financial assets. Also includes life insurance and annuity entitlements as well as non-life-insurance technical reserves.
[3]Includes monetary gold and special drawing rights, receivables, and payables, among others.
[4]Includes productive assets such as infrastructure, machinery and equipment, and intellectual property products; inventories and valuables; minerals and energy reserves; and other produced and nonproduced nonfinancial assets.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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As of 2025, global household wealth totaled a record $570 trillion, up $40 trillion from 2024. That was more than quadruple its value in 2000, at nominal values and market exchange rates. This wealth grew faster than GDP, posing questions about its health and stability.

The United States continues to hold the largest share, at 30 percent. The eurozone and China held the next-largest shares, at 14 and 13 percent, respectively.[3]

At the country level, Poland, Ireland, Spain, and Sweden experienced the highest rates of household wealth growth (in dollar terms), each reaching double digits. Eurozone countries including Austria, France, Germany, Italy, and Portugal saw wealth grow slightly in dollar terms but decline in constant foreign-exchange terms as the dollar fell against the euro from 2024 to 2025.

Household wealth per capita grew in most countries. However, it did not keep pace with GDP. This resulted largely from slowing real estate values, correcting from pandemic peaks. In many economies, real estate is the largest component of household wealth.

There were multiple exceptions. In the United States and Australia, which have the highest wealth per capita, household wealth expanded by at least 20 percentage points of GDP.[4] In the United States, this was largely equity driven. In Japan, household wealth as a share of GDP grew by double-digit percentage points. This was more a story of inflation growing and assets keeping pace.

Multiple eurozone countries experienced a decline in per capita wealth in purchasing power parity terms.[5] This was in large part attributable to declining real estate values.

Is the balance sheet 'in balance?'

The global balance sheet is a compilation of separate asset classes, which often grow in different ways across countries. More than three-quarters of its value is in real estate, equity, debt, and currency and deposits.

Assessing balance sheet health requires a deep dive into each asset class, to understand how they move over time relative to the underlying economy (Exhibit 3).

In summary, we find the following:

— *Real estate declined relative to GDP across most economies.* Australia was a major exception, and it topped the list of real estate values, at 4.5 times GDP.

— *Equity largely grew.* Relative to GDP, it climbed the most in South Korea, the United States, Canada, and Japan. Of these countries, equity was highest in Canada and the United States, at 3.8 and 3.7 times GDP, respectively.

— *Corporate debt increased the most in China.* Chinese corporate debt reached 1.7 times GDP, the highest among our economies of focus.

[3] At the total economy level, encompassing not only households but also governments and corporations, China's wealth was nearly equal to that of the United States. While US households have more wealth than their Chinese counterparts, the US has negative net worth in its government and corporate sectors (in other words, liabilities including bonds and equity outvalue assets). The US government and corporations negatively contribute to the total wealth of the country, while in China, government and corporations constitute one-third of total wealth.

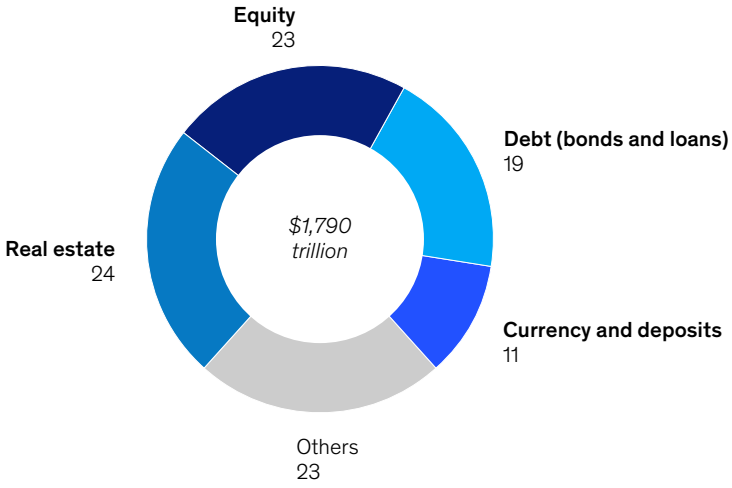
[4] Averages of course mask a wide distribution: The top 1 percent of Americans by wealth have per capita wealth of $17.5 million, compared to the bottom 50 percent, with per capita wealth of $9,600. In purchasing power parity terms, the per capita wealth of the bottom 50 percent of Americans by wealth is lower than that of Australia, Canada, Japan, South Korea, the United Kingdom, major eurozone countries, and even China.

[5] Purchasing power parity conversion here uses GDP-based PPPs. The ratio of wealth in PPP terms to dollar terms shown here is the same as GDP per capita in PPP to dollars.

Exhibit 3

Three-quarters of balance sheet value is in four asset classes.

Breakdown of global balance sheet, assets across all sectors, %



Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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— *Government debt continued to expand.* It exceeded 100 percent of GDP in a number of countries, with Japan, Italy, and the United States topping the list (although in Japan, inflation brought this ratio down).

— *Currency and deposits reached new all-time highs in China and South Korea.* Japan still tops the list but also experienced the largest drop amid higher inflation.

Real estate

Real estate is the largest single asset on the global balance sheet and, in most economies, the biggest component of household wealth. Globally, two-thirds is held by households.

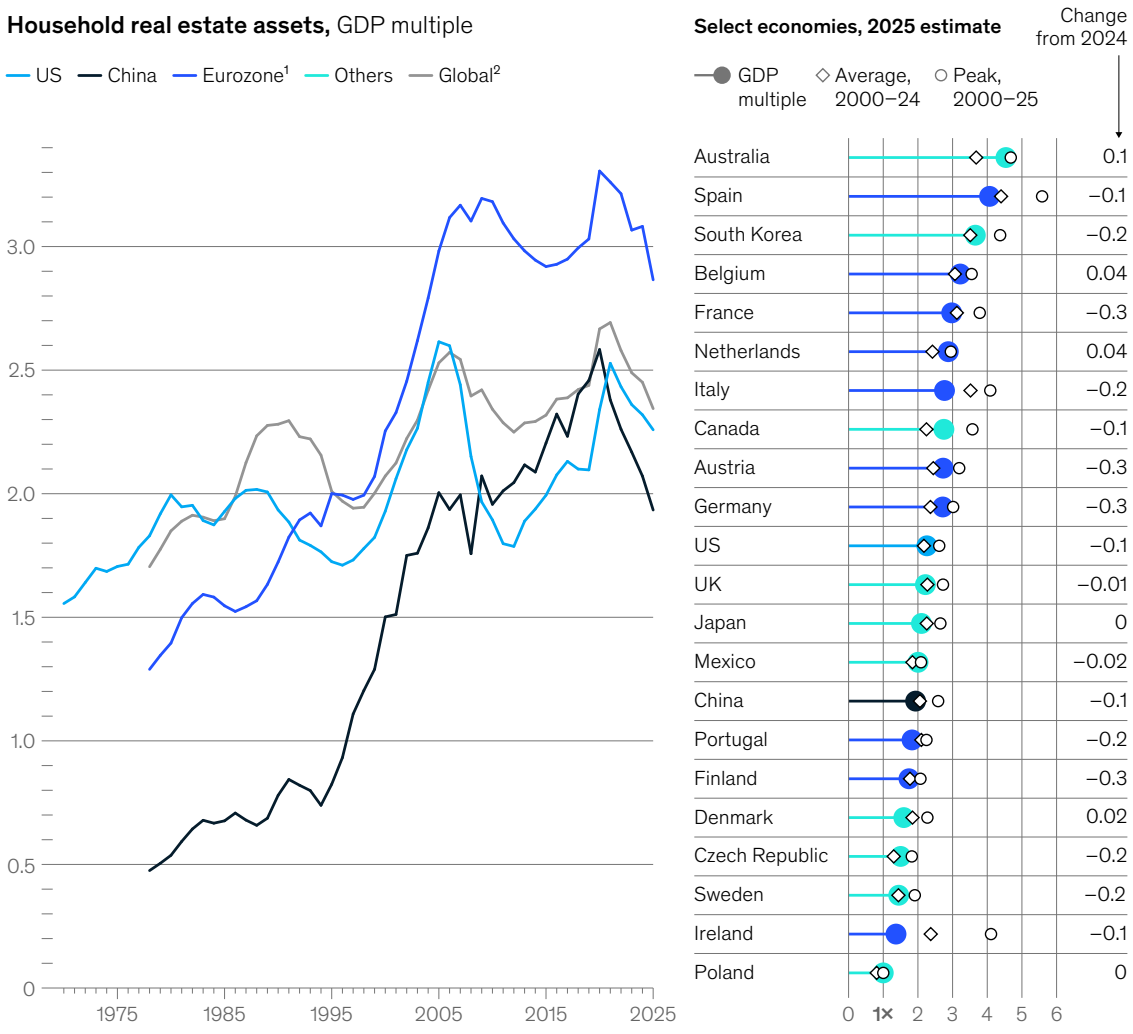
In most economies, household real estate relative to GDP peaked during the pandemic. Since then, values have recalibrated toward long-term averages (Exhibit 4). In both the eurozone and China, real estate relative to GDP is back down to levels seen two decades ago. Across major economies, real estate values are still higher than what was typical relative to income in the last decades of the 20th century.[6]

In 2025, nearly all economies of focus saw real estate values continue to correct relative to GDP. One exception was Australia, where household real estate grew by more than 10 percentage points of GDP. It also remained the most elevated relative to GDP (by 80 percentage points) compared to its average of the past 25 years.

[6] Some caveats are in order for China's data prior to 2000. In the latter decades of the 20th century, a much greater share of real assets (including real estate) was held by the government. Government real assets dropped by more than a full multiple of GDP as household real assets grew by a similar order of magnitude in the 1990s. For further detail, see the technical appendix of *Out of balance: What's next for growth, wealth, and debt?*, McKinsey Global Institute, October 9, 2025.

Exhibit 4

Real estate has largely recalibrated toward 25-year averages but remains elevated.



[1]Average of eurozone countries, weighted by GDP.
[2]Extrapolation derived from a weighted average of 23 countries accounting for ~70% of global GDP.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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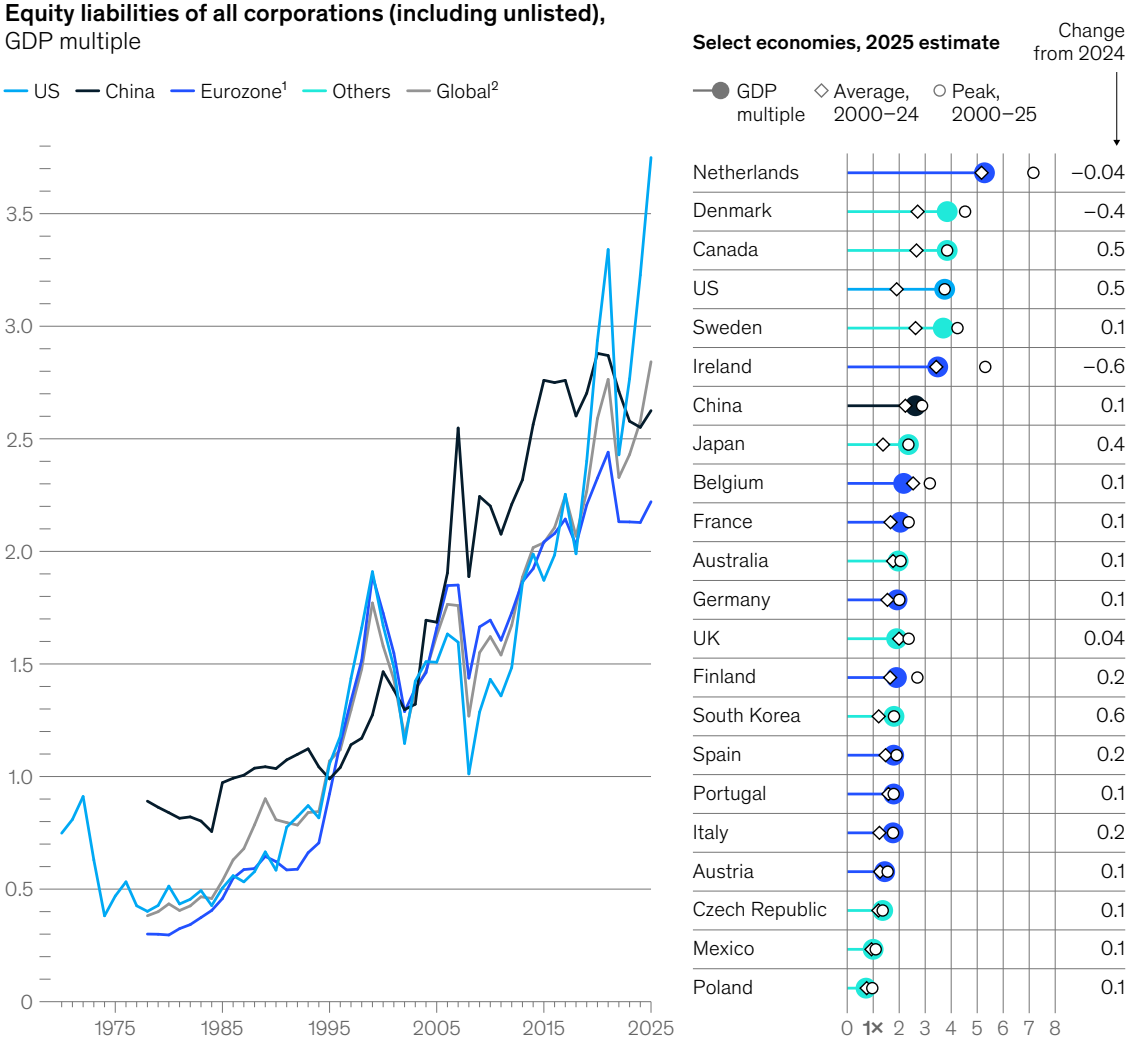
Equity

The second-largest component of the balance sheet is equity, which is a liability for an issuing corporation and held as an asset by households, governments, and financial corporations. The ratio of equity to GDP can be interpreted as a variation of a P/E ratio for an economy; elevated ratios by historical standards indicate high expectations for future growth, while also implying the possibility of correction if growth disappoints.

In 2025, countries generally fell into two groups (Exhibit 5). Some, including the United States, Canada, Japan, and South Korea, reached all-time highs in equity. In the United States, values were nearly double the historical average. Some of this reflected a boom in tech, particularly AI. Looking across the S&P 500, just over 50 percent of the growth in market capitalization from 2021 through 2025 came from the "Magnificent Seven" firms commonly associated with AI.[7] Another driving force was the expansion in the profit share of GDP.

Exhibit 5

Equities relative to GDP are at all-time highs in a handful of countries and down from pandemic-era peaks in others.



[1]Average of eurozone countries, weighted by GDP.
[2]The global average is an extrapolation derived from a weighted average of 23 economies accounting for ~70% of global GDP as of 2025.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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[7] Based on data from McKinsey Corporate Performance Analytics.

Others peaked around the time of the pandemic, including most European economies and China, although they saw some growth in 2025.[8]

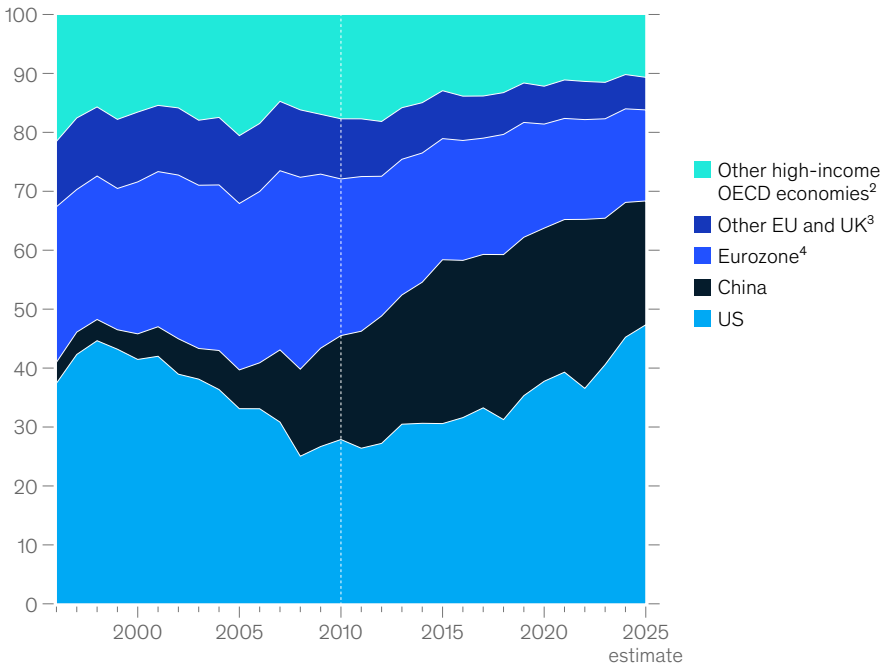
Equity originating from US firms holds particular significance for global wealth (Exhibit 6). The United States accounts for nearly half of the equity across countries in our global sample. This is much higher than in the past, following rapid equity-price appreciation.

The impact of US equity markets extends beyond American households. More than one-third of US equity liabilities are owed to foreign entities. International investment positions are significantly composed of equity, with the United States on balance owing more to the rest of the world, and many other countries on balance owning more equity originating from abroad, suggesting that many cross-border equity liabilities originate from the United States.

Exhibit 6

The share of equities originating from the United States has grown over the past 15 years, accounting for nearly half today among big economies.

Distribution of corporate equity liabilities, major economies,[1] %



[1]Includes unlisted equities.
[2]Includes Japan, Canada, Australia, and South Korea.
[3]Select economies representing ~90% of total non-eurozone GDP.
[4]Economies representing ~95% of total eurozone GDP (Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, and Spain).
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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[8] Some European economies, including Italy, the Czech Republic, and Portugal, also reached equity-to-GDP peaks in 2025.

While the United States is one of several countries with high equity-to-GDP ratios, it stands out for its high equity-to-net-asset ratios (Exhibit 7). US equity values rose to 2.4 times net assets, while the figure in most other countries hovered around 1.0.

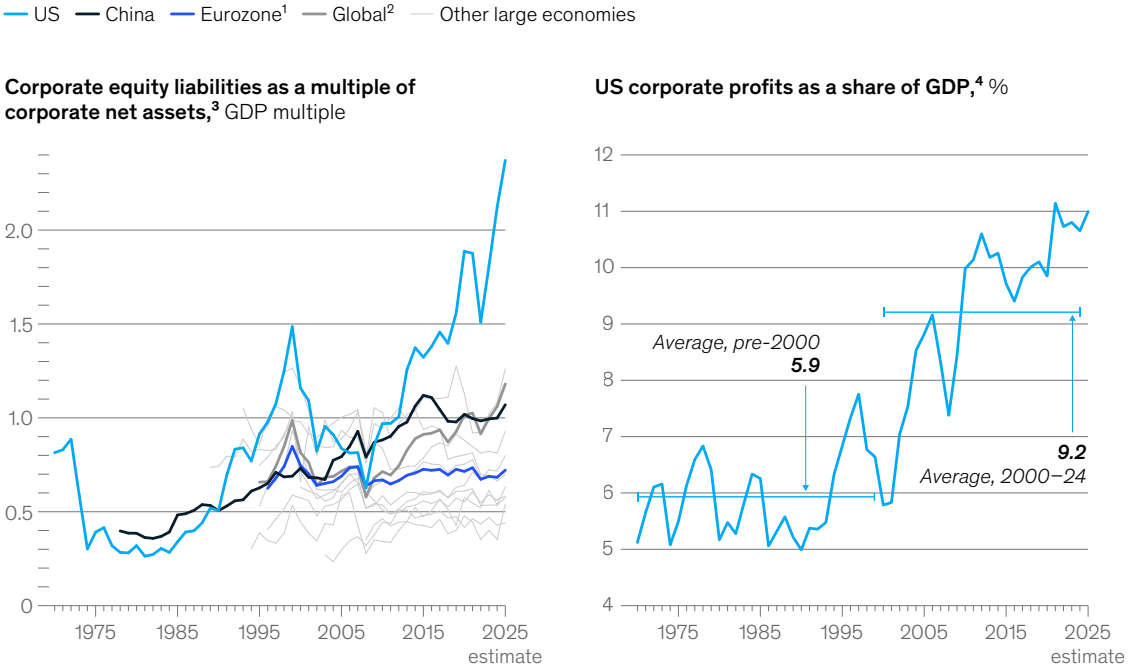
Economic theory suggests that the equity-to-net-asset value, also called "Tobin's Q," should be around one in the long term: Equity should converge to net assets, or the reinvestment value, if there is perfect competition.[9]

In the United States, returns on invested capital rose and the corporate profit share of GDP doubled relative to pre-2000 averages. Fundamentally, high US equity valuations depend on corporate earnings continuing to outgrow GDP in the long run.

Exhibit 7

Record US profits have pushed equities higher than in other economies relative to GDP and net assets.

Corporate equity liabilities and profits



[1]Economies representing ~95% of total eurozone GDP.
[2]The global average is an extrapolation derived from a weighted average of 23 economies accounting for ~70% of global GDP as of 2025.
[3]Calculated as nonfinancial corporate (NFC) equity liabilities ÷ (NFC assets – NFC nonequity liabilities).
[4]Calculated as annual nominal corporate profits ÷ annual nominal GDP values, using corporate profits after tax with inventory valuation adjustment and capital consumption adjustment as reported by the Federal Reserve.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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[9] James Tobin, *Asset Accumulation and Economic Activity: Reflections on Contemporary Macroeconomic Theory*, University of Chicago Press, 1980. Of course, questions abound regarding valuation challenges of assets, with some arguingthat the high US ratio of equity to net assets is the product of mismeasured intellectual property assets in an equity market led first and foremost by major technology companies. Our research suggests that, if this argument were correct, one would roughly need to assume IP investments never depreciate or become obsolete, in contrast to statistical agencies' typical assumption of three to seven years of useful value. See also *The rise and rise of the global balance sheet: How productively are we using our wealth?*, McKinsey Global Institute, November 15, 2021.

Debt

The next-largest component of the balance sheet is debt, representing both loans and bonds. Its dynamics vary substantially by sector and across countries (Exhibit 8).

Household debt relative to GDP is trending down in most economies. Many are below their average levels since 2000; Ireland in particular stands out for being more than 40 percentage points of GDP below its average since then. On the high end, household debt in Australia and Canada remains north of 100 percent of GDP, although still below its peak. China's figure is the most elevated compared to its post-2000 average.

Lower debt means healthier balance sheets for households. But higher debt in other sectors could mean an eventual correction that affects household wealth through ownership of financial assets or participation in pension funds holding those assets.

Corporate debt levels are below or in line with 25-year averages in much of the world (Exhibit 9). In 2025, Ireland stood out for a reduction in corporate debt relative to GDP of 21 percentage points.

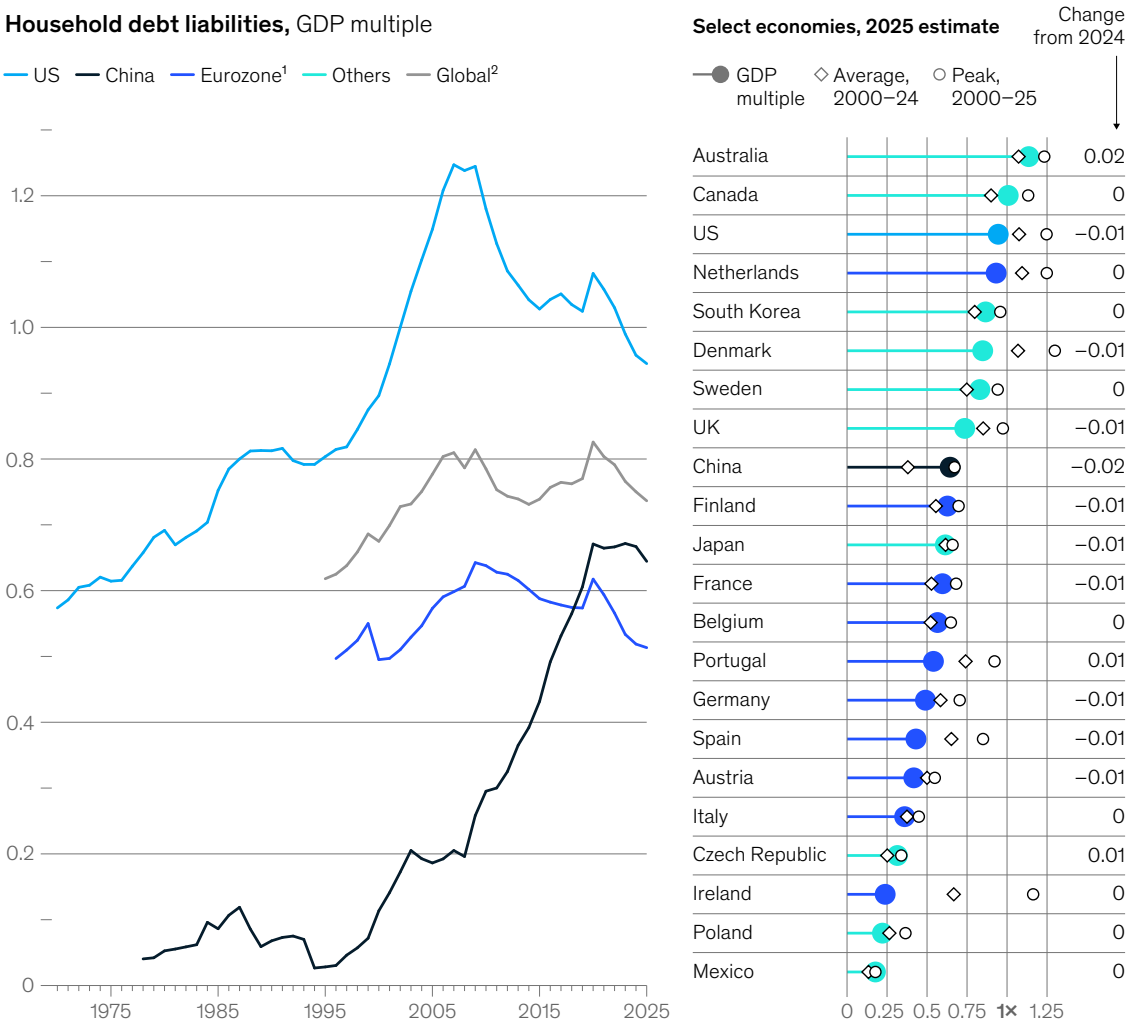
China is a major exception. Its corporate debt is double the global average and grew by six percentage points of GDP in 2025. This comes amid a growing rate of loss-making firms and deflating producer prices.[10] China's corporate debt is also highest relative to corporate real assets, with a ratio of about 80 percent. The typical range across countries is 40 to 50 percent.

The next-largest component of the balance sheet is debt, representing both loans and bonds. Its dynamics vary substantially by sector and across countries.

[10] Nearly 30 percent of firms were loss-making in 2025. Producer prices have been declining since mid-2022. Based on data from China's Bureau of National Statistics.

Exhibit 8

Household debt is back to early-2000s levels in the United States and Europe.

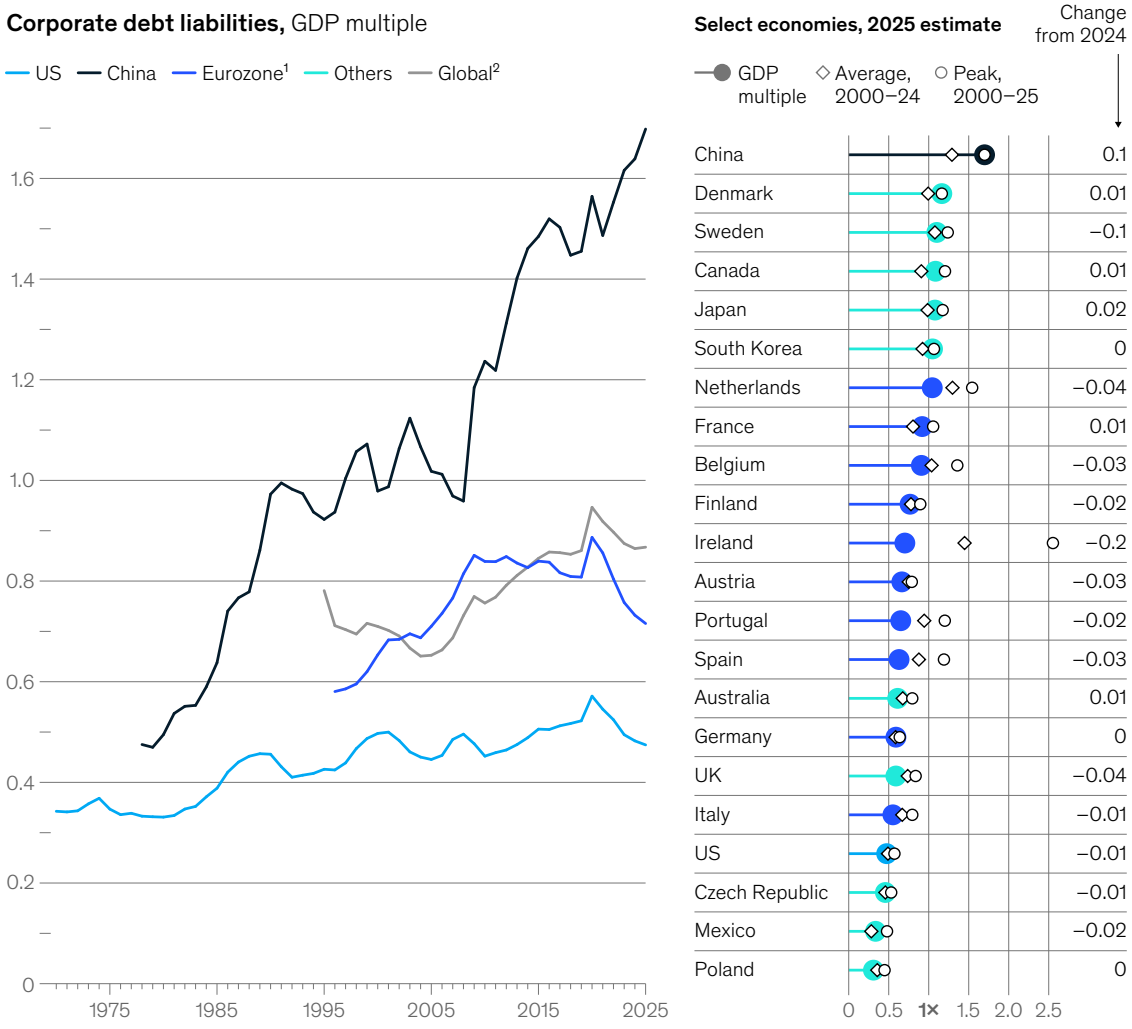


[1]Average of eurozone countries, weighted by GDP.
[2]Extrapolation derived from a weighted average of 23 countries accounting for ~70% of global GDP.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Exhibit 9

Corporate debt is trending down in Europe and growing in China, where it is now almost double the global average.

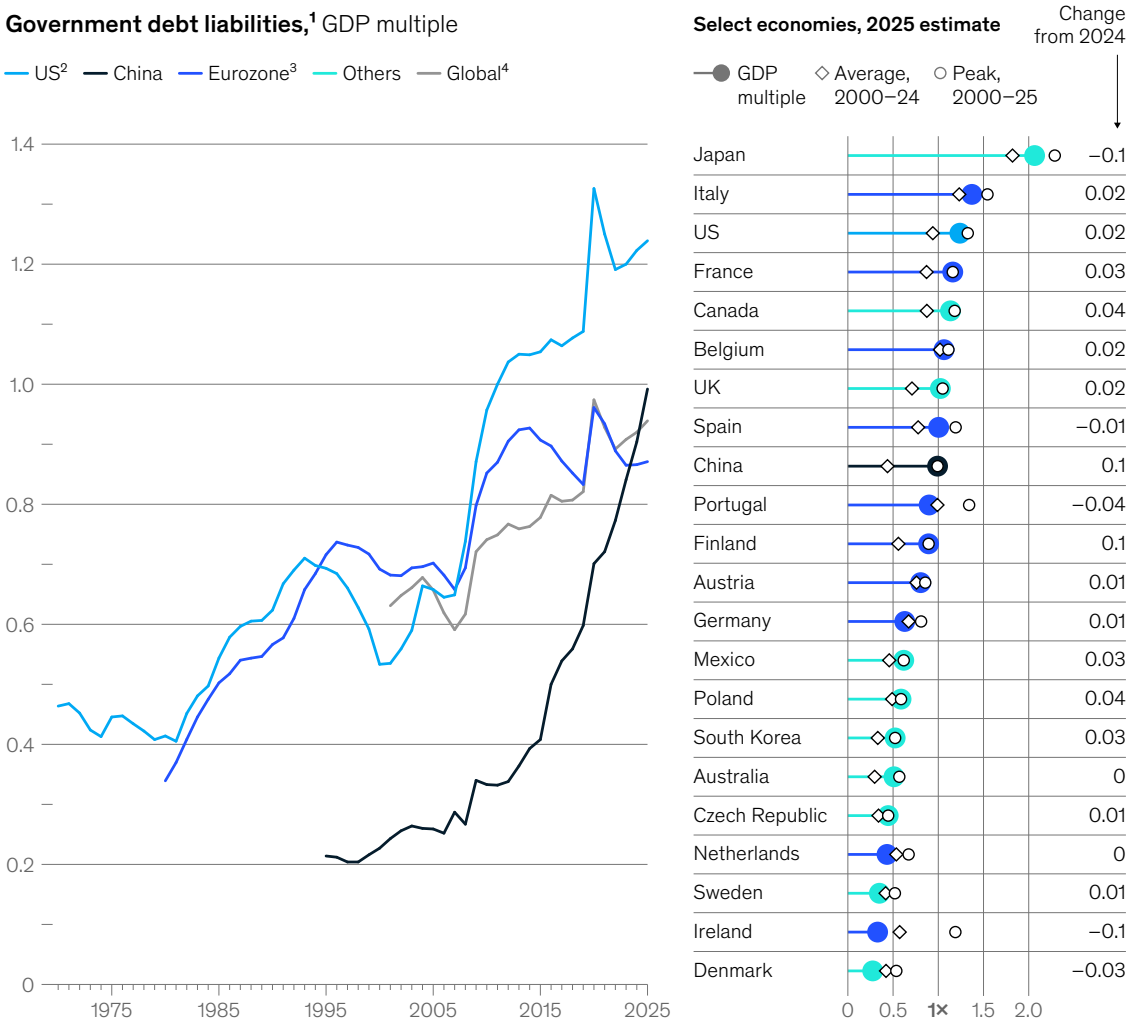


[1]Average of eurozone countries, weighted by GDP.
[2]Extrapolation derived from a weighted average of 23 countries accounting for ~70% of global GDP.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Exhibit 10

General government debt remains greater than 100 percent of GDP in many advanced economies, including the United States.



[1]While most balance sheet data are reported by national statistics offices and based in market values, we have chosen to use face values reported by the IMF, given that this figure is more relevant for discussions of public debt sustainability.
[2]Data are extended backward from 2001 to 1970 using the general government debt data series from IMF.
[3]Aggregate estimates from IMF, referring to gross general government debt. Data are extended backward from 1995 to 1980 using general government debt data from IMF for Austria, Belgium, Finland, France, Germany, Italy, the Netherlands, Portugal, and Spain.
[4]Aggregate estimates from IMF, referring to gross general government debt.
Source: IMF; McKinsey Global Institute analysis

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Government debt, by contrast, remains a pressing challenge for many countries (Exhibit 10).

As of 2025, it was over 100 percent of GDP in Japan, Italy, the United States, France, Canada, Belgium, the United Kingdom, and Spain. China had the fastest growth in government debt-to-GDP ratios, by nine percentage points, continuing a sharp uptick in recent years.[11] While Japan's level remained the highest relative to GDP, it has seen the greatest drop, eight percentage points, amid a significant increase in inflation.

As interest rates remain elevated across advanced economies, reaching or exceeding expected economic growth rates, government debt sustainability is increasingly in the spotlight. Economies may not simply be able to grow their way out of debt (see sidebar "When does government debt become unsustainable?").

Currency and deposits

Monetary aggregates, shown here as currency and deposits, are another balance sheet signal of economic health. They are assets for households, governments, and nonfinancial corporations, and liabilities for financial corporations (including central banks).

Currency and deposits expand as a result of loans provided by depository banks or via central bank creation of base money, which includes programs such as quantitative easing.[12] Quantitative tightening, or central bank action to reduce its balance sheet size, thus dampens the growth of currency and deposits.

In recent years, inflation and quantitative tightening have brought down currency and deposits relative to GDP from pandemic-era peaks in the United States, most European economies, and Japan. Still, they remain elevated compared to levels before the global financial crisis (Exhibit 11).

As of 2025, Japan, the United Kingdom, China, and France have currency and deposit levels more than double GDP. China saw the most significant growth, ten percentage points of GDP, over the past year. This is concurrent with high lending by Chinese banks, particularly to corporations.

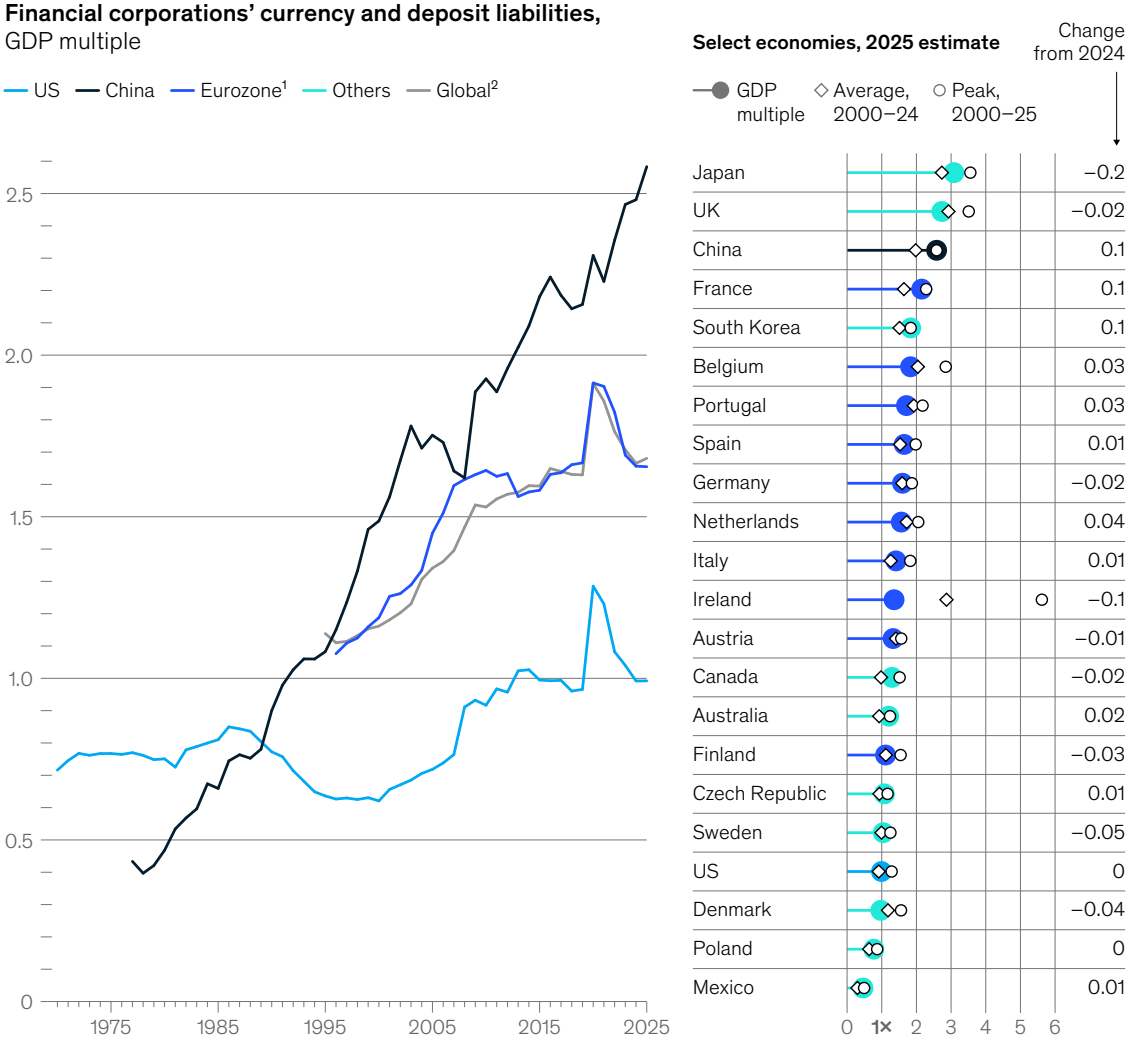
Inflation and quantitative tightening have brought down currency and deposits relative to GDP from pandemic-era peaks.

[11] Figures shown only partially represent off-book local government debt. In 2024, the IMF estimated central government debt at 26 percent of GDP, explicit local government debt at 34 percent, local government financing vehicles at 50 percent, and additional debt tied to special construction and government guided funds at 14 percent of GDP. See "People's Republic of China, 2024 Article IV consultation–press release; staff report; and statement by the executive director for the People's Republic of China," IMF Country Report number 24/258, August 2024. China's sharp uptick in government debt comes amid a drop in household demand, particularly property investment. For further discussion, see *Out of balance: What's next for growth, wealth, and debt?*, McKinsey Global Institute, October 9, 2025.

[12] For further reading, see Michael McLeay, Amar Radia, and Ryland Thomas, "Money creation in the modern economy," *Bank of England Quarterly Bulletin*, March 2014.

Exhibit 11

Money supply corrected from pandemic highs in most major economies but grew in China.



[1]Average of eurozone countries, weighted by GDP.
[2]Extrapolation derived from a weighted average of 23 countries accounting for ~70% of global GDP.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Productive assets

Another component of balance sheet health is productive assets, a smaller set of real assets encompassing infrastructure, machinery and equipment, and intellectual property.[13] These lay the foundation for future output and are typically held on balance sheets of nonfinancial corporations and governments.

These assets tend to move closely in tandem with GDP, with the causation going both ways: Higher investment drives productivity and growth; and growth gives firms (and governments) the financial means and revenue opportunities to invest. There can be reasons for them to move out of sync, for example a sudden industrial buildup that results in faster productivity growth. One recent example is AI data centers and related infrastructure. That said, deviations often signal under- or overinvestment.

As of 2025, Japan, China, and South Korea continued to top the list in terms of productive capital-to-output ratios, due both to a high share of capital-intensive production and overcapacity (Exhibit 12). The United Kingdom, Canada, and Poland have the lowest stocks, although Poland grew the most of any country in our sample.

Given the overall stability of productive asset stocks relative to GDP, it is not always easy to get a sense of the nearer-term direction of flows, or changes in stocks.[14] Looking at these directly, 2025 net investment rates exceeded long-term averages in multiple countries, including Poland, Sweden, the United States, Italy, and Spain.

A range of countries, notably China, South Korea, and Ireland, experienced a sharp drop compared to average rates. Germany, Ireland, and Australia saw negative net investment, meaning capital expenditures were below replacement requirements, asset values declined, or both.

Cross-border positions

A final component of balance sheet health is cross-border positions. Within a given financial asset class, an economy may have a positive or negative balance, signaling net inflows or outflows over time. When they accumulate for an extended period accrue in positive or negative directions, they may signal risks.[15]

In macroeconomic accounting, net inflows or outflows of financial assets equal domestic savings minus domestic investment. These flows can significantly influence national wealth. Domestic savings greater than investment means a net lending position to the rest of the world. Investment that exceeds savings means a net borrowing position.[16]

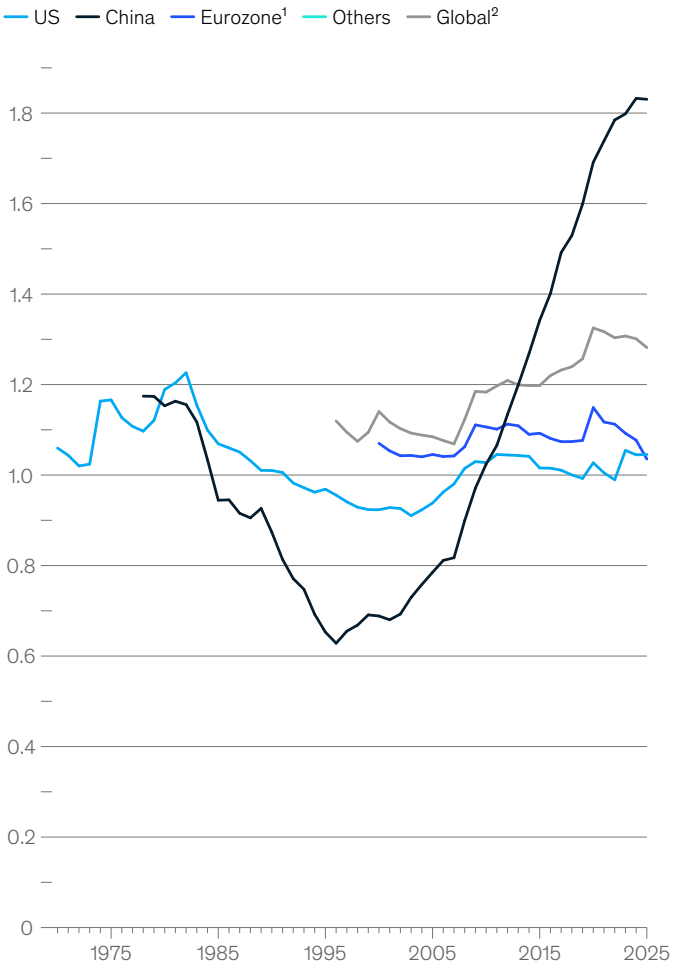
International positions are shaped by these domestic imbalances as well as by differences in asset valuations. These imbalances have increasingly come under scrutiny, meaning net lending and borrowing as a driver of wealth may face political limits as occurred, for example, during the eurozone debt crisis.

[13] Note that this is a narrower definition than other variations of productive investment, which may also include real estate, especially corporate real estate. We have chosen this definition to avoid fluctuations from real estate valuation swings.
[14] Net flows reflect gross investment less depreciation. For this reason, it is possible to have a negative net investment flow in a given year.
[15] These imbalances are increasingly in focus for groups including the IMF and the G7. See, for example, "Understanding Global Imbalances," *International Monetary Fund*, April 6, 2026.
[16] Net lending and borrowing also equals the current account balance. For further discussion, see *Out of balance: What's next for growth, wealth, and debt?*, McKinsey Global Institute, October 9, 2025.

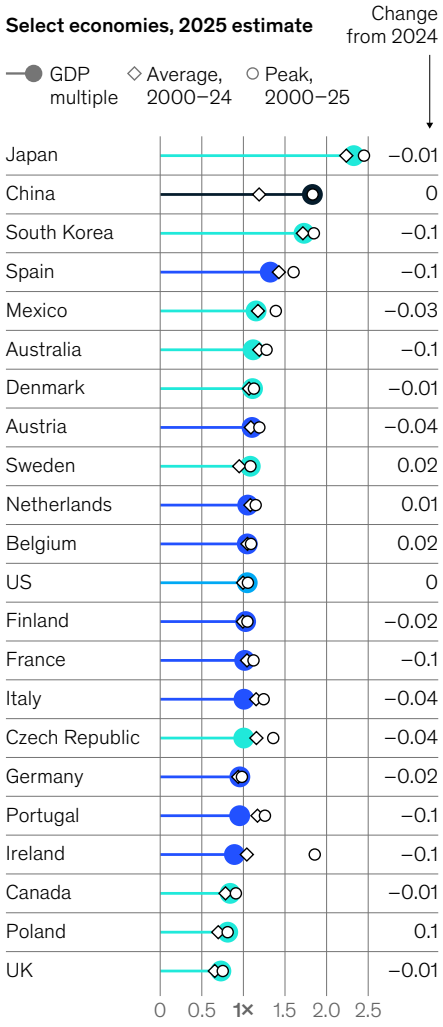
Exhibit 12

Japan, China, and South Korea continue to have the highest levels of productive assets.

Productive assets across all sectors (equipment and machinery, intellectual property, and infrastructure), GDP multiple



Select economies, 2025 estimate



[1]Average of eurozone countries, weighted by GDP.
[2]Extrapolation derived from a weighted average of 23 countries accounting for ~70% of global GDP.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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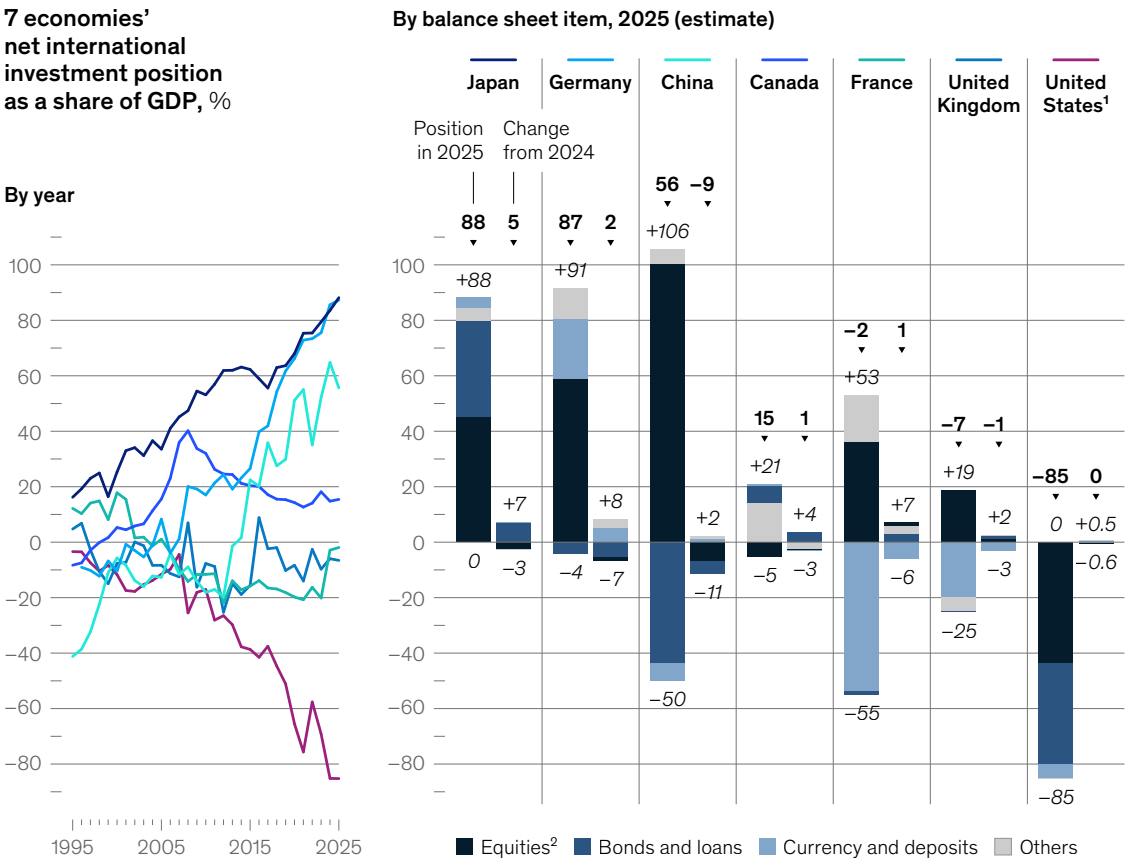
Net flows of financial assets accumulate to international investment positions, which have grown substantially since 2010 (Exhibit 13). In 2025, they reached new heights in Japan and Germany, both nearly 90 percent of GDP in a net lending position, and in the United States, nearly 90 percent of GDP in a net borrowing position. Half of the US negative position is in equity, as US equities have grown in value more than those of other economies. Major European economies, Japan, and Canada have positive balances in equity, meaning on net, they own more equity issued abroad.

What this means for executives

A balance sheet that is out of kilter with the economy—in other words, with high paper wealth fueled by debt and liquidity levels significantly above historical norms—can unwind via higher productivity, higher inflation, or asset price corrections. Balance sheets may also remain large, typically under secular-stagnation-like conditions, effectively kicking the can down the road for potential correction.

Exhibit 13

Cross-border financial imbalances mostly widened.



Note: Figures may not sum to 100%, because of rounding.
[1]Computed based on US financial accounts data for "rest of the world" sector, which closely matches IMF data for US international net investment position.
[2]Includes investment fund shares.
Source: CEIC; China National Bureau of Statistics; People's Bank of China; IHS Markit; Federal Reserve; OECD; Eurostat; European national agencies; McKinsey Global Institute analysis

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Each of these four scenarios shapes the long-term economic outlook (Exhibit 14). Only productivity acceleration delivers real economic growth justifying valuations, thus protecting wealth. The others sacrifice wealth, growth, or both. Sustained inflation reduces real values of wealth, secular stagnation sees low growth, and a balance sheet reset signals a loss of wealth and growth. Importantly for business leaders, two scenarios would likely mean structurally higher interest rates: Productivity acceleration would entail greater demand for capital amid higher business investment, while sustained inflation would likely involve central banks tightening policy rates and, ultimately, higher long-term yields.

Exhibit 14

Elevated balance sheets could go four ways, each with a distinct combination of growth, inflation, and interest rate outcomes.

	Productivity acceleration	**Sustained inflation**	**Return to past era (of secular stagnation)**	**Balance sheet reset**
Historical analogy	US during late 1990s information and communications technology boom	US post–oil shock, 1970s	US and Europe between global financial crisis and COVID-19 pandemic	Japan post–real estate bubble, 1990s
What would happen	The balance sheet shrinks relative to GDP due to real growth; productive capacity expands from high investment and tech adoption	The balance sheet shrinks relative to GDP due to nominal growth; high demand and low saving spur inflation, while productivity growth is muted	The rise of the balance sheet resumes; the economy returns to weak investment and a savings glut	Asset price corrections and potential deleveraging shrink the balance sheet; high demand suddenly reverses due to shock, rippling through the economy
*What it means for **wealth***	Growth in real wealth, declining balance sheet risk	Gains in nominal but loss in real wealth; real value of debt declines	Rising wealth on paper, growing balance sheets with higher asset values and debt	Absolute loss of wealth due to asset price corrections
*What it means for **growth***	Rapid real growth above prepandemic growth rates in the US and Europe; China approximately reaches targets	High demand drives nominal growth, but supply constraints moderate real growth	Sluggish growth, down to about 1% in the US and Europe and 2% in China	Deep recession followed by stagnant growth and persistent low confidence; "lost decade"
*What it means for **inflation and interest rates***	Inflation moderates closer to US and European targets; interest rates remain higher than prepandemic rates given high investment	Above-target inflation in the US and Europe; interest rates higher than prepandemic rates	Below-target inflation; real interest rates less than 1% (potentially even negative)	Interest rates spike from inflationary pressure and then fall to near zero rates

Precise outcomes vary by country. For example, in China, corporate profits (and thus equity values) vary significantly by scenario. Higher demand in a productivity acceleration scenario helps corporate profits and equity values, and as a result, wealth and the balance sheet continue to outpace GDP.

Source: McKinsey Global Institute analysis

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All scenarios are possible for all major economies. However, they appear to be on different pathways, with different swing factors that could move them from one trajectory to another.

For executives, this means both preparing for an unusually broad array of economic pathways and carefully watching the swing factors, which rise above the noise of daily indicators. Leaders across sectors and industries could also explore ways to encourage the optimal outcome, the productivity acceleration scenario.

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The signal in the sell-off: Wealth management's value in the AI era

Wealth managers must pivot from producing outputs to delivering outcomes anchored in human trust and defensible control points.

This article is a collaborative effort by Jill Zucker, Jimmy Zhao, John Euart, Ju-Hon Kwek, and Vlad Golyk, representing views from McKinsey's Financial Services Practice.

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The recent unveiling of an AI-enabled tax-planning workflow in Altruist's Hazel advisor workspace platform did not introduce AI to wealth management. However, it did provide public markets with a provocative and sudden narrative to model: If the time and cost to produce complex tax and planning outputs collapse, what happens to fees, operating leverage, and the long-run growth of the entire industry?

The market reaction was immediate and telling. In the trading session following the announcement, publicly listed wealth managers saw broad-based sell-offs in the mid-to-high single digits, erasing more than $20 billion in market value in short order. This was not a one-day headline reaction; three weeks later, drawdowns in major markets had reached more than $100 billion, suggesting that investors are re-underwriting the fundamental durability of the wealth management business model.

This article distills the signal from that disruption. While Hazel was the anecdotal spark, the implications are systemic. Our preliminary conclusions—presented with humility given the pace of change—are threefold:

1. *AI will quickly replace tasks* such as preparation, extraction, drafting, and scenario planning, especially in document-heavy planning and service work.

2. *Replacing tasks* is not the same as replacing the advisor's role as the human accountable for judgment, trust, and behavioral coaching.

3. *The playing field will tilt* from those who can produce outputs to those who own the control points that make automation trusted, compliant, and executable.

The industry backdrop

The wealth management sector is far from being priced for distress. Our research shows that it encountered this event from a position of strength,[1] with demand for advice growing as households become wealthier and their needs more complex. However, the industry's most underappreciated constraint is supply: A projected shortfall of 90,000 to 110,000 advisors by 2034 makes AI-enabled productivity a necessary capacity lever rather than a nice-to-have.[2]

When strong industries face disruption, markets worry less about near-term earnings and more about terminal assumptions. For years, the wealth management story has relied on three beliefs: that advice is constrained by the number of licensed professionals, that planning is labor-intensive, and that trust and compliance create barriers to automation. AI challenges the first assumption indirectly and the second immediately. The third, that regulation provides a defensive moat, is also being tested. As we discuss in the section on control points below, AI does not just automate advice; it industrializes the oversight and auditability that once required manual intervention. If the marginal cost of generating tax analysis, scenario modeling, portfolio commentary, and meeting documentation collapses, then operating leverage, advisor capacity, and fee durability require rigorous reexamination.

The Altruist moment is part of a broader revaluation of software as a service (SaaS). The "SaaSpocalypse" was triggered by investors no longer valuing SaaS companies on pure growth but instead on the long-term durability of their cash flows in an AI-driven world. Multiples compressed not because customers left overnight but because the market began discounting future cash flows, questioning whether a business model can maintain its margins and moats when its core technical outputs become easy to replicate.

[1] Jimmy Zhao, John Euart, Vlad Golyk, and Joanna Si, "US wealth management in 2035: A transformative decade begins," McKinsey, January 29, 2026.
[2] "The looming advisor shortage in US wealth management," McKinsey, February 10, 2025.

Six market concerns: Noise versus signals

Wealth management is now experiencing its version of SaaSpocalypse. Industry leaders are worried whether the rapid commoditization of technical expertise will erode the barriers to entry that have historically protected high-margin advisory fees. Investors have moved from viewing AI as a productivity enhancer to a structural threat to traditional business models. In our conversations with leaders, six questions have come up repeatedly. To answer them requires us to distinguish between the noise of temporary market volatility and the signals of permanent shifts in value creation.

Will AI replace the financial advisor?

There is no doubt that AI will aggressively assume specific tasks, because it is exceptionally good at compressing the invisible labor of the industry—preparation, data extraction, and document drafting. However, to say that AI will make the leap from automating tasks to replacing the job itself is a significant overstatement. Especially in the high-net-worth and ultra-high-net-worth segments, the true product is not the spreadsheet but accountable judgment and behavioral coaching: Our research shows that interest in holistic advice rose from 29 percent in 2018 to 52 percent in 2023.[3] In our view, the replacement thesis is mostly false for core advice segments, where nearly 80 percent of affluent households still prefer a human relationship,[4] though an AI takeover might indeed be possible for standardized, lower-touch service models and for younger clients, who are increasingly comfortable with AI-only interfaces.

Can advisory fees survive the collapse of planning costs?

While we anticipate a repricing of those services where clients perceive no differentiation, such as basic tax projections, the fear of an immediate, industry-wide fee freefall is likely overstated. In most models, planning is embedded in a broader advisory fee, and the primary impact of AI-driven efficiency is cost relief and capacity expansion for the provider rather than an automatic discount for the client. Historically, fee rates for relationships of more than $1 million have remained remarkably steady at about 104 basis points since 2019,[5] even as digital tools have proliferated. We believe fee pressure will be uneven, manifesting as demands for transparency and unbundled pricing rather than a blanket reduction in basis points.

Is the workflow layer at risk of being unbundled?

Wealth management's true vulnerability lies not in the regulated core areas of custody and compliance but in the interface where the client relationship is managed. If an AI-driven operating system becomes the advisor's primary interface, it creates a new point of entry that bypasses traditional systems. The danger here is systemic: As the interface shifts, the stickiness of the traditional back-office and workflow layer begins to erode. We have already seen digital-first innovators close the gap in account opening and funding speeds, proving that the primary theater of competition has moved from the ledger to the experience. While incumbents can defend their turf through partnerships or acquisitions, the signal they should monitor is the emergence of a dominant, independent interface that successfully relegates the legacy business system to a background utility.

How quickly will baseline capabilities inflate?

As AI raises the floor for technical planning across the industry, feature gaps between firms will narrow at an unprecedented rate. This baseline inflation means that yesterday's differentiators, such as sophisticated tax modeling, are rapidly becoming table stakes. The market signal here is not a collapse in demand, which remains high due to the advisor shortage, but a shift in value creation. Differentiation will move downstream to implementation and upstream to trust-based distribution. Long-term winners will be those that use AI to solve the delivery bottleneck, not those that are merely seeking internal cost savings.

[3] "The looming advisor shortage in US wealth management," McKinsey, February 10, 2025.
[4] "The looming advisor shortage in US wealth management," McKinsey, February 10, 2025.
[5] "The looming advisor shortage in US wealth management," McKinsey, February 10, 2025.

What is the duration risk of the AI narrative?
Public markets are currently repricing narrative credibility, punishing any wealth manager that lacks a coherent AI strategy. While these sell-offs may well represent an overreaction to early catalysts, they reflect deep investor concerns about the long-term terminal value of the traditional business model. We expect a cycle of repeat catalysts to further divide the industry into perceived winners and losers. For leadership teams, the objective is to move beyond the technical demo and show how they are reengineering their entire operating system to keep human trust at the center of an automated workflow.

Where will competitive advantage sit in the control points?
In an agentic-AI world, the most durable value pools will migrate toward specific control points: permissioned data, compliance-grade auditability, and execution rails. The Hazel episode is significant because it highlights how tax planning sits at the nexus of messy documentation and executable advice. While new toll collectors may emerge, seeking to capture these points, incumbents with vast distribution and proprietary data have a clear path to winning if they internalize the AI layer. The ultimate measure of durability will be who controls data permissions and the primary interface through which permission to act is granted.

Control points: The new battleground for value

In our view, the least useful question to ask is the first, whether AI replaces advisors. The most important is question six: Which parts of the value chain become features, and which will become control points?

Hazel matters because it targets a historically high-touch, expensive service area—tax-driven planning—and makes it fast and repeatable. That accelerates output commoditization and pushes value toward systems that can safely turn insight into action. The table below illustrates the migration of value. As AI automates technical production, differentiation shifts from generating insights to taking accountability for and executing them.

Exhibit

AI value can shift from automated outputs to defensible outcomes.

Theme	Rapidly commoditizing (technical outputs)	Defensible strategic moats (control points)
Data and insights	**Technical extraction:** automated ingestion and parsing of documents (eg, tax, estate, and insurance)	**Governed truth:** ownership of permissioned, high-fidelity data and proprietary client insights
Planning and content	**Drafting and packaging:** rapid generation of plan summaries, scenario decks, and financial models	**Judgment and trust:** human accountability for complex decisions and behavioral coaching
Advisor operations	**Routine service triage:** automated meeting preparation, summaries, and follow-up prompts	**Primary interface:** control of the advisor–client workspace, where all interactions are centralized
Risk and compliance	**Basic compliance checking:** rule validation, concentration monitoring, and obvious suitability red flags	**Supervision and auditability:** the legal and ethical framework that makes AI-led advice safe and compliant
Action and execution	**Opportunity surfacing:** algorithmic identification of standard tax or rebalancing triggers as well as "next-best conversation"	**Execution rails:** the technical and legal ability to securely turn a recommendation into a completed transaction
Business impact	**Internal efficiency:** reducing invisible labor to lower the internal cost-to-serve	**Capacity for growth**: redeploying saved time into deeper relationships and new client acquisition

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The punchline is simple: Planning is getting cheaper than supervision. Durable economics will likely accrue to those that industrialize trust—permissioned data, compliant controls, and execution—not those that generate the prettiest output.

Beyond the demo: Outcomes over outputs

The Hazel episode wasn't a verdict on whether human advisors will still matter. It was a reminder that when AI makes once-invisible work fast and cheap, markets immediately question what clients pay for and who captures the released economics. This moment is less about a single tool and more about a repricing of durability. With workflow compression making outputs easier to replicate, the advantage shifts toward firms that can prove and monetize outcomes.

The essential question for wealth managers is whether their value is anchored in outputs that are being commoditized or outcomes that require trust, governance, and execution. Management teams can test their positioning with the following questions:

— What drives our clients' willingness to pay for advice as technical planning becomes cheaper? What are the implications for value proposition positioning, sales and service, and advisor training and development?

— Which control points do we own versus rent, specifically regarding permissioned data, workflow surface, supervision, implementation, and distribution?

— If an agent is the primary interface, how do we avoid being relegated to a back-end utility,and what do we need to control to prevent it?

— Do we have auditability-by-design for AI-assisted recommendations, including evidence trails, upervision workflows, and explainability?

— How will we redeploy productivity gains, such as supporting more households per advisor, increasing service intensity, or lowering the cost to serve, and what operating-model changes are required?

— What signposts—sustained unbundling, switching-cost erosion at the workflow layer, or third parties capturing the interface—will tell us whether the bear case is materializing?

In our recent article "US wealth management in 2035," we wrote, "Wealth management CEOs will need to lead organizations that are AI-fluent, human-centered, and relentlessly adaptive."[6] Recent industry events have radically accelerated that mandate. The winners in wealth management are already being defined not as those that create the flashiest planning demo but as those that can integrate AI into the operating system of advice, securely and compliantly, in a way that keeps the human relationship at the front end of trust.

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[6] Jimmy Zhao, John Euart, Vlad Golyk, and Joanna Si, "US wealth management in 2035: A transformative decade begins," McKinsey, January 29, 2026.

US wealth management in 2035: A transformative decade begins

Over the next decade, the convergence of AI, demographic change, and evolving client trust will challenge wealth managers to reinvent how they compete and serve clients.

by Jimmy Zhao, John Euart, and Vlad Golyk
with Joanna Si

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The past decade has been marked by historic transformation: the rise of digital technologies, the fastest interest-rate cycle in 40 years, the aftershocks of a global pandemic, rapid advances in AI, and the early stages of the largest intergenerational wealth transfer in history. For the US wealth management industry, these forces have already reshaped client expectations, investment flows, and business models.

Looking ahead, demographic realignment, technological solutions, and a continued emphasis on trust and value will bring even more change, not only altering how clients seek advice but how they define "wealth."

Given this unique confluence of trends, the time seems right for a forward-looking perspective on how they will impact the industry in the years ahead. In this article we build on our previously published perspectives on convergence in the wealth management industry.[1] We begin with the macro shifts shaping society and markets, then explore six defining themes that will reshape how the industry serves clients, competes, and grows in the coming decade, and concludes with five imperatives for wealth management CEOs. To stay ahead, wealth management firms must reimagine not only how they operate but what they offer—and to whom. Winning in this new environment will require rethinking how firms are organized and wired, and how they go to market.

Contours of tomorrow: A glimpse of 2035

Based on the structural forces at play, we can make some educated guesses about the state of wealth management in ten years' time. These are not forecasts, but rather directional glimpses into what 2035 could look like, grounded in today's trends and early signals. Think of these glimpses as thought starters on how the wealth management industry might evolve if current trajectories hold.

1. From boomers to "Gen Next," and who will serve them

In the next ten years, millennial and Generation X households stand to benefit from trillions of dollars in motion—$14 trillion of assets are expected to be inherited by Gen X and $8 trillion by millennials. In addition, by 2035, intragenerational transfers between spouses in the baby boom and older generations will mean that more than 40 percent of US wealth will be controlled by women, up from a third today.[2]

This demographic transition is likely to redefine expectations for advice, service, and engagement. Younger investors, shaped by digital fluency, the attention economy, and social media would expect immediacy, transparency, and purpose-driven engagement. They would evaluate advisors not only on expertise but on authenticity, empathy, and shared values.

At the same time, rising rates of loneliness and mental-health challenges among the younger generations could make emotionally intelligent, human-centered relationships take on even more importance.[3] For wealth management firms, success may hinge on the ability to blend data-driven insights with emotional connection, creating experiences that feel both intelligent and human.

Demographic disruption of course won't be limited to clients. The advisor population itself is aging: nearly 40 percent of advisors are expected to retire within a decade, creating a shortfall of roughly 100,000 professionals.[4] As advisor retirement outpaces recruitment and leads to an advisor shortage, technology-augmented advice models will need to play a larger role in sustaining capacity and continuity of care.

[1] John Euart, Jonathan Godsall, Vlad Golyk, and Jill Zucker, "US wealth management: Amid market turbulence, an industry converges," McKinsey, January 17, 2024.
[2] "The new face of wealth: The rise of the female investor," McKinsey, May 8, 2025; Chayce Horton, "U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2024," Cerulli, December, 2024.
[3] "Addressing the unprecedented behavioral-health challenges facing Generation Z," McKinsey, January 14, 2022.
[4] The looming advisor shortage in US wealth management," McKinsey, February 10, 2025.

2. From automation to agency: The agentic age

In one 2035 scenario, AI would be embedded in the fabric of daily life, shaping how people learn, work, and make decisions. However, rather than replace the advisor-driven value proposition, AI could amplify it. Just as technological advances and the internet in the 1990s improved the advisor-driven value proposition with real-time market data and online transactions, AI could enhance the reach, personalization, and relevance of the wealth management proposition.

For wealth management, AI's role may evolve from automation to agency, guided by advisor oversight. More than 62 percent of independent advisors surveyed in 2024 intended to use some form of AI for efficiency but only about 20 percent for client-facing tasks.[5] But what began as task-based efficiency (for example, workflow automation and predictive insights) with the potential to achieve up to 20 to 30 percent of time savings for advisors, could mature into agentic systems that reason, recommend, and even act on behalf of advisors and clients.[6] These systems could manage portfolios, independently develop personalized wealth and investment strategies, or even serve as fiduciary entities under regulated governance frameworks and supervision.[7]

If this agentic AI scenario comes to pass, the central challenge for firms will shift from how to use AI to how to govern it. Greater accountability, explainability, and trustworthiness will be needed in a world where clients increasingly delegate financial, lifestyle, and wellness decisions to digital counterparts. The competitive edge would belong to those firms that combine autonomous intelligence with human oversight, embedding governance and ethics into the design of every client-facing system.

3. Private, real, digital: The asset classes of 2035

If current interests in private equity, real assets (such as real estate and infrastructure), unlisted company shares, commodities, and digital assets remain in place, investor portfolios will be broader, more global, and more personalized than ever in the coming decade. Real assets and commodities would serve as anchors for inflation protection and tangible value, while unlisted company shares would offer exposure to innovation in firms that remain private longer. Interest in digital assets, including tokenized and blockchain-enabled instruments, would spur the need for evolution in regulatory approaches.

If current multipolar trends continue and the US dollar's dominance gradually erodes, the importance of foreign assets, currencies, and commodities as hedges against concentration risk and currency depreciation would only increase. Recent IMF data show that the US dollar's share of global foreign exchange reserves has declined from its peak and was at a multi-decade low in the third quarter of 2025 at roughly 57 percent.[8] At the same time, AI-powered tax optimization would make after-tax performance (versus gross return) the true measure of success, solidifying the shift of portfolio construction toward holistic, tax-aware orchestration rather than static allocation.

Investors would increasingly think in terms of total household balance sheets, not just portfolios, as their public, private, and digital assets would be integrated within unified platforms designed to optimize for long-term, tax-adjusted wealth.

[5] Rachel Witkowski, "AI tools more popular behind the scenes, Schwab survey shows," *Financial Planning*, October 3, 2024.
[6] Niket Nishant and Tatiana Bautzer, "Morgan Stanley CEO says AI could save financial advisors 10-15 hours a week," Reuters, June 10, 2024; John Euart, Jonathan Godsall, Vlad Golyk, and Jill Zucker, "US wealth management: Amid market turbulence, an industry converges," McKinsey, January 17, 2024.
[7] "How AI could reshape the economics of the asset management industry," McKinsey, July 16, 2025.
[8] Karin Strohecker and Grant Smith, "Dollar cedes ground to euro in global reserves, IMF data shows," Reuters, July 30, 2025.

4. Building trust in a fragmented world

By 2035, given current trends, it is likely the consumers of wealth management services will come to rely on new sources of trust. For example, polarization, misinformation, and regulatory lag may erode faith in governments, corporations, and financial intermediaries. Instead, we may see the rise of a new paradigm, in which digital and distributed trust are grounded in transparency, data security, and verifiable systems, rather than reputation alone.

Already, fewer younger people use traditional wealth management services than their older counterparts do. Today, 76 percent of Gen Z and and 65 percent of millennials already seek financial advice online or via social media instead of from financial institutions. Fourteen percent of Gen Z say they would turn to a financial professional first when faced with a question about finances, compared with 39 percent of baby boomers.[9] If this trend continues, potential wealth management clients will increasingly trust networks, algorithms, and large language models over institutions, seeking proof of integrity through blockchain-verified transactions, secure digital identity systems, and auditable AI models. At the same time, the wealth relationship would evolve from "trust me" to "show me," where confidence is earned through transparency, explainability, and consistent outcomes.

While wealth management firms cannot directly affect overall sentiment among potential clients, they can work to counter them by designing trustworthy systems—through governance, cybersecurity, and ethical AI—and cultivating trusted human relationships that convey empathy, discretion, and continuity. The firms that thrive would likely be those that master both, proving that in an era of digital fragmentation, trust can be rebuilt through design.

Wealth management, transformed: Six themes for the decade ahead

The macro forces shaping society—demographic realignment, agentic AI, portfolio transformation, and the shifting of client trust—could converge to redefine what it means to create, manage, and preserve wealth.

The six following themes highlight not just how portfolios might be built and services delivered, but how trust would be earned and maintained in an increasingly digital, distributed, and complex world. Together, they challenge wealth managers to adapt and expand their relationships with clients into trusted partnerships between intelligent systems and end clients.

1. Evolution of the service offering: When every client is a family office

In 2035, if clients continue to request holistic solutions that blend financial, personal, and purpose-driven goals, wealth management will evolve from offering investment advice to providing integrated "life management." McKinsey's Affluent and High-Net-Worth Consumer Survey of US investors indicates that today's clients already seek more holistic advice as they age, and their needs become more complex across the full spectrum of planning services and balance sheet and investment products. In fact, the share of investors seeking more holistic advice grew from 29 percent in 2018 to 52 percent in 2023, according to the survey.[10]

[9] Tom Akana, Amber Lee, and Larry Santucci, "How Americans Use Social Media for Financial Advice," Federal Reserve Bank of Philadelphia, March 2025; Myles Ma, "Gen Z is 65% less likely than Boomers to turn to financial professionals for advice," Policygenius, June 11, 2024.
[10] "The looming advisor shortage in US wealth management," McKinsey, February 10, 2025.

Furthermore, as advances in artificial intelligence, data integration, and platform automation enable hyper-personalized and cost-efficient service delivery, what was once the domain of ultra-high-net-worth (UHNW) family offices may become accessible to the broader high-net-worth (HNW) and affluent segments. As such, advisors would need to be able to offer services such as comprehensive financial planning, family governance, tax and estate structuring, trust administration, customized insurance, balance sheet optimization, philanthropy, medical concierge and lifestyle services to a broader set of clients.

Leading firms would extend those family-office capabilities through new delivery models that balance human expertise with digital scale. Even in such a world, in the upper-HNW and UHNW tiers, personalized, advisor-led engagement would remain central but might be enhanced by advanced analytics and workflow automation. For affluent and lower-HNW clients, these same capabilities would increasingly be AI-enabled.

To achieve this heightened level of service, firms would need to pursue a mix of in-house build, targeted acquisitions, and API-based partnerships, integrating adjacent services such as accounting, tax preparation, and legacy planning into unified client ecosystems. Expanding the scope of service would be critical not only to deepening relationships and increasing share of wallet, but also to sustaining pricing power as traditional planning and investment management become increasingly commoditized.

2. Portfolio construction: From allocation to orchestration

If the global economy becomes increasingly multipolar and less US-dollar-centric, portfolio construction would reflect broader diversification, alongside greater personalization and integration across household balance sheets. For example, McKinsey research shows that spot crypto ETFs/ETPs now exceed or approach approximately $150 billion in assets under management (AUM) and investment in retail alternatives is expected to grow 1.5–2X in the next five years alone. Advances in tokenization, stablecoins and digital settlement networks, AI, and open financial architecture would further democratize access to private markets.

In this scenario, the traditional 60/40 model would give way to multi-asset, multi-vehicle portfolios spanning public and private markets, real assets, infrastructure, digital instruments, and alternative sources of income. Investors might embed inflation-aware design principles, with real assets and commodities serving as structural components to preserve purchasing power and hedge against currency debasement. Portfolios may also incorporate greater foreign exposure and commodity allocations to mitigate concentration risk and capture new sources of growth. Direct indexing would replace traditional ETFs as investors seek to tailor exposures, enhance tax efficiency, and align portfolios with personal objectives and sustainability preferences.

Technological advances would be required but these capabilities would be delivered through an adaptive, fully integrated household orchestration system, providing a single, real-time view of all assets and liabilities across taxable and tax-advantaged accounts. (Today's emerging "unified managed household" platforms represent early versions of this evolution.) Advanced AI-driven analytics would continuously optimize risk, return, and after-tax outcomes at the household level, linking them back to planning goals. In this scenario, portfolio management would evolve from a static allocation process to an adaptive, holistic system—one that integrates data, personalization, and automation to maximize long-term, tax-adjusted wealth.

3. Client experience: Conversations, not clicks

As conversational AI and behavioral analytics continue to mature, and open-data infrastructure enables holistic financial orchestration, wealth management clients in 2035 would no longer navigate fragmented apps or dashboards; instead, they would engage in fluid, natural dialogue—by voice, text, or video—with both intelligent advisory platforms and their human advisors, who together form a single, coordinated advisory team.

These platforms, assuming regulatory approval, would act as personal financial command centers, integrating banking, investing, lending, insurance, and planning into one adaptive ecosystem. Clients might ask, "Can I fund my daughter's education abroad without disrupting my retirement goals?" or "What's the tax impact of selling my company next year?" In the future, these platforms may even be capable of responding to questions that blend health and wealth, such as, "I am considering investing a million dollars in gene-editing therapy that could extend my lifespan—what impact would that have on my financial plan?" With a combination of AI-generated analysis with their own insights, advisors would be able to enter conversations like this at pivotal moments, adding judgment, empathy, and contextual understanding.

Behind the interface, AI and behavioral insights into wealth management (enabled by wearables and interconnected data) would anticipate needs and personalize engagement, surfacing relevant opportunities, detecting life changes, and prompting timely outreach from advisors. Human oversight and client interaction would remain at the core, amplified by digital intelligence that scales both precision and care. Advisors would rely on these systems to monitor portfolios at a high level, identify moments of risk or opportunity, and deepen client relationships through proactive, data-driven dialogue.

For wealth managers, the competitive frontier will center on elevated functionality, in which seamless, intuitive, and emotionally resonant experiences are delivered in a timely fashion. Technology would empower advisors to feel and act more human, not less.

4. Business operations: Digital workers as backbone of the middle and back office

If AI maturity, data standards, and the regulatory environment converge to enable autonomous financial operations at scale, AI agents and intelligent automation would form the operational backbone of wealth management. Today, AI agents already plan, act, remember, and complete defined deliverables. In the future, functions such as compliance, trade reconciliation, client onboarding, and portfolio accounting could be executed by digital workers operating at machine speed with near-zero error rates, dramatically lowering costs and expanding capacity. These digital systems would handle increasing complexity in liquidity management, valuation of semi-liquid and digital assets, and the custody and ledger requirements of fractional ownership. Employees, meanwhile, would focus on oversight, governance, and orchestration, stepping in only when judgment, ethics, or client outcomes demand human discretion.

This transformation would redefine workforce dynamics. Traditional operational roles would decline, giving rise to new positions in AI supervision, data integrity, and model governance. In its most advanced form, the wealth management firm could operate as a "firm of one": a single advisor augmented by hundreds of AI agents seamlessly connected to custodians of assets, product platforms, and client systems.

5. Role of the advisor: The transition to life coach

These macrotrends could also solidify the advisor's continued evolution from financial planner to life coach. In this world, advisors would guide clients not only on investment or tax strategy, but through life goals, intergenerational transitions, and emotionally charged decisions. Supported by a network of AI agents, the human advisor would focus on context, empathy, and meaning, translating data into decisions, and decisions into confidence. This evolution takes on added urgency given the looming advisor shortage, which will place a premium on each advisor's ability to deliver deeper, more differentiated client impact.

If this transformation takes hold, the talent model would need to shift. Wealth management firms would prioritize emotional intelligence, adaptability, and authenticity alongside traditional skills such as product expertise or lead generation. Centralized marketing engines and AI-enabled prospecting would automate much of the business development process, freeing advisors to focus on building trust and deepening relationships. The advisor's differentiator will not be traditional wealth management knowledge, but the ability to connect with clients, understand their motivations and values, and build trust.

6. Competitive structure: And then there were four

By 2035, as technology further blurs the boundaries between traditional business models, the competitive structure of wealth management could consolidate around the following four dominant archetypes:

— *Multi-segment mega platforms.* Large wealth management platforms—including today's wirehouses, major banks, scaled digital-direct firms, and potentially the largest registered investment advisors (RIAs)—would evolve into integrated wealth ecosystems, offering a clear progression of services aligned to every stage of wealth accumulation. These range from mass-affluent direct brokerages to high-touch "personal CFO" models for HNW and UHNW clients. M&A will play a critical role in enabling this evolution, allowing firms to accelerate capability build-out, expand segment coverage, and deepen distribution reach. The competitive edge of mega-platforms would lie in scale, proprietary technology, and embedded distribution, with powerful lead generation from adjacent businesses such as retail banking, corporate stock plan administration, and retirement.

— *Boutique and specialist firms.* At the opposite end of the spectrum, the specialist firms that remain will be expert-led boutiques and multi-family offices that thrive by serving the ultra-wealthy through bespoke, relationship-driven experiences. They will likely compete on intimacy and specialization, offering advanced planning and structuring, differentiated investment access, and family-office services, supported by outsourced technology and operational platforms that enable efficiency without compromising exclusivity.

— *At-scale independent advisor platforms.* As the flight toward independence continues, advisor-centric platforms offering modular affiliation models (including W-2, 1099, and RIAs) are expected to continue their rise. They would continue to enhance their unified technology stacks, institutional-grade investment capabilities, and compliance infrastructure. They would scale by attracting and empowering entrepreneurial advisors, acquiring books of an increasing number of retiring advisors (and serving them through more profitable W-2 models), and through further consolidation. They would offer the flexibility to build one of the "boutique and specialists" firms on their platforms.

— *AI-enabled digital wealth managers.* Finally, a novel fourth archetype of digital-first, AI-native firms would redefine advice delivery for the next generation of investors. Combining autonomous AI agents with human oversight, these firms would deliver personalized, low-cost advice at scale, expanding access to financial guidance. As the industry confronts a growing shortage of advisor talent—driving human-led services to become more expensive and exclusive—the best advisors are likely to migrate further upmarket. This widening gap in accessible, affordable advice will create a significant void in the mass-affluent and emerging-wealth segments, one that AI-first firms will be uniquely positioned to fill.

While technology would compress costs across the board, industry economics will diverge. Mega-platforms would compete on scale, efficiency, and cross-channel distribution; boutiques on intimacy and expert-led advice; advisor platforms on talent acquisition and retention; and AI-native firms on cost and accessibility. Each model would require a distinct strategy for deploying efficiency gains, to either reinvest in differentiated capabilities or pass savings to clients.

The resulting barbell-shaped industry structure would resemble that of the asset management industry, where scale and specialization dominate and the middle struggles to keep up.

Rising to the moment: Five imperatives for wealth management CEOs

These themes reshaping the industry suggest the next decade will demand bold, enterprise-wide transformation. Wealth management CEOs will need to lead organizations that are AI-fluent, human-centered, and relentlessly adaptive, capable of earning trust in a rapidly evolving economic, technological, and social landscape.

This level of change extends well beyond business as usual and near-term growth levers: technology may reshape the playing field, but leadership will determine who wins. Firms that thrive will invest not only in data and technology, but in people, governance, innovation and change management. Five imperatives stand out for leadership teams preparing their firms for the next decade.

1. Invest in agentic AI: From automation to orchestration

To fully unlock the value of agentic AI in wealth, CEOs must see beyond the automation of individual tasks to AI as a platform of semi-autonomous agents that collaborate with advisors, client salespeople, service team members, back-office staff, and each other to execute multistep workflows. Across industries, initial use cases of AI agents to automate limited tasks have been shown to deliver up to 3 to 5 percent improvements in productivity annually. Teams of AI agents that executed complex workflows not only resulted in productivity improvements but also could potentially increase growth by more than 10 percent.[11]

Our research shows that value comes not from deploying isolated agents, but from redesigning cross-functional priority workflows, building reusable agent components, and orchestrating human-agent teams at scale. For a wealth firm, this means not just giving an AI tool to an advisor, but embedding intelligent agent teams into the advisor-client journey. Reimagining and rearchitecting workflows will likely extend through client onboarding, portfolio rebalancing, tax event modeling, and even life-stage transitions, and so will entail bold decisions.

The transformation road map should detail the build, buy, and partner approach; governance implications; and change management interventions to ensure uptake of new solutions. The technology and data backbone should involve modular, API-based architectures that connect wealth legacy systems with new digital platforms. A unified, governed data model (anchored in a single source of truth for client, product, and operational data) would be required to ensure explainability, security, and reusability of any AI analytics and workflows.

As with most technology transformations, scarce talent and organizational complexity will likely make execution take longer than expected. Early execution goals should focus on reducing operating costs through automation and simplification, while reinvesting those savings into innovation and building leaders' AI fluency.

2. Reinvest technology dividends into innovation

Automation and AI will continue to expand capacity and reduce costs across middle and back offices. But efficiency alone is not a strategy. The real differentiator will be how firms redeploy productivity gains to fund "change-the-business" operations to unlock innovation in services, experiences, and business models.

Leaders should have a clear vision of which competitive archetype their firm will pursue, shift from isolated technology projects to domain-level changes, and track realized savings. The expected efficiency and capacity opportunities should be detailed prior to deploying technology investments. Initiative teams should be composed of cross-functional teams (product, technology, operations, and advisor teams) that

[11] Greg Kelly, Lisa Harkness, and Steve Reis, "Agents for growth: Turning AI promise into impact," McKinsey, November 3, 2025.

are empowered to test, learn, and scale innovations rapidly. Decision-making should shift from hierarchy to networked accountability, with clear ownership and shared metrics for value, risk, and adoption. Transformation road maps should explicitly tie investments to client outcomes, efficiency gains, and new revenue sources, and firms will need systems to track and extract savings.

3. Lead an AI-fluent, human-centered organization

The integration of AI is no longer just a technology initiative; it is an organizational transformation. While it has been critical for business leaders to understand technology applications in the digital age, AI is making it more important than ever. CEOs must champion AI fluency across the enterprise, ensuring that leaders and teams understand how to use, govern, and collaborate with intelligent systems responsibly.

For executive leadership, AI fluency must include strategic literacy: understanding where AI can create value, what new business models it enables, and how to balance innovation with risk management. Leaders should participate in targeted learning programs, use AI tools in their own decision-making, and set expectations that every strategic discussion considers data and automation as integral to the business model.

For advisors, AI fluency means learning to co-create with technology, using digital copilots for research, reporting, compliance, and personalized recommendations, while maintaining empathy, ethics, and client trust. AI fluency for advisors is about augmentation, not automation. Training should emphasize how to interpret and communicate AI-generated insights with transparency, and when to rely on human discretion over automation.

For operational teams, AI fluency involves tackling new workflows and governance models across compliance, onboarding, reporting, and other service operations. Staff should understand how algorithms make decisions, how to audit outputs for bias or error, and how to identify and manage the exceptions that require human oversight.

4. Adapt the advisor model for the life-coach era through teaming

The most successful advisors of 2035 will be part wealth strategist and part life coach—empathetic guides drawing on teams of specialists, all supported by digital intelligence. AI agents will handle significant parts of lead generation, analysis, execution, and compliance, freeing advisors to focus on understanding clients' motivations and values with trust and empathy.

To make this new model work, firms will need to change how they recruit, train, and measure the effectiveness of advisors. They will need to prioritize authenticity, adaptability, and emotional intelligence over product expertise or prospecting skill.

Today, across the industry, multi-advisor teams outperform solo practices on growth, wallet share, client retention, productivity, succession resilience, and services offered.[12] Given these strengths, we expect teaming to continue to be the dominant operating model through 2035 for connecting with clients at scale. However, team structures will increasingly emphasize collaboration, specialization, and continuous coverage in addition to ownership of individual client books. Teaming will also serve as an apprenticeship model, combined with training and development programs, to prepare the next generation of financial advisors who are also life coaches.

[12] "The winning formula revisited: Teams in wealth management," McKinsey, September 2022.

5. Deliver the portfolio of the future

Clients will expect seamless access to a broader, more global, and tax-optimized investment universe—including private markets, real assets, digital securities, and tokenized investments. Meeting this expectation will require re-architecting product platforms, data infrastructure, and partnerships.

CEOs will need to decide what to offer, how to offer it, and how to integrate and deliver these products. This will likely mean investing in technology ecosystems that integrate public, private, and digital holdings within unified, tax-aware optimization frameworks. Leaders will begin by determining the critical client product and experience needs, and the underlying technology, data, and architecture requirements. They will then consider what inputs the data backbone integrating client, product, and behavioral data requires to unlock personalization and responsible AI.

For the architecture target state, leaders will need to develop strategies for how to build out the enhanced tech stack and other capabilities they will need. How much will they build in-house or buy? Will they strike up partnerships with wealthtech providers, custodians, fintechs, or asset managers? How will they develop and launch the portfolios that can demonstrate the integrated tax-optimized performance and risk transparency that clients will increasingly want to see? Firms that deliver trusted access to the full spectrum of wealth, spanning traditional and emerging asset classes in a tax-efficient manner, will set the standard for portfolio innovation, client outcomes, and loyalty.

By 2035, wealth management firms will be judged not only by investment returns, but by how intelligently they integrate technology, how deeply they are able to engender trust with their clients, and how broadly they provide access to wealth investment and services. Trust will remain the currency of that access, earned not only through performance, but through transparency, empathy, and responsible use of technology.

For those firms' CEOs, the mandate is clear: lead with conviction and a strategy; invest in people, platforms, and data; and build organizations that can learn and adapt continuously. The choices made today will shape how the wealth industry, and the clients it serves, arrive in 2035—it's not just a matter of which firms thrives through disruption, but also which succeed at defining what wealth means in a more intelligent, personalized, and interconnected world.

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Five client-led shifts reshaping European wealth management

Survey results point to changing consumer preferences that are disrupting and transforming the industry in Europe—and highlight the need for a new set of strategic imperatives.

The article is a collaborative effort by Felix Wenger, Nunzio Digiacomo, and Stefano Cantù, with Elisa Lora Lamia Donin and Nicolò Pittiglio, representing views from McKinsey's Financial Services Practice.

June 23, 2026



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The wealth management industry has long operated on a foundational assumption: that its core value proposition lies in generating superior investment returns. But in Europe, a new paradigm is taking hold. According to results from the 2026 McKinsey Affluent and Wealth Management Customers' Insights Survey, which included approximately 5,500 respondents across Europe, client preferences are evolving—and evolving quickly (see sidebar, "About the research").

Compared with our 2024 research, the newest survey suggests that clients are not simply seeking better portfolios to manage their wealth. Rather, they are looking for advisors who can navigate ongoing uncertainty, earn and sustain their trust, tailor service models to meet their unique needs, and support the full complexity of their financial lives at all stages—including caregiving, housing, and wealth transfers as they age. Wealth management is no longer about managing money alone. It's about managing uncertainty, trust, and major life decisions.

The disruptions we identify in this article, and the strategic imperatives they present, reflect measurable changes in client preferences and behaviors since 2024. For companies in the wealth management industry, now is the time to fundamentally rethink their operating models and the role they play in their clients' lives—or risk being disrupted by those that will.

Disruption one: A more cautious approach to investing

The most striking shift we see in 2026 is the broad-based decline in risk appetite across all client segments (Exhibit 1). These changes represent a fundamental recalibration in how European investors relate to risk, not merely a marginal adjustment.

Among affluent clients,[1] 24 percent describe themselves as risk-takers—down from 29 percent in the previous survey. Private clients report a similar decline,[2] while high-net-worth individuals[3] (HNWIs) report the most dramatic decline: from 40 percent to 31 percent.

About our research

The 2026 Affluent and Wealth Management Customers' Insights Survey was conducted in 15 European countries (Belgium, Czechia, Denmark, Finland, France, Germany, Hungary, Italy, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland, and the United Kingdom) and garnered online responses from 5,490 participants in March and April 2026.

The sample comprised 4,313 affluent respondents, with total financial assets of €50,000 to €500,000, including money in checking and savings accounts, term deposits, and all investments; 667 private-client respondents, with total assets of €500,000 to €2 million; and 510 high-net-worth individuals, with total assets of more than €2 million.

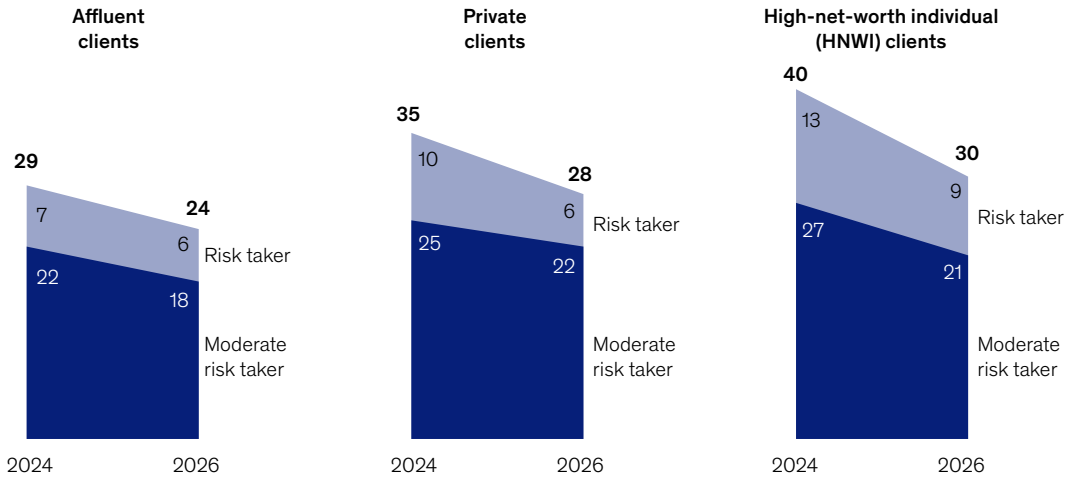
To ensure representativeness, responses were weighted at the individual level to align sample characteristics with those of the general population, particularly in terms of age distribution and online banking penetration.

[1] We define affluent clients as respondents with total financial assets of €50,000 to €500,000, including money in checking and savings accounts, term deposits, and all investments.
[2] We define private clients as respondents with total financial assets of €500,000 to €2 million, including money in checking and savings accounts, term deposits, and all investments.
[3] We define high-net-worth individuals as respondents with total financial assets of more than €2 million, including money in checking and savings accounts, term deposits, and all investments.

Exhibit 1

Across segments, clients express lower risk tolerance since the previous survey.

Risk tolerance for investments, 2024–26, by client type,[1] % of respondents



[1]Affluent clients are defined as respondents with total financial assets of €50,000 to €500,000, including money in checking and savings accounts, term deposits, and all investments, n = 4,313; private clients are defined as respondents with total financial assets of €500,000 to €2 million, n = 667; and HNWI clients are defined as respondents with total financial assets of more than €2 million, n = 510. In the 2026 survey, respondents were asked about their attitudes toward risk in both 2024 and 2026, respectively; those who answered "neutral/depends," "moderately risk averse," and "risk averse" are not shown.
Source: McKinsey Affluent and Wealth Management Customers' Insights 2026, Mar–Apr 2026, n = 5,490

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This growing caution is also reflected in customers' processes for evaluating specific products. The survey suggests that all wealth management clients have become more deliberate, with growing shares citing expected performance as the most important factor in choosing investment products. Among affluent clients, a larger share of respondents also note the importance of risk profiles in their decision-making.

The strategic implication: In the current environment, Europe's wealth managers serve clients who are simultaneously more risk averse and more selective. Delivering for today's clients requires a far more sophisticated understanding of individuals' risk tolerance, time horizons, and product expectations than the industry has historically provided.

Disruption two: A new trust paradigm for the AI era

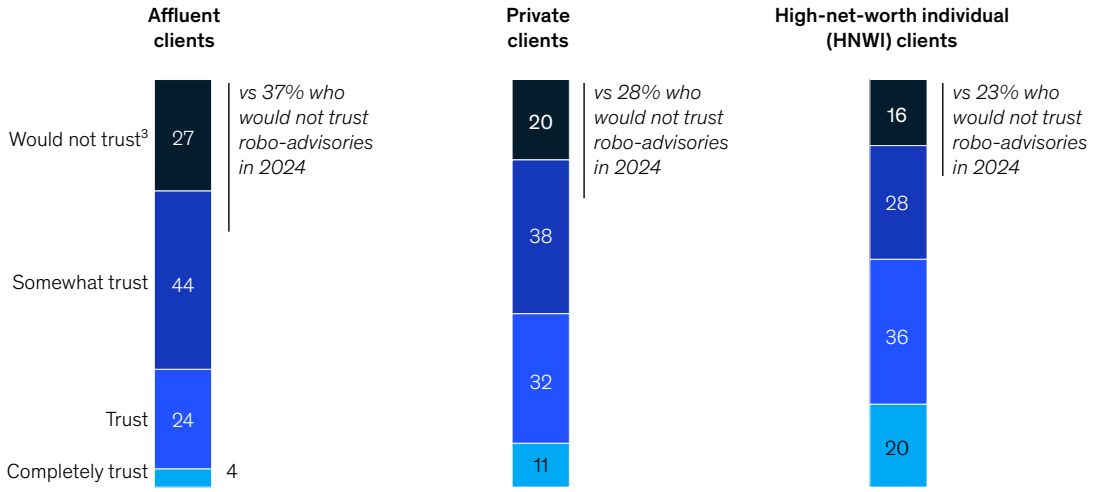
Trust has always been the bedrock of wealth management. But in 2026, the contours of trust are being fundamentally redrawn—and in nuanced ways.

Overall and across segments, customers' distrust of robo-advisory services has declined since the previous survey (Exhibit 2)—most often because respondents believe that digital algorithms will not deliver truly personalized investment advice. While distrust also decreased among affluent respondents, this group remains the least trusting of digital algorithms across the three segments.

Exhibit 2

Clients' distrust in robo-advisors for investment advice has declined since 2024.

Extent of client trust in algorithm-driven investment advice,[1] 2026, by client type,[2] % of respondents



Note: Figures may not sum to 100%, because of rounding.
[1]Extent to which clients trust investment advice from a digital algorithm (eg, AI- or gen-AI-driven) with no human involvement.
[2]Affluent clients are defined as respondents with total financial assets of €50,000 to €500,000, including money in checking and savings accounts, term deposits, and all investments, n = 4,313; private clients are defined as respondents with total financial assets of €500,000 to €2 million, n = 667; and HNWI clients are defined as respondents with total financial assets of more than €2 million, n = 510.
[3]Includes respondents who answered "would not trust" and "would not trust at all."
Source: McKinsey Affluent and Wealth Management Customers' Insights 2026, Mar–Apr 2026, n = 5,490

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This divergence is critical: The affluent clients who are most likely to be served at scale through digital channels are the most skeptical of purely algorithmic advice. Affluent clients also express lower levels of overall investment awareness and confidence than wealthier segments, suggesting that distrust is not solely a technological concern. Among the respondents who distrust robo-advisories, only 17 percent of affluent clients report high confidence in investment matters, compared with 30 percent of private clients and 42 percent of HNWIs. This finding seems to reflect a capability gap: Clients with less financial confidence may be less comfortable delegating decisions to automated systems.

At the same time, other data show growing confidence in AI's potential. When asked which areas of investment advice gen AI will improve, clients across all segments identified more timely advice as the top benefit, followed by improved explainability and enhanced personalization. What's more, between 33 and 45 percent of respondents believe that recent advances in AI will enable more effective automated investment advice.

For all investors, the primary use case for AI is generating personalized financial advice—though all segments see value in a human advisor who's supported by gen AI. Only 17 percent of affluent clients, 22 percent of private clients, and 36 percent of HNWI clients feel comfortable using fully digital platforms without assistance, with smaller shares in each segment saying they feel comfortable using AI in digital investment platforms.

The strategic implication: Trust is not moving from humans to digital and AI tools; rather, it is being redistributed. Clients want AI to make their human advisors better, not replace them. The winning model will be augmented advisory, not automated advisory. Firms that position AI as a substitute for the relationship manager are likely to lose; those that deploy it as an intelligence layer behind the advisor are best positioned to win.

Disruption three: A call to cover the full life cycle

Perhaps the most strategically significant results from this year's survey are clients' expectations of the advisory's role. Many of today's consumers believe that wealth management should extend well beyond investment selection and include comprehensive life cycle planning.

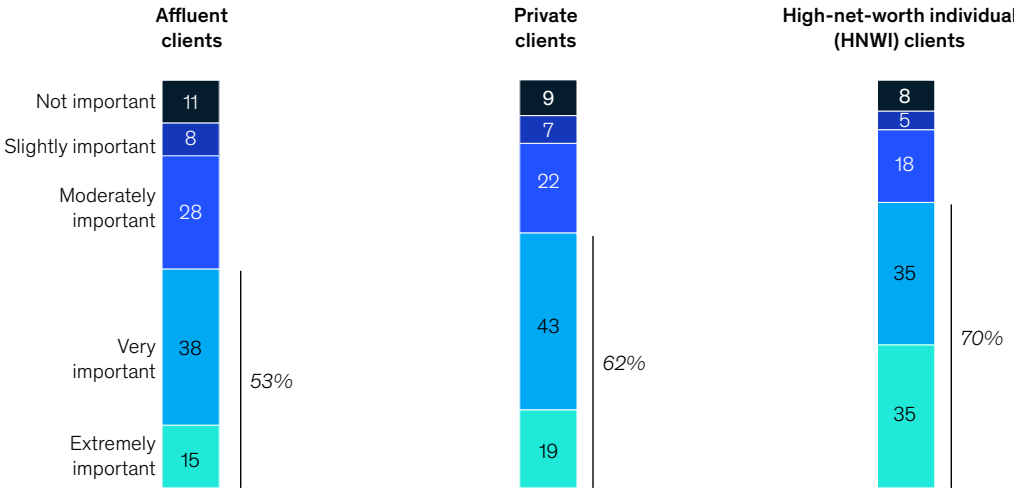
Interest in longevity-related financial solutions remains robust, as it was in the 2024 survey. This year, between 33 and 37 percent of respondents expressed interest in long-term care insurance or health-related protection, while 32 to 41 percent expressed interest in lifetime income products, such as annuities and guaranteed income solutions.

Across segments, consumers also view the advisory as a critical part of their planning for the nonfinancial aspects of longevity—for example, housing choices, caregiving arrangements, and lifestyle transitions. Seventy percent of HNWI respondents said it's very or extremely important that their financial advisors play this role, with most private and affluent respondents saying the same (Exhibit 3). This is a remarkable finding: A clear majority of all respondents, especially in the wealthiest segment, want their financial advisors to expand their remit beyond a traditional investment-focused role.

Exhibit 3

High-net-worth clients are the most likely to view the advisory's role as critical to full life cycle planning.

Importance of financial advisors' help to plan nonfinancial aspects of longevity, 2026, by client type,[1]
% of respondents



Note: Figures may not sum to 100%, because of rounding.
[1]Affluent clients are defined as respondents with total financial assets of €50,000 to €500,000, including money in checking and savings accounts, term deposits, and all investments, n = 4,313; private clients are defined as respondents with total financial assets of €500,000 to €2 million, n = 667; and HNWI clients are defined as respondents with total financial assets of more than €2 million, n = 510.
Source: McKinsey Affluent and Wealth Management Customers' Insights 2026, Mar–Apr 2026, n = 5,490

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Among HNWIs, investment strategy preferences reflect this emphasis on the full life cycle. Given the prospect of longer life expectancy—and that these clients have more resources than other segments to invest in longevity—HNWIs prefer their advisors to focus on income-generating assets, such as dividends and bonds, over time. By contrast, affluent and private clients tend to favor a balanced risk approach to their investment strategies, regardless of age.

The strategic implication: The advisory value chain is lengthening. Wealth managers that limit their value proposition to portfolios will cede ground to those that integrate financial planning with considerations such as health, caregiving, and estate planning. The competitive landscape is shifting from firms with investment expertise to those with a broader, life-cycle-wide approach.

Disruption four: The end of standardized service models

Our 2026 data dispel any remaining case for a one-size-fits-all approach to wealth management.

With product allocation, for example, respondents across segments report distinct approaches. HNWIs report holding an average of 55 percent of their financial assets in managed products (such as mutual funds, mandates, insurance, and securities), which make up just 37 percent of the assets for affluent customers. Relative to other clients, HNWIs also have a larger share of holdings in equities, suggesting that their risk and speculation profiles are very different.

Investors' channel preferences diverge just as sharply (Exhibit 4). While affluent clients' favored channel for updating their investment portfolios is online self-service, HNWIs tend to prefer making in-person changes with advisors. HNWI respondents are also more likely than others to say they use both online and phone-based advisory, and their frequency of engagement differs markedly. Fifty-nine percent of HNWIs say they seek financial advice more than once per month, compared with just 29 percent of affluent respondents.

The three segments also have different comfort levels with making financial decisions: 64 percent of affluent clients, versus 83 percent of HNWIs, say they feel comfortable doing so. This gap, along with different preferences for the overall customer experience—affluent clients are most likely to prioritize simple, easy-to-understand offerings, while HNWIs more often prioritize a unique range of products—has direct implications for advisory model design.

The strategic implication: For wealth managers, gaps in portfolio allocations, preferences, and needs mean that a single advisory model cannot serve every segment effectively. Affluent respondents want simplified, digitally enabled solutions and cost transparency. The HNWI segment, on the other hand, wants a bespoke, high-frequency, and multichannel advisory. Attempting to serve every group with the same approach and infrastructure may result in underserving all of them.

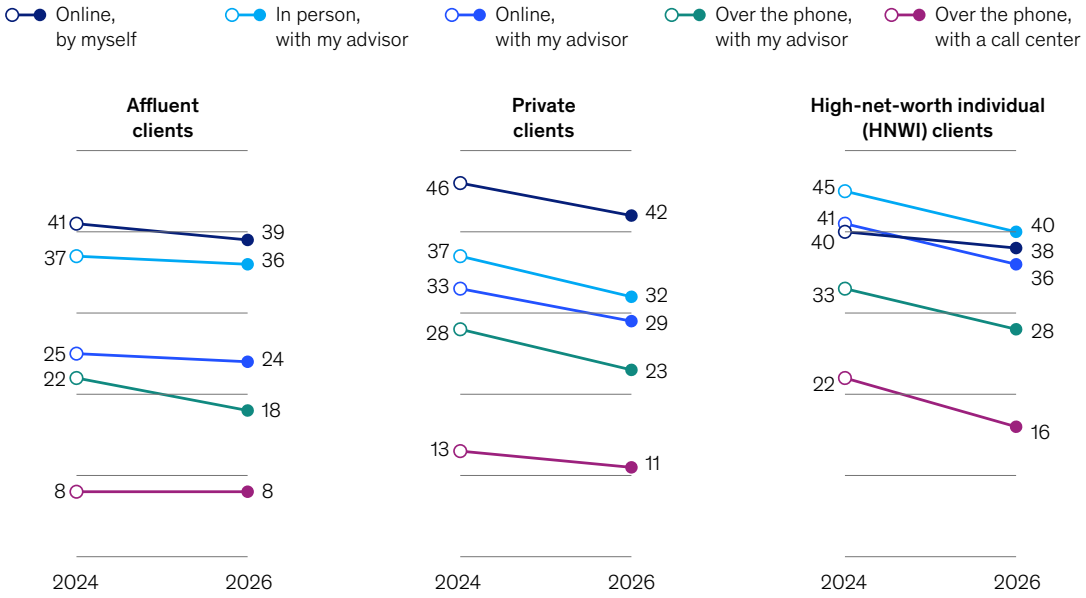
Disruption five: Pressure on economic models and client relationships

As the macroeconomic landscape continues to change, wealth management clients are responding. Four in ten affluent clients are prioritizing increased exposure to inflation- and interest-rate-linked assets over the next three years, while similar shares of private clients and HNWIs are increasing the sustainability levels of their respective portfolios. These are not marginal tweaks to portfolios but rather a fundamental shift in preferences and reallocation of client assets. Likewise, the traditional economic model—which was built upon asset-based fees, periodic reviews, and reactive client engagement—is under pressure to evolve in turn. Taken together, the demand for more from banks is unambiguous.

Exhibit 4

Investors' channel preferences for investment changes vary by segment—and since the 2024 survey.

Typical channels for making new investments or portfolio changes, 2024–26, by client type,[1]
% of respondents



[1]Affluent clients are defined as respondents with total financial assets of €50,000 to €500,000, including money in checking and savings accounts, term deposits, and all investments, n = 4,313; private clients are defined as respondents with total financial assets of €500,000 to €2 million, n = 667; and HNWI clients are defined as respondents with total financial assets of more than €2 million, n = 510. In 2024, affluent clients n = 4,323; private clients n = 667; and HNWI clients n = 511. Respondents were asked to provide multiple responses to this question, so figures do not sum to 100%.
Source: McKinsey Affluent and Wealth Management Customers' Insights 2026, Mar–Apr 2026, n = 5,490; McKinsey Affluent and Wealth Management Customers' Insights 2024, Jan–Mar 2024, n = 5,501

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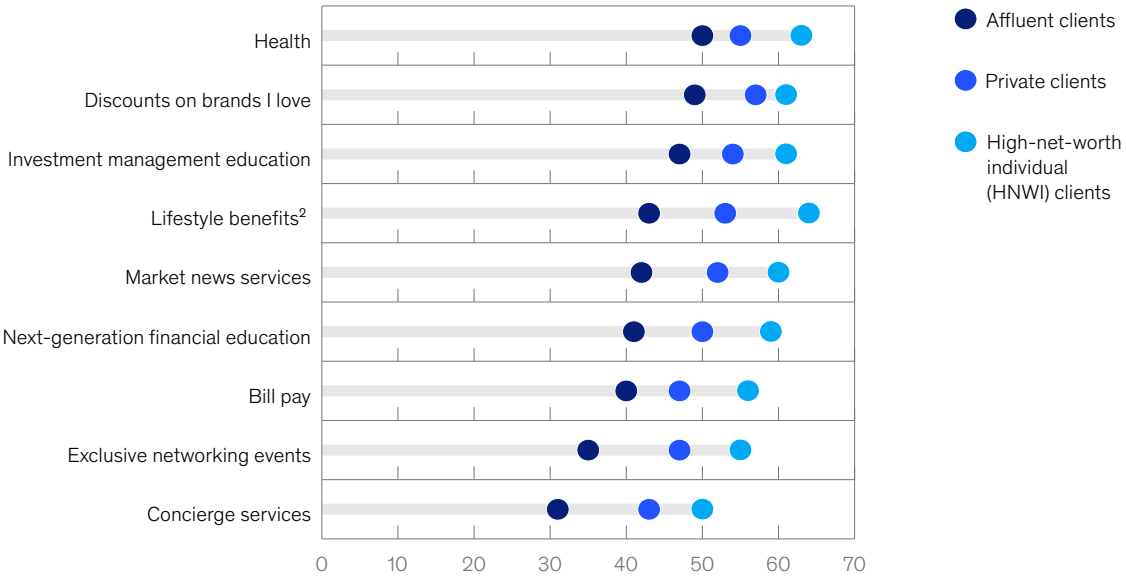
What, specifically, do clients now want from their wealth management institutions? For one, a more personal touch. When asked what could improve the advice their current banks provide, all clients want more frequent tailored investment proposals, as well as more integrated digital services, faster execution, and better financial planning. More than 40 percent of investors also value nonfinancial services, from health-related offerings to lifestyle benefits and next-generation financial education (Exhibit 5).

At the same time, just over half of affluent respondents report that competitor banks have reached out with the tailored proposals they value—while 49 percent say their primary banks have not contacted them in response to the current geopolitical situation. This gap in proactive engagement could potentially threaten customer retention. Thirty-six percent of HNWIs indicate that they may change their primary bank within the next 12 months, with loss of trust cited as the number one reason clients across segments say they leave their institutions.

Exhibit 5

Across segments, customers value a range of nonfinancial services that wealth management firms could provide.

Additional benefits or services that clients would value, if offered by their wealth management firms, 2026, by client type,[1] % of respondents (who answered "highly valuable" or "very highly valuable")



[1]Affluent clients are defined as respondents with total financial assets of €50,000 to €500,000, including money in checking and savings accounts, term deposits, and all investments, n = 4,313; private clients are defined as respondents with total financial assets of €500,000 to €2 million, n = 667; and HNWI clients are defined as respondents with total financial assets of more than €2 million, n = 510. Respondents who answered "moderately valuable," "lowly valuable," or "not at all" are not shown.
[2]Eg, access to unique experiences or events, travel.
Source: McKinsey Affluent and Wealth Management Customers' Insights 2026, Mar–Apr 2026, n = 5,490

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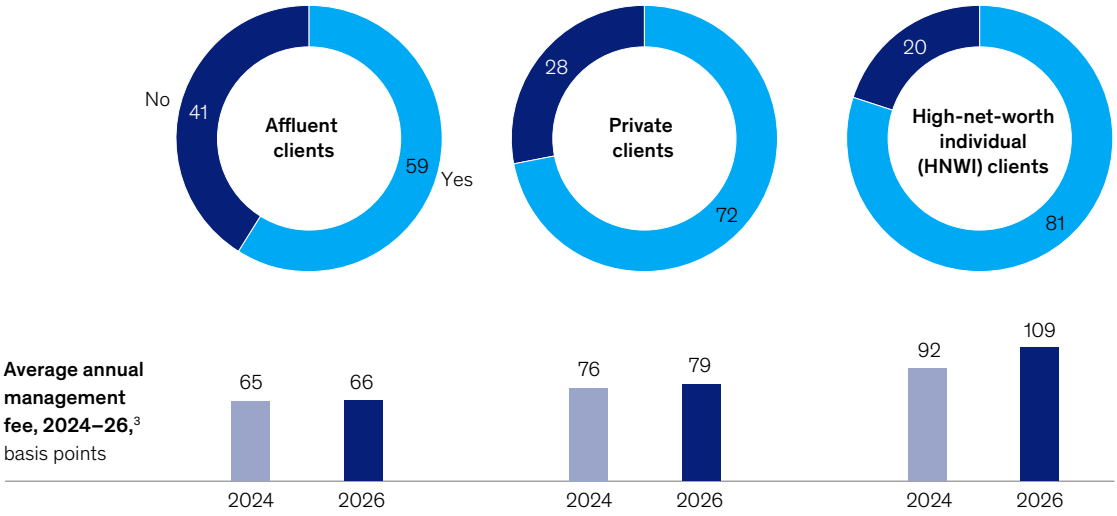
The survey suggests that clients also want a more flexible, value-based pricing model, as the tension between service expectations and cost pressures is intensifying. Even HNWIs are more cost aware than in the previous survey (Exhibit 6), and they tend to prefer variable, performance-linked fee structures over fixed fees, as do private clients—a clear signal that these investors want alignment between what they pay and what they receive. Similarly, 71 percent of affluent clients are willing to pay separately for financial planning, and 68 percent are willing to pay for enhanced reporting, suggesting that unbundled, value-based pricing may be more sustainable than current opaque, asset-based models.

The strategic implication: The current wealth management model is caught between clients who want more personalization and firms that are structured for scale through more standardized offerings and pricing models. Performance-based pricing, proactive engagement, and service expansion are not optional enhancements; they are requirements in an industry in which client preferences and needs are evolving rapidly.

Exhibit 6

High-net-worth individual customers report a higher level of cost awareness than both private and affluent clients.

Client's awareness of total cost of investing,[1] 2026, by client type,[2] % of respondents



Note: Figures may not sum to 100%, because of rounding.
[1]Ie, the management fee to advisors for financial advice, plus any internal expenses or transaction fees associated with the account, investments (eg, mutual funds) and trading activity.
[2]Affluent clients are defined as respondents with total financial assets of €50,000 to €500,000, including money in checking and savings accounts, term deposits, and all investments, n = 4,313; private clients are defined as respondents with total financial assets of €500,000 to €2 million, n = 667; and HNWI clients are defined as respondents with total financial assets of more than €2 million, n = 510.
[3]Asked only of respondents who said they were aware of their total cost of investing.
Source: McKinsey Affluent and Wealth Management Customers' Insights 2026, Mar–Apr 2026, n = 5,490; McKinsey Affluent and Wealth Management Customers' Insights 2024, Jan–Mar 2024, n = 5,501

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The path forward: Strategic implications for Europe's wealth managers

The five disruptions identified in our 2026 survey represent more than a set of independent trends or even a cyclical shift. Clients' expectations for advice that is continuous, tech enabled, and increasingly personalized require a fundamental reimagining of how wealth management operates in Europe.

In this context, success will require a structural reset rather than incremental adaptation—and six strategic imperatives stand out:

— *Redefine the advisory's value proposition.* With clients' risk appetite declining and their life cycle needs growing, the advisor's value extends beyond stock picking or asset allocation. Clients want their advisors to help manage complexity, navigate uncertainty, and plan for their well-being—financial and otherwise—across various stages of life. The firms that maintain a returns-first approach will likely lose relevance.

— *Build hybrid human–AI advisory models.* The data are clear: Clients trust AI to augment their advisors' capabilities (by enhancing personalization and providing more timely advice, for example), not to replace their advisors altogether.

— *Extend into longevity and nonfinancial planning.* With 70 percent of HNWIs wanting their financial advisors to address nonfinancial aspects of their lives, this service is not a "nice to have." It is an explicit client expectation that represents an opportunity for firms to both differentiate themselves from competitors and retain clients over the long term.

— *Move from one-size-fits-all to tailor-made services.* The affluent clients who seek simplicity and HNWIs who want bespoke, multichannel, high-frequency engagement cannot be served through the same model. Distinct operating models are now a prerequisite and will require different channel strategies, product architectures, and engagement frequencies for different segments.

— *Revamp economics and client engagement.* With 66 to 76 percent of clients preferring variable, performance-linked fee structures and growing cost awareness among HNWIs, the industry must move from opaque, asset-based fee structures toward pricing models where advisors' incentives are clearly aligned with their clients' outcomes. And with ongoing geopolitical upheaval and quickly evolving client preferences, it's critical that firms engage proactively—not reactively—with their clients. In an environment where loss of trust is the top reason clients leave their firms, silence can be destructive.

Europe's wealth management industry stands at an inflection point. The clients surveyed are signaling a fundamental shift in what they expect, how they want to be served, and what they are willing to pay for. Firms that act decisively to meet clients' needs will define the industry's next era, while those that treat these signals as noise will likely fall behind.

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Creating value through private markets



101
How to build businesses faster and better with AI

108
How corporate–scale up partnering can boost Europe's tech competitiveness

118
Beyond productivity: How AI creates value in private equity

127
Private equity confirms a timeless principle: Purchase price matters

131
How private equity is using M&A integrations to overcome headwinds

138
The second look: An adaptive approach to reunderwriting

145
Travel industry trends and the opportunity for private equity

154
From reckoning to renewal: An interview with KKR's Philipp Freise

How to build businesses faster and better with AI

Artificial intelligence is rewriting the rules of creating corporate ventures. Here is a strategic playbook for business leaders ready to seize a defining growth opportunity.

This article is a collaborative effort by Chris Smith, Daniel Aminetzah, Fabian Metzeler, Jason Bello, and Paul Jenkins, with Alexander Ringler and Melanie Krawina, representing views from McKinsey Business Building.

March 31, 2026



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Imagine a world in which billion-dollar companies are built by teams of fewer than a dozen people—or even by a single founder. What once seemed like science fiction is now becoming reality as artificial intelligence emerges as the new operating system of venture building.

This is not a marginal improvement or an efficiency gain. It is a fundamental rewiring of how businesses are conceived, built, and scaled. Just as the shift from mainframes to personal computers transformed knowledge work and the internet reshaped commerce and communication, AI is resetting the assumptions that have governed business building for decades. The constraints that once defined business creation—team size, capital requirements, and time to market—are being rapidly rewritten.

AI creates value for venture builders along three dimensions: It improves innovation cycles, enabling teams to generate, test, and validate more—and often better—ideas faster than ever before; it transforms productivity, allowing small teams to achieve what once required entire departments; and it accelerates velocity, shortening the time from concept to minimum viable product and reducing the capital required to reach market. Together, these gains make ventures that once appeared too risky or too costly increasingly viable.

For leaders, the question is no longer whether AI matters for business building but how to apply it in ways that deliver sustained performance. Those who treat AI as an add-on will capture incremental benefits at best. Those who rewire business building around AI as a foundational capability—with human expertise at the center—will pursue more ideas, validate them faster, and scale winners earlier, often with fundamentally different economics.

This article offers a practical playbook for leaders seeking to capture this opportunity. It begins with the evidence for AI's impact on venture economics, explains how AI creates value across the venture life cycle, and then lays out three strategic shifts that distinguish high-performing AI-first ventures. For executives ready to act, it closes with concrete steps to begin rewiring venture building around AI as the new operating system.

The case for AI-first venture building

Even amid economic uncertainty, corporate venture building remains a top strategic priority. In McKinsey's 2025 new-business building survey, 43 percent of leaders reported increasing their focus on venture building over the previous 12 months. At the same time, expectations have sharpened. With capital under greater scrutiny, leaders are under pressure to demonstrate returns more quickly and with greater capital efficiency.

That pressure is reshaping how companies approach business building. Performance expectations are rising, along with the need to improve the underlying economics of venture creation—reducing time to validation, accelerating time to revenue, and increasing output per dollar and per employee.

Recent results suggest significant progress. In 2025, 61 percent of corporate ventures generated more than $10 million in revenue, up from 45 percent in 2023. Our business-building survey found that the time required for new businesses to reach those revenue levels fell from 38 months in 2023 to 31 months in 2025. Among ventures that have already broken even, 61 percent did so within two years.

Artificial intelligence is a core driver of this performance shift. A McKinsey review of hundreds of ventures founded between 2018 and 2024 suggests that ventures launched in the AI era (2023–24) are achieving higher output with faster timelines, on both a per-person and per-dollar basis. While not every recent venture is AI native, the increasingly widespread use of AI appears to be materially compressing venture timelines and raising productivity.

Other researchers have reached similar conclusions. In a recent survey by early-stage venture capital firm Antler, 93 percent of companies reported that AI accelerated execution, with nearly half citing speed increases of up to fivefold.

AI is reshaping venture building not as a peripheral tool but as a practical driver of performance. When embedded in how ventures are designed and operated, AI creates value along three dimensions that matter most for venture economics: the breadth and quality of ideas that can be explored, the speed at which ventures move from concept to market, and the productivity that small teams can achieve.

Below, we explore each of these dimensions in depth.

Innovation and creativity

AI can act as a creative amplifier, expanding both the range and quality of ideas ventures can explore. By enabling rapid generation, testing, and refinement of concepts, AI supports divergent thinking at scale while preserving fast feedback loops critical to early-stage venture building.

McKinsey's Beacon platform, which helps teams generate, test, and launch new ventures, illustrates this dynamic. The platform—which uses agentic AI to develop and refine venture ideas based on proprietary market data, third-party data sets, and client data—has been used by hundreds of teams to develop new ventures. What once required weeks of structured workshops can now be accomplished in hours, allowing teams to surface, refine, and prioritize high-potential venture opportunities much earlier in the process.

For example, rather than relying on sequential interviews, agentic AI can test concepts simultaneously through agent-led calls, synthesize insights, and translate them into synthetic customer personas for continuous testing. These personas—built from interview transcripts, sales call notes, and product usage data—function as an always-available voice of the customer, enabling teams to pressure-test new ideas and messaging without relying solely on individual interviews.

This approach doesn't replace customer research and has its own problems (including a bias toward positivity), but it can serve as a useful companion for real-time input. AI can also help accelerate the validation of value propositions by generating, launching, and evaluating multiple variants through rapid digital marketing experiments—for example, by designing tagline and visual combinations, running them as mini-campaigns across channels, and comparing click-through rates before committing to a larger budget.

The result is not creativity for its own sake but better venture outcomes: more ideas explored, earlier and more reliable signals on customer demand, and a higher likelihood that scarce resources flow toward the most promising opportunities.

Venture velocity

Once an idea has been created and validated, AI materially shortens build and launch cycles by automating knowledge-intensive tasks—design, coding, and go-to-market execution—that once took weeks or months. This allows ventures to move from concept to minimum viable product faster and iterate in near real time as market feedback emerges.

A wealth management venture, for example, doubled delivery velocity for its first minimum viable product by implementing an agentic AI factory—a platform that builds, hosts, and deploys multiple AI agents across each stage of the software development cycle, from requirements and architecture through coding and testing, with human engineers supervising and intervening at critical decision points. The approach streamlined the full development cycle while preserving the engineering judgment that AI alone cannot replicate.

By collapsing build and go-to-market timelines, AI helps accelerate learning cycles and enables ventures to reach market signals earlier, making speed itself a source of competitive advantage.

Productivity transformation

Beyond speed, AI fundamentally changes how much output a small venture team can generate. By shifting from human employees supported by tools to hybrid human–agent teams, ventures can refocus scarce talent on judgment, decision-making, and relationship building rather than manual execution.

In a B2B sales application, a technology venture deployed a sales-collateral agent to augment its account teams. Grounded in solution expertise, customer intelligence, and best practices, the agent generated tailored value propositions, storylines, and run sheets for customer meetings. With final review remaining with human sellers, teams became at least 1.5 times more productive by focusing on refinement and client interaction rather than content creation.

A construction company had a similar experience when it launched a new software venture. The company had long relied on manual outbound lead generation. Sales teams identified prospects, researched accounts, prioritized targets, and drafted personalized outreach messages by hand. This limited the number of leads they could pursue and slowed early traction. Introducing agentic AI to automate these upper-funnel tasks boosted outreach volume by 25-fold; click-through rates more than doubled compared with the previous human-only process.

For venture builders, these productivity gains compound quickly. Higher output per person allows teams to stay small for longer, reduces coordination overhead, and improves capital efficiency without slowing progress.

Taken together, gains in creativity, speed, and productivity reinforce one another. Ventures can explore more ideas, reach market signals earlier, fail faster at lower cost, and scale winners with fewer resources. This compounding effect explains why AI, when applied pragmatically, is becoming central to improved venture economics. But capturing these gains requires more than adopting AI tools or deploying isolated use cases. It requires deliberate changes in how ventures are set up, equipped, and led.

Beyond speed, AI fundamentally changes how much output a small venture team can generate.

How to shift your ventures to operate with AI

Based on what distinguishes high-performing AI-first ventures in practice, three shifts stand out as essential to translating AI's potential into sustained performance.

Reset performance expectations: From incremental gains to step changes

Leaders can—indeed, should—set materially higher expectations for what venture teams deliver. AI has radically lowered the cost of creating, testing, and refining new businesses. At the same time, lower barriers to entry have intensified competition, making speed and scale decisive sources of advantage.

Incremental productivity improvements are no longer sufficient. In many cases, aspiring to double productivity in venture output is no longer unrealistic. Small teams are increasingly expected to deliver outcomes that once required far larger organizations.

This ambition should apply across the entire venture rather than be isolated to individual functions or use cases. AI delivers its full impact only when embedded end to end—from product development and customer discovery to go-to-market, operations, and finance—and when every role is designed to work alongside agents rather than around them. In practice, this means redesigning everyday workflows so that humans orchestrate, supervise, and intervene while agents execute research, analysis, and coordination. When expectations are raised uniformly, gains compound: faster validation enables quicker iteration, which in turn accelerates the scaling of what works.

Crucially, the goal is not simply to do the same things faster. AI enables a more fundamental shift: It moves critical learning earlier in the venture life cycle, front-loading customer validation, product iteration, and market-signal detection before large capital commitments are made. The ventures that capture the most value from AI are not those that merely automate existing processes; they are those that use AI to ask better questions earlier, fail faster on weak ideas, and concentrate resources on opportunities with genuine product–market fit.

It's also crucial to understand that lower cost per experiment is not an argument for cutting venture budgets. Instead, it is an argument for running more experiments. McKinsey research confirms the payoff: 67 percent of companies that prioritize business building outgrow the market, and each dollar of new-venture revenue creates roughly twice the enterprise value of a dollar generated in the core business. With AI lowering the cost of experimentation, companies can place more small bets, exit weak ideas earlier, and concentrate capital and talent on the few that break out.

Build the AI backbone: A new operating layer for ventures

Ring-fencing has long been a cornerstone of successful venture building—protecting new businesses from corporate bureaucracy, slow decision-making, and risk aversion so they can move at start-up speed. That principle still holds. In an AI-first context, however, ring-fencing alone is no longer sufficient. Ventures today must be both protected and supercharged: They need not only operating autonomy but also a technology foundation that allows human–agent teams to work at full speed from day one.

Providing those capabilities is the responsibility of the corporate venture leader, working in close partnership with the chief technology officer or chief information officer. Speed without structure, after all, creates fragility, and structure without speed creates bureaucracy. This requires tech and business leaders to provide the foundation that enables both.

At the center of this foundation is data—that of both the venture and the enterprise. Ventures generate real-time signals from customer interactions, operations, and product usage, while corporates contribute institutional depth through historical benchmarks, proprietary research, and market knowledge. Together, this data must be structured and governed so it can be reliably used at scale.

In addition to data, the parent plays a critical role in ensuring that core AI capabilities are easily accessible and continuously adaptable. This includes a shared business context so humans and AI systems operate from consistent definitions; strong analytics and model governance so insights are trustworthy and embedded in day-to-day decisions; controlled agentic and workflow layers so AI systems can act in secure, auditable ways; and shared platforms, governance standards, and specialized AI talent that can be deployed across ventures. When this foundation is in place, ventures do not rebuild infrastructure or reconcile conflicting metrics. Teams focus on product, customers, and growth while operating on an enterprise-grade base that preserves quality, security, and regulatory standards.

Done well, this becomes a strategic advantage. A CEO can see in near real time which products, customers, or investments are driving performance. The combination of the venture's own data and the parent's institutional knowledge provides a durable competitive edge. Each additional venture strengthens the shared foundation, lowering the marginal cost of innovation and increasing the speed of subsequent launches.

Design AI-first teams: Encode the expertise of your top performers

AI-first venture building makes it possible for a handful of the right people to achieve what once required entire departments. It also raises the stakes. Because AI amplifies the impact of human decisions, talent choices matter more than ever. Below, we list three ways that leaders can create this new generation of AI-first venture-building teams.

Scale expertise through 'agentification.' The core shift is not simply combining domain experts with AI talent but deliberately scaling expertise by turning it into a hybrid human–agent capability. Through agentic systems, tacit knowledge embedded in documents, processes, and experienced individuals can be extracted, structured, and reused. This agentification of expertise allows ventures to multiply the impact of their best people rather than rely on linear head count growth.

Bridge business and tech. AI-first ventures don't treat agent development solely as a technology initiative. They treat it as a joint effort between business and tech leaders to translate real-world expertise into AI agents. Business leaders bring a deep understanding of where value is created, how decisions are made, and what distinguishes top performers. Technology teams bring the ability to translate that judgment into systems that operate reliably at scale. Neither can do it alone. Companies that get this right create tight collaboration between the two so that the logic behind how work actually gets done is deliberately designed, codified, and embedded into AI-driven workflows. The result is not just automation, but the systematic extension of business expertise.

One way this can happen is by embedding a go-to-market engineer within a venture's sales team, working alongside top sellers to understand how they research accounts, shape value propositions, prioritize leads, and handle objections. Together with engineers, that knowledge is then translated into structured prompts, automated workflows, and AI agents that perform much of the preparation work. Over time, tasks such as account research, first-draft proposals, and pipeline prioritization are handled by AI systems built on the team's own best practices. Salespeople can then shift their focus to judgment, relationship building, and closing, allowing the venture to increase output and consistency without increasing head count.

Create flywheels of amplified expertise. The business impact of this approach can be significant. A global manufacturing company applied this model when launching a new digital marketplace. The company paired a senior executive with an AI engineering team and made it their joint mandate to capture and scale the executive's expertise. Together, they mapped how pricing decisions were made, suppliers were evaluated, and target customers were identified. This logic was then translated into AI/machine learning models and AI-supported workflows embedded directly into the platform. As a result, decisions that once depended on the judgment and availability of a single leader could now be executed consistently and at scale. The venture did not just benefit from the executive's experience; it multiplied it across the business. In the meantime, as the platform scales, usage data and transaction patterns feed back into the models, progressively improving the accuracy of pricing, supplier selection, and customer targeting—creating a flywheel in which the venture becomes smarter with each additional interaction.

The AI-first future demands a call to action for venture builders. The operating system of venture building has changed. Leaders who move decisively on all three fronts—resetting performance expectations to demand step-change results, building the AI backbone that allows hybrid human–agent teams to operate from day one, and designing teams to encode and multiply expertise through AI—will capture disproportionate value. Those who treat AI as an add-on or delay action will find themselves competing against ventures that operate on fundamentally different economics. The time to act is now.

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How corporate–scale up partnering can boost Europe's tech competitiveness

Stronger, more systematic partnerships between corporates and scale-ups can enable both to thrive.

This article is a collaborative effort by Fernando Figueiredo, Kayla Miele, Ruben Schaubroeck, and Tobias Henz, with Filipe Valadas, representing views from McKinsey's Technology, Media & Telecommunications and Private Capital Practices, Technology & AI group, and McKinsey Business Building.

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Europe still faces challenges in its innovation journey, but invention is no longer one of them.

Over the past decade, the region has built many of the ingredients needed to compete globally: deep technical talent, strong research institutions, and a growing scale-up ecosystem supported by expanding early-stage capital. The European Union is home to 35,000 early-stage companies[1] and attracted more than $425 billion in venture funding between 2015 and 2025.[2] It is also entering a new wave of deep tech innovation across AI, defense, energy, robotics, biotech, and advanced manufacturing.[3]

Yet too few of those early-stage companies become scale-ups—organizations typically in the growth phase from Series B to exit, whether IPO, strategic acquisition, or private equity buyout—and grow into globally competitive businesses that remain anchored in the region, helping to spur jobs growth, productivity gains, and technological leadership. For example, McKinsey research suggests that, if Europe can scale what is already working in deep tech alone, it could create up to $1 trillion in enterprise value and one million jobs by 2030.[4]

This challenge the region faces is often framed around structural issues such as capital markets, regulation, or fragmentation. However, there is one significant scaling opportunity within their reach (and control) that private stakeholders have yet to sufficiently seize: stronger, more systematic partnerships between corporates and scale-ups. These partnerships, as seen in the US and Asia, can be one of the most practical private-sector levers available that can directly improve scale-ups' access to industrial capabilities, distribution, market credibility, and growth capital. The right corporate partnership can deliver a step change in customer reach and commercialization that would take years to build independently. Corporates benefit from the relationships as well—not only through exposure to emerging disruptive technologies and talent that can strengthen their core, but by unlocking new revenue pools and new business models.

So far, however, European corporate–scale-up partnerships have yet to fully realize this potential. In many cases, stakeholders inside the corporate may not have enough reason to push adoption forward; procurement and risk processes may move too slowly for a scaling company; pilots may be too limited to prove real value; solutions can remain peripheral rather than integrated into core operations; and there may be no clear path from technical success to commercial rollout. Scale-ups also share responsibility. In some cases, they may present their technology as the basis of a proposed corporate partnership before it is fully enterprise-ready, as scaling organizations may be unprepared for the compliance requirements (such as GDPR, cybersecurity, and tech sovereignty) that European buyers specifically expect.

The partnerships that do succeed are designed to scale from the outset. They combine clear ownership and aligned incentives with discipline at each stage—at the outset in defining a real use case and aligning on value, during execution in driving adoption, and at scale in iterating, embedding, and commercializing the solution.

This article, based on research including interviews with more than 30 European founders and corporate executives, as well as our own experience in the market, examines the current state of corporate–scale-up partnerships in Europe and how both sides can work together more effectively to help the region grow and retain the fruits of innovation in the coming years.

[1] "EU start-up and scale-up strategy," European Parliament Legislative Train Schedule, April 20, 2026.
[2] *Europe's moonshot moment: Fueling its tech ecosystem for scale*, McKinsey, June 2, 2025.
[3] From 2019 to 2023, Europe's share of global deep-tech investment rose from 10 to 19 percent, and deep tech now accounts for about 44 percent of all tech investment in Europe.
[4] *Europe's deep-tech engine could spur $1 trillion in economic growth*, McKinsey, October 29, 2025.

Europe's innovation bottlenecks

Europe's scale-up challenge is no longer creation, it is conversion—helping more of its emerging companies scale into global leaders while staying based in Europe.

Part of the explanation lies in familiar structural challenges: fragmented markets, uneven demand conditions, and a more risk-averse operating and cultural environment than in other regions. But two of the most important barriers sit, at least in part, within the control of private-sector actors.

Barrier 1: Partnerships that fail to translate into scale

The lack of systematic collaboration between European corporates and scale-ups is a major obstacle. Only around 20 percent of European corporates actively collaborate with scale-ups, versus roughly 50 percent in the United States, and even these collaborations rarely translate into scaled commercial outcomes.[5] Fewer than 5 percent of scale-up projects that are formally evaluated by corporates (for instance, through pilots, proofs of concept [PoCs], or partnership processes) ultimately make it to market.[6] "European corporates are often not 'buyers of first resort,'" says one founder of a European AI company. "They are more comfortable engaging after a company has already won validation from a US prime, while US companies buy earlier, bigger, and with clearer production paths."[7]

Scale-ups also have a role to play. Many establish corporate partnerships without the operational maturity to address the questions large buyers often ask about architecture, security, and compliance. Some succeed first in the United States before attempting to enter Europe, where the more fragmented operating environment and more extensive regulatory standards on topics such as cybersecurity and data privacy can present a steeper barrier. Without preparation for these realities, even strong technologies can stall before reaching scale.

Even when formal collaborations are established, the engagement is often designed as a low-risk, exploratory exercise such as a small pilot, limited-scope PoC, or minority equity investment. As a result, partnerships often lack clear business ownership, strategic buy-in, dedicated budget, and sufficient resources to move from pilot to scaled deployment.

In other cases, the partnership is often deliberately constrained. Corporate processes, particularly procurement, budgeting, and risk management, are typically built to minimize exposure and protect margins, not to accelerate adoption. This leads to fragmented, risk-averse decision-making, slow timelines, and pilots that are too small to demonstrate scalable impact. Combined with misaligned incentives between scale-ups and corporates, partnerships frequently stall before full implementation.[8] As the CEO of a mobile game developer put it: "Procurement is not just a process issue but a mentality issue. US buyers are more likely to see opportunity, while European buyers focus on risk and what could go wrong."[9]

This challenge is especially acute in deep-tech and hard-tech sectors such as defense tech, energy resilience, industrial automation, and advanced manufacturing, where companies face longer development cycles, higher capex needs, and more complex regulatory and technical validation requirements.[10]

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[5] *The EU startup and scaleup strategy*, European Commission working document, SWD (2025) 138 final, May 2025.
[6] Alfredo De Massis and Silvia Sanasi, "How to scale your business and become an outlier venture," Institute for Management Development, April 28, 2026.
[7] McKinsey interviews with founders and corporates as of May 2026.
[8] *Collaborations between corporates and start-ups*, McKinsey podcast, May 10, 2021; expert interviews.
[9] McKinsey interviews with founders and corporates as of May 2026.
[10] "European deep-tech: What investors and corporations need to know," McKinsey, December 17, 2024; and *Europe's deep-tech engine could spur $1 trillion in economic growth*, McKinsey, October 29, 2025.

Barrier 2: Late-stage capital

Europe has made real progress in seed and early-stage funding, but late-stage capital remains thinner, more concentrated, and less predictable than in the United States. A recent McKinsey study notes that European software scale-ups take an average of 15 years to reach €100 million in annual recurring revenue (ARR)—five years longer than their US peers.[11] Since revenue generation is the primary driver of ecosystem success, Europe's relatively weaker demand slows the pace of scaling. And just as slower scaling is linked to the cumulative capital shortfall, investors allocate less capital where scaling is more difficult. The result is not only slower scaling, but also greater pressure for scale-ups to relocate outside of Europe, which then ultimately loses the long-term value of its homegrown innovation.

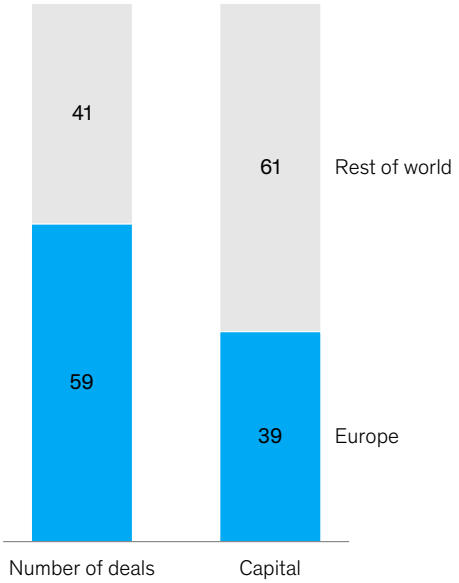
This deficit is exacerbated by the relative lack of European corporate investing in scale-ups. The European Commission notes that corporate venture capital (CVC) accounts for only 15 percent of venture funding in Europe, versus 30 percent in the United States, and highlights an investment imbalance in which EU corporates direct more capital to US scale-ups than to European ones.[12] Moreover, Europe's own corporate venture capitalists invest more of their late-stage capital abroad than at home, leaving the region's homegrown scale-ups, in turn, to rely heavily on non-European capital (Exhibit 1).

[11] *Europe's moonshot moment: Fueling its tech ecosystem for scale*, McKinsey, June 2, 2025.
[12] "The future of European competitiveness," European Commission, September 2024.

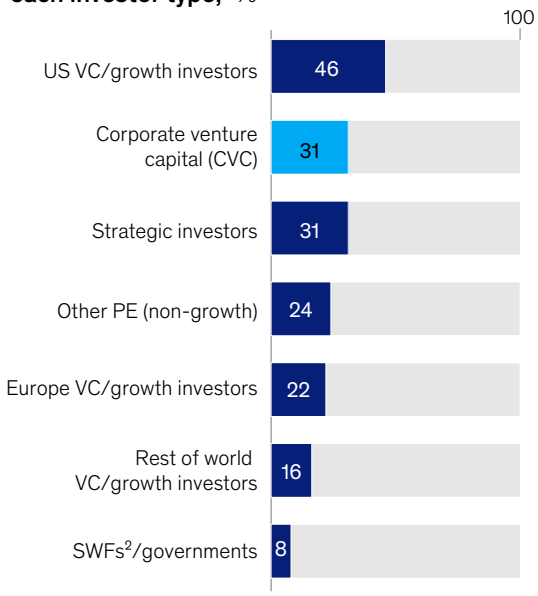
Exhibit 1

Most European corporate venture capital is invested in scale-ups outside Europe, while homegrown scale-ups rely heavily on foreign capital.

Geographic deployment of European corporate venture growth capital in the last 5 years, %



Share of European Series B+ deals involving each investor type,[1] %



[1] Deals can involve multiple investor types simultaneously; percentages reflect the share of deals with at least 1 investor of the given type and do not sum to 100%.
[2] Sovereign wealth funds.
Source: PitchBook (2021–present, European CVC investment, Series B, C, D, etc); PitchBook (2021–present, global, Series B, C, D, etc)

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But capital alone is insufficient to close the scaling gap fully, and a relative lack of late-stage institutional capital is a much bigger issue for European scale-ups than corporate investments. However, leveraging mature commercial enterprise structures with established distribution channels is a critical way for scale-ups to gain momentum, and corporate capital investment can help deepen and accelerate that collaboration. In that way, there is an opportunity for European corporates to play a larger role in funding and guiding Europe's next generation of growth companies—and to benefit from it themselves, both operationally and financially.

A road map for successful corporate–scale-up partnerships

Corporates and scale-ups can pursue two reinforcing pathways: collaboration with tangible business impact, and strategic capital.[13]

Value-creating collaboration: Corporates and scale-ups as true partners

What often determines whether a scale-up can fulfill its ambitions is access to customers, infrastructure, industrial capabilities, and routes into new markets. These are areas where corporate partners can serve as a strong catalyst helping convert European innovation into European scale—but only when these partnerships are backed by dedicated budgets and resources to move beyond pilots and into scaled deployment. Our research shows that a sample of European scale-ups that reported corporate partnerships raised roughly five times as much funding as peers without reported partnerships.[14]

In the process, corporates can boost their own value. Those that actively partner with scale-ups tend to outperform benchmarks, suggesting these collaborations can be a meaningful growth lever for incumbents (Exhibit 2). The signal is even stronger among corporates running multiple scale-up partnerships, which outperformed benchmarks even further over the same period. As one former European group bank chief executive puts it: "Innovation is now too diverse and fast-moving for large institutions to build everything internally. The opportunity for corporates is to become better integrators of external innovation—using their scale, customers, and operating platforms to help founder-led companies grow faster."

Five collaboration models stand out.

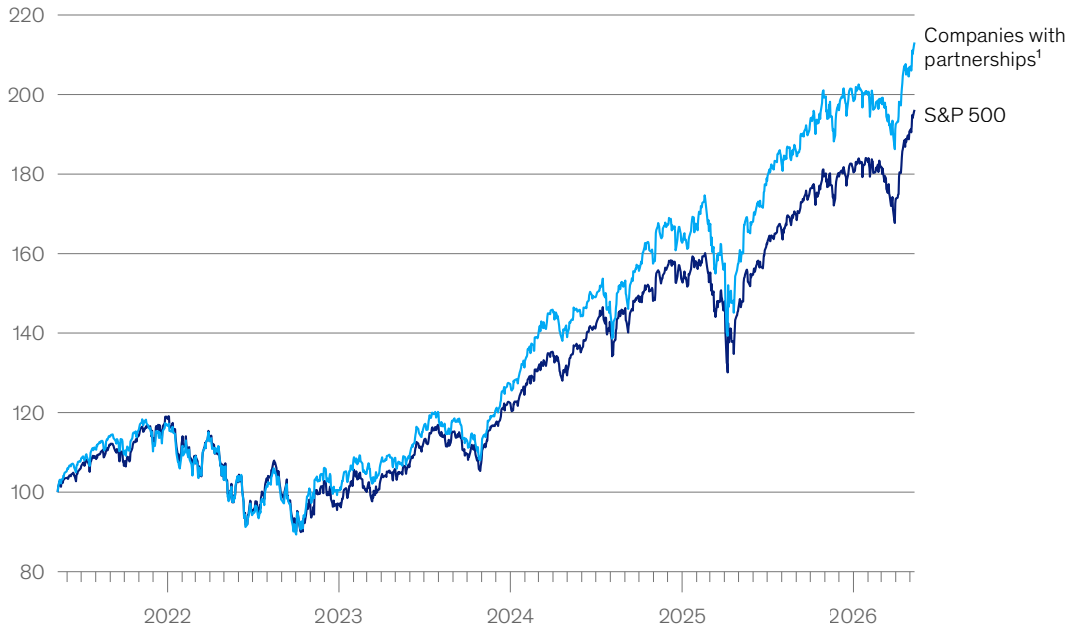
— *Cornerstone customer:* A corporate becomes a large, multiyear reference customer for a scale-up's ready-to-deploy product. This creates immediate, bankable demand for the scale-up while securing cutting-edge solutions for the corporate. For example, over the last few years, Stegra, a green industrial scaleup initially focused on low-emissions steel, secured long-term offtake agreements and strategic investments from industrial customers including Marcegaglia, Mercedes-Benz, Scania, and Schaeffler.[15] European corporates can use this approach to innovate much faster by embedding scale-up partners' technology into their infrastructure rather than trying to build it internally. For a model from outside the region, consider the Indonesian telecom giant Indosat Ooredoo Hutchison (IOH) and its partnership with Tanla Platforms, a leader in AI platforms for telcos. To help combat digital fraud, IOH embedded Tanla's AI-powered anti-scam and anti-spam solution directly into its core national network, gaining much-needed advanced tech at scale-up speed. For Tanla, IOH acted as a major customer reference building credibility with other carriers.[16]

[13] Navina Rajan, 2025 Annual European Venture Report, PitchBook, January 17, 2026.
[14] McKinsey analysis.
[15] "Blazing a new trail for hard-to-abate industrial financing," Stegra, December 4, 2023.
[16] "When trust becomes infrastructure: AI and digital fraud in telecoms," Institute of Entrepreneurship and Private Capital, London Business School, May 12, 2026; "Wisely AI sets a new impact benchmark protecting 100 Mn Indosat users from 2 Bn+ scam and spam communications in Indonesia," Tanla, February 6, 2026.

Exhibit 2

Corporates that engage in scale-up partnerships show higher returns than the broader market.

TSR, index (100 = May 2021)



[1]Sample includes 84 S&P 500 companies with identified scale-up partnerships (approximately 120 partnerships) over the past 5 years. TSR shown as simple average, indexed to May 2021.
Source: S&P Global Market Intelligence, McKinsey Value Intelligence Platform

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— *Joint development and R&D:* Corporates and scale-ups codevelop solutions by combining scale-up technology with corporate assets and use cases. This provides corporates fast-track, cost-effective access to innovation while helping founders refine and validate their technology. In September 2025, for instance, lithography technology leader ASML partnered with Mistral AI to explore the use of advanced AI models across its R&D and operations.[17]

— *Go-to-market (GTM) and geographic scaling:* Corporates use their established sales channels and market presence to distribute a scale-up's proven product. This accelerates the scale-up's commercial adoption while expanding the corporate's value proposition. Celonis, a Munich-based process intelligence provider, partnered with enterprise platforms including Oracle[18] and ServiceNow[19] to embed its process intelligence into the operational systems and workflows that enterprises already use to execute work at scale across global markets.

[17] "ASML, Mistral AI enter strategic partnership," ASML press release, September 9, 2025.
[18] "Celonis and Oracle collaborate to power enterprise AI and accelerate IT modernization," Celonis press release, April 10, 2026.
[19] "ServiceNow and Celonis form strategic partnership to redefine how work flows," Celonis press release, October 6, 2021.

— *Industrialization and manufacturing partnerships:* Corporates provide scale-ups with access to production assets, supply-chain networks, and operational knowledge. This is crucial for helping scale-ups successfully transition from prototype to reliable, scaled delivery. For instance, in December 2025, Helsing signed an agreement with automotive supplier Schaeffler[20] to increase drone production and secure resilient component supply chains, pairing Helsing's defense technology with Schaeffler's industrial manufacturing expertise to accelerate the move toward production-ready deployment. Similarly, German fusion energy scale-up Marvel Fusion partnered with Siemens Energy to industrialize its laser-driven fusion technology, leveraging Siemens Energy's manufacturing and engineering capabilities to accelerate the path from prototype to commercial deployment.[21] In healthcare, BioNTech's partnership with Pfizer during the COVID-19 pandemic remains a benchmark of industrialization at scale: Pfizer's global manufacturing and cold-chain distribution network enabled BioNTech's mRNA vaccine to reach billions of patients within a year of authorization.[22]

— *Ecosystem activation through institutional platforms:* Corporates build structured platforms—like accelerators or venture client units—to systematically engage a broad pool of early-stage scale-ups. These act as strategic radar to help identify and nurture future, deeper commercial partnerships. SAP, with its SAP.iO Foundry Munich[23] program, partners with scale-ups to integrate and jointly offer solutions across enterprise utility and infrastructure systems, providing access to SAP's technology and customer base to support deployment across real-world energy networks and industrial operations.

Across these models, success depends less on picking the right archetype up front than on giving the partnership the time, budget, and discipline to iterate on the working model, integration, and joint solution.

Strategic capital: Financing scale and preserving European ownership

Europe's scale-ups do not simply need more capital; they need capital that is better suited to the realities of scaling in Europe—more patient, more strategic, and more willing to support industrialization and market expansion. In that context, equity can anchor commitment, align incentives, and create a more durable basis for collaboration than a contract alone—especially when companies are scaling through volatile markets or valuation uncertainty. Such a multifaceted relationship can make all the difference between success and failure. As one CEO of a European ride-sharing app notes, "Corporate capital does not become strategic simply because it is corporate. When investment is not tied to business-unit engagement, commercial milestones, or a clear deployment path, it risks becoming passive exposure rather than a lever for scale."[24]

Corporates can leverage four primary investment archetypes to get exposure to founders looking to scale their companies' operations. Each strategy should be judged not only by financial returns, but by whether it helps unlock commercial and operational value through a broader strategic relationship.

— *Corporate venture capital (CVC):* Corporates invest directly in early-stage companies to act as a strategic radar for market adjacencies. This serves as an outsourced innovation engine, providing early intelligence and relationships before markets fully mature.

[20] "Auto supplier Schaeffler and Helsing to cooperate on drone development," Reuters, December 2, 2025.
[21] "Marvel Fusion extends Series B to EUR 113m with commitments from EQT Ventures, Siemens Energy and European Innovation Council (EIC) Fund," Marvel Fusion press release, March 27, 2025.
[22] "Pfizer and BioNTech announce further details on collaboration to accelerate global COVID-19 vaccine development," Pfizer press release, April 9, 2020.
[23] Nicole Huth, "SAP.iO Foundry Munich launches startup partnering program dedicated to sustainability and energy management," SAP Community, October 20, 2023.
[24] McKinsey interviews with founders and corporates as of May 2026.

— *Direct growth investments:* Corporates take significant stakes in later-stage rounds to serve as anchor investors. This accelerates a scale-up's industrialization while securing the corporate direct, strategic access to breakthrough technology.

— *Indirect limited partner (LP) investments and VC partnerships:* Corporates allocate capital to external venture funds rather than investing directly. This provides diversified, curated exposure to emerging technologies without the overhead of building an internal direct-investing team. For example, Nestlé invests in scale-ups through LP positions in external venture funds, including commitments from its Sustainability Fund to specialty VC funds.[25]

— *Acquisitions:* Corporates outright acquire mature scale-ups to rapidly integrate synergistic technology and talent. This deep operational integration provides scale-ups with a global route to market while recycling capital and talent back into the ecosystem. For example, technology company ABB made an initial minority investment in Sevensense in 2021 and, following successful pilots, fully acquired the AI navigation scale-up in 2024 to integrate the technology into its robotics portfolio.[26]

Corporates that pursue frequent, smaller acquisitions consistently outperform those relying on large deals or organic growth. This pattern is particularly pronounced in technology-intensive sectors such as advanced industries (including electronics, manufacturing, aerospace, and defense) and TMT (technology, media, and telecom), where capabilities, talent, and product adjacencies evolve quickly, making smaller, more frequent acquisitions critical for maintaining competitiveness and accelerating innovation. In North America, companies completing more than five deals per year generated 7.9 percent excess TSR versus 3.4 percent for organic growers and 1.0 percent for large-deal acquirers. Europe shows the same pattern—albeit at lower levels—with frequent acquirers generating 3.6 percent excess TSR, while both organic growth and large deals underperform. This highlights a clear opportunity for European corporates to increase deal frequency and close part of the performance gap.[27]

Laying the foundation for a successful corporate–scale-up partnership

The partnerships that succeed are typically designed to grow from the beginning. They are effectively industrialized, and often rely on the following steps:

— *Treat the partnership as a core business priority.* Partnerships with active executive sponsorship, dedicated business-unit ownership, and sufficient budget allocation can significantly outperform those managed peripherally. In practice, the most effective collaborations tend to be those where the corporate brings its "A-team": dedicated resources, clear accountability, and sustained executive attention throughout the partnership life cycle.

— *Design explicitly for cultural and operational differences.* High-performing partnerships from the start frequently address the organizational differences between corporates and scale-ups that can often become challenges, aligning on ways of working, decision-making processes, and integration approaches. While partnerships and M&A differ structurally, the cultural challenge they often face can be similar. McKinsey research shows that lack of cultural fit and friction is the most common reason M&A integrations do not meet value expectations. Conversely, when organizations get the culture piece right

[25] "Nestlé announces partnership with The Yield Lab Latam to support startups transforming agriculture," Nestlé press release, June 7, 2023; and "Nestlé Ventures: investing to drive innovation," Nestlé (Investors).
[26] "ABB acquires Sevensense, expanding leadership in next-generation AI-enabled mobile robotics," ABB press release, January 11, 2024.
[27] Capital IQ; Forbes Global 2000 (2024); McKinsey Value Insights.

and consciously manage these gaps, they are over 40 percent more likely to meet or surpass cost synergy targets, and up to 70 percent more likely to surpass revenue targets.[28]

— *Align on value creation with partnership-specific KPIs that do not constrain speed and scale.* Previous McKinsey research shows that only a minority of scale-ups reported having clearly defined, measurable goals and milestones, yet establishing these up front increased satisfaction significantly.[29] Importantly, the metrics used can reflect the nature of the partnership. Successful partnerships track a combination of leading indicators—such as product development milestones, customer adoption, or pipeline generation—alongside longer-term financial outcomes such as EBITDA or ROI.

— *Build pilots that are designed to scale.* The "pilot trap" is a common issue within corporate–scale-up partnerships, in which initiatives that generate insights fail to be implemented at scale. Effective partnerships instead typically treat pilots as scaled-down implementations—large enough to show meaningful business impact, with predefined success criteria and agreement on what is needed to move forward.

— *Focus on quality over quantity.* Scale-up engagement programs (such as accelerators and hackathons) can serve as useful scouting funnels for identifying potential partners—but value rarely accrues from breadth alone. The most effective partnerships are usually those that graduate from broad engagement to deeper, focused collaboration, where corporates concentrate capital, talent, and integration effort.

A coordinated path to scale in Europe

Europe's ability to strengthen competitiveness and retain more value from its own innovation may depend in part on deeper, more systematic partnerships between corporates and high-growth scale-ups. Some €500 billion to €1 trillion in annual value could be at stake by 2030.[30]

Corporates can play a vital role in helping capture the value at stake—not only as sources of capital, but as customers, distribution partners, industrialization platforms, and anchors for commercialization at scale. For that reason, they may treat scale-up engagement less as a peripheral innovation activity and more as a core strategic lever. Corporates can not only use their balance sheets, but also procurement, partnership models, technical capabilities, and operating platforms to strengthen the core business, become more agile, and gain earlier access to the technologies, talent, and business models shaping the future.

For scale-ups, the opportunity is equally clear: The companies that engage corporates not only as sources of capital, but as partners in commercialization, industrialization, and expansion, may be better positioned for their growth journeys. The right corporate relationship can provide faster impact, customer access, implementation insights, and credibility in the market, while also helping the scale-up navigate Europe's fragmented operating environment more efficiently. In many cases, that can reduce the capital, time, and friction required to scale. Having your main customer or operating partners financially invested can strengthen the base of the business, reduce risks, and increase valuations.

[28] Emily O'Loughlin, Kameron Kordestani, Rebecca Kaetzler, and Evelyn De Blieck, "Why managing culture is critical for value creation in M&A," McKinsey, February 19, 2025.
[29] Karel Dörner, Max Flötotto, Tobias Henz, and Tobias Strålin, *Can't buy love: Corporate-start-up partnerships in the DACH region*, McKinsey, September 30, 2020.
[30] "Accelerating Europe: Competitiveness for a new era," McKinsey Global Institute, January 16, 2024.

For Europe as a whole, partnerships are necessary, but far from sufficient. Closing the scale gap may also require institutional late-stage capital, less fragmentation, stronger talent and infrastructure, and an evolving policy environment for scaling and industrialization. But stronger corporate–scale-up collaboration is one of the clearest near-term levers available to the private sector. It can help more innovation reach commercial scale, remain anchored in the region, and support a broader agenda of competitiveness, resilience, and economic growth.

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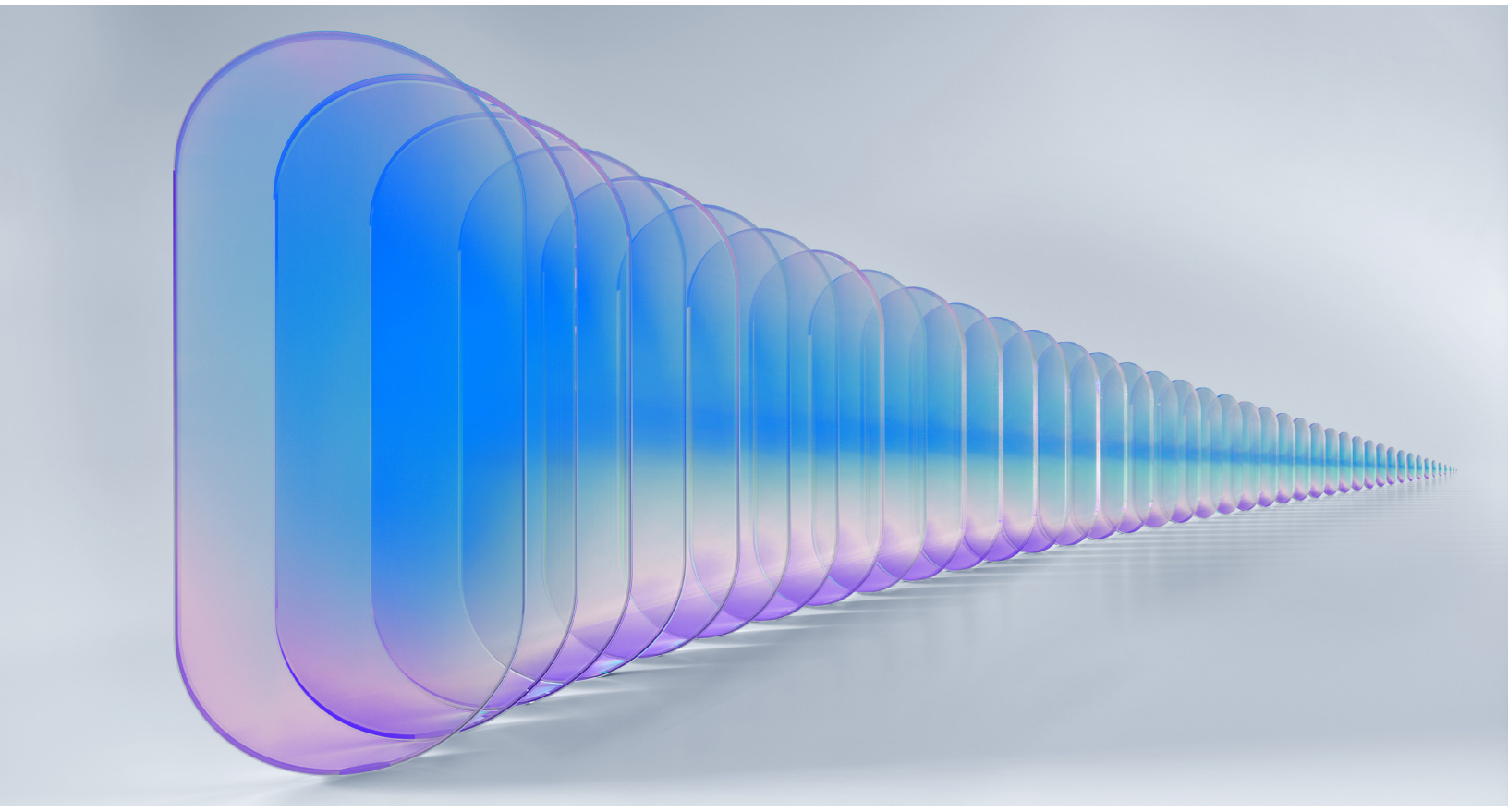
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Beyond productivity: How AI creates value in private equity

Private equity–backed companies that broadly embrace AI have median revenue multiples more than twice those of companies focused solely on productivity initiatives.

This article is a collaborative effort by Alfonso Pulido, Hayk Yegoryan, Joachim Bleys, and Stacey Haas, with Chris Lin, Jayesh Gautam, Monica Brondholt, and Shona Sharma, representing views from McKinsey's Private Capital Practice and McKinsey Business Building.

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Picture two private equity (PE)–owned companies, each trying to capture benefits from AI. Company A uses AI tools to automate administrative and accounting tasks such as generating invoices and scheduling meetings. Company B also uses AI to boost productivity—but doesn't stop there. It develops an agent to handle client onboarding and renewals, as well as an AI-powered sales management tool as a new product offering for its existing customers. Over time, which company is likely to generate a higher valuation?

You guessed it: Companies that embed AI across operations, products, and new business ventures demonstrate higher growth potential. The difference is material. In our analysis of PE-backed companies, those that broadly embrace AI trade at a median revenue multiple[1] approximately 130 percent higher than that of companies that primarily use the technology in an opportunistic way (see sidebar, "Research methodology").

Research methodology

Our analysis is based on a data set of 471 privately held companies that received equity or debt investment from a private equity fund at some point in their life cycle. We focused on deals completed from 2023 onward, with reported revenue data from the same period, to capture the phase of broader enterprise AI adoption. We limited the sample to companies with revenue between $1 million and $250 million and valuation-to-revenue multiples between 5x and 300x. The sample spans 30 countries and 31 industries. The median founding year is 2015.

To allow for the comparison of revenue per employee across years, inflation rates reported by the International Monetary Fund[1] by country and year were applied to revenue figures. Employee figures were backdated to the year of revenue.

Firms were classified into four AI maturity levels. The final distribution was 137 firms in level one, 213 in level two, 100 in level three, and 21 in level four. Our AI maturity classification methodology assesses corporate AI maturity through an evidence-based review of company websites, regulatory filings, official product documentation, and press releases available in the year of valuation to clearly ascertain innovation from mere labeling. To preserve accuracy, each rating was based strictly on evidence available by the end of the relevant valuation calendar year.

[1] "Inflation rate, average consumer prices," International Monetary Fund, accessed May 2026.

[1] A revenue multiple is a way of evaluating a company's value relative to its revenue.

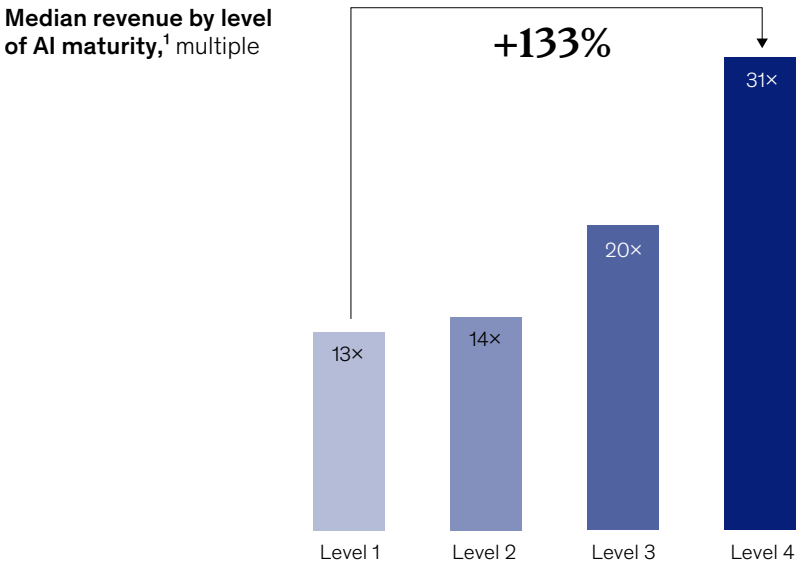
With the PE industry facing a considerable exit backlog and registering modest returns, revenue growth and operational efficiency are increasingly central to generating portfolio returns. Against this backdrop, AI is emerging as a powerful but still underutilized catalyst for value creation. While adoption has accelerated across PE-owned companies, many stakeholders are still waiting for a financial impact. Productivity use cases—the most common application of AI—have not translated into durable revenue and exit opportunities across their portfolios.

Our analysis of 471 PE-backed companies across 31 industries (including software, consumer nondurables, financial services, insurance, and infrastructure), combined with research on AI use in the PE industry, indicates four AI capability levels across portfolio companies: opportunistic adoption (level one), operating-model enhancement (level two), embedding AI in products and services (level three), and business building (level four). Each successive level reflects deeper technological integration, higher AI maturity, and stronger value creation outcomes. In particular, we focused on the impact of AI adoption on revenue efficiency and revenue multiples at these different levels. We found that companies at level four traded at a median revenue multiple of 31x between 2023 and 2025—the highest across all four levels (Exhibit 1). Companies at this level also observed a $180,000 increase in median revenue per employee—a 52 percent jump from level three.

This article explores how PE companies can capture revenue growth from AI. Although our analysis focuses on a subset of PE firms, portfolio companies, regardless of sector or geographic focus, can use the framework to generate meaningful impact from their AI initiatives.

Exhibit 1

Higher levels of maturity on the AI value creation ladder are associated with higher median valuation multiples.



[1]Analysis of 471 private equity-backed companies (revenue of $1 million to $250 million and valuation revenue multiples between 5× and 300×) using latest available valuations between 2023–26.
Source: Pitchbook, McKinsey Analysis

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AI as a structural driver of revenue growth

Investor demand for AI-enabled business models has led AI start-ups to receive half of all global venture capital funding in 2025.[2] The opportunity for PE firms, however, extends beyond simply investing in AI-native companies. When implemented and scaled effectively, the technology can strengthen portfolio companies' competitive positioning and value. An analysis by QuantumBlack, AI by McKinsey, reveals meaningful differences in the total shareholder return CAGR between PE-backed companies that lead in digital and AI initiatives versus those that lag behind. The analysis shows that between 2018 and 2022, digital and AI leaders delivered TSR CAGR that was 6.1 times higher in insurance, 2.9 times higher in the consumer sectors, and 2.3 times higher in energy and materials than their less digitally advanced peers. These findings suggest that the value creation opportunity for PE firms lies not only in backing AI-native businesses, but also in accelerating AI adoption and scaling across portfolio companies.

To systematically harness this potential and replicate it across their portfolios, PE firms can view their portfolio companies through the four-level AI value creation ladder. In our experience, businesses advance through the levels gradually, unless they leapfrog from level one or two directly to level four to pursue new business building.

Level one: Opportunistic adoption

At this stage, AI use is either absent or limited to isolated experiments. Companies may be running ad hoc pilots or using individual productivity tools, but AI is not meaningfully embedded in workflows, decision-making, or the value proposition. Usage is opportunistic rather than strategic, and there is little evidence of true economic impact from developing new products, changing business models, or reconfiguring value chains.

Many portfolio companies are earlier in the journey than their PE owners assume. Before pursuing more ambitious AI moves, PE firms need to establish a clear baseline on where the portfolio companies are using AI and whether those use cases are generating sustainable value.

Level two: Operating-model enhancement

At level two, companies are embedding AI into their operating models to augment workflows, increase operating speed, enhance decision-making, and expand output without proportional head count growth. For example, they may use AI to streamline the sales process, automate customer service tasks, generate marketing content, and automate client onboarding through agents.

At this level, AI begins to influence not only productivity and margins but also commercial performance. Although the company's business model may remain unchanged, its operating model becomes more scalable, responsive, and less constrained by labor challenges. Sales and operations teams can see improvements in key commercial metrics such as average revenue per user, customer lifetime value, customer retention, and repayment rates.

A PE-owned global industrial-materials supplier, for example, used AI to maximize the growth of its e-commerce platform. The company introduced an AI-driven sales agent to reengage inactive customer accounts by analyzing their past purchasing behavior and delivering personalized outreach. During the pilot, the approach achieved a 30 percent engagement rate among previously inactive customers. Another PE-backed edtech company, meanwhile, used AI to enhance lead generation. The pilot doubled the average order value across an initial set of prospects.

[2] Colin McCrea, "AI vs SaaS Valuation Multiples," Eqvista, January 16, 2026.

Moving toward AI-augmented workflows can improve a company's bottom line and overcome talent constraints that hold back slower adopters. Companies at this level can start to see material gains as they generate approximately 20 percent higher revenue per employee (after accounting for inflation) than those at level one (Exhibit 2). They also trade at a revenue multiple of 14x, compared with 13x for level-one companies. To capture these opportunities, portfolio companies need to establish guardrails defining where AI can operate autonomously and maintain sufficient human oversight and compliance controls to manage exceptions.

Level three: Product transformation

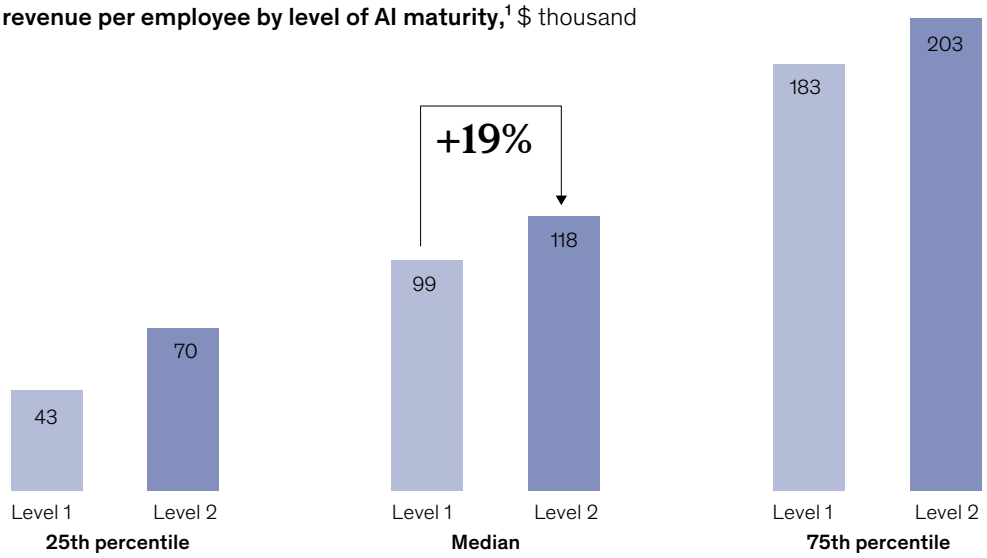
Companies operating at level three are embedding AI within their products or services. They can grow revenue by optimizing pricing, personalizing customer experiences, improving win rates, and reducing churn.

Retail companies, for example, can use AI-powered features to personalize customer experiences and re-create elements of the in-store experience online, such as virtual mirrors for trying on makeup or clothing. Another software-as-a-service-based platform uses AI agents that help finance teams reduce manual work, identify risks and cash flow variances, and recommend strategic actions. The tool provides clients with capabilities typically associated with finance teams at large enterprises without the need for additional employees. The company's PE owner realized a sizeable return on its investment when it sold the tool in less than three years.

Exhibit 2

The median revenue per employee for a company with level two is roughly 20 percent higher than a company with level one.

Annual revenue per employee by level of AI maturity,[1] $ thousand



[1]Analysis of 471 private equity-backed companies (revenue of $1 million to $250 million and valuation revenue multiples between 5× and 300×) using latest available valuations between 2023–26.
Source: Pitchbook, McKinsey Analysis

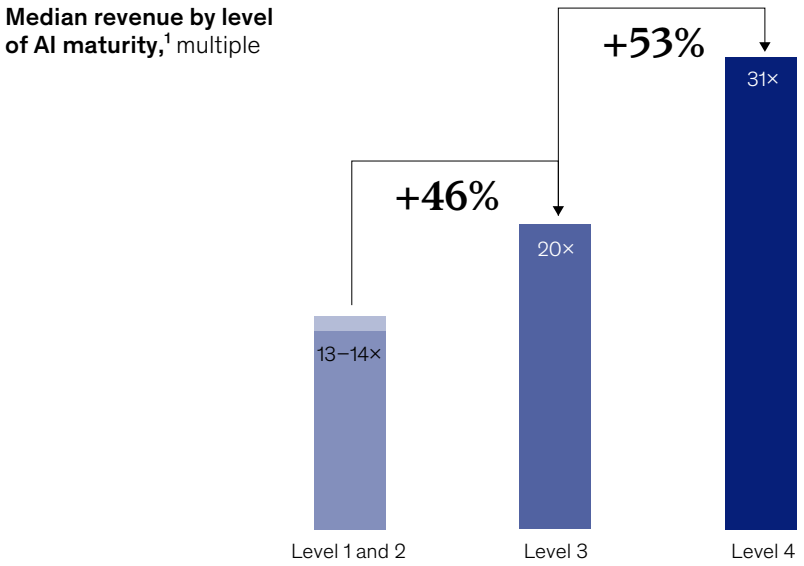
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The transition to level three appears to have meaningful implications for valuation. Our analysis shows that companies at this level trade at a median revenue multiple of 20x—43 percent higher than the median revenue multiple of 14x for level-two companies. By contrast, the difference between the median revenue multiple for level one and level two companies is negligible (Exhibit 3). This suggests that markets do not materially differentiate between companies that use AI for productivity and those that integrate it into their operating models. Valuations rise significantly only when AI is embedded in the offerings, changing what the company sells—not just how it operates.

To achieve such gains, the product, data, and technology teams within portfolio companies must work in closer collaboration to develop differentiated products for users—more than at the prior levels. The revenue gains will also likely take longer to materialize compared with the prior two levels.

Exhibit 3

Step changes across levels two through four are associated with nearly 50 percent higher valuation multiples.



[1]Analysis of 471 private equity-backed companies (revenue of $1 million to $250 million and valuation revenue multiples between 5× and 300×) using latest available valuations between 2023–26.
Source: Pitchbook, McKinsey Analysis

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Level four: Business building

At this level, portfolio companies move beyond applying AI to improve existing economics. Instead, they use it to develop new business lines or businesses that can create new revenue streams and data monetization opportunities.

Portfolio companies that face a structural industry disruption or have an opportunity to lead market innovation can particularly benefit from acquiring level-four capabilities. They could, for example, build AI-powered businesses in adjacent markets (such as a logistics company launching an AI-based route optimization platform), develop data products based on operational telemetry (such as an industrial company selling subscription-based equipment performance data and predictive maintenance insights), or create AI-native service lines that can be layered onto traditional offerings (for example, an accounting firm offering AI-driven financial-forecasting and scenario-planning tools alongside its core services).

One technology company expanded beyond its core business by launching AI-enabled customer solutions and new digital services that generated advertising, referral, and subscription revenue. Combined with the automation of its legacy operations, the shift helped the company reduce head count by nearly 40 percent, while nearly doubling the revenue per employee within two years.

Three findings stand out when examining companies that reach level four. First, building AI-driven businesses correlates with higher revenue multiples; companies that advance from level three to four add an 11-point increase in median revenue multiples (from 20x to 31x).

Second, both software and nonsoftware companies in our sample set of industries generate higher revenue multiples at each successive level above level two—particularly as they move from level three to four. Software companies, however, trade at revenue multiples of 33x at level four versus 24x at level three, while nonsoftware companies trade at 22x and 15x, respectively.

Third, revenue streams anchored in AI are fundamentally more scalable than those generated by embedding AI to improve productivity or enhance workflows (as companies do at the earlier levels). Revenue efficiency also rises sharply at level four: The median revenue per employee increases to $180,000 from $118,000 at level three—a 52 percent jump that significantly exceeds the 19 percent increase observed between levels one and two.

However, capturing this value often requires capabilities beyond those most PE firms possess. PE firms are structured to improve existing businesses, not build entirely new ones. For portfolio companies to succeed at level four, they may need to treat AI initiatives as stand-alone businesses—with dedicated teams, separate go-to-market strategies, pricing models, operating structures, and profit-and-loss accountability.

How PE firms can get started

The role of a PE firm is expanding from asset selection to building repeatable, AI-enabled initiatives to create value across its fund's investment portfolio. By using AI in a consistent way, firms can improve their portfolio companies faster, achieve more predictable results, and build an edge they can reuse in future investments.

Talent scarcity is a key factor hindering PE firms from climbing the AI value creation ladder, despite the availability of low-code/no-code platforms. At the same time, we find many portfolio companies reluctant to build their own AI teams, particularly at levels one and two, where needs are variable.

This creates a "rent versus buy" decision for PE firms: centralize platforms, redeploy assets and experts at the fund level (rent), or embed dedicated teams in portfolio companies, where proprietary data or product transformation can justify sustained investment (buy). Many leading firms adopt a hybrid model, creating centralized infrastructure and expertise for common use cases and using dedicated in-house teams for product innovation.

Once the right team is in place, PE firms can consider three moves to integrate AI across their portfolios:

— *Leverage levels one and two across the portfolio:* PE firms can assess their portfolios for areas where AI can enhance productivity and improve operating models. These foundational levels are applicable to most companies. Once they have identified target companies, PE firms can focus on finding quick wins. For example, they could automate or optimize processes with AI, leading to cost savings and efficiency gains without altering the core business model. After successfully executing these levels in a select group of portfolio companies, PE firms can develop a repeatable playbook for their entire portfolios. Many of the initial hurdles relating to AI adoption at the lower levels may be overcome as firms build experience and capabilities.

— *Explore AI's transformative potential with levels three and four:* These levels can capture meaningful revenue upside, provided that the portfolio company has the right structure and capabilities.

  Companies that are ready for level three tend to exhibit two characteristics. First, they have a proprietary data moat and have accumulated unique data on their products or services that competitors cannot easily access or replicate. Business leaders can use this data to develop predictive or personalized features. Second, they have built an integrated operating model in which product development, data science, and engineering teams collaborate closely.

  Companies at level four distinguish themselves in a different way. They are willing to fundamentally reshape their business models to stay ahead of disruption and create new revenue streams. They are also adept at becoming the disrupters themselves by positioning their business at the forefront of market innovation. Once PE firms are ready to move to this level, they can focus on using AI to solve customer needs in ways that weren't feasible before, accelerate product development, and create more personalized customer experiences.

— *Prioritize and rank:* Assessing the potential of AI to create value in portfolio companies can help PE-backed portfolio companies prioritize their AI investments. For example, they can select five to ten companies with the highest potential and rank them based on their readiness to progress through the four levels. One approach could be to prioritize companies in sectors facing AI-driven structural disruption (such as legal services); another could be to focus on the software companies in their portfolio, where the increase in revenue multiple from level three to four is the most pronounced.

Markets are already pricing in the difference between portfolio companies that use AI for efficiency and those that use it to build new businesses. For PE firms, the implication is clear: The greatest opportunities to create value are likely to come not from isolated productivity gains but from embedding AI into products, operating models, and entirely new businesses. The window to capture these gains is narrowing as more and more companies develop AI capabilities. Firms that move early to scale these capabilities across their highest-potential assets will likely be best positioned to capture significant value at exit.

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Private equity confirms a timeless principle: Purchase price matters

Recent data shows that buyout firms that maintain strict price discipline are delivering significantly higher MOIC than their peers.

by Alexander Edlich
with Charlie Regan and Yash Kejriwal

September 2, 2026



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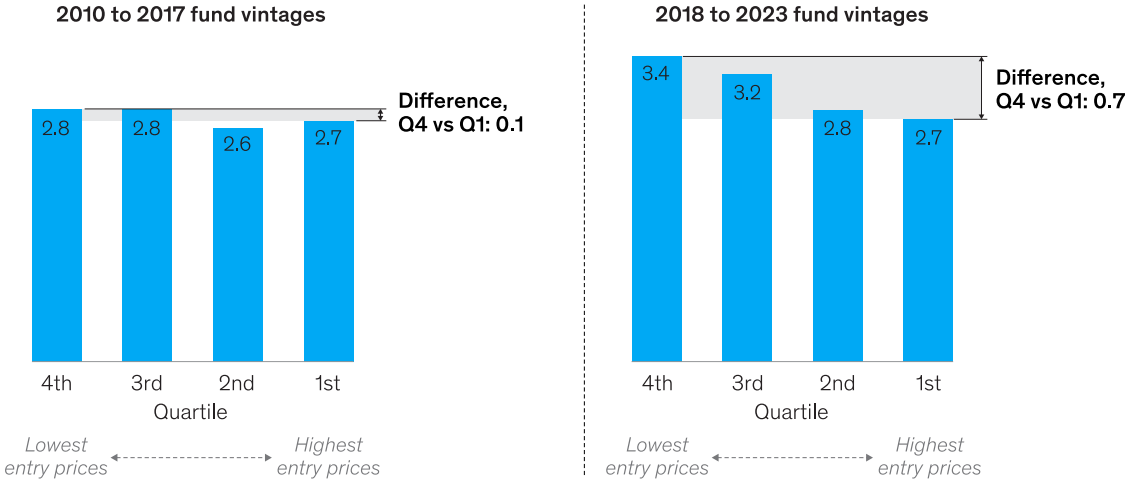
An old axiom of dealmaking holds that "you make your money on the buy, not on the sell." Yet that didn't seem apparent in private equity (PE) for the 2010–2017 boom that followed the 2008 financial crisis. Powered by cheap financing and expanding deal multiples, PE buyout fund managers could count on industry momentum to roll right over elevated entry prices.

But time-proven principles of finance have a way of winning out. Consider how deal prices correspond to recent returns for PE buyout funds (Exhibit 1). We examined two distinct time periods of buyout fund vintages: 2010 to 2017 and 2018 to 2023. Specifically, within each period, we analyzed purchase prices, as captured by the purchase price multiple (PPM) of EBITDA, and broke PPMs down by quartile—the fourth quartile being the lowest price-to-EBITDA multiple paid, and the first quartile the highest multiple paid. During the post-financial-crisis boom (2010–2017), buyers in the cheapest quartile generated a 2.8-times multiple on invested capital (MOIC), while those in the most expensive quartile delivered 2.7 times MOIC. While buying at a good price mattered, tailwinds blew so strongly that price discipline was less evident in returns.

Exhibit 1

Among private equity buyout funds, purchase price increasingly separates leaders from laggards.

Median MOIC[1] by PPM[2] quartile



[1]Multiple on invested capital.
[2]Purchase price multiple (enterprise value/EBITDA).
Source: SPI by StepStone; McKinsey analysis

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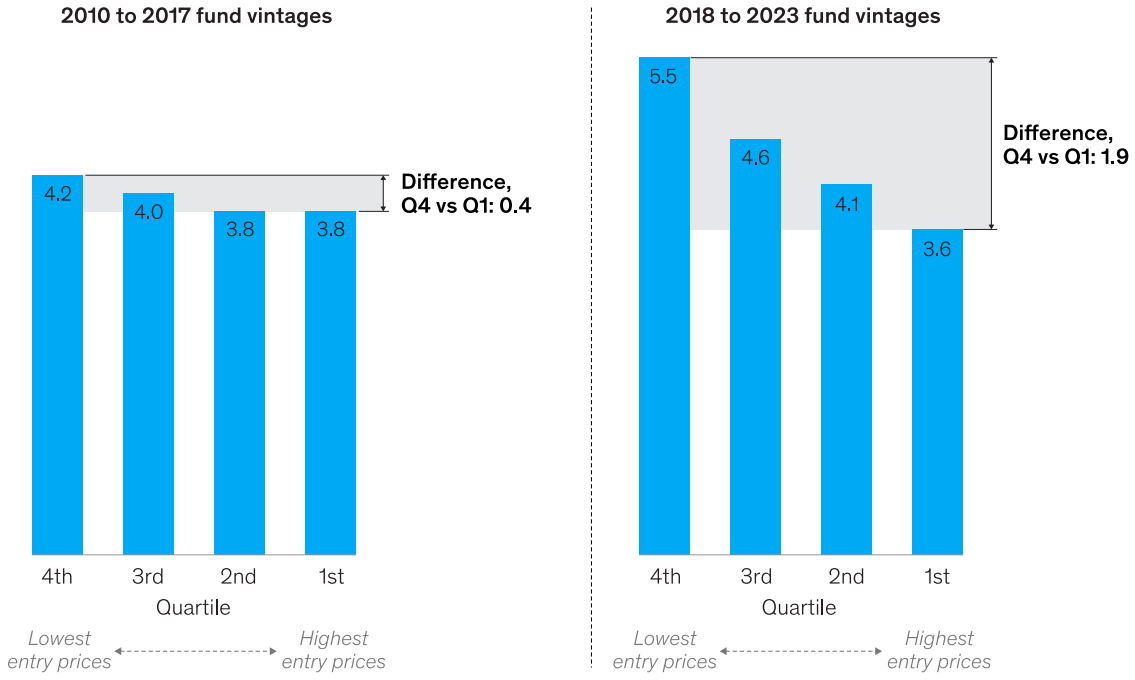
In the 2018 to 2023 vintage cluster, however, macro tailwinds died down, the road got more challenging, and a deeper divide opened between quartiles. Disciplined buyers—the ones in the lowest-price quartile—delivered 3.4 times MOIC, while those who had paid the highest PPMs remained stuck at 2.7 times. While one might suspect that the recent vintage could be skewed by funds taking quicker exits, that's not the case; both categories capture a range of funds with longer and shorter holding periods.

Simply put, the evidence of purchase price discipline is becoming more apparent. An even starker picture emerges when we isolate the top-performing investors—the 75th percentile per PPM quartile (that is, the ones who did exceptionally well on deal prices)—rather than just the median of the quartile, an analysis we performed to zero in on just how important price discipline can be. In recent vintages, managers who bought at the lowest multiples delivered an impressive 5.5 times MOIC. Meanwhile, even the best performers within the highest-paying PPM quartiles achieved only 3.6 times MOIC (Exhibit 2).

Exhibit 2

The importance of purchase price discipline is particularly evident—and markedly widening—for the best-performing private equity buyout funds.

75th percentile MOIC[1] by PPM[2] quartile



[1]Multiple on invested capital.
[2]Purchase price multiple (enterprise value/EBITDA).
Source: SPI by StepStone; McKinsey analysis

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To an extent, the widening gap reflects the rise of equity markets. Globally, buyout entry multiples have risen since 2023, climbing to a record average of 11.8 times EBITDA last year. For larger transactions—specifically, buyouts greater than $500 million—multiples reached 18.1 times EBITDA.

Sponsors often justify these premiums by arguing that they are buying durable, "A-grade" businesses. But paying 11.8 times EBITDA—let alone, 18.1 times EBITDA, with far less leverage doing the work—shrinks the margin for error materially. The year 2025 featured headline acquisitions of A-grade companies, which naturally do command a premium. Yet several expected B-grade and C-grade companies did not come on the market, or were taken off the market, an indication that times are changing.

It's understandable that general partners (GPs) would be willing to pay higher multiples for durability and downside protection, particularly in times of uncertainty. We recognize, as well, that uniquely in the PE sector, there are additional reasons for premiums, including the intense pressure to deploy capital. Still, whether it's deployment pressures, competition for quality assets, underwriting AI, or the level of GP confidence, purchase price matters. It has distinguished M&A leaders across industries for decades. In recent years, a good purchase price has clearly marked winners in PE buyout funds as well.

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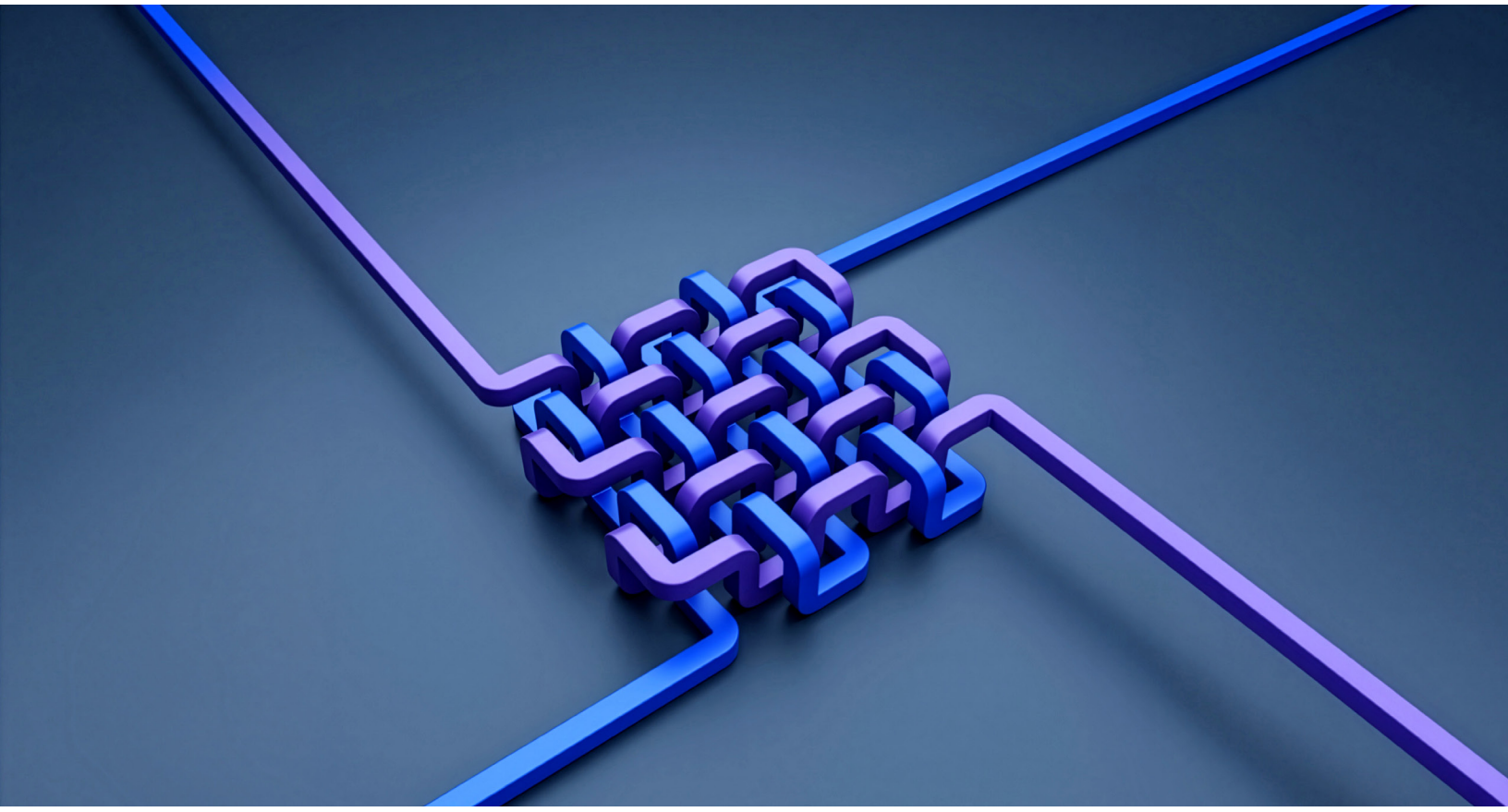
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How private equity is using M&A integrations to overcome headwinds

Amid valuation challenges, portfolio roll-ups, combinations, and capabilities integrations, private capital firms can find strategies that deliver.

by Matthew Maloney
with Brian Dinneen

May 8, 2026



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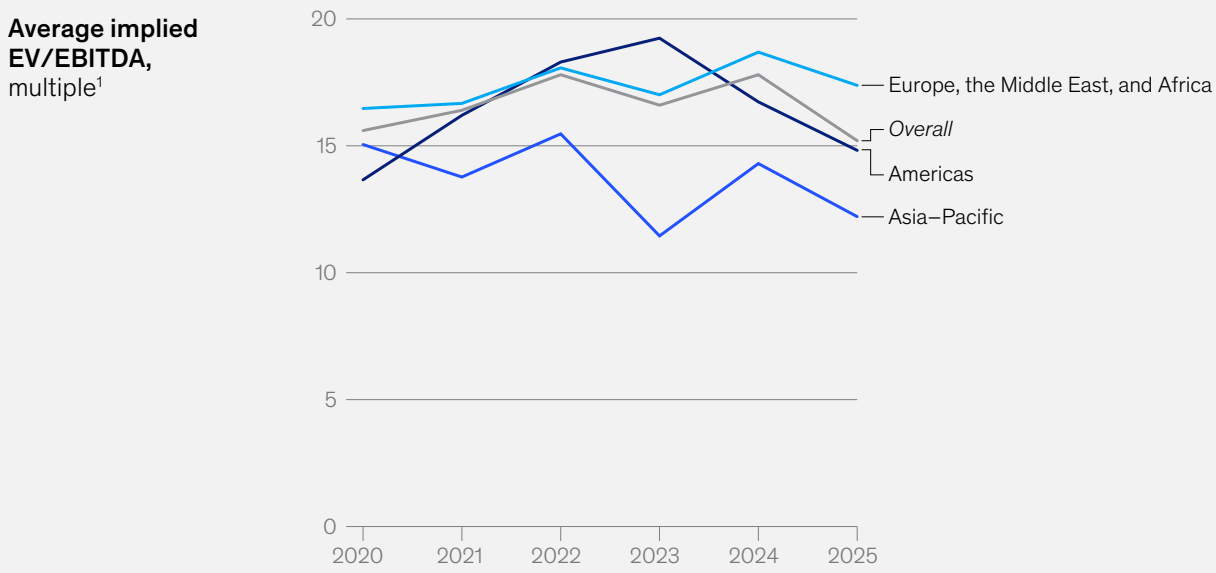
Since valuations peaked in 2021 and 2022, it has become more difficult to generate private equity (PE) returns. Many PE firms are sitting on assets purchased at the peak, when multiples were higher and financing cheaper, making it harder to exit at target multiples or within planned hold periods (see sidebar, "Lower multiples, longer holds").

Lower multiples, longer holds

The average EV/EBITDA multiple declined from 16.4 in 2021 and 17.8 in 2022 to 15.2 in 2025 (exhibit). Average hold times increased to 6.2 years in 2025, up from 2009's average of 4.0 years. Figures vary across sectors and industries, but headwinds are present in many industries.

Exhibit

Exit conditions for private equity companies became more challenging in 2025.



[1]Enterprise value/earnings before interest, taxes, depreciation, and amortization. Multiples <0 or >70 are removed as outliers.

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In this environment, creating value increasingly depends on what sponsors can do to improve the performance and positioning of their portfolio companies ahead of exit. One powerful value creation lever is M&A integration. When done well, M&A integration can accelerate EBITDA growth, strengthen the strategic profile of an asset, and support higher exit multiples.

However, integrations are notoriously difficult to execute well. Even when the deal rationale is compelling, a combination can introduce new complexity and pull focus away from the core business. Many organizations fall short of fully integrating operations, processes, and culture, leaving value on the table. Each type of PE integration also carries more specific pitfalls that should be considered before pursuing it, as they can shape both the decision to proceed and how the integration is executed.

This article explores three common M&A integration strategies that private capital firms are using to achieve positive outcomes: rolling up smaller players, combining comparably sized portfolio companies, and accelerating innovation by integrating capabilities across a value chain. These do not comprise an exhaustive list of integration strategies but are examples of how PE companies are using well-executed M&A to create value.

Rolling up smaller players

In a roll-up strategy, a large portfolio company consolidates smaller players to capture benefits of scale and operational efficiencies. To do this successfully, the PE sponsor must ensure the company fully integrates the smaller companies in a short time frame, captures cost synergies, minimizes revenue loss, and accelerates growth. Successful execution hinges on combining teams to retain the strongest talent, quickly transitioning each of the acquired companies to a more efficient operating model, and managing the change for new employees. It also requires identifying and realizing cost savings through shared functions, systems, and processes. This strategy often relies on the sponsor's capital and a long-enough timeline to see the accumulation of value over many acquisitions. It fails most often when the portfolio company aggregates companies but is unable to integrate them into a cohesive whole.

How a PE sponsor successfully executed an insurance roll-up

A PE sponsor began a successful roll-up strategy by acquiring a large insurance broker. Then, over the next ten years, the insurance broker purchased more than 80 smaller insurance brokerages and agents, and performed what the industry calls "producer lift-outs" (individual brokers or small teams that bring their books of business with them when they move to a new company). Each acquisition was integrated into the core platform within months. The strategy enabled each of the integrated companies to achieve faster growth, offer clients more, and expand margins further than they could have on their own. The roll-up culminated in a successful exit at ten times the initial investment, representing a roughly 25 percent internal rate of return.

Four foundational practices for roll-ups

The acquiring company followed four key practices and avoided a common pitfall while pursuing the insurance roll-up:

1. *Bring a clear value proposition to the acquired company.* A clear articulation of the value proposition not only helps PE sponsors find the right targets but can help clarify the integration strategy. In the above example, integrating into the roll-up provided each acquired company with new scale, reach, and offerings. Producers could grow their books with existing clients and attract new clients. Becoming part of the platform also provided more professional and efficient back-office support, reducing support costs, improving the producer experience, and making growth easier.

2. *Fully integrate core processes.* It's important to establish a clear, systematic, and fast way to transition acquired companies into the portfolio company's system and processes. In the above example, the insurance roll-up had a mandate to complete each company's platform migration within a matter of months, often integrating several at a time. To meet this deadline, integration leaders resolved challenges quickly, making concessions pragmatically (as long as they did not run counter to the core objective).

3. *Invest in M&A capabilities.* A roll-up strategy requires executing many deals a year and often running several in parallel. The above portfolio company had a lean M&A team that identified targets, managed deal flow, and led the integration. However, the team didn't do it alone; leaders of the core functional areas (such as finance, IT, HR, and legal) regularly contributed to M&A activities. This "all hands" approach enabled the organization to build repeatable M&A processes and develop executive experience. M&A was not a separate, siloed group but part of multiple leaders' job descriptions.

4. *Be realistic about acquired talent.* In most circumstances, the portfolio company's talent retains key positions; however, it is often important to train and motivate talent from the acquired companies. For the talent they wanted to retain, the insurance roll-up created incentives tied to performance and growth. This included earn-out structures that rewarded producers for continuing to generate revenue after the acquisition, in addition to broader financial incentives and the benefits of working within the new platform. The company was pragmatic about individuals who were unlikely to be motivated and separated from them.

A common roll-up pitfall: Roll-up strategies can go wrong when PE owners focus solely on acquiring companies with low multiples and don't expend the energy and resources to tackle the integration well. The result can be expansion that quickly turns into dilution. In a worst-case scenario, the combined company winds up with a complex set of internal processes, low transparency in financial reports, and an inability to exit through an IPO. To avoid this, it's critical to ask how the acquiring company will improve the competitive position of the acquired asset and increase its returns.

Combining comparably sized portfolio companies

Private equity sponsors often combine two similarly sized portfolio companies to create a larger, more attractive asset for buyers or a potential IPO. These companies are often in overlapping markets, which creates an opportunity for efficiency improvement.

The most successful sponsors treat these combinations as a moment to rethink the cost structure from the ground up and improve EBITDA margins. They redesign how the combined business operates, upgrading go-to-market approaches, operations, and administration to suit the needs of a larger, more sophisticated organization. They also strengthen leadership by bringing in experienced executives who can manage a more complex business and position it for exit.

How an ad-tech company successfully combined with a competitor

An ad-tech company, entering a more mature phase of its PE ownership period, executed a large competitor acquisition. The combined company took a cleansheet approach to expenses and was able to reduce costs with a new operating model for go-to-market, product development, and back-office support. By redesigning its sales model, the combined company was able to create more capacity to pursue new accounts. The new product development team used the target company's offshore center of excellence to reduce costs and streamline development efforts. The total value realization within 12 months was more than twice the diligence estimate.

Four foundational practices for combinations

The acquiring ad-tech company followed four key practices and avoided a common pitfall while pursuing the combination:

1. *Protect business momentum.* When combining two comparably sized companies, disruption to either can cause significant value loss. The acquiring ad-tech company avoided this outcome by protecting momentum. As day one approached, leaders scrutinized how integration actions could affect important stakeholders. They built interim processes to manage shared customers and created FAQs for employees. They also ensured there were mechanisms to deal with day-to-day disruptions of operations, including escalation pathways to resolve issues and delegated decision rights that empowered employees to act.

2. *Systematize synergy capture.* It's important to capture value quickly, which can require a diligent approach to synergy capture. In the above case, the two companies created clear, side-by-side views of their financials and operations, making it easier to see where work overlapped. Through a bottom-up planning process, the integration team worked with functional leaders across the organization to identify specific opportunities for efficiency gains and assign owners for each initiative, drawing on input from those closest to the required changes. For example, the product development team decided to move more work to the target company's offshore center of excellence to reduce costs and streamline development efforts. Then the CEO distributed aspirational synergy targets for each accountable executive.

3. *Institutionalize new ways of working.* Rather than simply implementing temporary work-arounds during integration, the acquiring ad-tech company changed its culture, core processes, and operating model. It started with a culture assessment to identify culture risks that might require mitigation. The leadership team then held a two-day session where it defined design principles for the new operating model and functional organization structures and sequenced how changes would be rolled out across the organization. Integration leaders sought feedback from executives who had been through these transitions in the past, used benchmarks to calibrate the degree of changes, and redesigned workflows to support these changes.

4. *Use the transaction as a catalyst to transform.* By combining the two businesses, the ad-tech company nearly doubled in size. Management used that step change to reset expectations for performance, focusing on both growth and efficiency. Leaders reorganized the sales model to deepen relationships with large customers while freeing up capacity to pursue new accounts. They also rebuilt general and administrative functions from the ground up, reducing costs by 27 percent.

A common combination pitfall: A well-known challenge of M&A integrations is that they can disrupt the underlying business. This effect can be more pronounced in large private equity combinations, where the organization becomes significantly larger and more complex at closing. As management attention shifts inward, execution can slip and customers may see less focus, creating openings for competitors. Unsuccessful deals often see a 3 percent dip in pro forma revenue following a large transaction.

Combining complementary capabilities

PE sponsors can create a new company with market-leading strengths by bringing together two different sets of capabilities. This is a hard strategy to execute, as it often takes time to find the right pair of companies with the desired capabilities. It can also be difficult to assemble these capabilities in a way that accelerates competitive advantage. Doing this successfully requires a robust understanding of the market and a compelling strategy.

How a PE sponsor acquired two utility-sector companies to create an end-to-end offering

A PE sponsor acquired two operating companies in the utilities sector. As each matured within the portfolio, the sponsor evaluated the potential of creating an end-to-end service by combining them. One company supported capital projects, while the other provided follow-on services. By linking the two companies, the combined entity could deliver more value—with lower investment and operating cost—to the end customer by bundling. The new entity could also assume some of the risk of the capital project and the value associated with this risk. Additionally, the end-to-end view would allow the new company to collect insights from the service that could be used to improve the capital business, leading to more resilient infrastructure and ultimately lower service costs.

Three foundational practices for combining complementary capabilities

The PE sponsor followed three key practices and avoided a common pitfall while combining capabilities in the utility sector:

1. *Get the new value proposition right.* The sponsor found that the two businesses had different value propositions. The capital business had a long sales cycle and was judged by a track record of accurately modeling expenditures, timelines, and commitments. The services business, by contrast, was judged on economics and service levels. The combined company would have to redefine its value proposition to meet both requirements. The sponsor rigorously tested this value proposition with customers, company leaders, and investors. Once the combination was validated and the deal proceeded, the newly formed company clearly communicated the new value proposition to sales leaders and customers so the sales team could effectively sell the combined offering.

2. *Identify the target customer segment.* When combining complementary capabilities, the right target customer is often different from the core customers of either business on its own. In the above example, the capital business most often served larger customers with a long sales cycle, whereas the service business served midsize customers and had an on-site presence. Recognizing these differences, the newly combined company focused on the overlapping "large midsize" segment where the same buyer controlled both budgets and tailored its approach to that shared customer base. Focusing on this segment allowed the company to set sales targets and measure how well the combined offering was performing.

3. *Integrate selectively.* It's important to keep in mind that not all areas need to be integrated. In the above deal, the operations that delivered the different capabilities (including capital modeling, project management, and on-site service) were kept separate. However, it can be beneficial to share lessons and data that help each part of the combined company improve. In the case of the above company, reports from the service side of the business helped the capital group improve the design and resiliency of future projects.

A common pitfall when combining complementary capabilities: The biggest pitfall for this M&A strategy is failing to move the market to the new combined offering. In some cases, the two businesses sell to different decision-makers within the same company, which complicates sales efforts; without a clear, differentiated value proposition, customers have little reason to change how they buy. And even when the buyer is the same, simply combining products rarely creates value unless the integration delivers something meaningfully better than what either company offered alone.

At a time of lower multiples and higher cost of debt, portfolio company integration has become one of the most important ways for PE sponsors to create value. Executing roll-ups, combining comparably sized portfolio companies, and combining complementary capabilities are not easy strategies; they demand strong deal rationales and careful integration. The work is difficult, but we have observed that sponsors who consistently master these strategies achieve stronger growth and higher exit multiples.

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This article was edited by Katy McLaughlin, an executive editor in the Southern California office.

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The second look: An adaptive approach to reunderwriting

The best-performing PE firms build on deal diligence in a disciplined way throughout the hold period, revisiting and retuning their exit options and equity stories.

This article is a collaborative effort by AD Bhatia, Hassen Ahmed, Jason Phillips, and Robin Ligon, with Manuel Fernández Angulo, representing views from McKinsey's Private Capital and Transformation Practices.

July 21, 2026



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Know the asset, own the outcome. High returns start with effective diligence at acquisition, to understand not just a company's sources of value when purchased but also its opportunities to generate significantly more value if it's managed to full potential. High-performing private equity (PE) firms recognize that insights are never "one and done;" rather than stowing deal diligence away postclosing, they draw on what they've already learned and build on their knowledge during the holding period. They adapt, recalibrate, and refine their diligence—and put themselves in the best position to meet the market and deliver alpha. They reunderwrite.

When done in a rigorous, disciplined way, reunderwriting provides a powerful mechanism to combine pre-deal analyses with postacquisition experience and drive value creation. Indeed, some of the most effective PE leaders systematically review each asset every two to three years throughout the hold period. Notably, their approach is additive: they build on diligence, rather than replace it. Moreover, they recognize AI's dual impact: its capabilities as an accelerator that significantly improves the review process, and its force as a macro disruptor that makes taking a second look more critical than ever.

To better understand what works (and what doesn't) in reunderwriting, we drew on our work with more than 120 executives in the HBS–McKinsey PE Portfolio Company CEO Excellence program and conducted multiple, in-depth assessments of how PE leaders worldwide across firm sizes and strategies approach midcycle reviews. In particular, we sought more detail on *when* firms reunderwrite during the hold period, *who* participates and leads the process, and *what* information and metrics are used.

Most important, we wanted to see how the findings can best come together to create a reunderwriting playbook, with actionable examples under real-world circumstances. While only about one-third of respondents reported a formal, highly structured reunderwriting process, the leaders who do take a disciplined approach believe it enables more exits and higher exit valuations.

When: At what point and how often firms conduct reunderwriting

Timing is the most frequent failure point in reunderwriting. Not establishing strict dates or milestones for reviews—and instead periodically holding side conversations to test buyer appetite—squanders the opportunity to conduct a meaningful, actionable assessment. Conversely, declaring that reunderwriting happens "the moment we acquire the asset," and then sticking with the same equity story in the face of operating and market changes, risks turning the process into busywork, no matter how rigorously a reunderwriting calendar is adhered to.

The firms we studied fell broadly into three categories regarding when they conduct reunderwritings: milestone-based reviews, recurring portfolio reviews, and trigger-based reviews. While the categories theoretically are not mutually exclusive, we found that firms overwhelmingly adopt one of the three approaches:

— *Milestone-based reviews:* Milestones can be fixed or flexible. Fixed milestones anchor the review to a set point in time in the hold period—that is, a predetermined number of months or years after closing or before a targeted exit date. The most common milestone is two to three years after the acquisition. However, among firms that use fixed milestones, reunderwritings can range from several months to several years after closing, or be set at 18 to 24 months before exit. The milestone, moreover, is not always based on the acquisition or exit date; a few of the most successful firms use buy-case milestones. These firms reunderwrite when the asset reaches a predefined strategic juncture outlined in the original investment thesis, such as the completion of a specific roll-up acquisition or the execution of a planned geographic expansion. Tying the review back to the investment thesis forces the deal team to reconcile actual progress against specific day one promises rather than defaulting to the calendar.

— *Recurring portfolio reviews:* The second category—recurring portfolio reviews—refreshes diligence at a hold- or exit-decision point (for example, a yearly portfolio vintage rank). One of the highest-performing firms uses this model to review the entire portfolio annually and enforces a systematic "hold, exit, or recapitalize" decision across different fund vintages. This process institutionalizes a repeatable rhythm that prevents assets from "drifting" without a clear path to liquidity. With average holding periods growing longer (recently increasing to 6.6 years), an initial reunderwriting is more likely to be followed by several additional years of PE ownership, highlighting that more than a one-time midcycle review may be needed. In these cases, transformation expertise—emphasizing clear accountability, rigorous processes, and a tight focus on performance metrics to increase the organization's speed and prevent initiatives from losing momentum—can be particularly helpful. The approach also allows more time for the value of a second wave of opportunities to compound before exit.

— *Trigger-based reviews:* Firms that conduct trigger-based reviews reunderwrite when a given event or disruption occurs, such as unexpected market volatility, a refinancing, or a significant dip in performance. This approach is fundamentally reactive; while a buy-case review follows the deal's specific investment thesis, a trigger-based review responds to subsequent performance failures or external shocks. Trigger-based reviews are typically more resource-intensive. That's a lesson for firms that could have allocated resources more surgically if they had built buy-case milestones into their acquisition plan.

Who: The people involved—and the ones in charge

Ownership of reunderwriting can sit with the deal partner, a portfolio-review forum, or a dedicated exit-readiness or portfolio-realization team. Larger firms are more likely to distinguish between day-to-day asset management and a purposeful, nonmanagement-driven reunderwriting review, and use the investment committee (IC) as the final decision-maker on exit route and timing. Yet while nearly every respondent reported that the deal partner or team regularly participates in reunderwriting, only 35 percent reported that the IC does as well (Exhibit 1).

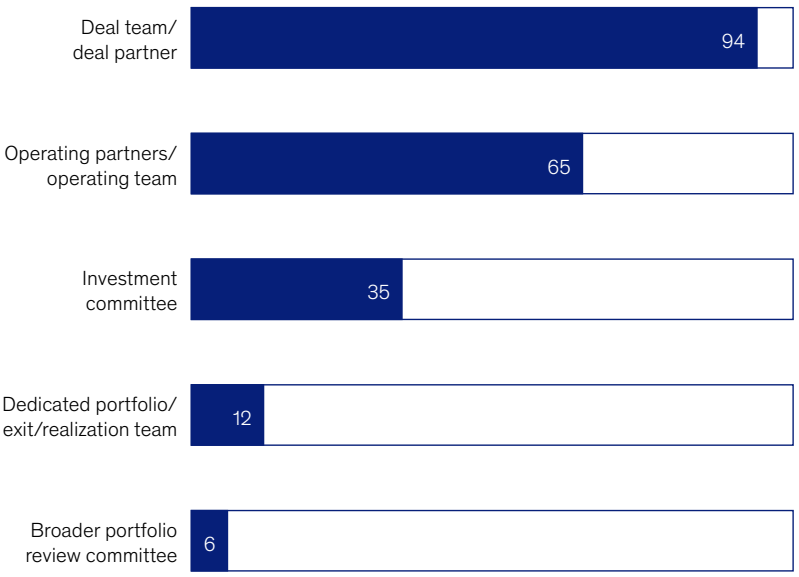
Across the firms we studied, we found that robust governance and incentive structures are best practices. The most effective reunderwritings have clear IC gates, traffic-light outcomes, and dedicated exit resources that complement deal teams without removing accountability. While every company should be assessed with an eye toward maximizing value creation, many assets—particularly underperformers—can benefit significantly from bringing a transformation team to reunderwriting, even if a deal partner may push back.

Indeed, while it's critical for a deal partner to have conviction, a recurring challenge in reunderwriting is overcoming "partner discretion"—the natural tendency for deal partners to give their asset the benefit of the doubt and to avoid discussing certain subjects or metrics, whether because they reflect poorly on the investment or exceed a core team's capabilities or comfort zone. To enable a more comprehensive review, including "unknown unknowns," leading firms are moving away from narrative-heavy updates led solely by a deal partner and toward a portfolio review forum or a specialized subgroup of the IC, sometimes with assistance from external advisers. These teams act as independent challengers, using an evidence-based approach and ensuring that the review is driven by objective, pre-agreed-upon metrics rather than individual sentiment, and taking a holistic perspective. One leader shared with us that "After establishing the exit holistic function two years ago, in the past 12–15 months, the firm accelerated exits to around ten per year, returned more than 30 percent of assets under management to investors, reduced portfolio size from the low-50s to the mid-40s, and avoided resource-heavy sell-side processes by strengthening exit readiness upstream."

Exhibit 1

Deal teams almost always participate in reunderwriting, but the participation of other constituencies varies.

Personnel that participate in reunderwritings,[1] % of respondents



[1]Question: Who is typically involved in the process? (select one or more) (n = 17)
Source: McKinsey survey of PE firms, February–May 2026

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The personnel deployed, we found, tended to follow a tiered resource strategy. For high-stakes or distressed assets, leading firms reported bringing in external teams for a 12-week full-potential commercial due diligence (CDD). But for assets that are performing well, we frequently observe that the management team and operating partners tend to lead a lighter internal deal process that uses fewer additional resources, with the goal of keeping the asset ready for market without unduly taxing the firm's internal resources. Yet every firm that *did* invest the effort to conduct a fuller due diligence identified meaningful opportunities for value creation.

The key is to reunderwrite with discipline. Firms across sizes and categories understandably resist adding head count, concerned about a potential drag on returns. Here, increasingly, far-sighted firms are using AI as a force multiplier for their existing teams to access detailed, industry-specific intelligence that can improve valuation accuracy and risk analysis. For example, one AI tool streamlines diligence by scanning, summarizing, and structuring thousands of documents within virtual data rooms. Beyond organizing files, it analyzes financial data, answers standard diligence queries, and enhances insights by integrating proprietary information with public data such as customer and employee sentiment.

In another case, we found that a two-person team used AI for a midsize medtech company that was performing a pre-exit diligence refresh. The technology enabled the team to simultaneously scan regulatory filings, academic databases, and local-language trade press across 14 markets. That work

would have taken a full CDD team eight to ten weeks; with AI, the team needed only four days to surface a cluster of Southeast Asian peers operating at margins 12 percentage points above the portfolio company's current run rate. This crucial insight led the firm to reorient the company's core equity story, from a cost-restructuring narrative to a case for margin expansion.

What: The information reviewed

The "what" of reunderwriting is not an off-the-shelf list of metrics. The most robust approach is a holistic, full-potential reunderwriting that seeks to realize the maximum economic potential of the business (Exhibit 2). To this end, some firms undertake a full potential review immediately after an acquisition closes, when they have unrestricted access to the company's management and data; they identify a comprehensive range of meaningful, incremental opportunities and flag suboptimal alternatives (for example, overindexing on growth can have negative effects on cost—and vice versa). Other PE firms take a more 80/20 approach: They report that investing in a few, highest priority initiatives better meets their targets and constraints.

Deal diligence starts by assessing the company as if there were no acquisition. This is the "do nothing" momentum case, which represents the baseline if no business improvements are made or new value-creating opportunities are created. Realizing the investment thesis provides substantial additional value (a). Reunderwriting after owning and managing the company enables PE firms to build on the investment thesis in an additive way (a + b).

We found that firms covered a wide range of topics in their reunderwritings, including exit timing and route decisions; updated value creation and full-potential plans; operational improvement progress; commercial performance and market effectiveness; equity story refreshes; downside scenarios; and management team readiness. Across the range of topics and levels of scrutiny applied, three discrete archetypes emerged:

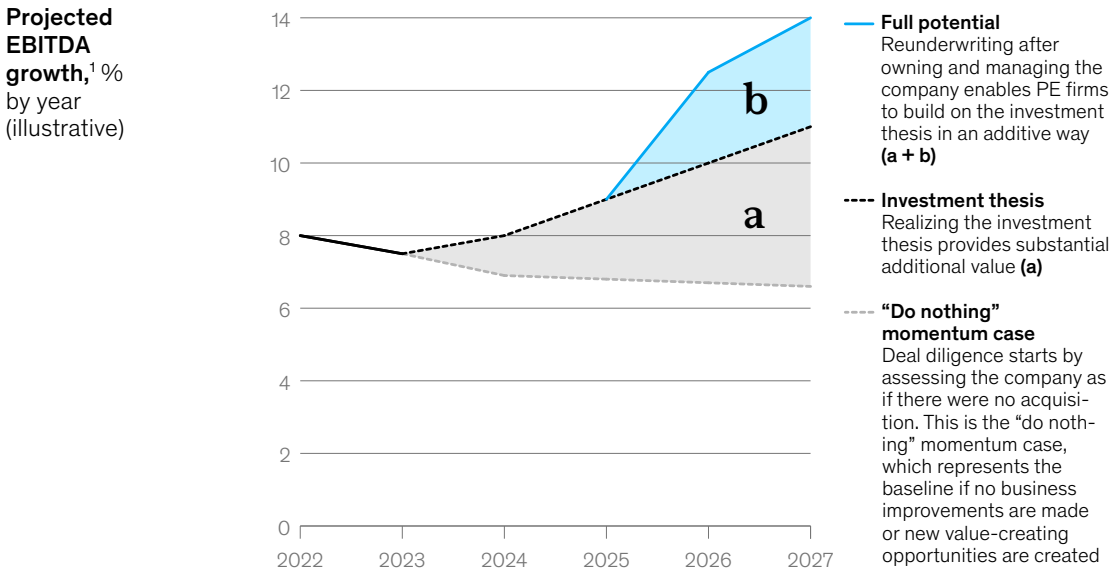
— *Diligence refresh:* The first archetype is a diligence refresh approach, which is most frequently used for assets that are performing broadly in line with the buy-case. It's a light-touch framework that focuses on verifying that the original investment thesis remains intact. This typically involves updating a core set of ten to 15 KPIs—such as organic growth, customer retention, and cash conversion—to ensure there are no hidden pockets of decay that would surprise a buyer in 12 months.

— *Buyer backward:* The second archetype is the buyer-backward audit. For assets that are nearing a 12-to-18-month exit window, firms can shift the information focus forward to build a bespoke evidence pack. Firms that use this approach move beyond internal management reporting to assemble concrete proof points that a future buyer will prioritize, such as granular win–loss rates, pricing elasticity by segment, and operational margin productivity. The intent in this approach is not merely to report performance but to preemptively address the bid–ask spread by anchoring the equity story in buyer-grade data.

— *Cleansheet reunderwriting:* Finally, with some assets, a cleansheet reunderwriting process is applied. These reviews act as a complete retabling of the investment; firms examine the "what" as if they were acquiring the company for the first time, today. That includes a total reassessment of the right to win, a deep dive into competitive positioning, and a fresh look at leadership and governance readiness for a restructured value-creation plan. In practice, this approach is used the least frequently. Moreover, when it is used, there has usually been a significant market disruption or meaningful stretch of underperformance. While the impulse to resist a cleansheet reunderwriting is understandable (it takes a few weeks of work and thought), the firms that do invest the time and resources are better positioned to outperform.

Exhibit 2

Disciplined reunderwriting helps assets reach their full potential.



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A practical playbook to build capability without adding bureaucracy

The goal of reunderwriting is not to create another layer of committee oversight; it's to generate clarity faster and produce information that withstands real-world investor scrutiny. Our observations suggest that the most successful firms avoid unnecessary complexity by building a minimum viable reunderwriting engine powered by five key actions:

1. Define the objective and success measures: Leading firms begin by clearly defining what the review is intended to solve, specifically value creation. High-performing firms achieve it through specific levers that should always work in tandem: profit acceleration, future-growth optionality, exit maximization, and DPI (distributions to paid-in capital) pacing. By insisting that decisions tie back to these levers while adhering to a holistic approach, the process avoids becoming a generic status update and instead becomes an actionable intervention focused on generating alpha.

2. Communicate timing: A recurring point of failure, we noted, is waiting too long to start. As one fund manager put it: "You cannot fabricate buyer proof halfway through a process—the evidence has to exist before." Being proactive about timing also lets portfolio companies understand what's coming, eliminating a sense that they are unexpectedly under scrutiny. The firms that typically derive the most value from reunderwriting establish a buy-case refresh at a fixed milestone. Their timing is well considered—to provide enough history to judge performance while allowing a sufficient runway to shift the equity story or close

evidence gaps before a sale. That said, best practice is to supplement buy-side milestones with explicit trigger overrides for unexpected developments. Flexibility helps ensure that firms don't remain wedded to an outdated plan simply because the calendar hasn't turned.

3. Clarify ownership: One of the most delicate balances we observed is maintaining deal partner accountability while introducing independent challenge. In the most robust models, the deal partner remains the primary owner of the asset's performance and a key voice in reunderwriting. Still, an independent exit squad prepares the case for the investment committee, which serves as the ultimate decision-maker. The goal is not to win a turf war—it's to implement full potential diligence to maximize value creation.

4. Use simple outcomes: Simplicity unleashes insight. In the most effective reunderwritings we studied, the key deliverable that sits above appendices is not a massive report. Instead, it's a surgical short list of three to five actions. To remain exhaustive but not exhausting, outputs should be distilled into simple, binary, or traffic-light outcomes, enabling clear decisions to hold, accelerate, or retake (reunderwrite) the asset. Each outcome should be linked to a clear, short list of steps that directly improve buyer confidence and valuation. This helps focus the firm's energy on the specific S-curve of growth needed for exit, and avoids a complete, and often expensive, redesign of every operational nuance.

5. Pilot, standardize, and codify: The transition to a portfolio-wide capability, we found, works best when it begins with a pilot on three to five assets. This allows the firm to standardize, retune, and codify templates and dashboards that can eventually be scaled across the portfolio. Moreover, using consistent, apples-to-apples metrics in the evidence pack—such as commercial win rates, churn, and pricing elasticity—can help firms move toward an automated overview and clear asset comparisons. This institutionalizes a Goldilocks setting: a repeatable operating rhythm that ensures every asset is exit-ready without draining the firm's resources.

Leading private equity firms recognize that achieving full value requires a disciplined, adaptive approach throughout the hold period. Reunderwriting provides that edge—serving as a distinctive capability that builds on initial deal diligence rather than replacing it. While many firms currently don't follow a formal, structured reunderwriting process, those that do report faster exits and higher exit prices. Value creation benefits from an additive second look.

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Travel industry trends and the opportunity for private equity

The travel industry is experiencing dynamic growth. For private equity firms, understanding travel industry trends can help guide investments.

This article is a collaborative effort by Ryan Mann, Tom Bartman, and Vik Krishnan, with Daniel Crohmal, Grace Kessler, Katherine Stadler, Kimberly Chang, and Melinda Smith, representing views from McKinsey's Private Capital and Travel Practices.

November 24, 2025



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In the past five years, global investments have shifted dramatically in response to supply chain disruptions, new technologies such as gen AI and cryptocurrency, and more. As these forces have swept the globe, the travel sector has been a steadily rising star: The industry has grown at a CAGR of 3 percent from 2017 to 2024,[1] which is expected to accelerate as more people from Latin America and the Middle East begin traveling.

The travel equities market has reflected this growth. Market activity has increased and has seen overall positive TSR performance since 2019.[2] At the same time, the average transaction size has decreased since 2020, and the largest private equity buyouts and growth deals have become smaller across most travel segments since 2022, according to McKinsey analysis. This proliferation of smaller deals indicates that new opportunities are beginning to appear throughout the travel landscape.

To participate in this growth, US-based and international private equity firms need to understand today's travel landscape and the marketwide shifts affecting it, such as AI and the changing preferences of younger generations. In this article, we explore three major trends affecting the leisure travel industry today: traveler preferences for experiences, traveler preferences for luxury travel, and the rise of technology integration in travel.

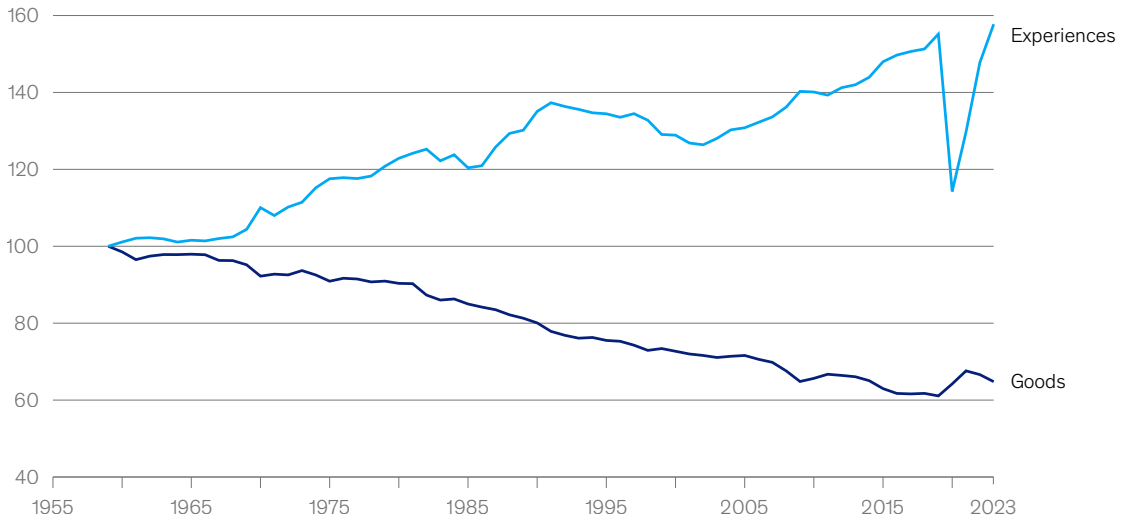
Traveler preferences for experiences

For decades, people have spent more of their discretionary income on experiences, rather than goods (Exhibit 1). Travel has benefited from this shift in spending, continuing to capture a higher share of wallet

Exhibit 1

Over time, consumers in the United States have steadily dedicated a higher share of wallet to experiences, including travel.

Consumer spending on goods vs experiences[1] as a share of discretionary spend,[2] index (1959 = 100)



[1]"Experiences" include air travel, accommodations, travel abroad, food away from home, and recreational items such as sports events and museum passes.
[2]"Discretionary spend" is defined as total consumer expenditures minus spending on housing, utilities, fuel, medical goods and services, and groceries.
Source: "What is the future of travel?," McKinsey, June 7, 2024; US Bureau of Economic Analysis; McKinsey analysis

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[1] Euromonitor data.
[2] McKinsey analysis; S&P Global data.

steadily over time. In recent years, in addition to continuing to visit traditionally strong leisure destinations, travelers have increasingly gravitated toward different travel experiences—such as disconnecting, nontraditional experiences, social and community travel, and multipurpose travel.

Traveling to disconnect

Travelers are prioritizing experiences where they can disconnect from day-to-day work, whether by relaxing in remote locations or hiking in nature. Such experiences are often considered "adventure travel." While a postpandemic surge in adventure travel has largely stabilized, revenues in the segment continues to grow.[3]

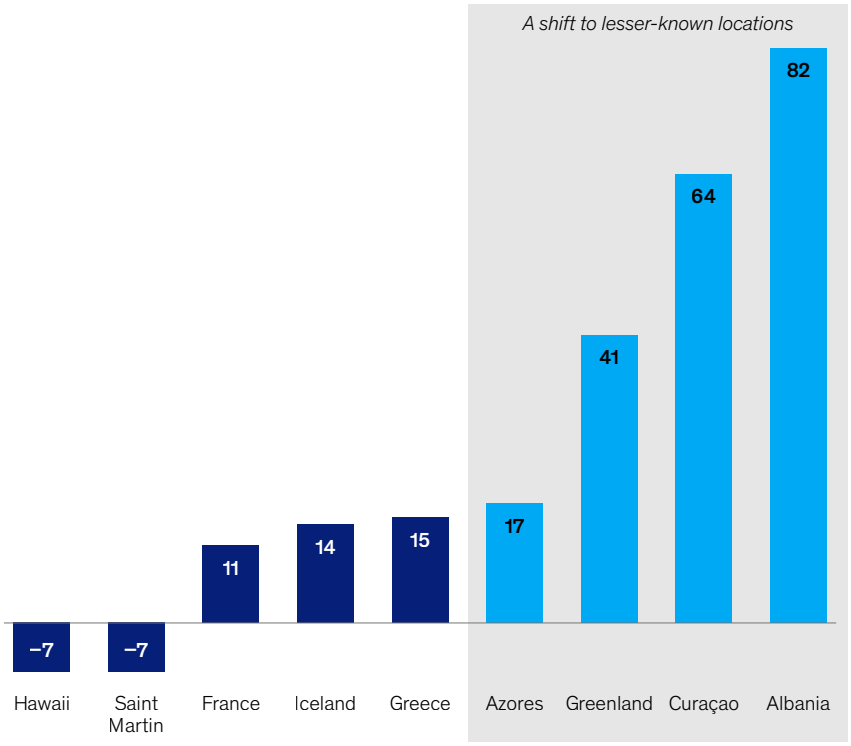
Nontraditional experiences

Several unique experiences are gaining popularity among travelers: noctourism (touring destinations after dark), water-based activities, wellness tourism, culinary tourism, and immersive art and cultural experiences. There is also a growing interest in alternative travel destinations, which can be less crowded, less commercialized, and more affordable than highly-touristed hot spots (Exhibit 2). This trend is driven by rising costs, social media exposure, and a desire for authenticity.

Exhibit 2

Alternative destinations and activities are growing in popularity.

Change in international arrivals in 2024 vs 2019,[1] %



63%
Share of travelers considering detouring from major tourist spots to **explore lesser-known locations**

400,000+
Posts on TikTok using the term "destination dupes," highlighting **strong consumer interest**

69%
Share of global travelers enjoying **being active** when they travel

25%
Increase in demand for **night-focused experiences,** including night diving, northern lights chasing, and nocturnal wildlife safaris

[1]For Hawaii, the number of visitors was used. For the Azores, room nights were used for the Jan–July period due to data availability.
Source: Accor; Amadeus; Sarah Barrell and Orla Thomas, "How travel will look in 2025: Cowboy core, destination dupes and more," Yahoo, Dec 18, 2024; BBC; Condé Nast; MaryLou Costa, "'Noctourism' is expected to be a big travel trend in 2025," CNBC, Dec 29, 2024; CoStar; Four Seasons; "Hilton trends report 2025: The vacation maximized," Hilton, 2024; Lighthouse; Sabre; Skift; SmartFlyer; Skyscanner; James Stewart, "What is noctourism—and why is it on the rise?," National Geographic, Apr 6, 2025; *New York Times*; TravelPulse; Virtuoso; "Unpack '25: The trends in travel from Expedia, Hotels.com and Vrbo," Expedia, Oct 16, 2024; UN Tourism; McKinsey analysis

McKinsey & Company

[3] Sarah Milner, "New research shows growth in adventure travel despite 37% decline in travelers," Travel Market Report, June 27, 2025.

Social and community travel

Travelers are increasingly traveling in groups, whether through guided tours, groups of solo travelers, or multigenerational travel, indicating they are looking for communal and social experiences. Family travel is the largest US leisure segment, with 44 percent of leisure travel in the United States being family trips.[4] Moreover, multigenerational travel is on the rise, with 46 percent of family travel involving multiple generations (parents, children, and grandparents). This trend is driven by increased accessibility to multigenerational travel options, such as diverse accommodations and travel activities.

Multipurpose travel

Travelers are more often combining travel types (such as business, leisure, and visits to friends and family) and want multiple experiences in the same trip. For example, wellness travel has grown in popularity as people seek to combine relaxation, mental health practices, and physical well-being with their vacations. Wellness resorts with diagnostics and medical spas with travel components are growing in popularity, and the global spa market is projected to reach $66 billion by 2029, growing at about 8 percent CAGR from 2024 to 2029.[5] Other multipurpose travel trends include event tourism, volunteer travel, and digital nomadism. Major hotel chains and travel companies recognize this and have developed platforms to facilitate booking multifaceted travel experiences (for example, Airbnb, Marriott Bonvoy Tours & Activities, and ALL [Accor Live Limitless]).

Traveler preferences for luxury travel

The global high-net-worth population is expected to increase by almost 26 percent from 2023 to 2028, driven in part by the increase in wealth in emerging regions and among women and younger generations.[6] This has fueled demand for exclusive, high-end travel experiences, and as a result, luxury travel is growing at about 6 percent CAGR, outpacing the broader travel sector by two percentage points, according to McKinsey analysis. The fastest growth is in North America (12 percent CAGR from 2015 to 2025), Asia (8 percent), and the Middle East (6 percent). Luxury travelers are likely to take several trips a year and show a disproportionate appetite for adventure and experiential trips (Exhibit 3).

As luxury travel has increased in popularity, the luxury-hotel pipeline has grown, buoyed by the higher pricing power of these assets. Across hotel segments, luxury-hotel revenues are forecasted to grow the fastest, and travelers are increasingly comfortable paying four-digit nightly hotel rates, especially in the Americas and Europe.[7] In response to this demand, luxury travel brands are evolving to capture a higher share of wallet. This is demonstrated by Aman's foray into membership clubs, Ritz-Carlton's expansion into luxury cruises on yachts, and Four Seasons' private jets and yachts. Fashion brands are also increasingly making inroads into travel, such as hotels by Bulgari, LVMH (Cheval Blanc), and Versace.

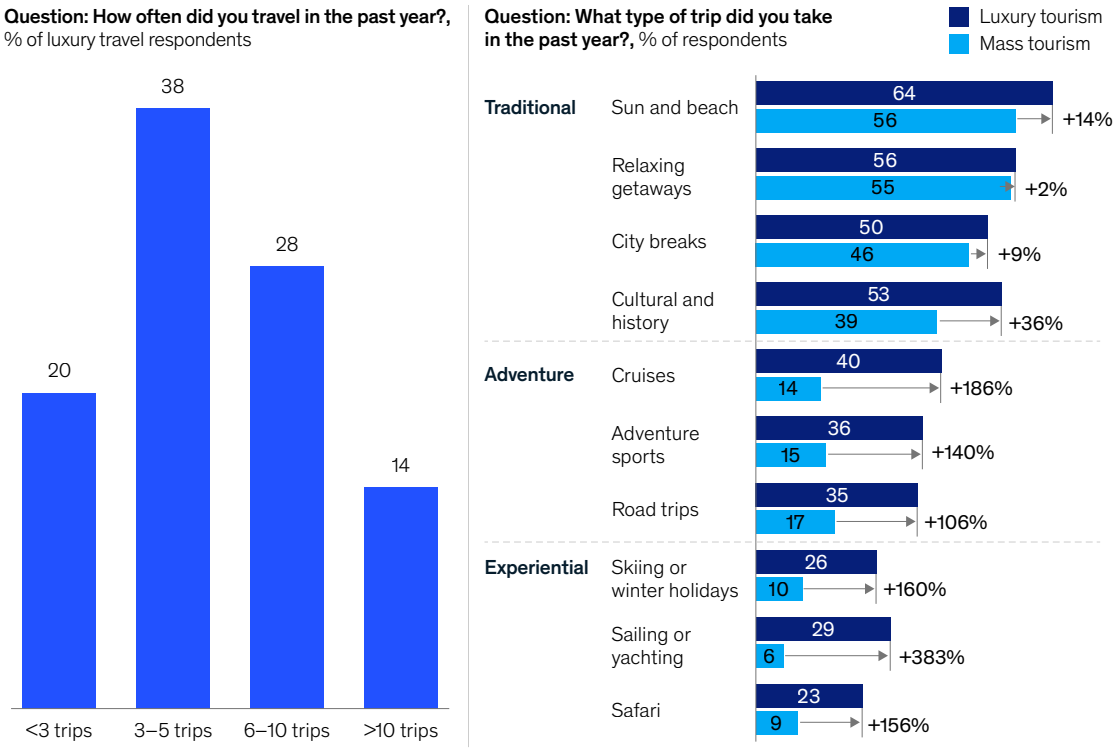
The rise of technology integration in travel

New digital technologies such as gen AI are changing the way travelers plan, as well as how travel companies offer experiences to guests.

[4] *U.S. travel trends Q2 2024: Insights into family travel*, Skift Research, October 2024.
[5] Euromonitor data.
[6] *The Wealth Report*, Knight Frank, 2023.
[7] Jan Freitag, "More hotels around the world report an average rate of over $1,000," CoStar, August 28, 2024; "Number of $1000 a night hotels has tripled around the world," Spa Executive, March 17, 2025.

Exhibit 3

Luxury travelers have frequent occasion to travel and show a disproportionate appetite for adventure and experiential trips.



Source: McKinsey State of Tourism & Hospitality Survey 2024 (n = 5,061)

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Gen AI–enhanced travel planning

Travelers are using gen AI to enhance how they discover destinations, pick lodging, and craft itineraries, raising the bar on the value proposition for travel advisers and suppliers. There has been a proliferation of travel planning tools with added AI capabilities in the past five years, and travelers are independently leveraging AI-powered planning tools. For example, 29 percent of respondents to a recent survey reported using gen AI for travel-related tasks,[8] including travel inspiration, local food recommendations, and transportation planning (Exhibit 4). AI is also expected to drive web traffic, which will change the search engine optimization (SEO) landscape. For instance, the survey showed a 45 percent lower bounce rate among consumers directed to travel websites by a gen AI source, indicating that travelers are trusting gen AI to match them with useful sites.

Using data to make magic happen

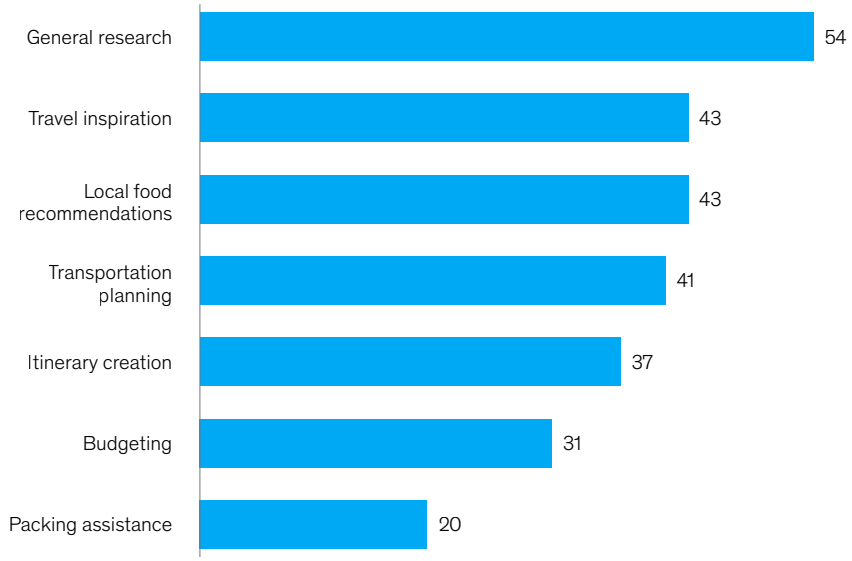
Travel companies are using data and analytics behind the scenes to surprise and delight guests by creating personalized experiences and anticipating guest needs at every point in the guest journey. For example, hotels can collect internal data on guest purchasing habits and use it enhance guest experiences, such as logging that a guest orders hot tea at the same time every weekday and using that data to preorder tea for

[8] *Adobe Blog*, "Adobe Analytics: Traffic to U.S. retail websites from generative AI sources jumps 1,200 percent," blog entry by Vivek Pandya, Adobe, March 17, 2025.

Exhibit 4

Data indicates positive trends for the adoption of, satisfaction with, and efficacy of AI tools in travel.

Most common AI use cases in travel planning, %



29%
Share of survey respondents who have **used gen AI for travel-related tasks**

84%
Share of travelers who have used gen AI for travel-related tasks and who say such tools **have improved their experience**

45%
lower bounce rate among consumers directed to travel sites by a gen AI source

Source: *Adobe Blog*, "Adobe Analytics: Traffic to U.S. retail websites from generative AI sources jumps 1,200 percent," blog entry by Vivek Pandya, Adobe, Mar 17, 2025; McKinsey analysis

McKinsey & Company

them for the duration of their stay and for stays at other hotel locations. Other examples include Shangri-La Hotels' "door to door" jet bridge pickup service (powered by travel data input from the guest or travel agent) and The Peninsula Hotels' offering of hot meals prepared and waiting for guests' arrival and departure.

Customization and personalization at scale

Companies are unbundling and rebundling attributes of hotel stays, flights, and tours, allowing for high customization and offerings tailored to "segments of one." As a result, leisure travel companies such as IHG are beginning to introduce attribute-based selling, in which guests pay for exactly the features they want instead of leaving options such as view types and room location up to chance.[9] For example, hotels can allow guests to choose à la carte whether they'd prefer a high floor or a beach view or if they'd like access to open mini bars, spa facilities, or hotel golf courses.

Investment themes for private equity firms

The dynamic shifts toward new experiences, luxury travel, and technology integration are giving rise to many investment opportunities in today's travel industry, which private equity firms can consider exploring.

[9] "IHG Hotels & Resorts revolutionizes booking experience through next-gen cloud solutions," IHG, September 12, 2023.

Adventure and outdoor experiences

As travelers look for novel and unique experiences, companies offering unusual adventure and outdoor experiences may be in a position to earn market share. About 46 percent of travelers plan to increase their spending on adventure travel, and the demand for luxury adventure-travel experiences is increasing.[10] In fact, the number of passengers sailing on expedition itineraries increased 71 percent from 2019 to 2023.[11] As a result, expedition cruises, such as those operated by specialized companies with a focus on remote scenery and wildlife viewing, are in a strong position in this evolving market.

With the number of passengers embarking on expedition cruises on the rise, private equity firms may increasingly look toward expedition cruise operators, including those that specialize in themed cruises, educational voyages, or cultural expeditions. According to McKinsey analysis, the cost and time to build a cruise ship are increasing, with waitlists nearing a decade. Accordingly, players are examining the possibility of retrofitting existing ships into expedition cruises and building brands using existing hospitality assets.

On the theme of outdoor adventure, demand for luxury yachting experiences continues to increase. Over the past decade, yachting demand has grown by about 50 percent, according to McKinsey analysis. At the same time, consumers are turning away from yacht ownership, spending $1.4 billion less on the same number of yachts in 2024 than they did in 2023. This dynamic is creating tailwinds for yacht charter models. Industry players could consider integrating private travel and yacht offerings to create seamless travel packages through strategic partnerships, consolidate regional boutique charter operations, or build a book service that includes air charters, yacht charters, hotels, and tour activities.

Moreover, luxury consumers are increasing demand for marinas, but there is a geographic mismatch between marina infrastructure and demand, creating a white space for strategic investment. According to McKinsey analysis, there are about 6,000 seaside marinas globally, with about 65 percent located in the United States. At the same time, McKinsey analysis finds that about 70 percent of yachting activities are concentrated in the Mediterranean region—and that there is a global marina shortage, with about 210,000 yachts competing for about 160,000 berths. With about 6,500 new yachts delivered annually and marinas adding only about 300 berths every five to ten years, the supply-and-demand gap is widening.

According to McKinsey analysis, the marinas industry is a $15 billion market growing at an 8 percent CAGR through 2030, and many Mediterranean marinas have waitlists that are 12 months or longer. Demand has remained resilient, with consumers in this market valuing quality, convenience, and other attributes, in addition to price. Codeveloping marinas alongside or adjacent to high-end resorts or branded residences, offering bundle packages, investing in premium upgrades, and verticalizing marinas with branded services could further position private equity firms in strong positions.

Fully integrated destination experiences

The revenue generated from Taylor Swift's Eras Tour and the FIFA World Cup are not isolated examples: They speak more broadly to the power of live events to draw consumer spending. A growing share of travelers are choosing trips based on live events (about 20 percent of travelers in 2025).[12] Sports tourism alone was worth $565 billion in 2023 and is projected to grow beyond $1.3 trillion by 2032,[13] while music tourism is expected to reach $15.5 billion within the next decade.[14] Luxury travelers also represent a large share of the experiences market—their share of spending on experiences rose from 34 percent in 2019 to 46 percent in 2023.[15]

[10] Varsha Arora, "U.S. adventure travelers to ramp up spending," Skift, December 18, 2024.
[11] *State of the cruise industry report*, Cruise Lines International Association, May 2024.
[12] Jeff Fromm, "AI and live event tourism: Travel trends that drive growth," *Forbes*, October 3, 2025.
[13] Christina Gough, "Sports tourism - statistics & facts," Statista, August 8, 2025.
[14] *Music tourism market growth—forecast 2024-2034*, Future Market Insights, June 28, 2024.

As consumers transform experiences such as concerts and sporting events into multiday trips rather than just hours-long activities, there is a growing opportunity for live-event hospitality platforms. Private equity firms could partner with or acquire event management companies for sports, music, and cultural event travel, create bundled packages, and develop recurring revenue through membership or loyalty programs.

Luxury travel agencies

Notably, luxury travel brands are moving into adjacencies and reaching people through a wider array of channels, including a more diffuse luxury travel agent system. These independent agents are being trained with tools from consortium channels and are being provided with digital, self-serve sales tools and agent-oriented planning software. These solutions could become more attractive as companies continue exploring new ways to build networks of luxury travel agents and connect with travelers in new ways (membership programs, new travel agencies, and more).

Experience-focused, members-only clubs

Memberships at members-only clubs grew at 19 percent CAGR from 2016 to 2024, with continued momentum expected as affluent consumers seek curated spaces.[16] While early-stage clubs can see 30 to 50 percent of first-year revenue spent on member acquisition, mature clubs (five years or older) typically achieve 20 to 35 percent EBITDA margins due to high retention and steady recurring revenue, according to McKinsey analysis.

As consumer demand for live events and exclusive dining experiences continues to increase, there's an opportunity to invest in members-only clubs in preexisting spaces, stadiums, arenas, and ski resorts that avoid higher member acquisition and investment costs. Private equity firms could partner with stadium and arena owners to build private lounges with luxury food and beverages, concierge services, and exclusive access. Further, they could launch a branded series of clubs in partnership with hospitality operators to deliver consistent, luxury clubs with reciprocal access; create a tiered membership model with regional or national access; and program the space for private events.

Wellness-integrated lifestyle concepts

A generational shift in wealth, wellness priorities, and community structure is creating an opportunity for wellness experiences. This is especially true for postpartum treatment, where wellness offerings can support restorative care. In 2024, 82 percent of US consumers said wellness was a top priority in their daily life, versus 42 percent in 2020.[17] In addition, women are becoming more educated and wealthier, with their global wealth projected to increase 31 percent by 2030. However, they also are increasingly likely to be living farther from traditional support systems, with about 27 percent of higher-income adults (earning $125,900 or more annually) living away from family.[18] As a response to this trend, postpartum retreats started coming to the United States three years ago after having been established in Asia for decades with widespread appeal.[19] Private equity firms could partner with postnatal care companies and reserve space in existing urban assets and acquire or partner with standalone postnatal care companies.

Opportunities in new technologies and technology integration

New technologies are attracting interest throughout the leisure travel industry. Companies are offering AI and cloud-based systems to upgrade legacy revenue management, pricing, and travel systems (for example, property management systems, rental management systems, enterprise resource planning).

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[15] Saniya Zanpure, "The shift in luxury travel experiences," Skift, September 9, 2024.
[16] *The Wealth Report*, Knight Frank, 2023; McKinsey ConsumerWise US consumer sentiment data; expert interviews (based on public SoHo House information).
[17] "The trends defining the $1.8 trillion global wellness market in 2024," McKinsey, January 16, 2024; "Still feeling good: The US wellness market continues to boom," McKinsey, September 19, 2022.
[18] Kiley Hurst, "More than half of Americans live within an hour of extended family," Pew Research Center, May 18, 2022.
[19] Eliana Dockterman, "There's a new way for moms in the U.S. to recover after childbirth. Most can't afford it," *Time*, May 8, 2024.

These systems could, for instance, use machine learning to power real-time pricing optimization, as well as bookings more broadly. Consumers and businesses alike are also looking for more and flexible features that legacy reservation systems do not offer, such as the ability to specify check-in and check-out times during reservation, add activities and spa services online prior to hotel stays, and provide AI-powered customer service.

Private equity firms can also look to companies enabling the transition from traditional to AI-powered technology. For example, consumer-facing AI and voice-powered search functionality are giving rise to new companies and B2B service providers. With the growing role of AI-powered search and the decline of traditional SEO-driven search, private equity firms can invest in marketing technology companies leading the charge for setting businesses up to be recommended by AI.

Last, there is an opportunity to invest in companies offering solutions that unlock efficiencies from automation and robotization of high-cost traveler touchpoints. As labor costs mount and travelers expect a more seamless experience, travel companies are turning to technology to automate and streamline low value-add and manual tasks. For example, facial recognition technology is starting to be more widely adopted for airport security, hotel check-in, and more, and robotization for luggage handling and room service delivery is also gaining scale.

As growth in the travel market begins to accelerate over the coming years, US-based and international private equity firms have an opportunity to play a role. The key will be understanding travelers' desires—for experience- and luxury-based travel in particular—and how they're using technology to plan and enhance their experiences.

Ryan Mann is a partner in McKinsey's Chicago office; **Tom Bartman** is a partner in the Miami office; **Vik Krishnan** is a senior partner in the Bay Area office; **Daniel Crohmal** is an associate partner in the New York office; **Grace Kessler** and **Katherine Stadler** are consultants in the Washington, DC, office; **Kimberly Chang** is a consultant in the Los Angeles office; and **Melinda Smith** is an associate partner in the Seattle office.

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From reckoning to renewal: An interview with KKR's Philipp Freise

Europe's resilience is being tested. Investor Philipp Freise explains why the continent's current challenges could spark its next wave of growth.

December 5, 2025



© Getty Images

Europe is contending with powerful and overlapping forces: a live war on its soil, a legacy of lagging technological progress as AI-driven change accelerates, and persistent questions about its productivity and competitiveness. These pressures have renewed debate over how the continent can invest, integrate, and innovate at the scale required to power its future.

KKR, one of the world's largest investors in European businesses, has a front-row seat to that discussion. In this interview, Philipp Freise, the firm's cohead of European private equity, explains how Europe can turn reckoning into renewal: for example, by reforming its capital markets, scaling its innovation, and applying technologies such as artificial intelligence across its industrial base. With urgency and coordination, Freise says, the continent can again convert adversity into progress.

This interview has been edited for length and clarity.

A pivotal moment for Europe

McKinsey: What makes you optimistic about Europe at a time when the continent faces so many challenges—from security threats to technological shifts to demographic trends?

Philipp Freise: Europe is at a pivotal moment in its history. We've had multiple wake-up calls. Last year's report penned by Mario Draghi—the former prime minister of Italy and former president of the European Central Bank—made it clear that Europe should invest more, and more intelligently, in its future.

The report came in the context of a reckoning. Since the Second World War, Europe has taken for granted certain institutional frameworks: our reliance on the US for security, the international monetary system, even the safety of our pension systems. Now those assumptions are being questioned. Europe knows it's in a critical period. And if history is any guide, that's when Europe moves.

McKinsey: What lessons do you take from past moments that have sparked reform in Europe?

Philipp Freise: In 2005, Germany had a similar wake-up call when high unemployment and weak growth threatened economic stagnation. In response, it implemented important reforms, and those reforms lifted Europe for the next decade.

We're in a similar situation now. We have populations who doubt the future of their countries and of their savings. We have security challenges, a live war on the continent, and a revolutionary new technology—AI—that's changing almost everything.

All of this is driving reform. Germany's constitution has already been changed to allow new investment; a trillion euros has been committed. But everyone knows that capital alone isn't enough. We need to reform how we save, how we spend, how we innovate, and how we scale innovation.

The response to COVID shows what Europe can do when it's under pressure. When the pandemic was declared, hospitals were freed up within days, populations protected, and innovation encouraged—and the winning vaccine was developed here in Germany. We shouldn't underestimate that power. Hopefully we don't need another pandemic or a war in NATO territory to spur action, but the resolve is already there. Europe is mobilizing.

AI and defense as catalysts for change

McKinsey: Do you think the rapid advance of AI could provide that same kind of pressure today, to innovate and catalyze future reforms?

Philipp Freise: In some ways, yes—and it's linked directly to what's happening in defense. If you look at what helped Ukraine withstand the initial assault, the power of AI and new-generation technology played a significant role, including the work by innovative companies like the German start-up Helsing. That's very much an AI-enabled technology that helped repel some of those early advances.

A fundamental technological revolution is unfolding at speed, and Europe has to ask whether it will play a role or not. The positive news is that, unlike earlier technological revolutions, large language models don't create a permanent first-mover advantage. The advantage from deploying AI through massive capital spending is mostly in building foundational models. But the real impact—the part that can transform our economies and address low productivity growth—will come from the application layer.

If we have access to the advances made possible by those foundational large language models, then we'll benefit. The tide can lift all boats. Of course, there are concerns about not owning the core models—issues about data and privacy—but the bigger question is whether we see the chance to apply what exists at scale.

Scaling innovation in Europe

McKinsey: When it comes to innovation on the continent, what will it take to turn local heroes into global champions?

Philipp Freise: Europe needs to direct more capital into ecosystems, not just incumbents. Look at what's happened in the US with companies like Anduril. The government deliberately spends a share of its defense budget on the innovation ecosystem: start-ups, R&D, new technologies. China does the same. That's where much of the breakthrough innovation is coming from.

Europe is beginning to learn that lesson slowly. As we scale up through the capital I mentioned earlier—Germany's trillion-euro commitment, broader European defense spending, and private investment—we have to make sure that funding reaches IP [intellectual property]–driven start-ups, not just established operators. That can even be mandated from the top down.

McKinsey: So you're arguing for a different kind of public–private partnership?

Philipp Freise: Exactly. We've seen this work before. SpaceX didn't succeed because it had more experience; it succeeded because NASA took a chance and gave it large-scale contracts. That's how ecosystems grow: by bringing innovative private companies into the national agenda.

Europe has the same opportunity now in defense and other strategic sectors. When we rearm or rebuild infrastructure, we should be deliberate about including the innovation and start-up scene. That's how we'll foster the next generation of European champions.

Reform, regulation, and the common market

McKinsey: What are the market priorities in Europe right now from your perspective?

Philipp Freise: The first is completing the single market—for services, for capital, and for technology. If you're a robotics company in Germany, you should be able to expand across Europe without facing 28 different tax systems or insolvency laws. Harmonization can and should happen.

We also need a common regulatory framework that makes scaling easier: consistent rules for how technologies are governed, how businesses can fail and restart, and how taxes are applied. If we can create those conditions, a company that wins in one country can compete across the continent.

McKinsey: Draghi's report highlighted this as a priority. What will help to make harmonization happen?

Philipp Freise: The good news is that the road map already exists—we don't need to reinvent the wheel. Much of it is in the Draghi report, which has been out for a year. We just need more political will.

This will only work if the public and private sectors move together. We have to treat competitiveness with the same urgency as we did with COVID: a coordinated effort across nations, industries, and institutions. If we think of this as a "war footing" moment for growth and innovation, we can overcome the inefficiencies that still hold Europe back.

Culture, creativity, and technology

McKinsey: Why do the arts and creativity matter to Europe's competitiveness?

Philipp Freise: Culture is Europe's magic. I was in Paris yesterday, and after reading all the doom and gloom about politics, you expect a gray, worried atmosphere. But when you arrive, the city is beautiful, restaurants are full, people are out. That's the energy and diversity that define Europe.

Our 28 countries, including the UK, are all sources of inspiration. Our theaters, opera houses, and concert halls, the art created over centuries, give us something uniquely European. When I'm down about technology or the future, I often go back to that heritage. Even early innovators like Steve Jobs were inspired by it—the "Think Different" campaign at Apple was built on the idea of great cultural and social leaders who changed the world.

McKinsey: How do you see technology influencing the arts and other creative industries?

Philipp Freise: AI is already revolutionizing film and television. I recently watched *E.T.* with my kids and then compared it with *The Matrix* and with *Dune* today. The evolution of visual storytelling is staggering. AI gives humans new tools for creativity.

Of course, there's debate—my children read less than I did at their age—but they also have incredible creative tools that didn't exist for us. When I was their age, we could go for a walk or watch *Tom and Jerry* if we were lucky. There was no YouTube, no Instagram. Now a teenager with an imagination can make and share art instantly. That's a huge expansion of human creativity.

McKinsey: What's technology's relationship to culture?

Philipp Freise: Technology and culture are closely intertwined. Throughout history, technological advances have always influenced cultural expression. Today, AI is a massive opportunity for human expression. It democratizes creativity. Everyone now has access to knowledge and tools that let them focus on what's essential: deploying imagination. That's a deeply human thing.

Investing in Europe's future

McKinsey: You've said that Europe has great research and engineering talent but struggles to scale. Why does that gap persist?

Philipp Freise: Europe has an abundance of talent, IP, and great universities—even patents—but the bottleneck is capital. We simply don't invest enough in scaling ideas into companies. Mario Draghi's report calls this out clearly: around €750 billion a year of investment potential isn't being deployed.

It's not that the money isn't there. Much of our pension and savings system is built around low-yield, low-growth products. In contrast, countries with deep capital markets, like the US or Australia, channel that savings base into innovation. That's the gap we have to close.

McKinsey: What would it take to unlock that investment for innovation?

Philipp Freise: We need to reform pension regulation and create a true capital-markets union. The Norwegians have shown how it works with their sovereign-wealth fund. Australia offers another model: 25 years ago, it required every employer to contribute a share of workers' salaries to a capital pool that invests across the economy, including in innovative ecosystems.

Imagine if Germany had done the same: for 20 years it's run current-account surpluses of around 10 percent of GDP. If even part of that had gone into a sovereign fund investing in European or global tech champions, we'd have our own Alphabet by now.

McKinsey: Are you seeing signs that investors' sentiment toward Europe is shifting?

Philipp Freise: Definitely. For the first time in our history at KKR, we're seeing record levels of interest in Europe. Stability, the rule of law, and quality of life—things people once took for granted—are now valued again.

The opportunity is real: reform pensions, deepen capital markets, attract global private capital. With those foundations, Europe can fund its innovation at scale. The ingredients are there, but it's all about execution.

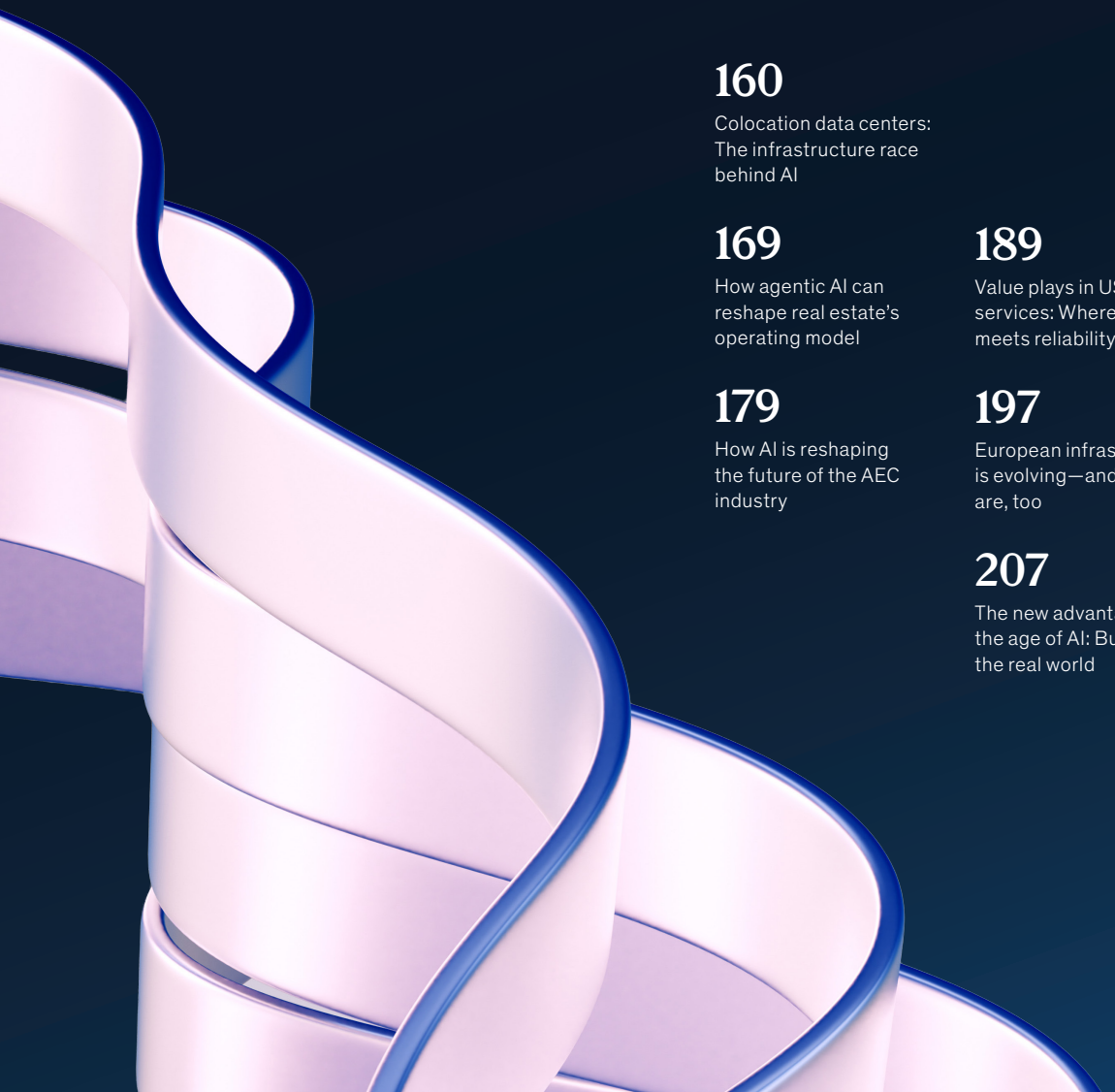
Philipp Freise is cohead of European private equity at KKR.

Comments and opinions expressed by interviewees are their own and do not represent or reflect the opinions, policies, or positions of McKinsey & Company or have its endorsement.

This interview was edited by Stephanie d'Arc Taylor, an editor in the New York office.

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Investing in the built environment



160
Colocation data centers: The infrastructure race behind AI

169
How agentic AI can reshape real estate's operating model

179
How AI is reshaping the future of the AEC industry

189
Value plays in US home services: Where opportunity meets reliability

197
European infrastructure is evolving—and investors are, too

207
The new advantage in the age of AI: Building in the real world

Colocation data centers: The infrastructure race behind AI

Amid surging data center capital expenditures, competitiveness depends on securing advanced accelerators, reliable electricity, and fast project delivery.

by Maria Goodpaster, Piotr Pikul, Anna Kortis, and Olivier Bus

June 30, 2026



© Getty Images

Thanks to the boom in AI, data centers have moved from the background of the digital economy to center stage. They are the physical backbone behind cloud computing, enterprise software, and generative AI and support daily digital activity by businesses and consumers. Under current adoption scenarios, global data center demand could almost triple between 2025 and 2030, from about 82 gigawatts to about 220 gigawatts.[1]

The investment case is one of ten used in the research for the McKinsey Global Institute's report, *Catalyzing competitiveness: Where businesses invest and why*. The report examines how variations in the basic economics of comparable projects influence investment decisions in different regions globally and the impact those decisions can have on the future of competitiveness and growth across the world.

AI data centers are experiencing a rapid increase in investment

Not all data centers serve the same purposes. Traditional cloud data centers support a broad mix of workloads such as storage, web services, and enterprise applications. AI data centers are built for more specialized workloads, housing large clusters of advanced chips to train and run AI models. This distinction matters because AI is now a primary driver of data center growth. From 2025 to 2030, non-AI demand could increase by 1.7 times from about 38 gigawatts to 64 gigawatts. Meanwhile AI-related demand is expected to grow 3.5 times from about 44 gigawatts to 155 gigawatts, accounting for approximately 70 percent of total data center demand.[2] This analysis focuses on AI data centers.

AI data centers require two main types of workloads, training and inference. Training involves building models by processing vast data sets over concentrated periods of very high consumption of computing power. Inference is what happens after deployment, when a model is used to answer prompts, run searches, and generate content in real time. Many of the largest and most power-intensive facilities today are largely devoted to training, but inference may grow faster as AI adoption broadens.[3] This analysis assumes that AI data centers can serve both workloads and uses a blended average of the two. Global investment in data centers excluding IT hardware may exceed $1.7 trillion cumulatively through 2030.[4]

The next wave of data center development will likely combine very large training campuses, retrofitted or expanded cloud facilities, and a broader network of inference capacity located closer to users. Facilities once operated at tens of megawatts but are now being planned for hundreds of megawatts or even gigawatts, especially in the United States and China.

The United States currently has the largest share of data center investment, followed by China

The United States accounts for a significant share of data center construction (table). Northern Virginia is currently home to one of the largest data center clusters globally, but grid constraints and longer time to

[1] "The next big shifts in AI workloads and hyperscaler strategies," McKinsey, December 17, 2025.
[2] "Scaling bigger, faster, cheaper data centers with smarter designs," McKinsey, August 1, 2025.
[3] "The next big shifts in AI workloads and hyperscaler strategies," McKinsey, December 17, 2025. By 2030, demand for AI training datacenters is expected to rise from 31 GW to 62 GW, while inference demand is expected torise from 31 GW to 93 GW.
[4] "Scaling bigger, faster, cheaper data centers with smarter designs," McKinsey, August 1, 2025.

power are contributing to new developments in other tier-one markets and new locations.[5] Domestic cloud providers and expanding state-backed infrastructure supports large-scale developments in China.[6] China's largest data center hubs remain concentrated in eastern and coastal regions where demand is high such as Shanghai and the Pearl River Delta, as well as in Beijing in the north. New capacity is increasingly being pushed into western regions with abundant energy such as the Yangtze River Basin and the Chengdu-Chongqing economic zone, under the "Eastern Data, Western Computing" strategy.[7]

Table

Installed hyperscaler data center and colocation capacity in 2025 by countries analyzed

Country	Installed capacity (gigawatts, 2025)	Region examined in this analysis
United States	36.0	North Virginia
China	20	Beijing and Shanghai
United Kingdom	2.2	London
Sweden	0.8	Northern Sweden
Singapore	1.4	Singapore
Global	83.0	

Elsewhere, data center expansion is smaller. The United Kingdom has the most datacenters in Europe, and construction is picking up in France and the Nordic countries, which have more abundant energy. The Nordics in particular benefit from lower-cost, low-carbon power, a cooler climate requiring less energy for cooling, and room to scale. Singapore is Southeast Asia's established regional hub with a longstanding reputation for serving demand from multinational firms, even though land and power constraints have pushed incremental growth into nearby Johor, Malaysia.[8]

[5] Tier 1 refers to large, established data center hubs with a base capacity of at least one gigawatt in 2024 and a compound annual growth rate of less than 30 percent that has the potential to reach two gigawatts of capacity by 2030.
[6] "China's AI providers expected to invest $70 billion in data centers amid overseas expansion," Goldman Sachs, November 3, 2025.
[7] Ning Zhang et al., "The 'Eastern Data and Western Computing' initiative in China contributes to its net-zero target," *Engineering*, September 2025, Volume 52; "Western regions to gain computing power," National Development and Reform Commission, People's Republic of China, March 19, 2022.
[8] Blathnaid O'Dea, Malaysia restricts non-AI data centers, citing energy concerns, PV Magazine, February 25, 2026.

Regional differences in electricity prices and cooling needs explain the difference in levelized costs

This analysis models a 100-megawatt, liquid-cooled AI data center, representing a typical phase in a larger campus build-out. It assumes a colocation model, so costs include only the physical infrastructure needed to build and operate the facility and exclude IT hardware such as graphics processing units and servers, which users who rent the space provide. This allows a like-for-like comparison of data center infrastructure economics across countries (see sidebar "Methodology").

China is the base case in this analysis and reflects the cost in large demand-center markets where demand is high, such as Shanghai. We compare it to similar data center investments in Northern Virginia, Singapore, Northern Sweden, and London.

Methodology

This investment case compares the costs of an AI data center project across various geographies to understand what makes some regions more cost-competitive than others. Our levelized cost methodology converts a project's full life cycle economics into a single unit cost. It can be interpreted as the unit price that would make a project's net present value equal to zero over its entire life cycle, which is the minimum price that makes that project viable and is in line with the macroeconomic concept of long run marginal costs. It is also in line with the macroeconomic concept of long-term marginal costs. The levelized cost concept is commonly applied in the energy sector, where it is known as the levelized cost of energy. We do not consider taxes, subsidies, and externalities, which vary and are hard to pin down.

The calculations are informed by McKinsey's work in the data center industry, which provides our understanding of the capital expenditure, labor, energy, materials, and other inputs, as well as time, typically needed to build and operate a data center. We price the inputs at the typical costs in a geography, drawing on proprietary databases maintained by MGI's Economics Research team, and at the typical weighted average costs of capital, drawing on McKinsey's Value Intelligence platform, a curated database of the financials of companies globally.

Benchmark: China's eastern region

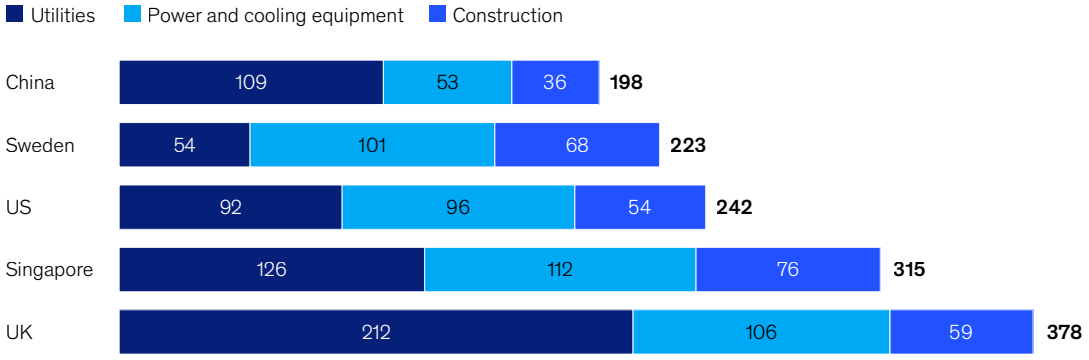
The levelized cost of data center energy, measured in dollars per megawatt-hour (MWh) of facility energy, captures the lifetime cost of building and operating physical data center infrastructure.

In the five countries in the analysis, levelized cost ranges from roughly $200 per MWh in places in China where demand is high to close to $380 per megawatt hour in London (Exhibit 1).[9] In China, costs break down as follows: 55 percent of costs relate to utilities, just under 30 percent to power and cooling equipment, and the remainder to construction.

Exhibit 1

Utility prices and capex are the biggest costs of building and operating an AI colocation data center.

Levelized cost of AI colocation data center energy, $/MWh of facility energy,[1] before taxes and direct subsidies



Note: Levelized costs shown are pretax.
[1]Reflects a 100-megawatt AI data center facility, excluding IT hardware. "Data centre construction cost trends," Turner & Townsend, 2025; "Global construction market intelligence," Turner & Townsend, 2025; "Asia Pacific data centre construction cost guide," Cushman & Wakefield, 2026. A 7-percent premium was applied to the Turner & Townsend data center cost index to convert air-cooled cloud data center costs to liquid-cooled AI data center costs.
Source: McKinsey Global Institute analysis

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[9] This analysis projects capital expenditure and operating expenditure costs over a data center's lifetime of 20.0 years with three years of construction time in Sweden, the United Kingdom, and the United States and 1.5 years of construction time for China and Singapore, a result of their standardized, modular designs. We also assume 90 percent capacity utilization for countries except China where we assume 80 percent to reflect capacity build-out outpacing demand. And we take a standard discount rate of 9 percent to represent the cost of capital in the technology, hardware, storage, and peripherals sector in advanced economies.

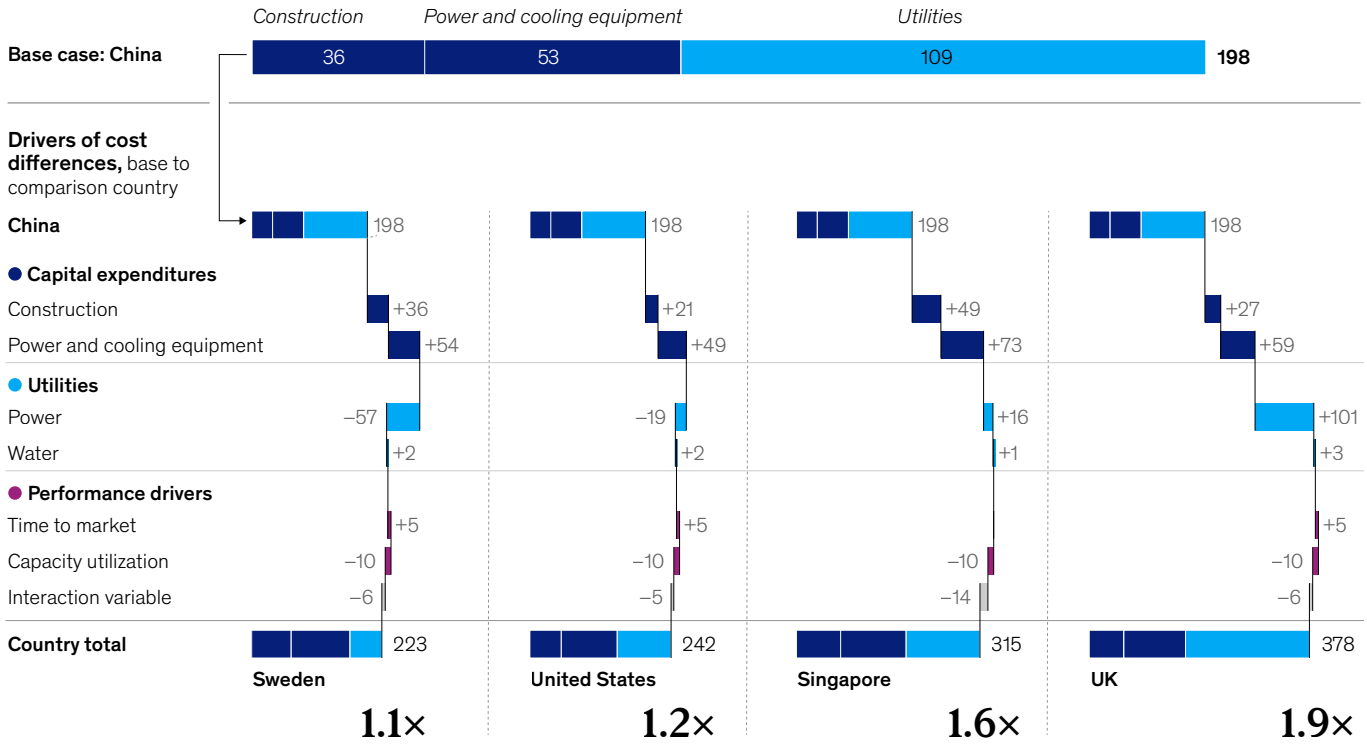
Electricity is the main reason for the cost gap. Electricity prices are 1.9 times higher in London than in China's major demand centers in Beijing and Shanghai, explaining nearly 60 percent of the difference. Across countries, utilities account for almost 30 percent of the variation in levelized cost, making it the single most important cost driver (Exhibit 2).

Power and cooling equipment accounts for close to 30 percent of the variation. Hotter climates like Singapore require more intensive cooling. By contrast, markets like northern Sweden and the United Kingdom can have higher equipment costs because of stricter redundancy or performance requirements. China has lower power and cooling equipment costs, reflecting its large manufacturing scale.

Exhibit 2

Energy costs account for much of the variation in the cost of an AI colocation data center across countries.

Levelized cost of AI colocation data center energy, $/MWh of facility energy,[1] before taxes and direct subsidies



[1]100-megawatt tier 3–equivalent AI data center.
Source: McKinsey Global Institute analysis

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Our analysis suggests AI data centers are found in two categories of markets, supply-advantaged expansion markets and demand-led hubs with deep digital ecosystems. They are highly power-intensive assets, so lower-cost electricity can create a major advantage for supply-oriented markets like Sweden. But they are also highly networked assets, requiring fiber connectivity and proximity to major users, which explains why more expensive markets like the United Kingdom still attract investment.

Moreover, the highest-performing leading-edge chips are subject to export controls relating to China. If less highly performing chips are used, as is generally the case in China, the energy consumption for each unit of compute increases, flipping the economics (see sidebar "Why chips flip the economics").

Geography matters more on the cost side, and business model matters more on the revenue side

Data center revenues are less dependent on geography than costs. Colocation pricing does vary across markets, but rental rates vary less than levelized costs and overlap substantially across major data center hubs. Pricing depends not just on location but also on customer type, contract structure, and local supply-demand balance.

Because this analysis focuses on colocation data centers, the relevant revenue benchmark is colocation pricing in dollars per kilowatt per month. Here, the biggest differences are often influenced by business model rather than by geography. Colocation data centers are owned by operators like Equinix, QTS, Digital Realty, DATA4, and ChinData that serve both large hyperscaler tenants and smaller enterprise customers.

Retail colocation, which serves smaller or more fragmented customers, typically has higher pricing because those providers offer greater flexibility, redundancy, and managed services. At the same time, large-scale deployments, whether through hyperscaler tenants or through wholesale colocation agreements for large enterprises are lower risk and lower priced because capacity is often preleased under large, long-term commitments from one or a few customers.

This difference has an impact on returns. Retail colocation typically earns about $200 to $380 per kilowatt per month and can generate equity internal rates of return of roughly 20 to 25 percent. Wholesale leases earn less, at about $150 to $200 per kilowatt per month with internal rates of return of about 13 to 18 percent.

This suggests that lower levelized cost does not automatically translate into higher returns. Business models and market saturation determine whether cost advantages translate into higher returns.

Markets attracting investment today are ones that combine connectivity, demand, and speed of execution

Beyond cost advantages, AI data center investment flows to markets that offer connectivity, speed of execution, and, increasingly, strategic alignment with national AI priorities.

Connectivity is important for AI data centers, especially those serving inference workloads, need to sit within dense fiber networks and close to major users. This explains why established hubs such as Northern Virginia, London, and Singapore continue to attract investment even when they are not the cheapest places to build or source electricity.

Investment tends to favor markets with demonstrated demand. Developers are more willing to build at scale when they have access to a base of hyperscaler, enterprise, or public-sector customers and when future utilization is supported by preleasing or expansion by existing tenants. In these cases,

Why chips can flip the economics

Our levelized cost analysis isolates the cost of building and operating AI data center infrastructure, which is the typical business model for colocation data center players. However, the economics for AI labs depend own infrastructure and computing hardware, which means that differences in chip or graphics processing unit availability can materially change the calculus across countries.

The United States has strong positioning in advanced AI compute due to a combination of factors such as the dominance of cutting-edge companies in AI accelerator design, close integration with leading semiconductor manufacturers in Taiwan and South Korea, and a mature software ecosystem that enables their chips to be deployed at scale. Access to the most advanced AI chips in mainland China is limited by US export controls.

These constraints have contributed to increased reliance on domestic alternatives and on building a more self-reliant semiconductor ecosystem. These approaches can still support rapid build-outs but may involve tradeoffs in performance, power efficiency, and utilization, especially for frontier AI workloads.

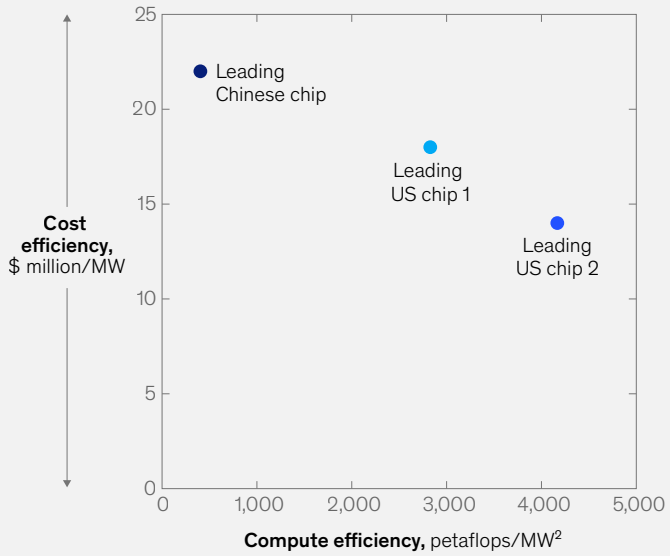
Chinese systems have lower compute efficiency compared to the latest platforms from leading US companies.[1] The compute efficiency of their chips, measured in PFLOPS per megawatt, is ten times or more that of China's most sophisticated chip. As a result, a larger number of Chinese chips are needed to deliver the same level of computing power. The requirement of a larger number of graphic processing units may have an impact on cost-effectiveness depending on configuration and use case (exhibit).

This highlights an important dynamic: Data center infrastructure economics and GPU economics are closely linked outside China where AI labs source the same chips—but they also affect the case in China. If the available chips in China are less efficient, more hardware is needed to deliver the same output, raising levelized cost. While China may have advantages in data center infrastructure, these advantages can diminish and even disappear after differences in chips are taken into account.

Exhibit

China's current leading-edge chip lags other leading-edge chips in computing efficiency and cost.

Cost efficiency vs computing efficiency of leading-edge GPUs[1]



[1]Graphics processing units.
[2]Petaflops (PFLOPS) are used to measure cutting-edge computing power. One PFLOP equals one quadrillion floating-point operations per second.
Source: McKinsey Global Institute analysis

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[1] This comparison is measured in petaflops, a measure of supercomputer speed that represents the ability to perform one quadrillion (10^15) floating-point calculations per second.

Speed of execution matters as projects become larger and more complex.[10] Labor shortages, equipment lead times, permitting delays, and slow grid connections can prevent otherwise attractive markets from adding new capacity fast enough. Lead times to obtain key components such as generators, chillers, transformers, and switchgear have more than doubled since 2019, in some cases reaching more than three years. Grid connection is another bottleneck, with average wait times now exceeding four years; in some markets, connection to power can take as long as a decade.[11] Such constraints are already pushing construction costs higher and extending build times, limiting how quickly new capacity can be delivered even in otherwise advantaged markets.

Government priorities are shaping investment flows more directly than before. In Europe and elsewhere, so-called sovereign AI, or plans to develop and host AI infrastructure domestically rather than relying on foreign providers, is gaining traction. For example, SoftBank's recent pledge to invest up to €75 billion in a five-gigawatt AI infrastructure network in France underscores the role of the country's power availability, government backing, customer access, and sovereign AI priorities in attracting AI data center investment.[12]

Taken together, these factors help explain why investment does not always flow only to the cheapest energy markets only and highlight the importance of creating a market where datacenter projects are easier to deliver and scale. As much as 50 percent of global data center capacity due to come online in 2026 could be delayed by permitting, grid connection delays, public opposition, and rising power demand.[13]

Reducing the time it takes to connect a data center to power may include asking data center operators to leverage long-term power contracts or come up with self-generation arrangements, as some hyperscalers are already doing. Such steps can offset the impact of data centers on local electricity costs, which have already started to rise in Northern Virginia and other parts of the United States.[14] As projects scale up, solutions may involve going beyond permitting to create shovel-ready sites faster and support standardized designs that can gain approvals more efficiently. Improved schedules are often more valuable than improved costs and remain a top priority for data center developers.

A clear strategic approach, especially in more fragmented markets like Europe, may help policymakers. Without strategic alignment, lower-cost energy locations such as Iberia and the Nordic countries may remain underutilized while high-demand hubs such as Paris, Frankfurt, and London are constrained. The key is aligning data center ambitions with advantages in power, networks, demand, and execution.

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[10] John Reynolds, " 'Speed' reason CoreWeave leasing data centre space in UK, says European boss," Tech.eu, June 3, 2026.
[11] "2026 global data center market outlook," JLL Research, January 5, 2026.
[12] Tim Bradshaw, Sarah White, and David Keohane, "SoftBank pledges €75bn to build Europe's biggest AI facility in France," *Financial Times*, May 30, 2026.
[13] "Data centres in space: Less crazy than youthink," *Economist*, May 2, 2026.
[14] Josh Saul et al., "AI data centers are sending power bills soaring," Bloomberg, September 29, 2025.

How agentic AI can reshape real estate's operating model

To create value from AI agents and humans working together, focus on redesigning entire domains, not just launching a few use cases. Here's where to start.

by Alex Wolkomir, Ankit Kapoor, and Vaibhav Gujral
with Andrei Stoica

March 4, 2026



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At 6:12 a.m., water from a leaking pipe begins to drip into the ceiling of a 12th-floor apartment, unnoticed. By 9 a.m., when the property manager arrives for work, that small drip has turned into a big problem.

Upset residents are calling to complain about water leaking through their ceiling. The property manager scrambles for answers: Can our staff access the shutoff valve in the apartment above? How quickly can we get a plumber and contractor here to fix the leak and contain the damage?

Now, imagine this scenario unfolding much differently. At 6:12 a.m., a sensor monitored by an AI agent flags the leak. The agent identifies the 13th-floor apartment where the leak originated, alerts a maintenance staffer, and grants permitted access via a smart lock to shut off the water within minutes, even though the residents are not home. The system also identifies and connects with vendors who can address the issue, then drafts a notice to the residents with an arrival time window. By the time the property manager arrives, the work orders are in motion and the damage is limited, thanks to an automated chain of small steps that used to involve a dozen phone calls.

This is just one example of what the next wave of AI looks like in real estate. Agentic AI is accelerating beyond previous applications of generative AI by automating multistep workflows inside core business systems, enabling humans to work in partnership with AI agents. The shift is from "help me understand" to "help me get it done." Although deploying agentic systems successfully is challenging, the potential value is enormous. A labor productivity analysis of 48 countries by the McKinsey Global Institute suggests that automation, including AI applied to knowledge work, could unlock roughly $430 billion to $550 billion[1] in annual value globally across real estate, construction, and development.

To help companies get started, this article explores key elements of an effective agentic AI deployment. Notably, we focus on the importance of redesigning entire domains and highlight four high-value domains we see repeatedly in our work with organizations: maintenance and facilities, leasing and renewals, investing and asset management, and construction and capital expenditures. We offer examples of potential applications, many of which are being explored or implemented by companies we work with. We then outline three plausible futures for how agentic AI could reshape the future operating model of real estate.

Moving AI from the margins to real value

Most real estate leaders have launched sensible AI experiments: summarize a lease, draft a memo, answer a question faster, and make reporting cleaner. These efforts can help people be more effective, but they rarely transform how work gets done inside core systems—and they rarely improve business-wide outcomes.

That is not unique to real estate. AI adoption is widespread across industries, yet scaled bottom-line impact is hard to find, often because tools sit adjacent to workflows instead of being embedded within them.

This is where agentic AI can become truly transformative. Agents are not simply chatbots bolted onto an existing process. They are a set of systems that can increasingly execute workflow steps with approvals and logging. Agents combine autonomy, planning, memory, and integration so they can move from reactive assistance to proactive, goal-driven execution. If real estate leaders want measurable impact, they should stop asking, "What use cases can we pilot?" and start asking, "Which workflows should we redesign so the software is allowed to do the work, with appropriate controls?"

[1] In 2024 US dollars.

Why domains are the unit of change

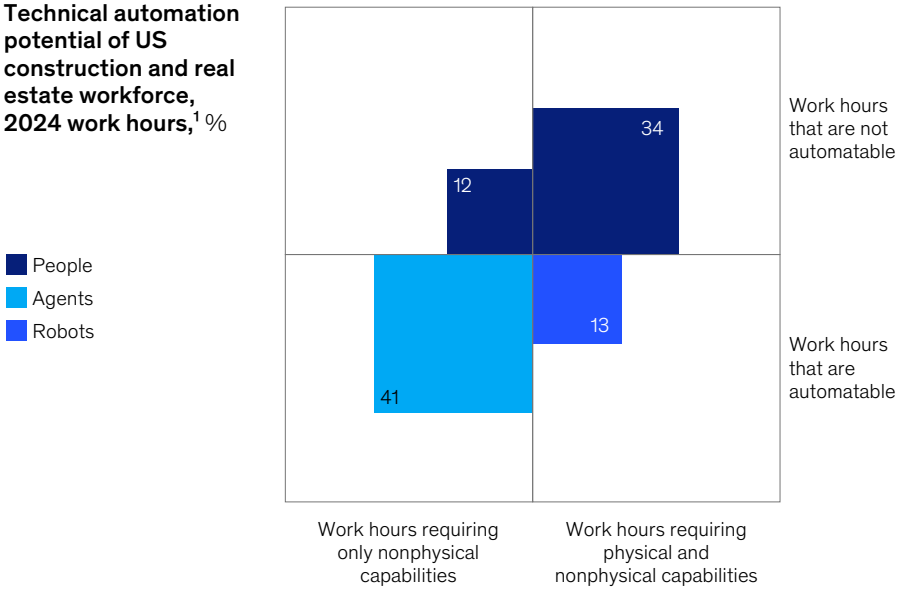
AI use cases tend to be small, bounded tasks that are frequently too narrow to change outcomes. At the other extreme, “enterprise transformations” can be too broad and too shallow. Domains sit in the middle. A domain is a coherent slice of the business with clear owners, a measurable outcome, and a set of connected workflows that can be redesigned end to end. It is big enough to matter, but small enough to run.

Practically, a domain is the full journey from signal to outcome: from a maintenance request to resolution, from a lead to a complete lease file, from a request for information to an approved submittal and closeout. Each domain breaks into a small number of workflows. Each workflow breaks into steps and decisions that happen every day. Many of these steps are candidates for automation and augmentation through people–agent–robot collaboration (Exhibit 1). Outcomes can range from closing maintenance tickets faster to converting more leads into leases to reducing tenant churn by improving their experience.

Focusing on domain-level redesign matters because it forces organizations to develop permissions, integrations, and governance that enable AI agents to execute key tasks. Teams can then review trace data generated from agents’ activities and use those insights to standardize and improve workflows. In this environment, organizations can improve week over week rather than pilot over pilot.

Exhibit 1

People, agents, and robots will all play significant roles in the real estate workforce of the future.



[1]Automation potential is based on the current capabilities of technology to perform human work. The automation potential shown is the late scenario of expert estimates. The early scenario of global technical automation potential ranges from 60 to 70% of current work hours.
Source: Current Population Survey, US Census Bureau; O*NET; US Bureau of Labor Statistics; McKinsey Global Institute analysis

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Taking a domain approach also forces organizations to be explicit about who captures value, which matters as much as technical feasibility in real estate. Enhancing domain-level workflows with AI can help owner-operators boost income and improve service directly. For third-party operators and service providers, AI can open the door to new commercial models with clearer alignment on how their work creates value for them and for owners. Investors can benefit differently by underwriting operating model changes that translate into more durable performance. Across the value chain, leaders should be explicit about who pays for domain transformations, who shares the upside, and who owns the trace data that allows systems to keep learning.

The five technical layers

Agentic AI succeeds or fails on a company's technology architecture. Without the right architecture, agents can't work together, or with humans, to meaningfully reshape workflows.

In practice, most agentic AI deployments require five technical layers, each with a clear job. When one layer is weak, organizations end up with impressive demos that cannot scale. Here are the key functions that each layer can perform:

— *Factual layer.* This layer makes real estate data and documents usable by collecting clean property, unit, lease, vendor, and project metadata; consistently identifying tenants, units, vendors, and projects across systems; reliably retrieving information from documents; and serving as a clear source of truth when systems disagree.

— *Orchestration layer.* This layer can plan and route work by identifying event triggers, workflow breakdowns, routing logic, escalation rules, and "stop points" when confidence is low or risk is high (such as approving a big-ticket vendor invoice, getting finance approval for an anchor tenant's upcoming renewal concession, or increasing a tenant improvement allowance).

— *Action layer.* This layer can execute work by securely integrating AI tools into property management systems, customer relationship management systems, service platforms, procurement systems, and project controls to create tickets, schedule work, request approvals, update status, and log outcomes.

— *Control layer.* This layer provides governance by managing permissions, approvals for financial transactions and policy exceptions, audit trails, and monitoring (including testing and evaluation) so leaders can see what happened, why it happened, and whether performance is drifting.

— *Building-block layer.* This layer delivers a library of small, reusable agent blocks (often called "atomic agents") and routines (such as "draft a stakeholder update," "pull a clause or term from a document," "route for approval," "write back to a system of record," and "close the loop"). The same block can be tuned for different parties and contexts (such as residents, vendors, owners, or property managers) without rebuilding the capability.

This last layer is what enables real scaling. The winning operating models will not be built around a single heroic agent that tries to do everything. They will be built from atomic agents that do a small thing well, with clear boundaries. These atomized pieces can then be built into tools that are deployed at the domain level and improved over time.

How to protect trust and human judgment

In real estate, agentic AI can create value by protecting trust within an organization through governance, returning time by eliminating handoffs, and giving people room to do what only people can do—in turn, improving customer satisfaction and trust.

Residents remember how you handled one bad moment, not nine routine ones. Office tenants remember whether you solved the problem fast, not how sophisticated your portal looked. Owners and lenders remember whether your reporting holds together under stress. When agents handle routine steps consistently, people can focus on the work that requires judgment, taste, creativity, and presence: negotiations, escalations, exceptions, and the moments when relationships are on the line. Successful agentic deployments in real estate will automate steps aggressively to give people the time and space they need to deliver strong, trustworthy service.

Organizations need to develop a thorough understanding of potential risks associated with agentic AI, including vulnerabilities that could disrupt operations, compromise data, or erode trust. Agentic systems must be designed with controls that match the risk: role-based permissions, human approval where required, audit trails, and clear separation between advisory outputs and actions taken. McKinsey's work with pioneering agentic organizations reveals that the emerging operating model involves humans and agents working side by side at scale, with governance as a core design pillar, not an afterthought.

The biggest challenge to creating value from AI tools will be getting people to adopt and trust them. In high-expertise workflows, people do not outsource judgment just because software is available. They trust automation when they can understand it, supervise it, and step in without breaking the flow. That means building scaffolding into the workflow: clear review points for higher-risk actions, simple indicators of uncertainty, and concise summaries of what the system did and what it touched. When something goes wrong, teams need a clean way to intervene, recover, and learn, not a black box that forces them back to manual work. This also means early versions of AI pilots may have manual "approval" steps that teams choose to automate only once they gain confidence in what is in production (for example, automating when the approve button is clicked the vast majority of the time).

There is another, quieter risk. If every owner and operator deploys the same agent, trained on the same patterns and speaking in the same safe, generic tone, brands get diluted. Real estate is both a workflow and a feelings business. The goal is to automate the friction around the interaction so humans can focus on making sure the brand shows up with more consistency in the moments that matter, not to automate the emotion out of the interaction.

The four key domains

As real estate leaders consider how to reimagine workflows with AI, four high-value domains stand out—those that combine high volume, messy handoffs, and real performance consequences. Organizations that deploy AI in these domains should focus on creating measurable business outcomes, not on adoption metrics. It does not matter how many people use a tool if the metrics that matter—from more signed leases to faster maintenance responses—do not improve.

Maintenance and facilities: From dispatch to done automatically

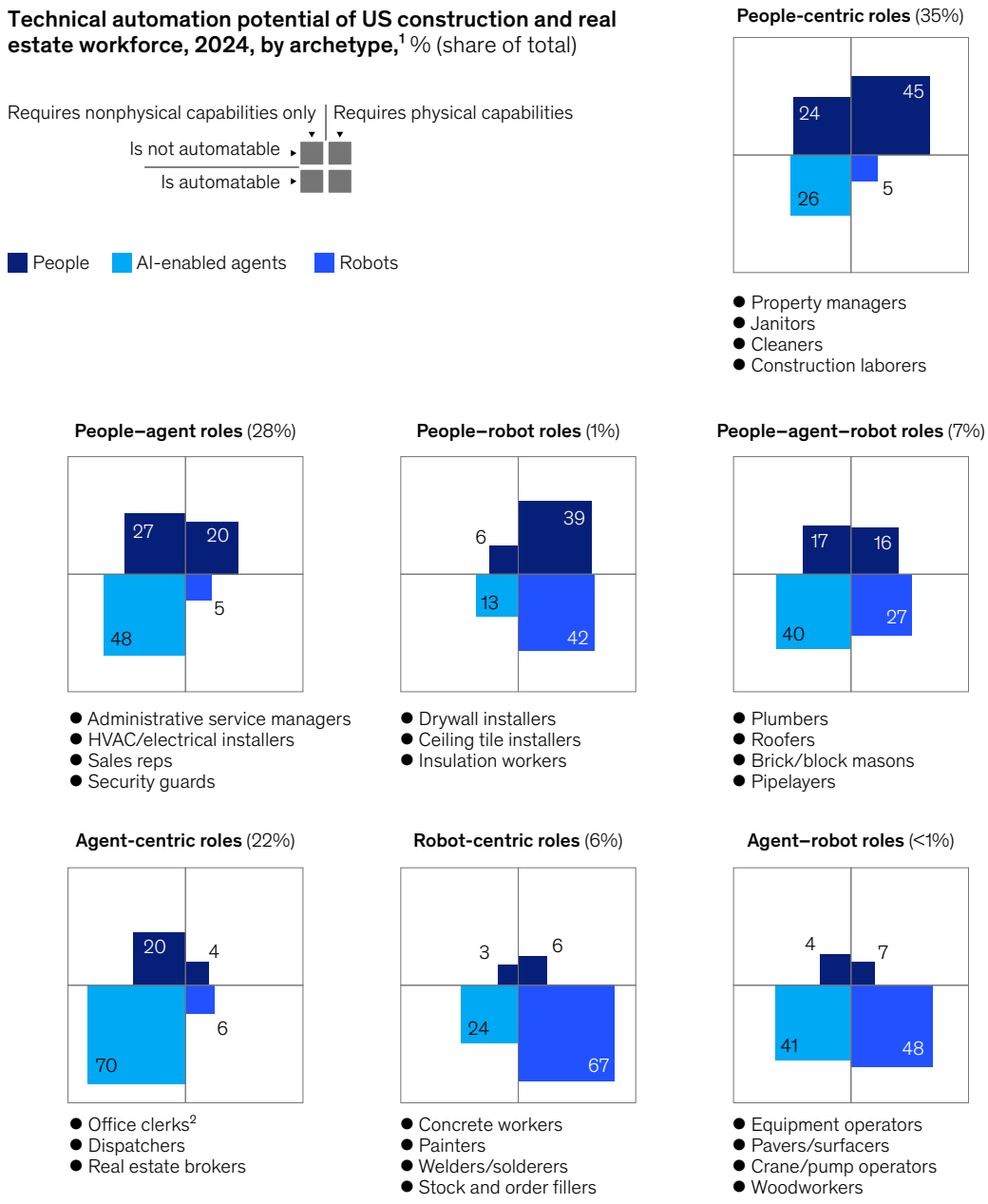
Maintenance is where trust is won or lost, one tenant at a time. In most organizations, maintenance still runs on handoffs among human workers: receiving a report, opening a ticket, dispatching staff or vendors, securing approvals, updating residents, and processing invoices.

Rather than building one agent that "does maintenance," organizations can redesign the incident workflow end to end: signal, triage, access, dispatch, updates, approvals, closeout, and learning. This is where poor coordination and preventable loss tend to hide. Organizations we have worked with to automate maintenance processes have seen time savings of more than 30 percent on many workflows.

Take the example of the leaking pipe we described at the beginning of this article. From the first signal, agentic systems can ensure routine steps are handled quickly and consistently, with human managers providing review and approval where required. Maintenance staff and vendors can then focus on solving problems rather than chasing information. This is just one area where the future workforce becomes a collaboration between people, agents, and, in more physical settings, robots: for example, property and community managers partnering with agentic systems, and maintenance, repair, and skilled-trades workers supported by smarter dispatch, diagnostics, and coordination (Exhibit 2).

Exhibit 2

Extensive collaboration between people and AI-enabled agents and robots in many roles could become the norm.



[1]Technical automation potential shown is in 2024, in the late scenario of expert estimates.
[2]Payroll, accounting, auditing.
Source: Current Population Survey, US Census Bureau; O*NET; US Bureau of Labor Statistics; McKinsey Global Institute analysis

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Leasing and renewals: Service, speed, and compliance

Leasing is often described as marketing, but for real estate operators, the process is about two things: managing logistics and building trust with tenants.

Those two forces show up in the same places every day: responsiveness, scheduling, documentation, and follow-through. When those steps break, trust breaks with them. Agentic AI can manage routine coordination work (guided by clear policies and escalation rules) so people can spend more time where they matter most: exercising judgment, showing empathy, and handling exceptions well.

A digital concierge can respond consistently across channels and languages using approved information and clear escalation rules. But in high-trust settings, how the system communicates matters as much as what it says: Tone, transparency, and escalation cues should be designed so residents understand what will happen next and when a person is involved. Done poorly, these systems converge on the same bland voice; done well, they make the brand feel more distinctive and present.

From there, the operational wins are straightforward. Tour scheduling can use real-time availability, reduce no-shows, and handle rescheduling without losing the thread. Application support can help applicants complete documentation, reduce errors, and quickly route exceptions to human reviewers. The common theme is removing friction from a high-volume workflow while making accountability and handoffs cleaner.

Renewals can benefit from the same approach. Agentic workflows can flag churn risk among tenants by noticing signals such as repeated unresolved service issues, repeated complaints about the same category, missed appointments, slower response behavior, or negative feedback trends. The system can then prompt people on the team to take action before the renewal window closes. The key is prevention: noticing a problem early enough to fix it and handle any exceptions deliberately and consistently. Embedding compliance guardrails and audit trails into the redesign from the outset is critical. Incorporating agentic workflows into the leasing process can enable timely communication, accurate information, clean documentation, and reliable follow-through. By removing friction and allowing staff members to provide more personal service, agentic workflows give on-site teams more room to deliver the human moments that tenants remember. In our work, we have seen rental organizations improve renewal rates by 3 to 7 percent after implementing AI-powered workflows. We also have worked with home builders to implement agentic workflows that have helped them improve lead response times by more than 90 percent and record incremental home sales captured by after-hours agents that engage with buyers around the clock.

Investing and asset management: Faster cycles and clearer judgment

On the investing and asset management side, most work is performed manually, such as reviewing lease clauses, analyzing performance factors, preparing investment committee materials, then updating the same story every time the numbers change.

Deploying agentic AI in this domain is not about replacing judgment. It is about removing the friction that delays judgment. In many teams, the friction is practical: Facts live in multiple systems, lease abstractions and key dates are locked in documents, performance narratives get rebuilt in slides and spreadsheets, and updates require time-consuming rework. By the time the material is ready, decisions are already late.

Organizations can create a portfolio where agents can search structured lease and operating data, draft standardized materials with clear sourcing, and detect early warning signals to prompt swifter intervention. They can handle repeatable tasks such as pulling data, drafting outreach, scheduling, summarizing information, logging outcomes, and updating systems.

Humans can then focus on issues where judgment calls are critical: exceptions, discretion, tenant relationships, brand choices, capital allocation, and investment decisions. The payoff is speed, but also consistency, defensibility, and auditability.

Construction and capital expenditures: Controlling complexity

Before a shovel hits the ground, construction is an incredibly complex endeavor. The domain is defined by documentation, sequencing, coordination, and change. An agentic redesign can support project teams with project-control capabilities that keep documentation organized and workflows moving.

Agentic systems can draft and organize requests for information, meeting minutes, submittals, and project documents. They can interpret codes and specifications to support compliance. They can automate workflows such as permitting or coordinating bid packages. They can help keep owners informed with timely updates. They can support subcontractor onboarding and mobilization by coordinating required documentation and sequencing early steps.

As capabilities mature, construction workflows can also benefit from more technical integrations, such as comparing building information modeling with site conditions, monitoring for schedule risk signals, and flagging change orders that exceed review thresholds. The goal is fewer dropped threads, faster cycle times on routine documentation, clearer visibility into risks before they become delays, and more disciplined change-order management because the paper trail is complete.

Envisioning real estate's AI future

For real estate organizations, the choice is not whether to adopt AI. It is whether AI sits on the side of core systems as a set of helpful tools, or whether it becomes an operating advantage by being integrated into redesigned domains.

For organizations that take a domain-focused approach to AI adoption, three futures can unfold at the same time. They are not mutually exclusive. In practice, most organizations will experience elements of all three, depending on the asset class, market, and starting point.

New operating systems emerge

In five years, the most distinctive real estate owners and managers may look less like collections of properties and more like operating systems. Not in the branding sense, but in the practical sense that their portfolios run on a common layer of workflows, data, and controls.

In that world, a building is not "smart" because it has sensors. It is smart because the organization can turn signals into action. Service requests trigger predictable chains of work. Exceptions are routed, approved, and documented in the same way every time. Reporting becomes a by-product of execution rather than a monthly scramble.

The compounding effect is what separates the leaders from the laggards. Every work order leaves behind information that improves routing. Every service resolution teaches the organization how to prevent the next issue. Every capital project sharpens sequencing and vendor performance. Over time, the portfolio becomes a teacher.

The concept is simple, but it requires discipline. Start with one domain where outcomes matter and activity is high. Wire it into systems of record, put approvals and audit pathways in place, measure a real outcome—then repeat.

Coordination layers quietly disappear

A meaningful share of real estate work today exists to manage handoffs: chasing documents, confirming status, following up on approvals, reconciling expectations and results. Coordinating all that requires countless meetings, full inboxes, and often heroic effort.

As workflows become more automated, the middle layer of chasing begins to thin out. The work changes, and by extension, the jobs hired for also change. The organization spends less time pushing paper and more time managing outcomes. Teams that once coordinated activities by memory and relationships will depend on systems to carry the thread.

The winners will be the organizations that reinvest the time freed up into areas of true differentiation: resident and tenant experience, negotiation, crisis leadership, and continuous improvement. Roles will be redesigned alongside workflows. Managers will learn to supervise systems, not just people. Humans will stay in control of the moments that matter.

Value creation gets harder

In the third future, execution improves across the industry, and quick wins diminish. Reporting gets cleaner. Work orders become more predictable. Service becomes more consistent. As a result, organizations will need to focus on how they differentiate themselves.

In this future, competitive advantage migrates twice. First, it shifts to firms that can build compounding learning loops in core domains to boost efficiency and performance. Then, as those capabilities spread, it shifts again to what cannot be commoditized: trust, brand, relationships, and investment conviction. AI can sharpen each of those, but it cannot substitute for them.

True strategic advantage will come from executing AI tools at scale and learning from this process. When workflows run through an agentic layer, every ticket, approval, exception, and resolution leaves a trace of what happened, what was decided, and what worked. Over time, those traces become proprietary operational know-how that improves the next decision. That creates a strategic question leaders should ask early: Who owns the learning loop—the owner, the property manager, the software vendor, or the services provider?

This is also why AI vendor partner choices matter. Many platforms converge on a lowest-common-denominator experience because that is what scales across clients. The risk is subtle. Tenant-facing automation gets smoother while the brand gets flatter, and service becomes easier to standardize and compete on price. Differentiation comes from what you control: proprietary workflow design; the trace data that make your system learn; and a deliberately designed voice, tone, transparency, and escalation behavior that preserve trust and reinforce the brand's distinctiveness rather than muting it.

Over time, some players will try to bundle software and service delivery into a single operating system offer. The organizations best positioned for success will be those that own the workflows, own the learning loop, and keep the customer experience unmistakably theirs.

What separates leaders is discipline, not ambition. They decide which domains they intend to own. They ensure they control the data traces created by executed work so the organization keeps learning. They design governance that allows systems to act safely. And they treat adoption as a business responsibility, not an IT project.

The winners will not be the firms with the flashiest demos. They will be the ones whose systems quietly get the work moving before the day begins, so people can focus on judgment, relationships, and the moments that matter in the built environment.

In real estate, as in other industries, measurable benefits from AI adoption have been slow to materialize. But the rapid development of agentic technology represents an opportunity for real estate leaders to rethink how they generate value from AI.

The next phase is unlikely to be won by a series of disconnected pilots. It will be won by a small number of domain transformations designed for execution and trust. Organizations that move early can use agents to reduce handoffs, improve service, and accelerate decision cycles while building the governance and operating model that makes those gains durable. Done with discipline and risk controls, agentic AI can unlock new levels of efficiency, enhance customer service and experience, and fuel continuous improvement, delivering a true competitive advantage.

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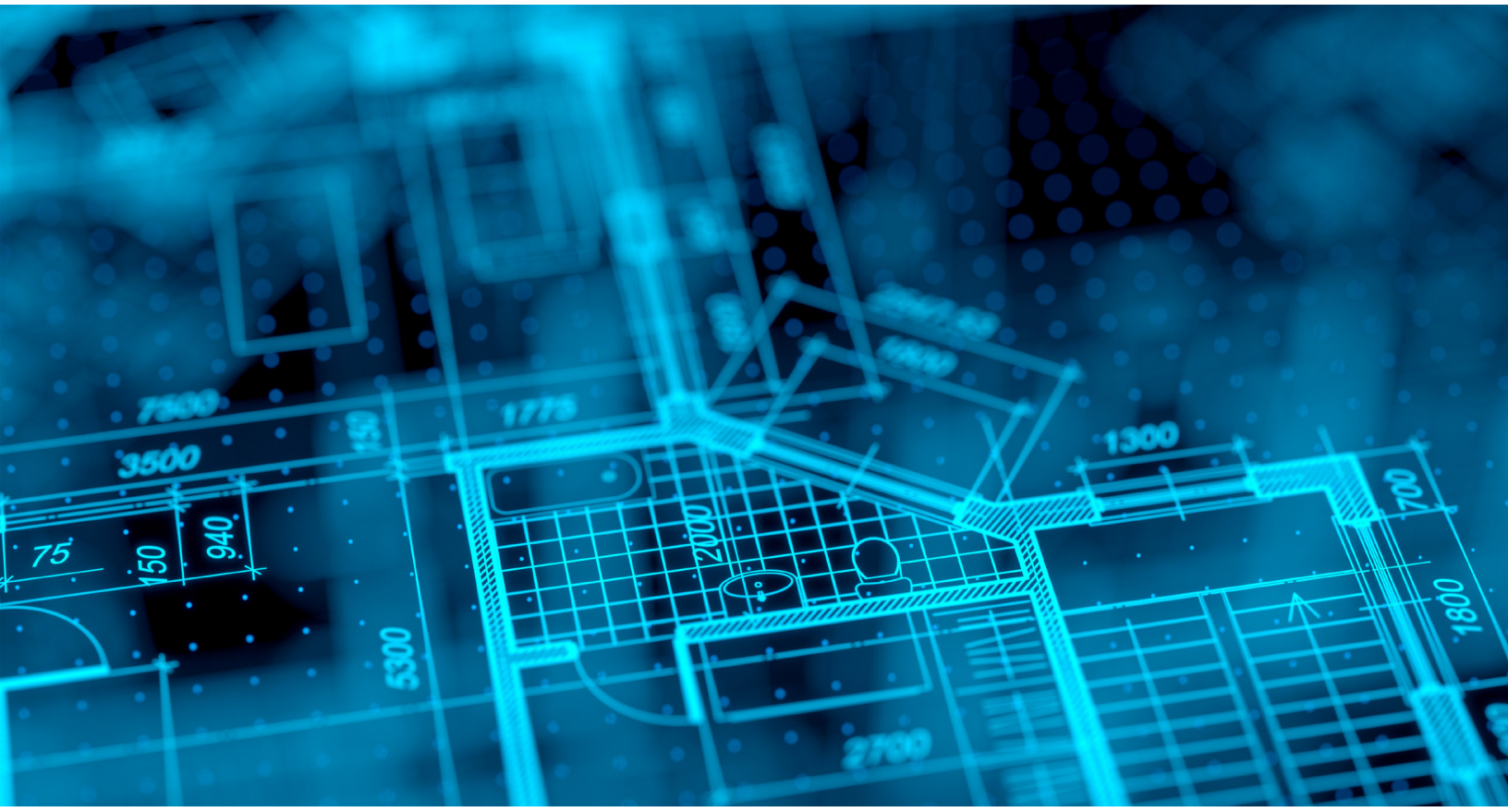
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How AI is reshaping the future of the AEC industry

As AI rewires architecture, engineering, and construction, firms should reimagine workflows, improve data use, and automate worksites.

This article is a collaborative effort by Daniel Ahmoye, Erik Sjödin, and Jose Luis Blanco, with Aleem Mawji, Marita Winslade, and Patrick Rogers, representing views from McKinsey's Engineering, Construction & Building Materials Practice.

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On a large construction project, a small hang-up can quickly become a much bigger problem. For example, a field superintendent discovers that prefabricated pipe spools no longer fit because of a late engineering change. That might trigger days of requests for information (RFIs), drawing reviews, procurement checks, schedule updates, and cost assessments, while crews wait or work around the problem.

In an agentic future, the superintendent captures a photo of the issue on a mobile device. Within minutes, AI agents compare the image with the latest 3D model, engineering drawings, procurement records, and construction schedule. They identify the likely cause, draft routing options, check material availability, estimate cost and schedule impact, and recommend a path forward.

Human experts remain in control. The discipline engineering lead approves a solution while procurement and construction teams check material availability, fabrication requirements, constructability, and execution constraints. Rather than spending days assembling information from multiple functions, project leaders receive a consolidated view of options, trade-offs, and implications within hours. They quickly decide whether to modify the design, reorder materials, rearrange work, or deploy crews elsewhere until the issue is resolved. In parallel, agents update the project execution plan and send the field superintendent recommendations to adjust the work sequence to improve schedule, cost, and margin performance.

This example is among many potential transformations created by AI and illustrates the future that is beginning to take shape among leading architecture, engineering, and construction (AEC) firms. When agents handle routine tasks, people can focus on making decisions about pricing, risk, and other areas that require human judgment and fuel differentiation. Those that employ this approach early may be best positioned to rewire their businesses to unlock value from AI, while those that treat AI as a more superficial productivity tool could cede its potential to partners, clients, or new competitors. In this article, we explore what AEC leaders can do now and over the next few years to redesign work, create value from their data, automate their entire operating systems, and turn AI into a source of lasting competitive advantage.

AI's inflection point in AEC

AI is unlikely to be an extinction event for AEC firms, but it could meaningfully change who leads the industry. Early adopters are reporting productivity gains from design, modeling, and construction-feasibility workflows, though these advantages will likely soon be table stakes. The McKinsey Global Institute (MGI) projects that the AEC industry could unlock roughly $228 billion by 2030 in annual value in the United States through AI and other automation technologies, while in Europe, the impact on the construction sector alone could equate to roughly $126 billion.

Focus on redesigning domains

As work becomes faster and cheaper to deliver industrywide, the leaders will be firms that use AI most effectively to control client relationships, workflows, and their underlying data. This means focusing on transforming domains—end-to-end processes that are small enough to be redesigned independently but large enough to deliver meaningful business impact—instead of deploying isolated use cases.

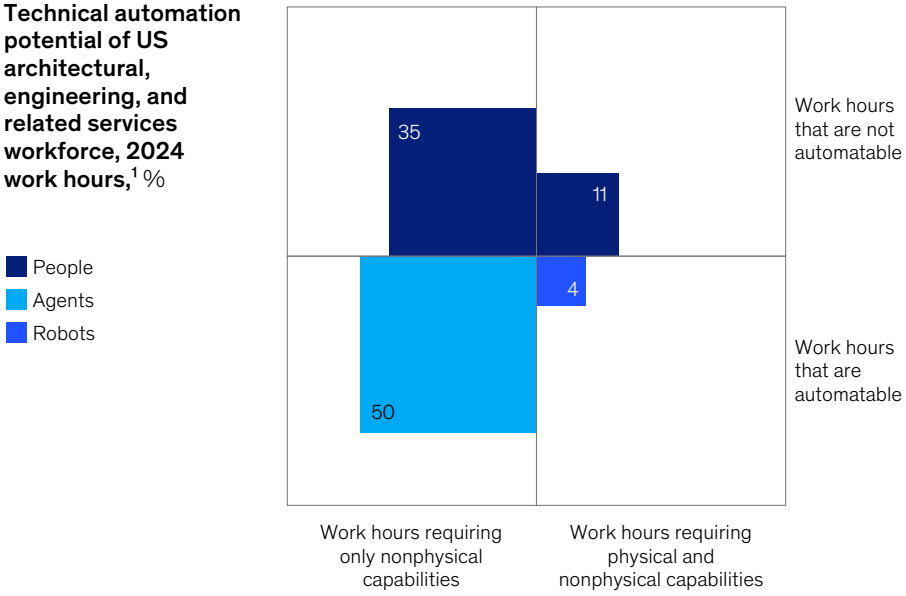
AEC, in its broadest sense, is one of the world's largest industries: Global construction output was about $15 trillion in 2025[1] and projected demand could reach $22 trillion by 2040. Yet labor productivity has stagnated. Construction productivity improved by only 10 percent, or 0.4 percent annually, from 2000 to 2022, compared with 90 percent, or 3.0 percent annually, in manufacturing. On its current trajectory, construction output could fall short of demand by up to $40 trillion cumulatively by 2040.[2]

If deployed effectively, AI could automate a significant amount of nonphysical work in the AEC industry, according to an MGI analysis (Exhibit 1). AI is unlikely to solve the industry's productivity challenge on its own, but it is one of the first technologies with the potential to address knowledge work, coordination work, and physical execution together. In practice, AI adoption will take time, and companies will only automate work when they have a compelling business case and an appropriate solution for specific tasks.

AI has the potential to automate 50 percent of nonphysical work in the architecture and engineering sectors and 39 percent of nonphysical work in the construction sector.

Exhibit 1

People, agents, and robots all play significant roles in the architectural and engineering workforce of the future.



[1]Automation potential is based on current capabilities of technology to perform human work. Automation potential shown is the late scenario of expert estimates. The early scenario of global technical-automation potential ranges from 60 to 70 percent of current work hours.
Source: Current Population Survey, US Census Bureau NAICS 5413; O*NET; US Bureau of Labor Statistics; McKinsey Global Institute analysis

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[1] GlobalData Construction Intelligence Center database, accessed June 5, 2026.
[2] Jan Mischke, Kevin Stokvis, Koen Vermeltfoort, and Birgit Biemans, "Delivering on construction productivity is no longer optional," McKinsey, August 9, 2024.

Improving efficiency and consistency is crucial

For AEC firms, the value of AI lies not only in faster work on new builds and larger, more complex projects but also in more consistent work. Today, performance often depends disproportionately on the judgment of experienced professionals who have "seen this movie before." That creates risk because a small number of people control so much knowledge, which limits how consistently companies can deliver projects and price their services.

AI can capture lessons from prior projects—including schedules, requests for information (RFIs), change orders, and numerous task-level decisions—and make them available to teams inside daily workflows. For example, a junior planner could be warned about a sequencing risk that a veteran scheduler would have spotted. A designer could see constructability issues before contractors discover them in the field and submit RFIs. Human experts still would own judgment, accountability, and trade-offs. But when accumulated experience lives inside the workflow rather than inside individuals' heads, the whole firm benefits.

As agents become embedded across functions, more value and profit will go to firms that control three things: proprietary project data, the workflows where decisions get made, and the ability to charge for outcomes rather than hours.

Larger design practices, specialty contractors, technology platforms, asset owners, and trades with privileged project data may all find new ways to capture value from AI. But they also may face competition from emerging AI-native companies that launch new services and platforms to directly compete downstream from the tools and software offered today.

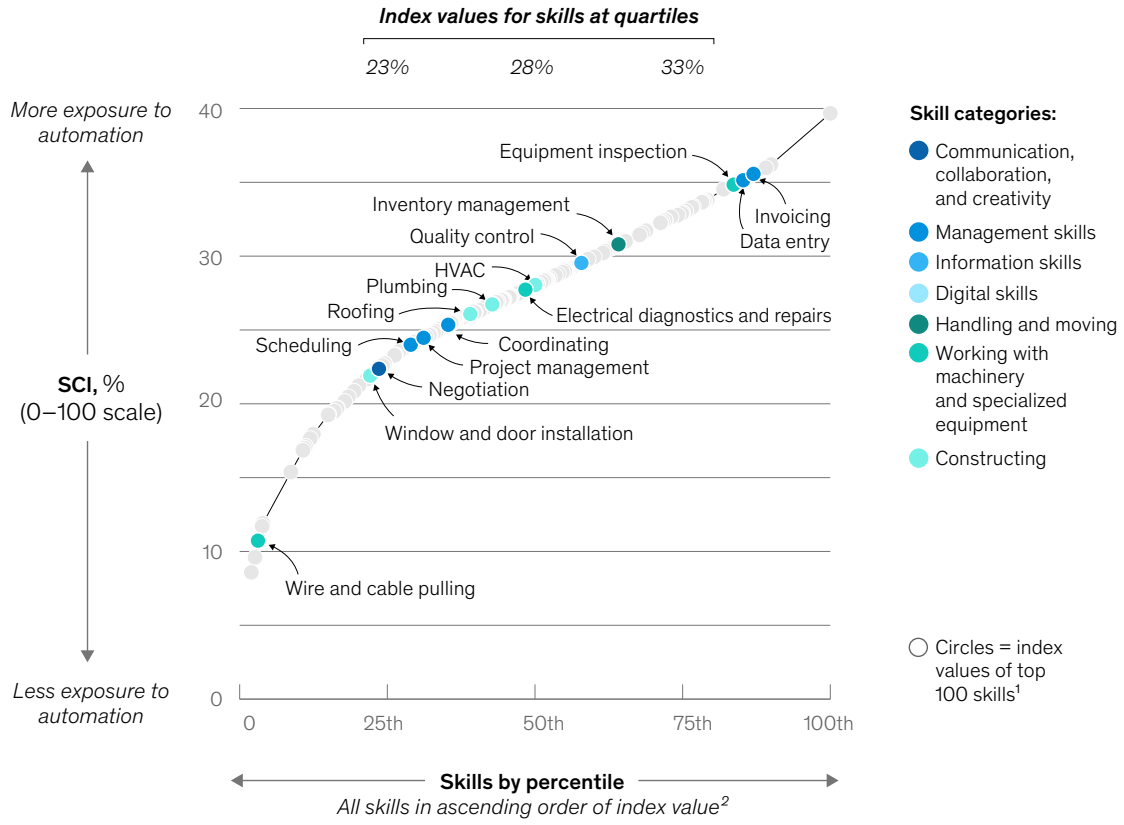
Much of AI's value could come from areas where time, money, and margins are lost today, and where AI can quickly improve efficiency. Areas such as invoicing, data entry, and equipment inspections are expected to change the most by 2030 (Exhibit 2). Firms that control these layers may gradually capture more value than those that own only major project deliverables. How that value shifts depends on adoption speed, data access, commercial models, and where human judgment remains critical.

Much of AI's value could come from areas where time, money, and margins are lost today, and where AI can quickly improve efficiency.

Exhibit 2

For construction firms, skills such as invoicing and data entry will see the most change by 2030.

Skill Change Index (SCI) distribution,[1] by skill category (midpoint scenario)



[1]Based on projected 2030 midpoint and early scenarios of automation adoption of activities associated with skills, aggregated across occupations using employment-based weighting. Based on ~6,800 skills, across all industries. We excluded skills that could not be linked to detailed work activities within occupations.
[2]An average of automation adoption for each skill by 2030, weighted by estimated time spent.
Source: Lightcast; US Bureau of Labor Statistics; McKinsey Global Institute analysis

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Key areas of impact in the months and years ahead

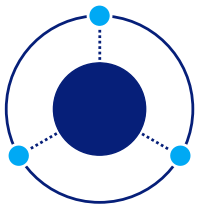
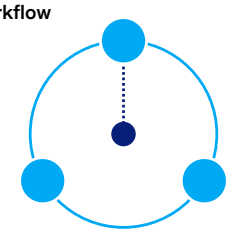
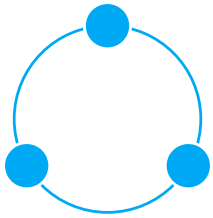
AI value in AEC is expected to unfold across three time horizons. In the near term, leaders can use agents to streamline knowledge work and coordination workflows. In the medium term, companies can gain an advantage by turning project data into reusable institutional assets. In the long term, AI will increasingly connect design, planning, logistics, equipment, and site execution into a more automated operating system.

Our analysis shows that there are more than 150 workflows across 25 AEC-related domains, with varying degrees of AI and automation potential. To create value, leaders should determine which workflows would be best led by humans and supported by agents, led by agents with humans making critical decisions, or fully automated (Exhibit 3).

Exhibit 3

Architecture, engineering, and construction firms must identify which workflows can be led by humans or agents or be fully automated.

Workflow scenarios based on automation potential for architecture, engineering, and construction (AEC)

	Human-led, agent-enabled workflow	Agent-led, human-accountable workflow	Autonomous workflow
			
Description	An end-to-end workflow led by a human (usually communicating with other humans) and supported by AI agent coworkers	An end-to-end workflow led by an agent, with humans in the loop for decisions in which judgment and accountability are critical	A fully agentic end-to-end workflow mainly relying on humans for design and oversight
Determining factors	◆ Projects are constrained by the availability and judgment of experienced engineers ◆ Human judgment creates the most project value, while AI primarily accelerates existing work	◆ Most engineering and project workflows are repeatable decision systems disguised as expert judgment ◆ Humans should manage exceptions, not process information	◆ A significant percentage of project delivery can be automated; competitive advantage comes from workflow systems, not individual expertise ◆ Human intervention is viewed as a workflow failure rather than a requirement
Trade-offs	◆ Limited productivity improvement ◆ Dependence on scarce human expertise ◆ Slower decision-making	◆ Requires trust in AI outputs ◆ Challenges traditional roles and decision rights ◆ Higher governance requirements ◆ Potential overreliance on agents ◆ Adoption resistance from project teams	◆ Highest implementation complexity ◆ Requires highly standardized workflows ◆ Reduced flexibility for unique project conditions ◆ Significant governance and risk controls required
AEC project examples	Engineering manager leads the entire design delivery process while AI agents generate analyses, reviews, and recommendations	Estimating agent builds a project bid, recommends contingency levels, and identifies commercial risks while the proposal manager approves the final submission	Project controls agents continuously collect schedule, cost, and progress data, update forecasts, and issue recovery alerts automatically

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Near term (first 18 months): Streamlining end-to-end workflows

In the near term, the biggest gains are expected to come from streamlining repeatable workflows where fragmented information creates delays, rework, and inconsistent decisions, including the following workflows that cut across the project life cycle:

— *Win and price the work:* This includes conducting bid/no-bid analysis, proposal drafting, estimating, benchmarking, scope normalization, and pricing scenarios.

— *Design and engineer for constructability:* This includes performing design checks, specification review, code and standards interpretation, value engineering, and design-to-fabricate constraints.

— *Plan and procure:* This includes handling schedule development, look-ahead planning, sequencing, material availability checks, equipment needs, procurement packages, and contract-obligation tracking.

— *Build and control:* This includes managing RFI and submittal triage, progress tracking, cost forecasting, variance narratives, change-order routing, claims support, safety observations, and quality checks.

— *Run enterprise support:* This includes executing finance closing, invoice validation, compliance, document control, knowledge search, onboarding, and other repeatable back-office workflows.

The key is to use AI to connect these activities across teams and project stages, rather than to optimize isolated tasks. A schedule agent, for example, creates more value when it is connected to procurement, design changes, cost forecasts, and field conditions than when it is used as a stand-alone planning tool. The firms that succeed with AI in the near term will be the best at orchestrating agentic work across workflows. Many of these agentic solutions can be implemented midway through a project to partially capture the value, meaning there is no need to finish all ongoing work before embarking on the AI journey.

Medium term (18 to 48 months): Leveraging data advantages

Most AEC firms have enormous archives of drawings, RFIs, specs, and close-out reports, but most are unusable because they are inconsistent, paper-based, and siloed across systems, among other issues. Data becomes an advantage only when firms capture it at the point of creation, structure it so it can be reused, track its origins and meaning, and retain the rights to learn from it over time.

The primary advantage, or competitive moat, may come from firms capturing information as work is happening rather than piecing together value later from fragmented records. Historical project files tend to record what was decided, but information captured during the actual work process can also show how and why a decision was made, including the alternatives considered, assumptions made, and trade-offs accepted—information that is much harder for competitors to replicate.

Another competitive moat comes from creating a learning loop to train AI models. A firm that systematically connects estimates to actual results, schedules to real-world progress, design choices to constructability outcomes, and risk decisions to actual claims data can build a self-improving system.

Vendor data rights are another advantage that AEC leaders consistently underestimate. As AI capabilities improve, technology vendors are pushing harder to access project data and the rights to learn from it and reuse it to create new products, or to put guardrails around how their products or software can be used to train proprietary models. They are also increasingly competing to control workflows, learning loops, and business opportunities built on top of project data. Firms that overlook the details of vendor agreements risk giving away too much control and long-term advantage. When establishing vendor relationships, firms must be careful about whether they can easily move their data, keep it separated from other customers, or leave a platform without losing information so they can retain the benefits of their AI adoption efforts.

Additionally, AI may reframe the role of building information modeling (BIM). Instead of treating BIM as a static file delivered at the end of a project, firms can use AI to transform it into a live, continuously updated view of the project throughout its life cycle. This would enable firms to automatically track installed materials, project progress, schedule risk, and project performance rather than relying on manual field reporting. As AI gets better at verifying and tracking project activity, firms can use real-time data and documented evidence to inform approvals, payments, and risk decisions.

Further, near the end of projects, agentic workflows can verify that punch list items and project documentation are complete and prepare information needed for maintenance, warranties, and

performance workflows. Project handover could become the start of longer-term service relationships that include building maintenance, diagnostics, and performance improvement. Firms that secure clear rights to project data and use open, portable standards may be better positioned to continue delivering value to clients after construction is complete.

Even as AI enhances workflows, domain expertise will still matter over the medium term, possibly even more than it does today. Real value will come from knowing how to interpret agentic outputs, when to ignore or adjust AI recommendations, and how to apply standards in real-world project conditions.

Long term (beyond four years): Unlocking value on site

Construction work will remain physical, local, and safety-critical. Over the long term, on-site value from agentic AI will come from orchestrating and progressively automating the entire site operating system. Moving beyond initial areas of improvement, such as progress tracking, quality control, and equipment dispatching, AI will likely eventually support autonomous construction equipment, yard logistics, optimized haulage, and transportation coordination between factories, yards, and the site.

These systems can use real-time data to determine what should move, when it should happen, who or what should do it, and what safety controls are needed. AI can also shape designs that are easier to manufacture, transport, lift, install, and inspect. By incorporating constraints such as standard module sizes, transport limits, and manufacturing tolerances early in design, teams can simplify field work and reduce costs, scheduling delays, and safety risks.

Robotics and humanoids are likely a longer-term development. Large-scale use in construction, for tasks such as moving heavy materials, welding, and plumbing, is potentially a decade away. But AEC leaders can seek commercial terms that specify who captures the value when it arrives. Firms that wait to renegotiate contracts until automation is table stakes could find that the financial upside has already shifted to owners and technology platforms. Until AI is deeply integrated into site operations, the speed of field work will continue to limit how much digital productivity translates into real project output.

Implications for pricing and partnerships

As AEC companies reimagine workflows, commercial models, and the industry, structures will likely shift. Leaders need to consider how to capture value from agentic AI through new pricing and partnership models.

From selling effort to selling excellence

AI will reduce the amount of labor hours needed in an industry that often charges clients based on time spent working. Without new commercial models, firms may give away productivity gains. The opportunity is not only to shift from charging for time and materials to charging fixed fees, but also to transition from selling capacity to selling excellence with fewer surprises, more reliable schedules, lower risk, and better project outcomes. Firms can adopt outcome-based models, including fixed fees, milestone payments, shared savings, risk-monitoring services, or performance-linked incentives.

Buy, build, or partner depending on where competitive advantage lies

Historically, the largest technology shifts in AEC, such as computer-aided design, BIM, cloud platforms, and project-management software, came from outside the industry. AEC firms have historically struggled to build and scale software products, and AI is advancing too quickly for most incumbents to rely primarily on internal development. Partnerships and acquisitions can provide models, product talent, and operating playbooks faster than most firms can build them. Recent acquisitions of AI technology companies by established AEC firms show that industry leaders increasingly see AI-focused startups as important sources of technology, expertise, and talent.

The decision to build, buy, or partner can be made by focusing on where the competitive moat lives. Firms can build in areas where they have distinctive advantages that competitors or vendors cannot easily replicate, such as proprietary data, specialized workflows, strong client relationships, or accountability for project delivery. In other areas, partnerships or acquisitions may make more sense. Most AEC firms overinvest in building generic AI capabilities and underinvest in strengthening areas where they have lasting strategic advantages, including systems and workflows where core decisions are made.

AI reduces effort but not accountability

While AI can make many tasks easier to perform, it does not reduce the need for accountability. Project owners may start automating document-heavy and early-stage work, but they are less likely to take on responsibility for work that requires significant problem escalation, judgment, and risk management.

Firms that automate routine paperwork while strengthening their role as trusted experts are more likely to protect the parts of the business that remain hardest to replace. This creates a quieter challenge, however: Many tasks that AI is automating now are what junior staff traditionally have used to build experience and judgment. AI could concentrate expertise within a smaller group of senior professionals, weakening the training pipeline as firms become more dependent on expert judgment.

Firms may need to train junior staff more intentionally through structured reviews, simulations, explicit standards, and exposure to real project failure cases. Otherwise, they risk creating a generation of workers who learn how to operate AI tools without developing the judgment, pattern recognition, and risk awareness needed to lead complex projects and handle difficult situations in which clients expect a human to own the consequences.

AEC firms also must prepare for an important governance issue. Formal regulation may take time to catch up with AI, but practical limits on how the technology is used could arrive sooner through contracts, insurance requirements, and customer expectations. Companies will increasingly need clear records of how AI was used, what data it accessed, what checks and controls were applied, and where people reviewed or approved the work. Professional engineering bodies are already beginning to update their codes of conduct to reflect the use of AI, mandating that its use be proportional to the risks it entails. Audit trails, human oversight, and strong AI governance will become essential for winning and sustaining client trust.

What leaders can do now: A winning agenda

Based on our work, we have developed a six-step playbook for AEC leaders to follow on their journeys to integrate agentic AI into their operations.

— *Prioritize three to five high-value workflows.* Start with areas where cost, schedule, risk, and performance variability are highest, such as estimating, constructability review, and schedule risk. To minimize bottlenecks, prioritize implementation in workflows where performance today depends heavily on a small number of experts.

— *Redesign the work, not just the task.* Reconfigure workflows so agents retrieve information, draft outputs, flag risks, and route decisions while humans own judgment, accountability, and trade-offs. By embedding the organization's best accumulated experience into redesigned workflows, every team benefits from lessons learned across the portfolio.

— *Build data products around workflows and capture them as work is being done.* Treat project data as reusable assets with clear ownership, quality standards, traceability, and access rights. Data should be structured around the decisions it supports, not just stored for compliance. Also, negotiate vendor data rights, portability, and customer data separation as important strategic issues, not just technical contract details.

— *Update commercial models in parallel with AI deployment, not after.* Move away from charging for hours toward charging for outcomes. Waiting until clients can clearly see productivity gains may hinder pricing renegotiation. Make deliberate decisions early about which productivity gains to pass on to clients, which to reinvest into higher-value work, and which to keep as improved margin.

— *Choose where to build, buy, or partner.* Build AI capabilities only in areas of lasting competitive advantage. Partner or acquire everywhere else, particularly on tools that improve coordination and workflows between systems. When acquiring technology providers, behave like a supportive customer and give their teams autonomy so the technology gets used on real projects. When partnering, be aggressive but selective. Share enough to create value while protecting the proprietary data, workflows, and know-how that differentiate the business.

— *Scale with governance and measure what matters.* Maintain human oversight, audit logs, risk controls, data security, insurer-ready documentation, and role-based training. Consider how to use AI as a part of daily project delivery, not a collection of pilots. Track outcomes that reflect real business and operational impact. Avoid relying on metrics such as the number of software licenses deployed or pilots, which may overstate progress. Measure whether AI is improving project delivery and business performance to be better positioned for potential changes in market conditions.

Capturing value from agentic AI requires more than adopting new tools; it means rewiring commercial and operating models. The value is larger than an individual company's performance. It can extend to society at large through lower-cost infrastructure, faster delivery of housing, more reliable energy and industrial projects, safer maintenance, and better use of scarce engineering and construction talent.

AEC leaders who act early can use lessons learned across projects to reshape how their firms create value. Firms that move too slowly may find that competitive advantage gradually shifts to competitors, vendors, AI-native startups, or even clients themselves.

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Value plays in US home services: Where opportunity meets reliability

Solid market fundamentals and significant value creation opportunities make the US home services market highly attractive to investors.

by Brendan Fitzgerald, Brian O'Neill, and Mher Panossian
with Felipe Meirelles

February 25, 2026



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The home services market—which includes a wide variety of services, such as roofing, safety and security, and pet services—has emerged as a focus sector for investors and entrepreneurs alike. Growth is expected to rise in the coming years, driven by long-term, embedded trends, such as the rising number of existing homes and the increased outsourcing of home services. Certain subsectors within the home services market have also shown a degree of recession resistance, making them more attractive for long-term investments.

We are often asked whether achieving outsize value creation in the home services market is possible—and per our research, the answer is yes. However, in a moderate-growth market with rising investment intensity, companies must pull multiple value creation levers and move quickly to capture the full opportunity.

Companies in the space present substantial value creation opportunities in both the short and medium term. We have found that the average home services operator can achieve more than 500 basis points in margin improvement, or the equivalent through growth, by transforming its operations through targeted interventions aimed at both increasing revenues and decreasing costs. In addition, many subsectors display considerable fragmentation, offering substantial opportunities for consolidation and economies of scale. A broad suite of favorable market trends—including digitalization, the rise of e-commerce and omnichannel, and the creation of multibrand platforms—is also opening up new growth opportunities.

While would-be investors will need to navigate potential issues concerning labor, pricing, and regulation, value creation can be significant. Those that act quickly will be able to seize the opportunities that offer the greatest potential.

Understanding the US home services market

US spending on home services is approximately $700 billion and has demonstrated relatively stable growth over the past decade (Exhibit 1). The home services space experienced solid growth in the prepandemic years, with a CAGR of around 5 percent. The first years of the pandemic saw an uptick to 13 percent CAGR, but the market experienced a slowdown between 2022 and 2024 and remained mostly flat throughout the period. Growth is expected to pick back up to around 2 percent annually over the next few years, meaning growth could track or slightly exceed GDP growth.[1]

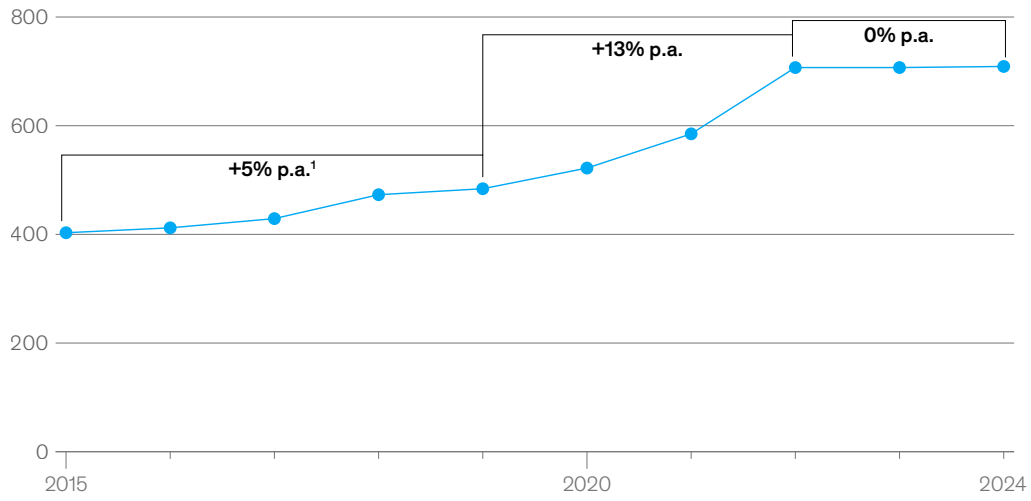
The would-be investors that act quickly will be able to seize the opportunities that offer the greatest potential.

[1] McKinsey analysis using franchise disclosure documents, PitchBook, and Moody's.

Exhibit 1

Accelerating since 2022, growth in the US home services market could track or slightly exceed GDP growth.

US home services market size and growth, $ billion



[1]Per annum.
Source: Financial disclosure documents; Moody's; PitchBook; McKinsey analysis

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Strong market fundamentals, despite potential challenges

The US home services market has exhibited consistent growth in both market size and deal activity, as well as a track record of recession resilience in some subsectors.

Market growth

The home services industry comprises a number of subsectors of varying size, which are often categorized into four groups based on the criticality and frequency of those services. While the size and growth rate of market subsectors vary significantly, growth is relatively strong across the market (Exhibit 2). Factors driving this growth include increasing demand for home improvement and maintenance services, a rise in the number of existing homes, and the growing trend of outsourcing home services.[2]

Growth has generally been fastest in the optional and frequent category, including for services such as landscaping and lawn care, home cleaning, and pet services.

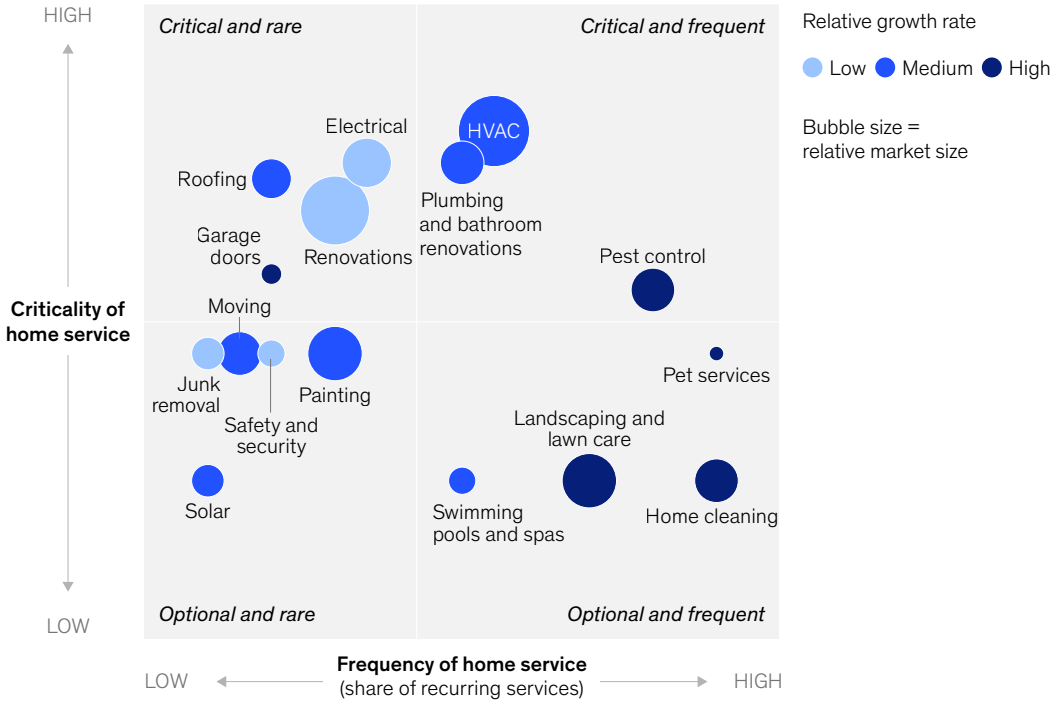
In addition, deal activity has grown significantly faster in home services than in other consumer spaces. The sector's share of deals increased from 2 percent in 2017 to 6 percent in 2022—a CAGR of 27 percent.[3]

[2] McKinsey analysis of franchise disclosure documents, the US Bureau of Labor Statistics, and the US Census Bureau.
[3] McKinsey analysis using financial disclosure documents, PitchBook, September 2024.

Exhibit 2

Home services subsectors can be categorized by criticality and frequency of service; optional and frequent services are growing fastest.

Home service criticality vs frequency, relative US market size and growth rate



Source: Expert interviews; financial disclosure documents; McKinsey analysis

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Recession resilience

Certain subsectors within the home services market have shown a degree of recession resilience (Exhibit 3), making them more attractive for long-term investments. Services that are nondiscretionary or emergency-related, such as HVAC repairs and electrical, tend to maintain steady demand even during economic downturns.[4] This resilience adds to the sector's appeal, providing a stable revenue stream for investors.

Potential challenges

While there are substantial opportunities in the home services market, would-be investors should be aware of a few potential challenges and identify strategies to navigate them successfully.

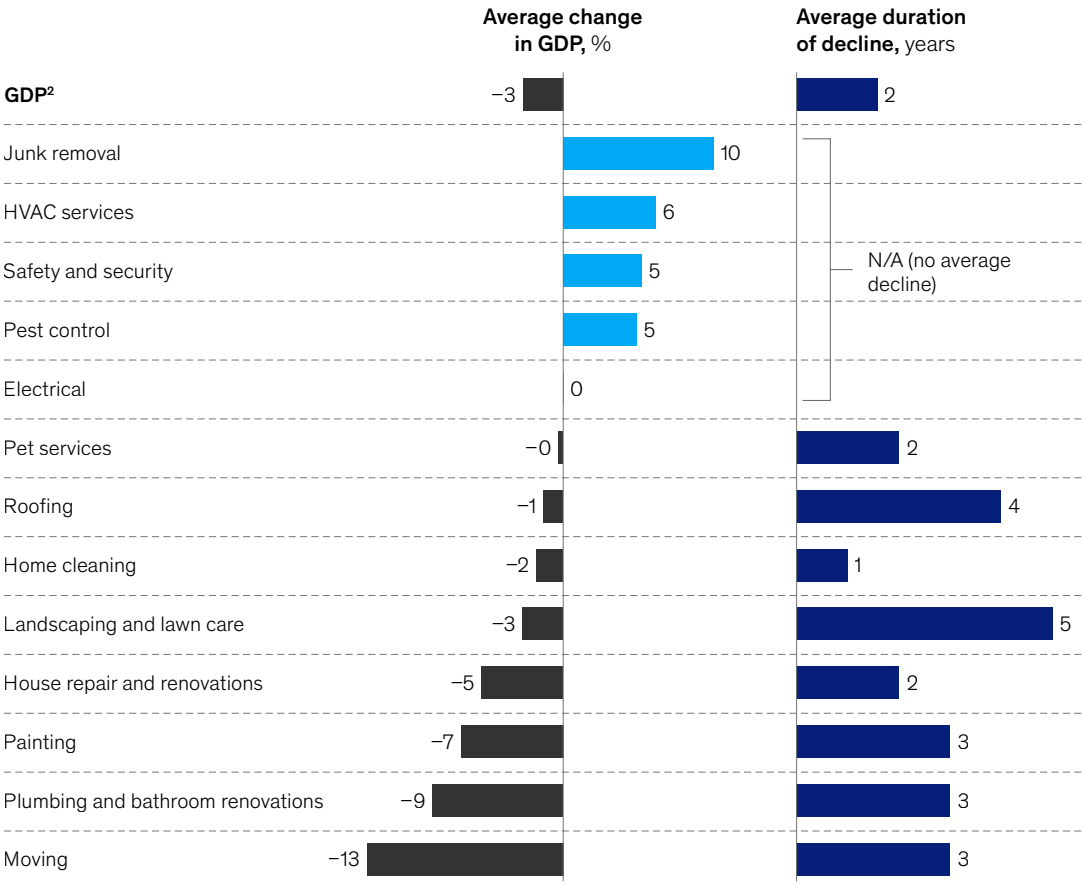
Skilled-labor shortages. Individuals with specialized skills (such as HVAC and plumbing) are in high demand and short supply.[5] However, in light of (agentic) AI, these roles become more attractive as people consider reskilling.[6] Training and development programs can help build a skilled workforce and ensure high-quality service delivery.

[4] McKinsey analysis using data from the US Bureau of Economic Analysis and the Joint Center for Housing Studies, and McKinsey Global Institute analysis.
[5] McKinsey analysis of expert interviews and company earnings calls.
[6] Alexis Krivkovich and Anu Madgavkar, "Human skills will matter more than ever in the age of AI," McKinsey Global Institute, January 6, 2026.

Exhibit 3

Several home services subsectors have shown remarkable resilience and even resistance to the impacts of economic downturns.

Recession impact, average across 5 recessions,[1] nominal spend



[1]Measured using sales, consumer expenditure, and gross product originating; considers the following recessionary periods: 1981–82, 1991–92, 2001, 2007–09, and 2019–20 (COVID-19 pandemic).
[2]GDP is measured in real terms for accurate recession impact.
Source: Joint Center for Housing Studies; US Bureau of Economic Analysis; McKinsey Global Institute analysis

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Price sensitivity. Because consumer price sensitivity varies across subsectors, such as for optional or infrequent services, carefully managing pricing strategies is key to remaining competitive.

Regulatory and compliance issues. Licensing, safety standards, and proper documentation requirements can vary by region and service type. Knowing which regulations apply is critical to ensure compliance and avoid potential legal issues.

Strong value creation opportunities

Some growth opportunities apply across subsectors, while others will have more impact in specific subsectors.[7]

Measures to boost revenue and reduce costs

Coupled with the potential for rollup strategies and platform creation in the home services sector, these opportunities make the space particularly exciting.

In our experience, potential for outsize value creation is driven by several key levers; commercial strategies, operational improvements, and excellent customer service are key to boosting revenue.

— Commercial strategies can meaningfully boost revenue through stronger revenue growth management sales practices. Smarter, more dynamic pricing updates based on elasticity and market conditions can propel significant margin expansion. Implementing sales best practices—such as aligning incentives, providing effective training, and equipping the workforce with the right tools—can boost productivity and revenue growth. In addition, building a marketing engine that drives performance across the funnel and strengthens brand positioning can generate sustained long-term value.

— Effective scheduling, together with enhanced digital and analytics, can increase bookings by 10 to 20 percent.

— Customer satisfaction and an orientation toward high-quality service can improve customer retention and referrals by 10 to 20 percent and increase on-site upselling opportunities by 20 to 40 percent.

One leading national home services company, for example, implemented a 360-degree customer view powered by a machine learning model that leverages more than 50 features to identify churn indicators and generate actionable insights. These insights enabled customer care and retention teams to double call-center productivity, identify 65 percent of churners early for targeted preventive actions, and deliver an EBITDA uplift of around 15 percent.

In another example, a company's cross-functional agile pod for rapid A/B testing in digital marketing and e-commerce designed a mobile-first purchase flow and applied a continuous test-and-learn approach, ultimately achieving a 75 percent increase in website conversion rate.

On the cost side, our experience suggests that optimizing operational and general and administrative (G&A) levers can result in considerable savings. These levers are also important for both owned and operated businesses and franchised systems, given the role branch-level economics play in accelerating scaling.

— Operational levers, such as standardized service levels and procurement optimization, can meaningfully reduce costs. Implementing standard service times and rolling out training programs can reduce the time to serve customers by 10 to 15 percent, for example, while consolidating suppliers and renegotiating contracts can save 5 to 10 percent on supply purchases.

— G&A levers also play a significant role in cost reduction. This includes making strategic make-versus-buy decisions, rightsizing the cost base, and optimizing finance and controlling practices. Outsourcing software development can reduce those costs by 10 to 15 percent, for example, while rightsizing executive compensation and reevaluating professional fees can save 15 to 20 percent of that spend. Additionally,

[7] The impact of all opportunities discussed below assumes optimal implementation and execution.

overhauling financial disclosure documents and normalizing P&L statements can create more clarity and structure for franchisees, allowing for better coaching and support from the corporate level.

One company, for example, realized $50 million in in-year savings and $150 million in run-rate savings by applying an accelerated, two-pronged sourcing approach. The first prong, an initial diagnostic, identified immediate opportunities across demand reduction, vendor negotiations, and payment terms. The second prong, implementation, lasted 12 weeks and included direct negotiations with the top 10 to 15 vendors, the launch of more than ten RFPs in multiple categories, improvements to spend-management processes, and procurement capabilities enhancements. As a result of this approach, an additional $200 million in incremental run-rate savings was identified as available for capture in the near term.

Consolidation opportunities

Many subsectors of the home services market are highly fragmented, with numerous small and local service providers (Exhibit 4).[8] For example, independents and local players have a combined market share of more than 80 percent for both critical and rare services and optional and rare services.

This fragmentation presents untapped opportunities for rollups and synergies through consolidation.

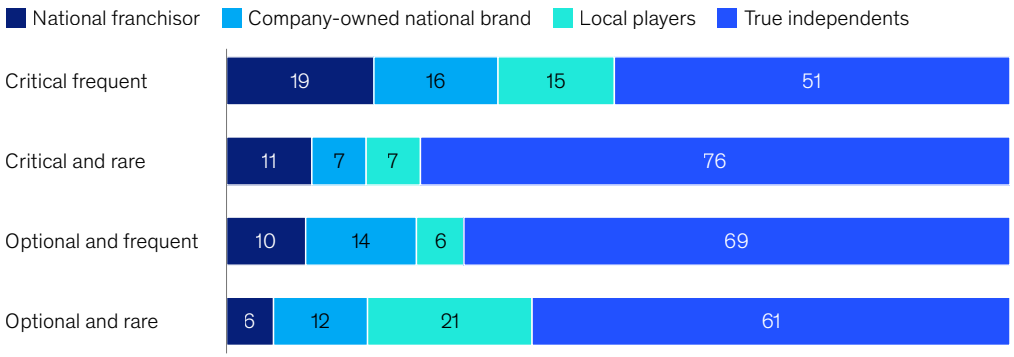
In particular, investors can realize value through economies of scale in purchasing, labor, technology, and centralized services. And in segments where the average company is a small business, players with strong financial backing and management capabilities can outcompete their local peers and capture above-market organic growth.

For example, the plumbing repairs market may offer significant opportunities for consolidation—the market has numerous small and local service providers, and 70 percent of market share is held by independent companies. By consolidating, players could realize substantial economies of scale.[9] The market is also

Exhibit 4

Many subsectors in the US home services market are highly fragmented.

Market share of US home services sector by criticality, frequency, and subsector, %



Note: Figures may not sum to 100%, because of rounding.
Source: McKinsey analysis of expert interviews and secondary research

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[8] McKinsey analysis of expert interviews and secondary research.
[9] McKinsey analysis of expert interviews, financial disclosure documents, and company websites.

expected to grow significantly, driven by increasing demand for smart plumbing technologies and sustainable products and by the need for regular maintenance and repairs.[10]

New growth opportunities

Trends in the home services market—including digitalization, the rise of e-commerce, and the growth of multibrand platforms—are reducing customer frictions and creating new value pools.

Digitalization is enabling improved business operations. The home services market is undergoing a digital transformation, with companies increasingly adopting digital tools and technologies to enhance service delivery and customer experience. Digital simulations, AI-enabled troubleshooting, and scheduling or inventory optimization are just some of the innovations showing potential to drive efficiency and productivity in the sector. Looking ahead, the value proposition of larger digitally-enabled companies could become even stronger, such as through AI visualization tools to increase sales and AI takeoff tools to optimize purchasing efficiency. In comparison, smaller peers that cannot implement and train on such tools could lag behind.

E-commerce and omnichannel strategies boost lead generation and conversion. E-commerce and omnichannel strategies are gaining traction in the home services market, with companies leveraging online channels—including online platforms and mobile applications—to reach a broader audience and provide a seamless customer experience. Potential customers can now find home services providers much more easily, and they can benefit from integrated online booking systems, virtual consultations, and real-time updates on service status.

Multibrand and multi-subsector platforms are opening up new opportunities. Platform-based players are enjoying the most advanced level of value creation. In our experience so far, most synergies have come from G&A and franchising or development synergies; nonetheless, growing digital and analytics capabilities are showing strong potential to enable cross-selling, deepen engagement, and unlock scalable growth through better execution and increased share of wallet.

Overall, the US home services market exhibits healthy growth rates, recession-resilient pockets, and substantial value creation opportunities. Investors that look for strategic consolidation opportunities, take advantage of favorable market trends, and leverage appropriate commercial, operational, and G&A strategies can create significant value from their investments.

Brendan Fitzgerald is a partner in McKinsey's New York office, **Brian O'Neill** is a senior partner in the Atlanta office, **Mher Panossian** is a partner in the Southern California office, and **Felipe Meirelles** is an associate partner in the Toronto office.

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[10] McKinsey analysis of expert interviews, financial disclosure documents, and company websites.

European infrastructure is evolving—and investors are, too

Investors in European infrastructure continue to broaden their exposure and deploy high levels of dry powder.

by Alex Ugryumov and Nicola Sandri
with Tommaso Cariati and Vijay Sarma

March 19, 2026



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Infrastructure is a rapidly growing asset class, both in Europe and around the world. The European Union continues to make investments to enhance the region's resilience. Massive global investment needs (estimated at around $106 trillion from 2024 to 2040) are expected to put increased strain on public budgets moving forward.

To meet this demand, private capital will need to step in, as explored in McKinsey's report *The infrastructure moment*.[1] A wide spectrum of investment strategies has the opportunity to succeed in the coming year. This is particularly true as the scope of infrastructure investments expands to include assets such as infrastructure services (for example, predictive maintenance systems), telecommunications, and social infrastructure (for example, radiology chains or nurseries).

Although growing and broadening, the European infrastructure asset class still faces challenges. In recent years, returns from infrastructure have been strained, leading global infrastructure investors to deploy capital more slowly. As a result, investors today are contending with very high levels of dry powder. This is only expected to increase as fundraising momentum picks up.

In this article, we share our latest research on European infrastructure to help investors better understand today's investment landscape (see sidebar "About the research"). Given this sector's dynamism and recent challenges, investors will need to think outside the box to deploy capital at pace and achieve attractive

About the research

From December 2024 to December 2025, McKinsey conducted research into the performance of more than 63 listed infrastructure assets and more than 140 infrastructure assets held by private equity firms in Europe. We combined this research with insights from McKinsey's 2024 Limited Partner Survey and leveraged Dealscan.AI, a proprietary AI tool, to understand the performance of infrastructure as an asset class. Analysis included all investment phases from initial fundraising to investment performance on the final asset.

In this article, we classify infrastructure in the following four categories:

— *Energy and environment.* This includes renewables (onshore and offshore wind, solar, and biomethane and biomass); utilities and midstream (water, liquefied natural gas, power transmission and distribution, oil pipelines, gas transmission and distribution, metering and utility leasing, district heating, waste and environmental services, and tank terminals); and decarbonization (hydrogen, electric-vehicle charging, biofuels and sustainable aviation fuel, battery energy storage systems, and industrial and buildings decarbonization).

— *Transport and logistics.* This includes maritime (ferries, offshore and onshore support, ports, and wellboats); road (highways, motorway service areas, parking, trailer leasing, buses and public transit, and cold chain); rail (passenger rail operations and high-speed rail, freight rail, and rolling stock leasing); and air (airports and government-sponsored enterprises).

— *Digital and communications.* This includes fiber (fiber to the home and B2B fiber); mobile (passive and active); data centers; and others (Internet of Things facilities and satellites).

— *Healthcare and social care.* This includes healthcare (hospitals, clinical chains and labs, and capital leasing) and social (care homes, higher education, and student accommodation).

[1] Alastair Green, Ishaan Nangia, and Nicola Sandri, *The infrastructure moment*, McKinsey, September 9, 2025.

returns. To help, we highlight ways investors can keep their fingers on the pulse of Europe's infrastructure by building new research capabilities and AI-streamlined origination and execution processes.

European infrastructure is 'coming of age'

Infrastructure assets under management (AUM) in Europe have grown from about €91 billion in 2014 (about 11 percent of private capital) to about €487 billion in 2025 (almost 20 percent of private capital), a CAGR of 16.5 percent (Exhibit 1). The energy transition and macro tailwinds, including low interest rates and government fiscal tightness, were major drivers of this growth, with investors supporting the expansion and upgrade of critical infrastructure assets (for example, fiber rollout and airport upgrades).

A number of trends are shaping this infrastructure investment growth in Europe:

— *Decarbonization and energy security.* The energy transition has driven a significant share of investments in European infrastructure over the past five to ten years. The European Union's commitments to achieving climate neutrality by 2050 and the gradual introduction of the mechanisms to do so (for example, ETS2, the Energy Performance of Buildings Directive, and the Renewable Energy Directive) have increased investments in infrastructure supporting decarbonization. The energy shock of 2022 set back this ambition, shifting the focus to energy security versus decarbonization, which in turn has pushed investors to focus on near- and medium-term plans.

— *Commerce reconfiguration.* Global e-commerce is set to grow at 15 to 20 percent annually in the coming decade, creating significant demand for asset-intensive operations.[2] At the same time, Europe is expected to increasingly face supply chain disruptions and tariff pressures, leading to greater nearshoring and shifts in transportation needs that could imply a realignment of infrastructure and supply chains.

— *The rise of gen AI.* The transition to cloud is still accelerating. Gen AI will also increase computational loads on the cloud significantly, spurring growth in Europe's digital infrastructure.

— *Demographic shifts affecting healthcare.* Europe has a projected financing gap for healthcare systems that will require additional acute and subacute care infrastructure and nursing homes.

As Europe continues to invest in decarbonization technologies, push to nearshore critical manufacturing and energy infrastructure, address recent geopolitical developments, and anticipate gen AI–related demand, the region's focus on infrastructure is only expected to increase.

With €700 billion in dry powder, there is an opportunity to reshape the European infrastructure sector

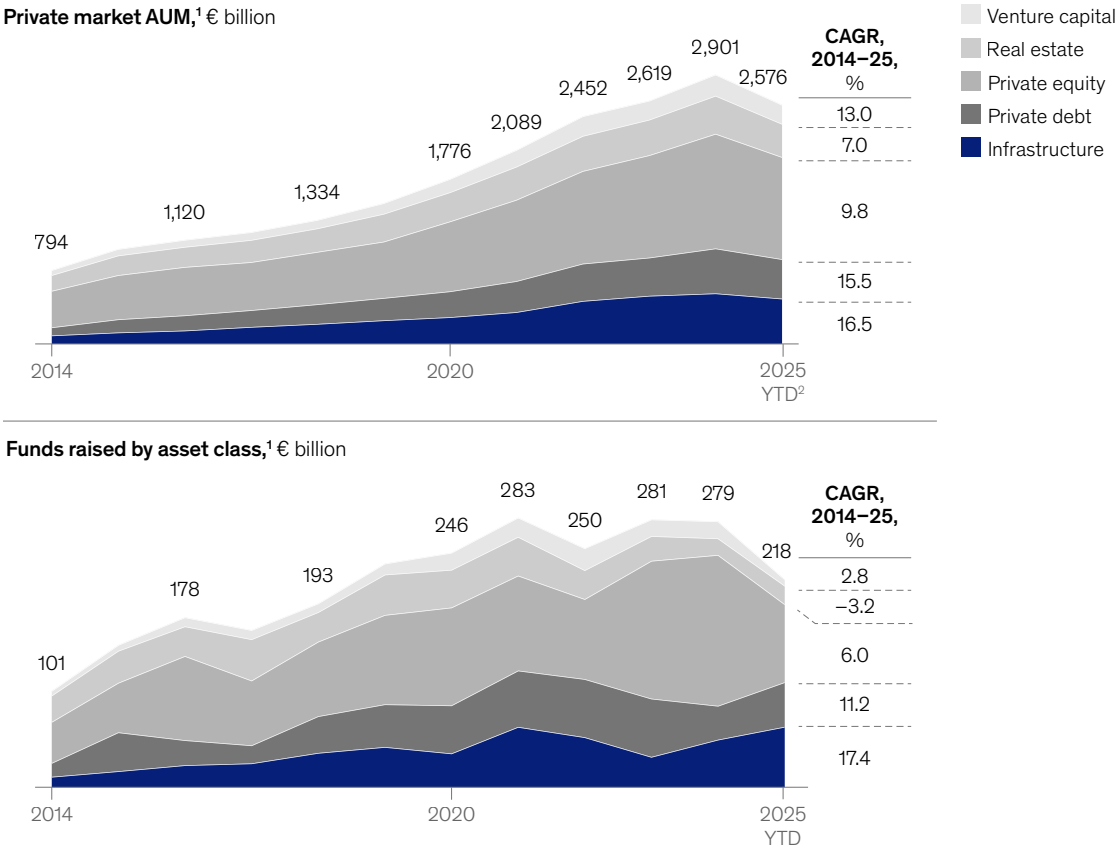
Boosted by the strong growth of infrastructure as an asset class (indicated by the growing percent of total private capital AUM) and the maturing of the asset landscape, limited partner (LP) sentiment remains very positive. About half of LPs in the United States and Europe say that they will increase exposure to the asset class in the next three years, according to McKinsey survey data (Exhibit 2).

[2] *E-commerce market size & share, by device (smartphones, tablets, desktops & laptops, others); model type; payment methods; product type – global supply & demand analysis, growth forecasts, statistics report 2026-2035*, Research Nester, November 13, 2025.

Exhibit 1

European infrastructure has emerged as the second-largest asset class for private capital in Europe.

Assets under management (AUM) and fundraising for asset classes in Europe



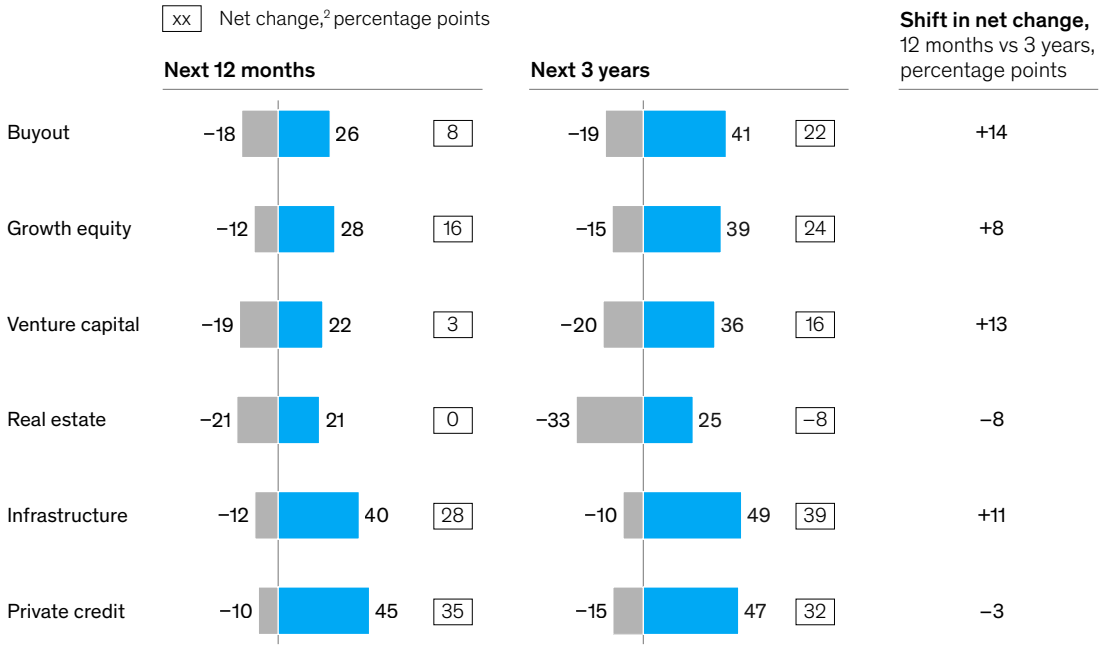
Note: Figures may not sum to totals, because of rounding.
[1]To avoid double counting of available capital and unrealized value, funds of funds and secondaries are excluded.
[2]Year to date.
Source: Preqin

McKinsey & Company

Exhibit 2

Globally, LPs plan to allocate more capital to infrastructure compared with other asset classes.

Global target asset allocation expectations,[1] % of respondents



Note: Includes only core LPs: endowments and foundations, pensions, insurers, and sovereign wealth funds.
[1]Question: Over the next 12 months and next 3 years, do you anticipate your target allocation to the following asset classes to increase, stay the same, or decrease?
[2]Calculated as % of respondents who responded "Increase" minus the % who responded "Decrease."
Source: McKinsey LP Survey, Sept 2025 (n = 212)

McKinsey & Company

Because infrastructure is relatively new compared with other asset classes (coming to prominence in the mid-2000s[3]), allocation to infrastructure for most investors is still lower than target levels of around 15 to 20 percent, indicating further headroom for growth. However, deployment has slowed in recent years, with investments in Europe dropping by about 40 percent from 2022 to 2024. Meanwhile, fundraising for infrastructure has outpaced capital deployment.

As a result, dry powder has increased dramatically: Across investor types, investors held €789 billion in Europe in 2024, (Exhibit 3). This is likely to go up further, given that 2025 was another high watermark for infrastructure fundraising ($289 billion raised).[4]

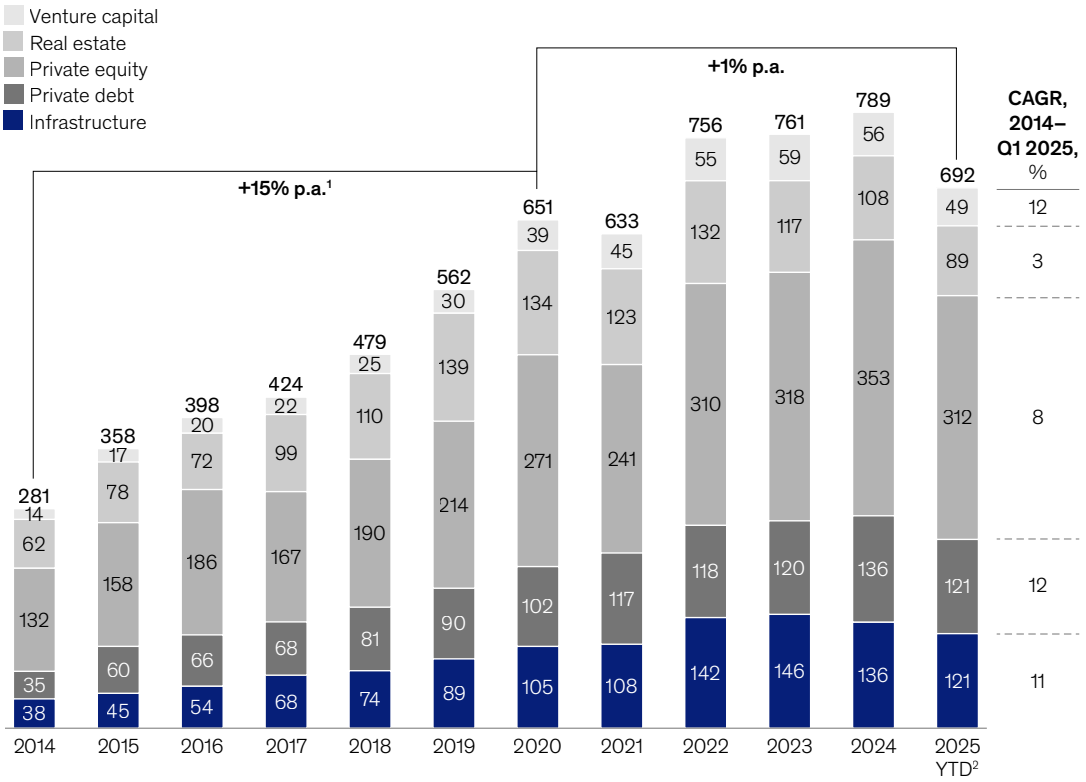
With these high levels of dry powder, infrastructure managers are under pressure to deploy capital. To do so, investors may need to think outside the box and broaden their attention on Europe's infrastructure landscape.

[3] Daniel Kemp, "How infra became a $1trn asset class," Infrastructure Investor, November 2, 2023.
[4] Bruno Alves, "DOWNLOAD: Fundraising in 2025 smashes all records," Infrastructure Investor, January 8, 2026.

Exhibit 3

Dry powder among European infrastructure investors remains high despite slowing fundraising.

Dry powder across asset classes in Europe, € billion



Note: Figures may not sum to totals, because of rounding.
[1]Per annum.
[2]Year to date.
Source: Preqin

McKinsey & Company

Returns from infrastructure have challenged investors

At the same time as dry powder has accumulated, the concept of infrastructure has grown and evolved (see sidebar "Types of infrastructure investments").[5] Infrastructure now encompasses not only core assets such as roads and bridges but also assets that have infrastructure-like characteristics.

Across these asset classes, returns vary, but the trend is one of decline in recent years. From 2014–19, European infrastructure[6] delivered better returns than the market (83 percent versus 36 percent TSR), which is notable considering that returns on infrastructure assets are typically expected to be lower than other types of assets. However, between 2019 and 2025, the picture was almost the opposite: Infrastructure stocks delivered a TSR of 35 percent versus the Euronext 100 benchmark of 82 percent. Moreover, for privately held assets,[7] EBITDA margins declined by an average of two percentage points in 11 out of 17 infrastructure asset classes between 2019 to 2023, with the average return on assets during this period being only 3.5 percent according to McKinsey analysis. This is due in part to effects from the COVID-19 pandemic.

[5] Alastair Green, Ishaan Nangia, and Nicola Sandri, *The infrastructure moment*, McKinsey, September 9, 2025.
[6] Includes more than 60 listed infrastructure companies in Europe.
[7] Includes about 140 infrastructure investor–owned companies.

Types of infrastructure investments

Infrastructure investments can be categorized in three categories[1]:

— *'Super core' investments.* These low-risk, low-return assets are considered essential parts of the built environment and are considered highly stable. They are usually regulated or contracted and are therefore protected from inflation with predictable long-term cash flows. Core infrastructure includes utilities, toll roads, highways, airports, and telecommunications towers.

— *Core investments.* These assets are still stable but have more growth potential and higher risks (such as construction risk, demand risk, and operational risk) than core assets. Their returns are more closely aligned with other private equity investments. These "infrastructure-like" investments include less-traditional assets such as fiberoptic cable, unregulated airports, and ports.

— *'Core plus' investments.* Core plus assets share characteristics with traditional infrastructure, but they are not typically thought of as infrastructure. However, they are often still linked to the infrastructure value chain in some way. For example, outdoor media such as billboards exist within the technology, media, and telecommunications infrastructure vertical, and pharmacies exist within the healthcare infrastructure vertical. These investments have the highest returns but also carry the highest risk.

[1] Marcel Brinkman and Vijay Sarma, "Infrastructure investing will never be the same," McKinsey, August 1, 2022.

This has compelled investors to seek ways to meet return thresholds while ensuring capital is deployed at the required pace. Some techniques investors are exploring include expanding the list of asset classes, looking into new geographies, and taking on greater construction and operational risk. However, to meet the challenge of deploying ever-increasing capital, infrastructure investors may need to push the boundaries further.

Infrastructure investors need to be creative to capture the opportunity to deploy dry powder

When looking at today's landscape, we see three areas where investors can substantially up their game to deploy capital while still delivering adequate returns: building strong research capabilities in new subsectors, leveraging AI to surface deals outside the typical pipeline, and getting sharper on value creation at the diligence stage.

Building strong research capabilities in new subsectors

In the not-too-distant past, infrastructure investing was mainly focused on relatively passive investments in a limited number of operating assets (for example, highways and renewables) with limited risk and very high cash flow stability. As asset classes expand to meet the requirements of increasing capital inflows, successful investors will need get comfortable investing in a wide array of businesses. Today, infrastructure investor portfolios feature more than 50 asset classes that are all different and that investors might not fully understand. Investing in these assets, therefore, requires investors to significantly ramp up their internal capabilities to understand key trends, value drivers, and risks.

For example, McKinsey analysis of infrastructure assets indicates midstream assets, renewables, and utilities have delivered the highest returns, driven by commodity prices, with some transport segments also delivering higher-than-average returns (Exhibit 4). Revenue growth has been highest in digital infrastructure (data centers), along with midstream assets and ports.

While past performance cannot predict the future, research into the performance of subasset classes outside the investor portfolio can lead to a better understanding of underlying drivers of performance. This information can then help investors derive insights on future performance.

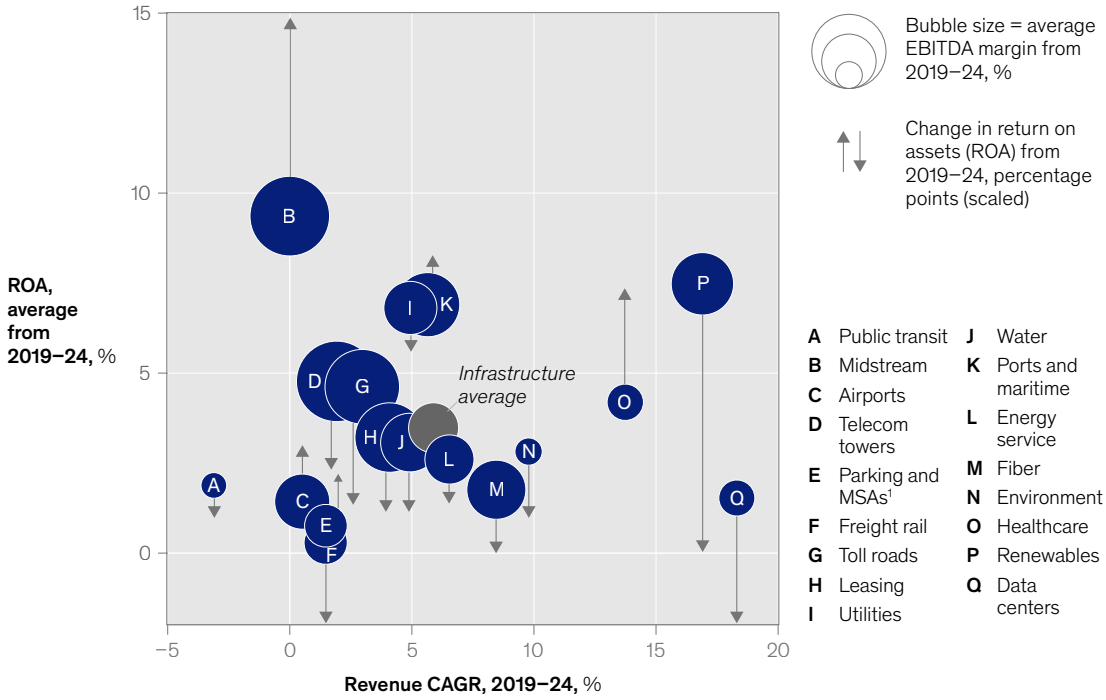
Some investors are increasingly setting up dedicated research teams to deliver insights on attractive investment themes, returns drivers, and value creation strategies. This is a shift from the previous norm where investors left the research to investment professionals, who were often more focused on ongoing origination and execution efforts than stepping back and thinking beyond the short term.

Finding opportunities in each of these subsectors will be a key differentiator moving forward. Investors will need to be able to leverage similar analysis and insights as the infrastructure sector evolves.

Exhibit 4

Between 2019 and 2024, returns from different infrastructure asset classes in Europe have shifted.

Historical performance of 251 infrastructure fund– and private equity–owned assets in Europe, 2019–24



[1]Motorway service areas.
Source: Gain.pro

McKinsey & Company

Leveraging AI to surface deals outside the typical pipeline

There are numerous AI-driven opportunities for investors to improve decision-making across the investment life cycle, from fundraising and deal identification to due diligence, deal execution, and portfolio management. AI can provide visibility into data, use structured data sets to create forward-looking machine-learning models, and use large and unstructured data to create net new content.

A key use case for infrastructure investors is using AI tools in deal identification. Other sectors are already making inroads on this front. For example, one leading O&G company used AI tools to identify acquisition targets in a new market. The tools identified about ten prioritized targets per scan based on their technical capabilities, business model, historical growth, and customer base. Using gen AI, the company also developed detailed profiles for the highest-priority targets. This extensive set of "net new" targets grew the company's existing target pipeline by 40 percent and helped the company select and acquire its top site—which was unknown to the company prior to using these tools.

Beyond finding differentiated insights, to be competitive, investors can also look to supplement auction processes with a pipeline of proprietary deals. This requires looking outside of deal lists from conventional sources and investing in identifying companies that are not yet rumored for sale.

Gen AI and large language models can help in this process by analyzing hundreds of data fields in automated scans to improve the efficiency of origination processes, allowing companies to spend more time on the right opportunities. These tools work best with extensive company databases that they can use to iteratively scan and generate insights.

Finally, gen AI can also be used beyond origination during the execution and underwriting process. For example, investors are starting to use it to get better insights from information in their virtual data rooms, prepare investment committee memos, build investment cases, and more.

Getting sharper on value creation at the diligence stage

Apart from enhancing research, origination, and execution capabilities, investors need to push the envelope on value creation during the deal stage. Operational due diligence (ODD) is a critical process for investors to uncover value creation opportunities in potential investments and maintain discipline on returns. ODD provides a structured approach to assess and identify areas where operational improvements can drive growth, enhance efficiency, and mitigate risks.

To build and improve ODD capabilities, investors can focus on a few key elements:

Prediligence preparation. Begin by identifying the operational areas to be assessed, such as supply chain, manufacturing, or corporate functions. This step involves forming a robust fact base through data requests for financial overviews, operational metrics, market insights, and more. Develop a financial and operational baseline model, and create hypotheses about potential value creation levers.

Operational assessment. Assess key drivers such as gross margin, supply chain efficiency, and other operational metrics to identify areas for improvement in the target company. Conduct interviews with functional leaders, and run benchmark analyses to compare the target company's performance against industry standards. This helps identify gaps and areas for optimization. Evaluate external factors such as market trends, competitive dynamics, and regulatory risks that could affect the target company's operations and value creation potential.

Identifying value creation levers. Explore market development, pricing strategies, and customer acquisition opportunities to drive revenue growth (for example, bolt-on acquisitions). Identify cost-saving opportunities through lean process methodologies, design-to-value approaches, and operational excellence initiatives. This includes evaluating general and administrative functions and other corporate operations for efficiency improvements. Finally, develop a road map for synergies, including integration architecture and standalone potential. This involves assessing how the target company's operations align with the acquirer's capabilities.

ESG and talent considerations. Systematically evaluate the target company's environmental, social, and governance (ESG) performance regarding Europe's current and forthcoming regulations. This includes benchmarking against industry standards and identifying ESG-related risks and opportunities. In addition, assess workforce-related risks and opportunities, including leadership capabilities and organizational structure.

Synthesis and value creation plan. Conduct functional workshops to debrief findings and prioritize value creation opportunities. This step ensures that the most impactful levers are addressed first. Next, create a detailed road map that outlines the steps needed to achieve the identified value creation goals. This includes validating the investment thesis and preparing for post-transaction implementation. Align this value creation plan with the overall investment thesis and the business case presented to the investment committee. This ensures a cohesive strategy for driving growth and efficiency.

Europe's infrastructure sector is evolving rapidly, with significant dry powder chasing a limited pool of assets. With fundraising likely to rebound, the onus will be on investors to think outside the box to deploy capital at the required rate while delivering expected returns. Thinking creatively in terms of asset classes and leveraging gen AI to develop proprietary insights and a pipeline of deals will be critical to success.

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The new advantage in the age of AI: Building in the real world

Laura Hines-Pierce, co-CEO of Hines, explains why execution—not capital—will define the next era of value creation.

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The next era of value creation may be defined less by digital innovation alone and more by the ability to build, operate, and scale physical assets. On this episode of *The McKinsey Podcast*, co-CEO of Hines Laura Hines-Pierce joins McKinsey's North American Chair Eric Kutcher to discuss a widening gap between digital ambition and physical capacity. From a global housing shortage to an emergency energy and infrastructure supercycle, the conversation explores what it takes to build at scale—and why labor, permitting, and supply chain are now the true bottlenecks. They also reflect on leadership, organizational change, and preparing a 70-year-old firm for a more volatile, fast-changing future.

In this recurring series on *The McKinsey Podcast*, Kutcher speaks with top CEOs about the practice of leadership.

The McKinsey Podcast is regularly cohosted by Lucia Rahilly and Roberta Fusaro.

To watch the full-length version of this interview, visit *The McKinsey Podcast* playlist on McKinsey's YouTube channel.

The following transcript has been edited for clarity and length.

Execution, not capital, is the constraint

Eric Kutcher: Today, I'm joined by Laura Hines-Pierce, CEO of Hines, one of the leading real estate firms in the world.

Laura Hines-Pierce: I'll actually correct you on that. We are one of the largest global investment managers in the real assets space. We started as a developer, and that's certainly how much of our history and reputation were built.

We're a 70-year-old firm founded by my grandfather, so I'm a third-generation leader. He started as a one-man shop developing small warehouses on the outskirts of Houston. Today, we manage approximately $100 billion in assets under management, operate in 30 countries and nearly 400 cities, and invest across the risk spectrum and all major real estate asset classes.

Eric Kutcher: What are you seeing across the different real estate asset classes as an investor today?

Laura Hines-Pierce: When I look at asset classes and where we have conviction, we've deliberately structured ourselves for diversification and for the ability to meet the market where it is. As I mentioned, we're in nearly 400 cities. The opportunity today in Stuttgart, Germany, is different from the opportunity in San Francisco, California.

We've intentionally positioned ourselves to be able to pull different levers across both the risk spectrum and asset classes, depending on market conditions. That said, our highest conviction globally is in living. As you can imagine, it's a major topic.

Globally, we're about 6.5 million housing units short. At the same time, future supply is constrained by high construction costs, labor shortages, and permitting challenges. We believe that creates a sustained opportunity over the long term.

In addition, we're entering what appears to be an energy and infrastructure supercycle. We're spending significant time in the powered-land space and thinking about how our capabilities can expand to meet that opportunity.

Eric Kutcher: Let's spend a little more time on this energy supercycle. Much of it is being driven by AI and data center build-outs. You could also argue that the broader electrification of society—electric vehicles, for example—is contributing. I don't think we're capital constrained when it comes to getting shovels in the ground and building the necessary infrastructure. How does that all play out? What are the limiting factors today? And how difficult is it to help those with capital deploy it?

Laura Hines-Pierce: I agree—we are not capital constrained in today's environment. What we are is execution constrained. The challenge is the ability to source opportunities, secure permits, navigate regulatory requirements, bring power to a site, and think about projects holistically.

There's a lot of noise in the market right now, and execution capabilities vary widely. The firms that succeed will be those with deep local capabilities and a proven track record of delivering projects. You also have to think about the supply chain. The winners will be those that can anticipate constraints and secure critical components in advance.

Eric Kutcher: Which is part of execution itself.

Laura Hines-Pierce: Absolutely. It's about much more than simply having a site with potential access to power.

The future still needs electricians

Eric Kutcher: What about labor?

Laura Hines-Pierce: I think labor will remain a consistent challenge. This is particularly acute in the United States, given the scale of demand and the constraints already in place. We're not producing enough electricians. We're not producing enough engineers. Unfortunately, I don't have a simple solution. The reality is that scarcity in those professions will ultimately show up in higher costs.

Eric Kutcher: In my experience, people don't fully appreciate the situation we're facing. I sit on the board of the Federal Reserve Bank of San Francisco, and one observation I've made is that we're operating in a different paradigm. For a long time, maintaining stability in the workforce and unemployment rate required roughly 150,000 to 200,000 net new jobs per month. Today, that number is closer to zero.

The reason is straightforward: Immigration has slowed, and a generation of baby boomers is retiring from the workforce. Those individuals possess a tremendous amount of institutional knowledge and tacit expertise. Layer on top of that a birth rate below replacement level, and the equation worsens over time rather than improving.

Laura Hines-Pierce: Exactly. I can't overstate how significant this challenge is. Resources required to invest in and execute within the physical world are becoming increasingly scarce.

As I mentioned, you can't create new electricians overnight. The result is higher costs, which means investors need to account for these realities when underwriting opportunities. Those who truly understand local markets and labor dynamics will be best positioned to capitalize and finance projects effectively.

More broadly, we're seeing a shift in where value is created in the real asset space—from software to hardware. AI is an incredible technology and an extraordinary tool, but in many ways it is democratizing the digital world. Increasingly, differentiation will come from the ability to execute in the physical world. That's where we believe value creation will occur in the years ahead.

Eric Kutcher: And as you said, you can't build a model that replaces physical assets. We have a real deficit.

Laura Hines-Pierce: At least not yet.

Eric Kutcher: It's an interesting question. I attended CES [Consumer Electronics Show] in January, and if you asked what the conference was about this year, the answer would be "physical AI"—or what many of us simply call robotics. There's a lot of discussion about massive job displacement. We see autonomous vehicles and robo-taxis operating in cities today. But the reality is that we'll need different forms of labor. There's certainly a reskilling challenge ahead, but I don't see a shortage of opportunity anytime soon.

Laura Hines-Pierce: Our focus isn't on cost cutting or eliminating jobs. It's about amplifying our competitive advantage. We create value in the physical world. We have people on the ground in nearly 400 cities who know their markets better than anyone else. They are local experts.

We want to use AI to free people from their computers and enable them to spend more time creating value in the real world. That means building relationships, sourcing deals, overseeing development projects, operating assets, and delivering exceptional experiences to occupants.

Those activities require human judgment and human connection. That's where we're focused—amplifying human capability and, frankly, investing more in it.

Adaptability is durability

Eric Kutcher: You mentioned living as a major investment theme beyond the energy supercycle. You also discussed labor shortages, and presumably, labor will gravitate toward sectors willing to pay the most. Given the economics of data centers, people may naturally move in that direction. What does that mean for housing prices over the next five to ten years, particularly in a world with a constrained housing supply and rising construction costs?

Laura Hines-Pierce: I believe we're operating in an inflationary environment. To materially reduce housing costs, a number of factors would need to align: lower material and labor costs and regulatory changes that make it easier to build. Ultimately, increasing supply is what brings prices down. From an investment standpoint, that's one reason we have such strong conviction in the living sector. We also continue to build because the supply shortage remains so significant across the risk spectrum.

Eric Kutcher: We recently conducted research on permitting challenges in the United States. It found that approximately $1.5 trillion in funded, shovel-ready projects are currently waiting for permits. You mentioned permitting earlier in the context of building constraints. What's driving this backlog?

Laura Hines-Pierce: Over time, a number of well-intentioned laws and policies have been layered into the permitting process. In some cases, those mechanisms create opportunities for delays that were never intended. For example, a single objection from a neighboring property owner can significantly slow a project. Those delays can last months—or even years. Striking the right balance between oversight and efficiency is challenging, and sometimes the system moves out of balance.

Eric Kutcher: Let's zoom out and talk about you as a CEO and what it's like to lead a multigenerational family business. How did you get from point A to point C? I'm skipping point B because there was an important stop in the middle, right?

Laura Hines-Pierce: One of the things I'm most proud of over the past several years has been helping codify our ability to grow, evolve, and adapt. We've always believed deeply in our core values: integrity, quality, and an owner's mindset. One advantage of a family-led firm is that those values are embedded from an early age. When leadership transitions occur, the values remain constant because they are already deeply ingrained in the next generation of leaders.

Eric Kutcher: I'd love to hear how your father thought about passing ownership and leadership to you. You're standing on his shoulders. And now, with young children of your own, how do you think about lineage and continuity?

Laura Hines-Pierce: Stewardship is an active concept to me. It requires conviction about the future and a constant commitment to moving toward it. In the built environment, investments are long term. The assets we develop and operate will exist for decades. That means we need a strong point of view about the future and a commitment to leaving things better than we found them.

We think about stewardship in our partnerships, with our investors, and with our clients. Relationships are long-term investments, and we view ourselves as stewards of those relationships as well.

Eric Kutcher: What's it like to take on the CEO role of an institution that means so much—not only to employees and stakeholders around the world, but also to your family and, I suspect, to your collective identity?

Laura Hines-Pierce: I'm actually a co-CEO. I currently serve alongside my father, which has been a unique and special experience. He brings more than 30 years of leadership experience, institutional knowledge, and perspective gained through multiple cycles. I bring a different lens: thinking about where we need to be 30 years from now and helping position the firm accordingly.

It's been a remarkable experience because, frankly, I've been forged in the fire. I joined the Office of the CEO in February 2020. We all know what happened a month later. Then I officially became co-CEO in February 2022, one month before Russia invaded Ukraine. During that same five-year period, I also had three children.

What I've learned is that change is the only constant. That has always been true, but the pace of change is accelerating. The firms that will succeed are those that can adapt, evolve, and lead through change. They run toward opportunity rather than away from it. At the same time, my father's partnership provides a stabilizing force. Together, we balance pushing toward the future while remaining grounded in who we are.

Eric Kutcher: I was recently asked how CEOs are coping with uncertainty, and I think you just answered the question perfectly. You essentially said, "I don't focus on what's coming at me every day. I focus on where we need to be five or ten years from now, and I navigate toward that destination. Obstacles will arise, and sometimes I have to go around them. But as long as I stay committed to the destination and remain open minded about what could change my assumptions, I can stay on course." One advantage of that mindset is that you're more battle-tested.

Laura Hines-Pierce: For better or worse.

Eric Kutcher: For better or worse. But being battle-tested matters. I don't hear CEOs becoming as rattled by uncertainty as they once did. Increasingly, they simply expect it.

Laura Hines-Pierce: Exactly. As I think about evolving our culture, that's something I want to formally codify. We need a culture that embraces change and uncertainty and actively looks for opportunity within it. One of our core values is maintaining an entrepreneurial culture, and I believe that mindset is particularly relevant in today's environment.

Every transformation is a talent transformation

Eric Kutcher: You mentioned your three young children, who may one day listen to this conversation. What would you want them to know about leadership and what you've learned through adversity?

Laura Hines-Pierce: If you stay focused on your North Star and where you want to go over the long term—and if you genuinely embrace stewardship—then you'll make better decisions with partners, investments, and design. In many ways, that clarity makes leadership easier.

Eric Kutcher: How are you thinking about AI today? Where are you on that journey? And how are you changing the organization to help people see what's possible?

Laura Hines-Pierce: We're approaching AI much the same way we've approached other major transformations: with a combination of top-down leadership and bottom-up innovation.

We're also building a central team focused on governance and implementation. Their role is to ensure we're solving the right workflow challenges and applying solutions consistently across the organization.

The goal is to enable our people to leverage technology so they can focus on what only humans can do. They build relationships with business leaders in their communities. They source opportunities. They oversee development and redevelopment projects. They manage buildings and deliver exceptional service to occupants. Technology should enable more of those activities, not replace them.

> 'We need a culture that embraces change and uncertainty and actively looks for opportunity within it.'

Eric Kutcher: How do you identify people throughout the organization and challenge them according to their own level of readiness?

Laura Hines-Pierce: We view AI primarily as a people challenge. Technology accounts for perhaps 10 percent of the solution. Processes account for another 20 percent. The remaining 70 percent is about people and change management.

That's why we've been focused on strengthening our organizational change capabilities. We're identifying individuals with the curiosity, drive, and capability to lead. Those champions are embedded within business units and connected to a central group that provides training, support, and tools.

Many of these champions come directly from the business. Others are placed within teams to understand how technology can improve workflows in practical ways. The central group then helps scale successful solutions across the organization while ensuring consistency and coordination.

Eric Kutcher: Do you have to bring everyone along? It may sound Darwinian, but while everyone should have the opportunity to learn and access the tools, if someone chooses not to participate, isn't that ultimately their responsibility?

Laura Hines-Pierce: Every job evolves. Every company evolves. Every industry evolves.

The most successful individuals and organizations are the ones that embrace that evolution. That's always been true, and I believe this moment is simply another chapter in that ongoing process.

Laura Hines-Pierce is the co-CEO of Hines. **Eric Kutcher** is a senior partner in McKinsey's Bay Area office and serves as McKinsey's chair of North America. **Lucia Rahilly** is the global editorial director and deputy publisher of McKinsey Global Publishing and is based in the New York office, and **Roberta Fusaro** is an editorial director in the Boston office.

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