

Commentary

2026 Global Project Finance Outlook: Resilient Foundations Meet Expanding Frontiers

Morningstar DBRS

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Key Highlights

- The project finance sector is kicking off 2026 with the structural resilience that has supported its performance through several years of macroeconomic and geopolitical volatility.
- The sector should see strong transaction volumes across a widening set of asset classes. In our view, the power generation sector remains the bread and butter of the project finance market, but minority-interest transactions and emerging technologies will also be key themes for the sector in 2026.
- For project finance lenders, opportunities also lead into challenges such as increasing refinancing risk and transaction complexity.

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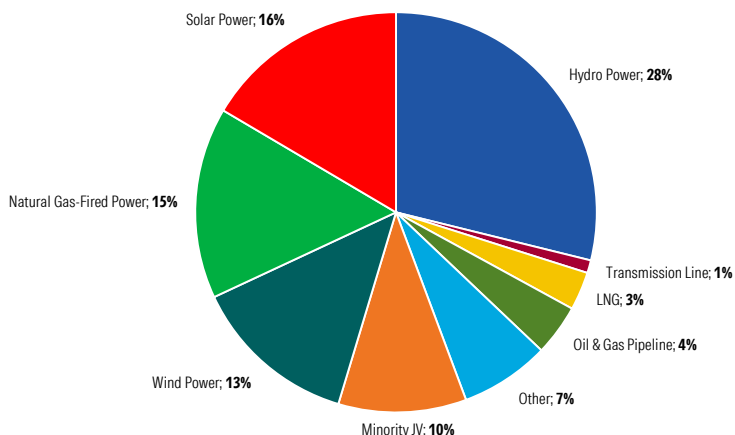
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Overview

We expect a stable performance from the project finance sector with a neutral outlook in 2026. The sector is kicking off the year with the structural resilience that has supported its performance through several years of macroeconomic and geopolitical volatility. Credit fundamentals remain underpinned by long-term contracted revenues, strong counterparties, fixed-rate amortizing debt structures, and the essentiality of the underlying assets. We expect our credit ratings across major asset classes to largely remain stable, with changes being driven by project-specific factors rather than systemic risks. Please see Exhibit 1 for a breakdown of project finance transactions we rate.

In the coming year, we expect credit resilience to coincide with strong growth in transaction volumes across a widening set of asset classes. The power generation sector continues to expand through renewables, battery storage, and nuclear power rejuvenation. Energy infrastructure investments are accelerating, particularly in liquified natural gas (LNG) pipelines and electric transmission lines to secure energy security. Innovative and structured minority-ownership transactions are becoming more common as sponsors seek capital efficiency to scale up their platforms, while emerging asset classes such as hydrogen and fuel-cell projects, critical-minerals, and Indigenous-led financings are increasingly demonstrating bankable characteristics. Together, these trends point to a 2026 in which resilient credit fundamentals will interact with rising transaction volumes.

Exhibit 1 Project Finance Transactions Rated by Morningstar DBRS



Source: Morningstar DBRS.

Opportunities and Challenges for Project Finance Lenders

For project finance lenders, 2026 brings one of the most expansive investment cycles in decades, extending well beyond the traditional power-generating sector. Capital demand is accelerating across energy transition assets, midstream infrastructure, transport networks, and water systems. Electrification, supply-chain reshoring, climate adaptation, and the modernization of aging infrastructure are driving a surge in long-term financing needs. Many of these transactions now feature more complex revenue stacks, mixing contracted offtake with selective merchant exposure. The popularity of bundling single projects together is also creating both diversification benefit but also new analytical challenges as project finance transactions require forecasting precision to support high leverage. The refinancing risk, which used to be a peripheral concern, is now front and center, driven by the widespread adoption of mini-permanent structures, particularly in the U.S. renewables sector during 2020 and 2022. These challenges, however, are unlikely to have a negative impact on credit rating stability and are taken into account in our *Global Methodology for Rating Project Finance*.

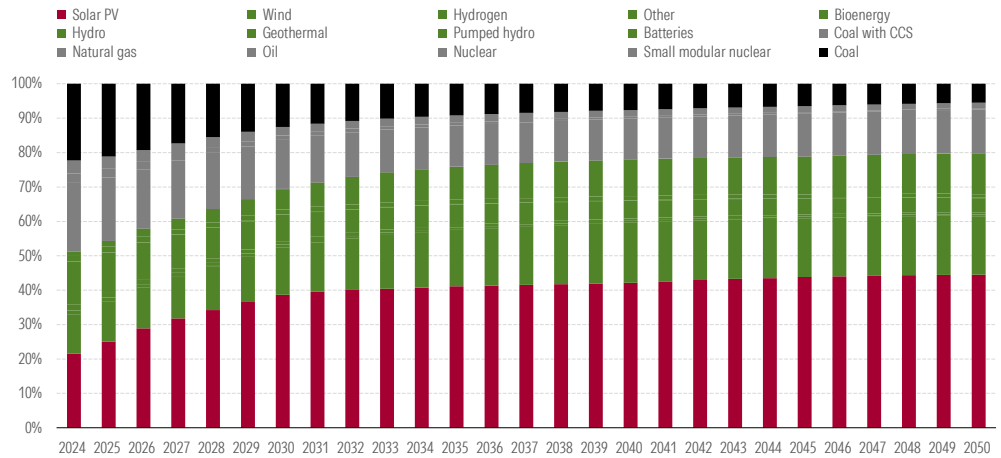
Power Market: Scaling to Meet Accelerating Demand Growth

The power generation sector remains the bread and butter of the project finance universe. The global power sector is starting the year at a structural inflection point. Electricity demand is accelerating at an unprecedented pace, driven by data-center developments, manufacturing reshoring, and transportation electrification. At the same time, the industry is undergoing a fundamental transformation. The convergence of rapid demand growth and transmission constraint is reshaping investment priorities and creating a new operating environment—one defined less by cyclical fuel price shocks and more by structural forces that will redefine credit risk assessment and capital allocation.

Renewables Remain the Dominant Engine of Capacity Growth

Solar and wind continue to account for most new additions globally, supported by scaling flexibility, declining prices, and improving efficiency. Even as interest rates increase and government subsidy frameworks evolve, developers are doubling down on investments through artificial intelligence-enabled operational optimization and hybrid financing structures to improve revenue stability. But 2026 won't be defined by renewables alone. Electric grid operators and governments are placing increasing emphasis on dispatchable generation capacity to stabilize grids strained by intermittent renewables, weather-driven volatility, and the retirement of aging thermal assets. Natural gas-fired generation is seeing a measured resurgence to provide fast-ramping capability. Nuclear power is also re-emerging as several countries extend reactor lifetimes and advance small modular reactor programs as complements to variable renewables. System reliability and energy security have become priorities alongside decarbonization. Please see Exhibit 2 for the projected power generation capacity growth by technology until 2050.

Exhibit 2 Cumulative Capacity by Technology



Source: Bloomberg New Energy.

Regional dynamics are reinforcing this diversified build-out. Europe continues to expand renewables, with offshore wind remaining central to its long-term energy strategy. Despite cost pressure and supply-chain constraints, European governments are accelerating offshore wind auctions and grid-expansion plans. In Asia-Pacific, growth is rapid and broad-based: solar power is scaling fast, while LNG-powered generation remains critical for system stability. Persistent challenges such as grid constraints, curtailment, and uneven regulatory frameworks continue to shape risk profiles across different jurisdictions.

Impact of the One Big Beautiful Bill Act (OBBBA) on the U.S. Renewable Energy Sector

In the U.S., meanwhile, the power generation sector saw a major shakeup in 2025, when President Donald Trump signed the OBBBA into law. The OBBBA revised or altogether eliminated some parts of the Biden administration's Inflation Reduction Act and sunset tax credits for solar and wind projects on an accelerated timeline. Given the far-reaching implications of the OBBBA, each subsector will be affected differently, with thermal energy development encouraged more than renewables in the U.S. The solar and wind subsectors will bear the biggest brunt because of the phase-out of tax credits. In the short term, we believe new solar and wind developments will be fast-tracked to start construction before the July 4, 2026, cut-off for tax credits. For offshore wind power, executive orders and construction halt orders from the federal government virtually paused these developments. Because of the current tumultuous political and legal landscape in the U.S. for offshore wind, we do not expect new offshore wind development in the near to medium term. Still, even without offshore wind development, we expect the U.S. renewable energy sector to continue to grow, given that solar and onshore wind are cost competitive with other energy sources, even without the tax credits. For more information, see our commentary [What Does the Final One Big Beautiful Bill Act Mean for U.S. Energy Projects?](#)

Minority-Interest Transactions: Innovative Structures Creating New Credit Products

Highly structured minority-interest transactions are proving to be a catalyst driving the ballooning private credit market, designed to meet issuers' financing needs and investor demands for investment-grade credit products. While there is nothing new about investing in a minority interest, their innovative structures set these transactions apart. The overall transaction structure can be akin to a typical project finance structure, which means we can rate some of these transactions under our project finance methodology or in combination with other methodologies or criteria. The structure typically features an investment-grade corporate entity as the majority owner, partnered with a major private equity firm as the minority owner in a joint venture (JV). To finance its acquisition of its minority-interest investment, the private equity firm will issue back-leveraged debt at the holding company level. Nonetheless, the cash flow distribution to the minority holder for debt service is usually stable cash from the typically strategic asset contributed by the majority owner in the JV structure.

There has been significant growth of these structures over the last two years across the U.S., Europe and more recently in Canada, with a variety of asset classes underpinning the JVs, and the momentum is expected to continue through 2026. Typically rated in the investment-grade category, these transactions benefit both the issuers, who receive ready access to purpose-built, long-term institutional capital, and investors, who get better risk-adjusted returns. Overall, we expect our credit ratings on these transactions to remain stable, albeit potentially susceptible to corporate entities' credit profiles in the cases where the assigned credit ratings are linked to the corporate entity as the majority owner.

Emerging Themes Reshaping the Project Finance Landscape

In the coming years, we anticipate a new wave of technologies to move from concept to early commercial adoption, reshaping how capital flows into the energy infrastructure sector. Hydrogen and fuel-cell projects are becoming bankable as electrolyzer costs fall, although primary revenues mostly still rely on government incentives or offtake agreements. Carbon capture and storage technology is gaining momentum, but long-term validation remains a barrier to feasible implementation. Meanwhile, critical-mineral projects are reviving as developed countries are determined to secure domestic supply, with offtake contracts and Indigenous partnerships playing a growing role, especially in Australia and Canada. Nuclear technology is also seeing a revival, with small modular reactors progressing to commercialization notwithstanding first-of-a-kind risk. At the same time, the environmental, social, and governance (ESG) label is complemented by a more pragmatic "transition finance" approach focused on verifiable decarbonization.

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