



## 2026 Outlook: John Cole Scott On What '26 Holds For Closed-End Funds

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Chuck Jaffe, in this episode of The NAVigator podcast interviews John Cole Scott of CEF Advisors. John climbs his mountain of data to get a great view on the year ahead, and he's forecasting no recession, lower inflation, and modest GDP growth for 2026, with less volatility coming from the rate picture but more market tension due to the global macro picture. Scott, who also serves as chairman of the Active

Investment Company Alliance, also discusses what he sees happening in the closed-end fund industry, from the growth he expects to see in assets to the activism picture, down to what he foresees in leverage, return of capital and more. Plus, he's got five funds he's expecting big things from in the new year.

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**CHUCK JAFFE:** With the new year nearly upon us we're looking into the future with John Cole Scott, president of CEF Advisors, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, which is a unique industry organization that represents all facets of the closed-end fund industry, from sponsors and creators to users and investors. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And joining

me on The NAVigator today, John Cole Scott, he's president of CEF Advisors, where they produce great data covering closed-end funds, business-development companies, interval funds, and as of recently, exchange-traded funds of all stripes too. You can dig into the firm, and more importantly, you can dig into its data for yourself by going to [CEFData.com](https://CEFData.com). And beyond CEF Advisors, John is chairman of the Active Investment Company Alliance, which you can learn about at [AICAlliance.org](https://AICAlliance.org). John Cole Scott, happy holidays, welcome back to The NAVigator.

**JOHN COLE SCOTT:** Always great to be here with you, Chuck.

**CHUCK JAFFE:** Now most people who make forecasts get to the end of the year and they look back first, they wrap up one year before they start the next. But John, in what's becoming an annual tradition for you and I, we do two episodes around the holidays, and we look forward first before we turn back, largely because you want your data on the year to be complete.

**JOHN COLE SCOTT:** Correct.

**CHUCK JAFFE:** So we're going to be back next week for a year in review, and while I can look forward to that, what I really want to know is what you're looking forward to seeing in the closed-end fund industry and the investment world come 2026.

**JOHN COLE SCOTT:** Sure, happy to do so. Again, base case for our separate account clients as I figure out where we think things are going with recessions and interest rates and whatnot, and so as we bake into 2026, we do expect no recession but relatively muted US GDP probably between 1.5% and 1.75%. We think inflation feels like it's [inaudible 0:02:12] down based on the data that we're looking at, basically 2.5% for the year, and we're hoping to get down to 2-2.25% for the second half of the year, which will be through most of the tariff issues that will be year on year muted. We do feel like one more rate cut is likely, that's our base case as we think about the yield curve and other investment decisions for our clients, so that'll end the year between 3.25% and 3.5% for Fed Funds. We're actually grateful there'll be less, we think, rate volatility around the headlines and the NAVs and our discount movements for closed-end funds, but we do see tons of ongoing macro uneasiness, which again it's been that way for almost four years, but we expect it to continue in the new year. There's often the January Effect, I think 90% of the time you get a good bounce in January, every year is different. Our model suggests that this year will be an above average January Effect, looking for about 3.5% bounce from the November-December lows to the January

highs, and we think it'll be exacerbated with BDCs, which have been beat up a bit, as well as senior loan funds, muni closed-end funds, and MLP CEFs. One thing I love is the MLP and munis, very different than the senior loan and BDCs, so you can be diversified and play that bounce. When you think about the mechanics of closed-end funds, we look at leverage-adjusted NAV yields, and I'm just going to say we think they're going to trend a little bit higher as boards and managers try to maintain the yields to support discounts, so looking for an 8.4% now to 8.7% later, all this data is from our 15-sector index at CEF Data. We think the average yield for the index will go to 10.1% from its current 10.5% because we think there'll be some even pressure, even with boards supporting these prices to pull back the actual yields for the sector, but still relatively high in the scheme of things. And dividends in dollar terms, we think it's going to take some navigating, we think the downward trend of that is going to be about 3% pullback, we think investors should be planning for those types of opportunities to reallocate and react to it when it does happen in different sectors and funds. Leverage will be boosted slightly from about 23% for the index to 26%, and that's basically on the basis of looking to grow the yield with a benign yield curve versus a few years ago, and that should help support distributions to shareholders. We think that return of capital, right around 26.6% will bump to 28% and mid-change. Destructive return of capital, which we use a three-year measurement for right now is 7.6%, we think it'll bump towards 8.5%, but still that's only about 3% of total dollars distributed from closed-end funds, so not a huge issue but one worth monitoring. And the last thing I'll talk about for that sector forecast is we think the index will go from a current 2.4% discount as of 12/22 to a 1% discount by the end of 2026.

**CHUCK JAFFE:** I have one or two little questions in there. You talked about dividends and how you are expecting them to be narrowed, so when you're talking about people planning for that, is that a case where you literally see a cut, move the money?

**JOHN COLE SCOTT:** So if the cut's expected and it's less than expected, sometimes the market price rallies, I think that's going to have to be, that's why I said plan and react. So if you see discounts narrowing or you feel like sectors maybe are overvalued, a natural way to support your dividends is then to rotate to a fund maybe at wider discounts, and that might track into the trends of the year better. I do think it's going to be a tough year to be a passive-passive investor because you're going to have a lot of moving parts, it's going to be hard to get every

dollar out from '26 that you would have had in '25 without making some adjustments. We have thoughts about the adjustments, but still we'll be reacting, as clients should be as well.

**CHUCK JAFFE:** Your rate cut forecast was for the second quarter. Do you think we're going to get a cut from Jerome Powell before he goes, which would put that forecast a little more at risk because we're expecting a new chairman to come in with a little bit of pressure to make a cut? Or is this a case of it's one cut regardless of the change in power?

**JOHN COLE SCOTT:** My feeling, and you know I'm not the expert on this, but the people I read that I believe in have suggested to me that the bond market 10-year yield will be balancing out the goal of the current administration to reduce rates and that we'll get one cut. Again, if we get additional cuts, I think that'll prove troubling for credit and equity markets, and so my thoughtfulness is that those markets will keep the people in check in power to make those decisions.

**CHUCK JAFFE:** Now let's move back to forecasts but switch into different areas because we want to know what you see happening. So one of the areas that everybody's interested in when it comes to closed-end funds, activism.

**JOHN COLE SCOTT:** Yes.

**CHUCK JAFFE:** It has been an interesting year in '25 for activism because you've had not as much broadly but some interesting cases, what do you see happening going forward?

**JOHN COLE SCOTT:** We do think it'll be more muted because discounts are relatively tight historically. There is a Supreme Court case with Saba that their arguments were I think the week before last, and we really expect that to be a driver. But with discounts averaging 5.8% for our index, and we dug in deeper, the whole universe, there's only 75 closed-end funds currently with discounts wider than 10%, averaging about 13.8%, that's about \$46 billion of fund assets, which is about 17% of the total assets in the sector, but almost 20% of the total funds. We think that is a relatively small number, and we think that will really shift the direction of activism, if it widens and there's more targets, it'll increase, but we don't think it will be based on the fundamentals that we see.

**CHUCK JAFFE:** Let's talk a little bit about some of the areas where we see growth occurring. Interval funds have become a very popular thing, they're gaining in popularity, they're also gaining in traction. If you get 'em popular, you get a bunch of fund sponsors who say they

want to do it, we were at the fall roundtable and there was a lot of discussion of this, so how much of an addition are we going to see to things like interval funds and tender-offer funds?

**JOHN COLE SCOTT:** Yeah, we do expect continued growth there, though we recognize there's only so many spots in the cupboard that these platforms can put interval funds, we are expecting \$151 billion of assets there to grow to about \$180, but probably only 10 net new funds, we think it's going to be a slower pace of new funds and established funds gaining traction in assets. Tender offer funds, more often for accredited qualified investors, we see some continued growth between \$116 current billion and \$130 billion, and expect them to keep tapping into things like fund of funds and venture capital areas which are better suited for that wrapper. And then non-traded private BDCs, even though the headlines even yesterday were not positive for the private credit, I love that, we think the \$350 billion in assets will grow to about \$400 billion as that structure really proves to be useful and durable with high-quality managers. We also think that the total assets will grow to 187 total funds at CEF Data for closed-ended management companies, and \$1.275 trillion up from the \$1.1 trillion today. We don't think there'll be any regular traditional IPOs, we do expect less mergers, less conversions, but three to five direct listings, like we've seen this fall, with two large direct listings for the new market of closed-end funds for investors to trade.

**CHUCK JAFFE:** It would not be a year-ahead forecast if you were not picking a couple of closed-end funds for people to be considering for the year ahead. You always do this through the categories, you give us an equity fund, you give us a taxable bond fund, you give us a hybrid fund, you give us a muni fund, you give us a BDC. You can do this in any order, however you want to lay 'em out, but five funds for the year ahead are?

**JOHN COLE SCOTT:** Yeah, remember not a portfolio, just things we over-like, and so the first fund, we've talked about it before, is BPRE, we do own it for clients, it's that direct-listed private commercial real estate fund that converted to a traditional closed-end fund about two weeks ago. The discount's currently 34%, but it's been bouncing between 42% and 31%, it's 16% levered, we expect that leverage to trend towards 20-25% as the yield curve steepens. The current 8.3% yield, we think it'll grow with some adjustments on the upwards size in the cents per share from the fund sponsor, and the leverage-adjusted NAV yield is only 5.5%, so as we model what we see likely to happen in the environment and the structure, we think that it'll get closer to a 10% yield on current cost if you buy it at the end

of '25 based on our forecast for both mechanics of the fund and the reaction of the board. We have net asset value slightly lower than what they're modeling for based on our research in commercial real estate, but still it's 20% wider than a peer group average. It's going to be bumpy, but I think it's going to be a great way to get in and ride the beaten up neighborhood of real estate.

**CHUCK JAFFE:** That's BPRE, which is the Bluerock Private Real Estate Fund, that's your equity fund. Your next fund?

**JOHN COLE SCOTT:** Next one is another direct listing because they offer tremendous discount access, it's FSSL, it's about a [inaudible 0:10:58] and change direct listing follow-on from their three years ago FSCO. It was a BDC, now a traditional closed-end fund, it's around a 24% discount versus its three-year older cousin is a 14% discount, but that fund traded at a premium this summer, we think that type of sector can do well in the environment we forecast for '26. It is wider than 9% of its peer group, it's not as pure of a peer group, but that sector is also beaten up, so I think tremendous relative value. It's about a 12% yield and it's almost 90% senior secured debt, which we do like if we get a bumpier economy than even our forecast suggests, and we do think over time it'll trade better than its regular BSL senior loan focused fund peers because people typically can't get these guts in other wrappers and will value it as it performs well.

**CHUCK JAFFE:** FSSL is the FS Specialty Lending Fund. Next fund is?

**JOHN COLE SCOTT:** The muni is a BlackRock fund, MYI, we also own it, it's about an 8.7% discount, about 2.5% wider than its national peer group average. It's sporting a 6.1% yield and a 3.99% leverage adjusted yield, we kind of model a 5% real yield from the payout of the portfolio, the rest is extra overpayment. The management fee is 84 basis points, a tremendous value, the leverage cost is low in its peer group, 3.32%, and we believe it'll show later as we get updated data from BlackRock. It is a 14.5 duration, common for this sector, it is mostly investment grade with only 4% non-rated and 2% non-investment grade holdings. It's a \$750 million fund, so it's large and liquid, and it has one of our favorite things, lower NAV volatility and higher discount volatility, when you're at an above average discount, that should give you a tailwind for the allocation in this sector.

**CHUCK JAFFE:** So MYI, the BlackRock Muni Yield Quality Fund III. That leaves us hybrids and BDCs.

**JOHN COLE SCOTT:** Yeah, so the Guggenheim GUG, it's a hybrid balanced fund, again we own this fund as well for clients, it's around a 9.2% discount, a 9.3% yield, that's a 6.8% leverage-adjust NAV yield, we think that is a good, sturdy number to be in at that discount. Leverage is relatively low at 24%, it's a little bit higher expense ratio, 1.89% for non-leverage costs, but again it's another \$700 and change million fund, so very liquid. When we dig into the portfolio, it is highly over-rate corporate loans, senior loans, corporate debt, ABS, and preferred equity, it is not really a generic equity fund, it is a multi-sector manager, but Guggenheim, if the market changes, will reallocate that portfolio actively for shareholders throughout the year.

**CHUCK JAFFE:** GUG, the Guggenheim Active Allocation Fund. That leaves us a BDC.

**JOHN COLE SCOTT:** This was a tough one, I really wanted to give as sturdy of an answer as we could, the one we picked this year is BXSL, we also own it for clients. It is around net asset value, just slightly below as we record this, with a one-year average 10% premium, it's 11.4% indicated yield and underlying portfolio is averaging 10% average yield on their debt investment to companies, but what we focused on was ROE, the one-year ROE is almost 10% above average, which we like, they're actually earning money on what they have. Their one-year net asset value total return is over 11%, which is almost double the peer group average where some funds have had tough years in performance. Their non-accruals are 0.01% as of the third quarter update, their fair market value of marks only written down 86 basis points, these are all way below peer group averages. Their leverage is around peer group average, about 53.7%, their expense ratio, if you take out the cost of leverage and look over gross assets, is 2.09% for the management of these guts. We also found lower leverage cost, 4.95% currently shown as the average cost of leverage, but we do think it'll be lower next fundamental update, and their PIC level is high, but it's higher quality PIC, which the market tends to get wrong in our opinion. Year to date it is off 9.3% versus 8% for the peer group average, and so we feel like you've got a quality platform that has cheaper leverage, lower expenses, better dividend coverage, and a great way to ride out '26, with a headline pushing BDCs back, we think they'll have an acceleration in the first part of the year through the end of '26.

**CHUCK JAFFE:** BXSL, the Blackstone Secured Lending Fund, that's the last of John's five picks for the year ahead. But John, we have something to look forward to before we even get to the

year ahead, that will be your lookback on 2025, which we will tape next week right as we come to the end of the year, and then it'll be there as the first show of 2026. I look forward to that, meanwhile, happy holidays to you and yours, we'll see you again here next week.

**JOHN COLE SCOTT:** Thank you, Chuck.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yes, I am Chuck Jaffe, I'd love it if you would learn more about my hour-long weekday podcast by going to [MoneyLifeShow.com](https://MoneyLifeShow.com), you can also search for it on your favorite podcast app. Now to learn more about closed-end funds, interval funds, and business-development companies, go to [AICAlliance.org](https://AICAlliance.org), the website for the Active Investment Company Alliance, and if you have questions about closed-end funds or the closed-end fund industry, send them to [TheNAVigator@AICAlliance.org](mailto:TheNAVigator@AICAlliance.org). Thanks to my guest John Cole Scott, he's president of CEF Advisors in Richmond, Virginia, he's the chairman of the Active Investment Company Alliance, his firm is online at [CEFDData.com](https://CEFDData.com) and John's on Twitter or X @JohnColeScott. The NAVigator podcast is available every Friday, make sure you don't miss any of our episodes by following or subscribing along in your favorite podcast app. We'll be back next week, which will be next year, with more closed-end fund talk. Until then, Happy New Year, everybody, and happy investing!

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