GLOBAL INSIGHTS • GLOBAL INSIGHTS •

Principal Asset Management℠

From alternative to essential: The expanding role of private market investing

NOVEMBER 2025

Not long ago, private markets sat on the fringes of most portfolios – niche strategies used to pick up extra yield around the edges of traditional portfolios. That's no longer the case. Over the past two decades, private markets have moved steadily into the mainstream, propelled by strong performance relative to public markets, a broader opportunity set, and greater accessibility for investors of all sizes. What was once considered an alternative is now becoming essential.

This evolution isn't just about performance; it is also about relevance. The investment landscape is shifting under the weight of powerful forces: aging demographics, rapid digitization, and the global drive to decarbonize. Each of these trends is creating new capital needs and, in turn, new opportunities for private lenders and investors willing to take a longer-term view.

With more than 60 years of experience investing in private markets, Principal Asset Management has observed how quickly the definition of "core" continues to evolve. The expanding opportunity set across private real estate, infrastructure debt, investment-grade private credit, and direct lending underscores a growing need for more flexible, durable sources of return. As investors seek steadier income and growth in a shifting market environment, private markets are increasingly positioned at the center of long-term portfolio construction.

Private Real Estate

From reset to reinvention

The commercial real estate (CRE) market has undergone a significant reset and now appears positioned for renewed growth. Valuations have declined, in aggregate, by roughly 20–25% over the past two years, leaving sentiment cautious but improving. Historical patterns suggest this cycle is following a familiar trajectory: public markets have already stabilized, and private valuations are beginning to recover, with several CRE segments posting consecutive quarters of positive returns.

As the market resets, investors are shifting back toward fundamentals, focusing on property-level cash flows, balance sheet discipline, and regional supply-demand dynamics. The perception of CRE as primarily office, retail, and multifamily assets no longer fits today's landscape. Instead, CRE has evolved into a $25 trillion ecosystem spanning 18 subsectors, many of which are linked to long-term demographic and technological shifts.

Changing composition and structural growth drivers

The modern CRE market increasingly reflects the needs of a changing economy, with new sectors emerging as key sources of growth. Data centers and senior housing have become significant components of the investable universe, benefiting from both demographic and technological forces. The rapid adoption of artificial intelligence (AI) is intensifying demand for power infrastructure and purpose-built data facilities, while an aging population is driving sustained investment in senior and assisted living communities. Together, these trends are reshaping CRE strategies, pushing investors toward assets that align with digital transformation, the energy transition, and evolving societal needs rather than traditional property types alone. As a point of reference, nearly 70% of listed REIT market cap is now concentrated in "next generation" property types compared to ~40% for the private real estate market.

Subsector insights and emerging themes

Rental housing: Headlines often cite a housing shortage of millions of units, and while the underproduction is real, the framing is incomplete. The more pressing challenge is a mismatch between the type and location of housing and where demand actually exists. Rentership remains a cornerstone of the housing market, accounting for approximately 35% of households. But apartments are just one part of the story. Single-family rentals, manufactured housing, seniors housing, and even student housing are all meaningful and growing segments of the rental landscape. A holistic investment approach that spans geographies and the full spectrum of rental housing is needed in this market.

Office market: The post-pandemic correction in the office sector remains pronounced. Average-quality properties across the top 50 markets have seen valuations fall more than 60% from their peaks, while higher-quality properties owned by listed REITs are down 36%. However, according to JLL, roughly 90% of U.S. office vacancies are concentrated in just 30% of properties, and largely in older, less competitive buildings. In contrast, modern, energy-efficient buildings in prime locations continue to attract tenants and remain relatively resilient. Indeed, while private market office valuations for average-quality buildings across the top 50 markets sit at their lows overall, 19 of these markets are now seeing valuations rise. U.S. public REITs, which are often a leading indicator, have already rebounded 60% from their October 2023 lows. As capital re-enters the sector, selective lending or even opportunistic acquisitions of high-quality, well-located assets may present compelling value in the private real estate space.

Data centers: Data centers sit at the intersection of real estate and infrastructure—and increasingly form part of "digital real assets" strategies that span both domains. Why might data centers be viewed as infrastructure? They share many defining traits with traditional infrastructure assets such as toll roads, utilities, and airports:

1. Essential service function
2. Long-term, contracted revenue streams
3. High barriers to entry
4. Structural demand growth
5. Leases are tied to power availability, instead of the size of the usage area

These features support stable, long-term cash flows, relative insulation from economic cycles, and strong secular growth drivers, chiefly cloud adoption, AI adoption, and the exponential rise in digital data. However, despite their strong historical performance in both public and private markets, data centers remain underrepresented in many institutional real estate portfolios.

Positioning and portfolio implications

While some investors remain cautious, CRE has already absorbed its repricing and is now entering a more constructive phase, with valuations rising to varying degrees. The asset class has become less cyclical with the emergence of alternative property types, like data centers, with secular growth drivers. However, understanding the interaction between public and private markets, as well as debt and equity, remains essential. For many institutional portfolios, CRE's hybrid characteristics, combining income-like stability with equity-like upside, make it a compelling diversifier.

As valuations start to recover after a 2-year correction and new growth areas emerge, investors who focus on strong fundamentals and disciplined selection are likely to uncover opportunities that combine steady income, moderate growth potential, and durable long-term value.

The takeaway

Commercial real estate is emerging from a broad valuation reset with more attractive pricing, stronger underwriting discipline, and a wider range of investable opportunities. While challenges persist in specific sectors such as office, the broader market's structural evolution, toward data, housing, and social infrastructure, supports a more constructive outlook. For investors, CRE offers renewed relevance as a source of differentiated yield and portfolio diversification amid shifting macro and capital market conditions.

Private Infrastructure Debt

Stable and predictable cash flows—resilient, essential hard assets

Few asset classes embody durability as clearly as private infrastructure. Its long record of performance—through the dot-com bust, the Global Financial Crisis, commodity shock events, and even the pandemic's severe disruption to global transportation—underscores its resilience. In each downturn, the asset class has not only recovered but also evolved to meet new economic realities. That strength is rooted in the essential nature of the underlying assets: ports, airports, roads, rail, utilities, power, energy, digital networks, and other social assets that underpin both local and global economies. The contractual and regulated nature of these assets contributes to consistently low default rates and stable income streams, a combination that long-duration investors find especially compelling.

A diverse and evolving opportunity set

Principal's private infrastructure strategy comprises five broad categories: power, energy, transportation, digital, and social, each with distinct themes and growth drivers. Transportation often serves as the anchor exposure, complemented by strategic allocations to areas such as power generation, energy, digital, and social infrastructure.

Managers with expertise across both real estate and infrastructure are particularly well positioned to capture opportunities in social infrastructure, which includes healthcare, housing, and education, and in digital infrastructure, where data centers have matured into an asset class of their own. This cross-sector approach allows investors to balance stable, largely contractual cash flows with exposure to growth-oriented segments of the economy.

Secular tailwinds and long-term growth drivers

Looking forward, private infrastructure stands to benefit from powerful structural shifts already reshaping global markets:

- The energy transition demands massive investment in power and grid modernization.
- The growth of AI and digitalization is fueling demand for data centers, fiber networks, and reliable power sources.
- Demographic shifts and aging populations are expanding investment needs in housing, including long-term care facilities and other social infrastructure.

The intersection between the energy transition and digital expansion is especially notable. As economies electrify and digitize simultaneously, new projects will emerge to reinforce aging power grids, expand power and transmission capacity, enhance grid reliability, and address water infrastructure needs—areas that continue to attract long-term capital.

The need for infrastructure investments is global. Europe, for example, continues to advance energy transition mandates with greater EV adoption and ongoing decarbonization efforts, creating investment potential in transportation electrification and power and energy.

Risk, liquidity, and the role of infrastructure debt

While the opportunity set is broad, investors must navigate familiar challenges, including potential for policy uncertainty and regulatory changes. Illiquidity also remains a key consideration from a portfolio construction lens. Private infrastructure benefits from a small but growing secondary 'by appointment' market, providing investors with some exit options.

Infrastructure debt, in particular, offers an attractive balance of risk and return. With stable and predictable cash flows, it provides defensive characteristics in uncertain environments and serves as a resilient portfolio through economic cycles. As a result, it can serve both a stabilizing role in diversified portfolios and a strategic role in meeting long-term income and liability objectives.

High yield infrastructure debt extends these advantages. It offers investors access to the same essential, often hard-asset sectors, but with enhanced yields to compensate for complexity or structural considerations. As such, it can serve as a complement to both investment-grade infrastructure debt and traditional high yield credit, delivering income with greater resilience for tailored portfolio solutions.

The takeaway

Private infrastructure continues to demonstrate its relevance as a long-duration, income-generating asset class with stable fundamentals and strong structural support. High yield infrastructure debt also provides complementary portfolio construction solutions to other high yield fixed income products. While policy uncertainty and illiquidity require careful management, the combination of predictable cash flows, hard assets and collateral, and yield premiums above public alternatives positions the asset class as a durable component in portfolios focused on capital preservation and steady income generation.

Investment Grade Private Credit

Customized capital in a public-grade world

Investment-grade (IG) private credit occupies a unique space in private markets, offering investors the stability of high-quality borrowers with the structural advantages of privately negotiated terms. It's a corner of the credit market that rarely makes headlines, precisely because it delivers what investors value most: steady performance and limited volatility. Yet even this relatively insulated segment has evolved, shaped by shifts in regulation, borrowing patterns, and the growing role of nonbank lenders.

A steady source of incremental return

For investors, IG private credit provides a way to deploy a portion of low-risk capital toward higher-yielding opportunities than those available in public fixed income. The asset class has become increasingly favored for its focus on security selection, strong structural protections, and relative resilience in volatile markets. Private placements, in particular, enable investors to capture yield premiums while maintaining exposure to investment-grade credits.

Illiquidity remains a key consideration. However, most transactions in this space carry ratings that meet institutional mandates, and the higher compensation for reduced liquidity often makes the trade-off worthwhile. The result is a segment that offers attractive income with less downside risk than comparably rated public bonds, especially in periods of widening credit spreads.

Structural strength and covenant protection

One of the defining features of IG private credit is its embedded covenant protection. These covenants help safeguard investors in the event of financial stress and allow them to take proactive measures long before a borrower defaults. Combined with the ability to sell positions in a modest but functioning secondary market, these features make private placements a reliable and flexible component of a defensive portfolio.

Emerging opportunities and challenges

Within the market, the asset-backed securities (ABS) segment offers a growing area of opportunity where investors can earn meaningful premiums, particularly in manager- or NAV-based lending structures. While the segment remains relatively young, its evolution could provide a valuable complement to traditional private placement strategies.

By contrast, renewable power projects will face headwinds due to shifting policy incentives and cost inflation, which will temper near-term deal flow. Meanwhile, new opportunities are emerging in structured finance linked to fiber-optic infrastructure, as population growth and digital demand drive investment in network expansion. Companies looking to finance these projects off balance sheet increasingly turn to private markets, attracted by both competitive pricing and more flexible execution than in public bond markets.

The takeaway

For decades, Investment grade private credit has remained one of the most stable and quietly effective segments of the private markets. Its combination of high-quality borrowers, covenant discipline, and incremental yield potential continues to make it a compelling option for investors seeking dependable income with downside mitigation.

Direct Lending

The middle-market growth engine

Direct lending has undergone transformational growth over the past two decades, driven by middle-market companies and private equity sponsors seeking flexible, customized sources of capital. The result is a mature and expanding market that now spans first-lien, senior secured, mezzanine, and hybrid equity loans, a far evolution from the leveraged-buyout-dominated landscape of the 1970s and 1980s.

This expansion has brought both opportunity and complexity. Investors are drawn to direct lending for its income potential, diversification benefits, and liability-matching capabilities. Still, they must also recognize its structural risks, including periods of illiquidity and evolving credit quality. As the market deepens, disciplined underwriting and thoughtful portfolio construction have become key to realizing its potential benefits.

Healthy fundamentals and market dynamics

Heading into 2026, the core indicators for direct lending remain broadly constructive. Borrower demand continues to rise as middle-market companies, and the private equity firms that own many of them, favor private, relationship-based financing over public markets and traditional bank channels. The opportunity set is diversifying, with non-bank lenders gaining market share due to their ability to offer speed, flexibility, and low-amortizing structures that free up company cash flows for growth investment.

Deal flow now comes through both private-equity sponsor and non-sponsor channels. Within the non-sponsor segment, one significant driver is the ongoing transfer of ownership among U.S. Baby Boomers, many of whom are selling or transitioning family-owned businesses. These succession-related transactions have become a consistent source of new lending activity and a long-term structural tailwind for the asset class.

Sector focus and emerging themes

Companies that tend to do well in this market are those that are growing, generating stable cash flows, and operate in industries that are not overly sensitive to swings in sentiment or the economy. Durable, essential businesses in sectors such as healthcare, accounting and legal services, as well as maintenance-based businesses across HVAC, plumbing, electric, auto repair, landscaping, and many others, continue to attract new capital.

At the same time, lending opportunities continue to expand across the software and technology sector as middle-market companies deliver products and services that are essential to their customers. New opportunities are emerging across technology-linked sectors as consumers and businesses increasingly invest in automation, IoT, and AI tools. In parallel, capital is flowing toward businesses that enhance the efficiency of aging utilities, power grids, and the data-center ecosystem, highlighting the convergence of industrial and digital infrastructure themes that underscore direct lending's expanding reach.

Positioning and portfolio implications

Middle-market companies account for roughly 44% of U.S. GDP, and their growing preference for private credit over syndicated or public high-yield financing continues to fuel structural growth. For investors, direct lending offers a premium yield with greater structural protections, consistent cash flow, floating-rate income, and relatively low correlation to public credit markets, making it a valuable complement within diversified portfolios.

The trade-off, as always, is liquidity. While the asset class can perform well across market cycles, investors must be prepared to commit long-term capital and manage through periods of limited exit options. When executed with strong credit discipline, however, direct lending can enhance portfolio yield, provide downside mitigation, and serve as a stable, income-oriented allocation through changing market environments.

The takeaway

Direct lending has evolved into a core component of the private credit landscape, supported by structural demand from private equity sponsors and middle-market borrowers, which continue to migrate away from bank financing. Healthy fundamentals, diversification across industries, and the potential for attractive risk-adjusted returns underpin its institutional appeal. For investors able to accept its illiquidity, direct lending offers a compelling way to generate income and capture private-market growth in an increasingly yield-constrained world.

The case for private market investing

Investing in private real estate, private infrastructure debt, investment-grade private credit, and direct lending can enhance portfolio diversification and resilience, with each asset class contributing distinct strengths.

- **Commercial real estate** offers attractive income potential and downside mitigation, benefits from secular demand tied to nonbank financing, and continues to deliver uncorrelated returns relative to equities and traditional fixed income.
- **Infrastructure debt** provides long-duration, inflation-linked cash flows from essential assets, helping anchor portfolios during periods of volatility.
- **Investment grade private credit** brings the potential for incremental yield, customized structures, and covenant protections that are largely unavailable in public markets.
- **Direct lending** targets the middle-market economy, capturing higher returns while providing structural safeguards and access to sectors less sensitive to macroeconomic swings.

These segments also complement one another. Real estate and infrastructure debt can play a defensive role, generating stable income and long-term value. At the same time, investment-grade private credit and direct lending can offer more opportunistic yield and growth exposure. Together, they work to reduce portfolio volatility, broaden diversification, and capture the illiquidity and complexity premia available in private markets.

The result is more balanced, forward-looking portfolios, designed not only to endure structural shifts but also to benefit from them. In an environment defined by higher capital costs, slower growth, and persistent macro uncertainty, the case for private market exposure has become strategic, not optional. Private markets are no longer a peripheral allocation; they are a central engine of durable, income-oriented performance across cycles.

Risk considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. Private market investments, unlike publicly traded stocks, involve various risks due to illiquidity, lack of transparency, and higher minimum investment requirements. These risks include liquidity risk, market risk, capital risk, and regulatory risk. Additionally, private market investments often involve higher fees and expenses and may have longer investment horizons. Private credit involves an investment in non-publicly traded securities which are subject to illiquidity risk. Portfolios that invest in private credit may be leveraged and may engage in speculative investment practices that increase the risk of investment loss. Commercial real estate (CRE) investing carries several inherent risks, including those related to the economy, interest rates, market fluctuations, high upfront costs, and tenant-related issues like defaults or high turnover. Economic downturns can lead to decreased property values and increased vacancy rates, while financing costs, insurance expenses, and potential environmental or structural problems can also pose significant challenges. All these factors and risks can impact rental income and overall investment returns. Infrastructure investments are long-dated, illiquid investments that are subject to operational and regulatory risks. Investments in private debt, including leveraged loans, middle market loans, and mezzanine debt, are subject to various risk factors, including credit risk, liquidity risk and interest rate risk. Asset allocation and diversification do not ensure a profit or protect against a loss. Any risk management techniques discussed seek to mitigate or reduce risk but cannot remove it. The historical returns achieved by alternative asset vehicles is not a prediction of future performance or a guarantee of future results, and there can be no assurance that comparable returns will be achieved by any strategy.

Important Information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. Information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account. Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided.

This material may contain 'forward-looking' information that is not purely historical in nature and may include, among other things, projections, and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is intended for use in:

- The **United States** by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- **Europe** by Principal Global Investors (Ireland) Limited, 70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland. Principal Global Investors (Ireland) Limited is regulated by the Central Bank of Ireland. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (Ireland) Limited ("PGII") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGII, PGIE or PGII may delegate management authority to affiliates that are not authorized and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland. In Europe, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID).
- **United Kingdom** by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA").
- This document is marketing material and is issued in **Switzerland** by Principal Global Investors (Switzerland) GmbH.
- **United Arab Emirates** by Principal Investor Management (DIFC) Limited, an entity registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as an Authorised Firm, in its capacity as distributor / promoter of the products and services of Principal Asset Management. This document is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organisation.
- **Singapore** by Principal Global Investors (Singapore) Limited (ACRA Reg. No.199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act 2001. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.
- **Australia** by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission and is only directed at wholesale clients as defined under Corporations Act 2001.
- **Hong Kong SAR** by Principal Asset Management Company (Asia) Limited, which is regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission. This document may only be distributed, circulated or issued to persons who are Professional Investors under the Securities and Futures Ordinance and any rules made under that Ordinance or as otherwise permitted by that Ordinance.
- **Other APAC Countries/Jurisdictions**. This material is issued for Institutional Investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

- Nothing in this document is, and shall not be considered as, an offer of financial products or services in Brazil. This presentation has been prepared for informational purposes only and is intended only for the designated recipients hereof. Principal Global Investors is not a Brazilian financial institution and is not licensed to and does not operate as a financial institution in Brazil. This document is intended for use in Brazil by Principal Asset Management Ltda., a Brazilian asset manager licensed and authorized to carry out its activities in Brazil according to Declaratory Act n. 9.408/07. This document is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organization.

Principal Global Investors, LLC (PGI) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as a commodity trading advisor (CTA), a commodity pool operator (CPO) and is a member of the National Futures Association (NFA). PGI advises qualified eligible persons (QEPs) under CFTC Regulation 4.7.

Principal Asset Management℠ is a trade name of Principal Global Investors, LLC.
Insurance products and plan administrative services provided through Principal Life Insurance Co. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Principal Securities, Inc., 800-547-7754, Member SIPC and/or independent broker/dealers. Principal Life, Principal Funds Distributor, Inc., and Principal Securities are members of the Principal Financial Group®, Des Moines, IA 50392.

4975497