

For Public Distribution in the United States. For Institutional, Professional, Qualified, and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.



Principal Investment Grade Private Credit

PART 1

The expanding role of investment grade private credit in institutional portfolios

AUTHOR



Michael Zorich, CFA

Head of Investment Grade Private Credit

EXECUTIVE SUMMARY

U.S. investment grade private corporate credit, debt issued directly to a small group of institutional lenders rather than sold on the public bond market, is seeing increased interest from asset allocators. The market predates the below-investment grade direct lending market by decades, driven largely by life insurers as a core fixed income allocation.

Issuance reached a record \$211.1 billion in 2025, up 33% from 2024,^{*1} and momentum has carried into 2026, with year-to-date volume through June already 69% ahead of the same period last year.^{*2} At the end of 2024, U.S. life insurers, the market's dominant buyers, held \$849 billion in private placements, more than double the \$386 billion they held a decade prior, and raised the asset class from 10 to 14% of general account assets over that period.^{*3}

Recent growth is not simply a function of higher yields. It reflects a deliberate reallocation by long-duration institutional investors toward an asset class that also offers negotiated covenants, tailored structuring, and, for insurers, capital treatment equivalent to a comparable public bond.

What is U.S. investment grade private credit?

U.S. investment grade private credit describes debt that is originated, underwritten, and rated to investment grade standards as a “Reg D” bond or note then placed directly with a limited group of institutional lenders rather than sold on the public bond market. The securities are commonly referred to by industry investors as U.S. private placement (USPP). Deals are arranged either directly with borrowers or through agent banks that bring an issuer to a panel of private lenders.

The label sits alongside, and is often confused with, “private credit” more broadly, a term that has recently often come to be associated with direct lending to primarily below-investment-grade borrowers.

Investment grade private placements are a more established market. Life insurers have used them as a core fixed income allocation for decades, well before either the terms “private credit” or “private placement” entered common use, and practitioners increasingly add “IG” to the front of their own activity to draw that distinction. Used broadly, the term spans corporate placements, infrastructure debt, and privately placed asset-backed securities, each treated as a distinct sub-platform. This paper focuses on corporate placements, the market's original and largest segment.

Why now?

Two forces have converged that may make this a compelling entry point for institutional allocators.

The first is straightforward: rates. A bond priced at a fixed spread over Treasuries becomes more attractive in absolute yield terms as the underlying rate rises. A note issued at 130 basis points (bps) over a 2% ten-year Treasury yields 3.3% – the same spread over a ten-year Treasury above 4.5% yields something closer to 6%. Higher yields, which also provide better downside risk mitigation, are attracting a wider set of buyers.

The second is a deliberate portfolio decision by the market’s largest buyers. Life insurers have reallocated a meaningful share of general account assets away from liquid public bonds toward less liquid, higher-yielding private placements, a considered trade of liquidity for spread rather than an opportunistic reach for yield.

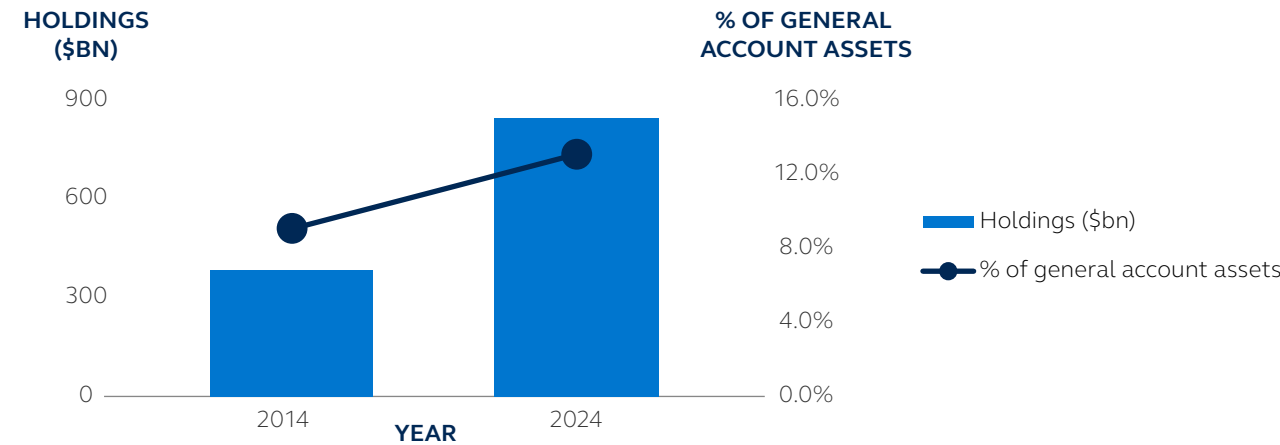
EXHIBIT 1: Life peer portfolios: The shift to illiquidity

Asset class	2020 % assets	2021 % assets	2022 % assets	2023 % assets	2024 % assets	2025 % assets	2020-2025 % assets
Illiquid	29.4%	31.0%	34.8%	35.2%	35.7%	35.8%	+6.4%
Liquid	70.4%	69.1%	65.4%	64.8%	64.3%	64.0%	-6.4%

Source: Principal Asset Management Research, S&P Global, Neuberger, 31 December 2025.

Borrower demand has broadened alongside that reallocation, with financial sector and asset-backed placements growing faster than the market’s traditional industrial and utility base,³ evidence that new categories of issuers are being drawn into the market rather than simply a larger volume of familiar ones.

EXHIBIT 2: Life insurer private placement holdings and share of general account assets, 2014 vs. 2024



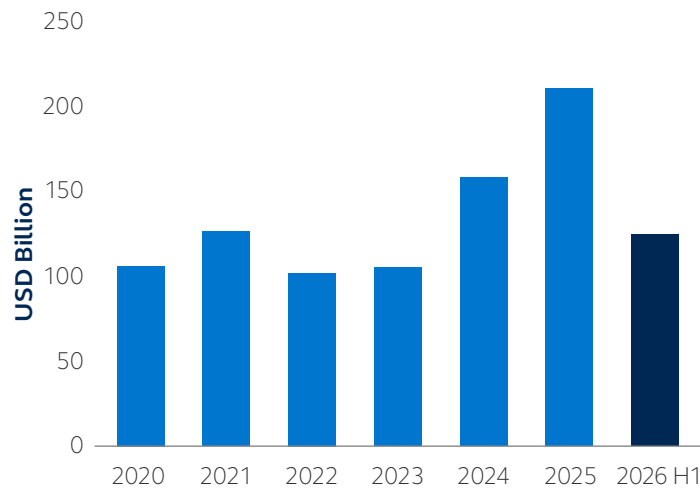
Source: Federal Reserve Bank of Chicago, June 2025. Holdings are a balance-sheet stock measure, not annual issuance.

Momentum has continued into 2026. Issuance through June reached \$125 billion, the strongest opening six months on record.² Deal count fell slightly year-over-year even as dollar volume rose, consistent with a market absorbing fewer but larger transactions.

Scale and reach

The USPP market is a scaled, institutional asset class. Total issuance rose from \$106.1 billion in 2020 to \$211.1 billion in 2025, a near doubling in five years, spread across 632 deals.*¹ Traditional agented placements accounted for \$160.1 billion of that total, with direct issuance contributing \$33.2 billion and select private-style Rule 144A transactions a further \$17.9 billion.*¹

EXHIBIT 3: USPP annual volume, 2020–2026 H1



Source: Private Placement Monitor DataField, Full Year 2025 – Recap of Market Activity, December 2025.

Access to the market remains a meaningful differentiator between managers: deals are typically arranged through a network of agent banks that bring an issuer to a panel of institutional lenders. The ability to see a broad flow of transactions across sectors and geographies and then be discerning about which deals to include in a portfolio separates disciplined private placement investing from simply buying whatever a single deal team originates.

Geographic and currency diversification has also expanded. Non-dollar proceeds reached \$41.4 billion in 2025, roughly 20% of total volume and more than double the \$16.9 billion recorded in 2020.*⁴ The United States remains the largest source of issuance at 70.7%, followed by the United Kingdom (9.1%), with Canada and Germany each contributing a further 2.8%.*¹



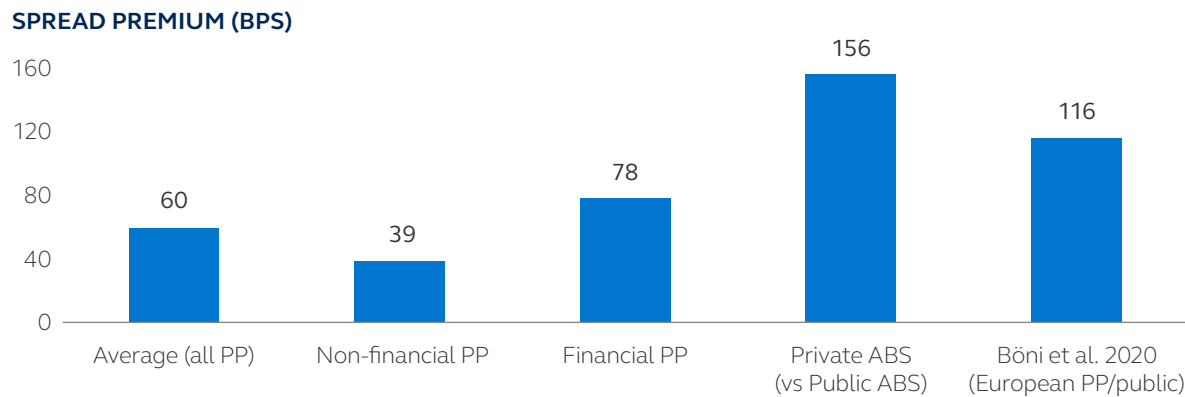
How to define a U.S. private placement

For an institutional allocator evaluating the asset class for the first time, six characteristics distinguish USPPs from public investment-grade bonds.

1. Income generation and relative value

For bonds of comparable sector, rating, and maturity, private placements have historically offered a yield premium over public bonds. Academic estimates of that premium, controlling for maturity, rating, and seniority, put it at approximately 60 bps on average, varying by segment: 39 bps for non-financial corporate placements and 78 bps for financial sector placements.^{*3} An earlier study of 310 European public and private bond issuers found a comparable, somewhat wider gap of 116 bps, highlighting the premium is not a purely domestic phenomenon. Sector matters within that range: utility issuers, whose private and public bonds tend to be structurally similar, typically command a narrower premium than industrial or financial borrowers.

EXHIBIT 4: Private placement yield premium over comparable public corporate bonds, by category



Source: Federal Reserve Bank of Chicago, June 2025

2. Cash flow visibility and structural flexibility

Because private placements are negotiated bilaterally rather than distributed through a standardized public process, issuers and lenders can agree to terms a public bond indenture would not accommodate. These include delayed-draw or forward-starting funding structures that lock in pricing today for capital drawn months later, and amortization schedules tailored to a borrower’s specific cash flow profile. That flexibility is part of why issuers are prepared to pay a premium, along with other reasons such as smaller issuance sizes than the public market typically absorbs and the ability to avoid publicly disclosing financial statements.

3. Structural protections

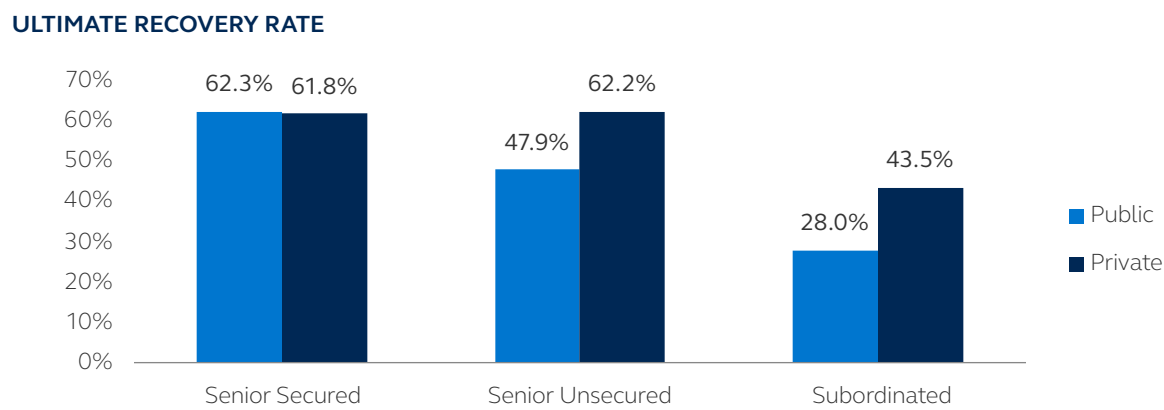
The clearest structural distinction from public bonds is covenant protection, which typically falls into three categories. The first governs priority: limits on how much additional secured debt a borrower can raise ahead of existing noteholders, often paired with a provision that extends any security granted to a bank lender to private noteholders as well. The second covers event risk, including change-of-control provisions that allow noteholders to require repayment if a borrower is acquired by a buyer likely to run the business on more aggressive terms. The third is the financial maintenance covenant, often implemented as a limit on leverage expressed as a multiple of cash flow.

Because a private placement typically has a handful of lenders rather than thousands of dispersed public bondholders, a covenant breach typically brings noteholders to the table well before a company approaches insolvency, creating room to negotiate a waiver, a repriced coupon, or additional security rather than proceeding directly to a value-destroying bankruptcy process. The 2002 collapse of WorldCom remains a widely cited illustration of the alternative: public bondholders, numbering in the thousands and holding no maintenance covenant, had little influence as the company’s bonds fell sharply in value ahead of its bankruptcy filing.

The structural differences between private and public debt show up in the data. A widely cited actuarial study comparing private and public bond recoveries between 2003 and 2015 found private placements recovered an average of 62.2% on senior unsecured claims, against 47.9% for public bonds of the same seniority, with a similar advantage on subordinated debt.*⁵

The same study found average annual economic losses across the full sample of just 0.11%, a period that included the extreme stress of the global financial crisis, and calculated a quality-adjusted economic loss advantage for private placements of roughly 0.10% annually on a senior unsecured basis.*⁵ Security did not uniformly translate into better outcomes in that sample: senior secured private placements did not show materially lower loss severity than senior unsecured placements, a reminder that covenant and priority protection can be as influential as being secured in determining recovery outcomes.*⁵

EXHIBIT 5: Private vs. public recovery rate by seniority, 2003–2015



Source: Society of Actuaries, 2003–2015 Credit Risk Loss Experience Study - Private Placement Bonds, Moody’s public bond data, April 2019

4. Diversification

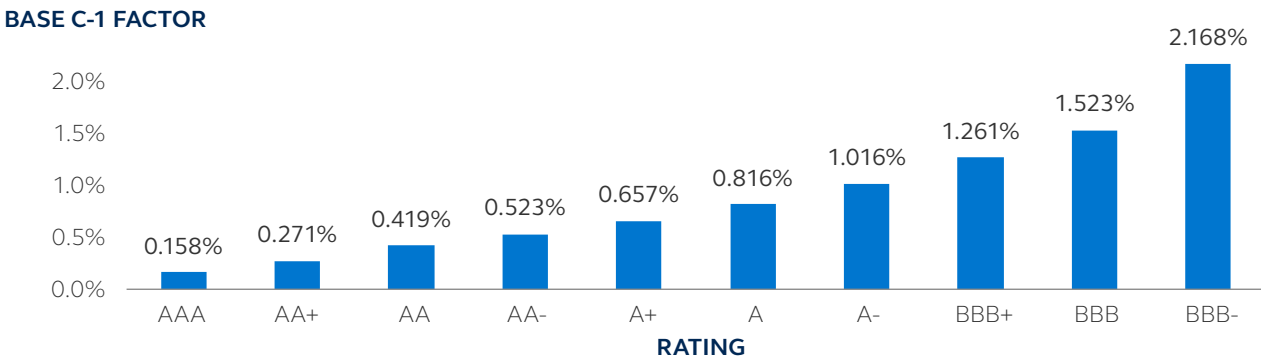
The market’s sector composition has shifted meaningfully in recent years. Financial sector placements rose from 21.2% to 23.3% of insurer holdings between 2017 and 2024, and holdings of privately placed asset-backed securities nearly tripled over the same period to roughly \$125 billion.*³

Traditional utility and industrial issuance grew in dollar terms even as its share of the total declined, evidence that new segments are adding to the opportunity set rather than displacing established sources of supply.*³ Currency and geographic exposure add a further layer of diversification: sterling, euro, Canadian dollar, and yen-denominated issuance together accounted for a fifth of 2025 volume, offering dollar-based portfolios exposure that would otherwise require a separate allocation to source.*⁴ Industry composition tells a similar story at the sector level: at the broadest classification, industrial borrowers accounted for just under half of 2025 volume, with financials, utilities, and transportation making up the remainder, a spread wide enough that portfolio construction rarely depends on the fortunes of a single sector.*⁴

5. Capital efficiency

For insurance companies, which remain the market’s largest buyers, capital treatment is a key consideration. Under the National Association of Insurance Commissioners’ risk-based capital framework, a private placement generally attracts the same base capital charge as a public bond of equivalent credit quality: an A-rated bond, public or private, carries a base factor of 0.816%; a BBB-rated bond, 1.523%.⁶ There is no capital penalty simply for a bond having been placed privately rather than publicly.

EXHIBIT 6: Illustrative NAIC base C-1 factors by rating band



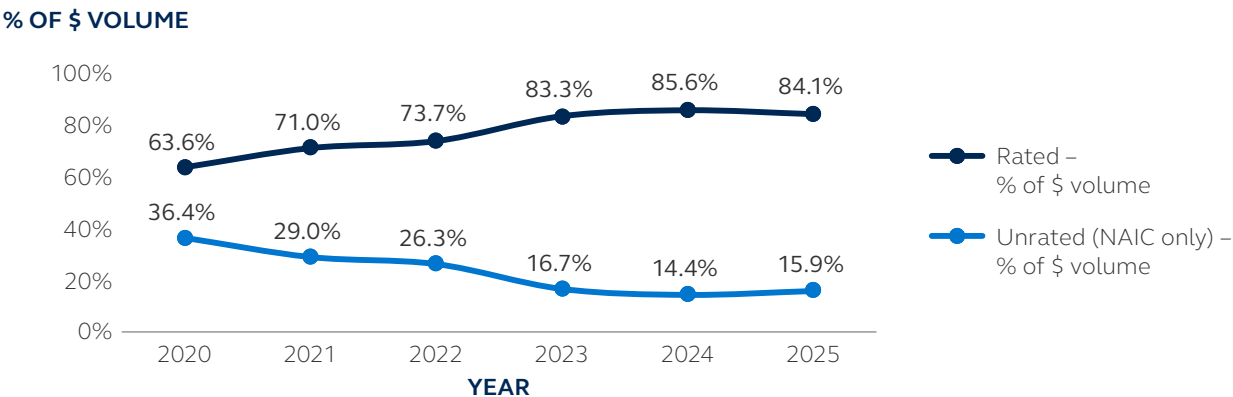
Source: National Association of Insurance Commissioners, Life and Fraternal Risk-Based Capital Forecasting and Instructions for Companies, 2025. Same base schedule applies to public and private-placement bonds of equivalent rating.

6. Loss experience through the cycle

Combined, the credit-quality profile and the recovery experience point to an asset class that has historically shown resilience through full credit cycles. Ratings composition has remained overwhelmingly investment grade even as the market has grown: the two investment grade quality NAIC designations together accounted for 94.8% of 2025 volume, and externally rated issuance increased from 63.6% in 2020 to 84.1% in 2025 as the market has become more integrated with public rating processes.⁴

Senior secured notes grew from 41% of issuance in 2023 to 54.5% in 2025, a favorable move toward tighter structural protections during a period of market growth.⁴

EXHIBIT 7: Rated vs. unrated share of USPP dollar volume, 2020–2025



Source: Private Placement Monitor DataField, December 2025

Where we are in the cycle

We believe the present environment may be a particularly constructive entry point for the asset class.

Higher base rates have lifted all-in yields without requiring investors to move down the credit spectrum. Insurers continue to reallocate from public to private fixed income, a shift that shows no sign of having run its course. Issuance momentum has carried into 2026, with borrower demand broadening across sectors and structures. New issuance in financial and asset-backed segments is expanding the opportunity set for investors seeking diversification beyond the market’s traditional industrial base.

Investment considerations

To fully realize the benefits of private placements, investors should evaluate several implementation considerations. Liquidity, while typically lower than in public fixed income markets, is often aligned with the long-term investment horizons of many institutional investors. Manager selection also plays an important role, as sourcing capabilities, underwriting expertise, and covenant negotiation can influence portfolio outcomes. Additionally, investors should continue to evaluate market conditions and covenant trends as the asset class evolves. Thoughtful sizing of allocations relative to portfolio objectives and liquidity needs can help investors effectively capture the potential benefits of the asset class.

Portfolio role

U.S. private placements occupy a distinct place in an institutional fixed income allocation, underwritten with the discipline of a public bond and negotiated with the protections of a private loan.

	Public IG Bonds	U.S. Private Placements
Documentation	Standardized	Negotiated
Covenants	Rare	Financial maintenance and change-of-control protection
Secondary liquidity	Broad, exchange-adjacent	Limited, broker-facilitated typically among existing holders
Spread	Public market level	Premium, varying by sector and structure
Workout influence	Dispersed bondholder base	Concentrated lender group, direct negotiation
Capital treatment (insurers)	Rating-dependent	Same rating-dependent schedule as public bonds

Allocation decisions should reflect a clear trade-off between yield, liquidity, and structural protection, combined with the sourcing capability required to access the market in the first place.

For institutions with the ability to hold to maturity and the governance to evaluate negotiated documentation, either directly or through an experienced private debt asset manager, U.S. private placements may offer a way to increase income, yield and downside risk mitigation within an investment-grade allocation in today’s market without overreliance on more speculative-grade lending. Maturities cluster between seven and twelve years, though the full range extends from short-dated notes to structures beyond thirty years, giving allocators room to match private placement exposure to specific liability profiles.*4

Conclusion

USPPs have moved from a specialist allocation to a more mainstream component of institutional fixed income portfolios, driven by a rate environment that rewards locked-in spread premiums, an issuer base broadening beyond the market's traditional industrial core, and a buyer base extending beyond the U.S. insurance companies that built the market.

The asset class offers a combination of potential benefits that is difficult to find elsewhere in investment-grade credit: a proven spread premium, negotiated structural protection, sector and currency diversification, better recoveries in distress, and, for regulated buyers, highly efficient capital treatment. As the market continues to grow into new sectors and structures, disciplined manager selection will determine which investors capture that combination most effectively.

Continue the series

This paper introduced the U.S. investment grade private bond market and its role within institutional fixed income portfolios.

Upcoming topics in this series will include deeper dives into:

- The private premium
- Understanding covenants
- Mitigating downside risk
- Diversification of fixed income portfolios
- Selecting an IG debt investment manager

References

- ^{*1} Private Placement Monitor DataField, Full Year 2025 – Recap of Market Activity, December 2025.
- ^{*2} Private Placement Monitor DataField, May Year-to-Date Issuance 2016–2026, June 2026.
- ^{*3} Federal Reserve Bank of Chicago, Life Insurers' Private Credit Investments and Annuity Market Share Capture, June 2025.
- ^{*4} Private Placement Monitor DataField, May Year-to-Date Issuance 2016–2026, June 2026.
- ^{*5} Society of Actuaries, 2003–2015 Credit Risk Loss Experience Study: Private Placement Bonds, April 2019.
- ^{*6} National Association of Insurance Commissioners, Life and Fraternal Risk-Based Capital Forecasting and Instructions for Companies, 2025.

Risk Considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Private placements are subject to liquidity risk, credit risk, valuation uncertainty, and issuer-specific risks. Historical spread premiums, recovery rates, covenant protections, and loss experience may not be repeated in future market environments. The strategy's objective of downside risk reduction/protection may or may not be successful and as a result investors must be prepared to bear capital losses, including a loss of capital invested. 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.

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. The opinions and predictions expressed are subject to change without prior notice. The 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. All figures shown in this document are in U.S. dollars unless otherwise noted.

This material may contain 'forward looking' information that is not purely historical in nature. Such information 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.

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 issued 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 authorised 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).

- This document is marketing material and is issued in Switzerland by Principal Global Investors (Switzerland) GmbH.
- 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").
- 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.

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.

© 2026 Principal Financial Services, Inc. Principal®, Principal Financial Group®, Principal Asset Management, and Principal and the logomark design are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company, in various countries around the world and may be used only with the permission of Principal Financial Services, Inc. Principal Asset ManagementSM is a trade name of Principal Global Investors, LLC.