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

GLOBAL INSIGHTS • GLOBAL INSIGHTS •

Principal Asset Management℠

Private credit and debt: Resiliency through interest-rate cycles

FEBRUARY 2026

The resumption of the Federal Reserve's easing cycle has prompted many private markets investors to evaluate how a lower-rate regime shapes opportunities and risks across commercial real estate (CRE), private infrastructure debt, investment-grade private credit, and middle market direct lending. Across these segments, one message is consistent: while interest-rate environments influence activity and pricing, private markets create value through fundamentals, structure, and long-term discipline. Those attributes combine to make private credit and debt strategies historically resilient across rate cycles.

Value creation, not rate direction, drives private market performance

Public market returns often move in tandem with rate expectations. Private markets do not. Their performance advantage has long been rooted in structural features and value-creation dynamics that persist through both rising- and falling-rate cycles. Rate sensitivity even varies by segment. For example, infrastructure debt tends to be less rate-sensitive due to contracted or regulated revenues and cost pass-throughs. At the same time, CRE activity is equally impacted by the stability of long-term rates, and middle-market direct lending can be more rate-sensitive.

Still, five factors continue to support durability across commercial real estate, infrastructure debt, investment-grade private credit, and middle market direct lending:

1. Floating-rate structures help preserve potential return

Many private credit loans (and some infrastructure loans) feature floating-rate mechanics. While base-rate declines may reduce total yield, spreads often compress more gradually or widen, helping maintain attractive relative returns versus public fixed income.

2. Long-term investment horizons focus attention on fundamentals

Private markets strategies typically span several years, with outcomes driven primarily by the underlying business model, asset performance, and operational improvements, not quarterly rate volatility or market sentiment.

3. Structural illiquidity premium remains intact

The complexity, information asymmetry, and limited liquidity inherent in private markets create a persistent return premium. Although the decade following the Global Financial Crisis (2010–2020) was marked by historically low rates, private equity and private credit outperformed public comparables.

4. Lower rates support middle-market M&A and value creation

Cheaper financing encourages refinancings, add-on acquisitions, and strategic combinations, especially in the middle market, where performance depends more on margin expansion and operational excellence. Between 2010 and 2024, buyout and growth deals between $150–$500 million generated over 4% of their value from margin improvement, while larger deals saw margin erosion.

5. Persistent institutional demand reinforces capital flows

Pension funds, insurers, and other liability-driven investors continue to prioritize yield, diversification, and long-term stability. Lower-rate environments heighten this demand, supporting healthy pipelines across private credit, real assets, and infrastructure.

Together, these dynamics underscore a central point: rate levels can influence conditions, but value is created through fundamentals, structure, and the expertise of skilled managers.

CRE: It's the long end, and stability, that help reset the market

With the Federal Reserve having embarked on a rate easing cycle in 2025, it can be tempting to assume that lower policy rates will immediately translate into lower long-term yields and a broad-based rally in commercial real estate (CRE). While a sustained period of lower rates could provide relief, the assumption of a broad-based rally is not guaranteed. Notably, two caveats are likely more important for the recovery of CRE.

1. Correlation is weaker in changes than in levels. While the levels of Fed funds and the 10-year Treasury are positively correlated, the correlation between their day-to-day or cycle-to-cycle moves is much lower.

2. Long rates are normalizing, not just following the Fed. After a four-decade secular decline, 10-year yields are now closer to their historical norm—averaging 4.35% from 2000–2007 and 4.51% between 1990-2019, compared with roughly 4.10% today. What was truly unusual was the post-GFC decline to record lows, driven by unprecedented central bank intervention.

Therefore, what matters most for CRE returns is stability in the 10-year. A range around 4.0%–4.25%, with inflation near 3%, implies a 1% real rate, a backdrop that has historically been accommodative for CRE because NOI growth correlates more with inflation than with nominal rates. In that setting, investors should expect limited cap-rate compression, with total returns most likely led by income and capital growth via NOI, not by multiple expansion.

> *"For CRE, it's longer-term rates that matter. Stability in the 10-year, around 4.0%–4.25% with 3% inflation is a constructive setup for NOI-led returns."*

Importantly for investors, lower long rates aren't always bullish. If, for example, 10-year yields were to fall materially below 4% for the wrong reasons, such as slowing growth, rising recession risk, the relief rally that many expect might not materialize. Why long rates are moving is more important than how fast, or if, the Fed cuts rates further.

Ultimately, it isn't that lower rates don't matter for CRE, it's that stability in long-term rates matters more. A steadier long end anchored near historical norms provides a more constructive backdrop for fundamentals to play out, especially in sectors tied to secular demand like modern logistics, data centers, and rentership housing, which typically see the earliest lift in leasing, rent growth, and investor appetite.

Importantly, CRE depends primarily on long-duration financing, not the Fed funds rate, and there is simply limited scope for a meaningful decline in 10-year Treasury yields even in an easing cycle.

Against this backdrop, disciplined underwriting, flexible capital, and operating expertise remain essential, particularly as competition for assets increases and return premia compress.

Infrastructure debt: Contracted, essential, and largely rate-neutral

Infrastructure debt is designed to be resilient across rate regimes. Its defining characteristics—contracted revenues, long-duration cash flows, and diversification across essential services—positions market activity to be less rate sensitive, with performance driven more by asset quality, structure, and contractual protections than by the level or direction of policy rates.

These assets often operate under frameworks that pass through changes in costs (including financing) to end users of assets. That design helps the asset class absorb both higher or lower rates, supporting stable debt service coverage and consistent access to private debt markets through rate cycles. While a shift to lower rates may increase transaction volumes, the drivers of returns for infrastructure investors remain spread, seniority, collateral, and structure.

> *"Infrastructure debt is less sensitive to rate environments: essential, contracted assets access private capital through cycles, with value driven by structure and protections."*

The relative value of the asset class may potentially improve during periods of lower rates, when public-market spreads compress more quickly than private spreads. In such environments, private infrastructure debt often maintains an attractive premium versus public markets without sacrificing credit quality, reinforcing its role as a stabilizer in fixed income portfolios.

Ultimately, discipline matters. Managers who rigorously underwrite contracts and counterparties, validate pass-through mechanics, and preserve credit quality and covenant strength are best positioned to sustain value across rate cycles. Not because rates may be lower, but because the fundamentals and structures of private infrastructure debt are built for durability.

Investment-grade private credit: Consistency through cycles

Investment-grade private credit has earned its place as a strategic allocation because it performs consistently across a variety of macroeconomic backdrops—including prolonged periods of low interest rates. Even as all-in yields decline, the core components of its appeal remain intact: enhanced spreads over public markets, access to higher-quality issuers, and the ability to negotiate lender protections that strengthen downside resilience.

The asset class is designed to be less sensitive to rate movements. Most private placements feature floating-rate structures and deep covenant packages that anchor risk control. Borrowers tend to be stable, cash-flow-generative companies seeking financing flexibility rather than opportunistic leverage. This combination has historically enabled the asset class to deliver attractive risk-adjusted returns even when base rates were near zero—as seen from 2009 to 2015, when annual returns averaged 11%.

> *"Investment-grade private credit performs reliably across economic backdrops, maintaining appeal even in low-rate settings through enhanced spreads and quality issuer access."*

A lower-rate environment will almost certainly compress spreads and reduce total return potential, but it also fosters new issuance and refinancing activity. Issuers seeking to optimize their capital structures often turn to private markets for certainty of execution, speed, and structuring advantages. As a result, opportunity sets can expand even as yields tighten.

The challenge, and opportunity, lies in manager differentiation. Underwriting standards, sector expertise, and the ability to structure transactions for downside mitigation become more critical as dispersion widens. Lower rates do not eliminate risk; they simply change its shape. Managers who can identify pockets of value, assess long-term issuer resilience, and maintain disciplined credit selection will continue to find compelling opportunities.

Middle market direct lending: Offsetting yield compression with better fundamentals

Direct lending responds to falling rates in a nuanced way. While lower base rates naturally compress floating-rate loan yields, the structural design of direct lending—first-lien seniority, low loan-to-value ratios, and fixed credit spreads—helps preserve return potential. At the same time, a lower-rate backdrop significantly improves borrower fundamentals and increases demand for capital, thereby meaningfully expanding deal pipelines.

Companies benefit almost immediately from reduced interest burdens. Lower debt service costs improve free cash flow, reduce stress on balance sheets, and help stabilize credit profiles. This improvement in credit quality can minimize default risk and enhance the resilience of lender portfolios.

Lower rates also support a pickup in M&A and sponsor activity. Private equity firms, flush with dry powder, tend to accelerate dealmaking when financing costs decline, thereby generating more origination opportunities for direct lenders. Refinancings, add-on acquisitions, and new buyouts all contribute to a more robust deal environment. For lenders with strong sponsor relationships and sourcing advantages through non-sponsored channels, periods like this often represent some of the most active and attractive lending windows.

> *"Direct lending benefits from lower rates as reduced interest burdens improve borrower fundamentals, increasing demand and origination opportunities for lenders."*

Even with these positives, yield compression and the quality of credit structure are real concerns. As competition tends to intensify with lower rates and more accommodative policy, the ability to structure deals thoughtfully, maintain robust covenants, and price risk effectively becomes paramount. Managers who can balance opportunities with discipline, including widening spreads on new originations where possible, negotiating protections, and focusing on resilient industries, will be best positioned to navigate the tradeoffs of a lower-rate cycle.

The middle market remains the heart of direct lending's growth story. With enterprise values generally below $1 billion and a strong reliance on private capital markets, these companies remain a meaningful engine of loan demand. In a world of elevated public equity valuations and tight public credit spreads, the relative value of middle-market direct lending remains compelling.

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

Regardless of the rate environment, discipline and expertise matter most

Private markets have consistently outperformed through varied interest-rate cycles because their core strengths—illiquidity premia, value-creation orientation, disciplined structuring, and stable institutional demand—are durable in a world of normalizing, not just falling, long-term rates.

Private credit and debt strategies, in particular, have shown resilience across both high- and low-rate environments. As the current cycle transitions toward lower rates, CRE, infrastructure debt, investment-grade private credit, and middle market direct lending continue to offer compelling opportunities for investors aligned with skilled managers.

Across all segments, long-term success will hinge on the ability to create, protect, and realize economic value through disciplined underwriting, rigorous risk assessment, and deep operational expertise—capabilities that experienced private markets managers are uniquely equipped to deliver.

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 is not acting as agent for, or in conjunction with any Principal Financial Group affiliate domiciled in **Mexico**. By accepting this Presentation, the recipient confirms that is an Institutional and/or Accredited Investors pursuant to Articles 2 Sections XVI, XVII and 8 of the Mexican Securities Market Law ("LMV"). In case of not complying with the requirements established in the LMV, the recipient must notify it immediately, since the recipient has not the right to receive the information in order to comply with the LMV.

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.

© 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.

5246514