PGIM

REAL ASSETS FOR NEW REALITIES

Six questions for investing in a world of capacity constraints



September 2026

All investments involve risk, including the possible loss of capital.

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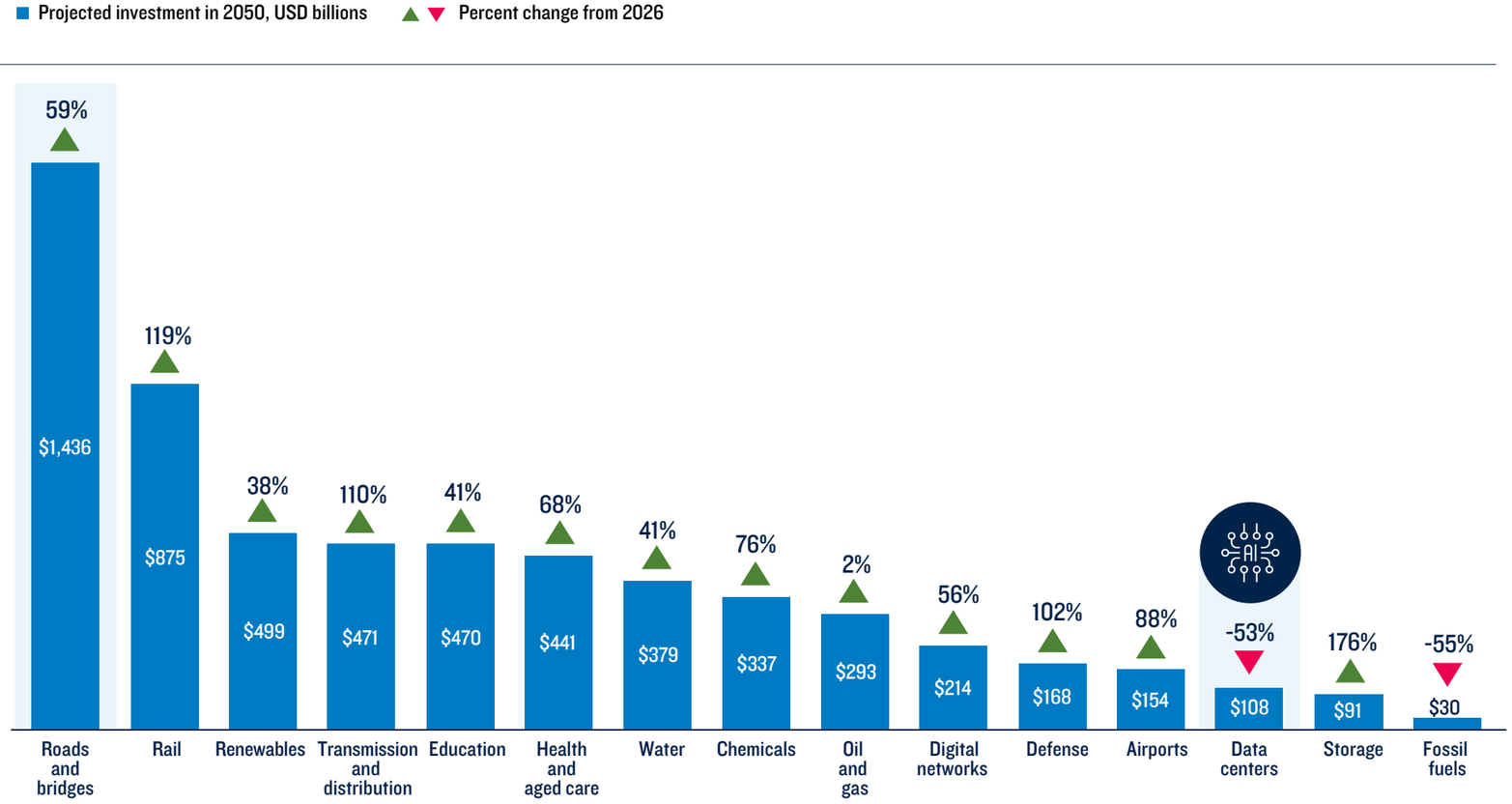
SIX QUESTIONS FOR INVESTING IN A WORLD OF CAPACITY CONSTRAINTS

1. Which sectors need the most investment through 2050?
2. How can you measure capacity constraints in real estate?
3. How does AI broaden the real asset opportunity?
4. Why include commodities as part of a real asset exposure?
5. Why might investors choose real asset debt as opposed to equity?
6. What role should real assets play in portfolios?

QUESTION 1

Which sectors need the most investment through 2050?

Roads and rails will drive significant spending, while data center construction is set to plateau.



Source: PwC. As of April 2026.

WHY IT MATTERS

Traditional infrastructure remains a major need, while power, networks, health, and other capacity-intensive categories also require sustained investment. While data center construction may plateau, the facilities will require several rounds of upgrades going forward. The common thread among the sectors are the physical constraints on required capacity.

QUESTION 2

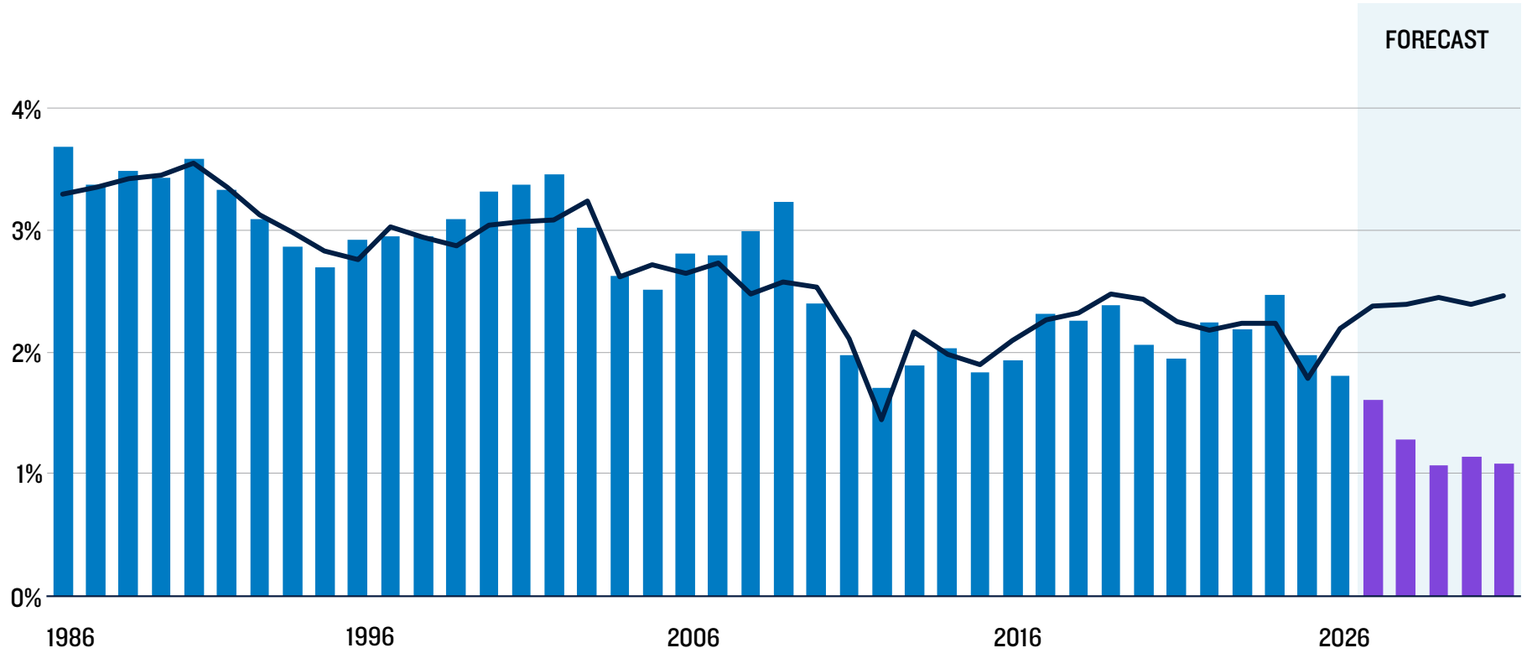
How can you measure capacity constraints in real estate?

The historically wide gap between what could be built and will be built indicates a constrained supply pipeline.

WHY IT MATTERS

A constrained development pipeline supports occupancy, cash-flow predictability, and rental growth, indicating that rental income can not only keep pace with inflation, but that it can outpace inflation even at its recent, accelerated clip.

Net additions to global all property supply growth versus Construction Attractiveness Index, percent per year



Sources: CoStar, JLL, PMA, Oxford Economics, Bureau for Labor Statistics, World Bank, and PGIM. As of April 2026. Note: Construction Attractiveness Index is estimated using a regression that includes real global construction costs (three-year lag) and real prime global all property rents (two-year lag). Forecast is from 2026-2030.

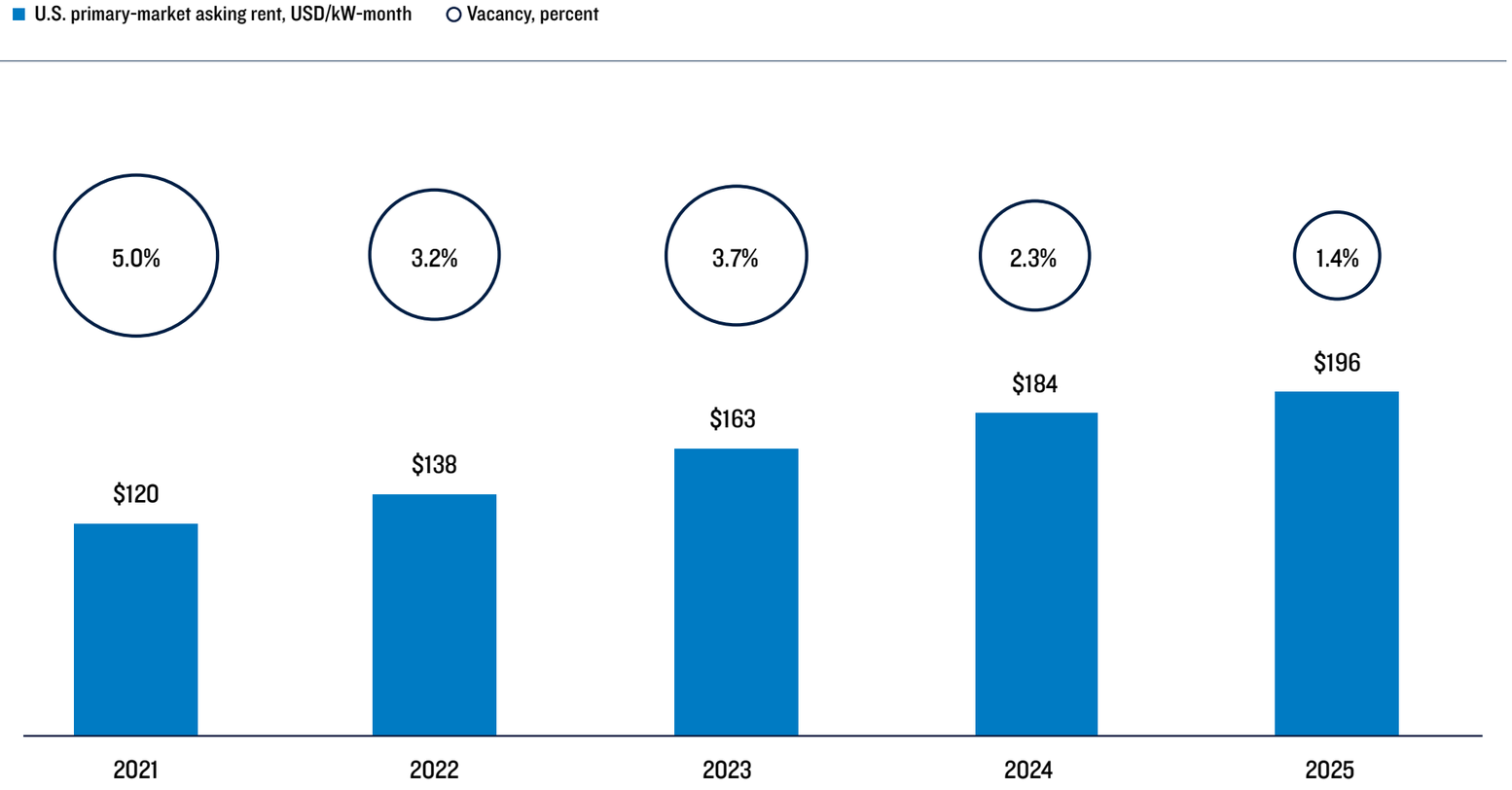
QUESTION 3

How does AI broaden the real asset opportunity?

60% of the data center investment opportunity is through real assets, underscoring AI's need for hard assets to scale.

WHY IT MATTERS

The impact of the AI demand shock is not only apparent in the prices for tangible inputs, such as electric components, suitable land, and power, but it is also visible in data-center vacancy rates themselves, which fell to a new cycle low in 2025, sustaining upward pressure on rents.

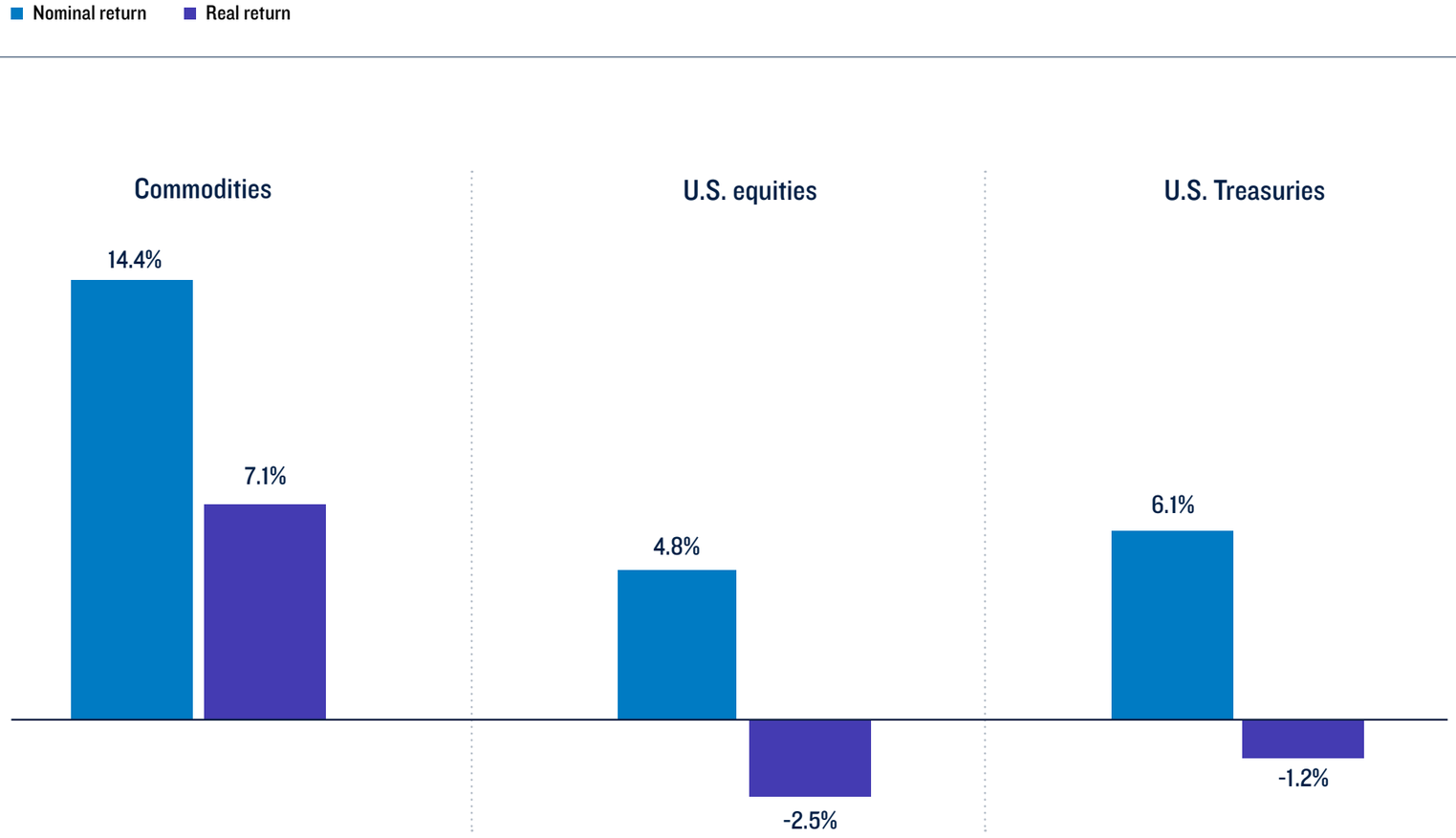


Source: CBRE North America Data Center Trends (H2 2022, H2 2023 , H2 2025; national average asking rate, 250–500 kW, primary markets) and JLL (year-end 2025). 2021 and 2024 rents interpolated from CBRE-reported year-over-year growth.

QUESTION 4

Why include commodities as part of a real asset exposure?

During periods of elevated inflation, commodities have historically outperformed traditional liquid asset classes.



The order of the bars corresponds to the order of the legend from left to right.

Source: PGIM, FactSet, Datastream, and Bloomberg. As of March 2026. High-inflation periods consist of average inflation of 7.3%. Based on a quarterly sample period from Q2 1973 to Q4 2025.

WHY IT MATTERS

Commodities connect portfolios to energy, materials, and food systems that can be affected by geopolitical disruption, supply shortages, and rising demand. During periods of elevated inflation, they have historically provided a liquid source of inflation sensitivity, though outcomes vary across economic cycles.

QUESTION 5

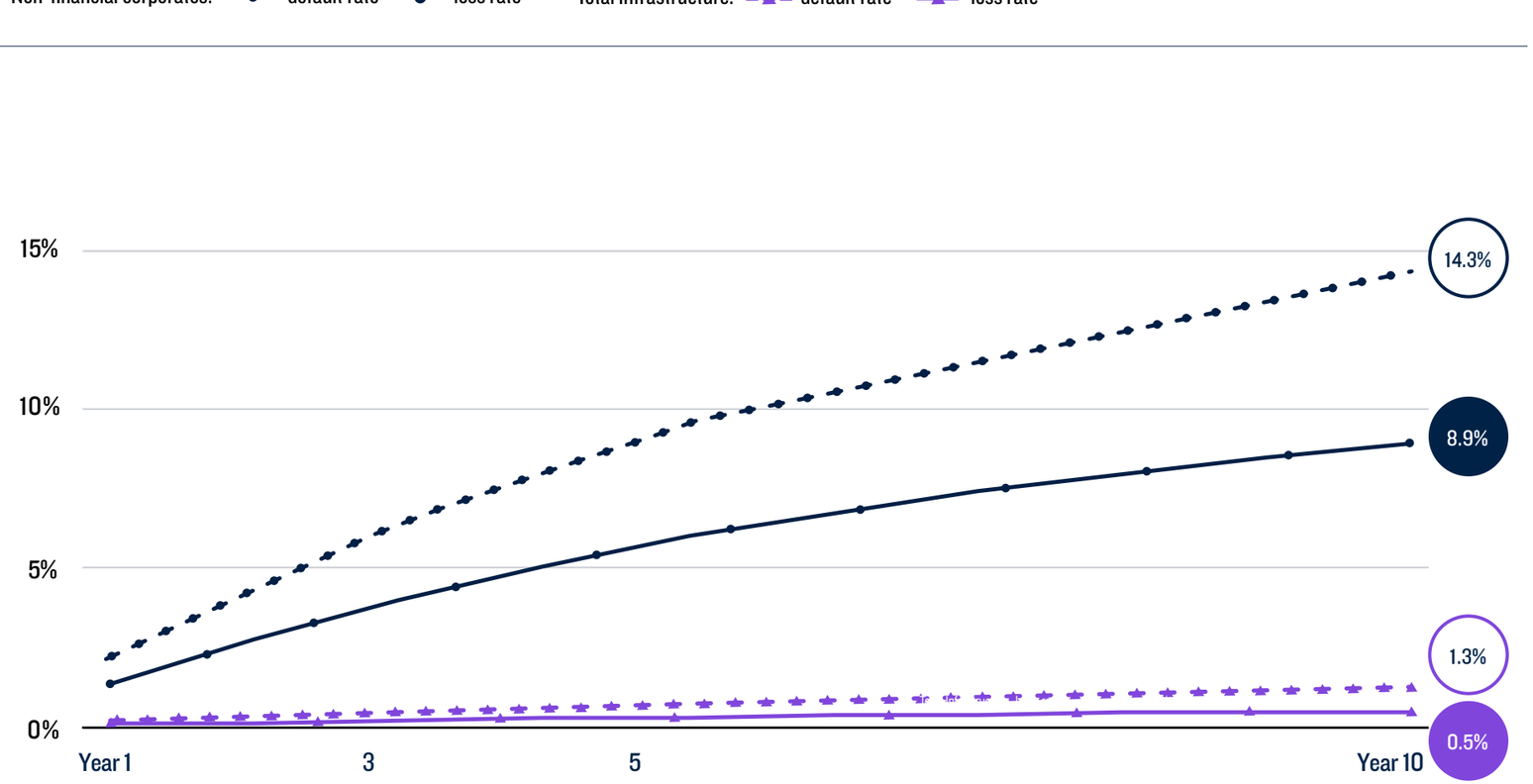
Why might investors choose real asset debt as opposed to equity?

Real asset debt can diversify from corporate credit exposure.

WHY IT MATTERS

Real asset financing can generate income and provide investors with structural downside protections. While illiquidity and complexity remain key risks, they can also contribute to relative value opportunities.

Infrastructure debt has historically experienced fewer defaults and losses than similarly rated corporate debt.
Average overall cumulative default and loss rates, 1983-2022



Source: Moody's Investors Service. Data from 1983-2022, latest data available.

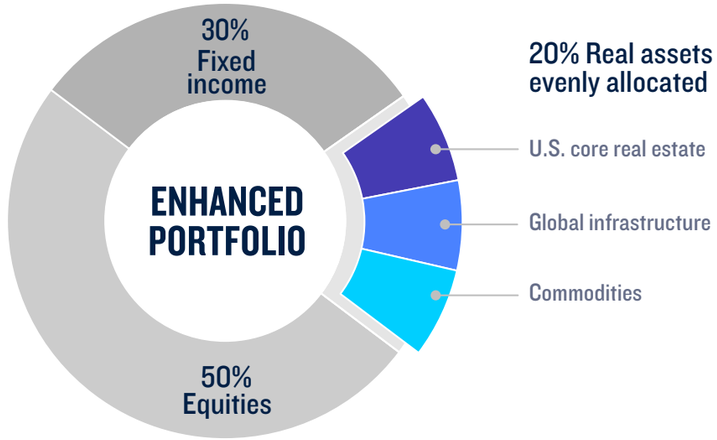
QUESTION 6

What role should real assets play in portfolios?

We enhanced a 60/40 portfolio with a 20% allocation to U.S. core real estate, global infrastructure, and commodities.

Start with the outcome, then choose the exposure.

	60/40	Enhanced	
Expected annual return	6.47%	6.77%	Higher return
Volatility	10.12%	9.41%	Lower volatility
Sharpe ratio	0.37	0.43	Better risk-adjusted performance



WHY IT MATTERS

As an example of the attributes of real asset exposure, the 20% allocation in our sample portfolio improved its annual expected return by 30 bps over a base portfolio. As private real assets were added, our Sharpe ratio improved by 6 bps. The even allocations reiterate that specific exposures can be increased—such as to commodities as a short-term inflation hedge—or decreased depending on objectives.

Source: PGIM. As of August 2026. For illustrative purposes only. The core real estate allocation contains a 20% leverage assumption.

WHAT NEXT?

1. **Define the objective.**
   Growth, income sensitivity, or diversification?

2. **Choose the route.**
   Public or private, ownership or financing, debt or equity?

3. **Test the trade-offs.**
   Constraints, liquidity, valuation, policy, and operating risks

4. **Stay Selective.**
   Focus on scarce capacity, durable demand, and sound structures

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