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The HALO effect

The case for investing in heavy asset/low obsolescence assets

While investors debate the future of digital disruption across industries and the private credit market grows ever more saturated, one of the more compelling income opportunities may lie in a far less discussed corner of the market: railcar leasing.

While not typically considered alongside core infrastructure or private credit, railcar leasing offers something, we believe, many allocators are actively seeking — durable, contract-driven income backed by long-lived physical assets that are difficult to displace or disrupt. Such HALO (heavy asset, low obsolescence) investments are capable of potentially generating income over extended periods and, more broadly, highlight a shift in how investors may need to think about real assets.

As real asset portfolios evolve beyond traditional allocations to real estate and core infrastructure, strategies like railcar leasing may play a more prominent role — particularly for

a dominant allocation for many income-oriented investors, resulting in tighter spreads and pressure on underwriting standards.

This dynamic raises a broader question: Where else can investors find durable, income-generating assets that are less dependent on capital market conditions and structuring, and more grounded in tangible economic activity?

HALO assets offer one potential answer. Strategies that focus on essential physical assets with long useful lives and low substitution risk provide contract-driven income, generating exposure to segments of the economy where demand remains persistent.

RAIL LEASING

Railcar leasing illustrates how HALO-related strategies may function in practice. Rail has been a foundational piece of the North American transportation ecosystem for nearly two centuries, supporting the movement of commodities and finished goods across an extensive network.

From an investment perspective, railcar leasing combines ownership of long-lived physical assets with contractual income streams derived from leasing those assets to a diversified base of industrial counterparties. By leasing their rolling stock to producers in need of transport, railcar owners benefit from contractual cash flows and consistent residual values. The result is an investment profile that shares characteristics with both real assets and private credit.

Railcars typically have useful lives measured in decades and relatively low technological obsolescence. Demand remains tied to the movement of essential goods — from agriculture and energy commodities to chemicals and industrial products — supporting consistently high utilization, historically. Meanwhile, lease contracts provide visibility into cash flows, while the ability to reprice leases over time introduces potential for adaptability

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investors seeking income, diversification and resilience.

BEYOND TRADITIONAL REAL ASSETS

Real assets have long been valued for their inflation sensitivity and portfolio diversification benefits, historically. However, the high valuations of many core segments of this market — particularly real estate and infrastructure — reflect the sustained capital inflows that come with popularity. At the same time, we have observed private credit become



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in changing rate environments. Together, these factors underpin a stable foundation for potential income generation.

INCOME, INFLATION, DIVERSIFICATION

For allocators, one of the key attractions of HALO assets is their income profile. Unlike traditional fixed income, where returns are largely determined at issuance, leasing-based strategies benefit from contractual cash flows that reset as agreements roll over, allowing income to adjust in response to changes in interest rates.

At the same time, the value of many HALO assets is closely linked to replacement costs. In the case of railcars, increases in the cost of inputs such as steel, labor and financing costs may suppress new supply and support the value of existing equipment, contributing to positive inflation sensitivity.

From a portfolio construction standpoint, these characteristics can translate into differentiated behavior relative to traditional asset classes. Performance drivers are more closely tied to industry-specific supply and demand dynamics and contractual income streams than to public market sentiment, resulting in historically low correlation to equities and traditional fixed income.

Despite a railcar’s typical useful life of 40 to 50 years, the tax code allows railcars to be fully depreciated in the year they are acquired, tantamount to a zero-interest loan from the government for the duration of ownership that supports the cash flow over the life of the investment. This rule, which was made permanent by the 2025 One Big Beautiful Bill Act, applies to the purchase of both new and used railcars and can be used multiple times on the same

railcar as it changes hands.

REFRAMING THE OPPORTUNITY SET

HALO assets are not intended to replace core infrastructure or private credit, but to complement them. They occupy a middle ground, offering income supported by physical collateral, alongside real asset characteristics such as long duration and inflation linkage.

This positioning may be particularly relevant as investors seek to build more resilient portfolios. By incorporating assets that are less exposed to technological disruption and less reliant on capital market conditions, allocators can enhance diversification while maintaining a focus on income generation.

Successful implementation, however, requires specialized expertise, including asset lifecycle management, residual value optimization and counterparty diversification.

A RETURN TO THE TANGIBLE

In an investment landscape shaped by rapid innovation and shifting narratives, HALO assets represent a return to fundamentals. They are rooted in the physical movement of goods, the durability of essential infrastructure and the steady generation of contractual income.

As allocators look ahead, the next phase of real asset investing may be defined not only by what is new, but also by what endures. ■

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