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3Q 2026

Principal Asset Management℠

Global Market Perspectives

The new exceptionalism

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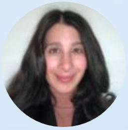

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Key themes for 3Q 2026

- **AI becomes the dominant global growth engine**
  The world economy has proved remarkably resilient to geopolitical shocks as the AI capex cycle has evolved into the dominant force driving global growth. While the benefits are global, they remain unevenly distributed.

- **U.S. economic resilience shifts the risk from slowdown to overheating**
  The U.S. economy has again surprised to the upside. Consumer spending remains robust, job growth has broadened, and AI-led investment continues to underpin activity, but this strength risks eventually reigniting inflation pressures.

- **The global central bank easing cycle is over**
  Although inflation risks have moderated, they have not disappeared. Central banks around the globe are increasingly debating rate hikes. We expect the Fed to remain on hold, but policy risks remain skewed toward hawkish outcomes.

- **Extending the equity market bull run**
  Technology continues to lead global equity markets, but broadening earnings growth and easing geopolitical risks are creating opportunities beyond hyperscalers and semiconductors. Elevated valuations and policy tightening bias imply measured gains ahead.

- **Tight fixed income spreads leave little margin for error**
  With a prolonged period of central bank policy restraint approaching, income remains the most attractive component of returns. With tight spreads leaving little margin for error, disciplined selectivity will be key.

- **Diversify to access the multiple layers of structural growth**
  The AI boom is rewarding economies, sectors, and companies with the capital, talent, energy security, and technological leadership needed to support it. The result is a new form of exceptionalism, centered on the U.S. but extending across the global AI ecosystem. For investors, diversification is about accessing these multiple sources of structural growth.

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Resilient global growth, renewed inflation pressures

Once again, the global economy has absorbed a significant shock with limited damage, entering the second half of the year on a firmer footing than many had feared. Growth forecasts have been revised lower across many economies, but global recession risks have receded materially. Even after these downgrades, the U.S. is still expected to grow at around its long-run trend rate of 2.1%, while China's outlook has been broadly stable. Global activity has slowed, but from a position of underlying resilience.

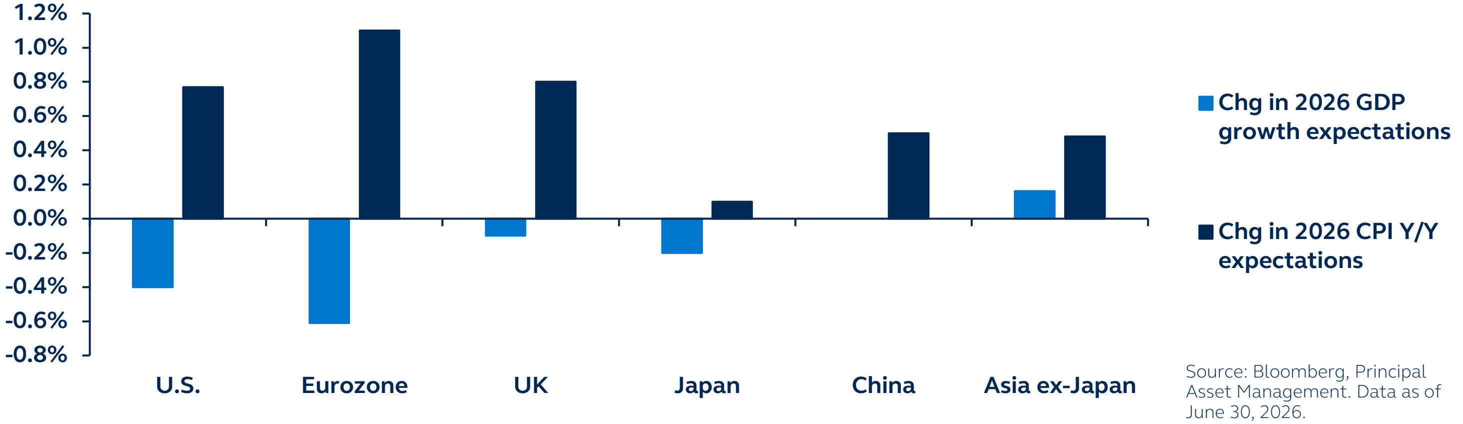
By contrast, the energy shock, coupled with the persistence of underlying price pressures, has driven a more challenging inflation outlook. Consensus expectations for 2026 point to a renewed and material upward revision in inflation, particularly across energy-importing economies such as Europe. That said, there are early signs of moderation. The de-escalation in U.S.–Iran tensions has contributed to a sharp fall in oil prices, with forward curves pointing to significantly lower levels by year-end. Inflation forecasts may soon be revised slightly lower.

Central banks have responded with a more cautious, hawkish stance, signaling that the global easing cycle is ending. In this environment, the AI-driven capex cycle should play an increasingly important role in sustaining growth.

The global economy has held up well but is facing a renewed inflation shock, prompting hawkish central bank reactions. The global monetary easing cycle is over.

Consensus 2026 global real GDP and CPI growth forecasts

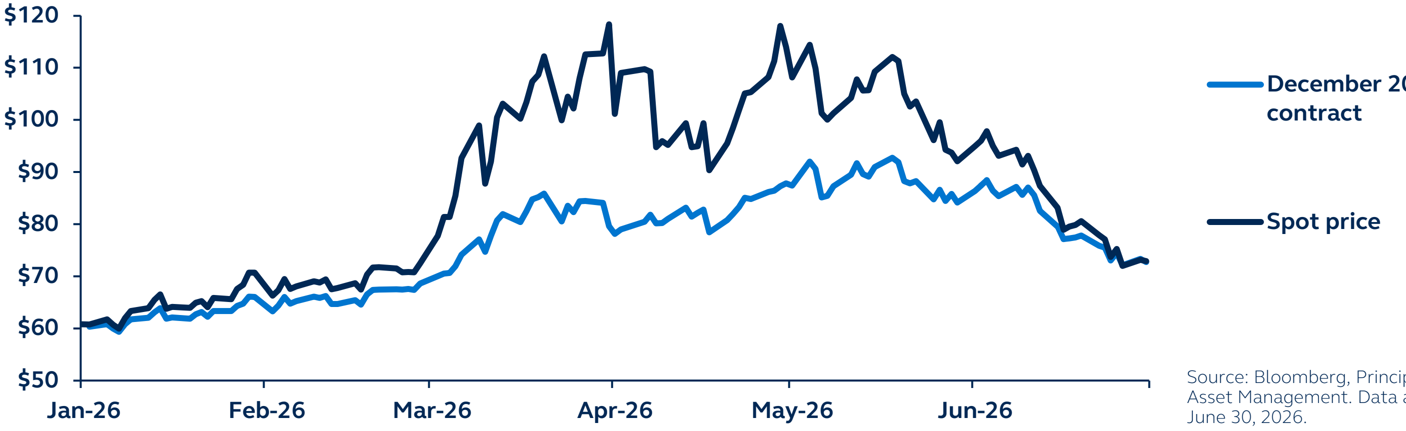
Percentage point change, February 2026–June 2026



Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

Global benchmark crude oil spot and futures price

Dollars per barrel, January 2026–June 2026



Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

U.S. macro strength bolstered by investment

Despite geopolitical uncertainty and persistent concerns about inflation, the U.S. economy has remained remarkably resilient. Activity data continue to paint a constructive picture, with manufacturing rebounding, capital spending strengthening, retail sales holding up, and job growth stabilizing. The biggest disconnect remains confidence, as consumer and small business surveys continue to reflect caution and concerns about higher prices – the recent drop in energy prices should drive an improvement in confidence over the coming months.

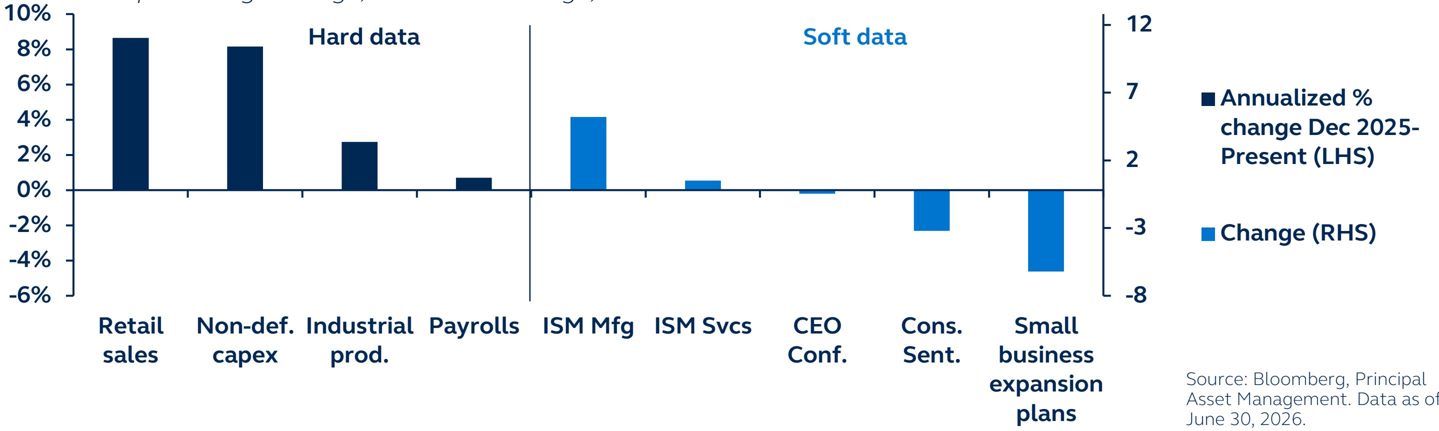
Underneath the surface, growth is being supported by two pillars: healthy consumer spending and a powerful investment cycle. Indeed, while the consumer remains the backbone of the economy, AI-related investment, data center construction, and broader infrastructure spending have emerged as increasingly important drivers of growth, helping to offset cyclical softness and buffer the economy against downside risks.

The U.S. remains exposed to the dynamics of the tech and infrastructure cycle, but it is also well positioned to benefit as broader productivity gains from this investment phase begin to materialize.

The economy's surprising resilience amid headwinds is underscored by a strong capex cycle and robust consumer spending.

Hard vs. soft data change since OBBBA passed

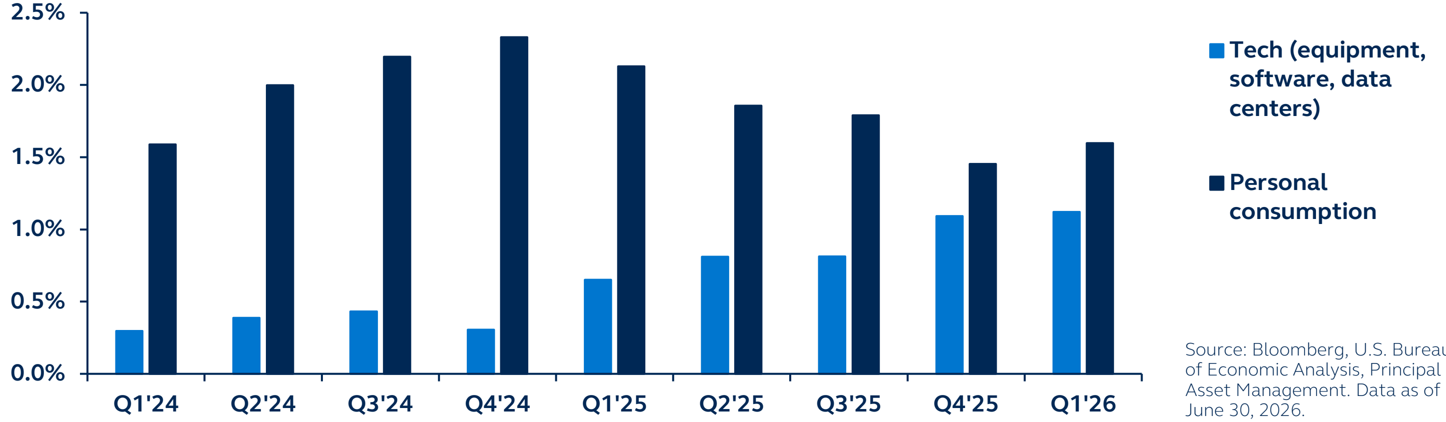
Annualized percentage change, Index level change, December 2025–June 2026



Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

Contribution to annual real GDP growth: tech vs. personal consumption

Percentage point contribution, 1Q 2024–1Q 2026



Source: Bloomberg, U.S. Bureau of Economic Analysis, Principal Asset Management. Data as of June 30, 2026.

An economy built on strong foundations

The resilience of the U.S. economy has been clearly on display through the recent U.S.–Iran tensions. Since the pandemic, household net worth has risen by roughly $70 trillion, leaving balance sheets in strong overall health. With this substantial wealth buffer, consumer spending is not solely dependent on the strength of the labor market.

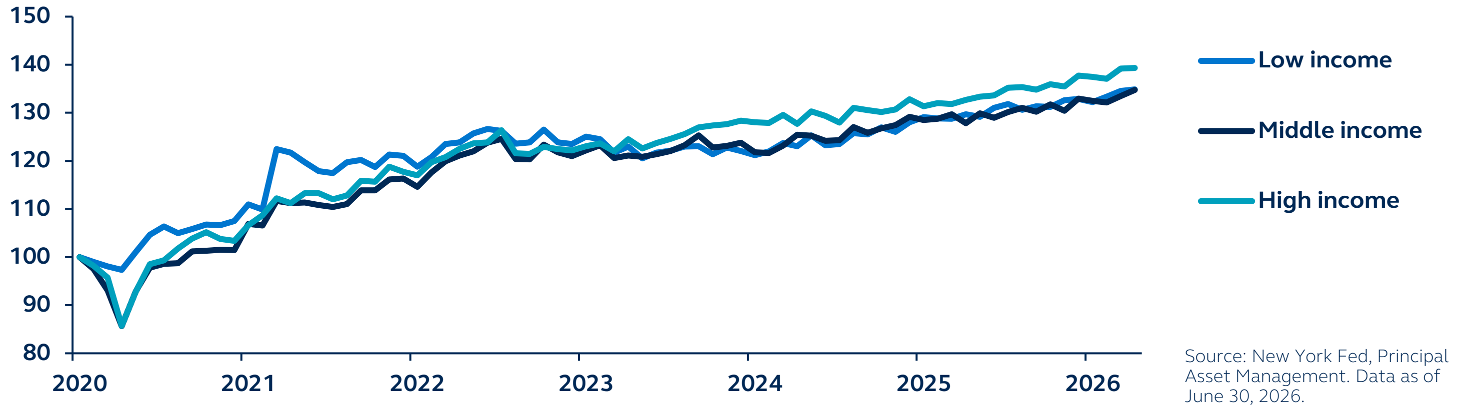
That aggregate strength, however, masks major divergences. The top 20% of income households account for around 80% of total net worth and have been insulated from rising affordability pressures. In contrast, lower-income households hold far more limited buffers and remain more reliant on labor income. Even so, spending at the lower end has proven resilient, supported by firming employment growth, while larger tax refunds helped offset higher energy costs. The recent reprieve in gas prices has been a welcome boost.

Corporate fundamentals have also provided a key stabilizing force. Profit margins remain around cycle highs, earnings growth has continued at a steady pace, and leverage is broadly manageable. Margin pressures may be approaching a cyclical peak, but the sector retains meaningful buffers against downside risk. These dynamics have allowed the U.S. to navigate recent shocks with relatively limited disruption.

Balance sheet strength has supported corporate and higher income households, while fading job market headwinds and larger tax refunds have supported lower income households.

Retail sales ex-autos cumulative growth by income

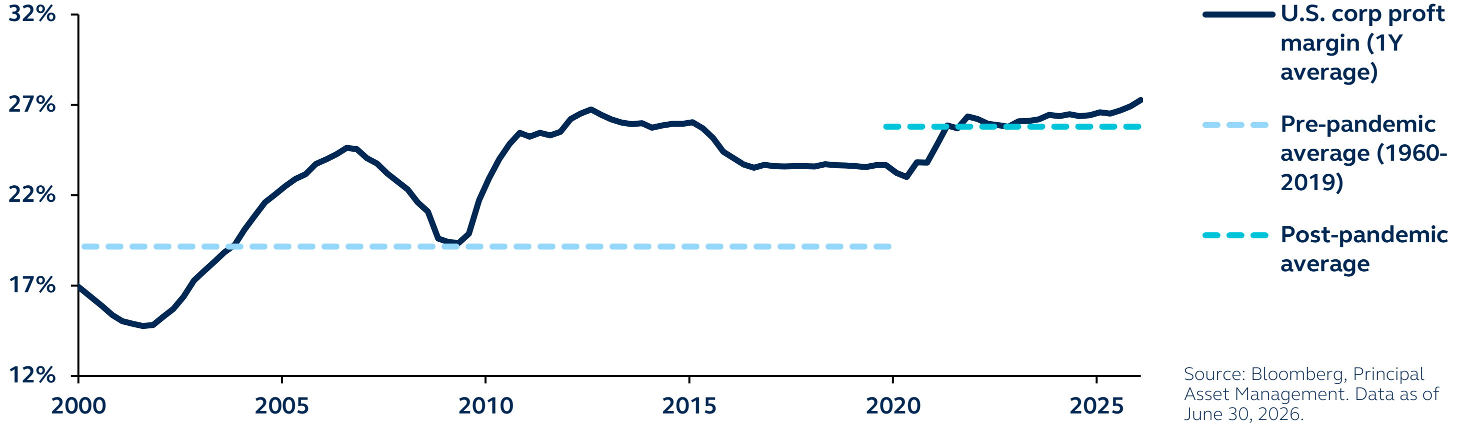
Indexed to 100, January 2020–April 2026



Source: New York Fed, Principal Asset Management. Data as of June 30, 2026.

Corporate profit margin

Profits as a percentage of corporate revenue, March 2000–March 2026



Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

Labor market risks shift towards an overheating

The pace of job creation has strengthened this year, marking a clear reversal from last year's cooling in labor demand, which had raised concerns about broader labor market deterioration, particularly amid fears of AI-driven displacement. The three-month moving average for payroll growth has risen from 73,000 earlier in the year to 111,000 in the three months to June, comfortably exceeding even the upper bound of breakeven estimates. Encouragingly, job gains have broadened across sectors, while layoffs remain low, with little evidence so far of widespread AI-related displacement.

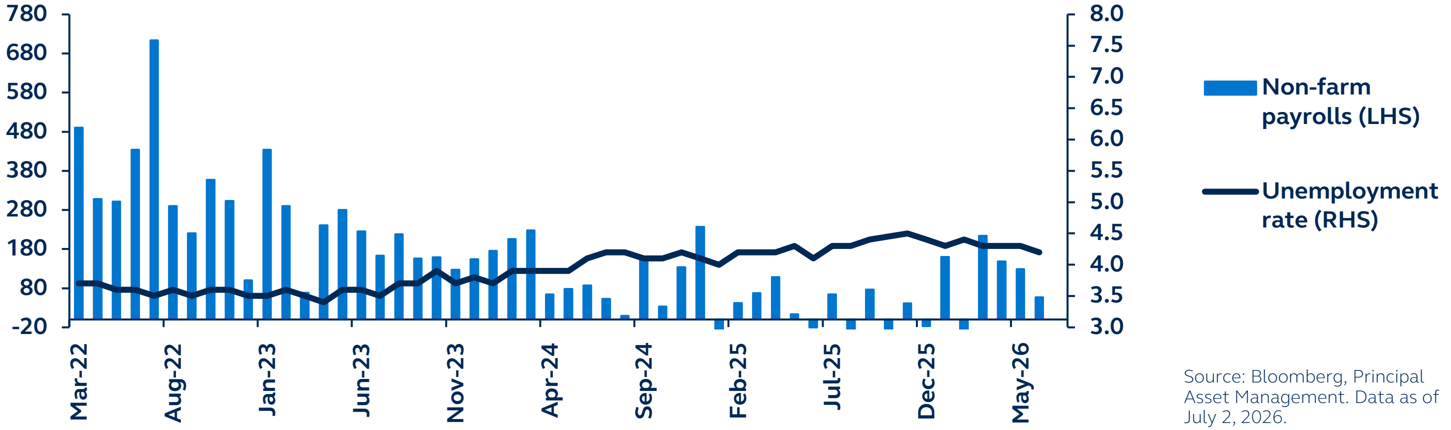
Despite this improvement, the unemployment rate has remained stable, and wage growth has been contained. The absence of material wage pressures should help ease the Fed's concerns about upside inflation risks.

Nevertheless, caution is likely to persist. A tightening in labor supply—driven by more restrictive immigration policy and longer-term demographic trends—could place downward pressure on the unemployment rate, reviving concerns about overheating. Indeed, the ratio of job openings to unemployed workers, a key gauge of labor market balance, has ticked higher recently, tentatively signaling the potential for firmer wage growth in the months ahead.

The labor market is more resilient than previously thought, but that resilience shifts the balance of risks towards overheating, with clear implications for the Fed's policy path.

U.S. unemployment rate vs. non-farm payrolls

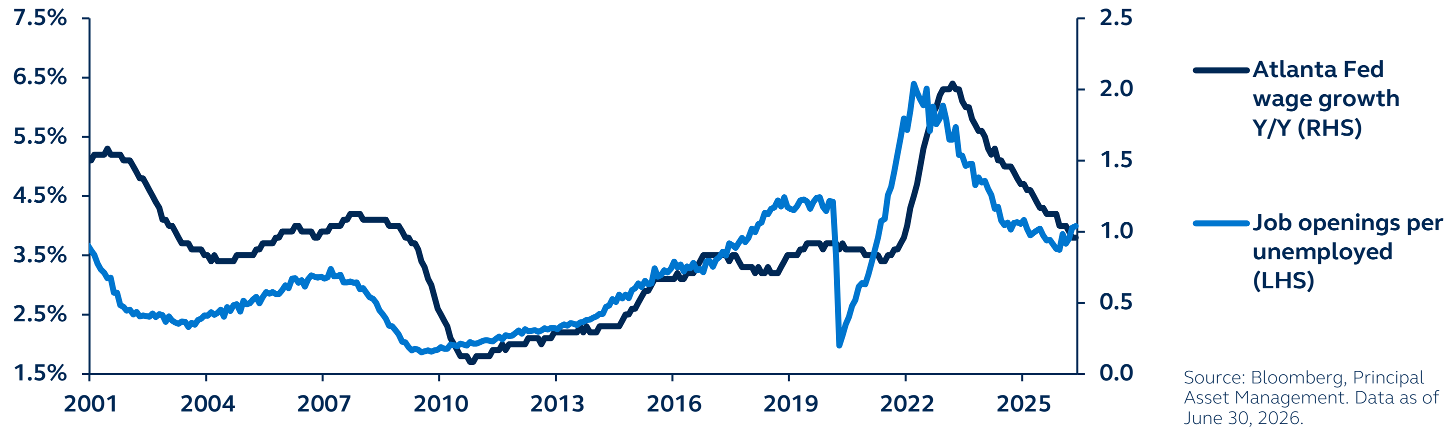
March 2022–June 2026



Source: Bloomberg, Principal Asset Management. Data as of July 2, 2026.

Labor supply and demand vs. wage growth

Job openings per unemployed, Atlanta Fed wage growth tracker, January 2021–May 2026



Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

Oil price shock: monitoring for second-round effects

The recent oil price shock has pushed headline inflation back above 4% for the first time in three years, raising concerns that the Fed may need to consider renewed policy tightening.

However, the inflation rise remains largely energy-driven. Core inflation has been slightly softer than expected, remaining just below 3%, suggesting the broader impact of the shock is, for now, contained. At the same time, tariff-related pressures appear to have peaked and should continue to ease, helping offset upward pressure on goods prices from second-round energy effects.

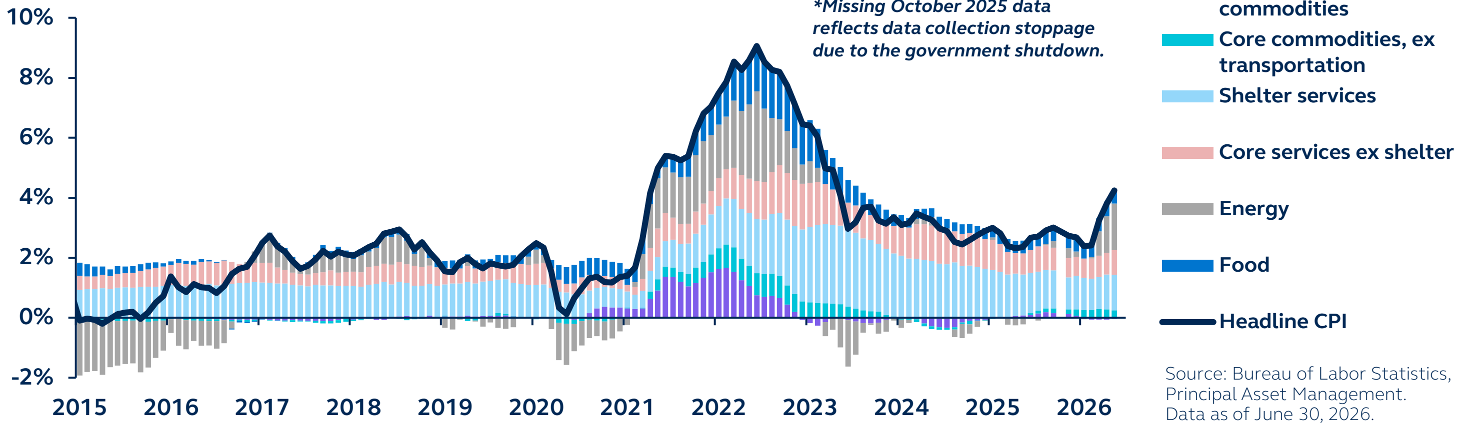
That said, second-round effects tend to emerge gradually but can prove persistent. The Q2 increase in energy costs is likely to feed through into transport and production inputs over time, broadening price pressures. This risk could be amplified if supply chain disruptions persist, particularly given the Strait of Hormuz's strategic importance to energy flows and downstream sectors such as food and semiconductors.

In this context, the Federal Reserve is likely to remain cautious. Even as energy prices ease, core inflation may prove sticky—remaining close to 3% or higher if the labor market continues to firm and upward wage pressures emerge. Inflation risks remain tilted to the upside.

Second-round effects of the oil price shock remain a risk, compounded by a resilient economy. This suggests that it may not take much for inflationary pressures to take hold.

Contribution to headline U.S. inflation

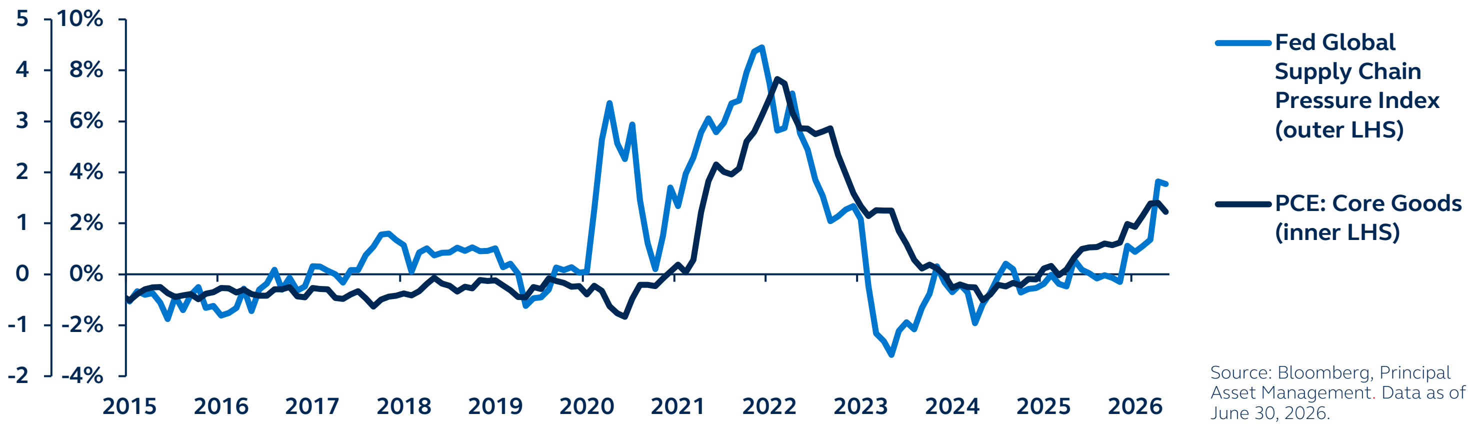
Annual growth, January 2015–May 2026



Source: Bureau of Labor Statistics, Principal Asset Management. Data as of June 30, 2026.

Supply chain pressures vs. core goods inflation

Fed Global Supply Chain Pressure Index, PCE core goods annual inflation, January 2015–May 2026



Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

A Fed pause—but hikes more likely than cuts

Although inflation forecasts have moved higher in recent months, forward-looking risks appear more balanced. The U.S.–Iran agreement and the resulting decline in energy prices increase the likelihood that energy-driven inflation peaks sooner and at lower levels than previously feared. Against this backdrop, and with policy uncertainty elevated—particularly amid a broad internal review of the Fed's framework and reaction function under new Chair Kevin Warsh—holding rates steady through year-end remains our base case.

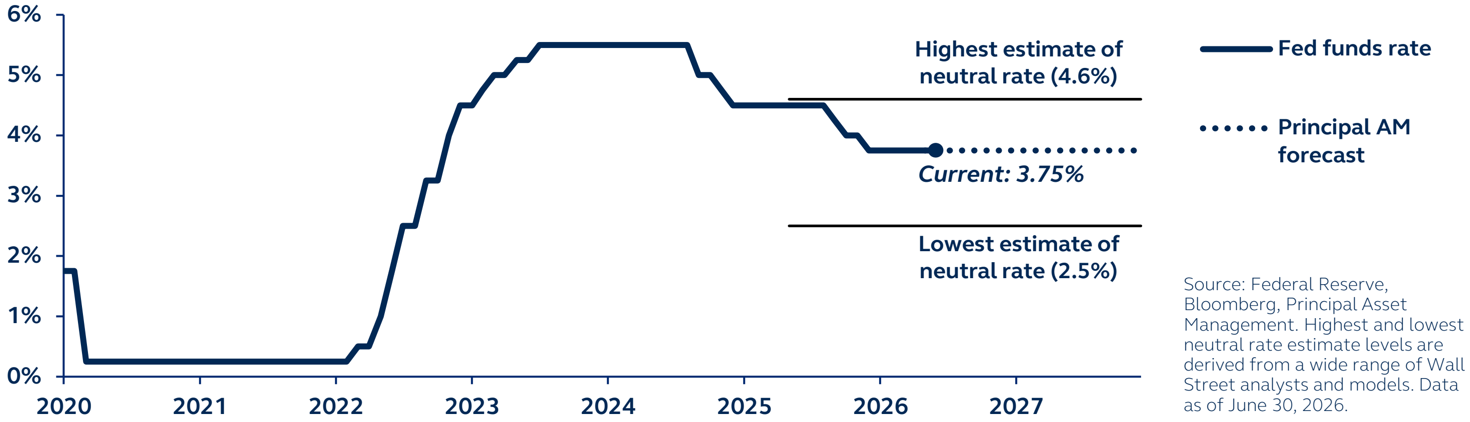
That said, risks remain skewed towards tightening. A combination of sustained economic strength, a renewed rise in core inflation, and signs that inflation expectations are becoming less well anchored would materially raise the probability of rate hikes. The latest Fed dot plot underscores this bias, with 9 of 18 participants projecting at least one hike this year, leaving the policy outlook finely balanced.

Globally, central banks have also turned more cautious. Markets price around 50 basis points of Fed tightening by early 2027, alongside further increases from the ECB and the Bank of Japan. In the UK, expectations for easing have been fully unwound. The global easing cycle has run its course.

Fed policy is likely to remain on hold through 2026, but with a tightening bias as inflation caution dominates. Markets expect tightening across major global central banks.

Federal Reserve policy rate path

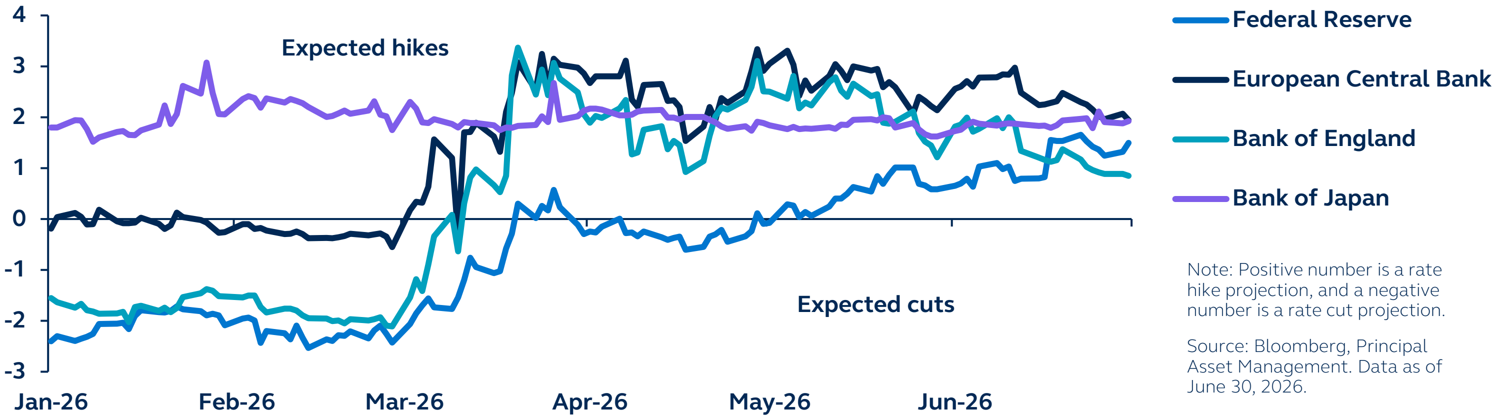
Fed funds rate and projections, January 2020–June 2026



Source: Federal Reserve, Bloomberg, Principal Asset Management. Highest and lowest neutral rate estimate levels are derived from a wide range of Wall Street analysts and models. Data as of June 30, 2026.

Rolling expectations for rate moves by December 2026

Number of central bank policy changes



Note: Positive number is a rate hike projection, and a negative number is a rate cut projection.

Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

Europe: Cyclical prospects improve, but concerns remain

The Middle East conflict has reawakened Europe's vulnerability to energy shocks. Growth has softened, and inflation expectations have moved higher, creating a more challenging backdrop for the region. While lower oil prices following the de-escalation of tensions with Iran should help ease some of these pressures in the second half of the year, inflation concerns are unlikely to disappear entirely. As a result, we continue to expect one additional 25bps ECB rate hike later this year.

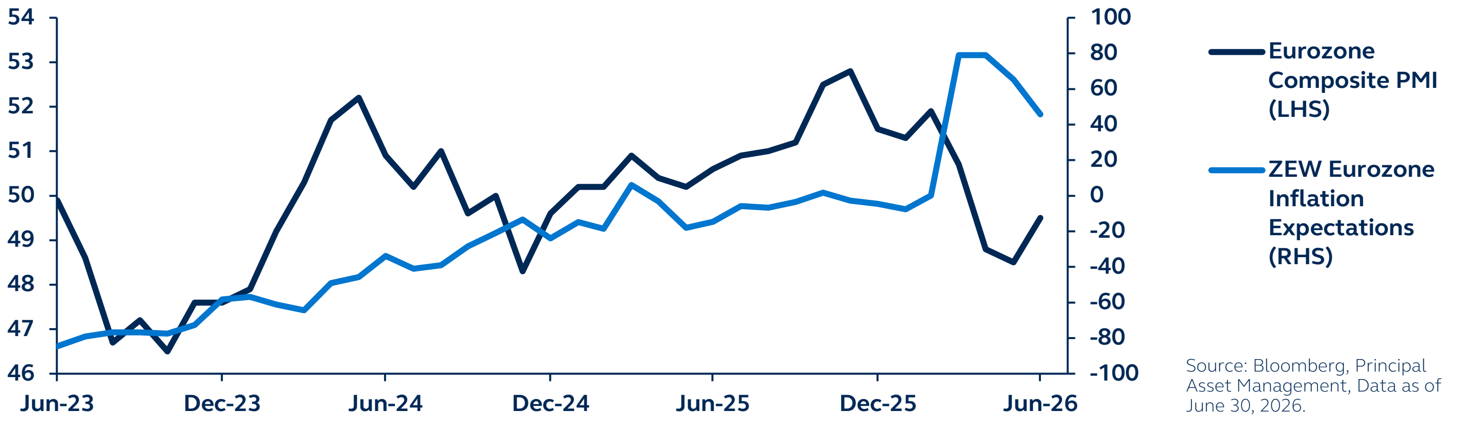
Beyond the near term, the region's shift towards fiscal expansion—led by Germany—marks an important inflection point after years of austerity. Increased spending on defense, energy security, and technology should support growth, reduce external dependence, and create positive spillovers across the region through stronger domestic investment and supply chains.

That said, Europe still lacks some of the key growth drivers seen in the U.S., notably AI-led earnings momentum and a more supportive regulatory backdrop. As such, even if economic activity picks up in the coming months, investor conviction in Europe's longer-term growth and return potential is likely to remain cautious.

Even as U.S.-Iran tensions ease, improving cyclical prospects, investor conviction in Europe's long-term growth potential is likely to remain cautious.

Eurozone composite PMI vs inflation expectations

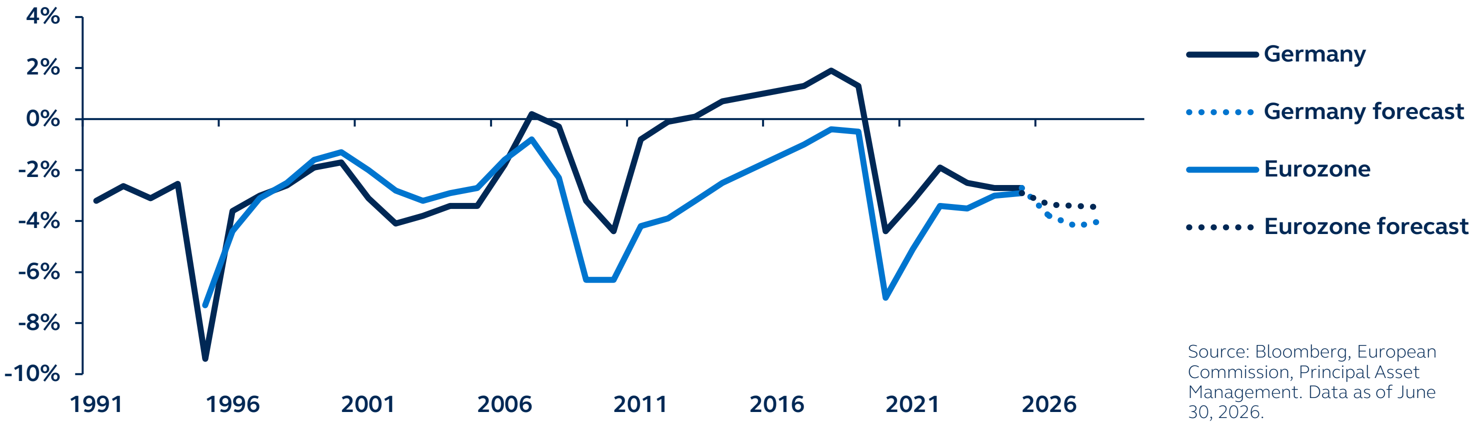
Manufacturing Purchasing Managers' Index, ZEW Survey, June 2023–June 2026



Source: Bloomberg, Principal Asset Management, Data as of June 30, 2026.

Germany and Euro area budget balance as % of GDP

Historical and consensus forecasts for 2026–28, Germany (1991–2028); Eurozone (1995–2028)



Source: Bloomberg, European Commission, Principal Asset Management. Data as of June 30, 2026.

Asia: Tech innovation is a cushion against shocks

An easing of geopolitical tensions is a meaningful tailwind for Emerging Asia, given the region's heavy exposure to energy imports transiting the Strait of Hormuz. The recent shock, however, also highlighted clear differences in resilience—driven either by more robust energy supply chains or exposure to AI-related growth drivers.

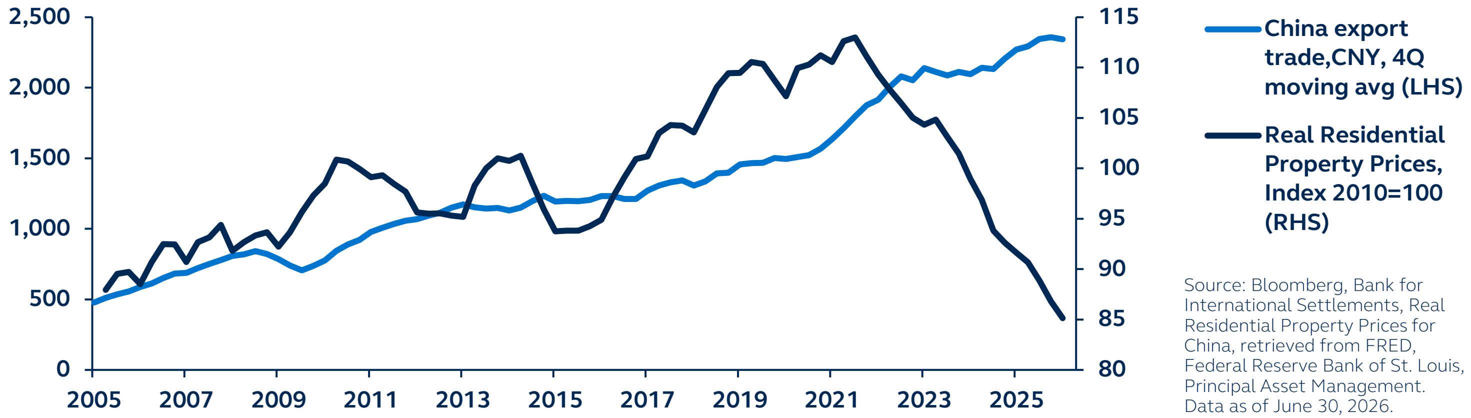
China: Long-standing efforts to diversify its energy mix—through renewables deployment, coal capacity expansion, and crude oil stockpiling—have provided important insulation. Export strength, particularly in tech components, has also helped offset domestic headwinds tied to the real estate downturn. Looking ahead, continued emphasis on industrial strengths and AI innovation should help sustain momentum even as domestic demand remains subdued.

Taiwan and South Korea: Policy measures, including electricity price freezes and fuel price caps, helped buffer the energy shock. More importantly, both economies sit at the center of the AI capex cycle, given their dominance in advanced semi production. Strong chip demand is supporting growth, driving a clear divergence from more energy-vulnerable economies such as India and Indonesia, where AI readiness and supporting infrastructure are less developed.

China's export strength and tech innovation have helped offset domestic headwinds. Taiwan and South Korea benefit from robust demand for advanced semis tied to the AI capex cycle.

China's exports vs. real estate

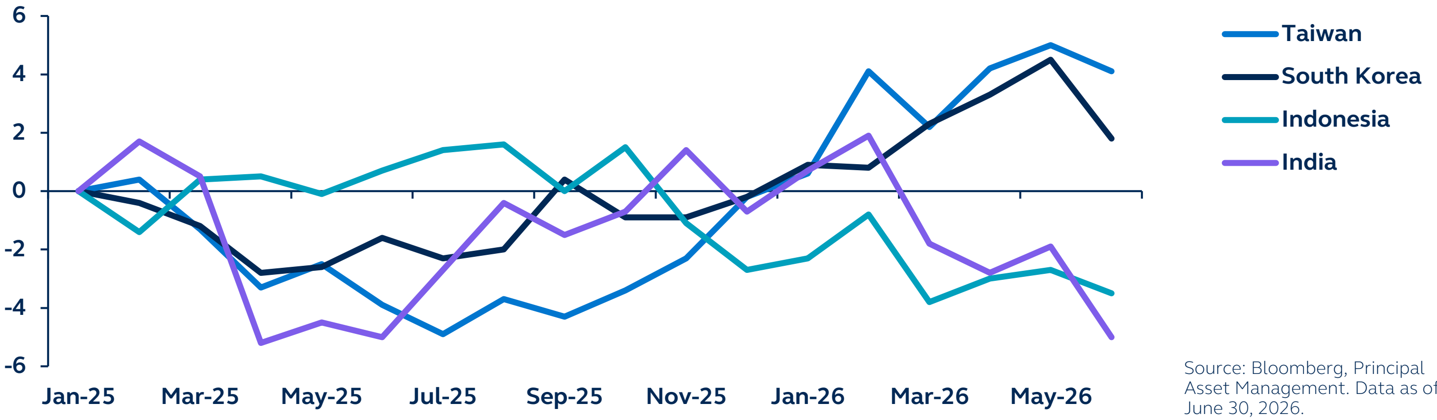
Index of China's real residential property prices versus exports, 2005–2026



Source: Bloomberg, Bank for International Settlements, Real Residential Property Prices for China, retrieved from FRED, Federal Reserve Bank of St. Louis, Principal Asset Management. Data as of June 30, 2026.

Manufacturing PMIs: Taiwan, South Korea, Indonesia, and India

Normalized PMI change January 2025–June 2026



Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

The AI capex cycle is shaping the global growth map

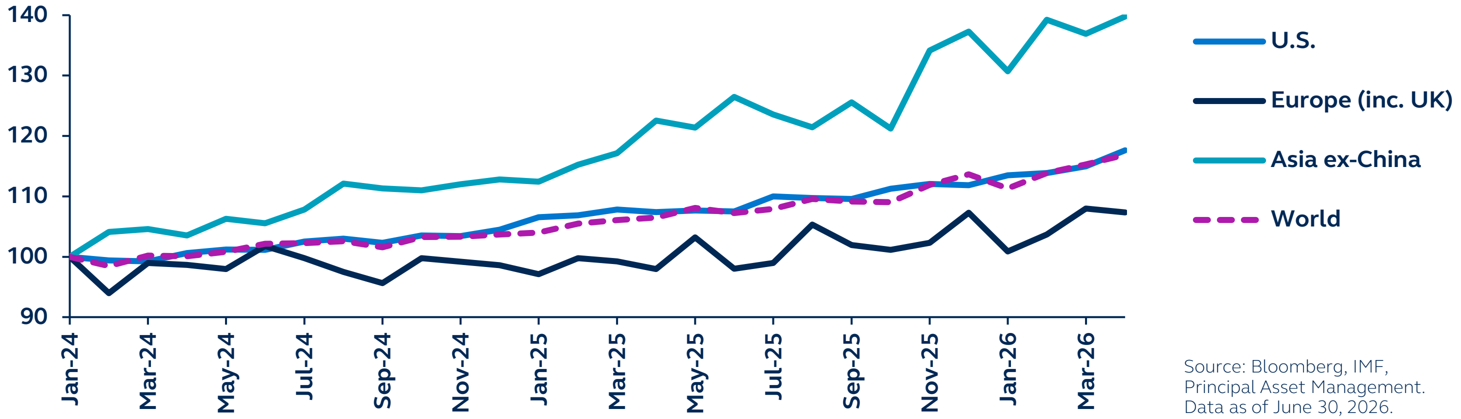
The global AI capex cycle has become one of the largest infrastructure build-outs in modern economic history and a key driver of global growth. What began as a U.S.-led investment wave has broadened into a global ecosystem spanning semiconductors, data centers, energy, construction, and advanced manufacturing. While the U.S. remains the center of this boom, the benefits increasingly extend across Asia through deeply integrated supply chains. Europe, by contrast, has participated far less in the investment cycle, a divergence reflected in economic performance this year, as the U.S. and much of Asia have shown resilience in the face of the energy shock while Europe has struggled.

The combination of AI-driven investment, relative energy security, and economic resilience has challenged consensus expectations of sustained U.S. dollar weakness. Capital continues to flow into U.S. assets, while Chair Kevin Warsh's emphasis on price stability has reinforced confidence in Fed credibility and reduced momentum behind the debasement trade. U.S. exceptionalism has once again come to the fore.

The dollar will likely remain supported over the coming quarters, underpinned by stronger growth, continued AI-driven capital inflows, and a Fed reluctant to ease policy.

The AI investment boom is driving global supply chains and capital flows and is cementing U.S. exceptionalism. The greenback is a key beneficiary.

Global industrial production in tech-related manufacturing
Indexed to 100 in 2024, Jan 2024–April 2026



Source: Bloomberg, IMF, Principal Asset Management. Data as of June 30, 2026.

U.S. dollar
Spot index, January 2023–June 2026

Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

Equities

U.S. equities: rotating beyond the usual tech winners

Equity markets have climbed the geopolitical wall of worry with remarkable ease, supported by exceptionally strong earnings growth. Most major equity indices reached record highs even before U.S.-Iran tensions began to ease, with continued AI investment by U.S. hyperscalers reinforcing strength across the broader AI ecosystem.

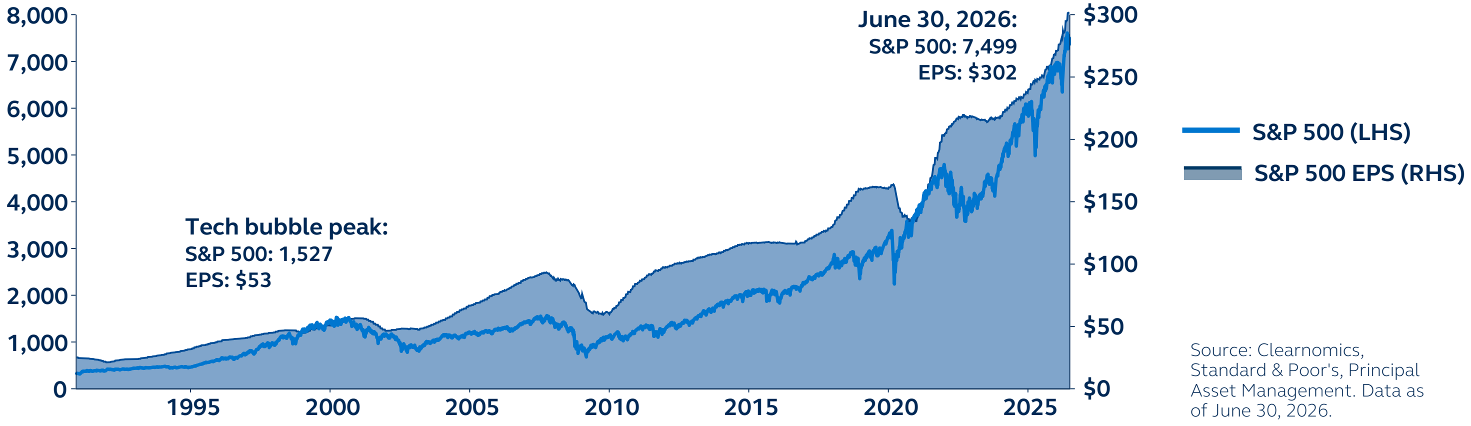
While tech has been the clear standout performer, earnings momentum is broadening across sectors, supported by strong corporate profitability and a resilient macro backdrop. Easing geopolitical tensions are helping revive areas hit hardest by the energy shock. At the same time, wider AI adoption is creating opportunities beyond the hyperscalers and semiconductor companies that have led the market, particularly in sectors positioned to capture productivity gains and supported by durable structural tailwinds. A mini-rotation appears to be underway.

The key risks remain Fed policy and valuations. Higher rates have historically challenged equity markets, and elevated multiples increase the market's vulnerability to earnings or growth disappointments. However, provided earnings remain strong and growth resilient, any policy tightening is more likely to moderate returns than derail the bull market.

While AI-related euphoria persists, easing geopolitical tensions are improving the cyclical outlook and broadening the opportunity set to segments that have been under pressure.

The stock market and earnings

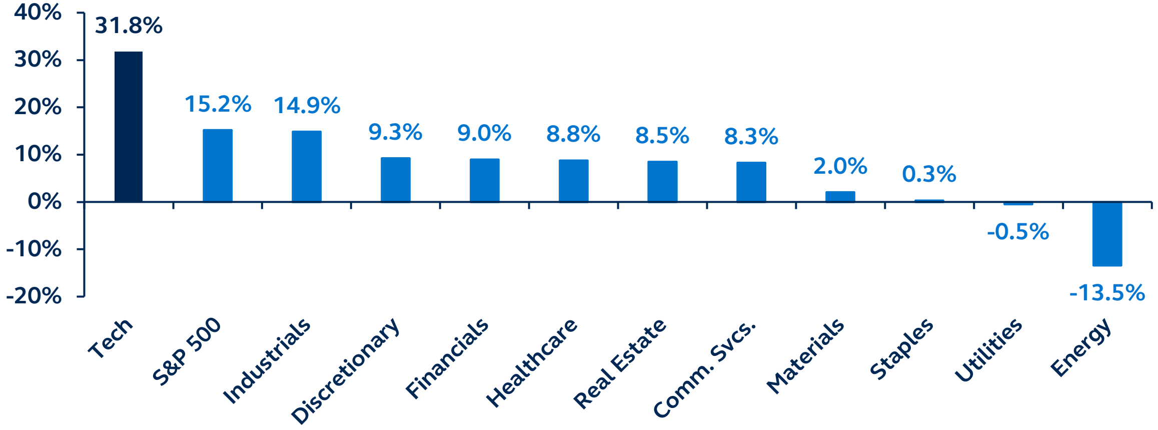
S&P 500 Index price and trailing earnings-per-share, January 1990–June 2026



Source: Clearnomics, Standard & Poor's, Principal Asset Management. Data as of June 30, 2026.

S&P 500 rebound since conflict sell-off: sector performance

Total return since March 31, 2026



Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

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AI leadership persists; concentration risks rising

The AI build-out has become a powerful driver of global equity returns, extending well beyond the S&P 500. Tech-heavy markets such as Korea and Taiwan have been major beneficiaries, with their indices rising 118% and 61% in USD terms, respectively, supported by their critical roles in supplying advanced semiconductors to U.S. hyperscalers.

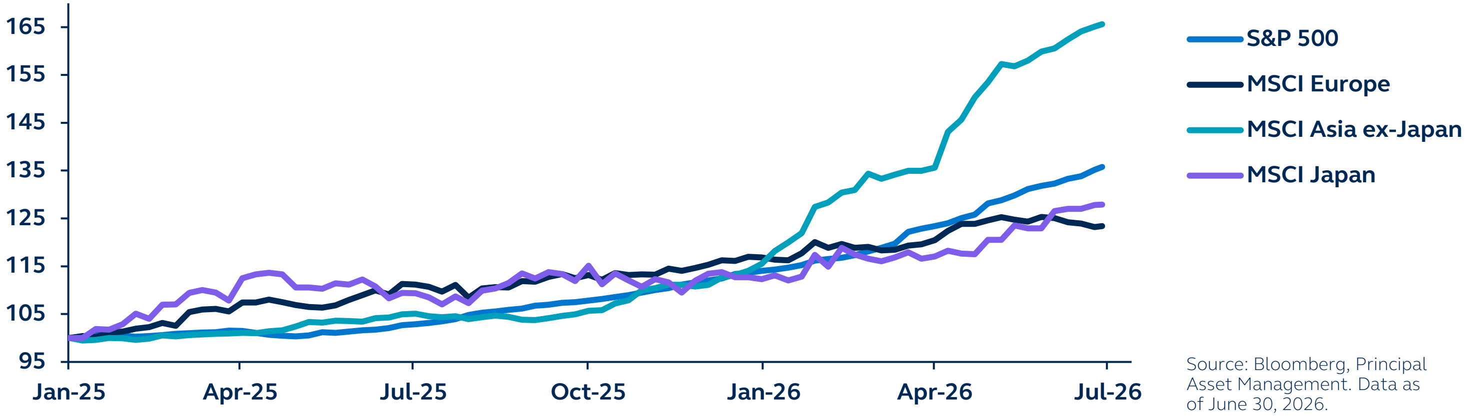
With hyperscaler capex projected to reach $700 billion in 2026 and exceed $1 trillion in 2027, demand for advanced chips should continue to underpin earnings growth in both markets. By contrast, although European earnings have remained resilient, the region has been a far more limited beneficiary of the AI investment cycle.

However, the rapid rise in AI-linked markets has heightened concerns around valuations and concentration risk. Investors are also scrutinizing hyperscaler business models more closely as they become increasingly capital-intensive, placing greater emphasis on cash flow generation and returns on investment. Meanwhile, Korea and Taiwan now account for nearly half of the MSCI Emerging Markets Index, making it increasingly sensitive to U.S. technology dynamics. Against this backdrop, active management is becoming more important, particularly in concentrated markets where stock-specific risks can have an outsized impact on returns.

Tech-heavy indices have outperformed and delivered outsized gains despite macro risks. AI momentum may continue, but rising concentration warrants caution.

Broad-based strength in global earnings expectations

EPS NTM in USD terms, rebased to 100 at January 2025



Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

Top stock concentration: S&P 500 vs. emerging markets

S&P 500 = weight of top 10 stocks (1993–present); EM = weight of top 5 stocks (2003–present)

Note: Data uses Bloomberg's S&P 500 and Emerging Market's Large & Mid-Cap Indices.

Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

Seeking diversification in interconnected markets

In a quarter when the S&P 500 delivered its strongest gain since 2020, leadership within tech was very fragmented. Chip stocks surged on AI enthusiasm, but the Mag-7 lagged. With concentration risks still high, investors should look towards regions and sectors offering stronger diversification and more compelling valuations.

U.S.: A constructive macro backdrop is broadening earnings momentum beyond mega-cap technology. Small-cap equities remain attractively valued relative to large-caps and could benefit if growth stays resilient.

Europe: Despite economic headwinds, European equities generated strong returns. Valuations remain inexpensive, while improving energy dynamics and lower tech exposure provide both upside potential and diversification benefits.

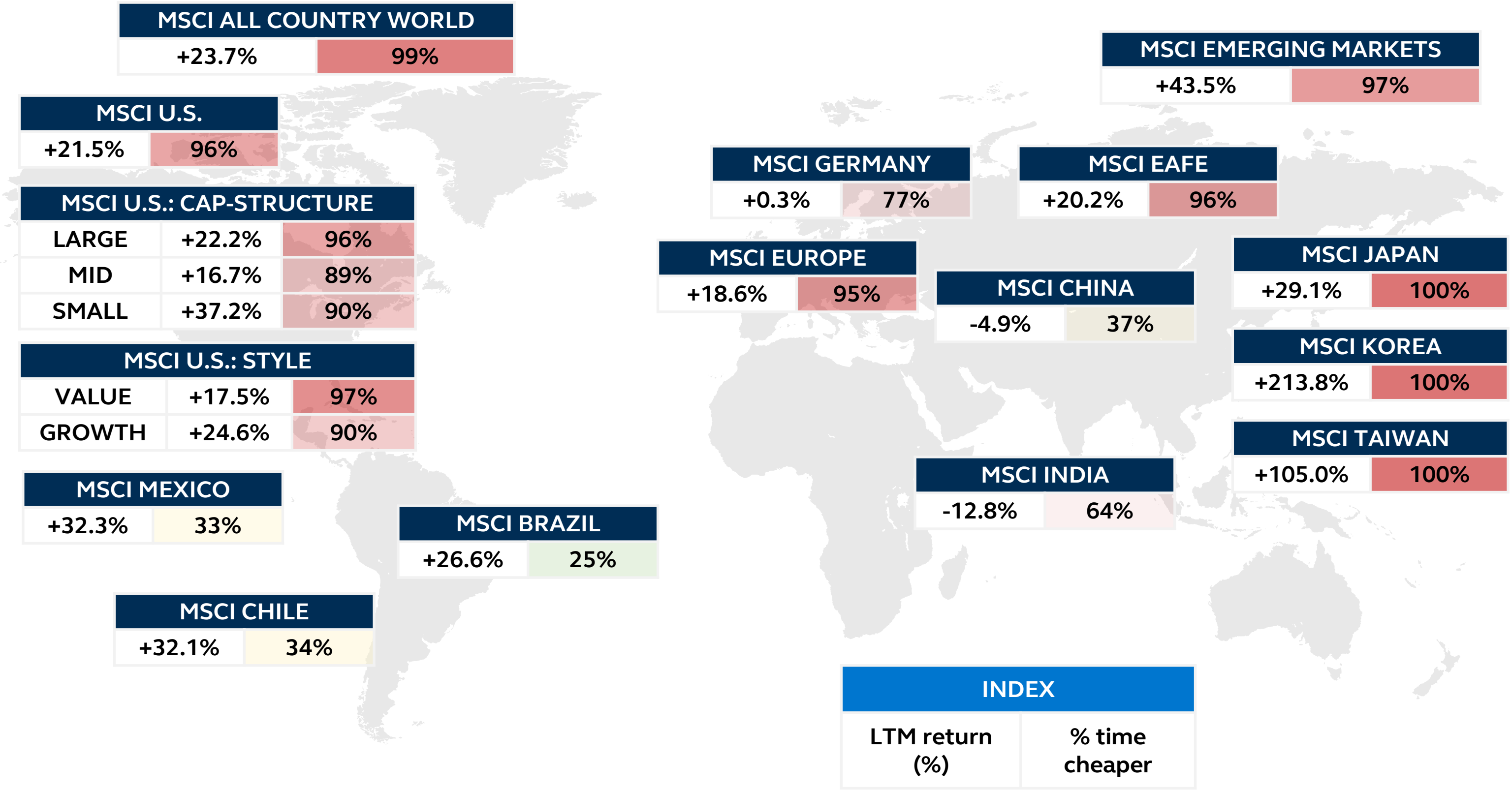
Asia: Korea and Taiwan remain key beneficiaries of the AI cycle, but valuations look increasingly stretched after Q2's sharp rally. China offers a differentiated opportunity, supported by stronger domestic supply chains and more attractive valuations.

Latin America: Policy uncertainty persists, but abundant natural resources provide a structural tailwind, while valuations are very attractive.

Interconnected global tech supply chains have fostered symbiotic relationships across regions. Identifying independent growth drivers is critical to building resilient portfolios.

Global equity returns and valuations

Last twelve months returns and % of the time the Index has been cheaper relative to its history since 2003, MSCI indices



Source: FactSet, Bloomberg, MSCI, Principal Asset Allocation. LTM (last twelve months) returns are total return and in USD terms. % time cheaper is relative to PAA Equity Composite Valuation history. PAA Equity Composite Valuation is a calculated measure, comprised of 60% price-to-earnings, 20% price-to-book and 20% to dividend yield. Composite started in 2003. EAFE is Europe, Australasia, Far East. See disclosures for index descriptions. Data as of June 30, 2026.

Fixed income

Cyclical and structural factors keep U.S. yields elevated

Optimism surrounding the Middle East conflict has led to a reassessment of inflation risks across global bond markets, alleviating upward pressure on yields. Yet, bifurcation remains as idiosyncratic factors have come back into focus.

The decline in energy prices has weighed significantly on forward inflation measures across major economies, erasing most of the increase since the start of the conflict.

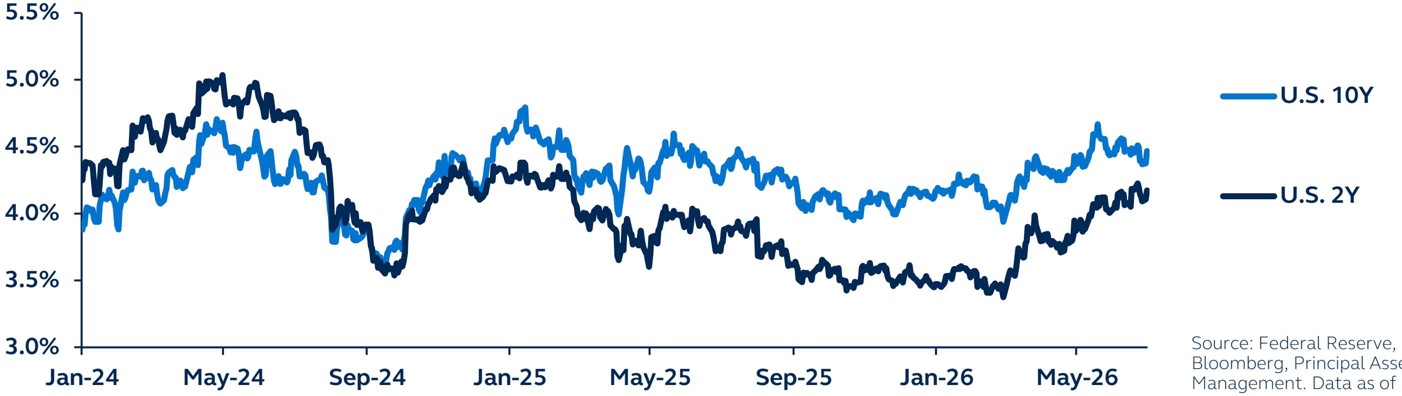
While this led to a decline in global bond yields, particularly across parts of the euro area, U.S. borrowing costs remain broadly elevated on a year-to-date basis. Indeed, the U.S. 10-year yield is still up about 20 bps since the start of the year, hovering around 4.4% at the end of Q2.

A combination of cyclical and structural factors has contributed to this dynamic. Driven by a surprisingly resilient growth backdrop and an improving labor market, increased expectations of Fed rate hikes have pushed short-term interest rates higher. Meanwhile, structural factors, including a challenged fiscal backdrop and lingering geopolitical instability, have all kept risk premiums elevated for long-term rates. Looking ahead, the end of the global easing cycle, coupled with global fiscal concerns, is likely to prevent government bond yields from declining much further.

Bond yields have been moving steadily higher, though pressures have been more pronounced at the short end, leading to an overall flattening of the yield curve.

U.S. Treasury 10-year vs. 2-year yields

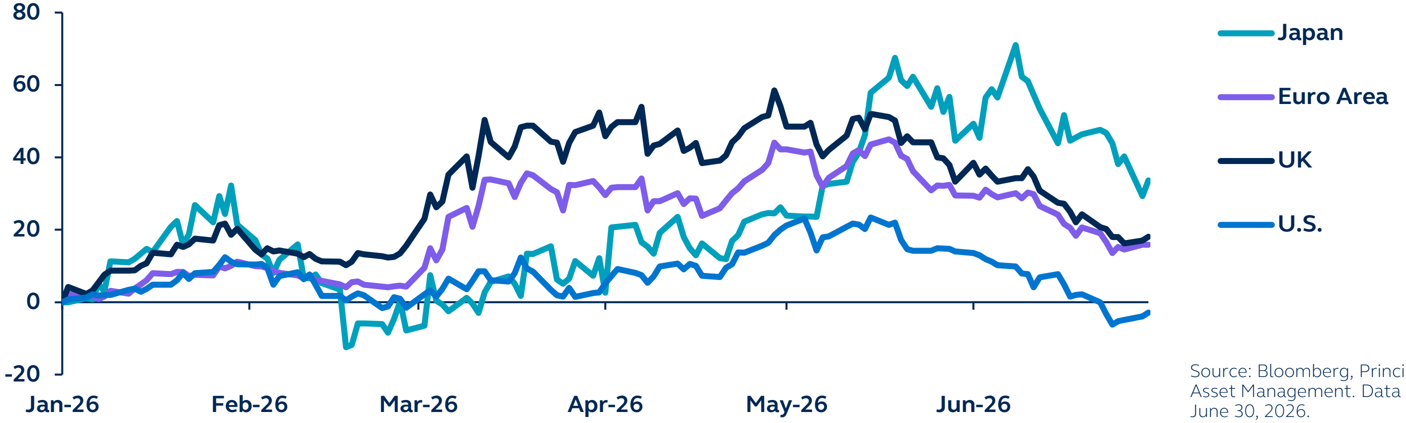
January 2024–June 2026



Source: Federal Reserve, Bloomberg, Principal Asset Management. Data as of June 30, 2026.

Market-based inflation expectations

Basis points, year-to-date change in 10-year inflation swap yields



Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

Credit resiliency easily weathering the storm

Macro uncertainty has given way to a very robust earnings environment, which is supporting fundamentals across the broad credit spectrum. The incredibly strong Q1 earnings season has led to improvements in credit metrics, underpinning improving leverage and healthy cash and liquidity coverage. Spreads have narrowed, reinforcing fixed income's role as a stable source of carry even through macro upheaval. With earnings momentum expected to remain positive, defaults should decline further. The key risk ahead is interest rate volatility, which could disrupt both demand and issuance dynamics.

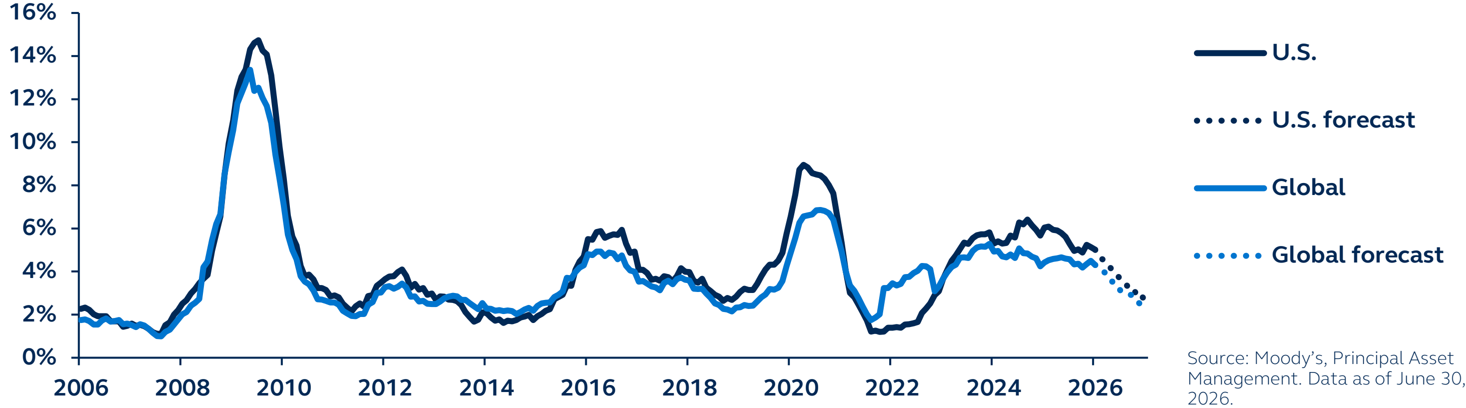
Idiosyncratic risks remain in private credit, yet these concerns are concentrated in certain parts of the market (primarily large lenders and loans originated during the 2021 "tech-boom"). Spillovers to financial stability should be minimal, with little sign of stress passing through to other parts of the credit market so far. Looking ahead, strong earnings and an improving default backdrop should provide a floor for investor sentiment in this space.

Emerging markets debt also continued to perform as inflationary risks have been offset by growth resiliency. This, together with rebounding investor inflows, should support further spread compression despite elevated valuations.

A strong earnings backdrop, coupled with structural tailwinds for corporate fundamentals, point to a robust credit outlook.

Global high yield default rate

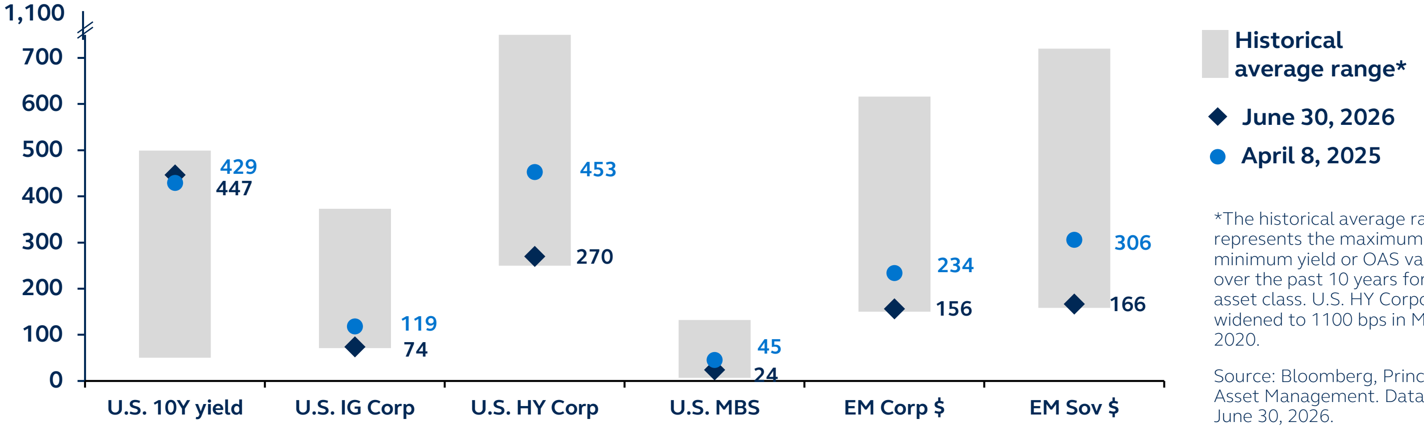
Speculative-grade 12-month trailing default rate, January 2026–May 2026, Moody's forecasts



Source: Moody's, Principal Asset Management. Data as of June 30, 2026.

Yield and spread average range over the past 10 years

U.S. 10-year Treasury yield, other indices reflect option-adjusted-spread, basis points, March 2016–June 2026



*The historical average range represents the maximum and minimum yield or OAS values over the past 10 years for each asset class. U.S. HY Corporates widened to 1100 bps in March 2020.

Source: Bloomberg, Principal Asset Management. Data as of June 30, 2026.

Investment perspectives

The AI investment cycle brings a new exceptionalism

Geopolitical tensions and persistent inflation have challenged the global outlook, yet the world economy continues to defy expectations. Driving much of this resilience is the AI investment cycle, which has become one of the largest infrastructure build-outs in modern history. What began as a technology story is now supporting growth across manufacturing, energy, industrials, and global supply chains, creating a new form of exceptionalism centered on the U.S. but increasingly global in scope.

Even so, the investment backdrop is becoming more complex. The global easing cycle has largely run its course, with central banks increasingly focused on inflation risks and the limits of policy support. As monetary tailwinds fade, market performance is likely to depend more on earnings growth, productivity gains, and structural investment trends.

For investors, diversification remains essential, not simply as a tool for risk management, but as a way to capture opportunities across multiple sources of growth. We continue to favor beneficiaries of the AI investment cycle across equities and real assets, while also identifying opportunities as earnings growth broadens across sectors and regions. In fixed income, elevated yields support an emphasis on income, while a strong U.S. dollar remains an important source of portfolio resilience.

Diversification is no longer just about reducing risk; it is about accessing multiple sources of structural growth and resilience.

Asset class performance

Total return, annual averages over period shown, 2011-June 2026

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Average
Fixed Inc. 7.8%	EM 18.6%	Small Cap 38.8%	S&P 500 13.7%	S&P 500 1.4%	Small Cap 21.3%	EM 37.8%	Fixed Inc. 0.0%	S&P 500 31.5%	Small Cap 20.0%	S&P 500 28.7%	Commod. 16.1%	S&P 500 26.3%	S&P 500 25.0%	EM 34.4%	EM 24.0%	S&P 500 14.7%
S&P 500 2.1%	EAFE 17.9%	S&P 500 32.4%	Balanced 6.4%	Fixed Inc. 0.5%	S&P 500 12.0%	EAFE 25.6%	S&P 500 -4.4%	Small Cap 25.5%	EM 18.7%	Commod. 27.1%	Fixed Inc. -13.0%	EAFE 18.9%	Balanced 12.1%	EAFE 31.9%	Small Cap 22.6%	Small Cap 11.3%
Balanced 0.6%	Small Cap 16.3%	EAFE 23.3%	Fixed Inc. 6.0%	EAFE -0.4%	Commod. 11.8%	S&P 500 21.8%	Balanced -4.9%	EAFE 22.7%	S&P 500 18.4%	Small Cap 14.8%	EAFE -14.0%	Small Cap 16.9%	Small Cap 11.5%	S&P 500 17.9%	Commod. 14.4%	Balanced 8.5%
Small Cap -4.2%	S&P 500 16.0%	Balanced 15.9%	Small Cap 4.9%	Balanced -1.5%	EM 11.6%	Balanced 15.2%	Small Cap -11.0%	Balanced 20.5%	Balanced 12.6%	Balanced 14.1%	Balanced -14.4%	Balanced 15.3%	EM 8.1%	Balanced 16.0%	S&P 500 10.2%	EAFE 8.2%
EAFE -11.7%	Balanced 11.4%	Fixed Inc. -2.0%	EM -1.8%	Small Cap -4.4%	Balanced 8.1%	Small Cap 14.6%	Commod. -11.2%	EM 18.9%	EAFE 8.3%	EAFE 11.8%	S&P 500 -18.1%	EM 10.3%	Commod. 5.4%	Commod. 15.8%	EAFE 9.8%	EM 6.8%
Commod. -13.3%	Fixed Inc. 4.2%	EM -2.3%	EAFE -4.5%	EM -14.6%	Fixed Inc. 2.6%	Fixed Inc. 3.5%	EAFE -13.4%	Fixed Inc. 8.7%	Fixed Inc. 7.5%	Fixed Inc. -1.5%	EM -19.7%	Fixed Inc. 5.5%	EAFE 4.3%	Small Cap 12.8%	Balanced 8.3%	Fixed Inc. 2.4%
EM -18.2%	Commod. -1.1%	Commod. -9.5%	Commod. -17.0%	Commod. -24.7%	EAFE 1.5%	Commod. 1.7%	EM -14.2%	Commod. 7.7%	Commod. -3.1%	EM -2.2%	Small Cap -20.4%	Commod. -7.9%	Fixed Inc. 1.3%	Fixed Inc. 7.3%	Fixed Inc. 0.6%	Commod. 0.8%

Source: Clearnomics, Principal Asset Management. Asset classes are represented by the S&P 500, MSCI EM, MSCI EAFE, Russell 2000, iShares Core U.S. Bond Aggregate and Bloomberg Commodity Index. The Balanced Portfolio is a hypothetical 60/40 portfolio consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities. Data as of June 30, 2026.

Capturing structural growth as AI reshapes the global cycle

The global economy has remained resilient despite geopolitical shocks and persistent inflation pressures, with the AI capex cycle emerging as a dominant driver. Yet the benefits are unevenly distributed, and with central banks turning more cautious, investors should emphasize quality, selectivity, and diversification.

Equities *Favor growth and diversification as AI leadership broadens*

- Prioritize earnings durability over multiple expansion, favoring companies with strong balance sheets and cash flows.
- Maintain AI exposure while broadening beyond hyperscalers, targeting beneficiaries of adoption, productivity, and capex.
- Selectively add U.S. small- and mid-caps, where valuations remain attractive and sensitivity to domestic growth is higher.
- International equities provide diversification, though opportunities are increasingly differentiated: Korea and Taiwan remain AI beneficiaries, Europe can offer value, cyclicality and diversification, while China provides exposure to domestic supply chains.

Fixed income *Emphasize income and selectivity as policy restraint persists*

- Maintain IG exposure, supported by resilient earnings, strong balance sheets, healthy liquidity, and attractive all-in yields.
- Stay selective in high yield, where defaults remain contained, but tight spreads leave little margin for error.
- Private credit risks remain largely idiosyncratic, concentrated within certain vintages, with limited signs of broader spillover.
- Emerging market debt offers relative value, though elevated valuations and tighter global policy argue for disciplined country and issuer selection.

Alternatives *Diversify concentrated portfolios with real assets and private markets tied to structural growth*

- Private real estate remains selective, with strong fundamentals in data centers, healthcare, residential, and logistics.
- Public REITs look increasingly compelling, benefitting from income stability and duration support as growth slows.
- Infrastructure and real assets can help capture AI-related opportunities in power, energy security, and data centers.
- Multi-strategy and real return alts enhance resilience, helping hedge inflation, policy volatility, and concentration risk.

Implementation

- Resilient active managers
- Active small-cap strategies
- Active global and emerging market strategies

- IG credit heavy core allocations
- Active high yield strategies
- Lower and middle market direct lending
- Flexible emerging market debt

- Private real estate markets
- Proven REIT strategies
- Multi-strategy alternatives

INDEX DESCRIPTIONS

Bloomberg U.S. High-Yield Corporate Bond Index is a rules-based, market-value-weighted index engineered to measure publicly issued non-investment grade USD fixed-rate, taxable and corporate bonds.

Bloomberg U.S. Corp High Yield 2% Issuer Capped Index is an unmanaged index comprised of fixed rate, non-investment grade debt securities that are dollar denominated. The index limits the maximum exposure to any one issuer to 2%.

Bloomberg U.S. Corporate Investment Grade Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be SEC-registered. The corporate sectors are industrial, utility and finance, which include both U.S. and non-U.S. corporations.

Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint. STRIPS are excluded from the index because their inclusion would result in double-counting.

MSCI ACWI Index includes large and mid cap stocks across developed and emerging market countries.

MSCI Brazil Index is designed to measure the performance of the large and mid cap segments of the Brazilian market.

MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

MSCI EAFE Index is listed for foreign stock funds (EAFE refers to Europe, Australasia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes.

MSCI Emerging Markets Index consists of large and mid cap companies across 24 countries and represents 10% of the world market capitalization. The index covers approximately 85% of the free float-adjusted market capitalization in each country in each of the 24 countries.

MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe.

MSCI Europe Banks Index is composed of large and mid cap stocks across 15 Developed Markets countries in Europe. All securities in the index are classified in the Banks industry group (within the Financials sector) according to the Global Industry Classification Standard (GICS®).

MSCI Germany Index is designed to measure the performance of the large and mid cap segments of the German market.

MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market.

MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

MSCI Korea Index is designed to measure the performance of the large and mid cap segments of the South Korean market.

MSCI Taiwan Index is designed to measure the performance of the large and mid cap segments of the Taiwan market.

MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market.

MSCI USA Growth Index captures large and mid cap securities exhibiting overall growth style characteristics in the U.S. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

MSCI USA Index is a market capitalization weighted index designed to measure the performance of equity securities in the top 85% by market capitalization of equity securities listed on stock exchanges in the United States.

MSCI USA Large Cap Index is designed to measure the performance of the large cap segments of the U.S. market.

MSCI USA Mid Cap Index is designed to measure the performance of the mid cap segments of the U.S. market.

MSCI USA Quality Index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI Quality Indexes complement existing MSCI Factor Indexes and can provide an effective diversification role in a portfolio of factor strategies.

MSCI USA Small Cap Index is designed to measure the performance of the small cap segment of the U.S. equity market.

MSCI USA Value Index captures large and mid cap U.S. securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.

Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect any fees or expenses. Individuals cannot invest directly in an index.

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