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 Asset Management℠

Principal Equities

THIRD QUARTER 2026

Equity perspectives

Navigating hype, concentration, and hidden risk

Introduction

Across sectors, the third-quarter equity outlook is defined by a tension between durable structural opportunities and a less forgiving market backdrop. AI infrastructure, power demand, defense spending, and healthcare innovation continue to create meaningful long-term opportunities. But after a strong run in many of these areas, markets are asking for more proof that companies can deliver.

At the same time, signs of consumer resilience and improving activity suggest the economy is not uniformly weak. The challenge is that leadership is narrow and dispersion is widening. As a result, investors need to focus on companies with durable earnings, visible demand, and the ability to convert structural tailwinds into sustainable cash flow.

Structural growth is real, but expectations are rising

The AI-led investment cycle is no longer confined to technology. It is supporting demand across semiconductors, cloud platforms, power infrastructure, industrial equipment, and materials tied to electrification and data centers. But the next phase will require proof: enterprise adoption, contracted earnings, durable demand, and cash flow. Structural growth remains compelling, yet markets are increasingly asking whether today's spending can justify today's expectations.

What's inside

Dispersion is widening across sectors and companies

Broad exposure looks less reliable than careful security selection. In Financials, banks and insurers are better positioned than private-market-sensitive firms; in Consumer Discretionary, luxury leaders are diverging from weaker aspirational brands; in Staples, categories vary widely by pricing power and volume recovery; and in Healthcare, companies need company-specific catalysts. Even in structurally favored areas like industrials and materials, investment benefits are uneven. The common thread is that specific company-level fundamentals play a bigger role in determining winners and losers.

Selectivity and active management are essential

Discipline, over broad market participation, is being rewarded in this environment. Crowded trades, narrow leadership, index concentration, and shifting macro narratives can create hidden risks, even in areas with strong long-term fundamentals. Rather than rejecting the major market themes, investors need to focus on which companies have the earnings durability, cost discipline, and cash-flow strength to turn those themes into lasting value.

GEORGE MARIS
Chief Investment Officer,
Global Equities

Perspectives from the CIO

Equity markets are being pulled between two forces: the genuine promise of artificial intelligence and the risk that investors are extrapolating that promise too far. AI may prove to be one of the most important technological advances of our time, with the potential to transform productivity and business models. But genuine innovation does not eliminate speculative excess; it can create the conditions for it. Today, individual stocks are moving up or down 10% with surprising frequency, often with little obvious change in fundamentals. That is not a market to navigate casually. It requires discipline, depth of research, and a clear view of what is durable versus what is being bid up.

Why active management matters

That is precisely the kind of environment in which professional investors matter. In calmer markets, broad exposures can appear to do much of the work. In periods of sharp dislocation, however, those assumptions can break down quickly. Correlations that once offered diversification may no longer behave as expected, momentum can overwhelm fundamentals, and risk models built on history may provide less guidance than investors believe. Deep research, robust risk controls, and true active management become essential tools for navigating markets where both upside and downside can be amplified.

Rethinking the index safe harbor

The notion of indices as a universal “safe harbor” deserves serious reconsideration. Market-cap-weighted indices have often provided broad, efficient exposure to economic growth. Today, however, concentration means they are less diversified than investors may believe. Rebalance dynamics, crowded positioning, and narrow leadership can create risks hidden in plain sight. Put simply, defaulting to an index because it feels easy may be riskier than many investors assume.

Lessons from the past

History offers a useful perspective. The 1995-2000 technology, media, and telecom (TMT) bubble was not wrong because the internet lacked importance; it was wrong because expectations, capital flows, and valuations detached from reality. The global financial crisis offers a different lesson: risk can hide in plain sight. That perspective matters today because AI is not just creating growth; it is redistributing it, challenging existing profit pools and forcing investors to reassess which business models are truly advantaged. Some companies justify enthusiasm. Others do not. Investors should not reject innovation, but they should be clear-eyed about what is already priced in.

Opportunity beyond the crowd

Today’s risks are mirrored by opportunities. When capital crowds into a narrow set of perceived winners, great companies outside the prevailing theme can be pushed aside. For Principal Equities, this is where active investing and risk management come together: using deep fundamental research to identify resilient earnings power, assess where expectations have become unrealistic, manage unintended exposures, and help protect clients from risks that may look safe on the surface but carry hidden fragility.

Summary of investment implications

TECHNOLOGY AND COMMUNICATIONS

Technology and communications remain a primary driver of market performance, supported by strong AI-related investment across a broad ecosystem. The focus is shifting from buildout to adoption, with demand durability still emerging. While early economics are encouraging, the next phase depends on translating infrastructure spending into sustained usage, revenue growth, and ultimately more consistent cash flow generation.

ENERGY AND UTILITIES

Energy and utilities are shifting from short-term volatility to long-term infrastructure demand, driven by the buildout of power capacity for AI and data centers. Opportunities are concentrated in companies providing reliable, incremental generation and infrastructure. While oil fundamentals have modestly improved, the broader outlook depends on sustained power demand and the durability of AI-driven investment.

FINANCIALS

Financials remain supported by strong earnings, resilient credit, and improving capital returns, particularly across banks and insurance. However, sentiment remains uneven, with private market firms constrained by slower realizations. The outlook is constructive but increasingly dispersed, with leadership concentrated in areas offering earnings visibility, while a recovery in deal activity could serve as a meaningful catalyst.

CONSUMER DISCRETIONARY

Consumer discretionary remains resilient despite weaker sentiment, supported primarily by the strength of the U.S. consumer. Spending continues even as confidence wavers, though dispersion is increasing across regions and income cohorts. The outlook depends on the durability of the wealth effect, with opportunities favoring globally diversified companies, strong brands, and structural demand drivers as conditions become more uneven.

CONSUMER STAPLES

Consumer staples are stabilizing after a period of earnings pressure, with early signs of volume recovery emerging. However, demand remains uneven and cost pressures persist, particularly among lower-income consumers. The outlook increasingly depends on sustained volume growth, with opportunities concentrated in segments able to defend margins and adapt as consumer behavior continues to shift.

INDUSTRIALS

Industrials are showing early signs of recovery, supported by data center, power, and defense demand, but performance remains highly concentrated. A narrow group of companies tied to structural growth themes is driving results, while broader sectors lag. Opportunities exist in underperforming areas with long-term tailwinds, though selectivity remains critical given sensitivity to shifting investment expectations.

HEALTHCARE

Healthcare offers strong underlying innovation and improving fundamentals, but continues to lag as capital flows favor AI-driven sectors. Performance remains selective, with catalysts, earnings visibility, and differentiated pipelines driving outcomes. While M&A and policy clarity may support sentiment, broader sector momentum likely depends on a shift in investor allocations back toward under-owned, quality growth.

MATERIALS

Materials remain supported by favorable commodity fundamentals, especially in metals tied to electrification and infrastructure. However, the opportunity set is becoming more selective as company-specific factors and supply dynamics diverge. Long-term demand for copper and gold remains strong, while segments facing structural oversupply, such as chemicals, require a more cautious investment approach.

Technology and Communications

Strong momentum, with questions shifting to durability

Technology and communications remain at the center of market leadership, powered by sustained investment in AI infrastructure. Unlike prior cycles, where gains were often concentrated in a narrower set of businesses, this buildout has been broader. Demand has extended across semiconductors, cloud platforms, software, power, cooling, and other supporting ecosystems.

The pace has been unusually fast. Capital deployment has accelerated, expectations have risen, and the market has quickly moved from asking whether the AI cycle is real to how long it can last. The sector remains in an investment-heavy phase. Component costs are rising, hyperscalers are still ramping up spending, and what was once expected to peak around 2026 now appears likely to extend further out.

Early signals on returns are constructive, with some companies pointing to solid project-level economics and margin improvement. Those proof points have helped sustain confidence, but the larger question is whether early returns can scale quickly enough to justify the next wave of spending.

From buildout to proof point

Looking ahead, the focus is shifting from the pace of investment to the durability of demand. For the current scale of infrastructure spending to be justified, AI adoption will need to move beyond early use cases and become embedded in broader enterprise workflows.

At this stage, adoption remains uneven. Developers and early adopters are integrating AI more deeply into their day-to-day work, while broader enterprise use remains more experimental. Many companies are purchasing AI-enabled technology (such as security, data, and compliance) to be ready for AI. However, most usage is still centered around testing applications, building pilots, and evaluating productivity gains rather than fully embedding AI into core operations.

If adoption accelerates meaningfully, it will support continued investment and help validate the current trajectory. If it takes longer to materialize, the cycle could still prove durable, but more volatile. The timeline for peak capital spending has extended, and the timing of free cash flow generation remains tied to how quickly AI usage becomes essential across industries.

Financing dynamics also bear watching. Most hyperscalers still have balance sheet flexibility, but higher rates have made the cost of capital more relevant. In parts of the ecosystem, alternative financing structures can obscure where risk ultimately sits. Demand is also concentrated among a relatively small number of large buyers, making the sustainability of the cycle harder to assess.

Our perspective: Tech & Communications

Technology and communications remain a central driver of market performance, but the narrative is evolving. The opportunity set remains compelling, supported by strong investment, broadening demand, and improving early economics. Yet the next phase will depend less on the size of infrastructure spending and more on whether that spending translates into sustained usage, revenue growth, and eventually cash flow.

That transition is likely to introduce more variability. AI is no longer confined to the technology sector; its influence is extending into industrials, energy, and other areas tied to data centers and digital infrastructure. That creates a broader set of portfolio exposures, but it also raises the stakes if expectations do not materialize as anticipated. In that environment, investors will need to distinguish between companies benefiting from the AI buildout and those capable of turning that demand into durable cash flows.

Energy and Utilities

Volatility fades as long-term fundamentals take hold

Energy and utilities entered the quarter facing heightened volatility tied to developments in the Middle East, yet equity performance proved more measured than commodity price moves would suggest. Much of the geopolitical risk was already reflected in markets earlier in the year, helping limit the reaction as events unfolded.

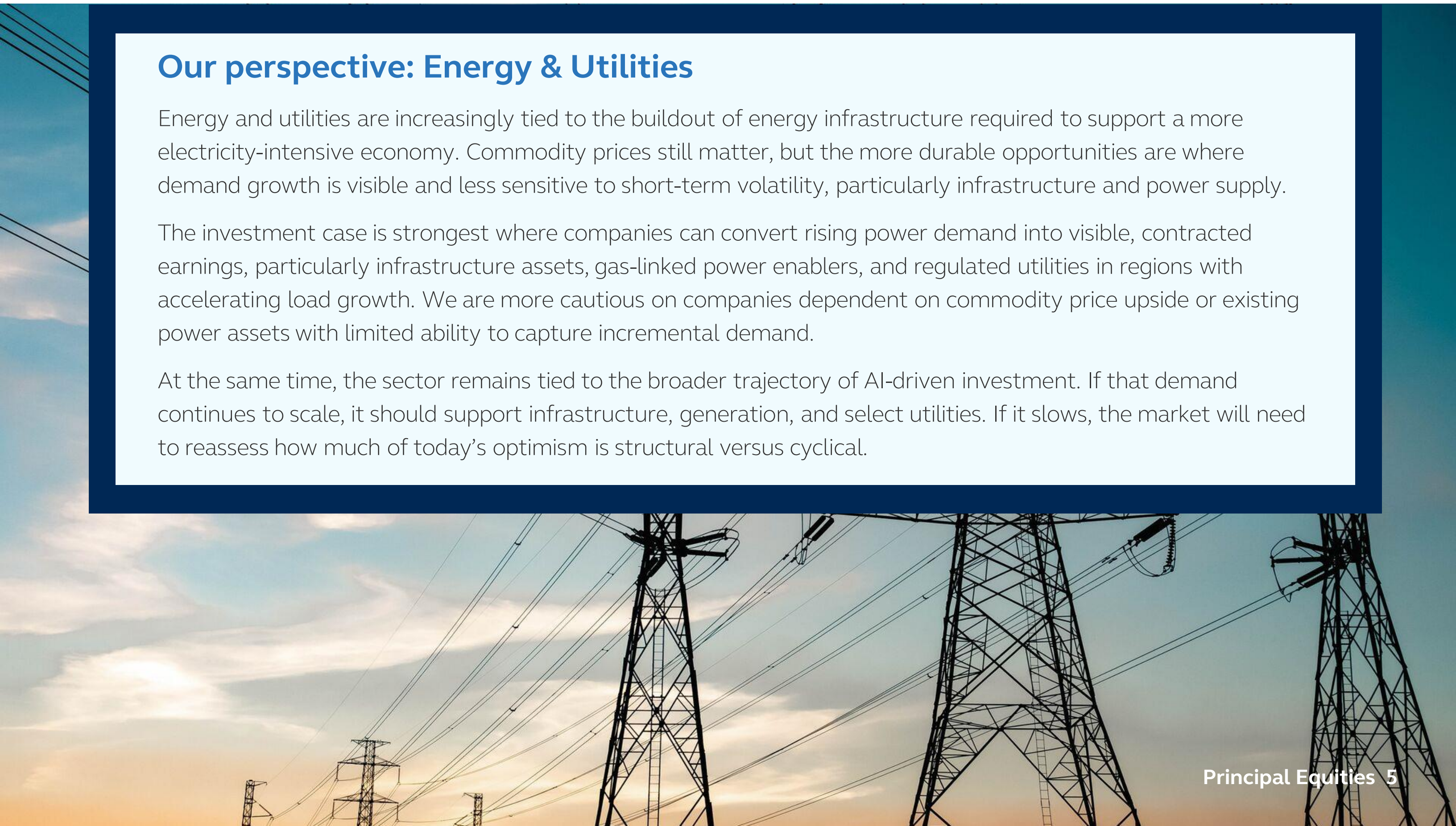
With the initial shock absorbed, investor attention has shifted back to longer-term fundamentals. Oil markets have tightened modestly following supply disruptions, lifting medium-term price expectations, while power demand continues to strengthen. Overall, sentiment toward oil has improved, though investors still brace for future shocks.

Infrastructure and power demand drive the next phase

Utilities are focused on rapid power demand growth driven by data centers and AI compute. The key shift has been toward "time to power," with hyperscalers prioritizing speed and supply certainty. That dynamic favors companies that can deliver dedicated capacity, particularly through on-site or behind-the-meter solutions, rather than those relying solely on existing grid infrastructure.

This shift is also influencing how different parts of the power ecosystem are valued. Companies that can enable incremental generation, including gas infrastructure and certain regulated utilities in favorable regions, are seeing stronger interest. By contrast, traditional power producers relying on existing assets have faced greater scrutiny, especially where regulatory or policy constraints limit pricing power.

Renewables remain part of the solution, particularly as higher costs for traditional generation improve their relative economics. Battery storage is becoming an increasingly important complement, but intermittency limits how far renewables can go in meeting reliability needs. Nuclear remains attractive in concept, but long development timelines and high costs make it unlikely to materially alter the near-term supply picture.



Our perspective: Energy & Utilities

Energy and utilities are increasingly tied to the buildout of energy infrastructure required to support a more electricity-intensive economy. Commodity prices still matter, but the more durable opportunities are where demand growth is visible and less sensitive to short-term volatility, particularly infrastructure and power supply.

The investment case is strongest where companies can convert rising power demand into visible, contracted earnings, particularly infrastructure assets, gas-linked power enablers, and regulated utilities in regions with accelerating load growth. We are more cautious on companies dependent on commodity price upside or existing power assets with limited ability to capture incremental demand.

At the same time, the sector remains tied to the broader trajectory of AI-driven investment. If that demand continues to scale, it should support infrastructure, generation, and select utilities. If it slows, the market will need to reassess how much of today's optimism is structural versus cyclical.

Financials

Fundamentals remain solid, even as sentiment varies

Financials enter the second half of the year in better fundamental shape than investor sentiment might suggest. Earnings estimates have continued to rise across both banks and insurers, supported by steady loan growth, resilient net interest margins, and stable credit quality. Defaults remain low, capital levels continue to build, and many companies remain well-positioned to return capital through dividends and buybacks.

Still, sentiment has been less favorable in areas more closely tied to private markets. Publicly listed private equity and private credit managers have come under pressure as realization activity has slowed and retail demand has softened. That has created a more divided backdrop: banks and insurers are still benefiting from earnings visibility and capital return, while private-market-sensitive businesses need a pickup in realizations to regain investor confidence.

Earnings momentum is holding, but dispersion persists

Looking ahead, the outlook for Financials remains constructive overall. Earnings momentum is supported by stable credit conditions and a more favorable rate environment for the sector. Expectations for rate cuts have faded, with markets beginning to price in the possibility that the Fed may need to instead tighten in the latter half of the year. That helps sustain net interest margins and supports bank profitability.

Credit remains a key watch point, but the data continues to hold up. Despite concerns tied to higher energy prices and tighter financial conditions, there has been little evidence of meaningful deterioration across consumer or commercial lending. That resilience has reinforced the sector’s earnings durability, though investors are still watching closely for signs of mounting pressure.

Within financials, performance is becoming more differentiated. Investment banks stand out more positively, supported by a stronger pipeline of equity issuance and M&A, which is driving upward revisions to earnings expectations. Insurance also remains constructive, particularly life insurance, where higher investment income and stable credit conditions are supporting earnings growth alongside attractive capital return profiles.

By contrast, asset managers and private market firms continue to face a more challenging environment. Institutional demand remains solid, but limited realization activity is constraining earnings growth and weighing on sentiment. Fundraising has held up, but the next phase of the cycle will likely depend on a pickup in deal activity and distributions, which would help validate the underlying performance of these strategies.

Across the sector, leadership remains relatively narrow and closely tied to capital return. Companies that can deliver consistent earnings and return excess capital through dividends and buybacks have attracted the most interest, reflecting investors’ preference for visibility and yield in a still uncertain environment.

Our perspective: Financials

Financials remain supported by earnings strength, resilient credit, and improving capital returns, but this is no longer a broad-sector story. The most compelling opportunities are in areas with clear earnings visibility and the ability to sustain shareholder distributions, particularly within banks and insurance. At the same time, parts of the private market ecosystem may be nearing an inflection point: a recovery in realizations could meaningfully improve sentiment. Until then, dispersion is likely to remain the defining feature of the sector.

Consumer Discretionary

Spending holds up as confidence wavers

Consumer discretionary enters the third quarter with a notable disconnect: consumers remain cautious, but they continue to spend. Geopolitical tensions, higher energy prices, and sticky inflation have weighed on confidence, yet spending has remained more resilient than the sentiment backdrop would suggest. For investors, the key question is whether that resilience can persist amid rapidly shifting macro narratives and heightened pressure on household confidence.

So far, the evidence has been encouraging. U.S. consumers continue to spend, especially at the higher income cohorts, supporting categories that many expected to slow as the year progressed. That strength has extended into parts of the luxury market, where U.S. demand has remained steady enough to offset softer trends elsewhere. Earnings across much of the sector have therefore held up better than broader consumer confidence measures would imply.

Regional divergence, however, remains important. Europe is still under pressure, particularly in tourism-related categories, where long-haul travel disruptions and reduced international travel have weighed on spending. Asia is more mixed but improving: China appears to be stabilizing after a prolonged property-led downturn, while Japan and Korea are benefiting from stronger equity markets and rising household wealth.

Dispersion is rising as drivers shift

Looking ahead, the sector's outlook is increasingly tied to the durability of the global wealth effect. In prior cycles, housing and real estate were often the dominant drivers of household confidence. Today, financial markets are playing a larger role. Equity market gains, particularly in technology-driven areas, support confidence across several regions, but they also leave spending more exposed to shifts in market sentiment.

That dynamic is creating wider dispersion within the sector, and luxury remains a clear example. High-end consumers remain relatively insulated, but aspirational buyers have become more selective after several years of industry-wide price increases. The result is a sharper divide between brands with true long-term desirability and those that have relied too heavily on price as a growth lever.

Travel, lodging, and experiential spending continue to stand out as areas of strength. The shift toward experiences remains intact, while large global lodging operators are gaining share from independent providers through scale, distribution, and loyalty programs. That combination of steady demand and share gains is creating a more durable growth profile than in prior cycles.

Across the sector, geographic diversification is becoming more important. Companies with balanced exposure across regions and consumer segments should be better positioned to navigate volatility. At the same time, those relying on a single market or cohort remain more exposed to localized shifts in sentiment, tourism, and policy.

Our perspective: Consumer discretionary

Consumer discretionary remains a selective opportunity set, with much of its strength still resting on the American consumer. The headline narrative remains cautious, but underlying fundamentals are proving more resilient: sentiment has weakened, yet spending continues. That resilience, however, is becoming less uniform. We continue to favor companies supported by structural demand, strong brand positioning, disciplined pricing, and global exposure – characteristics that should help businesses compound growth even as the macro backdrop evolves and consumer confidence remains uneven.

Consumer Staples

Stabilizing, but still selective

After a difficult stretch of earnings resets and fading contribution from pricing, consumer staples are entering the third quarter in a more stable position than in the second quarter. Expectations have come down, volumes are showing early signs of recovery, and the sector faces less risk than at the beginning of 2026, given the war in Iran. Still, the recovery is not broad-based. Higher energy and input costs, along with an uneven consumer backdrop, continue to test demand.

So far, the impact of higher commodity prices has been more manageable than feared. Hedging and lagged cost pass-through have helped protect margins, reducing near-term downside risk. That leaves the sector in a better place than during the height of the Iran war, though not strong enough to justify a broad rerating.

Volume recovery remains the key battleground

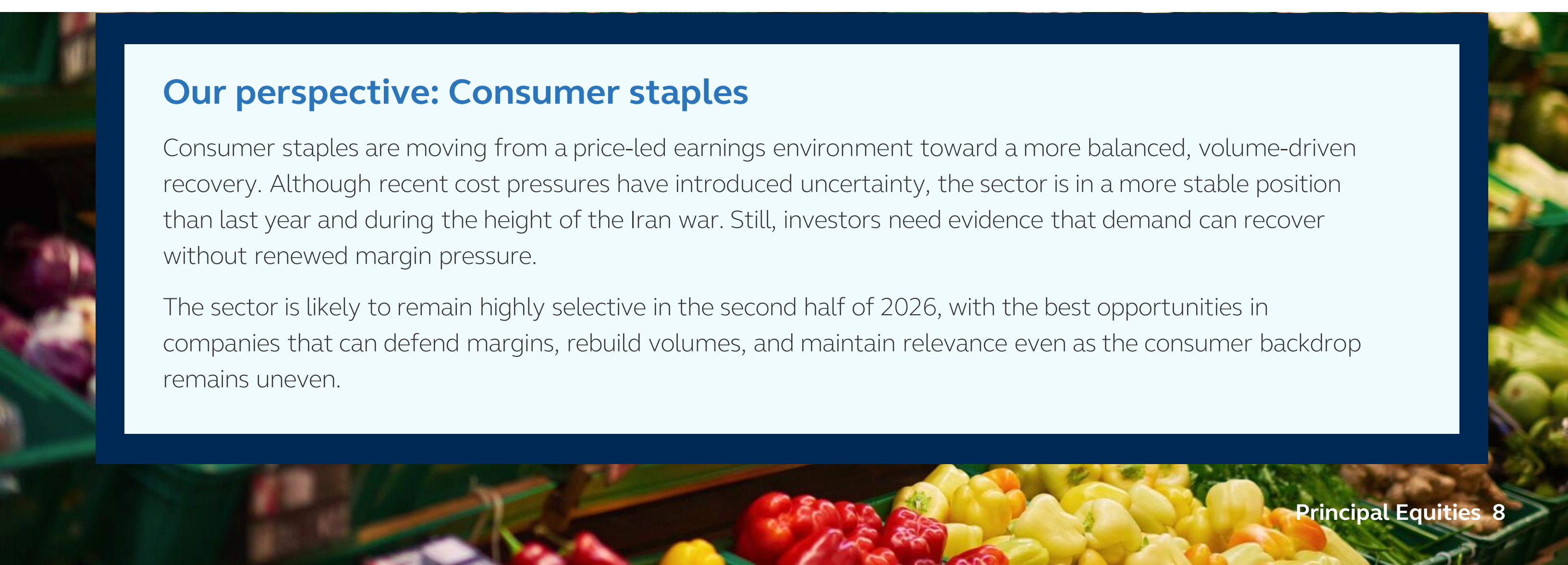
Looking ahead, the focus for staples investors is shifting back to volume growth. After several years in which pricing carried results, weak volumes became a major drag on performance in 2025. That makes even modest recovery especially important. In staples, pricing typically offsets cost pressure; it rarely drives durable earnings growth on its own. Volume is the clearest signal that the sector's fundamentals are improving.

The second half should bring greater clarity on both input costs and consumer demand. First-half results will show whether commodity price pressures are flowing through to margins and whether higher energy and input costs are weighing on consumption. This is especially important in emerging markets, where much of the recent volume strength has originated, but where consumers are more price sensitive. If those pressures squeeze household budgets, the volume recovery could prove less durable than early results suggest.

The consumer backdrop remains another factor. Staples demand is generally defensive, but lower-income households are more exposed to pressure from food, energy, and borrowing costs than high-income households. That makes the recovery dependent not just on overall consumer spending, but on whether demand broadens across the economy.

At the subsector level, dispersion continues to widen. Categories with stronger pricing power and more stable demand profiles, such as tobacco, are viewed more favorably given their ability to maintain earnings consistency. Beauty continues to perform relatively well, supported by premium positioning, a strong U.S. high-end consumer base, and stronger margin structures, though competition is intensifying.

By contrast, household and personal care remain more exposed to cost pressure, while food faces a more complicated longer-term outlook. The category is dealing with shifting consumer preferences, slower population growth, headwinds from GLP1s, and potentially renewed input-cost risks. That combination leaves food more exposed to margin pressure and demand softness than some other staples categories.



Our perspective: Consumer staples

Consumer staples are moving from a price-led earnings environment toward a more balanced, volume-driven recovery. Although recent cost pressures have introduced uncertainty, the sector is in a more stable position than last year and during the height of the Iran war. Still, investors need evidence that demand can recover without renewed margin pressure.

The sector is likely to remain highly selective in the second half of 2026, with the best opportunities in companies that can defend margins, rebuild volumes, and maintain relevance even as the consumer backdrop remains uneven.

Industrials

Early signs of improvement, but leadership remains narrow

Entering the third quarter, industrials are showing tentative signs of improving momentum, but not yet a broad-based recovery. Manufacturing activity and new orders have stabilized and started to move higher, supported by demand tied to data center construction, power infrastructure, and defense spending. Together, those forces are creating a more constructive backdrop, even as the recovery remains uneven.

That distinction matters because the market is rewarding companies with clear exposure to long-duration capital spending, while remaining more skeptical of businesses tied to shorter-cycle industrial demand. Machinery, industrial services, and other more cyclical areas have lagged, reflecting softer end-market conditions, policy uncertainty, tariffs, and rising input costs.

Structural demand is intact, but dispersion persists

Looking ahead, industrials sit at the intersection of several powerful growth drivers, but the benefits are not being felt evenly. Data center expansion and the related need for power infrastructure remain among the most significant sources of demand. Companies supplying key components and services to those projects are still early in the build cycle, and much of the announced spending has yet to fully translate into orders. That makes it increasingly important to distinguish between companies with durable, recurring opportunities and those benefiting from a more temporary surge in spending.

Defense represents another important pillar of growth. Near-term performance may remain sensitive to geopolitical developments. Still, the trend toward higher budget allocations appears intact, providing a more durable tailwind even if the pace varies from year to year.

Inflation pressures are also changing in ways that matter for the sector. Commodity costs remain relevant, but labor availability, especially in skilled trades, has become a more persistent constraint for complex manufacturing and Infrastructure projects. That could make automation, digital tools, and productivity-enhancing equipment less discretionary over time, potentially broadening the industrial opportunity set beyond the current data center and defense leaders.

Despite these positives, dispersion remains a defining feature of the sector. Leadership is concentrated among a relatively small group of large-cap companies linked directly to structural growth themes. At the same time, many traditional industrial businesses continue to face a slower recovery in demand and more challenging operating conditions. In industrial services, the sector's weak stock performance remains pronounced, reflecting both cyclical softness and less direct exposure to the dominant growth drivers. That divide is creating opportunities in out-of-favor areas where longer-term fundamentals remain intact. Machinery, including parts of the agricultural equipment market, is one example. Near-term demand remains pressured, but the longer-term case for productivity, automation, fleet replacement, and technology adoption remains intact.

Our perspective: Industrials

Industrials remain levered to some of the most important structural themes in today's market, primarily the data center buildout, but the opportunity set is far from uniform. The most attractive areas are likely to be companies that can capture the initial wave of demand while also building higher-value customer relationships through integrated solutions and service models.

At the same time, the sector's dependence on large, long-duration investment cycles makes it sensitive to changes in expectations. Any shift in the trajectory of data center or infrastructure spending would likely be reflected in valuations before it is reflected in fundamentals. That reinforces the need for selectivity, focusing on companies that combine structural demand exposure, differentiated capabilities, and durable revenue streams.

Healthcare

Defensive qualities did not show up as expected

Healthcare did not behave as defensively as many investors expected during the recent period of geopolitical volatility. Rather than drawing capital as a traditional safe haven, the sector continued to lag, as investors favored technology and areas more directly tied to the AI trade. That flow dynamic mattered more than underlying fundamentals, leaving healthcare as a source of funds rather than a beneficiary of risk aversion.

At the same time, the sector's fundamentals have remained mixed rather than broadly weak. Managed care has benefited from moderating utilization trends, while parts of medtech continue to face a more challenging operating backdrop. The result is a sector that still offers innovation, diversification, and defensive characteristics, but one where broad leadership has been difficult to establish.

Innovation is intact, but investors need a reason to return

From a bottom-up perspective, the case for healthcare remains credible. Innovation across pharma, biotech, diagnostics, and life sciences remains robust, and several policy overhangs that weighed on sentiment earlier in the year have begun to fade. The regulatory environment also appears more constructive than many investors feared, improving confidence around innovation and approvals, even if uncertainty has not disappeared entirely.

But sector performance is being driven heavily by allocation decisions rather than fundamentals alone. As long as the AI trade dominates investor attention, healthcare may struggle to attract the flows needed to lift the group as a whole. That makes selectivity essential. The market is likely to reward companies with clear catalysts, improving earnings visibility, differentiated innovation, or a specific reason for incremental buyers to step in.

Several areas bear watching in the third quarter. Life science tools appear to be moving into a recovery phase after a multi-year slowdown tied to weaker pharmaceutical and biotech spending. Managed care has also improved as utilization trends have become more favorable, supporting a better earnings outlook after a difficult stretch. By contrast, medtech remains mixed. Valuations have become more compelling, but the group is still contending with slower volumes and less near-term visibility than other parts of healthcare.

M&A is another potential catalyst for the second half. Large pharmaceutical companies still face patent expirations and need to replenish pipelines, which should support deal activity over time. If transactions begin to materialize more meaningfully, they could draw renewed attention back to parts of biotech and improve sentiment across the broader sector.

AI remains a longer-term opportunity for healthcare, but near-term expectations should remain measured. The technology shows promise in diagnostics, workflow efficiency, and drug discovery, yet healthcare's regulatory and clinical timelines suggest that meaningful returns are likely to take time to emerge. For now, AI is more of an enabling theme than a near-term earnings driver.

Our perspective: Healthcare

Healthcare continues to offer a compelling mix of innovation, diversification, and idiosyncratic opportunities, but the sector is operating in a market where flows have overshadowed fundamentals. That keeps the sector more selective than broad-based heading into the third quarter. We favor companies with visible catalysts, improving earnings trajectories, and structural growth drivers that do not depend solely on a rotation back into defensives. If technology leadership narrows or investors begin looking for under-owned quality, healthcare could reenter the conversation more forcefully.

Materials

Supportive fundamentals, but a more selective setup

Materials enter the third quarter facing a constructive, but less forgiving, economic backdrop. Stronger pricing across key commodity markets has supported earnings, particularly in metals and mining, while infrastructure spending, data center buildout, and electrification continue to underpin longer-term demand. At the same time, geopolitical volatility, including recent Middle East-related disruptions, has added uncertainty around input costs and supply chains.

The result is a sector that still has meaningful tailwinds, but where broad exposure may be less rewarding than earlier in the cycle. Commodity-level fundamentals remain important, but company-level factors are becoming more decisive.

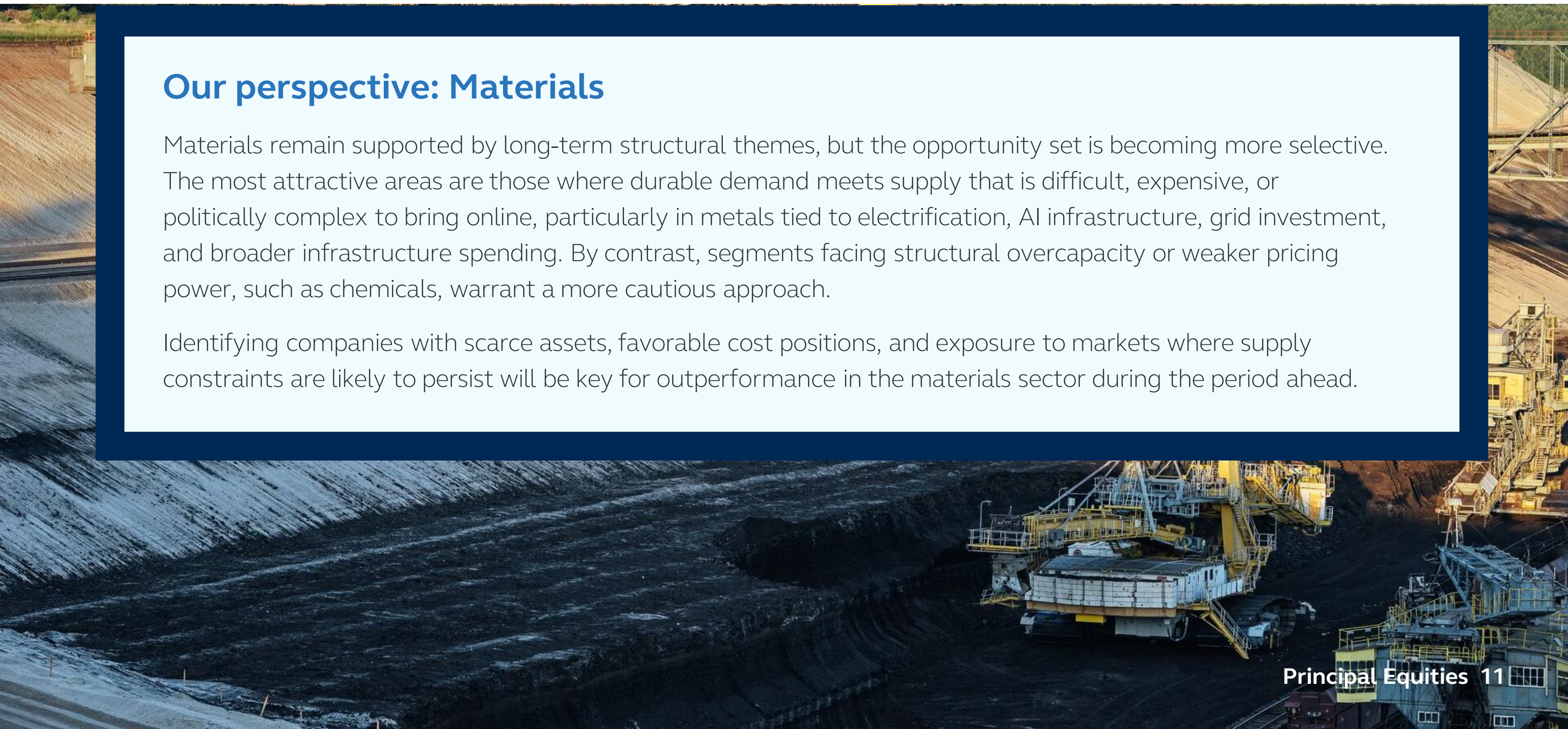
Structural supply constraints meet durable demand

Looking ahead, the most compelling opportunities remain in areas with structural imbalances between supply and demand. Copper stands out as a clear example, supported by rising demand from electrification and AI-related infrastructure alongside a supply backdrop that continues to tighten. Declining ore quality, limited new discoveries, and increasing geopolitical complexity are making it more difficult and more expensive to bring new supply online, reinforcing the longer-term investment case.

Gold also remains well supported, though for different reasons. As fiscal pressures continue to build across developed economies, the likelihood of persistently higher inflation remains an important consideration. That backdrop should remain supportive for gold, helped by central bank demand and continued interest in assets that can serve as a store of value outside traditional reserve holdings.

Conditions across the broader sector are more mixed. Chemicals remain challenged by global overcapacity, driven largely by increased production from China and the Middle East. While periods of tighter energy markets can create temporary advantages for certain producers, the underlying supply dynamics continue to limit sustained pricing power.

At the company level, dispersion is widening. Cost structure, asset quality, access to inputs, and geographic exposure are increasingly separating potential winners from laggards. In mining, for example, lower-cost operators with assets in stable jurisdictions should be better positioned to manage permitting, labor, operational, and political risks. Across more complex supply chains, exposure to key inputs can quickly become either a competitive advantage or a risk as market conditions shift.



Our perspective: Materials

Materials remain supported by long-term structural themes, but the opportunity set is becoming more selective. The most attractive areas are those where durable demand meets supply that is difficult, expensive, or politically complex to bring online, particularly in metals tied to electrification, AI infrastructure, grid investment, and broader infrastructure spending. By contrast, segments facing structural overcapacity or weaker pricing power, such as chemicals, warrant a more cautious approach.

Identifying companies with scarce assets, favorable cost positions, and exposure to markets where supply constraints are likely to persist will be key for outperformance in the materials sector during the period ahead.

Risk considerations

Investing involves risk, including possible loss of principal. Past performance is no guarantee of future results. Equity investments involve greater risk, including higher volatility, than fixed-income investments. International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards. Investors should be aware that alternative investments including private equity and private debt are speculative, subject to substantial risks including the risks associated with limited liquidity, the use of leverage, short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, and they may be subject to high fees and expenses, which will reduce profits.

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.

All figures shown in this document are in U.S. dollars unless otherwise noted. All assets under management figures shown in this document are gross figures, before fees, transaction costs and other expenses and may include leverage, unless otherwise noted. Assets under management may include model-only assets managed by the firm, where the firm has no control as to whether investment recommendations are accepted, or the firm does not have trading authority over the assets.

Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

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 organisation.
- 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.
- The exhibition of this material in Chile does not constitute an offer for the purchase or sale of any local or foreign security, nor does it pretend to promote or advertise determinate securities or its issuers or facilitate the purchase or sale of determinate securities. This material has been prepared exclusively to be used in one on one presentation with institutional or qualified investors, capable of properly evaluating the limitations and risks involved in investment decisions. This presentation should not be provided to anyone else.

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.

Principal Fixed Income is an investment team within Principal Global Investors.

5721326