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4Q 2026

Principal Asset Management℠

Global Market Perspectives

Stubbornly intact

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Key themes for 4Q 2026

- **Despite mounting challenges, global growth remains stubbornly intact**
  Global growth continues to exceed expectations. The AI capex buildout, combined with consumer strength, has supported growth even as bond yields, energy prices, and geopolitical risks have risen sharply.
- **The U.S. economy has become less sensitive to higher rates**
  The economy has proven unusually robust in the face of higher borrowing costs, reflecting reduced household and corporate interest rate sensitivity. The AI capex cycle has become an increasingly important source of growth.
- **A synchronized global hiking cycle is underway**
  A stronger growth backdrop has made major central banks more willing to tighten policy further and keep rates restrictive until inflation shows clearer signs of returning to target. A shallow hiking cycle remains the most likely outcome, but risks are skewed to the upside.
- **Earnings remain the backbone of the equity market**
  Strong earnings growth and AI-related investment have helped offset the impact of higher rates. However, persistent inflation, ambitious profit expectations, and rising bond yields leave less room for disappointment.
- **Bond markets are adjusting to a higher cost of capital**
  Above-trend growth, structural investment demand, and rising borrowing requirements are contributing to higher long-term yields. Elevated income levels continue to provide an attractive starting point across fixed income markets.
- **Resilience rewards patience**
  While AI remains an important driver, broader earnings growth, improved income potential, and a wider distribution of growth across sectors and regions are expanding the range of investment choices. The opportunity set across asset classes is broadening, but so too is the need for selectivity and diversification.

A growth story: Not all rising yields are equal

Over the past quarter, rising bond yields have fuelled market volatility and renewed concerns about the durability of the bull market. Yet, while higher energy prices and elevated fiscal deficits have contributed to the move, not all of the increase reflects deteriorating fundamentals. Robust global growth and a powerful capex cycle, led by AI-related investment, are increasing demand for capital and pushing up the long-term cost of capital.

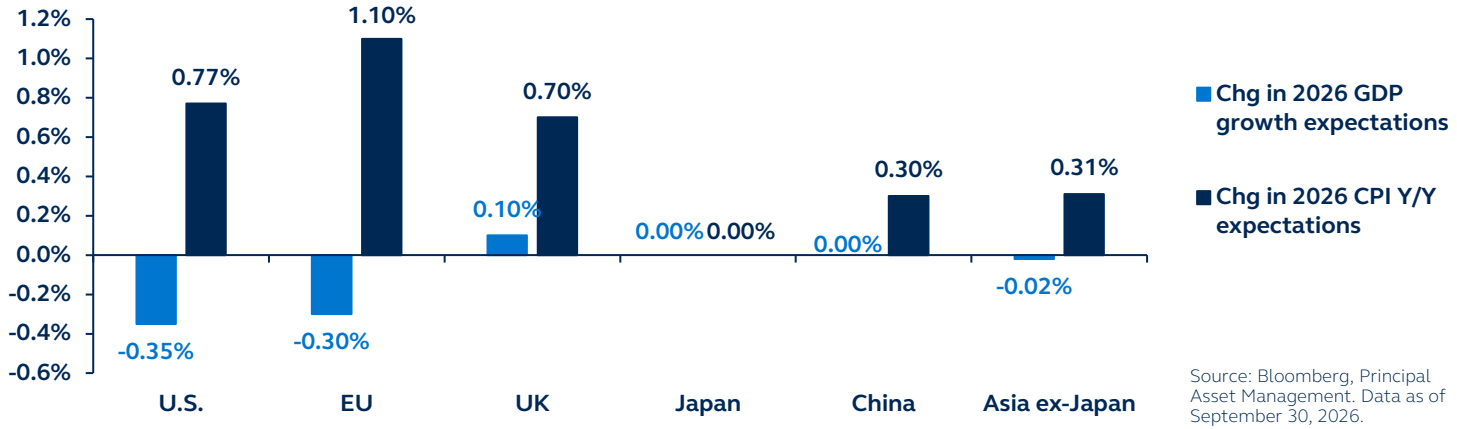
While growth expectations across several major economies have softened from earlier highs, reflecting the drag from higher oil prices, most are still expected to deliver at least trend growth in 2026. The outlook for Asia ex-Japan has improved, with the investment cycle helping to offset higher commodity prices and supporting regional growth.

The resilience of global activity is perhaps most evident in the U.S., where nominal GDP is expanding at 6.6% year-on-year, the strongest pace since 2005 outside the post-pandemic rebound. With nominal growth and investment demand remaining robust, higher bond yields should not be viewed solely as a headwind for markets. They also reflect an economy that continues to generate opportunities for earnings growth and capital deployment, providing a constructive backdrop for risk assets.

Rising yields reflect not only tighter policy, higher energy prices, and fiscal deficits, but also a resilient global economy and a strengthening AI-driven investment cycle.

Change in consensus 2026 global real GDP and CPI growth forecasts

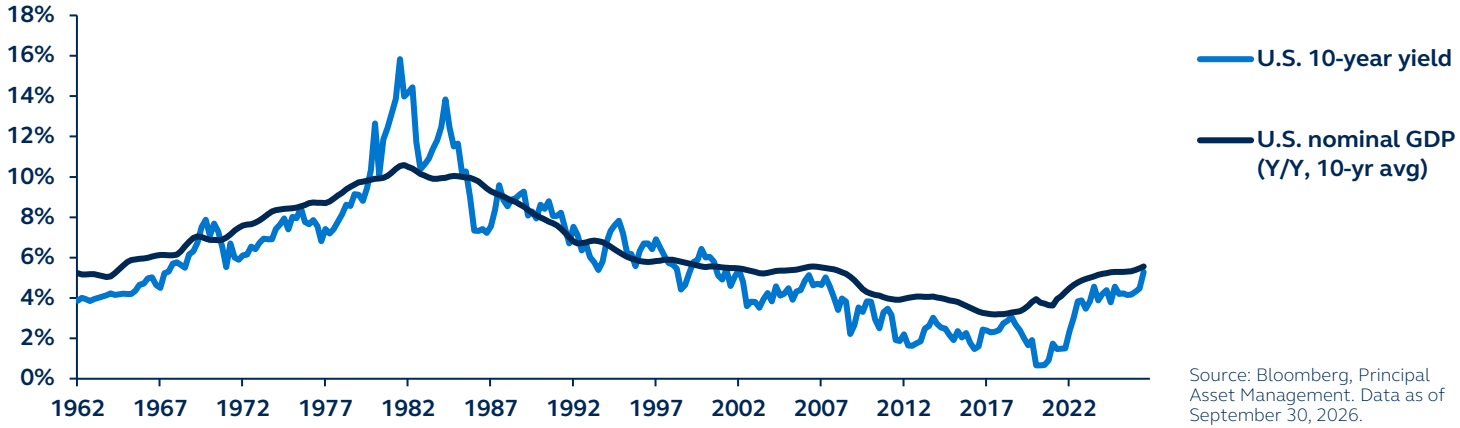
Percentage point change, February 2026–September 2026



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

U.S. nominal GDP growth and 10-year Treasury yield

10-year average of annual nominal GDP growth, 1962–present



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

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Growth underpinned by AI-related investment

The U.S. economy has continued to demonstrate remarkable resilience. Industrial production levels remain consistent with expansion, ISM activity surveys have surged, retail sales are exceeding expectations, and labor market conditions remain stable. While affordability pressures are evident, they have been reflected more clearly in consumer sentiment than in economic activity.

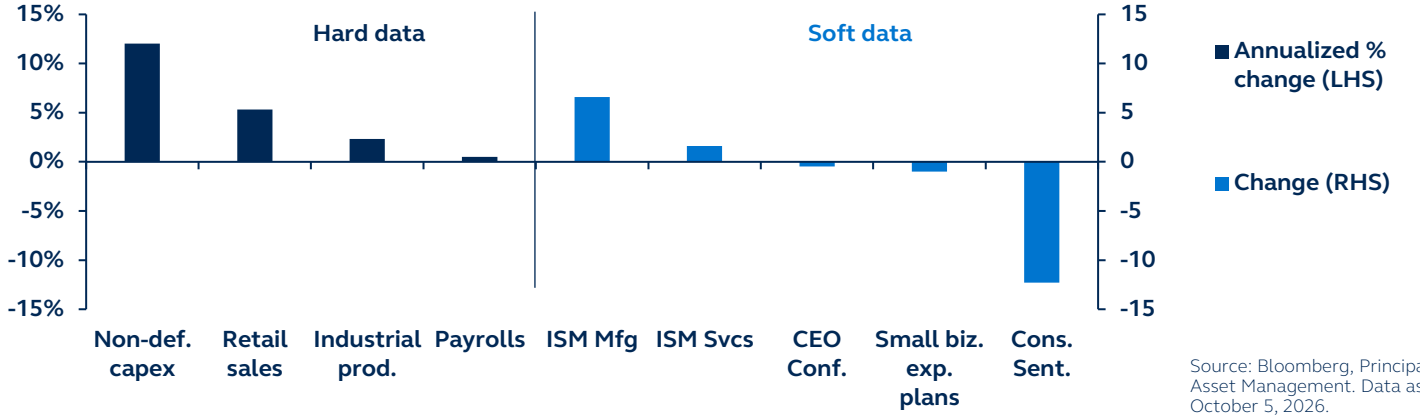
Looking ahead, tighter financial conditions are likely to weigh on the most interest-rate-sensitive sectors of the economy, particularly housing, while consumer spending may come under pressure from higher energy costs and the absence of tax refund support. However, much of this drag will likely be offset by continued strength in business investment, led by AI-related capex.

Indeed, the investment cycle is increasingly being shaped by AI-related spending. AI investment has evolved from a technology theme into an important driver of economic growth, supporting activity well beyond the technology sector. As tighter financial conditions weigh on housing and consumer spending, continued AI-related capital expenditure should help sustain economic momentum and support broader investment activity across the economy.

While U.S. households face greater affordability pressures that may weigh on sentiment and spending, the AI capex cycle is offsetting these headwinds through positive spillovers.

Hard vs. soft data change

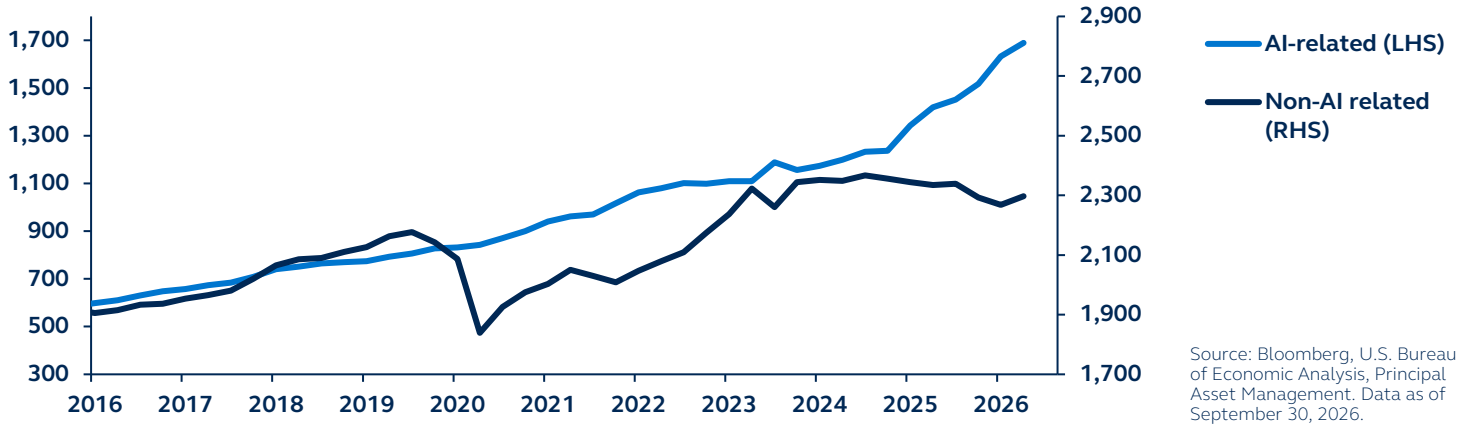
Annualized percentage change, Index level change, December 2025–September 2026



Source: Bloomberg, Principal Asset Management. Data as of October 5, 2026.

Real non-residential fixed investment: AI vs. non-AI

Billions of USD, 1Q 2016–2Q 2026



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

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A less interest rate sensitive U.S. economy

Economic slowdowns typically emerge as higher borrowing costs constrain spending and investment. Yet despite net interest payments reaching cycle highs, the economy has proven unusually resilient, reflecting reduced interest-rate sensitivity across key parts of the economy.

Households and corporates locked in exceptionally low borrowing costs during the pandemic, leaving effective borrowing rates well below current market rates. As a result, even with 30-year mortgage rates above 7%, much of the household sector remains insulated from higher financing costs. Meanwhile, strong earnings growth and record-high profit margins have enabled businesses to continue investing.

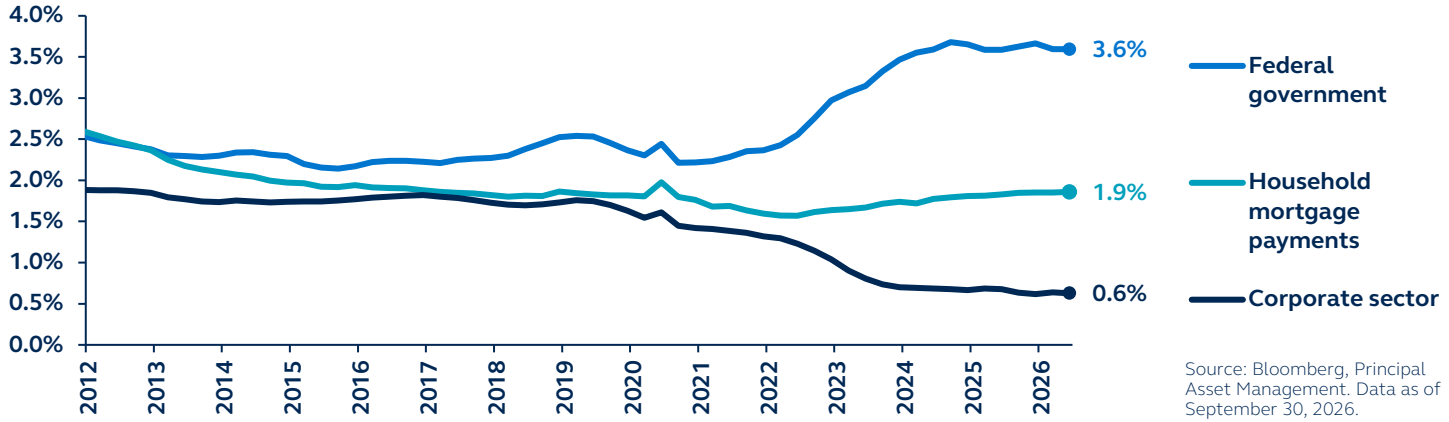
Moreover, AI-related spending is increasingly driving the investment cycle. Supported by strong expected returns and strategic capacity requirements, it has remained relatively insensitive to higher borrowing costs. Rising household wealth, supported by resilient labor markets and equity markets, has also helped sustain consumer spending.

The government sector stands in contrast. Unlike households and businesses, governments largely failed to extend debt maturities when rates were near zero, leaving public finances considerably more exposed to higher borrowing costs.

Both household and corporate balance sheets offer an underappreciated source of cyclical robustness against higher rates and macro shocks.

U.S. net interest payments by sector

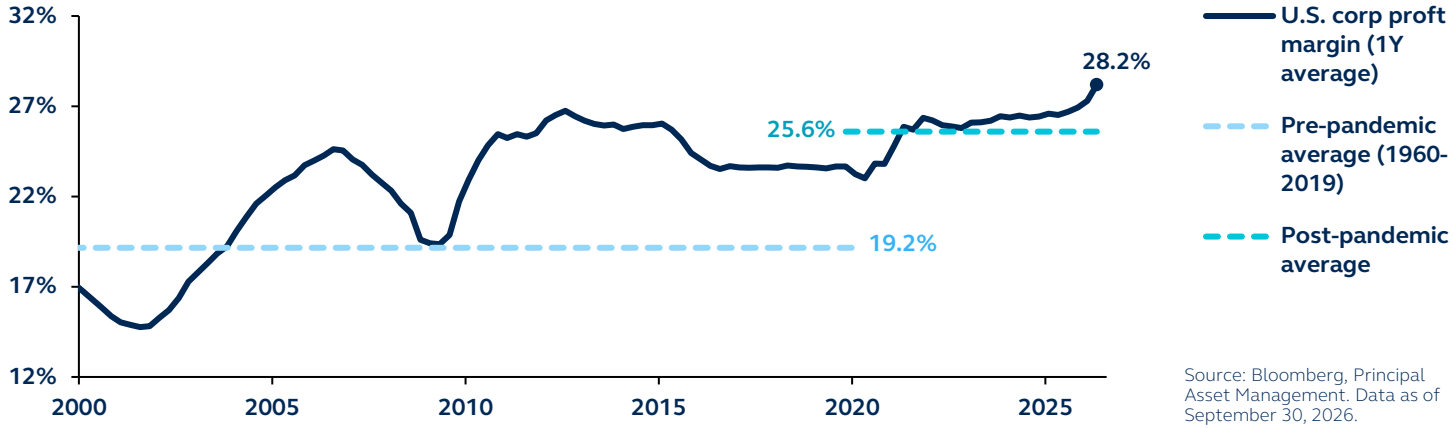
Payments as a percentage of GDP, January 2012–June 2026



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

Corporate profit margin

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



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

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U.S. labor market: Still hiring, not firing

The U.S. labor market remains remarkably stable, characterized by low hiring but also low firing. The three-month moving average of payroll growth sits around 50,000, above the Fed's near-zero estimate of breakeven employment, while jobless claims remain low.

Slower labor force growth, driven by demographic trends and tighter immigration policies, means only modest job creation is needed to keep unemployment stable near 4%.

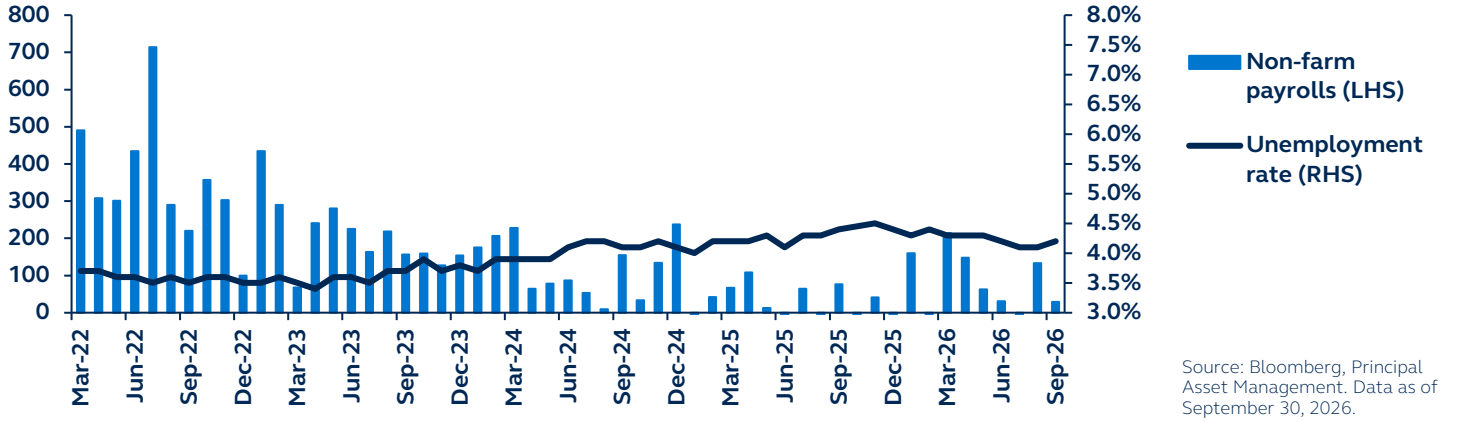
Meanwhile, recent surveys suggest labor demand is beginning to improve, and job growth has broadened into more cyclical industries, a trend reinforced by Principal's proprietary employment data.[1] While wage growth remains soft, improving labor demand suggests wage pressures could begin to firm in the coming quarters. For the time being, labor market conditions remain balanced, but the risks are gradually shifting towards tighter conditions.

Importantly, there is still little evidence that AI is driving broad-based job displacement. Instead, firms and workers appear to be adapting through retraining and upskilling, suggesting AI is enhancing productivity rather than displacing workers, supporting the resilience of economic growth.

Moderate job growth is proving sufficient to keep unemployment stable, while improving labor demand and low jobless claims continue to support household spending.

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

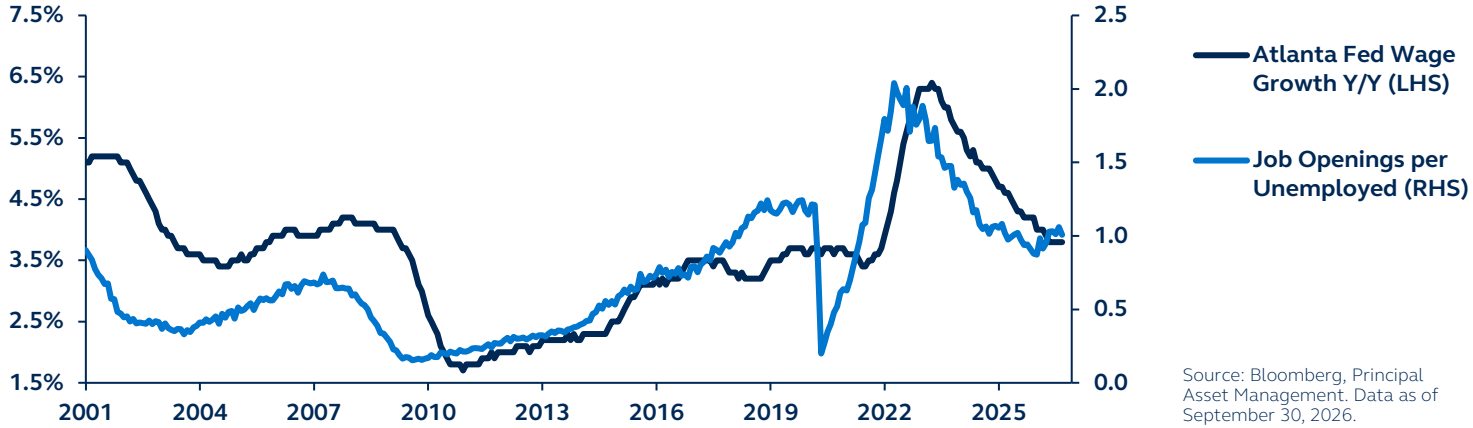
March 2022–September 2026



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

Labor supply and demand vs. wage growth

Job openings per unemployed, Atlanta Fed wage growth tracker, January 2001–August 2026



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

[1]Principal has access to a unique set of proprietary indicators derived from our retirement and benefits businesses. These data track employment and wage trends across millions of Principal's participants and provide an alternative view of labor market conditions across industries. They should be viewed as complementary to, not a substitute for, official BLS statistics.

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Disinflation confronts new headwinds

The U.S./Iran conflict has kept energy prices elevated, with Brent crude averaging close to $90/bbl since the start of the year and headline inflation remaining above 3%. While a resolution would help ease some of these pressures, the persistence of the shock increases the risk that higher energy costs will feed into broader prices, a concern increasingly reflected in business surveys.

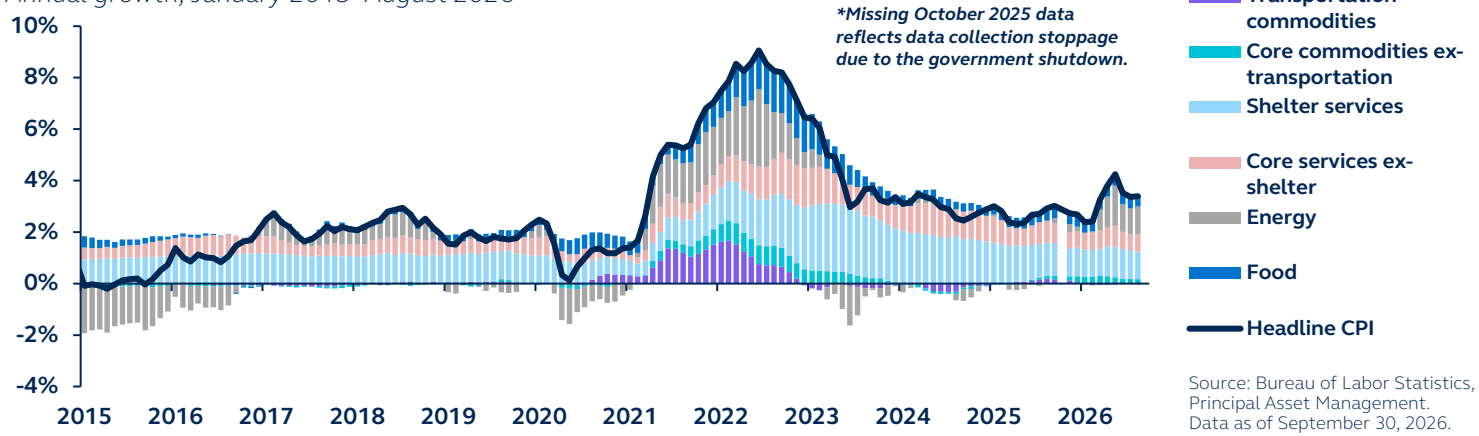
At the same time, the AI investment boom is creating pockets of inflationary pressure across technology-related goods and infrastructure. While AI should ultimately deliver productivity gains and lower costs, those benefits are likely to emerge only gradually. For now, core inflation remains above levels typically associated with progress toward price stability.

There are reasons to believe inflation pressures will ease in early 2027. Several one-off factors continue to weigh on inflation and should fade over time, while stable wage growth suggests little evidence of a wage-price spiral emerging. Nevertheless, after more than five years above target, inflation is not falling quickly enough to provide confidence that disinflation is firmly re-established. With energy prices elevated and underlying price pressures proving persistent, the risk of further Fed tightening is elevated.

Higher energy prices and persistent underlying inflation pressures are slowing progress towards price stability and keeping policy risks elevated.

Contribution to headline U.S. inflation

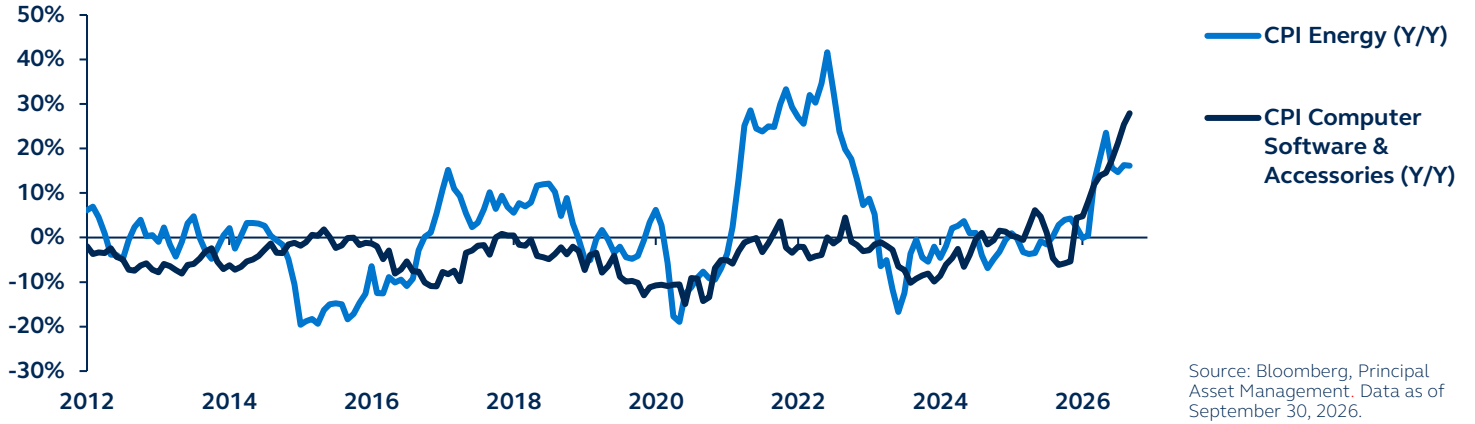
Annual growth, January 2015–August 2026



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

AI's inflationary effect amid energy volatility

CPI Energy and Computer Software & Accessories, year-over-year, January 2012–September 2026



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

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Federal Reserve: "We have work to do"

The Federal Reserve has resumed policy tightening. However, because policymakers are responding primarily to energy-driven inflation pressures and currency dynamics rather than a materially overheating economy, this is likely to be a relatively shallow tightening cycle.

Our base case is for an additional Fed rate hike in December, followed by one further hike in 2027. Additional tightening beyond that remains possible should energy prices stay elevated, and policymakers become less willing to tolerate a gradual return to 2% inflation. Markets remain somewhat more hawkish than our forecasts, although current pricing implies only limited additional tightening.

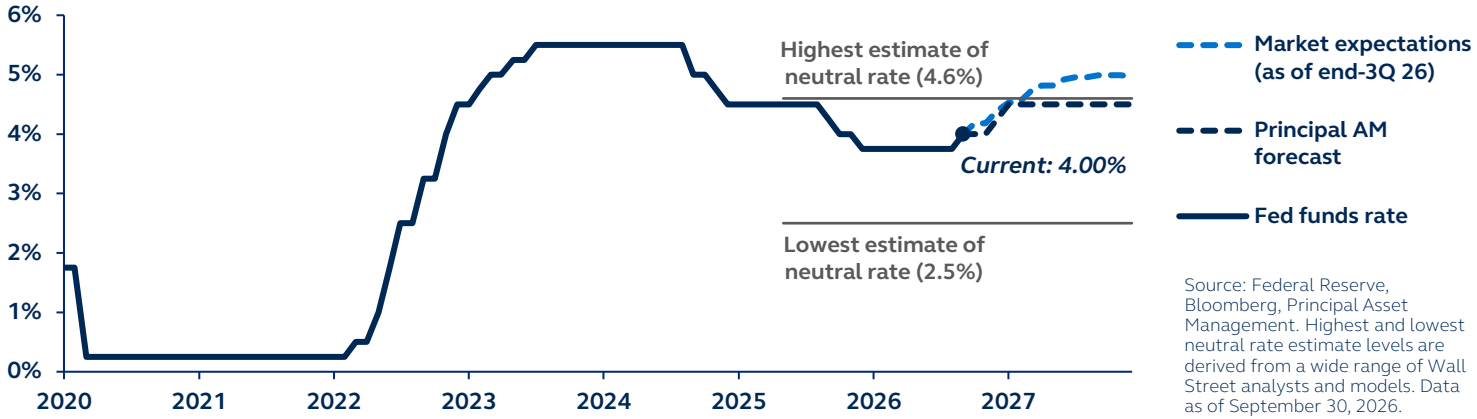
Inflation and currency pressures are also shaping policy outside the U.S. The ECB continues to respond to energy-driven inflation pressures, while the BOJ has slightly accelerated the pace of policy normalization in response to persistent yen weakness. In both cases, only modest additional tightening appears likely.

The policy reassessment of recent months reflects both a more challenging inflation outlook and more resilient economic growth. As such, central banks have become more willing to tighten policy further and keep rates restrictive until inflation shows clearer signs of returning to target.

The Fed is likely to deliver one further hike this year and another in 2027, as persistent inflation keeps policymakers biased towards additional tightening.

Federal Reserve policy rate path

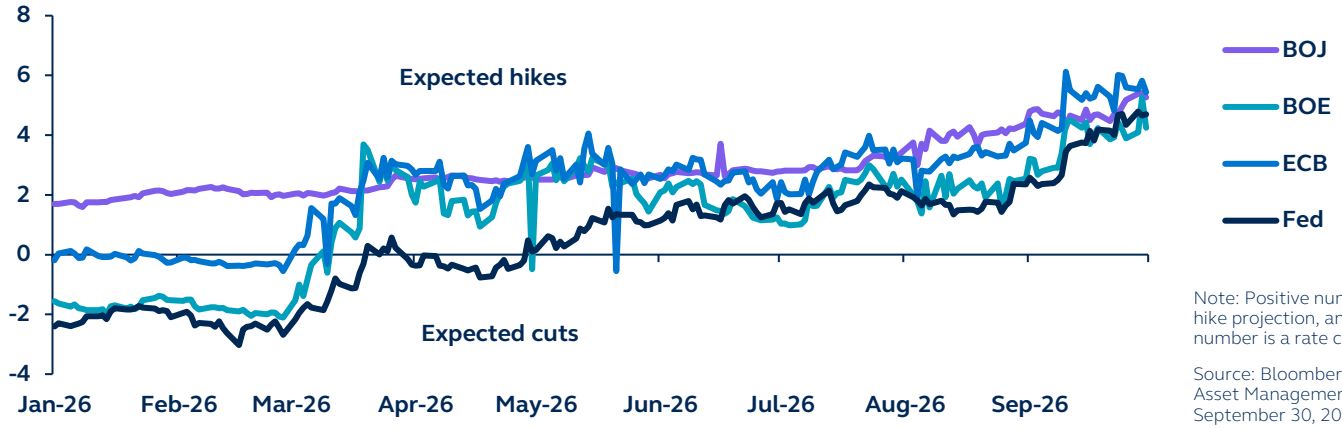
Fed funds rate and projections, January 2020–September 2027



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 September 30, 2026.

Rolling market expectations for number of rate moves by September 2027

Total number of expected 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 September 30, 2026.

Developed markets: Resilient growth, synchronized hikes

Europe and Japan are being reappraised as more resilient, investment-supported economies capable of absorbing further policy normalization. Stronger domestic demand, fiscal support, and the global AI investment cycle are improving the outlook for both regions and challenging long-held assumptions about their structural weakness.

The euro area has withstood higher rates and rising energy prices better than expected, supported by resilient consumer spending, German fiscal expansion, and spillovers from the global AI investment cycle. This resilience has kept the ECB focused on inflation risks, with a further rate hike expected in December, followed by only limited tightening thereafter. Energy prices remain the principal vulnerability.

Japan is benefiting from stronger earnings growth, AI-related investment, and expansionary fiscal policy, supporting inflation and strengthening the case for further BOJ normalization. Faster rate hikes, expectations for a rotation into domestic assets, and coordinated U.S.-Japan intervention have helped stabilize the yen after initially slow tightening contributed to prolonged weakness. Maintaining that momentum will be important, particularly if the Fed becomes more hawkish, to prevent renewed yen weakness.

Stronger growth and firmer inflation are supporting further policy normalization in Europe and Japan, reinforcing a higher-for-longer rate environment.

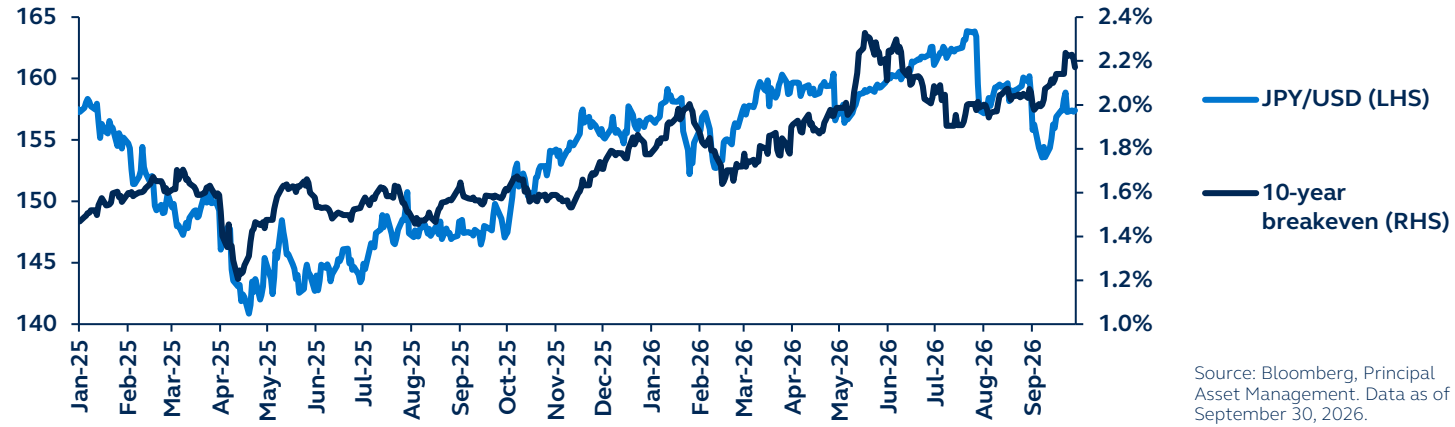
Germany 10-year government bond vs. Brent crude oil

January 2025–September 2026

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

Japanese Yen vs. breakeven yield

Yen per dollar, percentage, January 2025–September 2026



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

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Emerging Asia: Tech exports buffering growth

Despite Emerging Asia's heavy exposure to energy imports, growth forecasts have seen only limited downgrades since the start of the conflict, highlighting the growing role of technology exports as an economic buffer across the region.

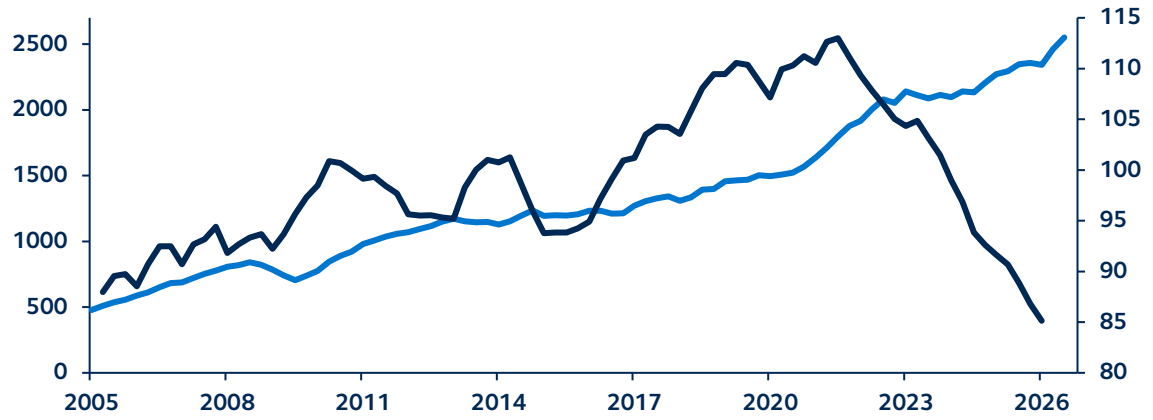
China has been relatively insulated from the energy shock, supported by a diversified energy mix, expanded coal production, and substantial crude oil stockpiles. However, the economy remains highly bifurcated with strong exports, particularly in tech-related sectors, contrasting with weak domestic demand. Falling property prices and persistent deflation continue to weigh on household confidence. While Beijing has announced several policy measures to support the economy, it remains reluctant to deploy the large-scale stimulus that has supported previous recoveries.

At the center of the AI capex cycle, Taiwan and South Korea have been the forefront beneficiaries of surging demand for advanced chips. Tech exports have helped offset the energy shock's negative impact, resulting in budget windfalls that are being recycled into fiscal support to sustain domestic demand. As hyperscaler AI spending guidance remains robust, the outlook for Asian semiconductor producers is positive, supporting investment activity across the region.

China's AI-driven innovation and export strength continue to buffer sluggish domestic consumption. Taiwan and South Korea remain primary beneficiaries of the AI capex cycle.

China's exports vs. real estate

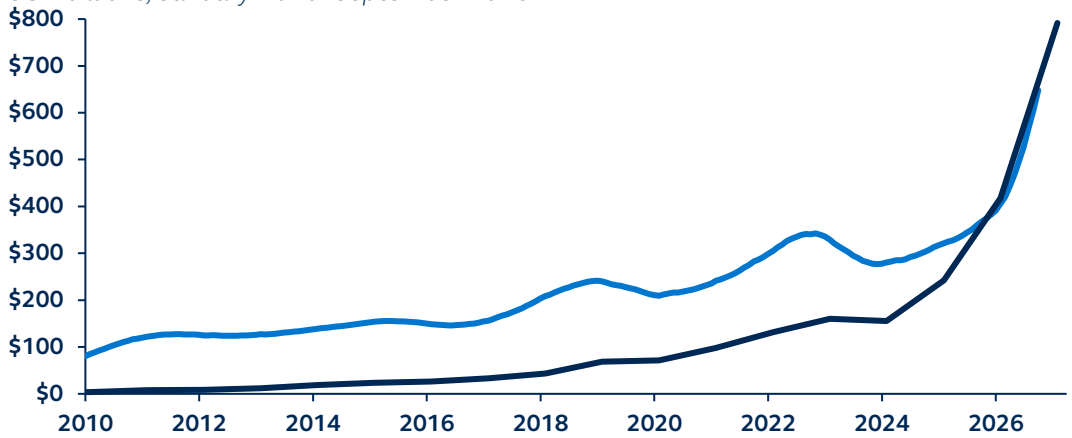
Index of China's real residential property prices versus exports, 2005–2026



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 September 30, 2026.

Taiwan and South Korea's exports and U.S. AI capex cycle

USD billions, January 2010–September 2026



Source: Bloomberg, Principal Asset Management. Hyperscalers are Amazon, Google, Meta, Microsoft, NVIDIA, and Oracle. Data as of September 30, 2026.

Resilience in the face of rising macro pressures

Over the past few months, the challenges facing the macro outlook have only increased: Oil prices have moved back above $100 per barrel and are expected to remain elevated through year-end, a synchronized global central bank hiking cycle is underway, and bond yields have risen sharply.

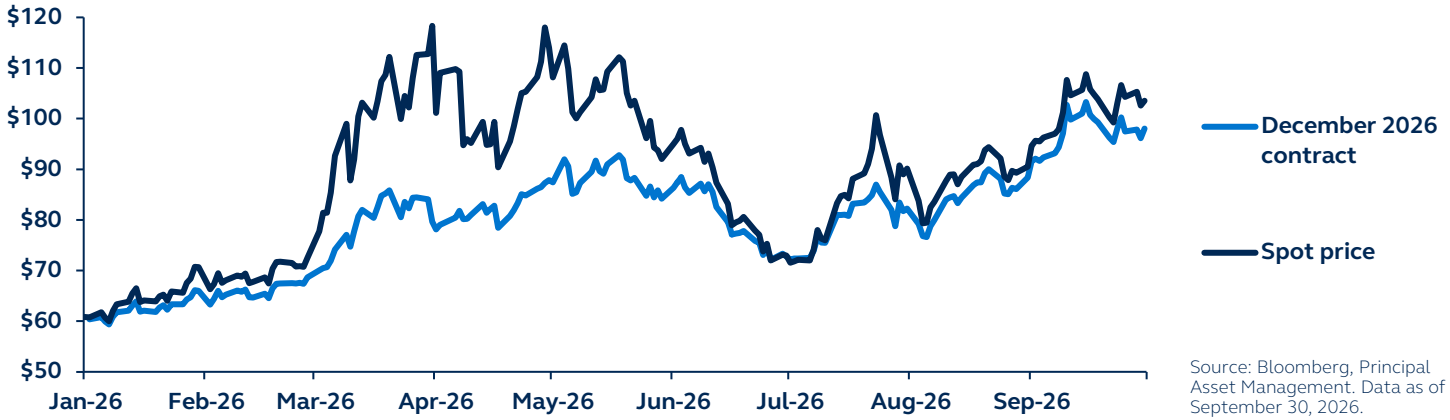
Yet, global growth remains stubbornly intact. Robust corporate profit margins, healthy household balance sheets, and the AI capex build-out continue to support activity, with investment increasingly spreading beyond U.S. technology firms to benefit a broader range of sectors and regions. Meanwhile, the combination of resilient global activity, renewed Fed policy credibility, and a relatively favorable energy position in the U.S. has helped support the U.S. dollar without creating significant strains elsewhere.

The message remains one of resilience, but not complacency. The most significant uncertainty remains the duration and intensity of the conflict in the Middle East, given its potential impact on energy markets and global financial conditions. Concerns also remain around the sustainability of the AI capex cycle. Nevertheless, the global economy has thus far demonstrated an ability to absorb higher energy prices, tighter monetary policy, and rising bond yields. While risks remain elevated, global growth remains stubbornly intact.

Growth remains stubbornly intact despite mounting macro headwinds. The backdrop remains supportive for risk assets.

Global benchmark crude oil

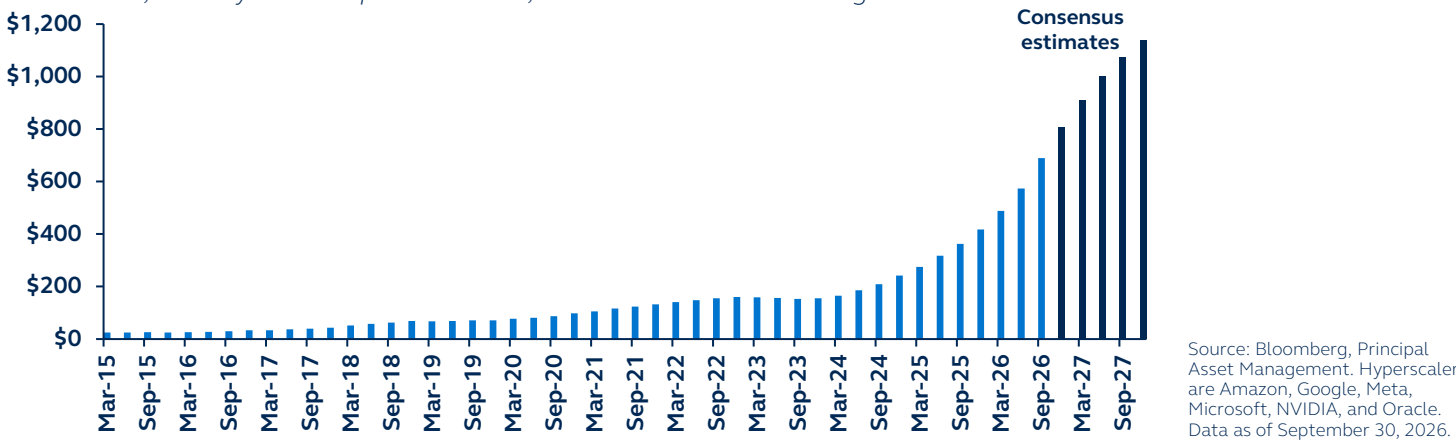
Price per barrel, January 2026–September 2026



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

U.S. hyperscaler capex

USD billions, January 2017–September 2026, consensus estimates through 2027



Source: Bloomberg, Principal Asset Management. Hyperscalers are Amazon, Google, Meta, Microsoft, NVIDIA, and Oracle. Data as of September 30, 2026.

Equities

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Strong earnings enable U.S. equities to defy rising rates

Despite renewed central bank tightening and a sharp rise in bond yields, U.S. equities remain close to record highs. The key reason is that the same force pushing rates higher—resilient growth—is also supporting earnings. Consensus earnings growth for 2026 is over 30%, with gains increasingly extending beyond the tech sector. Earnings, rather than multiple expansion, have driven equity returns this year.

The AI capex cycle has remained largely insensitive to higher borrowing costs, increasingly viewed as a strategic necessity rather than discretionary spending. This has helped sustain earnings expectations despite a higher-rate environment.

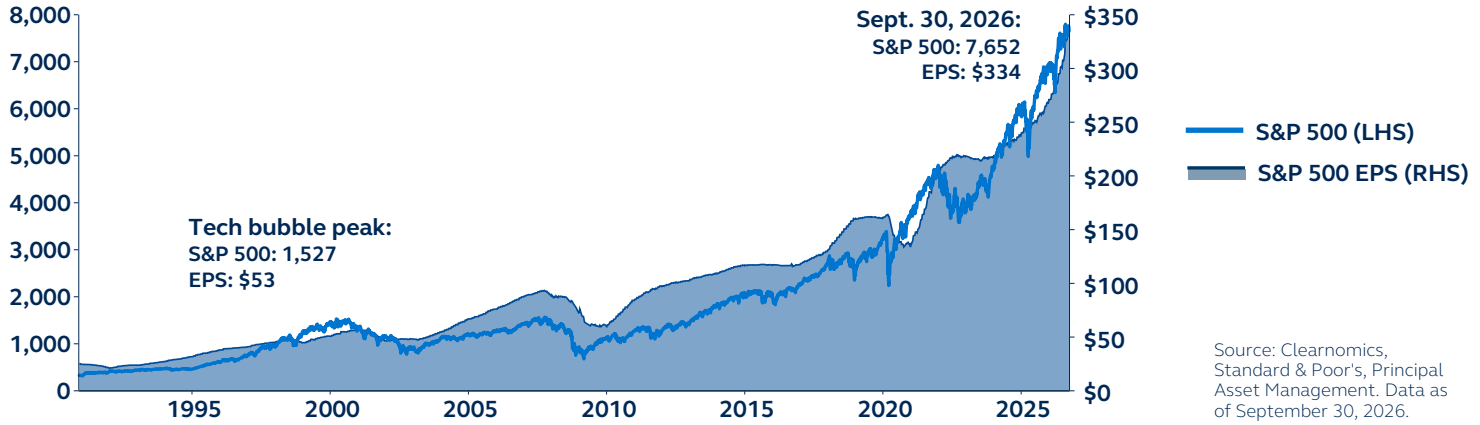
The key risk is that inflation proves more persistent, forcing the Fed to tighten beyond current expectations. In that scenario, higher rates could begin to weigh on growth, limiting companies' ability to offset rising discount rates through stronger profits. At the same time, increasingly ambitious 2027 earnings expectations leave equities vulnerable should AI spending fail to translate into profits.

More broadly, higher bond yields are providing a more credible alternative to equities, increasing the importance of earnings delivery and creating greater return dispersion across companies and sectors.

Strong earnings and AI investment help offset higher rates. However, persistent inflation, ambitious profit expectations, and higher bond yields leave less room for disappointment.

The stock market and earnings

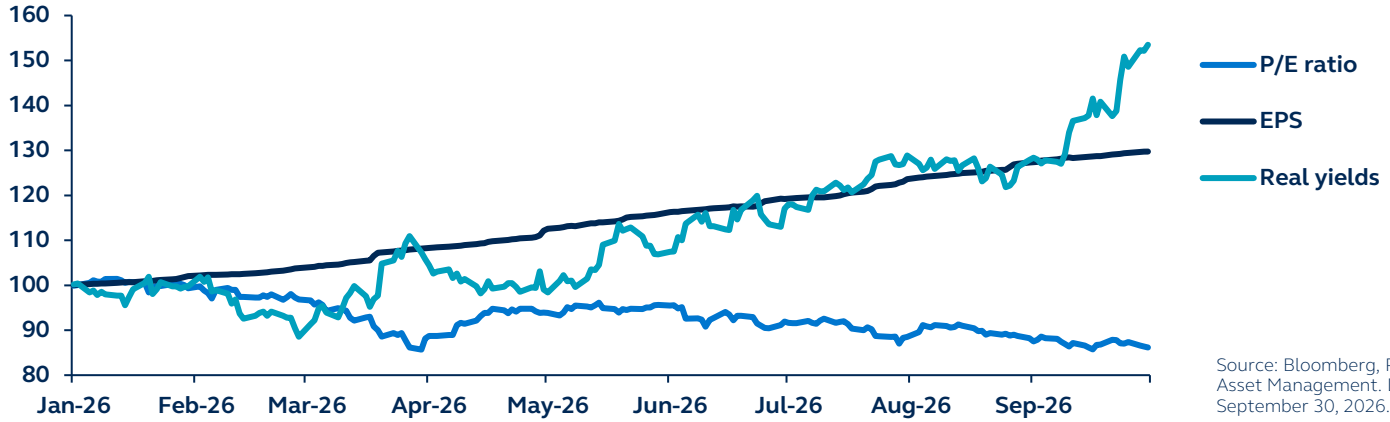
S&P 500 Index price and trailing earnings-per-share, January 1990–September 2026



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

Earnings supported by resilient growth

NTM blended earnings per share and P/E vs. real yields, rebased to 100 at January 2026



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

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Global equities find strength beyond AI exposure

The AI capex cycle remains the dominant market narrative, supporting earnings growth despite a challenging backdrop. Importantly, the beneficiaries are broadening beyond technology, as the AI investment build-out drives demand for materials, electrical equipment, and energy infrastructure.

With U.S. hyperscaler spending expected to exceed $1 trillion in 2027, demand for data-center components should continue to support earnings, with Korea. and Taiwan among the primary beneficiaries. However, as technology-sector profit margins stabilize, investor focus is likely to shift from AI spending towards AI monetization. Rising concentration risks also favor a more differentiated approach as opportunities broaden elsewhere.

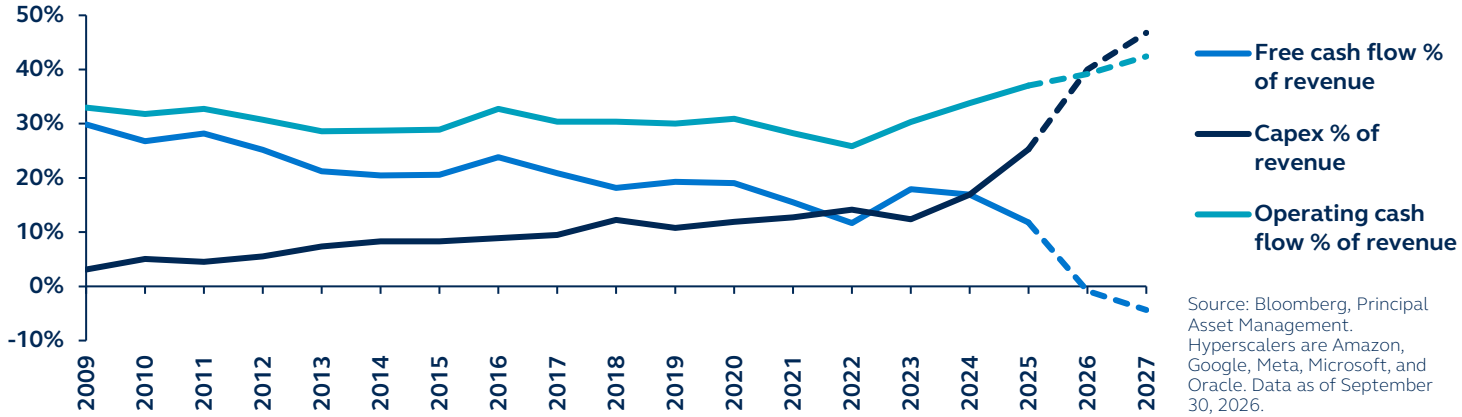
Europe's higher-rate backdrop and increased spending on infrastructure and defense support the outlook for banks and industrials, while Japan's banking sector continues to benefit from higher-for-longer rates. In China, the AI race is boosting efforts to strengthen domestic innovation and supply chains, supporting the domestic technology ecosystem.

The opportunity set remains broad, but a more challenging macro backdrop is likely to increase return dispersion, placing greater emphasis on regional and sector selection.

AI-related tailwinds persist and a broader set of secular themes is supporting global equities. However, selectivity remains warranted as countries grapple with the energy shock.

Hyperscaler capital expenditures and cash flow

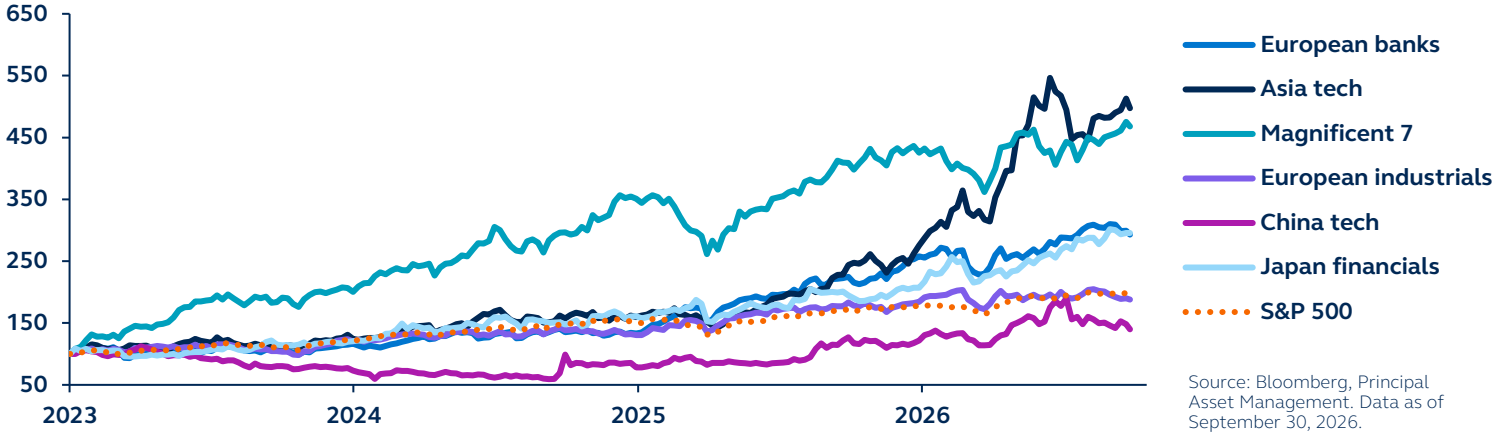
% of revenue, 2026 and 2027 are consensus estimates



Source: Bloomberg, Principal Asset Management. Hyperscalers are Amazon, Google, Meta, Microsoft, and Oracle. Data as of September 30, 2026.

Performance of select sector and thematic opportunities

Indexed to 100 at January 1, 2023



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

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There's a lot of beauty in ordinary things

This year, equity gains have been primarily driven by earnings growth, as growing macro pressures have weighed on multiples, leaving markets more attractively priced. While AI remains a key driver of strength, elevated concentration risk reinforces the case for diversified exposure to regions with differentiated growth drivers and more compelling valuations.

U.S.: Equities remain supported by the AI capex cycle, with leadership broadening beyond large-cap tech. While small-caps offer more compelling valuations, higher yields may temper further gains.

Europe: European equities have remained resilient despite energy-related headwinds. Valuations have pulled back, however, reflecting lingering concerns. Still, Europe continues to offer diversification benefits at a discount to U.S. equities.

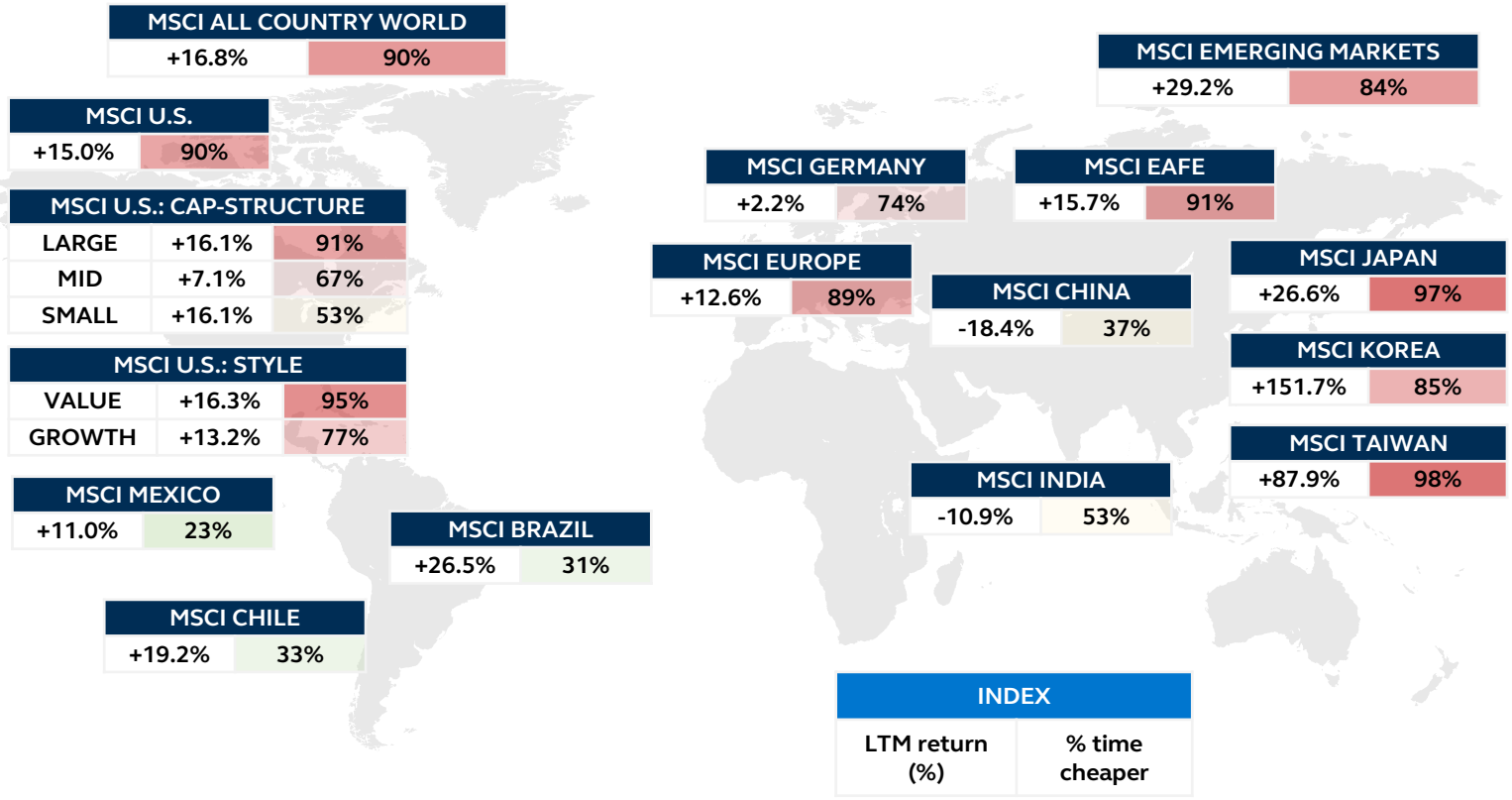
Asia: Korea and Taiwan remain key beneficiaries of the AI cycle, though their close ties to U.S. hyperscalers offer less diversification than other regional markets, such as Japan and China. Still, valuations have pulled back, particularly in Korea, offering investors a more attractive entry point.

Latin America: The region's growing role in global supply chains offers differentiated exposure to AI and broader infrastructure buildout, while valuations remain 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 September 30, 2026.

Principal Asset Management℠

Fixed income

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Rate dislocations amid a global competition for capital

Bond yields across developed markets have continued to rise, challenging assumptions about where interest rates can stabilize amid resilient economic growth. The move has been pronounced in the U.S., where 10-year Treasury yields have moved above 5.2%, their highest level since 2007.

Although stronger growth has been the immediate catalyst, the rise in long-end yields has also exposed a broader reassessment of duration risk. Rising government borrowing requirements and growing demand for long-term capital are increasing the cost of funding at the long end of the curve, while more volatile inflation outcomes have reduced investors' willingness to lock in returns for extended periods. Markets are increasingly pricing a higher long-run cost of capital.

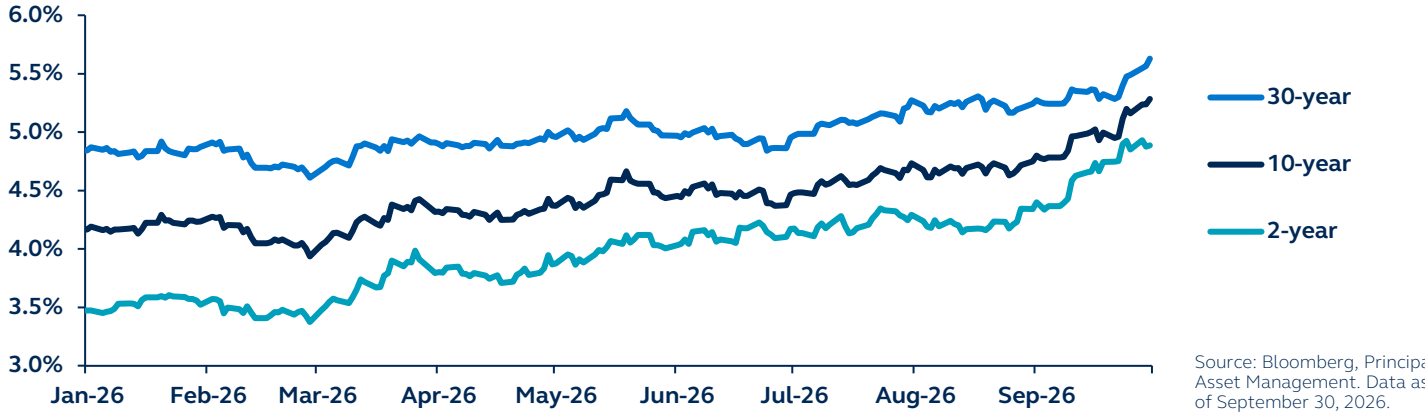
While Treasury buybacks and renewed Fed credibility have helped stabilize market conditions, the fundamental drivers of the sell-off remain intact, with 30-year Treasury yields climbing beyond 5.5%, levels last seen in 2004.

Interest rates are likely to remain elevated relative to the pre-pandemic era. A meaningful decline in bond yields would probably require either a significant weakening in economic activity or a credible fiscal adjustment.

Stronger growth and more volatile inflation outcomes have seen investors reassess duration risk. This repricing is being exacerbated by an intensifying competition for capital.

U.S. government bond yields

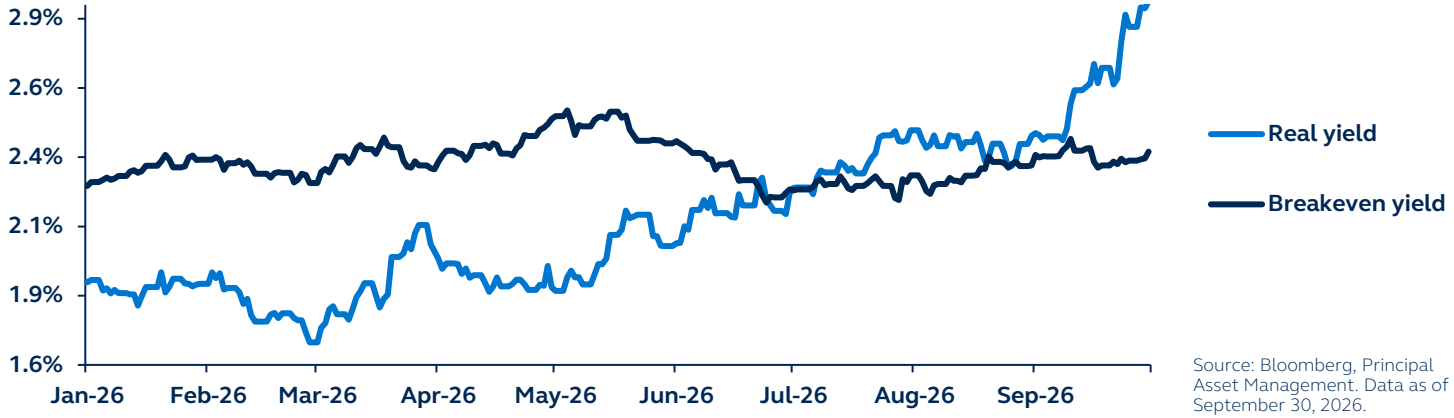
January 2026–September 2026



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

U.S. 10-year yield decomposition

January 2026–September 2026



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

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AI is a growing part of the credit story

The tidal wave of AI-related investment spending has arrived in the credit markets as technology companies tap external financing to fund their capex needs. Overall investment grade bond issuance year-to-date has increased to nearly $1.5 trillion, well above the pace of the past few years. Indeed, four of the first eight months of the year have set monthly gross issuance records.

This flood of supply is being met by still solid underlying credit fundamentals. Indeed, a resilient macro backdrop, strong corporate balance sheets and elevated all-in yields have continued to support demand.

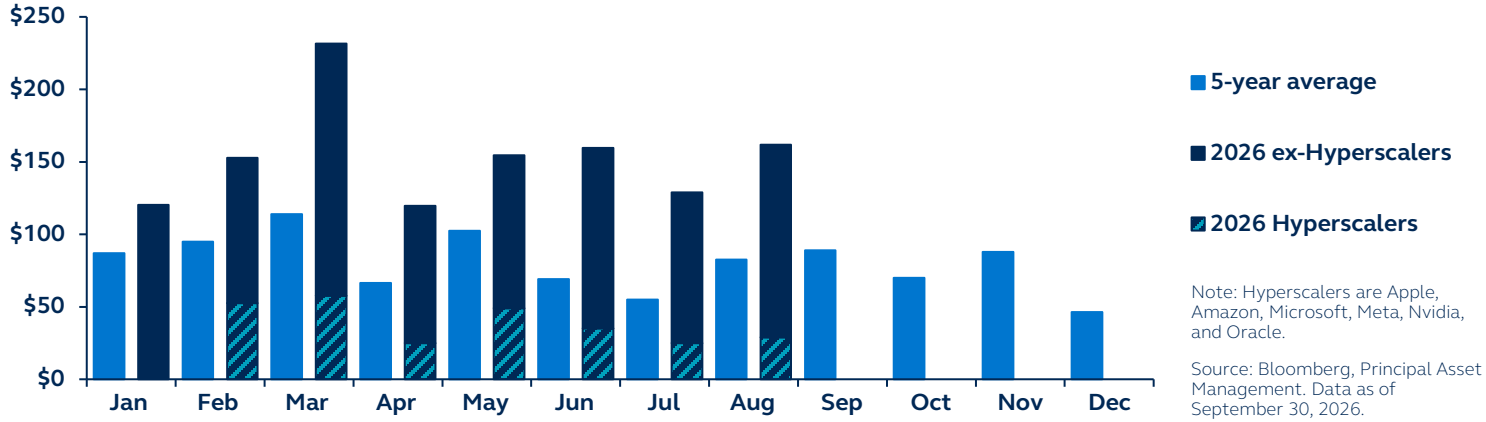
Yet, rising issuer and industry concentration require a more nuanced view of the market. Risks around hidden leverage, crowding out and earnings delivery reinforce the need for selectivity and diversification. Spread widening within high yield also points to rising distress and should be monitored.

Beyond these pockets, the broader credit market backdrop remains constructive. Improving fiscal balances and a relatively stable U.S. dollar are helping EM assets navigate the global hiking cycle. A stable employment backdrop should continue to support mortgage and consumer securitized sectors. Elevated yields continue to provide an attractive starting point across much of the credit market.

A strong credit backdrop is serving as an important tailwind to the tidal wave of AI-related financing needs.

Investment grade new issue supply

Monthly gross issuance, billions, January 2026–August 2026

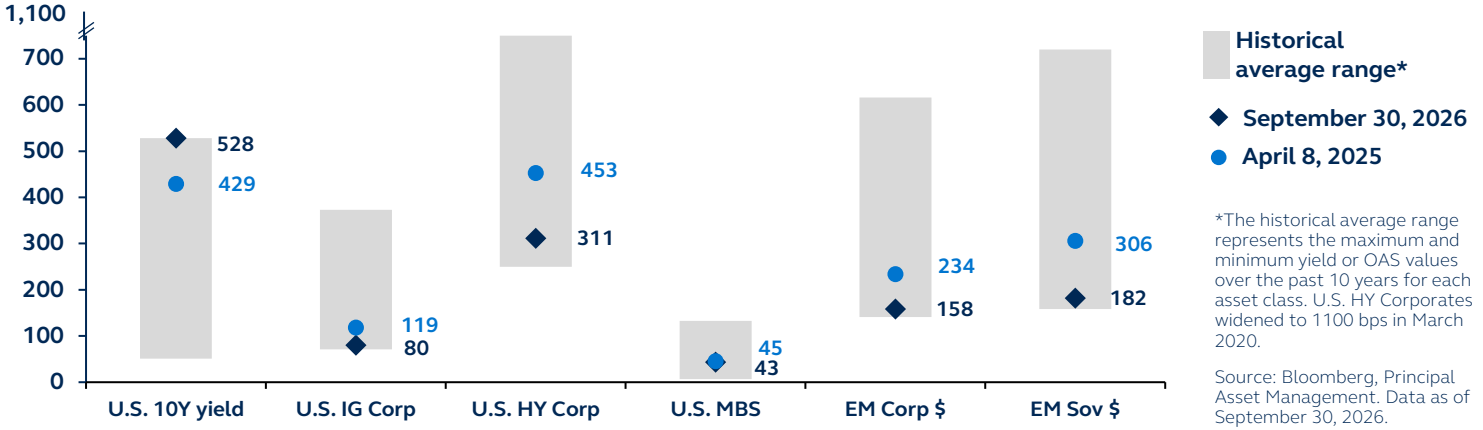


Note: Hyperscalers are Apple, Amazon, Microsoft, Meta, Nvidia, and Oracle.

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

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Investment perspectives

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You miss 100% of the shots you don't take

Growth remains stubbornly intact, earnings continue to surprise positively, and structural investment remains a powerful source of demand. While macro and geopolitical risks remain elevated, the broader backdrop remains supportive.

Importantly, accelerating earnings growth has continued to reward investors who stayed the course through heightened volatility, policy uncertainty and market dislocations. The key lesson of this cycle is that economic and corporate resilience have repeatedly exceeded expectations.

Looking ahead, market outcomes are likely to depend more on earnings delivery, productivity gains and thoughtful capital allocation. Higher rates are not simply a headwind to markets, but increasingly reflect stronger growth, rising investment demand and greater competition for capital.

While AI and infrastructure remain important drivers, broader earnings growth, improved income potential and a wider distribution of growth across sectors and regions are creating a more diverse investment landscape. The opportunity set is broadening, but so too is the need for selectivity and diversification.

The economy remains stubbornly intact and resilience has rewarded patience. As the opportunity set broadens, diversification and selectivity will become increasingly important drivers of returns.

Asset class performance

Total return, annual averages over period shown, 2011–September 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%	Commod. 32.9%	S&P 500 14.8%
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%	EM 23.7%	Small Cap 10.7%
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%	Small Cap 13.7%	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 12.7%	EAFE 8.3%
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 10.8%	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 8.7%	Fixed Inc. 2.2%
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. -2.9%	Commod. 1.9%

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 September 30, 2026.

Resilience broadens the opportunity set as the cost of capital rises

Global growth and earnings remain resilient, supported by the AI-led investment cycle, even as higher energy prices, renewed policy tightening, and rising long-term yields increase the cost of capital. Investors should stay invested while emphasizing earnings delivery, income, diversification, and disciplined security selection.

Equities *Favor earnings delivery and broader market participation as AI investment expands*

- Prioritize durable earnings, strong balance sheets, and companies able to convert investment into cash flow as higher yields raise the bar for valuations and earnings expectations.
- Maintain AI exposure while broadening toward materials, energy infrastructure, and other beneficiaries of the capex buildout.
- Approach U.S. small- and mid-caps selectively: valuations are compelling, but higher financing costs may temper the benefit from resilient domestic growth.
- Diversify regionally, including Korea and Taiwan's AI supply chains, Japanese banks, European banks and industrials, and select Chinese and Latin American beneficiaries of domestic investment and supply-chain shifts.

Fixed income *Capture elevated income while managing duration, supply, and concentration risks*

- Maintain IG credit exposure, supported by resilient fundamentals and attractive all-in yields, while diversifying heavy AI-related issuance and issuer concentration.
- Stay selective in high yield: widening dispersion and pockets of distress leave less room for weak balance sheets or poor earnings delivery.
- Private credit risks remain largely idiosyncratic, concentrated within certain vintages, with limited signs of broader spillover.
- Look to emerging market debt and securitized credit for diversified income opportunities

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.
- Consider public REITs for income and differentiated exposure, recognizing that persistently high long-term yields may limit broad duration support.
- 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 ideas

- Quality-oriented equity strategies
- Active small- and mid-cap strategies
- Global and emerging market strategies with regional and sector flexibility
- AI-enablers and infrastructure beneficiaries

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

- Private real estate markets
- Proven REIT strategies
- Digital, power, and energy infrastructure investments
- 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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IMPORTANT INFORMATION

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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. Fixed-income investments are subject to interest rate risk; as interest rates rise their value will decline. 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. Alternative investments are not appropriate for all investors and should not constitute an entire investment program.. Asset allocation and diversification do not ensure a profit or protect against a loss.

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