

Principal Equities

FOURTH QUARTER 2026

Equity perspectives

Opportunity demands selectivity

Introduction

Across sectors, the fourth quarter equity outlook is shaped by resilient structural investment and a more demanding macro backdrop. AI infrastructure, scarce power capacity, defense spending, metals demand, and healthcare innovation continue to create long-term opportunities. But higher rates, sticky inflation, and elevated capital needs are raising the bar for companies seeking to turn those themes into durable earnings.

At the same time, conditions vary widely across sectors and companies. Banks are benefiting from a favorable earnings cycle, parts of the healthcare sector are recovering, and select industrial and energy businesses are seeing visible demand. Consumer-facing sectors face greater pressure from financing costs, inflation, and weaker spending. In this environment, strong balance sheets, clear pricing power, disciplined capital allocation, and reliable cash flow are likely to be most important.

Structural investment is broadening, but returns must follow

The AI-led capital cycle now reaches well beyond technology. It supports semiconductor equipment, data centers, utilities, natural-gas infrastructure, industrial machinery, and materials used in electrification and construction. Healthcare research spending and defense investment add further long-term demand. Yet the investment case, especially for AI, increasingly depends on monetization, contracted revenue, recurring service income, and disciplined financing. Structural growth remains compelling, but companies must show that their spending can produce sustainable cash flow.

Sector and company dispersion is widening

Broad sector labels conceal meaningful differences. Large banks have stronger earnings momentum than many other financial firms. In consumer discretionary, branded lodging, and value-oriented retailers look more resilient than categories tied to a broad spending rebound. In staples, emerging market exposure and brand strength matter as pricing power fades. Healthcare opportunities depend on research recovery, cost trends, and company-specific catalysts. Even among industrials, energy, and materials, asset quality and capital discipline separate outperformers from weaker companies.

Selectivity is essential in a concentrated market

Higher short-term rates, narrow market leadership, and crowded thematic trades can amplify risk even where long-term fundamentals remain sound. The answer is not to dismiss AI, power, infrastructure, or other durable themes, but to distinguish transformation from investment merit. Active research can identify companies with visible demand, defensible margins, conservative balance sheets, and management teams capable of allocating capital through volatility. In this environment, security selection is central to converting structural opportunity into lasting value.

What's inside

Perspectives from the CIO	2
Technology and Communications	4
Energy and Utilities	5
Financials	6
Consumer Discretionary	7
Consumer Staples	8
Industrials	9
Healthcare	10
Materials	11



GEORGE MARIS, CFA
Chief Investment Officer,
Global Equities

Perspectives from the CIO

Markets are adjusting to recurring volatility rather than a single turning point. Higher yields may partly reflect resilient growth, but the sharper rise in short-term rates also reflects concern about persistent inflation, the Federal Reserve's September policy response, and the possibility of further tightening. Tighter financial conditions raise the bar for equity valuations and could eventually pressure growth and earnings.

Inflation risks extend beyond the latest energy or commodity shock. Labor constraints, deglobalization, and supply-chain friction can reinforce wage and price pressures. The greater risk is that temporary shocks become embedded in expectations, forcing policymakers to cool demand more aggressively.

For investors, this environment favors durable cash flows, pricing power, strong balance sheets, and management teams able to adapt. Headlines may drive short-term swings, but earnings quality and valuation remain the anchors for long-term capital allocation.

Separating transformation from investment merit

AI illustrates the distinction between a powerful technology and an attractive investment. AI may eventually improve productivity and reduce costs, but the buildout is already consuming enormous amounts of capital, chips, raw materials, power, and data center capacity. Those demands can add to near-term inflation even if the technology proves disinflationary over time.

Spending on AI remains strong, but monetization is now the test. Not every participant will convert AI demand into durable revenue and free cash flow. The economics remain uncertain. If competing AI tools prove difficult to differentiate, pricing may move closer to delivery costs, limiting returns on today's enormous infrastructure investment. Meanwhile, market-cap-weighted flows can reinforce concentration by directing additional capital toward companies as their valuations rise, amplifying momentum on the way up and potentially magnifying reversals.

Investment discipline and selectivity apply across the market. Energy and materials may benefit from constrained supply. Consumer weakness can create opportunities where employment, spending, and fundamentals remain resilient. Small-cap industrial and power-related companies may gain from capital investment, although higher financing costs create a clear divide between stronger and weaker businesses. In other words, opportunity extends past the largest tech companies to power infrastructure, utilities in supportive jurisdictions, semiconductor equipment, and select software and cybersecurity businesses with essential capabilities and defensible pricing.

Looking beyond the apparent safety of the index

Index concentration deserves particular scrutiny. Market-cap-weighted benchmarks offer efficient exposure, but passive should not be confused with diversified. A narrow group of companies can leave portfolios more exposed than headline index labels suggest. What appears safe can become risky when positioning is crowded, and expectations are elevated. Active research across sectors can distinguish durable growth from momentum, recalibrate thematic exposure, and uncover opportunities beyond the benchmark's largest weights.

The perspectives that follow examine where fundamentals are strengthening, where expectations have moved too far, and where disciplined research can identify durable value. In a concentrated and uncertain market, selectivity across and within sectors is essential.

Summary of investment implications

TECHNOLOGY AND COMMUNICATIONS

AI adoption is broadening across cloud, software, and infrastructure, supporting sustained investment into the next decade. Yet higher financing costs, complex funding structures, and uncertain monetization raise the threshold for investors. Companies with visible demand, strong balance sheets, and the ability to convert usage into durable cash flow appear best positioned. Selectivity is key in communications amid intense competition and advertising disruption.

ENERGY AND UTILITIES

Supply constraints support energy cash flows and select utilities. Disciplined oil producers, advantaged natural-gas infrastructure, and power providers with long-term hyperscaler contracts offer opportunities. Risks include weaker demand if oil prices remain elevated and lower power expectations if AI investment slows or regulation and technology shift. Strong balance sheets, disciplined capital allocation, scarce infrastructure, and predictable contracted revenue are especially attractive.

FINANCIALS

Financials remain in a favorable earnings cycle, supported by moderately higher rates, steady lending, resilient credit, and healthy capital markets activity. Large banks appear best positioned to expand margins, corporate lending, technology-related financing, and capacity for dividends and buybacks. Key risks include an aggressive rise in short-term rates, a flatter yield curve, credit deterioration, and digital disruption across the market structure.

CONSUMER DISCRETIONARY

Higher financing costs, sticky inflation, and weaker demand are constraining discretionary spending and pressuring revenue expectations. Companies offering clear value, structural share gains, and growth independent of a broad consumer rebound stand out. Branded lodging and select value-oriented retailers fit that profile. Depressed areas may offer opportunity, but improving demand and earnings revisions are needed before taking broader exposure.

CONSUMER STAPLES

Consumer staples retain defensive characteristics, but weak demand in developed markets, private-label competition, rising input costs, and higher refinancing expenses have reduced the sector's dependability. Pricing power is reaching its limit as consumers trade down. Differentiated brands with resilient emerging-market demand, flexible cost structures, credible productivity programs, and evidence that volumes can hold up through another difficult cost-and-pricing cycle are better positioned.

INDUSTRIALS

Long-duration investment in data centers, power, defense, mining, and agriculture supports industrial demand despite cautious sentiment. Companies with visible backlogs, integrated offerings, and recurring service revenue look compelling, alongside select commercial services and rate-sensitive businesses where perceptions lag fundamentals. Risks include paying for peak expectations, treating one-time equipment sales as permanent growth, and pursuing expensive acquisitions late in the cycle.

HEALTHCARE

Healthcare fundamentals are improving as research spending recovers and managed-care pricing catches up with medical costs. The strongest opportunities include life science tools, managed-care companies with improving cost ratios, and pharma or biotech businesses backed by differentiated innovation and multiple catalysts. Medtech valuations are compelling, but visibility into procedure volume remains limited, and higher rates and clinical setbacks reinforce the need for careful company selection.

MATERIALS

Durable metals demand and constrained supply support copper and aluminum, while gold offers diversification amid fiscal and monetary uncertainty. AI-related construction adds incremental demand, though broader economic activity remains the primary driver. Construction materials face elevated energy costs and slower infrastructure spending. Companies with scarce assets, resilient margins, advantaged cost positions, manageable supply chain exposure, and discipline amid policy uncertainty appear well positioned.

Technology and Communications

AI demand broadens as financial risk rises

Technology and communications enter the fourth quarter with growing evidence that AI adoption is broadening. Hyperscalers are reporting more diverse customer demand, growing contracted workloads, and greater use of both proprietary tools and third-party models. Software companies are also expanding usage-based pricing, suggesting AI is moving from promise toward monetization.

Still, the investment cycle is becoming more sensitive to capital costs. Rates have moved higher, cheap funding is less assured, and more AI infrastructure spending is being financed externally. That raises concerns about risk tolerance, especially where leverage is elevated.

Spending remains strong; monetization is the test

AI capital spending still appears likely to remain higher for longer. Expectations for 2027 and 2028 investments have continued to rise as semiconductor manufacturers, cloud platforms, and infrastructure providers expand capacity. However, infrastructure names may see multiple compression well before demand slows if investors view the cycle as near peak.

The more encouraging development is diffusion. Lower model costs are driving sharp increases in usage, and broader enterprise adoption is creating demand beyond frontier model developers. Yet the key question is whether rising volumes can generate sufficient revenue and cash flow to justify the scale of the investment underway. Price declines may create a mismatch between lower monetization and the sheer size of capital intensity.

Selectivity rises across the AI value chain

This backdrop creates a more selective set of opportunities. Some AI-linked software names have already rallied, leaving less valuation support. By contrast, portions of semiconductor capital equipment and hardware have sold off despite secular drivers such as more complex chips, rising content, and expanding production needs. Vertical software also remains attractive where AI can deepen customer value.

Geopolitics and regulation add uncertainty. Export restrictions, the U.S.-China AI competition, and supply chain bottlenecks could affect customers and critical components. Although supply chains have been resilient, specialized wafers, memory, substrates, and materials remain vulnerable. Sentiment around AI is also shifting quickly, reinforcing the need to own companies with durable demand, strong balance sheets, and less exposure to technological displacement and financing risk.

Communications offers fewer clear winners

Within communications, opportunities remain more limited. Telecom and cable face intense competition and fading differentiation, while traditional media remains crowded. Live events offer a more constructive outlook as vertically integrated operators benefit from durable demand for experiences. Digital advertising is undergoing a shift as AI agents generate an increasing share of internet traffic, potentially changing how engagement is measured and monetized.

Our perspective: Tech and Communications

Technology fundamentals remain constructive, with AI infrastructure spending extending further into the decade and adoption broadening. However, higher rates, complex financing structures, and unresolved monetization questions have raised the investment threshold.

We favor companies with visible demand, strong balance sheets, and business models that can convert higher usage into durable cash flow. Volatility may create opportunities where fundamentals remain intact, while communications requires greater selectivity given competitive pressure and disruption to advertising models.

Energy and Utilities

Supply disruption strengthens the oil backdrop

Energy and utilities enter the quarter from different starting points but share a common source of opportunity: constrained supply. Commodity disruptions are supporting energy cash flows, while scarce power capacity is strengthening the outlook for select utilities.

Oil markets continue to be shaped by disruption in the Middle East and reduced Russian refining capacity. While refined-product shortages, particularly in diesel, are feeding back into crude prices, a steeply backwardated futures curve implies that the market expects prices to moderate next year, arguing for disciplined underwriting rather than reliance on today's spot market.

Utilities face a slightly different disconnect. Investor concerns about the durability of AI capital spending compressed power-company valuations over the summer, even as data center demand remained robust and available power remained scarce. As such, the divide between sentiment and fundamentals has created selective entry points

Cash flow and contracted demand define the opportunity

Among upstream producers, oil appears better positioned than natural gas, although the futures curve suggests markets doubt today's strength will last. The best-positioned operators should generate attractive returns using conservative midcycle assumptions; if prices stay too high, fuel costs and elevated interest rates could ultimately weaken demand.

Capital allocation is therefore critical as strong commodity prices are creating a cash-flow windfall that can fund debt reduction, share repurchases, dividends, or selective growth. Management teams that deploy this cash countercyclically can strengthen balance sheets and boost shareholder returns before prices normalize.

Natural gas is an infrastructure narrative

Natural gas presents a supply-heavy near-term outlook but a compelling infrastructure story. New Permian pipelines are bringing constrained volumes to market, limiting price upside. Regional disparities, including negative prices where gas cannot reach buyers, underscore the value of pipelines and processing assets. Whether supply or demand grows, more volume requires more infrastructure.

Hyperscaler contracts bear watching in utilities

Companies that secure new power agreements with large cloud and technology companies, or hyperscalers, may convert scarcity into durable earnings. These contracts can run from 10 to 15+ years, creating cumulative, recurring revenue rather than dependence on one-time equipment sales. The market's broad sell-off may therefore overlook meaningful differences among power providers.

Data center demand is also reshaping the generation mix. Renewables and storage continue to expand, but intermittency limits around-the-clock reliability. Nuclear provides dependable power, yet remains costly and slow to permit, keeping gas-fired generation and other available solutions central to the near-term energy buildout

Our perspective: Energy and Utilities

Energy and utilities offer complementary opportunities across disciplined oil producers, advantaged natural-gas infrastructure, and utilities capable of converting scarce power capacity into contracted earnings.

Risks remain distinct: sustained oil strength could destroy demand, while a technology shift, punitive regulation, or slower AI investment could reset power expectations. We favor high-quality companies with conservative balance sheets, disciplined capital allocation, advantaged infrastructure, and visible contractual revenue.

Financials

Banks settle into a favorable earnings environment

The backdrop for financials remains constructive heading into year-end, supported by moderately higher rates, steady loan growth, and resilient credit quality. Bank earnings expectations continue to rise as margins expand, while consumer repayment trends show little deterioration. Capital markets activity also remains healthy after its typical summer slowdown.

Much of that favorable backdrop rests on how rates are moving, not simply whether they are rising. A gradual increase, particularly when longer-term yields keep a healthy spread between funding costs and lending rates, can support bank profitability. The picture would become less constructive if short-term rates rose sharply and flattened the curve, pushing up borrowing costs, squeezing margins, and eventually pressuring consumer credit. For now, however, those strains have yet to emerge.

Investment activity and capital returns support the outlook

Looking ahead, banks appear to offer the clearest earnings momentum within the Financials sector. Deposit costs have remained relatively contained even as market rates have risen, supporting liability margins, while inflation and economic growth are sustaining loan balances. This combination has produced some of the sector's strongest upward earnings revisions, particularly among large banks with broad lending and capital-markets franchises.

Capital markets broaden the opportunity

AI-related infrastructure investment supports debt issuance, syndicated lending, equity issuance, and M&A. Yet M&A remains low relative to GDP despite strong headline volumes, suggesting the cycle is not broadly excessive. Borrowing has so far been concentrated among large technology companies, leaving room for broader activity.

Exchanges also present a constructive outlook. Higher volatility supports transaction revenue, while data and AI-enabled platforms expand subscriptions. These cyclical and structural drivers point to modest earnings gains, although digitalization adds uncertainty about future market structure and which platforms ultimately capture trading activity.

That momentum is less consistent elsewhere in the sector. Life insurers remain stable, but property and casualty insurers face softer pricing as benign losses add to industry capital and intensify competition. Private asset managers present a less immediate opportunity, with limited realizations continuing to cloud valuations. A pickup in asset sales and distributions would clarify liquidity conditions and support renewed investment in the group.

Capital strength creates room for shareholder returns

One of the most promising fourth-quarter developments may be greater capital return. As banks generate earnings, complete balance-sheet rebuilding, and move above required capital thresholds, more institutions should be positioned to increase dividends and repurchase shares. Full-year results could bring positive payout surprises, particularly among European banks whose capital positions have improved considerably.

Our perspective: Financials

Financials remain in a favorable earnings cycle, but leadership is concentrated among large banks with exposure to capital markets activity, corporate lending, and technology-related financing. While we favor institutions with expanding margins, strong credit quality, and the capacity to translate higher earnings into shareholder distributions, key risks still include aggressive rate increases, credit deterioration, and digital disruption.

Consumer Discretionary

Consumer resilience is beginning to fade

Consumer discretionary is under mounting pressure as spending data begins to validate weak sentiment. U.S. credit card spending across discretionary categories has turned moderately negative, Europe remains subdued, and China's brief economic stabilization has faded, weighing on areas such as luxury. Japan and Korea are relative bright spots, supported by currency and wealth effects, but those tailwinds may prove less durable as rates rise.

Higher mortgage costs, persistent inflation, and geopolitical uncertainty are shrinking the income available for nonessential purchases, especially for middle-income households. Restraint is now visible among higher-income consumers as well. Meanwhile, higher spending among lower-income cohorts may reflect rising costs of necessities rather than improved financial health.

Consumers grow more value-conscious

Top-line expectations remain vulnerable through year-end and into 2027, with negative revisions across luxury, sporting goods, and homebuilding sectors. Cost discipline may allow earnings to hold up somewhat better than revenue, but companies cannot cut their way to durable growth. The sector's few resilient businesses are attracting investor attention, pushing valuations higher and underscoring the importance of selectivity.

The clearest opportunities are businesses offering tangible value: accessible prices, dependable quality, and products consumers do not need to replace frequently. That favors select apparel and off-price retailers in the U.S. and abroad. Japanese retailers have also benefited from value-focused demand and a weaker yen, although currency support could diminish as domestic rates normalize.

Lodging is another area of relative strength as consumers continue to favor experiences over goods. Global hotel operators are supported not only by steady travel demand, but also by a structural shift toward branded properties. Independent hotels increasingly lack the larger operators' reservation systems, loyalty programs, marketing, and revenue management capabilities. With industry supply growing slowly, established brands can capture an outsized share of new construction and conversions.

Still, beaten-down areas may become more interesting as valuations and earnings expectations approach a trough. Luxury goods remain challenged by weak Chinese demand, while gaming, restaurants, and caterers may offer selective opportunities after recent underperformance.

Our perspective: Consumer Discretionary

Consumer discretionary faces a difficult backdrop as structurally higher financing costs and persistent inflation constrain household budgets. Revenue risks remain tilted downward, and the market is rewarding the limited pockets of earnings visibility.

We favor companies that deliver clear value, gain share structurally, and can grow without a broad spending rebound. Branded lodging and select value-oriented retailers fit that profile. Elsewhere, depressed valuations may create opportunities, but timing will depend on clearer evidence of improving demand and upward earnings revisions.

Consumer Staples

Defensive demand is becoming less dependable

Consumer staples are under pressure heading into the final quarter of the year, with weak demand persisting across developed markets. A summer rebound failed to materialize, leaving spending on staples categories subdued in the U.S. and Europe. Emerging markets remain an important counterweight, generating much of the sector's growth and supporting multinational companies.

At the same time, cost pressures are broadening beyond oil to derivatives and agricultural commodities, with fertilizer, diesel, and weather risks pushing up prices for crops such as wheat and sugar. The larger earnings impact is likely to hit next year, forcing companies to absorb costs, raise prices, or accelerate productivity savings. Fourth-quarter performance may increasingly reflect which companies investors believe can manage those pressures most effectively.

Pricing power is reaching its limit

For several years, consumer staples companies relied on price increases to protect margins. That strategy is becoming harder to sustain. Lower-income consumers are trading down, buying less, or leaving some categories altogether. Spending by wealthier households remains strong, but it cannot entirely offset volume losses across everyday products.

Stronger private-label offerings are giving retailers greater leverage over established brands as consumers become more willing to trade down. Manufacturers, therefore, have less room to raise prices without losing volume or shelf space, particularly when competitors hold prices steady to gain share. Demand resilience, brand strength, and product innovation will increasingly determine which companies can sustain consumer relevance.

Defensive, but no longer the default

Consumer staples have historically commanded a premium for delivering predictable earnings amid an increasingly unpredictable economic backdrop. That case is harder to make today, as higher bond yields have made the sector's defensive earnings stream less attractive relative to fixed income.

Furthermore, the sector's earnings profile may also be less defensive than headline demand suggests. Another headwind for earnings will emerge as debt taken on when rates were near historic lows that will need to be refinanced in 2027-2028. For some companies, the higher interest burden alone could reduce earnings growth by 100 to 200 basis points.

There are still opportunities, but they are becoming more company-specific. Businesses with meaningful emerging-market exposure, credible productivity programs, and brands that can hold demand should be better positioned. Beauty and personal care, including cosmetics, fragrance, and skin care, have also remained more resilient than expected.

Our perspective: Consumer Staples

Consumer staples retain defensive qualities, but the sector is no longer a uniform haven. Pressure on lower-income households, stronger private-label competition, and higher financing costs have weakened the dependable earnings profile historically associated with the group.

The fourth-quarter opportunity set is therefore selective. We favor differentiated brands with resilient demand in emerging markets, flexible cost structures, and identifiable savings. Evidence that volumes can hold as companies respond to higher costs will be essential, particularly if emerging-market consumer spending weakens or commodity inflation forces another difficult pricing cycle in 2027.

Industrials

Strong fundamentals meet more cautious sentiment

In what is proving to be a continuation from last quarter's momentum, Industrials are seeing durable demand across data center infrastructure, aerospace, and defense, as AI-related capital spending is spreading to more parts of the machinery and capital goods value chain. Agricultural commodity prices have also improved, supporting expectations for a recovery in farm-equipment spending. Meanwhile, record copper prices suggest mining capital expenditure may be entering an upcycle, with projects advancing in Chile, the U.S., and Argentina. Stock performance has lagged these fundamentals, as higher rates have pressured construction, building materials, and other perceived rate-sensitive stocks. Despite this, companies generally report little direct effect on data center or defense demand. Margins remain strong across much of the sector; housing-linked building products are the clearest exception, with weak activity affecting both earnings and valuations.

Longer-cycle demand offers greater visibility

Data center investment remains a powerful driver, with alternative financing expanding and suppliers discussing orders extending into 2032. That visibility favors companies with strong backlogs, integrated offerings, and recurring service or aftermarket revenue. It also argues for selectivity: one-time equipment sales can lift near-term results, but extrapolating them into a permanent earnings run rate may prove risky if spending eventually normalizes.

Defense presents another disconnect between sentiment and operating reality. Rising rates have raised concerns about government budget capacity, especially in Europe, yet spending trajectories and multi-year commitments remain intact. Recent valuation compression may therefore offer an opportunity, although any change in the geopolitical backdrop could weigh on European defense valuations.

Commodity strength creates selective machinery opportunities

Machinery demands a sharper distinction between long- and short-cycle exposure. Mining and agricultural equipment should benefit from stronger commodity economics. At the same time, Japanese construction companies may be less vulnerable to higher rates than their share prices suggest because many carry substantial cash and rely less on debt. By contrast, demand for factory automation, particularly in Japan, appears closer to a cyclical peak.

Resilient businesses beyond the dominant themes

Opportunities are also emerging outside the market's dominant themes. Commercial and professional services, including waste companies, government contractors, credit bureaus, and employment services providers, have generally maintained resilient fundamentals despite prolonged weakness in share prices. Their recent rebound still leaves a sizable performance gap, creating room for further catch-up if investors rotate toward earnings durability and company-specific improvement.

Our perspective: Industrials

We favor companies supported by long-duration investment in data centers, power, defense, and mining, but broad exposure is less attractive as expectations rise. In a slower-growth environment, visible backlogs and recurring revenue should matter more than macro sensitivity. Commercial services and select rate-sensitive businesses may reward investors where market perceptions have moved further than fundamentals.

The principal risks in industrials are paying for peak expectations, confusing one-time sales with sustainable demand, and deploying capital aggressively late in the cycle. Acquisitions intended to expand data center exposure could destroy value at elevated prices. Housing-linked building products remain challenged, while shorter-cycle machinery may offer less resilience than longer-cycle infrastructure businesses. Capital-allocation discipline will be as important as growth.

Healthcare

Earnings momentum begins to broaden

Healthcare enters the fourth quarter with improving performance, having served as a source of funds for the AI trade through much of the year. Volatility in AI-related technology shares helped the sector outperform during the third quarter, with capital flowing particularly into life science tools. This rotation may continue: large pharmaceutical companies can offer defensive earnings when technology volatility or rates rise. At the same time, biotech and other long-duration healthcare businesses are generally more sensitive to discount rates.

Recovering research spending creates a clearer growth path

Life science tools offer one of the sector's clearest recovery stories. Pharmaceutical and biotech research spending is improving after several subdued years, supporting upward earnings revisions. A return from flat or low-single-digit growth toward the industry's historical mid- to high-single-digit range would strengthen the outlook for 2027 and 2028. AI may add longer-term demand for instruments, diagnostics, and research capabilities, although its near-term earnings impact remains limited.

Managed care is also improving. Premium increases have begun to catch up with elevated medical costs, producing more favorable medical loss ratios and the potential for further earnings revisions. Healthcare costs are not declining; rather, annual repricing is restoring margins. Medicare quality ratings and the durability of that improvement remain important watch points.

Other subsectors complicate the picture

Medtech presents a more complicated opportunity. Valuations are near multiyear lows, but investors remain concerned that procedure growth could slow as Affordable Care Act exchange enrollment declines and the post-pandemic rise in utilization moderates. Lower expectations may create attractive entry points, but confidence in procedure volumes is needed before taking a broader view. Trends are also likely to differ meaningfully across markets.

GLP-1 adoption adds a longer-term consideration. These therapies have not yet materially reduced procedure volumes, partly because many patients discontinue treatment within a year. Expanded Medicare access could improve affordability and treatment persistence among older patients, potentially affecting utilization over several years rather than the next few quarters.

Pharma and biotech remain highly company-specific. Upcoming clinical readouts may reward differentiated pipelines, but recent trial disappointments illustrate the downside risk. Positioning around multiple catalysts and proven innovation remains essential.

Our perspective: Healthcare

Healthcare's fundamentals are improving, but selectivity remains critical. We favor life science tools benefiting from renewed research spending, managed care companies with improving cost ratios, and pharma or biotech businesses supported by differentiated innovation and multiple catalysts. Medtech valuations are increasingly compelling, though greater visibility into procedure volumes is still needed.

Materials

Resilient demand meets a more complicated cost backdrop

Heading into the final quarter of the year, the Materials sector is seeing support from stronger-than-expected U.S. growth, resilient metals demand, and a complicated geopolitical backdrop. Copper and aluminum prices remain elevated, while disruptions in the Strait of Hormuz are affecting commodity markets unevenly. Gold has also remained resilient despite higher real rates, helped by unusually strong central bank buying amid efforts by some countries to reduce exposure to U.S. Treasuries.

AI infrastructure remains a tailwind, but it is best understood as incremental demand. Data centers require cement, steel, copper, and aluminum, yet the copper used in AI facilities still represents only a small share of global consumption. Broader economic growth, factory construction, and everyday end-use remain the primary drivers of global demand in the sector.

Supply constraints support metals, while costs pressure other segments

Copper remains one of the more attractive areas within materials, supported by electrification, reshoring-related factory construction, and data center investment. At the same time, new supply remains difficult to develop since mines and smelters can take a decade or more to build, limiting the industry's ability to respond quickly. In the U.S., policy uncertainty is also slowing decisions, as companies wait for greater clarity on potential tariffs before committing capital. Copper stockpiling in the U.S. ahead of potential trade restrictions is contributing to higher prices, even though the country accounts for a relatively small share of global copper demand.

Construction materials face a tougher cost backdrop

Conditions are less favorable for construction materials. Cement and aggregates are highly energy-intensive, leaving producers exposed to elevated fuel costs just as infrastructure demand is losing momentum. In some emerging markets, higher oil subsidies are diverting fiscal resources that might otherwise support road and construction projects.

Hormuz disruptions ripple through fertilizer markets

The Strait of Hormuz has also created less-visible supply chain pressures. Sulfur, primarily produced as a byproduct of oil and gas processing, is essential for the leaching of certain metals and for phosphate fertilizer production. With a large portion of seaborne sulfur moving through the region, disruption has pushed fertilizer costs higher. That pressure is not necessarily improving fertilizer producer margins; rather, stronger crop prices and rising biofuel demand are helping support farm profitability and fertilizer demand.

Our perspective: Materials

Materials remain supported by durable metals demand, but the opportunity set is increasingly differentiated. Copper and aluminum benefit from economic growth, electrification, AI-related construction, and supply constraints, while gold continues to offer diversification amid fiscal and monetary uncertainty. Construction materials face a tougher mix of elevated energy costs and slower infrastructure spending.

Company selection should emphasize cost position, supply-chain exposure, and the ability to manage policy uncertainty. Businesses with scarce assets and resilient margins appear better positioned than companies relying mainly on higher commodity prices or a broad acceleration in construction activity.

Active equities.

An enduring legacy of fiduciary investing: managing U.S. equities since 1939, international equities since 1987, emerging markets since 1995, real estate equities since 1998.¹ With 152.7 billion in assets under management.²

FOCUS. COLLABORATION. CLIENT-ALIGNMENT.

Specialized capabilities and solutions spanning geographies, sectors, and style disciplines, across the market capitalization spectrum.

Team of 131 dedicated equity investment professionals, averaging 20 years of experience.

Diverse backgrounds: natives of 17 countries, 231 degrees in 39 fields of study from 108 academic institutions, 70 CFA designations.

As of 30 June 2026. ¹Experience includes investment management activities of predecessor firms beginning with the investment department of Principal Life Insurance Company. ²Other Principal AM teams and affiliates oversee an additional \$121.1 billion in equity assets, primarily comprised of passive/quantitative strategies and “manager of managers” programs utilizing 3rd party managers/funds.

Equity Perspectives Contributors

GEORGE MARIS, CFA

Chief Investment Officer & Global Head of Equities

PHIL WOOD

Head of Equities Client Portfolio Management

ROB SUSMAN, CFA

Director of Equities Research

TECHNOLOGY AND COMMUNICATIONS

Lauren Choi
Portfolio Manager

CONSUMER STAPLES

Willi Ruppricht
Analyst

ENERGY AND UTILITIES

Alex Mottershead, CFA Eric Swanson, CFA
Portfolio Manager Research Analyst

INDUSTRIALS

Matt Griffith, CFA
Analyst

FINANCIALS

Ryan Judas, CFA
Research Director

HEALTHCARE

Amanda Mahoski Jared Meggison, CFA
Research Analyst Research Analyst

CONSUMER DISCRETIONARY

Julie Zhuang
Research Analyst

MATERIALS

Eric Choe
Research Analyst



Contact your Principal representative and visit PrincipalAM.com.

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.

Risk considerations

Investing involves risk, including possible loss of principal. Past performance is no guarantee of future results. Equity markets are subject to many factors, including economic conditions, government regulations, market sentiment, local and international political events, and environmental and technological issues that may impact return and volatility. International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards. Private market investments carry distinct risks due to illiquidity, limited transparency, and higher minimum investment requirements. These include liquidity, market, capital, and regulatory risks, as well as higher fees and longer investment horizons compared to publicly traded securities.

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 ManagementSM is a trade name of Principal Global Investors, LLC.

Principal Equities is an investment team within Principal Global Investors.

© 2026 Principal Financial Services, Inc. Principal®, Principal Financial Group®, Principal Asset Management, and Principal and the logomark design are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company, in various countries around the world and may be used only with the permission of Principal Financial Services, Inc.

6002720