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# 2026 Perspectives

## Discipline in an age of disruption

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# Executive letter



**KAMAL BHATIA, CFA**  
Chief Executive Officer

As we enter 2026, let's reflect on the journey we've navigated together over the past year—marked by both challenges and opportunities in a rapidly evolving landscape. The resilience of the global economy gives us plenty to be optimistic about as we move forward.

At Principal Asset Management, our dedication to collaboration remains at the forefront of our mission. We understand that the current market environment demands a proactive and nuanced investment strategy. With 360-degree expertise across equities, fixed income, asset allocation, real estate, and private markets, we are prepared to help you seize opportunities as they arise and manage risks effectively.

In the face of ongoing economic shifts, having trusted partners to help distinguish between signals and noise is critical. Our teams continuously analyze market trends and leverage local insights, enabling us to tailor investment strategies that align with your evolving needs. Together, we aim to identify high-potential asset classes, sectors, and ultimately securities while navigating volatility and uncertainty.

As we move ahead into the new year, integrating innovative solutions into our investment strategies will be crucial. We are committed to delivering forward-looking insights and diversified portfolios that are designed to maximize your returns, regardless of market conditions.

Thank you for your ongoing trust in Principal Asset Management. We are excited about the prospects 2026 holds and remain committed to partnering with you to achieve your investment goals.

A handwritten signature in black ink, appearing to read "Kamal Bhatia". The signature is fluid and stylized, with a long horizontal line extending from the bottom of the name.

## The year of the paradox



SEEMA SHAH | Chief Global Strategist

2025 will be remembered as a year when policy upheaval tested the resilience of the global economy in ways few anticipated. Trade tensions deepened, inflationary pressures lingered, and geopolitical fractures widened. Yet, against this backdrop of uncertainty, growth endured—powered by strong balance sheets, agile policy responses, and the accelerating march of artificial intelligence. These forces not only defined 2025, but they will also shape the contours of 2026.

**Growth endures despite global disruption**

The United States sits at the epicenter of both global growth hopes and concerns. The recent government shutdown has clouded near-term visibility, but the economy's underlying architecture remains intact. Corporate profit margins have held firm, enabling businesses to pivot through disruption, while household wealth gains have secured household balance sheets and sustained consumer spending.

Beneath these familiar pillars lies a new engine: AI infrastructure investment. In the first half of 2025, AI-related capital expenditure accounted for nearly half of GDP growth—a staggering figure that underscores the scale of this structural shift. With technology firms showing no appetite to rein in spending, AI will remain a dominant force in the year ahead—although mounting concerns over a potential bubble may limit its ability to propel equity markets and household wealth.

Fiscal policy will add a layer of complexity in 2026. The “One Big Beautiful Bill” promises a short-lived but potent stimulus: tax refunds for households and retroactive incentives for corporates that could temporarily lower effective tax rates and unlock free cash flow. While the direct impact may fade quickly, the investment impulse it triggers could reverberate well beyond the initial fiscal lift. This combination of

fiscal support and structural investment creates a powerful backdrop for growth, even as cyclical uncertainties persist.

**Fault lines in a late-cycle economy**

Yet, the U.S. economy is not without fault lines. Its K-shaped nature—where affluent households drive consumption while lower-income cohorts struggle—poses a structural challenge even if the aggregate impact remains muted. As the mid-term election year approaches, the Trump administration is paying closer attention to these lower-income segments, seeking to ease affordability pressures through potential cash transfers and more lenient tariff policies in select sectors. While fiscal constraints cast doubt on full implementation, the government's attention to these strained pockets of the economy is likely to endure.

“2026 will be a year of paradox: lifted by innovation and macro resilience, markets may brim with optimism even as questions about the durability of tech-driven gains cast a subtle shadow.”

Labor market dynamics will also warrant close attention: hiring has slowed, but layoffs remain contained, and unemployment is near historic lows. Labor demand is slowing, but shifting labor supply dynamics, such as tighter immigration policies, also appear to be in play. Put differently, reduced hiring signals a cooling economy, but not one on the brink of a labor market unravelling. AI adoption could also reshape employment over time, but in the near term, firms view it as a growth catalyst rather than a threat. The longer-term implications for labor displacement and wage dynamics, however, remain an open question.

For the Federal Reserve, the interplay of AI-driven investment, fiscal stimulus, and labor supply dynamics points to only a modest easing cycle. Furthermore, inflation remains above target, and the full impact of tariffs on price pressures is still unfolding – warranting a cautious approach. The Fed’s key challenge in 2026 will be to calibrate policy in an environment where structural forces, rather than cyclical ones, increasingly drive growth and inflation dynamics.

### **Nuanced, but stabilizing global outlook**

Globally, the picture is equally nuanced. Trade tensions will persist, shaping alliances and supply chains. China has defied fears of an export recession, with supply chains increasingly diversifying away from the U.S. and towards intra-Asian linkages. It has also stepped-up efforts to dominate the next wave of technological innovation, positioning the economy as a key beneficiary of the AI narrative. This willingness to lean even deeper into its external strengths and tech innovation will be important as domestic demand continues to falter amid measured policy stimulus attempts.

China’s determination to preserve its current account surplus while reducing reliance on the U.S. poses a challenge for Europe. Heightened competition for export markets threatens Europe’s manufacturing sector and could introduce mild deflationary pressures. However, easing financial conditions and Germany’s long-awaited departure from fiscal austerity should support economic activity. Europe may not emerge as a standout performer in 2026, still, its solid macro backdrop and relatively low tech exposure—amid concerns of an AI-driven bubble—are likely to appeal to many investors.

In sum, the macro outlook is constructive, but late-cycle dynamics are unmistakable. AI has been the dominant driver of recent market gains, yet questions around valuations, productivity payoffs, and energy constraints will fuel volatility. Rising debt-funded investment and increasingly circular deal-making add to the sense of fragility, even as innovation continues to inspire. The narrative of “AI as the productivity gamechanger” is compelling, but it is also vulnerable to shifts in sentiment, particularly as investors increasingly demand stronger returns on investment.

2026 will be a year of paradox: lifted by innovation and macro resilience, markets may brim with optimism even as questions about the durability of tech-driven gains cast a subtle shadow. If macro foundations hold, markets can continue to climb the wall of worry. Yet in an otherwise benign global backdrop, technology—particularly AI—stands as both the greatest opportunity and the greatest source of uncertainty. Investors must stay positioned for transformative growth while mitigating concentration risks amid rising skepticism. The challenge will be to balance conviction with caution, embracing innovation without overlooking the late-cycle warning signals.

## EQUITIES

### Equities in transition



**GEORGE MARIS, CFA** | Chief Investment Officer, Global Equities

Heading into 2026, the equity markets are navigating a complex landscape characterized by strong performance, significant liquidity, and the transformative impact of artificial intelligence (AI). Yet the forces shaping returns, from liquidity and momentum toward fundamentals, earnings visibility, and policy normalization, are shifting. Staying disciplined after 2025's market rally, while remaining aware of these dynamics, is important for positioning for the year ahead.

A key driver of this bullish sentiment is enthusiasm surrounding AI technologies. Firms producing and underpinning AI software, along with companies leveraging AI in their operations, saw their valuations soar, at times without clear indications of how these investments will translate into future profitability. This exuberance, while understandable given the incredible benefits of this innovation, raises concerns about potential overvaluation as the market may exhibit an overly optimistic bias.

In 2026, the AI narrative is likely to evolve from story to execution. Investors will need to differentiate between firms realizing measurable productivity gains and those still chasing an ethereal potential.

#### **Investment discipline and portfolio construction**

In this evolving environment of lofty, liquidity-driven AI-related valuations, managers must adopt a disciplined approach that emphasizes fundamentals over story-driven trends. This includes conducting thorough underwriting to ensure investment cases are sound, and asking hard questions about valuations predicated on future earnings potential. A scalpel approach—allocating with precision to companies showing cash flow generated-derived value—is as essential now as was the case for decades.

#### **Concerns over market volatility**

Market volatility poses a significant challenge for investors. Recent dynamics led to shorter, more violent periods of volatility, driven by market structure changes such as the dramatic rise of retail trading, options activity, and exchange-traded funds (ETFs). These elements contribute to increased market noise-inducing volatility, making it essential for investors to remain vigilant and adaptable.

As always, the current market environment presents both opportunities and risks. While abundant liquidity helps drive prices higher, we regularly witness how rapid shifts in sentiment lead to violent price movements. Investors need to be prepared for corrections while staying focused on long-term fundamentals. This requires balancing risk management with fundamentally oriented conviction: staying positioned for potential corrections while remaining ready to seize opportunities emerging from volatility.

**“The warranted excitement around AI will likely turn to a focus on its impact on productivity, profits, and growth. Investors who stay selective are well-positioned to navigate uncertainty and capture the opportunities ahead.”**

#### **Global perspectives**

Japan and the UK currently present opposing trajectories. Japan continues to benefit from structural reforms and improved sovereign and corporate governance, while the UK struggles with stagnation and policy inconsistency. Yet both

markets share a common feature: large exporter bases whose relative valuations (Japan's far exceeding that in the UK) diverge more than fundamentals suggest. Active selection remains key.

Emerging markets, particularly in Asia, are also intriguing. While specific markets such as China, South Korea, Brazil and Poland have outperformed and remain attractive, consideration is required to navigate the complexities of each region's economic, political, and corporate landscape. The rise of technology and digital transformation in these markets presents both opportunities for growth and risks associated with geopolitical tensions. 2026 will test investor appetite amid shifting fiscal policies in major economies and evolving geopolitics.

### **Sector insights go far beyond AI**

Looking across sectors, a few themes are particularly worth highlighting:

- Financials, particularly banks, continue to benefit from higher-for-longer rate dynamics, especially in the U.S.
- Healthcare, especially biotechnology, lagged over the prior year but now offers attractive opportunities, especially as merger and acquisition activity escalate.
- Consumer sectors are worth watching. While tariffs present a challenging dynamic, as tariff impacts ease, the recently enacted U.S. fiscal package should be a shot in the arm for consumer and corporate spending.
- The materials and energy spaces are also alluring, led by copper, which looks attractive from both a secular and a cyclical perspective, as industry continues to consolidate.

Across sectors, an opportunity lies in companies translating policy tailwinds and AI-enabled efficiency into sustained earnings.

### **The path ahead points to the importance of a disciplined approach**

As investors enter 2026, the challenge will be maintaining discipline in a story-driven and volatile environment. Equity markets are evolving, driven by enthusiasm and liquidity, and while the coming year offers opportunity, there is also the risk of overvaluation and resultant volatility.

Success in 2026 depends on emphasizing forward free cash generation. The warranted excitement around AI will likely turn to a focus of its impact on productivity, profits, and growth. Investors who stay selective, balancing discipline with agility, are well-positioned to navigate uncertainty and capture the opportunities ahead.

## FIXED INCOME

### Adaptability is paramount



**MICHAEL GOOSAY** | Chief Investment Officer, Global Fixed Income

Reflecting on 2025, investors have encountered uncertainty fueled by tariffs, geopolitical conflicts in Europe and the Middle East, and the implications of the One Big Beautiful Bill. Yet, amidst these challenges, the U.S. economy displayed surprising resilience, supported by strong consumer spending and corporate profits, which ultimately laid the groundwork for positive market performance.

Looking ahead to 2026, the fixed income landscape presents a cautiously constructive backdrop. While inflation is expected to remain above the Fed's 2% target for the foreseeable future, the central bank is likely to gradually adjust interest rates downward toward a neutral level, projected to be around 3%. Although achieving this target is a priority, the Fed will likely tolerate some inflation beyond this level without compromising price stability. Against this backdrop, the opportunity for attractive income and total return remains, especially for active investors prepared to navigate sector dispersion and policy nuance.

#### Macro dynamics supporting the outlook

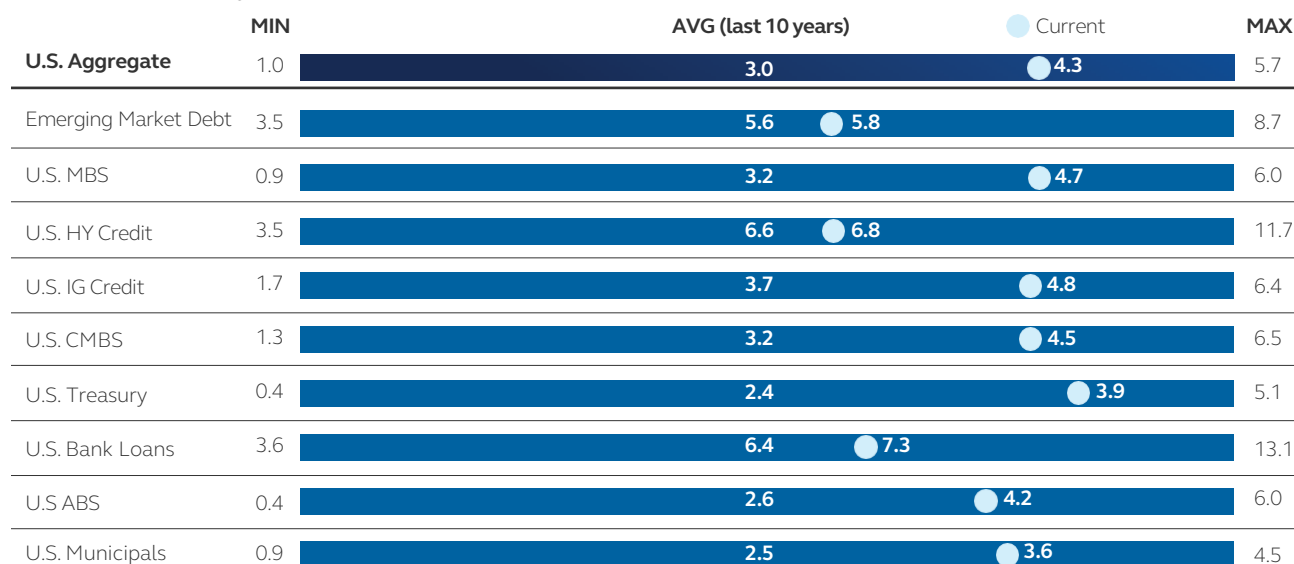
The trajectory of the Fed's policy will be crucial in defining the fixed income landscape in 2026. We expect the Fed to begin gradually lowering rates by mid-year as it seeks to balance persistent inflationary pressures with a cooling—but not collapsing—labor market. This gradual recalibration is essential for fostering sustained economic growth, even in the face of sticky but steady inflationary pressures. Market expectations already reflect a more accommodative approach to policy changes sooner than previously anticipated, as the Fed effectively balances its dual mandates of stable prices and full employment.

#### Yield curve and duration positioning

As the Fed moves to lower interest rates further, there is potential for a steeper curve, which is consistent with prior easing cycles. Such environments typically lead to appreciation across the yield curve, offering investors opportunities to capture gains alongside income generation.

#### Fixed income yield levels

Yield to worst, last ten years



Source: Bloomberg, Principal Fixed Income. Data as of October 31, 2025. Min, max, and average based on last 10 years. Weighted average yield-to-maturity reflected for U.S. Bank Loans. Indices are unmanaged and do not take into account fees, expenses, and transaction costs, and it is not possible to invest in an index. See disclosures for index descriptions.



We remain moderately long in duration, emphasizing flexibility to respond to curve shifts and evolving inflation expectations. Effectively managing exposure across both ends of the curve will be key to optimizing returns in this interest rate environment.

“This is a fixed income environment that favors **active management, selective sector rotation, and a flexible approach to duration.**”

## Sector views: Staying opportunistic and selective

### *High yield*

High yield remains particularly attractive due to its limited potential for spread widening or further tightening. Despite economic uncertainty, the credit quality has improved markedly, with a reduction in the number of lower-rated issuers, which has helped tighten spreads. In fact, the percentage of CCC-rated securities fell to just 10% of the index, which justifies spread levels, and positions high yield as a compelling carry trade in a low-interest-rate context.

New issuance was heavy in 2025, and we expect that to continue. The market has easily absorbed this paper, but eventually the risk of supply exceeding demand will grow. So, while still overweight, we are biased toward a neutral position.

### *Investment grade*

Investment grade credit continues to be viewed favorably, supported by strong technicals, solid fundamentals, and a favorable macro environment. However, tighter spreads present a more complicated landscape. Although demand for corporate debt and high-quality paper will likely persist, new supply may eventually outpace demand as firms take advantage of the Fed's easing cycle to step up issuance. Moreover, consumer-linked credits may face challenges should the labor market weaken. Overall, IG credit remains resilient, allowing active managers to leverage bottom-up credit selection and sector differentiation effectively. Nevertheless, potential upticks in supply may weigh on the sector.

### *Emerging markets*

Emerging markets present another area of interest, characterized by unique regional stories, opportunities and risks. With a positive outlook for certain segments driven by declining global rates, emerging market debt appears promising. But it is crucial for investors to focus on regional strengths and sector-specific dynamics rather than adopting a blanket bullish approach. As an active manager, we seek to take advantage of individual markets, both dollar-denominated and local currency. Looking ahead, there are opportunities in the sector for an agile active manager, and we remain overweight.

### *Municipal bonds*

Municipal bonds have underperformed other fixed income sectors through most of 2025, resulting in a very attractive risk/return profile, particularly on a tax-adjusted basis. Heading into next year, we're in an environment where many coastal states, and parts of the Midwest are raising tax rates, and that's likely to continue. That, in turn, should feed demand and drive attractive returns in the municipal bond space. Within Munis, we tend to avoid general obligation assets and focus more on revenue bonds and infrastructure projects where there are opportunities to extract value from an alpha perspective, while reducing risk.

## **A favorable outlook, but the ability to adapt is key**

The fixed income market is characterized by a delicate interplay of factors that require careful navigation. Investors should remain vigilant regarding inflation trends and the Federal Reserve's policy adjustments, as these will significantly influence the yield curve and sector performance. Yet this environment bodes well for fixed income investments. Investors can benefit from more favorable income rates compared to the ultra-low levels of a few years ago. This holds the potential for reasonable total returns in 2026.

## MULTI-ASSET

### The year of tactical investments



**TODD JABLONSKI, CFA** | Chief Investment Officer, Multi-asset & Quant Strategies

Is the specter of a rewarding 2026 with plenty of successful investment opportunities too good to be true? Interestingly, many seem to think so. Investor sentiment is on the wane amid concerns over sluggish U.S. growth, persistent ~3% inflation, cooling labor markets, and renewed geopolitical and trade tensions. Yet, there remain a large number of reasons to be optimistic about the year ahead. The U.S. economy is showing resilience in key areas, notably in corporate earnings growth and in the higher-end consumer economy. Taken in total, the risk-on vs. risk-off decision for asset allocation is opaque entering 2026. Our research guides us to “cautiously risk on” in a 2026 where we expect tactical asset allocation decisions to be critical to investment success.

#### **Valuation pressure meetings sentiment caution**

For the investors on “team risk off,” the concern seems to come from all-time low risk premia. Markets have been on a roll the last several years, starting with 2023’s +26.3% total return from the S&P 500, followed by 2024’s +25.0% total return, and 2025’s +17.5% total return through October. In short, U.S. stocks are up by more than +85% in less than three years, and investors are wary the good times can continue.

Stocks are near universally “expensive” all over the globe despite great growth in the “E” denominator in the P/E fraction. Outside of a few pockets in Latin America, Southeast Asia, and U.S. REITs, value is extraordinarily difficult to find. To boot, a weakening dollar and abrupt policy shifts also seem to have eroded foreign investors’ confidence in U.S. assets. Developed ex-U.S. markets posted a +26.6% net total return in 2025 through October, while gold, silver, and cryptocurrencies (dollar alternatives) have reached new highs.

Meanwhile, in the bond market, credit spreads are historically tight (read: expensive) despite a spate of well-publicized bankruptcies in 2025 and murmurings of waning credit quality. We view the tight risk premia as adding to market fragility, as any combination of slowing consumer spending, weakening consumer credit, AI profitability delays, or rising tax rates in developed countries could frustrate risk assets.

#### **Reasons for optimism in 2026**

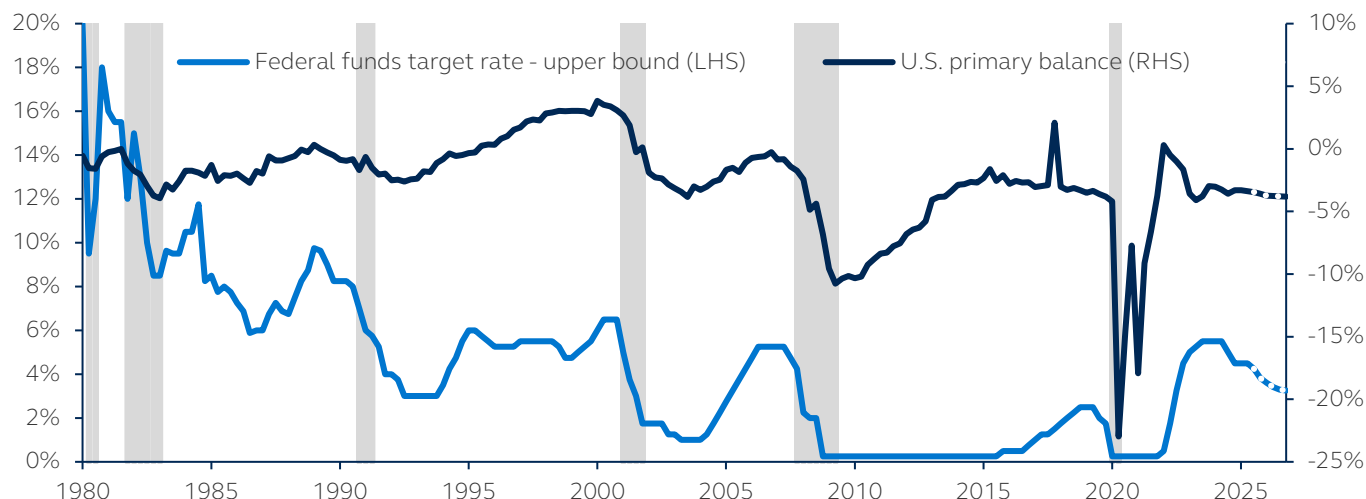
Despite a lengthy list of potential threats to the outlook, we enter 2026 with optimism and an overweight to equities, credit, and other anti-fragile assets. “Team risk on” can also point to compelling macro forces on its roster. One, momentum is a powerful investment force, and it’s pointed in the right direction. Two, corporate fundamentals were great in 2025, and they appear poised to accelerate. 2026 consensus expectations for global stocks are for +6% sales growth (up from +5% in 2025) and +13% earnings growth (up from +11% in 2025), fueled by sharply positive earnings revisions the past twelve months. Three, many investors seem too eager for too many Fed cuts, failing to appreciate the positive impacts of easing financial conditions that arise from even modest easing. We expect a modest Fed easing cycle in 2026, and the “Fed put” is there for investors should a negative shock damage the already-mixed economic outlook.

**“Buying opportunities are likely to arise as investors overreact to high-frequency data.**

We encourage increased liquidity and preparedness for the year ahead.”

## U.S. primary balance and Fed funds rate

U.S. primary balance % of GDP and Fed funds rate, recession are shaded, March 1980–present



Source: Bloomberg, Principal Asset Management. Data as of October 31, 2025.

Finally, and perhaps most importantly, fiscal and monetary policy in the U.S. is in a unique, supportive position for investors. The United States federal government today is spending massively on economic growth, a stimulative fiscal approach typically reserved for recession escape. Simultaneously, the Federal Reserve is in the midst of an easing cycle, with a dominant eye on the full employment side of the ledger, a stimulative monetary approach typically reserved for recession escape. Thus, both U.S. fiscal policy and monetary policy are in expansive mode...and we are not in a recession! The rare combination of expansive policies absent a recession is an environment where stocks, credit, and other risk assets have historically performed well.

### A year for active positioning

We also expect 2026 to be a critical year for asset allocation risk and asset allocation reward. When macro forces loom large, narrow idiosyncratic issues take a back seat to investment agility and dynamism. Buying opportunities are likely to arise as investors overreact to high frequency data, guess at the size and speed of Fed cuts, and project when the AI capex theme will shift from “expense” to “corporate profit center.” We encourage increased liquidity and preparedness for the year ahead.

## PRIVATE MARKETS

### Conditions align for real assets and private credit



**TODD EVERETT** | Global Head of Private Markets

In 2025, private markets responded with resilience to geopolitical and macroeconomic shocks. While sentiment wavered at times, momentum recovered quickly, reinforcing long-term confidence in the asset class. With the initial wave of shifts in U.S. governmental policies, trade negotiations, and impact on economic growth now more transparent, there are several factors emerging that are likely to shape private market performance in 2026.

Overall, the outlook is constructive for investment across the asset class and risk spectrum, but there are many considerations (both positive and cautionary) that investors should keep in mind.

#### **Cost of leverage declines**

Leverage, a critical driver of private market investment, is becoming less expensive. The long end of the U.S. Treasury curve may remain range bound, providing a milder real estate valuation recovery than after previous periods of material devaluation. However, commercial real estate appreciation has generally redeveloped and improving core and core plus returns are expected. In private credit, accommodative Fed actions may reduce the pressure building in below-investment-grade sectors, particularly around the allowance of payment-in-kind (PIK) provisions and rising defaults. For private equity, easing capital costs may unlock liquidity and support exit activity in 2026.

#### **A return to real estate appreciation**

The end of the Fed rate hiking cycle coupled with stable debt markets should continue to support capital flows into the real estate sector. In addition, slowing real estate construction deliveries and strengthening space absorption should lead accelerate landlord pricing power across most U.S. property types. While the U.S. leads in sector

recovery, Europe also shows promise, supported by targeted fiscal stimulus. Data centers and residential assets remain standout global segments, driven by structural demand trends.

#### **An AI-driven infrastructure acceleration**

Infrastructure fundamentals remain robust, with digital and energy sectors benefitting from long-term structural demand. The AI and cloud computing boom is projected to more than double U.S. data center electricity usage by 2030, straining grids and spurring investment across generation, transmission, and storage. Additionally, shifts in U.S. policy—particularly the transition from the Inflation Reduction Act to the OBBB Act—may compress the clean energy tax credit window, resulting in a spike in activity through 2026 and then a drop-off or slower development post-2027.

**“Across real assets and private credit, we see opportunities across the risk spectrum for long-term investors seeking diversification, income, and stability.”**

#### **Shifting control of the private credit market**

Private lenders continue to take market share from traditional banks, particularly in the direct lending and real estate debt sectors. Regulatory shifts and less stringent oversight may also support an uptick in M&A activity, expanding the investable opportunity set. Notably, intense competition in the upper middle market is compressing spreads and loosening terms. By contrast, the lower middle market offers more attractive structures, higher yields, and favorable covenants, especially for first-lien senior secured exposure.

Assessing ABF investment

Asset-backed finance (ABF) is evolving rapidly, with increasingly complex risk transfers targeting wealth and institutional channels. While the relative investment spreads, credit ratings, and short-durational profile of ABF are appealing, it’s essential to understand the underlying performance drivers, modeling of stressed environments, and loss potential in these complex structured investments. Hard asset-backed ABF transactions may offer appealing risk-adjusted opportunities, provided underwriting discipline is maintained.

A constructive environment for allocation

The global alternative investment universe is expected to expand from \$21.6 trillion in 2024 to \$34.2 trillion by 2030, according to PwC. That’s nearly an 8% compound annual growth rate. Growth

does not occur at this level without the belief that the sector will deliver anticipated portfolio benefits including premium risk adjusted returns, limited volatility, and a low correlation with public stocks and bonds.

With that in mind, private markets are well positioned heading into 2026. Structural tailwinds from AI, infrastructure demand, and capital migration from public to private markets continue to support fundamentals. While macro and geopolitical uncertainty persist, private assets backed by hard collateral, prudent underwriting, and favorable structural features offer resilience and potential upside. Across real assets and private credit, we see opportunities across the risk spectrum for long-term investors seeking diversification, income, and stability.

Private Market Sector Snapshot	Why now	Risks to monitor
Private Real Estate (Equity & Debt)	<ul style="list-style-type: none"><li>• Valuations have corrected ~20%; transaction volumes are rebounding.</li><li>• Supply/demand balance improving in most sectors (ex-office).</li><li>• Opportunities exist to acquire assets below replacement cost.</li><li>• Real estate debt offers competitive total return versus core equity.</li></ul>	<ul style="list-style-type: none"><li>• Recovery is likely to be uneven; returns may not match prior cycles.</li><li>• Cap rate spreads remain modest in favored sectors.</li><li>• Slower labor markets may pressure demand in weaker geographies.</li></ul>
Private Infrastructure (Equity & Debt)	<ul style="list-style-type: none"><li>• Strong demand drivers across digital, energy, and transport sectors.</li><li>• Historically low correlation with public markets enhances diversification.</li><li>• Government funding gaps create tailwinds for private capital.</li></ul>	<ul style="list-style-type: none"><li>• Clean energy development may slow post-2026 as policy incentives shift.</li><li>• Project timelines may be pulled forward, potentially creating a development lull after 2027.</li></ul>
Private High Yield Credit / Direct Lending	<ul style="list-style-type: none"><li>• Public market spreads have compressed, enhancing the relative value of direct lending.</li><li>• Corporate fundamentals remain strong, defaults below long-term averages.</li><li>• Lower middle market continues to offer structural advantages.</li></ul>	<ul style="list-style-type: none"><li>• PIK issuance remains elevated (~7.2% of index).</li><li>• Manager dispersion is widening; underwriting discipline is key.</li></ul>
Private Investment Grade Debt	<ul style="list-style-type: none"><li>• Issuance volumes remain strong; investor protections are holding.</li><li>• Yield premiums over comparable public IG bonds remain attractive.</li><li>• Institutional mandates can now build global, diversified exposures.</li></ul>	<ul style="list-style-type: none"><li>• Sector and regional diversification remain critical amid macro uncertainty.</li></ul>

#### **Fixed income yield chart index descriptions:**

The Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

The Bloomberg CMBS ERISA-Eligible Index is the ERISA-eligible component of the Bloomberg CMBS Index. This index, which includes investment grade securities that are ERISA eligible under the underwriter's exemption, is the only CMBS sector that is included in the Bloomberg U.S. Aggregate Index.

The Bloomberg Asset-Backed Securities (ABS) Index has three subsectors: Credit and charge cards, Autos, Utility. The index includes pass-through, bullet, and controlled amortization structures. The ABS Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. The Manufactured Housing sector was removed as of January 1, 2008, and the Home Equity Loan sector was removed as of October 1, 2009.

The S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan 100 Index is designed to measure the performance of the U.S. leveraged loan market based upon market weightings, spreads, and interest payments. The index is composed of loans bought by institutional investors that have partnered with S&P Global Market Intelligence's Leveraged Commentary & Data (LCD). Index constituents are market-value weighted, subject to a single loan facility weight cap of 2%.

Bloomberg U.S. Corp HY 2% Issuer Capped is the 2% Issuer Cap component of the U.S. Corporate High Yield index. The Bloomberg U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

The Bloomberg U.S. Credit Index is the U.S. Credit component of the U.S. Government/Credit index and includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

The Bloomberg U.S. Treasury Index is public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg U.S. MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.

The Bloomberg U.S. Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market.

The J.P. Morgan EMBI Global Diversified Index (EMBIGD) tracks liquid, US Dollar emerging market fixed and floating-rate debt instruments issued by sovereign and quasi-sovereign entities<sup>1</sup>. The index was launched in July 1999 with daily historical index levels dating back to December 1993. Historical to-maturity and to-worst statistics are available from December 1997 and December 2001, respectively.

#### **Risk considerations**

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Asset allocation and diversification do not ensure a profit or protect against a loss. 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. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Real estate investment options are subject to risks associated with credit, liquidity, interest rate fluctuation, adverse general and local economic conditions, and decreases in real estate values and occupancy rates. Private market investments, unlike publicly traded stocks, involve various risks due to illiquidity, lack of transparency, and higher minimum investment requirements. These risks include liquidity risk, market risk, capital risk, and regulatory risk. Additionally, private market investments often involve higher fees and expenses and may have longer investment horizons. Investments in private debt, including leveraged loans, middle market loans, and mezzanine debt, are subject to various risk factors, including credit risk, liquidity risk and interest rate risk. Private credit involves an investment in non-publicly traded securities which are subject to illiquidity risk. Portfolios that invest in private credit may be leveraged and may engage in speculative investment practices that increase the risk of investment loss. Infrastructure investments are long-dated, illiquid investments that are subject to operational and regulatory risks.

#### **Important Information**

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