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Principal Fixed Income

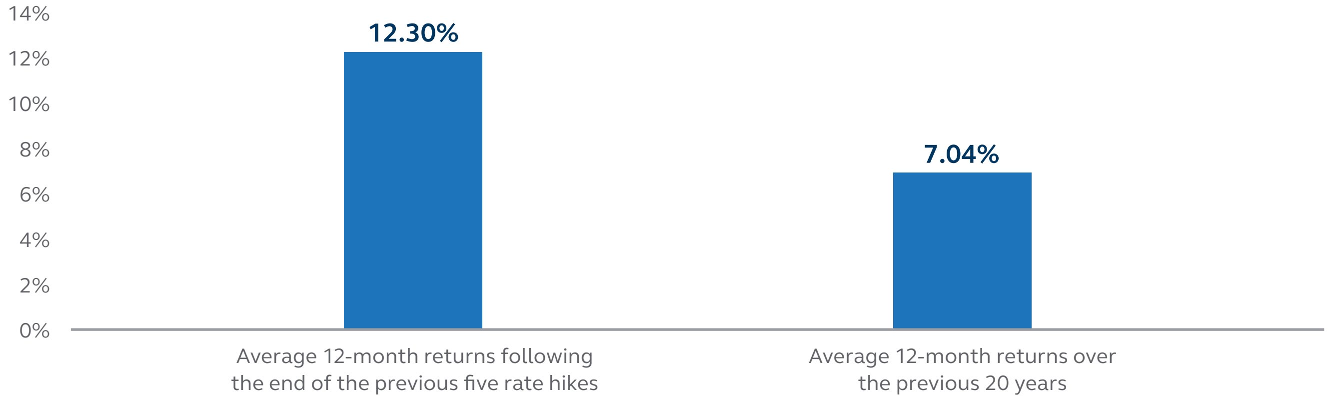
Principal Asset Management[SM]

Case for a strategic allocation to high yield

Despite the threat of a near-term economic slowdown, the case for investing in U.S. high yield today remains attractive. **Here are five reasons why investors should consider high yield:**

1. U.S. high yield tends to perform well following the conclusion of a hiking cycle

Historically, following a peak in the Federal Funds rate, the asset class has delivered attractive returns compared to the historical 20-year average.



Source: J.P. Morgan, Morningstar. The returns are calculated for the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index. The Federal Funds rate hikes shown here are the periods ending in February 1995, May 2000, June 2006, and December 2018. The date range for the average 12-month returns over the previous 20 years is August 1, 2003 to August 31, 2023. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

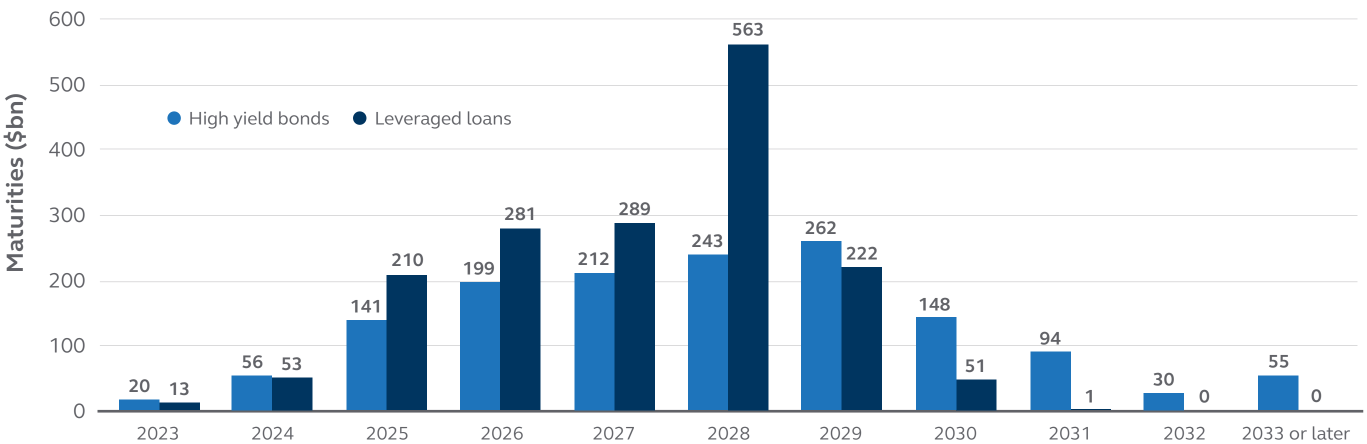
2. Attractive yield cushion

Rather than waiting for attractive spread levels, investors may benefit by focusing on the attractive yield potential of the asset class today. From April to August 2023, spread on the index tightened 71 basis points (bps), but yield was only reduced by 0.03%. Waiting to enter at more attractive spread levels may come at the cost of yield.

As of August 31, 2023. Source: Aladdin by BlackRock. Based on the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index.

3. Technical tailwind: Lack of looming maturity wall

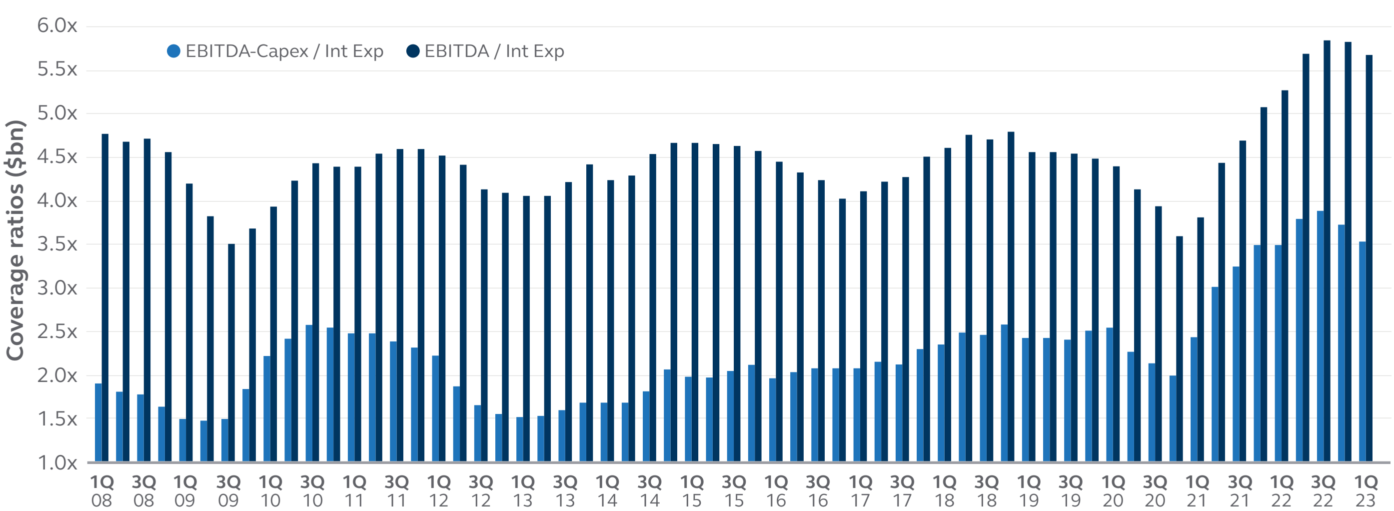
The near-term maturity wall for high yield is historically low, with only $20B of high-yield bonds and $13B of bank loans set to mature in 2023. The light issuance presents a positive technical tailwind for the asset class as high yield issuers are not forced to come to market to refinance at higher rates.



As of May 31, 2023. Source: J.P. Morgan; S&P/IHS Markit.

4. Fundamental strength: Interest coverage may provide a margin of defense

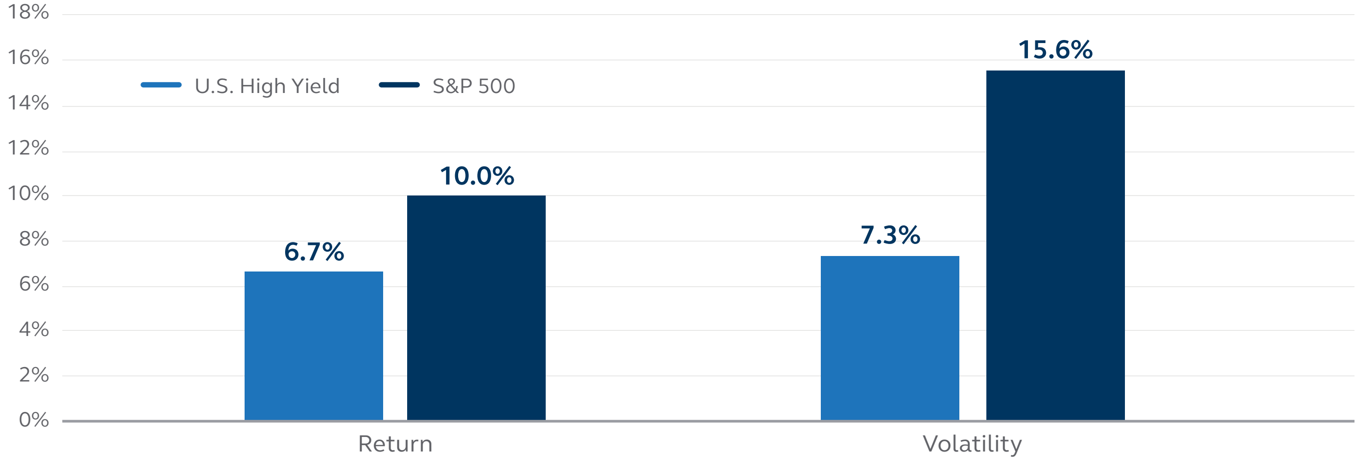
Current higher interest coverage ratios help illustrate the healthy fundamentals of the high yield asset class, indicating that high yield balance sheets are well-positioned should the U.S. economy slow.



As of March 31, 2023. Source: J.P. Morgan. EBITDA (earnings before interest, taxes, depreciation, and amortization) is a business analysis metric that assists in assessing the potential ability of a company to generate cash flow. The interest coverage ratio is calculated by dividing EBITDA by interest expenses (EBITDA / Int Exp). Reducing EBITDA by capital expenditures (EBITDA-Capex) before dividing by interest expenses provides additional insight to a company's ability to service debt by netting out expenses from earnings.

5. Opportunity to reduce volatility

High yield has historically delivered attractive returns with half the volatility when compared to the S&P 500.



As of August 31, 2023. Source: Bloomberg. U.S. High Yield is representative of the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index. Historical returns and volatility are 30-year annualized figures from September 1993 – August 2023.

Principal Fixed Income

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Bloomberg U.S. Corporate 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%.

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