



Global Market Perspectives

AI world of opportunities

PRINCIPAL GLOBAL INSIGHTS TEAM



Seema Shah
Chief Global Strategist



Brian Skocypec, CIMA
Director, Global Insights &
Content Strategy



Christian Floro,
CFA, CMT
Market Strategist



Jordan Rosner
Sr. Insights Strategist



Magdalena Ocampo
Market Strategist



Ben Brandsgard
Insights Strategist

Table of contents

Quarter in brief	02
Macro	03
Equities	12
Fixed income	16
Investment perspectives	19

Key themes for 1Q 2026

- Solid foundations for global growth in 2026**
The global economy enters 2026 on a firm footing, supported by widespread fiscal stimulus, monetary normalization, and accelerating AI-driven capex and adoption—factors that should underpin robust growth across most regions.
- The U.S. economy has sustained its robust underlying architecture**
Corporate profit margins are holding firm, and gains in household wealth are sustaining consumer spending despite labor market weakness. AI capex is a growth engine, while the OBBBA could fuel a prolonged investment impulse.
- The Federal Reserve is approaching neutral, balancing inflation and employment concerns**
Persistent inflation concerns, coupled with robust economic activity, imply only modest policy action. We expect two cuts in 2026, bringing rates just below the midpoint of the neutral range.
- Equity market returns will be dependent on strong earnings growth**
Stretched U.S. valuations and intensifying scrutiny of AI imply that earnings—both in tech and beyond—must deliver. The solid macro backdrop is supportive of modest gains, with U.S. tech exposure, along with broader sectoral and regional diversification, offering upside while mitigating concentration risk.
- Fixed income credit: Tight spreads but benefiting from robust macro tailwinds**
Favorable macro conditions imply reduced default risk. Credit spreads remain very tight, but renewed private market stress—provided they are idiosyncratic rather than systemic in nature—may provide entry points.
- Focus on balance and diversification**
2025 delivered the strongest cross-asset and cross-regional performances in recent years. The solid macro backdrop for 2026 argues for a continued focus on diversification, particularly in light of both AI risks and opportunities.

Global growth resilience amid U.S. policy upheaval

Last year, policy upheavals tested the resilience of the global economy in ways few anticipated. Yet, despite trade uncertainty, inflation concerns, and geopolitical fractures, global growth proved remarkably durable.

In the U.S., GDP growth in 2025 is likely to have come in only slightly below the consensus forecast at the start of the year—a notable improvement from the recession fears that gripped markets after Liberation Day. For Europe and China, growth appears to have exceeded early expectations.

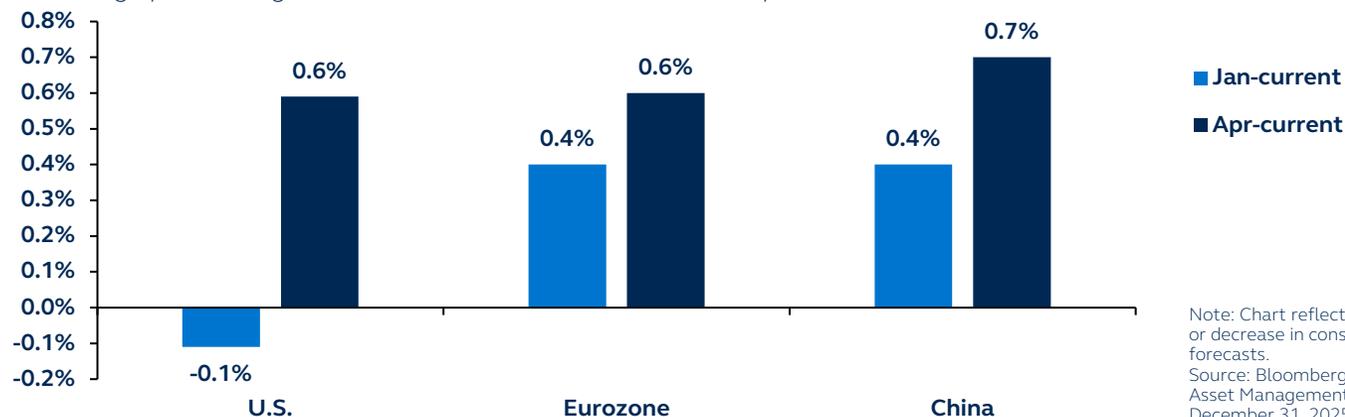
This resilience reflects several factors. U.S. import tariffs turned out lower than initially feared, limiting their drag on global and U.S. growth. More importantly, policy responses were decisive. In Europe, a pivot towards expansionary fiscal policy—particularly in Germany—combined with swift ECB rate cuts to lift growth beyond early-year projections. In China, the “anti-involution” policy drive, aimed at reversing deflationary pressures, provided a boost in the first half of the year, even as domestic demand softened later. Meanwhile, a rerouting of trade flows from the U.S. to Asia and Europe helped sustain export momentum as a key growth engine.

These dynamics should underpin activity in 2026, setting the stage for a broadly constructive outlook for global growth.

Decisive policy responses helped offset the growth threat posed by U.S. import tariffs last year and should continue to support global growth in 2026.

Change in consensus 2025 real GDP growth forecasts

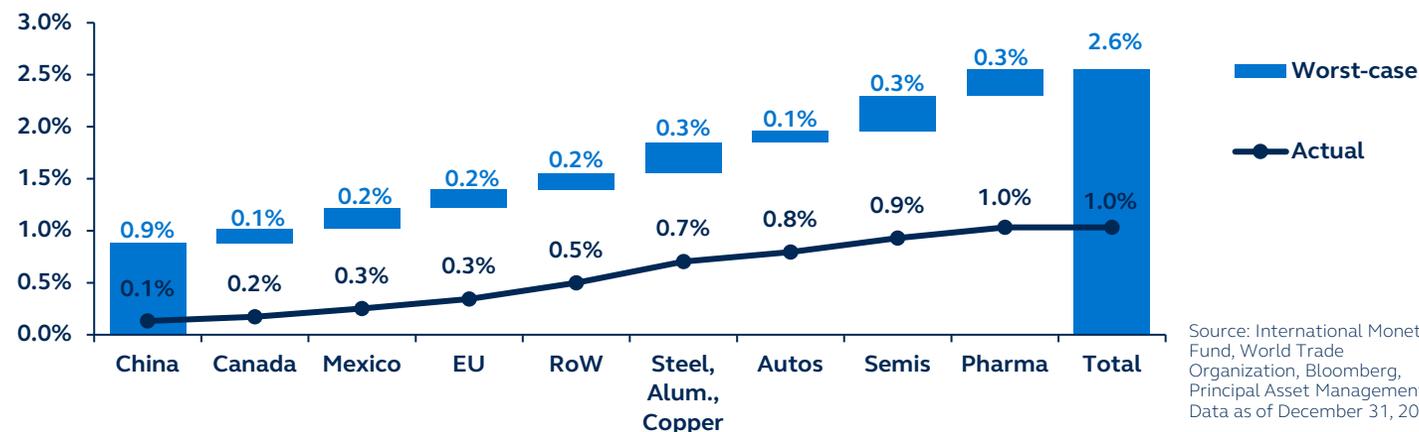
Percentage point change in consensus between Jan-current vs. April-current



Note: Chart reflects the increase or decrease in consensus GDP forecasts.
Source: Bloomberg, Principal Asset Management. Data as of December 31, 2025.

Negative impact of tariff increases on U.S. GDP

Worst-case versus actual



Source: International Monetary Fund, World Trade Organization, Bloomberg, Principal Asset Management. Data as of December 31, 2025.

U.S. economic strength defies market anxiety

Although economic activity has remained robust, with GDP expanding by 4.3% in the third quarter, an undercurrent of concern persists. Consumer confidence is near record lows, even as retail sales remain resilient despite slowing job gains and pressure on household purchasing power from tariffs.

In contrast, business sentiment—among both small and large firms—has largely rebounded since Liberation Day, likely driven by this year’s surge in capital expenditure.

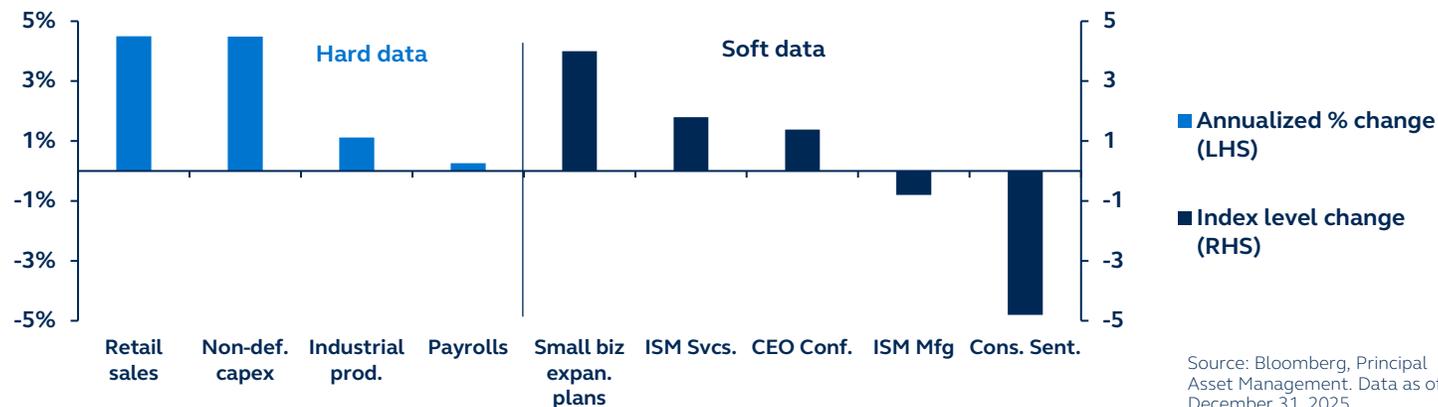
Beyond consumer spending, AI-related investment has emerged as an additional pillar of U.S. growth. Technology companies are accelerating their investment in AI infrastructure to secure a leadership position in the AI-driven revolution, which is expected to unlock new revenue streams and enhance profitability.

In the first three quarters of 2025, AI-related capital expenditure accounted for roughly 40% of GDP growth—slightly less when accounting for imported equipment. Even so, this represents a significant structural shift in the U.S. economy. With projections indicating AI-related capex could reach \$1.3 trillion over the next five years, and providing the market narrative around AI does not take a turn for the worse, AI capex will likely have an expanding footprint in economic activity, remaining a key driver of U.S. growth.

Despite depressed consumer confidence, the U.S. economy continues to perform well. Alongside consumer spending, AI capex has become an important anchor of the U.S. economy.

Hard vs. soft data change since Liberation Day

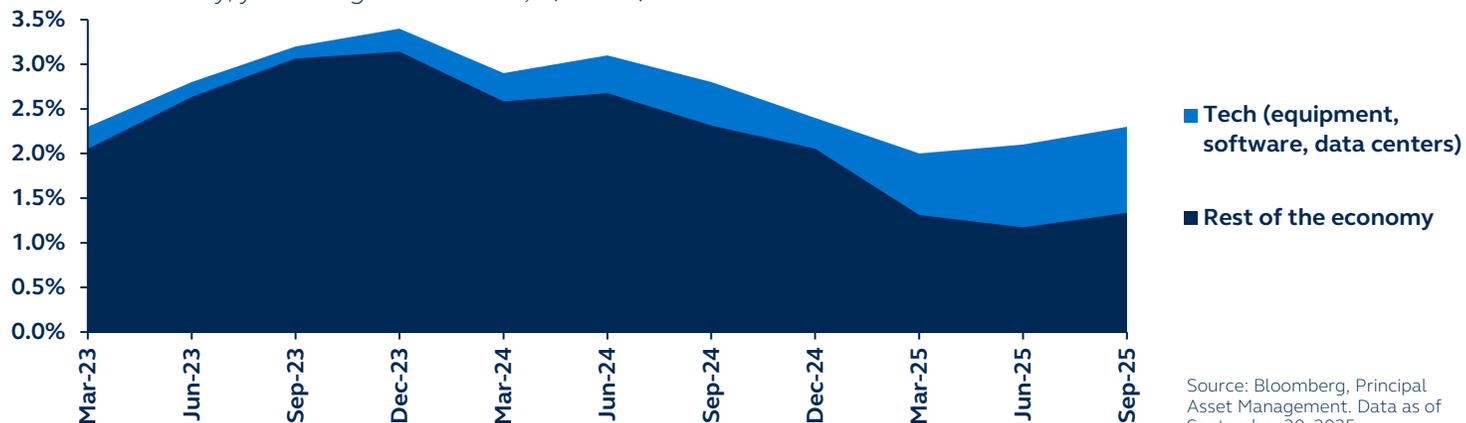
Annualized percentage change, Index level change, April 2025-present



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

Tech capex contribution to U.S. real GDP growth

Contributions to y/y % change in real GDP, Q1'23-Q3'25



Source: Bloomberg, Principal Asset Management. Data as of September 30, 2025.

U.S. policy: Vegetables eaten—time for dessert?

Last year, government policy leaned more towards restraint than stimulus. This year, however, fiscal measures are set to deliver a short-lived yet powerful boost. The One Big Beautiful Bill (OBBBA), passed in 2025, will increase the average taxpayer's cash refund this year by \$700, lifting the typical refund to around \$3,800 per filer. This injection of liquidity is expected to provide a welcome boost to household spending power in the first quarter.

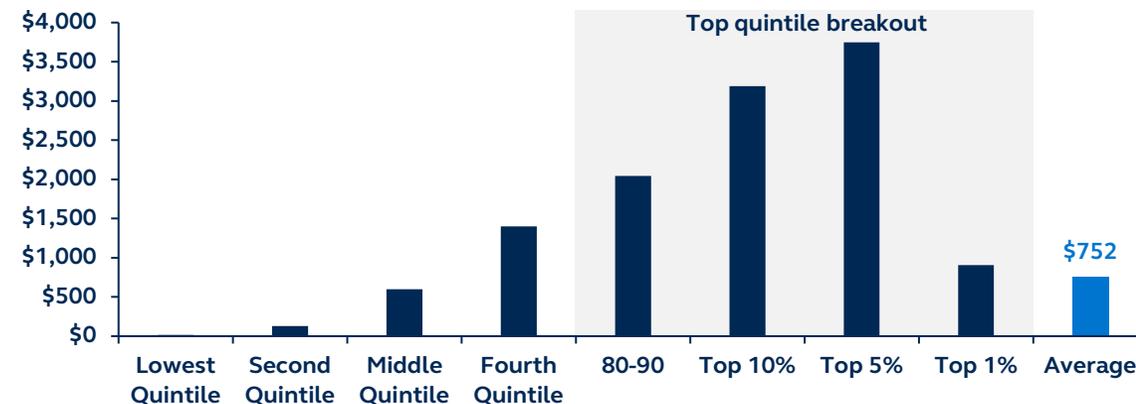
That said, the benefits are skewed towards middle- and higher-income earners, who typically have a lower propensity to spend. Even so, with midterm elections approaching, the Trump administration is signaling a greater focus on lower-income households, exploring options such as targeted cash transfers and more lenient tariff policies in select sectors. While fiscal constraints raise doubts about full implementation, the government's attention to affordability pressures is likely to persist.

For businesses, the OBBBA offers generous tax deductions, potentially reducing the effective corporate tax rate from 21% to as low as 15%. Although this is also expected to be a one-off boost, reinvesting the additional free cash flow could extend the positive impact on capex into late 2026.

The OBBBA tax refunds, deductions and incentives will provide a meaningful tailwind to consumer spending and capex in Q1, with some potential to extend through to late 2026.

Net impact of OBBBA beyond TCJA extension on 2026 income by income group

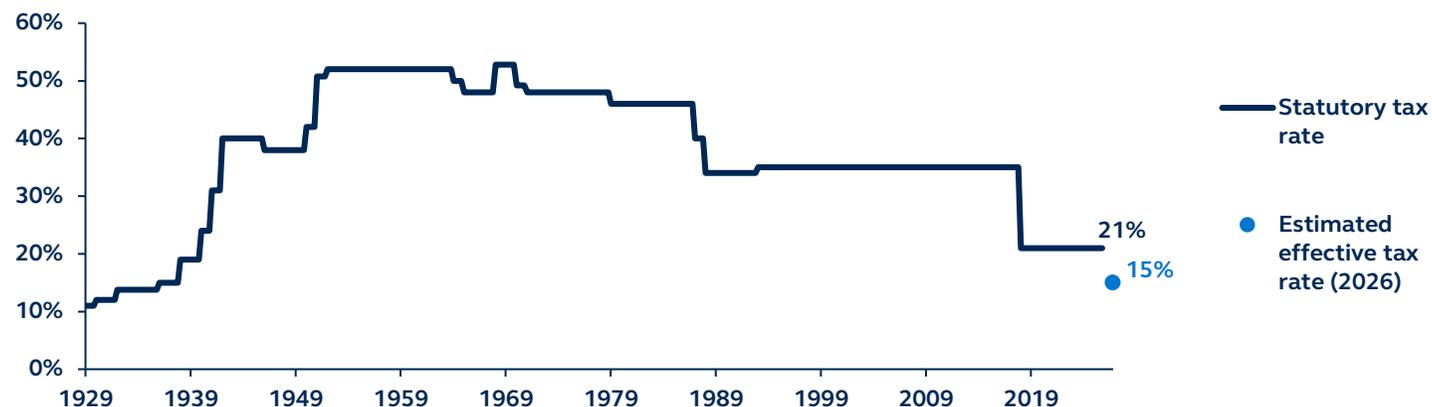
Change in after-tax income



Note: Average bar represents the weighted average after-tax income increase across all taxpayers.
Source: Yale Budget Lab, Tax Policy Center, Principal Asset Management. Data as of July 30, 2025.

U.S. corporate tax rate

1929–present



Strong U.S. balance sheets have laid a solid foundation

While new growth drivers are emerging, the underlying architecture of the U.S. economy remains resilient. Strong balance sheets provide a crucial buffer against headwinds.

Corporate fundamentals are solid: leverage is contained, cash holdings as a share of liabilities continue to rise, and profits remain on an upward trend, with margins at cycle highs. Historically, recessions are rare when corporate profitability is expanding.

Households also appear strong, with net worth surging by an extraordinary \$63 trillion since 2020. In Q2 2025 alone, wealth grew by \$7 trillion, driven by equity market gains—suggesting that consumers are well-positioned for 2026.

Yet this contrasts with near-record low confidence, rising affordability concerns, and increasing delinquencies. The culprit: a K-shaped economy. Aggregate strength reflects the wealthiest households, who dominate exposure to equities and real estate. The top 20% hold 80% of net worth, and the top 10% account for nearly half of spending. Affordability strains and delinquencies remain concentrated among lower-income households, whose share of overall spending is small. So, while the K-shape may become more pronounced, the aggregate household picture should remain robust.

Household and corporate balance sheet strength provides ample buffers to downside risks. While the K-shaped economy is a concern, it does not yet imply aggregate weakness.

Household balance sheet strength

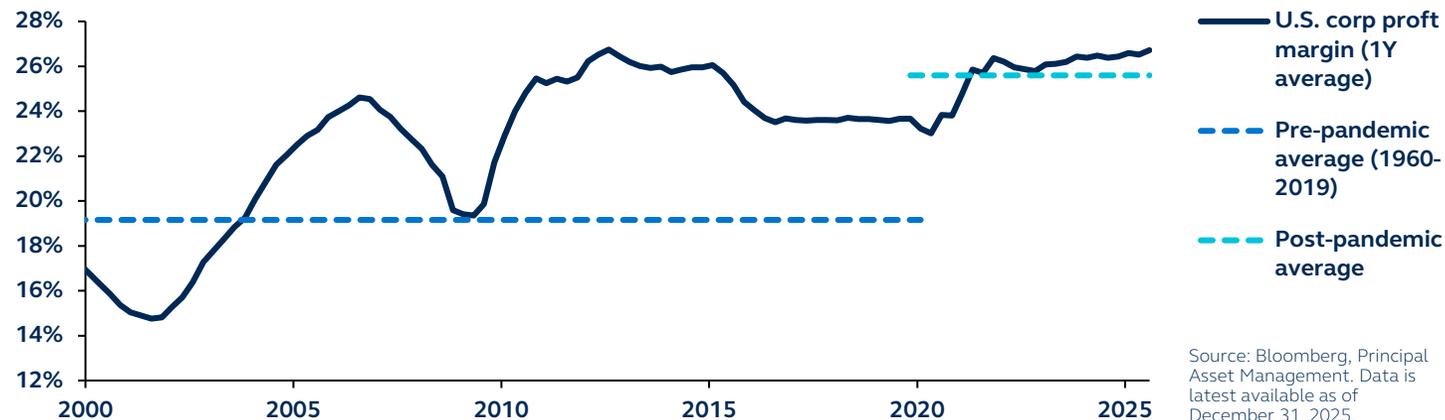
Household liabilities as % of net worth, 1960–June 2025



Source: Bloomberg, Principal Asset Management. Data is latest available as of December 31, 2025.

Corporate profit margins

Profits as a percentage of corporate revenue, 2000–3Q 2025



Source: Bloomberg, Principal Asset Management. Data is latest available as of December 31, 2025.

Pausing in a low-hiring, low-firing environment

The primary downside risk to consumer spending and the broader economy is the labor market. Yet, jobs data reinforce the narrative of a “low hire, low fire” environment. While new entrants to the workforce may find it challenging to secure employment, there is no evidence of widespread job losses.

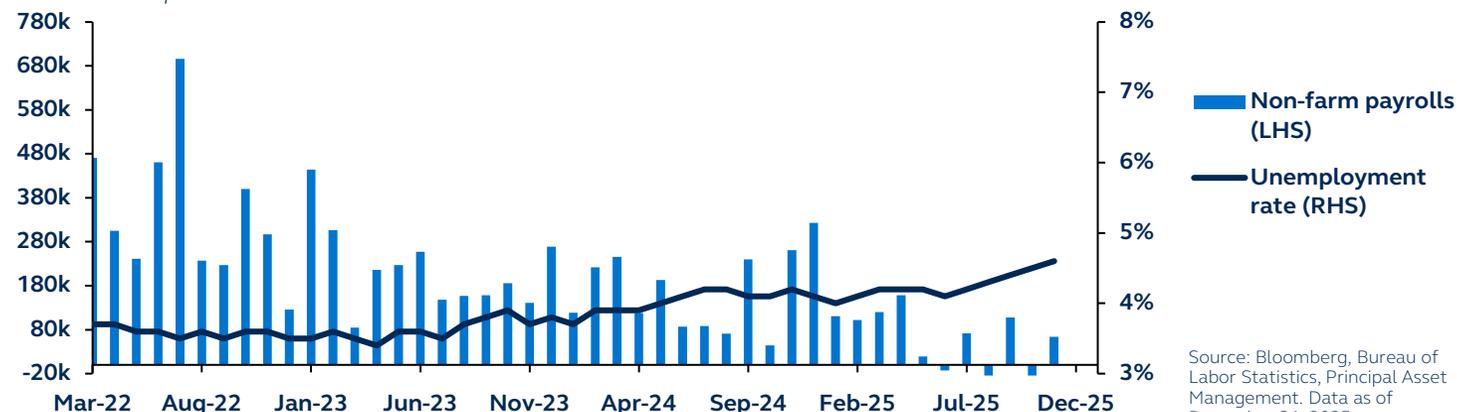
The combination of cyclical demand weakness and structural supply constraints complicates the outlook. Tighter labor supply, driven by stricter immigration policies, means that a breakeven level of around 25,000–70,000 payroll additions per month now signals a healthy labor market—down from roughly 125,000 historically. In recent months, non-farm payroll growth sits just within the lower end of this breakeven range, indicating cooling rather than collapse. Similarly, the unemployment rate has risen to 4.6%—a four-year high, yet still near historical lows—consistent with a gradual slowdown rather than a sharp deterioration. Longer term, if increasing adoption of AI boosts productivity as expected, less job growth may be required to sustain economic expansion.

Overall, corporate strength remains critical for labor market resilience. Strong S&P 500 earnings growth has alleviated pressure to cut headcount. Widespread layoffs are unlikely if earnings growth remains positive and profitability persists.

Although jobs growth has slowed, structural supply constraints imply that the labor market is cooling rather than collapsing.

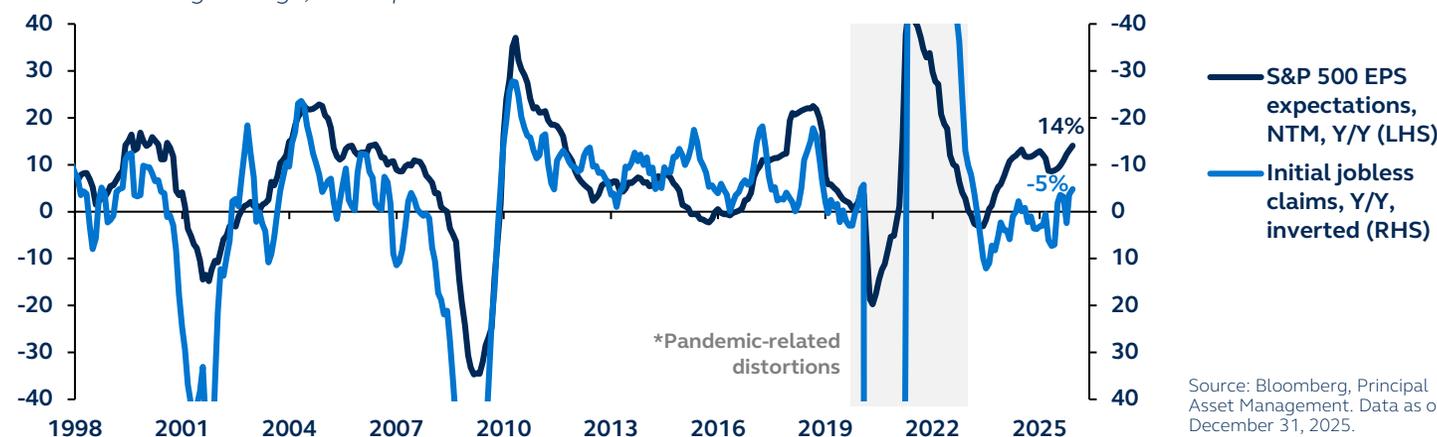
U.S. unemployment rate vs. non-farm payrolls

March 2022–present



Initial jobless claims vs. S&P 500 EPS expectations growth

3-month moving average, 1998–present



Muted tariff pass-through, but inflation risks linger

Inflation remains a challenge, with core PCE inflation holding above the Federal Reserve’s 2% target for 55 months. However, it has not been trending higher, as the pass-through from tariffs has been more muted than markets anticipated.

Within core goods, tariff-sensitive categories continue to face price pressures, but inflation is not accelerating sharply. Micro-level data support this view: price pressures are emerging, albeit modestly. Since Liberation Day, imported goods prices have risen by 3%, while domestic goods prices have increased by a similar amount.

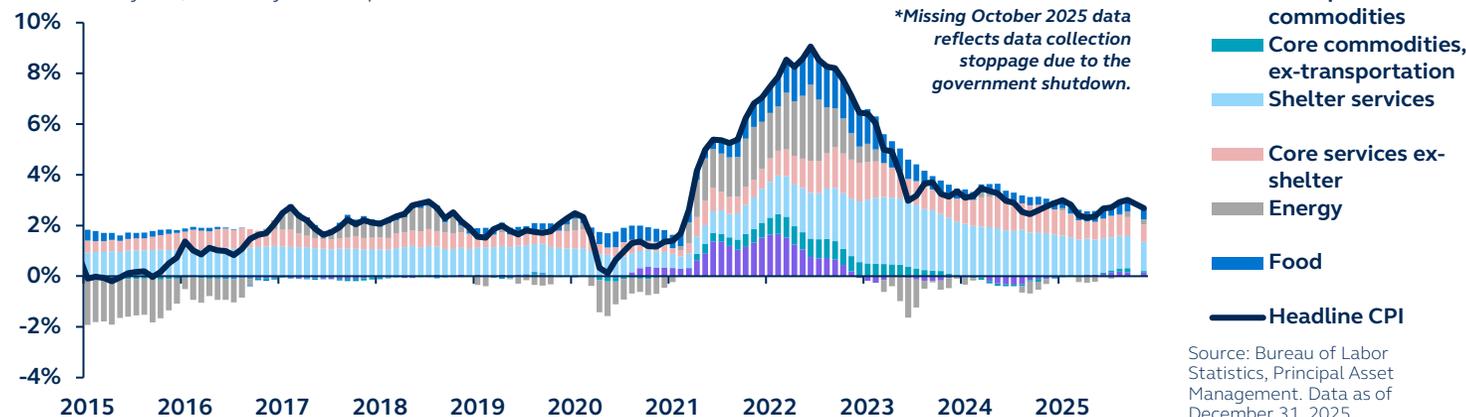
A combination of margin compression, inventory front-loading, and trade diversion likely explains why tariff pass-through has been limited. These factors, however, are temporary. As inventories dwindle, trade routes narrow, and margins erode further, firms may be compelled to pass on higher costs to consumers. Early signs suggest small businesses are beginning to raise prices, indicating that upside inflation risks persist.

Overall, while the Fed cannot dismiss the possibility of a more sustained inflationary episode, a cooling labor market should help contain price pressures. Inflation is expected to remain slightly elevated through 2026, with a return to the 2% target this year appears unlikely.

Inflation pressures from tariffs have remained surprisingly limited in aggregate so far, but it's still too early to completely dismiss their eventual impact.

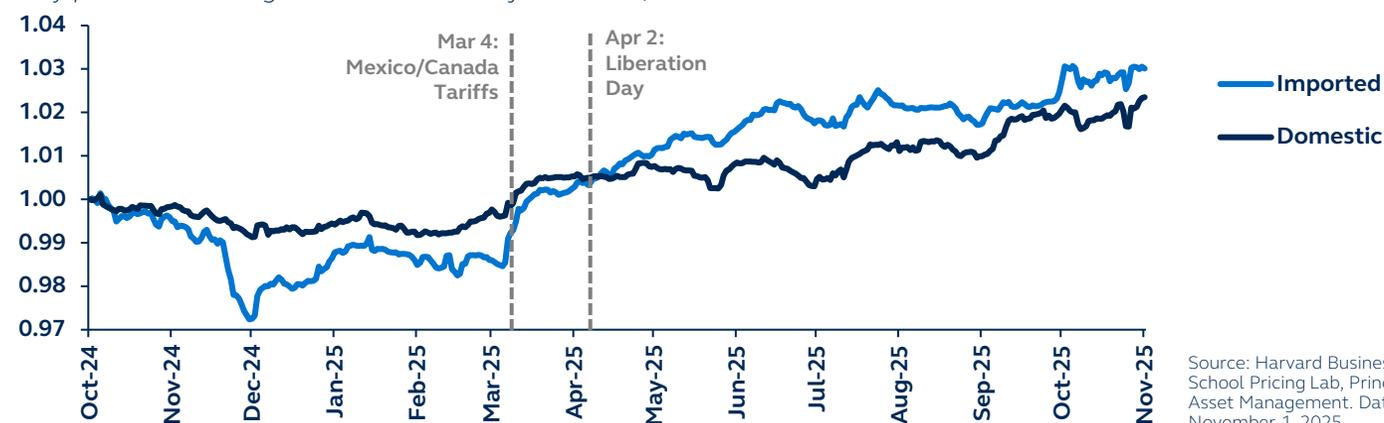
Contribution to headline U.S. inflation

Year-over-year, January 2015–present



Prices of goods imported vs. domestically produced

Daily price indices for goods sold across major retailers, indexed to 1 at October 2024



Federal Reserve: Cautiously approaching neutral

The Fed has already delivered 175 basis points of easing in the current cutting cycle. With inflation sticky but not accelerating, the labor market cooling without collapsing, and fiscal stimulus set to support growth in early 2026, policy rates likely need to return to neutral—but not below.

The key question is: what constitutes neutral? Estimates vary widely. Some FOMC members argue rates are already at neutral, while others believe another 125 basis points of cuts are needed. What is clear is that, given the current strength of the U.S. economy—with 3Q 2025 growth nearly twice its trend pace—there is no urgency to lower rates aggressively.

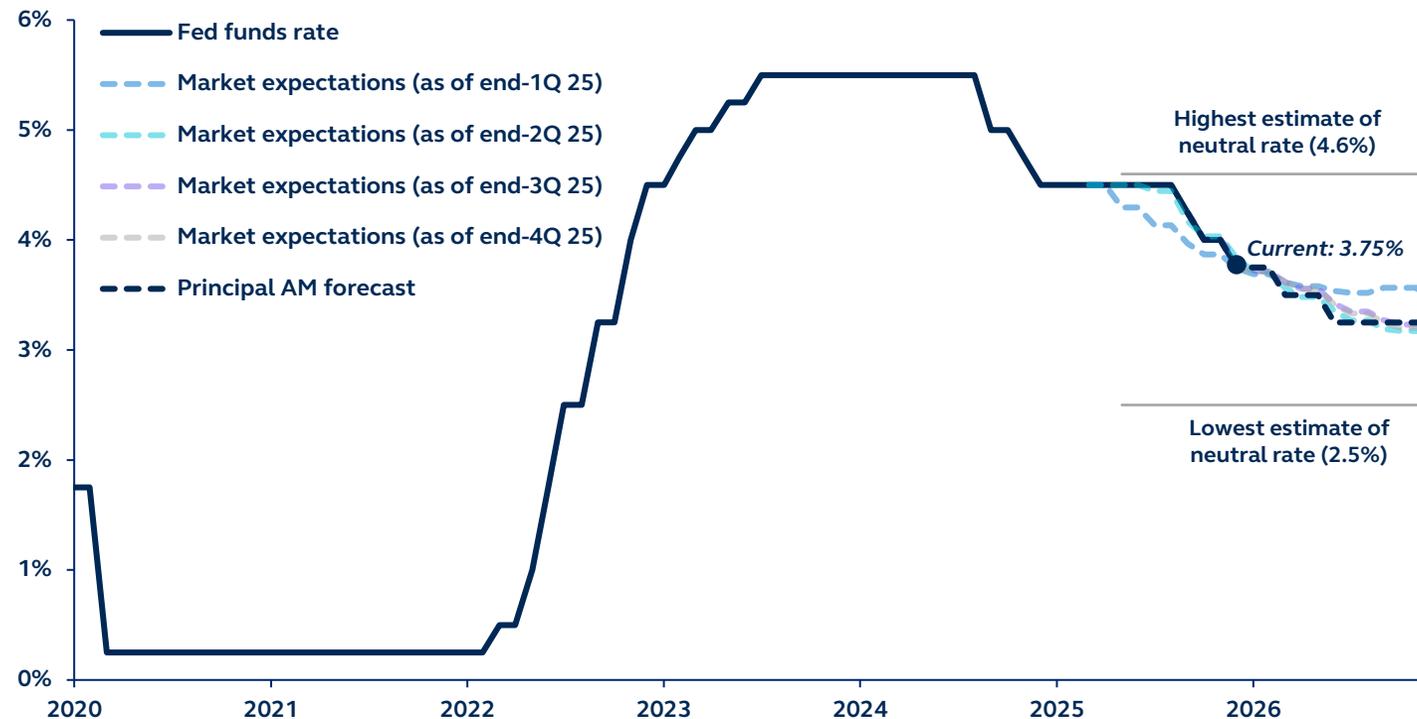
With a leadership change approaching, the Fed is likely to place slightly more emphasis on the employment side of its dual mandate. We anticipate two cuts in 2026—more than the single cut implied by the latest FOMC dot plot—which should bring rates just below the midpoint of the neutral range. The timing will remain data-dependent, but a continued rise in unemployment could prompt these cuts to be brought forward into the first half of the year.

Ultimately, the Fed’s challenge in 2026 will be calibrating policy in an environment where structural forces, rather than cyclical dynamics, increasingly shape growth and inflation.

We expect two Fed cuts in 2026, taking rates close to neutral. Timing will be data-dependent, but a rising unemployment rate could prompt the cuts to be brought forward into H1.

Federal Reserve policy rate path

Fed funds rate and projections, 2020–present



Source: Federal Reserve, Bloomberg, Principal Asset Management. Highest and lowest neutral rate estimate levels are derived from a wide range of Wall Street analysts and models. Data as of December 31, 2025.

Global economy: China and Europe break the tackle

Globally, the macro outlook is nuanced. Global supply chain realignments are likely to persist, reshaping alliances and trade patterns. China has defied fears of an export recession, with supply chains increasingly diversifying away from the U.S. towards intra-Asian linkages. Its willingness to lean further into external strengths and tech innovation will be critical as domestic demand falters amid a deepening property downturn and only measured policy stimulus. Yet, China appears to be on track to meet its 5% growth target for 2025, with a similar goal likely to be set for 2026.

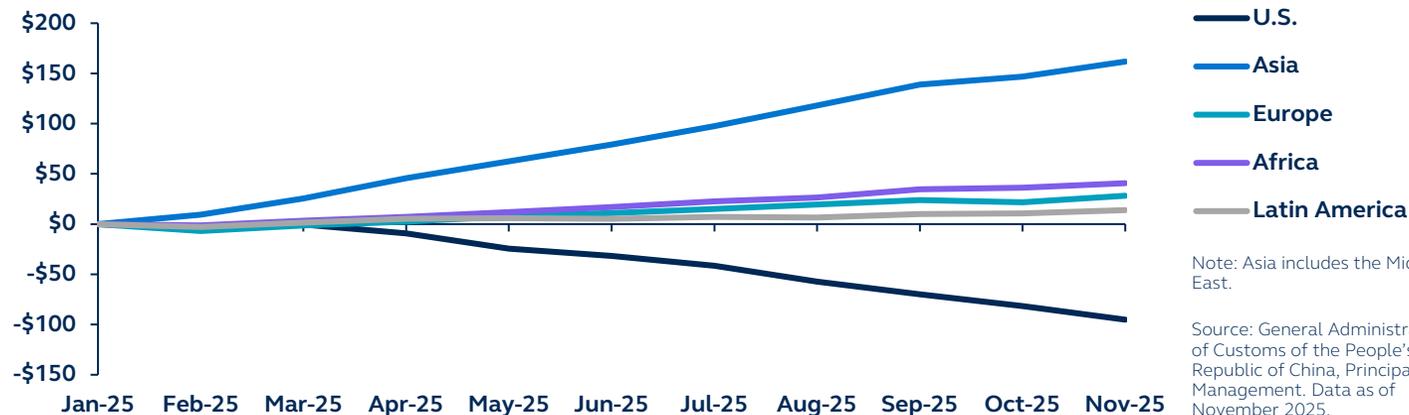
China's determination to maintain its current account surplus while reducing reliance on the U.S. poses challenges for Europe. Heightened competition for export markets threatens Europe's manufacturing sector and could introduce mild deflationary pressures.

However, easier financial conditions and Germany's long-awaited shift away from fiscal austerity are expected to support activity in the region. Growth strengthened in 2025 on the back of resilience and policy decisions, and this momentum is likely to carry over into 2026. Europe may not stand out as a top performer, but its ability to navigate global pressures positions it for a solid macro trajectory.

China's renewed focus on export growth and tech innovation should drive 2026 growth. Europe's new focus on fiscal spending positions it for a solid macro trajectory.

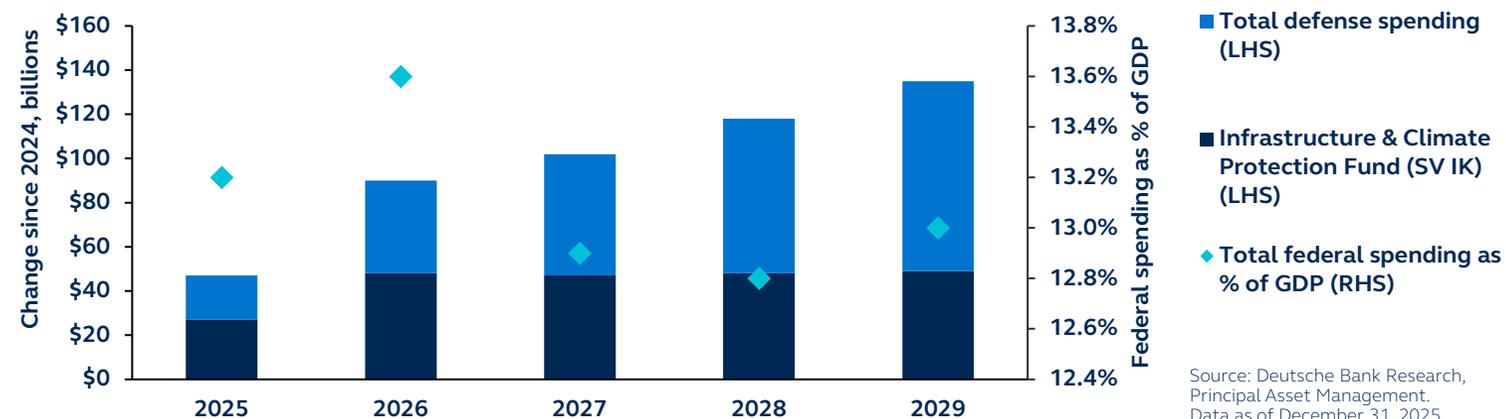
China exports change vs. January 2025

USD billions, year-to-date change in 12-month sum, 2025-present



Germany federal government budget

Federal government total expenditures, 2025-2029, change vs. 2024 in billions of Euro



Global central banks: Asynchronous normalization

Global policy rate paths are diverging, reflecting contrasting economic conditions and policy priorities. The Federal Reserve is expected to ease further in the coming quarters, while several central banks have ended their cutting cycles and others are already tightening. For the ECB, stronger data has sharply reduced expectations for multiple further cuts. Markets are now pricing in a single reduction in 2026, but the probability of a hike (after a prolonged pause) is rising.

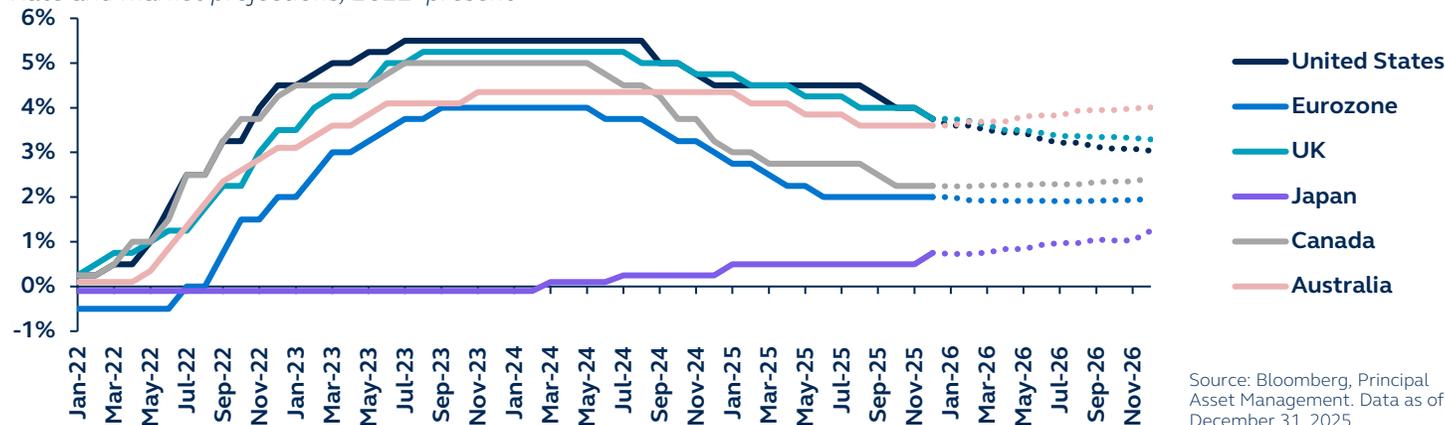
Central banks in Australia, Canada, and Scandinavia remain on hold, some actively considering hikes in 2026 as economies recover from tariff shocks and inflation risks persist. The Bank of Japan's December hike took policy rates to their highest in 30 years. With fiscal easing likely to keep inflation above target, gradual tightening should continue into 2026. Emerging markets show similar divergence, driven by domestic inflation dynamics and external vulnerabilities.

The U.S. dollar weakened against all other G10 currencies in 2025, posting its worst performance since 2017. With the Fed being one of the few central banks likely to cut rates in 2026, further downside for the dollar is possible. However, with reduced policy uncertainty and fewer credibility concerns, any moves in the USD are expected to be more measured.

After years of global monetary loosening, many central banks have normalized policy, while others are considering rate hikes. The Fed's more dovish path implies further dollar weakness.

Global central bank policy rate path

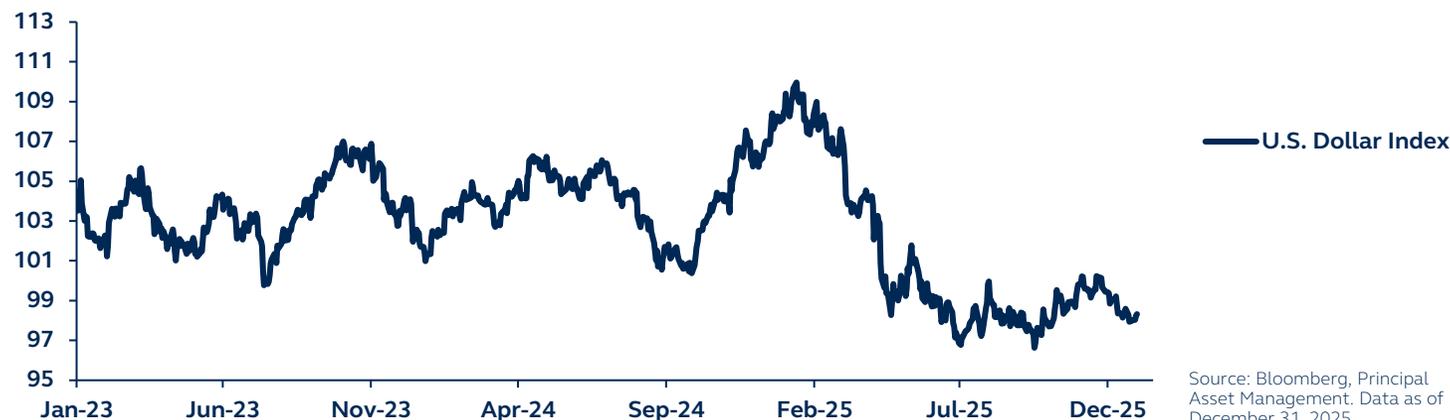
Rate and market projections, 2022–present



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

U.S. dollar

January 2023–present



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

Equities

U.S. equities: Supported by macro, AI, and a broader rally

The S&P 500 delivered another year of double-digit gains in 2025, notching 39 record highs; however, it trailed the 20% returns of the prior two years. Meanwhile, Europe, the UK, Japan, China, and the broader EM outpaced the U.S., signalling cracks in U.S. exceptionalism. Momentum faded in Q4 as concerns over the vast sums of debt raised by leading tech firms for AI-driven capex triggered valuation worries and fears of spillover effects across the economy.

This does not suggest an imminent U.S. market pullback. Still, with scrutiny intensifying around the AI narrative, earnings in tech and beyond must meet heightened expectations.

Looking to 2026, the earnings outlook remains constructive. The U.S. macro backdrop is supportive, with fiscal and monetary policy poised to provide stimulus. Historically, a non-recessionary Fed cutting cycle has been positive for risk assets, while fiscal measures should add momentum—provided they do not spark a significant rise in bond yields.

This environment underpins continued upside for technology but also sets the stage for a broader rally across sectors such as financials and consumer discretionary. AI beneficiaries are likely to expand beyond the initial hyperscalers to a wider base of adopters, paving the way for healthier and more diversified U.S. equity market performance in 2026.

Despite AI uncertainty, the combination of policy support and a non-recessionary rate-cutting cycle points to a favorable macro backdrop in 2026, benefiting sectors beyond tech.

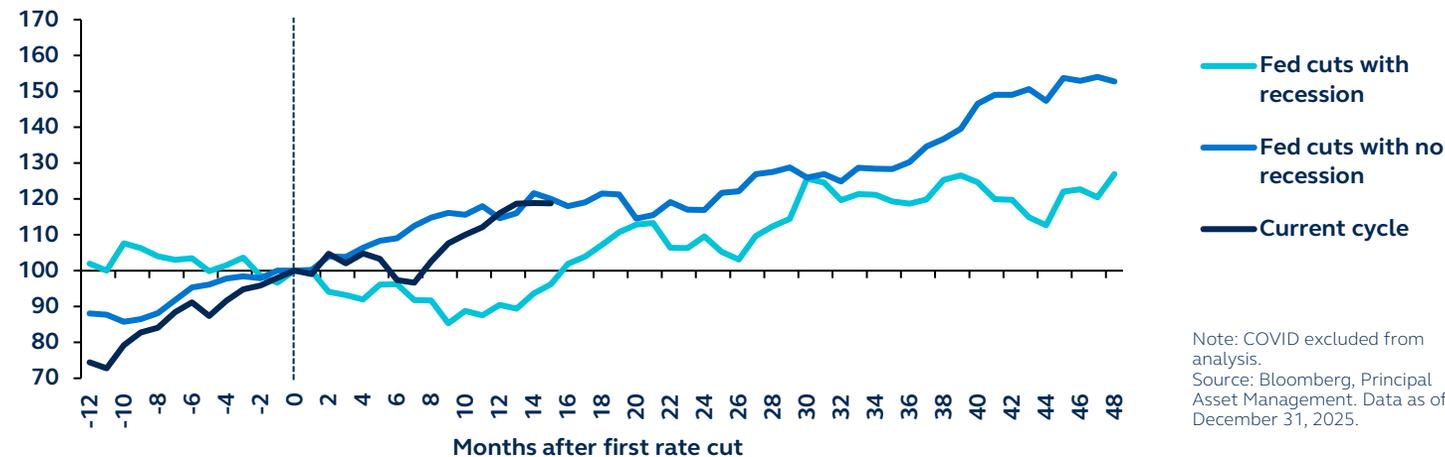
The stock market and earnings

S&P 500 Index price and trailing earnings-per-share, 1990–present



S&P 500 performance around Fed cuts in recessionary and non-recessionary environments

Median S&P 500 performance after Fed cuts rates since 1970, month 0 = first cut



AI rally: Solid fundamentals; contained risks

Despite debate over an AI bubble, markets have consistently rewarded major AI players. The “Mag 7” have seen their collective stock prices surge roughly 300% over three years, far outpacing the S&P 500’s ~75% gain. More recently, however, rising debt financing has amplified concerns about the rally’s durability. Comparing today’s dynamics with past bubbles suggests a more constructive backdrop:

Valuations: Elevated but well below dot-com extremes. Crucially, earnings growth is keeping pace with multiple expansion, indicating prices are supported by fundamentals rather than speculation.

Fundamentals: Strong balance sheets, robust cash flow, and broadly profitable businesses underscore tech’s resilience and ability to generate cash efficiently, distinguishing the AI boom from prior speculative episodes.

That said, increasing debt and signs of circular financing raise systemic risk as AI’s influence across markets and the economy expands. While AI does not yet exhibit peak bubble characteristics, risks could accumulate as the cycle matures. Heightened scrutiny will center on whether returns justify the scale of investment. For now, AI’s productivity and economic benefits remain more prospective than proven, underscoring the importance of diversification in 2026.

While the AI rally exhibits traits seen in past bubbles, today’s fundamentals and macro backdrop are more supportive. Yet heightened scrutiny implies more dispersion within tech.

Relative P/E vs. S&P 500

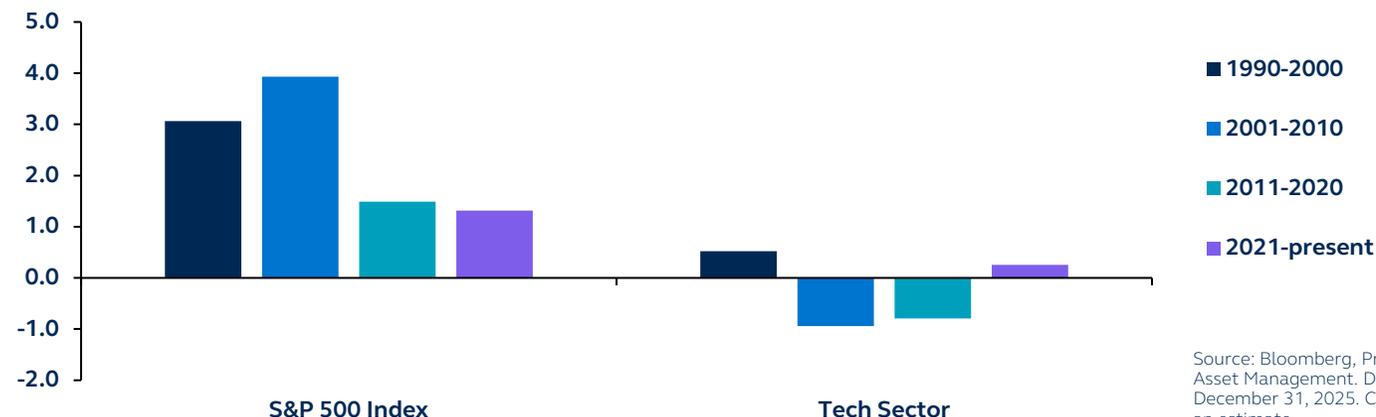
Tech sector and Mag 7 Index vs. S&P 500 (dot-com bubble vs. present)



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

S&P 500 Tech Sector net debt / EBITDA ratio

By decade, 1990-present



Source: Bloomberg, Principal Asset Management. Data as of December 31, 2025. CY 2025 is an estimate.

Seeking diversification in an AI-driven landscape

In today's AI-driven investment landscape, maintaining U.S. tech exposure while seeking diversification can still provide meaningful AI-related upside, as well as more compelling valuations and reduced concentration risk.

The less tech-heavy small caps, which outperformed the S&P 500 by almost 5% in the second half of 2025, offer more attractive valuations. Given their economic and rate sensitivity, small caps could see additional gains if an improving growth backdrop, combined with rate cuts, persists.

Following a strong global performance despite a higher tariff environment, markets outside the U.S. (with some exceptions) are no longer as inexpensive as they were. Yet opportunities remain:

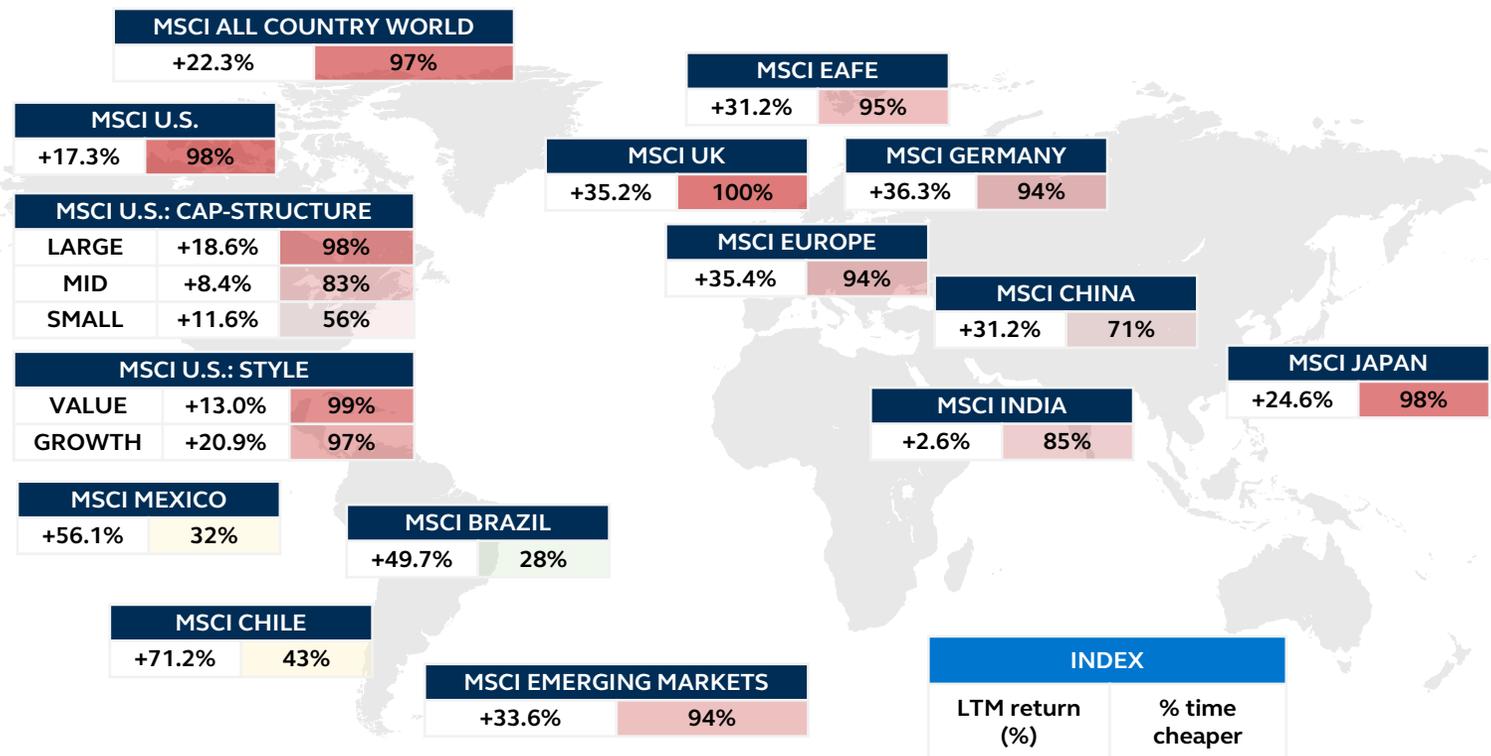
Europe: Limited tech exposure makes it a compelling region for diversification. Its equity performance hinges on an improving economic backdrop, though there are segments—industrials, financials, and healthcare—that could benefit from AI infrastructure development and higher adoption trends.

Asia: The region offers exposure to the tech innovation narrative but at more attractive valuations, alongside positive macro momentum from China. Japan's fiscal stimulus should extend its reflationary boost, supporting 2026 performance.

Investors may look beyond mega-cap tech—to regions, sectors, styles, and sizes with catalysts beyond AI alone—as a more constructive macro backdrop emerges in 2026.

Global equity returns and valuations

Last twelve months returns and % of the time the Index has been cheaper relative to its history since 2003, MSCI indices



Source: FactSet, Bloomberg, MSCI, Principal Asset Allocation. LTM (last twelve months) returns are total return and in USD terms. % Time Cheaper is relative to PAA Equity Composite Valuation history. PAA Equity Composite Valuation is a calculated measure, comprised of 60% price-to-earnings, 20% price-to-book and 20% to dividend yield. Composite started in 2003. EAFE is Europe, Australasia, Far East. See disclosures for index descriptions. Data as of December 31, 2025.

Fixed income

Fiscal concerns cast a long shadow on rates

While worries about fiscal sustainability have subsided since last summer, it remains a key risk that is likely keeping interest rates elevated, despite the expected easing bias from most global central banks this year.

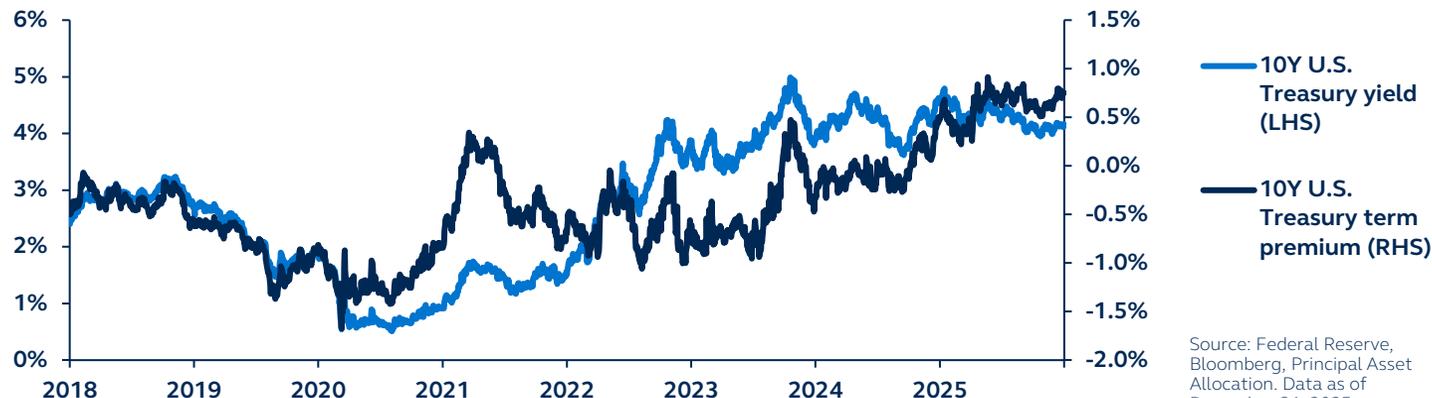
In the U.S., a combination of Fed rate cuts and asset purchases has helped keep the short end of the yield curve well-anchored, despite increased Treasury issuance. On the other hand, while longer-end nominal yields have edged lower, U.S. 10-year interest rate risk premiums have stayed high. This likely reflects lingering market concerns about the lack of progress on fiscal sustainability. Moreover, with the bias towards an expansionary fiscal environment in 2026 supporting growth, this environment is also expected to provide upside pressure on longer-term interest rates.

As a result, despite easy monetary policy conditions and ebbing inflation, global yield curves should continue to steepen gradually, led by stickier long-term interest rates. This dynamic could further exacerbate the worsening fiscal situation across most DM economies and put additional pressure on central banks to keep policy rates low. Though posing less of a risk today, this dynamic could come to haunt policymakers if inflation begins to reassert itself.

Fiscal concerns are on the back burner for now, yet they have not completely dissipated, with long-end interest rate risk premiums remaining elevated.

10-year U.S. Treasury term premium vs. yield

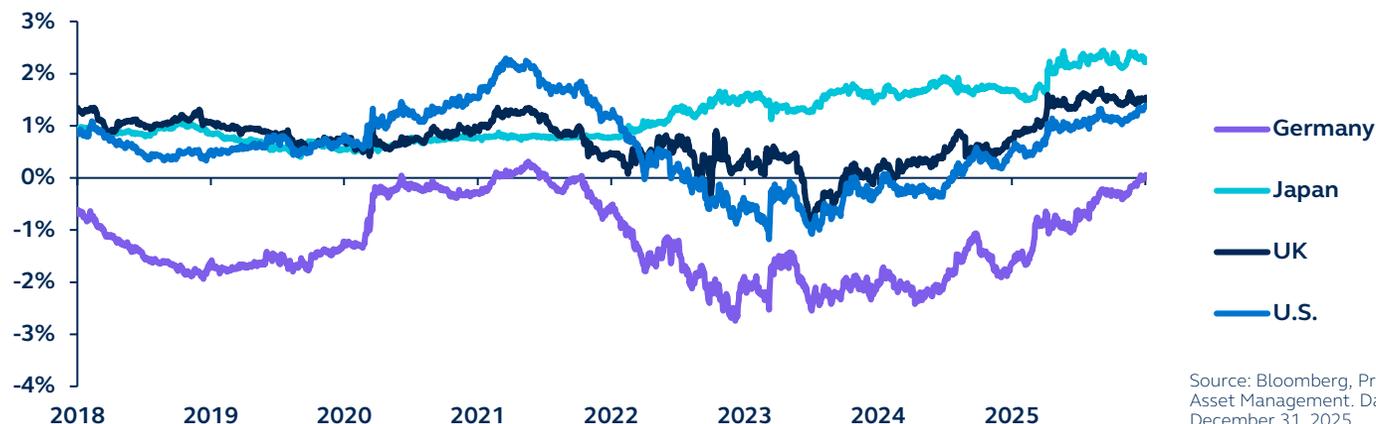
January 2018–present



Source: Federal Reserve, Bloomberg, Principal Asset Allocation. Data as of December 31, 2025.

Global sovereign yield spread

30-year yield minus 2-year yield, January 2018–present



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

A benign backdrop for corporate credit

Corporate balance sheets remain robust, supported by favorable fiscal and monetary policy tailwinds, which are expected to continue underpinning credit markets. However, there have been signs of stress in the financial system, highlighted by several high-profile lender bankruptcies, as well as widening divergences within securitized debt, with a “K-shaped” pattern emerging between subprime and prime delinquencies. Yet, these risks appear largely idiosyncratic rather than systemic and do not, at this stage, warrant significant alarm.

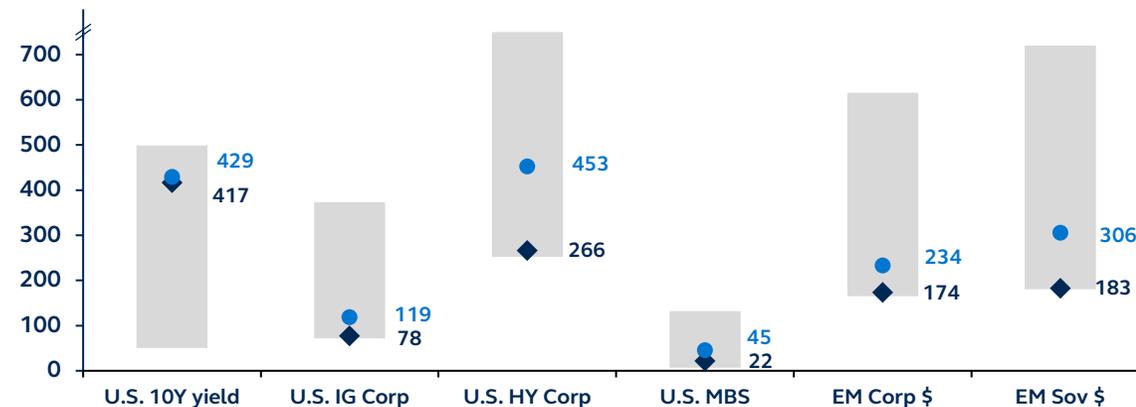
Indeed, spreads have re-narrowed to historic tightness as markets shrug off both macro risks and a surge in AI capex-driven debt issuance, which is set to continue in 2026.

- Additional spread compression is increasingly limited for investment grade credit, with the environment favoring total return investors, given still attractive all-in yields.
- Strong high yield issuance is balanced by a benign default environment, especially as refinancing risk remains minimal through 2027.
- Resilient macro policy across EM should help keep fundamentals intact, while a bias towards a weaker dollar and Fed rate cuts preserve relative value opportunities.

Robust corporate fundamentals and pro-growth policies support a constructive credit outlook, while increased bifurcation in some areas may provide opportunities.

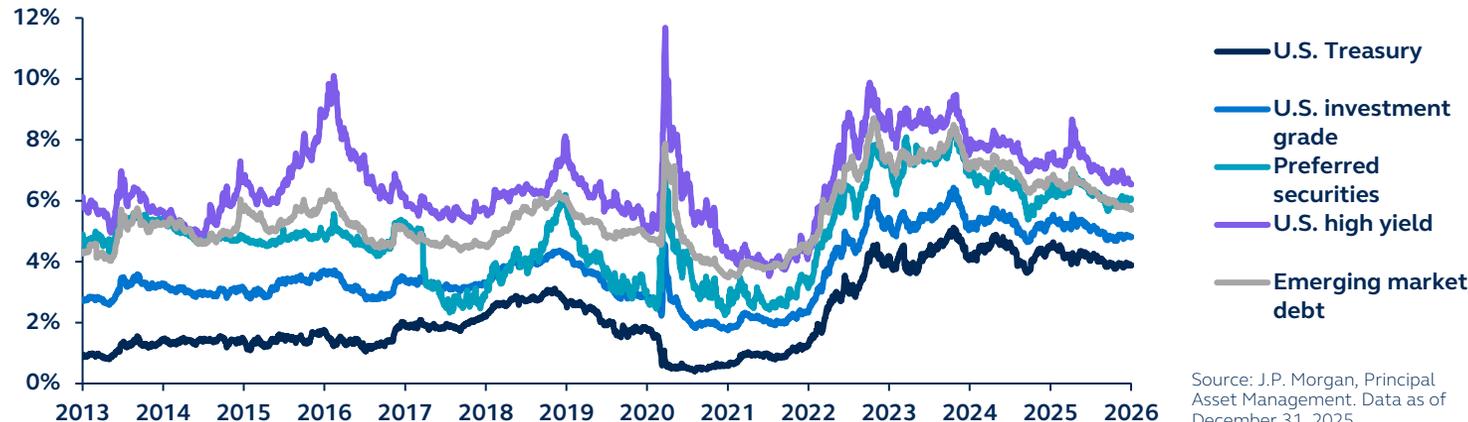
Yield and spread average range over the past 10 years

U.S. 10-year Treasury yield, other indices reflect option-adjusted-spread, basis points, 2015–present



Yield comparison

Yield-to-worst, 2013–present



Source: J.P. Morgan, Principal Asset Management. Data as of December 31, 2025.

Investment perspectives

Diversification comes roaring back

Despite geopolitical shocks and policy shifts, 2025 delivered strong, broad-based gains across equities, fixed income, alternatives, and across regions—underscoring the power of diversification. For 2026, the macro backdrop remains supportive. The rare combination of expansive fiscal and monetary policies, absent a recession, is an environment where risk assets have historically performed well.

In equities, investors should maintain exposure to AI-driven growth while closely monitoring leverage, credit conditions, and earnings momentum. Reducing concentration risk is key—broaden beyond technology and identify sectors, styles, and capitalizations positioned to benefit from robust growth and efficiency gains as AI integration accelerates.

International markets will provide important diversification. Higher nominal growth, AI leadership and adoption, fiscal stimulus, and greater shareholder focus mean that several markets stand to perform well in 2026.

In fixed income, while valuations are tight, the combination of policy support, strong technicals, and stable fundamentals justifies a modest risk-on positioning, with active management essential to navigating dispersion.

Positioning within alternatives will remain valuable for both thematic exposure and to diversify concentrated portfolios.

Cross asset and cross-region diversification is likely to have another strong year in 2026.

Asset class performance

Total return, annual averages over period shown, 2010-2025

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Average
Small Cap	26.9%	7.8%	18.6%	38.8%	13.7%	1.4%	21.3%	37.8%	0.0%	31.5%	20.0%	28.7%	16.1%	26.3%	25.0%	34.4%	15.0%
Fixed Inc.																	
EM																	
Small Cap																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	
EM																	
Fixed Inc.																	
S&P 500																	
S&P 500																	
Small Cap																	

Balancing resilience and risk in a maturing expansion

Resilient global growth, strong balance sheets, and policy support argue in favor of continued participation in risk assets. However, tight valuations, fiscal uncertainty, and AI-related concentration risks underscore the need for balance and diversification.

Equities *Position for broadening participation beyond U.S. mega-cap leadership*

- Prioritize earnings durability over multiple expansion, favoring companies with strong balance sheets and cash flows.
- Maintain AI exposure while broadening beyond hyperscalers, targeting beneficiaries of adoption, productivity, and capex.
- Selectively add U.S. small- and mid-caps, where valuations remain more attractive and sensitivity to domestic growth is higher.
- International equities provide diversification, supported by policy easing, improving growth momentum, and a softer USD.

Fixed income *Emphasize income, quality, and select diversification*

- Maintain an investment grade bias as strong fundamentals supporting carry with spread compression becoming limited.
- Maintain active high yield exposure, as near-term default risks are contained, but dispersion is rising.
- Use selective duration as a stabilizer, given fiscal risks and sensitivity at the long end.
- Emerging market debt offers relative value, supported by Fed easing and a weaker dollar.

Alternatives *Diversify concentrated portfolios with real assets and private markets*

- Private real estate remains selective, with the strongest fundamentals in data centers, healthcare, residential, and logistics.
- REITs look increasingly compelling, supported by easing policy and stable income.
- Multi-strategy and real return alternatives enhance resilience, helping hedge inflation and policy volatility.

Implementation

- Quality-biased active managers
- Active small-cap strategies
- Active global and emerging market strategies
- IG credit heavy core allocations
- Flexible emerging market debt
- Preferred and capital securities
- Active high yield strategies
- Private real estate markets
- Proven REIT strategies
- Multi-strategy alternatives

Bloomberg U.S. High-Yield Corporate Bond Index is a rules-based, market-value-weighted index engineered to measure publicly issued non-investment grade USD fixed-rate, taxable and corporate bonds.

Bloomberg U.S. Corp High Yield 2% Issuer Capped Index is an unmanaged index comprised of fixed rate, non-investment grade debt securities that are dollar denominated. The index limits the maximum exposure to any one issuer to 2%.

Bloomberg U.S. Corporate Investment Grade Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be SEC-registered. The corporate sectors are industrial, utility and finance, which include both U.S. and non-U.S. corporations.

Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint. STRIPS are excluded from the index because their inclusion would result in double-counting.

MSCI ACWI Index includes large and mid cap stocks across developed and emerging market countries.

MSCI Brazil Index is designed to measure the performance of the large and mid cap segments of the Brazilian market.

MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

MSCI EAFE Index is listed for foreign stock funds (EAFE refers to Europe, Australasia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes.

MSCI Emerging Markets Index consists of large and mid cap companies across 24 countries and represents 10% of the world market capitalization. The index covers approximately 85% of the free float-adjusted market capitalization in each country in each of the 24 countries.

MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe.

MSCI Europe Banks Index is composed of large and mid cap stocks across 15 Developed Markets countries in Europe. All securities in the index are classified in the Banks industry group (within the Financials sector) according to the Global Industry Classification Standard (GICS®).

MSCI Germany Index is designed to measure the performance of the large and mid cap segments of the German market.

MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market.

MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market.

MSCI USA Growth Index captures large and mid cap securities exhibiting overall growth style characteristics in the U.S. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

MSCI USA Index is a market capitalization weighted index designed to measure the performance of equity securities in the top 85% by market capitalization of equity securities listed on stock exchanges in the United States.

MSCI USA Large Cap Index is designed to measure the performance of the large cap segments of the U.S. market.

MSCI USA Mid Cap Index is designed to measure the performance of the mid cap segments of the U.S. market.

MSCI USA Quality Index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI Quality Indexes complement existing MSCI Factor Indexes and can provide an effective diversification role in a portfolio of factor strategies.

MSCI USA Small Cap Index is designed to measure the performance of the small cap segment of the U.S. equity market.

MSCI USA Value Index captures large and mid cap U.S. securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

U.S. dollar index (USDIX) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.

Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect any fees or expenses. Individuals cannot invest directly in an index.

Risk considerations

Investing involves risk, including possible loss of principal. Past performance is no guarantee of future results. Equity investments involve greater risk, including higher volatility, than fixed-income investments. Fixed-income investments are subject to interest rate risk; as interest rates rise their value will decline. International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards. Small- and mid-cap stocks may have additional risks including greater price volatility. Asset allocation and diversification do not ensure a profit or protect against a loss.

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. The opinions and predictions expressed are subject to change without prior notice. The 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.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

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 authorised 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").
- **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.

This document is intended for use in:

- **Australia** by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS License 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.
- This document is marketing material and is issued in **Switzerland** by Principal Global Investors (Switzerland) GmbH.
- **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.

Insurance products and plan administrative services provided through Principal Life Insurance Co. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Principal Securities, Inc., 800 547-7754, Member SIPC and/or independent broker/dealers. Principal Life, Principal Funds Distributor, Inc., and Principal Securities are members of the Principal Financial Group®, Des Moines, IA 50392.

© 2026, Principal Financial Services, Inc. Principal Asset ManagementSM is a trade name of Principal Global Investors, LLC. 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.

MM11376-23 | 4994492