

**PRINCIPAL CORE FIXED INCOME FUND**

# Quarterly commentary

**SECOND QUARTER 2024**

## Market review and outlook

Despite some signs of a slowdown in economic data due to the Federal Reserve (Fed)'s aggressive rate hikes and quantitative tightening, the U.S. economy sustained positive momentum in the second quarter of 2024. This was driven by robust consumer spending bolstered by a tight labor market. The unemployment rate has remained at or below 4% over the past two years, while job growth has stayed solid even as the labor market normalized following the post-pandemic surge. Inflation continued its downward trend but persisted, largely due to high shelter costs, with the year-over-year headline CPI fluctuating between 3.1% and 3.5% since last October. Consequently, investors scaled back their expectations for rate cuts, aligning closely with Fed's expectations. At its June meeting, the Fed's updated dot plot indicated an expectation of only one rate cut this year, down from the three cuts projected in March. However, key risks, including the upcoming U.S. election, high policy rates, and elevated geopolitical tensions, could challenge the U.S. economy.

Both the unemployment rate and new jobless claims in the U.S. remain near pre-Covid lows. Strong growth in the U.S. labor supply has enabled employers to steadily hire workers and narrow the gap between supply and demand, particularly due to manufacturing re-shoring as companies seek to mitigate supply chain vulnerabilities. After a sharp decline during the pandemic, the U.S. labor supply has impressively rebounded over the past two years, partly fueled by increased immigration, which bodes well for economic growth. This surge in migrant workers has allowed employers to fill open positions without driving up wages, keeping strong job creation from leading to higher inflation.

In response to slowing but resilient economic data, persistent but improving inflation, and the Fed's projections for the federal funds rate, the market adjusted its expectations for rate cuts from three cuts at the end of the first quarter to two cuts at the end of the second quarter. This caused an increase in U.S. Treasury yields across the curve. During the quarter, the two-year U.S. treasury yield rose 0.13% to 4.75% and five-year yield rose 0.16% to 4.38%. The ten-year yield increased 0.20% to 4.4%, and the thirty-year yield increased 0.22% to 4.56%.

During the quarter, risk asset performance was mixed due to uncertainty over the timing of monetary policy easing and election outcomes. The Bloomberg U.S. Aggregate index, a proxy for the overall fixed income market, underperformed similar duration U.S. Treasury securities with an excess return of -0.03%. The best performing sectors were emerging market debt, below investment grade corporate bonds, commercial mortgage-backed securities (CMBS), and asset-backed securities (ABS) with excess returns of 0.54%, 0.36%, 0.24%, and 0.17%, respectively. Investment corporate bonds and mortgage-backed securities (MBS) underperformed similar duration U.S. Treasury securities with an excess return of -0.04%, and -0.09%, respectively.

All data sourced to Bloomberg, unless footnoted.

Commentary reflects the opinions of Principal Global Investors, is believed to come from reliable sources, and reflects the opinions of the investment advisor at the time of publication. The opinions may not come to pass.

**TICKER:****Class I: PIOIX**

Class A: CMPIX

Class R6: PICNX

# Strategy review

## SECOND QUARTER 2024

Core Fixed Income Fund (I) underperformed the Bloomberg U.S. Aggregate Bond Index benchmark by 0.02% during the quarter with issuer selection was both a positive contributor and detractor.

### Top five contributors

- Issue selection in US Treasurys
- Issue selection to electric utilities
- Issue selection to banking
- Overweight to real estate investment trusts (REITs)
- Issue selection in REITs

### Top five detractors

- Issue selection in transportation
- Issue selection mortgage-backed securities (MBS)
- Overweight selection in electric utilities
- Underweight to non-agency commercial mortgage-backed securities (CMBS)
- Underweight to agency CMBS

## TRAILING YEAR AS OF 06/30/2024

Core Fixed Income Fund (I) outperformed the benchmark by 0.25% over the last 12 months with a strong contribution from sector allocation while issue selection detracted.

### Key positive contributors include:

- Overweight to electric utilities
- Overweight to REITs
- Overweight to communications
- Issue selection in U.S. Treasurys
- Overweight to insurance

### Key negative detractors include:

- Underweight to U.S. Treasurys
- Issue selection in electric utilities
- Underweight to non-agency CMBS
- Overweight to consumer non-cyclical
- Overweight to energy

# PRINCIPAL CORE FIXED INCOME FUND as of June 30, 2024

## Top 10 holdings<sup>1</sup>

	% of net assets
Principal Government Money Market Fund - Class R-6	1.2
AbbVie Inc	0.6
Fifth Third Bancorp	0.6
Biogen Inc	0.5
Truist Bank	0.5
American Tower Corp	0.5
PPL Electric Utilities Corp	0.5
Bank of New York Mellon Corp/The	0.5
Ryder System Inc	0.5
American Honda Finance Corp	0.5
<b>Total</b>	<b>5.7</b>

## Performance, rankings, and ratings

	Average annual total returns (%)							Yields (%) <sup>9</sup>			
	3-month	YTD	1-year	3-year	5-year	10-year	Since inception <sup>7</sup> (03/23/1998)	Expense ratio <sup>8</sup> (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/subsidized)	12-month distribution
Class I <sup>2</sup>	0.05	-0.52	2.86	-2.90	0.02	1.54	6.65	0.44/0.49	02/28/2025	4.33/4.43	3.39
Bloomberg U.S. Aggregate Bond Index <sup>3,4</sup>	0.07	-0.71	2.63	-3.02	-0.23	1.35	—	—	—	—	—
Morningstar category average	0.23	-0.28	3.05	-2.99	-0.15	1.26	—	—	—	—	—
Morningstar rankings and ratings	3-month	YTD	1-year	3-year	5-year	10-year	Overall				
Category and number of funds in category: Intermediate Core Bond	470	468	457	418	374	265	418	—	—	—	—
Class I percentile rankings <sup>5</sup>	—	—	53	34	34	25	—	—	—	—	—
Class I ratings <sup>6</sup>	—	—	—	★★★	★★★	★★★★	★★★★	—	—	—	—

Morningstar percentile rankings are based on total returns. Morningstar ratings are based on risk-adjusted returns.

**Returns represent past performance and do not guarantee future results. Share price, principal value, and return will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For the most recent month-end performance, visit [principalfunds.com](http://principalfunds.com).**

<sup>1</sup>The holdings listed do not constitute a recommendation to purchase or sell a particular security. Cash and/or derivative positions that are not part of the core investment strategy will not be reflected in the top holdings list.

<sup>2</sup>Performance assumes reinvestment of all dividends and capital gains.

<sup>3</sup>Bloomberg U.S. Aggregate Bond Index represents securities that are domestic, 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.

<sup>4</sup>Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

<sup>5</sup>Morningstar percentile rankings are based on total returns and do not reflect the inclusion of sales charges. If sales charges were reflected, rankings could be lower.

<sup>6</sup>The Morningstar Rating™ for funds, or “star rating,” is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product’s monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10 year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Morningstar ratings do not reflect the inclusion of sales charges. If sales charges were reflected, ratings could be lower. © 2024 Morningstar, Inc. All rights reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

<sup>7</sup>Class I shares were first sold 03/23/1998. Returns for Class I shares prior to 03/23/1998, including since inception performance, are based on performance of A shares adjusted to reflect the fees and expense of the Class I shares. Class A shares were first sold on 12/15/1975.

<sup>8</sup>The net expense ratio reflects contractual expense limits, if any, which may lower net expenses and cause the gross and net expense ratios to differ. In such cases a date is listed through which expense limits are expected to apply; however, Principal Funds and the investment adviser may mutually agree to terminate the expense limits prior to the end of the period. Returns displayed are based on net total investment expense.

<sup>9</sup>30-Day SEC yield represents net investment income earned by a fund over a 30-day period, stated as an annual percentage. Unsubsidized yield reflects the SEC yield when some fund expenses are not waived. Subsidized yield reflects a fund’s yield when all expense waivers are included. 12-month yield is based on actual distributions paid over a trailing 12-month period, stated as an annual percentage.

Returns shown for periods of less than one year are not annualized.

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Lower-rated securities are subject to additional credit and default risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

The commentary represents the opinions of the manager and may not come to pass.

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