For Public Distribution in the U.S. For Institutional, Professional, Qualified and/or Wholesale Investor Use Only in other Permitted Jurisdictions as defined by local laws and regulations.

Principal Asset Allocation

Principal Asset Management℠

PRINCIPAL DIVERSIFIED REAL ASSET

Navigating real assets amid a trade war

APRIL 4, 2024

We came into the year emphasizing that uncertainty would breed continued volatility. However, the course of events over the past two days exceeded economist's, strategist's and investor's expectations with the VIX Index (a measure of fear in the equity markets) hitting levels not seen since the COVID-19 market crash of 2020. Fears of stagflation (low growth and high inflation) gripped the market along with increased recession probabilities.

Real asset performance

After the massive rally in the mega cap technology names fueled by AI, the new U.S. administration's enactment of tariffs as a means to deglobalization has resulted in its sharp reversal. The Nasdaq 100 Index has declined nearly -22% since its peak just 1 1/2 months ago on 02/19/2025, with Nvidia, the primary beneficiary of the AI theme, declining nearly -37% from its peak on 01/06/2025.

During a trade war, real assets, defined as tangible/physical assets that provide essential services to the economy, typically diverge in performance from financial assets due to their differing sensitivities to economic fundamentals, inflation expectations and market sentiment. Owing to this essential nature, they have historically provided diversification and more attractive downside capture during times of market stress and increased inflation expectations. This time has proven no different as observed by the performance of the Diversified Real Asset Index (Linked) compared to the S&P 500 and MSCI World Indices.

Real assets are not a monolith. As such, they, too, experience return dispersion as their sensitivities to growth, inflation and rates vary. We witnessed this within:

- *Commodities* – The Bloomberg Commodity Index TR returned nearly +9% YTD through 03/31/2025 on growing tariff-induced inflation expectations—commodities have the highest correlation to inflation expectations. However, nearly -7% of it was erased in the last two days on the growth and recessionary concerns surpassed that of inflation concerns, i.e. stagflation. During this time, the safe-haven precious metal, Gold, served its dual-purpose role as both a recession and inflation hedge, returning nearly +14% YTD through 04/04/2025.
- *Infrastructure* – As expected, owing to its lower beta, defensive characteristics and cash flow generating assets, infrastructure held steady on 04/03/2025 returning +0.09% when the broad global equities declined -3.7%. However, as recession risks increased on the back of China's announcement of retaliatory tariffs on 04/04/2025, infrastructure proved to not be immune.

Index returns	04/03/2025 – 04/04/2025	YTD
S&P Global Infrastructure Index	-5.18%	0.49%
FTSE EPRA NAREIT Developed Index	-5.84%	-3.62%
S&P Global Natural Resources Index	-10.39%	-3.52%
Bloomberg Commodities TR Index	-6.81%	2.05%
Bloomberg US Treasury US TIPS Index	0.37%	4.45%
Diversified Real Asset Index (Linked)	**-5.55%**	**-0.27%**
S&P 500 Index	-10.51%	-13.52%
MSCI World Index	-9.32%	-9.96%
S&P 500 Index (60%) and BarCap Agg Index (40%)	-6.06%	-6.76%

As of April 4, 2025. Source: Morningstar. 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 Important Information section for composition of the Diversified Real Asset Index (Linked).

As tariff and policy uncertainty will likely continue, we believe investors should consider adding exposure to real assets as a source of diversification and inflation mitigation. More importantly, given the dispersion of returns within real assets, implementing through a diversified approach may be key to achieving consistency of returns.

Diversified Real Asset positioning

During March, we reduced **Cyclicality** and increased **Defensive** exposures in the strategy. This week, we continued this positioning shift of reducing Cyclicality and increasing Defensive exposures. Given continued elevated macro uncertainty, on net, we are fairly neutral to our Strategic Index with a tilt towards a defensive posture through an overweight to Real Return and Infrastructure funded through an underweight to Global Natural Resources. The lack of predictability of the U.S. administration's actions leads us to stay closer to neutral until there is greater conviction on the macro-outlook.

Outlook

While trade tensions were anticipated, the magnitude in which it has transpired was not our base case. These frictions and policy uncertainties are likely to persist resulting in supply chain disruptions, higher input costs and inflation stickiness, lower global trade volumes and slower growth. This environment of macro volatility poses challenges for financial assets but presents a differentiated opportunity for real assets. As geopolitical and policy uncertainties remain elevated, we prefer to maintain defensiveness ***across*** real assets and ***within*** the real asset classes. This includes a tilt toward inflation resilient, contracted cash flows (infrastructure and defensive REITS), focusing on quality and geographic diversification and, as always, maintaining liquidity flexibility.

Risk considerations

Past performance is no guarantee of future results and should not be relied upon to make an investment decision. Investing involves risk, including possible loss of principal. Asset allocation and diversification do not ensure a profit or protect against a loss. Real assets include but not limited to precious metals, commodities, real estate, land, equipment, infrastructure, and natural resources. Each real asset is subject to its own unique investment risk and should be independently evaluated before investing. As an asset class, real assets are less developed, more illiquid, and less transparent compared to traditional asset classes.

Infrastructure companies are subject to risk factors including high interest costs, regulation costs, economic slowdown, and energy conservation policies. REITs are subject to declines in real estate values, risks to physical property, and instability/creditworthiness of management. Investment in natural resource industries and commodity related derivatives can be affected by political/economic developments, market shocks/natural disasters, and other factors. TIPS are subject to interest rate risk and may be unsuccessful at mitigating inflation.

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.

Diversified Real Asset Index (Linked) benchmark description: January 1, 2022 and after, 15% Bloomberg U.S. Treasury TIPS Index (includes publicly issued U.S. Treasury inflation-protected securities that meet the index criteria), 30% S&P Global Infrastructure Index (designed to track 75 companies from around the world chosen to represent the listed infrastructure industry, covering energy, transportation, and utilities), 15% S&P Global Natural Resources Index (includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, covering three primary commodity-related sectors: agribusiness, energy, and metals & mining), 15% Bloomberg Commodity Index (a broadly diversified commodity price index), and 25% FTSE EPRA/NAREIT Developed Markets Index (designed to represent general trends in eligible real estate equities worldwide). Before January 1, 2022, 35% Bloomberg U.S. Treasury TIPS Index, 20% S&P Global Infrastructure Index, 20% S&P Global Natural Resources Index, 15% Bloomberg Commodity Index, and 10% FTSE EPRA/NAREIT Developed Markets Index.

This document is issued in:

- The United States by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- Australia by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission and is only directed at wholesale clients as defined under Corporations Act 2001.
- 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").
- Europe by Principal Global Investors (Ireland) Limited, 70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland. Principal Global Investors (Ireland) Limited is regulated by the Central Bank of Ireland. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (Ireland) Limited ("PGII") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGII, PGIE or PGII may delegate management authority to affiliates that are not authorized and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland. In Europe, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID).
- United Kingdom by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA").
- This document is marketing material and is issued in Switzerland by Principal Global Investors (Switzerland) GmbH.
- 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.
- Hong Kong SAR (China) 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.
- 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.
- 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.

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.

Principal Global Investors, LLC (PGI) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as a commodity trading advisor (CTA), a commodity pool operator (CPO) and is a member of the National Futures Association (NFA). PGI advises qualified eligible persons (QEPs) under CFTC Regulation 4.7

© 2025 Principal Financial Services, Inc. Principal®, Principal Financial Group®, Principal Asset Management, and Principal and the logomark design are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company, in various countries around the world and may be used only with the permission of Principal Financial Services, Inc.

Principal Asset Management℠ is a trade name of Principal Global Investors, LLC.

Principal Asset Allocation is an investment team within Principal Global Investors.

MM14447 | 04/2025 | 4389285-042026