Principal Asset Management℠

Global Market Perspectives

Diverging fortunes

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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

Ben Brandsgard
Insights Strategist

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Key themes for 1Q 2025

- **A complex global picture is emerging, with significant divergence in growth and policy actions.** While the U.S. continues to thrive, China and Europe are struggling. Proposed U.S. import tariffs threaten to intensify these diverging fortunes, reinforcing the U.S. exceptionalism theme. Policymakers will need to respond accordingly.
- **The U.S. economy remains resilient, but with pockets of weakness requiring careful watch.** Strong household and corporate balance sheets have created a very resilient economy. Nonetheless, low-income households and small businesses are struggling, highlighting the need for further interest rate relief to prevent weakness from spreading.
- **The Federal Reserve will likely adopt a slower, more cautious approach to policy.** Recent U.S. economic strength has combined with a rising threat of tariffs to increase upside inflation risks. The Fed is set to cut rates just a few times in 2025, likely hitting a floor of 3.75%. Interest rate relief will be shallow and restricted.
- **Equity market gains may be challenged by elevated bond yields and expensive valuations.** A strong economic backdrop will support continued solid earnings growth. Yet, expensive valuations imply elevated vulnerability to any earnings disappointment, while the recent rise in bond yields may exert pressure on gains.
- **Fixed income credit spreads to remain range bound, with a bias upwards.** The shallow Fed cutting cycle means that Treasury yields are unlikely to trend much lower. Credit spreads are near historic tights, but solid fundamentals and elevated starting yields imply credit could generate strong returns in 2025.
- **Flows into cash continue, but in this constructive environment, risk assets are more favorable.** While broad valuation concerns and policy uncertainty persist, the numerous pockets of value, coupled with inflation pressures and reinvestment risk, underscore the importance of investors optimizing opportunities in this favorable macro environment.

A complex global economic picture emerges

The brief global growth scare in mid-2024 activated synchronized central bank policy loosening. Yet, while U.S. strength was swiftly reasserted, Europe is expected to weaken further. China's outlook was boosted slightly by high hopes for fiscal stimulus. However, this has been offset by the threat of a sharp rise in U.S. tariffs on China's exports.

Indeed, the likely onset of U.S. tariffs confronting numerous trade partners suggests that the divergence in global economic prospects is likely to persist through 2025. In addition, growth-supportive fiscal policies and deregulation only reinforce U.S. exceptionalism.

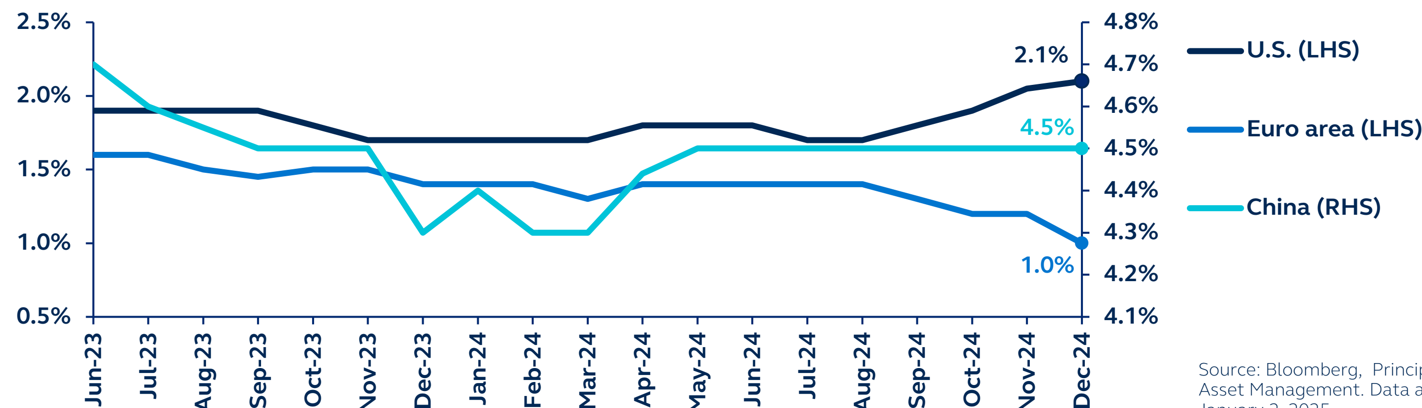
The pace of global central bank rate cuts is also likely to diverge in early 2025. Not only does U.S. economic resilience imply a reduced need for policy stimulus, but with tariffs and restrictive immigration policies threatening a pick-up in price pressures in 2025, the Federal Reserve will be increasingly cautious about its policy path. By contrast, weak growth, or recession, in other developed economies means their central banks will need to cut rates meaningfully more than the Fed.

The offset of global policy desynchronization is a strong U.S. dollar—an adverse environment for emerging markets. Tech strength in pockets of Asia, in addition to India's economic dominance, may counteract some of the downward forces.

Diverging economic fortunes implies global policy desynchronization in 2025.

2025 GDP forecast

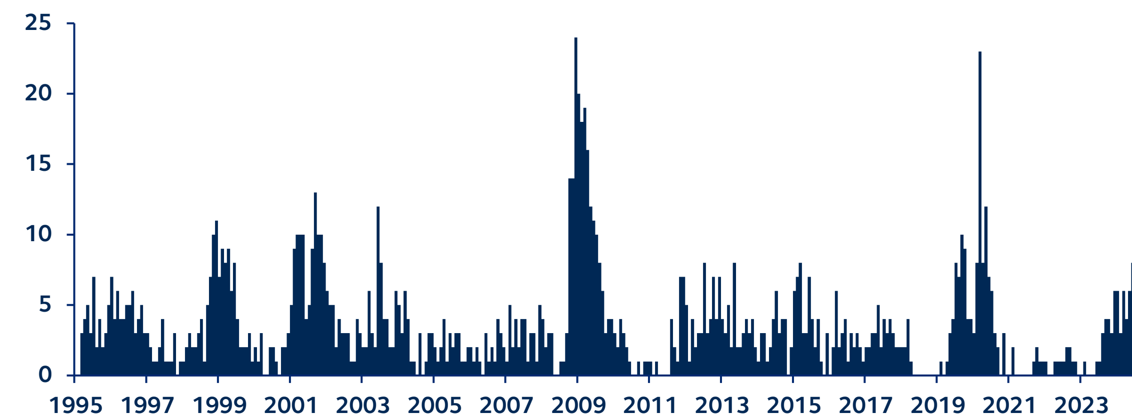
Consensus 2025 real GDP growth forecasts for U.S., Eurozone and China



Source: Bloomberg, Principal Asset Management. Data as of January 2, 2025

Global central bank easing

Number of central bank cuts, monthly, 1995–present



Source: Bloomberg, Principal Asset Management. Data as of January 2, 2025.

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Household and corporate balance sheets are robust

The U.S. economy remains strong, underpinned by healthy household and corporate balance sheets, that both have ample buffers in the event of stress.

Households have seen their net worth swell amid exceptionally strong asset price appreciation, especially within real estate and equity holdings, the latter doubling in value since 2018. These substantial asset gains have more than offset household loan and debt build-up since the pandemic. As a result, household leverage, measured as liabilities as a percentage of total net worth, has declined to the lowest level since 1975. Households have significant cushion to withstand a further deterioration in labor market conditions.

The corporate sector is also in a place of strength. Cash holdings as a percentage of liabilities are elevated, especially relative to history, suggesting ample buffers in the event of a revenue or cash flow squeeze. Moreover, profit margins have remained high, and overall leverage remains manageable, the latter helped by the widespread deleveraging by non-financial corporate firms during the pandemic.

These dynamics suggest that households and corporates are well-placed to withstand headwinds, resilience that meaningfully reduces the risk of sharp slowdown.

In aggregate terms, households and corporates are in good shape, and as such, the economic expansion is likely to extend.

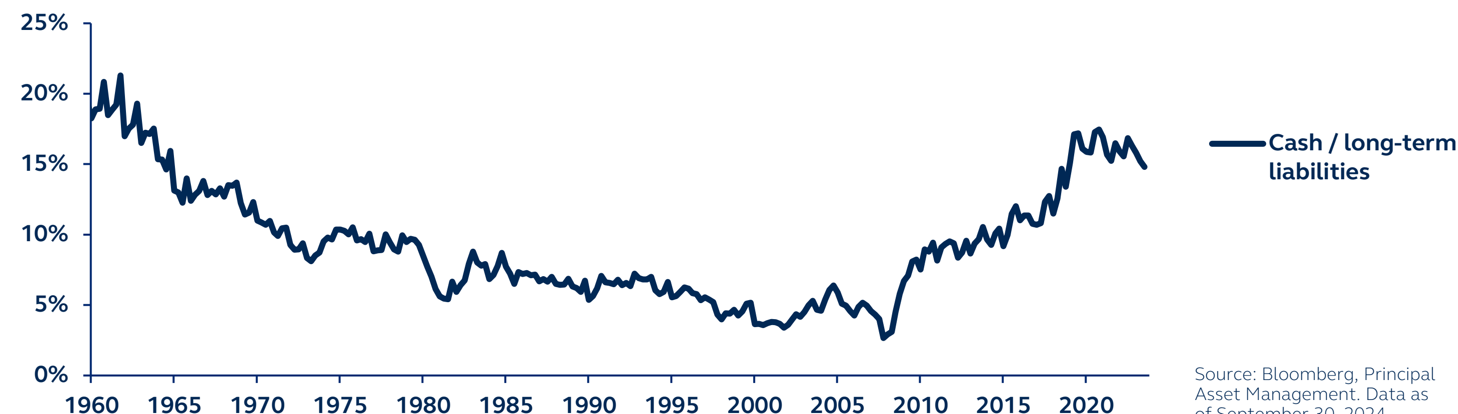
Household balance sheet strength

Household liabilities as % of net worth, 1960–present

Source: Bloomberg, Principal Asset Management. Data as of September 30, 2024.

Corporate liquidity: Cash-to-long-term liabilities ratio

1960–present



Source: Bloomberg, Principal Asset Management. Data as of September 30, 2024.

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Slowdown concerns remain amid pockets of weakness

Despite continued strong performance by the broad economy, concerns persist with lingering pockets of weakness on both the household and corporate side.

Amongst households, while overall retail spending remains resilient, middle- and high-income households have primarily driven this strength. By contrast, having likely depleted their excess savings, low-income households pulled back on spending since mid-2021 and have become increasingly cautious given the softening labor market.

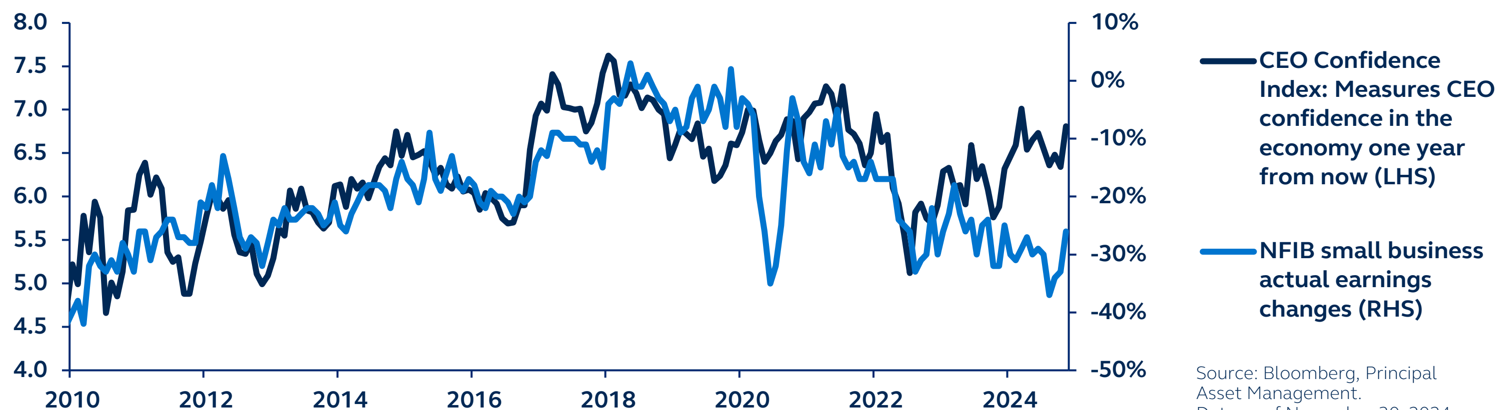
Small businesses have diverged significantly from larger firms, facing greater challenges due to their heightened sensitivity to rising interest rates—approximately 64% of their liabilities are tied to floating-rate debt, compared to just 18% for larger companies. According to the senior loan officer survey, credit availability for small businesses, while improving, remains more constrained than it was before the pandemic.

Surveys also suggest that Fed rate cuts have already supported an improvement in small business confidence, while lower credit card interest rates have supported indebted households. However, further relief is required if these two important pockets of the U.S. economy are to recover sufficiently and a bifurcated economy is to be avoided.

Low income households and small businesses are struggling under high borrowing costs and elevated prices. Policymakers are rightfully concerned about these pockets of weakness.

Small and large business confidence

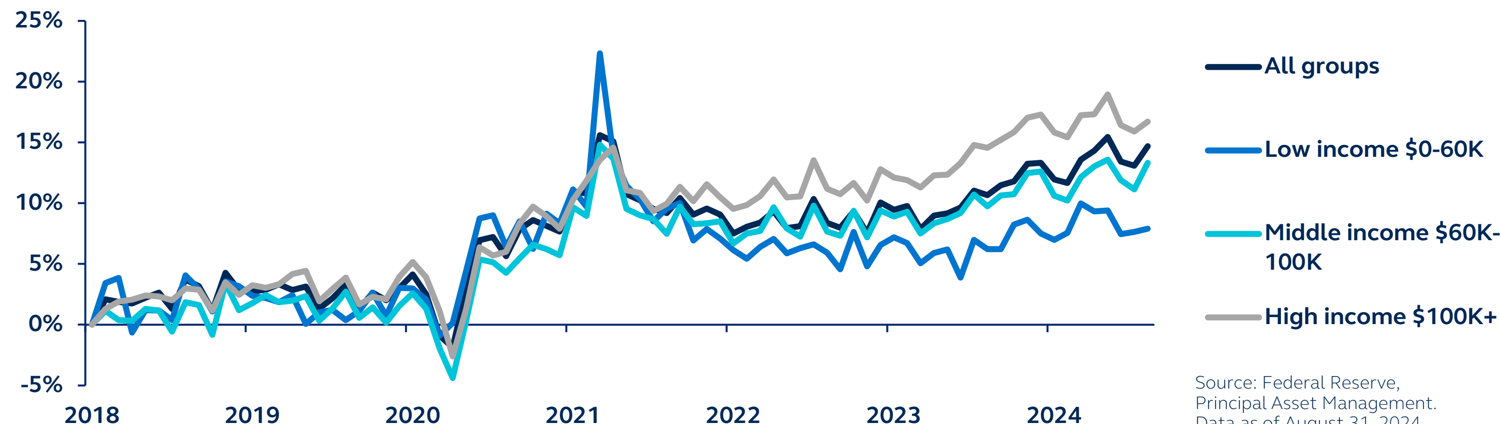
Level, January 2010–present



Source: Bloomberg, Principal Asset Management. Data as of November 30, 2024.

Growth of average retail spending

Seasonally-adjusted and inflation-adjusted, Rebased to 0 at January 2018



Source: Federal Reserve, Principal Asset Management. Data as of August 31, 2024.

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Labor market in an uneasy equilibrium

Surveys continue to show convincing signs of slowing labor demand. However, that weakness has not yet translated into widespread job losses. Instead, it appears that the labor market has become frozen, with companies hesitant to meaningfully shrink or expand their workforce amid lingering uncertainty.

Job cut announcements have stayed relatively subdued, while initial jobless claims have remained consistently and significantly below the 300,000 threshold that has historically marked recession.

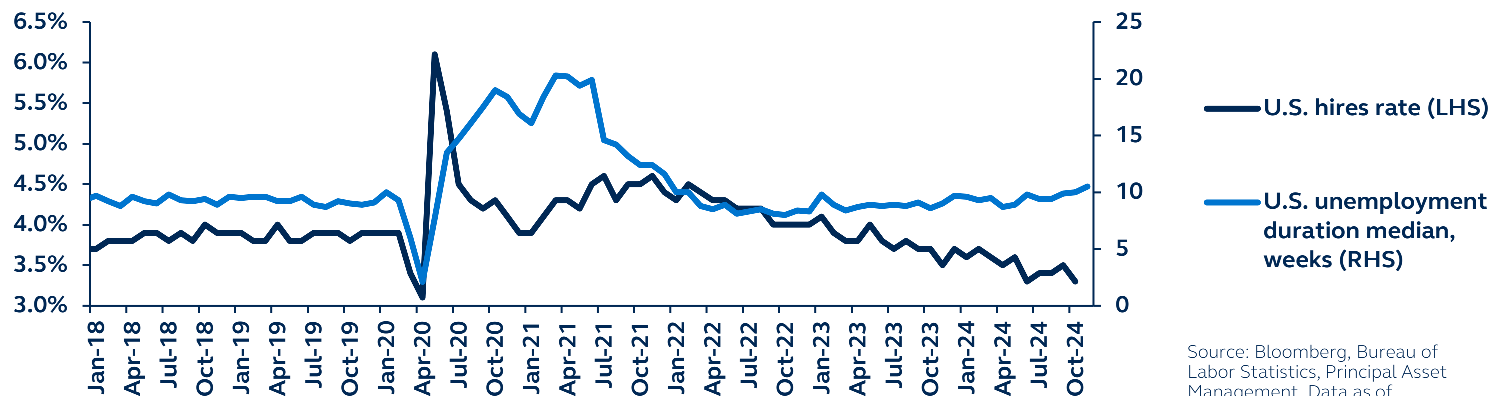
On the other hand, although monthly non-farm payroll growth remains healthy, hiring has been increasingly limited to a pair of non-cyclical sectors: healthcare and government. Furthermore, the hiring rate has fallen to the lowest level since 2020 as businesses increasingly scrutinize labor costs. This environment has led to a rise in the duration of unemployment as individuals are finding it more challenging to find a job. Ultimately, the decline in the job-finding rate has contributed to the overall rise in unemployment.

The uneasy equilibrium state in the labor market needs to be carefully watched by policymakers, especially amid the incoming administration's proposed trade and immigration policies, which may add to labor and input costs for businesses.

While labor demand weakness has not translated into widespread job cuts, policymakers must be alert to the risks.

U.S. hiring rate & unemployment duration

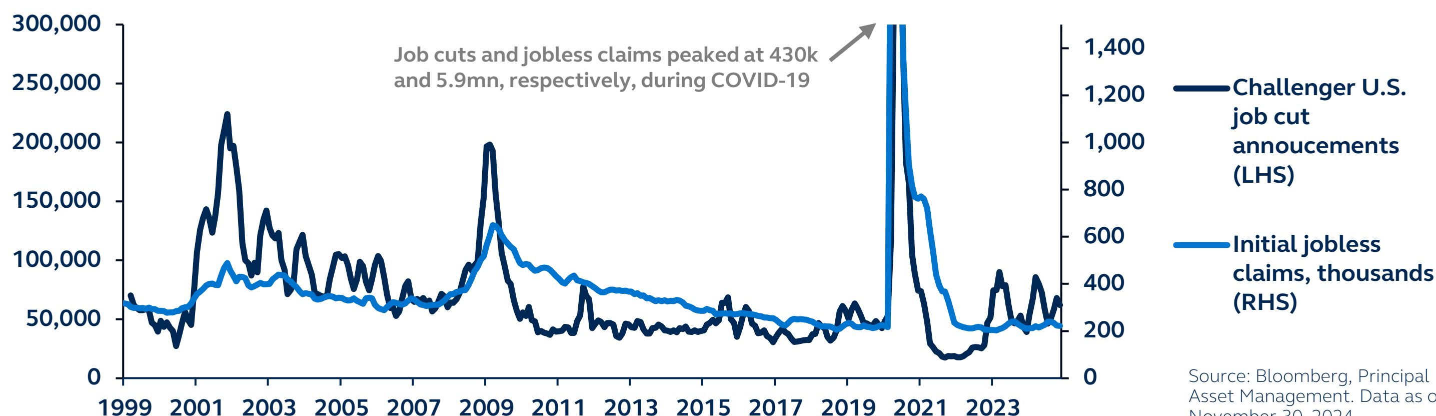
Seasonally adjusted, monthly, January 2018–present



Source: Bloomberg, Bureau of Labor Statistics, Principal Asset Management. Data as of November 30, 2024.

Job cuts: Various measures

Challenger job cut announcements and initial jobless claims, 3-month moving average, 1999–present



Source: Bloomberg, Principal Asset Management. Data as of November 30, 2024.

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U.S. inflation: upside risks aplenty

Progress towards the Fed's 2% inflation target has stalled, with headline inflation settling above 2.5% and core inflation above 3%. After hitting a three-year low of 1.6% in August, the three-month annualized pace of core inflation has risen back to 3.6%. Core services ex-shelter, the inflation segment most closely related to the strength of the labor market, remains a key culprit for sticky inflation. Further economic cooling is required to bring inflation back towards target.

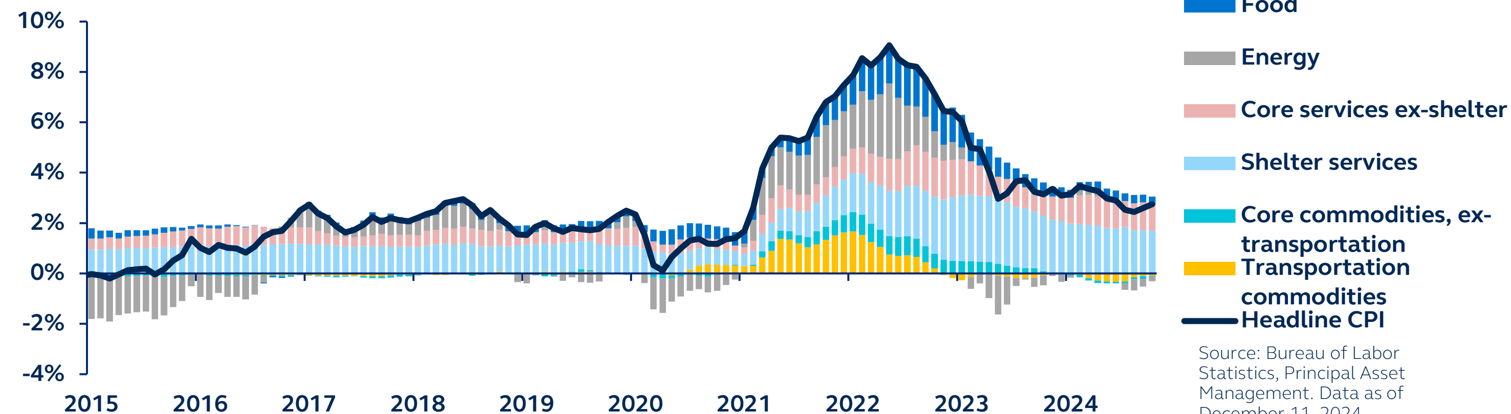
The proposed increase in tariffs by the incoming administration is adding to inflation concerns. Estimates range from a one-off 0.5% to 1.5% increase in inflation from increased tariffs alone. Of course, central banks typically look through one-off increases from tariffs – unless it leads to a rise in inflation expectations. Notably, since the election, both market-based and survey-based measures of one- and two-year inflation expectations have risen slightly.

The striking similarities between U.S. inflation developments today and those of the early 1970s, when premature monetary easing contributed to a second inflation wave, clearly warn against cutting rates unless inflation is on a sustainable path to target. As such, despite significant trade policy uncertainty, the Fed cannot ignore the upside inflation risks facing the U.S. economy.

Recent economic strength has combined with a rising threat of tariffs to increase upside inflation risks.

Contribution to headline U.S. inflation

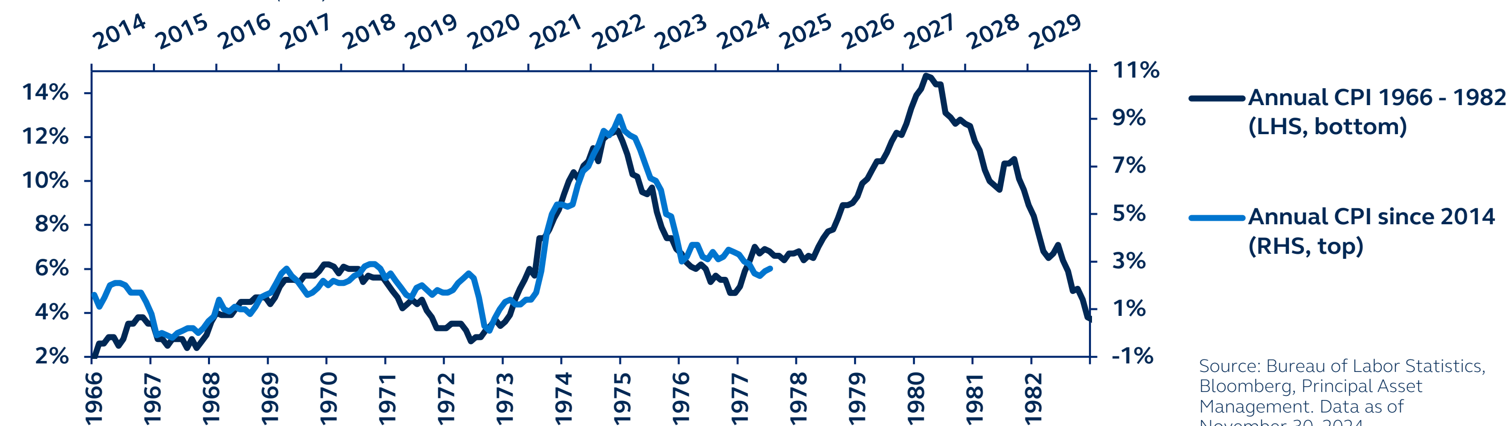
Year-over-year, January 2015–present



Source: Bureau of Labor Statistics, Principal Asset Management. Data as of December 11, 2024.

Historical inflation comparison

Consumer Price Index (CPI)



Source: Bureau of Labor Statistics, Bloomberg, Principal Asset Management. Data as of November 30, 2024.

Federal Reserve: Cautious in the face of uncertainty

Markets have sharply reduced their rate cut expectations since the first Fed rate cut in September, reflecting both an improvement in the growth outlook and a potentially more inflationary backdrop due to the incoming administration's proposed tariff and immigration policies.

Popular thinking has been that the Fed would cut policy rates to neutral. However, since the neutral rate cannot be directly observed, there are a wide dispersion of market estimates around its value, ranging from a low of 2.8% to a high of 4.6%. Even within the FOMC, there remains a 1.5% range between the highest and lowest estimates.

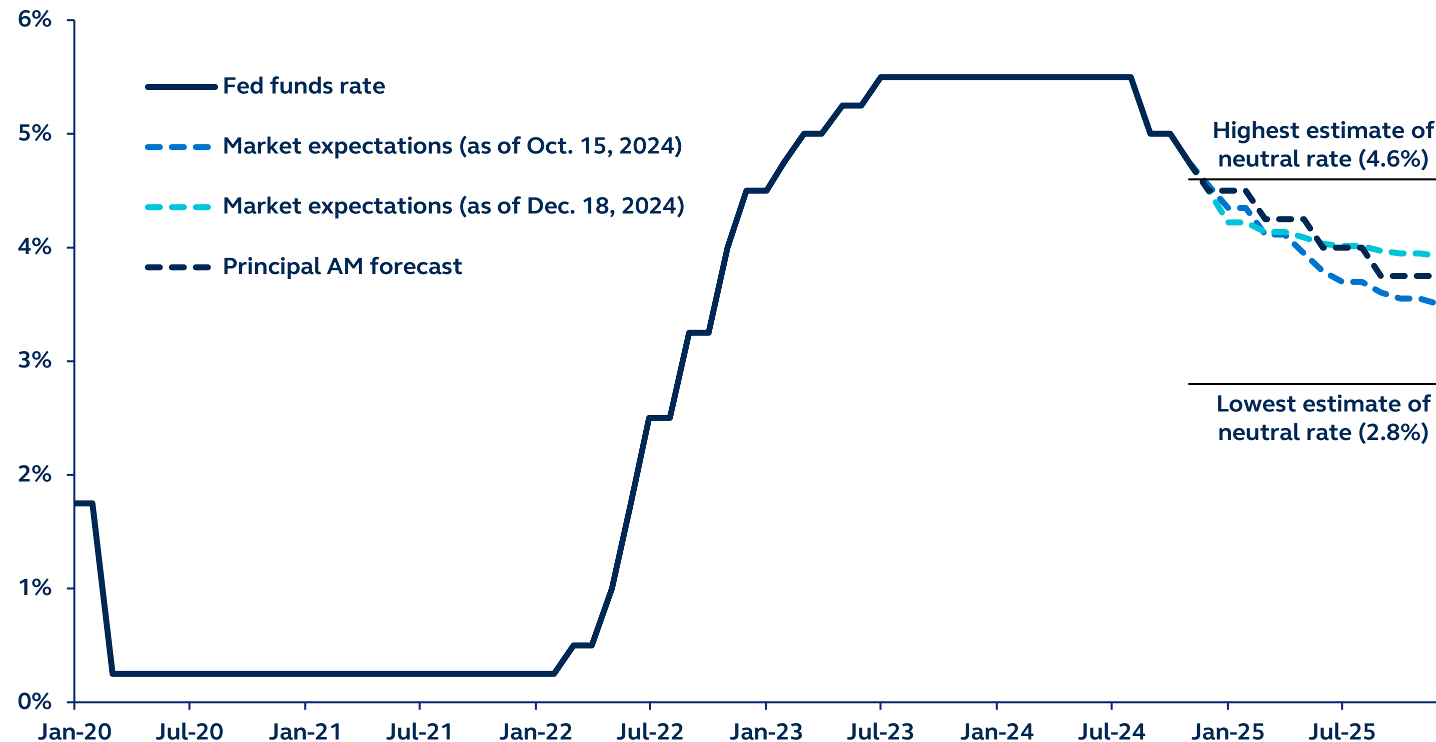
The upshot is that faced with elevated uncertainty around the neutral rate and the inflationary impact of tariffs, the Federal Reserve now needs to tread cautiously and is set to slow the pace of easing to every other meeting.

The Fed sees just two rate cuts in 2025. However, evidence of cooling labor demand, coupled with concerns around low-income households and small businesses, suggests that the Fed may cut policy rates three times in 2025, leaving rates at a floor of 3.75%. Yet, it is not difficult to imagine a scenario whereby new tariffs prompt the Fed to enter a prolonged pause period early in the year – policy uncertainty is particularly elevated.

The Fed is set to slow its easing path, cutting rates just a few times in 2025, hitting a likely floor of 3.75%. Interest rate relief will be shallow and restricted.

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 December 18, 2024.

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The global economy swaps inflation for growth concerns

Outside the U.S., developed market central banks have made substantial progress with disinflation, and while frustrations around sticky inflation persist, fears of a resurgence in price pressures have largely eased. Unfortunately, the decline in inflation has much to do with a weakening in economic growth, providing central banks with a new headache.

Meanwhile, China has continued to underdeliver on inflation, with year-over-year inflation averaging nearly zero over the past 12 months. This has been largely due to the economic malaise triggered by the ongoing property downturn and weak consumer demand. There, policymakers have had to increasingly turn to both monetary and fiscal stimulus to revive animal spirits.

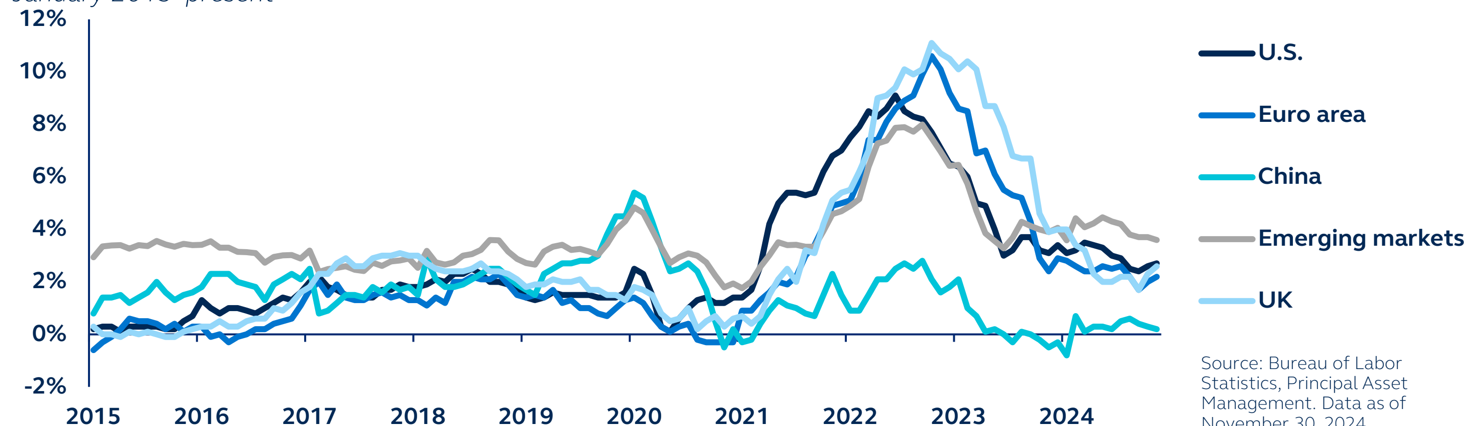
The global economy may also need to navigate the potential increase in U.S. import tariffs. Taking current proposals of a 25% tariff on Mexico and Canada, a 60% tariff on China, and a universal 10% tariff on other economies, the estimated negative impact to each economy ranges from just 0.4% to as much as 9%, with the largest impact accruing to economies that rely on the U.S. the most for trade.

Of course, the scale and scope of tariffs is highly uncertain. Yet, navigating the uncertainty of these global frictions will be demanding for both policymakers and investors.

While inflation is no longer such a headache for global central banks, they must now contend with downside growth risks—amplified by the threat of U.S. tariffs.

Global inflation

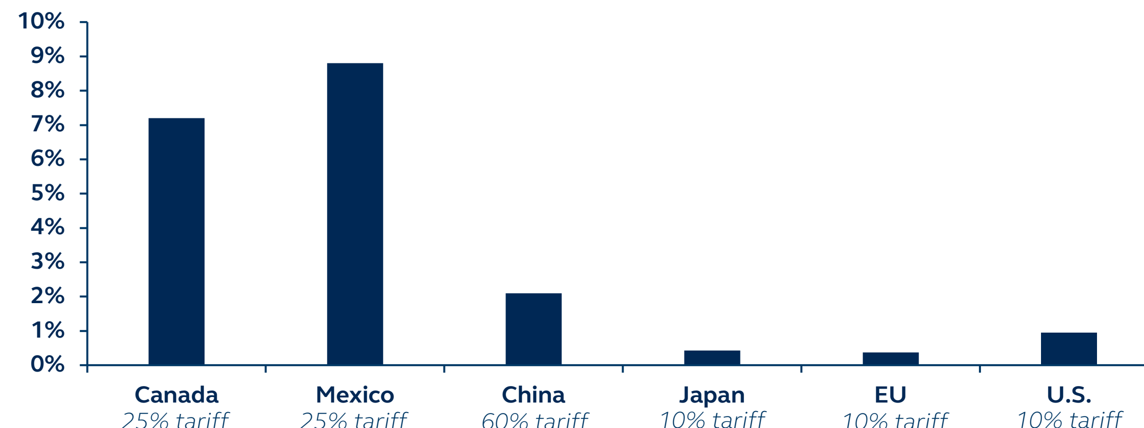
January 2015–present



Source: Bureau of Labor Statistics, Principal Asset Management. Data as of November 30, 2024.

Potential tariff increase impact on GDP

Percentage



Source: International Monetary Fund, World Trade Organization, Bloomberg, Principal Asset Management. Data as of November 15, 2024.

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The offset of global cross-currents is USD strength

Initially, developed market central banks were easing policy at a slower pace than the Fed, cutting rates in 25bps clips while the Fed commenced its cycle with a 50bps reduction. Additionally, they were moving policy rates every other meeting while the Fed cut rates at sequential meetings. This is now changing.

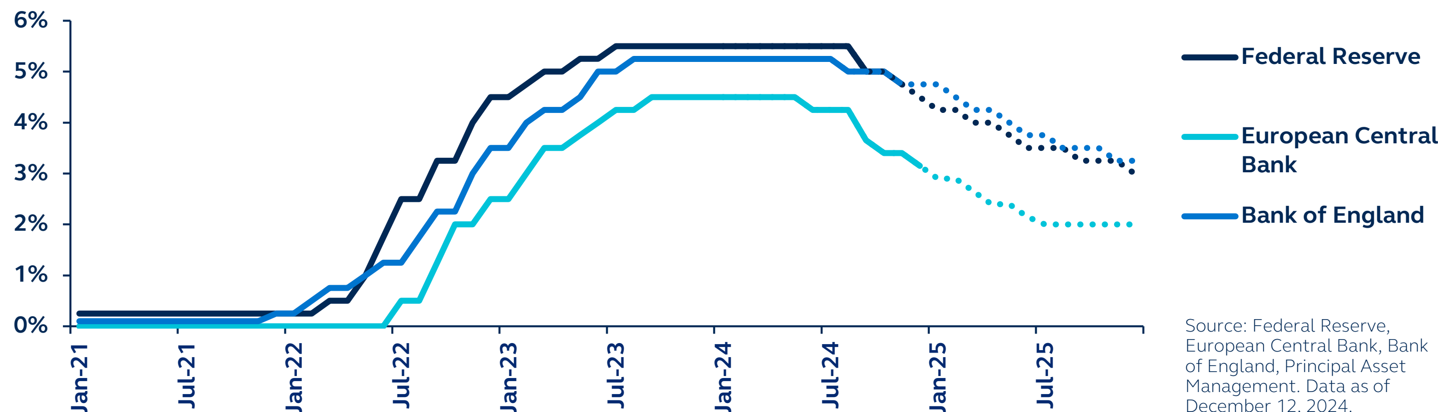
Greater economic concerns in Europe, with business sentiment near COVID lows and weakness spreading from manufacturing to services, means that recession is a pertinent risk. The ECB needs to move with greater urgency than the Fed, likely cutting rates at each meeting through 2025 and taking policy rates below neutral—with a step up to 50bps reductions a meaningful possibility. By contrast, persistent inflation concerns due to fiscal policy mean that the Bank of England may remain cautious for a little longer—but it too is likely to accelerate its pace of easing in 2025.

Overall, the policy mix of relatively fewer Fed cuts and U.S. import tariff hikes will lend significant support to the U.S. dollar over the coming year. This is likely to be particularly the case against the more tariff-sensitive currencies like the Mexican peso, the euro, and the Chinese renminbi.

Weaker growth outside the U.S. implies more aggressive rate cuts by global central banks. The policy mix of a relatively hawkish Fed and U.S. import tariff hikes will support sustained U.S. dollar strength.

Global central bank rates

January 2021–present, forecasted through 2025



Source: Federal Reserve, European Central Bank, Bank of England, Principal Asset Management. Data as of December 12, 2024.

U.S. dollar Spot Index

May 2024–present

Source: Bloomberg, Principal Asset Management. Data as of December 31, 2024.

Equities

U.S. equities: climbing the valuation wall

The S&P 500 hit a record high 57 times in 2024. It is not unusual for the equity market to achieve new all-time highs during bull markets, and new highs do not necessarily mean the market is due for a pullback. Yet, with valuation measures now showing that U.S. equities have never been as expensive, earnings must deliver against lofty expectations.

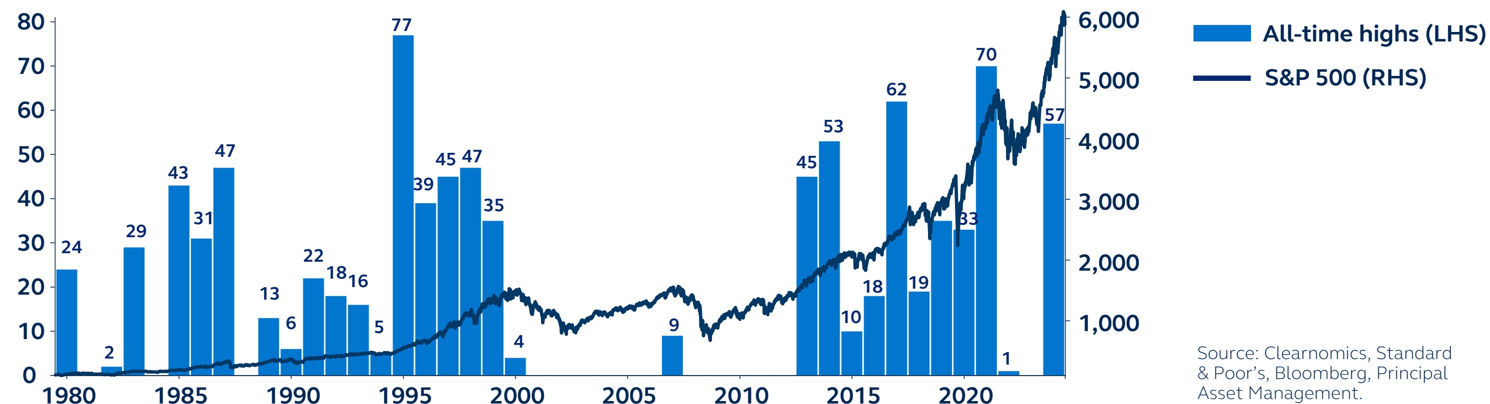
Earnings prospects for 2025 are fairly positive. Not only is the U.S. economic outlook constructive, but U.S. policy may spur additional economic growth as the new administration signals a push for deregulation and lower corporate and individual taxes. However, a key challenge to the bull market is the rise in bond yields which, if it persists, may limit gains. It may not take much of a rise in rate expectations to whipsaw equities.

There also remains vulnerability around the outperformance of the Magnificent 7. While the secular trend upward of the Mag 7 should persist over the long run, their expensive valuations, coupled with elevated bond yields, imply that investors should pay increased attention to stocks trading at more attractive valuations. The solid macro environment suggests that strong earnings growth is likely across a variety of economically sensitive companies, sectors, and cap sizes, which are meaningfully less stretched than the Mag 7.

Extended valuations and elevated bond yields present U.S. equities with a challenging environment but, provided earnings growth is strong, U.S equities can deliver solid gains.

Stock market all-time highs

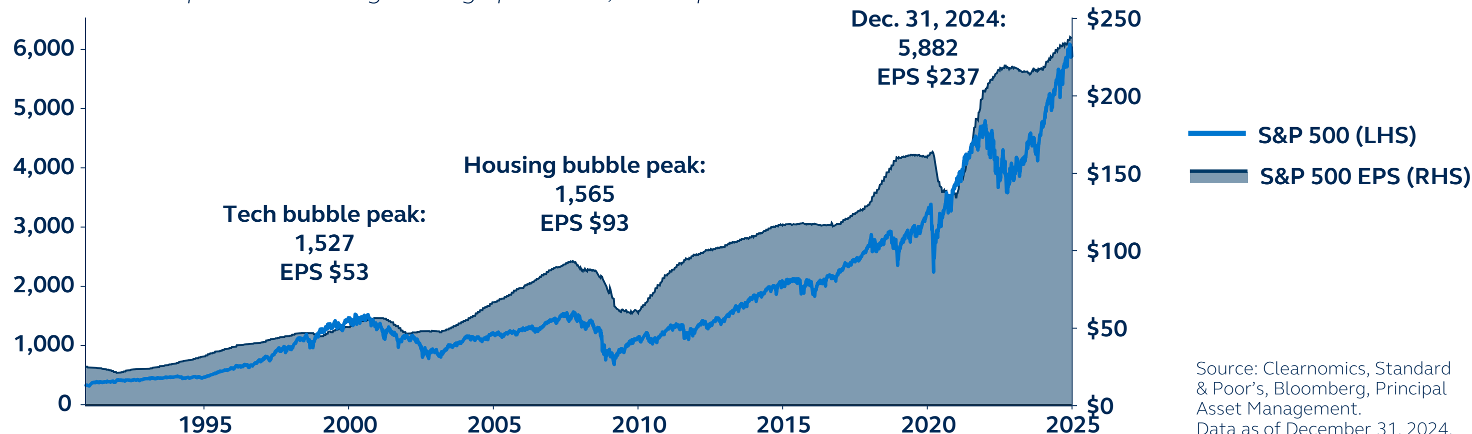
The number of S&P 500 all-time highs each year



Source: Clearnomics, Standard & Poor's, Bloomberg, Principal Asset Management.
Data as of December 31, 2024.

The stock market and earnings

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



Source: Clearnomics, Standard & Poor's, Bloomberg, Principal Asset Management.
Data as of December 31, 2024.

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Investors should consider the divergent global picture

While U.S. outperformance is likely to persist in 2025, historically expensive valuations across U.S. equities should prompt investors to consider some global diversification in 2025.

Japan's valuations, although expensive, are not as stretched as those in the U.S. It also has positive prospects, driven by broad corporate reform and governmental commitment to end deflation. The UK's valuations are relatively cheap, and while it faces deep structural issues, pessimism is quite extreme, suggesting room for upside surprises. India's market has rarely been more expensive, almost comparable to the U.S. Yet, continued strong economic growth and relatively lower vulnerability to potential U.S. import tariffs suggest room for continued outperformance.

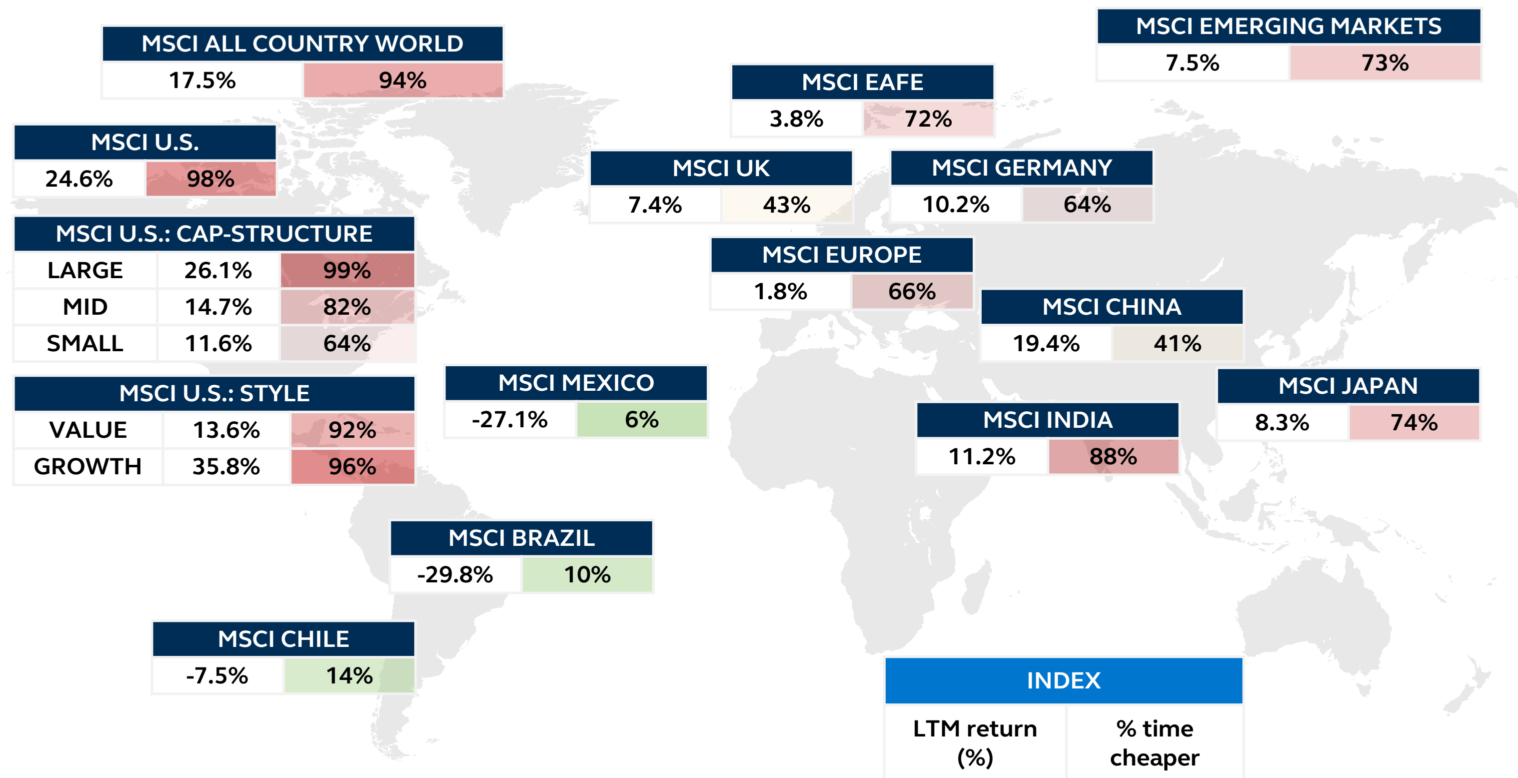
By contrast, Europe, Mexico, and China are very exposed to U.S. trade tariff policy. Their cheap valuations are likely insufficient to offset the negative fundamental outlooks.

Within the U.S., small-cap valuations are meaningfully more attractive than large-cap valuations. Although they have had a good run since the U.S. election, benefitting from a strong economy and deregulation, outperformance may be constrained by the Fed's shallow rate cutting cycle.

Expensive valuations across U.S. equities mean investors should consider other global regions, but still retaining a focus on strong fundamentals.

Global equity returns and valuations

Last twelve months returns and % of the time the Index 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, 2024.

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Fixed income

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Bond yields: trending higher, counter to historic Fed cycles

Since the Fed's cutting cycle began in September, long end U.S. Treasury yields have been rising, ending 4Q at 4.57%, almost 80 bps higher than where they started. This is counter to historical trends, which show that yields tend to fall in cutting cycles and when economic activity is slowing.

Three factors appear to be at play:

- Pre-emptive Fed easing has reduced cut expectations
- Proposed policies, such as tariffs and immigration restrictions, have raised inflation risks
- Government policy uncertainty
- Fiscal sustainability concerns

While the cutting cycle should ultimately limit the upside to yields, as the Fed easing cycle is likely to be only very short and shallow, longer-end bond yields are likely to remain relatively range-bound in coming months and unlikely to fall below 4% in 2025 (for a sustained period).

By contrast, with the market Fed funds rate expectations slightly more hawkish than our own, there is likely to be more downward pressure on the front end of the yield curve than the long end.

While history suggests Fed cuts and a slowing economy should push yields lower, bond yields have been trending higher in response to a multitude of factors.

Fed funds rate and U.S. 10y Treasury yield

Recessions are shaded, 1985–present

Source: Federal Reserve, Bloomberg, Principal Asset Allocation. Data as of December 31, 2024.

10-year Treasury yield and economic activity

November 2023–present

Source: Bloomberg, Principal Asset Management. Data as of December 31, 2024.

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Despite tight spreads, credit may generate strong returns

Fixed income returns were quite volatile in 2024 as investor speculation about the size and pace of central bank cuts drove interest rate volatility.

However, overall, the total yield generated from fixed income today remains attractive relative to history, and credit continues to offer additional carry to U.S. Treasurys. As a result, yield buyers should continue to be attracted to credit.

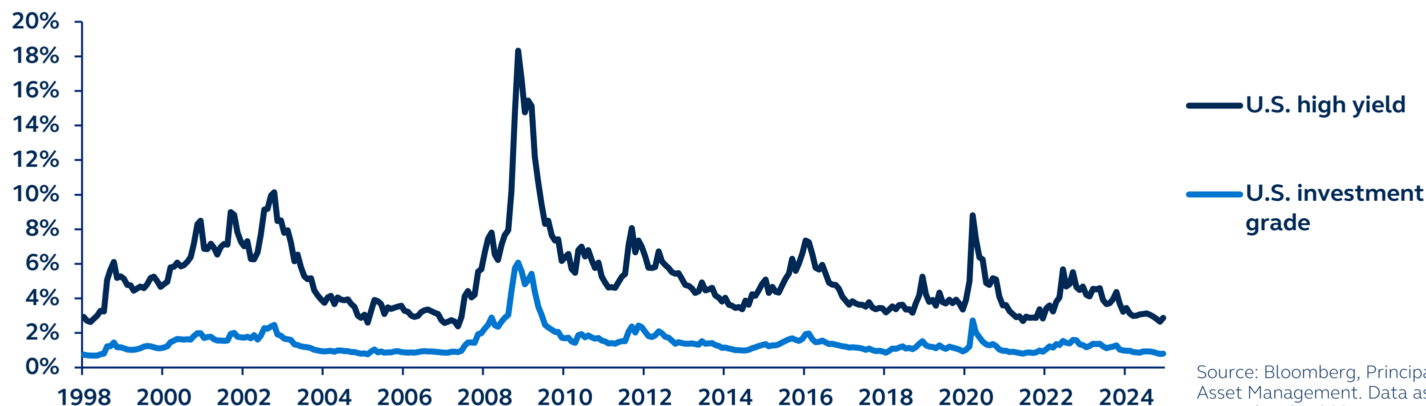
Credit spreads remain near historic lows. While this presents a slightly challenging valuation backdrop, the broad outlook remains positive. The economy is cooling slightly but remains in good health, and corporate balance sheets across both investment grade and high yield companies are also healthy. As such, while there may be only a modest widening bias, spreads are likely to remain broadly rangebound in 2025. The combination of supportive fundamentals and elevated starting yield should enable credit to generate strong returns for investors in 2025.

Ultimately, fixed income assets continue to provide a reliable source of income and yield, offer mitigation against widespread market volatility, and present opportunities to enhance returns within investment portfolios.

Credit spreads are near historic tights. But solid fundamentals and elevated starting yields imply credit could generate strong returns in 2025.

U.S. high yield and investment grade spreads

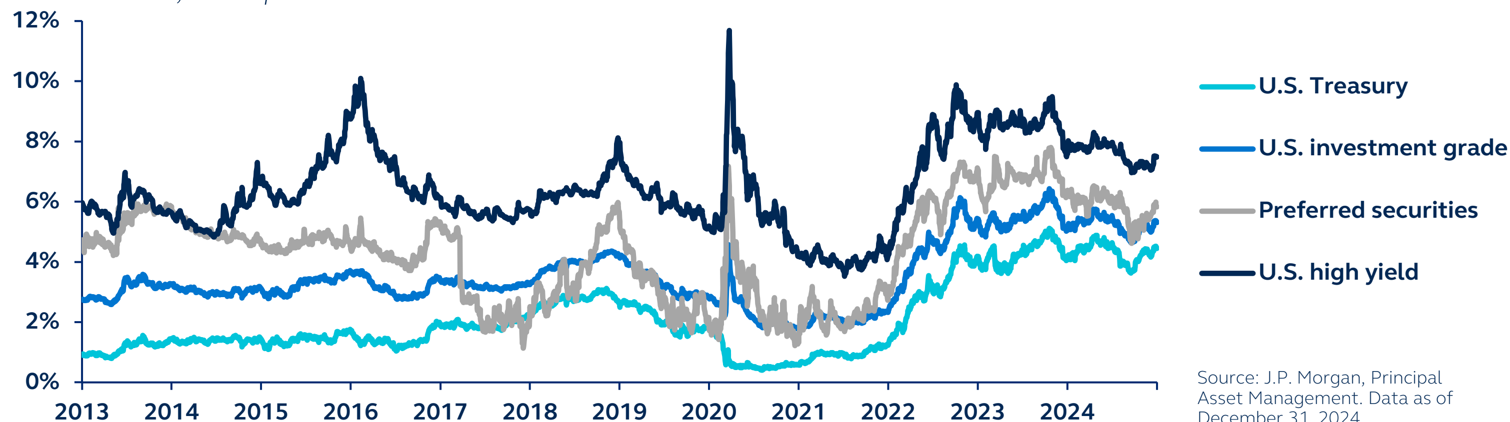
Option-adjusted-spread, 1998–present



Source: Bloomberg, Principal Asset Management. Data as of December 31, 2024.

Yield comparison

Yield-to-worst, 2013–present



Source: J.P. Morgan, Principal Asset Management. Data as of December 31, 2024.

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Investment perspectives

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Risk asset outlook: resisting the temptation of cash

Flows into money market funds have continued to increase. Valuation concerns and U.S. policy uncertainty have led investors to feel more comfortable in cash. Yet, these concerns are likely overdone.

While it is true that the change in government has raised policy uncertainty, the incoming administration's policy stance is for broad deregulation and lower corporate and individual taxes. It is not yet clear how these policies will be enacted, but they are unlikely to be damaging to U.S. economic growth—reinforcing the constructive macro environment, which provides a strong backdrop for risk assets.

In addition, while the S&P 500 index is expensive, there are many segments of the market that are attractively valued and, therefore, less vulnerable to pullbacks.

A key concern for 2025 is the potential for a renewed increase in inflation—this makes it even more important for investors to consider real returns and to target risk assets that can deliver a higher return than cash.

Finally, with Fed policy rates still biased lower, investors face reinvestment risk and should lock in higher yields, suggesting some urgency for investors to put their cash to work.

The strong economic outlook and pockets of value in the market, as well as inflation concerns and reinvestment risk, mean that investors should resist the temptation of cash.

Source: Investment Company Institute, Bloomberg, Principal Asset Management. Data as of December 31, 2024.

A cautiously risk-on environment for investors

Despite elevated policy uncertainty, a solid economic backdrop implies this is still a risk-on investing opportunity.

Equities *Retain U.S equity exposure but add diversification via global equities*

- Strong U.S. earnings growth can overcome valuations concerns and deliver solid equity market gains.
- Explore opportunities beyond the Mag 7, including tactical exposure to small- and mid-cap stocks.
- Pockets of attractive international valuations suggest opportunities outside the U.S

Implementation

- Well-diversified, active international managers
- Quality-biased active managers
- Active mid- and small-cap strategies
- Large-cap U.S. strategies

Fixed income *Increase exposure to high-quality credit and extend duration*

- Leverage core fixed income during a mild economic slowdown.
- Extend duration as a hedge against growth disappointment and reinvestment risks.
- Emerging market debt may offer total return potential during global central bank easing.
- High yield maintains a substantial carry advantage for income-seeking investors.

Implementation

- IG credit heavy core fixed income
- Flexible emerging market debt strategies
- Active high yield strategies
- Preferred & capital securities

Alternatives *Pursue less correlated exposures*

- Real return-focused strategies gain attractiveness when nominal growth slows and inflation is sticky.
- Infrastructure offers resiliency and attractive valuations.
- REITs offer attractive valuations and constructive fundamentals as rates move lower.
- When valuations are expensive, reduce overall risk and focus on alpha capture.

Implementation

- Real asset strategies (infrastructure, natural resources)
- Private real estate markets
- Proven REIT strategies
- Multi-strategy alternatives

INDEX DESCRIPTIONS

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 (USDX) 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.

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