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Principal Asset Management℠

Principal Fixed Income

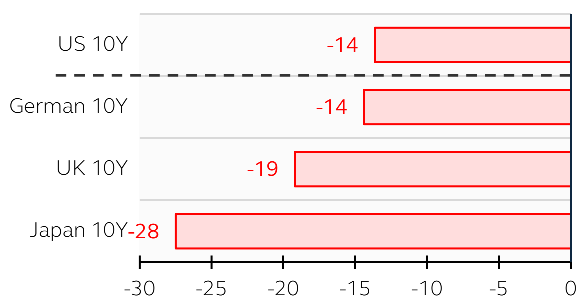
Keep calm and carry bonds

APRIL 2025

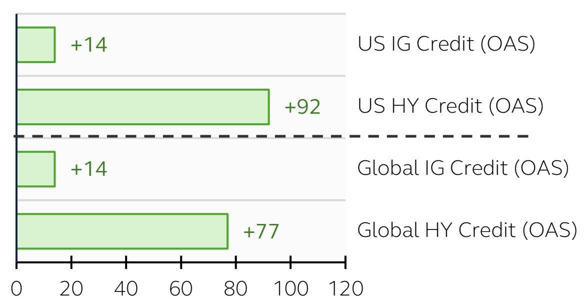
Overview

In an environment where the only certainty is uncertainty, patience and selectivity remain paramount for investors. Nowhere is that more evident today than across the vast global fixed income universe. The market's profoundly negative reaction to Liberation Day and the prospective uprooting of global trade for years to come has led rates to rally across the curve, credit spreads to rapidly widen and investors to chase safe-haven assets. This has fueled a fast erosion of growth projections and heightened inflation fears, culminating in the very real risk of stagflation and/or a recession in the U.S.

Global Rates | April 2nd - 4th Δ (Bps)



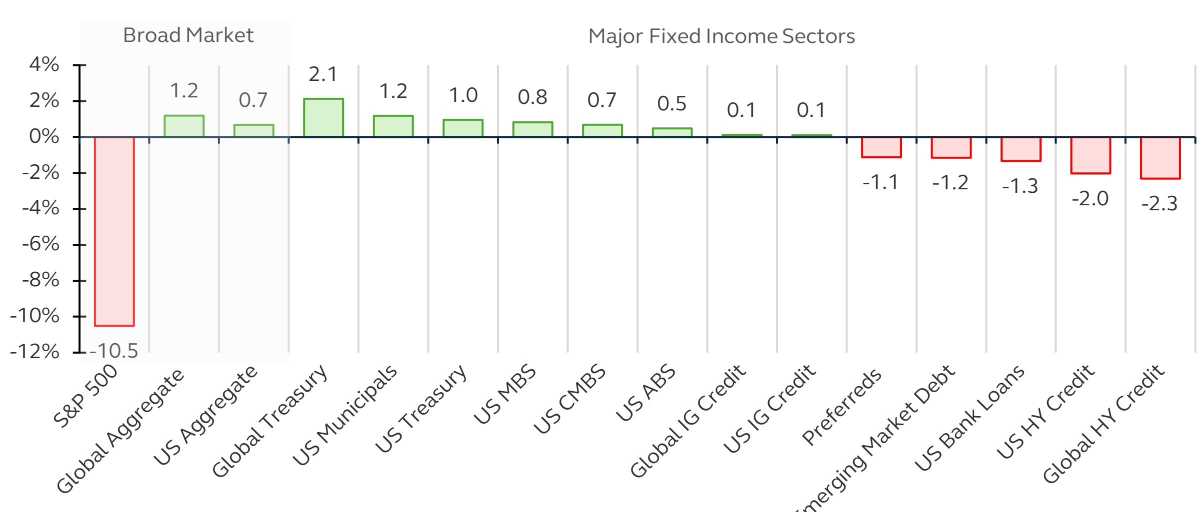
Global Credit Spreads | April 2nd - 4th Δ (Bps)



As of 4 April 2025. Source: Bloomberg.

The kneejerk reaction to Liberation Day underscores the importance of portfolio diversification and the vital role fixed income plays as a ballast. While global equity markets plunged, the impact on performance across major fixed income sectors was comparatively muted with longer-duration investment-grade sectors with less credit sensitivity delivering positive returns.

Index Total Return | April 2nd - 4th (%)



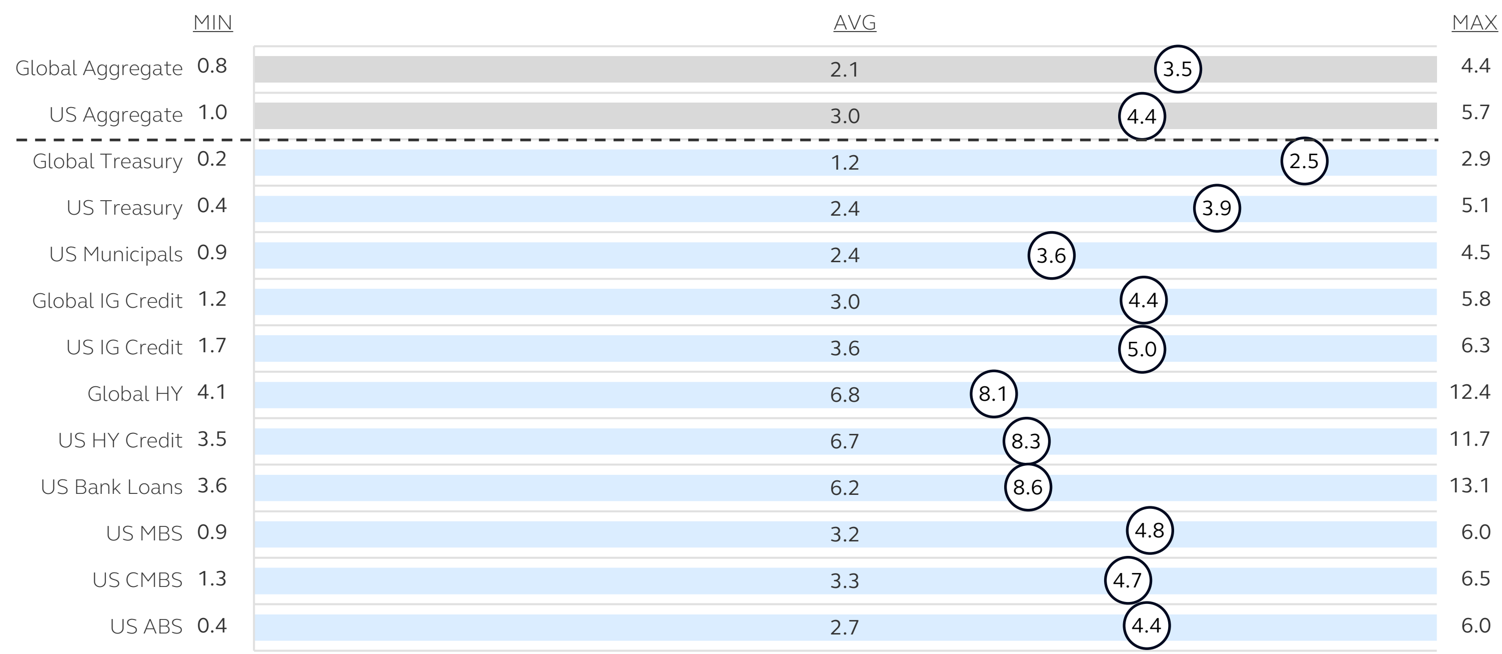
As of 4 April 2025. Source: Bloomberg.

We expect episodic volatility to endure in the near-term, but volatility fuels opportunity. Despite growing pressure weighing on the global economic outlook, there will be ample opportunities for investors to take advantage of market dislocations to potentially benefit longer-term outcomes.

So, what does this mean for fixed income investors?

With rates rallying in sympathy with the market's flight to quality, pessimism mounting over the global economic outlook and pressure growing for central banks to take policy action, there is likely to be further attrition to the yield received on cash and cash equivalents (e.g., money market funds). With many fixed income sectors still offering attractive starting yields, recent volatility could create an enticing entry point for investors seeking to avoid reinvestment risk and lock-in higher income for longer.

Yield-to-Worst | As of April 4th (%)



As of 4 April 2025. Source: Bloomberg. Index yield to worst. Min, max, and average based on last 10 years. Weighted average yield-to-maturity reflected for U.S. Bank Loans. Indices are unmanaged and do not consider fees, expenses, and transaction costs, and it is not possible to invest in an index.

As the market digests the real impact from the Liberation Day tariffs, there is likely to be a sustained upward bias in credit spreads over the near-term. That said, many companies have entered this moment of stress from a point of fundamental strength and, although the breadth of tariffs caught many by surprise, the announcement itself was expected and the administration's admiration for tariffs as a negotiating tool is nothing new. There will undoubtedly be an impact from the announced tariffs, more so if there is no near-term capitulation; however, the impact won't be broad-based, and we don't believe now is a time to avoid credit entirely. In fact, recent spread widening could provide an opportunity, especially for longer-term investors, to add selective exposure in both investment grade and below investment grade credit.

In conclusion

It's important for investors to remain calm when faced with challenging markets. As the near-term attractiveness of growth assets and cash/cash equivalents wanes, many fixed income sectors are poised to deliver a level of downside mitigation and upside potential. As an active asset manager, we are being patient and measured in our approach, relying on our trusted and tested processes to identify relative value across and within fixed income sectors. In the immediate aftermath of the new tariffs, we have been focused on three key themes: (1) high quality credit as a core exposure, (2) tactical opportunities across spread product and (3) duration as a tailwind. Principal's extensive fixed income platform has the breadth of resources to navigate these challenging markets and, through active management, deliver on these central themes both within portfolios and across our suite of commingled products.

Principal Fixed Income: A leading global fixed income platform

Principal Fixed Income is the fixed income investment management platform of Principal Asset Management and manages U.S. $147.7 billion in assets under management as of December 31, 2024. Principal Fixed Income has capabilities spanning all major fixed income sectors. Our globally integrated platform with investment centers worldwide and over 85 investment professionals, helps to directly access global fixed income markets and deliver a diversity of investment perspectives. Our structure and proprietary investment tools foster collaboration across sector-specialty teams, whether the sector is explicitly integrated into a portfolio or not. In our view, this diversity of insight helps each sector-specialty team formulate richer investment theses and make better informed investment decisions on behalf of our clients.

Index descriptions for page 2:

Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-seven local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. There are four regional aggregate benchmarks that largely comprise the Global Aggregate Index: the US Aggregate, the Pan-European Aggregate, the Asian-Pacific Aggregate, and the Canadian Aggregate Indices. The Global Aggregate Index also includes Eurodollar, Euro-Yen, and 144A Index-eligible securities, and debt from five local currency markets not tracked by the regional aggregate benchmarks (CLP, COP, MXN, PEN, and ILS). A component of the Multiverse Index, the Global Aggregate Index was created in December 1998, with index history backfilled to January 1, 1990.

Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, 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. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Bloomberg CMBS ERISA-Eligible Index is the ERISA-eligible component of the Bloomberg CMBS Index. This index, which includes investment grade securities that are ERISA eligible under the underwriter's exemption, is the only CMBS sector that is included in the Bloomberg U.S. Aggregate Index.

Bloomberg Asset-Backed Securities (ABS) Index has three subsectors: Credit and charge cards, Autos, Utility. The index includes pass-through, bullet, and controlled amortization structures. The ABS Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. The Manufactured Housing sector was removed as of January 1, 2008, and the Home Equity Loan sector was removed as of October 1, 2009.

S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan 100 Index is designed to measure the performance of the U.S. leveraged loan market based upon market weightings, spreads, and interest payments. The index is composed of loans bought by institutional investors that have partnered with S&P Global Market Intelligence's Leveraged Commentary & Data (LCD). Index constituents are market-value weighted, subject to a single loan facility weight cap of 2%.

S&P 500 is a gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

J.P. Morgan EMBI Global Diversified Index (EMBIGD) tracks liquid, US Dollar emerging market fixed- and floating-rate debt instruments issued by sovereign and quasi-sovereign entities1. The index was launched in July 1999 with daily historical index levels dating back to December 1993. Historical to-maturity and to-worst statistics are available from December 1997 and December 2001, respectively.

ICE BofA U.S. IG Institutional Capital Securities Index tracks the performance of U.S. dollar denominated investment grade hybrid capital corporate and preferred securities publicly issued in the U.S. domestic market.

Bloomberg Global High Yield Average OAS.

Bloomberg U.S. Corp HY 2% Issuer Capped is the 2% Issuer Cap component of the U.S. Corporate High Yield index. The Bloomberg U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

Bloomberg Global Aggregate Credit Total Return Index Value Hedged USD.

Bloomberg U.S. Credit Index is the U.S. Credit component of the U.S. Government/Credit index and includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg Global Treasury Index tracks fixed-rate, local currency government debt of investment grade countries, including both developed and emerging markets. The index represents the treasury sector of the Global Aggregate Index. The index was created in 1999, with history available from January 1, 1987.

Bloomberg U.S. Treasury Index is public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg U.S. MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.

Bloomberg U.S. Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market.

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Investing involves risk, including possible loss of principal. Past performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Fixed income investments are subject to interest rate risk; as interest rates rise their value will decline. Lower-rated securities are subject to additional credit and default risks. Asset allocation and diversification do not ensure a profit or protect against a loss.

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