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2Q 2025

Principal Asset Management℠

Global Market Perspectives

The world turned upside down

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 2Q 2025

- **The global economy confronts upheaval as the U.S. looks to restructure international trade.**
  U.S. import tariffs have weakened the U.S. economy, while global economies sought to shore up their foundations to withstand the crosscurrents. Uncertainty is extraordinarily elevated and unlikely to clear immediately.
- **U.S. recession odds have spiked. Growth boosting policy measures are required to avoid recession.**
  The economy is being hit from multiple directions as consumers and businesses confront rising price pressures from import tariffs and labor market cracks. Deregulation and tax cuts will have to play a crucial role to offset the sharp rise in effective tariff rates if the U.S. is to skirt recession.
- **The Federal Reserve is biased to easy policy, but inflation fears will constrain the number of cuts.**
  Once the Fed has policy clarity, it will be able to focus on labor market concerns and resume rate cutting. Yet, inflation fears imply a shallow cutting cycle, providing only a limited stimulus injection into the U.S. economy.
- **U.S. equity markets to remain particularly challenged in the face of recession fears and tech woes.**
  U.S. economic growth is imperative if other sectors are to offset tech weakness. For now, the risk-off mood is likely to persist. International has outperformed as governments strengthen their economic foundations.
- **Fixed income is helping to weather the economic slowdown and market pullback.**
  Treasury yields may remain below 4% as recession fears persist. Credit spreads have widened but high-quality credit is performing its traditional role as ballast in investment portfolios.
- **The uncertain backdrop is challenging but prompts some important investor considerations.**
  Flows to money market funds have increased as investors defend against pullbacks and uncertainty. Global and cross-asset diversification remain crucial for capturing opportunities.

A global growth shock materializes

After several years of solid growth, the global economy faces a new policy-driven shock. The meaningful and rapid escalation of restrictive trade policy early into the new U.S. administration represents one of the biggest challenges to the post-WWII order that saw the proliferation of global free trade and dominance of the U.S. dollar. The ensuing negative shock is further amplified by a sharp increase in uncertainty driven by frequent and rapidly shifting U.S. policy announcements, with the impact reverberating across the global economy.

With solid balance sheets, U.S. companies benefit from a strong starting point. While growth forecasts are being downgraded and recession fears are rising, the U.S. economy has significant buffers to withstand policy-driven shocks.

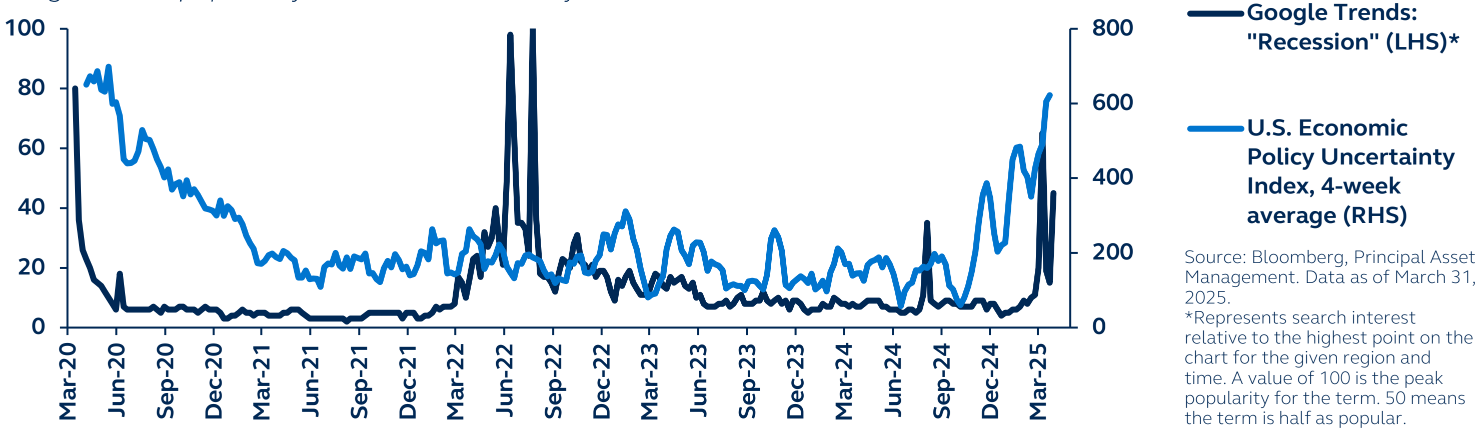
Europe and China are by no means immune to the negative global headwinds. Yet, with fiscal policymakers moving to offset growth risks, forcefully shifting away from fiscal conservatism in the case of German policymakers, economic concerns have begun to subside somewhat.

Whether Europe and China can deliver sufficiently in the face of the downside global growth risks may determine the lasting trend of U.S. exceptionalism.

The U.S. economy is facing a significant policy-driven shock. Forceful policy actions in Europe and China would reduce the risks to global growth.

U.S. recession trends

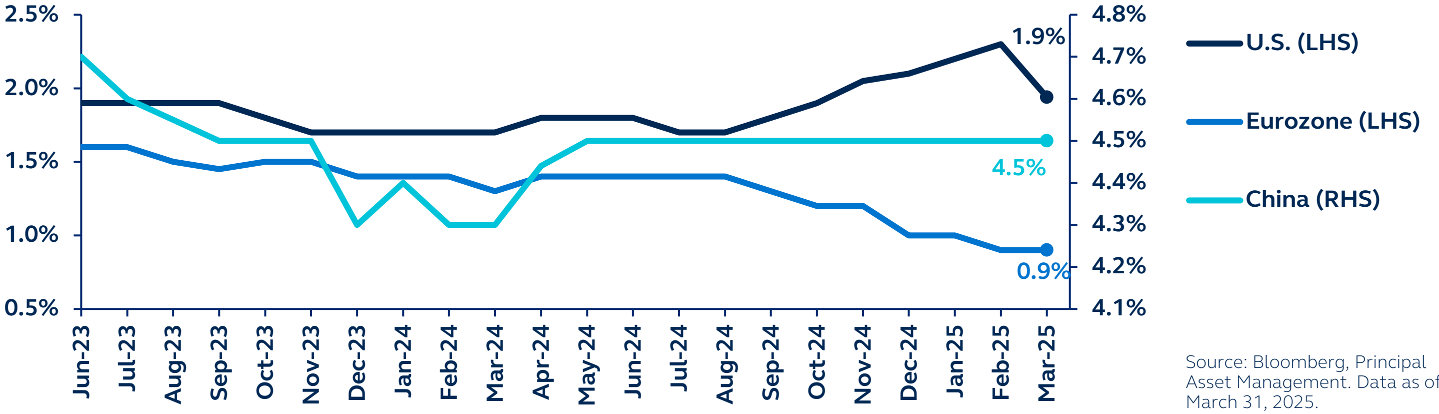
Google trends popularity level and Uncertainty Index level



Source: Bloomberg, Principal Asset Management. Data as of March 31, 2025.
*Represents search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. 50 means the term is half as popular.

2025 GDP forecast

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



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

Early warning signs of economic stress ahead

The Trump administration's early policy actions have not panned out as investors had widely expected. Not only has the sequencing of economic policies been different, with growth-damaging policies hitting before growth-friendly policies are introduced, but tariff policy proposals have been far more severe than anticipated, and policy uncertainty is extraordinarily elevated.

Large and small business confidence metrics have plunged, and consumer confidence surveys also show significant pessimism.

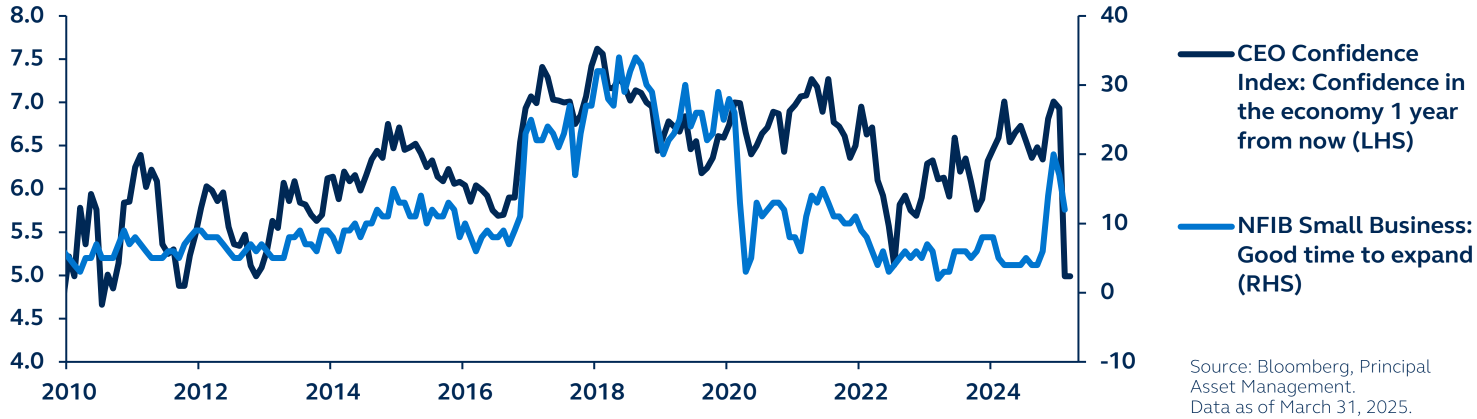
Yet, while consumers and businesses have become very concerned about downside economic risks, most hard economic activity data has remained fairly strong so far, albeit with some cracks. It's worth noting that there has never been a U.S. recession triggered by uncertainty. But, if confidence remains subdued for a prolonged period, there will eventually be spillovers to the hard data.

For consumers, the most critical factor going forward will likely be labor market stability and inflation-driven pressure on purchasing power. For businesses, a clearing up of policy uncertainty, as well as deregulation, would likely inspire a resumption of business capex plans.

Consumer and business confidence metrics have plunged. This is yet to be reflected in hard data, but spillovers will likely develop if sentiment remains subdued for a prolonged period.

Small and large business confidence

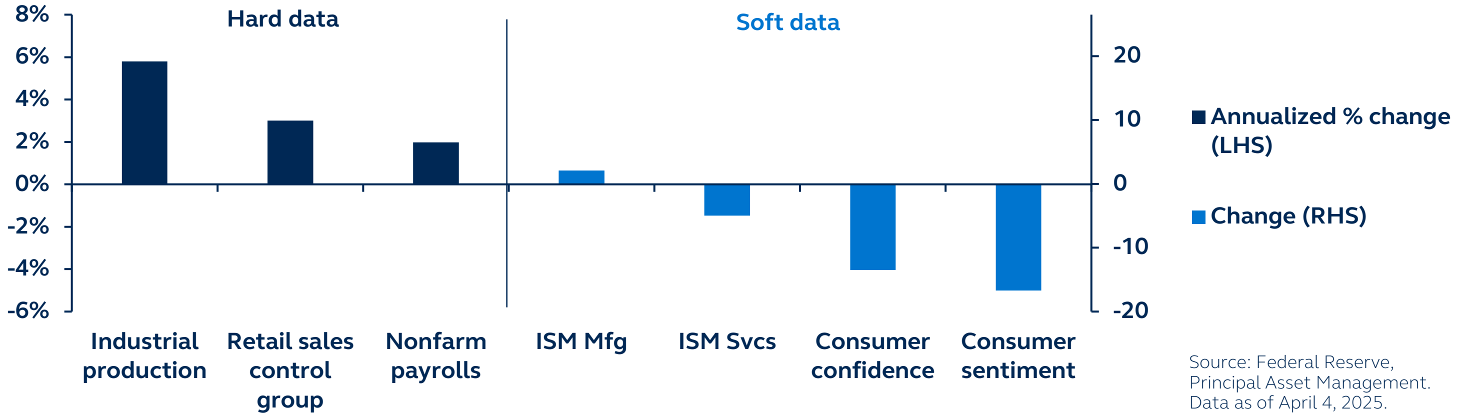
Level, January 2010–present



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

Hard versus soft data change since the 2024 U.S. elections

Annualized percentage change, Index level change, October 2024–present



Source: Federal Reserve, Principal Asset Management. Data as of April 4, 2025.

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Labor market vulnerability to DOGE-cuts

Faced with rising policy uncertainty, companies are hesitant to meaningfully hire or reduce their workforces. This paralysis has led the labor market into an uneasy equilibrium where it will not take much to trigger a rise in unemployment.

One potential negative catalyst is the restructuring of the federal workforce, spearheaded by DOGE. The reduction of federal employees is beginning to appear in the Challenger job cut data. Although the direct impact may be small, as federal payrolls account for a small share of total payrolls, the indirect impact may be significant. There are nearly four contractor/grant-related jobs per civil service employee, and together they account for 6% of total U.S. payrolls.

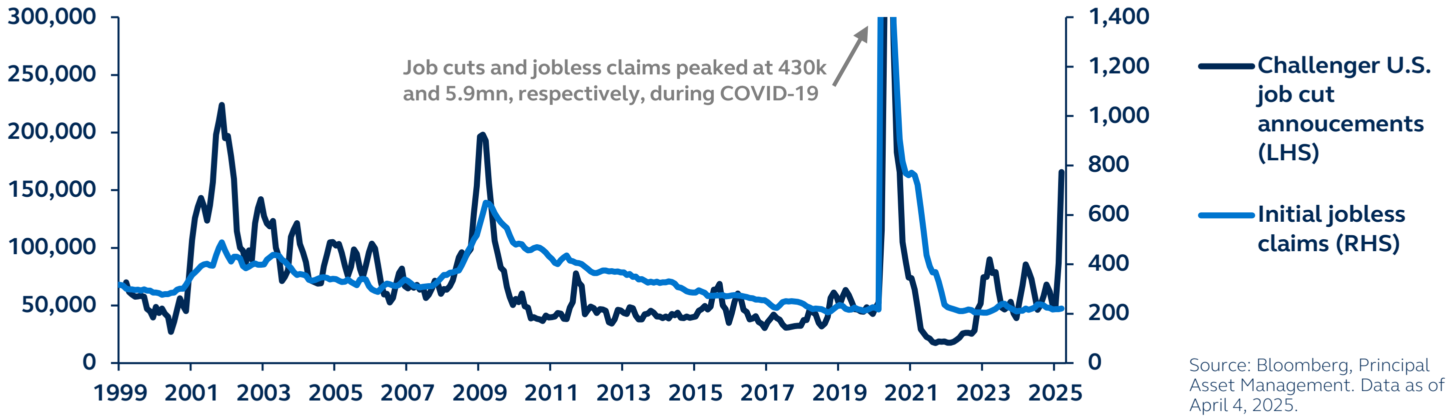
Employment tied to industries that receive bulk contracting dollars, such as healthcare, scientific research, education, transportation, and manufacturing, are most vulnerable.

While the overall impact of DOGE may prove smaller than households fear, it could still tip the labor market toward weakness. Trump's immigration policies may cushion the blow by tightening labor supply in the short-term, longer-term they pose risks to economic growth.

The uneasy labor market equilibrium suggests it won't take much to trigger a notable rise in unemployment.

Job cuts: Various measures

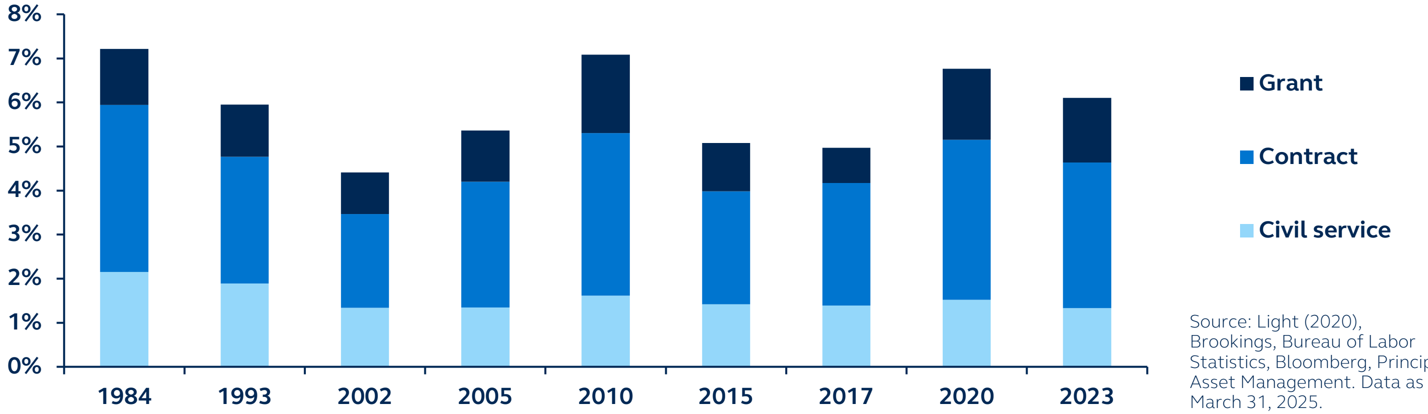
Challenger job cut announcements and initial jobless claims, 3-month moving average, 1999–present



Source: Bloomberg, Principal Asset Management. Data as of April 4, 2025.

Estimated share of federal employees and contractors in non-farm payrolls

Select years since 1984



Source: Light (2020), Brookings, Bureau of Labor Statistics, Bloomberg, Principal Asset Management. Data as of March 31, 2025.

Tariffs—potentially a U.S. own goal

So far this year, the U.S. economy has only faced headwinds and has not yet benefited from any tailwinds. Tariffs were enacted not only earlier than expected but are meaningfully larger than anticipated. The potential increase in the effective tariff from 3% to almost 25%, the highest level since 1908, is eight times the increase seen in President Trump's first term and five times larger than what had been widely expected.

Our estimates suggest that the announced tariffs, to date, could lower U.S. growth by almost 2.5%, with the fallout potentially larger if some trade partners retaliate and it leads to an escalatory tariff cycle. Equally, negotiation could lower some of the higher individual tariff rates, reducing the economic impact.

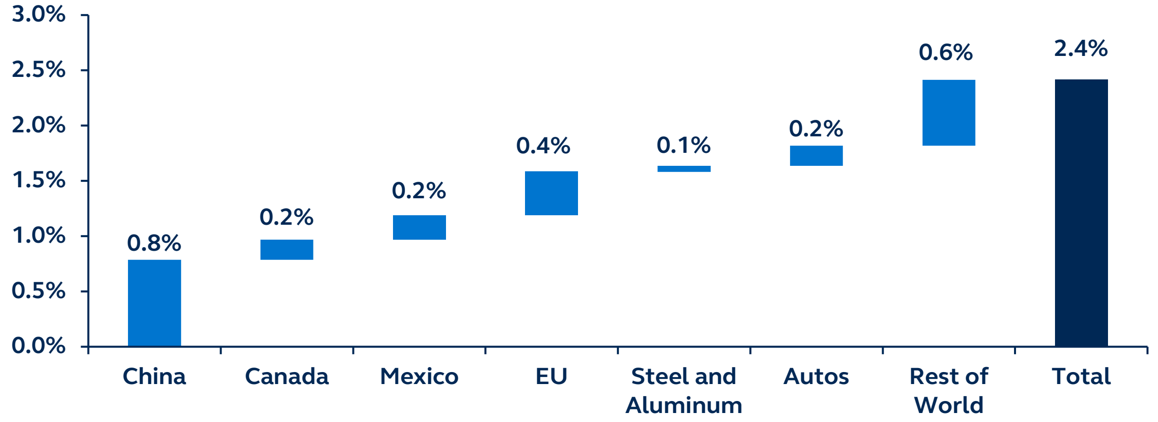
If the expected $600-700 billion in annual tariff revenues are used to finance new fiscal stimulus in the form of additional corporate or income tax cuts, it would provide a crucial offset to the direct tariff impact.

It is worth noting that while the administration's stated goal of tariffs—reshoring manufacturing and boosting capex—is certainly possible, the reality is that the process will likely take years. In the meantime, the steep tariffs will be an immediate drag on the economy, with limited short-term benefits.

U.S. import tariffs, if maintained at current levels, are likely to lower GDP growth by 2.5%—raising the odds of recession.

Impact of tariff increases on U.S. GDP

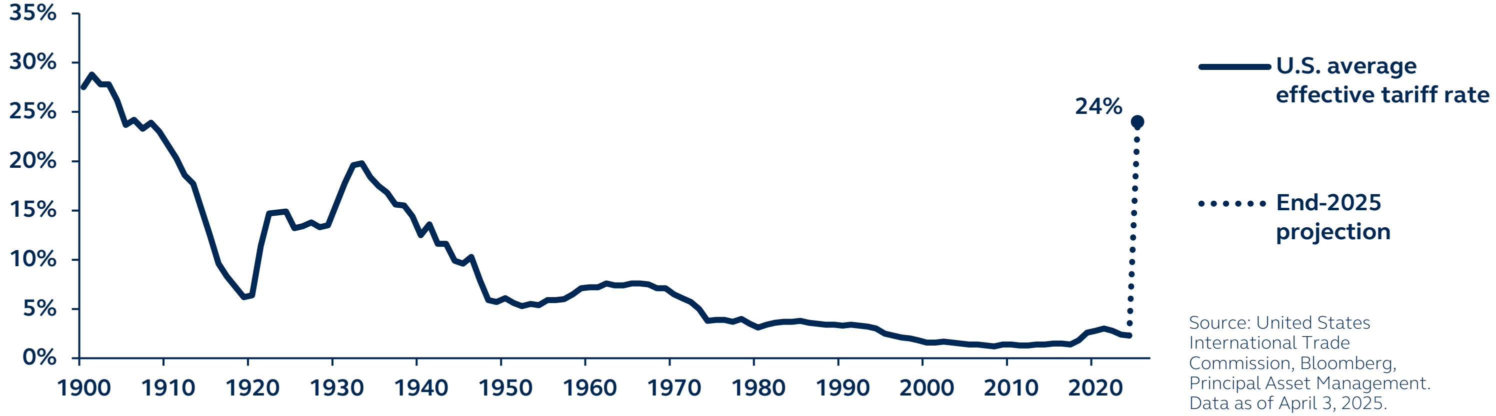
Percentage



Source: International Monetary Fund, World Trade Organization, Census Bureau, Bloomberg, Principal Asset Management. Data as of April 3, 2025.

U.S. average effective tariff rate

1900–present



Source: United States International Trade Commission, Bloomberg, Principal Asset Management. Data as of April 3, 2025.

Strong balance sheets to mute the negative shock

Healthy household and corporate balance sheets should help provide ample buffers against negative macro shocks.

Households saw their net worth swell amid exceptionally strong asset price appreciation, more than offsetting household loan and debt build-up since Covid. 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 a significant cushion to withstand a further deterioration in labor market conditions.

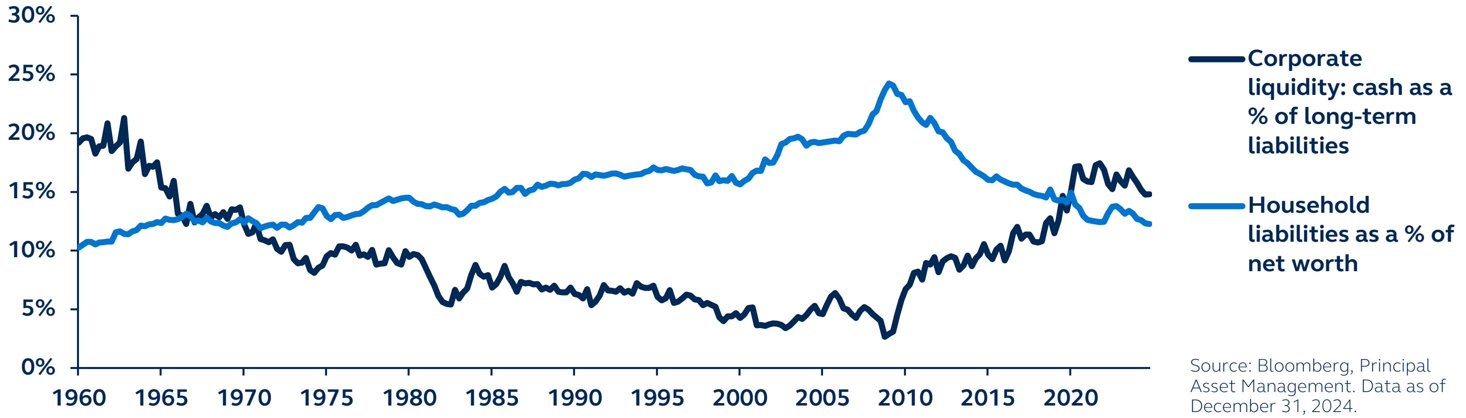
The corporate sector is also in a place of strength. Cash holdings as a percentage of liabilities are elevated, particularly in comparison to historical levels, indicating ample buffers in the event of a revenue or cash flow squeeze. Moreover, profit margins remain high, and overall leverage remains manageable.

Recession models are not (yet) sounding alarm bells. However, if tariff rates are not reduced, and without any critical growth-inducing policies, such as tax cuts or deregulation, a U.S. recession may materialize later this year.

Yet, robust household and corporate balance sheets suggest a mild, short-lived recession at worst. A GFC-style recession is not on the cards.

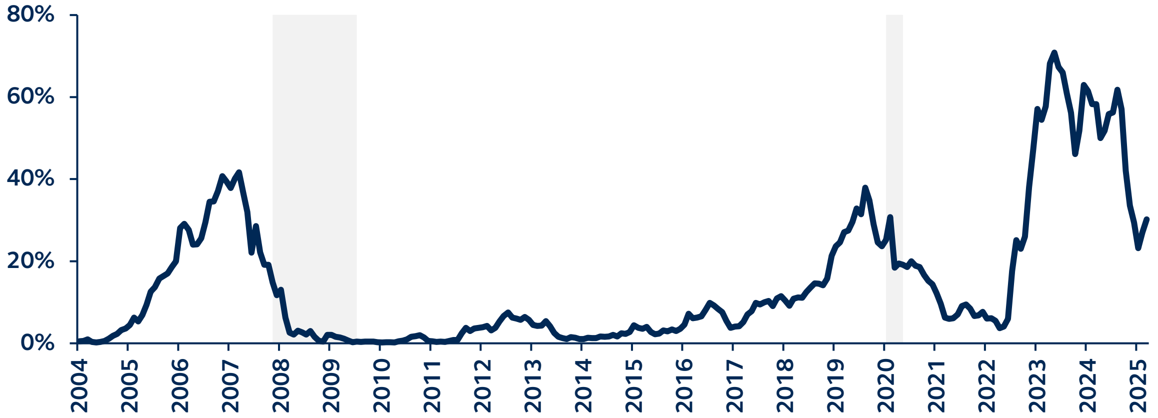
Strong balance sheets position households and corporates well to contend with the incoming policy shock.

Household balance sheet strength
Household liabilities as % of net worth, 1960–2024



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

NY Fed probability of recession in the next 12 months predicted by Treasury spread
January 2004–present, recessions are shaded



Source: Bloomberg, Principal Asset Management. Data as of April 7, 2025.

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U.S. inflation: The start of a new problem?

Progress toward the Fed's 2% inflation target has been delayed amid tariff threats, with both headline and core annual inflation likely to head back towards 4% in the coming months. Core goods prices, which had become a deflationary impulse last year, are already heading higher, with upward momentum likely to continue as tariffs take effect.

The Fed believes that tariffs will apply a one-time only increase to inflation, but recognizes the risk that pressures become more persistent. Their focus will be on whether near-term inflation expectations remain anchored.

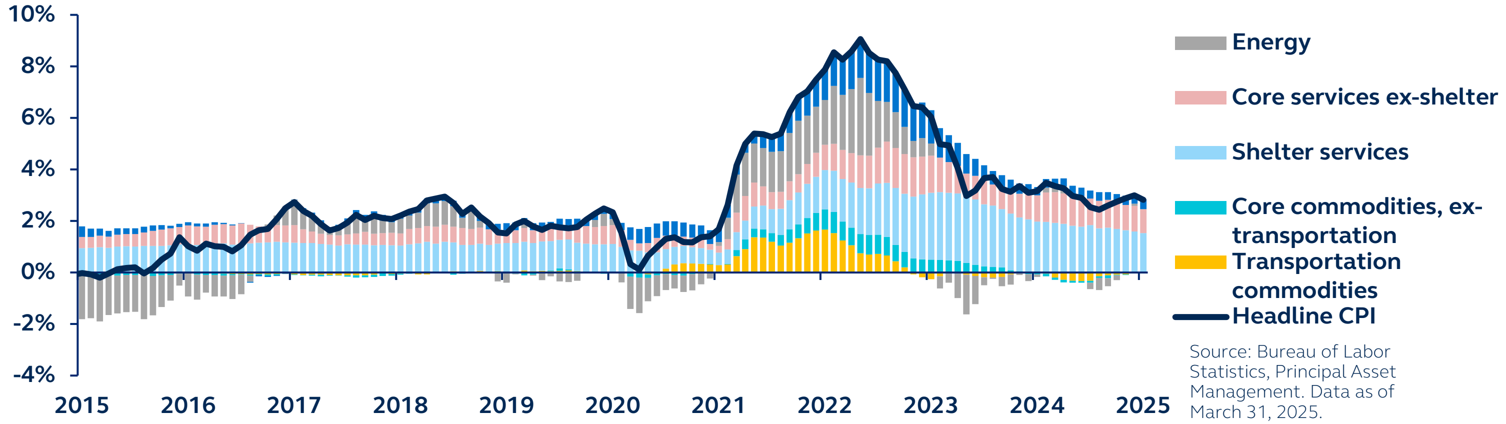
Although consumer surveys show a sharp rise in inflation expectations, the Fed appears to be assigning less weight to them – likely because partisan dynamics are distorting the signal. Instead, the Fed is emphasizing market-based inflation expectation measures. Short-term breakeven inflation rates have been rising, but long-term breakeven rates have remained stable, a reflection that the near-term rise in inflation could weigh on economic growth in the long term, potentially clearing the path for rate cuts later this year.

However, given elevated uncertainty, policymakers cannot afford to be complacent and will tread cautiously. Stagflationary conditions would put them in a very difficult position.

If inflation expectations remain anchored, the Fed can focus on growth concerns, but there's no space for complacency.

Contribution to headline U.S. inflation

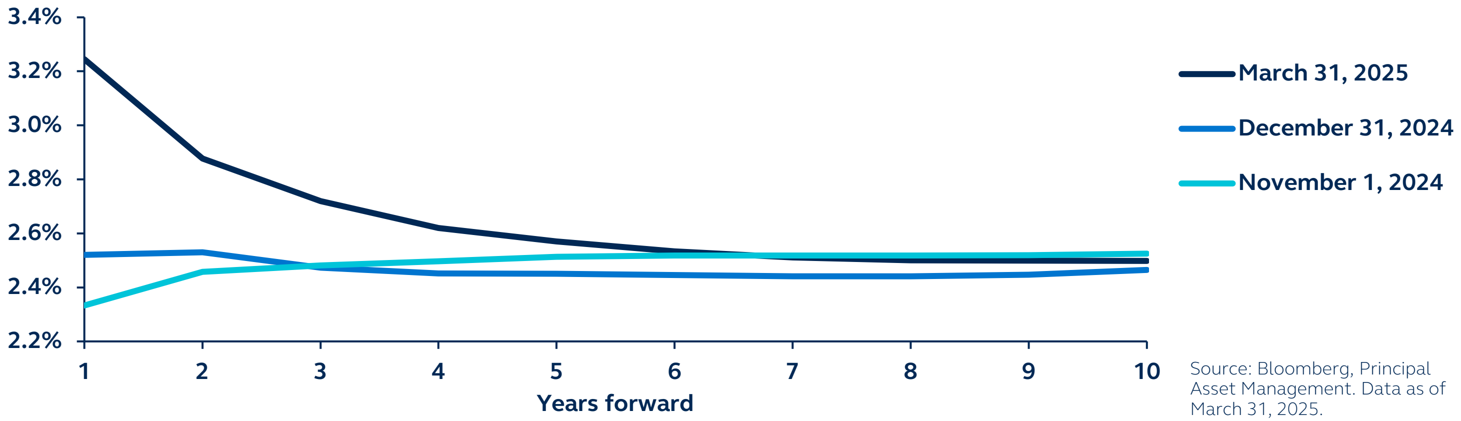
Year-over-year, January 2015–present



Source: Bureau of Labor Statistics, Principal Asset Management. Data as of March 31, 2025.

Change in market inflation expectations

Zero coupon inflation swap curve, by number of years forward



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

The Fed: Caught between inflation and a growth hit

The Federal Reserve will likely provide a policy boost in the second half of 2025 as the economy weakens and labor market cracks widen.

Currently, the Fed is being held back from providing additional policy rate cuts because there is limited evidence that the economy needs immediate additional support, inflation remains above target, and elevated government policy uncertainty raises the risk of a wrong monetary policy move. Most likely, the Fed would prefer to wait until they have policy clarity and a clear line of vision into the economic outlook, suggesting that policy easing will be delayed until late 2Q or even early 3Q.

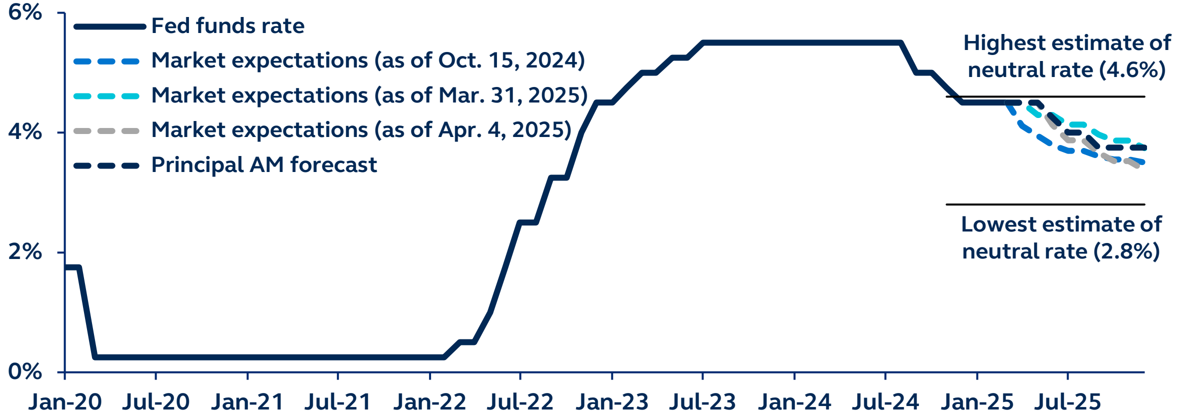
Markets have increased rate cut expectations sharply since the start of the year, reflecting rising recession concerns. However, the Fed likely has discomfort around the potential inflation impact from higher tariffs and may not cut rates by as much as the market is currently expecting.

In order to cut rates, the Fed needs to believe that softer growth will exert downward pressure on inflation in the medium term and inflation expectations must remain anchored. We expect three to four rate cuts this year, but the path to easing has become narrower and more uncertain.

Rising inflation complicates the Fed's policy decision-making. Provided inflation expectations remain anchored, policy easing is still plausible. We expect three to four rate cuts this year.

Federal Reserve policy rate path

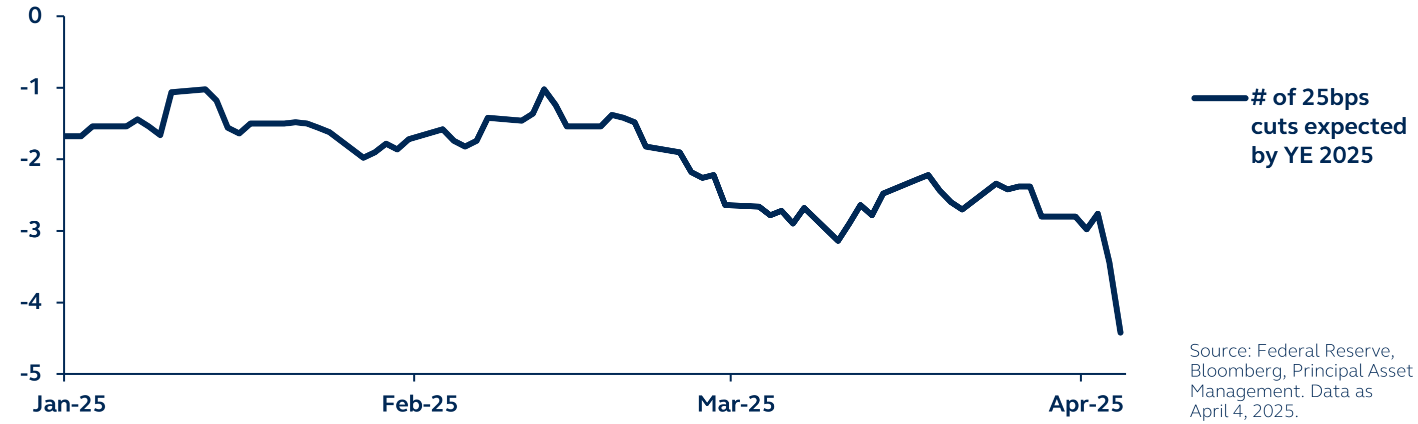
Fed funds rate and projections, 2020–present



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 April 4, 2025.

Market Fed funds expectations

Number of 25bps moves expected by year-end December 2025, negative number = cut



Source: Federal Reserve, Bloomberg, Principal Asset Management. Data as April 4, 2025.

Global economies brace for tariff impact

The global impact of U.S. tariffs may be severe. For some countries, the estimated impact of U.S. tariffs is already smaller than initially assumed. However, for others, the import tariffs are so significant that there will be profound economic implications. In particular, several Asian nations are facing tariffs near 50%.

Some countries may introduce policy stimulus to support their economies. China, for instance, is likely to introduce monetary and fiscal stimulus to offset the impact of the 54% tariff that it now faces. This should help cushion the hit to export growth by boosting domestic consumption, so the downward revision to China's GDP forecasts may be minimal.

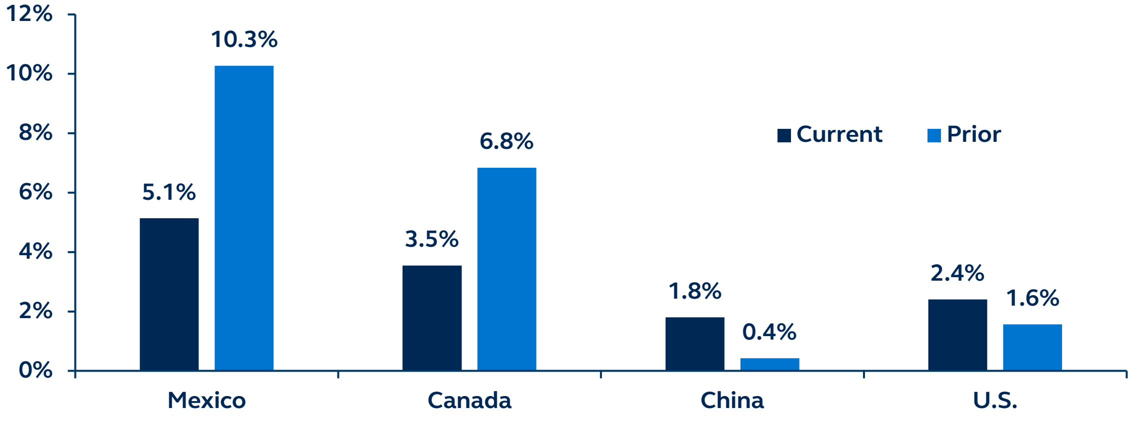
German lawmakers have already passed a landmark spending package that promises to unlock almost a trillion euros for defense and infrastructure, ending decades of budget austerity and raising hopes for a broader European fiscal shift.

We expect the German economy to stagnate this year as tariffs take their toll. However, once the fiscal impulse kicks in—likely in 2026—the positive impact on economic growth will be significant, providing an estimated 0.5% boost to German GDP growth in 2026 and 2027. The EU-wide impact will be smaller than Germany's, but it should still provide a 0.1–0.2% boost to Euro area GDP in the coming years.

The impact of U.S. tariffs will be wide-reaching, prompting some economies to create their own insurance policies.

Potential tariff increase impact on GDP

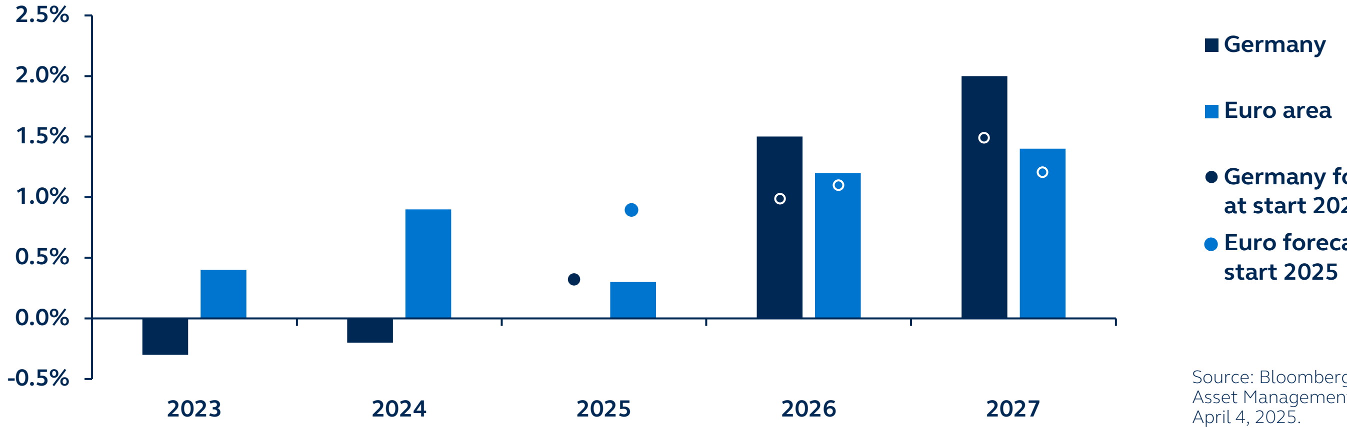
Percentage



Note: Prior estimates as of February 2, 2025 assumed a 25% tariff on Mexico and Canada, 10% tariff on China, and a 10% universal tariff on other trading partners. Current estimates now assume a 25% tariff on Mexico and Canada but with exclusions to USMCA goods and energy exemptions for Canada, a 54% tariff on China, a 20% universal tariff on other trading partners, and a 25% tariff on aluminum and steel. Source: International Monetary Fund, World Trade Organization, Census Bureau, Bloomberg, Principal Asset Management. Data as of April 2, 2025.

Germany and Euro area GDP growth forecast revisions

2023–2027



Source: Bloomberg, Principal Asset Management. Data as of April 4, 2025.

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The U.S. dollar—facing a global backlash

At the start of 2025, the consensus view was that the Federal Reserve might be hard-pressed to cut rates at all this year. At the same time, global central banks, such as the ECB, would need to lower rates fairly aggressively in response to a much weaker economic outlook.

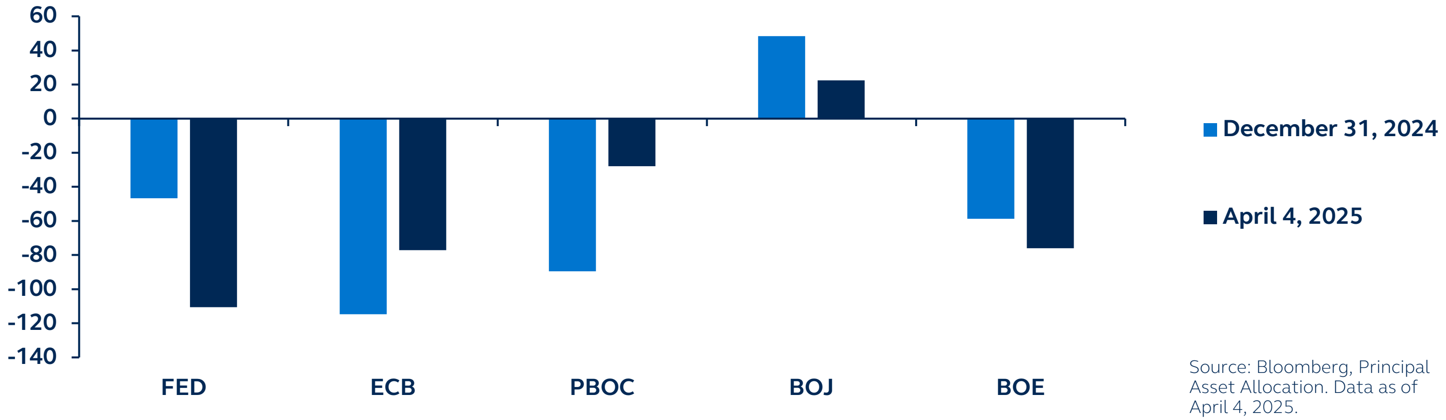
In fact, with recession concerns spiking in the U.S., the market has raised the number of expected Fed cuts. Markets also expect several cuts from the ECB, but the strong action of fiscal policymakers in Germany has likely reduced the magnitude of easing required. We expect three cuts this year, taking the deposit rate down to a floor of 1.75%. In the UK, persistent inflation concerns must be weighed against structural growth concerns, implying three cuts this year.

Typically, during risk-off periods, the U.S. dollar strengthens. However, the USD has been steadily weakening of late. This likely reflects that markets are now expecting greater Fed cuts than at the start of the year but fewer global central bank cuts. In addition, the rise in perceived U.S. recession odds and growing concern that the U.S. is no longer a reliable trade and security partner has also helped push the U.S. dollar weaker. The greenback will likely remain under pressure as long as this negative global momentum persists.

U.S. dollar weakness will likely persist unless recession concerns fade back, or negative global sentiment towards the U.S. begins to lift.

Market priced rate action in one year

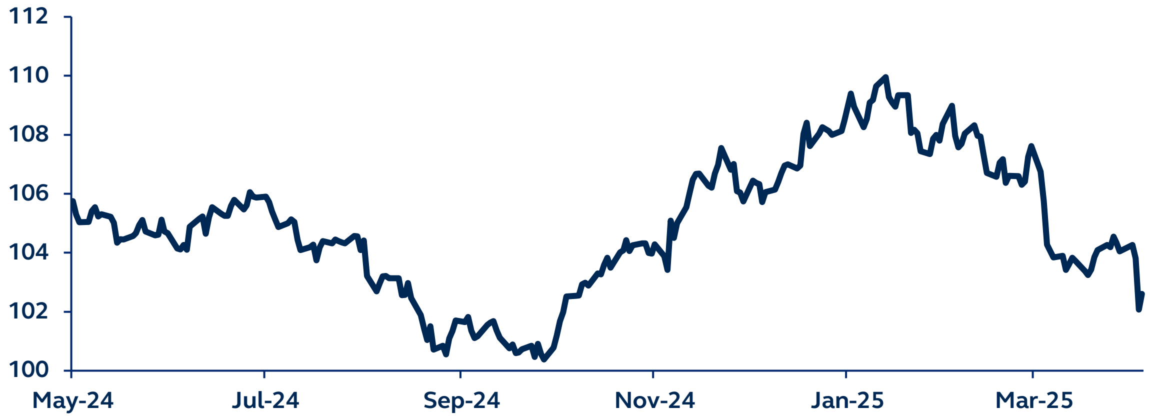
Expected policy rate move in next 12m for major central banks, basis points



Source: Bloomberg, Principal Asset Allocation. Data as of April 4, 2025.

U.S. dollar Spot Index

May 2024–present



Source: Bloomberg, Principal Asset Management. Data as of April 4, 2025.

Equities

U.S. equities: Searching for the floor

1Q saw the S&P 500 post its first quarterly decline (-4%) in six quarters. After reciprocal tariffs were announced in early April, U.S. markets fell into correction territory. Historically, investors experience several large pullbacks each year, with very few exceptions. The average year sees a drop of 13.5% but usually still ends in positive territory, averaging 9% gains. Risk-off sentiment is likely to linger but could also be swiftly reversed if growth-friendly measures are introduced.

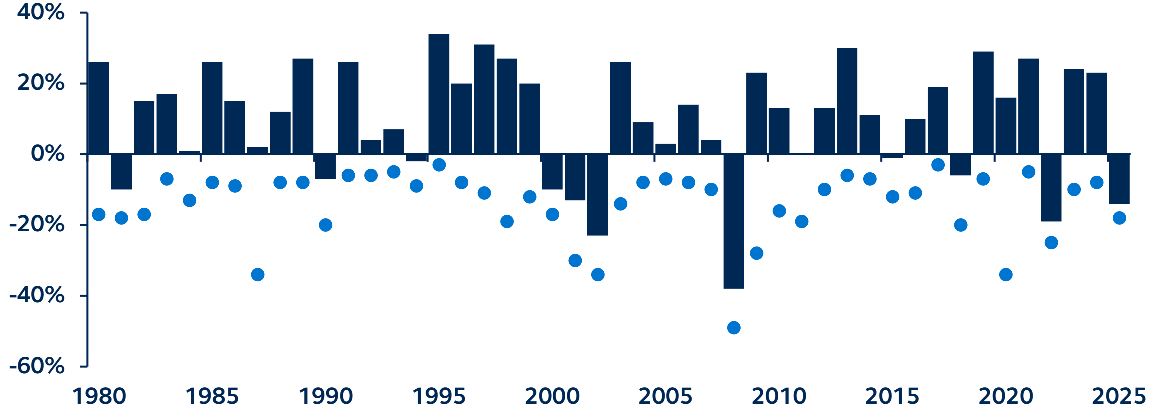
The Mag 7 has been at the heart of market weakness as investors question elevated valuations, ability to meet lofty earnings expectations, and international revenue exposure in a slowing global environment. In addition, new competition in the AI space from Chinese companies is challenging assumptions around their deep moats. The U.S. technology sector will likely deliver strong returns in the medium to long run, but for now, it remains challenged. Defensive sectors and companies with strong cash flow generating capabilities should remain attractive in this difficult environment.

Global markets outperformed in 1Q but are vulnerable to U.S. tariffs. While the risk-off mode will likely linger, policymaker support in Germany and China should limit the downside. The global investment opportunity set is expanding, and Europe and China are taking prominent roles.

U.S. markets are likely to remain in a risk-off mode until economic fears dissipate. Global markets, supported by policy stimulus, are looking relatively stronger.

Annual returns and pullbacks

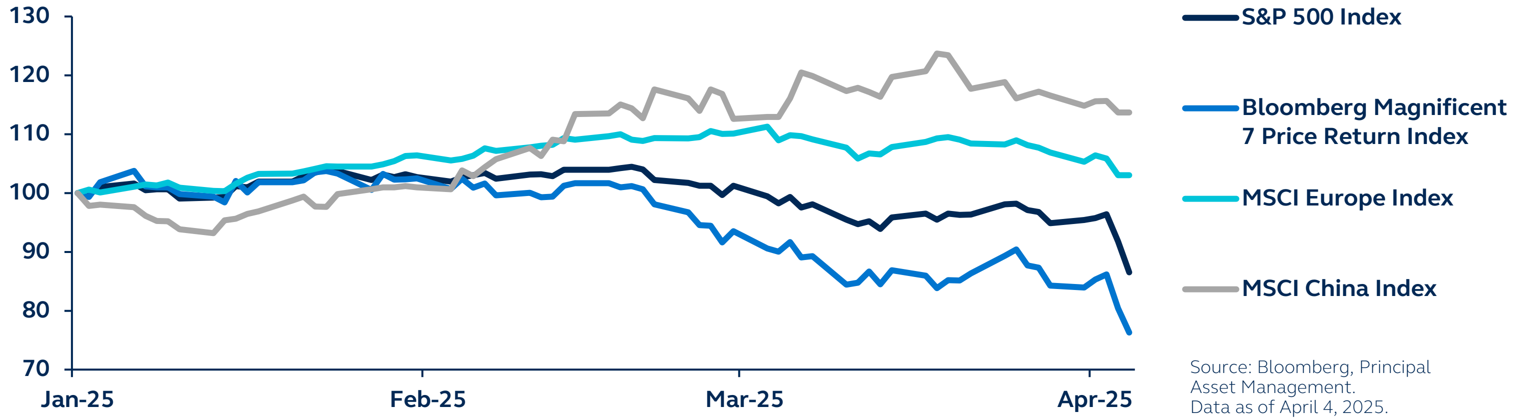
S&P 500 Index price return, max drawdowns represents the biggest intra-year decline



Source: Clearnomics, Standard & Poor's, Principal Asset Management. Data as of April 7, 2025.

Magnificent 7 performance vs. major indices YTD

Index price return, rebased to 100 at January 1, 2025



Source: Bloomberg, Principal Asset Management. Data as of April 4, 2025.

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Global valuations: Investors finally take notice

Investors started the year looking to capitalize on valuation asymmetries. Attractive valuations in Europe and segments of emerging markets, including China, drew investor interest. However, by the end of 1Q, the valuation picture had adjusted somewhat.

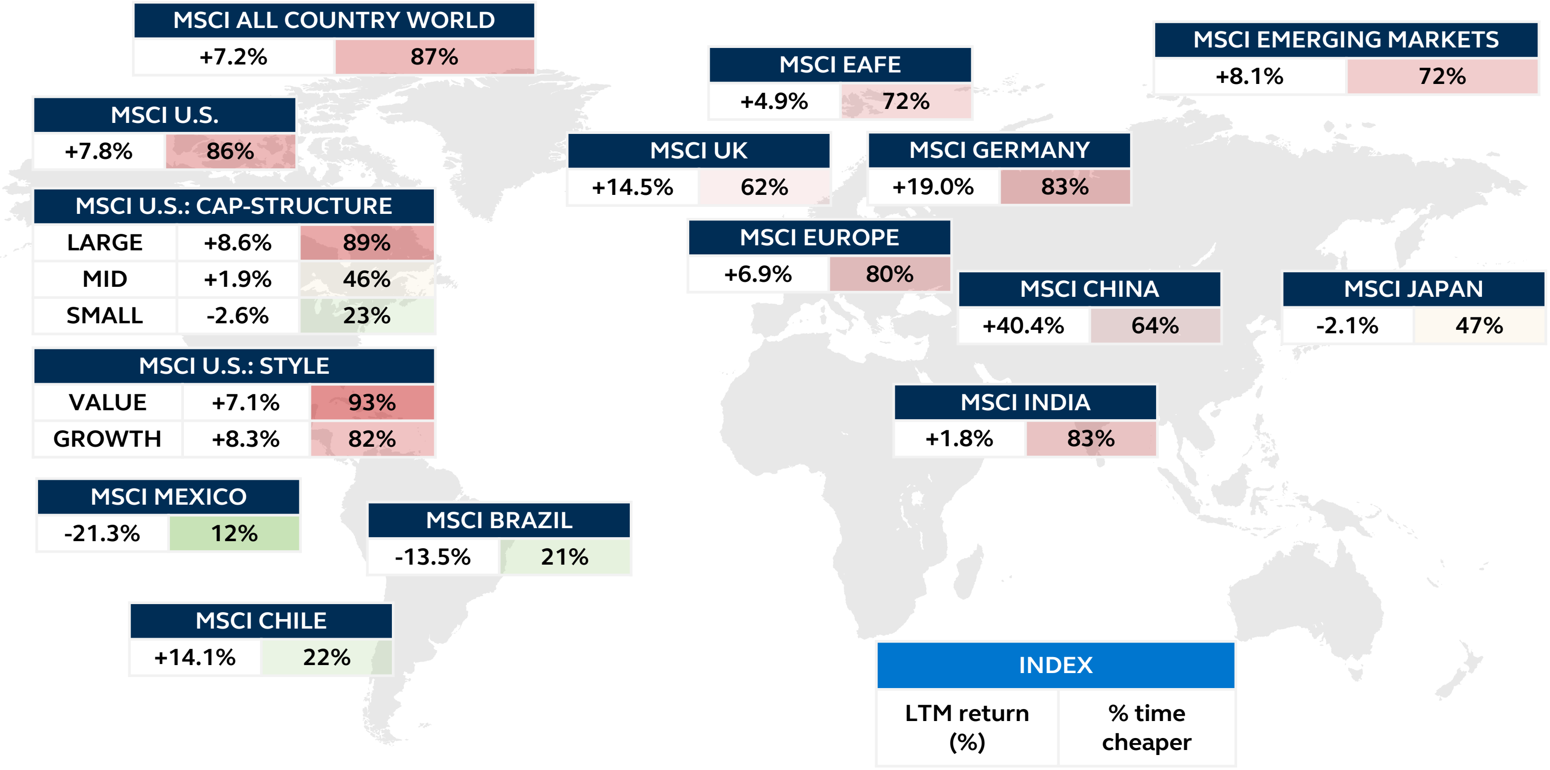
The U.S. remains historically expensive but less so than at the start of the year. Small caps look very attractive, but the growth backdrop implies that valuations may be insufficient to overcome weak fundamentals. By contrast, after a tremendous market rally, European valuation metrics now appear expensive compared to their history. MSCI Europe has traded at cheaper levels 80% of the time—not so different from the U.S. China still looks cheap relative to the broader market universe, but its strong Q1 performance means that its valuations have been cheaper 64% of the time. India's valuations are not as stretched as at the start of the year but remain historically expensive, while Japan looks historically cheap.

With the U.S. struggling with policy uncertainty and recession concerns and other economies such as China and Germany looking to strengthen their macro foundations, the focus on international markets has increasingly evolved into something more structural.

Valuation differentials have narrowed as global diversification proves its worth. The global opportunity set has broadened.

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 March 31, 2025.

Fixed income

U.S. bonds caught in the growth/inflation crosshairs

Although bonds started the year with a sizeable selloff, pushing 10-year U.S. treasury yields above 4.8% in response to strong labor market data, government spending cuts, and tariff announcements prompted yields to rapidly reverse course in late January. Yields dropped to 4.3% by quarter-end, and then below 4% in early April as recession fears intensified.

The contrasting outlooks for growth and inflation may complicate the outlook for yields from here. Most likely, growth concerns are likely to dominate sovereign bond dynamics, pushing yields lower as labor market cracks start to show more clearly. However, expected tariff-driven inflationary pressures imply that the bond rally may be somewhat capped.

In Europe, the significant fiscal shift in Germany drove 10-year Bund yields to post their biggest daily jump since German reunification in 1990, also pushing up sovereign yields across Europe. However, with short-term growth risks now biased to the downside as Europe begins to confront U.S. import tariffs – and provided other countries do not court fiscal controversy by expanding their spending — European sovereign yields are also on a downward path.

U.S. bond yields may trend lower as growth weakens, although rising inflation may cap the rally. European yields have likely hit their ceiling as tariff effects are realized.

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

Recessions are shaded, 1985–present

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

10-year Treasury yield and economic activity

November 2023–present

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

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Recession fears call for focus on high-quality credit

The deteriorating economic backdrop and rising trade frictions have led credit spreads to widen, particularly high yield, and may continue to do so as markets digest the weaker earnings outlook and emerging margin pressures.

If the U.S. can avoid recession, defaults are unlikely to spike, and spread widening should remain relatively contained. However, given the recession risks, investors should focus on high quality credit – investment grade issuers with strong cash flow and balance sheet resilience. Indeed, IG credit remains a relative safe haven among risk assets and fixed income can serve as a ballast in portfolios in volatile times.

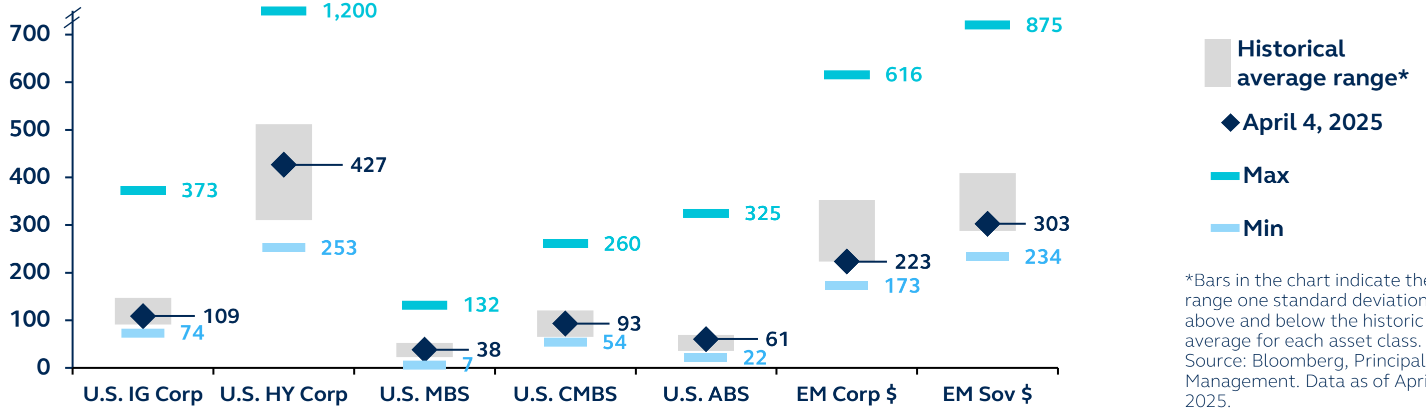
As the economy approaches peak tariffs and peak uncertainty, or if deregulation or tax cuts are announced, it could mark an attractive entry point into spread products. As a result, investors should retain some liquidity to take advantage of opportunities.

The mix of rising policy asymmetry, tactical dislocations, and idiosyncratic credit stories creates fertile ground for active allocation—provided investors stay high-quality, high-conviction, and highly-liquid.

Credit spreads have widened sharply and could widen further as economic pressures persist. Given recession risks, focusing on high quality credit will enable fixed income to perform its ballast role.

Historical spread range over the past 10 years

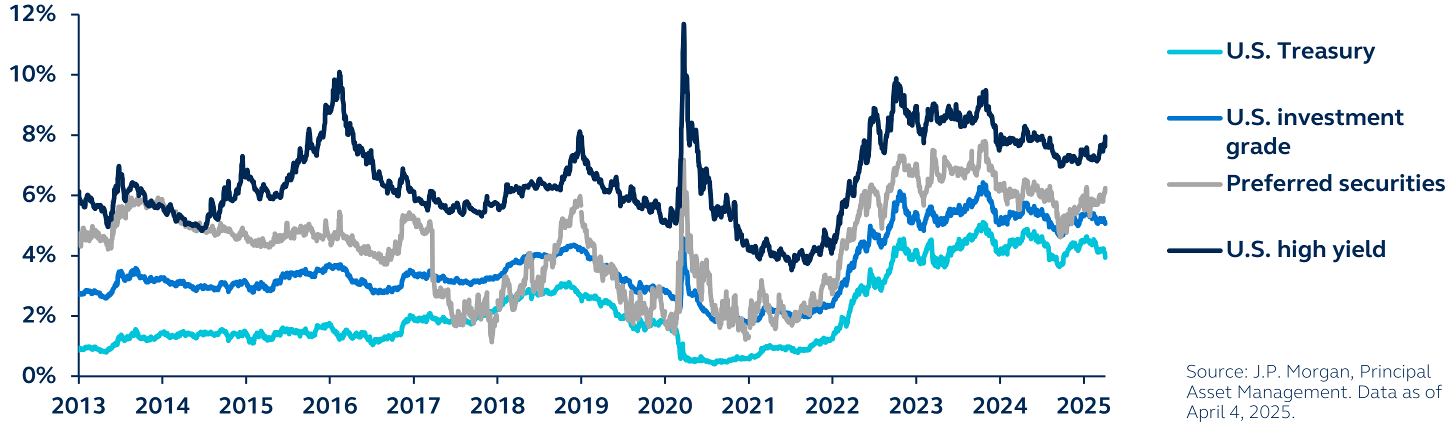
Option-adjusted-spread, basis points, 2015–present



*Bars in the chart indicate the OAS range one standard deviation above and below the historic average for each asset class. Source: Bloomberg, Principal Asset Management. Data as of April 4, 2025.

Yield comparison

Yield-to-worst, 2013–present



Source: J.P. Morgan, Principal Asset Management. Data as of April 4, 2025.

Investment perspectives

Investors' considerations to navigate this environment

The difficult market environment has driven even greater flows into money market funds. However, historically, and with few exceptions, investors experience several large market pullbacks each year. Volatility is a normal part of investing, and investors are often rewarded for staying disciplined through short-term volatility.

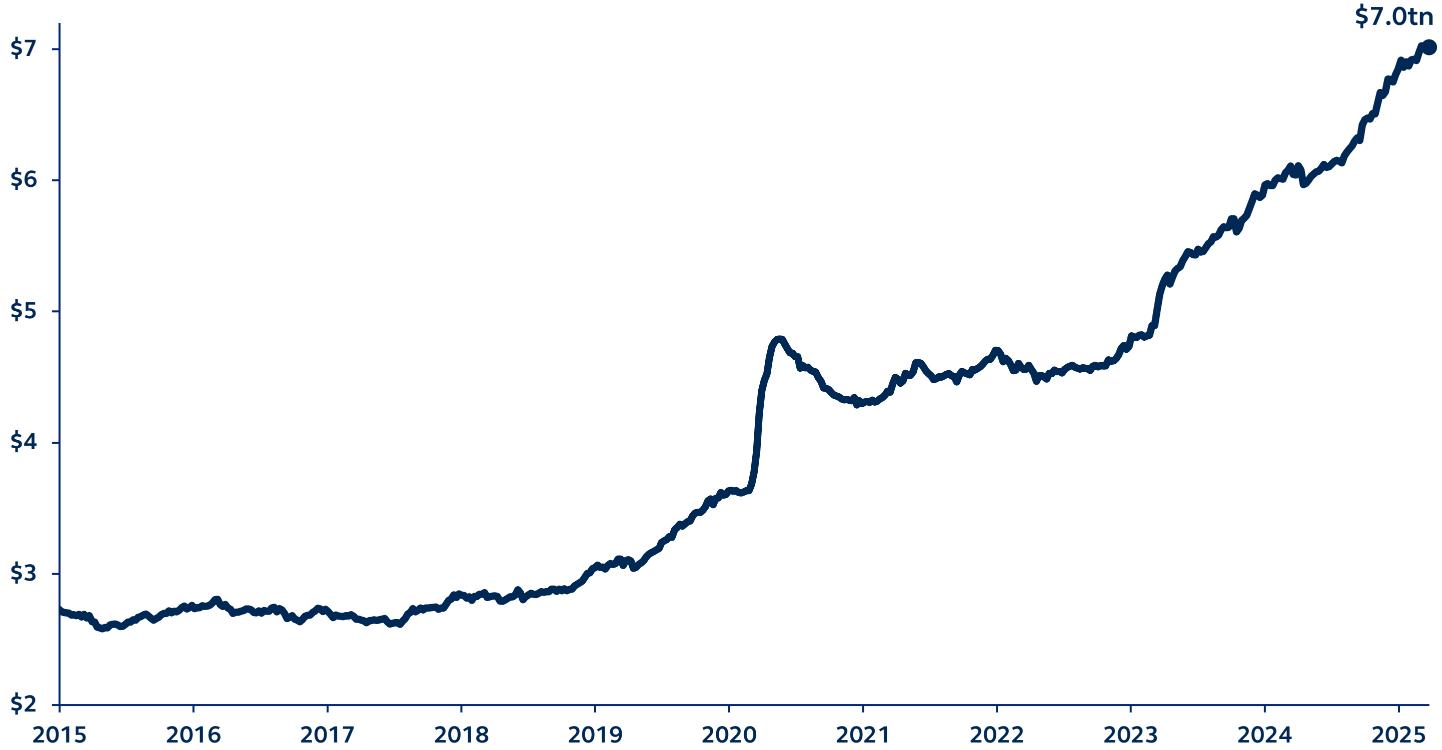
U.S. markets can still deliver decent equity returns as different types of companies perform well in differing macro environments. Active management can help identify potential outperformers in a weaker environment.

As the global economy adjusts to swift changes in U.S. policies, global diversification remains crucial for managing portfolio risk and capturing opportunities. With global policy stimulus increasingly in play to shore up economic resilience, coupled with the more attractive valuations, global markets can likely continue to deliver solid performance.

The benefits of cross-asset class diversification have been on full display, with fixed income performing its ballast role. REITs are outperforming their broader equity benchmarks, supported by defensive sector leadership and declining bond yields. In addition, liquidity will be key as an opportunity enabler for when a shift in market sentiment arrives.

Market pullbacks are not unusual. Equities only require modest growth environments; global diversification is crucial; cross-asset diversification benefits are currently on full display

U.S. total money market fund assets
Trillions, 2015–present



Source: Investment Company Institute, Bloomberg, Principal Asset Management. Data as of March 31, 2025.

Defense and diversification in a disrupted cycle

With policy shocks roiling markets and global growth expectations, investors should pivot toward caution and quality

Equities *Lean into quality and global breadth as volatility rises*

- Emphasize fundamentally sound companies with strong free cash flows less prone to economic headwinds
- Explore opportunities beyond the Mag 7, including tactical exposure to small- and mid-cap stocks
- Narrowing valuation differentials suggest a broadening global opportunity set

Fixed income *High-quality credit to serve as ballast amid widening spreads and weak sentiment*

- Increase allocation to investment-grade (IG) credit with strong balance sheets
- Extend duration selectively—attractive hedge in a slowing growth environment
- Maintain flexibility for potential spread compression entry points
- Consider deploying cash assets in higher-yielding income options, minimizing reinvestment risks

Alternatives *Pursue less correlated exposures*

- Prioritize real return strategies in a stagflationary risk scenario
- REITs and infrastructure remain compelling amid falling yields and defensive rotation

Implementation

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

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

- Diversified real asset strategies (infrastructure, natural resources)
- Private real estate markets
- Proven REIT and GLI 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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