

Principal Morley



Economic and market review

Global Market Perspectives

As of December 31, 2025

Q1 2026 key themes

- Solid foundations for global growth in 2026**
 The global economy enters 2026 on a firm footing, supported by widespread fiscal stimulus, monetary normalization, and accelerating AI-driven capex and adoption—factors that should underpin robust growth across most regions.
- The U.S. economy has sustained its robust underlying architecture**
 Corporate profit margins are holding firm, and gains in household wealth are sustaining consumer spending despite labor market weakness. AI capex is a growth engine, while the OBBBA could fuel a prolonged investment impulse.
- The Federal Reserve is approaching neutral, balancing inflation and employment concerns**
 Persistent inflation concerns, coupled with robust economic activity, imply only modest policy action. We expect two cuts in 2026, bringing rates just below the midpoint of the neutral range.
- Fixed income credit: Tight spreads but benefiting from robust macro tailwinds**
 Favorable macro conditions imply reduced default risk. Credit spreads remain very tight, but renewed private market stress—provided they are idiosyncratic rather than systemic in nature—may provide entry points.

Equity markets and fixed income markets both delivered strong positive returns for the year.

International equities outpaced domestic equities for the year.

	3-months	1-year	3-year	5-year	10-year
Fixed Income					
ICE BofA U.S. Treasury Bill 3-month Index	0.97%	4.18%	4.81%	3.17%	2.18%
Bloomberg Aggregate Bond Index	1.10%	7.30%	4.66%	-0.36%	2.01%
Bloomberg U.S. Corp High Yld 2% Issuer Capped Index	1.31%	8.62%	10.06%	4.50%	6.52%
Bloomberg Long-Term Govt/Credit Index	-0.02%	6.62%	3.06%	-4.89%	1.98%
U.S. Equities					
Russell 1000 Value Index	3.81%	15.91%	13.90%	11.33%	10.53%
S&P 500 Index	2.66%	17.88%	23.01%	14.42%	14.82%
Russell 1000 Growth Index	1.12%	18.56%	31.15%	15.32%	18.13%
Russell Midcap Index	0.16%	10.60%	14.36%	8.67%	11.01%
Russell 2000 Index	2.19%	12.81%	13.73%	6.09%	9.62%
Non-U.S. Equities					
MSCI EAFE NTR Index	4.86%	31.22%	17.22%	8.92%	8.18%
MSCI ACWI ex-USA Index	5.05%	32.39%	17.33%	7.91%	8.41%
MSCI Emerging Markets Index	4.73%	33.57%	16.40%	4.20%	8.42%
Other					
MSCI U.S. REIT Index	-1.99%	1.68%	7.06%	5.35%	4.42%
S&P GSCI® Index	0.97%	7.12%	3.86%	14.65%	6.08%
U.S. Dollar Index	0.56%	-9.37%	-1.70%	1.80%	-0.03%

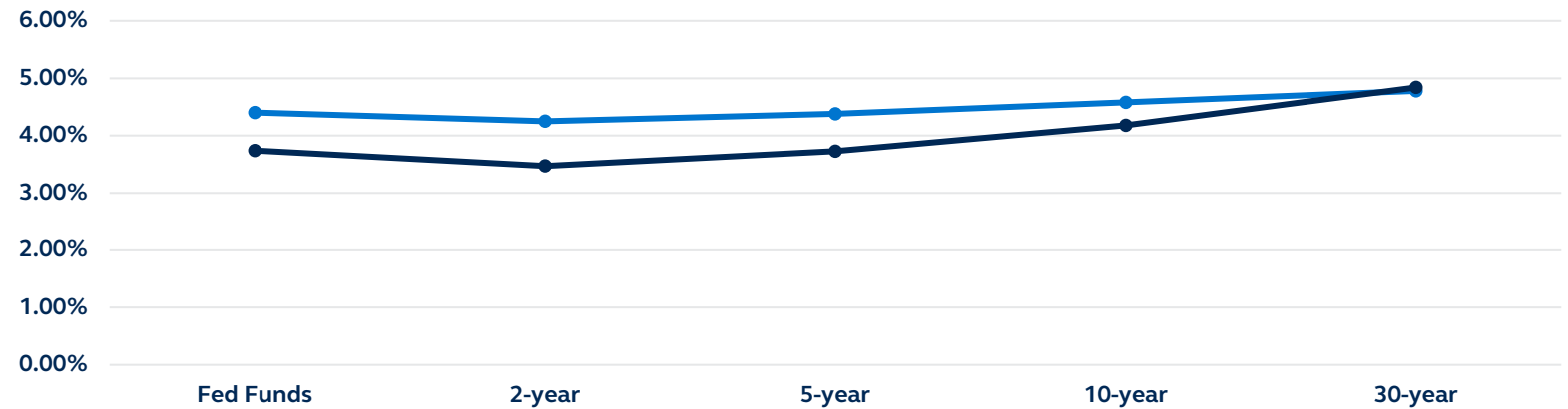
As of Dec. 31, 2025

Source: Morningstar Direct. Returns are annualized. **Past performance does not guarantee future results.** Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index. See Important Information for index descriptions.

The history of interest rates

How have interest rates changed in recent years?

	Dec 31, 2022	Dec 31, 2023	Dec 31, 2024	Sep 30, 2025	Dec 31, 2025
Fed Funds	4.12	5.60	4.40	4.20	3.74
2-year	4.41	4.23	4.25	3.60	3.47
5-year	3.99	3.84	4.38	3.74	3.73
10-year	3.88	3.88	4.58	4.16	4.18
2- to 10-year spread	-0.53	-0.35	0.33	0.56	0.71
30-year	3.97	4.03	4.78	4.73	4.84



Dec. 31, 2025	3.74%	3.47%	3.73%	4.18%	4.84%
Dec. 31, 2024	4.40%	4.25%	4.38%	4.58%	4.78%

Source: Morningstar Direct. Past performance does not guarantee future results.

ASSET CLASS RETURNS AS OF DEC. 31, 2025

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Best	Real Estate 4.23%	Small Cap 21.31%	Emerging Markets 37.28%	Cash 1.86%	Large Cap 31.49%	Small Cap 19.96%	Real Estate 46.18%	Commodities 16.09%	Large Cap 26.29%	Large Cap 25.02%	Emerging Markets 33.57%
	Large Cap 1.38%	Mid Cap 20.74%	Intl Stocks 25.03%	Intermediate Bond 0.01%	Mid Cap 26.20%	Large Cap 18.40%	Large Cap 28.71%	Cash 1.50%	Intl Stocks 18.24%	Asset Allocation 15.04%	Intl Stocks 31.22%
	Asset Allocation 1.28%	High Yield 17.34%	Large Cap 21.83%	Government Treasury -1.84%	Real Estate 25.76%	Emerging Markets 18.31%	Commodities 27.11%	High Yield -11.11%	Asset Allocation 17.67%	Mid Cap 13.93%	Large Cap 17.88%
	Intermediate Bond 0.55%	Large Cap 11.96%	Mid Cap 16.24%	Intl Bonds -2.15%	Small Cap 25.52%	Government Treasury 17.70%	Mid Cap 24.76%	Intermediate Bond -13.01%	Small Cap 16.93%	Small Cap 11.54%	Commodities 15.77%
	Cash 0.03%	Commodities 11.77%	Small Cap 14.65%	High Yield -2.26%	Asset Allocation 22.18%	Asset Allocation 14.73%	Asset Allocation 15.86%	Mid Cap -13.06%	Mid Cap 16.44%	Real Estate 9.11%	Asset Allocation 13.70%
	Intl Stocks -0.81%	Emerging Markets 11.19%	Asset Allocation 14.21%	Asset Allocation -2.35%	Intl Stocks 22.01%	Mid Cap 13.66%	Small Cap 14.82%	Intl Stocks -14.45%	Real Estate 16.10%	High Yield 8.04%	Small Cap 12.81%
	Government Treasury -1.21%	Asset Allocation 8.31%	Intl Bonds 10.51%	Large Cap -4.38%	Emerging Markets 18.44%	Intl Bonds 10.11%	Intl Stocks 11.26%	Asset Allocation -15.79%	High Yield 13.40%	Emerging Markets 7.50%	High Yield 8.55%
	Mid Cap -2.18%	Real Estate 7.24%	Government Treasury 8.53%	Real Estate -4.84%	Government Treasury 14.83%	Intl Stocks 7.82%	High Yield 5.29%	Large Cap -18.11%	Emerging Markets 9.83%	Cash 5.45%	Mid Cap 7.50%
	Small Cap -4.41%	Intermediate Bond 2.65%	High Yield 7.48%	Small Cap -11.01%	High Yield 14.40%	Intermediate Bond 7.51%	Cash 0.05%	Intl Bonds -18.70%	Intermediate Bond 5.53%	Commodities 5.38%	Intermediate Bond 7.30%
	High Yield -4.55%	Intl Bonds 1.49%	Real Estate 4.18%	Mid Cap -11.08%	Intermediate Bond 8.72%	High Yield 6.20%	Intermediate Bond -1.54%	Emerging Markets -20.09%	Cash 5.26%	Intl Stocks 3.82%	Intl Bonds 6.91%
	Intl Bonds -6.02%	Government Treasury 1.33%	Intermediate Bond 3.54%	Commodities -11.25%	Commodities 7.69%	Cash 0.58%	Emerging Markets -2.54%	Small Cap -20.44%	Intl Bonds 3.99%	Intermediate Bond 1.25%	Government Treasury 5.59%
	Emerging Markets -14.92%	Intl Stocks 1.00%	Commodities 1.70%	Intl Stocks -13.79%	Intl Bonds 5.09%	Commodities -3.12%	Government Treasury -4.65%	Real Estate -26.76%	Government Treasury 3.06%	Government Treasury -6.41%	Cash 4.40%
Worst	Commodities -24.66%	Cash 0.27%	Cash 0.84%	Emerging Markets -14.58%	Cash 2.25%	Real Estate -7.90%	Intl Bonds -7.05%	Government Treasury -29.26%	Commodities -7.91%	Intl Bonds -7.79%	Real Estate 2.71%

The returns reflect performance of certain indexes as defined below. This information is general in nature and is not intended to be reflective of any specific plan.

Cash- FTSE 3-month T-bill ,Government Treasury-BBg Long Treasury, Commodities-Bloomberg Commodity Idx, Intermediate Bond-BBg US Agg Bond Idx, High Yield Bond-ICE BofA High Yield Idx, Intl Bonds-JPMorgan GBI Global ex U.S., Asset Allocation-portfolio assumes the following weights: 60% S&P 500 and 40% BBG US Agg, Large Cap-S&P 500, Mid Cap-S&P Midcap 400, Small Cap-Russell 2000, Intl Stocks-MSCI EAFE (net), Emerging Markets-MSCI EM (net), Real Estate-Wilshire U.S. REIT.

Past performance does not guarantee future results.

Global growth resilience amid U.S. policy upheaval

Last year, policy upheavals tested the resilience of the global economy in ways few anticipated. Yet, despite trade uncertainty, inflation concerns, and geopolitical fractures, global growth proved remarkably durable.

In the U.S., GDP growth in 2025 is likely to have come in only slightly below the consensus forecast at the start of the year—a notable improvement from the recession fears that gripped markets after Liberation Day. For Europe and China, growth appears to have exceeded early expectations.

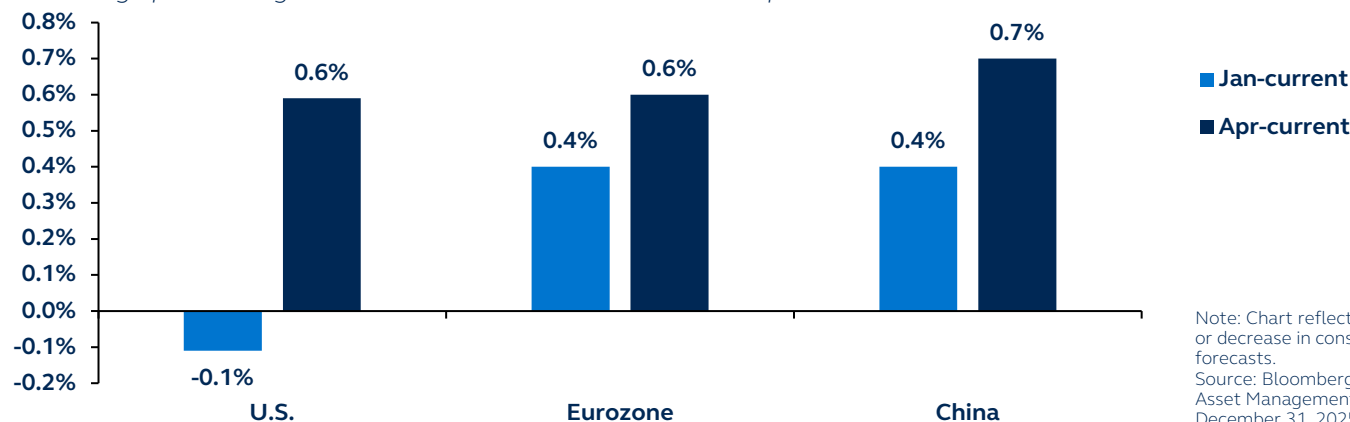
This resilience reflects several factors. U.S. import tariffs turned out lower than initially feared, limiting their drag on global and U.S. growth. More importantly, policy responses were decisive. In Europe, a pivot towards expansionary fiscal policy—particularly in Germany—combined with swift ECB rate cuts to lift growth beyond early-year projections. In China, the “anti-involution” policy drive, aimed at reversing deflationary pressures, provided a boost in the first half of the year, even as domestic demand softened later. Meanwhile, a rerouting of trade flows from the U.S. to Asia and Europe helped sustain export momentum as a key growth engine.

These dynamics should underpin activity in 2026, setting the stage for a broadly constructive outlook for global growth.

Decisive policy responses helped offset the growth threat posed by U.S. import tariffs last year and should continue to support global growth in 2026.

Change in consensus 2025 real GDP growth forecasts

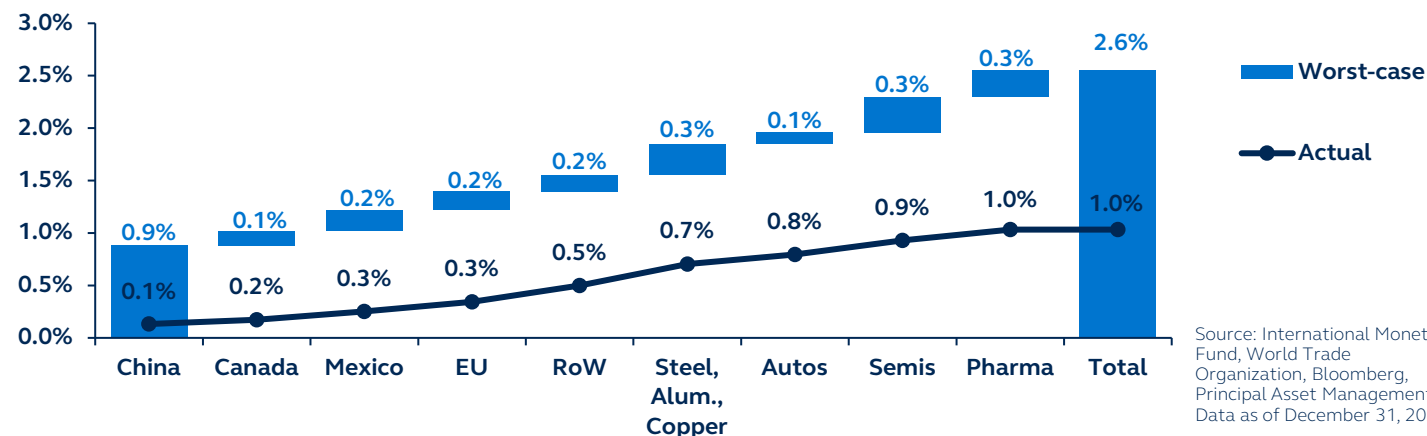
Percentage point change in consensus between Jan-current vs. April-current



Note: Chart reflects the increase or decrease in consensus GDP forecasts.
Source: Bloomberg, Principal Asset Management. Data as of December 31, 2025.

Negative impact of tariff increases on U.S. GDP

Worst-case versus actual



Source: International Monetary Fund, World Trade Organization, Bloomberg, Principal Asset Management. Data as of December 31, 2025.

U.S. economic strength defies market anxiety

Although economic activity has remained robust, with GDP expanding by 4.3% in the third quarter, an undercurrent of concern persists. Consumer confidence is near record lows, even as retail sales remain resilient despite slowing job gains and pressure on household purchasing power from tariffs.

In contrast, business sentiment—among both small and large firms—has largely rebounded since Liberation Day, likely driven by this year’s surge in capital expenditure.

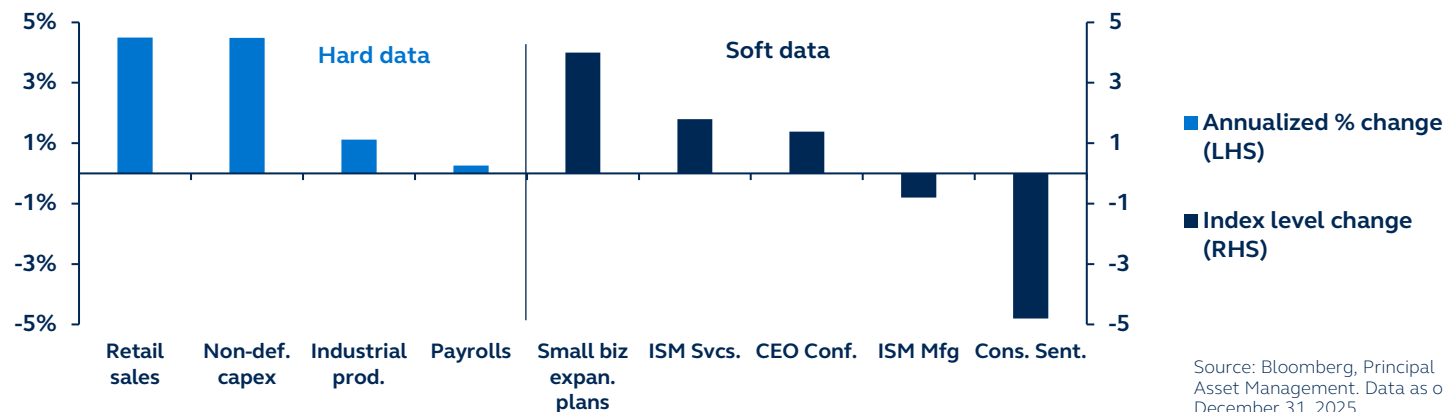
Beyond consumer spending, AI-related investment has emerged as an additional pillar of U.S. growth. Technology companies are accelerating their investment in AI infrastructure to secure a leadership position in the AI-driven revolution, which is expected to unlock new revenue streams and enhance profitability.

In the first three quarters of 2025, AI-related capital expenditure accounted for roughly 40% of GDP growth—slightly less when accounting for imported equipment. Even so, this represents a significant structural shift in the U.S. economy. With projections indicating AI-related capex could reach \$1.3 trillion over the next five years, and providing the market narrative around AI does not take a turn for the worse, AI capex will likely have an expanding footprint in economic activity, remaining a key driver of U.S. growth.

Despite depressed consumer confidence, the U.S. economy continues to perform well. Alongside consumer spending, AI capex has become an important anchor of the U.S. economy.

Hard vs. soft data change since Liberation Day

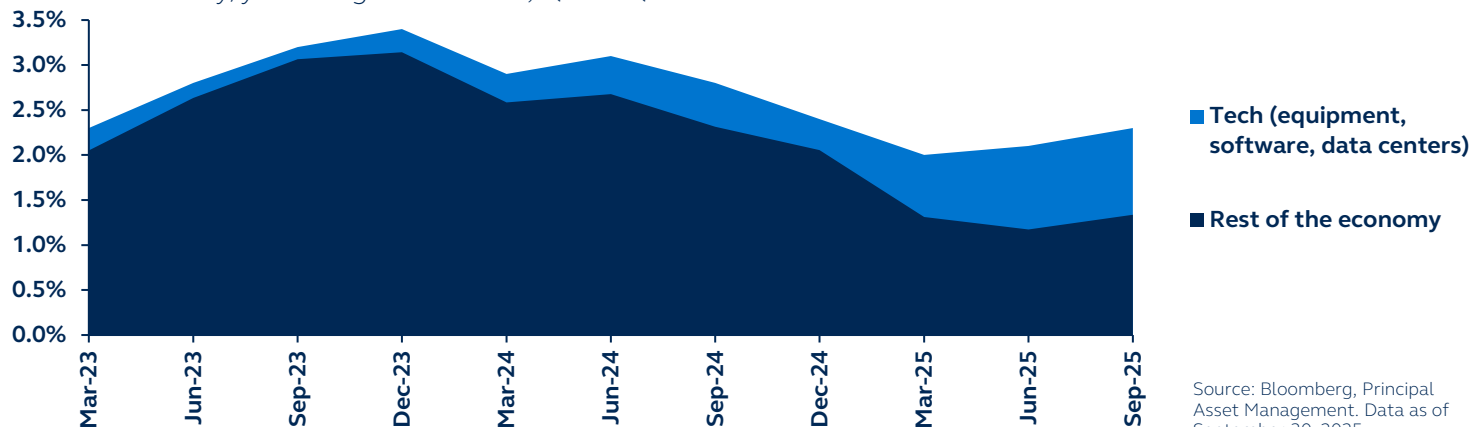
Annualized percentage change, Index level change, April 2025-present



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

Tech capex contribution to U.S. real GDP growth

Contributions to y/y % change in real GDP, Q1'23-Q3'25



Source: Bloomberg, Principal Asset Management. Data as of September 30, 2025.

U.S. policy: Vegetables eaten—time for dessert?

Last year, government policy leaned more towards restraint than stimulus. This year, however, fiscal measures are set to deliver a short-lived yet powerful boost. The One Big Beautiful Bill (OBBBA), passed in 2025, will increase the average taxpayer's cash refund this year by \$700, lifting the typical refund to around \$3,800 per filer. This injection of liquidity is expected to provide a welcome boost to household spending power in the first quarter.

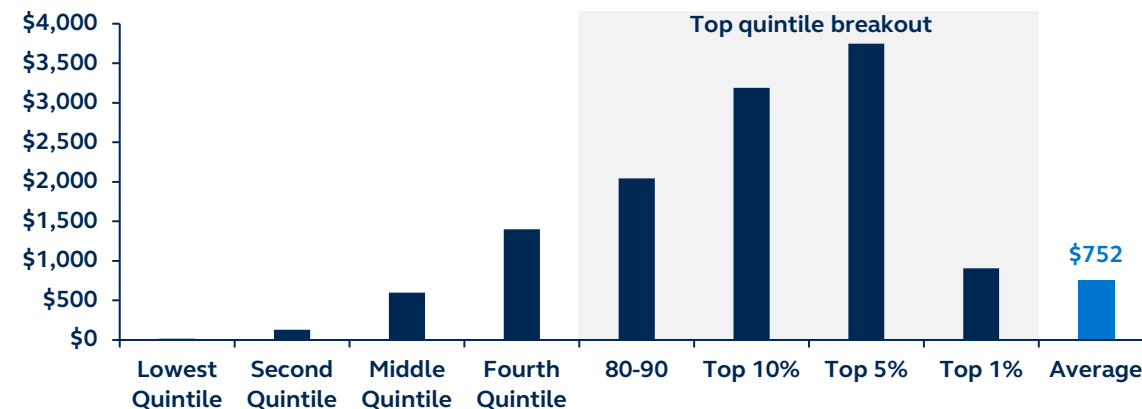
That said, the benefits are skewed towards middle- and higher-income earners, who typically have a lower propensity to spend. Even so, with midterm elections approaching, the Trump administration is signaling a greater focus on lower-income households, exploring options such as targeted cash transfers and more lenient tariff policies in select sectors. While fiscal constraints raise doubts about full implementation, the government's attention to affordability pressures is likely to persist.

For businesses, the OBBBA offers generous tax deductions, potentially reducing the effective corporate tax rate from 21% to as low as 15%. Although this is also expected to be a one-off boost, reinvesting the additional free cash flow could extend the positive impact on capex into late 2026.

The OBBBA tax refunds, deductions and incentives will provide a meaningful tailwind to consumer spending and capex in Q1, with some potential to extend through to late 2026.

Net impact of OBBBA beyond TCJA extension on 2026 income by income group

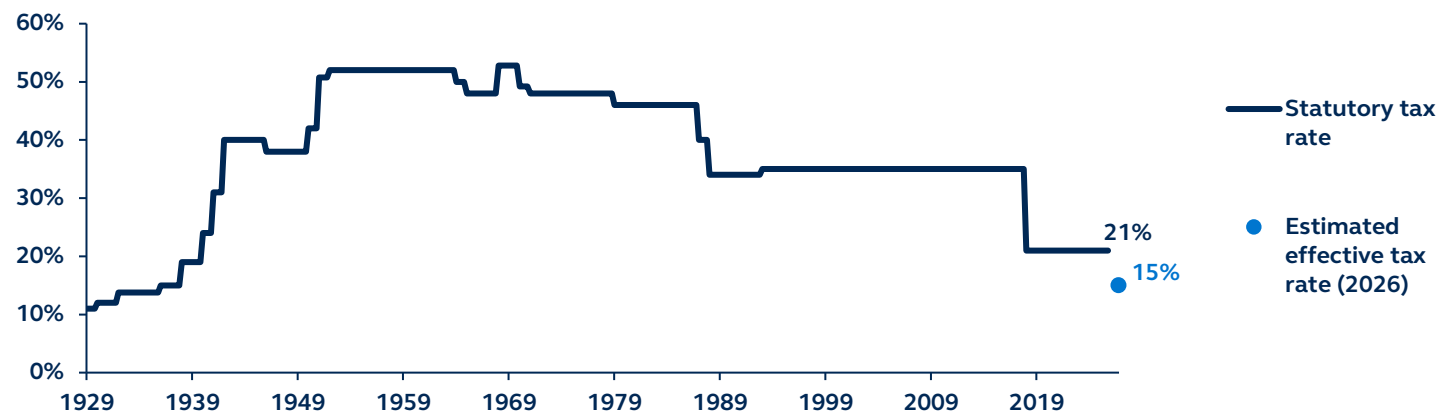
Change in after-tax income



Note: Average bar represents the weighted average after-tax income increase across all taxpayers.
Source: Yale Budget Lab, Tax Policy Center, Principal Asset Management. Data as of July 30, 2025.

U.S. corporate tax rate

1929–present



Strong U.S. balance sheets have laid a solid foundation

While new growth drivers are emerging, the underlying architecture of the U.S. economy remains resilient. Strong balance sheets provide a crucial buffer against headwinds.

Corporate fundamentals are solid: leverage is contained, cash holdings as a share of liabilities continue to rise, and profits remain on an upward trend, with margins at cycle highs. Historically, recessions are rare when corporate profitability is expanding.

Households also appear strong, with net worth surging by an extraordinary \$63 trillion since 2020. In Q2 2025 alone, wealth grew by \$7 trillion, driven by equity market gains—suggesting that consumers are well-positioned for 2026.

Yet this contrasts with near-record low confidence, rising affordability concerns, and increasing delinquencies. The culprit: a K-shaped economy. Aggregate strength reflects the wealthiest households, who dominate exposure to equities and real estate. The top 20% hold 80% of net worth, and the top 10% account for nearly half of spending. Affordability strains and delinquencies remain concentrated among lower-income households, whose share of overall spending is small. So, while the K-shape may become more pronounced, the aggregate household picture should remain robust.

Household and corporate balance sheet strength provides ample buffers to downside risks. While the K-shaped economy is a concern, it does not yet imply aggregate weakness.

Household balance sheet strength

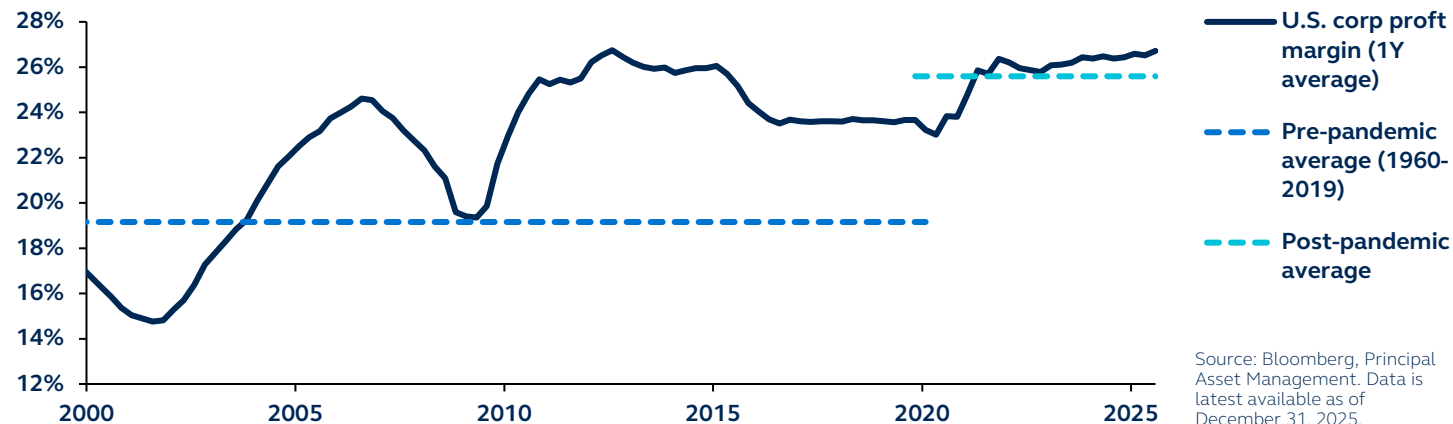
Household liabilities as % of net worth, 1960–June 2025



Source: Bloomberg, Principal Asset Management. Data is latest available as of December 31, 2025.

Corporate profit margins

Profits as a percentage of corporate revenue, 2000–3Q 2025



Source: Bloomberg, Principal Asset Management. Data is latest available as of December 31, 2025.

Pausing in a low-hiring, low-firing environment

The primary downside risk to consumer spending and the broader economy is the labor market. Yet, jobs data reinforce the narrative of a “low hire, low fire” environment. While new entrants to the workforce may find it challenging to secure employment, there is no evidence of widespread job losses.

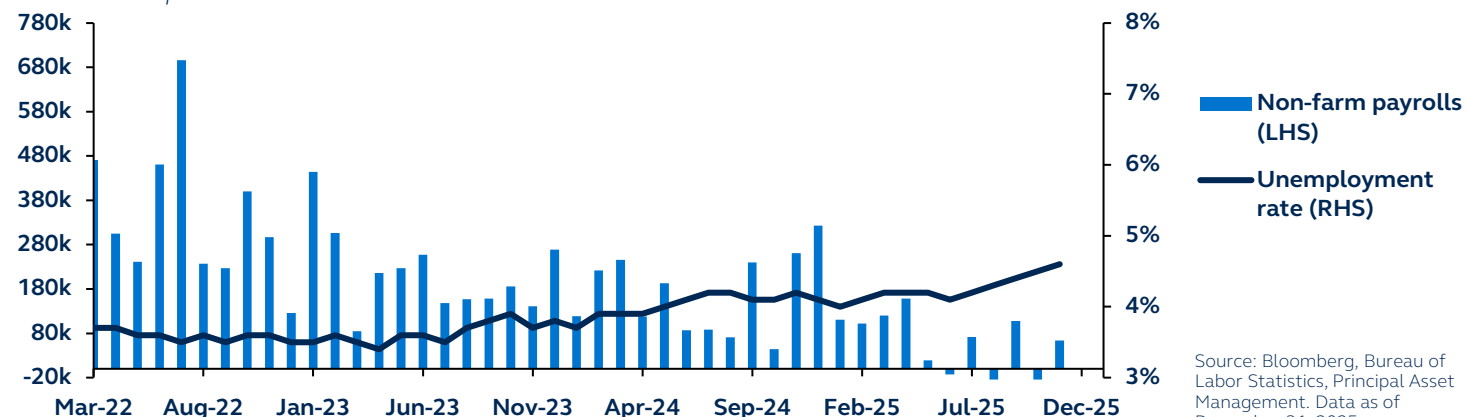
The combination of cyclical demand weakness and structural supply constraints complicates the outlook. Tighter labor supply, driven by stricter immigration policies, means that a breakeven level of around 25,000–70,000 payroll additions per month now signals a healthy labor market—down from roughly 125,000 historically. In recent months, non-farm payroll growth sits just within the lower end of this breakeven range, indicating cooling rather than collapse. Similarly, the unemployment rate has risen to 4.6%—a four-year high, yet still near historical lows—consistent with a gradual slowdown rather than a sharp deterioration. Longer term, if increasing adoption of AI boosts productivity as expected, less job growth may be required to sustain economic expansion.

Overall, corporate strength remains critical for labor market resilience. Strong S&P 500 earnings growth has alleviated pressure to cut headcount. Widespread layoffs are unlikely if earnings growth remains positive and profitability persists.

Although jobs growth has slowed, structural supply constraints imply that the labor market is cooling rather than collapsing.

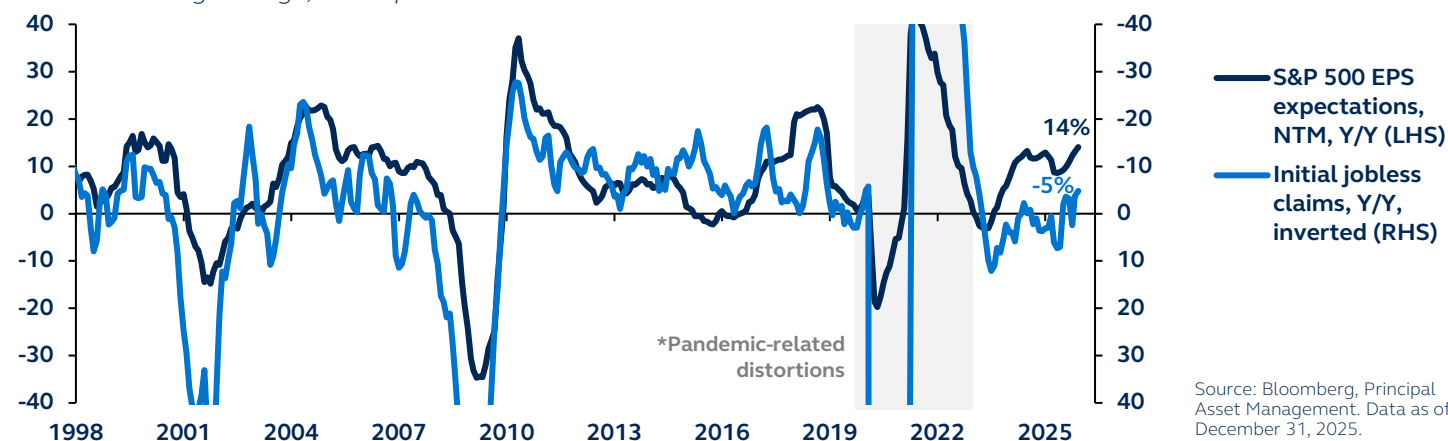
U.S. unemployment rate vs. non-farm payrolls

March 2022–present



Initial jobless claims vs. S&P 500 EPS expectations growth

3-month moving average, 1998–present



Muted tariff pass-through, but inflation risks linger

Inflation remains a challenge, with core PCE inflation holding above the Federal Reserve’s 2% target for 55 months. However, it has not been trending higher, as the pass-through from tariffs has been more muted than markets anticipated.

Within core goods, tariff-sensitive categories continue to face price pressures, but inflation is not accelerating sharply. Micro-level data support this view: price pressures are emerging, albeit modestly. Since Liberation Day, imported goods prices have risen by 3%, while domestic goods prices have increased by a similar amount.

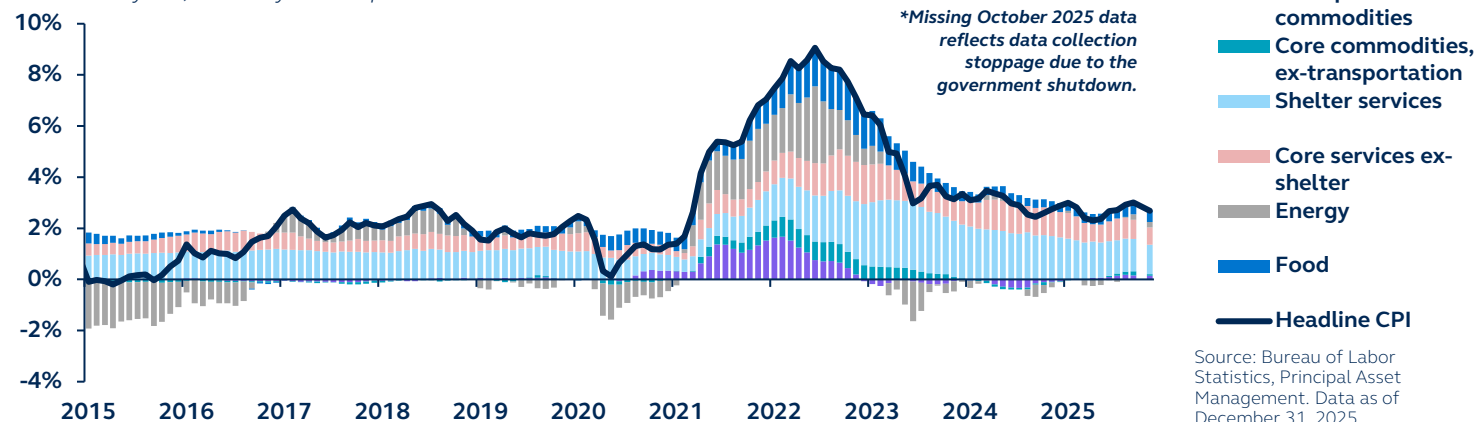
A combination of margin compression, inventory front-loading, and trade diversion likely explains why tariff pass-through has been limited. These factors, however, are temporary. As inventories dwindle, trade routes narrow, and margins erode further, firms may be compelled to pass on higher costs to consumers. Early signs suggest small businesses are beginning to raise prices, indicating that upside inflation risks persist.

Overall, while the Fed cannot dismiss the possibility of a more sustained inflationary episode, a cooling labor market should help contain price pressures. Inflation is expected to remain slightly elevated through 2026, with a return to the 2% target this year appears unlikely.

Inflation pressures from tariffs have remained surprisingly limited in aggregate so far, but it's still too early to completely dismiss their eventual impact.

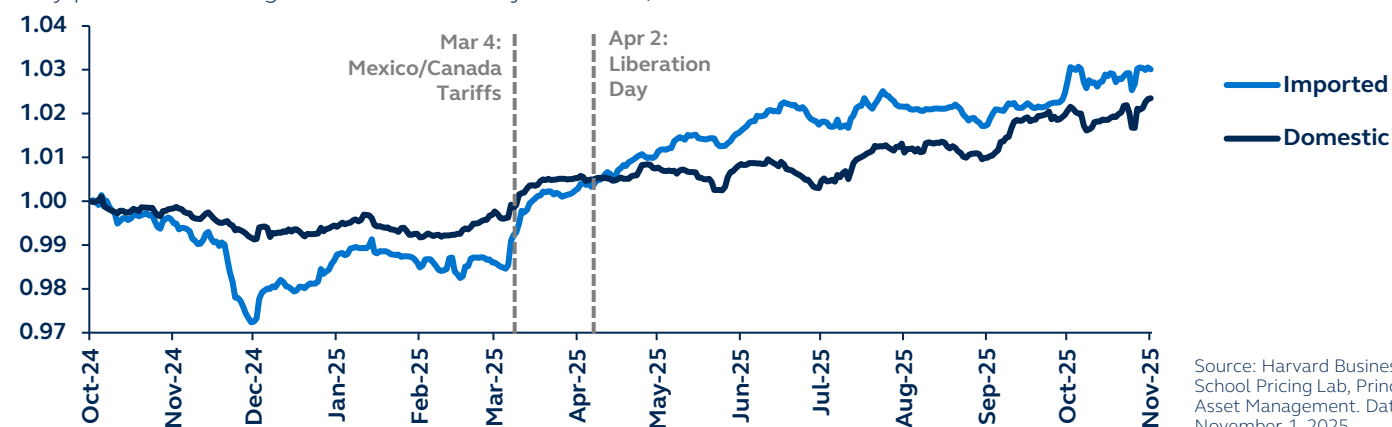
Contribution to headline U.S. inflation

Year-over-year, January 2015–present



Prices of goods imported vs. domestically produced

Daily price indices for goods sold across major retailers, indexed to 1 at October 2024



Federal Reserve: Cautiously approaching neutral

The Fed has already delivered 175 basis points of easing in the current cutting cycle. With inflation sticky but not accelerating, the labor market cooling without collapsing, and fiscal stimulus set to support growth in early 2026, policy rates likely need to return to neutral—but not below.

The key question is: what constitutes neutral? Estimates vary widely. Some FOMC members argue rates are already at neutral, while others believe another 125 basis points of cuts are needed. What is clear is that, given the current strength of the U.S. economy—with 3Q 2025 growth nearly twice its trend pace—there is no urgency to lower rates aggressively.

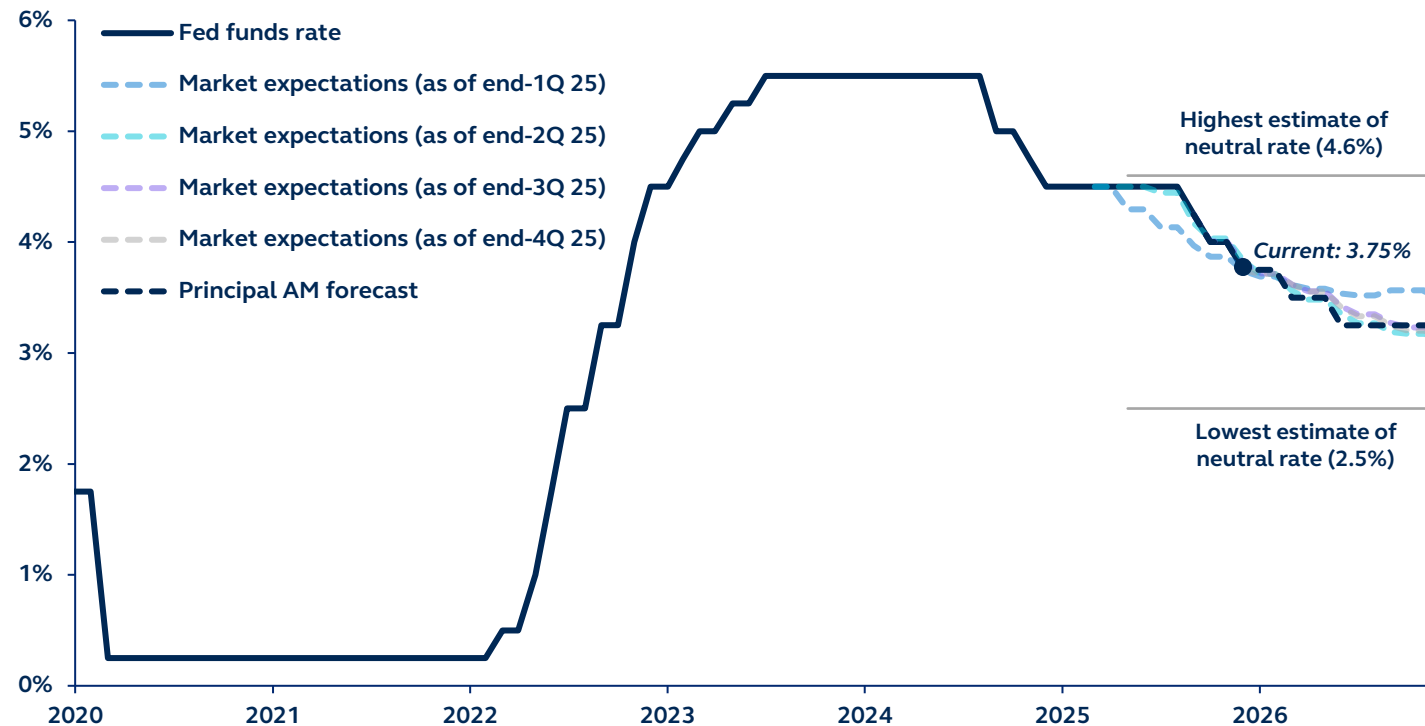
With a leadership change approaching, the Fed is likely to place slightly more emphasis on the employment side of its dual mandate. We anticipate two cuts in 2026—more than the single cut implied by the latest FOMC dot plot—which should bring rates just below the midpoint of the neutral range. The timing will remain data-dependent, but a continued rise in unemployment could prompt these cuts to be brought forward into the first half of the year.

Ultimately, the Fed’s challenge in 2026 will be calibrating policy in an environment where structural forces, rather than cyclical dynamics, increasingly shape growth and inflation.

We expect two Fed cuts in 2026, taking rates close to neutral. Timing will be data-dependent, but a rising unemployment rate could prompt the cuts to be brought forward into H1.

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 of December 31, 2025.

Global economy: China and Europe break the tackle

Globally, the macro outlook is nuanced. Global supply chain realignments are likely to persist, reshaping alliances and trade patterns. China has defied fears of an export recession, with supply chains increasingly diversifying away from the U.S. towards intra-Asian linkages. Its willingness to lean further into external strengths and tech innovation will be critical as domestic demand falters amid a deepening property downturn and only measured policy stimulus. Yet, China appears to be on track to meet its 5% growth target for 2025, with a similar goal likely to be set for 2026.

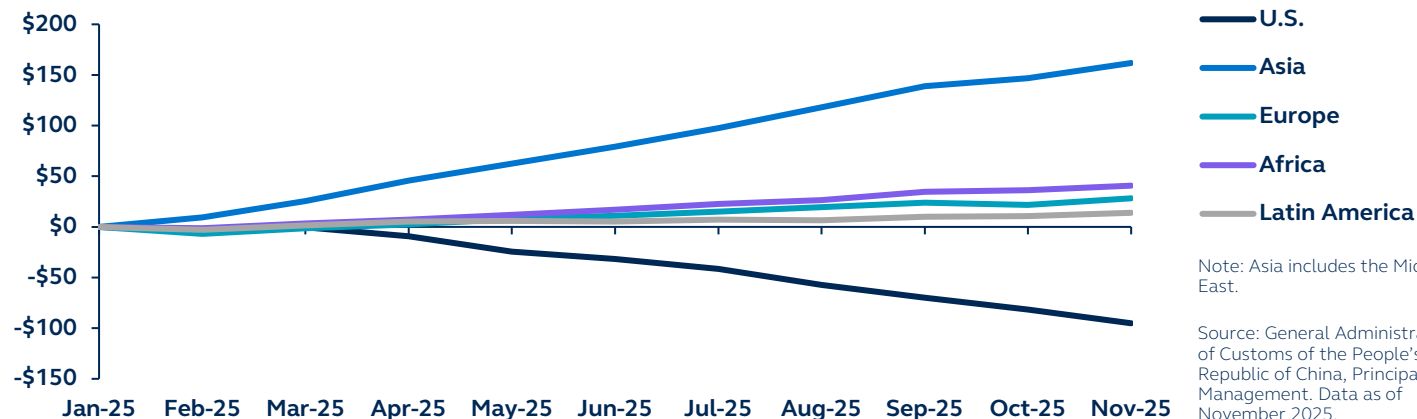
China's determination to maintain its current account surplus while reducing reliance on the U.S. poses challenges for Europe. Heightened competition for export markets threatens Europe's manufacturing sector and could introduce mild deflationary pressures.

However, easier financial conditions and Germany's long-awaited shift away from fiscal austerity are expected to support activity in the region. Growth strengthened in 2025 on the back of resilience and policy decisions, and this momentum is likely to carry over into 2026. Europe may not stand out as a top performer, but its ability to navigate global pressures positions it for a solid macro trajectory.

China's renewed focus on export growth and tech innovation should drive 2026 growth. Europe's new focus on fiscal spending positions it for a solid macro trajectory.

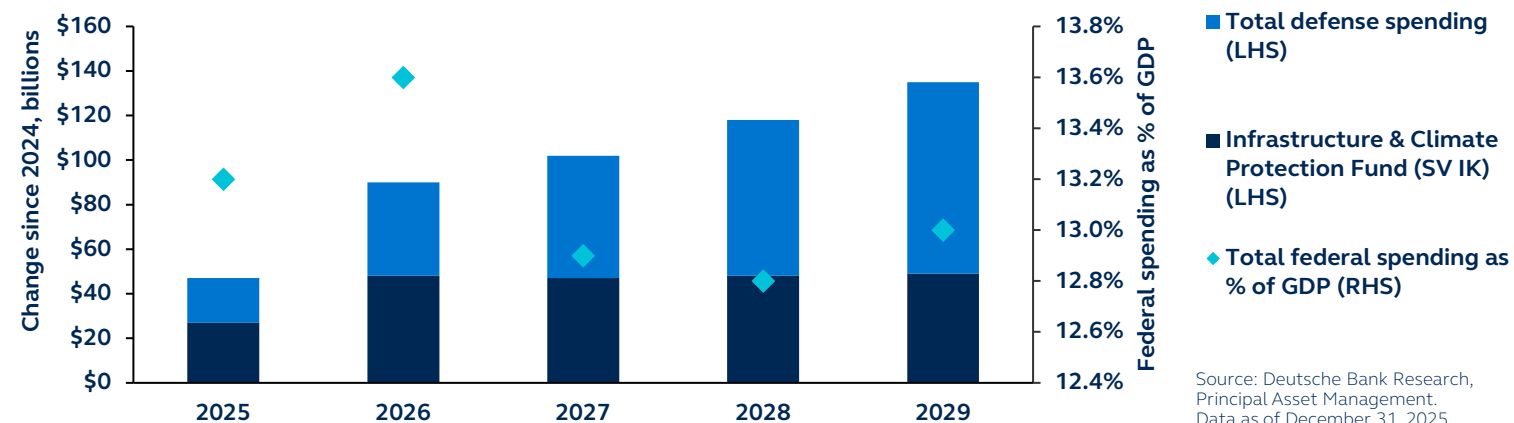
China exports change vs. January 2025

USD billions, year-to-date change in 12-month sum, 2025-present



Germany federal government budget

Federal government total expenditures, 2025-2029, change vs. 2024 in billions of Euro



Global central banks: Asynchronous normalization

Global policy rate paths are diverging, reflecting contrasting economic conditions and policy priorities. The Federal Reserve is expected to ease further in the coming quarters, while several central banks have ended their cutting cycles and others are already tightening. For the ECB, stronger data has sharply reduced expectations for multiple further cuts. Markets are now pricing in a single reduction in 2026, but the probability of a hike (after a prolonged pause) is rising.

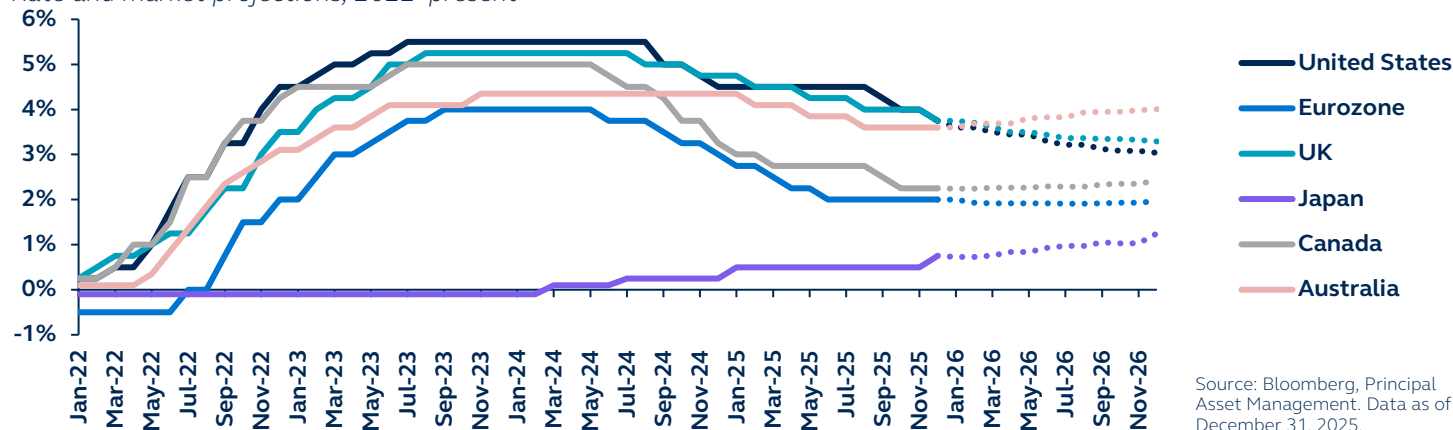
Central banks in Australia, Canada, and Scandinavia remain on hold, some actively considering hikes in 2026 as economies recover from tariff shocks and inflation risks persist. The Bank of Japan's December hike took policy rates to their highest in 30 years. With fiscal easing likely to keep inflation above target, gradual tightening should continue into 2026. Emerging markets show similar divergence, driven by domestic inflation dynamics and external vulnerabilities.

The U.S. dollar weakened against all other G10 currencies in 2025, posting its worst performance since 2017. With the Fed being one of the few central banks likely to cut rates in 2026, further downside for the dollar is possible. However, with reduced policy uncertainty and fewer credibility concerns, any moves in the USD are expected to be more measured.

After years of global monetary loosening, many central banks have normalized policy, while others are considering rate hikes. The Fed's more dovish path implies further dollar weakness.

Global central bank policy rate path

Rate and market projections, 2022–present



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

U.S. dollar

January 2023–present



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

Fiscal concerns cast a long shadow on rates

While worries about fiscal sustainability have subsided since last summer, it remains a key risk that is likely keeping interest rates elevated, despite the expected easing bias from most global central banks this year.

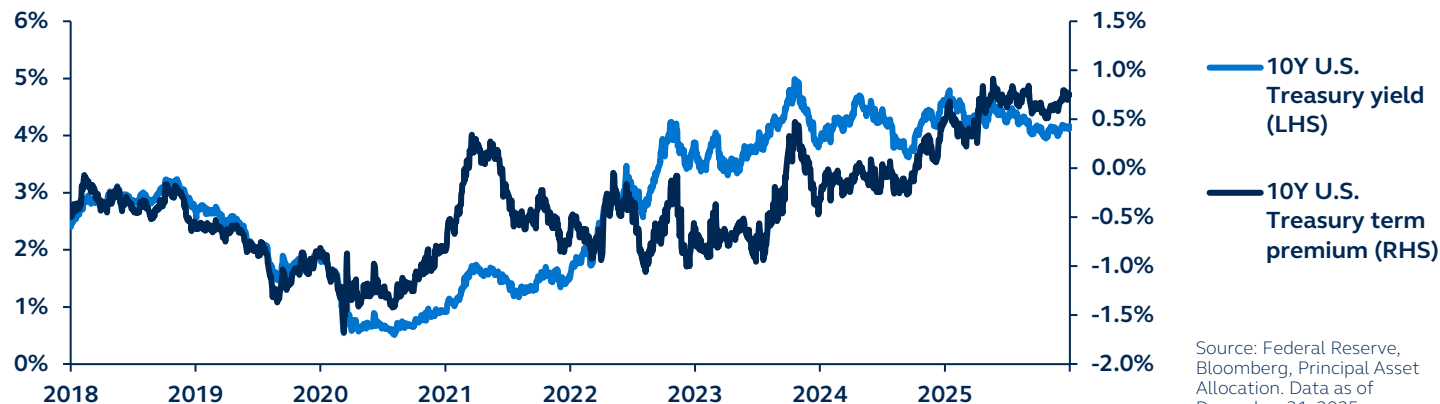
In the U.S., a combination of Fed rate cuts and asset purchases has helped keep the short end of the yield curve well-anchored, despite increased Treasury issuance. On the other hand, while longer-end nominal yields have edged lower, U.S. 10-year interest rate risk premiums have stayed high. This likely reflects lingering market concerns about the lack of progress on fiscal sustainability. Moreover, with the bias towards an expansionary fiscal environment in 2026 supporting growth, this environment is also expected to provide upside pressure on longer-term interest rates.

As a result, despite easy monetary policy conditions and ebbing inflation, global yield curves should continue to steepen gradually, led by stickier long-term interest rates. This dynamic could further exacerbate the worsening fiscal situation across most DM economies and put additional pressure on central banks to keep policy rates low. Though posing less of a risk today, this dynamic could come to haunt policymakers if inflation begins to reassert itself.

Fiscal concerns are on the back burner for now, yet they have not completely dissipated, with long-end interest rate risk premiums remaining elevated.

10-year U.S. Treasury term premium vs. yield

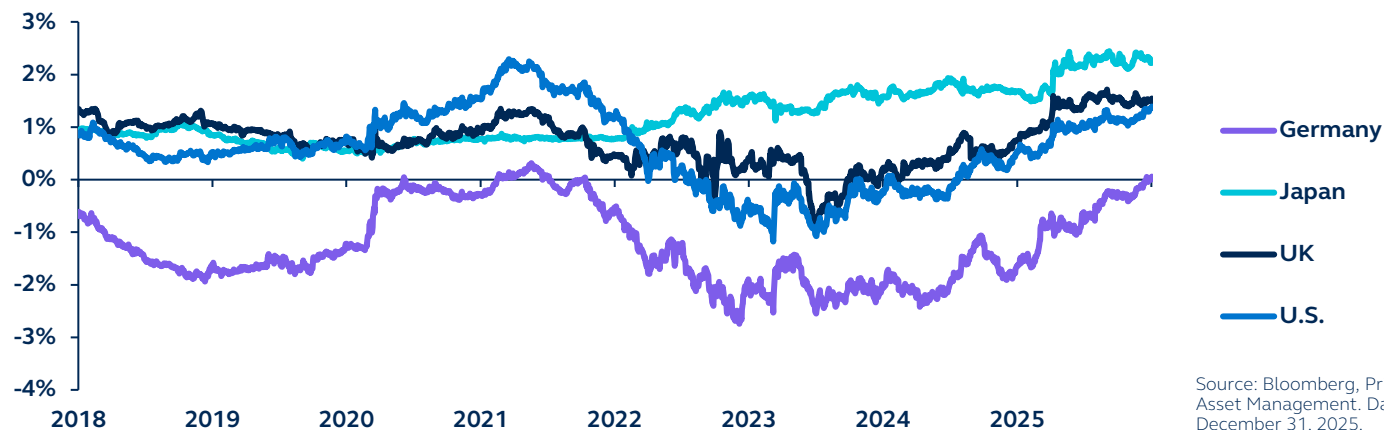
January 2018–present



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

Global sovereign yield spread

30-year yield minus 2-year yield, January 2018–present



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

A benign backdrop for corporate credit

Corporate balance sheets remain robust, supported by favorable fiscal and monetary policy tailwinds, which are expected to continue underpinning credit markets. However, there have been signs of stress in the financial system, highlighted by several high-profile lender bankruptcies, as well as widening divergences within securitized debt, with a “K-shaped” pattern emerging between subprime and prime delinquencies. Yet, these risks appear largely idiosyncratic rather than systemic and do not, at this stage, warrant significant alarm.

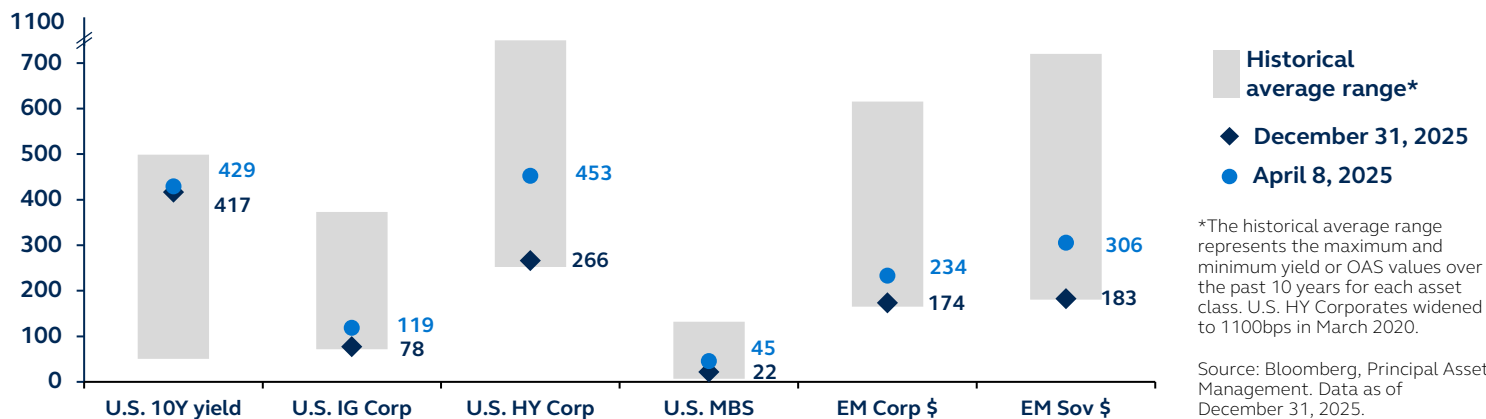
Indeed, spreads have re-narrowed to historic tightness as markets shrug off both macro risks and a surge in AI capex-driven debt issuance, which is set to continue in 2026.

- Additional spread compression is increasingly limited for investment grade credit, with the environment favoring total return investors, given still attractive all-in yields.
- Strong high yield issuance is balanced by a benign default environment, especially as refinancing risk remains minimal through 2027.
- Resilient macro policy across EM should help keep fundamentals intact, while a bias towards a weaker dollar and Fed rate cuts preserve relative value opportunities.

Robust corporate fundamentals and pro-growth policies support a constructive credit outlook, while increased bifurcation in some areas may provide opportunities.

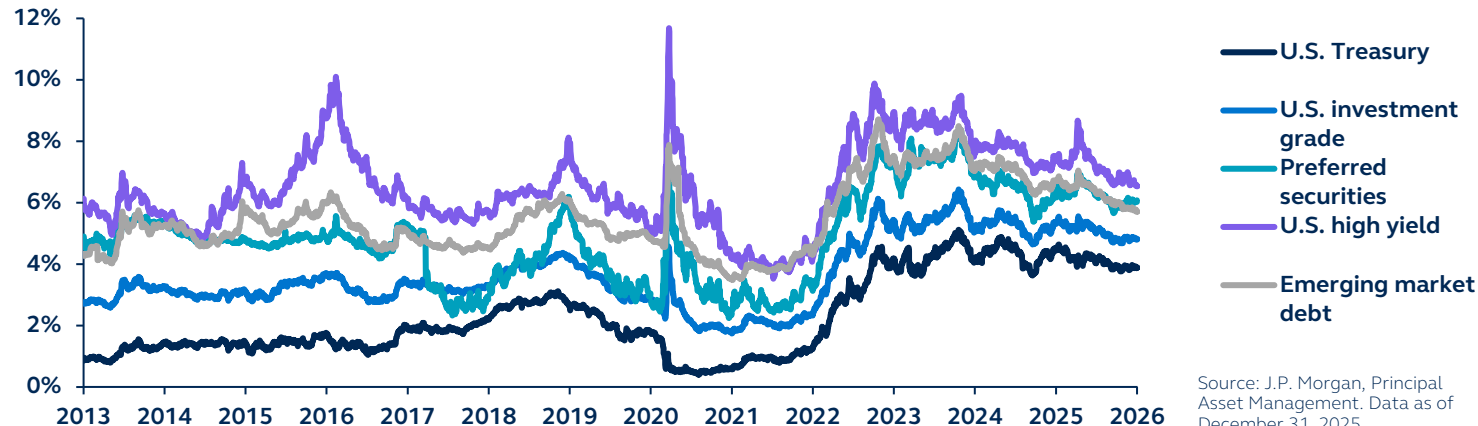
Yield and spread average range over the past 10 years

U.S. 10-year Treasury yield, other indices reflect option-adjusted-spread, basis points, 2015–present



Yield comparison

Yield-to-worst, 2013–present



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 (USDIX) 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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Investing involves risk, including possible loss of principal. Past performance is no guarantee of future results. Equity investments involve greater risk, including higher volatility, than fixed-income investments. Fixed-income investments are subject to interest rate risk; as interest rates rise their value will decline. International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards. Small- and mid-cap stocks may have additional risks including greater price volatility. Asset allocation and diversification do not ensure a profit or protect against a loss.

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