

Principal Morley



Economic and market review

Global Market Perspectives

As of March 31, 2026

Q2 2026 key themes

- Crosscurrents and risks confront the global economy**
The latest Middle East conflict and energy shock are posing downside risks to global activity and upside risks to global inflation. As a net energy exporter, the U.S. is the least vulnerable. By contrast, Europe and Asia are very exposed.
- The U.S. economy is likely to cool slightly as consumers bear the brunt of higher oil prices**
Although the U.S. economy still displays solid macro foundations, tightening financial conditions are likely to create challenges across the economy. Increased gasoline prices almost fully offset the benefits of the One Big Beautiful Bill Act tax refund.
- The Federal Reserve is still set to cut rates, while other central banks lean toward hikes**
The labor market has softened, but inflationary concerns imply the Fed will delay rate cuts until late 2026. The ECB and the Bank of England target price stability, so they have less flexibility to tolerate upside inflation risks and will likely not cut rates this year.
- Fixed income: Tight spreads, but benefiting from robust macro tailwinds**
Pricing out of central bank cuts is driving front-end sovereign yields higher, while longer-end yields should trend lower as economic activity slows. Solid balance sheets and stable leverage should limit credit spread widening.
- Focus on resilience and diversification**
History argues against abrupt portfolio shifts in response to geopolitical events. While our constructive medium-term outlook remains intact, the current environment reinforces the importance of resilience and diversification.

Many equity and fixed income markets were down for the quarter due to geopolitical unrest.

Commodities, especially energy related commodities rallied during the quarter.

| | 3-months | 1-year | 3-year | 5-year | 10-year |
|---|----------|--------|--------|--------|---------|
| Fixed Income | | | | | |
| ICE BofA U.S. Treasury Bill 3-month Index | 0.85% | 4.00% | 4.74% | 3.34% | 2.26% |
| Bloomberg Aggregate Bond Index | -0.05% | 4.35% | 3.63% | 0.31% | 1.70% |
| Bloomberg U.S. Corp High Yld 2% Issuer Capped Index | -0.50% | 7.01% | 8.60% | 4.22% | 6.12% |
| Bloomberg Long-Term Govt/Credit Index | -0.76% | 2.17% | 0.90% | -2.93% | 1.18% |
| U.S. Equities | | | | | |
| Russell 1000 Value Index | 2.10% | 15.87% | 14.31% | 9.43% | 10.58% |
| S&P 500 Index | -4.33% | 17.80% | 18.32% | 12.06% | 14.16% |
| Russell 1000 Growth Index | -9.78% | 18.81% | 21.18% | 12.76% | 16.83% |
| Russell Midcap Index | 1.29% | 15.98% | 13.33% | 7.26% | 10.91% |
| Russell 2000 Index | 0.89% | 25.72% | 13.05% | 3.77% | 9.88% |
| Non-U.S. Equities | | | | | |
| MSCI EAFE NTR Index | -1.24% | 21.27% | 13.62% | 7.91% | 8.38% |
| MSCI ACWI ex-USA Index | -0.71% | 24.91% | 14.49% | 7.02% | 8.38% |
| MSCI Emerging Markets Index | -0.17% | 29.55% | 14.84% | 3.69% | 7.80% |
| Other | | | | | |
| MSCI U.S. REIT Index | 4.52% | 5.48% | 7.79% | 4.57% | 4.29% |
| S&P GSCI® Index | 40.02% | 43.00% | 18.17% | 19.56% | 9.99% |
| U.S. Dollar Index | 1.67% | -4.08% | -0.83% | 1.40% | 0.55% |

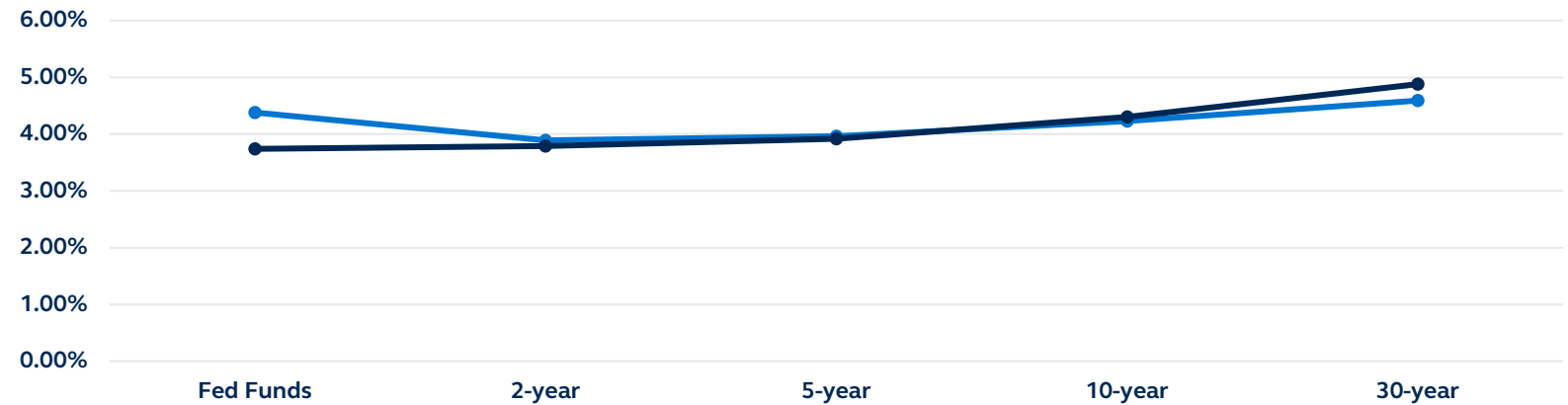
As of Mar. 31, 2026.

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?

| | Mar 31, 2023 | Mar 31, 2024 | Mar 31, 2025 | Dec 31, 2025 | Mar 31, 2026 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Fed Funds | 4.74 | 5.49 | 4.38 | 3.74 | 3.74 |
| 2-year | 4.06 | 4.59 | 3.89 | 3.47 | 3.79 |
| 5-year | 3.60 | 4.21 | 3.96 | 3.73 | 3.92 |
| 10-year | 3.48 | 4.20 | 4.23 | 4.18 | 4.30 |
| 2- to 10-year spread | -0.58 | -0.39 | 0.34 | 0.71 | 0.51 |
| 30-year | 3.67 | 4.34 | 4.59 | 4.84 | 4.88 |



| | | | | | |
|---------------|-------|-------|-------|-------|-------|
| Mar. 31, 2026 | 3.74% | 3.79% | 3.92% | 4.30% | 4.88% |
| Mar. 31, 2025 | 4.38% | 3.89% | 3.96% | 4.23% | 4.59% |

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

ASSET CLASS RETURNS AS OF MAR. 31, 2026

Best
↑
↓
Worst

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | YTD |
|--|-------------------------------|------------------------------|------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|--------------------------------|------------------------------|-------------------------------|------------------------------|-------------------------------|
| | 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% | Commodities 24.41% |
| | 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% | Real Estate 4.78% |
| | 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% | Mid Cap 2.50% |
| | 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 0.93% |
| | 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% | Small Cap 0.89% |
| | 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% | Intermediate Bond -0.05% |
| | 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% | Emerging Markets -0.17% |
| | 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% | Government Treasury -0.41% |
| | 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 -0.53% |
| | 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 Stocks -1.24% |
| | 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% | Asset Allocation -2.62% |
| | 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% | Intl Bonds -2.69% |
| | 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% | Large Cap -4.33% |

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.

Another shock to test global growth resilience

Last year, economic strength across key regions—the U.S., Europe, and China—defied expectations that tariffs, lingering inflation, and geopolitics would suppress growth. As 2026 unfolds, the global economy is once again navigating several macro cross-currents that are testing its resilience.

While the macro foundation remains solid, cracks are emerging. Concerns around trade policy, private credit, and AI-related disruption continue to curb sentiment. More recently, the Middle East conflict and resulting spike in energy prices have introduced a new layer of uncertainty and fear.

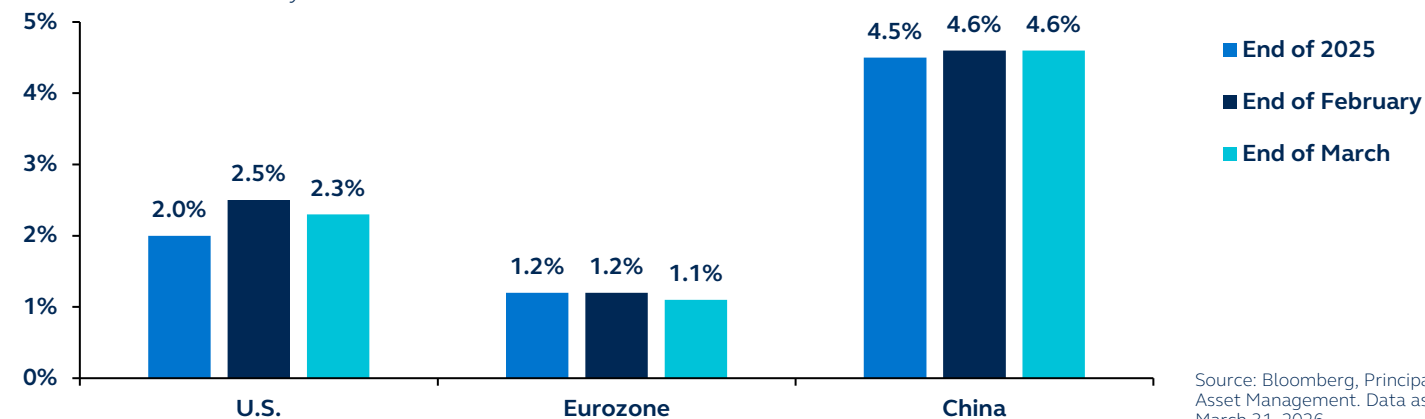
The U.S.’s status as a net energy *exporter* implies greater resilience to energy shocks. As a result, U.S. growth downgrades have been minimal. In comparison, as a net energy *importer*, the European growth outlook has deteriorated more significantly. China, while heavily exposed to the Middle East, benefits from sizable oil reserves, the ability to shift toward coal, and declining energy intensity, helping limit the impact on its growth outlook.

Yet, if energy prices remain very elevated, it would push up global inflation, dampening global activity. More severe growth downgrades for key global regions—including the U.S.—would be expected.

After navigating multiple cross-currents in the first quarter, the global economy now faces a renewed growth risk from higher energy prices.

Consensus 2026 real GDP growth forecasts

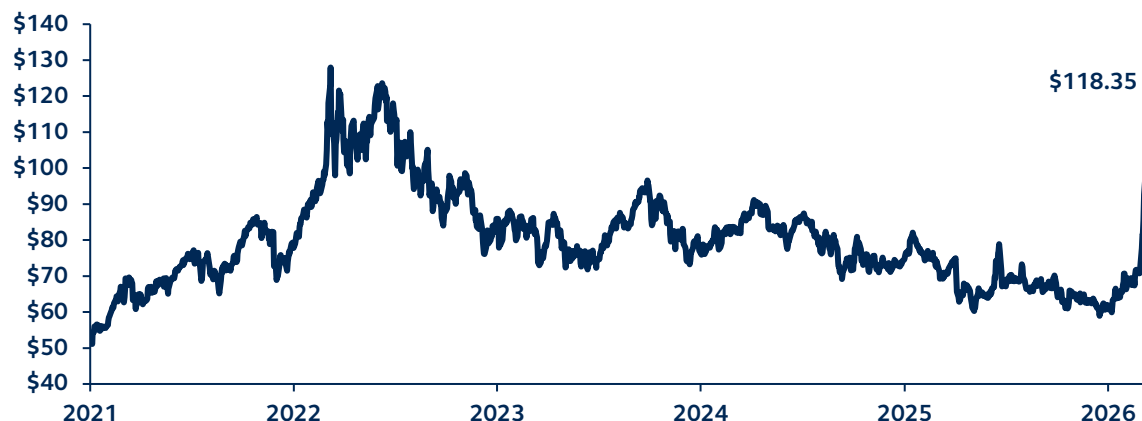
End of 2025 vs. February 2026 vs. March 2026



Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

U.S. benchmark crude oil price

Dollars per barrel, January 2021–March 2026



Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

U.S. macro strength at risk of disruption

The U.S. economy entered 2026 on a solid footing, following a firm 2.1% GDP print in 2025, which was broadly in line with the long-term 2000s average. Improving business sentiment and robust consumer spending have bolstered the outlook, and the acceleration in AI-related investment has provided the economy with an additional growth engine.

Despite broad resilience, the key segment yet to gain traction is employment, likely contributing to very depressed consumer sentiment. Policy uncertainty, affordability strains, and concerns about AI disruption are also weighing on confidence.

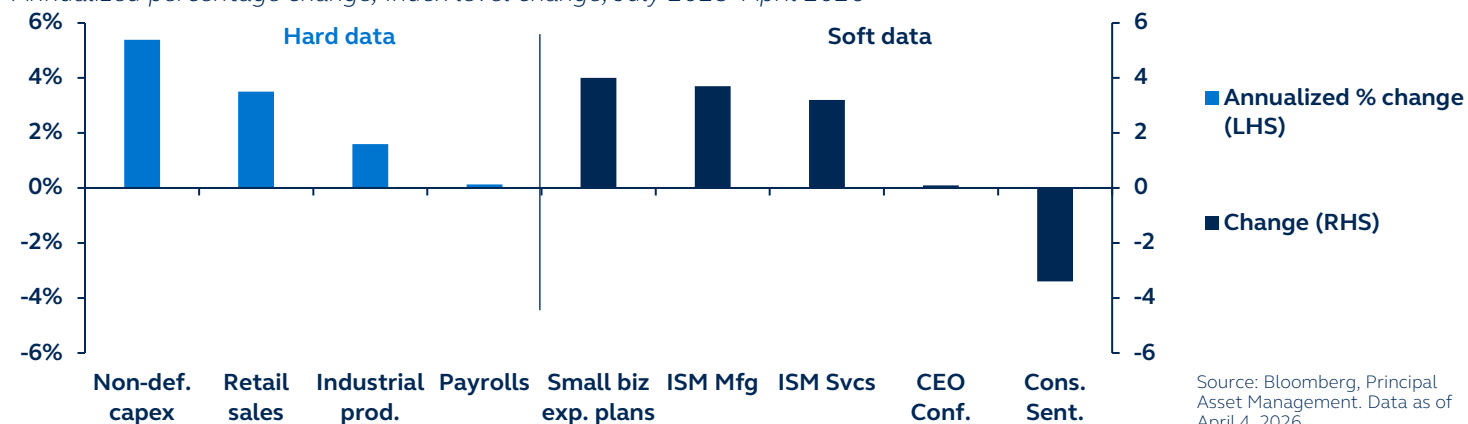
The path ahead for the economy now likely hinges on the duration of the Middle East conflict and how long energy prices remain elevated. A sustained shock can seep into economic fundamentals, potentially altering the Fed's policy trajectory and heightening the risk of a downturn.

Indeed, the recent sharp tightening in financial conditions reflects waning expectations for Fed easing. Financial conditions are still meaningfully more accommodative than during last year's "Liberation Day" shock, but further tightening from here is likely and will create challenges across the economy.

The economy's ability to withstand numerous headwinds since last year underscores underlying resilience supported by a strong capex cycle and robust consumer spending.

Hard vs. soft data change since OBBBA passed

Annualized percentage change, Index level change, July 2025–April 2026



Source: Bloomberg, Principal Asset Management. Data as of April 4, 2026.

Bloomberg U.S. Financial Conditions Index

Index level, January 2021–March 2026



Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

U.S. policy: the dessert may not taste as sweet as hoped

Last year's One Big Beautiful Bill Act (OBBBA) is set to deliver powerful fiscal tailwinds. The benefits should boost the average household's tax refunds this year by more than \$750, providing a solid short-term boost to consumption.

However, the current oil price shock could offset these benefits, as higher energy prices effectively function as a tax increase on households. At \$80 p/b, the additional energy expense would amount to roughly \$400 per household over the year. At \$90 p/b, the gains from the OBBBA would be fully eroded for the average household.

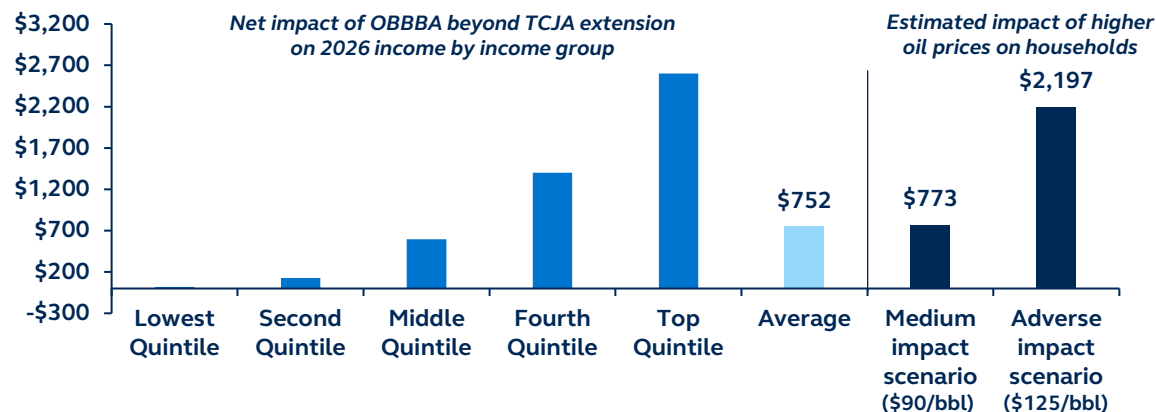
The distributional effects are even less favorable. While the OBBBA's benefits are skewed toward higher-income households, lower-income households are disproportionately exposed to rising energy costs. As a result, it would only take oil prices to settle at around \$75 per barrel to offset the OBBBA's benefits for the bottom 40% of households.

For businesses, the OBBBA offers capex incentives in the form of generous tax deductions, reducing the effective corporate tax rate from 21% to as low as 15%. If this is reinvested into capex, the benefit could extend throughout 2026. Yet rising energy and commodity costs could limit the tailwinds for overall corporate investment.

The OBBBA tax benefits are likely to be offset by rising oil prices, reinforcing K-shaped economic dynamics and limiting the effectiveness of corporate tax incentives.

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

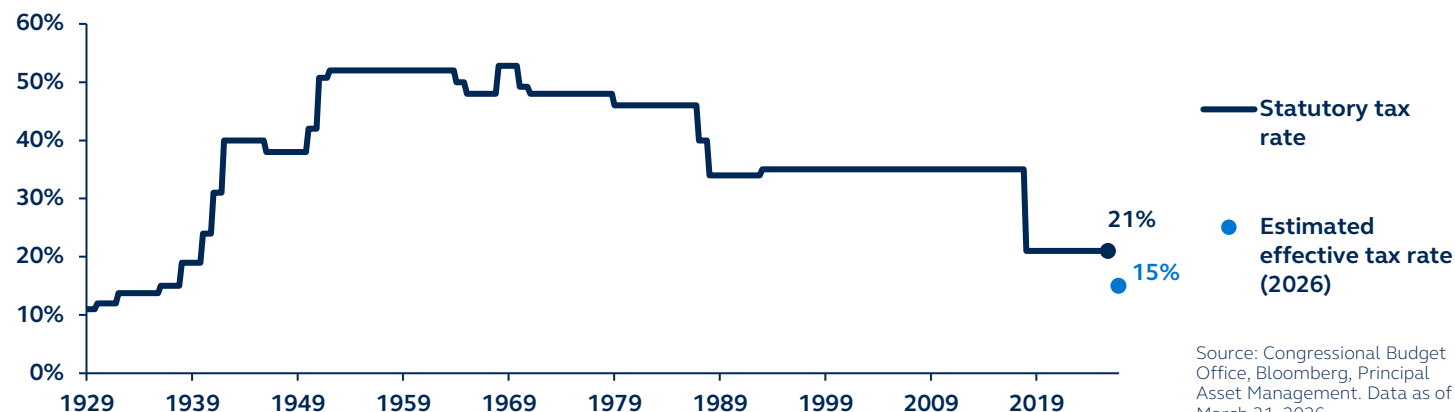
Change in after-tax income



Note: Average bar represents the weighted average after-tax income increase across all taxpayers. Additional tax refunds from OBBBA represents the average increase in after-tax income across all taxpayers. Source: Yale Budget Lab, Tax Policy Center, Federal Reserve Board, Bloomberg, Principal Asset Management. Data as of March 31, 2026.

U.S. corporate tax rate

1929–2025 actual, 2026 estimate



Source: Congressional Budget Office, Bloomberg, Principal Asset Management. Data as of March 31, 2026.

Strong U.S. foundations are crucial shock absorbers

The U.S. economy's strong underlying fundamentals suggest it can absorb a modest energy shock. Household balance sheets have strengthened materially, providing a meaningful buffer against macro headwinds. Since the pandemic, household net worth has risen by roughly \$70 trillion.

That said, these gains have been unevenly distributed. Wealth accumulation has been concentrated among higher-income households, which have benefited disproportionately from strong capital markets. The top 20% of households now hold around 80% of total U.S. net worth, while lower-income households have a far more limited cushion and continue to face rising affordability pressures. Even so, aggregate consumption should remain resilient, as the top 10% account for nearly half of total consumer spending.

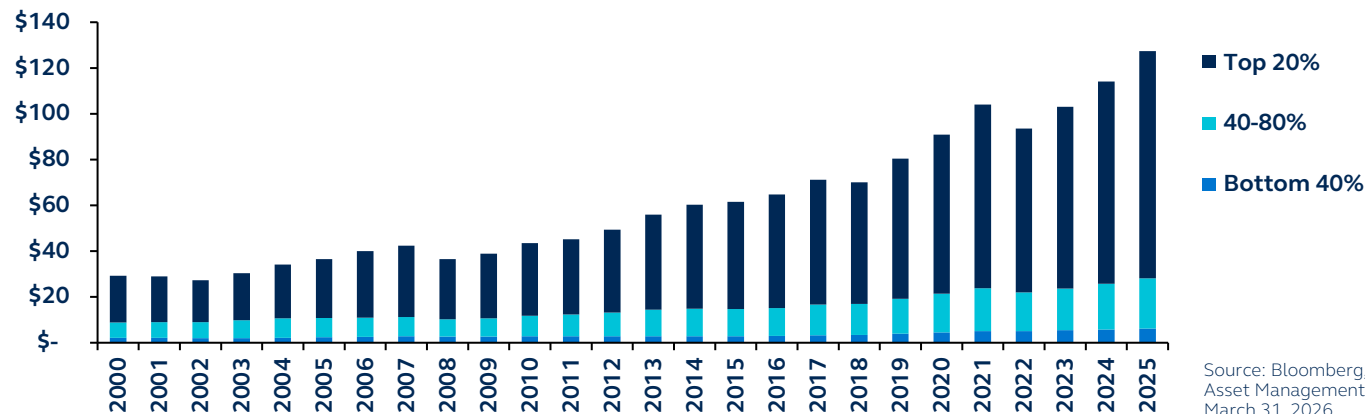
A key vulnerability is that today's household strength is heavily equity-driven, leaving balance sheets more exposed to market volatility. However, sharp market drawdowns are uncommon when corporate profitability is healthy, and today's corporate fundamentals remain solid: leverage is contained, liquidity is ample, and margins are near cycle highs.

Tightening financial conditions will pressure profits, but the corporate sector has crucial buffers against downside risk.

Household and corporate balance sheet strength provides ample buffers to the energy shock. The K-shaped economy is a concern, but it does not yet imply aggregate weakness.

Household balance sheet strength

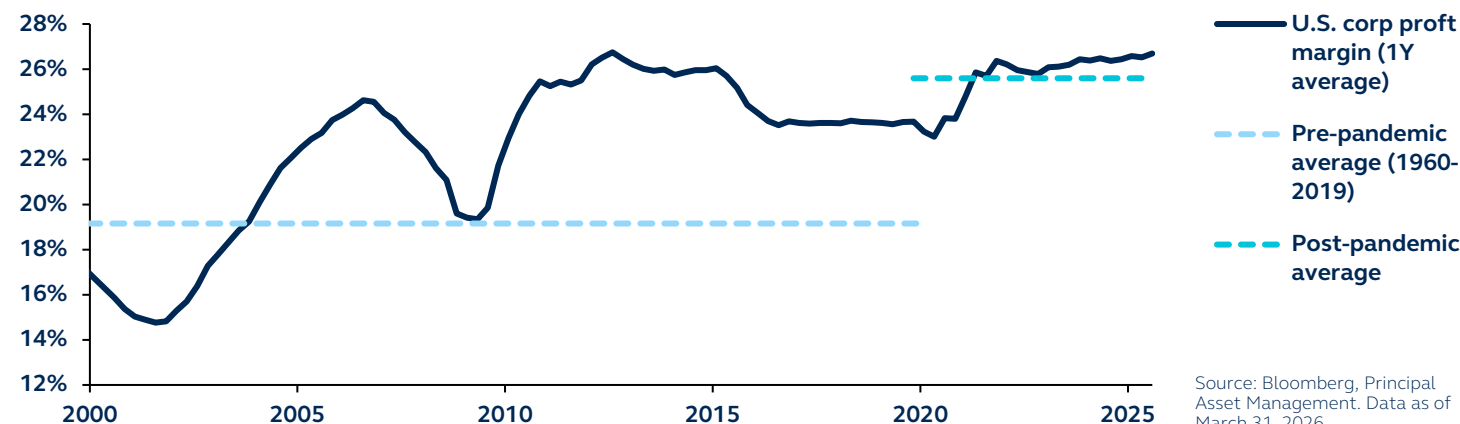
Trillions, household net worth excluding real estate, 2000–2025



Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

Corporate profit margins

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



Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

Secular forces shape low-hiring, low-firing backdrop

The pace of job creation has continued to slow, heightening concerns about a slowing economy. Annual job gains slowed from 1.4 million in 2024 to just 182,000 in 2025. Yet, with the unemployment rate climbing only slightly and layoffs still very low, there is more than just weak cyclical demand at play. Indeed, two major secular forces are shaping the low-hiring, low-firing environment and keeping the labor market in balance:

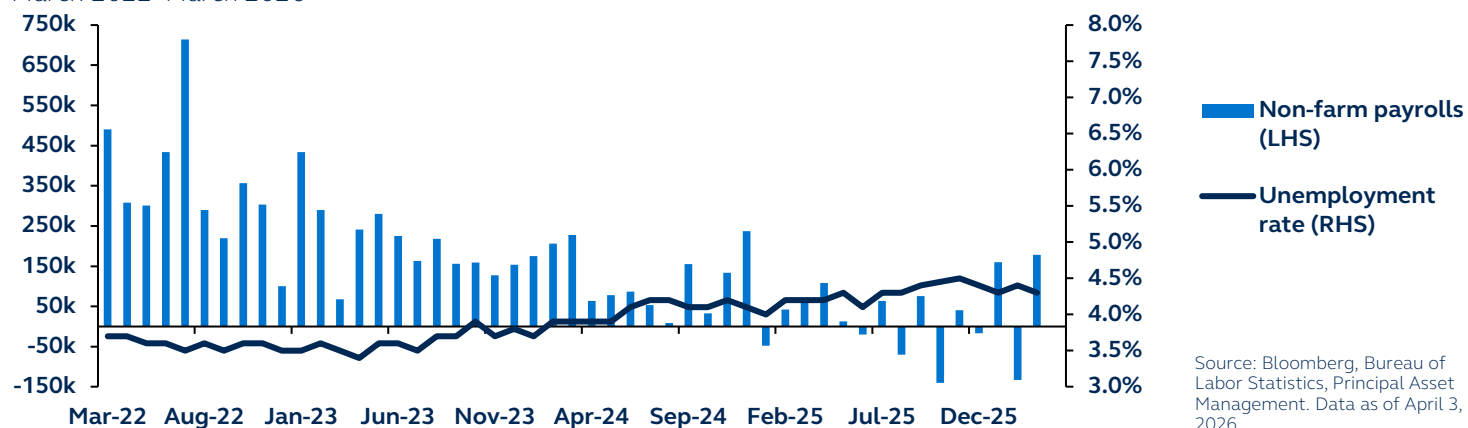
- AI:** There is no evidence of broad-based job displacement. However, entry-level workers, whose tasks are easier to automate, are having a harder time finding work, underscoring the notion that companies can maintain, or increase, output without expanding headcount. Certainly, the sharp divergence between job openings and earnings growth suggests that productivity gains may be at play.
- Demographics and immigration:** Retiring baby boomers and lower immigration flows are reducing the number of available workers. Thus, the economy does not need to generate as many jobs to keep unemployment stable.

Given the risks to growth, labor demand still needs to be closely monitored, yet widespread layoffs are unlikely if earnings growth remains positive and profitability persists.

Job creation has slowed, but structural supply constraints continue to keep the labor market in equilibrium, even as macro headwinds weigh on labor demand.

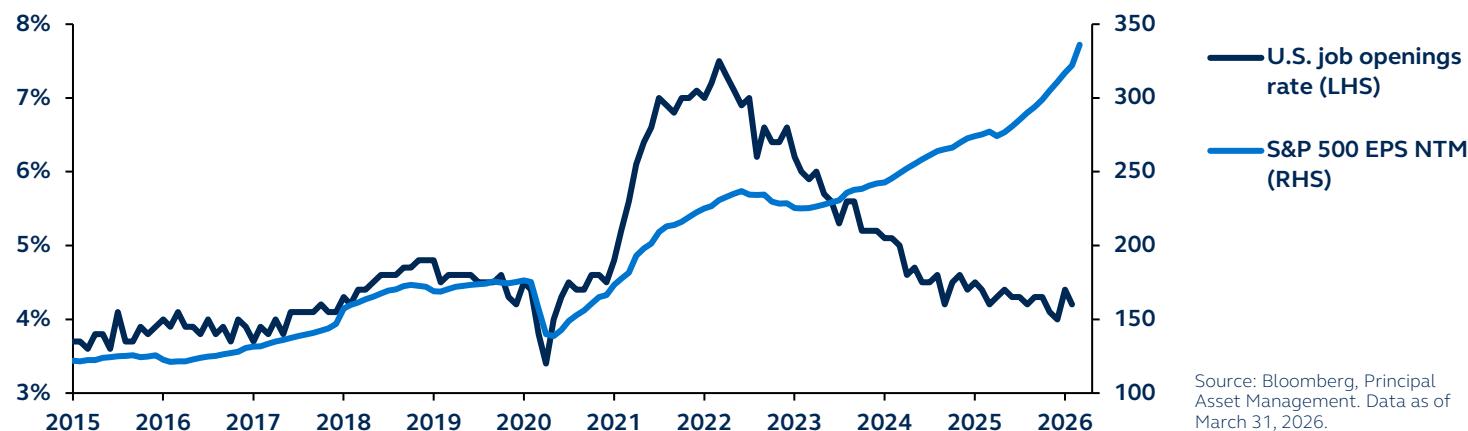
U.S. unemployment rate vs. non-farm payrolls

March 2022–March 2026



S&P 500 EPS and U.S. job openings rate

Seasonally adjusted, January 2015–February (JOLTS) / March (S&P 500) 2026



Oil price shock: back to the 1970s inflation surge?

Inflation remains a challenge. Although it has trended lower, inflation has held above the Federal Reserve's 2% target for five years and is now confronting a new shock.

The tariff-driven increase in inflation is widely expected to peak by mid-year. However, the current energy price spike complicates the path towards further disinflation and implies a second inflation wave may be approaching.

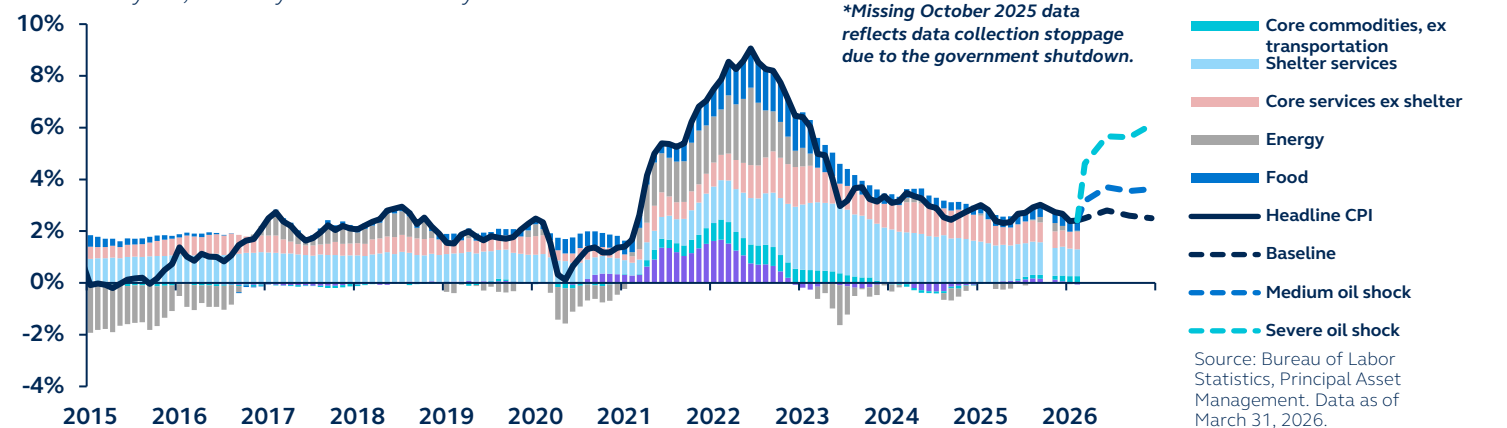
Federal Reserve models estimate that each \$10/bbl increase in oil prices raises headline inflation by 0.3ppt. A sharp but brief spike in energy prices should only have a minimal impact. However, a medium oil shock scenario, where oil stabilizes at \$90/bbl, could see inflation rise to over 3.5% by year-end. Furthermore, a more severe oil shock scenario, which assumes a multi-quarter closure of the Strait of Hormuz, driving oil sustainably above \$125/bbl, would push inflation to over 6% by year-end. There is also potential for large second-round effects, given the Strait's downstream impact on food and semiconductor supply chains.

With history offering a clear warning, Federal Reserve is likely to proceed with heightened caution. The oil price shocks and early easing in the 1970s created dual surges in inflation that took several years and an eventual recession to tame.

Inflation pressures from tariffs should peak by mid-year, yet the inflation outlook is contending with another shock: the conflict in Iran, and its impact on oil prices.

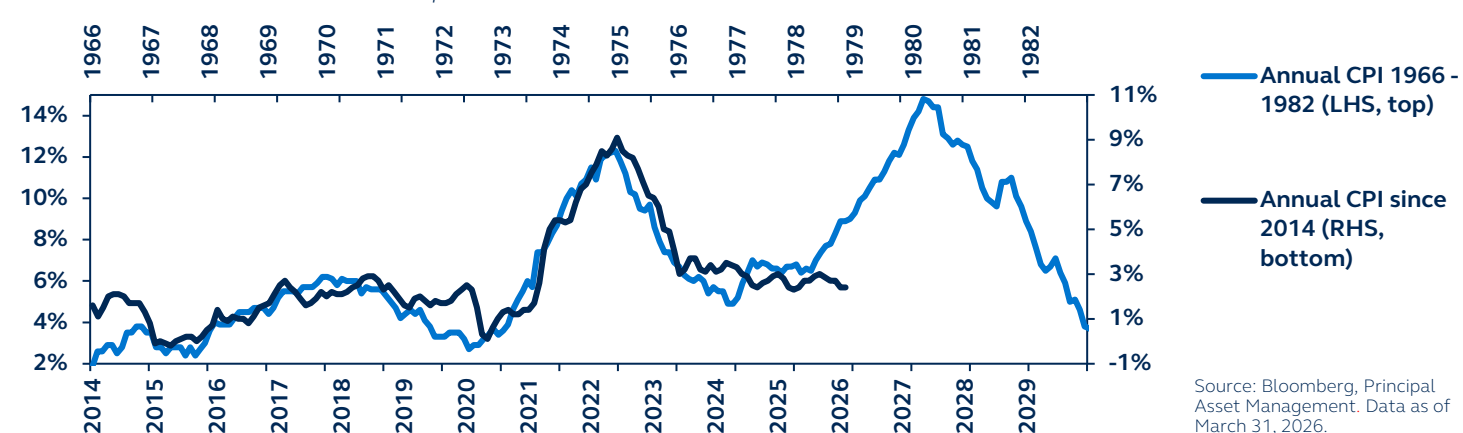
Contribution to headline U.S. inflation

Year-over-year, January 2015–February 2026



Historical inflation

Annual CPI inflation since 2014 compared to 1966–1982



Federal Reserve: Delayed, not derailed

Since the oil shocks of the 1970s and 1980s, the Fed has generally avoided tightening rates in response to supply-driven inflation, aided by inflation targeting and improved central bank credibility. However, the Fed was widely criticized for responding too late to the inflation surge following Russia's invasion of Ukraine, and, with inflation having remained above target for five years, its sensitivity to persistent energy shocks is likely to have heightened.

The Fed's dual mandate implies strong consideration of both inflation risks and demand destruction. Continued labor-market softening and affordability pressures argue for an eventual return to a neutral fed funds rate.

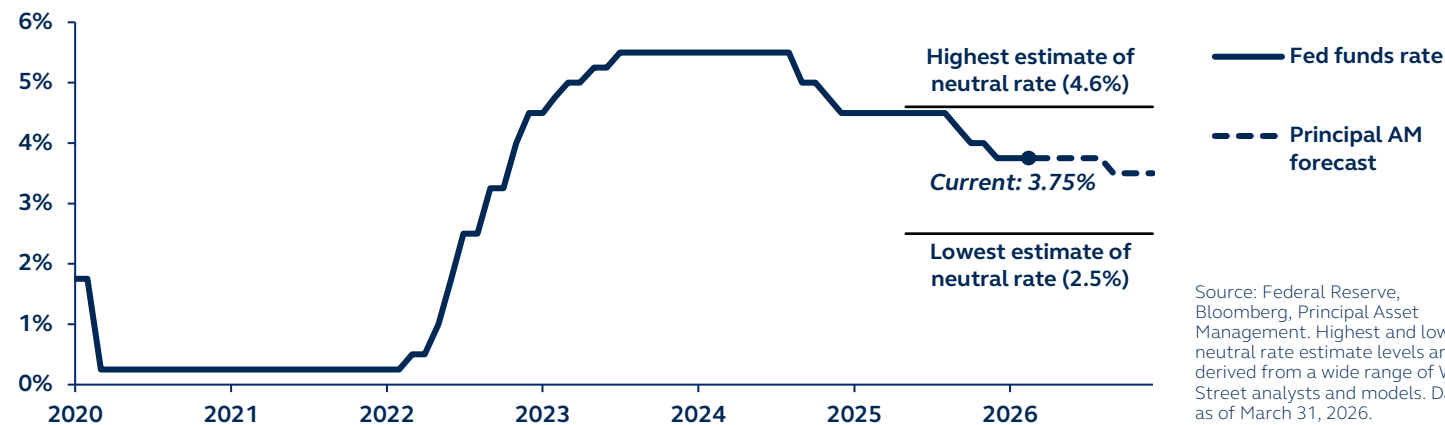
Yet, with inflation still elevated and now facing upside risks from both tariffs and energy prices, the Fed is likely to proceed cautiously and will require clear evidence that core inflation has moderated and inflation expectations remain anchored before it cuts. As Chair Powell recently noted, without visible progress on inflation, cuts are off the table.

We expect the Fed to delay its next cut to September—if not December—with a second 25bps cut pushed into early 2027. This is a more dovish outlook than market expectations, which were even expecting a rate hike this year.

Inflation concerns imply the Fed will be more cautious about proceeding with its rate-cutting cycle. We expect the Fed to delay its next cut to September, if not December.

Federal Reserve policy rate path

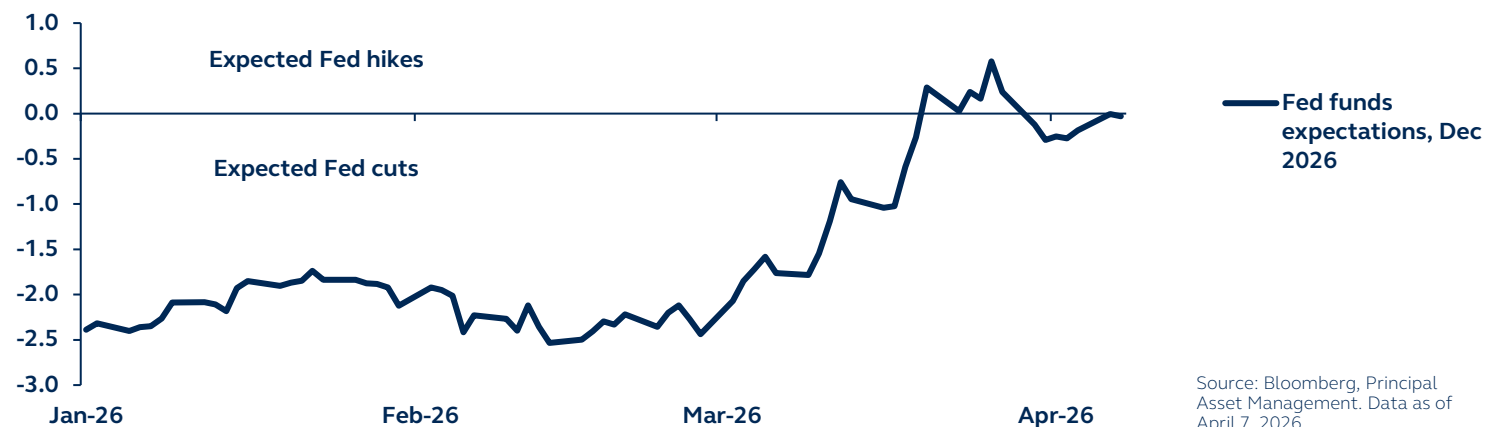
Fed funds rate and projections, January 2020–March 2026



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 March 31, 2026.

Rolling expectations for rate moves by December 2026

Number of 25bps Federal Reserve policy changes



Source: Bloomberg, Principal Asset Management. Data as of April 7, 2026.

Global economy: Tailwinds despite energy vulnerabilities

Before the recent geopolitical flare-up created uncertainty for energy-importing countries, the global macro outlook was fairly constructive. In Europe, economic momentum had been picking up. PMIs are back in expansion territory, helped by easier financial conditions and fiscal expansion. However, Europe's reliance on imported energy has dampened the outlook, and surging energy prices are weighing on activity. Notably, however, Europe is less vulnerable than during the 2022 Russian invasion of Ukraine, as the region has diversified its energy supply chains.

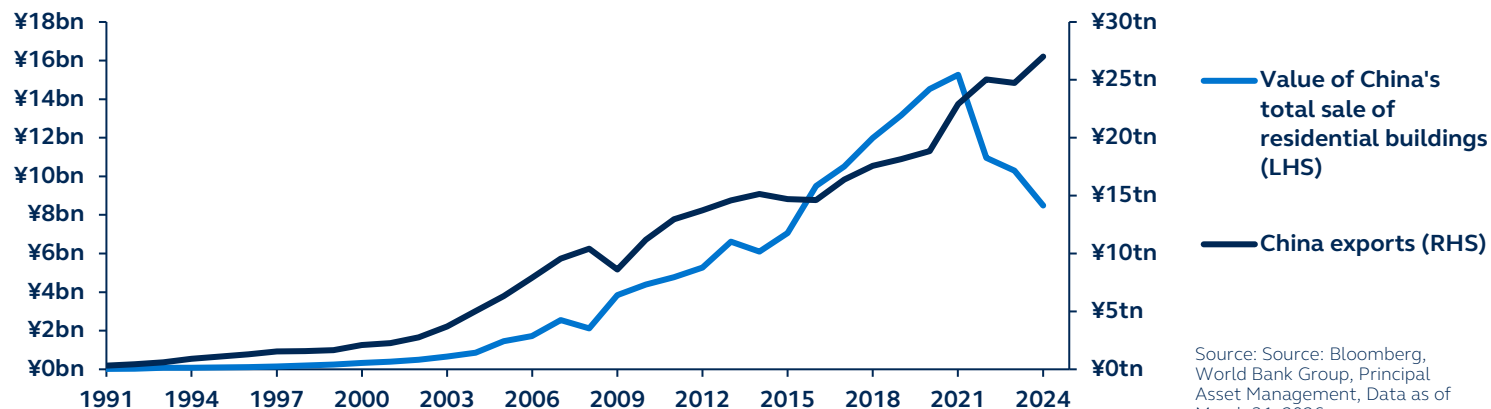
In China, stronger-than-expected exports and its growing role as a tech innovator have offset the domestic headwinds from its real estate downturn. Even risks tied to the recent energy price shock are relatively contained, given China's substantial reserves, flexibility to turn to coal, and surge in renewables.

Broader Asia, however, is heavily exposed to the energy shock due to its reliance on energy imports through the Strait of Hormuz. The immediate risk is the physical availability of commodities. Taiwan is the most vulnerable, while Japan and Korea have more cushion. Asia's strength in tech innovation should provide an important buffer for growth, while fiscal stimulus is also likely in several Asian economies.

China's export strength and tech innovation offset its real estate headwinds. In Europe, momentum was picking up but energy vulnerabilities pose a risk to the constructive outlook.

China's value of exports vs. real estate

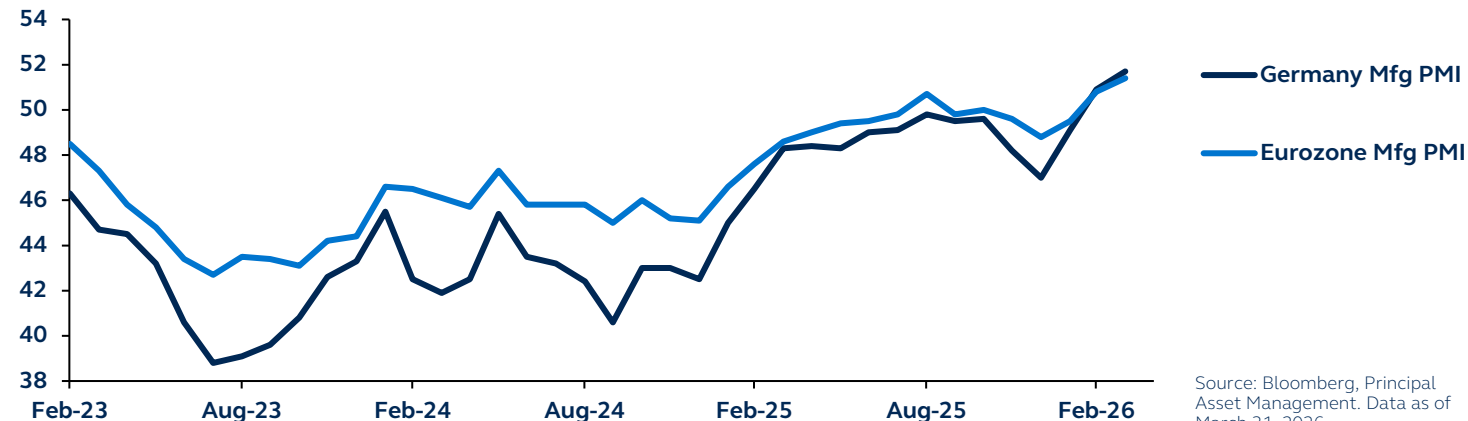
Value of total sales of residential buildings vs. exports of goods and services, 1991–2024



Source: Source: Bloomberg, World Bank Group, Principal Asset Management, Data as of March 31, 2026.

Germany and Eurozone manufacturing PMIs

Manufacturing Purchasing Managers' Index, February 2023–March 2026



Source: Bloomberg, Principal Asset Management, Data as of March 31, 2026.

Global central banks: a more hawkish, asymmetric path

The energy shock has led markets to price out additional rate cuts this year, in some cases swinging from expected rate cuts to rate hikes.

Our views are slightly more dovish. We still expect the Fed to lower policy rates this year, albeit slightly later than originally projected. The ECB and Bank of England (BoE) solely target price stability, so they have less flexibility to tolerate upside inflation risks. We expect the ECB to raise policy rates once, perhaps twice, in 2026 (compared to market expectations of two hikes), and for the Bank of England to keep policy rates unchanged (compared to market expectations of two hikes).

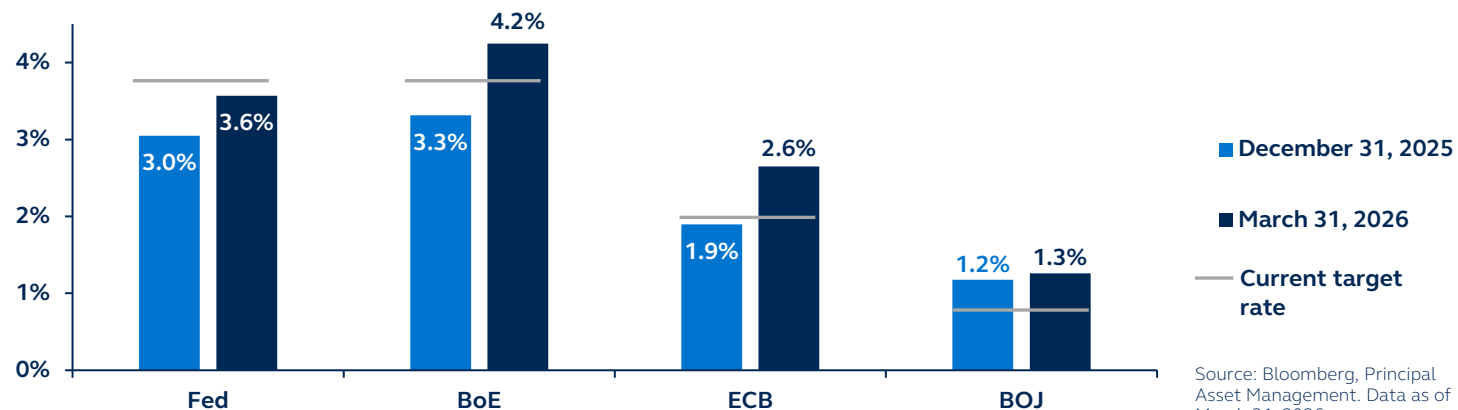
However, forecast uncertainty is unusually high. While a short-term resolution is possible, a prolonged conflict with sustained energy price pressures would likely elicit firmer policy responses.

The oil price shock has renewed interest in the dollar's safe-haven properties, prompting it to strengthen in recent weeks. Yet, divergent central bank policies and ongoing concerns about U.S. exceptionalism amid a new U.S. foreign policy playbook are likely to weigh on the greenback once the conflict ends—provided global growth has not been hit too hard.

Markets now expect almost all major global central banks to hike rates in 2026. This marks a meaningful shift in projections since the start of the year.

Global central bank marked implied rates for end of 2026

Rate and market projections, December 31, 2025 vs. March 31, 2026



Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

U.S. dollar

January 2023–March 2026



Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

Global upturn in yields is underway

Interest rates had trended lower at the start of the year, but the outbreak of hostilities in the Middle East has created a perfect storm for bond markets. Global yields have pushed higher since the end of February, with the U.S. 10-year yield approaching 4.50% at the end of Q1. Much of the action has been focused at the short end of the yield curve, however.

As energy prices have surged, inflationary concerns have risen, leading to a hawkish repricing of central bank expectations across most developed economies. In effect, this dynamic has pushed short-end yields higher.

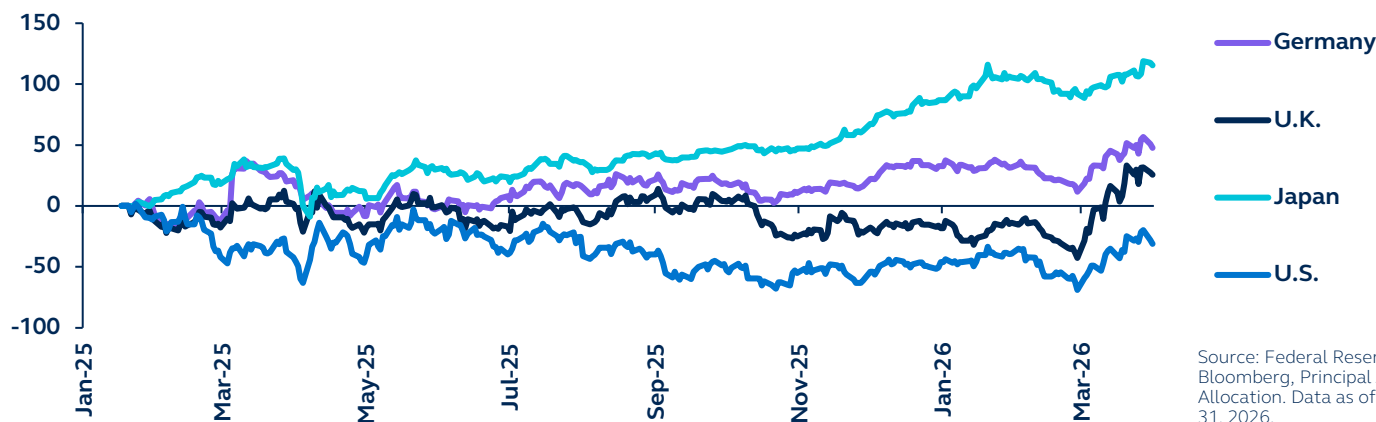
While there has also been some hawkish pass-through to 10-year yields, their move has been more modest. Growth worries amid the energy shock are likely providing some offset. Indeed, a prolonged period of elevated energy prices would spell demand destruction and weigh on long-end yields, helping to flatten the yield curve.

U.S. yields have been relatively more insulated amid this market dynamic. U.S. inflation expectations remain anchored, while the Fed's enduring credibility, despite numerous challenges this year, has also contained upward pressures. By contrast, rising long-term UK inflation expectations have sharply pushed up long-end gilt yields.

Bond yields have been moving steadily higher, though pressures have been more pronounced at the short end, leading to an overall flattening of the yield curve.

Global 10-year sovereign yields

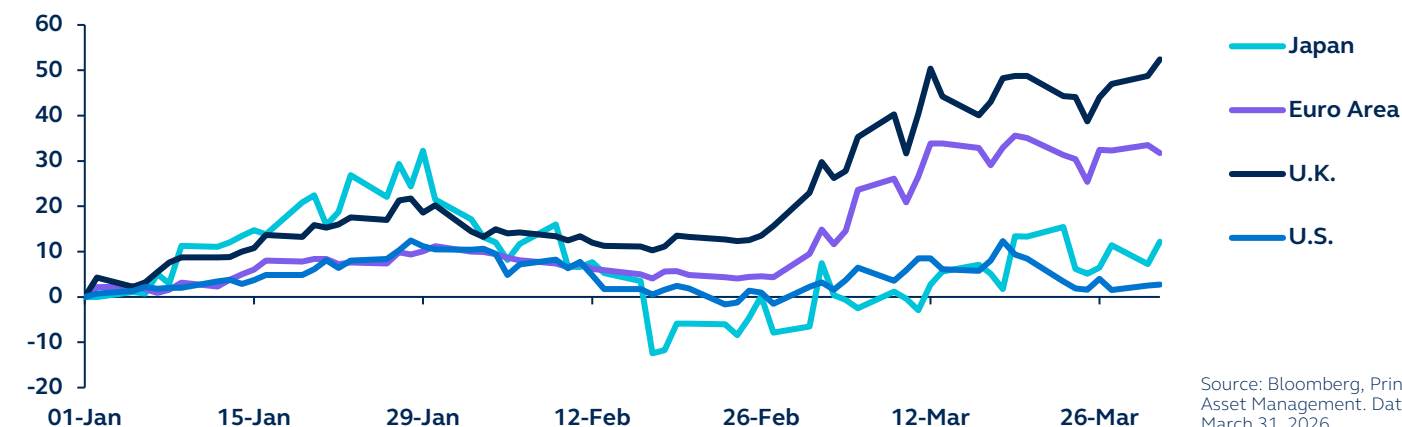
Basis points, index to 0 at January 20, 2025



Source: Federal Reserve, Bloomberg, Principal Asset Allocation. Data as of March 31, 2026.

Market-based inflation expectations

Basis points, 10-year inflation swap yield, year-to-date change



Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

Credit resiliency in a challenging backdrop

Recent downside shocks have added to headwinds, triggering a risk-off environment that has widened credit spreads since the start of the year. Yet, provided the earnings environment remains robust, healthy margins should continue to underpin credit markets, limiting spread widening. Fundamental drivers such as solid balance sheets and stable leverage should also provide buffers against risks.

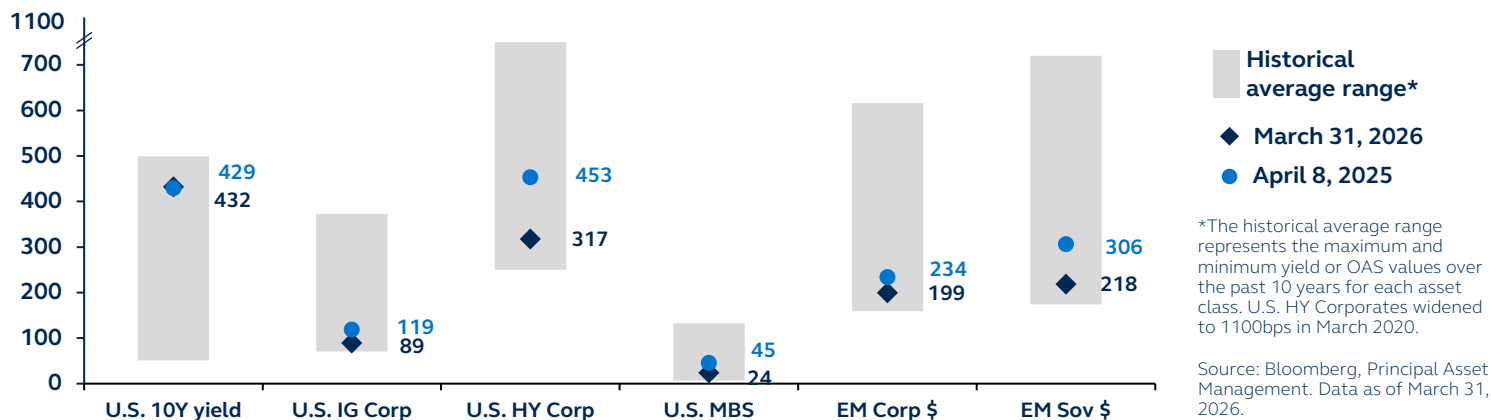
Concerns have risen about private credit, especially amid several high-profile lender bankruptcies and amid AI disruption that is spotlighting software exposure among lenders. However, these risks remain largely idiosyncratic, supported by the still-constructive macro foundations. Moreover, despite private credit's linkages to the traditional banking system, spillovers to financial stability should be manageable, as banks today are much better capitalized than during prior crises. There is also little sign of stress passing through into other parts of the credit market.

Emerging market debt has outperformed since Inauguration Day, as a weaker dollar and Fed rate cuts have preserved relative-value opportunities in the space. However, the energy shock could limit EM central banks' policy space to continue easing and disproportionately weigh on growth.

A robust earnings environment and healthy corporate fundamentals point to corporate credit weathering the multiple shocks that it is facing.

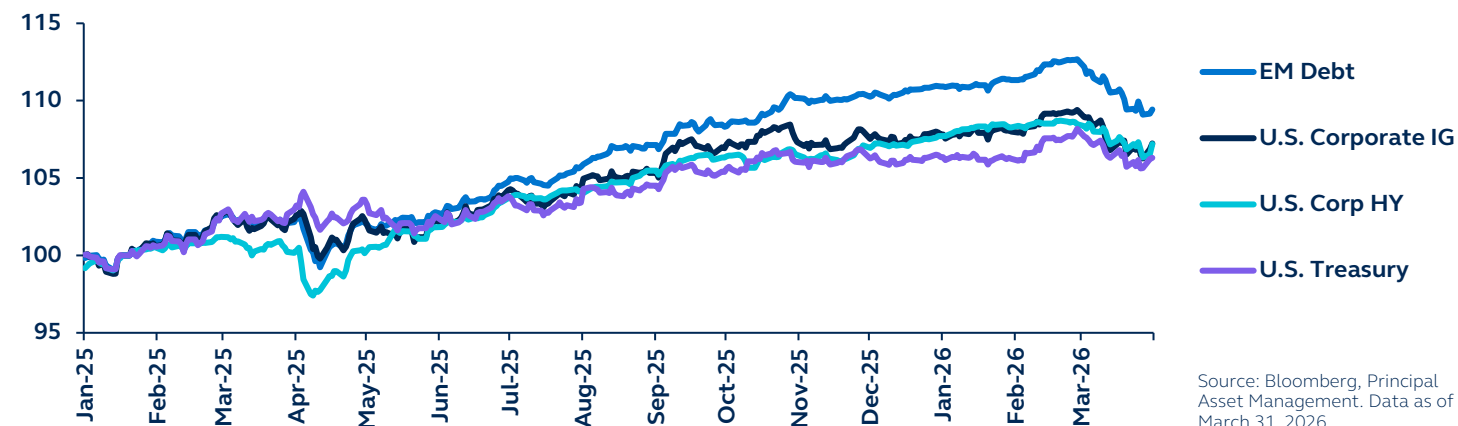
Yield and spread average range over the past 10 years

U.S. 10-year Treasury yield, other indices reflect option-adjusted-spread, basis points, March 2016–March 2026



Total return comparison

Rebased to 100 at January 1, 2025



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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