

1Q 2026 Market Outlook

Key themes for 1Q 2026

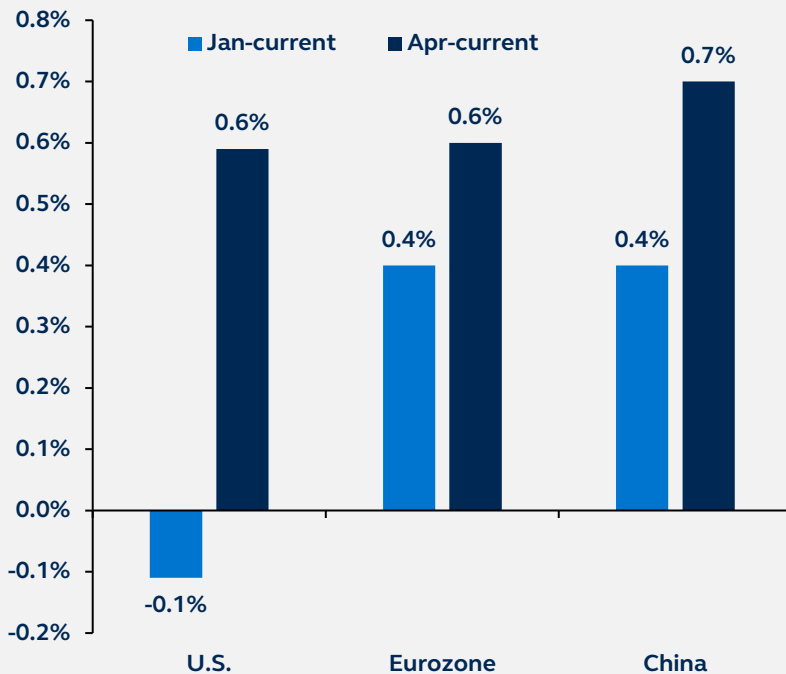
- Solid foundations for global growth in 2026
- The U.S. economy has sustained its robust underlying architecture
- The Federal Reserve is approaching neutral, balancing inflation and employment concerns
- Equity market returns will be dependent on strong earnings growth
- Fixed income credit: Tight spreads but benefiting from robust macro tailwinds
- Focus on balance and diversification

Global growth resilience amid U.S. policy upheaval

A broadly constructive global outlook has been re-established...for now

Change in consensus 2025 real GDP growth forecasts

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

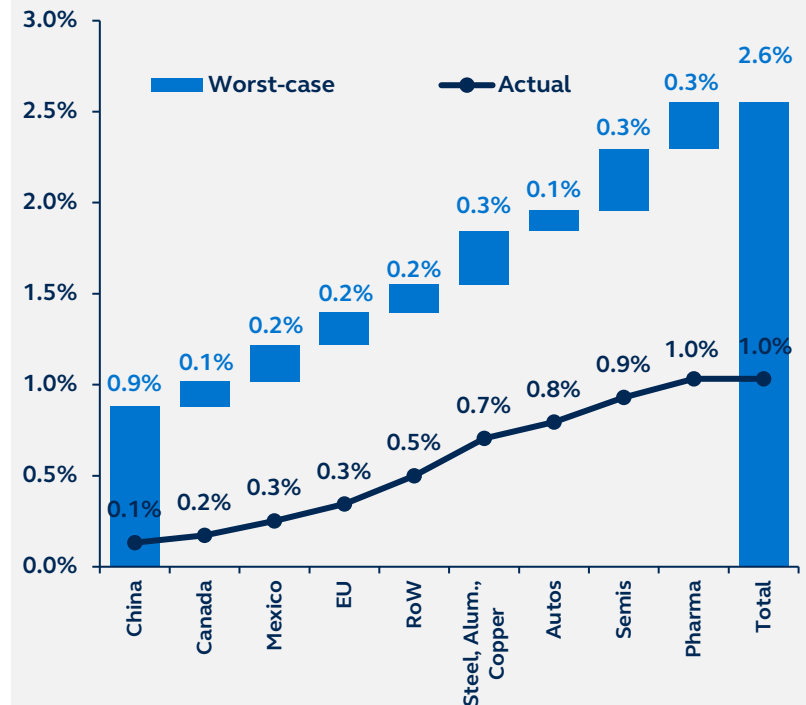


Note: Chart reflects the increase or decrease in consensus GDP forecasts.

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

Negative impact of tariff increases on U.S. GDP

Worst-case versus actual



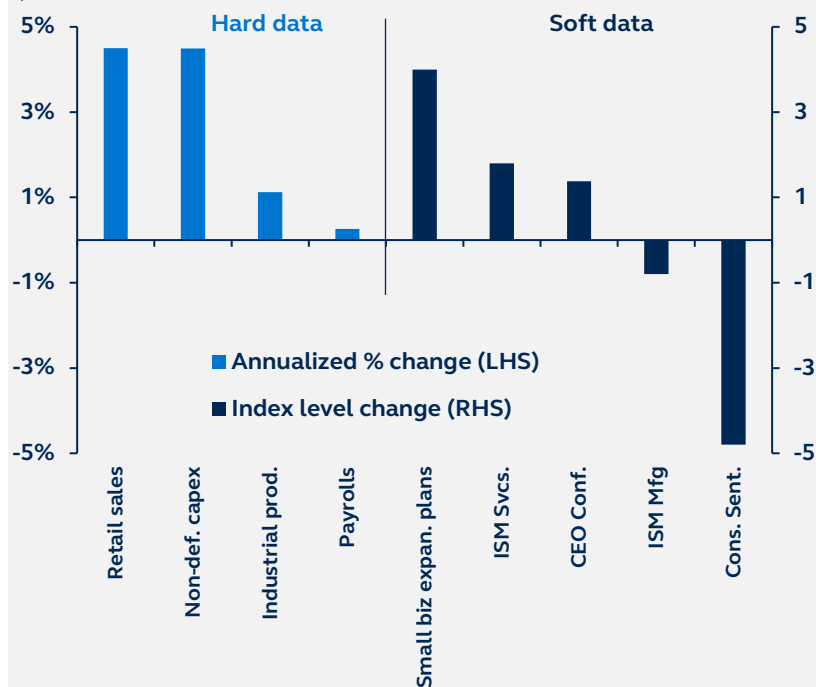
Source: International Monetary Fund, World Trade Organization, Bloomberg, Principal Asset Management. Data as of December 31, 2025.

U.S. economic strength defies market anxiety

Alongside consumer spending, AI capex has become an important anchor

Hard vs. soft data change since post Liberation Day

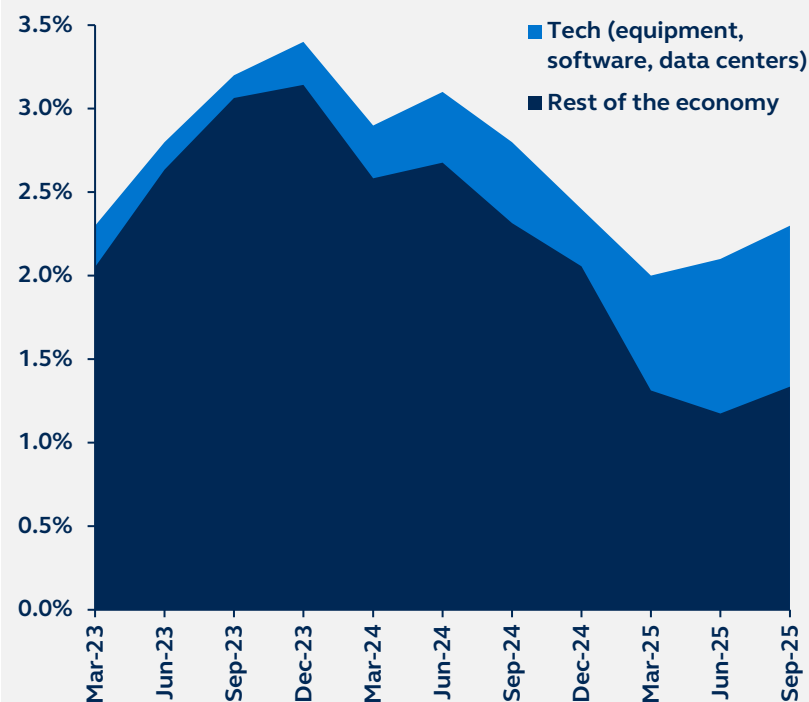
Annualized percentage change, Index level change, April 2025-present



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



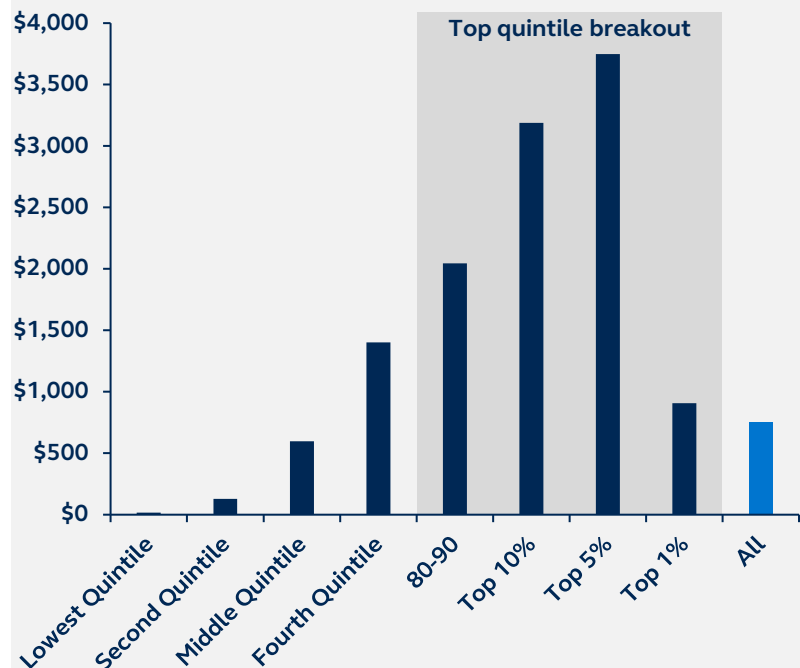
Source: Bloomberg, Principal Asset Management. Data is latest available as of December 31, 2025.

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

OBBBA will provide a meaningful tailwind to consumer spending and capex in 1Q

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

Change in after-tax income

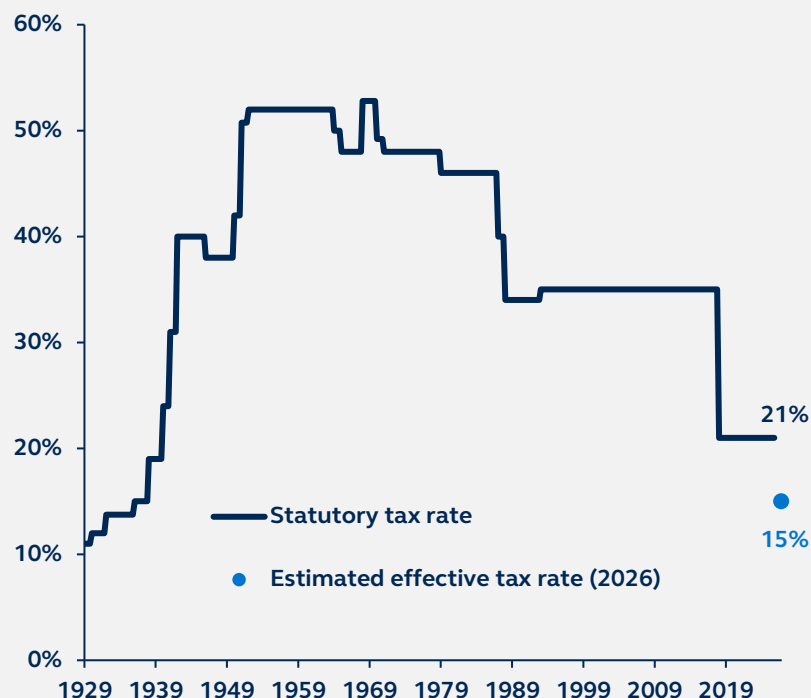


Note: Shaded area represents the breakout of the fifth income quintile.

Source: Yale Budget Lab, Tax Policy Center, Principal Asset Management. Data as of July 30, 2025.

U.S. corporate tax rate

1929-present



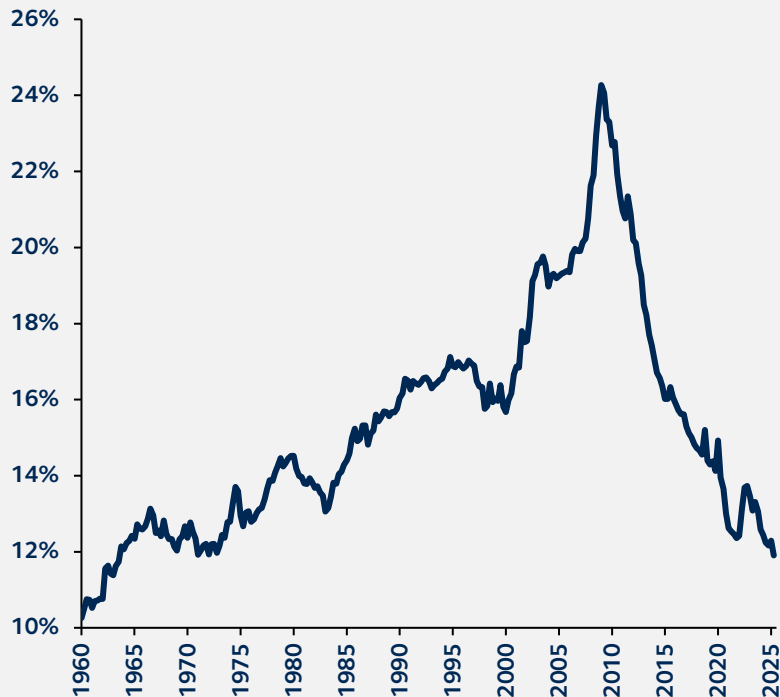
Source: Congressional Budget Office, Bloomberg, Principal Asset Management. Data as of December 31, 2025.

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

Although K-shaped economy is a concern, it does not yet imply aggregate weakness

Household balance sheet strength

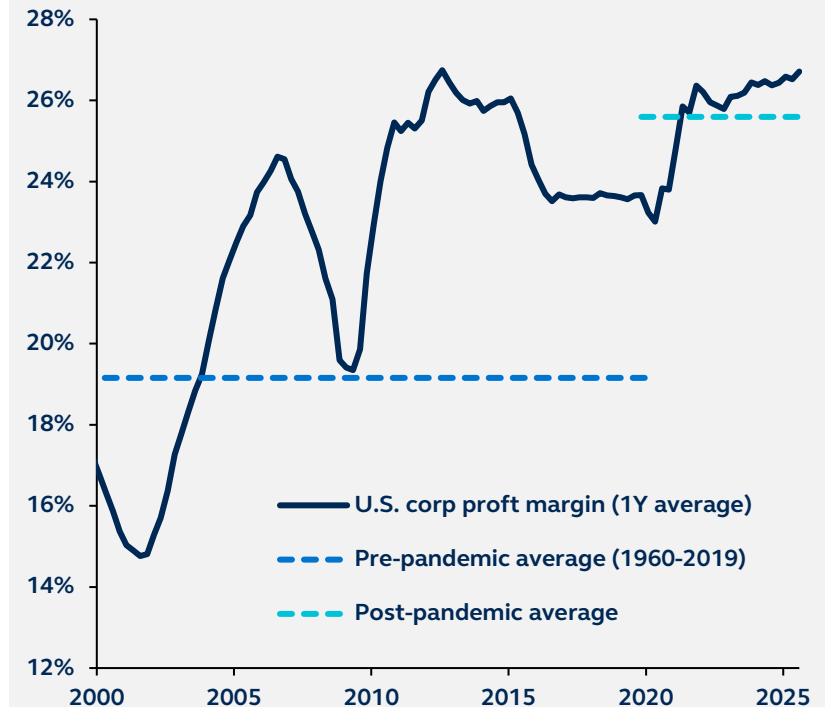
Household liabilities as % of net worth, 1960–June 2025



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



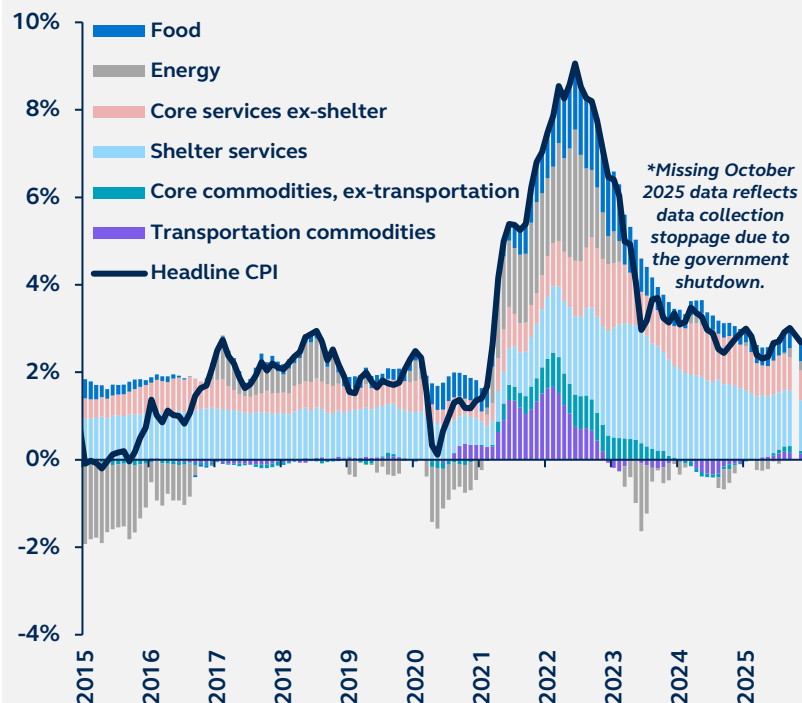
Source: Bloomberg, Principal Asset Management. Data is latest available as of December 31, 2025.

Muted tariff pass-through, but inflation risks linger

The Fed cannot dismiss the possibility of a more sustained inflationary episode

Contribution to headline U.S. inflation

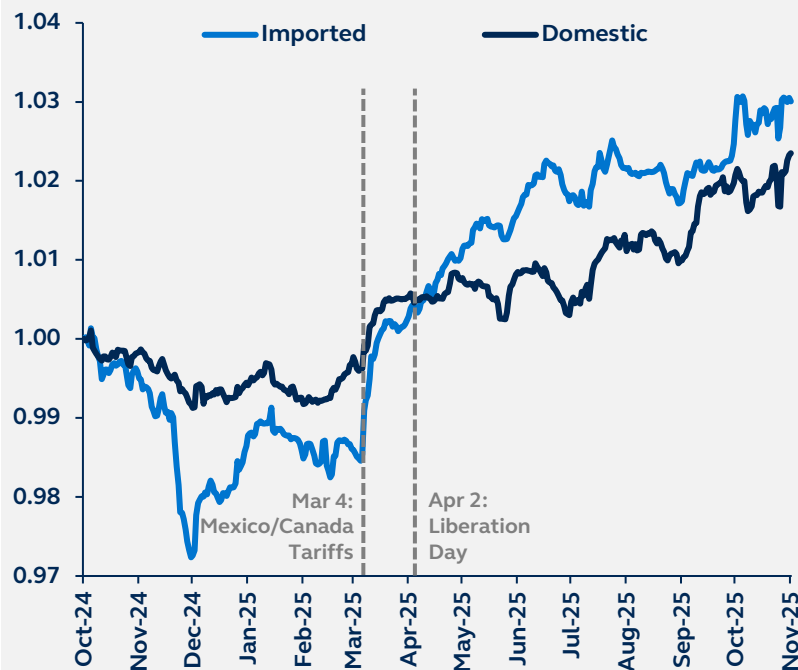
Year-over-year, January 2015–present



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

Prices of goods imported vs. domestically produced

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



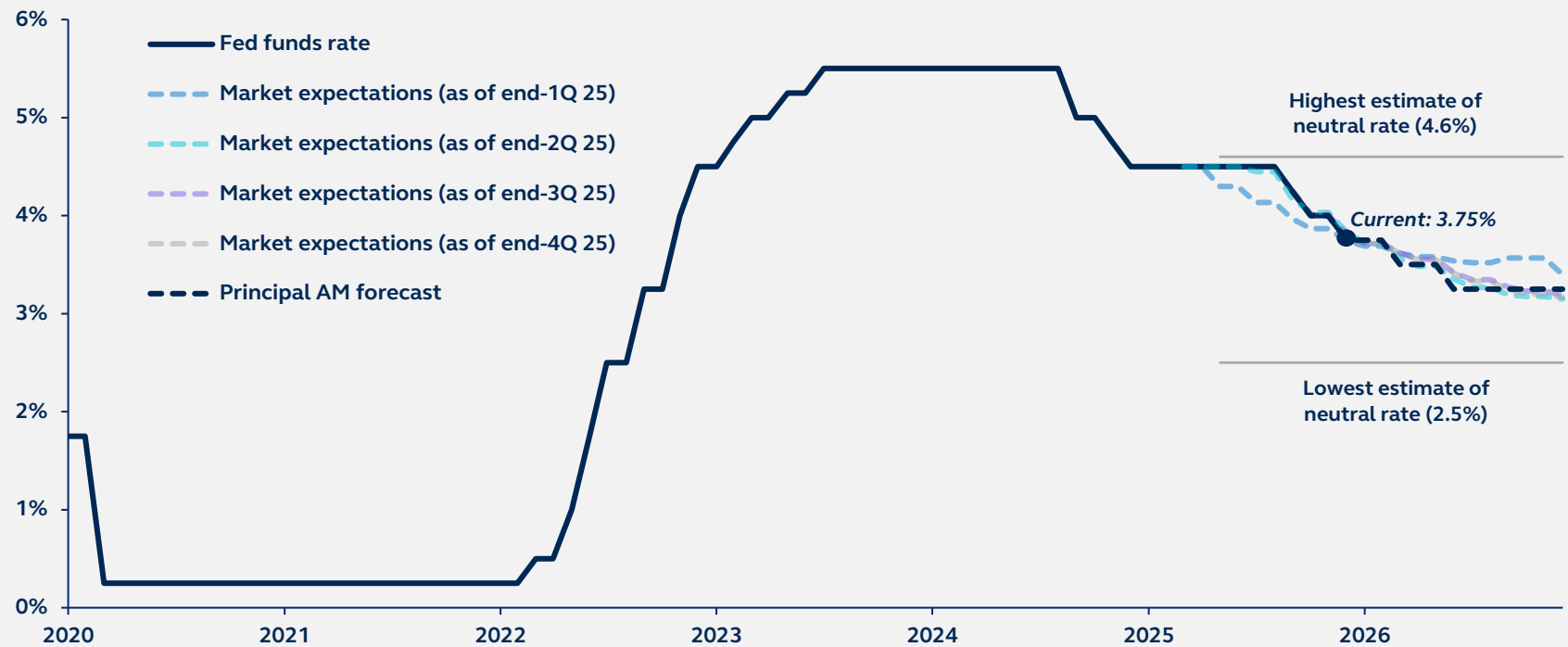
Source: Harvard Business School Pricing Lab, Principal Asset Management. Data as of November 1, 2025.

Federal Reserve: Cautiously approaching neutral

A rising unemployment rate could prompt Fed cuts to be brought forward into H1

Federal Reserve policy rate path

Fed funds rate and projections, 2020–present



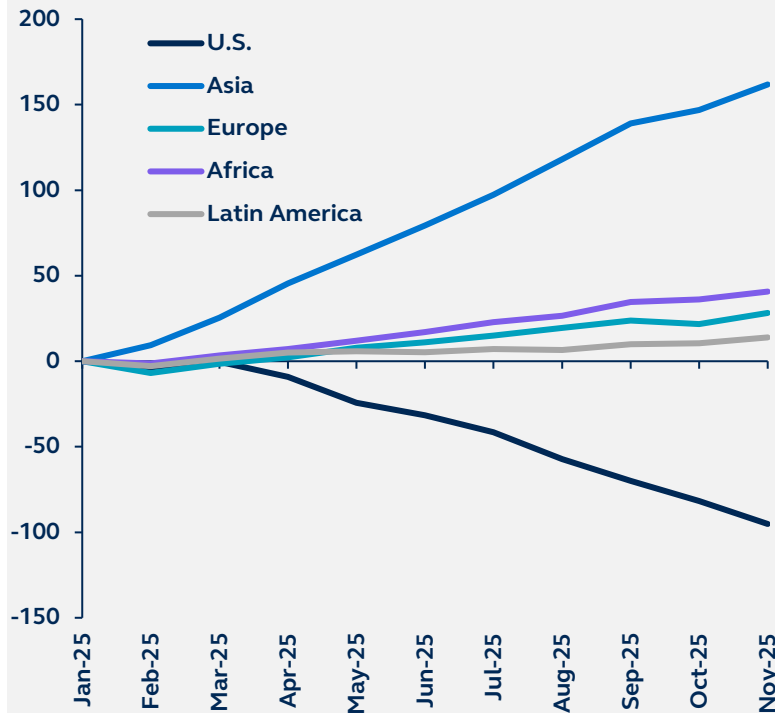
Source: Federal Reserve, Bloomberg, Principal Asset Management. Highest and lowest neutral rate estimate levels are derived from a wide range of Wall Street analysts and models. Data as of December 31, 2025.

Global economy: China and Europe break the tackle

Active policy-making has supported global growth

China exports change vs. January 2025

Year-to-date change in 12-month sum, 2025–present

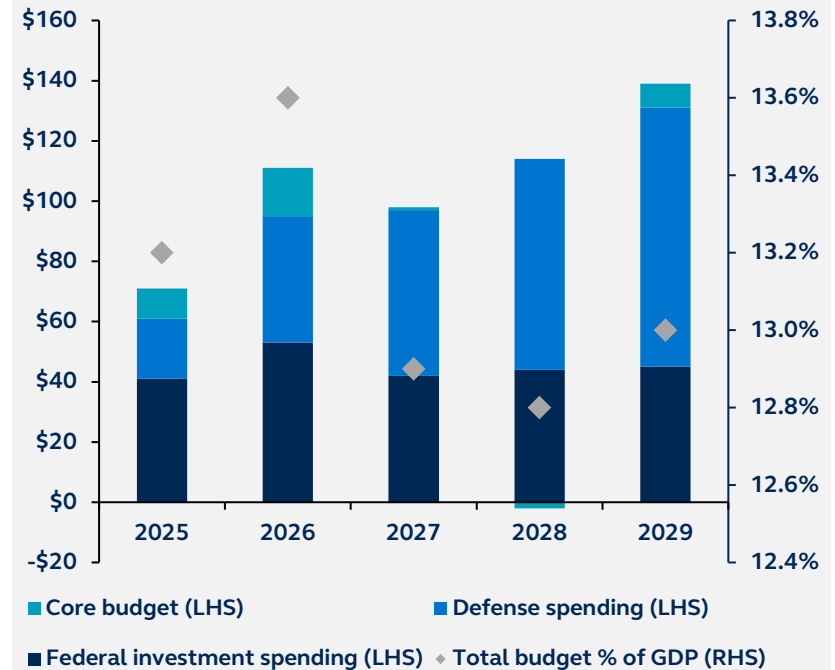


Note: Asia includes the Middle East.

Source: General Administration of Customs of the People's Republic of China, Principal Asset Management. Data as of November 2025.

Germany federal government budget change vs. 2024

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



Note: Core budget includes climate & infrastructure funds.

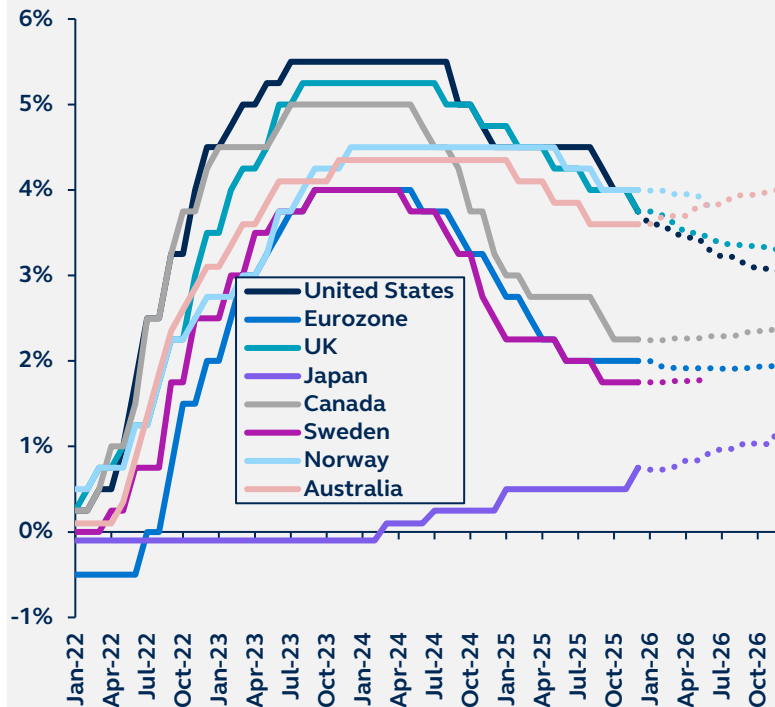
Source: Deutsche Bank Research, Principal Asset Management. Data as of December 31, 2025.

Global central banks: Asynchronous normalization

The Fed's more dovish path implies further dollar weakness

Global central bank policy rate path

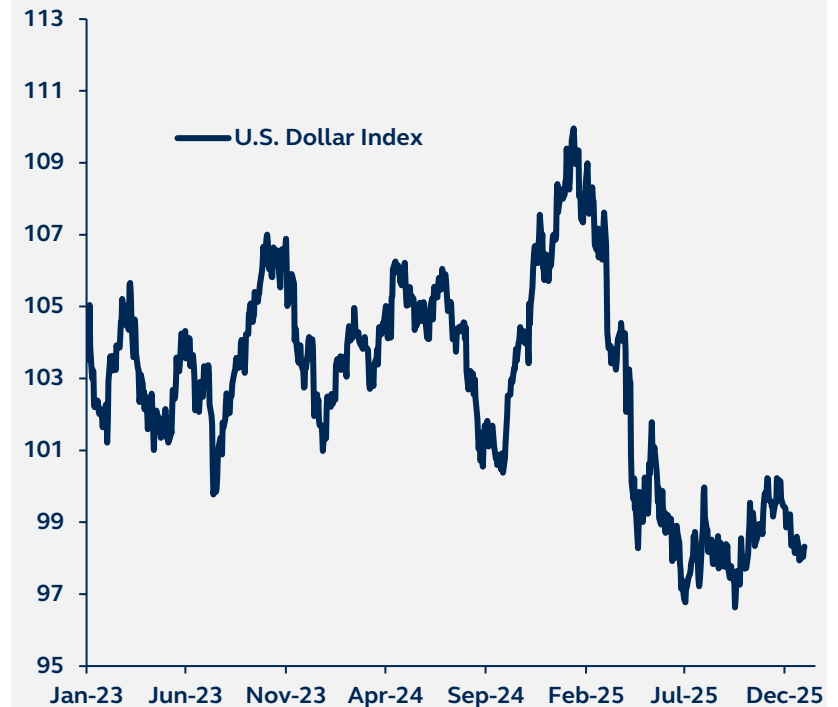
Rate and market projections, 2022–present



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.

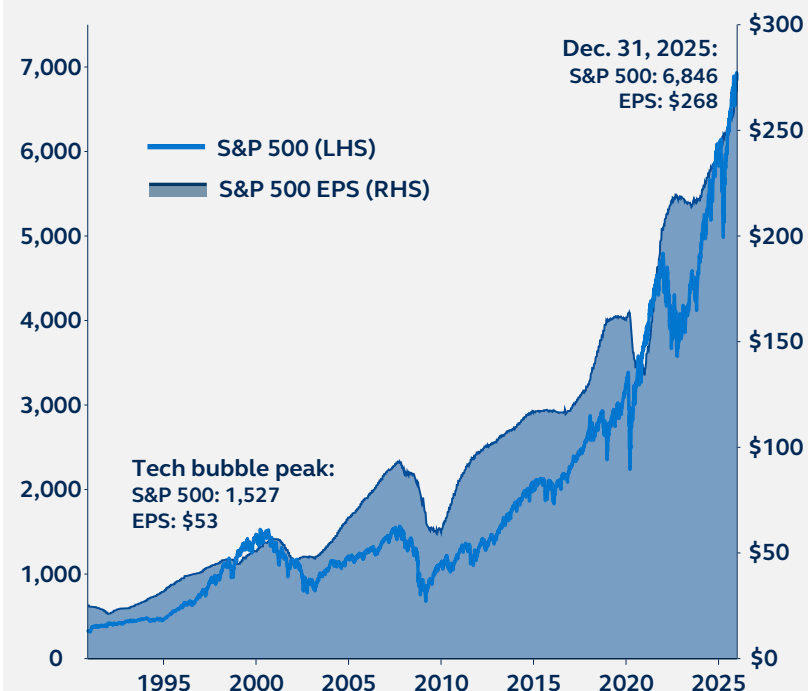
Equities

U.S. equities: Supported by macro, AI, and a broader rally

Equity market resilience points to a constructive 2026 outlook

The stock market and earnings

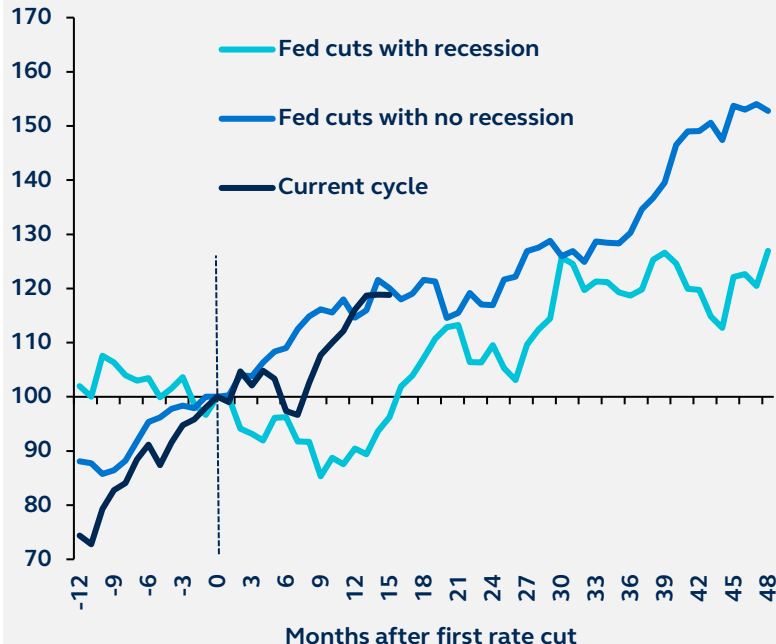
S&P 500 Index price and trailing earnings-per-share, 1990–present



Source: Clearnomics, Standard & Poor's, Principal Asset Management.
Data as of December 31, 2025.

S&P 500 performance around Fed cuts in recessionary and non-recessionary environments

Median S&P 500 performance after Fed cuts rates since 1970, month 0 = first cut



Note: COVID excluded from analysis.
Source: Bloomberg, Principal Asset Management. Data as of December 31, 2025.

AI rally: Solid fundamentals; contained risks

A sharp sell-off in 2026 is unlikely

Relative P/E vs. S&P 500

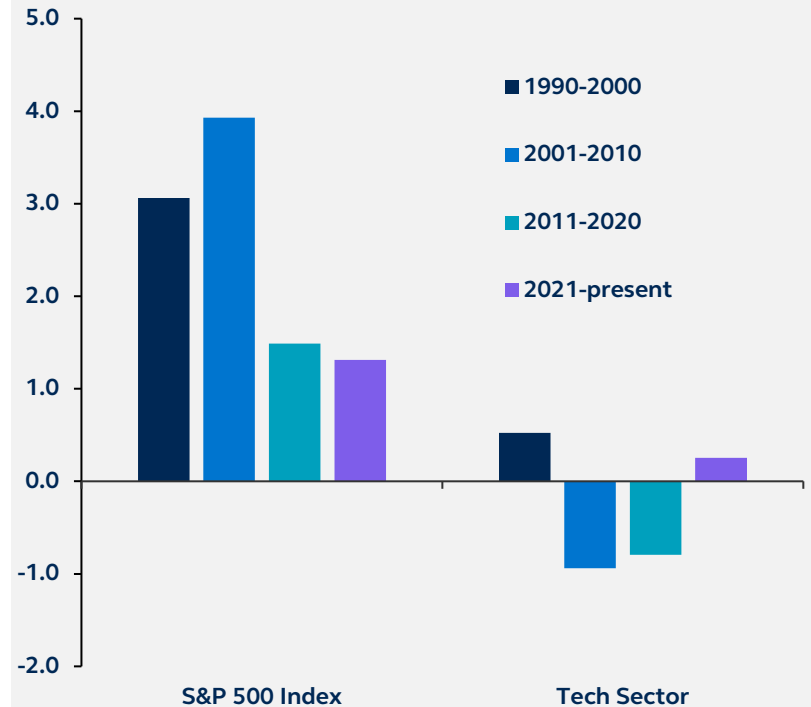
Tech sector and Mag 7 Index vs. S&P 500 (dot-com bubble vs. present)



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

S&P 500 Tech Sector net debt / EBITDA ratio

By decade, 1990-present



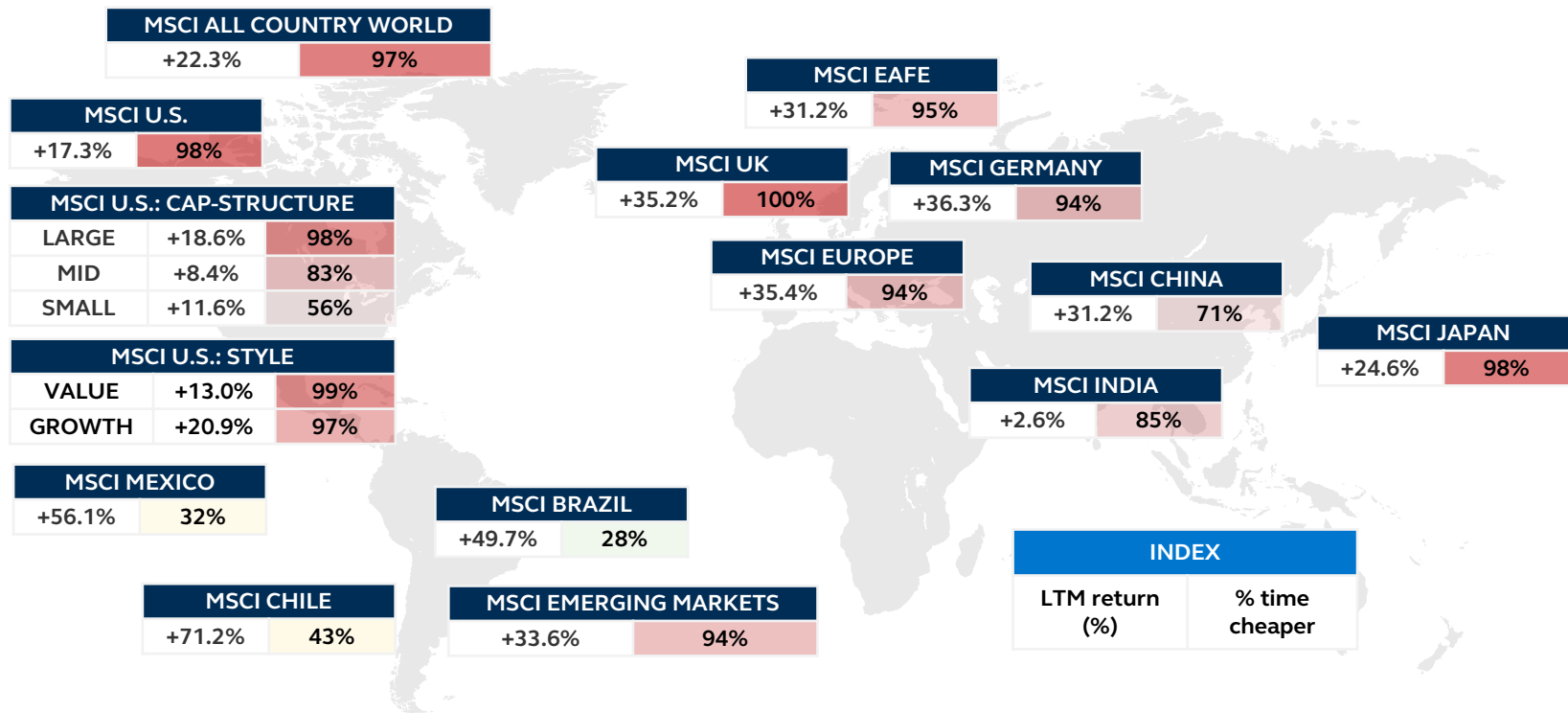
Source: Bloomberg, Principal Asset Management. Data as of December 31, 2025.
CY 2025 is an estimate.

Seeking diversification in an AI-driven landscape

Investors can start to look beyond mega-cap tech in 2026

Global equity returns and valuations

Last twelve months returns and % of the time the Index has been cheaper relative to its history since 2003, MSCI indices

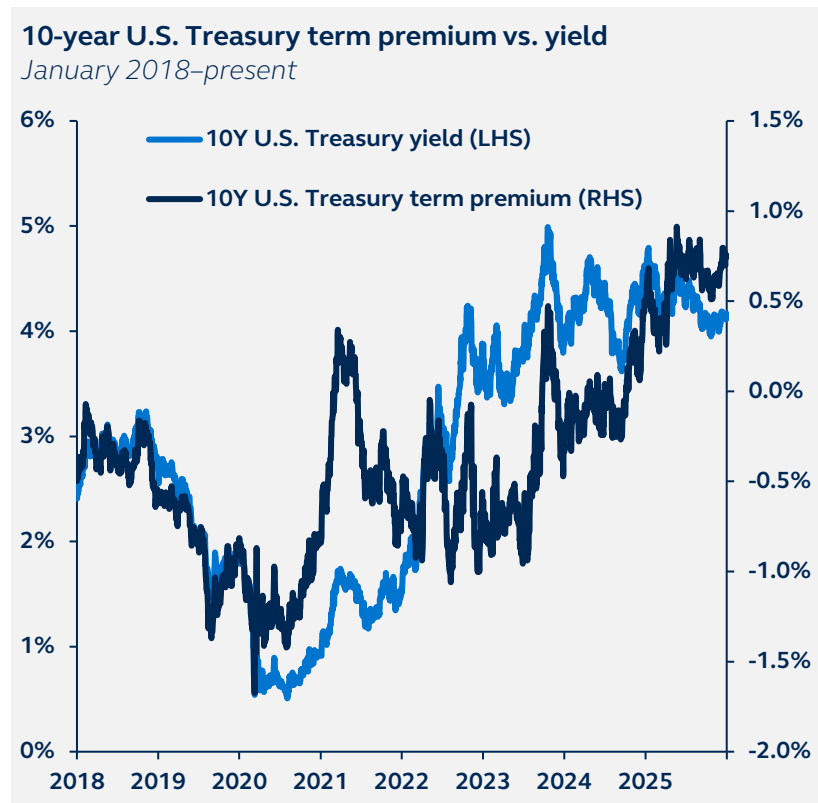


Source: FactSet, Bloomberg, MSCI, Principal Asset Allocation. LTM (last twelve months) returns are total return and in USD terms. % Time Cheaper is relative to PAA Equity Composite Valuation history. PAA Equity Composite Valuation is a calculated measure, comprised of 60% price-to-earnings, 20% price-to-book and 20% to dividend yield. Composite started in 2003. EAFE is Europe, Australasia, Far East. See disclosures for index descriptions Data as of December 31, 2025.

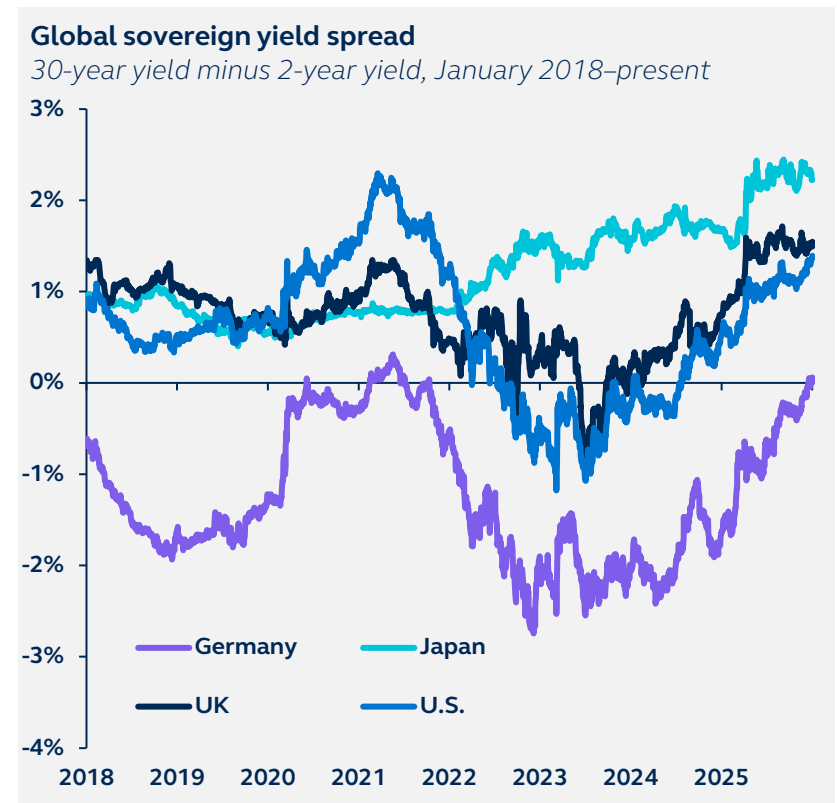
Fixed income

Fiscal concerns cast a long shadow on rates

Global yield curves should continue to steepen gradually



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



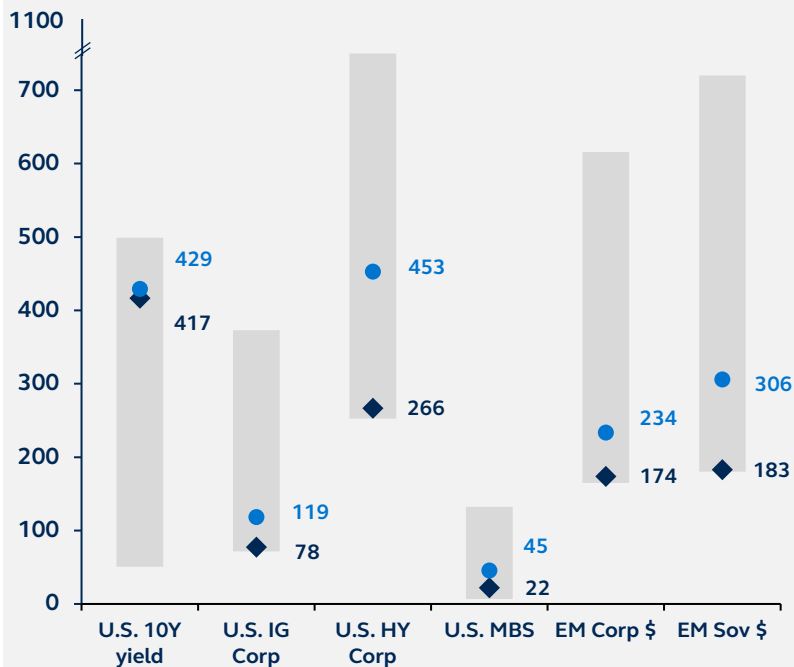
Source: Bloomberg, Principal Asset Management. Data as of December 31, 2025.

A benign backdrop for corporate credit

Robust fundamentals and pro-growth policies support a constructive credit outlook

Yield and spread average range over the past 10 years

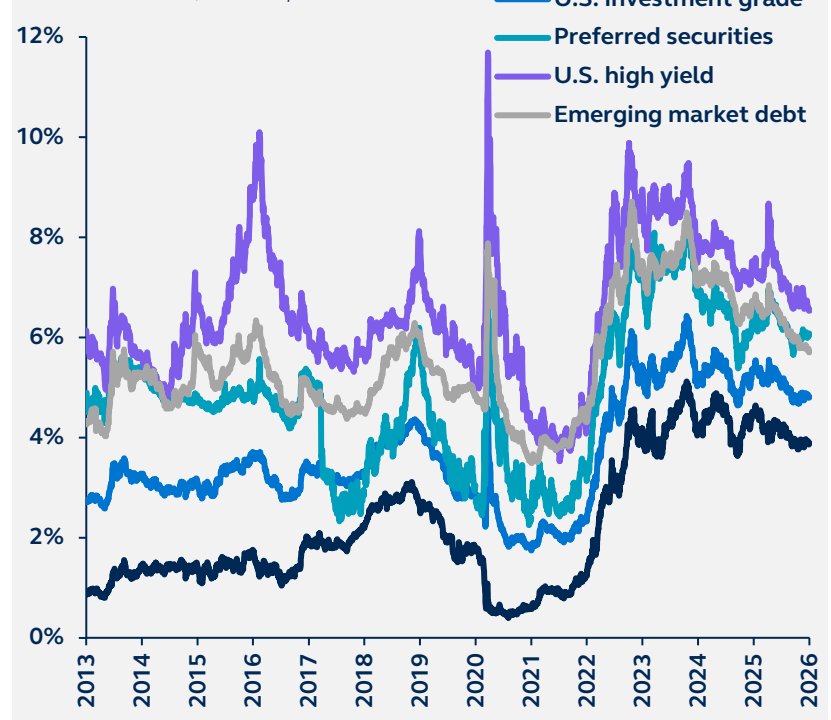
U.S. 10-year Treasury yield, other indices reflect option-adjusted-spread, basis points, 2015–present



*The historical average range represents the maximum and minimum yield or OAS values over the past 10 years for each asset class. U.S. HY Corporates widened to 1100bps in March 2020. Source: Bloomberg, Principal Asset Management. Data as of December 31, 2025.

Yield comparison

Yield-to-worst, 2013–present



Source: J.P. Morgan, Principal Asset Management. Data as of December 31, 2025.

Investment perspectives

Embracing the broader global opportunity set

Stretched valuations underscore the importance of balance and diversification

Asset class performance

Total return, annual averages over period shown, 2010–2025

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Average
Small Cap 26.9%	Fixed Inc. 7.8%	EM 18.6%	Small Cap 38.8%	S&P 500 13.7%	S&P 500 1.4%	Small Cap 21.3%	EM 37.8%	Fixed Inc. 0.0%	S&P 500 31.5%	Small Cap 20.0%	S&P 500 28.7%	Commod. 16.1%	S&P 500 26.3%	S&P 500 25.0%	EM 34.4%	S&P 500 15.0%
EM 19.2%	S&P 500 2.1%	EAFE 17.9%	S&P 500 32.4%	Balanced 6.4%	Fixed Inc. 0.5%	S&P 500 12.0%	EAFE 25.6%	S&P 500 -4.4%	Small Cap 25.5%	EM 18.7%	Commod. 27.1%	Fixed Inc. -13.0%	EAFE 18.9%	Balanced 12.1%	EAFE 31.9%	Small Cap 11.5%
Commod. 16.8%	Balanced 0.6%	Small Cap 16.3%	EAFE 23.3%	Fixed Inc. 6.0%	EAFE -0.4%	Commod. 11.8%	S&P 500 21.8%	Balanced -4.9%	EAFE 22.7%	S&P 500 18.4%	Small Cap 14.8%	EAFE -14.0%	Small Cap 16.9%	Small Cap 11.5%	S&P 500 17.9%	Balanced 8.7%
S&P 500 15.1%	Small Cap -4.2%	S&P 500 16.0%	Balanced 15.9%	Small Cap 4.9%	Balanced -1.5%	EM 11.6%	Balanced 15.2%	Small Cap -11.0%	Balanced 20.5%	Balanced 12.6%	Balanced 14.1%	Balanced -14.4%	Balanced 15.3%	EM 8.1%	Balanced 16.0%	EAFE 8.1%
Balanced 12.3%	EAFE -11.7%	Balanced 11.4%	Fixed Inc. -2.0%	EM -1.8%	Small Cap -4.4%	Balanced 8.1%	Small Cap 14.6%	Commod. -11.2%	EM 18.9%	EAFE 8.3%	EAFE 11.8%	S&P 500 -18.1%	EM 10.3%	Commod. 5.4%	Commod. 15.8%	EM 6.5%
EAFE 8.2%	Commod. -13.3%	Fixed Inc. 4.2%	EM -2.3%	EAFE -4.5%	EM -14.6%	Fixed Inc. 2.6%	Fixed Inc. 3.5%	EAFE -13.4%	Fixed Inc. 8.7%	Fixed Inc. 7.5%	Fixed Inc. -1.5%	EM -19.7%	Fixed Inc. 5.5%	EAFE 4.3%	Small Cap 12.8%	Fixed Inc. 2.8%
Fixed Inc. 6.5%	EM -18.2%	Commod. -1.1%	Commod. -9.5%	Commod. -17.0%	Commod. -24.7%	EAFE 1.5%	Commod. 1.7%	EM -14.2%	Commod. 7.7%	Commod. -3.1%	EM -2.2%	Small Cap -20.4%	Commod. -7.9%	Fixed Inc. 1.3%	Fixed Inc. 7.3%	Commod. 0.9%

Source: Clearnomics, LSEG, Bloomberg. Asset classes are represented by the S&P 500, MSCI EM, MSCI EAFE, Russell 2000, iShares Core U.S. Bond Aggregate and Bloomberg Commodity Index. The Balanced Portfolio is a hypothetical 60/40 portfolio consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities. Data as of December 31, 2025.

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