

2Q 2026 Market Outlook

Key themes for 2Q 2026

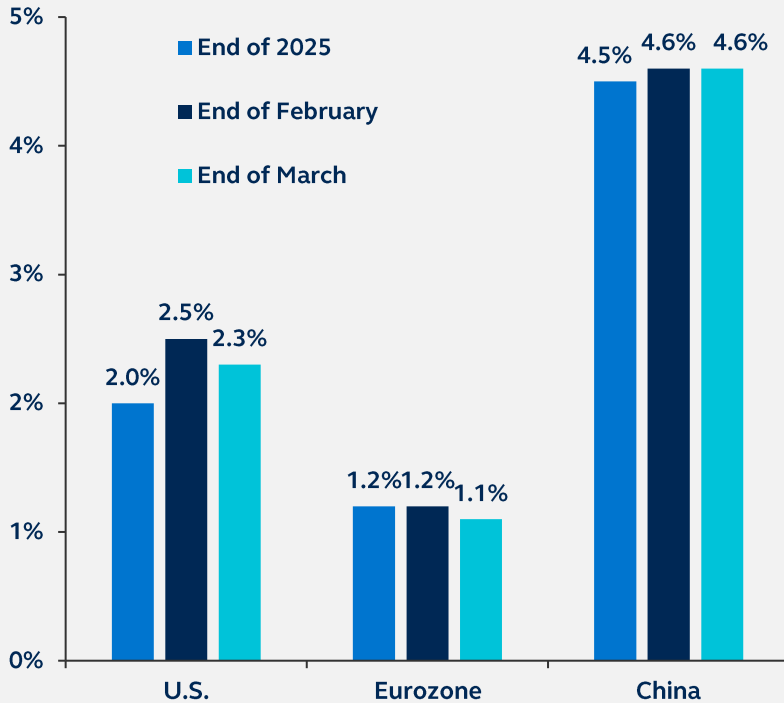
- **Crosscurrents and risks confront the global economy**
- **The U.S. economy is likely to cool slightly as consumers bear the brunt of higher oil prices**
- **The Federal Reserve is still set to cut rates, while other central banks lean toward hikes**
- **Equity market resilience is being tested**
- **Fixed income: Tight spreads, but benefiting from robust macro tailwinds**
- **Focus on resilience and diversification**

Another shock to test global growth resilience

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



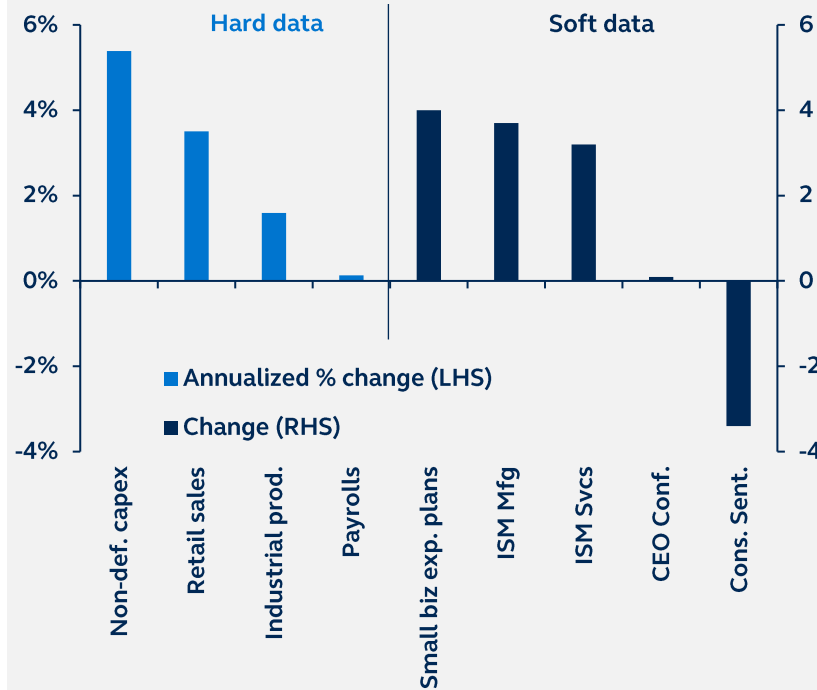
Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

U.S. macro strength at risk of disruption

Path ahead likely hinges on the duration of the Middle East conflict and oil prices

Hard vs. soft data change since OBBBA passed

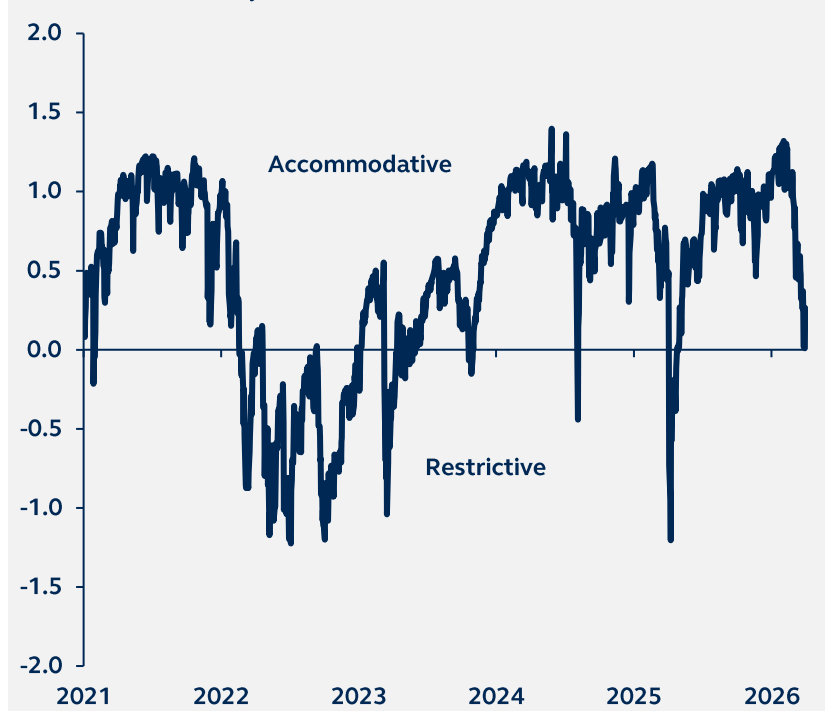
Annualized percentage change, Index level change, July 2025–March 2026



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

Bloomberg U.S. Financial Conditions Index

Index level, January 2021–March 2026



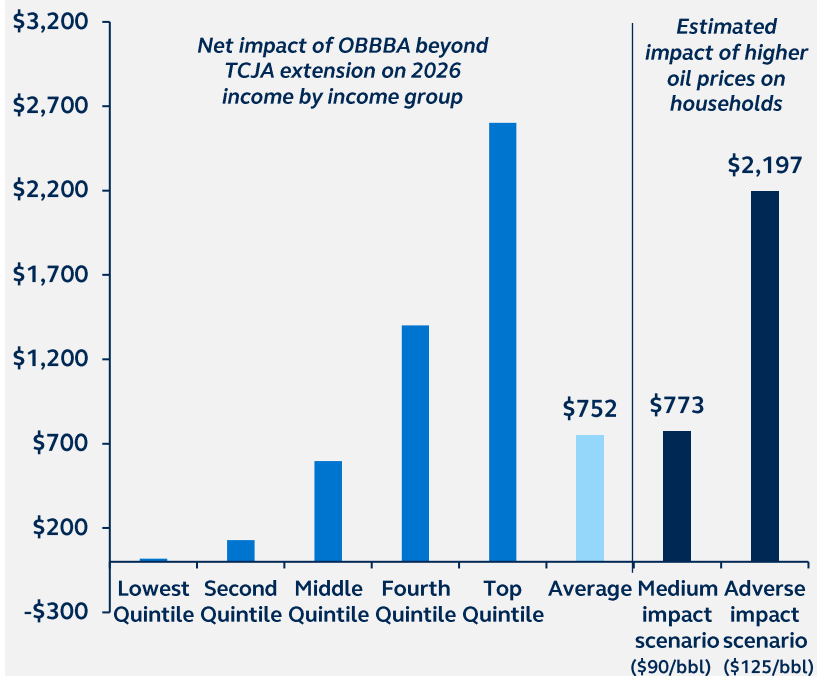
Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

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

OBBBA benefits are likely to be offset by rising oil prices

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

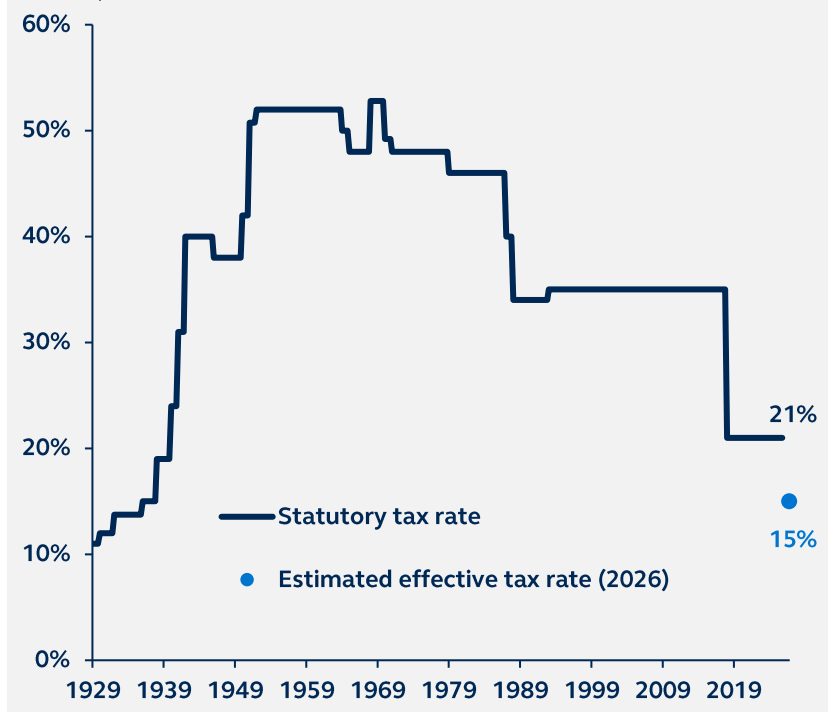
Change in after-tax income



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 March 31, 2026.

U.S. corporate tax rate

1929–present



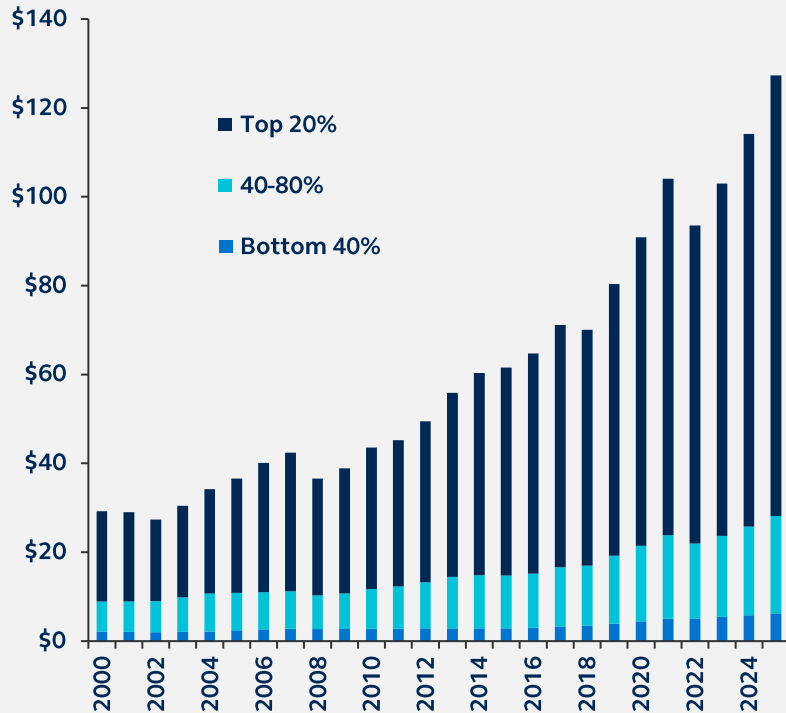
Source: Congressional Budget Office, Bloomberg, Principal Asset Management.
 Data as of March 31, 2026.

Strong U.S. foundations are crucial shock absorbers

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

Household balance sheet strength

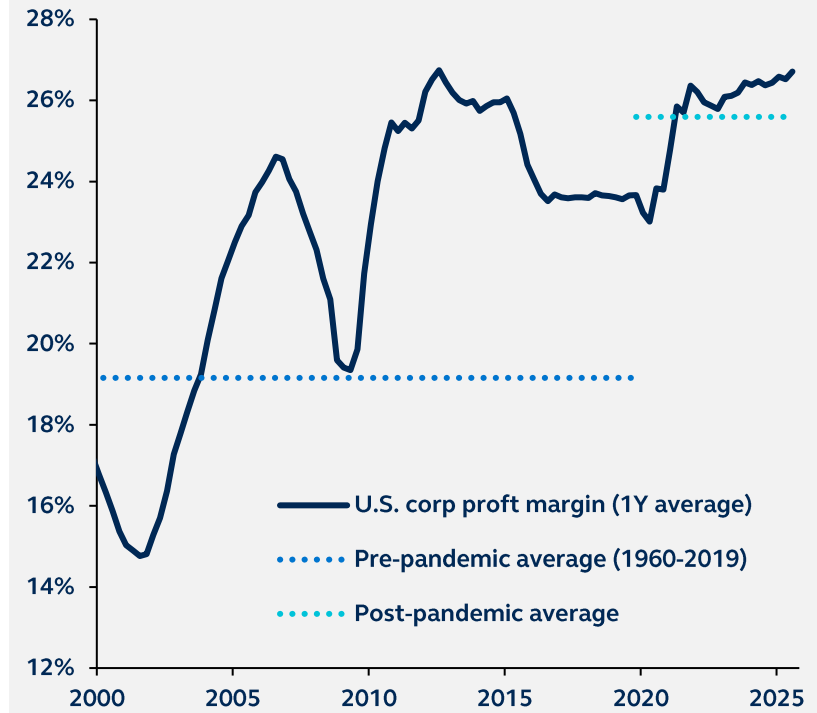
Trillions, household net worth excluding real estate, 2000–2025



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

Corporate profit margins

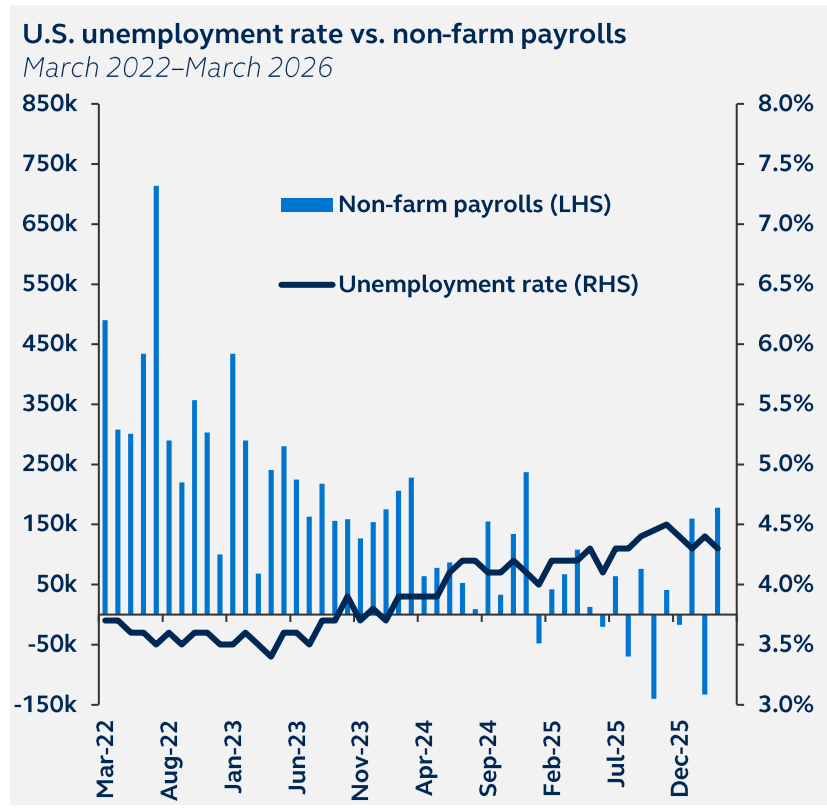
Profits as a percentage of corporate revenue, 2000–3Q 2025



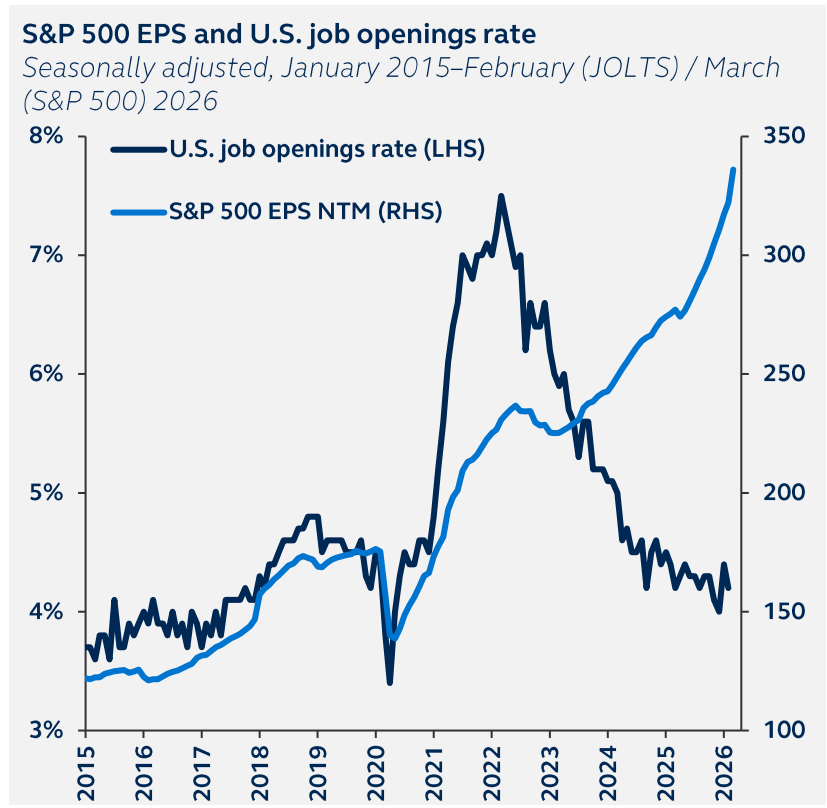
Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

Secular forces shape low-hiring, low-firing backdrop

Structural supply constraints imply the labor market is cooling rather than collapsing



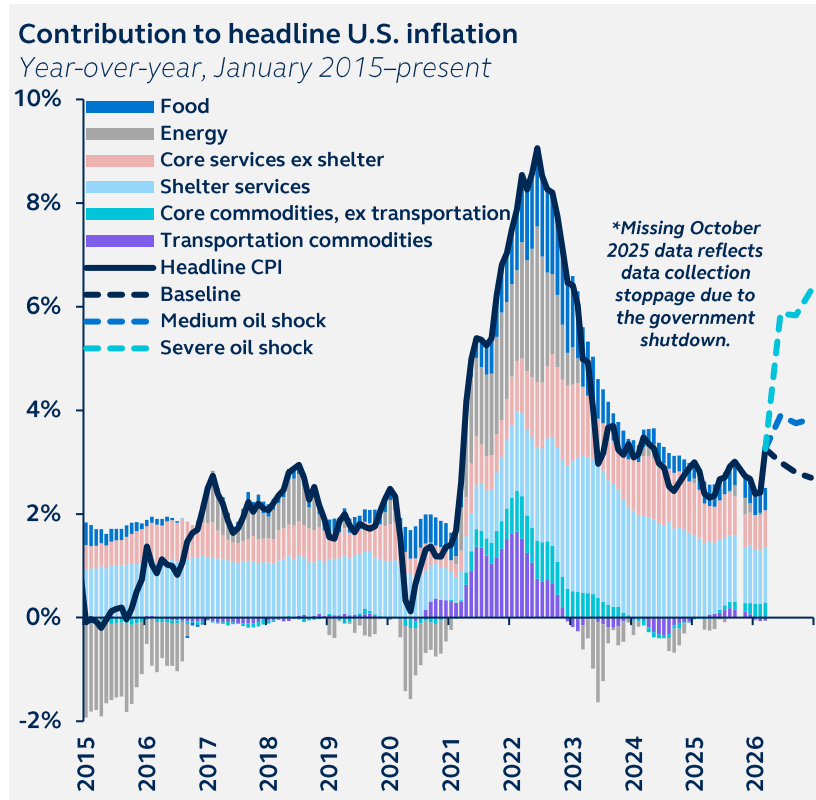
Source: Bloomberg, Bureau of Labor Statistics, Principal Asset Management. Data as of April 3, 2026.



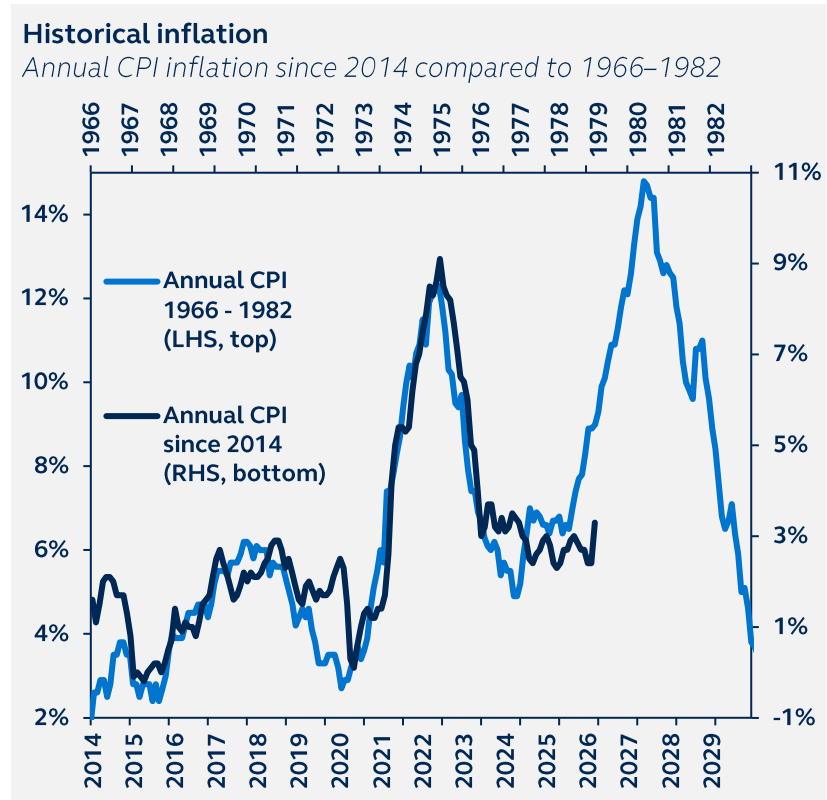
Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

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

The current energy price spike complicates the path towards



Source: Bureau of Labor Statistics, Principal Asset Management. Data as of April 10, 2026.



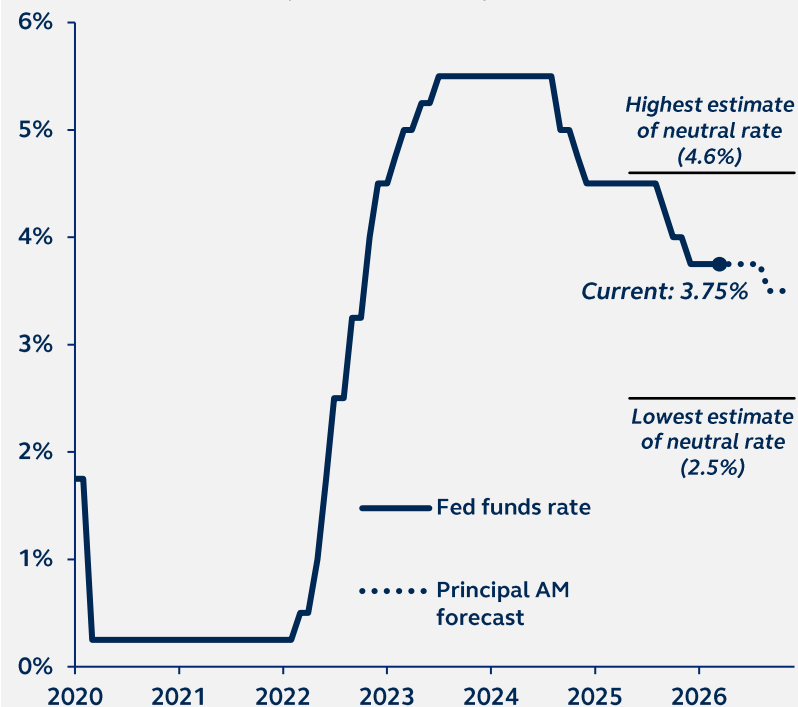
Source: Bloomberg, Principal Asset Management. Data as of April 10, 2026.

Federal Reserve: Delayed, not derailed

Upside inflation risks will likely delay the next cut to September, if not December

Federal Reserve policy rate path

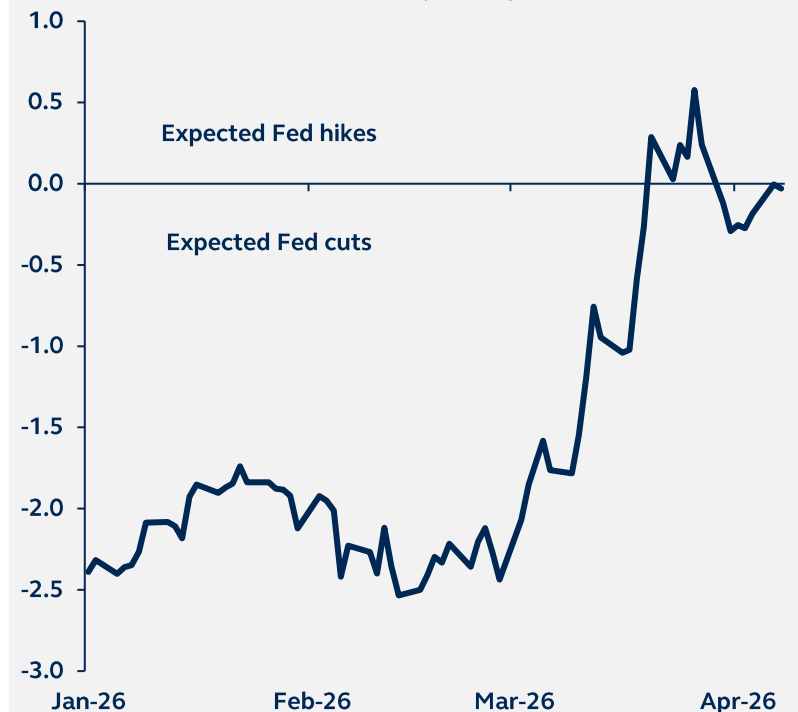
Fed funds rate and projections, January 2020–March 2026



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 Federal Reserve policy changes



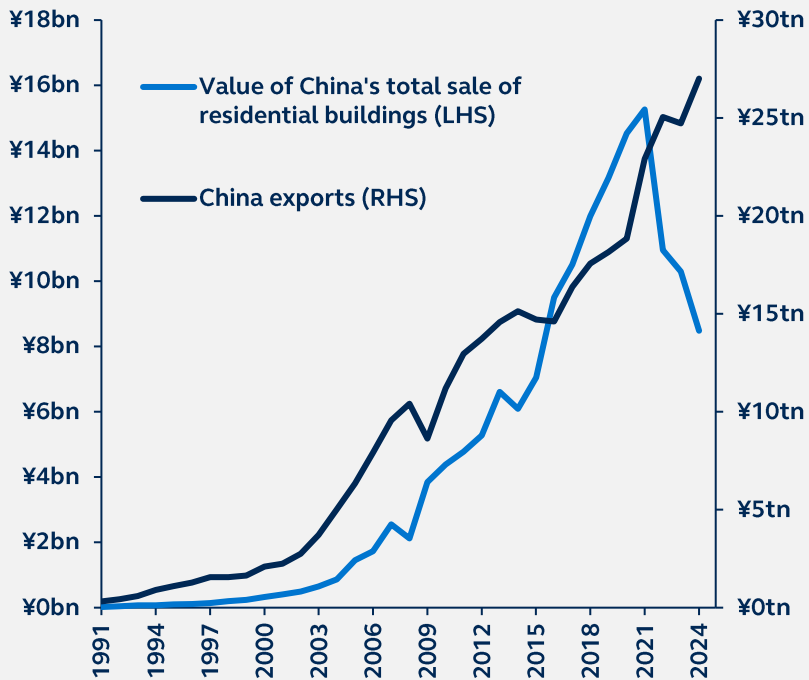
Source: Bloomberg, Principal Asset Management. Data as of April 7, 2026.

Global economy: Tailwinds despite energy vulnerabilities

Beyond the conflict, a constructive global macro backdrop is in play

China's value of exports vs. real estate

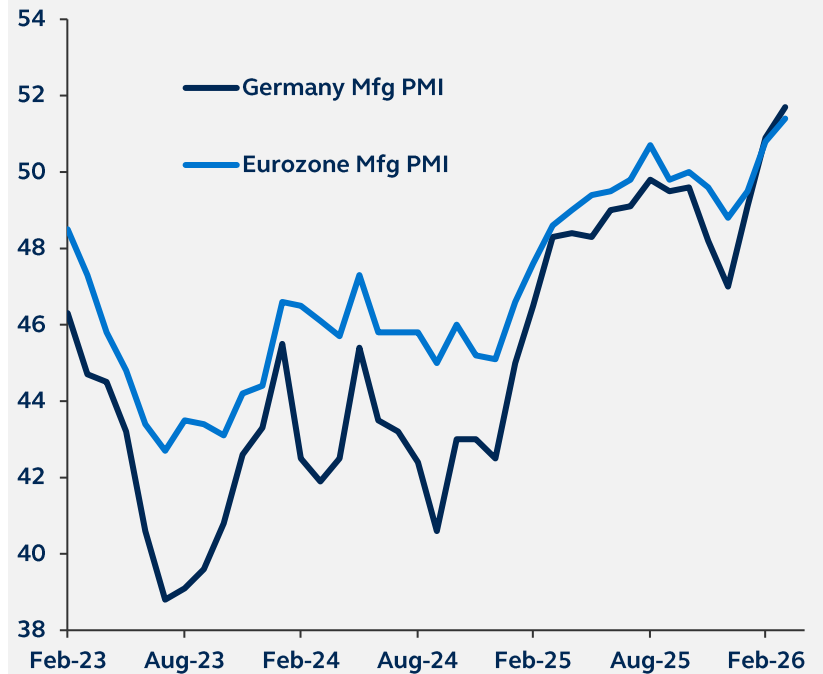
Value of total sales of residential buildings vs. Exports of goods and services, 1991–2024



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



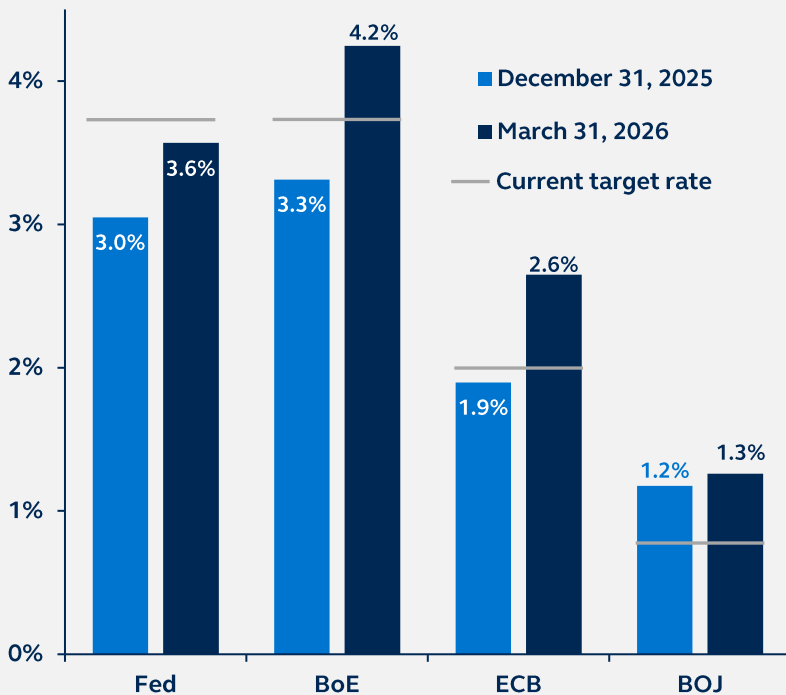
Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

Global central banks: a more hawkish, asymmetric path

The oil price shock has renewed interest in the dollar's safe-haven properties

Global central bank marked implied rates for end of 2026

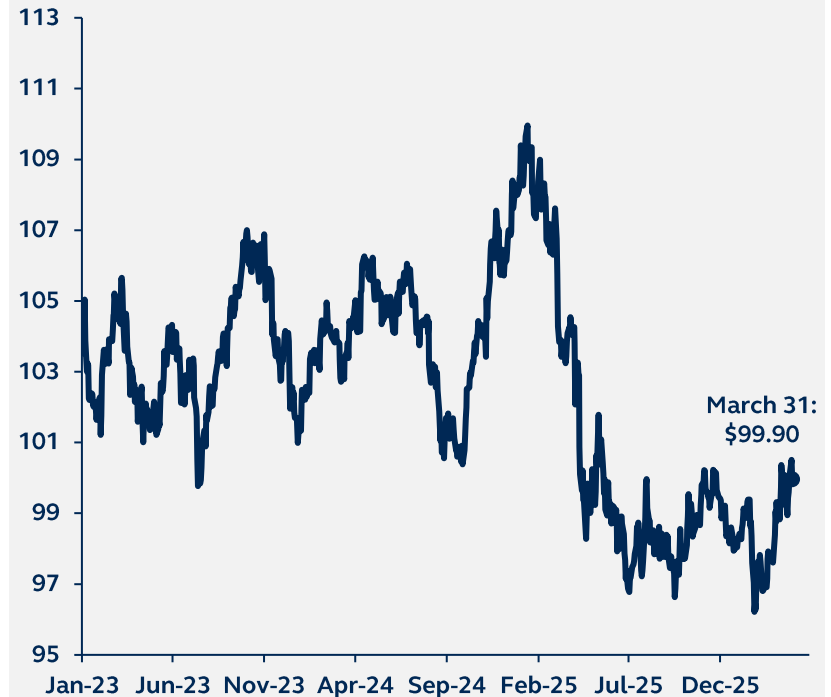
Rate and market projections, Dec. 31, 2025 vs. Mar. 31, 2026



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.

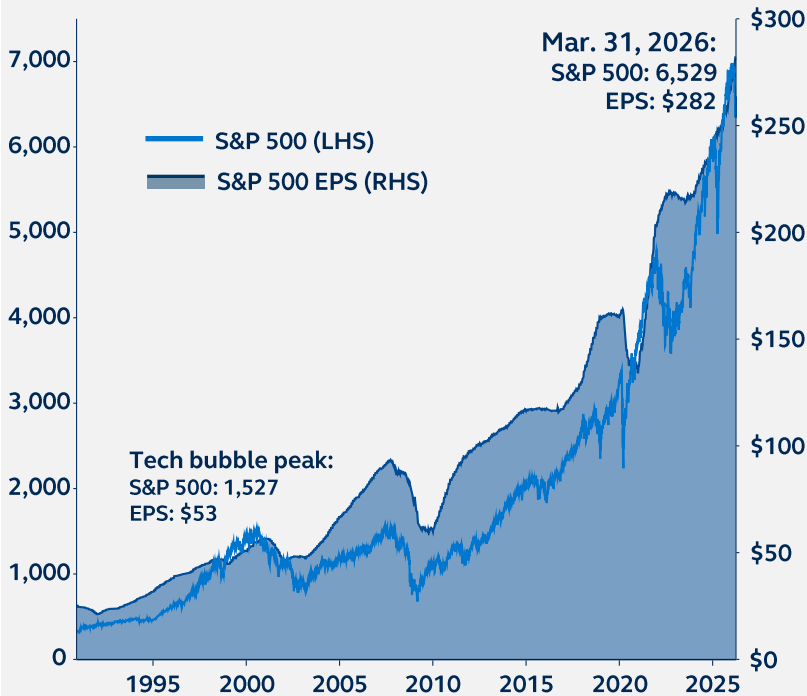
Equities

U.S. equities: vulnerable, but a relative global safe-haven

Renewed macro uncertainty underscores the importance of diversification

The stock market and earnings

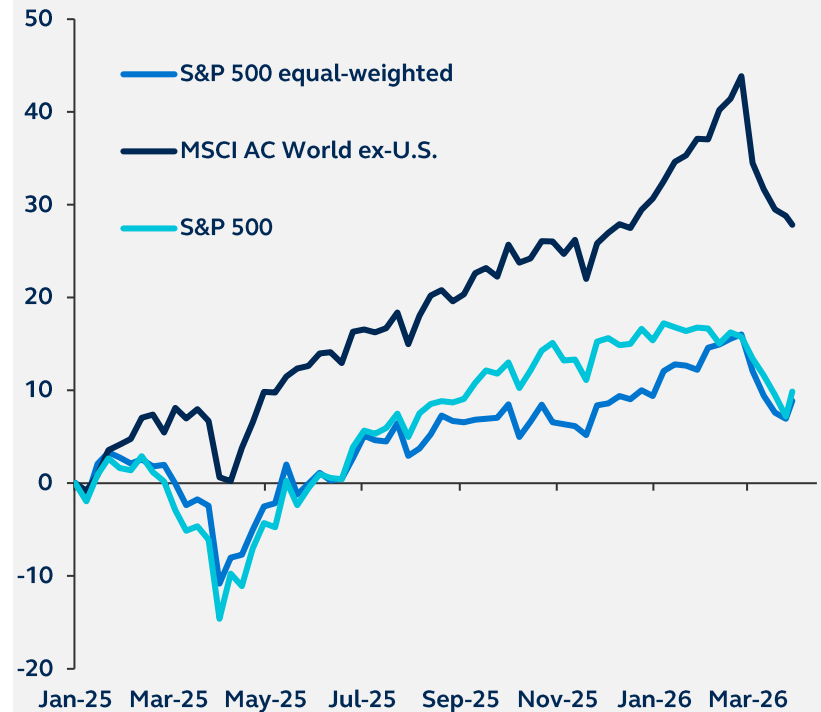
S&P 500 Index price and trailing earnings-per-share, 1990–Mar. 2026



Source: Clearnomics, Standard & Poor's, Principal Asset Management. Data as of March 31, 2026.

Broadening of the equity rally

Percent price appreciation, rebased to 0 at January 2025



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

AI rally: Solid fundamentals; careful selection warranted

Valuation opportunities, but heightened scrutiny implies more dispersion within tech

Relative P/E vs. S&P 500

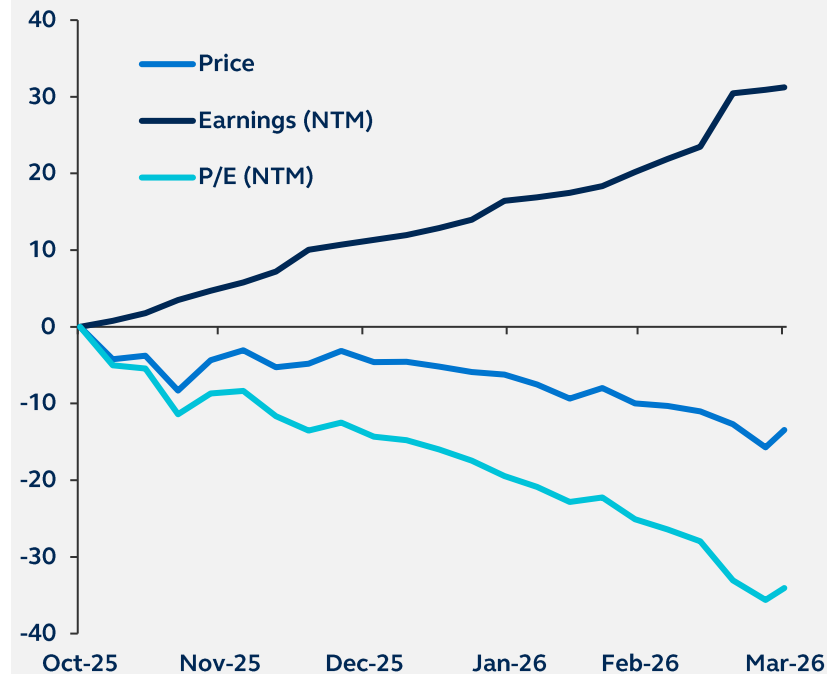
Tech sector and Mag 7 Index vs. S&P 500 (dot-com bubble vs. present day)



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

S&P 500 Tech sector price performance decomp: earnings vs. multiples

Percent appreciation, indexed to 0 at October 1, 2025



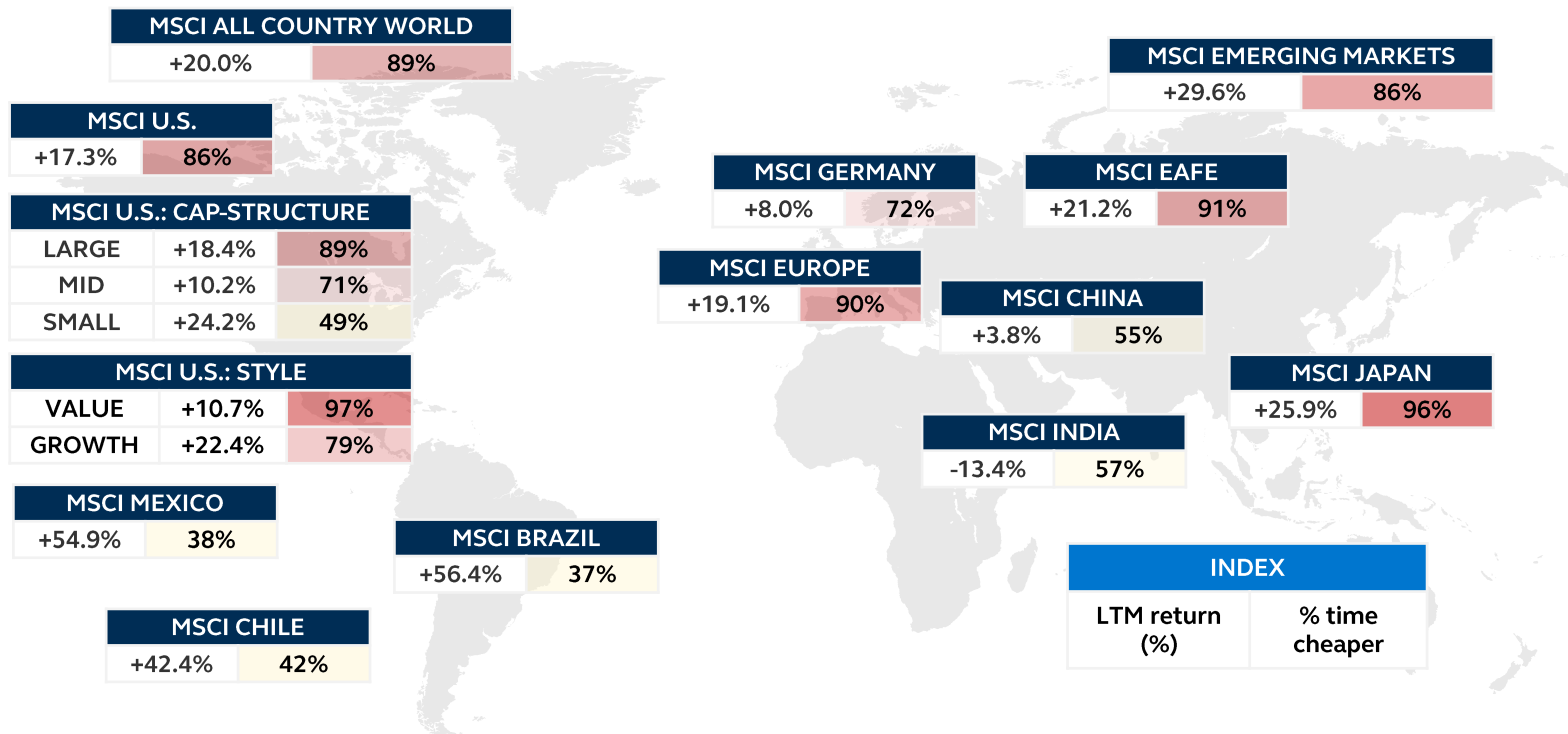
Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

Seeking diversification in a complex macro backdrop

Policy upheaval and tech concentration warrant exposure beyond U.S. equities

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 March 31, 2026.

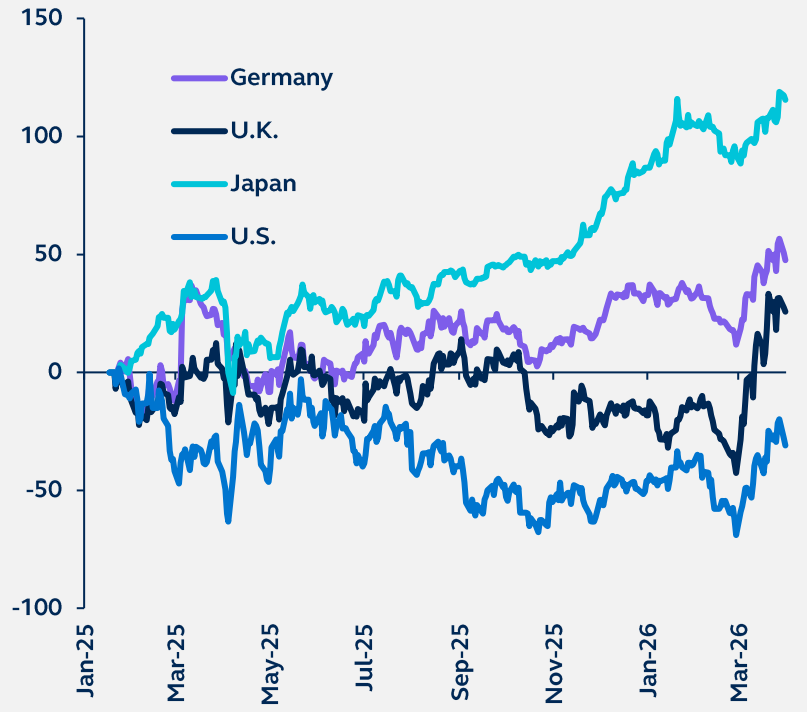
Fixed income

Global upturn in yields is underway

Though pressures have been more pronounced at the short end of the curve

Global 10-year sovereign yields

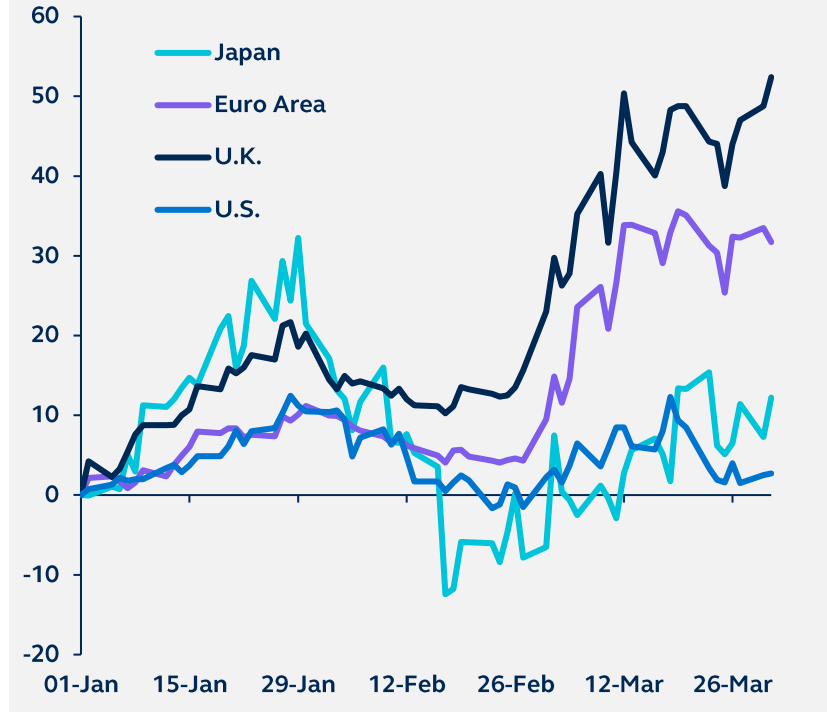
Basis points, index to 0 at January 20, 2025



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



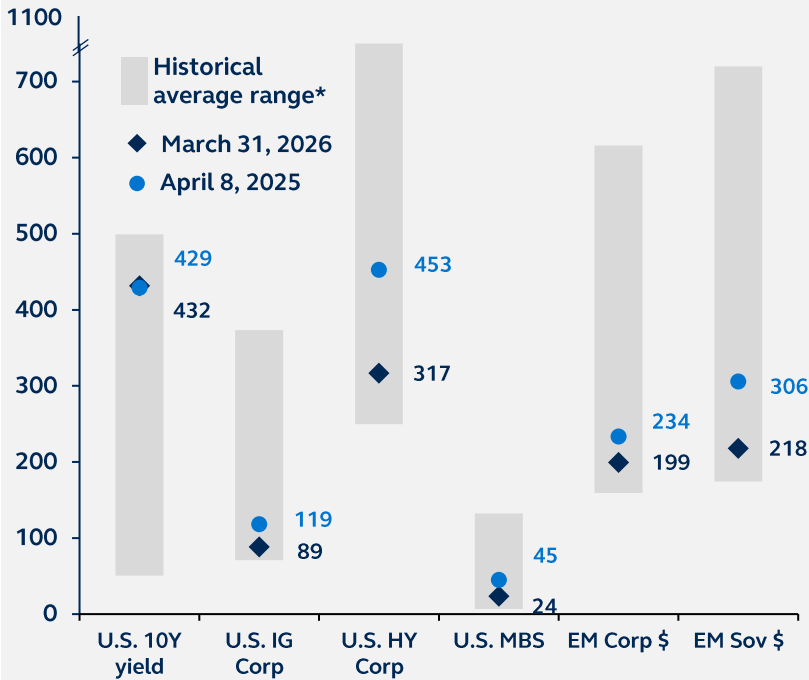
Source: Bloomberg, Principal Asset Management. Data as of March 31, 2026.

Credit resiliency in a challenging backdrop

Robust earnings environment and healthy fundamentals should buffer against risks

Yield and spread average range over the past 10 years

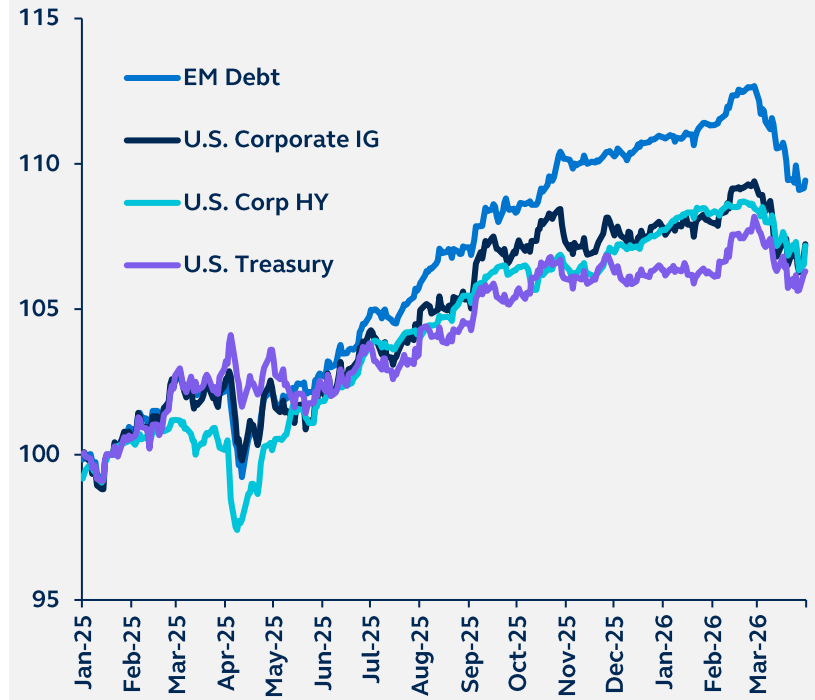
U.S. 10-year Treasury yield, other indices reflect option-adjusted spread, basis points, March 2016–March 2026



*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 March 31, 2026.

Total return comparison

Rebased to 100 at January 1, 2025



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

Investment perspectives

Resilience and disciplined diversification

Continued participation, but with diluted concentration

Asset class performance

Total return, annual averages over period shown, 2011-1Q 2026

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Average
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%	Commod. 24.4%	S&P 500 13.8%
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 0.9%	Small Cap 9.9%
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%	Fixed Inc. -0.0%	Balanced 7.9%
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%	EM -0.1%	EAFE 7.6%
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%	Balanced -0.6%	EM 5.3%
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%	EAFE -1.1%	Fixed Inc. 2.4%
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%	S&P 500 -4.3%	Commod. 1.4%

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 March 31, 2026.

Disclosures:

Risk considerations

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