



# Global Market Perspectives

## Shaken, not stirred

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Key themes for 3Q 2025

- The global growth outlook has stabilized amid shifting trade dynamics**  
Global economic resilience is emerging despite recent macro, policy, and geopolitical shocks, while investor focus has shifted away from U.S. dominance toward a more balanced global outlook.
- U.S. tariff threats have receded but will leave a bad taste on growth, labor market, and inflation**  
Recession odds have receded, but tariffs and policy uncertainty may soon manifest in slowing macro data. Yet, household and corporate balance sheets should provide a cushion, limiting layoffs and consumer weakness.
- The Federal Reserve needs an inflation or labor market nudge to cut rates this year**  
The Fed will keep policy rates on hold until late 2025 unless there is a sustained run of soft inflation or labor market prints. On the fiscal front, a gradual improvement in the budget deficit would come at the expense of growth.
- U.S. equity markets: positive gains to persist even amidst continued macro and policy volatility**  
The U.S. market's full recovery implies a limited cushion against policy disappointment in the near term. Yet positive, albeit slower, economic growth implies continued earnings growth, with markets likely still trending higher.
- Elevated fixed income yields should continue to attract investors**  
Credit spreads have re-tightened back close to historic lows. With the constructive global macro backdrop meaning that fundamentals remain solid, investors can once again consider higher-yielding fixed income solutions.
- Diversification has rarely looked so attractive**  
In an era of active global policymaking and higher for longer rates, diversification - both geographic and across a broader set of assets, will be critical. U.S. exceptionalism hasn't disappeared; its key structural advantages remain intact. But as other global economies gain momentum, U.S. outperformance is likely to be more muted.

# A series of global shocks test long-term trends

The global economy has confronted a series of shocks this year, including trade and geopolitical uncertainty, as well as monetary credibility and fiscal unsustainability. Increasingly, headline fatigue is setting in, enabling a clearer narrative to emerge.

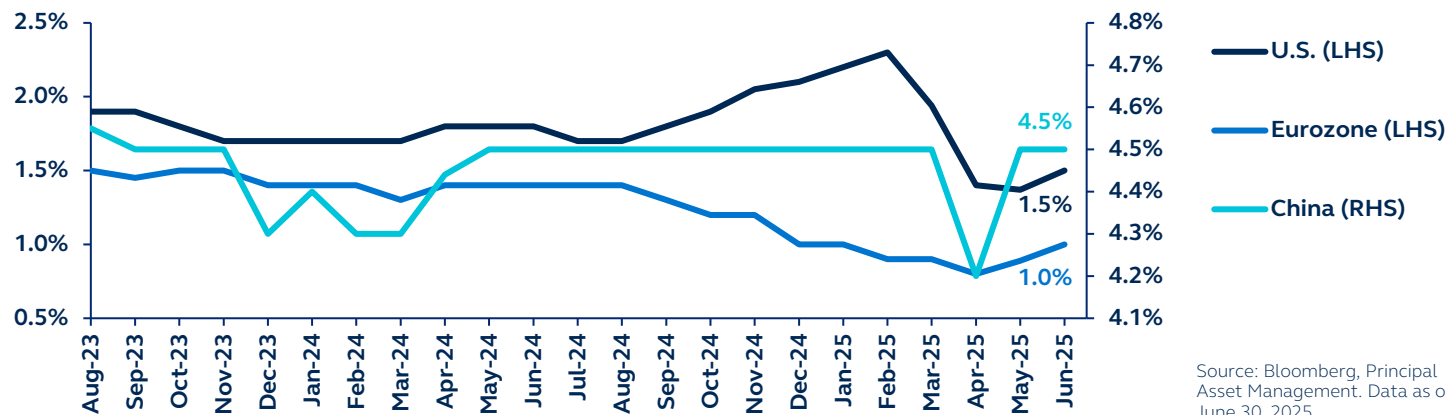
U.S. economic forecasts have been revised sharply lower, but downgrades have plateaued, and importantly, it is expected to avoid recession in 2025. In China, a strong growth performance in the first half of 2025, combined with policy potential, has led forecasts to remain fairly robust. European forecasts have been gradually downgraded, but fiscal action is driving a rise in 2026 growth forecasts.

Shifting global dynamics have prompted investors to question a key long-held assumption: U.S. exceptionalism. This has been reflected in a drop in the U.S. dollar to a three-year low, defying both interest rate differential dynamics and its traditional behavior during times of heightened volatility. Instead, gold has been a key beneficiary of safe haven flows, while Germany's fiscal stimulus and Asia's tech expertise have also attracted greater investor interest. Looking ahead, robust macro dynamics and improved policy stability may moderate further USD decline as investors assess the relative return prospects of U.S. assets.

*The global economy has absorbed the multiple shocks of recent months without suffering long-term damage. Yet, the U.S. exceptionalism narrative has sustained a severe blow.*

## GDP forecasts

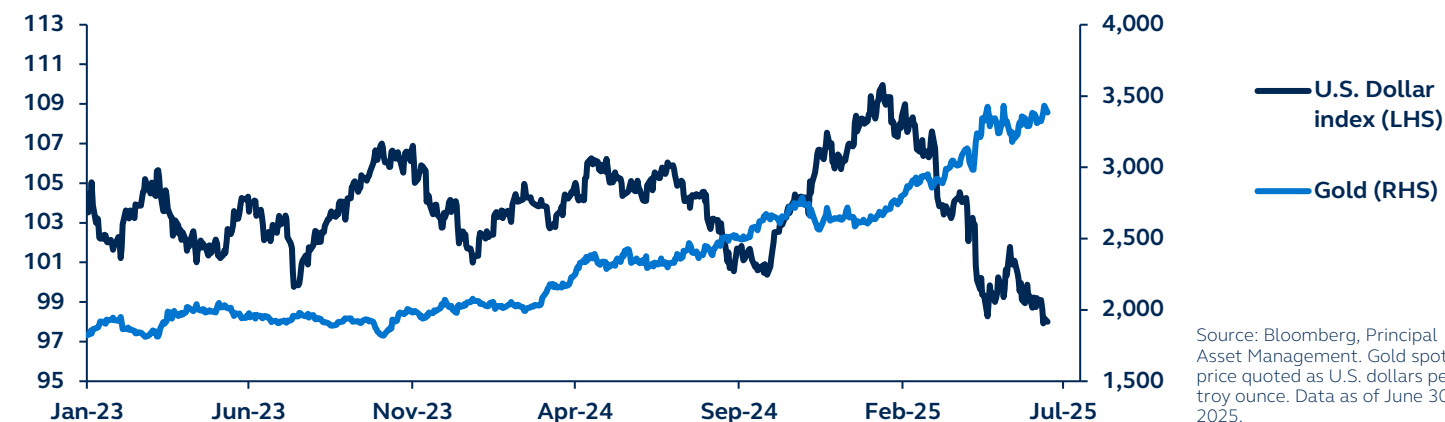
Consensus 2025 real GDP growth forecasts for U.S., Eurozone and China, August 2023–present



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

## U.S. Dollar and Gold

U.S. Dollar Index spot rate vs. Gold spot price, January 2023–present



Source: Bloomberg, Principal Asset Management. Gold spot price quoted as U.S. dollars per troy ounce. Data as of June 30, 2025.

## Tariffs: A (less) punishing picture for U.S. growth

With the Trump administration stepping back from its most punitive tariff announcements, peak trade policy pessimism is firmly in the rear-view mirror, and recession odds have been significantly reduced.

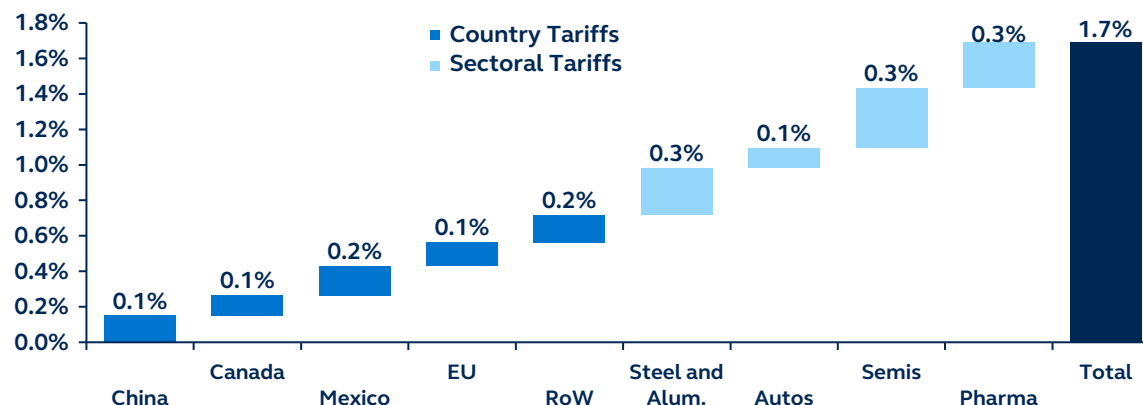
Yet, despite these corrective turns in tariff policy, there remains potential for economic scarring, as trade barriers will likely remain higher than they were at the start of the year. We expect the average effective U.S. tariff rate to ultimately settle at around 17%, the highest level since the 1930s Smoot-Hawley tariffs and meaningfully higher than 2% at the start of 2025. This should create a lasting drag on GDP worth about 1.7% and a one-time increase in inflation of 1.6%. While not as severe as initially seemed likely, the ensuing negative impact of these tariffs remains a sizable headwind on U.S. growth in both 2025 and 2026.

Importantly, trade policy uncertainty is likely to remain elevated. Legal challenges to the administration's ability to act unilaterally on tariffs suggest that a gradual shift toward sectoral rather than country tariffs should be expected. Meanwhile, the administration will likely use tariffs as a negotiating tool going forward, making tariff noise a more permanent feature of the economic backdrop.

*The average U.S. tariff rate is likely to settle at around 15-17%, meaningfully higher than at the start of the year, suggesting some potential for economic scarring.*

### End-2025 baseline tariff scenario: negative impact of tariff increases on U.S. GDP

Percent



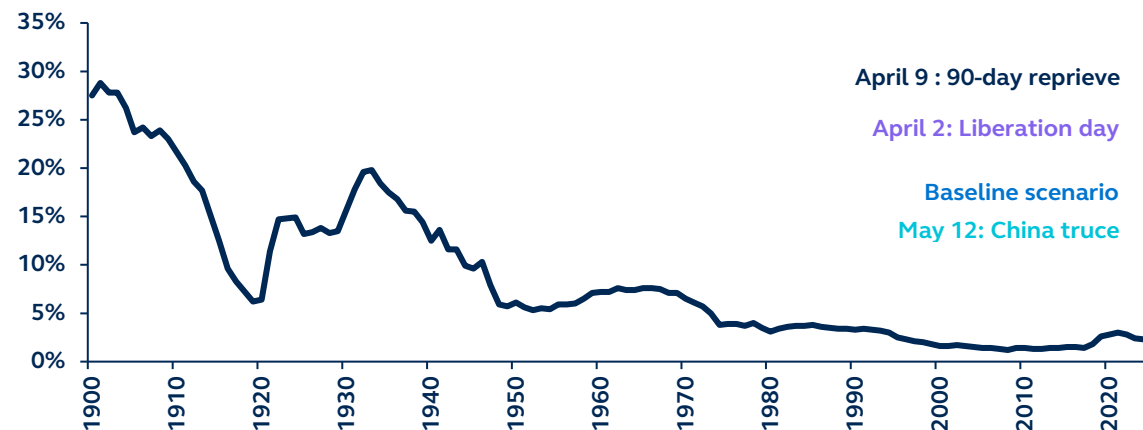
Baseline scenario, which considers substitution effects, assumes:

- Global 10% reciprocal tariffs are maintained
- EU 10% reciprocal tariffs maintained
- Current status quo for China, Canada, and Mexico, and existing exemptions are maintained
- 25% sectoral tariffs on semis, pharmaceuticals, and autos
- 50% sectoral tariffs on steel and aluminum

Source: International Monetary Fund, World Trade Organization, Census Bureau, Bloomberg, Principal Asset Management. Data as of June 30, 2025.

### U.S. average effective tariff rate

1900-present



Source: United States International Trade Commission, Bloomberg, Principal Asset Management. Data as of June 30, 2025.

## Economic resilience to give way to modest softness

Survey data—or soft data—has shown significant pessimism since the start of the year across both households and businesses, although small business confidence has recently bounced back. In contrast, actual economic data—or hard data—remains fairly robust so far, albeit with some cracks. However, as the effects of the trade war begin to sift through the economy, it's likely that spillovers to the hard data will eventually materialize. While this is expected to be evident by late summer, the exact timing remains uncertain.

How much the data weakens will be strongly impacted by the policy backdrop. Indeed, while non-defense capital expenditure activity remains relatively firm, lasting policy instability would likely lead to shelved investment plans, potentially exacerbating the deceleration in the labor market.

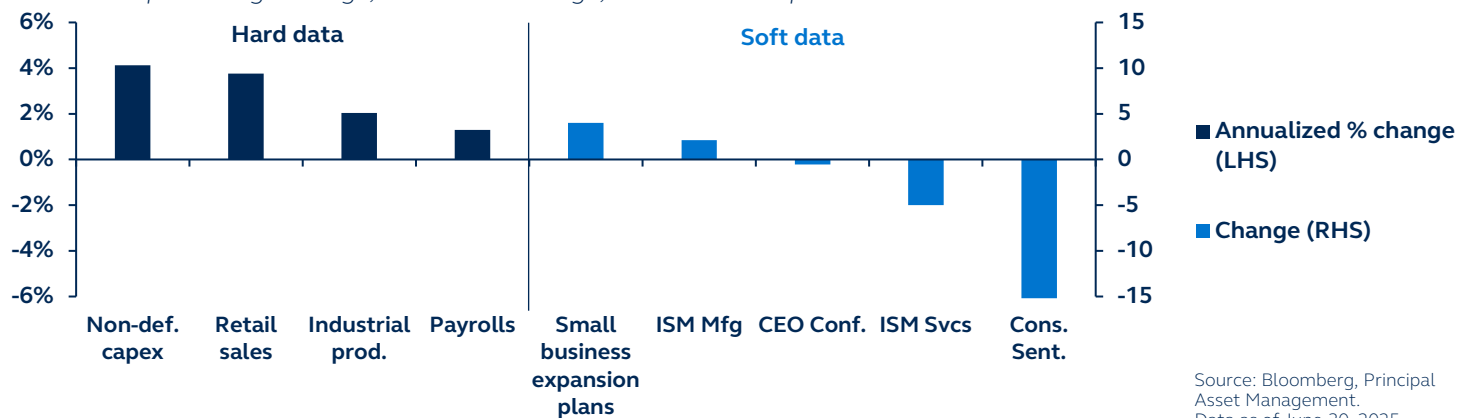
So far, employed consumers continue to spend as personal income growth—implied by average hourly earnings and weekly hours—remains solid. However, if cracks in the labor market were to broaden sufficiently, then a deterioration in retail consumption activity shouldn't be far behind, with knock-on impacts on the broader economy.

Yet, absent additional shocks, the glide path in growth appears manageable for policymakers to respond appropriately.

*The direction of travel points to further softening in activity in the months ahead. Consumer spending has remained resilient but will be dependent on the health of the labor market.*

### Hard vs. soft data change since the 2024 U.S. elections

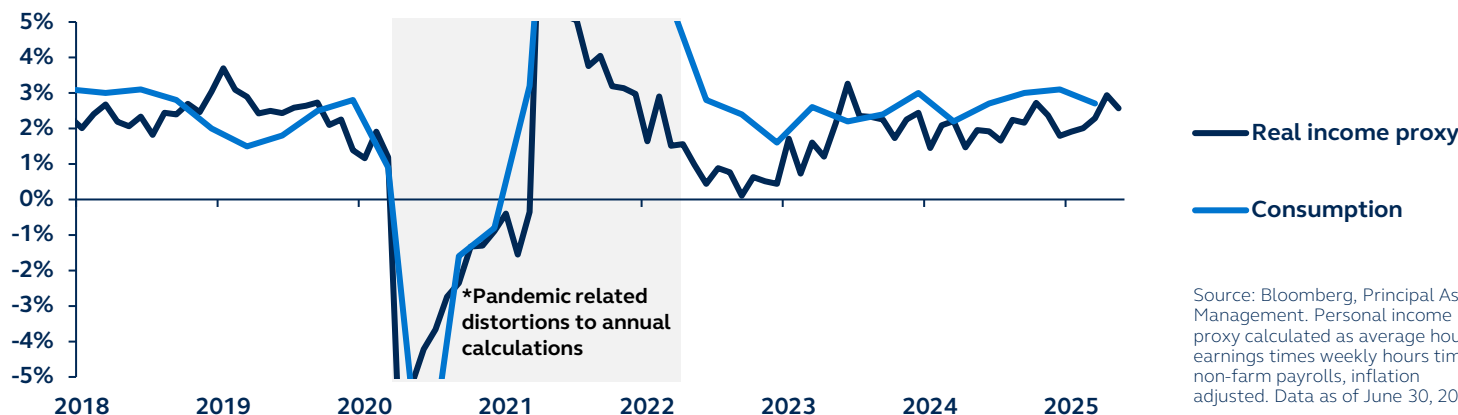
Annualized percentage change, Index level change, October 2024–present



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

### Personal income proxy vs. consumption

Year-over-year, 2018–present



Source: Bloomberg, Principal Asset Management. Personal income proxy calculated as average hourly earnings times weekly hours times non-farm payrolls, inflation adjusted. Data as of June 30, 2025.

## Labor demand softens as supply starts to dry up

In line with the broader picture of economic resilience, job layoffs have remained subdued. Yet, there are signs of an increasingly hostile job environment. Non-farm payrolls have been solid may start trending lower as elevated policy uncertainty prompts both large and small businesses to scale back hiring. Returning to the workforce is becoming increasingly difficult for the unemployed.

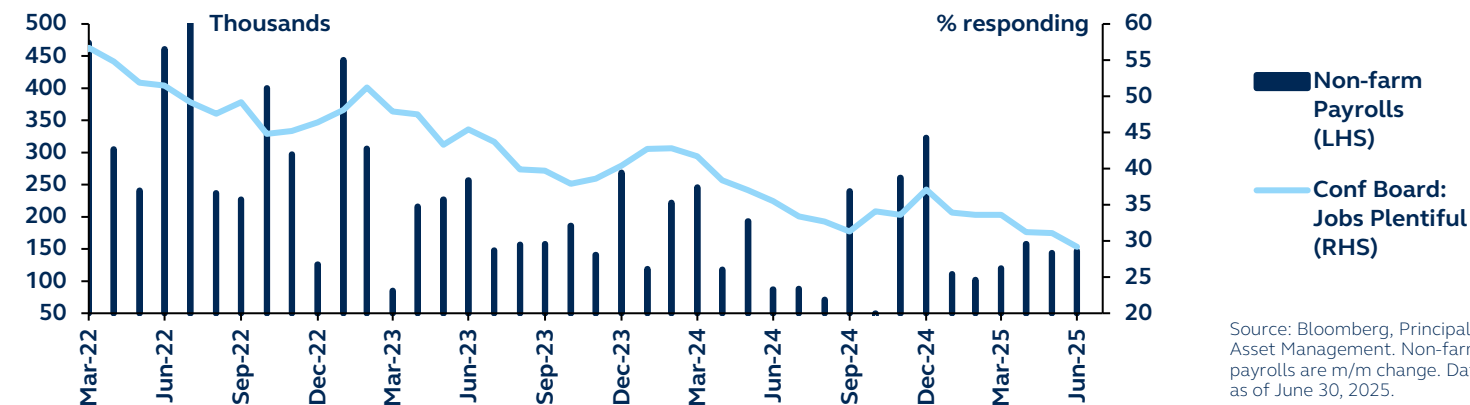
From a business cycle standpoint, layoffs will likely remain contained if EPS expectations are growing. For now, the growth rate in EPS expectations is positive, albeit in single-digit territory and slowing. Further weakness in soft data remains a risk to hard data, EPS expectations, and jobs.

At the same time, important structural forces are also at play. At a time when labor demand is softening, immigration policy is weighing on labor force growth, and therefore, the breakeven pace of payroll growth is likely to fall over the coming months. The result will be threefold: declining monthly payrolls may be a reflection of falling labor supply rather than weakening labor demand, the increase in the unemployment rate should remain fairly contained this year, and tighter supply implies that wage inflation may remain sticky and weigh on corporate profits.

*Layoffs are subdued but labor demand is softening as uncertainty prompts firms to reduce hiring. Yet, structural forces will likely contain the rise in unemployment rate.*

### Non-farm payrolls vs. Conference Board's: Jobs Plentiful

2022-present



Source: Bloomberg, Principal Asset Management. Non-farm payrolls are m/m change. Data as of June 30, 2025.

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

3-month moving average, 1998-present



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

# Household and corporate resilience to sustain growth

Despite lingering economic risks and uncertainty, household and corporate balance sheets have improved this cycle and should help provide buffers against negative shocks.

Household leverage—liabilities as a share of total net worth—has continued to decline, supported by strong gains in net worth across lower-, middle-, and higher-income households. This broad improvement holds even when excluding less liquid assets like real estate, suggesting that financial strain among lower-income households may be less severe than commonly perceived.

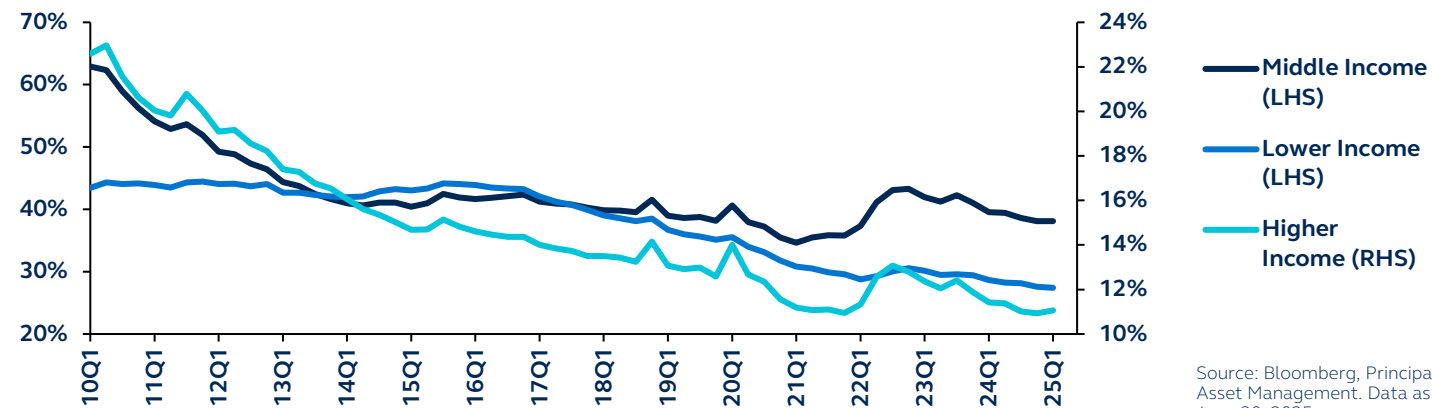
The corporate sector is also in a place of strength. Cash holdings as a percentage of liabilities are elevated, particularly in comparison to historical levels, indicating ample buffers in the event of a revenue or cash flow squeeze. Moreover, profit margins remain high, and overall leverage remains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

In all, although economic growth is likely to slow over the coming months as higher tariffs and extended policy uncertainty take their toll, the resolute underlying strength of the U.S. economy implies that recession should ultimately be avoided.

*Households and corporate balance sheet strength suggests continued resilience against negative shocks, limiting layoffs and reducing the odds of recession.*

## Household leverage

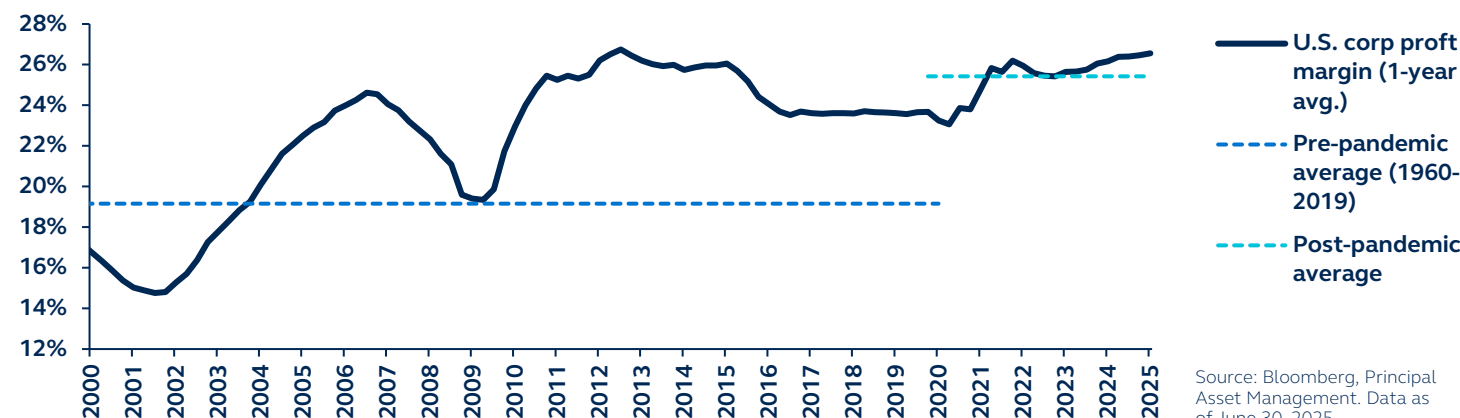
Household liabilities as % of net worth (excluding real estate from assets), 1960–2025



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

## Corporate profit margins

Profits as a percentage of corporate revenue, 2000–present



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

## U.S. inflation: no time to sound the all-clear

Were it not for the tariff shock, U.S. inflation would likely have hit the Fed's 2% target this year. After a series of lower-than-expected prints, it is tempting to believe that inflation has been officially tamed. Yet, as import tariffs typically take around two to three months to impact inflation, the prints will likely start to head higher in Q3 – although the timing is highly uncertain.

Our estimates suggest that tariffs alone could deliver a one-time inflation shock of around 1.5%, primarily reflected in core goods prices. After acting as a deflationary force last year, core goods prices have been rising—and this upward momentum is likely to persist as new tariffs come into play.

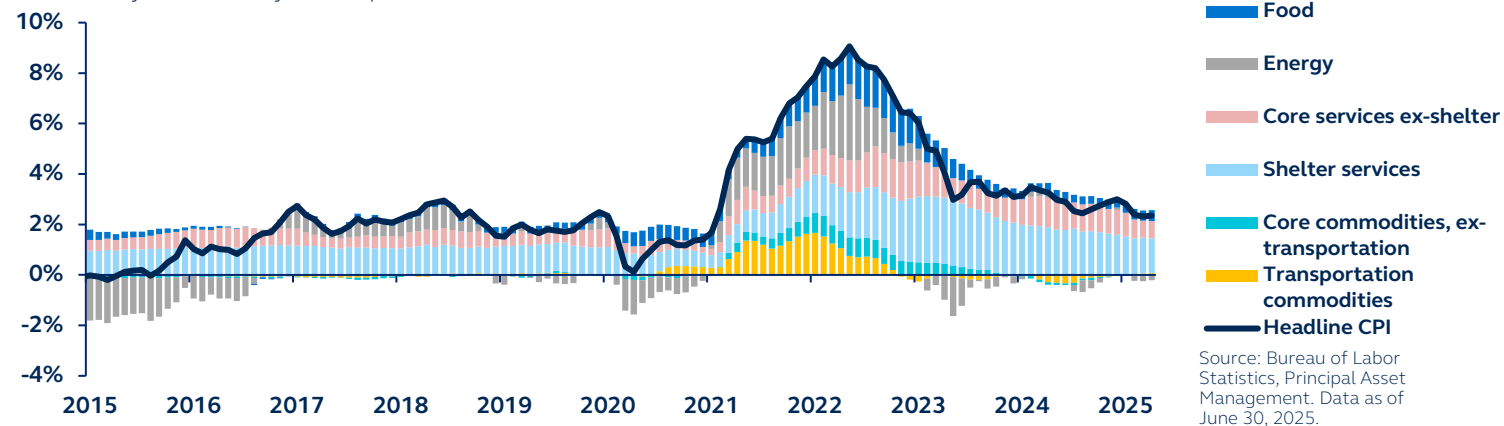
The Fed appears inclined to believe that the tariff impact will not lead to second-round effects, but it also recognizes the risk that pressures become more persistent. So far, long-term inflation expectations remain anchored. Yet, near-term expectations are gaining attention within the Fed and have increased over the past six months, deserving attention.

We expect to see core CPI rising to around 3.5% by end-2025. Sticky wage growth, resulting from tighter immigration controls, suggests that inflation may remain elevated for a few quarters before it begins to return toward the 2% target.

*Inflation pressures have remained muted so far, but tariffs will eventually feed through pushing prints higher and creating some discomfort for the Fed.*

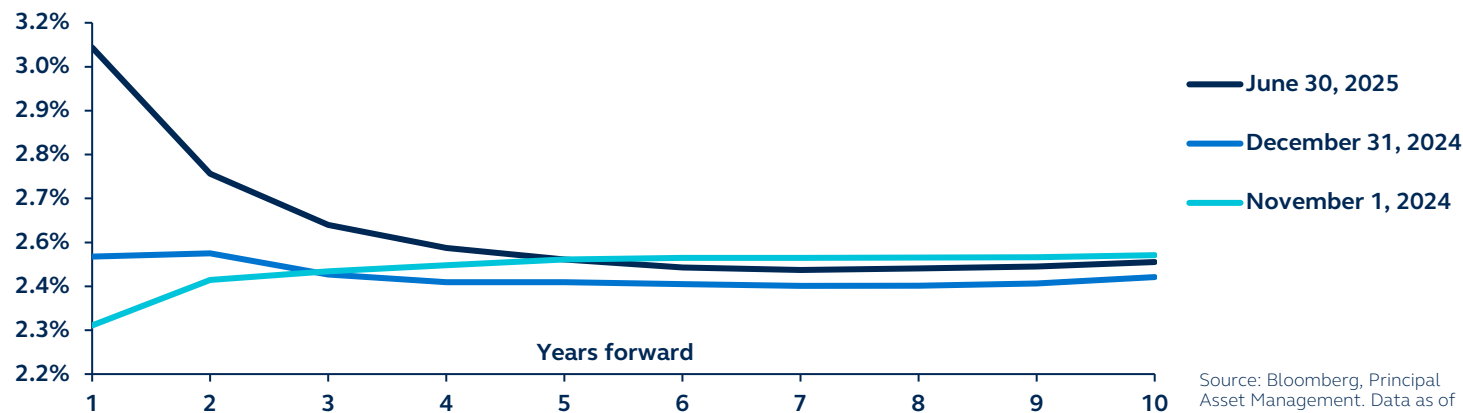
### Contribution to headline U.S. inflation

Year-over-year, January 2015–present



### Market inflation expectations

Zero coupon inflation swap curve, by number of years forward



## Both monetary and fiscal policy play a tough game

The Federal Reserve is navigating a narrow path. Trade uncertainty is ripe ground for policy missteps, particularly when jobs data remains resilient, inflation is still running above target and likely to see a tariff-induced boost in Q3, and short-term inflation expectations have shifted higher.

The latest Fed dot plot still showed 50bps worth of cuts this year. Yet, with the economy providing little reason for urgent and significant cuts, we continue to expect the Fed to resume rate cuts only in late Q4, followed by a further three cuts next year. A caveat: a more dovish Fed chair could accelerate the easing path—but only if inflation pressures remain contained.

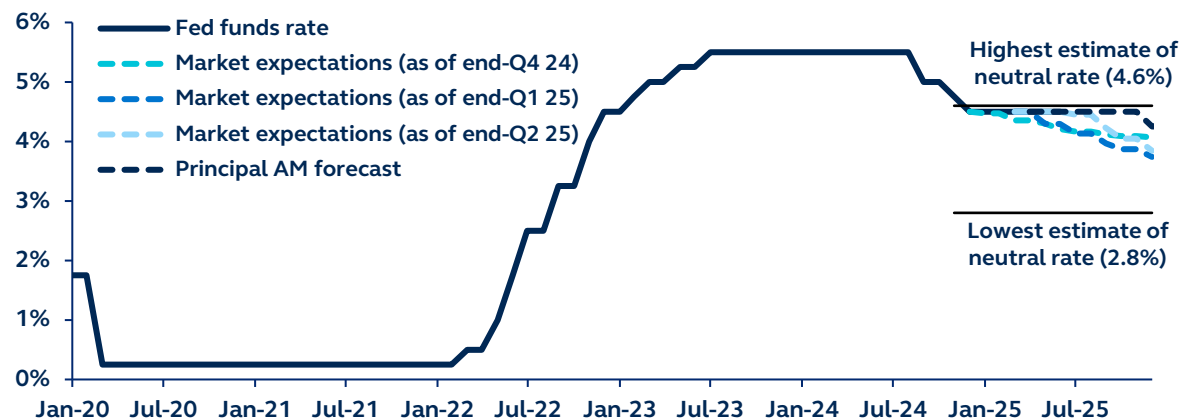
Meanwhile, with increased focus on debt sustainability, fiscal policymakers are equally navigating a difficult path. The new tax bill will be expansionary and, by itself, will likely have a positive impact on growth. However, this will be more than offset by the combined negative effect of tariffs – a de facto tax hike – and a decrease in federal grant spending. This should see a gradual improvement in the budget deficit but at the expense of growth.

Fiscal policymakers need to tread carefully to avoid triggering a sharp slowdown in growth that inadvertently worsens historically elevated budget deficits.

*Rising inflation and low layoffs will keep the Fed on the sidelines until Q4. The positive growth impact from the tax bill will be more than offset by the negative impact from tariffs.*

### Federal Reserve policy rate path

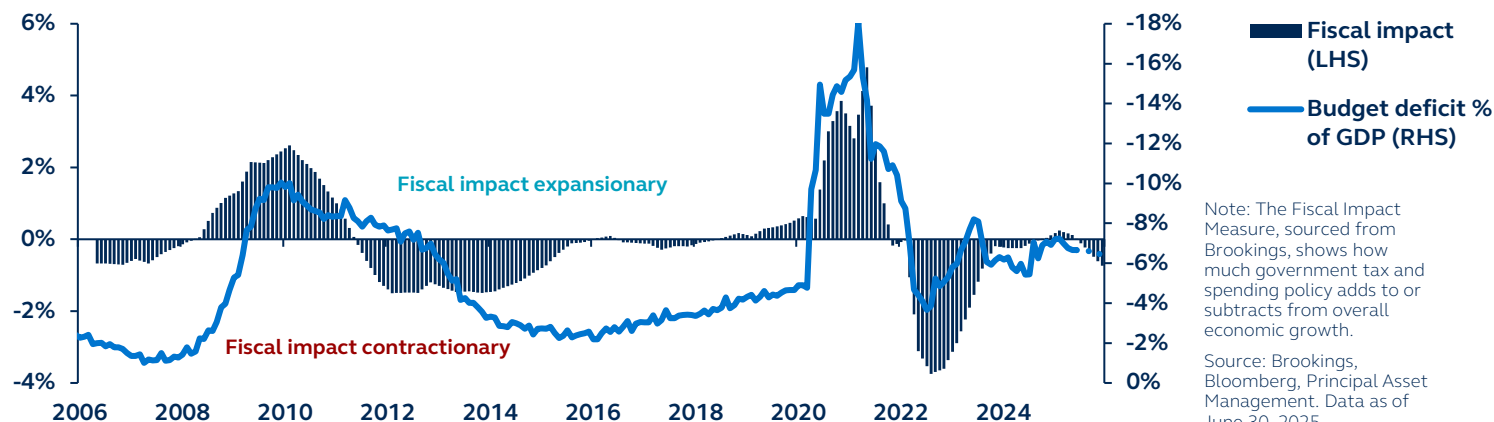
Fed funds rate and projections, 2020–present



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 June 30, 2025.

### Fiscal impact vs. budget deficit

% of GDP, 2006–present



Note: The Fiscal Impact Measure, sourced from Brookings, shows how much government tax and spending policy adds to or subtracts from overall economic growth.

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

## Shifting trade sands re-draw the global macro picture

While some economies may gain tariff clarity soon, overall uncertainty is likely to persist. Trade deals typically take 18 months to finalize, making deadline extensions and renewed tensions possible.

The range of outcomes for U.S. trade policy remains broad. Our baseline expectation is that tariffs on China, Mexico, and Canada will remain near current levels. For China, the economic impact should be fairly mild and well within policymakers' ability to offset – if they so wish. For Mexico and Canada, however, tariffs are likely to be quite punishing.

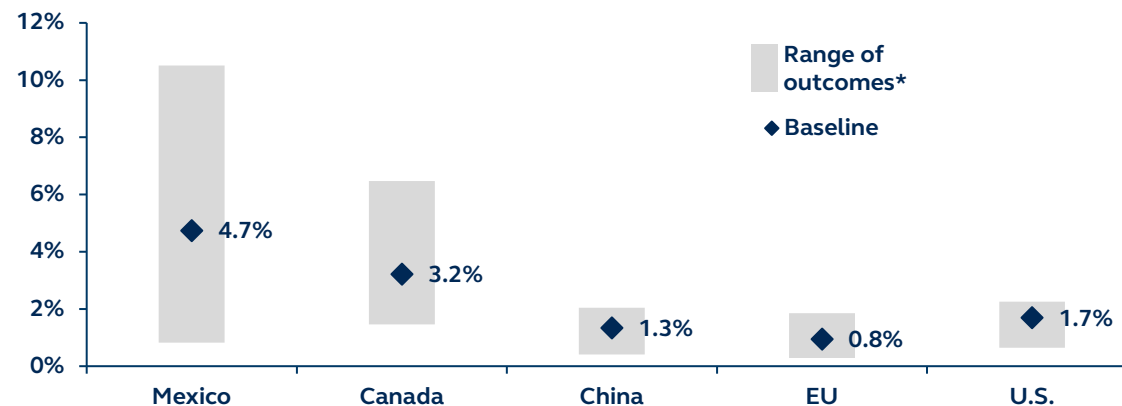
In a downside scenario, the U.S. could impose higher tariffs on China, though not up to the previously announced 145%, as that would likely freeze trade flows. The removal of USMCA exemptions in this scenario would have severe impacts on Mexico and Canada. In contrast, an upside scenario would involve the near elimination of country-specific levies and lower sectoral tariffs, leading to only modest disruption.

Europe's tariffs are likely to settle at 10% but it will be highly impacted by sectoral tariffs, particularly autos. However, Germany's fiscal stimulus, focused on defense and infrastructure, should support growth next year, with broader European gains possible if reforms in deregulation, competition, and integration advance.

*The global economy is facing trade headwinds, but stimulus should work to offset the impact next year.*

### End-2025 baseline tariff scenario: negative impact of tariff increases on country GDP

Percent



Baseline scenario, which considers substitution effects, assumes:

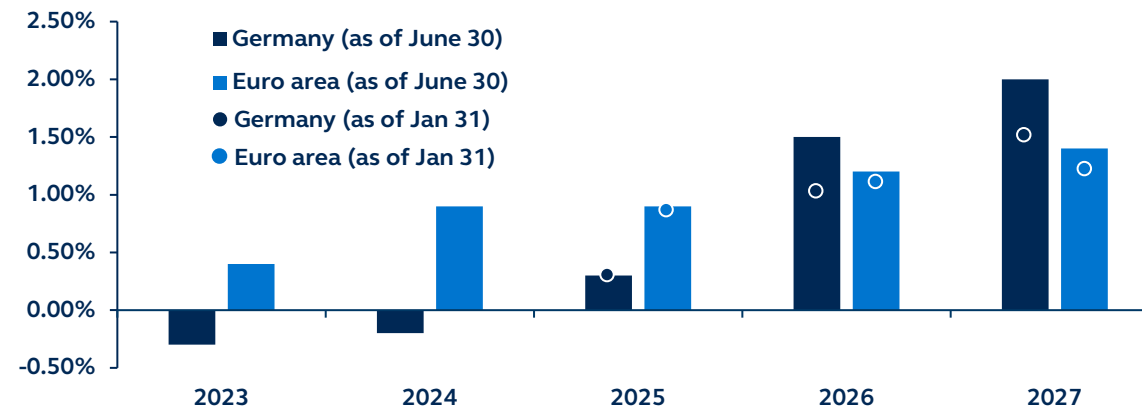
- Global 10% reciprocal tariffs are maintained
- EU 10% reciprocal tariffs maintained
- Current status quo for China, Canada, and Mexico, and existing exemptions are maintained
- 25% sectoral tariffs on semis, pharmaceuticals, and autos
- 50% sectoral tariffs on steel and aluminum

\*Bars in the chart indicate the range of outcomes between the upside and downside scenarios.

Source: International Monetary Fund, World Trade Organization, Census Bureau, Bloomberg, Principal Asset Management. Data as of June 30, 2025.

### Germany and Euro area GDP growth forecast revisions 2023-2027

2023-2027



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

## The U.S. dollar—more than cyclical weakness?

While the Fed’s ability to cut rates aggressively this year is limited, disinflation and slowing growth have prompted other major central banks to ease policy multiple times in 2025. The ECB appears close to ending its cutting cycle, while the Bank of England, facing deeper growth challenges, is expected to deliver several more cuts. Meanwhile, the Bank of Japan remains in tightening mode, albeit at a slower and more gradual pace than initially anticipated by markets.

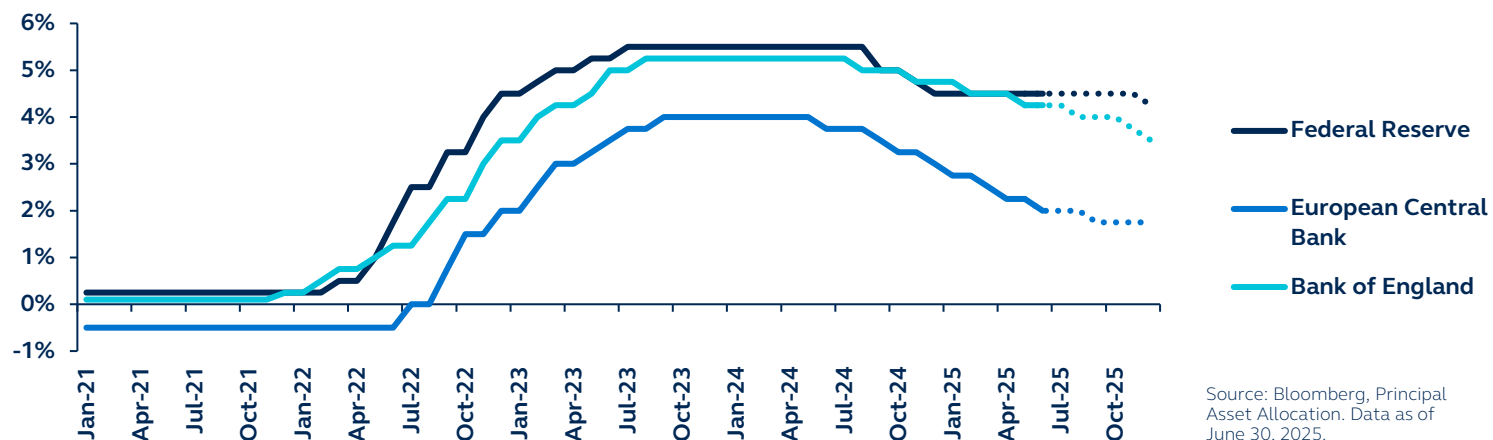
These dynamics have helped push foreign yields lower relative to U.S. yields—a trend that typically strengthens the U.S. dollar. However, this historical relationship has recently weakened, indicating that other factors may be influencing the dollar’s trajectory. Combined with a muted response to safe-haven demand, this has fuelled speculation that U.S. dollar-denominated assets may be losing their appeal.

The dollar’s status as the world’s primary safe-haven currency remains secure for now, given the unmatched depth and liquidity of U.S. capital markets. However, its share of global FX reserves has been in structural decline since the 2000s. A multipolar currency system could gradually challenge the dollar’s dominance, especially if the Euro area is able to maximize its productivity potential over the coming years.

*The dollar remains vulnerable to further downward adjustment. Yet, without an alternative reserve currency, a sharp downward spiral is unlikely.*

### Global central bank policy rate expectations

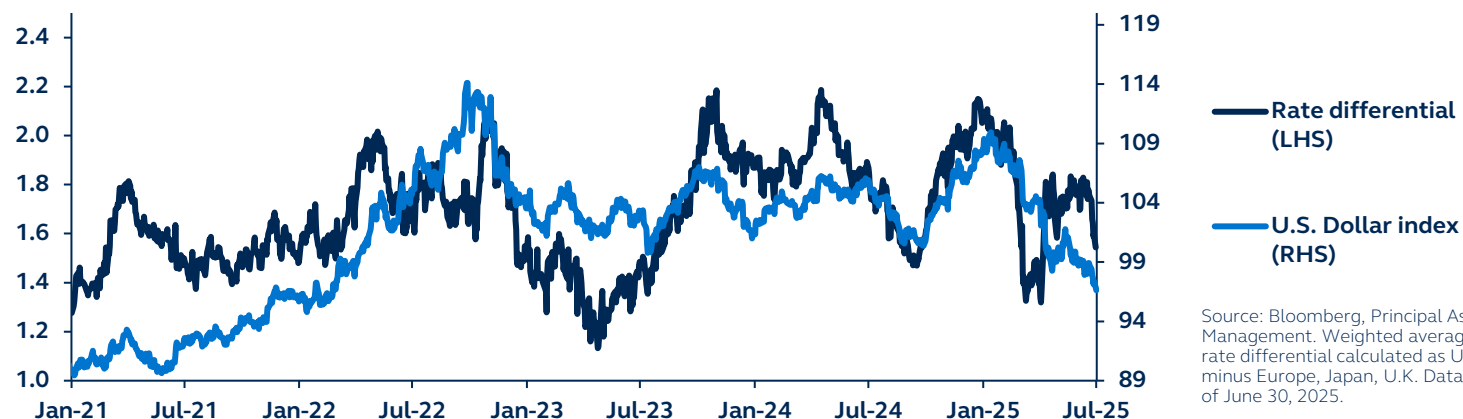
Percentage points, January 2021–present



Source: Bloomberg, Principal Asset Allocation. Data as of June 30, 2025.

### Rate differentials vs. U.S. Dollar

Weighted average 10-year rate differential, January 2021–present



Source: Bloomberg, Principal Asset Management. Weighted average rate differential calculated as U.S. minus Europe, Japan, U.K. Data as of June 30, 2025.

# Equities

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# U.S. equities: Resilience amid macro shocks

U.S. equity markets have fully recovered from earlier losses, with the S&P 500 reaching a new record high in late Q2. While several sectors contributed to the rebound, including financials, industrials, and utilities, technology—particularly the Mag 7—was the primary driver, rebounding sharply from its April 9 trough, as big tech earnings continued to deliver and AI productivity gains come closer into view.

Yet, this broad market recovery contrasts with an economic outlook of slowing growth, elevated inflation, and ongoing policy uncertainty. With the impact of earlier tariff tensions likely to begin manifesting in upcoming data, near-term volatility is expected to persist.

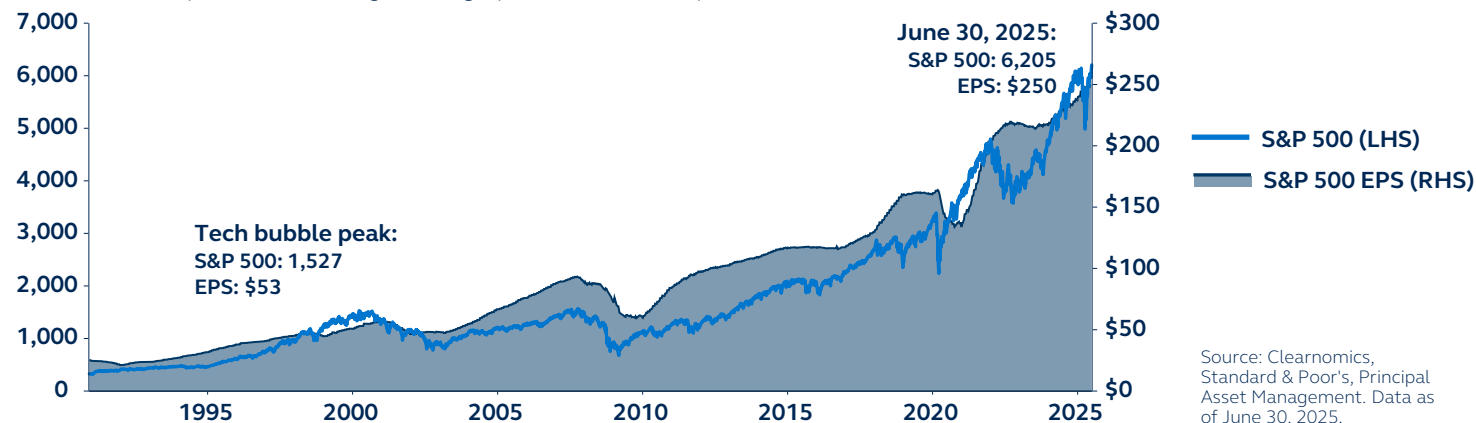
Beyond the short term, however, investors should expect to see continued gains in the S&P 500. Market disruptions from policy uncertainty are typically short-lived if companies continue to deliver on earnings. In turn, earnings generally follow economic growth—even if it is modest.

AI innovation should remain a key driver of performance despite rising global competition, especially from China. While global markets, mainly Europe, have benefited from pro-growth policies, the structural U.S. investment case that has fueled recent outperformance remains compelling.

*In the near-term, the diminished cushion of caution implies U.S. markets are vulnerable to disruption. Beyond that, however, earnings growth should ensure positive returns.*

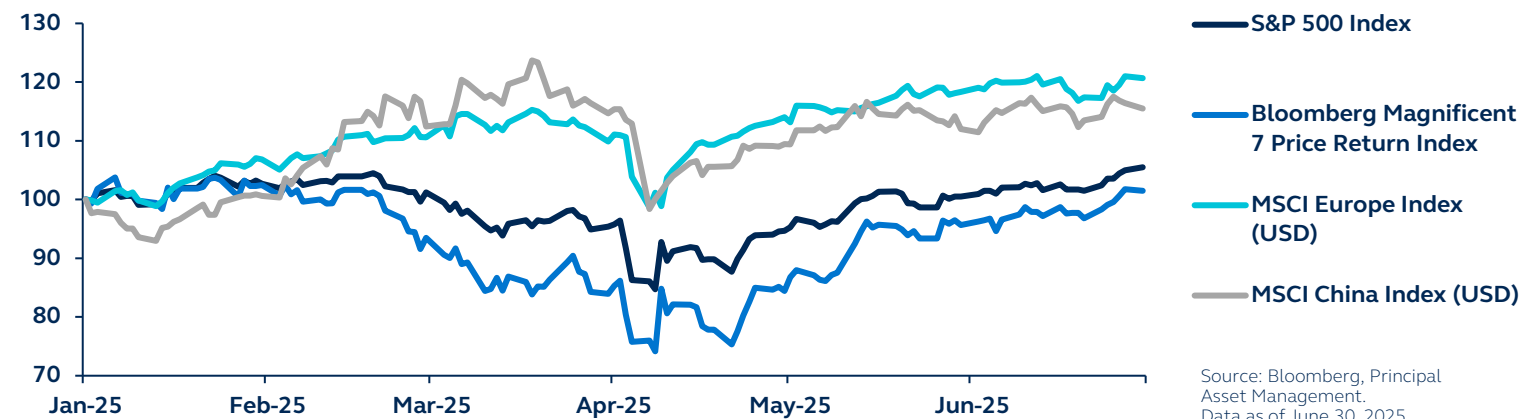
## The stock market and earnings

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



## Magnificent 7 performance vs. major indices year-to-date

Index price return, rebased to 100 January 1, 2025



# Global valuations: Back in the red

Global equity markets have shown wide performance dispersion this year, with Europe outperforming the U.S. However, a strong rebound in late Q2 meant the U.S. market's stint in the "medium expensive" range was brief. Valuations are now among the most stretched on record.

With mega-cap tech driving the recent market recovery in the U.S., large-cap valuations are once again very expensive. By contrast, small caps look very attractive. Once the Fed begins to lower policy rates, and assuming a still constructive macro environment, small caps are positioned to perform very well.

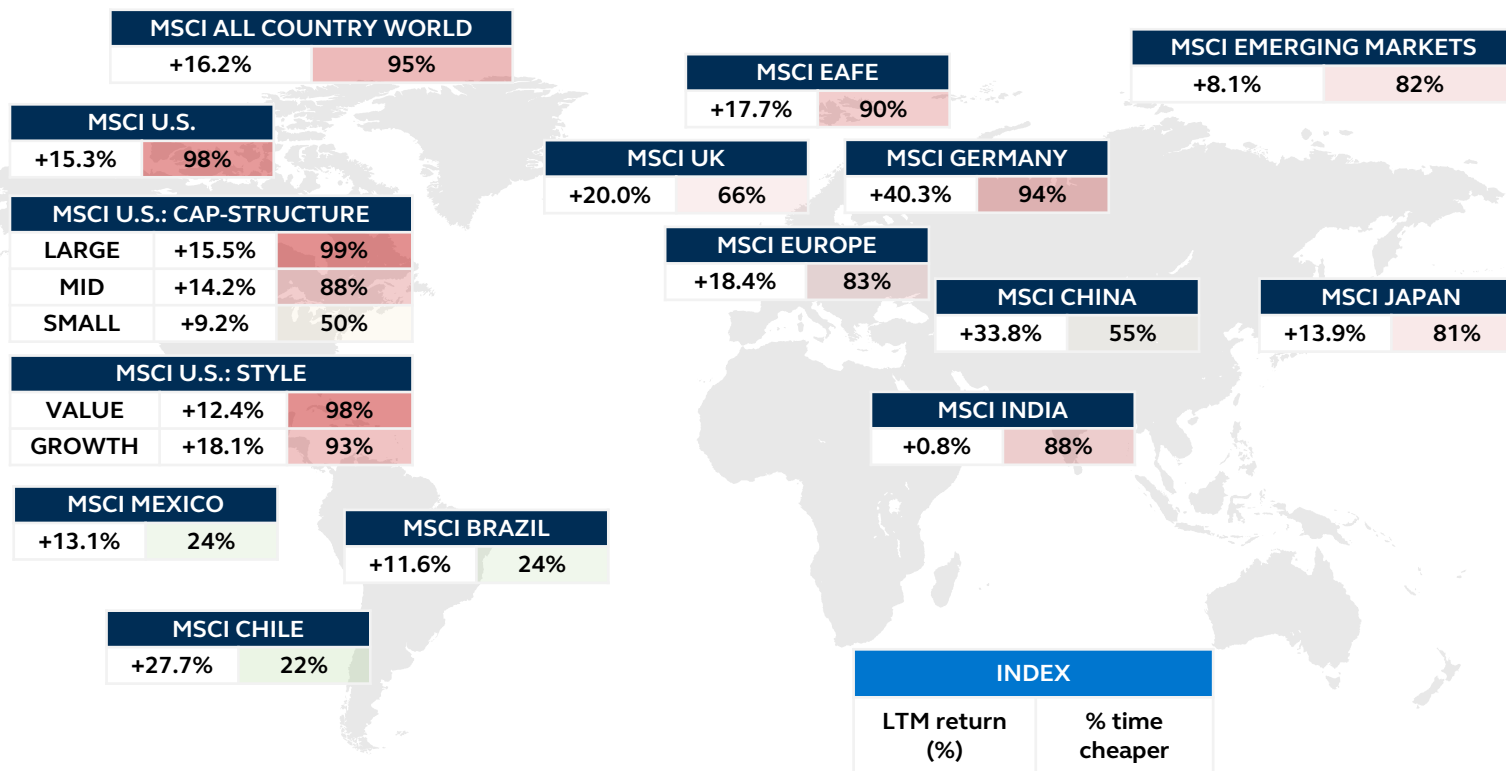
For Europe, the banner performance in the first half of 2025 has meant that valuations are no longer depressed and, in the case of Germany, are now on the extreme side. While the initial run-up in European equities was driven by expectations for stronger fundamentals over the coming years, courtesy of a shift to fiscal leniency, with valuations now so stretched, investors will likely need clear evidence of strengthening earnings prospects to extend the outperformance.

In EM, the picture is also one of wide variation. While China and Latin America remain relatively cheap, India's valuations continue to look very stretched.

*European equities are now flagging expensive and valuation differentials with the U.S. have narrowed.*

## 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 June 30, 2025.

# Fixed income

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## U.S. bond market reflecting higher risk premiums

Bond market volatility surged in mid-Q2. Ten-year U.S. Treasury yields momentarily dropped below 4% at the start of the quarter before rising to 4.6% and then retreating to 4.25% at the end of Q2.

Nominal bond yields can be separated into two factors:

- Breakeven yields (a measure of inflation expectations) have remained fairly well-anchored.
- Real yields (a proxy for the growth outlook and risk-premium), by contrast, have moved sizably and remain elevated, even despite Fed cuts.

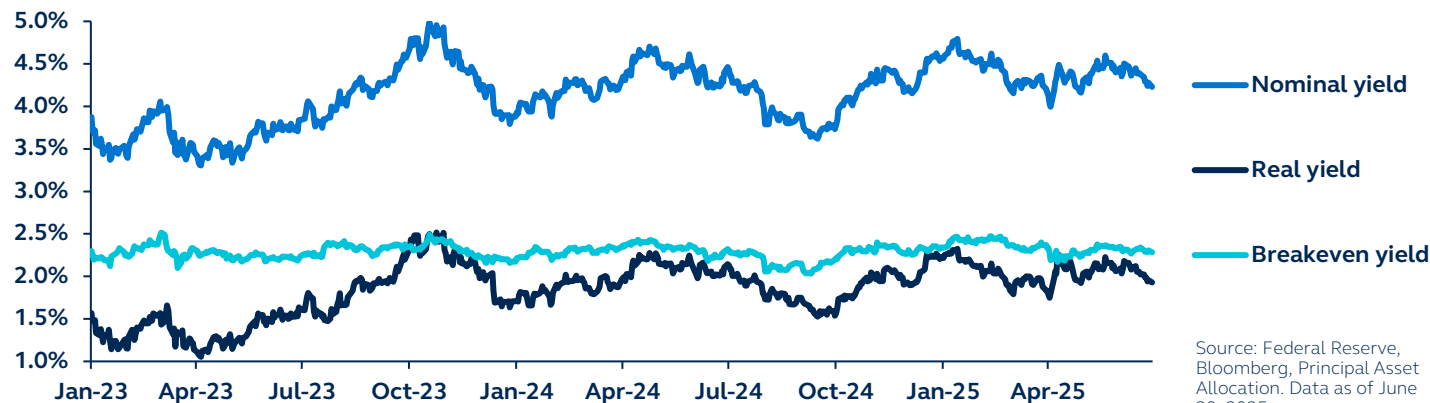
The elevated level of real yields likely reflects an increase in non-inflation risk premiums associated with increased Treasury supply, fiscal sustainability concerns, and potentially reduced demand for U.S. dollar-based assets.

The steepening of the longer end of the yield curve certainly suggests that these factors are at play, while both private and foreign investors have also increasingly shifted toward shorter-duration Treasuries, contributing to the move. This indicates that even if inflation were to remain under control, higher premiums, particularly at the long end of the curve, could keep borrowing costs elevated.

*Even if inflation remains subdued and the Fed is cutting rates, fiscal concerns and reduced demand for U.S.-dollar assets may mean borrowing costs see limited relief in the months ahead.*

### 10-year Treasury yield decomposition

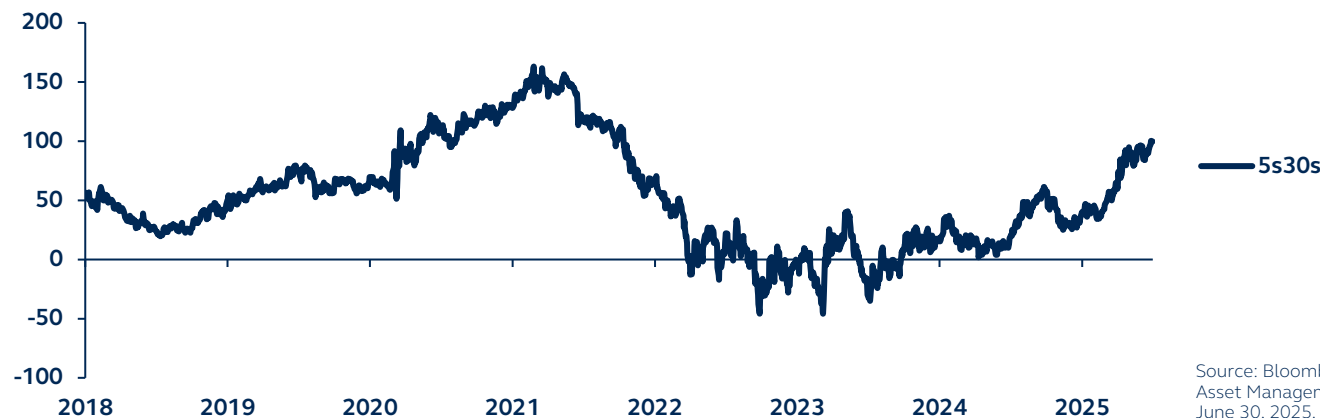
January 2023–present



Source: Federal Reserve, Bloomberg, Principal Asset Allocation. Data as of June 30, 2025.

### U.S. yield curve spread

30-year Treasury yield minus 5-year Treasury yield, basis points, January 2018–present



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

## Corporate credit: looking at the income on offer

Strong corporate fundamentals, along with solid balance sheets and elevated profit margins, are keeping the overall corporate credit environment constructive.

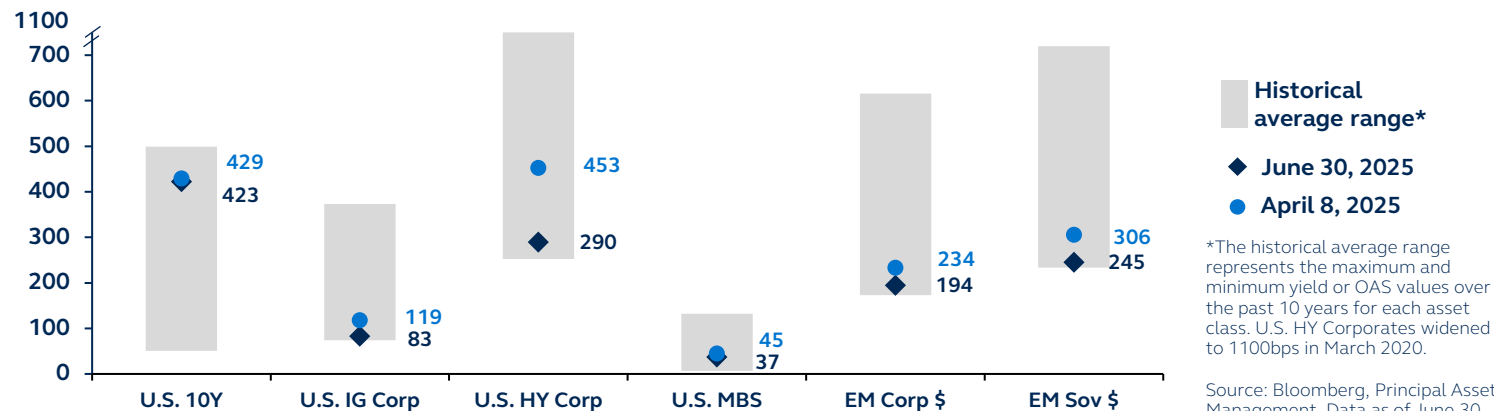
Increased pessimism about the economic backdrop and a rise in trade frictions led to wider credit spreads at the start of Q2, but this was quickly reversed as tariff concerns were swept to the side. While Treasury yields ended the quarter just a few basis points lower, spreads across much of the credit landscape are once again close to historic tights.

Yet, while additional spread compression may be limited, elevated yields mean that investors should remain attracted to the income that credit offers.

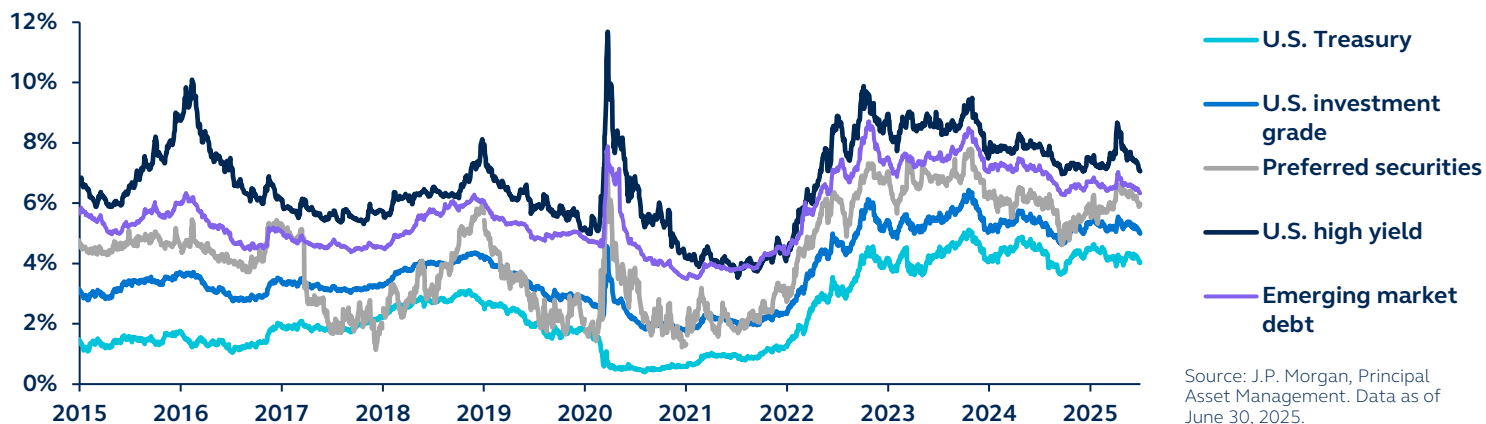
- Solid high-grade corporate balance sheets, strong fundamentals, and attractive yields create a favorable outlook for investment grade.
- As defaults are unlikely to meaningfully increase if earnings hold up, high yield offers compelling value - although credit selection will be crucial.
- Local currency EM debt should benefit from a weaker dollar, lower energy prices, and rate cuts.

*Credit remains well positioned to perform strongly for the latter half of the year. Further spread tightening is unlikely, but credit offers investors an important source of income.*

**Historical average range over the past 10 years**  
Yield and option-adjusted-spread, basis points, 2015–present



**Yield comparison**  
Yield-to-worst, 2015–present



# Investment perspectives

# Global diversification: The world is not enough

For the past decade, diversification was advised but rarely rewarded. Concentrated exposure to U.S. mega-cap tech delivered far superior returns than a diversified mix across assets, sectors, or regions. This persistent outperformance led to stretched valuations and masked opportunities elsewhere.

But that dynamic began to shift in early 2025. A surprise rebound in Chinese tech, Europe's turn toward expansionary fiscal policy, and growing concerns about the U.S. outlook triggered a rotation toward global markets. A weakening dollar only reinforced the case for international exposure.

Looking ahead, diversification, both geographic and across assets, will be critical. U.S. exceptionalism hasn't disappeared; its structural advantages in innovation, scale, and productivity remain intact. But as other global economies gain momentum, U.S. outperformance is likely to be more muted.

In addition, the traditional 60/40 portfolio, while effective in recent years, faces headwinds in a higher-for-longer rate environment. Real returns may be lower, and volatility higher. That strengthens the case for even broader asset class diversification, including alternatives and private markets. Active management will be key to managing risk, enhancing returns and identifying opportunities as this cycle unfolds.

*Diversification—both geographic and across an even broader set of asset classes—will be critical as global economies gain momentum and in a higher rate environment.*

## Asset class performance

Total return, annual averages over period shown, 2010-2025 YTD

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Average
Small Cap	26.9%	7.8%	18.6%	38.8%	13.7%	1.4%	21.3%	37.8%	0.0%	31.5%	20.0%	28.7%	16.1%	26.3%	25.0%	19.9%	14.3%
Fixed Inc.																	
EM	19.2%	2.1%	17.9%	32.4%	6.4%	0.5%	12.0%	25.6%	-4.4%	25.5%	18.7%	27.1%	-13.0%	18.9%	12.1%	15.6%	10.6%
EAFE																	
Small Cap																	
Small Cap	16.8%	0.6%	16.3%	23.3%	6.0%	-0.4%	11.8%	21.8%	-4.9%	22.7%	18.4%	14.8%	-14.0%	16.9%	11.5%	6.8%	8.2%
Balanced																	
Small Cap	15.1%	-4.2%	16.0%	15.9%	4.9%	-1.5%	11.6%	15.2%	-11.0%	20.5%	12.6%	14.1%	-14.4%	15.3%	8.1%	6.2%	7.4%
S&P 500																	
Balanced	12.3%	-11.7%	11.4%	-2.0%	-1.8%	-4.4%	8.1%	14.6%	-11.2%	18.9%	8.3%	11.8%	-18.1%	10.3%	5.4%	5.5%	5.3%
EAFE																	
Small Cap	8.2%	-13.3%	4.2%	-2.3%	-4.5%	-14.6%	2.6%	3.5%	-13.4%	8.7%	7.5%	-1.5%	-19.7%	5.5%	4.3%	4.0%	2.6%
Fixed Inc.																	
Fixed Inc.	6.5%	-18.2%	-1.1%	-9.5%	-17.0%	-24.7%	1.5%	1.7%	-14.2%	7.7%	-3.1%	-2.2%	-20.4%	-7.9%	1.3%	-1.8%	0.3%
EM																	
Commod.																	
Small Cap																	
Commod.																	

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 June 30, 2025.

## Defense and diversification in a disrupted cycle

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

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

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

### **Fixed income** *Further spread tightening is unlikely, but elevated yields remain attractive*

- Increase allocation to investment-grade (IG) credit with strong balance sheets
- Extend duration selectively—attractive hedge in a slowing growth environment
- U.S. policy uncertainty can create diversification opportunities in emerging market debt
- Consider deploying cash assets in higher-yielding income options, minimizing reinvestment risks

### **Alternatives** *Pursue less correlated exposures*

- Fundamentals and selectivity remain key in private real estate – focus on opportunities in data centers, residential, healthcare (U.S.), and logistics (Europe)
- REITs remain compelling amid falling yields and defensive rotation
- Prioritize real return strategies in a stagflationary risk scenario

### Implementation

- Well-diversified, active international managers
- Quality-biased active managers
- Active mid- and small-cap strategies
- Large-cap U.S. strategies
- IG credit heavy core fixed income
- Flexible emerging market debt strategies
- Active high yield strategies
- Preferred and capital securities
- Private real estate markets
- Proven REIT strategies
- Multi-strategy alternatives

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.**

### Risk considerations

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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