Principal Global Investors Funds

Global Sukuk Fund

I Class December 2025

Market Review

In December, US Treasuries (UST) began the final month of the year on a cautious note, with 10-year yields pressured 20bps higher from 4.01% to 4.21% on 10th December. Sentiment was dented by an influx of corporate bond issuances and positive US economic data, which tempered expectations of another rate cut by year-end. Yields briefly fell to 4.10% on 11th December after the US Fed cut rates by 25bps to 3.50-3.75%, and announced that it will start buying short-dated Treasury bills to help manage market liquidity. Subsequently, 10-year UST yields rose again and fluctuated between 4.10-4.20%, weighed by hawkish remarks from some US Fed members, better-than-expected economic data e.g. the delayed 3Q25 US GDP, as well as a selloff in Japanese government bonds. In the final trading days of the year, yields ground lower to 4.10%, but subsequently climbed to settle at 4.17% (m-o-m 16bps higher, y-o-y 40bps lower) after US initial jobless claims surprised on the downside. Meanwhile, the UST yield curve bear steepened m-o-m, with the shortest 2-year UST down by 2bps, while 5-30 year yields rose 13-18bps.

On the first two trading days of December, 10-year yields moved 10bps higher to 4.11%, weighed by a surge in corporate bond issuances, as well as weaker government bonds globally after the Bank of Japan signaled a potential rate hike in December. This came even after US ISM manufacturing declined deeper into contractionary territory from 48.7 in October to 48.2 in November (consensus 49.0) amid a sharp drop in new orders. 10-year UST briefly pared losses to 4.04% on 3rd December after ADP Private Employment shrunk from 47,000 jobs in October to -32,000 jobs in November (consensus 10,000), but resumed its upwards trajectory following better-than-expected US ISM services data. In November, the index climbed from 52.4 in October to 52.6 (consensus 52.0), while input prices dropped sharply from 70.0 to 65.4 (consensus 68.0). Subsequently, sentiment in the UST market continued to be soft, as initial and continuing job claims for November came in lower than expected while JOLTS job openings for September and October both exceeded expectations, indicating that the US labor market may not be as weak as initially thought. Investors were also bracing for a "hawkish cut" at the upcoming US Fed meeting on 10th December. Meanwhile, the delayed inflation report for September showed that PCE inflation remained sticky at 0.3% m-o-m (y-o-y up from 2.7% to 2.8%), while core PCE inflation was firm at 0.2% m-o-m (y-o-y down from 2.9% to 2.8%).

On 10th December, the US Fed voted 9-3 to reduce rates by 25bps for the third consecutive meeting to 3.50-3.75%, with Governor Stephen Miran again favoring a steeper 50bp cut, while regional Fed Presidents Jeffrey Schmid of Kansas City and Austan Goolsbee of Chicago preferred to keep rates unchanged. Fed Chairman Jerome Powell stated that the committee is well-positioned to wait and see how the economy evolves, signaling a tougher road ahead for further reductions and that an extended pause may be on the cards. Powell said the Fed is facing a "very challenging situation" as it confronts risks of rising inflation and unemployment, adding: "You can't do two things at once". Nevertheless, Powell struck a dovish tone in relation to employment, calling job creation "extremely" weak and noting that payrolls were running at a negative monthly pace, while also acknowledging some hawkish voices on the committee. The Fed also announced that effective 12th December, it will start buying short-dated Treasury bills to help manage market liquidity levels, with the initial round of purchases totaling around USD40 billion a month.

In its updated summary of economic projections, the US Fed upgraded its GDP forecast for 2025 from 1.6% in September to 1.7%. For 2026, the GDP forecast was significantly lifted from 1.8% to 2.3%, indicating that policymakers are penciling in an acceleration in productivity (2027 forecast: up from 1.9% to 2.0%, 2028: up from 1.8% to 1.9%). Meanwhile, headline PCE and core PCE inflation projections were revised down for 2025 (headline: down from 3.0% to 2.9%, core: down from 3.1% to 3.0%) and 2026 (headline: down from 2.6% to 2.4%, core: down from 2.6% to 2.5%), while forecasts for both inflation readings were unchanged for 2027 and 2028 at 2.1% and 2.0% respectively. Policymakers also maintained their forecast for unemployment at 4.5% for 2025 and 4.4% for 2026. In the new dot plot, the median dots remained the same as in September, i.e. 3.6% for 2025 (implying 75bp cuts for all of 2025), 3.4% for 2026 (implying 25bp cuts), and 3.1% in 2027 and 2028 (implying 25bp cuts in 2027 and none in 2028). Still, the distribution of forecasts for 2026 was far wider and skewed toward quicker cuts. All in all, investors deemed the overall outcome of the Fed meeting as less hawkish than expected, pushing 10-year UST yields 11bps lower to 4.10% on 11th December.

However, yields rose back to 4.20% the next day, after President Trump announced that he is leaning toward either former Fed Governor Kevin Warsh or National Economic Council Director Kevin Hassett to lead the Fed next year. President Trump also said he thought the next Fed chair should consult with him on where to set interest rates. Hassett is widely considered a supporter of President Trump's preference for lower rates, fueling market concerns over the independence of the US Fed, with Financial Times reporting that bond investors, including those on the borrowing advisory committee, have voiced concerns to the US Treasury about Hassett's potential appointment as the Fed chief. Nevertheless, 10-year UST yields subsequently drifted lower towards the 4.10% mark on 18th December, as weak US nonfarm payrolls for October and November bolstered expectations of more rate cuts. In

October, the US economy shed 105,000 jobs (consensus -25,000, September: +108,000), the biggest decline since December 2020, due to a decrease of 162,000 jobs in federal government employment (the most since June 2010), as government workers who took the deferred-resignation option earlier in the year dropped off the payrolls measure. In November, hiring increased by 64,000 (consensus 50,000), mostly concentrated in education and health services. Notably, the unemployment rate jumped from 4.4% in September to 4.6% in November, the highest in 4 years, driven both by people re-entering the workforce and a jump in workers placed on temporary layoff. Meanwhile, the delayed US retail sales data for October showed that consumption stalled (consensus 0.1%, September 0.1%), but this was mainly driven by a decline in motor vehicle sales, which offset increases in 8 out of 13 categories, including department stores and online merchants. On inflation, headline CPI eased from 3.0% in September to 2.7% y-o-y in November (consensus 3.1%) while core CPI slowed from 3.0% to 2.6% y-o-y, the lowest since early 2021.

Subsequently, 10-year UST yields climbed to around 4.17%, weighed by hawkish comments from several US Fed members. For example, Cleveland Fed President Beth Hammack said the committee is in a good place to pause and assess how their rate cuts impact the economy in 1Q26. Hammack added that she does not put much weight on recent data releases, as they were distorted by the government shutdown. Similarly, New York Fed President John Williams maintained his stance that monetary policy is in a good place and there is "no sense of urgency" to adjust rates further. Sentiment was also dented by a selloff in long-end Japanese government bonds, after the Bank of Japan hiked rates by 25bps to 0.75% on 19th December, the highest since 1995, while signaling its readiness to tighten further as it marches ahead with policy normalization. On 23rd December, 10-year UST yields jumped to hit the 4.20% support level again, after data showed that the US economy grew strongly from 3.8% in 2Q25 to 4.3% q-o-q in 3Q25, the fastest pace in 2 years, and significantly beating consensus expectations of 3.3%. The strong expansion was powered by solid personal consumption, which expanded from 2.5% to 3.5% (consensus 2.7%), as well as calmer trade policies, which supported business spending. While the US government shutdown is expected to weigh on 4Q25 GDP, the economy may post a modest rebound in 2026 when households receive tax refunds, and an anticipated Supreme Court ruling may strike down President Trump's sweeping global tariffs.

In the final trading days of the year, 10-year UST yields drifted lower to 4.10%, but surged at the eleventh hour in thin trading to settle at 4.17% (m-o-m 16bps higher, y-o-y 40bps lower), after initial and continuing jobless claims came in lower than expected. Meanwhile, minutes of the US Fed meeting on 10th December show that policymakers thoroughly deliberated the risks facing the US economy right now, before ultimately agreeing to cut rates by another 25bps. Even some of those who supported the rate cut acknowledged that "the decision was finely balanced", and were inclined to keep rates unchanged given the different risks facing the US economy. Going forward, "most" participants judged that further rate cuts would likely be appropriate, but "some" policymakers thought a pause may be warranted, to assess the lagged effects of recent rate cuts, and gain more confidence that inflation is returning to the Fed's 2.0% goal. On inflation, "many" said they expected the impact of tariffs on core-goods inflation to wane, and that evidence pointed to a reduced probability that tariffs would lead to persistent inflation pressure. However, "several" members saw risks of higher inflation becoming entrenched, and thought cutting further with inflation elevated could signal a diminished commitment to the 2.0% objective. Meanwhile, "several" participants saw signs of potentially greater fragility in the labor market, e.g. a rise in unemployment rates for historically cyclically sensitive groups, the possibility that layoffs could push the unemployment rate sharply higher in a low-hiring rate environment, and the concentration of job gains in a few less-cyclically sensitive sectors.

Crude oil markets continued to weaken in December, pressured by persistent concerns over a supply glut. During the month, Brent crude oil prices slid 7.1% from USD 63.20/bbl to hit USD 58.72/bbl on 16th December, the lowest intraday level since May, amid reports that a US-brokered peace deal between Russia and Ukraine is within reach. Nevertheless, Brent prices rebounded strongly in the second half of the month to around USD 62.50/bbl amid escalating tensions between the US and Venezuela, before closing the year at USD 60.85/bbl (m-o-m -3.7%, y-o-y -18.5%).

Fund Review

The Fund outperformed the Dow Jones Sukuk index by 34bps in December, with returns of 0.16% compared to the index return of -0.18%. Year to date, the Fund outperformed the index by 336bps, with returns of 6.25% versus index returns of 2.89%.

Portfolio Outlook and Strategy

The economic outlook in GCC countries continues to be solid, anchored by the governments' ongoing efforts to diversify away from the hydrocarbon industry and strong growth in the non-oil sector, which have resulted in positive rerating actions by international rating agencies.

UAE's tourism sector continued to perform strongly in 2025, contributing AED 257.3bil (13% of GDP). The government targets to increase this to AED 450bil under the National Tourism Strategy 2031. In 10M25, average hotel occupancy stood at 79.3%, among the highest globally; while aviation hubs handled 108.59 mil passengers. On a related note, Dubai Duty Free's sales increased 9.9% to a record USD 2.38bil in 2025. Growth in the real estate sector is increasingly extending beyond Dubai, particularly into Abu Dhabi, where transaction volumes surged 76% y-o-y in 2025, the strongest growth on record. Similar momentum is also seen in Sharjah and Ras Al Khaimah, which have recorded some of their most active real estate years in over a decade.

Saudi's 3Q25 GDP expanded from 4.5% in 2Q25 to 4.8% y-o-y, driven by an 8.3% growth in oil activities and 4.3% growth in non-oil activities. The government seeks to liberalize the property market further, by allowing non-Saudis to own property in designated zones (excluding Makkah, Madinah, Jeddah and Riyadh). It has also given out regional Headquarter licenses to 700 companies, surpassing the 2030 target; while active investment licenses have risen from 6,000 in 2019 to 62,000 by 2025, helping create over 1 million jobs. Saudi and Qatar also announced that they will build a 785km high-speed electric railway connecting Riyadh and Doha, slashing travel time to about 2 hours.

In Oman, Fitch upgraded Oman's sovereign rating by one notch from BB+ to BBB- on 8th Dec 2025, citing sustained improvement in Oman's public and external balance sheets. Oman's tourism sector is also growing, with the sector's GDP contribution rising from 1.6% in 2020-2021 to 2.7% in 2024. The government aims to increase this to 3.5% by 2030 and 5.3% by 2040.

Meanwhile, the primary Global Sukuk market continued to be lively towards the year end. For the full year 2025, total primary Global Sukuk issuances amounted to USD 79.7bil (47% y-o-y increase), a new record high and surpassing 2024's previous record issuance of USD 54.0bil.

The broad outlook for fixed income assets remains constructive, as the US Fed is broadly expected to continue loosening monetary policy amid signs of slowing US economic momentum and the labor market. We will remain vigilant and adopt a nimble investment strategy to maneuver market fluctuations and capitalize on trading opportunities, with increased investments in sovereign and sovereign-related sukuk. For corporate sukuk, we continue to prefer highly liquid, blue-chip government-related companies, utility companies, as well as those with strong financials and robust cash buffers, to enable a swift reaction to any changes in market sentiment or direction.

Risk Considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed.

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