

Principal Global Investors Funds

Global Sukuk Fund

I Class February 2026

Market Review

US Treasuries (UST) performed well in February after a lackluster start to the year, with 10-year yields plummeting 30bps from 4.24% at end-January to close the month at 3.94%. The UST yield curve bull flattened m-o-m, as shorter 2–5 year yields rallied by 15–29bps, while the longest 20 and 30-year yields plunged by 26–27bps. Gains were mostly driven by weak US employment data e.g. JOLTS job openings and weekly jobless claims, as well as a benign CPI report. 10-year UST pared some gains in mid-February after minutes of the US Fed meeting in January leaned slightly hawkish, but resumed its rally towards month-end as fresh concerns over potential AI disruptions and brewing tensions between the US and Iran sparked a flight to safety. Furthermore, the US economy slowed sharply from 4.4% in 3Q25 to 1.4% q-o-q in 4Q25, significantly below consensus expectation of 2.8%.

In early February, 10-year UST yields initially rose from 4.24% at end-January to touch 4.30% on 3rd February, pressured by stronger-than-expected US ISM manufacturing. The index shot up from 47.9 in December to 52.6 in January, well into expansionary territory, and at the fastest pace since 2020 (consensus 48.5). This was mainly driven by a sharp improvement in new orders and production, both of which expanded by the fastest pace in nearly four years. Backlog in orders grew for the first time since 2022, while export orders also increased. Similarly, the US ISM services index remained strong at 53.8 over the same period (consensus 53.5), matching the highest level since October 2024. Eleven out of sixteen industries reported growth in January, led by health care, utilities, construction and retail trade, while transportation and warehousing contracted. However, while a pickup in business activity underpinned the overall measure, orders growth cooled and employment barely expanded.

Subsequently, 10-year UST rallied to 4.18% on 5th February, after US initial jobless claims for the week ending 31st January rose from 209,000 to 231,000 (consensus 212,000) while continuing claims for the week ending 24th January jumped from 1.819 million to 1.844 million. In addition, JOLTS job openings slumped from 6.928 million in November (revised downwards from 7.146 million) to 6.542 million in December (consensus 7.250 million), the lowest since 2020. Layoffs also increased, adding to evidence of a weakening US labor market. Subsequently, 10-year UST briefly pared gains after the preliminary University of Michigan Consumer Sentiment Index rose to a six-month high, but rallied again after US retail sales slowed from 0.5% in November to 0.0% m-o-m in December (consensus 0.4%). Eight out of thirteen retail categories posted decreases, including declines at clothing stores and furniture outlets, indicating that consumers are reining in their discretionary spending.

Meanwhile, the US economy added 130,000 jobs in January, surpassing consensus estimate of 65,000 (December revised slightly lower from 50,000 to 48,000). Average hourly earnings rose from 0.1% to 0.4% m-o-m, while the labor force participation rate edged up from 62.4% to 62.5%, pushing the unemployment rate lower from 4.4% to 4.3%. 10-year UST rallied to 4.05% on 13th February, after headline US CPI eased sharply from 2.7% in December to 2.4% y-o-y in January (consensus 2.5%). Core CPI also eased from 2.6% to 2.5% y-o-y (consensus 2.5%), boosting expectations of more US rate cuts this year. However, 10-year UST yields subsequently rose by 5bps to around 4.10% after housing starts for November and December rose more than expected. Furthermore, minutes of the US Fed meeting in January leaned slightly hawkish, stating that “several” participants said further rate cuts would likely be appropriate if inflation declines as expected, compared to “most” participants in December 2025. The minutes also revealed that several committee members would have supported two-sided language in the Fed statement, i.e. to indicate that rate hikes may be on the table if inflation remains above target. In addition, though “most” still noted that downside risks remained, the “vast majority” of policymakers judged that labor market conditions have stabilized.

UST yields were also pressured higher after the US Supreme Court struck down President Trump’s tariffs on 20th February. In a 6–3 decision, the Court ruled that the Trump administration exceeded its authority under the International Emergency Economic Powers Act (IEEPA) to impose tariffs, affirming that such taxation power primarily rests with Congress. The ruling raised concerns over the US fiscal position, as the tariffs were forecast to generate trillions of dollars over the next decade. Furthermore, the issue of tariff refunds was not addressed by the Supreme Court, sparking expectations that the federal government may need to reimburse over USD175 billion already collected from US corporations, which may further strain the US Treasury. In response to the court ruling, President Trump announced that the global tariff rate will temporarily rise from 10% to 15% on US imports from all countries. The new levies are grounded in a separate Section 122 law, which allows tariffs up to 15% but requires congressional approval to extend them after 150 days. Meanwhile, data showed that US PCE inflation rose from 0.2% in November to 0.4% m-o-m in December (consensus 0.3%, y-o-y up from 2.8% to 2.9% vs. consensus 2.8%). A similar increase was seen in the m-o-m core CPI reading, while the y-o-y print climbed from 2.8% to 3.0% (consensus 2.9%). The increase in core inflation was mainly attributed to higher services inflation, as consumers rotate away from tariff-affected goods towards services. In comparison, personal income growth in December was tame at 0.3% m-o-m, indicating that consumers are stretched thin and dipping into their savings, which fell to a three-year low.

Meanwhile, the US economy slowed sharply from 4.4% in 3Q25 to 1.4% q-o-q in 4Q25, significantly below consensus expectation of 2.8%, dragged down by a record-long shutdown, consumer spending and trade. According to the report, the reduction in federal services during the 1.5-month shutdown subtracted about 1.0% from GDP in 4Q25. Personal consumption also slowed from 3.5% to 2.4% (matching consensus expectation), while investment in AI data centers continued to set fresh records. For the full year 2025, US GDP slowed from 2.8% in 2024 to 2.2%. Meanwhile, the Conference Board Consumer Confidence index improved from 89.0 in January to 91.2 in February (consensus 87.1), reflecting more upbeat prospects for the economy, job market and incomes. Nevertheless, 10-year UST rallied on the final two days of the month to settle at 3.94% (m-o-m 30bps lower), driven by flight to safety amid concerns over lofty AI valuations, cracks in the private credit market, as well as rising tensions between the US and Iran.

Brent crude oil initially started the month on a weaker tone, with prices plummeting from USD 70.69/bbl at end-January to around USD 66/bbl, as geopolitical risk premiums faded after President Trump said Washington was holding nuclear negotiations with Iran. However, prices rallied strongly throughout the month as tensions grew between US-Israel and Iran, propelling Brent prices to hit USD 73/bbl on 27th February, before ending the session slightly lower at USD 72.48/bbl (m-o-m 2.5% higher).

The first trading day of February saw Brent price weakening, after President Trump said Iran was “seriously talking” with the US in a bid to diffuse geopolitical tensions. This followed President Trump’s repeated threats of military intervention in Iran, in addition to reports that US forces (including an aircraft carrier and its accompanying warships) were dispatched toward the Gulf region in late January. Meanwhile on 1st February, OPEC+ announced that they will keep to the previously announced plan to pause production increments for March. The alliance also reiterated that they may return the remaining 1.65 million bpd to the market in part or in full, subject to evolving market conditions and in a gradual manner.

Brent prices subsequently jumped to around USD 70.70/bbl on 11th February, amid reports that the upcoming US-Iran nuclear talks had hit a stumbling block, heightening expectations that Washington may proceed with military strikes against Tehran. This also raised concerns that Tehran may potentially close the Strait of Hormuz, the world’s most critical oil chokepoint which connects the Middle East region with Asia, Europe and North America. Nearly 30% of the world’s seaborne crude oil transits the waterway, in addition to around 20% of global jet fuel and 16% of global gasoline supply. In addition, approximately 10-13% of Europe’s total LNG imports come from Qatar and the UAE via the Strait of Hormuz, with several countries such as Italy, Belgium and Poland obtaining around 40% of their LNG imports through the strait.

In mid-February, Brent prices eased back to around USD 67/bbl amid signs that the US and Iran had made progress in nuclear talks. This came after Iranian Foreign Minister Abbas Araghchi said the two countries had “serious, constructive” talks and reached a general agreement on a set of principles. Meanwhile, the International Energy Agency (IEA) reiterated its expectation of a potential 3.7 million bpd oil supply glut in 2026, which would be a record in annual average terms. The agency said global oil stockpiles increased by 477 million barrels in 2025, the strongest pace since the 2020 pandemic as supplies soared and demand growth slowed. Furthermore, it trimmed forecasts for oil demand growth this year, reversing last month’s boost, amid expectations that economic uncertainties and higher oil prices may weigh on consumption. In addition, data showed that US crude oil inventories rose by 8.5 million barrels to 428.8 million barrels during the week ending 6th February, marking the largest increase in a year and exceeding expectations. The surge was driven by a rapid rebound in US production following the winter storms in January, despite refinery utilization remaining below 90%.

Nevertheless, Brent prices rallied again to hit USD 72.50/bbl on 23rd February, driven by fresh concerns over rising tension between the US and Iran. This came amid reports that a major US military operation in the Middle East may begin soon, and that Israel’s government is pushing for a scenario targeting regime change in Iran. On 19th February, President Trump warned that Tehran had 10 to 15 days to make a “meaningful deal” with Washington or “really bad things” will happen. In a letter to the United Nations (UN), Tehran said it would not start any war but asserted that it will respond decisively and proportionately if subjected to military aggression, adding that all US bases, facilities and assets in the Middle East region would constitute legitimate targets. Brent prices temporarily dipped from around USD 71/bbl to hit USD 69.16/bbl on 26th February, as investors were optimistic about the US-Iran talks, after officials from Oman, who are mediating the discussions, said “creative and positive ideas” were exchanged. However, Brent prices jumped on the final trading day of February to settle at USD 72.48/bbl (m-o-m 2.5% higher) as there were no obvious signs of a breakthrough that could avert potential US strikes. In addition, President Trump said he was still unhappy with Iran, threatening to use force to reach an agreement, if necessary.

Fund Review

The Fund outperformed the Dow Jones Sukuk index by 47 bps in February, with returns of 1.14% compared to the index return of 0.67%. Year to date, the Fund outperformed the index by 83 bps, with returns of 1.14% versus index returns of 0.31%. In February, sentiment in the Global Sukuk asset class was boosted by the rally in both UST and oil markets, driving prices higher. Technicals in the Global Sukuk market also turned positive, as the primary issuance market quieted down due to Ramadan. The only notable issuance during the month was by Türkiye Petrolleri Anonim Ortaklığı (Türkiye’s national oil & gas company), a new issuer who raised a USD1.0 billion, 5-year sukuk.

Portfolio Outlook and Strategy

GCC countries continue to expand from strength to strength, underpinned by a rapidly growing non-oil sector. The IMF projects GCC economies to grow from 2.2% in 2024 to 3.9% in 2025 and 4.3% in 2026, powered by a growing non-oil sector, especially in UAE (77% of GDP) and Saudi (56% of GDP). According to GCC Statistical Center, non-oil activities accounted for 73.2% of the overall GCC GDP, up from 70.6% at end-2024.

In the UAE, GDP grew 5.1% y-o-y in 9M25 to AED1.4 trillion (USD381.2 billion), driven by the non-oil sector (expanded by 6.1%) especially finance, construction and real estate. The government projects GDP to expand by 5.0% in 2026, underpinned by a 5.5% growth in non-oil sectors. The Emirate of Abu Dhabi's economy grew 7.7% in 3Q25 to a record high of AED325.7 billion, propelled by the non-oil sector e.g. manufacturing, services and banking. Its non-oil sector expanded by 7.6%, accounting for 54% of GDP. Furthermore, Abu Dhabi Airports reported more than 33 million passengers in 2025, the highest in the emirate's history and placing Zayed International Airport as the fastest-growing mega airport in the EMEA region. Growth was driven by a rapidly expanding international network, including 39 new routes and 7 additional airlines. Similarly, Dubai airport handled a record 95.2 million passengers in 2025 (up 3.1% y-o-y), driven by continued expansion of Emirates Airline and a record number of international tourists; while Sharjah's property market started the year with strong momentum, with USD2.53 billion worth of transactions executed in January (+35% y-o-y).

In Saudi, non-oil exports reached a record high of SAR97.5 billion in 4Q25, driven by machinery and electrical parts. China remained the top trading partner for both exports and imports, followed by Japan for exports in December. The kingdom's foreign reserves rose to SAR1.78 trillion (USD475 billion), the highest in 6 years, underscoring the strength and liquidity of its financial position. Saudi's GDP expanded from 2.7% in 2024 to 4.5% in 2025, driven by both oil (+5.6% growth) and non-oil sectors (+4.9% growth). Saudi airports achieved a record passenger growth of 9.6% to 141 million passengers in 2025, supported by an 8.3% increase in flights, led by Jeddah and Riyadh. The government also announced more liberalization measures in January, e.g. fully opening up its USD2.6 trillion stock market to global investors. The government is also reportedly reprioritizing mega projects e.g. Neom, Mukaab skyscraper in Riyadh and 2034 World Cup stadium in Jeddah. This reflects a shift toward more pragmatic, ROI-focused projects, which would reduce pressures on its fiscal profile. Meanwhile, mining activities accelerated in 2025, with new exploitation licenses jumping from 19 in 2024 to 61, reflecting rising investor interest. Mining is Saudi's third pillar of the industrial economy, with its mineral resources valued at more than SAR 9.4 trillion.

The broad outlook for fixed income assets remains constructive, as the US Fed is 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 navigate 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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