Principal®

## Principal Global Investors Funds

# Global Sukuk Fund

I Class September 2026

## Market Review

US Treasuries weakened significantly in 3Q26 as markets progressively abandoned expectations of near-term policy easing and instead repriced a higher-for-longer interest rate environment. The 10-year UST yield rose around 81bps, from 4.47% at end-June to 5.28% at end-September, while the 2-year and 5-year yields increased 72bps and 86bps to 4.89% and 5.09%, respectively. The 2s10s spread widened modestly from approximately 29bps to 40bps, reflecting an initial bear-steepening in July before stabilizing towards quarter-end. Although inflation continued to moderate gradually, resilient consumer spending, strong business activity and still-elevated inflation expectations prevented a meaningful duration rally and kept pressure on global fixed income markets throughout the quarter.

US economic data released in September continued to highlight the resilience of the economy despite the tighter monetary conditions. The Fed raises rates by 25 bps to 3.75% - 4.00% and signaled the possibility of additional tightening through revised economic and policy projections. Strong retail sales, resilient business activity and elevated energy prices supported the view that economic conditions remained sufficiently robust to absorb higher interest rates. Economic activity remained firm during the month, with the September composite PMI accelerating to 58.4, indicating continued expansion across both manufacturing and services sectors. Consumer demand also remained supportive, as second-quarter GDP was revised higher to an annualized growth rate of 2.2%, while personal consumption expanded by a robust 3.8%, underscoring the strength of household spending. Overall, the latest data suggest that the US economy continues to demonstrate resilience, reducing near-term recession concerns while supporting the case for a restrictive monetary policy stance.

Within the investment-grade sukuk universe, shorter-duration and more liquid sukuk generally outperformed intermediate and longer-dated issuances during the month, as rising US Treasury yields exerted significant pressure on duration-sensitive assets. By end-September, the Dow Jones Sukuk Total Return Index had declined approximately 2.19%, reflecting the broader impact of the sharp sell-off in global fixed income markets. Unlike periods driven by credit concerns, the weakness was largely attributable to the rates shock, with benchmark sovereign, government-related and top-tier bank sukuk remaining relatively resilient as credit spreads stayed broadly stable. Performance divergence was most evident across the duration spectrum, where longer-tenor sukuk experienced deeper price declines despite unchanged issuer fundamentals, while shorter-dated securities benefited from lower interest rate sensitivity and stronger liquidity support. Market conditions also became less favorable for lower-quality credits as investors adopted a more cautious stance amid higher rates and tighter financial conditions. Overall, September's performance underscored that duration risk, rather than credit fundamentals, was the primary driver of returns, reinforcing the preference for high-quality and shorter duration sukuk exposures in the prevailing environment.

GCC economies remained broadly resilient in September, supported by higher oil prices, stronger fiscal buffers and substantial sovereign wealth assets despite ongoing geopolitical uncertainty and disruptions around the Strait of Hormuz. Saudi Arabia continued to demonstrate resilient non-oil activity, while the UAE benefited from strong non-oil trade, greater economic diversification and policy flexibility. However, shipping activity, tourism flows, air traffic and Dubai property transactions remained below pre-conflict levels, reflecting incomplete normalization across the region. Higher oil prices strengthened fiscal revenues, sovereign liquidity and external balances, supporting the financial position of GCC sovereigns and government-related entities. At the same time, elevated crude prices contributed to higher global inflation, rising US Treasury yields and increased local funding costs, reinforcing tighter financial conditions.

Primary markets remained accessible for high-quality issuers during September, although the sharp rise in US Treasury yields and broader rates volatility reinforced the need for disciplined participation. While the recent sell-off improved all-in yields, spreads remained relatively tight, limiting the attractiveness of indiscriminate duration exposure. Consequently, liquid sovereign, government-related and top-tier bank sukuk continued to offer the most favorable risk-

reward profile, with duration added selectively where yield levels provided sufficient protection against further increases in US real rates or heavier primary market supply. On the credit rating front, Moody's revised the outlook on Oman Electricity Transmission Company (OETC) to Positive from Stable while affirming its Ba1 rating, reflecting strengthening liquidity and continued shareholder support. Within the GCC, Fitch affirmed Qatar's AA sovereign rating, removed the Rating Watch Negative status and assigned a Negative Outlook, citing risks from prolonged disruption to LNG exports while acknowledging the country's substantial sovereign wealth assets and resilient credit profile. Fitch also affirmed the ratings of Qatar Islamic Bank, Qatar International Islamic Bank and Dukhan Bank, removing their Rating Watch Negative status but assigning Negative Outlooks in line with the sovereign. Overall, the latest rating actions highlighted ongoing differentiation across credits, with upgrades and positive outlook revisions concentrated among issuers demonstrating stronger fundamentals, improving financial metrics and policy credibility.

## Fund Review

The Fund outperformed the Dow Jones Sukuk index by 53bps in August, with returns of -2.05% compared to the benchmark return of -2.58%. As of Year to date, the Fund outperformed the benchmark by 244bps, with returns of -2.45% versus index returns of -4.89%. Much of the performance was mostly driven by the significant rise in underlying US Treasury yields, particularly in the intermediate and 10-year sectors, as September's duration shock outweighed the impact of relatively stable sukuk spreads.

## Portfolio Outlook and Strategy

September closed the third quarter with a distinctly less bond-friendly backdrop. The Fed resumed tightening, US activity remained firmer than expected and higher energy prices kept inflation risks alive. Growth has not broken, but the combination of higher policy rates, elevated real yields and tighter global liquidity means carry alone is no longer enough to protect portfolios from duration risk.

In the US, the Fed raised the policy range by 25bps to 3.75%–4.00%, while September's composite PMI accelerated to 58.4, signaling stronger activity rather than an imminent downturn. Second-quarter GDP was revised up to 2.2% annualized, with consumption growth at 3.8%, reinforcing the resilience of private demand. Inflation improved after statistical revisions, but headline and core PCE remained elevated at 3.4% and 3.0% yoy. The official rate path points to one further hike and a prolonged hold through 2027, although the research range extends from September being the final move to additional hikes in December and early 2027. Cuts are therefore off the table, but the market may already be pricing more tightening than the eventual inflation path requires.

The GCC has moved from acute disruption towards adaptation, but not full normalization. August PMIs remained expansionary in Saudi Arabia and the UAE at 53.8 and 55.3, while Qatar remained in contraction at 47.6. Saudi second-quarter GDP still contracted 4.7% yoy, reflecting the damage to oil activity, even as inflation stayed contained at 1.8% and large reserve buffers preserved sovereign resilience. Saudi Arabia and the UAE are increasingly using pipelines, Red Sea infrastructure and alternative shipping arrangements to maintain exports, but Hormuz traffic, port activity, aviation, tourism and Dubai property transactions remain below pre-conflict norms. The regional story is therefore one of strong sovereign balance sheets against an operating recovery that remains uneven.

ASEAN remains two-speed. Malaysia's exports expanded 45.5% yoy in August and the trade surplus widened to RM28.1bn, while inflation remained contained at 1.9% and BNM held the OPR at 2.75%. This supports an extended policy hold, although part of the export surge reflects price effects rather than a comparable increase in real output. Indonesia's manufacturing PMI slipped below 50, but reserves recovered to USD146.5bn and BI held its policy rate at 5.75%, using stronger FX-hedging incentives to stabilize the rupiah. Inflation rose to 3.19%, keeping BI focused on currency and price stability rather than monetary support for growth.

Market technicals remained broadly supportive in August, underpinned by stronger October redemption cashflows for EM bonds which should continue to generate reinvestment demand, particularly for benchmark sovereign, government-related and high-quality bank sukuk. However, the marginal technical support is weakening as UST volatility rises, hard-currency fund flows moderate and investors reduce duration exposure. Primary issuance is expected to accelerate after the summer slowdown, led by GCC region. As a result, technicals support selective participation in well-priced quality

deals and buying on secondary weakness, rather than chasing broad spread compression, with supply likely to remain concentrated in the 5-10Y segment and increasing the need for the new-issue concession.

Looking ahead, our investment approach remains centered on quality, selectivity and carry generation. The September Fed hike and higher projected policy path argue against the relying on a near-term UST rally. Keep the duration underweight concentrated in the intermediate part of the curve and add duration for tactical, preferably in high-quality GCC sovereign and government-related sukuk or Malaysia sovereigns where all-in yields provide a sufficient margin of safety or high correlation to UST. Portfolio strategy will therefore continue to prefer government-related sukuk, strong sovereign and quasi-sovereign issuers and high-quality financials over lower quality corporate sukuk. Within GCC, focus on Saudi, UAE and Abu-Dhabi-linked credits with strong liquidity and market access, while remaining cautious on the supply-heavy 5-10Y segment unless new issues offer proper concessions. Bahrain, HY property, tourism and logistics exposure should remain selective and valuation-driven rather than strategic overweights. Regionally, Malaysia remain as the preferred Asian exposure on weakness and keep Indonesia neutral to underweight, given Malaysia offers the cleaner inflation and policy mix. Indonesia has stabilized, but exposure should stay liquid and biased towards shorter or intermediate maturities until rupiah and external conditions improve more convincingly.

For the Fund's strategy, we intend to maintain a selective carry-and-quality stance, with duration at around 0.95x benchmark and the duration underweight concentrated in the intermediate part of the curve. We favor high-quality GCC sovereign and government-related sukuk, Malaysia sovereigns, strong sovereign and quasi-sovereign issuers, and high-quality financials, while remaining selective on Bahrain, HY property, tourism and logistics exposure. Within the GCC, the focus remains on Saudi, UAE and Abu Dhabi-linked credits with strong liquidity and market access. Malaysia remains our preferred Asian exposure, with a neutral to underweight view on Indonesia. SGD hedging will be maintained at around 70% to balance portfolio protection and potential USD strength.

## 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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