

Principal Global Investors Funds

Islamic Global Responsible Equity Fund

I Class April 2025

Market Review

A bleak start to the period for equities was capped with a relief rally on tariff negotiation hopes as well as a better-than-expected start to the earnings season. As the month closed, international markets continued to outpace the U.S. peers while sectoral performance was mixed overall.

Early in the month, President Trump announced that he would apply a minimum 10% tariff on all exporters to the U.S., and multiple countries will face an additional tariff that equals half the ratio of the U.S. bilateral trade deficit with the respective country divided by U.S. imports from that country. The list of countries is extensive, with some countries facing tariffs of over 40%. With the initial announcement proving to be more aggressive than expected, the market responded with a strong sell-off, with equities trading sharply lower and the U.S. dollar weakening further.

The size and scope of the tariff announcement overwhelmed the trade actions implemented during the 2018 Trade War, bringing average U.S. tariff rates even higher than those seen during the Smoot-Hawley Tariff Act of 1930. As a result of Liberation Day, heightened worries about economic disruption have erupted. Slowing growth and rising inflation create an increasingly uneasy macro environment that resembles stagflation, even if it does not fully meet the definition. This mix only adds complexity to the policy outlook.

This was just the beginning of the tariff headlines and uncertainty as each day seemingly brought a different update and outlook on the tariff front as equities fell under increased pressure. Stability and less investor angst surfaced following President Trump's announced 90-day reprieve on reciprocal tariffs, reducing them to 10% across all countries except for China, on which the U.S. raised reciprocal tariffs even further, from 104% to 125%. President Trump's announcement emphasized that the decision to single out China was because they had retaliated against his reciprocal tariffs, whereas other countries had tried negotiating with the U.S.

This April 10th report was essentially peak tariffs and, therefore, peak pessimism. While there have been no official reports of the U.S. and China coming to the table to negotiate yet, the fact that there is openness on both sides to negotiate is a step in the right direction. Additionally, knowing President Trump is watching bond markets also implies that the tail risk of liquidity strains morphing into a financial crisis has been cut back significantly and provides a floor from which market sentiment can recover. That said, caution remains warranted.

While the bar has been lowered significantly, earnings season thus far has come in better than expected with companies' bottom-lines outpacing expectations. Heading into this season, there were concerns on potential tariff impacts and signs of slowing economic growth. So far, management commentary has largely been resilient with no notable call outs. Many eyes have been on technology and data center-related reports.

To conclude, the April period was a tale of two halves as sentiment and returns improved over the month led by international markets. The S&P 500 was down by 0.7%, while the MSCI EM Index rose by 1.3%. The MSCI Europe Index posted the significant gains - rising by 4.4%, while the MSCI Japan Index surged higher by 5.2%.

Fund Review

The portfolio posted a gain of almost 3.0% in the month of April while outperforming its respective index. From a sector perspective, IT and communications services were areas of strength while partially offset by weakness in consumer discretionary and health care. The United States and Japan were the top contributors from a country perspective while Taiwan and Ireland lagged overall.

Portfolio Outlook and Strategy

Heading into 2025, U.S. exceptionalism remained a dominant theme. But technology sector struggles, downward revisions to U.S. economic growth forecasts and tariff uncertainties have all culminated in U.S. equity weakness but a broadening into other parts of the world as well as better breadth. Protectionism remains a contentious point and likely to keep volatility prevalent on trade war concerns.

Following multi-year leadership, U.S. equities have taken a back seat to international markets thus far in 2025. President Trump and his administration are looking to restructure international trade through tariffs and by extension has increased concern about the economic outlook. Odds for a recession in the States have ticked higher and there is the increased likelihood for growth boosting policies, deregulation and tax cuts, to avoid this scenario.

However, through all the volatility and constant gyration on tariffs, peak tariffs and, therefore, peak pessimism, has likely been reached. Knowing President Trump is watching bond markets also implies that the tail risk of liquidity strains morphing into a financial crisis has been cut back significantly and provides a floor from which market sentiment can recover. That said, caution remains warranted. The potential impact on the U.S. is still significant, and uncertainty is likely to remain elevated through the 90-day grace period and as the U.S./China back-and-forth persists.

The Federal Reserve remains biased to easing policy though inflation fears will constrain the number of cuts. Whether U.S. markets can reassert itself and deliver positive equity returns going forward will likely depend on whether earnings growth can deliver.

Given this environment, opportunities are likely to arise in companies residing in economically sensitive industries and overlooked sectors. There are many examples of companies generating resilient free cash flows and trading at attractive valuations across a variety of economically sensitive industries, including materials, capital goods, consumer cyclical and financials.

The continuing pace of innovation is another reason for optimism, particularly in high-end computing and life-sciences. Innovation is growth-stimulative and disinflationary due to its impact on productivity. Cool stuff is happening and fast. A.I. is early in its usage but offers great promise across a wide scope of practical applications, including software development, agriculture, finance and healthcare. The investment needed for A.I. deployment is historically massive and shows no signs of abating.

From a global perspective, there are still numerous challenges and persisting risks. However, the depressed valuations in these regions create attractive entry points for long-term investors in firms generating resilient economic returns. Both China and the U.K. are examples of countries facing longstanding economic structural challenges. It is not surprising that investor's view companies domiciled in these markets with pessimism. Nevertheless, the market pessimism seems extreme as many of these companies operate globally yet are beset with deeply discounted valuations relative to their own histories and global peers.

In times like these, the adage of staying invested with a diversified portfolio is more important than ever. Global diversification remains essential, especially given the asymmetric implementation of tariffs across countries, while cross-asset class exposure provides valuable resilience in periods of heightened volatility. After a sharp decline, equities have the potential to recover in the months ahead.

Most importantly, investors should remember that market pullbacks are not unusual—on average, the U.S. stock market experiences an intra-year decline of 13.5%, yet most years still end with gains of around 9%. Volatility is a normal feature of investing, not a flaw—those who remain disciplined and invested through the noise are often rewarded over time.

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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