

## Principal Global Investors Funds

# Islamic Global Responsible Equity Fund

I Class April 2026

## Market Review

Global equity markets stabilized and rebounded in April following the sharp sell off at the end of March, as fears of further escalation in the Middle East eased and early first quarter earnings results showed little evidence of broad fundamental damage. The S&P 500 recovered sharply from its March 30 low, retracing conflict driven losses even as oil prices remained elevated near \$100 per barrel. Markets increasingly treated the energy shock as a manageable cost headwind rather than a catalyst for widespread earnings downgrades.

April's macro data supported this reassessment. While the Middle East energy shock was meaningful, its impact remained largely contained to energy and transportation channels rather than spilling over into generalized inflation or demand weakness. Headline inflation rose 0.9% month over month, lifting the year over year rate to 3.3%, the highest level in nearly two years. Importantly, core inflation remained relatively stable at 2.6%, suggesting that higher energy and food prices have not yet translated into broader second round inflation pressures. Goods inflation, particularly in tariff sensitive categories, showed signs of easing, helping offset energy driven price increases.

This inflation profile helped explain why equity markets were able to recover despite elevated oil prices. The absence of material acceleration in core inflation reinforced confidence that monetary policy flexibility remained intact and that higher energy costs were acting more like a targeted tax than a systemic shock. For markets, this distinction mattered: stable core inflation preserved policy flexibility and supported risk assets despite elevated input costs.

Central bank decisions in April reinforced this theme of patience rather than urgency. In the U.S., the Federal Reserve held rates steady again, maintaining a “wait and see” stance amid elevated energy prices and geopolitical uncertainty. Policymakers continue to view the U.S. economy as relatively well positioned to absorb an oil price shock, supported by resilient consumer spending, ongoing infrastructure and data center investment, and a still tight labor market. While near term inflation expectations have edged higher, longer-term expectations remain anchored, allowing the Fed to remain patient and delay further easing. This meeting also marked Chair Powell's final one, with a leadership transition set for mid-May. While near term policy continuity is expected, the change in leadership adds uncertainty around future communication and how forcefully the Fed prioritizes inflation risks relative to slowing growth if energy pressures persist.

Elsewhere in the U.S. economy, real estate provided a clear example of recovery dynamics gaining traction despite macro uncertainty. U.S. commercial real estate transaction volumes rose 27% year over year in the first quarter, with March volumes up 40% and earlier months revised meaningfully higher. While dispersion across property types remains wide, these data points suggest that U.S. real estate remains firmly in recovery, supported by improving financing conditions and renewed transaction activity.

At the same time, April highlighted areas where resilience may be overstated. In the U.S., consumer spending held steady from March to April at the aggregate level, but the composition of spending continued to deteriorate. Tax refunds are running more than \$750 higher than last year, consistent with expectations tied to the One Big Beautiful Bill Act, providing a near term boost to household cash flow. However, transaction level data and company commentary indicate that incremental dollars are increasingly being directed toward essentials, savings, and debt reduction rather than discretionary categories.

Evidence of this shift is visible in rising secondhand apparel transactions per household, higher value-oriented traffic, and smaller basket sizes. These patterns suggest consumers are not pulling back outright but are adapting structurally to a higher cost environment. Higher energy prices sit at the center of this adjustment. Energy costs effectively act as a tax on household income, offsetting fiscal support. At oil prices near \$90 per barrel, the increase in household energy expenses would largely erode the average refund benefit. As a result, stable headline spending masks emerging pressure on discretionary demand that is likely to become more visible in earnings results in coming quarters.

In Europe, policy dynamics and market outcomes diverged more clearly from the U.S. The European Central Bank held policy rates steady for a seventh consecutive meeting, underscoring a cautious approach as officials assessed the impact of elevated energy prices on growth and inflation. While euro area growth has softened modestly, policymakers continue to point to resilient domestic demand, labor markets, and investment as near-term buffers. Inflation has accelerated primarily due to energy costs, and although underlying inflation indicators remain contained for now, the ECB acknowledged that risks have become more two sided. With Europe more reliant on imported energy, the persistence of higher prices increases the risk of second round effects, narrowing the ECB's margin for patience and raising the likelihood of further policy action if pressures intensify.

Internationally, this divergence widened rather than narrowed. Europe's higher reliance on imported energy amplified the inflationary and operational impact of Middle East supply disruptions. Elevated fuel costs flowed directly into transportation heavy industries, with European airlines flagging higher costs and weaker forward bookings. More than half of Europe's jet fuel imports transit through vulnerable corridors, creating exposure that extends beyond pricing into potential supply disruption. While U.S. equities benefited from a more domestically oriented earnings base and greater energy self-sufficiency, European transport, industrials, and travel services faced disproportionate pressure. Although European markets stabilized relative to March's drawdowns, the energy shock remained more transmission efficient, limiting upside participation even as broader risk sentiment improved.

April ultimately marked a shift from broad risk repricing to selective normalization. Markets have shown an ability to absorb elevated energy prices without systemic stress, supported by stable core inflation and strong corporate fundamentals. At the same time, growing divergence across consumers, regions, and sectors suggests that headline resilience masks meaningful differences beneath the surface. Going forward, outcomes are likely to be driven more by fundamentals and positioning than by macro beta alone.

## Fund Review

The portfolio posted a positive gross return of 10.98% in the month of April but underperformed its respective index. From a sector perspective, materials and consumer staples were places of strength which offset weakness in IT and healthcare. South Korea and Japan were top contributors from a country perspective while the United States and Taiwan lagged overall.

## Portfolio Outlook and Strategy

Stocks follow earnings and free cash flow growth has never been truer than in recent years, particularly during a decade characterized by American exceptionalism. U.S. stocks have outperformed global counterparts, buoyed by superior free cash flow, earnings growth, and higher valuation multiples. Yet presently, driven by innovation and supportive policies, now raises the question: Is it time for this exceptionalism to normalize? The answer appears to be yes, as U.S. valuations have declined while ex-U.S. valuations have begun to close the gap.

Following 2025 strength, this again rung true in 2026 as international equities had their best start versus U.S. peers since 1995 until February 28th when the U.S and Israel launched coordinated military operations against Iran, citing the need to neutralize "imminent threats from the Iranian regime." More on this below. The gap closed but leadership remained as we enter May.

U.S. earnings growth and valuation multiples reached extraordinary levels, largely fueled by innovation that has significantly favored mega-cap companies. In contrast, regions like Europe have struggled to secure a foothold in the digital economy, resulting in a stark earnings divergence—U.S. earnings per share (EPS) have doubled those of developed markets over the past decade.

Two key developments are necessary for Europe and emerging markets to sustain this shift in fortunes. First, both regions must reignite growth through domestic initiatives, as protectionism threatens global trade. Second, U.S. earnings growth must slow to align more closely with international trends.

The first development is underway. The "America First" policies have inadvertently prompted other nations to focus on internal development in pursuit of economic growth. This shift could foster a more conducive environment for local

businesses. A prime example is Germany's renewed commitment to invest in physical and digital infrastructure to stimulate short-term economic growth and enhance Berlin's long-term competitiveness.

Japan is also following suit following the 2026 snap election won by PM Sanae Takaichi. She is promoting aggressive fiscal policies, investments in technology sectors like semiconductors as well as the increase in defense spending. This will build upon the already in place catalyst with Japanese companies which are further leverage the use of strong balance sheets as they unwind longstanding cross shareholdings.

As for the second point, U.S. earnings and free cash flow growth looks to be slowing for Magnificent Seven amid significant capex investments without apparent ROI upside thus far. Looking at the earnings growth of the bottom 493 stocks, they are far more pedestrian. That is, without the top S&P 500 names, the earnings growth of the U.S. would look quite like the rest of the world. In fact, earnings estimates globally show a similar expected growth rate in 2026 in every region. Should that come to pass, the approximate 30% discount valuation gap should close.

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