Principal Global Investors Funds

Islamic Global Responsible Equity Fund

I Class August 2026

Market Review

Global markets entered August with the source of uncertainty beginning to shift. Earlier in 2026, investors were primarily focused on the economic consequences of the Middle East conflict and whether the rapid expansion of AI investment could generate sufficient earnings to justify rising capital expenditure. While neither issue has disappeared, the approaching United States midterm elections have introduced a new variable into the outlook. July inflation data provided some reassurance that underlying price pressures were continuing to moderate, even as elevated oil prices preserved the risk of renewed inflation. This resilience has allowed attention to move from immediate inflation risks toward how the election could influence fiscal policy, regulation, trade, and investment during the final two years of the administration.

The election will decide whether the administration continues to have congressional support for its legislative agenda or must operate under a divided government. Although the composition of Congress will shape the policy environment, past trends suggest that election outcomes alone are rarely decisive for markets. Midterm-year volatility has typically subsided once the election removes a source of uncertainty, but subsequent performance has depended far more on economic growth, inflation, interest rates, and corporate earnings than on which party controls Congress. That distinction is particularly relevant today, as healthy corporate balance sheets, continued fiscal support, and AI-related investment have enabled equities to remain resilient despite geopolitical conflict, trade tensions, and elevated policy uncertainty.

The election could nevertheless create meaningful differences across sectors. A divided Congress would likely constrain major tax and spending legislation, placing greater emphasis on executive action and regulation. Affordability pressures could increase scrutiny of prescription drug prices, health care costs, consumer fees, and financial services, while defense companies may face pressure to increase investment in production capacity rather than prioritize dividends or share repurchases. Metals and mining companies could benefit from continued bipartisan support for securing critical minerals, whereas consumer and industrial businesses exposed to imported inputs may continue to absorb costs associated with tariffs and shifting global supply chains.

Outside the U.S., the election is unlikely to materially alter the direction of trade or foreign policy. Tariffs, efforts to reduce strategic dependence on China, and policies supporting domestic manufacturing are therefore likely to remain in place regardless of the election result. These priorities continue to redirect investment across the global economy: Taiwan and South Korea remain central to advanced semiconductor production, Europe supplies essential equipment and components for the AI buildout, and resource-rich economies such as Canada, Australia, and parts of Latin America are becoming increasingly important sources of copper and other strategic minerals. At the same time, continued disruption in the Middle East remains a risk to energy costs and inflation, demonstrating how political developments outside the U.S. can still have a greater immediate economic effect than the election itself.

The transition from Middle East and AI-related uncertainty toward the U.S. midterms does not represent a change in the fundamental drivers of markets. The election may produce short-term volatility and alter the outlook for individual sectors, but the broader direction of global equities will continue to depend on whether economic growth remains resilient, inflation continues to moderate, and companies convert investment into sustainable earnings and cash flow. We therefore remain focused on businesses with durable competitive advantages, disciplined capital allocation, and limited dependence on any single political outcome. In an environment where election headlines can move sentiment more quickly than fundamentals, effective security selection and global diversification remain important tools for distinguishing temporary political uncertainty from lasting changes in earnings and free cash flow growth potential, as well as corporate valuations.

Fund Review

The portfolio posted a positive net return of 2.75% in the month of August but underperformed its respective index. From a sector perspective, health care and utilities were places of strength while industrials and materials contributed to weakness. Switzerland and Belgium were top contributors from a country perspective, while the U.S. and Japan lagged overall.

Portfolio Outlook and Strategy

Looking at the headline absolute returns, investors likely felt good about global equity markets. However, narrowness and an AI concentrated market drove the overwhelming majority of strength. Subsequently, breadth in the equity market pushed to record lows as investors chased momentum, which reached levels not seen since 2000. A tough environment for long-term fundamental managers.

Relative performance was extremely disappointing and we own it. As we dig into every holding that we underwrote, a very select few saw their investment thesis break while the rest have not witnessed any growth deceleration in free cash flow growth expectations while simply witnessing a valuation derating if not deemed an AI winner or have any exposure. Our long-term theses remain intact. While painful, this has brought opportunities to add on weakness. We remain disciplined and will not chase the momentum but rather ensure growth and value characteristics are coming together simultaneously in every investment.

What's the driver for earnings growth finally inflecting higher?

1. Governments and Central Banks globally are looking internally for growth amid protectionist initiatives by President Trump and his administration. For instance, the Prime Minister of Japan, Takaichi, is instituting similar measures.
2. Improving sentiment surrounding the Strait of Hormuz conflict (Asia has a higher sensitivity to oil prices).
3. Credit growth improving in Europe.

Earnings and free cash flow growth inflecting higher paired with valuations that are still at a more than one standard deviation discount to the US should prove to be a formidable combination for equity leadership.

Where are we seeing select opportunities?

Health care, an area that feels like it has been written off for a couple of years, is surfacing some great long-term ideas. New US administration, MFN pricing concerns, AI and lingering COVID effects have been the perfect storm pressuring much of the industry. We think most of these overhangs are beginning to subside. Spending recovery in biotech and large pharma, biotech funding and realization of AI helping drug trials to be more efficient have set the foundation for upside.

In closing, investors are navigating a market shaped by overlapping forces. Geopolitical tensions, persistent inflation, and uneven consumer resilience are complicating the economic outlook. At the same time, artificial intelligence continues to support growth, though elevated valuations raise questions about how gains will be distributed. With fiscal and monetary policy more constrained than in the past, particularly in the US, the value of diversification is ever more important as opportunities broaden globally.

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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