

Principal Global Investors Funds

Islamic Global Responsible Equity Fund

I Class January 2026

Market Review

2026 opened up with healthy absolute returns across global markets but not without bouts of skepticism and volatility. Trade relations dampened between the United States and Europe led by Greenland dissent while U.S. markets braced for the new Federal Reserve (Fed) Chairman announcement. Neither were able to dispel the ongoing narrative that international equities remain in position to maintain leadership.

During the month, President Donald Trump announced over the weekend that, beginning February 1, the U.S. will impose a 10% tariff on all goods imported from Denmark, Norway, Sweden, France, Germany, the United Kingdom, the Netherlands, and Finland. Tariffs would rise to 25% in June unless “a deal is reached for the complete and total purchase of Greenland.” The administration argues that U.S. control of Greenland is necessary to counter China and Russia, citing the island’s strategic geographic position in the North Atlantic and its vast untapped critical mineral reserves. Negotiations remain ongoing for the territory but positively President Trump noted at the Davos meeting that military action wasn’t on the table.

Gold and silver prices had been moving sharply higher into the announcement of the Fed Chairman who would replace Jerome Powell on concerns that Fed independence could get called into question. Gold’s underlying price rose to more than \$5,600, historical high levels, before collapsing below \$4,700 in the last week of the month as President Trump tapped Kevin Warsh to be new the Fed Chairman. Markets were reassured by Warsh’s experience in the central bank—he served between 2006 and 2011, a period marked by the Global Financial Crisis—and the perception that he won’t always bend to Trump’s will. The considered safe pick brought relief to a floundering U.S. dollar as well as capped the acceleration in more defensive assets like gold.

On the other hand, copper and related companies surged higher over the month on attractive supply demand conditions. Copper is extensively being used in data center buildouts and the material is becoming increasingly harder to get out of the ground. This backdrop should lead to ongoing supply/demand mismatch over the coming years, driving prices higher. Artificial intelligence (AI) bubble concerns have intensified as billions of dollars are pouring into AI infrastructure, and companies are turning to debt financing to fund their capex ventures. However, there are fundamental differences between today’s AI rally and past bubbles, notably the dot-com era, that should temper those fears for now. Still, valuations are elevated, and the S&P 500’s concentration, along with the tech, communication services, and consumer discretionary sectors, is heavily skewed by the dominance of the Magnificent 7. 2026 kicked off with a further acceleration of alpha hunting outside the U.S. as international markets led equity leadership.

The latest earnings season led by Microsoft and SAP highlighted modest slowing in cloud areas coupled with a further rise in capex spending. Subsequent price reactions were sharp, declining more than 10% on the day of announcements and put further distance between hardware/semi and software relative returns. This was a similar narrative in 2025 and latest earnings are unlikely to reverse this sentiment though valuations on the software side are getting to depressed levels.

To conclude, 2026 opened up with equity strength led by emerging markets. The S&P 500 was up by 1.5%, while the MSCI EM Index surged higher by 8.9%. The MSCI Europe Index was up 4.5%, while the MSCI Japan Index was higher by 6.6%.

Fund Review

The portfolio posted a positive absolute return of 3.0% in the month of January but did underperform its respective index. From a sector perspective, the IT and consumer discretionary sectors were places of strength while were more

than offset by weakness in energy (do not hold) and health care. South Korea and the Netherlands were top contributors from a country perspective while the United States and the United Kingdom lagged overall.

Portfolio Outlook and Strategy

The adage “stocks follow earnings” 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 this period, 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 closed the gap in 2025.

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.

As for the second point, U.S. earnings growth may slow if the Magnificent Seven mean-revert to their long-term averages in their fundamentals. 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 valuation gap should close.

Yet, thanks to the trade war launched by the Trump Administration, European leaders are taking steps to bolster their economies. Leading this effort is Germany, which unveiled a 500 billion euro stimulus package, signaling an end to decades of budget austerity as it focuses on military and infrastructure investment. If pronouncements translate into concrete steps, the current trade friction could become a long-term positive gamechanger for Europe’s economies. Over the past decade, Japanese companies have made great strides in corporate governance and capital allocation. Former Prime Minister Shinzo Abe’s push in 2012-13 to improve capital allocation in the corporate sector has had a lasting impact, driving more long-term, value-enhancing decisions by Japanese companies. Continued progress on these fronts is primed to release shareholder value in the coming years. As companies focus on higher profitability and improve balance sheet efficiency, return on assets (ROA) will likely continue to improve given the tailwinds of reshoring and improving governance. Recent conversations with Japanese companies indicate intentions to further use strong balance sheets for modest share buybacks.

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. Artificial Intelligence is early in its usage but offers great promise across many practical applications, including software development, finance and health care. The investment needed for AI deployment is historically massive and shows no signs of abating. In health care, new weight loss treatments offer the ability to systematically address one of the greatest co-morbidities. This should improve lifespans and result in a net reduction in societal health care costs. Continued therapeutic customization also continues to grow, offering additional measures to improve the quality of life.

Finally, 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 investors’ view companies domiciled in these markets with pessimism. Nevertheless, 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.

Pertaining to the U.S, consensus entering 2026 was that political volatility would diminish, tariff headlines would fade, and affordability concerns would restrain new trade measures. The latest announcements surrounding Greenland challenge all three assumptions.

Yet, markets are still responding in a measured way:

1. High bar for repricing political risk. Threats without clear implementation pathways are often discounted. Investors wait for action, not headlines.
2. Affordability concerns limit escalation. In a midterm election year, tariffs that risk higher goods inflation and thereby complicate further Fed rate cuts can carry political costs.
3. Earnings remain the anchor. Robust corporate profits, strong household balance sheets, and solid labor markets continue to drive equity performance. If earnings momentum holds, equities can extend gains despite policy noise.

However, risks remain elevated and could accelerate an emerging structural shift: global investors have shown greater appetite to diversify away from U.S. concentration risks, especially in AI leadership, and renewed geopolitical unpredictability strengthens this incentive. Recent dollar softness is consistent with this gradual global portfolio rebalancing; A likely continuing theme.

Risk Considerations

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