

Principal Global Investors Funds

Islamic Global Responsible Equity Fund

I Class March 2026

Market Review

Global equity markets declined sharply in March as heightened geopolitical tensions and a surge in energy prices triggered a broad risk off environment. The MSCI World Index recorded its weakest monthly performance since 2022, with losses concentrated outside the United States. U.S. equities also moved lower, though they outperformed international peers, reflecting a heavier weighting toward energy and more domestically oriented earnings exposure. European and Asian equities experienced larger drawdowns, as higher energy import dependence coincided with a strengthening U.S. dollar and deteriorating risk sentiment. Emerging markets underperformed overall, with energy importing countries and Asia focused benchmarks facing the most pressure, while commodity exporting markets showed relative resilience.

Market resilience was limited during the month, with volatility remaining elevated and markets reacting directly to headline developments. Equity volatility rose materially as the conflict involving Iran escalated, particularly following disruptions to shipping through the Strait of Hormuz. While intermittent reports of potential de-escalation sparked brief recoveries, these moves proved short lived. Leadership remained narrow, with energy equities representing one of the few areas of sustained positive performance, while median stock returns lagged index level results. This divergence underscored continued concentration and elevated dispersion beneath headline indices.

Sector and style performance reflected the dominant influence of energy prices and inflation expectations. The energy sector significantly outperformed, tracking crude oil prices that more than doubled from late February levels and exceeded \$100 per barrel during March. In contrast, growth-oriented sectors, including information technology and consumer discretionary, declined sharply as higher discount rates, increased input costs, and margin concerns weighed on valuations. Capital intensive technology infrastructure names also faced pressure as investors reassessed cash flow visibility amid rising financing costs. Defensive sectors such as utilities and consumer staples provided limited downside protection, while materials equities delivered mixed results driven by divergent exposure to industrial versus precious metals.

Policy and geopolitical developments were the primary sources of market impact and risk. The conflict involving Iran materially disrupted global energy markets, with crude and refined product flows through the Strait of Hormuz declining sharply during the month. These disruptions introduced a significant geopolitical risk premium across energy, transportation, and shipping related industries. Although coordinated releases from strategic petroleum reserves were announced to mitigate supply shocks, market pricing reflected concerns about the duration and scale of potential disruptions. Equity markets responded with repeated risk off moves, while inflation sensitive assets experienced heightened volatility. To date, pass through to broader economic activity remained focused on energy and transport costs rather than signaling a widespread collapse in demand.

Monetary policy added a further layer of complexity. At its March meeting, the Federal Open Market Committee held the federal funds rate unchanged at 3.50%–3.75%, with policymakers citing heightened uncertainty stemming from higher energy prices and geopolitical risks. The decision was not unanimous, reflecting differing views on the balance of inflation and growth risks. Treasury yields moved higher over the month, particularly at longer maturities, as inflation expectations rose in response to surging oil prices. Credit spreads widened modestly but remained well below historical stress levels, indicating tighter financial conditions without signs of systemic dislocation. The U.S. dollar strengthened over the period, contributing to underperformance in non-U.S. equities.

Entering the second quarter, market conditions remain heavily shaped by energy market dynamics and policy uncertainty rather than changes in underlying demand or earnings fundamentals. Equity performance dispersion is widening, with regional outcomes increasingly tied to energy import exposure, currency sensitivity, and balance sheet flexibility in a higher cost-of-capital environment. While corporate earnings had remained generally stable prior to

March, policy and geopolitical shocks became the dominant drivers of market behavior during the month, reinforcing an environment characterized by volatility, concentration, and uneven participation across global markets.

Fund Review

The portfolio posted a negative gross return of -11.27% in the month of March and underperform its respective index. From a sector perspective, materials and communication services sectors were places of strength which were more than offset by weakness in energy and IT. Germany and South Africa were top contributors from a country perspective while the U.S. and South Korea 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 to kick off 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 the quarter concluded.

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.

Risk Considerations

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