Principal®

Principal Global Investors Funds

Islamic Global Responsible Equity Fund

I Class October 2026

Market Review

October highlighted the tension between strong corporate earnings and rising costs. Spending on AI, data centers, and power infrastructure continued, while steady employment supported household spending. Persistent inflation kept further interest-rate increases in focus, and elevated oil prices added pressure to operating costs and household budgets. The key question for equities was whether earnings growth could offset higher financing and input costs.

The Federal Reserve held its policy rate at 3.75%–4.00%, allowing time to assess the effects of September's increase. Employment remained healthy, and business investment showed signs of extending beyond technology. However, higher energy prices and renewed strength in core inflation supported expectations for a December rate increase and another in early 2027. This outlook increased scrutiny of corporate debt levels, refinancing requirements, and the returns needed to justify new investment.

AI spending continued to generate demand for semiconductors, electrical equipment, power generation, and data-center construction. Earnings expectations also rose, leaving less room for project delays or disappointing guidance. Equipment suppliers faced the challenge of converting orders into profitable sales while expanding capacity and managing costs. For companies developing AI services, the focus remained on whether additional revenue and productivity gains could justify spending, particularly where competition could constrain pricing.

In Europe, consumer spending, German fiscal expansion, and infrastructure projects helped offset pressure from higher energy prices and interest rates. Further ECB tightening remained possible, while elevated energy costs threatened household purchasing power and company margins. In Japan, rising wages and fiscal support helped household demand, while stronger earnings and AI-related investment benefited parts of the corporate sector. Corporate governance reforms continued to encourage greater capital discipline.

Across developed markets, the durability of earnings growth remained more consequential as financing costs and investment requirements increased. Order backlogs provided visibility, but their value depended on customer funding, pricing, and execution. Strong balance sheets and cash generation supported companies' ability to expand without relying heavily on additional borrowing. Equity valuations remained sensitive to whether these investments could deliver the profits already reflected in expectations.

Fund Review

The portfolio posted a negative net return of -4.32% in the month of October and underperformed its respective index. From a sector perspective, IT and industrials were places of strength while consumer discretionary and communication services contributed to weakness. South Korea and the United States were top contributors from a country perspective, while the Netherlands and Canada lagged overall.

Portfolio Outlook and Strategy

Despite healthy absolute equity returns and a better relative quarter, long-term fundamental managers continue to deal with a tough environment. Markets remain narrow and the momentum factor continues to be herded into irrespective of valuations and long-term cash flow and earnings growth projections. Breadth remains low and specific companies, including many of our own, are witnessing strong underlying fundamentals highlighted by strong cash flow and earnings growth but are seeing their multiple contract. Our deep work and engagements with management confirm our conviction in our holdings that they'll be rewarded over the long-term but haven't amid thus far in much of 2026.

We will continue to focus on separating signal from noise by focusing on company-specific factors driving attractive growth and valuation attributes. We think the dislocation of the current period will normalize, and our unwavering discipline will result in strong relative performance.

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.

Key opportunities remain in China and Hong Kong despite a lack of recognition thus far. Several of our Chinese consumer holdings have recently detracted from portfolio performance. Their share-price weakness reflects a combination of broad pressure on Chinese equities and company-specific developments that have weighed on near-term sentiment.

At the market level, investors remain concerned about China's property downturn, subdued consumer confidence, uneven economic growth and persistent geopolitical and regulatory risks. These concerns have increased the risk premium applied to Chinese companies, with share prices often responding more to changes in macro sentiment than to underlying business performance.

The consumer environment is unquestionably softer than it was several years ago, but it is important to distinguish between weak consumer confidence and an outright contraction in consumer activity. Spending has been uneven rather than uniformly poor. In particular, Chinese consumers continue to prioritize services and experiences—including travel, entertainment and dining—even while remaining more value-conscious in their purchases. During the first half of 2026, China's service retail sales increased 5.3%, compared with 1.3% growth in traditional retail sales. Travel, cultural and leisure services were among the stronger categories. As one of our holdings put it in a recent investor call: "Entertainment-driven travel is rapidly emerging as one of the most dynamic growth opportunities in the travel industry."

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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