

Principal Global Investors Funds

Islamic Global Responsible Equity Fund

I Class September 2026

Market Review

The prospect of further monetary tightening became a central consideration for the global outlook in September. The Federal Reserve raised interest rates for the first time in more than three years, while the European Central Bank continued tightening policy in response to energy-driven inflation and the Bank of Japan continued its gradual move away from exceptionally low interest rates. The shift toward higher rates increased scrutiny of equity valuations and the earnings growth needed to support them.

The Federal Reserve raised its policy rate by 25 basis points to 3.75%–4.00%, citing persistent inflation alongside continued strength in consumption, investment, and employment. The Fed revised its forecasts toward stronger growth, lower unemployment, and higher inflation, with most policymakers expecting further rate increases before year-end. The rate increase therefore shifted the debate from whether the Fed would resume tightening to how far the cycle may extend. Higher rates may limit further valuation expansion, placing greater importance on whether continued investment translates into earnings growth.

At the same time, the expansion of AI is placing greater emphasis on the physical infrastructure supporting technology investment. Data centers, power networks, advanced manufacturing, and electrification require substantial quantities of copper, lithium, rare earths, and other critical minerals. Latin America holds a significant share of these resources, but slow permitting, limited infrastructure, and processing constraints may prevent new supply from keeping pace with demand. These supply constraints connect Latin America's resource development to infrastructure spending across major markets. Access to critical minerals will help determine the cost and pace of U.S. data-center and power-grid expansion, European electrification projects, and Asian semiconductor and electronics production. China's concentration of refining and processing capacity adds complexity to efforts to diversify sourcing.

The United States and Europe are seeking additional sources of critical minerals to reduce dependence on China and support AI and energy infrastructure. However, developing mines, processing capacity, and transportation networks will require significant capital and extended timelines, leaving input availability and costs sensitive to policy decisions and geopolitical relationships. September therefore highlighted that the AI investment cycle is no longer solely a question of technology spending or semiconductor capacity; its durability will also depend on energy systems, industrial equipment, and access to strategic materials.

The combination of higher interest rates and rising infrastructure requirements creates a more demanding environment for global companies. Higher financing and input costs place greater importance on balance-sheet strength, pricing power, and disciplined capital allocation. A key area of focus for security selection remains businesses capable of converting long-term investment in AI, power infrastructure, and supply-chain diversification into sustainable earnings and cash-flow growth.

Fund Review

The portfolio posted a negative net return of -0.68% in the month of September and underperformed its respective index. From a sector perspective, materials and consumer staples were places of strength while IT and healthcare contributed to weakness. The Netherlands and Australia were top contributors from a country perspective, while the United States and the United Kingdom 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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