GLOBAL INSIGHTS • GLOBAL INSIGHTS • GLOBAL INSIGHTS • GLOBAL

4Q 2021

Global Asset Allocation Viewpoints

Pandemic recovery: The next phase

Principal®

PRINCIPAL GLOBAL INSIGHTS TEAM

Todd Jablonski, CFA
CIO, Global Asset Allocation

Seema Shah
Chief Global Strategist

Kara Ng, Ph.D
Global Economist

Scott Payseur, Ph.D
Dir. of Quant Multi-asset Research

Han Peng, CFA
Sr. Quant Economic Analyst

Brian Skocypec, CIMA
Head of Global Insights

Angela Finney
Insights Analyst

Ben Brandsgard
Insights Analyst

Table of Contents

Key themes for 4Q 2021

- **COVID-19 vaccinations remain key to local market performance**
  Developed market (DM) growth rates will not see additional significant boosts from vaccination momentum. By contrast, accelerated vaccination rates in emerging markets (EM) should result in a reawakening in growth.

- **Inflation pressures should fade in late 2022, but upside risks are growing**
  Supply bottlenecks have extended, shelter inflation has surged and, although inflation expectations are still anchored and wage inflation is muted, demand destruction is now a risk.

- **Financial conditions remain easy even as policy normalization begins**
  Federal Reserve (Fed) tapering is set to begin imminently, but rate hikes are at least a year away and other DM central banks are even further from lift-off. Many EMs are already hiking in response to inflation.

- **With market angst heightened, equity market pullbacks aren't unreasonable**
  Fundamentals remain solid, supportive of a strong earnings profile so market weakness will not be prolonged. With this backdrop of uncertainty, focus on quality and stability.

- **Core fixed income is constrained, but high yield (HY) and EM offer opportunities**
  With rates biased higher, there is limited room for investment grade (IG) return potential. Relative HY and EM spreads remain favorable and above-trend growth suggests limited default risk.

Investment themes

The economic backdrop is normalizing

Peak activity is behind us in developed markets as vaccination momentum approaches a natural ceiling and central banks turn towards policy normalization, while in China the regulatory clampdown is weighing on growth. Supply chain constraints persist, energy prices are surging, extending this period of elevated price pressures.

Yet, the pandemic is having a diminishing impact on activity, improving incentives should see labor supply returning and consumers still exhibit strength. We believe Global growth will be slower in 2022, but still above-trend.

Greater investor angst? Seek out quality

With waning central bank stimulus and extended valuations, positive returns will be reliant on a strong earnings profile. Rising wages and higher input costs indicate greater pressure on profit margins, while growing investor fear around inflation-led demand destruction implies rising volatility.

Against this backdrop, underlying weaknesses are more likely to be exposed, arguing for a renewed focus on quality. Strong balance sheets, positive cash flow, reliable income streams will thrive in this increasingly uncertain environment.

Still reaching for yield

Rates are biased higher, but not disruptively so. The core message from most developed market central banks is continued movement toward dialling back stimulus, while also emphasizing that policy will still be accommodative. As a result, fixed income can continue to provide protection in this less favorable backdrop, but with a focus on shorter duration assets.

Given the still low-rate environment, there remains a strong reach for yield, but investors may want to keep one eye also trained on default risk.

Consider the risks

"Modern day stagflation"
There are already tentative signs that elevated prices are triggering a purchasing power squeeze and, if this persists, central banks will face a tough dilemma: Continue with policy normalization plans and inadvertently hurt already declining activity, or restart asset purchases to insulate activity, but inadvertently boost inflation further. Market anxiety would spike.

China hard landing
The evolving regulatory and political environment in China is dampening growth, but additional policymaker stimulus is expected to soften the blow, resulting in a managed slowdown. However, if policy adjustments are more focused on Beijing's long-term strategic objectives, the slowdown will intensify, with significant implications for not just emerging markets Asia, but global growth too.

The ebbs and flows of a post-pandemic global economy

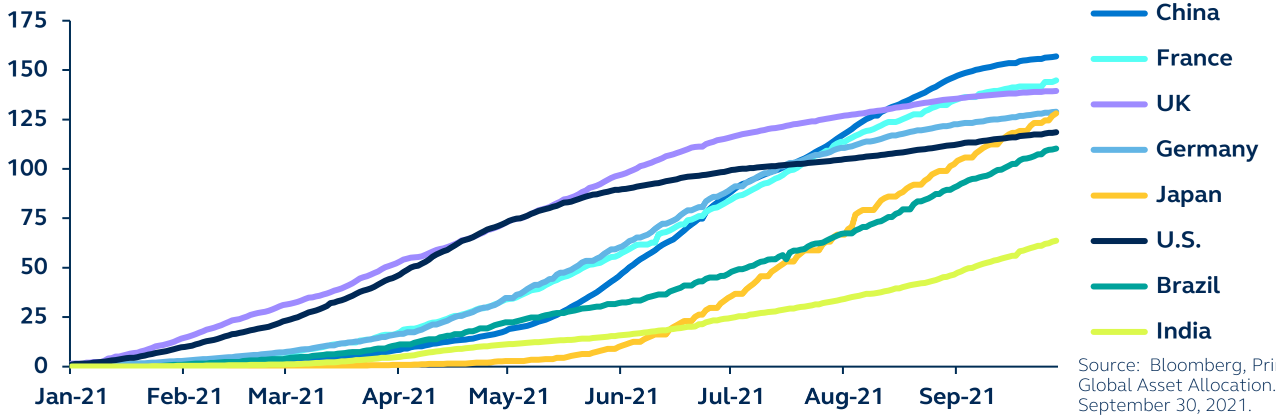
Throughout the pandemic, vaccinations have been key to lifting social restrictions and, therefore, local market performance. In the United States and Europe, where the S&P 500 and Eurostoxx 600 are up 15.9% and 14.0% year-to-date respectively, early and aggressive vaccination rollouts have allowed for full reopening of their economies. Yet, additional significant boosts from vaccination momentum are unlikely and, coupled with policy stimulus giving way to policy normalization, both U.S. and European growth rates have likely peaked.

In contrast, EM equities have struggled since early 2021, as lagging vaccinations, ongoing COVID-19 outbreaks, and start/stop restrictions dampened economic activity. However, several EM countries have recently accelerated their pace of vaccination and should soon reach levels that trigger a reawakening in activity.

Insight: Rising vaccination rates in EM should permit the reopening theme to transfer from DM to EM—provided China's economy achieves a soft landing.

COVID-19 vaccination rollout

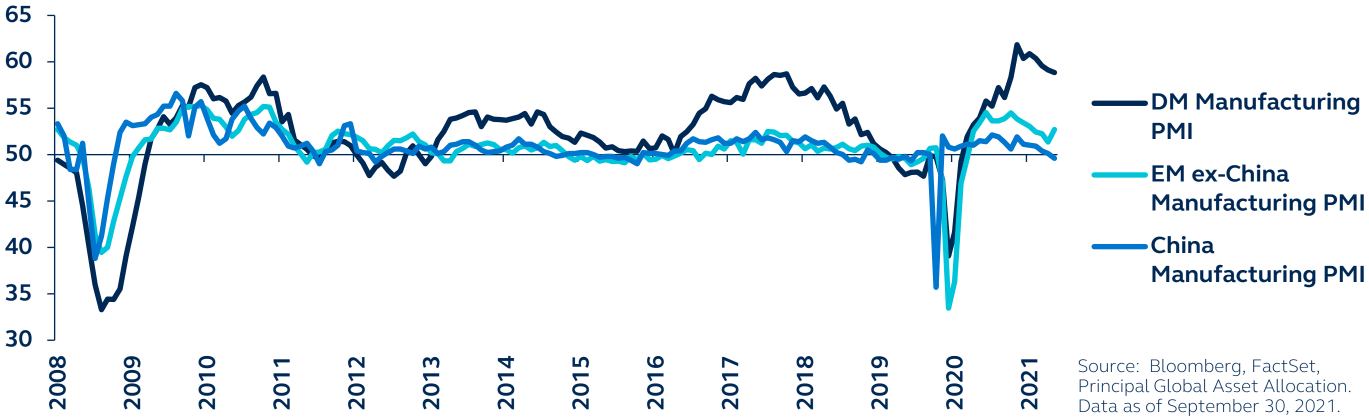
Total vaccine doses administered per hundred people, January 2021 – present



Source: Bloomberg, Principal Global Asset Allocation. Data as of September 30, 2021.

PGAA GDP-weighted Purchasing Manager Indices (PMI)

Index level, May 2008 – present



Source: Bloomberg, FactSet, Principal Global Asset Allocation. Data as of September 30, 2021.

Inflation is transitory—but still deserves investor caution

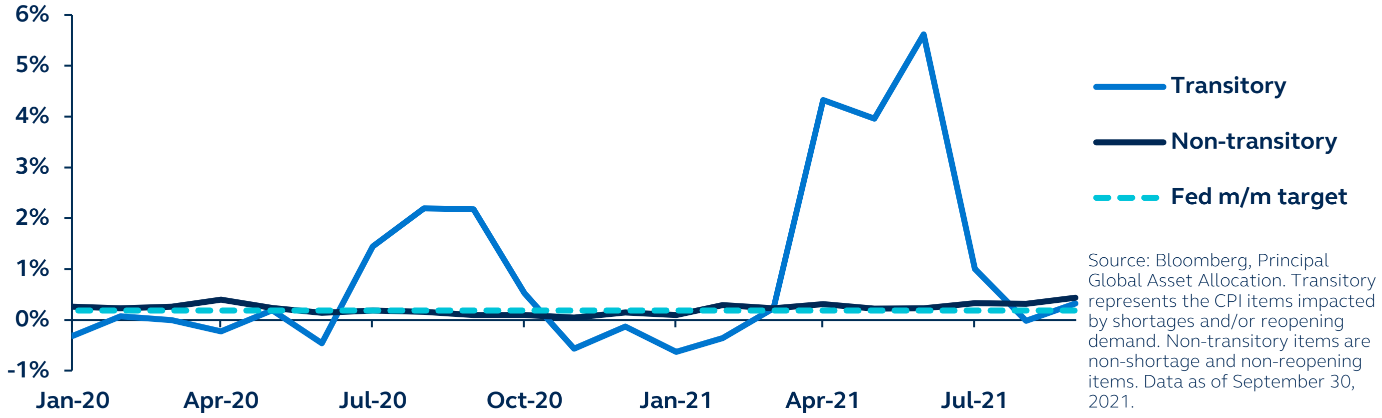
Elevated global inflation prints are largely being driven by reopening demand and supply shortages—but both factors are unsustainable, and the easing of these dynamics should prompt a reversal of the recent price pressures. As we expect it will take well into 2022 for supply chains to fully normalize, core goods prices may remain elevated through much of next year.

There are fears that if transitory shocks are prolonged, inflation expectations will become de-anchored, and inflation will then become more persistent. Market-based measures show DM long-term inflation expectations are still well-behaved, hovering close to central bank inflation targets, but household survey-based inflation expectations are signalling greater concern and deserve a watchful eye—particularly with regards to a potential purchasing power squeeze from higher energy prices. At the same time, shelter prices have recently surged and may signal a concerning development in underlying inflation pressures.

Insight: Inflation is most likely transitory—but market fall-out would still be significant if elevated prices begin to meaningfully dampen consumer demand.

Transitory CPI vs. non-transitory CPI

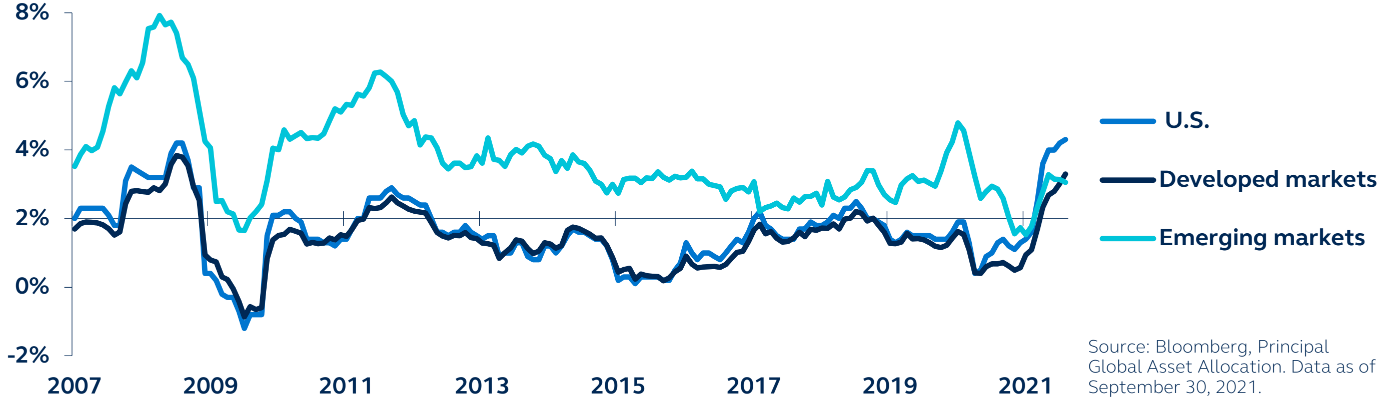
Non-annualized month-over-month, January 2020 – present



Source: Bloomberg, Principal Global Asset Allocation. Transitory represents the CPI items impacted by shortages and/or reopening demand. Non-transitory items are non-shortage and non-reopening items. Data as of September 30, 2021.

PGAA GDP-weighted Inflation

2007 – present



Source: Bloomberg, Principal Global Asset Allocation. Data as of September 30, 2021.

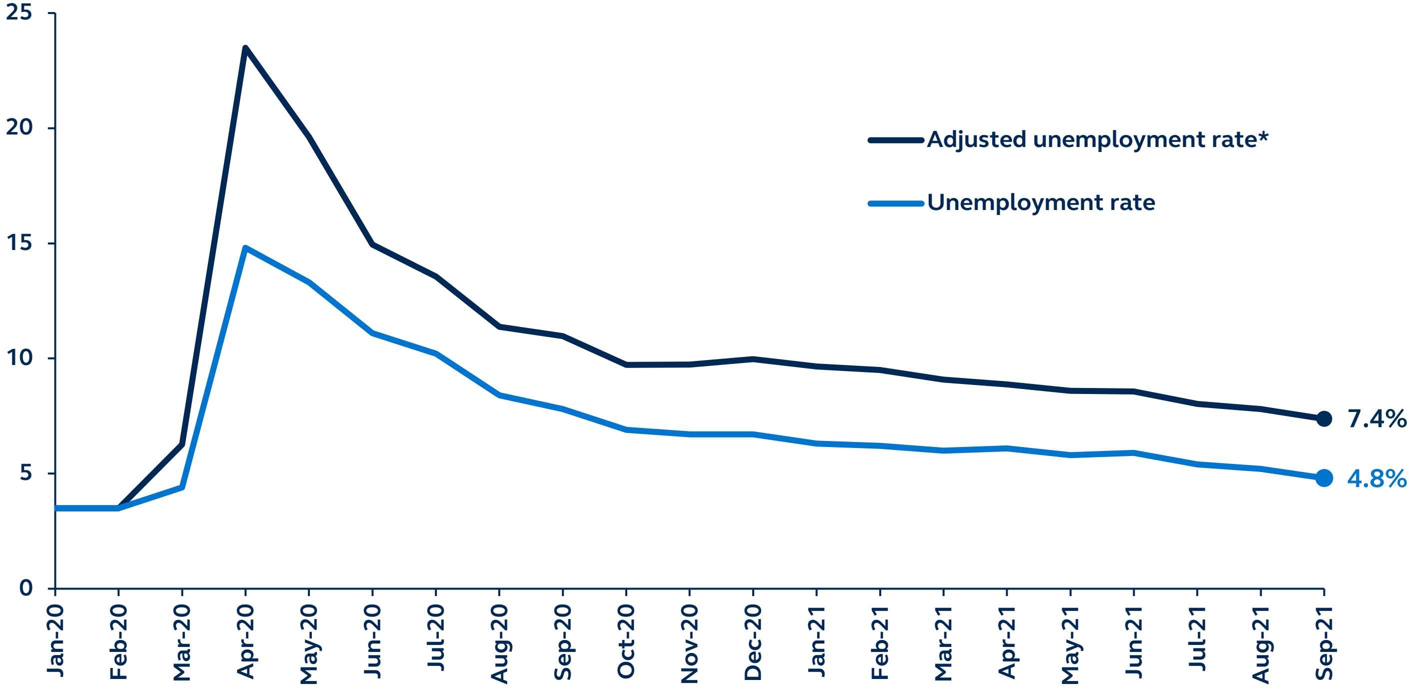
Maximum employment goal is key for Fed action

Unlike inflation, labor market recoveries are still incomplete. The U.S unemployment rate has dropped significantly, but it understates the degree of economic distress. The participation rate is stuck 1.5–2 ppt below pre-COVID levels: Over 3 million people still haven't returned to the U.S. labor force. Approaching the labor market as the Fed does, restricting the participation rate to its pre-pandemic level and considering COVID-19 related misclassifications, the adjusted headline unemployment rate is actually closer to 7.5% instead of 4.8%.

With such tight labor supply, U.S. wage inflation is a risk. But the U.S. employment cost index and the Fed's favored Atlanta Wage Growth Tracker show little evidence of worrying wage increases. We look for an increase in labor participation in 4Q because of the expiration of unemployment benefits and return of in-person schooling. Rising labor supply should stave off inflationary implications from a low unemployment rate; if not, margin compression will be a risk.

Insight: Without a recovery in participation, the labor market recovery will be incomplete and wage pressures will pose a risk to profit margins.

U.S. unemployment rates
January 2020 – present



Source: Bureau of Labor Statistics, Principal Global Investors. *Adjusted unemployment holds the participation rate at February 2020 level of 63.3% and expands the classification of unemployed to include misclassified workers and the monthly change in labor force. Data as of October 8, 2021.

Principal

Central bank support continues to buoy developing markets

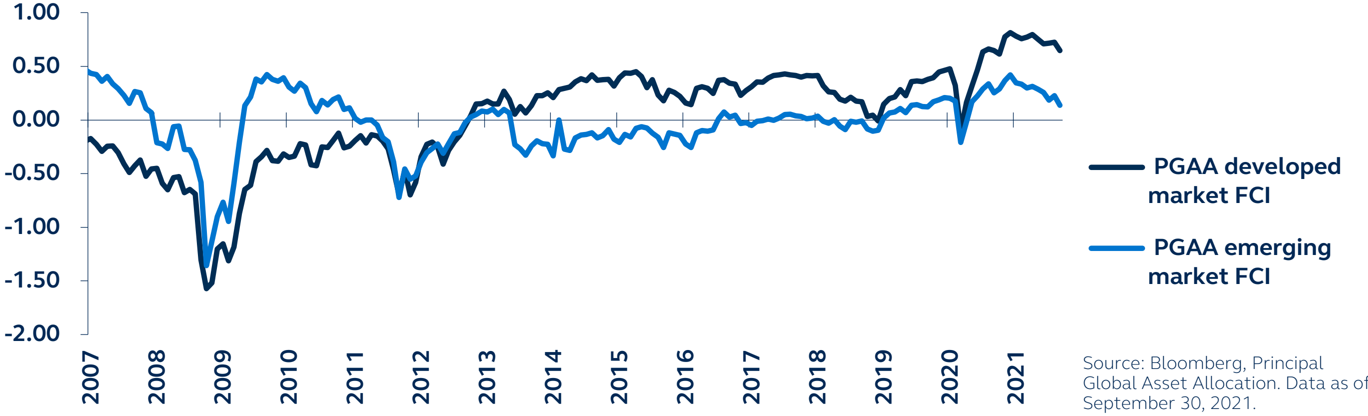
The key message from most DM central banks is continued movement toward dialling back monetary stimulus, while also emphasizing that policy will still be accommodative. The Fed has clearly signalled that it is set to begin tapering asset purchases imminently, likely at a pace of $15bn per month, ending in mid-2022. Yet, with the labor market recovery still having some way to go, we don't envisage Fed lift-off until 2Q 2023. Other major DM central banks, such as the European Central Bank (ECB) and the Bank of Japan (BOJ), face slower GDP growth trajectories and long-term inflation expectations remain below central bank targets. As a result, they are even further behind in the normalization process and policy rate lift-off for them may not take place until 2025.

While DM financial conditions have tightened, the slow steps to lift-off is keeping them near record highs and very loose by historical comparison. By contrast, with many EM central banks already raising rates in response to inflationary pressures, they face relatively tighter financial conditions.

Insight: Although DM central banks are now turning their attention to policy normalization, progress will be slow, keeping financial conditions loose and supporting risk assets.

Developing market and emerging market financial conditions

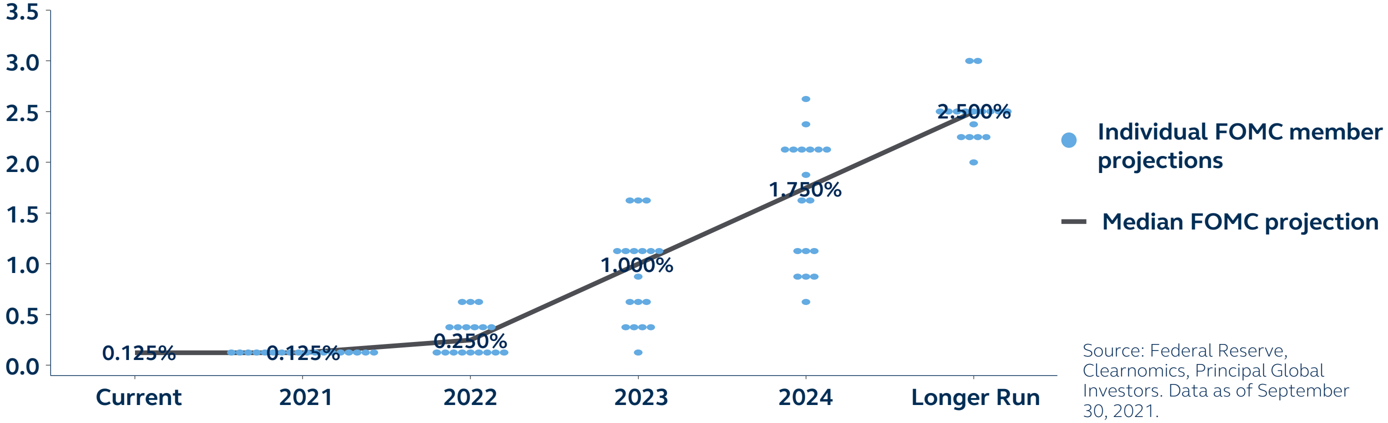
Z-score, 2007 - present



Source: Bloomberg, Principal Global Asset Allocation. Data as of September 30, 2021.

FOMC federal funds rate dot plot

Individual and median projections, percent



Source: Federal Reserve, Clearnomics, Principal Global Investors. Data as of September 30, 2021.

Equities

Global equity markets struggled in 3Q

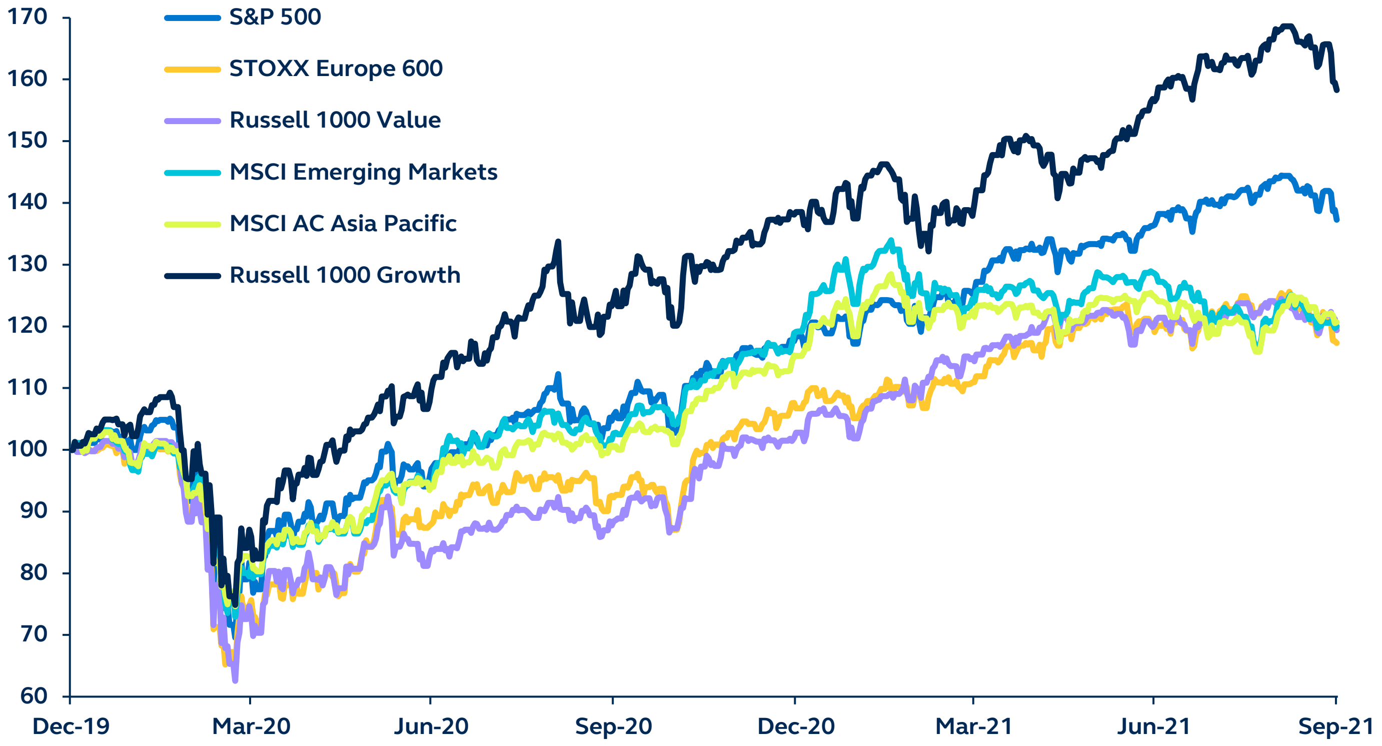
The post pandemic global equity market recovery struggled in 3Q as conditions became more challenging, potentially a prelude of quarters to come. Market activity in the last two weeks of September appeared to be holistically risk-off. The spread of the Delta variant returned COVID-19 risks to the forefront of investor woes, weighing on sentiment and performance across most markets. But it was the policy pivot, with central banks shifting their focus from ultra-accommodative to policy normalization, resulting in a bond market sell-off, that triggered broad equity declines in September. After starting 3Q strongly, the U.S. S&P 500 index recorded its first 5% pullback for the year, as a cacophony of risks collided.

China's regulatory clampdown was a major headwind to emerging markets, and investor unease, with China's deemphasis of growth, even intensified as the quarter progressed.

Insight: Concerns around COVID variants, policy normalization, and China headlines gave global equity markets a pause in 3Q—potentially a prelude to 2022.

Global market performance

Index returns local currency, rebased to 100, January 1, 2020 – present



Source: Bloomberg, Principal Global Asset Allocation. See disclosures for index descriptions. Data as of September 30, 2021.

Markets are flush with returns and high valuations, but threats are mounting

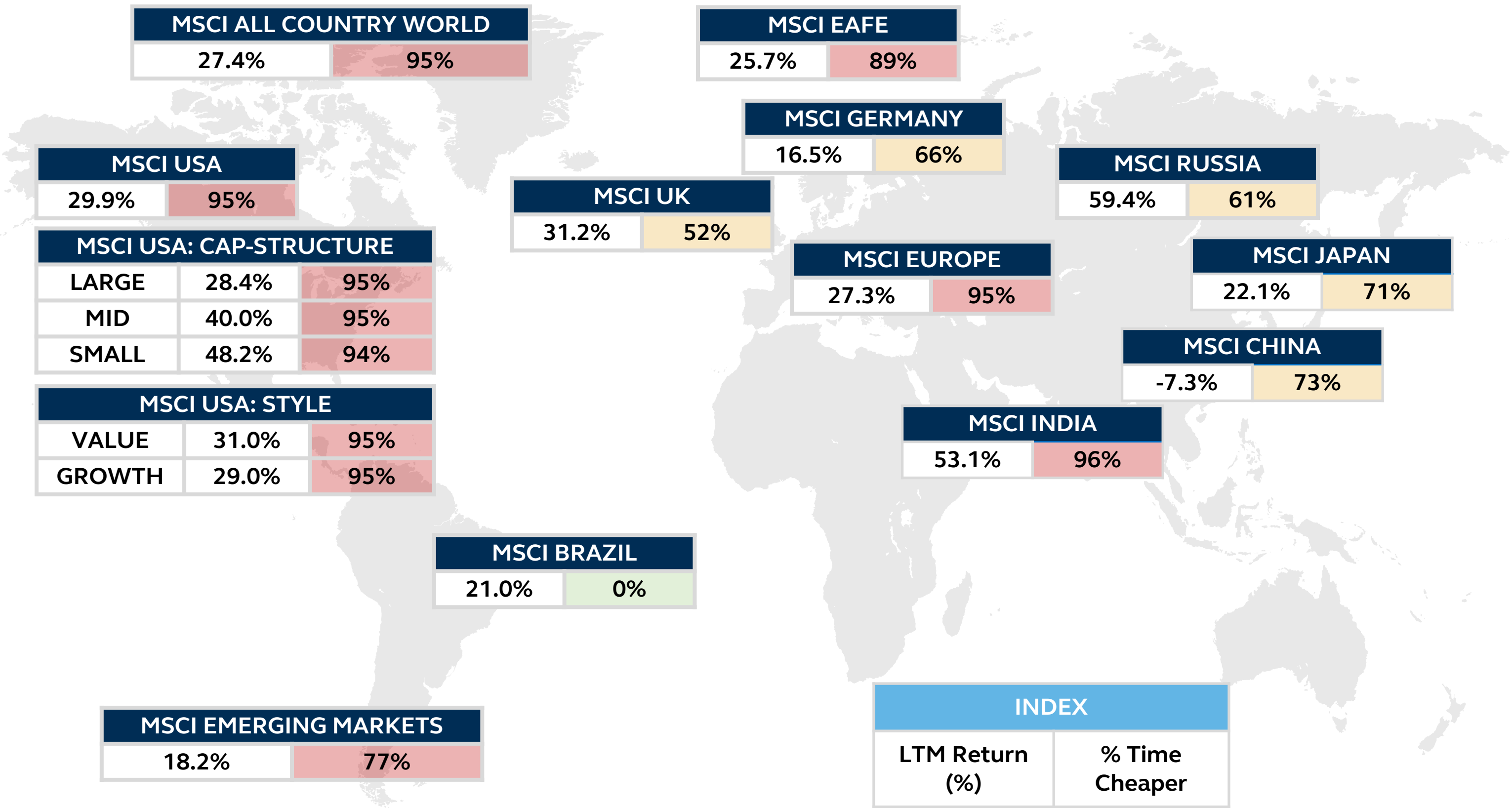
Equity markets remained extremely expensive, with seemingly only a few pockets of “value” around the globe. Although stretched valuations do not imply a correction is imminent, they do suggest that markets are increasingly vulnerable to disappointment and the sustainability of the bull market requires a solid earnings trajectory.

While corporate earnings have recovered swiftly from the pandemic, there are fewer growth tailwinds and, instead, additional headwinds from central bank policy, inflation pressures, energy prices and tax hikes. Our expectation is for earnings growth to slow from 45% in 2021 to just single digits in 2022. Investor angst is also building, with concerns that higher inflation is causing a purchasing power squeeze and companies are increasingly worried about profit margin pressures, while China’s regulatory clampdown poses a risk to global growth.

Insight: Valuations are extended, risks are mounting, and additional points of upside are difficult to see. Market conditions are undoubtedly becoming more challenging.

Equity returns and valuations

LTM returns and % times cheaper, MSCI indices



Source: FactSet, Bloomberg, MSCI, Principal Global Asset Allocation. LTM (last twelve months) returns are total return and in USD terms. % Time Cheaper is relative to PGAA Equity Composite Valuation history. PGAA Equity Composite Valuation is a calculated measure, comprised of 60% price to earnings, 20% price to book and 20% to dividend yield. Composite started in 2003. EAFE is Europe, Australasia, Far East. See disclosures for index descriptions. Data as of September 30, 2021.

Investors are worried, but stock market pullbacks are quite normal

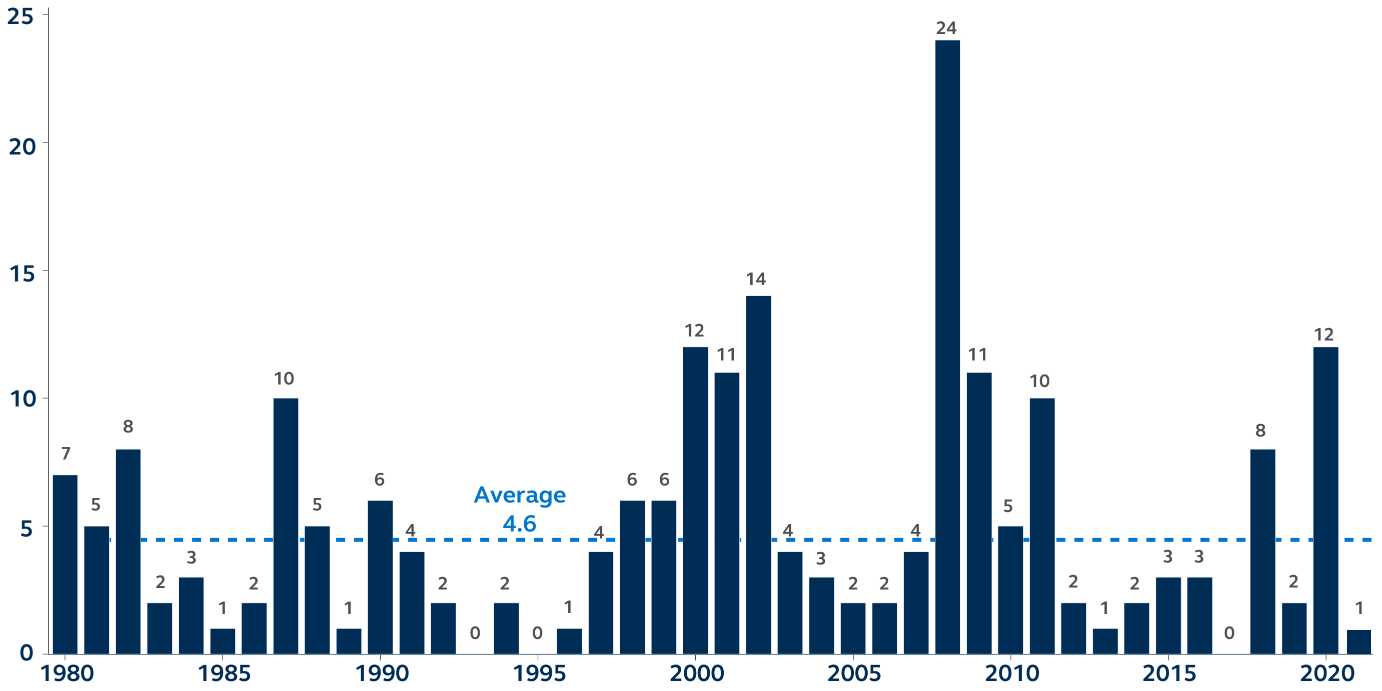
While the recent global equity pullback has coincided with significant unease, a 5% drawdown is more common than the stable image portrayed by the last three quarters. In 2020, the S&P 500 experienced 12 such pullbacks—the highest count since the 2008 crash. In fact, with the exception of 2017, there has been at least one 5% pullback every year for the last 25 years—and in all but two of them, markets went on to finish the year in positive territory.

Market weakness should not be prolonged. Many of the market risks are increasingly well-flagged, and many investors will welcome the reset to more tolerable valuations. The still solid fundamental backdrop also implies a continued positive (albeit weaker) earnings profile, setting the stage for a resumption of the upward trend.

Insight: Pullbacks aren't unusual—there has been at least one 5% pullback every year but one for the last 25 years. Provided earnings are solid, recent weakness shouldn't be prolonged.

Stock market pullbacks

The number of 5% S&P 500 pullbacks experienced by investors each year



Source: Clearnomics, Standard & Poor's, Principal Global Investors. Data as of September 30, 2021.

Follow the earnings with a bias toward quality

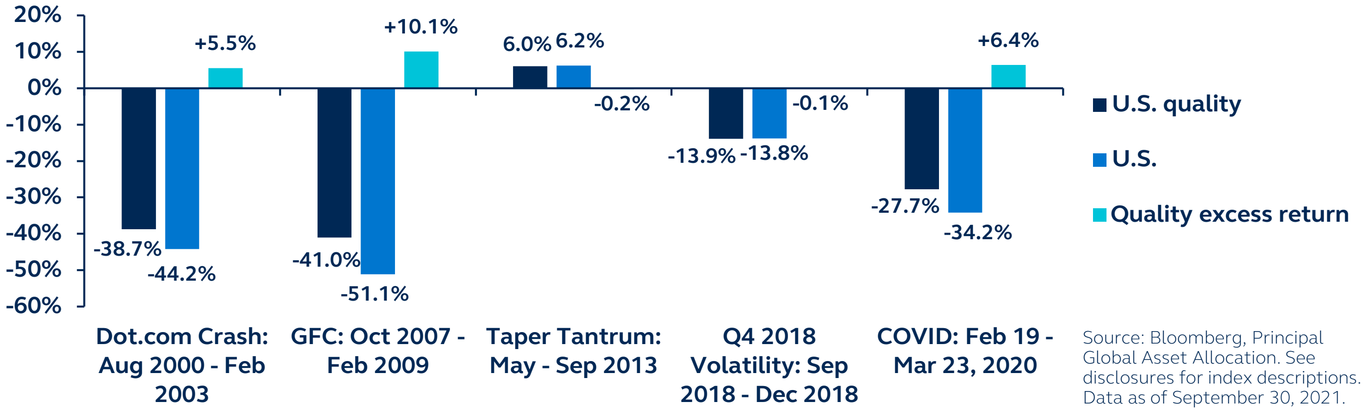
As the global economy shifts to a slightly slower gear, our optimism has been tempered. While we see market returns remaining positive, they will be lower than investors have become accustomed to in recent years. Equities can still offer better opportunities than fixed income in this environment but, with risks and uncertainty mounting and volatility heightened, a more selective and cautious approach will be important. Quality factors have tended to outperform during periods of slowing growth and worsening market conditions.

The U.S. mega cap tech sector offers such a quality tilt. Indeed, while the cyclical pandemic recovery has fuelled the upward movement of value, small cap, and other more cyclical stocks, it's the earnings improvement, strong balance sheets and strong cash flow generation from mega cap technology that remains the backbone of current secular growth trends. Investors have questioned the valuation of tech as rates have gone up; we believe a levelling in rates and a fundamental strength will continue to carry the group.

Insight: Investors should be cognizant of the various market risks, taking a more selective and cautious approach. Seek out risk markets that outperform in challenging conditions.

Quality returns for market drawdown periods since 2000

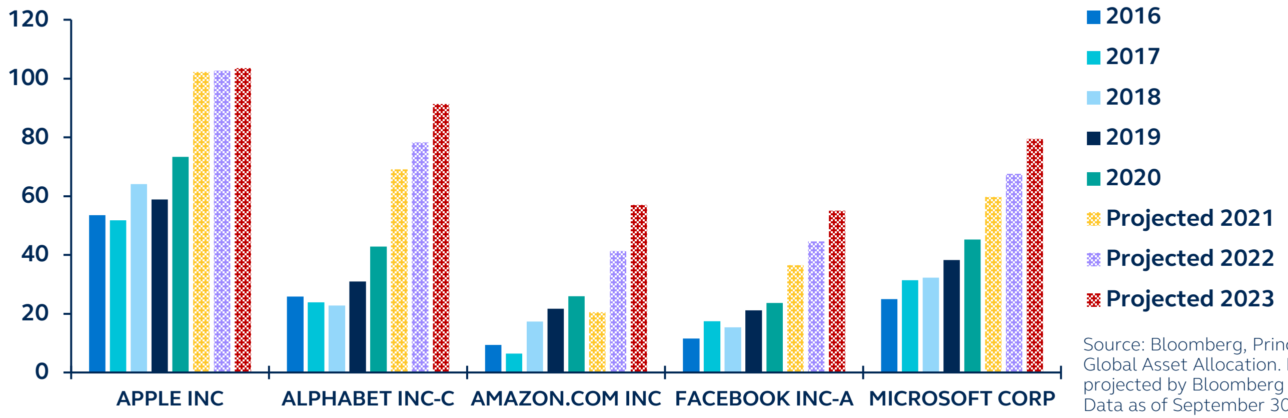
U.S. quality vs. U.S. equities, select periods 2000 – present



Source: Bloomberg, Principal Global Asset Allocation. See disclosures for index descriptions. Data as of September 30, 2021.

Actual 12-month trailing and projected free cash flow for select mega cap tech companies

USD billions, 2016 – present, projected through 2023



Source: Bloomberg, Principal Global Asset Allocation. Data is projected by Bloomberg BEST. Data as of September 30, 2021.

Despite U.S. dominance, opportunities exist globally

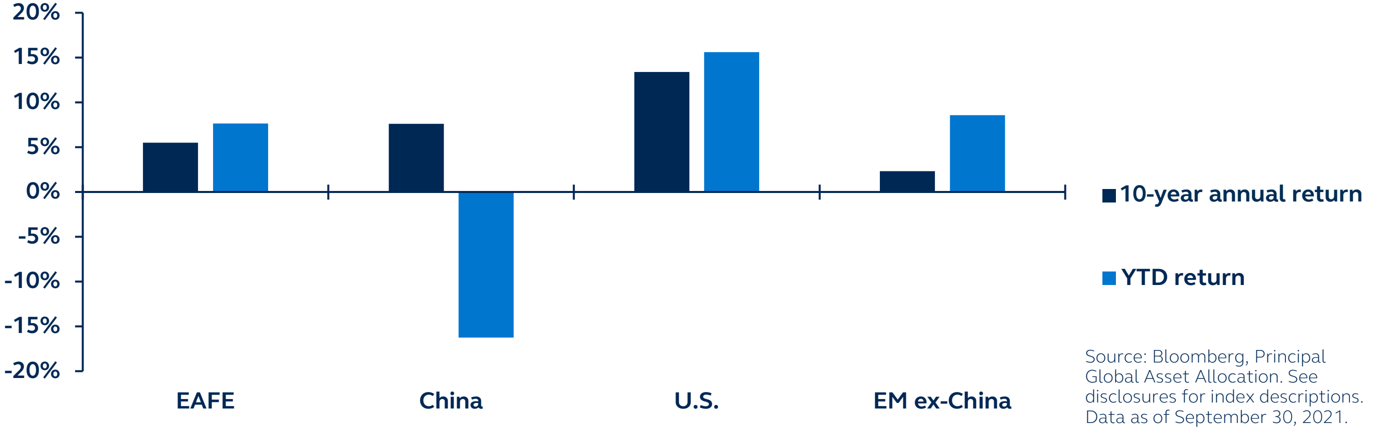
Even as investors focus on secular, they would be wise not to ignore cyclicality altogether. Considerable dispersion in recovery from the pandemic has resulted in market winners and losers this year, but it also creates opportunities for cyclicality outside the U.S. Europe is gaining fundamental strength as fiscal stimulus becomes a more permanent part of the policy toolkit and has potential for catch-up after a decade of underperformance—although the energy crisis is certainly cause for caution. Japan's improving governance, rising COVID confidence and cheaper valuations bode well, but these positives are almost fully priced-in suggesting the rally will soon run out of steam.

By contrast, emerging markets are currently challenged by the evolving regulatory and political environment in China, as well as supply chain bottleneck issues and tighter U.S. financial conditions. Yet, valuations are relatively attractive and vaccinations are increasing, potentially providing an opportunity for investors to add to the cyclical reopening theme.

Insight: China's growth risks have moderated expectations for a strong EM bounce. We look for an improving policy stance in China before we increase exposure to EM.

10-year and YTD comparison of regional returns

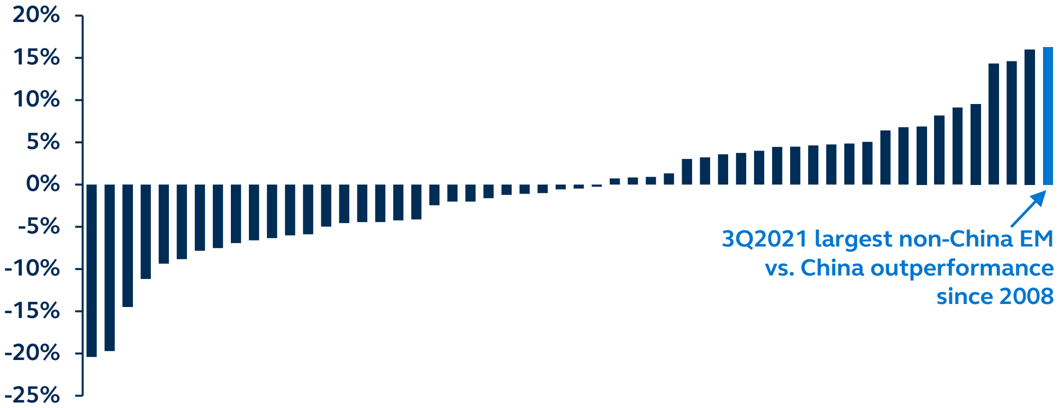
MSCI regional indices for EAFE, China, U.S. and EM ex-China



Source: Bloomberg, Principal Global Asset Allocation. See disclosures for index descriptions. Data as of September 30, 2021.

MSCI EM ex-China vs. MSCI China performance

Total return USD, quarterly, 2008 - present



Source: Bloomberg, Principal Global Asset Allocation. See disclosures for index descriptions. Data as of September 30, 2021.

Fixed income

Rates are too low, but the path to higher rates should be smooth

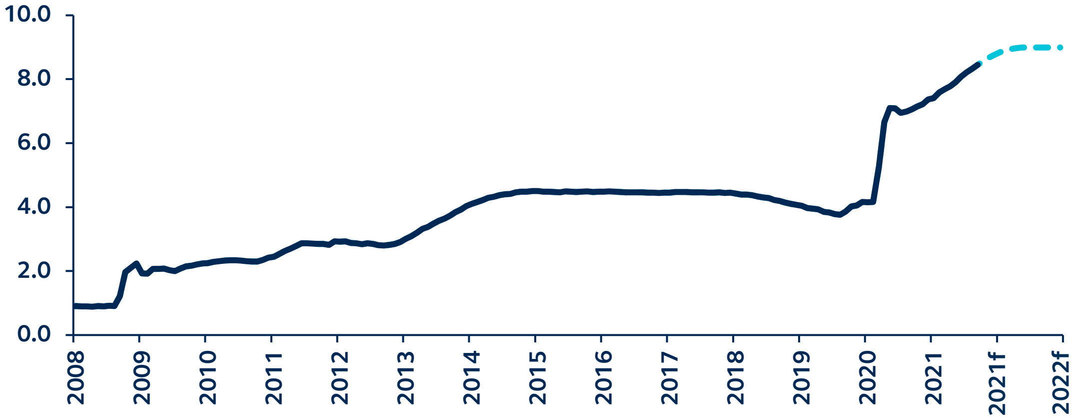
Although the Fed shift towards tapering and sustained inflationary pressures generated a sell-off in global bond markets in late 3Q, 10-year U.S. Treasury yields remain expensive relative to fair value and the bias is still towards gradually higher rates. We expect yields to hit 1.6% by year-end and then rise further to 1.9% by end-2022.

Yet the path to higher yields is unlikely to be either sharp or disruptive. Although the Fed has turned its attention to normalization, tapering implies that the balance sheet will continue to expand at least until mid-2022 and with fundamentals still strong, markets should be able to digest the move higher. There's also a limit to how high and fast rates can go. Other developed market central banks, such as the ECB and BOJ, are still years behind the Fed in the normalization process and their yields will remain relatively depressed. These global bond substitutes should introduce a natural resistance for U.S. yields.

Insight: Don't expect Taper Tantrum 2.0. Policy normalization is almost fully priced-in and the path to higher rates should be neither sharp nor disruptive.

U.S. Fed balance sheet

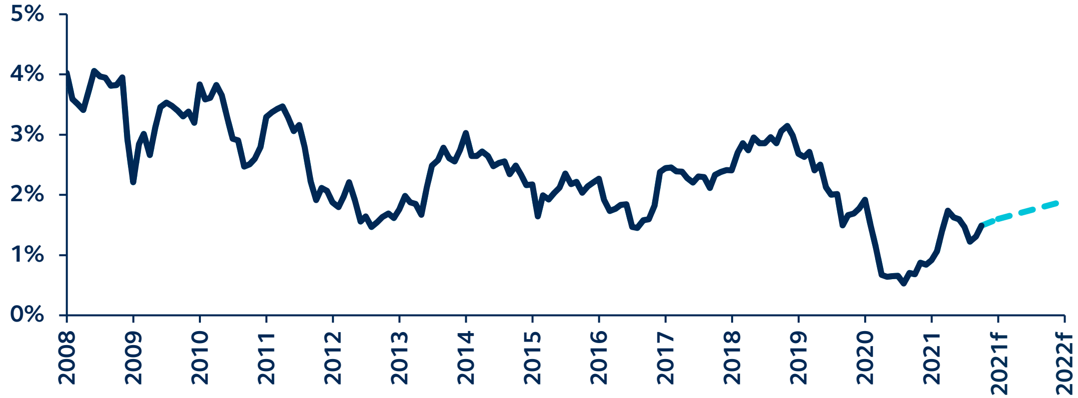
USD trillions, 2008 – present, forecasted through YE 2022



Source: Bloomberg, Principal Global Asset Allocation. Data as of September 30, 2021.

U.S. 10-year treasury yield

2008 – present, forecasted through YE 2022



Source: Bloomberg, Principal Global Asset Allocation. Data as of September 30, 2021.

Focus on the carry in fixed income credit market

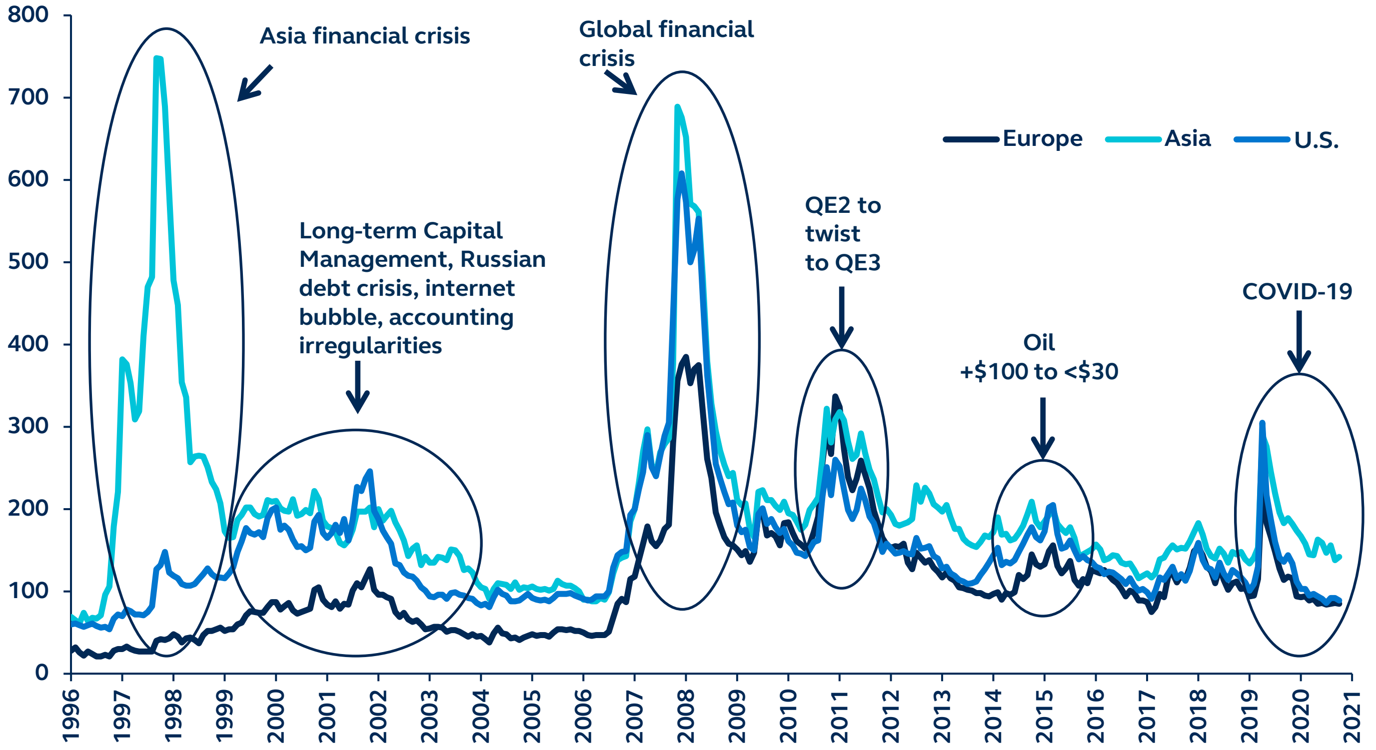
Despite the market turbulence over the past quarter, credit has remained extremely resilient and stable. Investment grade credit spreads in the U.S. and Europe sit close to record tights, while Asia investment grade spreads have largely shrugged off China's regulatory clampdowns and the Evergrande fallout.

Looking forward, while fundamentals are slightly weaker than in recent quarters, the still solid economic backdrop should support spreads remaining close to their current levels. Yet, at these record tights, the potential for further spread compression is limited, especially in the U.S. and Europe. With these dynamics at play, investment grade credit returns will be largely driven by carry. We see greater upside in other segments of core fixed income, particularly those that are more cushioned against rising rates.

Insight: While investment grade credit has remained resilient in the face of growing market challenges, returns will only be driven by carry. Better fixed income opportunities lie elsewhere.

Historical investment grade spreads by region

Basis points (bps), December 31, 1996 – present



Source: Bloomberg, Principal Global Asset Allocation. See disclosures for index descriptions. Data as of September 30, 2021.

Municipals offer fixed income diversification

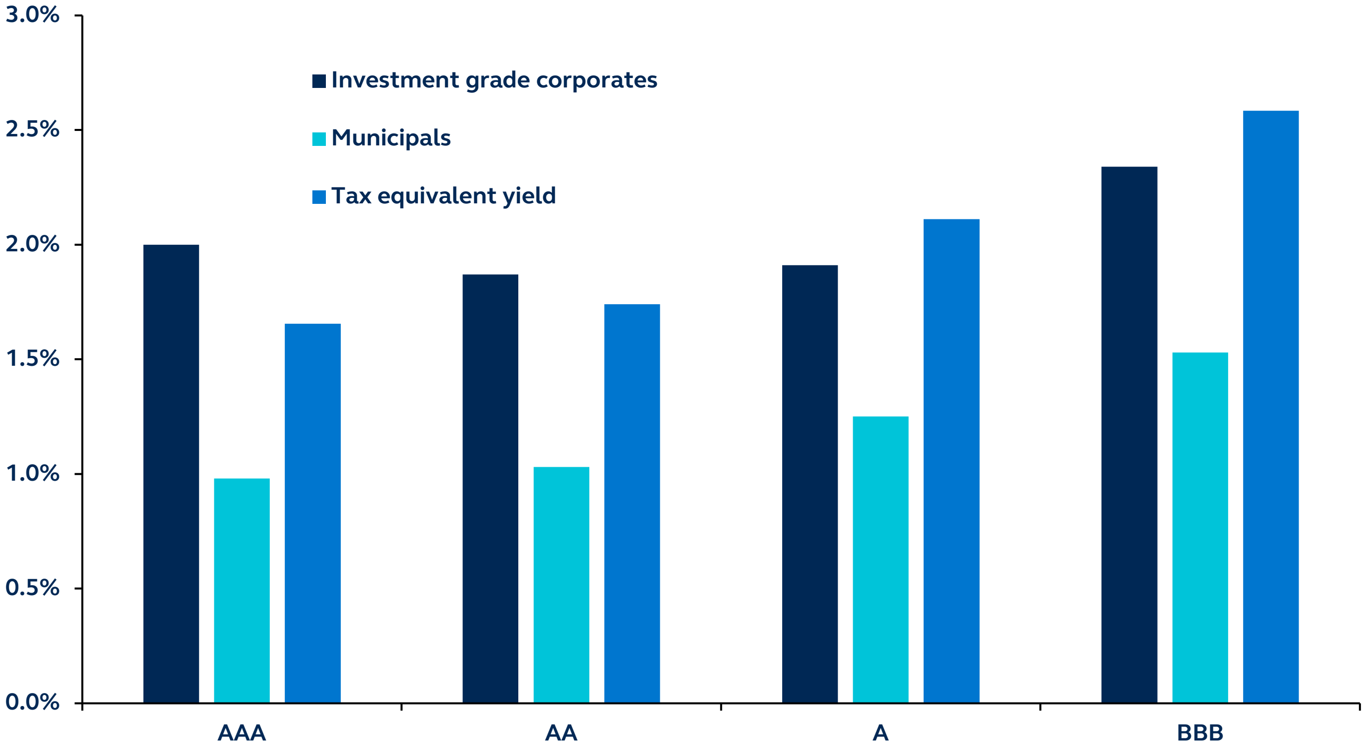
An alternative to the credit trajectory of investment grade debt is municipal bonds. Stimulus and the pandemic recovery to date have led to credit improvements across the board. Muni investors can gain a yield pick-up over treasurys with only a slight increase in default risk, and lower-rated munis also offer a yield-pick up relative to equivalent rated investment grade corporates. The higher coupons associated with lesser-quality municipal bonds should also provide a cushion against higher rates. Furthermore, as munis are generally uncorrelated to many asset classes, they are great for diversification in this more uncertain environment.

Fundamentals are also in munis' favor. As well as standing to gain from additional infrastructure spending, the proposed hike in both corporate and personal tax rates would likely augment the need for tax-advantaged income from both retail and institutional U.S. investors.

Insight: Munis are not only well-positioned for rising taxes and infrastructure spending, but lower-rated munis offer a potential yield pick-up relative to investment grade credit.

Municipals and investment grade corporate bond yields

By credit quality



Source: Bloomberg, Principal Global Investors. See disclosures for index descriptions. Data as of September 30, 2021.

Principal

High yield: Quality is up, and defaults are down

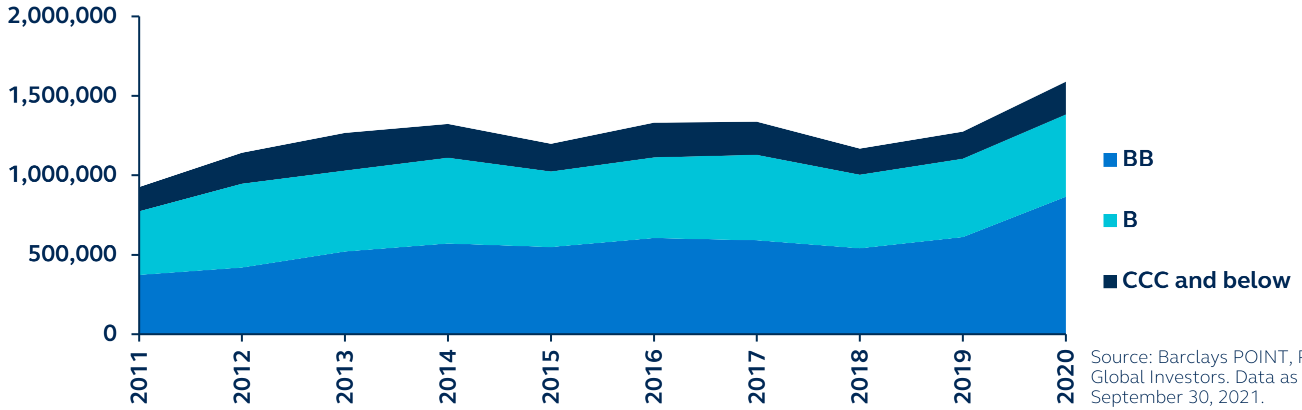
Similar to investment grade credit, high yield credit spreads have tightened even in the face of rising growth risks. While there is limited potential for further spread compression, the fundamental outlook remains solid. High yield has received a number of fallen angels in recent years and, as a result, is generally higher quality than it has ever been. In conjunction, default rates have dropped sharply in the past year, benefitting from both central bank policy action and the rapid economic recovery. The still-solid economic outlook suggests limited default risks ahead and high yield carry prospects are strong.

Looking ahead, as rising rates are a risk to the broader outlook, the shorter duration profile of high yield is preferred over the longer duration profile of investment grade. In addition, we believe there will be more rising stars and fewer fallen angels, a potential tailwind for high yield and headwind for investment grade credit.

Insight: The improving quality of high yield means it offers a yield pick-up over investment grade with only a slight increase in default risk, while it should also outperform in a rising rate environment.

Quality composition of U.S. high yield

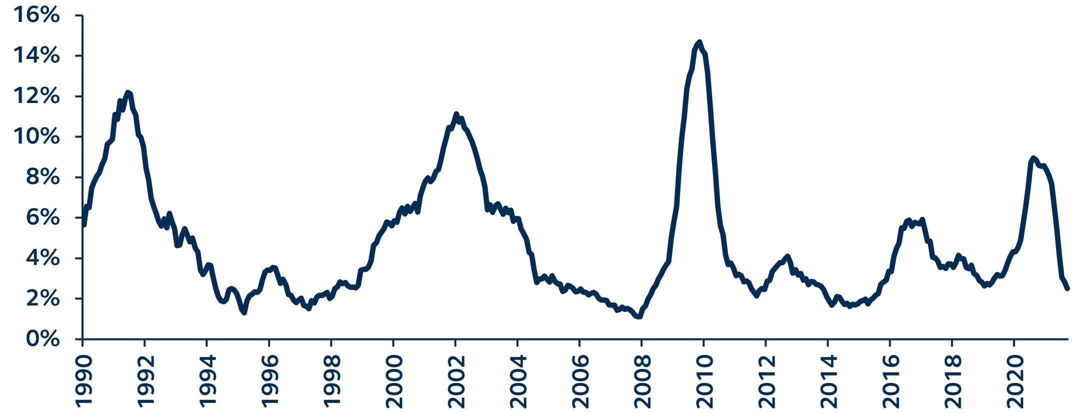
USD thousands, by rating



Source: Barclays POINT, Principal Global Investors. Data as of September 30, 2021.

U.S. high yield default rate

1990 – present



Source: Moody's Investors Service, Principal Global Investors. Data as of October 13, 2021.

Asia high yield spreads may soon present an attractive entry point

Asia high yield spreads have blown out significantly in recent months as concerns around the latest COVID wave and, more recently, the Evergrande situation has spooked investors (Chinese property companies are typically considered high yield). And yet, there has been little to no fallout outside of high yield, with Asia investment grade spreads so far staying very well-behaved. If Asia investment grade investors aren't concerned, why is the broad Asia high yield space worried? With vaccinations rising and China's policymakers likely to act soon to soften the blow from regulatory clampdowns, we think there may soon be a good entry point to increase exposure to selective sectors within Asia high yield.

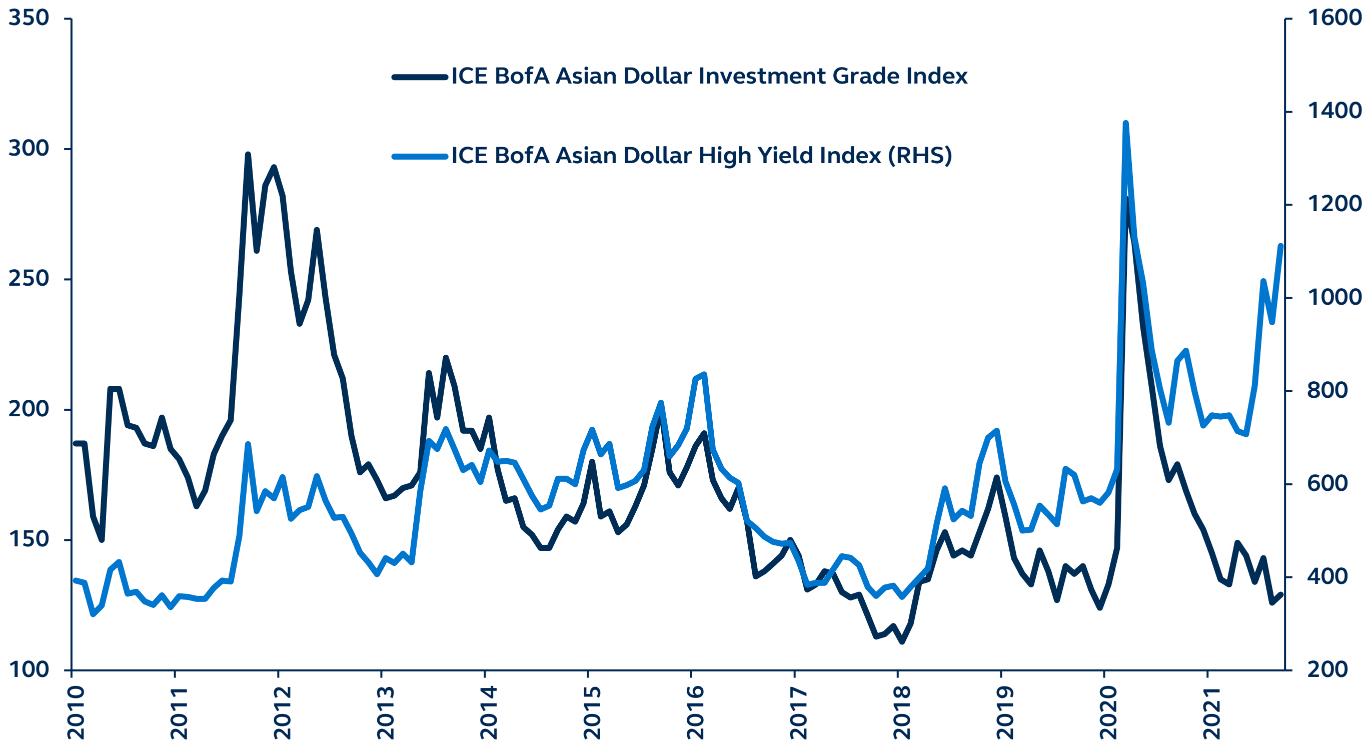
Global credit opportunities

	U.S.	Asia	Europe
Investment grade	*Carry*	*N/A*	*Carry*
High yield	*Carry*	*Total return*	*Total return*

Insight: The calm response of Asia investment grade to the Evergrande situation suggests that, once Chinese policymakers have stepped in appropriately, Asia high yield is poised to outperform.

Historical Asia investment grade and Asia high yield spreads

Basis points (bps), January 1, 2010 - present



Source: Bloomberg, Principal Global Asset Allocation. See disclosures for index descriptions. Data as of September 30, 2021.

Investment implications

Principal

Asset allocation	Investment Preference Less <<		Neutral		>> More
Equities	○	○	○	●	○
Fixed income	○	●	○	○	○
Alternatives	○	○	◎ →	●	○
Equities					
U.S.	○	○	○	●	○
Large cap	○	○	○	●	○
Mid cap	○	◎ →	●	○	○
Small cap	○	● ←	◎ ←	◎	○
Ex-U.S.	○	●	○	○	○
Europe	○	○	●	○	○
Japan	○	○	●	○	○
Developed Asia Pacific ex-Japan	○	●	○	○	○
Emerging markets	○	○	● ←	◎	○
Fixed income					
U.S.	○	○	○	●	○
Treasury	○	●	○	○	○
Mortgages	○	●	○	○	○
Investment grade corporate	○	● ←	◎	○	○
High yield	○	○	○	●	○
Preferreds (debt & equity)	○	○	●	○	○
Ex-U.S.	○	●	○	○	○
Developed market sovereigns	◎ →	◎ →	◎ →	●	○
Developed market credit	○	● ←	◎	○	○
Emerging markets	○	○	● ←	◎	○
Alternatives					
Return enhancing	○	○	● ←	◎	○
Risk reducing	◎ →	●	○	○	○
Real assets	○	○	○	●	○

Viewpoints reflect a 12-month horizon.

◎ → ● indicates a change in preference from the previous quarter (light blue) to the current quarter (darker blue).

Focus on risk assets to achieve investment return goals

Equities:

We retain a preference for the U.S. over other DM and EM regions given its stronger earnings profile. Its secular mega cap tech strength also provides opportunity for a quality growth tilt. By contrast, while Eurozone and Japan strength may broadly offset UK and Asia-Pacific ex-Japan weakness, we use Europe, Australasia, and Far East (EAFE) to fund the overweight in the U.S. Emerging markets are currently challenged by the evolving regulatory and political environment in China, as well as supply chain bottleneck issues and tighter U.S. financial conditions. Yet, valuations are relatively attractive, and vaccinations are increasing, potentially enabling the "reopening trade" to transfer from DM to EM in time.

Fixed income:

We hold an underweight to U.S. core bonds as, with rate expectations biased higher, we see limited room for return potential and investment grade spreads already sitting near all-time tights. We remain favorable on the high yield asset class as the still-solid economic outlook suggests limited default risk, while the shorter duration profile of high yield is preferred in a rising rate environment. We hold an underweight to ex-U.S. investment grade credit, concerned by the limited spread potential while, in EM credit, the stronger U.S. Dollar and higher U.S. Treasurys may serve as headwinds.

Alternatives:

Depressed fixed income yields, rich equity valuations, and upside inflation risks create a positive backdrop for outperformance in alternatives. Within the broader space, we hold an overweight to real assets such as infrastructure, given imminent agreement on the infrastructure bill, and natural resources, given the growing focus on green energy. We expect REITs to outperform despite rising rates typically being a headwind; REITs tend to outperform as business cycle slows. We underweight risk reducing alternatives in favor of deployment in real asset categories.

Source: Principal Global Asset Allocation. Alternatives asset class include REITs, international real estate, MLPs, commodities, TIPS, multi-alternatives, and cash. Allocations across the investment outlook can be proportionately adjusted so magnitudes across categories do not have to net to neutral. Data as of September 30, 2021.

Principal

Equities

Focus on U.S. large-cap & quality factors

Position towards certainty:

- A quality exposure within equities can offer protection during pullbacks.
- Mega-cap U.S. tech is a secular growth force with solid fundamentals.
- U.S. continues to be most favorable region for equities.

How to implement:

- Mega cap U.S. strategies
- Large cap U.S. strategies
- Quality-biased active managers

Fixed Income

Enhance core bonds with additional credit risk

High yield credit and non-correlated municipals:

- Risk/return profile for U.S. high yield is more favorable in this low-rate environment.
- Munis provide diversification opportunity which should be bolstered by fiscal stimulus.
- We recommend a low duration bias.
- Developed market sovereigns, while lacking yield, feature less interest rate risk than on the U.S. curve.

How to implement:

- U.S. high yield strategies
- Municipal bonds
- Developed market sovereign bonds

Alternatives

Pursue less correlated real asset exposures

Real assets:

- Real return-focused strategies gain attractiveness when nominal growth slows.
- Expect real assets to be supported by infrastructure spending stimulus.
- Commodity markets are accelerating in 2021 and often hedge against inflation risk.

How to implement:

- Diversified real asset strategies
- REITs
- Private real estate equity

INDEX DESCRIPTIONS

Bloomberg Barclays U.S. Corporate Investment Grade Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be SEC-registered. The corporate sectors are industrial, utility and finance, which include both US and non-US corporations.

Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

ICE BofA Asian Dollar Investment Grade Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in Asian domestic markets (China, Hong Kong, South Korea, Indonesia, India, Singapore, Malaysia, Thailand, Taiwan, Macau, and Philippines).

ICE BofA Euro Corporate Index tracks the performance of EUR denominated investment grade corporate debt publicly issued in the eurobond or Euro member domestic markets.

MSCI AC Asia ex Japan Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries (excluding Japan) and 9 Emerging Markets (EM) countries in Asia.

MSCI AC Asia Pacific Index captures large and mid cap representation across 5 Developed Markets countries and 9 Emerging Markets countries in the Asia Pacific region.

MSCI ACWI Index includes large and mid cap stocks across developed and emerging market countries.

MSCI Brazil Index is designed to measure the performance of the large and mid cap segments of the Brazilian market.

MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

MSCI EAFE Index is listed for foreign stock funds (EAFE refers to Europe, Australasia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes.

MSCI Emerging Markets Index consists of large and mid cap companies across 24 countries and represents 10% of the world market capitalization. The index covers approximately 85% of the free float-adjusted market capitalization in each country in each of the 24 countries.

MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe.

MSCI Germany Index is designed to measure the performance of the large and mid cap segments of the German market.

MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market.

MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

MSCI Russia Index is designed to measure the performance of the large and mid cap segments of the Russian market.

MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market.

MSCI USA Growth Index captures large and mid cap securities exhibiting overall growth style characteristics in the US. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

MSCI USA Index is a market capitalization weighted index designed to measure the performance of equity securities in the top 85% by market capitalization of equity securities listed on stock exchanges in the United States.

MSCI USA Large Cap Index is designed to measure the performance of the large cap segments of the US market.

MSCI USA Mid Cap Index is designed to measure the performance of the mid cap segments of the US market.

SCI USA Quality Index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI Quality Indexes complement existing MSCI Factor Indexes and can provide an effective diversification role in a portfolio of factor strategies.

MSCI USA Small Cap Index is designed to measure the performance of the small cap segment of the US equity market.

MSCI USA Value Index captures large and mid cap US securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

Russell 1000® Index measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

STOXX Europe 600 Index, with a fixed number of 600 components, represents large, mid and small capitalization companies across 17 countries of the European region.

Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect any fees or expenses. Individuals cannot invest directly in an index.

IMPORTANT INFORMATION

Risk considerations

Investing involves risk, including possible loss of principal. Past performance is no guarantee of future results. Asset allocation and diversification do not ensure a profit or protect against a loss. Equity investments involve greater risk, including higher volatility, than fixed-income investments. Fixed-income investments are subject to interest rate risk; as interest rates rise their value will decline. International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards. Potential investors should be aware of the risks inherent to owning and investing in real estate, including value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk.

Important Information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account. Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided.

This material may contain 'forward-looking' information that is not purely historical in nature and may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is intent for use in:

- **The United States** by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- **Europe** by Principal Global Investors (EU) Limited, Sobo Works, Windmill Lane, Dublin D02 K156, Ireland. Principal Global Investors (EU) Limited is regulated by the Central Bank of Ireland. **United Kingdom** by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA"). In **Europe**, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID). The contents of the document have been approved by the relevant entity. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (EU) Limited ("PGI EU") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGI EU, PGIE or PGI EU may delegate management authority to affiliates that are not authorized and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority ,or the Central Bank of Ireland.
- **United Arab Emirates** by Principal Global Investors LLC, a branch registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as a representative office and is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organization.
- **Singapore** by Principal Global Investors (Singapore)Limited (ACRAReg.No.199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act (Chapter 289). This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.
- **Australia** by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS License No. 225385), which is regulated by the Australian Securities and Investments Commission. This document is intended for sophisticated institutional investors only.
- This document is marketing material and is issued in **Switzerland** by Principal Global Investors (Switzerland) GmbH.
- **Hong Kong SAR (China**) by Principal Global Investors (Hong Kong) Limited, which is regulated by the Securities and Futures Commission and is directed exclusively at professional investors as defined by the Securities and Futures Ordinance.
- **Other APAC Countries**, this material is issued for institutional investors only(or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.
- Nothing in this document is, and shall not be considered as, an offer of financial products or services in Brazil. This presentation has been prepared for informational purposes only and is intended only for the designated recipients hereof. Principal Global Investors is not a Brazilian financial institution and is not licensed to and does not operate as a financial institution in Brazil.

Insurance products and plan administrative services provided through Principal Life Insurance Co. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Principal Securities, Inc., 800-547-7754, Member SIPC and/or independent broker/dealers. Principal Life, Principal Funds Distributor, Inc., and Principal Securities are members of the Principal Financial Group®, Des Moines, IA50392.

102021 | MM11376-06 | 1869661