Principal Fixed Income

Principal Asset Management℠

MULTI-SECTOR

Monthly commentary

30 JUNE 2025

Overview

Major fixed income sectors delivered positive performance over the month, with emerging market debt, U.S. high yield credit, and U.S. investment grade credit generating the strongest total returns. The market maintained a broadly "risk-on" tone, supported by resilient economic data and continued optimism surrounding global trade developments.

Rates

U.S. rates were lower across the curve to end the period, with the 2-year down -18 bps, the 10-year down -17 bps, and the 30-year down -16 bps. While rates remained rangebound for much of the month, they moved lower toward the end of the period amid rising concerns over the conflict in the Middle East and the potential for broader contagion following U.S. involvement.

Spreads

Credit spreads tightened over the period, with investment grade narrowing by 3 basis points and high yield by 24 basis points. Fundamentals remain stable, technicals are supported by attractive starting yields, and valuations have recovered significantly from their widest levels earlier in the year.

Economy

U.S. economic data has been solid. The June jobs report exceeded expectations, with nonfarm payrolls rising by 147,000 versus the 106,000 consensus. Average hourly earnings increased by 0.2% month-over-month, slightly below the 0.3% forecast, while the unemployment rate declined to 4.1%, better than the expected 4.3%. Inflation in June rose, with headline CPI up 0.3% month-over-month (in line with expectations) and core CPI increasing 0.2% (versus 0.3% expected). May retail sales declined by 0.9% month-over-month, compared to a 0.6% forecasted drop and a 0.1% decline in the prior month.

Policy

On the monetary policy front, the Federal Open Market Committee (FOMC) left the policy rate unchanged at 4.25%–4.50% following its June meeting. The most notable takeaway was the unchanged 2025 median dot, which continues to signal 50 basis points of rate cuts next year. While the Fed acknowledged that risks related to inflation and unemployment remain elevated, it also noted that uncertainty has diminished recently and indicated a wait-and-see approach, particularly in assessing the impact of trade and tariff policies.

Outlook

Our broad market Macro Risk Outlook ("MRO") remains "risk on." Episodic volatility is likely to endure as global trade uncertainty remains elevated; however, fundamentals remain sound and yield-levels are compelling across many fixed income sectors. Within multi-sector portfolios, we have been emphasizing selectivity and flexibility given uncertain and headline driven markets. We have been tactically deploying capital as we identify mispricings during bouts of volatility to add to positions and names that we view favorably across sectors. In terms of duration positioning, we have been expressing a moderate overweight with a steepening bias, favoring the 2-year through 5-year segment of the curve.

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REPRESENTATIVE MULTI-SECTOR PORTFOLIO	MONTH-END POSITIONING | LAST 12 MONTHS											
	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
ACTIVE MARKET VALUE (%)*												
TREASURYS	-36	-34	-35	-38	-37	-38	-38	-37	-36	-35	-36	-36
GOV'T RELATED	-4	-4	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
AGENCY MBS	7	9	9	9	8	4	4	4	4	4	5	4
IG CREDIT	8	8	9	10	10	10	10	9	10	11	13	14
HY/BANK LOANS	16	13	13	13	13	18	19	18	16	14	13	14
EMERGING MARKET	1	1	0	1	1	1	1	1	1	1	1	1
SECURITIZED DEBT	15	16	17	17	16	12	13	12	13	12	14	13
ABS	12	13	14	14	14	10	10	9	10	9	10	9
CMBS	3	3	3	3	2	2	3	3	3	3	4	4
CASH/OTHER	-7	-9	-10	-9	-8	-4	-6	-4	-5	-4	-7	-7
ACTIVE DURATION (YEARS)*	**0.07**	**-0.19**	**0.14**	**0.53**	**0.31**	**0.50**	**0.24**	**0.26**	**0.27**	**0.35**	**0.20**	**0.34**

*Active positions are relative to the Bloomberg U.S. Aggregate Index. Positive (+) number = overweight or out-of-benchmark exposure; Negative (-) number = underweight.

As of 30 June 2025. Source: Principal Global Investors. *Active positions are relative to the Bloomberg U.S. Aggregate Index, which represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Indices are unmanaged and do not take into account fees, expenses, and transaction costs, and it is not possible to invest in an index. Past performance is no guarantee of future results and should not be relied upon to make investment decisions.

Risk considerations

Investing involves risk, including possible loss of principal. Past performance is no guarantee of future results. Fixed income investments are subject to interest rate risk; as interest rates rise, their value will decline. Lower-rated securities are subject to additional credit and default risks. Potential investors should be aware that Investment grade corporate bonds carry credit risks, default risk, liquidity risks, currency risks, operational risks, legal risks, counterparty risk and valuation risks. Fixed income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

Important information

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