Principal Global Fixed Income

Market bulletin

29 May 2018

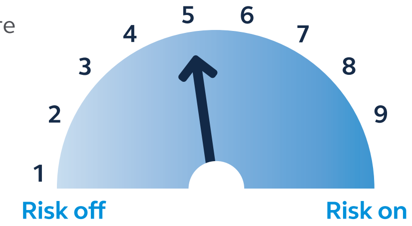
The Fixed Income Investment Strategy Group of Principal Global Fixed Income uses a Dynamic Risk Score to provide consistent communication of our market outlook. The Dynamic Risk Score is a 10-point scale, where a score of 1 represents the worst risk-taking environment and a score of 10 represents the best risk-taking environment. Investment teams use this score to guide investment decisions and adjust the level of risk in portfolios as market conditions change.

Dynamic Risk Score

The Fixed Income Investment Strategy Group has lowered the Dynamic Risk Score from a 6 to a 5, as a result of the following influences:

- Increased possibility of Italian political risks moving toward contagion
- Volatility of global rates, USD strength and emerging markets stresses

Dynamic Risk Score
(risk relative to reward)



Current market view

Our decision to decrease the Dynamic Risk Score reflects our belief that we are currently in an environment that is less conducive to risk taking than that of early 2018. We will continue to monitor the market, but for now we have decreased the score for a number of reasons:

Increased possibility of Italian political risks moving toward contagion

With the Italian political situation now likely to remain uncertain for months, there is no clear catalyst for improvement in the near-term. Leaders within the European Union, like Germany, are very much incentivized to allow the situation to worsen before stepping in with any sort of support language as they do not want to make it easy for member countries to contemplate or threaten withdrawal. As for the European Central Bank, they do not want to be perceived as interfering in a member country election—at least not yet—and, even if they did, having the Italian electorate feel how markets would respond to possibly irresponsible fiscal policies is in the ECB's best interest. Since there is currently no liquidity or capital concerns within the Italian banking system, the ECB will likely remain on the sidelines for now and let the situation play out further.

Volatility of global rates, USD strength and emerging markets stresses

Given the desynchronization of global growth, as well as in global central bank policy, the volatility in global rates has increased significantly. Lower rates will not necessarily help the Federal Reserve's tightening regime, especially if upcoming inflation prints come in higher than expected. In addition, this flight-to-quality will lead to continued dollar strength which results in tighter credit conditions and continued stress for emerging markets countries. When combined with the continuing geopolitical situations between the United States and China, as well as in Turkey, this risk-off posture could persist in the near-term.

For more information, please visit **principalglobalfixedincome.com**

Regulatory risk warning

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