PRINCIPAL

Investment Report Q4 2025

Anticipating a year-end rally across global markets

The global economy continues to demonstrate notable resilience, though recent data points increasingly hint at a gradual slowdown. This has prompted expectations of imminent monetary easing, with financial markets quick to price in a fresh interest rate cut cycle. A shift that has boosted valuations across nearly all major asset classes in the third quarter.

Gold has been the standout beneficiary of falling real interest rates (the spread between nominal yields and inflation). Year-to-date, the metal has appreciated by +29.4% (in EUR terms), reaching a record high of USD 3'859 per troy ounce. Silver and copper have likewise reached new milestones.

Equity markets extended their upward momentum, supported by softer-than-anticipated U.S. tariffs. Demand was strongest in the United States and Asia, while European equities once again underperformed.

On the currency front, the U.S. dollar has entered a phase of relative stabilization after a sharp first-half correction (-10.7% as measured by the U.S. Dollar Index). While a short-term recovery appears likely, we continue to regard the long-term depreciation trend, particularly against the euro and Swiss franc, as intact.

The return of monetary easing

In September, the U.S. Federal Reserve enacted its first rate cut of the year, against a backdrop of a softening labor market. Depending on the further development of employment and inflation, we anticipate, in line with market pricing, at least two additional cuts before year-end.

In the Eurozone, following four rate cuts, we expect a single additional cut from the European Central Bank. The Swiss National Bank (SNB), however, is unlikely to follow suit in the near term given the strong political opposition.

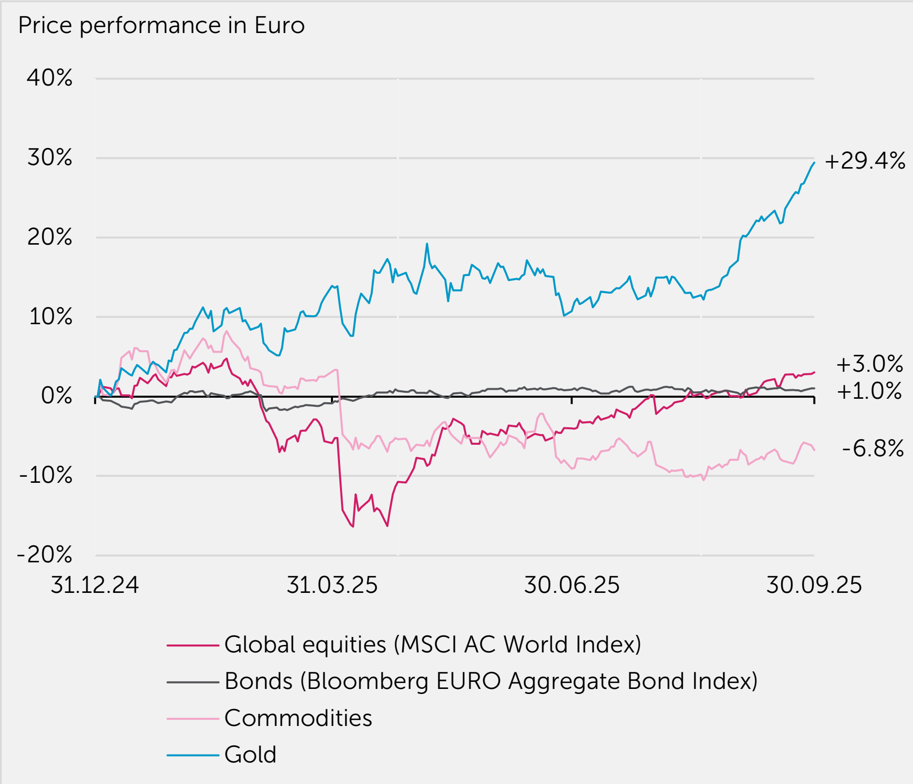
Beneficiaries of falling key interest rates

Gold, bonds, and real estate, alongside cyclical growth equities, particularly in the U.S. and emerging markets, should benefit from falling key interest rates. A weaker dollar further supports U.S. corporate earnings over the coming months.

Valuations require prudence

While lower rates underpin equity markets, they also inflate valuations. In the U.S., this trend is most evident in the so-called Magnificent 7, which trade at an average price-to-sales ratio of 12.6, well above the broader S&P 500's 3.2 and the long-term average of 2.4. Such elevated multiples call for caution, as they increase the risk of abrupt corrections.

YEAR-TO-DATE PERFORMANCE OF VARIOUS ASSET CLASSES



Future equity trends

As investment cycles evolve, new opportunities emerge where timing can prove as important as sector selection. Precious and industrial metals, notably silver and copper, have built strong momentum, setting the stage for mining companies' earnings to be repriced higher. Meanwhile, secular growth themes such as cybersecurity, biotechnology, and energy infrastructure (particularly power distribution networks) remain strategically compelling. Conversely, sectors such as defense and artificial intelligence, which have delivered outsized gains, may see returns normalize. Here, we consider realizing profits due to stretched valuations.

Conclusion

The current environment of expansive fiscal and monetary policy, coupled with resilient corporate earnings, continues to create attractive opportunities for investors. We remain constructive on equities in the medium term but emphasize selectivity in light of elevated valuations. Gold remains a cornerstone allocation, both as a hedge and as a beneficiary of geopolitical risk and long-term structural demand. On foreign exchange markets, we anticipate a short-term technical rebound in the U.S. dollar, followed by a renewed long-term depreciation against both the euro and the Swiss franc.

Portfolio strategy and positioning

With a deliberate overweight position in gold, the managed portfolios benefited in the 3rd quarter from the continued upward momentum in the price of gold.

Against the backdrop of expansionary monetary policy and the continued positive earnings trend, we increased equity exposure in the portfolios to a neutral weighting. We see the sharply rising demand for metals such as copper, silver, lithium, and rare earths due to the energy transition, the industrialisation of emerging markets such as India, and the high demand for electricity driven by the AI boom, as an important secular investment theme. Therefore, we have made a new investment in an equity fund focusing on metal mining companies that are exposed to several megatrends such as the AI boom and the expansion of power grids and energy storage.

With dedicated exposures in the investment segments of commodities and energy, technology and artificial intelligence, and security and defense, the Principal Active Equity Fund implemented in the portfolios outperformed the global equity index.

U.S. equity investments benefitted from the ongoing interest rate cut cycle, high earnings expectations, and massive share buyback programs, with large-cap growth stocks from the communications services and technology sectors once again posting above-average performance. Equally weighted investments lag behind the performance of capital-weighted U.S. investments.

The Vietnam investment fund and the passive China and Japan equity investments recorded double-digit increases in value, while European equity investments showed a heterogeneous performance. While investments in German equities from the DAX 40 are losing some of their value, European value stocks are prolonging their positive price momentum. In view of the high punitive tariffs imposed, overweight Swiss equity investments lagged behind the performance of global equities.

In light of U.S. President Trump's recent efforts to influence the Federal Reserve's interest rate policy and the ongoing geopolitical uncertainties and crises, we continue to maintain a high allocation to gold within our managed portfolios. In our strategic asset allocation, gold plays an important stabilising role in the portfolio, helping to safeguard against potential devaluations in equities and U.S. dollar assets.

Portfolios in the reference currencies Swiss franc and euro experienced a negative performance contribution since the beginning of the year due to the devaluation of the U.S. dollar. We had already reduced our U.S. dollar currency exposure last year as part of our risk management. After a stabilization and bottoming out phase in the third quarter, the U.S. dollar exposure will be opportunistically increased again slightly.

Following a temporary decline in yields, we sold an investment in long-term U.S. bonds, thereby shortening the duration of our bond investments to well under four years, as we expect a renewed rise in yields on long-term bonds and steeper euro and USD yield curves. At the same time, an investment was made in a bond fund focusing on local currency bonds from issuers in frontier markets. We remain underweight in bond investments given the unattractive credit spreads.

Alternative investments such as commodity investments, hedge funds and cat bonds recorded consistently positive performance contributions in the quarter.

TACTICAL ASSET ALLOCATION (IN EUR)

	Underweight		Neutral		Overweight
Asset Classes					
Liquidity			◆		
Bonds	◆				
Equities			◆		
Gold					◆
Alternatives				◆	
Equity Regions					
Eurozone					◆
Switzerland					◆
USA		◆			
Emerging Markets	◆				

Conclusion

We enter the final quarter of 2025 with portfolios designed to combine resilience against volatility with exposure to enduring secular themes. Gold and alternatives anchor wealth preservation, while selecting equity opportunities, particularly in transition metals and Asia, position portfolios to capture long-term growth.

Guest article by Konwave AG: Metals for transformation

Among today's defining investment themes, metals occupy a central role. Driven by the forces of electrification, decarbonisation, energy security, and digital transformation, demand for certain strategic raw materials is set to expand significantly in the coming decades. The Konwave Transition Metals Fund (KTMF) provides targeted access to these future-critical metals, positioning itself precisely where structurally rising demand meets constrained supply. Copper, which represents roughly 45% of the portfolio, lies at the heart of this constellation. Its unique demand profile and chronic supply limitations point to a long-term revaluation of both the metal itself and the companies that produce it.

Global megatrends as structural drivers

Demand for copper and related metals is shaped by three transformative forces:

1. Energy transition: The shift toward electric mobility, renewable energy, power grid expansion, and battery storage requires unprecedented volumes of copper, aluminum, lithium, silver, and nickel.
2. Digitalization: Data centres, 5G infrastructure, and artificial intelligence are causing exponential increases in electricity consumption, and with it, demand for energy-intensive metals.
3. Industrialisation of emerging countries: India, for example, is only beginning the path China undertook in the 2000s. Current per capita metal consumption is roughly 90% below developed-market levels, leaving vast room for growth.

Global copper demand is projected to rise by approximately 70% by 2050. However, this is offset by severely limited supply due to decades of underinvestment, declining ore grades and growing geopolitical risks. Even prices above USD 15'000 per ton (currently around USD 10'000) would only trigger new capacities with considerable delay, as the development of new mines typically takes more than ten years. On the demand side, we see investments in network expansion as the most important driver of demand. Power grids with a high proportion of renewable energy require about four times as much copper as grids based on fossil fuels or nuclear power.

One key driver will be the expansion of power grids: networks with a high share of renewables require four times more copper than grids reliant on fossil fuels or nuclear energy. According to PRC Macro, Chinese investments in grid expansion alone could increase physical copper demand by 25-30% by 2030. In parallel, stationary battery storage, currently growing at ~70% per year, is becoming essential to boost grid efficiency.

The surge in data center electricity demand is another catalyst: Deloitte forecasts a fivefold increase by 2025. This requires highly metal-intensive investments across grid infrastructure (copper, aluminum), power generation (copper, silver, zinc, rare earths), and storage systems (lithium).

Portfolio focus: Pure plays and small caps

Unlike traditional mining funds, which often include diversified conglomerates with coal and iron ore exposure, the KTMF is exclusively focused on pure metal producers that directly benefit from structural demand growth. Roughly 30% of the portfolio is allocated to development and exploration companies, which currently trade at a record discount to producers. These firms are especially well positioned for the expected M&A wave, as larger miners seek to replenish reserves after years of underinvestment.

Conclusion: A generational investment opportunity

The Konwave Transition Metals Fund offers direct exposure to the most strategically important metals underpinning the global shifts toward electrification, decarbonisation, and digitalisation. By focusing on pure producers and promising exploration companies, the fund is positioned at the intersection of rising secular demand and chronically constrained supply. Approximately two-thirds of the allocation, notably copper, silver, and aluminum, is approaching technical breakout levels. The remainder, including nickel, platinum-group metals, rare earths, and lithium, is trading at the low end of the cost curve and showing clear recovery patterns after a prolonged bottoming phase. Together, these dynamics make the metals sector one of the most compelling long-term investment opportunities of this decade.

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