

NORTHERN TRUST ASSET MANAGEMENT ASSET ALLOCATION VIEWPOINTS & PORTFOLIO POSITIONING

Tactical decision: No changes

Northern Trust Asset Management's Asset Allocation Committee remains comfortable with risk positioning. Despite recent volatility, the committee reaffirmed its pro-risk positioning. The committee believes recent market developments haven't materially changed the fundamental picture. The macroeconomic backdrop remains constructive, and the corporate profit outlook is still solid. Moreover, valuations and sentiment have declined. Overall, the committee maintains a positive bias. If its fundamental view proves accurate, volatility is still possible, particularly given geopolitical conflict and the U.S. presidential election. The committee recommends standing pat.

Recent market concerns are not fundamentally supported. After an extended period of stability, a global risk-off tone and spiking volatility have recently gripped financial markets. Sharp yen strengthening on the heels of the Bank of Japan meeting triggered the unwinding of carry trades. While this could have weighed on returns in seemingly unrelated markets if asset purchases were funded by yen shorts, direct linkages remain unclear. Risk-off moves could have also been driven by slightly disappointing semiconductor earnings and economic growth concerns. While second quarter semiconductor earnings have modestly underwhelmed against a high bar, broader S&P 500 Index earnings are still expected to grow ~12% year-over-year with an above average percentage of companies topping expectations. Growth-related fears increased after a weak U.S. ISM Manufacturing Purchasing Managers' Index print and softer than expected July employment data. The committee believes fundamentals continue to support the case for a soft landing and assigns low odds to recession. While growth risks have risen, recession talk is premature and overall activity is consistent with an expanding economy. Bond markets have quickly priced in a more aggressive cutting cycle from the Federal Reserve, with Fed funds futures pricing in over four rate cuts this year. The committee believes that easing growth and disinflation will allow the Fed to ease, but current rate cut expectations are likely an overreaction to the recent data.

No major election-driven changes. Despite periodic dislocation, markets have been mostly devoid of more permanent election-related disruption so far. Tail-risk outcomes were avoided in France and the U.K. and major fiscal policy changes are likely off the table for now. In the U.S., the first presidential debate notably shifted odds in favor of former President Trump. Financial market movements were less acute, though it is hard to tease out the exact impact from the debate alone. The committee noted two areas to watch are tariffs and immigration restrictions. Both could be inflationary, but the impact would be highly dependent on many moving pieces. The committee does not think there is enough clarity in terms of fiscal policy changes to warrant portfolio adjustments at this point.

The macroeconomic backdrop remains constructive. While the committee remains vigilant of a deeper slowdown, the committee's base case remains for a soft landing in which economic growth cools but remains positive. Context is key amid easing economic data. The three-month moving average in payroll gains sits at 170k, which is not far below the average of 184k from 2016-2019 and is well above an estimated long-term breakeven employment growth rate of 70-90k. The unemployment rate has risen to 4.3%, but the rise has been gradual and helped by increased participation and immigration. Outside of the labor market, broader economic growth momentum has continued at a reasonable pace. Risk of an impending recession may be higher than usual, but that is to be expected on the course to a soft landing.

Unless otherwise noted, the statements expressed herein are solely the opinions of Northern Trust. Northern Trust does not make any representation, assurance, or other promise as to the accuracy, impact, or potential occurrence of any events or outcomes expressed in such opinions.

Source: Northern Trust Investment Strategy

High Level Summary:

What the Committee Expects: Base Case Expectations

Sticking the Landing: Global growth will move below trend but remain positive, supported by ongoing U.S. economic strength and labor market/consumer resilience. Inflation will remain above target but continue to proceed toward 2%.

Central Bank Transitions: Major central banks have started to cut policy rates and we expect more to follow suit as the year progresses. Economic growth may afford policymakers more time to confirm that inflation progress is sustainable.

What the Committee is Watching For: Risk Case Scenarios





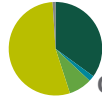

Stubborn Inflation: Inflation does not move lower due to economic resurgence, tight labor markets, U.S. election-induced pressures related to tariff or immigration policies, and/or disruptions from conflict in the Middle East.

Lagged Impacts: A soft landing is taken off the table as easing economic growth evolves into a traditional demand-led recession. In this scenario, a shallow recession is more likely than a deep contraction.

Risk Assets: For long-term capital appreciation.

Risk Control Assets: For reducing volatility.

ASSET ALLOCATION WEIGHTS

	Maximum Growth Portfolio		Growth with Moderate Income Portfolio		Growth with Enhanced Income Portfolio		Growth with Income Portfolio		Income with Moderate Growth Portfolio		Income Portfolio	
Benchmark: Stock% / Bond%:	90% / 10%		75% / 25%		60% / 15% / 25%		60% / 40%		35% / 65%		10% / 90%	
Current Portfolio Positioning	 Over / Under-Weight		 Over / Under-Weight		 Port. Weight		 Over / Under-Weight		 Over / Under-Weight		 Over / Under-Weight	
	Port. Weight	Over / Under-Weight	Port. Weight	Over / Under-Weight	Port. Weight	Over / Under-Weight	Port. Weight	Over / Under-Weight	Port. Weight	Over / Under-Weight	Port. Weight	Over / Under-Weight
Equity	84%	+5%	68%	+5%	48%	51%	+5%	35%	+5%	7%	+3%	
U.S. Equities	51%	+3%	41%	+3%	24%	31%	+3%	22%	+3%	5%	+2%	
Dev. ex-U.S. Equities	23%	+1%	19%	+1%	24%	14%	+1%	9%	+1%	2%	+1%	
Emerging Markets Equities	10%	+1%	8%	+1%		6%	+1%	4%	+1%	0%	0%	
Real Assets	6%	-6%	8%	-2%	10%	6%	-2%	2%	-2%	0%	0%	
Natural Resources	4%	-2%	3%	-2%	5%	2%	-2%	0%	-2%	0%	0%	
Global Real Estate	1%	-2%	2.5%	0%	2.5%	2%	0%	1%	0%	0%	0%	
Global Listed Infrastructure	1%	-2%	2.5%	0%	2.5%	2%	0%	1%	0%	0%	0%	
High Yield Bonds	10%	+1%	12%	+5%	22%	10%	+5%	8%	+5%	6%	+5%	
Investment Grade Bonds	0%	0%	12%	-7%	19%	33%	-6%	54%	-6%	84%	-6%	
U.S. Investment Grade	0%	0%	10%	-5%	15%	26%	-4%	42%	-4%	65%	-4%	
TIPS	0%	0%	2%	-2%	4%	7%	-2%	12%	-2%	19%	-2%	
Cash & Short-Term	0%	0%	0%	-1%	1%	0%	-2%	1%	-2%	3%	-2%	

The Benchmark is a blend of MSCI ACWI and Bloomberg US Aggregate Bond Index. The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The Bloomberg US Aggregate Bond Index is an unmanaged index of prices of US dollar-denominated, fixed rate, taxable, investment grade fixed income securities with remaining maturities of one year and longer. An investment cannot be made directly in an index.

The Growth with Enhanced Income benchmark includes a 15% allocation to the Bloomberg US High Yield 2% Issuer Cap, which is an issuer-constrained version of the Bloomberg US Corporate High Yield Index that measures the market of US dollar-denominated, noninvestment-grade, fixed rate, taxable corporate bonds. The index limits the exposure of each issuer to 2% of the total market value.

Portfolio Weight represents the current target weights, given our most recent outlook for the capital markets over the next twelve months. These weights are subject to change. Actual client account weights may vary.

Over/Underweight represents the portfolio weight relative to the strategic asset allocation weights, which form the baseline portfolio allocations. The portfolio weights for Growth with Enhanced Income follow a slightly different allocation process.

IMPORTANT DISCLOSURES

Northern Trust Investments, Inc. (NTI) is an investment adviser registered with the Securities Exchange Commission under the Investment Advisers Act of 1940. The company manages a variety of portfolios utilizing stocks, bonds, and exchange-traded funds (ETFs).

This document may not be edited, altered, revised, paraphrased, or otherwise modified without the prior written permission of Northern Trust Asset Management (NTAM). The information contained herein is intended for use with current or prospective clients of Northern Trust Investments, Inc (NTI) or its affiliates. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. Northern Trust Asset Management's (NTAM) and its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, its accuracy and completeness are not guaranteed, and is subject to change. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor. This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. Indices and trademarks are the property of their respective owners. Information is subject to change based on market or other conditions.

All securities investing and trading activities risk the loss of capital. Each portfolio is subject to substantial risks including market risks, strategy risks, advisor risk, and risks with respect to its investment in other structures. There can be no assurance that any portfolio investment objectives will be achieved, or that any investment will achieve profits or avoid incurring substantial losses. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Risk controls and models do not promise any level of performance or guarantee against loss of principal. Any discussion of risk management is intended to describe NTAM's efforts to monitor and manage risk but does not imply low risk.

Past performance is not a guarantee of future results. Performance returns and the principal value of an investment will fluctuate. Performance returns contained herein are subject to revision by NTAM. Comparative indices shown are provided as an indication of the performance of a particular segment of the capital markets and/or alternative strategies in general. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. Net performance returns are reduced by investment management fees and other expenses relating to the management of the account. Gross performance returns contained herein include reinvestment of dividends and other earnings, transaction costs, and all fees and expenses other than investment management fees, unless indicated otherwise. For additional information on fees, please refer to Part 2A of the Form ADV or consult an NTI representative.

During the periods shown herein, NTI did not necessarily manage any investment portfolio with an allocation similar to that of the hypothetical portfolio. The hypothetical portfolio is not indicative of the future performance of any actual investment portfolio.

Forward-looking statements and assumptions are NTAM's current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

This information is intended for purposes of NTI and/or its affiliates marketing as providers of the products and services described herein and not to provide any fiduciary investment advice within the meaning of Section 3(21) of the Employee Retirement Income Security Act of 1974, as amended (ERISA). NTI and/or its affiliates are not undertaking to provide impartial investment advice or give advice in a fiduciary capacity to the recipient of these materials, which are for marketing purposes and are not intended to serve as a primary basis for investment decisions. NTI and its affiliates receive fees and other compensation in connection with the products and services described herein as well as for custody, fund administration, transfer agent, investment operations outsourcing and other services rendered to various proprietary and third party investment products and firms that may be the subject of or become associated with the services described herein.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc. Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K, NT Global Advisors, Inc., 50 South Capital Advisors, LLC, , Northern Trust Asset Management Australia Pty Ltd, and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

© 2024 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.