NORTHERN TRUST ASSET MANAGEMENT ASSET ALLOCATION VIEWPOINTS & PORTFOLIO POSITIONING

Tactical decision: +1% Global Real Estate (GRE), +1% Global Listed Infrastructure (GLI), -1% Dev. ex-U.S. Equities, -1% Investment Grade (IG) Fixed Income.

Northern Trust Asset Management's Asset Allocation Committee adds to real assets. The committee added 1% to both GRE and GLI, bringing its real assets allocation to neutral (Natural Resources remains 2% under weight). Both asset classes should benefit from a less-onerous rate backdrop ahead – both from a company fundamentals and investor sentiment standpoint. GLI is particularly well-positioned from an earnings and fundamentals perspective with the expected growth in the demand for global power. The committee removed its overweight to Dev. ex-U.S. Equities given a less-favorable economic growth outlook in Europe while also extending its underweight to IG Fixed Income. Overall, the committee retains its preference for equities (4% over-weight) versus fixed income (4% under weight).

Equity market gains broadening despite recent market volatility. Since the start of the third quarter, financial markets have experienced a couple of mini-episodes of heightened volatility followed by stabilization. The yen carry trade and U.S. growth concerns in early August quickly dissipated, allowing most major asset classes to finish in positive territory for the month. More recently, U.S. equities declined ~4% in early September. Since mid-July, equity market leadership has shifted away from the Mag 7 group to a wider group of companies, with more defensive sectors performing best. 2Q2024 earnings season is largely complete with 11% y/y earnings growth – a key takeaway being a broadening of earnings growth and more sectors participating in double-digit y/y earnings growth. S&P 500 companies outside of the Mag 7 have contributed almost half of the 11% y/y earnings growth in 2Q versus mostly negative contributions since early 2023. While some areas of the markets appear to reflect higher downside risk to economic growth (e.g., oil and copper prices ~20% off recent highs), credit spreads have remained contained. In the high yield space, earnings results and management commentary have been constructive. Plus, default rates are low and the percentage of the index trading in distressed territory is about 400 basis points below its late-2019 level.

The committee retains its base case view of a soft landing. Recent U.S. economic data has been broadly consistent with the committee's soft landing base case expectation in which economic growth softens but remains positive. 2Q real Gross Domestic Product (GDP) was revised up to 3.0%. Economic activity is likely to cool from this brisk pace, but the committee does not expect a contraction in the near term. Inflation has continued to decelerate from elevated levels. With inflation closer to the Fed's target, it can focus less on slowing inflation and more on managing downside growth risks. The committee expects the Fed to incrementally ease policy, with room to cut more meaningfully if needed. Despite recent moderation, the U.S. growth outlook is much more constructive relative to Europe and China. European economic activity has been more uneven of late including weakness in key areas such as Germany – though incoming European Central Bank rate cuts should provide support in short order. In China, the economic growth outlook has worsened. The property sector remains a major issue for China with material downstream effects – and no easy fix in sight from a policy standpoint.

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.

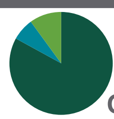
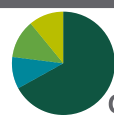
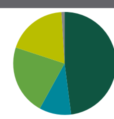
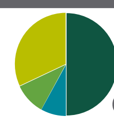
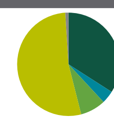
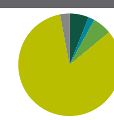
Lagged Impacts: A soft landing is taken off the table as easing economic growth evolves into a traditional demand-led recession. In this scenario, a shallow recession is more likely than a deep contraction.

Risk Assets: For long-term capital appreciation.

Risk Control Assets: For reducing volatility.

Source: Northern Trust Investment Strategy

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	Port. Weight	Over/ Under-Weight	Port. Weight	Over / Under Weight	Port. Weight	Port. Weight	Over / Under Weight	Port. Weight	Over / Under Weight	Port. Weight	Over / Under Weight
Equity	83%	+4%	67%	+4%	48%	50%	+4%	34%	+4%	6%	+2%
U.S. Equities	51%	+3%	41%	+3%	24%	31%	+3%	22%	+3%	5%	+2%
Dev. ex-U.S. Equities	22%	0%	18%	0%	24%	13%	0%	8%	0%	1%	0%
Emerging Markets Equities	10%	+1%	8%	+1%		6%	+1%	4%	+1%	0%	0%
Real Assets	7%	-5%	10%	0%	10%	8%	0%	4%	0%	2%	2%
Natural Resources	1%	-5%	3%	-2%	5%	2%	-2%	0%	-2%	0%	0%
Global Real Estate	3%	0%	3.5%	+1%	2.5%	3%	+1%	2%	+1%	1%	+1%
Global Listed Infrastructure	3%	0%	3.5%	+1%	2.5%	3%	+1%	2%	+1%	1%	+1%
High Yield Bonds	10%	+1%	12%	+5%	22%	10%	+5%	8%	+5%	6%	+5%
Investment Grade Bonds	0%	0%	11%	-8%	19%	32%	-7%	53%	-7%	83%	-7%
U.S. Investment Grade	0%	0%	9%	-6%	15%	25%	-5%	41%	-5%	64%	-5%
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

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