NORTHERN TRUST ASSET MANAGEMENT
ASSET ALLOCATION VIEWPOINTS & PORTFOLIO POSITIONING

Tactical decision: +2% Global Listed Infrastructure, -2% Global Real Estate.

Northern Trust Asset Management's Asset Allocation Committee tilts its real assets exposure in favor of infrastructure. The committee added 2% to Global Listed Infrastructure (GLI), funded by a 2% reduction to Global Real Estate. The trade leaves the total allocation to real assets unchanged, but it tilts the sectoral preference even further toward GLI. In April, GLI captured only about 65% of the global equity market drawdown. Recognizing that it held up relatively well, the committee brought its slight overweight to GLI to equal-weight versus the strategic benchmark in order to lock in the relative outperformance. Since then, the U.S. equity market – and cyclical sectors in particular – have notably rebounded. The committee believes it's a better time to start to rebuild its tactical preference for GLI. It started to do so last month, and this month's moves reflect a continuation of that view. It comes at the expense of Global Real Estate, which has less Artificial Intelligence (AI) exposure and is more economically sensitive.

U.S. recession odds are now a coin flip. The committee slightly reduced its scenario-implied odds of a U.S. recession to 50/50. When the committee last met in May, it assigned 60% odds to a U.S. recession, however, since then there have been a few incrementally supportive developments on the policy front. Most importantly, the U.S. and China agreed to a 90-day reduction in tariffs that lowered the U.S. reciprocal tariff on China imports from 125% to 10%. This helps reduce the total effective tariff rate from ~27% to ~15%, which shaves some left-tail economic risk for now. Separately, Congress also released an initial version of its fiscal package, the "One Big Beautiful Bill Act of 2025". The details suggest a boost to economic growth that picks up in 2026 and 2027 as tax cuts take effect, however, the fiscal impulse is mitigated by tariffs, low fiscal multipliers, and the potential for higher yields to compensate for inflation risk and fiscal uncertainty. Regarding trade policy, temporary tariff reprieves can be backtracked, more sectoral tariffs are likely on the way, and uncertainty is likely to remain elevated. Taken together, the committee believes recent developments warrant trimming versus reversing the odds of negative economic growth, and Supply Restraint remains the highest-odds scenario.

Tech could help investors look past a U.S. growth slowdown. Barring a major economic slowdown, which is a possibility given some economic supports (e.g., looser financial conditions) and a still very fluid policy backdrop, investors may look through near-term economic headwinds. The "Magnificent 7" has accounted for over 60% of the second quarter gain in U.S. stocks so far, a key reason that the broader U.S. market has recovered ground. The committee believes this could continue, but does not feel it is a good environment to take a sizeable tactical position in U.S. Equities in either direction. Instead, the committee believes GLI can be a good hedge against a continued AI-powered rally as the asset class holds data centers, power producers, and other companies well-positioned to the AI theme. It is more defensive than a pure play through U.S. Equities and it has also been screening well from a momentum lens. The committee preferred to fund it with Global Real Estate, which the committee expects to underperform versus GLI amid heightened economic risk. Plus, Global Real Estate is not expected to benefit from tech advancements to the same degree.

High Level Summary:
Positioning Scenarios

Supply Restraint (40% probability): Supply-side shocks from higher tariffs in addition to broader policy uncertainty weigh on consumer and corporate activity while halting the disinflationary process until a recession takes shape.

Stagflation (10% probability): Initially similar to the Supply Restraint scenario, but the rise in inflation is more persistent. As a result of slower monetary policy support, the recession is deeper and longer.

Soft Landing (35% probability): Global growth slows but remains positive via two potential paths: i) tariff policy eases; ii) the U.S. economy is more resilient than expected and avoids a major deterioration in the consumer backdrop.

Reflation (15% probability): Policies of the U.S. administration have a net stimulative effect, leading to above-trend growth, persistent inflation and a pause in the Fed rate-cutting cycle.

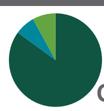
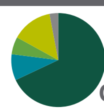
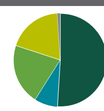
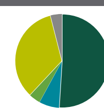
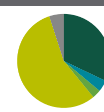
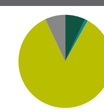
Risk Assets: For long-term capital appreciation.

Risk Control Assets: For reducing volatility.

Source: Northern Trust Investment Strategy

NORTHERN TRUST
ASSET MANAGEMENT

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	85%	+2%	68%	+2%	51%	51%	+2%	32%	+2%	7%	+2%
U.S. Equities	52%	0%	42%	0%	25.5%	31%	0%	19%	0%	3%	0%
Dev. ex-U.S. Equities	24%	+2%	19%	+2%	25.5%	15%	+2%	10%	+2%	3%	+2%
Emerging Markets Equities	9%	0%	7%	0%		5%	0%	3%	0%	1%	0%
Real Assets	7%	-2%	9%	+1%	8%	7%	+1%	4%	+1%	1%	+1%
Natural Resources	1%	-2%	2%	0%	2%	2%	0%	1%	0%	0%	0%
Global Real Estate	0%	-3%	1%	-2%	3%	0%	-2%	0%	-1%	0%	0%
Global Listed Infrastructure	6%	+3%	6%	+3%	3%	5%	+3%	3%	+2%	1%	+1%
High Yield Bonds	8%	0%	6%	0%	21%	4%	0%	3%	0%	0%	0%
Investment Grade Bonds	0%	0%	14%	-5%	19%	34%	-5%	56%	-5%	85%	-5%
U.S. Investment Grade	0%	0%	7%	-5%	12%	20%	-5%	35%	-5%	54%	-5%
TIPS (Inflation-Linked Bonds)	0%	0%	7%	0%	7%	14%	0%	21%	0%	31%	0%
Cash & Short-Term	0%	0%	3%	+2%	1%	4%	+2%	5%	+2%	7%	+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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