NORTHERN TRUST ASSET MANAGEMENT
ASSET ALLOCATION VIEWPOINTS & PORTFOLIO POSITIONING

Tactical decision: No changes

Northern Trust Asset Management's Asset Allocation Committee reaffirms its prior tactical positioning. The committee did not make portfolio changes. Overall, the committee maintains a preference for equities (2% overweight) and real assets (1% overweight) versus fixed income (3% underweight). In fixed income, active tactical positions include a 5% underweight to investment grade fixed income and a 2% overweight to cash. Within equities, the committee has a modest preference for developed ex-U.S. markets (+2%) versus U.S. and emerging markets (both equal-weight). The tactical portfolio also has a 1% overweight to real assets via a 3% overweight to global listed infrastructure, partially funded by a 2% underweight to real estate.

A pre-emptive hold is more likely than a pre-emptive cut. Broader measures of economic growth have been resilient and recession probabilities have come down on the back of a de-escalation in the trade war. The committee reduced its scenario-implied odds of U.S. recession over the next twelve months from 50% to 40%. The adjustment reflects a mark-to-market of data resilience so far, some improvement in trade uncertainty, and support from the passage of the One Big Beautiful Bill Act, which should provide positive fiscal thrust next year and to some extent this year. Directionally, the committee's expectation for a lower growth and higher inflation environment is consistent with consensus. However, the committee assigns higher odds to economic contraction over the next year than suggested by the balance of economists and asset prices. This is partially driven by the committee's expectation that the Fed will not pre-emptively cut its policy rate to support growth. Market expectations for near-term easing may be overdone unless the economy abruptly weakens.

Policy crosscurrents continue to cloud the outlook. While some policy initiatives such as the reconciliation bill are pro-growth, trade and immigration policies continue to weigh on the outlook. Trade deals and sectoral tariffs could push up the average tariff rate based on announced policies from its current level. Actions beyond an increase in the average rate can also pose disruption, as seen with some prior retaliation measures like rare earth restrictions. Trade agreements would help reduce pressure via the uncertainty channel, but this has to be weighed against the direct economic impacts and cost of elevated uncertainty in the meantime. Estimates of the actual tariff rate have recently started to rise and have more upside based on announced policies. This suggests that tariff policies are starting to bite more, and impacts could feed into hard activity and inflation data in a more meaningful way at some point over the next few months.

Better risk-reward outside of the U.S. Over the past month, U.S. large cap equity valuations have expanded to two standard deviations above historical median. The multiple on U.S. growth stocks expanded almost 3x to over 30x forward earnings. Cross-asset sentiment also improved to more bullish levels. So, while U.S. fundamentals still look healthy, amid a challenging economic backdrop the committee sees better risk-reward elsewhere. In contrast, developed ex-U.S. equities continue to benefit from more supportive macro conditions, strong earnings growth, lower valuations, and solid momentum signals. The committee continues to prefer developed ex-U.S. relative to U.S. equities over the near term.

High Level Summary:

Positioning Scenarios

Reflation (20% 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.

Soft Landing (40% 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.

Supply Restraint (30% 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.

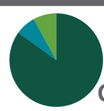
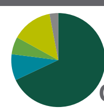
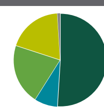
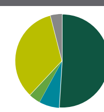
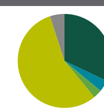
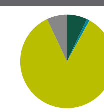
Stagflation (10% probability): Initially similar to the Supply Restraint scenario, but the rise in inflation is more persistent. As a result of slower monetary policy support, the recession is deeper and longer.

Source: Northern Trust Investment Strategy

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	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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