

## NORTHERN TRUST ASSET MANAGEMENT ASSET ALLOCATION VIEWPOINTS & PORTFOLIO POSITIONING

**Tactical decision:** +2% U.S. Equities, +1% Emerging Market Equities, -3% Inflation-Linked Bonds

**Northern Trust Asset Management's Asset Allocation Committee adds to equities, funded by fixed income.** The committee increased exposure to equities, funded by a reduction in fixed income. Specifically, the allocation to Inflation-Linked Bonds was reduced by 3%, with the proceeds used to fund a 2% increase in U.S. Equities and a 1% addition to Emerging Market (EM) Equities. Following the trade, the tactical portfolio is now 6% overweight equities (including real assets) and 6% underweight fixed income. Global economic growth has demonstrated resilience. While the committee acknowledges that risks from potential policy shocks have not fully dissipated, recent softening in U.S. labor market data has increased the likelihood of monetary policy support. Meanwhile, policy stimulus outside the U.S. continues to gain traction. Against the backdrop of a robust global earnings environment, the committee maintains a positive view on equities relative to fixed income.

**The committee increases U.S. equities to overweight.** The August employment report showed continued labor market softening, driven by weak hiring and limited foreign-born labor supply. While layoffs remain low, downside risks have grown, increasing the Fed's willingness to ease policy. Rate cuts reduce downside risk, and combined with fiscal stimulus raise the likelihood of a growth reacceleration in the second half of 2026. In the interim, growth is expected to stay positive but below trend. While risks like a labor market collapse, sticky inflation, and a breakout in yields remain, they are not part of the committee's base case. Against this backdrop, the committee thinks 8-12% earnings growth in 2026 is a reasonable prospect.

**The committee adds to emerging markets exposure.** The committee added 1% to EM Equities, shifting the tactical position from neutral to slightly overweight. China—representing approximately 30% of the MSCI EM Index—has been among the stronger-performing equity regions this year. While ongoing weakness in the property sector remains a headwind and a source of risk, continued policy support for the broader economy and local equity markets could bolster performance. Additional tailwinds for EM include meaningful technology exposure in EM Asia, global central bank rate cuts, and easing by the Fed that we expect will keep downward pressure on the U.S. dollar versus other currencies.

**Maintaining the overweight to developed ex-U.S.** The committee continues to hold an overweight position in Developed ex-U.S. Equities, which performed well over the past month alongside broader financial markets. The committee maintains a constructive view on both European and Japanese equities, believing they offer more attractive return potential than fixed income. In Japan, political uncertainty has resurfaced following Prime Minister Ishiba's resignation. However, there are several supports for the market, including corporate governance reforms and a steeper yield curve supporting financials (Japan's third-largest sector). In Europe, equities remain relatively inexpensive, trade-related uncertainty has eased, central bank rate cuts are well underway, and Germany's fiscal expansion continues to unfold.

### 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 (45% 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 (5% 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.






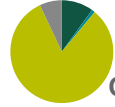
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Source: Northern Trust Investment Strategy

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		Over/Under-Weight		Over/Under-Weight		Port. Weight		Over/Under-Weight		Over/Under-Weight		Over/Under-Weight
Equity	88%	+5%	71%	+5%	51%	54%	54%	+5%	35%	+5%	10%	+5%
U.S. Equities	54%	+2%	44%	+2%	25.5%	33%	33%	+2%	21%	+2%	5%	+2%
Dev. ex-U.S. Equities	24%	+2%	19%	+2%	25.5%	15%	15%	+2%	10%	+2%	3%	+2%
Emerging Markets Equities	10%	+1%	8%	+1%		6%	6%	+1%	4%	+1%	2%	+1%
Real Assets	7%	-2%	9%	+1%	8%	7%	7%	+1%	4%	+1%	1%	+1%
Natural Resources	1%	-2%	2%	0%	2%	2%	2%	0%	1%	0%	0%	0%
Global Real Estate	0%	-3%	1%	-2%	3%	0%	0%	-2%	0%	-1%	0%	0%
Global Listed Infrastructure	6%	+3%	6%	+3%	3%	5%	5%	+3%	3%	+2%	1%	+1%
High Yield Bonds	5%	-3%	6%	0%	21%	4%	4%	0%	3%	0%	0%	0%
Investment Grade Bonds	0%	0%	11%	-8%	19%	31%	31%	-8%	53%	-8%	82%	-8%
U.S. Investment Grade	0%	0%	7%	-5%	12%	20%	20%	-5%	35%	-5%	54%	-5%
TIPS (Inflation-Linked Bonds)	0%	0%	4%	-3%	7%	11%	11%	-3%	18%	-3%	27%	-3%
Cash & Short-Term	0%	0%	3%	+2%	1%	4%	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.

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