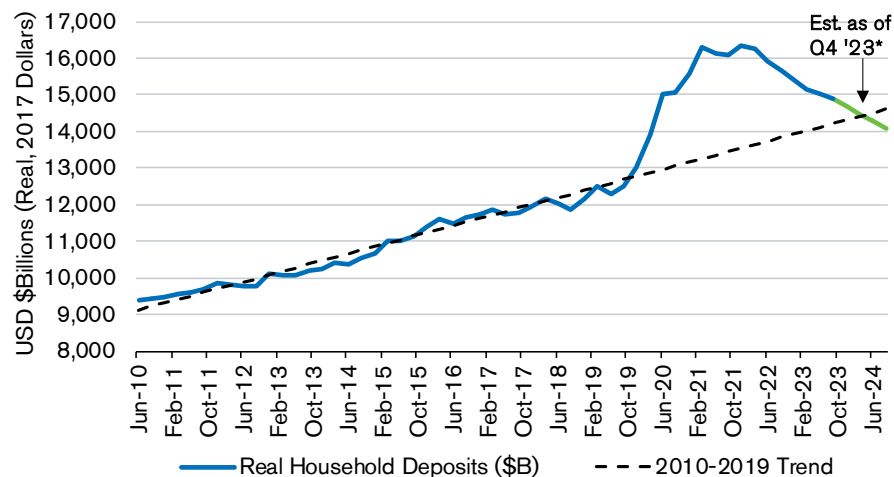




Consumption to Realign with Fundamentals in 2024

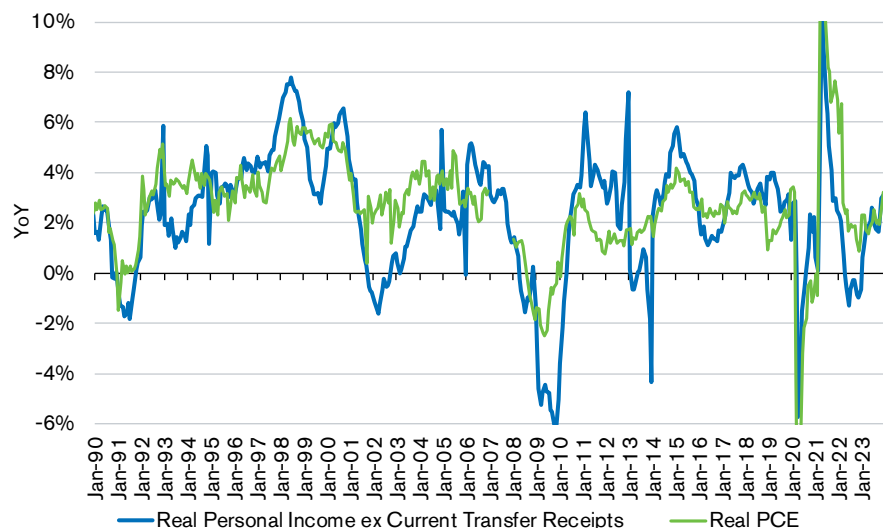
HOUSEHOLD DEPOSITS

CHECKING & SAVINGS ACCOUNTS + MONEY MARKET MUTUAL FUNDS



*Green forecast data represent projection using current trend
Source: WestEnd Advisors, Federal Reserve

REAL SPENDING GROWTH TRACKS REAL INCOMES OVER TIME



Source: BEA, Bloomberg, WestEndAdvisors

Portfolio Impact: Many of the unusual factors that supported consumption growth post-COVID are unlikely to persist in 2024, in our view. In their place, we think that **more traditional fundamental drivers of consumption are taking hold.** With job gains and nominal income growth still positive but moderating, we continue to **deemphasize or even avoid exposure to the most economically sensitive areas of the market.**

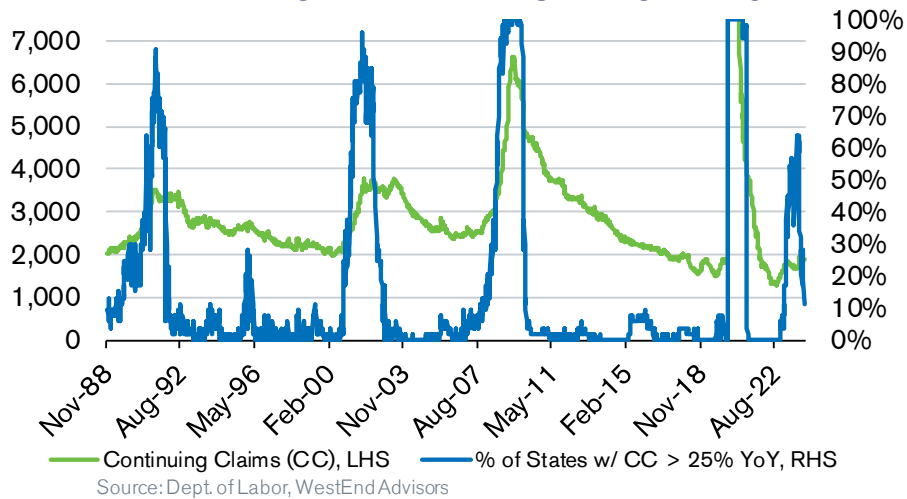
Consumers outspent their income in the second half of 2023, which drove the savings rate lower but also supported economic growth. Further “excess spending” (i.e., declines in the savings rate) should be constrained by shrinking savings (see top chart) and the now meaningfully higher cost of debt.

With less savings to tap into and reduced credit availability, aggregate consumption growth should be more reliant on aggregate income growth in 2024.

Aggregate income growth will remain positive but slow, in our view, due to conditions more typical of a late-cycle environment.

Economic Resilience Could Lead to Cycle Extension

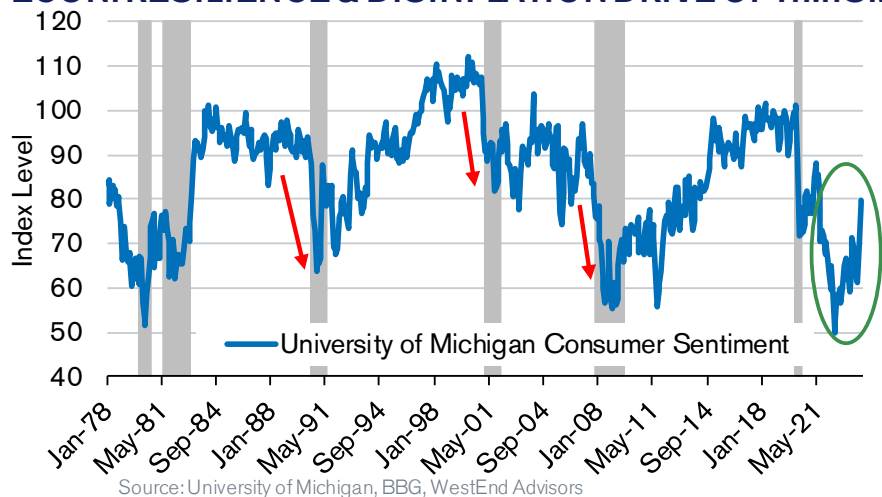
NEAR-TERM LABOR MARKET RISK RECEDING



Portfolio Impact: We continue to allocate to a **mix of defensive sectors**, like Health Care and Utilities, **and more economically sensitive sectors**, like Communication Services and Financials, as our outlook increasingly contemplates the prospect of continued economic resilience.

The ongoing resilience of some economic data in recent months, combined with the flexibility for the Fed to cut rates amid slowing inflation, **enhances the likelihood of an environment characterized by slowing, but sustained, economic growth**, in our view.

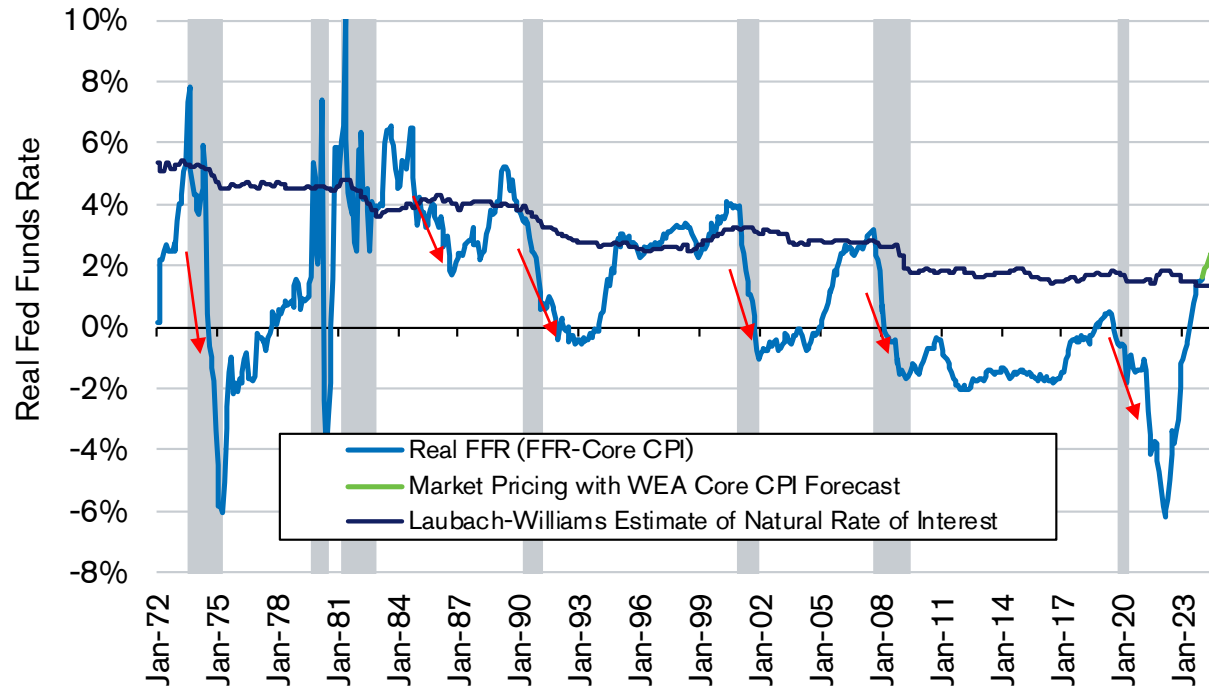
ECON. RESILIENCE & DISINFLATION DRIVE OPTIMISM



A sharp decline in consumer sentiment and deteriorating leading labor market data have historically preceded periods of significant economic weakness. While macro risks remain elevated, in our view, **signs of stabilization in the labor market and some other economic indicators, coupled with the near-term prospect of monetary easing, have boosted consumer and business sentiment.**

Fed Policy is Moving Front and Center

REAL RATES TO REMAIN HIGH EVEN WITH CUTS IN '24



Source: WestEnd Advisors, BLS, Bloomberg

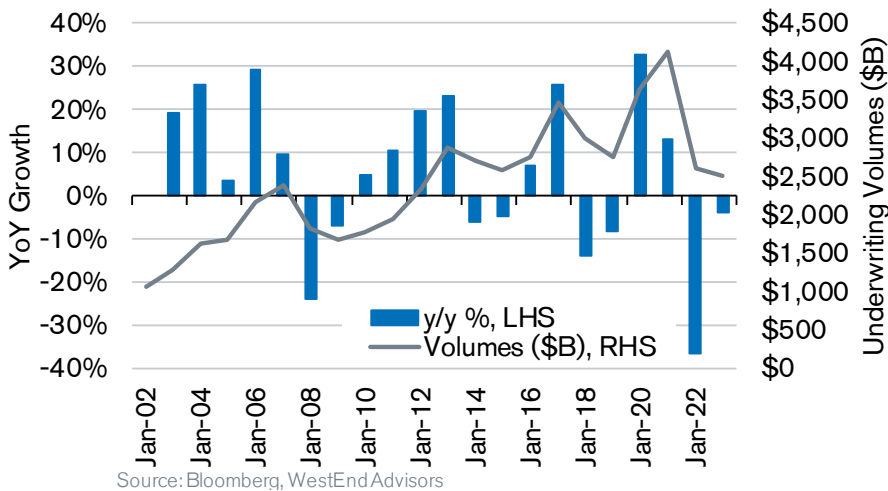
Portfolio Impact: The Fed is done hiking, in our view, but **without real economic weakness, we do not expect to see** the type of material policy easing associated with the start of a new cycle.

If our inflation forecast materializes, **we expect that the Fed has completed this hiking cycle.** The market seems to agree and is currently pricing in more than 100 basis points of rate cuts in the coming year.

This outlook aligns with the Fed's messaging that it may **manage real interest rates lower as inflation cools**, and less restrictive monetary policy this year could help support continued, but likely slowing, economic growth. However, this **would not equate to the degree of easing that is typically seen in response to economic weakness, which in turn helps generate a subsequent cyclical recovery**, in our view.

Prospect of Continued Growth Reduces Downside Risk for Financials

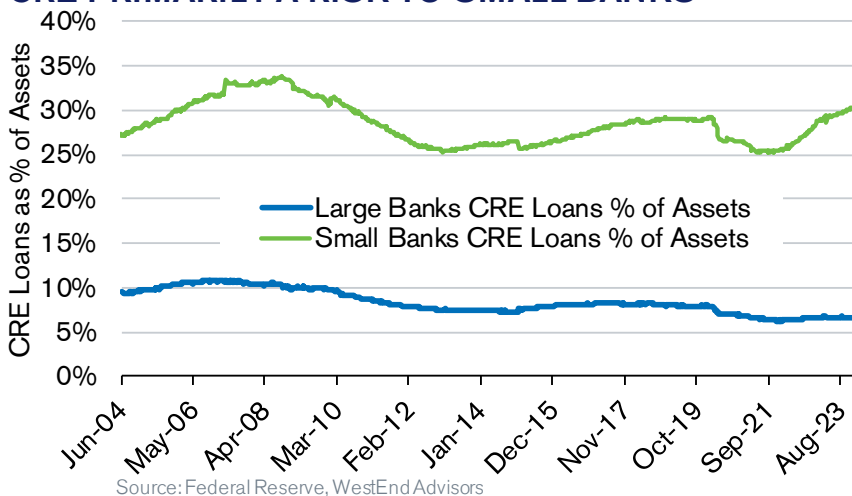
UNDERWRITING ACTIVITY POISED FOR A REBOUND



Portfolio Impact: We've added a new allocation to the U.S. Financials sector as our updated economic outlook now incorporates an **increased probability of continued economic growth**. While Financials aren't immune to macro risk, we believe easing monetary conditions, increased capital markets activity, and secular trends such as the shift to digital payments could provide upside for the sector.

Our **more sanguine outlook for the U.S. economy gives us greater confidence in current consensus estimates for Financials sector earnings growth**. The Capital Markets industry, comprising over 20% of the sector, is positioned for potential recovery, in our view, following a dearth of dealmaking and underwriting activity that led industry earnings to decline more than 20% over the last two years (top chart).

CRE PRIMARILY A RISK TO SMALL BANKS



While commercial real estate (CRE) remains a hot-button topic within banking, we would note that **large banks have considerably less exposure to CRE** than their smaller peers (bottom chart) and make up roughly ~75% of the exposure in the S&P 500 Banks industry.



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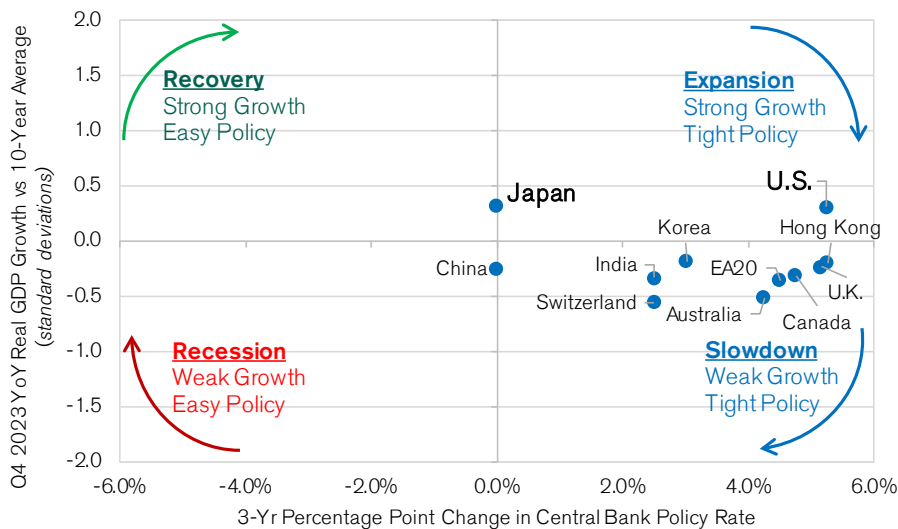
A VICTORY CAPITAL® INVESTMENT FRANCHISE

International Economic & Market Backdrop



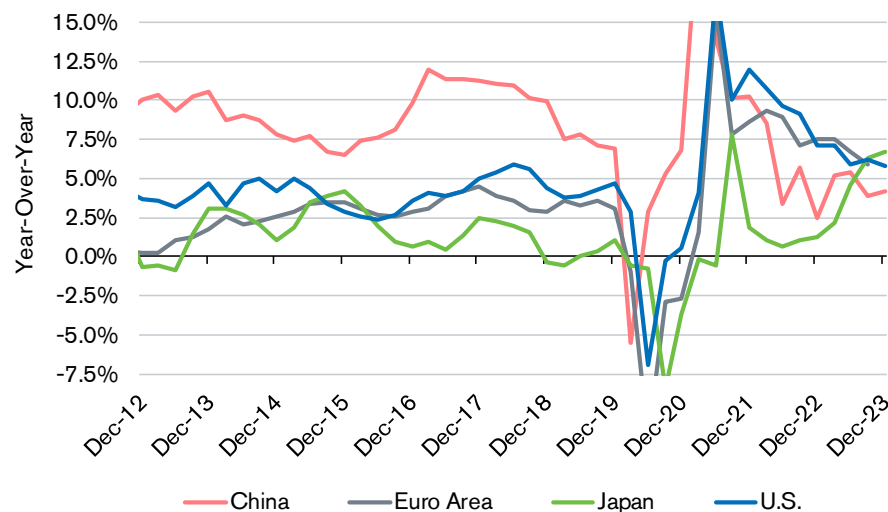
Global Economic Cycle Developing As Expected

GLOBAL ECONOMIC & POLICY CYCLE IN LATER INNINGS



Source: WestEnd Advisors

NOMINAL GDP GROWTH



Source: WestEnd Advisors

Portfolio Impact: While there are pockets of strength in the global economy, **most major economies are slowing** and face late-cycle challenges. We remain **overweight some of the more defensive regions including the U.S. and Japan**, which have been bright spots in the global economy.

The U.S., the Eurozone, and the U.K. are all facing tight monetary conditions, **but there's been a clear divergence between the U.S. economy, which has proven resilient, and many major European economies**, where we continue to see slowing economic activity.

Japan is experiencing its strongest nominal growth and economic recovery in decades, and the U.S. consumer and labor market continue to show resilience. **China, which is struggling with deleveraging headwinds, has seen its growth rate drop below peers** and suffered steep equity market declines over the past several years.



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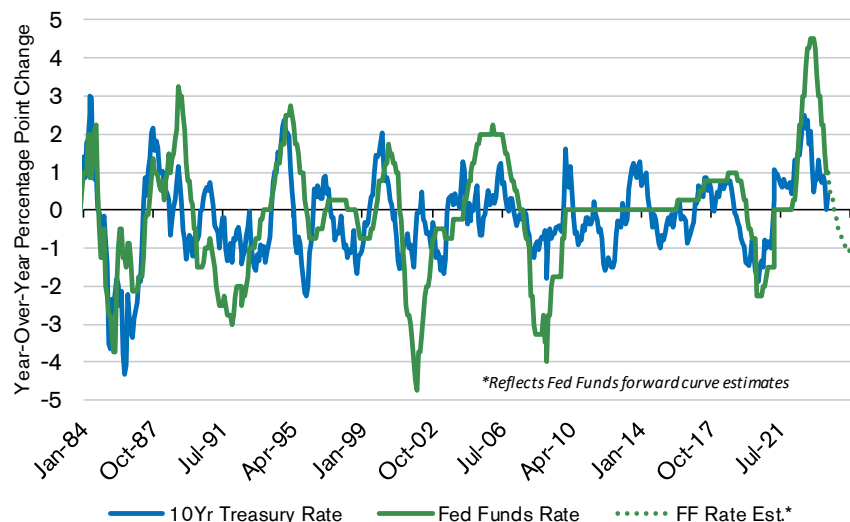
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Interest Rates & Credit



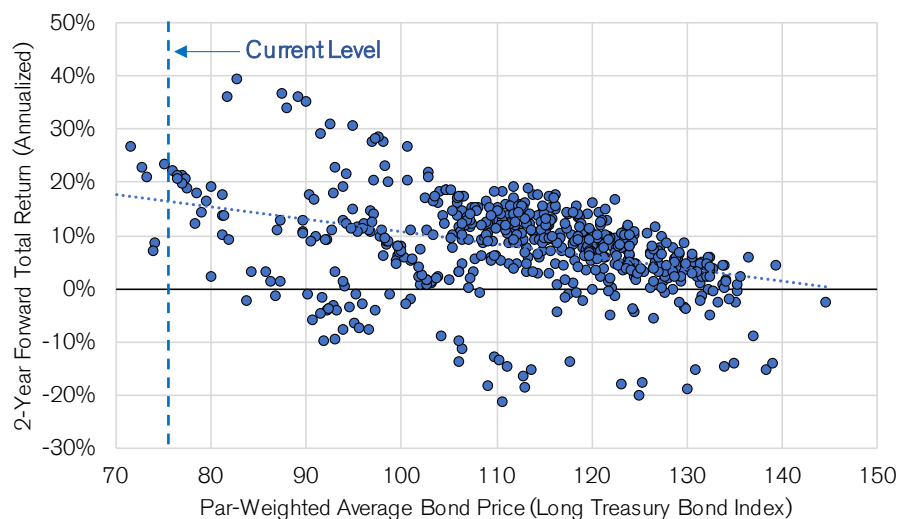
Elevated Rates Improve Fixed Income Risk/Reward

FED POLICY HEADWIND TO LONG BONDS ABATING



Source: Bloomberg, WestEnd Advisors

POTENTIAL RETURNS FOR LONG TREASURIES STILL ATTRACTIVE



Source: Bloomberg, WestEnd Advisors

Portfolio Impact: Recent disinflationary trends are likely to provide the Fed with increased policy flexibility over the coming quarters, in our view, raising the potential for lower interest rates within our investment time horizon. As a result, **we find the risk/reward for intermediate and longer-term bond returns appealing** and therefore maintain an overweight allocation to longer-duration fixed income in balanced portfolios.

Following the rapid rise in interest rates since the beginning of 2022, **we believe the risk for intermediate and longer-term rates is likely skewed to the downside within our investment window**, due in part to the Fed being at the end of its tightening cycle (see top chart).

Historically, when long-duration Treasury bond prices have been at or below current levels, returns over the subsequent two years have been consistently positive and often well above average. Though risks remain, and interest rate volatility could remain elevated, **we see attractive return opportunities in fixed income given our interest rate outlook.**

Footnotes & Disclosures

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The Standard and Poor’s 500 Stock Index includes 500 stocks and is a common measure of the performance of the overall U.S. stock market. The MSCI ACWI consists of 47 country indexes comprising 23 developed and 24 emerging market country indexes. The total return of the MSCI ACWI (Net) Index is calculated using net dividends. Net total return reflects the reinvestment of dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The Bloomberg Barclays US Aggregate Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. The Bloomberg Barclays US Aggregate Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. An index is unmanaged and is not available for direct investment.

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Holdings, Sector Weightings, and Portfolio Characteristics were current as of the date specified in this presentation. The listing of particular securities should not be considered a recommendation to purchase or sell these securities. While these securities were among WestEnd Advisors’ strategies’ holdings at the time this material was assembled, holdings will change over time. There can be no assurance that the securities remain in the portfolio or that other securities have not been purchased. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities presently in the portfolio. Individual clients’ portfolios may vary. Upon request, WestEnd Advisors will provide a list of all recommendations for the prior year.