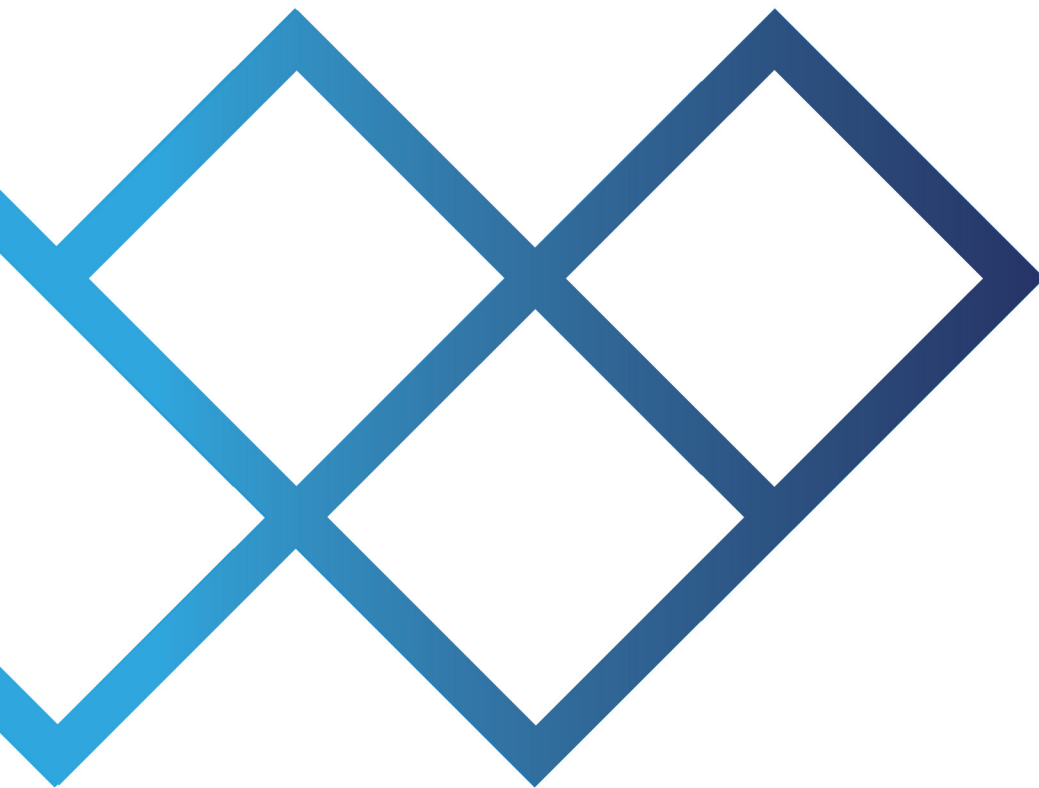




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A VICTORY CAPITAL® INVESTMENT FRANCHISE



Mid-Quarter Macro Update

Q3 2024

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U.S. Equity Sector Allocations

WESTEND ETF STRATEGIES

Current large-cap U.S. equity sector allocation and avoidance*

Sector Allocations

- Health Care
- Consumer Staples
- Utilities
- Information Technology
- Communication Services
- Consumer Discretionary
- Financials
- Real Estate

Sector Avoidance

- Energy
- Industrials
- Materials

* For illustrative purposes only. Allocation information as of August 15, 2024. Source: WestEnd Advisors.

International Equity and Fixed Income Allocations

WESTEND GLOBAL ETF STRATEGIES

Current regional equity allocation positioning in global portfolios*

Regional Equity Overweights

- U.S.A.
- Japan/Developed Asia

Regional Equity Underweights

- Europe
- Emerging Markets

WESTEND BALANCED ETF STRATEGIES

Current fixed income and asset class positioning in balanced portfolios*

Fixed Income Overweights

- Longer-term Treasury Securities
- Long Duration (in aggregate)
- Short-term Corporate Credit
- Fixed Income Asset Class
(in traditional balanced strategies)

Fixed Income Underweights

- Short-term Treasury Securities
- Long-term Corporate Credit

* For illustrative purposes only. Allocation information as of August 15, 2024. Source: WestEnd Advisors.



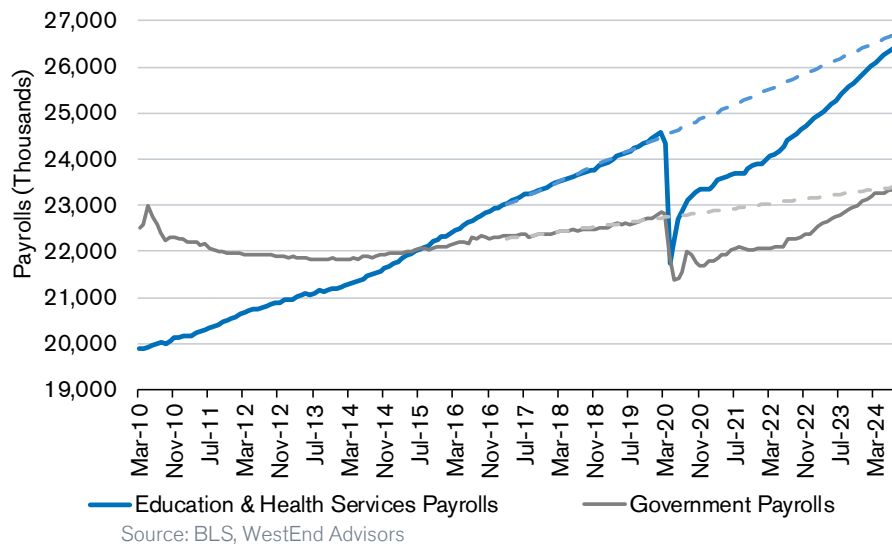
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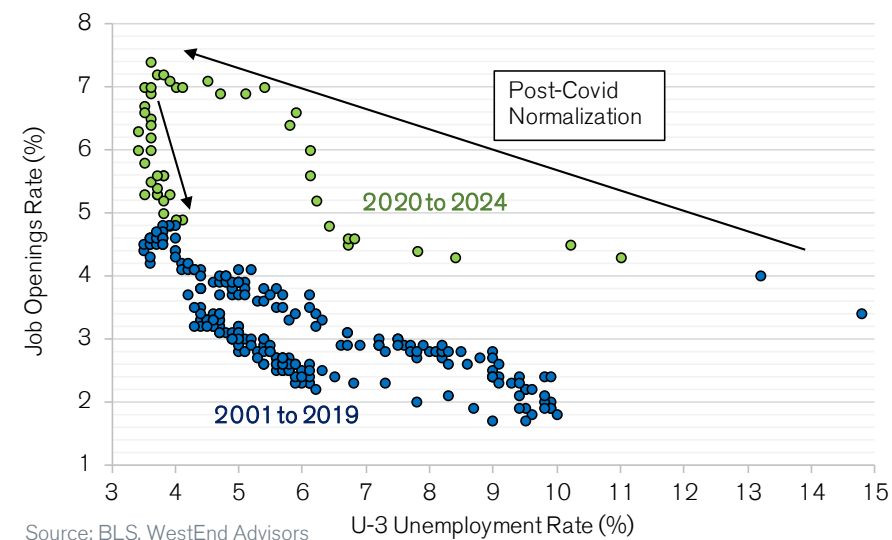
Economic & Market Backdrop

Labor Market Cooling Has Dampened Inflation, But Becoming a Headwind to Growth

JOB RECOVERY IN GOV'T & HEALTH CARE HAS RUN ITS COURSE



FURTHER LABOR MARKET COOLING RISKS HIGHER UNEMPLOYMENT



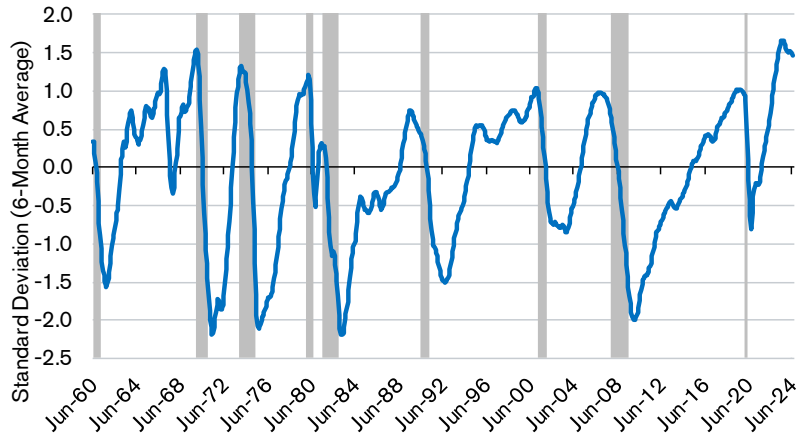
Portfolio Impact: Employment growth has been a source of economic strength this cycle, but a more detailed look at the **data suggests slowing labor demand ahead**. The trajectory of employment and layoffs is likely to be the key determinant of the U.S. economy's path in the coming quarters, in our view.

Nonfarm payroll gains have averaged ~210k over the past twelve months, an above-average pace relative to history, even as **job growth has been exceptionally narrow**. Over 60% of the increase in nonfarm payrolls over the past year is attributable to Government and Health Care & Education, even as these industries make up less than a third of the labor force. The **recovery dynamics in these areas now appear to have run their course** (top chart).

In these later stages of the cycle, cooling labor market conditions have reduced inflationary pressures without leading to higher unemployment, thanks to high levels of job openings. The Beveridge Curve (bottom chart) suggests this phenomenon is drawing to a close, which means **further reductions in labor demand could lead to a sharper increase in unemployment**.

Economy is Late-Cycle with Low Contagion Risk

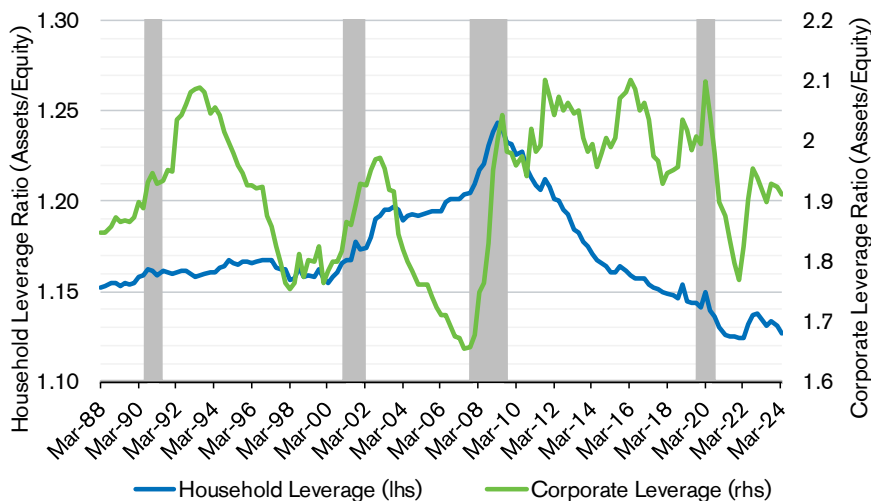
WEA LENGTH-OF-CYCLE INDICATOR



Source: Bloomberg, WestEnd Advisors

* Indicator represents average standardized value for four indicators: U-3 unemployment rate, output gap, confidence spread, and 10Y-3Y Treasury interest rate spread.

LEVERAGE BACKDROP REMAINS BENIGN



Source: Federal Reserve, WestEnd Advisors

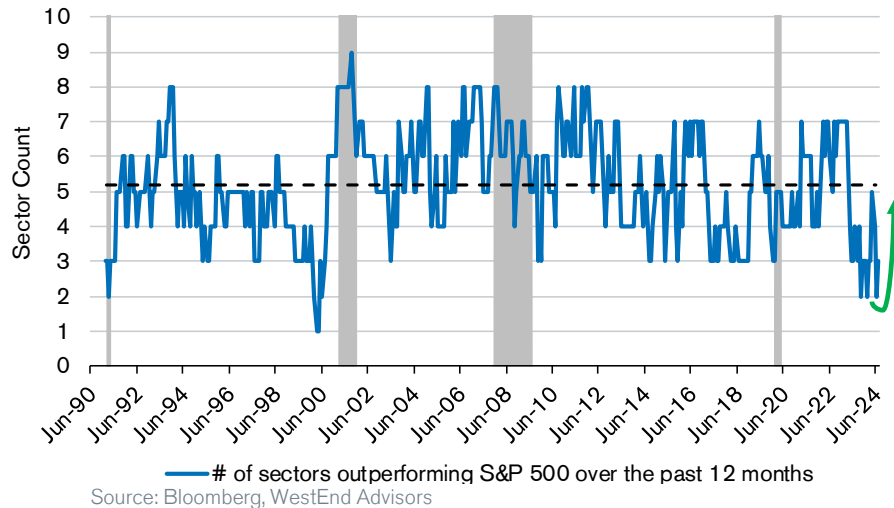
Portfolio Impact: Ongoing risks to the economy in the U.S. warrant an **avoidance of highly cyclical sectors**, in our view. At the same time, the absence of extreme excesses could enable the economic cycle to tread along. In our ETF portfolios, we have balanced out our exposure to traditionally defensive sectors, like **Consumer Staples**, by selectively emphasizing areas with distinct **growth opportunities**, such as **Capital Markets**.

We believe the prospect of economic deceleration remains elevated, as the **classic signs of a late-stage macro environment remain in place**, including a tight labor market, restrictive monetary policy, limited consumer pessimism, and a low level of economic slack. A proprietary composite index measuring the progression of the economic cycle remains at the high end of the historic range (top chart).

Still, we see **limited risk of a painful deleveraging event, as leverage ratios for the household and corporate sectors remain benign** (bottom chart). This suggests that households and businesses have room to borrow further, if needed, but higher interest costs and tighter lending standards should limit the propensity to build up excess debt.

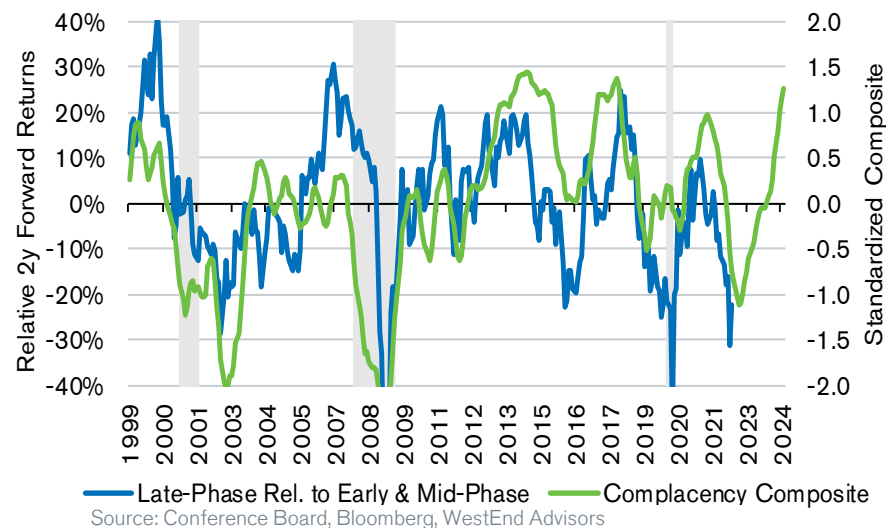
Narrow Sector Leadership Has Potential to Widen Out

NUMBER OF SECTORS OUTPERFORMING THE S&P 500



Portfolio Impact: We believe **sector leadership is poised to broaden out** following a period of unusual narrowness. While a substantial overweight of mid-phase sectors would have boosted performance in recent quarters, we saw undue risk in a concentrated overweight of mid-phase at this stage of the cycle. Nonetheless, our portfolios captured significant absolute returns over the past year. Looking ahead, we believe **our revised exposure leaves us well-positioned for a more normalized market environment moving forward.**

LOFTY SENTIMENT A POTENTIAL TAILWIND TO LATE-PHASE



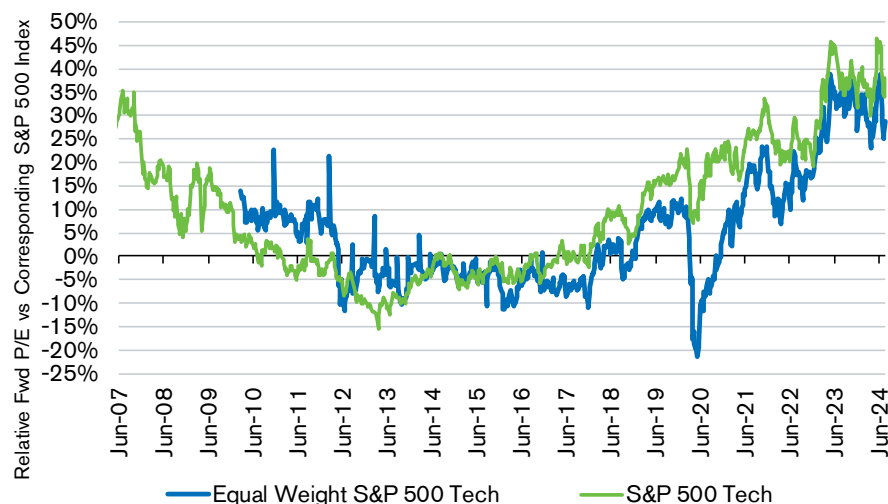
The S&P 500's return of approximately 45% over the past 6 quarters has been dominated by Information Technology and Communication Services, largely due to the proliferation of A.I. and above-market earnings growth expectations. **This narrowness of sector leadership is unusual relative to history** (top chart), and we see potential for sector-focused investors to benefit as the distribution of returns broadens out.

The strong (but narrow) market performance has coincided with a **rapid rise in valuations and sentiment over the past 18 months**. Historically, a high level of investor complacency has raised the potential for future market volatility, which we believe could benefit the more defensive parts of the market (bottom chart).



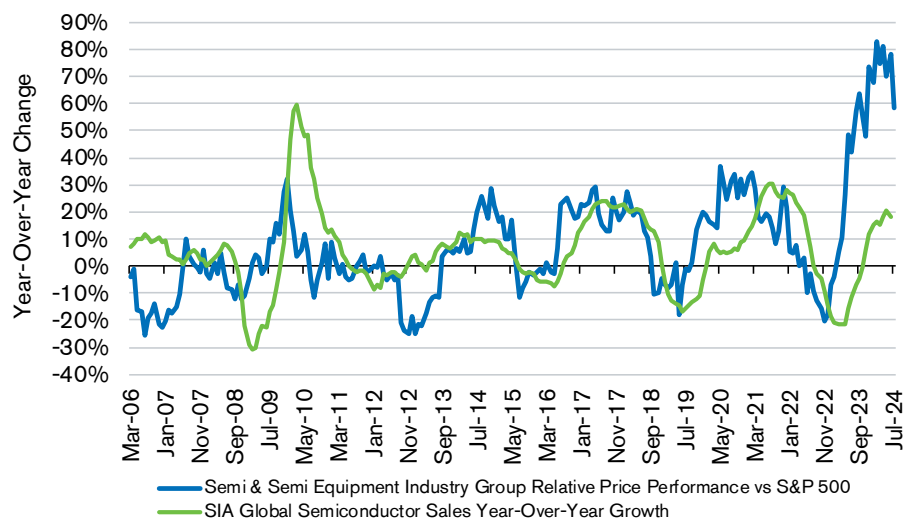
Hottest Parts of Mid-Phase May Cool Off

NOT JUST TECH MEGA CAPS THAT ARE EXPENSIVE



Source: Bloomberg, WestEnd Advisors

SEMICONDUCTOR RETURNS HAVE SIGNIFICANTLY OUTPACED FUNDAMENTALS



Source: Bloomberg, WestEnd Advisors

Portfolio Impact: The Information Technology sector has been a dominant driver of market fundamentals and returns over the past 18 months. Looking forward, we **expect Information Technology returns to cool off as earnings catch up to elevated valuations.** While we view the sector as having favorable growth and quality attributes, we believe an underweight is warranted.

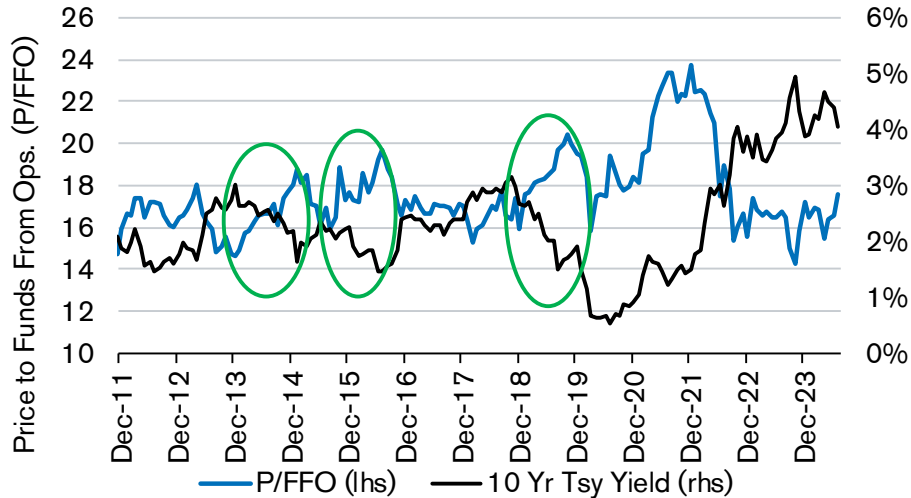
Information Technology’s 102% 18-month return through Q2 2024 ranks in the 97th percentile over the past 30 years. Growth expectations for the sector have risen sharply thanks to a profit turnaround and an A.I.-driven investment cycle, which **has pushed valuations for Technology companies to the highest levels in two decades** (top chart).

Our work has shown that technology investment cycles, which have been at the epicenter of the A.I. boom, typically last between 12 to 24 months, on average. With the current cycle now past the year mark, and with Semiconductor industry returns materially outpacing growth in worldwide semiconductor sales, we see potential for a “growth digestion” phase.



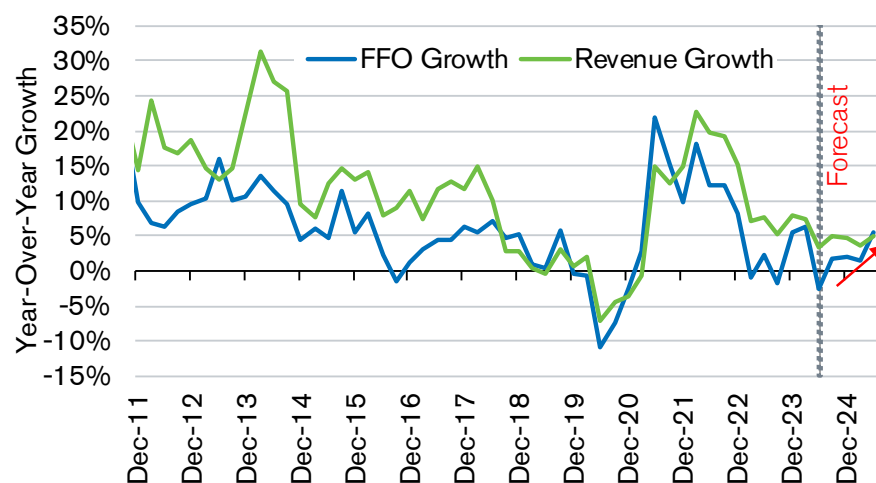
Opportunities Budding in Real Estate

REIT VALUATIONS AND INTEREST RATES



Source: Bloomberg, WestEnd Advisors

REAL ESTATE REVENUE & FFO GROWTH



Source: Bloomberg, WestEnd Advisors

Portfolio Impact: The combination of slowing economic growth and disinflation year-to-date **set up interest rates to fall**, and we have increasing confidence that the Fed will begin to reduce policy rates by the end of the year. **We believe interest rate-sensitive sectors like Real Estate and Financials may benefit from improved financial conditions.**

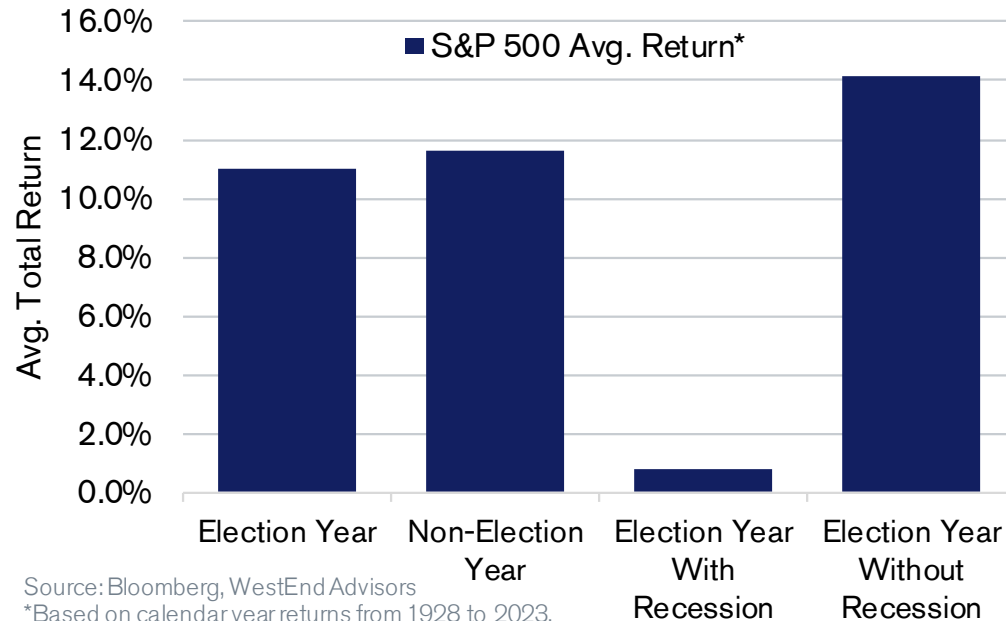
REIT valuations are currently in line with long-run averages but stand to benefit from lower rates, as has been the case in other slow-growth, falling interest rate periods (see top chart).

REIT fundamentals have been stable over the past two years, and REITs collectively are expected to see improving funds from operations (FFO) growth in the coming quarters. Concerns around the Office market, which only makes up 3% of the sector, we think are overblown.

Like the Capital Markets industry, the **potential for interest rates to migrate lower could lead to better operating environments and sentiment for Real Estate.**

Macro, Not Election Outcome, Drives Returns

VARIATION IN RETURNS DURING ELECTION YEARS



Portfolio Impact: Political control in D.C. is too close to call ahead of November, and **uncertainty around the election may lead to an increase in market volatility** in the months ahead. However, we believe the macroeconomic environment, not the election outcome, will remain the key driver of financial market returns.

While many investors may have concerns regarding how the U.S. Presidential election could impact their portfolios, looking at returns data for the S&P 500 going back to the 1920's, we found that **the index has posted positive returns in more than 83% of U.S. Presidential election years.** In fact, average index returns in election vs. non-election years have been nearly identical over time.

As the chart above illustrates, macroeconomic conditions are a more influential determinant of equity market returns. **The greatest variation in returns during election years has been due to deterioration of the economic backdrop** (i.e. recessions).



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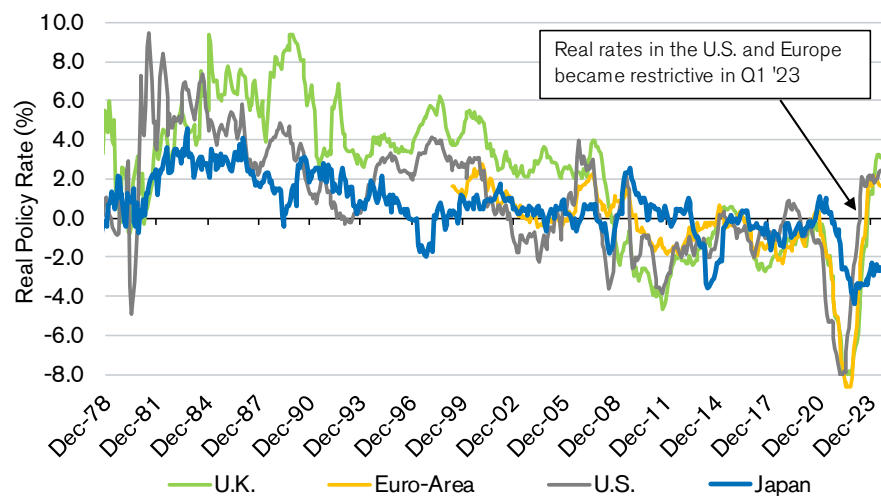
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International Economic & Market Backdrop

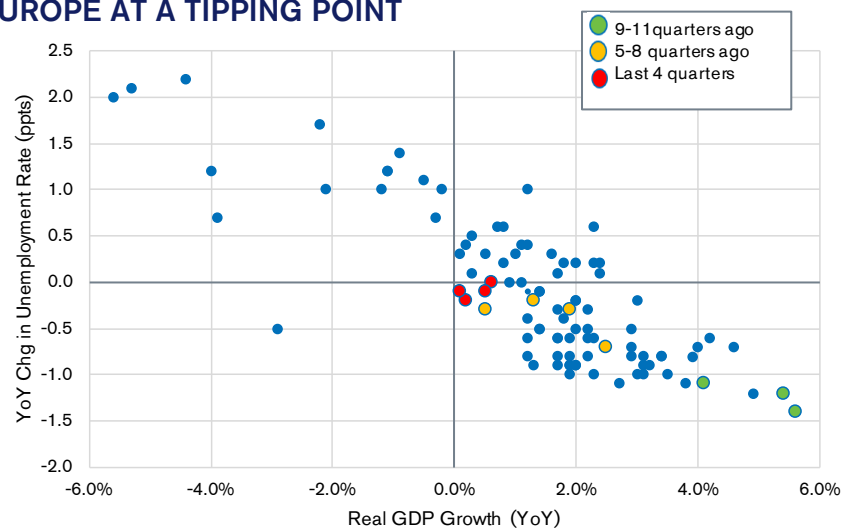


Monetary Policy Cycle Split Between East & West

REAL RATES REMAIN HIGHLY ACCOMODATIVE IN JAPAN



EUROPE AT A TIPPING POINT



Source: Eurostat, WestEnd Advisors

Portfolio Impact: We continue to **overweight Japan**, which not only **has fewer economic headwinds compared to Europe** (an underweight), in our view, but is also benefiting from a step-up in nominal growth. Japan has the potential to be a more **defensive region** during “risk-off” environments.

The Bank of Japan has started raising interest rates for the first time since 2007 due to the country’s positive economic trajectory and signs that wage inflation has moved sustainably above 2%.

We believe, however, that monetary policy in Japan is likely to remain accommodative for the foreseeable future. The real policy rate in Japan remains firmly below those of other developed nations (see top chart) and near some of the most stimulative levels on record.

In contrast, employment and real GDP growth have slowed to below-average levels in Europe. The region’s cyclical sensitivity, coupled with less government stimulus and pent-up household savings, lead us to expect that easier monetary policy will be required before Europe’s economy is able to re-accelerate.



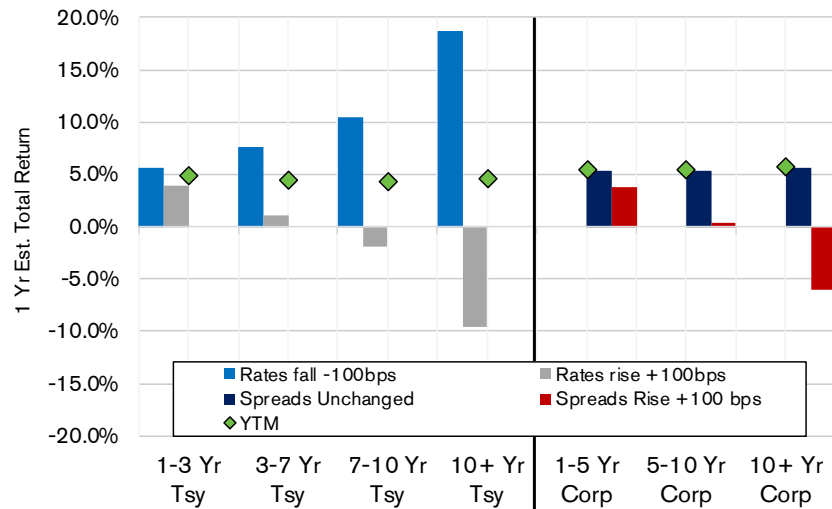
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Fixed Income / Rates

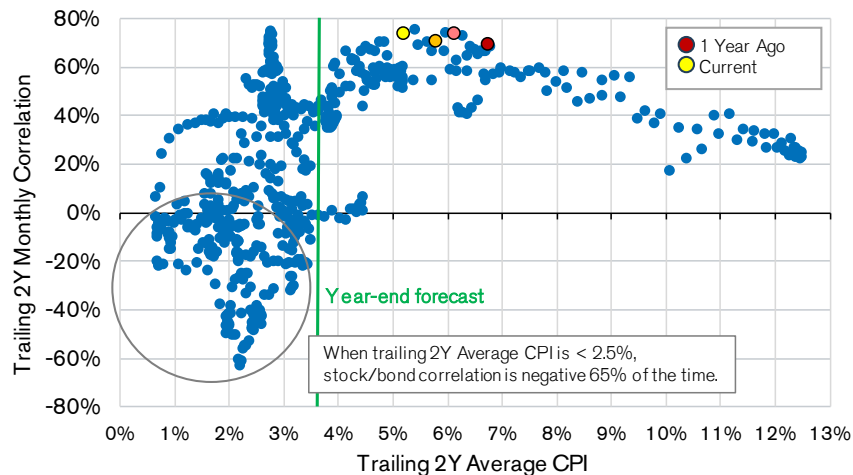
Elevated Rates & Falling Inflation Improve Fixed Income Return Potential

ATTRACTIVE RETURN ASYMMETRY FOR BONDS



Source: Bloomberg, WestEnd Advisors

INFLATION ERODES STOCK/BOND DIVERSIFICATION



Source: Bloomberg, WestEnd Advisors. Monthly data from 1978 to May 2024.
*Green line denotes trailing 2-year average CPI year-over-year forecasted through 2024.

Portfolio Impact: Higher yields provide fixed income investors with more cushion against interest rate volatility, all else equal. In traditional balanced portfolios, **fixed income returns have inflected higher** in recent months as economic growth has slowed and we move closer to the beginning of a monetary easing cycle. At the same time, we are **avoiding longer-duration corporate bonds**, which could be at risk if credit spreads rise.

Elevated yields for Treasury bonds, relative to earlier in the economic cycle, should help to mitigate performance headwinds from interest rate volatility, in our view. With the Fed now signaling rate cuts rather than hikes, in our view, we see **attractive asymmetry in the potential returns for intermediate-and-long duration Treasury bonds**. In contrast, corporate bonds currently offer little compensation for credit risk (top chart).

In recent years, elevated inflation has eroded the typical diversification benefits of owning fixed income. If inflation continues to glide lower, as we expect, the correlation between stock and bond returns could move back lower (bottom chart).

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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