WESTEND Advisors

A VICTORY CAPITAL® INVESTMENT FRANCHISE

Mid-Quarter Macro Update

Q4 2024

20241119-4037996

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

International Equity and Fixed Income Allocations

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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
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WESTEND BALANCED ETF STRATEGIES

Current fixed income and asset class positioning in balanced portfolios*

Fixed Income Overweights

- Short-term Corporate Credit
- Longer-Term Treasury Securities

Fixed Income Underweights

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

* *For illustrative purposes only. Allocation information as of November15, 2024. Source: WestEnd Advisors.*

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Economic & Market Backdrop

Late-Cycle Conditions Remain, But Continued Growth Likely

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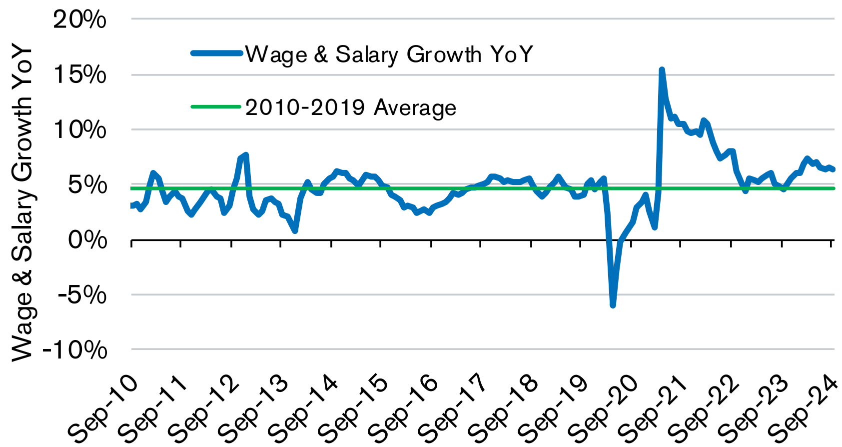
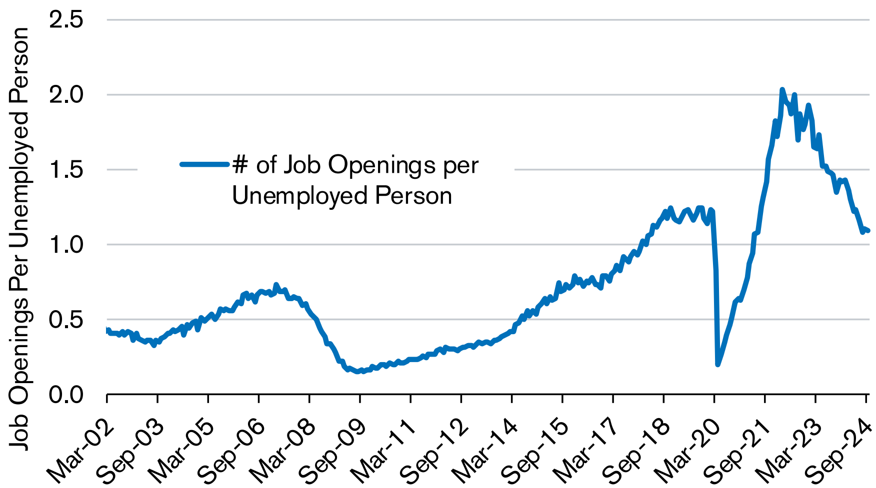
WAGE GROWTH ABOVE PREVIOUS CYCLE AVERAGE…



Source: WestEnd Advisors, BEA, Bloomberg

…BUT LABOR MARKET COOLING POSES RISK



Source: WestEnd Advisors, BEA, Bloomberg

Portfolio Impact: Key factors, such as **healthy household balance sheets and robust consumer spending, point to the prospect of continued economic growth**. Late-cycle conditions, however, present ongoing risks to the U.S. economy. Thus, we have exposure to a mix of both economically sensitive and late-phase, defensive sectors.

While many consumers have run down their savings in recent years given the sharp rise in interest rates and inflation, **consumer spending has proven to be resilient thanks in part to healthy wage growth (top chart) and low borrowing rates locked in during the pandemic**.

That being said, several different data series point to a cooling labor market. Job growth is slowing, the quits rate is falling, and the number of job openings per unemployed person is now below pre-pandemic levels (bottom chart). Looking ahead, **we expect a pace of job gains more consistent with late-cycle conditions and will be watching for signs of further softening in the labor market.**

Opportunities and Risks with Republican Sweep

SELECT SECTOR OPPORTUNITIES AND RISKS WITH REPUBLICAN SWEEP

	Opportunities	Risks
Financials	+ Potential easing of regulatory constraints + Lower corporate taxes could provide tailwind given largely domestic revenue base + Higher interest rates or steeper yield curve could boost net interest margins	– Higher rates/tighter financial conditions could weigh on capital markets activity
Health Care	+ Potential easing of pressure on Medicare Advantage payments to insurers	– Potential weakening of Affordable Care Act, including failure to extend enhanced ACA subsidies set to expire in 2025
Information Technology	+ Potential for policy and regulatory shifts to support continued economic growth and tech investment	– Tariffs may impact tech hardware margins/supply chains – Potential for further export controls on advanced chips that negatively impact semiconductor and semi equipment
Energy	+ Reduction of regulatory constraints on fossil fuel production	– Increased domestic production/supply could weigh on oil prices and earnings
Utilities	+ Lower corporate taxes could provide tailwind given largely domestic revenue base	– Higher interest rates could weigh on valuations – Potential roll back of IRA and clean energy initiatives passed under Biden administration
Real Estate	+ Less vulnerable to trade policy headwinds given largely domestic revenue base	– Higher interest rates could weigh on valuations

For illustrative purposes only. Source: WestEnd Advisors.

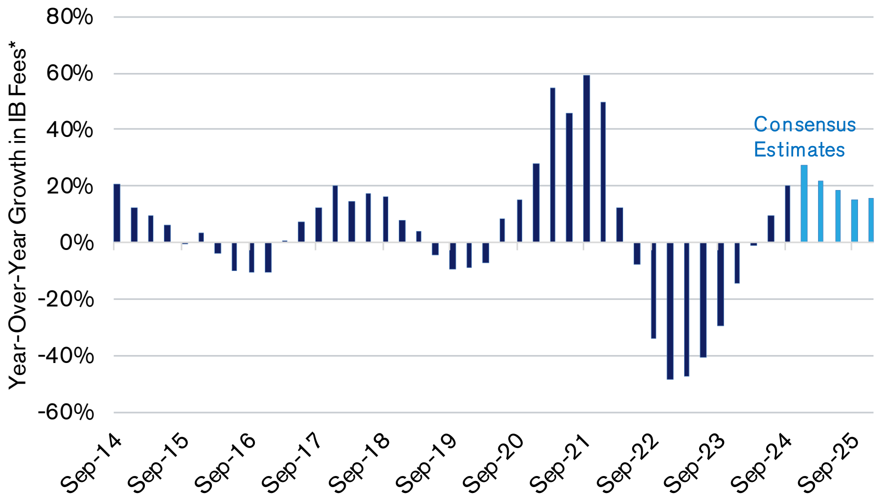
Portfolio Impact: Given the **shifts we are seeing play out in the macroeconomic backdrop** and the prospective impact of the Republican election sweep, **we have made targeted changes to allocations where we see the greatest potential for incremental outperformance or risk control** within our investment time horizon.

The Republican sweep of U.S. elections removed the prospect of extended post-election uncertainty. While some potential policies of the new administration, such as widespread imposition of tariffs and shifts in immigration policy, could present headwinds to growth, **we believe the balance of fundamental policy and sentiment impacts on the economy is likely to skew in favor of continued growth** within our typical 6-to-18-month investment horizon.

Given the evolving macroeconomic backdrop and election outcome, **we are targeting exposure to select sectors that should benefit from continued economic growth while being more insulated from potential trade policy headwinds** than other more economically sensitive parts of the U.S. equity market.

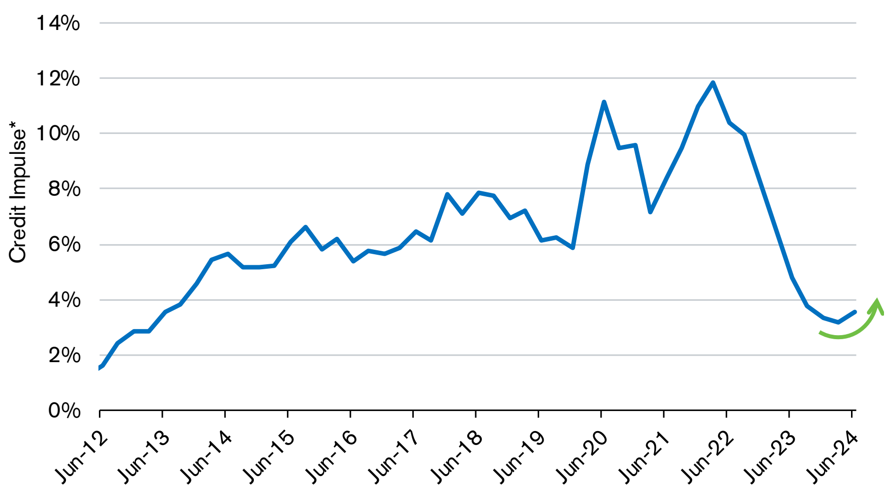
Financials Sector's Outlook Continues to Improve

INVESTMENT BANKING REBOUND OFFERS ATTRACTIVE OPPORTUNITY



** YoY change in GS and MS TTM investment banking fees.*
Source: Bloomberg, WestEnd Advisors

CREDIT IMPULSE LOOKS TO HAVE BOTTOMED



** Measures change in new credit secured as % of GDP.*
Source: Bloomberg, WestEnd Advisors

Portfolio Impact: We have increased exposure to the Financials sector in our U.S. large-cap allocations, as **ongoing monetary policy easing and a rebound in capital markets activity could provide earnings upside** for the sector, in our view.

Investment banking momentum continues to trend in a positive direction, benefitting Capital Markets firms and major money-center banks (top chart). Even though interest rates are high relative to recent history, so are corporate profit margins, and after a 2-year hiatus, we believe many **companies need to refinance and can withstand doing so.**

While credit growth has been very sluggish in recent years, **we are seeing incrementally positive signals in the credit backdrop,** including healthy issuance trends, a lesser degree of tightening in lending standards, and stabilization in the pace of loan growth. **Should we see the credit impulse inflect higher**, given economic stabilization and continued easing of monetary policy, **that would likely be an additional tailwind for the broader Financials sector.**

Hottest Parts of the Tech Sector May Cool Off

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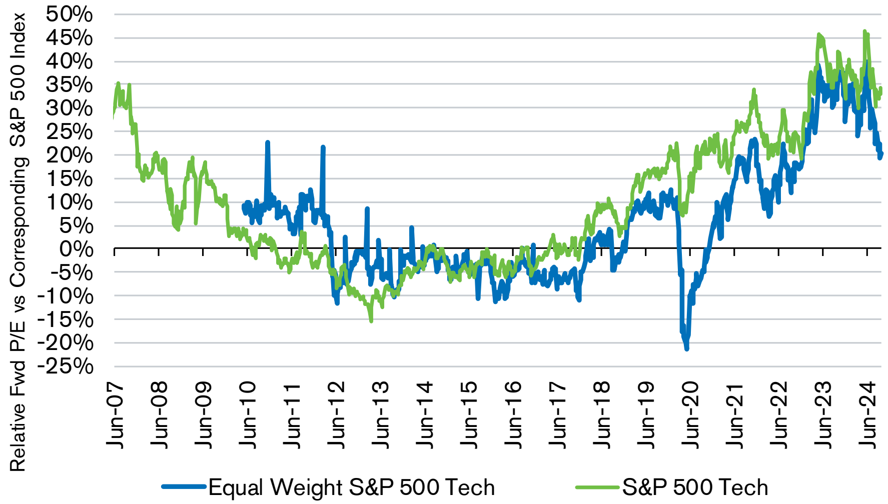
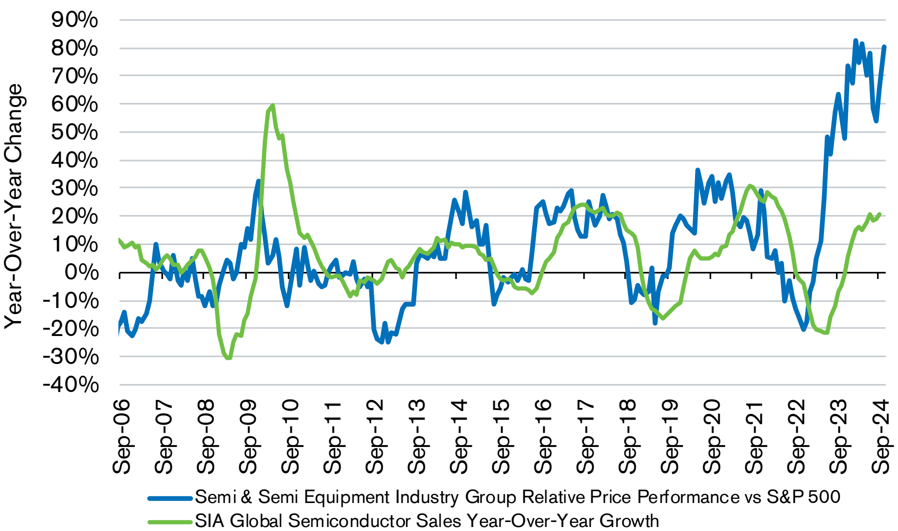
NOT JUST TECH MEGA CAPS THAT ARE EXPENSIVE



Source: Bloomberg, WestEnd Advisors

SEMICONDUCTOR RETURNS HAVE 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**.

Growth expectations for the Information Technology sector have risen sharply thanks to a profit turnaround and an A.I.-driven investment cycle, which **has pushed relative valuations for Technology companies to some of the highest levels in two decades** (top chart).

Our work has shown that technology investment cycles, typically last between 12 to 24 months, on average. With the current cycle now past the year mark, **we see potential for a "growth digestion" phase.**

We still believe an underweight to the broader sector is warranted, but we have added **targeted exposure to the Software industry,** which we believe **exhibits more durable earnings growth and is likely less vulnerable to potential trade policy headwinds** than other parts of the Information Technology sector.

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International Economic & Market Backdrop

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Global Growth Challenged While U.S. and Japan Are Bright Spots

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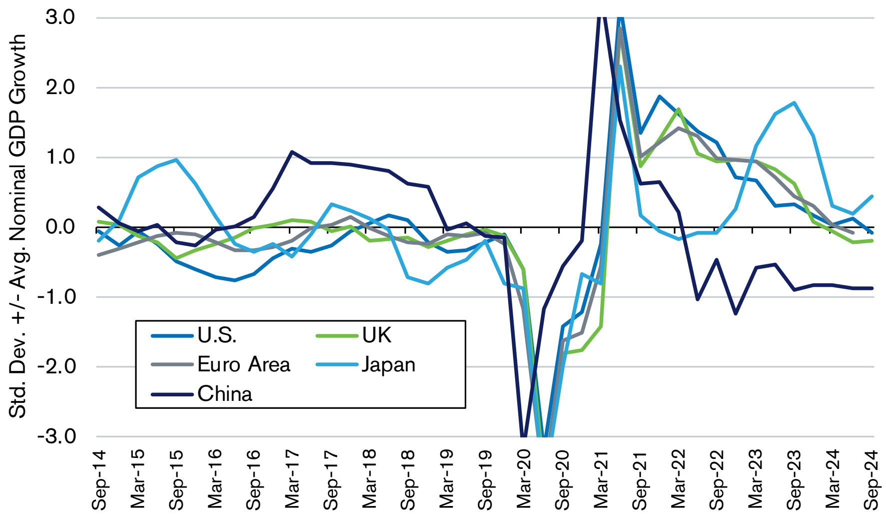
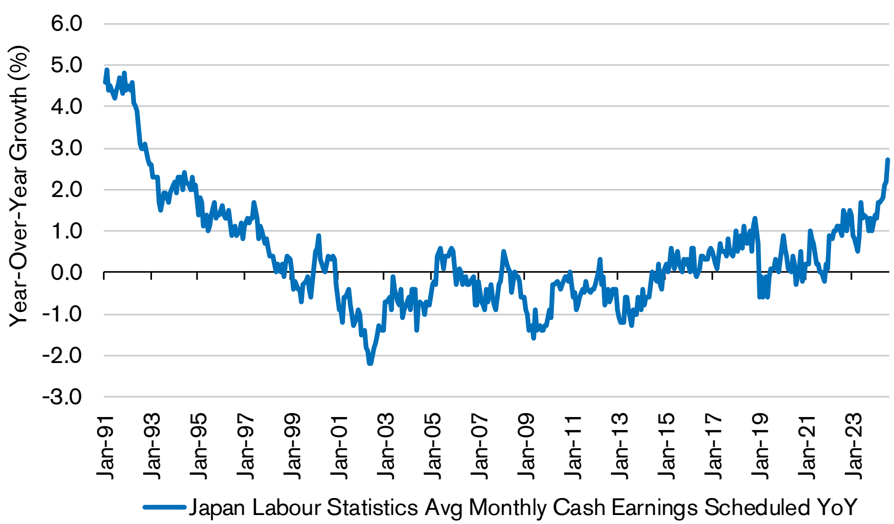
GLOBAL NOMINAL GROWTH CONTINUES TO SLOW



Source: Bloomberg, WestEnd Advisors

WAGE GROWTH IN JAPAN HIGHEST IN OVER 30 YEARS



Source: Japan Ministry of Health, Labour and Welfare; WestEnd Advisors

Portfolio Impact: Most major economies are slowing and face late-cycle challenges. We do not expect rate cuts to provide an immediate lift to growth, and we believe an **overweight to Japan is warranted given its defensive characteristics. We have also increased our exposure to the U.S.,** where we see the election outcome potentially providing further support for growth going forward.

We believe both the U.S. and Japanese economies remain outliers with relatively strong growth potential. In most *other* major economies, nominal GDP growth is below average (top chart) driven by restrictive monetary policy and slowing employment growth.

Households in Japan are benefitting from the strongest nominal wage growth in over three decades (bottom chart), driven by healthy nominal GDP growth, stimulative monetary policy, a healthy labor market, and supportive government and corporate policies. We see potential for stronger wage growth to lead to an improvement in the household sector's propensity-to-consume ratio, which had been a headwind for Japan's economy over the past decade.

Fixed Income / Rates

Outlook for Interest Rates More Balanced

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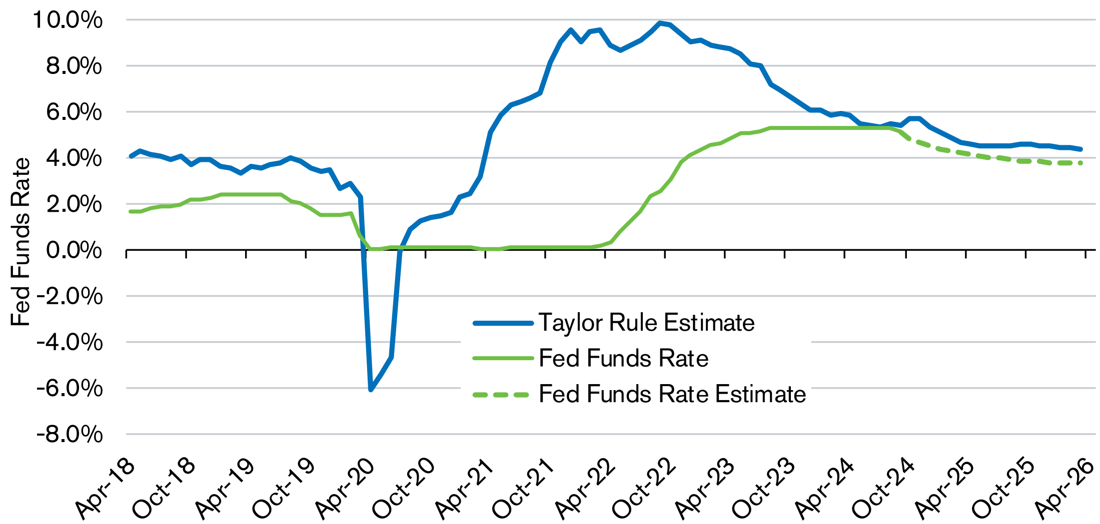
TAYLOR RULE HIGHLIGHTS POTENTIAL FOR LESS MONETARY EASING



Source: Bloomberg, WestEnd Advisors

Portfolio Impact: Inflation risks have become more balanced following a multi-year period of normalization, and given the potential for an extension of economic growth in the U.S. **We have modestly reduced fixed income exposure and duration risk in traditional balanced portfolios.**

The outlook for longer-term interest rates has become more balanced, in our view. While there is still a path to lower long-term rates, we believe the combination of more normalized disinflationary tailwinds and the prospect of incremental support from certain growth-oriented policies under a Trump administration **has increased the likelihood that there is less potential downside pressure on interest rates in the quarters ahead.**

Based on current economic consensus, both the forward yield curve (investors' expectations) as well as the Taylor Rule (which uses GDP growth, inflation, and other factors to estimate an appropriate Fed Funds rate target) suggest that **the gap between the current and projected terminal Fed Funds rate has narrowed**, which may mean less downside opportunity for long-term interest rates within our typical investment horizon.

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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