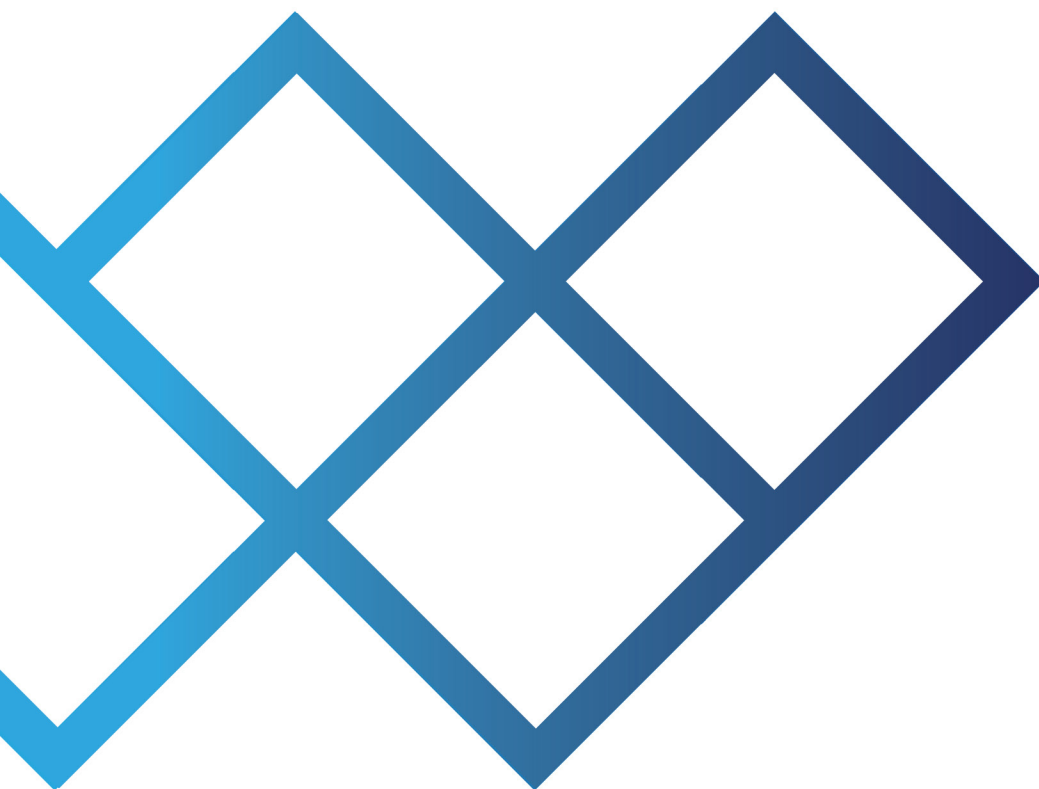




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# Macroeconomic Highlights

**Q2 2026**

*Macro Drives Markets. WestEnd Knows Macro.*



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# WestEnd Outlook Highlights

- While macroeconomic fundamentals suggest late-cycle economic growth can continue this year, the conflict in Iran has introduced market volatility and uncertainty. The degree to which economic fundamentals are impacted by the conflict over our investment horizon is, in our view, largely a function of duration. We believe the U.S. is better positioned, both compared to prior energy shocks and relative to other regions, to weather near-term supply disruptions of commodity supplies from the Gulf region, though a prolonged conflict could significantly increase recession risk.
  - The U.S. consumer remains on solid footing, and while softer labor demand and low consumer expectations could hinder spending growth, we believe stimulus (particularly tax cuts) from the “One Big Beautiful Bill Act” can help offset near-term headwinds from higher gas prices.
  - Private fixed investment tied to AI infrastructure has supported tech-focused areas of the economy, and while tech infrastructure spending growth could slow, we see potential for a broader range of business investment to help sustain slowing growth.
  - Inflationary pressures and risks to growth from the Iran conflict have complicated the Fed’s rate-setting calculations, and expectations for rate cuts this year diminished sharply over Q1, but prior cuts have brought monetary policy to a relatively neutral stance, in our view.
- Internationally, most major economies still face late-cycle challenges, which may be exacerbated by dependence on energy imports. However, we see relatively attractive valuations in Europe amid increased fiscal stimulus and areas of increasing fixed investment. While Asia is particularly vulnerable to disruption of Gulf area energy supply, we still see tailwinds from tech and AI related investment.
- We believe current portfolio positioning should help weather volatility while capturing opportunities we see in a maturing economic cycle:
  - In U.S. large-cap equity allocations:
    - We maintain an overweight of late-phase, defensive sector exposure that we believe offers a defensive counterbalance to economic exposure in the portfolio and can outperform if growth slows or investor sentiment weakens more than expected.
    - We are avoiding several of the most cyclical early-phase sectors, but we maintain a significant mid-phase allocation, including Information Technology exposure and an overweight of Communication Services, which provides a mix of economic sensitivity and exposure to positive secular trends.
  - In global portfolios, we retain an underweight of international equities, in aggregate, but have shifted to an overweight of Europe, where we believe valuations underestimate earnings growth potential, in contrast to Asia, where we believe markets have more fully recognized economic opportunities. We are also underweight emerging markets, which tend to be highly economically sensitive and thus are likely to underperform amid late-cycle economic conditions.
  - In balanced portfolios:
    - We have a neutral allocation to fixed income in traditional balanced portfolios, as the risk/return profile we see for bonds is relatively balanced given the potential for continued late-cycle economic growth amid a higher interest rate backdrop.
    - Within fixed income allocations, we expect returns to come primarily from yield and are emphasizing Treasury securities at the long end of the yield curve, while we are focusing corporate exposure in shorter durations, as widening credit spreads could put longer-term corporate bonds at greater risk.

# 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
- Communication Services
- Consumer Discretionary
- Information Technology
- Financials

### Sector Avoidance

- Energy
- Industrials
- Materials
- Real Estate

\* For illustrative purposes only. Allocation information as of March 31, 2026. 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.
- Western Europe

### Regional Equity Underweights

- Developed Asia
- Emerging Markets

## 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 March 31, 2026. Source: WestEnd Advisors.



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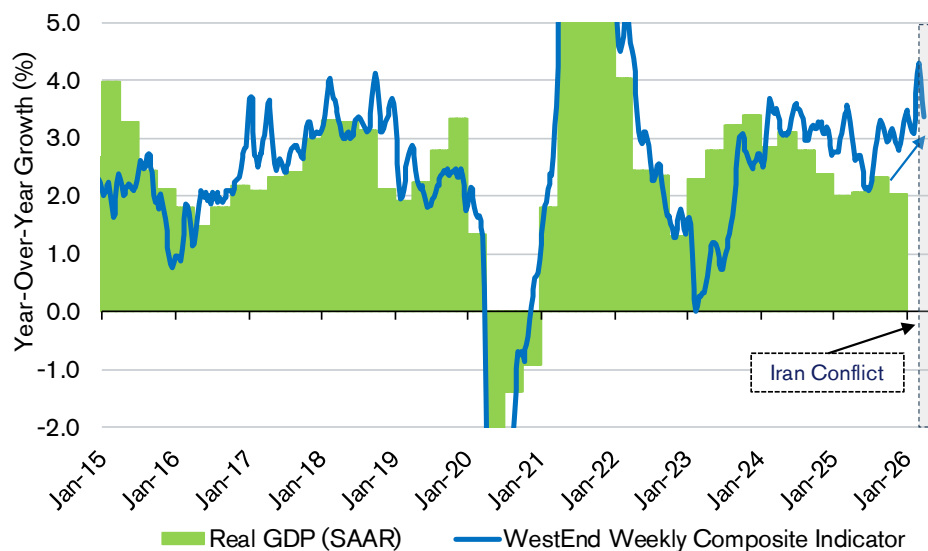
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# U.S. Economic & Market Backdrop

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# Economy Steady to End Q1 Amid Geopolitical Crosswinds and Market Volatility

## HIGH FREQUENCY DATA IMPLIES RESILIENT GROWTH SO FAR



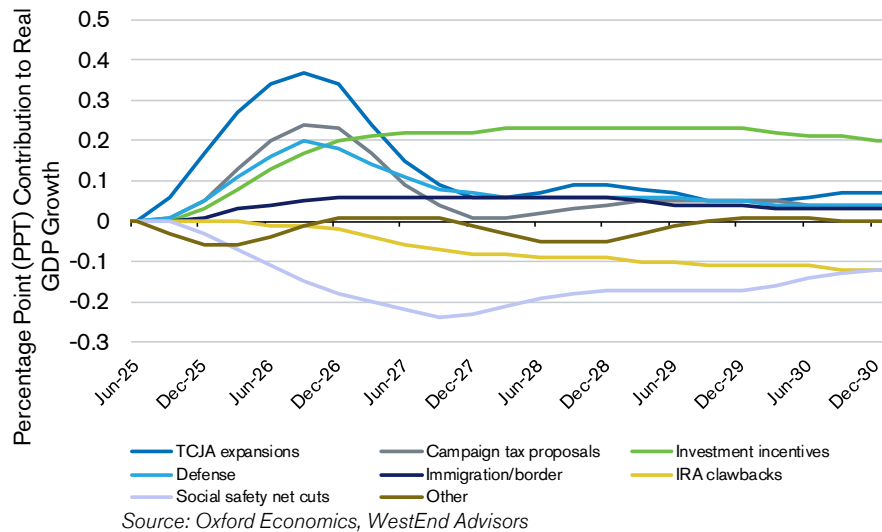
Source: BEA, WestEnd Advisors

**Portfolio Impact:** The latest high-frequency data suggests economic growth was steady at the end of Q1 in the face of oil supply disruptions. In our view, the advanced stage of the U.S. economic cycle warrants a balance of exposures between defensive sectors that can provide portfolio insulation, like Utilities and Health Care, and sectors that can benefit from an eventual deescalation to the Iran conflict and continuation of the cycle, like Communication Services and Financials.

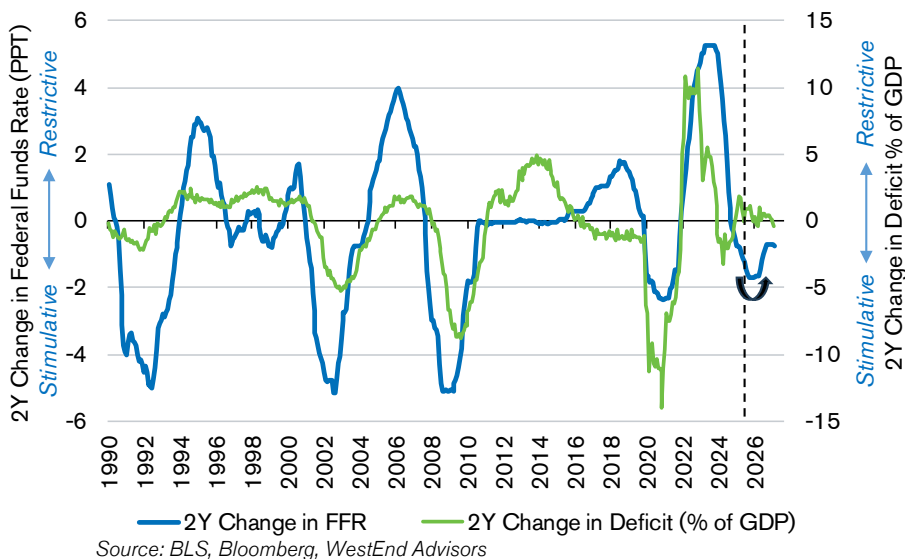
- ❖ **Fixed Investment Drives 2H 2025 Stabilization:** Real GDP growth stabilized in the second half of 2025, despite a slowdown in household and government consumption growth, due to healthy trends in fixed investment and an improvement in net exports. Year-over-year real GDP growth was +2.0% in Q4 '25, in-line with the 2-year average.
- ❖ **High-Frequency Data:** Measures of high-frequency data, such as WestEnd's in-house composite indicator (see chart), can provide timely intra-quarter information on the evolution of economic trends. This real-time supplemental indicator, which includes data such as weekly mortgage applications and chain-store retail sales, suggests that the U.S. economic growth was resilient in March during the early stages of the oil supply shock and outbreak of conflict in the Middle East.
- ❖ **2026 Tailwinds Partially Offset by Higher Energy Costs:** We believe the impact to consumer spending and business investment growth from higher oil and gas costs will ultimately depend on the duration of the energy shock. The lagged impact of rate cuts and the fiscal stimulus from the OBBBA could help offset the growth challenges associated with the conflict, in our view, as long as the supply disruptions prove temporary.

# Policy Balance to Remain Supportive, But Set to Moderate in Second Half

## GROWTH CONTRIBUTIONS FROM OBBBA



## POLICY IMPULSES STILL STIMULATIVE, BUT PEAKING



**Portfolio Impact:** Changes to tax policy are set to support income growth in early 2026, while the interest rate cutting cycle can drive a broadening of fixed investment trends, in our view. We have increased exposure to the U.S. Financials sector and, in global and balanced strategies, added an allocation to Small-Cap companies, both of which we believe are set to benefit from favorable policy dynamics.

❖ **Impact of Fiscal Policy:** Tax provisions from the OBBBA should support household income by partially offsetting higher energy prices and slower growth in transfer receipts. The impulse to growth is likely to peak in the first half of the year as tax refunds are distributed.

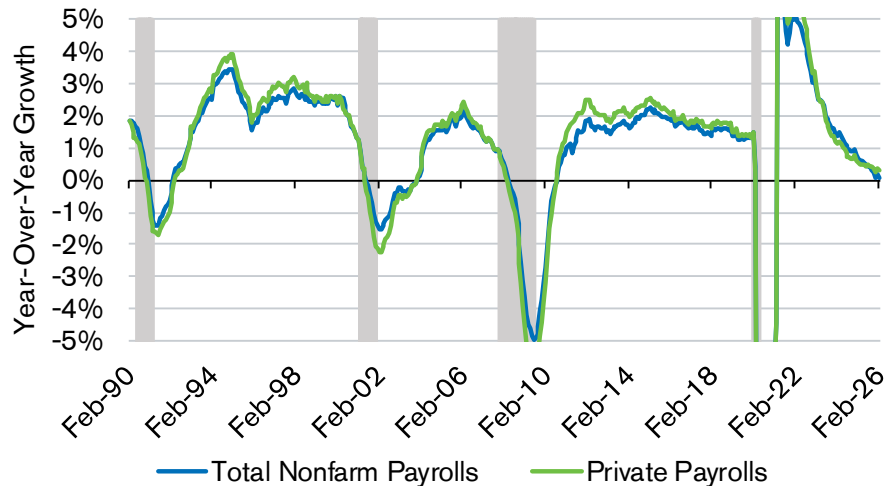
❖ Transfer receipts added +1.6 ppt to real personal income growth in 2025, one of its largest contributions of any non-recessionary period on record.

❖ **Policy Rates Near Neutral:** The Fed has lowered short-term interest rates 6 times (-175 bps) over the past 18 months, reaching a neutral stance. We believe the cutting cycle can provide incremental support to rate-sensitive areas like housing and non-tech investment. That said, with inflation still above target, expectations for future rate cuts have started to moderate.



# Labor Market Unlikely to Materially Improve

## PAYROLL GROWTH PRECARIOUSLY SOFT



Source: BLS, Bloomberg, WestEnd Advisors

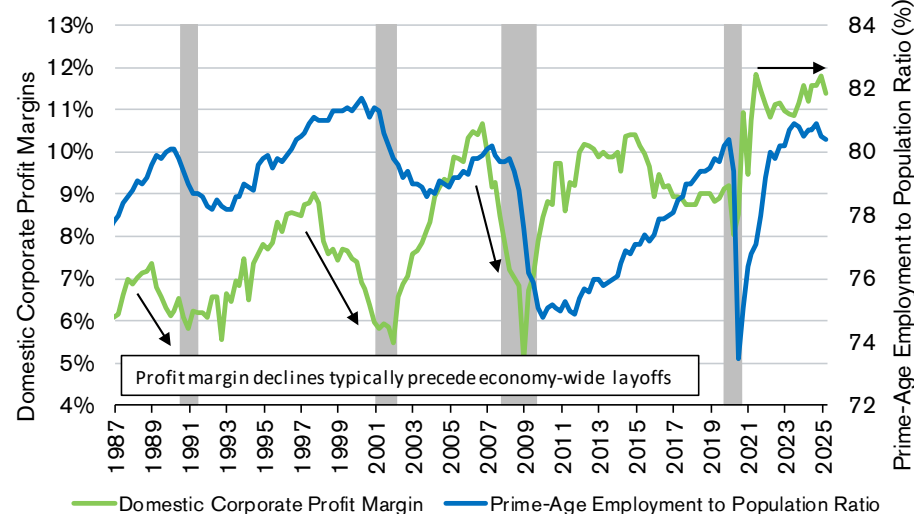
**Portfolio Impact:** Our outlook for slowing payrolls continued to play out in 2025 and the start of 2026. We view the directionality and momentum in the labor market to be one of the most important factors with respect to the path of monetary policy and equity markets.

❖ **Mixed Labor Market Signals:** The two payroll releases to start the year were nearly mirror images of each other, with January suggesting outsized strength and February pointing toward softness. Our holistic view of the labor market suggests that while there are signs of stabilization – the unemployment rate has largely been stable since September 2025 – there are still reasons for caution.

❖ **Sentiment Shifts:** Aggregate measures of consumer sentiment have been poor indicators post-Covid, but details in the reports have been useful. Consumers remain concerned about losing their jobs and feel pressures from lower incomes which, to us, suggests the risk of a slower spending environment going forward.

❖ **Profit Margin Cushion:** Historically, declines in corporate profit margins have preceded economy-wide layoffs by several quarters or even years. With margins high and stable, the likelihood of widespread layoffs is limited for now, in our view.

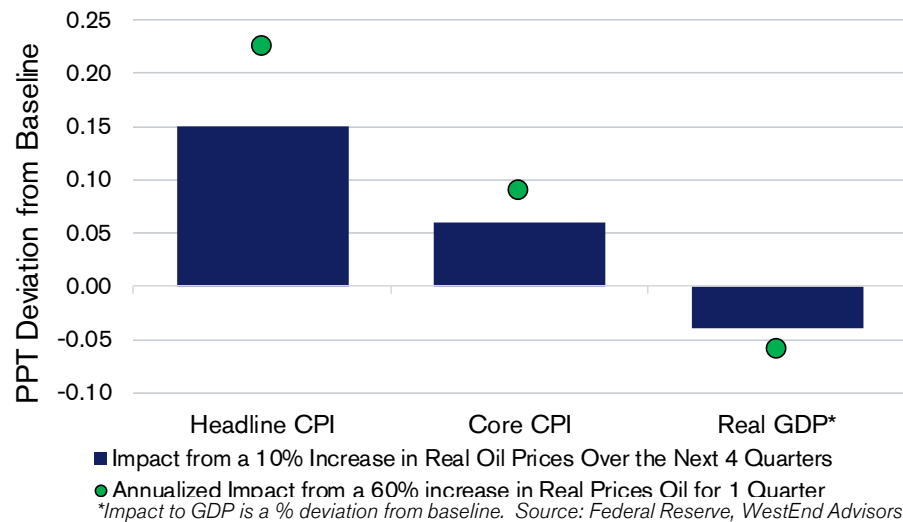
## MASS LAYOFFS UNLIKELY WHILE MARGINS ELEVATED



Source: BLS, Bloomberg, WestEnd Advisors

# Gauging the Impact from Middle East Conflict

## FED ESTIMATES OF IMPACTS FROM OIL SHOCKS

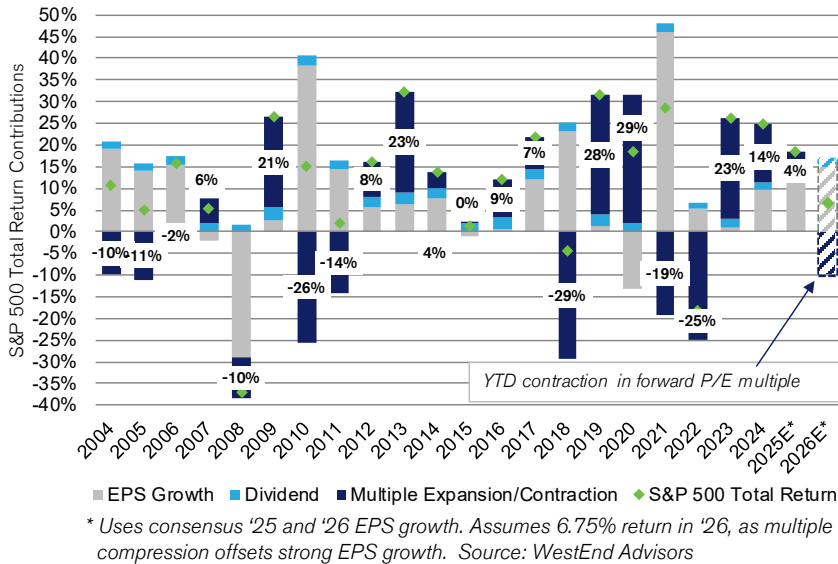


**Portfolio Impact:** We anticipate the net impact of the war will be higher inflation and lower growth. Our portfolios could benefit on a relative basis through both our allocations to defensive sectors – such as Consumer Staples, Health Care, and Utilities – and our overweight to the U.S., which is more insulated from the negative growth impacts compared to other global regions.

- ❖ **Middle East Conflict to Drive Headline Inflation Higher:** Energy Commodities, including fuel oil and other fuels, have a roughly 3% weight in the CPI basket and Energy Services, such as utility gas services, accounts for another 3%. The surge in energy prices year-to-date could lift headline inflation, though the impact to core inflation may be more modest. Certain categories like Airfare will feel a direct impact, while passthrough to other components is more indirect.
- ❖ **Impact to Aggregate GDP is More Muted:** The U.S. is now one of the most insulated economies from energy price shocks, given it is a net exporter of crude oil. Real activity in the U.S. can benefit from an increase in fixed investment from oil & gas producers, which could help offset other, negative growth impacts from higher energy prices.
- ❖ **Consumers Are Exposed to Inflation Shock, But OBBA Cushions the Blow:** Consumers are arguably the most exposed to the first-order impact of the price shocks. Higher inflation will mechanically reduce real disposable personal income, and the increase in energy prices can crowd out non-energy spending. However, consumers have a buffer from the tax refunds associated with the "One Big Beautiful Bill Act." Estimates suggest that the price shock from crude rising to \$85/barrel would be largely offset by the lagged impact from this stimulus.

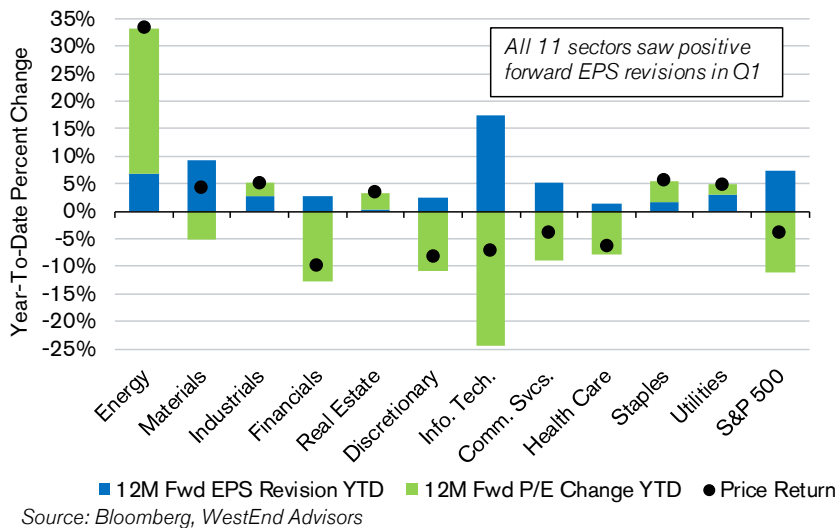
# EPS Growth to Support Market, But Volatility Risk Elevated

## CONTRIBUTORS TO S&P 500 TOTAL RETURN



**Portfolio Impact:** Earnings growth is still expected to be strong in 2026, driven by continued leadership from Information Technology companies. We see potential for other sectors, such as Communication Services and Financials, to generate double-digit EPS growth, but late-phase sector exposures remain warranted, in our view, amid heightened macro and geopolitical risk. We believe our portfolios are poised to benefit from a backdrop of broader sector leadership.

## FUNDAMENTALS REMAIN INTACT DESPITE VALUATION SWINGS



- ❖ **Earnings Growth is Key:** Equity returns are on pace to be negative in Q1 2026, driven by a -10% compression in valuation multiples (consistent with the median 1-year forward P/E change when TTM P/Es are >25, as they were at the end of 2025). We expect EPS growth to be the primary driver of equity returns for the remainder of the year.
- ❖ **Consensus EPS Expectations:** Consensus growth estimates imply ~15% EPS growth for the S&P 500 in 2026, with over half of that growth contribution coming from the Information Technology sector. That said, all 11 sectors saw positive blended forward EPS revisions in Q1, despite the rise in volatility.



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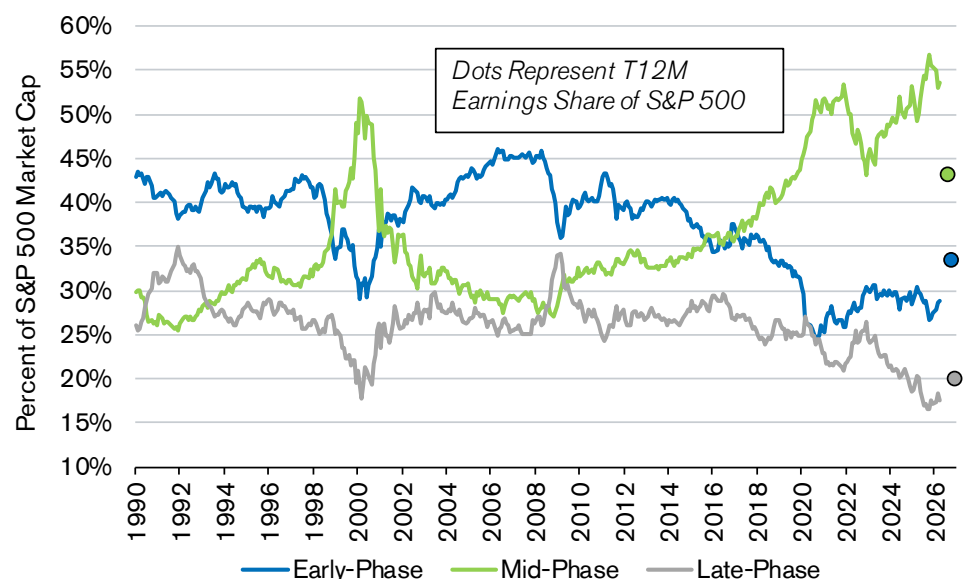
# U.S. Sector Outlook

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# Positioning for Broader Market Leadership

## MID-PHASE SECTORS MAKE UP RECORD WEIGHT IN S&P 500



Source: Bloomberg, WestEnd Advisors

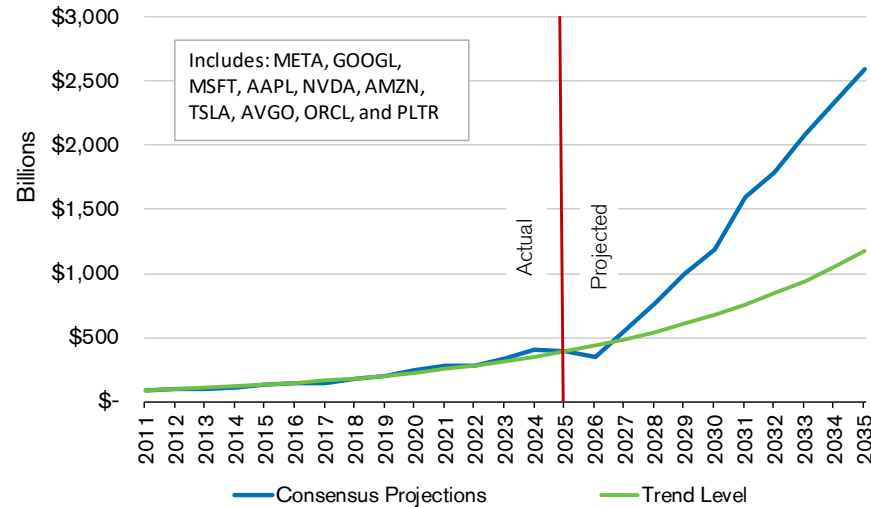
**Portfolio Impact:** Market composition has changed significantly over the last 10+ years, with the Information Technology and Communication Services sectors rising as a proportion of the market at the expense of all other sectors. We believe investors should consider the drivers behind composition shifts (earnings, valuations, IPOs, etc.) when shaping investment outlooks, and we have oriented our equity portfolios to participate in a wider range of potential market leadership outcomes.

- ❖ **Mid-Phase Dominance:** Mid-phase sectors in aggregate represent ~44% of S&P 500 earnings, nearly ~10ppt below their market cap representation of ~54% (see chart).
- ❖ **Info Tech Earnings Power:** Over the past 10 years, earnings for the Information Technology sector have risen at a  $\approx 14.5\%$  CAGR vs.  $\approx 8.0\%$  for the broad market. Tech's forward P/E ratio has expanded  $\sim 25\%$  during that time, reflecting optimism about future growth prospects.
- ❖ **Outlook Should Consider Risks:** Prior periods of sector dominance eventually ended, often tied to valuation multiple contraction and an unwind of earnings momentum.
- ❖ **Market Influence:** Beating the market requires looking different than the market, yet overweighting mid-phase sectors ( $\sim 55\%$  of the market) requires high conviction. In contrast, defensive sectors now make up  $< 20\%$  of the market.



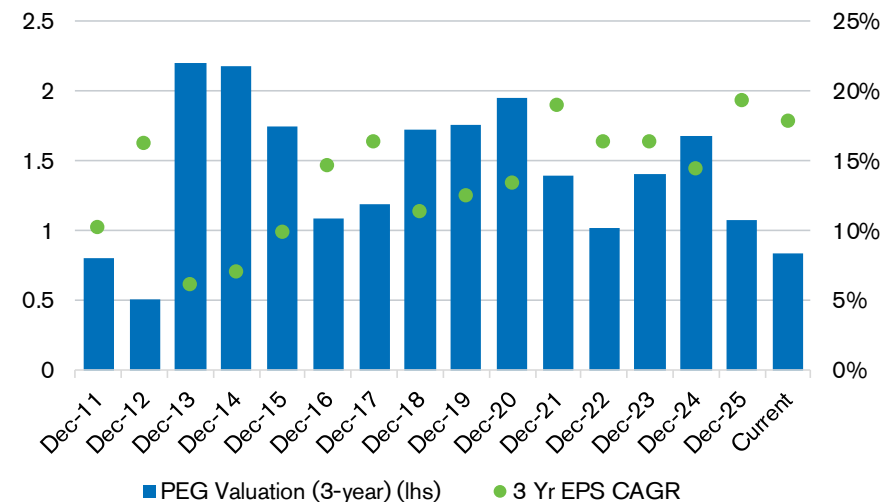
# Information Technology: Opportunity & Uncertainty

## PROJECTED AI/TECH-RELATED MEGA-CAP FREE CASH FLOW



Source: WestEnd Advisors, Bloomberg

## SOFTWARE EPS GROWTH AND VALUATION



Source: WestEnd Advisors, Bloomberg

**Portfolio Impact:** Sectors like Information Technology and Communication Services appear poised to generate durable earnings growth, with AI exerting a growing influence on sector-level fundamentals. As AI evolves, the market is better understanding the economics and adoption curve of AI as well as the potential impact to existing businesses. Investors need to remain vigilant in understanding what opportunities and risks are incorporated into prices for leading AI firms.

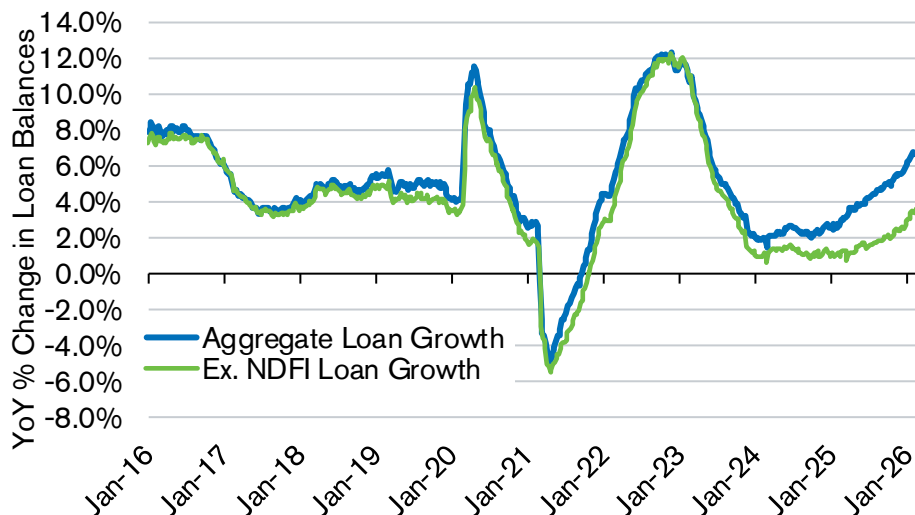
### AI Hype vs. Reality:

- While we believe growth for the Information Technology sector is durable, we see reasons to remain prudent with allocations given uncertainty around AI.
- For example, accelerating free cash flow assumptions (top chart) seem out of step with the faster ramp of capex.
- Also, concerns of AI disruption to Software have drastically impacted valuations. Intermediate-term earnings growth remains very healthy yet P/E valuations, after adjusting for growth (PEG ratio), have reset to the lowest levels since 2012. Lower valuations reflect long-term concerns (beyond 3 years) more than near-term headwinds, in our view, and some of those concerns may be overblown.



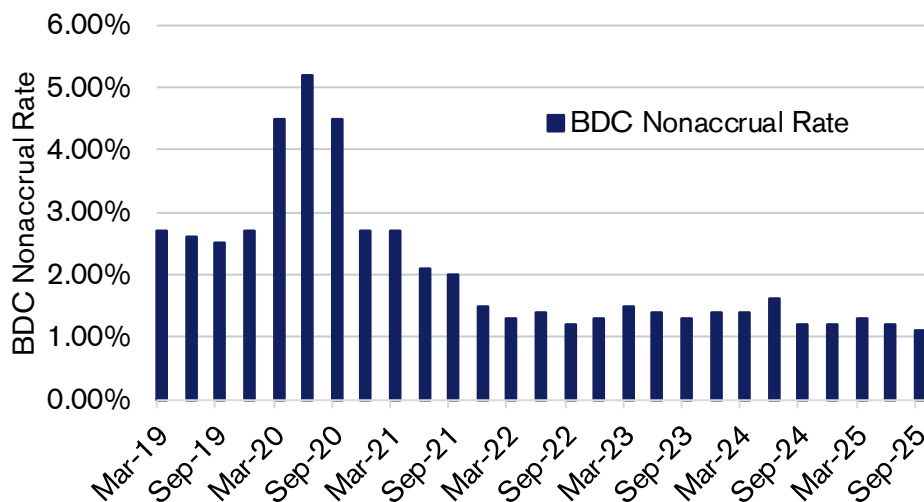
# Credit Trends Support Financials Outlook

## LOAN GROWTH NO LONGER JUST AN NDFI STORY



Source: Federal Reserve, Bloomberg, WestEnd Advisors

## PRIVATE CREDIT ASSET QUALITY BETTER THAN FEARED



Source: Houlihan Lokey, Advantage Data, WestEnd Advisors

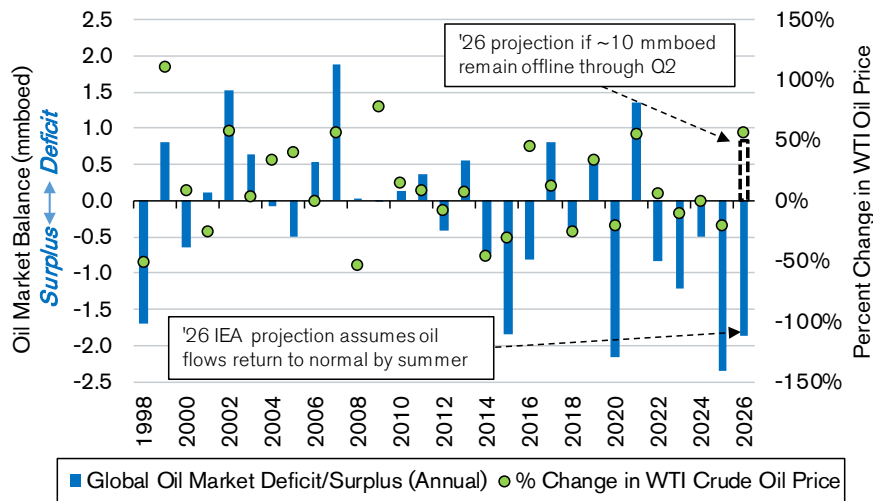
**Portfolio Impact:** The Financials sector continues to deliver steady earnings growth, supported by ongoing capital markets momentum, benign credit conditions, and improving loan growth, while potential deregulation in 2026 provides an incremental tailwind. While 2026 earnings growth is expected to trail the broader market, this sets a lower bar for upside relative to sectors with more elevated expectations. We therefore maintain an overweight position in U.S. Financials.

- ❖ **Drivers of Loan Growth Broadening:** Loan growth has accelerated meaningfully since early 2025, though much of the initial increase was driven by lending to non-depository financial institutions (NDFIs), particularly within private credit. More recently, loan growth outside of NDFIs has shown clear signs of acceleration, which we see as a positive for Financials sector fundamentals.
- ❖ **Credit Trends Remain Healthy:** NDFIs—and private credit in particular—continue to draw heightened attention, driven by elevated redemption activity and concentrated Software exposure. That said, loans to NDFIs represent only ~14% of aggregate commercial bank loan balances, and private credit asset quality remains healthy overall for now.



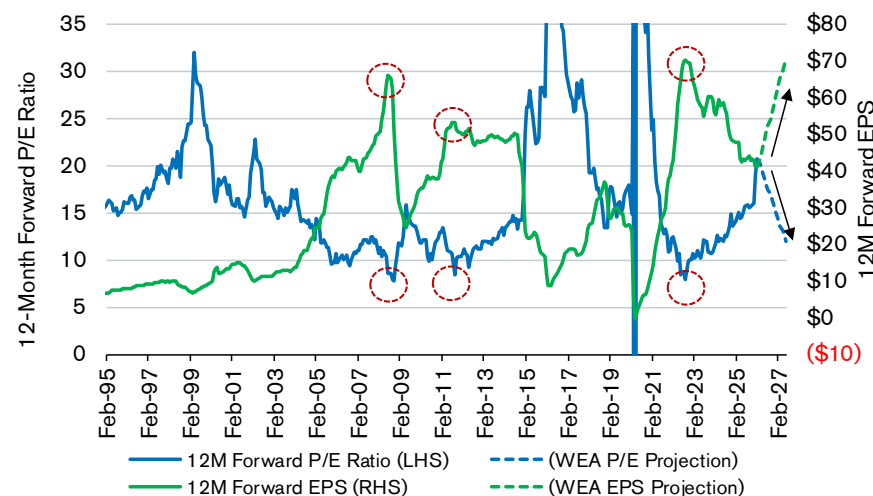
# Energy Sector Gains Likely Limited From Here

## OIL & LIQUIDS MARKET DEMAND/SUPPLY BALANCE



Source: Bloomberg, WestEnd Advisors

## ENERGY VALUATION COMPRESSION TO OFFSET EPS UPSIDE



Source: Bloomberg, WestEnd Advisors

**Portfolio Impact:** We continue to avoid U.S. Energy sector exposure in U.S. large cap allocations, as we believe valuation compression is likely to offset the upside in earnings stemming from the rise in commodity prices, especially if conflict in the Middle East is resolved quickly. We believe our overweight positioning in late-phase sectors, such as Health Care, should insulate the portfolios if the geopolitical backdrop worsens.

- ❖ **Strait of Hormuz Closure:** The closure of the Strait of Hormuz has the potential to cause a historic supply dislocation in oil markets. Given that the bulk of the disruption is logistical in nature, rather than a permanent loss of capacity, we believe energy markets can avoid a worst-case scenario as long as supply is only handicapped for 1-2 quarters (top chart).
- ❖ **Energy Multiples To Fall as Earnings Rise:** Valuation multiples for Energy companies typically drop sharply during periods when earnings estimates climb alongside commodity prices. We project Energy sector earnings to rebound sharply over the next year (and potentially surpass the 2022 high), but we believe multiple compression from elevated levels will largely offset the upside in earnings.



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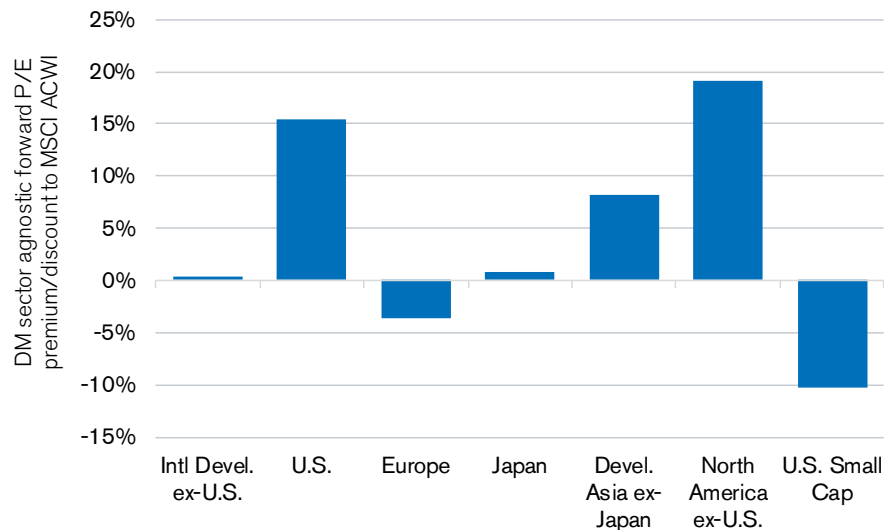
# International Economic & Market Backdrop

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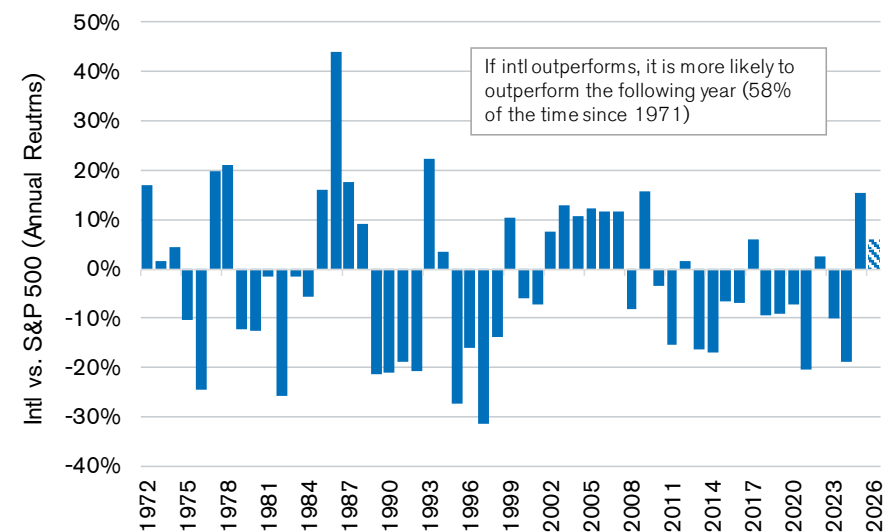
# International Offers Range of Opportunities

## OPPORTUNITY IN EUROPE AND U.S. SMALL CAP



Source: Bloomberg, WestEnd Advisors

## INTL OUTPERFORMANCE TENDS TO COME IN WAVES



Note: MSCI World ex-U.S. from 1970-1987, MSCI ACWI ex-U.S. from 1988-Present  
Source: Bloomberg, WestEnd Advisors

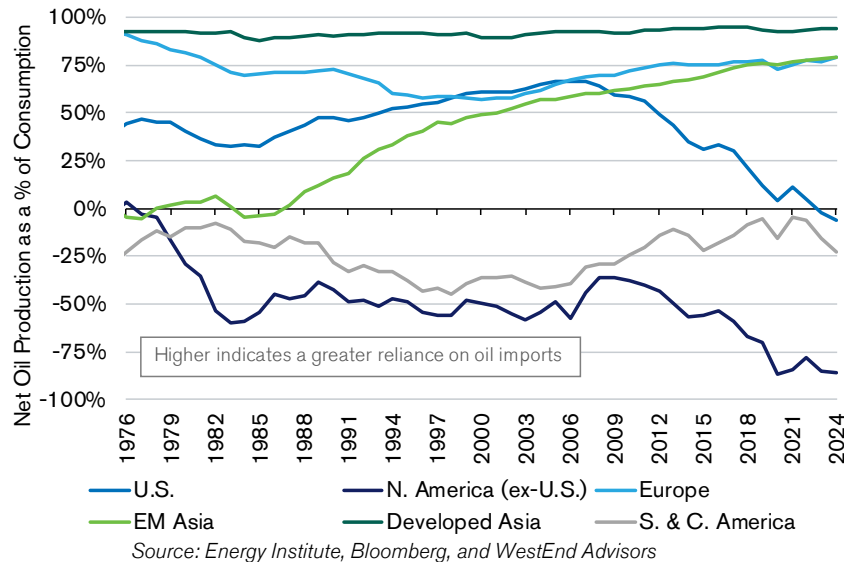
**Portfolio Impact:** U.S. small caps and Europe offer sector-neutral relative valuation discounts to the broad market, in stark contrast to other developed market regions. In addition to our overweight position in U.S. small caps and Europe, we continue to evaluate global opportunities given that international outperformance tends to play out in cycles.

- ❖ **Current Positioning:** U.S. small caps and Europe offer attractive sector-agnostic relative valuations versus the broad market. Stripping out sector composition, both markets trade for a discount, suggesting the opportunity is not just a byproduct of index composition. The combination of relatively low starting valuations and potential for improving cyclical activity supports our overweight.
- ❖ **International Allocation:** When international equities begin to outperform, that leadership has tended to show persistence into the following year, which is why we are paying attention to the recent relative returns. Ingredients for sustainable outperformance cycles have been large valuation discounts, dollar weakness, and converging or stronger earnings growth.



# Navigating Near-Term Uncertainties

## OIL IMPORT DEPENDENCE GREATER IN ASIA AND EUROPE...

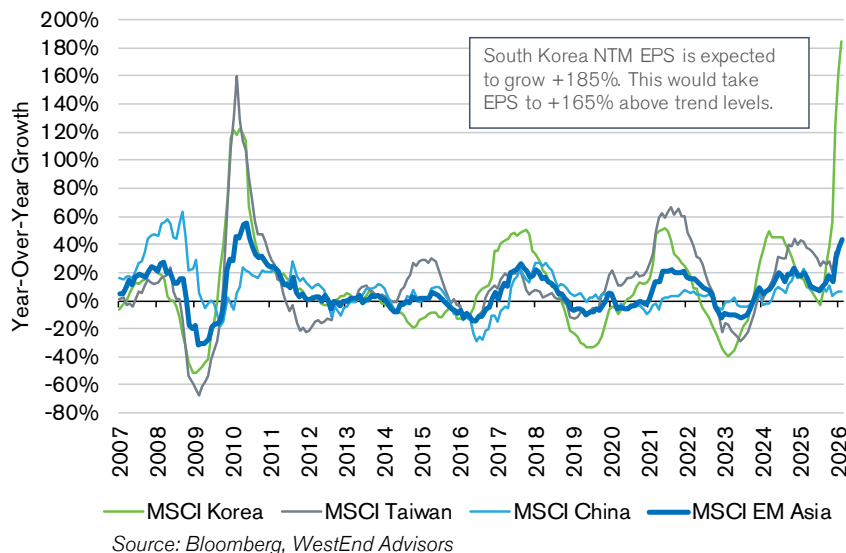


**Portfolio Impact:** Europe and Asia both depend on imported oil, but Asia's heavier reliance on Gulf supply creates greater regional vulnerability, in our view. We reduced EM Asia exposure amid exceptionally strong earnings momentum that, in our view, raises questions about the durability of growth within our investment horizon.

❖ **Middle East Conflict:** Europe and Asia both have high oil import dependence. The EIA estimates 89% of crude and condensate flowing through the Strait of Hormuz went to Asia in 1H25 (vs. 84% in 2024), with Asia's largest economies and equity markets accounting for 74% of Strait traffic. Given Asia's over-dependence on the Gulf region, our underweight Asia positioning should benefit if the conflict persists.

❖ **EM Asia:** Earnings for MSCI EM Asia are expected to grow +40% over the next 12 months, driven by near-term momentum in memory pricing. This has pushed South Korea EPS estimates to +165% above trend, versus just +30% in the next closest historical earnings upcycle. While near-term strength appears feasible, we question the sustainability of recent earnings trends given the region's cyclical exposure.

## EM ASIA EARNINGS WELL APPRECIATED





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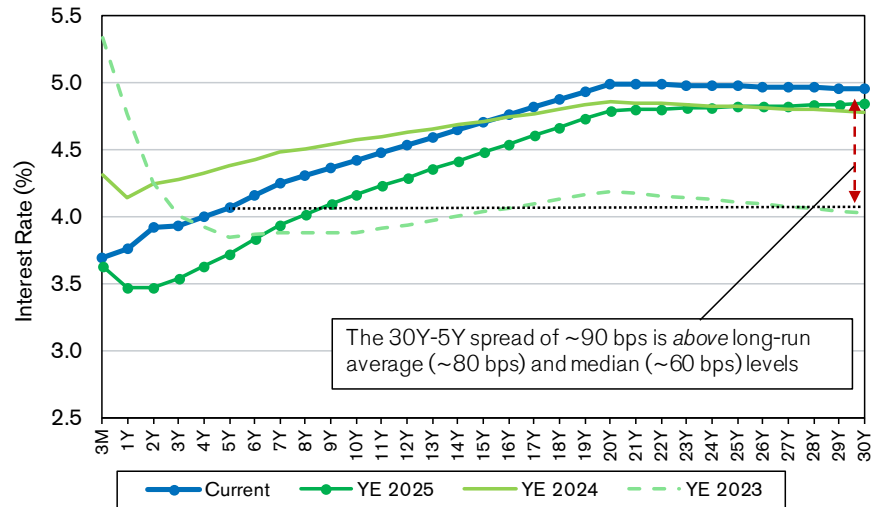
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# Interest Rates & Real Assets

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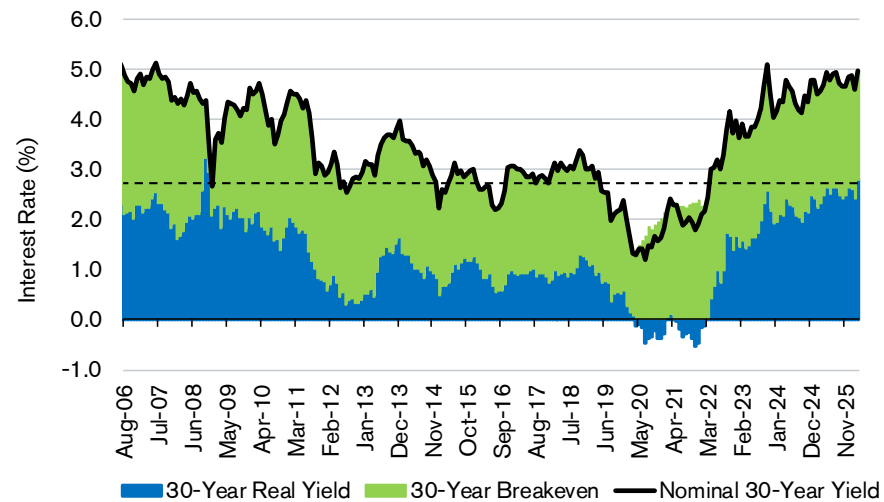
# Normalized Curve and High Real Yields Make Treasury Duration Appealing

## CURVE SHAPE HAS FULLY NORMALIZED



Source: Bloomberg, WestEnd Advisors

## 30-YEAR REAL YIELD AT 20-YEAR HIGHS



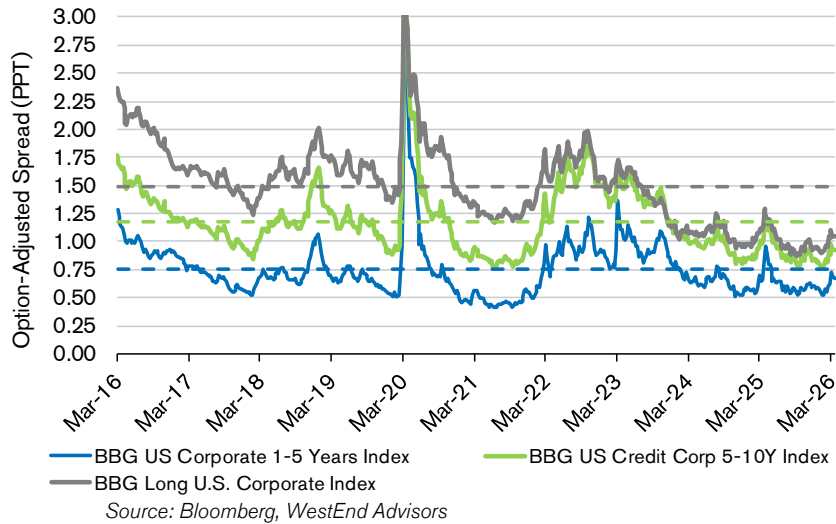
Source: Bloomberg, WestEnd Advisors

**Portfolio Impact:** The combination of a normalized interest rate curve, in which longer maturities provide a yield advantage relative to shorter duration bonds, and high absolute real yields make longer-maturity Treasury bonds attractive, in our view. Still, growing inflation risks could limit downside to longer-term rates. We expect fixed income returns to be driven primarily by healthy coupon yields, with modest price gains. In traditional balanced portfolios, we have maintained a neutral allocation to bonds.

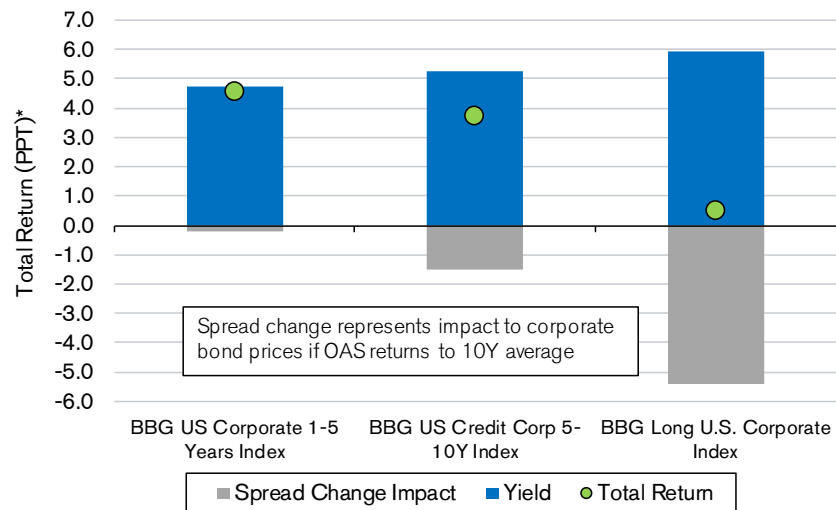
- ❖ **Back End Has Normalized:** 1-and-2 year yields moved above the policy rate in Q1, completing the normalization of the shape of the curve (top chart). Rising commodity prices and the energy price shock have caused investors to reassess the likelihood of further interest rate cuts. Historically, long-duration bonds become more attractive as the yield curve steepens.
- ❖ **Duration Attractiveness:** The increase in long-term interest rates in Q1 was primarily driven by real yields, as 30-year inflation break-evens have moved lower since the beginning of the year. 30-year real rates are now at the highest level in nearly 20 years (bottom chart).

# Short-Duration Corporate Bonds Less Exposed to Rising Credit Spreads

## LONG-DURATION CREDIT SPREADS WELL BELOW AVERAGE



## I.G. CREDIT RETURNS IF SPREADS RETURN TO AVERAGE



**Portfolio Impact:** Historically low credit spreads may foreshadow lower risk premiums for risky assets, in our view. Elevated interest rates and rising input costs could push credit spreads back toward long-run average levels, which we believe warrants concentrating credit exposure to the short-end of the yield curve. We continue to avoid long-duration corporate bonds in balanced portfolios.

### ❖ Long-Duration Spreads Remain Near Historic Lows:

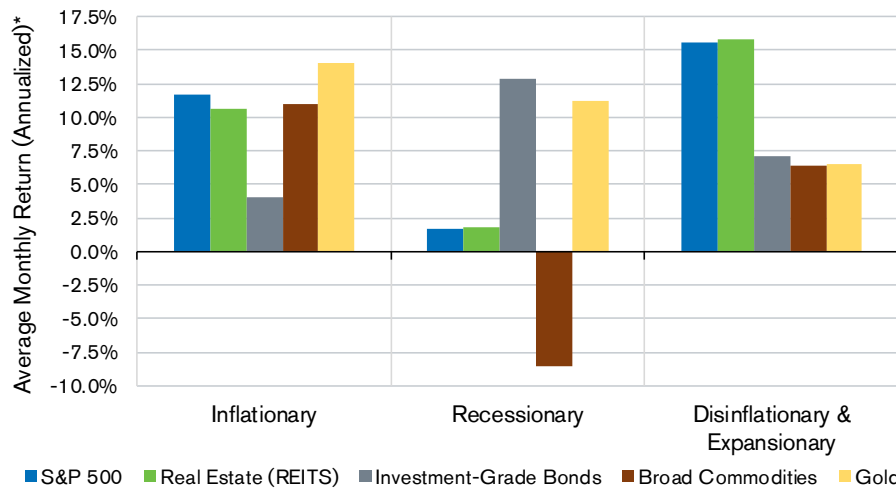
Investment-grade credit spreads moved up slightly in Q1 2026 but remain well below levels typically associated with economic slowdowns, particularly for long-duration credits. Current spread levels for longer maturity corporate bonds have historically preceded neutral-to-under performance relative to Treasury bonds.

❖ **Lower Equity Risk Premium:** Short-and-intermediate duration corporate bonds are likely to provide better insulation from macroeconomic risks, in our view, as they have lower price sensitivity to increases in credit spreads (bottom chart). Additionally, option-adjusted spreads for corporate bonds with maturities of <7 years are closer to long-term averages than those of long-duration bonds.



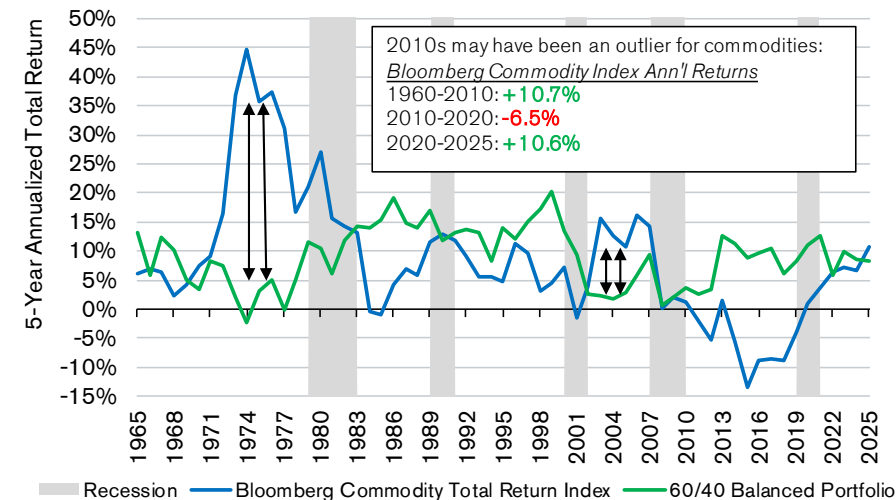
# The Macro Environment Drives Asset Class Returns

## MACRO CONDITIONS DRIVE ASSET CLASS DISPERSION



\* Covers periods from 1975 through Q4 2025. Source: Bloomberg, WestEnd Advisors

## REAL ASSETS PROVIDE BALLAST TO TRADITIONAL PORTFOLIOS



Source: Bloomberg, WestEnd Advisors

**Portfolio Impact:** Given our outlook for a late-cycle environment, we continue to avoid the most economically sensitive real asset exposures, like real estate and broad commodities. With a range of inflation and growth paths possible, we have diversified our real asset exposure away from a strict gold focus to include a broader set of global natural resources and energy infrastructure exposure.

- ❖ **Macro Drives Real Asset Return Outcomes:** Macroeconomic conditions can influence the performance of assets outside of traditional equities and fixed income. Active, macroeconomically-driven asset allocation decisions can enhance portfolio diversification and return potential.
- ❖ **Real Assets Can Enhance Traditional Portfolios:** Real asset exposures, proxied in the bottom chart by the Bloomberg Commodity Index, have historically supported returns during periods when traditional 60/40 balanced portfolios have struggled, such as in the 1970s and the early-to-mid 2000s. The 2010s, a decade in which commodity returns were negative, may prove to be an outlier over the long-run, in our view. Commodity return profiles in the 2020s have shown signs of reverting to pre-GFC levels.

# 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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