NORTHERN TRUST ASSET MANAGEMENT ASSET ALLOCATION VIEWPOINTS & RECOMMENDATIONS

Tactical decision: No changes. Tactical absolute risk is at 8.8% (9.4% strategic); active risk remains modest (0.71%).

Northern Trust Asset Management's Asset Allocation Committee maintains its preference for credit over equities and Natural Resources (NR) over Emerging Market (EM) Equities. Positioning can be articulated as three pair trades: 1.) A preference for default (credit) risk over market (equity) risk (6% overweight high yield, 6% underweight developed equities): In an environment of modest real growth but still-decent nominal growth, credit markets are more attractive than equity markets; 2.) A preference for commodity risk over China risk (3% overweight Natural Resources, 3% underweight EM Equities): Natural Resources (NR) and EM Equities are both inexpensive, but the committee believes EM is cheap for good reason while NR presents an opportunity given currently-heightened geopolitical risk alongside the longer-term structural demand profile (slow fossil fuel phaseout and increased industrial metal demand from the green transition); and 3.) A preference for "risk-free" cash over unexpected inflation risk (2% overweight Cash, 2% underweight Inflation-Linked Bonds): The committee expects inflation to be structurally higher going forward, but the committee is looking for a better entry point; also, the committee's expectation that central banks will maintain elevated policy rates over our tactical horizon argues for Cash over Inflation-Linked Bonds.

U.S. economic growth will persist despite mounting headwinds. The U.S. economy has powered through the historically fast-paced and large-in-magnitude rate hike cycle of the past two years. Homeowners represent two-thirds of consumers and perhaps 80% of consumer spending – and nearly all in that cohort enjoy a mortgage rate well below the current ~8% level. This sizable cohort should continue to provide foundational support for economic growth. However, the other 20% of consumer spending is being pressured by expensive housing costs, depleted post-pandemic stimulus funds and reinstated student loan payments. Meanwhile, Europe is entering recession and China has struggled to rebound as it attempts economic stimulus without further exacerbating the housing bubble and related debt issues.

Central banks won't be able – but also won't be forced – to cut rates. The recent equity market rally coincided with a rollover in longer-term interest rates (the 10-year U.S. Treasury touched 5% before moving back to ~4.6%) and an expectation for Fed rate cuts as soon as May of 2024 (with other major central banks on a similar timeline). This suggests investors view upcoming rate cuts as an opportunity afforded by fully normalized inflation (as opposed to a necessity driven by weak economic growth). The committee does not believe cuts will occur on that timeline (for either reason), which should add an additional modest headwind to economic growth and limit equity market upside.

High Level Summary:

What the Committee Expects: Base Case Expectations

Complacency Concerns: The recent equity rally suggests renewed investor comfort in the increased possibility of a soft landing which implies continued growth, normalized inflation and no material geopolitical consequences. The committee remains hesitant to fully adopt that narrative and prefers upside-capped but downside-protected credit (high yield) to equities.

Steady Central Banks: Recent central bank rhetoric suggests the rate hike cycle that started in early 2022 may have finished – prompting a favorable narrative around a global rate cut cycle starting mid-2024. We think investors expecting rate cuts without material economic weakness will be disappointed as the Fed shows resolve.

What the Committee is Watching For: Risk Case Scenarios

Oil Ends the Expansion: The war in Israel expands into a broader Middle East conflict that draws in Iran, putting global oil supply at risk. Central banks would look through the near-term inflation spike anticipating the economic fallout.

Sticking the Landing: Market expectations and central bank forecasts are calling for rate cuts in 2024. Should those cuts materialize amidst an orderly disinflation process and economic durability, the committee is too underweight risk, which could negatively affect relative performance.

Risk Assets: For long-term capital appreciation.

Risk Control Assets: For reducing volatility.

Source: Northern Trust Investment Strategy

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	Port. Weight	Over/ Under-Weight	Port. Weight	Over / Under Weight	Port. Weight	Port. Weight	Over / Under Weight	Port. Weight	Over / Under Weight	Port. Weight	Over / Under Weight
Equity	70%	-9%	54%	-9%	44%	37%	-9%	21%	-9%	2%	-2%
U.S. Equities	45%	-3%	35%	-3%	24%	25%	-3%	16%	-3%	2%	-1%
Dev. ex-U.S. Equities	19%	-3%	15%	-3%	20%	10%	-3%	5%	-3%	0%	-1%
Emerging Markets Equities	6%	-3%	4%	-3%		2%	-3%	0%	-3%	0%	0%
Real Assets	15%	+3%	13%	+3%	10%	11%	+3%	7%	+3%	1%	+1%
Natural Resources	9%	+3%	8%	+3%	5%	7%	+3%	5%	+3%	1%	+1%
Global Real Estate	3%	0%	2.5%	0%	2.5%	2%	0%	1%	0%	0%	0%
Global Listed Infrastructure	3%	0%	2.5%	0%	2.5%	2%	0%	1%	0%	0%	0%
High Yield Bonds	15%	+6%	13%	+6%	22%	11%	+6%	9%	+6%	7%	+6%
Investment Grade Bonds	0%	0%	17%	-2%	19%	37%	-2%	58%	-2%	83%	-7%
U.S. Investment Grade	0%	0%	15%	0%	15%	30%	0%	46%	0%	69%	0%
TIPS	0%	0%	2%	-2%	4%	7%	-2%	12%	-2%	14%	-7%
Cash & Short-Term	0%	0%	3%	+2%	5%	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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