MERRILL
A BANK OF AMERICA COMPANY

CHIEF INVESTMENT OFFICE

# Viewpoint

## The Missing Opportunities

August 2026

**All data, projections and opinions are as of August 4, 2026 and subject to change.**

### IN BRIEF

- In an environment of above-average nominal growth, inflation, surprisingly strong corporate profits growth, and episodic stock level volatility, more frequent portfolio allocation analysis is justified. As markets digest the increased Middle East tensions, elevated oil prices, higher adjustments to capital investment forecasts, and the potential Federal Reserve pivot, we remain bullish on the overall cycle despite the latest volatility that has pressured some of the growth momentum areas.
- The latest back up in yields is primarily driven by concerns of an increase in the supply of debt coming to market. Rising debt issuance to fund the Artificial Intelligence buildout has been increasing recently and, at the same time, inflation worries have picked up again as oil prices climbed back into the $90-per-barrel level just a few weeks ago. A back-up in yields when the fundamental growth picture for the economy and corporate profits is strong tends to serve more as a governor that tames too much enthusiasm and/or speculation rather than a signal of too much leverage.
- We view the latest weakness as an invitation to come back into the markets, particularly in areas we believe represent "missing opportunities." There are a number of missing opportunities within the capital markets that are within both the areas that have corrected significantly but also the segments just beginning to grow their earnings well-above their historical trends.

The latest episode of volatility in July that pressured some of the growth momentum areas of the broader equity markets came at a time of also increased geopolitical concerns given the recent escalation in the Middle East. Equity markets tried to digest the increased tensions, elevated oil prices (at that time), higher adjustments to capital investment forecasts, and even potential Federal Reserve (Fed) pivots. However, the most impactful film that may cover the capital markets could be rising bond yields. In our view, the latest backup in yields is primarily driven by concerns of an increase in the supply of debt coming to market. Debt issuance to fund the Artificial Intelligence (AI) buildout has been increasing recently, and, at the same time, inflation worries have picked up again as oil prices climbed back into the $90-per-barrel level just a few weeks ago. We are not too worried over the rise in yields given the significant amount of liquidity that is still available to digest the debt issuance (not to mention the march higher in the money supply). And a backup in yields when the fundamental growth picture for the economy and corporate profits is strong tends to serve more as a governor that tames too much enthusiasm and/or speculation rather than a signal of too much leverage.

Additionally, we are in the middle of a rolling correction in the areas that have been performance leaders over the last 18 months or so. These areas, led by the semiconductors and the capital equipment within the space, are down by some 30%

### CIO ASSET CLASS VIEWS

This month the Global Wealth & Investment Management Investment Strategy Committee (GWIM ISC) did not make any tactical asset allocation adjustments. We maintain an overweight to Equities with a preference for U.S. Equities relative to the rest of the world and still favor a significant allocation to bonds in a well-diversified portfolio. We would leverage market weaknesses and excessive strength to rebalance tactical exposures in the coming months.

View the CIO Asset Allocation Guidelines ▶

Listen to the audiocast ▶

| Asset Class | Underweight | | CIO View Neutral | Overweight | |
|---|---|---|---|---|---|
| Global Equities | • | • | • | ● | • |
| U.S. Large-cap Growth | • | • | • | ● | • |
| U.S. Large-cap Value | • | • | • | ● | • |
| U.S. Small-cap Growth | • | • | • | ● | • |
| U.S. Small-cap Value | • | • | • | ● | • |
| International Developed | • | ● | • | • | • |
| Emerging Markets | • | • | • | ● | • |
| Global Fixed Income | • | ● | • | • | • |
| U.S. Governments | • | ● | • | • | • |
| U.S. Mortgages | • | ● | • | • | • |
| U.S. Corporates | • | ● | • | • | • |
| International Fixed Income | • | ● | • | • | • |
| High Yield | • | ● | • | • | • |
| U.S. Investment-grade Tax Exempt | • | ● | • | • | • |
| U.S. High Yield Tax Exempt | • | ● | • | • | • |
| Alternative Investments* | | | | | |
| Hedge Strategies | | | • | | |
| Private Equity | | | | | |
| Private Credit | | | | | |
| Real Assets | | | • | | |
| Cash | | | | | |

*Many products that pursue Alternative Investment strategies, specifically Private Equity, Private Credit and Hedge Funds, are available only to qualified investors. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio.



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to 50% from their highs in a short period of time, which appears to be exacerbated potentially by a clearing event by some institutional investors. This is not abnormal, in our view, as most powerful moves up that exhibit exponential pathways ultimately need to be reset along the way. This same space has been able to recover some of those sharp losses as earnings season highlighted the positive corporate fundamentals once again. The corrections that occur over time generally follow the second derivative trend. In other words, when the growth rate of the leading groups slows down, investors tend to become concerned that the full cycle is over. We believe we are inside a rolling correction not the end of the cycle. What is extraordinary, in our opinion, is that the S&P 500 is hovering around record highs, but a majority of the leading groups were some 10 times below their recent highs. This is another sign that some of the sharp move lower was due to potential clearing events. This helps reset expectations for the next move forward. The capital investment cycle is still early, while the economic cycle appears to be closer to mid. Therefore, although we expect the earnings growth rate to slow down, we still believe the "receivers of capital investment" to grow at a very attractive rate in the foreseeable future. Quality stocks have been outperforming because the healthy growth rate in the economy is filtering into a variety of areas that are characterized as Value, areas with less earnings variability, and companies that have solid individual growth stories separate and distinct from the AI build out. This rebalancing phenomenon in the equity markets is why we express a high need for portfolio diversification. We remain bullish on the overall cycle and believe this reset in the areas benefiting from the AI buildout is tracking the slowdown in the earnings growth rate, not the end of the cycle. There are potential opportunities across the capital markets, both in areas that have experienced significant corrections and in segments where earnings growth is only beginning to accelerate beyond historical trends.

In summary, we understand the most recent volatility in July and concerns that have developed, but, in our view, the latest weakness was an invitation to come back into the markets, particularly in areas we believe represent "missing opportunities."

We highlight the missing opportunities in each asset class below with ideas for your considerations:

## Multi-asset Portfolios

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| Rebalancing opportunities to increase diversification particularly if the Growth and momentum exposures have become too excessive over the past few years. Areas of consideration at the subasset class or style level include active.[1] Small- and Mid-capitalization shares, Non-U.S. potential opportunities (particularly Emerging Markets (EM)), Higher quality and Value based mandates. | If you are below your strategic equity percentage exposures, as pockets of weakness develop, adding to Equities given our view that the fundamental growth backdrop in the U.S. and globally in terms of the economic cycle and corporate profits is strong and expected to extend further in the next few years. Underweight allocations should be rebalanced upward as we are still early in the digital innovation transformation and reindustrialization life cycle, in our opinion. |

## Equity Market

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| Adding exposure to Value opportunities, which helps diversify Growth exposure to obtain better balance overall. | Increasing active exposure to Non-U.S. potential opportunities particularly in EMs. |
| Adding exposure to dividend-based strategies as a complement to existing Growth exposure, particularly as the broader market dividend yield is close to record low levels. | Adding more thematic exposure in the core portfolio particularly in healthcare, aerospace/defense, infrastructure, power generation and oil services, robotics, biotechnology, cybersecurity, beneficiaries of rising financial deal activity, basic materials, and critical infrastructure reconstruction. |

[1] Active management seeks to outperform benchmarks through active investment decisions such as asset allocation an investment selection.

## Fixed Income

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| Adjusting to get closer to your strategic durations. Nominal rates are attractive. But more importantly, real yields have expanded and are very compelling given our expectations for inflation versus current market pricing. Currently, longer dated municipal bonds are particularly attractive. AA- and A-rated general obligation bonds are in excess of a 7% tax equivalent yield for taxpayers in the highest federal bracket. | If you have strategic cash, consider allocating to ultra short active portfolios with a duration of 12 months. The short end of the yield curve has become more attractive as the curve steepens. |
| With Investment-grade (IG) corporate bonds currently. While spreads are reasonably compressed, we view them as stable and offer a solid excess yield at present. | |

## Real Assets

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| Adding industrial metals exposure if you have no exposure or are underweight. | Reconstruction, Reindustrialization, Rearmament and the great AI buildout all require basic materials, metals, minerals, and gases among other components. Adding this as a complement to a core portfolio. |
| Sector-based investors should explore increasing exposure to Energy, basic materials and industrial metals. | In terms of public Real Estate (RE), exposure to warehousing and data center infrastructure. |

## Alternative Investments, for qualified investors

| | |
|---|---|
| Hedge Strategies (HS) | |
| Adding Equity Hedge (EH) strategies given a more favorable backdrop marked by rising Equity dispersion, lower correlations, and higher single-stock volatility beneath contained index-level volatility. In particular, add exposure to fundamental equity long/short and quantitative Equity strategies that can capitalize on a broader stock-picker's market and help manage sharp factor rotations as the AI theme continues to broaden and shift across market segments. | Increase exposure to globally focused managers, particularly those with demonstrated skill in Asia and other less-efficient markets, where dispersion, policy divergence, and AI supply-chain complexity create additional long/short potential opportunities. |
| Private Markets | |
| Building Venture Capital (VC) and Growth Equity (GE) exposure as a complementary way to access AI-driven innovation beyond public markets, particularly at earlier stages of company formation and disruption. Balance this theme through diversification across stages, managers, and vintage years, given the growing concentration within a limited number of AI-driven companies. | Adding Buyout (BO) exposure focused on industrials, healthcare, business services and energy services to provide a more durable foundation within private markets portfolios. Adding non-U.S. BO exposure can help diversify return drivers while capturing valuation and growth advantages across global markets. |
| In Private Real Estate and Infrastructure, focus on secular growth areas including industrials, manufacturing, power demand and data centers, while maintaining diversified exposure to multifamily and other stabilized assets. | In Private Credit (PC), selectively adding Asset-Based Lending to complement existing Direct Lending (DL) exposure. Consider increasing exposure to Special Situations strategies over time to benefit from idiosyncratic credit stress, refinancing challenges, and a potentially more active default environment. |

At this point in the supply led economic cycle in which we expect above average nominal growth, inflation, surprisingly strong corporate profits growth with episodes of stock level volatility we believe more frequent portfolio allocation analysis is justified. In markets that depict higher than average momentum with consistent headline risk we expect Equities to "climb the wall of worry." Fundamentals are attractive but we understand the concerns that can develop from time to time (i.e., Fed pivot, geopolitical risk, capex worries, government debt, etc.). Our base case relies on corporate profits remaining attractive and growing above average while rates, even in the face of the recent back up, stay stuck in a range that allows for the fundamentals to extend further. Until this narrative changes we remain equity market bulls. We believe investors should consider the above portfolio considerations as we move further into the second half of 2026.

## CIO INVESTMENT DASHBOARD AS OF AUGUST 4, 2026

While uncertainty persists, underlying fundamentals remain relatively solid. We still see the potential for a new phase of economic and market growth powered by accelerating productivity, infrastructure investment, energy transformation, and global shifts in defense and technology. Long-term investors should remain fully invested and consider episodic weakness as a potential buying opportunity.

**Current readings on the key drivers of Equities for investors to consider, with arrows representing the recent trend:**

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| **Earnings** | Our U.S. Equity overweight remains supported by a strong earnings outlook. Earnings estimates for the S&P 500 have recently moved higher following a strong reporting season, with the index on track for double-digit earnings growth in 2026. The BofA Global Earnings Revision Ratio improved to 1.10 in July, near a five-year high, as upgrades remained high globally. |
| **Valuations** | U.S. Equity market valuations declined in July but still remain elevated relative to long-term averages. Relative discounts exist in areas like Value, Small-Caps, and EMs, underscoring the importance of incorporating these areas into diversified portfolios. |
| **U.S. Macro** | The U.S. economy continues to show resilience. Though the first estimate of Q2 real gross domestic product (GDP) growth cooled to 1.5% from 2.1% in Q1, domestic demand came in strong amid a sharp rebound in consumer spending and robust business spending. Despite oil price volatility, the consumer remains resilient supported by a solid labor market and positive wealth effects. BofA Global Research expects U.S. real GDP growth to come in at 2.1% in 2026. |
| **Global Growth** | BofA Global Research expects global real GDP growth of 3.2% in 2026 as the global economy continues to demonstrate resilience despite geopolitical and policy uncertainty. In Europe, oil price volatility, structural headwinds and weak fundamentals continue to weigh on the outlook, with growth of 0.5% expected this year. In Asia, robust global demand for technology goods supports resilience across EM Asia ex-China, where growth is expected to accelerate to 5.9% in 2026. China remains challenged by weak domestic demand, though export growth strength underpins BofA Global Research's growth forecast of 4.5%. Improving fundamentals in EMs longer term may help sustain their appeal as a portfolio diversifier. |
| **U.S. Monetary Policy / Inflation** | The Fed interest rate policy remains in a 3.50% to 3.75% range. Recent data suggests the labor market remains stable while inflation continues to run above the Fed's 2% target. Price pressures however could moderate if the U.S. and Iran reach a diplomatic agreement and energy prices move lower. BofA Global Research expects three Fed rate hikes starting in September followed by an extended pause through 2027. While this forecast represents a somewhat more hawkish policy path, any renewed tightening is expected to be modest and short-lived. Given the economy's continued resilience, it may be able to absorb some tightening, leaving the Equity outlook still supportive. |
| **Fiscal Policy** | Fiscal stimulus from the One Big Beautiful Bill Act (OBBBA) continues to support economic activity, with larger tax refunds helping to offset higher oil prices and sustain consumer spending. Tax incentives for business investment provide an additional tailwind, supporting growth and productivity while creating a favorable backdrop for corporate margins, earnings and Equities. |
| **Corporate Credit** | Despite some recent volatility, IG and High Yield (HY) credit spreads remain near multidecade tights, signaling limited market concern over a near-term economic slowdown. With spreads already compressed, we see little room for further meaningful tightening and maintain a neutral stance across these segments in low-tax all-Fixed Income portfolios. |
| **Yield Curve** | The yield curve bear steepened in July, with longer yields leading a shift higher across tenors on concerns that the surge in oil prices following the Middle East conflict escalation could feed inflation. While inflation and rising rates warrant monitoring, markets continue to view the move as manageable, supported by anchored inflation expectations and a Fed that remains highly data dependent. Consequently, higher rates have yet to pose a meaningful headwind to Equities. Rates appear fairly priced, offering reasonable income and diversification benefits for multi-asset class portfolios. |
| **Technical Indicators** | In july, the S&P 500 fell below its 50-day moving average but remains well above its 200-day moving average. Relative strength indicators remained neutral, while the percent of stocks above their 200-day moving average held above 60% in July. Breadth indicators strengthened further as both the Russell 2000 and S&P 500 Equal-Weighted Indexes captured more all-time highs than the S&P 500, highlighting the importance of maintaining a balanced and diversified portfolio. |
| **Investor Sentiment** | Sentiment indicators remain mixed. The latest American Association of Individual Investors (AAII) reading showed bears outnumbered bulls for most of July with bear readings above its buy signal. Meanwhile, BofA metrics remain in sell signal territory as the BofA Bull & Bear Indicator remained above its sell signal at 9.4, and the BofA Global Fund Manager Survey cash levels fell to 3.6% from 4.1%. |

Source: Chief Investment Office. Gradient slides go from positive green, yellow neutral and negative red factors to ISC views.

## EQUITIES

**We are overweight Equities.** While crosscurrents in the economic landscape remain, positive global growth, stronger than expected earnings, and increased innovation remain supportive for global Equities. We maintain an Equity overweight relative to our strategic targets.

**We are overweight U.S. Equities.** The U.S. remains our preferred Equity region. Despite uncertainty in the first half of the year, the U.S. remains among the strongest and most innovative economies in the world. Index level valuations declined at the start of the U.S./Iran conflict but are slowly climbing higher again with earnings growth containing valuation multiples. The S&P 500 is on track for its seventh consecutive quarter of double-digit year-over-year (YoY) earnings-per-share (EPS) growth in Q2. Earnings strength continues to broaden, with all 11 S&P 500 sectors expected to see earnings accelerate for the full year 2026, according to FactSet.

Diversification across and within Equities has already proven to be valuable this year as new pockets of market leadership have emerged. Large-caps continue to exhibit strong fundamentals, solid earnings growth, and the ability to generate substantial free cash flow (FCF). Small-caps have seen strong performance year-to-date (YTD), outperforming the S&P 500 and Nasdaq Indexes. Small- and Mid-caps are benefitting from a more constructive earnings outlook, an uptick in domestic manufacturing, and increased capital markets activity. We emphasize the importance of incorporating both Large- and Small-caps into strategic portfolios.

We believe secular tailwinds related to innovation will continue to support Growth over the long term. However, we continue to emphasize the importance of avoiding overexposure to any one area of the market. Value-oriented Equities continue to trade at a relative valuation discount and may offer attractive defensive characteristics against a backdrop of elevated uncertainty. We maintain a barbell approach between Large-cap Value and Growth in portfolios as market dynamics evolve.

From a sector perspective, we continue to propose diversification across Equity sectors given elevated volatility and uncertainty. Importantly, we continue to suggest overweight exposure to Industrials, Consumer Discretionary and Financials. Industrials are overweight as capex budgets continue to grow, 100% bonus depreciation has been enacted again, and AI-oriented infrastructure plans are not slowing. The consumer remains resilient as spending and wages continue to grow. The overall outlook for Financials remains positive, especially for banks with tailwinds from deregulation, loan growth and reasonable valuations, though the potential for interest rate hikes could present headwinds.

We are neutral Information Technology (IT), Energy, Materials, Utilities, and Healthcare. IT has positive longer-term thematic exposure, but there are near-term concerns on crowded positioning. The outlook for the Energy sector is more muted given ongoing uncertainty about the Middle East conflict, which has now entered its sixth month. We are neutral Materials on improved pricing and demand for commodities in general. Utilities provide the potential for multiyear earnings growth and are fairly valued. Despite some subsectors underperforming YTD, Healthcare looks more attractive, with areas of potential opportunity including Biotech, Biopharma, and Managed Care. We have underweight exposure to Communication Services, Real Estate (RE), and Consumer Staples on weaker growth expectations in those sectors.

**We are slightly overweight Emerging Market Equities.** Growth in a few key AI names has given the MSCI Emerging Markets Index a close to 50% combined weighting in Korea and Taiwan, compared to more diversified China exposure of roughly 20%. We continue to view the Asia-Pacific as a major beneficiary of expected growth in IT-related capital spending and expanding AI adoption, with deleveraging in over-extended parts of the Korean market likely to dampen future volatility. And strong balance of payments

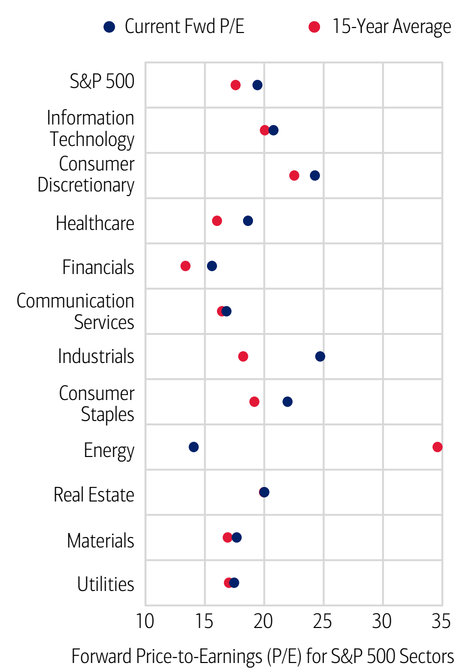
### EQUITY WATCH LIST

- Monetary policy outlook and shifting expectations for interest rates
- Trajectory of Middle East conflict
- Impact of oil prices on inflation and the consumer
- The outlook for AI investment and competition
- Progression of global earnings estimates
- Evolving dynamics within Private Credit

### RISK CONSIDERATIONS

- Protracted conflict in the Middle East and higher-for-longer oil prices posing a risk to earnings, inflation, and capex
- Escalation in AI concerns due to an earnings miss, supply shock, or tighter credit conditions
- Potential for a pullback in high-income consumer spending
- Potential for slower-than-expected labor market stabilization
- Global fiscal concerns, as well as sticky inflation and its potential impact on Fed policy ahead
- Geopolitical uncertainty and heightened global protectionism measures

**Sector Valuations**




Source: Bloomberg as of August 4, 2026. Please refer to index definitions at the end of this report. It is not possible to invest directly in an index.

positions leave the region more resilient to external shocks. Latin America remains exposed to longer-term growth expected in demand for key materials used in technology and clean energy investment, while smaller markets in Central and Eastern Europe should benefit from increased European Union (EU) fiscal outlays, including higher defense and infrastructure spending. The structural rise in EM consumer spending remains a big reason why we believe investors should consider maintaining a strategic allocation to EM Equities as appropriate. The emerging world now constitutes around 40% of global personal consumption expenditure (PCE), according to the United Nations, and ongoing convergence with developed economies should support GDP growth and corporate earnings over the longer-term. We favor active management when investing in EM, as fundamentals differ across countries based on fiscal capacity, credit quality, corporate governance and other factors.

**We are slightly underweight International Developed Equities.** European markets remain among the least exposed globally to technology-related market segments and are therefore likely to experience limited gains on a relative basis from growth in AI spending. Manufacturing-led EU economies also remain at risk from growing competition from China in key industries such as auto manufacturing and volatility in industrial energy costs but should benefit from higher fiscal outlays in defense and infrastructure. Corporate sector reforms remain a fundamental tailwind for Japan, with additional support from fiscal expansion and ongoing exchange rate competitiveness despite official currency market intervention. While we are less constructive on International Developed Equities, we believe long-term investors should maintain some strategic exposure, as appropriate, given that they trade at a discount relative to U.S. Equities, contain more of a balance between Value and Growth sectors, can offer attractive dividend yields, and provide diversification for mega-cap Technology stocks.

## FIXED INCOME

**We remain slightly underweight Fixed Income within multi-asset class portfolios,** primarily reflecting the need to fund an overweight in Equities. Within all-Fixed Income portfolios with low tax sensitivity, we are positioned neutral across sectors, supported by a constructive economic backdrop, historically tight credit spreads, but compelling all-in yields. In high tax-sensitivity Fixed Income-only portfolios, we favor IG and HY tax-exempt over IG taxable, particularly as municipal valuations have retraced from the extremely rich levels observed earlier in the year. We believe the current relative value case remains compelling, supported by favorable seasonal technicals and attractive taxable-equivalent yields.

In July, the Fed elected to leave policy rates unchanged, despite continued emphasis on achieving its 2% inflation objective. Markets responded by lowering expectations for additional near-term interest rate hikes, resulting in lower short-term yields, while longer-dated Treasury yields moved higher. The 30-year Treasury yield reached a cycle high above 5.2%, reflecting a combination of resilient economic growth, persistent inflation concerns, and increased uncertainty about the Fed's evolving communication framework. While some interpreted the move on the long-end of yields as a sign of Fed credibility concerns, longer-term Treasury yields have generally been trending higher over the last several years on higher growth and inflation.

The new Fed Chair is learning on the job (much like his predecessors), and investors should not be surprised to see some missteps. Warsh's communication challenge is even greater given his ambitious agenda to change the way the Fed operates. Nevertheless, some have posited that the market reaction may increase the pressure on the Fed to raise rates at its next meeting in September.

Despite evolving Fed dynamics, the underlying economy remains resilient. Recent data showed strong growth in both personal consumption and business investment, while inflation moderated in June. Although higher energy prices pose a risk to disinflation,

### FIXED INCOME WATCH LIST

- Path of government spending and uncertainty about fiscal policies including tariffs
- U.S. short-term funding markets, with the interplay of quantitative tightening and drawdown of Treasury General Account
- Trend and level of U.S. nominal and real rates and inflation
- Fed and global central bank activity
- Global economic growth, especially with trade and geopolitical concerns
- Credit spreads and Muni/Treasury ratios

### RISK CONSIDERATIONS

- Resilient or accelerating inflation
- Change in Fed policy stance
- Slowing economic growth or confidence based on uncertainty

economic fundamentals appear sufficiently robust to absorb policy tightening should the Fed determine that further action is necessary.

Against this backdrop, Fixed Income yields remain attractive and elevated starting yields continue to provide an important source of return potential and a cushion against market volatility, though tight spread valuations suggest a more balanced risk-reward profile.

**In multi-asset class portfolios, we are slightly underweight U.S. Corporates and High Yield, in favor of Equities.** Continued geopolitical uncertainty, concerns about a new Fed regime, and an elevated primary market calendar have given investors plenty to focus on this summer. While IG spreads have moved modestly wider from multi-decade tights in recent weeks, the move appears largely technical in nature, and our slightly underweight allocation remains unchanged. This view reflects spread valuations that remain relatively rich by historical standards. While we see a limited runway for meaningful additional tightening, we expect valuations to remain well supported by the higher all-in yield environment, which continues to attract demand despite negative total return pressure from interest rate volatility. Although we are monitoring re-leveraging trends in certain pockets of the market, particularly Technology and the Hyperscalers, corporate fundamentals remain in very good shape, supported by healthy revenue and earnings growth, resilient margins and broadly stable leverage even amid elevated capital spending.

Recent new issue activity suggests buyers may be becoming more selective, we have not yet seen material cracks in the broader demand backdrop. We continue to see an asymmetric risk profile, with limited upside from current valuation levels and more pronounced downside risk, which tempers our conviction. As a result, we maintain a more balanced stance and remain underweight both IG and HY. Key risks we continue to monitor, while still manageable in our base case, include potential escalation in geopolitical tensions, ongoing interest rate volatility, and, most importantly, a pickup in issuance as we approach year-end that could begin to test the strength of investor demand.

**In multi-asset class portfolios, we remain slightly underweight U.S. Investment-grade Tax Exempt and U.S. High Yield Tax Exempt.** For highly tax-sensitive investors, we continue to favor IG and select HY municipal bonds. Municipal valuations became more attractive in July, with munis cheapening both on an absolute basis and relative to Treasurys. We see particular value in longer-dated maturities (10+ years). As of late July, the Bloomberg Municipal Bond Index offered a yield-to-worst of approximately 3.9%, equivalent to roughly 6.6% on a taxable-equivalent basis for investors in the top federal tax bracket. This compares favorably with high-yield corporates while carrying meaningfully lower credit risk. Technical conditions should remain supportive through August, as coupon and redemption proceeds continue to exceed new issuance.

We expect municipal credit fundamentals to remain broadly resilient, supported by stable state and local tax revenues and healthy issuer balance sheets. However, budget pressures are beginning to emerge as reductions in federal funding take effect and inflation continues to drive higher expenditures. As a result, we anticipate a greater dispersion of credit outcomes and more frequent idiosyncratic risks, even among traditionally stable sectors such as general obligation bonds. While we continue to like the mid-to-lower IG segment for incremental spread opportunities, disciplined credit selection remains essential to capture value while mitigating the risks of credit deterioration and rating migration.

**In multi-asset class portfolios, we remain slightly underweight U.S. Mortgage-backed Securities, in favor of Equities.** After reaching multiyear tights in January, driven in part by expectations for incremental demand from government-sponsored enterprises (GSE), Mortgage-backed Securities (MBS) spreads have drifted modestly wider into the high-20 basis point (bps) range. Current valuations are now broadly in line with longer-term averages, and, in some cases, modestly rich versus other high-quality Fixed Income sectors. Interest rate volatility remains broadly in line with its long-term average, despite episodic spikes driven by shifts in Fed policy expectations and other rate-sensitive macro developments.

We continue to monitor a range of policy-driven catalysts that could alter our view on MBS—including housing legislation, adjustments in GSE MBS purchases, evolving GSE privatization discussions, and banking deregulation—which could meaningfully influence supply-demand dynamics and relative value within the MBS sector.

## ALTERNATIVE INVESTMENTS

**CIO's Key Alternative Investment Principles**

With their diverse strategies and historical progress, Alternative Investments (Alts) can potentially enhance portfolio resilience and long-term performance for qualified investors. However, unlike traditional assets, allocating to Alts is a long-term process constrained by liquidity. They should be viewed primarily as strategic holdings, with tactical opportunities playing only a secondary, incremental role for new investment.

- **Think long-term:** Illiquidity demands a multi-year horizon.
- **Invest consistently—even in downturns:** Pulling back during volatility can erode benefits and lead to underallocation.
- **Diversify:** Spread across strategies, managers and vintages.
- **Choose high-conviction managers:** Performance varies widely; manager selection matters.

**Hedge Strategies:** HS built on their strong 2025 momentum during the first half of 2026, gaining 7.4%[2] through June, while Equity Hedge (EH) strategies performed even better, returning nearly 10%[3] YTD and generating meaningful alpha[4] relative to U.S. and global Equities. Both fundamental and quantitative EH managers benefited from rising dispersion, lower correlations, and a richer opportunity set across both long- and short- books, including potential opportunities tied to the evolving AI investment cycle. July, however, was a reminder that the AI theme remains a tightly wound trade that can experience sharp, short-term reversals. HS were both participants in and contributors to the momentum unwind, as several crowded positions reversed and managers were forced to reduce risk, with Asia-focused strategies also giving back a portion of their strong year-to-date gains. The turbulence culminated in the forced capitulation of a levered AI-focused fund that sold public AI-related holdings to meet margin requirements. While disruptive, this episode may ultimately prove to be a positioning-driven reset rather than a change in the underlying opportunity set. As markets digest the unwind, a more balanced environment could again favor skilled long/short managers able to identify fundamental winners and losers. The month also reinforced the importance of rigorous manager selection, with emphasis on differentiated investment edge, experience across cycles and sound risk, liquidity, and financing frameworks.

**Private Equity:** Private Equity (PE) activity moderated during the first half of 2026 as sponsors proceeded cautiously amid higher financing costs, a slight widening of lending spreads, renewed inflation concerns, and uncertainty surrounding the interest-rate outlook. While transaction counts remained relatively resilient, deal value declined meaningfully as activity shifted toward smaller add-on and growth investments, with sponsors showing less appetite for larger platform transactions. Exit conditions remained challenging, with realizations concentrated among a limited number of large transactions, while continuation vehicles and the secondary market continued to provide an important, though insufficient, source of liquidity. Although PE-backed initial public

### HEDGE STRATEGIES

EH will likely benefit from decent equity dispersion, driving alpha generation. Micro-dominated markets should be better for stock selection. Hedged approach is appealing given high uncertainty.

Macro is appealing for low correlations to Equities/Fixed Income in uncertain policy environment.

| | |
|---|---|
| + | **Equity Hedge** |
| | **Event Driven** |
| | **Relative Value** |
| + | **Macro** |

+ symbol indicates the strategies CIO views as having the most favorable opportunity set for new investment within the Alts asset classes.

[2] HFRI Fund-Weighted Composite Index. HFR, Inc. As of July 31, 2026.
[3] HFRI Equity Hedge (Total) Index. HFR, Inc. As of July 31, 2026.
[4] Alpha is a measure of an investment's performance compared to a market benchmark, representing excess returns, and acting as a gauge of a manager's skill.

offering activity improved from depressed levels, the reopening of public markets remains narrow and modest by historical standards. As a result, the industry continues to operate in a constrained distribution environment, with a broader recovery likely dependent on improved exit activity, greater clarity around interest rates, and easing macroeconomic uncertainty. Record levels of dry powder could support a reacceleration in deployment should conditions improve. Fundraising reflected similar dynamics, with capital continuing to concentrate among the largest and most established managers as investors favored proven track records amid ongoing liquidity constraints. Emerging managers remained under pressure, while evergreen vehicles continued to gain traction. VC remained one of the more active areas within private markets, supported by continued investment in AI and related technologies. However, dealmaking, liquidity, and fundraising remain highly concentrated among a narrow group of companies and managers, underscoring the continued divergence between the strongest AI-linked assets and the broader venture ecosystem. While market conditions remain challenging, performance dispersion across managers continues to create potential opportunities for investors to generate differentiated outcomes through disciplined manager selection.

**Private Credit:** Media concerns about the asset class have begun to dissipate, while overall fundamentals remain fairly stable. While early, it appears that redemption request levels for non-traded Business Development Companies (only a portion of the overall asset class) may be stabilizing, while still backed up by plenty of vehicle liquidity for multiple quarters ahead. Additionally, it's been communicated anecdotally that many private credit platforms continue to see material inflows from institutional clients, providing stable capital for the asset class. As for credit conditions overall, these have been stable at long-term averages since rates have been greatly lowered by the Fed. These reductions have reduced overall pressure on borrowers across all sectors. If the Fed raises rates, that increases the value of this floating rate asset class in a portfolio as a duration risk tool against other Fixed Income assets. Additional concerns raised about Software borrowers still remain unsupported, to date, as many of these companies are continuing to see good, contracted cash flows, with plenty of equity cushion support beneath the existing senior debt. Any effects of AI on their business models remain off into the future and seem to directly affect only a small number of business models in private credit. Earlier dislocations in software bank loans have since recovered material value in public markets. Looking forward, with solid levels of capital and inflows overall, we believe managers in the space can take advantage of dislocations in public markets, as they historically have done, and we are seeing even more investor protections built into new underwritten deals as the balance between borrowers and lenders has shifted in investors' favor.

**Real Assets:** Private Real Estate (PRE) continued to show signs of recovery, with commercial property prices modestly appreciating through Q2 2026 and the NCREIF Open End Diversified Core Equity (ODCE) Index up 2.7% YTD.[5] U.S. Commercial Real Estate (CRE) transaction volumes improved significantly while lending conditions have also become more favorable towards real estate. The CRE recovery is intact but uneven, with wider dispersion across property types. Some sectors have rebounded quickly from their troughs, while others are seeing more modest gains and still working through near-term supply/demand imbalances. Alternative real estate sectors such as senior housing and data centers are positioned for multi-year net operating income (NOI) growth, underpinned by strong fundamentals and changing demographics. The multifamily sector continues to stabilize as it works through near-term supply challenges but over the long-term, demand fundamentals remain strong driven by a national housing shortage and lack of affordability. Modern Industrial assets remain highly sought after as onshoring of U.S. manufacturing picks up and on-going conflict in the Middle East disrupts supply-chain networks. The office sector remains challenged despite in-office use reaching pre-pandemic levels in select markets like New York City and San Francisco. The office recovery is highly bifurcated with trophy assets and Class A buildings that are highly amenitized and well-located doing much better than lower quality office buildings. NOI

## PRIVATE EQUITY

VC/GE expected to benefit if AI theme proves durable. Early-stage capital also tied to trend of companies staying private for longer and incubating next gen tech disruptors.

BO expected to benefit from lower rates, though conflict-driven higher rates could dampen dealmaking opportunity set.

| | |
|---|---|
| | **Buyout** |
| + | **Venture Capital/ Growth Equity** |
| | **Special Situations** |

## PRIVATE CREDIT

Neutral across PC. DL to see declining returns with lower rates and climbing credit losses. Primary focus on software exposure; geopolitical volatility could weigh further Potential positive: More PE deals should increase DL deployment opportunities, potentially with wider spreads.

| | |
|---|---|
| | **Direct Lending** |
| | **Subordinated Capital** |
| | **Asset Based/Specialty Finance** |

+ symbol indicates the strategies CIO views as having the most favorable opportunity set for new investment within the Alts asset classes.

[5] NCREIF ODCE Index Returns, Q2 2026.

growth will be the primary driver of returns in the next cycle in the absence of cap-rate compression. We are returning to an environment where fundamentals matter most, and property selection will be a key driver of returns. The geopolitical backdrop in the first half of 2026 proved more volatile than anticipated, resulting in stickier inflation and a higher for longer 10-year U.S. Treasury yield which could create renewed headwinds for the asset class's recovery and potentially constrain deal activity. Encouragingly, commercial property values have already undergone a significant multiyear adjustment, and market expectations do not currently imply a rapid or disorderly rise in rates.

Infrastructure posted preliminary gains of 1.7% in Q1, bringing one-year internal rate of returns (IRRs) to approximately 10.8%[6] and extending the asset class's track record of high-single- to low-double-digit returns across both tightening and easing policy cycles. Private infrastructure continues to deliver consistent returns (10% gross of fees) driven by inflation-linked, contractual cashflows that support returns during periods of macroeconomic stress. Infrastructure fundraising had a slow start to the year following record high levels in the previous year. Capital has historically been concentrated in energy assets but has increasingly started to gravitate towards scalable, contracted power solutions. At the sector level, renewables, power and transmission strategies expanded significantly, while data centers remain highly sought after given the rapid adoption of artificial intelligence across industries. The U.S. is entering a power capacity expansion, driven mostly by data centers, electric vehicles and broader electrification. Geopolitical conflicts have introduced some near-term volatility across key infrastructure sectors but structural tailwinds remain firmly intact. Renewable energy, power infrastructure, digital assets, and select transportation and utility-related investments continue to attract capital, supported by long-term secular demand trends. Balancing near-term risks with longer-term growth fundamentals should result in resilient returns. Infrastructure remains well positioned given its combination of income generation, inflation protection and exposure to long-term secular growth trends.

As for tangible assets, despite oil price volatility global growth remains solid with rising corporate profits evident around the world. The global economic expansion led by the U.S. is positive for commodity prices and is confirmed by the relative strength in Industrial metals prices like copper compared to precious metals prices like gold. Precious metals have undergone a sharp correction from their bubble peaks, and a long period of consolidation would not be surprising before their secular uptrend reasserts itself in a world of persistent positive inflation. The dollar is extremely overvalued compared to major Asian currencies like the Japan yen and the China renminbi. A reversion toward fair value is just a matter of time in our view. An end to hostilities in the Middle East would provide a major additional positive boost to global growth and a likely collapse in oil prices from current levels.

## REAL ASSETS

Infrastructure tied to global trends of energy demand and digitization, with inflation-hedge characteristics.

PRE should continue to stabilize with outlook improving; higher rates could slow recovery.

| | |
|---|---|
| | **Private Real Estate** |
| + | **Infrastructure** |

+ symbol indicates the strategies CIO views as having the most favorable opportunity set for new investment within the Alts asset classes.

[6] Cambridge Associates, LSEG. As of July 1, 2026.

## MACRO STRATEGY

- U.S. growth continues paced by strong investment and solid consumer spending supported by low unemployment, positive wealth effects, and income growth. Second-quarter GDP data show an acceleration in domestic private sector final demand to almost a 4% real growth pace.
- Inflation cooled in June and has likely peaked as wage pressures are slight, productivity gains are suppressing unit labor costs and housing prices and rents are coming down from overheated extremes since immigration has slowed. Long-term inflation expectations have fallen to lower levels consistent with the Fed's 2% inflation target.
- Corporate profit growth has broadened out around the world as the global expansion matures. Profit margins are rising with the increasing share of economic activity concentrated in high margin technology companies. Rising stock values are also bolstering profits as cross holdings among technology companies rise in value and get marked-to-market. The profit cycle is also broadening in other areas, helped by new tax and regulatory policies.

## ECONOMIC FORECASTS (AS OF 7/31/2026)

| | Q1 2026A | Q2 2026A | Q3 2026E | Q4 2026E | 2026E | 2027E |
|---|---|---|---|---|---|---|
| Real global GDP (% y/y annualized) | - | - | - | - | 3.2 | 3.5 |
| Real U.S. GDP (% q/q annualized) | 2.1 | 1.5 | 2.5 | 2.4 | 2.1 | 2.2 |
| CPI inflation (% y/y*) | 2.7 | 3.8 | 3.2 | 2.9 | 3.2 | 2.0 |
| Core CPI inflation (% y/y*) | 2.5 | 2.7 | 2.4 | 2.5 | 2.5 | 2.5 |
| Unemployment rate (%) | 4.3 | 4.3 | 4.3 | 4.2 | 4.3 | 4.2 |
| Fed funds rate, end period (%) | 3.63 | 3.63 | 3.88 | 4.38 | 4.38 | 4.38 |

The forecasts in the table are the baseline view from BofA Global Research. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts. There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance. A = Actual. E/*= Estimate. Sources: BofA Global Research; GWIM ISC as of August 4, 2026. Forecasts are subject to change. When assessing your portfolio in light of our current guidance, consider the tactical positioning around asset allocation in reference to your own individual risk tolerance, time horizon, objectives and liquidity needs. Certain investments may not be appropriate, given your specific circumstances and investment plan. Certain security types, like hedged strategies and private equity investments, are subject to eligibility and suitability criteria. Your advisor can help you customize your portfolio in light of your specific circumstances.

## S&P 500 SCENARIOS BASED ON FORWARD P/E AND 2026 EARNINGS PER SHARE (EPS)

The table below provides a rough indication of where the S&P 500 Index's central tendency could be, given various scenarios for EPS in 2026 and P/E ratio multiples. These scenarios are not official price targets and are not meant to signal levels where portfolio actions may always be needed. However, during times of market volatility, it's useful to keep this basic framework in mind when considering whether to incrementally add to or trim risk from portfolios while staying invested in one's strategic asset allocation framework.

| 2026 EPS | EPS Forward P/E (Next 12 months) | | | | |
|---|---|---|---|---|---|
| | 19.0x | 20.0x | 21.0x | 22.0x | 23.0x |
| $375 | 7,125 | 7,500 | 7,875 | 8,250 | 8,625 |
| $365 | 6,935 | 7,300 | 7,665 | 8,030 | 8,395 |
| $355 | 6,745 | 7,100 | 7,455 | 7,810 | 8,165 |
| $345 | 6,555 | 6,900 | 7,245 | 7,590 | 7,935 |
| $335 | 6,365 | 6,700 | 7,035 | 7,370 | 7,705 |
| $325 | 6,175 | 6,500 | 6,825 | 7,150 | 7,475 |
| $315 | 5,985 | 6,300 | 6,615 | 6,930 | 7,245 |

For illustrative purposes only. Source: Chief Investment Office as of August 4, 2026.

## CIO ASSET CLASS VIEWS AS OF AUGUST 4, 2026

| Asset Class | Underweight | | CIO View Neutral | Overweight | | |
|---|---|---|---|---|---|---|
| **Global Equities** | • | • | • | ● | • | We are overweight Equities and continue to view weakness as a potential buying opportunity for long-term investors. We are overweight the U.S., overweight EM, and underweight International Developed. |
| **U.S. Large-cap Growth** | • | • | • | ● | • | Large-caps continue to look attractive on solid fundamentals, strong FCF and the ability to produce healthy shareholder payouts. We maintain an equal balance between Large-cap Value and Large-cap Growth in portfolios. |
| **U.S. Large-cap Value** | • | • | • | ● | • | |
| **U.S. Small-cap Growth** | • | • | • | ● | • | Small-caps are supported by improved earnings, potential deregulation, increased domestic manufacturing and an uptick in merger & acquisitions activity. We continue to suggest a balance of Value and Growth factors. |
| **U.S. Small-cap Value** | • | • | • | ● | • | |
| **International Developed** | • | ● | • | • | • | Europe is likely to see limited relative gains from expansion in AI given lack of market exposure, but local defense and infrastructure spending remain supportive. Japan to benefit from domestic structural reforms, fiscal expansion and competitive exchange rate. |
| **Emerging Markets** | • | • | • | ● | • | We are slightly overweight EM overall, with the heavyweight Asia region particularly well positioned to benefit from exposure to global IT investment spending and AI adoption. Latin America is exposed to growth in key materials used in technology and clean energy investment. |
| **International** | | | | | | |
| **North America** | • | • | • | ● | • | The U.S. remains our preferred region relative to the rest of the world amid balance sheet strength, better fundamentals for consumer spending and healthy shareholder payouts. |
| **Eurozone** | • | • | ● | • | • | Expansionary fiscal policy combined with attractive relative valuations are potential market tailwinds. Exposure to growth in AI spending is limited, while risks remain from volatility in energy prices and growing competition with China in key industries. |
| **U.K.** | • | ● | • | • | • | Fiscal uncertainty under current government policy agenda represents a potential headwind for the corporate sector. Limited market exposure to growth in AI spending. |
| **Japan** | • | • | • | ● | • | Shareholder-friendly deployment of corporate cash remains a fundamental source of support. Large fiscal expansion is an additional tailwind alongside low interest rates and ongoing exchange rate competitiveness. |
| **Asia Pac ex-Japan*** | • | ● | • | • | • | Regional outlook dampened by slower economic growth in China and its impact on domestic demand and regional exports. |
| **Global Fixed Income** | • | ● | • | • | • | Yields are attractive, providing good diversification for multi-asset class portfolios and reasonable income. Neutral duration recommended. |
| **U.S. Governments** | • | ● | • | • | • | Nominal and real yields remain attractive across the curve relative to the last 10- to 15-years. A Treasury allocation for liquidity, principal preservation and diversification is advised, as Treasurys provide the best short-term diversification benefits to Equities among Fixed Income sectors. Rate volatility has increased and may remain high. |
| **U.S. Mortgages** | • | ● | • | • | • | After reaching a multi-year low in January, the tightest since 2022, MBS spreads have drifted wider into the high-20s. While they remain meaningfully below their 10-year average, valuations are now largely in line with other high-quality Fixed Income sectors. This level reduces their relative attractiveness and limits potential upside compared to Treasurys and IG corporate bonds. |
| **U.S. Corporates** | • | ● | • | • | • | IG spreads remain near multi-decade tights. Outside of select sectors, such as Technology, valuations appear rich historically, and the potential for meaningful further spread compression looks limited. That said, all-in yields have moved higher amid the Treasury selloff, which should continue to support demand for high-quality fixed income. As we look toward year-end, our primary concern around valuations is technical rather than fundamental, as earnings growth remains well above trend. |
| **International Fixed Income** | • | ● | • | • | • | International rates markets are at normal valuation levels on a U.S. dollar-hedged basis. |
| **High Yield** | • | ● | • | • | • | Similar to IG, HY valuations remain expensive. However, a positive macroeconomic environment may limit spread volatility and credit losses as default rates have begun to improve modestly. This leaves us comfortable at a neutral positioning. Within a high yield allocation, we continue to suggest a balanced mix between loans and bonds. |
| **U.S. Investment-grade Tax Exempt** | • | ● | • | • | • | Munis have cheapened and offer improved value relative to where they began in July, but spreads have not widened enough versus Treasurys to justify increasing our allocation. Fundamentals remain stable, although budget pressures are beginning to emerge amid federal funding declines and inflationary pressures. We do see potential opportunities in maturities of 10 years and longer, as well as lower IG credits, where careful security selection can capture attractive spread while managing downside risk. |

| Asset Class | Underweight | | CIO View Neutral | | Overweight | |
|---|---|---|---|---|---|---|
| U.S. High Yield Tax Exempt | | ● | | | | High yield munis currently appear reasonably valued relative to IG, providing an opportunity for HY outperformance if economic conditions remain favorable. |

*Asia Pac ex-Japan refers to the geographic area surrounding the Pacific Ocean. The Asia Pac ex-Japan covers the western shores of North America and South America, and the shores of Australia, eastern Asia and the islands of the Pacific. Tactical qualitative investment strategy weightings are relative in nature versus the strategic weightings for a fully diversified portfolio. Weightings are based on the relative attractiveness of each asset class. Tactical strategy weightings are for a 12- to 18-month time horizon. CIO asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio. Because economic and market conditions change, recommended allocations may vary in the future. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

## CIO EQUITY SECTOR VIEWS AS OF AUGUST 4, 2026

The CIO Equity sector view is developed by applying a multi-input process combining the CIO's factor views and fundamental bottom-up industry outlook with top-down macro-economic changes and trends. The factor approach emphasizes valuation and momentum as key inputs, with a fundamental overlay taking into consideration forward-looking views of growth, profits, policy, events and sentiment as well as inclusion of certain investment themes. BofA Global Research's sector strategy views are also captured as an input into the CIO process. Our sector views are developed with a 12- to 18-month outlook but are revisited monthly by the GWIM Investment Strategy Committee.

| Sector | Underweight | | CIO View Neutral | | Overweight | |
|---|---|---|---|---|---|---|
| Industrials | | | | ● | | We are overweight Industrials as capex budgets continue to grow, some uncertainties have been removed, 100% bonus depreciation has been enacted again, and infrastructure plans are accelerating compared to recent years. Longer term there are multiple thematic drivers for Industrials over the next three to five years including multi-year backlogs for commercial aerospace, evolution of generative AI, increased power demand and improving outlooks for defense budgets outside the U.S. Valuation is elevated, and momentum recently improved, particularly across early cycle stocks. **Risk Considerations: 1) short-cycle recovery timing still debated though appears supportive, 2) inflation resurgence drives up input costs, pressuring margins, 3) continued supply chain stress.** |
| Consumer Discretionary | | | | ● | | Despite higher energy prices related to recent geopolitical tensions, resilient consumers continue to spend on both experiences and necessities. While we no longer expect interest rate cuts this year and see prior tax-cut related tailwinds subsiding, a relatively solid job market, healthy wage growth and the wealth effect from a rising stock market support our sector overweight. **Risk Considerations: 1) the potential for an economic slowdown, 2) prolonged spikes in energy prices or interest rates, 3) weakness in the job market, and 4) one or more of the three companies that make up ~60% of the sector has a significant pullback.** |
| Financials | | | | ● | | Investment banking and equity/debt capital markets activity was robust in first half and should have continued momentum in second half for the largest banks. We expect increased mergers & acquisitions activity among regionals supported by deregulation and a positive net interest income outlook. Robust loan growth and a steeper yield curve, portend record net investment income for second half which should mostly fall to the bottom-line. Solid earnings from the large digital payment networks highlight a resilient consumer base and strong net inflows & realizations for alternative asset managers suggest headline risk around private credit software investments might be overdone. Risks include persistent geopolitical headline risk, the possibility of Fed rate hikes, and a lower EPS growth outlook compared to the broader market. That said, we do not think deregulatory benefits are baked into consensus estimates. Overall, valuation is attractive, and earnings-driven momentum should continue to improve despite near term headwinds. **Risk Considerations: 1) a persistently inverted yield curve, 2) interest rate volatility, 3) private credit overhang, 4) lost market share to non-bank lenders.** |
| Information Technology | | | ● | | | We remain neutral on the IT sector due to elevated valuations, crowded positioning and margin risks, despite strong earnings growth and AI-driven flows. Despite weakness in software, the long-term outlook remains positive for Cloud, AI, data centers and semiconductors, but investors should focus on high-quality companies and add on market weakness. **Risk Considerations: 1) China exposure and trade wars, 2) supply chain constraints, 3) AI monetization and overspend.** |
| Energy | | | ● | | | Despite concerns at the beginning of 2026 on the growing oil and liquefied natural gas supply outlooks, the conflict in U.S./Iran has quickly erased that excess supply. Damage to energy infrastructure in the Middle East will take some time to fix. Continue to emphasize refiners and upstream companies that are low-cost producers with high FCF, balance sheet strength and low break-even oil prices. Energy stocks still provide attractive valuations and strong dividends with declining momentum. **Risk Considerations: 1) lower oil and natural gas commodity prices, 2) slower global energy demand.** |
| Materials | | | ● | | | There is improved pricing and demand for commodities in general, and specifically for metals and mining and more recently for chemicals due to supply disruptions. Longer term concerns remain regarding too much new capacity in the future for petrochemicals and commodity chemicals which could turn very quickly. We still see some longer-term tailwinds for demand, such as AI growth and power buildouts for copper demand and strong investment flows into precious metals. The underlying sector valuation and momentum is neutral. **Risk Considerations: 1) slower global economic growth, 2) weaker residential and non-residential construction, 3) oversupplied materials markets.** |

| Sector | CIO View Underweight | | Neutral | | Overweight | |
|---|---|---|---|---|---|---|
| **Utilities** | | | ● | | | We remain positive on growing electricity demand forecasts for the first time since the early 2000s and accelerating plans to invest in new generation, transmission and distribution infrastructure. Valuations based on forward price-earnings multiples are now near the broader S&P 500 index and momentum is neutral. Regulation at the state, regional, and federal level is mostly supportive though ratepayer bill inflation is a key factor to watch. **Risk Considerations: 1) affordability concerns driving adverse regulatory or legislative solutions, 2) slower power demand growth than forecast, 3) power outage events.** |
| **Healthcare** | | | ● | | | The fundamental landscape surrounding the healthcare space is holding up better than many anticipated and, in fact, is gradually improving. Utilization trends and procedural volumes remain solid, funding for new biotech and pharma research projects is improving, cost trends are not accelerating over projected estimates, and capital budgets appear to be under less pressure than was feared just a few quarters ago. Policy headwinds have become less of an overhang for the Healthcare sector in recent quarters with drug pricing agreements reached in 2025. We believe there could be some volatility ahead with the midterm elections upon us, but we view that as short term in nature. We maintain strong conviction in Large Biopharma and Small- and Mid-cap Biotech. Our conviction is growing in Medtech and Life Science tools after recent underperformance and they look to be more intriguing areas for investment. Diagnostics and certain areas within Managed Care/Providers are areas to be selective. We remain optimistic on the long-term outlook for the Healthcare sector amid demographic changes, innovative pipelines and a focus on driving down cost to consumers. Valuation is attractive and momentum has improved in recent months. **Risk Considerations: 1) policy changes that materially impact companies' profitability; 2) a slowdown in innovation; 3) margin and profitability pressures resulting from increased tariffs or higher labor/supply costs.** |
| **Communication Services** | | ● | | | | Communication Services sector faces pressure from weaker operating cash flow and FCF trends amid aggressive capital spending increases. While valuations for top companies are rich, overall sector valuation is aligned with the market, and momentum remains neutral. **Risk Considerations: 1) regulatory and anti-trust risks, 2) capex ramps for AI investments that limit EPS and FCF, 3) lower engagement pressuring growth.** |
| **Real Estate** | | ● | | | | We continue to be selective in Real Estate exposure. Furthermore, risks are rising for downward pressure on rental rates as lease contracts expire and new contracts are negotiated. Continue to emphasize longer-term secular trends in healthcare, data centers, communication infrastructure (towers), storage and industrial RE. Valuation is fair and momentum recently improved. **Risk Considerations: 1) spike in interest rates and borrowing costs, 2) declining demand for CRE in oversupplied markets, 3) workout problems.** |
| **Consumer Staples** | | ● | | | | Consumer Staples sector has faced headwinds from tariffs, higher input costs, and weaker earnings growth, while consumers increasingly trade down and favor private labels, pressuring branded product profitability. Although momentum is weak, fair-to-undervalued valuations and early signs of stabilization—along with AI-driven cost efficiencies—could support better-than-expected earnings in 2026. **Risk Considerations: 1) soft demand across consumer-packaged goods, 2) consumer trade down and substitution, 3) ongoing growth in private label and store brands.** |

Source: Chief Investment Office. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

## CIO THEMATIC INVESTING AS OF AUGUST 4, 2026

The following themes and subthemes encapsulate the Chief Investment Office's thinking on some of the most convincing undercurrents of future areas of growth around: Transformative Innovation, Resilient Infrastructure, Future Security and Changing Demographics. These themes carry long-term implications for economic growth, the cost of capital and global earnings. We'd consider exposure to these themes a key ingredient to investing.

### Transformative Innovation

**Generative Artificial Intelligence:** Power demand/generation, productivity wave

**Robotics/Automation:** Industrial/service robotics

**Digitization:** Cloud computing, data analytics, digital payments, internet of things, augmented reality and virtual reality, electrified transportation

### Resilient Infrastructure

**Energy Addition:** Nuclear renaissance, solar, natural gas generation, hydrogen, battery storage

**Utility Infrastructure:** Data centers, grid (transmission/distribution), thermal management, water management, power generation

**Supply Chain Reconfiguration:** Onshoring/nearshoring buildout

### Future Security

**Aerospace & Defense:** Remilitarization, space, drones

**Cybersecurity:** Network security, cloud evolution/security, endpoint security

**Resource Protectionism:** Food/agriculture/commodity scarcity (water), natural resources, metals/mining

### Changing Demographics

**Healthcare Innovation:** Ageing, longevity, drug discovery, biotechnology (gene therapy, personalized medicine)

**Great Wealth Transfer:** Wealth creation, NextGen consumer/investor base

**Global Labor Force Distribution:** Immigration/migration, global fertility bust, automation "cobots"

# Index Definitions

**Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in U.S. dollars.**

**S&P 500 Index** includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

**S&P Equal-Weighted Index** is a variation of the traditional S&P 500 that treats every company the same regardless of its size. While the traditional index weighs companies by their total market capitalization (giving giants like Apple and Nvidia massive influence), the equal weight index gives every stock exactly a 0.20% allocation.

**Nasdaq Index** is a stock market index that tracks the performance of thousands of stocks traded on the Nasdaq stock exchange.

**MSCI Emerging Markets Index** captures large and mid cap representation across 24 Emerging Markets (EM) countries.

**Bloomberg Municipal Bond Index** covers the USD-denominated long-term tax exempt bond market.

**NCREIF Open End Diversified Core Equity Index** is a capitalization-weighted, time-weighted benchmark index tracking the investment returns of private, institutional core real estate funds in the United States.

**HFRI Fund-Weighted Composite Index** is a global, equal-weighted benchmark tracking single-manager hedge funds, covering core strategies like Equity Hedge, Event-Driven, Macro, and Relative Value with performance data dating back to 1990.

**HFRI Equity Hedge (Total) Index** measures the performance of the hedge fund market. Equity hedge strategies maintain positions both long and short in primarily equity and equity derivative securities.

# Important Disclosures

**Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.**

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Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

Dividend payments are not guaranteed, and are paid only when declared by an issuer's board of directors. The amount of a dividend payment, if any, can vary over time.

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small cap and mid cap companies pose special risks, including possible illiquidity and greater price volatility than funds consisting of larger, more established companies. Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. Bonds are subject to interest rate, inflation and credit risks. Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes, or the rights of municipal security holders. Income from investing in municipal bonds is generally exempt from federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax. Investments in high-yield bonds (sometimes referred to as "junk bonds") offer the potential for high current income and attractive total return, but involves certain risks. Changes in economic conditions or other circumstances may adversely affect a junk bond issuer's ability to make principal and interest payments. Treasury bills are less volatile than longer-term fixed income securities and are guaranteed as to timely payment of principal and interest by the U.S. government. Mortgage-backed securities are subject to credit risk and the risk that the mortgages will be prepaid, so that portfolio management may be faced with replenishing the portfolio in a possibly disadvantageous interest rate environment. Investments in foreign securities (including ADRs) involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investing in Gold involves special risks, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors.

Investments in Infrastructure Assets will be subject to risks incidental to owning and operating infrastructure projects, including risks associated with the general economic climate, geographic or market concentration, government regulations and fluctuations in interest rates. The industries targeted for investment may be highly regulated by governmental agencies. Such regulations may impact an investor's ability to acquire, dispose of and/or manage investments.

**Alternative investments are speculative and involve a high degree of risk.**

Alternative investments are intended for qualified investors only. Alternative Investments such as derivatives, hedge funds, private equity funds, private credit and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity, and your tolerance for risk.

Nonfinancial assets, such as closely-held businesses, real estate, fine art, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not in the best interest of all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.