Fall | 2024

Institutional Perspectives

Eyeing the Runway for a Soft Landing

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It is easy for investors to become engrossed—even overwhelmed—by the amount of uncertainty in the world today. Recession worries lurk in the background, ready to pounce on any disappointing piece of economic data. The 2024 U.S. presidential election season has already delivered more surprises than any in recent history and is still four weeks away. Geopolitical risk is at a boiling point in many parts of the world.

Yet focusing on these uncertainties runs the chance of overlooking the many areas in which we have gained more clarity—insight that gives us the conviction to remain overweight to equities versus our strategic benchmark. First and perhaps most importantly, inflation is showing little sign of rearing its ugly head again, and the Federal Reserve has officially embarked on a rate-cut cycle that is very likely to last through 2025. Positive economic data far outweigh some yellow warning signals, increasing the odds of a "soft landing." The long-awaited broadening of equity leadership is finally occurring and is likely in early innings. We are even getting some positive developments out of China, where years of disappointing economic data have finally elicited a bold, stimulative response from policymakers.

Despite some "known unknowns"—most prominently the policy implications of next month's elections—there are many more data points that we do know, which are collectively pointing us toward an overweight allocation to equities, underweight position to cash and hedge funds, and neutral allocation to fixed income. And as regards the election, we are cautiously optimistic that most outcomes, namely anything other than an unlikely blue sweep wherein the Democrats win control of the presidency and both houses of Congress, will provide further tailwinds to U.S. stocks.

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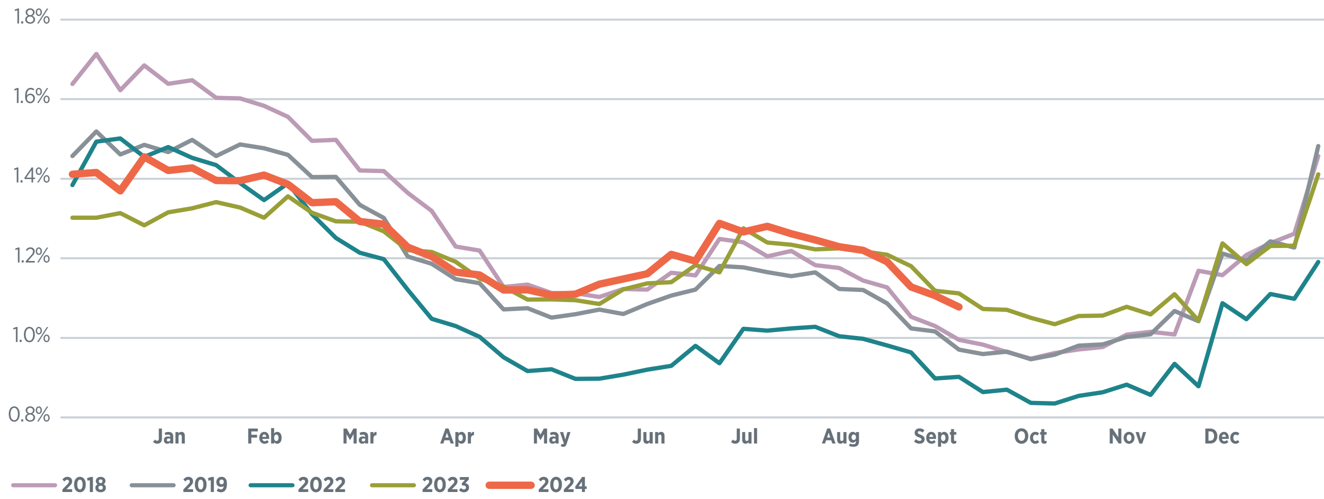
Figure 1

No sign of significant job loss

Continuing unemployment claims rate by month



Data as of 9/15/2024. Sources: Department of Labor, Wilmington Trust. Note: Data are not seasonally adjusted (NSA). The unemployment claims rate is the percentage of people collecting unemployment insurance benefits as a share of those eligible for the program.

Economic baseline

The U.S. economy continues to surpass expectations. The most recent four quarters are tracking at a 3% growth rate as consumer activity remains strong. The labor market has loosened but is healthy, with job growth averaging 186,000 net new jobs over the past three months. The unemployment rate ticked up in July on the back of an expanding labor pool but has since receded to 4.1%, and unemployment claims are very low, both on an absolute basis and as a share of the population (Figure 1). The services economy remains strong, evidenced by purchasing manager surveys, spending data, and corporate earnings reports. We expect economic activity to slow into the tail end of this year, bringing 2024 GDP growth to 2.5%—a full percent higher than we forecasted at the start of the year. Despite some slowing in consumer activity ahead, we place a relatively high 70% probability that the economy will continue to expand over the next 12 months or, in other words, that we will not experience a recession over that time.

Inflation has been tamed, ushering in the first of many rate cuts from the Fed. The central bank is projecting another 150 basis points or bps (1.50%) of rate cuts through the end of 2025. We expect more easing from the Fed on the order of 200 bps of total rate cuts over the next 15 months, which would bring down the fed funds rate to the Fed's projection of the long-run "neutral rate" (the rate that neither stimulates nor slows the economy). This should ease borrowing costs for consumers and businesses alike. The September rate cut of 50 bps is already breathing life into parts of the real estate market. We should also see easier monetary policy lift profit margins for small businesses that we expect to, over time, provide relief to credit card and auto borrowers.

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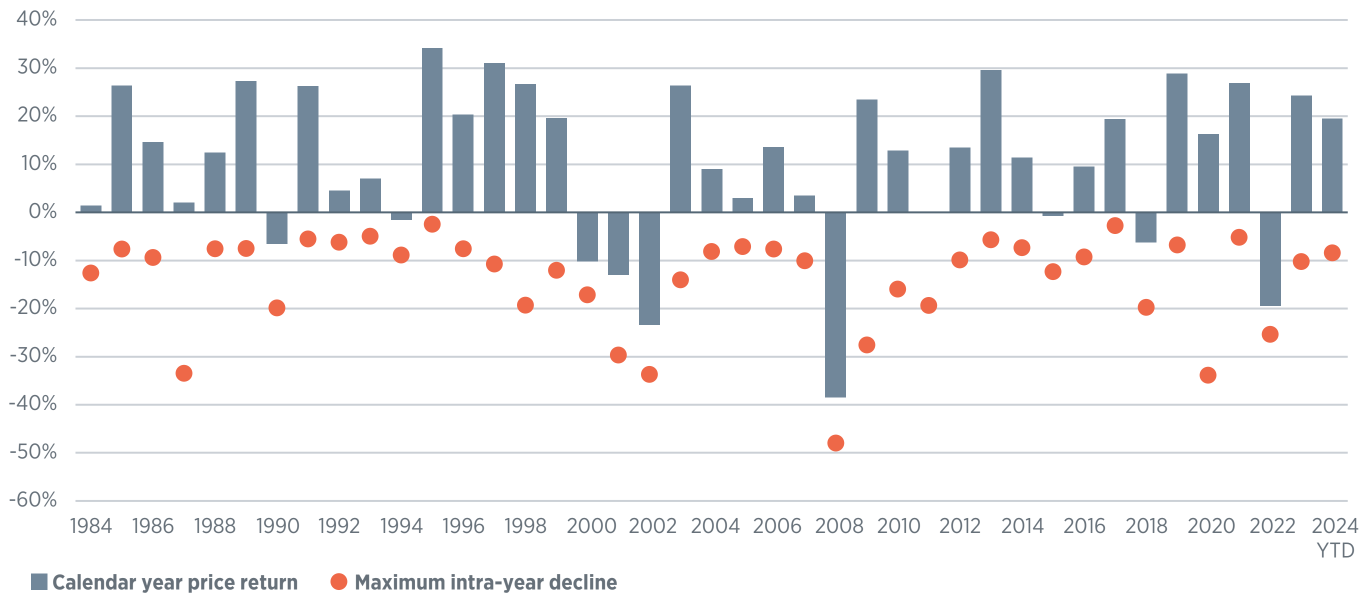
Figure 2

Equity market drawdowns are a part of investing

S&P 500 calendar-year % returns vs. intra-year % declines



Data as of 10/3/2024. Bars represent S&P 500 price return data. Sources: Bloomberg, WTIA.
Past performance cannot guarantee future results. Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses such as management fees and transaction costs which will reduce returns.

This level of optimism is not to suggest we aren't looking around every corner for signs the economy could be weaker than we think. We are. Rising credit delinquencies (especially for younger and lower-credit borrowers) and falling job openings bear watching. Collectively, the data continue to point to an economy normalizing in the post-pandemic era. Last, we do not see any obvious catalysts that could throw the economy into a recession.

Investment outlook

Our constructive economic baseline translates into a positive outlook for the equity market over the next 9–12 months. Make no mistake, expectations must be managed. The S&P 500 has returned more than 20% year to date (1/1/2024–9/30/2024) and 34% over the last 12 months (9/30/2023–9/30/2024). These returns are unlikely to be repeated over the next year. Bloomberg consensus expects earnings to grow by 15% next year, and the index is trading at a price-to-earnings (P/E) ratio of 21.7 times those forward earnings growth estimates. Simply put, a lot of good news is priced in, and the market may need to "tread water" for a bit as we await a new positive catalyst.

We expect mid-single digit returns with considerable volatility from equities over the next 12 months as the economy chugs along and the Fed cuts rates. During that time, we believe one or more short-term market corrections are likely. That, however, would be par for the course and not cause for alarm (Figure 2). Outside of a recession or significant growth scare, such a pullback would likely be short, shallow (probably around 10–15%), and representative of an attractive opportunity for deployment of excess cash.

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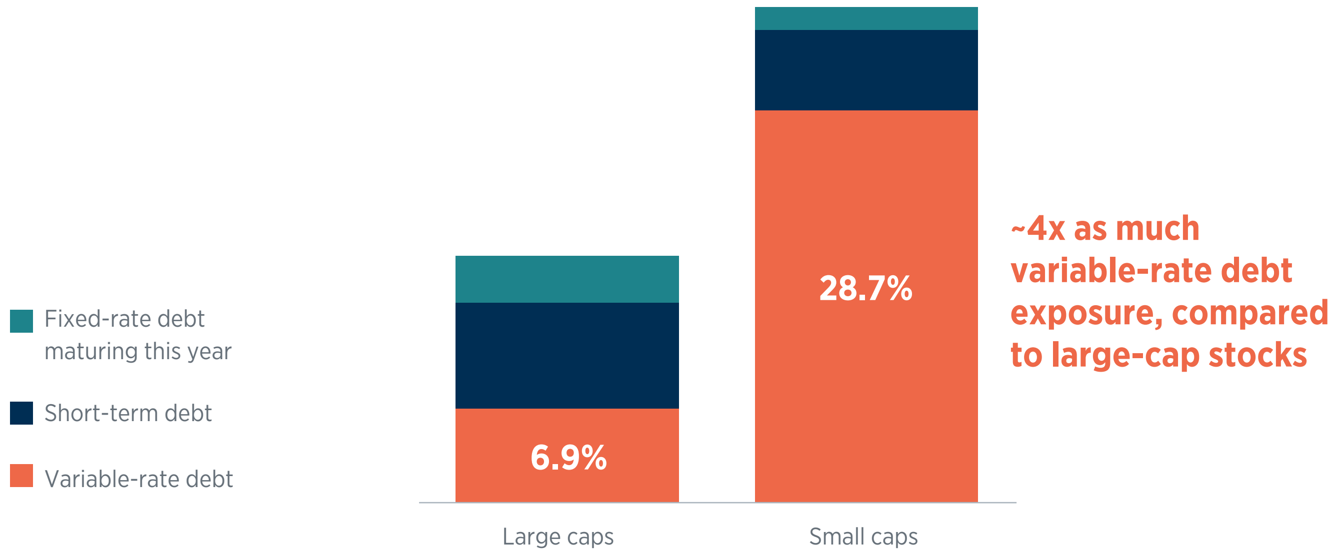
Figure 3

Small caps a beneficiary of rotation trade, rate cuts

Large cap and small cap (ex-financials and real estate) share of debt that is rate sensitive



Data as of 7/31/2024. Source: Empirical Research Partners, Factset Research. "Large caps" represents the 750 largest U.S. stocks. "Small caps" represents the next 2000 largest.

As the market rally continues, we find it very encouraging that leadership has broadened since the summer. A key theme for our positioning this year was an expectation of better participation from non-tech sectors and smaller companies, but it took longer to play out than we anticipated. Over the last three months, U.S. small cap has been the best-performing asset class, outpacing U.S. large cap by more than 4%. Returns from real estate, utilities, and financials have handily beaten those of the technology sector. Such an improvement in market breadth has benefited many of our active managers.

We are positioned with an overweight to equities, an underweight to cash, and a neutral allocation to fixed income. Despite the Fed cutting rates, we think any decline in rates will be limited to the short end of the curve, and the 10-year Treasury yield could actually move a bit higher over the next 9–12 months. This steeper yield curve could limit the return potential of medium-to-long-duration fixed income. Our equity overweight favors U.S. large cap and U.S. small cap, and we hold an underweight to international developed equities. U.S. small cap stands to benefit from rate cuts, as smaller companies hold four times the amount of variable-rate debt than larger companies (Figure 3). While small-cap valuations are not cheap by their own history, they do look attractively priced relative to U.S. large cap. International developed equities have done reasonably well this year despite a weak economy. With European manufacturing still in the doldrums and services activity rolling over, we think an underweight to international developed equities is appropriate.

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Did you miss our election-focused webinar that took place on September 25?

Access the replay to hear the team talk about predictions of the latest polls, how the results may impact key tax, tariff, immigration, regulation, and other issues, as well as potential implications for portfolios.

Election

Layered on top of our baseline economic and market outlook are various potential U.S. election outcomes. The election is less than a month away, and a lot can change in that time. Uncertainty is prevalent on three levels: 1) the election outcome, 2) the policies that will be enacted by the elected official versus what is touted on the campaign trail, and 3) the economic and market impacts of those policies.

We discussed the economic and market implications of the election in detail in a recent webinar. In the interest of brevity, I will make just a few important points here. First, at this time, with the Republicans likely to flip the Senate, we are cautiously optimistic on the market reaction to the election in most scenarios. If Harris wins, we would have divided power, bringing, more or less, an extension of the status quo. This would not be a bad outcome for markets, particularly since we would anticipate the Republican-controlled Senate to prevent the Harris administration from further expanding the deficit and potentially help shrink that number.

A Trump outcome poses greater uncertainty, since it is impossible to know how aggressively a second Trump administration would actually pursue the stated tariff and immigration positions of now candidate Trump. And if enacted in large measure, it is not entirely clear what economic impact these policies would have. Nonetheless, as a baseline, we would expect a second Trump administration to usher in a favorable tax and regulatory climate for American businesses. This coupled with a judicious approach on tariffs should support stocks. At the same time, we very much recognize that, fully implemented, Trump tariffs would likely result in short-term inflation, trade wars, and a recession. Therefore, in the case of a Trump outcome, the markets will be looking to a president-elect Trump for reassurance that he will move cautiously in this area. We would expect heightened volatility in this scenario.

Also, given the lack of focus on fiscal discipline from either candidate, higher deficits, inflation, and interest rates are a distinct possibility under any scenario. This makes fixed income relatively less attractive. The best case for our fiscal state is likely a divided government, but here we would expect to see tense, volatility-inducing debates around the funding of government and the debt ceiling, the latter of which could move front and center by mid-2025.

Luckily, we are heading into the election on sound footing. Be on the lookout for more updates to come ahead of and once a winner has been declared post Election Day.

Continued

Figure 4

Asset class positioning

Institutional portfolios with Private Hedge Funds

	Tactical tilts	– Neutral +	Positioning
Equities	U.S. Large Cap	○ ○ ○ ○ ● ○ ○	Overweight
	U.S. Small Cap	○ ○ ○ ○ ● ○ ○	
	International Developed	○ ○ ● ○ ○ ○ ○	
	Emerging Markets	○ ○ ○ ● ○ ○ ○	
Taxable Fixed Income	Investment Grade	○ ○ ○ ● ○ ○ ○	Neutral
	High Yield	○ ○ ○ ● ○ ○ ○	
Real Assets	Global REITs	○ ○ ○ ● ○ ○ ○	Neutral
	Other/Commodities	○ ○ ○ ● ○ ○ ○	
Alternatives	Equity Long/Short Hedge	○ ○ ● ○ ○ ○ ○	Underweight
Cash		○ ○ ● ○ ○ ○ ○	Underweight

Data as of 9/30/2024.

Positioning reflects our monthly tactical asset allocation (TAA) versus the long-term strategic asset allocation (SAA) benchmark. For an overview of our asset allocation strategies, please see the disclosures.

Concluding thoughts

As we move through the final quarter of the year, we think it's important to keep in mind what we do know, as tempting as it is to focus only on what we do not know. Uncertainty and investing go hand in hand. The key is to avoid drastic damage to portfolios by making significant moves ahead of high-profile events like elections. At this time, we retain an overweight to equities in portfolios and are carefully monitoring risks to determine what, if any, adjustments are warranted.

Tony

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Some investment products may be available only to certain "qualified investors"—that is, investors who meet certain income and/or investable assets thresholds.

Alternative assets, such as strategies that invest in hedge funds, can present greater risk and are not suitable for all investors.

Any positioning information provided does not include all positions that were taken in client accounts and may not be representative of current positioning. It should not be assumed that the positions described are or will be profitable or that positions taken in the future will be profitable or will equal the performance of those described.

Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses, such as management fees and transaction costs that will reduce returns.

An overview of our asset allocation strategies:
Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High-Net-Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Allocations:
Each strategy group is constructed with target policy weights for each asset class. Wilmington Trust periodically adjusts the policy weights' target allocations and may shift from the target allocations within certain ranges. Such tactical allocation adjustments are generally considered on a monthly basis in response to market conditions.

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Disclosures Continued

The asset classes and their current proxies are:

- Large–cap U.S. stocks: Russell 1000® Index
- Small–cap U.S. stocks: Russell 2000® Index
- Developed international stocks: MSCI EAFE® (Net) Index
- Emerging market stocks: MSCI Emerging Markets Index
- U.S. inflation-linked bonds: Bloomberg US Treasury Inflation Notes TR Index Value Unhedged*
- International inflation-linked bonds: Bloomberg World ex US ILB (Hedged) Index
- Commodity-related securities: Bloomberg Commodity Index
- U.S. REITs: S&P US REIT Index
- International REITs: Dow Jones Global ex US Select RESI Index
- Private markets: S&P Listed Private Equity Index
- Hedge funds: HFRX Global Hedge Fund Index
- U.S. taxable, investment-grade bonds: Bloomberg U.S. Aggregate Index
- U.S. high-yield corporate bonds: Bloomberg U.S. Corporate High Yield Index
- U.S. municipal, investment-grade bonds: S&P Municipal Bond Index
- U.S. municipal high-yield bonds: 60% Bloomberg High Yield Municipal Bond Index / 40% Municipal Bond Index
- International taxable, investment-grade bonds: Bloomberg Global Aggregate ex US
- Emerging bond markets: Bloomberg EM USD Aggregate
- Cash equivalent: 30-day U.S. Treasury bill rate

All investments carry some degree of risk. Return volatility, as measured by standard deviation, of asset classes is often used as a proxy for illustrating risk. Volatility serves as a collective, quantitative estimate of risks present to varying degrees in the respective asset classes (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Quality ratings are used to evaluate the likelihood of default by a bond issuer. Independent rating agencies, such as Moody's Investors Service and Standard & Poors, analyze the financial strength of each bond's issuer. Ratings range from Aaa or AAA (highest quality) to C or D (lowest quality). Bonds rated Baa3 or BBB and better are considered **Investment Grade.** Bonds rated Ba1 or BB and below are **Speculative Grade** (also **High Yield**.)

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Glossary

30-day U.S. Treasury bill rate Bank of America Merrill Lynch U.S. 3-Month Treasury Bill Index measures the performance of a single U.S. Treasury bill added to the index at the beginning of the month and held for a full month; the issue is replaced with a newly selected issue at each month-end and the index will often hold the Treasury bill issued at the most recent three-month auction, it is also possible for a seasoned six-month bill to be selected.

Alpha is the excess return of an investment, relative to the return of a benchmark index.

Atlanta Fed GDPNow is a nowcasting model for gross domestic product (GDP) growth that synthesizes the bridge equation approach relating GDP subcomponents to monthly source data with factor model and Bayesian vector autoregression approaches. The GDPNow model forecasts GDP growth by aggregating 13 subcomponents that make up GDP with the chain-weighting methodology used by the US Bureau of Economic Analysis.

Basis points refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

Beta is a measure of how an individual asset moves when the overall stock market increases or decreases. Thus, beta is a useful measure of the contribution of an individual asset to the risk of the market portfolio when it is added in small quantity.

Bloomberg Agriculture Subindex Total Return (BCOMAGTR), formerly known as Dow Jones-UBS Agriculture Subindex Total Return (DJUBAGTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat and reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Commodity Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM; it combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

Bloomberg Commodity Total Return index (BCOMTR) is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM and combines the returns of BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

Bloomberg Dollar Spot Index tracks the performance of a basket of 10 leading global currencies versus the U.S. Dollar. It has a dynamically updated composition and represents a diverse set of currencies that are important from trade and liquidity perspectives.

Bloomberg Energy Subindex Total Return (BCOMENTR), formerly known as Dow Jones-UBS Energy Subindex Total Return (DJUBENTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas and reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Global Aggregate Bond Index measures the performance of global investment-grade fixed-rate debt markets, including the U.S., Pan-European, Asian-Pacific, Global Treasury, Eurodollar, Euro-Yen, Canadian, and investment-Grade 144A index-eligible securities.

Bloomberg Industrial Metals Subindex Total Return Index (BCOMTNT), formerly known as Dow Jones-UBS Industrial Metals Subindex Total Return (DJUBINTR), is a commodity group subindex of the Bloomberg CITR composed of longer-dated futures contracts on aluminum, copper, nickel and zinc and reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Municipal Bond Index covers the four main sectors of the USD-denominated long-term tax-exempt bond market: state, and local, general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

Bloomberg Precious Metals Subindex Total Return (BCOMPRTR), formerly known as Dow Jones-UBS Precious Metals Subindex Total Return (DJUBPRTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on gold and silver. It reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg U.S. Aggregate Index measures the performance of the entire U.S. market of taxable, fixed-rate, investment-grade bonds. Each issue in the index has at least one year left until maturity and an outstanding par value of at least $250 million.

Bloomberg US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

Bloomberg U.S. High Yield Corporate Index, formerly Lehman Brothers U.S. High Yield Corporate Index, measures the performance of taxable, fixed-rate bonds issued by industrial, utility, and financial companies and rated below investment grade. Each issue in the index has at least one year left until maturity and an outstanding par value of at least $150 million.

Bloomberg U.S. Mortgage Backed Securities Index measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of GNMA, FNMA, and FHLMC.

Bloomberg US Treasury US TIPS TR USD index measures the performance of rules-based, market value-weighted inflation-protected securities issued by the U.S. Treasury. It is a subset of the Bloomberg US Treasury Inflation-Linked Bond Index (Series-L), which measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

Call risk: Call risk is the possibility that an issuer may redeem a fixed income security before maturity (a call) at a price below its current market price. An increase in the likelihood of a call may reduce the security's price.

Cambridge Global Private Equity Index is a horizon calculation based on data compiled from 2,354 private equity funds, including fully liquidated partnerships, formed between 1986 and 2019. All returns are net of fees, expenses, and carried interest.

Continued

Glossary Continued

Consumer price index measures the price of consumer goods and how they're trending and is a tool for measuring how the economy as a whole is faring when it comes to inflation or deflation.

Coupon, coupon rate, or coupon payment is the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity.

Credit risk: Fixed income securities carry the risk of default, which means that the security issuer fails to pay interest or principal when due. Many fixed income securities receive credit ratings from services such as Standard & Poor's and Moody's Investor Services, Inc. These services assign ratings to securities by assessing the likelihood of issuer default. Lower credit ratings correspond to higher credit risk.

Dow Jones Global ex. US Select RESI Index tracks the performance of equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally, excluding the U.S.

Drawdown is a peak-trough decline during a specific period for an investment, trading account, or fund and is usually quoted as the percentage between the peak and the subsequent trough.

Drift occurs when an asset or investment diverges significantly from its objective or investment style, such as market capitalization. It can result naturally from capital appreciation in one asset relative to others in a portfolio, a change in a fund's management, or a manager who begins to diverge from the portfolio's mandate. It can be corrected by rebalancing the fund to optimal weights.

Duration risk is the risk associated with the sensitivity of a bond's price to a one percent change in interest rates. The higher a bond's duration, the greater its sensitivity to interest rates changes.

Equity risk premium is the extra return that's available to equity investors above the return they could get by investing in a riskless investment like T-Bills or T-Bonds or cash.

ESG is a strategy that integrates environmental, social, and governance (ESG) factors into the investment process may avoid or sell investments that do not meet criteria set forth by the investment manager. Such investments may perform better than investments selected utilizing ESG factors.

Event-driven hedge fund strategies attempt to take advantage of temporary stock mispricing before or after a corporate event takes place. An event-driven strategy exploits the tendency of a company's stock price to suffer during a period of change.

Federal funds rate is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight on an uncollateralized basis.

Global intangible low-taxed income (GILTI) is a category of income that is earned abroad by U.S.-controlled foreign corporations (CFCs) and is subject to special treatment under the U.S. tax code.

Gold can be significantly affected by international monetary and political developments as well as supply and demand for gold and operational costs associated with mining.

Headline inflation is a measure of the total inflation within an economy, including commodities such as food and energy prices, which tend to be much more volatile and prone to inflationary spikes.

HFR® (HedgeFundResearch) Indices are the established global leader in the indexation, analysis and research of the hedge fund industry. They are broadly constructed indices designed to capture the breadth of hedge fund performance trends across all strategies and regions.

HFRX Absolute Return Index and the HFRX Global Hedge Fund Index represent the overall composition of the hedge fund universe and comprise all eligible hedge fund strategies and selects constituents that characteristically exhibit lower volatilities and lower correlations to standard directional benchmarks of equity market and hedge fund industry performance.

HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe and are asset weighted based on the distribution of assets in the hedge fund industry.

Inflation-linked bonds are a specific type of index-linked securities that are tied to the costs of consumer goods as measured by the Consumer Price Index (CPI) or another index. Their values increase during inflationary periods, which reduces the risk of uncertainty.

Interest rate risk: Prices of fixed income securities rise and fall in response to changes in the interest rate paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. However, market factors, such as the demand for particular fixed income securities, may cause the price of certain fixed income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed income securities with longer durations. Duration measures the price sensitivity of a fixed income security to changes in interest rates.

ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms and is considered to be a key indicator of the state of the U.S. economy.

ISM Non-Manufacturing Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives and is part of the ISM Report On Business—Manufacturing (PMI) and Services (PMI).

ISM Services Prices Paid Index is a diffusion index calculated by adding the percent of responses indicating they paid more for inputs plus one-half of those responding who paid the same; resulting in a single number that is seasonally adjusted.

LIBOR is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another.

Long, or a long position, describes an investor's expectation of a holding's future value. A position that the investor expects will rise in value and plans to hold for a long period of time is often described as "held long." It is the opposite of short, or a short position.

M2 money supply is a measure of the money supply that includes cash, checking deposits, and other types of deposits that are readily convertible to cash such as CDs.

Macro hedge fund strategies generally focus on financial instruments that are broad in scope and move based on systemic or market risk (not security specific). In general, portfolio managers who trade within the context of macro strategies focus on currency strategies, interest rates strategies, and stock index strategies.

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Glossary Continued

The Magnificent Seven refers to the companies commonly recognized for their market dominance, their technological impact, and their changes to consumer behavior and economic trends: Alphabet (Google), Amazon, Apple, Meta (formerly Facebook), Microsoft, NVIDIA, and Tesla.

MSCI AC Asia ex Japan Index captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and nine emerging markets countries in Asia. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI All Country World Index (ACWI) is a stock index designed to track broad global equity-market performance. Maintained by Morgan Stanley Capital International (MSCI), the index comprises the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

MSCI China Index captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The index covers about 85% of this China equity universe. Currently, the index includes large-cap A and mid-cap A shares represented at 20% of their free float adjusted market capitalization.

MSCI EAFE Growth Index captures large- and mid-cap securities exhibiting overall growth style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EAFE® (net) Index measures the performance of approximately 20 developed equity markets, excluding those of the United States and Canada; total returns of the index are net of the maximum tax withholding rates that apply in many countries to dividends paid to non-resident investors.

MSCI Emerging Markets (net) Index captures large- and mid-cap representation across 27 emerging markets countries. With 1,407 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EAFE Value Index captures large- and mid-cap securities exhibiting overall value style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index captures large- and mid-cap representation across 26 emerging markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Europe Index captures large- and mid-cap representation across 15 developed markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European DM equity universe.

MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI United Kingdom Index is designed to measure the performance of the large- and mid-cap segments of the UK market. The index covers approximately 85% of the free float-adjusted market capitalization in the UK.

Personal consumption expenditures is the primary measure of consumer spending on goods and services in the U.S. economy and is the primary engine that drives future economic growth.

Price-to-earnings (P/E) ratio measures a company's current share price relative to its earnings per share (EPS).

Producer Price Index (PPI) is a family of indexes measuring the average change in selling prices received by domestic producers of goods and services.

Real estate investment trusts, or REITs, are companies that own, operate, or finance income-generating real estate. Similar to mutual funds, REITs pool the capital of numerous investors, allowing them to earn dividends from real estate investments without having to buy, manage, or finance properties themselves.

Relative value hedge fund strategies cover a variety of low-volatility trading strategies with the consistent theme of attempting to reduce market risk, i.e., the manager seeks to generate a profit regardless of which direction the markets are moving. All relative value strategies minimize market risk by taking offsetting long and short positions in related stocks, bonds, and other types of securities.

Reverse optimization uses risk estimates and optimal portfolio weights (asset allocations) to derive the forward-looking returns that generate the highest expected risk-adjusted return for the portfolio; in contrast, traditional optimization uses risk estimates and forward-looking return assumptions to derive the portfolio weights (asset allocations) that generate the highest expected risk-adjusted return for the portfolio. Reverse optimization can be used to test or validate market outcomes in addition to (not as a replacement for) other methods of analysis.

Risk assets refers to assets that are not risk-free, such as currencies, equities, and other financial instruments. Treasuries are not included.

Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, representing approximately 92% of the total market capitalization of the Russell 3000 Index.

Russell 1000 Growth is a market capitalization-weighted index that measures the performance of the large-cap growth segment of U.S. equity securities; it includes the Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value is a market capitalization-weighted index that measures the performance of the large-cap value segment of U.S. equity securities; it includes the Russell 1000 index companies with lower price-to-book ratios and lower expected growth values.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Continued

Glossary Continued

S&P 493 is a term that was coined to reference the index S&P 500 excluding the "Magnificent Seven" (M7) of Alphabet, Amazon, Apple, Meta (formerly Facebook) Platforms, Microsoft, Nvidia, and Tesla.

S&P 500 index measures the stock performance of 500 large companies listed on stock exchanges in the U.S. and is one of the most commonly followed equity indices.

S&P Developed Property index defines and measures the investable universe of publicly traded property companies domiciled in developed markets. The companies in the index are engaged in real estate related activities, such as property ownership, management, development, rental and investment.

S&P Listed Private Equity Index comprises the leading listed private equity companies that meet specific size, liquidity, exposure, and activity requirements. The index is designed to provide tradable exposure to the leading publicly-listed companies that are active in the private equity space.

S&P Municipal Bond Index is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond marke

S&P US REIT Index measures the investable U.S. real estate investment trust market and maintains a constituency that reflects the market's overall composition.

Short-duration Treasury securities are backed by the full faith and credit of the U.S. government. They typically mature in one year or less.

Short, or short position, refers to a trading technique in which an investor sells a security with plans to buy it later; it is used when an investor expects the price of a security to fall in the short term.

Stagflation is persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

Tail risk is the probability that the asset performs far below or far above its average past performance. Investors are most concerned with "left" tail risk, or the likelihood that observations fall three standard deviations below the average expected return.

Taxable equivalent yield (TEY) = the pretax yield that must be received on a taxable security to provide the holder the same after-tax yield as that earned on a tax-exempt security. The TEY = muni yield/1- highest tax rate.

Value sectors or stocks, generally refer to those trading at levels perceived to be below their fundamentals.

Yield curve plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

Yield to maturity is the estimated total return on a bond if the bond is held until it matures.

Yield to worst measures the lowest possible yield that can be received on a bond with an early retirement provision and must always be less than yield to maturity because it represents a return for a shortened investment period.

