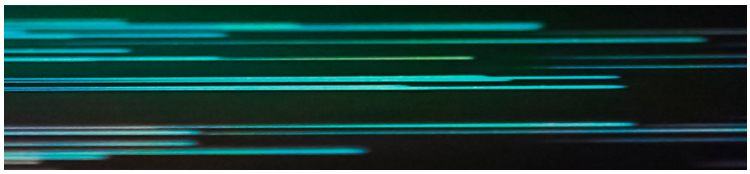
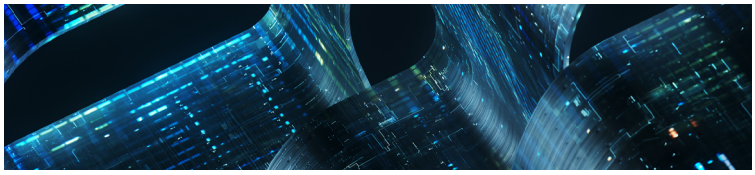
THE CHIEF INVESTMENT OFFICE PERSPECTIVE



THE SHORT AND LONG

2026 Q2 Macro Investment View



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THE SHORT AND LONG

2026 Q2 Macro Investment View

INVESTMENT PRODUCTS: NOT FDIC INSURED · NOT CDIC INSURED
NOT GOVERNMENT INSURED · NO BANK GUARANTEE · MAY LOSE VALUE

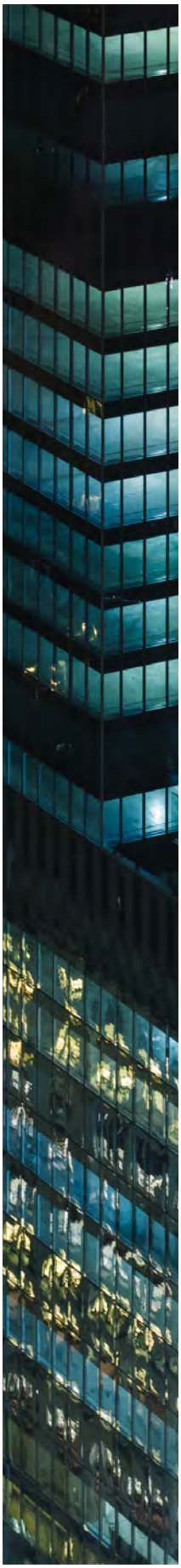
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SECTION 1

INTRODUCTION FROM THE CIO

KEY TAKEAWAYS

01	Markets are adjusting to simultaneous shocks, including energy disruption, geopolitical risk, and shifting policy expectations. That combination has increased volatility and led investors to reprice risk more quickly across asset classes.
02	The U.S. economy continues to show resilience, supported by stable labor markets and healthy consumer activity. Even so, we are monitoring closely for signs that geopolitical stress begins to weigh more meaningfully on growth.
03	Policy expectations have shifted sharply toward tighter financial conditions as inflation risks remain elevated, and energy prices move higher. That backdrop reinforces our preference for portfolio resilience, quality, and short-duration exposure.

The first quarter of 2026 forced markets to absorb multiple shocks at once. Tepid starting sentiment gave way to higher volatility as energy disruptions and geopolitical stress compounded existing concerns around artificial intelligence (AI) investment intensity, structural industry disruption (most evident in software valuations), and the rapid expansion of private credit. Together, these forces increased uncertainty and challenged assumptions about growth, capital allocation, and risk pricing.

Even so, risk assets behaved reasonably well. The 9% peak-to-trough drawdown in the S&P 500 during the first quarter sits within the historical range for intra-year drawdowns. Unsurprisingly, heightened uncertainty has translated into higher volatility. As the range of potential economic and geopolitical outcomes widens, markets are repricing risk more frequently and more abruptly. This volatility is a natural feature of transition and reinforces the importance of constructing resilient portfolios. Our approach to multi-asset portfolio construction remains anchored in sustainable fundamentals, with a clear recognition that lower valuations alone do not necessarily constitute value.

Rising geopolitical, economic, and market uncertainty is forcing a reassessment of "fair" valuations across asset classes. We have long argued that structurally higher equity multiples were supported by greater visibility into business operations and earnings. Today's elevated uncertainty, however, materially limits the scope for further multiple expansion, particularly in regions more exposed to higher energy prices, such as Europe. In this environment, we believe near-term risk asset returns will need to be driven primarily by earnings growth rather than valuation uplift.

We entered the year constructive on economic growth and optimistic about a synchronized global expansion in the first half of 2026. Despite cautious market sentiment, first-quarter macro data largely supported that view. However, much of this data is backward-looking, and there is still limited evidence reflecting the economic impact of the recent conflict. As we move into the second quarter, some expectations warrant recalibration, though we remain encouraged by broadly positive high-frequency U.S. consumer data and continued labor-market stability. On balance, we believe the U.S. economy is well positioned to absorb geopolitical shocks, while parts of Europe and emerging markets face greater sensitivity to energy costs, trade disruptions, and weaker underlying growth momentum. We remain vigilant for any sustained deterioration in activity that could alter our outlook.

We have favored resources since 4Q25, supported by robust AI-related capital expenditure (capex). While that structural demand outlook remains intact, the energy shock tied to the Middle East conflict has materially altered pricing and relative value across the sector. Even a rapid de-escalation would be unlikely to restore the pre-conflict equilibrium in the near term, given meaningful damage to energy infrastructure and critical assets in Iran and the Gulf Cooperation Council[1] region. The impact extends beyond energy into agriculture, petrochemicals, and transportation, and will take time to normalize.

Perhaps most consequential has been the repricing of the global monetary policy path. At the start of the year, we identified a hawkish shift in policy expectations as a key risk to market sentiment. That risk has since materialized, with markets moving from pricing easing to pricing tightening across central banks in 2026 following the escalation of the conflict in the Middle East and subsequent disruption to energy supply. The result has been a rapid rise in yields across sovereign debt. While our baseline already assumed higher inflation and less easing than consensus, the pace and scale of the rate adjustment appears overdone in some areas of the curve.



Since the start of the year, we have made two key adjustments to portfolios aimed at strengthening resilience and seeking opportunities in rapidly shifting markets (see our latest Asset Allocation positioning from April 2, 2026 Global Investment Council here). Following the spike in bond yields driven by escalating tensions in the Middle East, we trimmed exposure to Emerging Market debt, where spreads had widened only marginally relative to fundamental risks and we added to U.S. short duration debt. In equities, consistent with themes we outlined in our 1Q26 report, we reduced European exposure in favor of U.S. large caps. Europe's weakening macro backdrop, combined with persistent energy-related headwinds from the conflict leaves the region's risk assets less compelling, in our view, particularly given that 2025's strong returns were largely propelled by a multiple expansion that we expect is unlikely to recur this year.

Heightened conflict in the Middle East and renewed fears over energy security further reinforce the shift toward a more fragmented and transactional multi-polar world. Even after near-term price pressures fade, the momentum behind geopolitical and economic fragmentation is unlikely to reverse. For years, investors have discussed the realignment of supply chains, shifting security alliances, and technology-driven partnerships. The events of 1Q26 have put these long-running debates under a sharper spotlight. While the cost and urgency of these transitions have been widely debated (including by us), we now expect governments and companies to accelerate investment and spending in earnest in response to recent developments.

With energy security now added to the equation, the incentive for economic self-sufficiency has increased materially. Strategic rivalries and the erosion of trust extend well beyond the U.S.-China relationship and increasingly define the broader global landscape. Taken together, we expect these risks will inspire a renewed geopolitical urgency in infrastructure investment.

[1] A regional economic and political alliance of six Middle Eastern countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates) established to promote economic integration, policy coordination, and regional stability.

FIVE CONVICTIONS SHAPING OUR VIEW

These five core convictions represent our highest confidence views on the macro backdrop, market opportunities, and risks in 2Q26:

01 **Remaining anchored to fundamentals during volatility**

We believe U.S. equities remain a favorable core equity exposure for portfolios due to durable fundamental underpinnings.

02 **Staying underweight duration amid inflationary and fiscal concerns**

Front-end bond exposure appears to offer attractive income with less of the price risk of longer-term bonds if rates rise further.

03 **Taking equity risk rather than credit risk**

With global spreads still tight, we do not think investors are being paid enough to take excessive credit risk as the Middle East conflict may impact growth in various regions.

04 **Gold remains an important tool for portfolio allocations**

As global entities diversify global reserve balances, we see gold as having the potential for continued benefit.

05 **Structural investment themes are becoming more actionable**

The conflict in the Middle East is exacerbating slow-moving forces around supply chain realignment, the energy transition, and fiscal policy - leading to potentially durable opportunities.



SECTION 2

MACRO OVERVIEW AND FOCUSES FOR 2Q26

KEY TAKEAWAYS

01	Early data shows resilience in global growth, though rising input costs and uncertainty may pressure activity over time.
02	Profit margins remain a key buffer, particularly in the U.S. and Japan, but are more vulnerable in Europe and other advanced economies.
03	Inflation risks remain elevated, limiting central bank flexibility and reinforcing a higher-for-longer policy backdrop.



Macroeconomic uncertainty surged following the Middle East conflict, though economic data still captures only the early effects from higher energy costs and supply-chain disruptions. March Purchasing Managers' Surveys[2] pointed to softer manufacturing momentum, particularly in economies more reliant on energy imports from the Persian Gulf[3]. Crucially, however, global manufacturing continued to expand at the end of Q1 despite a sharp rise in input costs. Meanwhile, high-frequency data—travel, dining, and card spending—shows little sign of a consumer pullback so far.

Labor markets remain resilient but show hints of hiring caution. Job postings declined across several major economies in March, signaling a more guarded stance from firms. Still, initial jobless claims remain historically low in the U.S., indicating subdued layoffs. Meanwhile, the CFO Survey (mid-February to early March) pointed to improving sentiment, with firms expecting stronger revenue growth and increased capex[4].

[2] S&P Global Market Intelligence, "Monthly PMI Bulletin: March 2026."

[3] A strategically important body of water in the Middle East bordered by Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

[4] The Richmond Fed, "The CFO Survey: CFO Outlook Holds Up Despite Continued Tariff Concerns, Uncertainty," March 25, 2026.

In the coming months, investors will need to assess the balance of risks to growth and inflation. We believe our focus on profit fundamentals, along with the process we use to assess inflation trends, is a useful approach for assessing the medium-term economic outlook given the immense near-term uncertainty. Should surging input costs materially pressure corporate profit margins, this could trigger a sustained pullback in investment and employment by companies. Going into the Middle East conflict, aggregate corporate profit margins were historically wide in Japan and the U.S. In Japan, corporate profits as a percentage of GDP ended 2025 at 18.2%, which compares to 13.0% at the end of 2019 and an average of 12.2% in the ten years ending 2019 and 8.2% between 2000 and 2009 **(Figure 1)**. Similarly, U.S. corporate profits as a share of GDP rose to 13.2% at the end of 2025 from 11.5% in the fourth quarter of 2019, and this profit share is elevated relative to the average of the prior two decades **(Figure 2)**.

FIGURE 1

Japanese corporate profits as share of GDP

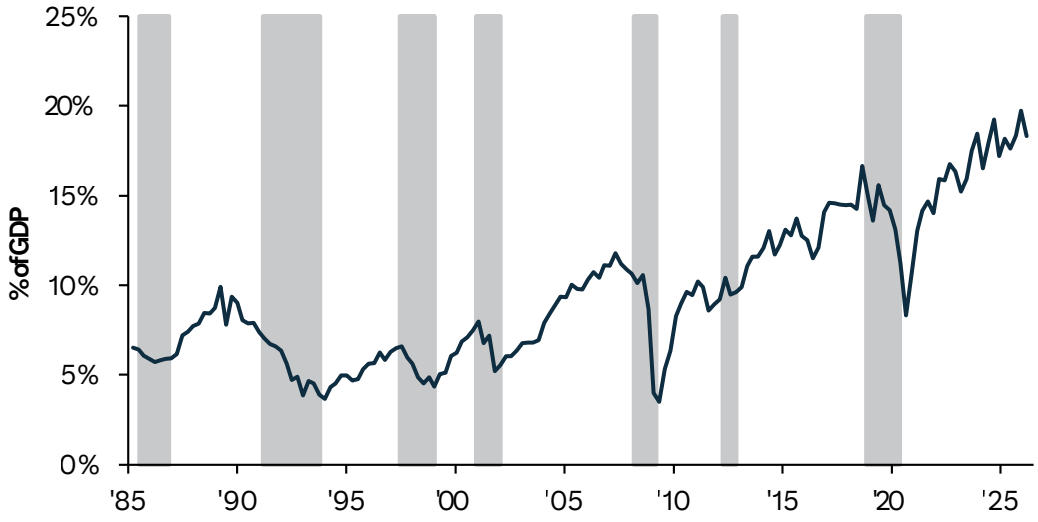
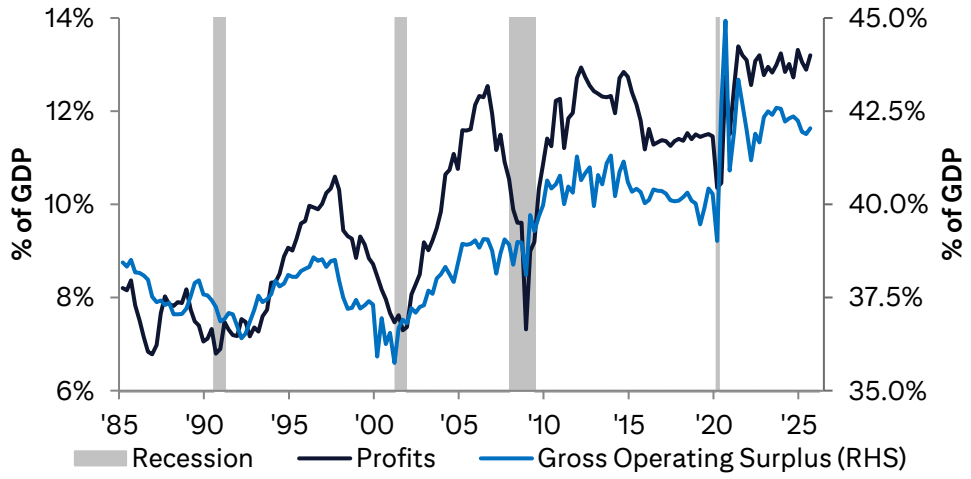


FIGURE 2

U.S. corporate profits and gross operating surplus as share of GDP

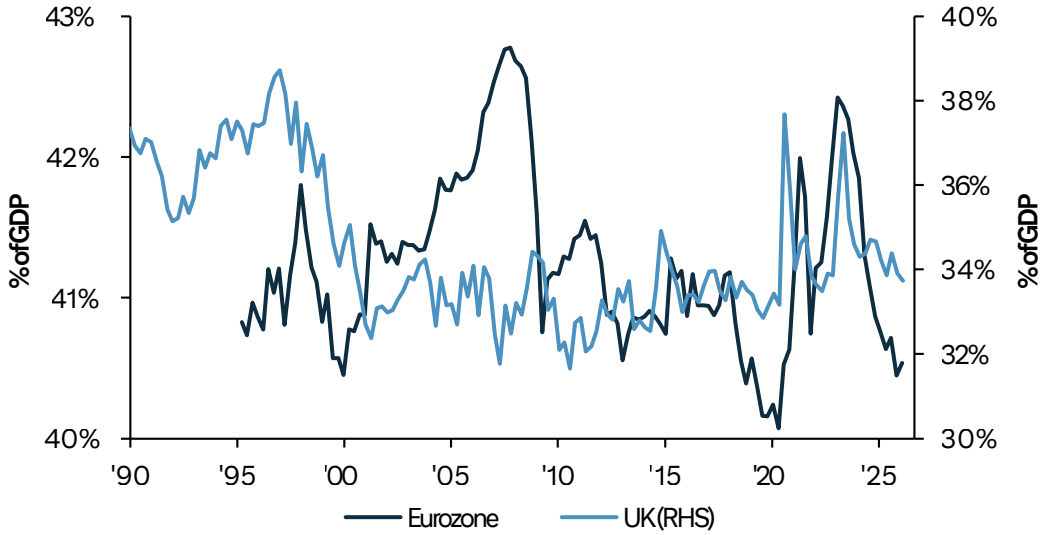


Source for Figures 1 & 2: Haver Analytics as of March 31, 2026. Gray areas are recessions. **Past performance is no guarantee of future results.** Real results may vary.

For many other countries and regions, corporate profits are not explicitly reported within the national accounts data. However, Gross Operating Surplus (GOS) provides a signal on aggregate profit margins, as shown by comparative trends in U.S. profits and GOS in **Figure 3** (gross operating surplus includes rents, interest, and consumption of fixed capital). GOS trends as a percentage of GDP are less encouraging for the UK and the Eurozone. In our view, the fundamental picture on profits for Japan and the U.S. appears more constructive than for other advanced economies.

FIGURE 3

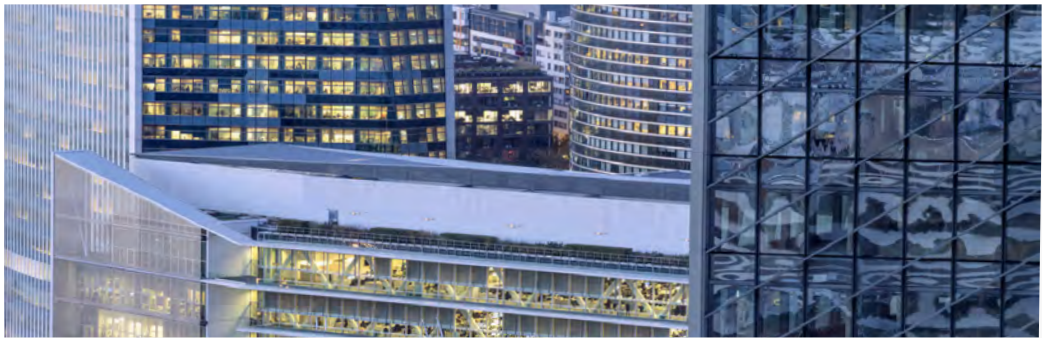
Eurozone and UK gross operating surplus as share of GDP



Source: Haver Analytics as of March 31, 2026. **Past performance is no guarantee of future results.** Real results may vary.

"IN ASSESSING THE INFLATION OUTLOOK, WE MAINTAIN A PREFERENCE FOR FOCUSING ON INDICATORS OF THE STANCE OF MONETARY POLICY AND MEASURES OF UNDERLYING INFLATION." – KATE MOORE, CIO

On inflation, we believe global headline measures will be boosted in the short run by higher energy and food prices given the pressures on oil, natural gas, and fertilizers. As of March 31, 2026, food and energy comprise approximately one-fifth of the U.S. CPI, one-quarter of Eurozone CPI, and one-third of the CPI in Japan and Brazil. Investors and policymakers will likely be focused on any broadening of inflation pressures, particularly beyond energy, and second-round effects. We will maintain our focus on trimmed-mean inflation indicators and measures of the breadth of rapid price gains. Changes in longer-run inflation expectations will also be important to policymakers as they assess the appropriate path for monetary policy. But easing policy to combat downside growth risks from the Middle East conflict will be challenging given upside inflation risks, especially since inflation rates were already above target in most regions.



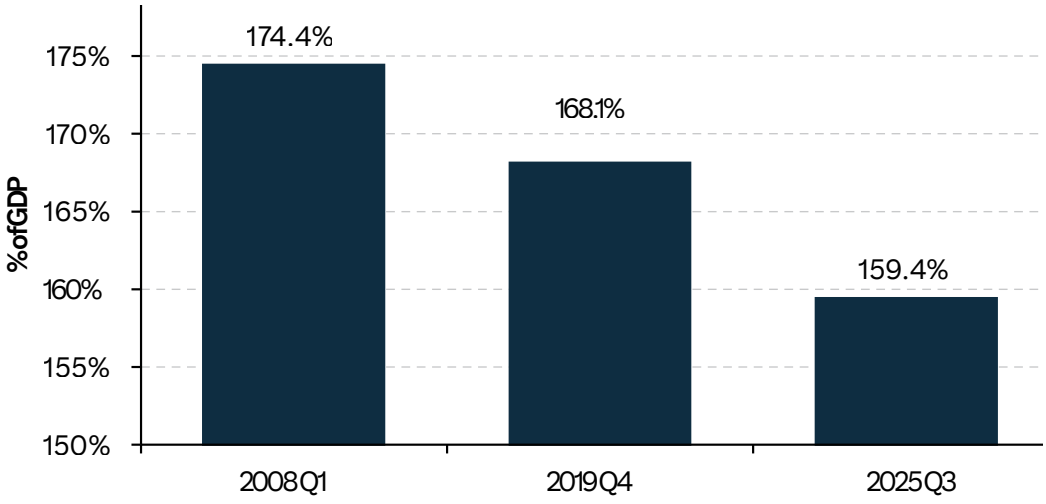
Questioning the usefulness of inflation expectations measures for determining policy responses to the oil-price shock

A common policymaker refrain is that measures of inflation expectations are the key to how monetary policy should respond to a price shock, such as the one currently faced due to the Middle East conflict. For example, U.S. Federal Reserve (Fed) Chair Jerome Powell said at the March 17/18 Federal Open Market Committee (FOMC) press conference that, "It, of course, is kind of standard learning that you 'look through' energy shocks, but that has always been dependent on inflation expectations remaining well anchored." In delivering a surprise rate cut on March 26, Banco de México's policy statement noted that inflation expectations "for longer terms remained relatively stable" (albeit "at levels above target"). European Central Bank (ECB) President Christine Lagarde said in a late March speech, "Supply shocks are often presented as offering central banks a binary choice: either look through or react when inflation expectations are at risk of being de-anchored." References to inflation expectations were also prominent in recent policy guidance from the Bank of England (BoE), Sweden's Riksbank, and other central banks. But as former Fed Chair Janet Yellen remarked in 2016, "[An] unresolved issue concerns whose expectations—those of consumers, firms, or investors—are most relevant for wage and price setting, a point on which theory provides no clear-cut guidance." Fed economist Jeremy Rudd warned in 2021 that the belief inflation expectations determine actual inflation, "rests on extremely shaky foundations, and a case is made that adhering to it uncritically could easily lead to serious policy errors."[5] In the end, judgments that inflation expectations remained anchored did not help the world's central bankers navigate the pandemic-related inflation shock, which required a sharp tightening of global monetary policy. In assessing the inflation outlook, we maintain a preference for focusing on indicators of the stance of monetary policy and measures of underlying inflation.

Should profit margins come under significant pressure and cause a pullback in investment and employment, a potential factor that might amplify an economic downturn would be high levels of leverage. However, this appears to be a potential source of resilience in advanced economies today. The Bank for International Settlements reports credit to the private nonfinancial sector at 159.4% of GDP in advanced economies, and trending lower, which compares to 168.1% prior to the pandemic recession and 174.4% just before the Global Financial Crisis **(Figure 4)**.

FIGURE 4

Advanced economies credit to private nonfinancial sector



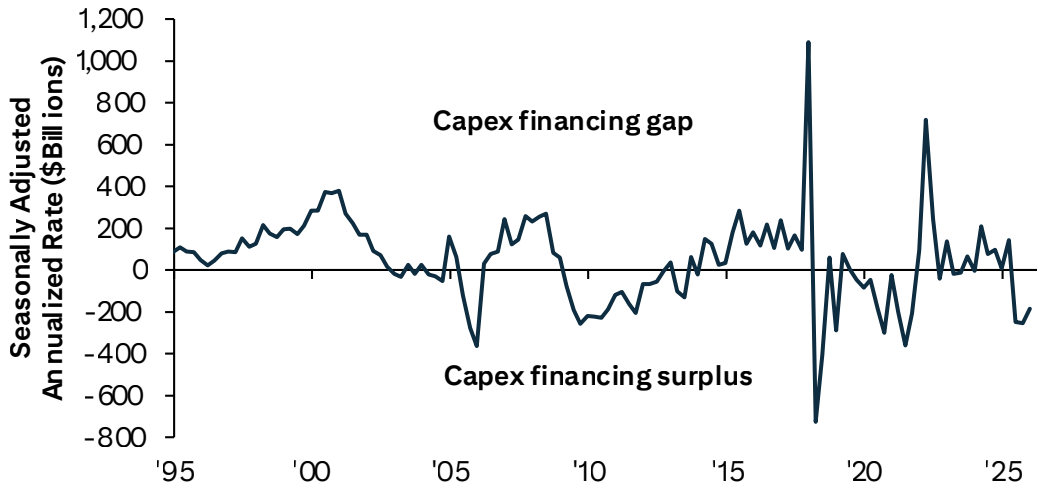
Source: Haver Analytics as of March 31, 2026. **Past performance is no guarantee of future results.** Real results may vary. Advanced Economies refer to countries with high income levels, diversified and mature economic structures, and well-developed financial systems and institutions.

[5] U.S. Federal Reserve, "Why Do We Think That Inflation Expectations Matter for Inflation? (And Should We?)", September 23, 2021.

Narrowing the focus on debt, a concern prior to the Middle East conflict was borrowing associated with capital investments linked to the AI buildout. However, data recently published by the Fed shows that capital expenditures for all U.S. nonfinancial corporations remained below the level of cash flow for these firms in aggregate at the end of 2025 **(Figure 5)**. Our analysis of the major technology firms that are making significant investments in capital equipment indicates the expenditures of these firms is roughly in line with their cash flow (i.e., though these firms do not have substantial financing surpluses, they are also not dependent on external financing of their spending, at this point).

FIGURE 5

U.S. firms capex financing gap (+) / surplus (-)



Source: Haver Analytics as of March 31, 2026. **Past performance is no guarantee of future results.** Real results may vary.

In contrast to the private sector, government debt trends continue to worsen, and this will likely be exacerbated by the Middle East conflict. In the short term, there may be fiscal responses aimed at offsetting the negative effects of higher energy prices on households. In the medium term, we believe government spending will almost certainly be boosted further by higher defense outlays. NATO's annual report for 2025, published on March 26, showed European allies and Canada increased their defense spending by 20% last year[6]. All NATO allies met the 2% target for defense spending in relation to GDP in 2025 for the first time since that objective was set in 2014.

Looking ahead, these countries have committed to increase spending on defense and related investments to 5% of GDP by 2035, which includes spending on both core defense and defense-related measures. This implies a further increase in government deficits and debt.



[6] NATO, "The Secretary General's Annual Report", March 26, 2026.

More broadly, strategic investments aimed at addressing supply-chain resilience and energy independence will likely require the involvement of both national governments and the private sector given their massive scale. There is an unambiguous need for these investments. We highlighted in January's The Short & Long: Q1 Macro Investment View the durability of global growth despite disruptions to global supply chains. Following a short-lived easing, global supply-chain stress—as measured by disrupted maritime container shipments — worsened materially through early 2026 **(Figure 6)**.

FIGURE 6

Global Supply Chain Stress Index

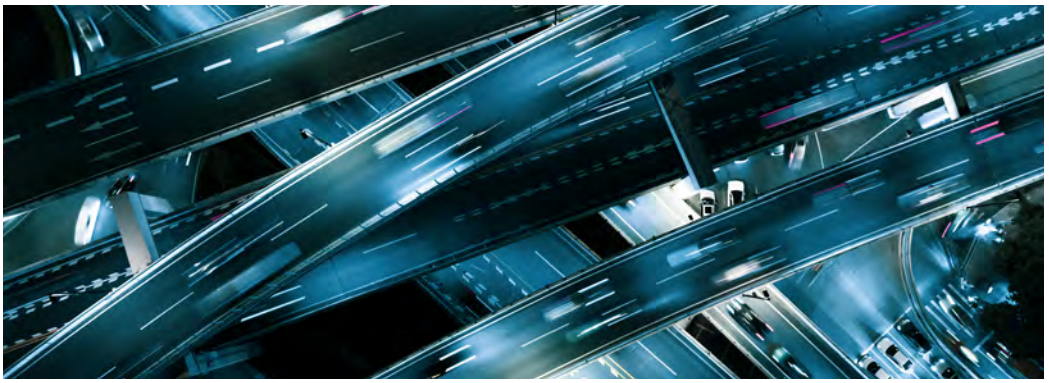


Source: Haver Analytics as of March 31, 2026. **Past performance is no guarantee of future results.** Real results may vary.



SECTION 3

INVESTMENT THEMES AND OPPORTUNITIES



KEY TAKEAWAYS

01 The potential impacts of the conflict in the Middle East lead us to stay biased in equities towards U.S. and select emerging markets (EM) over Europe, particularly. We continue to believe large cap companies are better positioned than small cap to navigate this uncertain environment.

02 In our view, monetary and fiscal implications from the conflict in the Middle East intersect with longer-term forces that present potentially durable, thematic investment opportunities.

03 We believe the combination of high-quality, short-term duration exposure with a strategic allocation to gold remains an attractive mix for ballast and income in portfolios in today's rate and credit environment.

NEAR-TERM UNCERTAINTY, LONG-TERM OPPORTUNITY

We design our views for the long term while seeking to identify short-term market opportunities expressed through tactical tilts. Recent geopolitical disruptions have magnified uncertainty and created a challenging backdrop for investors as we attempt to balance the two-time horizons. **Although headline-driven turmoil may ease around the Middle East conflict in the coming months, we expect longer-lasting macro impacts to influence markets over the next several years.**

In the near-term, we see two primary channels of potential market impact:

01 Tightening financial conditions as elevated energy prices persist.

02 Slowing growth as higher input and pass-through costs influence corporate margins and consumer behavior.

As these impacts play out over the next three-to-six months, they wi
previously strong macro environment, driving elevated volatility and
actionable trading backdrop. Over the longer-term, the monetary, fis
sector spending implications at the intersection of the secular theme
mentioned present potentially more durable investment opportuniti



U.S. equities: portfolio resilience starts with fundamentals

In the near-term, the potential impacts on growth for energy-importing economies stand out as risks to navigate. Europe appears particularly exposed to this shock as a price taker of both oil and natural gas. Instead, and in a period of uncertainty, we want to stay grounded in fundamentals. Specifically, we think U.S. fundamentals will remain resilient in the face of the near-term headwinds. The rotational market that drove headlines to start the year is now on pause, presenting an opportunity to re-evaluate the landscape.

Optimism around small cap and non-U.S. developed market potential earnings growth permeated investor sentiment to start the year, driving the pre-Middle East conflict rotation away from larger, U.S. Technology companies. However, revisions to forward earnings expectations year-to-date push back against this notion. Earnings growth this year and revisions higher to that growth expectation remain most positive in U.S. large cap companies relative to other indices like U.S. small caps and Europe, for example see **Figure 7** below.

FIGURE 7

Earnings Growth and Revisions

	NTM EPS YTD Revision	Net Margin	Interest Coverage Ratio
S&P 500	7.0%	14.7%	8.3
Russell 2000	1.5%	4.8%	1.4
Europe	1.6%	11.2%	5.6
Japan	5.1%	8.4%	9.0
Developed Markets ex-U.S.	2.8%	10.9%	6.1

Source: FactSet as of March 31, 2026. NTM EPS YTD stands for "Next 12 months earnings per share, year-to-date." YTD revisions represent analysts' additional growth expectations to NTM EPS since the start of the year. Net margin represents net income as a percentage of revenue. Interest coverage ratio is calculated as earnings before interest and taxes divided by interest expense. All forecasts are consensus estimates from FactSet. Regional indices are using their respective MSCI indices as proxy. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. **Past performance is no guarantee of future results.** Real results may vary.

Therefore, **we maintain our preference for adding risk exposure in U.S. large cap equities** given their high quality and durable earnings profile. At the index level, large caps offer higher margins, stronger balance sheets, and greater free cash flow generation, which has translated into more consistent earnings growth across recent cycles. These companies are also better positioned to absorb the potential for higher input costs and navigate a more uncertain macro backdrop, potentially benefiting from scale, pricing power, and diversified revenue streams.

Conversely, **we remain underweight U.S. small cap exposure**, where fundamentals are more challenged for the long-term. Importantly, a meaningful portion of the small-cap universe relies on front-end financing and floating-rate debt, leaving them disproportionately exposed to higher short-term interest rates and tighter credit conditions. Until there is clearer relief on the cost of capital or evidence of a sustained reacceleration in domestic growth, we see the risk-reward in small caps as less compelling relative to higher-quality segments of the equity market.

Global equities: risk aversion in economies most affected by energy shock

The potential medium-term impacts from the conflict in the Middle East reinforce our case for reducing European equity exposure in favor of U.S. Europe, already a structurally energy-importing region, sits at the epicenter of the shock as attacks on Persian Gulf infrastructure drive a global energy spike—oil and natural gas disruptions and higher marginal pricing have lifted European import costs sharply, with the region among the most exposed as both an importer of natural gas and oil. This surge is feeding directly into inflation, industrial input costs, and margin pressure; ECB communications flagged the Middle East conflict as a "material" inflation driver, aligning with market pricing that leans toward rate hikes rather than cuts, tightening financial conditions into an already fragile growth backdrop. We see the result as a likely weakened activity while inflation pressures continue to increase, particularly in more manufacturing-heavy economies that exist within Europe relative to the U.S. This is also coming at a time where economic data is pointing to a widening gap between European and U.S. growth prospects.





Analysts were already forecasting a weakening European earnings outlook prior to the shock as rolling earnings revisions ratios (ERRs showed more downgrades than upgrades. This trend of weakening fundamentals has accelerated over the last few weeks, and we see it having room to continue. Meanwhile, as of March 31, 2026, the forward 12-month earnings per share estimate for the S&P 500 continues to move steadily higher with superior potential earnings growth. **In sum, we believe Europe's direct exposure to an energy-driven margin squeeze alongside tightening policy, versus the U.S.'s stronger economic and fundamental position, presents an opportunity for a relative rotation toward U.S. equity exposure in the current environment.**

Various EM countries are also susceptible to the energy price shock. While we remain long-term constructive on pockets of EM equities, particularly South Korea and Taiwan, which are geared towards the AI buildout and bottlenecks of the AI supply chain, we also acknowledge the challenge to EM risk assets in the near-term. **Given the growth risk, we rotated out of EM debt exposure into front-end U.S. Treasuries on March 19.** EM bond spreads, or extra compensation relative to developed market bonds, may continue to widen as the potential risk is priced in, leading to EM bond underperformance. However, **we prefer to maintain risk exposure within EM equities over EM debt**. We are holding on to select EM equity exposure for the long-term growth opportunity, while trimming risk in EM debt to avoid excess volatility in the lower risk, income portion of portfolios.

Within EM equities, we remain constructive but selective. Where fundamentals are supportive, specifically where earnings growth is driving returns and revisions momentum is improving, we are comfortable maintaining exposure. Despite their status as energy importers, South Korea and Taiwan continue to exhibit strong underlying fundamentals. We believe China will exit the Middle East conflict in a relatively strong position as countries like Canada realign to trade more with them, but we primarily hold exposure to the country for the long-term on its competing AI buildout and strong renewable energy production to support it. In contrast to energy importers, some markets have benefited from favorable Terms of Trade (ToT) dynamics. Brazil, for example, stands out as a net energy exporter, which supports both its currency and equity market, particularly given the index's meaningful exposure to the energy sector.

THEMATIC, LONGER-TERM OPPORTUNITIES AT THE INTERSECTION OF GEOPOLITICS AND AI

While the recent market disruption presents a new layer of near-term uncertainty for investors, it also presents potential long-term opportunities. We want to increasingly orient our allocations around a set of durable, long-cycle forces mentioned above around supply chain re-wiring, renewed focus on energy independence, and a slow shift in economic alignment. All while the AI capex cycle continues.

The convergence of these themes and secular forces helps create more structural underpinnings for areas of the market historically viewed as cyclical. Against that backdrop, we see two compelling expressions: 1) energy infrastructure businesses levered to both security and electrification demand, and 2) companies embedded in the physical AI, visual-language-action (VLA) supply chain that enable the real-world deployment of AI.

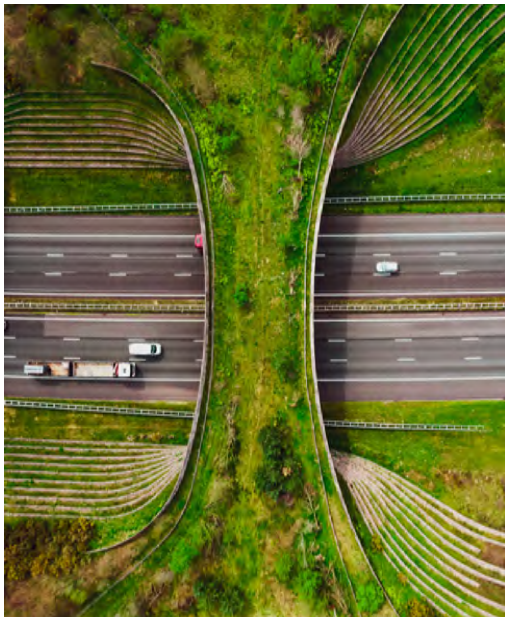
Energy infrastructure and security

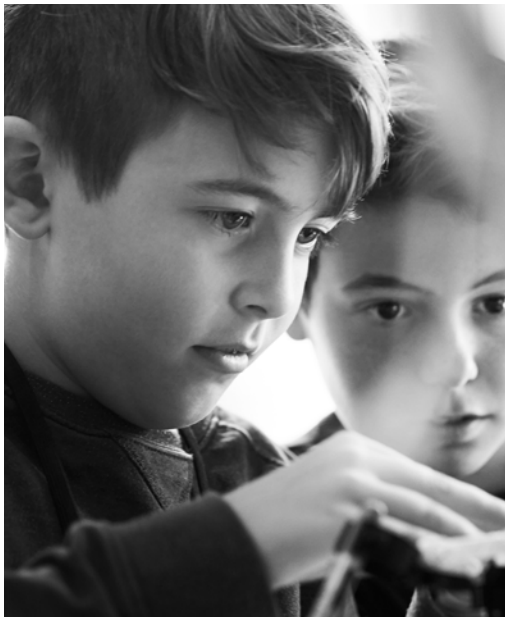
Over the past several years, national security priorities have evolved in distinct phases. Initially, defense spending accelerated as longstanding geopolitical assumptions, particularly around U.S. security guarantees, were called into question. Focus shifted toward critical minerals as the rapid buildout of AI and advanced manufacturing exposed structural dependencies across rare earth metals, semiconductors, and highly concentrated supply chains **(Figure 8 & 9)**.

Today, attention is moving decisively toward energy. Energy self-sufficiency, access to reliable supply, and secure stockpiles have become centrally strategic objectives. Recent geopolitical tensions reinforce a simple reality: dependence on external energy resources represents a persistent strategic vulnerability, with direct implications for economic stability, inflation, and national resilience.

In response, we believe countries are likely to pursue multi-pronged energy architecture designed to maximize reliability, resilience, and domestic control. This approach will likely include:

- Renewables to provide scalable, domestically sourced generation,
- Nuclear to deliver stable, baseload power (particularly critical for import-dependent economies),
- Energy storage to manage intermittency and enable grid flexibility, and
- Grid expansion and modernization to connect generation, distribute power efficiently, and unlock system-wide resilience.



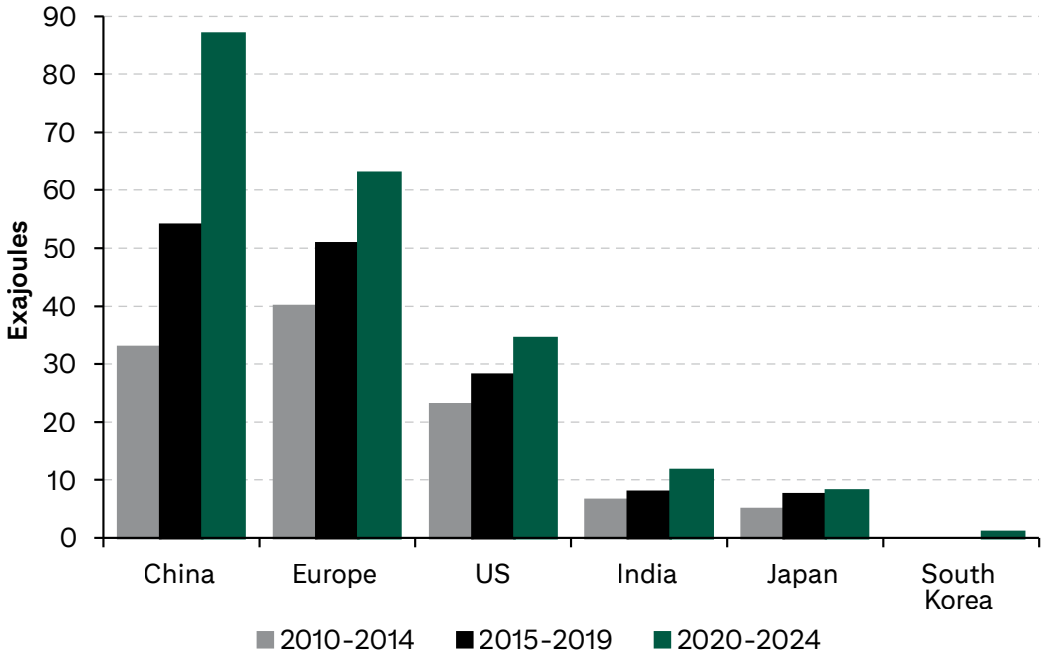


From an investment perspective, this reframes the opportunity set. The focus shifts away from any single energy source and toward the enabling infrastructure required across all pathways. Electrification, transmission, storage, and system-level resilience emerge as common denominators, regardless of how the energy mix ultimately evolves.

In our view, this represents the next phase of the global, security-driven investment cycle, one that extends beyond defense spending and into the physical backbone of economic sovereignty. In a public markets context, we identified a subset of sectors that we believe have the potential to benefit from this theme.

FIGURE 8

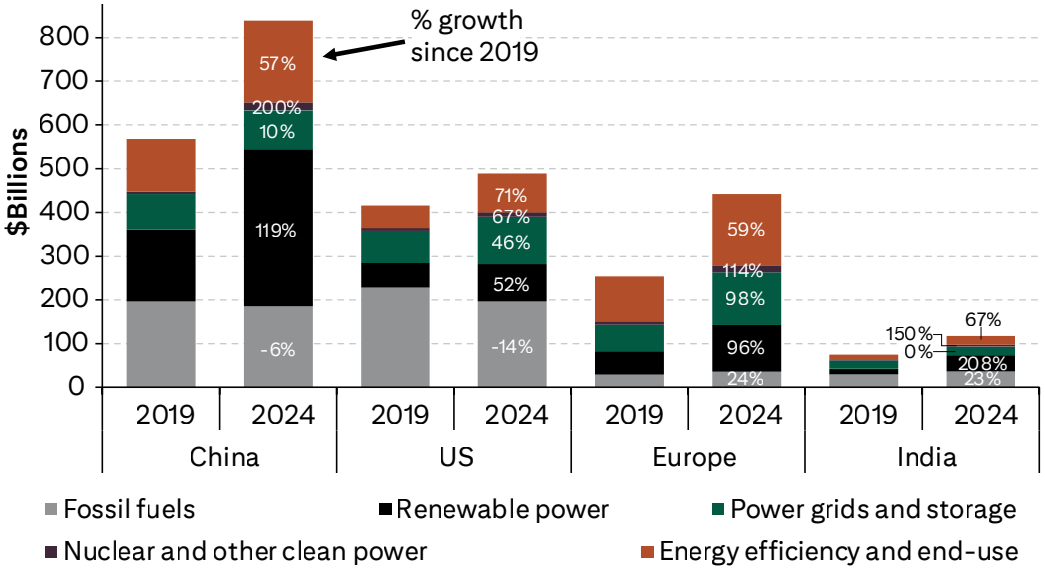
Avoided fuel imports through deployment of renewables



Source: International Energy Agency and Energy Institute as of March 31, 2026. The term "exajoule" refers to a unit of energy in the International System of Units (SI) and measures the amount of energy done when a force of one newton moves a distance of one meter in the direction of the force. Real results may vary.

FIGURE 9

Investment in energy sources (2019 vs 2024)



Source: International Energy Agency and Energy Institute as of March 31, 2026. **Past performance is no guarantee of future results.** Real results may vary.

Physical AI supply chain

Physical AI is nearing a commercial inflection point. Robotics, embodied intelligence, and high-fidelity simulation are shifting from experimentation into real world operations. As enterprises move from pilot programs to scaled deployment, the companies supplying core data engines, simulation platforms, and industrial infrastructure are positioned to benefit.

As discussed last quarter, AI capital spending is flowing further downstream from digital inference toward physical enablement. Vision Language Action models extend AI from analysis into direct physical execution, driving incremental investment in robotics, automation, edge compute, and sensor dense systems. This transition raises technical requirements for operators across transportation, logistics, manufacturing, and resource extraction, while tightening constraints in power delivery, networking capacity, memory, and precision components. A growing group of specialized industrial and infrastructure providers is emerging as critical enablers of deployment.



Key elements of the physical AI supply chain include:

- Simulation and digital twin platforms that generate training data, validate autonomy, and compress deployment cycles.
- Robotics and automation hardware spanning mobile robots, industrial manipulators, and autonomous systems.
- Edge compute and embedded AI infrastructure enabling low latency inference in constrained environments.
- Sensor, test, and validation infrastructure supporting real world perception, calibration, and control.
- Power, networking, and memory subsystems that increasingly dictate scalability, reliability, and system uptime.
- Platform led industrial software and integration providers coordinating hardware, models, and operational workflows.

Recent attention around automation-focused ventures highlights increasing founder and investor alignment around the action layer of AI. At the same time, corporate commentary points to rising demand for tightly integrated hardware and software systems. As data throughput, storage capacity, and communication performance become foundational, companies embedded across the physical AI supply chain appear increasingly differentiated as adoption broadens.

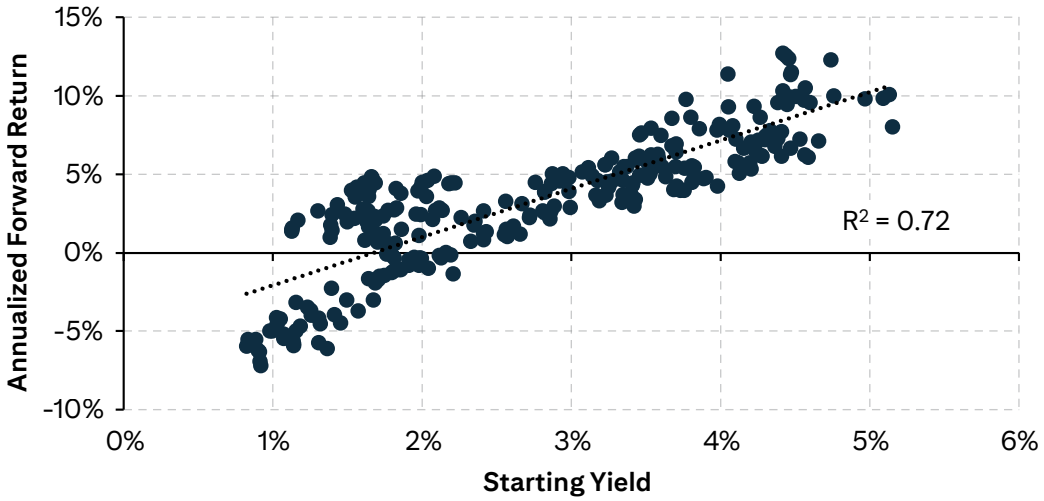
DIVERSIFICATION AND INCOME AMID FISCAL AND INFLATIONARY PRESSURES

For most investors, public and private equity investments represent the portfolio's growth and capital appreciation components. Meanwhile, income and diversification can typically be found in bonds and other less-correlated, lower-volatility assets. The investment evaluation for bonds is grounded in interest rate (duration), counterparty (credit or spread) risks, and the diversification benefits to portfolios (see more in: **Portfolio Construction**).

Overall, we believe the elevated yield environment presents directional challenges but also potential opportunity to build an income-producing bond portfolio without excess interest rate or credit risk. High-quality U.S. bond indices remain at the upper end of their 15-year yield percentiles, presenting what we view as an attractive entry point for constructing fixed income portfolios, given the tight relationship (R^2) between starting yield and forward three-year total returns **(Figure 10)**.

FIGURE 10

Starting yield vs 3yr annualized forward return (since 2000)



Source: FactSet as of March 31, 2026. Bloomberg Global Aggregate Index used as proxy. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. The Forecasts above are as of March 31, 2026 and are provided for information purposes only. The investor should not base its decision to enter into a trade solely on the basis of the forecasts. Actual results may vary from the forecast rates provided herein. Forecast rates should not be construed as providing any assurance or guarantee as to future rates. **Past performance is no guarantee of future results.** Real results may vary.

"SECTORS ONCE VIEWED AS PRIMARILY CYCLICAL ARE INCREASINGLY INFLUENCED BY DURABLE, LONG-TERM FORCES AS THEY BECOME CENTRAL TO MACRO AND SECULAR TAILWINDS."

– KATE MOORE, CIO

However, today's fixed income environment challenges investors to balance attractive absolute yields with headwinds from higher-biased rates, pressure on credit spreads, and limited portfolio ballast to equity risk. On balance, this evaluation leads us to stay **underweight duration and up-in-quality** within our bond allocation – allowing for the bulk of our risk taking to remain in growth-oriented equities. While staying up-in-quality reduces unnecessary credit risk without proper compensation, focusing on shorter-duration products also limits return downside if rates backup further and bond prices fall.

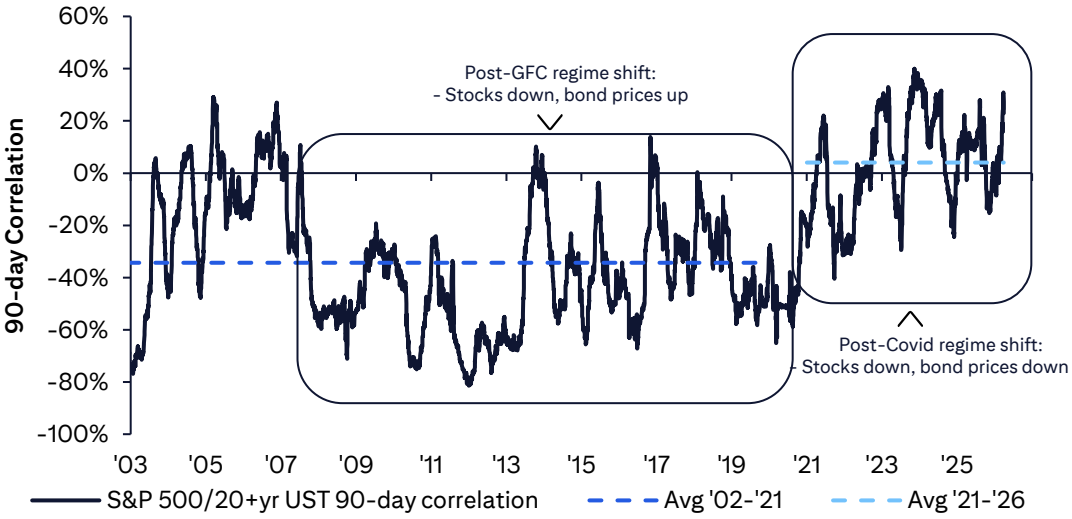
Remaining underweight duration until growth concern overtakes inflation rise

Last quarter, we characterized the macro landscape as constructive amid easy monetary and fiscal policy combined with the AI capex trends leading to potentially higher interest rates and therefore an underweight duration positioning. We maintain our underweight duration stance today as the Middle East conflict will likely lead to persistently higher energy prices this year and further fiscal spending requirements, putting additional pressure on already stretched fiscal deficits globally.

Eventually, the global move higher in yields will likely provide an entry point to add back to duration for income and ballast against equity risk. Currently, we remain in a regime of positive correlations between equities and bonds **(Figure 11)**.

FIGURE 11

Correlation of equities vs long-duration UST



Source: Bloomberg as of March 31, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. **Past performance is no guarantee of future results.** Real results may vary.

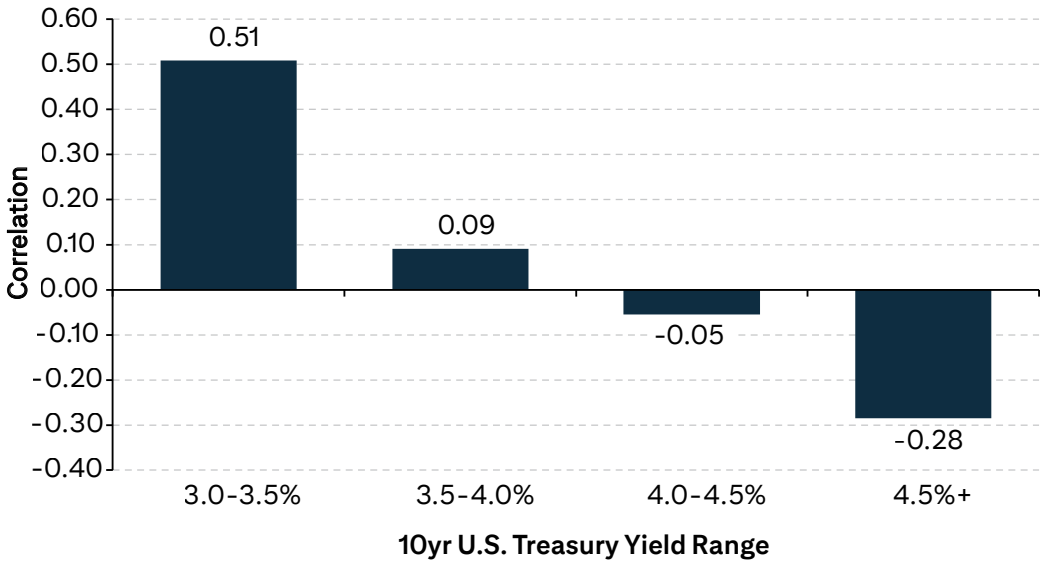
So, when does the directional risk in yields become more symmetrical where bonds can both hedge equities and add attractive total return in portfolios? At the lower end of Treasuries' recent trading range of 3.5-4.5%, bonds have shown limited hedging potential during equity declines. The equity-rate correlation between equities and rates typically turns negative only when the 10-year yield moves above 4.5%, also coinciding with more attractive levels of income **(Figure 12)**. At that level, we would consider adding duration given the potential benefits of more attractive yields and improved efficacy as a hedge to equity risk in a growth slowdown.

Globally, the higher rate path appears even more pronounced for non-U.S. developed markets, where we maintain our largest duration underweight. Using the German 10-year bund yield as a proxy, the recent move above 3% marks a significant break-out. We are also monitoring this move closely for an attractive entry point back into European duration if the higher longer-term yield trend reverses on growth concerns.

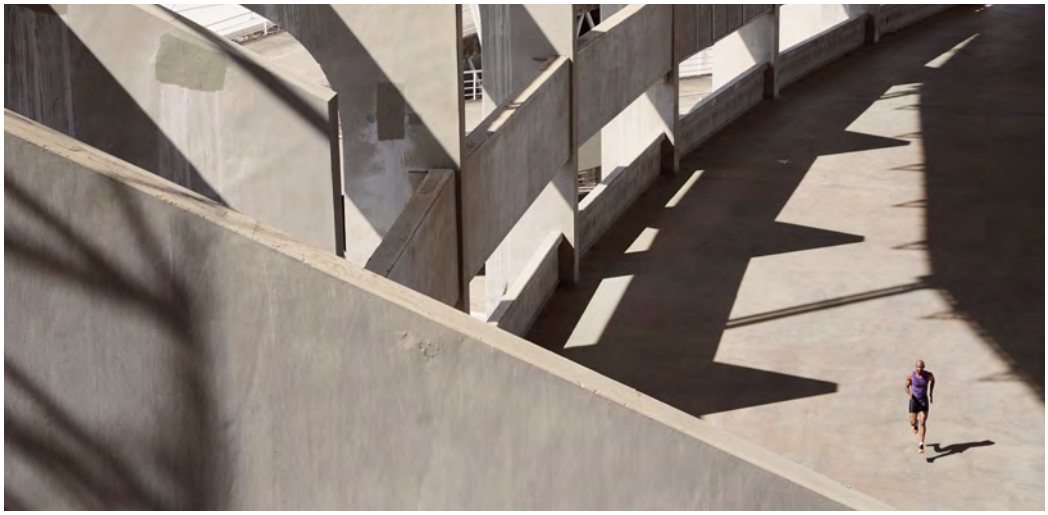
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FIGURE 12

Correlation of S&P 500 and 10yr U.S. Treasury Daily Returns by Yield Range (Jan 2023 - Mar 2026)



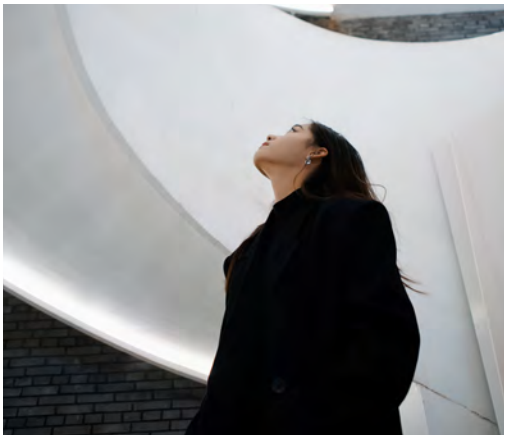
Source: Bloomberg as of March 31, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**



Maintaining gold for the longer-term

While longer-end duration remains directionally challenging with limited portfolio ballast, we maintain our preference for gold as a substitute for long-duration bonds. We allocated to gold last year to benefit overall portfolio resilience rather than to attempt to capture a short-term trade. The outperformance of gold relative to global equities (+25%) and to global bonds (+36%) has been impressive over the last year even with the recent price drawdown[7]. The combination of a stronger dollar, higher real rates, and positioning unwinds after record sentiment overwhelmed the typical flight-to-quality bid in gold during the onset of the Middle East conflict last month. However, we see the original thesis still holding: global investors, sovereigns, and central banks are growing gold's share of their global reserves as hedges against an increasingly multi-polar world. We expect this to continue over the long-term, and bouts of volatility as seen in March could present attractive entry points for allocations to gold.

[7] Performance is measured from June 4, 2025 (marking the addition of gold to our asset allocation) to April 6, 2026. The MSCI ACWI and Bloomberg Global Aggregate are used as proxies for global equities and global bonds, respectively.



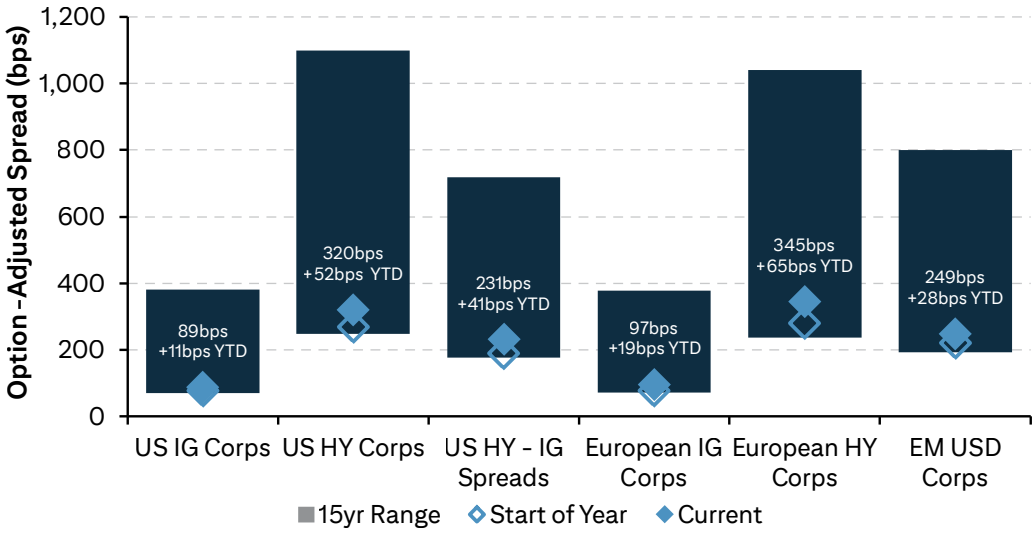


Remaining focused on up-in-quality in global credit exposure

Moving down in credit quality presents challenges as well given historically tight spreads. In the U.S., the difference between High Yield (below investment grade rated) and Investment Grade corporate bond spreads (difference between the bond yield and Treasury yield at given maturity) is also near all-time tightness and drifting higher during this geopolitical volatility **(Figure 13)**. Globally, credit spreads are similarly tight and led us to rotate out of EM debt in favor of short-term U.S. Treasuries, as mentioned above. We believe investors are not being properly compensated for taking on excessive credit risk at an uncertain time. While the macro backdrop did not point to an increase in default risk and therefore significant credit underperformance prior to the Middle East conflict, it may stress-test the credit cycle and limit near-term total return upside in spread sectors. For investors looking for increased exposure to risk and return at this point in the cycle, we prefer adding to equity exposure given the high directional correlation of credit bond spreads and equities.

FIGURE 13

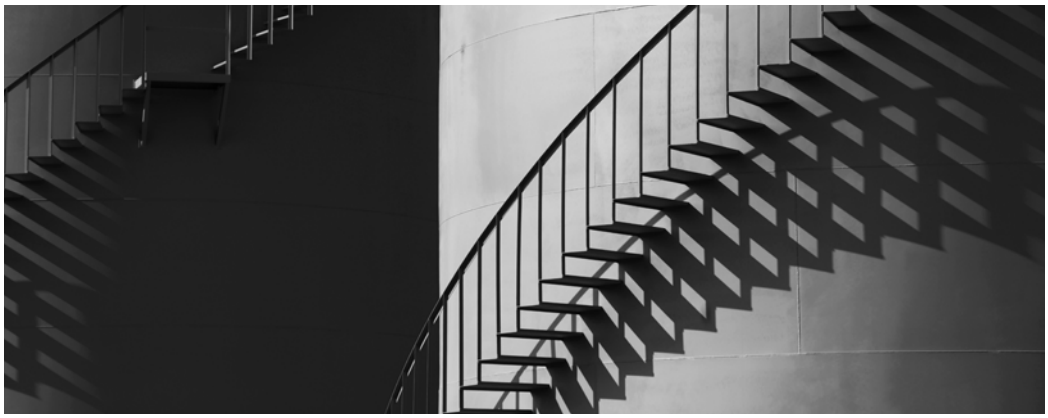
Global credit spreads 15yr historical range and move YTD



Source: Bloomberg as of March 31, 2026. Bloomberg US Corporate Index, Bloomberg US Corporate High Yield Index, Bloomberg Euro Corporate Index, Bloomberg Pan-European High Yield Index, and Bloomberg Emerging Market USD Corporate Index used as proxy. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

SECTION 4

RISKS ON OUR RADAR



The potential for a 1970's stagflation event. Markets continue to price in a near-term resolution to the energy crisis, avoiding the potential effects of excess inflation or downside to growth.

Why this matters:

- Inflation irritates and complicates the investment picture, but downside to growth is more worrisome. Downward revisions to GDP forecasts and higher recession risk put the bull market in jeopardy.
- Both equities and bonds struggle in this tail-risk environment, presenting performance and diversification challenges.

Tightening of financial conditions leading to downward earnings per share (EPS) and AI spending plans in 1Q26 earnings report season. Markets see their most durable corrections when fundamentals deteriorate significantly. The upcoming reporting season will be key to watch for corporate guidance and commentary.

Why this matters:

- Cracks in the AI spending picture may put further pressure on the market as capex beneficiaries may de-rate in this scenario. Positioning unwinds can be quick and severe.
- Market reaction may include underperformance in recent momentum winners like semiconductor companies (U.S. and globally).

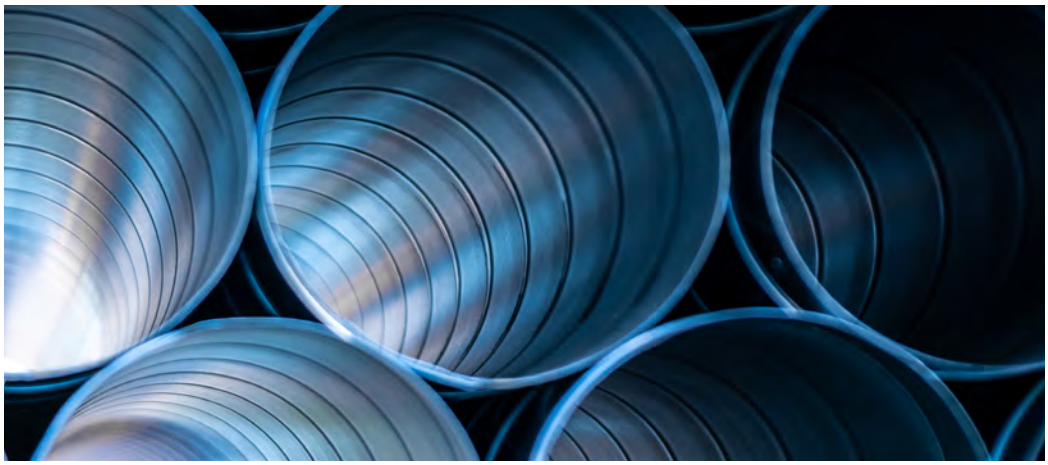
Fed transition amid dual mandate crosscurrents. The likely Senate confirmation of Kevin Warsh this summer will present him with a challenging mandate: deliver Fed cuts as inflation percolates and uncertainty is high.

Why this matters:

- The market priced out any potential Fed cuts at the end of March, and the Federal Open Market Committee (FOMC) remains largely in the "wait and see" camp. Meanwhile, Warsh was elected to deliver more dovish policy rates, despite concern around his balance sheet plans.
- Higher rate volatility can drive pressure on spread products such as corporate bonds and mortgages. Meanwhile, rate-sensitive equities may feel further pressure in a higher-rate, higher-volatility environment.

SECTION 5

PORTFOLIO CONSTRUCTION



We continue to reiterate the ideas and themes identified are part of a broader fabric for building portfolios that can help withstand extreme shocks, transient drawdowns, and inflationary periods. Implementing these themes within a portfolio requires a strong understanding of the role these assets are intended to play, while acknowledging that some asset classes can play multiple roles.

Growth-oriented assets are primarily focused on capital appreciation, where return drivers are levered to positive or stable fundamentals on either a micro or macro level. Equities act as the cornerstone for the vast majority of portfolios and rotating within equity sectors, market caps or across geographies allows us to dial our growth exposure up or down. Within private markets, asset classes with equity-like characteristics seek to generate returns through a combination of operational improvements, asset-level value creation, and structural inefficiencies.

Income-oriented assets are designed to generate stable and predictable cash flows and offer income streams that may enhance yield. Investing in spread-oriented fixed income brings a certain amount of capital, default, and liquidity risk. We are constantly evaluating whether we are receiving sufficient compensation for taking that risk, especially when spreads are at multi-year lows. That evaluation is even more important when investing in private credit, given the lock-ups, gates, and illiquidity associated risks. At this point, we have taken down our public fixed income spread exposure for now. We continue to evaluate the risk/reward across a range of income-generating opportunities against the backdrop of elevated volatility and growing uncertainty.

Diversifying or uncorrelated assets provide return streams less dependent on broad market direction, focus on capital preservation, or provide inflation-hedging characteristics. Shorter duration assets, commodities, real estate, infrastructure, and industrials tend to play critical roles in providing durable investment opportunities. These asset classes tend to hold higher intrinsic physical value or are tied to real economic activity and capex cycles which is in contrast to long-duration and/or growth assets whose value depends more heavily on a stable, low discount rate environment.

This broad classification of the investment universe, taken together, can provide a very powerful lens for how to think about portfolio construction and where asset classes or for suitable and qualified investors, capital markets strategies could fit. In environments where uncertainty is high, staying disciplined and anchored in sustainable fundamentals is even more critical than ever before.

GLOSSARY

This glossary defines important terms, phrases, and acronyms found in the CIO Quarterly document.

Bank for International Settlements (BIS)	An international financial institution that serves as a forum for central banks and supports global monetary and financial stability.
Capital Expenditure Cycle (Capex Cycle)	The recurring pattern of investment in fixed assets (e.g., property, plant, equipment) by companies.
Correlation	Measures how two assets move in relation to each other over time. Investments with a correlation of +.5 or more tend to rise and fall in value at the same time, while investments with a negative correlation of -.5 to –1 are more likely to gain or lose value in opposing cycles.
Dual Mandate Crosscurrents	The tension faced by the Federal Reserve in simultaneously pursuing its two mandates of maximum employment and price stability, particularly when inflation and growth risks point in opposite directions.
Earnings Per Share (EPS)	A company's net profit divided by the number of outstanding shares of its common stock, indicating profitability on a per-share basis.
Edge Computing	A distributed IT architecture that processes data locally on devices, sensors, or edge servers, rather than in a centralized cloud or data center.
Embodied Intelligence	A branch of AI focused on systems that perceive and interact with the physical world, such as robots and autonomous machines.
Energy Pass-Through	The degree to which higher energy input costs are transferred into consumer prices or absorbed by corporate profit margins.
European Central Bank (ECB)	The central bank responsible for setting monetary policy for the Eurozone, with a primary mandate to maintain price stability.
Federal Open Market Committee (FOMC)	The branch of the U.S. Federal Reserve responsible for setting monetary policy, including interest rate decisions.
Flight-to-Quality	The tendency of investors to move capital into safer, more stable assets (e.g., gold, U.S. Treasuries) during periods of market stress or uncertainty.
Forward Earnings Expectations	Projections or estimates of a company's or market's earnings for a future period.
Global Financial Crisis	The severe worldwide economic crisis that occurred in the late 2000s, stemming from a collapse in the U.S. housing market.
Gross Operating Surplus (GOS)	A national accounts measure that captures aggregate profit margins for economies where corporate profits are not explicitly reported. Includes rents, interest, and consumption of fixed capital.
Gulf Cooperation Council (GCC)	A regional economic and political alliance of six Middle Eastern countries (Saudi Arabia, United Arab Emirates, Qatar, Kuwait, Oman, and Bahrain) established to promote economic integration, policy coordination, and regional stability.

Kevin Warsh (Warsh)	The anticipated nominee for Federal Reserve Chair referenced in 2Q26. His likely confirmation is flagged as a key risk, given the challenge of delivering dovish policy rates amid elevated inflation and uncertainty.
Liquefied Natural Gas (LNG)	Natural gas that has been cooled to a liquid state for ease of storage and transport.
Middle East Conflict	The geopolitical conflict involving Iran, Israel, and the U.S. referenced throughout the 2Q26 report, which caused significant disruptions to energy infrastructure across the GCC, drove global energy price spikes, and prompted a reassessment of monetary policy, portfolio positioning, and long-term investment themes.
Multi-Polar World	A global order characterized by multiple centers of power or influence, rather than a single dominant superpower.
National Accounts Data	A comprehensive set of economic statistics that measure a country's overall economic activity.
Onshoring / Reshoring	The practice of returning manufacturing or supply chain operations to a company's home country.
Persian Gulf	A strategically important body of water in the Middle East bordered by Iran, Iraq, Kuwait, Saudi Arabia, Bahrain, Qatar, United Arab Emirates, and Oman. Sometimes referred to as the "Arabian Gulf."
Purchasing Managers' Index (PMI)	A survey-based economic indicator that measures the activity level of purchasing managers in the manufacturing and services sectors.
Purchasing Managers' Survey	Monthly survey conducted by the Institute for Supply Management (ISM) that provides insights into the current and future economic conditions of the manufacturing and service sectors.
R^2 (R-squared)	A statistical measure that represents the proportion of the variance for a dependent variable that's explained by an independent variable or variables in a regression model.
Rolling Earnings Revisions Ratios (ERRs)	A measure of the balance between analyst upgrades and downgrades to corporate earnings estimates over a defined period.
S&P 500	A stock market index that represents the stock performance of 500 of the largest companies listed on stock exchanges in the United States.
Spread Products	Fixed income instruments that offer a yield premium (spread) over a benchmark rate, such as corporate bonds and mortgage-backed securities.
Tactical Tilts	Short-term, active adjustments to a portfolio's asset allocation designed to take advantage of near-term market opportunities or manage risks, while maintaining a long-term strategic framework.
Terms of Trade (ToT)	The ratio of a country's export prices to its import prices.
Trimmed-Mean Indicator	A measure of underlying inflation that excludes the most extreme price changes (both high and low) to provide a more stable signal of inflation trends.
Vision-Language-Action Models (VLA Models)	Advanced AI models that integrate capabilities for visual understanding, natural language processing, and performing actions.

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Diversification does not guarantee a profit or protect against loss. Different asset classes present different risks.

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Past performance is no guarantee of future results.

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