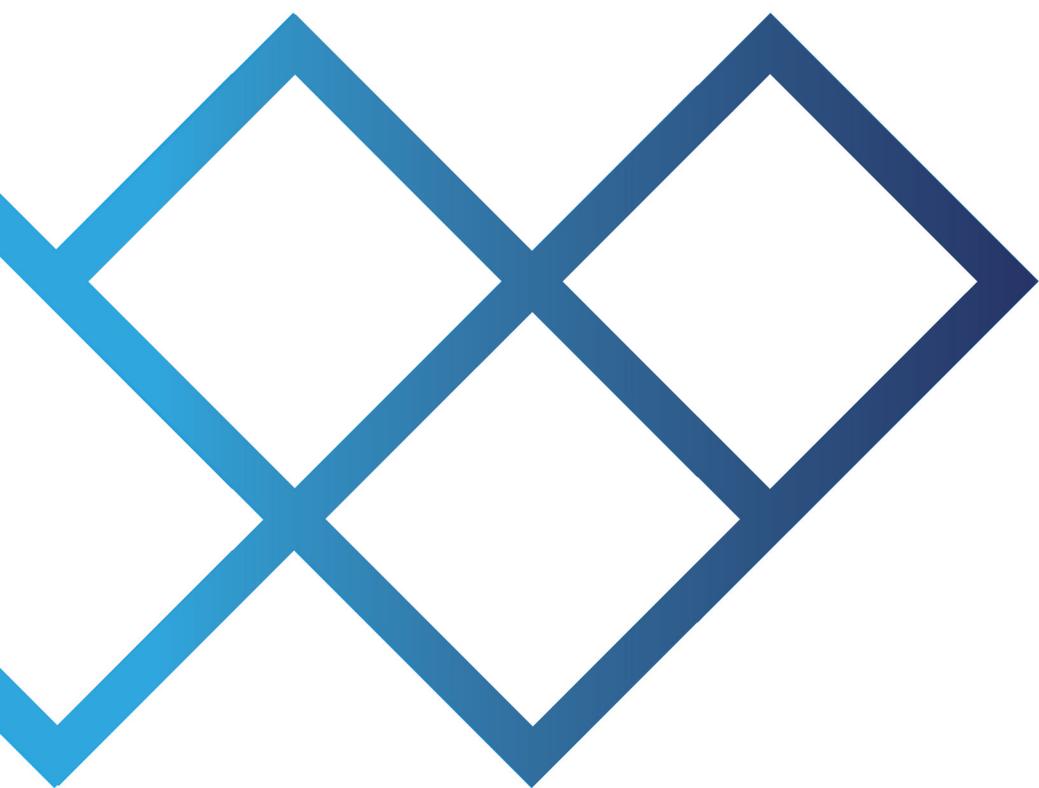




**WESTEND**  
Advisors

A VICTORY CAPITAL® INVESTMENT FRANCHISE



# Mid-Quarter Macro Update

**Q1 2026**

*Macro Drives Markets. WestEnd Knows Macro.*

# U.S. Equity Sector Allocations

## WESTEND ETF STRATEGIES

Current large-cap U.S. equity sector allocation and avoidance\*

### Sector Allocations

- Financials
- Health Care
- Consumer Staples
- Communication Services
- Consumer Discretionary
- Information Technology
- Utilities

### Sector Avoidance

- Energy
- Industrials
- Materials
- Real Estate

\* For illustrative purposes only. Allocation information as of February 15, 2026. Source: WestEnd Advisors.

# International Equity and Fixed Income Allocations

## WESTEND GLOBAL ETF STRATEGIES

Current regional equity allocation positioning in global portfolios\*

### Regional Equity Overweights

- U.S.A.
- Asia (Developed and EM)

### Regional Equity Underweights

- Europe
- Emerging Markets (ex-Asia)

## WESTEND BALANCED ETF STRATEGIES

Current fixed income and asset class positioning in balanced portfolios\*

### Fixed Income Overweights

- Short-term Corporate Credit
- Longer-Term Treasury Securities

### Fixed Income Underweights

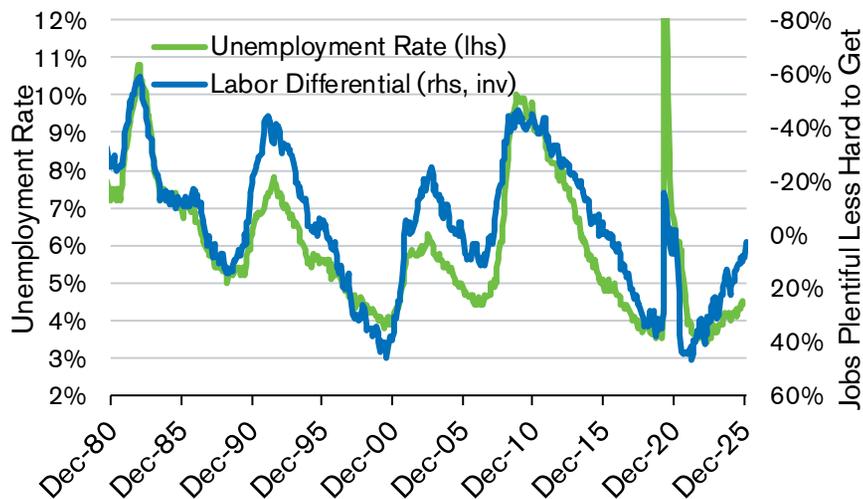
- Short-term Treasury Securities
- Long-term Corporate Credit

\* For illustrative purposes only. Allocation information as of February 15, 2026. Source: WestEnd Advisors.



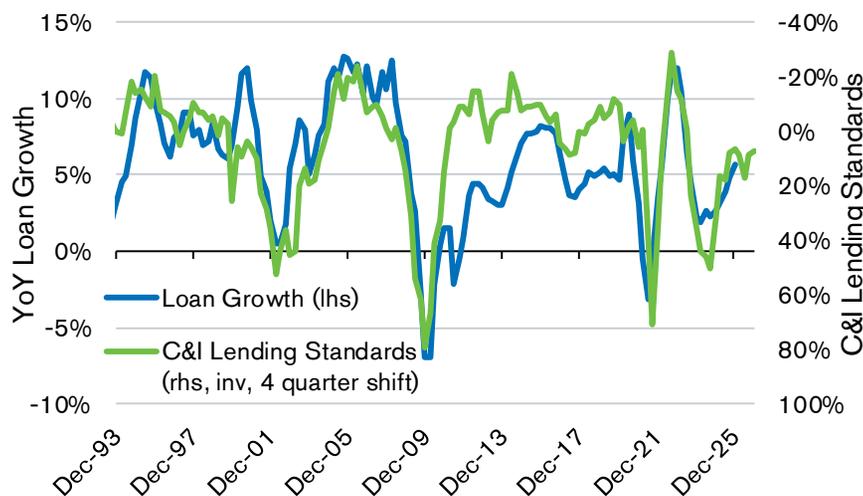
# Late-Cycle Expansion Continues in 2026

## LABOR MARKET UNLIKELY TO MATERIALLY IMPROVE...



Source: WestEnd Advisors, Conference Board, BLS  
Labor Differential = Jobs Plentiful – Jobs Hard to Get

## ...BUT CREDIT CONDITIONS SHOULD REMAIN SUPPORTIVE



Source: WestEnd Advisors, Federal Reserve

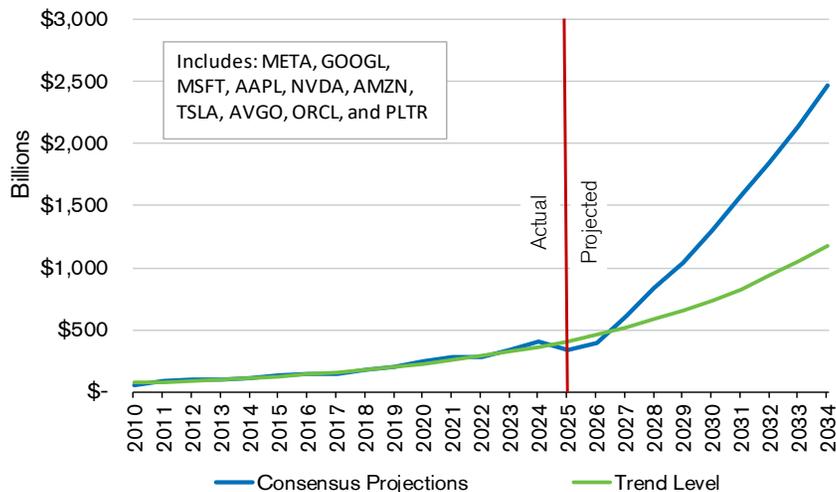
**Portfolio Impact:** The U.S. economy entered 2026 in what we would describe as a late-cycle expansion. While a precariously soft labor market presents risk, we also continue to monitor near-term growth drivers, such as improving credit creation, that may continue to support trend-like growth. In our view, this environment warrants a balance of exposures between defensive sectors, such as Consumer Staples and Health Care, as well as sectors that can benefit from a continuation of the cycle, including Communication Services and Financials.

- ❖ **Jobs Harder to Come By:** 2025 marked the weakest year of job gains outside of a recession since the early 2000s. A deteriorating labor differential (jobs plentiful /less jobs hard to get) suggests that it is becoming increasingly difficult to find new employment in 2026 (top chart).
- ❖ **Credit Trends Improving:** Loan growth is firming and fewer banks are tightening C&I lending standards, pointing to improvement in overall credit conditions (bottom chart).
- ❖ **Non-Tech Investment:** Lower short-term interest rates and stronger credit creation should, in our view, expand investment to sectors and industries that have experienced slower growth or an outright contraction in recent years.



# Information Technology: Opportunity & Uncertainty

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

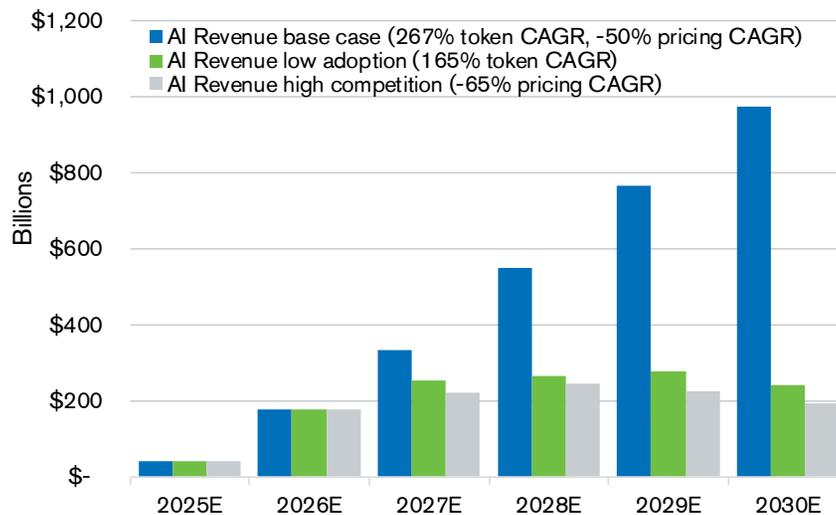


Source: WestEnd Advisors

**Portfolio Impact:** Sectors like Information Technology and Communication Services appear poised to generate durable earnings growth, with AI exerting a growing influence on sector-level fundamentals. As the adoption curve of AI becomes better understood, we expect the market to increasingly reward firms that exhibit profitable growth tailwinds. With the technological backdrop evolving rapidly, we believe investors should remain vigilant in understanding the underlying assumptions and risks that are incorporated into valuations for leading AI firms.

## AI Hype vs. Reality:

## AI MONETIZATION OUTCOMES ARE HIGHLY VARIABLE



Source: Citi, WestEnd Advisors

- Major innovations bring uncertainty and often see a period of euphoric optimism, followed by information dissemination and rationalization. While we believe growth for the Information Technology sector is durable, we see reasons to remain prudent with allocations.
- For example, accelerating free cash flow assumptions (top chart) seem out of step with the rising projections for capital expenditures. Also, the monetization path for AI providers is highly sensitive to demand and price inputs (bottom chart).
- Higher competition and/or lower adoption could result in cash flow growth targets not being met, posing risks to these high-valuation areas.



# Positioning for Broader Market Leadership

## LARGE CAP DOMINANCE IS COOLING OFF



Source: Bloomberg, WestEnd Advisors. Relative metrics calculated using the S&P 500 and Russell 2000 indices.

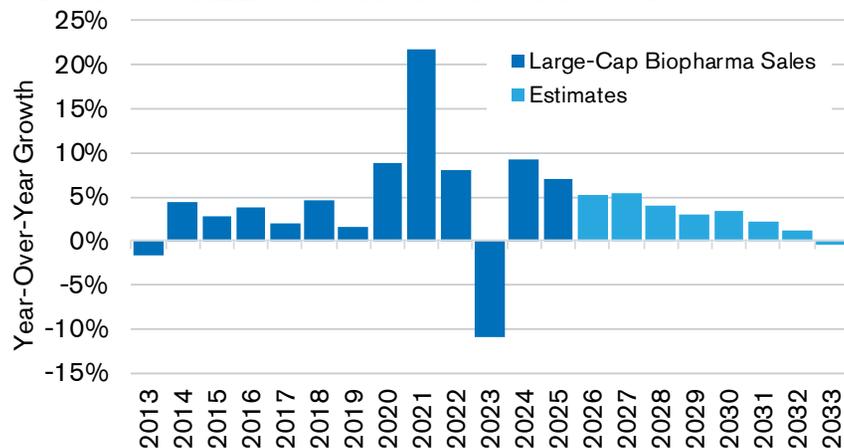
**Portfolio Impact:** We have broadened exposure within our global portfolios' U.S. equity allocations by adding small-cap U.S. equities and a targeted allocation to the Biotechnology industry, which we believe can benefit from potential upside as market breadth improves. These allocations reflect our view that diversifying beyond mega-cap growth leadership may enhance portfolio resilience and participation in a wider range of potential market leadership outcomes.

❖ **Small-Caps:** U.S. large-cap stocks appear poised to see their earnings growth advantage over small-caps continue to wane in 2026, in our view (top chart).

❖ **Relative Valuations:** The S&P SmallCap 600 trades at 15.4x forward earnings, a ~29% discount to the S&P 500.

❖ **Biotech Industry:** Large-cap pharma companies face a wall of patent expirations near the end of the decade, driving decelerating sales growth estimates (bottom chart). We believe this environment will increase the appetite for M&A to backfill drug pipelines and sales growth potential. We have seen that improving capital flows have historically been a good indicator of strong relative performance for the industry.

## SLOWING SALES GROWTH PROMPTS M&A

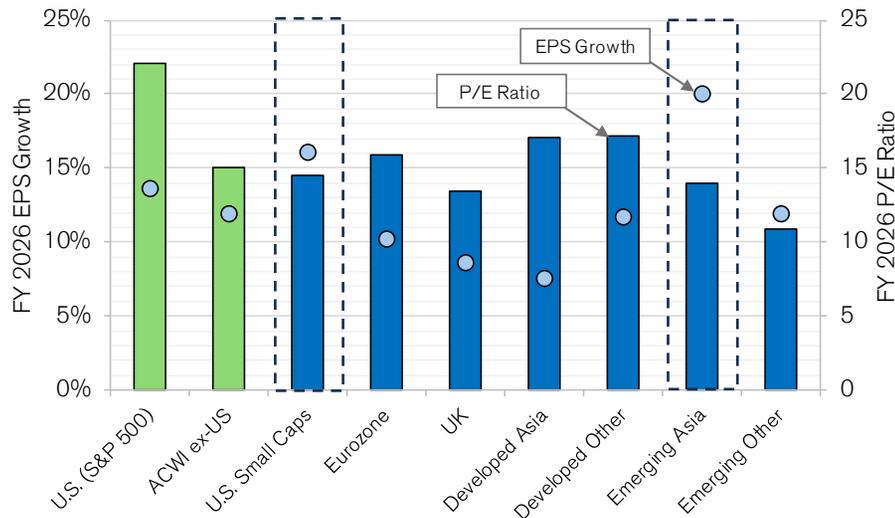


Source: Bloomberg, WestEnd Advisors



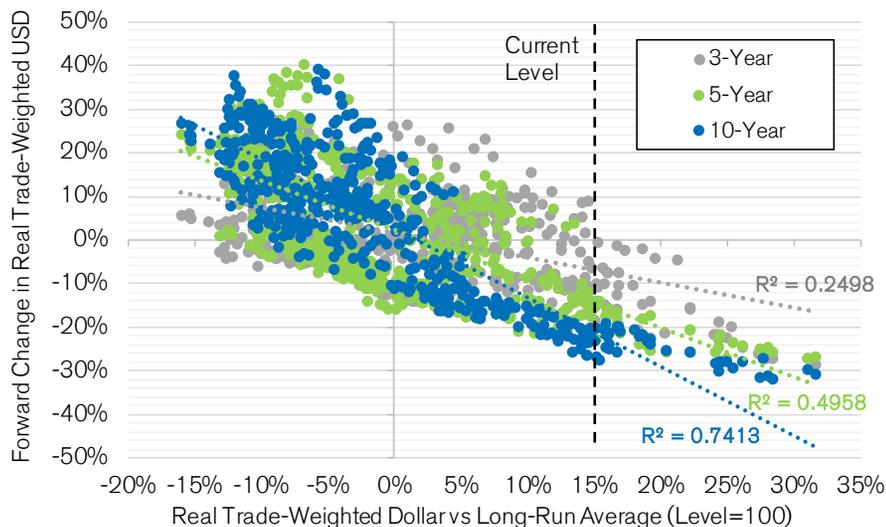
# International Offers Range of Opportunities

## INTERNATIONAL GROWTH OPPORTUNITIES ARE ATTRACTIVE



Source: Bloomberg, WestEnd Advisors

## DOLLAR CYCLES TAKE TIME TO PLAY OUT



Source: Bloomberg, WestEnd Advisors

**Portfolio Impact:** We see attractive opportunities in U.S. small-caps, with strong earnings recovery potential and limited concentration risk, as well as in Asia (developed and EM), which offers exposure to strong growth themes at more palatable valuations compared to U.S. large-caps.

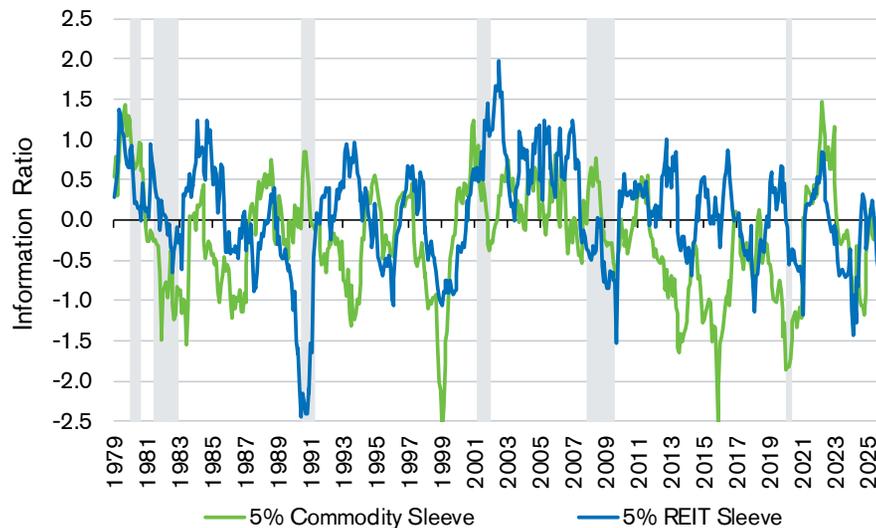
❖ **Global Opportunities:** There are compelling global opportunities where earnings growth estimates are strong, yet valuations remain reasonable. Within this framework, we prefer U.S. small-caps for their earnings rebound potential with limited market concentration risk, while EM Asia stands out as a beneficiary of the high-tech investment cycle and trades at a considerable discount to U.S. peers.

❖ **U.S. Valuation:** The U.S. equity market trades at a historically large valuation premium versus international equities (top chart), despite U.S. and international earnings growth expectations being broadly in line. While valuation premiums can persist for extended periods, the real trade-weighted U.S. dollar is ~15% above its long-term average (bottom chart), which we believe reinforces the case for selective exposure in U.S. equities.



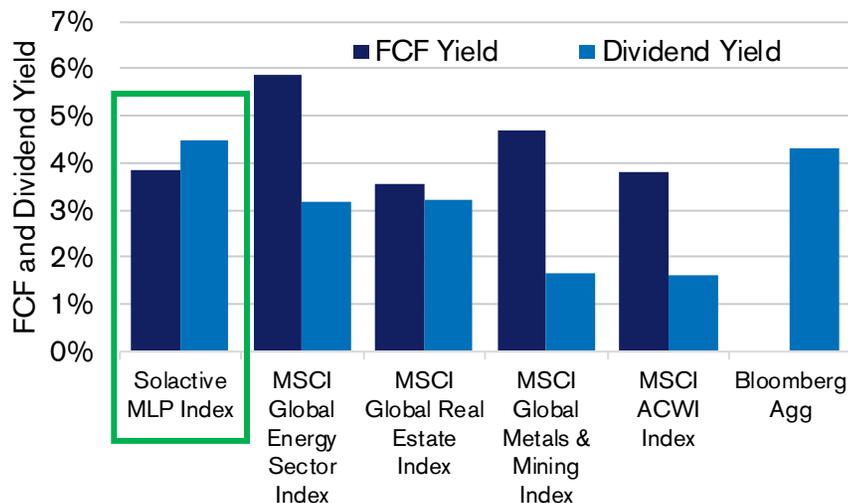
# Real Asset Class Returns Driven by Macro Environment

## REAL ASSETS ARE ADDITIVE, BUT MACRO MATTERS



Source: Bloomberg, WestEnd Advisors

## MLPS OFFER AN ATTRACTIVE RELATIVE YIELD



Source: Bloomberg, WestEnd Advisors

**Portfolio Impact:** We continue to see a bifurcated global economy with a wide range of disparate factors influencing growth and inflation outlooks. Against this macro backdrop, we have diversified our real asset exposure away from a focus on gold to include broader commodity and energy infrastructure exposure.

❖ **Real Assets Can Enhance Portfolio Outcomes:**

Macroeconomic conditions can influence the performance of assets outside of traditional equities and fixed income. Active, macroeconomically driven asset allocation decisions can enhance not only portfolio diversification but return potential as well.

❖ **MLPs Offer Attractive Yield:** Energy infrastructure companies (MLPs) exhibit attractive relative valuations (FCF Yield) as well as shareholder return potential (Dividend Yield) relative to other real asset categories. Notably, MLPs currently offer a higher yield than a broad-based fixed income index.

❖ **Energy Infrastructure Less Cyclical:** MLPs stand to benefit from ongoing growth in natural gas demand in North America, in our view, but typically are less dependent on commodity prices than traditional exploration and production companies.

# Footnotes & Disclosures

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The Standard and Poor’s 500 Stock Index includes 500 stocks and is a common measure of the performance of the overall U.S. stock market. The MSCI ACWI consists of 47 country indexes comprising 23 developed and 24 emerging market country indexes. The total return of the MSCI ACWI (Net) Index is calculated using net dividends. Net total return reflects the reinvestment of dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The Bloomberg Barclays US Aggregate Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. The Bloomberg Barclays US Aggregate Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. An index is unmanaged and is not available for direct investment.

Any portfolio characteristics, including position sizes and sector allocations, among others, are generally averages and are for illustrative purposes only and do not reflect the investments of an actual portfolio unless otherwise noted. The investment guidelines of an actual portfolio may permit or restrict investments that are materially different in size, nature, and risk from those shown. The investment processes, research processes, or risk processes shown herein are for informational purposes to demonstrate an overview of the process. Such processes may differ by product, client mandate, or market conditions. Portfolios that are concentrated in a specific sector or industry may be subject to a higher degree of market risk than a portfolio whose investments are more diversified.

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