

Global Convictions

Quarterly Asset Class Analysis

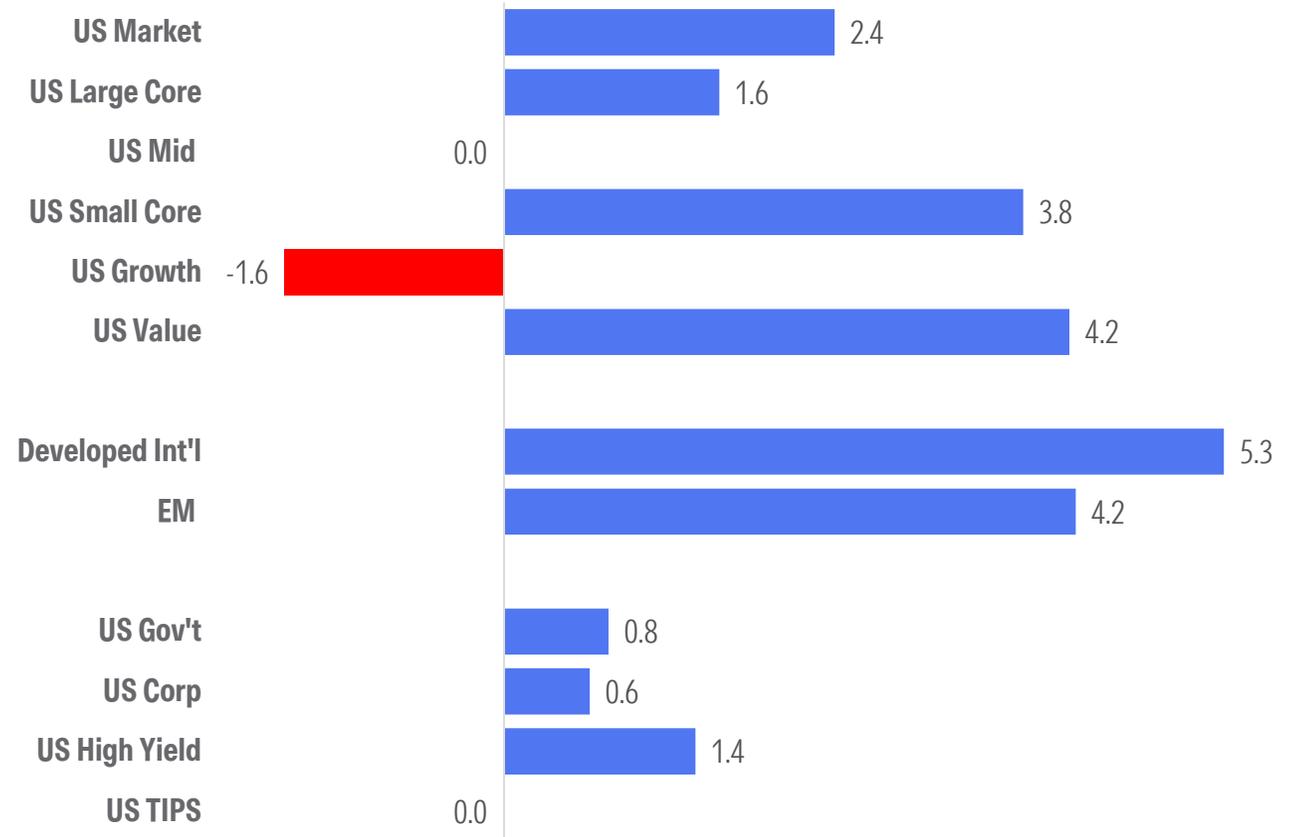
January 2026

Asset Class Conviction Table



Quarterly Market Recap

- **The headline for 2025 is straightforward:** it was a strong year for investors, with the fourth quarter putting the finishing touches on solid gains.
- **US large-cap stocks rose more than 2% in the fourth quarter,** led by value stocks, which gained over 4% and outpaced growth by a wide margin.
- **Small-cap stocks also had a strong quarter,** rising nearly 4%.
- **Non-US stocks outperformed US stocks by double digits for the full year**—the first time in more than a decade—and that leadership continued into the fourth quarter. Developed international stocks rose more than 5% in Q4, while emerging markets gained roughly 4%.
- **Bonds delivered a solid year,** reclaiming their role as portfolio diversifiers. Three of the four major bond categories finished the fourth quarter in positive territory.



Performance period: October 1, 2025—December 31, 2025.

US Equity

Very Unattractive Moderately Unattractive Neutral Moderately Attractive Very Attractive

US Equity

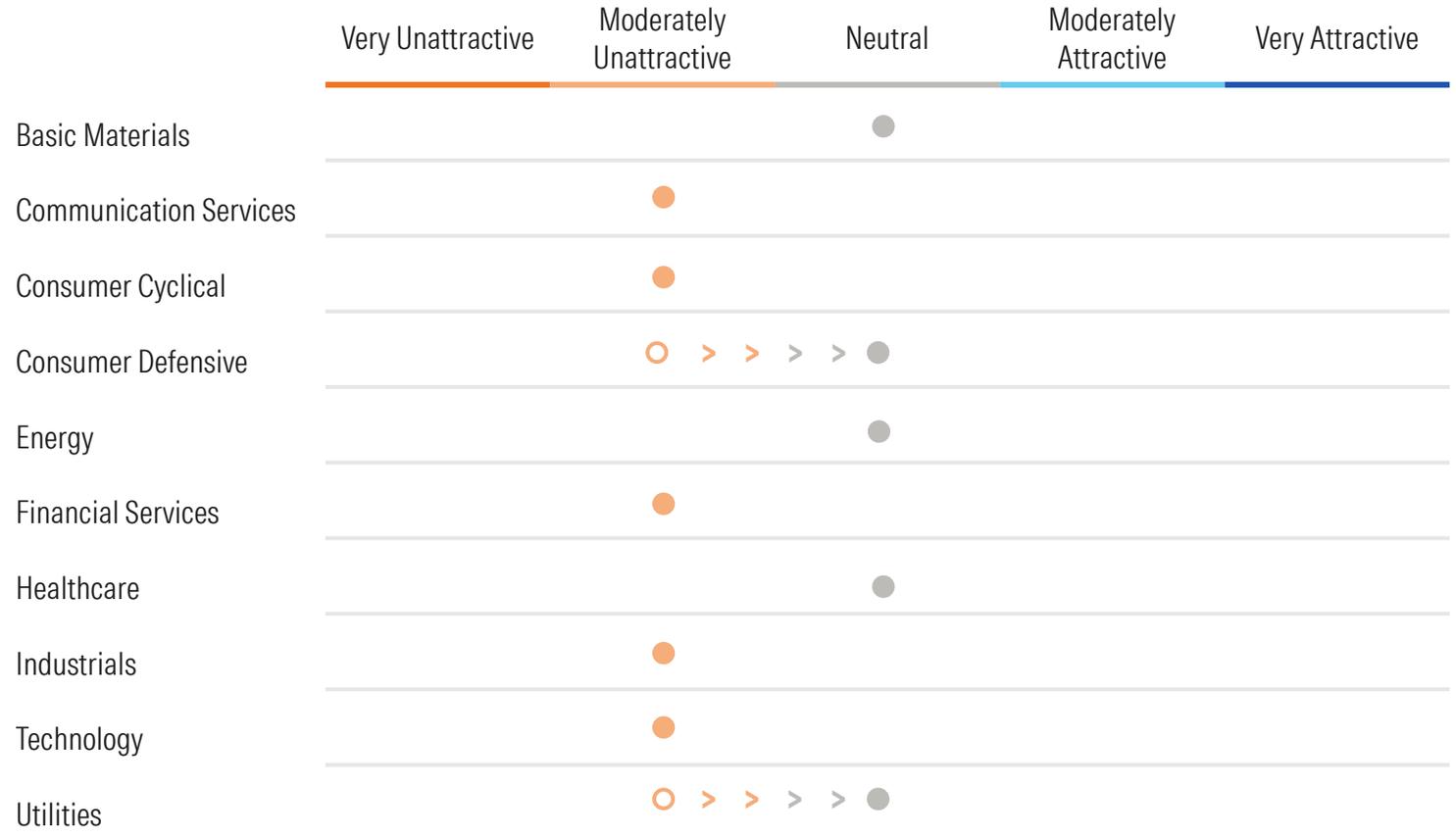
Backdrop: Overall, based on our Asset Class and Stock Level Valuation pillars we view US Equities as Moderately Unattractive. Focusing on our Stock Level Valuation which is based on our intrinsic valuations of the more than 700 stocks we cover that trade on US exchanges, as of Dec. 31, 2025, we calculated that the US equity market was trading at a price/fair value estimate of 0.96. This represents that the market is trading at a 4% discount to our fair value estimates. By capitalization, small-cap stocks remain very attractive, trading at a 15% discount to our fair value estimate. Mid-cap stocks trade just below our fair value estimates, while large-cap stocks trade at a 4% discount. By style, following significant increases in our fair values on a number of growth stocks, that style is now at a 10% discount. Value stocks also remain attractive, trading at a 5% discount, whereas core stocks are trading at fair value. In the second half of 2025, we made significant fair value increases on a number of mega-cap technology stocks under coverage.

Outlook: As mega-cap stocks continue to increase their share of the total market, their valuations increasingly skew market valuation. For example, excluding Nvidia from our market valuation would increase our price/fair value estimate metric to 0.98. In addition, excluding Alphabet and Broadcom would yield a price/fair value estimate metric of 1.00, equal to the composite of our fair values. As we enter 2026, we anticipate further volatility. AI stocks require even stronger growth to support lofty valuations. A new chair will take the reins at the Fed. Trade negotiations are resuming. At the same time, slowing economic growth, higher-than-expected inflation, the upcoming midterm elections, and geopolitical risk will test investors' resolve.

Equity Sectors

Backdrop: We saw two ratings change during the quarter, as the Consumer Defensive and Utilities sectors both increased from Moderately Unattractive to Neutral. The Morningstar US Consumer Defensive Index (down 0.9%) underperformed the broader US Equity Index (which posted a 2.4% rise) during the fourth quarter. Also, when utilities stocks began to retreat in October, the sector lost its chance to top technology as the best-performing sector in 2025.

Outlook: We view the Energy, Healthcare, Basic Materials, Healthcare and Utilities sectors as the most attractive from a relative perspective, with all having a conviction score of Neutral. We view the alcoholic beverage and consumer packaged goods, or CPG, industries as particularly attractive, at 28% and 16% discounts to our fair value estimates, respectively. With utilities' average dividend yield near historic lows at 3% and P/E multiples above long-term averages, utilities will have to deliver the earnings growth that we and the market expect.



Australia

Very Unattractive Moderately Unattractive Neutral Moderately Attractive Very Attractive

Australian Equity



Backdrop: Australian equities gave back some ground in the final quarter of 2025, down 1% in the three months to December. Cracks appeared during the banks' reporting season in November, with Commonwealth Bank—the largest stock in the index—falling nearly 10% in the two sessions following its first-quarter update, its worst two-day stretch in four years. Annual profit growth of just 2% doesn't justify the premium multiples Commonwealth Bank commands, and the market appears to be losing patience with richly priced, slow-growing stocks. Then came the technology-led selloff in the US, which bled into local tech stocks despite the Australian market's tangential links to artificial intelligence. Australian equities rode the coattails of US tech enthusiasm on the way up, so perhaps it's fair to give some of this back. A late recovery saw Australian equities finish 2025 up 7%, excluding dividends. A decent result, though not as impressive as the 11% year-to-date gain investors were sitting on in October 2025.

Outlook: The soft finish to 2025 leaves Australian equities looking a little more reasonably priced, though the asset class remains Moderately Unattractive overall. From a bottom-up perspective, the Morningstar Australia index trades 9% above our equity analysts' assessment of fair value—still stretched, though not as extreme as August 2025, when the premium was as high as 15%. On a top-down basis, Australian stocks also look extended. Elevated valuations imply future returns may be more moderate as multiples normalize to our long-run assumptions.

China

Very Unattractive Moderately Unattractive Neutral Moderately Attractive Very Attractive

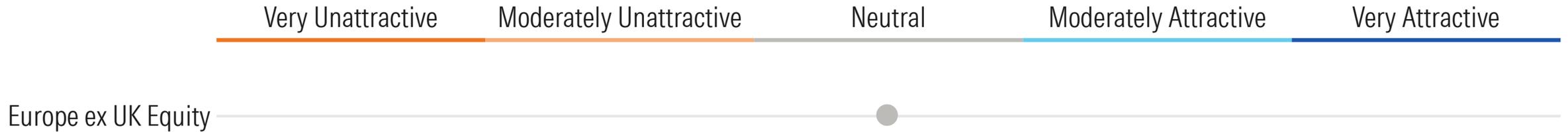
Chinese Equity



Backdrop: The Morningstar China TME Index performed very well in 2025 and is up 36% as several catalysts have continued their momentum year-to-date. First, China's stimulus measures carried over from 2024 and optimism around DeepSeek lifted China stocks off low levels. Second, the extension of tariff deal deadlines and the US-China tariff negotiation truce lowered the risk outlook. AI optimism drove overall tech and communications services sector gains. The healthcare sector rose as China biotechnology companies saw stellar gains, with listings of mainland entities in Hong Kong driving up valuations. China biotech has largely escaped US tariffs, and while risks remain, global pharmaceutical firms are still keen to work on drug development with these companies. Materials outperformed as gold prices soared, lifting miners' share prices.

Outlook: We maintain a Neutral view on the Chinese equity market. Our China/Hong Kong coverage valuations are broadly fair, but there is a wide range of valuations among the sectors. Notably, the consumer sectors remain attractive relative to our fair values. Although we are disappointed that policies to boost consumer confidence in China have fallen short of our expectations thus far, we believe that valuations are inexpensive and reflect much of the slow growth. Hence, we believe that potential positive policies are not being reflected in current share prices, as investors are skeptical. To us, the risk/reward for owning preferred consumer shares is attractive. We are possibly even more keen on the communication services sector. This sector performed well year-to-date, but we expect further upside in 2026. The AI story remains a driver, helping to improve productivity for the media and gaming names, while cloud services activity is likely to be firm in the near term for the China telcos.

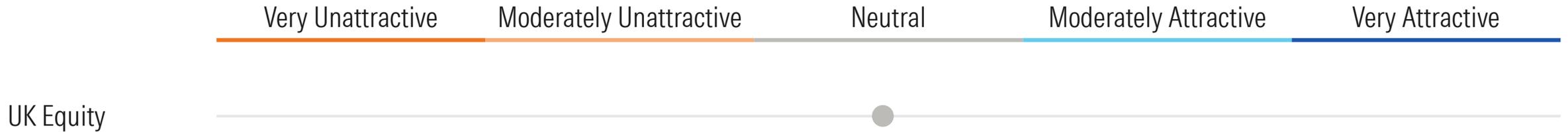
Europe ex United Kingdom



Backdrop: European stocks had a strong 2025, bouncing back quickly from the Liberation day tariff announcement and rallying right into the new year. Markets returned 3.3% in the final quarter of the year and 9.3% over 2025, a solid result. The market currently trades at a Price to Fair Value Estimate of 0.98, certainly not the bargain basement levels we saw in April of last year, but not expensive at the same time. Given the more positive macro-economic backdrop for European equities, this is largely to be expected.

Outlook: Overall, we maintain a Neutral view on Europe ex UK Equity. From a top-down lens, valuations are moderately unattractive, while on the other hand, we find more opportunities at the stock level, balancing out to an overall Neutral score. The macroeconomic situation in Europe has been improving steadily, with GDP growth for 2026 is expected again to move another leg up from 2025. With inflation at around targeted levels, the ECB has sufficient slack to cut rates even lower than the current 2% level. Business confidence remains low in Europe and geopolitical risks remains; however, the effect of low interest rates and the application of the German infrastructure fund could go some way to buoying European equity markets.

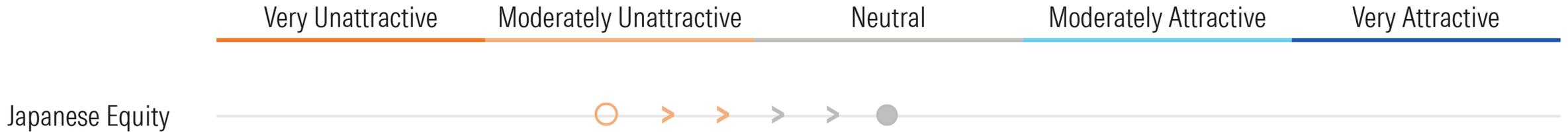
United Kingdom



Backdrop: The UK equity market delivered a 14% return in 2025, with the rally continuing right into the new year. The liberation day tariff announcements saw significant amounts of capital flow out of the US and into European markets. The UK equity market currently stands at around a 2% discount to our fair value estimate, not cheap, but not expensive either.

Outlook: Overall, we maintain a Neutral view on UK Equities. From a top-down lens, valuations are moderately unattractive, while on the other hand, we find more opportunities at the stock level, balancing out to an overall Neutral score. From a macroeconomic perspective the UK is in pretty good shape, with GDP growth forecasts pointing to an incremental improvement on 2025. Inflation remains high, relative to the rest of Europe, and indeed the Bank of England's targeted level; however, some of this includes temporary effects that are likely to fall in 2026. Interest rates are still operating at elevated levels, which gives the bank significant room to cut over the coming months, an action that could be a boon for UK equity markets. Risks remain, but with a tariff agreement already in place with US, the risks are fewer.

Japan



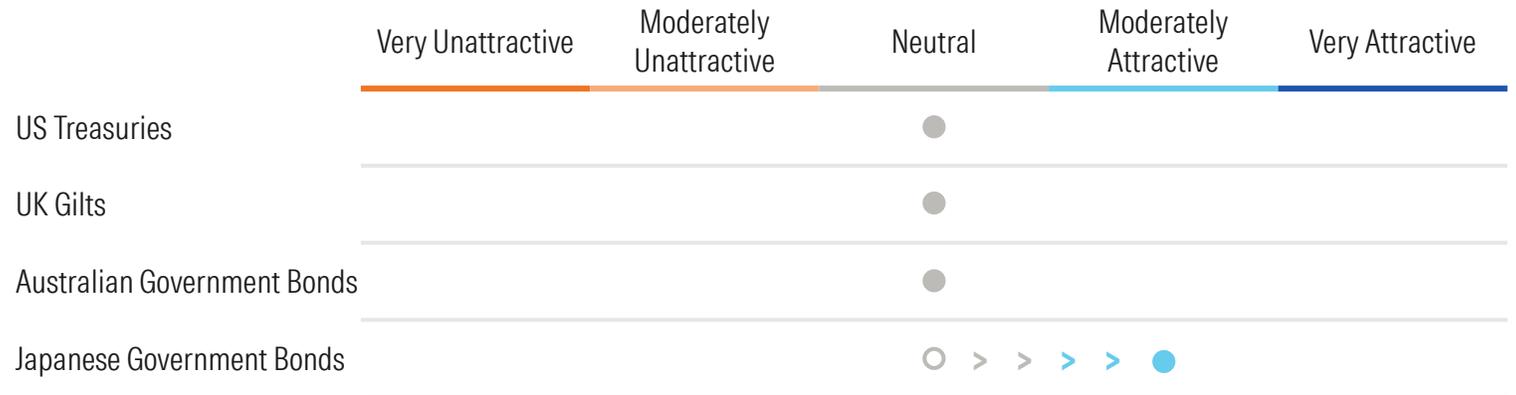
Backdrop: The Morningstar Japan TME Index gained more than 26%, which underperformed the Morningstar Asia TME Index's 31% return in 2025. A soft first half was more than offset by strong second half gains as tariff pressures on the economy did not materialize, leading companies to raise their earnings outlook. The tariff agreement with the US in July 2025 helped reduce uncertainty, and we saw index leader Toyota's share price swing from a 21% first half loss to a 35% second half gain. Overall, the tariff agreement helped drive a broad-based recovery. Reduced risks to banks, margin expansion from rising interest rates, and share buybacks lifted financial sector gains. Global AI spending expectations helped boost a variety of industrials, tech and utility companies leading to sector outperformances. Towards year-end, Sino-Japanese relations saw increased geopolitical risk leading to selling in consumer names on worries of a fall in sales to Chinese consumers.

Outlook: We have a Neutral view on Japanese equities. Many of the sectors are trading within 10% of our intrinsic valuation, with notable exceptions being energy, which is relatively overvalued, and consumer defensive, which remains at a discount. However, Sanae Takaichi's election as the new prime minister has provided a new catalyst and could improve the market trajectory in the short term. Under Takaichi, Japan is expanding fiscal policy, favoring active government spending to stimulate economic growth while maintaining monetary policy easing in the near term. The market has reacted with the expectation of a weaker Japanese yen because the BOJ will hike interest rates more slowly, despite recent inflationary pressure. This partly explains the recent surge in share prices of exporters. However, concerns remain that continued monetary easing and low interest rates in an inflationary environment could accelerate future inflation, especially due to rising import costs from a weaker yen. This makes it difficult for policymakers to maintain economic growth without letting inflation get out of control.

Developed-Markets Sovereign Bonds

Backdrop: In the United States, the Federal Reserve delivered its first rate cut of the year in September responding to signs of labor market softening. While the yield curve remained volatile, long-end yields declined modestly, supported by dovish forward guidance. In the Eurozone, core government bond yields drifted higher with France underperforming the periphery due to domestic fiscal and political uncertainty. UK gilts moved sideways during the last quarter as fiscal concerns and elevated inflation expectations were broadly offset by positive inflation surprises. In Australia, a widespread pick-up in inflation over the last quarter of last year combined with strong employment data led to a repricing of market policy rate expectations and pushed government bond yields higher. Japanese government bonds remained under pressure with the 30-year yield reaching multi-decade highs. The Bank of Japan raised its policy rate to 0.75% in December while inflation has been hovering around 3%.

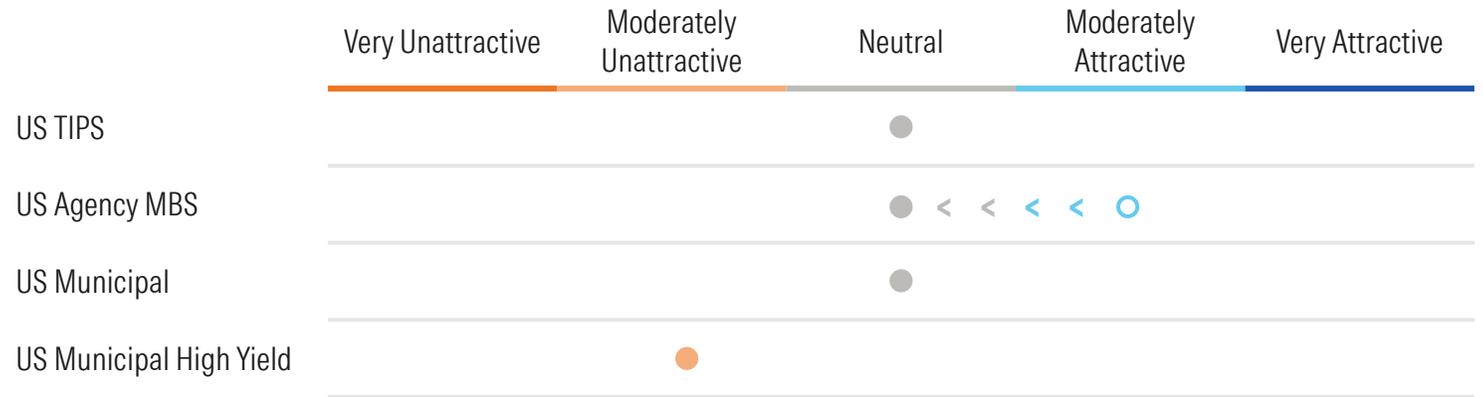
Outlook: The outlook for developed market government bonds remains broadly neutral and we expect the performance of government bonds in the near term to be dominated by their income component. Among them, the long maturity Japanese Government bonds have become moderately attractive as historically high yields reflect significant inflation and supply risk premia.



US Fixed Income Assets

Backdrop: US TIPS lagged nominal Treasuries in the fourth quarter, though still posted a small gain. Inflation in the fourth quarter came in lower than expected and markets have subsequently lowered their forward-looking inflation expectations. US agency MBS had another strong quarter driven by further spread compression fueled by strong investor demand. Mortgage rates declined leading to a small uptick in refinancing, though nowhere near levels seen in 2022. Both Investment Grade and High Yield Municipal bonds posted a strong fourth quarter. Issuance remained strong in large part thanks to increased infrastructure spending, while demand kept up with the record issuance.

Outlook: Consistent spread compression in the back half of 2025 has reduced our overall conviction for US agency MBS to a neutral score as valuations look much less attractive than before. Looking ahead, President Trump has called for Fannie Mae and Freddie Mac to buy \$200 billion of mortgage bonds. If mortgage rates drop meaningfully as Trump intends, we could see refinancing pick up which could dampen MBS returns. For US TIPS real rates remain positive and an upside surprise to inflation could boost returns. Munis are carrying strong momentum into 2026. Tax equivalent yields look quite attractive relative to other fixed income asset classes. Relative to nominal Treasuries, the short and long-end of the curve look attractive at current valuations.



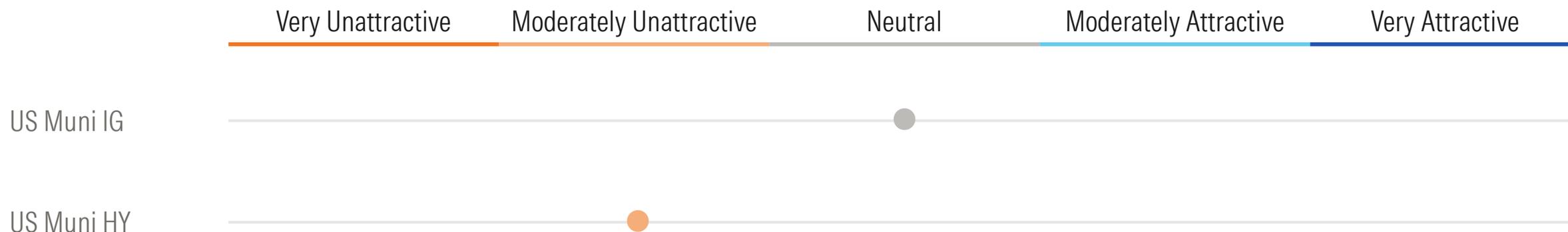
Credit Assets and Emerging-Market Bonds

Backdrop: 2025 was a stellar year for credit markets, characterized by solid total returns and sustained spread compression toward historical tightness, despite intermittent volatility and the April drawdown. Momentum moderated in Q4, with spreads largely moving sideways. Markets were supported by continued optimism around the macro environment, strong investor demand, and looser monetary policy. Against this backdrop, credit spreads tightened further, reaching multi-decade lows across most credit asset classes and delivering broad-based outperformance versus government bonds. EM bonds were among the best-performing fixed income segments: hard-currency debt returned 10.9% and local-currency bonds 17.6% in USD terms, supported by a weaker dollar and high domestic rates. The US IG Corporate index returned 7.6%.

Outlook: With credit spreads now testing historical lows, valuations appear unattractive. That said, carry continues to offer some yield enhancement relative to core rate curves, particularly in higher-yield segments. However, given the uncertain macro-outlook and potential volatility in risk assets, shorter-duration exposure appears more sensible. While EM local-currency debt remains among the most attractive fixed-income asset classes, its strong performance over the past year has reduced valuation appeal despite broadly stable fundamentals across emerging markets.



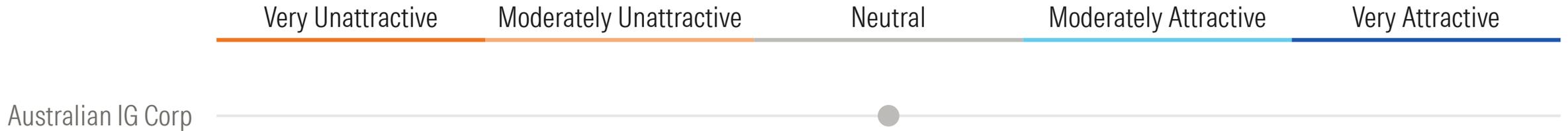
In Focus: US Municipal Bonds (Investment Grade and High Yield)



Backdrop: After a poor 2022 which saw Investment Grade Municipal Bonds post near double digit losses and High Yield Municipal Bonds down even more, Munis rebounded in 2023. Oversupply in 2024 weighed on returns in 2024 with Munis only seeing modest returns, though outperforming US Treasuries. 2025 saw a second straight year of record issuance which was met with strong demand, particularly in the back half of the year. IG and HY Munis had a strong fourth quarter, outperforming treasuries. Extension of tax-exempt status and increased infrastructure spending were key contributors to strong supply. Tax receipts continue to grow, and despite a decline in Rainy Day Funds and Total Balances, they remain well above totals seen in the 2000s and 2010s.

Outlook: From a valuation perspective, Municipal Bonds look somewhat attractive relative to other fixed income asset classes. Relative to their own history, tax equivalent spreads are considerably more attractive versus other credit assets. Additionally, tax equivalent yields are currently very high, sitting near the 90th and 71st percentile over the past ten years for IG and HY Munis, respectively. Fund flows have been largely positive and issuance should remain strong to start 2026. Fundamentally, the passage of the One Big Beautiful Bill Act (OBBBA) presents some challenges, particularly for High Yield Munis given the index's exposure to hospitals. Medicaid spending was cut by \$1T over the next ten years which will result in an estimated 10+ million people losing coverage, which could strain hospital's margins. A \$50B fund was created to help ease the transition, but state and local government may choose to fill the gaps by raising taxes or cutting expenditures elsewhere. Despite this, Municipal Bonds remain a lower risk than equivalent rated corporates. Default rates have been low since the Puerto Rico government-debt crisis in 2015.

In Focus: Australian Investment Grade Corporate Bonds

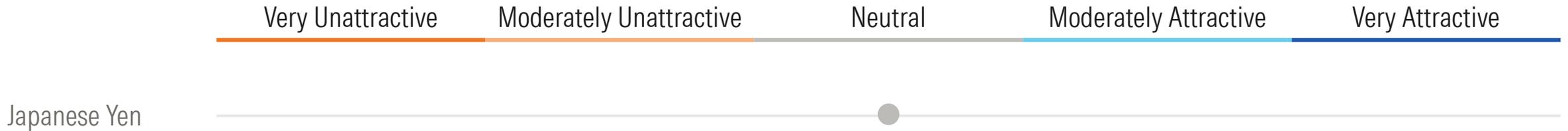


Australian IG Corp

Backdrop: After posting losses in 2022, Australian investment grade credit has enjoyed a strong recovery, returning nearly 8% in 2023 and close to 6% in 2024, supported by declining core rates and improving risk sentiment. In 2025, the market delivered a solid return of nearly 5% for the full year, though Q4 saw a modest pullback as rates volatility picked up. Spreads continued to tighten throughout the year, reaching multi-decade lows, which helped the asset class outperform government bonds.

Outlook: Australian Investment Grade remains a relatively insulated and defensive segment within global credit, supported by a strong domestic macro backdrop and an expected RBA easing cycle. Yield levels remain attractive, and the market's low duration profile (roughly half that of US and UK IG) limits volatility risk while the index also maintains a higher average credit quality than its global peers. However, spreads now sit near cyclical lows and well below our fair value estimates, leaving limited room for further compression. Unlike prior periods of spread tightness, the current index composition is less favorable, with a larger share of lower-rated issuers than historical norms. This is partly offset by the structural spread premium Australian credit offers versus US investment grade—a premium that persists even among multinational issuers with curves in both currencies. Fundamentally, non-financial corporates have seen post-GFC credit deterioration with only partial post-COVID retracement, though leverage has stabilized and interest coverage is recovering. Financials remain solid anchors with strong capital ratios, stable profitability, and negligible credit losses. For investors, Australian investment grade offers meaningful diversification benefits, superior risk-adjusted returns given its lower volatility profile and higher apples-to-apples spreads, and an effective way to enhance yield over core government bonds without materially increasing duration risk.

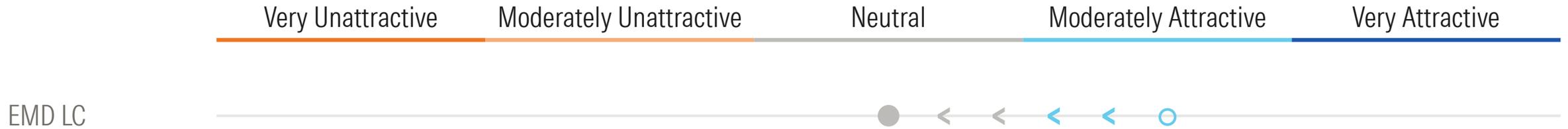
In Focus: Japanese Yen



Backdrop: The Japanese Yen depreciated meaningfully during the last quarter of 2025 weakening by more than 6% versus both the US Dollar and the Euro. A combination of sticky headline inflation, strong wage growth, rising inflation expectations and the announcement of a large fiscal stimulus by the new administration depressed further real interest rates in Japan as BoJ sticks to a very gradual removal of its loose monetary policy.

Outlook: With wage hikes becoming widespread the mechanism of a rise in underlying inflation, in which wages and prices continue to rise in interaction with each other, is strengthening. It is unlikely, however, that the economy reaches a steady state before the end of 2026 (underlying inflation stabilizing at 2% and real wage growth at 1% in line with labor productivity growth). BoJ will raise interest rate incrementally and JPY real rates will remain depressed. This gradual approach, considering also the large fiscal stimulus enacted by the new administration, may lead to an overshoot in inflation expectations and will continue to exert pressure on the JPY despite attractive valuation. Contrarian indicators have become less supportive for the Yen driven by positioning. We maintain a medium conviction.

In Focus: Local Currency Denominated Emerging-Market Debt



Backdrop: In 2025, emerging markets benefited from an early and sustained easing cycle as inflation cooled globally, allowing central banks to shift from currency defense toward growth support amid calmer USD conditions. Because EMs tightened earlier and more aggressively after COVID, local-currency debt entered the easing phase with high nominal and real yields, providing a strong carry buffer and enabling LC rates to rally ahead of DM peers. A softer U.S. dollar and low FX volatility further boosted EM FX relative to US Dollar, reinforcing strong total dollar returns for EM local debt in 2025.

Outlook: EM local bonds are still reasonably priced, but they are less attractive after a strong 2025, while EM currencies have become less attractive versus the U.S. dollar and remain unappealing relative to other major currencies. Strong investor inflows and better sentiment in 2025 have reduced the scope for further upside. On the fundamentals, emerging markets remain relatively resilient thanks to better policy management and a larger base of local investors, but these positives are partly offset by rising debt levels, weaker external balances, and a less favorable currency environment. Country-by-country analysis shows some improvement, but not enough to change the overall assessment.

MORNINGSTAR Wealth

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Index definitions:

Emerging Market Local Currency Debt - The index measures the performance of fixed rate, investment grade and high yield sovereign debt issued by emerging market countries in its domestic currency. It is market value weighted with capping constraints

US Government Bond - The index measures the performance of USD-denominated investment grade US Treasury and agency debt with maturities greater than one year. It is market value-weighted.

UK Corporate Bond - The index measures the performance of fixed-rate, investment-grade GBP-denominated corporate bonds with maturities greater than one year.

UK Government Bond - The index measures the performance of fixed-rate, investment-grade GBP-denominated government bonds with maturities greater than one year. It is market-capitalization weighted.

Emerging Market Equity - The Morningstar Emerging Markets Index measures the performance of large-, mid- and small-cap stocks in emerging markets around the world, representing the top 97% of the investable universe by market capitalization.

Developed Markets - The Morningstar Global Markets Index measures the performance of large-, mid- and small-cap stocks in developed and emerging markets around the world, representing the top 97% of the investable universe by market capitalization.

Japan Equity - The Morningstar Japan Index measures the performance of large-, mid- and small-cap stocks in Japan, representing the top 97% of the investable universe by market capitalization.

Asia ex Japan Equity - The Morningstar Asia Pacific ex-Japan Index measures the performance of large-, mid- and small-cap stocks in developed and emerging markets in Asia Pacific outside of Japan, representing the top 97% of the investable universe by market capitalization.

Europe ex UK equity - The Morningstar Asia Pacific ex-Japan Index measures the performance of large-, mid- and small-cap stocks in developed and emerging markets in Asia Pacific outside of Japan, representing the top 97% of the investable universe by market capitalization.

US Small Cap Equity - The Morningstar US Small Cap Index measures the performance of small-cap stocks in the U.S. It targets securities that fall between the 90% and 97% market cap thresholds of the investable universe.

US Equity - The Morningstar US Market Index measures the performance of large-, mid- and small-cap stocks in the U.S., representing the top 97% of the investable universe by market capitalization.

UK Mid Cap Equity - The Morningstar UK Mid Cap Index measures the performance of mid-cap stocks in the UK It targets securities that fall between the 70% and 90% market cap thresholds of the investable universe

UK Equity - The Morningstar UK Index measures the performance of large-, mid- and small-cap stocks in the UK, representing the top 97% of the investable universe by market capitalization.

Global Market Equity - The Morningstar Global Markets Index measures the performance of large-, mid- and small-cap stocks in developed and emerging markets around the world, representing the top 97% of the investable universe by market capitalization.

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