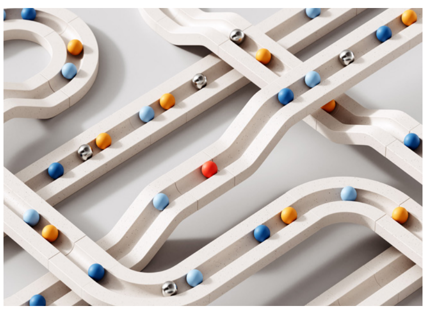
M&T Bank | Wilmington Trust

Summer 2026

Capital Perspectives

Second-Half Outlook: Finding Opportunities Amid Uncertainty



The second half of the year is underway, and some of the major themes impacting markets are rhyming with the first quarter. Artificial intelligence (AI) angst is elevated, yet investors appear afraid of missing out on the most transformational technology of our generation. Geopolitical risk has returned to a boil despite the June Memorandum of Understanding between the U.S. and Iran, which had cooled things off. One distinct difference from Q1 is the economic outlook has improved, particularly as the labor market has stabilized and inflation pressures remain muted. Earnings provided a solid underpinning to the equity market.

We therefore enter the second half of the year with an overweight to risk in portfolios, having recently added to U.S. large cap, U.S. small cap, and emerging market equities. There could be some near-term volatility in store for the remainder of the summer, particularly after a very strong second quarter for equities, uncertainty surrounding the price of oil, and midterm elections on the horizon. The biggest overhang could come from a prolonged elevation in oil prices, something we had thought was largely behind us at the end of June. However, we are optimistic that these risks will prove manageable and equities will deliver solid returns over our tactical horizon.

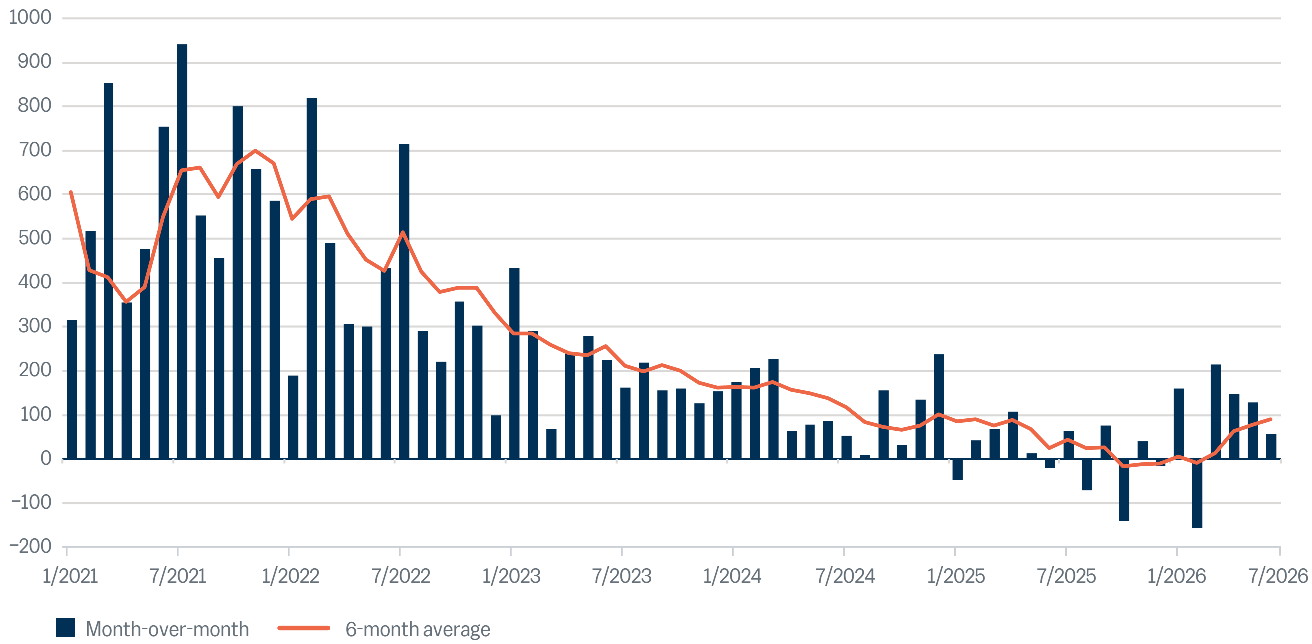
Economic outlook improving

The economic outlook has improved over the past six months. We began the year with U.S. jobs threatening to tip into negative territory. The only source of labor market growth was the always-growing healthcare sector, while the more cyclical employers were in cutting mode, a dynamic we have not historically seen outside of a recession. Yet the economy continued expanding and job growth stabilized (Figure 1). We remain in a low-hire-low-fire environment, but the risk of recession has fallen.

Figure 1

Low-hire-low-fire job market

Job growth (m/m thousands)



Sources: Bureau of Labor Statistics, Wilmington Trust. As of June 2026.

Fading tariff headwinds have helped business activity to improve, across both services and manufacturing, evidenced by ISM surveys in solid expansionary territory, driven by new orders and a quicker pace of production. But consumer and business confidence remains low. Lower-income households are increasingly pressured by inflation outpacing income growth, leading to a declining savings rate. Non-discretionary items like food and energy are consuming a larger portion of the spending pie. Fortunately, the wealth effect is providing a positive offset, with greater stock market ownership and strong returns supporting household wealth, though that is concentrated in higher-income households.

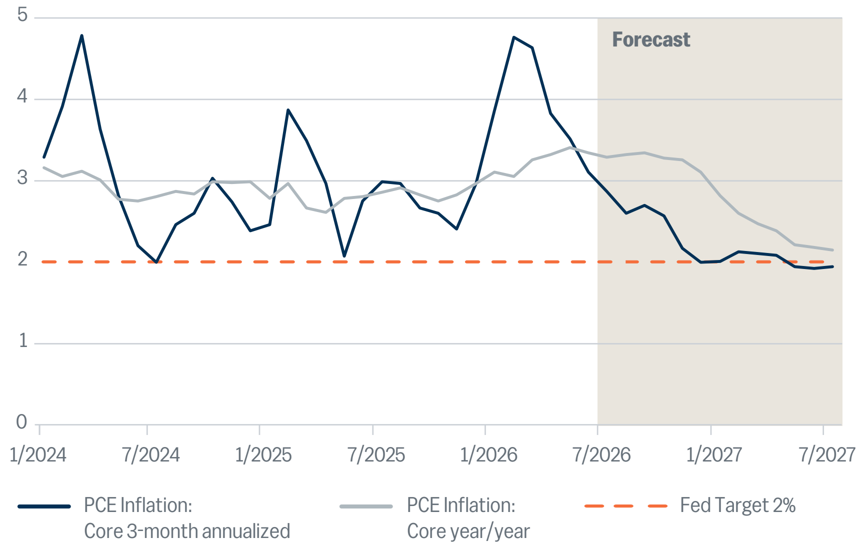
For markets, the path of inflation remains key and the data continues to support our expectation of abating price pressures into the end of the year. Energy prices are once again on the rise as war ramps back up. Critically, however, we have yet to see higher energy prices pass through to broader inflation in prices of core goods and services, the focus of the Federal Reserve when setting interest rate policy. The inflationary impact of tariffs is, in our view, largely in the rearview mirror. We also assess the consumer as more discerning and less accepting of price increases. The last important element of the inflation picture is housing, where sluggish home prices and rents continue to act as a drag on inflation.

Despite inflation remaining above the Fed's target, conditions continue to support the case for lower interest rates.

Figure 2

Inflation forecasted to decelerate into 2027

PCE inflation core



Sources: Bureau of Economic Analysis, Wilmington Trust As of May 2026.

Although we expect year-over-year inflation to remain above the Fed's 2% target well into next year, we have already seen the 3-month annualized rate of core PCE peak in February 2026 and decelerate sharply despite the energy price spike that started the following month. We expect that dynamic to continue, a crucial element of our expectation that the Fed will not need to raise rates as some have feared. We see the economy as strong enough to avoid recession, but not strong enough to generate inflation. We expect this backdrop to result in two rate cuts from the Fed this year, despite market concerns that the next move could be a hike. (Figure 2).

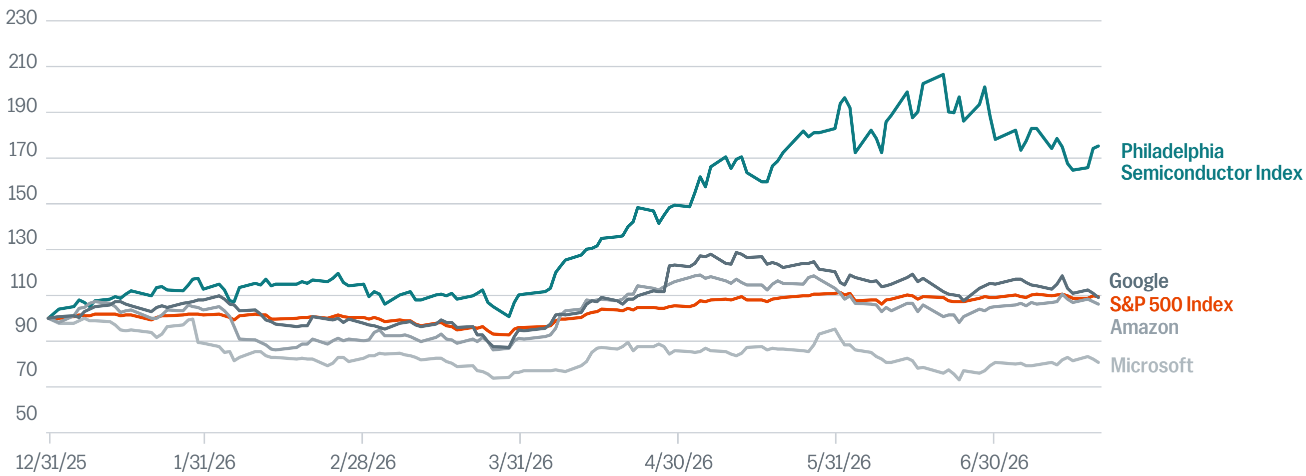
Importantly, if we are wrong about the Fed cutting rates, we think the next most likely outcome is for the Fed to remain on hold because growth is stronger than we expect, not because inflation is rearing its head. This would likely signal the "neutral rate" (the fed funds rate that neither stimulates nor contracts the economy) is higher than previously estimated, which would also be consistent with the recent rise in real interest rates.

In our view, a Fed on hold because growth is stronger and inflation is a bit sticky above their target would prove to be a solid backdrop for equities, which historically have acted as a good hedge against moderate inflation. We will be watching real interest rates and Treasury yields generally, as a 10-year above 5% could usher in more volatility for the equity market.

Figure 3

Semiconductors shoot higher in 2Q

Semiconductors, S&P 500, and hyperscalers indexed to 100 on December 31, 2025



Source: Bloomberg. As of July 22, 2026.
Past performance cannot guarantee future results. Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses such as management fees and transaction costs which will reduce returns.

Earnings underpinning the equity market

Earnings growth continues to be the most solid pillar upon which the equity market stands. First quarter earnings were exceptional, though certainly helped by a few outsized reports from select companies. Second quarter earnings for the S&P 500 are shaping up to be similarly impressive at nearly 25% y/y growth, with technology and energy stocks expected to deliver the strongest earnings growth. Banks were the early reporters and noted stable or improving credit conditions, which is a positive sign for the consumer. Overall valuations are above average but not concerning, particularly given record profit margins of 14.8% and our forecast for rate cuts.

The buildout of AI infrastructure is the epicenter of the stock market, and investors are rewarding the companies most benefitting from that spending, especially semiconductors. The Philadelphia Semiconductor Index experienced an 88% return in the second quarter, far outpacing the S&P 500 (Figure 3), as AI-related demand is generating a memory chip shortage. Since then, high-momentum stocks including semiconductors have come under pressure. There are also re-emerging threats of cheaper, better models coming out of China—not all that different from the "DeepSeek" threat that sent tech stocks reeling in January 2025.

The potential for AI models to be developed with fewer or less sophisticated chips threatens hyperscalers (a select group of large companies like Microsoft, Amazon, and Google that provide cloud and data center services). Their spending spree has come under scrutiny given continuous upward revisions to investment plans and an increasing need to tap capital markets rather than source from cash on balance sheets. These companies are still producing solid earnings but lower returns on free cash flow. The hyperscalers may present attractive value at today's levels if they can increase the monetization of their investments.

With recession risks moderating and earnings remaining strong, equities continue to offer compelling opportunities for investors.

One nuance to the markets is that the AI investment theme can drive performance in unexpected places. In the second quarter, for example, the Russell 1000 Value index benefited greatly from the sharp outperformance of semiconductor names. These are companies that are more often associated with growth rather than value investing. The Russell 1000 Value had roughly a 3.5% weight to Micron Technology (the largest weight in the index), which was a major beneficiary of the AI-driven semiconductor rally, posting a 242% return in 2Q. In late June, the Russell index was reconstituted, or rebalanced, based on the value and growth characteristics of individual stocks, which resulted in Micron and several other semiconductor names, including AMD, moving from the Russell 1000 Value Index to the Russell 1000 Growth Index. It could very well be the case that memory chip companies rode the elevator up in the value index and will continue their ride (or potentially ride it down) in the growth index—a dynamic that is critical for how we think about constructing portfolios and assessing active managers.

Adding to equities

Despite a strong run for the market in the second quarter, it is a compelling time to add to equities, in our view. We recently added to U.S. large cap, U.S. small cap, and emerging market equities in client portfolios, funded from investment-grade fixed income and cash.

An economy that is not too hot to produce inflation, but strong enough to avoid recession, should allow the Fed to cut rates, which would support valuations for U.S. large cap and small cap. We expect small cap to be one of the strongest asset classes if the market moves to our view of Fed rate cuts because of their higher leverage, and valuations are still attractive relative to large cap.

Emerging market equities have been the best-performing asset class over the trailing 12 months and year-to-date. Yet the price-to-earnings multiple on the MSCI Emerging Market Index has declined over that period. Earnings growth has been incredibly strong, and we find the asset class's exposure to emerging economic growth and AI investment opportunities attractive. In addition, emerging market equities tend to exhibit a negative correlation with the U.S. dollar. We would expect the dollar to weaken (and emerging market equities to gain) if the Fed cuts rates.

The addition to risk was funded from fixed income and cash, which we would expect to underperform equities in our base case. Credit spreads remain historically tight, and we hold less relative exposure to high yield because we do not see investors being compensated for the additional credit risk at current valuations.

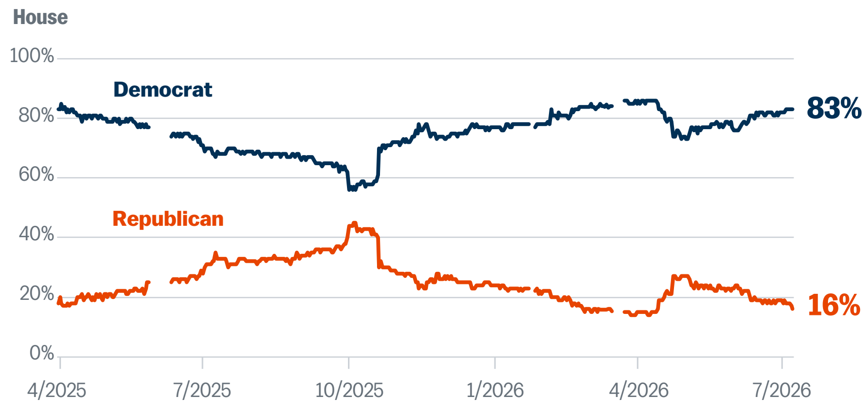
Risks to the market

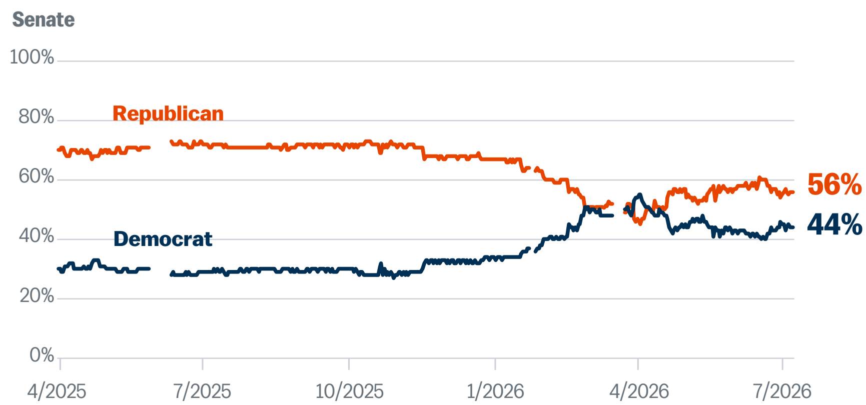
The main risks to our outlook stem from geopolitics. First, the U.S.-Iran War is rearing its head again, despite a Memorandum of Understanding in June. Unfortunately, that geopolitical risk is being transmitted through higher oil prices. Fortunately, we are not seeing oil prices at a level that materially elevates recession risk, nor do we see

Figure 4

Republicans projected to lose House, keep Senate

Control of Congress (% chance)





Sources: Bloomberg, Kalshi, Wilmington Trust. As of July 22, 2026.

evidence of energy prices bleeding into other areas of inflation. The U.S. is relatively better off than other developed economies when it comes to the risk of higher energy prices. Within emerging markets, China has been making use of its massive stockpile of oil reserves. The U.S. and emerging market equity indices have also been buffered by strength in technology stocks, thereby deflecting some of the downside impacts of geopolitical risk for investors.

The U.S. is approaching a midterm election, which can historically introduce more volatility to the markets, though in this case it could provide a helpful deadline for meaningful resolution to the U.S.-Iran conflict. Per historical precedent, the incumbent party is expected to lose seats in both the House and Senate (Figure 4). This would likely result in gridlock, which is a scenario generally favored by markets due to the reduced chance of disruptive policy changes being passed in Washington, though this could come with considerably more political brinksmanship and “noise.”

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Chief Investment Officer

Meghan Shue
Chief Investment Strategist

Worth monitoring in the lead up to the midterms is the politicization of AI, which could interrupt the build out or adoption of this powerful technology. Issues of inflation, job losses, and increased energy costs from AI could be leveraged to obtain votes, which could negatively impact investor sentiment toward AI-related companies.

The landscape is complex, and we are reminded that if one is waiting for the "all clear," they will likely be sitting on the sidelines forever. While risks need to be carefully considered as part of the investment process, we see the balance tipping in favor of an expanding economy and solid returns from equities in and beyond the second half of the year.

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

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

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Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary Continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Philadelphia Semiconductor Index (SOX) measures the performance of leading U.S.-listed semiconductor companies, including chip manufacturers, equipment suppliers, and related firms. The index serves as a key benchmark for the semiconductor industry and broader technology sector.

Glossary Continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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