Taking Stock of the Markets

Investment Strategy

July 2026

PNC INSTITUTIONAL ASSET MANAGEMENT

Taking Stock of the Markets

Executive summary

Business investments, productivity gains and stimulative fiscal policy are supportive catalysts going forward.

U.S. economy

- Fiscal stimulus and capital expenditures should support growth.
- Labor market conditions remain healthy, though hiring trends bear monitoring.
- Geopolitical tensions persist, but market risks have eased following de-escalation.
- Continued AI investment is reinforcing expectations for stronger productivity growth.
- Consumer spending remains resilient despite low sentiment and high uncertainty.

International economy

- International markets benefit from Middle East de-escalation.
- China's technological innovation is robust and likely to support its markets.
- Emerging markets show manufacturing resilience despite tariff risks.
- Europe's fiscal stimulus is a positive and significant trend even though some economies in Europe (U.K., France and Italy) face budget constraints.

Global monetary and fiscal policy

- The Federal Reserve maintains short-term rates but has opened the door for the possibility of future rate increases.
- U.S. debt and deficits concerns persist, but long-term rates remain contained.

U.S. corporate earnings

- The S&P 500® second quarter earnings growth rate has increased to 20.1%, higher than prior estimates as technology and energy sectors lead earnings contribution.
- The 2026 earnings outlook has also been revised higher, with annual growth now tracking 23.9%, reflecting a broadening of earnings and solid growth backdrop.

U.S. equity markets

- The S&P 500 declined modestly in June but delivered its best quarter in six years, gaining 15.2% and bringing its year-to-date return to 10.2%.
- Sector leadership broadened beyond technology and AI-related stocks.
- Market breadth improved as equal weight stocks outperformed.

International equity markets

- Developed international equities fell -0.8% in June, but advanced 9.9% during the second quarter.
- Emerging markets equities fell -1.6% in June as dollar strength weighed but delivered its best quarter since 2009, gaining 22.7%.

Fixed income markets

- The Bloomberg U.S. Aggregate Bond Index gained 0.2% in June, increasing its year-to-date return to 0.6%.
- Credit spreads remain near historically tight levels.
- The 10-year U.S. Treasury yield sits near the upper end of its recent range.

Alternative investments

- Alternatives may enhance portfolio resilience via low correlations.
- Manager selection is crucial to finding attractive opportunities.

As of 6/30/2026. Source: PNC. Indices are unmanaged, not available for direct investment and not subject to management fees, transaction costs or other types of expenses that an account may incur.

Asset Class Performance

Leadership rotates as market drivers and imbalances evolve

This year, we've seen a market rotation to smaller-capitalization (cap) and emerging markets equities, although AI-driven innovation remains a driving force for the earnings growth and equity markets overall.

2012	2013	2014	2015	2016	2017	2018	2019
EM 18.68	Small-Cap 38.82	Large Growth 14.89	Large Growth 5.52	Small-Cap 21.31	EM 36.83	Core Bond 0.01	Large Value 31.93
Mid-Cap 17.88	Mid-Cap 33.50	Large Cap 13.69	Large Cap 1.38	Mid-Cap 20.74	Large Growth 27.44	Large Growth -0.01	Large Cap 31.49
Large Value 17.68	Large Growth 32.75	Large Value 12.36	60/40 1.28	Large Value 17.40	Intl Dev 25.17	High Yield -2.08	Large Growth 31.13
Intl Dev 16.55	Large Cap 32.39	60/40 10.62	Core Bond 0.55	High Yield 17.13	Large Cap 21.83	60/40 -2.35	Mid-Cap 26.20
Small-Cap 16.35	Large Value 31.99	Mid-Cap 9.77	Intl Dev -1.95	Large Cap 11.96	Mid-Cap 16.24	Large Cap -4.38	Small-Cap 25.52
Large Cap 16.00	Intl Dev 21.57	Core Bond 5.97	Mid-Cap -2.18	EM 9.90	Large Value 15.36	Large Value -8.95	Intl Dev 22.91
High Yield 15.81	60/40 17.56	Small-Cap 4.89	Large Value -3.13	60/40 8.31	Small-Cap 14.65	Small-Cap -11.01	60/40 22.18
Large Growth 14.61	High Yield 7.44	High Yield 2.45	Small-Cap -4.41	Large Growth 6.89	60/40 14.21	Mid-Cap -11.08	EM 17.65
60/40 11.31	Core Bond -2.02	EM -1.79	High Yield -4.47	Intl Dev 2.95	High Yield 7.50	Intl Dev -14.68	High Yield 14.32
Core Bond 4.21	EM -2.20	Intl Dev -4.45	EM -13.86	Core Bond 2.65	Core Bond 3.54	EM -15.05	Core Bond 8.72

2020	2021	2022	2023	2024	2025	YTD
Large Growth 33.47	Large Growth 32.01	Large Value -5.22	Large Growth 30.03	Large Growth 36.07	Intl Dev 32.18	Small-Cap 22.57
Small-Cap 19.96	Large Cap 28.71	High Yield -11.19	Large Cap 26.29	Large Cap 25.02	EM 31.38	EM 22.41
Large Cap 18.40	Large Value 24.90	Core Bond -13.01	Large Value 22.23	60/40 15.04	Large Growth 22.18	Mid-Cap 17.34
EM 18.39	Mid-Cap 24.76	Mid-Cap -13.06	60/40 17.67	Mid-Cap 13.93	Large Cap 17.88	Large Growth 12.01
60/40 14.73	60/40 15.86	Intl Dev -15.26	Intl Dev 17.18	Large Value 12.29	60/40 13.70	Large Cap 10.21
Mid-Cap 13.66	Small-Cap 14.82	60/40 -15.79	Small-Cap 16.93	Small-Cap 11.54	Large Value 13.19	Intl Dev 8.96
Intl Dev 8.32	Intl Dev 12.40	Large Cap -18.11	Mid-Cap 16.44	High Yield 8.19	Small-Cap 12.81	Large Value 8.03
Core Bond 7.51	High Yield 5.28	EM -19.83	High Yield 13.44	EM 7.09	High Yield 8.62	60/40 6.45
High Yield 7.11	EM -0.28	Small-Cap -20.44	EM 11.67	Intl Dev 4.44	Mid-Cap 7.50	High Yield 1.96
Large Value 1.36	Core Bond -1.54	Large Growth -29.41	Core Bond 5.53	Core Bond 1.25	Core Bond 7.30	Core Bond 0.62

POSITIVE RETURNS

NEGATIVE RETURNS

LEGEND

Large Cap	S&P 500®
Large Growth	S&P 500 Growth
Large Value	S&P 500 Value
Mid-Cap	S&P 400®
Small-Cap	Russell 2000®
Intl Dev	MSCI World ex USA IMI
EM	MSCI EM IMI
Core Bond	Bloomberg US Aggregate
High Yield	Bloomberg US Corp High Yield
60/40	60% S&P 500 / 40% Bloomberg US AGG

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PNC INSTITUTIONAL ASSET MANAGEMENT

Index Total Returns – Equity

Equity diversification remains a critical component of asset allocation

			Trailing Total Returns									PNC CMA Projections 10 Year Forecast (2026-35)	
		Index	**1 Month**	**3 Months**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**15 Years**	**20 Years**	**Return**	**Volatility**
U.S. EQUITY	**U.S. Equity**	**Russell 3000**	**(0.3%)**	**15.4%**	**10.9%**	**22.8%**	**20.4%**	**12.3%**	**15.1%**	**13.9%**	**11.2%**		
	LCC	S&P 500	(1.0%)	15.2%	10.2%	22.3%	20.6%	13.4%	15.5%	14.4%	11.4%	8.00%	17.25%
	LCC	S&P 500 Equal Weighted	2.4%	11.4%	12.1%	19.2%	14.5%	9.1%	12.4%	12.2%	10.5%		
	LCG	S&P 500 Growth	(1.8%)	21.9%	12.0%	25.7%	25.9%	14.6%	18.1%	16.4%	13.5%		
	LCV	S&P 500 Value	0.0%	8.0%	8.0%	18.4%	14.4%	11.3%	11.9%	11.7%	8.8%		
	Sector	S&P 500 Communication Services	(7.8%)	8.3%	0.8%	21.1%	29.2%	12.4%	11.7%	11.7%	10.1%		
	Sector	S&P 500 Consumer Discretionary	(4.7%)	9.3%	(0.8%)	9.5%	13.6%	6.7%	13.0%	14.1%	11.8%		
	Sector	S&P 500 Consumer Staples	0.5%	0.3%	8.0%	5.5%	8.6%	7.8%	7.9%	10.2%	9.8%		
	Sector	S&P 500 Energy	(5.1%)	(13.4%)	19.7%	29.0%	12.8%	19.0%	8.7%	6.0%	6.4%		
	Sector	S&P 500 Financials	4.4%	9.0%	(1.2%)	4.1%	18.7%	9.9%	13.4%	12.4%	5.8%		
	Sector	S&P 500 Health Care	6.6%	8.8%	3.5%	19.9%	8.0%	6.5%	10.2%	12.5%	10.7%		
	Sector	S&P 500 Industrials	7.3%	14.9%	20.2%	27.3%	21.8%	14.4%	14.4%	13.3%	10.7%		
	Sector	S&P 500 Information Technology	(3.3%)	31.8%	19.8%	37.5%	30.9%	22.2%	26.6%	22.0%	18.0%		
	Sector	S&P 500 Materials	0.0%	2.0%	12.0%	16.7%	8.9%	6.3%	10.4%	8.8%	8.3%		
	Sector	S&P 500 Real Estate	0.8%	8.5%	11.5%	11.1%	9.4%	3.6%	6.5%	8.5%	6.9%		
	Sector	S&P 500 Utilities	2.7%	(0.5%)	7.7%	14.2%	15.0%	10.8%	9.1%	10.7%	9.2%		
	MCC	S&P Midcap 400	3.6%	14.5%	17.3%	25.9%	15.4%	9.1%	11.6%	11.3%	10.1%	8.75%	20.85%
	MCG	S&P Midcap 400 Growth	3.1%	17.0%	21.6%	30.0%	17.2%	8.8%	12.0%	11.4%	10.6%		
	MCV	S&P Midcap 400 Value	4.1%	11.9%	13.0%	21.7%	13.5%	9.2%	11.0%	11.0%	9.3%		
	SCC	Russell 2000	3.7%	21.5%	22.6%	40.8%	18.6%	7.0%	11.6%	10.5%	8.9%	8.00%	23.00%
	SCG	Russell 2000 Growth	3.6%	25.7%	22.2%	38.7%	18.4%	5.6%	12.0%	10.8%	9.5%		
	SCV	Russell 2000 Value	4.0%	17.2%	23.0%	43.0%	18.7%	8.2%	10.9%	10.0%	8.0%		
	REITs	MSCI USA IMI Real Estate 25-50 NR	1.5%	9.4%	10.6%	11.4%	8.1%	1.8%	--	--	--	8.75%	23.65%
NON-U.S. EQUITY	**Non-U.S. Equity**	**MSCI ACWI Ex USA IMI**	**(1.0%)**	**13.8%**	**13.1%**	**26.6%**	**18.5%**	**8.4%**	**9.8%**	**6.6%**	**5.9%**		
	ILCC	MSCI World ex USA IMI	(0.8%)	9.9%	9.0%	20.8%	16.9%	8.8%	9.7%	6.9%	5.7%	8.00%	18.90%
	ILCC	MSCI World ex USA	(0.2%)	10.2%	9.2%	21.0%	16.9%	9.3%	9.8%	6.9%	5.7%	8.00%	18.90%
	ILCG	MSCI World ex USA Growth	0.1%	12.6%	7.4%	12.9%	11.6%	4.9%	8.6%	6.5%	5.6%		
	ILCV	MSCI World ex USA Value	(0.4%)	8.1%	10.8%	29.3%	22.3%	13.6%	10.8%	7.0%	5.5%		
	ISCC	MSCI World ex USA Small Cap	(4.2%)	7.9%	7.5%	19.4%	16.5%	6.0%	8.9%	7.1%	6.1%	8.25%	21.10%
	ISCG	MSCI World ex USA Small Cap Growth	(4.1%)	10.5%	9.8%	18.5%	15.2%	3.6%	8.5%	7.0%	6.2%		
	ISCV	MSCI World ex USA Small Cap Value	(4.3%)	5.5%	5.3%	20.2%	17.8%	8.4%	9.1%	7.1%	6.3%		
	EM	MSCI Emerging Markets IMI	(1.6%)	22.7%	22.4%	40.3%	22.1%	7.2%	10.0%	5.3%	6.9%	9.75%	24.80%
	Global Equity	**MSCI All Country**	**(0.8%)**	**14.9%**	**11.2%**	**23.7%**	**19.7%**	**11.0%**	**12.8%**	**10.3%**	**8.4%**		
	INFRA	S&P Global Infrastructure	1.1%	1.3%	9.5%	15.8%	15.8%	11.0%	8.1%	7.1%	6.5%		

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Index Total Returns – Fixed Income & Alternatives

Fixed income and alternative assets have been supported by income generation

		Index	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Return	Volatility
			Trailing Total Returns									PNC CMA Projections 10 Year Forecast (2026-35)	
FIXED INCOME	SHORT MUNI	Bloomberg Municipal 1-3 Year	0.4%	0.8%	1.4%	3.1%	3.3%	1.8%	1.6%	1.4%	2.0%	2.80%	1.50%
	MUNI	Bloomberg Municipal Bond	1.0%	2.5%	2.3%	7.0%	3.8%	1.1%	2.1%	3.2%	3.6%	3.60%	5.05%
	SHORT	Bloomberg US Aggregate 1-3 Year	0.1%	0.5%	0.8%	3.2%	4.7%	2.1%	2.0%	1.7%	2.4%	3.75%	1.50%
	CORE	**Bloomberg US Aggregate**	**0.2%**	**0.7%**	**0.6%**	**3.8%**	**4.2%**	**0.1%**	**1.5%**	**2.3%**	**3.3%**	**4.30%**	**4.50%**
	INTERM	Bloomberg US Govt/Credit Intermediate	0.1%	0.4%	0.4%	3.1%	4.7%	1.2%	1.9%	2.2%	3.2%		
	LONG	Bloomberg US Govt/Credit Long	0.7%	1.5%	0.8%	3.9%	1.9%	(3.8%)	0.7%	3.5%	4.5%	5.10%	11.35%
	TIPS	Bloomberg US Treasury US TIPS	(0.5%)	0.9%	1.2%	3.4%	4.0%	1.0%	2.6%	2.6%	3.7%	4.00%	6.20%
	BILLS	Bloomberg US Treasury Bills 1-3 Month	0.3%	0.9%	1.8%	4.0%	4.7%	3.6%	2.3%	1.6%	1.7%	3.00%	0.60%
	HY	Bloomberg US Corporate High Yield	0.3%	2.5%	2.0%	5.9%	8.9%	4.2%	5.8%	5.8%	6.7%	6.20%	10.40%
	LLOAN	Morningstar LSTA U.S. Leveraged Loan	0.1%	1.9%	1.3%	4.4%	7.6%	6.0%	5.5%	4.9%	5.0%		
	IBND	Bloomberg Global Aggregate Ex US	(1.5%)	1.0%	(0.9%)	(1.9%)	2.7%	(2.9%)	(0.7%)	(0.3%)	1.6%		
	EMD	Bloomberg EM USD Aggregate	0.6%	3.4%	2.0%	8.0%	8.5%	2.0%	3.4%	4.3%	5.6%	5.70%	9.60%
HEDGE FD	Hedge Funds	HFRX Global Hedge Fund (USD)	0.3%	1.9%	4.4%	9.3%	6.5%	3.0%	3.6%	2.2%	1.6%	6.25%	6.25%
	Equity Hedge	HFRX Equity Hedge	1.0%	4.7%	7.9%	13.8%	10.0%	6.6%	6.0%	3.8%	2.5%		
	Event Driven	HFRX Event Driven	0.4%	1.0%	2.6%	5.6%	5.3%	0.4%	2.5%	1.9%	1.6%		
	Macro-CTA	HFRX Macro/CTA	(1.4%)	(0.2%)	5.2%	14.5%	4.2%	2.8%	2.1%	1.2%	0.9%		
	Relative Value	HFRX Relative Value Arbitrage	0.3%	1.0%	1.9%	5.0%	5.2%	1.8%	3.0%	1.5%	1.4%		
PRIVATE ALTERNATIVES	Private Capital	MSCI Global Private Capital		1.2%	1.2%	10.9%	7.3%	8.2%	12.0%	11.4%	10.7%		
	Private Equity	MSCI Global Private Equity		1.0%	1.0%	12.3%	7.9%	8.2%	14.2%	13.4%	12.7%	11.50%	21.50%
		MSCI Global Private Equity ex-Venture Capital		(0.7%)	(0.7%)	7.6%	7.1%	9.0%	13.6%	12.7%	12.4%		
		MSCI Global Venture Capital		5.3%	5.3%	25.3%	9.8%	6.0%	15.7%	15.7%	13.3%		
		MSCI Global Early- Stage Venture Capital		3.8%	3.8%	20.7%	6.4%	5.7%	14.4%	14.9%	12.5%		
		MSCI Global Late-Stage Venture Capital		4.5%	4.5%	27.3%	11.6%	6.3%	17.7%	16.7%	15.9%		
		MSCI Global Expansion Capital		(0.3%)	(0.3%)	5.4%	7.3%	7.7%	9.8%	8.6%	8.0%		
		MSCI Global Buyout		(1.0%)	(1.0%)	7.3%	7.1%	9.6%	13.8%	13.0%	12.6%		
	Private Debt	MSCI Global Private Credit		1.1%	1.1%	8.5%	8.6%	8.8%	8.5%	8.5%	8.3%	7.95%	12.50%
		MSCI Global Senior Direct Lending		0.3%	0.3%	7.0%	9.0%	8.3%	7.9%	8.7%	8.5%		
		MSCI Global Direct Lending		0.3%	0.3%	7.6%	8.9%	8.8%	8.5%	8.5%	8.8%		
		MSCI Global Opportunistic Lending		2.6%	2.6%	10.6%	9.7%	10.2%	9.7%	8.1%	8.0%		
	Real Assets	MSCI Global Private Real Asset		1.7%	1.7%	7.8%	4.3%	8.0%	7.4%	7.5%	6.2%		
		MSCI Global Private Real Estate		0.0%	0.0%	1.6%	(2.1%)	3.3%	5.3%	7.2%	4.5%	9.25%	15.00%
		MSCI Global Private Infrastructure		1.8%	1.8%	11.6%	9.1%	10.2%	9.9%	8.9%	8.2%	7.70%	9.50%
		MSCI Global Private Natural Resources		6.5%	6.5%	10.9%	6.1%	12.3%	7.3%	5.0%	7.1%		

**Private alternative investments are subject to reporting lag; Private Index data is available as of most recent reported data as of 3/31/2026.*

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The Good, the Bad and the Ugly

A quick tour around the globe

The good

- ▲ Artificial intelligence innovation
- ▲ Resilient 2026 earnings revisions
- ▲ Stabilizing U.S. labor market
- ▪ Stable U.S. consumer activity
- ▲ Promising global fiscal stimulus plans
- ▲ Positive groundwork for U.S.-China trade deal

The bad

- ▪ Global geopolitical conflicts
- ▪ Concentrated global market leadership
- ▪ Weak sentiment surveys
- — Housing affordability challenges
- — Continued trade policy uncertainty

The ugly

- ▪ Global deficits/debt levels
- ▪ De-globalization trends
- ▪ Cybersecurity risks

Higher ↑ *Lower* Ordered by importance/potential for biggest market impact

▲ Denotes change in description or new additions relative to the prior version
+ Denotes positive change relative to the prior version
— Denotes negative change relative to the prior version

As of 6/30/2026. Source: PNC.

Key Themes and Portfolio Positioning

The path forward is highly dependent on notable themes

Outlook: Artificial intelligence (AI) capital expenditures (capex) spending has been the biggest driver to the global economic outlook this year, powering markets and earnings higher. AI ecosystem risks are rising as the trajectory of ever-increasing AI capex may be reaching strained levels.

We continue to remain constructive on equities. We expect AI proliferation to continue, and the macro backdrop has been supported by resilient consumer spending and a balanced labor market.

Positioning: Broadly diversified, with a modest overweight to equities while diversifying equity exposure into lower valuation areas and select emerging markets exposure.

Macroeconomics

1. **Global economic outlook has been powered by AI capex spending**
2. **Macro backdrop is supported by resilient consumer spending**
3. **Risks of tightening monetary policy moderate as energy prices fall**

Markets

1. **AI capex has been the overwhelming earnings driver**
2. **AI model developer return on investment may restrain AI capex**
3. **Concentration rises in global equities driven by AI-linked rally**

As of 6/30/2026. Source: PNC.

Current Investment and Asset Class Views

Each facet of analysis plays a critical role in our decision-making

A modest lean into equity risk is supported by durable market drivers that we expect to persist over the tactical horizon. Fixed income provides stability, while dispersion and volatility benefit hedge funds and alternatives.

Investment insights

Business cycle

Business spending, fiscal stimulus and robust productivity support equities

Other important market drivers such as monetary policy and long-term interest rates remain broadly neutral; consumer spending and financial conditions are supportive.

Valuations

Equity levels are consistent with a high-valuation regime

Consumer and corporate balance sheets are stable; longer-term interest rates have risen but are not at levels that would lead to widespread equity repricing.

Technicals

Momentum remains strong as leadership rotates

Global markets continue to make all-time highs as leadership rotates across sectors.

Asset class views

Equities

U.S. and emerging market (EM) equities have strong fundamentals and benefit from technological innovation

We recommend a modest, tactical overweight to both U.S. and EM, while diversifying into lower valuation areas across sectors and into select EM exposure.

Fixed income

Diversification benefits, yield pick-up and the stable credit environment for fixed income support a near-neutral allocation

Fixed income helps to provide stability, although the compensation for credit risk is low. A small, tactical underweight allows for additional equity risk.

Alternatives

Broad opportunity set for long-term investors

Heightened volatility and dispersion across asset returns present an environment in which hedge funds and private alternatives can likely better demonstrate risk-adjusted outperformance.

As of 6/30/2026. Source: PNC.

Economic and Equity Market Dashboard

Business investment and fiscal stimulus provide a supportive market backdrop

The resilience of the U.S. economy has been driven by artificial intelligence (AI) capital spending and business investment amid a stable labor market and moderating economic growth.

Economic data dashboard

2.1% PRIOR: 1.6% (REVISED) **U.S. REAL GDP 1Q 2026**	**4.3%** PRIOR: 4.3% **UNEMPLOYMENT RATE**	**4.2%** PRIOR: 3.3% **CONSUMER PRICE INDEX ANNUAL CHG.**
4.47% PRIOR: 4.44% **10-YEAR U.S. TREASURY YIELD**	**3.4%** PRIOR: 3.6% **ANNUAL HOURLY WAGE GROWTH**	**5.2%** PRIOR: 4.5% **ANNUAL U.S. RETAIL SALES GROWTH**
29 BASIS POINTS PRIOR: 43 BPS **2-YEAR/10-YEAR YIELD CURVE**	**172,000** PRIOR: 179,000 (REV) **MONTHLY PAYROLL REPORT ADDITIONS**	**$3.85/GAL** PRIOR: $4.32/GAL **NATIONAL AVERAGE GASOLINE PRICE**

Equity market highlights

Consensus estimates earnings growth

	2026E EPS* GROWTH	2026E NTM P/E**
S&P 500®	**23.9%**	**20.4x**
"Magnificent 7"*** stocks	42.9%	35.8x
Russell 2000®	47.9%	26.4x
MSCI World ex USA IMI	13.5%	15.4x
MSCI EM IMI	48.0%	11.9x

Equity Strategists' S&P 500 Estimates	**2026 EPS**	**2026 Close**
Median Estimate	$323	7,700
Bull Case	$350	8,250
Bear Case	$305	7,000

Earnings per share; **Next-twelve-months Price-to-earnings, *"Magnificent 7" includes Microsoft Corp.; Apple, Inc.; Nvidia Corp.; Alphabet, Inc.; Amazon.com, Inc.; Meta Platforms Inc. and Tesla, Inc.*

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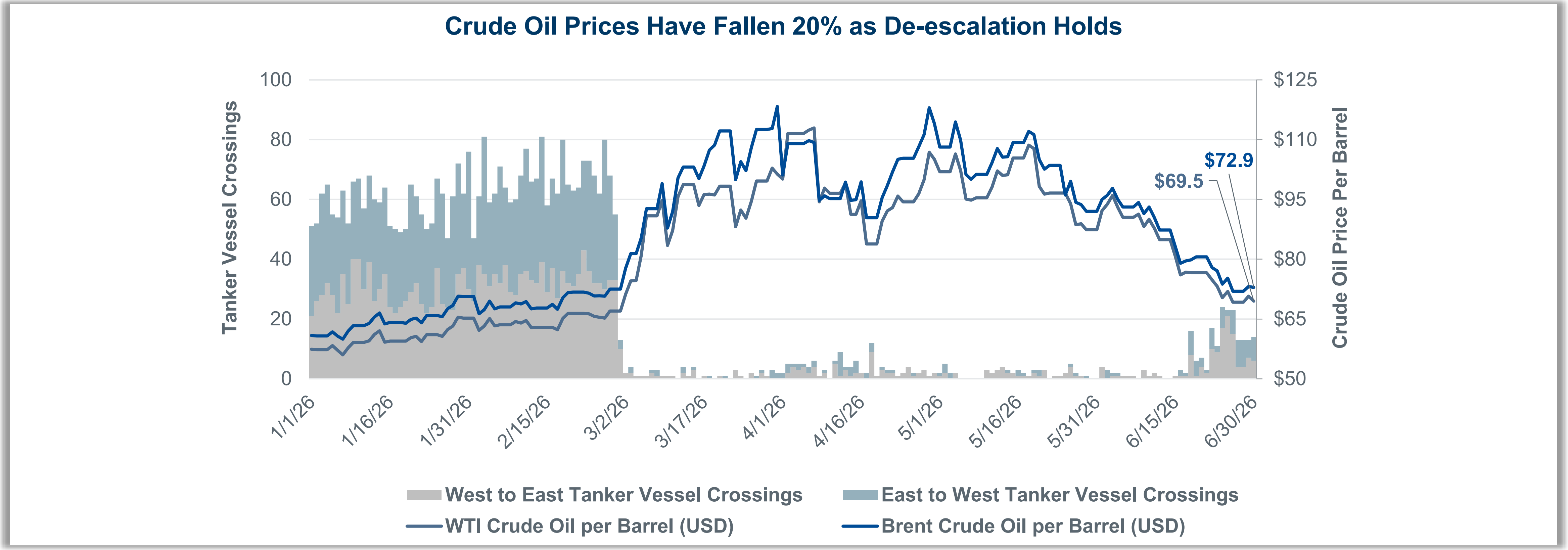
Downside Surprise to the Price of Crude Oil

U.S. and Iran de-escalation prompts a recovery in oil flows through the Strait of Hormuz

Positive surprise has supported financial markets in June

The U.S. benchmark WTI* oil price is now below $70 per barrel and approaching pre-Iran conflict levels. Even during the height of recent tensions, elevated oil prices didn't reach the extreme levels that many analysts predicted.



**WTI = West Texas Intermediate crude oil*
As of 6/30/2026. Source: Bloomberg L.P.

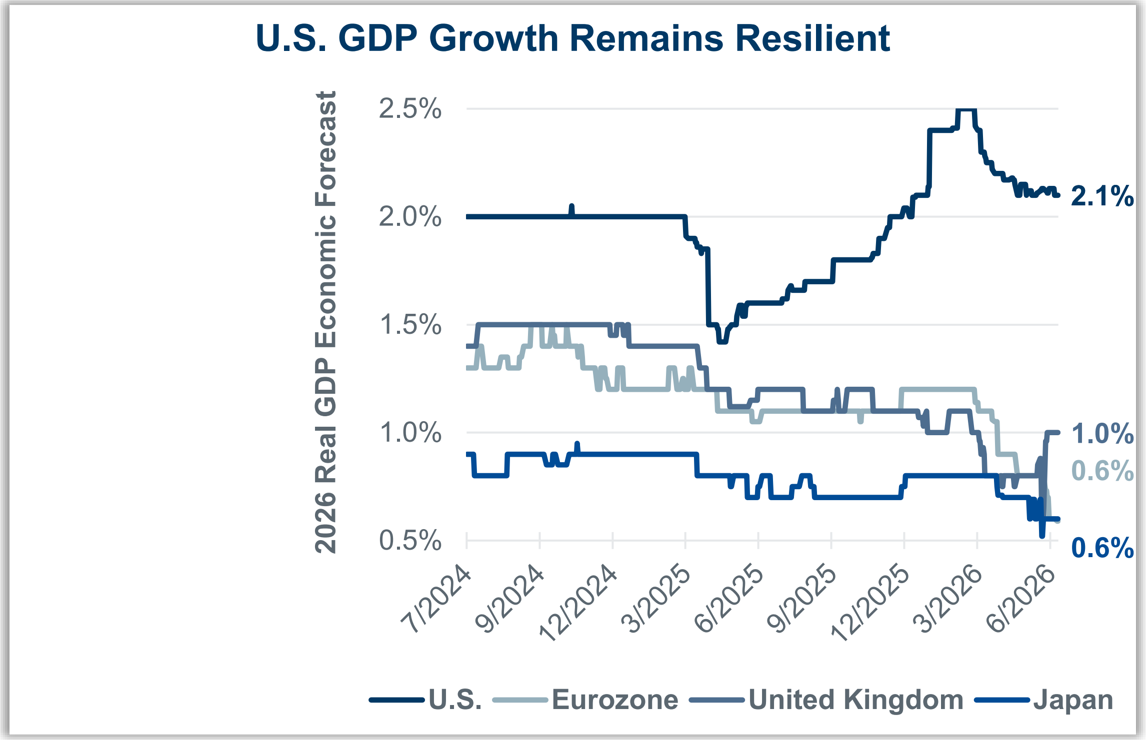
The Macro Backdrop Remains Resilient

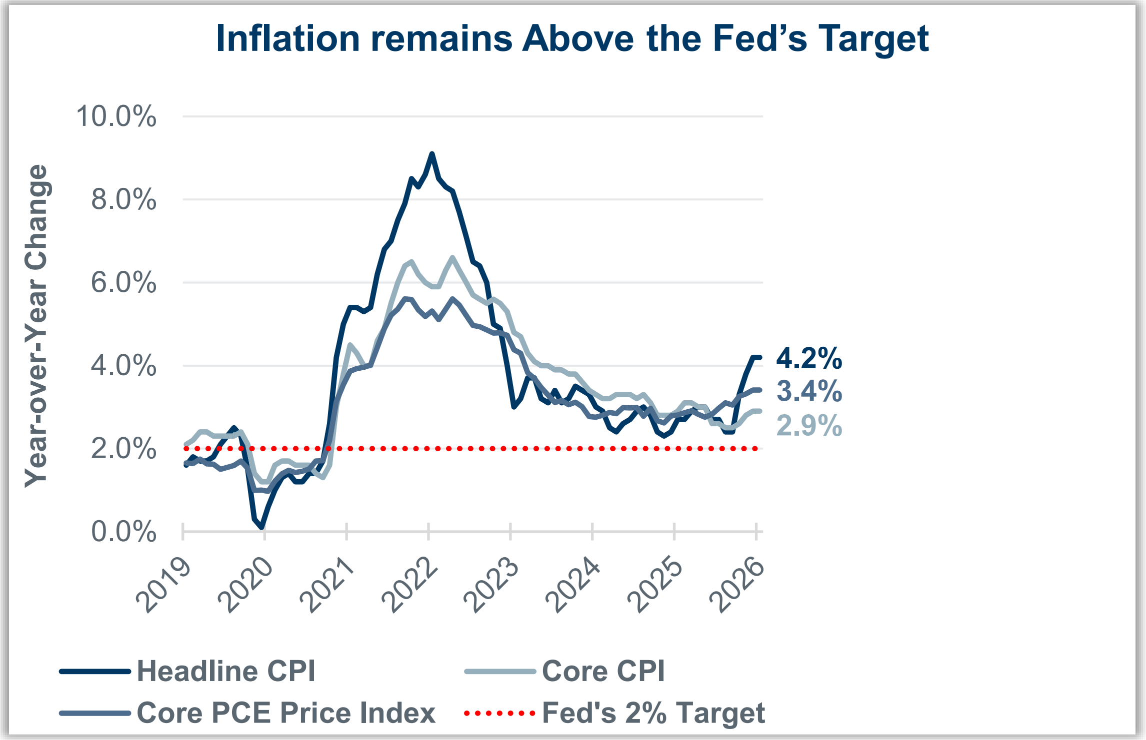
Economic growth remains solid despite persistent inflation pressures

U.S. economic growth remains resilient despite rising inflation

Above-trend nominal U.S. GDP growth to remain on track, supported by AI capital expenditures, business investment and resilient consumer spending.

Inflation has accelerated due to the oil shock triggered by the Iran conflict, but the impacts are expected to be transitory as oil prices have fallen quickly.





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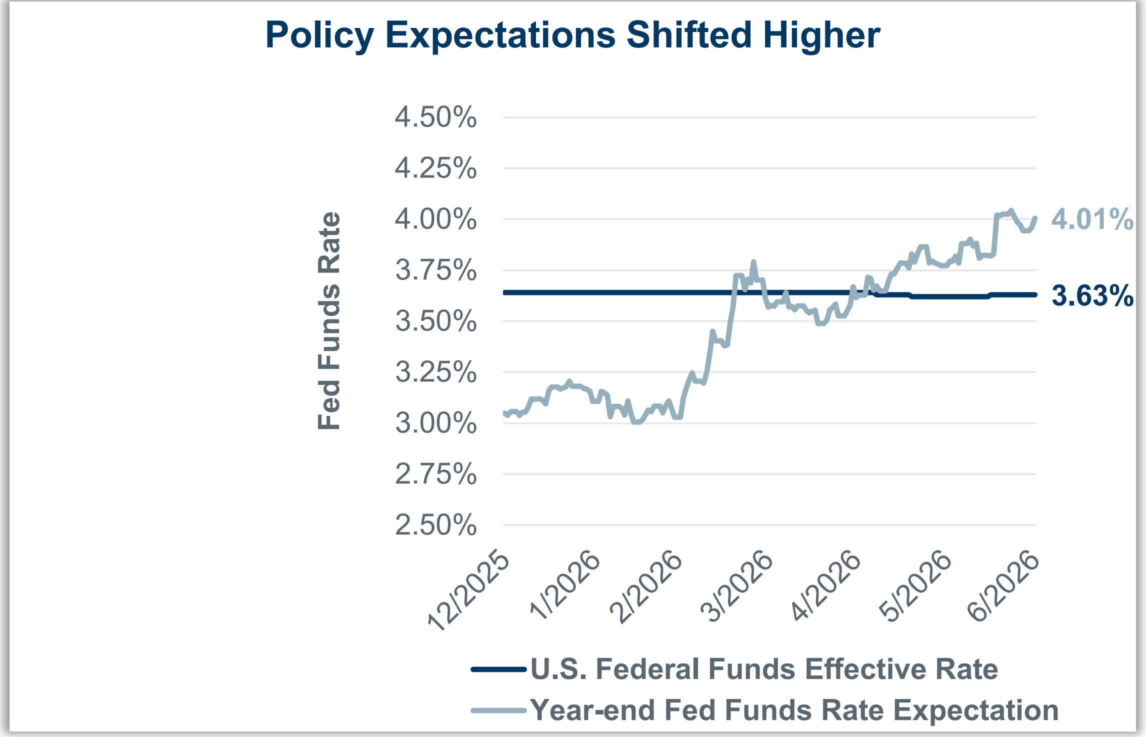
Federal Reserve (Fed) Intends to Combat Inflation

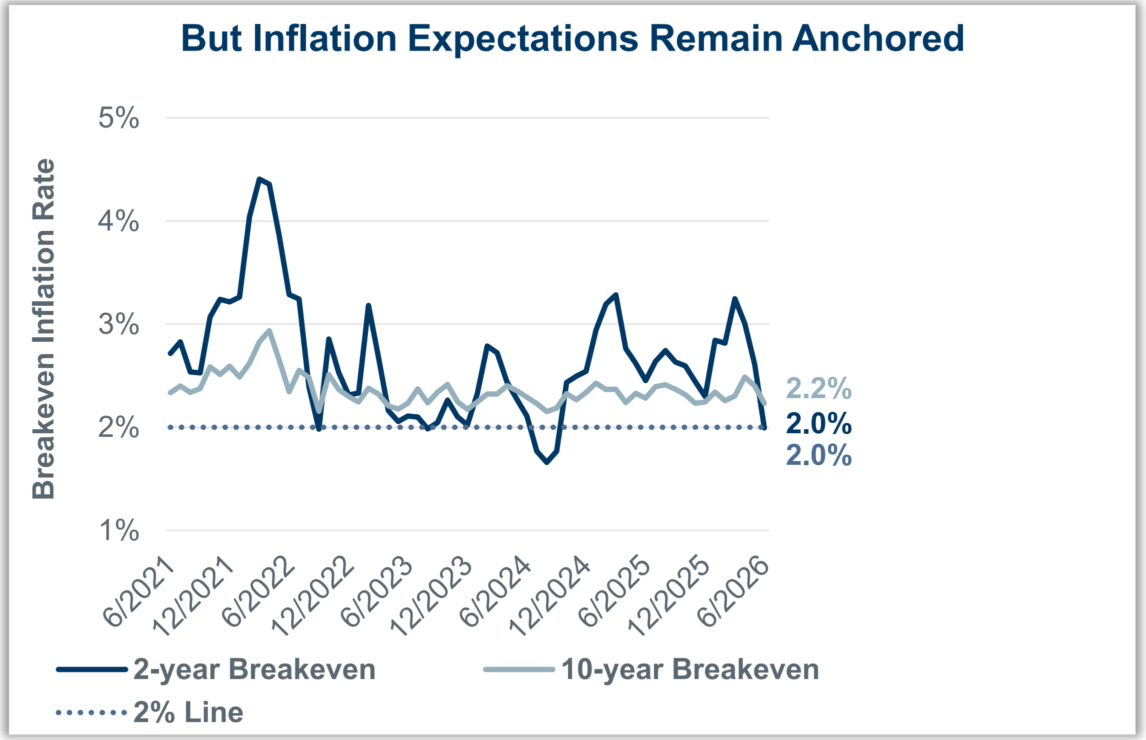
Inflation and growth outlooks have shifted the Fed's focus from easing to tightening

Risks of tightening monetary policy may ease as oil prices fall

Inflation remains above the Federal Reserve's target, although longer-term inflation expectations remain anchored.

Resilient economic growth and elevated inflation support our expectation that the Fed remains on hold.





As of 6/30/2026. Source: Bloomberg L.P.

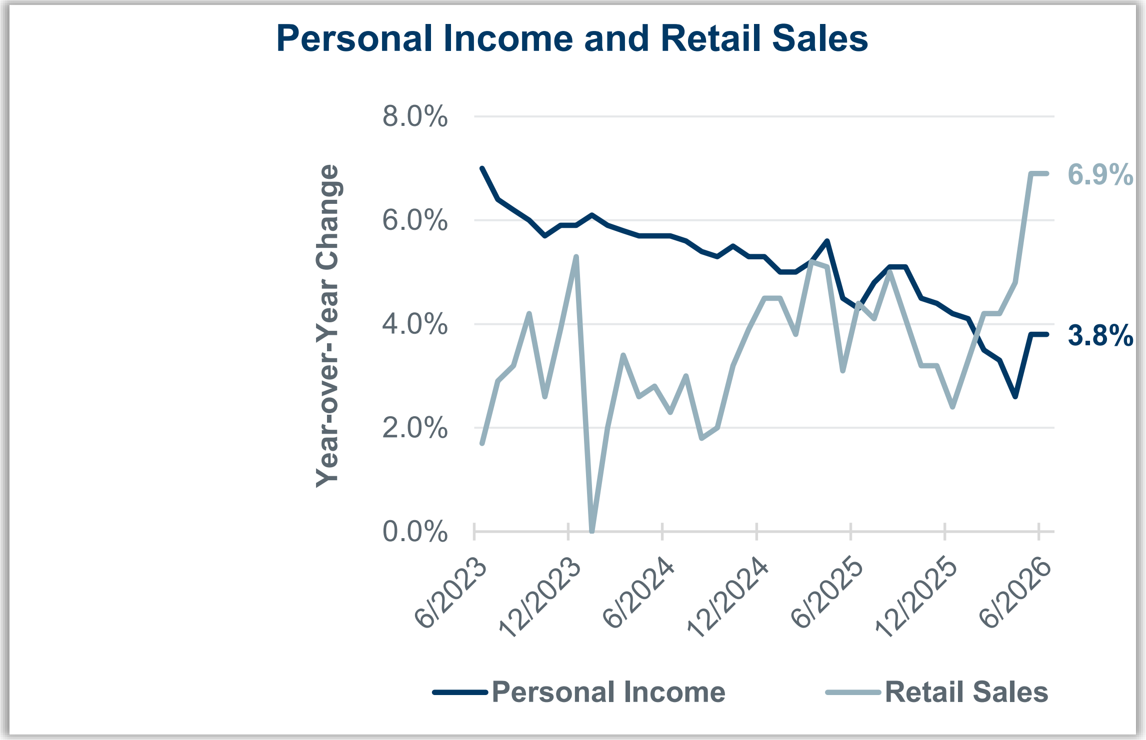
A Bifurcating, “K-Shaped” Economy

Feature likely to accelerate in both the U.S. economy and financial markets in 2026

Inflationary headwinds may put near-term pressure on spending

Spending by retirees and high-income earners remains strong, and from a macro level, appears to be sufficient to continue supporting aggregate spending.

As the economic divide widens between income cohorts, we expect those at lower income levels to come under more strain.



As of 6/30/2026. Source: Bloomberg L.P. Indices are unmanaged, are not available for direct investment, and are not subject to management fees, transaction costs or other types of expenses that an account may incur.

Midterm Myopia

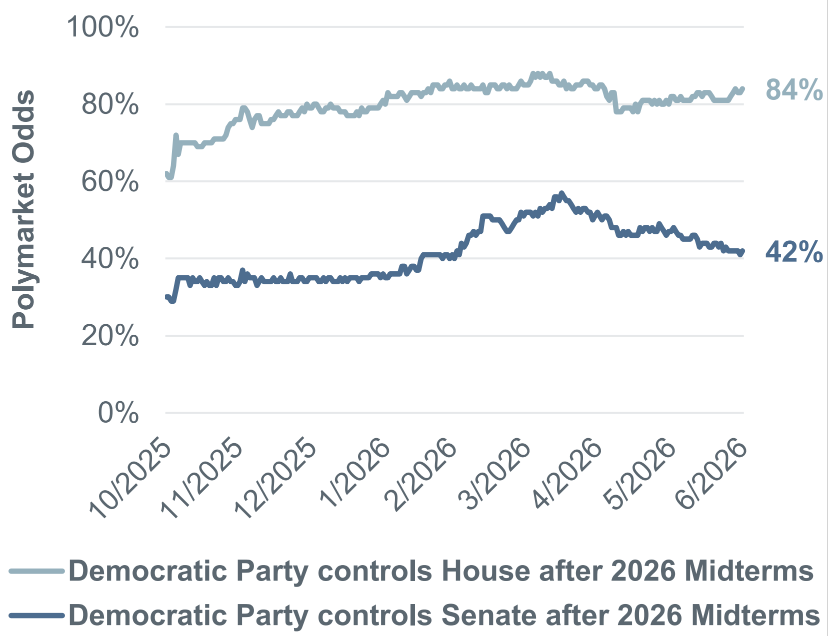
Investors may be looking at 2026 with hesitancy given the U.S. midterm elections

Affordability remains a key issue and rising energy inflation is often akin to an added tax

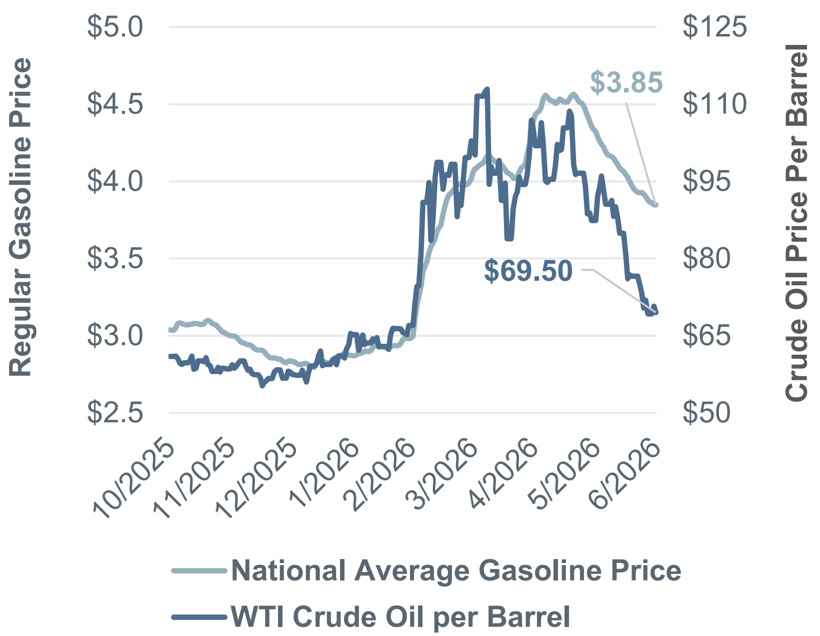
Expectations have been increasing that the midterm elections will result in a change of control in Congress as affordability and inflation remain top concerns.

Elevated gasoline prices are often akin to an added tax on consumers, but the path forward looks to be lower for both crude oil and gasoline prices.

Increasing Odds of a Change in Control



Crude Oil and Gasoline Prices



**Data excludes 2001-2002 due to Senator Jeffords changing party mid 2001.*

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Sustainability of Runaway AI Capex Spending

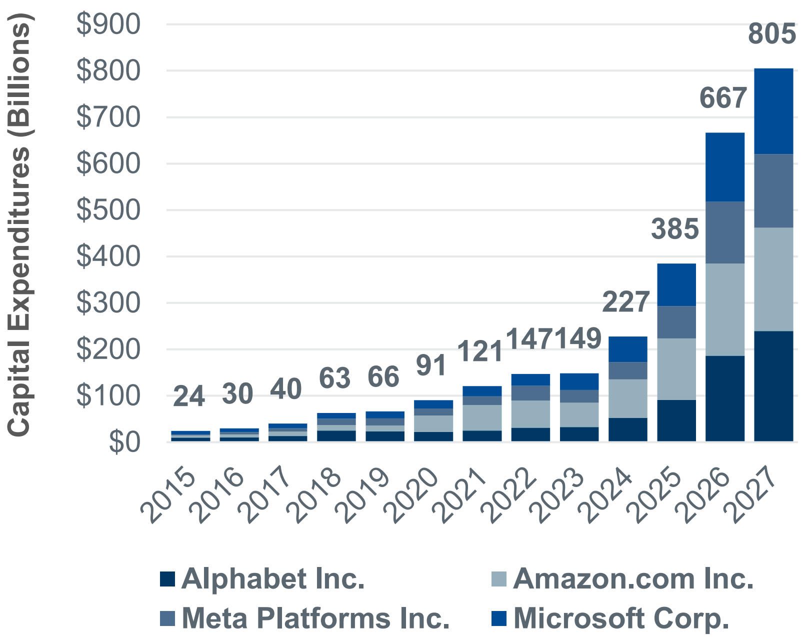
Early signs of exuberance raise concerns about AI capex

Durability of AI capex will be determined by hyperscalers' ability to keep spending

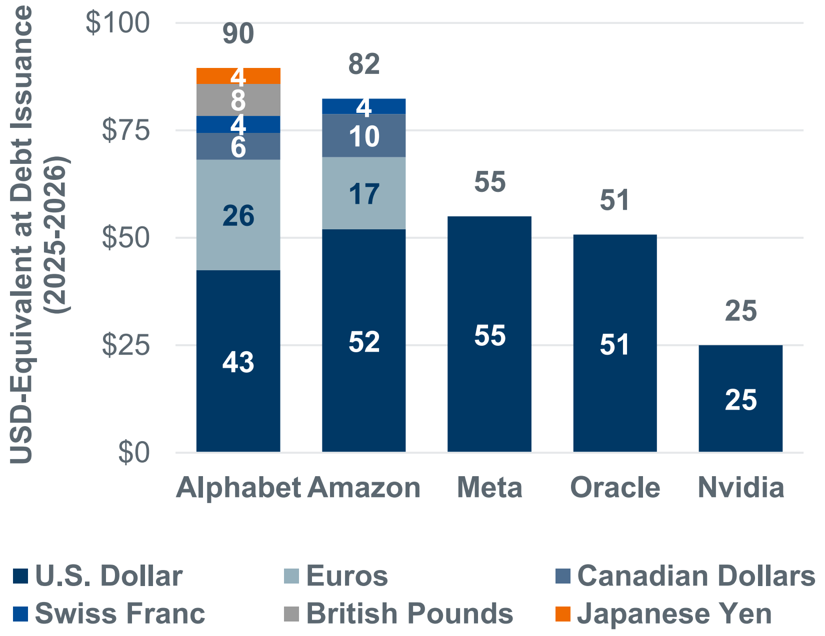
Concerns around the growth in artificial intelligence (AI) capital expenditures (capex) had been mitigated by hyperscalers' robust cash flow funding.

However, increasing reliance on the debt and equity markets to fund capex spending is a sign that further capex spending growth may be strained.

Trajectory of Ever-increasing AI Capex Plans



U.S. Big Tech Companies Tap Debt Markets



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AI is a Revolutionary Technology – Benefits to Broaden

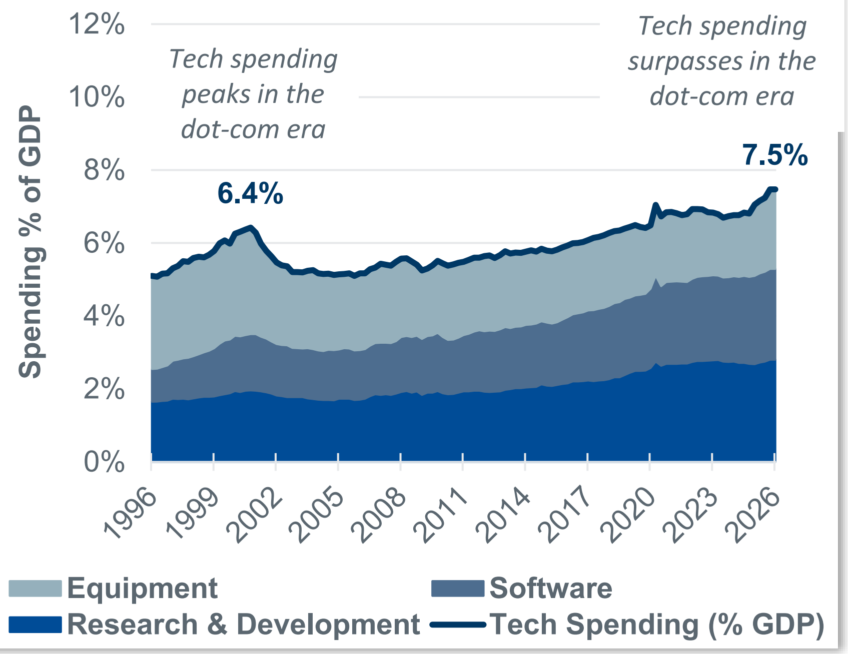
Structurally transforming productivity rather then just creating hardware bottlenecks

AI is creating a structural shift in how businesses operate, compete and grow

Tech spending has risen to represent 7.5% of GDP as companies increase spending on equipment, software and research and development.

We believe the impact of AI on productivity, corporate profitability and the economy is an underappreciated market driver over the next few years.

Companies Are Increasing Tech Spending



Productivity Growth Remains Above Trend

As of 6/30/2026. Source: Bloomberg L.P. Indices are unmanaged, are not available for direct investment, and are not subject to management fees, transaction costs or other types of expenses that an account may incur.

Market Broadening Supports Diversified Exposure

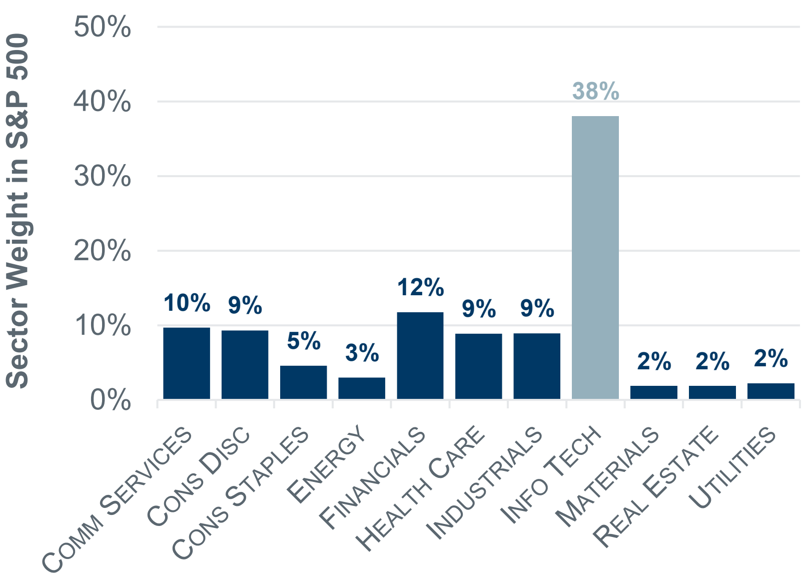
Earnings growth and leadership have broadened beyond U.S. mega-cap technology

AI remains a powerful structural tailwind, but AI ecosystem risks are rising with extreme capex levels

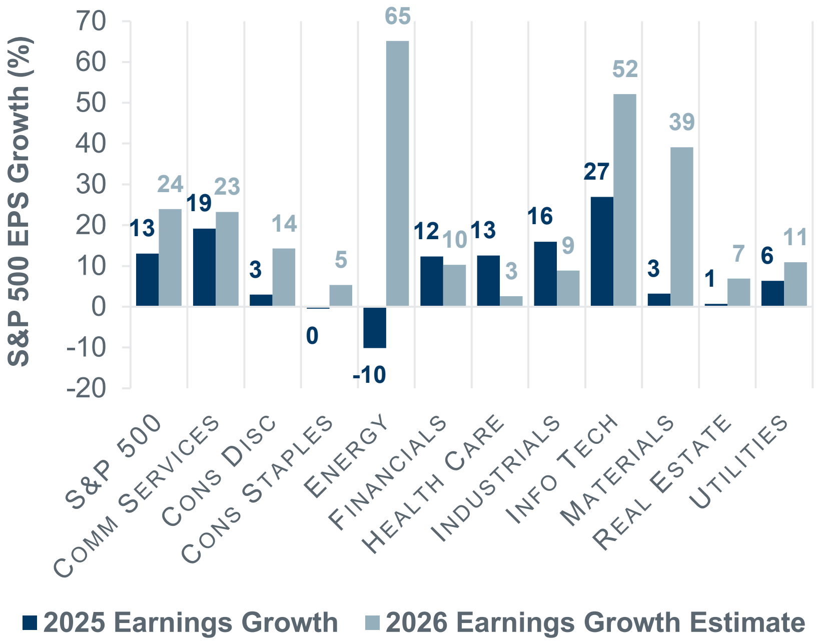
High concentration has transformed major global equity indices into proxies for mega-cap growth, reducing diversification benefits and increasing tail risks.

As the AI innovation cycle advances, we believe the narrative should shift from compute/hardware constraints to broader benefits for companies.

Equity Market Leadership Has Narrowed



Earnings Broaden Across the S&P 500®



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S&P 500® Earnings Outlook

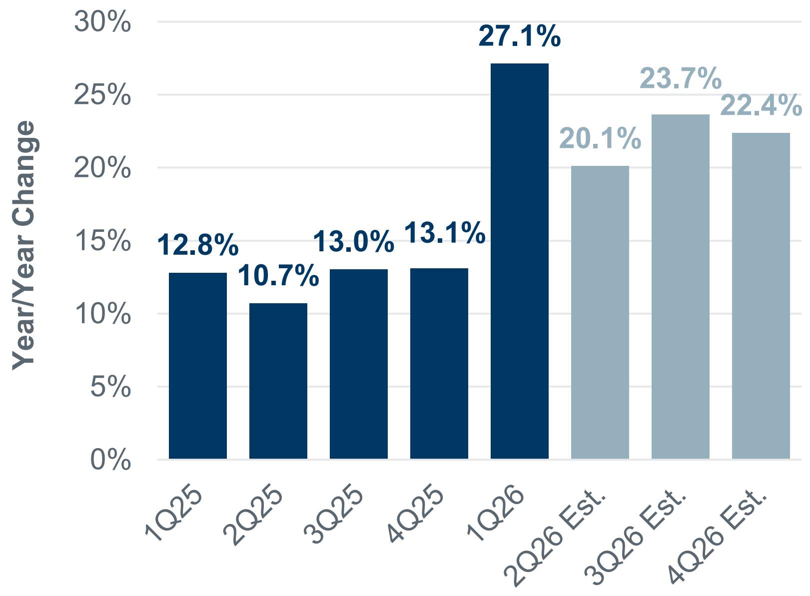
Earnings growth is set to accelerate in 2026, despite geopolitical uncertainty

Rising earnings estimates have been driven by accelerating AI capital expenditures

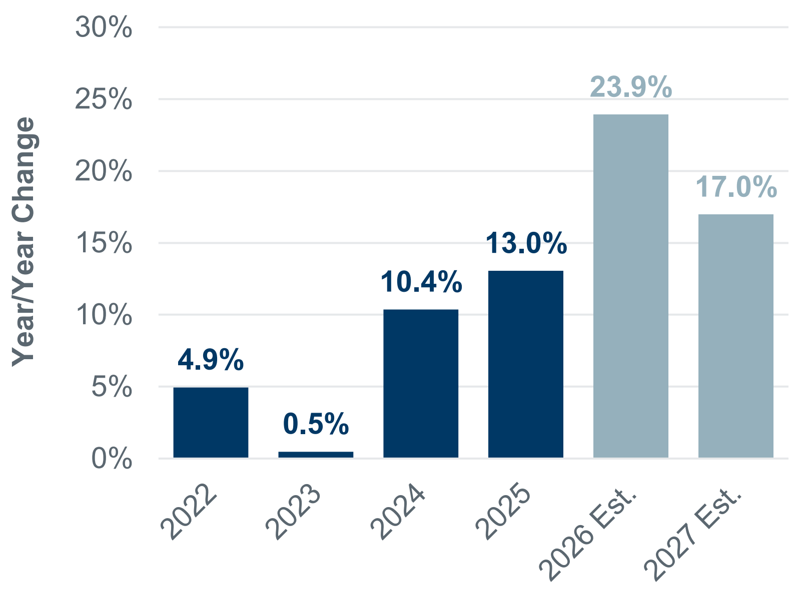
Quarterly earnings revisions have been rising, and companies are still surpassing high expectations as revenues and margins continue to expand.

AI and business investment underpin healthy earnings growth expectations, as 2026 earnings growth is expected to broaden beyond mega-capitalization firms.

Quarterly S&P 500 Earnings Growth



Annual S&P 500 Earnings Growth



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Thinking Through Potential Scenarios

Where do we go from here?

Recessions and significant market declines are caused by large imbalances (consumer and/or corporate) or a major economic "shock." Federal Reserve interest rate increases are often a trigger, but rising long-term rates are also a risk. Energy shocks are risky if they become large and long-lasting. Markets typically do not collapse from the weight of high valuations.

Considerations	Base case Steady growth	Downside case Growth declines	Upside case Growth reaccelerates
Consumer activity	Modest growth softened by higher energy costs	Growth contracts, unemployment rises	Moderately higher as demand improves
Corporate earnings	Growth remains healthy, driven by productivity	Negative growth, margin compression	Earnings estimates reaccelerate
Interest rates	Modest yield curve steepening	Long-term rates decline	Higher rates as growth improves
Inflation	Higher near term, but moderating by year end	Falls below trend	Moderately rises
Monetary policy	Forward guidance remains neutral	Aggressive policy rate cuts	Forward guidance remains dovish
Fiscal policy	Tax cuts buffer against rising inflation	Fiscal deficit widens to support growth	Fiscal deficit reduced materially

As of 6/30/2026. Source: PNC.

Capital Market Assumptions: Methodology

Methodology and key assumptions

Results in this report incorporate PNC's Capital Market Assumptions (CMA) for calendar year 2026. These assumptions represent the PNC Asset Management Group's 10-year projections of risk and return for the respective asset classes. These estimates are updated on an annual basis and take into account economic fundamentals, long-term historical trends, as well as other relevant factors.

Methodology

CMA returns reflect combining market-implied equilibrium returns with PNC's subjective views using a technique known as Black-Litterman[1]. Black-Litterman Methodology blends subjective and market-implied views using a Bayesian approach that takes account of cross-asset-class relationships to help determine an internally consistent set of final estimates. In general, the expected return on every asset class is adjusted so that it is as consistent as possible with both the market-implied equilibrium and our subjective views, even if we do not express a specific subjective view on that asset class. This methodology is an imperfect model of market behavior. Among the simplifications is the assumption that asset returns are adequately summarized by constant means, variances and correlations. Empirical evidence generally indicates that these statistics are not sufficient to fully characterize asset returns.

The projected returns for hedge funds, private debt, private equity and private real estate (property) include premiums for the fact that these classes are, in varying degrees, illiquid. The mean returns shown should be interpreted as arithmetic average returns. They are not compounded rates of return. The difference between these two concepts is approximately equal to one-half the asset's volatility squared.

Key Assumptions

Risk-free Rate — As we perform our 2026 CMA analysis, the risk-free rate remains unchanged from last year at 3.0%. We believe this is a reasonable expectation as the Federal Reserve (Fed) has started to normalize the interest rate environment and is expected to continue leading to a terminal rate of 3.0% over the period of this analysis.

Inflation — In our 2026 CMA analysis, we use an inflation expectation of 2.25% per year, based on our estimated Consumer Price Index (CPI)[2] level over the forecast period. This is consistent with last year's analysis, but slightly higher than the Fed's long-run inflation target level of 2%. While CPI has fallen recently, we believe structural forces will keep inflation elevated relative to the last 20 years, normalizing around 2.25%. This is also consistent with market expectations based on inflation breakeven rates[3], which are currently at 2.34% for five years and 2.27% for 10 years (as of December 8, 2025).

U.S. Dollar — We have assumed the Fed's nominal Trade-Weighted U.S. Dollar Index[4] remains flat over the forecast horizon. Given the significant interest rate differentials around the globe, we expect the dollar to maintain its current position of relative strength against most other major currencies.

1 The Black-Litterman methodology was introduced by Fischer Black and Robert Litterman of Goldman Sachs in 1990. It avoids problems inherent in some other methods by incorporating market-implied equilibrium returns consistent with the risk structure of the asset classes. The model works by blending subjective and market-implied views using a Bayesian approach that takes account of cross-asset-class relationships to help determine an internally consistent set of final estimates. In general, the expected return on every asset class is adjusted so that it is as consistent as possible with both the market-implied equilibrium and our subjective views, even if we do not express a specific subjective view on that asset class.

2 The CPI measures changes in the price level of a weighted average market basket of consumer goods and services purchased by households. It is usually calculated and reported by the U.S. Bureau of Labor Statistics, or its equivalent in countries outside the United States, on a monthly and annual basis.

3 The inflation breakeven rate is derived as a discount rate that equates the nominal return on a dollar of investment to the real return (not as an arithmetic difference between the nominal rate and the real rate).

4 The Trade-Weighted U.S. Dollar Index, also known as the broad index, is a measure of the value of the dollar relative to other world currencies. It is a trade-weighted index that improves on the older U.S. Dollar Index by using more currencies and updating the weights annually rather than on an ad hoc basis.

Capital Market Assumptions: Key Assumptions

Methodology and key assumptions

Currency Impacts — For U.S. investors, international equities generally involve currency exposure, which can increase volatility. However, compensation for this additional risk may not be adequate or reliable, and international equities have not historically offered consistent purchasing power protection. Over the short term, when the dollar is strengthening, U.S. equities and fixed income investments tend to outperform their international counterparts. Conversely, when the dollar is weakening, international investments tend to outperform. This holds true from the perspective of a U.S.-based investor (defined as an investor whose local currency is the U.S. dollar, whether an individual or institution).

In an international equity portfolio with exposure to a basket of currencies, it is likely some securities will have positive returns in local currency terms, while others will have negative returns. In theory, this counterbalancing effect should result in currency exposures generally offsetting themselves over time. Additionally, currency returns do not exhibit strong positive correlations and, as such, tend to help diversify equity portfolios.

Furthermore, there is ample empirical evidence, cited by the CFA Institute, among others, suggesting the standard deviation (i.e., volatility) of currency prices is only about half the standard deviation of stock prices. This suggests that an unhedged currency exposure may help reduce the volatility of an international equity portfolio over time. As currencies also tend to revert to a theoretical fair value/mean over time, currency-related volatility risk tends to fall, becoming a less critical component of equity risk. Thus, over the long term, our preference is to be unhedged to potential currency exposures.

Cash and Cash Equivalents — We use the 3-month U.S. Treasury bill (T-bill) as our proxy for cash, despite it being subject to inflation and interest rate risk. Although T-bills do not typically generate positive real returns (i.e., inflation-adjusted) over time, they do offer liquidity, safety of principal and exemption from state and local taxes. T-bills tend to carry higher yields than what are available in cash accounts, such as money market funds or deposit accounts, but are comparable on a risk-adjusted basis. Our expected return and volatility assumptions for the 3-month T-bill are 3.00% and 0.60%, respectively, for the 2026 CMAs.

Volatility — Our volatility assumptions are primarily driven by a historical blend of both turbulent and quiet market periods. According to Windham Portfolio Advisors, turbulent periods are identified by statistically unusual asset movements based on their proprietary methodology. Based on our analysis of historical market volatility over the past 20-plus years, we use a blend of 60% quiet periods, 40% turbulent periods to derive our assumed asset class volatilities. This methodology is consistent with last year's CMA process.

Capital Market Projections have been furnished for illustrative purposes only and are not intended as investment advice. Past performance is not indicative of future returns. Indices are unmanaged, not available for direct investment, and not subject to management fees, transaction costs or other types of expenses that an account may incur. Source: PNC

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