GEOPOLITICS, DEBT & DEFICITS, AND THE TECH SUPERCYCLE

In today's dynamic financial landscape, three major themes interplay to shape market movements: Geopolitics, Debt & Deficits, and The Tech Supercycle. These forces are intricately connected, influencing investor sentiment and global economic trends.

Geopolitics: We are navigating an environment characterized by a multipolar world. Territorial disputes and fears surrounding nuclear rearmament persist, presenting significant challenges to global stability. Despite the desire of the U.S. to reduce its international engagements, it remains the principal military power capable of mitigating global disorder. This is evident through its support for Ukraine, facilitating a ceasefire between India and Pakistan, and its recent endeavors to negotiate with Iran to abandon its nuclear ambitions.

The uncertainty creates powerful investment implications. It is likely to lead to increased spending on military capabilities around the globe. In addition, the risk premium in commodity markets is likely to persist and investors should be prepared for potential supply disruptions.

Debt & Deficits: The last few years have witnessed an uptrend in government debt worldwide, primarily driven by fiscal support measures implemented in response to the COVID pandemic. Over the next five years, trends in fiscal consolidation are poised to diverge notably. The U.S. exemplifies a nation postponing the balancing of its budget until later in the decade, sustaining a substantial deficit of around 5-7% to bolster its economy. This increase in debt levels is anticipated to limit funding availability for the corporate sector, potentially burdening it with higher funding costs. Other parts in the developed world are on a more decisive path of fiscal consolidation, which should support their local government bonds as safe havens for investors.

The Tech Supercycle: Artificial Intelligence (AI) has transitioned from being a mere tool to a foundational layer across numerous sectors. This transformation is reinforced by the rapid expansion of digital infrastructure, including 5G, cloud computing, and the establishment of additional data centers (global data center demand is expected to grow by a 15% [1]CAGR to 152 gigawatts in 2030 – Royal Bank of Canada). These trends appear sustainable and robust, exhibiting resilience against short-term economic volatility.

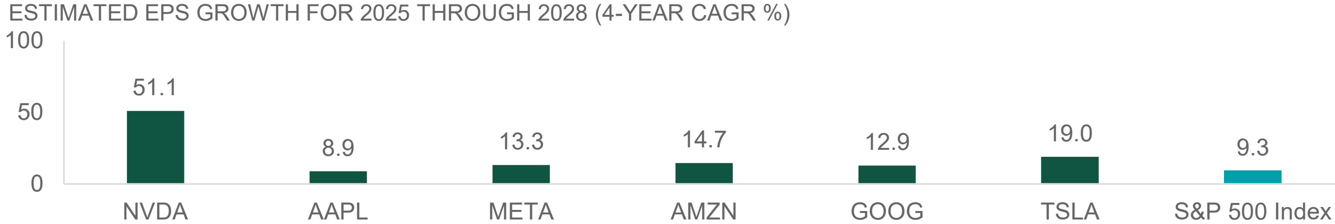
The recent earnings season highlighted firms' confidence in AI-driven growth and resilient cloud performance. Companies are aggressively pursuing capital returns, reflecting their optimism in leveraging technological advancements to drive future profitability.

Conclusion: These themes are interconnected, and markets engage with and are propelled by the forces they generate. These forces significantly impact our research perspective through which investment riskiness is assessed, prioritizing resilience and adaptability in volatile environments.

TECH EARNINGS SUPPORT

Megacap tech's advancement in innovation is expected to drive continued earnings growth dominance.

ESTIMATED EPS GROWTH FOR 2025 THROUGH 2028 (4-YEAR CAGR %)



Source: Northern Trust Asset Management, Bloomberg. Annual estimates for 2025-2028 as of 6/17/2025. NVDA = Nvidia. AAPL = Apple. AMZN = Amazon. GOOG = Google. TSLA = Tesla. META = Meta Platforms. Historical trends are not predictive of future results. EPS = earnings per share. [1]CAGR = compounded annual growth rate.

POSITIONING SCENARIOS

Supply Restraint (40% probability)

Supply-side shocks from higher tariffs in addition to broader policy uncertainty weigh on consumer and corporate activity while halting the disinflationary process until a recession takes shape.

Stagflation (10% probability)

Initially similar to the Supply Restraint scenario, but the rise in inflation is more persistent. As a result of slower monetary policy support, the recession is deeper and longer.

Soft Landing (35% probability)

Global growth slows but remains positive via two potential paths: i) tariff policy eases; ii) the U.S. economy is more resilient than expected and avoids a major deterioration in the consumer backdrop.

Reflation (15% probability)

Policies of the U.S. administration have a net stimulative effect, leading to above-trend growth, persistent inflation and a pause in the Fed rate-cutting cycle.

DEFINITIONS

MSCI AC World IMI: The MSCI ACWI Investable Market Index (IMI) captures large, mid and small cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries*. With 8,640 constituents, the index is comprehensive, covering approximately 99% of the global equity investment opportunity set.

UBS Global 50/50 Infrastructure & Utilities Index: The UBS 50/50 Infrastructure & Utilities Index tracks a 50% exposure to the global developed-market infrastructure and a 50% exposure to the global developed-market utilities sector.

FTSE Global Infrastructure 50/50 Index: The FTSE Global Core Infrastructure 50/50 Index and FTSE Developed Core Infrastructure 50/50 Index give participants an industry-defined interpretation of infrastructure and adjust the exposure to certain infrastructure sub-sectors. The constituent weights for these indices are adjusted as part of the semi-annual review according to three broad industry sectors – 50% Utilities, 30% Transportation including capping of 7.5% for railroads/railways and a 20% mix of other sectors including pipelines, satellites and telecommunication towers. Company weights within each group are adjusted in proportion to their investable market capitalisation.

S&P 500 Index: The index, a gauge of the large-cap U.S. equity market, includes 500 companies that represent approximately 80% of the market capitalization of publicly traded U.S. equities.

EV/EBITDA: EV/EBITDA is the ratio of enterprise value to earnings before interest, taxes, depreciation, and amortization using current fiscal year estimates.