

Exhibit SC/PCF-11

Morningstar, Morningstar Markets Observer: Q3 2025

Morningstar® Markets Observer

Q3 2025

Morningstar® Research & Investments

Andrew Daniels
Director, Manager Research

Thomas Murphy
Senior Analyst, Manager Research

Zachary Evens
Analyst, Manager Research

Sbidag Demerjian
Associate Analyst, Manager Research

Saraja Samant
Analyst, Manager Research

Hong Cheng
Head of Fixed Income Research

Preston Caldwell
Senior US Economist

Sean Murphy
Associate Analyst, Fixed Income

Nicholas Parekh
Associate Analyst, Capital Markets

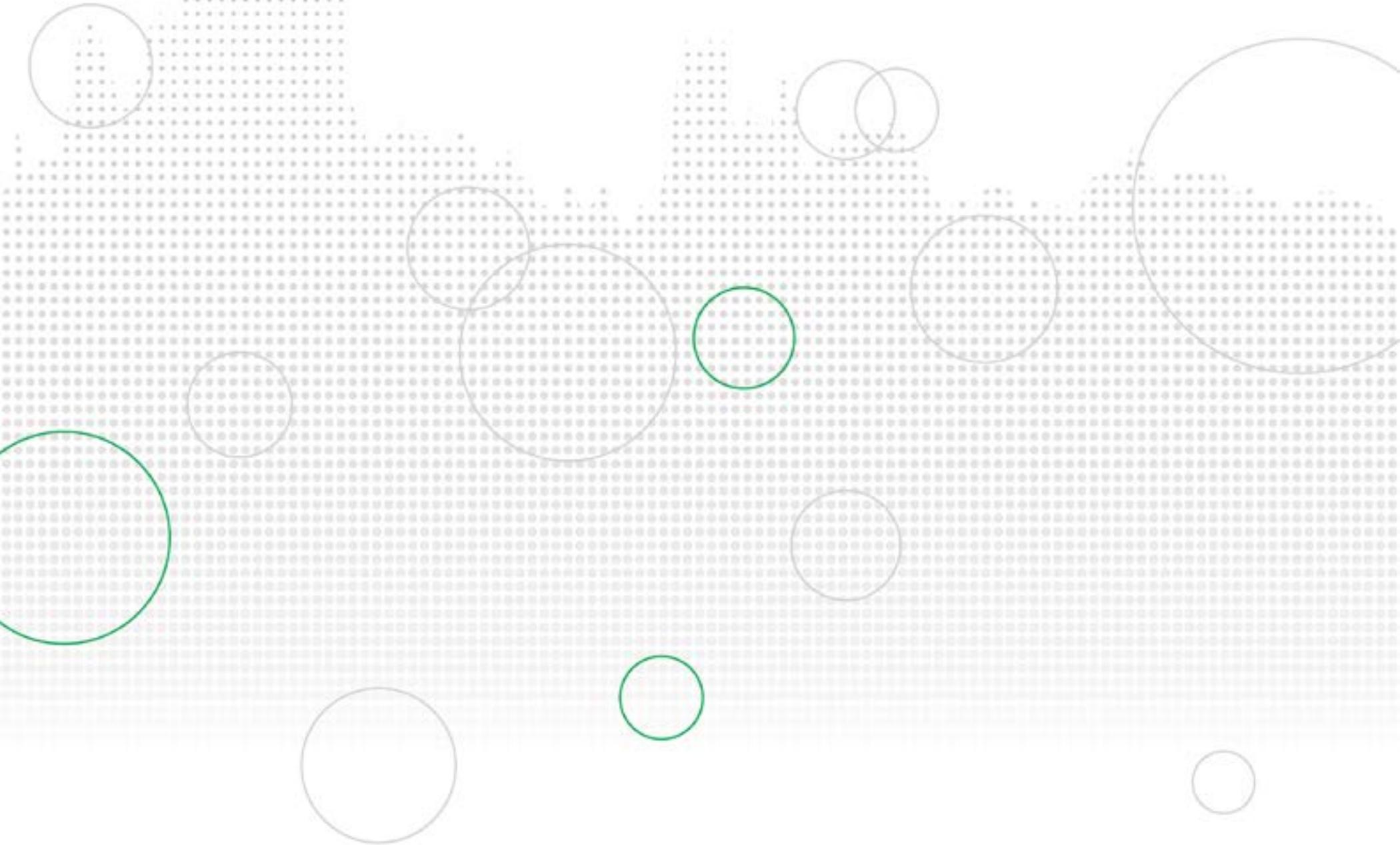
Morningstar® Markets Observer

Q3 2025

Table of Contents

○ Market Overview	3
○ Equities	14
○ Fixed Income	22
○ Funds	31
○ Economic Indicators	37

Market Overview



Market Dashboard

US stocks rebounded strongly from the tariff-induced selloff in early April 2025. Overall, US and non-US stocks performed well in the second quarter, though non-US stocks remain well ahead in the year to date. Most fixed-income segments—including emerging markets and high yield—performed well, though municipal bonds were down slightly. Following a strong start in 2025, commodities retreated in the second quarter.

Equities	Dividend Yield	Return (%)					
		YTD	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Morningstar US Large Cap	1.1	6.7	12.4	15.8	21.6	17.1	14.3
Morningstar US Small Cap	1.5	0.8	7.3	9.7	11.9	11.6	7.6
Morningstar Developed-Markets ex-US	2.9	19.1	12.4	19.1	15.4	11.2	6.6
Morningstar Emerging Markets	2.6	13.8	12.5	13.3	10.2	7.8	5.3

Fixed Income	Yield to Maturity	Return (%)					
		YTD	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Morningstar US Core Bond	4.5	4.0	1.2	6.0	2.5	-0.8	1.7
Morningstar US Corporate Bond	5.0	4.1	1.8	6.8	4.3	0.1	2.8
Morningstar US High-Yield Bond	7.3	4.6	3.6	10.3	9.9	6.0	5.4
Morningstar US Municipal Bond	4.2	-0.7	-0.2	1.0	2.6	0.6	2.3
Morningstar Emerging-Markets Bond	6.1	4.9	2.2	7.7	6.8	1.2	3.2

Broad Commodities	Return (%)					
	YTD	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Bloomberg Commodity	5.5	-3.1	5.8	0.1	12.7	2.0

Fundamental Measures				
	P/E	P/B	P/S	P/C
	28.3	6.0	4.4	21.3
	19.6	2.3	1.4	9.8
	16.9	1.8	1.5	9.7
	14.5	1.8	1.5	9.1

Interest Rates (%)	Current		1 Yr Ago	
2 Yr Treasury		3.7		4.7
5 Yr Treasury		3.8		4.3
10 Yr Treasury		4.2		4.4
20 Yr Treasury		4.8		4.5
Prime Rate		7.5		8.5

Commodities (USD)		
	Current	1 Yr Ago
Brent Crude Oil	68	86
Gold	3,287	2,331

3-Month Return (%)

	Value	Blend	Growth
Large	0.9	9.0	23.1
Mid	2.0	5.8	16.0
Small	4.0	5.3	13.1

1-Year Return (%)

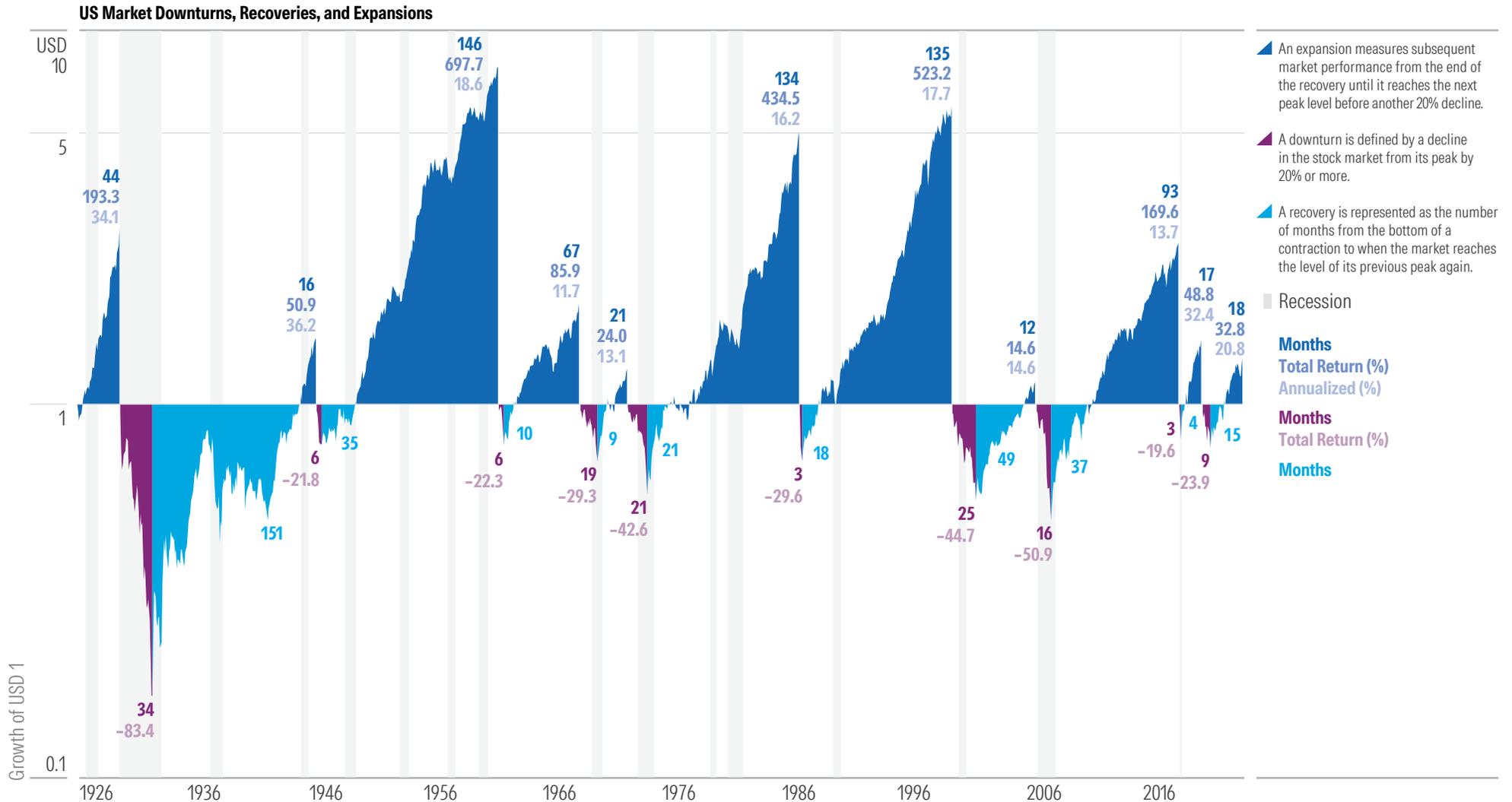
	Value	Blend	Growth
Large	13.3	14.1	26.7
Mid	11.6	10.9	23.5
Small	10.7	5.5	12.8

5-Year Return (%)

	Value	Blend	Growth
Large	14.5	16.5	14.0
Mid	15.5	13.1	10.8
Small	16.3	12.4	6.1

US Market Pulls Back Amid Economic Uncertainty

US stocks rebounded in 2025's second quarter after President Donald Trump paused plans to place tariffs on other nations. Growth stocks performed well, with most of the Magnificent Seven stocks--Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla--leading the way. Commodities retreated in the second quarter but remained up in the year to date. The strong quarter marks 18 months since the previous downturn and recovery.



QMO6

Source: Stocks—Ibbotson Associates SBBI US Large Stock Index. Recession data from the National Bureau of Economic Research. Data as of June 30, 2025. ©2025 Morningstar. All Rights Reserved.

Trailing 12-Month Performance of Major Asset Classes

Uncertainty around US tariff policy sent markets on a roller-coaster ride in 2025's first half. US stocks eventually regained their footing from the tariff-induced shock, but they remain behind non-US developed markets on a trailing 12-month basis. Elsewhere, commodities saw a short-lived surge in June as crude oil prices jumped because of the Iran conflict.



QM01

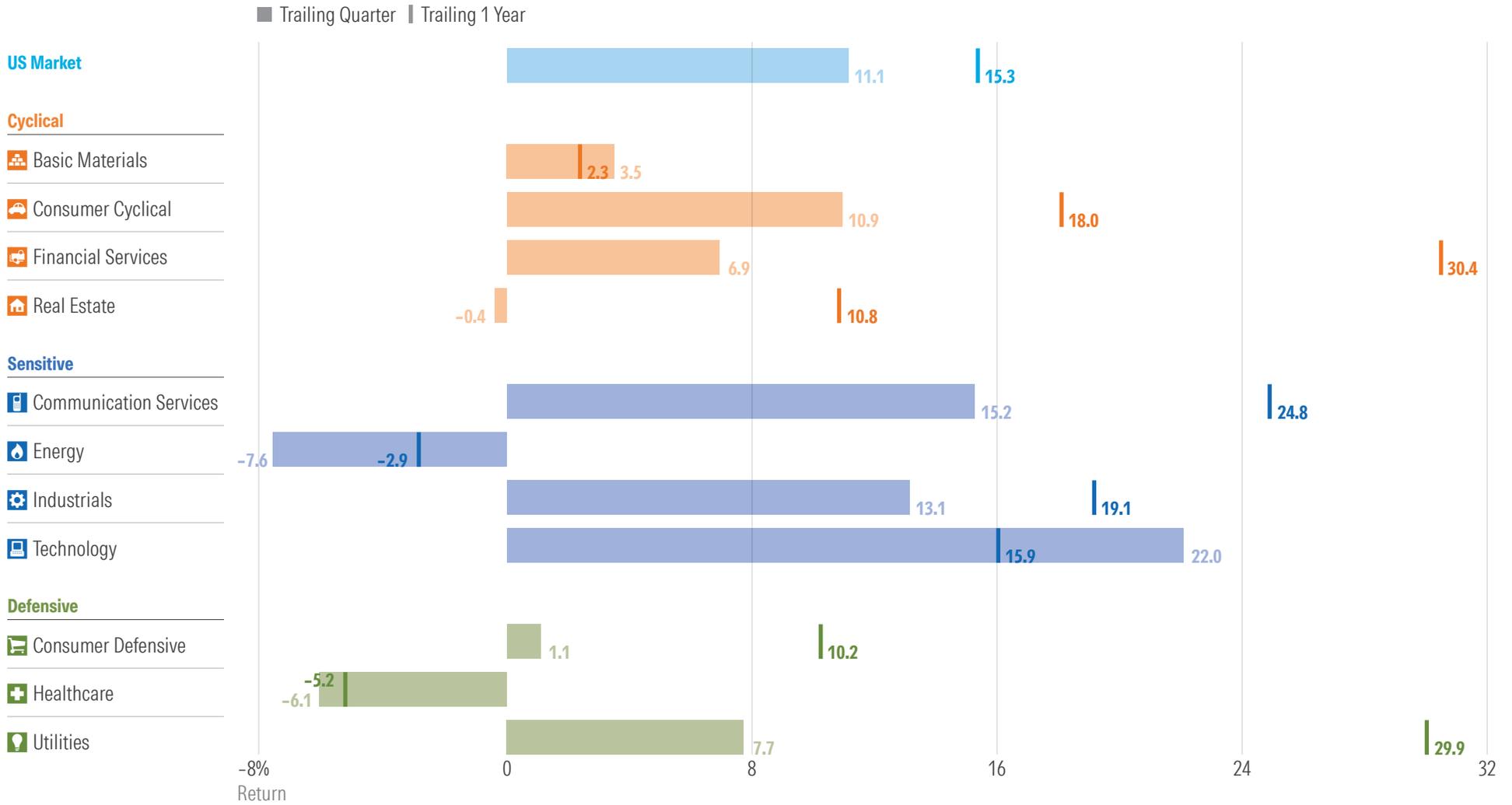
6

Source: US stocks—Morningstar US Market Index. Developed-market stocks ex-US—Morningstar Developed Markets ex-US Index. Emerging-market stocks—Morningstar Emerging Markets Index. US bonds—Morningstar Core Bond Index. Commodities—Bloomberg Commodity Index. Data as of June 30, 2025. ©2025 Morningstar. All Rights Reserved.



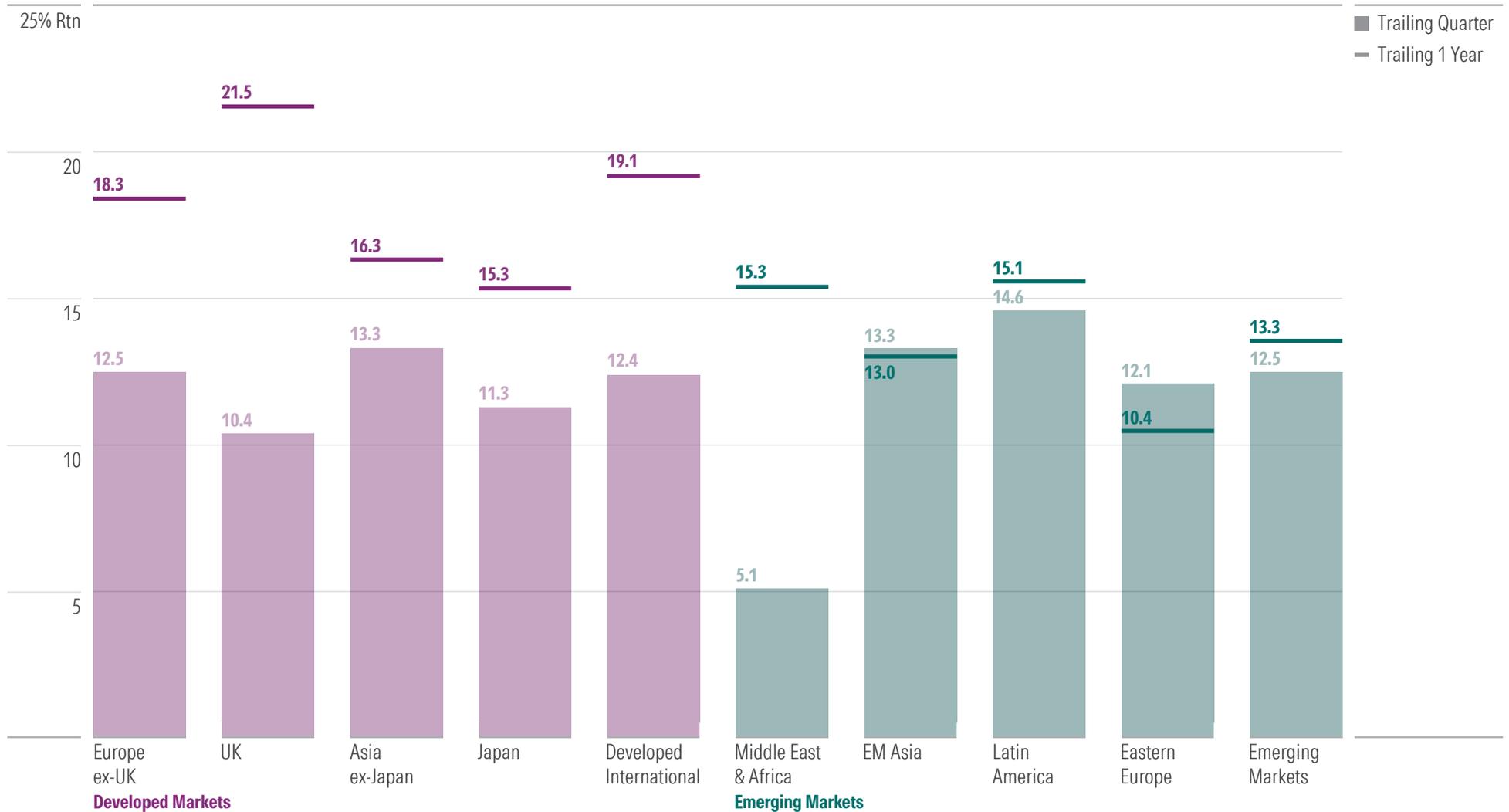
US Equity Sector Performance

After an initial shock from the April 2, 2025, tariff announcement, the stock market came roaring back, with eight of 11 sectors finishing the second quarter in positive territory. Technology led the way, while communication services, consumer cyclicals, and industrials also posted strong returns. Energy, healthcare, and real estate were all down in the second quarter.



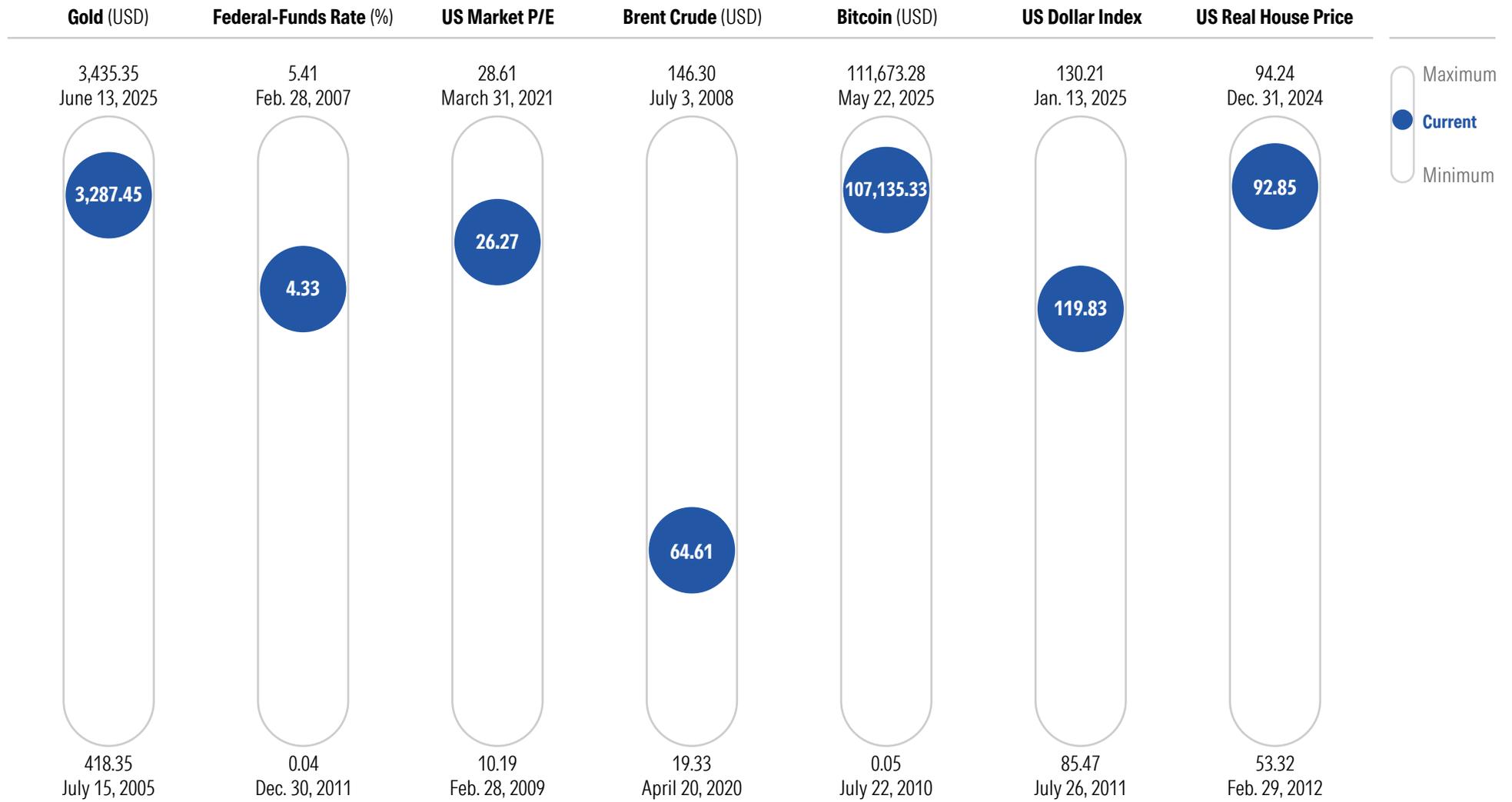
International Stock Market Performance

All international regions experienced gains in 2025's second quarter and over the year ended June 2025. Asia ex-Japan led developed markets over the second quarter, while the UK saw the largest gains in the past year. In emerging markets, Latin America saw robust returns in the past three months, while the Middle East and Africa lagged.



Market Thermometer

Several segments of the market reached new highs in 2025, including gold and bitcoin in the second quarter. The US dollar index also reached a new high in January 2025 but has since pulled back meaningfully. Brent crude oil prices are also down in the year to date. The chart below displays where each indicator sits relative to its maximum and minimum of the past 20 years.

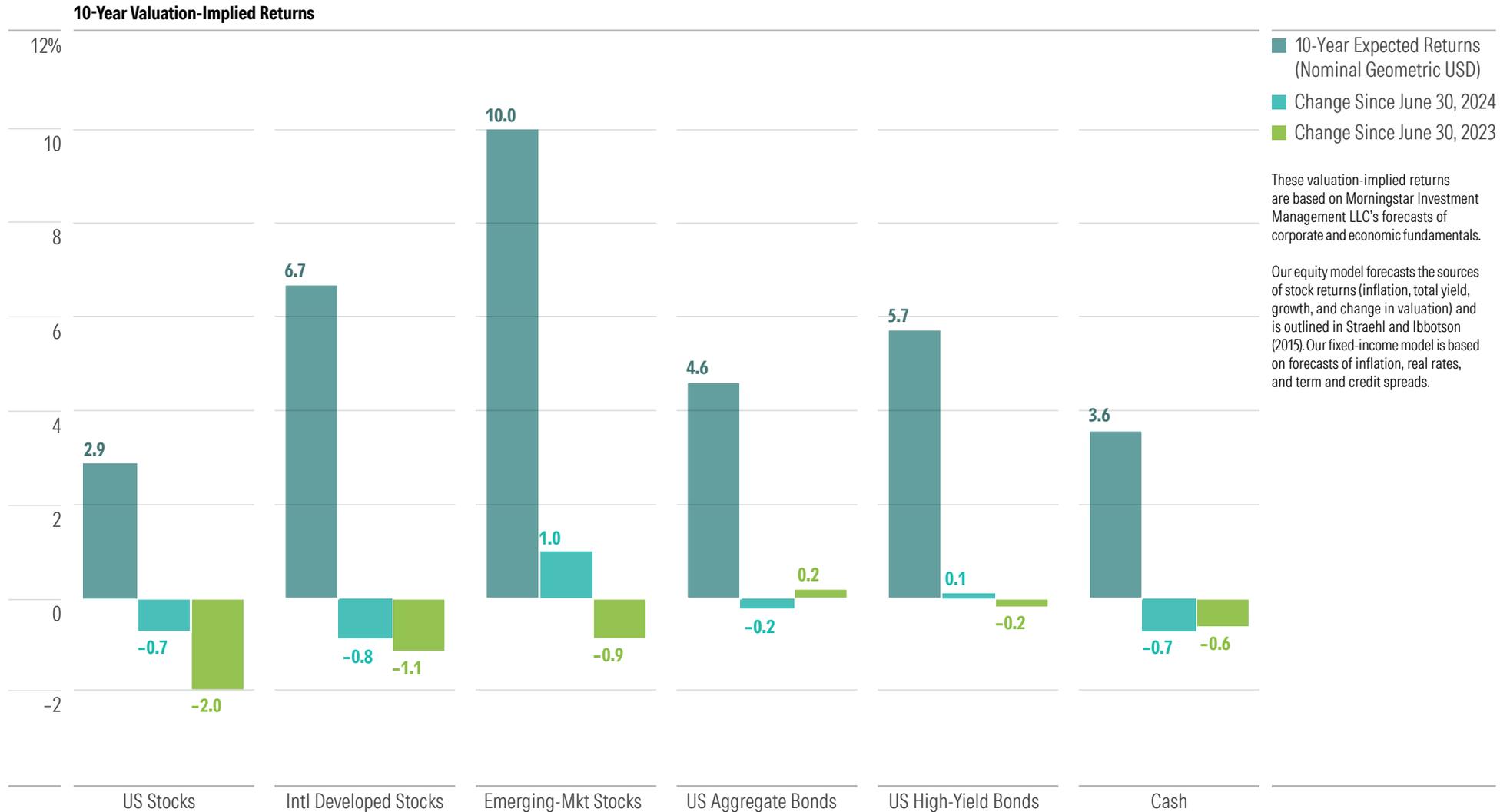


QMO16

Source: Morningstar Direct, Federal Reserve Bank of St. Louis, National Association of Realtors, Macrobond. Minimums and maximums for the period July 1, 2005, to June 30, 2025. ©2025 Morningstar. All Rights Reserved.

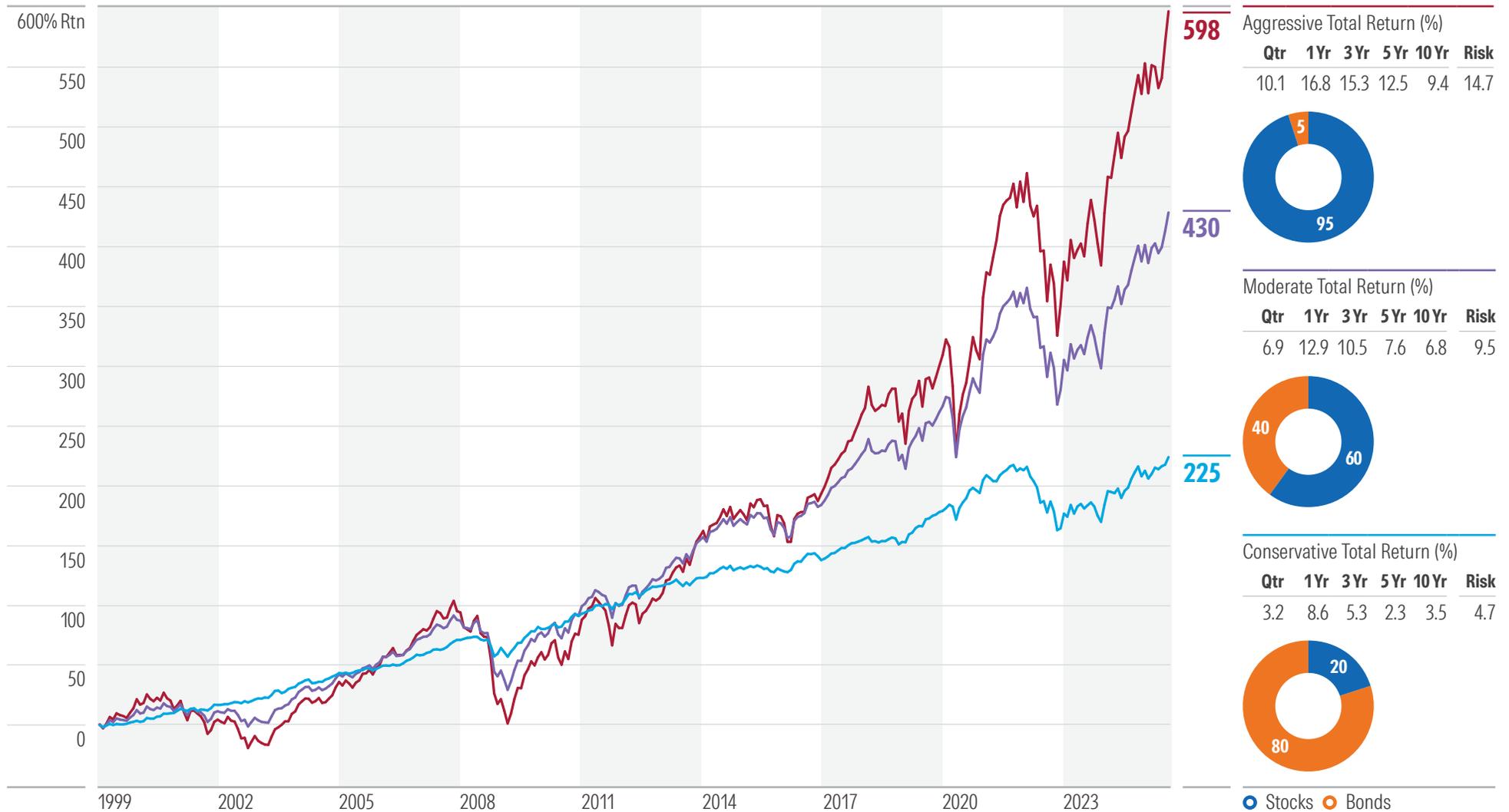
Valuation-Implied Returns: Short-Term Moderation, Longer-Term Improvement

Valuation-implied returns serve as a useful measure for cross-asset-class comparisons. US and international-developed stocks have experienced a significant decline in VIRs over the past two years. Emerging-market stocks continue to appear attractive, with a notable increase in VIR since last year. VIRs for fixed income remain largely unchanged, while cash has seen a decline.



Performance of Risk-Based Portfolios

All three risk-based portfolios—aggressive, moderate, and conservative—posted gains in the trailing three months and ended the second quarter at all-time highs. Both equities and fixed income performed well, lifting the aggressive and moderate portfolios. The conservative portfolio also posted modest returns, eclipsing its previous high seen in August 2021.

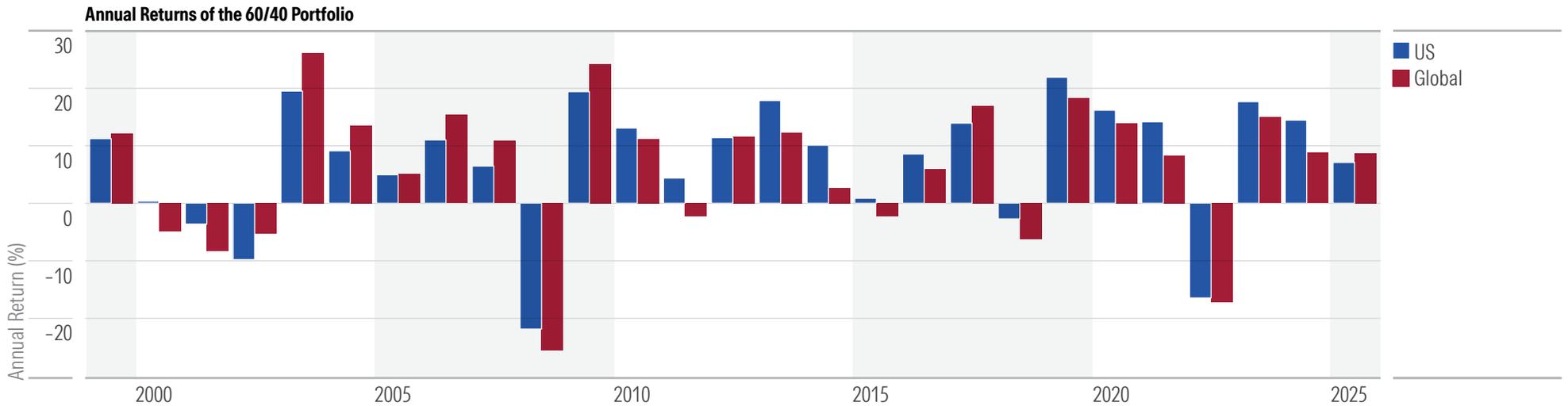


QAA2

Source: Conservative portfolio—Morningstar Conservative Target Risk Index. Moderate portfolio—Morningstar Moderate Target Risk Index. Aggressive portfolio—Morningstar Aggressive Target Risk Index. Returns for periods longer than one year are annualized. Data as of June 30, 2025. ©2025 Morningstar. All Rights Reserved.

The 60/40 Portfolio Performance

Despite a brief selloff in early April, the classic US and global 60/40 portfolios rebounded and finished 2025's second quarter in positive territory. The global portfolio neared a double-digit return for the first half of the year, buoyed by the international equity allocation, though the US portfolio is not far behind. Global valuations are near historical averages, while US valuations remain elevated.



QM019

12

Source: Morningstar Direct, FactSet, Morningstar Investment Management LLC Analysis. US stocks — Morningstar US Market Index. US bonds — Bloomberg US Aggregate Index. Global stocks — Morningstar Global Markets Index. Global bonds — Bloomberg Global Aggregate Index. Data as of June 30, 2025. For illustrative purposes only. ©2025 Morningstar. All Rights Reserved.



Asset Class Winners and Losers

US large and small caps were the best performing asset classes in 2024, largely due to postelection- and artificial intelligence-related euphoria. However, they have seen more moderate returns in 2025's first half, while international developed- and emerging-markets stocks shone. Non-US stocks have also benefited from a weakening US dollar amid uncertainty around US policymaking.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 YTD	Total
Highest Return (%)	28.4	13.1	19.7	37.9	13.6	1.8	20.3	36.0	1.2	31.8	21.7	27.2	16.1	29.8	27.9	19.5	14.2
	21.8	7.7	17.5	31.8	7.2	1.8	17.1	25.5	-1.7	26.0	18.8	27.1	-11.2	20.6	10.8	14.0	10.4
	16.8	5.0	16.5	22.0	6.9	0.7	11.8	22.7	-2.1	23.4	16.4	16.2	-12.6	17.9	8.3	8.7	7.3
	15.1	2.6	16.0	14.3	6.4	-1.4	11.3	15.0	-3.4	19.0	12.8	12.7	-13.7	13.4	8.2	6.7	7.0
	13.4	0.6	15.8	7.4	4.9	-1.8	11.2	14.7	-4.8	18.6	9.8	10.2	-14.8	13.2	7.4	5.5	6.5
	12.3	-2.6	12.4	-1.8	2.5	-4.5	8.6	7.5	-11.2	14.3	9.1	5.3	-14.8	11.9	5.4	5.3	4.9
	11.4	-11.9	12.0	-2.1	-0.8	-4.9	5.8	5.6	-12.1	14.2	9.0	0.0	-17.9	8.6	4.9	5.3	4.4
	10.8	-13.3	3.6	-4.6	-3.9	-13.3	3.4	2.1	-13.2	7.7	7.1	-1.6	-18.5	3.9	3.1	4.6	2.7
	8.7	-18.6	-1.1	-9.5	-17.0	-24.7	1.2	1.7	-13.9	7.4	-3.1	-3.0	-20.4	-7.9	0.4	0.8	-0.7

- Small Stocks
- Large Stocks
- Intl Developed Stocks
- Emerging-Market Stocks
- Inter-term Government Bonds
- Inter-term Corporate Bonds
- High-Yield Bonds
- Commodities
- Moderate Portfolio

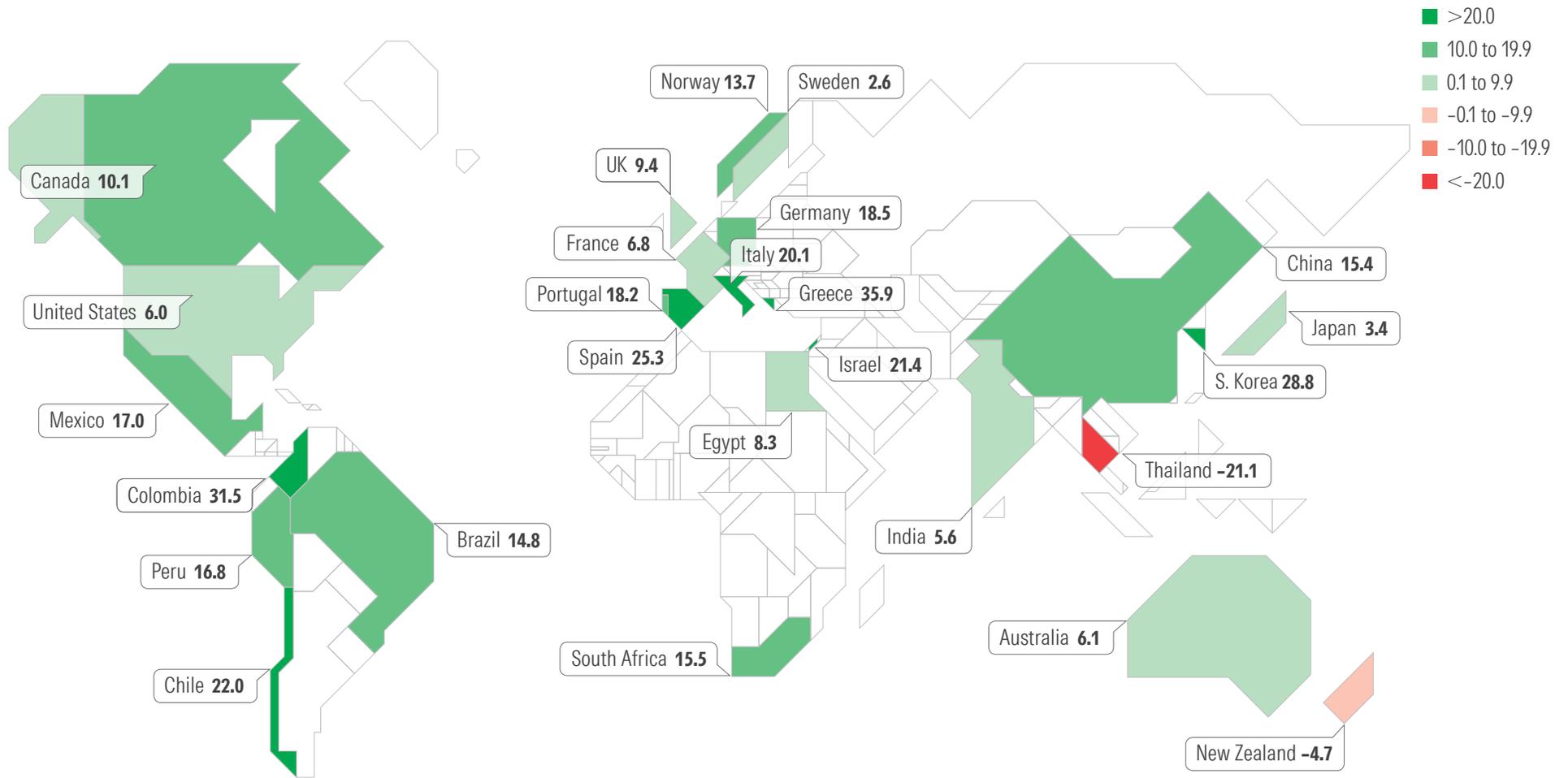
Equities



Global Market Barometer

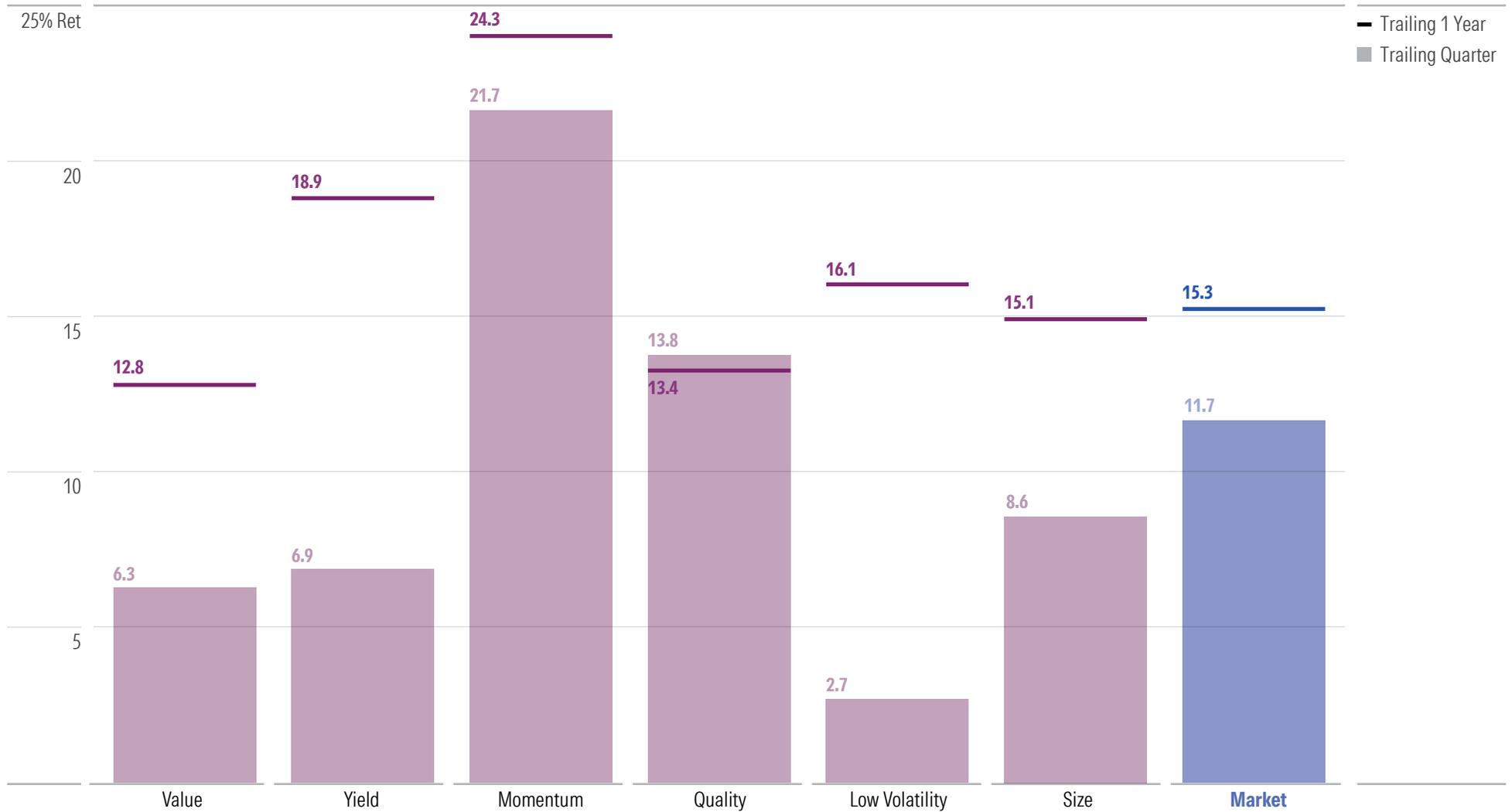
Most global equity markets more than recovered from the tariff-induced setback in April and posted solid gains in 2025's first half. Markets throughout Latin America (like Mexico, Colombia, and Chile) and Europe (such as Greece, Italy, and Spain) led the way, though select markets in the Asia-Pacific region (including Thailand and New Zealand) bucked the trend.

YTD Returns of Morningstar Country Indexes in Base Currency (%)



Factor Index Performance

After a rough start to 2025's second quarter, market sentiment improved significantly. All factors ended the quarter with gains, with momentum and quality leading the way. Meanwhile, low volatility took a breather in the trailing three months through June 2025 but still produced solid gains in the trailing 12 months.



Equity Market Performance Decomposition

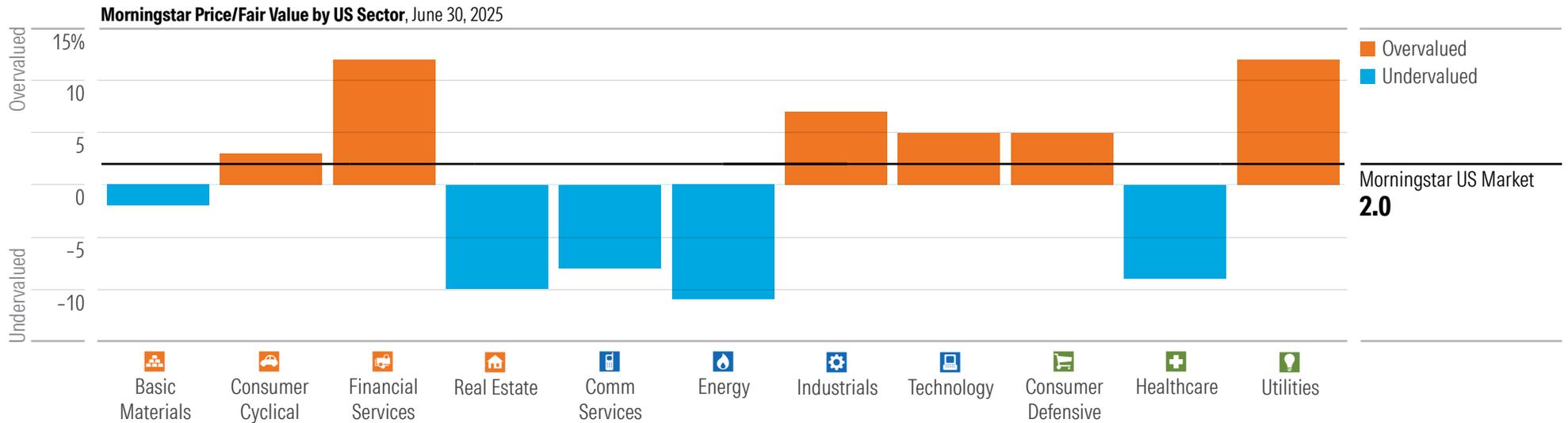
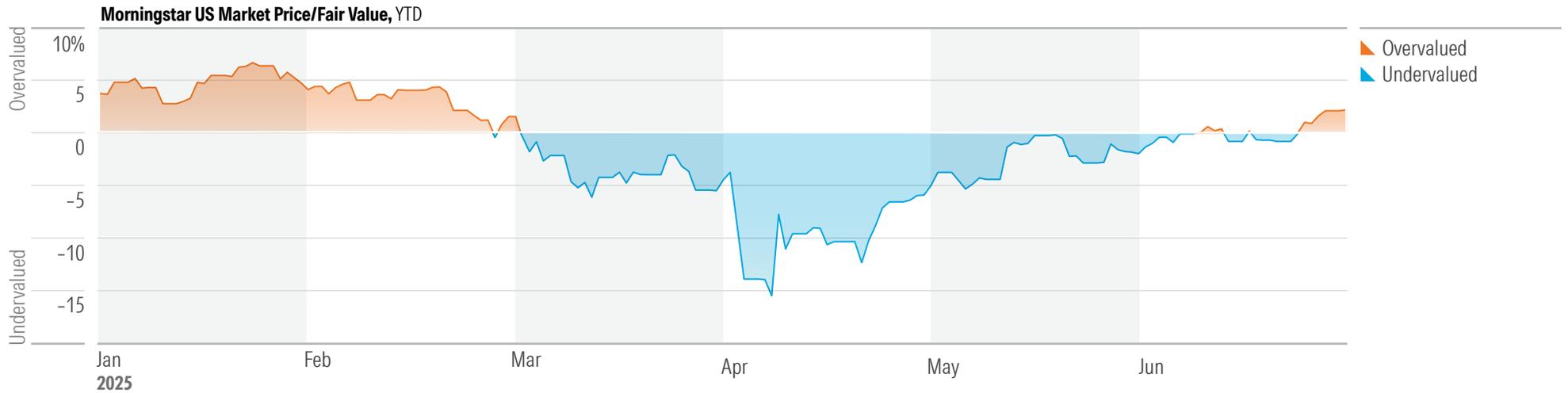
The below return decomposition shows that price/earnings multiple changes and a weaker US dollar were the key regional and sector drivers of first-half 2025 results. Additionally, most regions and sectors saw sales decline, though that was balanced by margin increases. Uncertainty around US policymaking continued to be a drag on the US dollar.

2025 YTD Return Decomposition

	USD Return (%)	≈ Total Yield (%)	+ Δ P/E (%)	+ Δ Margins (%)	+ Δ Sales (%)	+ Δ Currency (%)	+ Other (%)
Countries/Regions							
Europe ex UK	24.2	2.1	9.5	-1.6	-1.0	12.6	2.6
Europe	23.0	2.2	8.2	-1.9	0.4	11.8	2.4
United Kingdom	19.4	2.1	7.6	12.5	-14.6	10.2	1.6
EAFE	19.3	2.5	3.7	0.2	2.1	9.0	1.6
EM	15.3	1.6	-2.5	20.3	-9.0	4.0	0.9
AC Asia ex Japan	14.5	1.4	-4.6	21.3	-7.8	3.4	0.8
Japan	11.7	1.7	9.4	-7.4	-0.7	8.4	0.3
AC World	10.0	1.7	0.1	10.0	-4.8	2.8	0.2
World	9.5	1.7	0.9	8.3	-4.2	2.7	0.1
USA	6.1	1.6	-1.1	4.7	1.1	0.0	-0.2
Developed-Market Sectors							
Energy	17.6	1.6	5.8	10.3	-5.7	4.5	1.1
Utilities	16.6	2.3	3.8	11.7	-5.8	3.7	1.0
Financial	16.0	2.0	10.8	8.3	-9.2	3.4	0.6
Consumer Staples	13.8	1.8	3.6	9.7	-3.1	1.3	0.5
Healthcare	10.2	2.0	-0.4	13.5	-10.0	5.0	0.1
Materials	9.4	2.1	4.4	0.7	-1.3	3.5	0.0
Industrials	8.5	1.2	-2.4	4.1	4.6	0.9	0.1
Communication Services	4.6	3.5	17.4	-11.0	-7.5	3.0	-0.8
Consumer Discretionary	0.8	1.6	-14.5	11.0	-0.1	3.1	-0.3
Information Technology	-0.8	1.3	-0.9	1.5	-5.0	2.6	-0.2

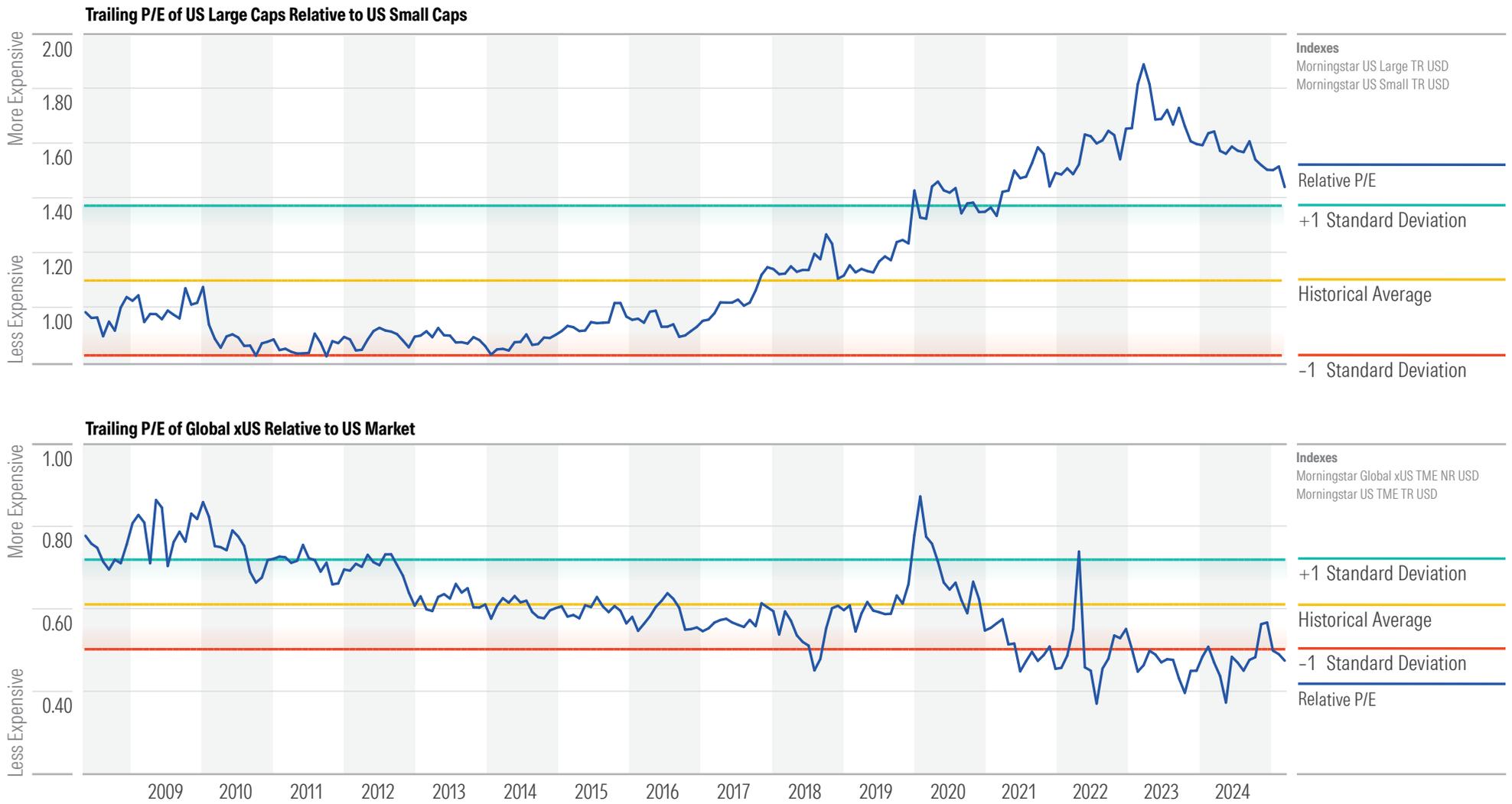
Morningstar Price/Fair Value

The tariff-driven volatility left the median stock in the Morningstar US Market Index undervalued for much of 2025's first half. By the end of June 2025, however, the median stock was 2.0% overvalued. At a sector level, utilities, financial services, and industrials looked the most expensive. Conversely, healthcare, energy, and real estate looked undervalued.



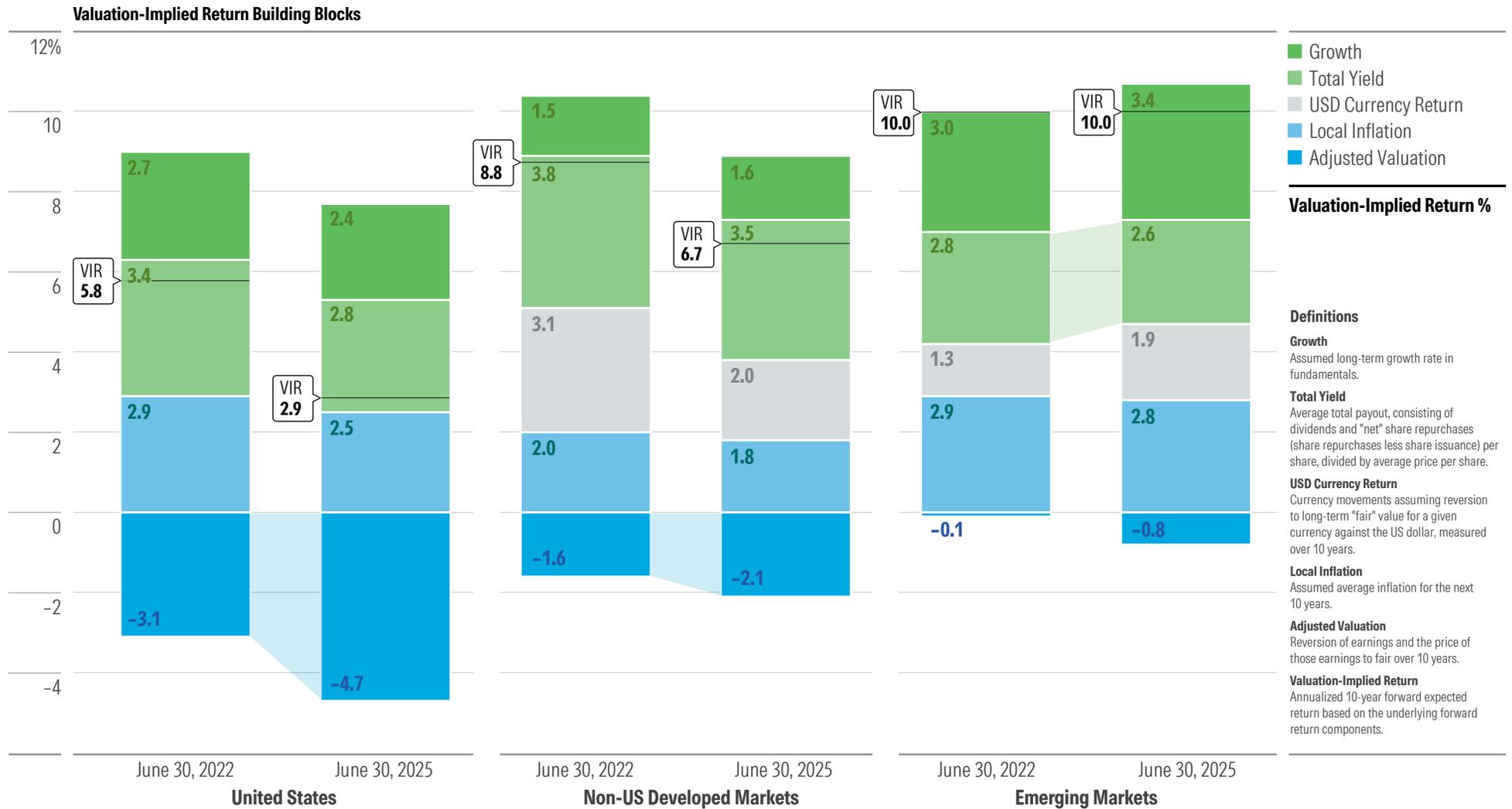
What's Cheap? Breaking Down Valuation Disparities in Global Markets

The price/earnings multiples for US large caps have expanded significantly relative to US small caps since 2008. Although the valuation gap has narrowed in the past couple years, it remained well above historical averages. The global ex-US market has long traded at a discount to the US market, though the disparity widened considerably since 2008. The outperformance of non-US stocks relative to US stocks in the past year, however, has slightly reduced this gap.



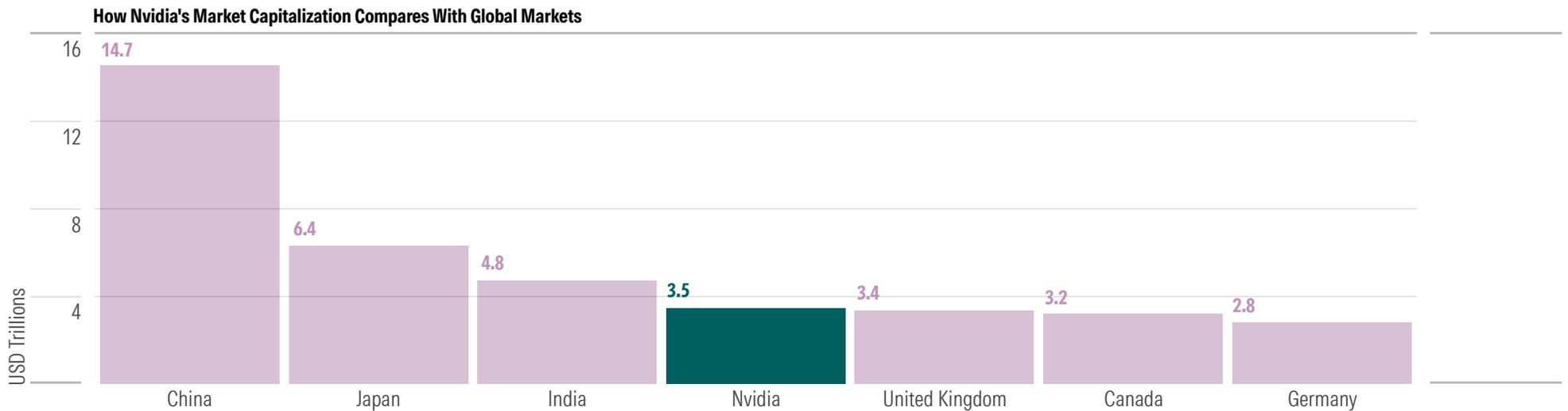
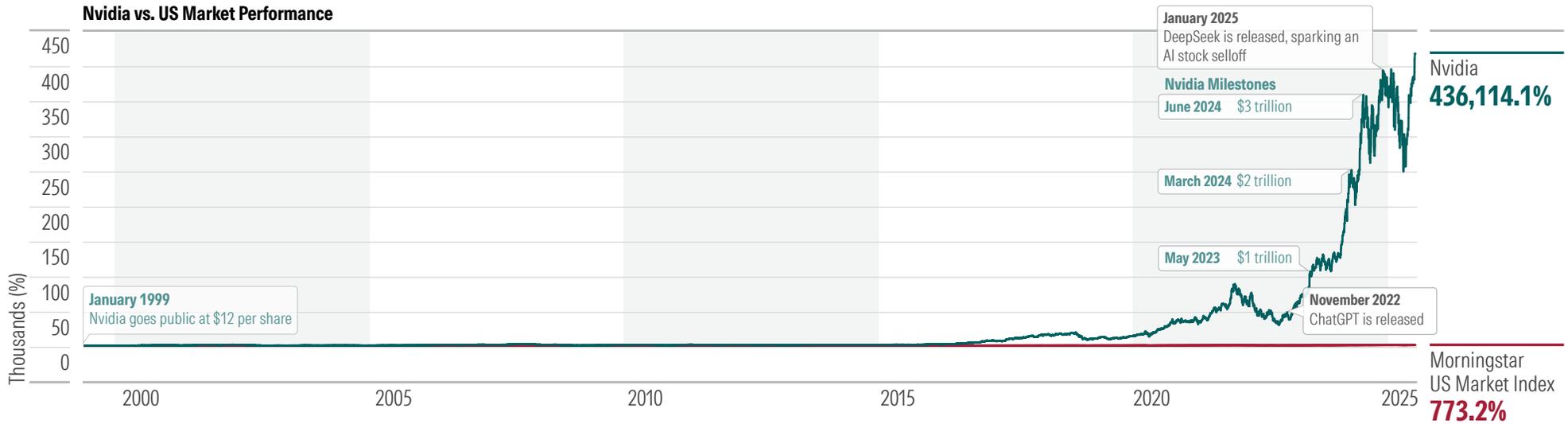
Understanding Sources of Forward-Looking Returns

As of June 30, 2025, emerging-market stocks had a valuation-implied return of 10.0% (in US dollars), significantly higher than the 2.9% estimate for US stocks. This difference is mainly due to forecasted changes in valuation and exchange rates, not fundamentals like growth and total yield. This highlights the elevated valuations of US stocks.



Nvidia's Exceptional Run

Nvidia's cumulative return since its January 1999 public listing was more than 500 times that of the broader US market. This meteoric growth stems from rapid developments in generative artificial intelligence starting in late 2022. In fact, by June 2025, Nvidia's market capitalization surpassed that of countries like the United Kingdom, Canada, and Germany.



Fixed Income



Global High-Yield Bonds Shone in 2025's Second Quarter

Fixed-income sectors with higher credit risk outperformed in the second quarter of 2025, while those with higher sensitivity to interest rates lagged. Global high-yield bonds led the way, with markets showing increased risk appetite for investment outside the US. Meanwhile, higher-quality debt, such as municipal bonds, suffered owing to volatile US Treasury yields.

Fixed-Income Returns in USD

■ Trailing Quarter ■ Trailing 1 Year

Government and Municipal Bonds

- US Treasury Bonds
- Treasury Inflation-Protected Securities
- Municipal Bonds

US Securitized

- Mortgage-Backed Securities
- Asset-Backed Securities
- Commercial Mortgage-Backed Securities

US Corporate Credit

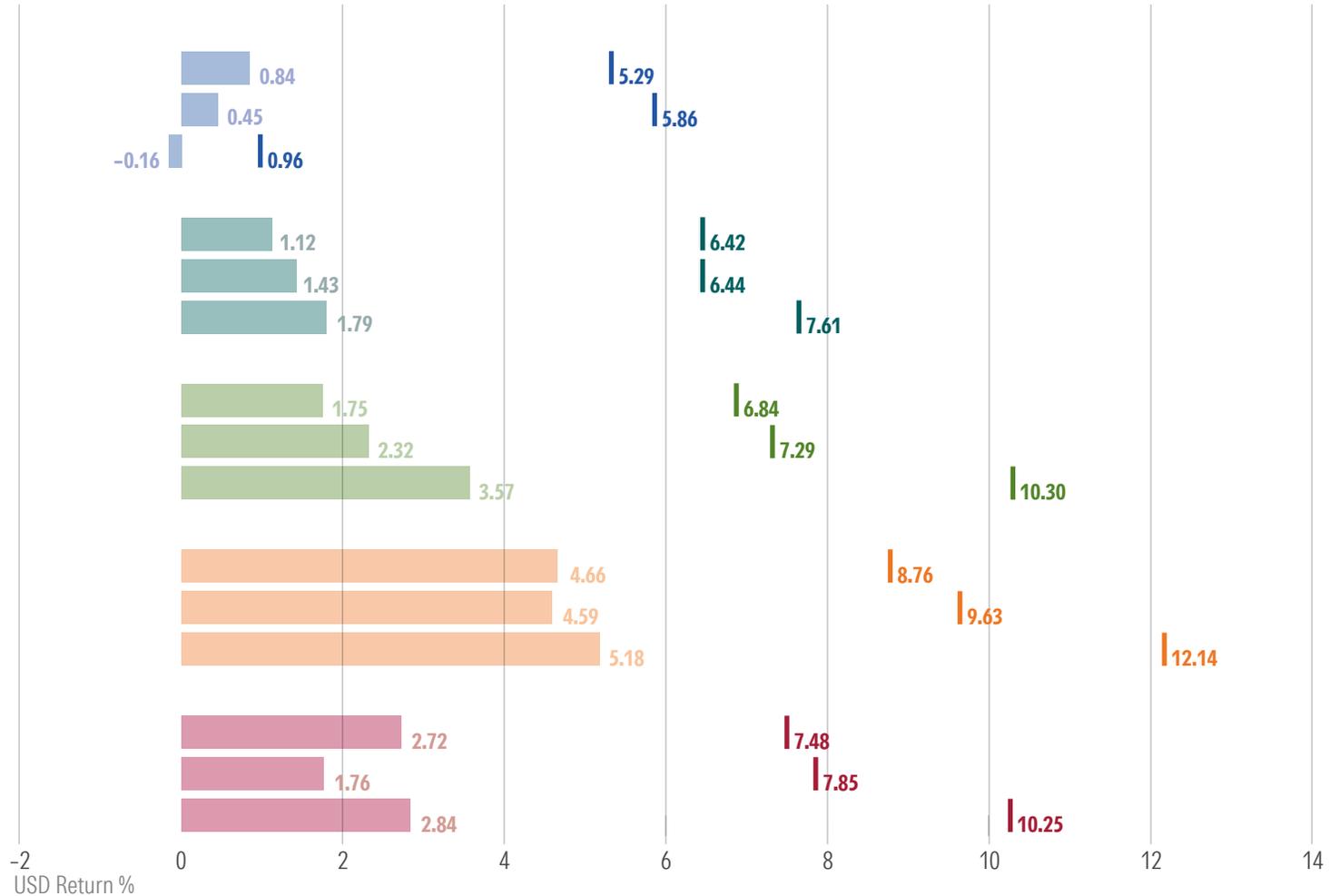
- US Corporate Bonds
- Leveraged Loans
- US High-Yield Bonds

Global Bonds

- Global Sovereign Bonds
- Global Corporate Bonds
- Global High-Yield Bonds

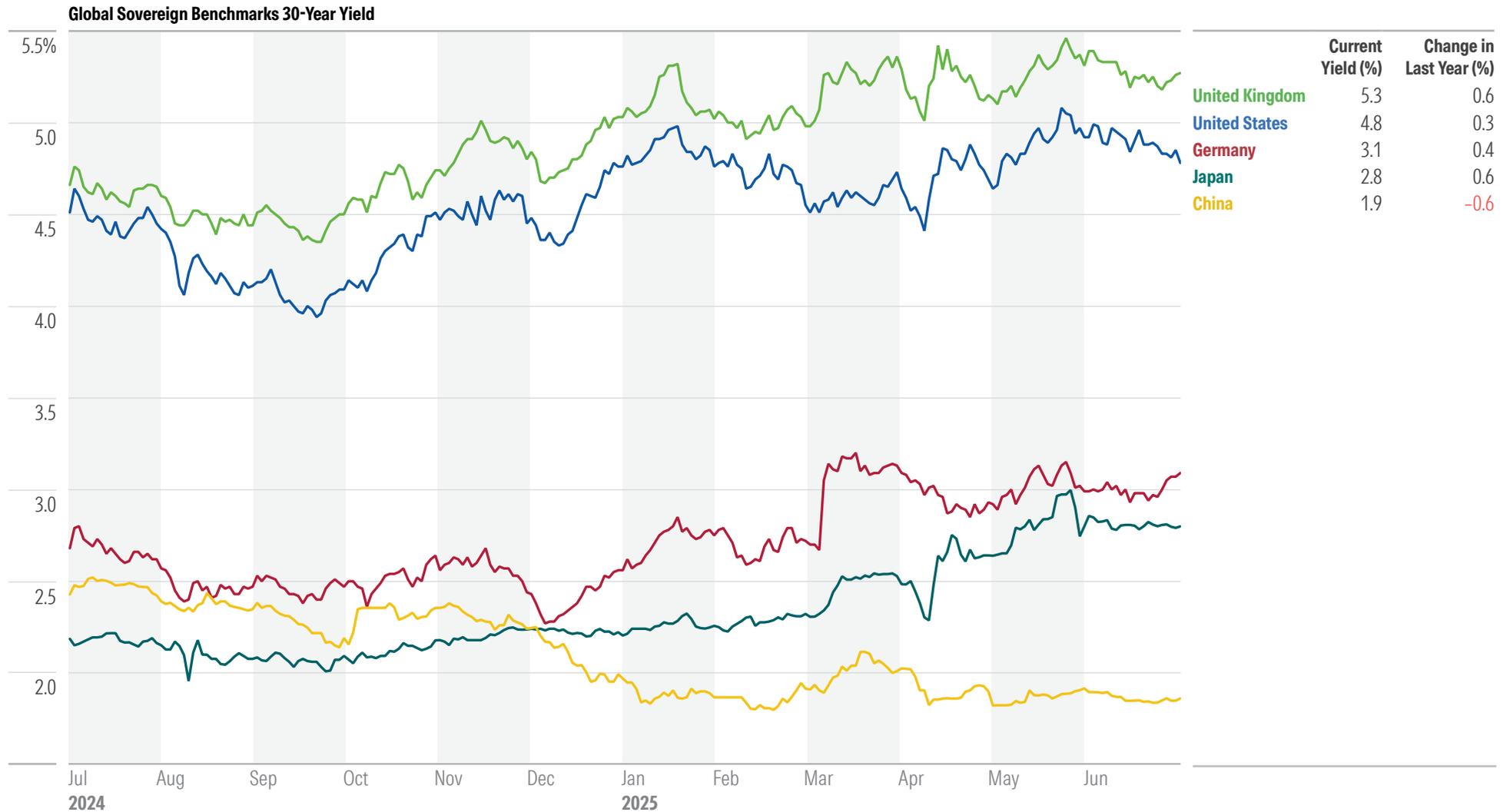
Emerging Markets

- Emerging-Markets Sovereign
- Emerging-Markets Corporate
- Emerging-Markets High-Yield



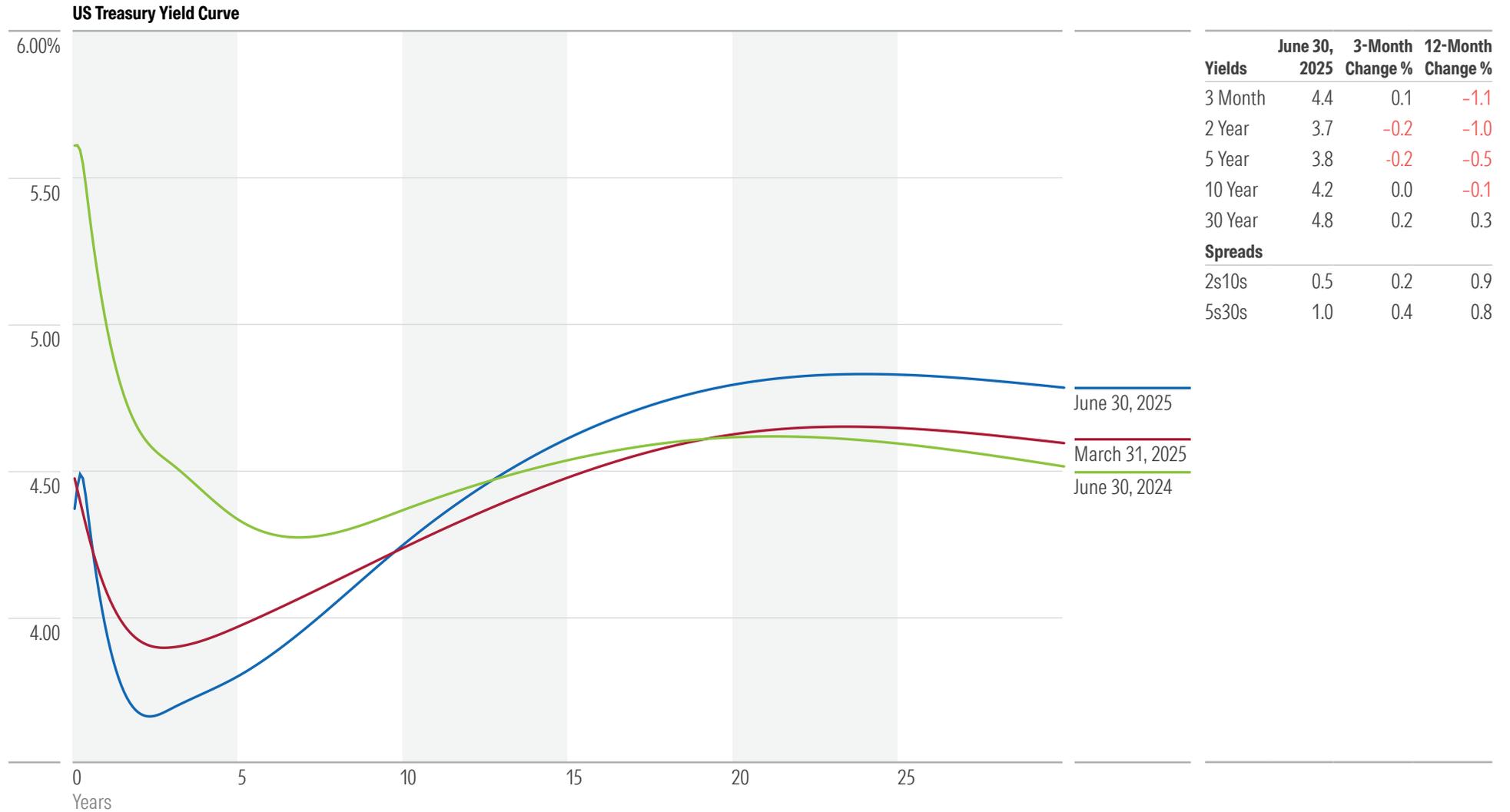
Long-Term Yields Reach New Heights

Most sovereign 30-year yields (except for China) have been on a steady climb in the year ended June 2025 amid increasing volatility and growing economic uncertainty. The US 30-year Treasury nearly surpassed levels not seen since the aftermath of the global financial crisis, while Japan's 30-year yield hit a high in the second quarter.



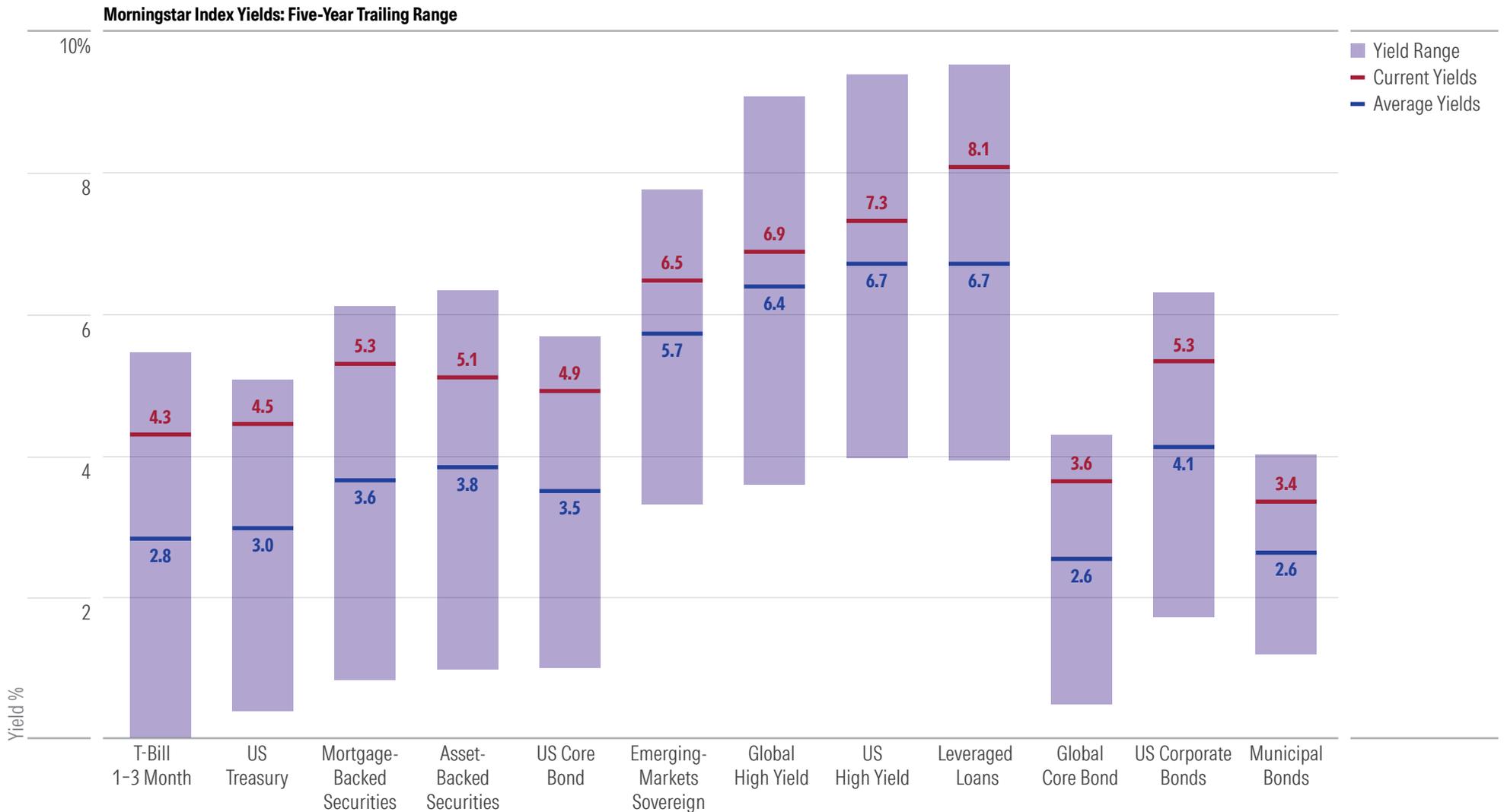
The Yield Curve Steepened as Long-Term Rates Stay High

The yield curve steepened over the trailing three- and 12-month periods through June 30, 2025. Short-term rates declined while the 30-year US Treasury yield briefly broke 5.0% in May amid further economic uncertainty before closing the second quarter at 4.8%. As such, investors are demanding higher compensation for the risk of holding long-term debt (a higher term premium).



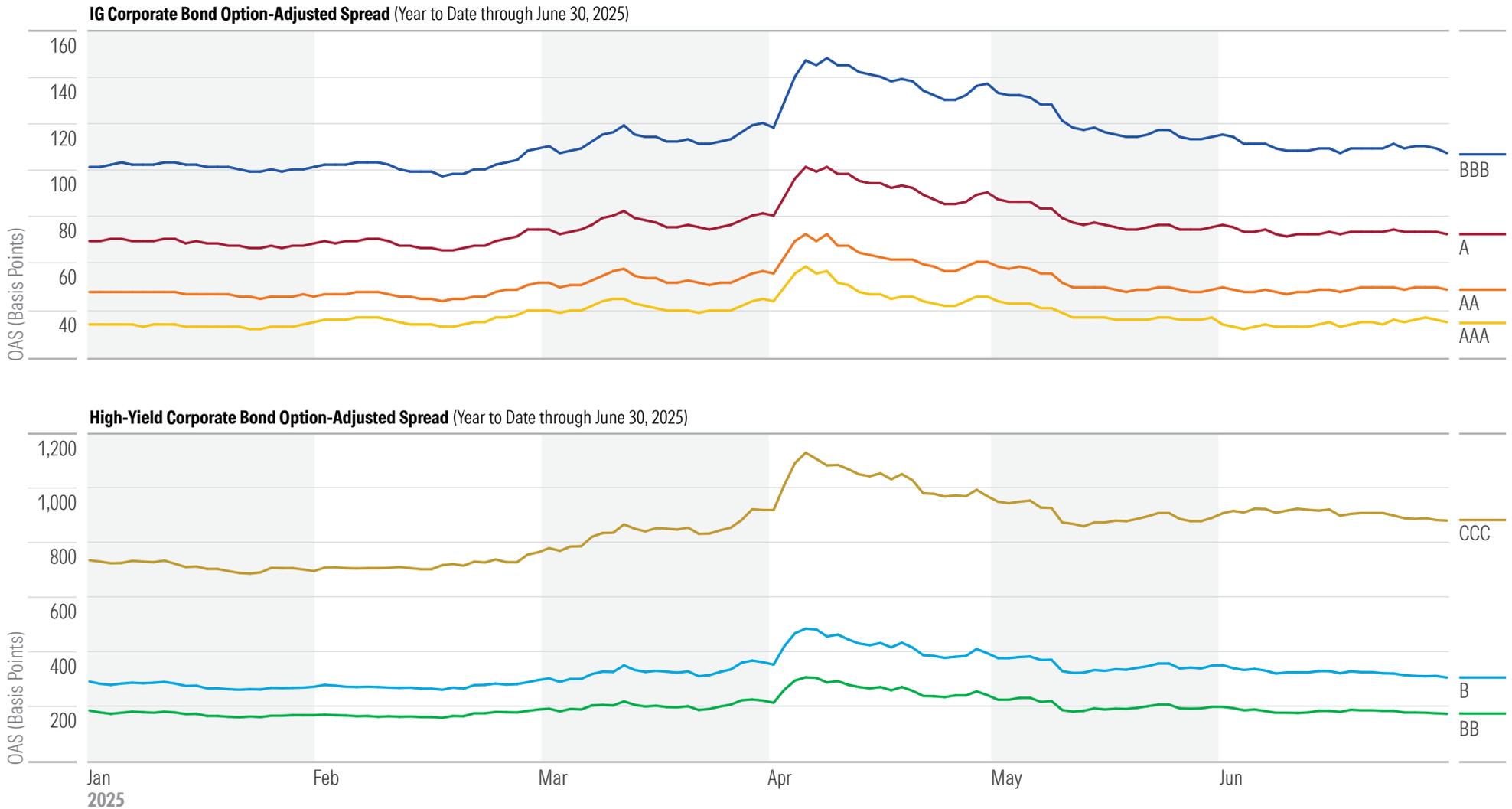
Yields Across Fixed Income Remain High

All major fixed-income sectors provided higher yields than their five-year averages as of June 30, 2025, making bonds more attractive for yield-seeking investors. Investors have typically flocked to fixed-income asset classes when income levels are high, but high rates at the front end of the curve have lured investors into short-term and safer assets such as money market funds.



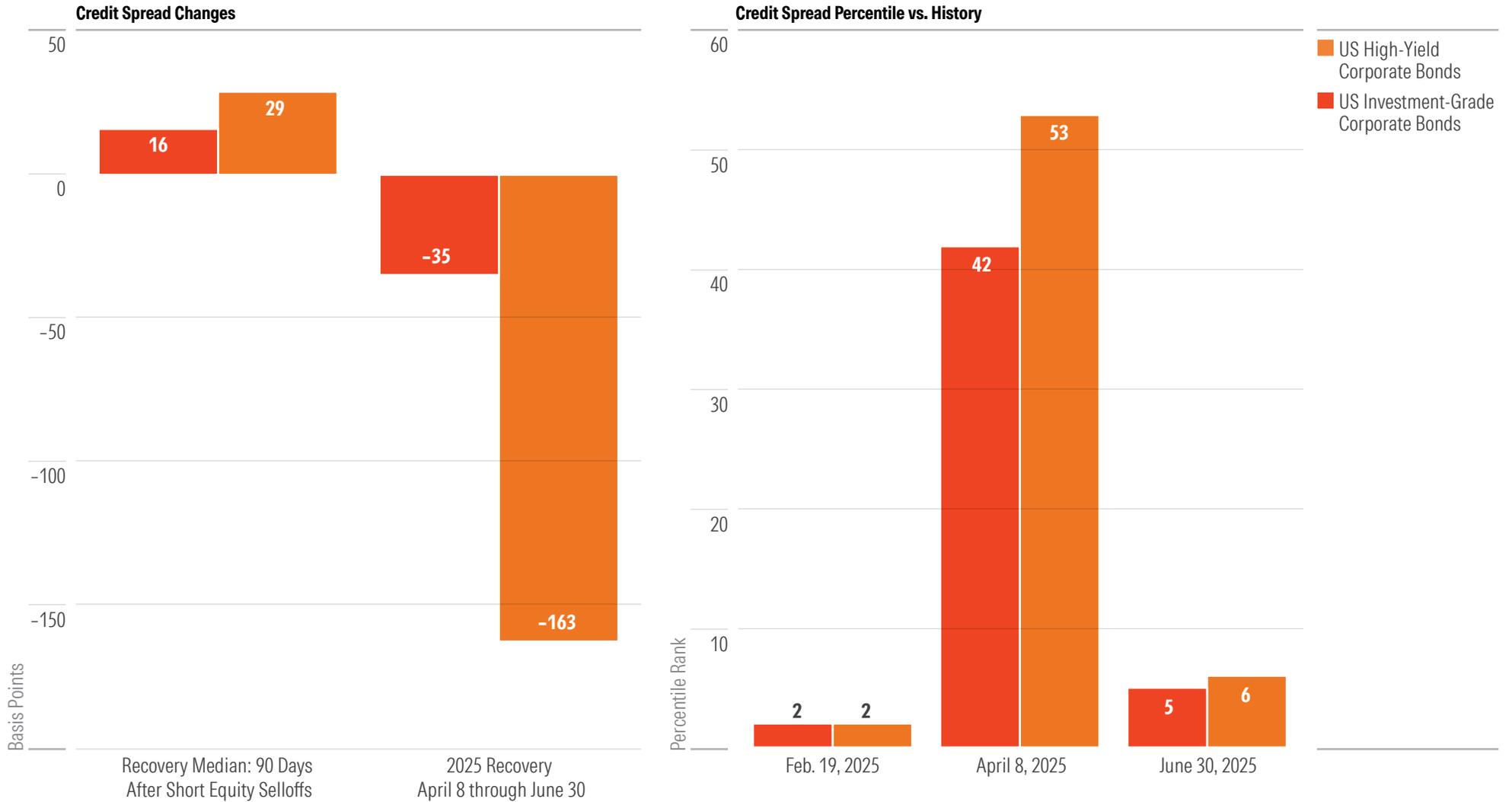
Credit Spreads Remain Tight

Corporate credit spreads, an indicator of the broader economy's health and investors' confidence in credit markets, remained at historically tight levels in 2025's first half, suggesting rich valuations. April's tariff-induced volatility briefly led to wider spreads, but they subsequently tightened as trade tensions eased and market conditions stabilized.



Credit Spreads Snapped Back to Pre-Selloff Lows

Historically, short equity selloffs (as defined by a drop of more than 10% in US equities over a three-month period) have been followed by elevated credit spreads over the subsequent 90 days. And while credit spreads widened in early 2025, that proved to be short lived, with spreads quickly compressing back to historically tight levels at the end of the second quarter. Indeed, US corporate credit still appeared unattractive as of June 2025, especially relative to its history.



The US Dollar Has Weakened Considerably in 2025

Following the 2024 presidential election, the US dollar strengthened as investors were optimistic about the new administration's tax cuts and anticipated economic growth. But that optimism has faded in 2025's first half, with the dollar weakening significantly amid economic and fiscal concerns with President Donald Trump's sweeping tariff plans and a ballooning fiscal deficit.

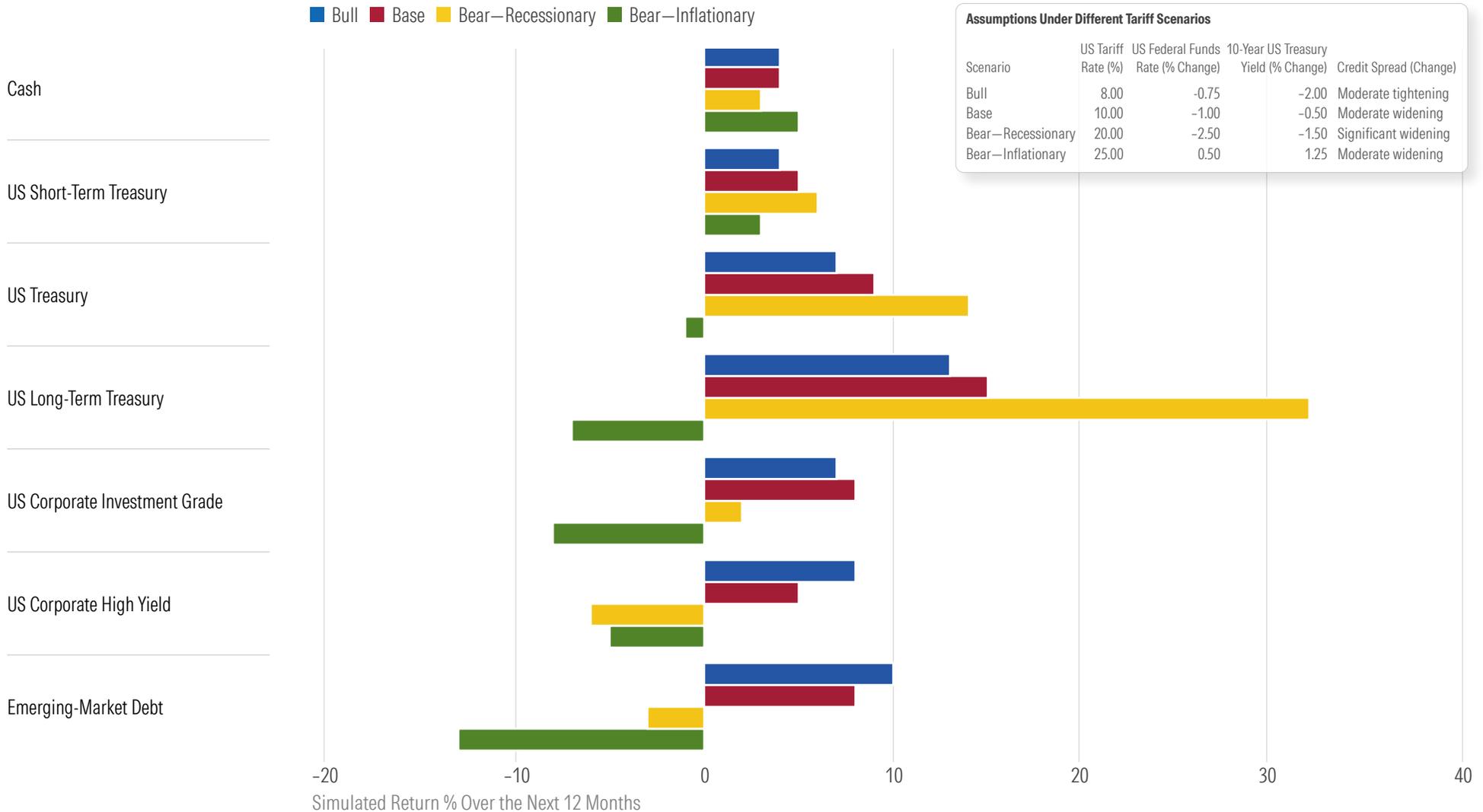


QF163

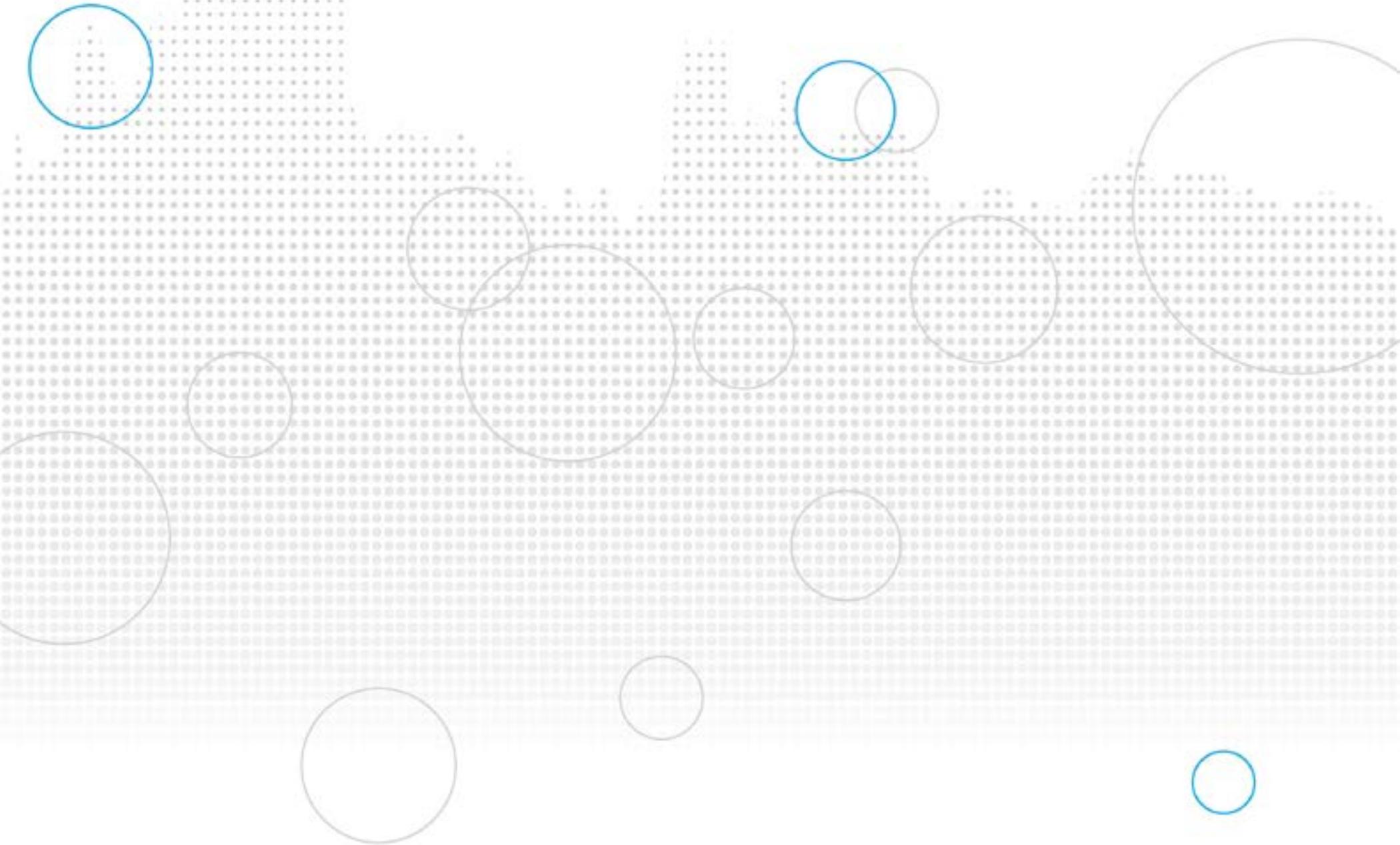
Source: Macrobond Financial. Data as of June 30, 2025. ©2025 Morningstar. All Rights Reserved.

Range of Outcomes Across Fixed-Income Assets Under Tariff Scenarios

This chart highlights the impact of different tariff scenarios on fixed-income assets. The base case is that elevated tariffs slow real gross domestic product growth and raise inflation, while the bull case is a rollback of tariffs and a stronger recovery. The two bear cases capture downside risks. Translating the tariff scenarios into the fixed-income market impact, higher-quality assets offer a more favorable risk/reward profile than riskier credit. Longer-duration assets also carry more sensitivity.



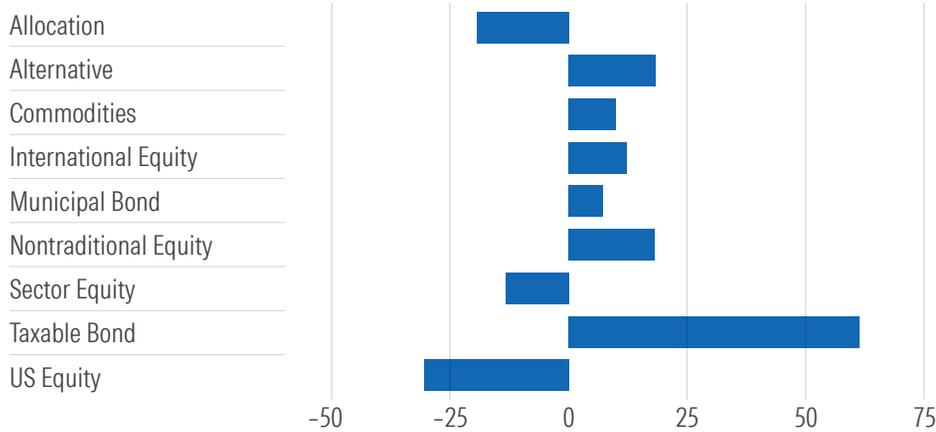
Funds



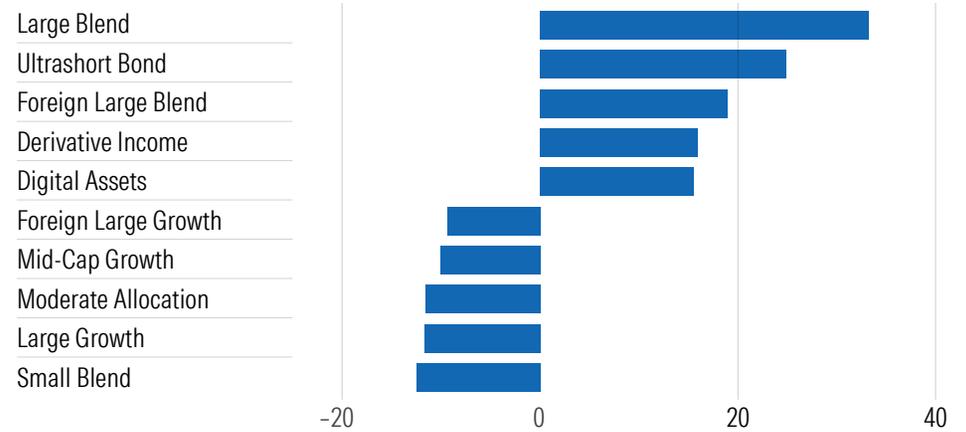
Top- and Bottom-Performing Morningstar Categories

Digital assets was the top-performing Morningstar Category in 2025's second quarter, beating the second-best performer (technology) by a healthy margin. Meanwhile, systematic trend and commodities broad basket were two of the weakest-performing categories. From a flows perspective, taxable bond and alternatives funds remained in inflows in the second quarter, while US equity and allocation funds saw outflows.

Trailing Quarter Flows (USD Bil)



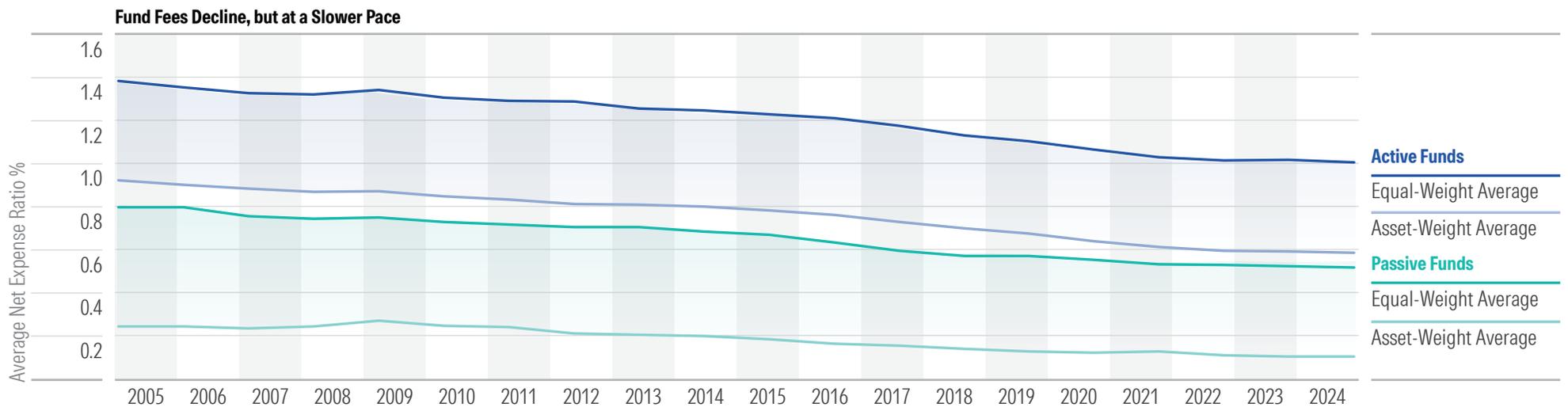
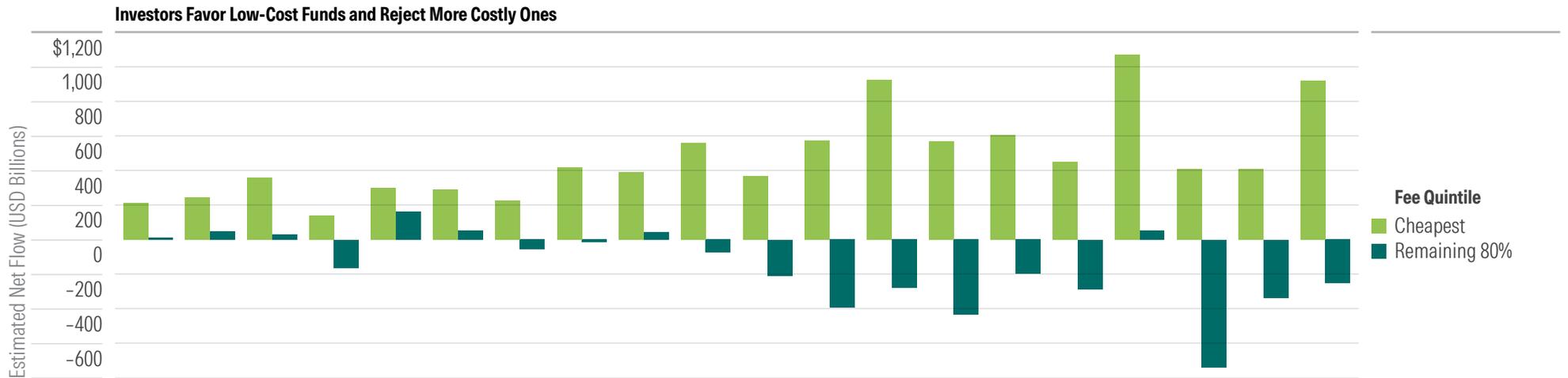
Top and Bottom Trailing Quarter Flows by Category (USD Bil)



Top-Performing Morningstar Categories	US Category Group	Return (%)			Bottom-Performing Morningstar Categories	US Category Group	Return (%)			Legend
		Trailing Quarter	Trailing 1 Year	Quarterly Flow (USD Mil)			Trailing Quarter	Trailing 1 Year	Quarterly Flow (USD Mil)	
Digital Assets	Alternative	27.7	31.3	15,547	Systematic Trend	Alternative	-3.8	-10.8	-797	>20
Technology	Sector Equity	22.7	19.9	2,791	Commodities Broad Basket	Commodities	-2.2	4.6	1,297	10 to 19.9
Foreign Small/Mid-Growth	International Equity	18.4	18.5	-2,355	Energy Limited Partnership	Sector Equity	-2.0	20.2	-116	0 to 9.9
Communications	Sector Equity	17.8	38.1	1,577	High-Yield Muni	Municipal Bond	-2.0	-0.3	-462	-9.9 to 0
Large Growth	US Equity	17.0	16.4	-11,735	Long Government	Taxable Bond	-1.3	1.6	196	-19.9 to -10
Foreign Small/Mid-Blend	International Equity	16.7	21.2	-844	Muni California Long	Municipal Bond	-1.2	-0.6	-392	<-20
Equity Precious Metals	Sector Equity	16.7	56.3	-1,487	Muni New York Long	Municipal Bond	-1.2	-1.2	-264	
Latin America Stock	International Equity	16.2	14.5	1,613	Equity Energy	Sector Equity	-1.1	-5.4	-4,830	
Industrials	Sector Equity	15.9	23.0	2,431	Muni National Long	Municipal Bond	-0.8	0.0	-659	
Foreign Small/Mid-Value	International Equity	15.1	24.1	7	Muni Single State Long	Municipal Bond	-0.8	-0.3	-200	

Fund Fees Edge Lower

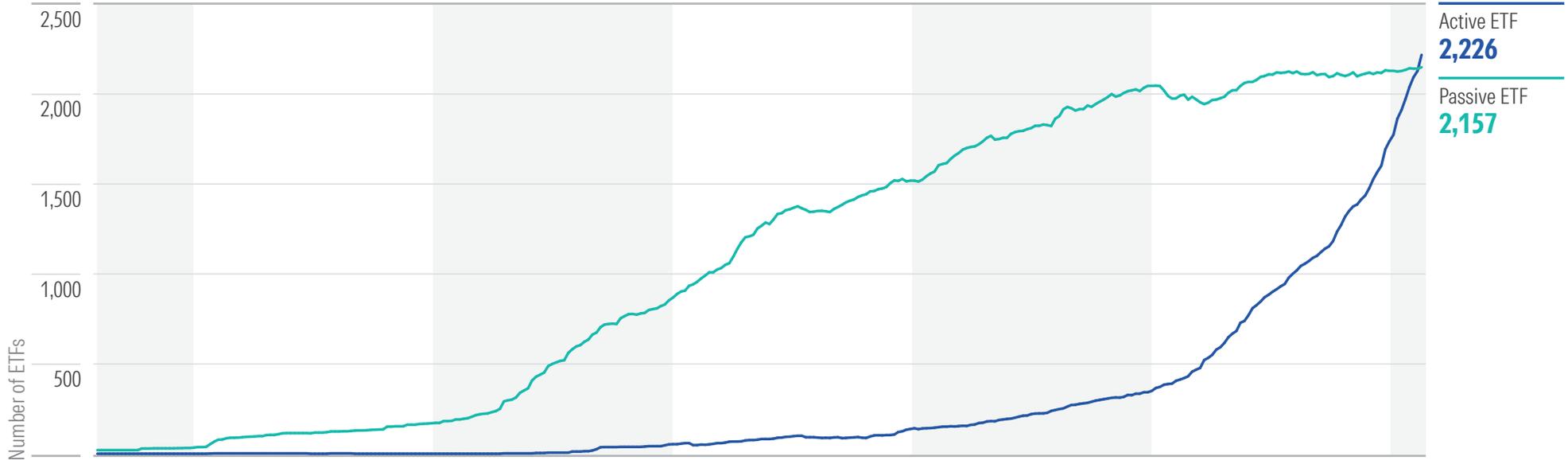
Investors have saved billions in fund fees over the last 10 years. As expense ratios fell across the board, investors poured almost USD 6.4 trillion into the cheapest 20% of US funds, while the remaining 80% shed USD 3.1 trillion. During that time, the asset-weighted average fee of all US funds slid to 0.34% from 0.61%, with passive funds' asset-weighted average fee notching just below 0.11% at 2024's end.



Active ETFs Outnumber Passive ETFs

Asset managers have embraced the exchange-traded fund, launching hundreds of new active offerings in each of the past several years. As of June 2025, there were 2,226 active ETFs on sale to US investors, eclipsing the 2,157 number for passive ETFs. That said, more than one-third of active ETFs fall in options-based, digital assets, or trading tools categories; many are not traditional stock- or bond-picking funds. Despite this growth, active strategies only represent 10% of the ETF market.

Active ETFs Now Outnumber Passive ETFs

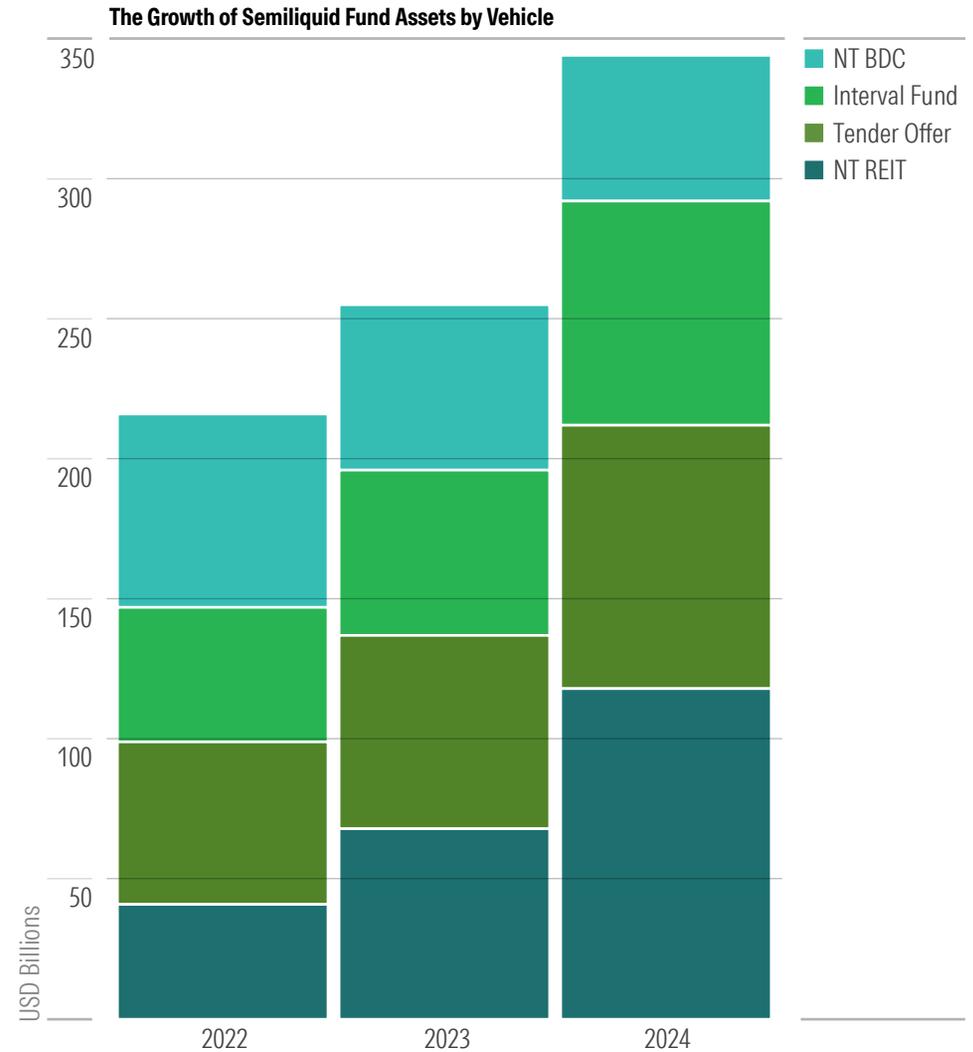
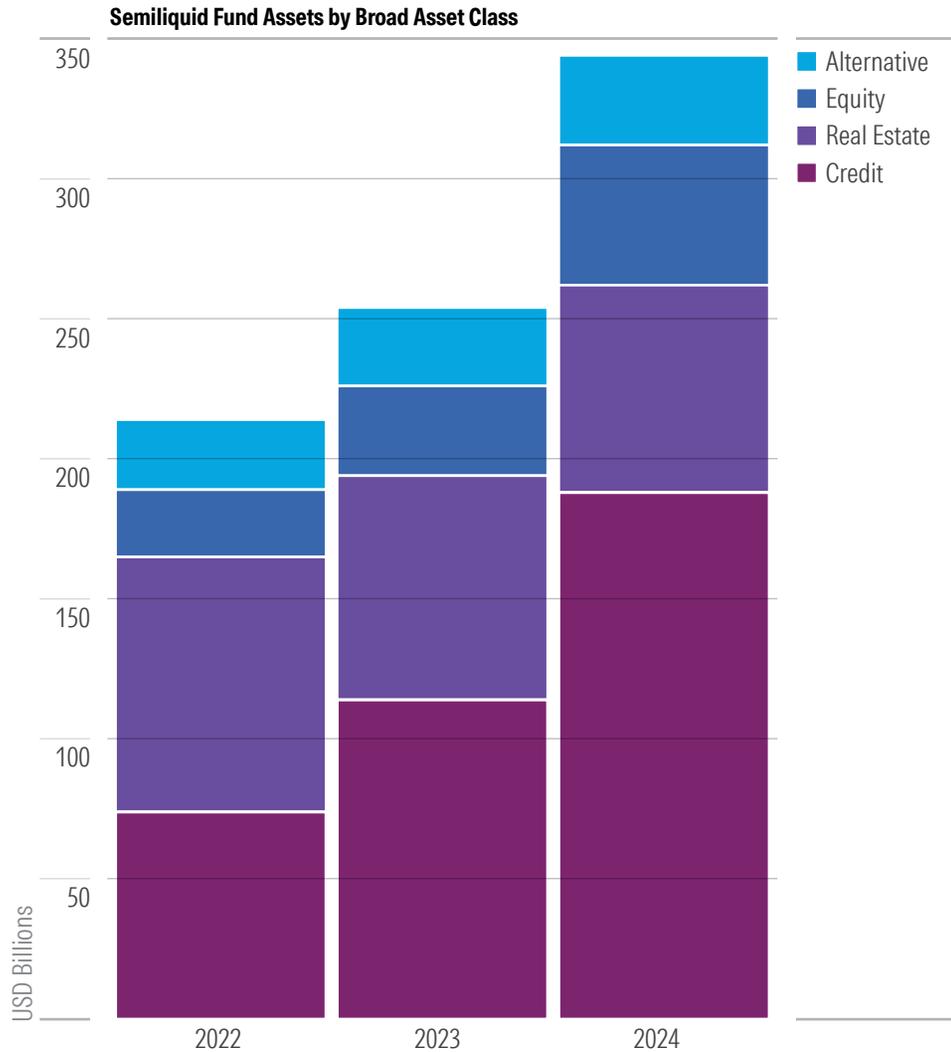


Active Funds Still Claim Little ETF Market Share



How Semiliquid Vehicles and Asset Classes Stack Up

Semiliquid vehicle assets reached USD 344 billion by the end of 2024, a 60% increase since the end of 2022. Private credit has largely driven this growth, particularly through the rapid expansion of nontraded business development companies and interval funds. Nontraded BDCs typically have higher payout rates because they can use more leverage than interval and tender-offer funds.



Semiliquid Funds Are Expensive, and Early Returns Have Disappointed

Investors used to mutual funds and ETFs are in for sticker shock when they look at semiliquid funds. The average annual net expense ratio for semiliquid funds was 3.16% as of their latest disclosed reports. Meanwhile, the average annual net expense ratio for passive mutual funds and ETFs was 0.37%, while active ones charged 0.97% on average. But most semiliquid funds focusing on private equity or venture capital have failed to beat the S&P 500 since their respective inceptions.



Semiliquid Private Equity and Venture Capital Funds: Annualized Excess Return Since Inception Versus S&P 500



QMF87

36

Source: Morningstar Direct. [The State of Semiliquid Funds 2025](#). Performance is oldest share class and as of May 2025 or latest available date; only includes funds launched before 2023. All Rights Reserved.

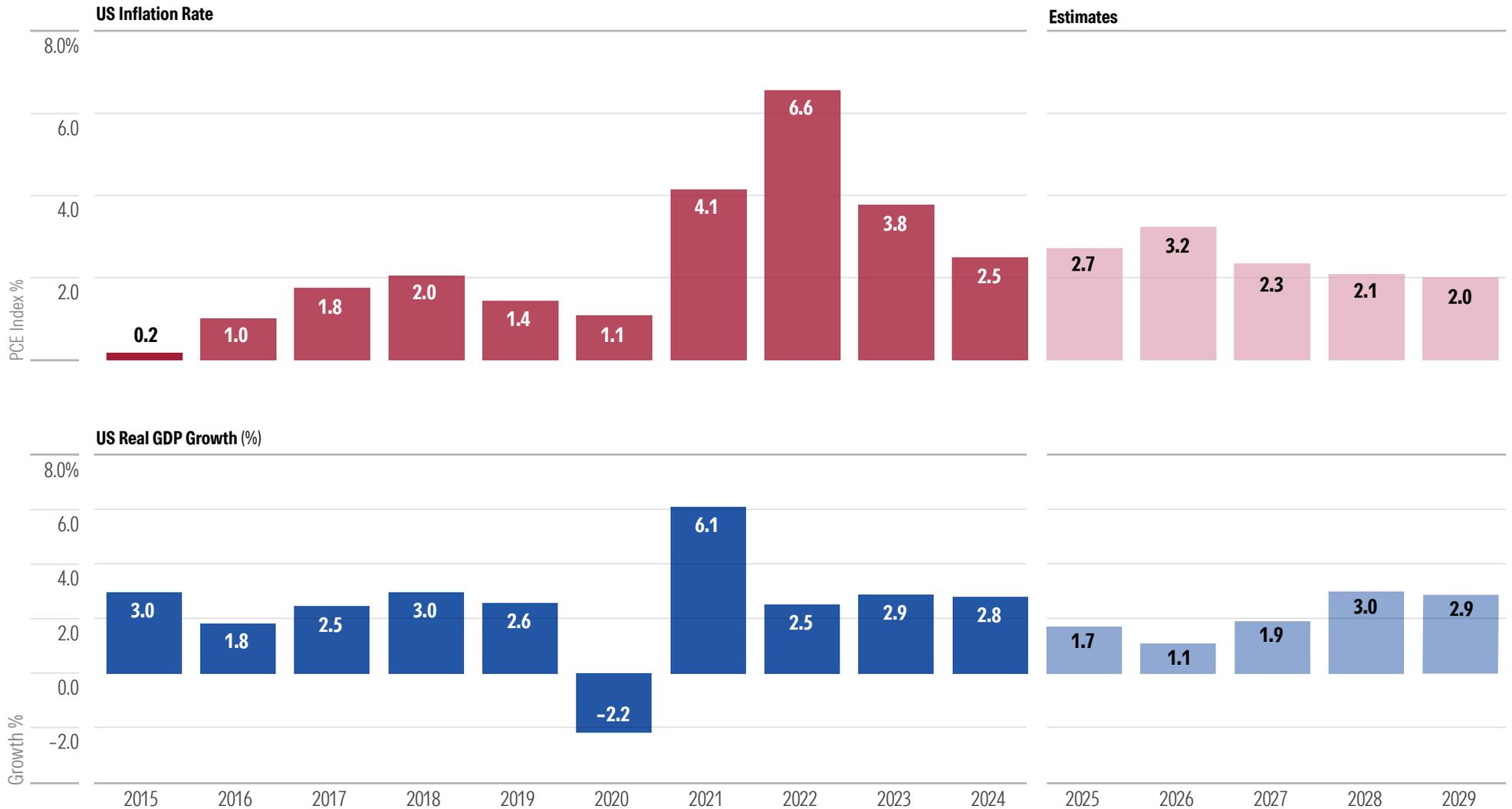


Economic Indicators



Morningstar's US Economic Outlook Has Been Upended by Tariffs

Tariff rates have surged to levels not seen in a century. Compared with our forecasts before the tariff surge in April, we've cut our real gross domestic product growth forecasts by a combined 0.7 percentage points over 2025-26, with the impact hitting a cumulative 1 percentage point by 2029. Also, we've hiked our inflation forecast by a combined 1.6 percentage points over 2025-26. Please see the [latest US Economic Outlook](#) for more details.

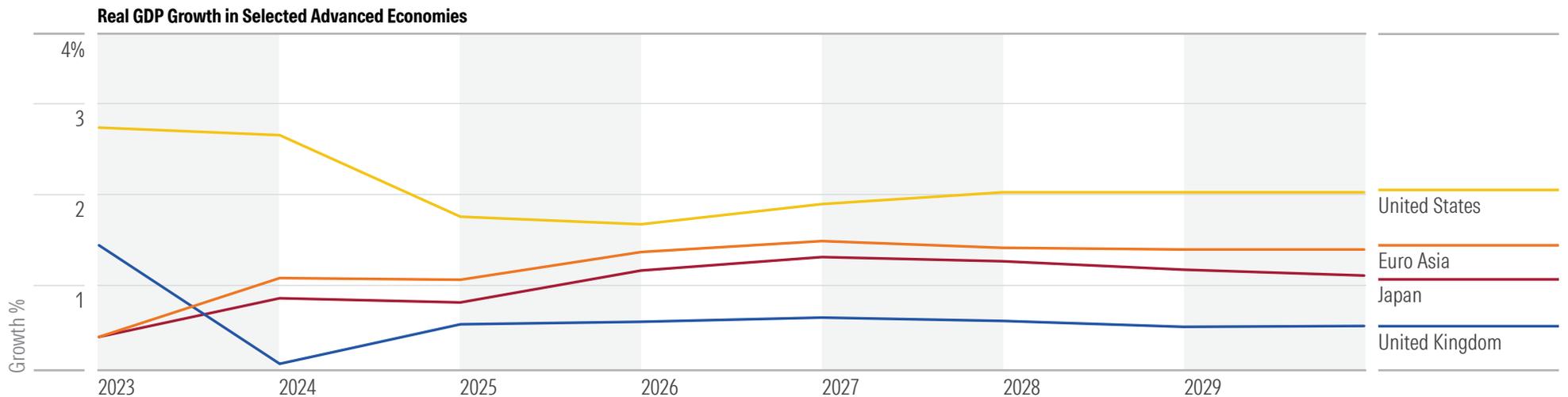
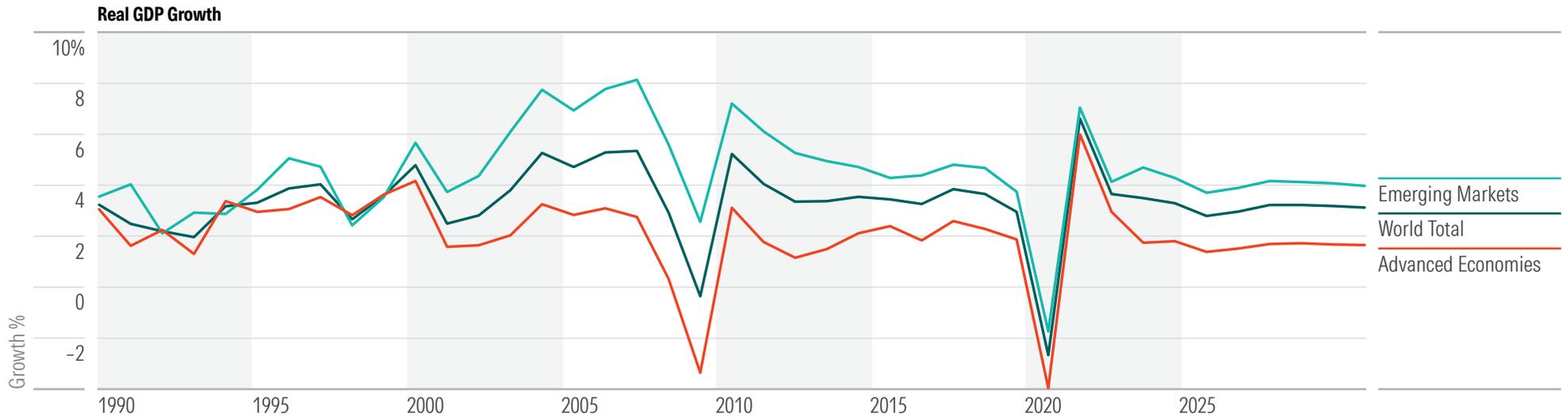


QEI235

38

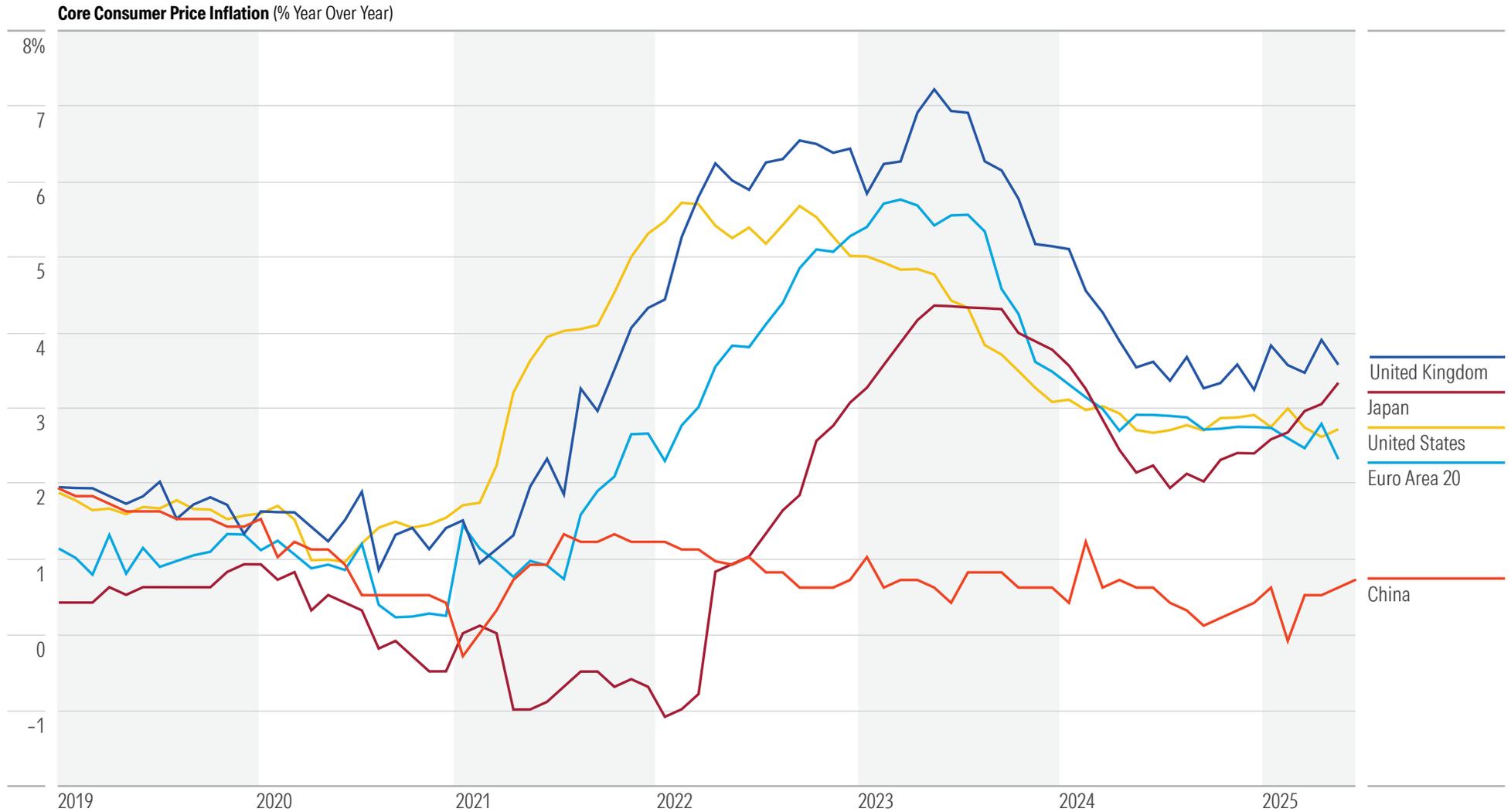
Global GDP Growth to Be Lower Than Prepandemic Decade

The International Monetary Fund expects global real GDP growth to tick down from 3.3% in 2024 to 2.8% in 2025 and 3.0% in 2026. The 2025 forecast incorporates a tariff impact of negative 0.5 percentage points. For now, the bulk of the trade war impact is expected to be confined to the US and China. Although the US has outperformed other advanced economies in recent years, we expect the tariff impact will erode much of that advantage in the years to come.



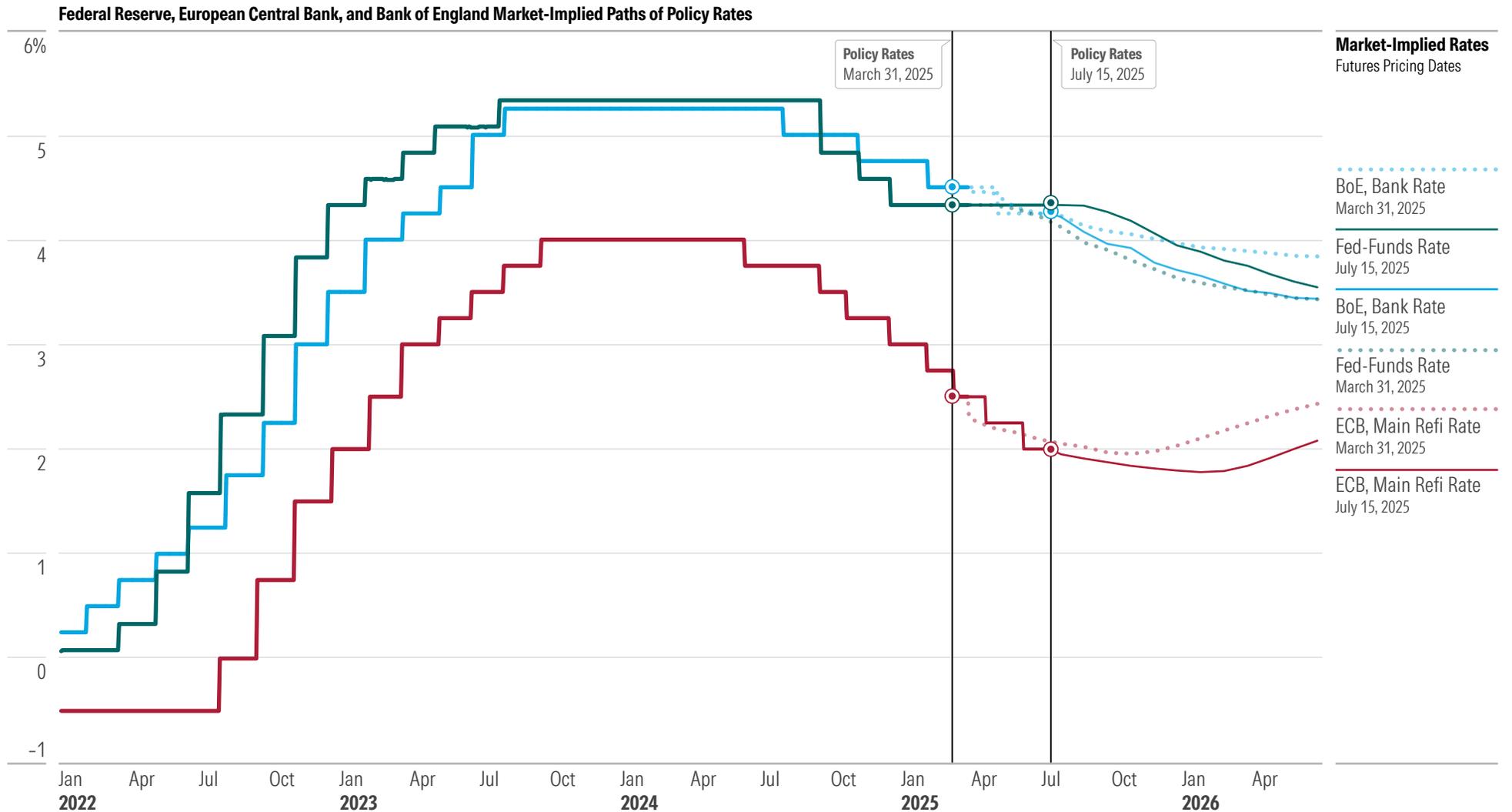
Inflation Progress Was Already Stalling a Bit Before Tariffs

Progress in bringing inflation down has stalled a bit for major economies. For the US, housing inflation has been falling over the past year, while other categories have seen renewed acceleration. We previously expected a gradual economic slowdown to help bring US inflation back down to 2% by the end of 2025. However, massive tariff hikes will likely delay a return to 2% inflation for several years.



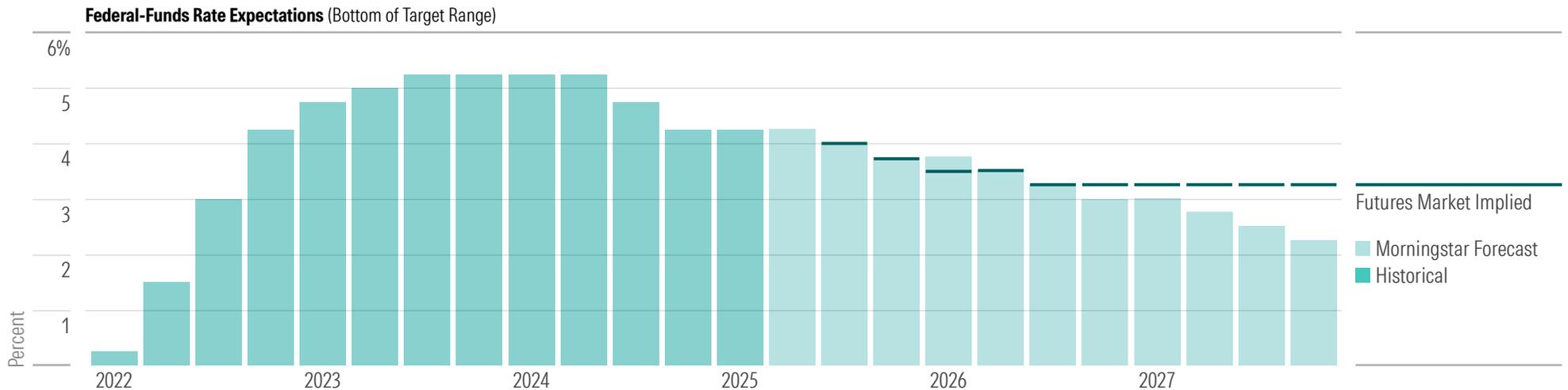
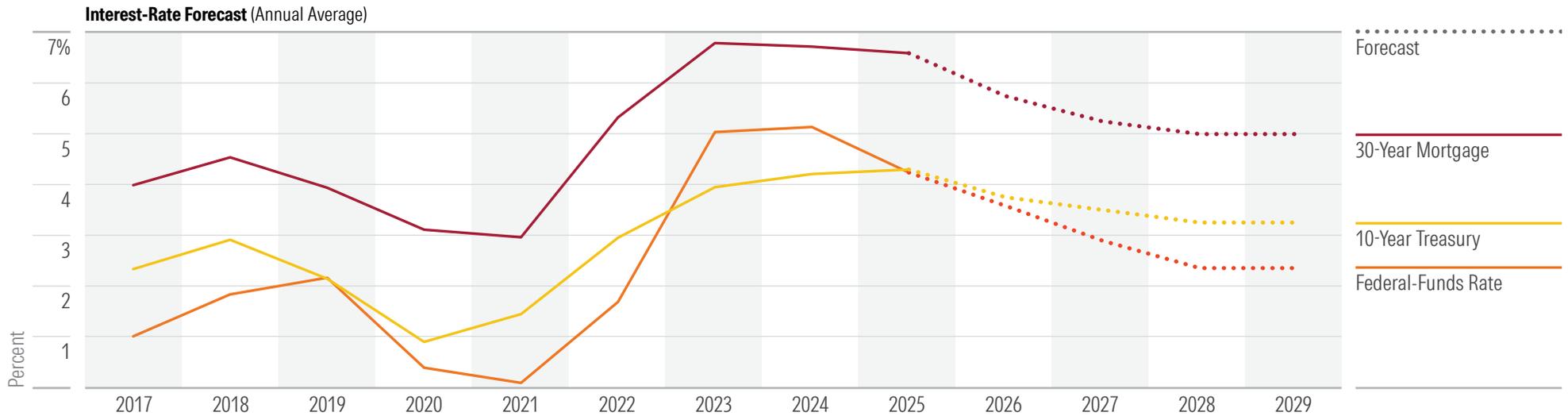
Rate-Cut Expectations Have Risen

Market expectations for rate cuts by major central banks have been fairly stable in recent months. The range of outcomes for US monetary policy is wide. While tariffs are likely to boost inflation, they've also boosted downside risk to economic activity, so on net, expectations for the path of the federal-funds rate haven't changed much versus pre-April 2025 expectations.



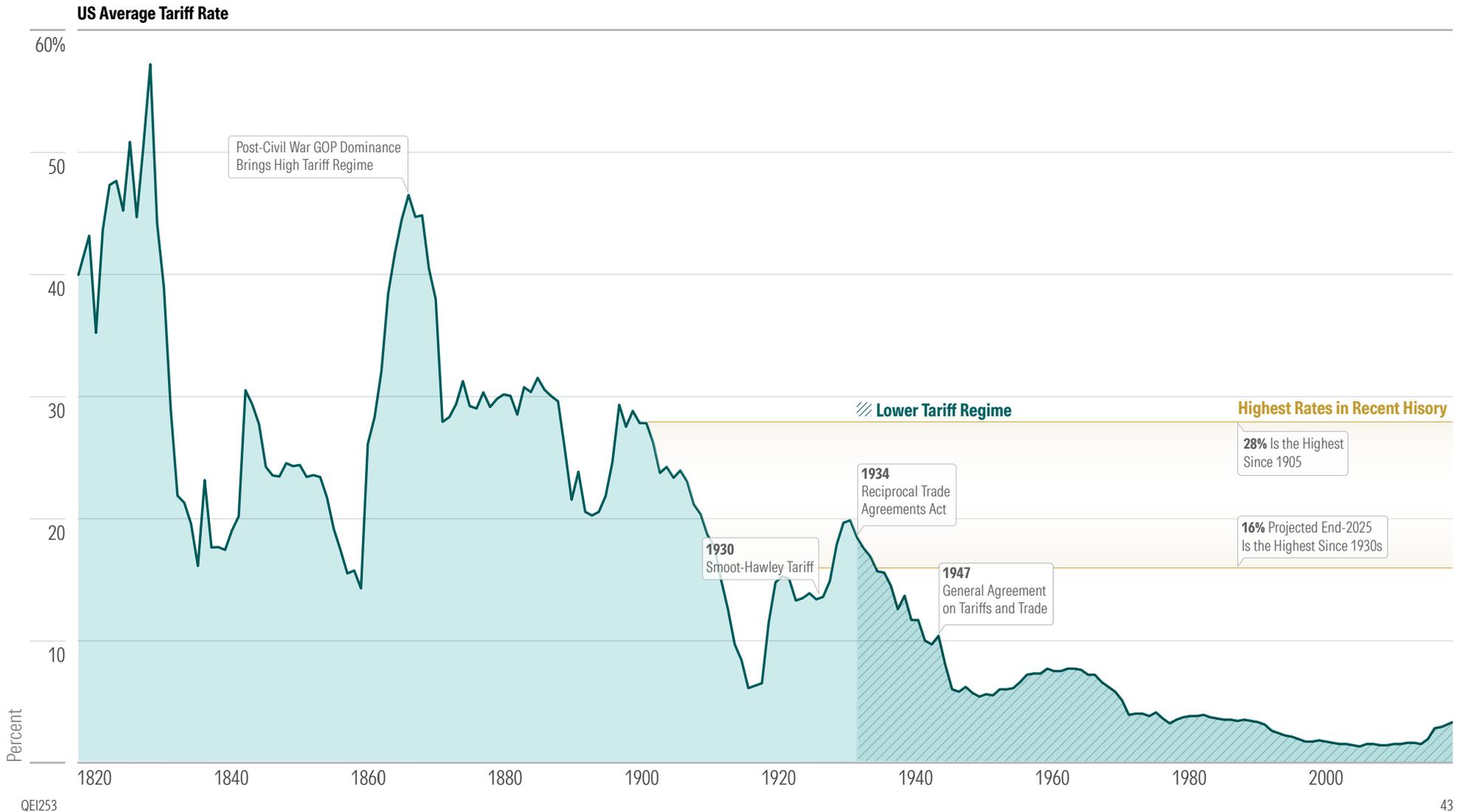
Lower Interest Rates Likely Needed to Combat Recession Risk

Our projections for the federal-funds rate are roughly in line with market expectations over the next two years. The Federal Reserve will likely need to cut rates to avoid a recession. That said, the pace of cutting will need to be measured given many uncertainties, particularly around entrenched inflation. We expect the 10-year Treasury yield to drop to 3.25% by 2028, based on our neutral rate of interest outlook.



Trump Tariffs End the Free Trade Era

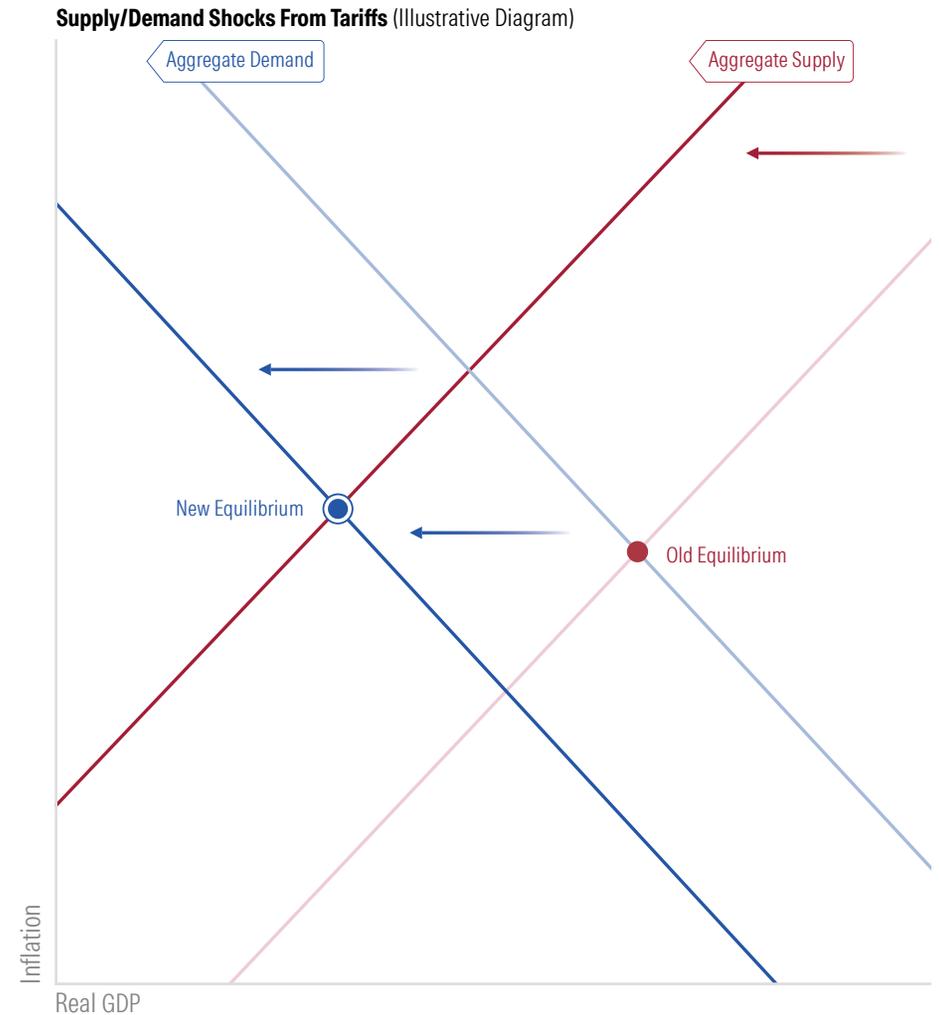
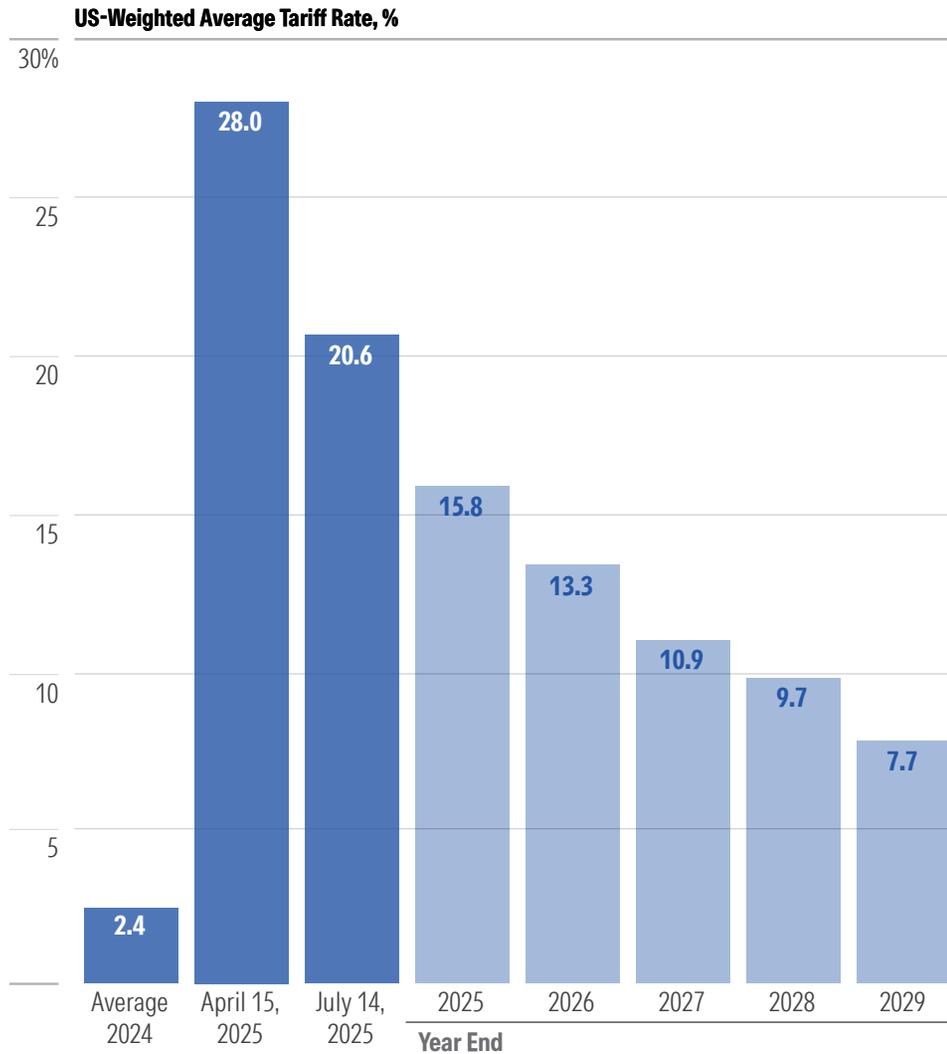
Low tariff rates have been the standard for the US and most other major economies since the end of World War II. The average US tariff rate surged up to 28% in mid-April 2025, the highest since the early 1900s, though it's since come back down a bit to 20.6% as of July 15. However, the US and global economy are vastly more interconnected than in that bygone era. US imports as a share of GDP averaged 3.7% in the 1930s, compared with 14% in 2024.



Source: US Census Bureau, Morningstar. ©2025 Morningstar. All Rights Reserved.

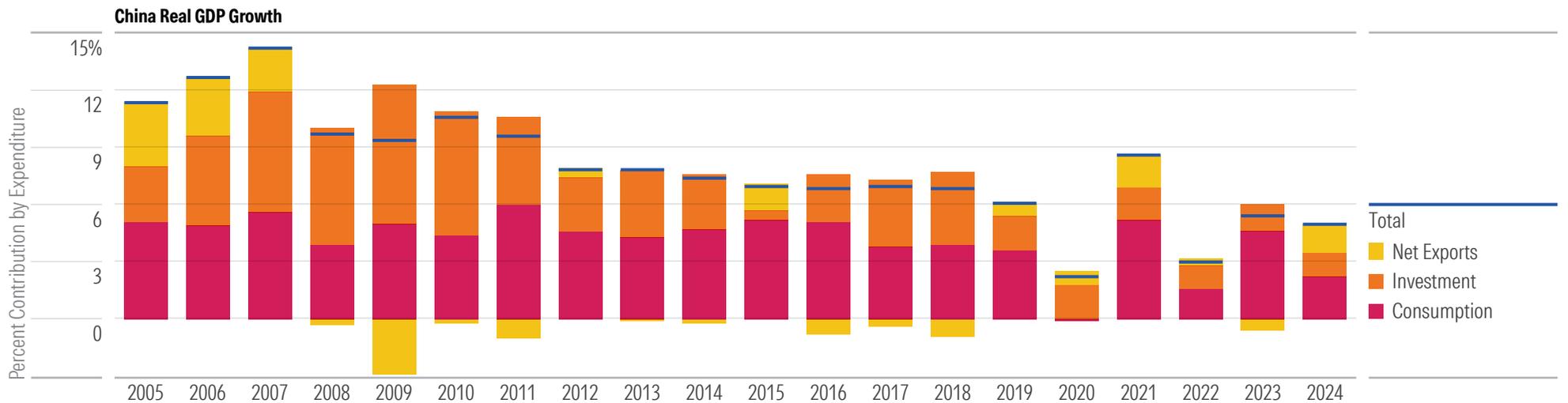
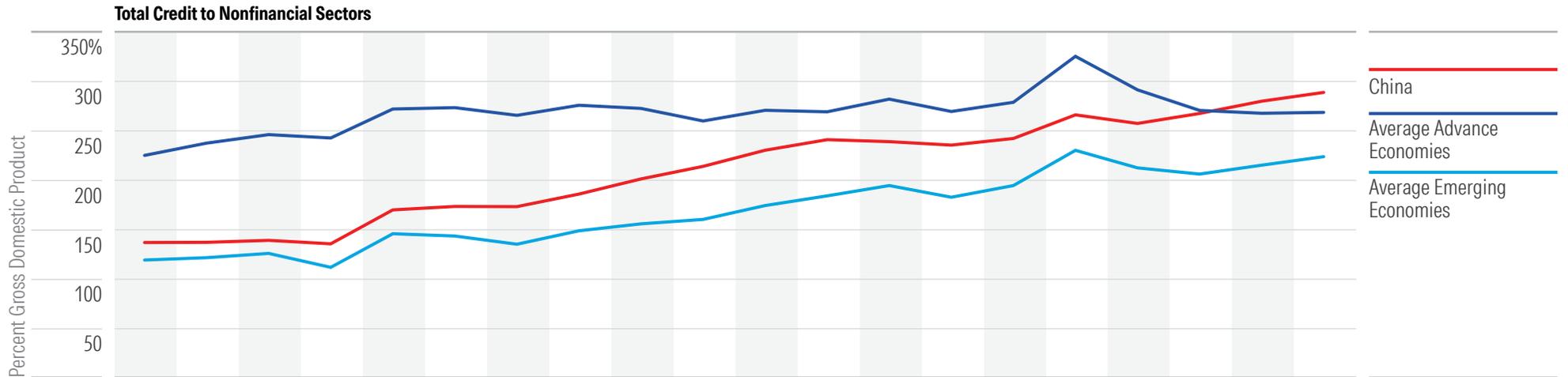
Tariffs Will Drag on US GDP and Push Up Inflation

As of mid-July 2025, the average US tariff rate stood at 20.6%, up 18 percentage points from 2024 (but down from 28% in mid-April). We expect the average tariff rate to still stand at a hefty 16% by the end of 2025. Some exemptions and diminution of tariffs are likely, but escalation is also possible. Tariffs will likely bring a cascade of supply/demand shocks that will weigh on real GDP. If the magnitude of the supply shocks outweighs the demand shocks, then the tariffs will be inflationary, as we expect.



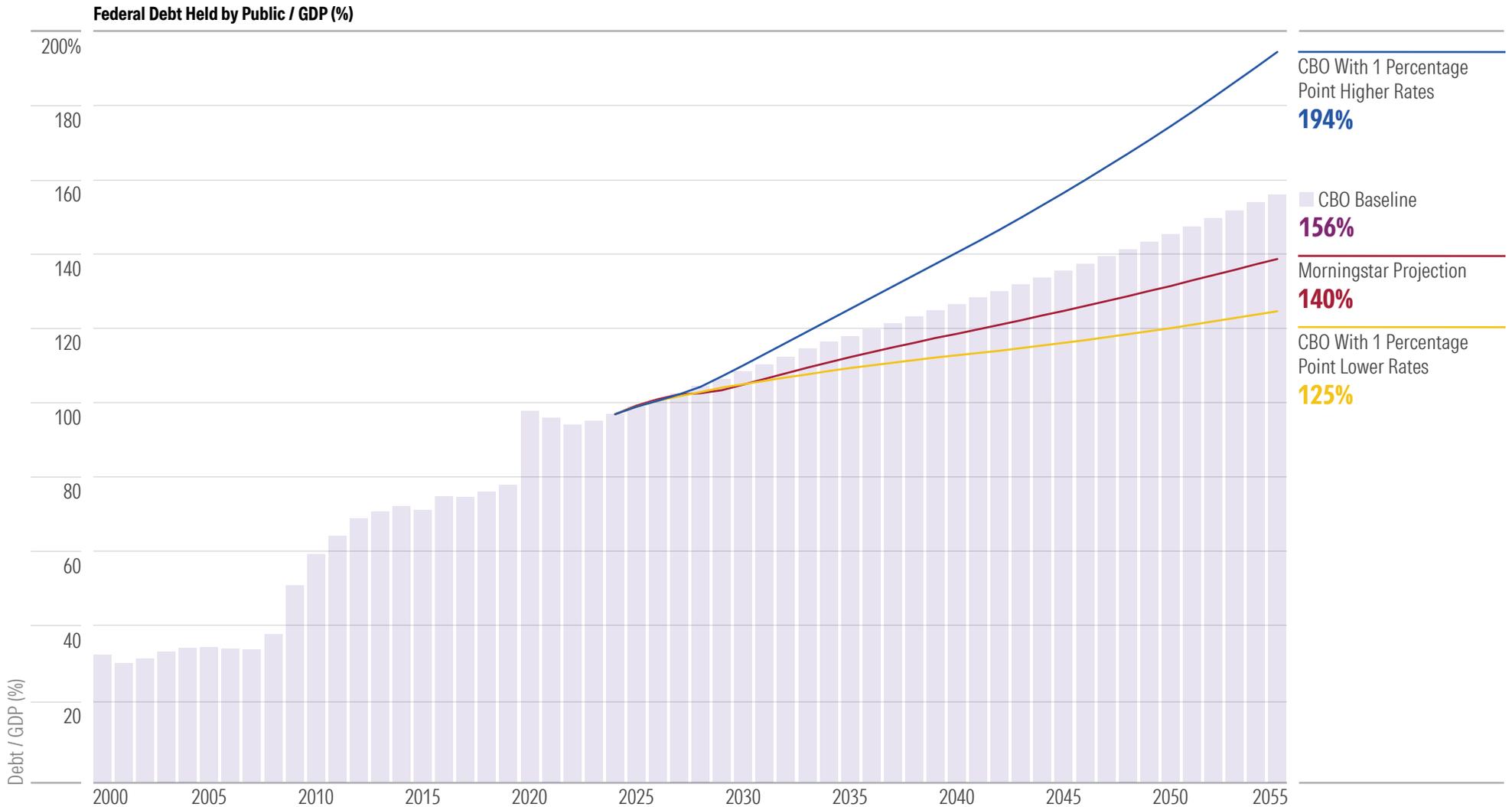
China Faces Export Headwinds and High Debt

Exports have been a significant tailwind for China's GDP growth, but US tariffs are likely to reverse this trend. China cannot afford to pump the economy with another investment boom. Two decades of massive investment spending have ballooned China's debt load, which now stands well in excess of emerging-market peers.



Federal Debt/GDP On Concerning Upward Trajectory

The Congressional Budget Office projects federal debt/GDP to hit 156% in 2055, based on current law. Even in Morningstar's projections using slightly lower interest rates than the CBO, the debt hits 140% in 2055. Significant policy shifts to cut the deficit will be needed to prevent an upward climb in leverage. And if interest rates go higher than expected, the rise in debt would be alarming, hitting 194% in 2055.



QE1260

Source: Congressional Budget Office, Morningstar. ©2025 Morningstar. All Rights Reserved.

Index and Disclosure



Index Definitions

The **Morningstar Style Index** family consists of 16 indexes that track the US equity market by capitalization and investment style to create an integrated system.

The indexes were built using a comprehensive and nonoverlapping approach based on the methodology of Morningstar Style Box.

The **Morningstar Sector Index** family consists of 14 indexes—three Super Sector and 11 Sector indexes that track the US equity market using a consumption-based analysis of economic sectors in a comprehensive, nonoverlapping structure. The sector indexes are consumer defensive, healthcare, utilities, basic materials, consumer cyclical, financial services, real estate, communications services, energy, industrials, and technology.

The **Morningstar Global Equity indexes** offer a consistent view of global investment opportunities by applying the same rules for every market around the world. Covering 97% of stocks by market capitalization, the indexes encompass 45 countries in both developed and emerging markets. The index family is designed to work as an integrated system, allowing for meaningful global views across market capitalization and regions.

The **Morningstar Target Risk Index** family is designed to meet the needs of investors who would like to maintain a target level of equity exposure. The index family provides global equity market risk levels that are scaled to fit five equity market risk profiles: aggressive, moderately aggressive, moderate, moderately conservative, and conservative.

The **S&P 500 index** includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **MSCI EAFE Index** captures the returns of large- and mid-cap equities across developed markets in Europe, Australasia, and the Far East, excluding the US and Canada.

The **MSCI Emerging Markets Index** captures the returns of large- and mid-cap equities across 23 emerging-markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **Bloomberg Commodity Index** represents 20 commodities, which are weighted for economic significance and market liquidity.

The **Bloomberg US Aggregate Bond Index** is a broad-based benchmark that measures the investment grade, US-dollar-denominated, fixed-rate taxable-bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency).

The **Bloomberg US 5-10 Year Corporate Bond Index** measures the investment return of US-dollar-denominated, investment-grade, fixed rate, taxable securities issued by industrial, utilities, and financial companies with maturities between five and 10 years.

The **BofA Merrill Lynch US High Yield Master II Index** tracks the performance of US-dollar-denominated below-investment-grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P, and Fitch).

The **Bloomberg Municipal Bond Index** measures the broad market for investment-grade, tax-exempt bonds with a maturity of at least one year.

The **JP Morgan EMBI Global Diversified Index** tracks the performance of dollar-denominated sovereign bonds issued by a selection of emerging-market countries.

The index limits the weights of countries with larger debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding.

The **London Fix Gold PM Index** is the price of gold per ounce at 15:00 GMT determined by the five members of the London Gold Pool.

The **Bloomberg Livestock Index** reflects the returns of an unleveraged investment in futures contracts on livestock commodities. The index consists of two commodity futures (lean hogs and live cattle).

The **Bloomberg Grains Index** reflects the returns of an unlevered investment in futures contracts on grains commodities. The index consists of three commodity futures (corn, soybeans, and wheat).

The **Bloomberg Precious Metals Index** reflects the returns of an unleveraged investment in futures contracts on precious-metals commodities. The index consists of two commodity futures (gold and silver).

The **Bloomberg Industrial Metals Index** reflects the returns of an unleveraged investment in futures contracts on industrial metals commodities. The index consists of four commodity futures (copper, aluminum, zinc, and nickel).

The **Bloomberg Energy Index** reflects the returns of an unleveraged investment in futures contracts on energy commodities. The index consists of five commodity futures (natural gas, WTI crude oil, Brent crude oil, unleaded gasoline, and heating oil).

The **Morningstar Long-Only Commodity Index** is a fully collateralized commodity futures index that is long all 20 eligible commodities and uses a dollar-weighted open interest weighting scheme.

The **Brent Crude Oil Index** tracks the spot price of Brent crude oil.

The **Morningstar US Market Index** covers the top 97% market capitalization of the US equity markets.

The **Morningstar Developed Ex US Index** captures the performance of the stocks located in the developed countries across the world. Stocks in the index are weighted by their float capital, which removes corporate cross ownership, government holdings, and other locked-in shares.

The **Morningstar Emerging Markets Index** captures the performance of the stocks located in the emerging countries across the world. Stocks in the index are weighted by their float capital, which removes corporate cross ownership, government holdings, and other locked-in shares.

The **Morningstar Core Bond Index** is a broad investment-grade index that includes the largest, most important sectors of the investment-grade US bond market. The index is composed of the Morningstar US Government Bond, US Corporate Bond, and US Mortgage Bond indexes.

The **Morningstar Intermediate US Government Bond Index** includes US Treasury and US government agency bonds with maturities between four and seven years. The Morningstar Intermediate Corporate Bond Index includes US corporate bonds with maturities of between four and seven years.

The **Morningstar US Corporate Bond Index** includes US corporate bonds with maturities of more than one year and at least USD 500 million outstanding.

The **Morningstar Short-Term Core Bond Index** includes all bonds in the Morningstar Core Bond Index that have maturities between one and four years.

The **Morningstar Emerging Markets Composite Bond Index** includes the most liquid sovereign and corporate bonds issued in US dollars by the governments and corporations of the most prominent emerging markets.

The **Morningstar US Mortgage Bond Index** tracks approximately 98% of the fixed-rate mortgages issued by Ginnie Mae, Fannie Mae, and Freddie Mac.

The **Morningstar Long-Term US Government Bond Index** includes US Treasury and US government agency bonds with maturities of seven years or longer.

The **Morningstar Long-Term Corporate Bond Index** includes US corporate bonds with maturities of seven years or longer.

The **Bloomberg US Corporate High Yield Index** represents the universe of fixed-rate, non-investment-grade debt.

The **Bloomberg US Corporate High Yield ex-Energy Index** represents the universe of fixed-rate, non-investment-grade debt not in the energy sector.

The **Bloomberg US Treasury 7-10 Year Bond Index** measures the performance of US Treasury securities that have a remaining maturity of at least seven years and less than 10 years.

The **Bloomberg US Treasury 20+ Year Bond Index** represents the performance of US Treasury securities that have a remaining maturity of greater than 20 years.

The **Bloomberg Emerging Markets Local Currency Broad Bond Index** represents the performance of the sovereign, local-currency bond markets of emerging-market countries. The Barclays Municipal Bond Index is representative of the broad market for investment-grade, tax-exempt bonds with a maturity of at least one year.

The **Citigroup WGBI Non-USD 5+ Year Bond Index** measures the performance of fixed-rate, local-currency, investment-grade sovereign bonds. It comprises debt from over 20 countries.

The **S&P/LSTA Leveraged Loan Index** tracks the universe of syndicated leveraged loans.

The **MSCI China A Local Currency Index** captures large- and mid-cap equities listed on the Shanghai and Shenzhen exchanges.

Disclosures

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. The information, data, analyses, and opinions presented herein do not constitute investment advice, are provided solely for informational purposes, and therefore are not an offer to buy or sell a security or invest in a specific asset class or strategy. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs. Diversification does not eliminate the risk of experiencing investment losses. Holding a portfolio of securities for the long term does not ensure a profitable outcome, and investing in securities always involves risk of loss.

Risk and return are measured by standard deviation and compound annual return, respectively. Standard deviation measures the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns.

Stocks are not guaranteed and have been more volatile than the other asset classes.

Small-company stocks are more volatile than large-company stocks and are subject to significant price fluctuations, business risks, and are thinly traded.

Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Bonds in a portfolio are typically intended to provide income and/or diversification. US

government bonds may be exempt from state taxes and income is taxed as ordinary income in the year received. With government bonds, the investor is a creditor of the government.

With **corporate bonds**, an investor is a creditor of the corporation and the bond is subject to default risk. Corporate bonds are not guaranteed.

High-yield corporate bonds exhibit significantly more risk of default than investment grade corporate bonds.

Only insured **municipal bonds** are guaranteed as to the timely payment of principal and interest by issuer. However, insurance does not eliminate market risk. A municipal-bond investor is a creditor of the issuing municipality and the bond is subject to default risk. Municipal bonds may be subject to the alternative minimum tax and state and local taxes, and federal taxes would apply to any capital gains distributions.

International bonds are not guaranteed. With international bonds, the investor is a creditor of a foreign government or corporation. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards.

International stocks involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards. Liquidity is typically lower in emerging markets than in developed markets. The risk of principal and return may be significantly greater than that of other developed international markets.

Sector investments are narrowly focused investments that typically exhibit higher volatility than the market in general. Sector investments will fluctuate with current market conditions and may be worth more or less than the original cost upon liquidation.

Growth and value stocks: Although value stocks have outperformed growth stocks, please keep in mind that each type of stock carries unique risks, which include, but are not limited to, economic risk, market risk, company risk, and strategy risk.

Gold/commodities investments will be subject to the risks of investing in physical commodities, including regulatory, economic and political developments, weather events, natural disasters, and market disruptions. Exposure to the commodities markets may subject the investment to greater volatility than investments in more traditional securities, such as stocks and bonds.

Holders of **preferred stock** are usually guaranteed a dividend payment, and their dividends are always paid out before dividends on common stock. In event that the company fails, there's a priority list for a company's obligations, and obligations to preferred stockholders must be met before those to common stockholders. On the other hand, preferred stockholders are lower on the list of investors to be reimbursed than bondholders are.

Mutual funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges, and expenses. Investors should read the prospectus and consider this information carefully before investing or sending money.

Holding **exchange-traded funds** does not ensure profitable outcomes, and investing involves risk, including the loss of the entire principal. Since each ETF is different, investors should read the prospectus and consider this information carefully before investing. The prospectus can be obtained from your financial professional or the ETF provider and contains complete information, including investment objectives, risks, charges, and expenses. ETF risks include, but are not limited to, market risk, market trading risk, liquidity risk, imperfect benchmark correlation, leverage, and any other risk associated with underlying securities. There is no guarantee that any fund will achieve its investment objective. In addition to ETF expenses, brokerage costs apply. Fees are charged regardless of profitability and may result in depletion of assets.

Credit/default risk: Debt securities are subject to credit/default risk, which is the risk associated with the issuer failing to meet its contractual obligations either through a default or credit downgrade.

Interest-rate risk: Debt securities have varying levels of sensitivity to changes in interest rates. In general, the price of a debt security tends to fall when interest rates rise and rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest rate changes.

This publication contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

Morningstar Investment Services makes the Markets Observer pieces available as a third-party reprint from Morningstar, Inc. Morningstar, Inc. is not an investment advisor or a broker/dealer. Please consult with your firm's compliance department before using with clients.