

Webinar - The Road to 2027

Lisa Roberts: Good afternoon. Thank you for joining us today. So with the midterm elections approaching, there's certainly no shortage of political coverage. But, uh, today we wanted to take a little bit different approach. So rather than focus on politics themselves, we're going to look at the issues through the investment lens, and what could the election outcome mean for policy, where could we see meaningful change, and most importantly, what it could mean for the economy, the markets, and investors as we head towards 2027.

So joining me today are Chief Investment Strategist Meghan Shue, who will bring the investment and the portfolio perspectives to our discussion. We have Chief Economist Luke Tilley, who will help us examine the economic environment, interest rates, and the forces shaping the markets. And we also have with us today M&T Government Relations Director Lauren Tennes, who will help us understand the election and the policy landscape in Washington.

And we have so much to cover, so we're just going to jump right in. And Meghan, I'll start with you. And before we turn to the midterms and what they could mean for the markets going forward, I wanted to start with where investors are today. So give us a quick look back at how the markets have performed so far in 2026, and what's been driving them.

Meghan Shue: Thanks, Lisa, and thanks everybody for joining. Yeah, it's been an interesting year in the markets. A lot of forces coming at investors, but it's been a relatively solid year for the equity market. You can see here in the teal bars the year-to-date returns across major asset classes, and then the orange dots are the last three months.

S&P 500 has delivered about 14% return year to date. But there's been a few themes that have been punctuating the markets, the first being oil. As you can see with the leftmost bar, oil is up almost 90% year to date.

It's up almost 40% since the, if you recall, the memorandum of understanding back in June where we had a little bit of a hiatus in the conflict between the US and Iran. And that oil move has really dominated markets. It's contributed to strong returns for value indices, where energy plays more of a role.

And you can see that with about 24% return for the Russell 1000 value. The other themes that have dominated the markets have been rates. So higher rates, higher Fed expectations have weighed on small cap as well as bonds. And those higher rate expectations have also led to some strength in the US dollar.

If you recall, 2025 was a year of depreciation for the US dollar, almost 7.5% weaker last year. It's up about 4% this year. And while on the market's overall level, so the headline index level, looks decent for US large cap, under the surface there have been some rotations. So if we go to the next slide, this shows by quarter sector leadership.

And I'll just draw—there's a lot of different colors here, but I'll draw your attention to the right three most columns, and the black boxes are for tech and communication services. And you can see them bouncing around, and to me that really illustrates the rolling waves of pessimism and then optimism around the AI trade.

In the first quarter, a lot of concern around spending from the hyperscalers, those big companies that are building out the cloud and data center infrastructure. But then the second quarter was all about shortages of memory chips, and those stocks did very well, helping a very strong return for the tech sector.

And this last quarter has been a little bit more mixed. The last couple weeks, we've seen a return to concerns around spending and h- are we overspending and overbuilding for the amount of demand that we are likely to see in the future? And I think we'll talk a little bit more about that. But I just want to use this opportunity to remind everyone that volatility is normal in the market.

So looking at this slide here, we show the calendar year returns for every year going back to the '80s. And what you'll notice is that most of the bars are positive, but there are, in every single year has been some sort of drawdown for

the market. And we've already seen a 9% drawdown from the S&P 500 this year, despite solid headline returns.

I don't know if that's the end of it for this year. The fourth quarter does tend to be pretty strong from a seasonal perspective. We do tend to see good returns in the fourth quarter of the calendar year. But we would not be terribly surprised to see some sort of 10 to 15% market correction because the average across all of these years is about a drawdown of about 14%.

So that's just kind of par for the course and what we would expect, uh, going forward. The last comment I'll make in terms of what's really defined this year has been the move in interest rates, and I know we'll talk more about the drivers and, and where that's going. But here you can see across developed markets, um, and the US is in light blue here, a pretty notable increase in government bond yields.

France is in focus, of late, and there's no easy near-term solution in place there. But with the exception of France, we have seen rates kind of coming off oil, and we have a pretty constructive outlook going forward that should lead to, not another leg higher on interest rates. So Lisa, I'll pause there, but it's been a pretty, you know, all things considered, with all the forces coming at investors, a pretty decent year so far for markets.

Lisa Roberts: It sounds like it. And I was going to say, so, you know, despite a lot of challenging dynamics and volatility under the surface of the market, the equity market has proven quite resilient heading into the final months of the year. So Luke, I'm going to bring it to you, and let's now layer in the economic picture.

What's, what's the broader economic backdrop supporting or, or challenging the markets right now?

Luke Tilley: Yeah, Lisa, it's actually pretty similar to the equity market. It's, like, getting along okay. And, uh, here we're showing a gross domestic product, so the overall economic growth in the US over time and then, uh, showing this year as well.

So 2026 is showing as forecast. That's because we have the first two quarters of data for this year, but not the next two quarters. The third quarter data we'll actually get tomorrow morning at 8:30, and we expect sort of this continued story where consumers are still spending and there's a lot of, uh, CapEx going

on, but it is still a slowdown, and we expect a little bit more of a slowdown going forward.

We're always projecting 12 months forward. You can see that last annotation on the right slowing to 1.7% year over year over the next 12 months. And the way that we've been characterizing this as the economy is, strong enough to avoid recession. You know, we have a fairly low probability of recession risk, 'cause we do see that consumer spending and, uh, CapEx, so the economy's strong enough to avoid recession, but not strong enough to push inflation higher.

And of course, this is a little bit of a, uh, a point of disagreement. You know, a lot of different opinions and forecasts. But what we see is consumers that are challenged by the higher energy prices at the pump, and we see them pulling back on other types of spending. But it's strong enough to keep, uh, keep GDP numbers where they are.

And then we also have a lot of CapEx, coming especially because of the build-out of artificial intelligence and the data centers. So those are strong CapEx numbers, but some of that ends up getting subtracted, if you will, out of GDP because a lot of it is not produced within the country. So there's this voracious appetite for building the data centers, but a lot of the main components are imported, and the simple math of GDP is, is to subtract the things that are imported, right?

Because it's gross domestic product. Um, so at any rate, the, the economy is holding up well, and as I said, we're not expecting recession, but one of the key parts is expecting lower inflation. We'll talk about that in a little bit. The labor market, as we show on the next slide, uh, looks tight, and, uh, when we say tight, we mean a low unemployment rate.

The dark blue line is the, uh, traditional unemployment rate that people refer to. It's officially called U-three. There's actually six different measures of unemployment, depending on if people are looking or not. That gray line is one of the higher level measures. This includes people who have gotten so frustrated that they've stopped looking.

But both of these are signaling the same thing, and it's that the labor market is doing well enough that we don't have a high unemployment rate. Now, some of this is because of the low labor force growth, uh, but at any rate, there's not we don't have rising joblessness, and this makes us, you know, this pairs with our expectation for GDP that we'll continue to get, uh, consumer spending and the CapEx.

And the last thing that I'll say about sort of the overall economy is we know that there have been challenges with a lot of prices, and this is what consumers are facing as we head into these, uh, midterm elections. So this is a broad look at some of the, um, price increases that we've had, uh, from before COVID until now.

Please note the, you know, the title is December 2019 to September 2026 the last time that we have data. And the two blue bars are different measures of, income or wages that people have at their disposal. But clearly, there have been some things that have moved up in price more than wages.

The largest, of course, being a mortgage, uh, payment. This is the calculation that comes from the National Association of Realtors, like a medium-based home, putting down 20%, and then, at the prevailing interest rate, what would the payments be. And, because of the movement in interest rates, that's one of the key things that has moved higher.

And then, of course, gasoline up 62% over this period, and a lot of that has been, uh, this year, of course. So consumers, as I said, are, are facing these things, but these are some of the, the key issues that people are thinking about as they make their decisions about spending and also about, uh, voting in the elections, Lisa.

Lisa Roberts: This is just a perfect chart, Luke, so, so thanks for sharing it. And, uh, now we've got the market and the economic backdrop, and let's add in the election to the picture. So, so Lauren, what outcomes appear most likely in the midterms today, and what should investors really, really be paying attention to?

Lauren Tennes: Thanks, Lisa. Most of us already have a go-to source for election coverage, so I'll just hit those highlights. A Democratic takeover is the working assumption. Low presidential approval ratings and the history of what always happens during midterm elections all point in that direction. Recall that there's been considerable redistricting over the last couple of years, and through that, Republicans have probably secured 10 seats that otherwise may have been at play.

Nevertheless, Democrats only need a net gain of three seats for a Democratic House majority, and I personally appreciate the forecasting methods that are used by the Cook Report, so I tend to refer to them. As of this weekend, Cook was projecting a Democratic lead, a gain of 12 to 22 seats. Before we, started,

we received a question about the Hudson Valley New York races, and that's a very interesting race to watch.

The race between Mike Lawler, who is a moderate Republican who's held a district that Trump also lost in 2024, and Army veteran Cait Conley is one of the most interesting, races. Very, very close, so it was an interesting question, and I think we'll all be watching that. The Senate is the closer call.

So with projections clustered right around the tipping point, and we can flip, yes, thank you, um, the tipping point for control of that chamber. To take the majority, Democrats need a net gain of four seats. Cook estimates a net gain of two to six seats, so it's, it's clearly a genuine toss-up. Republicans are defending a much broader map than they would like to.

States like North Carolina, Maine, Ohio are always expected parts of a potential Democratic path. But when Texas and Kansas are also part of that mix, it tells you something about the environment that we're in, and Republicans are having to defend seats that they would normally expect to hold. And of course, the money that has to go into defending those seats is money that can't be spent in other states that might have been a bit of a reach for them.

Democrats still need to hold their own vulnerable seats, including Michigan, New Hampshire, Minnesota, and win several Republican-held seats. In terms of how the election outcomes change Washington, which I think is the more interesting question, a Democratic House would mean investigations, subpoenas, greater pressure on the administration.

A Democratic Senate brings those same changes, but with greater consequences, especially if Democrats are also, uh, holding the House. The president, meanwhile, keeps- A lot of room to act on his own. And I always caution about overstating the impact of midterm congressional change because the president still has executive orders, the regulators, uh, trade policy, at least within the authorities that the courts have left for him.

There's foreign policy and the ability he has to make direct deals with companies. For businesses, that means policy keeps moving, but more of it comes through actions that are faster to put in place, but then easier to reverse later. So in terms of the president's cabinet and regulator, there's still continuity.

The administration has already made its key appointments. That gives regulatory policy real continuity regardless of what happens next week. The

regulators are not going to succumb to congressional pressure. The risk for the administration is the surprise vacancy, a resignation, a death.

With a Democratic Senate, confirming a replacement becomes very difficult, and that restricts the president's ability to move the deck chairs. If Republicans maintain their Senate majority, they would keep the administration's personnel pipeline going. Ultimately, I'd say the election is unlikely to produce any major new legislative agenda.

The 2025 tax law is unlikely to change before twenty twenty-nine. The 2028 election is when tax policy really comes back into play. The wild card here is the President. If Republicans maintain majorities in either or both of the chambers, um, he, he's, he's strengthened. If they lose seats, he will fight back.

His populist instincts could find common ground with Democrats on some issues. Most bills still, of course, require sixty Senate votes, and it's hard to build that consensus. And if there's a Democratic win, I'd expect more Republicans would probably break from the administration too.

Lisa Roberts: Ooh, that's super helpful.

So looks like the House is a shoo-in, and really it's the Senate that we'll be watching closely and see which way it lands.

All right. So, so with that, Meghan, Lauren just laid out what could potentially change in Washington.

So tell us from an investor's perspective, um, how much does the election outcome really in itself matter? And historically, what tends to happen once the election uncertainty is behind us?

Meghan Shue: Yeah. Um, and, and we can go to the next slide. It really depends on the context, and I think Lauren said it well, particularly around a divided government, which with a Republican president, even in a Democratic sweep at the midterms, you're still dealing with, uh, divided government and the reduced likelihood of moving material policy through Washington.

That actually can be a good thing for markets because it means less uncertainty, less policy change. You know, I'm not going to show different configurations of Congress and how the market has performed during those times because the overall economic context matters a lot more. I will say that typically in a either

midterm or presidential election year, you see a little bit additional volatility in the lead up to the election.

You can see that here with the blue line, which is the, um, the average S&P 500 performance leading into an election, and then election is the zero indexed to one. After the election, more often than not, we see the market sort of breathe a sigh of relief. You've removed another source of uncertainty, and the market moves higher into the end of the year.

Much like what Lauren was saying around the policies that might be on the table, I continue to think the issues most pivotal to the market are ones that are not really in the purview of Congress today. Uh, the Fed and, and what they do with policy rates driving overall interest rates, the status of geopolitics, particularly as it relates to the US-Iran war and Russia-Ukraine, and the impact that could have on energy prices, and then the continued appetite and status for the AI build-out.

That is one area, and I think we're going to dig into it a little bit more, where we would be watching for any additional regulatory roadblocks that slow the, um, the build-out of, of the data centers and other things that could put a little bit of a dampener on the AI trade, and that could weigh on overall equities.

But I think for the most part, we're expecting this to be not as much of a consequential market-related event as some other issues we're watching.

Lisa Roberts: That's good to hear. Um, I appreciate that. So, so Luke, as we, as we look towards the year end and the Fed remains one of the biggest variables for the markets, where, where does the Fed policy stand today, and what is the market currently expecting, and what developments, inflation or the labor market, could really cause that outlook to change?

Luke Tilley: Yeah, this is, uh, obviously one of the, uh, the key risks, and it could be an upside or a downside risk, and we're going to get more information in about an hour and 40 minutes 'cause the, the Fed is meeting today, and then we'll get the press conference later today. Uh, but, uh, the, the broad view is that we have a, we have a very different, um, baseline projection than does the market.

So you asked where, what is the market expecting? And over the course of this year, the market, which is the, uh, teal dashed line that's, that's on top and a little bit shorter, has really moved towards expecting the need for the Fed to be

hiking multiple times, one more hike, uh, this year and then hikes next year as well.

Uh, we think that that's a, a little bit overcooked, uh, and that's actually even higher than what the, the most recent, um, projections from the Fed, which is that, that darker blue line in the middle. So the Fed released their most recent projections at their last meeting in the middle of September. They will not update those later today.

They only do it at every other meeting. But even at that time, the Fed was on the, the so-called hawkish end of the spectrum where they hiked, expected one more hike, and then, uh, keeping it flat all of next year and not cutting rates until, uh, 2028. We have a different view. We expect that the economy, as I, as I said earlier when I was framing the, the overall economic discussion, we don't think that the economy and consumers are strong enough to push inflation higher.

We have had some higher inflation readings, uh, but we don't see it as really coming from consumers, and that's what leads us to, uh, this downward trajectory. They could even-- the market is pricing that hike for December, not today, but, but at the next meeting in, in, uh, early to mid-December, uh, and that could even play out, uh, but I don't think that it would change our view of, uh, that, that it would be sort of unnecessary and we'd expect the Fed to end up cutting rates.

And the reason we show on the next slide is the inflation data. So inflation has been, um, higher than the Fed's target for quite some time now, and you can see just before that yellow shaded forecast area moving up, the blue line moving up, and that includes, uh, energy and the impacts of the, the war in Iran, while core inflation is just drifting up a little bit.

Now, if this was driven by strong consumer spending, um, then it is sort of like a hot economy and consumers are, are out there and, uh, buying so much stuff and buying more than the sort of the economy can provide, uh, so to speak, and that would be pushing inflation higher, uh, and that's the sort of the Fed's concern.

But when we look at the detailed data, we don't see it really being driven by consumers. Uh, so the next slide is, uh, showing all of the contributions for, uh, this measure of inflation, the Fed's preferred measure, PCE, the personal consumption expenditure index. And this is-- we've, we've broken it down. You can break it down to a lot of levels, but this is breaking everything down into

about forty-one, forty-two categories total, and this is showing the top twenty that have contributed to inflation.

Almost all inflation is on this, uh, table i-in front of you right now, even though it's 20 out of the, uh, the 41. This is, uh, representing 3.1% inflation, and a lot of it is coming from energy. So that those orange areas, and we know, we're pretty sure that that is going to roll over, uh, as, um, energy prices move down, or even if energy prices stay where they are today, uh, after a year, that becomes a, a 0% inflation.

We also have some of the main things that are driving, uh, inflation health, the two sort of teal labeled areas. These are not things that, that signify to us that consumers are out there spending. You know, I'm, I'm doing so well in my job that I want to go to the hospital. Uh, these are things that are just higher priced, and they push inflation higher.

And that's a normal thing, uh, but it's not indicative of, of consumer strength. The dark blue areas are really, really at, um, uh, one of the sources of the higher inflation numbers this year. That, uh, first one, recreational goods and vehicles. Uh, recreational goods includes, uh, softwares, PCs, uh, and that is the main reason that this has contributed so much more than its, uh, punching above its weight, contributing so much inflation.

And that's because the AI build-out has sort of crowded out the, the market for semiconductors for personal, uh, PCs, and driven them higher. That's a supply shock. That's not because people are out buying so many computers. And similarly for near the bottom there, the audio, video, photographic, that's all with semiconductors, too.

And then lastly, these, um, finance numbers are, are strong, and they are, uh, high, but it's not because, uh, consumers feel so good they want to go out and buy, uh, more insurance. So again, these are some one-off impacts that are driving most of the inflation, and these are the kind of things that, uh, the Fed in our mind as we go forward would rather look past, or these things will roll over and leads to our, our inflation forecast.

Uh, the other risk that we have is the labor market, and it's shown on the next slide. Now this has been really encouraging because-- and this is in year over year, and then broken out into, uh, some, um, categories. We've got very slow job growth right now. So this is year over year. That last, um, uh, data point is in the seven hundred thousands.

It boils down to about fifty-five to sixty thousand average per month, uh, with most of it coming from leisure and hospitality. So we have very, very concentrated growth in a category that, um, basically is always adding jobs, especially on the healthcare side, where, uh, some of the other sectors of the economy are not adding as much jobs.

Now, to be clear, as I said at the outset, this is not cutting jobs. We're not in a job loss situation, uh, but we are relying on very slow job growth to, to drive, uh, consumer spending. Uh, we expect that to continue, but it's one of the risks that we, that we cite, Lisa.

Lisa Roberts: Thank you for that, Luke. And I like the chart on the inflation numbers.

It's, it's really less than a handful of items really driving the inflation. And, uh, I always love the, the predictions here at the end of the year on, on interest rates, and, uh, we'll see if the, the market's right or, or if we're right. So looking forward to that. Um, Lauren, let's pivot a little bit and talk about digital assets.

So crypto regulation, it, it continues to get an incredible amount of attention in Washington, including efforts to establish clear rules around digital assets. So for someone who's not following this every day, what is Washington trying to address and, and why does it really matter?

Lauren Tennes: Washington is trying to establish who regulates digital assets, how trading platforms operate, and what protections apply when products are marketed as alternatives to cash or deposits.

What has happened so far is that stable coins now have a federal framework requiring licensing, supervision, and reserves. Federal regulators are currently finalizing those rules, implementing that framework, and several states are aligning their rules to that. What remains unresolved is the broader market structure for cryptocurrency.

The, um, CLARITY Act aims to do that, and it has stalled. Outstanding issues there include, uh, how to handle ethics, money laundering, and whether platforms can pay interest-like rewards on stable coin balances. So in the meantime, while legislation is stalled, the SEC and the CFTC are filling, uh, some of the gap on their own through guidance, through exemptions, and how they choose to enforce.

Uh, but agency action can be reversed by the next, uh, administration, which is why the industry still wants a law. The election outcomes matter here because Senate control will help decide whether Congress settles these questions or leaves them to the regulators for now. Uh, the CLARITY Act bill is technically still alive.

It fell short in September with no Democrats voting for it, largely over the ethics provisions. If Republicans hold the Senate, uh, expect a real push to try again during this lame duck session, and pro-crypto Democrats could come along if there is an ethics deal. If Democrats win the Senate, they don't really have any reason to wait until January when they'd set the agenda.

Uh, Senator Warren would likely be the chair of the Banking Committee. Either way, anything not passed by January 3rd, of course, starts over. The, the bottom line is that digital assets will be regulated. The question is who will write those rules, whether it'll be Congress or the regulators, and that impacts whether those rules will be durable or swing with the next administration.

Lisa Roberts: Thank you for that. So not, not who, just when. Um, or maybe who and when. Uh, Meghan, let's, let's bring that back to the market. Um, as the regulatory environment evolves, how do you think about digital assets from an investment perspective?

Meghan Shue: Yeah, I think as we get more regulation, as we get more structure around the industry, our view will probably also evolve.

Um, for now, it is still, uh, just from an investment perspective, still an asset that exhibits much higher volatility, I think, than, um, than traditional risk assets like equities. Here we're showing on the left, uh, just the past few years of price action for Bitcoin, and it has been a wild ride. We had quite a drawdown between 2025 and, uh, really just, just a couple, really a few weeks ago, where we've seen some recovery.

But the volatility of crypto is still... You know, this year it's been three times that of the S&P 500, and our work still shows that, uh, crypto, in this case Bitcoin, is more or less a levered bet on equities, and it is not something that is, uh, really, in our view, one of the most effective diversifiers. But I think as the industry evolves, as it gets more regulation, as it matures, we would expect that volatility to come down, and at that point, it might become a more effective, uh, portfolio diversifier.

For now, we don't, we don't hold it in client accounts

Lisa Roberts: I can see why, so thank you for that. So Lauren, what, what are you watching in Washington related to AI and the federal policy, regulatory direction, data centers, energy needs, and other areas of uncertainty?

Lauren Tennes: We're watching who pays for the power.

That's become the central political issue on AI. The build-out is moving ahead, and someone has to pay for the generation, the transmission, and grid upgrades it needs. That's either the developers or households and small businesses. The public is, uh, increasingly skeptical. Most say they don't want a data center in their own backyard.

Uh, but support actually rises significantly when developers are required to pay their own infrastructure costs and communities get enforceable protections. Both, uh, both political parties now say ordinary ratepayers should not subsidize the AI, uh, AI build-out. The House passed, uh, something called the Ratepayer Protection Act in September.

The act calls on Congress to voluntarily commit to cover, uh, grid costs. Uh, the bill passed with only three votes against it in September, which looked really strong, but it fell short in the Senate, where most Democrats called it toothless. Because the real disagreement isn't whether those protections should be voluntary, it's, you know, voluntary or required.

The administration has relied on a voluntary pledge from the major tech companies and a bill that directs states to consider cost protections. Most Senate Democrats want a binding requirement, and there is a binding requirement on the table. The bipartisan Senate, uh, permitting deal, which was negotiated by the Republican chairs of the energy and environment committees and their Democratic, uh, colleagues, would require large data centers to pay the full cost of the grid bill to serve them.

It's set up for a potential lame duck vote, and the administration may also be moving. Last week, uh, the president posted that large data centers should generate their own electricity and pay host, uh, communities, what he called a dividend. Right now, I'd say the politics punish whoever looks like the industry's champion in either party.

Democrats right now seem to have the sharper message, but Republicans are going to quickly be able to, uh, tighten their messaging around this. And in the meantime, the regulators in the states are moving first. Um, FERC has ordered

all six regional grid operators to justify, um, or reform how large users connect and who pays.

More than twenty states have approved special rates for large users. New York has gone further and paused state permits for the largest new data centers while it writes new standards. Texas has paused approvals while they, uh, carry out an audit. I think the voters are going to decide dozens of local ballot measures next week.

I, I think for investors, uh, the, the project location and the state regulatory treatment will matter much more than the federal headlines for now.

Lisa Roberts: Thank you for that, Lauren. I really appreciate, and I loved how you started with the word power, right? And just appreciate all that you're saying there. So Luke, let's widen the lens. So all of this investment in AI and data centers, infrastructure, and power, and power, back to the, the term Lauren used, it requires significant capital.

So what could this investment cycle mean for economic growth and productivity, and could it ultimately have implications for inflation and for interest rates?

Luke Tilley: Yeah. This is, um, one of the things that, uh- matters incredibly in the near term, and then also over the longer term. So first, in the near term, this is already an important part of CapEx, uh, both in the physical building sense, and then also the purchase of equipment.

And what we're showing here, and this is inflation-adjusted, uh, contributions to, uh, GDP and, um, contributions both on that, that building side and then on the equipment side, and it's indexed to zero at the launch of ChatGPT in late, uh, twenty twenty-two in that, in that fourth quarter. And since then, the cumulative increase in CapEx to build, uh, data centers there in the-- as shown in the top right, 384%.

It's absolutely astounding. It is still a relatively small part of the total pie of construction, but it is, uh, growing so quickly. Uh, and, and frankly, it's one of the only areas that is growing. The other types of commercial buildings, so this is, uh, this building does not include residential. This is all, uh, non-residential.

Uh, putting all of the other categories into other commercial there. So this includes, uh, commercial real estate storefronts, offices, uh, manufacturing facilities, anything like that is much weaker with just an 8 um, uh, 8% increase.

And actually, it had risen up until the middle of 2023 and 2024 and is now on the decline.

For instance, the manufacturing sector is down 35% in terms of the amount of construction being put in place, uh, since the middle of twenty twenty-four. There's just so much, uh, pinned on the, uh, the continued build-out of the data centers or a turnaround in some of those other areas.

So it's contributing to this, uh, economic, uh, the numbers that we're getting right now and then also likely to in the future. The teal and the orange lines are showing, okay, what kind of equipment are you going to invest in to put into those buildings, essentially. And the investment in computers there at 169% is obviously, uh, incredibly, uh, strong, and it's really surging because that includes, uh, semiconductor chips and all of the compute that's going into the data center.

So again, CapEx, uh, relying, uh, fairly significantly on the build-out of AI infrastructure. The last, uh, line there, the orange, the, the, uh, the other equipment, this is actually pretty strong, 25% over cumulative over that, that timeframe. Uh, is pretty significant, and that's, uh, historically pretty normal.

I would caution though it does include some of the AI impact because it includes electrical transmission equipment, the build-out of that power and the, uh, would, would fall into that, into that orange category. So it very much is affecting growth right now. That's not to say if it disappears the other things wouldn't happen.

You know, there's some evidence that other... the construction of other types of buildings might just be crowded out, uh, by the AI build-out, which has more capital and has that voracious appetite. Uh, but that remains to be seen if, if the other ones would, uh, come back and sort of fill the void if AI slowed down.

The longer term picture, it really is about productivity. And any of our clients or people who watch, uh, um, our capital markets forecasts or have been to the events know that we talk about productivity quite a bit 'cause really it is the lifeblood of long-term economic growth, and we've been using this chart for, uh, for years.

It was included in the twenty twenty-six CMF where we compare a couple of things. So this is, uh, two, on a two-year annualized, uh, basis, uh, productivity growth using the internet boom there in the top left as the, uh, strongest

productivity growth that we've had in a, in a generation and really powered, uh, an economic,

really a lot of strength at the end of the 1990s and into 2000. Right now going forward, the Congressional Budget Office, which is the, uh, the official office in DC that projects our budgets and whatnot, they're using an assumed or a, a projected productivity growth going forward of just 1.1%, so essentially a slowdown from where we are right now.

We expect, based on our work and based on looking at numerous other studies, that we would get that AI boost and we'll continue to have productivity, uh, right about in the range that we've had over the past couple of years, which has been pretty strong. It really could, depending on how it, how it pans out, move even higher and be as high as the pro- as the productivity boom, uh, from the late 1990s.

And ultimately, as we move towards those longer term and those stronger productivity numbers, that helps, uh, several things. It helps the economy, uh, produce when we have a slowing labor force growth, and then it also... a-and when you asked Lisa about inflation, this is something that really helps an economy power forward without having inflation pressure.

So we are, uh, very bullish, uh, long term on the effects of AI on the economy, both from the build-out, but then, uh, importantly, as, as you go further out in time, from productivity and also the ability to keep inflation down, um, a-as we look at the near term challenges or questions that we have about financing it and the build-out and sort of the, the back and forth about that.

But over the long term, we expect it to be a real boost.

Lisa Roberts: Thank you for that, Luke. And Meghan, let's, uh, let's stay on the AI theme. And AI is obviously much bigger than a Washington policy story. It, it also has become an important part of the earnings and the investment story. So how is the AI investment cycle showing up in corporate earnings, and what are you watching from here?

Meghan Shue: The corporate earnings picture has been very strong. It has basically, in my view, been the engine of the market for the past year. We are in the, uh, midst of one of the busiest weeks of third quarter earnings season right now, but it is projected to be another quarter of more than 20% earnings growth, pretty close to thirty percent actually, and it would be the third quarter in a row of more than twenty percent earnings growth.

This is pretty unusual outside of a period where you are sort of recovering or coming out of a recession. So to have this amount of earnings growth with the economy in an expansion and, and, you know, midway through a, a decent length expansion already is fairly unusual. Technology has been a big part of the earnings story.

Here we're showing tech and communication services as a share of overall S&P 500 earnings at about 50%. It's a similar share of the earnings growth from the index. And certainly there's, you know, this could-- this kind of cuts both ways. It's a big engine for the market today, but because of the concentration of the index, what we really end up with is about ten stocks doing most of the heavy lifting in terms of the earnings growth.

But I would point out that while we are expecting to see very strong earnings growth, uh, call it fifty to sixty percent earnings growth from technology and communication services this quarter, we are also seeing decent earnings growth from the rest of the market. And if you are not in a secular, uh, infrastructure build-out like we are today, you might expect to see mid to high single digit earnings growth from the index.

And that is largely what we're seeing from the non-tech sectors. So while we are enthused and encouraged by the earnings growth from technology, we're not ignoring decent earnings growth from the rest of the market and that has us, um, encouraged by the overall earnings picture. Going forward, really the focus is going to be on the amount that these companies are spending, um, and the big hyperscalers, so think, uh, Meta, uh, Alphabet, Microsoft, these companies that are building out the cloud and data center infrastructure for running and training models, they're spending a lot.

Uh, that spend in past years was coming mostly from cash on their balance sheets, and it's increasingly coming from the capital markets. Um- Debt issuance, equity issuance in some cases, uh, as well as some other, uh, financing arrangements. And what that's doing is it is basically dragging down the free cash flow or the cash that companies have after CapEx to pay dividends, to reinvest.

Um, it's not necessarily deteriorating their balance sheets. These are still high quality companies, but this is really the focus issue is how much spend, where is it coming from, um, and what does it do to the overall quality of the index going forward?

Lisa Roberts: I appreciate that very much, Meghan. Um, so the last topic I want to touch on is oil and the impact of the Iran conflict on energy, on energy markets.

So Luke, how significant could oil prices be for inflation, for economic growth, and, and ultimately the Fed outlook?

Luke Tilley: Yeah. We've, um, we're constantly factoring this into, uh, the outlook. And here, uh, we're showing an inflation adjusted, uh, plot of West Texas Intermediate, so the US, uh, benchmark. Uh, and of course, if you adjust for inflation, this is in, in terms of 2026 dollars, you can see where we have a, have had a significant spike in energy prices, uh, but not as significant as what we've had in the past.

So it has been, um, ameliorating a little bit, uh, for a couple of reasons. One, just put in the context of inflation, it's not as high or as, as steep of a spike as, as we've had in the past. It's one of the reasons that the economy, the US economy, continues to move ahead despite the challenges. Uh, and it's also the case that the US does not rely on, uh, energy as much for the overall economy as we used to.

And the US has become a net, uh, producer, a net exporter of, uh, oil or overall energy over the past, uh, decade to, to fifteen years. So that is not to dismiss the importance of it. Clearly, as I was saying earlier, when you have people, um, paying higher prices at the pump, they end up needing to pull back on, uh, other items that they would be shopping on, and it's one of the risks for the outlook going forward.

Uh, but we do think that it is manageable. Uh, US businesses are the best in the world in terms of dealing with these, with these costs. Uh, and consumers have been dealing with it fairly well so far by making those decisions. So it-- what, uh... And you asked what, what kind of an impact could it have on inflation.

Helpfully, and we've taken this view since, uh, we had a webinar in the first week of March after the war started. I think, uh, February 28th was the, the start of the war. And we had taken the view that we haven't really seen, and we did not expect to see, uh, energy prices flow through to core inflation. And that has played out.

Core inflation has only slowed, uh, since the, uh, the start of the war. That's reflective of the consumers making those decisions. So this might seem counterintuitive, but we think that, uh, the high energy prices are not really

flowing, flow- flowing through to core inflation. And should they stay this high, we see it as more of a risk to growth and consumer spending and the business CapEx sort of pulling down on those numbers.

We see that as more of a risk than we do, uh, for higher inflation going forward. But our baseline outlook is for this to come down, um, uh, to some degree and help on the inflation front. Uh, so that's factored into our outlook. But of course, uh, it's very challenging to predict geopolitical events, and we just have to be constantly monitoring that and folding it into the outlook, Lisa

Lisa Roberts: Thank you, Luke.

So we, we've covered a lot of ground from the election and policy to AI, earnings, interest rates, and oil. Now I want to bring it all together. So, so Meghan, as an investor looking forward to 2027, what's the one development you think deserves more attention than it's getting today? And, uh, also after, after answering that, bring us together all things, the election, Fed, AI, oil, earnings, portfolio implications.

How does all that look heading into 2027?

Meghan Shue: Ooh, that's a big job. Uh, I will try to do it in about three minutes. Um, one, one thing that I think doesn't get a ton of attention, at least based on a lot of the financial markets coverage in the media, even some of my conversations with clients and other investors, are the fundamentals of the market and specifically, um, valuations for the overall.

Here we're showing the US large cap market. And there are definitely a lot of different ways that you could look at how cheap or expensive the market is. Here we're showing the forward price to earnings ratio, which just means, um, the price to earnings ratio ba- based on estimates for the next 12 months of earnings.

And the picture might look a little bit different if you're going to use a, um, more of a cyclical, cyclically adjusted PE or, or some other measures. But at least based on this metric, um, it tells me that earnings have been very, very strong, outpacing the market. We've had some headwind on what investors are willing to pay for those earnings because of higher interest rates.

But the bottom line to me is that this does not look like a market in a bubble, um, overly expensive. I sense a lot of pessimism in the market when I talk to different investors, a lot of skepticism around the AI build-out. Can it be

monetized? Are we overbuilding? I actually think that skepticism, which is reflected to me here in these valuations, that skepticism is a healthy development.

It, it sort of takes a little bit of the air out of the balloon as you go in the cycle and makes for potentially a longer investment cycle. So this is something we're watching. Of course, if earnings start to disappoint or roll over, the market could look a little bit more expensive than it otherwise does.

But for now, I think the picture is encouraging and it is one of the reasons why we have an overweight to equities in our portfolio. So just to kind of bring all that together, um, on the next slide, we are, as you heard, looking at an economy that is kind of in this middle ground, uh, not super strong but not weak enough to push us into recession and that environment actually could be pretty constructive for the equity market, especially if the Fed has cover to cut interest rates- Uh, at the beginning or middle of next year.

I think that could be supportive of the market and, um, we are, we have an overweight position, as I said, to US large cap. US small cap in particular would do well in a declining interest rate environment. We've seen smaller companies which take on a little bit more debt really take it on the chin with the move higher in interest rates.

And we continue to be encouraged by what we are seeing from companies involved in the AI build-out. There's a lot of caution, uh, and a lot of digging into the numbers, a lot of looking at the financing, uh, arrangements that these companies are using to determine the amount of risk that's being taken.

But for now, um, we are encouraged and the US equity market is really one of the best places to take advantage of that. Um, we are also looking at positioning portfolios because of the currently higher interest rate environment that we are in towards companies that are higher quality. They have a little bit less, um, leverage.

They continue to generate really strong earnings. But I think one of the biggest risks, it continues to be the, um, geopolitical environment and an extended and protracted war that, that continues to drive energy prices higher. Consumers and businesses, as Luke said, have done a very good job of managing it thus far.

Um, but an, an indefinite extension of this conflict I think would start to create some more material headwinds. So we're watching all of those things, um, and, and for now continue to think that investors should stay definitely fully

invested, a little bit overweight to risk and, and diversified across, um, the different asset classes

Lisa Roberts: Perfect.

Thank you for bringing that all together for us, Meghan, and, uh, thank you for all the commentary, whether it was investments, the economy, or, uh, or politics. Uh, thank all of you. So we're, we're coming up on the hour, and, uh, Meghan, Luke, Lauren, I really appreciate you sharing your insights.

And, and thank you to everyone for joining us today. So if you still have a question following today's discussion, whether it's one you submitted or a new one that came to mind, just please reach out to your Wilmington Trust - Wilmington Trust advisor, your M&T relationship manager, and they'll help get it answered for you.

So, but if there's one takeaway I hope we all leave with today, it's that while elections can create uncertainty, they're, that's only one part of the investment landscape. Policy matters, but so do earnings, so does economic growth, inflation, interest rates, innovation, and many other forces shaping our markets.

That's why we believe it's important to look beyond the headlines and focus on what changing conditions may mean for your long-term financial goals. So thank you again for joining us, and enjoy the rest of your afternoon.

DISCLAIMER

Advisory Service Providers

Wilmington Trust is a registered service mark used in connection with various fiduciary and non-fiduciary services offered by certain subsidiaries of M&T Bank Corporation including, but not limited to, Manufacturers & Traders Trust Company (M&T Bank), Wilmington Trust Company (WTC) operating in Delaware only, Wilmington Trust, N.A. (WTNA), Wilmington Trust Investment Advisors, Inc. (WTIA), Wilmington Funds Management Corporation (WFMC), Wilmington Trust Asset Management, LLC (WTAM), and Wilmington Trust Investment Management, LLC (WTIM). Such services include trustee, custodial, agency, investment management, and other services. International corporate and institutional services are offered through M&T Bank Corporation's international subsidiaries. Loans, credit cards, retail and business deposits, and other business and personal banking services and products are offered by M&T Bank, member FDIC.

Suitability

This material is provided for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or as a recommendation or determination by Wilmington Trust that any investment strategy is suitable for a specific investor. Investors should seek financial advice regarding the suitability of any investment strategy based on their objectives, financial situations, and particular needs. The

investments or investment strategies discussed herein may not be suitable for every investor. This material is not designed or intended to provide legal, investment, or other professional advice since such advice always requires consideration of individual circumstances. If legal, investment, or other professional assistance is needed, the services of an attorney or other professional should be sought.

The opinions, estimates, and projections presented herein constitute the informed judgments of Wilmington Trust and are subject to change without notice. Expected return information in this presentation is derived from forecasting. Forecasts are subject to a number of assumptions regarding future returns, volatility, and the interrelationship (correlation) of asset classes. Actual events or results may differ from underlying estimates or assumptions, which are subject to various risks and uncertainties. No assurance can be given as to actual future market results or the results of Wilmington Trust's investment products and strategies. The information in this presentation has been obtained or derived from sources believed to be reliable, but no representation is made as to its accuracy or completeness.

Investment products are not insured by the FDIC or any other governmental agency, are not deposits of or other obligations of or guaranteed by Wilmington Trust, M&T, or any other bank or entity, and are subject to risks, including a possible loss of the principal amount invested.

Some investment products may be available only to certain "qualified investors"—that is, investors who meet certain income and/or investable assets thresholds. Any offer will be made only in connection with the delivery of the appropriate offering documents, which are available to pre-qualified persons upon request.

An Overview of Our Asset Allocation Strategies

Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High Net Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income. On a quarterly basis we publish the results of all of these strategy models versus benchmarks representing strategic implementation without tactical tilts.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

ALLOCATIONS:

Each strategy group is constructed with target policy weights for each asset class. Wilmington Trust periodically adjusts the policy weights target allocations and may shift away from the target allocations within certain ranges. Such tactical adjustments to allocations typically are considered on a monthly basis in response to market conditions. The asset classes and their current proxies are:

- Large-cap U.S. stocks: Russell 1000® Index
- Small-cap U.S. stocks: Russell 2000® Index
- Developed international stocks: MSCI EAFE® (Net) Index
- Emerging market stocks: MSCI Emerging Markets Index
- U.S. inflation-linked bonds: Bloomberg US Treasury Inflation Notes TR Index Value Unhedged USD (took effect 8/1/22)
- International inflation-linked bonds: Bloomberg World ex US ILB (Hedged) Index
- Commodity-related securities: Bloomberg Commodity Index
- U.S. REITs: S&P US REIT Index
- International REITs: Dow Jones Global ex US Select RESI Index
- Private markets: S&P Listed Private Equity Index
- Hedge funds: HFRX Global Hedge Fund Index (took effect 8/1/22)
- U.S. taxable, investment-grade bonds: Bloomberg U.S. Aggregate Index
- U.S. high-yield corporate bonds: Bloomberg U.S. Corporate High Yield Index
- U.S. municipal, investment-grade bonds: S&P Municipal Bond Index

Risk Assumptions

All investments carry some degree of risk. The volatility, or uncertainty, of future returns is a key concept of investment risk. Standard deviation is a measure of volatility and represents the variability of individual returns around the mean, or average annual, return. A higher standard deviation indicates more return volatility. This measure serves as a collective, quantitative estimate of risks present in an asset class or investment (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

LOLs, and you may incur a profit or a loss. Past performance cannot guarantee future results.

Diversification cannot ensure a profit or guarantee against a loss. There is no assurance that any investment strategy will be successful.

The names of actual companies and products mentioned herein may be the trademarks of their respective owners.

Reference to the company names mentioned in this presentation is merely for explaining the market view and should not be construed as investment advice or investment recommendations of those companies.

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

Investing in alternative asset classes such as commodities, hedge funds, real estate, bank loans, and derivatives, including but not limited to buying and selling options and futures contracts, have their own unique risks including, but not limited to, market risk, interest rate risk, counterparty risk, lack of liquidity, volatility of returns, absence of valuation and pricing information, delays in tax reporting, and substantial loss due to speculative investment practices such as leveraging and short selling.

Index Descriptions

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

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

The Bloomberg World Government Inflation-Linked Bond (WGILB) Index measures the performance of investment grade, government inflation-linked debt from 12 different developed market countries.

Bloomberg Commodity Index measures the performance of 19 futures contracts on physical commodities. As of the annual reweighting of the components, no related group of commodities (for example, energy, precious metals, livestock, and grains) may constitute more than 33% of the index and no single commodity may constitute less than 2% or more than 15% of the index.

The Dow Jones Global ex-U.S. Index is an equal-weighted stock index composed of the stocks of 150 top companies from around the world (excluding the U.S.) as selected by Dow Jones editors and based on the companies' long history of success and popularity among investors. The Global Dow is designed to reflect the global stock market and gives preferences to companies with global reach.

The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is composed of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

The MSCI All-Country World Index ex USA measures the performance of large- and mid-capitalization stocks in approximately 50 developed and emerging equity markets, excluding the United States.

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

The MSCI Emerging Markets Index captures large- and mid-cap representation across 26 emerging markets countries. With 1,198 constituents, the index covers approximately 85% of the free-float[1]adjusted market capitalization in each country.

Russell 1000® Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. As of its latest reconstitution, the index had a total market capitalization range of approximately \$128 million to \$1.3 billion.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. As of its latest reconstitution, the index had a total market capitalization range of approximately \$128 million to \$309 billion.

The S&P 500 Index measures the performance of approximately 500 widely held common stocks listed on U.S. exchanges. Most of the stocks in the index are large-capitalization U.S. issues. The index accounts for roughly 75% of the total market capitalization of all U.S. equities.

The S&P Developed Property defines and measures the investable universe of publicly traded property companies domiciled in developed markets.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The S&P Municipal Bond High-Yield Index consists of bonds in the S&P Municipal Bond Index that are not rated or are rated below investment grade.

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

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

Definitions

Core PCE, or the core Personal Consumption Expenditures price index, is a measure of inflation that excludes food and energy prices. It's the Federal Reserve's preferred way to gauge inflation.

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

The Magnificent Seven or Mag 7 refers to a group of seven high-performing technology stocks that have driven a significant portion of the market's returns in recent years.

These stocks include Apple, Microsoft, Amazon, Alphabet (Google), Tesla, Nvidia, and Meta Platforms).

Personal consumption expenditures (PCE) is a measure of how much money US households spend on goods and services

The price-to-earnings (P/E) ratio is a valuation metric that compares a company's share price to its earnings per share (EPS).