



# 2026 Global Outlook Report

MORNINGSTAR

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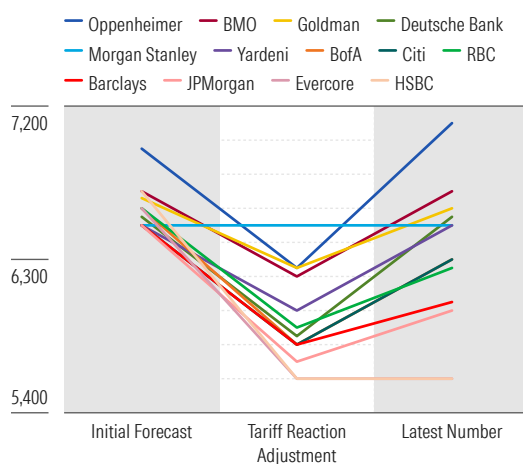
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Markets never sit still. Geopolitics shift overnight, economies seem to pivot without warning, and investor sentiment can turn on a dime. As we enter 2026, many investors will seek comfort in clearly articulated predictions—after all, certainty feels good. But the truth is, attempting to make definitive predictions about the year ahead can do more harm than good.

Take 2025 as an example—markets, even the largest and most researched, have a way of humbling forecasters. As figure 1 shows, most ‘Wall Street’ firms set lofty expectations for US stocks in 2025, cut their targets after President Trump’s tariff shock in April, then raised them again as prices recovered over the subsequent months.

EXHIBIT 1

The Forecast Trap: 2025 Price Target Changes From Wall Street Firms



Source: Bloomberg.

Data as of Aug. 1, 2025.

An investor blindly following those forecasts would have ended up doing exactly what we try to avoid—buying high and selling low.

That’s why Morningstar’s 2026 Outlook isn’t about prediction—it’s about preparation.

We’ve brought together our best research and insights from analysts and investors across Morningstar to help you navigate whatever comes next.

Each of the six sections in this outlook explores a key challenge investors face in 2026 and beyond:

### AI Arms Race: The Biggest Buildout You Never Saw Coming

Beyond the buzz around chatbots, tech giants are driving a global infrastructure surge. Capital spending now exceeds that of entire sectors like energy. The scale, risks, and valuation pressures reveal how deeply investors are already exposed—and why balance is essential.

### Asia Outlook: China’s Quiet Reset

China is tackling deflation with a bold policy shift aimed at curbing overcapacity. Industry leaders in electric vehicles, batteries, and cement stand to benefit. For investors willing to look past short-term uncertainty, this could mark the beginning of a more disciplined and profitable cycle.

### Beyond the Magnificent Seven: Rethinking Market Leadership

A handful of mega-cap stocks have powered US market returns but left portfolios vulnerable to concentration risk. We examine the opportunities outside this group.

### Income Investing: Yield Is Back but Risks Remain

Higher interest rates have revived income opportunities across bonds and equities, but not all yield is built to last. Resilient income depends on navigating inflation, tight credit spreads, and valuation risk.

### Navigating Uncertainty: Prepare Without Overreacting

Markets remain unpredictable, and 2026 may bring fresh challenges from tariffs, central bank shifts, and geopolitical tensions. We outline the key investment and behavioural strategies for successful investing whatever the future holds.

### Retirement Investing in Australia: Meeting Today’s Needs Without Sacrificing Tomorrow

As more Australians enter retirement with greater wealth, the challenge shifts from growing assets to generating sustainable income and managing risk. This new objective requires a different approach. We consider how investors can respond to that challenge.

### **South Africa: A Hidden Gem in Emerging Markets**

South Africa has quietly delivered strong returns, supported by a resilient currency and rising precious metals prices. What role do South African stocks now have in a global portfolio?

### **The Dollar's Decline: What It Means for Global Investors**

After years of strength, the US dollar has weakened, prompting a reassessment of currency exposure and global allocation. Foreign markets offer better value and diversification, but positioning for currency shifts requires careful attention to cost, risk, and regional dynamics.

### **US Outlook: Private Markets Go Mainstream**

As public markets shrink and private assets grow, investors are rethinking portfolio construction. Private equity, credit, and real assets are becoming more accessible through semiliquid structures and retirement plans. The potential for enhanced returns is real, but cost, transparency, and liquidity must be weighed carefully.

### **Beyond the Budget, Black Holes and Brexit—Investing in UK Assets**

Despite persistent negative sentiment, Britain's markets are showing renewed strength. Global revenue streams, attractive dividend yields, and discounted valuations position the UK as an overlooked opportunity for long-term investors.

While distilling our entire outlook into a few key takeaways is nearly impossible, three big ideas stand out to me from Morningstar's 2026 Outlook:

### **Successful investing requires an independent perspective**

Many investors are attracted to assets that have had recent success. However, markets often reward investors willing to go where others won't. Some of the best opportunities are found in assets that have fallen out of favor—or said in Morningstar parlance—trade at a discount to an independent estimate of their fair value. Investing in these assets while ignoring those admired by others tends to feel uncomfortable but can improve returns.

### **Capital investment tends to be cyclical**

Every boom sows the seeds of its own bust. Periods when investors only see the upside and ignore any risks are typically followed by periods when the reverse is true. Deep research—understanding the rhythm of capital cycles—can help you resist herd behavior and convey a powerful advantage.

### **Make sure your portfolio meets your needs**

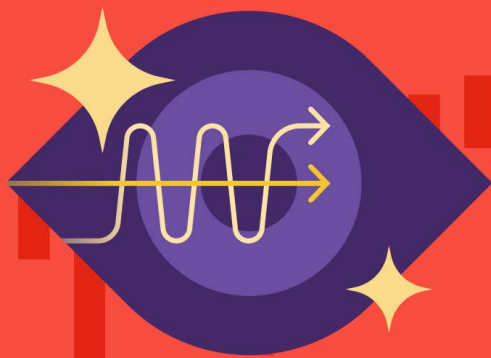
A portfolio must do more than chase investment returns—it should serve your needs in both good times and bad. To accomplish that, it must withstand a range of unpredictable market conditions. This becomes even more important in retirement as the opportunity to overcome mistakes dwindles.

### **Nothing in your way**

Our focus is simple: to clear the path for you. For more than 40 years, we've taken pride in supporting investors through every type of market—booms, bubbles and busts. Through it all, our focus has never wavered: helping investors succeed. Whatever 2026 brings, we'll be here to help ensure there's nothing standing in your way.

### **Thanks to our contributors**

Finally, I'd like to thank our 400-plus-strong global team of researchers and investors whose insights power this outlook—and especially the writers of this outlook whose work you'll read in the pages ahead. Their relentless dedication and passion for empowering investor success are what makes this outlook possible.



## 2026 Global Outlook Report

# Navigating Uncertainty: Prepare Without Overreacting

- ▶ Tariffs, central bank leadership changes, and geopolitical tensions may drive volatility in 2026.
- ▶ Behavioral traps often lead investors to overreact to headlines, undermining long-term outcomes.
- ▶ Rebalancing and disciplined strategy execution help mitigate short-term market swings.
- ▶ Technological shifts, especially in artificial intelligence, may have greater macro impact than politics.



**Preston Caldwell**  
Senior U.S. Economist,  
Morningstar Investment  
Management LLC



**Danielle Labotka**  
Behavioral Scientist,  
Morningstar, Inc.



**Samantha Lamas**  
Senior Behavioral Insights  
Researcher, Morningstar, Inc.



**Ryan Murphy**  
Global Head of Behavioral  
Insights, Morningstar, Inc.



**Philip Straehl**  
Chief Investment Officer,  
Americas, Morningstar  
Investment Management LLC

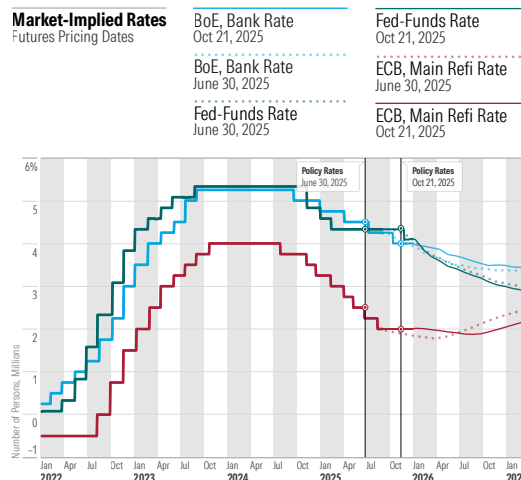
Nobody can predict what 2026 will bring, but investors must be prepared for a wide range of outcomes.

Trade tensions and tariffs remain a key topic. US tariffs could rise further, affecting sectors such as pharmaceuticals and semiconductors, and new levies on China could cause further disruption. Equally important, our research suggests that the US economy has yet to fully absorb the tariff hikes already implemented.

Alongside trade, the Federal Reserve will continue to influence markets. The Fed restarted its rate-cut cycle in September after a nine-month pause, prompted by warning signs in the US labor market. Fed cutting comes as other major central banks are expected to cut very little or not at all. While some investors worry about the erosion of Fed independence, the Fed's commitment to inflation stability is deeply ingrained and is expected to endure any temporary political pressures.

#### EXHIBIT 1

##### Federal Reserve, European Central Bank, and Bank of England Market-Implied Paths of Policy Rates



Source: Morningstar Direct.

#### Turning Information Into Knowledge

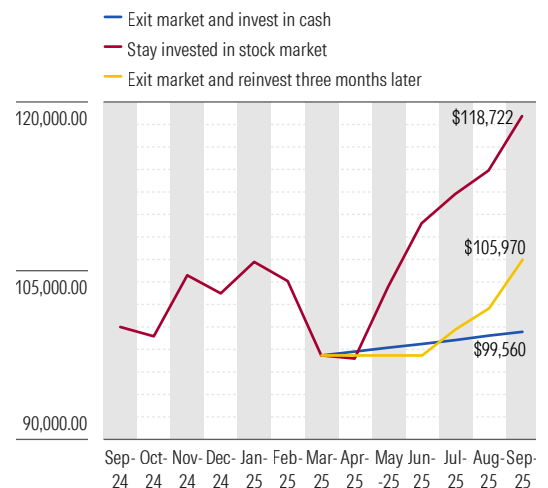
Markets are unpredictable, and 2026 will test investor discipline in ways both familiar and new. While it's tempting to focus solely on investment factors when preparing for volatility, it's equally important to consider behavioral aspects of how investors make decisions and process information during turbulent periods.

By accounting for both behavioral and investment implications, investors are better positioned to stay disciplined and maintain a long-term perspective, even when faced with unforeseen events.

Volatility-related events often prime us to fall into behavioral traps, as the tendency to rely on heuristics increases in times of stress—leading, in turn, to costly investor mistakes. The graph below illustrates how investors who reacted to tariff announcements earlier this year by pulling investments from the market would have missed out on strong gains through year-end.

#### EXHIBIT 2

##### The Importance of Staying Invested Ending Wealth Values After a Market Decline



Source: Morningstar Direct.

Data as of Oct. 10, 2025.

During these periods, advisors play a key role in helping clients avoid behavioral mistakes, in part by guiding their attention to what truly matters.

Research from Morningstar's Behavioral Insights Group found that, amid tariff uncertainty, the most common support clients wanted from advisors was market education—something many advisors provided. That education helped, as advisors said clients were more comfortable enduring volatility when given historical context and long-term data.

Market education goes beyond just providing more information about current volatility. It instills the knowledge investors need to make sense of events and offers an opportunity for advisors to shift the focus

from short-term headlines toward long-term investment principles, emphasizing full market cycles and the value of staying invested over time.

Information alone may just be noise: daily headlines, market fluctuations, or talking-head commentary. Education, by contrast, connects information to fundamental principles, underlying mechanisms, and the broader context. In doing so, it transforms clients from seekers of quick fixes into well-informed investors guided by understanding and meaningful action.

The sections that follow present our best thinking on factors that may disrupt macroeconomic trends in 2026, along with ways our investment philosophy remains anchored in enduring principles.

Use these insights to help clients navigate 2026—and beyond—with clarity and confidence, both before and during periods of inevitable market turbulence.

### **Weighing Long-Term Signal Versus Short-Term Noise**

We'll be watching developments in policy, the Fed, and other areas closely, but we urge investors not to overreact to headlines. In particular, media coverage and popular perceptions often exaggerate the impact of politics on the economy and markets. Unlike a financial advisor, the media has no fiduciary duty to you.

The volatility of April provides a great example—even a worst-case scenario for tariffs is likely to reduce long-run US gross domestic product by only a few percentage points. While significant in absolute terms—trillions of dollars in present-value economic output—this pales compared with the 15%-20% selloff seen in US equities last April. If equity fair values move proportionally with long-term earnings, and earnings likewise with GDP, then that selloff represented a substantial overreaction, even under the worst-case scenario.

Interestingly, the factor most likely to shape long-term macroeconomic outcomes in 2026—whether positively or negatively—is technological rather than political. Artificial intelligence, in particular, has the potential to drive sustained productivity growth, which could lift GDP and influence interest rates and other key economic variables. However, the rapid expansion of AI

infrastructure, especially in the absence of clear monetization strategies, introduces downside risk. If investor sentiment shifts, the resulting pullback could have significant macroeconomic implications.

### **Navigating Uncertainty With a Time-Tested Playbook**

Uncertainty is constant, and in 2026, it will appear in at least one form. Trade tensions are one example, and the Fed will be another.

Investing requires grappling with structural uncertainty—dealing with outcomes that are unknowable ahead of time. We believe investors are best served by sticking to time-tested investment principles when navigating these episodes.

Morningstar's investment team follows this approach:

**Avoid overreacting to headlines:** Don't sell assets during market downturns. Periods of heightened uncertainty often lead to sharp recovery rallies: missing these can significantly affect long-term investment outcomes. For example, missing the best 10 market days over the past 25 years would have more than halved the holding period return.

**Rebalance and stay committed to your strategy:** During headline-driven shocks, we rebalance portfolios back to target allocations. Rebalancing—selling winners and buying losers—is countercyclical and historically adds value during volatile periods.

**Seek opportunities where markets have overcorrected relative to fundamentals:** Elevated uncertainty can lead investors to discount certain assets more than fundamentals justify. Our teams rigorously analyze the impact on corporate and economic fundamentals, taking time to build conviction before acting. The April 2025 tariff shock, for example, created compelling buying opportunities.

Uncertainty is nothing new. Humans are naturally wired to act at the wrong time. The best approach is to recognize biases, prepare for a wide range of economic outcomes in 2026, and ground investment decisions in a disciplined, time-tested framework.

These same principles apply every year—because uncertainty is always part of investing.



## 2026 Global Outlook Report

# The Dollar's Decline: Implications of a Weaker USD for Investors

- ▶ The US dollar weakened sharply in 2025, driven by fiscal concerns and reduced confidence in policy.
- ▶ Despite the decline, the dollar remains overvalued relative to most global currencies.
- ▶ Non-US assets offer better value and currency appreciation potential for US-based investors.
- ▶ Currency hedging strategies can add value but must be tailored to local interest rate dynamics.



**Hong Cheng**  
Head of Fixed Income &  
Currency Research, Morningstar  
Investment Management LLC



**Mike Coop**  
Chief Investment Officer,  
EMEA, Morningstar Investment  
Management LLC



**Michael Malseed**  
Head of Institutional Portfolio  
Management, Morningstar  
Australasia Pty Ltd

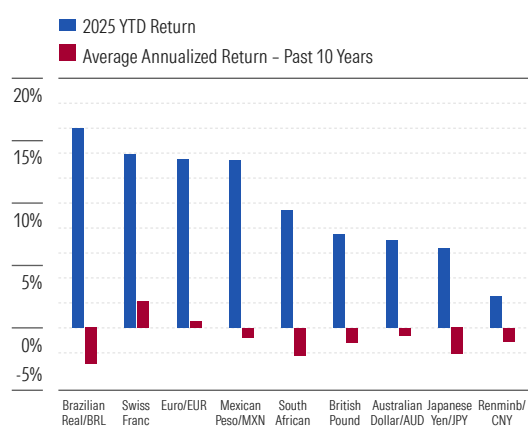


The world's reserve currency is on track for its weakest year in more than a decade. The US Dollar Index (DXY), which measures the dollar's value against a basket of major currencies, fell nearly 10% through September, with even steeper declines against certain individual currencies.

Through September, the dollar depreciated 13.5% against the euro, 13.9% against the Swiss franc, and 6.4% against the yen, alongside a 5.6% decline versus a basket of major emerging-market currencies.

#### EXHIBIT 1

##### Performance of Major Currencies Against the US Dollar



Source: Federal Reserve Economic Data (FRED).

Data as of October 2025.

A logical question: What caused the dollar's decline?

The selloff reflected a mix of persistent structural pressures and new vulnerabilities that intensified in 2025. Long-standing concerns included rising US debt burdens—exacerbated by the “Big Beautiful Bill”—and the gradual erosion of the US growth premium, particularly as tariff uncertainty clouded the economic outlook.

Meanwhile, new threats emerged. Global investors began increasing hedging of their US exposures, reversing years of reduced hedging when confidence in “US exceptionalism” was stronger. Policy uncertainty—ranging from questions about Federal Reserve independence to market sensitivity around tariff headlines—further weighed on sentiment.

Together, these factors drove one of the most notable episodes of dollar weakness in recent memory.

Heading into 2026 and beyond, global investors face three pivotal questions that will shape how portfolios should be positioned.

#### Is the US Dollar in Structural Decline?

While the dollar's recent decline has been pronounced, the evidence doesn't point to a full-blown structural collapse. Much of the weakness reflects cyclical and policy-driven forces—slowing US growth, narrowing rate differentials, persistent fiscal deficits, and elevated inflation. External factors such as shifting global capital flows, renewed hedging of dollar assets, and waning confidence in US macroeconomic policy have also added pressure.

That said, important structural supports remain intact. The dollar continues to serve as the world's dominant reserve and settlement currency, and it retains its safe-haven appeal during periods of market stress.

In our view, the greenback is likely entering a more prolonged phase of cyclical weakness—not a secular decline.

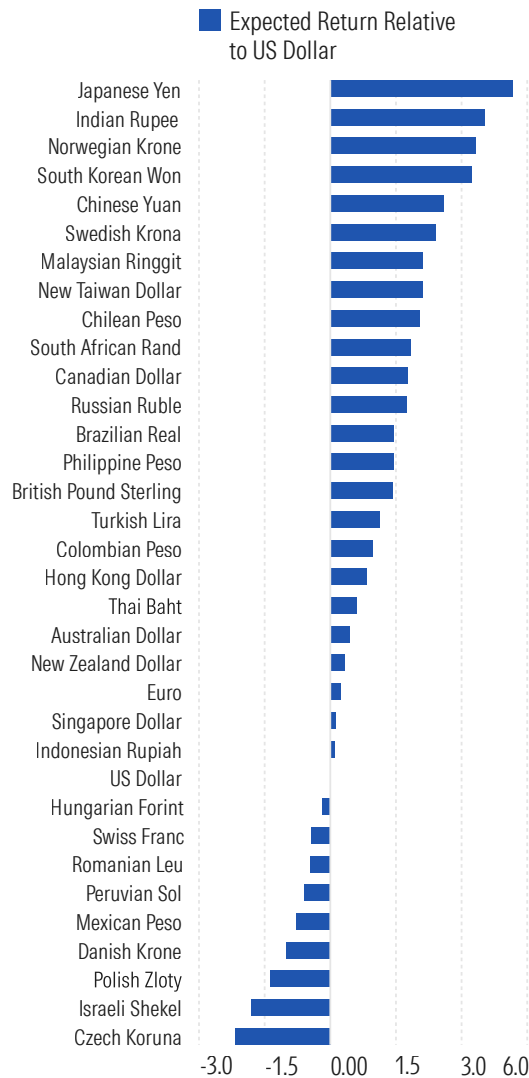
#### Has 2025's Decline Made the Dollar Attractive Again?

The simple answer: not quite. Although the sharp decline has grabbed headlines, a broader historical perspective reveals that the dollar remains elevated. Following a multiyear rally, the recent depreciation has improved valuation relative to the start of the year, but the dollar still trades at a premium versus most peers.

Among the 34 major developed- and emerging-market currencies we track, only nine are currently more overvalued than the US dollar—suggesting that, while cheaper, the greenback is far from “cheap.”

EXHIBIT 2

Currency Expected Return Relative to US Dollar



Source: Federal Reserve Economic Data (FRED).

Data as of Sept. 30, 2025.

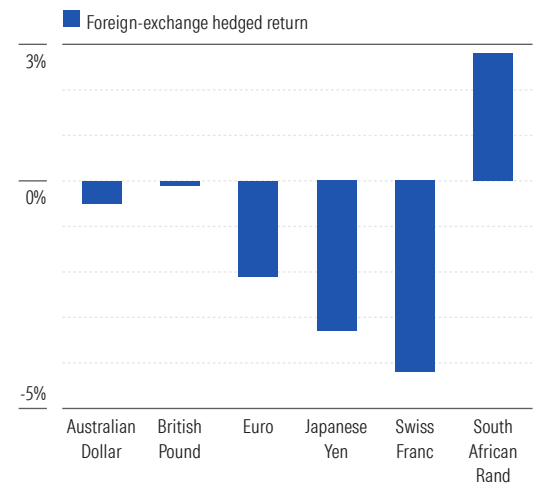
How Should Investors Position Their Portfolios?

For US-based investors, this is an opportune time to add more exposure to non-US markets—not only because many are priced to deliver superior risk-adjusted returns but also because foreign-currency exposure now offers greater potential for appreciation compared with the US dollar. A modest reallocation from US to non-US assets can both diversify portfolios and hedge against further dollar weakness.

For investors outside the US, exposure to US dollars may be large in portfolios with bigger equity allocations, given the global dominance of US stocks. Here, managing dollar exposure requires balancing hedging costs and diversification benefits. Hedging converts volatile exchange-rate movements into steadier returns driven by short-term interest rate differentials with the US. These “foreign currency hedge returns/costs” vary widely—from near zero for UK investors to roughly 4% hedging cost per year for investors in Japan or Switzerland, where interest rates remain far below US levels. By contrast, investors in higher-rate markets such as South Africa can earn positive hedge returns.

EXHIBIT 3

Currency Foreign Exchange Hedged Return



Source: FRED; Morningstar

Data as of Oct. 17, 2025.

Looking longer term, even if the dollar continues to weaken, identifying a clear alternative remains challenging. Gold has gained popularity as a perceived hedge, though its lack of cash flow complicates valuation. Its price volatility and periodic bouts of speculative fervor also make it a less predictable option.

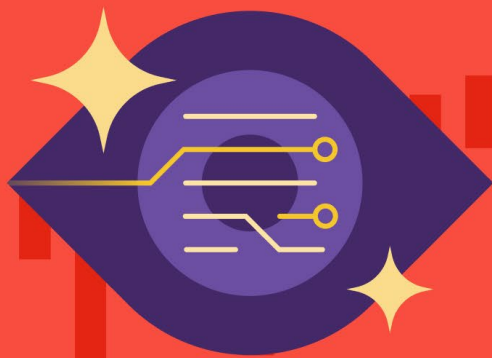
The Japanese yen appears attractively valued relative to the dollar, but substituting US equity exposure with Japanese equities solely for currency reasons is rarely practical, given the US market's breadth, liquidity, and heavy weighting in global benchmarks (around 70%). Fully hedging that exposure into a third currency, such as the yen, would also add operational complexity and additional cost.

A measured approach to currency hedging therefore makes sense for investors in countries with broadly comparable interest and inflation rates to the US, including the UK and Australia. This means

considering some degree of currency hedging. For emerging-market investors—such as those in South Africa—partial hedging can also be attractive if local inflation is relatively stable. For investors in low-rate regions like Japan or the euro area, where hedging remains expensive, or where there may be a lack of availability of hedged share classes, a mix of reduced US exposure and selective, modest hedging is likely the most prudent path.

### **The Dollar's Next Phase**

The US dollar's weakness in 2025 likely signals a turning point in its long cycle of strength—though not the end of its global dominance. For investors, this shift should be seen as an opportunity: a reminder that global diversification may play a more important role in portfolio returns going forward than it has in the recent past, as currency and regional exposures once again become meaningful sources of value.



## 2026 Global Outlook Report

# AI Arms Race: The Biggest Buildout You Never Saw Coming

- ▶ Hyperscalers are investing hundreds of billions in artificial intelligence infrastructure.
- ▶ Data centers require vast energy and water resources, raising execution and environmental risks.
- ▶ Valuations in AI-linked sectors are elevated, with price/sales ratios nearing tech bubble levels.
- ▶ Broad equity indexes already carry significant exposure to AI, increasing concentration risk for investors.



**Grady Burkett**  
Equity Portfolio Manager,  
Select Equities, Morningstar  
Investment Management LLC



**Brian Colello**  
Senior Equity Analyst,  
Morningstar Research  
Services LLC



**Eric Compton**  
Director of Equity Research,  
Technology, Morningstar  
Research Services LLC



**Damien Conover**  
Regional Director of Equity  
Research, Morningstar Research  
Services LLC



**Doug McGraw**  
Portfolio Manager, Morningstar  
Investment Management LLC



**David Sekera**  
Market Strategist, Morningstar  
Research Services LLC



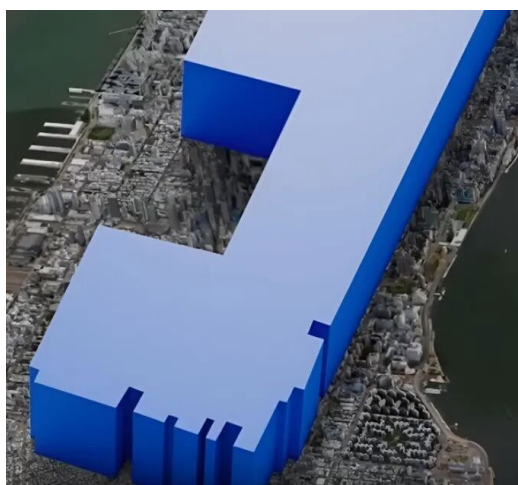
**Kai Wang**  
Market Strategist,  
Morningstar Asia Ltd

The artificial intelligence age is upon us, and it isn't just about ChatGPT—it's about a global construction boom. The race to build AI infrastructure has become one of the largest investment stories of our time, and investors may already be more exposed than they realize. You may use AI chatbots such as ChatGPT or Perplexity to plan a vacation, learn more about a topic or create funny images for your kids. Customer service, too, is rapidly shifting from humans to AI bots: How's your experience been? Meta is harnessing AI to deliver more relevant content and advertising across Facebook and Instagram, allowing it to charge advertisers higher prices. In the pharmaceutical industry, AI computing power is helping discover new molecules now moving into clinical development.

Building the infrastructure to support this emerging technology is very expensive. Data centers are being constructed across the world to house millions of semi-conductors—graphic processing units—that power AI computation. These installations are massive. Meta, for example, plans to build the world's largest data center in Louisiana, covering a footprint comparable to most of lower and midtown Manhattan combined.

#### EXHIBIT 1

##### Meta's Hyperion Data Center Over Manhattan



Source: Bloomberg.

Meta is one of several “hyperscalers,” alongside Alphabet, Microsoft, Amazon.com, and Oracle. These companies are building data centers on a massive

scale, both for their own operations and to sell computing power to companies, governments, and AI chatbot providers.

Collectively, hyperscalers are spending hundreds of billions of dollars each year on capital expenditures, much of it dedicated to data center expansion. To put this in perspective, their combined 2026 capex will be more than 4 times what the publicly traded US energy sector spends to drill exploration holes, extract oil and gas, deliver gasoline to its stations, and run large chemical plants. Amazon's capex alone is greater than that of the entire US energy sector.

#### EXHIBIT 2

##### Capital Expenditures

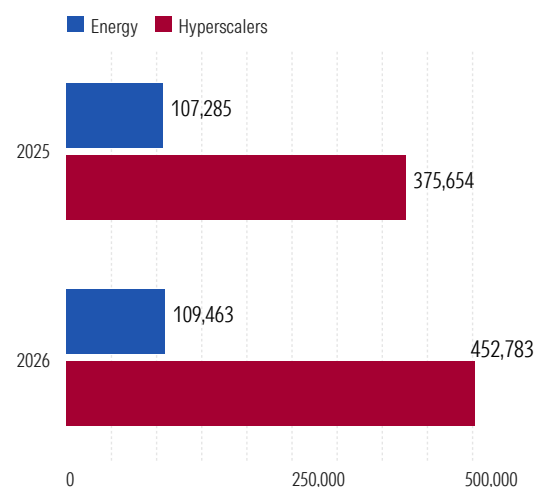
Capital Expenditures (USD millions)	2025e	2026e
<b>Hyperscalers</b>	<b>375,654</b>	<b>452,783</b>
Microsoft	78,124	95,991
Amazon	117,542	127,551
Alphabet	82,398	92,904
Oracle	29,228	39,365
Meta	68,362	96,972
<b>S&amp;P 500 Energy Sector</b>	<b>107,285</b>	<b>109,463</b>
Exxon	27,361	28,842
Chevron	17,099	18,832
ConocoPhillips	12,458	12,197
<b>Ratio (Hyperscalers/Energy)</b>	<b>3.5x</b>	<b>4.1x</b>

Source: FactSet Consensus.

Data as of Oct. 29, 2025.

#### EXHIBIT 3

##### Capital Expenditures (USD millions)



Source: Factset Consensus.

Data as of Oct. 29, 2025.

Of course, deploying hundreds of billions of dollars across hundreds of massive structures comes with challenges—especially execution risk. First, data centers are extremely power hungry—GPUs need lots of electricity to make their calculations—and the current energy grid isn't ready for the surge in demand. Second, cooling is another issue. GPUs “run hot” and require large volumes of fresh water to keep equipment running. Some communities are already pushing back against planned data centers, concerned about the water supply.

There are also questions about the hyperscalers' business models. Will individuals and companies pay enough to justify the buildout? Only 5% of ChatGPT users currently pay for the service. Many companies are exploring how AI can enhance their ability to generate revenues or reduce costs, but most are moving slowly, committing limited resources today. During the dot-com era, “clicks” and “eyeballs” drove valuations that weren't backed by profits. Could we be witnessing something similar with chatbots? People may like chatbots when they're free, but how much will they actually pay per month to use them?

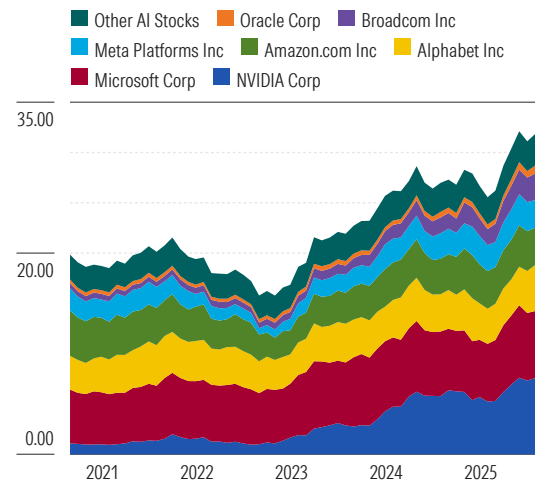
Another risk is cost. Data centers may turn out to be more capital intensive than the hyperscalers currently assume. GPUs and servers account for approximately 35% of capex, and hyperscalers are assuming a useful life of five to six years. If their useful life turns out to be shorter, more spending will be necessary, which may leave hyperscalers below their planned return on investment goals, potentially slowing the pace of new construction.

While AI is still early in real-world usage, US equity investors are already heavily exposed.

Morningstar Indexes, in consultation with Morningstar Equity Research, developed the Morningstar Global Next Generation Artificial Intelligence Index, which tracks companies most leveraged to AI. US stocks in this index make up more than 30% of the value of the Morningstar US Target Market Exposure Index. If you own mutual funds or exchange-traded funds linked to broad US equity indexes, you're already invested in AI.

#### EXHIBIT 4

##### US Stocks in the Morningstar Global Next Generation AI Index As a Percentage of the Morningstar US Target Market Exposure Index



Source: Morningstar Direct.

Data as of Oct. 27, 2025.

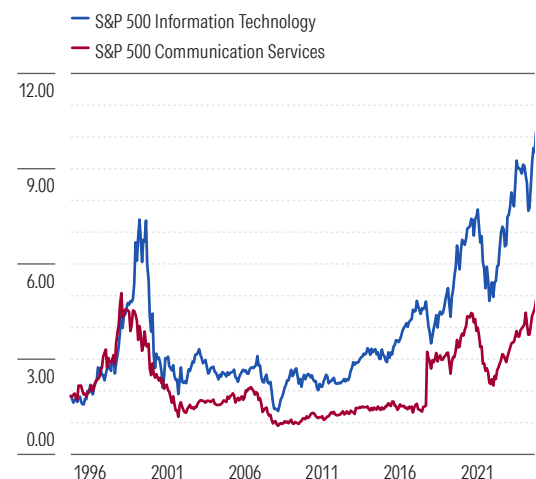
Other AI Stocks Include: Palantir Technologies, International Business Machines, Advanced Micro Devices, Micron Technology, Accenture PLC, Arista Networks, Adobe, Constellation Energy, Autodesk, Cognizant Technology Solutions, Super Micro Computer, PTC, EPAM Systems.

We also see AI's impact in sector valuations.

Communication services (home of Alphabet and Meta) and information technology (home of Nvidia, Microsoft, and other AI plays) are trading at price/sales ratios near or above tech bubble peaks. Now, because each sector earns more profit from every dollar of sales today compared with the tech bubble, the price/earnings ratios are elevated but haven't reached those tech bubble levels.

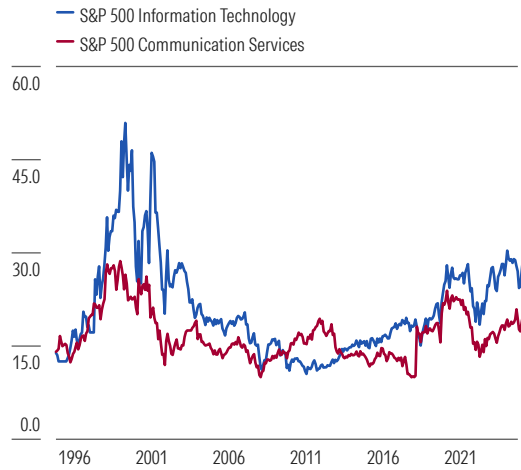
#### EXHIBIT 5

##### Price/Sales



Source: FactSet.

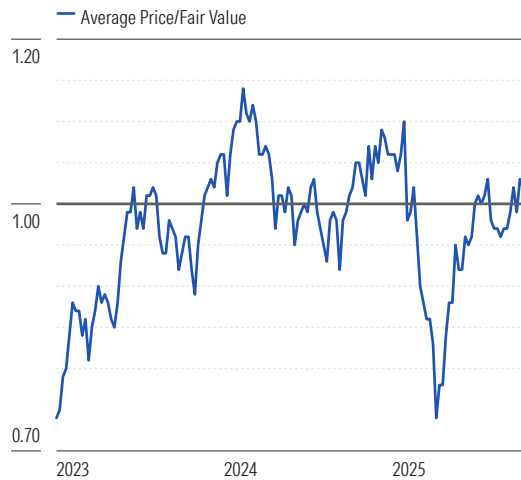
Data as of Oct. 25, 2025.

**EXHIBIT 6****Price/Earnings**

Source: FactSet.

Data as of Oct. 25, 2025.

Morningstar Equity Research tracks the price/fair value of its Global Next Generation Artificial Intelligence Index, which includes US and foreign stocks tied to the AI theme. The index currently sits above fair value, having ranged from 74% to 114% of fair value since 2023.

**EXHIBIT 7****Price/Fair Value: Morningstar Global Next Generation AI Index**

Source: PitchBook.

Data as of Oct. 26, 2025.

**Investing in the AI Age? Remain Balanced**

AI is here—but it's still early in real-world adoption.

Most investors' portfolios are already significantly exposed to AI-related stocks, whether that be hyperscalers, semiconductor companies, and related plays. Morningstar Equity Research views the group as fairly valued overall, while reflecting different upside and downside scenarios, with many stocks in 3-star territory—the middle of our Morningstar Rating range. This is consistent with the Morningstar's Global Next Generation Artificial Intelligence Index, which sits near fair value.

Over the past 10 years, the stock market has grown increasingly concentrated in AI-related names. Ten years ago, Nvidia, Microsoft, Amazon, Meta, Broadcom, Alphabet, and Oracle were 9.7% of the Morningstar US Target Market Exposure Index. Today, their weight has almost tripled, with that group accounting for 28.7%.

This means even those investors with substantial exposure to a broad market index are heavily exposed to AI-driven returns. For those seeking to reduce concentration risk or lacking the appetite for such exposure, we recommend diversifying into US value and small-cap stocks, which currently trade at a discount to our fair value estimates and have far less AI exposure, or shifting portfolios to stocks in selected foreign equity markets.



## 2026 Global Outlook Report

# Beyond the Magnificent Seven: Unlocking Value in a Concentrated Market

- ▶ The top 10 US stocks now account for over one-third of the market, up from 18% a decade ago.
- ▶ US small caps and international equities offer better valuations and more diverse return drivers.
- ▶ Concentration risk is rising, making portfolios more vulnerable to shocks in a few dominant names.



**Michael Budzinski**  
Associate Portfolio Manager,  
Investments, Morningstar  
Investment Management LLC



**Michael Field**  
Market Strategist, Morningstar  
Holland



**Lochlan Halloway**  
Market Strategist, Morningstar  
Australasia Pty Ltd



### The Problem With Market Concentration

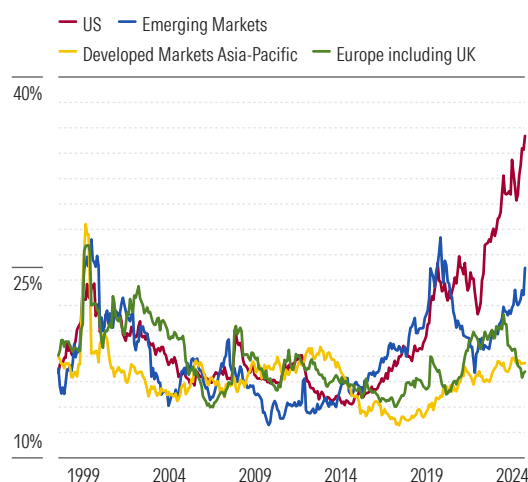
In recent years, the US market has been carried by seven mega-cap stocks delivering string returns, but that concentration comes with a hidden cost: less diversification and greater risk.

This concentrated group of mega-cap stocks known as the Magnificent Seven—Apple, Microsoft, Amazon.com, Alphabet, Tesla, Nvidia, and Meta—has done wonders for US returns, but it also masks uneven participation beneath the surface. When a handful of stocks does most of the heavy lifting, portfolios tied to broad benchmarks can become less diversified than they appear, creating exposure to only a few business models, sectors, and factor profiles, which quietly dominate overall risk.

The top 10 US stocks now account for roughly 35% of the overall market, up from just 18% a decade ago.

#### EXHIBIT 1

Top 10 Holdings as a Percentage of Market Capitalization



Source: Morningstar.

Data as of Sept. 30, 2025.

Such narrow market leadership creates vulnerability. If any of these leaders stumble—because of earnings misses, regulatory changes, or other shocks—broad index performance can quickly reset, erasing hard-won gains. In such environments, investors should consider diversifying beyond the dominant names.

Here, we look at past periods of market concentration and highlight opportunities for investing beyond the Magnificent Seven.

### What History Says About Market Concentration

Periods of market concentration don't always end in a selloff, but narrow leadership can precede weaker returns. The dot-com bubble is perhaps the clearest example. Between 1997 and 2000, the share of US market capitalization held by the 10 largest stocks surged to 24% from 15%, driven by soaring valuations in technology names like Microsoft, Cisco, Intel, AOL, and Yahoo. But when profit expectations failed to materialize and capital dried up, sentiment turned sharply, wiping out trillions in market value and exposing how fragile the rally had been beneath the surface.

However, concentration is an imperfect guide to future returns. The global financial crisis, for instance, was not preceded by narrowing market leadership. Instead, leverage and credit excesses were the culprits. The experience of the past decade also points to the pitfalls of timing the market based solely on concentration. The weighting of the 10 largest stocks in the index has risen steadily since 2015, surpassing the dot-com peak by late 2020. Yet, an investor who stepped aside then would have missed several years of exceptional gains, notwithstanding a brief setback during the inflation-driven selloff of 2022.

Regardless, we think investors should be mindful of how much of their wealth depends on a single theme or group of stocks. When the bulk of market gains are driven by just a few large names, portfolios become more exposed to common risks. Even if concentration doesn't guarantee a downturn, it erodes diversification benefits and makes markets more vulnerable to sentiment reversals.

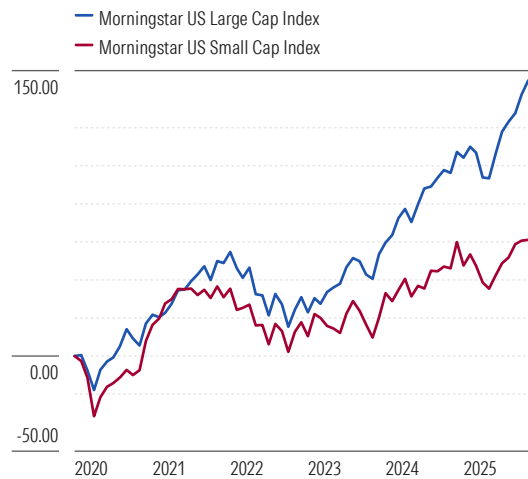
Diversification remains the only “free lunch” in investing. In an environment where a few stocks set the tone for the entire market, maintaining exposure across sectors, regions, and styles is one of the few dependable ways to manage risk—and to capture opportunities if leadership broadens out again.

### Opportunities Exist Elsewhere, Too

Today, pockets of opportunity exist both inside and outside the US. We continue to favor US small caps, which have meaningfully lagged their large-cap counterparts over the past several years and trade at much cheaper valuations.

EXHIBIT 2

#### Cumulative Return



Source: Morningstar.

Data as of Sept. 30, 2025.

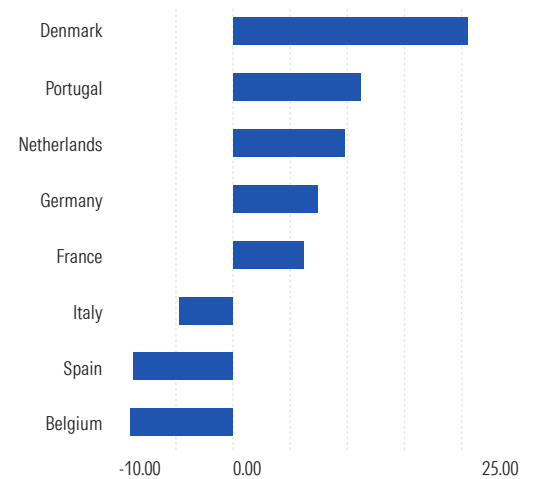
From a sector perspective, US healthcare stands out as an opportunity in an environment where most sectors appear fully valued. [\(This article identifies our top stock picks within the sector.\)](#)

Entering the year, many of our favorite opportunities were outside the US, and 2025 has provided validation for international diversification. Through Oct. 31, the Morningstar Global Markets ex-US Index outperformed the Morningstar US Market Index by 10.6% in US-dollar terms. Despite strong recent performance in non-US equities, many areas remain attractive. Emerging markets offer further potential upside, with Brazil, China, and Mexico standing out. Within developed markets,

the United Kingdom and continental Europe trade at reasonable valuations. Not all European countries are equally attractive, however. Our stock-level analysis shows Denmark, Portugal, and the Netherlands as the most undervalued, followed by Germany and France, while Italy, Spain, and Belgium are relatively overvalued.

EXHIBIT 3

#### Upside to Fair Value Per Morningstar Equity Research



Source: Morningstar.

Data as of Sept. 30, 2025.

It's impossible to ignore US equities, as they have led the way in terms of returns for the last number of years and constitute around 70% of the global equity market. That said, the importance of diversification can't be over-emphasized, particularly when concentration is so high, and dependent on a single theme for much of its returns.

We believe investors should embrace opportunities, both inside and outside of the US, taking advantage of more attractive valuations, while simultaneously reducing their dependence on the concentrated bet that is the Magnificent Seven. Small-cap US stocks, emerging markets, and European markets are all good options right now.



## 2026 Global Outlook Report

# Investing for Income in an Uncertain Market

- ▶ Intermediate-term bonds offer attractive yields and potential capital gains as rates fall.
- ▶ Credit spreads are tight, making corporate bonds less compelling despite improved fundamentals.
- ▶ Attractive yields can be found in stocks domiciled in less popular markets such as the UK and Brazil.



**Dominic Pappalardo**  
Chief Multi-Asset Strategist,  
Morningstar Investment  
Management LLC



**Bianca Rose**  
Senior Portfolio Manager,  
Morningstar Australasia Pty Ltd



**Nick Stanhope**  
Senior Portfolio Manager,  
Morningstar Investment  
Management LLC

### Income Investing in an Uncertain Market

Investors searching for income faced a scarcity problem for much of the past decade—fixed-income yields were low, while reliable and growing cash flow streams were hard to come by. Higher interest rates have brought new income opportunities, particularly within fixed income, but risks remain: inflation's bite, tight credit spreads, and elevated equity valuations.

In today's market, the challenge isn't simply finding income, it's trying to make sure that it endures.

Investing with the goal of generating income will always hold appeal for investors. The desire for dependable and predictable income becomes even more important when broad market conditions are uncertain and some market segments appear overvalued—much like we're seeing today.

Income can come from a variety of asset classes. Traditional bonds are often front of mind, and current market yields are near or above historical averages, sometimes even enhanced when foreign-currency risk is hedged out. But equities shouldn't be overlooked. Certain segments of the equity market offer dividend yields that compete with fixed income, with the added potential for capital growth.

Balancing inflation against income, determining the right mix of growth and defensive income-oriented assets, and managing downside risk while preserving the ability for upside are key decisions investors must try to navigate.

### Where's the "Sweet Spot"?

When evaluating fixed-income opportunities, it's important to consider not just yield but also how time affects a bond's value. Shorter-dated bonds, which are more sensitive to changes in central bank rates, are yielding less than longer-dated bonds. However, longer maturities are more vulnerable to shifts in interest rates, credit risk, and relative-value dynamics across other fixed-income instruments.

Intermediate-dated bonds—those maturing in five to 10 years—look like the sweet spot. They offer yields comparable with cash rates, benefit from capital appreciation as they "roll down the yield curve" toward maturity, and stand to gain further if central banks begin cutting rates.

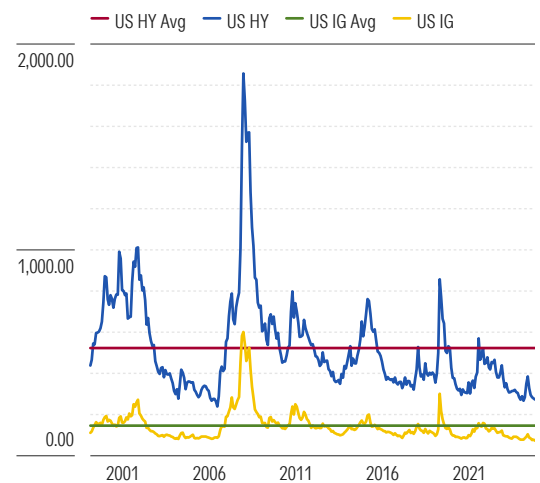
What about other ways to enhance yield?

Currency hedging is another critical consideration. For investors whose domestic cash rates exceed those of lower-yielding international markets, hedging foreign-currency risk can boost overall yield while reducing portfolio volatility and adding diversification benefits. This is especially true for US investors today, as currency-hedged global sovereign bonds yield more than US Treasuries.

Historically, income investors have earned higher yields— or "spreads"—over sovereign bonds by taking on additional credit risk, or the increased risk of default associated with corporates. US investment-grade bonds, on average, have offered an extra 132 basis points of yield over US Treasuries while maintaining low default rates. Today, however, that spread sits near historical lows at just over 70 basis points, even as company fundamentals such as interest coverage and free cash flow/debt have deteriorated.

#### EXHIBIT 1

US Corporate Credit Option Adjusted Spreads



Source: Morningstar Indexes.

Data as of Sept. 30, 2025.

In contrast, US agency mortgage-backed securities look more attractive on a risk/reward basis. With AAA or AA+ credit ratings, MBS currently yield more than equivalently rated credit or US Treasury bonds. While MBS can suffer from the risk of homeowners prepaying their mortgages when rates fall—limiting price appreciation—most US mortgages were underwritten before 2022 at much lower rates, which substantially reduces the likelihood of prepayment today.

High-yield credit remains a popular source of income generation, offering all-in yields around 6.7%. However, spreads are at their narrowest levels in over a decade, and while credit quality in this market has improved, valuations appear stretched.

Our preference is for local-currency emerging-market debt, where active managers can target the higher-yielding segments. While the average yield on local-currency emerging-market sovereign debt is around 6.3%, select opportunities can offer all-in yields above 9%, with the added potential for currency appreciation.

#### **Best Opportunities for Real Income Yields**

While nominal bond yields are appealing, it makes sense to diversify and supplement income sources with select income-focused growth assets—particularly for investors with longer time horizons seeking to preserve real income and offset inflation.

Within equities, the risk of losing capital remains elevated because of valuations; however, two markets stand out: the UK and Brazil. UK equities offer income yields of roughly 4.0-4.5%, supported by sector exposure to financials and consumer staples and limited representation in expensive technology stocks. Brazilian equities provide even more attractive yields (around 5.0-5.5%), alongside potential for capital appreciation.

Among traditional yield-focused growth assets, REITs appear more attractively priced than infrastructure assets, where utilities have become more expensive amid increased enthusiasm for artificial-intelligence-related energy infrastructure spending. REITs currently offer moderate but compelling dividend yields; however, investors should be mindful of their sensitivity to economic downturns and the challenges they face when funding conditions change.

Lastly, it's important to note that unique opportunities may exist in local markets that offer tax-advantaged income investments. For example, some Australian equities provide superior aftertax income through imputation credits reflecting corporate taxes already paid on company earnings.

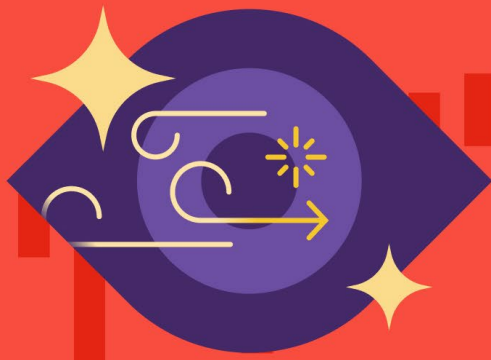
#### **The Key? Income Resilience**

In today's market, income generation requires a more dynamic approach.

Intermediate-term bonds offer both attractive yields and the potential for capital gains, while sovereign bonds are regaining appeal as credit spreads remain tight. This is not to say that all-in yields from credit are unattractive, but we own less proportionately than in the recent past and would consider adding in a spread-widening event.

For investors seeking real income yields and inflation protection, UK and Brazilian equities stand out as attractively valued markets. Meanwhile, investors should not underestimate the potential yield pickup that can be achieved from currency-hedging international bonds and other aftertax benefits across different jurisdictions.

Higher fixed-income yields are back, but balance is everything. Those who diversify across the income landscape—while keeping a close eye on valuation and risk—stand the best chance of turning today's yield offers into lasting and resilient income streams.



## 2026 Global Outlook Report

# Beyond the Budget, Black Holes, and Brexit—Investing in UK Assets

- ▶ UK equities have outperformed many global markets in 2025 despite persistent negative sentiment.
- ▶ Valuations remain compelling: UK stocks trade at a deep discount to US equities, with dividend yields among the highest in the G7.
- ▶ The market is globally diversified, with about 80 percent of revenues from companies in the Morningstar UK Index generated outside the UK.
- ▶ UK government bonds offer the highest yields among G7 nations, creating opportunities for long-term investors as monetary easing begins.



**Monika Calay**  
Director, Manager Research, UK,  
Morningstar Europe Ltd



**Mark Preskett**  
Senior Portfolio Manager,  
Morningstar Investment  
Management LLC



**Grant Slade**  
International Economist,  
Morningstar Holland

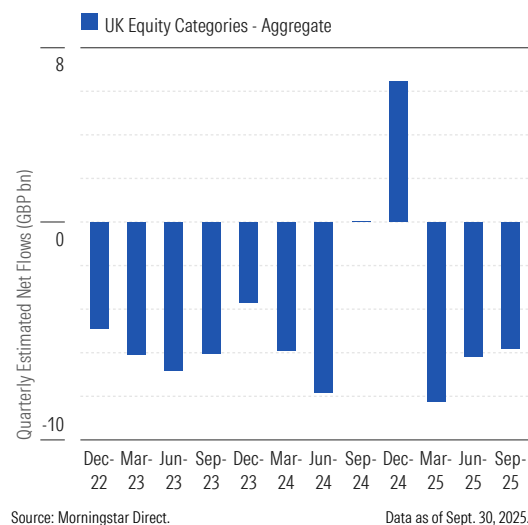
Britain's financial markets, long mired in negativity, are rebounding. Economic growth is returning, inflation, easing, and with UK equities and bonds looking to be excellent values, the outlook is bright.

Owners of UK stocks gain access to a stream of international earnings from some of the world's leading multinationals. Domestic bond yields are the highest of all other leading industrialized nations of the G7 and are ripe for a rebound.

Yet the negative headlines that dominate the media are holding back investors from taking meaningful positions in UK assets, and fund flow data corroborates this.

#### EXHIBIT 1

##### Asset Flows of UK Equity Funds



Those investors have missed on 20% gains from UK equities in 2025 that are among the best in the world.

#### Economic Challenges

Challenges remain for the UK economy. The new Labour leadership continues to face pressure to control rising government debt levels, but again some perspective must be taken. Among the G7 countries, Britain has the second-lowest government debt to gross domestic product, behind only Germany and ahead of the United States, Japan, France, Canada, and Italy.

Inflation is another key risk, which remains above the Bank of England's target. Labor market conditions have remained decidedly tight as many older workers left the UK workforce postpandemic, while Brexit added further complication to labor supply.

The result? Upward pressure on wage growth, which has made the Bank of England's job of maintaining price stability more difficult.

However, changes are afoot, with labor conditions finally beginning to cool in response to interest rates, which remain high. With the degree of economic slack gradually widening, the Bank of England now has greater scope to lower interest rates—and we expect meaningful monetary easing throughout 2026 and beyond.

With easier monetary conditions on the way, the UK's economic outlook is brightening. Growth is expected to return to its trend pace of around 1.7% in coming years. Perhaps the doom and gloom surrounding the UK is overdone.

#### International Diversification

A more positive picture also emerges when looking at the UK equity and bond markets.

The key attraction for UK stocks lies in their access to an attractively valued global earnings stream paired with dividend yields that eclipse those of other G7 markets. The valuation argument is compelling as well: The UK market trades at a price/earnings ratio of 14 times—about half that of the United States.

The UK market is also far more diversified than many realize. Roughly 80% of the revenues generated by companies in the Morningstar UK Index come from outside the country, spread relatively evenly across the US, continental Europe, Asia-Pacific, and the emerging markets.

While the index is concentrated—the top 10 stocks make up about 43% of total market cap—these are globally diversified leaders spanning energy, pharmaceuticals, industrials, financials, and consumer defensive sectors.

Unilever, for example, operates in more than 190 countries, with a product portfolio that covers almost every aspect of daily life—deodorants, haircare, laundry care, and cooking aids. Over half its revenue comes from emerging markets, meaning long-term growth depends more on developing-world consumers rather than those in the UK. Similarly, pharmaceutical giant GlaxoSmithKline is another firm with a deep footprint in emerging markets and a strong lineup of patent-protected drugs as well as an innovative product lineup, making it well-placed to grow earnings.

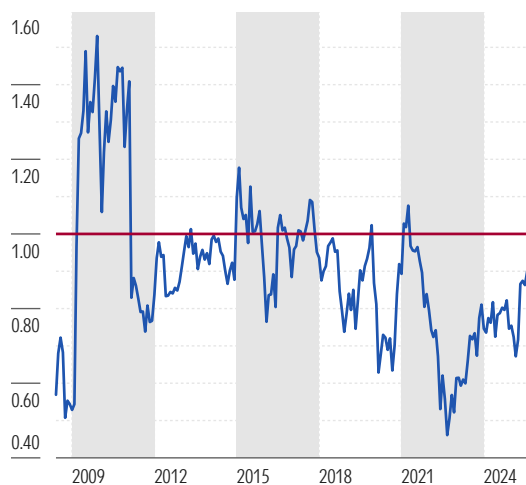
Both companies trade well below Morningstar's estimate of fair value, offering attractive long-term potential.

### Domestic Opportunities

Dipping further down the market-cap spectrum, UK small caps remain one of the most undervalued segments.

EXHIBIT 2

UK Small-Cap Stocks Price/Intrinsic Fair Value Estimate



Source: Morningstar Direct.

Data as of Aug. 31, 2025.

This persistent discount has not gone unnoticed, attracting interest from both corporate and private equity buyers.

Recent examples include Britvic—the soft-drinks maker—being acquired by Carlsberg, and leading artificial intelligence cybersecurity firm Darktrace, which was taken private by US private equity giant Thoma Bravo.

UK companies are also aggressively buying back shares, signaling strong confidence in their business outlooks. This trend spans the market: from large caps like Shell, HSBC, and Centrica to smaller companies like Foresight Group Holdings, a specialist asset manager, and leisure travel operator Jet2.

We'd also highlight the UK housing sector as another pocket of value. Builders such as Persimmon, Barratt Redrow, and Taylor Wimpey are all trading at attractive levels, and any reduction in interest rates should act as a meaningful tailwind.

UK government bonds have borne the brunt of fears over fiscal stability. Yet much of the weakness appears to stem from liquidity and supply/demand dynamics rather than policy risk alone.

The gilt market stands out for its unusually long maturity profile—roughly twice that of other G7 economies—driven by strong structural demand from defined-benefit pension buyers.

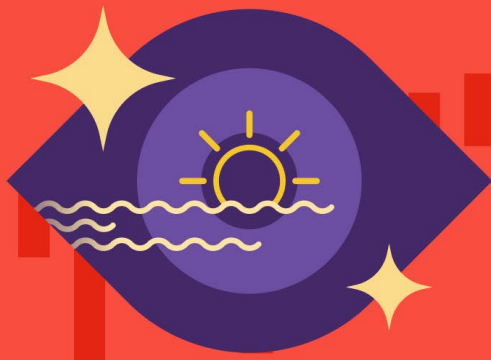
However, this demand has fallen by around 50% in recent years, creating a roughly 40-basis points premium in the 10-year gilt yields relative to fair value.

For long-term investors, that likely presents opportunity: Locking in this yield could prove rewarding as markets reprice to reflect normalized conditions.

### Conclusion

This combination of improving fundamentals and compelling valuations makes the UK an attractive destination of capital. For those able to look past the short-term noise, the future looks bright.





## 2026 Global Outlook Report

# Retirement Investing in Australia: Meeting Today's Needs Without Sacrificing Tomorrow

- ▶ Retirement portfolios must balance income generation with inflation protection and capital stability.
- ▶ Dividend-paying equities and floating-rate notes offer attractive income in a low-tax environment.
- ▶ Sequencing risk and longevity risk require careful asset allocation and dynamic portfolio design.
- ▶ Superannuation funds play a key role in providing access to unlisted assets with inflation-linked returns.



**Thomas Dutka**  
Senior Investment Analyst,  
Morningstar Australasia Pty Ltd



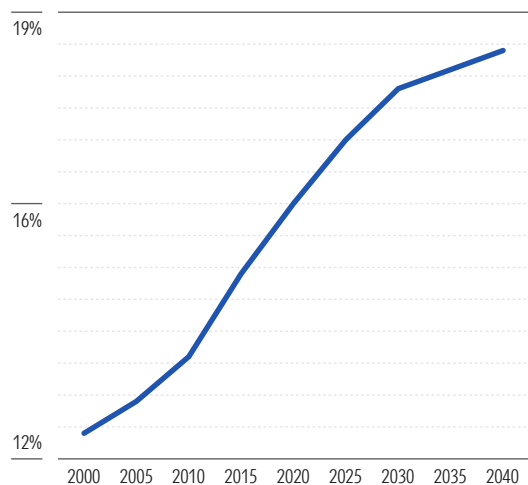
**Joshua LaPirow**  
Senior Investment Analyst,  
Morningstar Australasia Pty Ltd

The ancient Roman poet Juvenal once quipped that “the noiseless foot of time steals swiftly by.”

For a growing number of Australians who have flown through their working years and suddenly find themselves in retirement, this statement likely resonates as much in 2025 as it did 2,000 years ago! And their ranks are growing. Even before accounting for population growth, the proportion of Australians aged 65 and over has risen sharply—from just 12.4% in 2000 to 17% today—and it's forecast to hit 19.2% by 2050.

#### EXHIBIT 1

#### Percentage of Australians Aged 65 and Over—Past and Projected



Source: ABS, AIHW.

Data as of 10/2025.

Looking over the shorter term, the value of retirement products within the Australian Prudential Regulation Authority-regulated sector has also materially increased—from AUD 366 billion in 2021 to AUD 512 billion this year. That figure excludes retirees taking lump sums and exiting the superannuation system. The data paints a clear picture: a growing number of Australians are retiring, and with greater wealth.

This trend hasn't gone unnoticed by regulators, who are increasingly focused on ensuring appropriate retirement solutions. The Retirement Income Covenant, introduced in 2021, legally requires superannuation fund trustees to develop and implement appropriate retirement strategies. Progress, however, has been disappointing; a regulatory review in 2024 found many funds lagging in their development.

The current economic backdrop—with inflation on a slow reversionary glidepath, heightened geopolitical risks, and elevated equity valuations—makes retirement portfolio construction especially pertinent.

### Portfolio Construction Considerations—This Time, It's Personal

Investing in retirement isn't the same as during one's working years. In retirement, it's much more personal. Factors such as Age Pension access, other income sources, and health or housing needs vary widely from person to person. Liquidity and flexibility become crucial. Tax also plays a key role—pension-phase products benefit from tax-free treatment. All of these factors require more tailored retirement strategies; there is no one-size-fits-all solution.

That said, there are several considerations that every retiree will need to consider. Among these, two elements—income generation and a diligent risk management framework—are key, and where we will focus.

### Income Generation

While retirees may have a range of income sources, let's start with a central one: superannuation. For members who have transitioned to pension phase, it's important to be cognizant of minimum withdrawal rates starting at 4% of the investment balance per year. Although dividends and other income may comprise the majority of this income initially, capital gains are likely to play a greater role in pensions over time as balances decay. Additionally, income generation still needs to be considered alongside competing objectives, including capital growth, volatility, and downside risks.

- Dividend-paying listed equities often form a core element of Australian retirement portfolios—the benefit of franking credits is particularly attractive in the zero-tax pension environment. It's here that major domestic bank stocks tend to be robust; their dividend yields (before franking credits) have historically averaged over 5% per year. Naturally, dividend yields are subject to cyclical forces—something especially relevant now with earnings multiples elevated. They can also have varying degrees of stability; companies in more defensive industries—some with government-linked revenues—can translate to more stable and dependable dividends.

- Fixed-income instruments are considerably more heterogeneous than listed equities, and some segments are more attractive to income-focused investors. Floating-rate notes are a large, liquid segment in Australia, and unlike fixed-rate bonds, they can generate steady coupon income with low price sensitivity to rates. One segment of fixed income—Tier 2 subordinated notes—are bank and insurer-issued floating-rate securities with relatively high yields, albeit with elevated credit risk.
- Unlisted assets like infrastructure and property can also offer robust inflation protection. Their revenue streams often include regulated, contractual inflation-adjustments. However, access for individual investors can be difficult—you can't easily buy an unlisted electricity grid or airport! This is where Australia's superannuation fund system excels; many funds were pioneers in unlisted asset investment. That said, unlisted assets come with liquidity challenges, and typically make up only a moderate proportion of a superannuation fund's asset mix—they're definitely not a cure-all for retirement portfolios.

### Managing Risk in Retirement

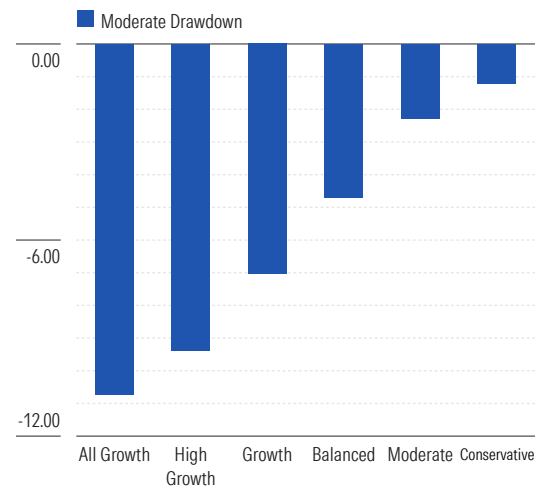
Among the more conventional investment risks retirees must consider, retirement adds additional hazards to the fold.

Sequencing risk becomes crucial. This refers to the outsize impact of poor investment returns early in retirement, especially when necessary withdrawals are made during market downturns, crystallizing investor losses and reducing the upside gain during the eventual recovery. Poor investment returns are both an absolute and relative concept; what might be tolerable to one investor may not be acceptable to another. A more defensively positioned portfolio incorporating mid-risk assets such as private credit, property, and infrastructure can help temper volatility and reduce the risk of losing capital while providing stable income. In other words, investors may consider increasing their allocation to defensive assets over the course of retirement.

The chart below helps demonstrate sequencing risk. It shows our forecast peak-to-trough returns in a moderate drawdown across multi-asset risk profiles—more risk-oriented strategies have potential for materially more negative returns in risk-off conditions, leaving more lost ground to recoup.

EXHIBIT 2

Modeled Peak-to-Trough Return by Risk Profile—Moderate Drawdown Scenario



Source: ABS, AIHW.

Data as of 10/2025.

Another challenge is longevity risk—the possibility of living longer than expected. Rising life expectancies mean retirement portfolios must now often consider 25-plus years of post-work life. Managing longevity risk within retirement portfolios requires generating appropriate real returns while ensuring sufficient liquidity and capital stability to support income. Accordingly, investors should be wary of an overly defensive posture that may protect against short-term volatility but risks eroding real incomes over time. An effective longevity-aware portfolio should maintain a mix of growth and defensive assets aligned with the retiree's risk tolerance, spending needs, and time horizon. Dynamic or lifecycle allocation frameworks that gradually reduce equity exposure, combined with periodic rebalancing, can improve reliability in this regard.

Finally, there's inflation risk. Retirees rely on their investments to fund day-to-day living expenses, and continued inflation can erode the real purchasing power of both income and capital balances. Within a retirement portfolio, positive real returns can be achieved through an asset mix that considers exposure to defensive listed equity sectors that typically exhibit pricing power and/or stable demand, such as consumer noncyclicals, utilities, real estate investment trusts, and healthcare. Exposure to commodities or miners of assets that have historically exhibited inflation-hedging traits, such as gold and energy producers, can also offer an inflation buffer, as can exposure to unlisted real assets.

### Evolving Market Conditions

While retirement investing is inherently long-term, it's important to stay mindful of evolving market conditions. Morningstar's valuation framework currently considers developed equity markets—including Australia and the US—as elevated. Capital expenditure, especially in the artificial intelligence sector, is helping maintain growth despite macroeconomic headwinds. Should a market drawdown occur, it could amplify sequencing risk. However, high valuations shouldn't preclude equity exposure; rather, they may encourage selective positioning. Today, Morningstar considers the materials, healthcare and energy sectors as attractively priced.

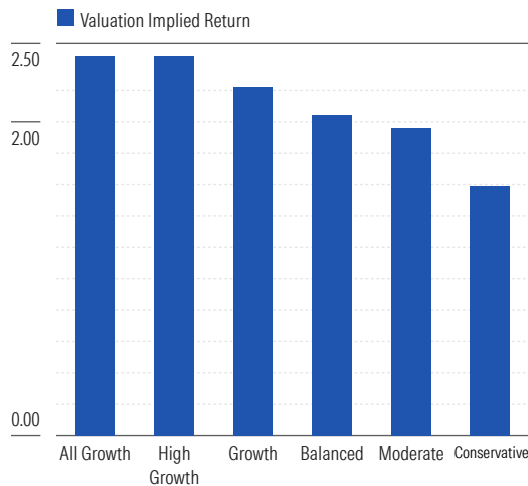
In fixed income, bond yields in most major developed economies remain relatively elevated and exceed inflation—allowing investors to earn positive real yields, a rarity over the past decade. Higher yields also enhance bonds' role as a defensive ballast in risk-off market environments. While credit spreads remain tight, the combination of high base rates and reasonable risk premiums continue to produce attractive overall yields.

### Staying Focused in Uncertain Times

The highly personal nature of retirement planning begets myriad permutations that can help investors arrive at the right conclusion. While the current macroeconomic backdrop offers a particularly generous serving of food for thought, the core considerations we've discussed—such as income generation and managing risk—will always be pivotal to investors when developing a diversified, disciplined approach to retirement solutions.

#### EXHIBIT 3

Forecast 10 Year Annual Real Return by Risk Profile as of Sept. 30, 2025



Source: Morningstar Investment Management.

Data as of 09/30/2025.



## 2026 Global Outlook Report

# US Outlook: Private Markets Go Mainstream

- ▶ Private market assets have grown rapidly, now exceeding 15 trillion dollars globally.
- ▶ Semiliquid structures are expanding access to private equity, credit, and real assets for individual investors.
- ▶ Retirement plans are expected to adopt collective investment trusts to include private assets.
- ▶ While private credit offers yield and diversification, transparency and cost remain key concerns.



**Bryan Armour**  
Director, ETF & Passive  
Strategies, US, Morningstar  
Research Services LLC



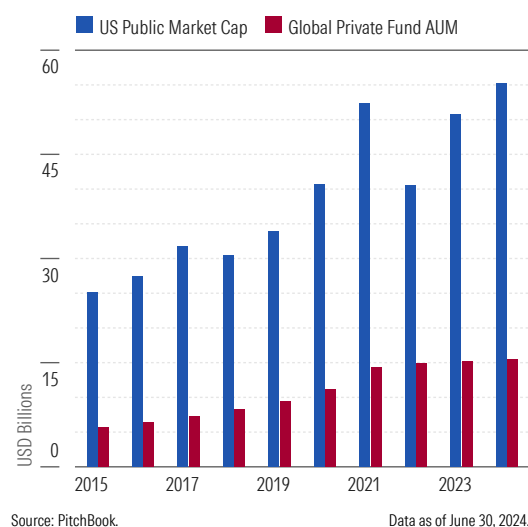
**Lucian Marinescu**  
Head of Investments,  
Institutional & Retirement  
Solutions, Morningstar  
Investment Management LLC

The next frontier in investing isn't a new asset class—it's a new way of giving people access. As the number of public companies shrinks and private markets expand, advisors and investors are asking how to sensibly include private equity, private credit, private real estate, and infrastructure in portfolios.

The rise of private markets is impossible to ignore. Since 2015, global private fund assets under management have nearly tripled.

#### EXHIBIT 1

##### US Public Market Size Compared With Global Private Fund AUM



#### Expanding the Investment Universe

Over the past 25 years, the number of listed US companies has roughly halved, even as global private market assets have surpassed \$15 trillion. That shift means most investors are missing a growing share of value creation.

Adding private assets to a portfolio can help restore balance. Exposure to earlier-stage companies and income-producing private credit introduces different sources of return and diversification. Morningstar's *Does Private Equity Enhance Retirement Investment Outcomes?* (2023) analyzed two decades of pension plan data and found that private equity funds historically delivered strong performance, averaging around 16% in pooled annual returns from 1998 to 2020, compared with roughly 11% from the S&P 500 over the same period.

Another study, PitchBook's *Are Private Markets Worth It? (2025)*, found more mixed results, as shown in the table below. From 2000–24, PitchBook found that adding private equity buyouts and private debt modestly improved portfolio returns, while private real estate slightly reduced returns but lowered volatility.

#### EXHIBIT 2

##### Annualized Simulation US Portfolio Returns

Asset Class	Annualized Excess Return (2000–2024)	Desmoothed Volatility vs. Benchmark	Takeaway
PE Buyout	+0.64 pp	Lower (9.7% vs 11.0%)	Added modest return, reduced risk
Private Debt	+0.57 pp	Similar (11.3% vs 11.4%)	Consistent return lift
Venture Capital	–1.21 pp	Higher (16.1% vs 11.4%)	More risk, less return
Real Estate	–0.29 pp	Lower (9.9% vs 10.4%)	Lower volatility, lower return

Source: PitchBook.  
See linked report for details on methodology.

Data as of June 30, 2024.

#### Accessing Private Assets

The challenge has never been the value of private markets, but rather the format and liquidity challenges. Traditional limited partnerships require capital calls, decade long lockups, and patience through a “J-curve” of early negative returns—unfamiliar features for those accustomed to daily valued vehicles like mutual funds and exchange traded funds. Translating those structures into something the Securities and Exchange Commission can approve and oversee has proven to be the harder part of the innovation challenge.

And while private investments were once reserved for institutions and wealthy investors, access is growing rapidly for the average investor.

Semiliquid (or evergreen) funds—including interval funds, tender-offer funds, nontraded business-development companies, and nontraded REITs—offer perpetual access to private assets with periodic redemptions. *Assets in semiliquid funds* totaled almost \$450 billion through June 2025, up 16% from 2024 and 77% since 2022.

Retirement plans offer the next frontier. A flood of collective investment trusts is expected in 2026 to capture rising demand for private assets, aided by a recent executive order promoting their inclusion.

### Simulated Outcomes: The Morningstar View

Preliminary simulations from Morningstar's Wealth Forecasting Engine and private market modeling framework suggest that adding 5%–10% diversified private exposure to target-date glide paths can raise median lifetime returns by 20–40 basis points annually.

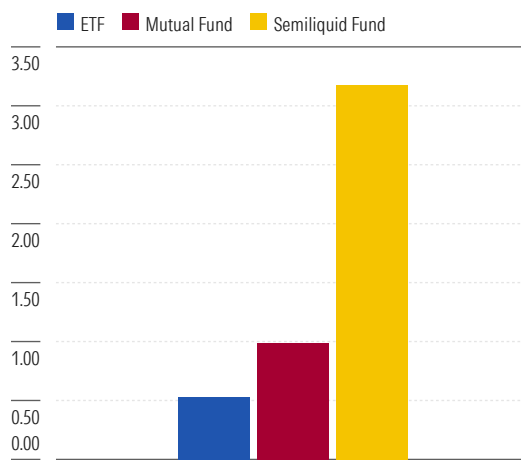
These models incorporate PitchBook private market indexes to better reflect the yield, spread, and diversification characteristics of private credit and equity than legacy closed-end fund data. The evidence supports what theory implies: Measured allocations to private assets can enhance long-term outcomes when embedded into diversified, perpetual vehicles with prudent liquidity management.

### Adding Private Assets to a Portfolio: Balancing Cost and Transparency

Evergreen access does not erase the need for governance. Semi-liquid vehicles remain more expensive than traditional mutual funds, often 2 to 3 times higher when incentive fees are included. The difference widens further when compared with the average ETF.

EXHIBIT 3

#### Average Expense Ratio by Investment Type



Source: Morningstar Direct.

Data as of Oct. 31, 2025.

While higher simulated returns are promising, investors, advisors, and fiduciaries must balance them against higher costs, less transparency, and lower liquidity. High fees can easily offset a performance edge in private markets, harkening back to the infamous title of the 1940 book "Where are the Customers' Yachts?" Investing with an asset manager known for stewardship can help mitigate the risk of limited transparency and liquidity.

### Private Credit: Yield and Diversification

Private credit has become the most practical on-ramp for investors. These funds generate consistent income—often floating rate—and distribute cash monthly or quarterly. Nontraded BDCs (the dominant structure) and interval funds have attracted most inflows thanks to their combination of yield and structural liquidity.

Morningstar's models show that private credit's lower equity beta and moderate leverage (nontraded BDCs are afforded higher leverage limits than interval funds) create diversification benefits relative to high-yield bonds and leveraged loans—attributes well-suited to investors seeking incremental yield.

The practicality of private credit doesn't translate to private equity. Semiliquid funds investing in private equity often gain exposure through special purpose vehicles or secondary funds, not by directly investing in private companies. This can result in additional costs and performance fees that may not show up in expense ratios, making it difficult to evaluate a strategy's all-in cost. Likewise, secondary investments are typically bought at a discount and marked up to net asset value, creating positive performance on paper that may not be realized for investors. Investor caution and due diligence are essential.

Real assets such as real estate and infrastructure may benefit from a less-liquid structure than traditional mutual funds and ETFs. Still, cyclical outflows put \$49-billion Blackstone Real Estate Income Trust on the liquidity ropes and forced Bluerock Total Income+ Real Estate Fund to convert into a listed closed-end fund so investors could access liquidity—likely at a discount. Investors must acknowledge that they may not be able to sell shares during stressed markets.

### Looking Ahead

Evergreen private market funds have grown in size—and in importance—to financial markets. Investors seeking access to private markets will find an ever-growing menu of options. Bringing evergreen private markets into defined contribution plans marks one of the most significant design shifts since the advent of target-date funds.

Morningstar's ongoing research—including new semiliquid Medalist Ratings and fund-data analytics—will continue to refine how private assets fit within investor portfolios. As capital markets evolve, the same principles apply across all investor types: prudence, diversification, and transparency.

The convergence of private and public markets is redefining how portfolios are built. Whether for retirement savers, institutions, or individuals seeking long-term growth, the goal remains the same—to help investors capture a fuller share of global growth while maintaining discipline and trust, the cornerstones of investing.





## 2026 Global Outlook Report

# South Africa: A Hidden Gem in Emerging Markets

- ▶ South Africa delivered strong returns in 2025, supported by currency strength and commodity prices.
- ▶ Local investors can access global companies at attractive valuations.
- ▶ International flows remain limited, but improving fundamentals may unlock future value.
- ▶ Diversified miners and well-capitalized banks offer compelling upside for rand-based investors.



**Michael Dodd**  
Senior Fund Analyst,  
Morningstar Investment  
Management South Africa



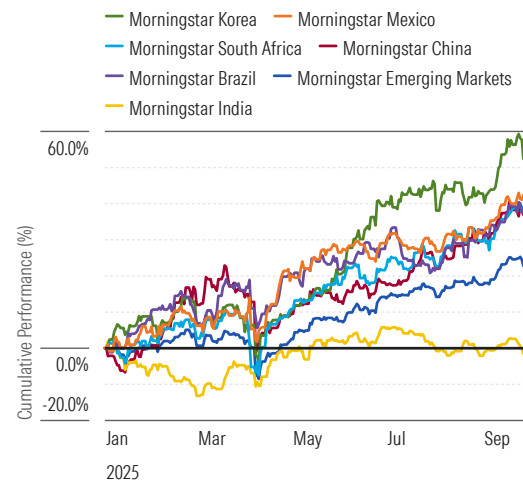
**Sean Neethling**  
Head of Investments, South  
Africa, Morningstar Investment  
Management South Africa

## Standout Performance

Emerging markets have seen a resurgence this year as investors diversified away from more expensively priced developed markets, especially US equities. The graph below shows the performance of selected emerging markets since January 2025. South Korea has been a standout with a year-to-date return in excess of 55%. South Africa has gone largely unnoticed but has posted an impressive 42% return in US dollars. By contrast, India has lagged broader emerging markets and is actually down for the year, after giving up most of the gains made in 2024 as investors repriced lofty growth expectations.

EXHIBIT 1

### Emerging Market Performance



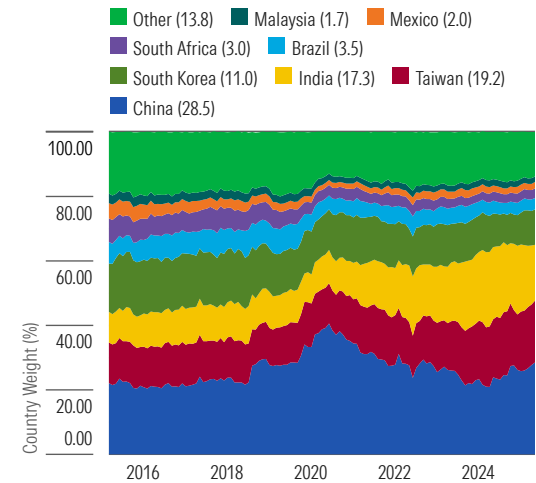
Source: Morningstar Direct.  
Returns are in USD.

Data as of Sept. 30, 2025.

Emerging-market equities are often grouped together, but countries with relatively small allocations in the Morningstar Emerging Markets Index are punching well above their weight. This includes Brazil and Mexico, which together account for more than 75% of the Latin America region but are only around 6% of the broader emerging-market opportunity set. At around 3% of the index, South Africa is off the radar for most global investors but potentially offers regional and underlying holdings diversification that is differentiated from emerging-market peers.

EXHIBIT 2

### Country Exposure (Morningstar Emerging Markets Index)



Source: Morningstar Direct.

Data as of 09/30/2025.

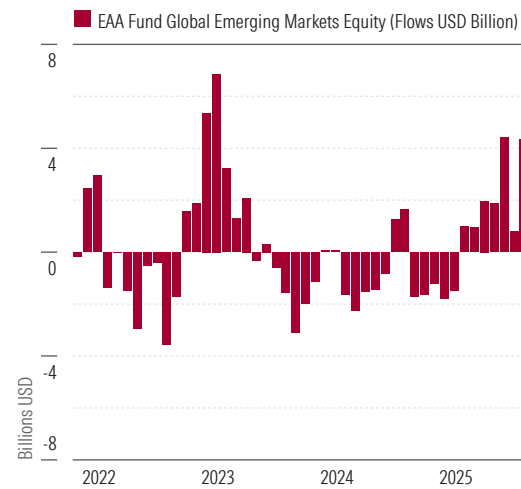
While maintaining broad emerging-market equity exposure is likely to continue delivering positive returns, breaking out regions and countries with more attractive valuations and fundamentals could potentially reduce the volatility of those returns in a relatively uncertain market environment.

## Go With the Flows

Despite attractive valuations, consistent flows from international investors have been hard to come by. Index heavyweight China accounts for around 30% of the index and has been a strong performer over the past year. However, while aggregate flows into broad emerging-market funds have increased in 2025, net flows into China equity funds have decreased. Investors appear to prefer broader emerging-market exposure, with an opportunity set consisting of companies with Morningstar Economic Moat Ratings of wide, including Tencent and Alibaba, over more direct country allocations.

### EXHIBIT 3

#### Monthly Net Flows



Source: Morningstar Direct Asset Flows.

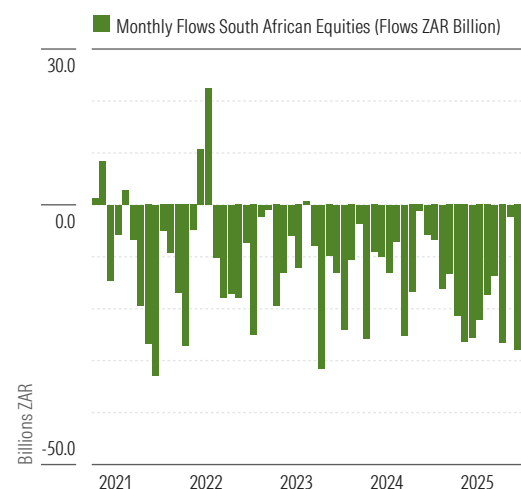
Data as of Sept. 30, 2025.

South Africa is a much smaller part of the emerging-market index—constituting roughly 3%—with a much lower quality investable universe than leading emerging-market peers, including China, India, Korea, and Taiwan.

The graph below shows that international investors have largely shunned South African equities, with the Johannesburg Stock Exchange experiencing 10 consecutive years of net outflows. Despite delivering long-term dollar-based real returns comparable with the US equity market, the short-term investment case has been impacted by weak economic fundamentals and a volatile currency.

### EXHIBIT 4

#### Monthly Net Flows



Source: Bloomberg.

Data as of 09/30/2025.

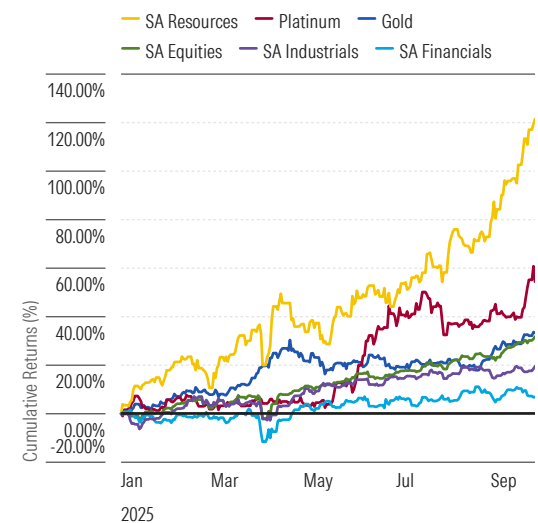
The index measures the net flows by foreigners on the Johannesburg Stock Exchange.

South Africa does, however, provide a different value proposition than emerging-market peers. This includes a resource mix of single-commodity precious metals, gold, and platinum miners—in addition to globally integrated diversified miners that have historically delivered strong performance during market cycles when investor sentiment turns negative.

The South African equity market has delivered strong performance and has seen its own rotation in 2025. Investors have shifted from mid-caps into large-cap stocks, and elevated precious-metals prices have pushed single-commodity gold and platinum mining companies higher on the Johannesburg Stock Exchange.

### EXHIBIT 5

#### South Africa Equity and Commodity Market Performance



Source: Bloomberg.

Data as of Sept. 30, 2025.

Returns are in ZAR. FTSE/JSE Indexes are used for: SA Financials, SA Equity, SA Industrials, and SA Resources. Spot commodity prices are used for Platinum and Gold.

Despite strong recent performance, the combination of lower prices and underappreciated market fundamentals suggests that a shift in sentiment could further unlock emerging-market value creation through increased liquidity and international investor flows. South Africa is well-positioned with an improved fundamental outlook through the formation of a coalition government in 2024, an independent central bank, and public/private partnerships that have addressed the power supply challenges that businesses have faced.

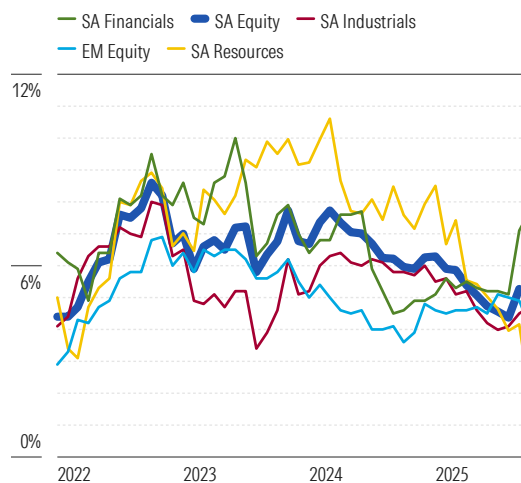
### All That Glitters Isn't Gold

Through the lens of Morningstar's expected return framework, South African Resources currently ranks quite low from a pure valuation perspective after the strong run in gold and platinum miners. That rally appears to be strongly driven by sentiment as precious-metal prices continue to trade higher without any significant improvements in the underlying fundamentals of the listed companies. By contrast, globally integrated diversified mining companies like BHP, Anglo American, and Glencore that have secondary listings on the Johannesburg Stock Exchange trade at more attractive valuations and allow investors to more directly participate in a fundamentally driven commodity rally.

While gold and platinum miners are more fully priced, the diversified mining opportunity set still offers investors attractive expected returns that are not especially evident at the aggregate index level. Maintaining considered allocations that directly access globally diversified miners is expected to contribute to higher investment returns than accessing an index that more broadly tracks the sector.

EXHIBIT 6

#### South African Equity Expected Returns



Source: Morningstar Investment Management. Data as of Sept. 30, 2025.  
Returns are expressed in Real ZAR terms. FTSE/JSE indices are used for: SA Financials, SA Equity, SA Industrials and SA Resources. MSCI EM is used for EM Equity.

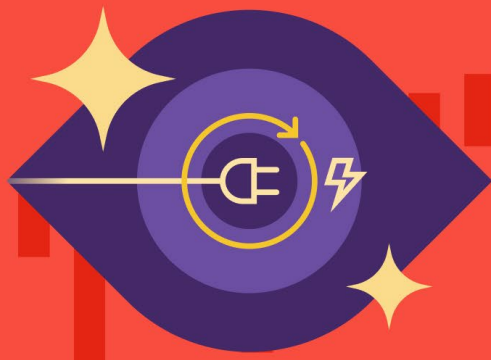
South African financials offer the most attractive upside for local rand-based investors with the Big Five banks—FirstRand, Standard Bank, Absa, Capitec, and Nedbank—all trading at reasonable valuations and expected real returns of close to 8%. Banks make up around two-thirds of the South African financials index with strong fundamentals despite a challenged local economy. Risk-taking has been prudently managed with less procyclical credit extension than in previous interest rate cycles and balance sheets that have healthy capital adequacy and liquidity buffers.

### Is South Africa the Missing Piece of Your Emerging-Market Puzzle?

For rand-based investors, South African equities are priced to deliver higher expected returns than both emerging- and developed-market equities. Accessing this opportunity set through the Johannesburg Stock Exchange allows investors to directly invest in the parts of the market that trade at the most attractive valuations—globally diversified resource companies and well-capitalized banks.

In addition, the cheaper access point into Tencent through the combination of exchange-listed Prosus and Naspers provides investors with a rand-based entry point into a high-quality, wide-moat business. Local investors can construct a well-diversified basket of equities where the underlying resources, financials, and industrials sectors provide differentiated payoff profiles and access to offshore earnings without taking on additional currency risk.

For international investors, though, the opportunity is somewhat less tangible. While attractive valuations potentially compensate for increased liquidity and currency risk, the opportunity cost of allocating capital to South Africa over other larger emerging equity markets is relatively high. South Africa does not currently feature as a stand-alone position in the Morningstar Global Funds that were launched in September 2024. The underlying mix of resources, industrials, and financials exposure can be more efficiently accessed through selective allocations to countries like Brazil and Mexico, while countries like South Korea and China provide access to a higher-quality technology opportunity set than South Africa presents.



## 2026 Global Outlook Report

# Asia Outlook: China's Quiet Reset

- ▶ China's anti-involution policies aim to reduce overcapacity and support industry leaders in key sectors.
- ▶ Electric vehicles, batteries, and cement are likely beneficiaries of policy-driven consolidation.
- ▶ Fund managers remain cautious, preferring selective exposure over broad bets.



Claire Liang, Principal  
Manager Research, Asia,  
Morningstar Asia Ltd



**Kai Wang**  
Market Strategist,  
Morningstar Asia Ltd

Amid the hype surrounding US technology companies and the turbulence from President Donald Trump's tariffs, Asian stocks have quietly outperformed their US counterparts in 2025.

As investors broadened their search beyond the “Magnificent Seven,” much of the region's gains came from a narrowing valuation gap with US markets. Looking ahead, though, the next leg of returns may be driven by more fundamental shifts—chief among them, China's emerging “anti-involution” campaign, which aims to curb deflation and foster a more disciplined, profitable market environment.

#### **What Will Anti-Involution Policies Accomplish?**

China's current deflation problem can be attributed to price wars driven by competitors with excess capacity underselling each other, leading to market stagnation. China is seeking to tackle the problem through anti-involution policies that will reduce overcapacity either through production limits or reductions in subsidies. Against this backdrop, it is important for investors to understand the implications of these policies on individual companies and sectors in addition to the overall economy.

In summary, these policies are likely to benefit industry leaders by squeezing out smaller peers whose operations become unviable. Among the industries most impacted, we've identified electric vehicles, batteries, cement, and solar as those where industries are likely to benefit the most.

While this naturally creates opportunities for the leading companies in these areas, it is important to remember that economic and industrial policies take time to implement, are not always successful, and their impact is unlikely to be felt immediately. Consequently, the investment returns associated with these policies may take years to realize, and investors seeking to benefit from these changes must remain patient and focused on the long term.

Most fund managers with whom we interact agree that anti-involution policies are beneficial in addressing China's overcapacity and deflationary pressures. However, many offshore China equity fund managers have yet to take meaningful positions aligned with this theme, illustrating the uncertainty of its impact.

#### **What Companies Would Benefit From Government Policies?**

The most likely beneficiaries of anti-involution are companies that have the largest market share and high operating margins as the Chinese government shifts production from companies that are unprofitable or have low market share toward industry champions. The subsequent increased capacity utilization of these champions should be reflected in higher earnings growth, which should lift stock prices and create capital for further investment to maintain their competitive advantage.

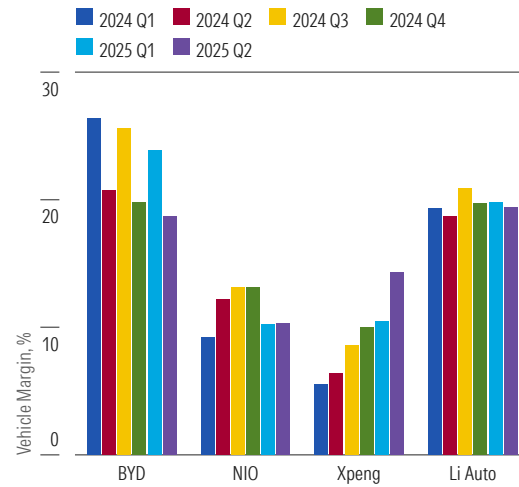
Examples of likely beneficiaries under coverage by our analysts include electric vehicle conglomerates such as BYD and Geely, lithium battery manufacturer CATL, and cement producer Anhui Conch Cement. However, this approach is not a panacea as there is overcapacity in other industries such as steel, solar, and oil refining, which lack clear market leadership, and so it is uncertain whether the policy would be successful, and if so, which companies would benefit.

#### **EVs and EV-Related Batteries Are Likely Campaign Targets**

The EV and battery sectors provide a good example of how anti-involution policies would work. In the global market where Chinese companies already enjoy a significant market share, it's natural that the government would wish that its national champions remain profitable and able to fund future growth by generating attractive profit margins. BYD and Geely Auto appear to be the likely beneficiaries from consolidation driven by these policies. BYD already has about 15% of the passenger vehicle market (includes EV and non-EV). Meanwhile, Geely increased its market share from 1% in 2008 to 8% in 2024 and should benefit from continued growth in China's automotive sales as well.

EXHIBIT 1

Major EV Car Makers' Vehicle Margins 2024-25



Source: Morningstar Research, Company Reports.

Data as of Sept. 30, 2025.

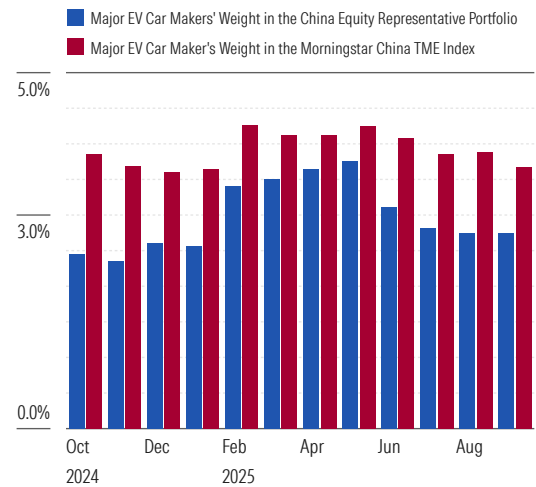
Within the battery market, CATL is another likely beneficiary given its massive lead over rivals with its 38% market share.

### How Have Fund Managers Positioned Themselves So Far?

The uncertain impact of the anti-involution campaign can be observed in the way active China equity fund managers have generally been underweight major EV car makers as shown in Exhibit 2. This view is exemplified by Schroders ISF China Opportunities' Louisa Lo, who is skeptical of consolidation, citing the myriad of new models that are maintaining a very competitive environment.

EXHIBIT 2

China Equity Fund Manager Still Underweight Major EV Car Makers



Source: Morningstar Direct.

Data as of Sept. 30, 2025.

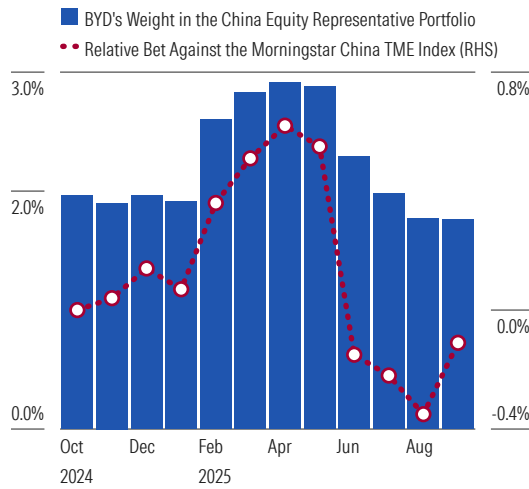
The China Equity Representative Portfolio is built by using the active funds in the Morningstar EAA Fund China Equity Category; funds are equal weighted to build an average portfolio; the major EV car makers included in the chart are BYD, Geely Auto, XPeng, Li Auto, and NIO.

The unforeseen consequences of anti-involution can be seen in the fact that many fund managers have recently reduced their exposure to BYD, which was previously favored (see Exhibit 3), because of concerns that the government's campaign may limit its ability to leverage vertical integration for further price cuts to gain market share.

Instead, some managers preferred EV players that can differentiate themselves. For example, Howard Wang and Rebecca Jiang of JPM China have held an overweight position in Xiaomi, believing its background in technology and software would enhance its chances of developing smart EVs. Meanwhile, Shao Ping Guan of Allianz All China Equity recently purchased XPeng, highlighting its advancements in autonomous driving.

### EXHIBIT 3

#### BYD Was the Preferred Option Among EV Car Makers Until Recently



Source: Morningstar Direct.

Data as of Sept. 30, 2025.

The diverse ways specialist fund managers are responding to the Chinese government's policy highlights both the complexity and uncertainty associated with this program. This will naturally be off-putting for many investors who desire an uncomplicated narrative and near-term results, but it's these situations that can deliver the best long-term returns for those prepared to undertake the necessary research and remain patient in their execution.



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