

Morningstar® Markets Observer

Q1 2026

Morningstar® Research & Investments

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Market Overview



Market Dashboard

Emerging and developed-market ex-US stocks performed well in the fourth quarter, bringing full-year returns to around 30% for both. Small-cap US stocks marginally outperformed large-cap stocks in the fourth quarter, but still suffered a comparatively weak year. Bonds were also broadly higher in the quarter and for 2025, with emerging-market bonds leading the way.

Equities	Dividend Yield	Return (%)					
		YTD	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Morningstar US Large Cap	1.0	19.8	3.0	19.8	25.8	15.0	15.6
Morningstar US Small Cap	1.5	12.2	3.1	12.2	14.5	7.3	9.7
Morningstar Developed-Markets ex-US	2.7	32.4	5.2	32.4	17.4	9.0	8.5
Morningstar Emerging Markets	2.2	29.8	4.1	29.8	15.7	4.8	8.7

Fixed Income	Yield to Maturity	Return (%)					
		YTD	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Morningstar US Core Bond	4.3	7.1	1.0	7.1	4.6	-0.4	2.0
Morningstar US Corporate Bond	4.8	7.6	0.6	7.6	6.0	-0.1	3.2
Morningstar US High-Yield Bond	7.0	8.7	1.4	8.7	10.1	4.5	6.5
Morningstar US Municipal Bond	3.9	3.9	1.5	3.9	4.0	0.8	2.4
Morningstar Emerging-Markets Bond	5.6	10.9	1.4	10.9	8.0	0.8	4.0

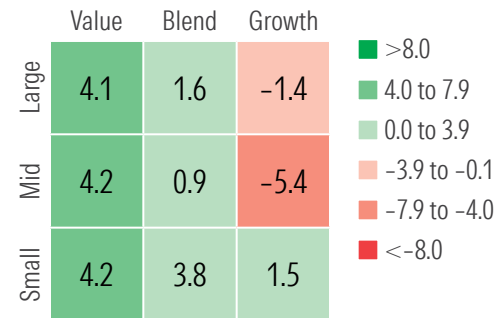
Broad Commodities	Return (%)					
	YTD	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Bloomberg Commodity	15.8	5.8	15.8	4.0	10.6	5.7

Fundamental Measures	P/E	P/B	P/S	P/C
	29.6	6.3	4.9	22.5
18.3	2.3	1.6	11.2	
18.2	2.0	1.6	10.6	
16.1	2.0	1.7	10.8	

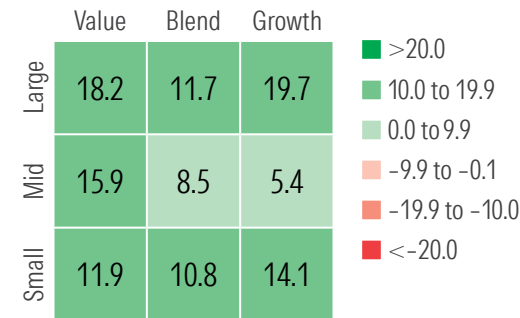
Interest Rates (%)	Current	1 Yr Ago
	2 Yr Treasury	3.5
5 Yr Treasury	3.7	4.4
10 Yr Treasury	4.2	4.6
20 Yr Treasury	4.8	4.8
Prime Rate	6.8	7.5

Commodities (USD)	Current	1 Yr Ago
	Brent Crude Oil	61
Gold	4,368	2,609

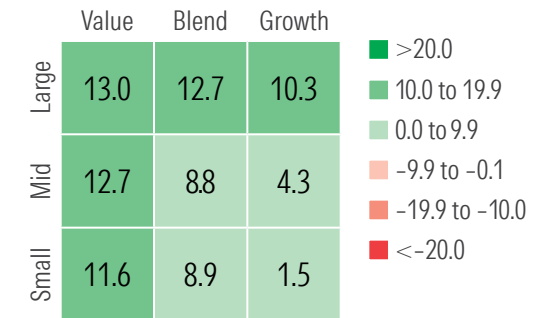
3-Month Return (%)



1-Year Return (%)

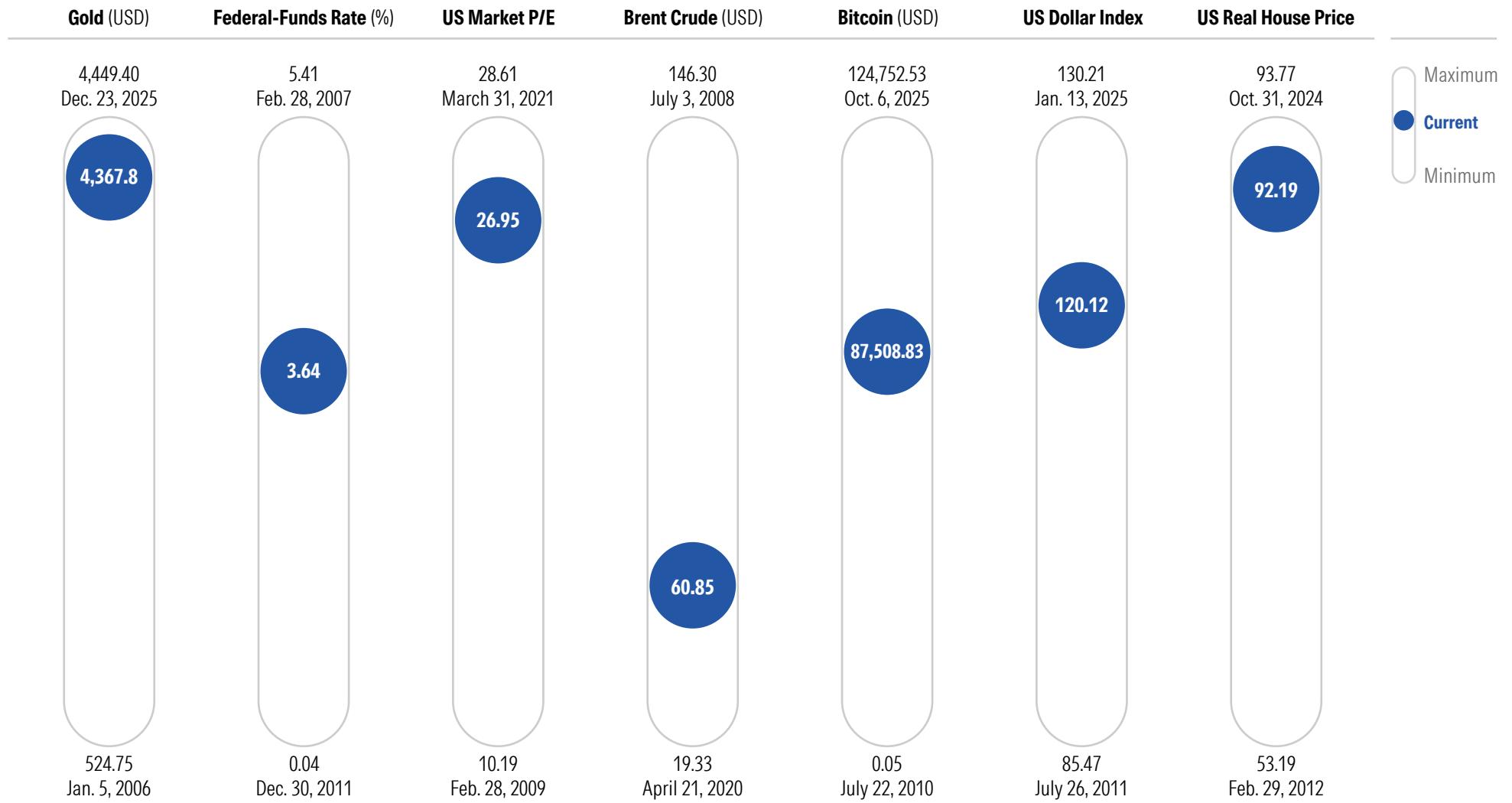


5-Year Return (%)



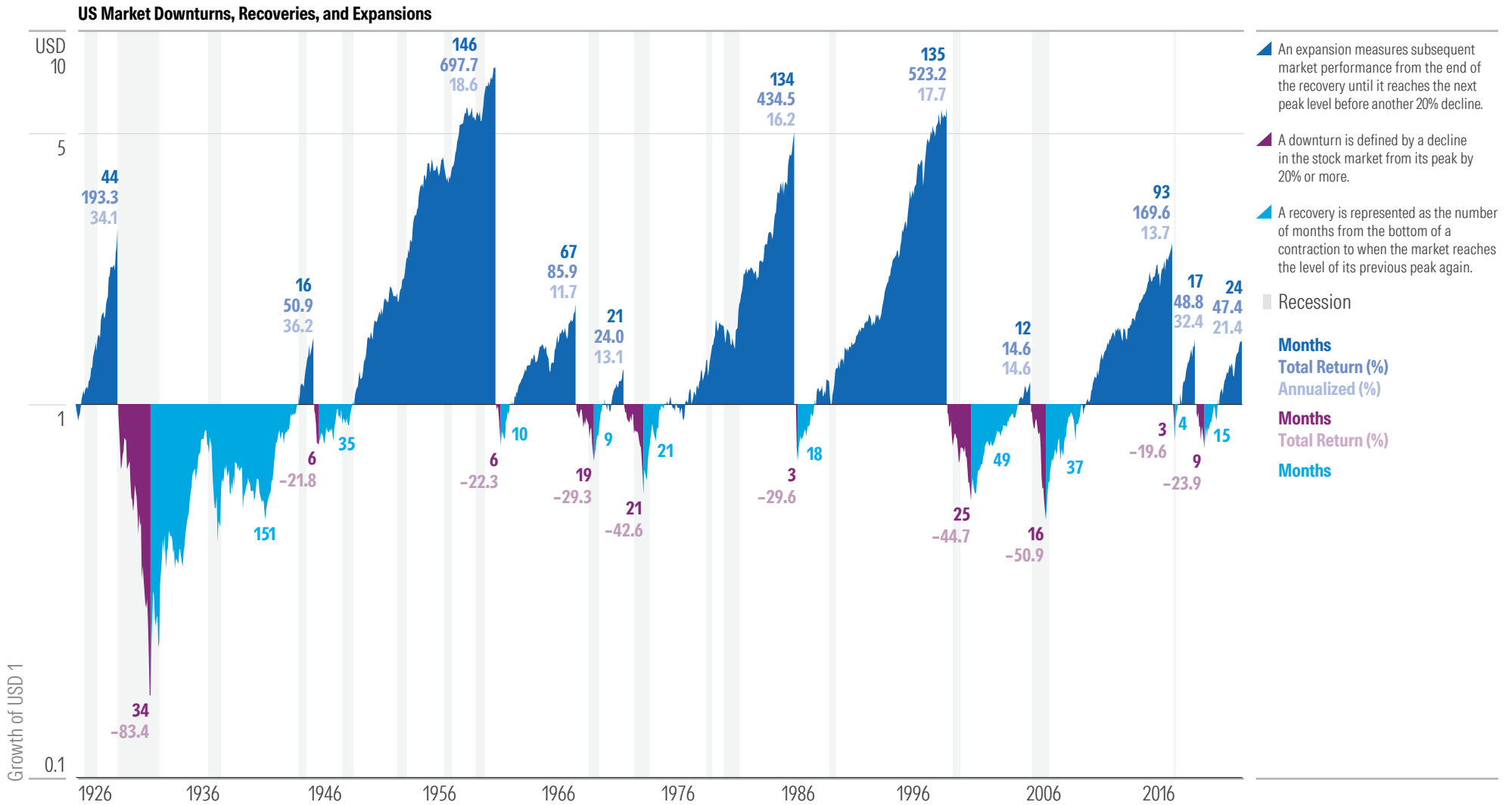
Market Thermometer

Gold and bitcoin traveled different paths in the fourth quarter of 2025, with bitcoin falling as gold tested new highs. The federal-funds rate fell again as the Federal Reserve cut rates by 25 basis points in both October and December. House prices remained high, while the dollar and crude oil declined moderately in the fourth quarter.



US Market Continues Rally in Fourth Quarter

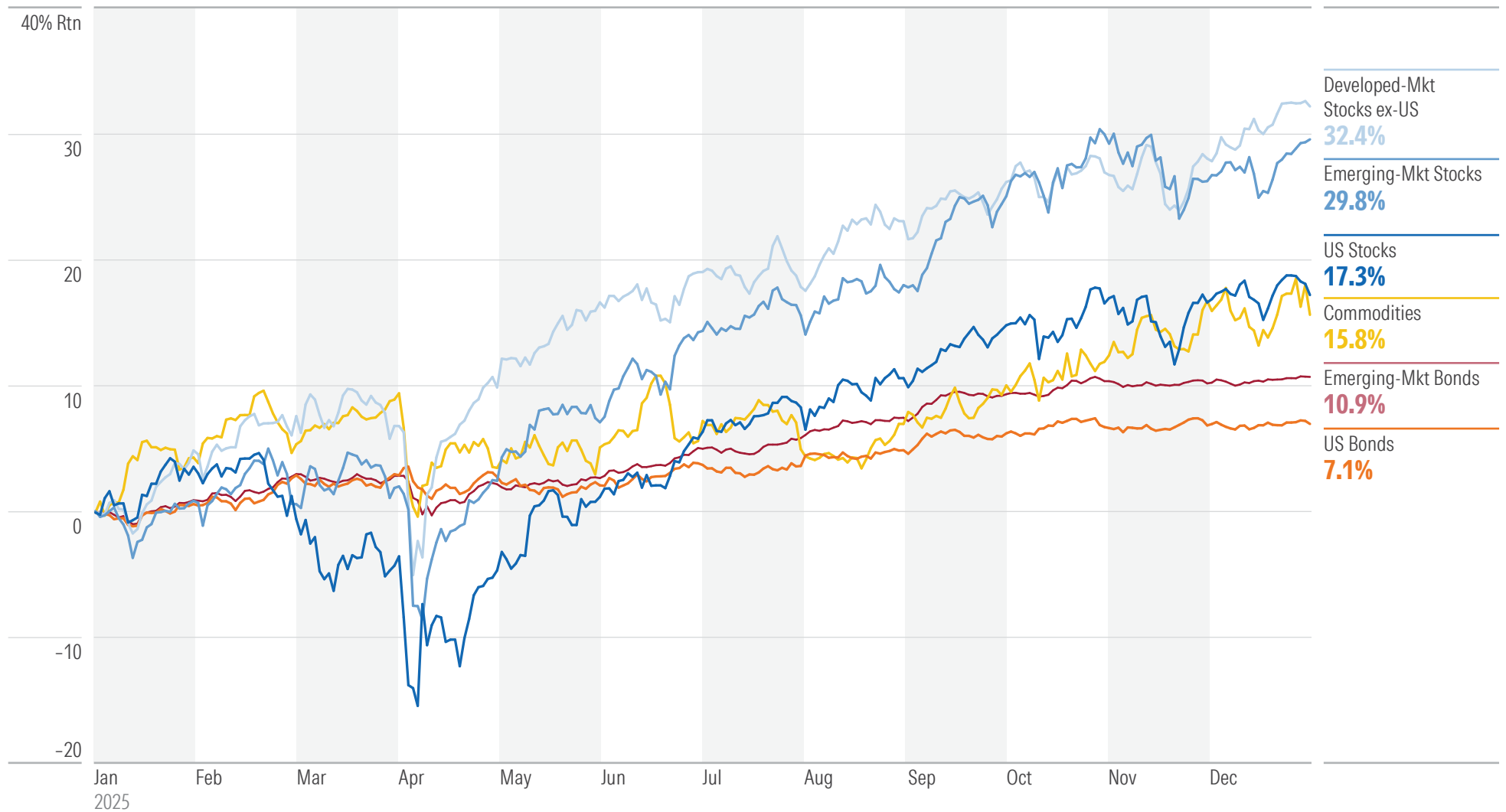
After another strong quarter, the US market's expansion reached 24 months, with a cumulative return of 47.4% since it recovered from 2022's fall. Unlike in prior quarters, small caps also participated in the rally, signaling broader market strength as attention shifted away from the largest technology stocks.



- ▲ An expansion measures subsequent market performance from the end of the recovery until it reaches the next peak level before another 20% decline.
 - ▲ A downturn is defined by a decline in the stock market from its peak by 20% or more.
 - ▲ A recovery is represented as the number of months from the bottom of a contraction to when the market reaches the level of its previous peak again.
 - Recession
- Months**
Total Return (%)
Annualized (%)
- Months**
Total Return (%)
Months

Trailing 12-Month Performance of Major Asset Classes

Non-US stocks raced ahead in 2025, with both developed- and emerging-markets stocks outperforming US stocks by double digits. Emerging-market bonds also had a strong year, edging out US bonds thanks to a weaker dollar. US bonds lagged other regions and asset classes, but the index's 7.1% return in 2025 was its best since 2020.

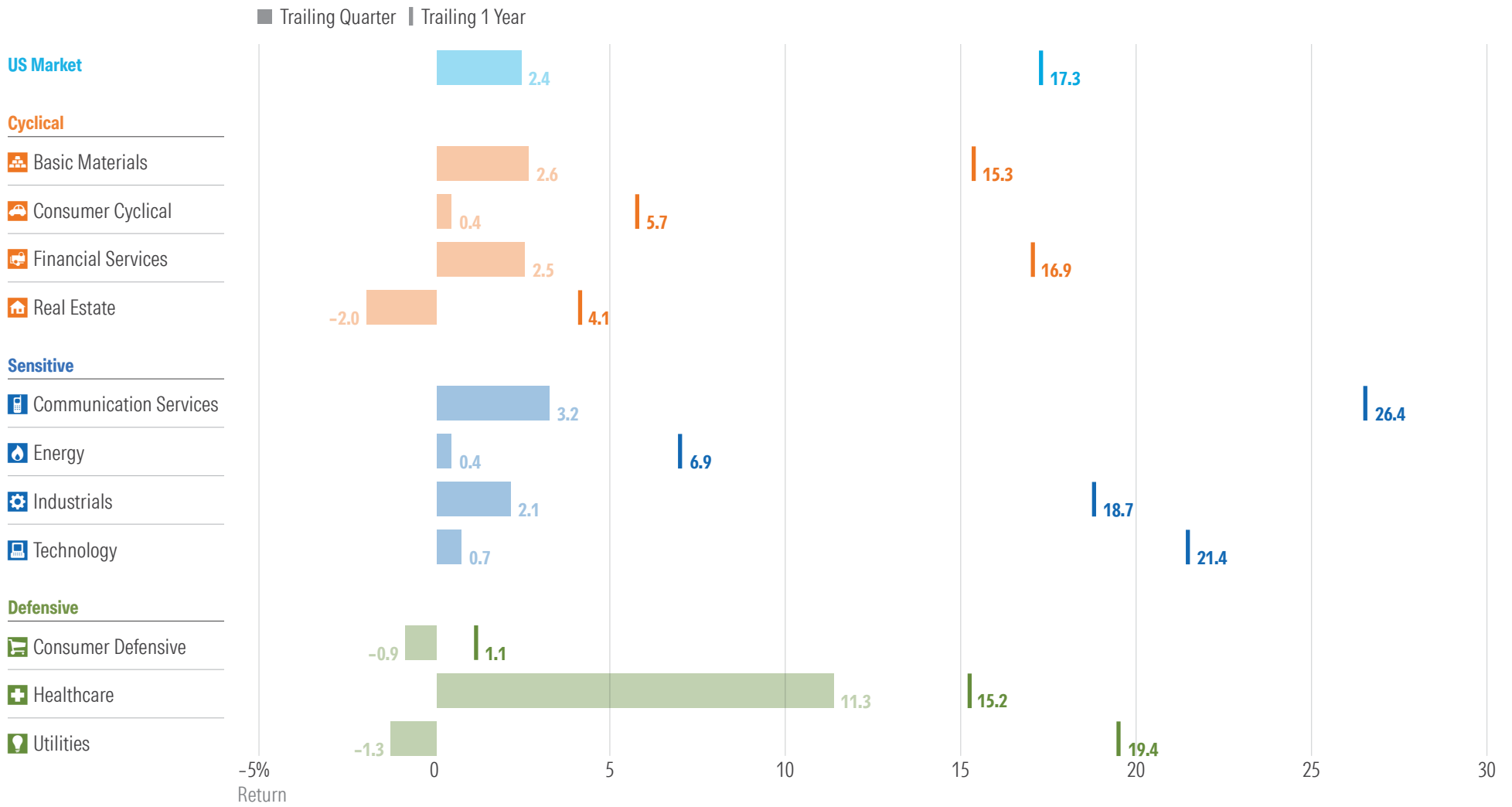


QM01

Source: US stocks—Morningstar US Market Index. Developed-market stocks ex-US—Morningstar Developed Markets ex-US Index. Emerging-market stocks—Morningstar Emerging Markets Index. US bonds—Morningstar Core Bond Index. Commodities—Bloomberg Commodity Index. Data as of Dec. 31, 2025. ©2026 Morningstar. All Rights Reserved.

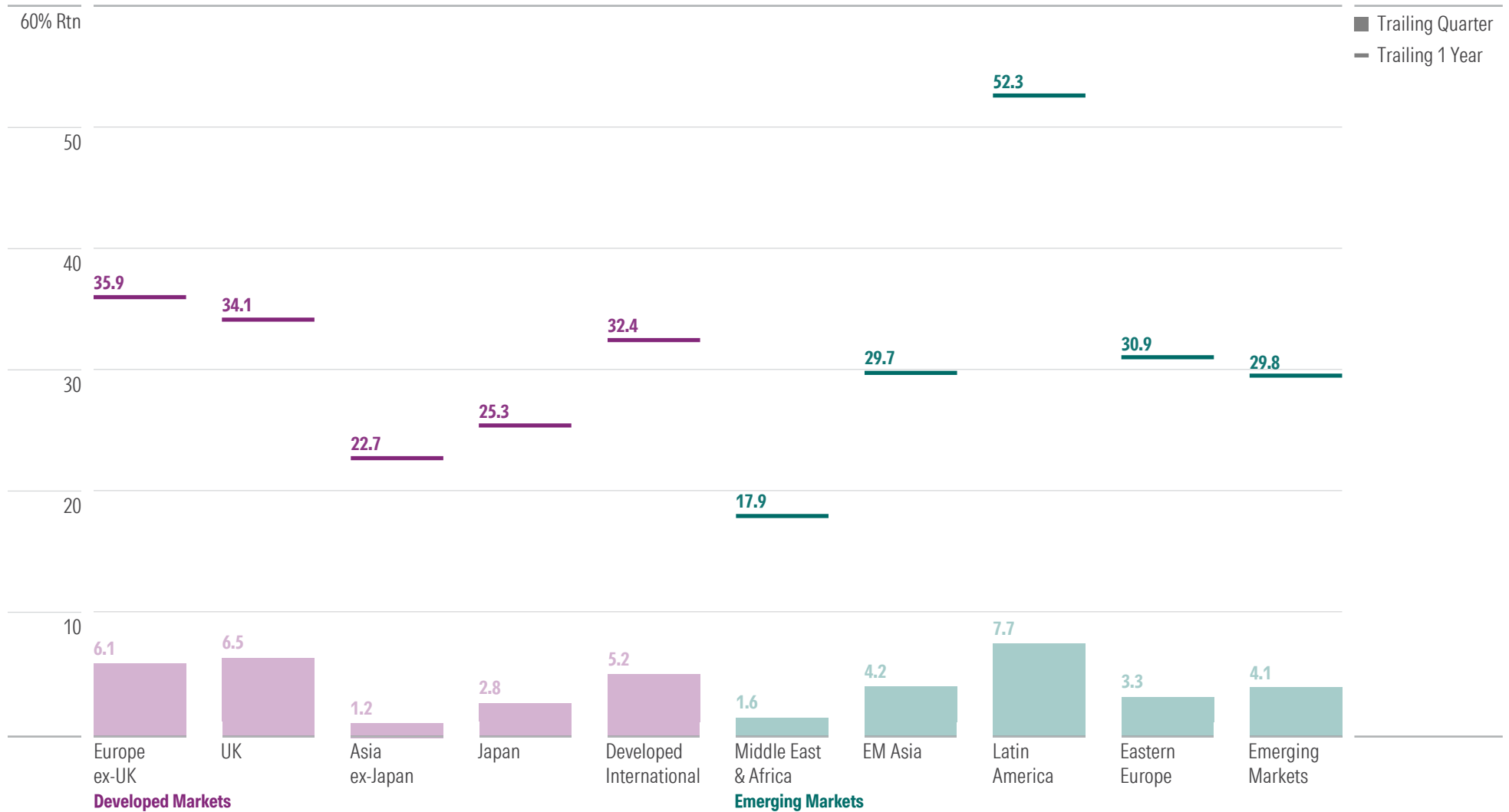
US Equity Sector Performance

The US stock market rose in the fourth quarter of 2025, with eight of 11 sectors finishing the quarter in positive territory. All 11 finished the year positive. Healthcare was by far the best performer of the quarter as policy uncertainty abated. Utilities was one of three sectors down last quarter, yet it still enjoyed strongly positive results for the year partly thanks to artificial-intelligence-related infrastructure spending.



International Stock Market Performance

International markets enjoyed another strong quarter thanks to US dollar depreciation and macroeconomic tailwinds. The UK's 6.5% quarterly gain was the most of any international developed market, while Europe's 35.9% 2025 gain led all international developed markets. All emerging-market regions saw growth in the fourth quarter, too, with Latin America leading the way, up 7.7% in the fourth quarter and 52.3% in 2025.

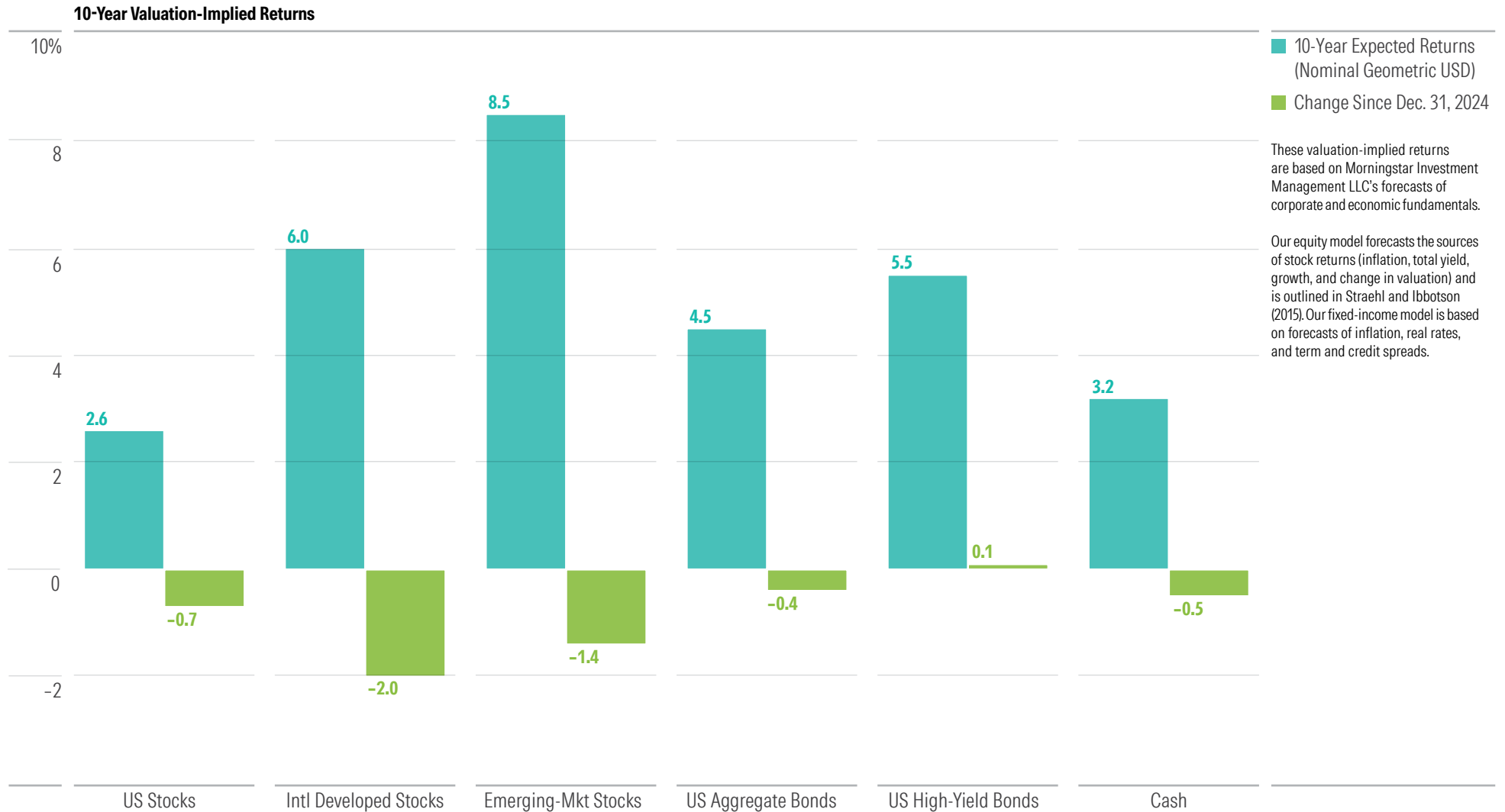


QMO3

Source: Morningstar Indexes. All returns are calculated in US dollars. Data as of Dec. 31, 2025. ©2026 Morningstar. All Rights Reserved.

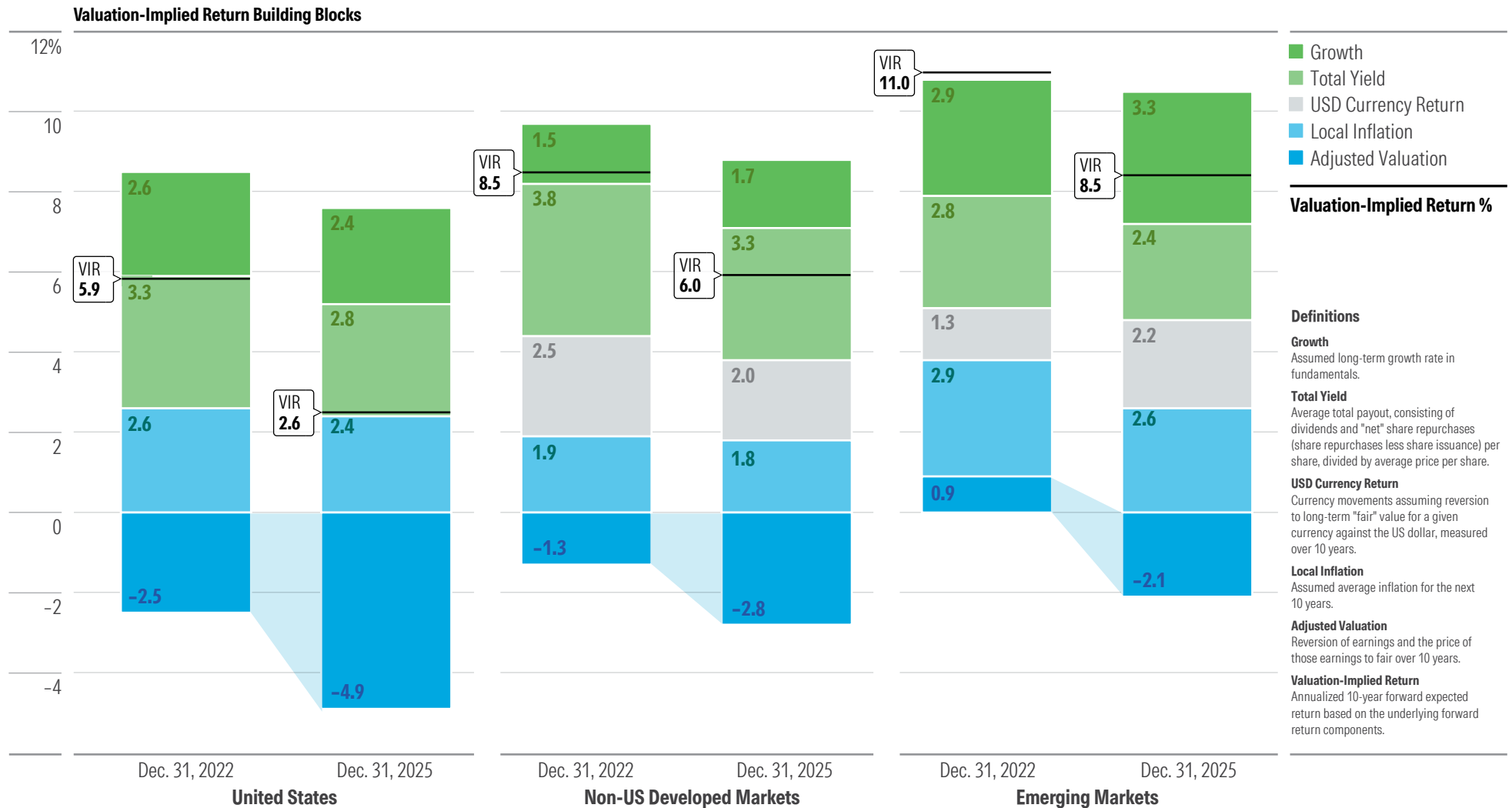
Valuations Suggest Lower Long-Term Stock Returns

Valuation-implied returns serve as a useful measure for cross-asset-class comparisons. US and international developed stocks have seen large declines in VIRs over the past year due to ballooning valuations. Emerging-market stocks maintain the highest VIR despite declining 1.4% in the last 12 months. US aggregate bonds and cash have seen VIRs fall, while the VIR of high-yield bonds remains mostly steady.



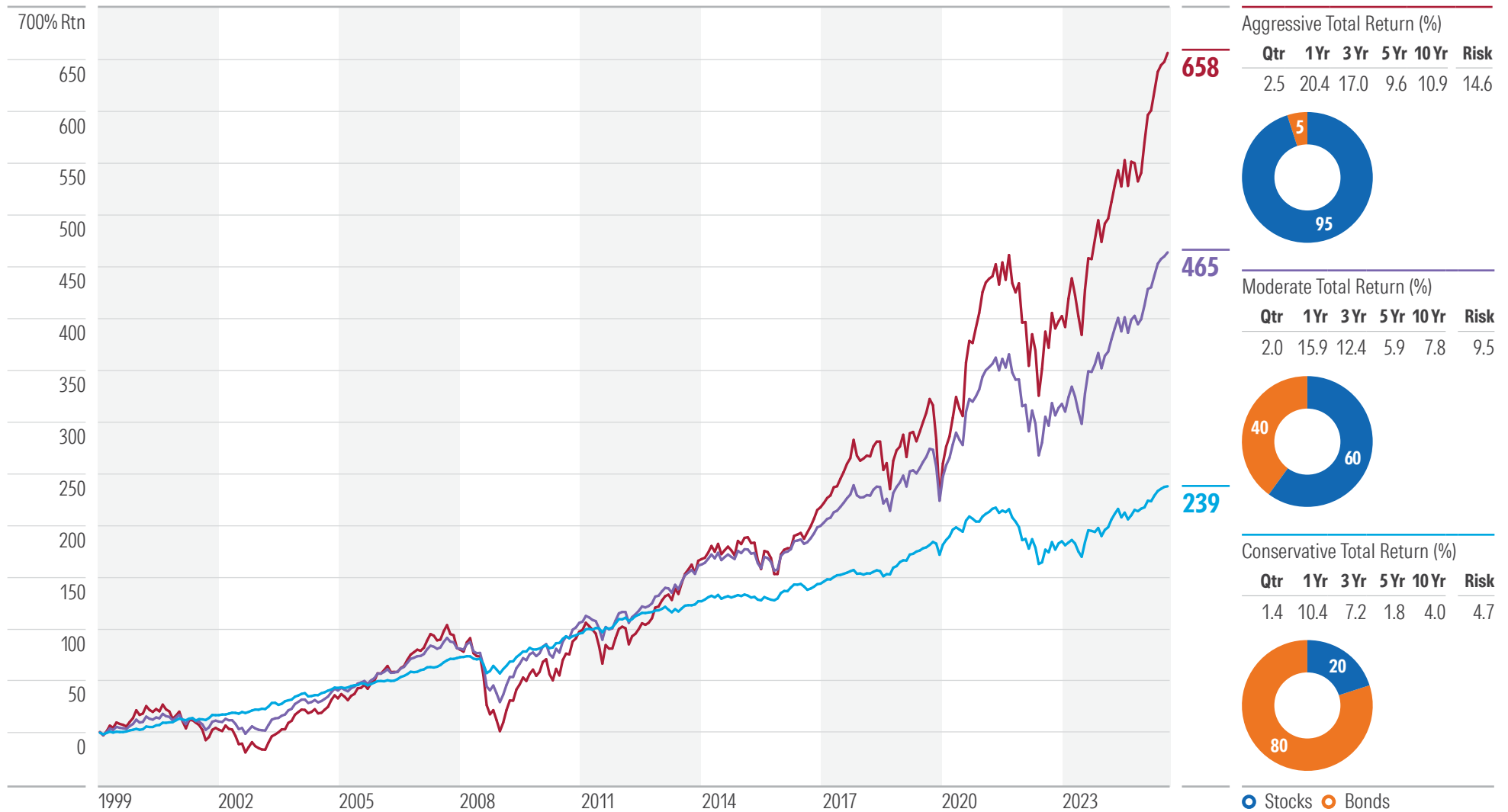
Valuations Suggest Lower Future Stock Returns

Valuation-implied returns have declined for each of the three broad regions since December 2022. Emerging-market stocks currently have the highest valuation-implied return, driven by positive expected growth and currency returns. Conversely, US stocks have the lowest valuation-implied return because of an expected reversion of P/E multiples back to fair value.



Performance of Risk-Based Portfolios

The aggressive, moderate, and conservative risk-based portfolios all posted gains in the fourth quarter of 2025 and for the full year. Relative performance aligned with each portfolio's risk level, with equity-heavy portfolios doing better over the course of the year because of the continued strength of US and international stocks.



QAA2

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Source: Conservative portfolio—Morningstar Conservative Target Risk Index. Moderate portfolio—Morningstar Moderate Target Risk Index. Aggressive portfolio—Morningstar Aggressive Target Risk Index. Returns for periods longer than one year are annualized. Data as of Dec. 31, 2025. ©2026 Morningstar. All Rights Reserved.

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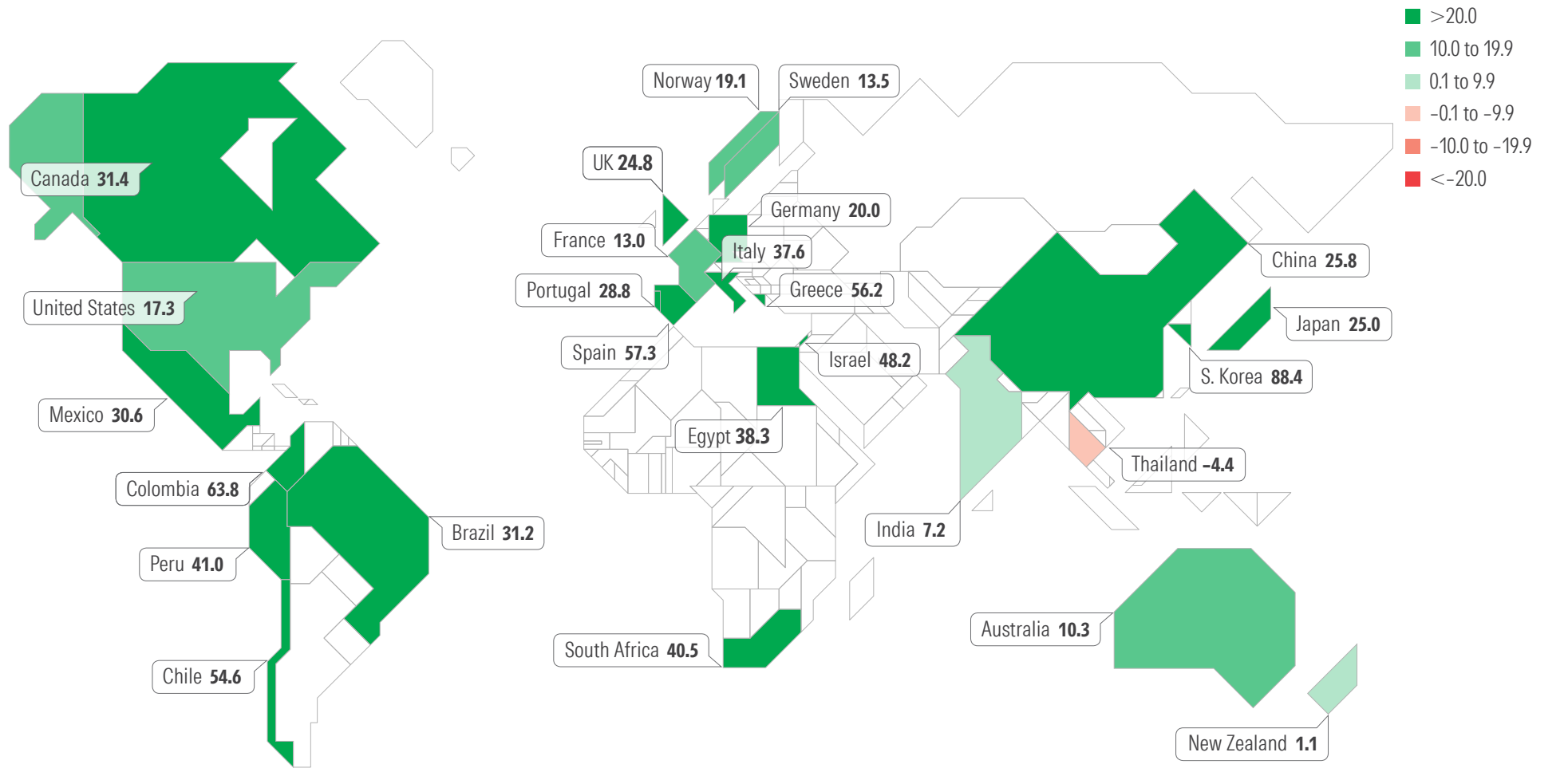
Equities



Global Market Barometer

Global equity markets overcame volatility and uncertainty to deliver strong gains in 2025. South Korea led by a wide margin, while several Latin American and European markets like Colombia, Chile, Greece, and Spain also stood out. Thailand was the only major market negative for the year.

2025 Returns of Morningstar Country Indexes in Base Currency (%)



Equity Market Performance Decomposition

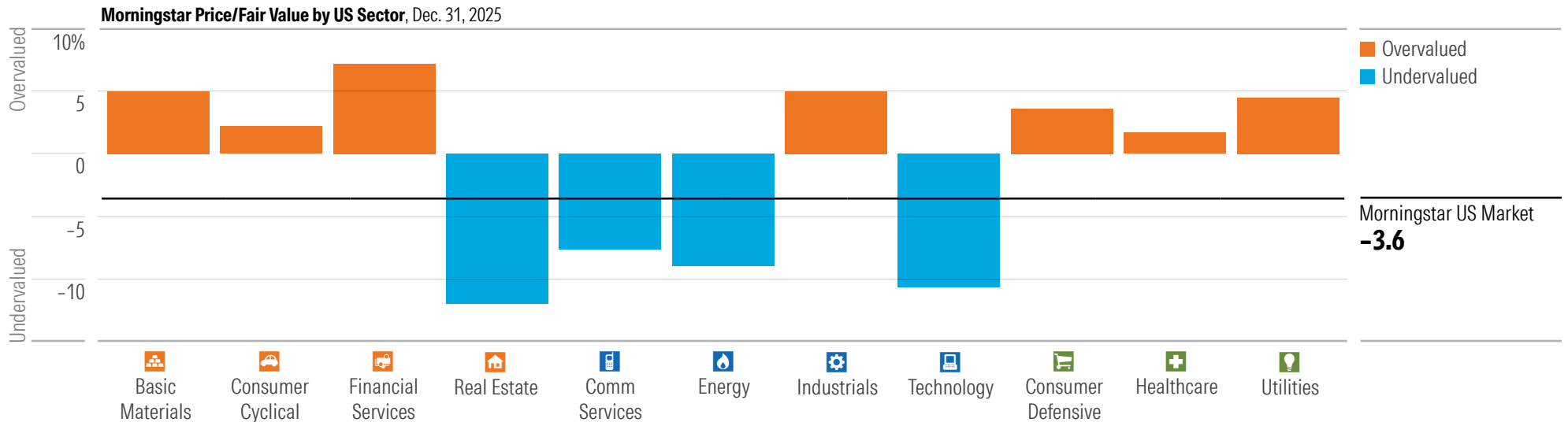
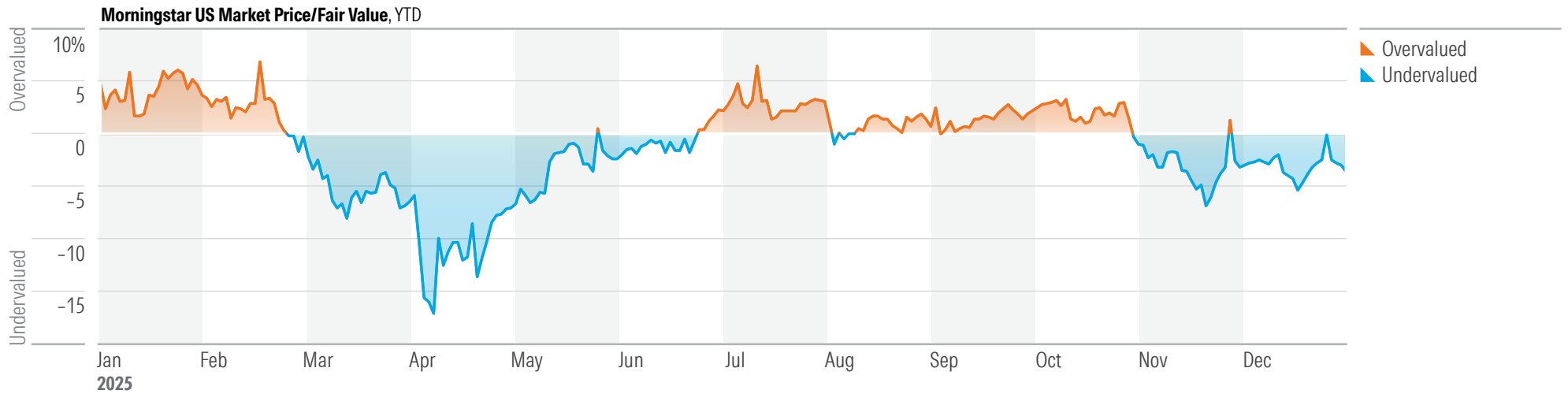
A depreciating US dollar significantly boosted 2025 returns of non-US assets, including in Europe. Continued broad sales declines, potentially due to tariff-related global trade impacts, were offset by margin increases and P/E multiple expansion across most sectors and regions.

2025 YTD Return Decomposition

Countries/Regions	USD Return (%)	≈ Total Yield (%)	+ Δ P/E (%)	+ Δ Margins (%)	+ Δ Sales (%)	+ Δ Currency (%)	+ Other (%)
Europe ex UK	35.5	3.8	14.3	1.9	-1.6	12.9	4.2
Europe	35.4	4.0	15.9	0.4	-0.8	11.6	4.3
United Kingdom	35.1	4.5	20.2	0.2	-1.7	7.1	4.8
EM	33.6	2.8	9.9	15.9	-0.8	1.7	4.1
AC Asia ex JP	32.3	2.5	10.1	14.8	0.6	0.5	3.8
EAFE	31.2	3.8	15.0	8.2	-7.6	8.4	3.4
Japan	24.6	3.0	18.4	1.2	-0.5	0.3	2.2
AC World	22.3	3.0	4.6	11.8	-0.9	2.2	1.6
World	21.1	3.1	4.2	11.1	-0.9	2.2	1.4
USA	17.3	2.8	-0.1	11.7	2.2	0.0	0.8
Developed-Market Sectors							
Communication Services	32.0	3.1	-1.4	24.5	1.2	0.8	3.8
Financial	28.7	4.1	5.8	12.8	0.0	3.3	2.8
Materials	25.8	3.5	7.6	16.3	-8.2	4.6	2.1
Industrials	24.9	2.8	7.7	9.2	-0.4	3.5	2.0
Utilities	24.8	3.6	15.6	5.1	-4.2	3.2	1.4
Information Technology	23.5	2.0	-4.4	10.1	13.1	0.7	2.1
Healthcare	14.8	2.9	-3.8	6.8	5.9	2.7	0.3
Energy	13.3	6.3	27.0	-2.7	-9.5	2.7	-0.6
Consumer Staples	8.7	4.0	0.7	3.8	-2.2	2.9	-0.5
Consumer Discretionary	8.4	2.3	10.1	-2.4	-3.4	1.8	-0.1

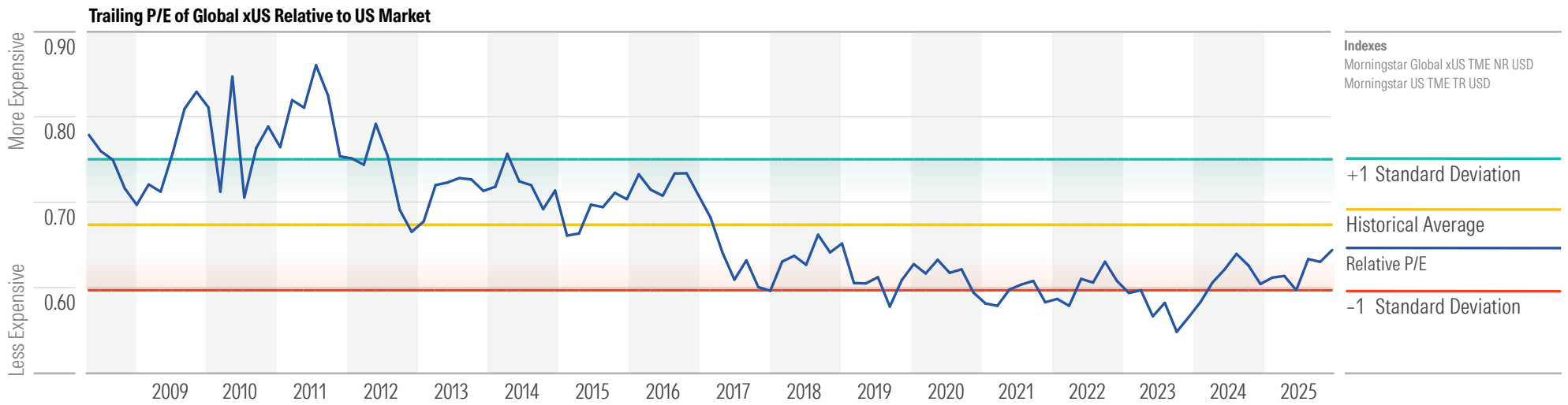
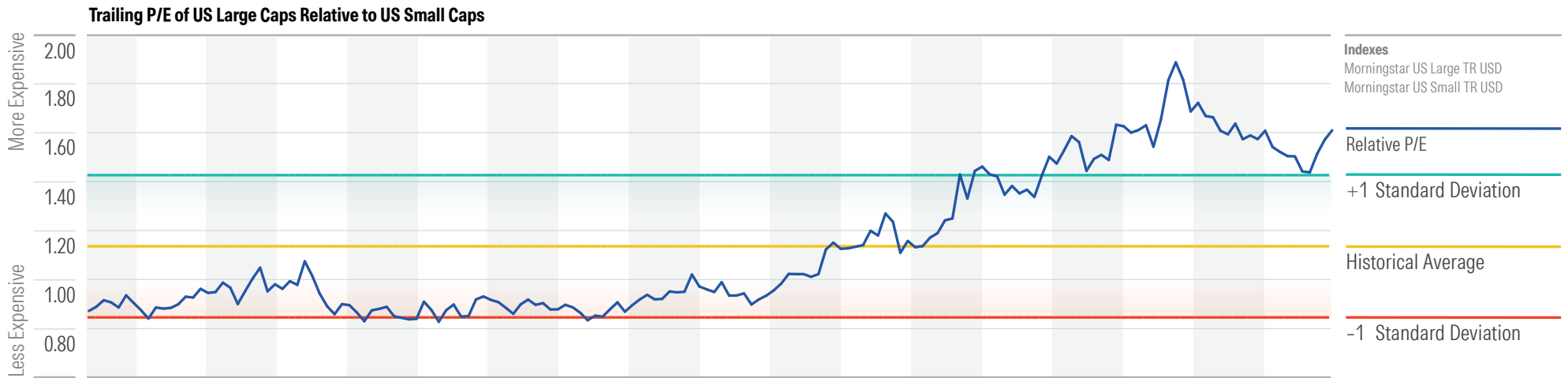
Morningstar Price/Fair Value

The median stock in the Morningstar US Market Index was highly volatile in 2025 and ended the year 3.6% undervalued. Financial services, industrials, and basic materials were the most expensive sectors at the end of 2025. Following localized pullbacks, communications services, energy, and technology sectors were newly undervalued to end the fourth quarter.



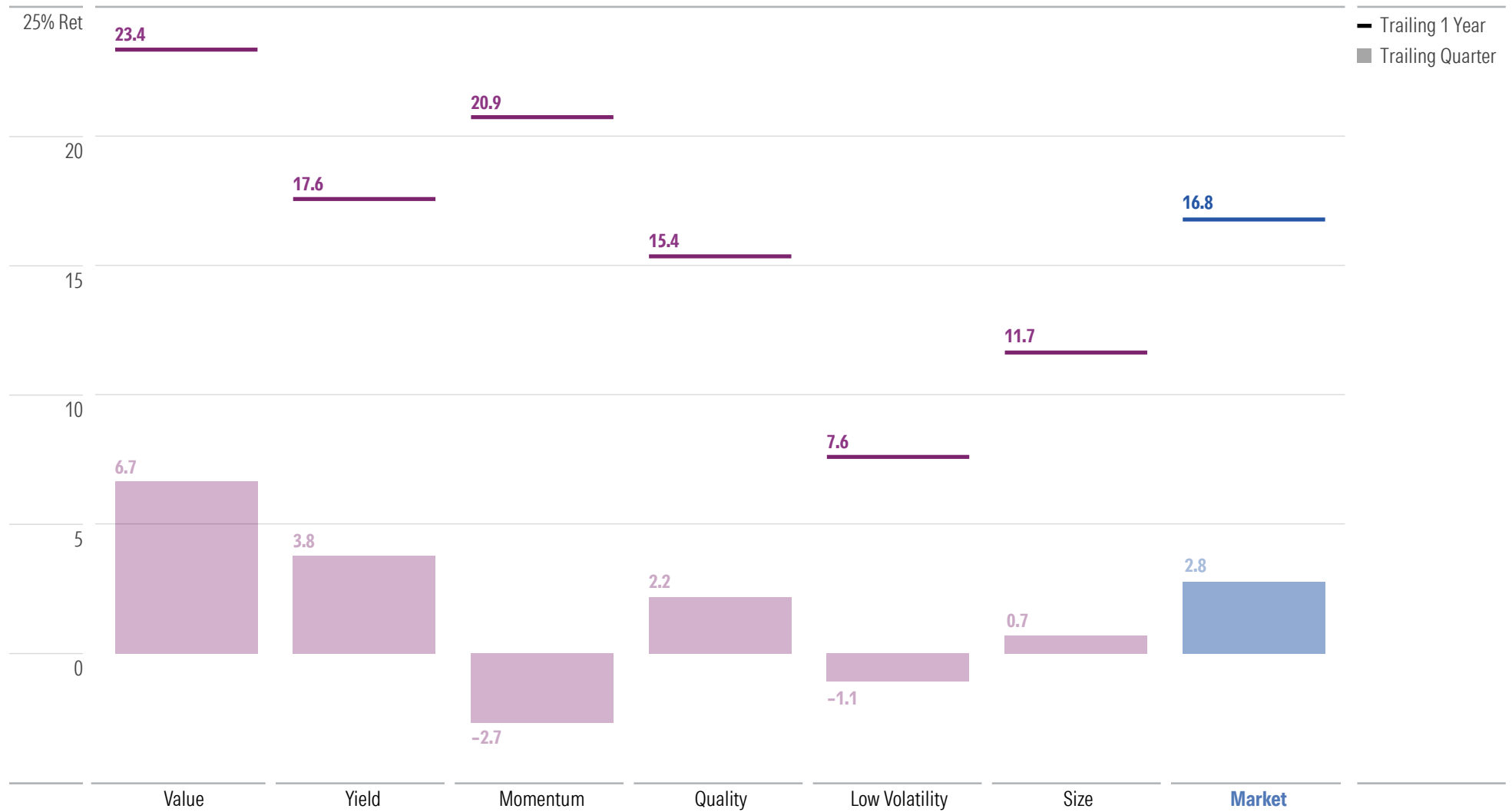
What's Cheap? Breaking Down Valuation Disparities in Global Markets

Relentless investor demand for large technology companies, especially AI-related firms, drove the valuation of US large-cap stocks much higher than their small-cap counterparts in recent years. This is largely a US phenomenon, though, causing global stocks to appear undervalued compared with US stocks.



Value Stocks Surged in 2025

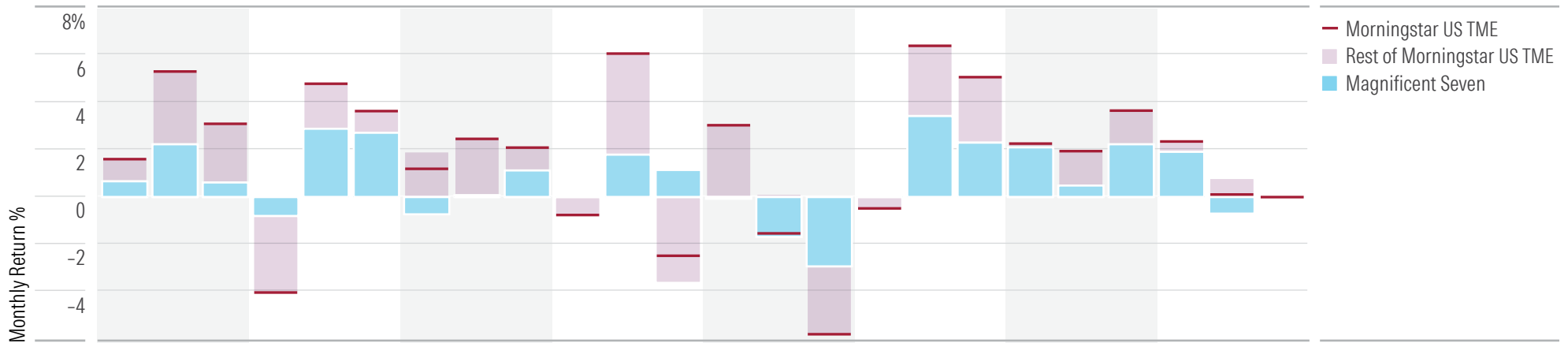
Value saw a resurgence in 2025 as momentum pulled back in the fourth quarter. High-momentum stocks still did well over the last year, though, thanks to AI enthusiasm powering many large-cap stocks higher. Broad market tailwinds meant no Morningstar Factor index declined in 2025, even as low-volatility and small-cap stocks remained relatively out of favor.



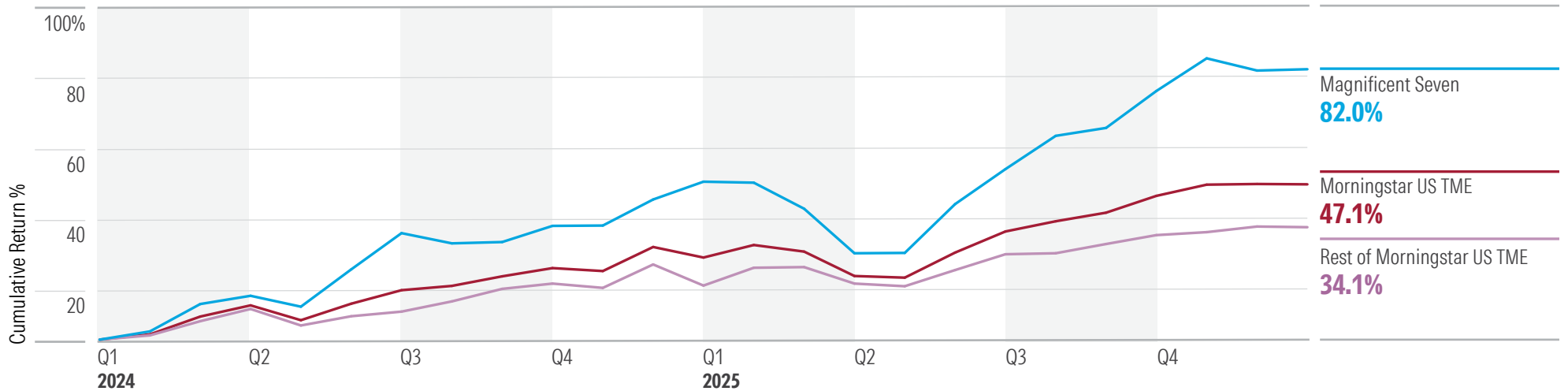
The Magnificent Seven Continue to Move the Market

We separated the so-called Magnificent Seven stocks (Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla) from the rest of the Morningstar US Target Market Exposure Index and formulated an implied monthly return for both components. The 2024 and 2025 cumulative return of the Magnificent Seven nearly doubled that of the broad index, but several slow months pulled those stocks closer to the pack in 2025.

Morningstar US TME Monthly Return Contribution Breakout

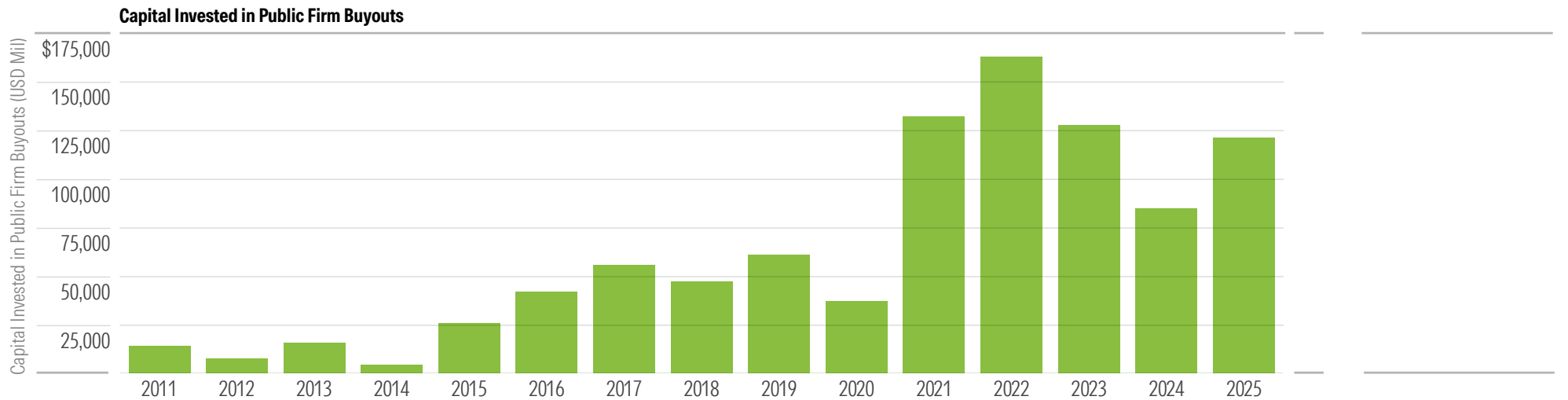
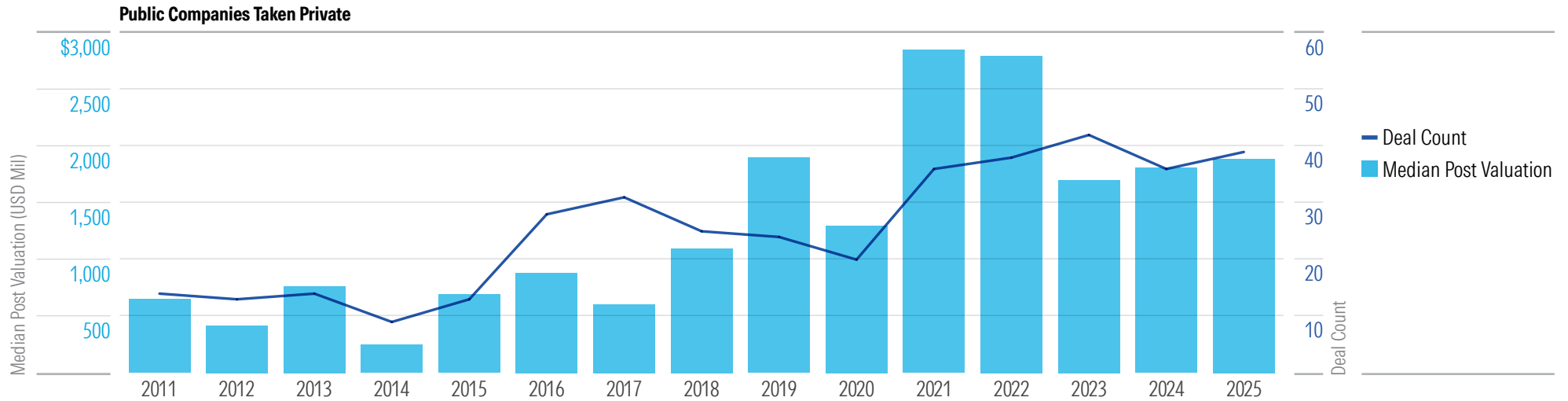


Cumulative Returns (2024-25)



Public Companies Are Increasingly Being Taken Private

Private equity firms are increasingly taking public companies private and are spending billions each year to do so. The trend continued in 2025, with 39 US companies taken private at a median valuation of nearly USD 1.9 billion. Larger stocks are being taken out of public markets, too, as buyout funds look to deploy ample capital. Electronic Arts is expected to be the largest-ever public stock buyout when the deal completes in 2026.



Fixed Income



Emerging Markets Remain Unstoppable

Elevated starting yields anchored performance across most fixed-income segments, with the majority showcasing a positive return for the last quarter and full year. A steepening yield curve benefited short and intermediate duration debt but held back longer duration debt. Credit-sensitive sectors outpaced interest-rate-sensitive ones and emerging-market debt emerged as the top performer for the quarter and the year.

Fixed-Income Returns in USD

■ Trailing Quarter ■ Trailing 1 Year

Government and Municipal Bonds

US Treasury Bonds

Inflation-Linked Bonds (TIPS)

Municipal Bonds

US Securitized

Mortgage-Backed Securities

Asset-Backed Securities

Commercial Mortgage-Backed Securities

US Corporate Credit

US Corporate Bonds

Leveraged Loans

US High-Yield Bonds

Global Bonds

Global Sovereign Bonds

Global Corporate Bonds

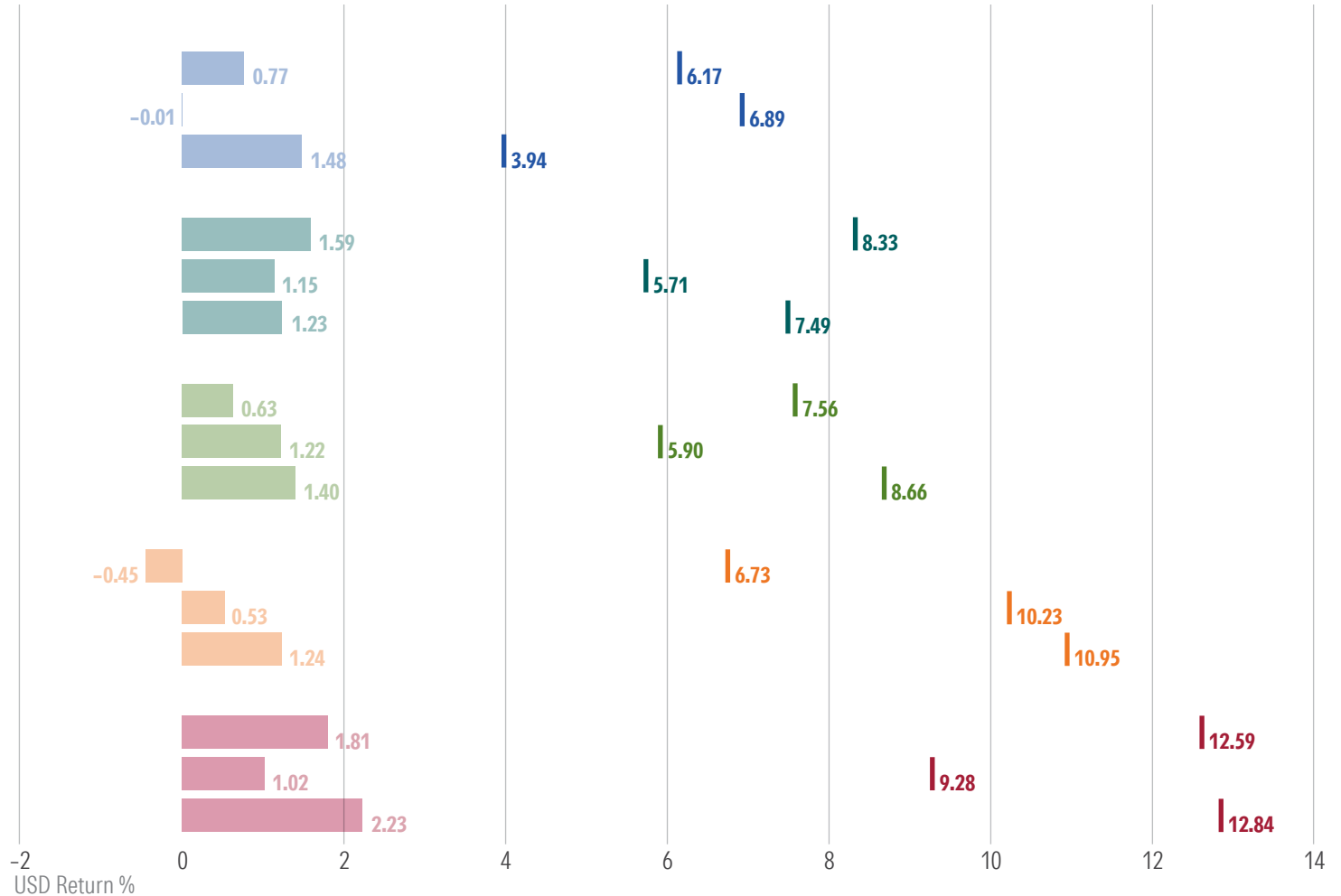
Global High-Yield Bonds

Emerging Markets

Emerging Markets Sovereign

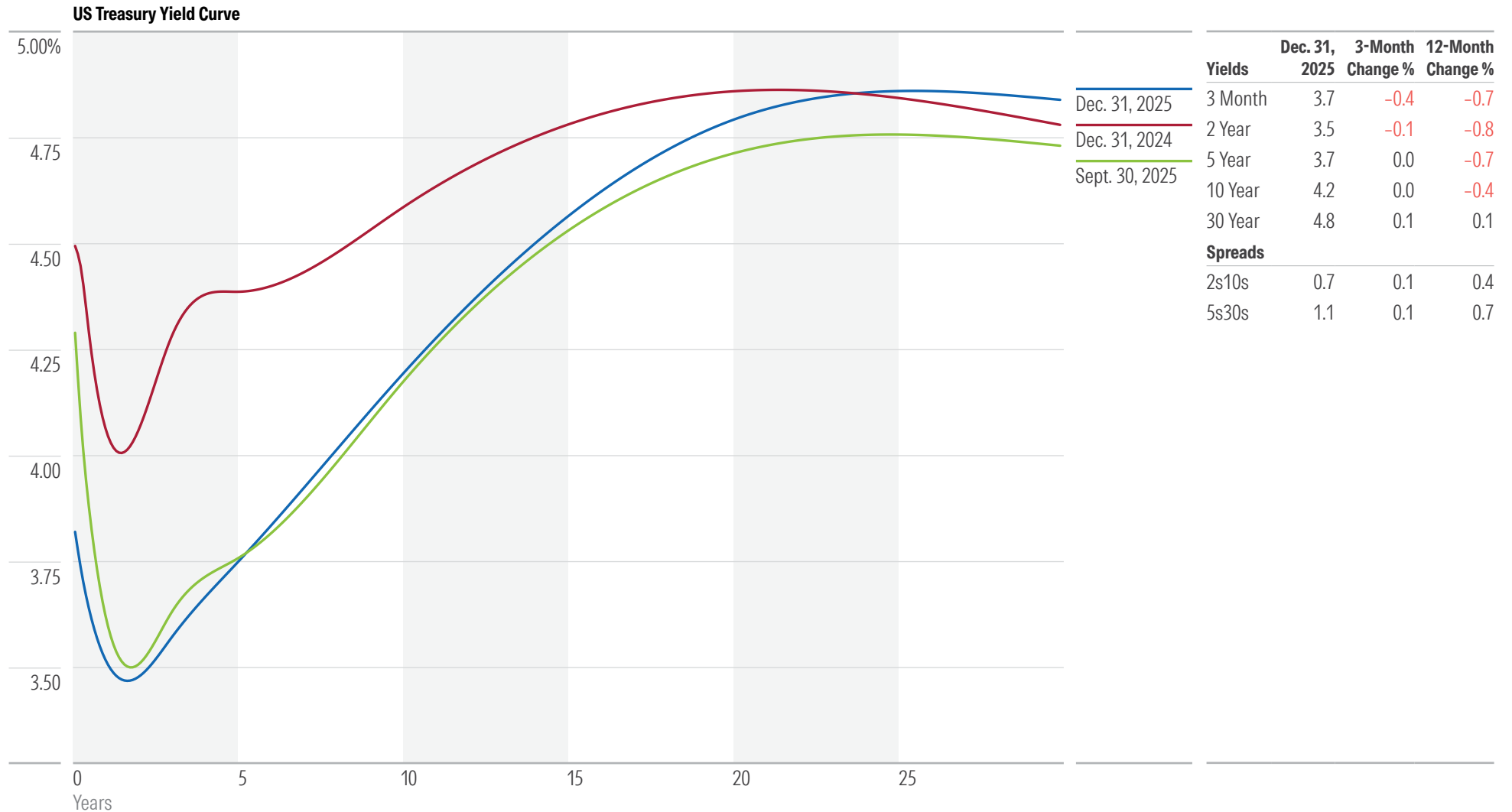
Emerging Markets Corporate

Emerging Markets High-Yield



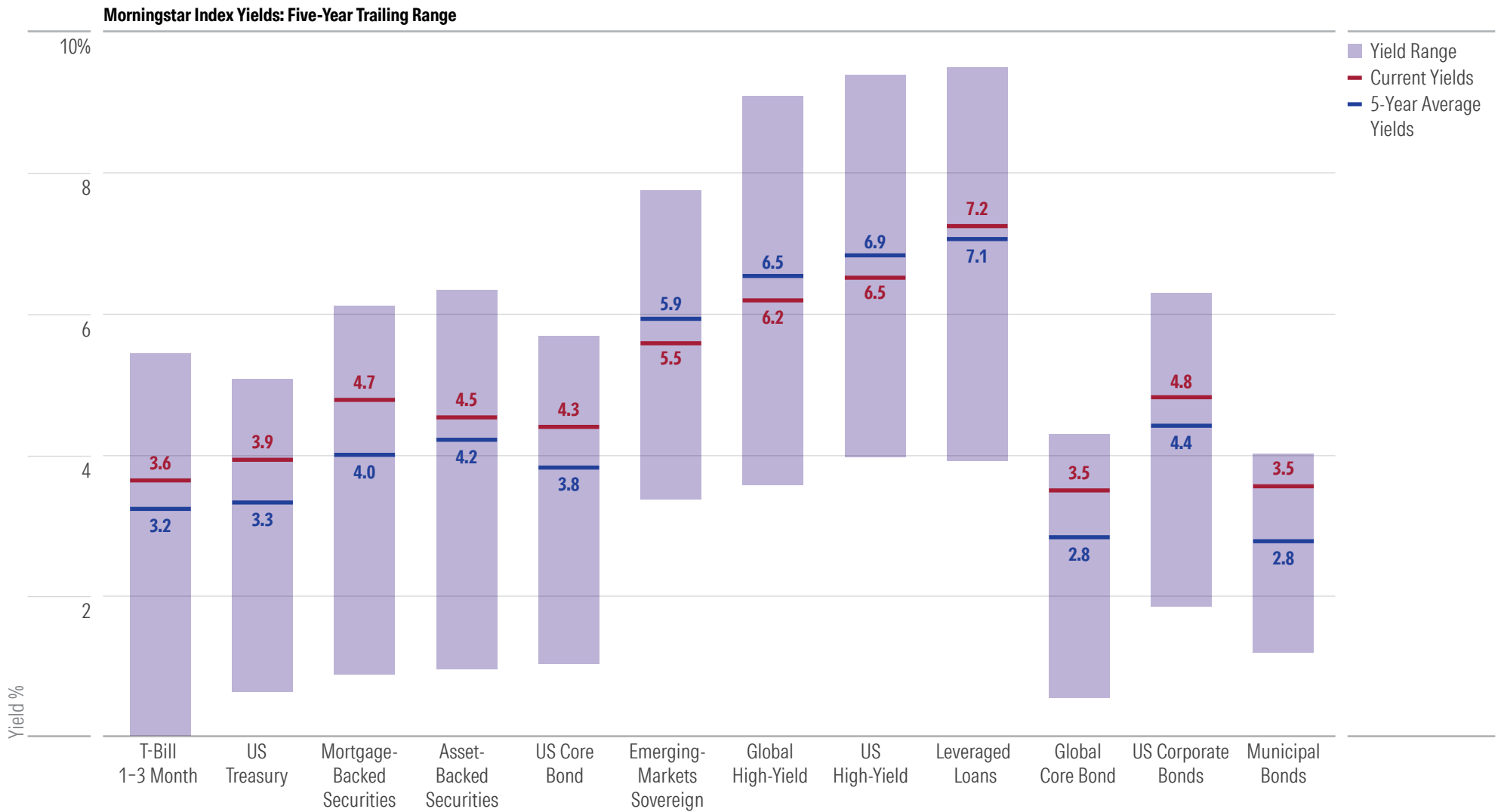
Yield Curve Stays Steep

The Federal Reserve's rate-cutting campaign dragged short-term rates lower over the three- and 12-month periods. However, persistent inflation fears, fiscal policy uncertainty, and resilient economic growth kept longer-term yields elevated. A steeper curve means more opportunities for investors to capture yield in longer-dated bonds, but it also comes with more risks.



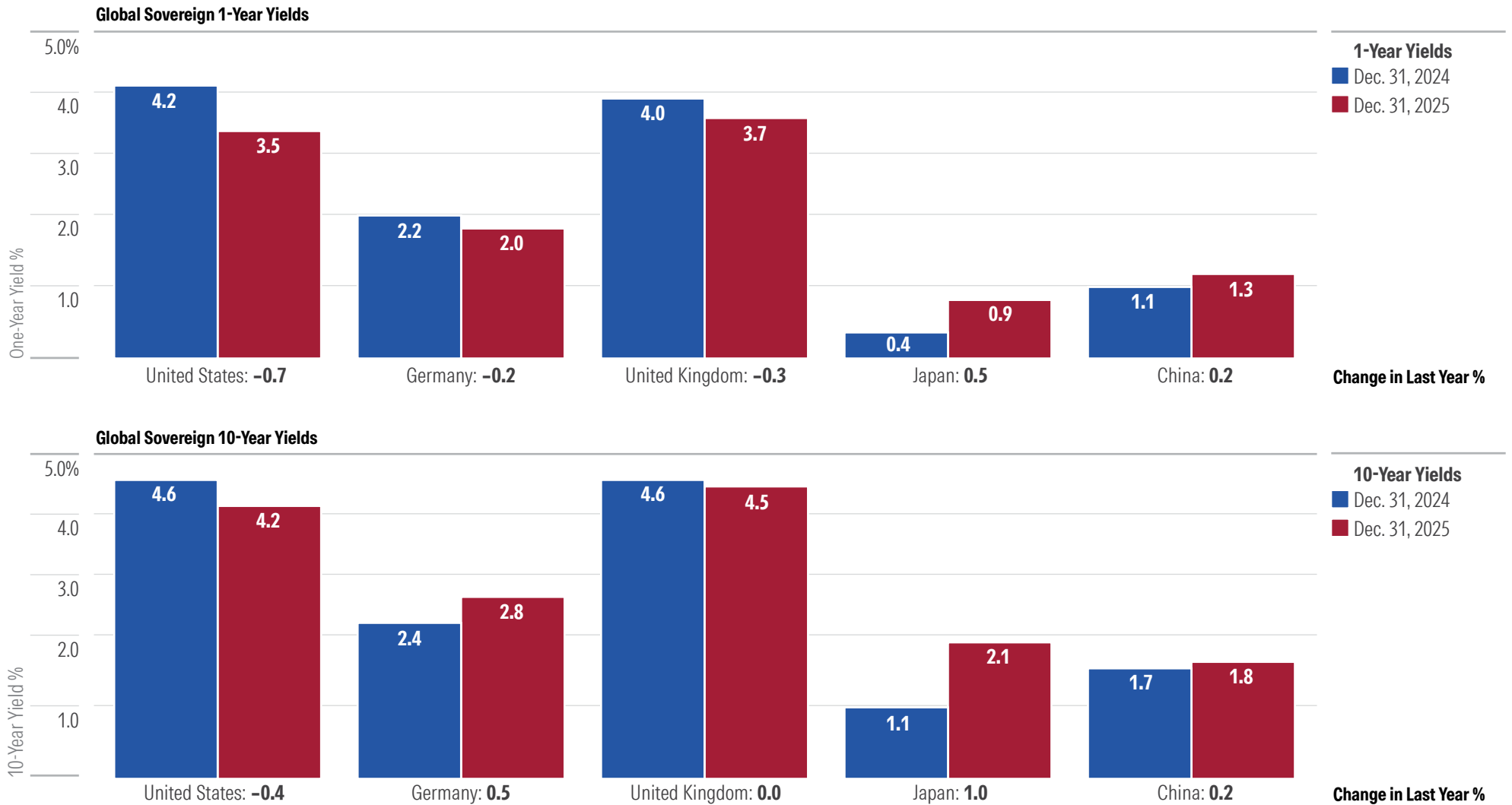
Yields Across Fixed Income Are Still Attractive

While yields inched lower following the Federal Reserve's two rate cuts in the fourth quarter of 2025, most fixed-income sectors continued to provide higher yields than their five-year average, keeping bonds attractive for their higher income potential.



Global Bond Yields Head in Different Directions

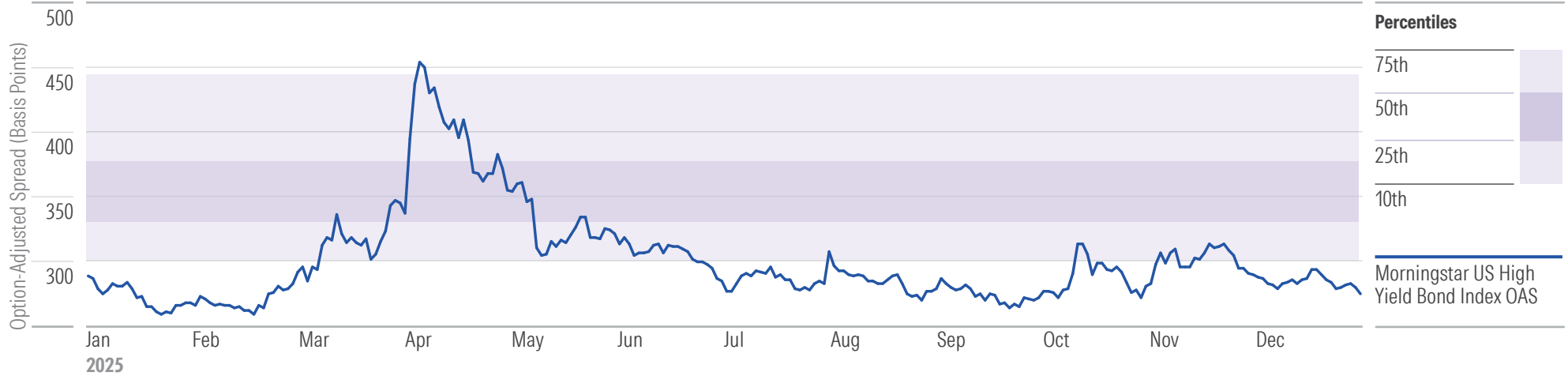
The year saw diverging trends in global yields and varied outcomes for government bonds due to specific country-level issues, including differing inflation pressures, fiscal health, and monetary policy decisions. For instance, while the Federal Reserve cut short-term rates in the US, the Bank of Japan raised its key policy rate to fight inflation, signally a shift from extreme monetary easing.



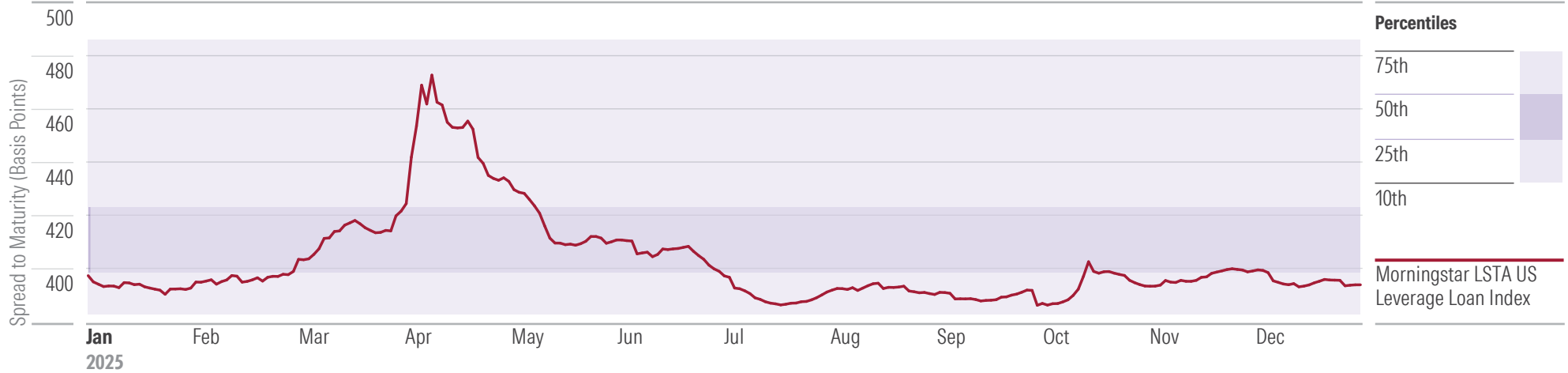
Credit Markets Remain Calm

High-yield corporate credit and bank-loan spreads remained well below their 10-year historical median levels in 2025 after November's marginal widening. Tight spreads suggest rich valuations and highlight the importance of security selection to manage risk amid market uncertainty.

HY Corporate Bond Option-Adjusted Spread: 2025 Levels Versus 10-Year Percentiles



Bank-Loan Spread: 2025 Levels Versus 10-Year Percentiles



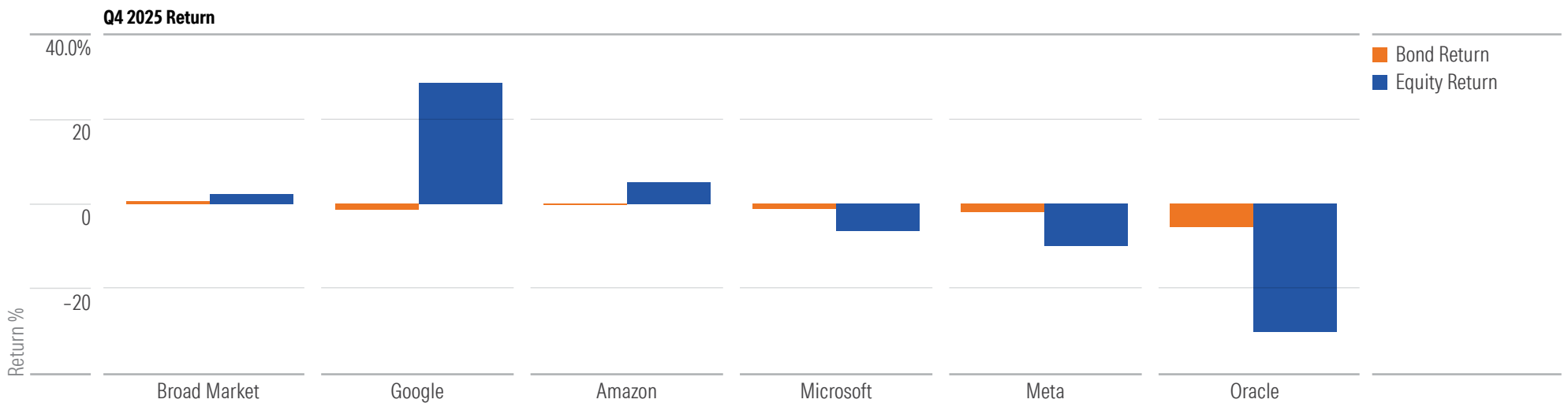
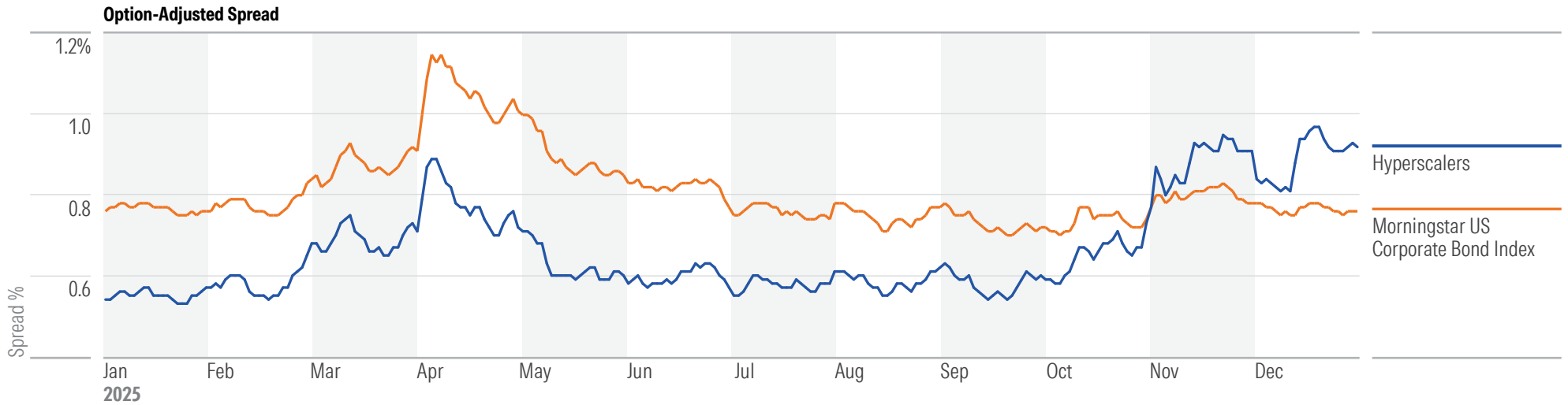
QF170

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Source: Morningstar Indexes. Data as of Dec. 31, 2025. OAS (Option-Adjusted Spread) measures the additional yield investors require to compensate for the credit risk of holding a bond. ©2026 Morningstar. All Rights Reserved.

Hyperscaler Bond Issuance Raises Investor Concerns

Hyperscalers—large tech firms that operate cloud platforms and digital infrastructure at global scale—have aggressively increased borrowing in the investment-grade bond market since September 2025 to fund artificial intelligence investments. The scale and pace of this borrowing have raised concerns among bond investors, leading bondholders to demand meaningfully higher compensation for owning this debt.



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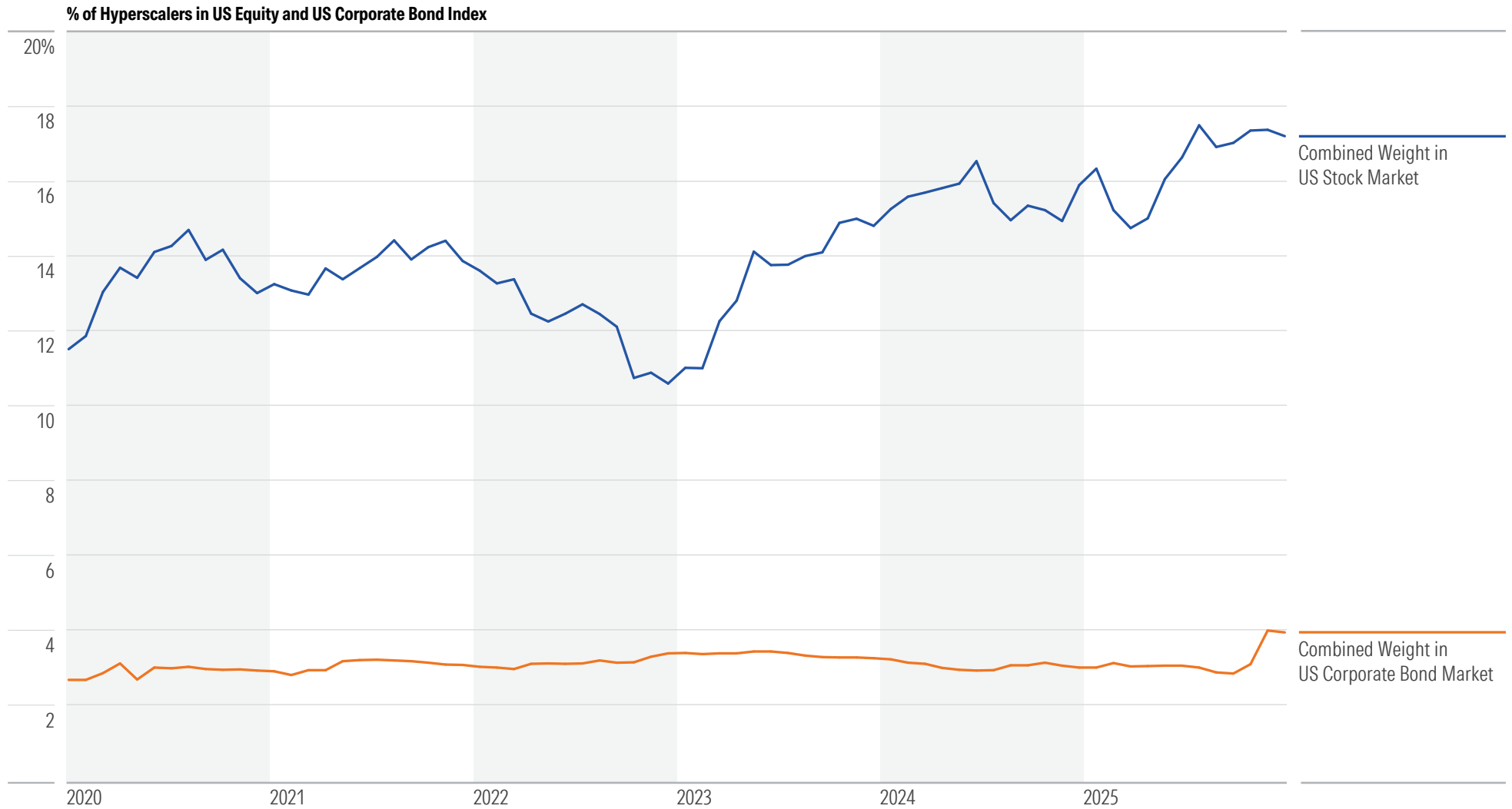
27

Source: Morningstar. Data as of Dec. 31, 2025. The Hyperscalers subindex includes investment-grade corporate bonds issued by Amazon, Google, Meta, Microsoft, and Oracle within the Morningstar Investment Grade Corporate Bond Index. ©2026 Morningstar. All Rights Reserved.



Hyperscalers Are Equity Majors, Credit Minors

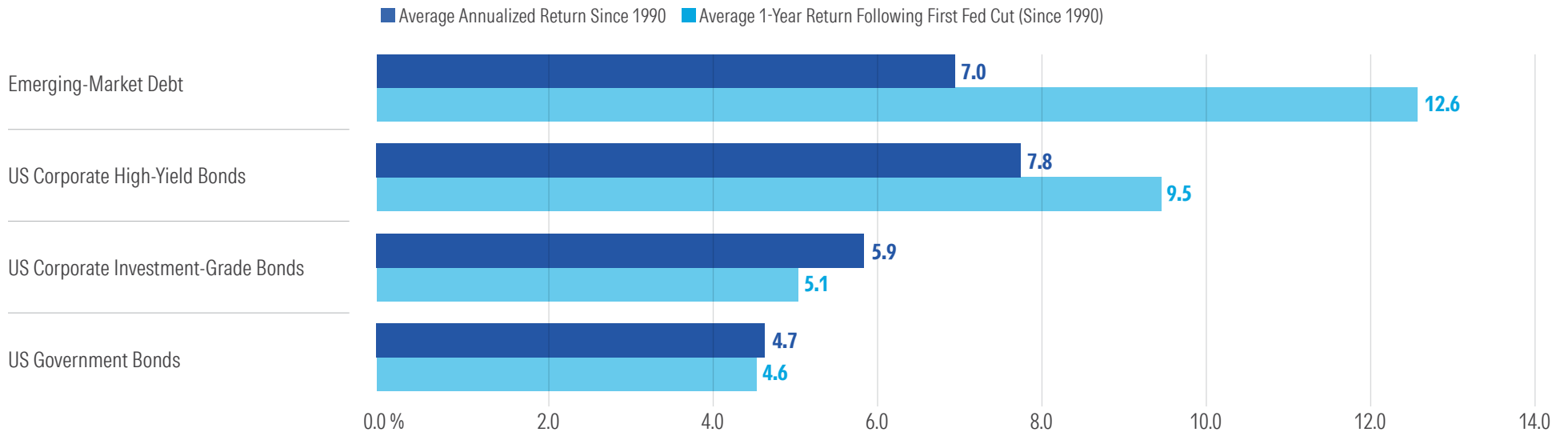
Despite rising debt issuance from hyperscalers, these companies still represent a relatively small share of the US investment-grade corporate bond index, reflecting the index's broad and diversified issuer base. This stands in sharp contrast to the equity market, where hyperscalers have grown into an increasingly dominant share of total market capitalization over the past several years.



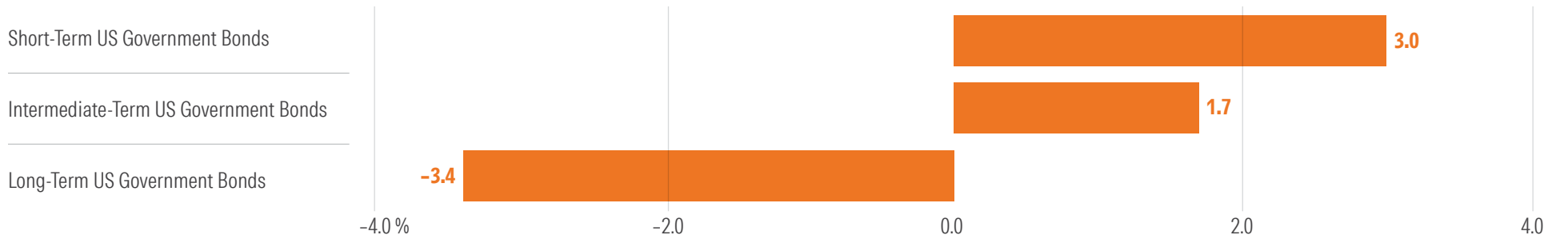
Long-Term Bonds Could Suffer Because of Rate Cuts

In the past nine Fed cutting cycles since 1990, US fixed-income assets have generally delivered positive returns in the year following the first rate cut. Riskier segments, such as high-yield bonds and emerging-market debt, tended to outperform their long-term averages. However, in past soft-landing cycles (cutting cycles not followed by a recession), long-term bonds often lost value despite rate cuts, reflecting the influence of market factors beyond central bank policy.

Riskier Fixed-Income Assets Have Historically Outperformed in the Year Following the First Fed Cut



Long-Term Bonds Averaged Losses in Soft-Landing Cutting Cycles



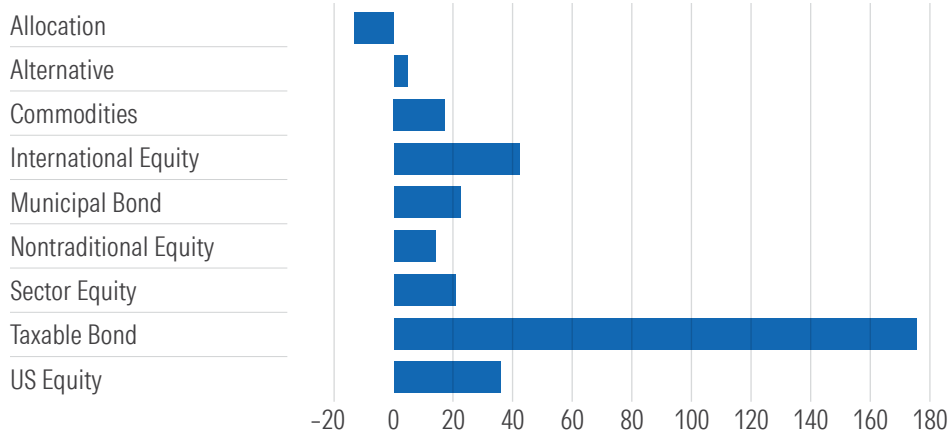
Funds



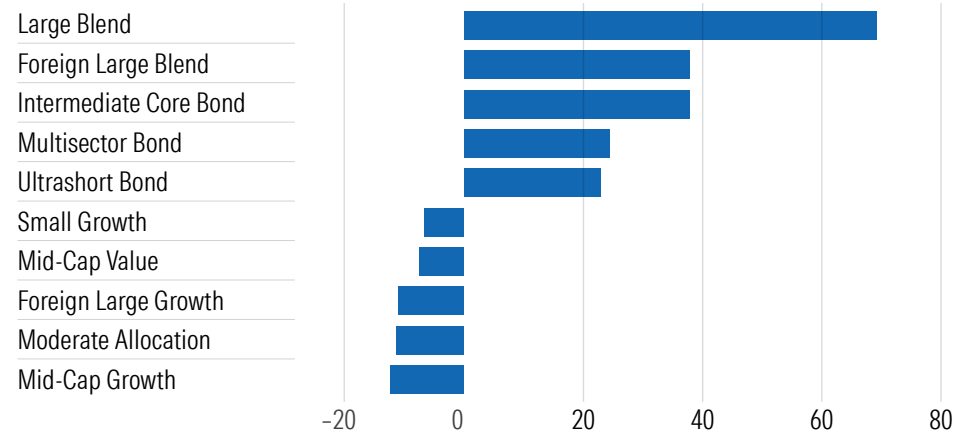
Top- and Bottom-Performing Morningstar Categories

The equity precious-metals Morningstar Category continued its strong form in the fourth quarter of 2025, notching an impressive 43.3% quarterly gain and a 157.8% full-year gain. Conversely, the digital assets category slumped in the fourth quarter, dropping 18.5%, pulling its return negative for the year. Despite this, the category still saw strong inflows alongside certain bond and stock categories.

Trailing Quarter Flows by Category Group (USD Bil)



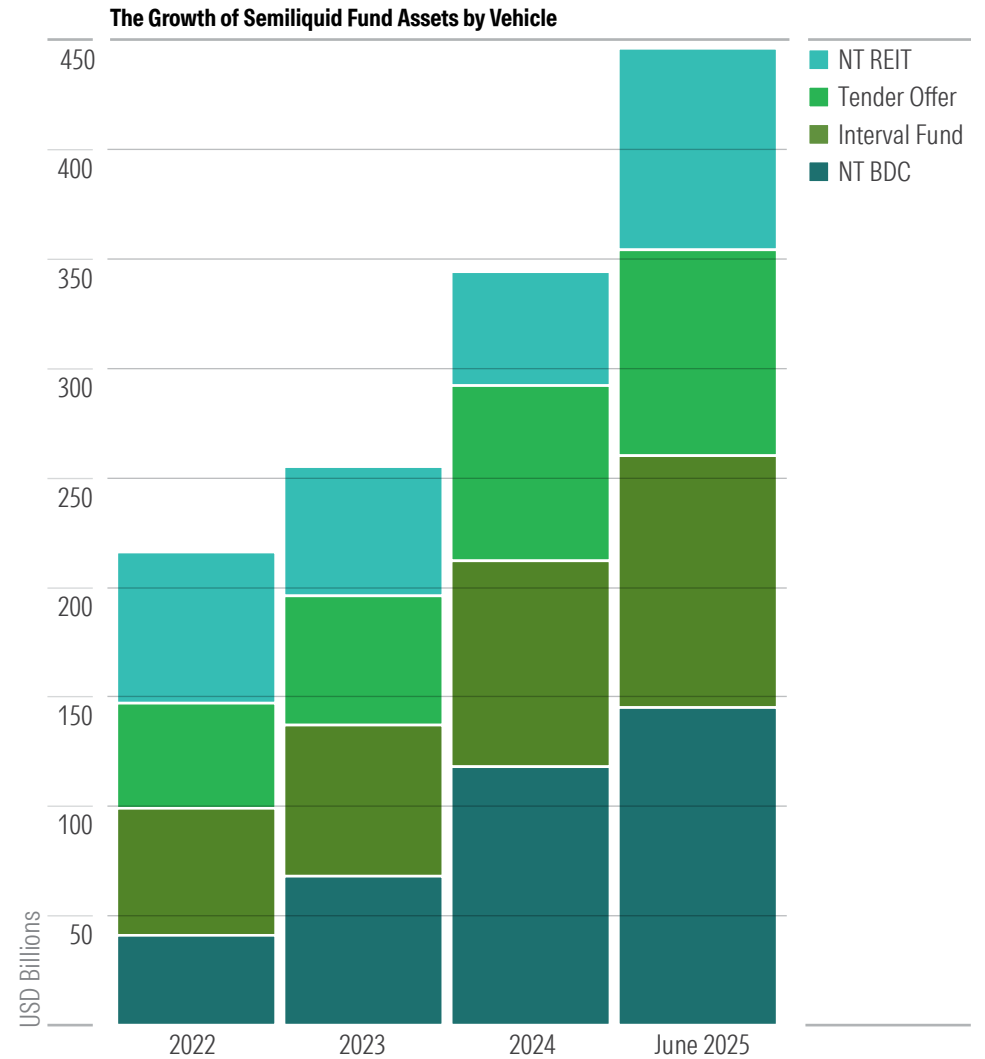
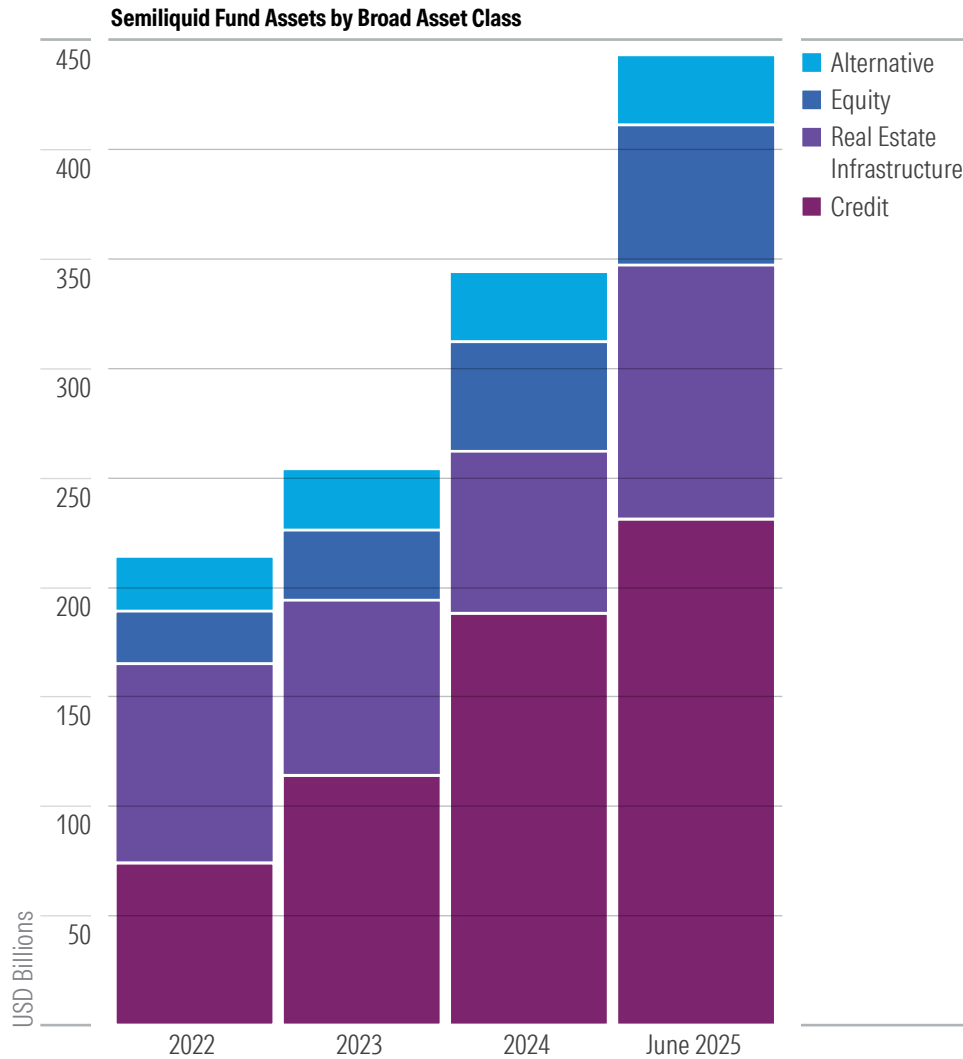
Top and Bottom Trailing Quarter Flows by Category (USD Bil)



Top-Performing Morningstar Categories	US Category Group	Return (%)			Bottom-Performing Morningstar Categories	US Category Group	Return (%)			Legend
		Trailing Quarter	Trailing 1 Year	Quarterly Flow (USD Mil)			Trailing Quarter	Trailing 1 Year	Quarterly Flow (USD Mil)	
Equity Precious Metals	Sector Equity	43.3	157.8	2,256	Digital Assets	Alternative	-18.5	-6.8	2,839	>20
Commodities Focused	Commodities	17.6	36.9	16,124	Consumer Defensive	Sector Equity	-4.2	-1.5	-1,331	10 to 19.9
Health	Sector Equity	16.8	20.2	1,615	Real Estate	Sector Equity	-1.7	1.5	1,219	0 to 9.9
Natural Resources	Sector Equity	13.2	35.2	4,269	Consumer Cyclical	Sector Equity	-0.6	8.5	-968	-9.9 to 0
Latin America Stock	International Equity	11.0	47.6	1,259	Energy Limited Partnership	Sector Equity	-0.2	4.6	-295	-19.9 to -10
Diversified Emerging Mkts	International Equity	10.5	30.2	8,050	Foreign Small/Mid Growth	International Equity	-0.1	19.5	-1,360	<-20
Foreign Large Value	International Equity	8.8	38.1	2,469	Inflation-Protected Bond	Taxable Bond	0.2	6.2	2,755	
Pacific/Asia ex-Japan Stk	International Equity	8.2	28.9	688	Derivative Income	Nontraditional Equity	0.2	8.8	8,942	
Systematic Trend	Alternative	7.7	3.5	-908	Short-Term Inflation-Protected	Taxable Bond	0.2	6.2	5,266	
Foreign Large Blend	International Equity	7.2	30.1	37,914	Global Real Estate	Sector Equity	0.3	10.9	755	

How Semiliquid Vehicles and Asset Classes Stack Up

Semiliquid vehicle assets climbed to USD 450 billion by the end of June 2025, up 16% since the end of 2024 and 77% since the end of 2022. Nontraded business-development companies remain the fastest-growing semiliquid vehicle, offering direct exposure to private credit through loans. Their assets reached USD 145 billion by the end of June, up 23% from the end of 2024.



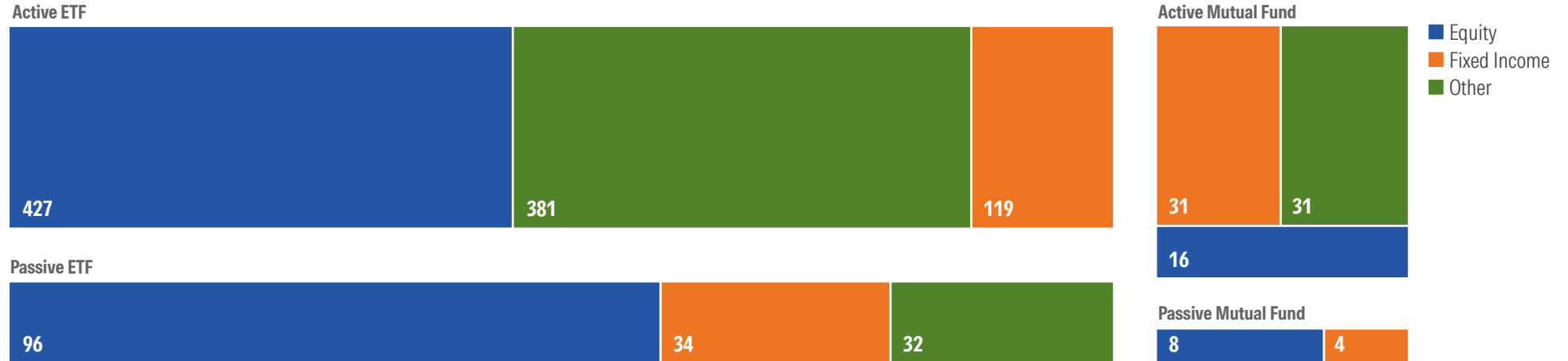
QMF86

Source: Morningstar Direct, SEC Filings. [Investors Flock to Semiliquid Funds for Income](#). Data as of June 30, 2025. ©2026 Morningstar. All Rights Reserved.

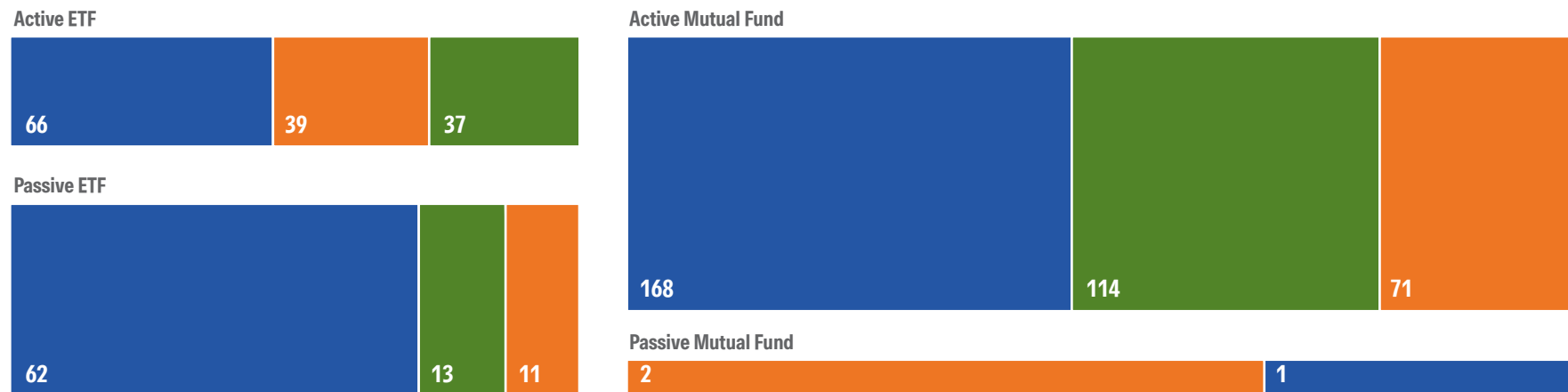
ETF Launches Set Another Record in 2025

A record 927 actively managed exchange-traded funds launched alongside 161 passively managed ETFs, bringing 2025's tally to over 1,000 for the first time ever. Active ETF launches largely sat in the digital assets, large blend, and technology Morningstar Categories. In contrast, the mutual fund universe shrank with closures once again exceeding launches. The vehicle's 356 closures overshadowed its 90 launches.

2025 Fund Launches



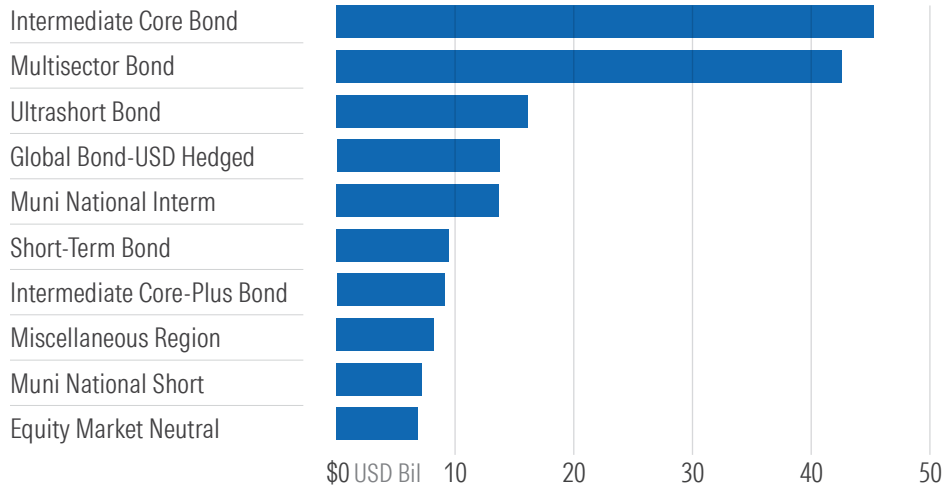
2025 Fund Closures



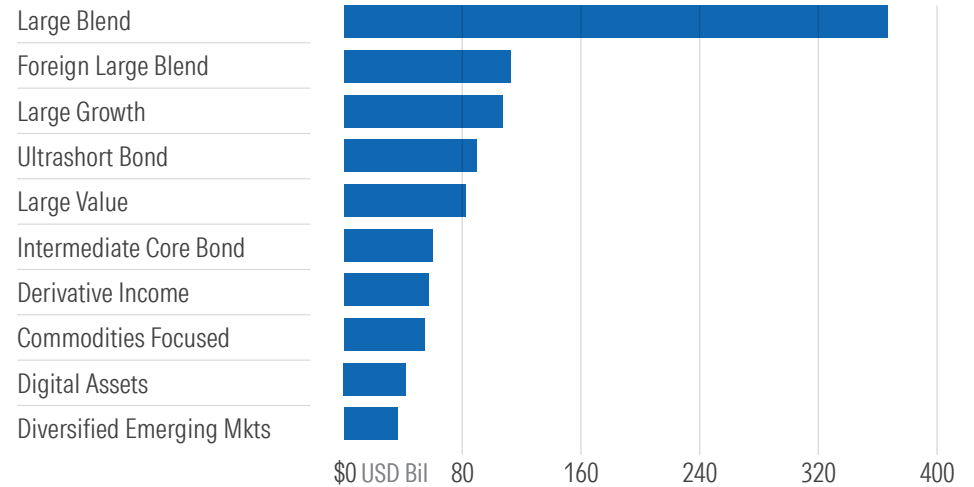
Mutual Funds Bleed Assets While ETFs Rake Them In

US exchange-traded funds saw over USD 1.4 trillion of net inflows in 2025, contrasting the nearly USD 700 billion in mutual fund net outflows. Mutual fund inflows were largely limited to bond-fund categories, whereas ETFs in most categories enjoyed inflows. Large-blend ETFs were 2025's big winner, taking in over USD 360 billion on the continued growth of broad market index ETFs.

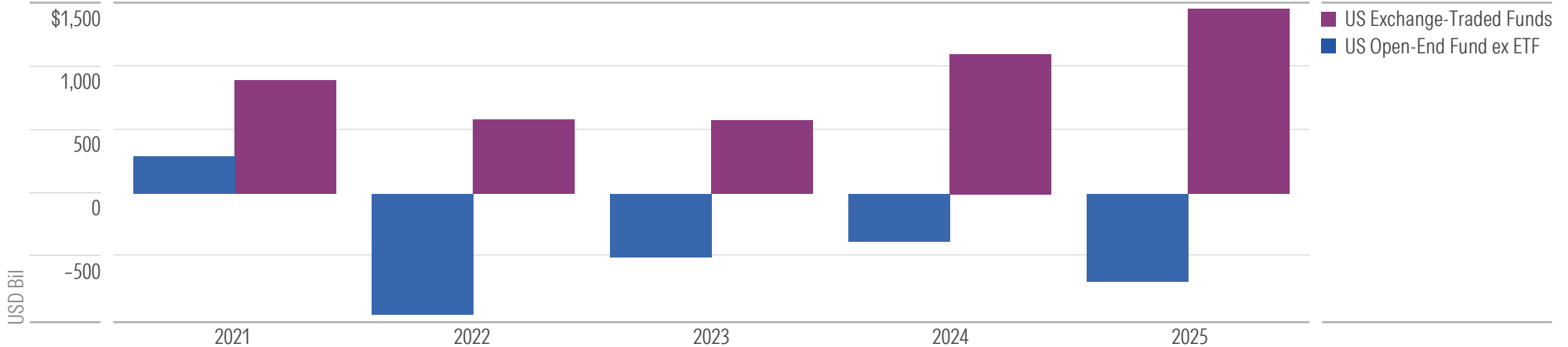
Top Morningstar Category Annual Net Flows for Mutual Funds, 2025



Top Morningstar Category Annual Net Flows for ETFs, 2025

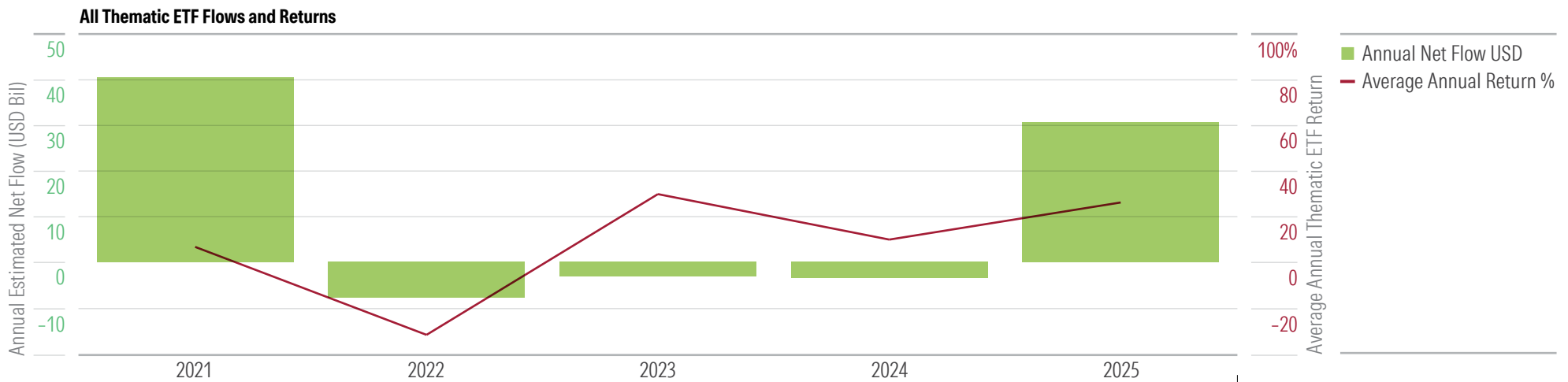
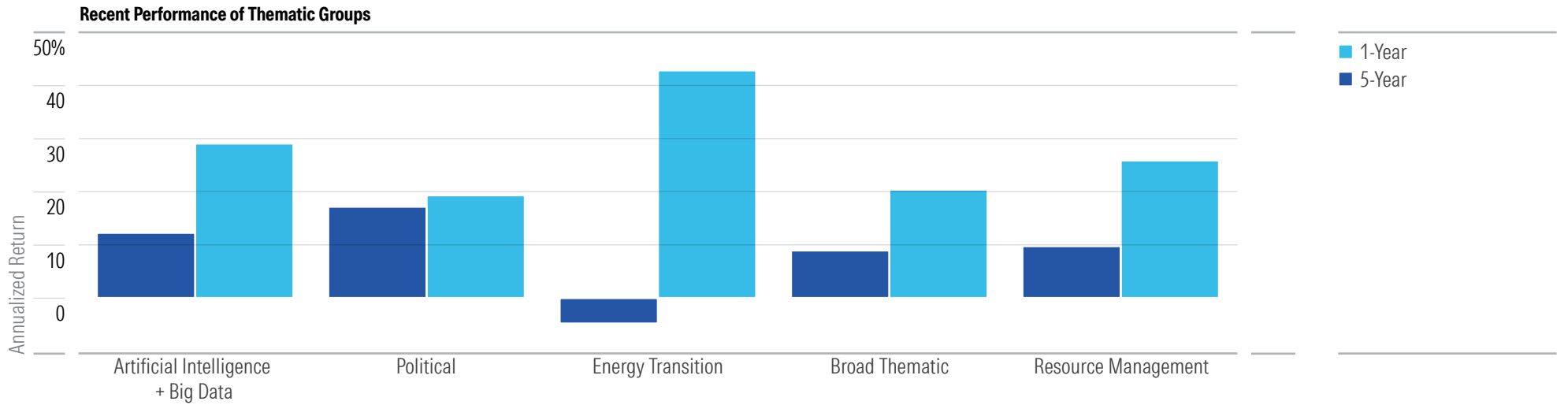


US Mutual Fund and ETF Annual Net Flows



Thematic ETFs Fought Back in 2025

The typical thematic ETF gained 27.8% in the year ended December 2025, led by energy transition and artificial intelligence + big data themes. However, the investor experience has been uneven. Over the past five calendar years, returns for the typical thematic ETF ranged from a 29.7% gain to a 32% annualized loss. Asset flows over the same period broadly mirrored this volatility.

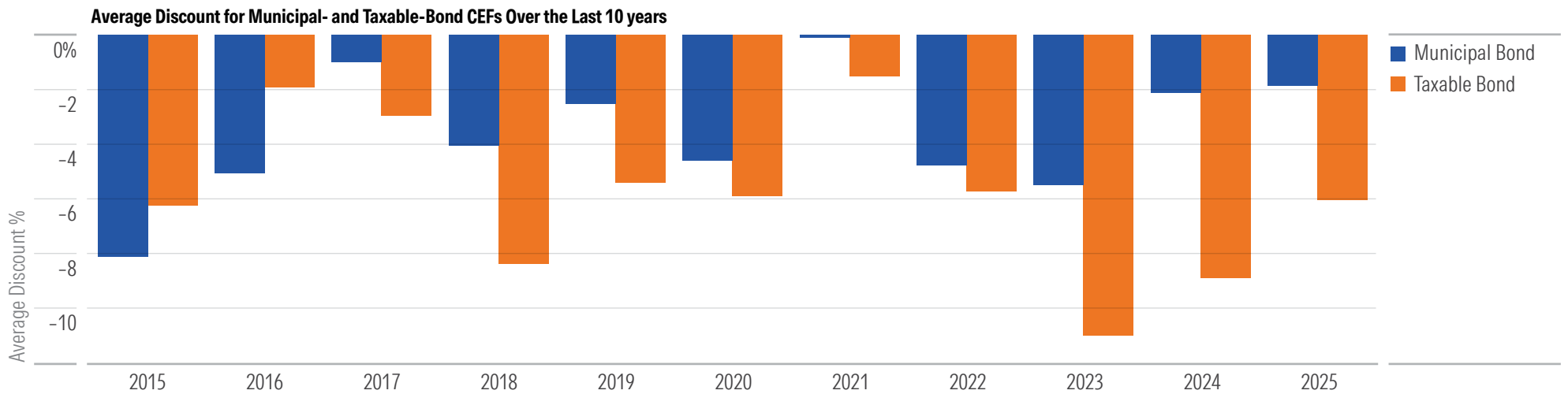
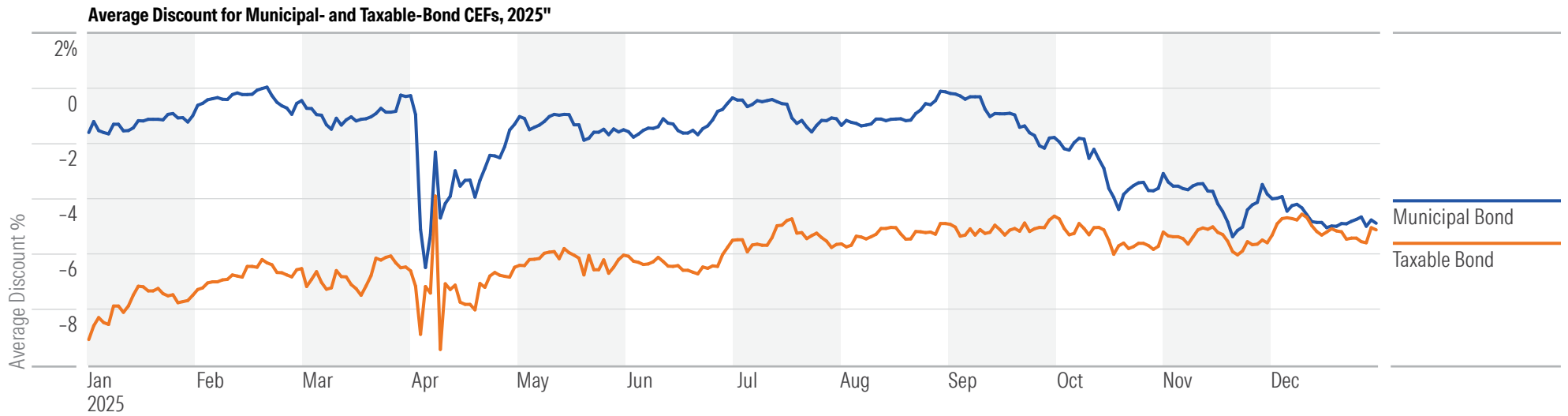


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Municipal Closed-End Funds Remain Cheap

Closed-end bond funds historically trade at discounts, with municipals typically cheaper than taxable peers. A sudden reset of interest rate expectations in early April triggered a sharp, short-lived widening in taxable closed-end fund discounts, reflecting their greater sensitivity to rate volatility and leverage. Municipal closed-end funds, already deeply discounted, were less affected.



QMF93

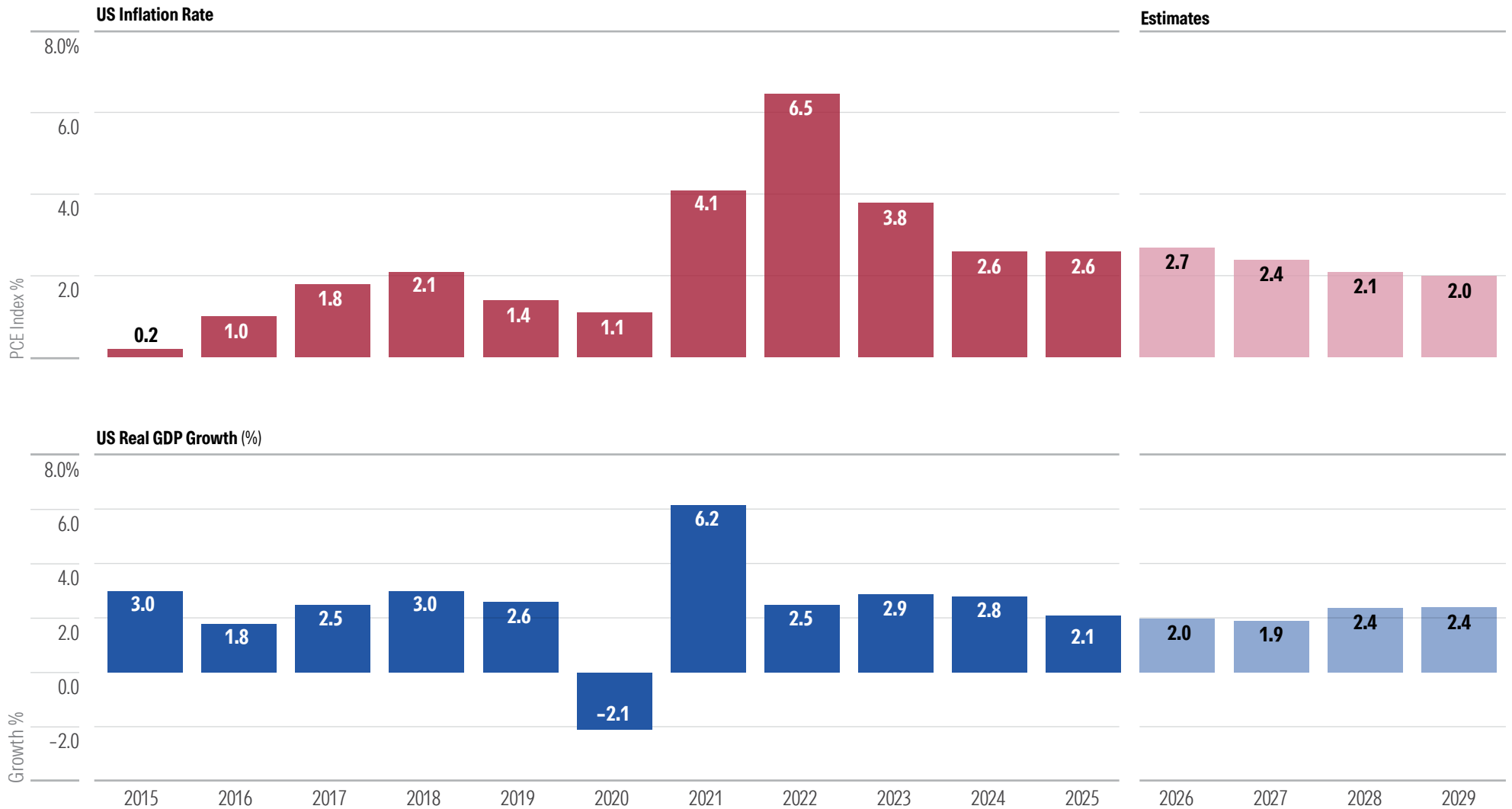
Source: Morningstar Direct. Data as of Dec 31, 2025. ©2026 Morningstar. All Rights Reserved.

Economic Indicators



Tariffs May Still Weigh on Economy in Near Term

Consumer prices are likely to feel more of the impact of tariffs in 2026, which will push up inflation and weigh on growth domestic product growth. Any waning of the artificial intelligence boom also poses a downside risk for near-term growth. But we expect growth to reaccelerate by 2028 and 2029 as monetary easing kicks in. Inflation should begin converging back to the Fed's 2% target once the tariff shock fades.

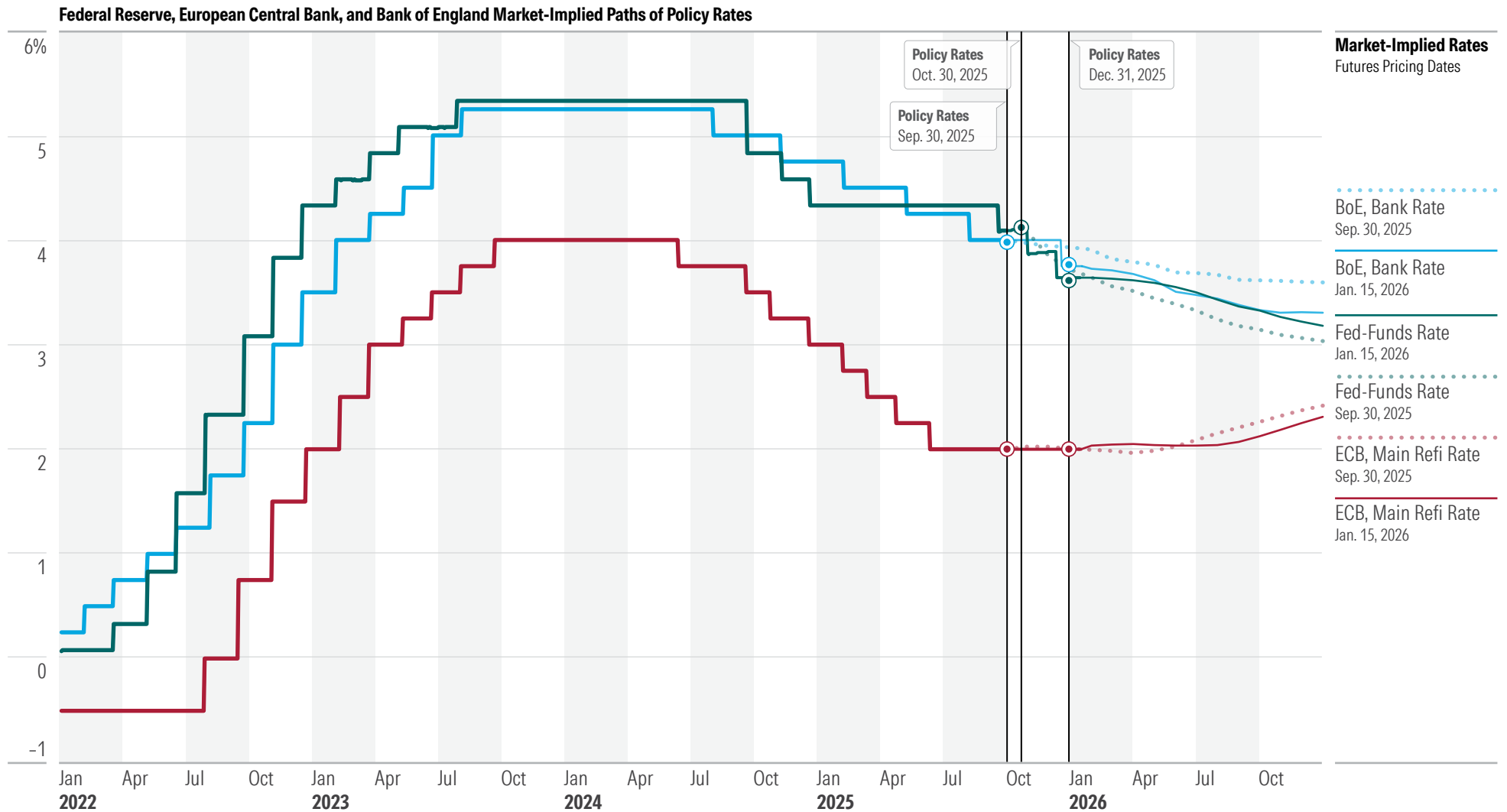


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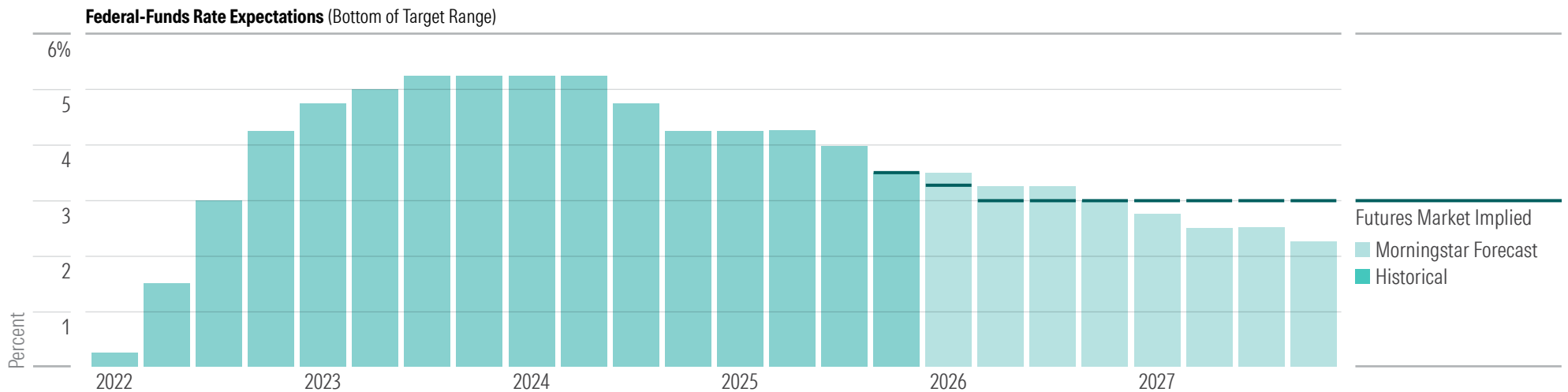
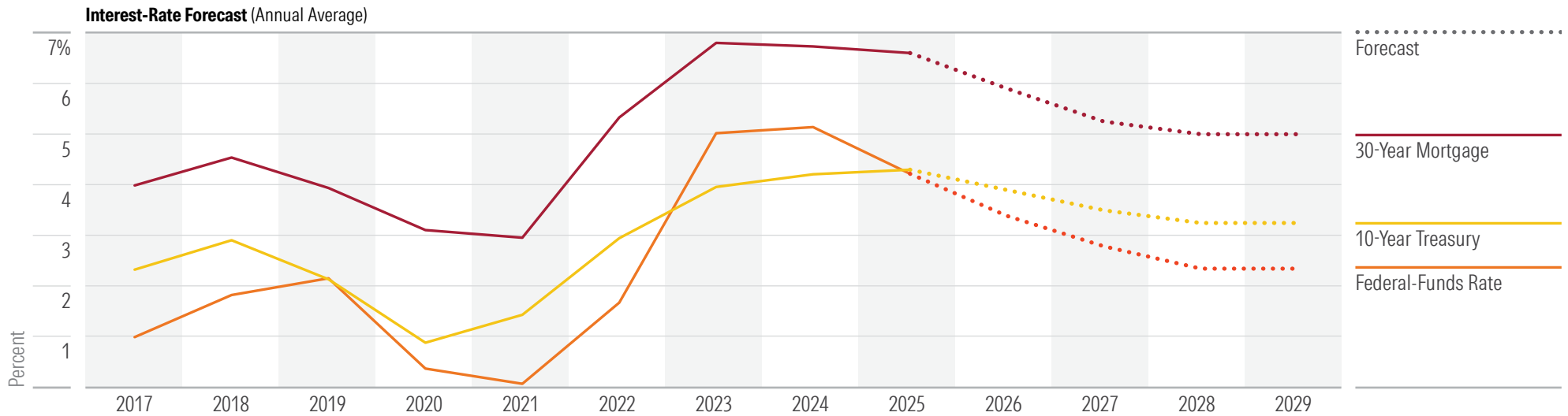
US and UK Interest Rates Converging Closer to Eurozone

Market expectations for major central banks' policy rates have been fairly stable in recent months. Policy interest rates for the UK and US converged closer to the eurozone in the second half of 2025, a trend that should continue in 2026. Inflation has remained elevated in the US and UK compared with the eurozone, but its eventual convergence should allow further loosening of monetary policy.



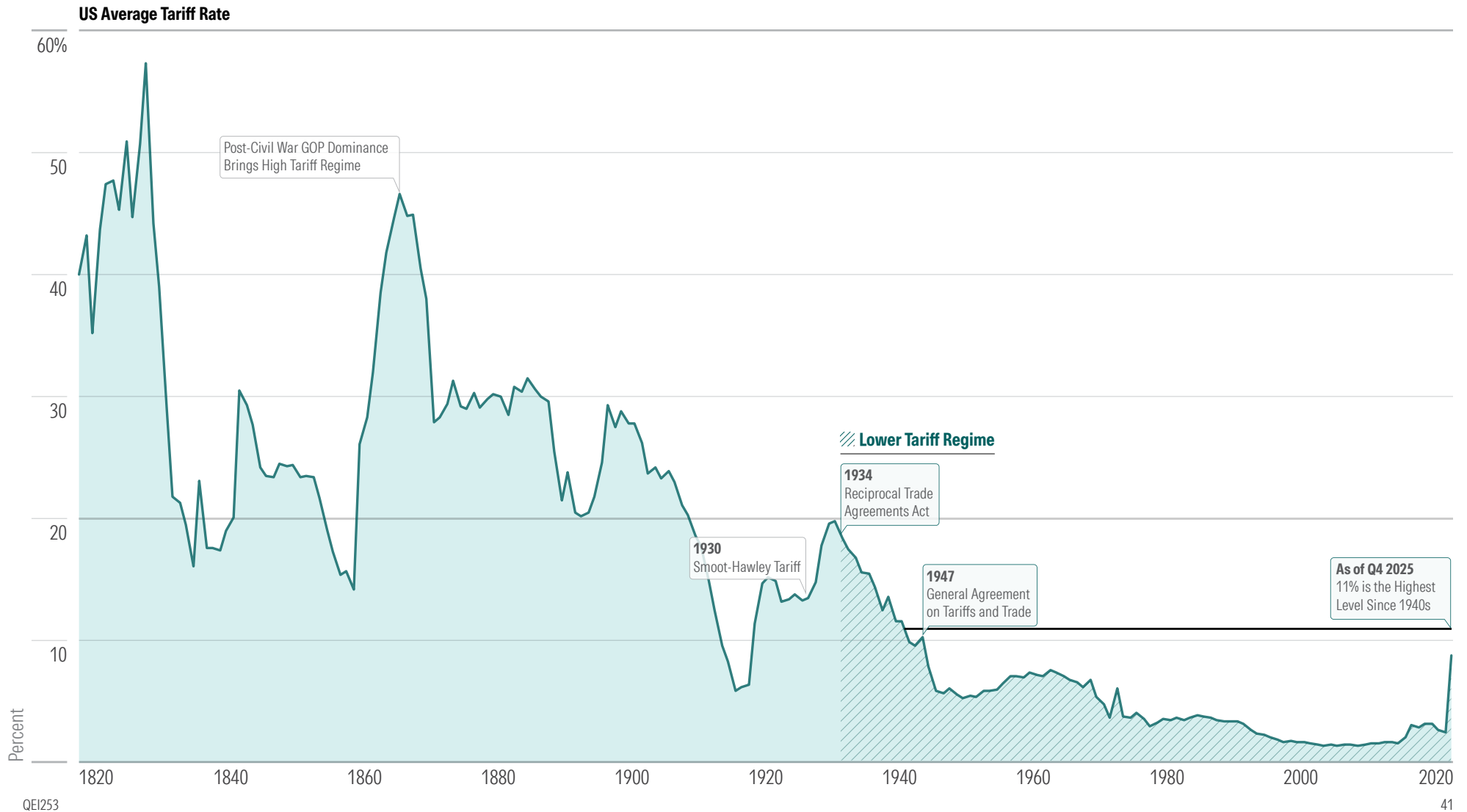
Lower Interest Rates Likely Needed to Combat Recession Risk

Our projections for the federal-funds rate are roughly in line with market expectations in 2026, although we expect more cutting than the market in 2027 and likewise a lower terminal rate. This should help push longer-term interest rates down further. We expect the 10-year Treasury yield to drop to 3.25% by 2028.



Tariffs at Levels Not Seen in 80 Years

The average US tariff rate stood at about 11% in fourth-quarter 2025, the highest since the early 1940s. However, this isn't as high as was feared in April 2025, as President Donald Trump backed off on some tariff hikes, and actual tariff collections lagged announced rates owing to generous exemptions. A pending Supreme Court decision may further reduce tariffs, although the decision may be partially circumvented by using other statutory authority to hike tariffs.



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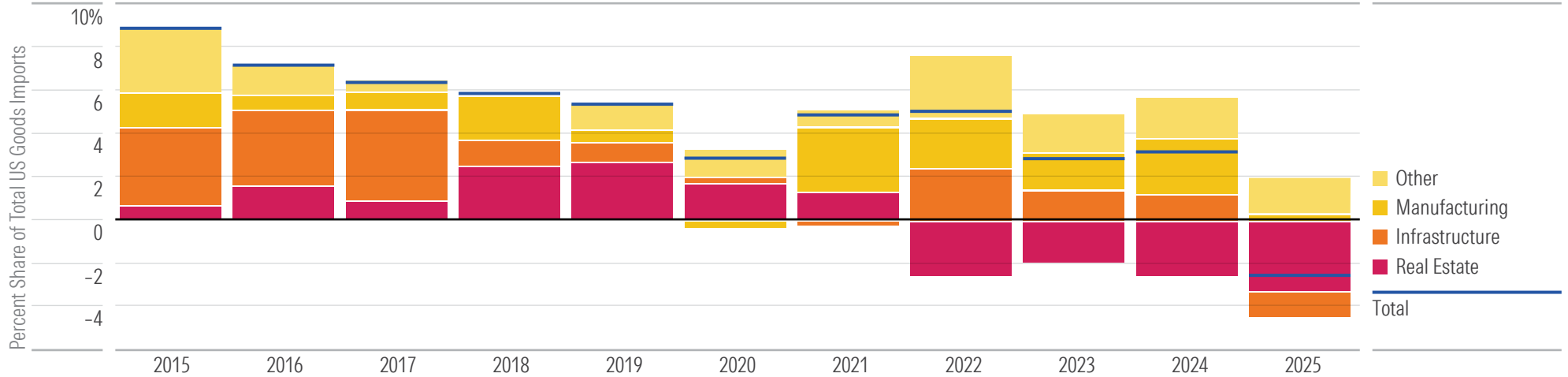
Source: US Census Bureau, Morningstar. ©2026 Morningstar. All Rights Reserved.

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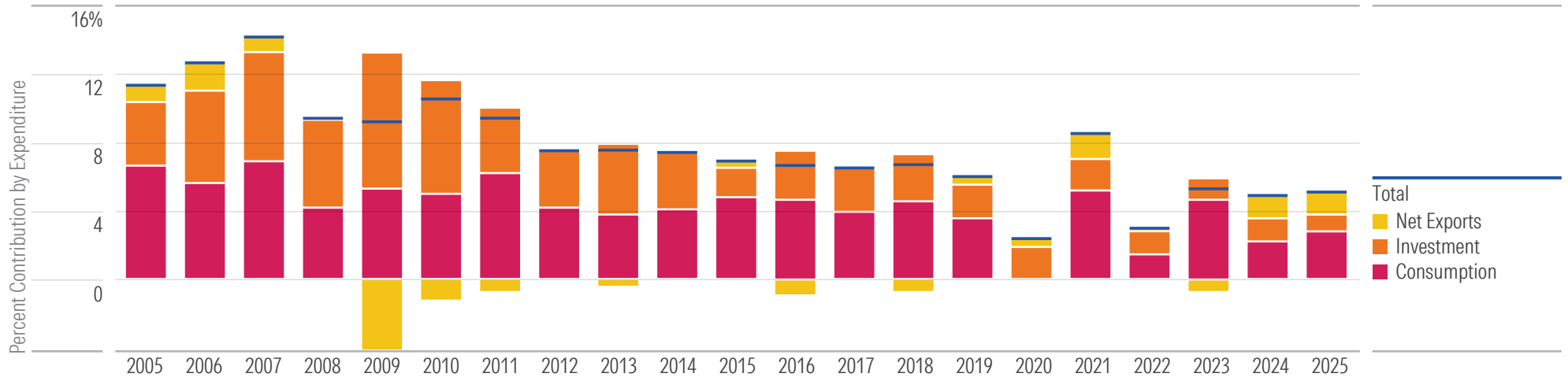
Exports Continuing to Bolster China's Growth, Despite US Tariffs

Net exports contributed even more strongly to China's growth in 2025 than in 2024. Investment growth has decelerated further, as infrastructure and manufacturing investment has weakened, and real estate remains in severe contraction. China's exporters have shrugged off US tariffs by gaining market share in non-US markets, with China rapidly expanding its vehicle exports and other categories. But this export boom risks provoking other countries to join the US in enacting tariffs against China.

China Fixed Asset Investment, Contribution to Growth by Sector

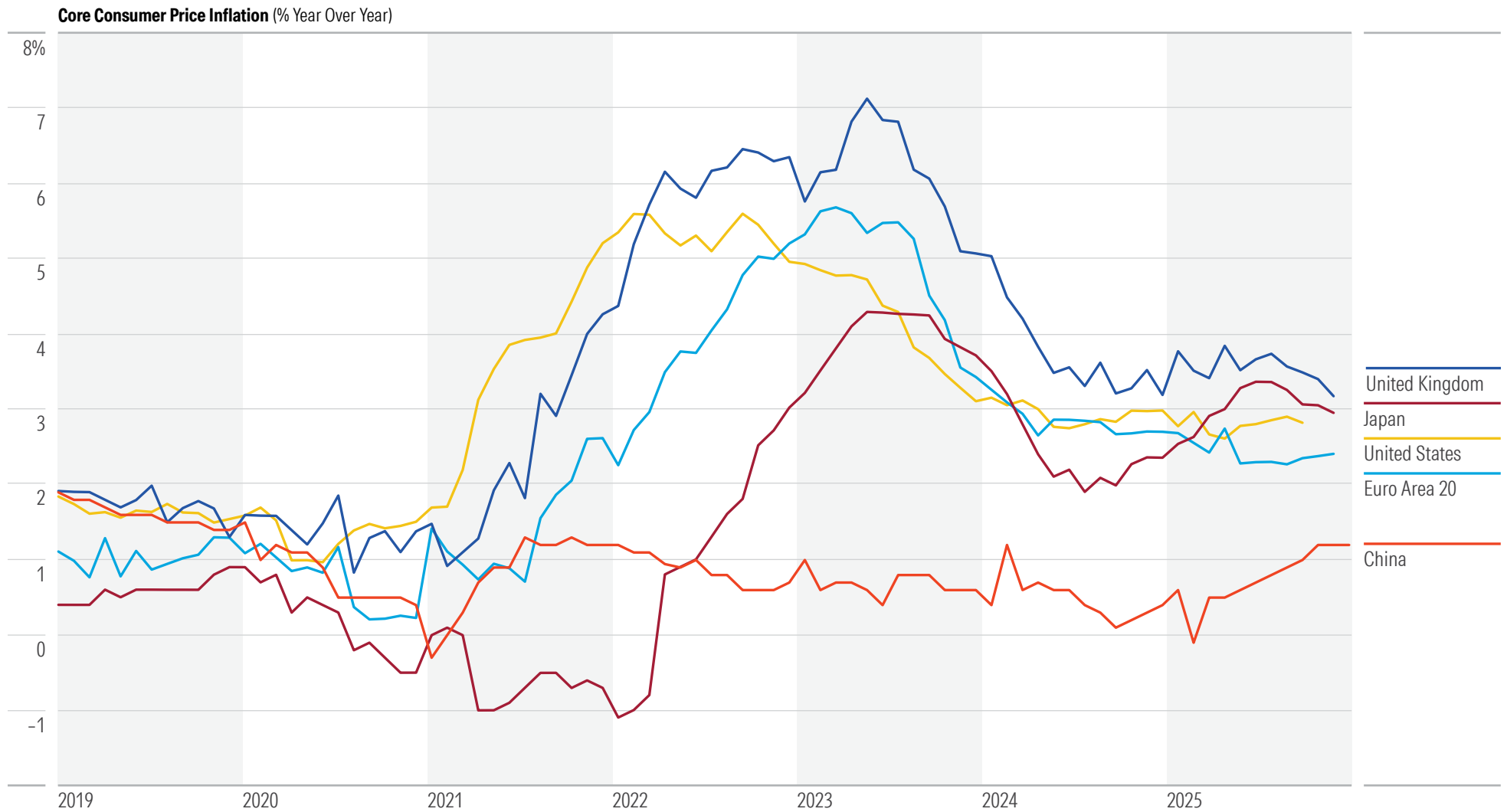


China Real GDP Growth



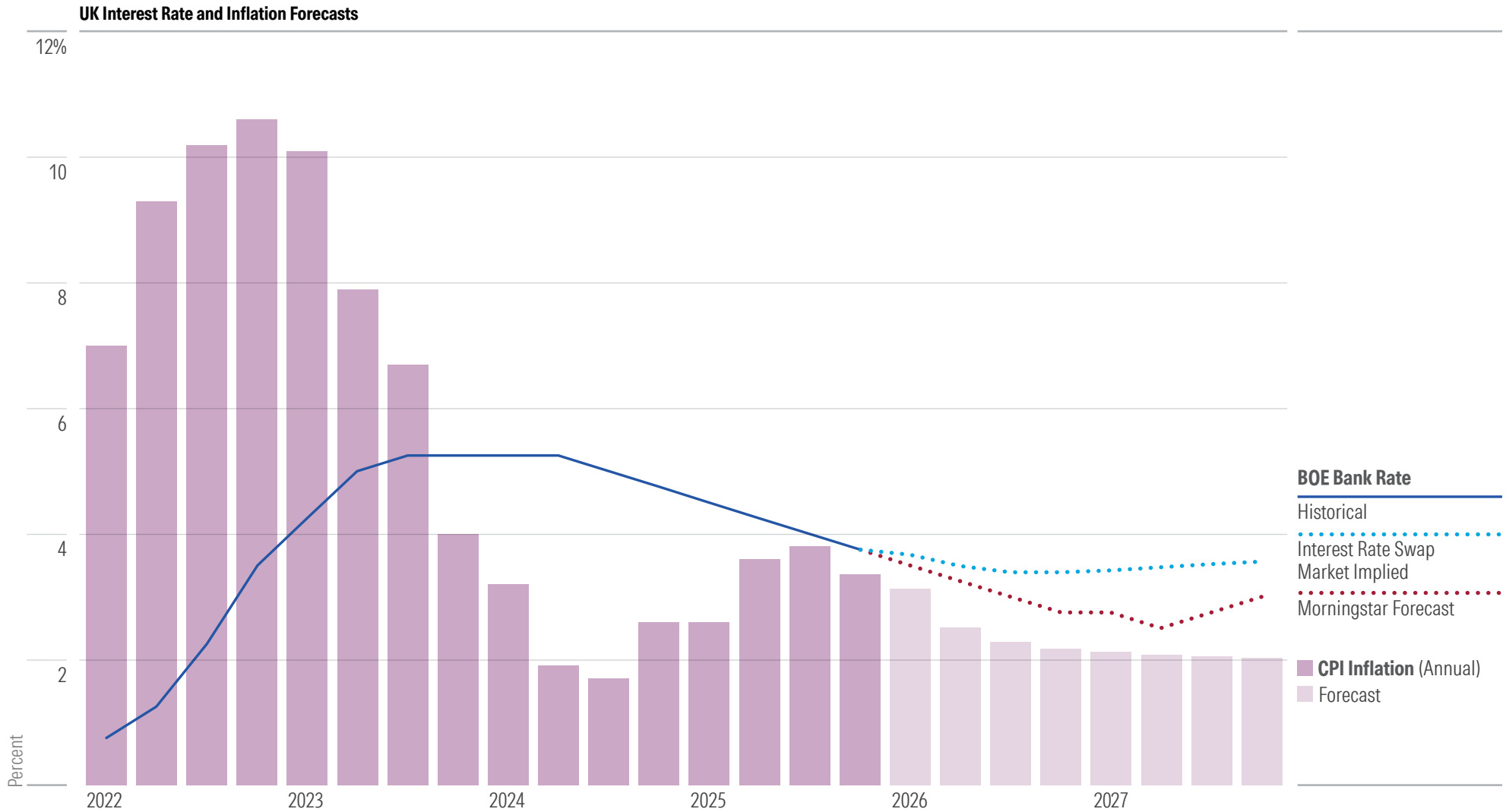
Inflation Progress Was Already Stalling a Bit Before Tariffs

Progress in bringing inflation down has stalled a bit for major economies. For the US, housing inflation has been falling over the past year, while other categories have seen renewed acceleration. Tariff hikes will likely delay a return to 2% inflation for the US until 2027 or later. China remains an outlier among major economies, with inflation running very low, owing to slower economic growth and industrial overcapacity.



Slower UK Inflation Should Enable More Bank of England Rate Cuts

We anticipate UK price growth will remain on its downward trajectory in coming quarters, assisted by the growing degree of slack built into the economy. Indeed, UK inflation is expected to encroach upon the BOE's 2% inflation target in late 2026, granting the Bank of England greater scope to ease interest rates than the UK money market currently prices in.



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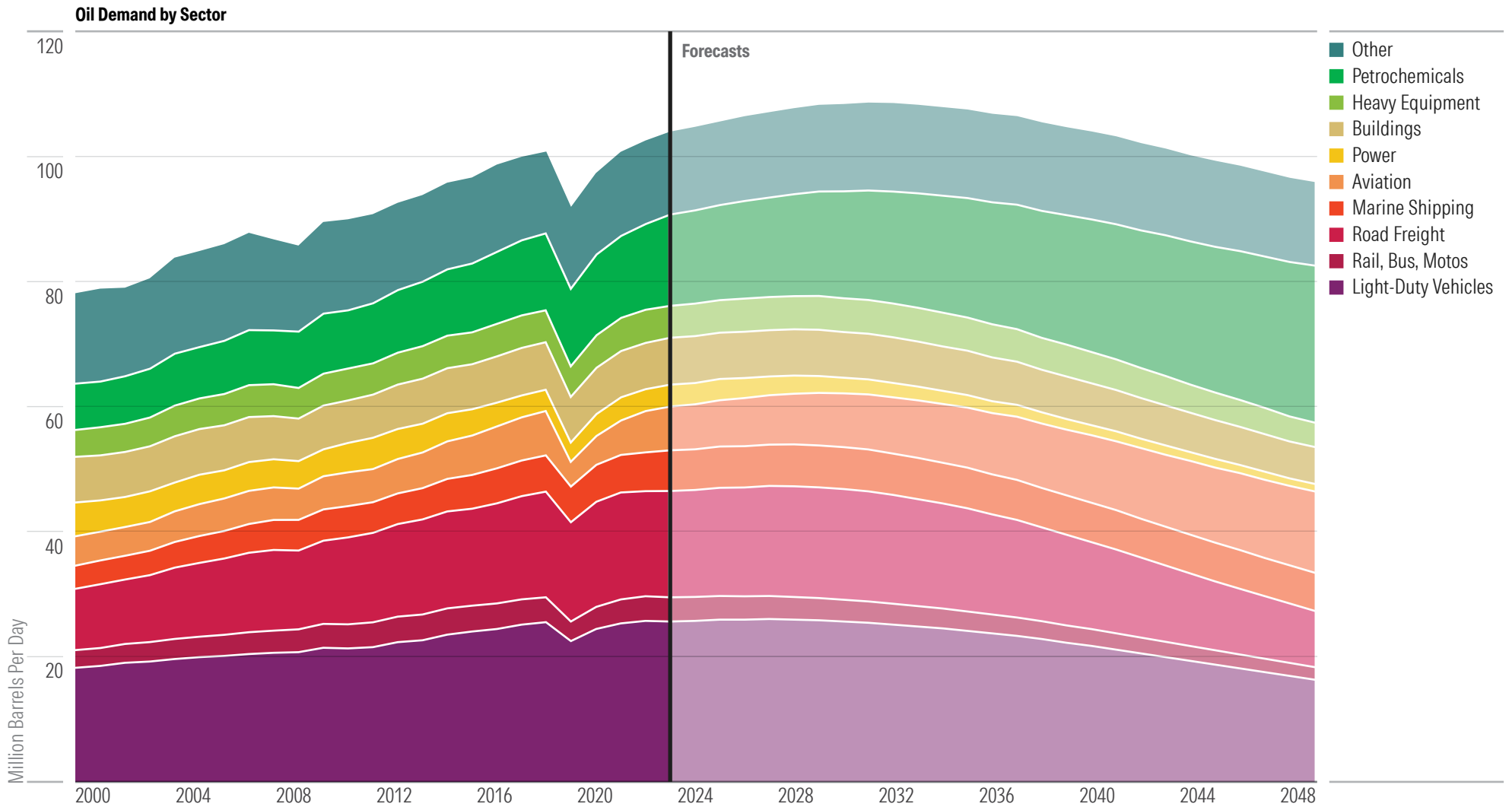
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Oil Demand Is Largely Resistant to Disruption

We believe oil demand still has five to 10 years of decent growth before plateauing in the early 2030s. Demand will not start declining until the late 2030s. Oil demand is expected to grow from 104 million barrels per day in 2024 to a peak of 108 mmb/d in 2032, then decline to 96 mmb/d in 2050—an 8% cumulative drop versus 2024. Aviation, petrochemical feedstock, and certain other sectors should see robust growth, offsetting much of the lost demand from vehicle electrification.

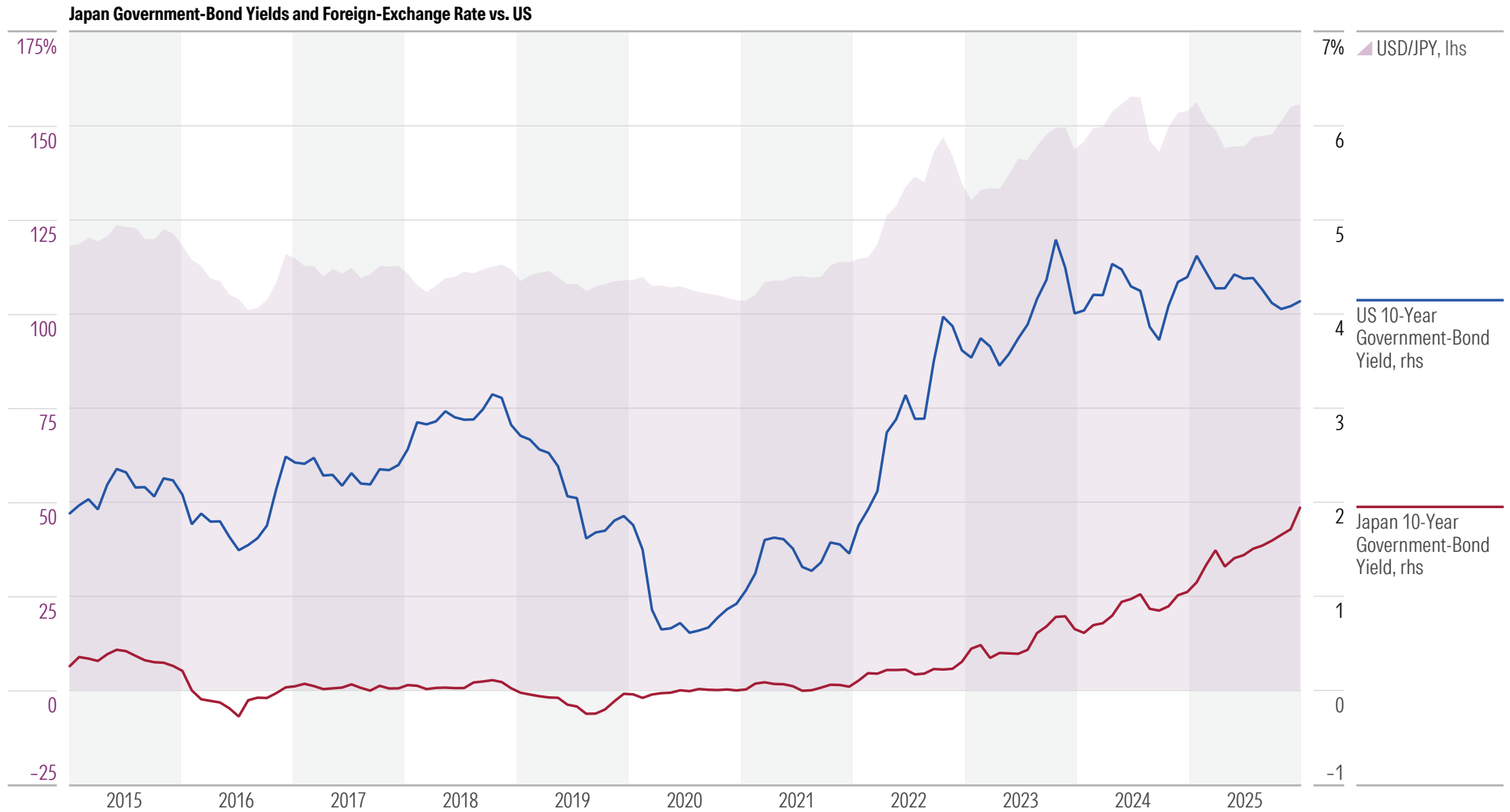


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Debt Worries Pressuring Japanese Bond Prices and Foreign-Exchange Rate

With government debt standing at around 240% of GDP, Japan is vulnerable to a loss of confidence in its fiscal health. Rising Japan yields have narrowed the spread of Japanese 10-year government-bond yields versus US 10-year yields to just 2 percentage points, up from 3.5 percentage points a year ago. The recent selloff has been particularly sharp, and the Japanese yen has depreciated versus the dollar, a worrying sign since yield differentials should make yen assets more attractive.



Index and Disclosure



Index Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Disclosures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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