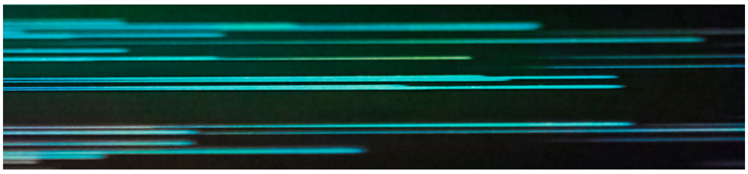
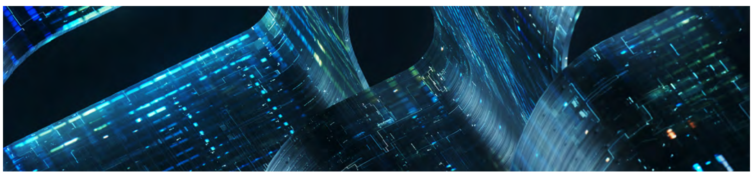
THE CHIEF INVESTMENT OFFICE PERSPECTIVE



THE SHORT AND LONG

2026 Q3 Macro Investment View



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THE SHORT AND LONG

2026 Q3 Macro Investment View

SECTION 1

INTRODUCTION FROM THE CIO

Kate Moore

Chief Investment Officer, Citi Wealth

I often hear from clients that they are focused on the long term. But a ten-year time horizon is, in practice, a connected sequence of short-term market regimes. Shifting dynamics across growth, inflation, innovation, policy, and geopolitics shape each period. Macro variables increasingly exert an outsized influence on shorter-term returns, while disruptive technologies and evolving policy regimes continue to create more idiosyncratic opportunities.

Many strategic asset allocation frameworks are not designed for this environment of change. Rather, they remain calibrated to periods where more stable inflation, anchored rates, and predictable cross-asset correlations were the rule.

This is where tactical asset allocation becomes critical. Movements within these shorter periods, including drawdowns, policy inflections, and the emergence of new opportunities, may meaningfully influence long-term returns. A static allocation that fails to adjust to changing macro and market conditions risks delivering weaker results over time.

This shift reinforces the importance of our asset allocation philosophy, which we summarize as the “3 D’s”:

DISCIPLINE	Economic and policy regimes change, but the need for a structured framework does not. Maintaining deliberate, non-reactive positioning is critical in a world where short-term narratives can dominate.
DIVERSIFICATION	Traditional correlations no longer hold across market regimes, so allocators need to evolve their approach to risk dispersion and portfolio construction. True diversification requires breadth across assets, geographies, and distinct sources of return.
DYNAMISM	The path of returns and divergence across environments can create opportunities to actively adjust exposures, rather than relying solely on overweight allocations.

The past quarter of uneven market moves, evolving policy expectations, and persistent geopolitical risk underscores the importance of a disciplined, diversified, and dynamic approach to portfolio construction. Viewed through that lens, recent data and market behavior point to a few important conclusions:

First, **the global growth story remains resilient.** Despite the volatility created by the Middle East conflict and the temporary closure of the Strait of Hormuz, global economic activity has proven remarkably resilient. While growth momentum has softened in parts of Europe and Asia, the broader expansion remains on track.

Second, **the investment cycle continues to strengthen, led by AI-related technology, supply chains, and critical infrastructure.** Business spending remains robust, supporting both technology and the physical infrastructure required to power a more digital and energy-intensive economy. In The Short and Long | Q2 Macro Investment View, we highlighted investment in energy security and infrastructure. This quarter we highlight another durable theme related to building operational and business resilience: cybersecurity.

Third, **despite a sharp repricing of monetary policy, higher rates have not derailed risk assets.** Markets have climbed a wall of worry, repeatedly looking through concerns around rates, geopolitics, and growth. This suggests that episodic policy-driven volatility, which will likely continue in 2H26, is not by itself a sufficient reason to alter our risk stance.

Taken together, these observations reinforce our bias to remain constructive in the second half of 2026, even if the path is unlikely to be smooth. Rate volatility is likely to remain elevated, geopolitical risks have not disappeared, and the bar for earnings delivery is high.

We would also be remiss not to highlight another key lesson from the first half of 2026: **Fear of Missing Out ("FOMO") and "fade the news" remain very much alive in markets.** Over the past several years, periods of market weakness have become shorter, rebounds have become sharper, and the cost of staying on the sidelines has grown higher. In an environment where liquidity remains abundant and recoveries are increasingly compressed, investors may need to be nimbler, stepping in before conditions fully stabilize rather than waiting for an extended dislocation to add risk.

We enter the second half of 2026 with the same discipline that guides our asset allocation process: diversified in our risk exposures, dynamic in our implementation, and anchored to fundamentals rather than headlines. Growth remains resilient, the investment cycle is strengthening, and policy-driven volatility is likely to remain a feature of this environment. In our view, that is not a reason to retreat. It is a reason to stay constructive, stay selective, and treat dislocations as opportunities to improve portfolios.

PORTFOLIO POSITIONING:

In terms of our core portfolio positioning, we continue to favor a full allocation to equities, with an overweight to U.S. large-caps, where fundamentals are most attractive in our view. U.S. equities have the most durable earnings profile, supported by secular growth tailwinds and better long-term productivity trends.

In fixed income, we believe investors should maintain an underweight position in long-duration bonds, with a preference for short- and intermediate-term maturities. We expect longer-term rates to continue to rise amid concerns around higher inflation and deficit spending. In the U.S., we note higher yields are being driven by real rates, which reflect the stronger growth backdrop.

We maintain an up-in-quality position in credit, as the tight spreads in lower quality paper appear to offer unattractive compensation relative to the added risk.

We believe gold can offer portfolio diversification, particularly when long-term bonds may not offer the same diversification as they have historically. Bond prices historically tend to rise when stock prices fall. But this negative stock/bond correlation has become less reliable, particularly in the higher inflation environment post-COVID. We therefore suggest investors look to supplement their portfolio diversification and consider gold as part of a balanced portfolio.

See our latest portfolio positioning here.

Our positioning is not static by design. We expect to revisit, test, and adjust our views as the data evolve and market conditions shift. That is the practical application of a disciplined but dynamic asset allocation process. The pages that follow outline the macro backdrop, the themes we are monitoring, and the portfolio implications we believe are most relevant for the quarter ahead.

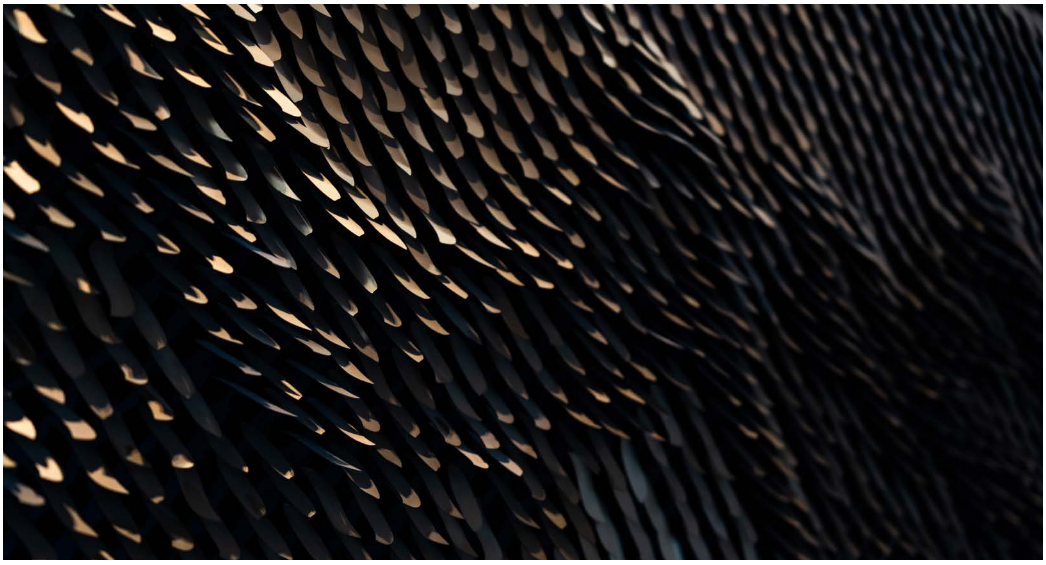
Kate Moore
Chief Investment Officer, Citi Wealth

SECTION 2

MACRO OVERVIEW AND FOCUSES FOR 3Q26

Conrad DeQuadros

Head of Economics, Citi Wealth



KEY TAKEAWAYS

01 The global economy absorbed a series of shocks from global conflicts and volatility with resilience. Meanwhile, manufacturing grew faster in June than in February, and inflationary pressures outside of energy show little evidence of broadening.

02 We believe the Fed's next move is more likely a hike than a cut, though not imminent. With inflation still above target in most major economies, we expect higher-for-longer interest rates.

03 Wide margins and internally funded capital expenditures (capex) keep the U.S. growth picture bright. Strengthening productivity and tightening Eurozone bank lending standards reinforce our expectations for U.S.

The global economy continued to exhibit remarkable resilience to negative shocks during the second quarter. Though forecasts for global growth are modestly lower in aggregate, surveys of purchasing managers indicate output is expanding. Global manufacturing grew faster in June than in February, before the Middle East conflict began.

The conflict's impact on inflation also appears more muted than feared, which has important implications for monetary policy and markets. Measures of global headline inflation moved sharply higher following the oil-price surge, but we expect the pace of overall price gains to moderate as energy prices retreat. Price growth outside of energy did not accelerate materially **(Figure 1)**, and there is little evidence of a broadening in inflationary pressures.

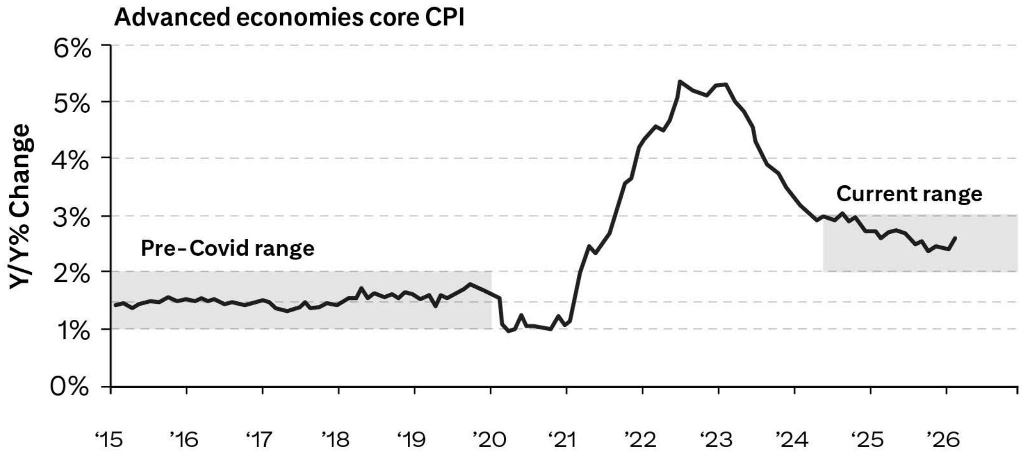
In early June, interest rate futures markets anticipated roughly 0.75% of European Central Bank (ECB) rate hikes in 2026. The ECB raised its policy rates by 25 bps to 2.25% on June 11 in response to higher overall inflation but, following subsequent benign inflation data, markets only anticipate one additional quarter-point tightening in the region this year rather than two hikes.

In the U.S., expectations for Fed rate hikes have also recently declined. We believe the Fed's next policy action is more likely to be a rate hike than a cut, but we do not think a hike is imminent. The Middle East conflict has not created significant additional inflationary risk that would require a tighter monetary policy stance.

However, the Fed had not achieved price stability before the conflict, and progress toward its inflation target stalled following 175 basis points of rate cuts in 2024 and 2025. **This suggests policymakers likely need to tighten monetary policy eventually to durably return inflation to 2%.** Though worst-case inflation scenarios in the wake of higher oil prices and supply-chain disruptions did not materialize, inflation in most major economies remains above central bank targets. Policymakers underscoring their commitment to price stability reinforces our expectations for higher-for-longer interest rates.

FIGURE 1

Price pressures outside energy remain relatively contained



Source: Haver Analytics as of July 7, 2026. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees,or sales charges, which would lower performance. **Past performance is no guarantee of future results.** Real results may vary.

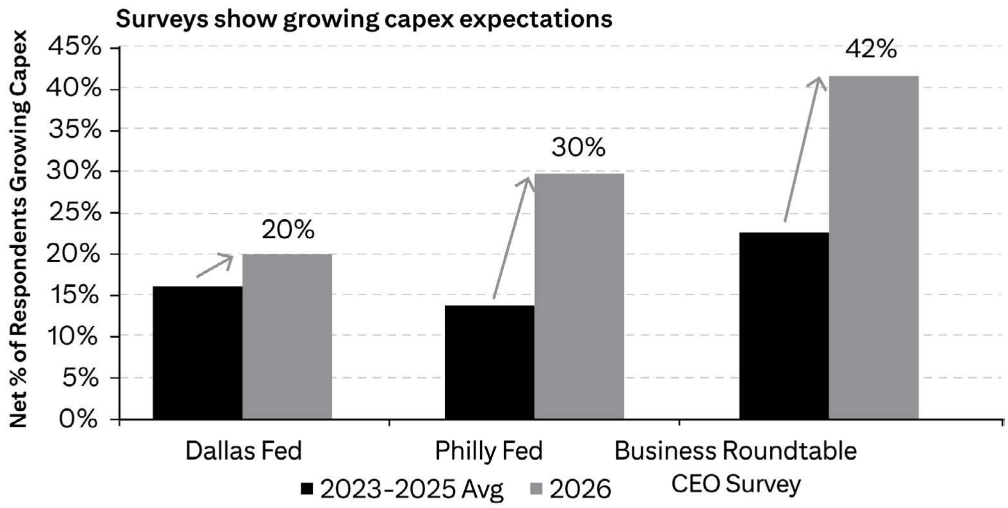
In April's [The Short & Long | Q2 Macro Investment View], we highlighted as a risk on our radar the Fed's leadership transition amid political pressures to cut interest rates despite persistently above-target inflation. Recent developments pushed Fed independence risks to the backburner. In his first Federal Open Market Committee (FOMC) press conference, Fed Chairman Kevin Warsh said, "The members of the FOMC are unambiguous and unanimous: This Committee will deliver price stability." Fed officials unanimously supported the June policy statement and Warsh reiterated his commitment to price stability and Fed independence at the ECB's July policy conference in Sintra, Portugal.

Profits, productivity, and the global growth outlook

Profitability drives our views on the growth outlook, and the picture for the U.S. is bright. Aggregate profit margins for non-financial domestic U.S. companies widened in the first quarter, and macro margins remain near their highest levels of the last 60 years. **Profits drive investment and hiring, both of which are on a solid trend in the U.S.** In the first half of 2026, nonfarm payrolls increased 92,000 per month and core capital goods orders rose 15%. This marks a clear strengthening in investment and hiring compared to 2025. Business confidence is rising, lifting corporate spending plans **(Figure 2).**

FIGURE 2

Strong U.S. profit growth supporting corporate investment

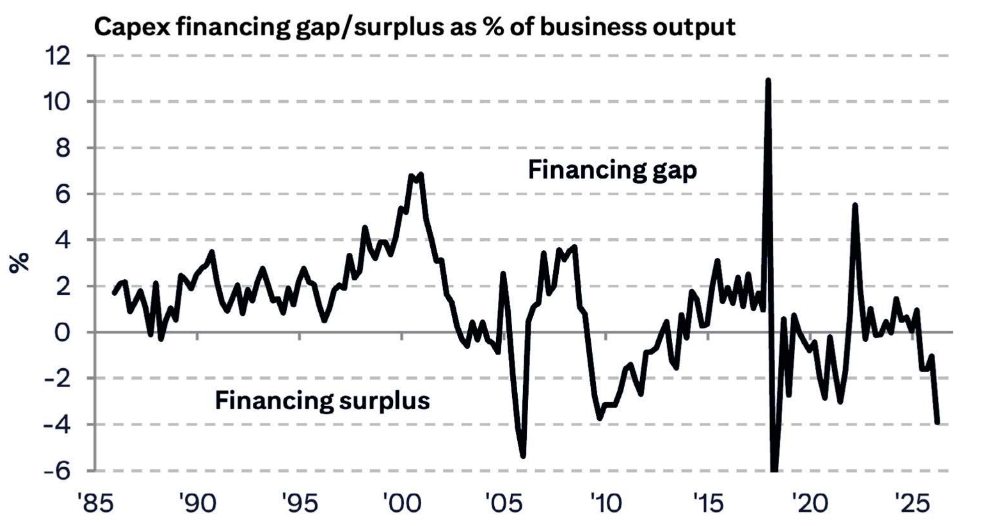


Source: Haver Analytics as of July 7, 2026. **Past performance is no guarantee of future results.** Real results may vary.

Importantly, U.S. firms continue to fund capex in aggregate with internal corporate cash flow. Though U.S. capital markets are receptive, as recent high-profile new issuance signals, firms overall depend little on external funding for capex. We view debt issuance by most hyper-scalers as opportunistic rather than a necessary source of capex funding. **For all non-financial U.S. firms, internal funds exceeded capital spending by an annualized $635 billion in the first quarter of 2026.** This represents a capex funding surplus of 3.9% of the sector's output, compared with a funding gap of 6.4% of output in 2000 during the internet bubble **(Figure 3).**

FIGURE 3

U.S. corporations able to fund capex without external financing



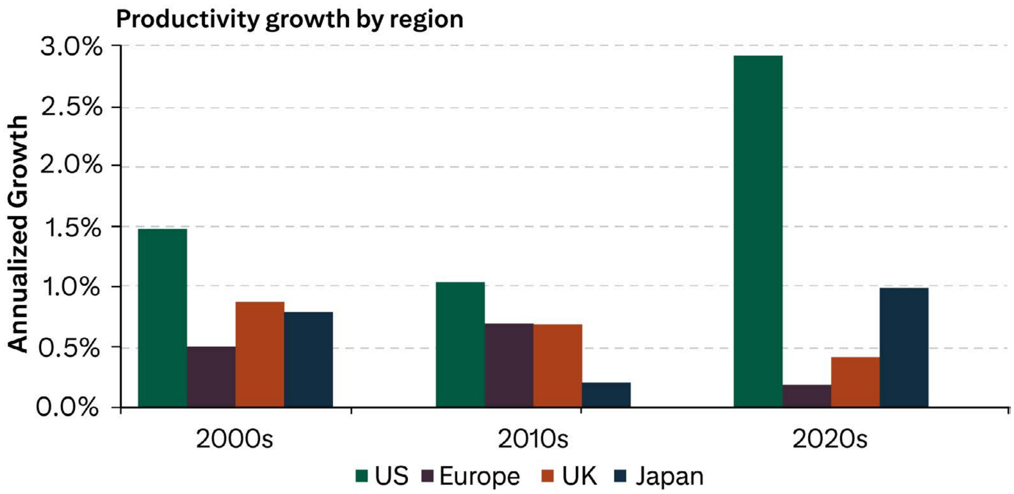
Source: Haver Analytics as of July 7, 2026. **Past performance is no guarantee of future results.** Real results may vary.

In Europe, corporate cash flow trends are less robust than in the U.S., and Eurozone companies depend more on bank loans than capital markets for external funding. The latest ECB Bank Lending Survey points to a headwind. Even before the ECB's June rate hike, Eurozone banks reported tightening credit standards to firms. The ECB survey noted, "The tightening was larger than expected, standing above the historical average, and the most pronounced since the third quarter of 2023," driven by, "Perceived risks to the economic outlook and a lower risk tolerance of banks."[1]

Over a longer horizon, productivity trends underscore our expectations for U.S. growth outperformance. **U.S. productivity growth is materially stronger than that of other major economies and is accelerating (Figure 4).**

FIGURE 4

U.S. productivity trends far outpace other major economies

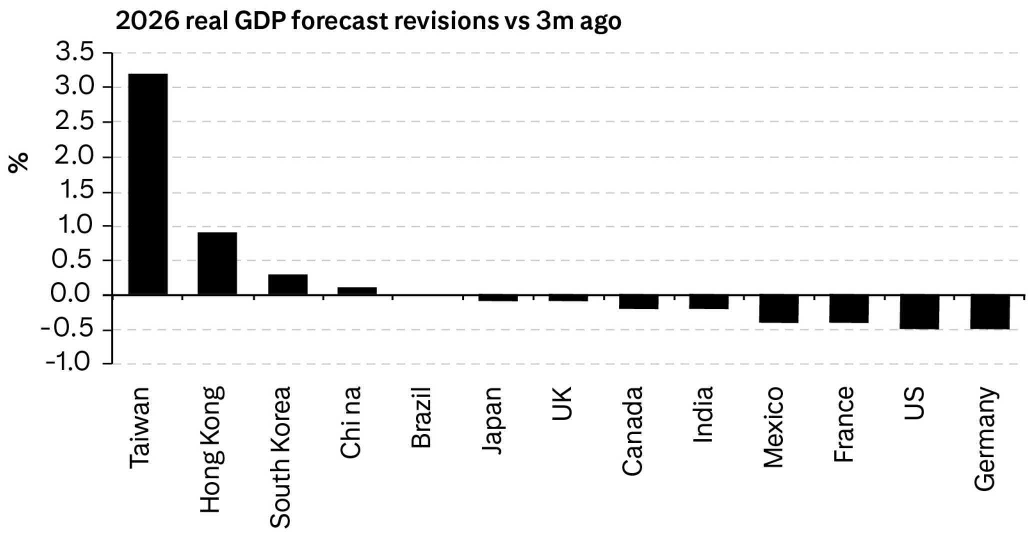


Source: Haver Analytics as of July 7, 2026.

In emerging markets (EMs), large-scale investments focused on the AI supply chain remain a dominant growth driver. Real GDP growth for South Korea and Taiwan accelerated sharply in early 2026, driven by soaring exports of AI-related equipment. Looking forward, consensus growth forecast revisions indicate materially stronger outlooks for Taiwan, Hong Kong, and South Korea **(Figure 5)**.

FIGURE 5

Global consensus growth forecast revisions driven by AI investment



Source: Haver Analytics as of July 7, 2026. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

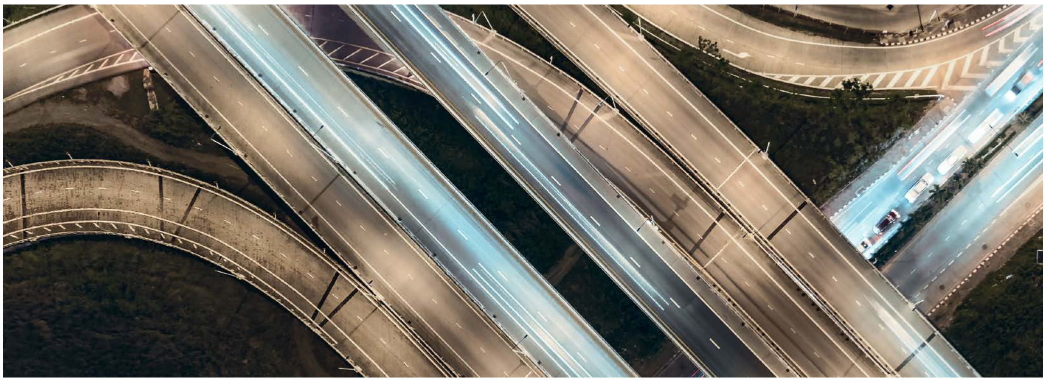
[1] European Central Bank, "The euro area bank lending survey - First quarter of 2026." April 28, 2026.

SECTION 3

INVESTMENT THEMES AND OPPORTUNITIES

JP Coviello

Head of Portfolio Strategy, Citi Wealth



KEY TAKEAWAYS

01 Cybersecurity extends our resilience theme into digital defense. AI simultaneously raises the value of what needs protecting while lowering the cost of attack, making cyber one of the most durable areas of potential enterprise spending in our view.

02 Cyber valuations currently sit at a premium, but we believe the durability of spending justifies it. We would view multiple compression as a potential opportunity to add exposure to the strongest platforms.

03 Commodities play a vital diversification role in portfolios, especially during periods of high inflation. We see the recent pullback as a potential entry point, not a reason to exit. We maintain gold as a core ballast and favor scaling into diversified exposure gradually.

THEME 1: CYBERSECURITY

Cybersecurity in the AI Era: Resilience requires a new Digital Defense

Cybersecurity is a continuation of one of our high conviction themes: resilience. Cybersecurity is evolving from protecting devices and corporate networks into protecting the digital infrastructure, proprietary data, and autonomous software that drive value creation for modern business. In our view, cybersecurity could become one of the most durable areas of enterprise technology spending over the next decade. This is due to AI simultaneously raising the value of what needs protecting and providing tools that make attacks faster, cheaper, and more sophisticated.

Every major technology cycle has created new security requirements, but AI is unique because it benefits both attackers and businesses. For businesses, proprietary data and intellectual property are becoming core moats in the age of AI. As advanced AI models become available to everyone, the models themselves confer less of an edge. Differentiation shifts to what a company uniquely owns: its data, business context, workflows, and domain expertise. At the same time, agentic AI increases vulnerability by giving software greater access, more permissions, and broader ability to act. Simultaneously, AI lowers costs for cyber criminals, accelerating the pace and complexity of attacks.

According to CrowdStrike's 2026 Global Threat Report[2], AI-enabled attacks rose 89% year over year in 2025. Average breakout time, or the time an attacker needs to move from the first compromised machine to other systems on a network, fell to just

[2] "2026 Global Threat Report: Year of the Evasive Adversary." Crowdstrike.

29 minutes, and 82% of intrusions CrowdStrike detected involved no malware at all. Instead, attackers relied on stolen identities and legitimate credentials rather than traditional viruses. Phishing campaigns can be personalized at scale, malware can be generated automatically, vulnerabilities can be discovered more quickly, and attacks can increasingly adapt in real time.

To combat the evolving cyber threat, enterprises need greater visibility into the users, devices, and AI agents operating across their systems, stronger identity verification, enhanced data protection, defined AI governance, and automated response capabilities. Cybersecurity represents a meaningful and growing share of enterprise IT spending.

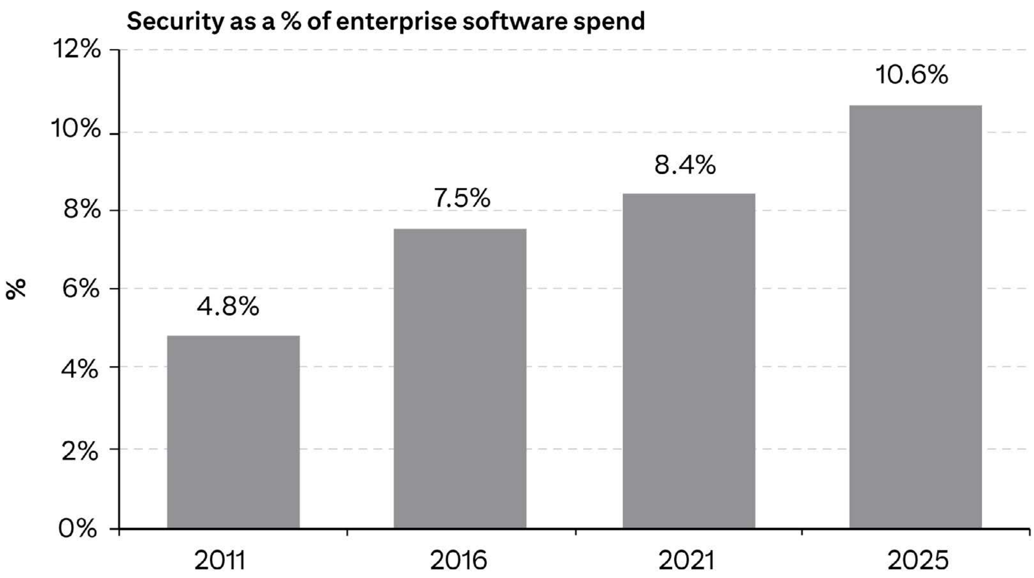
In Citi's 2Q26 Chief Information Office survey[3], respondents projected a 9% allocation of total IT budgets to cybersecurity with cyber budgets expected to grow roughly 6% over the next twelve months compared with 3.3% growth for overall IT budgets[4]. Cyber is taking share within enterprise technology spending, supported by AI adoption, rising data value, regulatory pressure, and the need to consolidate security tools around broader platforms.

We are mindful that cybersecurity stocks appreciated meaningfully over the past year, and valuations across the group sit at a premium to the broader software sector. In our view, the durability of spending justifies that premium **(Figure 6)**. Security budgets are among the least discretionary categories of enterprise IT, demand scales with the threat environment rather than the economic cycle, and platform consolidation gives share gainers a long runway of recurring revenue growth.

In our view, valuations alone are not a sufficient investment thesis, in either direction. We prefer to anchor to earnings delivery and recurring revenue growth, and we would view episodes of multiple compression as potential opportunities to add exposure to the strongest platforms rather than reasons to abandon the theme.

FIGURE 6

Cybersecurity's growing share of enterprise software budgets



Source: Citi Research and Gartner as of June 30, 2026.

[3] "Citi CIO Survey: IT Budgets Moderate Post 4Q Budget Flush." April 9, 2026.
[4] "Citi CIO Survey: IT Budgets Moderate Post 4Q Budget Flush." April 9, 2026.

The next decade of cybersecurity

In our view, cybersecurity is evolving from protecting enterprise IT to enabling the AI economy itself.

CYBERSECURITY COMPANIES MAY BENEFIT FROM MULTIPLE SECULAR TAILWINDS, INCLUDING:

01 As enterprises work to simplify their environments and reduce fragmentation of their data protection infrastructure to strengthen security, comprehensive cyber platforms are gaining market share relative to fragmented point solutions and siloed tools.

02 AI has lowered the barriers for attackers while the breadth and value of targets has increased, driving a new era of demand for security.

03 AI and agentic deployments have altered the traditional IT architecture, creating new opportunities for cybersecurity innovation and customer expansion.

THE CYBERSECURITY INDUSTRY AND INVESTMENT THESIS FOLLOWS:

Cybersecurity platforms gain share

Security environments have become too complex with enterprises using 80+ tools from ~30 different vendors, according to IBM and Palo Alto Networks[5]. Enterprises increasingly favor integrated platforms and one-stop solutions that correlate signals across endpoints, identities, cloud infrastructure, networks, applications, email, and AI workloads while automating responses.

Zero Trust has become the new foundation of enterprise security

As the traditional corporate perimeter disappears and AI agents join employees as active participants in enterprise workflows, every user, device, application, Application Programming Interface (API), workload, and autonomous agent must be continuously authenticated, authorized, and monitored. This drives demand for a new suite of services that enables enterprises to inspect traffic, enforce least privilege access, and protect sensitive data.

Data resilience and recovery matter as much as prevention

No organization will prevent every attack. As ransomware and data-centric attacks become more sophisticated, enterprises increasingly invest in cyber resilience, ensuring that critical data remains recoverable, uncompromised, and quickly restorable when prevention fails.

Data security and governance can grow competitive moats

AI systems are only as valuable as the proprietary data they can access. Enterprises therefore require stronger capabilities around data classification, governance, lineage, access controls, leakage prevention, and regulatory compliance. Understanding where sensitive data resides and how it is being used becomes essential for both security and AI innovation.

AI Agents increase the need for Observability

Organizations cannot manage autonomous software they cannot see. As AI agents begin making decisions and executing workflows, enterprises need visibility into what agents are doing, which systems they access, how they use data, and whether their actions introduce operational, compliance, or security risks. Observability increasingly becomes both an operational and cybersecurity requirement.

[5] IBM Institute for Business Value (IBV) and Palo Alto Networks, "Capturing the cybersecurity dividend: How security platforms generate business value." January 28, 2025.

KEY RISKS:

01 A deceleration in cloud consumption. Observability and cloud security vendors earn much of their revenue on volume-based pricing tied to data ingestion and cloud workloads. If enterprises slow cloud migrations or optimize spending in a weaker macro environment, revenue growth for these firms could decelerate even as the underlying security need persists.

02 A slowdown in net new annual recurring revenue in the larger platforms. Valuations across the group sit at a premium to the broader software sector, which leaves little room for disappointment. Cybersecurity is not immune to budget scrutiny, and elongated sales cycles or slower platform adoption could compress multiples faster than earnings grow. We would view such episodes as potential opportunities rather than reasons to exit. However, the near-term drawdowns could be meaningful.

03 Competition from hyperscalers and broader developer platforms. Large cloud providers increasingly bundle security capabilities into their core offerings, and AI development platforms are embedding security features natively. Enterprises may increasingly settle for the security already included in their cloud platforms rather than paying separately for dedicated vendors, potentially pressuring pricing and growth for standalone providers.

THEME 2: NATURAL RESOURCES AS A MEDIUM-TERM DIVERSIFIER

Natural Resources and commodities can potentially play a valuable diversification role in multi asset portfolios, particularly in elevated inflation environments.

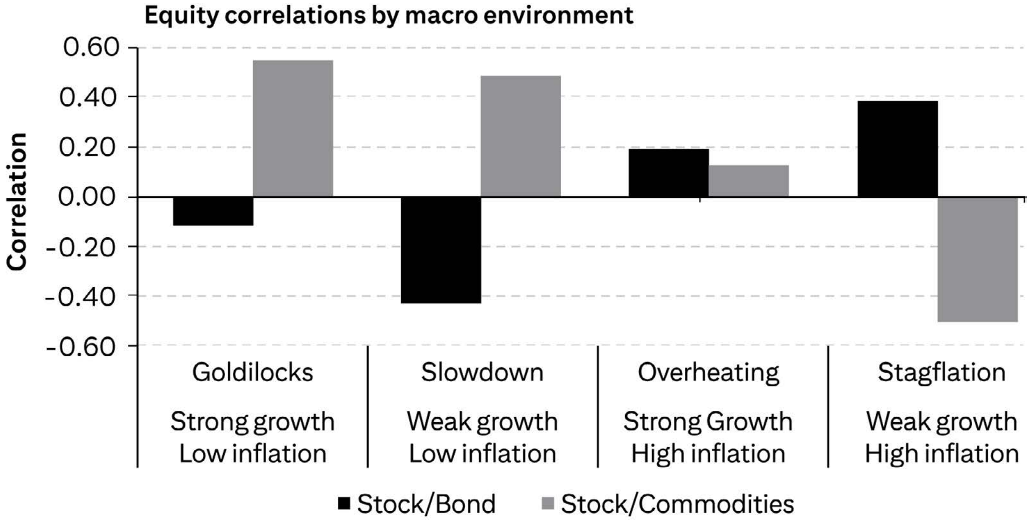
We focused on Natural Resources as an investment theme in December 2025. We view the recent pullback in natural resources and commodities as a potential opportunity to add exposure, not a reason to abandon the theme. Commodities and natural resources can play a valuable diversification role in multi-asset portfolios, particularly in elevated inflation environments, and we believe the structural drivers behind them remain intact even as near-term positioning has washed out.

The diversification case starts with correlations. The traditional 60/40 framework relies on bonds to offset equity risk, a relationship that held when inflation was contained. Since 1970, stock bond correlations were near zero in strong growth environments and negative in weak growth environments when inflation was low. In contrast, during high inflation periods, those correlations turned decisively positive, limiting the diversification benefit of fixed income.

Diversified commodity indices, such as the S&P Goldman Sachs Commodity Index (GSCI) or the Bloomberg Commodity Index, have historically behaved differently. In high inflation environments, they have shown modestly positive correlations with equities during periods of growth and meaningfully negative correlations when growth weakens **(Figure 7)**. This asymmetric profile makes them a potential diversifier in environments where inflation remains above target.

FIGURE 7

Equity correlations with stocks vs commodities



Source: Haver Analytics from 1970 to July 7, 2026. Correlation is the extent to which the values of different types of investments move in tandem with one another in response to changing economic and market conditions. Correlation is measured on a scale of -1 to +1. Investments with a correlation of +.5 or more tend to rise and fall in value at the same time, while investments with a negative correlation of -.5 to -1 are more likely to gain or lose value in opposing cycles. Stocks are using MSCI ACWI as proxy. Bonds are using 10yr U.S. Treasury as proxy. Commodities are using S&P GSCI Index as proxy. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. **Past performance is no guarantee of future results.** Real results may vary.

This pullback has prompted investors to reassess positioning after building exposure to commodities around structural themes such as dollar debasement, geopolitical stockpiling, and secular demand from AI infrastructure and the energy transition. We continue to see merit in these longer-term drivers while remaining cognizant of the U.S. Federal Reserve's view of inflation under Chairman Warsh's leadership. A more hawkish pivot followed by a hiking cycle to slow growth and inflation would have a meaningful impact upon the potential returns for commodities.

Tactically, we used strong performance in commodities earlier in the year to better evaluate commodity-oriented exposure outside of our core position in gold. Our tactical allocation of natural resources, expressed through copper miners, energy equities, and a global upstream Exchange-Traded Fund (ETF), was based on a resilient growth backdrop, sticky inflation, and strong demand from the capex cycle. As energy markets rallied sharply on geopolitical developments, we exited our position in energy equities. Across environments, valuation discipline, a clear focus on our initial investment theses, and an assessment of returns relative to volatility guide our decisions.

We believe the recent decline in commodity prices creates a potential opportunity to add diversified commodities and natural resources exposure within portfolios. We would view this as a medium-term diversifier, rather than a tactical trade. We maintain our core position in gold as portfolio ballast. Given the potential for further policy-driven volatility under the new Fed leadership, we favor scaling in gradually rather than deploying all at once.

KEY RISKS:

01 **More aggressive than expected Federal Reserve tightening.** A sharper hawkish pivot leading to higher real rates and a stronger dollar would pressure commodity prices and investor positioning.

02 **Downside surprise to growth and inflation.** A faster inflation normalization alongside weaker growth could drive correlations back toward a more traditional environment, reducing the diversification benefit.

OTHER OUTSTANDING THEMES

Moving forward, we will recap the standing themes, what has changed, and what themes were exited. Discipline means revisiting our themes, not just adding new ones.

Open themes:

Energy security and infrastructure

We believe the new post-COVID world order will continue to be characterized by multi-polarization and persistent supply chain vulnerabilities. Driven in part by the rapid build-out of AI datacenters, the global trend toward demand for electrification is forcing a reconsideration of energy sources. We believe nations will accelerate investment in their domestic energy production and infrastructure through robust industrial policies. The capex cycle supporting this theme continues to strengthen, with core capital goods orders up 15% in the first half of 2026. We maintain this theme.

Physical AI

Physical AI refers to technologies focused on performing tasks in the real world (e.g. robots, drones, or autonomous vehicles). We believe these technologies are nearing a commercial inflection point, shifting from experimentation into real-world deployment with commercial and industrial uses.

Natural Resources

We stay constructive on global upstream natural resources due to the cyclical outlook for commodities and their unique role as a portfolio diversifier when inflation is high.

ADDED THIS QUARTER

Cybersecurity

- A continuation of our focus on portfolio resilience, extending from physical and supply chain resilience to digital defense in the AI era.

THEMES CLOSED THIS YEAR

- Within Natural Resources, we reduced allocations to copper miners before the Middle East conflict while maintaining diversified exposure to natural resources.
- Within Natural Resources, we also suggested exiting energy equities into the geopolitical rally, while maintaining diversified exposure to the broader theme.
- Similarly, we reduced allocations in Brazil equities, given uncertainty ahead of elections. Elsewhere in EM, we maintain diversified exposure to regions tied to the AI supply chain.

SECTION 4

RISKS ON OUR RADAR

Earnings and AI spending plans for the 2Q26 reporting season. Any material deterioration in fundamentals would likely see markets retrace. Earnings results and guidance will be an important focus.

Why this matters:

- Strong earnings have driven equity returns and allowed markets to look through conflict, rising oil prices, and a hawkish repricing of the policy outlook. However, the earnings bar and expectations have been set high.
- Softer AI spending plans could pressure capex beneficiaries, including semiconductor companies.

Broader inflation pressures lead to a stagflationary environment. Inflation has overshot central bank inflation targets for several years. Policymakers' tolerance for worsening inflation risks is likely to be low. While the repricing of policy during the second quarter did not derail risk assets, an aggressive policy tightening would be more challenging for markets.

Why this matters:

- Broader inflation pressures, like those seen in 2022, would prompt tighter monetary policy from global central banks, slowing growth, and creating a stagflationary environment.
- Stagflation is a difficult environment for both equities and bonds, presenting performance and diversification challenges.

Political and fiscal policy uncertainty. Midterm elections are approaching in the U.S. The U.K. will transition to its seventh Prime Minister in the last ten years. Brazil will hold a general election in a tightly contested race.

Why this matters:

- Leadership changes in some countries and a new U.S. Congress could set the stage for different policy paths.
- In an environment of unsustainable fiscal trajectories, government policies matter for markets.

SECTION 5

PORTFOLIO CONSTRUCTION

Olaolu Aganga

Head of Portfolio Construction & Analytics, Citi Wealth

KEY TAKEAWAYS

01 Cash heavy allocations risk eroding value in real terms, given sticky global inflation. Since 2020, excluding the 2022 bear market, seven of 11 drawdowns of 3% or more recovered in an average of just 11 trading days.

02 Systematic deployment over several months can reduce timing risk. We suggest anchoring to fundamentals in equities, favoring equity risk over credit risk, and maintaining gold as a portfolio ballast.

03 With stock-bond correlation less reliable, alternatives can add differentiated return drivers for suitable and qualified investors. Entry point, vehicle selection, and manager due diligence play a critical role.

With money market funds still holding several trillion dollars in assets globally, many investors continue to earn nominal yields that feel safe but are eroding value in real terms. As we've outlined, the current stickiness of the inflation picture globally makes cash-heavy allocations likely to disappoint, given the market environment appears constructive for deploying idle cash into diversified risk assets. Too often, the behavioral bias most likely to derail deployment is the search for a perfect entry point. Since 2020, setting aside the 2022 bear market, seven of 11 U.S. equity market drawdowns of 3% or more rebounded faster than they fell, with recoveries in those periods averaging just 11 trading days[6]. In our view, valuations alone are not a sufficient investment thesis, and waiting for "cheap" assets has historically meant potentially missing compounding cycles driven by earnings momentum and liquidity expansion.

With that said, as one thinks about cash deployment, there are several ways to think through the entry framework. For example, utilizing systematic deployment to help reduce timing risk and smooth the path through near term volatility. With regards to how cash could be deployed across investment options, we suggest that investors anchor to fundamentals in equities, stay underweight duration in fixed income, and utilize equity risk over credit risk, while maintaining some allocation to gold as a portfolio ballast. Adding non-correlated ballasts (or diversifiers) in public or private form, alongside directional risk exposure, may help a portfolio absorb shocks without requiring behavioral intervention.

[6] Haver Analytics and Bloomberg as of June 18, 2026.

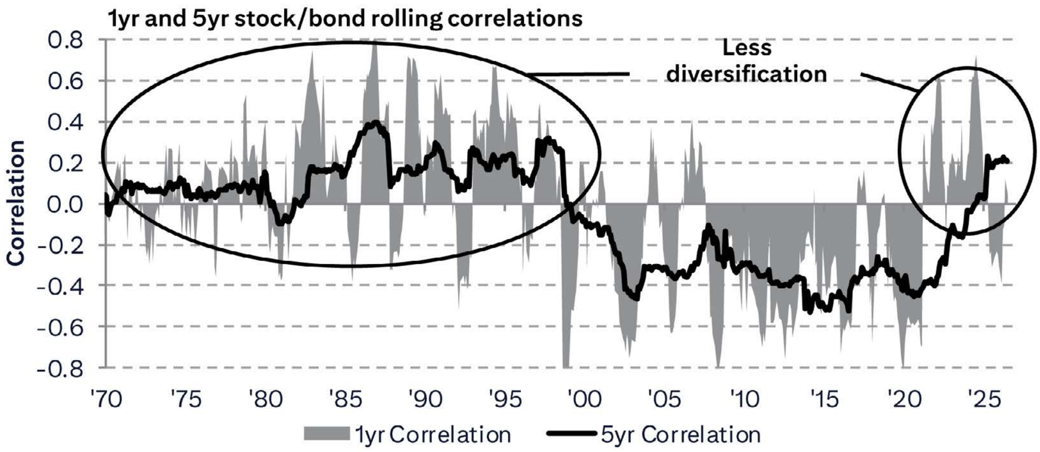
Within equities, we believe incremental cash deployment should be biased toward secular themes, specifically the AI ecosystem and infrastructure (e.g. energy infrastructure, grid modernization, physical AI) where capital expenditure pipelines extend well beyond any single year. In our view, these themes embed inflation resilience through pricing power and structural demand and can be geographically diversified in their revenue exposure even when accessed through public equity markets.

Fixed income plays a dual role in portfolios: it seeks income generation and may offer portfolio resilience. However, we believe that above-target inflation and fiscal spending dynamics could keep longer-term rate volatility elevated. As a result, fixed income positioning should be both deliberate and careful given changing policy dynamics. Being shorter in duration provides attractive real income with substantially less price risk if interest rates reprice higher. This is especially pertinent for investors transitioning from money market funds, where the marginal duration step-up should be measured rather than dramatic.

Finally, as the correlation between equities and bonds has proven less reliable as a diversification mechanism **(Figure 8)**, alternatives can play a meaningful role in a cash deployment strategy for suitable and qualified investors.

FIGURE 8

Bonds providing less diversification to portfolios in recent years



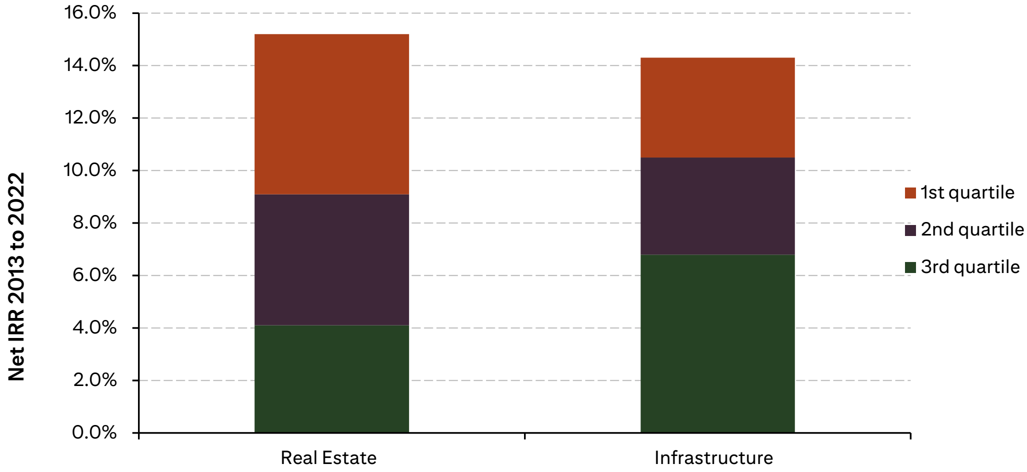
Source: Bloomberg as of June 30, 2026. S&P 500 is used as stock proxy. 10-year U.S. Treasury is used as bond proxy. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific in-vestment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. **Past performance is no guarantee of future results.** Real results may vary.

When markets are strong, diversifiers and resilience are often viewed as a drag on portfolio returns. However, during periods of weak returns, investors may seek to diversify away from traditional liquid assets. The entry point and vehicle selection will play a critical role in building long term portfolio resilience. Thoughtful design may improve portfolio efficiency by introducing return drivers that are differentiated from public market beta.

We expect commodities and real assets tied to the energy transition infrastructure will potentially benefit from a multi-year capex super-cycle that is accelerated by geopolitical tensions. Some of these assets offer inflation pass-through, contracted cash flows, and low correlation to public equity cycles, providing resilience that can seek to anchor the overall portfolio during periods of market stress. Dispersion between top and bottom performing strategies can be quite significant, so careful manager diligence is required when suitable and qualified investors are implementing alternatives **(Figure 9)**.

FIGURE 9

Performance dispersion across private real estate and infrastructure



Real Estate represents the Preqin Real Estate Index, Infrastructure represents the Preqin Infrastructure Index and the performance represents the 2013 to 2022 vintage funds as reported to Preqin as of September 30, 2025. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

GLOSSARY

This glossary defines important terms, phrases, and acronyms found in the CIO Quarterly document.

60/40 Framework	Refers to a portfolio consisting of 60% in stocks and 40% in bonds.
Agentic AI	Refers to an AI system designed to operate autonomously.
Application Programming Interface (API)	A set of rules and protocols that enable different software applications to communicate and exchange data or functionality.
Asset Allocation	The process of dividing an investment portfolio among different asset classes, such as equities, fixed income, and cash or cash equivalents.
Breakout Time	The time a cyber attacker needs to move from the first compromised machine to other systems on a network.
Capital Expenditure (Capex)	Refers to funds a company or government spends to acquire, upgrade, or maintain long-term physical assets that support growth and operational efficiency.
Capital Markets	Financial platforms where long-term securities like stocks and bonds are issued and traded, connecting investors with entities seeking long-term funding.
Cloud Infrastructure	Refers to the collection of hardware and software resources that enable cloud computing.
European Central Bank (ECB)	The central bank for the euro area, responsible for maintaining price stability and overseeing monetary policy across EU countries that use the euro.
Fixed Income	Refers to investments that provide regular, predictable payments, typically in the form of interest, until the investment matures.
Hyperscaler	Refers to a cloud provider that operates massive, software-driven data centers capable of serving billions of users with elastic, on-demand computing, storage, and networking resources.
Internet Bubble (Dot-Com Bubble)	A period of rapid growth in the stock market fueled by speculative investments in internet-based companies from the mid-1990s to the early 2000s.
Least-Privilege Access (Principle of Least Privilege)	A security concept where users, applications, and systems are granted only the minimum permissions necessary to perform their specific tasks and nothing more.
Lifecycle Governance	A structured, proactive approach to managing projects, processes, products, or initiatives throughout their entire lifecycle.
Net new annual recurring revenue	The revenue generated from new customer acquisitions, expansions, and upgrades, minus any revenue lost due to churn or downgrades.

Ransomware	A type of malicious software that encrypts or locks a victim's data or device, demanding a ransom for its release.
Risk Premia	The additional return an investor expects to earn for taking on the risk of a risky asset over a risk-free asset.
Stagflation	An economic condition characterized by high inflation, stagnant growth, and elevated unemployment occurring simultaneously.
Strait of Hormuz	A narrow, strategically vital waterway connecting the Persian Gulf to the Gulf of Oman and the Arabian Sea, through which roughly 20% of the world's oil trade passes daily.
Tactical Trade	A short- to medium-term investment decision aimed at capitalizing on market trends or inefficiencies, often involving active adjustments to positions based on real-time data and analysis.
Zero Trust	A cybersecurity strategy that operates on the principle of "never trust, always verify," continuously authenticating and authorizing every user, device, and connection.

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