FUNDAMENTAL EQUITY OUTLOOK

Q3 2026

ENERGY AND DEFENSIVE SECTORS OUTPERFORM AMID GEOPOLITICAL VOLATILITY

The S&P 500 Index delivered strong performance in the second quarter driven primarily by solid underlying fundamentals and the ongoing wave of AI-related investment. The period was characterized by robust earnings growth rather than broad multiple expansion, as investors weighed compelling corporate profit trends against a cloudier macroeconomic and geopolitical backdrop. Despite ongoing conflict in the Middle East, the S&P 500 posted its best quarter in six years, and nearly all major indices advanced double digits over the last three months.

Market Backdrop

The first half of 2026 has brought continued volatility as markets digested elevated geopolitical tensions, persistent inflation pressures, and a higher interest rate outlook.

Despite these uncertainties, consumer activity has remained broadly resilient thus far. At the same time, investors are monitoring developments in the Middle East and the approaching November midterm elections. Equity indices have oscillated between concern over these macro risks and optimism around solid earnings.

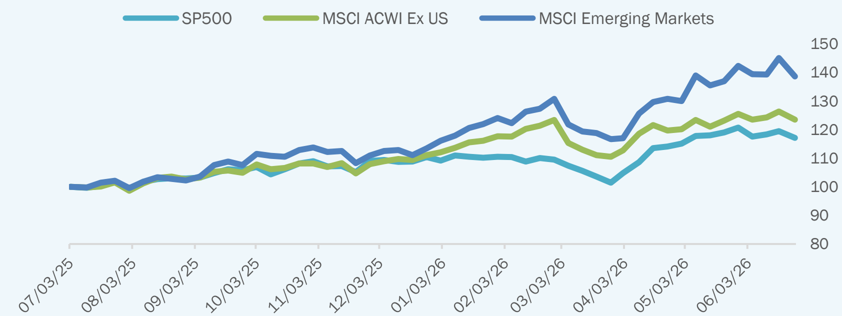
However, the outlook for corporate profit growth over the balance of the year remains broadly healthy, even as financial conditions and market sentiment have become more volatile.

The scale and scope of AI-driven investment have also contributed to market volatility. We view AI as a transformational computing cycle with broad, multi-year implications and an opportunity set extending beyond traditional technology companies and increasingly spanning multiple sectors..

Style Performance

- Growth outperformed value across small-, mid-, and large-cap during the quarter.
- Small cap growth led market returns for the quarter, while small-cap value is the strongest performer for the trailing one year.
- Large-cap growth outperformed over the 3- and 10-year periods.

Market Index Performance



As of June 30, 2026. Source: Jennison, FactSet, MSCI.

Style Index Performance (%)

2Q26

	Value	Core	Growth
Large	13.9	15.1	16.7
Mid	13.4	13.8	14.5
Small	17.2	21.5	25.7

Trailing 1-Year

	Value	Core	Growth
Large	27.1	22.0	17.7
Mid	26.6	21.6	6.2
Small	43.0	40.8	38.7

Trailing 3-Year

	Value	Core	Growth
Large	17.8	20.5	22.6
Mid	16.5	16.5	15.6
Small	18.7	18.6	18.4

Trailing 10-Year

	Value	Core	Growth
Large	11.5	15.3	18.6
Mid	10.6	12.0	13.0
Small	10.9	11.6	12.0

As of June 30, 2026. Source: Jennison, FactSet, MSCI.

SECTOR PERFORMANCE & OUTLOOK

Sector Performance

- From a sector perspective, information technology outperformed, while energy lagged, reversing the trend from last quarter.
- Energy, technology, and industrials are among the strongest performing sectors for the trailing one year. Financials, consumer staples and consumer discretionary are lagging for the trailing one-year period.
- For the trailing ten years, information technology is the best performing sector, while real estate is the biggest laggard.

Outlook from Jennison's Growth Teams

Our attention remains on maintaining a disciplined, long-term investment approach that can navigate a range of outcomes.

We continue to focus on high-quality growth companies with enduring competitive advantages. We continually monitor the evolving environment for new opportunities, while maintaining an emphasis on long-term growth and risk management.

The companies we seek are selected for their ability to capitalize on multi-year opportunities founded on unique products and innovation, supported by durable competitive moats and positions of market leadership.

Perhaps the most important takeaway from the quarter is that fundamentals improved faster than investors expected. Across AI infrastructure, power, industrial, and aerospace businesses, analysts consistently underestimated earnings power, leading to meaningful estimate revisions and a broad re-rating of many growth companies.

While AI remains an important driver of future growth, the opportunity set has expanded well beyond advanced semiconductors to include memory, networking, semiconductor equipment, power infrastructure, and AI-enabled industrial applications.

Beyond AI, we also see compelling opportunities in areas such as commercial aerospace, electrical infrastructure, and other businesses benefiting from favorable long-term demand trends.

GICS Sector Performance - S&P 500® Index (Attribution, basis points)

	2Q	One Year	Three Years	Five Years	Ten Years
Information Technology	32	37	31	22	27
Industrials	15	27	22	14	14
Consumer Discretionary	9	9	14	7	13
Financials	9	4	19	10	13
Health Care	9	20	8	7	10
Real Estate	9	11	9	4	7
Communication Services	8	21	29	12	12
Materials	2	17	9	6	10
Consumer Staples	0	5	9	8	8
Utilities	-1	14	15	11	9
Energy	-13	29	13	19	9
Total	15	22	21	13	16

As of June 30, 2026. Source: Jennison, FactSet, MSCI.

Sector Weights (%)

	S&P 500	MSCI ACWI ex US	Russell 1000 Growth	Russell 1000 Value
Information Technology	38	23	54	19
Financials	12	24	4	19
Health Care	9	7	5	13
Consumer Discretionary	9	7	8	11
Communication Services	10	4	16	3
Industrials	9	14	9	11
Consumer Staples	5	5	1	7
Energy	3	4	0	5
Utilities	2	3	0	4
Real Estate	2	1	0	4
Materials	2	6	0	4

As of June 30, 2026. Source: Jennison, FactSet, MSCI.

OUTLOOK FROM JENNISON'S SECTOR TEAMS

Technology

Technology rebounded sharply in 2Q26, recovering from first-quarter weakness as investors re-engaged with AI beneficiaries, semiconductor leaders, and data-center infrastructure names. The S&P 500 Information Technology sector returned 31.7% over the trailing three months, making it the market's strongest-performing sector in the quarter.

Performance reflected renewed confidence in the durability of AI-led earnings growth. Earnings expectations for technology and communication services remained among the strongest in the market, while positive EPS guidance was heavily concentrated in information technology.

At the same time, the quarter reinforced that technology remains a long-duration asset class. As a result, stocks continued to react sharply to changes in discount rates, macro uncertainty, and the market's assessment of whether AI infrastructure spending will translate into sustainable returns, even as underlying demand trends remained broadly healthy.

Technology Investment Themes

AI, semis, and infrastructure

AI remains the central driver of global technology spending, with hyperscaler and platform capex expectations for 2026 significantly elevated. The spending cycle continues to support demand for advanced logic, memory, networking, and data-center infrastructure, though order patterns are increasingly selective and tied to specific deployment schedules rather than broad capacity additions.

Cloud and enterprise IT spending

Cloud remains the core enterprise architecture, but demand in 2Q26 was shaped more by optimization and productivity than by unconstrained expansion. Customers continue to prioritize platforms that combine AI functionality with clear cost savings, workflow improvement, or infrastructure efficiency, while hybrid deployment and workload placement remain central to spending decisions.

Software/SaaS and AI substitution risk

The software and SaaS complex remains under valuation pressure as investors reassess long-term growth in light of AI-native tools and shifting enterprise budgets. While valuations across many software names remain compressed, the market is still in the process of distinguishing durable platforms with real AI monetization potential from those more exposed to commoditization or budget substitution.

Digital transformation and cybersecurity

Digital transformation remains intact, but new spending is increasingly tied to measurable ROI, resilience, and automation. Cybersecurity continues to attract budget support as AI-driven threats evolve and enterprises place greater emphasis on secure-by-design architectures, cloud protection, and zero-trust frameworks.

Consumer tech and valuation dynamics

Consumer technology trends remain mixed: unit growth is modest, but AI-enabled features, services, and wearables continue to support the longer-term profit pool. Investor preference in 2Q26 tilted back toward companies with visible earnings leverage to AI and infrastructure, though valuation discipline remains important after the sharp rebound in many higher-quality technology names.

Health Care

The S&P Composite 1500 Health Care Index returned 9.6% in the second quarter, trailing the S&P 500's 15.2% gain.

Providers & services, pharmaceuticals, and life sciences tools & services outperformed the Index, while biotechnology and health care technology advanced but lagged the broader market; medtech declined.

After a slow start tied to investor focus on AI and geopolitical uncertainty, health care rebounded sharply in April and May, finishing the quarter as one of the market's stronger-performing areas.

The quarter marked an acceleration from health care's muted first-quarter pace, driven by two key catalysts. Number one, CMS finalized 2027 Medicare Advantage rates at an increase, which was a better-than-expected outcome that sparked a managed care relief rally. Separately, the FDA's April 1 approval of Eli Lilly's oral GLP-1 therapy, Foundayo, extended the obesity growth narrative.

Past performance is not a guarantee of future results. See Disclaimer for index definitions, GICS classification and other important information.

Health Care (Continued)

Biotechnology was the standout subsector, supported by robust M&A. Hospital operators and medical technology were weaker, reflecting proposed CMS payment limits and softer orthopedic demand. The sector also absorbed an FDA leadership transition that investors viewed as supportive of a more predictable, science-driven review process, particularly for rare-disease and gene-therapy programs.

Health Care Investment Themes

Looking to the second half of 2026, we remain constructive on health care. Second-quarter gains reflected both policy catalysts — Medicare Advantage rate-setting and a more accommodative FDA — and improving fundamentals, which we expect to drive greater performance dispersion ahead. The sector still trades at a historically wide discount to the S&P 500, reflecting lingering policy caution rather than weaker earnings or innovation.

Momentum in **SMID-Cap Biotechnology** strengthened on robust M&A and positive clinical data. AbbVie's acquisition of Apogee Therapeutics at a 49% premium reinforced large pharma's willingness to pay for differentiated assets ahead of patent expirations, particularly in next-generation immunology. We continue to favor differentiated science with near-term catalysts and see M&A as a durable support for clinical-stage valuations.

In **Life Science Tools & Services**, exposure is focused on analytical instrumentation, bioprocessing/CDMO, and lab consumables that support biopharma R&D and biologics manufacturing. After prolonged destocking, order books, customer activity, and large-cap pharma R&D spending are improving. We view this as broad picks-and-shovels exposure to R&D spending and biologics and cell-and-gene-therapy capacity, rather than reliance on any single drug or modality.

Managed Care rebounded sharply after the April 7 final Medicare Advantage rate notice came in above the initial proposal and expectations, signaling stabilizing utilization. We are more constructive on payors with Medicare exposure and favorable star ratings, while remaining selective until industrywide margins normalize more clearly.

Large-Cap Biopharma is anchored by leading GLP-1/obesity and oncology/immunology franchises. In our view, Eli Lilly continues to benefit from obesity-market growth and pipeline execution, while Merck is supported by Keytruda, a broader oncology portfolio, and business development capacity. Smaller pharmaceutical holdings add differentiated pipeline optionality across rare disease, pulmonary fibrosis, CNS, oncology, ocular disease, and animal health.

Overall, the health care investment case remains compelling, especially in innovation-oriented subsectors. Biotechnology, large-cap pharma, life science tools, and select managed care names offer attractive relative valuations, M&A support, and a less adverse policy backdrop. Medtech warrants caution until reimbursement and demand trends improve. Macro and geopolitical risks could pressure market multiples, but we believe the sector's highest-conviction areas remain fundamentally sound and that the valuation discount to the S&P 500 presents an attractive opportunity for patient capital.

Utilities

After strong relative performance versus the broader U.S. equity market in 1Q26, utilities remained resilient through 2Q26 despite a more volatile macro backdrop and periodic shifts in interest rate expectations. The U.S. power and utilities sector's multi-year outlook for revenue and earnings growth remains among the most compelling we have seen in several decades.

The sector continued to demonstrate defensive characteristics, supported by improving long-term growth visibility tied to power demand trends. Importantly, investor focus has increasingly shifted from the sector's purely defensive attributes toward its role as a key beneficiary of AI-driven infrastructure investment.

We believe strong long-term fundamentals and still-reasonable valuations underscore the opportunity in utilities. Continued solid execution, along with potential growth opportunities from renewable energy investments, should help drive sector earnings going forward. Strong fundamentals and macro factors underscore the opportunity in the sector, especially given a more stable interest rate environment.

OUTLOOK FROM JENNISON'S SECTOR TEAMS

Utilities (Continued)

Utilities offer a compelling defensive growth proposition for investors for several sector-specific and macro-related reasons:

- The renewables opportunity: Improving economics in wind and solar power remain a growth driver for the overall sector. Companies are only now beginning to incorporate renewables into their capex plans, allowing them to earn a regulated rate of return on these investments.
- Predictable cash flow and earnings: Utilities are defensive by nature, and companies with regulated or quasi-regulated renewables businesses generate long-duration cash flows and predictable rate-base earnings. In addition to providing stable dividends during periods of uncertainty, we believe growth in renewables should help drive earnings above the sector's historical 3%–5% growth rate.
- A more favorable interest rate environment provides relief: Rapidly rising rates increased utilities' cost of capital in the near term, though continued Fed easing should be a tailwind, as expectations for lower policy rates over time should support utility valuations and capital spending plans.
- Policy tailwinds: Though mitigated by recent legislation, the Inflation Reduction Act contains several provisions that support renewables development over the next decade as the U.S. aims to lower carbon emissions, which should help sustain dividend growth.

Utilities Investment Themes

- Regulated utilities: Companies operating in favorable regulatory environments and geographies, with above-average projected earnings and/or dividend growth driven by regulatory rate-base investment.
- Renewable electricity: The energy transition is driving ongoing investment and usage of renewables and should continue to provide unique investment opportunities over the long-term.

Midstream Energy Infrastructure

Energy infrastructure equities were positive in 2Q26, outperforming the broad energy sector but trailing the broader S&P 500, as energy reversed after a solid 1Q26. Quarterly volatility reflected Middle East geopolitical developments and fluctuating commodity prices, while midstream fundamentals remained resilient. Natural gas demand continued to benefit from LNG exports, power generation needs, data center growth, and broader electrification trends.

We continue to view long-term natural gas demand growth as a significant secular tailwind, with expansion and bolt-on projects positioned to drive attractive cash flow and earnings growth over the next 3–5 years.

Energy infrastructure companies remain well positioned, supported by disciplined capital allocation, strong balance sheets, and the ability to return cash to shareholders while funding growth.

In our view, the energy sector, including midstream infrastructure, is in a historic period of financial strength, shareholder-friendly discipline, and high capital returns. Midstream appear to be well positioned for continued fundamental and equity performance, generating above-average free cash flow yields while trading at a discount to the broader market.

We believe this disconnect presents an opportunity, particularly as the sector's transformation gains investor attention and management teams continue to emphasize shareholder-friendly capital policies.

Longer term, midstream energy companies will remain critical to the energy future. A successful energy transition will require multiple energy sources, and hydrocarbons—especially natural gas—should continue to support demand for both the commodities and the essential infrastructure that moves them. With difficult-to-replicate asset networks, high barriers to entry, and underappreciated adaptability to transport other energy sources, midstream companies are well positioned to support a greener future while reducing the environmental impact of their operations.

OUTLOOK FROM JENNISON'S SECTOR TEAMS

Midstream Energy Infrastructure Investment Themes

- Companies with exposure to growing natural gas volumes, liquefied natural gas (LNG) exports, and high-quality geographic areas.
- Companies with greater capital discipline and healthier balance sheets, enabling them to withstand downturns, invest in growth projects, and return capital to shareholders.
- Larger, integrated companies with multiple touch points across the energy value chain, higher barriers to entry, and steady cash flows.
- Sound corporate governance policies and incentives aligned with shareholder performance, safety, and returns on invested capital.

Financials

In Q2 2026, the S&P 500 financials sector rose but underperformed the broader S&P 500's gain. Nonetheless, the sector rebounded solidly from Q1's decline.

Banks and consumer finance led as economic activity improved, while insurance and mortgage REITs lagged despite positive returns. Elevated Q1 risks tied to the Gulf War clearly eased in Q2.

Despite near-term volatility, we continue to see favorable long-term fundamentals across many business models, supported by a solid global macro backdrop, including healthy bank credit conditions and resilient consumers. The new administration's pro-business agenda—lower taxes, especially for capex, reduced balance sheet capital requirements, and lighter regulation—has further lifted earnings growth expectations across sectors and industries.

However, a Gulf War-driven recession and higher energy prices could reverse this outlook. Banks and leading capital markets firms are particularly exposed, especially given ongoing private-market liquidity and credit pressures. While credit issues appear largely contained within the private sector, spillover risks remain. A deterioration in these factors would hurt financials through higher credit losses and slower consumer and business lending.

Financials Investment Themes

Large, high-quality money center, consumer finance, and super-regional banks are well positioned across a broad range of balance sheet, capital, and risk management metrics.

Sector valuations have normalized. Future earnings growth should be driven by solid revenue trends and credit controls, expanding net interest margins, continued growth in fee-based businesses, and efficiency gains from greater use of technology and AI.

Global alternative asset managers offer attractive valuations and durable revenue growth, supported by strong recurring revenue streams, consistent fee-based asset raising to fund deal activity, and optimized spread-based revenue streams.

Top-tier P&C insurers have solid fundamentals, supported by scale, and reasonable valuations. The industry group remains a defensive safe haven for investors.

Secular growth companies in fintech with defensive attributes—low leverage, asset-light models, sustainable high margins, and strong free cash flow—continue to attract investors seeking quality and durable growth. Several digital payments and financial technology companies meet these criteria.

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