JENNISON®

FUNDAMENTAL EQUITY OUTLOOK

Q4 2026

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US EQUITIES POST POSITIVE RETURNS DESPITE LINGERING MACRO UNCERTAINTY

U.S. equity markets advanced modestly in the third quarter of 2026, supported by resilient economic growth and strong corporate earnings despite persistent inflation, rising long-term interest rates and geopolitical uncertainty. Profit growth remained well above historical averages, with particular strength in technology, as continued investment in artificial intelligence and related infrastructure supported both business investment and corporate results.

Market Backdrop

Market leadership remained highly concentrated in technology and AI-related companies, while energy also performed strongly as geopolitical tensions drove oil prices higher. Beneath the surface, however, much of the market lagged, resulting in significant dispersion across sectors and individual companies. Higher long-term interest rates also created a more challenging backdrop for growth equities and weighed on consumer-oriented companies.

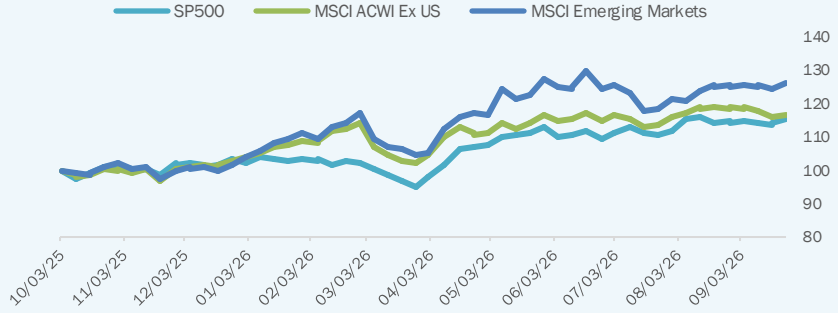
On the broader macro front, we expect many of the factors that have influenced market performance year to date to contribute to continued volatility. These include persistent inflation, elevated interest rates, geopolitical uncertainty and the approaching midterm elections.

Consumer activity and broader economic growth have remained generally resilient, although we continue to monitor the impact of higher oil prices and broader inflationary pressures on consumer spending. Nevertheless, the outlook for corporate profit growth remains generally constructive, while the scale and scope of AI-driven investment continue to play an important role in market and sector performance.

Style Performance

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

Market Index Performance



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

Style Index Performance (%)

3Q26

	Value	Core	Growth
Large	2.6	1.8	0.9
Mid	-2.0	-3.0	-5.8
Small	-4.9	-7.2	-9.4

Trailing 1-Year

	Value	Core	Growth
Large	23.8	15.0	7.5
Mid	16.9	12.0	-2.7
Small	20.8	16.2	12.1

Trailing 3-Year

	Value	Core	Growth
Large	20.1	22.5	24.3
Mid	17.5	17.2	15.4
Small	17.9	17.7	17.6

Trailing 10-Year

	Value	Core	Growth
Large	11.4	15.0	18.2
Mid	9.9	11.2	11.9
Small	9.4	9.8	9.9

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

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SECTOR PERFORMANCE & OUTLOOK

Sector Performance

- From a sector perspective, information technology and energy outperformed, while industrials lagged.
- Energy and technology are among the strongest performing sectors for the trailing one year. Utilities 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

We continue to view AI as a transformational, multi-year computing investment cycle, with opportunities extending beyond traditional technology companies and increasingly across a wide range of industries.

At the same time, the quarter highlighted the potential for significant volatility as investors rapidly reassessed the pace of AI investment, the sustainability of returns and which companies will ultimately emerge as the primary beneficiaries.

We closely monitor these developments and believe disciplined fundamental analysis will be increasingly important as the market differentiates among companies across the AI ecosystem.

Our attention remains on maintaining a disciplined, long-term investment approach that can navigate a range of outcomes, focusing 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 have, in our view, an ability to capitalize on multi-year opportunities, are founded on unique products and innovation, and are supported by durable competitive moats and positions of market leadership.

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

	3Q	One Year	Three Years	Five Years	Ten Years
Information Technology	7	30	37	24	26
Industrials	-10	9	20	13	13
Consumer Discretionary	-5	-5	13	6	12
Financials	-0	1	19	9	13
Health Care	6	23	11	8	11
Real Estate	-6	2	11	2	6
Communication Services	4	12	29	13	13
Materials	-3	10	10	6	10
Consumer Staples	-2	6	10	7	8
Utilities	-12	-7	14	8	8
Energy	17	42	14	23	10
Total	2	16	23	14	15

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

Sector Weights (%)

	S&P 500	MSCI ACWI ex US	Russell 1000 Growth	Russell 1000 Value
Information Technology	40	22	56	21
Financials	11	25	5	18
Health Care	9	7	5	13
Consumer Discretionary	9	7	7	10
Communication Services	10	4	17	3
Industrials	8	14	7	10
Consumer Staples	4	5	1	7
Energy	3	5	1	6
Utilities	2	3	0	3
Real Estate	2	1	0	3
Materials	2	7	0	4

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

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OUTLOOK FROM JENNISON'S SECTOR TEAMS

Technology

Technology had another solid performance in 3Q26 (following a very strong Q2), driven by the ongoing fundamental acceleration in the AI beneficiaries, semiconductor leaders, and data-center infrastructure names.

The sector's 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 on 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. 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 3Q26 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 continues to navigate potential long-term winners/losers as investors reassess future growth considering 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 architecture, 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 the early development of consumer mobile Ai applications continue to support the longer-term profit pool. Investor preference in 3Q26 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

Health care outperformed the broader S&P 500 index during the quarter.

Health care's solid absolute and relative returns were driven by a narrow set of company-specific catalysts: major clinical readouts, accelerated regulatory approvals, and improving life science tools fundamentals. The quarter's most consequential event came in August, when Moderna reported positive Phase III results for its personalized mRNA cancer vaccine, developed with Merck, showing a statistically significant reduction in melanoma recurrence alongside Keytruda.

The first successful large-scale validation of an mRNA cancer vaccine was widely viewed as a potential inflection point for Moderna and precision oncology, sparking a rally across oncology, genomics, diagnostics, AI-enabled drug discovery, and other personalized-medicine beneficiaries. FDA approvals rose substantially from the prior year across oncology, neurology, rare disease, gene therapy, diagnostics, and immunology, highlighting advances in biomarker-driven medicine, gene therapy, and targeted oncology.

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OUTLOOK FROM JENNISON'S SECTOR TEAMS

Health Care(Continued)

Together with clinical readouts, these approvals supported a favorable company-specific catalyst environment. Performance remained uneven: large-cap biotechnology and pharmaceuticals generally outperformed on positive clinical and regulatory developments, while many earlier-stage, longer-duration assets lagged as higher rates compressed valuations. Managed care was the weakest major industry group amid medical-cost, profitability, and reimbursement concerns. Medical technology results were mixed, with depressed valuations providing support but reimbursement concerns, slowing growth in certain cardiovascular markets, and orthopedic softness weighing on parts of the industry.

Health Care Investment Themes

We remain constructive but selective on health care through the remainder of 2026 and into 2027. Third-quarter dispersion underscored the importance of company fundamentals: clinical and regulatory progress drove therapeutics, while improving demand supported life science tools and services. A productive innovation cycle and recovering biopharma demand after prolonged destocking underpin the portfolio's overweights in these areas. We remain more selective in managed care and medical technology.

Therapeutic innovation spans oncology, immunology, rare disease, neurology, cardiometabolic disease, and genetic medicine. Positive Phase 3 melanoma results for individualized mRNA therapy marked an important validation of personalized cancer treatment, while broader clinical and regulatory progress reinforced pipeline breadth. The portfolio pairs established obesity and oncology franchises with smaller biotechnology companies targeting underserved diseases, balancing durable commercial growth with potential upside from emerging platforms and new standards of care. We prioritize differentiated science, clinically meaningful data, and clear regulatory and commercial pathways.

Life science tools and services showed clearer signs of an early demand recovery as destocking eased, biopharma activity and orders improved, and R&D investment continued. More complex therapies support demand for specialized research, analytical, and manufacturing capabilities. Longer term, rising pharmaceutical R&D spending, AI-driven innovation, improving NIH funding outlays, and supply-chain re-shoring could drive above-trend organic growth. AI-enabled discovery may also expand development pipelines and demand for tools, CROs, and CDMOs. Recovery remains uneven, but improving orders, bioprocessing activity, and biopharma funding could strengthen 2027 earnings growth and valuations.

We remain underweight and selective in managed care but are more constructive as medical-cost trends improve. Disciplined pricing and benefit adjustments support early margin recovery, while diversified health-services and pharmacy capabilities add earnings growth opportunities. Reimbursement and government-program uncertainty persist, but better cost visibility improves the outlook for 2027.

Discounted medical technology valuations supported an early fourth-quarter recovery, but mixed results and procedure volumes below post-pandemic highs keep us underweight and selective. We focus on innovation-led growth less dependent on utilization: structural heart, robotic-assisted surgery and orthopedics, automated insulin delivery, and digital dentistry. Product launches, expanding indications, and rising adoption sustain our interest despite broader caution.

Health care still offers an attractive valuation-versus-growth profile, though improving fundamentals and sentiment have closed much of its historically wide market discount. Further relative gains increasingly depend on earnings growth and execution. Therapeutics remains our highest-conviction area, supported by clinical and regulatory progress and upcoming data across emerging platforms; life science tools should benefit from recovering biopharma demand. Following a catalyst-driven third quarter, earnings delivery, clinical progress, and stock selection should increasingly drive performance.

Utilities

Utilities declined during 3Q26 as inflation concerns and rising interest rates weighed on the sector. Nevertheless, Utilities remained supported by constructive fundamentals during 3Q26 as investor attention continued to focus on the sector's increasingly important role in meeting rising US electricity demand. The US power & utilities sector's multi-year outlook for revenue and earnings growth remains compelling.

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OUTLOOK FROM JENNISON'S SECTOR TEAMS

Utilities (Continued)

Long-term growth visibility continues to be supported by increasing electricity demand, driven in part by AI-related data center development, manufacturing re-shoring and broader electrification. Investor focus has also increasingly shifted beyond the sector's traditional defensive characteristics toward its potential to benefit from rising power demand and infrastructure investment. We believe these strong long-term fundamentals continue to support the opportunity in the utilities sector. Continued solid execution, along with investment in power generation, grid reliability and modernization, should support the sector's earnings growth going forward. Strong fundamentals and rising electricity demand reinforce the long-term opportunity, despite near-term pressures from higher interest rates and financing costs.

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

- Growing Power Demand and Investment Opportunity: Accelerating electricity demand, driven in part by data centers, AI-related infrastructure and broader electrification, is supporting increased investment across generation, transmission and grid infrastructure. Renewables remain an important component of this investment opportunity, alongside other sources of power generation needed to meet growing demand.

- Predictable Cash Flow and Earnings: Utilities are defensive by nature and regulated or quasi-regulated businesses can generate long-duration cash flows and relatively predictable rate-base earnings. Significant capital investment and rate-base growth should support earnings and dividend growth over time, providing an attractive combination of stability and growth potential.

- Significant Capital Investment Cycle: Rising electricity demand and the need to modernize and expand the power grid are creating a substantial investment opportunity for utilities. Investments in new generation capacity, transmission and distribution infrastructure, grid reliability and resiliency can expand regulated rate bases and support long-term earnings growth.

- Evolving Interest Rate and Policy Environment: Interest rates remain an important consideration given the sector's capital-intensive nature, while changes to federal energy policy have reduced some of the incentives previously available to renewable projects. Nevertheless, underlying demand growth and the need for significant investment in US power infrastructure continue to provide meaningful long-term support for the sector.

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 helping to drive ongoing investment and usage of renewables and should continue to provide unique investment opportunities over the long-term.

Midstream Energy Infrastructure

Energy infrastructure equities faced modest pressure in 3Q26 as weaker natural gas prices weighed on sentiment despite resilient fundamentals. Growing LNG export capacity and power demand, including from data centers, support a constructive long-term natural gas outlook and a secular tailwind for the sector.

Recent expansion and bolt-on investments could drive attractive cash flow and earnings growth over the next 3–5 years. Disciplined capital allocation and strong balance sheets position companies to fund growth while increasing shareholder returns.
The broader energy sector, including midstream, is experiencing historic financial strength, shareholder-friendly discipline, and high capital returns. Midstream's earnings drivers and equity outlook remain strong, with well-above-average free cash flow yields despite a valuation discount to the broader market. We see opportunity in this disconnect given significant sector and market transformation, while a growing investor base is taking notice as management teams reaffirm shareholder-friendly capital policies.

OUTLOOK FROM JENNISON'S SECTOR TEAMS

Midstream Energy Infrastructure (Continued)

Midstream companies remain essential to the energy transition, which requires multiple energy sources.

Hydrocarbons—especially natural gas—will continue to drive demand for both commodities and the infrastructure that moves them. Existing, difficult-to-replicate asset networks create high barriers to entry, while their adaptability to transport other energy sources remains underappreciated.

Management teams increasingly recognize their role in a greener future, focusing on both their operations' environmental impact and their assets' potential.

Midstream Energy Infrastructure Investment Themes

- Companies with exposure to growth in natural gas volumes, liquefied natural gas (LNG) exports, and high-quality geographic areas.
- Higher capital discipline and healthier balance sheets that can withstand a downturn, but also invest in growth projects while returning capital to shareholders.
- Integrated business models – the larger, more integrated companies with multiple touch points along the energy value chain, higher barriers-to-entry, and steady cash-flows.
- Sound corporate governance policies and incentives that align with shareholder performance, safety, and returns on invested capital.

Financials

In Q3 2026, the S&P 500 Index's financials sector trailed the S&P 500's return. Capital markets and financial services led; mortgage REITs, consumer finance, and banks lagged.

We continue to see positive long-term fundamentals across diverse business models, supported by solid global macro conditions, healthy bank credit, and resilient consumers. The prospect of lower taxes—especially on capex—reduced balance-sheet capital requirements, and less regulation under the new administration's pro-business, pro-growth agenda has further lifted earnings growth expectations across sectors and industries.

However, a recession triggered by the Middle East geopolitical conflict and higher energy prices could reverse this outlook. Banks and leading capital markets companies are especially exposed, with ongoing private-market liquidity and credit issues adding risk. We believe credit problems remain largely contained in private markets, but spillover concerns are real. Deterioration could raise credit losses and slow consumer and business lending.

Financials Investment Themes

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

Valuations in the sector have normalized. Future earnings growth will be driven primarily by solid revenue trends and credit controls; expanding net interest margins; growth in fee-based business opportunities; and continued efficiency improvements through better use of technology and AI.

Global alternative asset managers have attractive valuations and durable revenue growth, supported by their strong recurring revenue businesses, consistent ability to raise fee-based assets to fund ongoing dealmaking, and optimization of their spread-based revenue streams.

Top-tier P&C insurance companies have solid fundamentals, supported by their scale, and reasonable valuations. This industry group continues to serve as a defensive safe haven for investors. Fintech companies with secular growth and defensive attributes—including low leverage, asset-light models, and sustainable businesses with high margins and high free cash flow—continue to attract investors seeking quality and durable growth. Several digital payment and financial technology companies meet these criteria.

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