IMAP | Sydney

Geopolitics and the direction of US exceptionalism.

Jeremy Butterworth, CFA

Managing Director and Investment Strategist

Wellington Management

Geopolitics and Direction of US Exceptionalism

Fragmentation produces dispersion, not collapse

Jeremy Butterworth, CFA
Managing Director and Investment Strategist

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Geopolitics is no longer a background variable, but a key driver of macro outcomes, market dispersion, and investment opportunity.

THOMAS MUCHA

Geopolitical Strategist, Wellington Management

Geopolitics and Direction of US Exceptionalism

Fragmentation produces dispersion, not collapse

PAST

What helped develop US exceptionalism over the last century?

PRESENT

How is the geopolitical backdrop evolving today?

PORTFOLIO

What are the implications for asset allocation?

What does all this military spending give you?

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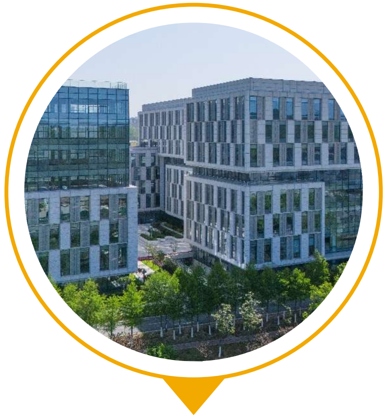
Advantages beyond direct military power

Global alliances & unmatched combined military, diplomatic and economic capabilities to promote global stability

Protection of the global commons, trade routes & enforcement of “rules-based order” that makes globalization possible



World-leading research institutions to benefit US military & economic capabilities, while attracting “best and “brightest” globally

Deep, liquid ,and independent capital markets to support growth, reward innovation, and bolster US currency reserve status

Geopolitics

US dominance hasn't been accidental

United States
Unmatched Dominance

- Military and Diplomatic
- Institutional and Economic Capacity

US exceptionalism

Enabled and supported global stability

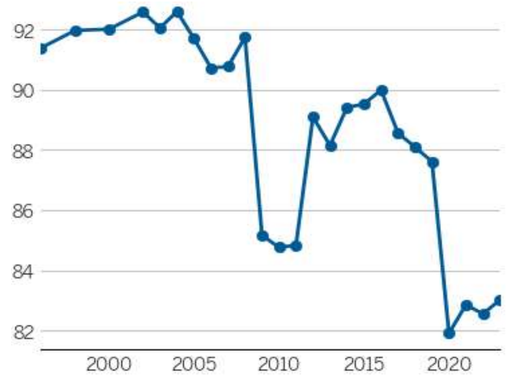
- Trade
- Capital formation
- Dollar reserve status
- Globalisation

Stability fracturing

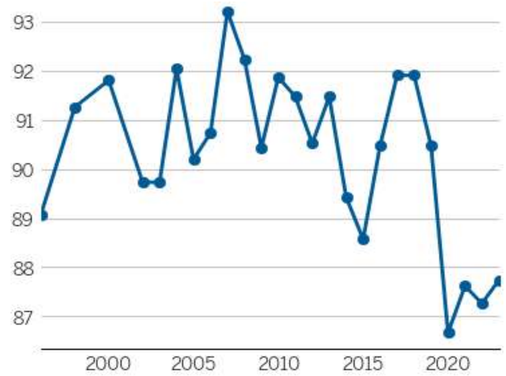
Governance Indicators deteriorating

United States: World governance indicators (percentile ranking)

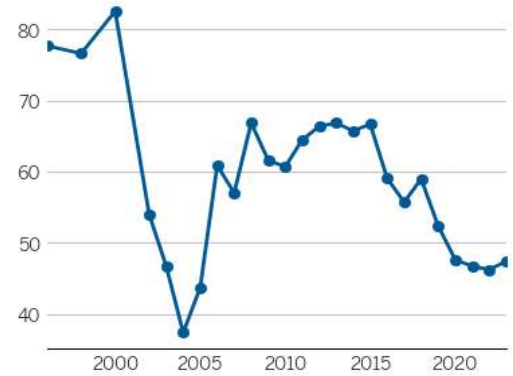
Control of corruption



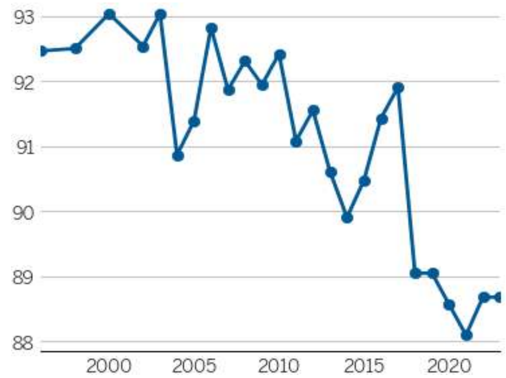
Government effectiveness



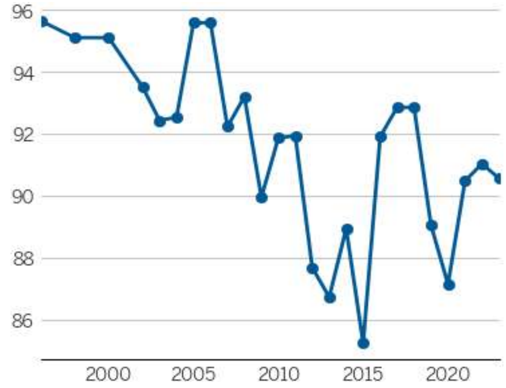
Political stability and absence of violence



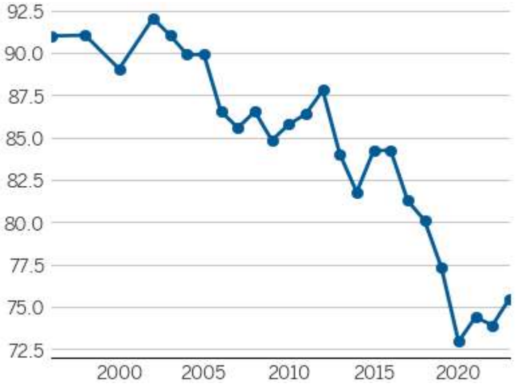
Rule of law



Regulatory quality



Voice and accountability



Source: Wellington Management, Refinitiv | Monthly data from January 2000 – 2025

Investment Insights

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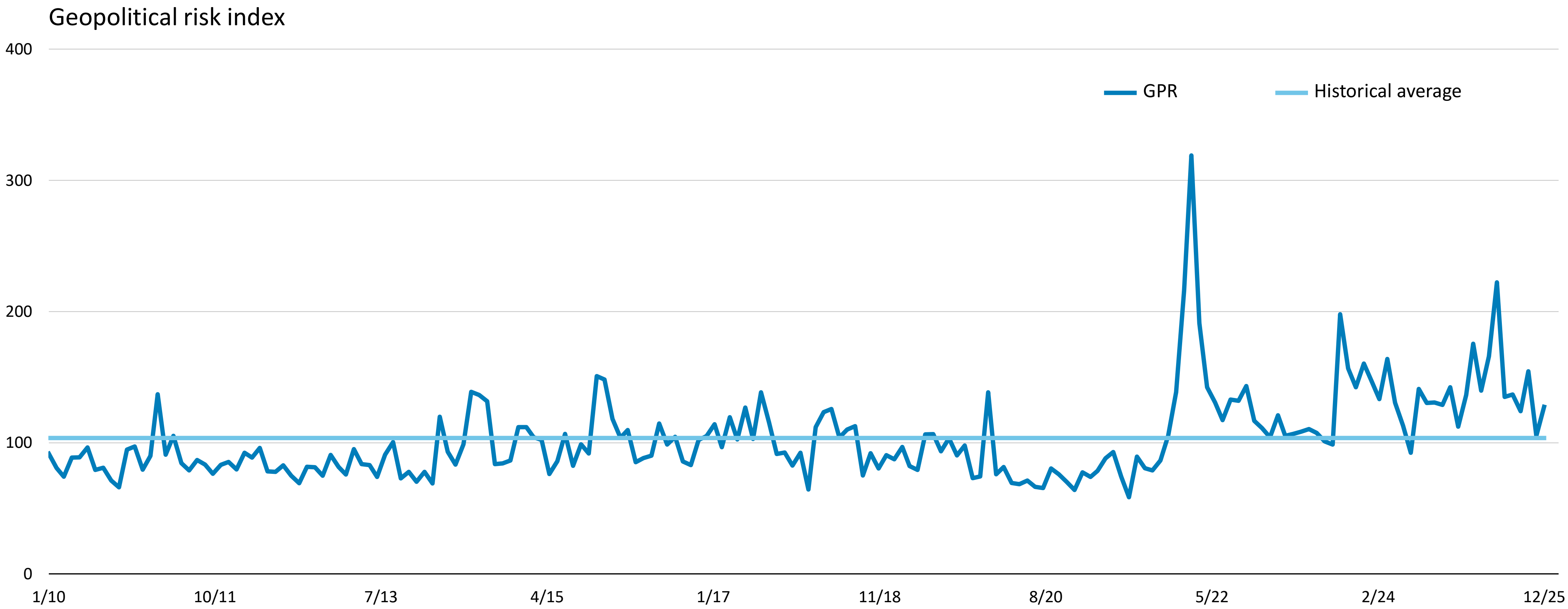
Governance Indicators deteriorating



Sources: International Rescue Committee; ACLED; Caldara & Iacoviello, Board of Governors of the Federal Reserve System. | Views are as of the date indicated, are based on available information, and are subject to change without notice. Individual portfolio management teams may hold different views and may make different investment decisions for different clients. This material is not intended to constitute investment advice or an offer to sell, or the solicitation of an offer to purchase shares or other securities.

Investment Insights

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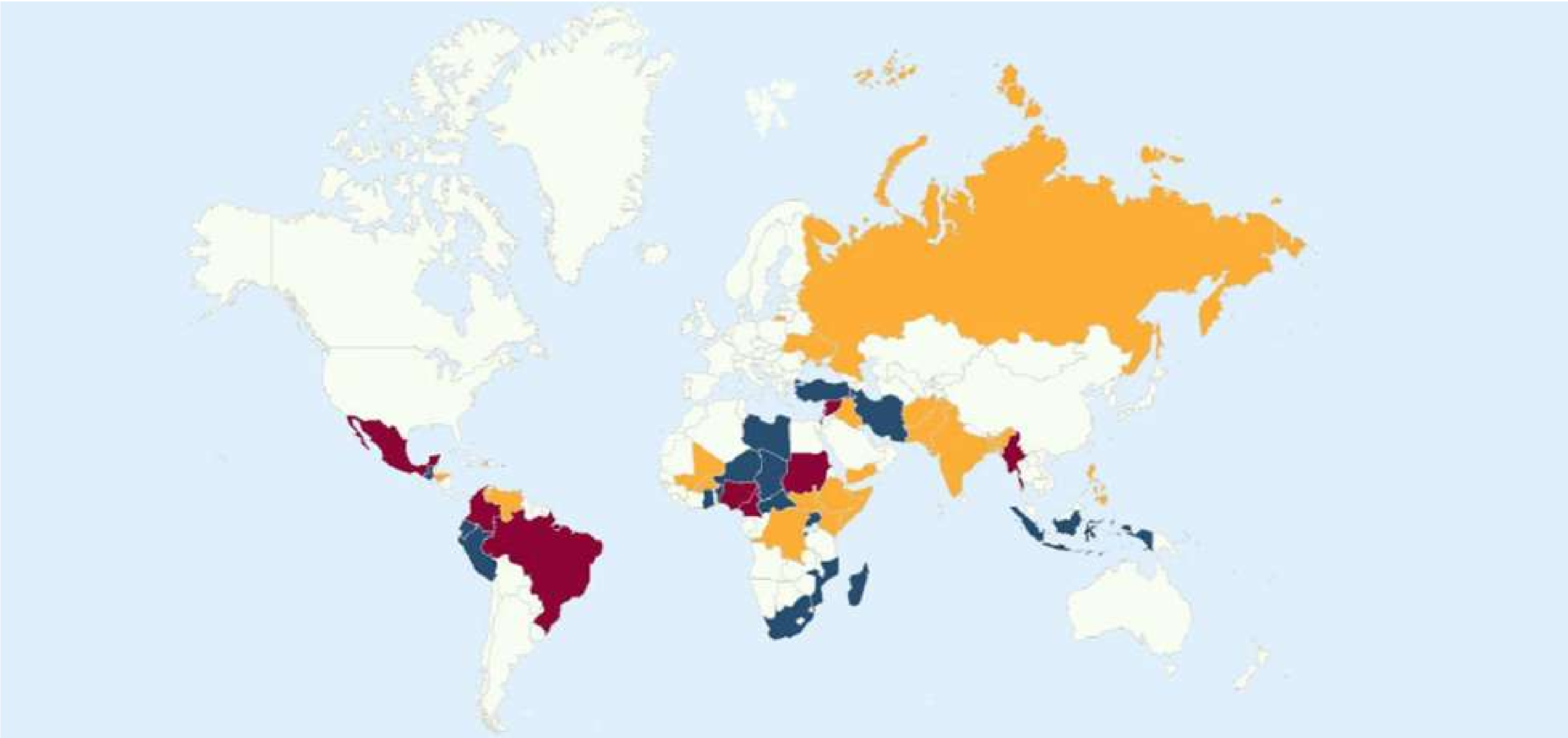
How will geopolitical risk impact markets?

ACLED Conflict index



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Geopolitics

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Structural backdrop fracturing

Stable Global Order

- US-led, rules-based system
- Strong global co-operation
- Free flow of trade and innovation
- Structural economic stability

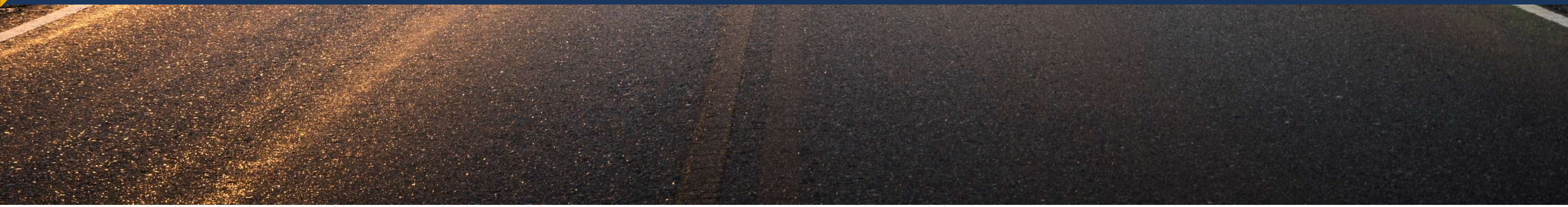
Multipolar & Fragmented System

- Weakened US structural advantage
- Rising geopolitical conflict
- Trade and policy fragmentation
- Elevated volatility, lower predictability

FRAGMENTATION PRODUCES DISPERSION, NOT COLLAPSE

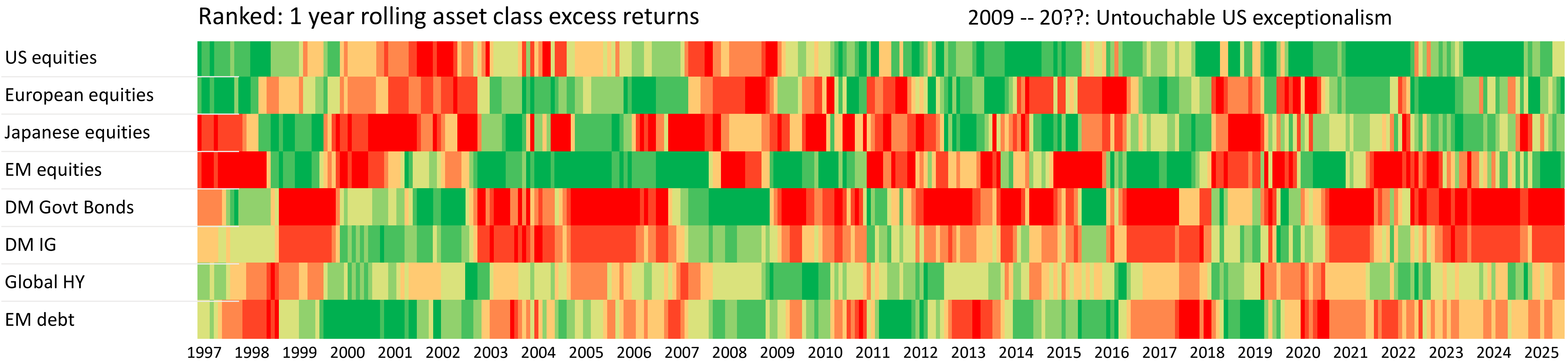
US Exceptionalism – Equity Lens

FRAGMENTATION PRODUCES DISPERSION, NOT COLLAPSE



What is 'US Exceptionalism?'

Why does it matter?
What does it mean if the future is different than the past?



Sources: Wellington Management, Refinitiv | As of December 2025 | Total excess returns (over US 3m cash) ranked on 1 year rolling basis, where green indicates top rank, red indicates bottom rank | Views are as of the date indicated, are based on available information, and are subject to change without notice. Individual portfolio management teams may hold different views and may make different investment decisions for different clients. This material is not intended to constitute investment advice or an offer to sell, or the solicitation of an offer to purchase shares or other securities. | Data from 31 January 1997 – 31 December 2025

US Exceptionalism – Higher returns and expanding margins

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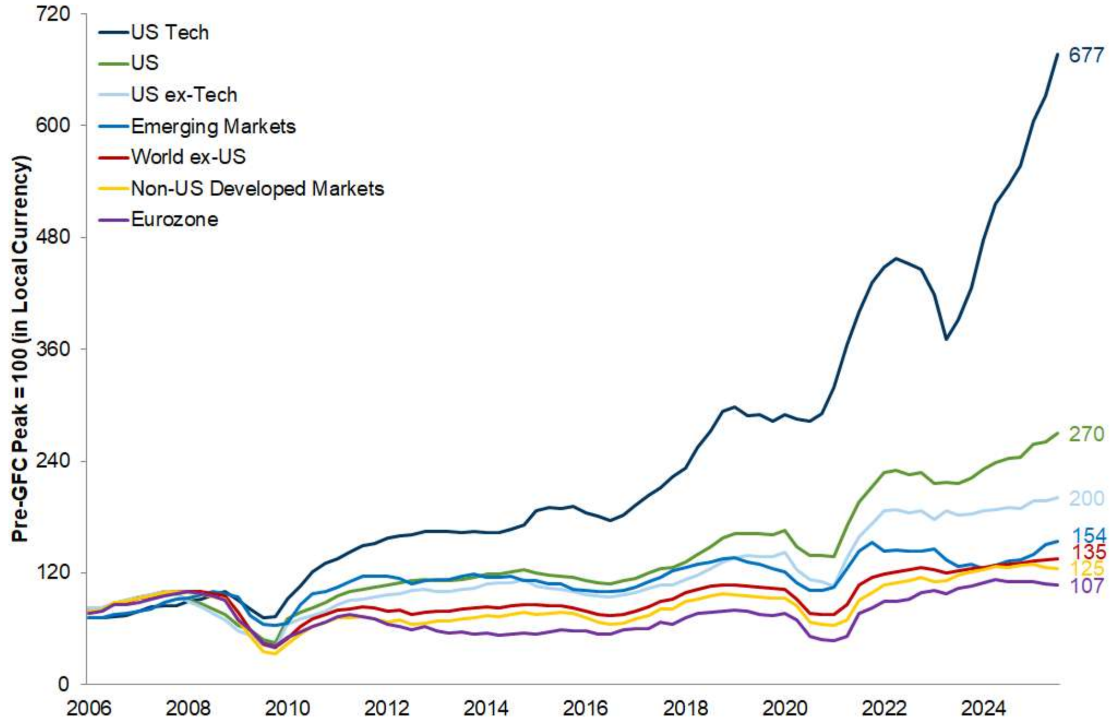
Led by tech, US corporations have expanded returns on an absolute and relative basis

US 'exceptional' EPS growth…and NOT just tech

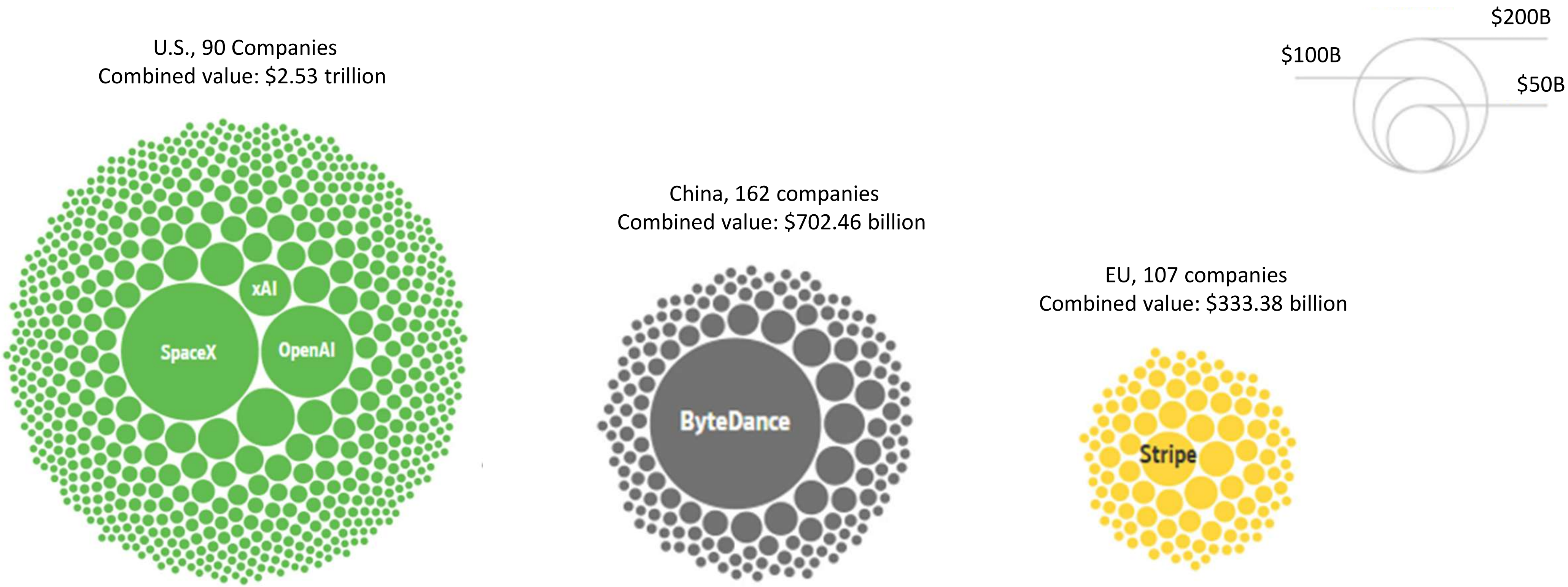


Source: Calculated by FactSet, June 2005 – May 2025

What makes the US Equity Market unique?

The US's innovation edge is not limited to public markets

Privately held technology companies valued over $1 billion



Source: CB Insights, Andrew Barnett/WSJ. Data as at 7 January 2025. Note: Stripe is headquartered in both Dublin and San Francisco and its value is split between the EU and US; combined values exclude companies valued under US$1 billion

US Exceptionalism - US market composition increasingly attractive

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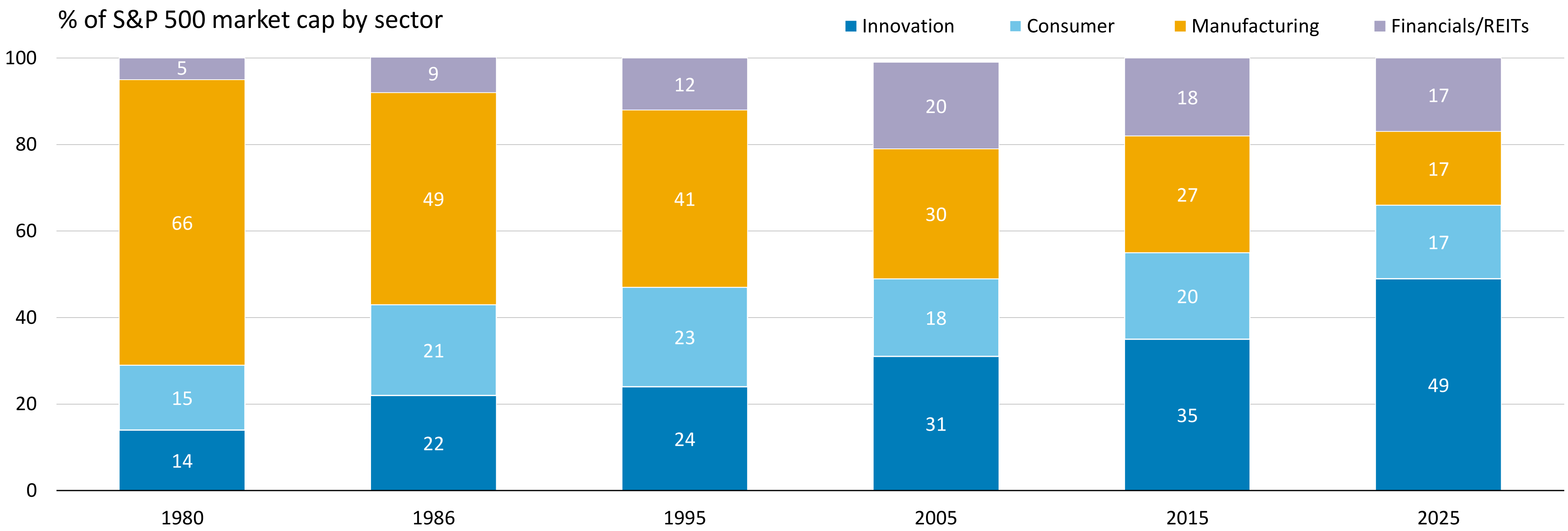
Innovation + high FCF = Excess returns

Composition of S&P 500 have evolved dramatically over past 55 Ayears

Exhibit 21: S&P = 50% asset light vs. 70% manufacturing in 1980



Source: Haver Analytics, FactSet, Bofa US equity & Quant Strategy (asset light/innovation – tech, Comm. Services ex – telecom & Health care, Consumer – staples/discretionary, manufacturing/asset intensive/capex = industrials, materials, energy utilities, telecom)

US Exceptionalism - US market composition increasingly attractive

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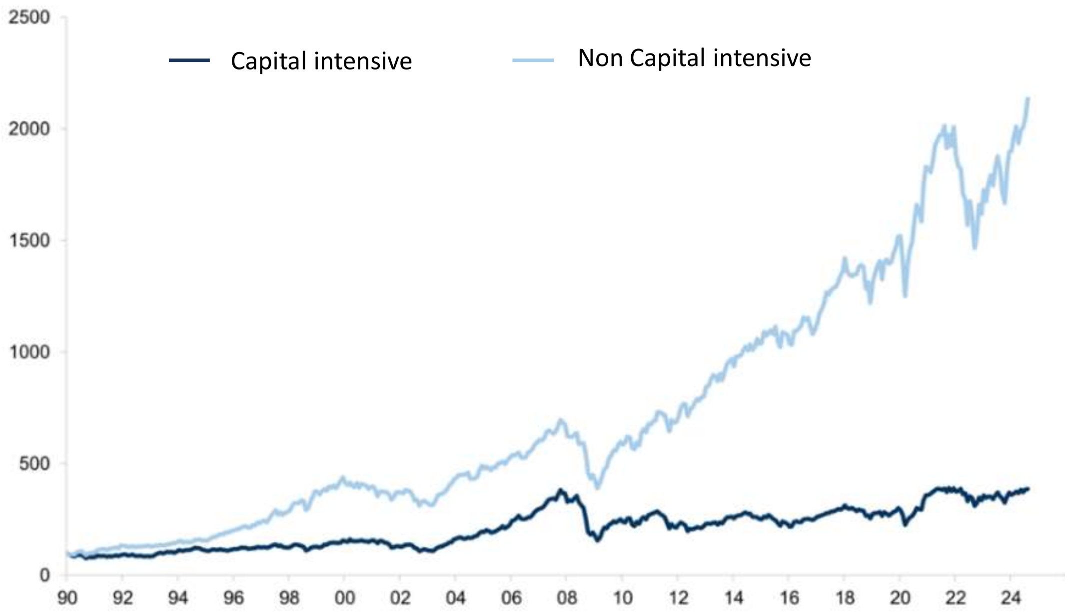
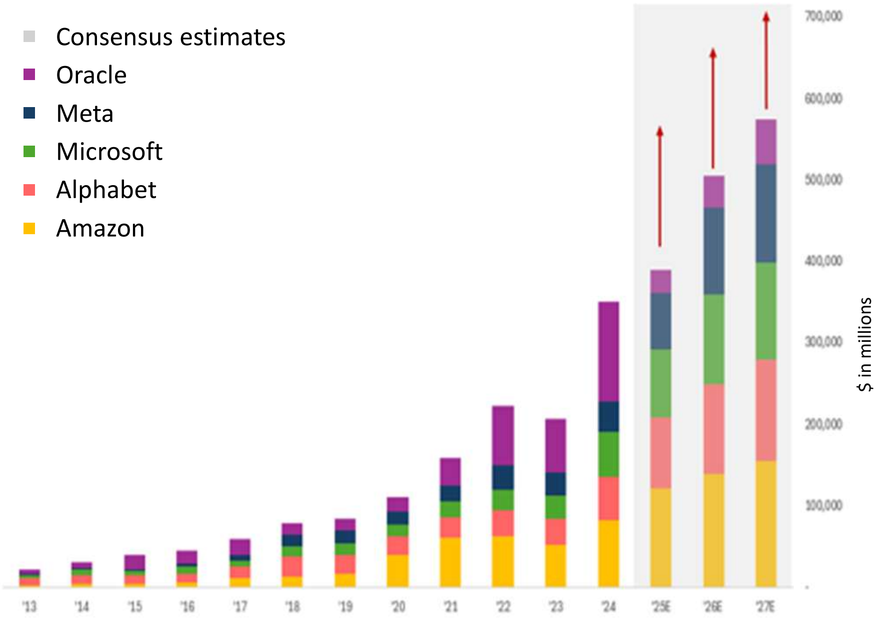
Innovation + high FCF = Excess returns

Capital light consistently outperforms capital intensive



5 big tech companies plan on spending $500+ billion on capex in 2026
and we expect result to be even higher

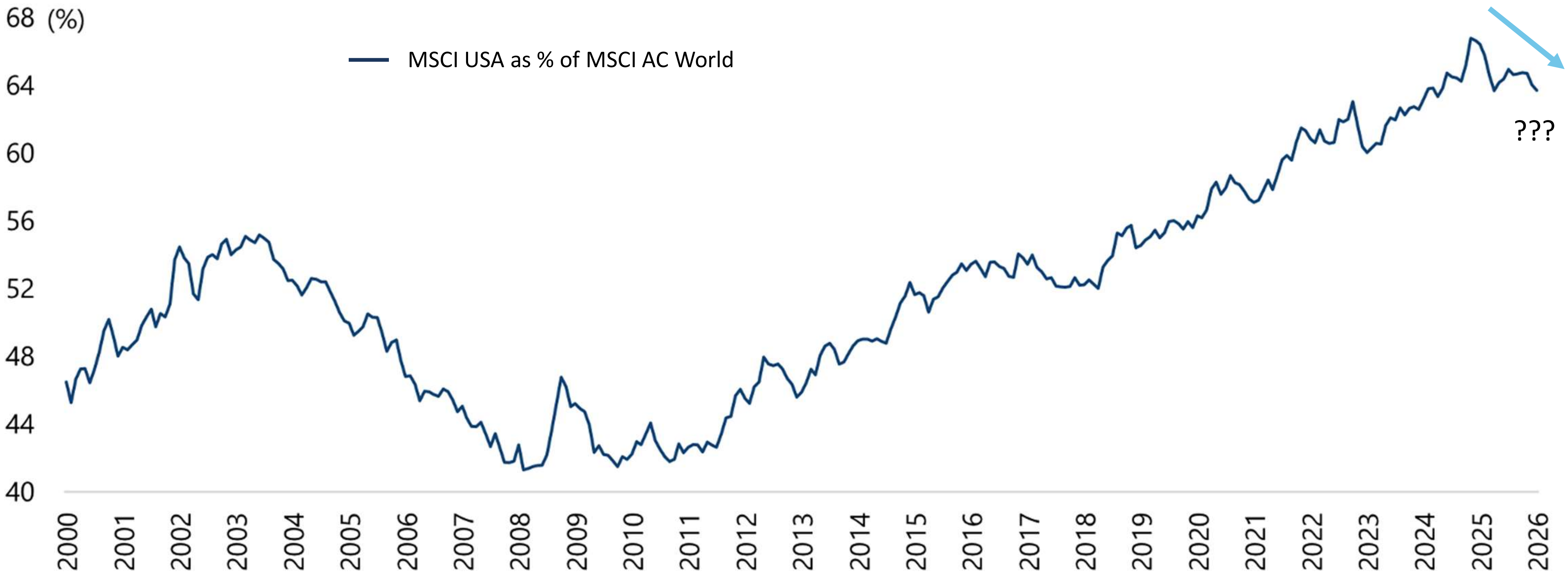


Source: Chart 1: Bank of America, Haver Analytics, Calculated by FactSet as of 31 October 2025. Chart 2: Goldman Sachs Investment Research, Datastream, Worldscope as of May 2025 Source: Chart 3: Calculated by FactSet as of 31 October 2025.

US Exceptionalism - US equities have become THE game in town

…but did we hit peak exceptionalism at the start of 2025???

Exhibit 3: MSCI USA as % of MSCI all Country World index



Sources: FactSet, MSCI

US Exceptionalism – Is there a wider opportunity set

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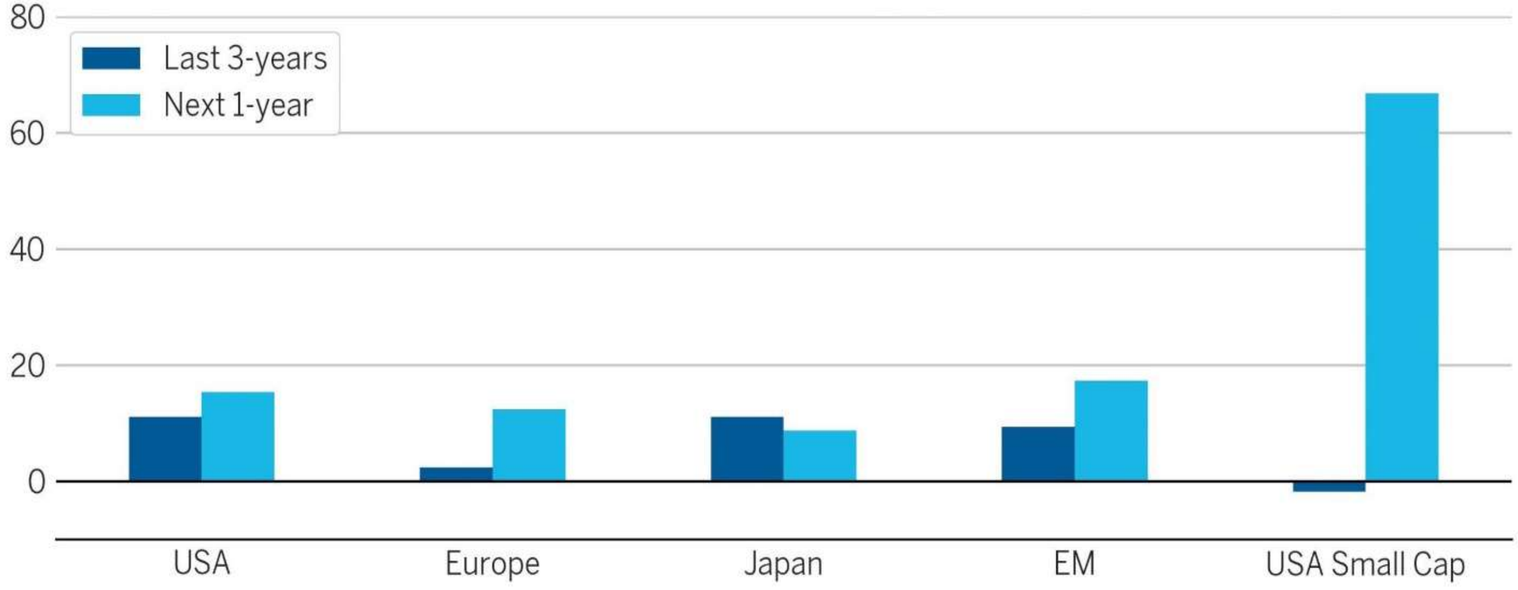
Is market leadership changing?

ASSET ALLOCATION CONSIDERATIONS

- US and Global Small Caps
- Emerging markets and European equities
- Private Equity focused on Technological Innovation globally

Equity markets: Realized and forecast earnings growth (% annualized)



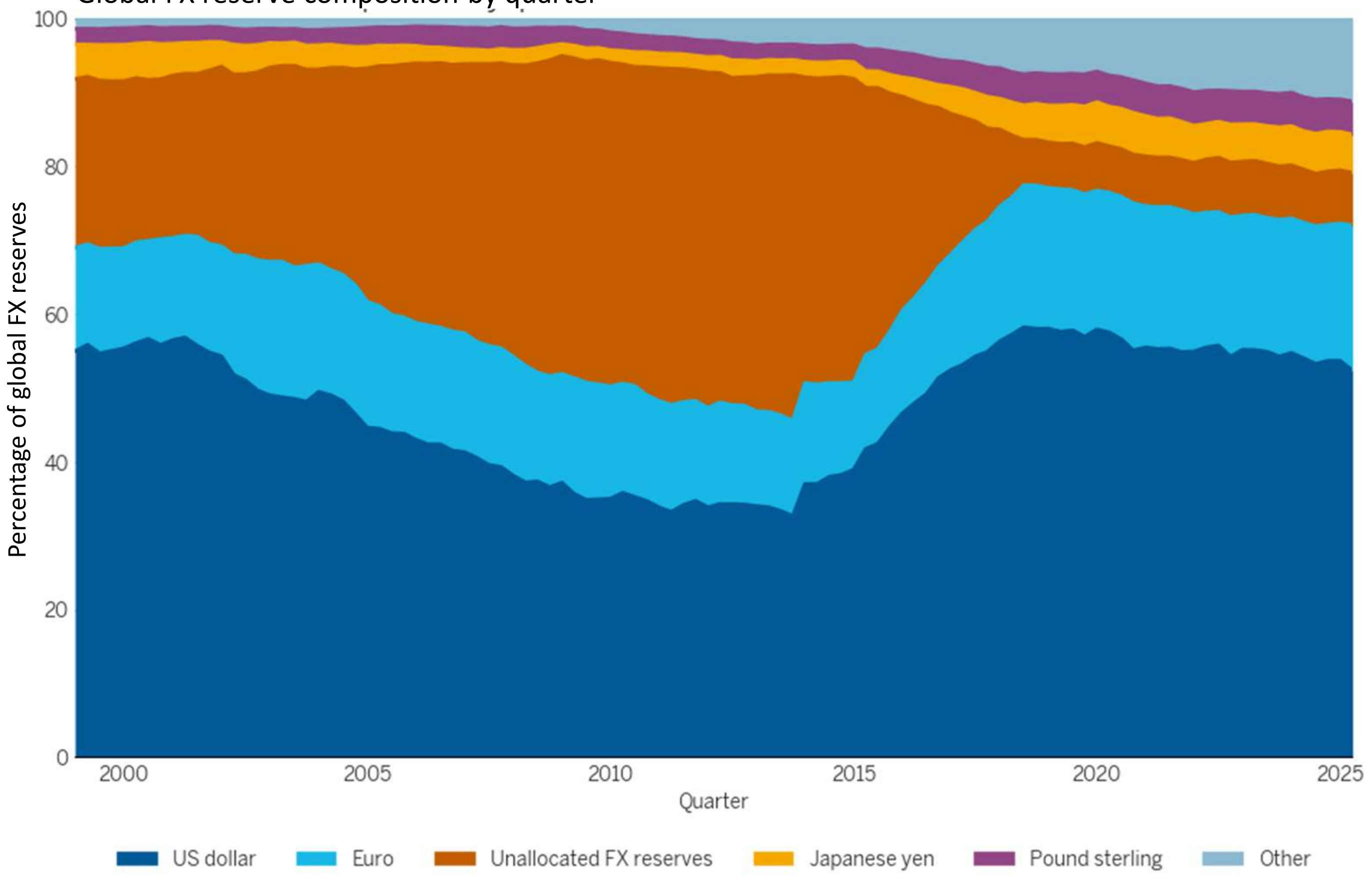
Sources: Wellington Management, Refinitiv, IBES | Trailing annualized EPS growth from 31 December 2022 through 31 December 2025 from IBES. Next 12-month forward EPS growth from December 2025 from IBES | Indices: MSCI USA, MSCI Europe, MSCI Japan, MSCI Emerging Markets, Russell 2000. All in USD except Japan which is only available in local currency | Views are as of the date indicated, are based on available information, and are subject to change without notice. Individual portfolio management teams may hold different views and may make different investment decisions for different clients. This material is not intended to constitute investment advice or an offer to sell, or the solicitation of an offer to purchase shares or other securities

US Exceptionalism – Fixed Income Lens

FRAGMENTATION PRODUCES DISPERSION, NOT COLLAPSE

Diversification ≠ dethronement: USD remains the core reserve asset

Global FX reserve composition by quarter



Sources: Wellington Management, International Monetary Fund (IMF), Currency Composition of Official Foreign Exchange Reserves (COEFR), Quarterly Data.

Things are afoot underneath the surface…

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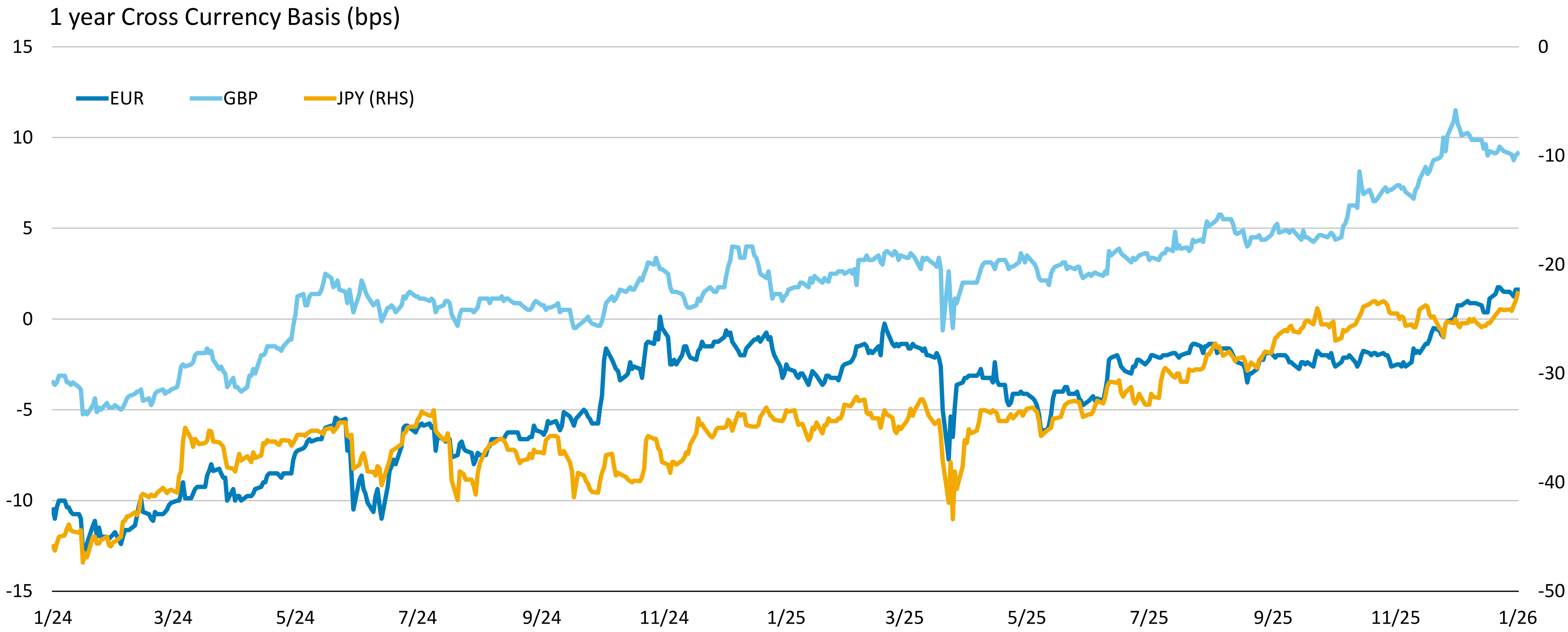

Source: Council of Foreign Affairs

Laying the infrastructure

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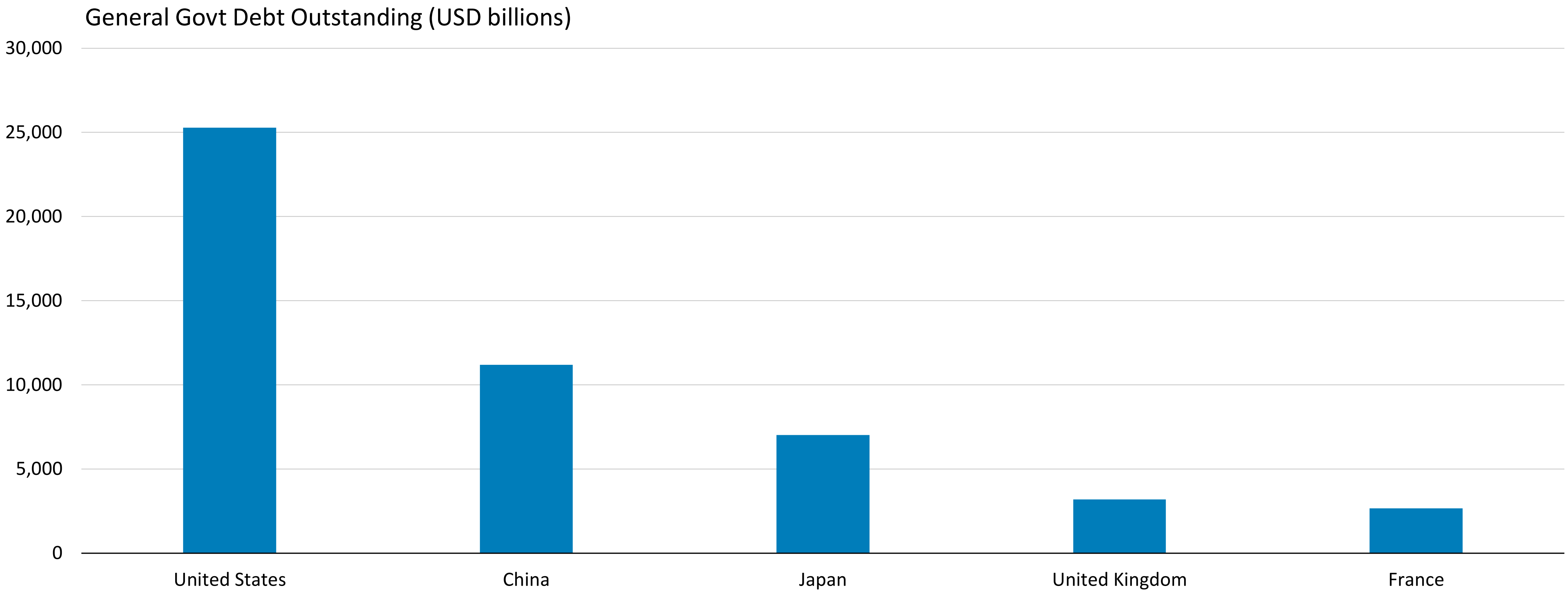
China Swap Lines

Source: Council of Foreign Affairs

Need more debt…

The US provides a depth and liquidity that's difficult to replicate



Sources: BIS as of YE 2024, LSEG Data & Analytics; Board staff calculations

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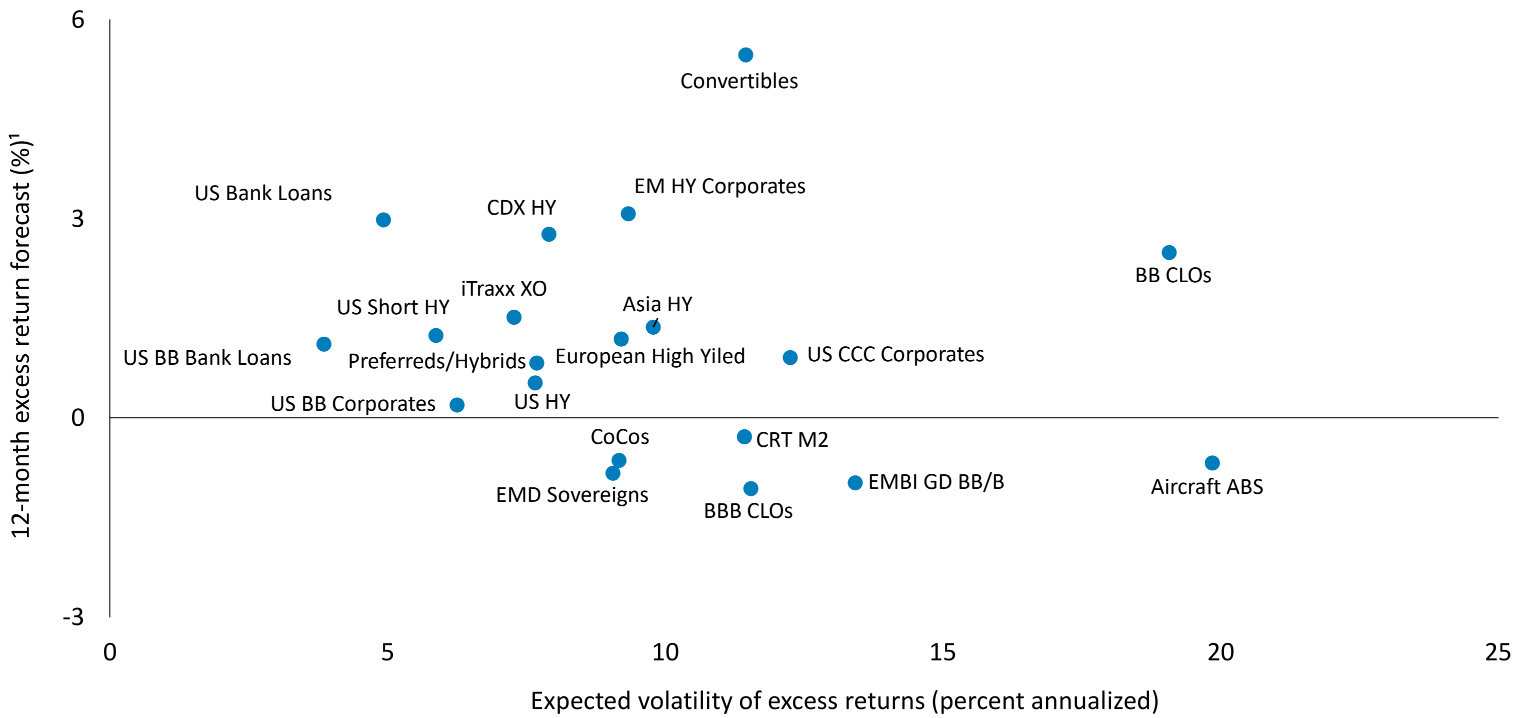
Implications for Fixed Income Portfolios

Lean into dynamic allocations that can exploit dispersion

ASSET ALLOCATION CONSIDERATIONS

- Increased Global Bond Exposure
- Consider EM Hard and Local Ccy Debt Exposure
- Macro Hedge Fund Exposure – Rates/FX RV
- Dynamic Unconstrained Fixed Income



[1]Versus duration-equivalent US Treasuries | Source: Wellington Management | The team simulates forward-looking excess return and volatility expectations based on an analysis of historical return and volatility characteristics. The resulting forecasts are considered along with other fundamental and technical data points to determine which sectors appear attractive. | Wellington Management determined the outlook above based on its views and not necessarily based on objective market data. There can be no assurance that such information has been correctly determined and nothing herein is intended to be a projection or assurance of performance of any portfolio, market or asset class. | For illustrative purposes only. Not representative of an actual investment. | Results are presented gross of any fees and expenses as these are not products managed or proposed to be managed by Wellington. PAST INDEX OR THIRD PARTY PERFORMANCE DOES NOT PREDICT FUTURE RETURNS. | Please refer to the 'Fixed income sector outlook - additional disclosure" page for further information.

US Exceptionalism: Implications for Our Clients

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US EXCEPTIONALISM	SOLUTION	IMPLEMENTATION
• Us exceptionalism is waning	• Underweight Dollar Assets • Diversify outside of US Mega-cap Tech • Increase Developed and EM Allocations	• Emerging Market Equities and European Equities • US Small Cap equities • Global Fixed Income • Commodities / Gold • Defense/national security
• Us exceptionalism is intact	• Maintain US exposure to innovation – Private and Public • Increase Exposure to Beneficiaries of Capital Flow	• US equities – Private / Small Cap • Technology equities
• Compelling allocations in both scenarios	• Increase uncorrelated return streams • Leverage wider opportunity	• Emerging Market Equities and Global Small Caps • Long Short Equity and Multi-Sector Hedge Funds • Dynamic Fixed Income / Credit

Source: Wellington Management | For illustrative purposes only. Views are based on available information, and are subject to change without notice. Individual portfolio management teams may hold different views and may make different investment decisions for different clients. This material is not intended to constitute investment advice or an offer to sell, or the solicitation of an offer to purchase shares or other securities.

Appendix

FRAGMENTATION PRODUCES DISPERSION, NOT COLLAPSE

2026 Outlook Polling: Emerging Markets Outrank the US

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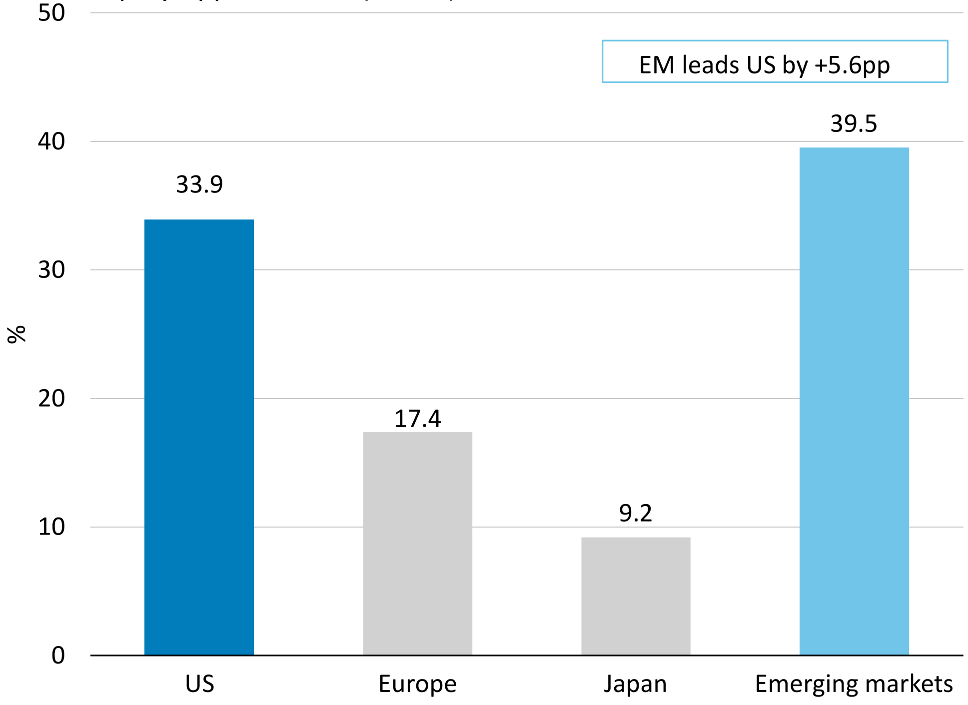
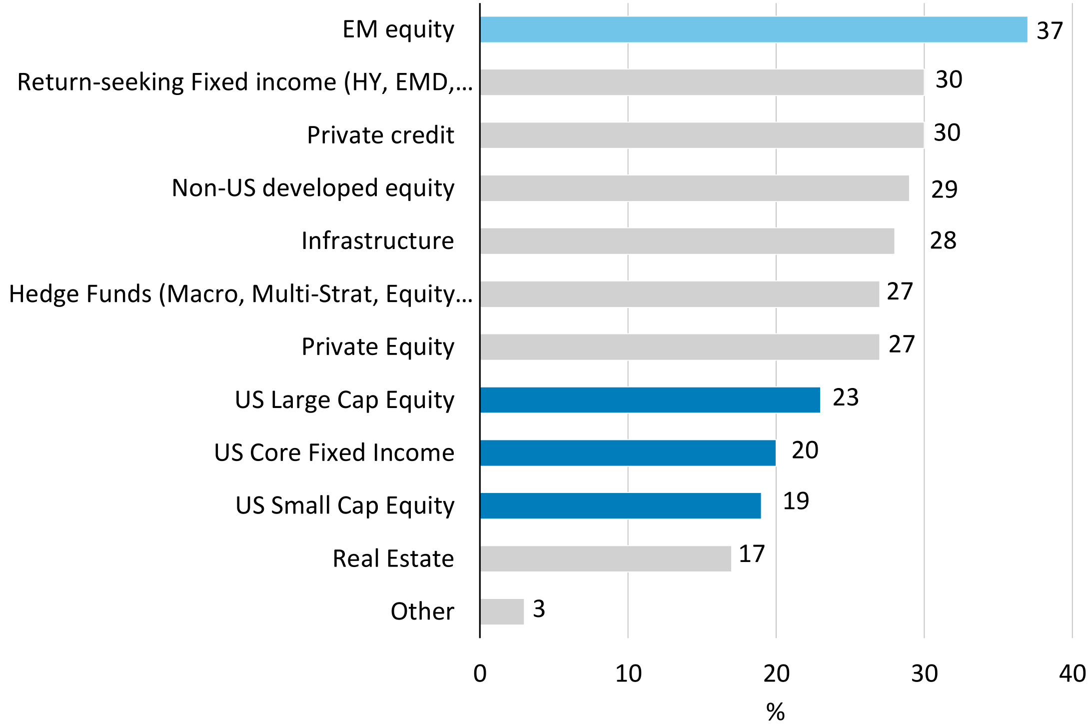
Across retail and institutional audiences, EM equities received the top vote share

Hartfords Funds 2026 Outlook Webcast Most attractive Equity opportunities (n=304)



Wellington Institutional Clients 2026 Outlook Webinar Areas considering adding (n=184)



Sources: Hartford Funds 2026 Outlook Webcast (n=304) and Wellington Institutional Webinar (n=184; multi-select)

Central banks are no longer the buyer of last resort

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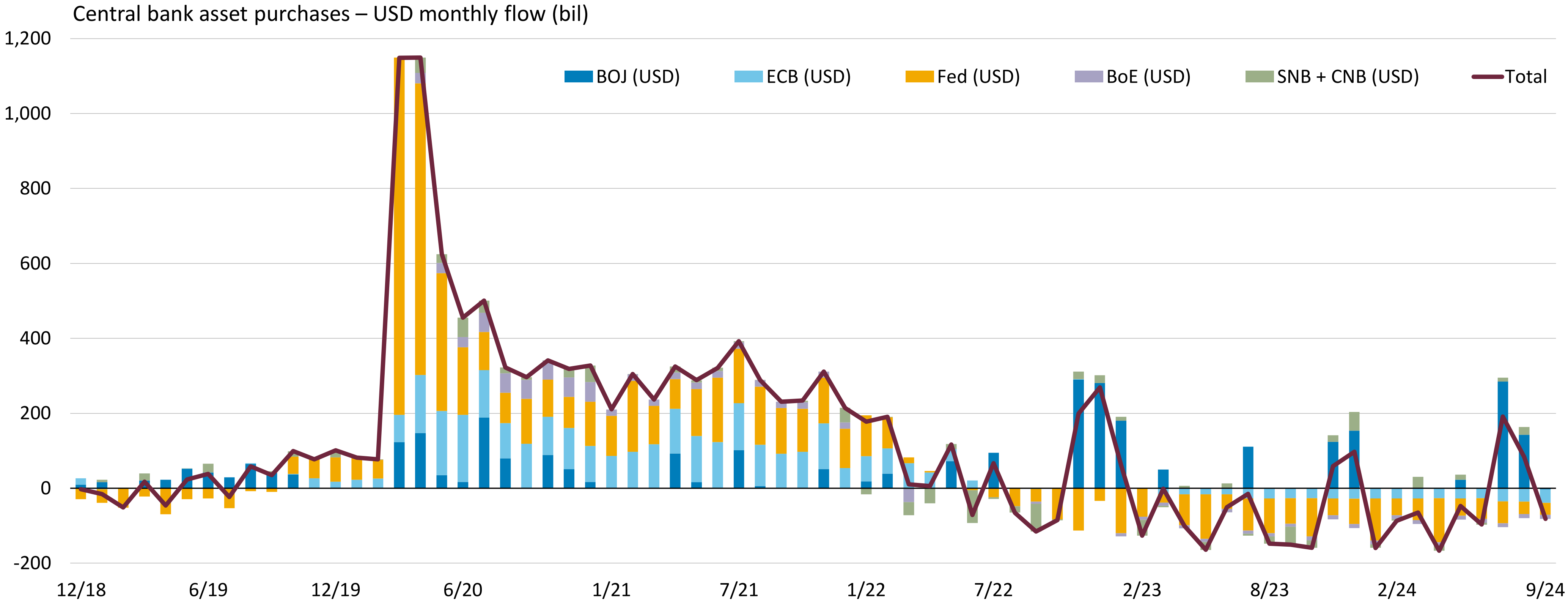

Sources: Datastream, global central banks, Wellington Management. | PAST PERFORMANCE DOES NOT PREDICT FUTURE RETURNS. | Data as of 30 September 2024.

US Exceptionalism – Higher returns and expanding margins

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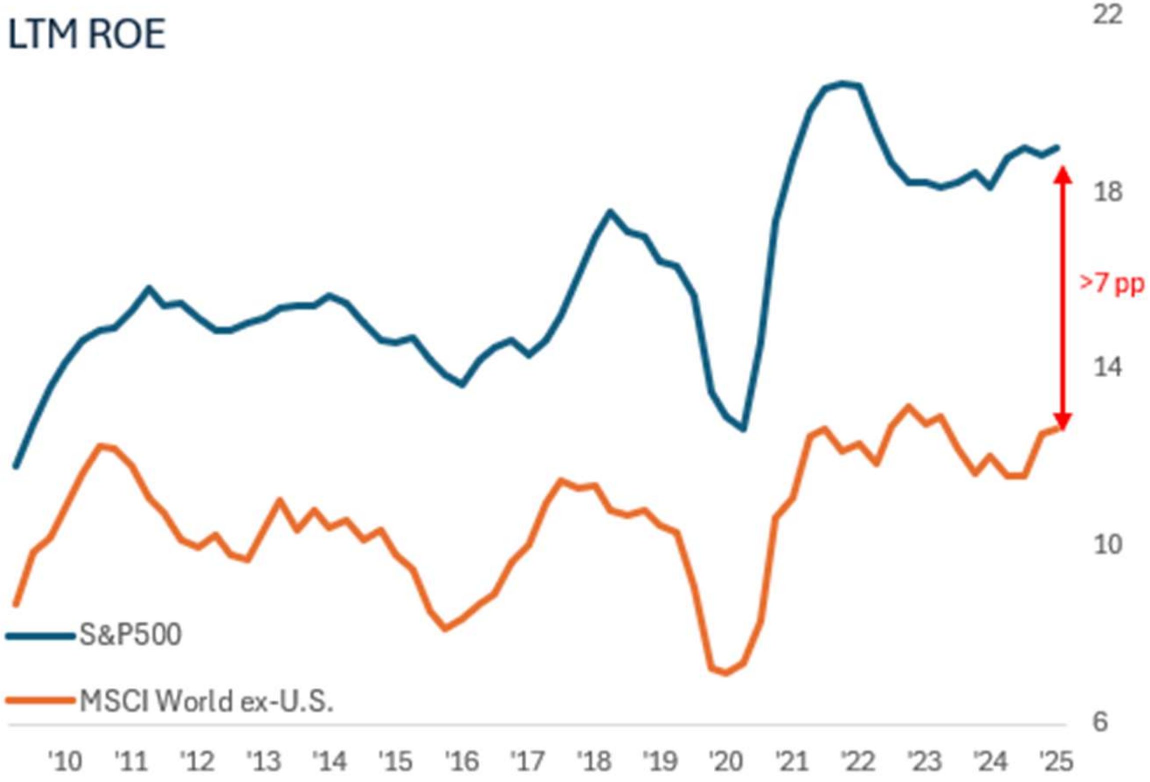
Led by tech, US corporations have expanded returns on an absolute and relative basis

US ROE is >7 pp higher than other developed markets



Source: Chart 1: Calculated by Factset June 2005 – May 2025. Chart 2: Source: Calculated by Factset. 1 January 1990 – 14 January 2026

Conflicts Globally

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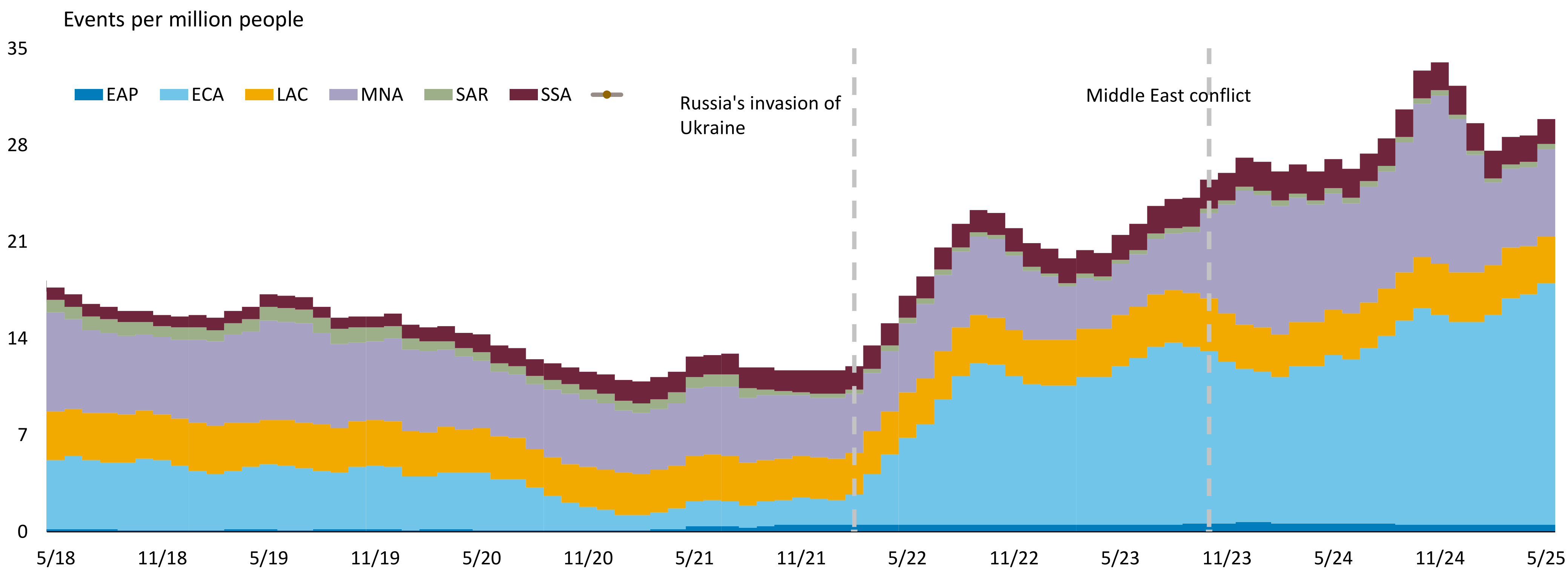
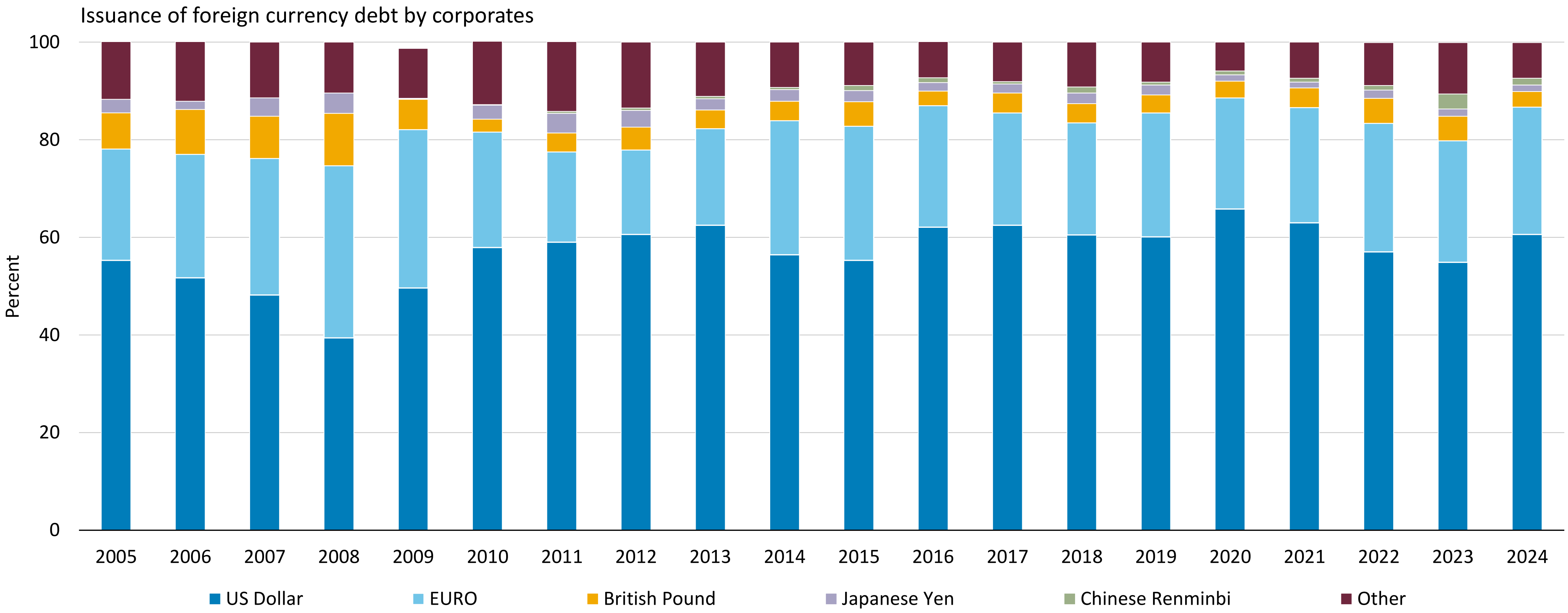
Heightened conflict and its fallout continue to pose a major risk to activity in all regions



Source: World Bank Global Outlook June 2025

Need more debt…

The US provides a depth and liquidity that's difficult to replicate



Sources: LSEG Data & Analytics; Board staff calculations

“Be fearful when others are greedy, and greedy when others are fearful”

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We see a buying opportunity in the US market

US economic policy uncertainty index

Sources: Economic Policy Uncertainty, Wellington Management. Data from January 1995 to March 2025. Title quote from Warren Buffett

Important disclosures

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Data sources

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