MARKET OUTLOOK | JULY 7, 2025

Morningstar

Q3 2025 North America Market Outlook

Has the storm passed? Or are we in the eye of the hurricane?

Table of Contents

US Equity Market Valuation Overview 3

Sector Valuations and Top Picks 17

Valuation by Economic Moat 23

Spotlight | Mega-Cap Stocks 28

Fixed-Income Outlook 33

Sector Outlooks 39

Morningstar Equity Research

Dave Sekera, CFA
Chief US Market Strategist
Morningstar Research Services LLC

US Equity Market Valuation Overview

US Equity Market Trading at a 1% Premium to a Composite of Our Fair Value Estimates

Based on a composite of our intrinsic valuations of the over 700 stocks we cover that trade on US exchanges, as of June 30, 2025, we calculated that the US equity market was trading at a price/fair value estimate of 1.01. This represents a 1% premium to our fair value estimates. While not unprecedented, since 2010 the US stock market has only traded at a higher premium less than 30% of the time.

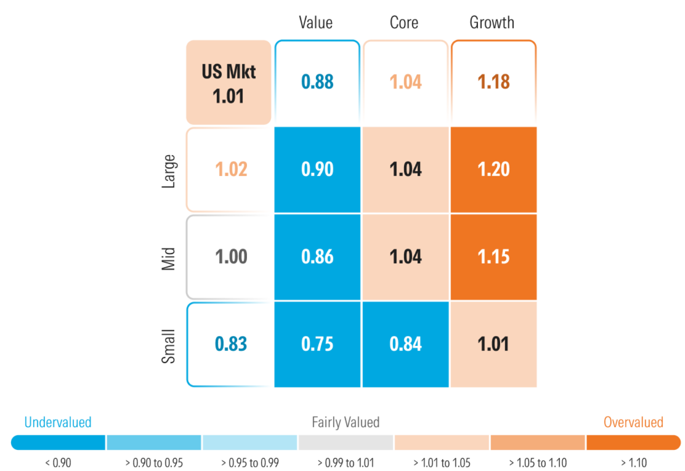
The current valuation represents a huge rebound from early April when the market was trading at a 17% discount to fair value. In fact, in our special Market Outlook update published on April 7, 2025, and on the April 7 episode of our weekly podcast, The Morning Filter, we moved to an overweight recommendation on US stocks. However, as stocks have since approached fair value we had moved back to market weight.

The value category remains undervalued, trading at a 12% discount. In order to overweight value, we advocate to underweight growth stocks that are at an 18% premium. Rarely do growth stocks trade at such a large premium and the most recent instance was in December 2024, right before the bear market in AI stocks began.

By capitalization, small-cap stocks remain very attractive, trading at a 17% discount to our fair value estimate. Mid-cap stocks trade at fair value and large-cap stocks are at a small premium of 2%. In order to fund an overweight to small cap stocks, investors should underweight large-caps.

US Stock Market Trading Above Fair Value Estimate

Valuations of Morningstar's equity research coverage by equity style box.



Source: Morningstar. Data as of June 30, 2025.

Round Trip: From Priced to Perfection to Undervalued And Back to Priced to Perfection

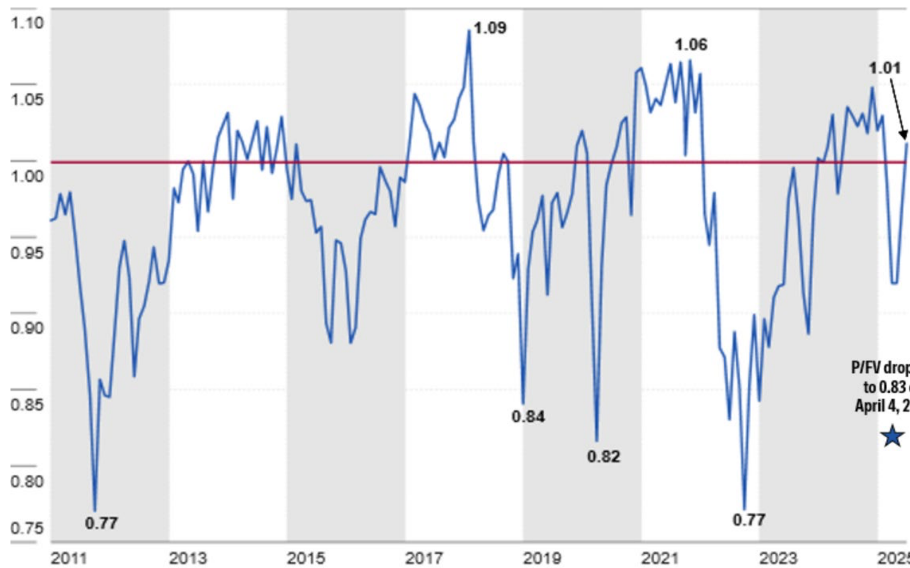
Oftentimes, the markets act like a pendulum and can swing from overvalued to undervalued and back to overvalued again. This is one of those times.

Stocks started the year at a rare premium to fair value, began to sell off as overvalued & overextended AI stocks fell in January, and the downside was further exacerbated following the announcement of the April 2, 2025, tariffs. Yet, just as quickly, stocks rebounded as the tariffs were put on pause, and DeepSeek was not the threat to AI spending as was initially feared.

As we approach the first tariff deadline on July 9th, followed by the start of the second-quarter earnings season, and then the second tariff deadline in mid-August, we anticipate that volatility will return this summer. Now is a good time to review your portfolio weightings and rebalance out of areas that have become overvalued and into those that remain undervalued, taking profits in stocks that are overvalued and overextended.

Historical Morningstar US Equity Research Coverage Price/Fair Value Estimate at Month-End

AI stocks fell first, followed by the rest of market following the April 2 tariffs, and has now rallied.



Source: Morningstar. Data as of June 30, 2025.

Revenge of the Growth Stocks: After Lagging in Q1, Growth Stocks Trounce Value in 2Q

The Morningstar US Market Index rose 11.14% in second-quarter 2025.

Growth stocks led the way, surging 19.43%. An attribution analysis reveals that growth's outperformance was highly concentrated, as just four stocks (Nvidia, Microsoft, Meta Platforms, and Amazon) accounted for 40% of its total return. By sector, technology, industrials, communications, and consumer cyclicals accounted for 90% of its gain.

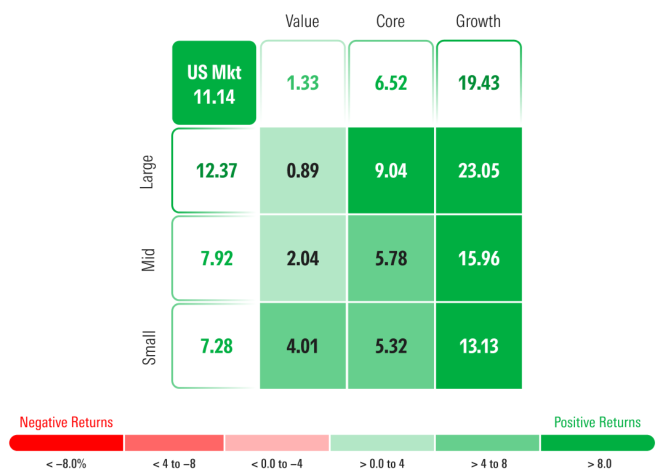
Performance in the value category was barbell-shaped as losses among healthcare and energy largely offset gains from financial services, technology, and industrials. While UnitedHealthcare was a significant detractor from index performance, gains and losses were more evenly balanced.

Within the core category, Broadcom was the most significant contributor to accounting for 30% of its gain. Otherwise, gains and losses were more balanced. The technology, industrials, and communication services sectors were the greatest contributors.

The technology sector accounted for two-thirds of the gain in large-cap stocks, with just four stocks—Nvidia, Microsoft, Broadcom, and Meta Platforms—accounting for over 60%. Within the mid-cap sector, technology, industrials, financials, and consumer cyclicals collectively accounted for 90% of its return. No individual stocks had a material effect.

By sector, industrials, technology, financials, and consumer cyclical accounted for almost the entire gain within small-cap stocks.

Morningstar US Market Index Rose 11.14% During the Second Quarter



Source: Morningstar. Data as of June 30, 2025.

Returns More Evenly Balanced Over First Half as Compared With Second Quarter

An attribution analysis of the growth category reveals that its outperformance was highly concentrated, as just four stocks (Microsoft, Nvidia, Meta Platforms, and Netflix) accounted for just over half the total return. By sector, technology, industrials, and communications accounted for 90% of the growth.

The leading contributors to the value category included JPMorgan, Philip Morris, IBM, and Berkshire, accounting for 40% of its gain. One stock, UnitedHealthcare, was a significant drag on value as it detracted 1.05% from the index total return. By sector, financials, technology, and consumer defensives accounted for 80% of the value index return.

Core stocks just barely eked out a gain for the first half of 2025. The leading detractor was Apple, which lowered the return by 2.51%. Otherwise, gains and losses were generally balanced across sectors and stocks.

The return for the large-cap index was concentrated, with Microsoft, Nvidia, and Meta Platforms accounting for 54% of its gain. The technology, financials, and communication services sectors accounted for 84% of its gain.

Within the mid-cap space, financials, technology, and industrials accounted for two-thirds of its return. No individual stocks had a material effect. Small-cap stocks struggled as gains and losses were evenly balanced across sectors and individual stocks.

Morningstar US Market Index Rose 5.99% During the First Half of 2025

After lagging in the first quarter, growth rose enough to lead the market in first half.

		Value	Core	Growth
	US Mkt 5.99	5.83	0.25	8.40
Large	6.67	6.89	5.14	13.78
Mid	5.21	4.23	2.60	8.69
Small	0.75	0.12	−1.26	3.58

Negative Returns | Positive Returns

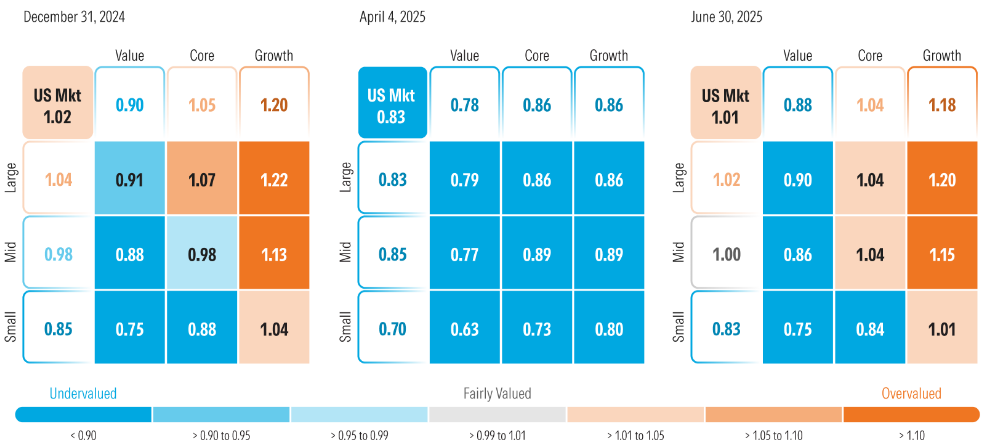
< −20.0% | < −10 to −20 | < 0.0 to −10 | > 0.0 to 10 | > 10 to 20 | > 20.0

Source: Morningstar. Data as of June 30, 2025.

Stocks Plunged Deep Into Undervalued Territory, and Just As Quickly Rebounded

Stocks started the year at a rare premium to fair value estimates, plunged deep into undervalued territory, and hit a 17% discount to fair value estimates on April 4. Stocks bottomed out just after we moved to an overweight recommendation on US stocks in our special Market Outlook update published on April 7, 2025, and on the April 7 episode of our weekly podcast, The Morning Filter. Just as quickly as stocks plunged, they rebounded to new all-time highs and returned to a slight premium to a composite of our fair value estimates.

Change in Morningstar Equity Research Coverage Price/Fair Value Estimates Over the Course of the Year



Source: Morningstar. Data as of June 30, 2025.

What Economic Slowdown? Tech, Communications, and Industrials Lead the Way

Technology stocks soared higher in the second quarter as returns from Microsoft, Nvidia, and Broadcom accounted for 42% of the sector's gain. Apple was the most significant detractor, lowering the return by 1.82%.

Meta Platforms, Netflix, and Alphabet accounted for 87% of the gain within the communication services sector.

Energy stocks fell in sympathy with oil prices, which declined to $65 per barrel from $71.50. With their significant market capitalizations, Exxon and Chevron were the most significant detractors to the sector. However, losses on those stocks were in line with the broader drawdown on oil names.

Healthcare stocks fell out of favor as uncertainty arose regarding how changes in government policy and reimbursement would weigh on sentiment. However, the 40% loss on United Healthcare was the most significant detractor to the sector, accounting for over one-half of the sector's losses.

Within the real estate sector, losses edged out gains, but there were no significant standouts.

Returns by Sector: Second-Quarter 2025 (%)

Cyclical		Sensitive		Defensive	
Basic Materials	3.52	Communication Services	18.79	Consumer Defensive	1.14
Consumer Cyclical	10.91	Energy	−7.66	Healthcare	−6.06
Financial Services	6.89	Industrials	13.08	Utilities	7.69
Real Estate	−0.43	Technology	21.95		

Negative Returns — Positive Returns

< −8.0%	< 4 to −8	< 0.0 to −4	> 0.0 to 4	> 4 to 8	> 8.0

Source: Morningstar. Data as of June 30, 2025.

Who Would Have Thought Utilities Would Be the Top-Performing Sector?

The normally staid utilities sector was the best-performing sector in the first half. Utility stocks benefited from both being considered a second derivative play on artificial intelligence, as well as declining interest rates.

Returns for the communication services sector were especially concentrated, as Meta Platforms and Netflix accounted for 93% of the sector's return for the first half. Losses on Alphabet stock shaved 2.78% off the sector return.

Although technology was the best-performing sector in the second quarter, it was only enough to bring the sector in line with the broad market return for the first half.

Consumer cyclicals was the worst-performing sector, yet only due to the 21% loss on Tesla stock, which detracted 4.24% from the sector return. Otherwise, gains and losses were equally balanced.

The 37% loss on UnitedHealthcare was the primary cause of the healthcare sector's loss, as that single stock accounted for a 3.14% decline in the overall sector.

Returns by Sector: First-Half 2025 (%)

Cyclical		**Sensitive**		**Defensive**	
Basic Materials	5.95	Communication Services	11.43	Consumer Defensive	4.89
Consumer Cyclical	−3.31	Energy	0.69	Healthcare	−0.95
Financial Services	9.55	Industrials	9.45	Utilities	12.36
Real Estate	2.93	Technology	7.25		

Negative Returns … Positive Returns

< −20.0% | < −10 to −20 | < 0.0 to −10 | > 0.0 to 10 | > 10 to 20 | > 20.0

Source: Morningstar. Data as of June 30, 2025.

Attribution Analysis: Contributors

Similar to last year, market returns have been highly concentrated, with 10 stocks accounting for 74% of the total index return over the first half of 2025.

Even within this concentration, returns were further concentrated within the technology sector, which accounted for five of the 10. JPMorgan was the lone value stock to make the top 10.

Concentration: Ten Stocks Account for 74% of Market Return

Name/Ticker	Index Weighting (%)	YTD Return (%)	YTD Contribution to Index Return (%)
Microsoft MSFT	5.71	18.01	1.05
Nvidia NVDA	5.44	17.65	1.02
Meta Platforms META	2.51	26.06	0.61
Broadcom AVGO	1.80	18.90	0.38
Netflix NFLX	0.81	50.24	0.35
JP Morgan Chase JPM	1.30	20.94	0.27
Palantir PLTR	0.39	80.25	0.23
Philip Morris PM	0.44	51.33	0.18
GE Aerospace GE	0.41	54.32	0.18
Oracle ORCL	0.48	31.20	0.16

Source: Morningstar. Data as of June 30, 2025.

Attribution Analysis: Contributors Valuations

Attribution Analysis: Top 10 Stocks' Valuations

Name/Ticker	Rating 12/31/24	Rating 6/30/25	Price ($) 12/31/24	Price ($) 6/30/25	Change (%)	Fair Value 12/31/24	Fair Value 6/30/25	Change (%)	P/FV 12/31/24	P/FV 6/30/25
Microsoft MSFT	★★★★	★★★	422	497	18.0%	490	505	3.1%	0.86	0.98
Nvidia NVDA	★★★	★★★	134	158	17.6%	130	140	7.7%	1.03	1.13
Meta Platforms META	★★★	★★★	586	738	26.1%	560	770	37.5%	1.05	0.96
Broadcom AVGO	★★	★★	232	276	18.9%	190	225	18.4%	1.22	1.23
Netflix NFLX	★	★	891	1,339	50.2%	550	750	36.4%	1.62	1.79
JP Morgan Chase JPM	★★	★	240	290	20.9%	178	195	9.6%	1.35	1.49
Palantir Technologies PLTR	★	★★	76	136	80.2%	21	100	376.2%	3.60	1.36
Philip Morris International PM	★★★	★★	120	182	51.3%	120	150	25.0%	1.00	1.21
GE Aerospace GE	★★★★	★★★	167	257	54.3%	194	238	22.7%	0.86	1.08
Oracle ORCL	★★★★	★★★	167	219	31.2%	195	205	5.1%	0.85	1.07

Source: Morningstar. Data as of June 30, 2025.

Attribution Analysis: Detractors

Apple was by far the most significant detractor to the market's performance in the first half of 2025. In fact, the stock has fallen enough to drop into 3-star territory after starting the year with a 2-star rating.

Marvell was the only mid-cap stock to make the list, as all the others are large-cap stocks.

Apple Greatest Detractor to Market Performance

Name/Ticker	Index Weighting (%)	YTD Return (%)	YTD Contribution to Index Return (%)
Apple AAPL	5.96	(18.07)	(1.22)
Tesla TSLA	1.62	(21.34)	(0.43)
UnitedHealth Group UNH	0.75	(38.33)	(0.32)
Alphabet GOOGL	3.48	(6.90)	(0.25)
Salesforce CRM	0.49	(18.44)	(0.10)
Merck & Co. MRK	0.40	(20.43)	(0.09)
Thermo Fisher Scientific T	0.33	(22.06)	(0.08)
Accenture ACN	0.37	(15.04)	(0.06)
Marvell International MR\	0.13	(29.92)	(0.05)
Adobe ADBE	0.32	(13.00)	(0.05)

Source: Morningstar. Data as of June 30, 2025.

Attribution Analysis: Detractors Valuations

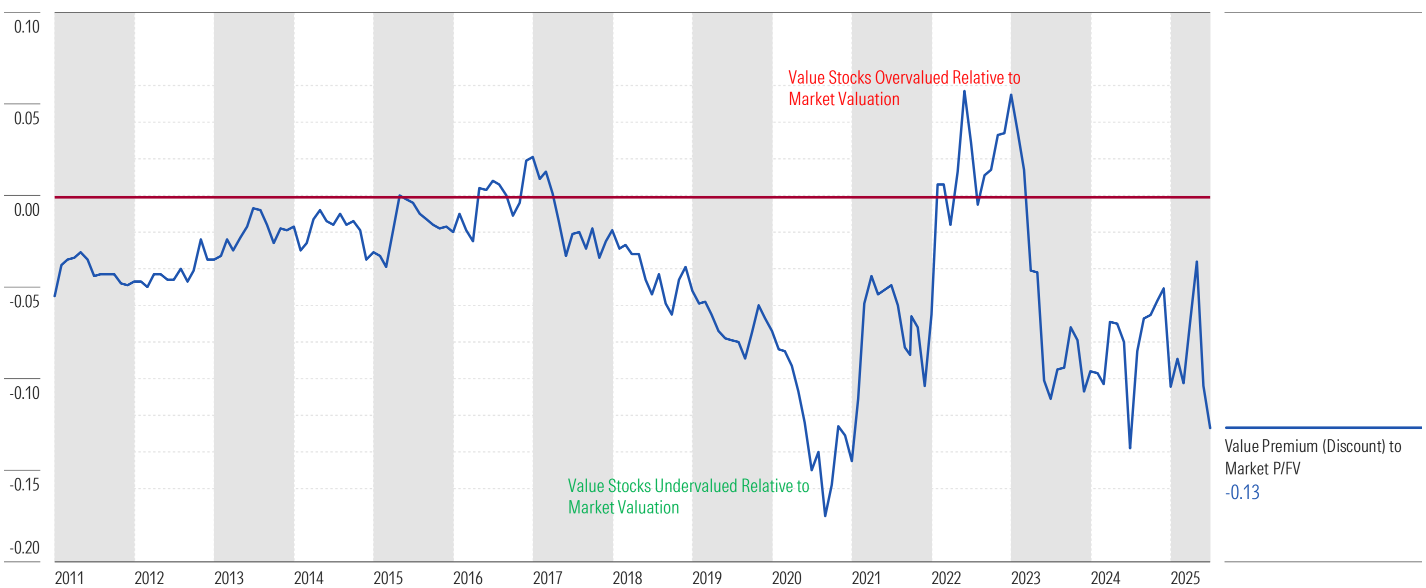
Attribution Analysis: Many of the Stocks That Detracted From Market Performance Becoming Attractively Valued

Name/Ticker	Rating 12/31/24	Rating 6/30/25	Price ($) 12/31/24	Price ($) 6/30/25	Change (%)	Fair Value 12/31/24	Fair Value 6/30/25	Change (%)	P/FV 12/31/24	P/FV 6/30/25
Apple AAPL	★★	★★★	250	205	-18.1%	200	200	0.0%	1.25	1.03
Tesla TSLA	★	★★	404	318	-21.3%	210	250	19.0%	1.92	1.27
UnitedHealth Group UNH	★★★★	★★★★	506	312	-38.3%	590	473	-19.8%	0.86	0.66
Alphabet GOOGL	★★★★	★★★★	189	176	-6.9%	220	237	7.7%	0.86	0.74
Salesforce CRM	★★★	★★★★	334	273	-18.4%	315	325	3.2%	1.06	0.84
Broadcom MRK	★★★★	★★★★	99	79	-20.4%	120	111	-7.5%	0.83	0.71
Thermo Fisher Scientific TMO	★★★★	★★★★★	520	405	-22.1%	630	630	0.0%	0.83	0.64
Accenture ACN	★★	★★	352	299	-15.0%	323	263	-18.6%	1.09	1.14
Marvell International MRVL	★★	★★★	110	77	-29.9%	90	90	0.0%	1.23	0.86
Adobe ADBE	★★★★	★★★★	445	387	-13.0%	590	560	-5.1%	0.75	0.69

Source: Morningstar. Data as of June 30, 2025.

Value Stocks Continue to Trade at a Deep Discount Relative to Broad Market Valuation

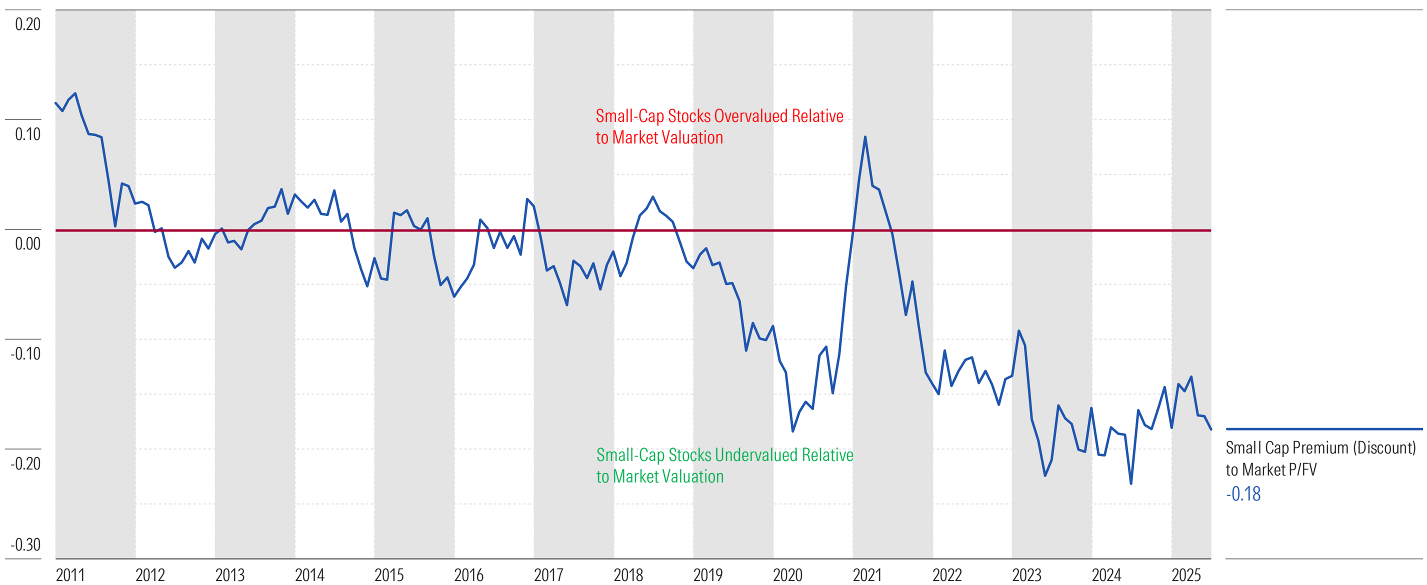
Even Though Value Stocks Have Outperformed Year to Date, Valuations Remain Significantly More Attractive



Source: Morningstar. Data as of June 30, 2025.

Small-Cap Stocks Continue to Trade at Deep Discount Relative to Broad Market Valuation

Even Though Broad Market Valuation Declined, Small-Cap Stocks Remain Significantly Undervalued on Both Relative and Absolute Basis

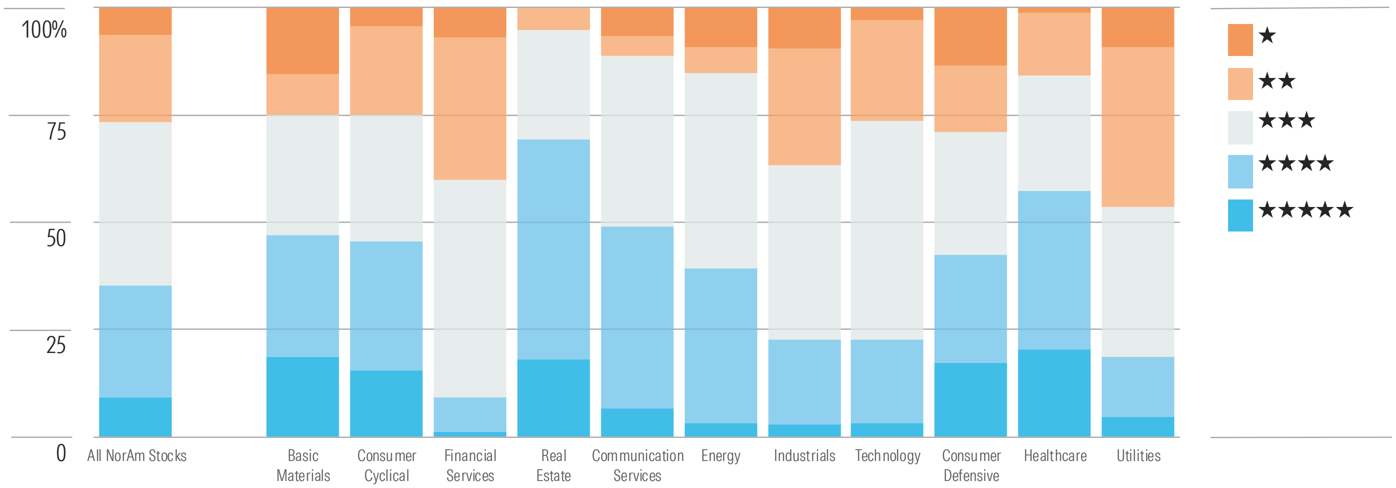


Source: Morningstar. Data as of June 30, 2025.

Sector Valuations and Top Picks

Undervalued Opportunities Fewer and Farther Between

Morningstar Equity Star Ratings by Sector



Source: Morningstar. Data as of June 30, 2025.

Communications Remains Most Undervalued; Remaining Sectors Converging Toward Fair Value

Sector valuations generally rose as a rising tide across the stock market lifted all boats. Undervalued sectors converged toward fair value, and overvalued sectors became even further overvalued. The exceptions to the rule were the healthcare and energy sectors. Losses across these sectors have brought both further into undervalued territory.

Morningstar Price/Fair Value Estimate Metric by Sector Weighted by Intrinsic Value

Figures below 1 are undervalued, while those above 1 are overvalued.

Cyclical		Sensitive		Defensive	
Basic Materials	1.01	Communication Services	0.86	Consumer Defensive	1.12
Consumer Cyclical	1.01	Energy	0.90	Healthcare	0.91
Financial Services	1.13	Industrials	1.08	Utilities	1.08
Real Estate	0.90	Technology	1.06		

Undervalued			Fairly Valued			Overvalued
< 0.90	> 0.90 to 0.95	> 0.95 to 0.99	> 0.99 to 1.01	> 1.01 to 1.05	> 1.05 to 1.10	> 1.10

Cyclical Sectors: Best Picks

EMN and FMC are making return appearances on the Best Picks list. LyondellBasell is our top pick to invest in a medium-term rebound in chemicals demand, which, as a result of its cost advantage, should be able to generate positive free cash flow even during an economic downturn. US Bancorp's current valuation does not reflect its true earnings power. We forecast the bank to achieve a normalized operating efficiency ratio in the high 50s, which is better than its current range of low 60s over the past several quarters.

Best Picks From Our Directors Across the Cyclical Sectors

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Eastman Chemical EMN	★★★★	76	110	0.69	Narrow	High	Basic Materials
FMC FMC	★★★★★	43	95	0.45	Narrow	High	Basic Materials
LyondellBasell Industries Holdings LYB	★★★★★	59	100	0.59	Narrow	High	Basic Materials
Hanesbrands HBI	★★★★★	5	16	0.28	Narrow	Very High	Consumer Cyclical
Kohl's KSS	★★★★★	8	40	0.21	None	Very High	Consumer Cyclical
Nike NKE	★★★★	72	112	0.64	Wide	Medium	Consumer Cyclical
Ally Financial ALLY	★★★★	39	45	0.86	None	High	Financial Services
T. Rowe Price Group TROW	★★★★	96	113	0.85	Narrow	High	Financial Services
U.S. Bank USB	★★★★	46	53	0.86	Wide	Medium	Financial Services
Federal Realty Investment Trust FRT	★★★★★	95	142	0.67	None	Medium	Real Estate
Healthpeak Properties DOC	★★★★★	17	28	0.63	None	Medium	Real Estate
Kilroy Realty KRC	★★★★★	35	59	0.59	None	High	Real Estate

Source: Morningstar. Data as of June 30, 2025. New additions to the list this quarter in bold.

Economically Sensitive Sectors: Best Picks

The split-up of WBD, expected in 2026, is expected to help unlock the value we've long seen. Streaming has become profitable, additional HBO Max launches are forthcoming, and the firm has achieved success at the 2025 box office. We project that Fortune Brands will grow faster than the US residential repair and remodel, as well as new construction markets, especially with its growing mix of connected products. Atlassian, a new addition to the Best Picks list, is a leading provider of project management and collaboration solutions that is emerging from a model transition to a cloud-based platform, which enables it to innovate and compete more effectively.

Best Picks From Our Directors Across the Economically Sensitive Sectors

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Alphabet GOOGL	★★★★	179	237	0.75	Wide	Medium	Communication Services
Comcast CMCSA	★★★★	35	49	0.72	Narrow	Medium	Communication Services
Warner Bros. Discovery WBD	★★★★	11	20	0.57	None	Very High	Communication Services
ExxonMobil XOM	★★★★	109	135	0.81	Narrow	High	Energy
HF Sinclair DINO	★★★★	41	51	0.81	Narrow	Very High	Energy
Schlumberger SLB	★★★★★	34	51	0.67	Narrow	Medium	Energy
CNH Industrial CNH	★★★★★	13	21	0.62	Narrow	Medium	Industrials
Fortune Brands Innovations FBIN	★★★★★	51	82	0.63	Narrow	Medium	Industrials
Huntington Ingalls Industries HII	★★★★	239	316	0.76	Wide	Medium	Industrials
Atlassian TEAM	★★★★	202	250	0.81	Narrow	High	Technology
Microsoft MSFT	★★★	496	505	0.98	Wide	Medium	Technology
NXP Semiconductors NXPI	★★★★	217	280	0.78	Wide	High	Technology

Source: Morningstar. Data as of June 30, 2025. New additions to the list this quarter in bold.

Defensive Sectors: Best Picks

WK Kellogg returns to the Best Picks list as operating margins are expected to rise, with the firm reaping operational efficiencies from upgrading its outdated supply chain and pricing recouping higher costs of goods sold. IQVIA is a new name to the Best Picks list, as investors are over-extrapolating near-term slowing of biotech funding into the future. In contrast, IQVIA's backlog has continued to expand despite macroeconomic pressures. Edison's stock is down since the January fires. Nevertheless, we think Edison will qualify for California's Wildfire Fund, which should eliminate nearly all shareholder losses.

Best Picks From Our Directors Across the Defensive Sectors

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
The Campbells CPB	★★★★★	31	62	0.50	Wide	Medium	Consumer Defensive
The Kraft Heinz KHC	★★★★★	26	51	0.50	Narrow	Medium	Consumer Defensive
WK Kellogg KLG	★★★★★	16	28	0.57	None	Medium	Consumer Defensive
Baxter International BAX	★★★★★	30	55	0.55	Narrow	High	Healthcare
IQVIA IQV	★★★★★	157	268	0.59	Narrow	Medium	Healthcare
Moderna MRNA	★★★★★	27	85	0.32	None	Very High	Healthcare
Duke Energy DUK	★★★	117	117	1.00	Narrow	Low	Utilities
Edison International EIX	★★★★★	51	80	0.64	Narrow	Medium	Utilities
Eversource Energy ES	★★★★	63	73	0.87	None	Low	Utilities

Source: Morningstar. Data as of June 30, 2025. New additions to the list this quarter in bold.

Valuation by Economic Moat

VALUATION BY ECONOMIC MOAT

Wide-Moat Stocks Back to Fairly Valued

Just as soon as wide-moat stocks started to look attractive again last quarter, some of the largest mega-cap stocks that we rate with a wide moat, such as Broadcom, Nvidia, Microsoft, and Meta Platforms, have surged in the second quarter. At this point, wide-moat stocks as a category are trading right at fair value. Yet, investors looking to invest in companies with long-term, durable competitive advantages shouldn't be too discouraged. Select opportunities remain in the value category and small-cap stocks.

As a category, stocks with narrow moats are climbing into overvalued territory as stocks such as 1-star-rated Netflix and 2-star-rated Tesla, Palantir, and IBM skew the valuation higher. Similar to wide-moat stocks, we continue to see opportunities in the value category and small-cap stocks. No-moat stocks are trading at fair value, and we see no margin of safety to provide a downside cushion among these companies that we do not rate as having long-term, durable competitive advantages. We would be cautious here, as these stocks are expected to sell off further and faster in an economic downturn.

Price/Fair Value Estimate by Economic Moat Rating Across Size and Style

Figures below 1 are undervalued, while those above 1 are overvalued.

		Size			Style		
Moat		Large	Mid	Small	Value	Core	Growth
None	1.00	1.01	1.03	0.86	0.89	1.04	1.31
Narrow	1.04	1.09	0.98	0.81	0.90	1.05	1.25
Wide	1.00	1.00	1.02	0.80	0.87	1.03	1.15

Undervalued — Fairly Valued — Overvalued

< 0.90	> 0.90 to 0.95	> 0.95 to 0.99	> 0.99 to 1.01	> 1.01 to 1.05	> 1.05 to 1.10	> 1.10

Source: Morningstar. Data as of June 30, 2025.

Undervalued Large-Cap Stocks With Wide Economic Moats and Low or Medium Uncertainty

Examples of Low- or Medium-Uncertainty-Rated Companies With Long-Term, Durable Competitive Advantages at Discounts to Our Estimate of Intrinsic Valuation

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Thermo Fisher Scientific TMO	★★★★★	405	630	0.64	Wide	Medium	Healthcare
Bristol-Myers Squibb BMY	★★★★	46	66	0.70	Wide	Medium	Healthcare
Merck & Co. MRK	★★★★	79	111	0.71	Wide	Medium	Healthcare
Danaher DHR	★★★★	198	270	0.73	Wide	Medium	Healthcare
Alphabet GOOGL	★★★★	176	237	0.74	Wide	Medium	Communication Services
Northrop Grumman NOC	★★★★	500	620	0.81	Wide	Medium	Industrials
Pepsico PEP	★★★★	132	162	0.82	Wide	Low	Consumer Defensive
Lockheed Martin LMT	★★★★	463	539	0.86	Wide	Medium	Industrials
Mondelēz Global MDLZ	★★★★	67	74	0.91	Wide	Low	Consumer Defensive
Caterpillar CAT	★★★★	388	422	0.92	Wide	Medium	Industrials
Johnson & Johnson JNJ	★★★★	153	164	0.93	Wide	Low	Healthcare
General Dynamics GD	★★★★	292	313	0.93	Wide	Low	Industrials
McDonald's MCD	★★★★	292	312	0.94	Wide	Low	Consumer Cyclical
S&P Global SPGI	★★★★	527	540	0.98	Wide	Low	Financial Services

Source: Morningstar. Data as of June 30, 2025.

Undervalued Mid-Cap Stocks With Wide Economic Moats and Low or Medium Uncertainty

Examples of Low- or Medium-Uncertainty-Rated Companies With Long-Term, Durable Competitive Advantages at Discounts to Our Estimate of Intrinsic Valuation

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Brown-Forman BF.B	★★★★★	27	42	0.64	Wide	Medium	Consumer Defensive
Constellation Brands STZ	★★★★★	163	247	0.66	Wide	Medium	Consumer Defensive
The Clorox Company CLX	★★★★★	120	177	0.68	Wide	Medium	Consumer Defensive
Zimmer Biomet Holdings ZBH	★★★★	91	130	0.70	Wide	Medium	Healthcare
West Pharmaceutical Services WST	★★★★	219	310	0.71	Wide	Medium	Healthcare
Agilent Technologies A	★★★★	118	151	0.78	Wide	Medium	Healthcare
Masco MAS	★★★★	64	82	0.78	Wide	Medium	Industrials
The Hershey HSY	★★★★★	166	209	0.79	Wide	Low	Consumer Defensive
GE HealthCare Technologies GEHC	★★★★	74	89	0.83	Wide	Medium	Healthcare
U.S. Bank USB	★★★★	45	53	0.85	Wide	Medium	Financial Services
Kenvue KVUE	★★★★	21	25	0.85	Wide	Medium	Consumer Defensive
Copart CPRT	★★★★	49	57	0.86	Wide	Medium	Industrials
Nordson NDSN	★★★★	214	249	0.86	Wide	Medium	Industrials
Broadridge Financial Solutions BR	★★★★	243	275	0.88	Wide	Low	Technology
Air Products and Chemicals APD	★★★★	282	318	0.89	Wide	Medium	Basic Materials

Source: Morningstar. Data as of June 30, 2025.

Undervalued Small-Cap Stocks With Wide or Narrow Economic Moats and Low or Medium Uncertainty

Examples of Low- or Medium-Uncertainty-Rated Companies With Long-Term, Durable Competitive Advantages at Discounts to Our Estimate of Intrinsic Valuation

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Icon (Consulting Services) ICLR	★★★★★	145	243	0.60	Narrow	Medium	Healthcare
Revvity RVTY	★★★★★	97	162	0.60	Narrow	Medium	Healthcare
Akamai Technologies AKAM	★★★★★	80	135	0.59	Narrow	Medium	Technology
Essential Utilities WTRG	★★★★	37	44	0.84	Narrow	Low	Utilities
The Campbell's Co. EPAM	★★★★	177	200	0.88	Narrow	Medium	Technology
Huntington Ingalls Industries HII	★★★★	241	316	0.76	Wide	Medium	Industrials
A. O. Smith AOS	★★★★	66	77	0.85	Wide	Medium	Industrials
Acuity AYI	★★★★	298	350	0.85	Narrow	Medium	Industrials
The Campbells CPB	★★★★★	31	62	0.49	Wide	Medium	Consumer Defensive
Wesco International WCC	★★★★	185	216	0.86	Narrow	Medium	Industrials
Wyndham Hotels & Resorts WH	★★★★	81	96	0.85	Narrow	Medium	Consumer Cyclical
Fortune Brands Innovations FBIN	★★★★★	51	82	0.63	Narrow	Medium	Industrials
Vontier VNT	★★★★	37	44	0.85	Narrow	Medium	Technology
Gentex GNTX	★★★★★	22	42	0.52	Narrow	Medium	Consumer Cyclical
Portland General Electric POR	★★★★★	41	53	0.77	Narrow	Low	Utilities

Source: Morningstar. Data as of June 30, 2025.

Spotlight | Mega-Cap Stocks

Undervalued Mega-Cap Performance: More Hits Than Misses

Composite of Mega-Cap Stocks Rated 4- or 5-Stars Last Quarter Outperforms, but UNH Hurts

Name/Ticker	Rating 3/28/25	Rating 6/30/25	Price ($) 3/28/25	Price ($) 6/30/25	Change (%)	Fair Value 3/28/25	Fair Value 6/30/25	Change (%)	P/FV 3/28/25	P/FV 6/30/25
Microsoft MSFT	★★★★	★★★	379	496	30.9%	490	505	3.1%	0.77	0.98
Amazon.com AMZN	★★★★	★★★	193	219	13.8%	240	240	0.0%	0.80	0.91
Alphabet GOOGL	★★★★★	★★★★	154	176	14.2%	237	237	0.0%	0.65	0.74
Meta Platforms META	★★★★	★★★	577	738	28.0%	770	770	0.0%	0.75	0.96
ExxonMobil XOM	★★★★	★★★★	118	108	**-8.4%**	135	135	0.0%	0.87	0.80
UnitedHealth Group UNH	★★★★	★★★★	516	312	**-39.5%**	590	473	**-19.8%**	0.87	0.66
Oracle ORCL	★★★★	★★★	141	219	55.2%	184	205	11.4%	0.77	1.07
Merck & Co. MRK	★★★★	★★★★	89	79	**-11.4%**	111	111	0.0%	0.80	0.71
Pepsico PEP	★★★★	★★★★	149	132	**-11.5%**	170	162	**-4.7%**	0.88	0.82

Source: Morningstar. Data as of June 30, 2025.

Rising Tide Raises Several Overvalued Mega-Cap Stocks Further Into Overvalued Territory

Most Mega-Cap Stocks Rated 1- or 2-Stars Have Generally Become Even Further Overvalued

Name/Ticker	Rating 3/28/25	Rating 6/30/25	Price ($) 3/28/25	Price ($) 6/30/25	Change (%)	Fair Value 3/28/25	Fair Value 6/30/25	Change (%)	P/FV 3/28/25	P/FV 6/30/25
Berkshire Hathaway BRK.B	★★	★★★	526	486	**-7.7%**	467	487	4.3%	1.13	1.00
Eli Lilly LLY	★★	★★	823	780	**-5.2%**	620	650	4.8%	1.33	1.20
Walmart WMT	★	★	85	98	14.8%	63	64	1.6%	1.35	1.53
JP Morgan Chase JPM	★★	★	243	290	19.4%	195	195	0.0%	1.25	1.49
Visa V	★★	★★	343	355	3.6%	289	306	5.9%	1.19	1.16
Netflix NFLX	★★	★	934	1,339	43.4%	700	750	7.1%	1.33	1.79
Costco Wholesale COST	★	★	930	990	6.5%	610	620	1.6%	1.52	1.60
Procter & Gamble PG	★★	★★	168	159	**-5.2%**	143	140	**-2.1%**	1.18	1.14
The Home Depot HD	★★	★★	358	367	2.4%	305	308	1.0%	1.17	1.19
Coca-Cola KO	★★	★★★	70	71	0.5%	66	69	4.5%	1.07	1.03
T-Mobile US TMUS	★★	★★★	265	238	**-10.1%**	210	220	4.8%	1.26	1.08
Cisco Systems CSCO	★★	★★	61	69	14.0%	54	56	3.7%	1.13	1.24

Source: Morningstar. Data as of June 30, 2025.

Updated List of Undervalued Mega-Cap Stocks

Several New Wide-Moat Stocks Added to List of Undervalued Mega-Caps

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Alphabet GOOGL	★★★★	176	237	0.74	Wide	Medium	Communication Services
ExxonMobil XOM	★★★★	108	135	0.80	Narrow	High	Energy
Johnson & Johnson JNJ	★★★★	153	164	0.93	Wide	Low	Healthcare
UnitedHealth Group UNH	★★★★	312	473	0.66	Narrow	High	Healthcare
Salesforce CRM	★★★★	273	325	0.84	Wide	High	Technology
McDonald's MCD	★★★★	292	312	0.94	Wide	Low	Consumer Cyclical

Source: Morningstar. Data as of June 30, 2025.

Updated List of Overvalued Mega-Cap Stocks

Updated List of Overvalued Mega-Cap Stocks

Name/Ticker	Rating	Price ($)	Fair Value ($)	P/FV	Economic Moat	Uncertainty	Sector
Broadcom AVGO	★★	276	225	1.23	Wide	High	Technology
Tesla TSLA	★★	318	250	1.27	Narrow	Very High	Consumer Cyclical
JP Morgan Chase JPM	★	290	195	1.49	Wide	Medium	Financial Services
Walmart WMT	★	98	64	1.53	Wide	Medium	Consumer Defensive
Eli Lilly LLY	★★	780	650	1.20	Wide	High	Healthcare
Visa V	★★	355	306	1.16	Wide	Medium	Financial Services
Netflix NFLX	★	1,339	750	1.79	Narrow	High	Communication Services
Costco Wholesale COST	★	990	620	1.60	Wide	Medium	Consumer Defensive
Procter & Gamble PG	★★	159	140	1.14	Wide	Low	Consumer Defensive
The Home Depot HD	★★	367	308	1.19	Wide	Low	Consumer Cyclical
Palantir Technologies PLTR	★★	136	100	1.36	Narrow	Very High	Technology
Philip Morris International PM	★★	182	150	1.21	Wide	Medium	Consumer Defensive
Cisco Systems CSCO	★★	69	56	1.24	Wide	Medium	Technology
Int'l Business Machines IBM	★★	295	242	1.22	Narrow	Medium	Technology
Wells Fargo WFC	★★	80	69	1.16	Wide	Medium	Financial Services

Source: Morningstar. Data as of June 30, 2025.

Fixed-Income Outlook

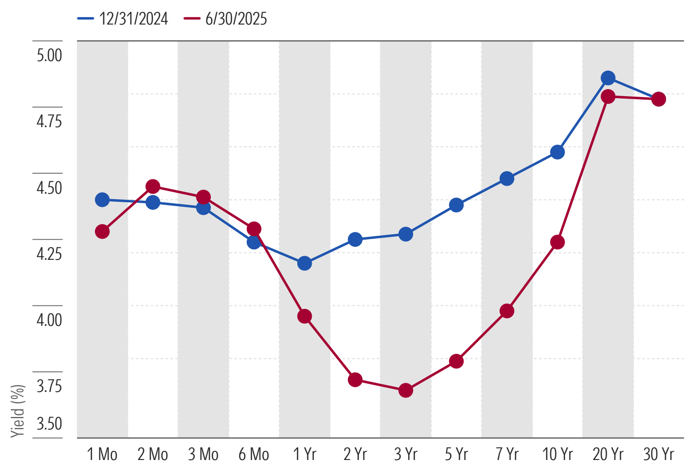
Rally Among Belly of the Curve Drives Higher Returns

The Morningstar US Core Bond Index, our proxy for the broad bond market, rose a solid 3.98% year to date. The belly of the yield curve outperformed as the yields on the three-year and five-year US Treasury bonds declined by 59 basis points whereas in the longer end of the curve, the yield on the 10-year US Treasury only declined 34 basis points. In the corporate bond markets, our Corporate Bond Index and High-Yield Bond Index rose 4.14% and 4.61%, respectively, as the credit spread helped to provide additional return.

Morningstar US Fixed-Income Index Returns (%)

Morningstar Index	Effective Yield	Duration	2022	2023	2024	YTD 2025
ABS	4.80%	2.1	-4.42%	6.18%	5.87%	3.00%
CMBS	4.70%	3.8	-9.84%	5.17%	4.73%	4.41%
Core Bond	4.52%	6.0	-12.99%	5.31%	1.36%	3.98%
Corporate Bond	4.98%	7.0	-15.71%	8.41%	2.13%	4.14%
High-Yield Bond	6.75%	2.9	-11.09%	13.48%	8.20%	4.61%
MBS	4.98%	5.8	-11.94%	4.97%	1.34%	4.11%
TIPS	1.58%	5.4	-11.85%	3.68%	2.08%	4.71%
Treasury Bond	4.03%	5.8	-12.43%	3.88%	0.76%	3.79%

Interest Rates Decline the Most Across Three-Year to Five-year US Treasuries



Source: Morningstar. Data as of June 30, 2025.

Interest-Rate Forecast

Morningstar's US economics team projects that the Fed will ease monetary policy in the second half of 2025 by lowering the federal-funds rate by 50 basis points by year-end. They further expect the Fed to continue easing monetary policy further in 2026 and into 2027.

This projection is based on their forecast that inflation will continue to moderate throughout the year and that the rate of economic growth will slow. Their economic projection calls for the rate of quarterly annualized real GDP growth to slow sequentially until bottoming out in the fourth quarter and then rising slowly thereafter.

We continue to think investors will be best served in longer-duration bonds and capturing the high yield carry along with potential future price appreciation, as our US economics team forecasts a multiyear period of declining yields. On the longer end of the curve, they project the yield on the 10-year US Treasury will average 4.30% in 2025, 3.60% in 2026, and 3.25% in 2027 and 2028.

Interest-Rate Forecast

Average interest rate per calendar year.

Interest Rate (%)	2025E	2026E	2027E	2028E	2029E
Federal-Funds	4.17	3.25	2.48	2.38	2.38
10-Year UST	4.30	3.60	3.25	3.25	3.25

Source: Morningstar. Data as of June 30, 2025.

Corporate Bond Market

Corporate credit spreads widened in sympathy with the selloff in the equity markets in March and April, only to rally right back as equity markets surged higher in the second quarter.

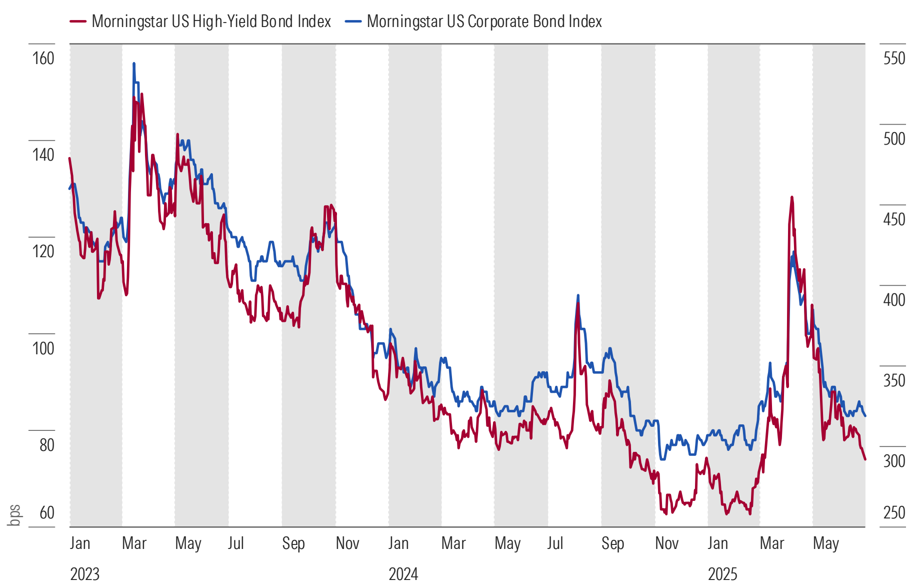
Year to date, in the investment-grade corporate bond market, the average spread of the Morningstar US Corporate Bond Index widened 4 basis points to +83 as of June 30.

In the high-yield corporate bond market, the average spread of the Morningstar US High-Yield Index widened 2 basis points to +292.

Credit spreads in both investment-grade and high-yield remain very tight. Since 2000, less than 10% of the time have both credit spreads ever traded at tighter spreads than today.

Morningstar's US economics team continues to forecast a soft economic landing. In this scenario, while default rates are expected to remain near normalized levels and credit rating downgrades are anticipated to remain low, we believe investors are not being adequately compensated for credit risk.

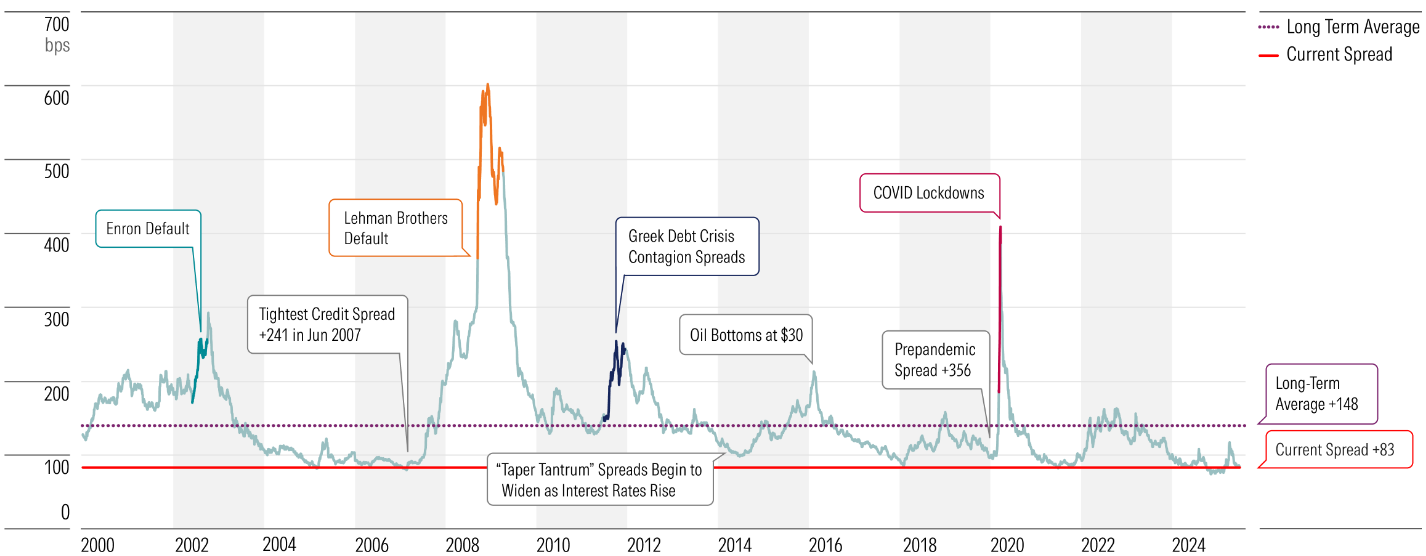
Corporate Credit Spreads Tighten Back to Nearly Unchanged



Source: Morningstar. Data as of June 30, 2025.

Long-Term Average Credit Spread for Investment-Grade Corporate Bond Market

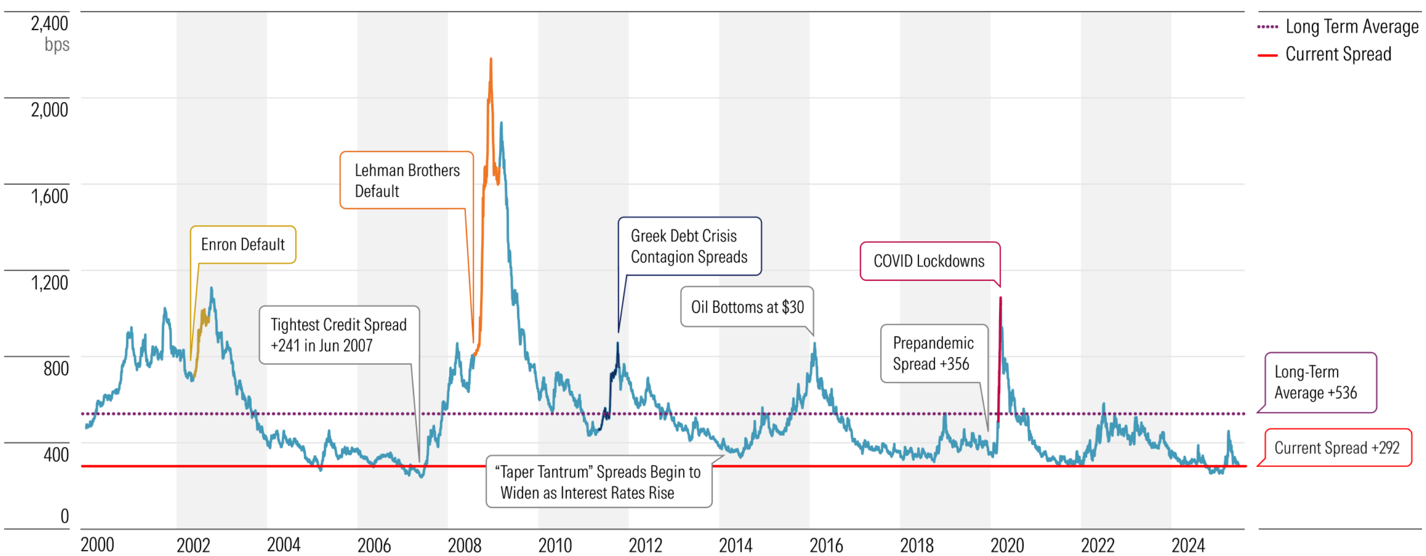
Updated List of Overvalued Mega-Cap Stocks



Source: Morningstar. Data as of June 30, 2025.

Long-Term Average Credit Spread for High-Yield Corporate Bond Market

Updated List of Overvalued Mega-Cap Stocks



Source: Morningstar. Data as of June 30, 2025.

Sector Outlooks

Basic Materials

Seth Goldstein, CFA | Seth.Goldstein@Morningstar.com

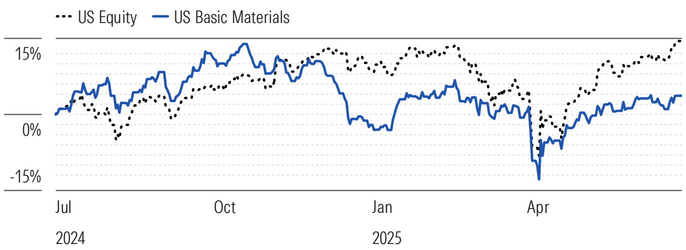
Basic Materials Sector Underperforms, but We See Strong Opportunities in Chemicals

The Morningstar US Basic Materials Index far underperformed the US market index, declining by approximately 50 basis points during the quarter, compared with the broader market gain. Yet, we see opportunities across the sector, with over 45% of the stocks trading in 5- or 4-star territory and the sector as a whole trading below our fair value estimate. We see the most opportunities in chemicals, where two-thirds of the stocks under our coverage trade in 5-star or 4-star territory. We believe the fears that tariffs and a potential economic slowdown will reduce demand, thereby weighing on the profits of chemical producers.

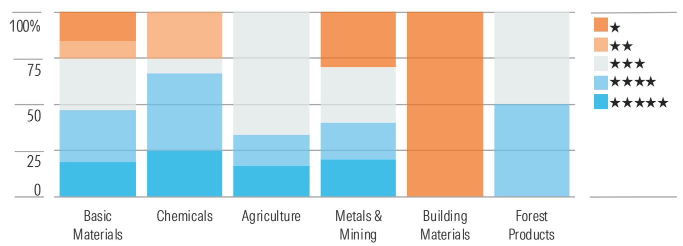
For most US chemicals producers under our coverage, we see little direct impact from tariffs. Given that chemicals demand in the US comes primarily from domestic production, the primary impact would come from counter-tariffs. While China's proposed 10% tariff would apply to US chemicals exports, it's not high enough to disrupt the cost advantage of US chemicals relative to other producers.

The tariffs' impact will likely be secondary due to a tariff-induced economic slowdown. We see a highly predictive relationship (adjusted R-squared of 0.96) on chemicals revenue with consumption, fixed-asset investment, and oil prices. Changes in the weighted average of consumption and fixed-asset investment are a key indicator of volumes. In contrast, oil price changes are a key indicator of changes in the prices of commodity chemicals. We forecast slower durable goods and fixed-asset growth over the next few years due to the impact of tariffs, but we see growth resume over the longer term. This should fuel higher medium- and long-term growth for chemicals producers.

The Basic Materials Index Declined During Q2 On A Weakening Near-Term Outlook



A Little Less Than Half of Basic Materials Stocks Trade in 5-Star or 4-Star Territory

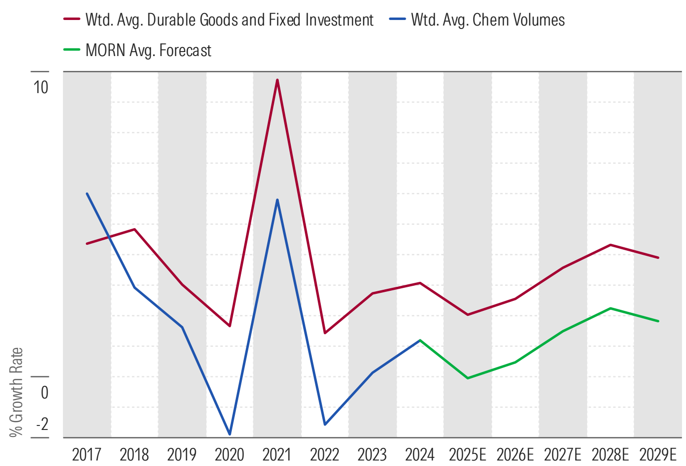


Source: Morningstar. Data as of June 30, 2025.

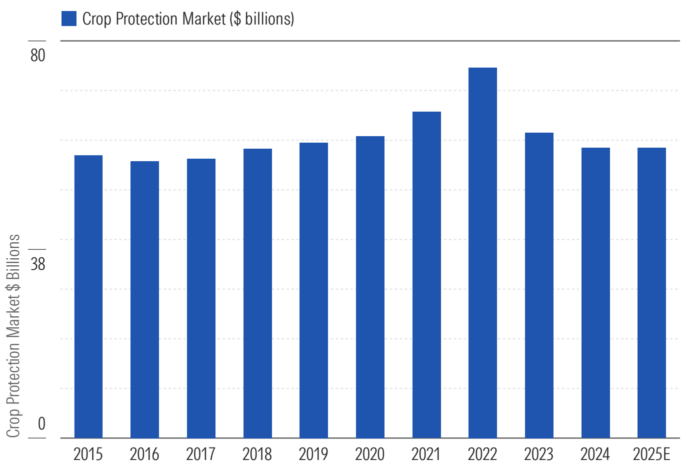
We Forecast Improving Medium-Term Chemicals Demand and Stabilizing Near-Term Crop Chemicals Sales

In crop protection, we see industrywide sales stabilizing after two years of declines as demand returns to normal after two years of inventory destocking. For premium crop protection producers, we expect profit growth from normalized demand as production returns to typical levels. Following 2025, we expect the industry to return to growth, with premium producers seeing growth above market levels as new products drive higher revenue.

Volumes Tend to Move With Durable Goods, Fixed Inv., and Res. Inv. Growth Rates



We Forecast Crop Chemicals Sales Will Stabilize Following Two Years of Declines



Source: US Bureau of Economic Analysis, Dow, DuPont, Celanese, Eastman, Lyondell, FMC, Corteva, Morningstar.

Basic Materials Top Picks

Name/Ticker		Rating	
Eastman Chemical (EMN)		★★★★	Eastman is one of our top picks to invest in a medium-term rebound in chemicals demand. The stock trades at more than 30% below our $110 fair value estimate. Eastman's narrow-moat rating comes from its specialty chemicals, which are protected by patents and command premium pricing. This should allow Eastman to perform better than its commodity chemicals peers during a downturn and see a quick recovery when demand returns. Eastman should continue to generate free cash flow well above dividends even in a downturn, which should support shares.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
74.66	110.00	High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
8.62	Narrow	Standard	

Name/Ticker		Rating	
FMC (FMC)		★★★★	FMC is our top pick to invest in stabilizing crop protection demand. The stock trades at less than 45% of our $95 fair value estimate. FMC's narrow-moat rating stems from its patent-protected, differentiated crop chemicals portfolio, which generates strong pricing power as farmers are willing to pay a premium for products that protect against pests. As a crop chemicals pure-play, FMC was hit harder than its peers by inventory destocking and falling sales. However, with inventory levels back to normal, we point to strong growth in the second half of the year as a catalyst for shares.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
41.75	95.00	High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
5.21	Narrow	Standard	

Name/Ticker		Rating	
LyondellBasell (LYB)		★★★★★	LyondellBasell is our other top pick to invest in a medium-term rebound in chemicals demand. The stock trades at a little more than 40% below our $100 fair value estimate. Lyondell's narrow-moat rating comes from a cost advantage. Most of Lyondell's production is in North America and benefits from low-cost North American natural gas prices. As a result of its cost advantage, Lyondell should be able to generate positive free cash flow even during a downturn. The company also offers a 9% dividend yield supported by a solid balance sheet.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
57.86	100.00	High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
18.60	Narrow	Standard	

Source: Morningstar. Data as of June 30, 2025.

Communication Services

Michael Hodel | Michael.Hodel@Morningstar.com

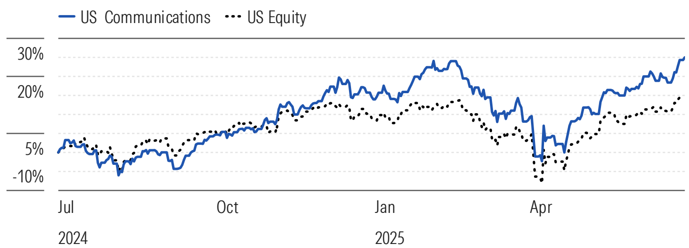
Growth at Alphabet and Meta May Slow, but We Expect Both to Maintain Advertising Dominance

Meta and Alphabet continue to post solid growth in advertising revenue, but some signs of weakness have emerged. Both firms reported the slowest ad volume growth on record recently during the first quarter—clicks on paid search links for Google and ad impressions for Meta. While the nature of search is changing with the rise of ChatGPT and other AI tools, Alphabet's Google remains by far the most widely used method for finding information. We suspect the slowdown in click growth primarily reflects the market's maturity after a period of robust growth following the pandemic.

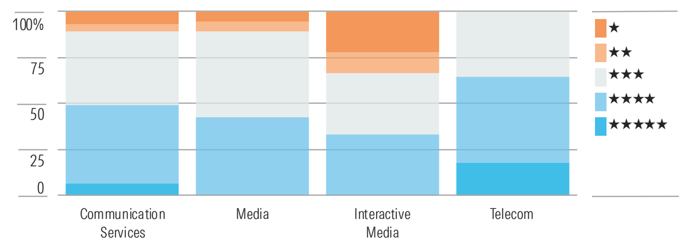
Meta is similarly progressing toward maturity, with more than 4 billion people using its platforms monthly. The firm's network effect remains extremely powerful, however. It has added more than 500 million monthly active users over the past three years, nearly equal to Pinterest's entire user base. Only TikTok has rivaled Meta's scale, but the Chinese firm's fate in the US rests in the hands of lawmakers. We don't expect an outright TikTok ban, but it remains a possibility that could significantly benefit Meta and Alphabet's YouTube platform.

Red-hot demand has fueled ad growth recently. Ad prices have moved steadily higher, as ad spending has limited alternatives to the two ad giants. Over the longer term, we expect new AI tools will help rivals steal consumer attention and make ad creation, placement, and measurement across multiple platforms more efficient. Alphabet and Meta have their own deep AI resources to fight back, but we believe their advertising dominance will likely decrease somewhat. In the next term, potential economic weakness and a corresponding pullback in ad demand are a bigger threat to ad growth.

Outside of Alphabet, Most Large Comm. Services Stocks Have Performed Well



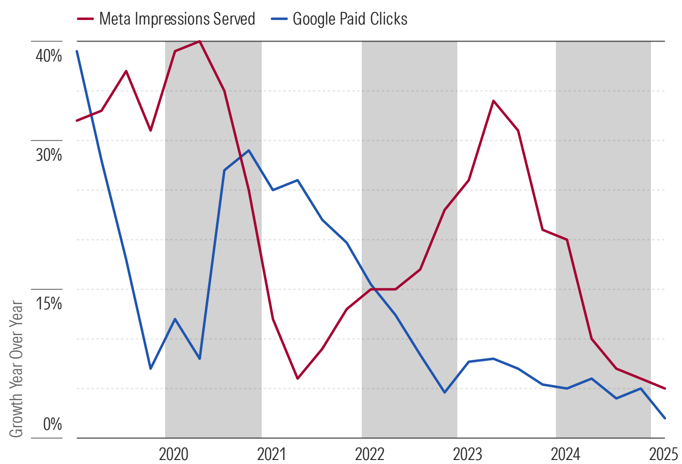
Canadian Telecom Shares Are the Cheapest Corner of the Sector



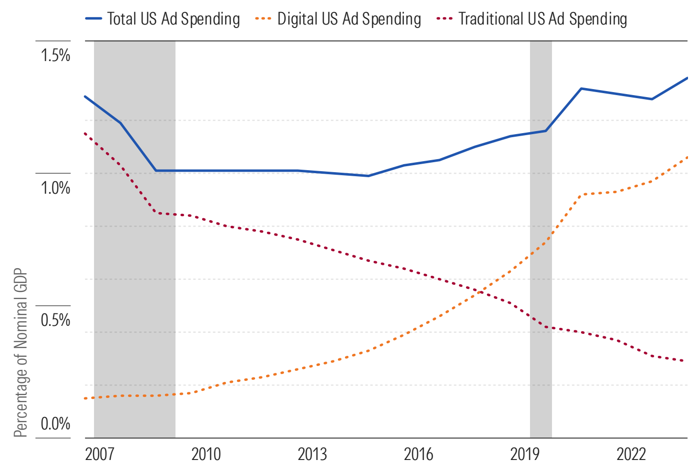
Aggregate Advertising Spending Is Anchored to GDP Growth

Advertising spending in the US has grown faster than the economy over the past decade, but its share of nominal GDP only recently returned to levels seen prior to the financial crisis. Ad spending usually contracts sharply when the economy weakens, but that didn't happen during the pandemic recession. Marketers quickly reallocated ad spending to digital formats to reach consumers as habits were quickly changing. Now that digital ads compose 80% of the total market, we expect demand will show more volatility in a recession.

Advertising Volume Growth Has Slowed Sharply For Meta and Alphabet



Even With a Recent Growth Spurt, US Ad Spending Is Tied Closely to the Economy



Source: Company reports, eMarketer, Morningstar. Data as of June 27, 2025.

Communication Services Top Picks

Name/Ticker		Rating	
Alphabet (GOOG)		★★★★	We believe investors are overly pessimistic when it comes to antitrust concerns around Alphabet as well as its competitive positioning in AI. On antitrust issues, we think the worst-case scenario, a breakup of the firm, is highly unlikely and that the company will be able to navigate remedies without materially damaging its core business. We also see Alphabet as one of three credible leaders in public cloud, and that it is well positioned to benefit from surging interest in generative AI. We believe Alphabet's Gemini model, along with a variety of products that it powers, including a chatbot and productivity tools, can stand toe-to-toe with solutions from other industry leaders.
Price (USD) 177.39	**Fair Value (USD)** 237.00	**Uncertainty** Medium	
Market Cap (USD B) 2145.0	**Economic Moat** Wide	**Capital Allocation** Exemplary	
Name/Ticker Warner Bros. Discovery (WBD)		**Rating** ★★★★	Though traditional television pressure is likely to worsen, the rest of Warner's business is looking up, and the forthcoming split of the company, expected in 2026, should help unlock the value we've long seen. Streaming has turned profitable, additional HBO Max launches are coming, and the firm has seen success at the 2025 box office. The loss of the NBA will accelerate declines in television revenue, but the savings on rights costs should be well worth the tradeoff, boosting cash flow. The eventual split of the company should allow each business to pursue strategic moves and capital allocation policies best suited to their growth opportunities and cash flow potential.
Price (USD) 11.47	**Fair Value (USD)** 20.00	**Uncertainty** Very High	
Market Cap (USD B) 28.37	**Economic Moat** None	**Capital Allocation** Standard	
Name/Ticker Comcast (CMCSA)		**Rating** ★★★★	We still favor Comcast over other cable companies for its stronger balance sheet, which provides flexibility to use cash flow to aggressively repurchase shares. We expect Comcast's network will enable it to maintain the size of its broadband customer base over time while a rational competitive environment allows broadband prices to rise. Comcast will need to increase network spending in the coming years to keep pace with the phone companies' fiber network capabilities, but we expect cable cash flow to still grow modestly over the coming years. The NBCUniversal business isn't as strong, but it remains an important media asset.
Price (USD) 35.69	**Fair Value (USD)** 49.00	**Uncertainty** Medium	
Market Cap (USD B) 133.26	**Economic Moat** Narrow	**Capital Allocation** Standard	

Source: Morningstar. Data as of June 30, 2025.

Consumer Cyclical

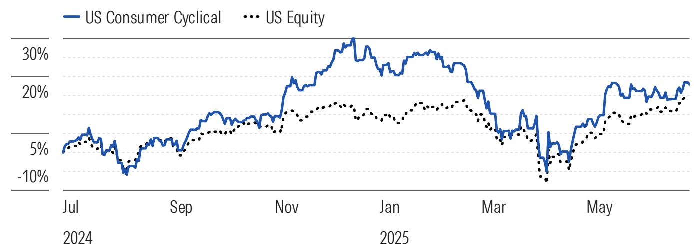
Erin Lash, CFA | Erin.Lash@Morningstar.com

Investors Should Take Advantage of Select Opportunities to Splurge on Moaty Consumer Cyclical Stocks

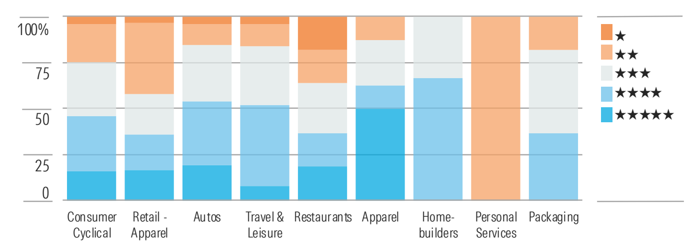
The Morningstar US Consumer Cyclical Index's 19.55% rise quarter to date was only modestly behind the market's 22.8% uptick. Despite this, nearly half of our sector coverage resides in 4- or 5-star territory, with the median stock trading at a 14% discount to our fair value estimates. We see particular value in the travel and leisure (which trades at a nearly 20% discount) and the apparel (49%) realms. We surmise concern is anchored in the financial burdens consumers face in this uncertain economic landscape and, ultimately, the potential impact that could have on discretionary spending patterns.

We have begun to see this manifest in declining US airline passenger counts (as cited by the Transportation Security Administration), which have slowed from low-single-digit growth to a nearly 2% drop in May 2025 and a 1.5% decrease in June through the 24th. This trend not only affects airlines but also hotels, cruise lines, and online travel companies. However, we attribute this to a pullback in business travel, as corporations look to ratchet back their spending in these volatile economic times. From our perspective, consumers continue to show an interest in leisure trips and experiences, and as such, we don't expect the downturn to prove pervasive. Even as consumers have tightened their purse strings, we view the human-ingrained desire to travel as a tailwind for the industry in the long term.

Consumer Cyclical Shares Nearly Match the Market's Mid-Single-Digit Q2 Ascent



Bargain Hunters Can Find Value in the Travel and Leisure and Apparel Enclaves

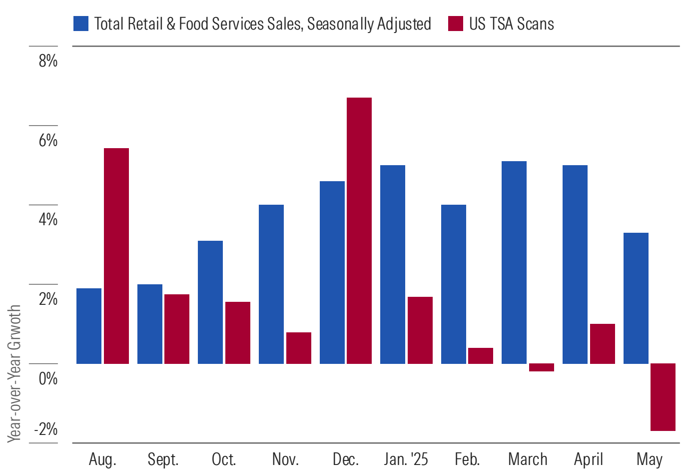


Source: Morningstar. Data as of June 30, 2025.

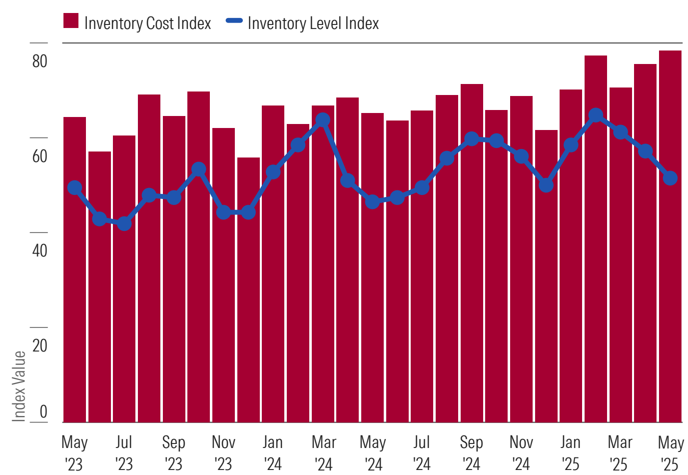
Investors Should Take Advantage of Select Opportunities to Splurge on Moaty Consumer Cyclical Stocks

As the consumer spending backdrop remains fragile, though, we aren't surprised the Logistics Managers' inventory level index has contracted. If retailers hold significant levels of inventory, this can lead to extreme discounting to clear excess stock promptly. The inventory cost index has been on an upward trajectory since the end of 2024. We attribute this to overall inflation levels, accentuated by tariffs. As such, we expect firms to employ a few tactics (pursuing cost savings and siphoning discretionary spending) before raising prices.

TSA Scans Slip Despite Fairly Consistent Growth in Retail and Foodservice Sales



While Inventory Levels Have Been Edging Down, Costs Remain Elevated



Source: US Census Bureau. Transportation Security Administration. Data as of May 2025 (bottom left). Logistics Managers' Index. Data as of May 2025 (bottom right).

Consumer Cyclical Top Picks

Name/Ticker		Rating	
Kohl's (KSS)		★★★★★	We believe no-moat Kohl's is an attractive investment opportunity, trading at around an 80% discount to our $40 fair value estimate. Although traditional department stores are struggling, Kohl's has substantial e-commerce as its large store base allows it to ship directly from stores and encourages buying online/picking up in stores. In addition, its partnership with Sephora has enhanced its beauty business and made it more competitive with other department stores and Ulta. We expect Kohl's to maintain its focus on the loyalty program, Sephora, inventory management, and debt reduction.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
8.48	40.00	Very High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
0.95	None	Standard	
Name/Ticker		**Rating**	
Nike (NKE)		★★★★	Wide-moat Nike is currently in 4-star territory, with shares sitting at a 37% discount to our $112 fair value estimate. We rate Nike, the global sportswear leader, as a wide-moat company based on its brand intangible assets. Its sales growth has stalled, but it achieves premium prices for its products through its innovation, marketing, and direct selling. Nike is also cutting costs through restructuring efforts, planning to reduce annual expenses by $2 billion by 2026. Areas of growth for Nike include China, and, as the market leader, it should continue to benefit from government investment in athletics.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
71.04	112.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
104.85	Wide	Exemplary	
Name/Ticker		**Rating**	
Hanesbrands (HBI)		★★★★★	We believe narrow-moat Hanesbrands, trading at a 71% discount to our $16.30 fair value estimate, presents an attractive investment opportunity. Hanes has leading brands in innerwear in North America and Australia but has struggled to generate sales growth. A year ago, Hanes announced the sale of Champion to Authentic Brands Group for an attractive price of $1.2 billion plus the possibility of an additional $300 million in earn-outs. While this disposition will reduce future cash flow, we think it also reduces risk, as the proceeds will be used for debt reduction. Moreover, we think it will have a positive effect on profit margins.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
4.58	16.30	Very High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
1.62	Narrow	Standard	

Source: Morningstar. Data as of June 30, 2025.

Consumer Defensive

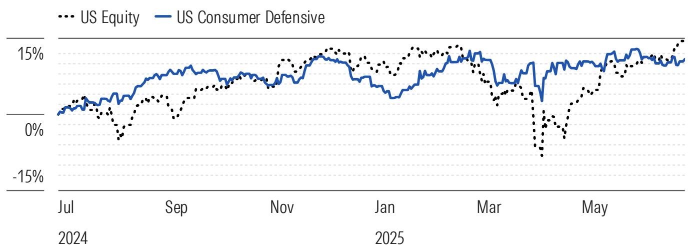
Erin Lash, CFA | Erin.Lash@Morningstar.com

Economic Malaise Leaves Competitively-Advantaged Consumer Defensive Firms in the Bargain Bin

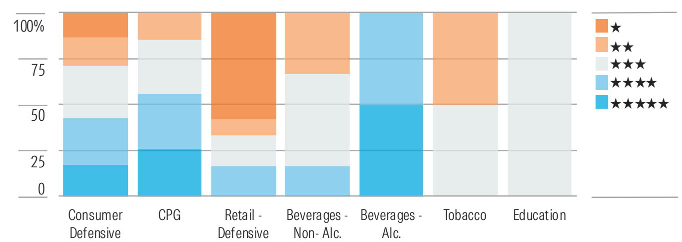
The Morningstar US Consumer Defensive Index ticked up 5% quarter to date, but this lagged behind the market's 22.8% rally. Around 40% of our coverage boasts a 4- or 5-star rating, with the median stock trading at a 7% discount to our intrinsic valuations. We identify undervalued ideas emanating from the alcoholic beverage sector, which is currently trading at an average 35% discount to our fair value estimates, as well as the consumer packaged goods sector (12%). We attribute the market's concern to the unsettled global macroeconomic and geopolitical landscape, including the unease surrounding tariffs and their ultimate impact on consumer spending. Despite lingering uncertainty, we think firms with solid brands and stalwart standing with retailers are poised to weather the current backdrop relatively unscathed.

While growth has waned across the consumer products landscape as prices stagnate and volumes languish, companies haven't resorted to acquisitions to buoy their prospects. There have been just four deals in 2025 year to date (equating to $1.6 billion), down from an average of 13 ($17.5 billion) over the past five years. We've long believed that tie-ups can enable consumer product firms to gain exposure to a new region by leveraging local market expertise regarding native consumers and the distribution network, thereby reducing the inherent risk of expansion. Further, by acquiring niche start-ups, firms can test the waters of nascent categories and grease the wheels of their innovation cycles, while opening previously locked retail doors for smaller operators. However, we are encouraged that firms aren't just chasing growth at any cost, and we believe that focusing on investing in their existing mix is prudent for the long term.

Consumer Defensive Firms Trail the Market's Mid-Single-Digit Rise in Q2



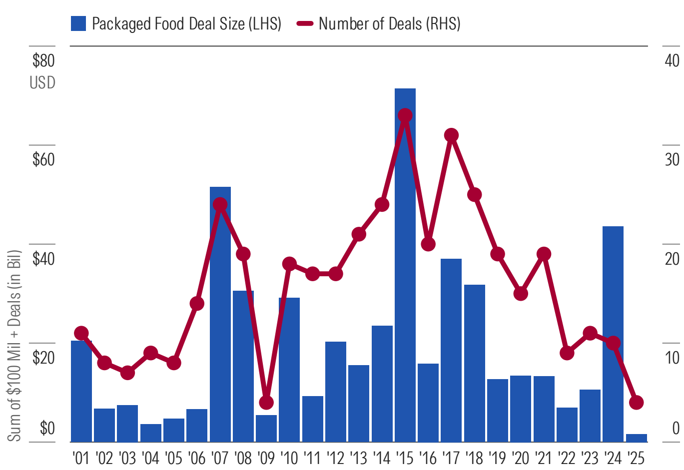
Investors Should Feast on Alcoholic Beverage and CPG Opportunities



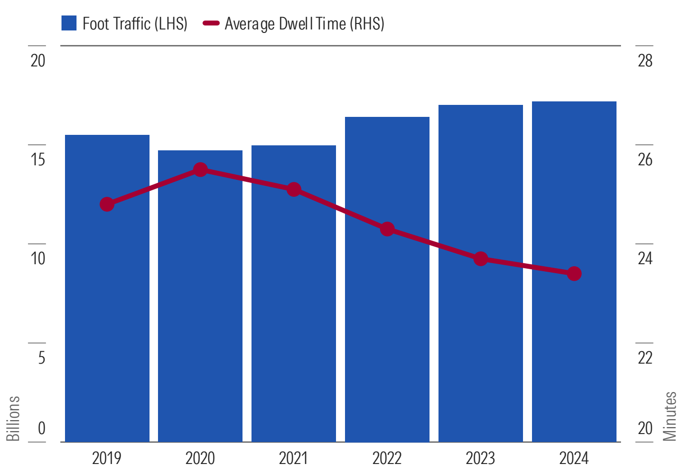
Economic Malaise Leaves Competitively-Advantaged Consumer Defensive Firms in the Bargain Bin

The challenge to ignite growth is exacerbated as consumers spend less time in stores (down to less than 24 minutes from about 26 five years ago), even as foot traffic has eclipsed pre-pandemic levels. If consumers don't find the product they are looking for or the shopping experience is unfavorable, the odds are higher that they will abandon their basket and opt for another outlet. As such, retailers and manufacturers must work together to ensure the assortment resonates with consumers each time they visit a store.

Despite Souring Growth, Packaged Food Firms Lose Taste for Acquisitions



With Shoppers Spending Less Time in Store, Onus Is on CPG, Retailers to Convert



Source: PitchBook, Morningstar. Data as of June 12, 2025 (left chart). JLL Research, Placer.ai. Data as of 2024 (right chart).

Consumer Defensive Top Picks

Name/Ticker		Rating	
Kraft Heinz (KHC)		★★★★★	At around a 50% discount to our $51 fair value estimate and with a dividend yield of more than 5%, we believe narrow-moat Kraft Heinz is attractive. We suspect investors are skeptical it will avoid a material and lasting volume contraction in a tough economy (persistent inflation and lackluster consumer spending) amid intense competition (increased promotions by other brands and private labels) after price hikes a few years back. However, we favor the firm's efforts to unearth cost savings to fuel brand spending (research, development, and marketing) and believe this should help drive low-single-digit top-line growth in the long term against low-20s operating margins.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
25.82	51.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
30.56	Narrow	Standard	
Name/Ticker		**Rating**	
Campbell's		★★★★★	Wide-moat Campbell's is appealing, trading at a nearly 50% discount to our $62 intrinsic valuation. In the face of concerns stemming from lagging volume trends, we posit that Campbell's is making judicious investments to keep pace with evolving consumer trends. Furthermore, the firm is adjusting price points and pack sizes to ensure its mix appeals to value-focused consumers. We don't think it will back down from these efforts; we forecast Campbell's will continue to direct about 5% of sales to research, development, and marketing annually, leading to low-single-digit sales growth and high-teens operating margins in the longer term.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
30.65	62.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
9.14	Wide	Standard	
Name/Ticker		**Rating**	
WK Kellogg		★★★★★	No-moat WK Kellogg trades at a 45% discount to our $28 fair value estimate. While its singular exposure to the challenged cereal category and small scale have diminished its standing with retailers and suppliers, we see a path to higher profits. The firm's priority remains upgrading an outdated supply chain, which we believe will enhance operational efficiencies and structurally lift margins, with our midcycle EBITDA margin exceeding 14% (from a trough of 9% in fiscal 2023). In our view, this should unlock the funds to invest in product innovation and marketing support, solidifying its standing in the mature domestic cereal aisle.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
15.94	28.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
1.38	None	Standard	

Source: Morningstar. Data as of June 30, 2025.

Energy

Joshua Aguilar | Joshua.Aguilar@Morningstar.com

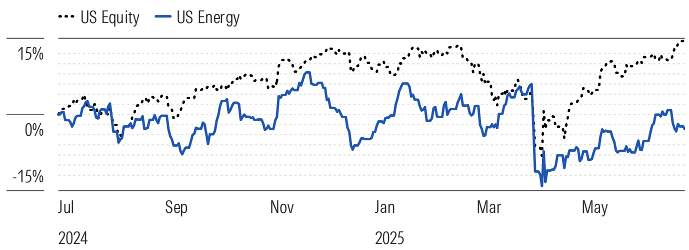
Low Oil Prices May Challenge Capital Returns Model, but Geopolitical Tensions Provide Upside Risk

Latest OPEC+ supply increases look to wrangle share from US shale. OPEC+ announced yet another 411,000 barrel/day increase in crude production for July from June. This follows a similar increase from prior months.

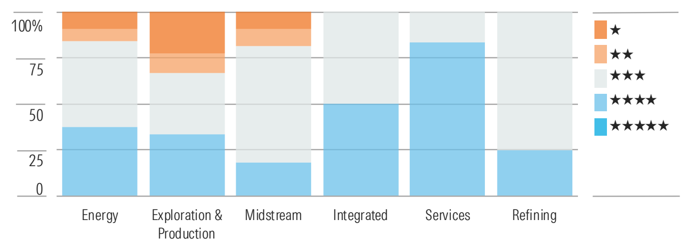
- OPEC+ has publicly claimed that the production increases stem from ensuring quota compliance from its members.
- But we think the group's unspoken goal is taking global market share. This echoes a prior failed price war with US shale over a decade ago. Instead, the US increased its liquids production share to 22% over the past decade from 15%. By contrast, OPEC's market share stalled and fell to 31.5% from 35% during the decade.

However, US production now seems more exposed to a price war.
The shale revolution was in pro-growth mode a decade ago. The best producers adapted and matured, becoming far more capital-disciplined. Persistently lower oil prices, the end of enormous leaps in operating efficiency, and less remaining quality acreage in US shale will stress the capital returns model adopted by operators there. Non-Permian producers can't pull back on activity without facing weaker unit economics. Still, most US independents we cover primarily operate in the Permian and fall at the low end of the cost curve. And geopolitical conflict from supply disruptions could quickly boost share prices.

Oversupply and Middle-Eastern Risks Whipsaw Oil Markets



Services Remain Underappreciated Amid Capital Expenditure Cuts

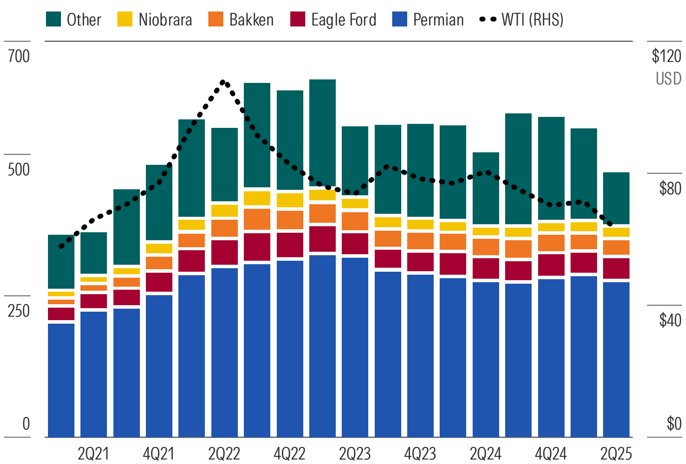


Source: Morningstar. Data as of June 30, 2025.

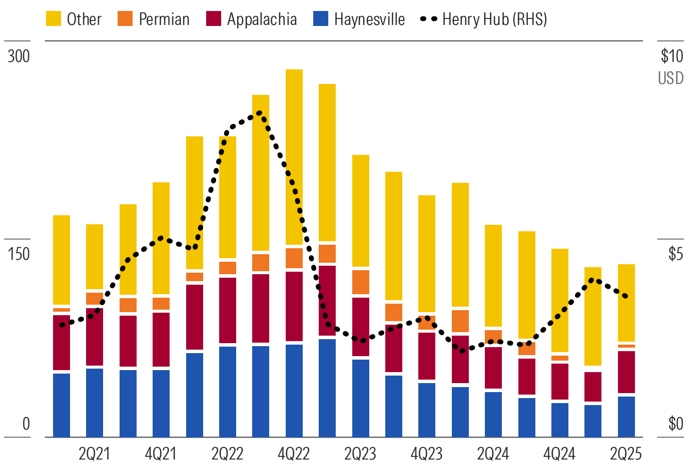
US Supply: Drilling Faces Uniform Downward Pressure but Oil and Gas Could Diverge Long-Term

US oil rig count sits at its lowest level since 2022; we expect further drilling declines. Factors pushing the WTI benchmark to the low-60s that persist include: OPEC+ supply increases weighing on oil prices and continued secondary economic impacts from uncertain trade policy. We think Permian drilling faces higher risks of decline at current pricing levels. Most US independents we cover focus development efforts in the Permian; this basin alone accounts for nearly half of total US production.

We Expect Further Oil Rig Activity Declines in 2025



Gas Drilling Activity Remains Muted Near Term but Long-Term Drivers Intact



Source: Rystad, Morningstar, Dallas Fed Energy Survey. Data of May 29, 2025.

Energy Top Picks

Name/Ticker		Rating	
SLB (SLB)		★★★★★	SLB is among the cheapest stocks in our global energy coverage with a moat. Its multiple trades in line with peer services firms, but it deserves a premium given its scale, suite of solutions, competitive position in some of the more attractive services markets, and technological advantage. These factors position SLB to outperform peers. SLB's offshore segment outside North America boasts a growing project opportunity set that could exceed $100 billion annually over the medium term. SLB's digital-related revenue is also highly accretive and more resilient to cyclical headwinds. We expect digital revenue to more than double by the end of 2025 to $3 billion and possibly reach $4 billion by the end of the decade.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
33.80	51.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
45.66	Narrow	Exemplary	

Name/Ticker		Rating	
HF Sinclair		★★★★	HF Sinclair is the lone refiner trading below our fair value estimate. Following the acquisition of Sinclair Oil, HollyFrontier, now known as HF Sinclair, is a fully integrated, independent company that encompasses refining, marketing, renewables, specialty lubricants, and midstream businesses. Following weak fourth-quarter results, the company remains a turnaround story; however, management is showing progress in improving reliability and efficiency, as well as cutting costs across its portfolio to enhance competitiveness. Along with a focus on shareholder returns, we think this is the right playbook to improve valuations.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
41.08	51.00	Very High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
7.74	Narrow	Standard	

Name/Ticker		Rating	
ExxonMobil		★★★★	Exxon's strategy diverges from industry trends as it plans to increase its spending through 2030, aiming to raise production to roughly 5.4 million barrels of oil equivalent per day and boost earnings by over $20 billion. While this higher spending has raised concerns among investors, given the industry's track record of prioritizing growth over returns, Exxon's high-quality hydrocarbon portfolio should ensure attractive returns while maintaining capital discipline. Continued capital efficiency gains and structural cost reductions support the company's ambition of generating $165 billion in surplus cash by 2030, with $20 billion in share repurchases projected for 2025 and 2026.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
107.80	135.00	High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
464.58	Narrow	Exemplary	

Source: Morningstar. Data as of June 30, 2025.

Financial Services

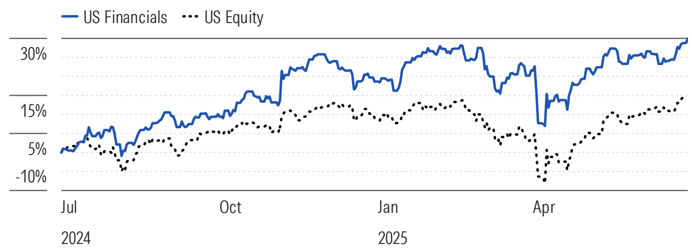
Sean Dunlop, CFA | Sean.Dunlop@Morningstar.com

Robust Financial Sector Expectations Limit Investor Upside

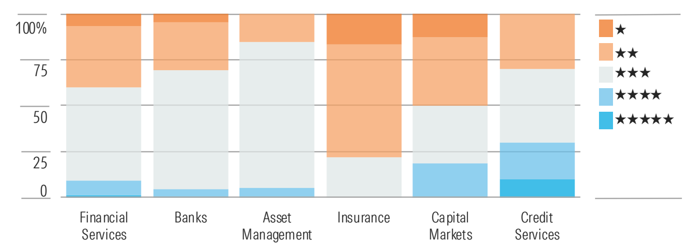
US financial services have been on a torrid run, returning 29.9% over the past year and outperforming broader US equity markets by a striking 14.9 percentage points. That outperformance narrowed over the past quarter, driven in large part by slowing transactions and at least temporarily lower asset levels attributable to trade policy uncertainty. Looking forward, we believe the market has gotten ahead of itself in the sector, which is fundamentally driven by economic growth and risk appetite. Our house view is that real GDP clocks in 1% lower in 2029 than our April 2025 forecast, reflective of a long, slow drag from tariff policy, even as many of the most punitive levies have been eased. That's not reflected in valuations, as the sector trades at an 8% market-cap-weighted premium to our bottom-up fair value estimates.

Considering performance at the industry group level, we see minimal pockets of value across the financial sector. For investors needing sector exposure, the best bet is credit services, which comprises around 30% of companies trading in 4- and 5-star territory. This is driven, in our view, by cyclically higher credit costs for players like Capital One, Synchrony Financial, and Bread, which the market expects to persist. By contrast, we view improving delinquency data as a sign that the industry is turning the corner, barring significant macroeconomic deterioration, and expect improving charge-off rates over the next couple of years.

Financial Services Outperformance Leaves Limited Investable Opportunities



Battered Credit Services Provide Investors With Best Value for the Money

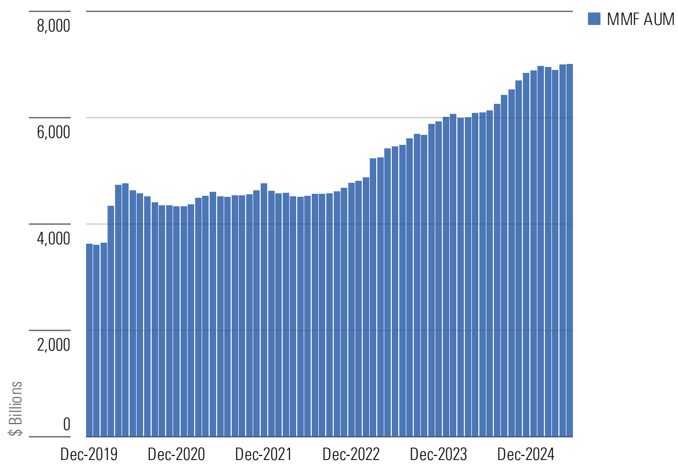


Source: Morningstar. Data as of June 30, 2025.

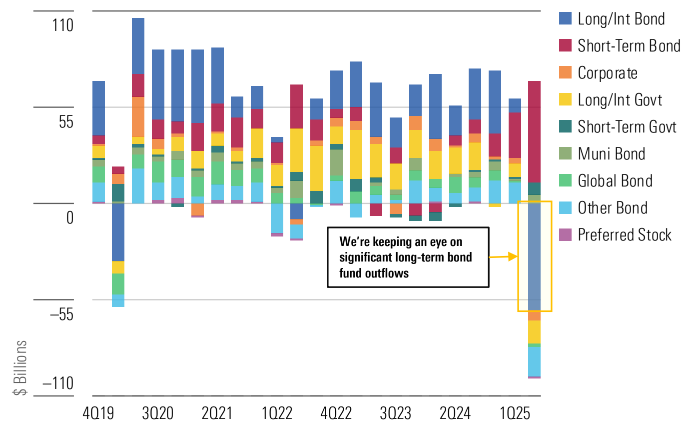
Asset Flows Paint an Interesting Picture for the Financial Sector

While asset prices have largely recovered since April 2025 declines, we're following two interesting narratives. First, an increasing number of investors are parking capital in cash, suggesting some combination of waning risk appetite and stretched equity valuations. Large-cap US stocks currently see a trailing earnings yield of around 3.6%, roughly 100 basis points lower than historical averages and below the current fed-funds rate. Second, investors eschewed long-term government bonds during the past quarter en masse. While this has partially reversed, fiscal discipline has become an increasingly hot topic, and one that we're monitoring closely given the importance of the 10-year Treasury yield on loan pricing.

Money Market Fund AUM Has Exploded, to $7 Trillion Year-to-Date



Bond Market Wobbles Matter; Our Base Case Calls For 4.5% LT 10-Year UST Rates



Source: Morningstar Direct. Data as of June 13, 2025.

Top Financial Sector Picks Span a Diverse Array of Industries Despite Scant Top-Down Value

Name/Ticker		Rating	
U.S. Bancorp (USB)		★★★★	U.S. Bancorp's current valuation does not reflect its true earnings power. While the firm's payment franchise is not growing as quickly as some of the software-based players, it remains an asset-light business for the bank and generates high returns on equity. We also think the market is extrapolating USB's recent high operating expenses and punishing it for a permanently higher operating cost base. We forecast the bank to achieve a normalized operating efficiency ratio in the high 50s, which is better than its current range of low 60s over the past several quarters. In 2024, USB achieved a positive operating leverage of 650 basis points, and we expect it to deliver another positive 150 basis points in 2025.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
45.25	53.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
70.50	Wide	Exemplary	

Name/Ticker		Rating	
T. Rowe Price (TROW)		★★★★	T. Rowe Price has been facing more headwinds of late, with continued baby boomer rollovers and increased competition from low-cost passive target-date funds affecting organic AUM growth, while their growth-equity heavy book of business has been affected by higher short-term rates and tariff- and fiscal-policy induced volatility. The company has posted uncharacteristically poor investment returns the past several years, with both its equity and fixed-income platforms generating performance well outside the upper quartile, which has weighed on its multiple. We don't expect the firm to recover until its organic AUM growth results improve, but it remains in decent long-term shape and is a strong capital allocator.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
96.5	113.00	High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
21.26	Narrow	Exemplary	

Name/Ticker		Rating	
Ally Financial (ALLY)		★★★★	Ally's share price doesn't reflect the company's improving fundamentals. We believe that recently elevated credit costs, pressure from falling used-car prices, and compressed NIMs are temporary pressures. By contrast, the firm has tightened its underwriting, and consumer delinquencies are stabilizing. The firm's deposit base is now in great shape, with 80% retail funding, so Ally should benefit from falling interest rates. In the background, the firm is exiting lower-return businesses to focus on core retail auto lending. To put it another way, the market is discounting cyclical factors; the firm is structurally healthier than ever.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
38.95	45.00	High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
11.96	None	Standard	

Source: Morningstar. Data as of June 30, 2025.

Healthcare

Karen Anderson, CFA | Karen.Anderson@Morningstar.com

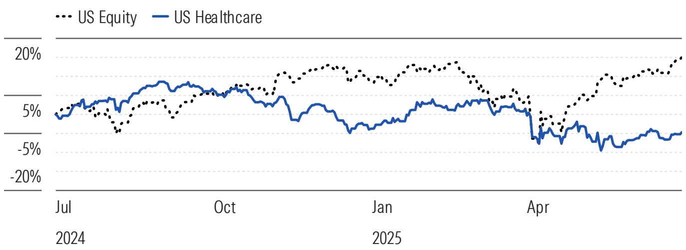
Policy Headwinds Continue to Weigh on Healthcare but Valuations Remain Attractive

Over the first half of 2025, the Morningstar Healthcare Index has underperformed the Morningstar US Index, with a total return of -4.67% over the trailing 12 months versus 15.09% for the Morningstar US Index. After a brief rebound early in the year, the sector lost momentum in the second quarter (rising only 1.39% quarter to date) due to rising uncertainty around potential US policy effects on growth rates for biopharma, healthcare plans, and medical technologies firms. Broader concerns around elevated care utilization and regulatory headwinds for US-centric firms further weighed on sentiment. We see the potential for healthcare to close the performance gap in the coming months, driven by its defensive profile and improving clarity on policy risks.

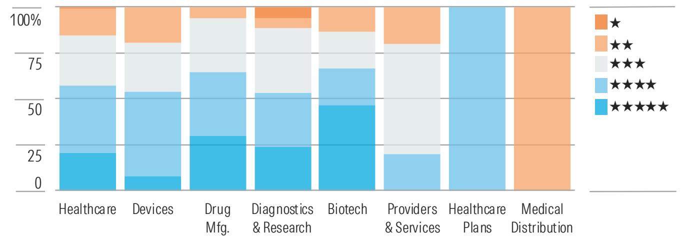
The sector looks relatively undervalued overall, with a median price roughly 10% below our fair value estimates. Medical distribution stands out as the only overvalued industry, while healthcare plans and biopharma appear to be the most undervalued.

Volatility has increased following the US election of Donald Trump as president and Robert F. Kennedy Jr.'s appointment to lead the Department of Health and Human Services. While we have not made significant valuation changes across the healthcare industries, we see high uncertainty surrounding many stocks, particularly in biopharma and healthcare plans. Within the obesity market, Novo Nordisk trades at a discount to its fair value estimate, as we still see strong competitive advantages despite Eli Lilly's growing market share.

Healthcare Lagged the Broader US Market Year to Date



Apart From Distribution, Most Healthcare Industries Look Undervalued

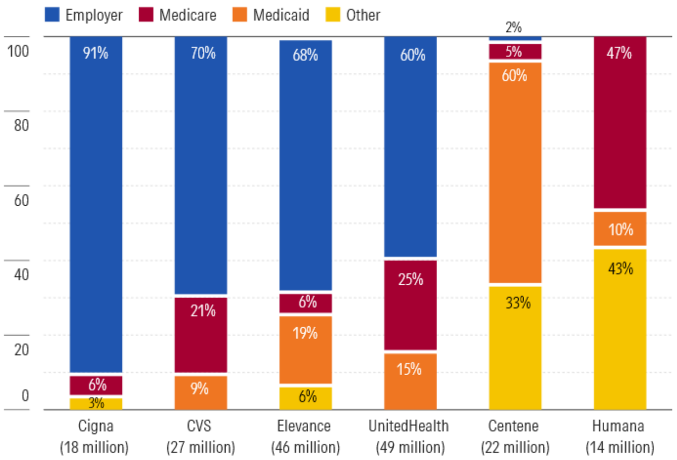


Source: Morningstar. Data as of June 30, 2025.

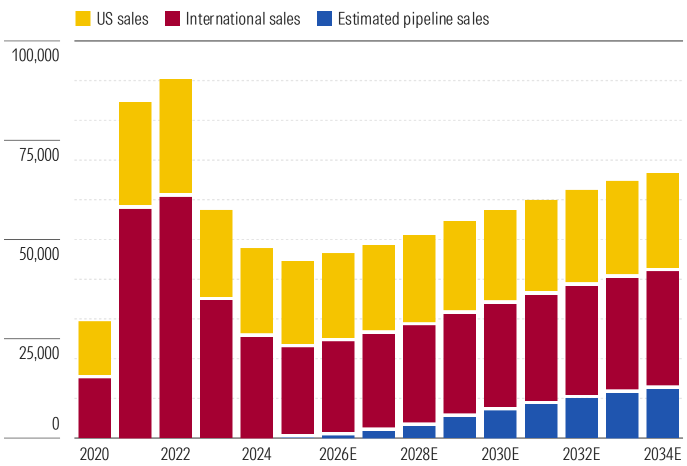
Policy Overhang Persists Amid Medicaid Funding Proposal and CDC Restructuring

Two major policy developments are in focus this quarter. First, Congress is looking to reduce federal healthcare spending primarily through cuts to Medicaid and subsidies on the individual exchanges. Such changes could pressure Medicaid and individual plan enrollment, and Centene appears most exposed. Second, the CDC's restructuring of its vaccine advisory panel has raised questions about the future of public health guidance. We still expect moderate vaccine growth supported by demand across core immunization categories.

Medical Insurance Concentration, Sorted by Employer Plan Concentration



Global Vaccine Sales Outlook Through 2034 ($ Millions)



Source: Morningstar analysis of company reports, Morningstar estimates as of June 2025.

Healthcare Top Picks

Name/Ticker		Rating	
Baxter (BAX)		★★★★★	Demand is improving in most of Baxter's medical supply businesses because of rising medical utilization and new product introductions like the Novum IQ pump platform. We think investors have been overly focused on near-term risks for Baxter, such as recent leadership changes and tariff uncertainty, while overlooking the company's improving fundamentals. With inflation-related pressures easing and favorable GPO contracts set to support pricing in 2025, we see a clear path to margin expansion. We expect near-term profit growth to be strong, stabilizing to high-single to low-double-digit rates longer term.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
30.28	55.00	High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
15.54	Narrow	Poor	
Name/Ticker		**Rating**	
Moderna (MRNA)		★★★★★	We think Moderna investors were first overly enthusiastic about the potential of the company's mRNA technology during the pandemic but have subsequently been too bearish on its postpandemic growth. While we have modest expectations for sales of the firm's covid vaccine following massive pandemic-fueled demand in 2021 and 2022, we think Moderna's pipeline of mRNA-based vaccines and treatments is advancing rapidly across multiple therapeutic areas. We're confident in the long-term sales trajectory of the firm's diversified pipeline, despite a competitive RSV vaccine market and policy headwinds clouding near-term prospects.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
27.58	85.00	Very High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
10.67	None	Standard	
Name/Ticker		**Rating**	
IQVIA (IQV)		★★★★★	IQVIA's shares have been negatively affected by macroeconomic concerns and slowing biotech funding levels. However, we view these issues as near-term headwinds and IQVIA remains a global leader in providing clinical trial services and healthcare analytics. IQVIA's backlog has continued to expand despite macroeconomic pressures, demonstrating its strength and resilience in booking new business. Further, the firm's extensive and proprietary data analytics capabilities, along with its continued re-investment in new technology, including artificial intelligence, should support durable long-term growth.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
157.59	268.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
27.26	Narrow	Standard	

Source: Morningstar. Data as of June 30, 2025.

Industrials

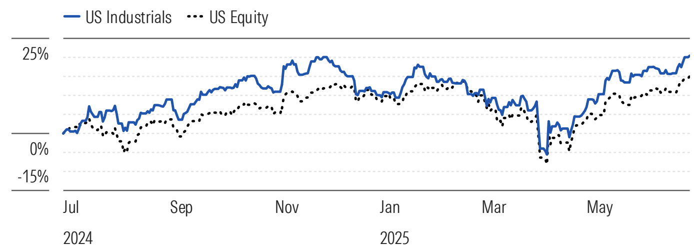
Brian Bernard, CFA, CPA | Brian.Bernard@Morningstar.com

Industrials Sector Outperformance Led by Aerospace and Defense

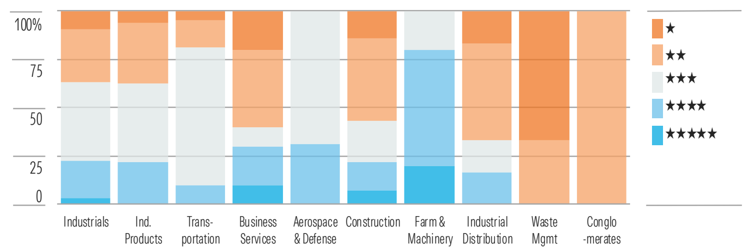
The Morningstar US Industrials Index has solidly outperformed the US Market Index this year as investors have brushed aside trade policy concerns. We believe the market has become more optimistic that Trump administration policies could revitalize the US manufacturing base, which would be a favorable development for the industrials sector. Furthermore, the US economy remains resilient, industrial production has been steady, and new orders for durable goods have trended higher, with May new orders up nearly 20% year over year, aided by a surge in commercial aircraft orders.

While the aerospace and defense industry has had the strongest stock performance this year, we still see value in the space, particularly from defense contractors, even though those stocks saw some upward price movement due to the Iran conflict. We saw that stock rally as an exaggerated reaction because, in our view, the dots between military combat and the profit of a defense contractor do not connect nearly as directly as investors seem to imagine. In the short term, munition resupply orders can contribute to sales, although these are typically small relative to total revenue. However, a drawn-out conflict could sap military budgets and divert funds to operations and logistics, away from research, development, and procurement, where defense contractors generate the bulk of their revenue. Nevertheless, we see upside for our defense coverage. Over the longer term, the Pentagon has prioritized modernization of the military's ability to counter aggression from multiple so-called great power rivals, namely China and Russia, while also managing threats from terrorism and hot spots like Iran and North Korea. We think defense procurement budgets will continue to grow with modernization, around a low-single-digit percentage over the next five years.

Industrials Index Has Solidly Outperformed the Market This Year



We See Compelling Investment Opportunities in Aerospace and Heavy Machinery

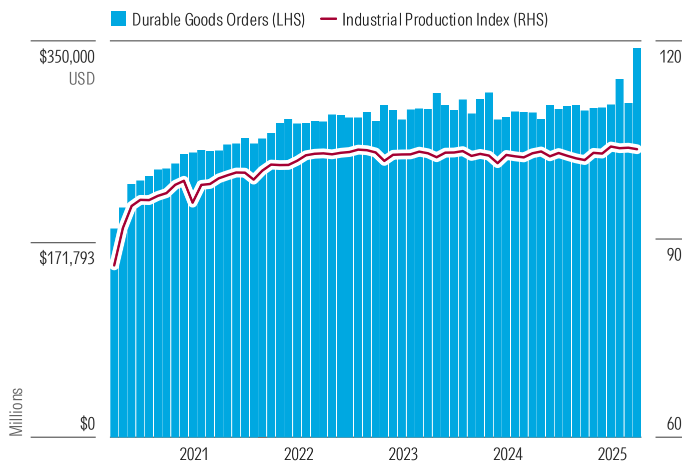


Source: Morningstar. Data as of June 30, 2025.

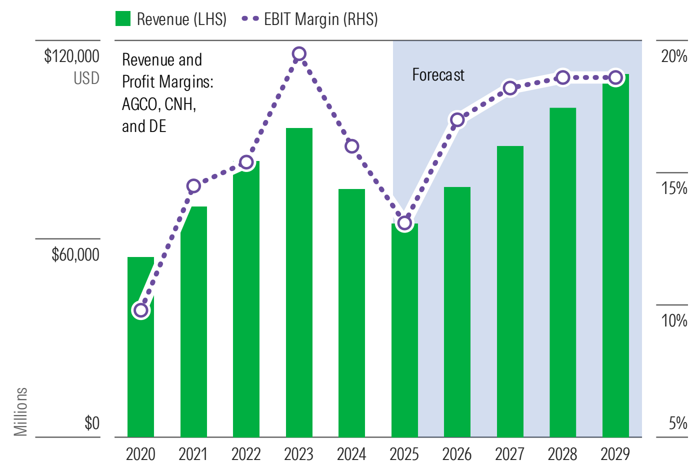
Precision Ag Technology Is a Great Example of the Earnings Growth Potential From Product Connectivity

Farming is in the early innings of "precision agriculture" technology adoption. Agricultural equipment will increasingly include digital technologies to enhance crop yields and drive other efficiencies. We expect growing market penetration of this technology will lead to structurally higher profit margins for the ag equipment industry and damp the industry's cyclicality. The North American ag market remains very challenging, but we believe 2025 will mark the trough of the cycle.

The Industrials Sector Has Benefited From Solid Manufacturing Production



Precision Ag Tech and a Market Upturn Will Drive Ag Equipment Earnings Growth



Source: US Census Bureau, Board of Governors of the Federal Reserve System, company reports, Morningstar.

Industrials Top Picks

Name/Ticker		Rating	
CNH Industrial (CNH)		★★★★★	CNH Industrial is a global manufacturer of agricultural and construction equipment. In the long run, CNH will face steady, if not increasing, demand for its solutions to help feed a growing global population. Moreover, margin-rich technology add-ons to its product portfolio will continue improving CNH's returns and through-cycle financial profile. Though the performance gap versus Deere remains wide, CNH has earned its seat at the table and will benefit from favorable, long-term dynamics in global agriculture markets.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
$12.96	$21.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
$16.19	Narrow	Standard	

Name/Ticker		Rating	
Huntington Ingalls Industries (HII)		★★★★	Huntington Ingalls is the largest independent military shipbuilder in the US and generates most of its profits from building ships for the US Navy. The major value drivers for Huntington Ingalls are nuclear-powered submarines and large surface warships. We see meaningful growth from the Columbia class submarine program: though Huntington Ingalls delivers roughly 23% of this boat, each one costs nearly $9 billion to build. We expect relatively steady long-term demand for amphibious assault ships, as Huntington Ingalls is their sole provider and there is not much room for additional capacity.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
$241.46	$316.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
$9.47	Wide	Standard	

Name/Ticker		Rating	
Fortune Brands Innovations (FBIN)		★★★★★	Fortune Brands is a competitively advantaged building products manufacturer with a portfolio of well-established brands, including Moen (plumbing fixtures), Master Lock (security), Therma-Tru (doors), and Fiberon (composite decking). We think Fortune Brands will grow faster than the US residential repair and remodel and new construction markets (weighted for the firm's exposure to these two markets), especially with its growing mix of connected products (that is, smart plumbing fixtures, leak detection devices, and home security products).
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
$51.48	$82.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
$6.19	Narrow	Standard	

Source: Morningstar. Data as of June 30, 2025.

Real Estate

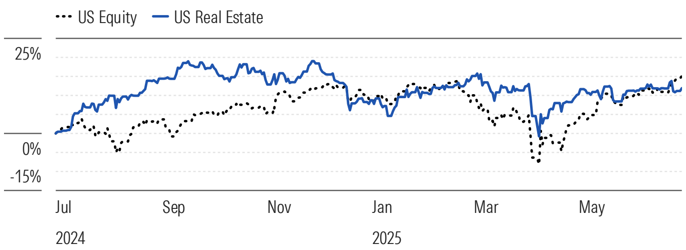
Kevin Brown, CFA | Kevin.Brown@Morningstar.com

Real Estate Sector Underperforms In Second Quarter Due to a 25-Basis-Point Rise in Interest Rates

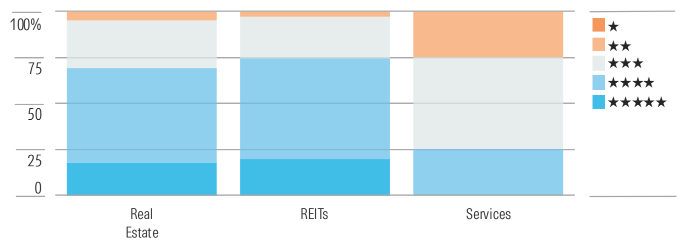
The Morningstar US Real Estate Index was up 11.9% over the trailing twelve months, slightly worse than the 15.1% gain seen by the broader U.S. equity market over the same period. Similarly, the real estate sector underperformed the broader market in the second quarter of 2025, gaining just 7.02% compared with a 22.8% gain by the wider US equities market in the same quarter. Interest-rate movements have driven the real estate sector's performance over the past year, as the sector's performance is negatively correlated with changes in interest rates. Interest rates have remained roughly flat over the past year, resulting in relative performance that is in line with the broader market during that time frame. However, rates on the 10-year US Treasury have increased by approximately 25 basis points over the past three months, driving the sector's underperformance. Same-store net operating income growth has flattened out, with an average year-over-year growth rate of around 2%, as expense growth remains slightly ahead of revenue growth in many sectors. Most companies reported results that were generally in line with our expectations on first-quarter earnings calls, and our estimates for 2025 remain typically within management's guidance for the year.

The real estate sector is currently trading below our fair value estimates. Our real estate coverage currently trades at a 15% discount to our estimate of fair value, which is better than the North American average of an approximately 4% discount. Currently, 18% of the real estate sector is trading in the 5-star range, 49% is trading in the 4-star range, 23% is trading in the 3-star range, 10% is trading in the 2-star range, while none of the real estate companies in our coverage universe are trading in the 1-star range.

Real Estate Underperforms in Second Quarter While 12-Month Performance In Line



Two-Thirds of Real Estate Sector Trading at Material Discount to Fair Value

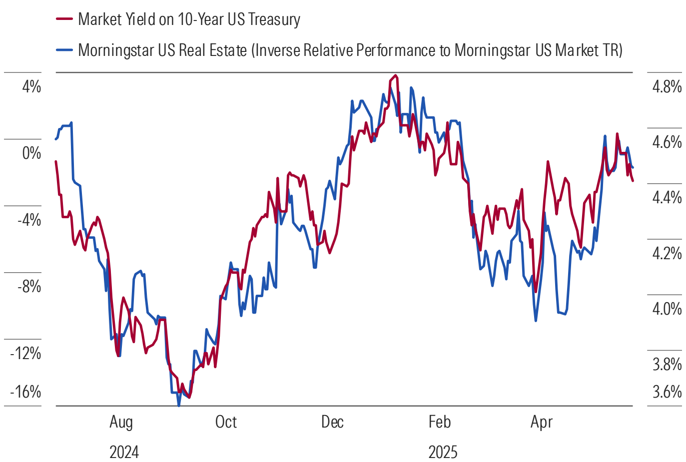


Source: Morningstar. Data as of June 30, 2025.

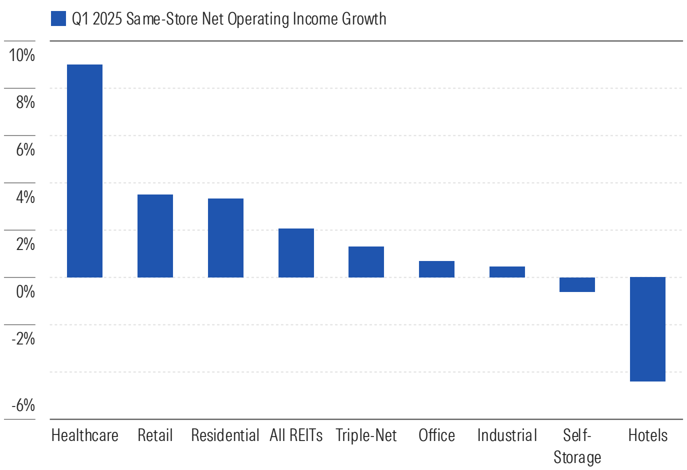
REIT Index Performance Continues to Move In Line with Interest Rates Even as NOI Decelerates

The Morningstar US Real Estate Index is up about 12% since July 2024, with the index's performance relative to the Morningstar US Market Index moving in line with changes in interest rates over that time frame. Rising interest rates in the second quarter drove real estate's underperformance compared with the broader equity market. Additionally, many REITs are reporting same-store net operating income growth below the historical average of 3%, although NOI is expected to increase slightly as expense growth decelerates.

UST Rate Movements Have Been the Driving Factor Behind REIT Performance



Same-Store NOI Grew Just 2.1% Due to Elevated Expense Growth



Source: Federal Reserve Bank of St. Louis, Morningstar Direct, PitchBook, Data as of May 30, 2025 (left chart).
Source: Company reports, Morningstar Direct. Data as of March 31, 2025 (right chart).

Real Estate Top Picks

Name/Ticker		Rating	
Kilroy Realty (KRC)		★★★★★	Kilroy Realty shares have corrected by more than 50% since the onset of the pandemic, despite the company's NOI increasing materially. We believe that the selloff has been overdone, and the market is not recognizing the value of the company's non-office-related assets and its land bank. Kilroy has a high-quality portfolio with an average building age of 11 years compared with 34 years for its office REIT peers. The company should be a primary beneficiary of the flight-to-quality trend in the office sector. Further, the company has a strong balance sheet with the lowest leverage within our office REIT coverage.
Price (USD) 34.31	**Fair Value (USD)** 59.00	**Uncertainty** High	
Market Cap (USD B) 4.06	**Economic Moat** None	**Capital Allocation** Exemplary	
Federal Realty (FRT)		★★★★★	Federal Realty's high-quality retail centers should produce higher retail sales growth than the brick-and-mortar average, keeping occupancies high and driving high re-leasing spreads. Federal Realty's portfolio has the highest average population density and per capita income among all shopping center REITs. The company's strong internal and external growth prospects should also allow Federal to continue supporting a high dividend yield. We believe the company has sold off due to 10% of rent coming from office tenants. Still, Federal's high-quality portfolio should trade at a multiple premium to the industry and its shopping center peers.
Price (USD) 94.99	**Fair Value (USD)** 142.00	**Uncertainty** Medium	
Market Cap (USD B) 8.19	**Economic Moat** None	**Capital Allocation** Exemplary	
Healthpeak Properties (DOC)		★★★★★	Healthpeak's management team strategically focused the company on the medical office and life science portfolios. These sectors should provide steady and recession-resistant revenue growth for the firm. Healthpeak's development pipeline should also produce yields above the company's cost of capital, even in a higher interest rate environment, producing additional cash-flow growth for shareholders. The company sold off due to rising interest rates, but we believe that the current market-implied cap rate undervalues Healthpeak's portfolio of stable assets.
Price (USD) 17.51	**Fair Value (USD)** 27.50	**Uncertainty** Medium	
Market Cap (USD B) 12.17	**Economic Moat** None	**Capital Allocation** Standard	

Source: Morningstar. Data as of June 30, 2025.

Technology

Dan Romanoff, CPA | Dan.Romanoff@Morningstar.com

Technology Bounces Back In the Second Quarter After a Sluggish First Quarter

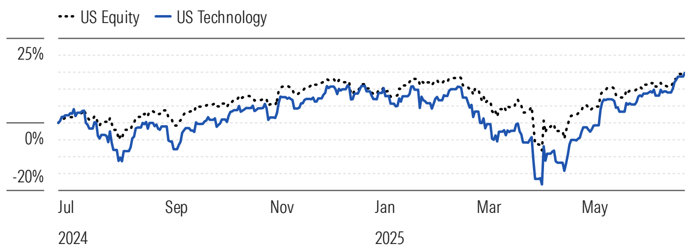
Following a strong performance throughout 2024, the technology sector experienced a collapse in the first quarter before rebounding in the second. While we recently thought the sector was undervalued overall, we now see it as nearly fairly valued. After reeling early in the quarter from tariff rhetoric and trade policy changes, tech shares generally rebounded as the quarter progressed. Results for software companies have typically remained solid, which has helped support share performance. Overall, the tech sector was the strongest in the second quarter, rebounding from a weak first quarter, when it was the second-worst-performing sector. Over the last 12 months, tech's performance has been below average, coming in just below the overall market. Our confidence in secular tailwinds, such as cloud computing, artificial intelligence, and the long-term expansion of semiconductor demand, remains unchanged. Overall, we still see targeted investment opportunities within the sector.

Generative AI remains the most prominent theme within the tech sector. Software firms are developing and incorporating next-gen AI capabilities into their solutions, while cloud providers are introducing new services and increasing capacity. Meanwhile, some semiconductor firms, such as Nvidia, are seeing surging demand for AI and data center chip applications. We see attractive value within the AI theme as being hard to find.

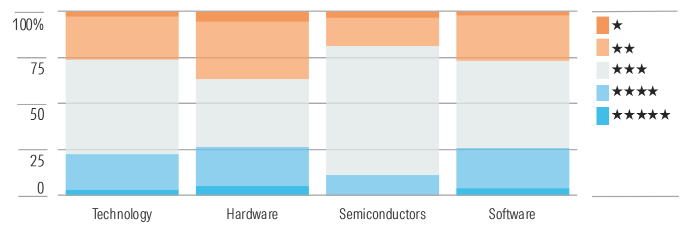
The Morningstar US Technology Index is up 14.8% on a trailing 12-month basis, compared with the US equity market up 15.1%, as shown in the top exhibit. Over the past quarter, the US equity market was up 22.9%, while tech was up 37.6%.

The median US technology stock is fairly valued, with little margin of safety. We see software, semis, and hardware each as fairly valued, with none of them skewing much in terms of being over- or undervalued, as shown in the bottom panel at the right.

Technology Kicked Off 2025 in Ugly Fashion



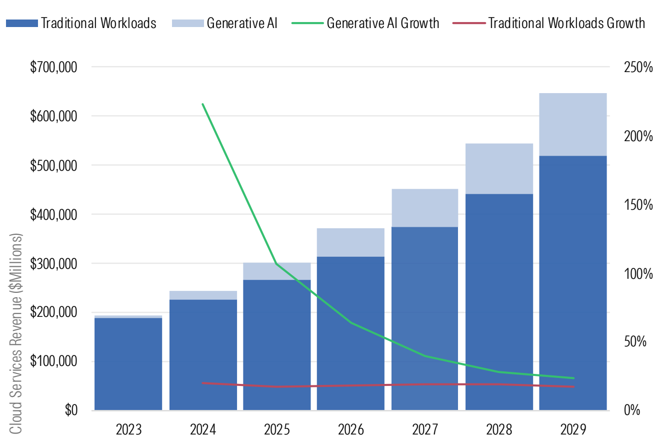
We See Increasing Investment Opportunities Throughout the Tech Sector



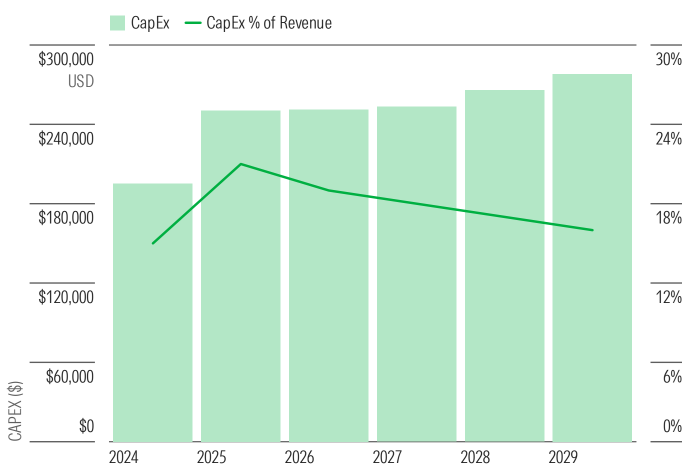
Generative AI Demand Is Driving a Surge in Capital Expenditures by the Cloud Service Providers

We believe that generative AI will support revenue growth across the tech sector over the next five years as consumption shifts from pilot programs to broader adoption. Growth has indeed been explosive for the public cloud vendors (Microsoft's Azure, Amazon's AWS, and Alphabet's Google Cloud Platform). We anticipate that the largest generative-AI use cases over the next several years will be in the customer service and software development areas. The cloud service providers have clearly invested ahead of growth but continue to butt up against capacity constraints every quarter. We therefore think that cloud provider capital expenditure levels will plateau but remain elevated at stepped-up levels going forward.

We See Rapid Adoption of Gen AI Occurring Already



AI Services Drove Surging Capex by Cloud Providers in 2024 and 2025



Source: Morningstar, Gartner. Data as of February 2025.

Technology Top Picks

Name/Ticker		Rating	
NXP Semiconductors (NXPI)		★★★★	Wide-moat NXP Semiconductors is one of our top picks in the analog and mixed-signal chip space. As automotive and industrial demand improves from cyclical and tariff softness, we anticipate that NXP will benefit from a recovery, and we're starting to see early optimism of such a recovery in the near-term We're especially fond of NXP's outsize exposure to the automotive end market, where it obtains nearly 50% of its revenue. NXP is well-diversified in the automotive sector, offering a diverse product portfolio of processors, microcontrollers, and analog components. We believe the firm will also gain market share in electrification and safety automotive products, including radar and battery management systems. Overall, NXP's auto business is well tied to the secular tailwinds around rising chip content per vehicle.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
218.49	280.00	High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
55.19	Wide	Standard	
Name/Ticker		**Rating**	
Atlassian (TEAM)		★★★★	Atlassian is a leading provider of project management and collaboration solutions for software developers and continues to do well with expansion into service management. The company is emerging from a model transition to be primarily cloud-based, which was inevitable and leaves the company better ablet to innovate and compete with larger peers. Atlassian's broad portfolio helps establish a large client base across clients of all sizes and gives the firm an opportunity to integrate AI throughout its burgeoning portfolio. The company is also investing in a salesforce to have more of a direct presence, which should further support topline growth efforts.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
203.09	250.00	High	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
53.30	Narrow	Standard	
Name/Ticker		**Rating**	
Microsoft (MSFT)		★★★	Microsoft is one of our top picks in the technology sector. The company dominates several markets, such as with Office in productivity software and Windows for PC operating systems, while establishing itself as one of two leaders in public cloud. We think the proliferation of hybrid cloud environments will continue to strengthen Microsoft's position with Azure. Furthermore, an investment in OpenAI has propelled Microsoft into a leadership position in generative AI, driving acceleration in Azure growth over recent quarters. Our growth estimates are centered around Azure, Microsoft 365 E5 migration, traction with the Power Platform for long-term value creation, and proliferation of AI.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
497.41	505.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
3,697.00	Wide	Exemplary	

Source: Morningstar. Data as of June 30, 2025.

Utilities

Travis Miller | Travis.Miller@Morningstar.com

Andrew Bischof, CFA, CPA | Andrew.Bischof@Morningstar.com

Utilities Stocks Still Climbing From Late 2023 Bottom

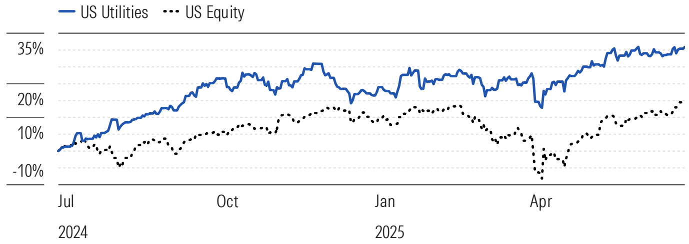
Nothing seems to stop US utilities stocks from delivering impressive returns recently. After utilities jumped 26% in 2024, including dividends, the sector has climbed another 12% through the first half of 2025. In total, utilities are up 60% from their low point in October 2023, outperforming the Morningstar US Market Index by more than 15 percentage points. If these returns hold through this summer, it would mark the sector's best two-year relative performance since 2008.

What is most remarkable about this rally is that it hasn't coincided with significant moves in interest rates and inflation, which typically influence utilities' stock returns more than those of most other sectors. Utilities stocks have continued to climb despite 10-year US Treasury yields remaining above 4% and inflation staying above 3%.

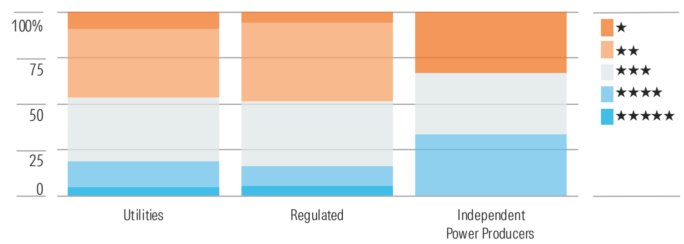
We think the utilities rally and historically high valuations reflect a step up in the market's earnings growth expectations. Utilities should benefit from secular trends such as clean energy growth, data center energy demand, manufacturing onshoring, and economywide electrification. Most utilities are planning for the most energy demand growth and capital investment over several generations. We expect earnings to grow at least 5% annually for most utilities through 2030.

However, investors have become too enthusiastic. Utilities rarely have outperformed the market for this long. We consider the sector 7% overvalued as of late June. Despite the sector's strong fundamentals and growth opportunities, we think investors should prepare for lower returns ahead.

US Utilities Stock Rally Has Continued Through the First Half of 2025



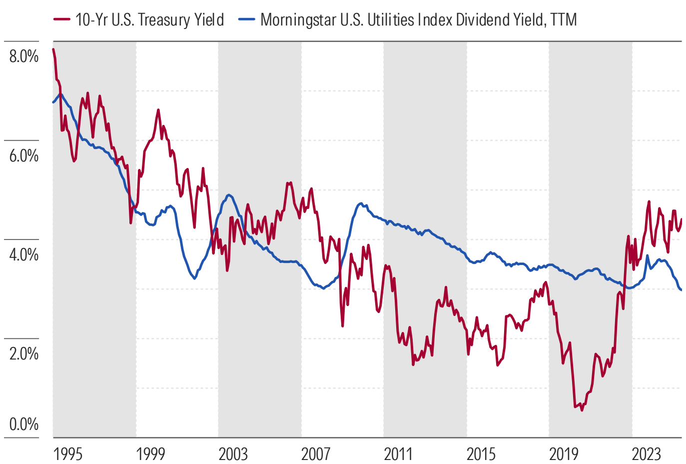
Market's Lofty Growth Expectations Have Inflated Many Utilities' Valuations



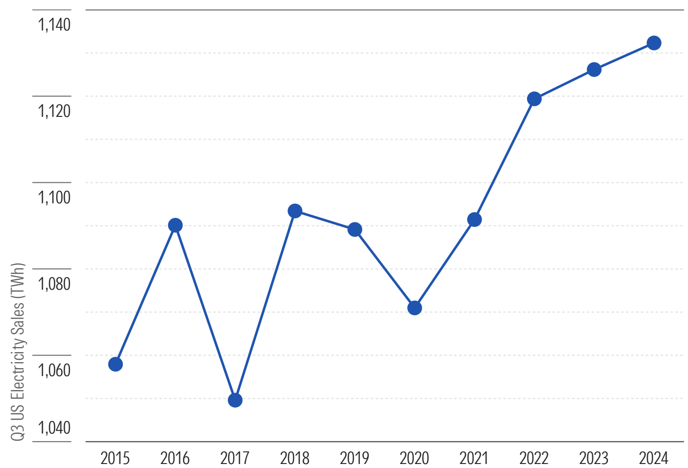
Utilities Investors Willing To Take Lower Yields, Anticipating Higher Growth

Long considered defensive stocks with high dividend yields, utilities have gained recent interest from investors, who are now more focused on earnings growth than dividend yields. Electricity demand this summer is set to hit a fourth consecutive record. Utilities are investing heavily to ensure they can meet growing demand with a cleaner, safer, and more reliable energy supply. If utilities can keep customer costs low and work with regulators, we expect they will be able to deliver the earnings growth that the market is anticipating.

Utilities' Dividend Yields Rarely This Low Relative to Interest Rates



US Electricity Demand Could Reach Record High This Summer



Source: Morningstar, U.S. Federal Reserve, US Energy Information Administration, Data as of June 24, 2025.

US Utilities Top Picks

Name/Ticker		Rating	
Eversource Energy (ES)		★★★★	Eversource will miss out on most of the data center growth excitement but has plenty of investment opportunities in transmission and distribution to support at least 6% annual earnings growth, at least through 2028. Eversource has largely eliminated its offshore wind exposure and is expected to derive all its earnings from its rate-regulated utilities by 2025. We think Eversource can offset regulatory challenges in Connecticut by adding projects in Massachusetts, where regulation is more constructive. A turnaround in Connecticut offers earnings and valuation upside. Eversource's balance sheet leverage should be back to normal range by the end of this year.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
63.62	73.00	Low	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
23.30	None	Standard	
Name/Ticker		**Rating**	
Duke Energy (DUK)		★★★	Duke has a clear pathway to achieving management's 5%-7% annual earnings growth target supported by the company's regulated subsidiaries. Duke's $83 billion capital investment plan for 2025-29 is focused on clean energy, grid infrastructure upgrades, and supporting load growth. We don't think the market appreciates the upside to Duke's capital plan and additional electricity demand growth from data centers. In North Carolina, Duke's most important jurisdiction, regulation has improved significantly due to recently passed legislation.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
118	117.00	Low	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
91.70	Narrow	Standard	
Name/Ticker		**Rating**	
Edison International (EIX)		★★★★★	Edison's stock is down $30 per share, or $11.6 billion of market value, since the January fires. We think Edison will qualify for California's AB 1054 Wildfire Fund, which should eliminate nearly all shareholder losses. We estimate an AB 1054 worst-case scenario is $4.4 billion of losses, or $8 per share after tax. Widespread electrification to meet California's 2045 carbon-neutral target is a huge growth opportunity. Edison is set to invest more than $7 billion annually over the next four years, supporting an average annual earnings growth of 7%, which is at the high end of management's 5%-7% target.
Price (USD)	**Fair Value (USD)**	**Uncertainty**	
51.60	80.00	Medium	
Market Cap (USD B)	**Economic Moat**	**Capital Allocation**	
19.40	Narrow	Standard	

Source: Morningstar. Data as of June 30, 2025.

General Disclosure
"Morningstar" is used throughout this section to refer to Morningstar, Inc., and/or its affiliates, as applicable. Unless otherwise provided in a separate agreement, recipients of this report may only use it in the country in which the Morningstar distributor is based. Unless stated otherwise, the original distributor of the report is Morningstar Research Services LLC, a USA-domiciled financial institution.

This report is for informational purposes only, should not be the sole piece of information used in making an investment decision, and has no regard to the specific investment objectives, financial situation, or particular needs of any specific recipient. This publication is intended to provide information to assist investors in making their own investment decisions, not to provide investment advice to any specific investor. Therefore, investments discussed and recommendations made herein may not be suitable for all investors; recipients must exercise their own independent judgment as to the suitability of such investments and recommendations in the light of their own investment objectives, experience, taxation status, and financial position.

The information, data, analyses, and opinions presented herein are not warranted to be accurate, correct, complete, or timely. Unless otherwise provided in a separate agreement, neither Morningstar, Inc., nor the Equity Research Group represents that the report contents meet all of the presentation and/or disclosure standards applicable in the jurisdiction the recipient is located.

Except as otherwise required by law or provided for in a separate agreement, the analyst, Morningstar, Inc., and the Equity Research Group and their officers, directors, and employees shall not be responsible or liable for any trading decisions, damages, or other losses resulting from, or related to, the information, data, analyses, or opinions within the report. The Equity Research Group encourages recipients of this report to read all relevant issue documents—a prospectus, for example) pertaining to the security concerned, including without limitation, information relevant to its investment objectives, risks, and costs before making an investment decision and when deemed necessary, to seek the advice of a legal, tax, and/or accounting professional.

The report and its contents are not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability, or use would be contrary to law or regulation or that would subject Morningstar, Inc., or its affiliates to any registration or licensing requirements in such jurisdiction.

Where this report is made available in a language other than English and in the case of inconsistencies between the English and translated versions of the report, the English version will control and supersede any ambiguities associated with any part or section of a report that has been issued in a foreign language. Neither the analyst, Morningstar, Inc., nor the Equity Research Group guarantees the accuracy of the translations.

This report may be distributed in certain localities, countries, and/or jurisdictions ("territories") by independent third parties or independent intermediaries and/or distributors ("distributors"). Such distributors are not acting as agents or representatives of the analyst, Morningstar, Inc., or the Equity Research Group. In territories where a distributor distributes our report, the distributor is solely responsible for complying with all applicable regulations, laws, rules, circulars, codes, and guidelines established by local and/or regional regulatory bodies, including laws in connection with the distribution of third-party research reports.

Risk Warning
Please note that investments in securities are subject to market and other risks, and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not continue in the future and is no indication of future performance. A security investment's return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost.

A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating is a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Conflicts of Interest
- No interests are held by the analyst with respect to the securities subject of this investment research report.
- Morningstar, Inc., may hold a long position in the securities subject of this investment research report that exceeds 0.5% of the total issued share capital of the security. To determine if such is the case, see https://www.morningstar.com/company/disclosures/holdings.
- Analysts' compensation is derived from Morningstar, Inc.'s overall earnings and consists of salary, bonus, and in some cases restricted stock.
- Morningstar's overall earnings are generated in part by the activities of the Investment Management and Research groups, and other affiliates, that provide services to product issuers.
- Neither Morningstar, Inc., nor the Equity Research Group receives commissions, compensation, or other material benefits in connection with providing research, nor do they charge companies to be rated.
- Morningstar employees may not pursue business or employment opportunities outside Morningstar within the investment industry (including, but not limited to, working as a financial planner, an investment professional or investment professional representative, a broker/dealer or broker/dealer agent, a financial writer, reporter, or analyst) without the approval of Morningstar's Legal and if applicable, Compliance teams.
- Neither Morningstar, Inc., nor the Equity Research Group is a market maker or a liquidity provider of the securities noted within this report.
- Neither Morningstar, Inc., nor the Equity Research Group has been a lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of financial instruments of the issuer.
- Morningstar, Inc.'s Investment Management group has arrangements with financial institutions to provide portfolio management/investment advice, some of which an analyst may issue investment research reports on. In addition, the Investment Management group creates and maintains model portfolios whose underlying holdings can include financial products, including securities that may be the subject of this report. However, analysts do not have authority over Morningstar's Investment Management group's business arrangements or allow employees from the Investment Management group to participate or influence the analysis or opinion prepared by them.
- Morningstar, Inc., is a publicly traded company (ticker: MORN) and thus a financial institution the security of which is the subject of this report may own more than 5% of Morningstar, Inc.'s total outstanding shares. Please access Morningstar, Inc.'s proxy statement, "Security Ownership of Certain Beneficial Owners and Management" section at https://shareholders.morningstar.com/investor-relations/financials/sec-filings/default.aspx.

Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arm's-length basis, including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship, and website advertising. Further information on Morningstar's conflict-of-interest policies is at http://global.morningstar.com/equitydisclosures.

For a list of securities the Equity Research Group currently covers and provides written analysis on, or for historical analysis of covered securities, including fair value estimates, please contact your local Morningstar office.

For Recipients in Australia: This report has been issued and distributed in Australia by Morningstar Australasia Pty. Ltd. (ABN: 95 090 665 544; ASFL: 240892). Morningstar Australasia Pty. Ltd. is the provider of the general advice ("the service") and takes responsibility for the production of this report. The service is provided through the research of investment products. To the extent the report contains general advice, it has been prepared without reference to an investor's objectives, financial situation, or needs. Investors should consider the advice in light of these matters and, if applicable, the relevant Product Disclosure Statement before making any decision to invest. Refer to our Financial Services Guide, or FSG, for more information at http://www.morningstar.com.au/s/fsg.pdf.

For Recipients in New Zealand: This report has been issued and distributed by Morningstar Australasia Pty Ltd and/or Morningstar Research Ltd (together 'Morningstar'). This report has been prepared and is intended for distribution in New Zealand to wholesale clients only and has not been prepared for use by New Zealand retail clients (as those terms are defined in the Financial Markets Conduct Act 2013).

The information, views and any recommendations in this material are provided for general information purposes only, and solely relate to the companies and investment opportunities specified within. Our reports do not take into account any particular investor's financial situation, objectives or appetite for risk, meaning no representation may be implied as to the suitability of any financial product mentioned for any particular investor. We recommend seeking financial advice before making any investment decision.

General Disclosure Continued

For recipients in India: This investment research is issued by Morningstar Investment Research India Private Limited (formerly known as Morningstar Investment Adviser India Private Limited). Morningstar Investment Research India Private Limited is registered with SEBI as a Research Entity (registration number INH000008686). Morningstar Investment Research India Private Limited has not been the subject of any disciplinary action by SEBI or any other legal/regulatory body. Morningstar Investment Research India Private Limited is a wholly owned subsidiary of Morningstar Investment Management LLC. In India, Morningstar Investment Research India Private Limited has one associate, Morningstar India Private Limited, which provides data-related services, financial data analysis, and software development. The research analyst has not served as an officer, director, or employee of the fund company within the last 12 months, nor have they or their associates engaged in market-making activity for the fund company.

For recipients in Japan: This report is distributed by Morningstar Japan, Inc. for informational purposes only. Neither Morningstar Japan, Inc. nor its representatives are acting or will be deemed to be acting as an investment advisor to any recipients of this information.

For recipients in Korea: This report is distributed by Morningstar Korea Ltd., which has filed to the Financial Services Committee, for informational purposes only. Neither Morningstar Korea Ltd. nor its representatives are acting or will be deemed to be acting as an investment advisor to any recipients of this information.

For recipients in Singapore: This report is distributed by Morningstar Investment Adviser Singapore Pte Limited, which is licensed and regulated by the Monetary Authority of Singapore to provide financial advisory services in Singapore. Recipients of this report should contact their financial advisor in Singapore in relation to this report. Morningstar, Inc., and its affiliates rely on certain exemptions (Financial Advisers Regulations, Section 28(1)(e), Section 32B and 32C) to provide its investment research to recipients in Singapore.

22 West Washington Street
Chicago, IL 60602 USA

About Morningstar® Equity Research™
Morningstar Equity Research provides independent, fundamental equity research differentiated by a consistent focus on durable competitive advantages, or economic moats.