# 2H25 Outlook: The Summer of Mudd

Chief Investment Office

June 25, 2025

Data as of: December 9, 2024

# Our 2025 Outlook Summary

## 2025 Outlook: Great Expectations

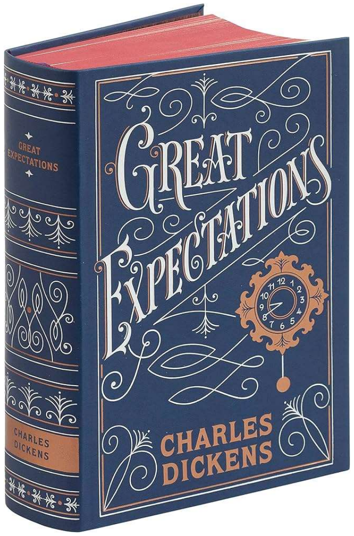
We are not calling for a recession in 2025 (yet).

We do not expect the Fed to cut as much as they previously expected.

We see fiscal and policy challenges as key wild cards for 2025.

We see risk assets in a wide/choppy range.

We find uncorrelated return streams interesting with this backdrop.




## 2Q25 Outlook: The Space Between

Tariffs put us in “the space between” the shock of trade headlines on sentiment/soft data and the eventual impact of tariffs on hard data.

Markets driven by swings in positioning and sentiment, noting washed out sentiment and very light institutional positioning

Expect that hard data will weaken eventually.

Operating margins key watch item.

# 3Q25/2H25 Outlook: The Summer of Mudd

**We see a "muddle through" growth environment for the U.S. economy, with growth slowing and some moderate easing in the labor market. We do not expect a recession in 2025.**

**We expect an uplift in goods inflation but expect continued moderation in services inflation.**

**We see little policy clarity, "kicking the can" with delays in tariff "deals", limited net impact from fiscal, and a patient Fed.**

**For bonds, we flag continued risk of a "zoo steepener", with long end yields' reaction to policy and data an important watch item.**

**For equities, we see light positioning and lower, yet stable growth as a key source of a drift higher but note stretched valuations as potential headwind.**

**We continue to find uncorrelated and idiosyncratic return streams attractive in this lower return, higher volatility environment.**

## Today's Agenda: Tackling the Big Questions

**Will the U.S. experience a weaker economy in 2H25?**

**Will inflation come back to bite us?**

**Will bonds be a hedge against weaker growth?**

**What will be the next catalyst for global equities and what will leadership look like in the 2H?**

**So what? Opportunities outside of 60/40.**

## Question 1: U.S. Growth and Labor Markets

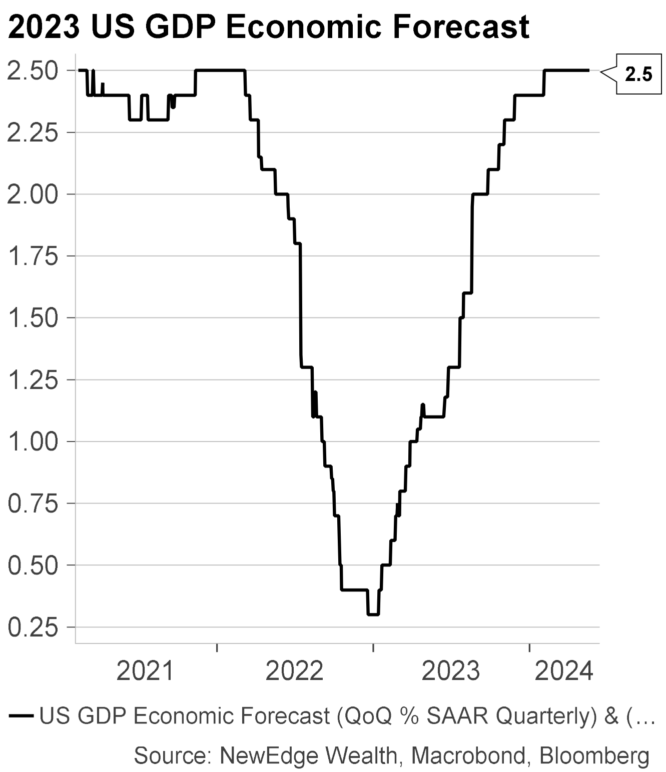
**Are we expecting a weaker U.S. economy in H2?**

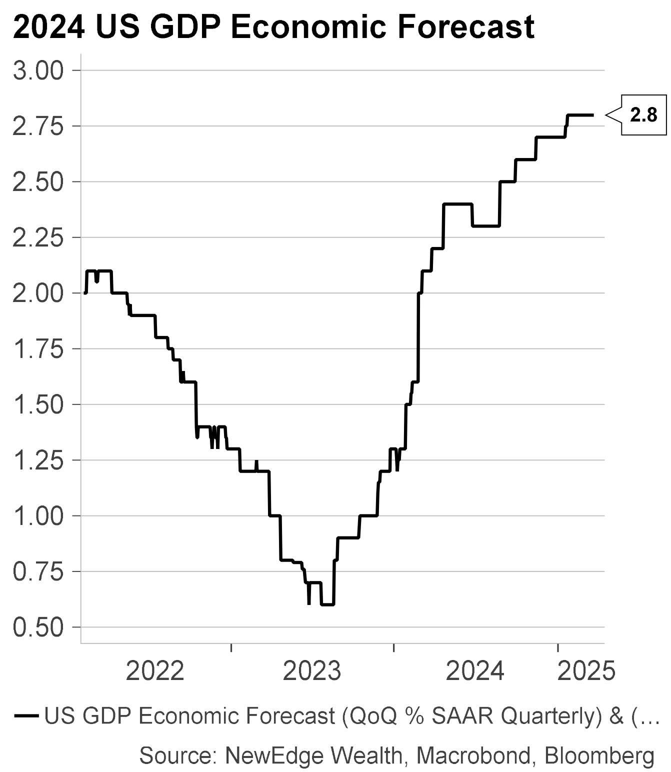
# Economic Data Has Been Surprisingly Bad in Q2

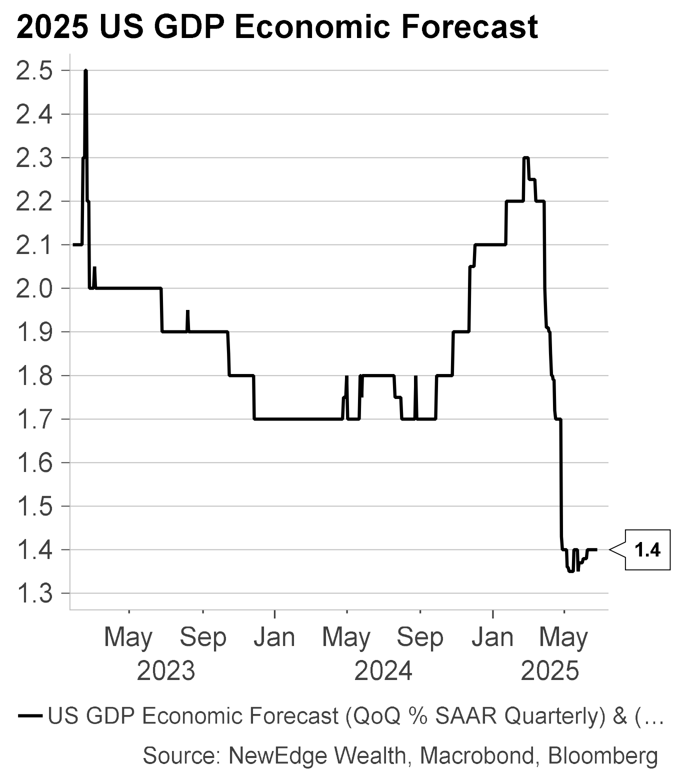
**U.S. Economic Data Surprises**


Source: NewEdge Wealth, Macrobond, Bloomberg

# 2025 Growth Estimates Have Come Down, a Stark Contrast to 2023 & 2024



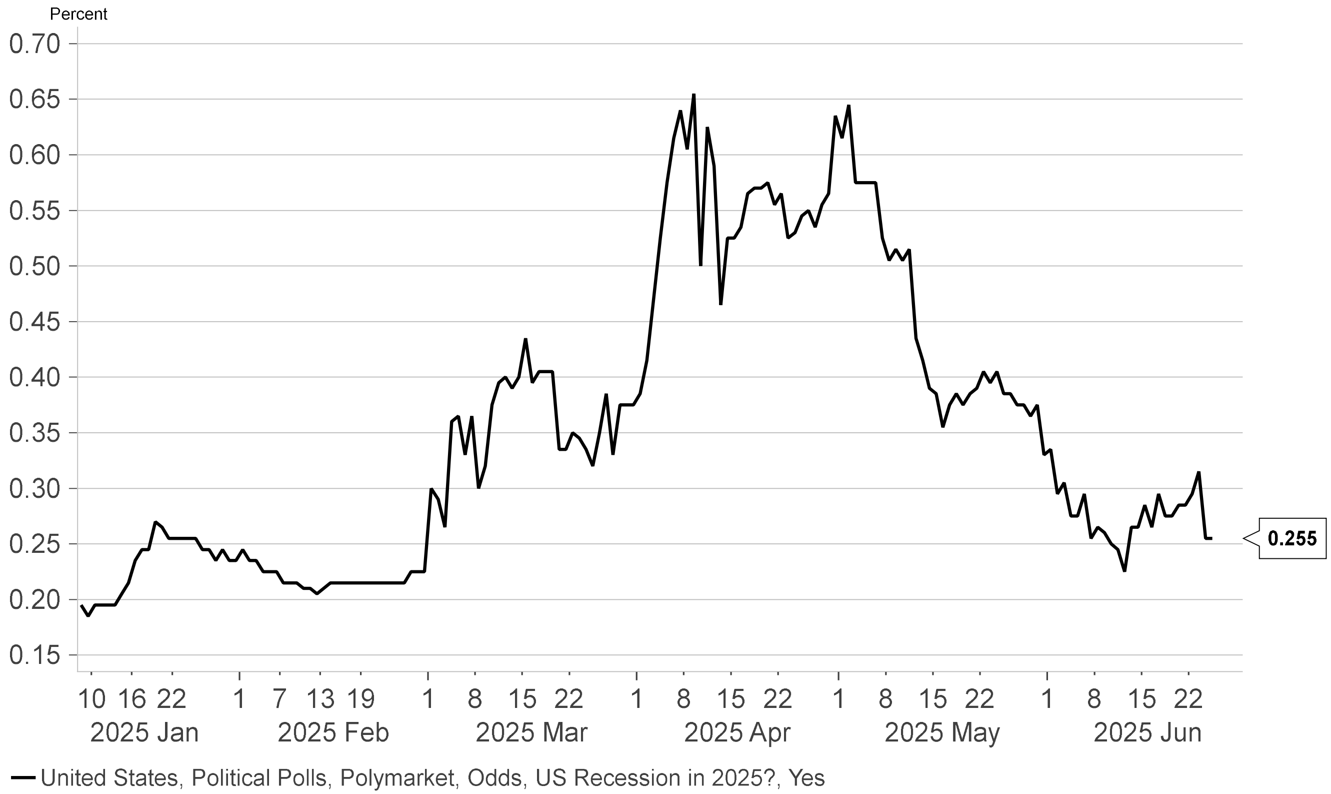




NewEdge WEALTH Data as of: June 25, 2025

# But Market-Based Recession Odds Are Close to Their Lowest Since February

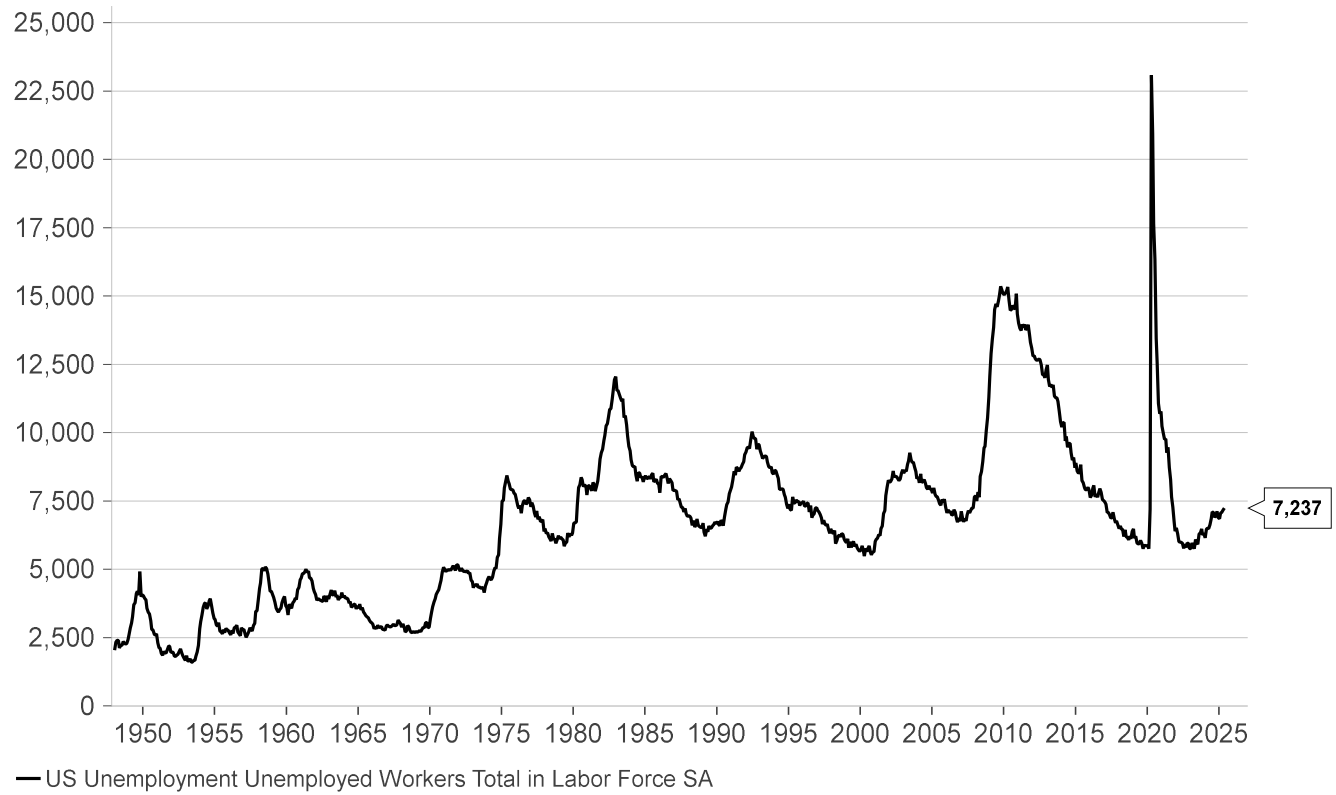
**Polymarket 2025 U.S. Recession Odds**




Source: NewEdge Wealth, Macrobond, Bloomberg Polymarket, S&P Global

# Unemployment is Rising...But At a Historically Slow Rate

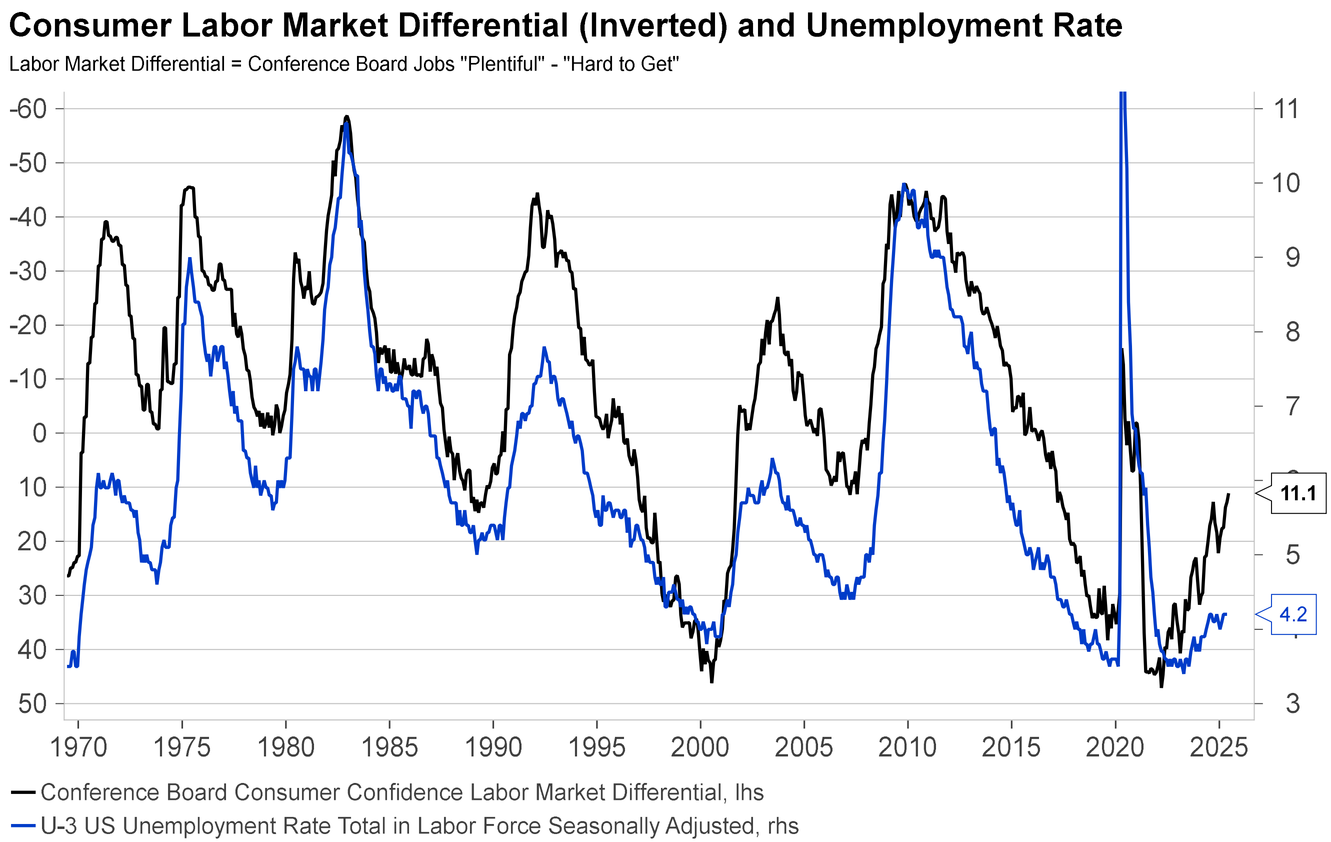
**Unemployed Workers in the U.S. Labor Force**




Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: June 25, 2025

# Consumers Are Downgrading Their Labor Market Assessments

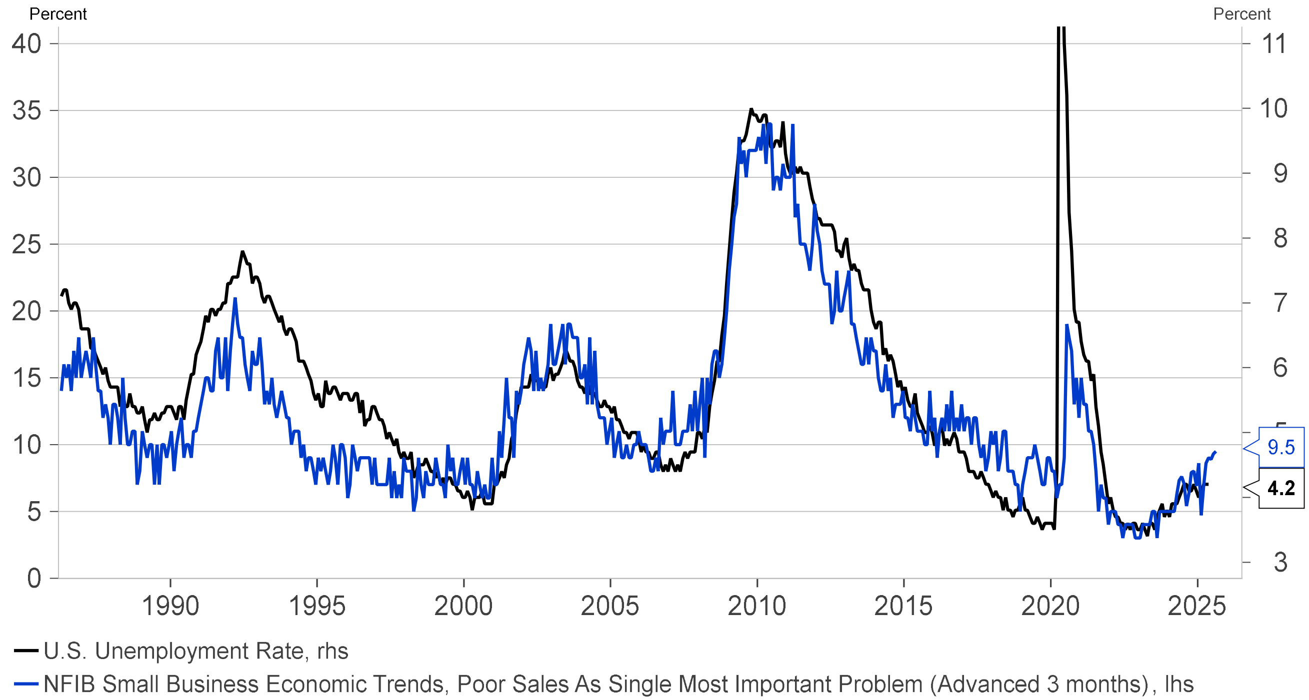



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: June 25, 2025

# Weaker Small Business Sales Point to a Higher Unemployment Rate

**Small Businesses With Poor Sales Usually Means Weaker Jobs Market Ahead**



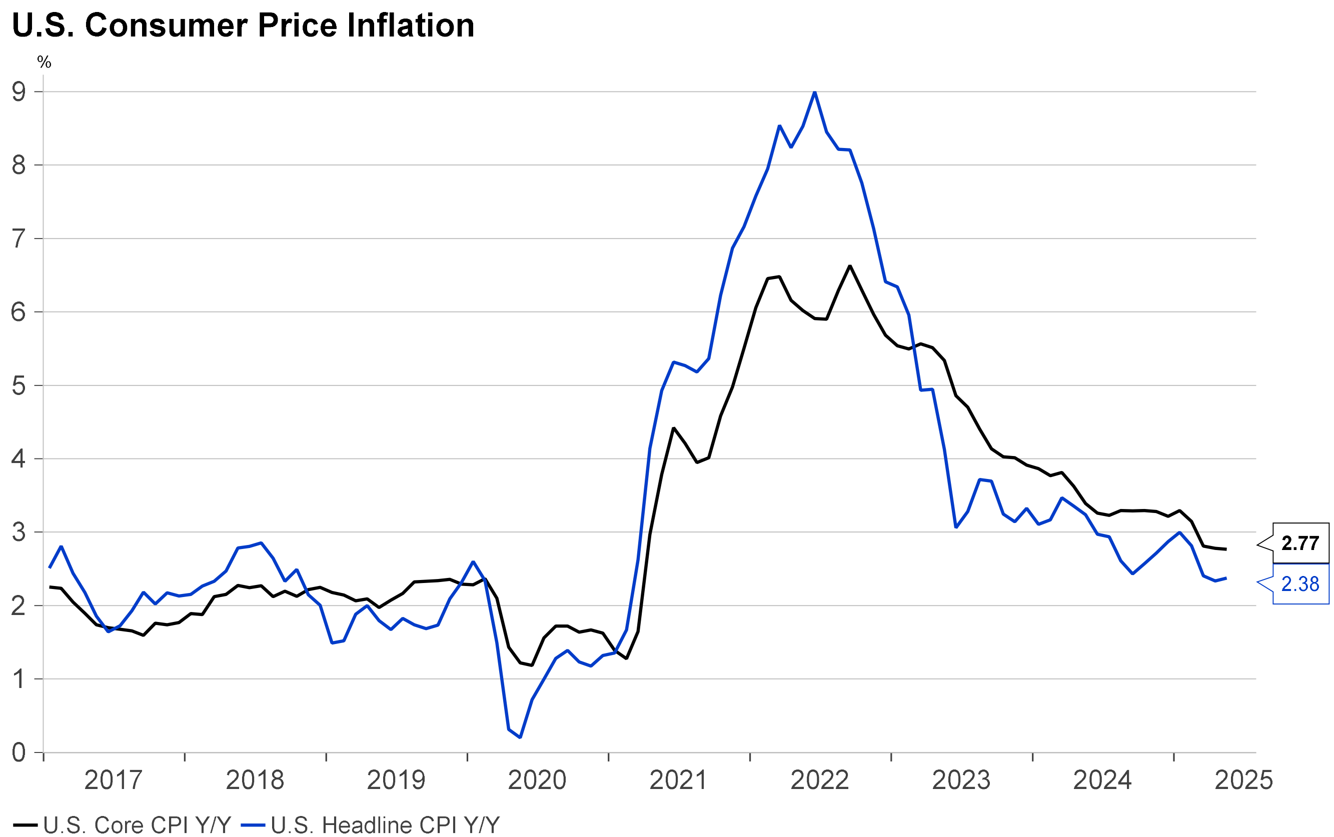

Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Labor Statistics (BLS), National Federation of Independent Business

NewEdge WEALTH Data as of: June 25, 2025

## Question 2: Inflation

**Will inflation come back to bite us?**

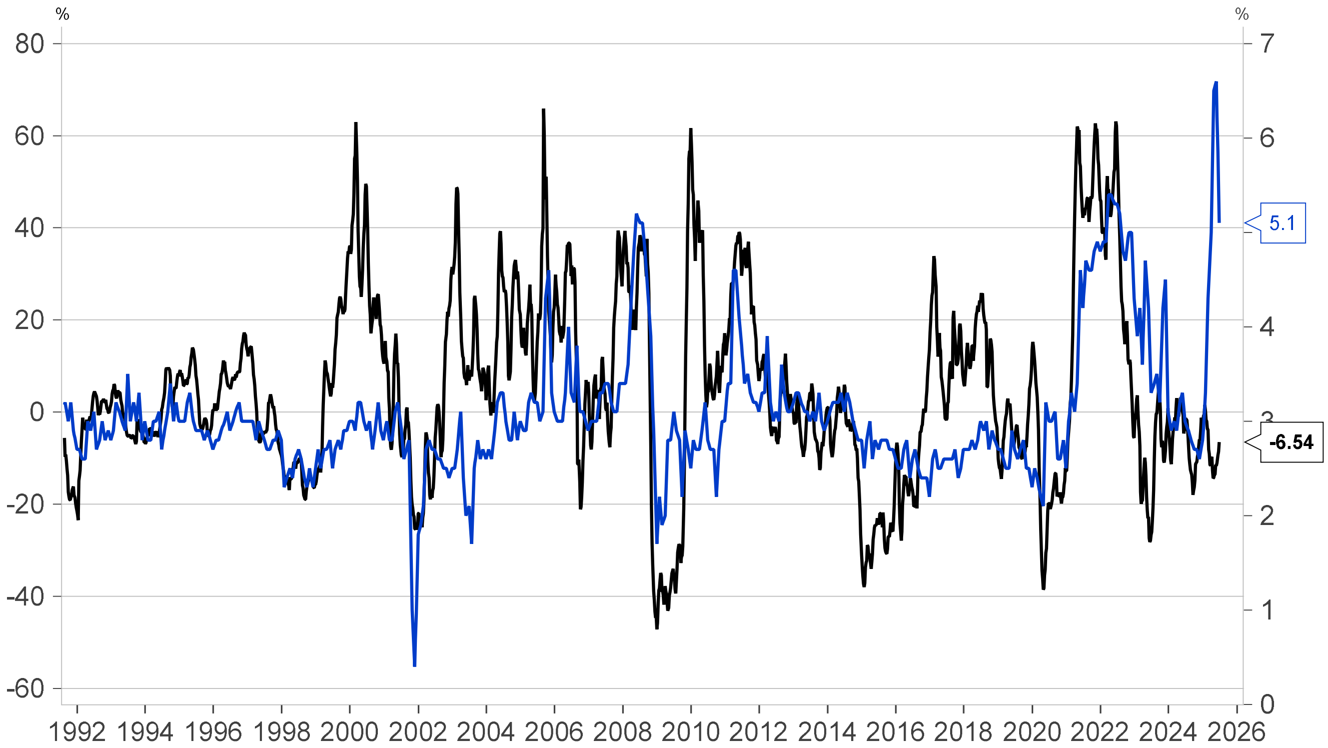
# Inflation Was in the "Last Mile" Down to Target as of May




Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Labor Statistics (BLS)

# But Consumers Expect a LOT More Inflation in the Next Year

**Consumer Inflation Expectations Have Always Been About Gasoline Prices...Until...**

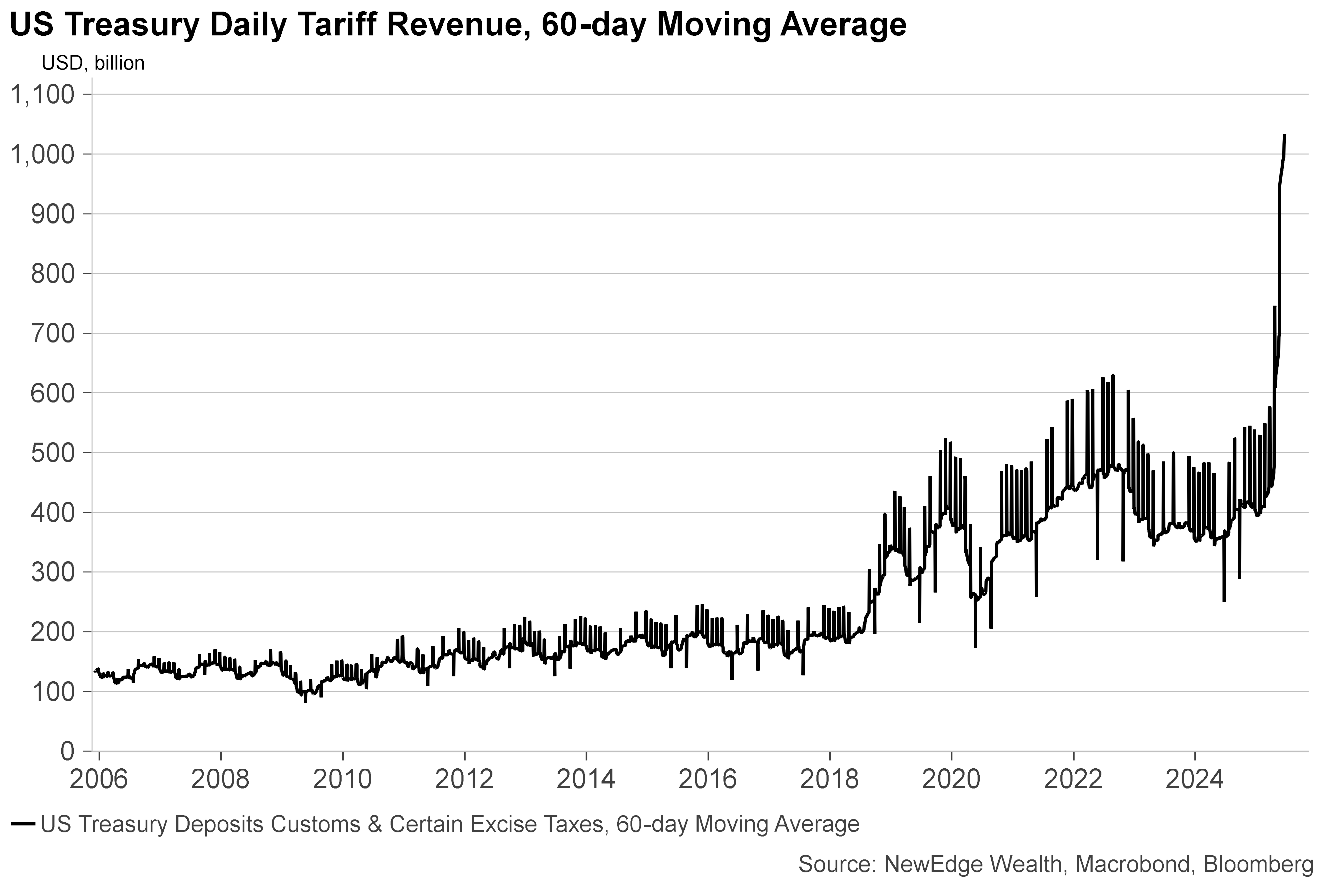



— Gasoline, Y/Y, lhs — University of Michigan Consumer Sentiment, 1-Year Expected Change in Inflation Rates, rhs

Source: NewEdge Wealth, Macrobond, Bloomberg Energy Information Administration (EIA), University of Michigan

Data as of: June 25, 2025

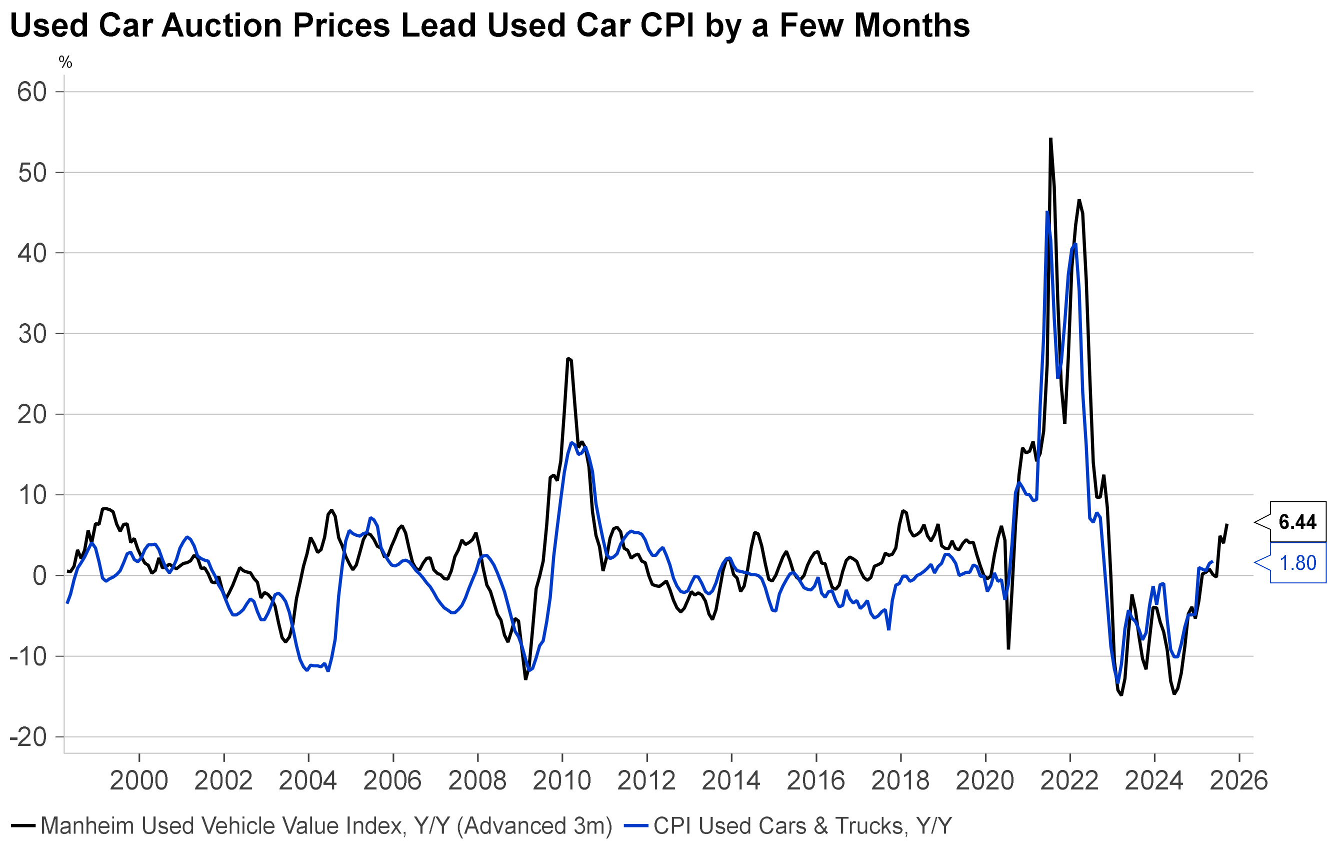
# Why Are Consumers Worried About Inflation? Look at Tariff Revenue…




NewEdge Wealth

Data as of: June 25, 2025

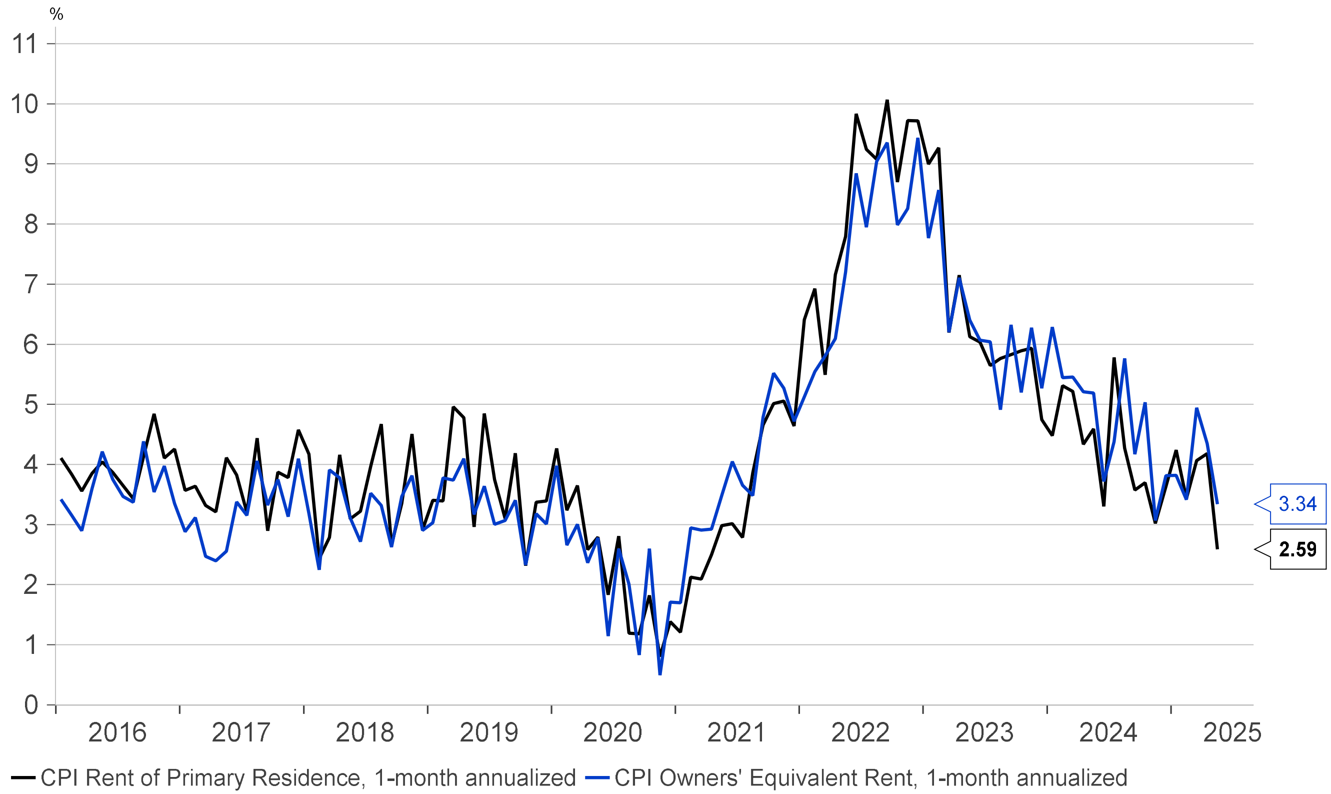
# Where We Expect to See More Inflation: Cars and Other Durable Goods




Source: NewEdge Wealth, Macrobond, Bloomberg Manheim Consulting, U.S. Bureau of Labor Statistics (BLS)

# Where We Expect to See Less Inflation: Shelter and Other Core Services

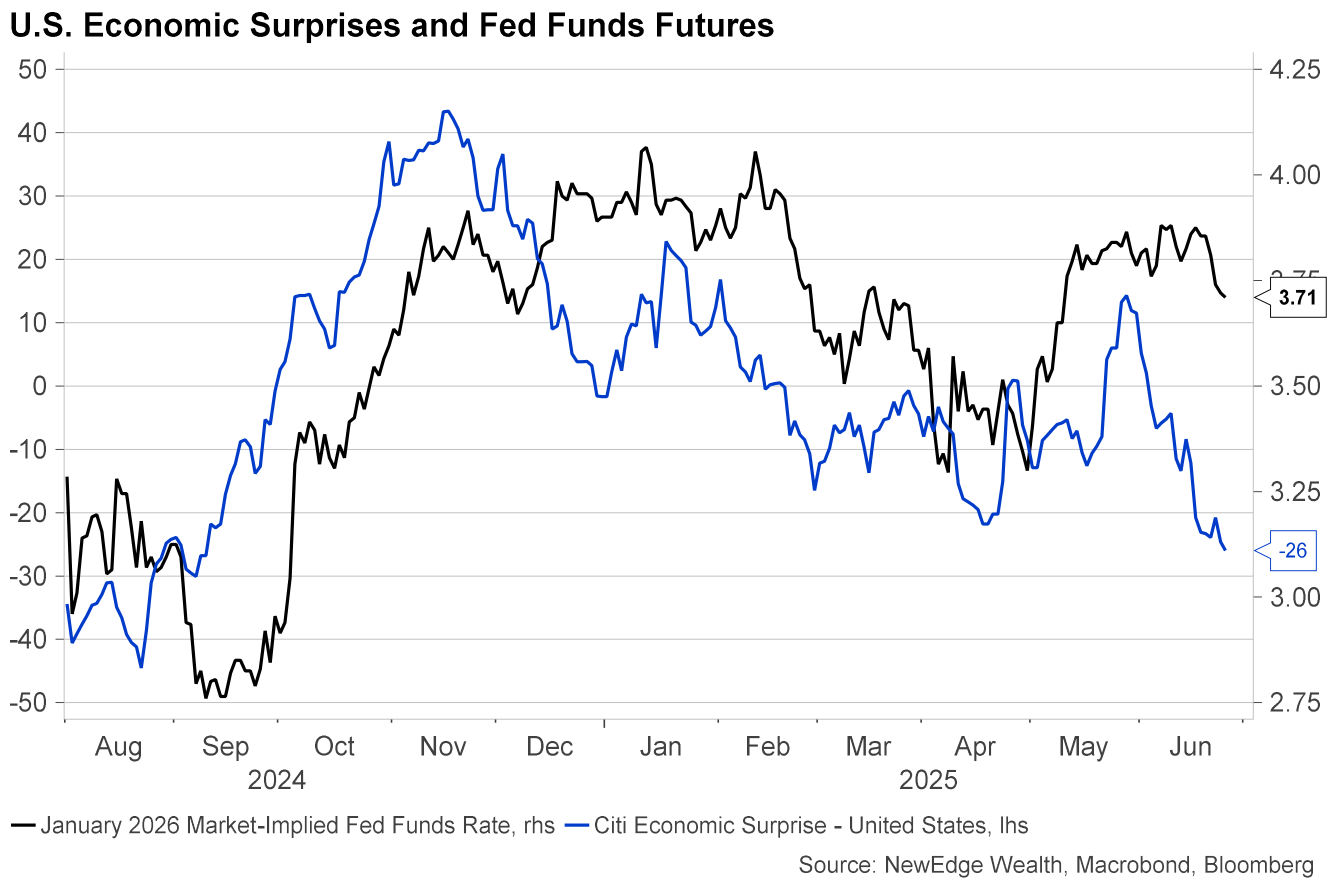
**Annualized 1-month CPI Rent and OER Inflation**




Source: NewEdge Wealth, Macrobond, Bloomberg U.S. Bureau of Labor Statistics (BLS)

Data as of: June 25, 2025

# Inflation Concerns Are Keeping the Fed on the Sideline Despite Weaker Growth

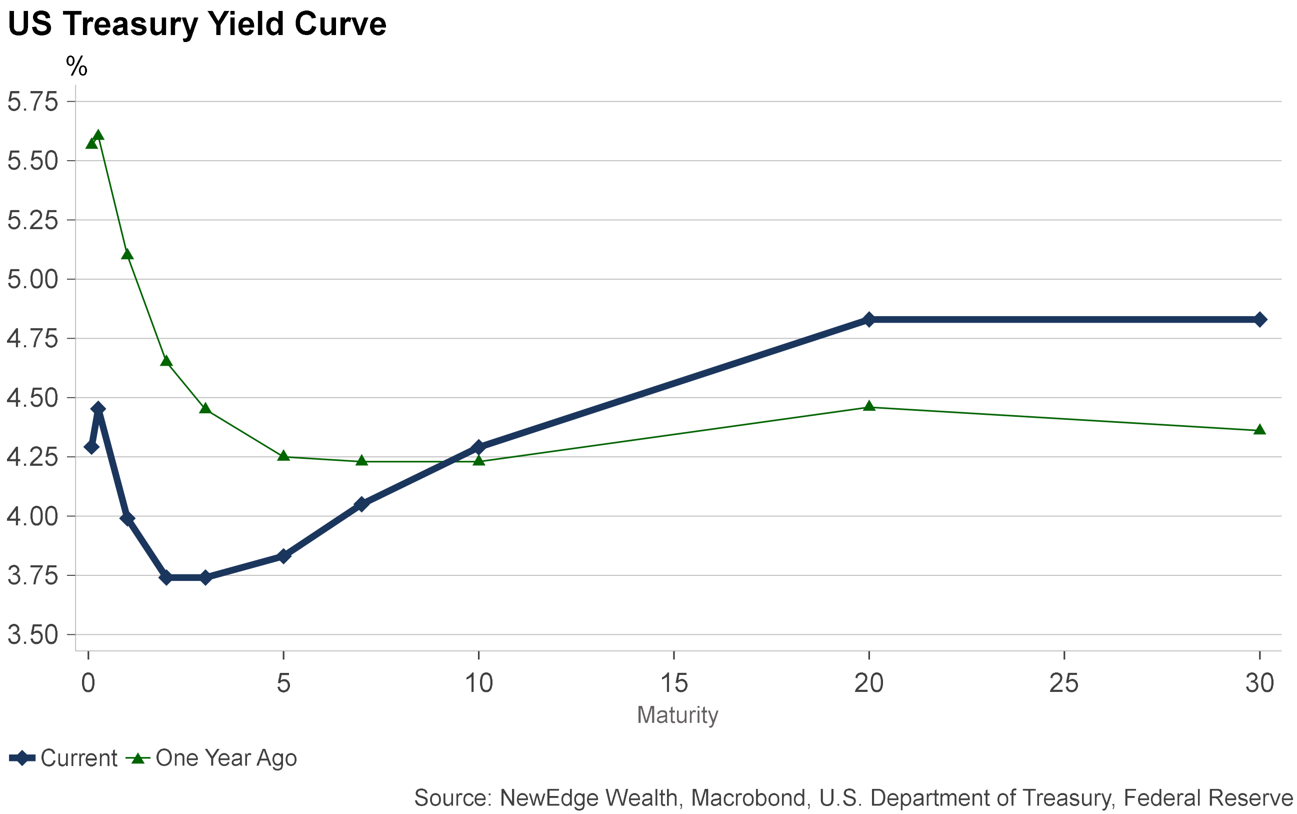



Data as of: June 25, 2025

## Question 3: Yields

**Can bonds be a hedge against weaker growth?**

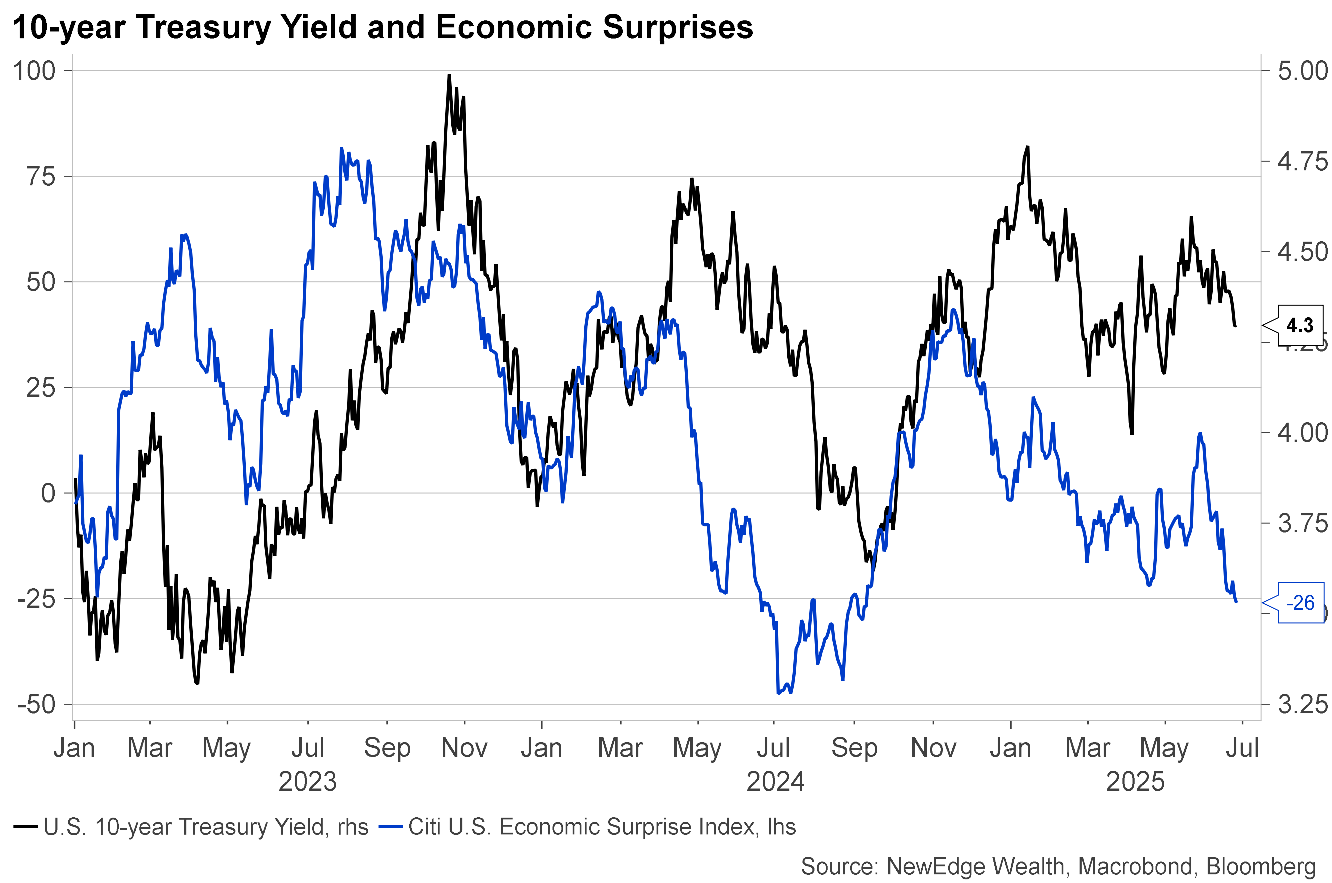
# Short-End Rate Cuts Failed to Bring Down Longer Rates ("Zoo Steepener")






Data as of: June 25, 2025

# Bond Yields Have Not Been As Responsive to Weak Data




Data as of: June 25, 2025

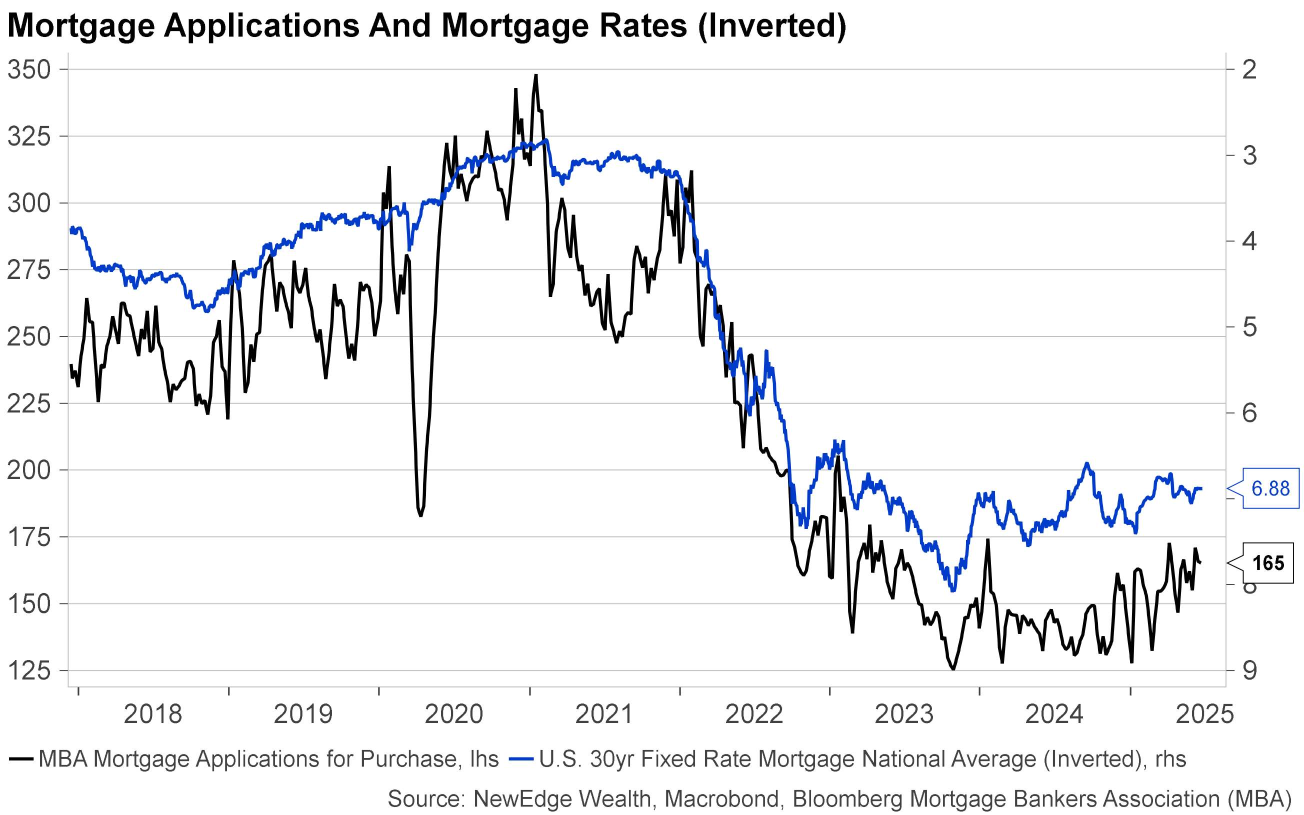
# Is Fiscal Policy Shaping Up to Be Deficit Neutral?

| | OBBB | Tariffs |
|---|---|---|
| Outlays | -$1.3T | |
| Revenues | +$3.7T | -$2.5T |
| Interest Payments | +$441B | -$500B |
| Growth Effects | -$85B | +$200B |
| **Deficit** | **+$2.8T** | **-$2.8T** |

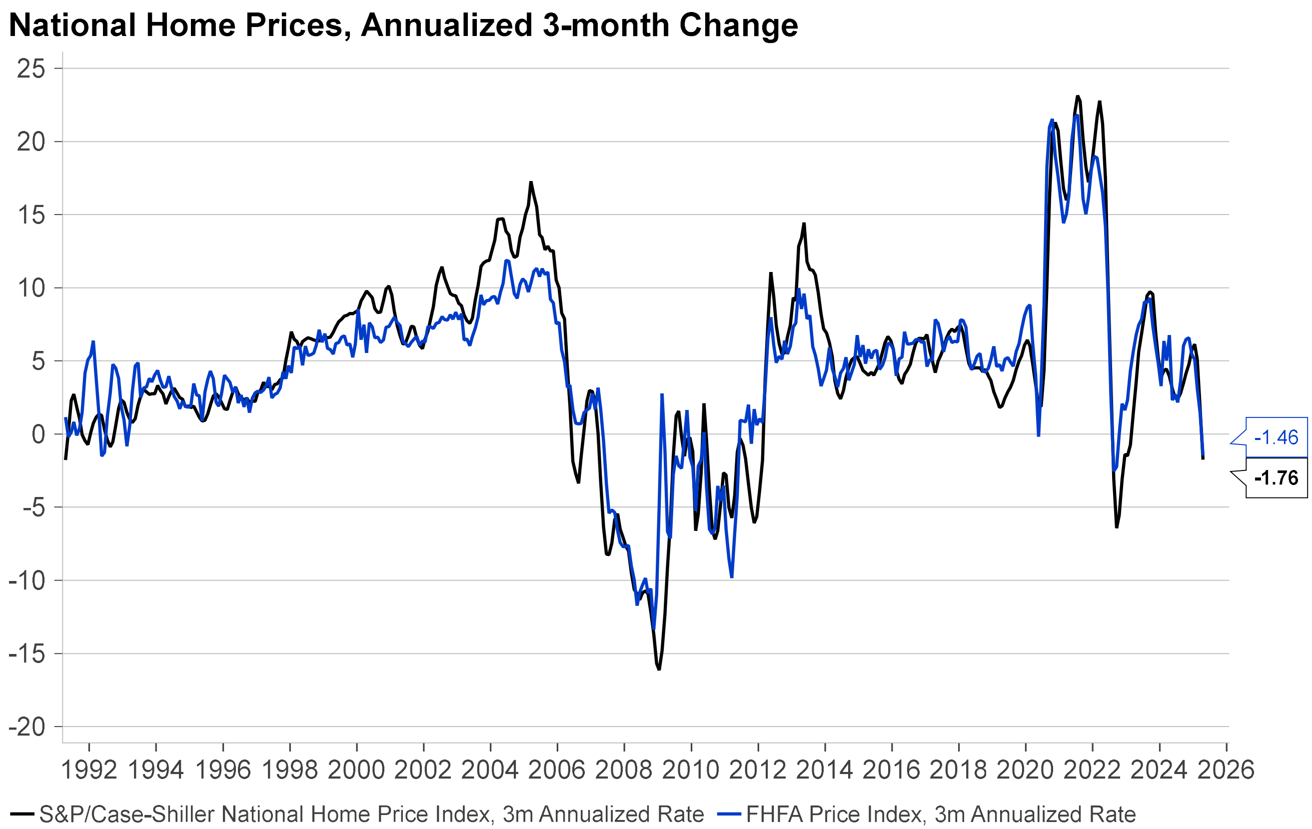
Assumptions:

- Medicaid changes take effect as scheduled on 1/1/27
- Targeted tax cuts expire as scheduled on 1/1/29
- OBBB growth effects will likely show a modestly smaller deficit
- Tariff rates as of 5/13 stay in effect through 2035 (Steel/Aluminum tariffs already 25% → 50%)
- Tariffs reduce level of GDP by 0.6% in 2035 but OBBB increases it by the same amount
- Tariffs + OBBB raise annual inflation by an average of 0.4% and OBBB by a little

# Who Else Needs Lower Rates? The Housing Market



# U.S. Home Prices Are Falling on Rising Listings and Weak Demand



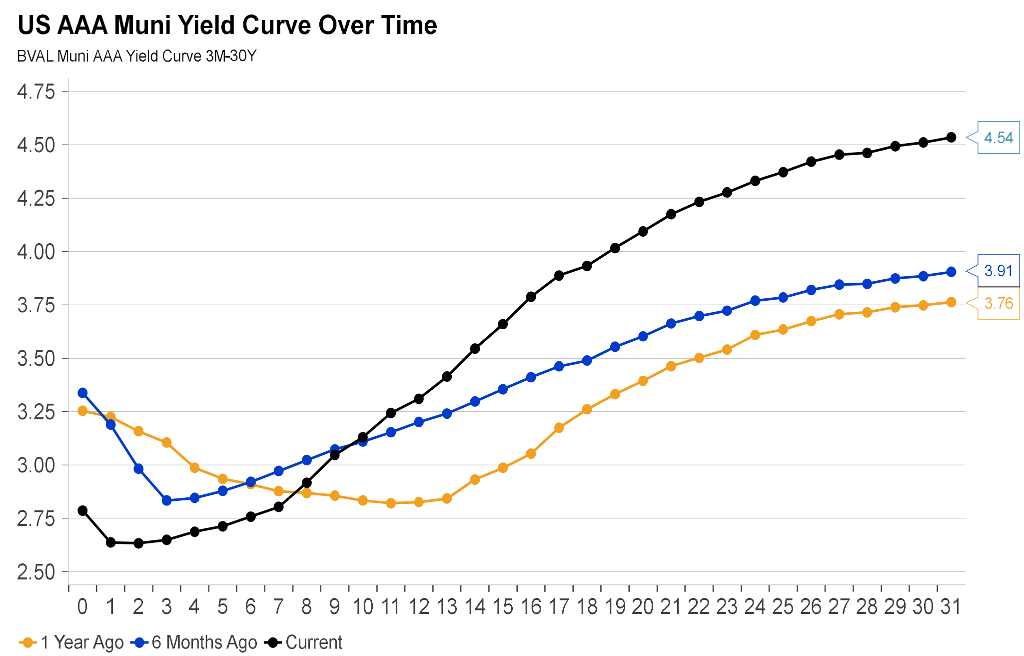

Source: NewEdge Wealth, Macrobond, Bloomberg S&P Global, Federal Housing Finance Agency (FHFA)

Data as of: June 25, 2025

# Municipals

# Key Municipal Themes for H2 2025

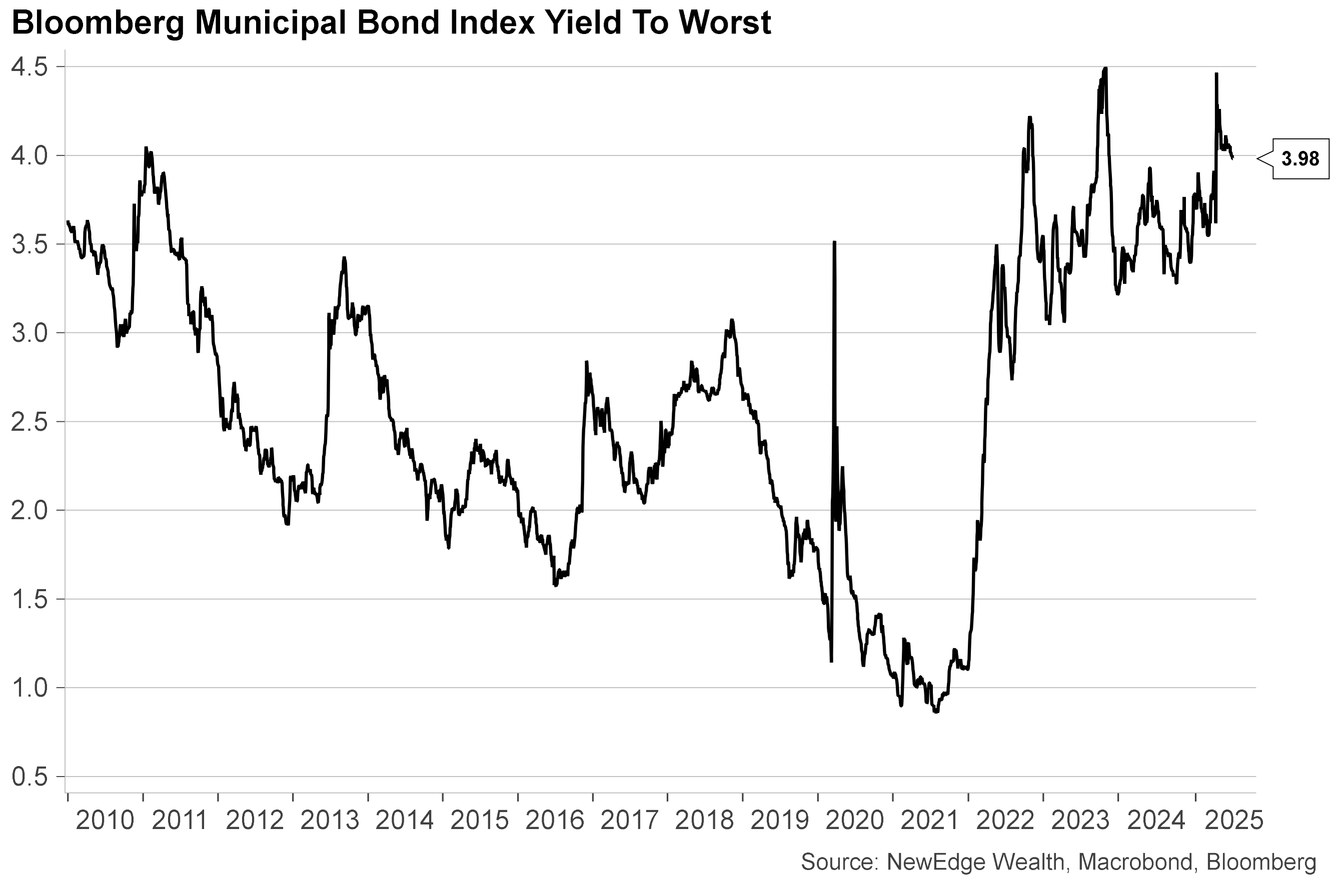
- Yields remain attractive
- Total return opportunities
- Muni yield curve is steep, rewarding investors for duration risk
- Take advantage during periods of market weakness – “buy the dip”
- Another year of heavy supply
- Credit quality remains strong, with exception
- HY Munis had a strong 2024, watch spreads
- Tracking policy developments and headlines in 2H25




Source: NewEdge Wealth, Macrobond, Bloomberg

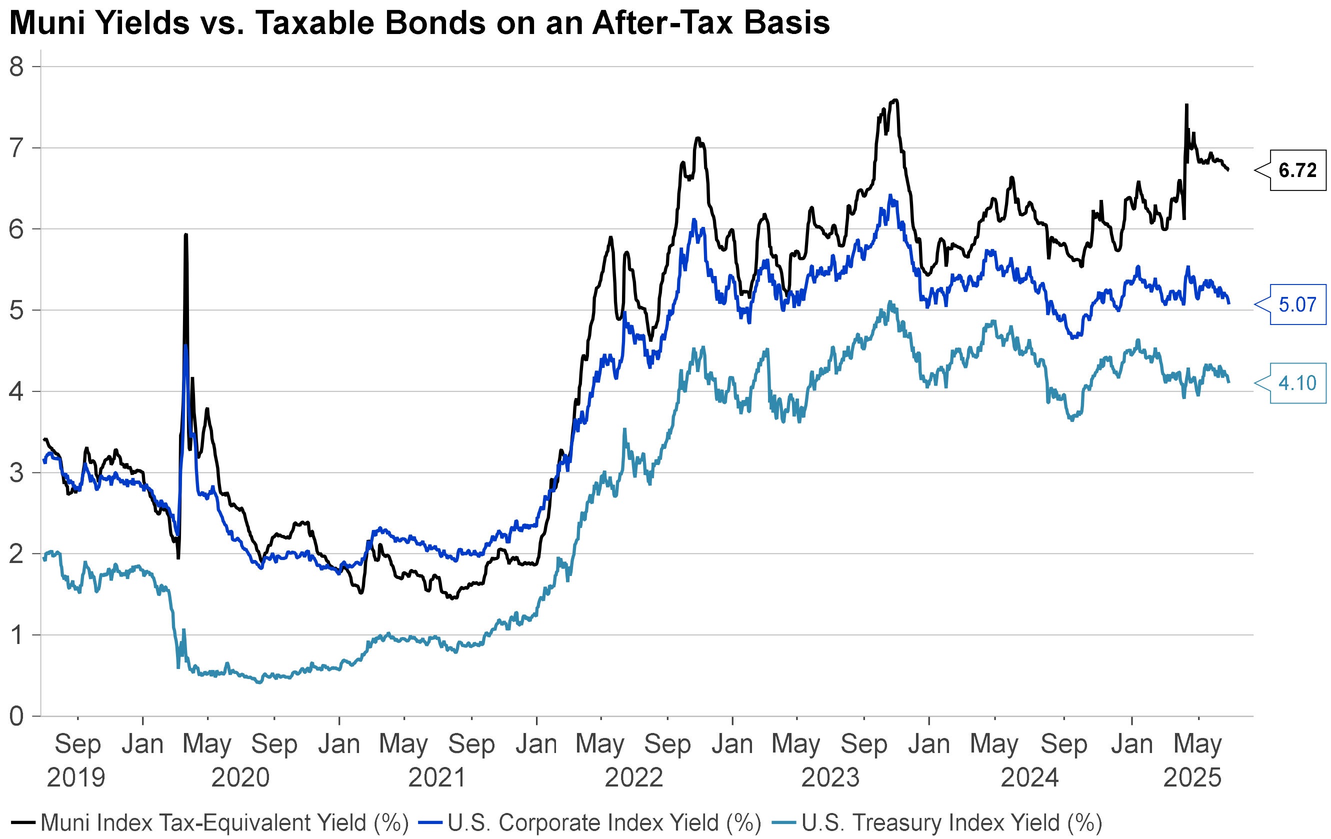
Data as of: June 25, 2025

# Yields Remain Well above Historical Averages




Data as of: June 25, 2025

# Munis : The Power of Taxable Equivalent Yields



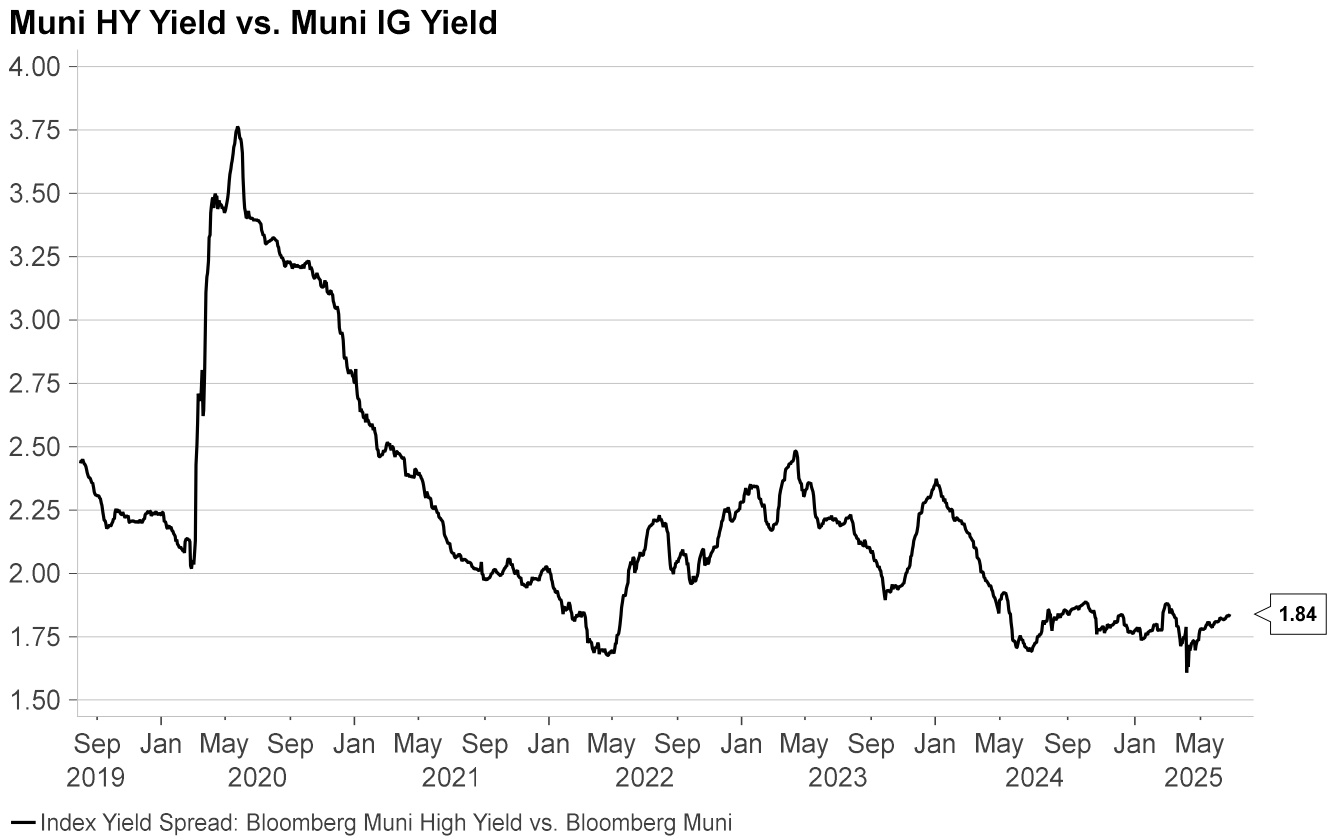

Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: June 25, 2025

# Muni Yields High vs. U.S. Treasuries


Data as of: June 25, 2025

# Yield Ratio: HY Muni vs. IG Muni




Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of: June 25, 2025

# Question 4: Equity Markets

**What's the next catalyst for global equities and what segments will lead?**

# Equities

# Global Equity Outlook for H2 2025

- The *Great Expectations* we entered the year with have reset in many areas, creating a more constructive environment for global equities. However, macro risks and policy uncertainty remain elevated, which will likely lead to greater volatility and choppier markets in H2.
    - **Valuations**: Above average at 22x FP/E on the S&P500, but supported thus far by better-than-expected earnings results, AI enthusiasm, and continued margin expansion
    - **Positioning**: No longer crowded, institutional investors are lightly positioned/playing catch up. BofA survey in May showed just 20% of fund managers viewed Mag 7 as the most crowded trade, down from over 50% in January.
    - **Sentiment**: Improving after an incredible reset in H1, but skepticism and bearishness remains above average, a potential catalyst for the market to "climb walls of worry"
    - **Fundamentals**: Better than expected Q1 earnings growth (fueled by the Mag 7) is encouraging, analyst revisions for 2025 and 2026 have shown signs of stabilization. However, the environment for corporate profitability remains challenging and the lack of clarity around guidance is could be a risk to H2 estimates.
- In January we called for a wide choppy range in equities (+/-10% on the S&P500). This remains our base case for the rest of the year, however equity markets have proven to be incredibly resilient this year, and the market's ability to overcome walls of worry may continue to surprise investors and lead to positive H2 returns despite a muddier near-term environment.
- In this environment of heightened geopolitical risks, policy uncertainty, and elevated valuations, we continue to prioritize global diversification within equities, and fundamental drivers like earnings stability and capital efficiency, while being mindful of excessive valuations, beta, and concentration.

# S&P 500 Earnings and Valuation Scenario Analysis

## S&P 500 Earnings and Valuation Scenario Analysis

Current S&P500 Level: 6,015
Current EPS estimate: $263

| Change vs. 2024 | 2025 EPS | 17x | 18x | 19x | 20x | 21x | 22x | 23x | 24x |
|---|---|---|---|---|---|---|---|---|---|
| | | PE on 2025 EPS | | | | | | | |
| 3% | $250 | 4,250 | 4,500 | 4,750 | 5,000 | 5,250 | 5,500 | 5,750 | 6,000 |
| 5% | $255 | 4,335 | 4,590 | 4,845 | 5,100 | 5,355 | 5,610 | 5,865 | 6,120 |
| 7% | $260 | 4,420 | 4,680 | 4,940 | 5,200 | 5,460 | 5,720 | 5,980 | 6,240 |
| 10% | $265 | 4,505 | 4,770 | 5,035 | 5,300 | 5,565 | 5,830 | 6,095 | 6,360 |
| 12% | $270 | 4,590 | 4,860 | 5,130 | 5,400 | 5,670 | 5,940 | 6,210 | 6,480 |
| 14% | $275 | 4,675 | 4,950 | 5,225 | 5,500 | 5,775 | 6,050 | 6,325 | 6,600 |
| 16% | $280 | 4,760 | 5,040 | 5,320 | 5,600 | 5,880 | 6,160 | 6,440 | 6,720 |
| 18% | $285 | 4,845 | 5,130 | 5,415 | 5,700 | 5,985 | 6,270 | 6,555 | 6,840 |
| 20% | $290 | 4,930 | 5,220 | 5,510 | 5,800 | 6,090 | 6,380 | 6,670 | 6,960 |

Source: NewEdge, Bloomberg

Growth Scare and De-Rating (17x–19x)

Talking Heads Sideways Chop (20x–22x)

Prince Bubble (23x–24x)

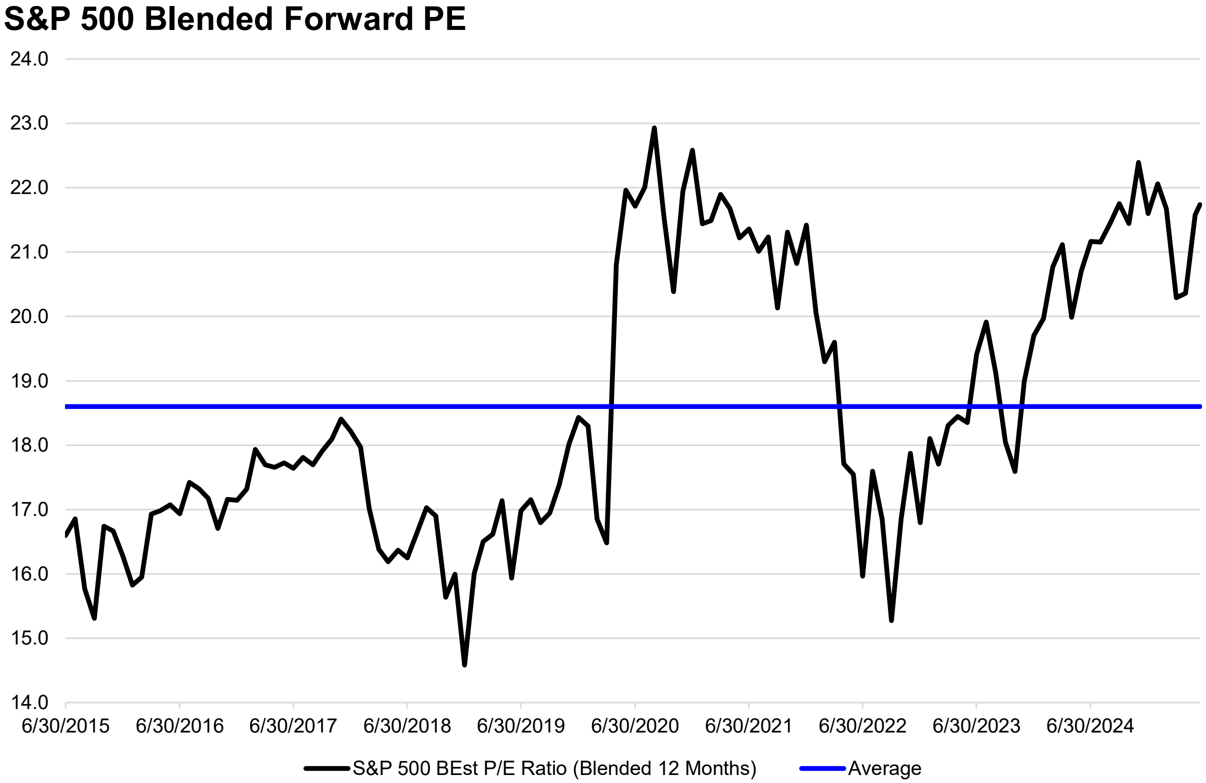
**Valuation Multiples Are Never Static**

Since 2000 the S&P500s Forward P/E multiple has traded in an average intra year range of nearly 4 points.

This suggests even an average year would result in a S&P500 range of 5,400 to 6,500 (assuming EPS growth meets expectations).

A year of greater uncertainty and volatility likely leads to an even wider range of outcomes.

# Valuations: Elevated




Source: Bloomberg, NewEdge Wealth

**Can Equity Markets Maintain or Expand Current Valuations?**

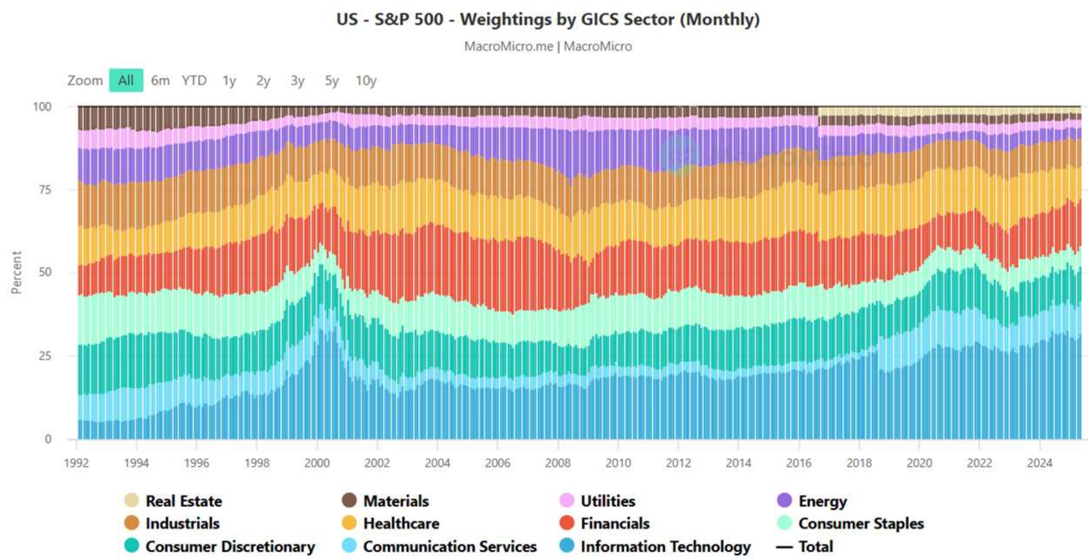
Policy uncertainty, geopolitical risks, and delicate earnings growth leaves valuations prone to contraction

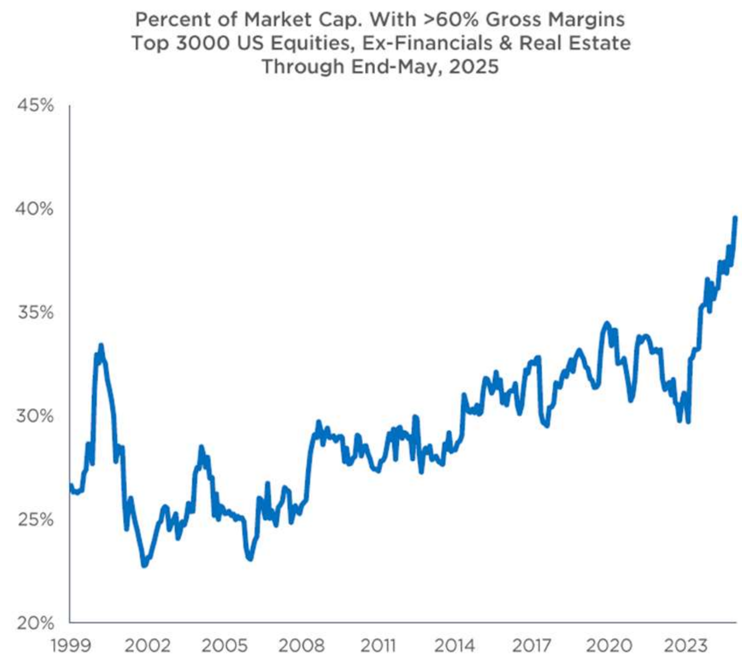
However, today's lofty valuations relative to history are in some ways justified by higher profitability in the average company, higher returns on capital and free cash flow generation.

**Key Watch Items**: S&P500 Gross & Operating Margins, Hyperscaler Capex & Mag 7 Revenue Growth

# More Tech → Higher ROIC/Higher Margins → Justifies Higher Multiple?

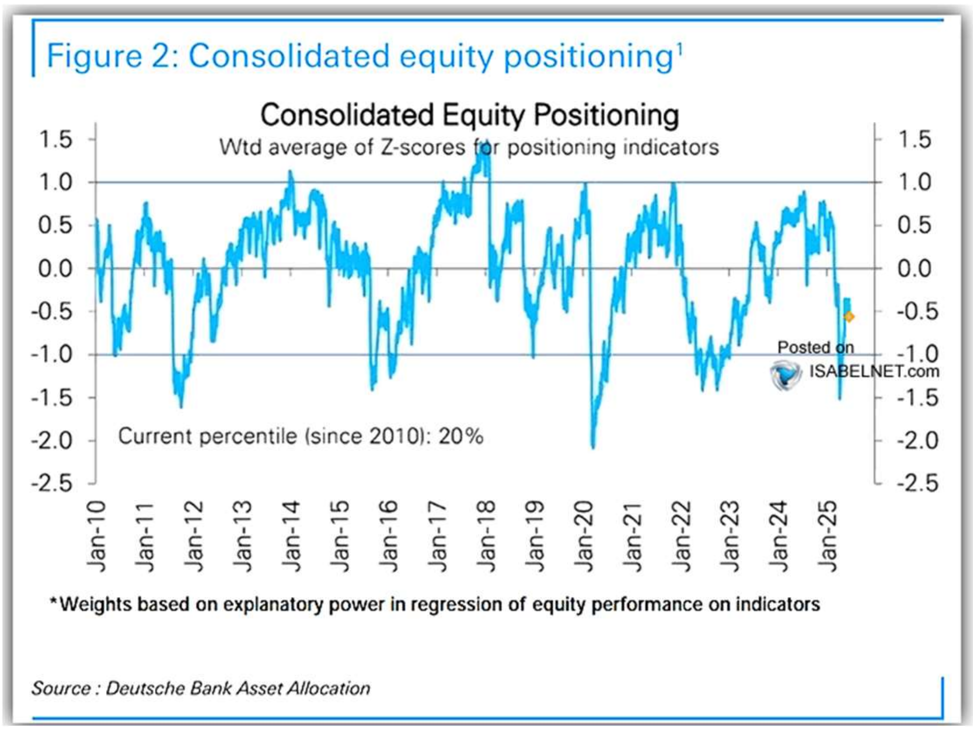
The Technology and Communications sectors now account for more than 1/3rd of the S&P500, helping drive greater profitability, free cash flow, and returns on invested capital at the index level. At the same time gross margins have expanded for many U.S. companies; today the percentage of companies with >60% gross margins are nearly double the levels from 20 years ago.




Source: Trivariate Research

# Positioning: *Still* Underweight




As of 6/22/25

**Institutional Investors Have to be Frustrated**

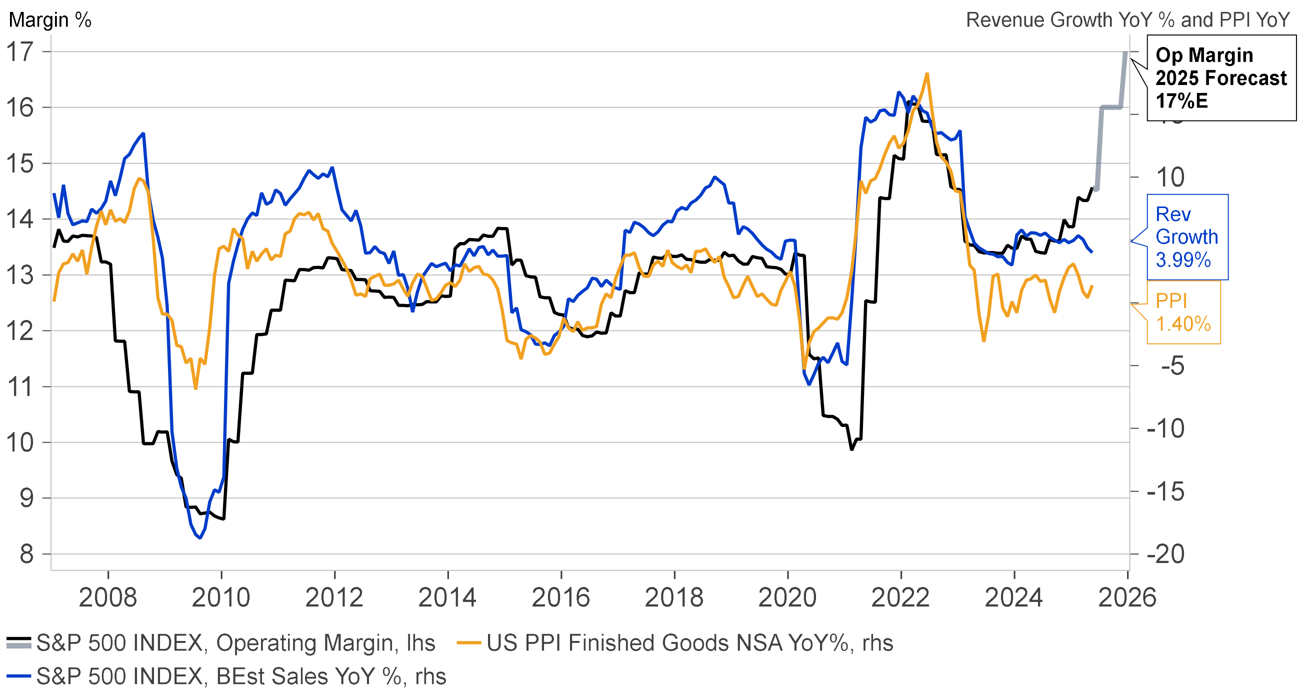
Consolidated institutional equity positioning remains below average (although it has recovered off multi year lows), despite a historic market recovery from early April.

If equities continue to grind higher in a muddy environment, these investors may have to chase or rebuild their long positioning, providing incremental inflows and acting as a tailwind to equities.  Often called *The Pain Trade*

# Earnings Forecasts: Too Optimistic or will we see a Productivity Miracle?

## S&P 500 Margins Related to Revenue Growth and Inflation

S&P 500 Operating Margin (with Bloomberg Consensus Forecast), S&P 500 Sales Growth, PPI YoY




Source: NewEdge Wealth, Macrobond, Bloomberg

### Current EPS Forecasts Incorporate Record Operating Margins

Corporate belt tightening and productivity gains have helped drive better then expected operating margins in recent quarters.

Absent an acceleration in AI driven productivity/efficiency or a surge in revenue growth (unlikely given modest YOY PPI), these expectations will be difficult to meet.

This may lead to earnings disappointments or downward revisions to future guidance.

# Earnings Have Been Getting Trimmed Since Last Summer. Starting to Stabilize?

### S&P 500 with 2025 and 2026 EPS Forecasts


Source: Bloomberg, NewEdge Wealth

Data as of: June 25, 2025

# Growth and Value Expectations Are Diverging Again. The challenge to Market Breadth

## Growth with 2025 and 2026 EPS Forecasts


## Value with 2025 and 2026 EPS Forecasts

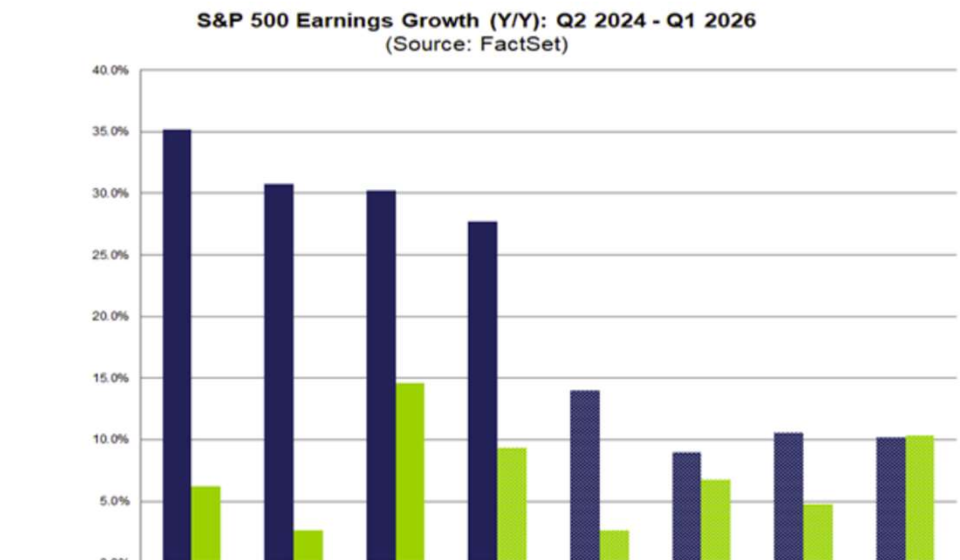

Source: Bloomberg, NewEdge Wealth

Data as of: June 25, 2025

# Growth and Value - Will we see a Secular (AI) Driven or Cyclical Recovery (Broadening)?

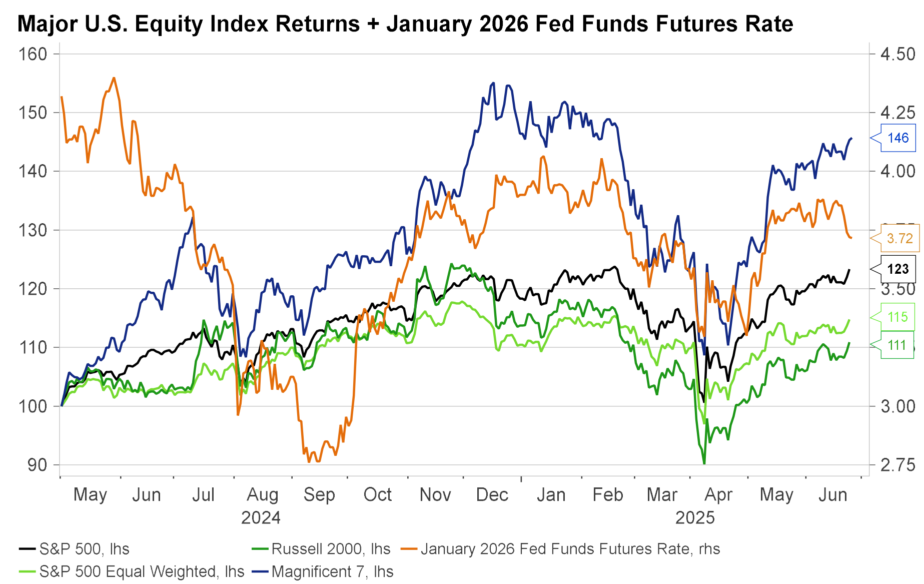
EPS growth in the coming quarters is expected to normalize between the “Mag 7” and “other 493”, suggesting we should see better breadth and contribution from the average stock. However, for this normalization to occur we will need a more supportive macro environment, including easing inflationary pressures, a more accommodative Fed, and lower policy uncertainty.

### Quarterly EPS Growth Forecasts




| | Q2 2024 | Q3 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | Q1 2026 |
|---|---|---|---|---|---|---|---|---|
| "Magnificent 7" Cos. | 35.2% | 30.8% | 30.2% | 27.7% | 14.0% | 8.9% | 10.6% | 10.2% |
| Other 493 Cos. | 6.2% | 2.6% | 14.6% | 9.4% | 2.6% | 6.7% | 4.8% | 10.3% |

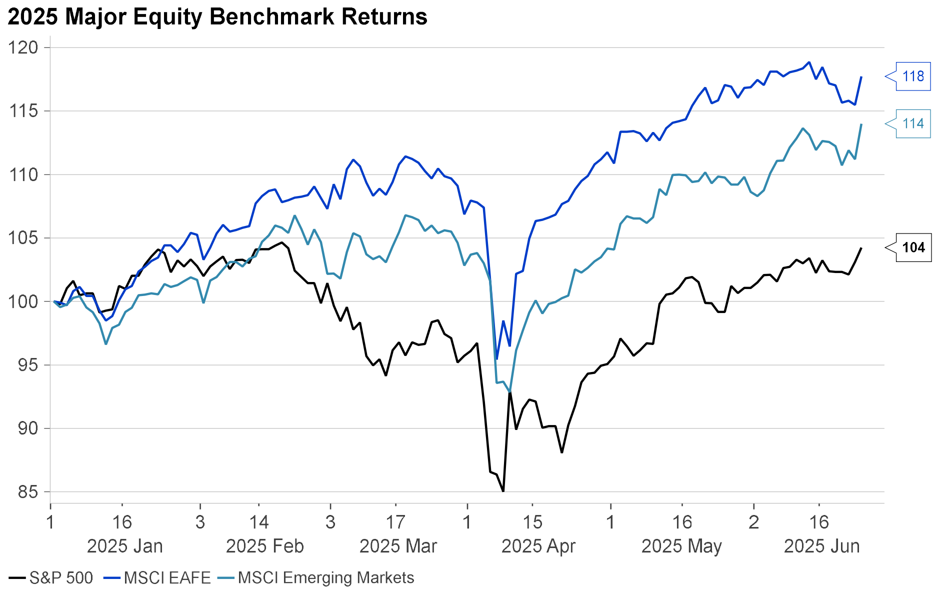
### U.S. Equity Market Performance & Fed Futures




Source: NewEdge Wealth, Macrobond, Bloomberg

# International Equities – Diversification & Earnings Optimism?

## YTD Performance Chart




Source: NewEdge Wealth, Macrobond, Bloomberg

## MSCI ACWIxUS with 2025 & 2026 Earnings Forecasts

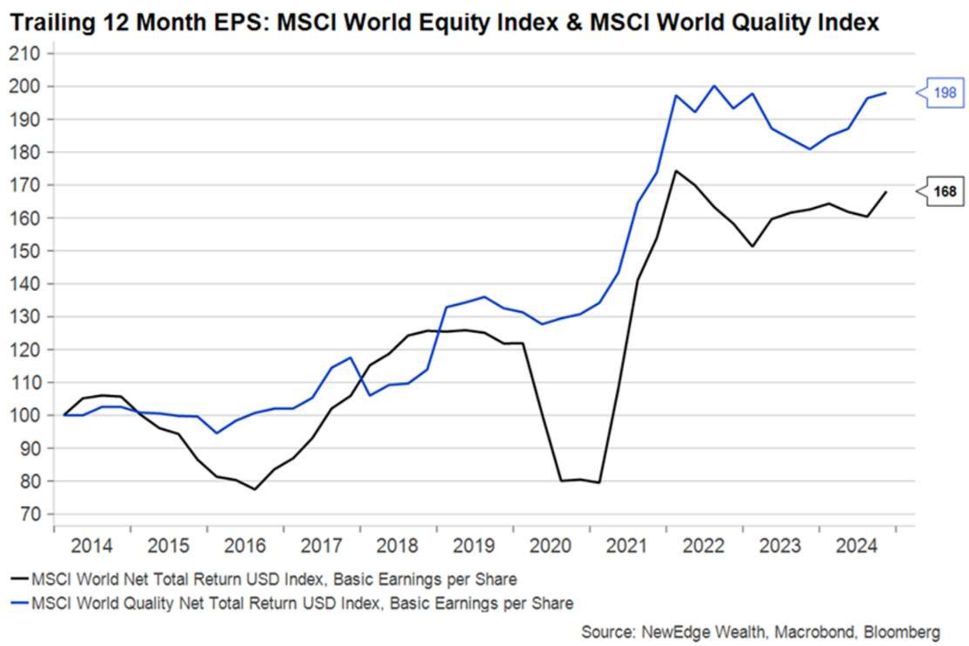

Source: Bloomberg, NewEdge Wealth



Data as of: June 25, 2025

# Focus on Diversification & Higher Quality in an Uncertain Environment

Environments of heightened volatility and uncertainty typically act as headwinds to multiple expansion and lead to more fundamentally driven performance. Higher quality companies are adept at shareholder value creation, are generally more capital efficient and can be more insulated from the overall macro environment.




## Why Quality Works:

1. Ability to Produce Consistent Compound Earnings Growth
2. Potential for Downside Protection
3. Reduced Macro Economic Sensitivity
4. Capitalizes on *Time in the Market* as Opposed to *Timing the Market*

## Question 5: So What?

**Where can investors look for higher risk-adjusted returns?**

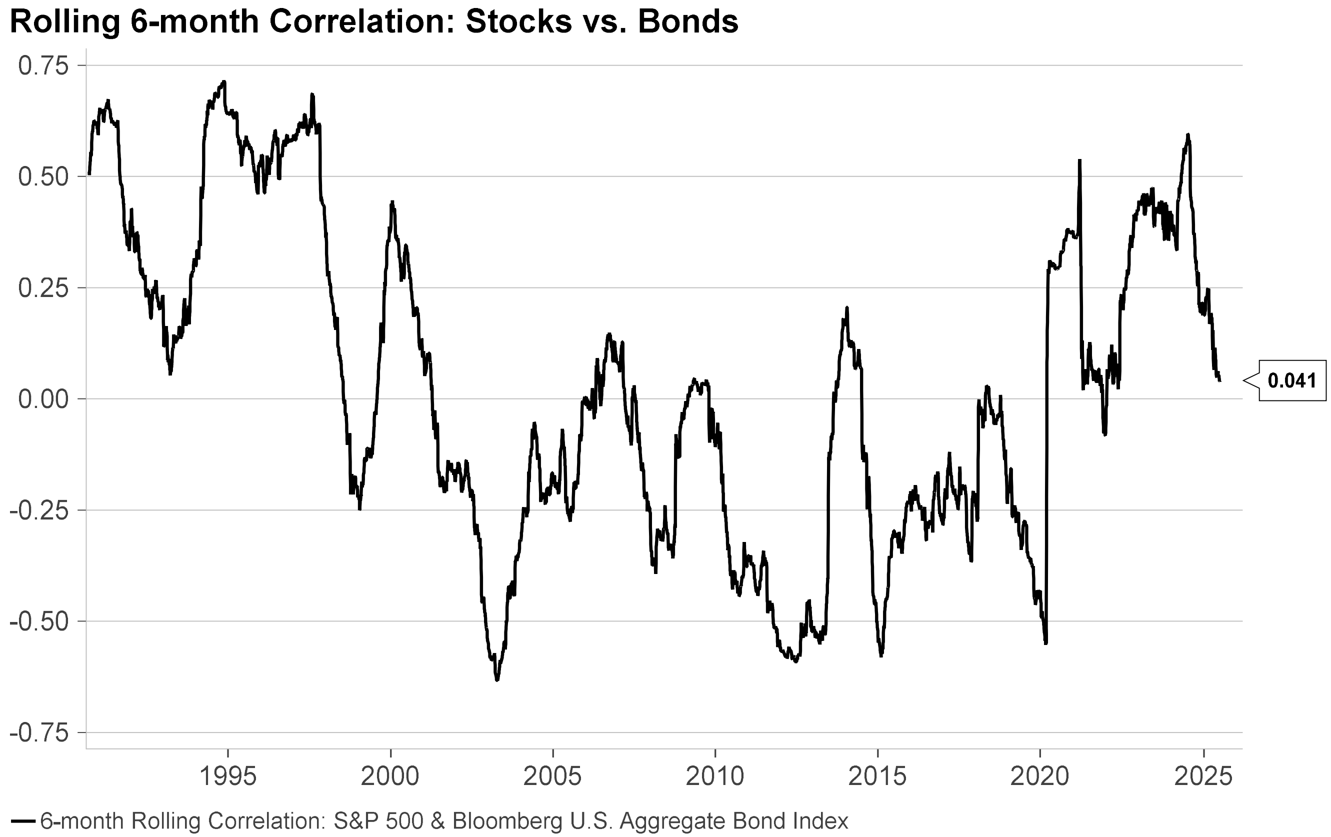
# Asset Allocation

# More Diversification Benefit from International Stocks So Far in 2025


Source: NewEdge Wealth, Macrobond, Bloomberg S&P Global, MSCI

Data as of: June 25, 2025

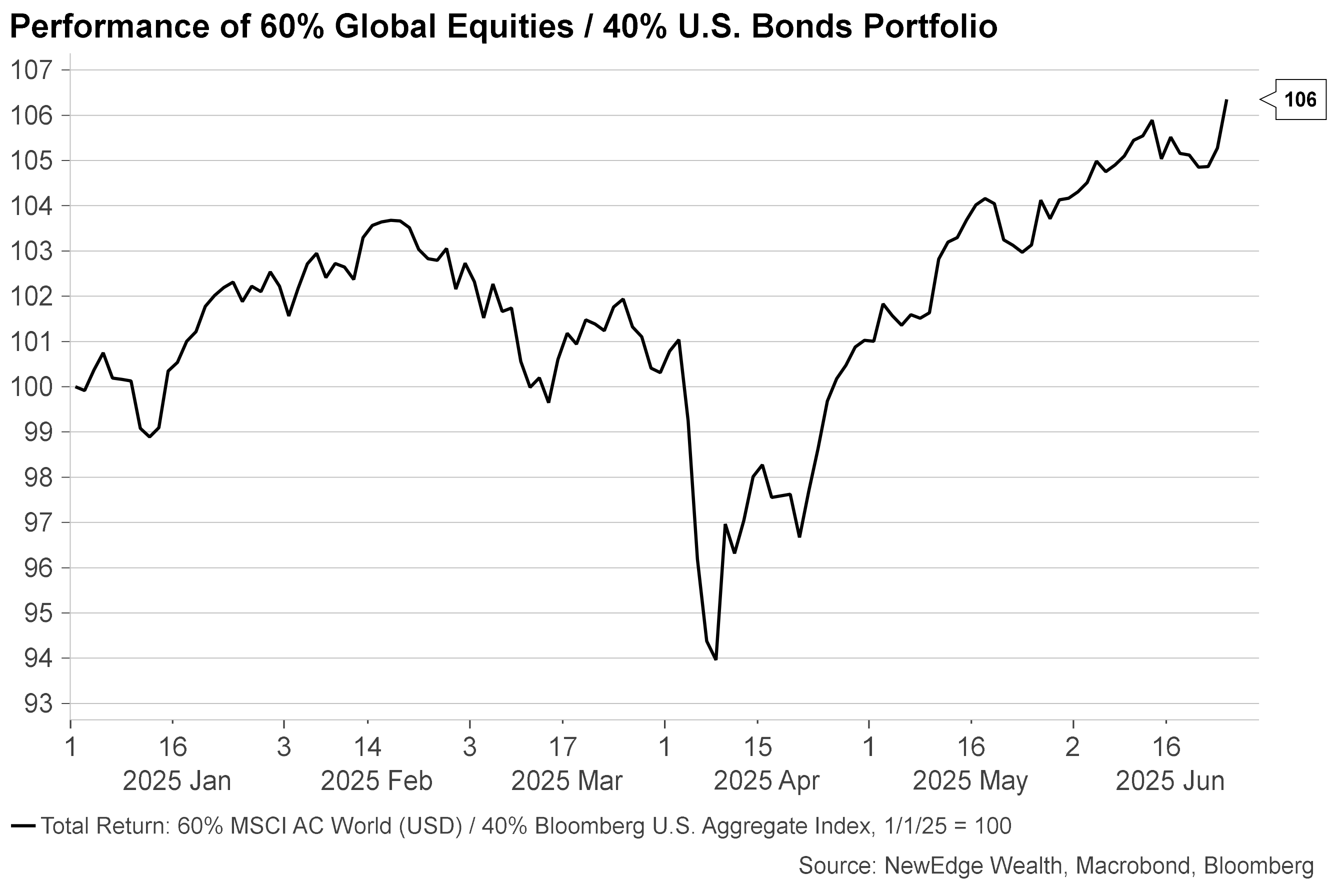
# Stock-Bond Correlation Spiked in 2022 But Have Eased Back Down




Source: NewEdge Wealth, Macrobond, Bloomberg S&P Global

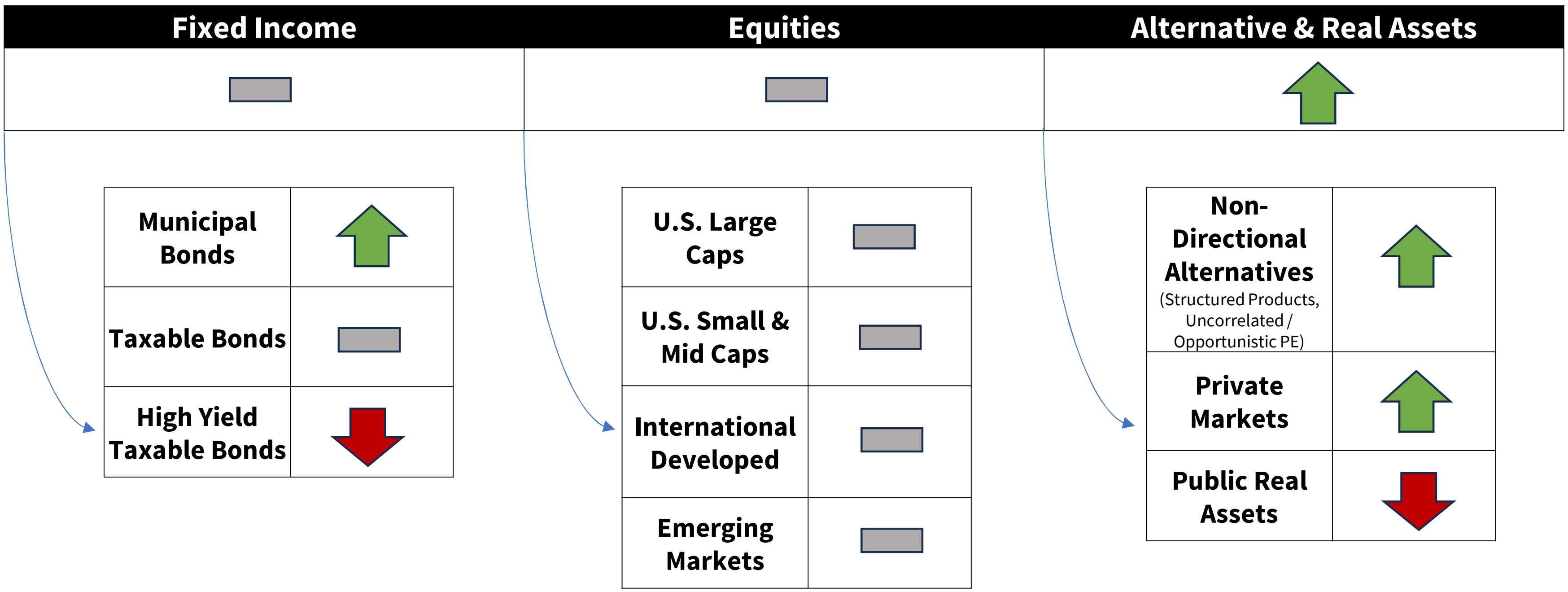
Data as of: June 25, 2025

# 60/40 Portfolio Performing Well Despite April Stock Market Correction

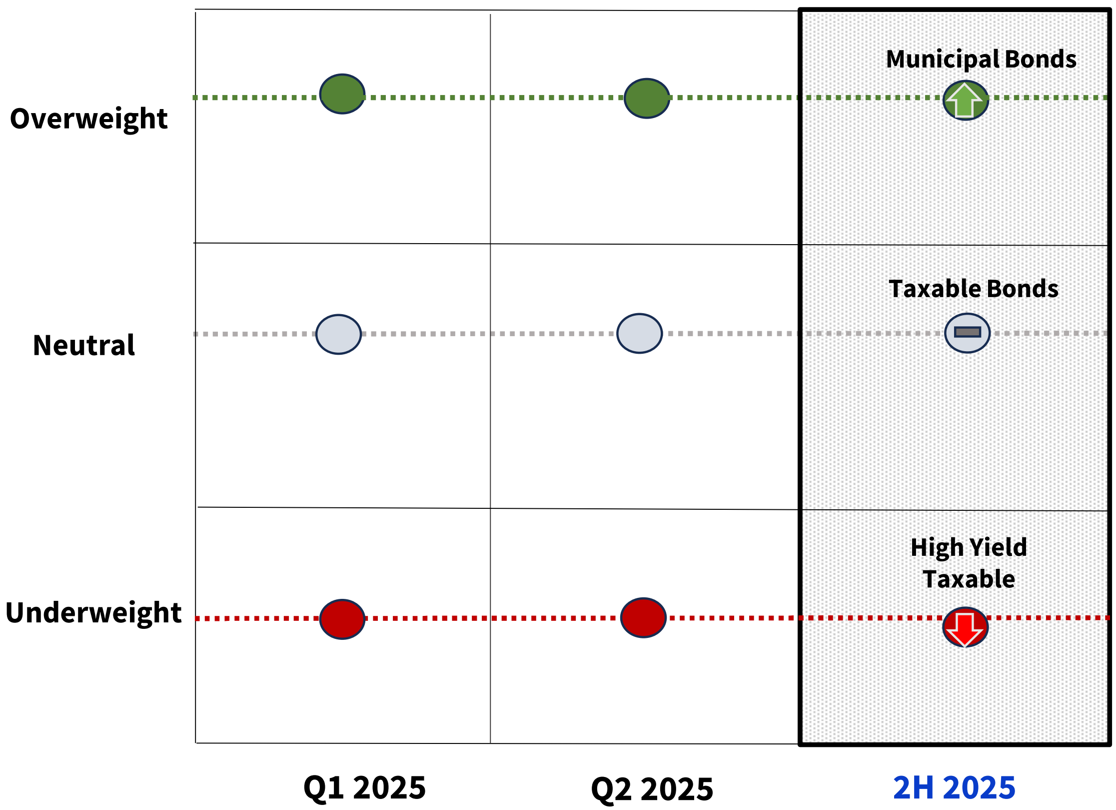



NewEdge WEALTH Data as of: June 25, 2025

# Our 3Q 2025 Tactical Views

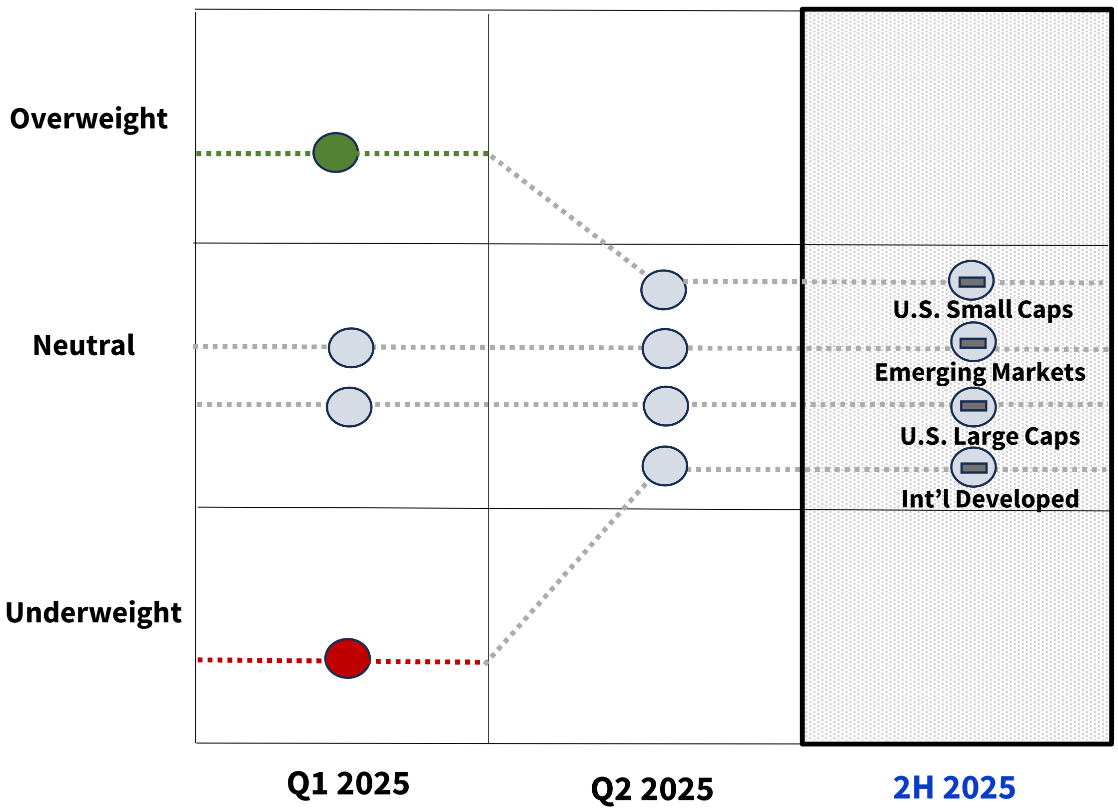


# Asset Class Outlooks: Fixed Income



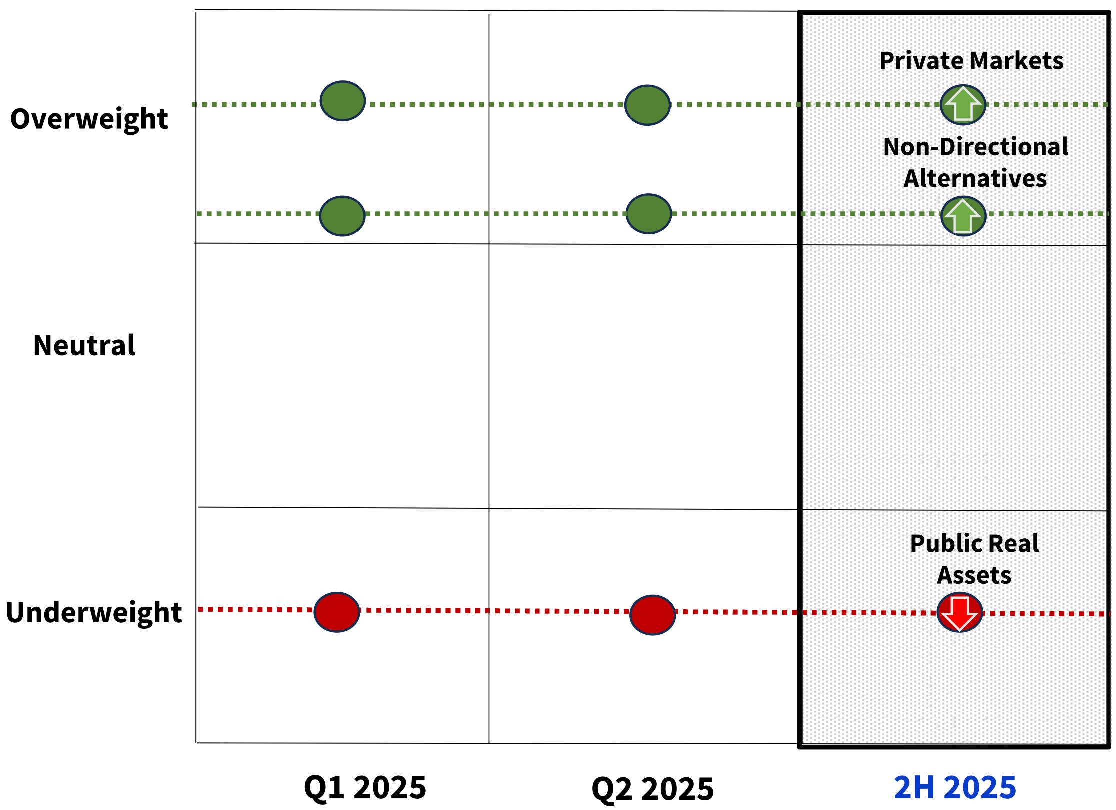

| Asset Class | Positioning Notes |
|---|---|
| Municipal Bonds | • **Remain Overweight:** Compelling income opportunity with taxable equivalent yields near 15-year highs across all maturities.<br>• Credit quality supported by stable revenue streams and historically low default rates vs. similarly rated corporate bonds.<br>• High Yield Munis remain attractive, supported by strong demand and a healthy credit fundamental backdrop. |
| Taxable Bonds | • **Remain Neutral:** High-quality bonds can provide attractive income opportunities in times of slowing U.S. growth and persistent policy uncertainty.<br>• Within investment grade, favor securitized credit including both agency and non-agency MBS vs. corporate bonds. |
| High Yield Taxable Bonds | • **Remain Underweight:** After a brief widening of spreads in April, High Yield bonds once again look priced for perfection.<br>• Investors are not currently being well-compensated for incurring the additional risk should the economic outlook deteriorate. |

# Asset Class Outlooks: Equities




| Asset Class | Positioning Notes |
|---|---|
| U.S. Large Cap | • **Remain Neutral:** Despite weaker growth and lingering policy uncertainty, companies continue to report strong earnings and investor positioning remains favorable.<br>• Continued optimism around structural growth themes like AI and infrastructure modernization should support profits and valuations in the near term.<br>• Consider a hybrid approach across passive and active managed strategies that focus on quality companies with strong balance sheets and earnings resilience. |
| U.S. Small Cap | • **Remain Neutral:** Could be helped by business-friendly taxa and regulatory policy along with monetary easing<br>• Headwinds from ongoing trade risks and weakening global growth may not dissipate soon<br>• Prioritize mid-caps over small-caps, emphasizing high-quality companies with positive free cash flow generation. |
| Int'l Developed | • **Remain Neutral:** Significant outperformance relative to the U.S. in the 1H 2025 driven in large part by the weaker USD, which is now oversold<br>• Weaker growth environment and recent rally calls for a cautious and patience approach to the asset class.<br>• International equities are exhibiting a lower correlation to U.S. markets, which is helping improve portfolio efficiency. |
| Emerging | • **Remain Neutral:** Growth and earnings outlook remains mixed amidst geopolitical risks centered on disruption to trade, investments, and financial stability. |

# Asset Class Outlooks: Alternatives & Public Real Assets




| Asset Class | Positioning Notes |
| --- | --- |
| **Private Markets** | • **Remain Overweight:** While near-term deal activity may moderate amid ongoing geopolitical and economic uncertainty, upcoming vintages are poised to capitalize on these opportunities.<br>• Funds positioned to capitalize on secular trends such as AI adoption, strategic secondaries, and value creation are well placed to benefit from a dynamic and evolving market environment. |
| **Non-Directional Alternatives** (Structured Products, Uncorrelated PE / Opportunistic) | • **Remain Overweight:** Anticipating that volatility can present attractive opportunities.<br>• Preference for yield-focused structured notes that can take advantage of market dislocations to lock in positive returns with downside protection.<br>• Uncorrelated Private Equity can enhance portfolio resiliency by focusing on long-term value creation that's not directly impacted by the same factors driving public equities. |
| **Public Real Assets** | • **Remain Underweight:** Prefer private real assets like infrastructure and real estate to listed infrastructure and REITs given the latter's correlation to equity markets.<br>• Commodity prices have generally risen in 2025, but the Gold price flattened out in Q2 while oil provided an inconsistent hedge against recent Middle East turmoil. |

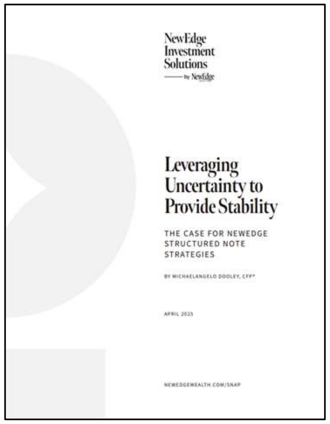
# Structured Products

# Recap of the 2025 Outlook Takeaways

1. ***We see fiscal and policy challenges as key wild cards for 2025.***

2. ***We see risk assets in a wide/choppy range.***

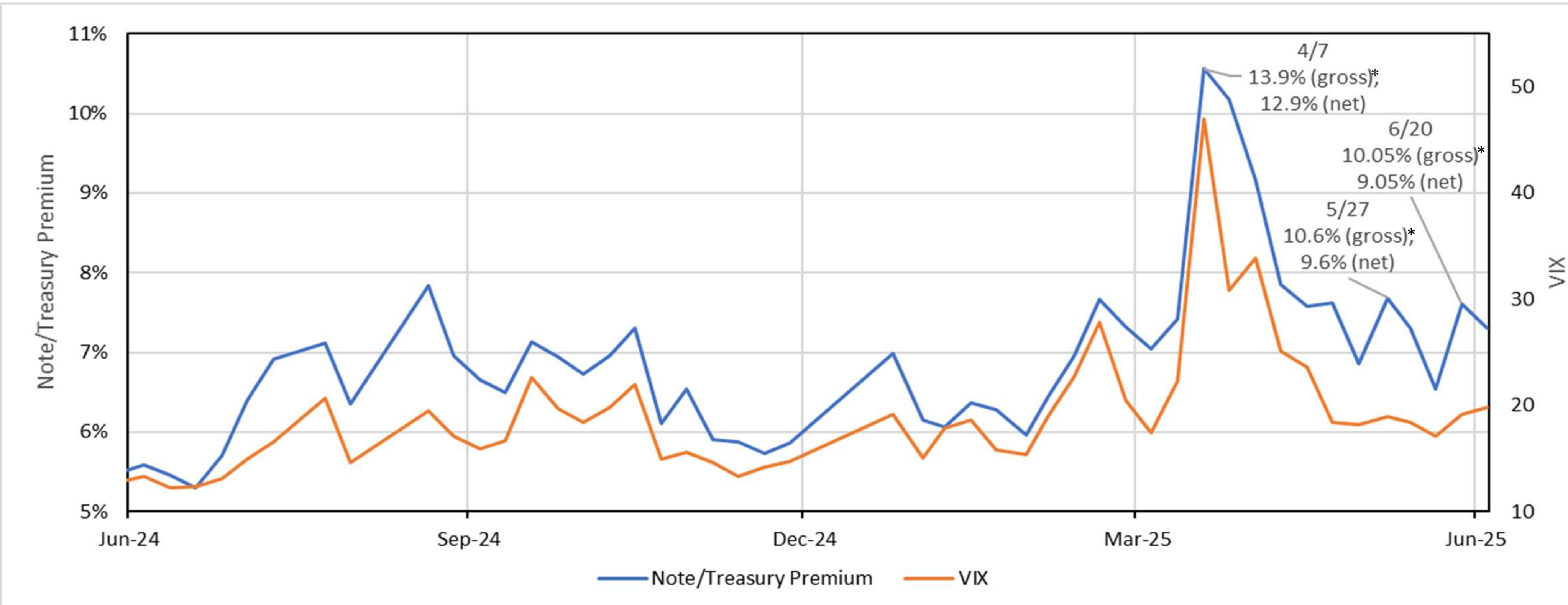
3. ***We find uncorrelated return streams interesting with this backdrop.***





***An uncertain return environment for equities can be a favorable environment for Structured Products seeking a high consistency of positive outcomes***

# Leveraging Uncertainty to Generate Yield

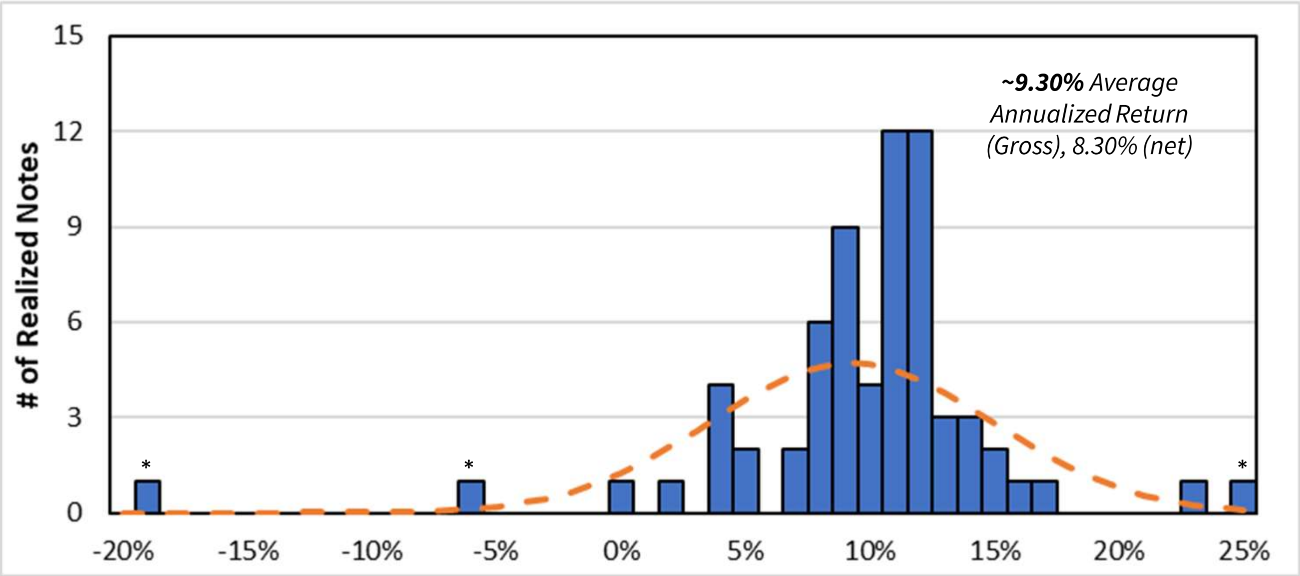



Source: Luma Financial Technologies as of 6/23/25.
* Yields referenced in the illustrations reflect gross of fee yields as well as net of fee yields calculated by using estimated management fees of 1% per annum
*SNIP Strategy executed gross yields averaged across all notes executed during a given period.

NewEdge WEALTH

# Providing Stability through Structured Notes

## SNAP Realized Returns – Annualized Distribution (% Gain/Loss)




| Realized Returns | 67 Total |
|---|---|
| Positive Outcomes | 64 (96%) |
| Return of Principal (0%) | 1 (1%) |
| Negative Outcomes | 2 (3%) |

***Realized Returns above include notes called/redeemed between 2022 and 2025***

* *Credit Suisse issued notes sold prior to maturity in March of 2023 due to credit uncertainty*
* Returns referenced in the illustrations reflect gross of fee returns as well as net of fee returns calculated by using estimated management fees of 1% per annum

# Alternatives

# Alternative Investment Themes for 2025

- Our overall sentiment is cautious optimism
- Opportunities to diversify into uncorrelated assets
- The cost of capital has shifted investment approach
- Disruption in fundraising cycles
- Nimbleness is rewarded
- AI/technology creates opportunities and pitfalls
- Thesis driven infrastructure
- Big trends create big opportunities
- Selectivity in democratization
- Watching regulations

# The State of Private Markets: Asset Classes

## Venture Equity

High-quality businesses are still getting funded.

Early-stage businesses are being pressed to focus on profitability.

Early-stage valuations have seen a reset providing stronger entry points.

AI continues to be a broad focus for the industry but there are increasing calls to question valuations.

**The Opportunity:** We see opportunities to gain access to higher quality businesses at more attractive entry points. We are seeing an increase in leaner business models as new companies are able to build new productivity enhancing technology into their foundations. We see this as a good time to increase allocations to quality venture managers.

## Private Equity

The cost of leverage and capital has risen dramatically, which continues to pressure high leverage/financial engineering strategies.

Lower middle market continues to have a higher velocity of capital and to be attracting new investments as larger firms look to buy add on acquisitions from these funds.

As the exit environment remains tight and return of capital has slowed, so has the pace of new commitments.

**The Opportunity:** We continue to see more opportunities for quality growth across the lower middle market and middle market vs. the upper market, where financial engineering tends to be more prevalent.

Manager selection and quality of return generation matter more than ever as the dispersion between winners and losers widens.

## Private Credit

A "golden age" for some (low defaults, high base rates), but risk management critical. Base rates have peaked in the short-term but we are now seeing the market find it's footing leading to slightly lower yields but greater consistency.

Focus on underwriting track record, downside protection, and stress testing.

Market oversaturation risk and manager selection becoming more critical.

Increasing focus on non-direct lending forms of private credit, including ABL, ABS, and Equipment Financing.

**The Opportunity:** We continue to see a long-term opportunity in private credit despite the reopening of the broadly syndicated loan market. While the majority of focus has been on the direct lending piece of the market, we are starting to see greater flow and interest in alternative forms of private credit such as asset-backed lending.

# The State of Private Markets: Asset Classes

## Secondaries

Secondary activity remains elevated as LPs across the spectrum of private investment search for liquidity.

We have seen a normalization of pricing to some degree as the liquidity window reopens but volume remains robust.

GPs are being pushed by LPs to return capital to investors, at the risk of decreased commitments for successor vintages, leading to increased supply of GP-led deals.

Liquidity solutions are being tested – NAV lending, carve-outs, hybrid facilities. There are concerns that some of these solutions can begin to eat into returns.

**The Opportunity:** We have seen Secondary Funds lean into the dislocation caused by illiquidity, raising more money and seeing greater investor interest. They will be able to take advantage of attractive pricing as valuations reset, but increased competition will favor more established players.

## Growth Equity

We continue to see glimmers of light as we start to see the filing of S-1s by some much-anticipated companies, but we have not seen a deluge of companies that are expected to go public or have been sidelined in recent years.

Green shoots of investments as valuations normalize and as exit opportunities ramp up (increased M&A activity and IPO window reopening).

Continued focus on profitable business models and countercyclical sectors.

**The Opportunity:** Opportunities will present if the IPO window continues to reopen and as M&A activity reaccelerates.

## Private Real Estate

Despite meaningful concerns, office has broadly been able to avoid a recession thus far. The debt maturity window really kicks off in the later part of this decade.

Most sectors have experienced near-record low vacancy & elevated rents (with the exception of commercial).

Stress in the space overall has reduced new capital supply.

Multi-family is going through a period of rent digestion following a much heavier

**The Opportunity:** Market dislocations may create attractive pockets of buying opportunity in the next 12-18 months. The opportunity in triple net lease is growing as we are seeing large corporations evaluate how they want to capitalize their balance sheets.

# The State of Private Markets: Asset Classes

## Infrastructure

Massive global investment gap. Policy support (IRA, CHIPS Act, Farm Bill) but government funding is constrained thus requiring private capital deployment at scale.

**Digital Infrastructure:** Surging demand for data centers, fiber networks and 5G towers in combination with growing power and connectivity needs is causing digital infrastructure to become a core allocation.

**Grid Resilience & Energy Transition:** Trillions will be needed to replace and upgrade aging grids and build out renewables and storage.

**Transportation & Logistics** (ex trucking): Growth of e-commerce and supply chain re-shoring are increasing demand for freight, logistics and mobility.

**The Opportunity:** Traditionally, infrastructure has served a hedge in inflationary periods. Today, we see an opportunity to increase allocations as demand for power and infrastructure spending is projected to increase exponentially. We recommend building exposures in core areas where we see meaningful uplift such as power generation, transportation, and digital infrastructure.

## Opportunistic & Uncorrelated

Markets at recent record highs with uncertainty continuing to increase leading to an increased focus on idiosyncratic risk and return.

The labor market and consumer spending remain strong, signaling resilience in the economy. However, warning signs are emerging in household finances.

Though stretched valuations and positioning are not helpful predictors of short-term returns, these stretched metrics suggest lower forward returns for equity and credit markets over the medium term.

**The Opportunity:** As market uncertainty continues to increase, we believe it is an opportune time to take equity risk premia off the table and to invest in strategies that are not just uncorrelated to broader markets but also to each other. We believe uncertainty and volatility are breed opportunity and we are constructive on areas such as land banking, water rights and litigation finance.

# The State of Alternatives: Hedge Funds & Volatility Strategies

## Hedge Funds & Volatility Strategies

Renewed interest as anticipation for volatility increases and as markets become choppier.

Heightened focus on post-tax returns for individual investing.

Volatility levels generally are increasing relative to the broad markets, and additionally, dispersion amongst managers has been meaningfully higher. Idiosyncratic pockets of volatility which have created opportunities for managers to put money to work and outperform.

Equity long/short continues to be challenged despite mixed performance outside of MAG7.

**The Opportunity:** Working on forming better quality access points to the space broadly thinking about the tax implications for investors.

Continue to believe that opportunity lies within the multi-strategy and less correlated strategies if the proper structures are in place especially given rising valuation across broader indices.

Event driven strategies likely to see more opportunity as capital markets become more active and will be driven by idiosyncratic events may present themselves in a more volatile yet pro-business environment.

# Asset Class Outlook: Alternatives

| Asset Class | Tactical View | Positioning Notes |
|---|---|---|
| **Growth & Venture** | ⬇ ⬆ | Given the valuation reset in venture, we see opportunities to gain access to higher quality businesses at more attractive entry points. We see this as a good time to increase allocations to quality venture managers. Within venture we have a preference for Seed-Series A. In Growth Equity, opportunities will present if the IPO window continues to reopen and as M&A activity reaccelerates. We remain neutral to underweight on growth until the environment begins to show signs of further momentum. |
| **Private Equity** | ▬ ⬆ | Manager selection and quality of return generation matter more than ever as the dispersion between winners and losers widens. Managers focused on driving value creation through margin expansion, operational efficiency and building a higher quality cap table to drive returns will prevail over those that lean on financial engineering. We see more opportunities for quality growth across the lower middle market and middle market vs. the upper market where financial engineering tends to be more prevalent. We also remain constructive across uncorrelated and opportunistic strategies. |
| **Private Credit** | ⬇ ⬆ | As the elevated interest rate environment persists and the syndicated loan markets remain closed, we see greater long-term opportunity across private credit with a critical eye towards underwriting and downside protection particularly as new entrants continue to flood the marketplace. Within the credit space we see opportunities to begin allocating to asset backed strategies as well as opportunistic managers that are able to capitalize on volatility as well as select incremental exposure to high quality managers in the middle market. We have less of a preference for direct lending strategies in the upper market and remain underweight in this area. |
| **Private Real Estate** | ▬ | Despite meaningful concerns, with the greater push for return to office, the sector has broadly been able to avoid a recession however, we remain underweight in the sub-sector. The debt maturity window is scheduled to come due in 2027-2030 which will likely present more opportunities through dislocation. The opportunity in triple net lease is growing as we are seeing large corporations evaluate how they want to capitalize their balance sheets. We continue to see attractive entry points withing bridge and opportunistic strategies particularly in gap capital. |
| **Real Assets & Infrastructure** | ⬆ | Traditionally, infrastructure has served a hedge in inflationary periods. Today, we see an opportunity to increase allocations as demand for power and infrastructure spending is projected to increase exponentially. We recommend building exposures in core areas where we see meaningful uplift such as power generation, transportation, and digital infrastructure. |
| **Opportunistic & Uncorrelated** | ⬆ | As market volatility continues to increase, we believe it is an opportune time to take equity risk premia off the table and to invest in strategies that are not just uncorrelated to broader markets but also to each other. We are constructive on areas such as land banking, water rights and litigation finance. |
| **Hedge Funds** | ⬇ ⬆ | Hedge funds have become increasingly interesting as market volatility persists and the environment becomes more hospitable for them. We are particularly excited about the potential for tax-deferred and tax-exempt structures to capture enhanced and uncorrelated after-tax returns. We are underweight strategies that tend to underperform in choppy markets. |
| **Structured Products** | ⬆ | Volatility has rebounded in 2025 which has presented an attractive environment to deploy capital. Issuer diversification and continuous health-checks are still a prudent strategy to mitigate credit risk. We maintain a preference for yield-focused structured notes that can take advantage of market dislocations to lock in positive returns with downside protection. |

# Conclusion

**Questions?**

# Disclosures

When referencing asset class returns or statistics, the following indices are used to represent those asset classes, unless otherwise notes. You cannot invest directly in an index. Index returns shown are total returns which includes interest, capital gains, dividends, and distributions realized over a given period of time. An individual who purchases an investment product which attempts to mimic the performance of a benchmark or index will incur expenses such as management fees and transaction costs which reduce returns.

TIPS: Bloomberg Barclays Global Inflation-Linked: U.S. TIPS Total Return Index Unhedged
Municipals 5-Year: Bloomberg Barclays Municipal Bond 5 Year (4-6) Total Return Index Unhedged USD
Core Bond: Bloomberg Barclays US Agg Total Return Value Unhedged USD
U.S. MBS: Bloomberg Barclays US MBS Index
High Yield Municipals: Bloomberg Barclays Muni High Yield Total Return Index Value Unhedged USD
High Yield: Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged USD
Foreign Bond: Bloomberg Barclays Global Aggregate ex-USD Total Return Index Value USD (50/50 blend of hedged and unhedged)
EM Debt (unhedged): J.P. Morgan GBI-EM Global Diversified Composite Unhedged USD
U.S. Large Cap: S&P 500 Total Return Index
U.S. Small Cap : Russell 2000 Total Return Index
International Developed: MSCI EAFE Net Total Return USD Index
Emerging Markets: MSCI Emerging Markets Net Total Return USD Index
World: MSCI ACWI Net Total Return USD Index
U.S. Equity REITs: FTSE Nareit Equity REITs Total Return Index USD
Commodities: Bloomberg Commodity Total Return Index
Midstream Energy: Alerian MLP Total Return Index
Hedge Funds: Hedge Fund Research HFRI Fund of Funds Composite Index
U.S.: MSCI USA Net Total Return USD Index

Europe: Euro Stoxx 50
United Kingdom: UK FTSE 100
Japan: Tokyo TOPIX Stock Exchange Index
China: Hang Seng Index
Brazil: Ibovespa Brasil Sao Paulo Stock Exchange Index
India: NSE Nifty Index
South Korea: Korea Stock Exchange KOSPI Index
Taiwan: Taiwan Stock Exchange Index

REITS Diversified: FTSE Nareit Eqty Diversified Total Return Index
REITS Healthcare: FTSE Nareit Eqty Health Care Total Return Index
REITS Industrial: FTSE Nareit Eqty Industrial Total Return Index
REITS Lodging/Resorts: FTSE Nareit Eqty Lodging/Resorts Total Return Index
REITS Office: FTSE Nareit Eqty Office Total Return Index
REITS Residential: FTSE Nareit Eqty Residential Total Return Index
REITS Retail: FTSE Nareit Eqty Retail Total Return Index
REITS Self Storage: FTSE Nareit Eqty Self Storage Total Return Index
REITS Data Centers: FTSE Nareit Equity Data Centers Total Return Index
REITS Specialty: FTSE Nareit Equity Specialty Total Return Index
Real Assets Agriculture: Bloomberg Sub Agriculture Total Return Index
Real Assets Industrial Metals: Bloomberg Sub Industrial Metals Total Return Index
Real Assets Precious Metals: Bloomberg Sub Precious Metals Total Return Index
Real Assets Energy: Bloomberg Sub Energy Total Return Index

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All data is subject to change without notice.



Abbreviations/Definitions: AI: artificial intelligence; CB: central banks; CPI: Consumer Price Index; Dot Plot: The Fed dot plot is published quarterly as a chart showing where each of the 12 members of the FOMC expect the federal funds rate to be for each of the next three years and the long term; EBITDA: Earnings before interest, taxes, depreciation and amortization; EM: emerging markets; EPS: earnings per share; HY: high yield; IG: investment grade; Initial Jobless Claims: measures the number of individuals who filed for unemployment insurance for the first time during the past week; IPO: initial public offering; Treasury General Account (TGA): Treausry's cash balance held at the Fed; Trimmed mean inflation: a measure that strips out the fastest and slowest growing prices each month, leaving behind a less noisy measure of core inflation; VIX is the ticker symbol for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

# Any questions?

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