Capital Markets Review | 3rd Quarter 2025

September 30, 2025

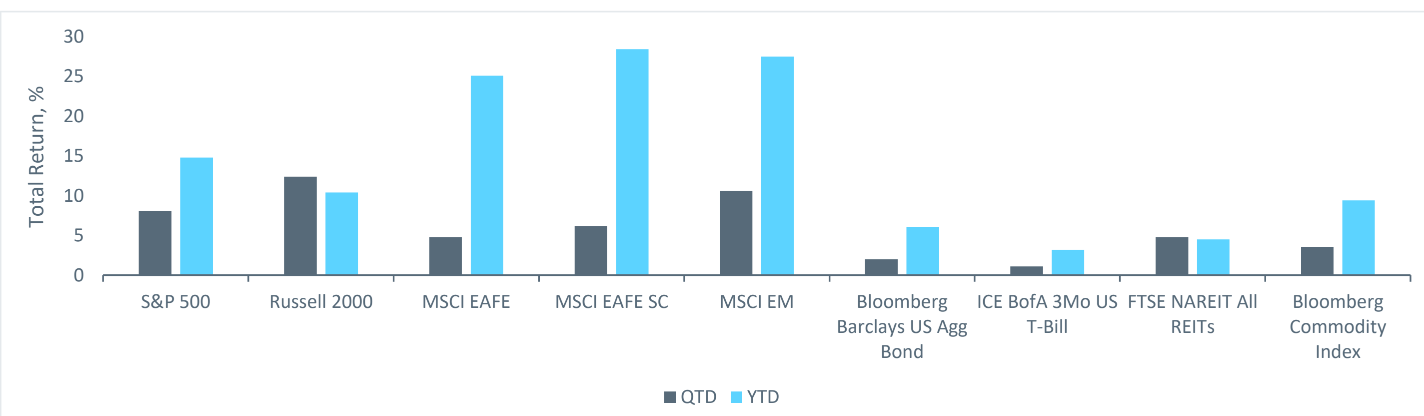
Overview

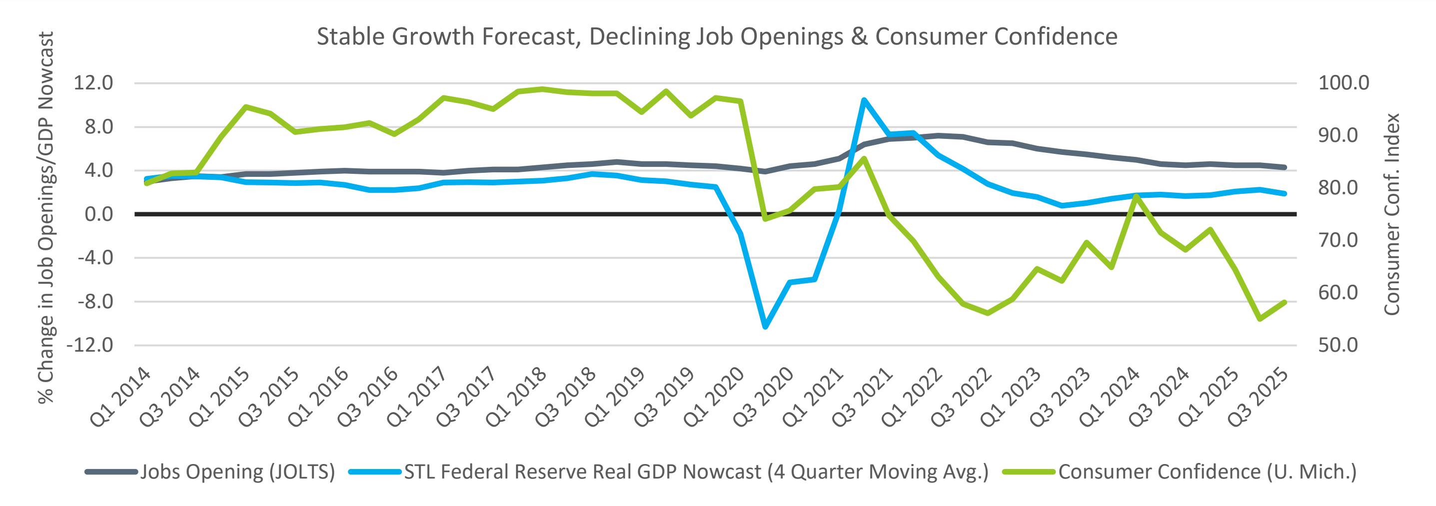
During Q3, risk assets benefited from a combination of expectations for more accommodative monetary policy, relatively stable economic fundamentals, and the announcement of trade agreements between the US and several major partners. Global equity markets delivered strong returns, continuing the upward trend observed since the market volatility experienced in early April around the initial US tariff announcement. Gains were supported by resilient corporate earnings, steady consumer spending, and sustained investor interest in technology and the continued development and adoption of artificial intelligence (AI). International equity markets also posted positive results with emerging markets benefitting from the strong returns of Chinese stocks. In Q3, US Treasury yields declined contributing to positive returns across most US fixed income indices. Gold prices rose sharply while crude oil prices weakened despite geopolitical risks and amid production adjustments by the Organization of the Petroleum Exporting Countries.

The US Federal Reserve shifted toward a more accommodative stance during the quarter. The Federal Open Markets Committee (FOMC) announced a 25 basis point reduction to the Federal Funds rate following its September meeting bringing the target range to 4.00%–4.25%. This marked the first reduction since December 2024 and reflected growing concerns about labor market trends despite inflation remaining above target. Members of the FOMC emphasized a data-dependent approach, and while FOMC forecasts for future interest rate cuts were divided, the median expectation was for two additional cuts in 2025. The decision occurred against a backdrop of political pressure and debate over the Fed's independence, as well as uncertainty regarding the pace of future easing.

Key economic data points released during the quarter sent mixed signals—underscoring the complexity of the current market environment. Labor market conditions weakened noticeably, with August payroll growth significantly below expectations and the prior 12-month estimate of job creation, ending March 2025, revised downward by more than 900,000 jobs. The unemployment rate edged up to 4.3% while consumer confidence declined to its lowest level since April. Inflation remained above target, with the core Personal Consumption Expenditures (PCE) price index at 2.9%. Manufacturing activity contracted, as indicated by Purchasing Managers' Index surveys, with companies citing higher input costs and subdued demand. In contrast, consumer spending showed more resilience with *(continued on next page)*

Quarter-to-Date (QTD) and Year-to-Date (YTD) Performance





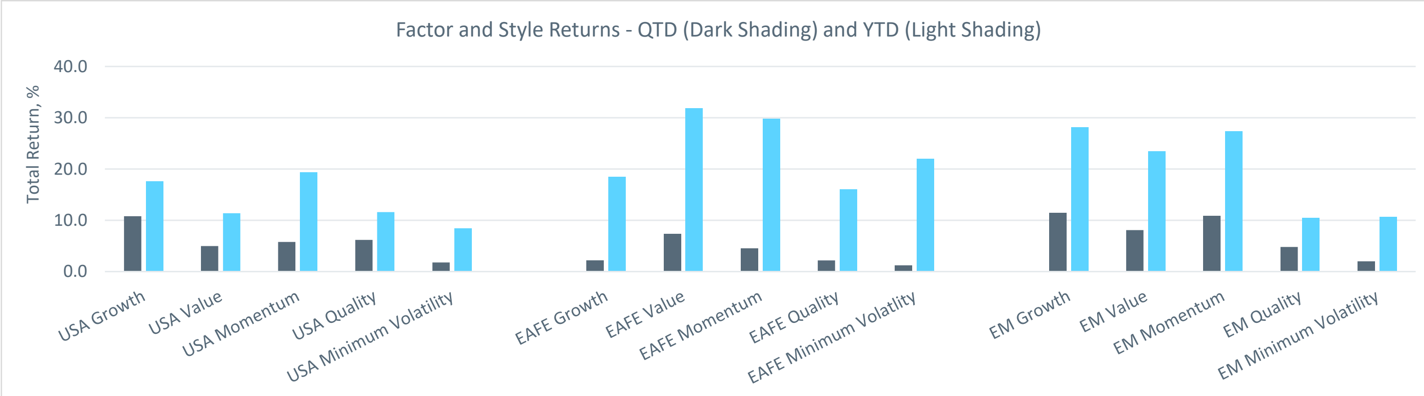
steady retail sales and robust travel demand, although some forecasters cited signs of stress among lower-income households. In its September projections, the FOMC forecasted real GDP growth of 1.6% for 2025 (an increase from its June forecast of 1.4%), a rise in the unemployment level to 4.5% by year-end, and core inflation (based on its preferred inflation measure, PCE) remaining above target and rising to 3.1%.

Outside the US, the European Central Bank maintained its deposit rate at 2%, signaling a pause after earlier easing measures as inflation stabilized near target and economic growth remained modest. Fiscal stimulus programs, including infrastructure initiatives in Germany and increased defense spending across the European Union, provided some support to economic activity. In Asia, China continued to face headwinds from its property sector debt overhang and subdued domestic consumer demand, while implementing incremental fiscal and monetary support rather than broad-based stimulus. Overall, international markets reflected a cautiously constructive outlook, supported by policy accommodation and easing trade tensions, but tempered by structural challenges in growth and inflation.

Expanded Review of Key Economic Indicators

	Q3 2025	Q2 2025	Q1 2025	10-Year Average
Federal Funds Rate	4.09%	4.33%	4.33%	2.08%
Treasury (2-Year)	3.60%	3.72%	3.89%	2.23%
Treasury (10-Year)	4.16%	4.24%	4.23%	2.64%
Treasury (30-Year)	4.73%	4.78%	4.59%	3.07%
Breakeven Inflation (5-Year)	2.45%	2.31%	2.63%	2.03%
Breakeven Inflation (10-Year)	2.37%	2.28%	2.37%	2.04%
Breakeven Inflation (30-Year)	2.25%	2.26%	2.26%	2.06%
BB US Corp: Hi Yld Index - OAS	2.67%	2.90%	3.47%	4.04%
Capacity Utilization*	77.38%	77.64%	77.85%	77.38%
Unemployment Rate*	4.30%	4.10%	4.20%	4.58%
ISM PMI - Manufacturing	49.10%	49.00%	49.00%	52.91%
ISM PMI - Service	50.00%	50.80%	50.80%	55.69%
Consumer Confidence (Conf. Board)	94.20	93.00	92.90	110.16
CPI YoY (Headline)*	2.90%	2.70%	2.40%	3.09%
PPI YoY - Producer Prices*	2.60%	2.30%	2.70%	2.98%
US Dollar Total Weighted Index	120.86	119.83	126.94	116.35
WTI Crude Oil per Barrel	$62	$66	$71	$63
Gold Spot per Ounce	$3,887	$3,303	$3,118	$1,750

* As of August 2025, September readings are delayed due to the US government shutdown.



US Equity

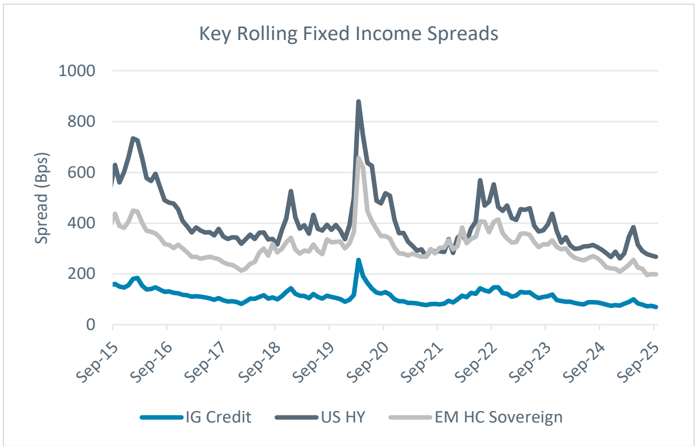
US equity markets experienced a strong quarter, supported by investor optimism around expectations for more accommodative monetary policy and generally stable economic conditions. AI, semiconductors, and cloud computing themes continued to play a significant role in bolstering equity returns, with the Russell 3000 Index returning 8.2% in Q3. Growth stocks outperformed value stocks, with the Russell 3000 Growth Index returning 10.4% and the Russell 3000 Value Index returning 5.6%. Small-cap stocks outperformed large-cap stocks for the first time since Q3 2024, with the Russell 2000 Index returning 12.4% compared to an 8.0% gain for the Russell 1000 Index. Within the Russell 3000 Index, performance was driven significantly by three sectors: Information Technology (returning 13.1%), Communication Services (11.8%), and Consumer Discretionary (8.9%). The only sector that did not post positive returns was Consumer Staples (-2.5%).

Small-cap stock outperformance over large-cap stocks in Q3 was broad-based, with three of the four largest sectors in the small-cap space posting double-digit returns: Industrials (16.6%), Health Care (14%), and Information Technology (15.9%). The largest small-cap sector, Financials, performed more modestly during the quarter at 4.5%. Overall, it was a difficult environment for active managers, with many positioned more cautiously among the higher multiple stocks associated with current market themes.

Non-US Equity

Developed international markets posted positive returns in Q3; however, they trailed the US after outperforming in Q1 and Q2. The MSCI EAFE Index posted a 4.8% return for the quarter as sentiment improved following new trade agreements with the US. Value stocks outperformed growth stocks, while large-cap stocks outperformed small-cap stocks. All sectors across the developed markets were positive, except for Consumer Staples, which delivered moderately negative returns. Japan was the top-performing region in Q3 despite slowing GDP growth and uncertainty from the recent election. Most active international managers underperformed during the quarter across all styles and market capitalizations.

Emerging markets continued their strong year, with the MSCI Emerging Markets Index returning 10.6% in Q3. Continuing a recent trend, growth stocks in emerging markets outpaced value stocks. By market cap, large-cap stocks outperformed small-cap stocks during the quarter. Markets were led higher by the continued rally in Chinese technology stocks due to ongoing AI enthusiasm. Conversely, India was a top detractor, as the market reacted to tariffs imposed by the US and India's significant exposure to the new H-1B visa fee. The majority of active core and growth managers underperformed their respective benchmarks in Q3, with value managers faring better during the period.



Fixed Income

In Q3, the Fed delivered its first rate cut of the year at the September meeting, lowering the policy rate by 25 basis points. While the move was widely anticipated, the Fed has framed the move as a risk management exercise, rather than signaling the start of a rapid easing cycle. Treasury yields drifted lower during the quarter, particularly at the front end, resulting in modest steepening of the yield curve.

Fixed income markets generated positive returns as yields moved lower. The Blomberg US Aggregate Bond Index returned 2.0%, supported by falling yields and the continued strength in credit. Investment-grade bond spreads continued to tighten to decade lows, with the Bloomberg US Corporate Investment Grade Index advancing 2.6% in Q3.

Lower-quality issuers also participated, as investors continued to favor carry over caution amid stable default expectations, with the Bloomberg US Corporate High Yield Index gaining 2.5%.

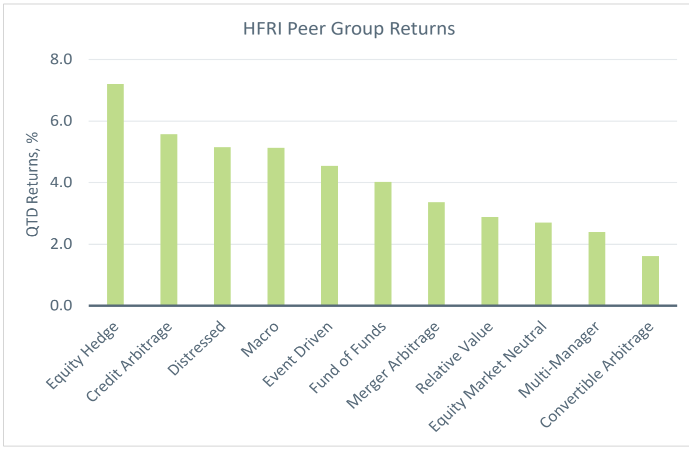
Emerging market debt also delivered strong performance, supported by spread compression and more stable US dollar strength compared to prior quarters. Hard currency bonds outpaced local currency issues, with the JPMorgan EMBI Global Diversified Index returning 4.8%, versus a 2.8% gain for the JPMorgan GBI-EM Global Diversified Index.

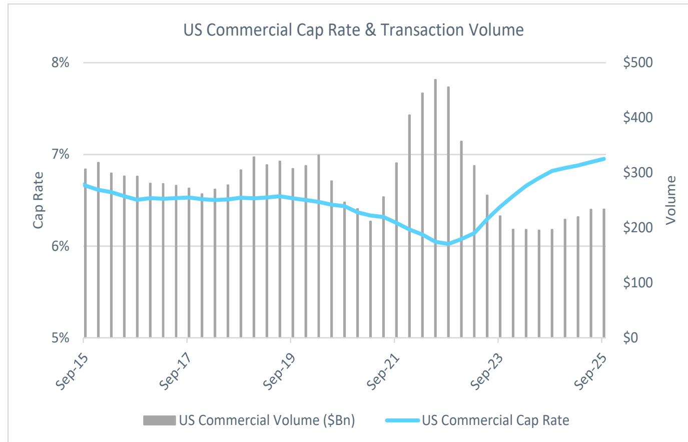
Multi-Asset

Global Tactical Asset Allocation (GTAA) strategies that RVK follows closely generated positive performance, with a subset outperforming a US centric blend of 60% equity and 40% fixed income (60/40 blend). The best performing long-biased strategies were those with higher allocations and strong security selection in emerging markets—especially Chinese equities—as well as developed ex-US markets, specifically Japan. Gold exposure contributed to returns as well.

Risk Parity strategies and other approaches that target reduced correlations, low volatility, and limited market sensitivity posted positive returns but underperformed a 60/40 blend. Alternative Risk Premia strategies that RVK follows closely posted disparate returns, with the strongest performers benefiting from trend-following exposures in long equity index, gold, silver, and volatility strategies.

Diversified Inflation Strategy (DIS) managers tracked closely by RVK reported positive performance for the quarter, but most underperformed the 60/40 blend. The top performing managers benefited from larger exposures to inflation linked bonds, natural resources, and allocations to precious metals, particularly gold and silver. Managers that lagged peers had higher exposure to energy, particularly natural gas and agriculture commodities impacted by tariff negotiations.





Diversified Hedge Funds

In Q3, hedge funds continued a year of generally positive performance, with the HFRI Asset Weighted Composite Index returning 4.8%, on a preliminary basis, resulting in a year-to-date return of approximately 7.5%.

Macro managers enjoyed a strong quarter after more lackluster results earlier in the year. The HFRI Macro Total Index returned 5.1% in Q3, bringing its year-to-date performance into positive territory at 3.8%. Some managers' positions benefited from a trend toward more accommodative monetary policy. In similar fashion, expectations for lower policy rates aided equity positions as the HFRI Long/Short Directional Index returned 7.7% in Q3, bringing its year-to-date performance to 14.1%. As equity markets continued to trend positively, managers with higher net long exposures fared better than their market neutral counterparts.

Fixed Income spreads continued to contract during the quarter, benefiting Credit Arbitrage managers, especially those with relatively larger high yield exposures. In Q3, the HFRI Credit Arbitrage Index finished with returns of 5.6%, and the HFRI Distressed/Restructuring Index returned 5.2%. Diversified strategies remained consistently positive during the quarter, with the HFRI Multi-Manager Index and the HFRI Fund of Funds Index posting gains each month. Year-to-date, these two indices are now up 6.8% and 6.9%, respectively.

Real Estate

Core private real estate generated a positive 0.7% total return in Q3 (preliminary and gross of fee basis), as reported by the NFI-ODCE Index. Total performance was primarily driven by a 1.0% income return, partially offset by a price depreciation return of -0.3%. Income returns continue to drive recent index gains, as price returns have fluctuated slightly between positive to slightly negative over the past five quarters. For the 1-year period ended September 30, 2025, income returns of 4.1% remain above the 3- and 5-year trailing returns. Q3 marked the fifth quarter of positive total returns for the NFI-ODCE after the significant correction to core private real estate that began in Q4 2022. Publicly traded real estate delivered a total return of 2.7%, as measured by FTSE/NAREIT All REITs Index, bringing year-to-date returns to 4.5%.

At this point, real estate pricing appears to have neared a bottom for most sectors. However, even in sectors with improving fundamentals, uncertainty surrounding trade and fiscal and monetary policy have left many businesses and renters reluctant to commit to leases. Under these conditions, many multifamily and certain industrial markets continue to face oversupply issues. However, with construction starts slowing amid rising costs, the supply outlook appears more favorable looking ahead to 2026.

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