

Capital Markets Review | 1st Quarter 2025

March 31, 2025



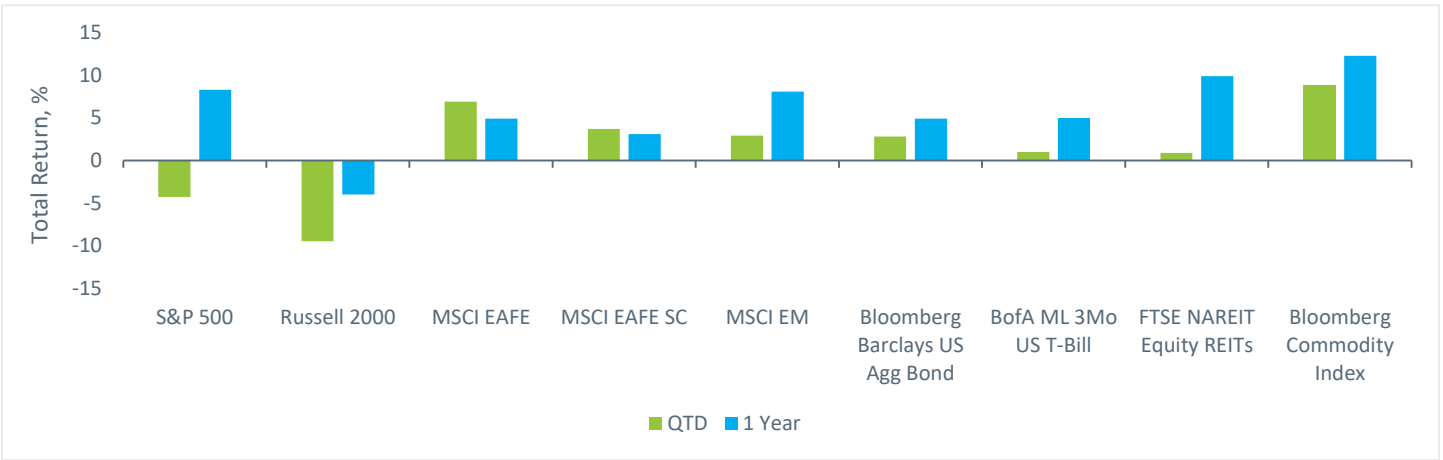
Overview

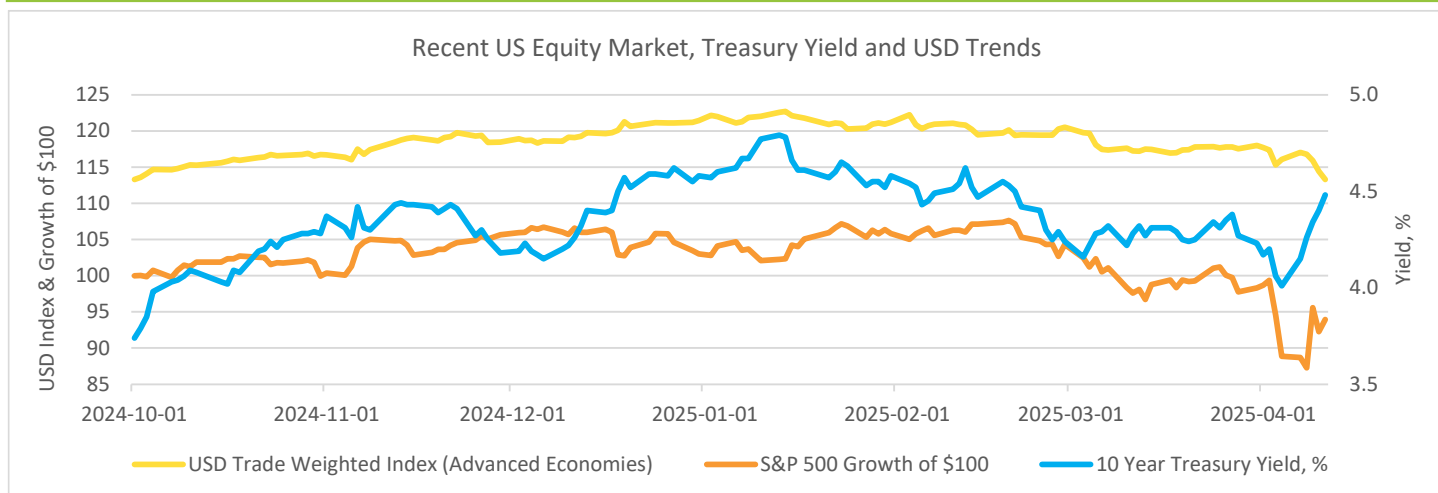
An upward trend in the US equity market during the beginning weeks of Q1 reversed sharply as the quarter progressed. The emergence of DeepSeek, an artificial intelligence (AI) tool developed in China, negatively impacted investor sentiment for companies at the top of the US equity market as well as other companies tied to the AI theme. Specifically, the market reversal was spurred by the claimed lower development cost of DeepSeek and the associated implications for the significant AI investments being made by some of the largest US companies. Investor sentiment was depressed further by uncertainty around the impact of US trade policy on economic growth and corporate profit margins. The combination of the volatility among companies with valuations tied directly to AI and the looming risks regarding US tariff policy led to a negative quarter for US stocks—in particular growth-oriented stocks. Equity markets in Europe and Japan were more resilient, while China stocks experienced a positive quarter. Aggregate bond markets delivered positive results in Q1, supported by declining Treasury yields, upward price movement among securitized debt, and a generally positive outlook on corporate debt.

However, Q1 capital market trends were quickly overshadowed by significant volatility beginning shortly after quarter-end. Earlier in Q1, the US placed tariffs on various goods, focusing on those from Canada, Mexico, and China. On April 2nd, the US announced a much broader and higher rate tariff policy than markets expected across a wide range of trading partners, causing further downward pressure on risk asset prices and heightened volatility. The policy included a general 10% tariff on imports, but more notably, it imposed significantly higher tariffs on individual countries based on their trade surplus for goods with the US. Shortly after the tariffs became effective on April 9th, there was a 90-day pause announced, which led to a rebound in risk asset prices and relatively lower equity market volatility. One notable exception to the pause was China, with each country having raised tariff levels following the initial announcement. As of mid-April, US and China tariff levels remain elevated, with some exceptions communicated thus far.

At this point, the impact of US trade policy on near-term inflation is uncertain given the potential for further tariff escalation or de-escalation through negotiations with trading partners. In contrast to the expectations of some forecasters, the US Dollar (USD) weakened as a result of the tariff-induced volatility, *(continued on following page)*

1st Quarter and 1 Year Performance



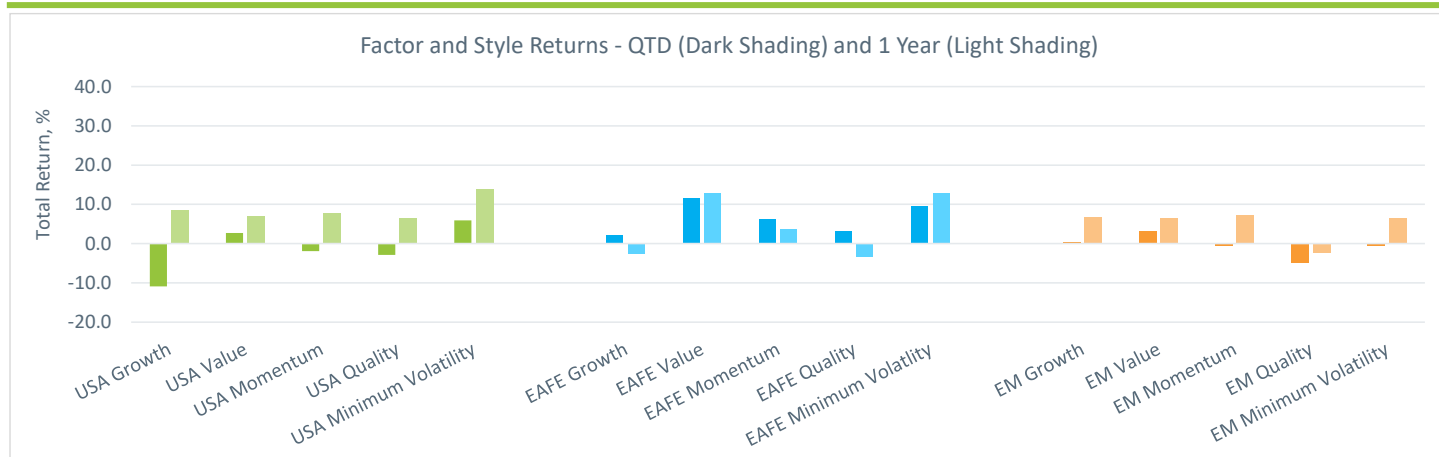


which appears to represent the market recalibrating to account for policy retaliation, inflationary pressures, currency market shifts, and potential actions by the US Federal Reserve. The US Treasury market initially reacted to risk asset volatility similar to past moments of market stress with demand increasing and yields declining, but it experienced significant volatility on April 9th with yields spiking higher. While yields did decline following the pause on tariffs, uncertainty and volatility have persisted. Investment-grade and high-yield spreads widened sharply in early April, but they remain in range of long-term averages.

While recession probabilities declined following the tariff pause, the market generally appears to expect current trade policies and the uncertainty of future related actions to be a drag on global economic growth. Investors are closely watching the US Federal Reserve. Commentary from Federal Open Market Committee (FOMC) members prior to April 2nd had set expectations that an initial price increase from tariffs was unlikely to significantly impact longer-term inflation. However, recent actions have increased speculation regarding how the US Federal Reserve will address the potentially competing needs to support employment while also controlling inflationary pressures.

Expanded Review of Key Economic Indicators

	Q1 2025	Q4 2024	Q3 2024	10-Year Average
Federal Funds Rate	4.33%	4.33%	4.83%	1.86%
Treasury (2-Year)	3.89%	4.25%	3.66%	2.07%
Treasury (10-Year)	4.23%	4.58%	3.81%	2.26%
Treasury (30-Year)	4.59%	4.78%	4.14%	2.97%
Breakeven Inflation (5-Year)	2.63%	2.37%	2.09%	1.98%
Breakeven Inflation (10-Year)	2.37%	2.33%	2.19%	2.01%
Breakeven Inflation (30-Year)	2.26%	2.32%	2.20%	2.04%
BB US Corp: Hi Yld Index - OAS	3.47%	2.87%	2.94%	4.13%
Capacity Utilization	77.85%	77.63%	77.49%	77.36%
Unemployment Rate	4.20%	4.10%	4.10%	4.63%
ISM PMI - Manufacturing	49.00%	49.20%	47.20%	53.05%
ISM PMI - Service	50.80%	54.00%	54.90%	56.03%
Consumer Confidence (Conf. Board)	92.90	104.70	98.70	110.30
CPI YoY (Headline)	2.40%	2.90%	2.40%	2.99%
PPI YoY - Producer Prices	2.70%	3.30%	1.90%	2.83%
US Dollar Total Weighted Index	126.66	128.70	121.53	115.68
WTI Crude Oil per Barrel	\$72	\$72	\$68	\$63
Gold Spot per Ounce	\$3,133	\$2,612	\$2,636	\$1,639



US Equity

In Q1, there was a pullback in US equity markets with the Russell 3000 Index declining -4.7% amid trade policy uncertainty and concerns around foreign competition for US companies tied to the AI theme.

Growth stocks were hit particularly hard, with the Russell 1000 Growth Index and the Russell 2000 Growth Index returning -10.0% and -11.1%, respectively. The negative performance of the large-cap segment, represented by the Russell 1000 Index, was mostly attributable to a drop in the Information Technology and Consumer Discretionary sectors, down -12.7% and -10.1%, respectively.

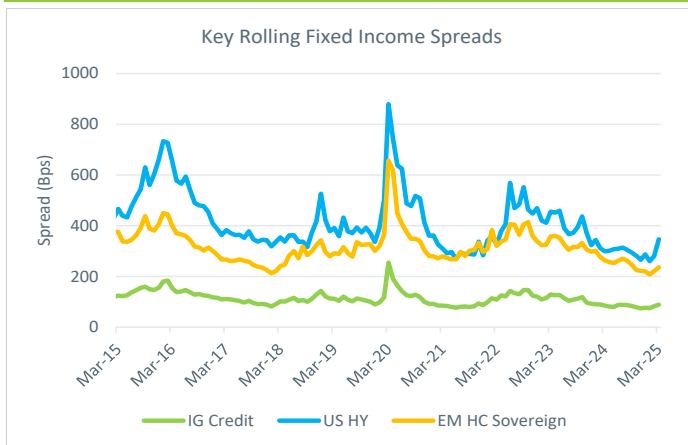
In a reverse of previous trends, the “Magnificent Seven” stocks were the negative contributors to Russell 1000 Index performance, with the two biggest detractors being NVIDIA (-19.3%) and Apple (-11.2%). In general, value outperformed growth with the Russell 1000 Value Index up 2.1%, as more defensive sectors provided relative downside protection during the quarter.

Active managers fared during well the quarter, with the median manager in large- and small-cap outperforming their respective benchmarks. The only exception was large-cap value managers, who struggled to outperform a market index given the better performance of less volatile, defensive companies rather relative to companies with attractive relative valuations and forward growth prospects favored by many active managers.

Non-US Equity

Developed international markets significantly outperformed the US in Q1, with the MSCI EAFE Index posting a 6.9% return for the quarter. International value stocks continued to outperform growth stocks. Over the trailing 12 months, the MSCI EAFE Value Index has outperformed its growth counterpart by 15.9%. International small-cap continued to lag large-cap but remained in positive territory. Europe was the top-performing developed region in Q1, supported by substantial fiscal stimulus that expanded defense and infrastructure spending. Most active international managers outperformed in Q1 across all styles and market capitalizations.

Emerging markets underperformed developed markets in Q1, with the MSCI Emerging Markets Index returning 2.9%. Within emerging markets, value stocks outperformed growth stocks, while large-cap stocks significantly outperformed small-cap stocks, each a reversal from the prior quarter. Emerging small-cap stocks were the one broad area of weakness in an otherwise positive international market landscape. The majority of active emerging market managers underperformed for the quarter. Despite persistent structural challenges in the real estate sector and concerns about the impact of tariffs, China experienced a significant market rebound, led by the Technology sector, given optimism for the sector following the release of the DeepSeek model in late January.



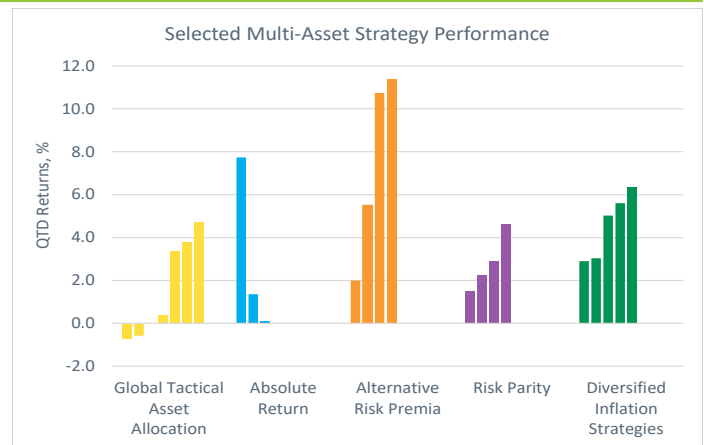
Fixed Income

The first quarter was marked by broad fixed income market uncertainty, driven by mixed economic signals and the looming threat of US tariffs and related trade tensions. The US Federal Reserve held policy rates steady in March at 4.25%–4.50%, with mixed dot plot signals and a lowered 2025 GDP forecast reflecting differing economic expectations among FOMC members.

The US Federal Reserve also slowed the balance sheet runoff by cutting monthly Treasury redemptions to \$5 billion, while maintaining the \$35 billion cap for Agency MBS. Treasury yields mirrored the shifting sentiment—with the 10-year Treasury yield climbing to 4.79% in January before retreating to 4.23% by quarter-end.

The Bloomberg US Aggregate Bond Index returned 2.8% during the quarter. A risk-off tone led to a pullback in risk assets, with higher-quality bonds outperforming lower-quality ones. The Bloomberg US Corporate Investment Grade Index returned 2.3% in Q1, while the Bloomberg US Corporate High Yield Index gained 1.0%.

With the backdrop of a weaker USD relative to local EMD currencies, the JPMorgan EMBI Global Diversified Index (hard currency) returned 2.2%, underperforming the JPMorgan GBI-EM Global Diversified Index (local currency), which gained 4.3% for the quarter.

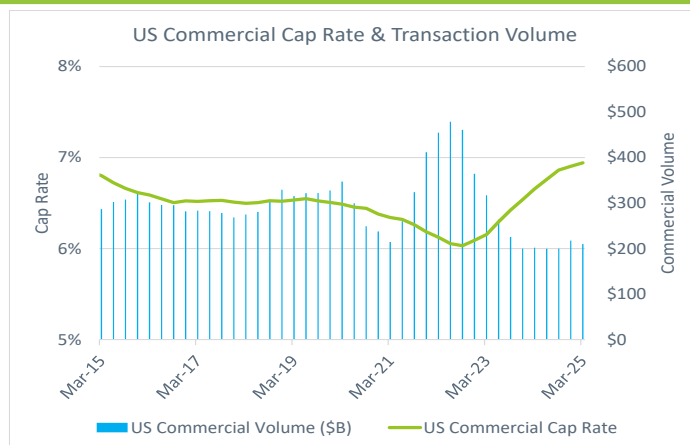
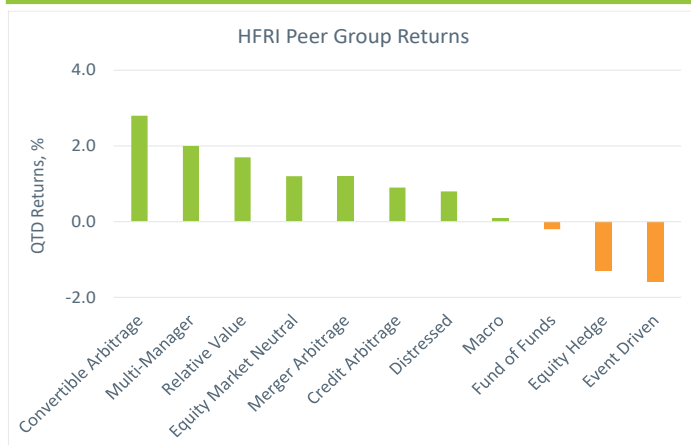


Multi-Asset

Global Tactical Asset Allocation (GTAA) strategies that RVK follows closely generated disparate performance in the first quarter, but all outperformed a static, US centric blend of 60% equity and 40% fixed income (60/40 blend). The top performing long-biased GTAA strategies were those that featured a higher allocation to fixed income, particularly US Treasuries and international equities emphasizing a value orientation. Managers who trailed peers held higher exposures to US equities and growth-oriented stocks, particularly those in the Technology and Communication Services sectors.

Multi-asset managers targeting reduced correlations, low volatility, and limited market sensitivity outperformed a 60/40 blend. Alternative Risk Premia strategies that RVK follows closely also posted strong returns. The best performing managers in this group benefitted from stock selection that was primarily driven by momentum and defensive signals, coupled with a relative short position in US securities.

Diversified Inflation Strategy (DIS) managers tracked closely by RVK reported positive performance for the quarter and outperformed a 60/40 blend. The top performing managers held larger exposures to interest rate strategies in the US and Europe, as well as global listed infrastructure. Managers that lagged peers had higher exposure to global real estate and natural resource equities, particularly in the underlying Energy, Metals & Mining, and Agriculture sectors.



Diversified Hedge Funds

Hedge funds began the year with mixed results, as global markets experienced turbulence in March from rising fears of a trade war. Preliminary performance suggests that the HFRI Asset Weighted Composite Index finished the quarter with a modest positive return of 0.6%.

Directional strategies generally suffered the most during the March sell-off, reversing many longer-term trends. The quarter generally resulted in losses for both long-biased hedged equity managers and trend-following managers. Technology and Health Care focused managers were some of the worst performers.

Event Driven strategies saw difficulty as well, as deleveraging and economic uncertainty impacted corporate activity. However, Merger Arbitrage strategies produced positive returns. Despite the optimism for an improved M&A environment, Q1 saw the lowest volume of announced deals during a first quarter in decades.

Equity Market Neutral and other relative value strategies fared much better than their directional peers. These managers were generally insulated from the broad market swings and were able to preserve their January and February gains. Strategies that thrive in volatile markets ended the quarter positive and posted strong performance in March. In particular, Market Neutral Quant Equity strategies and Convertible Arbitrage strategies have performed well relative to peers thus far in 2025.

Real Estate

Core private real estate generated a positive 1.05% total return in Q1 (on a preliminary and gross of fee basis), as reported by the NFI-ODCE Index, with income and price appreciation contributing 1.01% and 0.04% to the total return, respectively.

Income returns were similar to the prior quarter and remain slightly elevated over recent years. The 1-year income return of 4.15% was slightly above the 10-year average of 4.09%, outperforming the 3- and 5-year averages. Q1 was the second consecutive quarter of positive appreciation returns after nine consecutive quarters of negative price appreciation for the NFI-ODCE. Investors of publicly traded real estate outperformed their private market counterparts. Publicly traded real estate delivered a first quarter total return of 2.9%, as measured by the FTSE/NAREIT All REITs Index.

Negative price appreciation in institutional real estate continues to slow, and there are encouraging signs of stabilization with small levels of price appreciation. Overall, the transaction market has continued to improve, though it is still below the prior peaks. The Q1 returns in both public and private real estate assets further reinforce an ongoing inflection point in property markets. Unfortunately, these positive developments may be offset by the elevated uncertainty introduced through recent tariff actions and the risk of related supply chain disruptions.

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