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An IMA Company

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2025 Capital Markets Forecast

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Executive Summary

In our Capital Markets Forecast published at the beginning of 2024, we noted that the challenges we faced included the fight against inflation, the outcome and path forward from the November elections, and current and potential geopolitical crises in Europe and the Middle East and around China.

Today, the results of the elections are in, and the anticipation has begun regarding potential impact from changes in taxes, regulations and import tariffs.

The Fed's monetary tightening regime, in place since 2022, came to an end with the first rate cut in September. Inflation has moderated greatly, but persists, and the open questions are around the future path for rate cuts, inflation, and the economy.

And geopolitical tensions are perhaps not much different than they were at the beginning of the year, with conflict persisting in Ukraine and the Middle East, and continued questions around China, as that nation struggles with its internal growth, and future tensions around trade are possible as well.

We continue to have a positive outlook for stocks and other return-seeking assets in 2025. We recommend staying diversified, emphasizing large and mid-cap US stocks, continuing to move toward more core fixed income relative to shorter-term bonds, and considering the role that private assets (including equity, debt and infrastructure) can play in portfolios seeking long-term growth.

For the past decade, Syntrinsic has developed our annual Capital Markets Forecast to inform long-term strategic asset allocations and near-term tactical shifts. Our long-term return assumptions for each asset class are based on quantitative building blocks that are less prone—but not immune to—our subjective musings. Of course, we continue to learn from experience, refining our process as we access new information.

Our approach provides a rational and measurable way to anticipate the returns available from equity, fixed income, real estate, commodities, hedge fund strategies, and private investments. We also realize that from time-to-time, economic and/or market conditions create opportunities to add value on the margins by modestly reducing or increasing asset class and segment allocations. As a result, we craft a near-term sentiment to complement our long-term forecast. Our near-term sentiment evaluates opportunities and measurable risks to adjust allocations with a three-year perspective in mind.

Sincerely,

Mike Sebastian
Head of Investment Solutions
Syntrinsic

Near-Term Sentiment Overview

Asset Class/Segment	Current Near-Term Sentiment	2024 Mid-Year Near-Term Sentiment
Global Equities	**Neutral/Positive**	**Neutral/Positive**
US	Neutral/Positive	Neutral/Positive
Non-US Developed	Neutral	Neutral
Emerging Markets	Neutral	Neutral
Global Fixed Income	**Neutral/Positive**	**Neutral/Positive**
Short-Term Bond	Neutral	Positive
Core Bond	Neutral/Positive	Positive
Core Plus Bond	Neutral/Positive	Positive
Non-US Developed Bond	Neutral	Neutral
Emerging Markets Bond	Neutral	Neutral
Real Assets	**Neutral**	**Neutral**
Real Estate	Neutral	Neutral
Commodities	Neutral/Negative	Neutral/Negative
Infrastructure	Neutral/Positive	Neutral/Positive
Hedge Fund Strategies	**Neutral**	**Neutral**
Private Equity	**Neutral/Positive**	**Neutral/Positive**
Private Debt	**Neutral/Positive**	**Neutral/Positive**

Syntrinsic has moved its near-term sentiment on short-term bonds to **Neutral**, as the end of the Fed's tightening cycle and the beginning of rate cuts, with more expected throughout 2025, has reduced the near-term attractiveness of short-term fixed income relative to core/market duration[1]. Market-duration fixed income investments also have greater ability to diversify into other areas including high yield, and to opportunistically shift duration and sector exposure through active management.

Core and core-plus bond near-term sentiment has been moved to **Neutral/Positive**, based on uncertainty about economic growth and inflation in the coming months and years, as well as historically tight spreads in yield for corporate and high-yield bonds over government bonds.

We are not recommending broad changes to our fixed income posture, but will be monitoring the situation and may make adjustments later in 2025, as the market environment, including potential further interest rate cuts and policy actions by the new administration, continues to develop.

[1] Duration is a measure of the interest rate sensitivity of a bond. A bond with longer duration has (all else equal) more exposure to price declines when interest rates rise. It is calculated as the weighted time until cash flows from the bond are received.

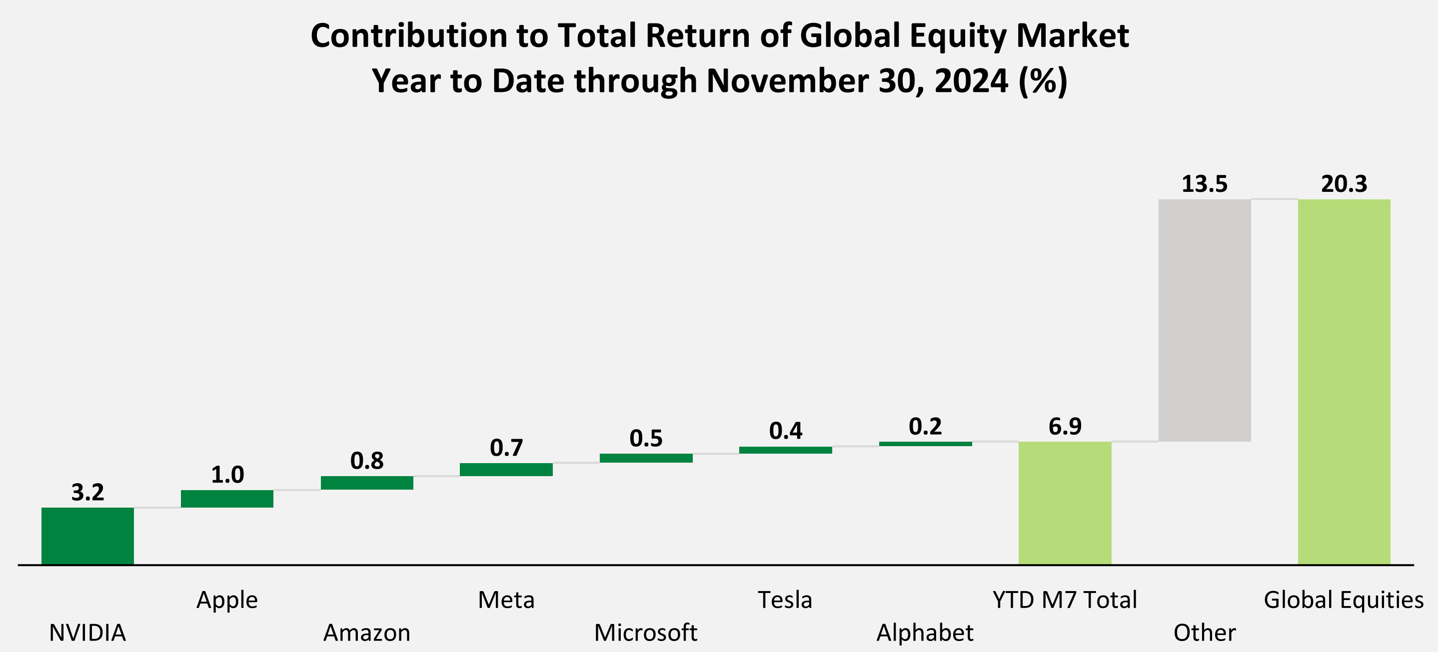
I. Outlook

Global Equities Outlook

JAS CHEN, CFA, SENIOR ANALYST

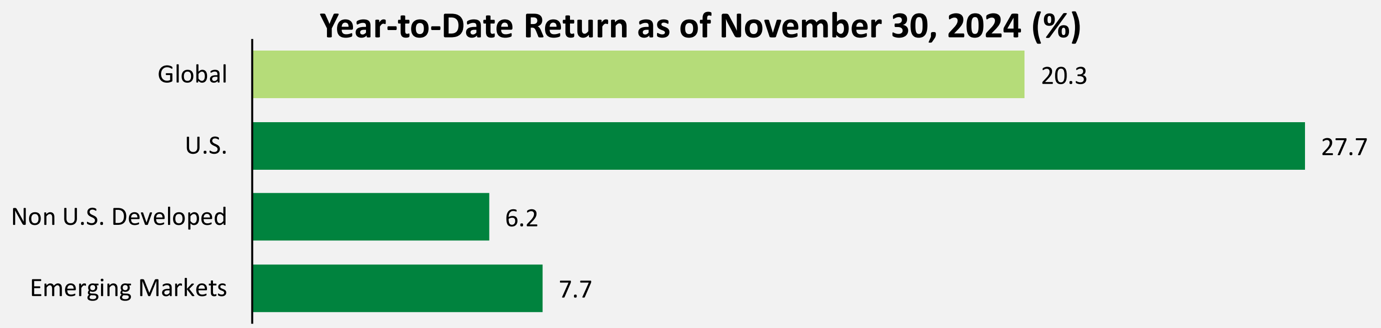
2024 Global Equities Recap

Global equity markets demonstrated strength in 2024, despite signs of slowing economic growth and heightened geopolitical tensions. The second half of the year was marked by improving market breadth across regions, though US equities maintained their leadership, particularly through companies at the helm of artificial intelligence developments—notably the Magnificent 7. Equities welcomed a shifting monetary landscape as inflation continued its downward trajectory across most regions, prompting many developed-market central banks to begin easing policy rates, albeit at a more measured pace than initially anticipated. Japan diverged from this trend, hiking twice during the year, marking an end to the country's eight-year negative interest rate policy. The Bank of Japan’s pivot prompted an appreciation in the yen, leading to a carry trade (borrow cheaply in yen, invest in higher-yielding investments in other countries) reversal that dislocated equity markets briefly in August. Outside of this volatility event, all seemed optimistic for global equities and the prospect of a once-anticipated global recession now seems to have faded, emphasizing the importance of staying prudent and on course with asset allocation.



Sources: MSCI (the MSCI All-Country World Index [ACWI] represents Global), Morningstar, Syntrinsic

Through November 30, 2024, global equities returned 20.3%. The US market led this advance with a 27.7% year-to-date return, significantly outpacing non-US developed and emerging markets at 6.2% and 7.7%, respectively. US equities achieved this relative outperformance while maintaining comparable volatility of 10.5%, similar to that of developed non-US markets (10.1%) and below emerging markets (13.0%).

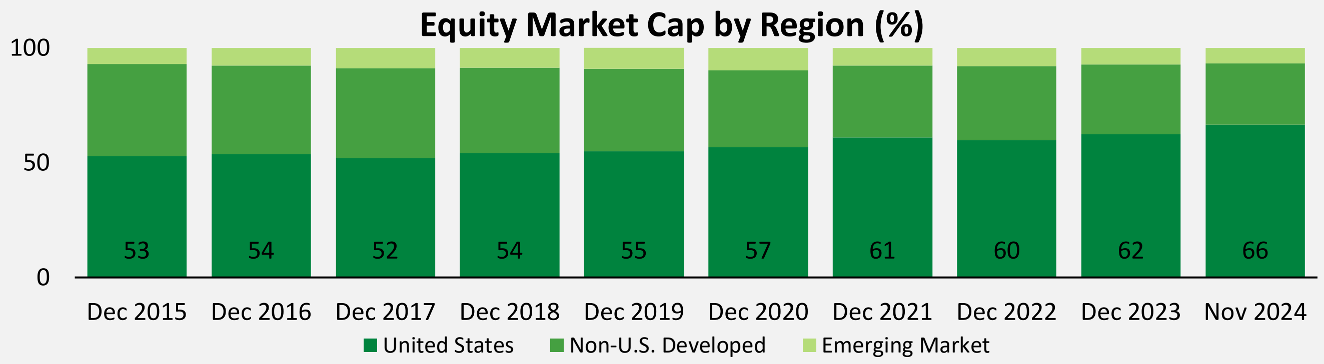


Source: (MSCI ACWI Index represents Global, Russell 3000 Index represents US Equities, MSCI EAFE Index represents Non-US Developed, and MSCI Emerging Markets represents Emerging Markets), Morningstar.

Global Equities Outlook: US Still in the Driver's Seat

Our near-term outlook for global equities remains **Neutral/Positive**, driven by US market exceptionalism relative to other regions, abating global inflationary conditions, and a reasonable likelihood of easing monetary policies in most part of the world over the next few years. With US-domiciled companies representing approximately 66% of global market capitalization, the **Neutral/Positive** outlook we have for the US equity market offsets the more **Neutral** near-term outlook we have for both non-US developed and emerging markets.

Within global equities, we continue to break out companies domiciled in the United States, developed countries outside the US, and emerging markets. While imperfect given the (still) globalized economy dominated by multinational firms, the structure recognizes important differences in rule of law, central banking, regulatory environment, maturity of the banking system, and wealth of consumers and businesses.

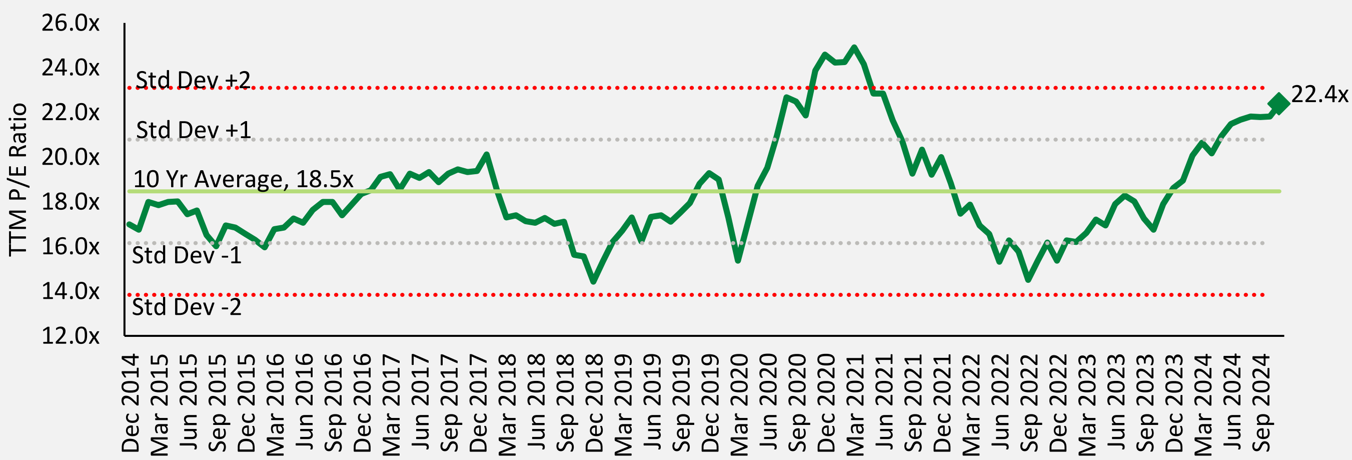


Source: (MSCI ACWI Index represents Global), Morningstar, Syntrinsic

US market outperformance further amplified concentration within global markets, pushing US constituent dominance to historical highs. *Strategically, we remain slightly overweight US equities even relative to these new allocation highs.* Additionally, the top 10 global equities constituents currently represent 22% of the market, up from 18% a year ago. For context, in 2014, the top 10 constituents accounted for just 9% of the market. Unsurprisingly, concentration risks in global equities were driven by meaningful increases in top 10 concentration within US markets, which will be discussed further in the United States section below.

Strong equity performance has driven valuations higher across global markets. Global equities are trading at a trailing twelve-month price-to-earnings ratio of 22.4x, more than 20% above the 10-year average of 18.5x. Current valuations sit well above long-term historical norms (95th percentile of observations over the past decade.) While elevated, these levels remain below extremes seen during the 2020-21 period. Keep in mind, a trailing P/E is based on actual, reported earnings, which suits the *historical* comparison for global equities, but may not fully reflect the market dynamics going forward.

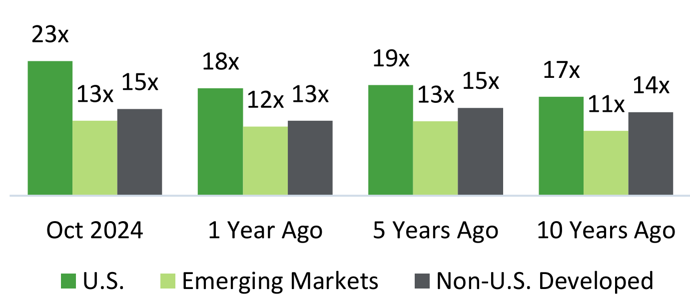
Global Equities: Notable Rise in Valuations



Source: (MSCI ACWI Index represents Global), Morningstar, Syntrinsic

Before we discuss each region, we note that the valuation gap between US and non-US equities as measured by the forward price-to-earnings ratio has widened even further compared to last year, reaching a 10-year high. Compared to the above trailing metric, a forward-looking metric reflects investors' growth expectations and their willingness to pay for that future growth. Despite favorable discounts in non-US developed and emerging markets, this premium suggests continued expectations of US market leadership going into 2025.

Forward P/E



Source: (Russell 3000 Index represents US Equities, MSCI EAFE Index represents Non-US Developed, and MSCI Emerging Markets represents Emerging Markets), Bloomberg, Syntrinsic

US Equities

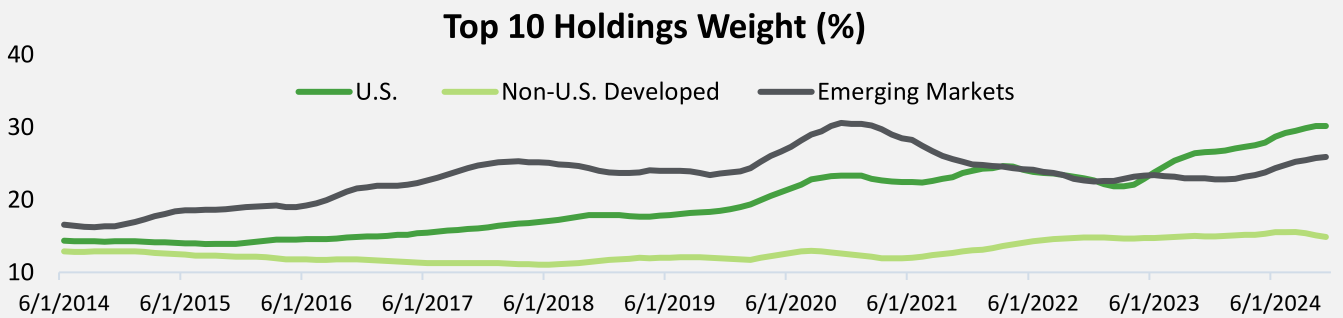
ELI DAVIDOFF, RESEARCH ANALYST AND JAS CHEN, CFA, SENIOR ANALYST

We are maintaining our near-term **Neutral/Positive** sentiment for US equities with minimal changes to our outlook from the prior year. US equities' attractiveness relative to non-US remains intact. Despite potential policy and regulatory uncertainties heading into 2025, we expect the major economic initiatives (currently in place and anticipated) to remain supportive of economic growth. Coupled with inflation falling to target levels and reasonable likelihood of future rate cuts, we expect US equities to maintain its relative strength, barring no exogenous shocks. While attractive, we recognize several risks such as concentration risks, valuation levels near historical highs, and shifting demographics to an older population, that could potentially challenge current market exceptionalism.

Concentration has been a recurring theme throughout the history of the United States stock market. Notable historical instances of concentration include the rise of the railroad industry from 1840 to 1875, during which, following the conclusion of the Civil War, the ten largest companies in the United States were predominantly associated with transportation. Another important era of concentration occurred from 1929 to 1964 among stocks referred to by some as the "first Magnificent Seven." This group included prominent firms such as AT&T, General Motors, IBM, Standard Oil, General Electric, DuPont, and US Steel, which collectively exercised substantial dominance over the US stock market during this timeframe. Additionally, the market experienced significant concentration during the internet bubble of the 1990s.

From 2014 to the present, the US stock market has undergone a notable resurgence of concentration, primarily driven by the information technology sector. In 2014, only two of the top ten companies by market capitalization were classified as technology stocks. In stark contrast, by 2024, only two companies *outside* the technology sector—Berkshire Hathaway and Eli Lilly—are in the top ten. It is essential to highlight that Berkshire Hathaway allocated 26% of its capital to Apple (as of 9/30/24), a prominent Magnificent 7 stock, and Eli Lilly is considered a notable player in the biotechnology space.

The concentration observed in the US stock market today is the most significant since 1964. This market dynamic can be attributed to a significant influx of capital investments within the information technology sector over the past decade.

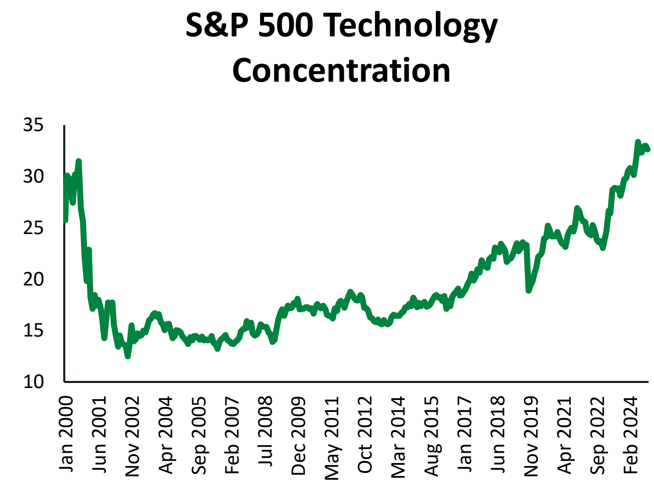


Source: (Russell 3000 Index represents US Equities, MSCI EAFE Index represents Non-US Developed, and MSCI Emerging Markets represents Emerging Markets), Morningstar, Syntrinsic

The Magnificent 7 have been capitalizing on growth driven by advancements in artificial intelligence.

Furthermore, these mega-cap companies have successfully navigated a higher interest rate environment by passing price increases on to consumers, who have shown a willingness to pay premium prices. This situation demonstrates their superior pricing power in comparison to smaller-cap companies.

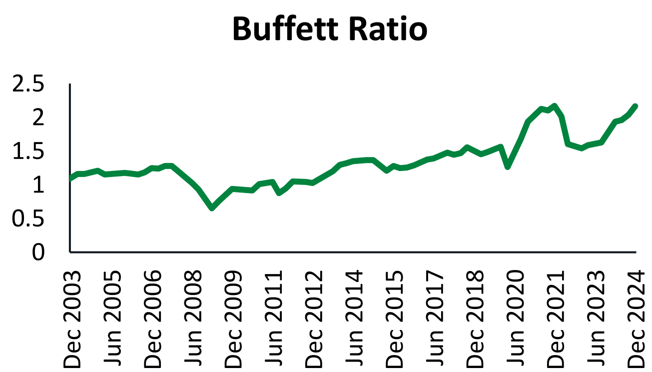
The recent surge in artificial intelligence (AI) is regarded as one of the most significant advancements in technology since the advent of the internet. Consequently, companies that effectively harness this new technology by incorporating it into their product development cycles have experienced an increase in market share. As of November 30, 2024, the Magnificent 7 firms account for approximately 36% of the YTD performance of the S&P 500 index. Although these companies are growing at a rate that exceeds the average, substantial evidence supports their extraordinary growth, primarily attributable to their investments in AI and recent interest rate reductions implemented by the Federal Reserve.



Source: Morningstar; Syntrinsic

Valuations, overextended?

US stocks rose significantly over the past year, primarily propelled by mega-cap companies that are trading at substantial premiums, impacting measures of valuation. Some indicators suggest that the US equity markets are overvalued, one of which is the Buffett Indicator. This metric, defined as the ratio of the total market capitalization of the US stock market (using the Wilshire 5000 Index) to the gross domestic product (GDP) of the United States, provides critical insight. As of December, 2024, the Buffett Indicator had returned to 20-year highs.



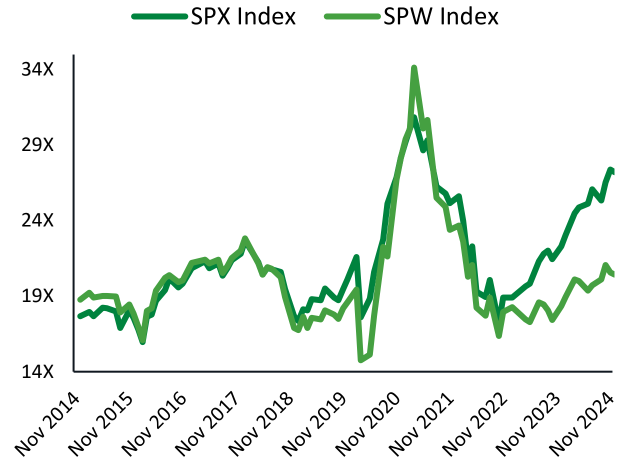
Source: Bloomberg, Syntrinsic

The 25-year historical trailing twelve-month average P/E ratio of the S&P 500 has been around 17x. However, as of the end of November this year, the S&P 500 is trading at a P/E ratio of 27x. A significant factor contributing to the recent surge in valuations is the performance of the information technology sector—again, especially the Magnificent 7 stocks. These technology firms are experiencing growth rates that considerably surpass the average, supported by evidence of sustained profitability within the sector. The overall return on equity (ROE) for the information technology sector stands at 31.5%, while the Magnificent 7 companies achieve an ROE of 37%. In contrast, the remainder of the S&P 500 exhibits a substantially lower ROE of 16.3%.

In times of significant market concentration, it is crucial to understand how certain key companies influence valuations of a broader index, as the broader market may not be as far above its historical average as it appears. One important metric to consider is the earnings valuation of the S&P 500 compared to the equal-weighted earnings valuation, which reveals a stark difference: 27x for the market versus 20x for the equal-weighted earnings utilizing trailing twelve-month PE numbers for both.

While we recognize that valuations are currently high, we also believe that the future potential for economic and earnings growth supports higher valuations. Thus, our base case expects valuations to revert partially to historical averages over the next ten years.

Market Weighted P/E VS Equal Weighted P/E

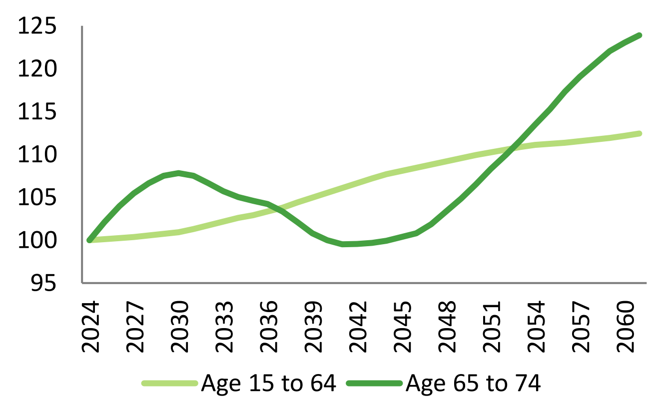


Source: Bloomberg, Syntrinsic

The Silver Wave

The US faces a notable aging demographic transition that could reshape the workforce of US companies. Population growth is expected to decline. In August 2024, the Bureau of Labor Statistics ("BLS") reported an annual growth slowdown to 0.6%, marking the lowest rate since data collection began. The growth in the number of individuals above 65 years old is expected to outpace those in the traditional working age group of 15-64 over the next 10 years. While this may signal employment growth constraints that could negatively impact the economy, emerging workforce trends and technological advancements supporting productivity suggest a more nuanced outlook.

OECD Working Age Group Growth (100 Base)



Source: Organization for Economic Cooperation and Development (OECD), Syntrinsic

A significant development is the growing participation of workers aged 65 and older in US companies. BLS indicates older individuals' share of the labor force in 2023 was 6.7% and is projected to increase to 8.6% by 2033. According to Pew Research, this shift is already visible, with current employment rates of workers 65 and older at 19%, notably higher than the 11% recorded in 1987. Older individuals are living longer and staying healthier but are also contending with cost-of-living challenges as many living on fixed incomes struggle to keep pace with inflation. Age-friendly jobs that are less physically strenuous have increased over time. The National Bureau of Economic Research found a positive relationship between job flexibility and workforce participation among older individuals. That is, more flexibility suggests a larger potential faction of older workers. While the combination of an aging population and slowing growth could be a headwind for the US economy, technological advancements and workforce adaptation through increased older worker participation could support economic growth.

Non-US Equities

JAS CHEN, CFA, SENIOR ANALYST

While the United States represents a single economy with unified monetary, fiscal, and regulatory frameworks, international markets present a more complex landscape. Both developed and emerging markets operate within diverse regional trading blocs, each country maintaining its own unique central bank, taxation system, and regulatory environment. This complexity creates challenges in analysis - while aggregated data facilitates modeling and reflects real trading relationships, it can mask important country-specific dynamics, particularly in regions like Europe, Latin America, and fast-growing Asia.

Our near-term outlook for non-US developed and emerging markets is **Neutral**, unchanged from the prior year, though economic growth expectations have improved from last year. This reflects moderating inflation and anticipated monetary easing across most central banks, with the Bank of Japan as a notable exception. Despite these positive developments, we maintain our cautious stance given multiple uncertainties: pending leadership transitions, escalating geopolitical tensions, and ongoing conflicts.

Economic Indicators

Purchasing Managers' Index (PMI)

	Recent	11/30/24	9/30/24	6/30/24	3/31/24	12/31/23	9/30/23	6/30/23
US Composite	↑	54.9	54.0	54.8	52.1	50.9	50.2	53.2
DM Composite	↓	52.2	52.3	52.8	51.5	49.9	49.6	52.1
EM Composite	↑	52.8	51.2	53.3	53.7	53.1	52.0	53.4

Retail Sales, Annual % Change

	Recent	11/30/24	9/30/24	6/30/24	3/31/24	12/31/23	9/30/23	6/30/23
US	↑	3.8	2.0	2.0	3.6	5.5	4.3	1.9
Eurozone *As of 10/31/24	↓	1.9	3.0	-0.8	0.5	-0.4	-3.3	-1.0
China	↓	3.0	3.2	2.0	3.1	7.4	5.5	3.1

Consumer Confidence

	Recent	11/30/24	9/30/24	6/30/24	3/31/24	12/31/23	9/30/23	6/30/23
US	↑	112.8	99.2	97.8	103.1	108.0	104.3	110.1
Eurozone	↓	-13.8	-13.0	-14.0	-14.8	-15.1	-17.8	-16.1
China	↑	86.2	85.7	86.2	89.4	87.6	87.2	86.4

Unemployment Rate

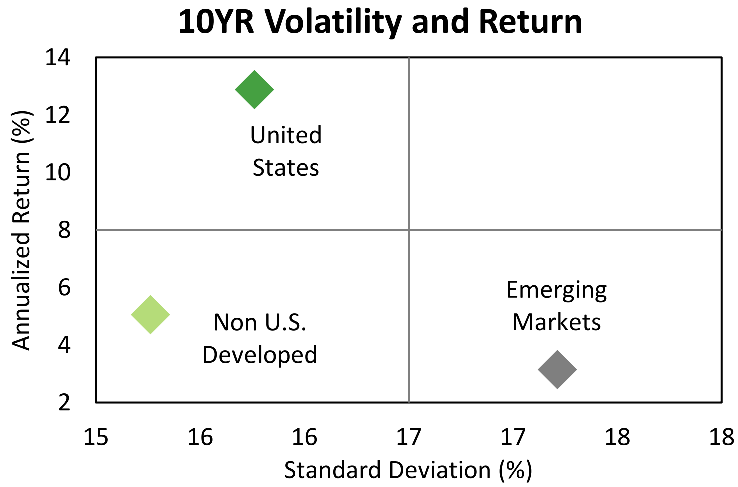
	Recent	11/30/24	9/30/24	6/30/24	3/31/24	12/31/23	9/30/23	6/30/23
US	↑	4.2	4.1	4.1	3.8	3.7	3.8	3.6
Eurozone	-	6.3	6.3	6.4	6.5	6.5	6.6	6.5
China	↓	5.0	5.1	5.0	5.2	5.1	5.0	5.2

US Financial Conditions

	Recent	11/30/24	9/30/24	6/30/24	3/31/24	12/31/23	9/30/23	6/30/23
US	-	0.8	0.8	1.0	1.1	0.8	0.2	0.3

Sources: Bloomberg, Markit, US Census Bureau, Eurostat, National Bureau of Statistics China, US Conference Board, European Commission, and US Bureau of Labor Statistics

We note the persistent valuation discount and higher dividend yield of non-US developed and emerging market equities compared to US equities. Despite US equity valuations nearing historical highs, an immediate catalyst to close this valuation gap remains unseen. While theory generally points to a positive relationship between risk and return, this has not materialized. Over the last decade, US equities have outperformed with lower or comparable volatility relative to non-US developed and emerging markets, respectively, despite higher expected risks for these international markets. Of course, this dynamic is not guaranteed into the future, and we will continue monitoring for any signs of reversal in this trend.



Source: (Russell 3000 Index represents US Equities, MSCI EAFE Index represents Non-US Developed, and MSCI Emerging Markets represents Emerging Markets), Morningstar, Syntrinsic, as of 11/30/2024

Building a Global Equity Portfolio

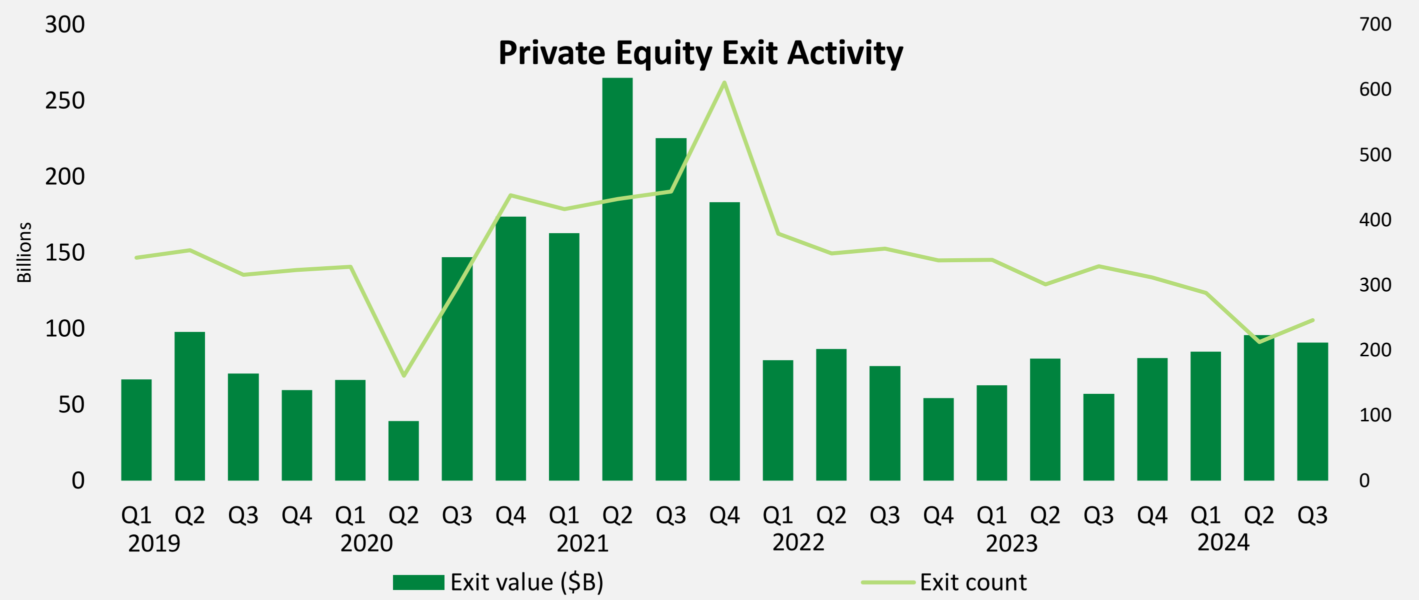
We recommend maintaining a modest strategic tilt toward US equities. Even as the US representation in the global equity market portfolio has grown, our target allocation is unchanged from the prior year. We maintain our tilt toward large and mid-cap in the US while de-emphasizing publicly-traded small cap companies. Outside the US, we focus on firms with the highest growth prospects, controlling for good governance and transparency that can protect outside investors.

Private Equity Outlook

MATT KUKLA, SENIOR ANALYST

The rapid increase in interest rates in late 2022 and throughout 2023 ground the private equity machine to a halt, with a decline in deal activity, exits, fundraising, valuations, and distributions to limited partners (LPs) leading to an increase in negative cash flows and the need for liquidity. Even against this backdrop we entered 2024 with a **Neutral/Positive** sentiment as we thought a decline in interest rates was probable, and we continue to maintain this sentiment as interest rates are expected to gradually decline throughout 2025, which should cause the underlying fundamentals in the private equity market to improve further.

Having a higher cost of funds compared with the zero-interest rate environment during the past decade keeps our long-term return outlook for private equity below the asset class's historical average returns. Still, we believe that the potential to earn a risk and illiquidity premium of roughly 3% above public equities is adequate given the return patterns and time horizon of private equity. We also think it a long-term positive that going forward, returns will likely be driven more by operating performance from earnings growth rather than financial engineering and valuation expansion as in the past decade.



Source: PitchBook

All was not lost in 2024, with signs of improvement in the private equity market which we expect will continue throughout 2025. As of 3Q24 year-to-date (YTD), private equity deal value increased by 32% year-over-year (YoY) with deal count increasing by 13%. The rebound in deal activity was driven by an improvement in leveraged buyouts (LBOs), add-ons, and growth equity, while take-private transactions slumped. Valuations were on the mend too, with enterprise value-to-EBITDA (EV/EBITDA) multiples rising to 12.8x on a trailing 12-month (TTM) basis, recouping more than half of their peak-to-trough losses. Through 3Q24, exit value has increased by 50% YoY, driven by sellers bringing their highest quality assets to market, while exit counts were relatively flat with the prior year. Company inventory has swelled to 2,432 companies which translates to an eight-year inventory at currently observed exits of 1,738 per year. Given the lack of liquidity and need for exits, secondaries continue to be a bright spot. Private equity fundraising is actually in-line with 2023 levels and remains above the 2017-2019 pre-pandemic average.

Private Debt Outlook

MATT KUKLA, SENIOR ANALYST

We are maintaining our sentiment of **Neutral/Positive** on private debt as our outlook is little changed from 2024. With the rapid rise in interest rates, private credit lenders had banner years in 2023 and 2024 as they were able to earn attractive 10-12% yields on new loans. Conversely, while interest rates were near zero over the past decade, private credit lenders were only able to achieve 5-6% yields on their loans and needed to use leverage to cover fees and secure returns in the 8- 9% range for their investors. Having seen both extremes over the past decade, we get a sense of the range within which private debt operates under extreme scenarios.

As rates are expected to come down further in 2025, coupled with the continuation of increased competition from the broadly syndicated loan (BSL) market and new capital entering the space, there will likely be a continued decline in yields on newly originated debt, coupled with an increase in refinancings given their floating-rate nature. Over time, we expect the private credit market to normalize and achieve returns between 6%-8%, which is in line with the 400-500 bps spread the industry has been able to achieve above short-term rates, which we estimate to be between 2%-3% over the coming decade.

Year Over Year Change in Q3 2024

Year-Over-Year Growth	Revenue	Earnings
Q3 2024	5.1%	7.9%
Key Sectors Q3 2024 (YoY)	Revenue	Earnings
Consumer	4.3%	-1.2%
Healthcare	4.3%	8.3%
Industrials	1.8%	2.6%
Technology	9.0%	13.9%

Source: Golub Capital Altman Index

Even with higher interest rates, we have not seen a material deterioration in private debt portfolio companies' revenue, EBITDA, or interest expense ratios in 2024, at least amongst managers focused on senior secured lending. Additionally, defaults remain below historical averages despite an uptick including payments-in-kind (PIK). We would expect portfolio companies' financials to improve further in 2025 under a soft-landing scenario. That said, many new managers are entering the private credit space, and some of them will have to underwrite loans that have been passed over by well-established managers. For these new managers, this could lead to lower yields, a deterioration in covenants, or an increase in defaults in the space to compete with incumbent managers.

Infrastructure Outlook

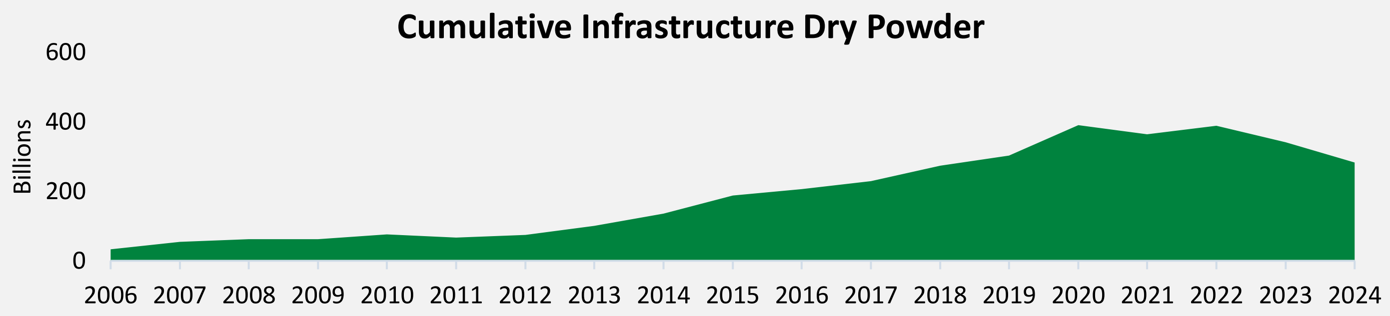
MATT KUKLA, SENIOR ANALYST

Syntrinsic began to recommend private infrastructure investments in client portfolios in early 2024, with a **Neutral/Positive** near-term sentiment, which we are maintaining. Over the long term we continue to believe that there will be increasing importance and greater investment accessibility for infrastructure assets given strong competitive positioning, positive secular and megatrends along with the potential benefits of inclusion in client portfolios.

Infrastructure covers a diverse array of subsectors, including digital infrastructure, transport, energy and utilities, power transmission, and renewable. While a broad opportunity set, infrastructure assets generally share a common commitment to providing essential services that ensure the everyday functioning of society while supporting economic growth and quality of life.

High barriers to entry exist for most infrastructure assets due to high fixed investment costs that can result in monopolistic or duopolistic market positions where regulation is a factor. In turn, regulating authorities typically provide fixed prices or minimum payment guarantees and contracted revenues that may have a direct or indirect inflation link, which could prove beneficial if inflation were to again rise, perhaps related to broad-based tariffs. This relationship can mitigate some investment risk and potentially provide infrastructure assets with stable and predictable cash flows throughout economic cycles.

There are also long-term structural tailwinds supporting infrastructure demand, including demographics, decarbonization, urbanization, digitalization, and global fiscal policy. Estimates suggest that the world population will grow to nearly 10 billion people by 2050 while an additional 2.3 billion people are expected to live in urban areas. To keep up with economic growth, the needed amount of infrastructure assets is projected at nearly $100 trillion. The required energy infrastructure investment needed by 2050 to achieve net zero carbon emissions ranges from $100 to $200 trillion as well.



Source: PitchBook

Private infrastructure is sensitive to interest rates given the amount of debt that is typically required to buy such capital-intensive assets. Despite continued weakness in deal-making and fundraising, along with a decline in valuations in 2024 because of higher interest rates, dry powder is at its lowest level since 2020 while dry powder as a percentage is at its lowest level ever. This means there is less competition for deals at a time when the industry still needs capital to grow. With long-term fundamentals intact, the expectation of lower rates, and the ability to deploy capital at lower valuations in a less competitive environment, we believe private infrastructure is in a favorable position heading into 2025.

Global Real Estate Outlook

MATT KUKLA, SENIOR ANALYST

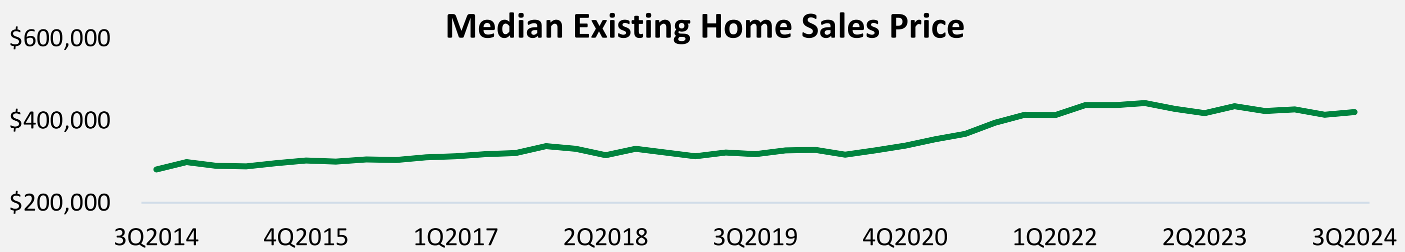
Syntrinsic is maintaining our **Neutral** sentiment on private real estate investments. In our 2024 forecast, we noted that that other asset classes such as equities, fixed income, private debt, infrastructure, and private equity were all at least **Neutral**/**Positive**, and we were not enthusiastic about the relative value of making a call-out allocation to real estate at that time. Since then, little has changed. Additionally, most—if not all—of our clients continue to maintain some real estate exposure through active and passive equity managers and securitized mortgage-backed securities in the fixed income markets.

Besides the relative value of private real estate to other private market asset classes and positioning of client portfolios, the primary cause for our muted outlook is the effect—mostly intentional—of the Federal Reserve's 2022-23 rate hikes on the residential and commercial real estate markets. While short-term interest rates have declined in 2024 and are currently expected to decline further in 2025, our views on the real estate market would become more positive once interest rates decline sufficiently, although that is not our base case for 2025. For the residential real estate market, such a decline in interest rates could cause the stalemate between buyers and sellers to dissipate while the impending debt maturity wall facing the commercial real estate market may become a bit more manageable.

Residential Real Estate Market

The rise in interest rates and, in turn, mortgage rates is supposed to cause a decrease in demand for existing homes. Lower demand leads to a decline in home prices and increases affordability. However, this has not been the case, with homebuyers remaining on the sidelines as affordability remains at historically low levels and higher interest rates only make mortgage payments that much more expensive for potential home buyers.

Additionally, higher interest rates can also deter potential sellers of existing homes, so they can keep the low mortgage rates they may have locked in over the past several years of unusually low interest rates. The resulting low inventory of existing homes in the market continues to keep home prices at record highs, with the national median existing home price at $407,200 in October 2024. The gridlock between home buyers and sellers has caused existing home sales to decline to lows not seen since the 2008 financial crisis.



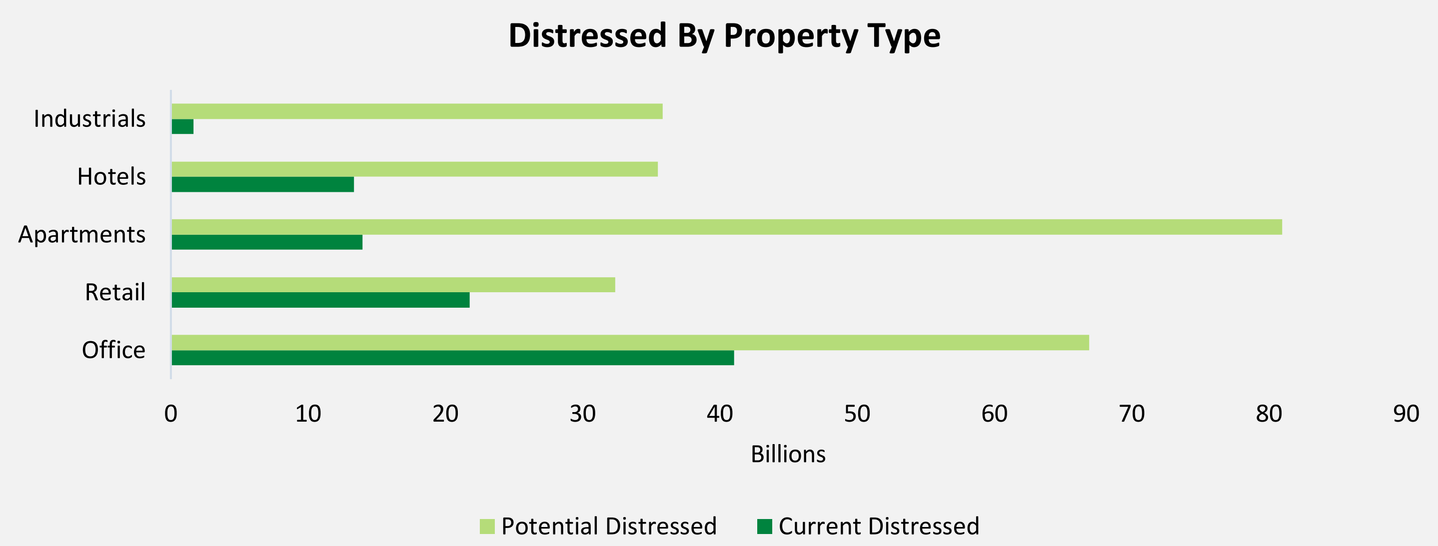
Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis

We believe the underlying fundamentals supporting the residential real estate market will improve once mortgage rates decline to a more normalized and stable level of around 5%, new home construction increases, existing home inventory increases, home prices decline, or household incomes increase meaningfully.

Commercial Real Estate Market

From when the Fed started its rate-hiking cycle in March 2022 to year-end 2023, commercial property values in the aggregate declined significantly. While the most troubled sector of the commercial real estate market is the office sector, due to an increase in vacancies from remote work, difficulty refinancing due to an increase in interest rates, high levels of leverage, declining loan-to-value (LTV) ratios and falling property values, the multi-family sector faces stressors too as a result of increased rents in 2020 and 2021 and an increase in supply, both leading to increased vacancy rates.

In the past, net operating income (NOI) growth and valuations typically moved in the same direction. Today, there is a dislocation between NOI growth and a decline in valuations which would suggest there is an opportunity to begin investing in commercial real estate. However, we remain concerned about the impending debt maturity wall facing the sector. According to Trepp, a data provider, between now and 2027 more than $2.2 trillion in commercial debt is coming due. More immediately, as of 2Q24, roughly $92 billion in commercial property was in distress, with an additional $251 billion in potential distress particularly in office and apartments based on MSCI's analysis.



Source: Wall Street Journal

Like the residential real estate market, the most obvious saving grace for the commercial real estate market would be a rapid decline in interest rates in 2025, although that is not our expectation. While the Federal Reserve is expected to cut rates gradually in 2025, it is not clear if those rate cuts would be enough to buy lenders and borrowers the time or flexibility they need to mitigate defaults.

Hedge Fund Strategies Outlook

MATT KUKLA, SENIOR ANALYST

Syntrinsic upgraded its near-term view on hedge funds to **Neutral** from **Neutral/Negative** in mid-2024, as the prospect of rate cuts made short-term fixed income a progressively less clear substitute for lower-risk alternative investments. Given that rate cuts are expected to continue into 2025, we are maintaining our Neutral sentiment.

The greatest challenges to the hedge fund space remain the extreme active manager risk, high fees, and cyclicality of strategies. To overcome these hurdles while consistently outperforming investment grade bonds per year creates a higher hurdle that many hedge fund managers are not able to confidently overcome. On top of that, hedge funds introduce structural risks as most managers are illiquid and provide little transparency. Taken together, we generally do not recommend hedge funds at this time.

Commodities Outlook

MATT KUKLA, SENIOR ANALYST

Currently, we maintain a **Neutral/Negative** sentiment on Commodities, reflecting our lack of conviction about the asset class over the next few years. There are better diversification tools that have more favorable return potential and better risk/return profiles.

While commodity-related investments manifest within equity and debt markets as well as some hedge fund strategies, we can make dedicated allocations to commodity-based investments when the opportunity presents.

The case for commodities is often linked to hedging the risk of near-term environmental and geopolitical events that can trigger spikes or dips in certain commodities. Such an event occurred in the first half of 2022 when Russia invaded Ukraine, creating massive spikes in energy and food-based commodity prices. Using commodities to hedge against such short-term possibilities can be expensive given how the assets often perform outside of a crisis. We prefer to invest in commodities when long-term fundamentals are supportive.

Global Fixed Income Outlook

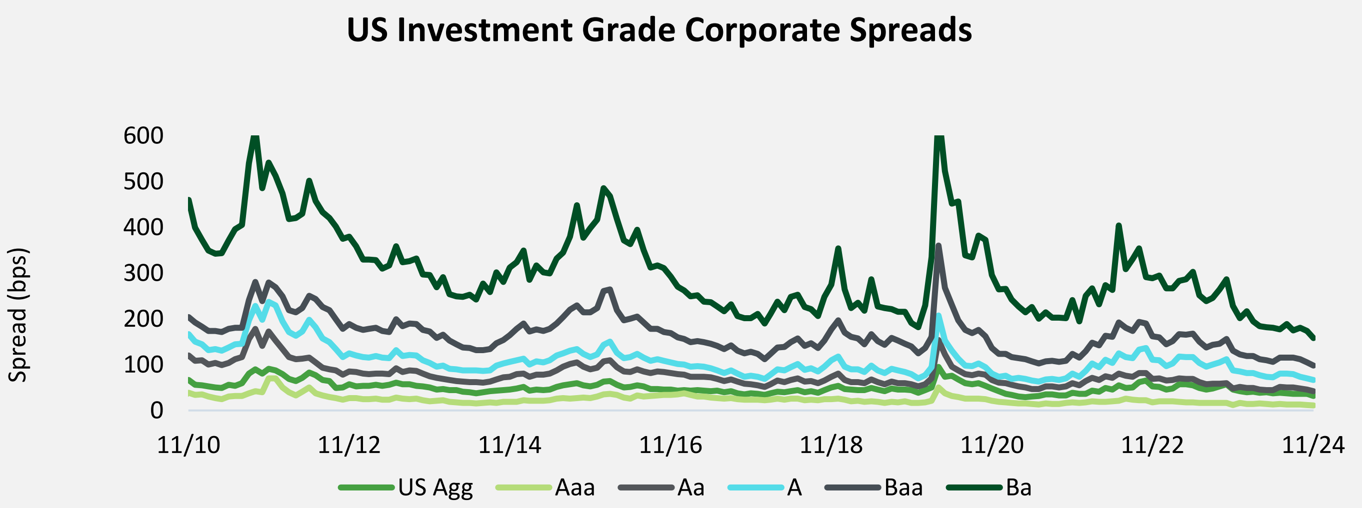
ROBIN MEYER, CFA, SENIOR ANALYST

Bond Market Sentiment

Our near-term sentiment on Global Fixed Income remains **Neutral**/**Positive** entering 2025. Yields across bond markets decreased gradually in 2024, generally alongside reductions to the Fed's policy rate albeit with intermittent swings of volatility. While lower market yields reduce the attractiveness of bonds at the margins, we remain positive on the risk and return profile of fixed income as a component of diversified portfolios. Investors are not too far removed from the paltry and even negative-yielding environments that persisted among developed economies' sovereign debt markets for much of the decade preceding the COVID-19 pandemic. We continue to feel optimistic on the forward-looking prospects for the asset class given the compelling market yields offered, an environment with reduced upward pressure on interest rates and the inherent defensive characteristics of bonds, including lower correlation to risk assets. We remain attracted to the positive real return (return above inflation) offered by the asset class, particularly as bond exposures play more of a risk-mitigating role in client portfolios.

Credit Spread Opportunity and Risk

Spreads proved to be a tailwind to performance in 2024 across credit sectors and across credit quality segments, as they moved lower from January levels. In the absence of recessionary pressures or negative economic data surprises, even higher-risk and out-of-favor segments of the credit market like commercial mortgage-backed securities (CMBS) and the lowest-quality corporate credits saw meaningful spread compression during the year.



Source: Bloomberg

Looking forward into 2025, we acknowledge current spread levels are not the most attractive on an absolute basis. However, we find solace in the underlying fundamentals supporting both securitized and corporate credit markets. We remain attracted to the carry (or coupon) offered among credit markets and, as always, prefer exposures in credit that are obtained primarily through active investment managers with strong credit underwriting staff.

Short Term Fixed Income

Short-term fixed income earned a dedicated allocation across most client portfolios earlier in this decade as the US Federal Reserve raised policy interest rates to combat inflation. The short-duration bond segment provided investors a way to both limit interest rate risk and earn attractive yield. With lower interest rate risk, lower deviations of returns and low-to-zero credit risk (if investing in short-term Treasuries/agencies), circumstances favored short-term fixed income allocations from a risk/return profile. Our broadened embrace of the short-term fixed income segment is best characterized as methodical rather than an expression of our view on the direction of interest rates. US Treasuries saw short maturity yields rise above intermediate maturity as the Fed commenced its interest rate hiking cycle in 2022. This inversion in the US Treasury curve warranted an embrace of short-term bond exposures and protected from the more meaningful negative total returns that were felt by intermediate and long-duration bond funds as interest rates increased. We have maintained a positive view on short-term fixed income while this dynamic has persisted.

Given the prospect of additional reductions to the federal funds rate during 2025 and beyond, we are shifting to **Neutral** and expect to discuss with clients shifting away from ultrashort and short-term fixed income toward market duration in 2025, as term premium returns to the debt market as indicated by a more normal, upward-sloping US Treasury curve.

Core Bonds

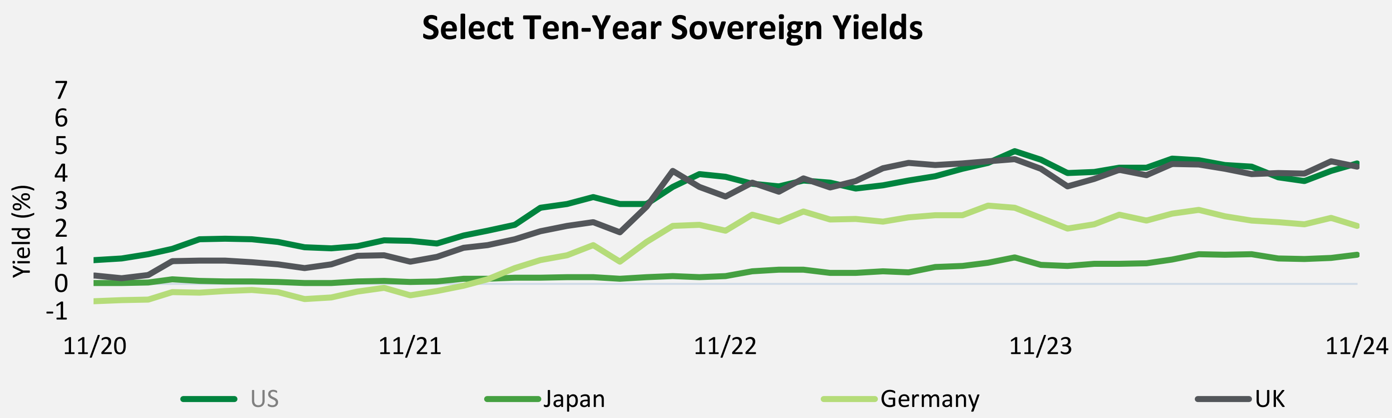
We have incrementally reduced our Core Bond sentiment from **Positive** to **Neutral**/**Positive** reflecting a slight decline in the interest rate opportunity set as the US Treasury yield curve has moved lower over 2024. We maintain a positive tilt as positive real yield opportunities remain present among the primary components of the Core Bond asset class. US Treasury securities continue to offer attractive carry while boasting traditional safe-haven characteristics during times of market stress. US Agency MBS securities remain an attractive tool within the Core Bond segment and offer some differentiation from US Treasuries, while still being considered defensive due to their implied government backing. Agency MBS supply remains suppressed due to the elevated level of mortgage rates, favoring outstanding issues of MBS debt. Broad corporate credit fundamentals remain healthy, and both realized and forward-looking default rates have stayed contained.

Core Plus Bonds

We have incrementally reduced our Core Plus Bond sentiment from **Positive** to **Neutral**/**Positive**. Directionally, this sentiment change aligns with our Core sentiment as a slight decline in market interest rates has also tempered Core Plus enthusiasm to some degree. Our sentiment remains positive, however, given the attractiveness of market segments beyond traditional core bond exposures, namely below investment grade corporate credit and loans. As components of the Core Plus segment, we find ongoing fundamentals of both high yield fixed rate corporate debt and floating rate loans supportive. While we emphasize active management among our fixed income exposures, we are particularly keen to avoid passive exposure to below investment grade debt where spreads have also compressed materially during 2024.

Non-US Developed Fixed Income

Non-US developed economies have exited a period in which most monetary policy regimes were aligned directionally. While different countries have endured slightly different inflationary experiences, monetary tightening has worked to tame inflation, globally. At present, major G-10 or G-7 economies have shifted to monetary policy easing and are at differing stages of implementation (reductions in policy rates). The US Treasury curve continues to represent the highest absolute yields among major developed economies, except for the UK. While non-US debt markets can offer diversification benefits, low absolute yields give us pause, particularly if yields are below US inflation rates. Further, geopolitical conflict and uncertainties can impact local currencies, which adds an additional risk factor when considering non-US dollar-denominated bonds. We are retaining our sentiment for the non-US developed bond segment at **Neutral/Negative**. On a relative basis, we continue to prefer the US bond market to the non-US bond market for both government and credit exposures.



Source: Bloomberg, Syntrinsic

Emerging Market Debt

Emerging Market bonds, both hard currency and local currency denominations, currently are offering compelling yields, with some well into the double digits. However, risk in the emerging market debt segment is highly idiosyncratic and while a strong active manager can find compelling opportunities, the overall opportunity set remains **Neutral**. We do not recommend a dedicated investment allocation, continuing to favor delegating the pursuit of emerging market debt opportunities to those fixed income managers that have flexibility in portfolio allocations.

II. Global Macro-Economic Themes

Themes and Effects

Themes	Syntrinsic Perspective	Allocation Effects
Inflation	Inflation has moderated significantly but remains persistent. The impact of possible tariff increases on inflation will become clearer as policy takes shape.	• Maintain broadly diversified approach to US equities.
Monetary Policy	We expect continued rate cuts in 2025, though at a reduced pace and size	• Continue to reduce weighting to ultra-short and short duration fixed income, in favor of market duration, as expected continued rate cuts reduce the attractiveness of short fixed income • Continue to use active management in core/core-plus fixed income to opportunistically allocate across sectors and durations. • Lower interest rates support private equity and infrastructure deal activity, which should buoy private debt markets.
Fiscal Policy	The new year brings uncertainty regarding fiscal policy, given the change in administration. Extension of tax cuts, deregulation and possible import tariffs bring the potential for both increased growth and inflation.	• Maintain allocations to industrial and technology companies positioned to benefit from energy and infrastructure investments.
Global Growth	We expect real growth to increase toward 2% in developed countries in 2025, with stronger growth coming from developing countries, with the ongoing impact of China's stimulus measures being a particular area of focus.	• Maintain robust global public market equity exposure. • Take advantage of private equity and private debt to participate in non-public elements of the economy.
Geopolitics	In the US, uncertainty reigns regarding implementation and effects of policy under the new administration. This includes potential tensions with China and other countries. Conflicts in Ukraine and the Middle East continue.	• Maintain a diversified portfolio across asset classes and geographies.
Environmental Social and Governance	The change in administration in the US will have uncertain impacts on ESG growth and regulation, but the overall need for growth and improvement in infrastructure, and the case for considering sustainability issues in investment analysis, is unlikely to change.	• Continue to line up efforts in ESG data integration, values alignment and seeking direct impact with your organization's circumstances and objectives

Spotlight: A Bumpy Road Towards the Last Mile of 2%

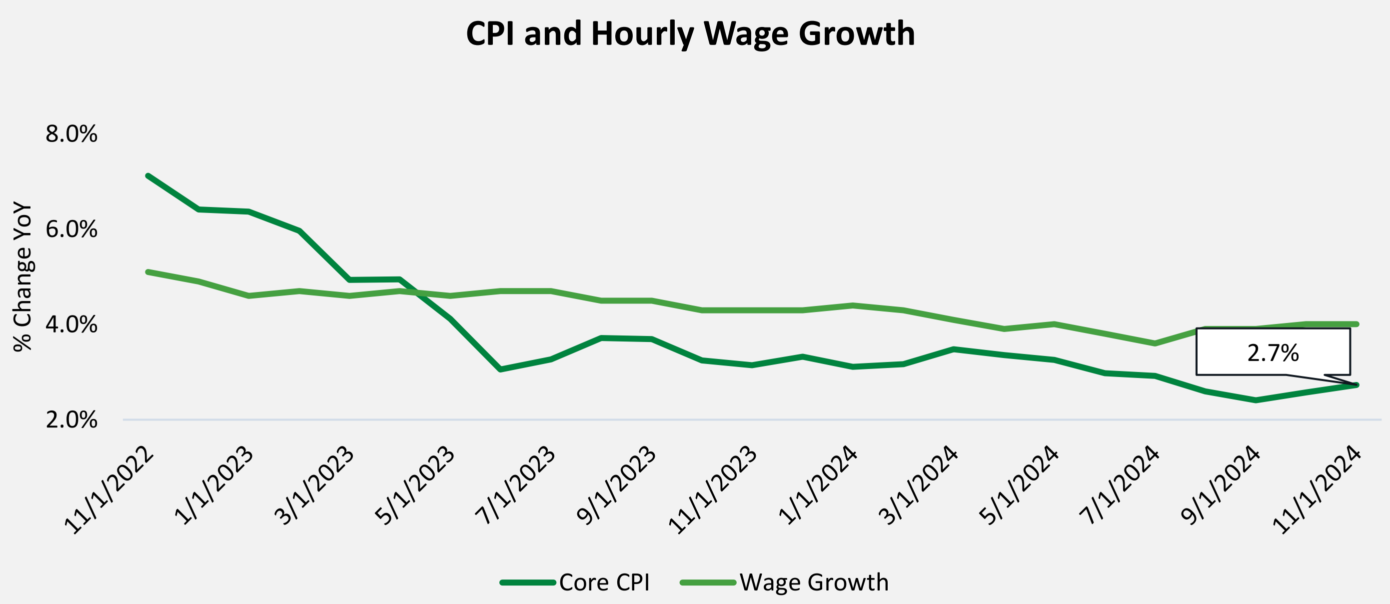
MATTHEW KUKLA, SENIOR ANALYST

In 2023, we imagined that in the near-term, the markets would continue to be driven by the interplay between inflation and US Federal Reserve policy, with some attention to long-term economic growth potential. We also expected that inflation would continue trending towards the Federal Reserve's 2% target although the journey would be somewhat sticky given continued strength in US consumer spending (particularly for more labor-intensive services) and strong wage growth that was underpinned by a tight labor market. Overall, our general assumptions were correct.

Inflation continues to trend in the right direction towards the Federal Reserve's 2% target, although it could be bumpy given a lag-effect in some of the data such as rent.

The key question we asked ourselves as we headed into 2024 was: would the underlying fundamentals change from 2023. We concluded that fundamentals would not change, but that expectations would—which proved correct.

According to the Labor Department, consumer prices in November 2024, as measured by the Consumer Price Index (CPI), increased 2.7% from a year earlier compared with 2.6% in October and 2.4% the previous month and was in-line with economists' expectations. The uptick was largely driven by an increase in food, vehicles, and medical care, coupled with a lag effect in some of the data. Overall, the current rate of inflation is a far cry from the peak of 9.1% reached in June of 2022, although prices are still 20% higher than they were four years ago.



Source: Bloomberg, Syntrinsic

As we head into 2025, our base case is that inflation will continue to trend towards the Federal Reserve's 2% target, although it may be a bumpy road given a lag effect in some of the data, such as rent, that still needs to play "catch-up." However, if broad-based tariffs were to be enacted, this would likely cause inflation to increase or remain higher for longer—in which case, all bets are off.

Spotlight: Monetary Policy Normalization

ROBIN MEYER, CFA, SENIOR ANALYST

During 2024's August Jackson Hole Economic Symposium, an annual gathering of economic and financial market professionals and academics in Wyoming, US Federal Reserve ("the Fed") Chair Jerome Powell provided his first comments indicating a shift within the Fed's dual mandate from a fixation on inflation to concerns surrounding unemployment. Specifically, Powell highlighted, "the upside risks to inflation have diminished and the downside risks to employment have increased."[2] Not long after, the Fed made its first reduction to the Federal Funds Rate since the onset of the COVID-19 pandemic.

Now, US fixed income markets are in a monetary policy easing cycle. The Fed Funds rate has been reduced 1.0% from cycle highs as the Fed seeks to guide it toward a level that is no longer restrictive upon the US economy. The US Treasury curve has similarly dropped from cycle highs across market maturities. Market participants are now assessing both the future path of Fed easing as well as what might be the final destination along this path: i.e., what is the Fed's neutral rate, the policy rate at which financial conditions in the US economy are neither restrictive nor accommodative.

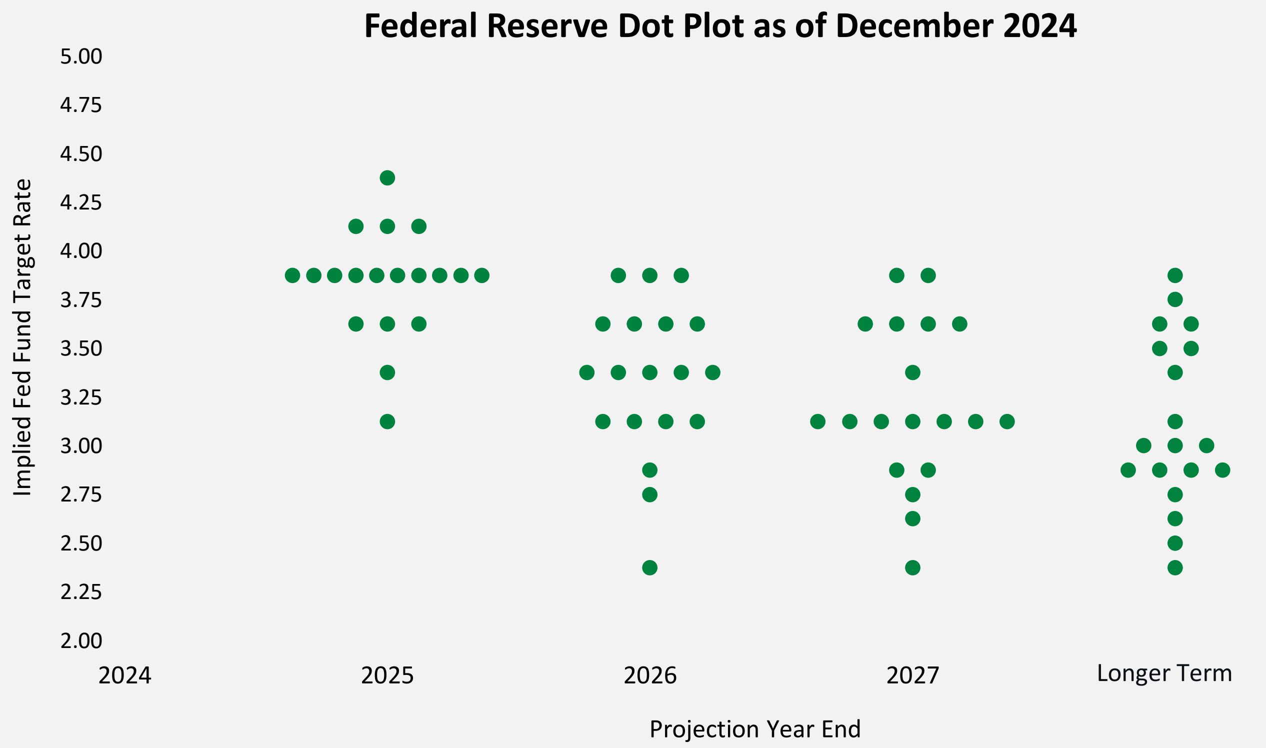
We expect heightened interest rate volatility to linger into 2025

While Powell and other Fed members have continued to reference 2% as the target for "normal" ongoing US inflation, no such explicit target exists for the ultimate level of the Federal Funds rate. Markets have settled on a consensus range of 2.5% - 3.5%. This range seems to align with the perspectives of voting members of the Federal Open Market Committee ("FOMC") as evidence by the Fed's most recent Summary of Economic Projections (December 2024), which details votes among individual Fed governors indicating where they believe economic data are trending in the near future. As the Fed Funds rate ends 2024 at 4.25%, clearly there is additional easing remaining in the Fed's future priorities.

During the last two years, markets have been much more optimistic about forthcoming policy easing than FOMC members and much more optimistic than what was ultimately realized by policy implementation during the year. Entering 2025, market participants have settled on a more measured consensus of two cuts of 0.25% magnitude during the entirety of 2025[3]. In a rare case of agreement, this consensus aligns with expectations from FOMC participants which increased the anticipated ending Fed Funds Rate for 2025 to 3.75%[4]. This represents an upward revision of +0.5% relative to FOMC member votes expressed in September; this revision is consistent with slightly higher inflation projections also expressed by FOMC members in December's Summary of Economic Projections. Chair Powell also indicated that the pace of future policy rate cuts will hinge on further progress made in containing inflation.

One primary risk surrounding US monetary policy implementation is resurgent inflation, which might require a pause of easing and the potential re-introduction of upward interest rate pressures. However, we do not expect drastic surprises out of monetary policy in the near term. We suspect Fed Chair Powell will continue to limit forward guidance and maintain that each FOMC meeting and decision will be highly data-dependent. We do expect heightened interest rate volatility to linger into 2025 as the new US administration begins to implement its agenda and market participants begin to parse out the impact on debt markets.

[2] Jerome Powell, "Reassessing the Effectiveness and Transmission of Monetary Policy" August 2024.(LINK)
[3] CME Group Inc. (2024). CME FedWatch Tool.
[4] Fed SEP December 2024. (LINK).



Source: The US Federal Reserve, Syntrinsic

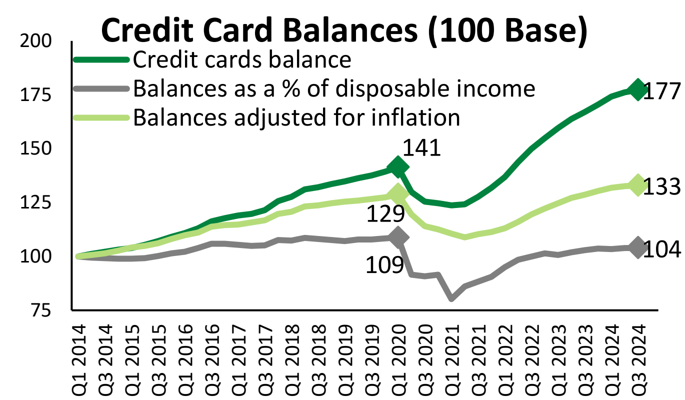
Spotlight: Global Growth

JAS CHEN, CFA, SENIOR ANALYST AND ELI DAVIDOFF, RESEARCH ANALYST

Global economic growth suggests regional divergence, with distinct drivers and challenges across developed and developing countries. According to OECD, the United States is expected to represent 15% of nominal world GDP in 2024, declining to 12% in 2025. US economic growth is largely driven by consumer spending, which accounts for approximately 70% of GDP. While consumer sentiment has shown marked improvement, mounting debt levels, higher borrowing costs, and diminishing savings may pose headwinds to future consumption patterns in the United States.

The Conference Board's Consumer Confidence Index reached 111.7 in November—its highest level in two years. In a press release, Dana M. Peterson, Chief Economist at The Conference Board indicated, "the proportion of consumers expecting a recession in the next 12 months has fallen to its lowest point since tracking began in July 2022," suggesting an improving near-term consumer optimism.

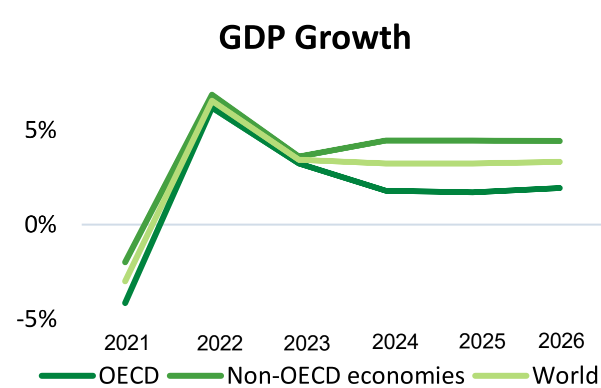
That being said, underlying credit trends raise mild concerns about future spending capacity. Commercial bank credit card and other revolving plans' balances have surpassed $1 trillion amid persistent inflation. Although disposable income has grown, the ratio of personal disposable income to credit card balances in Q3 2024 is approaching levels last seen in Q1 2020. More critically, credit card interest rates have surged from 15% in 2020 to 21% in 2024, substantially increasing debt servicing costs. These factors, combined with diminishing personal savings and savings rate, could constrain future consumer spending capacity and dampen growth prospects.



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, Syntrinsic

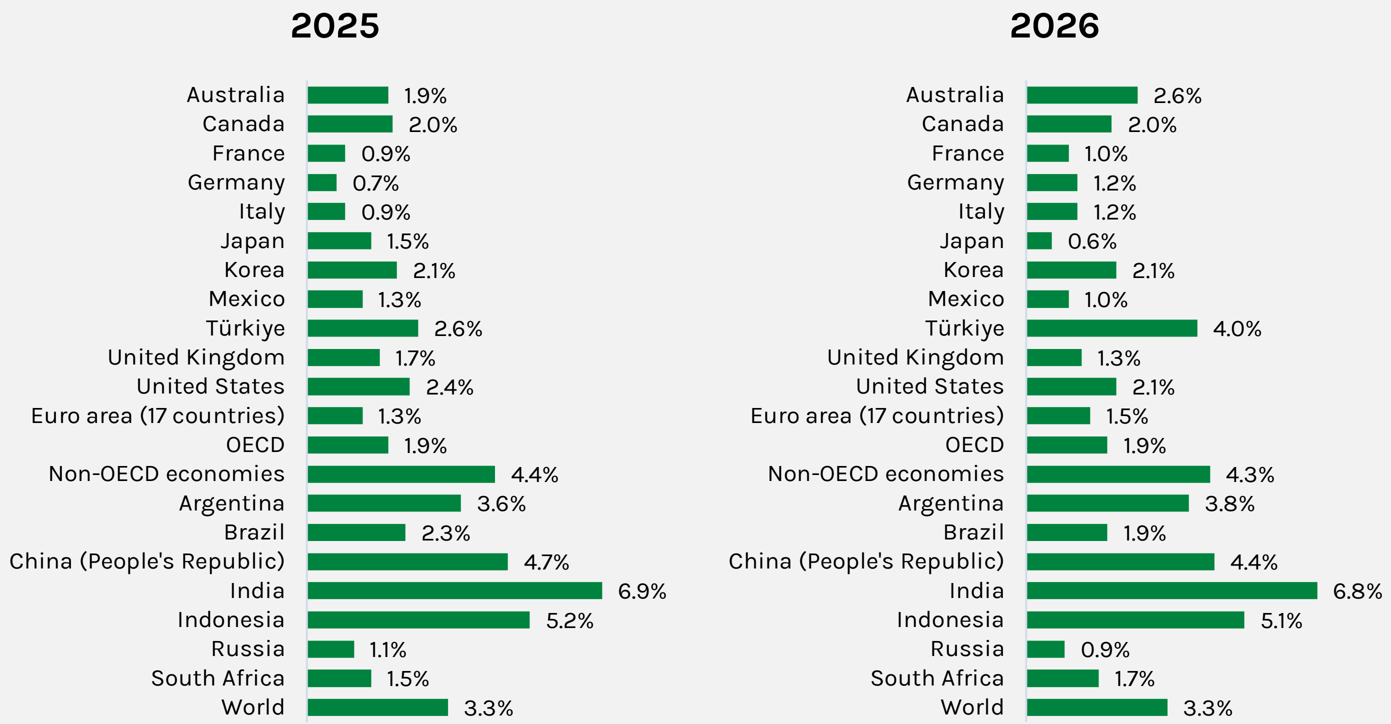
As we look ahead to 2025, our base case anticipates moderating global growth, with developing economies expected to outpace their developed counterparts. While inflation continues to trend toward target levels across major central banks, the path and timing of rate cuts remains uncertain across regions. Several upcoming leadership transitions in key economies pose potential risks to global growth, particularly if new policy directions trigger renewed trade tensions.

In alignment with the observations presented in last year's Long-Term Capital Market Assumptions (LTCMA), the mature economies within the Organization for Economic Co-operation and Development (OECD) are expected to experience growth at a modest pace. The OECD has projected that the Gross Domestic Product (GDP) growth for its member economies will be 1.9% for both 2025 and 2026, which is below the averages recorded prior to the pandemic. In contrast, non-OECD economies are anticipated to exhibit more robust GDP growth, with emerging Asia contributing significantly to this expansion. As previously noted in last year's report, non-OECD countries are forecasted to grow at a faster rate than their OECD counterparts.



Source: 2024 OECD Economic Outlook 116 databases and OECD Calculations

OECD Forecast of 2025 and 2026 Real GDP Growth



Source: 2024 OECD Economic Outlook 116 databases and OECD Calculations, Syntrinsic

It is evident that developing economies are making substantial contributions to global GDP, which can be attributed to several key factors. Nations such as India and those in South Asia are undergoing significant population growth, resulting in an expanded labor force and increased domestic consumer demand. This dynamic contributes to a higher GDP for the current year and presents a more optimistic projection for the near future. Moreover, developing countries are effectively aligning their economies by implementing notable improvements in infrastructure, education, and productivity. The enhancement of educational proficiency and the maturation of financial markets within these nations facilitate an increased inflow of capital and overall productivity growth.

III. 2025 Long-Term Capital Markets Forecast

Global Equity Forecast

Our global equity forecast follows a bottom-up building block approach, beginning at the market capitalization segment level to derive a weighted average return forecast across US, non-US developed, and emerging markets. We start with large capitalization equities for each region, incorporating expected real economic growth, inflation, dividend yield, P/E valuation change, and trade effect adjustments. For US and non-US developed markets, return forecasts for small and SMID capitalization equities takes into consideration their historical equity risk premium added to the respective large capitalization forecasted returns. The global equity return forecast represents the weighted average of regional forecasted returns using current world portfolio weights.

Global equity forecasts are, in the balance, slightly lower than in 2024, driven by lower return forecasts across each region and their respective market capitalization segments.

Exhibit 1: Syntrinsic Global Equity Forecast

Asset Class/Segment	Index	2025 Ten-Year Forecast	2024 Ten-Year Forecast	Change
Global Equity	**MSCI ACWI**	**7.55%**	**7.80%**	-0.25%
US Large Cap	S&P 500	7.50%	7.65%	-0.15%
US SMID Cap	Russell 2500	7.80%	8.00%	-0.20%
Non- US Dev. Large Cap	MSCI EAFE	7.05%	7.35%	-0.30%
Non- US SMID Cap	MSCI ACWI ex-US SMID	8.70%	8.95%	-0.25%
Emerging Markets Equity	MSCI EM	8.50%	9.25%	-0.75%

Source: Syntrinsic, Bloomberg, OECD

Forecasting Global Equities

Growth and Inflation

GDP Growth | Inflation Projections

+

Yield Projections

Buyback Yield | Dividend Yield

+

Valuation and Trade

Valuation Change | Trade Effect

=

Long -Term Equity Forecast

Forecasts for Large Cap Equities by Region

By summing the forecasts for real economic growth, inflation, dividend yield, P/E valuation change, and then adjusting for trade effects, Syntrinsic calculates the baseline results for large cap equities in each region.

In the United States, our current forecast indicates moderating forecasted 10-year GDP growth relative to the previous year. Given current high valuations in US equities, we also expect valuations to revert partially to historical averages over the next ten years, leading us to anticipate a reduction of 15 basis points in the expected return for U.S. large-cap equities.

For non-U.S. developed large-cap equities, we observe a diminished positive trade effect and valuation change, resulting in a lower expected return compared to last year's forecast, reflecting an overall 30 basis point decline.

The most pronounced year-over-year change within the large-cap equity segment is observed in our forecast for emerging markets. This change is primarily driven by a decrease in expected GDP growth for these economies compared to last year's projections, resulting in a decrease of 75 basis points. Additionally, we anticipate a negative P/E valuation change of 34 basis points for emerging markets.

Exhibit 2: Syntrinsic Large Cap Equity Forecasts by Region

Assumption	US	Non-US Developed	Emerging Markets
Growth	1.80%	1.45%	3.55%
Inflation	2.35%	1.85%	3.25%
Dividend Yield	1.80%	3.15%	2.70%
Buyback Yield	1.65%	0.00%	0.00%
Valuation (P/E) Change	-0.35%	0.05%	-0.34%
Trade Effect	0.25%	0.55%	-0.66%
Large Cap Equity Return Forecast	**7.50%**	**7.05%**	**8.50%**

Source: Syntrinsic

Forecasts for Small and Small/Mid (SMID) Cap Equities by Region

Small and midcap equities are often expected to provide a risk premium above large cap equities. Our research confirms that the SMID cap premium has approximated 0.30% per year for US equity markets. However, the historical small cap premium has been negative at roughly 1.05% per year for 30 years. We anticipate a return of 7.80% for SMID cap, but forecast that small cap US equities will continue to underperform large-cap.

Recognizing that most non-US SMID managers invest in both non-US developed and emerging market equity, we used the SMID cap premium to the MSCI-ACWI ex US index of 1.65% and added that to the forecast returns of the Non-US Large Cap equity markets, bringing the forecast return to 8.70%.

Listed Real Estate Forecast

Real estate as an asset class is highly idiosyncratic, with tremendous variation across types of exposures, particularly in private real estate. For forecasting purposes, Syntrinsic uses different methodologies for private real estate (See Private Investments) and real estate accessed through securities listed on public market exchanges, what is known as listed real estate.

Exhibit 3: Listed Real Estate Forecast

Asset Class	Index	2025 Ten-Year Forecast	2024 Ten-Year Forecast	Change
Global Listed Real Estate	FTSE NAREIT/EPRA Global	**6.60%**	**6.40%**	**0.10%**
US Listed Real Estate	FTSE NAREIT/EPRA United States	6.40%	6.25%	0.15%
Global ex-US Listed Real Estate	FTSE NAREIT/EPRA Global	6.50%	6.30%	0.20%

Source: Syntrinsic

Forecasting Listed Real Estate

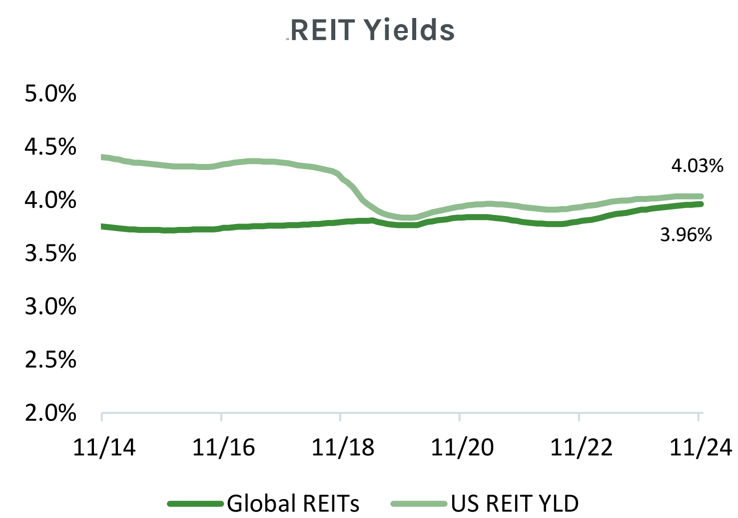
Investors that gain exposure to real estate through public markets generally invest in Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). While trading like equities, the structural differences and historic correlations of these securities result in Syntrinsic treating listed real estate as an asset class distinct from other equity sectors.

To forecast listed real estate returns, we start with current REIT yields. Current global yields of 3.96% are slightly higher than 2023 yields. We then add an inflation forecast component appropriate to each region.

Exhibit 4: Listed Real Estate Forecast by Region

	United States	Non-US Developed	Global
Yields	4.05%	3.95%	3.95%
Inflation	2.35%	2.55%	2.65%
Real Estate Forecast Return	**6.40%**	**6.50%**	**6.60%**

Source: Syntrinsic



Source: Bloomberg

Public Infrastructure Forecast

Syntrinsic views public (listed) infrastructure as a distinctive asset class within Real Assets that can provide inflation resilience and consistent returns within a portfolio. Our infrastructure forecast was introduced last year and is based on historical global infrastructure yields and global inflation projections. We consider historical global infrastructure yields and then add our global inflation expectation to account for cash flow growth we anticipate over the next 10 years.

Exhibit 5: Global Infrastructure Return Forecast

Infrastructure Return Expectations	
Global Inflation Forecast	2.65%
Current Global Infrastructure Yields	3.70%
Infrastructure Return Forecast	**6.35%**

Source: Syntrinsic, S&P

Commodities Forecast

While commodity-related investments manifest within equity and debt markets—and some hedge fund strategies—Syntrinsic views commodities as a distinctive asset class that might be worth dedicated investment depending on market conditions and investment objectives. Commodities include industrial metals (e.g., iron, copper), precious metals (e.g., gold, platinum), energy (e.g., oil, natural gas) agricultural products (e.g., wheat, soybeans), and softs (e.g., coffee, cotton).

Syntrinsic assumes that commodity returns will closely match global inflation. Given our regional inflation forecasts, we anticipate global inflation of 2.65% over the coming decade. We recognize that near-term environmental and geopolitical events can trigger price spikes or dips in certain commodities; however, we do not see such events as driving long-term fundamentals.

We discount or add to global inflation based on supply/demand dynamics and current demand trends for commodities. We use the historic 10 year rolling average spot premium over inflation, as a proxy for this premium or discount. That spot premium has averaged -1.20% over the last 50 years. However, we anticipate that the premium will turn positive over the next decade, with the transition to a low carbon economy heightening volatility and prices from pre-2020 levels. To determine the forward premium, we evaluated the premium seen during the last commodity supercycle (2000 – 2014) and added in a discounting factor as we do not anticipate that this cycle will be as extreme as the previous cycle based on demographics and technological factors.

Exhibit 6: Commodity Forecast

Commodity Return Expectations	
Global Inflation Forecast	2.65%
Premium/Discount above inflation	1.20%
Commodity Return Forecast	**3.85%**

Source: Syntrinsic

Private Investments Forecast

Syntrinsic's forecast enables investors to model reasonable long-term return expectations; however, private equity, debt, and real estate investments exhibit so much dispersion in terms of strategy, style, sector, leverage, and other factors, that investors must strive to understand how specific investments might compare to the broad universe to a much greater degree than in traditional public market equity and debt investments.

Exhibit 7: Private Investments Forecast

Asset Class	Index	2025 Ten-Year Forecast	2024 Ten-Year Forecast	Change
Private Equity	Cambridge US Private Equity	10.30%	10.25%	0.05%
Private Debt	Cliffwater Direct Lending	7.60%	7.35%	0.25%
Private Infrastructure	Cambridge Private Infrastructure	7.60%	-	-
Private Core Real Estate	NCREIF ODCE	5.90%	5.70%	0.20%
Private Core Plus Real Estate	NCREIF ODCE + Premium	7.70%	7.45%	0.25%

Source: Syntrinsic

Forecasting Private Equity

Investors typically access private equity markets over public equity markets to earn a return premium in exchange for the additional risks and costs inherent in private equity, including liquidity. As such, Syntrinsic forecasts private equity returns by analyzing the historic risk premium of the Cambridge Associates US Private Equity Index over the S&P 500 Index. In addition, our valuation adjustment improved modestly from last year based on expected interest rate decline and improving underlying fundamentals.

Exhibit 8: Private Equity Forecast

Private Equity Return Expectations	
US Large Cap Equity Forecast	7.50%
Premium Over Large Cap US Equity	3.30%
Valuation Adjustment	-0.50%
Private Equity Forecast Return	**10.30%**

Source: Syntrinsic, JP Morgan, Cambridge Associates

Forecasting Private Debt

Private debt investment funds represent a pool of loans made to companies. Specific funds will vary in terms of sector, credit quality, and use of leverage, thus creating great dispersion across the asset class. Recognizing this, Syntrinsic's private debt forecast relies on the historical direct lending premium of the Cliffwater Direct Lending Index return over US 3-Month T-bills. The Cliffwater index represents a broad array of private debt strategies, and accounts for observed credit costs, defaults, and losses net of recoveries. While private debt represents the largest category in private credit, there are other strategies not included in our forecast such as niche and distressed.

Exhibit 9: Private Debt Forecast Calculation

Private Debt Return Expectations	
Cash Return Forecast	2.95%
Weighted Average Direct Lending Spread	6.00%
Expected Fee (Base + Performance)	-1.35%
Private Debt Forecast Return	**7.60%**

Syntrinsic, Cliffwater Direct Lending Index, Pitchbook

The Cliffwater Direct Lending Index serves as an industry recognized proxy for the asset class. Our forecast reflects an unlevered return and incorporates historical average fee structures sourced from Pitchbook. Our base case fee assumptions account for ongoing fee compression trends, and includes a 1.25% base fee, a 7% hurdle, and a 15% performance fee (net of management fee).

Forecasting Private Infrastructure

Syntrinsic views infrastructure as a distinctive asset class within Real Assets that can provide inflation resilience and consistent returns within a portfolio. This year we are introducing a 10-year forecast for private infrastructure that builds on top of our public infrastructure forecast that we added last year.

Exhibit 10: Private Infrastructure

Private infrastructure Expectations	
Infrastructure Forecast Return	6.35%
Private Infrastructure Premium	1.25%
Private Infrastructure Forecast Return	**7.60%**

Source: Syntrinsic. Cambridge Associates

In addition to current yields for public infrastructure and global inflation projections, we include a return premium to reflect additional risks and costs inherent in private investments, including liquidity. As such, Syntrinsic forecasts private infrastructure returns by analyzing the historic risk premium of Cambridge Associates Private Infrastructure Index over the S&P Global Infrastructure Index.

Forecasting Private Real Estate

Syntrinsic organizes private real estate most broadly into two categories, core, and core plus. In this context, core private real estate represents diversified pools of high quality, mature US real estate properties diversified across sectors and geography. Returns are driven primarily by cash flows of those properties and some return due to realized gains. Core plus private real estate includes core properties as well as some more aggressive properties that strive to add value through improvements, resale, and other activities.

For core private real estate, Syntrinsic starts with current capitalization rates and global inflation projections. Valuation changes from property prices and net operating income reflect the rate of global inflation projections. Despite a looming maturity wall in commercial real estate, we anticipate mild defaults based on historical default and recovery rates. Lastly, we reflect management and performance fees based on the difference between net and gross 10-year annualized return on the NCREIF Index.

Meanwhile, core plus private real estate strategies have a historical premium of 1.80% over the Core Real Estate as measured by the NCREIF Property Index. While there may be times when investing in core private real estate makes sense, we recommend that investors in private real estate focus their efforts on core plus investments that could add value.

Exhibit 11: Private Core and Core Plus Real Estate

Private US Real Estate Expectations	
Private Core Real Estate Forecast Return	5.90%
Core Plus Premium	1.80%
Private Core Plus Real Estate Forecast Return	**7.70%**

Source: Syntrinsic. NCREIF

Hedge Fund Strategies Forecast

Hedge fund strategies encompass myriad trading methodologies across multiple asset classes and with different investment and risk management objectives. Syntrinsic draws upon industry practices in concentrating our forecast on equity and fixed income beta with additional support from cash returns.

Exhibit 12: Hedge Fund Strategies Forecast

Asset Class	Index	2025 Ten-Year Forecast	2024 Ten-Year Forecast	Change
Hedge Fund Strategies	**HFRI FoF Composite**	**4.25%**	**4.45%**	**-0.20%**
Hedge Fund Strategies	HFRI FoF Composite	4.25%	4.45%	-0.20%
Equity Hedge	HFRI Equity Hedged	5.40%	5.50%	-0.10%

Source: Syntrinsic

The equity and fixed income beta components recognize that while hedge funds represent a highly diverse universe, historically their bottom-line results as an asset class have had consistent correlation with equity and fixed income markets. To determine the appropriate beta for the different hedge fund strategies, we analyze the historic beta and correlations to global equity markets, fixed income markets, and the Hedge Fund of Fund universe. We then apply those beta estimates to our long-term return forecasts for equity and fixed income to establish a return forecast for different hedge fund strategies.

The cash component of our forecast considers the elements of hedge fund return attributable to short rebates and interest earned on cash being held as an investment or as collateral for leverage.

Like other alternative asset classes, and unlike traditional public market assets, hedge funds are an actively-managed investment, where manager skill and alpha is a central part of the story. That active management comes with elevated base and performance fees. For the hedge fund asset class, we assume that these two factors balance out, with the average or typical manager earning back only its fees in alpha.

Forecasting Hedge Funds of Funds

Hedge fund of fund expected return speaks to strategies that represent multiple hedge fund methodologies such as equity hedge, global macro, relative value, and fixed income arbitrage. In practice, some strategies are developed by a single firm that incorporates multiple third-party managers, while other times a single manager will apply multiple strategies within a single investment fund.

Exhibit 13: Hedge Strategies Forecast Calculation

Hedge Fund Strategies Return Expectations	
Equity Beta	0.27
Equity Beta Contribution to Return	1.24%
Fixed Income Beta	0.05
Fixed Income Beta Contribution to Return	0.06%
Equity + Fixed Income Beta Return	1.30%
Cash Return	2.93%
Hedge Fund Strategies Forecast Return	4.25%

Source: Syntrinsic. Morningstar

Forecasting Equity Hedge Funds

Approximately half of the hedge fund universe is represented by equity hedge strategies. Even within that more limited segment, strategies vary in terms of long, short, and gross positioning, concentration risk, regional exposure, use of leverage, sector exposure and other factors. Nonetheless, equity hedge strategies overall have expressed a beta to the equity markets of 0.50, providing a useful reference point for forecasting the market segment.

Exhibit 14: Equity Hedge Forecast Calculation

Equity Hedge Return Expectations	
Equity Beta	0.52
Equity Beta Contribution to Return	**2.38%**
Fixed Income Beta	0.05
Fixed Income Beta Contribution to Return	**0.06%**
Equity + Fixed Income Beta Return	2.44%
Cash Return	2.93%
Equity Hedge Forecast Return	**5.40%**

Source: Syntrinsic. Morningstar

Global Fixed Income Forecast

Syntrinsic recognizes that ten-year fixed income returns will be closely aligned with the average yield received over that ten-year period. While our forecasting process does allow for modest adjustments to current yields, we account for cyclical factors such as potential credit spread normalization and the status of monetary policy implementation in our near-term sentiment. To anchor our scenarios with reasonable assumptions, we consider long-term structural drivers of interest rates (growth and inflation), the path of the Fed Funds rate, and the term premium of interest rates. Over the last decade, other factors such as supply/demand dynamics that are a result of Fed intervention, structural changes in the economy, fiscal stimulus, and the relative attractiveness of US debt have influenced the level of long-term interest rates. Previously, we forecasted the US 10-year rate using the Fed projections for short term Fed Funds rates as a baseline and adding in the term premium. This premium reflects the amount investors expect to be compensated in yield for lending for longer periods. However, given that we anticipate that the Fed will lower the Fed funds rate down to the long-run policy rate as inflation moderates, we use our expectations for 10-year growth and inflation to determine the US 10-year Treasury rate.

Exhibit 15: Global Fixed Income Forecast

Asset Class	Index	2025 Ten-Year Forecast	2024 Ten-Year Forecast	Change
Global Fixed Income	Bloomberg Global Aggregate	3.40%	3.75%	-0.35%
Short-Term Bond	Bloomberg G/C 1-5 Year	3.15%	3.60%	-0.45%
US Core Bond	Bloomberg US Aggregate	4.55%	4.90%	-0.35%
US Core Plus Bond	Bloomberg 80% US Aggregate/20% HY	4.95%	5.40%	-0.45%
High Yield Bond	Bloomberg US HY Corporate	6.50%	7.25%	-0.75%
Non-US Developed Bonds	FTSE WGI ex-US	2.60%	2.20%	0.40%
Emerging Markets Bond	JPM EMBI	7.10%	8.25%	-1.15%

Source: Syntrinsic

Syntrinsic's current projection for growth over the next ten years is 1.80%. Adding our 10-year inflation expectations of 2.35%, we anticipate the long-term risk-free rate at approximately 4.14%. The risk-free rate in this case is represented by the ten-year US Treasury Bond.

Forecasting US Core Bonds

US core bonds are represented by the Bloomberg US Aggregate Bond Index, which includes approximately 80% to US Government bonds and 20% to investment grade US corporate bonds. Thus, to forecast reasonable returns for US core bonds, it is important to understand the premium (spread) of the US Aggregate over the risk-free rate, as well as likely scenarios for the movement of ten-year yields from where they are today to the expectations for the Fed Funds Rate and movement of the term premium.

Exhibit 16: Core Bond Forecast Calculation

US Core Bond Return Forecast	
10 Year US Treasury Yield Expectation	4.14%
U.S Aggregate Spread	0.21%
US Core Bond Expected Yield	**4.35%**
Current US Core Bond Yield	4.60%
US Core Bond Forecast Return	**4.55%**

Source: Syntrinsic. Federal Reserve Bank of St. Louis, Bloomberg

Given our expectation that US Treasury yields should be approximately 4.14% ten years from now and adding the historic 0.21% spread of the US Aggregate over US Treasury yields, it is reasonable to expect that US core bonds will yield 4.35% ten years from now. With yields currently at about 4.60%, our forecast would require interest rates to decline over the decade. We expect that moderate inflation pressures will drive central banks to continue decreasing interest rates over the next two years.

Forecasting US High Yield Bonds

US high yield bonds follow a similar pattern except that the spread between high yield bonds and the US Treasury Bond is higher to account for the additional risk.

Exhibit 17: HY Bond Forecast Calculation

US High Yield Bond Return Forecast	
10 Year US Treasury Yield Expectation	4.14%
High Yield Bond Spread	4.67%
US High Yield Expected Yield	**8.81%**
Current High Yield Bond Yield	7.17%
US High Yield Forecast Return	**6.50%**

Source: Syntrinsic. Federal Reserve Bank of St. Louis, Bloomberg

Forecasting US Core Plus Bonds

In practice, many active fixed income managers strive to add value through incorporating more aggressive, higher-yielding bonds into a portfolio of primarily investment grade securities. Syntrinsic considers such an approach to be "core plus" with the "plus" acknowledging the additional risk and potential return of such a strategy. While every fixed income manager is unique, we model the broad US core plus strategy type as a blend of 80% US core bond and 20% US high yield bond. Given the forecasts outlined above and the 80/20 weighting, Syntrinsic forecasts 4.95% total return per year for US core plus bond.

Forecasting US Short-Term Bonds and Cash Alternatives

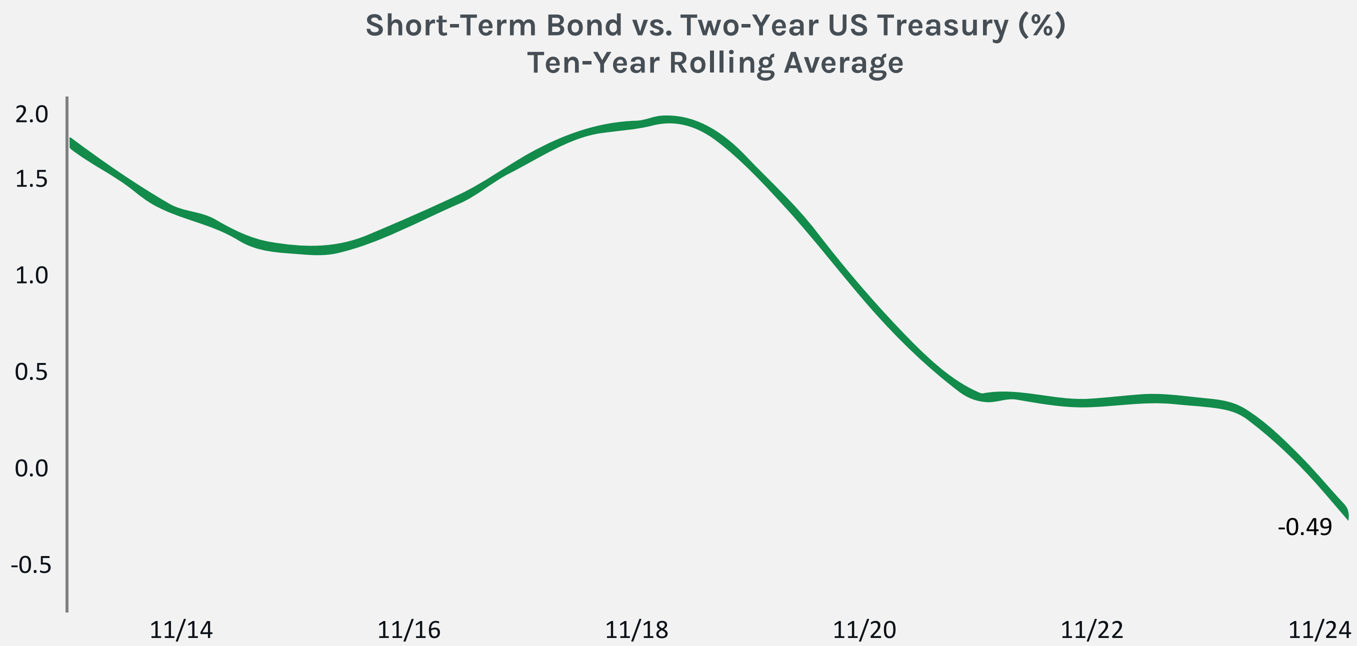
Creating a ten-year forecast for short-term bonds and cash is inherently challenging due to the mismatch in time horizon. Nonetheless, it is important for investors using short-term bonds and cash to have guidance regarding reasonable return expectations for an asset class often used to keep pace with inflation.

To anchor our approach, Syntrinsic relies on historic spread relationships between the 10-year US Treasury Bond, 2-year US Treasury Note, Fed Funds Target Rate, and 3-month US Treasury Bill.

Exhibit 18: Cash Yield Forecast Calculation

US Treasury Yield and Spread Expectations	
10 Year Yield Expectation	4.14%
10 Year – 2 Year Spread	-1.33%
2 Year Yield Expectation	2.81%
2 Year Fed Funds Rate Spread	-0.20%
Fed Funds Rate Expectation	2.61%
Fed Spread – 3 Month T-Bill	-0.19%
Expected Cash Yield	**2.40%**

Source: Syntrinsic. Federal Reserve Bank of St. Louis, Bloomberg



Source: Bloomberg

While these relationships are not set in stone and can vary over the short-term, they provide reasonable guidance for longer-term planning.

Syntrinsic short-term bond yield expectations extend spread analysis from above to include credit.

Exhibit 19: Cash Forecast Return

Cash Return Forecast	
3-Month T-Bill Expected Yield	2.42%
Current Cash Yield	4.54%
Cash Forecast Return	**2.95%**

Source: Syntrinsic. Bloomberg

Forecasting Non-US Developed and Emerging Market Bonds

Syntrinsic develops forecasts for developed non-US bonds starting with components of expected inflation and real GDP growth. As with the US, we anticipate that interest rates will decline as inflation continues to moderate and expect yields to move toward longer-term expectations.

Exhibit 20: Non-US Developed Bond Forecast

Non-US Developed Bond	
Non-US Developed Expected Growth	1.44%
Non-US Developed Expected Inflation	1.85%
Non-US Developed Expected Yield	3.31%
Current Non-US Developed Bond Yield	2.62%
Non-US Developed Bond Forecast Return	**2.60%**

Source: Syntrinsic. Bloomberg, OECD

Bonds have become an increasingly useful tool in the emerging markets and represent many diverse economies and currencies. As such, the calculus for anticipating return requires a different approach. For our emerging market bond forecast, we use the long-term historical spread of emerging market debt to the 10-Year US Treasury bond. Based on our expectations for emerging market debt yields to move from current levels to our expected yield over the next five years, we anticipate ten-year returns of 7.10% per year.

Exhibit 21: Emerging Market Bond Forecast

Emerging Market Bond	
10-Year US Treasury Yield Expectation	4.14%
EM Bond Spread to 10-Year Treasury	3.75%
Emerging Market Bond Expected Yield	7.90%
Current Emerging Market Bond Yield	6.96%
Emerging Market Bond Forecast Return	**7.10%**

Source: Syntrinsic. Bloomberg, OECD

2025 Ten-Year Asset Class Expected Returns

Asset Class/Segment	Index	2025 Ten-Year Forecast	2024 Ten-Year Forecast
Global Equity	**MSCI ACWI**	**7.55**	**7.80**
US Large Cap	S&P 500	7.50	7.65
US SMID Cap	Russell 2500	7.80	8.00
US Small Cap	Russell 2000	6.45	6.60
Non- US Dev. Large Cap	MSCI EAFE	7.05	7.35
Non- US SMID Cap	MSCI ACWI ex-US SMID	8.70	8.95
Emerging Markets Equity	MSCI EM	8.50	9.25
Private Investments			
Private Equity	Cambridge US Private Equity	10.30	10.10
Private Debt	Cliffwater Direct Lending	7.60	7.65
Private Core Real Estate	NCREIF ODCE	5.90	5.95
Private Core-Plus Real Estate	NCREIF ODCE + Premium	7.70	7.70
Real Estate			
Global Listed Real Estate	FTSE NAREIT/EPRA Global	6.60	6.40
US Listed Real Estate	FTSE NAREIT/EPRA United States	6.40	6.25
Global ex-US Listed Real Estate	FTSE NAREIT/EPRA Global ex-US	6.50	6.30
Infrastructure			
Global Infrastructure	S&P Global Infrastructure	6.35	6.50
Private Infrastructure	Cambridge Private Infrastructure	7.60	--
Commodities			
Commodities	S&P GSCI	3.85	3.70
Hedge Fund Strategies			
Hedge Fund Strategies	HFRI FoF Composite	4.25	4.45
Equity Hedge	HFRI Equity Hedged	5.40	5.50
Global Fixed Income	**Bloomberg Global Agg**	**3.40**	**3.70**
Short-Term Fixed Income	Bloomberg G/C 1-5 Yr.	3.15	3.60
US Core Bond	Bloomberg US Agg	4.55	4.90
US Core Plus Bond	Bloomberg 80% US Agg/20% HY	4.95	5.40
High Yield Bond	Bloomberg US High Yield Corp	6.50	7.25
Non-US Developed Bond	FTSE WGI ex-US	2.60	2.20
Emerging Markets Bond	JPM EMBI	7.10	8.25
Cash	**3 Mo Treasury**	**2.95**	**3.25**
US Inflation	**CPI: Consumer Price Index**	**2.35**	**2.30**
Global Inflation	**Weighted Regional Forecast**	**2.65**	**2.11**

Source: Syntrinsic

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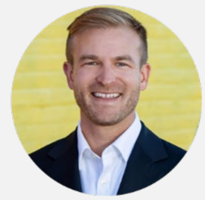

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