

Market Overview: Optimism and Concern

THE ECONOMY, PUBLIC EQUITIES, AND FIXED INCOME

Concerns regarding tariffs and the potential for resulting global economic instability have eased to some extent, as trade agreements have been progressing and temporary pauses have been established with several key US trading partners. The economy outside of the United States appears to be maintaining stability, with capital predominantly flowing out of the US and into foreign markets throughout the year. This shift reflects investor sentiment that views domestic markets as more vulnerable in the current environment. The reallocation of capital has contributed to strong relative performance abroad, where international markets have delivered outsized returns compared to their US counterparts (though mostly driven by dollar weakness).

Within the United States, economic data continues to present a mixed picture, marked by both areas of resilience and emerging signs of softening. The labor market has begun to show moderation, with a slowdown in monthly job creation and a gradual uptick in the unemployment rate. In response, the Federal Reserve shifted its policy emphasis from inflation containment toward supporting employment, implementing a 0.25% rate cut in September following the latest labor market readings.

At the same time, consumer spending, specifically in higher-income households, remains a key source of strength for the US economy. Retail sales have shown solid year-over-year growth, supported by higher equity valuations that have boosted disposable income among higher-income households. Additionally, corporate capital expenditures continue to contribute to GDP growth, with significant investments directed toward artificial intelligence and related technologies.

Within global equity markets, the weakness of the US dollar, driven by a combination of capital outflows and fiscal stability concerns, has significantly enhanced foreign market returns for US investors, serving as the primary catalyst for their outperformance relative to domestic counterparts. Thus far in the year, the dollar has declined relative to a basket of other currencies by nearly 10%. For the quarter ending September 30, 2025, global equities returned 7.6%. Regionally, emerging markets led with a return of 10.6%, followed by the US at 8.2%, and international developed markets at 4.8%. While the US regained some leadership during the third quarter, it continues to lag foreign markets year to date. Global equities returned 18.4% year-to-date, with emerging markets, international developed markets, and the US returning 27.5%, 25.1%, and 14.4%, respectively.

US fixed income markets remained resilient during the quarter as US Treasury yields declined across the curve, influenced by investor optimism along with the Federal Reserve's September policy rate reduction. The US Treasury curve experienced further steepening as shorter-term yields decreased more than their longer-term counterparts over the quarter. The 10-year Treasury yield moved lower as investors priced in expectations for additional easing. This downward movement in yields led to positive

total returns across all duration segments, particularly within intermediate and long-term Treasuries. Credit markets also performed favorably as credit spreads tightened across all major market segments, particularly investment-grade and high-yield credit. While lower yields have reduced prospective income opportunities at the margin, fixed income continues to provide valuable diversification benefits and potential price appreciation in periods of heightened equity market volatility.

The rise in gold has been notable during the quarter. Despite a perceived easing of economic instability, macroeconomic, policy, and geopolitical risks persist, increasing investors' appetite for gold given its safe-haven status. In addition, recent international central bank demand, driven by a desire for reserve diversification and further supported by de-dollarization trends, has also contributed to gold's valuation. Gold's low correlation to equities and fixed income during periods of market dislocation also offers diversification benefits that appeal to investor demand. That said, gold remains a store of value (with limited long-term expected return and a history of multi-year periods of flat prices), and while increased demand has certainly underpinned its valuation over the past several months, it remains to be seen whether this is a structural long-term trend. Although weakened, the US dollar's global hegemony remains intact and is unlikely to be replaced in the near term by other currencies or stores of value, including gold.

PRIVATE EQUITY

Private equity exits remain lackluster, driven by a prolonged elevated interest rate environment and wide bid-ask spreads between buyers and sellers. There were 135 exits during the second quarter of 2025, below the pandemic average of 167. The current exit environment continues to cause the backlog of inventory to swell, lowering the prospects for liquidity among limited partners.

Continuation vehicles and secondary sales have also served as avenues for liquidity. That said, distributed-to-paid-in capital (DPI), representing actual cash returned to investors from exits, for fund vintages from 2016 to 2022 is expected to remain anemic and below 1.0x, suggesting weakness and limited liquidity in the private equity space over the near term. Despite the current backdrop, we continue to see pockets of opportunity in the small-to-mid buyout market, secondaries, growth equity, co-investments, and key sectors, while avoiding mega-buyout strategies.

VENTURE CAPITAL

Venture capital markets, the cousin of private equity, saw improved exit activity in the first half of 2025 relative to the lows of 2023, though still below the long-term trend. Similarly, the muted exit environment continues to impact liquidity, with the 12-month distribution yield as a share of net asset value (NAV) standing at 8% compared with the long-term average of 16%. As a result, limited partners have increasingly turned to secondary markets (selling their stakes) for liquidity.

In the first half of 2025, there were 18 initial public offerings (IPOs), 10 of which were "unicorns" (valued at over \$1 billion.) Notably, the unicorn IPOs were primarily artificial intelligence or technology-related

companies, including CoreWeave (AI cloud infrastructure platform), SailPoint (security software), Chime (mobile banking), and Circle Internet Group (cryptocurrency trading platform). Venture-backed IPO activity remains sluggish in the US and is pacing to be the slowest year in the past decade, with a 10-year average of 75 IPOs. This trend is driven by valuation levels that remain anchored to 2021 despite declining volatility and rising public market multiples.

Looking ahead, successful IPOs in 2026 will likely emphasize profitability, resilience to macroeconomic volatility, and alignment with U.S. policy priorities, including artificial intelligence, cryptocurrency, cybersecurity, robotics, and space technology.

PRIVATE CREDIT

Private credit markets have seen increased deal competition against the broadly syndicated loan (BSL, or leveraged loans arranged by investment banks) market, particularly in the upper markets. Lower base rates and narrowing spreads have made the BSL markets more attractive to borrowers. As a result, we have observed spread compression (lower rates) in direct lending, particularly in private equity-sponsored borrowers. For example, data from Pitchbook indicates direct lending loans with less than 5% in spread accounted for 21% of private equity sponsored back direct lending loans in 1Q 2024 and have since increased to 36% as of Q2 2025. Moreover, fundraising in private credit continues to flow primarily into direct lending strategies, favoring established players and mega funds, increasing competitive pressures amongst private credit lenders.

Private credit defaults remain low. The Proskauer's Private Credit Default Rate fell to 1.8% in Q2 2025 from 2.4% in the prior quarter. Payments-in-kind (PIKs), also known as accrued interest, however, have become more prevalent in deal structuring, as borrowers navigate high interest rates and sticky inflation opt to keep cash on hand for other uses. This may increase repayment risk and pressure recovery expectations if value creation misses the mark.

We continue to favor lower middle markets, which face less deal competition and relatively durable spreads compared to the upper markets. We also see potential value in diversifying into other private credit strategies that have shorter loan durations, income generation, and strong loan documentation characteristics.

PRIVATE INFRASTRUCTURE

Private infrastructure remains a compelling opportunity backed by strong secular demand and megatrends over the long term. We continue to see infrastructure as a bipartisan issue with a meaningful gap where private capital can fill the void. In an increasingly uncertain world, private infrastructure offers relative stability compared to other private market asset classes across economic and political cycles. In addition to supply and demand imbalances and supportive long term structural trends, the asset class benefits from investor demand for diversification. In combination, this has historically led to consistent returns ranging from 8% to 11%, depending on the strategy. Furthermore,

at a time when distributions are highly valued by limited partners, infrastructure's distributed proceeds are highly desirable in the current environment. We continue to favor core, core-plus, and value add strategies in the middle market, as well as direct control and secondary investments.

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