OUTLOOK
2025

MACQUARIE ASSET MANAGEMENT

Plan for growth, prepare for volatility

Contents

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A letter to investors

This year's Outlook report reflects our view that financial conditions will continue to normalise in 2025. The past year demonstrated the skill of policymakers in navigating the post COVID-19 inflationary surge as well as the resilience of financial markets, leading to strong returns for investors in the listed markets. Political challenges to incumbency and subsequent changes in governments and policy, combined with elevated geopolitical tensions globally, contrast with a more positive outlook for the global economy in 2025.

Moderating inflation, lower interest rates and robust underlying growth in major developed markets have contributed to a favourable outlook for asset prices. While conditions are constructive, we maintain our longer-term view that we have transitioned to a 'new normal' where neutral rates are likely to remain elevated relative to the past decade. The key risk to our 2025 outlook is more stubborn inflation, particularly if we see an escalation in trade conflicts between countries.

Against this more positive macroeconomic backdrop, external shocks including geopolitical developments and extreme weather events, and markets' response to those shocks, are driving short-term volatility in the financial markets, which will continue to present opportunities for public market investors. Private markets will be beneficiaries of lower rates in 2025 as the bid-ask spread narrows, potentially signalling an active year for transactions, following two years of historically weak activity. Private equity and infrastructure funds are sitting on more than $US5 trillion of unrealised assets globally, of which a significant portion was invested through pre-COVID-19 vintages.

As primarily medium- to long-term investors, we build conviction around investment themes that will shape the investment landscape over the next decade or more. We have conviction in the energy transition, digitalisation and the ongoing need for investment in essential infrastructure. We also believe that full electrification and modernisation of commercial real estate and housing has a key role to play in the decarbonisation of economies. The past 12 months witnessed a step change in interest in generative artificial intelligence. Generative AI represents a material increase in demand for server capacity globally, which we see first-hand through demand for data centre capacity across our portfolios. This growth is incremental to the demand for data fuelled by the roll out of 5G, which led wireless data consumption in the US to exceed 100 trillion megabytes in 2023. This rapid rise in demand for data has significant implications for both power grids and renewable power, driving convergence between three of our key investment themes.

Heightened geopolitical risk supports the case for geographic diversity beyond traditional core markets. We have seen increased activity and investor interest in Brazil, Mexico, Indonesia, India and Japan. I have personally spent time in these markets over the past 12 months. My sense is that they have moved beyond promise and potential. Rather, they present a growing array of attractive opportunities today. We also believe Saudi Arabia, committed to its Vision 2030 plan to modernise and diversify the Saudi economy, is an important opportunity over the long term.

As the investing landscape evolves investors must also change. Corporate customers of many of our portfolio companies increasingly demand bespoke solutions aligned to net zero. Therefore, we believe that investors with access to diverse, scale pools of funding and specialist expertise across a range of capabilities to deliver complex solutions will continue to differentiate themselves. Reflecting this approach, our global team of investment professionals is focused on a diverse set of opportunities across our broad asset management platform in the year ahead, as further detailed in this report:

- **Real estate**. This is our main overweight position for 2025. The backdrop of falling rates and robust growth is set to make 2025 a strong vintage for market entry. Subdued new development starts should support higher rents and occupancy rates over the medium-term. In our view, the strongest risk-adjusted returns are in sectors with solid structural drivers including residential, logistics, premium offices and alternative property types. Sector specialist expertise will be required to identify the best submarkets, while the ability to source off-market deals will be key to generating alpha.

- **Infrastructure**. The inflation protection embedded in infrastructure supported stable returns over the past two years, though fundraising and deployment activity faced headwinds. Falling interest rates will support valuations and we expect returns and deal activity to pick up in 2025. Economic fundamentals are likely to drive interest in growth assets, while we believe tailwinds will support the transport, digital and power sectors, in particular. In light of our longer-term outlook, we expect active value creation will be key to delivering returns over the next decade. Managers with true operational expertise will prevail.

- **Listed equities**. Market valuations are not cheap, but we believe falling rates and robust underlying GDP growth should support corporate earnings and prolong equities' bull run. Relative valuations suggest opportunities for investors in value versus growth, in small-cap versus large-cap and in geographic diversification, noting large valuation gaps between the US and the broader developed markets across financials, utilities and consumer staples.

- **Credit**. Our outlook for 2025 continues to be positive for private credit. Direct lending remains poised for significant growth with an expected resurgence in M&A activity and leveraged buyouts. Within leveraged credit, investing in higher yielding securities such as high yield bonds, bank loans and collateralised loan obligations (CLOs) makes sense for investors seeking a high relative income in an environment where the macroeconomy is intact. Meanwhile economic volatility has created opportunities in global fixed income markets. We maintain our focus on the long term, continuing to be favourable on duration while staying selective and dynamic across regions and curves. Within investment grade credit markets, all-in yields continue to be attractive, though we are still somewhat cautious due to heightened valuations.

As ever, we welcome the opportunity to discuss the views in this Outlook and we look forward to working with our investors and portfolio companies as we execute these strategies and, importantly, seek to deliver positive impact for the communities we serve.

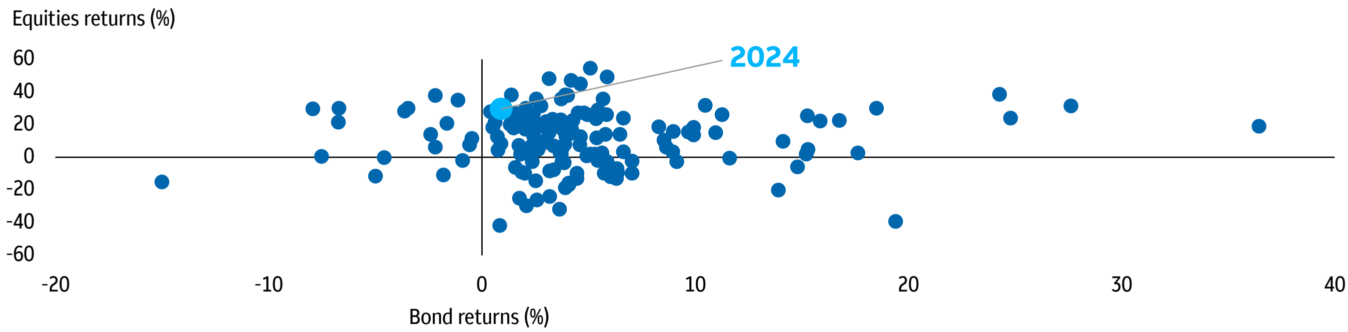
Ben Way
Group Head,
Macquarie Asset Management

Global macroeconomics

Once more unto the breach

2024 has been another year of strong returns for investors, with the classic 60/40 portfolio[1] returning 18.2% year to date (YTD),[2] after delivering a 13.3% return in 2023. Like last year, returns have been overwhelmingly driven by equities which returned 29.7% YTD, while bonds returned just 0.9% (Figure 1).

Figure 1:
Returns on US equities and bonds since 1872



Sources: Macrobond (November 2024); Robert Shiller online data, Yale Department of Economics, accessed 13 November 2024.

Developments in inflation have been key to this better return environment, with headline inflation rates across the developed world (DW) now either very close to 2% or heading there rapidly. This has allowed central banks to begin the process of normalising monetary policy settings, supporting returns for both debt and equity. At the same time, gross domestic product (GDP) growth has held up remarkably well, with the US economy set to deliver another year of above-trend growth, and the Euro area and UK economies seeing a solid pickup in domestic demand and GDP growth after a difficult 2023.

Looking ahead to 2025, we expect global GDP growth to remain healthy. Indeed, the DW consumer is in excellent shape, with real incomes rising rapidly, interest rates falling and labour markets robust. If newly elected President Trump puts in place the tariffs he promised during the campaign (10-20% on imports across the board and 60% on imports from China), this is likely to dent the current momentum somewhat, but the bulk of the impact isn't likely to be felt until 2026.

Inflation is a more nuanced story. Much of the decline in DW inflation has come through goods inflation, which has been heavily influenced by temporary factors. In 2025 it may not act as the disinflationary force it was in 2024, and US fiscal policy could prove, yet again, to be supportive of above-trend demand growth. At the same time, the tariffs (if implemented in full) would add around 1-2 percentage points to inflation for a year, depending upon the extent of the pass-through to the consumer.[3] If President Trump's proposed deportations were executed at scale, this could also add to inflationary pressure by tightening the labour market. Such an endeavour would be logistically challenging, however. At the time of this writing it is unclear if there will be a programme and, if so, how large it will be. All told though, both headline and core inflation could be more buoyant, and therefore more challenging for policymakers, than markets and investors are currently assuming.

1. Portfolio consisting of 60% equities (represented by S&P 500 Index) and 40% bonds (represented by 10-year US Treasuries).
2. Based on Robert Shiller online data, through 13 November 2024.
3. A recent International Monetary Fund Working Paper, "Tariff Passthrough at the Border and at the Store: Evidence from US Trade Policy" (November 2019), found that the pass-through US import prices was 92.5% of the tariff increase.

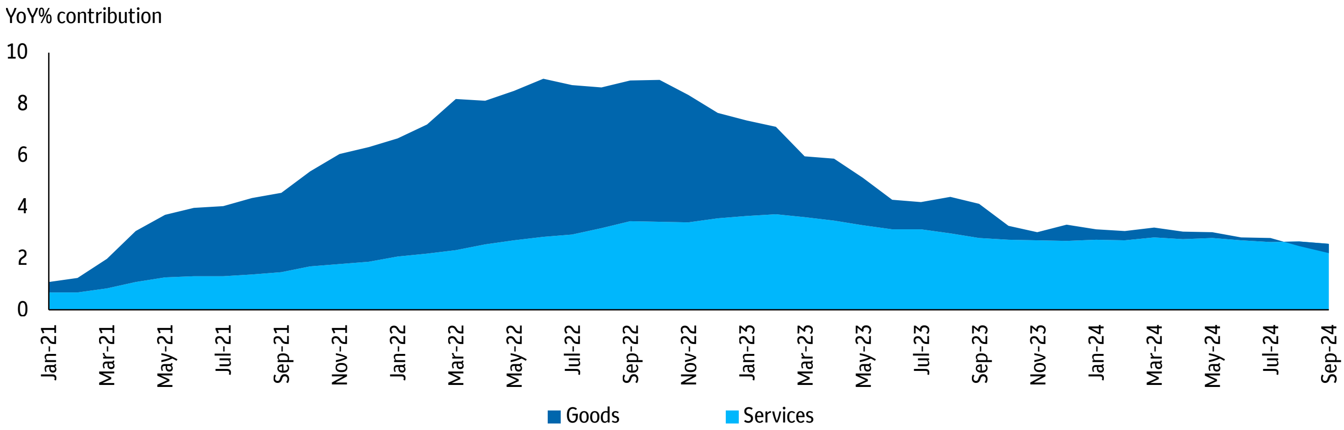
In past Outlooks we have emphasised the structural changes in the global economy that we believe have taken place in recent years. Understanding those changes, which are deeply founded in deglobalisation, shifts in political economy preferences, and geopolitical developments, remains crucial, in our view, to successful investing over the next decade or more. Many of these factors that we have discussed at length in our previous annual Outlooks will again be in play next year, but short-term 'return to normal' dynamics are also likely to play an important role and will be crucial determinants of returns in 2025.

Inflation: Central banks have won the first battle, but the war is not over

Despite starting conditions similar to the inflation of the 1970s – the onset of regional conflict, a sharp rise in commodity prices, a tight US labour market, and large amounts of fiscal stimulus – the recent period of inflation has not morphed into a sustained inflation problem. Key to that outcome is that policymakers have learned the key lesson of that prior period, which is that monetary policy must firmly and forcefully address the inflation challenge when it arises and not allow inflation expectations and an 'inflation psyche' to become entrenched.

But the war against inflation may not be over. With globalisation reversing, populations aging, and productivity outcomes currently lacklustre there is, in our view, far more underlying inflationary pressure in the global economy than has been the case for decades. Indeed virtually all of the fall we have seen in inflation across the DW has come from weakening goods inflation, while services inflation has remained remarkably stable (Figure 2). This has occurred despite significant amounts of monetary policy tightening and, in some instances (most notably in the Euro area and UK), weak domestic demand.

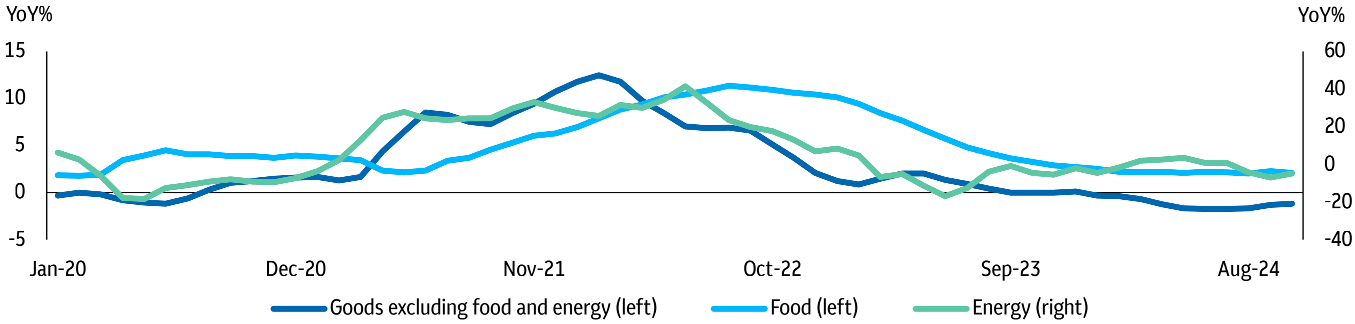
Figure 2:
DW inflation: The disinflation has been almost all in goods



Source: Macrobond (November 2024).

The falling prices of commodities (which are goods) are certainly part of this story. But it is more than that – in the US, for example, the prices of other goods, such as appliances, furniture, and electronics, have also been declining, as Figure 3 demonstrates.

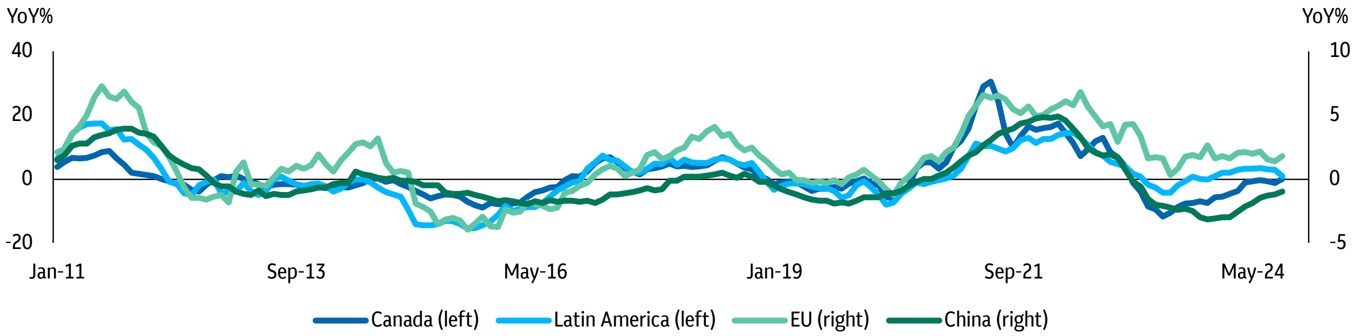
Figure 3:
US goods inflation by component: The deflation is not just a commodities story



Source: Macrobond (November 2024).

Falling import prices have been a big contributor to this weakness in goods inflation. While the disinflation in import prices has been broad-based by origin of imports, China and Canada have been big contributors to the outright deflation that has occurred (Figure 4).

Figure 4:
US import prices by country of origin: China has been a big part of the goods deflation



Source: Macrobond (November 2024).

Falling export prices from China are in part related to the weakness of China's domestic economy. With the property market weak and domestic demand sluggish, there has been plenty of focus from policymakers on supporting the export sector. The subsidies and other support for that sector have led to China imparting a sizeable disinflationary shock to the global economy.[4] This has helped to turn rapid goods-price inflation into goods-price deflation.

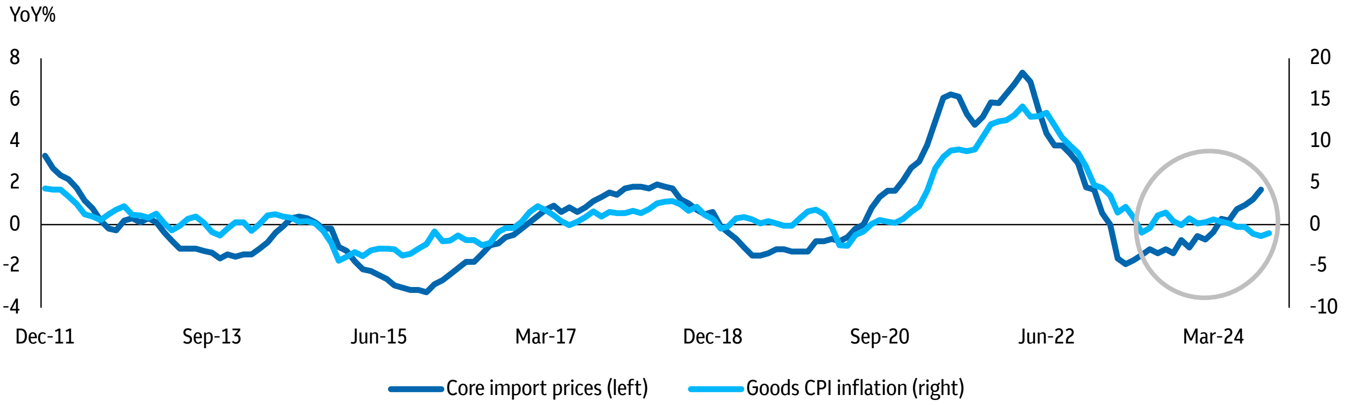
But rather than being a structural, and therefore durable, feature of the underlying economic landscape (as it was in the early 2000s), we view this as a temporary phenomenon related to the state of China's domestic economy and the current focus of policymakers. In fact, as we have discussed in previous Outlooks, we believe the supply-side dynamic of the global economy has changed and that deglobalisation and weaker demographics mean more underlying inflationary pressure in the global economy. This should mean a return to greater bargaining power on behalf of DW workers, but it will also likely mean that China no longer exports deflation through its manufacturing sector and that goods prices globally are not the disinflationary force that they were in the decades following the fall of the Berlin Wall.

4. International Monetary Fund (IMF), "People's Republic of China: 2024 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China," August 2024. On page 51, Box 7, "How do China's Subsidies Affect its Trade Flows?" provides a good overview of how China's industrial policies create trade spillovers.

Indeed, US import prices already seem to have turned higher. Around one-third of US consumer goods are imported, but they account for a larger share of the volatility in consumer goods prices and history would suggest that the current trend of rising import prices, but falling goods prices at the consumer level, is unlikely to continue for very long (Figure 5).

Figure 5:

US import prices are now rising again

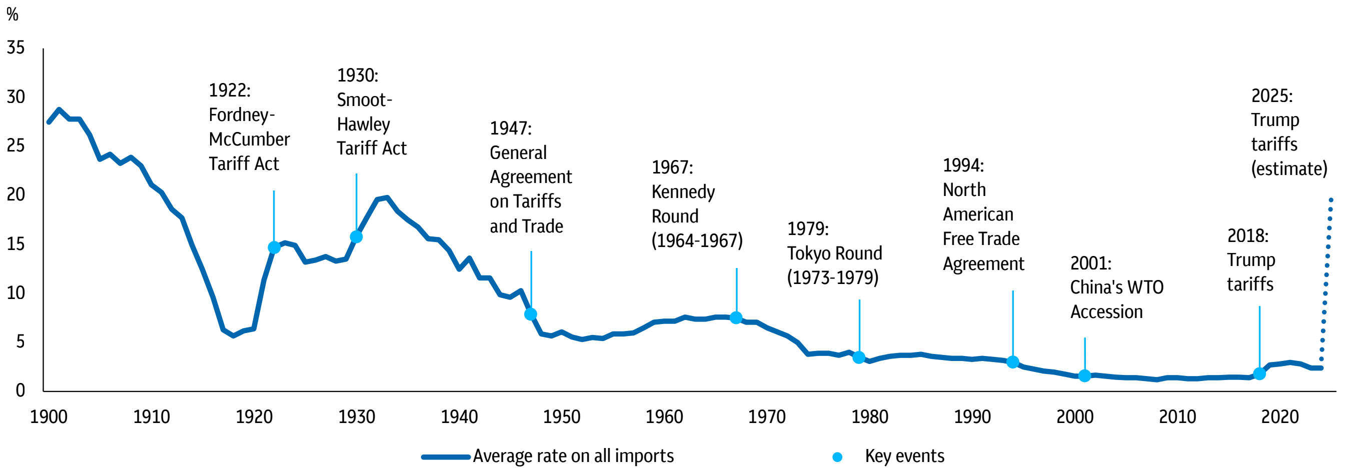


Source: Macrobond (November 2024). CPI = Consumer Price Index.

On top of that lies the potential tariffs. Assuming a 15% tariff (the midpoint of the 10-20% promised range) on all non-China imports and 60% on imports from China would give a weighted average tariff of slightly more than 20%, taking it back to levels not seen since at least the 1930s (Figure 6). The degree of pass-through to consumer prices is unclear, but by our estimation the tariffs could add 1-2 percentage points to consumer prices.

Figure 6:

The average tariff would return to 1930s levels



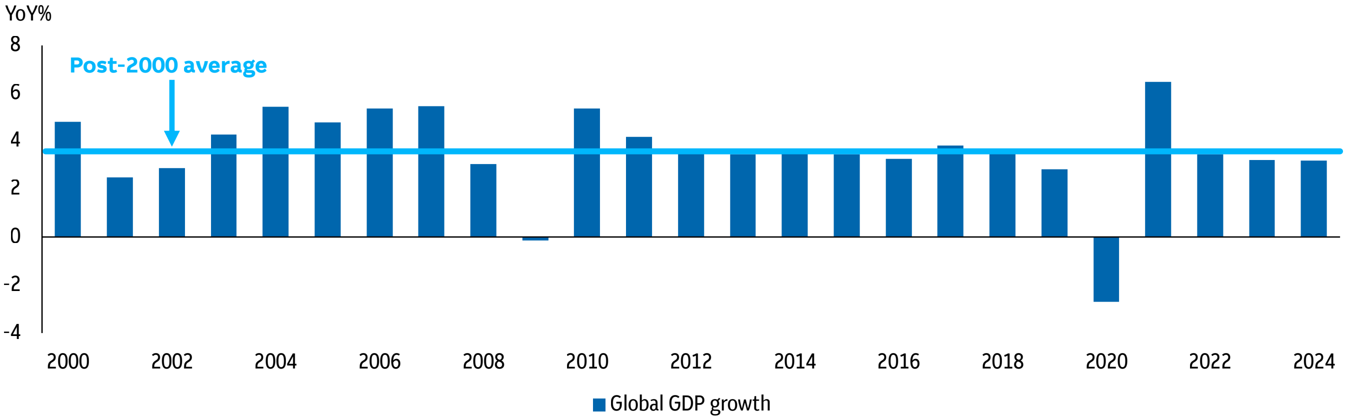
Source: Tax Foundation (November 2024).

This is a one-off price level shift and does not represent a sustained lift in the rate of inflation. As such, the US Federal Reserve (Fed) is unlikely to tighten monetary policy as a result but will be on guard for second-round effects. In the context of the goods price dynamics just described, this is likely to mean that the Fed will ease more slowly and the path to normalisation will be longer.

Global growth: The DW consumer drives above-trend growth

After the COVID-19 induced volatility, the global economy has held up remarkably well given the number and size of the shocks it has had to absorb, with global growth averaging quite close to its post-2000 average in the past three years (Figure 7). With the ripple effects of these shocks petering out, this bodes well for growth in 2025.

Figure 7:
Global growth: Remarkably resilient in the face of several large external shocks



Source: IMF (November 2024).

Indeed, with no signs of financial sector stress, no obvious economic imbalances present, interest rates falling and the labour market stabilising after a recent wobble, risks to US growth have faded and the potential for a soft landing – highly unusual historically – has grown. Rising real incomes for households, an expansion in the investment opportunity frontier for corporates from new technologies such as artificial intelligence (AI), and a more favourable policy configuration point to the likelihood of trend-like growth for the US and DW economies in 2025. While growth might be even stronger in the absence of US tariffs, the modelling done to date suggests that their impact in 2025 is likely to be relatively contained.[5]

The DW consumer is in very good shape and is likely to be the backbone of growth in 2025. And not just because real incomes are rising rapidly (Figure 8). Interest rates are falling, credit conditions are easing, household balance sheets are healthy, and saving rates are near their post-2000 average levels (Figure 9), implying scope for them to fall going forward and drive consumption growth above the rate of income growth. These factors apply just as much to the UK and Euro area consumer as they do to the US. Although growth in Europe has been weaker and more volatile than in the US in recent years, we see good fundamental support for growth next year and expect it to pick up and be more consistent in 2025.

5. The Peterson Institute, "The International Economic Implications of the Trump Program," Macroeconomic Projections, accessed 13 November 2024.

Figure 8:
Real wages are surging across the developed world

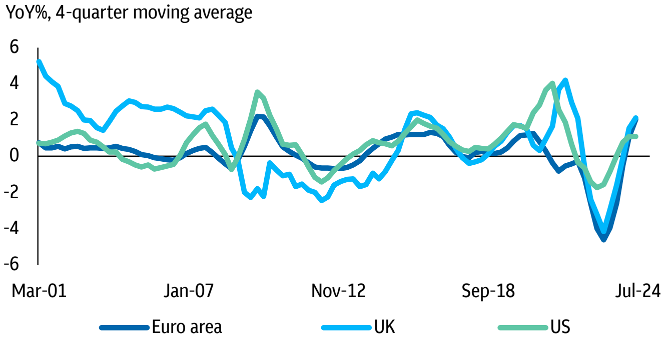
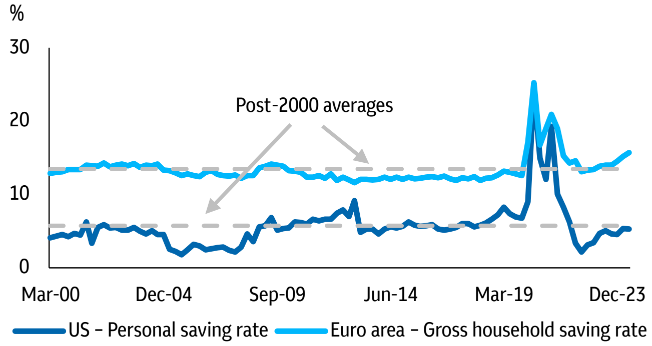


Figure 9:
Saving rates are near post-2000 averages



Source: Macrobond (October 2024).

China is a different story, however. While the GDP data suggest the economy will expand 4-5% in 2024, the more timely data on economic activity all point to an economy that is struggling. The primary challenge remains the housing market, which has shown no signs of recovery this year with the pace of price declines actually picking up in recent months (Figure 10). Construction activity also remains very weak, contracting at around 25% year over year (YoY).

Household income growth has softened in the post-COVID-19 era, and consumption growth has been tepid (Figure 11). This is in part due to the weaker income growth but it is also due to a rise in precautionary savings as a result of the fall in asset prices in recent years and greater uncertainty about the economic outlook. Growth in fixed asset investment has also slowed.

Figure 10:
House price declines are accelerating in China

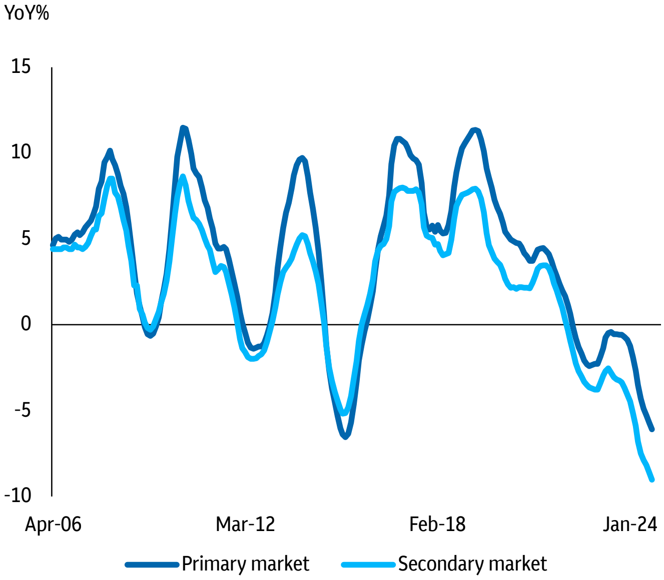
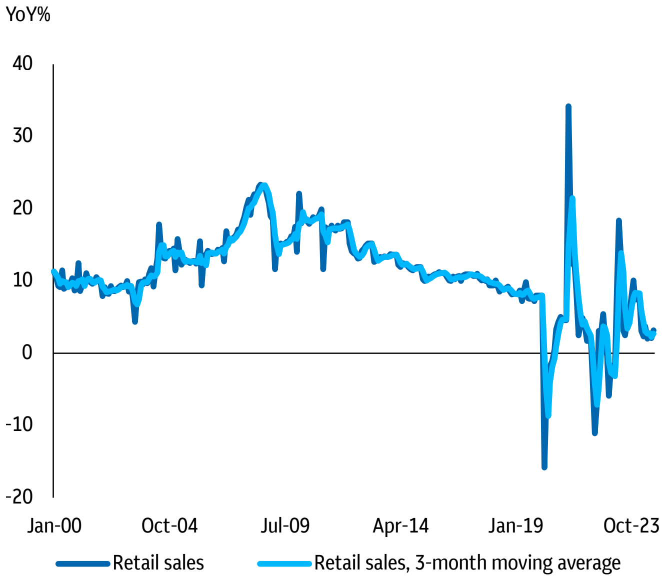


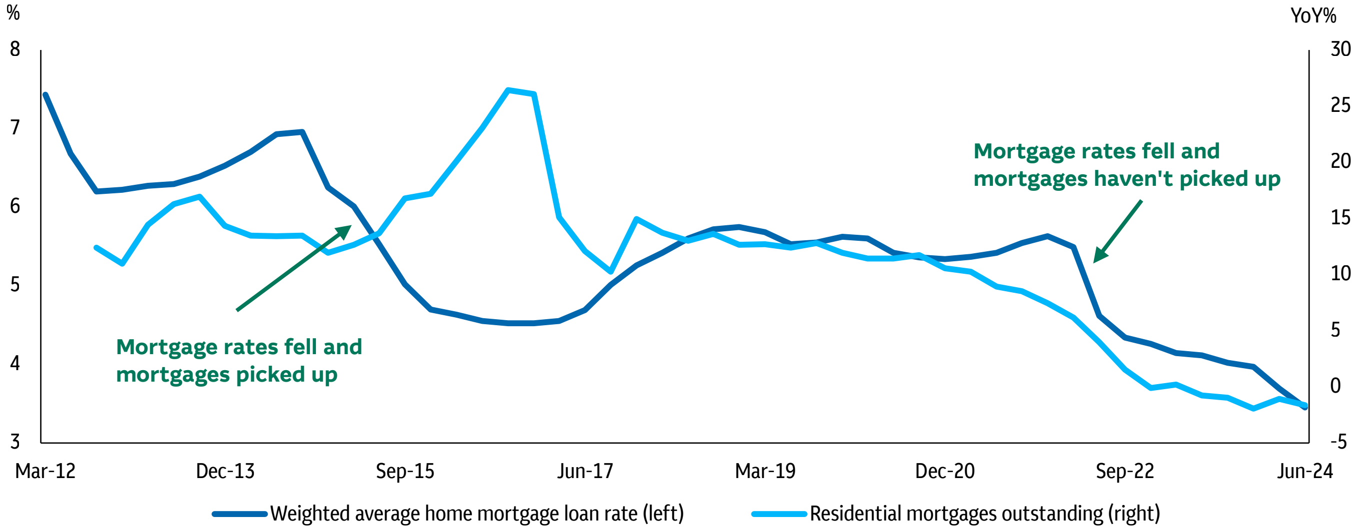
Figure 11:
Chinese consumer spending has slowed



Source: Macrobond (November 2024).

The recent policy initiatives are welcome, but Chinese authorities have been persistently slow to ease, and the measures announced have not been large enough relative to the growth challenge. It may also be the case that China's policymakers are largely 'pushing on a string' – if households don't believe house or equity prices are going to rise, they won't buy them no matter how flush they are with cash. And if businesses don't expect there to be consumer demand, they are not going to invest no matter how much you lower borrowing costs.

Figure 12:
Mortgage rates and mortgage lending: Are Chinese policymakers pushing on a string?



Source: Bloomberg Finance LP (November 2024).

In other words, a recovery in China's domestic economy may have to wait until the housing market, the consumer, and the domestic economy more broadly have fundamentally rebalanced to the extent necessary for normal market forces and incentives to drive growth. That point has not yet been reached, so it seems likely that China's domestic demand will remain lacklustre for some time yet. Finally, President Trump's proposed 60% tariff on imports from China would have a significant effect on China's export sector and economy. Estimates from the Peterson Institute suggest these tariffs would reduce China's growth rate by around 1 percentage point. In short, China's economy is likely to remain weak in 2025.

Monetary and fiscal policy: Both moving to a more neutral stance

The outlook for monetary policy in 2025 is unusually clear. With central banks convinced the inflation challenge has been met, restrictive monetary policy is, in their view, no longer necessary. Nearly all the DW's major central banks are therefore in the process of normalising policy settings and taking policy rates back to neutral. Figures 13 and 14 show the expectations for the Fed and the European Central Bank (ECB). At the time of this writing, futures markets were expecting the US and Euro-area policy rates to be around 3.82% and 1.66%, by the end of 2025, respectively, which in both cases is a policy rate that is close to what each central bank considers to be neutral.[6]

6. The European Central Bank (ECB) estimates the neutral rate for the Euro area is around 2% nominal and the Fed estimates 3-3.5%. ECB Economic Bulletin, Issue 1/2024, "Estimates of the natural interest rate for the euro area: an update." Federal Reserve Bank of New York, r-star "Measuring the Natural Rate of Interest."

Figure 13:
US monetary policy outlook

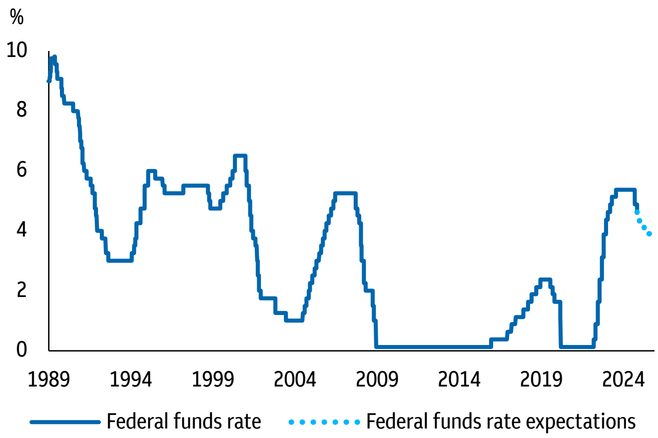
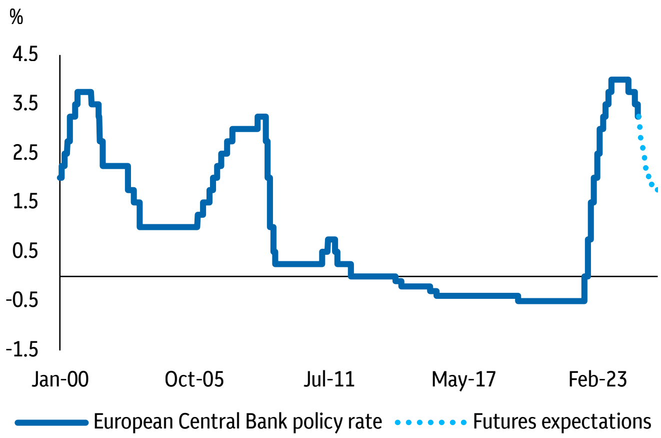


Figure 14:
Euro area monetary policy outlook



Source: Macrobond (November 2024).

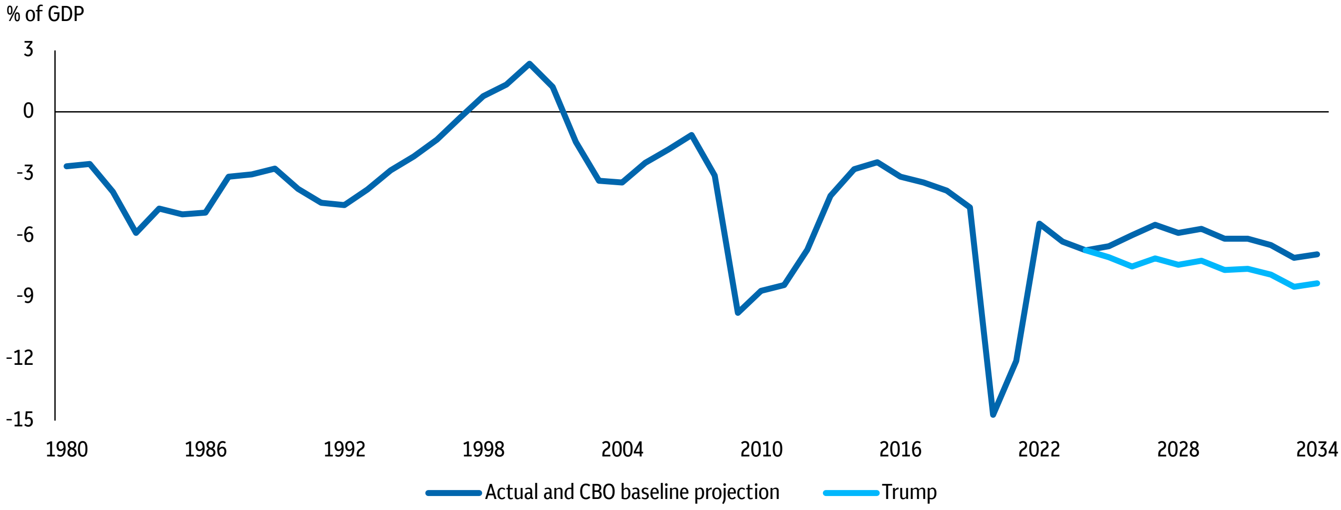
As we discussed in the previous section, we believe goods inflation could come back in 2025, complicating the overall inflation picture. This effect is likely to be most pronounced in the US, but the UK and Euro area will also feel some impact. Any tariffs on US imports would likely slow this process further, as the Fed worries about the potential for second-round effects (a rise in inflation expectations and/or wage demands). In short, it may take central banks longer to reach neutral than markets are currently assuming.

The stance of fiscal policy is more difficult to calibrate. Using the traditional metric of change in the budget deficit/surplus as the measure of the pulse of fiscal policy, it would appear to be set to have a mildly contractionary impact on growth of the G7 economies in 2025 – in aggregate, the International Monetary Fund (IMF) expects the G7 budget deficit to go from 6.2% of GDP in 2024 to 5.6% in 2025.[7]

But this ignores two considerations. First, President Trump's win in the US presidential election changes this picture slightly – according to Congressional Budget Office (CBO) estimates the 2025 deficit will be 7.1% of GDP under a Trump administration, compared with the CBO's baseline estimate of 6.5%[8] and a 2024 deficit of of 6.7% (Figure 15). This means US fiscal policy should be slightly stimulatory to economic activity in 2025.

7. IMF World Economic Outlook database (October 2024).
8. We have calculated this by taking the difference between the CBO projections for the primary deficit under Trump and under the baseline and adding this to the baseline overall budget deficit projections. We have then added in interest cost, which we calculate as the sum of the primary deficit differences over time multiplied by interest cost which is the average of the CBO's projected interest cost for 2025-2034 inclusive.

Figure 15:
US fiscal deficit: CBO baseline versus Trump campaign commitments



Source: US CBO (November 2024).

Second, the budget authority for spending doesn't always align with the actual outlays. We are seeing that clearly in the US, where there is a roughly 10% expansion in spending from the various pieces of legislation already in place in 2025 and a further increase expected in 2026 (Figure 16).[9] In the EU, though the Recovery and Resilience Facility (RRF) – which is an investment scheme of grants and loans – came into effect in 2020, the bulk of its disbursements will occur over 2025 and 2026 (Figure 17).

Figure 16:
Timing of budget authority versus outlays – US fiscal policy

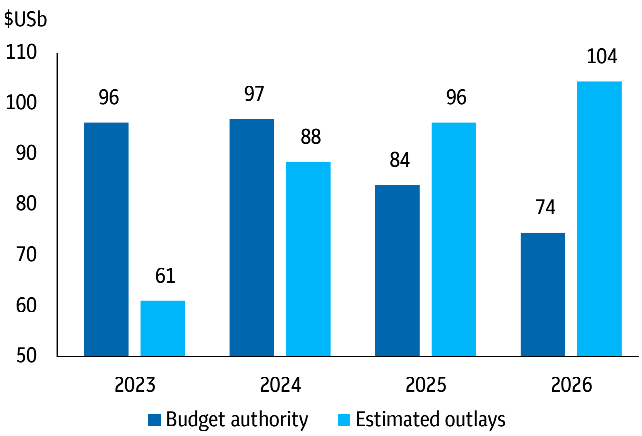
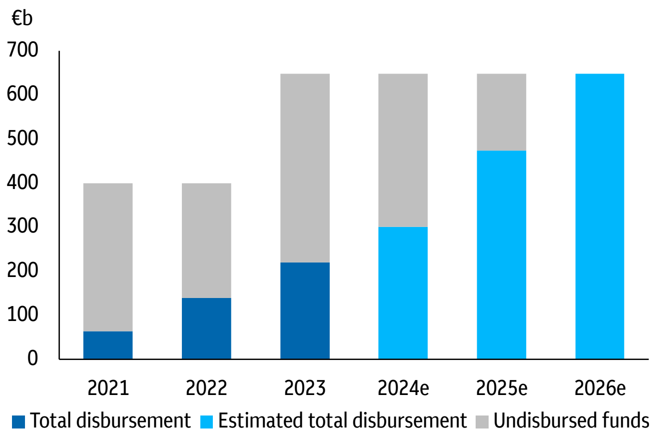


Figure 17:
Timing of budget authority versus outlays – European fiscal policy



Sources: US CBO, European Commission (November 2024).

Overall, while the headline data suggest that fiscal policy will be mildly contractionary across the G7 in 2025, we believe it will be mildly stimulatory.

9. These numbers are the sum of the CHIPS and Science Act, Inflation Reduction Act, and Infrastructure Investment and Jobs Act.

Summary and asset allocation

In recent years, the global economy has been hit by several large external shocks. But it has weathered these remarkably well, which is a testament to the adjustment qualities of our modern, developed, technology laden, and market-based economies. Policymakers have also helped, demonstrating an impressive degree of judgement and skill in navigating what has been the most challenging environment since the 1970s.

Looking ahead to 2025, the fundamentals of the DW economies are the most constructive they have been for years, with real incomes rising, labour markets strong, asset prices elevated, interest rates falling and credit conditions loosening. China's growth rate is likely to remain lacklustre, even if recent developments induce additional policy easing from the authorities. Tariffs on US imports are likely to see a one-off increase in inflation and may slow the Fed easing cycle somewhat, but any hit to growth is likely to be relatively small and most of it will come in 2026. That said, forward-looking markets are likely to react to any signs of weakening momentum in 2025.

It all points to a solid year for returns generally. Real estate is the most beaten up and unloved of the major equity asset classes and the two main drivers of its returns (global growth and interest rates) are moving in a positive direction in 2025. It is our main overweight position for the coming year. Infrastructure is also well placed – valuations have pulled back, it is arguably still undervalued and underappreciated from a long-term perspective, and earnings are likely to drive returns.

Listed equities are also likely to receive a tailwind from earnings in 2025, but may be negatively affected by any increase in geopolitical volatility or signs that the outlook for growth is softening. Valuations are also a headwind. For these reasons we have listed equities at neutral. Debt markets are our main underweight, although within that positioning there is plenty of nuance. We see opportunities in emerging markets (EM) debt and believe that Australian and European fixed income should perform better than other DW geographies in 2025. In addition, much of private credit continues to offer an attractive risk-reward proposition.

> **“Looking ahead to 2025, the fundamentals of the DW economies are the most constructive they have been for years, with real incomes rising, labour markets strong, asset prices elevated, interest rates falling and credit conditions loosening.”**

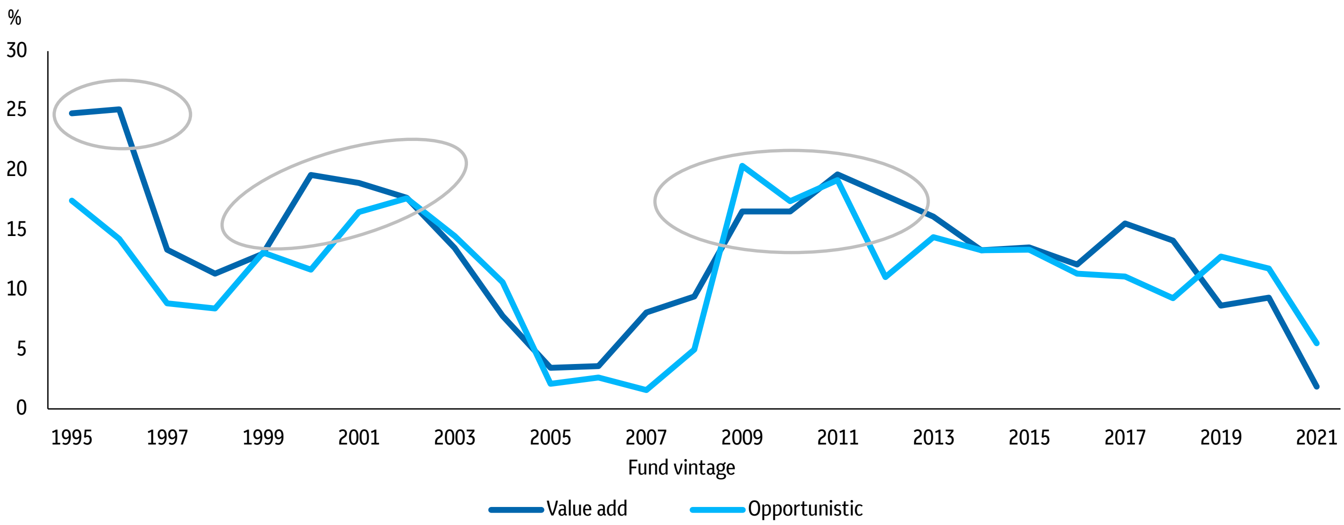
Real estate

A beneficiary of falling interest rates and healthy growth

Real estate as an asset class has historically been highly sensitive to interest rates and is expected to be one of the sectors that benefits most from lower rates over the next 12 to 24 months. Global real estate returns also correlate strongly with global growth, though certain subsectors within real estate are less sensitive to macroeconomic volatility. Overall, the combination of lower interest rates and healthy global growth is likely to be particularly powerful for this asset class. Higher capitalisation (cap) rates and yield-on-costs for recently completed buildings – or still healthy levered returns in Japan – have created attractive entry points for new investments.

Historical data from Preqin highlights that those funds that deployed capital following periods of elevated volatility, including in the aftermath of the global financial crisis or early 1990s recession, generated the highest internal rates of return (IRRs) and equity multiples emerging from these downswings (Figure 18). A similar returns pattern is expected for new fund vintages emerging from this cycle. For example, rising stress levels – particularly in the US and Europe – are creating opportunities to acquire new buildings and sites at discounted prices from developers struggling with refinancing risks, high construction costs, and lower sales prices. The sharp pullback in construction that has been seen across many markets also minimises the downside risks for valuations as future oversupply concerns recede.

Figure 18:
Median net IRR by real estate strategy



Source: Preqin (November 2024).

Gaining access through specialist operational expertise

Overall, we think the strongest risk-adjusted returns remain focused on sectors with solid structural drivers and supply-demand imbalances, including residential, logistics, premium offices, and alternative property types. Gaining access to these asset classes requires sector specialist skills and knowledge, including asset and submarket selection, which is underpinning demand for accessing opportunities through specialist operating platforms from many investors. Often, sector specialist operating platforms are better connected to their respective markets, able to source off-market deals, work through planning regimes, and deliver developments that are catered to local tenants, boosting overall returns and equity multiples. The need for specialist skills through the investment life cycle of assets has become more evident as virtually all real estate sectors have become more operationally intensive and, therefore, the importance of these skills in maximising asset values through operational gains has become clearer.

> **Sector specialist operating platforms are better connected to their respective markets, able to source off-market deals, work through planning regimes, and deliver developments that are catered to local tenants, boosting overall returns and equity multiples.”**

Even in the office sector, we think that more operational expertise is needed to drive value for occupiers and investors relative to the pre-COVID-19 environment. Platforms that can fulfil highly differentiated tenant needs and evolving capital expenditure (capex) requirements driven by increasing environmental, social, and governance (ESG) regulations alongside decarbonisation and digitalisation trends will be better placed to generate alpha for investors.

Living’s strong supply-demand drivers and resilient cash flows

Residential’s linkages with inflation (at least in less regulated markets) and resilient cash flows through cycles underpin the sector’s investment case against traditional property sectors that are more exposed to macroeconomic volatility and jobs growth. Looking at fundamentals, recent household formation rates (as a proxy for demand) have remained high relative to weakening housing starts (Australia) or are following an extended period of undersupply since 2008 (UK and US), which is keeping prices elevated for potential homeowners. In many cities, high migration and strong population growth continue to prop up demand, with hybrid working also adding to the equation given the preference for larger living spaces, though this trend may have peaked as hiring slows.

Demographics is a key factor driving specific demand for more affordable housing types across cities and age groups. For younger, more mobile populations and middle-income households, elevated prices and stretched homeownership affordability metrics mean that rental housing is the cheapest living option for many. For key workers in the US and retirees in Australia, manufactured homes and land lease communities also remain more affordable residential alternatives, which is fuelling demand aided by strong population growth of these age groups.

Focus on high-quality offices given differentiated tenant requirements

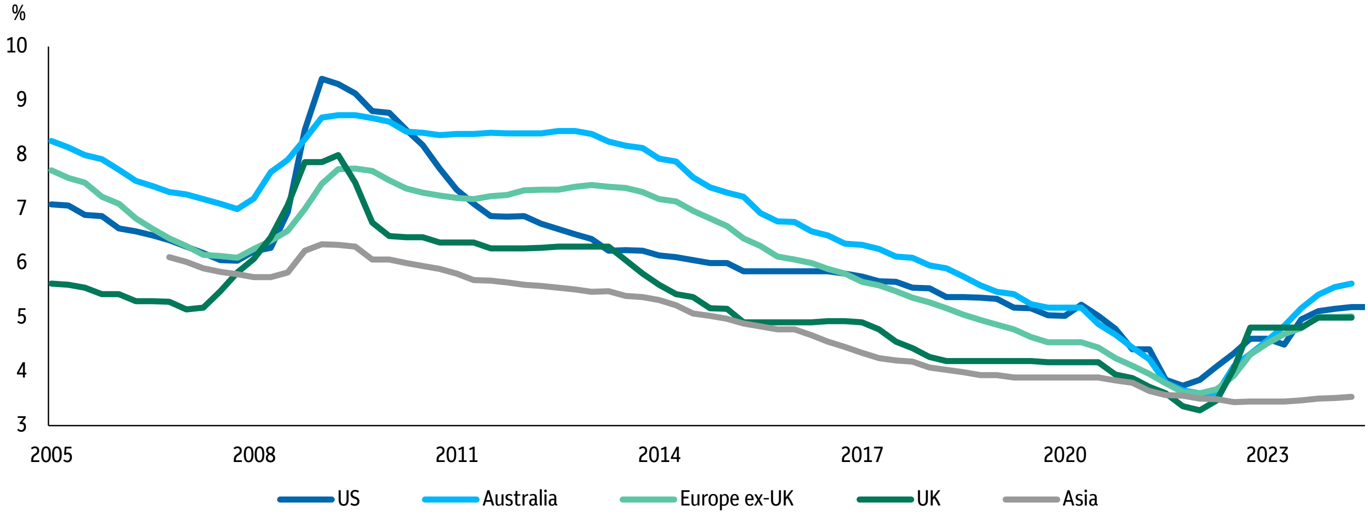
In the office market, prime rents are rising with tenant demand concentrated on high-quality, transport-enabled assets in central locations, particularly in Europe and parts of the Asia-Pacific region. Despite broader challenges for the sector, pre-leasing activity is lifting with occupiers committing to new or refurbished offices well ahead of completion amid strong competition for high-quality space. For investors, office pricing appears to have fallen well below replacement costs, and higher cap rates are creating good entry points for new investment. Specific asset and submarket strategies will be key to future performance, with returns remaining tight for new developments, at least in the near term.

At this stage of the cycle, we continue to have a general preference for value-added office strategies on a risk-adjusted basis (expected returns versus target rates), though this will gradually shift as new supply dries up and financing costs fall back. Construction will make more sense as prime office rents rise relative to construction costs, supporting higher development margins, aided by increasing risk appetite. A stronger global demand recovery could see development activity lift more quickly than expected as existing premium office supply is absorbed by tenants.

Attractive logistics cap rates with upside from prior rent increases

In the logistics sector, higher cap rates in many developed markets, steady rental growth projections, and low capex requirements underpin returns for the asset class, including value-added strategies where in-place rents remain well below market. Following COVID-19-related surges, demand and growth have largely normalised and industrial starts have fallen sharply, with rents coming under pressure in selective coastal markets that are exposed to China-US trade tensions, such as Los Angeles and Shanghai, and pockets of oversupply impacting other submarkets across Asia. Occupier demand and rental growth are set to lift again over the medium term as rising inflation-adjusted incomes support in-store retail spending and online sales in volume terms (which is the most important metric for demand), and occupiers compete for a reduced supply of new facilities coming on stream over the next two to three years.

Figure 19:
Logistics cap rates: A significant move higher in response to higher interest rates



Sources: Green Street, Jones Lang LaSalle, Property Management Association (October 2024).

Any lift in new and existing home sales driven by falling mortgage rates, which boosts spending for durable goods (e.g. furniture, electronics), would provide a further boost for warehousing and self-storage space, alongside migration trends. On the flip side, ongoing trade disruptions are set to impact global supply chains further as more governments look to protect domestic manufacturing and jobs through tariffs and subsidies. Southeast Asia, Mexico, and southern US markets will be key beneficiaries of supply-chain evolution, further aided by China's rising unit labour costs, which is impacting manufacturing margins. Longer term, an estimated 1 billion+ square metres of new industrial space across the Asia-Pacific region will be needed to service incremental growth in trade and manufacturing, with additional opportunities to modernise the region's capital stock towards US per capita levels over the coming decade.

Infrastructure

Well balanced between defensiveness and growth

Rising interest rates and macroeconomic uncertainty led to a more challenging environment for infrastructure deal activity and fundraising in 2023 and 2024. Notwithstanding this, infrastructure's return performance has proved resilient during this period, averaging 8.0% annualised over the six quarters from the start of 2023 through 1H24.[10]

With interest rates now falling and global growth likely to remain healthy in 2025, we see a constructive return environment for infrastructure over the next 12 months. Our proprietary data series of private markets infrastructure valuations suggests that multiples may have found a floor, and with interest rates falling across the DW we expect them to move higher in 2025. Robust GDP growth should also boost earnings, making for a positive total return picture. In our view, infrastructure returns are likely to be in the 11-12% range next year, which is above their long-term average, but consistent with what the asset class has achieved in prior periods in which interest rates were falling and GDP growth accelerating.

> **"In our view, infrastructure returns are likely to be in the 11-12% range next year, which is above their long-term average, but consistent with what the asset class has achieved in prior periods in which interest rates were falling and GDP growth accelerating."**

Fundraising and deal activity: Pickup expected despite recent challenges

Infrastructure funds have raised $US71 billion as of 3Q24, and the full-year amount may be near the $US94 billion raised in 2023.[11] Although the past six quarters have been a period of relatively weak fundraising for the asset class, we expect it to pick up going forward, driven by existing investors increasing their allocations as well as the expansion of the investor base. In 2024, institutional investors increased their target allocations for infrastructure to 5.5%, up 42 basis points from last year, while the average investor is still 123 basis points below their target.[12]

As of 3Q24, infrastructure deal activity stood at around 65% of full-year 2023 levels in value terms.[13] With interest rates falling, we expect infrastructure deal activity to pick up pace in 2025, particularly in geographies characterised by strong policy support, transparent regulatory frameworks, and solid economic growth. In the EU, the electricity market reform adopted in May 2024, in addition to existing measures, should help accelerate investments by expanding the use of long-term contracts to support the green transition.[14]

10. Based on Cambridge Associates Private Infrastructure Index (2Q 2024).
11. Preqin (October 2024).
12. Cornell University, Hodes Weill & Associates, "2024 Institutional Infrastructure Allocations Monitor."
13. Infralogic by Inframation (October 2024).
14. The Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) and the electricity market design acts entered into force on 7 May 2024 and 16 July 2024, respectively.

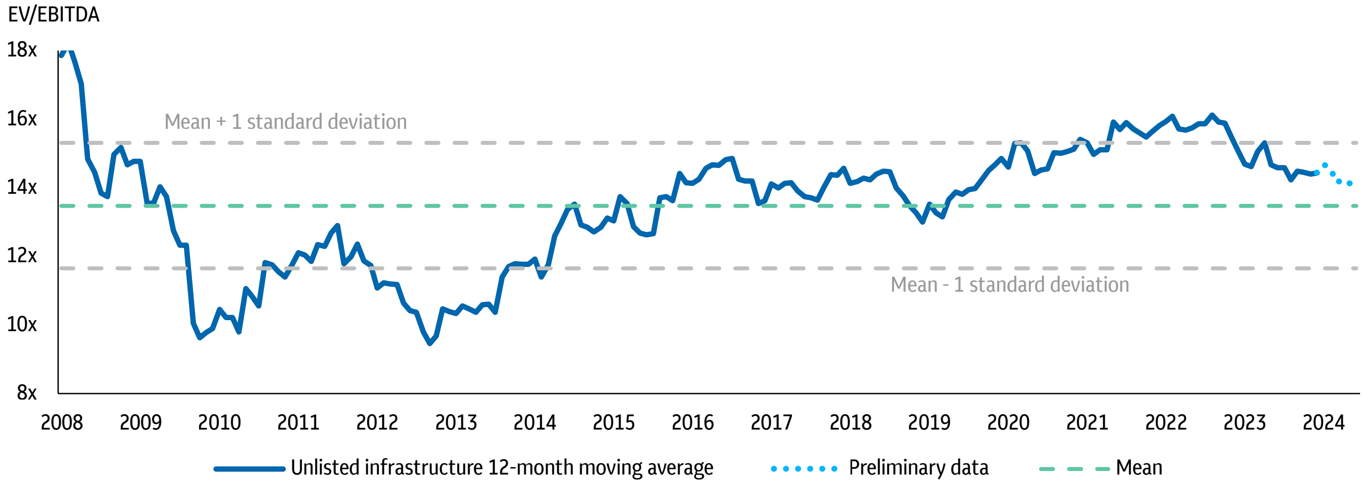
In the US, since the Inflation Reduction Act (IRA) was signed into law, investment in clean energy production and industrial decarbonisation increased by 43% relative to the preceding two years, with utility-scale solar and storage investments increasing 56% and 130%, respectively.[15] Under the new Trump administration, we believe it is unlikely for the IRA to be fully repealed given the numerous benefits it delivers in terms of job creation and economic development. In addition, with significant anticipated load growth[16] and thermal retirements,[17] the quantity of new generation will necessitate continued deployment of renewable technology as well as conventional energy sources. Given that in the US, onshore wind and solar are cost competitive on an unsubsidised level,[18] we continue to view the US market as an attractive investment destination for the renewable energy and energy transition sectors. That said, risks may remain around timing – the speed at which clean power gets added to the grid and how fast the fossil fuels are phased out under the new US administration.[19]

Valuations: Normalising in line with the historical average

Our analysis of valuations[20] shows that private infrastructure valuations have a negative relationship with interest rates and a positive relationship with inflation. In 2022 the effects from these variables netted each other out, with valuation multiples relatively stable. However, in 2023 and 2024 moderating inflation and high interest rates resulted in downward pressure on private infrastructure valuations.

Figure 20 shows that the 12-month moving average of enterprise transaction multiples – enterprise value to earnings before interest, taxes, depreciation, and amortisation (EV/EBITDA) – for private infrastructure deals declined from 16.1x in June 2022 to around 14.0x in June 2024,[21] a level more in line with the long-run historical average of 13.5x. Going forward, multiples may rise over the next 12 to 24 months.

Figure 20:
Private infrastructure EV/EBITDA transaction multiples



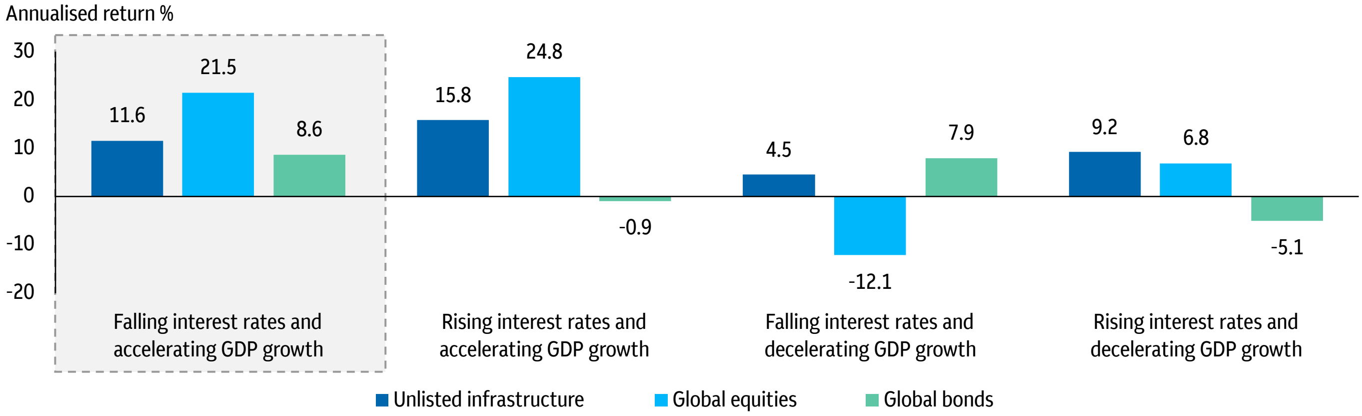
Sources: Macquarie Asset Management, Inframation, Bloomberg (June 2024). Analysis is based on 1,138 transaction multiples from January 2008 to June 2024. Past performance is not indicative of future results.

15. MIT Center for Energy and Environmental Policy Research, Rhodium Group, "Clean Investment Monitor: Tallying the Two-Year Impact of the Inflation Reduction Act" (August 2024).
16. The US is short on generation, requiring new capacity expected to reach ~23% of current capacity by 2030, according to Wood Mackenzie, "Decarbonization Headwinds" (2Q24).
17. The US has an aging fleet of thermal power plants with 115 GW of retirements expected through 2030, according to Wood Mackenzie, "Decarbonization Headwinds" (2Q24).
18. BNEF (December 2023). Based on levelised cost of electricity (LCOE).
19. Based on BNEF analysis (October 2024).
20. Please refer to the Macquarie Asset Management Pathways report, "Private infrastructure valuations: Relative value, macroeconomic drivers and implications for investors" (June 2023).
21. Based on proprietary private infrastructure transaction multiples database. 2024 data is based on a smaller sample size and therefore may be revised as more data is added to the database.

Returns: With the test for resilience passed, outlook is constructive

According to the Cambridge Associates Infrastructure Index, over the past 10 quarters private infrastructure experienced only one negative quarterly return compared with four for global equities and six for global bonds.[22] As of 2Q24, private infrastructure's total return stood at 7.9% YoY, below its long-term average of 9.7%.[23] As mentioned earlier, in 2025 we expect private infrastructure's total return to be in the 11-12% range, in line with its historical performance in periods of falling interest rates and strong economic growth (Figure 21).

Figure 21:
Infrastructure performance under different economic scenarios



Sources: Macrobond, Bloomberg, Cambridge Associates (June 2024). Infrastructure represented by Cambridge Associates Infrastructure Index; global equities by MSCI World Index; global bonds by Bloomberg Global Aggregate Index. Analysis conducted from 4Q03 to 2Q24. Past performance is not indicative of future returns.

Strategic considerations

With improving economic conditions in 2025, we believe that investors may increasingly focus on growth assets while defensive core infrastructure will continue to be the cornerstone of infrastructure portfolios to protect against economic downturns. The investment opportunity set may increasingly be shaped by the secular trends of decarbonisation, digitalisation, and demographics.

From a sector perspective, transport tends to be well placed in an environment of improving GDP growth due to the historical relationship with demand growth. In 2024, roads performance has been supported by both traffic volume growth and the successful pass-through of inflationary costs through higher tolls.[24] In our view, tailwinds should continue into 2025 on the back of stronger economic growth expectations supporting traffic growth. For airports, 2024 has been a year of recovery, with global air traffic surpassing the 2019 level and forecasts pointing to a robust 8% growth in 2025.[25] With supply constraints having eased and bookings pointing to strong air travel demand, the outlook for the sector is positive. Global trade volumes stood at 2.3% YoY in 1H24 and are expected to grow by 3% in 2025.[26] The risks in the sector have risen as a result of growing protectionism, although the outlook for ports varies depending on the volume mix and port location. Overall, fundamentals in transport look solid, while the sector appears attractively priced from a valuation perspective.

22. Refers to calendar quarters with performance of global equities represented by the MSCI World Index and global bonds represented by the Bloomberg Global Aggregate Index.
23. Based on Cambridge Associates Private Infrastructure Index. The long-term average is calculated over the period from 4Q03 to 2Q24.
24. S&P Global, "Industry Report Card: Global Transportation Infrastructure Demonstrates Strength In 2024" (August 2024).
25. International Air Transport Association (IATA), "Global Outlook for Air Transport" (June 2024).
26. World Trade Organization (WTO), "World Trade Outlook and Statistics" (October 2024).

While investment opportunities exist across the digital infrastructure landscape, the tailwinds for data centres are particularly strong on the back of the rise in generative AI. The key data centre markets grew by a robust 15-25% YoY in 1Q24.[27] However, as many core locations experience supply shortages, the sector is witnessing a shift towards secondary markets to overcome power and land availability constraints. Generative AI increases bandwidth requirements between data centres, resulting in a greater need for fibre network buildout. With financing conditions expected to improve in 2025, we believe the digital infrastructure sector is poised for a dynamic year.

In the regulated networks sector, in addition to electrification the expected surge in power demand driven by AI is likely to add to the growth of regulated-asset bases (RABs). In Europe, where 40% of distribution grids are more than 40 years old,[28] scaling up electricity networks to accommodate greater demand for power and the integration of renewables could necessitate a doubling of annual capital investments until 2030.[29] European grids are forecast to expand their RABs at a median compound annual growth rate (CAGR) of 7% between 2024 and 2030.[30] That said, risks may increase in cases where there is a lack of alignment between regulatory frameworks, energy policies, and capex plans.[31]

27. CBRE (Coldwell Banker Richard Ellis) “Global Data Center Trends 2024: Limited Power Availability Drives Rental Rate Growth Worldwide” (June 2024).
28. European Commission, “Commission sets out actions to accelerate the roll-out of electricity grids” (November 2024).
29. Based on the EU’s Grid Action Plan and BNEF forecasts.
30. Bloomberg analysis (September 2024).
31. S&P Global, “Utilities Handbook 2024” (September 2024).

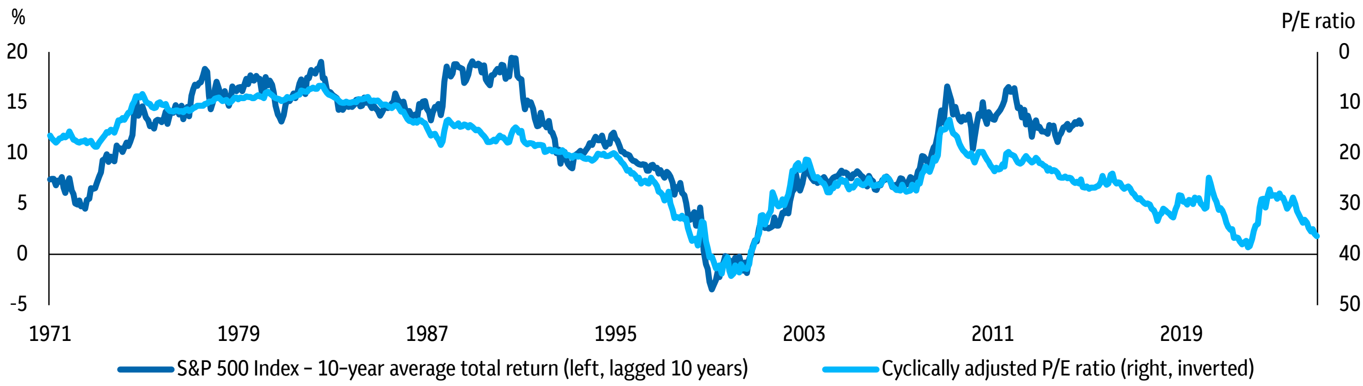
Listed equities

Measuring the world

Falling interest rates and robust GDP growth form a generally positive backdrop for global equity markets. However, we've seen equity market performance disconnect from macroeconomic fundamentals many times over the past few years, making it ever more important to assess markets granularly.

Equity market valuations are not cheap, and the US market seems particularly stretched in certain sectors. Historically, high valuation starting points have led to lower forward-looking returns (Figure 22).

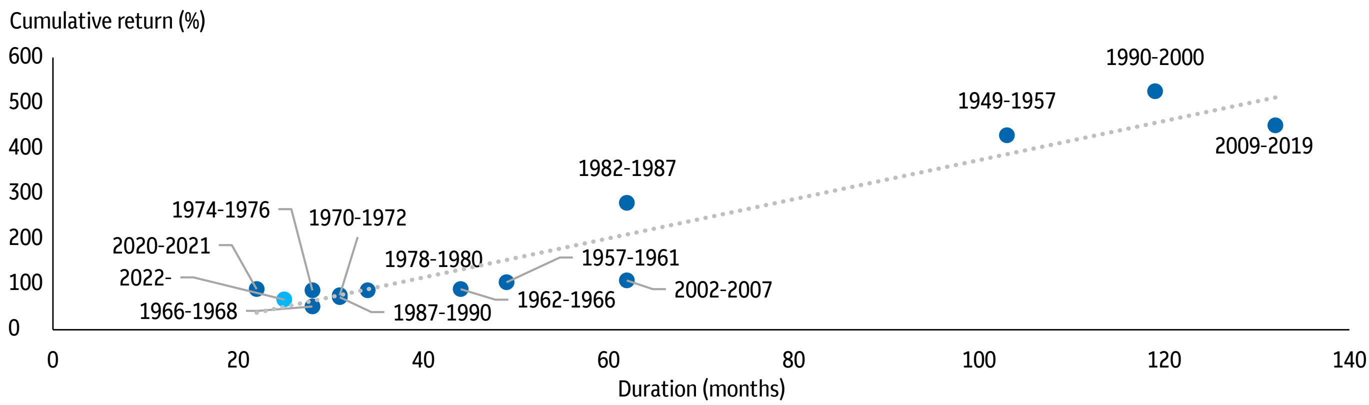
Figure 22:
S&P 500® Index starting valuation and 10-year equity market returns



Source: Macrobond (November 2024). P/E ratio = price-to-earnings ratio.

However, compared with other bull markets over the past 75 years, the current one looks neither particularly long nor particularly strong, at least not yet (Figure 23). While valuations warrant some caution, the arguments are balanced by a solid economic underpinning and the potential for the bull market to mature.

Figure 23:
S&P 500 Index bull markets, 1949-2024



Source: Macrobond (October 2024).

New all-time highs: 50 and counting in 2024

One defining characteristic of a constructive market backdrop is the frequent occurrence of new all-time highs. As we publish these words, this year has already seen the seventh-largest count of new highs for a calendar year. While markets reached new peaks, companies were also able to record unprecedented profits. Strong earnings and high margins could provide the fundamental support to 'earn into' high valuation multiples. Figure 24 shows that, in addition, corporate profits tend to roll over before a recession starts, and this hasn't happened yet.

While earnings multiples are elevated in certain pockets of the market, the equity risk premium currently sits comfortably at its long-term average (Figure 25), suggesting equity investors should still get rewarded for taking additional risk in this cycle. While the now higher level of interest rates has helped make fixed income assets more attractive from an absolute perspective, the relative comparison suggests there are still plenty of opportunities in global equities.

Figure 24:
US corporate profits as % of GDP

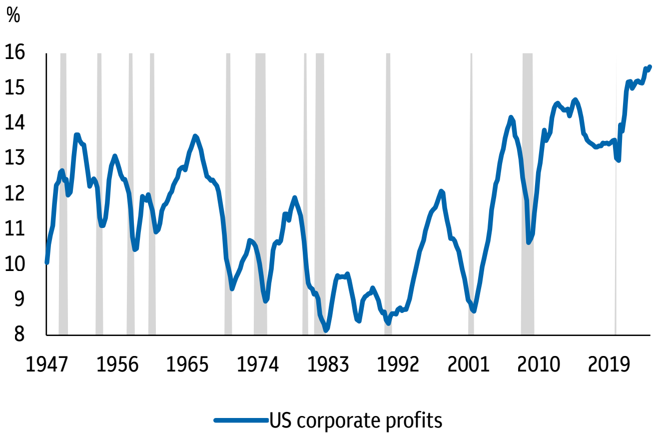
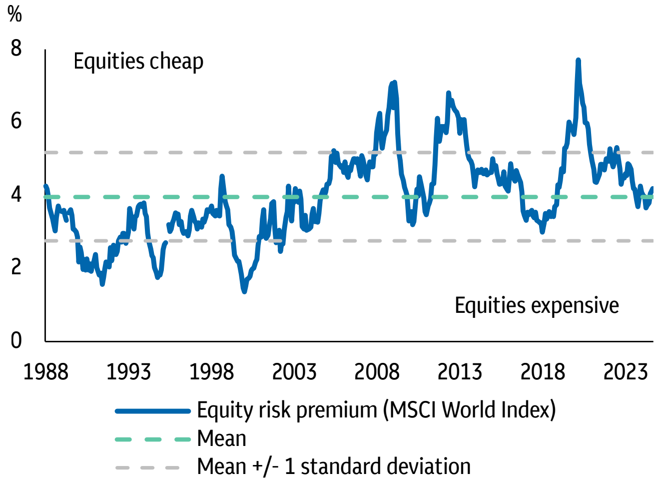


Figure 25:
Global equity risk premium



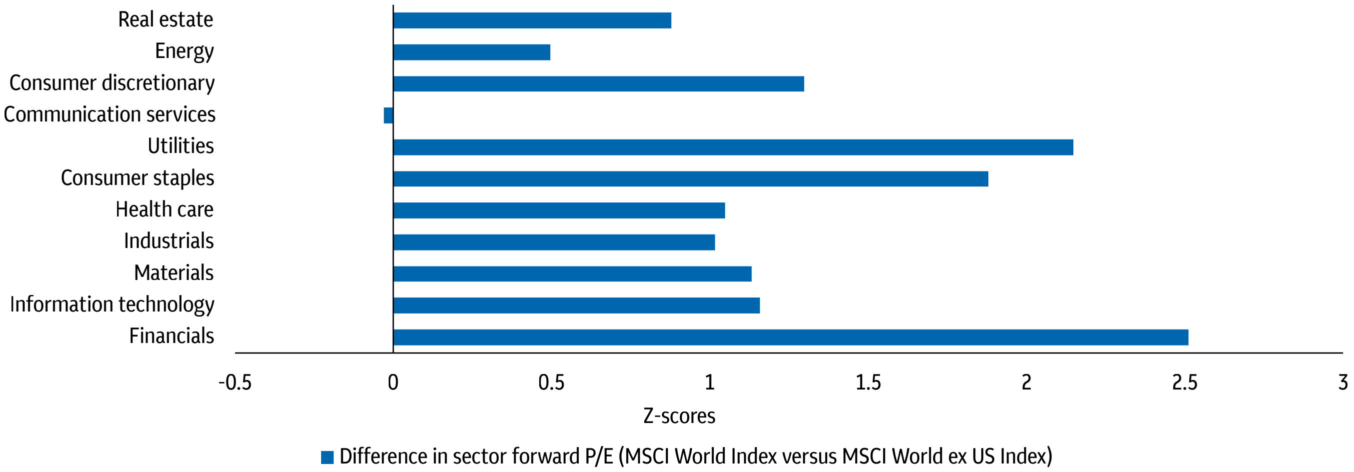
Sources: Macrobond, Bloomberg Finance LP (October 2024). In Figure 24, shaded areas represent recessionary periods.

US exceptionalism: Exceptional performance backed by exceptional fundamentals

Naturally, the equity risk premium is influenced by the strong performance of the US equity market compared with the rest of the world, meaning that while the US is somewhat expensive, other countries look cheap based on that metric. However, 'US exceptionalism' has strong fundamental support: strong US relative performance has been a feature of prolonged cycles in the past, and this cycle has seen considerably better earnings growth in the US than in other regions.

The Trump 2.0 campaign has suggested a few measures that look supportive for US companies, however for investors who want to diversify away from the US, a look at valuations on a sector level can be revealing. While some sectors in the US are expensive, real assets such as real estate and energy are still reasonably valued (Figure 26). Financials, utilities, and consumer staples are where the valuation gap is largest, and these sectors may represent interesting areas of investment opportunity outside the US.

Figure 26:
MSCI World Index versus MSCI World ex US Index: How much more expensive is the US market?



Source: Bloomberg Finance LP (October 2024). The Z-score is a statistical measurement that describes a value's relationship to the mean of a group of values. Z-score is measured in terms of standard deviations from the mean. In investing and trading, Z-scores are measures of an instrument's variability and can be used by traders to help determine volatility.

Under the hood of the US equity market: Value versus growth and large-caps versus small-caps

A similar picture emerges when looking at the exceptionalism of the mega-cap technology stocks, which has led to a significant dispersion between value and growth and between small- and large-caps. We make a few interesting observations. First, the value-growth dispersion has historically been mean-reverting (Figure 27). If that remains the case going forward, it should give support for value in the coming months and quarters.

Second, we have recently seen exceptional swings in the value-growth performance dispersion between large-caps and small-caps. Normally, when growth outperforms, it does so across the entire market-cap spectrum; however, we have recently seen two consecutive episodes of negative correlation (Figure 28). With the next Trump administration possibly engaging in tariffs and corporate tax cuts, this could be a catalyst for small-cap outperformance.

Figure 27:
Growth-value relative performance – mean reversion

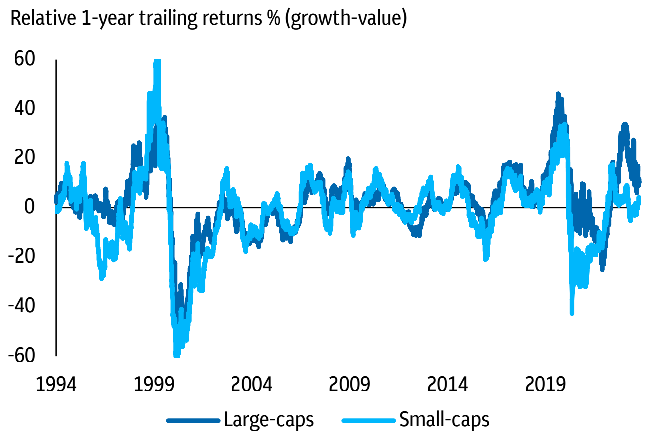
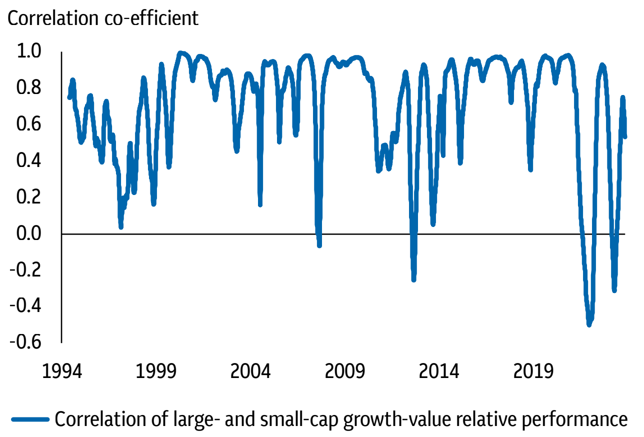


Figure 28:
Correlation of growth-value outperformance across market caps



Source: Macrobond (October 2024).

Other investment opportunities

Two other equity markets could be supported by global developments in the coming months: EM and listed real assets. First, EM stocks are fairly valued relative to their own history and are cheap compared with developed markets. However, policy improvements in China appear to be a critical factor for investors to go overweight the region in the near term and the threat of tariffs remains.

"Listed real assets continue to be an interesting asset class in an environment in which inflation becomes more of an ongoing, structural challenge."

Second, listed real assets continue to be an interesting asset class in an environment in which inflation becomes more of an ongoing, structural challenge. For reasons outlined above, the coming 10-15 years of inflation could look radically different than the past 10-15 years. In such an environment, companies that can pass inflation on to their customers should have a comparative advantage. Many real assets companies have contractual or indirect links to inflation. Amid reasonable valuations, investors might want to diversify their portfolios by reducing some of their more growth-oriented assets in favour of these more defensive, inflation-protecting stocks.

Debt and credit markets

Central bank easing cycle to provide support

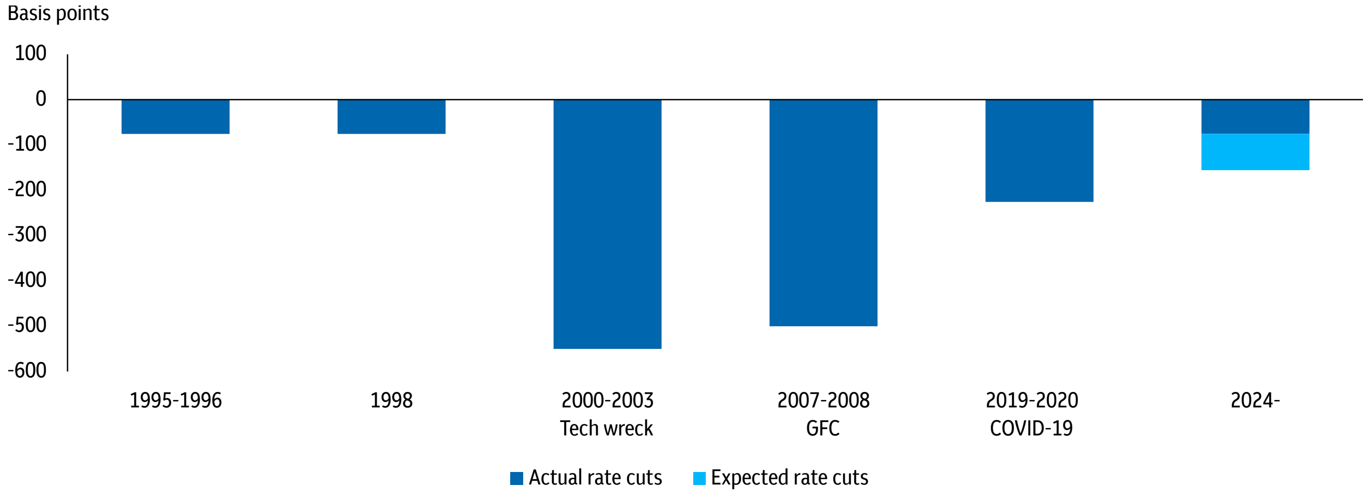
Having spent much of the past few years pricing the risk that rates would stay higher for longer due to persistent inflationary pressures, the backdrop for bond markets improved in 2H24 as inflation moderated and central banks started the process of normalising monetary policy settings.

Looking ahead to 2025, a substantial degree of central bank easing is already priced into most rates markets, while credit spreads have tightened in recent months and are currently relatively narrow by historical standards. This limits the upside in terms of returns for bonds, and equity asset classes are likely to benefit more from the macroeconomic environment that we expect to see in 2025. That said, yields have improved significantly in recent years, and absolute returns in 2025 should be healthy by historical standards.

- **Duration**. Following clear signals from central bank officials that further easing is likely, bond markets have moved to price in aggressive easing cycles by most major central banks in the coming quarters (with the notable exception of the Bank of Japan, for which further hikes are priced). While this pricing may limit the extent to which bond markets can ultimately rally, that central banks have only recently commenced easing should limit the extent of any selloffs. We therefore expect US Treasury yields to ease but remain within specific ranges, while Fed easing should underpin a further steepening of the yield curve. With superior relative valuations and fundamentals in European and Australian markets we expect these fixed income securities to perform better than those in other DW geographies.
- **Credit**. While spreads are already tight, a number of positive factors are expected to see spreads trade in a relatively narrow range from here. With monetary and fiscal policy set to provide more ballast to the growth outlook than was earlier expected, this should provide fundamental support. Moreover, while spreads are tight, all-in yields remain high relative to recent history, and expectations of positive total returns should drive demand.
- **EM debt**. With credit quality generally stable for EM, we see opportunities to take advantage of the structural spread pickup in EM corporates as well as opportunities in EM local currency bonds. The Fed easing cycle should help to reduce underlying credit risks.
- **Structured securities**. Measured rate cuts coinciding with a stable economic outlook are expected to be supportive of securitised product fundamentals. Further spread compression may, however, be limited by current valuations.

“A substantial degree of central bank easing is already priced into most rates markets, while credit spreads have tightened in recent months and are currently relatively narrow by historical standards.”

Figure 29:
Market is pricing somewhere between disinflation and something breaking



Source: Macrobond (October 2024).

Private credit: Continued secular shift and increased deal flow to drive new opportunities

The private credit market outlook for 2025 is shaped by a blend of enduring trends and recent financial dynamics. The transition towards non-bank lending is expected to deepen, broadening the scope and appeal of private credit as an investment class. This shift comes amid a backdrop of high interest rates and credit spreads that are attractive, particularly relative to their public market equivalents. While a moderation in returns is anticipated due to decreasing interest rates, the adjustment across all markets should preserve the relative attractiveness of these investments. Moreover, the predominance of low-duration investments within the private credit sector offers stable valuations regardless of changes in the interest rate environment.

Direct lending is poised for significant growth, fuelled by an uptick in private equity deal flow, driven by a backlog of transactions, elevated public market valuations, and substantial private equity dry powder. This expansion is mirrored in the infrastructure debt sector, which is set to benefit from the transformative effects of digitalisation, decarbonisation, and demographic trends. These global shifts not only increase the demand for infrastructure financing but also enhance the sector's investment appeal. Together, these factors – ranging from the structural move towards non-bank lending to the opportunities in direct lending and infrastructure debt and burgeoning opportunities in new forms of private credit – point to a dynamic and prosperous landscape for private credit in 2025, offering continued growth and attractive returns for investors navigating this evolving market.

> **"The transition towards non-bank lending is expected to deepen, broadening the scope and appeal of private credit as an investment class."**

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All figures as at 30 September 2024.

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Diversification may not protect against market risk.

Credit risk is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower expects to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

Currency risk is the risk that fluctuations in exchange rates between the US dollar and foreign currencies and between various foreign currencies may cause the value of an investment to decline. The market for some (or all) currencies may from time to time have low trading volume and become illiquid, which may prevent an investment from effecting positions or from promptly liquidating unfavourable positions in such markets, thus subjecting the investment to substantial losses.

Fixed income securities are subject to credit risk, which is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.

Fixed income securities are also subject to interest rate risk, which is the risk that the prices of fixed income securities will increase as interest rates fall and decrease as interest rates rise. Interest rate changes are influenced by a number of factors, such as government policy, monetary policy, inflation expectations, and the supply and demand of securities. Fixed income securities with longer maturities or duration generally are more sensitive to interest rate changes.

Fixed income securities may also be subject to prepayment risk, which is the risk that the principal of a bond that is held by a portfolio will be prepaid prior to maturity at the time when interest rates are lower than what the bond was paying. A portfolio may then have to reinvest that money at a lower interest rate.

Infrastructure companies are subject risks including increased costs associated with capital construction programs and environmental regulations, surplus capacity, increased competition, availability of fuel at reasonable prices, energy conservation policies, difficulty in raising capital, and increased susceptibility to terrorist acts or political actions.

Investment strategies that hold securities issued by companies principally engaged in the infrastructure industry have greater exposure to the potential adverse economic, regulatory, political, and other changes affecting such entities.

International investments entail risks including fluctuation in currency values, differences in accounting principles, or economic or political instability. Investing in emerging markets can be riskier than investing in established foreign markets due to increased volatility, lower trading volume, and higher risk of market closures. In many emerging markets, there is substantially less publicly available information and the available information may be incomplete or misleading. Legal claims are generally more difficult to pursue.

Market risk is the risk that all or a majority of the securities in a certain market – like the stock market or bond market – will decline in value because of factors such as adverse political or economic conditions, future expectations, investor confidence, or heavy institutional selling.

Liquidity risk is the possibility that securities cannot be readily sold within seven days at approximately the price at which a fund has valued them.

A capitalisation rate (cap rate) is a percentage that estimates the potential return on investment for a property. It's a common metric used in real estate to compare the value of different properties.

The compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's life span.

Dry powder refers to cash or marketable securities that are low-risk and highly liquid and convertible to cash. Funds held as dry powder are kept in reserve to be deployed in case of emergency. The term is often used in terms of venture capitalists, where dry powder allows them to invest in opportunities as they arise.

Earnings before interest, taxes, depreciation, and amortisation (EBITDA) is an alternate measure of profitability to net income. By including depreciation and amortisation as well as taxes and debt payment costs, EBITDA attempts to represent the cash profit generated by the company's operations.

The enterprise multiple, also known as the EV multiple, (EV/EBITDA) is a ratio used to determine the value of a company. The enterprise multiple, which is enterprise value divided by EBITDA, looks at a company the way a potential acquirer would by considering the company's debt. What's considered a "good" or "bad" enterprise multiple will depend on the industry.

Equity risk premium is the excess return that investing in the stock market provides over a risk-free rate. This excess return compensates investors for taking on the relatively higher risk of equity investing. The size of the premium varies and depends on the level of risk in a particular portfolio.

Internal rate of return (IRR) is a metric used in financial analysis to estimate the profitability of potential investments. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis.

A regulated asset base (RAB) is a model that's used to finance large-scale infrastructure projects, and to provide investors with a guaranteed return on their investment. It's often used in the UK, and is also used for water, gas, and electricity networks.

The **Bloomberg Global Aggregate Index** provides a broad-based measure of the global investment grade fixed-rate debt markets.

The **Cambridge Associates LLC Infrastructure Index** is a horizon calculation based on data compiled from 93 infrastructure funds, including fully liquidated partnerships, formed between 1993 and 2015. Private indexes are pooled horizon internal rate of return (IRR) calculations, net of fees, expenses, and carried interest.

The **MSCI World Index** represents large- and mid-cap stocks across 23 developed market countries worldwide. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **S&P 500 Index** measures the performance of 500 mostly large-cap stocks weighted by market value and is often used to represent performance of the US stock market.

Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Economic trend information is sourced from Bloomberg unless otherwise noted.

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