Q3 2024 investment outlook:
Now it gets interesting.

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Executive summary

The year's second half brings significant events alongside the usual capital market cacophony: The U.S. campaign season alongside elections in several key countries, NATO and G20 summits, the Olympics and other major developments set to unfold. The Federal Reserve (Fed) and other central banks remain in focus as investors anticipate a transition from officials raising interest rates to cutting rates. Businesses and consumers continue to show strength, with some divergence under the surface at the country, sector and income distribution levels, requiring investors to anticipate marginal change. While the global economy is expected to slow, the growth impulse remains positive and corporate earnings continue to deliver despite high expectations.

Asset classes had mixed performance to start 2024, with global equities providing positive total returns led by the United States and followed by emerging markets and developed international. Bonds remain more sluggish due to sticky inflation pressures impacting prices, which has helped commodities thus far in 2024. Real Estate stocks have been underwhelming to kick off the year, with income offset by weaker prices as investors weigh how much further repricing may exist across office, multifamily and other property market subsectors.

We continue to hold a positive forward outlook for diversified portfolios. Our bias has been to favor equities and real assets over fixed income; we remain optimistic on consumer and business spending with companies continuing to prioritize shareholders through stock buybacks and dividends. Inflation will likely gradually recede but remain pesky, and investors could seek inflation protection in portfolios through commodities. We do see several opportunities for bond investors across both taxable and tax-exempt fixed income, but we emphasize diversified yield sources.

While we maintain a constructive forward view, we are mindful of election risks, commercial real estate woes, ongoing geopolitical tensions, potential consumer and business deceleration

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that exceeds expectations, and other variables that could drive adverse capital market activity. Our process remains team oriented, global in scope and data driven. We appreciate the opportunity to share views across the capital market landscape through our team-based approach.

Global economic views

The U.S. economy remained solid in 2024's first half with strong growth, moderating inflation and a tight labor market.

As we reach the midway point of 2024 the global economy is on solid footing, though inflation remains elevated. In the back half of the year, many analysts project a steady to slight improvement in economic growth, based on improving purchasing manager surveys and supported by stimulus measures or central bank interest rate cuts. Inflation pressures appear under control, though many countries, including the United States, are unlikely to see inflation hit central bank targets, such as the Fed's 2% target, until well into next year. Election uncertainties remain a risk for many economies, with the United Kingdom headed to the polls July 4 and the U.S. counting votes November 5.

U.S. economic growth remained positive so far in 2024, supported by strong investment spending and expanding consumer demand. We remain focused on consumers for the rest of 2024 as they adjust to higher borrowing costs amid high price levels. Strong labor market factors such as low unemployment, solid wage gains and ample job openings support consumer spending and their adaptability to elevated interest rates. Government spending is an important swing factor for the level of economic growth; increased federal spending would support economic growth as we approach the Presidential election.

The Fed's battle against inflation remains a major economic story in 2024. The Consumer Price Index continues its slowing trend since peaking at 9.1% year-over-year in June 2022, now standing at 3.3% in May, still well above the 2.2% average for the two decades prior to the COVID pandemic. Slowing shelter inflation should ease price pressures, but ongoing labor market tightness and supply constraints across certain goods mean inflation is unlikely to reach the Fed's 2% target in 2024.

As we head into the Democratic and Republican conventions this summer, investor attention turns to the platforms of presumptive candidates President Joe Biden and former President Trump. While market returns historically depend more upon the path of the economy than election outcomes, specific sectors and industries are influenced by candidate and party policy agendas.

Developed market economies are delivering a modest recovery as global central banks begin to trim policy rates.

After contracting for two quarters, Europe and the United Kingdom are seeing a modest recovery and Japan continues to benefit from rising wages. Interest rate normalization should help maintain modest growth in Europe and Japan. The Bank of Japan is likely to modestly raise interest rates as it concludes its multi-decade deflation battle. Growth levels are likely to remain modest but positive as inflation slows and consumers and businesses across Europe, Japan and the United Kingdom adjust to the highest interest rates in a decade. The recent recovery remains shaky and dependent upon the pace and path of global central bank interest rate policies, the potential recovery of global trade and the impact of regional conflicts in Gaza and between Russia and Ukraine on raw materials costs.

Emerging market economic growth is diverse as China struggles to reignite activity, India remains resilient and regional Asian economies benefit from technology infrastructure spending.

The post-pandemic recovery for China, the world's second-largest economy, has been modest. The Chinese economy continues to struggle through weak consumer sentiment amid challenges in the housing market. China stimulus measures appear modest to counter the housing overhang, and growth is unlikely to accelerate into year-end. Strong global technology spending on infrastructure for artificial intelligence is supporting key export businesses in Taiwan and South Korea, likely leading to solid economic growth into year-end. India's growth has been remarkable for much of the year. Post-election policies may sustain the economic momentum, though the recent election led to a more divided government than forecasters expected. Moderating oil prices likely mean softening growth in Brazil and Mexico.

U.S. equity markets

U.S. equities begin the third quarter on the heels of robust and broad-based year-to-date performance.

The S&P 500 ended 2024's first half up 14.5%, with 10 of 11 sectors posting year-to-date gains. The favorable performance indicates underlying economic strength, which

often coincides with strong company earnings growth that helps propel equity prices higher. While performance gains are broad-based across sectors, the 20 largest S&P 500 companies by market capitalization are up 39%, outpacing the index by more than a two-to-one margin. Additionally, dividends among top constituent companies may help bolster future returns. Seventeen currently offer dividends, and while their payout levels vary, ramping dividend growth rates and potentially higher future payout ratios can be an antidote for elevated valuations and a catalyst for rising prices.

S&P 500 largest companies

Rank	Company	Weight	YTD return
1	Microsoft	7.2%	18%
2	NVIDIA	7.0%	166%
3	Apple	6.8%	11%
4	Alphabet A&C (both classes)	4.2%	27%
5	Amazon.com	3.7%	21%
6	Meta Platforms A	2.4%	43%
7	Berkshire Hathaway B	1.6%	14%
8	Eli Lilly	1.5%	51%
9	JPMorgan Chase	1.2%	15%
10	Tesla	1.1%	-28%
11	Exxon Mobil	1.1%	11%
12	UnitedHealth Group	1.0%	-5%
13	Visa A	0.9%	4%
14	Procter & Gamble	0.9%	15%
15	Costco Wholesale	0.8%	30%
16	Mastercard A	0.8%	5%
17	Johnson & Johnson	0.8%	-6%
18	Home Depot	0.8%	1%
19	Merck & Co	0.7%	19%
20	AbbVie	0.6%	11%
Top 20 Company Weighted Average (uses current weight)			**40%**
S&P 500			**14%**

Source: FactSet, June 14, 2024. Top 20 company weighted average (uses current weight).

Inflation, interest rates and earnings trends are directionally consistent with higher equity prices.

Waning inflation, moderating interest rates and stable earnings projections supported positive market momentum in the year's first half and provide the basis for U.S. equities to trend higher in the second half. As of June 30, analysts forecast $244 full-year S&P 500 earnings per share, according to Bloomberg, FactSet and S&P Cap IQ, reflecting 10% year-over-year growth. At current price levels, the broad index trades at 22.4 times the 2024 estimate, at the high side of its 25-year historical average, yet short of extremes. We assert the absence of ramping inflation and rising interest rates can continue to support elevated market valuations.

Consumer spending appears to be broadening out from experiences and essentials to include durable goods and apparel.

Recent company earnings reports highlight relatively strong consumer balance sheets and stable spending trends with continued emphasis on experiences and essentials over goods. However, we are seeing early spending indications on durable goods, a potentially positive catalyst for Consumer Discretionary companies in the coming quarters. To date, higher income earners' spending appears broader and more resilient, leading to a modest sales improvement in discretionary items such as apparel, toys, household furnishings, lawn and garden, and health and beauty. Unsurprisingly, lower-income groups remain more cautious and value conscious, typical during periods of persistent inflation and economic uncertainty.

Business information technology spending remains robust, particularly on artificial intelligence (AI)-related products and services. Surging worldwide demand for accelerated computing and generative AI is evidenced across nations, industries and companies, while the potential total market size for related products remains in a discovery process as new technologies are developed and launched. Companies and countries are looking to employ AI capabilities to improve and modernize their workflow, reach production faster and improve accuracy and efficiency. We see compelling investment opportunities over both the short- and long-term in areas such as data capture, storage, processing, software and analytics, security, distribution and power generation.

We favor balanced exposure to both technology-oriented growth sectors and defensive, income-oriented sectors.

Fast is getting faster, and speed, scale and efficiencies do not occur without technology. AI-related buildout beneficiaries drove a 27.8% and 26.1% advance in the Information Technology and Communication Services sectors, respectively, in the first half, pushing broad market valuation toward the high side of historical averages. While individual companies within these sectors may be subject to near-term pullbacks following strong year-to-date performance, their longer-term growth theses remain intact, warranting continued exposure even at current elevated valuation levels.

At the same time, defensive/income-oriented sectors such as Real Estate, Consumer Staples, Industrials and select Healthcare companies should respond favorably to an eventual less-restrictive Fed policy stance. Utilities trended higher as investors anticipated increased power needs associated with data centers and AI-based application buildout. A balanced approach combining growth-oriented technology and defensive sectors provides exposure to evolving technologies while capitalizing on favorable risk profiles of sectors and companies that have lagged since last year's rising interest rate environment.

Foreign equity markets

Policy support remains a key variable driving foreign developed returns, while broadening sector and constituent company participation highlight positive market momentum heading into 2024's second half.

The European Central Bank (ECB) reduced its policy rate on June 6 to 4.25%, the central bank's first rate cut in eight years. The ECB began tightening monetary policy in July 2022 to thwart inflationary pressures, ultimately raising interest rates from 0% to 4.5% by September 2023. Higher interest rates and tighter bank lending conditions have cooled European inflation by reducing individual and business credit demand, leading to slowing economic activity and sluggish corporate profit growth. Foreign developed equities remain highly sensitive to interest rates and credit conditions, with cyclical sectors such as Energy, Financials, Industrials, Materials and Real Estate representing more than 50% of total equity exposure (versus less than 30% in U.S. large company stocks).

Cyclical sectors assumed leadership from secular growth sectors such as Technology in the second quarter as investors anticipated the ECB's pivot to easing monetary policy and assessed the potential beneficiaries from recovering credit demand and accelerating economic activity. The Industrials sector set a new all-time high during the second quarter while Financials have rallied 13% year to date. Easing ECB monetary policy remains a key support underpinning foreign developed equities' cyclical orientation, with investors pricing in nearly three full interest rate cuts by January 2025 as of June 30.

Meanwhile, the Bank of Japan ended its eight-year negative interest rate policy in March, raising interest rates to a range of 0 to 0.1% as the country emerges from decades-long, crippling deflation. Positive nominal interest rates support Financials sector profitability, while negative real interest rates (the central bank policy rate less inflation) promote capital investment, benefiting Industrials. Japan's government and regulatory initiatives continue to support rising asset prices, providing investors with a list of publicly traded companies establishing a capital efficiency improvement strategy and encouraging economically favorable acquisitions that optimize resource allocation and accelerate industry restructuring.

Finally, broadening foreign developed market participation supports our overall glass half-full outlook. In March markets witnessed a watershed moment, with Japan's domestic equity market eclipsing its previous all-time high set 35 years ago. Major European markets including the United Kingdom, France and the Netherlands, as well as Australia, also broke out to new highs in the second quarter, with positive year-to-date returns evidenced across 10 of the largest 11 country allocations as of June 30. Despite a modest decline in June, more than 50% of foreign developed constituent companies across most individual countries continue to trade above their respective 100- and 250-day average closing prices, highlighting broad foreign developed market participation and technical strength heading into 2024's second half.

Developed equity market strength

Percentage of country index constituent prices above their average closing price over trailing time periods (in trading days).

Equity index	Trend	50	100	150	250
Switzerland	▲	80	80	80	90
Denmark	▲	53	63	79	79
Netherlands	▲	48	72	80	84
Australia	▲	45	45	51	59
Sweden	▲	43	63	73	80
U.K.	▲	43	63	64	72
Germany	▲	40	58	68	73
Japan	▲	35	51	64	72
Italy	▲	28	55	60	68
France	▲	20	25	43	53

A positive trend indicates that the 15-day average country equity market index price is higher than its respective 50-day or 200-day average price.

Sources: Bloomberg, U.S. Bank Asset Management Group. Data as of June 17, 2024.

Idiosyncratic return drivers lead to a mixed outlook across emerging market equities.

First half 2024 equity performance across emerging market countries varied significantly, with Taiwan (37%) and India (17%) pacing individual country gains. First quarter corporate earnings results underscored robust AI and other productivity-enhancing technology investment, with South Korea and Taiwan appearing particularly well positioned to benefit from continued AI spending. Home to global Technology sector franchises including Samsung, SK Hynix and Taiwan Semiconductor, semiconductors represent one-third of both countries' respective domestic equity market capitalization.

Indian equities sold off initially after the country's surprising national election results but quickly recovered to set a new all-time high after two regional parties joined Prime Minister Modi's coalition government. Credit growth and infrastructure development remain key factors driving economic growth prospects in emerging markets' second-largest country allocation. Governing party continuity and strong economic growth projections support a robust profit outlook and the potential for further equity price gains in 2024's second half, with analysts forecasting 30% earnings growth in 2024 and 15% in 2025.

China equities, accounting for nearly one-quarter of emerging market equity country exposure, rallied 7% in the second quarter as investors digested policymakers' stimulus measures. Domestic internet and retail companies dominate China's stock market, representing more than 40% of total market capitalization. Low consumer confidence and weak spending contributed to three consecutive annual declines in China's stock market from 2021 to 2023, and policymakers' success in stimulating consumer demand remains a critical driver for a continued market recovery.

Fixed income markets

High-quality bonds offer compelling yields, but inflation remains a lingering risk for bond prices

After a volatile quarter, U.S. Treasury yields finished the quarter near where they started — above 5% for short-term bills and notes and below 4.5% for longer-term maturities. In the near term, bond prices hinge on inflation expectations moderating and the Fed signaling easier monetary policy ahead. The Fed is holding interest rates steady since July 2023, recognizing relatively strong economic growth and stubborn inflation. Fed guidance centers on building investor confidence that inflation will return to its 2% target before cutting rates, aligning with bond market pricing based on one to two rate cuts later in 2024.

Supplementing high-quality bond allocations with riskier high yield bonds and unique fixed income exposures like non-agency mortgages and insurance-linked securities (reinsurance) can boost and diversify portfolio income. Ongoing strong investor demand for higher yield corporate and municipal bonds elevated valuations to somewhat expensive levels by historical measures. Non-agency mortgages and reinsurance offer more compelling valuations with competitive yields and have solid fundamental support.

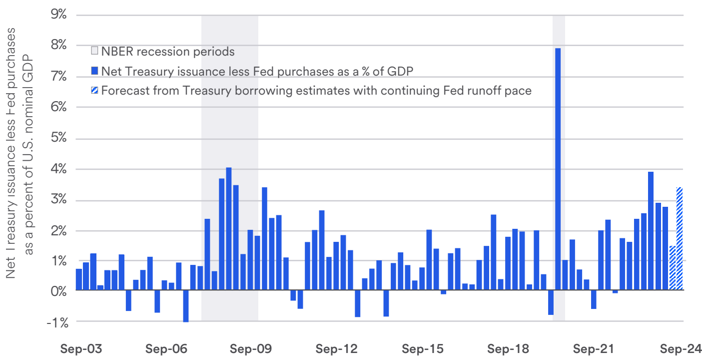
Bond market interest rates price in a gradual cutting cycle starting later in 2024 that aligns with the Fed's patient approach to normalizing interest rate policy.

Inflation moderated slightly in the second quarter but has proven more resilient than policymakers originally expected. In response, Fed officials' comments express little urgency in adjusting monetary policy and cutting rates. Unless the job market cools faster than expected, the Fed may wait for multiple months of slowing inflation before reducing interest rates. Today's relatively high Treasury yields should adequately

compensate investors for the uncertainty of Fed policy changes. These high starting yields should provide investors in high-quality U.S. Treasury, corporate and municipal bonds reasonable future returns, though accelerating inflation is a risk to investors, which would push interest rates higher and bond prices lower.

The federal government continues to run a fiscal deficit, spending more than received in taxes, of around 6% of the gross domestic product (GDP). Deficit spending can put upward pressure on bond yields to encourage more investors to purchase U.S. Treasury bonds to absorb the additional supply of bonds to fund the deficit. However, both the U.S. Treasury and the Fed provided guidance in the second quarter relieving investor fears of the rising Treasury supply outlook. The U.S. Treasury expects to keep sales of long-term bonds stable for the rest of this year relative to the past two quarters by issuing more short-term Treasury bills. In June, the Fed slowed the pace at which it is shrinking its balance sheet, reducing securities accumulated during the pandemic designed to suppress interest rates and encourage borrowing. The Fed is allowing its Treasury holdings to mature by $25 billion per month without replacement, a drop from the prior pace of $60 billion per month. Risks from rising government spending remain elevated, but deficit spending as a percentage of GDP has begun to slow somewhat and investor U.S. Treasury demand has met supply with little disruption to markets thus far.

Treasury net issuance less Fed purchases as a percent of GDP



Source: U.S. Bank Asset Management Group Research, Bloomberg, U.S. Treasury; Data period: December 31, 2002-March 31, 2024. Forecast assumes net Treasury issuance according to the Treasury's Sources and Uses Table with ongoing $60 billion in Fed Treasury runoff per month.

Corporate bonds can provide meaningful income returns despite their somewhat rich valuations.

Nominal corporate bond yields remain elevated, near their highest level since 2009, due to high U.S. Treasury yields. However, the extra yield on corporate bonds over Treasuries held at relatively low levels in the second quarter. Lower relative yields to Treasuries provide less income to compensate investors against defaults, which would erode returns. Issuer fundamentals remain reasonably solid, reducing the probability of growing defaults. Higher-quality issuers benefited from issuing cheap debt at low yields previously and their cash holdings are earning meaningful income at recent short-term interest rates, offsetting a portion of their debt costs. Corporate defaults continued at a slightly above-average pace in the second quarter, but defaults have been primarily isolated to weaker issuers.

Municipal bond valuations are closer to historic norms, creating opportunity for potential price gains. Municipalities issued debt at a fast clip through the spring, creating the largest wave of new municipal bond supply in more than a decade. This increased supply pushed investment-grade municipal bond yields higher relative to Treasuries, dragging on returns but improving income opportunities for highly taxed investors with capital to deploy. The potential for issuance headwinds to fade in the typically quieter summer months sets up favorable return opportunities in municipal bonds.

Mortgage bonds not backed by the government and reinsurance offer compelling income with unique return characteristics.

Mortgage bond fundamentals remain solid. Home price gains in recent years create strong collateral support, and mortgage delinquencies remain low. Slow housing market activity also continues to constrain new mortgage supply and provides a favorable technical tailwind for the category. For qualifying investors, reinsurance (insurance-linked securities) offers above-average yields, currently exceeding 10%. This income compensates for insurance payout risks stemming from global catastrophes such as hurricanes. These events can be sporadic, and reinsurance can provide a meaningful and differentiated source of return for portfolios outside the normal business cycle over time.

Real asset markets

Publicly traded real estate investment trusts (REITs) are poised to generate solid returns should interest rates fall.

Publicly traded real estate securities underperformed the broader market in the second quarter, with elevated inflation and Fed inaction causing higher interest rates. Additionally, fear of defaults on commercial real estate loans negatively affected investor sentiment. As a result, the Real Estate sector trailed the broader market by 5% for the quarter.

Nationally, across a variety of property types, vacancy rates rose from low levels while income growth decelerated from high levels, and both are now in line with long-term averages. We expect income growth to taper off to below-average levels throughout 2024 for most property types. Income relative to property values increased in the public real estate market due to declining prices, but not in the private market; the public market now appears inexpensive compared to current private market prices. However, loans for property investments, while still available, are no longer cheap, making quality investments scarce.

Repricing of publicly traded real estate means it now trades at much more compelling valuations. Additionally, most real estate benchmarks are heavily weighted to property types with positive long-term characteristics. Cell towers, data centers and industrial warehouses continue to experience strong demand despite economic uncertainty. We believe these sectors can drive real estate portfolios even if other property types face deteriorating fundamentals.

The demand for electricity drives higher-than-normal earnings growth for utility companies leading to outsized returns.

Infrastructure securities underperformed the broader market in the second quarter. The Utilities led the way, with investors more convinced that increased electricity demands for artificial intelligence and data centers may be long lasting. Utilities outperformed the S&P 500 by 0.3% in the quarter.

Through the rest of 2024, we believe data centers' energy needs will continue to drive earnings growth rates at utility companies by more than twice their historical growth rates. Additionally, midstream energy should continue to produce outsized earnings growth as domestic oil producers continue to pump record amounts of crude oil to offset production cuts by the Organization of the Petroleum Exporting Countries (OPEC). Midstream companies are less affected by energy prices and more influenced by the flow of product through their systems, making cash flow more durable and attractive. Earnings growth rates coupled with the potential for declining interest rates could make infrastructure assets attractive in the second half of 2024.

Sticky inflation and resilient growth favor commodities.

Commodities delivered positive performance in the second quarter, with inflation remaining sticky and surging artificial intelligence companies highlighting the need for additional power generation and resources. Precious metals are also up on the year, with gold reaching new all-time highs despite high yields.

The backdrop for commodities remains positive for the rest of the year. The global economy appears resilient and central banks are beginning to ease monetary policy. The Biden administration is soliciting contracts to buy oil under $79 per barrel to refill the strategic petroleum reserve. Additionally, the energy needs to power data centers are increasing demand for natural gas. Finally, the transition to "green" energy networks will require a material increase in demand for fossil fuels and various metals for an extended period. In the absence of a global recession, this should be an environment for solid commodity performance.

Alternative investments

Hedge fund managers are positioning for opportunities amid geopolitical and macroeconomic uncertainty.

Hedge funds generated modestly positive first half returns and the market backdrop remains constructive for many strategies. Managers navigated bounces in technology stocks, interest rates and commodities, moving from a risk-on (more aggressive) sentiment in the first quarter to more defensive positioning in the second quarter over inflation and economic growth concerns. Equity market neutral, a strategy buying long select securities while selling short others to isolate security selection and hedge overall market risk, is one of the best-performing strategies this year, returning 4% through the first two quarters. Trend-following strategies also performed well, with positive commodity price momentum, especially precious metals, driving 5% gains. While discretionary macro strategies have underperformed this year, we continue to see opportunities for long-short investing among changing economic growth rates, monetary policy decisions and currency values given macro strategies' flexibility and asset class investing breadth.

Attractive opportunities may be emerging for managers focused on idiosyncratic debt. An extended period of high financing costs challenges highly leveraged companies, separating winners and losers, and relative value hedge fund managers focused on credit markets can position their long and short portfolios accordingly. The current credit cycle is unusual; the default rate for loans issued by leveraged companies is higher than similar credit quality corporate bonds. Managers investing in distressed debt and corporate restructurings have generated higher returns this year compared to many other hedge fund strategies. Hedge fund managers will seek to exploit such opportunities if they can identify a competitive edge, such as information asymmetry.

Assessing individual company fundamentals works well in most market environments but is less effective when gauging major geopolitical event outcomes, with this year's historic national elections covering half of the world's population creating additional uncertainty. While many hedge funds focus on individual company fundamentals, major geopolitical and macroeconomic events can more than offset favorable stock or bond selection. We anticipate more defensive positioning and oscillating risk appetites across most hedge fund strategies leading up to the U.S. elections on November 5. Additional market pullbacks may also encourage some managers to position portfolios for upside volatility. Hedge funds are eager to show their ability to generate returns through both risk-on, risk-off and volatile transitions between these two paradigms. Managers who stay agile and appropriately size the risks in their portfolios for conditions that may quickly change appear well-positioned in this environment.

Private markets

Private equity investment managers continue to drive value while preparing for deal activity to pick up.

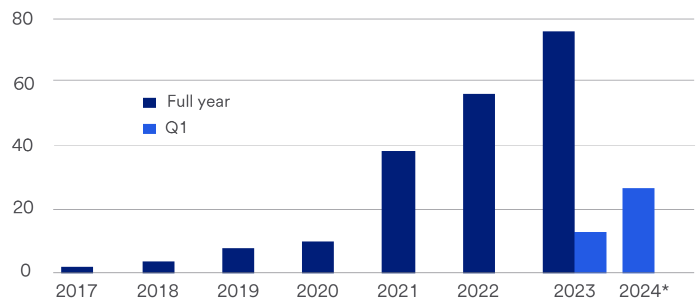
Despite a slow start to the year, indications point to a pickup in deal activity in 2024's second half. The primary factors supporting our view include a large amount of capital raised by private market investment managers that has yet to be deployed, aging funds that are approaching end of the term and a supportive economic backdrop. However, a sharp slowdown in economic activity, stubborn inflation that does not trend down to the Fed's 2% target and persistently higher interest rates present challenges to our positive thesis.

Healthy deal activity is important for private markets, for distributing cash back to investors and deploying new capital into the next investment. An outright sale or company listing on a public exchange remain the most natural paths to driving liquidity back to investors. In lieu of traditional exit paths, investment managers have been creative in delivering cash back to investors through dividend recapitalizations and through the sale of companies to a continuation vehicle. A continuation vehicle is a new fund the investment manager sets up to attract new investors. The original fund sells the company or a portfolio of companies to the new continuation vehicle and provides the original fund investors an option to receive cash or roll their portion of the equity ownership into the new entity. This approach has gained significant momentum over the past two years, and we anticipate this trend will continue. By continuing to own the companies, the investment manager can create additional value while also providing a liquidity option to investors who want it.

Despite tepid overall deal activity, investment managers added value by acquiring smaller businesses to build up their existing portfolio companies. This strategy is commonly known as buy and build, and the smaller businesses that are acquired are called add-ons. The value creation is consolidation of fragmented businesses, adding scale and generating operational efficiencies. This approach remains one of our long-standing themes and we continue working with investment partners who demonstrate the capability to implement such strategies.

Continuation-fund-related exit count

Private equity companies sold by setting up a continuation fund.



Sources: U.S. Bank Asset Management Group; Pitchbook, 3/31/2024.

Investment managers are also actively acquiring corporate carveouts. Larger companies often have subsidiaries that are not core to their business, and these subsidiaries are

frequently under-resourced and under-managed. To maximize shareholder value in a high interest rate environment and drive cost efficiencies, larger companies are choosing to spin off their non-core subsidiaries. Private equity investment managers find opportunities to acquire such subsidiaries attractive as they can implement their “playbook” to unlock these companies’ hidden value, including installing new management and upgrading sales teams and operations.

Middle market and early growth stage companies provide opportunities.

Within private equity buyout, we are partnering with smaller and more nimble investment managers focused on the lower end of the middle market with ample opportunities to professionalize business operations, upgrade sales organizations and consolidate fragmented industries.

We remain cautious about investing in mature software companies given increasing competition from AI investments for tighter corporate budgets, preferring investments in early growth stage of a software company solving critical business problems. Finally, we are pausing on healthcare services investing due to regulatory scrutiny around private equity healthcare transactions.

A time-tested, prudent manager investing in a diversified portfolio with strong downside protection remains our focus in private debt as not all private debt is equal. Real estate private debt opportunities are attractive due to dislocation in traditional financing sources. We remain cautious regarding commercial real estate but find digital infrastructure, last-mile industrial and self-storage sub-sectors attractive.

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Diversification and asset allocation do not guarantee returns or protect against losses. Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio.

Past performance is no guarantee of future results. All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. The **S&P 500 Index** is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. The **Consumer Price Index** is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is one of the most frequently used statistics for identifying periods of inflation or deflation.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. The value of **large-capitalization stocks** will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions. **Stocks of small-capitalization companies** involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies and may be expected to do so in the future. **Growth investments** focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends, which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. **Value investments** focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** is subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investments in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). **Hedge funds** are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. **Private capital investment funds** are speculative and involve a higher degree of risk. These investments usually involve a substantially more complicated set of investment strategies than traditional investments in stocks or bonds, including the risks of using derivatives, leverage, and short sales, which can magnify potential losses or gains. Always refer to a Fund's most current offering documents for a more thorough discussion of risks and other specific characteristics associated with investing in private capital and impact investment funds. **Private equity investments** provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt investments** may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies.