2025 Mid-Year Outlook

Don’t Stop Believin’

June 2025

MACQUARIE

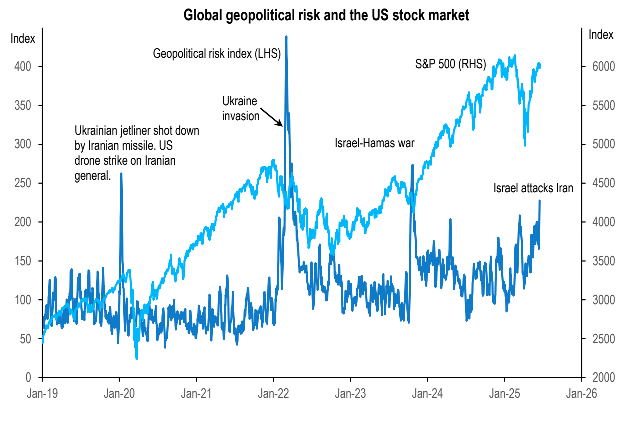
2025 is shaping up as one of those years where those investors with discipline and conviction in portfolio management will be rewarded over those who try to pick winners. Macroeconomic and geopolitical forces have pushed and pulled sentiment in different directions at different points in time and there seems to be no end in sight.

In the first half of the year markets reacted to nearly every piece of information on trade tariffs coming out of the White House, but updates became more readily absorbed by the end of Q2. Resilient hard US economic data during the period provided the buffer even though it's still too early to know the magnitude of the shock and the collateral economic damage. However, the threat was enough to cause large swings in US imports and business inventories, so the underlying drag on consumer spending, which is yet to play out, could be large as well.

Similarly, the inflationary consequences of tariffs are yet to occur. US margins and input costs at the macro level haven't yet suffered and inflation remains well behaved. This has given room for central banks to pivot and support growth and at this stage they are easing to prop up growth next year rather than head off a recession. Normally bond yields fall when both policy and inflation are easing, but this hasn't been the case thus far. We highlighted a few weeks ago that global savings and investment are no longer widening, and this is helping put a floor under bond yields that will mean that even if a recession develops policy and inflation are not likely to test the zero bound.

In our 2025 outlook we warned that geopolitics would drive asset class and regional returns and it's clear this will likely continue. The Middle East conflict that began confined to Israel and Hamas has escalated, with Iran and its nuclear capabilities now the focus. No one knows where this will go, but further escalation remains possible. The conflict has halted the equity market rally and bumped up the gold and oil price, but markets remain remarkably resilient thus far.

Geopolitical uncertainty is rebounding



Source: www.Policyuncertainty.com, MWM Research, June 2025

These uncertainties mean it's easy for investors to get wrong footed taking big bets. We believe diverse portfolios are the best way to navigate this uncertainty and we continue to think investors should do this in several ways.

- Private and alternative assets are our preferred strategy for mitigating near-term volatility and protecting against downside risks to growth.
- In fixed income, lock in higher 'all-in yields' in quality fixed rate credit alongside floating rate senior secured private credit.
- In equities, we prefer EM, Europe and Japan over Australia and the US. Both Australia and the US are expensive and highly stock concentrated markets. Australia has the additional headwind of a weak earnings outlook. Europe and Japan are more diversified markets than Australia and the US, and they have a solid earnings outlook with more attractive valuations.

The key investment themes underpinning our portfolio positioning includes:

- The US remains the global growth engine. It is slowing but should pick up next year.
- The disinflation process is near its end, but policy will likely ease further.
- Stock concentration is a key risk in the US and Australia.
- Longer dated bond yields are unlikely to fall significantly further even as policy rates come down.
- Military conflict is highly unpredictable. The immediate threat is escalation rather than de-escalation.

We are more certain that central banks have the room to support any unexpected slide in growth than we are about a return to a more stable trade and geopolitical outlook, so any positive surprises for markets are likely to come from central banks having more conviction about cutting rates. The list of potential negative surprises seems to far outweigh potential positives, so investors should buckle up and be well prepared to ride out the remainder of the year.

Macquarie WM Investment Strategy Team

Key insights

- **The US remains the global growth engine. It is slowing but should pick up next year.**

The lift in trade tariffs will slow US growth even though markets expect the Fed to ease policy by a further 50bps this year. Q1 GDP contracted as US firms ramped up orders for low-cost inventory ahead of the tariff increases. Business and consumer surveys softened in response to tariff announcements, but they have rebounded somewhat.

It's too early to gauge the magnitude of the damage caused by the trade war, but the hard data on the US economy shows resilience and is generally more consistent with a slowing economy rather than a recession. While the pace of growth is slower in Europe and Japan, it appears that exports from both economies have found new destinations away from the US. China is struggling to achieve its growth target this year but should fall across the line with policies targeted at consumer spending, housing and infrastructure.

- **The disinflation process is near its end, but policy will likely ease further.**

Inflation has come down a notch since the start of the year and now consistent with the upper end of central bank targets. Tariffs impose a cost on goods imports, but it's unlikely to cause a spiral upwards in inflation, given labour market conditions are more likely to loosen than firm in the remainder of the year.

The goal of the central banks is to remove the restrictiveness of policy rather than providing stimulus and the 50bps of rate cuts that markets expect the Fed to do this year seems consistent with this goal. The RBA is out of the direct fire from the trade war and has more room to respond. Markets already recognise this and expect the RBA to lower the cash rate by 75bps before year end.

- **Stock concentration is a key risk in the US and Australia.**

Investors have been prepared to ignore the risk of stock concentration in US equities by jumping on the AI bandwagon and bidding up the Magnificent 7 tech stocks to a point where they now account for around 33% of the market cap of the S&P 500. However, Australia has arguably a more concentrated market with BHP and CBA combined now accounting for 19% of the market cap of the ASX200.

Both markets are overvalued, but the US market is backed up by a strong earnings growth tailwind that Australia doesn't have. We'll soon get another read on the AI boom when US stocks report Q2 earnings, but at this stage the IT outlook seems solid.

Investors should embrace more diversified markets such as EM, Europe and Japan over these two markets, given the highly uncertain macro and geopolitical backdrop.

- **Longer dated bond yields are unlikely to fall significantly further even as policy rates come down.**

Normally easing inflation and central bank rate cuts lead to lower bond yields, but this hasn't been the case over the past few months.

The global savings: investment balance has tilted towards more investment in areas such as defence, green energy, data centres, and China's evolution into to a more consumer-orientated economy, and less savings. Trade tariffs add to the adjustment by making it more difficult for China and Europe to maintain large trade surpluses with the US. This shift puts upward pressure on bond yields and means that policy is unlikely to return to the zero bound even if the global economy was to slip into a recession.

The good news is that it appears a large part of the adjustment has probably already occurred. But the Trump administration is attempting to push through a tax bill that could add several trillion dollars to US government debt when the budget deficit is already large and expected to rise further.

- **Military conflict is highly unpredictable. Investors need to manage the immediate threat of escalation rather than de-escalation.**

Conflict in the Middle East is not new to investors, with higher oil prices feeding into inflation the immediate threat. The global economy is significantly less sensitive to oil prices than it was 30 years ago, but a sharp rise in oil prices can be disruptive.

Broader escalation driving a flight to safety from risk assets cannot be ignored, but markets have thus far been able to absorb the news of missile exchanges from both sides and involvement from the US. The situation remains fluid and any material escalation from here that impacts oil supply will have flow on implications for risk assets as well as the outlook for central bank decision making.

Energy, gold and government bond exposures are a good way to build in diversification against further escalation in tensions.

Investment implications

	Asset class comment	Preference
Cash (Australia)	Cash yields are falling. The RBA is expected to lower the cash rate by 75bps before year end. Investors should consider locking in higher 'all-in yields' further out on the yield curve.	Maintain levels sufficient for transaction and liquidity purposes.
Equities	Equities normally rally through slowdowns and provided this is what we see during the remainder of the year we maintain a 'neutral' stance on equities despite extended valuations, optimistic earnings projections, and the still uncertain path of trade policy. We favour value-oriented sectors, which benefit from more reasonable valuations, deregulation, and the broadening of economic activity beyond AI infrastructure-driven spending. Regionally, we identify better opportunities outside the US, driven by more compelling valuations and improving sentiment, supported by increased fiscal spending and accommodative central banks.	**Markets:** Favour allocations outside the expensive and highly stock concentrated US and Australian markets. Overweight Europe, Japan and emerging markets through underweights in US and Australia. **Size**: Bias toward small cap over large cap stocks, but acknowledge that a more attractive entry point is needed to have strong conviction. **Style:** Favour value over growth, given central banks have room to lift cyclical economic growth next year, bond yields are likely to remain relatively high, and IT earnings growth is likely to slow.
Fixed income	Higher all-in yields for fixed income provide an attractive longer-term allocation, downside protection and a ballast to an overall portfolio. Preferred positioning is via a barbell approach, combining higher quality, shorter-dated credit on the core duration side with defensive floating rate senior secured, non-cyclical private credit. Credit fundamentals remain supportive, with strong demand in the primary issuance market for both investment grade and high yield.	**Sovereign:** Prefer mid-curve maturities over the long-end, which will be less sensitive to tariffs and term premia. **Investment Grade:** High yields and credit fundamentals remain supportive. Overweight, negative net issuance and flows to support valuations. **High Yield:** Neutral on a risk adjusted basis, supportive fundamentals (low defaults) and sound growth will likely support accruals offsetting potential credit spread widening from historically tight levels. **Emerging markets:** Neutral, as sustained USD strength and tariffs will be a headwind to returns and credit profile against lower debt levels than DM, higher real policy rates and geopolitical tailwinds (de-globalisation).
Private credit	Continues to offer a premium (illiquidity) over public fixed income markets, while also providing structural protection in the form of seniority, documentation and a bias to defensive industries.	**Core:** Prefer less crowded and more lender friendly segments such as US middle market direct lending, European direct lending and asset-based finance.

Alternatives	**Private equity:** Direct transactions face headwinds, although manager skill can help navigate uncertainty and identify opportunities. Greater policy clarity in 2H25 should support recovery in activity. **Hedge funds:** Lingering macro uncertainty and geopolitical and policy risks will keep volatility in play, benefitting hedge funds' ability to harvest alpha from market inefficiencies and dislocations.	**Private equity**: Prefer lower to middle market buyout relative to large buyout, secondary strategies where operational value creation is the main return driver and recent vintages. **Hedge funds:** Prefer multi-strategy funds that employ disciplined risk frameworks and can nimbly allocate across asset markets.
Real assets	Real assets offer stable income, inflation hedging, and diversification, and are less impacted by tariff policies due to their contracted cash flows, positive correlation to inflation, and strong fundamentals. **Infrastructure:** Will continue to benefit from structural tailwinds of deglobalisation, digitalisation, the energy transition and supply/demand shortfall. **Property:** Income growth opportunities remain with industrial, while commercial real estate is likely at, or approaching, the turning point in valuations.	**Infrastructure**: Prefer core, unlisted, infrastructure due to valuation (EV/EBITDA) discounts to listed markets. **Property**: Prefer industrial over commercial, retail and office.

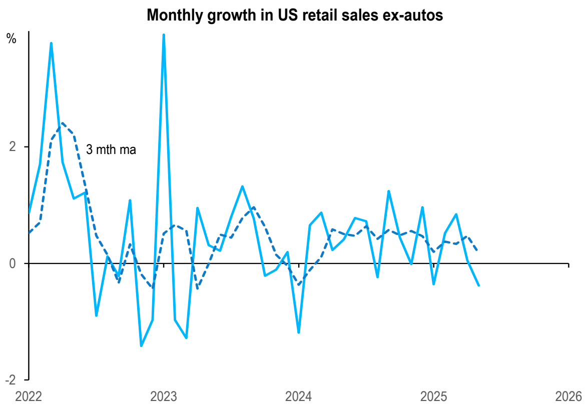
Global economics: Policy probably has you covered

- It's too early to estimate the cost of US trade policy, but thus far the global economy has remained resilient. Inflation will likely settle near central bank targets. Policy is heading to more neutral settings, causing growth to pick up a touch next year.
- The ECB is close to the end of its easing cycle, while the Fed and RBA have more work to do.
- China will probably need to pull policy levers to achieve its growth target, particularly if the current trade reprieve gives way to tit-for-tat tariff increases.
- Australian consumers have saved the increase in real income that has come with the decline in inflation.

US

It's still too early to determine the economic hit from the Trump administration's global trade war. Survey and sentiment were generally weak between March and May and Q1 GDP showed firms responding to the cost increase by building inventories and squeezing low-cost stock out of global supply chains. Hard data on spending and investment remained generally resilient but pockets of weakness are emerging, particularly in retail sales and durable goods. Labour market conditions appear to be softening. Macquarie's economics team expects US GDP growth to slow to around 1% in Q4 from 2.4% in Q1 25.

US core retail sales have slowed



Source: FactSet, MWM Research, June 2025 * Excludes autos.

The Fed is waiting to determine the underlying pulse of the economy and held policy at 4.25% for the 4th consecutive committee meeting in June. Macquarie's economists expect one 25bp cut in 2025 (baseline in December) and one 25bp cut in 2026, while financial markets expect a 25bp cut at the upcoming October and December FOMC meetings.

Europe

The ECB is well advanced in its easing cycle (200bp thus far) and markets think there is probably one more 25bp interest rate cut this cycle. Similar to the US, hard data has held up reasonably well and the latest reading on GDP growth showed the economy expanded by 1.5% during the four quarters ending in Q125. Data on exports showed a surge during March followed by a 50% fall in April as global supply chains reacted to the tariff announcements. The ECB forecasts growth will slow to only 0.7% this year but will pick up next year to 1.4% by Q4 2026.

European exports surge and then slump

Source: FactSet, MWM Research, June 2025

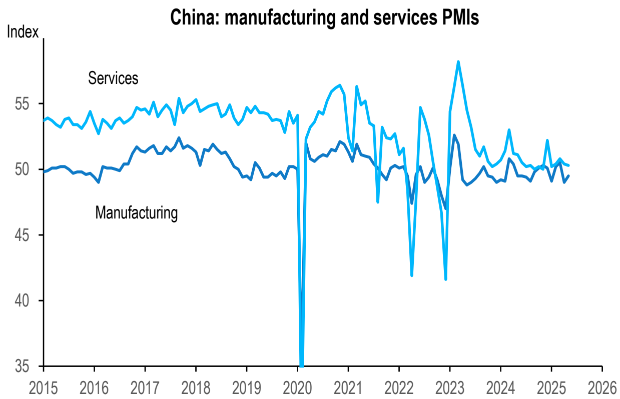
Manufacturing is the sector most at risk from the trade war and it's large enough to have spillover effects into consumer spending and business investment.

China

Macquarie's China economist thinks the government remains on track to achieve its growth target of 5% in 2025, despite the tariffs on its exports to the US. There are two key downside risks: 1) a return to trade hostilities, despite the reprieve negotiated in Geneva; and 2) a slide in consumer spending. Consumer spending lifted strongly in May on the back of in-store discounting, on-line sales promotions, and EV discounting. But this doesn't look sustainable over the medium-term.

We saw during the first few months of the year that threats can give way to reprieve but then turn into threats once again.

China's services & manufacturing unaffected thus far



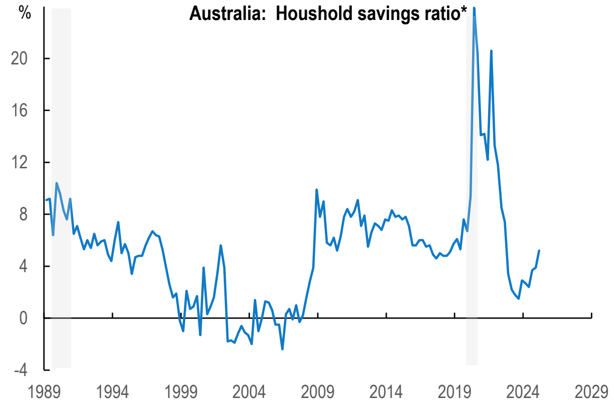
Source: FactSet, MWM Research, June 2025

Australia

The transition away from government spending toward consumer spending and business investment is expected to be slow and protracted. The pickup in consumer spending has been weaker than the RBA expected, but the good news from this is that investors can look forward to more rate cuts. Financial markets currently expect close to three 25bps rate cuts during the remainder of this year.

A key reason consumer spending has been a little weaker than expected is that households have decided to save rather than spend the increase in real income that has come with the fall in inflation.

Consumers remain cautious



Source: FactSet, MWM Research, June 2025

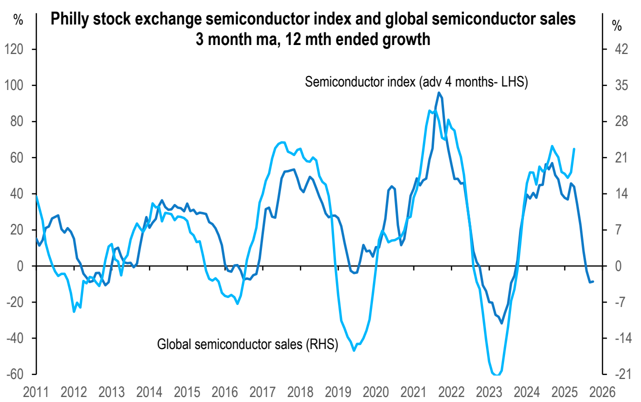
Global equities: Diversifying into non-US

- The increase in global economic risks over the past few months is not factored into the price of equities. But more positively, we're confident that lower policy rates will help bump up growth next year.
- The most recent US reporting season showed few concerns about US IT earnings, but sector top line growth has probably peaked, and bond yields look set to remain higher than the near-term policy and growth outlook would suggest.
- The multitude of geopolitical risks, around an otherwise positive cyclical backdrop, at the peak of the IT earnings cycle leaves us cautiously positive on global equities, but we think the best way to express this is via a tilt to EM, Japan and Europe over the US and Australia.

The global economic backdrop is shaped by four key factors, one positive and three negatives.

- Central banks are cutting rates in response to lower inflation, and this should boost growth next year.
- We haven't yet seen the full impact of the increase in global trade tariffs and the conflict in Middle East is escalating
- US IT earnings growth appears to have peaked.
- Long dated bond yields have remained stubbornly high, despite inflation slowing and central banks cutting rates.

US semi-conductor earnings have probably peaked



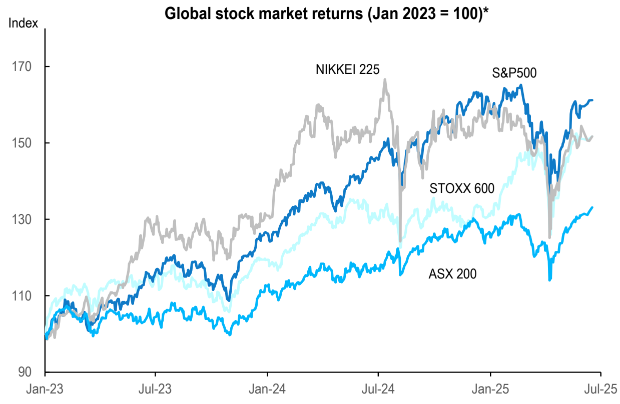
Source: FactSet, MWM Research, June 2025

In the past couple of months, equities clawed back the tariff driven losses from Q1. Hard economic data has remained broadly favourable even though it is clear growth is slowing. However, there is nothing to suggest that the economic cost of the increase in trade tariffs, or the risk of conflict in the Middle East is priced by markets.

At the start of the year, we cautioned that volatility was likely to be high this year because of the intention of the incoming Trump administration to turn global trade on its head. However, with the increase in conflict in the Middle East, the drum is beating even louder.

Investors should note that equities normally rally through slowdowns and, provided this is what we see during the remainder of the year, they should remain invested but manage risks via regional, style and size tilts.

A strong rebound, despite the increase in risk



Source: FactSet, MWM Research, June 2025 * local currency

Regional tilts

Our regional preference is for EM, Europe and Japan over the US and Australia. The US is a highly stock concentrated market leveraged to the structural tailwind of AI driven earnings growth. However, IT earnings growth has probably peaked and valuations remain stretched. Europe and Japan have more reasonable valuations and offer investors better diversification than the US or Australia.

The impact of tariffs on global trade is difficult for any equity market to avoid and each of our preferred markets rely on trade barriers. However, we believe this risk is preferable to investing in overvalued markets with either peaking earnings growth (US) or below-par growth (Australia).

Style & Size

We prefer 'value' over 'growth' given central banks have room to lift cyclical economic growth next year, bond yields are likely to remain relatively high, and IT earnings growth is likely to slow. The call on size is probably more difficult than normal. Large cap stocks generally ride out volatility better than small cap stocks, which perform better when the path to stronger growth from lower rates is clearer than it is today. We have a bias toward small cap stocks over large cap stocks, but we think a more attractive entry point is needed.

Australian equities: Poor fundamentals but a solid line of defence

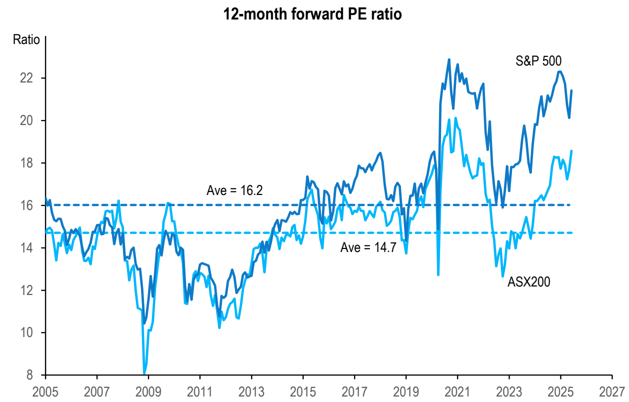
- At this stage, we don't expect a global recession and prefer markets other than Australia. But investors should hold a solid portfolio weight in Australia as a line of defence against market volatility.
- We acknowledge Australia's fundamentals are poor relative to our preferred markets of Europe, Japan and EM. However, its stock concentration has an overlay of defence, built on sticky income that is valued during periods of volatility, particularly when global bond yields are rising.
- The lift in earnings growth expected by analysts leaves Australia a little short of our preferred markets. It comes with a valuation premium that we don't think is worth paying for by investors contemplating entering the market.

Higher than normal global risk means our preference is for diverse markets with relatively attractive valuations and Australia falls short on both measures. It also has a relatively weak earnings outlook compared to other global markets.

The Australian market is more concentrated than the US S&P 500, with the combined market cap of CBA and BHP now 19% of the ASX 200. In the US, the Magnificent 7 (Apple, Amazon, Tesla, Microsoft, Nvidia, Alphabet, and Meta) are 33% of the S&P 500.

Apart from high stock concentration, the Aussie market like the US, is overvalued relative to our preferred markets of Europe, Japan and EM.

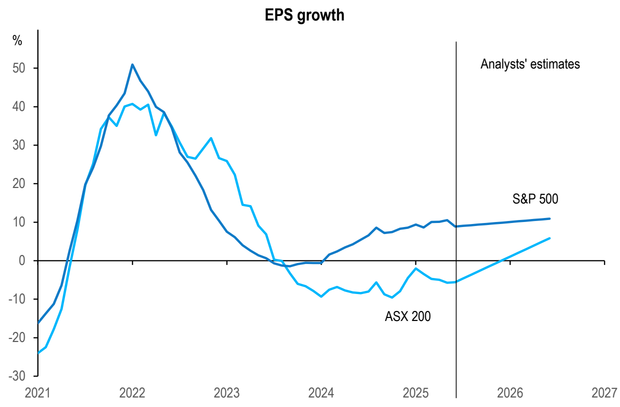
Similar to the US market the ASX 200 is overvalued



Source: FactSet, MWM Research, June 2025

The earnings outlook is a little underwhelming in Australia relative to other markets. Consensus amongst analysts is for EPS growth of only 6% over the next 12 months versus the US (11%), Europe (8%) and Japan (8%).

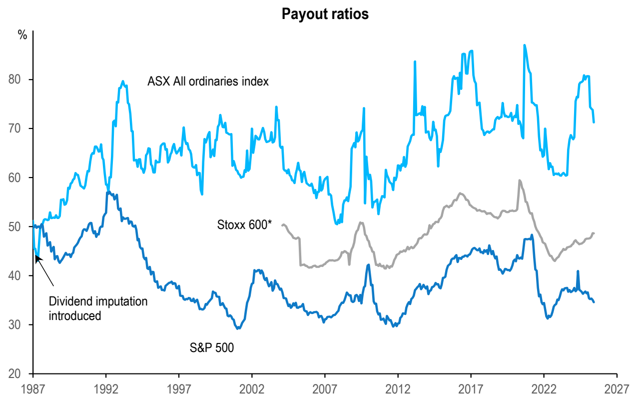
The ASX 200 earnings outlook is relatively weak



Source: FactSet, MWM Research, June 2025

However, poor fundamentals don't mean Australia can't hold its own when global markets become rattled. Dividend imputation means Australia has a high payout ratio compared to other markets, and when bond yields rise high-payout markets such as Australia become more valuable.

Australia's high payout makes it a good defensive market



Source: FactSet, MWM Research, June 2025. Stoxx 600 payout ratio is calculated using 12-month forward dividend and EPS estimates.

Australia's large concentration in two stocks carries with it more risk than other markets, but the large stock concentration in the banks is also a safety net. Around 47% of the stock is held by retail investors locked into receiving their dividends biannually.

Sticky stock concentration can be your friend

Share registry 31 March 2025 (%)

Institutional	Retail	Domestic	Offshore
52.7	47.3	75.3	24.7

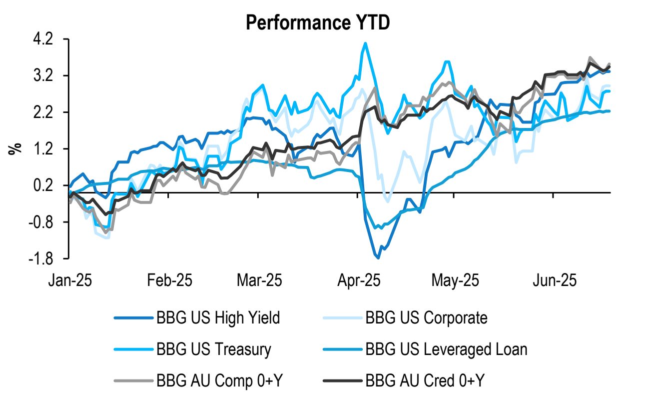
Source: CBA, MWM Research, June 2025

Fixed interest and public credit:
The hare and the tortoise

- In fixed interest and public credit markets, the prevailing 'yield dilemma' theme continues to favour attractive 'all-in' yields for most investors, rather than focusing on relatively tight credit spreads.
- Periods of volatility will test the underlying momentum generated by the global easing cycle, healthy corporate fundamentals, resilient economic growth, and robust technical demand, all of which support the reach for higher yields.
- We continue to advocate a diversified barbell strategy, balancing overall duration and higher quality public credit and regional diversification alongside floating rate senior secured private credit.

So far, bond and credit markets in 2025 have been characterised by heightened volatility and evolving economic policies, while recession and stagflation themes have continued to find their way into the headlines. Nevertheless, the US economy has demonstrated resilience. As we move into the second half of the year, several key themes and dynamics are shaping the outlook for these markets.

Fixed interest and credit market performance year to date



Source: Bloomberg, MWM Research, June 2025

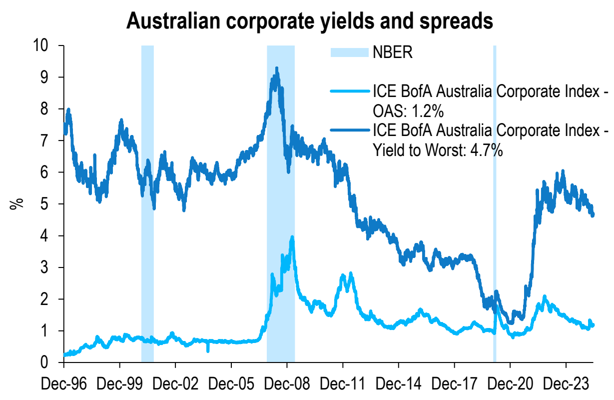
US Treasuries: Long dated bond yields (ie. 20-to-30-year tenors) have remained elevated, whilst the front end and the mid curve have fallen year to date. Concerns on tariffs, the large US fiscal deficit and QT will likely keep longer dated yields elevated into late 2025, whilst the Fed grapples with its dual mandate. The Fed is pausing rate hikes, with the market anticipating a further ~50bps of cuts in 2H25. This pause reflects the cautious stance amid moderate growth and inflation driven by tariffs and energy costs.

Both the ECB and BOE are more aggressively cutting rates, diverging from the Fed's stance, while the RBA cut rates by 25bps in May to 4.10% with a surprisingly more dovish bias. A further ~75bps is priced in by markets for the 2H25. There remains a preference for the short to intermediate part of the yield curve in the US and other key developed market sovereign bonds targeting income and capital resilience given ongoing expected volatility.

Investment grade credit: Australian investment grade credit (IG), on an absolute and risk adjusted basis, has been the standout performer year to date, outperforming both US IG and high yield as well as the leveraged loan market. This can be attributed to a shorter duration benchmark, a sharper fall in short end yields from monetary policy adjustments and a pseudo safe haven bid from heightened volatility amidst tariff wars and increased US exceptionalism concerns.

US IG credit fundamentals continue to remain healthy, with 1Q25 metrics highlighting revenue and EBITDA growth rates accelerating whilst debt growth decelerating. Stay cautious, more regionally diversified, with a focus on up-in-quality and avoid overexposure to cyclical sectors.

Australian investment grade corporate 'all-in' yields remain attractive



Source: Bloomberg, MWM Research, June 2025

High yield & leveraged finance: US high yield 1Q25 reporting season fundamentals highlighted that both leverage and coverage ratios below their long-term averages. However, profit margins are eroding. Defaults are projected to stay below historical averages of ~3% with no 'maturity wall' concerns. The index has improved in credit quality and the amount of secured issuance has increased overall in recent years.

We anticipate credit spreads to widen into year-end on the back of trade tensions, lower growth, higher inflation and heightened uncertainty, but this is unlikely to meaningfully offset the accrual of high yields and reasonable breakevens. Focus on quality issuers in defensive industries with security and covenant protection.

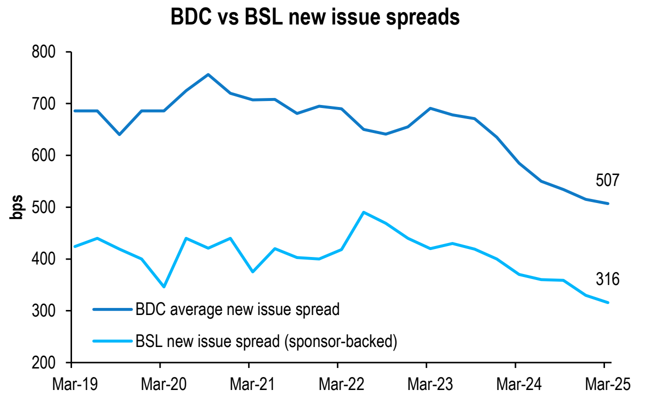
The mid-year outlook for global bond and credit markets in 2025 is shaped by evolving economic policies, central bank actions, and geopolitical risks. While the environment remains challenging, opportunities exist for investors as the search for yield continues and those who can navigate the complexities. Investors should prioritise quality and diversification in their portfolios and take advantage of attractive 'all-in' yields, with supportive breakevens and some downside protection.

Private credit: Loan dispersion to widen

- Private credit will continue to offer attractive 'all-in' yields over public fixed income given a higher for longer base rate, added risk premia and structural seniority.
- However, we expect to see greater performance dispersion across managers, where those with better underwriting standards and deployment discipline over the past few years are likely to be rewarded.
- A growing opportunity set in asset-based finance and opportunistic credit can help diversify away from corporate direct lending and reliance on sponsor-backed / M&A deal flow.

Entering 2025, private credit, specifically direct lending, benefited from low defaults, solid borrower fundamentals and moderate portfolio non-accrual rates. While we do not expect a surge in stress or defaults absent a recession, evolving macro events and fiscal policy may have consequences for the operating environment for borrowers and, subsequently, lenders. Current indicators suggest contained financial stress, with default rates near historical averages and non-accruals at or below long-term norms. However, there are pockets of vulnerabilities emerging, such as rising payment-in-kind (PIK) interest, particularly in technology, real estate, retail, and utilities loans, and higher defaults and weaker interest coverage ratios in the lower middle market relative to the core and upper middle market. Loan performance divergence is expected to heighten and persist, and investors will need to apply careful selectivity when considering this space.

Direct lending new issue premium is below long-term average but still commands attractive yield above loans



Source: Company data compiled by Goldman Sachs Global Investment Research, June 2025. BDC data includes: OBDC, OBDC II, OBDE, OCIC, OTIC, OTF, OTF II, ARCC, ASIF, BXSL, BCRED, FSK, MFIC, TSLX, GBDC.

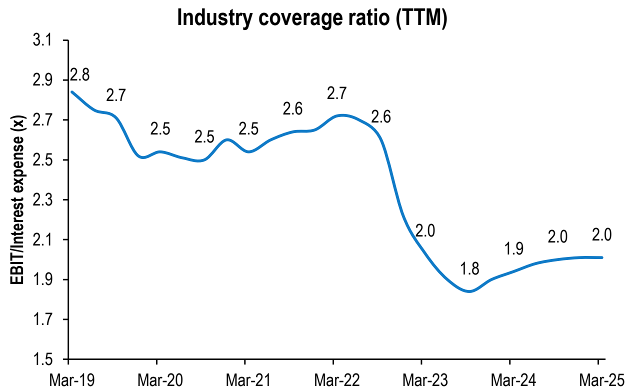
Looking ahead into 2H25, private credit should see a measured pickup, supported by: 1) investors' ongoing appetite for attractive yields, predictable cash flows, and lower correlation with public markets, 2) growing demand for non-bank capital outside of corporate lending, 3) increased adoption of private debt by private equity sponsors due to the appeal of bespoke structuring and certainty and speed of financing, and 4) significant levels of private equity dry powder awaiting deployment. We highlight below a few key areas for opportunity:

- **Direct has been resilient but divergence is rising:** Direct lending continues to dominate flows, driven by both supply and demand. However, the gap between high-quality borrowers and challenged credits has widened, with some tech and consumer borrowers facing margin pressure and rising defaults. Slower economic growth, delayed sponsor exits, and tighter refinancing windows could pressure borrower liquidity and loan valuations. For defensive portfolio exposures, we prefer senior secured, first-lien, sponsor-backed deals in sectors more isolated from cyclical pressure and in less competitive segments, such as the US middle market or European direct lending, where there is greater lender fragmentation and regional barriers to entry.

- **Increasing tailwinds for asset-based finance:** ABF strategies are gaining traction for offering collateral-backed yield and downside protection. Illiquidity, origination risk and valuation uncertainty in non-traditional asset pools may limit scalability and/or exit options.

- **Return of opportunistic and special situations:** With stressed borrowers emerging, managers are ramping up special situations funds to capitalise on recapitalisations, rescue financings, and dislocated loans. However, asset volatility and lower recovery rates in opportunistic lending require deep expertise and active post-investment management.

Industry coverage ratios continue to rebuild following peak rates



Source: LSEG Data and Analytics, Company data compiled by Goldman Sachs Global Investment Research, June 2025

Private credit remains a strong income generator in a higher for longer environment and investors continue to earn attractive all-in yields vs public credit, particularly for senior-secured debt. However, risks remain: a weaker macro backdrop, sponsor strain, and persistent rate volatility will expose underperformers. Careful manager selection can help mitigate performance drag from credit losses. We favour managers that can prioritise credit quality, deal structure and downside protection mechanisms amidst possibility for asset quality divergence.

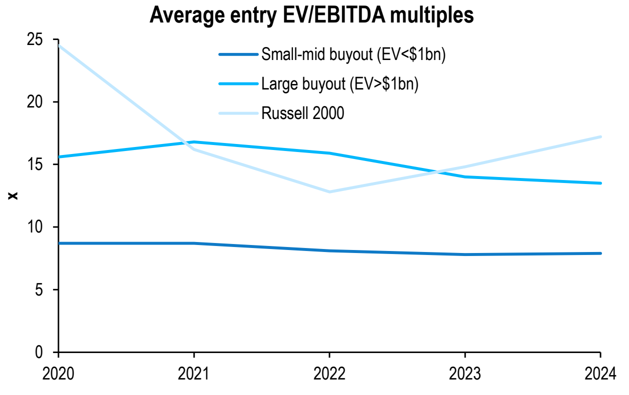
Alternative assets: Opportunity amidst volatility

- Alternatives remain an important provider of diversification, alpha generation and downside protection amidst lingering risks that keep volatility and uncertainty in play.
- Although private equity direct transactions face headwinds, manager skill can help navigate uncertainty and identify opportunities. Greater policy clarity in 2H25 should support a recovery in activity.
- Hedge funds have the ability to capture uncorrelated alpha through changing market conditions, while offering downside protection. However, allocation challenges in this sector include access, transparency and high costs.

Private equity

The first half of the year saw subdued activity amidst unclear policy direction, elevated macro uncertainty, geopolitical tensions and volatile public markets. This has stalled decision making, especially for exits and new investments. Activity remains far from broad-based and under 2021-22 levels, with a continued backlog of ageing portfolios. Still, select large-cap transactions have closed, underscoring a functioning - albeit selective - market, driven by well-capitalised sponsors and sector thematics, such as technology and software services. Persistent uncertainty, slowing economic growth and renewed public market volatility could hamper activity recovery, making manager selection critical.

Small-mid buyouts offer more stable entry valuations



Source: Capital IQ, Robert W. Baird & Co, Bloomberg, Schroders Capital, April 2025

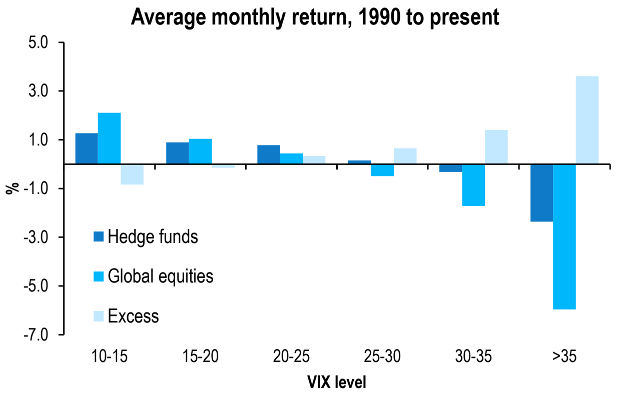
We see the following key themes shaping the outlook over the near to longer term:

- **Opportunity in secondaries:** Traditional IPO and strategic sale routes remain narrow, and distributions back to investors continue to lag, spurring both managers and limited partners (LPs) to explore secondaries as avenues to return capital and/or achieve partial exits. However, asset selection and ongoing manager alignment is critical, and we favour strategies where operational growth is the predominant contributor to returns above entry discounts.
- **Small to middle market to outperform large buyouts**, given advantages from lower competition and higher manager fragmentation, lower and more stable entry valuations, generally low or minimal use of leverage and more diverse/flexible exit avenues. Many companies are more domestically focused and less exposed to global supply chains, which offer some insulation against direct tariff policy impacts. However, this segment may have less buffer against macro risks, and sector and thematic selection will be important.
- **Operation value creation will be key to driving return** amidst higher interest rates and longer holding periods. Operational excellence, commercial strategy and sector selectivity are critical in a market where exits remain challenging. Unlocking value through execution beyond capital deployment is essential to stay competitive and prepare portfolios for eventual exit opportunities.
- **Recent vintages to outperform legacy holdings,** benefitting from more attractive entry multiples, healthier fundamentals and a more stable macro environment. Older vintages that haven't yet grown into their valuations may struggle to maintain their current marks at exit.

Hedge funds

Hedge fund returns should benefit from ongoing fiscal and political uncertainty and increased macroeconomic and cross-asset volatility. Their uncorrelated nature and flexibility across asset classes enables idiosyncratic alpha generation, especially during periods of high volatility or market stress. Select strategies that have limited directional market exposure (beta) can also provide protection and outperform risk assets in volatile markets, enhancing investor portfolios with uncorrelated alpha, lower volatility, and less downside capture during market drawdowns. However, performance varies widely among managers, and success depends on their ability to adapt risk management systems, invest in new technology, and retain talent. Wealth investors also face challenges such as manager access, transparency, and high costs.

Hedge funds can harvest alpha from market volatility



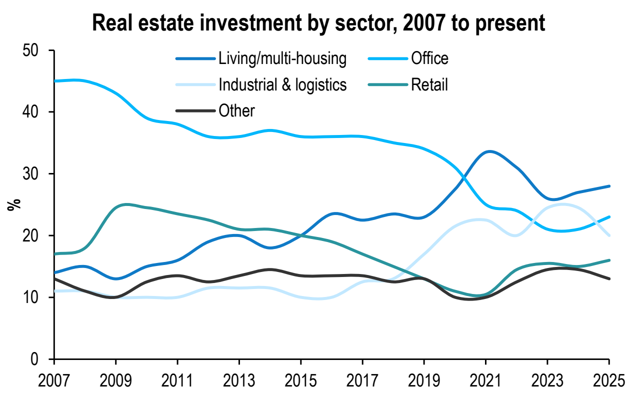
Source: FactSet, HFRI, MWM Research, data as of 31 May 2025. Global equities: MSCI ACWI Index. Hedge funds: HFRI Fund Weighted Composite Index. All returns in USD.

Real assets: Structural tailwinds and valuation recovery

- We like real assets which we believe offer compelling risk-adjusted returns with limited directional exposure to public markets.
- Unlisted infrastructure offers attractive fundamentals, long-term visibility and structural tailwinds from decarbonisation, digitalisation, and deglobalisation.
- Real estate remains mixed, with strong demand for logistics, residential and specialty sectors, while challenges persist for office and some retail. Overseas listed REITs are currently trading on a substantial discount (-9.5%) to net tangible assets and may present tactical dislocations.

Real assets continue to perform a strategic role in portfolios, delivering stable income, inflation hedging and diversification amid slower global growth and persistent macro risks. Real assets are less likely to feel the full force of tariff policy given their contracted cash flows, positive correlation to inflation and healthy fundamentals. Infrastructure remains well-supported by secular tailwinds, such as onshoring, digitalisation and decarbonisation. Real estate faces ongoing bifurcation between resilient sectors, such as logistics and living, and more challenged segments like office. Listed markets have rebounded modestly but continue to trail unlisted valuations, creating tactical dislocations.

Global real estate market has shifted in response to supply/demand needs



Source: JLL Research, June 2025. Data as of Q1 2025.

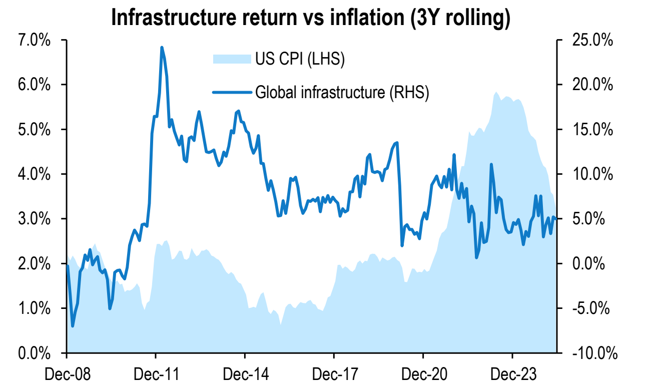
Real estate

Unlisted valuations have seen substantial downward adjustments since 4Q22, with the first positive revaluations only emerging recently. We see potential for further improvement into 2H25, supported by a slower growth, but not recessionary, backdrop. Tariff and macro uncertainty may weigh on transaction volumes in the short term as investors (especially foreign investors) pause activity but appetite for quality assets with stable occupancy should remain healthy, with moderating funding costs and clarity around tariff policy to support volumes further down the track.

While momentum may remain modest due to ongoing macroeconomic concerns, we believe downside risks are limited given valuations have already undergone a significant adjustment. However, dispersion remains across strategy and sector performance. Sectors benefiting from tight supply, high rental growth, and low capex are likely to rebound quicker than structurally challenged sectors. We favour core/core plus strategies focused on logistics, data centres, and living sectors, where fundamentals look more robust.

Listed REITs, particularly global, look attractive on both fundamentals and valuation. Concerns over structural headwinds impacting office real estate are valid but impacts on listed global REITs as an asset class should be limited given relatively low exposure. REITs are not over-leveraged and in any case are likely to benefit from falling interest rates as central banks embark on an easing cycle.

Infrastructure offers consistent returns in inflationary periods



Source: Factset, MWM Research, data as of 31 May 2025. Global infrastructure: FTSE Global Core Infrastructure 50/50 TR Index in USD.

Infrastructure

Unlisted infrastructure looks compelling as its relatively defensive cash flows mean infrastructure returns are relatively less volatile than for other traditional asset classes. High barriers to entry, monopolistic positioning, and the strong cost pass-through of many assets make infrastructure less sensitive to the business cycle and positively correlated to inflationary pressures.

The long-term case for infrastructure remains strong. Structural tailwinds including deglobalisation, digitalisation, urbanisation and the energy transition are fuelling demand for both new infrastructure and the modernisation of existing assets. Current investment levels still fall short of what is needed to meet global demand. We believe core/core plus segments offer the most appealing risk/reward profile in the current environment. Investors should prioritise a diversified approach across sectors with a focus on assets that are less GDP-sensitive and which benefit from predictable cashflows and employ moderate leverage.

Macroeconomic forecasts

	Quarterly									Annual*		
GDP, QoQ	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**Mar-26**	**Jun-26**	**Sep-26**	**Dec-26**			
US	0.6	(0.1)	0.7	0.2	0.3	0.4	0.5	0.6	0.6			
China	1.6	1.2	0.9	1.0	1.4	1.2	1.1	1.1	1.0			
Eurozone	0.3	0.6	0.0	(0.1)	0.3	0.3	0.4	0.4	0.5			
Japan	0.6	(0.0)	0.0	0.0	0.1	0.3	0.3	0.2	0.2			
UK	0.1	0.7	0.3	0.1	0.3	0.3	0.3	0.3	0.4			
Canada	0.5	0.5	(0.4)	(0.1)	0.1	0.3	0.5	0.6	0.7			
Australia	0.6	0.2	0.3	0.3	0.4	0.5	0.6	0.6	0.6			
New Zealand	0.5	0.8	0.4	0.3	0.4	0.6	0.6	0.7	0.7			
Global (MER)	0.8	0.6	0.5	0.4	0.5	0.6	0.6	0.7	0.7			
Global (PPP)	0.9	0.8	0.6	0.5	0.6	0.7	0.7	0.8	0.8			
GDP, YoY	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**Mar-26**	**Jun-26**	**Sep-26**	**Dec-26**	**2024**	**2025**	**2026**
US	2.5	2.1	2.1	1.5	1.2	1.7	1.5	1.8	2.2	2.8	1.7	1.8
China	5.4	5.4	5.1	4.8	4.7	4.7	4.6	4.5	4.4	5.0	5.0	4.5
Eurozone	1.2	1.5	1.3	0.8	0.8	0.5	0.9	1.4	1.6	0.8	1.1	1.1
Japan	1.4	1.7	0.7	0.5	0.1	0.4	0.7	0.9	1.0	0.2	0.7	0.8
UK	1.5	1.3	1.1	1.3	1.4	1.0	1.0	1.2	1.2	1.1	1.3	1.1
Canada	2.3	2.3	1.3	0.5	0.2	(0.1)	0.8	1.5	2.0	1.6	1.1	1.1
Australia	1.3	1.3	1.4	1.4	1.3	1.5	1.8	2.1	2.3	1.0	1.4	1.9
New Zealand	(1.3)	(0.7)	0.7	2.0	1.9	1.7	1.9	2.3	2.6	(0.6)	1.0	1.6
Global (MER)	2.9	2.8	2.7	2.2	2.0	2.0	2.2	2.5	2.7	2.8	2.4	2.3
Global (PPP)	3.3	3.4	3.2	2.7	2.4	2.4	2.6	2.9	3.1	3.2	2.9	2.7
CPI, YoY	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**Mar-26**	**Jun-26**	**Sep-26**	**Dec-26**	**2024**	**2025**	**2026**
US (PCE)	2.5	2.5	2.4	2.8	2.9	2.7	2.8	2.7	2.6	2.5	2.6	2.6
China	0.2	0.1	0.0	0.3	0.5	0.4	0.5	0.5	0.6	0.2	0.2	0.5
Eurozone	2.2	2.3	2.4	2.3	2.4	2.1	1.9	2.0	1.9	2.4	2.4	2.0
Japan	2.9	3.8	3.3	2.7	2.1	1.4	1.4	1.7	1.7	2.7	2.9	1.5
UK	2.5	2.8	3.4	3.5	3.2	2.6	2.4	2.4	2.4	2.5	3.2	2.4
Canada	1.9	2.3	1.8	1.8	1.8	1.5	1.9	1.9	2.0	2.4	1.9	1.8
Australia	2.4	2.4	2.2	2.6	2.9	3.0	3.0	2.9	2.8	3.2	2.5	2.8
New Zealand	2.2	2.5	2.7	2.8	2.7	2.1	2.0	2.1	2.1	2.9	2.7	2.6
Policy Rate	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**Mar-26**	**Jun-26**	**Sep-26**	**Dec-26**	**2024**	**2025**	**2026**
US (Fed funds rate)	4.38	4.38	4.38	4.38	4.13	3.88	3.88	3.88	3.88	4.38	4.13	3.88
China (1-yr MLF rate)	1.50	1.50	1.40	1.40	1.30	1.30	1.30	1.30	1.30	1.50	1.30	1.30
Eurozone (deposit rate)	3.00	2.50	2.00	1.75	1.75	1.75	1.75	2.00	2.00	3.00	1.75	2.00
Japan (policy rate)	0.25	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.25	0.50	0.75
UK (base rate)	4.75	4.50	4.25	4.00	3.75	3.50	3.50	3.25	3.25	4.75	3.75	3.25
Canada (overnight cash rate)	3.25	2.75	2.75	2.25	2.00	2.00	2.00	2.25	2.50	3.25	2.00	2.50
Australia (cash rate)	4.35	4.10	3.85	3.35	3.10	3.10	3.10	3.10	3.10	4.35	3.10	3.10
New Zealand (overnight cash rate	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	4.25	3.00	3.00
10-year yield	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**Mar-26**	**Jun-26**	**Sep-26**	**Dec-26**	**2024**	**2025**	**2026**
US	4.58	4.23	4.30	4.15	4.00	4.25	4.50	4.75	5.00	4.58	4.00	5.00
China	1.68	1.81	1.70	1.65	1.60	1.65	1.70	1.70	1.70	1.68	1.60	1.70
Germany	2.36	2.73	2.50	2.40	2.30	2.50	2.65	2.85	3.00	2.36	2.30	3.00
Japan	1.08	1.55	1.25	1.25	1.25	1.35	1.40	1.45	1.45	1.08	1.25	1.45
UK	4.55	4.67	4.65	4.60	4.50	4.35	4.40	4.40	4.40	4.55	4.50	4.40
Canada	3.23	3.00	3.20	3.00	3.00	3.25	3.50	3.75	3.75	3.23	3.00	3.75
Australia	4.37	4.40	4.20	4.10	4.05	4.20	4.35	4.50	4.65	4.37	4.05	4.65
New Zealand	4.53	4.56	4.55	4.45	4.35	4.50	4.60	4.75	4.85	4.53	4.35	4.85

Source: Macquarie Macro Strategy, June 2025

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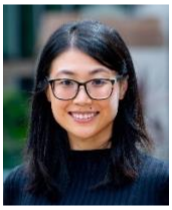

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