SUMMER 2025 MARKET OUTLOOK

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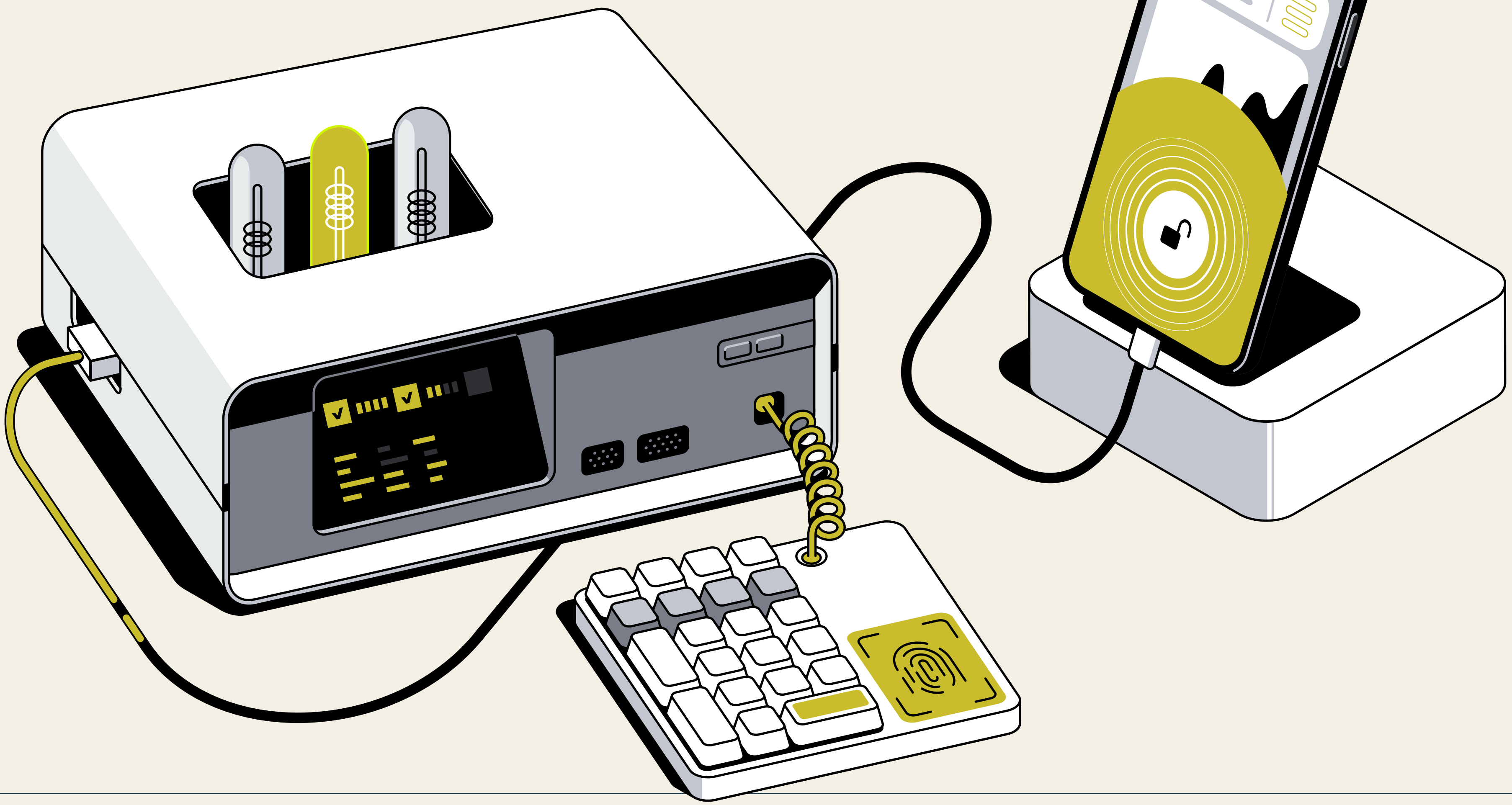

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Mid-Year 2025 Investment Update

Unprecedented. The second quarter began with reciprocal tariff announcements that alarmed investors and sent stocks into free-fall. By April 9, the S&P 500 had declined 20% from its February high. Remarkably, just 89 days after the reciprocal tariff press conference, the stock market had climbed more than 28% from its intraday low on April 9 and closed the quarter at an all-time high. Based on market data dating back to 1900, it was the fastest recovery to a new record high following a decline of 20% or more from the prior peak (The Wall Street Journal).

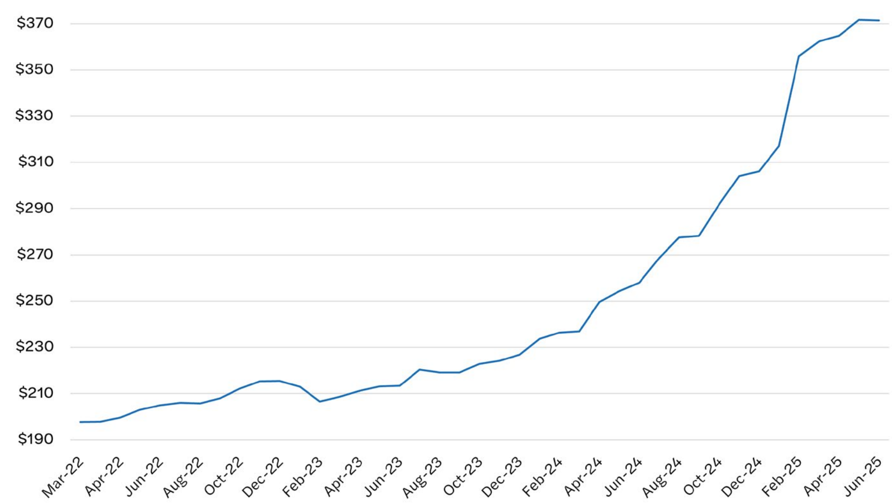
In this mid-year investment update, we reflect on a highly eventful first half of 2025 and share our current outlook for the remainder of the year.

The year began with a sharp decline in technology and AI-related stocks following a major breakthrough in AI efficiency announced by DeepSeek, a Chinese technology company that builds AI software. This development caused concern that demand growth for AI semiconductors would weaken and that U.S. technology companies might lose their competitive edge to Chinese tech companies.

However, by April, technology and AI-related stocks resumed a steep upward trajectory, driven by better-than-expected first quarter earnings and upward revisions to AI investment forecasts. Many stocks in the AI space ended the second quarter at all-time highs.

While there may be more volatility in future quarters due to announcements of further efficiency breakthroughs or shifting expectations for AI investment spending growth, we believe the long-term outlook for AI technology remains very strong and we are invested accordingly.

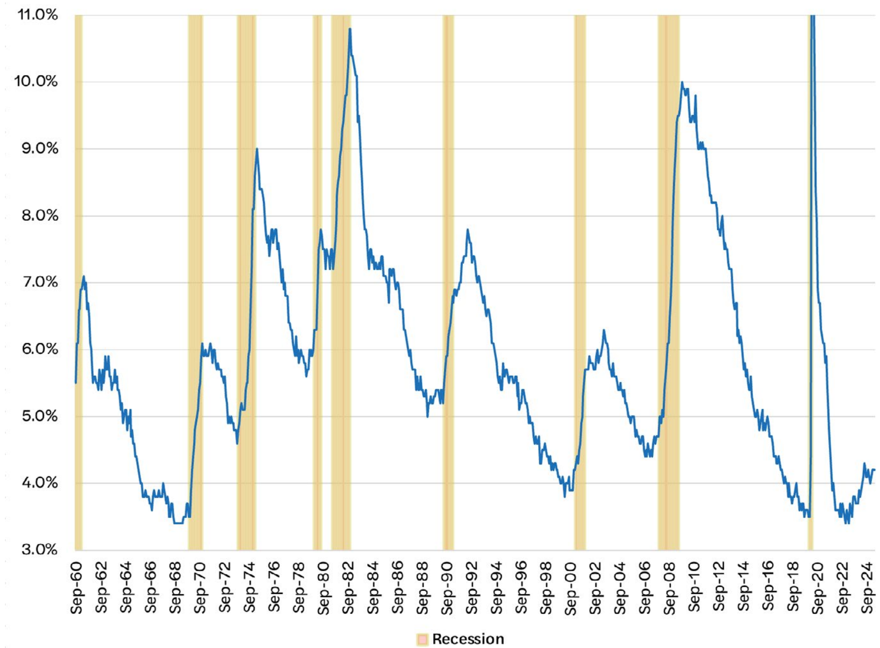
CONSENSUS FORECAST REVISIONS FOR BIG TECH 2025 CAPEX SPENDING (BILLIONS)



Source: Bloomberg, consensus forecast for Microsoft, Meta, Alphabet, Amazon, Oracle, Apple, Tesla, Tencent, Alibaba

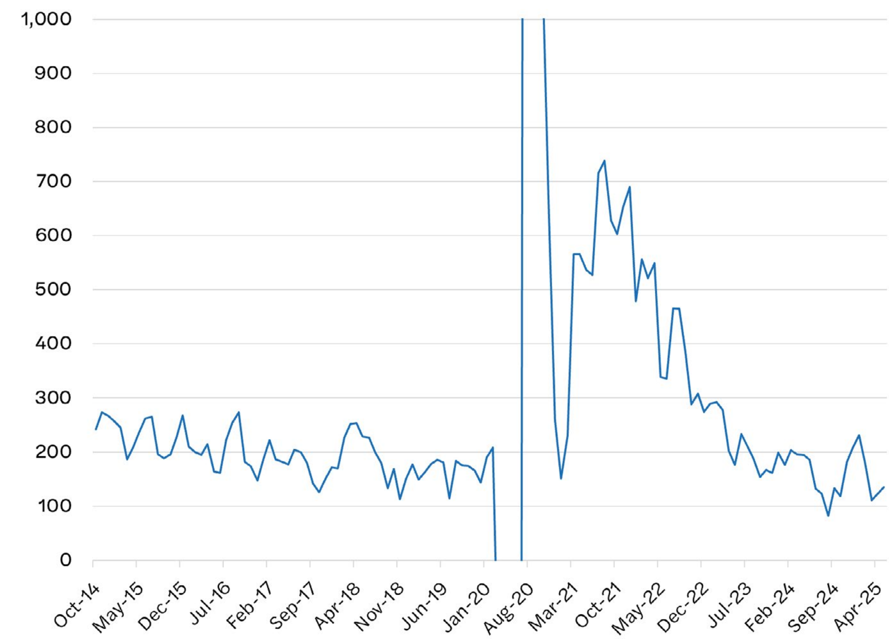
Labor market data showed some signs of softening in the first half of 2025, with a gradual rise in the unemployment rate and a moderation in job growth. However, we believe overall labor market conditions remain supportive of continued economic expansion.

U.S. UNEMPLOYMENT RATE



Source: Bloomberg, Bureau of Labor Statistics

NONFARM PAYROLL ADDITIONS
(3 MONTH AVERAGE, THOUSANDS)



Source: Bloomberg, Bureau of Labor Statistics

INFLATION

Tariff concerns drove a significant increase in inflation expectations among consumers and business executives in April. However, inflation data through May have not validated those concerns, as the gradual downward trend in inflation has continued. Investors are eagerly awaiting upcoming inflation readings over the summer, which are expected to provide greater clarity on the degree to which tariffs will drive price increases. While we expect modest upward pressure, we do not expect a sharp rise in inflation like that experienced in 2021 and 2022.

CONSUMER PRICE INDEX Y/Y CHANGE

Source: Bloomberg, Bureau of Labor Statistics

FISCAL POLICY

Tariffs announced in April were significantly higher and broader than expected and were initially described by the Trump administration as a strategy to raise tax revenue and restructure global supply chains, rather than as a negotiating tactic. Investors reacted very negatively to the news and stocks fell sharply over several trading sessions.

Our view at the time was that pressure by financial markets would compel the U.S. and its trading partners to negotiate new trade agreements and the worst-case scenario would be averted. This view was quickly validated: on April 9, President Trump announced 90-day pause on reciprocal tariffs to allow for negotiations. In response, stocks began a sharp rebound. Subsequent trade deals with the UK and China, and reports of progress on negotiations with other trading partners have perpetuated the recovery and the S&P 500 ended the second quarter at an all-time high.

Despite the stock market recovery, risks remain. Until agreements with other major trading partners are signed, negative tariff-related headlines are possible, which could cause another decline in stocks. However, we continue to believe that most of the tariffs are intended to serve as leverage to secure more favorable trade terms for the U.S. We remain confident that additional deals will be reached. If stocks decline again on adverse tariff news, we believe the sell-off is likely to be short-lived and less severe than what occurred in April.

Tariff policy announcements have had a significant impact on interest rates and investors' expectations for changes in Federal Reserve monetary policy. Following the reciprocal tariff announcement on April 2, the Federal Reserve raised its inflation forecast and delayed and lowered projected interest rate cuts for 2025.

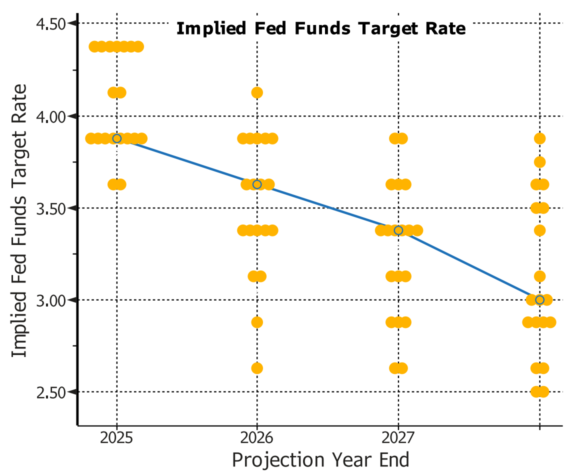
Our view remains that companies are likely to absorb a substantial portion of the tariffs, as consumers appear unwilling or unable to tolerate another round of significant price increases. While we do anticipate some modest upward pressure on inflation readings during the next few months, we do not expect a resurgence of inflation comparable to 2021 and 2022.

Notably, a few voting members of the FOMC adopted a more dovish stance in June, citing softer-than-expected employment data and the absence of a tariff-driven inflation spike. If employment data deteriorate further, we believe the debate around the timing and scale of potential rate cuts will intensify.

Federal Reserve Policy and Outlook

The Federal Reserve has held interest rates steady through the first half of 2025, following its last rate cut in December 2024. While the median forecast still calls for two cuts this year, the Fed is increasingly divided: seven of 19 officials now project no cuts at all, nearly matching the eight who expect two. The remaining members are split between one and three cuts. This marks a significant shift from last September, when the median expected four cuts in 2025.

FED DOT PLOTS



Note: Each dot represents one FOMC member's forecast. Source: Bloomberg

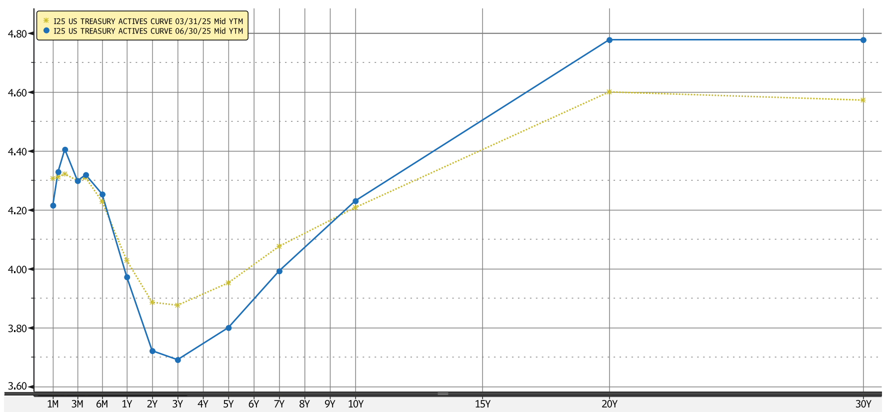
Recent inflation data have been better than expected, yet the Fed raised its 2025 inflation forecast to 3.1% from the current core level of 2.5%, indicating concern about a possible pickup in the second half of the year. That concern, alongside ongoing geopolitical and trade uncertainties, has made policymakers more cautious.

The Fed's updated economic projections now show weaker expected growth and higher inflation compared to March, largely reflecting the impact of new tariffs.

Despite some improvement in near-term risks, uncertainty remains elevated, as reflected in the wide divergence of views on the path of interest rates.

In short, the Fed is on hold for now, not due to current data, but due to concerns about what may lie ahead. This ongoing uncertainty is likely to be a key driver of market sentiment in the second half of the year.

TREASURY YIELD CURVE

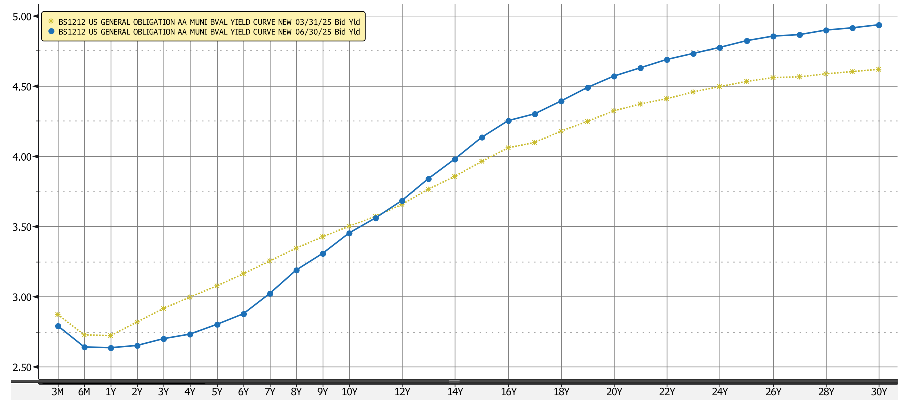


Note: Yellow line – Treasury yield curve 03/31/25 & Blue line – Treasury yield curve 06/30/25. Source: Bloomberg

The U.S. Treasury yield curve steepened during the second quarter of 2025, reflecting shifting expectations around Federal Reserve policy and inflation. Yields on short and intermediate-term maturities (one to five years) declined modestly, as markets priced in the potential for rate cuts later this year, even though the Fed maintained a more cautious tone. In contrast, longer-term yields moved higher, driven by persistent inflation concerns, growing fiscal pressures, and uncertainty around the Fed's long-run policy path.

This divergence between short and long maturities contributed to a steeper curve compared to the end of the first quarter. In our view, intermediate Treasuries continue to offer attractive real yields and effective portfolio balance, particularly in a slower-growth or risk-off environment.

MUNI YIELD CURVE



Note: Yellow line – Muni yield curve 03/31/25 & Green line – Muni yield curve 06/30/25. Source: Bloomberg

Yields in the municipal bond market remained relatively steady during the second quarter of 2025. While shorter maturities experienced more volatility, they ultimately moved lower as the market continued to anticipate Federal Reserve rate cuts. Conversely, yields on longer maturities rose modestly, driven by heavy new issue supply that outpaced demand. As tax season selling subsided, supply and demand dynamics began to stabilize.

Looking ahead, major Wall Street underwriters expect 2025 municipal new issuance to potentially reach $600 billion, surpassing even last year's record. The yield curve ended the quarter with a steeper slope compared to the first quarter, as investors favored the relative safety of intermediate and shorter-term bonds. Year-to-date, short maturity structures have delivered the strongest performance, with intermediate portfolios close behind. We continue to view nominal yields and taxable-equivalent yields as attractive, and relative value versus taxable markets has improved.

Our Outlook

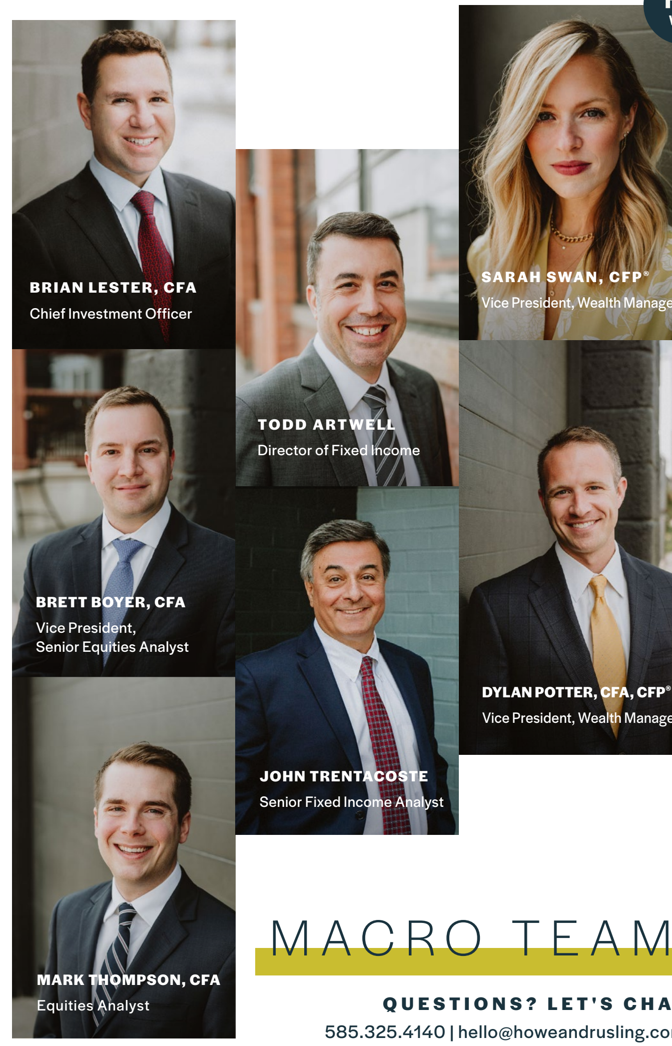
As stocks were falling in April due to tariff concerns, we began increasing our allocation to stocks based on our expectation that mounting pressure from financial markets would compel U.S. and foreign leaders to negotiate deals to reduce tariffs. Within days, negotiations began, and the stock market responded very positively.

Following the sharp rally to a new all-time high, we believe the stock market is now pricing in a combination of further good news on tariffs, benign inflation and economic data, robust AI-related investment and value creation, and interest rate cuts beginning this fall. While these expectations are plausible, they are also optimistic, and any shortfall in economic data or policy outcomes would likely cause stocks to decline.

That said, as long as the labor market remains resilient, we expect any market pullback to be rather modest and short-lived. In this environment, we continue to focus our investments on high quality companies with solid growth, durable competitive advantages, high margins and strong balance sheets. We believe these companies will perform relatively well even if economic growth slows or inflation rises modestly, both of which are key risks we are monitoring closely.

As we enter the second half of 2025, markets continue to contend with elevated tariffs, persistent inflation pressures, and signs of slowing growth. Although recent inflation data surprised to the downside, the Federal Reserve remains cautious and divided on the path of future rate cuts. While markets still anticipate some easing, the outlook remains uncertain.

Within credit markets, we continue to emphasize high-quality investment grade corporate bonds. Despite tight spreads relative to historical averages, elevated yields offer a notable income cushion, with corporate yields still exceeding Treasuries by approximately 80–100 basis points, supporting total return potential in a slower growth or more volatile environment. Corporate fundamentals are broadly stable, but recent market fluctuations underscore the need for selective credit exposure. We continue to favor higher-quality issuers with strong balance sheets and durable cash flows.



MACRO TEAM

QUESTIONS? LET'S CHAT
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