

# EQUITIES



## Developed Markets Equities

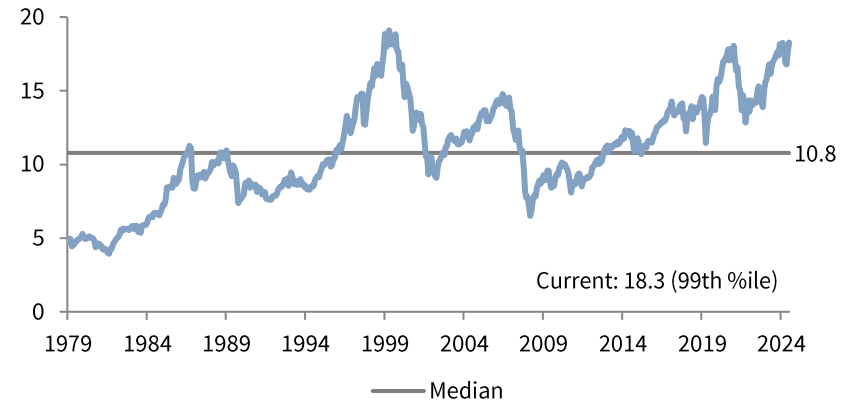
Facts & Figures Second Quarter 2025

DM equities returned 11.5% in 2Q and 9.5% in the YTD period for USD investors. Markets rallied as the initial shock from the US reciprocal tariff policy announcement was outweighed by implementation delays and progress toward trade deals. A rally for technology stocks given renewed AI enthusiasm was another key driver, while a weaker US dollar supported performance of the non-US bloc (12.0%).

- The bloc trades at 18.3x cyclically adjusted cash earnings, which ranks higher than 99% of historical data dating back to 1979. The high valuation level masks dispersion across major DM blocs, with the US trading at levels higher than DM ex US. In particular, the UK's large exposure to cyclical companies has left its equities trading low relative to history.
- The global economy is expected to grow by 2.6% in 2025, according to analysts surveyed by Bloomberg in early July. Developed economies, which tend to grow at a slower rate than emerging economies, are expected to collectively grow by 1.3%. While low, the 2025 growth expectation is in line with recent history. However, recent US trade policy has contributed to downgrades over the past several months given the potential to slow economic activity. Among major developed countries, growth expectations were highest for the US (1.5%), followed by the UK (1.1%), the euro area (1.0%), and Japan (0.8%).
- DM corporate earnings are expected to grow by 6.8% in 2025, which is softer than the 8.8% pace earnings are expected to have grown in 2024. The EPS growth outlook has been downgraded by 5 ppts over the past six months, with potential for further adjustments considering US trade policy. Roughly half of this year's earnings growth is expected to come from profit margin expansion, with the remainder from sales growth. Among major markets, US earnings are expected to grow at levels above broader DM, with the non-US bloc below.
- Expectations for policy interest rates is a key risk for equities. Major DM central banks increased policy rates by considerable amounts in 2022 and 2023, prior to cutting in 2024. While the market expects many key central banks will continue to cut rates in 2025, inflation rates may not moderate as expected, particularly considering the potential for greater trade barriers. This could force central banks to not cut interest rates in line with market expectations.

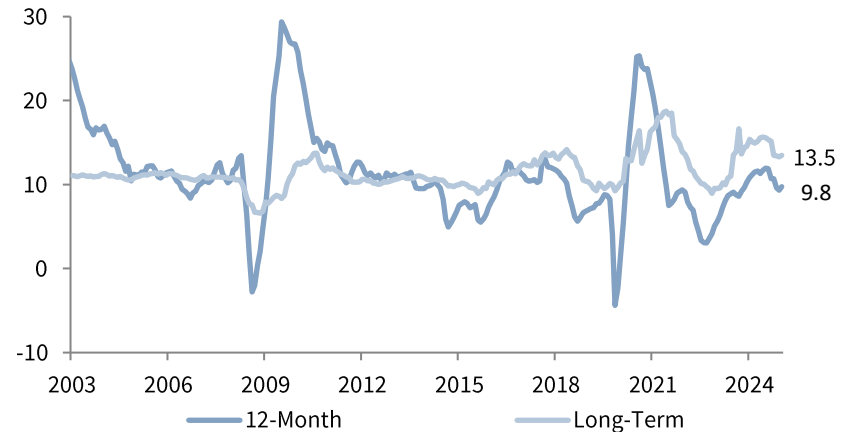
### CYCLICALLY ADJUSTED PRICE-TO-CASH EARNINGS

Dec 31, 1979 – Jun 30, 2025



### CORPORATE EARNINGS GROWTH EXPECTATIONS

Jun 30, 2003 – Jun 30, 2025 • Percent (%)



Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Data are based on the MSCI World Index.

# US Equities

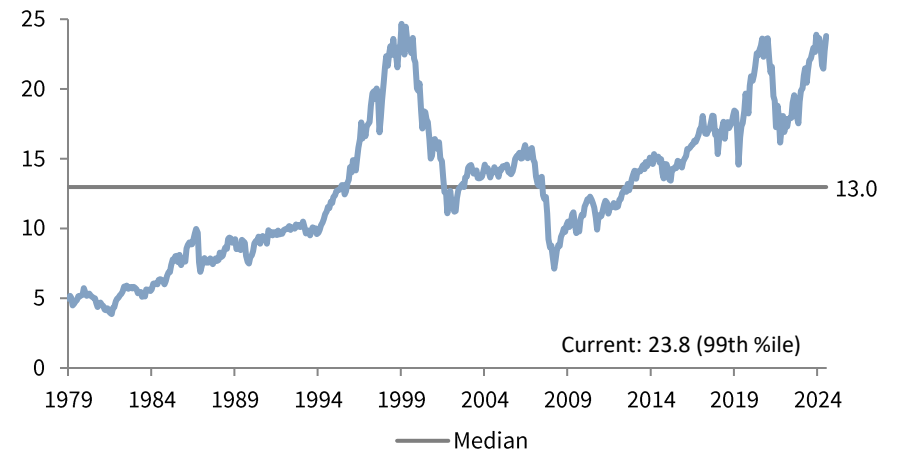
Facts & Figures Second Quarter 2025

US equities rallied in 2Q and ended June at fresh highs, supported by a de-escalation in trade tensions and prospects of continued Fed policy easing to support growth. Valuations for US equities climbed higher over the quarter and are near record highs relative to history.

- US equities returned 11.2% in 2Q 2025, ending June at fresh highs. The market outperformed DM ex US peers in LC terms (5.2%) but lagged in common currency terms (12.1%) amid continued USD weakness. Year-to-date, US equities returned 6.1%, trailing DM ex US peers by 1.9 ppts in LC terms and 12.9 ppts in USD terms.
- US equities are up sharply from their early April lows as a de-escalation of more severe US tariffs lessened fears of a sharper growth shock. The prospect of continued Fed policy easing, fiscal expansion via the tax bill, and a deal to exempt US multinationals from a global tax regime also lent support to performance. Analysts' expectations for US 12-month forward earnings growth stabilized in June after seeing downward revisions earlier in the year. However, tariff uncertainty may continue to contribute to near-term volatility, particularly as potentially higher levies on trade partners are scheduled to take effect on August 1.
- US equities' cyclically adjusted price-to-cash earnings multiple rose in 2Q to 23.8x, which is the 99th percentile based on historical data from 1979. Relative valuation with DM ex US equities, which trade at 11.0x, are at record highs. The gap in equity valuations remains stark even after adjusting for sector differences.
- Tariff uncertainty has placed pressure on consumer and business sentiments and are starting to feed into trailing economic data. US 1Q GDP contracted 0.5% annualized, largely weighed by tariff front-running and a surge in imports, but also softer consumer spending. Economic indicators, such as retail sales and industrial production, further showed signs of weakening in 2Q. Consensus forecasts expect US GDP growth will slow from 2.8% in 2024 to 1.5% in 2025, narrowing the gap versus broader developed economies where growth is expected to slow from 1.9% to 1.3%. Expectations of softer economic growth in the US relative to elsewhere have weighed on the US dollar in 2025 and therefore the relative performance of US equities versus global peers in USD terms.

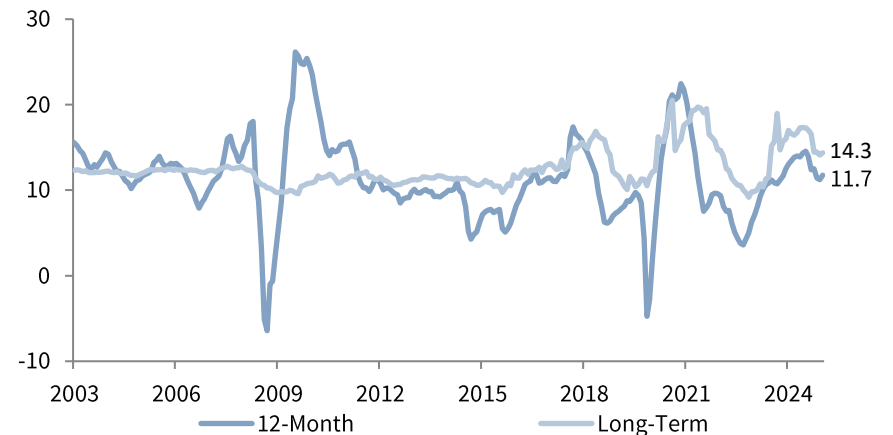
## CYCLICALLY ADJUSTED PRICE-TO-CASH EARNINGS

Dec 31, 1979 – Jun 30, 2025



## CORPORATE EARNINGS GROWTH EXPECTATIONS

Jun 30, 2003 – Jun 30, 2025 • Percent (%)



Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Data are based on the MSCI US Index.

## Developed Markets excluding US Equities

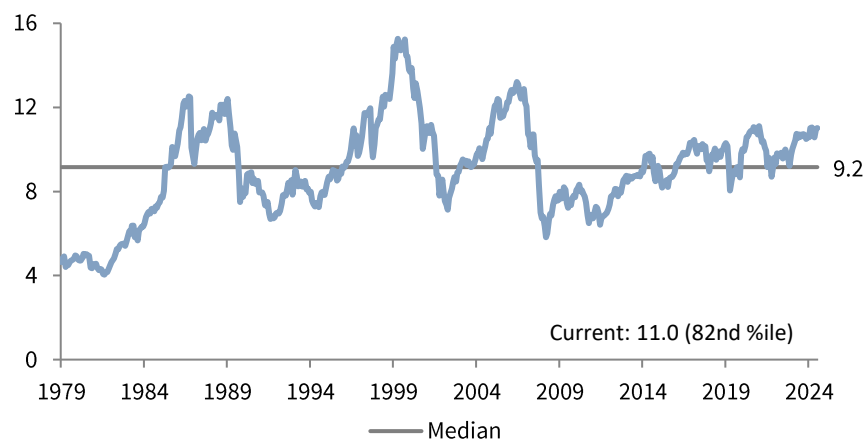
Facts & Figures Second Quarter 2025

DM ex US equities performance was up 5.2% in 2Q 2025 in LC terms, underperforming the 9.5% return of broader DM. However, a decline in the dollar saw more comparable performance in USD terms, with DM ex US equities returning 12.0% versus 11.5% for broader DM. The threat of tariffs weighed on global equities early on in the quarter, however a lack of follow through on some threats allowed for subsequent recovery. While EPS downgrades for the US have been larger, earnings growth is still expected to lag in DM ex US this year.

- The bloc trades at 11.0x cyclically adjusted cash earnings. This is in the 82nd percentile of historical data dating back to 1979, and above the long-term median of 9.2x. That valuation multiple remains well below the 18.3x CAPCE of broader DM equities, due to the 23.8x CAPCE enjoyed by US equities. A material valuation gap remains after adjusting for sectoral differences.
- The global economy is expected to grow by 2.6% in 2025, 30 bps lower than expected three months previously. There remain downside risks to this forecast given the uncertain impact of the tariffs that have been levied by the United States on trading partners. While the United States is currently expected to continue to outperform the major components of this index, the gap has narrowed, reflecting the greater expected impact on the United States. Consensus growth for 2025 is 1.5% for the United States, in comparison to 0.8% for Japan, 1.1% in the United Kingdom, and 1.0% in the euro area.
- Analysts expect corporate earnings to grow by 6.5% on a 12-month forward EPS basis, but this again is at risk of downward revision. This would represent an undershoot of 3.2 ppts to its median long-term expected EPS growth rate. This consensus corporate earnings growth is expected to be driven slightly more by profit margin expansion (from 10.1% to 10.5%) than by sales growth (2.3%). This would put the index's profit margin back above the previous record high-level of 10.3% it reached in 3Q 2022, according to IBES data. But this margin would still be below the current level of the same metric for the US (12.8%).
- On a regional basis, Switzerland and Canada stand out with expected EPS growth of around 9.0% in the coming 12 months, while growth of 6.9%, 6.9%, and 4.1% is expected in the UK, the euro area, and Japan, respectively.

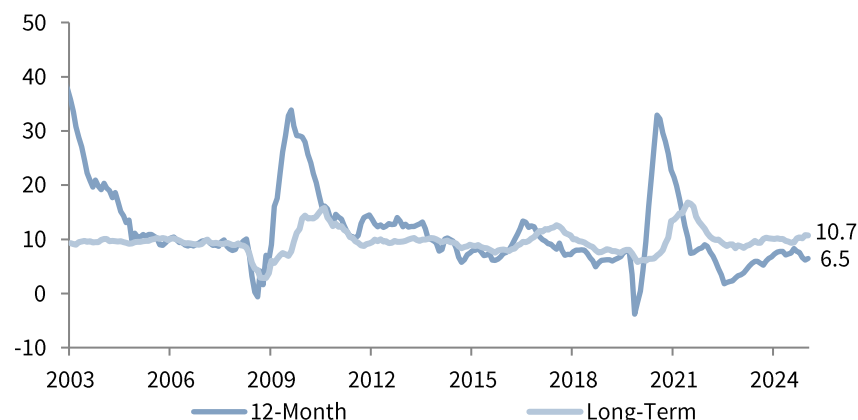
### CYCLICALLY ADJUSTED PRICE-TO-CASH EARNINGS

Dec 31, 1979 – Jun 30, 2025



### CORPORATE EARNINGS GROWTH EXPECTATIONS

Jun 30, 2003 – Jun 30, 2025 • Percent (%)



Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Data are based on the MSCI World ex US Index.

## UK Equities

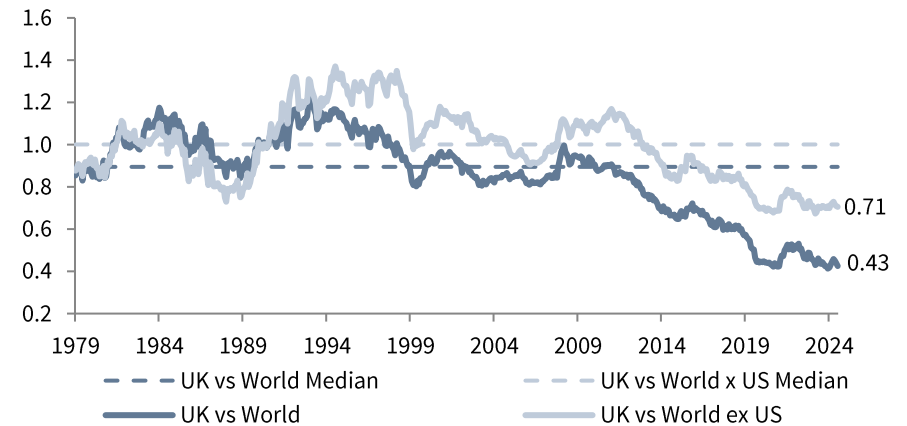
Facts & Figures Second Quarter 2025

UK equities returned 2.4% in 2Q 2025 in LC terms, lagging the 9.5% return of broader DM. However, a decline in the dollar saw a narrower underperformance in USD terms, with UK equities returning -8.7% versus 11.5% for broader DM. Partially due to sectoral tilts, the long-term earnings growth of the United Kingdom has lagged its peers over a prolonged period and is expected to do so again this year, though tariff impacts may see these estimates change.

- The UK's cyclically adjusted price-to-cash earnings (CAPCE) ratio remained at 7.8, the 29th percentile. The ratio of the UK's CAPCE to that of DM stands at 0.43, in the 1st percentile of observations. When adjusting for the substantial sectoral differences between the indexes, the relative CAPCE stands at 0.62. However, when the weaker expected earnings are considered (i.e., by looking at forward PEs) the ratio of sector-neutral forward PEs stands at 0.78. Overall, the valuation of UK equities remains deeply depressed versus peers.
- In general, the UK index has an underweight to growth stocks and an overweight to value stocks. This has been a significant drag on relative performance in recent years. While it was a tailwind in 1Q, it reverted to being a headwind last quarter as IT and communication stocks led the rebound after the recent tariff-related sell-off. In general, these tilts may help the UK in periods of accelerating global growth, particularly when that is accompanied by rising commodity prices.
- UK EPS are forecast to underperform broader DM by 2.8 ppts over the next 12 months (6.9% vs 9.7%). EPS growth is currently forecast to be primarily driven by margin expansion (rising from 10.8% to 11.3%) with a more modest contribution expected from sales growth (2.0%).
- As with EPS, UK GDP is expected to underperform broad DM in 2025. The current consensus for real GDP in 2025 is 1.1% vs 1.3% for DM, though this could narrow further based on recent downward revisions to US growth. Strong GDP growth in 1Q underlined some abatement of the headwinds which the United Kingdom has contended with, albeit 2Q currently looks weaker amidst some tax rises and tighter fiscal policy. Eventual rate cuts and positive real wage growth should help foster the UK's recovery. Nonetheless, the imposition of tariffs by the United States will be a headwind. The fact that sentiment toward the UK and its risk assets remains depressed could prove supportive in the event of any improvement in fundamentals.

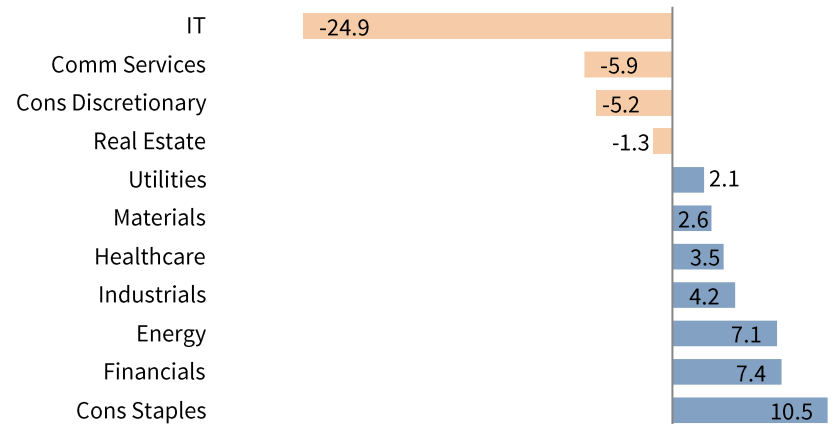
### RELATIVE CAPCE: MSCI UK VS WORLD

Dec 31, 1979 – Jun 30, 2025



### RELATIVE SECTOR WEIGHTS: UK MINUS WORLD

As of Jun 30, 2025 • Percentage Points



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

## Europe ex UK Equities

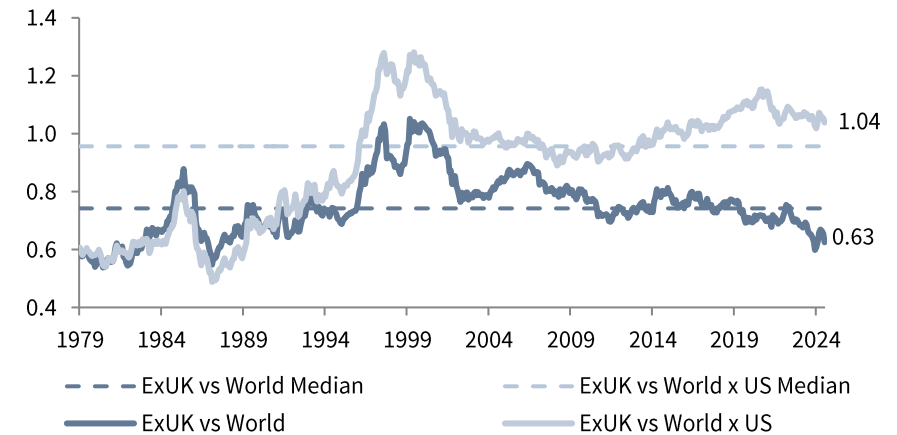
Facts & Figures Second Quarter 2025

Europe ex UK equities returned 3.1% in 2Q 2025 in LC terms, lagging the 9.5% return of broader DM. However, a decline in the dollar saw a modest outperformance in USD terms, with Europe ex UK equities returning 12.2% versus 11.5% for broader DM. While at quarter-end earnings growth was expected to continue to lag that of broad DM over the coming 12 months, US tariffs have introduced material uncertainty into these forecasts.

- The region's CAPCE remained at 11.4 during the quarter, standing at the 83rd percentile of its history. Its CAPCE relative to DM declined to 0.63, moving further below the long-term median level of 0.74. A large portion of this relative cheapness is due to the comparative richness of the US market, however. The region's CAPCE relative to that of DM ex US declined slightly to 1.04, now standing at the 74th percentile of historical observations, above the long-term median level of 0.96.
- The longer-term underperformance of the Europe ex UK region versus DM more broadly is down to a lower underlying profitability. The return on equity (ROE) for the region has been below that of broader DM for well over a decade and the ratio of their ROEs stands at 0.83. This is partly due to the region's lower exposures to some of the higher ROE sectors, notably tech. However, sectoral ROEs are also lower in nine of the 11 GICS sectors, showing that it's a broader issue. Nevertheless, the region's ROE is greater than that of DM ex US.
- Earnings growth in Europe ex UK is expected to be 7.0% over the coming 12 months, trailing the 9.7% expected of broader developed markets. Sales growth over this period is expected to be 3.4%, while profit margins are expected to rise 30 bps from 10.0% to 10.3%.
- Consensus estimates of Eurozone GDP growth for 2025 have increased by 10 bps over the past quarter to 1.0%. This still lags the 1.3% growth expected in DM more broadly, albeit the differential has narrowed. German growth weakness has been partially offset by relatively stronger peripheral performance in recent quarters. Fears of the impact of US tariffs have offset some of the optimism arising from Germany's pivot to a more expansive fiscal policy. The ECB cut interest rates by 50 bps during the quarter and may well deliver some further cuts in the face of tariff impacts.

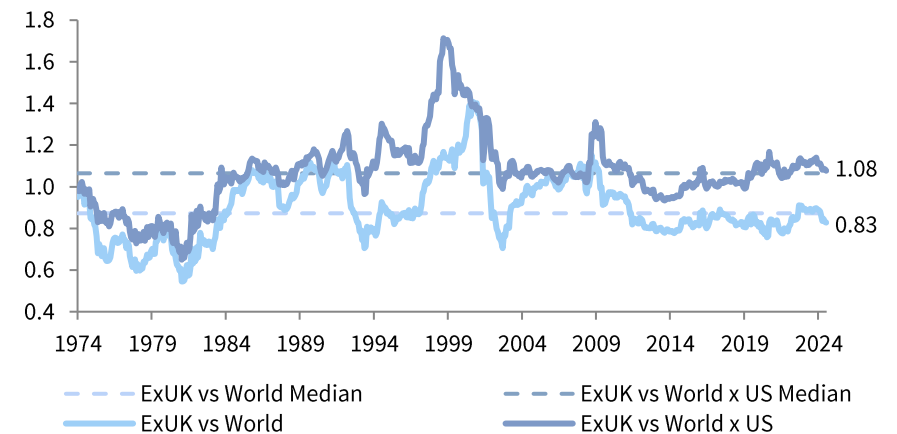
### RELATIVE CAPCE: MSCI EUROPE EX UK VS WORLD AND WORLD EX US

Dec 31, 1979 – Jun 30, 2025



### ROE: MSCI EUROPE EX UK VS WORLD AND WORLD EX US

Dec 31, 1974 – Jun 30, 2025 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

## Japanese Equities

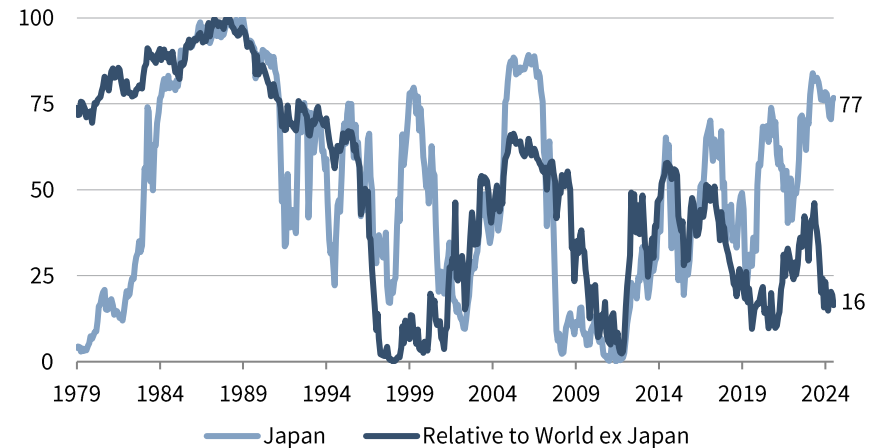
Facts & Figures Second Quarter 2025

Japanese equities gained in 2Q but lagged DM peers for the quarter and YTD in LC terms. However, Japanese equities are outperforming YTD in USD terms given the JPY's rally. Valuations are elevated in absolute terms but are low relative to other developed markets.

- Japanese equities gained 7.6% in LC terms in 2Q and 2.7% YTD, trailing DM equities which returned 9.5% and 6.6%, respectively. However, the yen rallied 8.1% against the US dollar YTD, meaning Japanese equities (11.7%) outperformed DM equities (9.5%) in USD terms. The yen's strength so far in 2025 is a reversal from its performance in 2024, when it weakened 11.5% against the USD.
- The market trades at 11.9x cyclically adjusted cash earnings, which ranks as the 77th percentile of historical observations since 1979. Relative to other developed markets, Japanese equities are at the 16th percentile of historical observations.
- Japanese equities have recovered from their early April lows, although US tariff uncertainty may continue to weigh the market's performance, given its dependency on US and global trade. As of early July, US President Trump has announced tariffs of 25% on Japan, although further negotiations may help to lower eventual levies. Continued strength in the yen would also erode the positive currency translation impact to earnings, which had been a driver of Japanese equity performance in LC terms over the trailing three years. Analysts' expectations of 12-month forward earnings growth in Japan were revised sharply lower over 2Q to 4.1% as of the end of June, compared to estimates for DM peers at 9.7%.
- The ROE on Japanese equities currently stands at 9.5%, which is above the historical median. Japan's ROE had been improving relative to DM peers given an increased focus on corporate governance and shareholder returns in Japan, although this is tentatively reversing in 2025 as corporate earnings came under pressure.
- As of the end of June, the MSCI Japan Index trailing dividend yield was 2.3%, above the 1.7% historical median and higher than that for DM equities (also at 1.7%). Japanese companies retain significant cash balances and have increased dividend payouts in recent years, which may serve as a longer-term tailwind for Japanese equities.

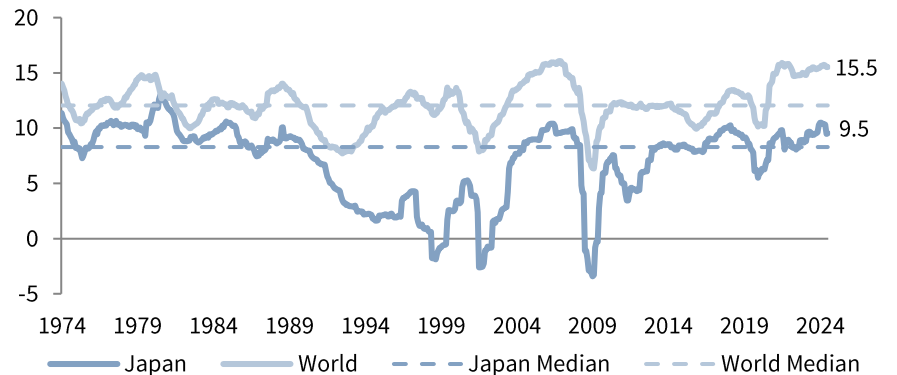
### CYCLICALLY ADJUSTED PRICE-TO-CASH EARNINGS

Dec 31, 1979 – Jun 30, 2025 • Percentile (%)



### ROE: MSCI JAPAN VS WORLD

Dec 31, 1974 – Jun 30, 2025 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

# Emerging Markets Equities

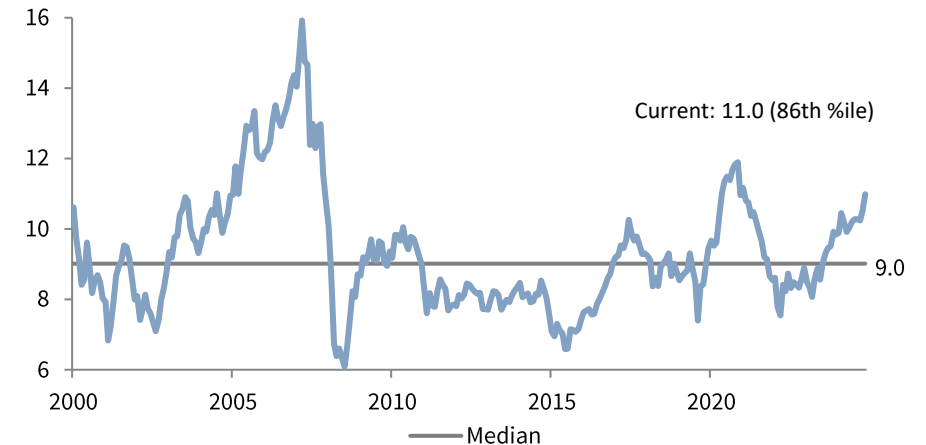
Facts & Figures Second Quarter 2025

EM equities gained 12.0% in USD terms in 2Q, bringing YTD performance to 15.3%. Performance was supported by a weaker US dollar, a rally in global tech stocks, and Latin America. EM topped DM in 2Q and has outperformed by nearly 6 ppts YTD.

- EM Asia (12.4%) edged broader EM in 2Q. Tech-heavy Korea (32.7%) and Taiwan (26.1%) gained the most amid a broader rally for global tech. Korea was boosted by prospects for further corporate governance reforms following June's presidential election. Chinese equities (2.0%) lagged amid soft economic growth signals, despite US-China trade de-escalation and monetary policy easing. US tariff policy has increased uncertainty in the outlook for the trade-heavy region.
- LatAm (15.2%) outperformed in 2Q, bringing YTD performance to 29.9%. The region was largely spared from escalating US tariffs, benefiting from low equity and currency valuations as the US dollar depreciated. EMEA (7.6%) lagged as declines for Saudi Arabia (-5.1%) offset solid gains across the European segment.
- EM has lagged DM by nearly 9 ppts annualized on a trailing 3Y basis, building on a longer-term underperformance trend since 2010. Underperformance has coincided with USD appreciation, subpar earnings growth, and a narrowing economic growth differential, which are keys to the outlook for EM performance vis-à-vis DM. Several of these factors appear to have shifted in favor of EM in 2025.
- EM valuations are elevated but exhibit wide dispersion. Valuations for India and Taiwan are high relative to their 20-year medians, whereas Brazil and Mexico appear relatively cheap. Broader EM stocks trade at a nearly 40% discount to DM, among the widest on record since 2000.
- US tariff policy in 2025 has clouded the global growth outlook. Export-heavy Asia may be disproportionately impacted, while Latin America and EMEA appear relatively insulated. Overall, a weakening US dollar and potential for offsetting EM policy stimulus may support performance vis-à-vis DM. Still, 2025 EPS (12%) and GDP (4.1%) growth expectations will likely be downgraded in the months ahead, and EM equities typically bear the brunt of broader risk aversion permeating global stock markets, particularly in today's shifting environment.

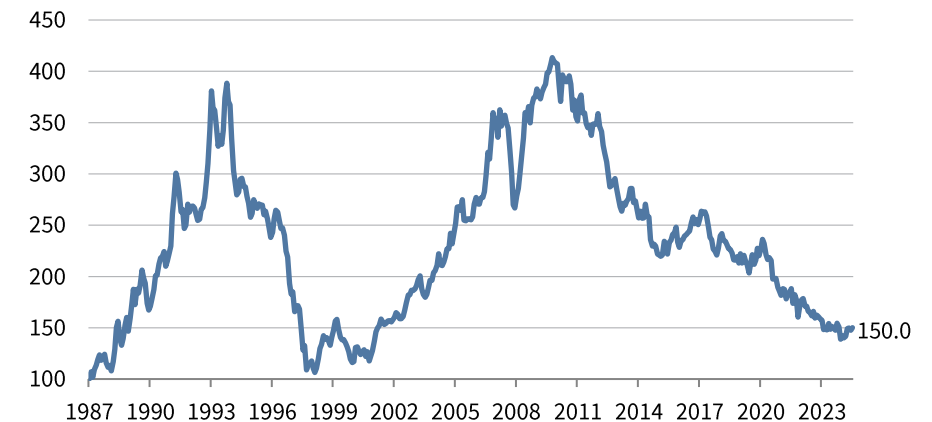
## CYCLICALLY ADJUSTED PRICE-TO-CASH EARNINGS: MSCI EM

Aug 31, 2000 – Jun 30, 2025



## EM/DM EQUITY RELATIVE CUMULATIVE WEALTH

Dec 31, 1987 – Jun 30, 2025 • US Dollars



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: EM CAPCE based on five-year average real cash earnings. Total returns are gross of dividend taxes prior to January 2001 and net thereafter. EM and DM equities based on the MSCI Emerging Markets Index and MSCI World Index, respectively.

# Asia ex Japan Equities

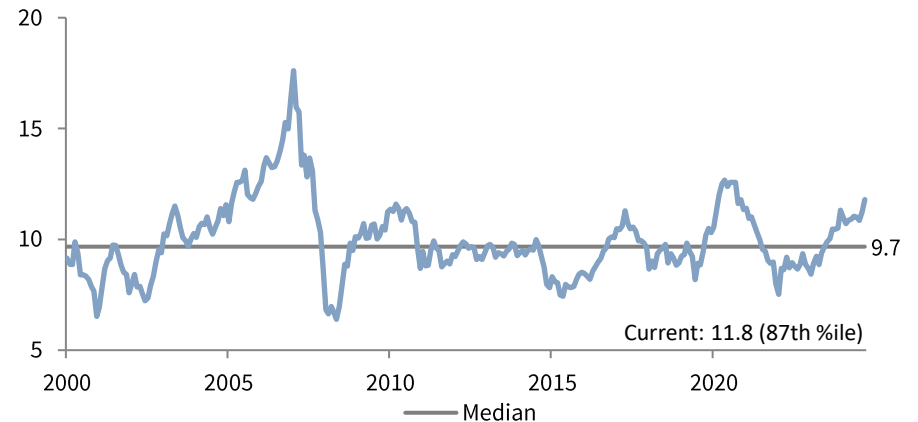
Facts & Figures Second Quarter 2025

Asia ex Japan equities have rebounded from their early April lows and outperformed global equities in 2Q and YTD. Valuations are elevated in absolute terms as of the end of June, albeit low relative to DM peers and with dispersion across the underlying countries.

- Asia ex Japan equities returned 12.5% in USD terms in 2Q and 14.5% YTD, outperforming global equities, which returned 11.5% and 10.0%, respectively.
- Asia ex Japan equities have rebounded from their early April lows following a de-escalation of more severe US-China tariffs, and 2Q returns were largely positive across regions and sectors. Tech-heavy South Korea (32.7%) and Taiwan (26.1%) equities led on a rebound in global IT stocks, with the Asia ex Japan IT sector also rallying and returning over 24% in the quarter. Thailand equities underperformed the region and posted flat returns (0.4%) given recent political turmoil. Consumer discretionary was the only sector in Asia ex Japan, which posted declines in 2Q, driven by weakness in China's consumer tech companies amid US tariffs and a weaker outlook for China's growth.
- Asia ex Japan valuations rose in 2Q and are elevated relative to history. The index's CAPCE metric trades at 11.8x, which is the 87th percentile of historical observations. Relative to DM equities, however, Asia ex Japan trades lower at the 18th percentile of historical observations.
- There is dispersion among Asia ex Japan country valuations. As of the end of June, valuations remained elevated in Taiwan, Singapore, and India but were below historical median elsewhere.
- Analysts' expectations of forward 12M EPS growth for Asia ex Japan were revised modestly lower over 2Q to 11.6% as of the end of June, compared to estimates for global peers at 10.1%. Estimates may still come under revisions amid US tariff uncertainty, particularly ahead of the August 1 deadline for countries to conclude trade negotiations with the United States and upon which potentially higher levies may go into effect. Given the export-oriented and cyclically sensitive nature of most Asia ex Japan markets, prolonged US tariffs on the region will dampen growth and corporate earnings, although this may be offset to a degree if China releases more aggressive stimulus in response.

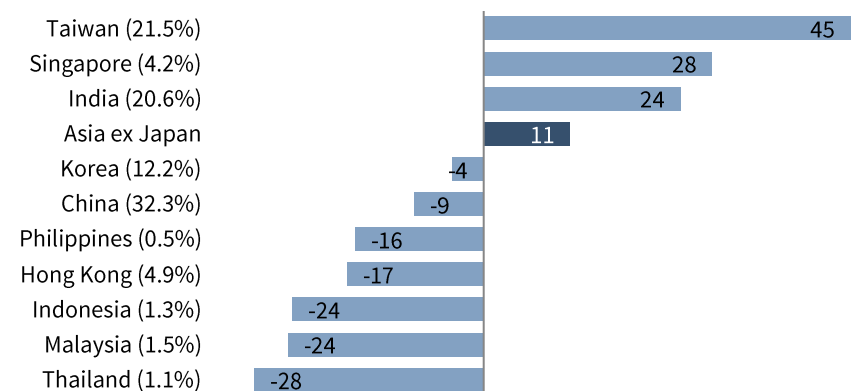
## CYCLICALLY ADJUSTED PRICE-TO-CASH EARNINGS: MSCI ALL COUNTRY ASIA EX JAPAN

Oct 31, 2000 – Jun 30, 2025



## COUNTRY P/B % DEV FROM HIST MEDIAN: MSCI AC ASIA EX JAPAN

As of Jun 30, 2025 • Index Weight in Parentheses



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: CAPCE based on five-year average real cash earnings. Totals may not sum to 100% due to rounding.

# Chinese Equities

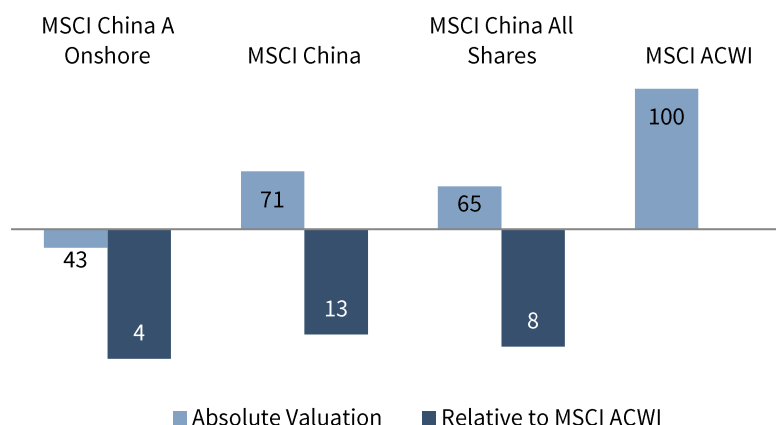
Facts & Figures Second Quarter 2025

Chinese equities delivered positive gains in 2Q 2025 following a de-escalation in US-China trade tensions. The market is still outperforming on a YTD basis, supported by a tech-driven rally in 1Q. Valuations for Chinese equities have rebounded from depressed levels to fair value but remain very low relative to global equities.

- Chinese equities consist of mainland China-listed A-shares, Hong Kong-listed Chinese companies, and US-listed Chinese companies. The MSCI China All Shares Index combines both onshore and offshore markets and is composed of 53% Hong Kong-listed equities, 4% US-listed equities, and 43% A-Shares.
- Chinese equities have recovered from their early April lows following a de-escalation of more severe US-China tariffs and increased PBOC policy easing in May. The MSCI China All Shares Index returned 2.3% in 2Q in LC terms, although performance trailed global equities which returned 9.3%. This reflects expectations of weaker economic growth in China given US tariffs that still amount to 55% as of end June.
- Year-to-date, however, Chinese equities (11.5%) are still outperforming global equities (7.0%), supported by optimism over China's progress on AI and a rally in offshore Chinese technology stocks in 1Q. Onshore A-shares, which are underweight technology, had lagged the rally. As a result, the MSCI China Index (17.9%) is meaningfully outperforming the MSCI China A Onshore Index (1.6%) on a YTD basis.
- As of the end of June, the composite P/E ratio for the MSCI China All Shares Index was at the 65th percentile, up from the 12th-percentile in August 2024. There is dispersion, as Chinese A-Shares still trade below historical median, while valuations for the MSCI China Index are elevated. However, relative to global equities, Chinese equity valuations remain low.
- Active China-dedicated managers have historically demonstrated an ability to add value over the A-share index, given the retail-driven nature of the market. However, the A-share market is underweight the technology sector, with most Chinese tech companies listed offshore in Hong Kong or the US. Managers with flexible "All China" mandates can offer exposure across the China equity universe.

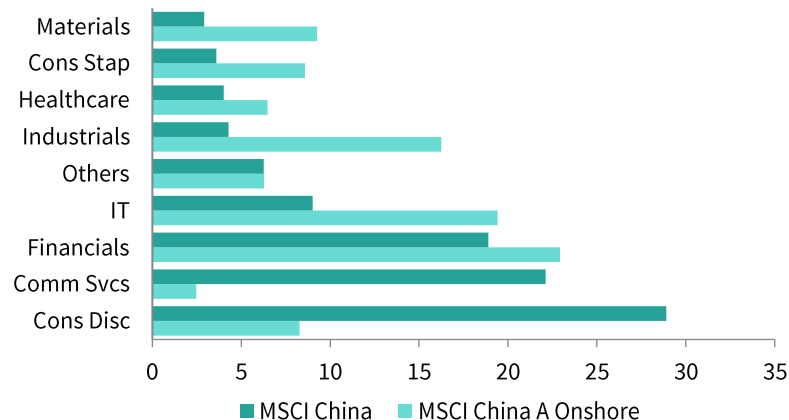
## COMPOSITE P/E: PERCENTILE

Feb 28, 2010 – Jun 30, 2025



## SECTOR WEIGHTS

As of Jun 30, 2025 • Percent (%)



Sources: FactSet Research Systems, MSCI Inc., and Thomson Reuters Datastream.

MSCI data provided "as is" without any express or implied warranties.

Notes: Composite P/E reflects the harmonic average of the 5-year cyclically-adjusted P/CE, forward P/E, and ROE-adjusted P/E ratios. Sector weight for "Others" consists of Real Estate, Utilities, and Energy. Totals may not sum to 100% due to rounding.

# US Small-Cap Equities

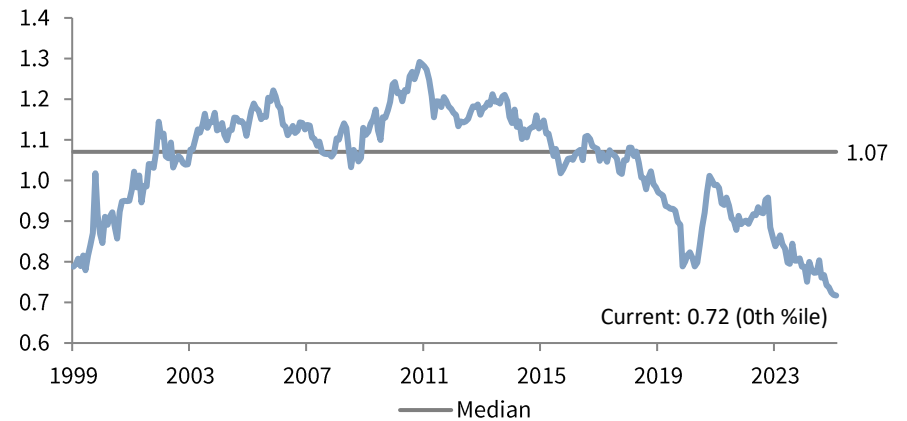
Facts & Figures Second Quarter 2025

US small-cap equities lagged mid- to large-cap stocks in 2Q by 3.6 ppts as equity markets rebounded and mega cap tech-related names led sector performance. In the past 12 months, small caps have lagged their larger-cap counterparts by 6.3 ppts.

- Both large- and small-cap equities initially stumbled in 2Q as tariff announcements unsettled equity markets, but performance quickly rebounded after 90-day tariff pauses were announced. The rally in large-cap tech names, with the Mag 7 resuming market leadership after a stumble in 1Q. Indeed, those stocks returned 21.0% in 2Q on an equal-weighted basis.
- Relative valuations between small caps and mid- to large-cap peers are sharply discounted; in fact, they have never been cheaper based on a normalized price-to-cash earnings metric dating back to 1999. During this period, small caps have typically traded at a 7% premium versus large caps, as opposed to the 28% discount they are trading at today.
- The US small-cap segment is overweight cyclical sectors and underweight technology compared to the mid-/large-cap universe. As such, small caps tend to be more sensitive to the economic cycle and have a better track record during economy recovery phases.
- Small-cap stocks could benefit if the Trump administration eases tariff policies and adopts a more pro-growth approach. Notably, the recently enacted US tax and spending bill includes provisions that may be particularly advantageous for small-cap companies, which are generally more domestically oriented.

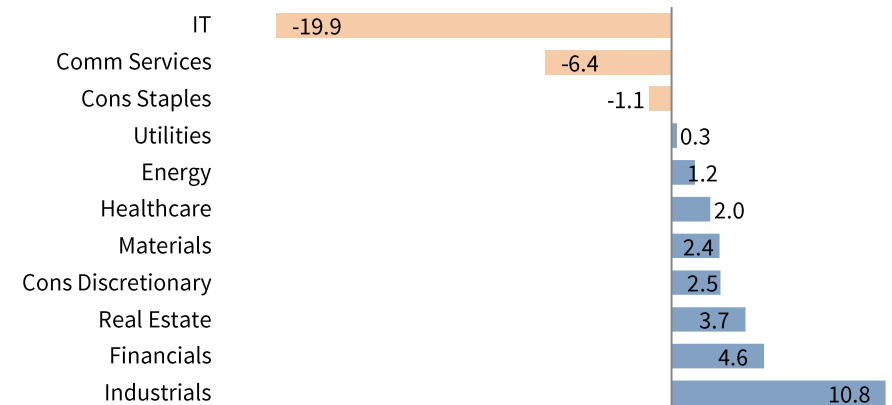
## RELATIVE 5-YR CAPCE: MSCI US SC VS US LC/MC

May 31, 1999 – Jun 30, 2025



## RELATIVE SECTOR WEIGHTS: US SC MINUS US LC/MC

As of Jun 30, 2025 • Percentage Points



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: CAPCE ratios based on five-year average inflation-adjusted earnings.

## Developed ex US Small-Cap Equities

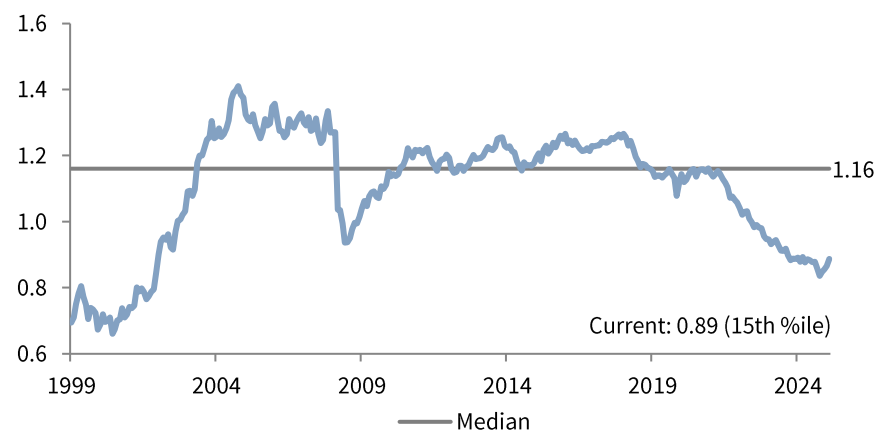
Facts & Figures Second Quarter 2025

Developed ex US small caps returned 10.5% in 2Q in LC terms, besting their mid- to large-cap peers by 5.3 ppts. The dollar's depreciation meant that the USD return for non-US small caps on the quarter was higher, at 16.8%. In the past 12 months, small caps have topped mid- to large caps by 4.1 ppts in LC terms and by 4.2 ppts in USD terms.

- Developed ex US small-cap valuations increased in 2Q but remain sharply discounted relative to their large-cap peers. As of June 30, developed ex US small-cap valuations were trading at a 9.7x cyclically adjusted price-to-cash earnings (CAPCE) ratio, in the 42nd percentile of historical observations. On a relative basis, small-cap valuations are in the 15th percentile versus their large-/mid-cap counterparts, at a ratio of 0.89. This discount, which has improved in recent months, is still just above the 0.84 ratio, which was the steepest discount relative to large caps in more than 20 years.
- From a relative sector exposure standpoint, the developed ex US small-cap segment is overweight cyclicals—particularly real estate and industrials—vis-à-vis its large-/mid-cap counterpart, though this is partially offset by a large underweight to financials. However, the defensive and higher-quality consumer staples and healthcare sectors are meaningfully underrepresented in the small-cap universe.
- Superior long-term earnings growth has helped developed ex US small caps outperform their large-/mid-cap counterparts over time. Over the last 15 years, world ex US small caps real cash earnings per share grew by 5.0% per annum, while real EPS for large-/mid-caps has been just 1.1%. During that time, small caps have returned 8.0% annualized in LC terms, while large-/mid-caps have returned 7.2%.
- The developed ex-US small-cap universe is regarded as less efficient than the larger-cap space due to lower analyst coverage, limited institutional ownership, and greater return dispersion. These inefficiencies create opportunities for skilled active managers to identify mispriced securities and generate alpha. However, success requires expertise to navigate challenges like higher volatility, liquidity constraints, and elevated transaction costs.

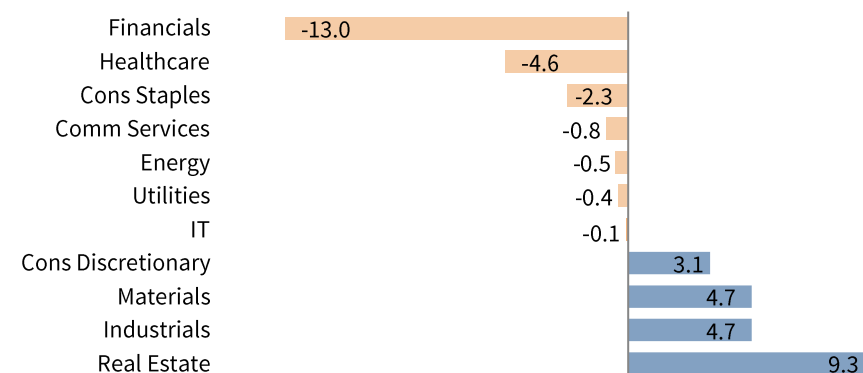
### RELATIVE 5-YR CAPCE: MSCI WORLD EX US SC VS LC/MC

May 31, 1999 – Jun 30, 2025



### RELATIVE SECTOR WEIGHTS: MSCI WORLD EX US SC MINUS WORLD EX US LC/MC

As of Jun 30, 2025 • Percentage Points



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: CAPCE ratios based on five-year average inflation-adjusted cash earnings.

# US Growth and Value Equities

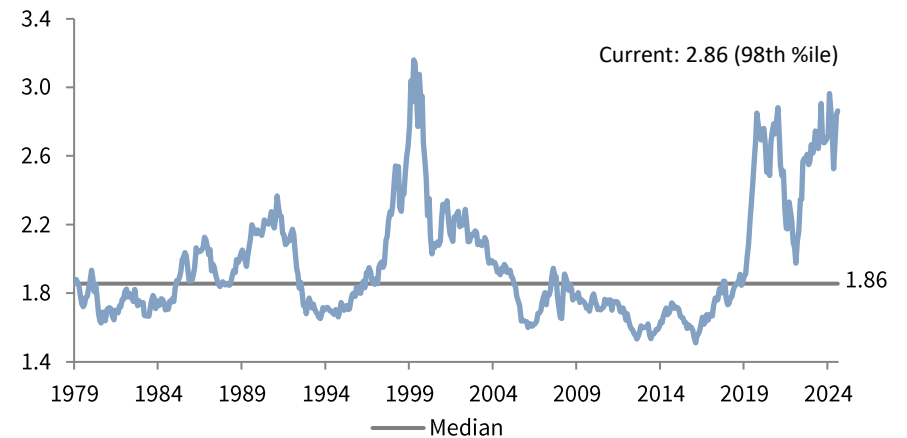
Facts & Figures Second Quarter 2025

US growth stocks delivered a return of 19.2% in the 2Q, outperforming value stocks by 16 ppts and more than offsetting their relative underperformance in the 1Q. Over the past 12 months, growth stocks have outperformed value stocks by 5.6 percentage points.

- Growth stocks initially reacted negatively to the Trump Administration's tariff announcements in early 2Q, but sharply reversed course after those tariffs were paused for 90 days. Inflation and growth concerns abated, risk-on sentiment returned to equity markets, and growth resumed its leadership over value stocks. Since 2022—a rare year during which value topped growth by a wide margin — growth has outperformed value by more than 80 ppts.
- The Magnificent 7 stocks, which had faltered in 1Q, bounced back in 2Q and were the main driver of growth's outperformance. These stocks, which represent more than 60% of the growth index, returned 21.2% in 2Q on an equal-weighted basis.
- Based on the cyclically adjusted price-to-cash earnings (CAPCE) ratio, the MSCI US Growth Index trades at 2.9 times the valuation of the MSCI US Value Index. That relative ratio is in the 98th percentile of historical observations. Investors have demonstrated a willingness to assign a higher multiple to expected earnings for growth-oriented stocks compared to value stocks. The price-to-forward earnings multiple for the MSCI US Growth Index trades at 31x, which is 1.8 times higher than that for value stocks. This ratio is 33% higher than the median ratio of 1.36 that has been observed over the past 20 years.
- Growth stocks have traditionally generated higher return on equity (ROE) than value counterparts. Today's wide ROE spread is partly driven by differences in sector exposures—technology and financials most prominently—and helps to explain the current valuation disparity between the growth and value indexes.

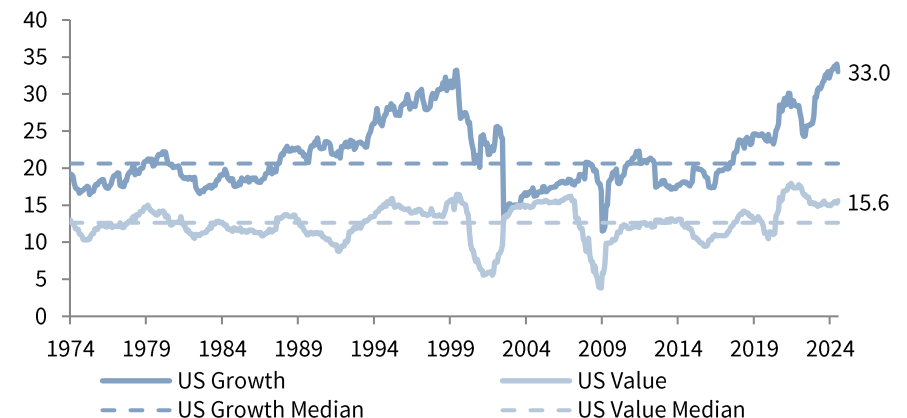
## RELATIVE 5-YR CAPCE: MSCI US GROWTH VS US VALUE

Nov 30, 1979 – Jun 30, 2025



## ROE: MSCI US GROWTH VS US VALUE

Dec 31, 1974 – Jun 30, 2025 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

## Developed Markets Equity Factors

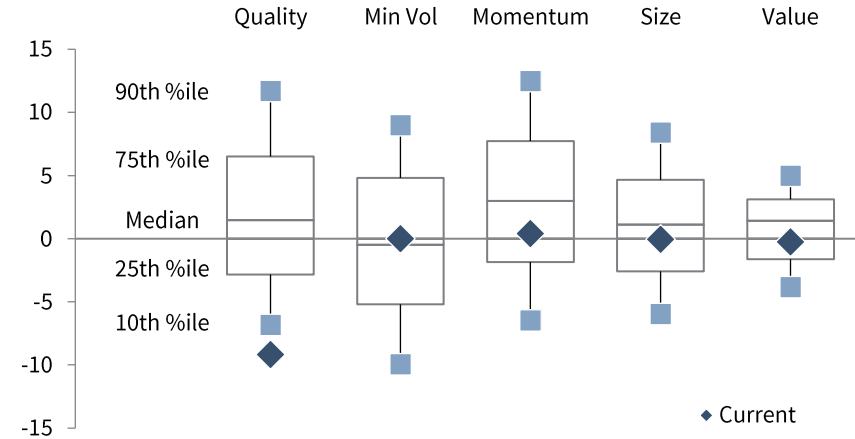
Facts & Figures Second Quarter 2025

Momentum (12.7%) was the only major factor that outperformed the broader global equity market (9.5%) in 2Q, as upward price trends resumed amid risk-on sentiment. Quality (7.5%), size (6.7%), value (5.0%), and min vol (0.4%) all lagged the broader index. Over the past 12 months, momentum (14.1%) has been the top-performing factor.

- Tariff-related concerns initially shocked equity markets in April, but volatility quickly abated as 90-day tariff pauses were announced. Equities rallied for the remainder of the quarter. Momentum benefited as high-flying stocks like Broadcom and Netflix, which are the largest in the MSCI World Momentum Index, resumed their torrid pace of price appreciation after cooling in 1Q.
- The broader theme of a return of positive equity market sentiment meant that quality and size also had solid gains. Minimum volatility, which tends to do best in higher volatility equity market periods, was the notable laggard with a roughly flat return on the quarter.
- Valuations for most factors, outside of min vol, moved higher during the quarter. Quality commands the highest premiums across different valuation metrics. The P/B ratio tends to have the strongest relationship to subsequent five-year returns across factors, but the strength of the relationship varies by factor. For instance, the relationship between starting valuation and subsequent returns is weak for the momentum factor, given that it overweights recent outperformers and typically has a very high turnover ratio.
- Because the excess returns across several strategies have low or negative correlations with each other, combining these factors can add a diversification benefit. For example, value and momentum had strongly negative correlations over the trailing five-year period, suggesting that certain combinations of factors may work together to smooth out the overall pattern of portfolio outperformance over time.
- Quality, minimum volatility, momentum, size, and value are five factors primarily cited in academic research. These factors represent market premiums that have all shown superior risk/return characteristics compared to broad-market benchmarks.

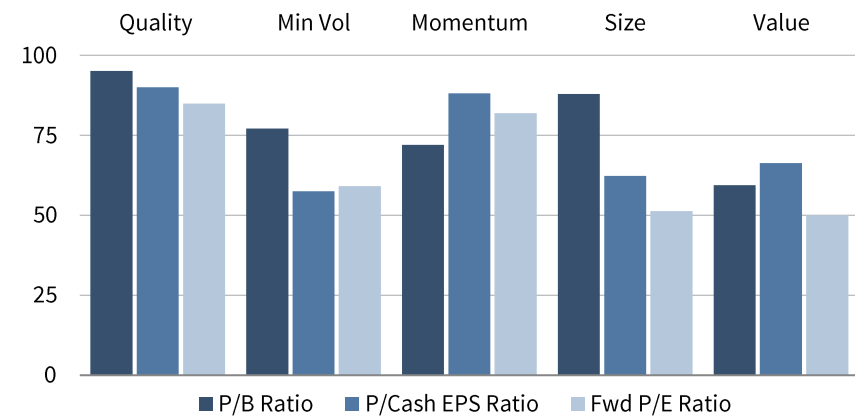
### FACTOR RETURNS IN EXCESS OF DEVELOPED MARKETS EQUITIES

As of Jun 30, 2025 • Rolling 12M • Percent (%)



### CURRENT VALUATION PERCENTILE RANKING BY FACTOR

As of Jun 30, 2025



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

# Hedge Funds

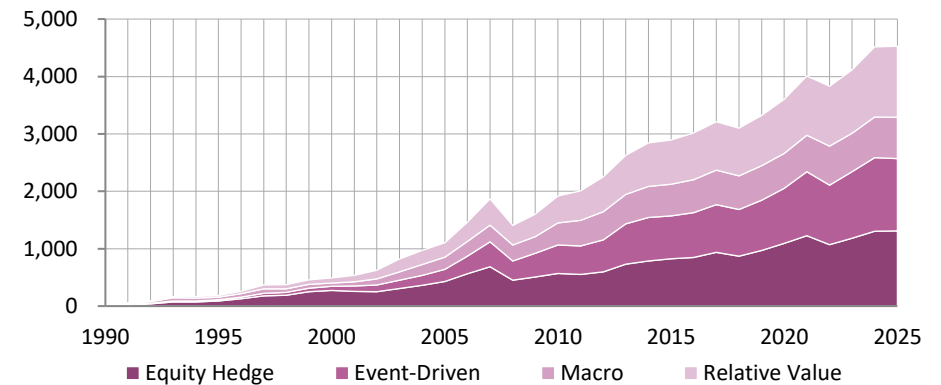
Facts & Figures Second Quarter 2025

Fundamentally oriented hedge fund strategies generally performed well in 2Q 2025, while some diversifying strategies faced headwinds amid shifting macroeconomic conditions.

- Relative value hedge funds continued to post steady gains through 1H 2025, with the HFRI Relative Value (Total) Index rising 1.6% in 2Q. The uneven pace of central bank rate cuts, combined with ongoing uncertainty around inflation and tariff negotiations, created a fertile environment for arbitrage opportunities. In contrast, macro managers faced a difficult quarter, particularly in April following the “Liberation Day” announcement; the HFRI Macro (Total) Index declined by 2.3% in April and finished 2Q down 1.4%. Quantitative strategies also struggled, with the HFRI Systematic Diversified Index returning -4.8%. Trend-following strategies were whipsawed by volatile price action across asset classes, resulting in negative returns. The Barclay BTOP50 Index fell 3.6% for the quarter—after a particularly challenging April, a negative May, and some positive relief in June—extending the current drawdown in trend-following strategies to over 12 months.
- Long/short equity strategies posted a strong 2Q after successfully navigating early April volatility and participating in the subsequent equity market rally. The HFRI Equity Hedge (Total) Index gained 7.6%, while the HFRI Equity Market Neutral Index advanced 3.2%. Although there were short squeezes among lower-quality or retail-favored companies, long/short funds avoided significant losses due to limited exposure, modest position sizes, and strength from other areas of the short portfolio, as short alpha and dispersion remained healthy. Funds with long exposure to technology and growth companies with strong fundamentals performed particularly well.
- The HFRI Event-Driven (Total) Index returned 5.3% in 2Q, supported by an equities rebound, tightening credit spreads, and merger arbitrage gains from the closure of several high-profile deals. Early-quarter volatility allowed managers to add to favored equity names on weakness. A more constructive M&A environment—enabled by regulators willing to consider structural remedies, in contrast to the prior administration’s litigious approach—has positioned corporations for increased deal activity and encouraged activists to pursue value-unlocking initiatives, potentially enhancing the supply of events for managers to exploit. With high-yield spreads tight again, managers have been selectively adding to restructurings, as distressed strategies have lagged.

## HFRI HISTORICAL ASSET GROWTH BREAKOUT

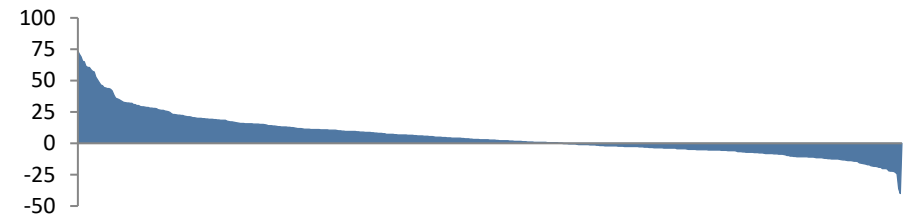
1990–2025 (Mar) • US\$B



## EQUITY DISPERSION: TOTAL RETURNS FOR THE S&P 500 CONSTITUENTS

As of Jun 30, 2025

### Trailing 3-Month Returns (%)



### Trailing 12-Month Returns (%)



Sources: Hedge Fund Research, Inc., FactSet Research Systems, and Standard & Poor's.