Equities

Developed Markets Equities

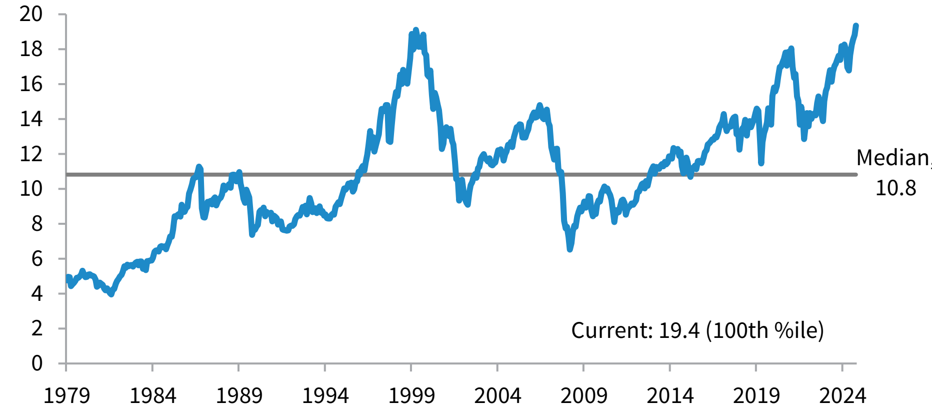
Facts & Figures Third Quarter 2025

DM equities returned 7.3% in 3Q and 17.2% in the trailing 12-month period for USD investors. Equity markets rallied as US President Trump secured multiple trade deals, reducing uncertainty around future tariff levels. This shift allowed markets to refocus on the AI theme, driving outperformance in the developed markets technology sector during 3Q.

- The bloc trades at 19.4x cyclically adjusted cash earnings, which ranks higher than all month-end 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.
- The global economy is expected to grow by 2.9% in 2026, according to analysts surveyed by Bloomberg at the end of September. Developed economies, which tend to grow at a slower rate than emerging economies, are expected to collectively grow by 1.6%. While modest, this 2026 growth forecast is broadly consistent with recent trends. Among major countries, the US is expected to lead with growth of 1.8%, followed by the UK at 1.2%, the euro area at 1.1%, and Japan at 0.7%.
- Developed corporate earnings are expected to grow by 13.0% in 2026, outpacing the expected 7.7% increase in 2025. More than half of that growth is expected to come from profit margin expansion, with the remainder driven by sales growth. Among major markets, the euro area is expected to see the fastest earnings growth at 14.6%.
- Expectations for policy interest rates are a key risk for equities. Major DM central banks increased policy rates by considerable amounts in 2022 and 2023, prior to cutting in 2024. Looking ahead to 2026, markets anticipate that many central banks will either lower rates or keep them stable. However, inflation may not moderate as expected, especially given ongoing uncertainty around the impact of US tariffs. This could prompt central banks to diverge from market expectations.

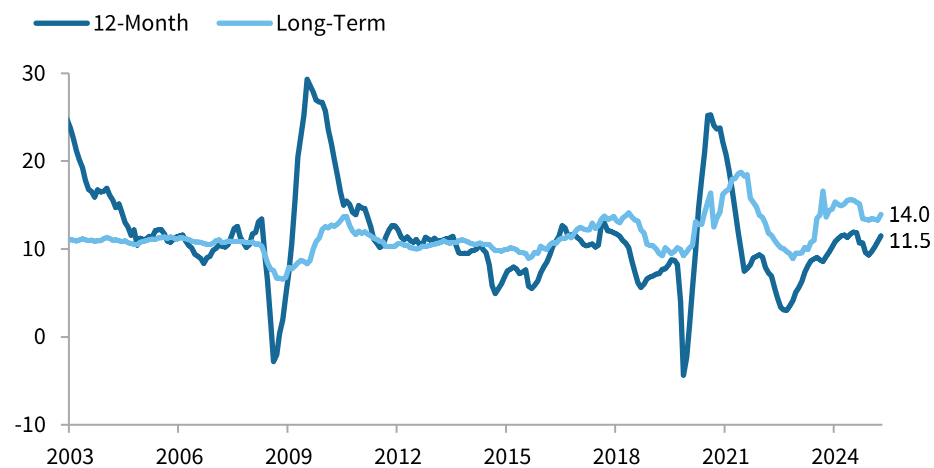
Cyclically adjusted price-to–cash earnings

Dec 31, 1979 – Sep 30, 2025



Corporate earnings growth expectations

Jun 30, 2003 – Sep 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.

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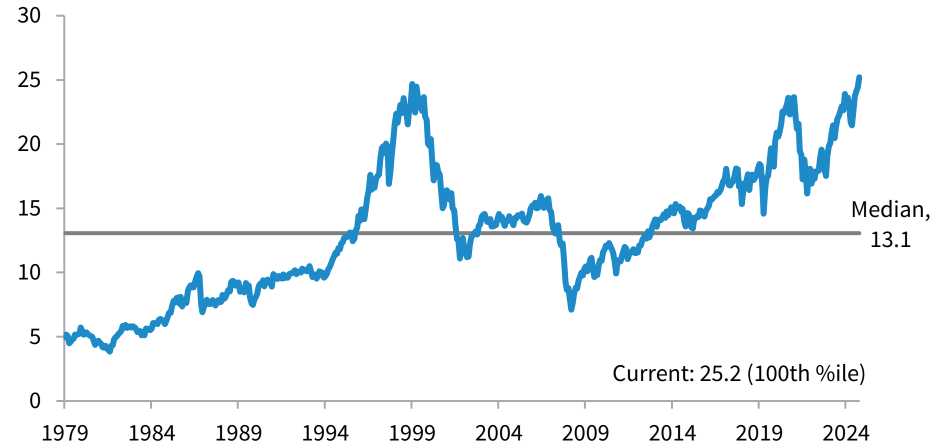
US Equities
Facts & Figures Third Quarter 2025

US equities returned 8.0% in 3Q 2025, outperforming DM ex US equities, which returned 5.3%. Gains in 3Q were supported by an easing of tariff uncertainty alongside still resilient US economic data and the prospect of further Fed rate cuts. On a TTM basis, US equities returned 17.7%, modestly outperforming DM ex US equities which returned 16.0%.

- US equities' cyclically adjusted price-to–cash earnings multiple rose in 3Q to 25.2x, which is at a record high based on historical data from 1979. Relative valuation with DM ex US equities, which trade at 11.5x, are also near record highs. The gap in equity valuations remains stark even after adjusting for sector differences.
- US real GDP growth accelerated to 3.8% in 2Q 2025 after a 0.6% contraction in 1Q, as the surge in imports from tariff frontrunning eased while consumer spending and business investments remained resilient. Consensus forecasts expect US GDP will grow at 1.8% for full-year 2025, a moderation from 2024 levels but nevertheless at a quicker pace than most other major developed markets.
- The initial impact of US tariffs on earnings has been less bad than feared, with US corporates delivering strong 2Q earnings results. Amid an easing of tariff uncertainty and still resilient economic data, analysts' expectations for US 12-month forward earnings growth were revised higher in 3Q to 13.3% and remain above earnings growth forecasts for DM ex US equities at 8.5%. On a long-term basis, or over the next three to five years, analysts expect US corporates to deliver robust earnings growth of 15.2%, above the historical trend estimate of 12.1%.
- The softening US labor market is a key risk to US economic growth and corporate earnings growth, although continued Fed rate cuts may mitigate some of the downside risk. US equity market concentration in AI-related names present another risk, particularly given very elevated valuations in this segment.

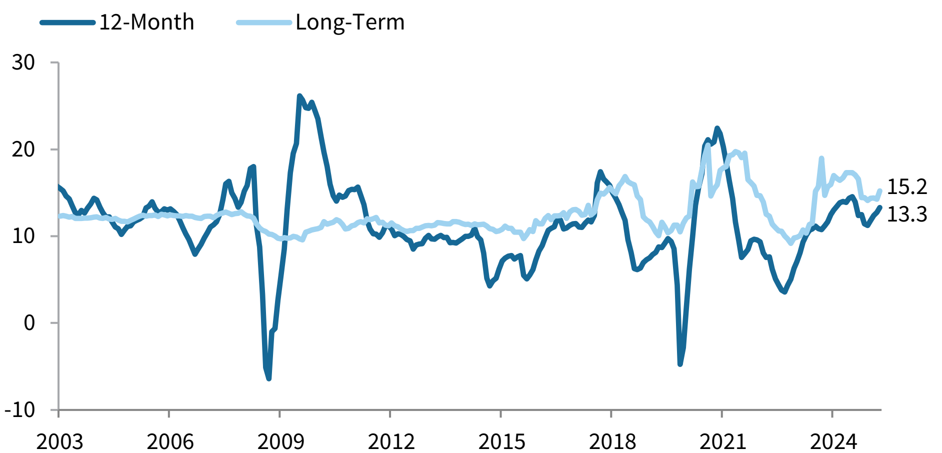
Cyclically adjusted price-to–cash earnings

Dec 31, 1979 – Sep 30, 2025



Corporate earnings growth expectations

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



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Note: Data are based on the MSCI US Index.

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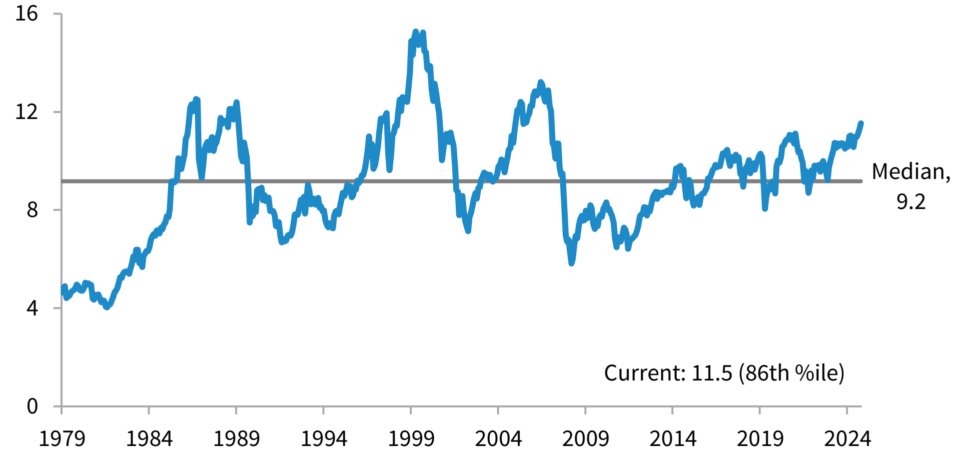
Developed Markets ex US Equities
Facts & Figures Third Quarter 2025

DM ex US equities returned 5.3% in USD in 3Q 2025, lagging the 7.3% return of broader DM. Over the trailing one-year, the bloc has returned 16.0% versus DM's return of 17.2%. Relative performance has recently been weighed down by lower AI-related exposure and a softer domestic economic backdrop, resulting in weaker EPS growth. While EPS growth is forecast to continue lagging, a large valuation discount persists.

- Valuations for DM ex US equities have risen in absolute terms, with the bloc now trading at 11.5x cyclically adjusted cash earnings (86th percentile since 1979), 26% above the long-term median of 9.2x. Still, relative valuations remain attractive given that broader DM trades at a 19.4x CAPCE (due to a CAPCE of 25.2x for US equities). This relative valuation is in the 1st percentile of the historic data and represents a discount of nearly 29% to the median relative valuation.
- The global economy is forecast to grow by 2.9% in both 2025 and 2026, representing upward revisions of 0.2ppts and 0.1 ppts, respectively, over the past quarter. A hiatus in tariff escalations, easing monetary policy and a resilient US economy have driven this improved forecast. While the US is still expected to outperform major DM ex US components in 2025, the gap has generally narrowed this year. Significant fiscal easing in Germany and 2 ppts of rate cuts from the ECB may be a tailwind for the Eurozone in particular.
- Earnings growth has been weaker in DM ex US, with trailing 12-M EPS growing by 3.2% over the past 12 months compared to 7.9% for broad DM. Lower weights in the IT and Comms sectors, and lower profitability for the region within those sectors, accounts for much of this lag. Analyst consensus forecasts expect earnings to grow by 8.5% in the coming 12 months, compared to expected growth of 11.5% in broad DM. Growth is expected to be driven more by profit margin expansion (from 10.1% to 10.7%) than by sales growth (2.5%), which would put margins above the 3Q 2022 record (10.3%) but still below US levels (13.1%).

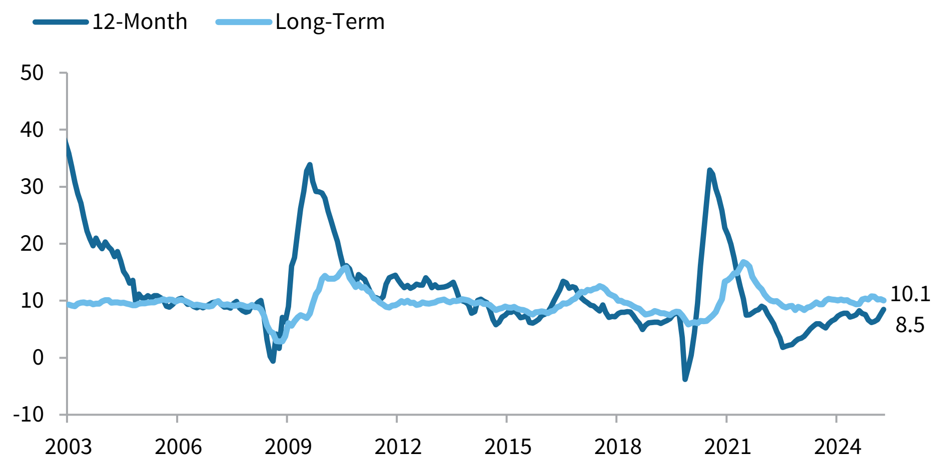
Cyclically adjusted price-to–cash earnings: MSCI World ex US

Dec 31, 1979 – Sep 30, 2025



Corporate earnings growth expectations

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



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

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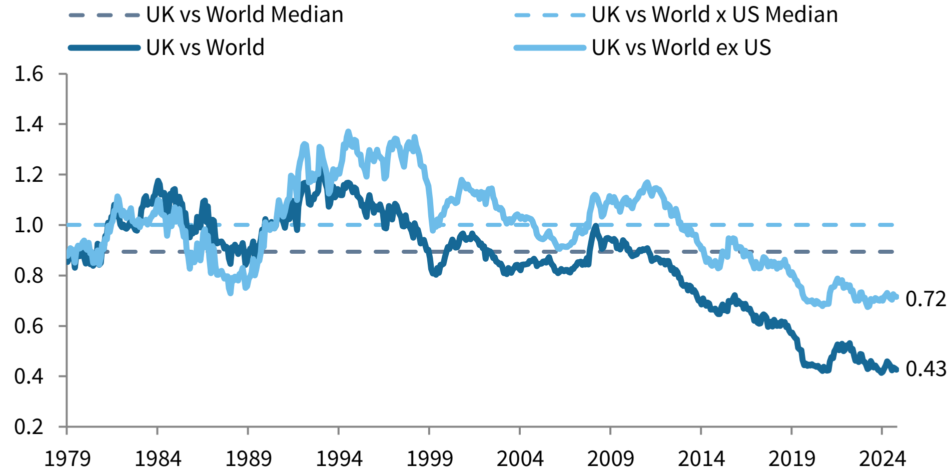
UK Equities
Facts & Figures Third Quarter 2025

UK equities returned 5.9% in USD terms in 3Q 2025, moderately lagging the 7.3% return of broader DM. Over the trailing one-year the bloc has slightly outperformed, returning 17.7% versus DM's return of 17.2%. The concentration of DM appreciation in a handful of IT and related stocks was a headwind to the UK's relative performance in 3Q. UK economic growth has led amongst peers YTD, though fiscal and monetary challenges remain.

- UK valuations remain deeply discounted versus peers. The UK's CAPCE ratio stands at 8.2, placing it in the 41st percentile of historical observations. However, the ratio of the UK's CAPCE to broad DM is just 0.43 (2nd percentile). Adjusting for substantial sectoral differences between the indexes, the relative CAPCE rises to 0.61. However, when weaker-than-expected earnings are also considered—by looking at forward P/Es—the ratio of sector-neutral forward P/Es is 0.76. These figures collectively underscore the persistent valuation gap between UK equities and broader DM.
- UK GDP grew by 0.9% through the first two quarters of the year, the highest amongst the G7. Nonetheless, the economic backdrop remains challenging. UK GDP is forecast to underperform DM in 2025 (1.3% vs 1.5%) and 2026 (1.2% vs 1.6%). How well the US continues to weather tariff impacts will be a significant determinant of relative growth. Sticky inflation is slowing the BOE's desired pace of rate cuts, while the government faces challenges in meeting their fiscal rules.
- Corporate fundamentals are also lagging. Trailing 12-month EPS contracted by 0.9% over the past 12 months compared to growth of 7.9% for broad DM, due largely to the UK's sectoral tilts. UK EPS are forecast to underperform DM by 2.7 ppts over the next 12 months (8.8% vs 11.5%), with growth primarily driven by margin expansion (10.7% to 11.4%) and a more modest contribution from sales growth (2.7%). If fundamentals improved, depressed sentiment could prove supportive for UK risk assets.

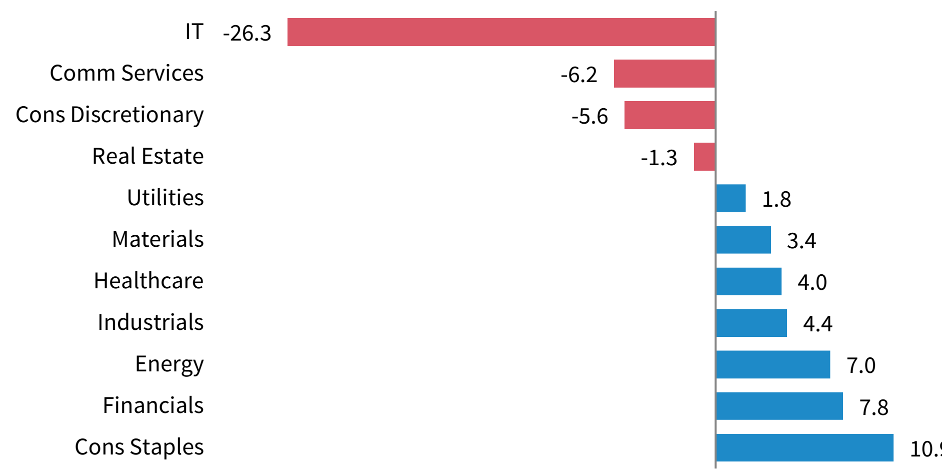
Relative CAPCE: MSCI UK vs World

Dec 31, 1979 – Sep 30, 2025



Relative sector weights: UK minus World

As of Sep 30, 2025 • Percentage Points



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Europe ex UK Equities

Facts & Figures Third Quarter 2025

Europe ex UK equities returned 3.0% in USD in 3Q 2025, underperforming broader DM which returned 7.3%. Over the trailing one-year, the bloc has returned 14.3% versus DM's return of 17.2%. A lower exposure to the dominant tech and AI-related stocks has been a headwind to relative EPS growth recently, while anemic growth in Germany has also hindered relative performance.

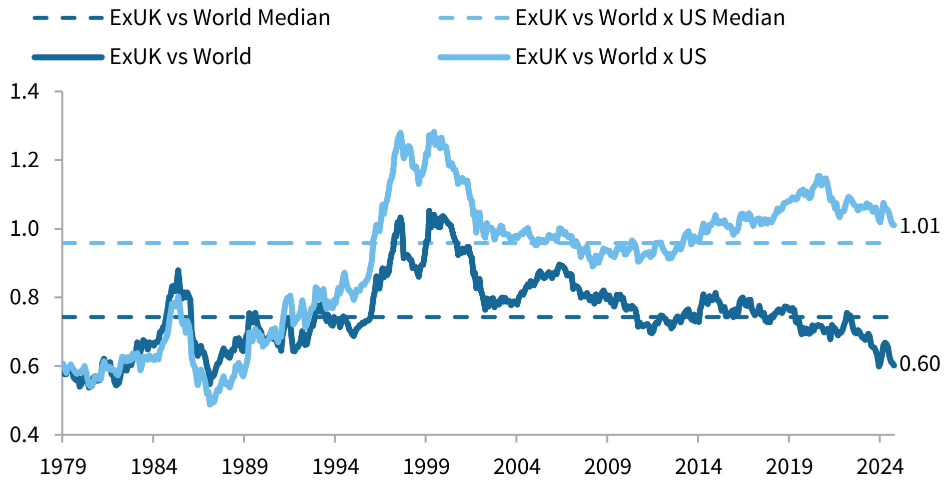
— In absolute terms, the valuation increased modestly with the CAPCE rising from 11.4 to 11.6, which represents the 85th percentile of data going back to 1979. However, relative valuation continued to decline. The CAPCE of the region relative to broad DM declined to 0.60, well below the long-term median of 0.74, with much of this apparent cheapness due to the comparative richness of the US market. CAPCE relative to DM ex US edged down to 1.01, now at the 67th percentile of historical observations and 5.4% above its long-term median of 0.96.

— The economic backdrop has improved modestly, with consensus Eurozone GDP growth for 2025 rising 25 bps over the quarter to 1.3%. This still lags the 1.5% growth expected in DM more broadly, though the gap has narrowed. German growth weakness, because of competition from China and still-elevated energy costs, has been partially offset by stronger peripheral performance. Still, a significant fiscal easing will be forthcoming in Germany in the coming quarters. Combined with a cumulative 2 ppts of rate cuts delivered by the ECB, this should help underpin growth in Europe next year.

— Longer-term underperformance versus DM is driven by lower underlying profitability, with the region's ROE at 0.85x DM, reflecting both lower tech exposure and sectoral ROEs that lag in eight of 11 GICS sectors. Still, ROE exceeds that of DM ex US. Earnings growth is expected to be 9.6% over the next 12 months, behind DM's 11.5%. Sales growth is forecast at 3.3%, with margins rising 60 bps to 10.4%.

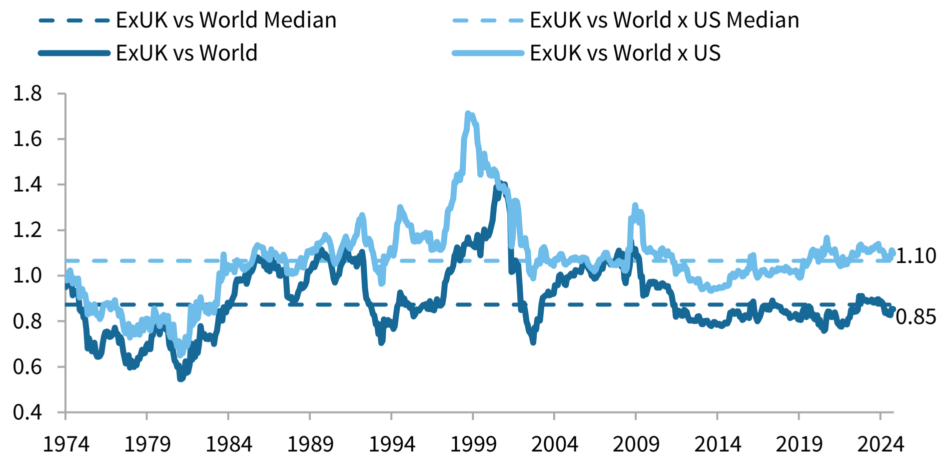
Relative CAPCE: MSCI Europe ex UK vs World and World ex US

Dec 31, 1979 – Sep 30, 2025



ROE: MSCI Europe ex UK vs World and World ex US

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



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Japanese equities returned 8.0% in 3Q 2025 in USD terms, modestly outperforming DM equities (7.3%), and was supported by an easing of US tariff uncertainty following the US-Japan trade deal. On a TTM basis, Japanese equities gained 16.4%, compared to DM equities, which gained 17.2%.

— Japanese equity valuations moved higher in 3Q and remain elevated. As of September 30, the market trades at 12.8x cyclically adjusted cash earnings, which ranks as the 83rd percentile of historical observations since 1979. Relative to other developed markets, however, Japanese equities trade lower at the 20th percentile of historical observations.

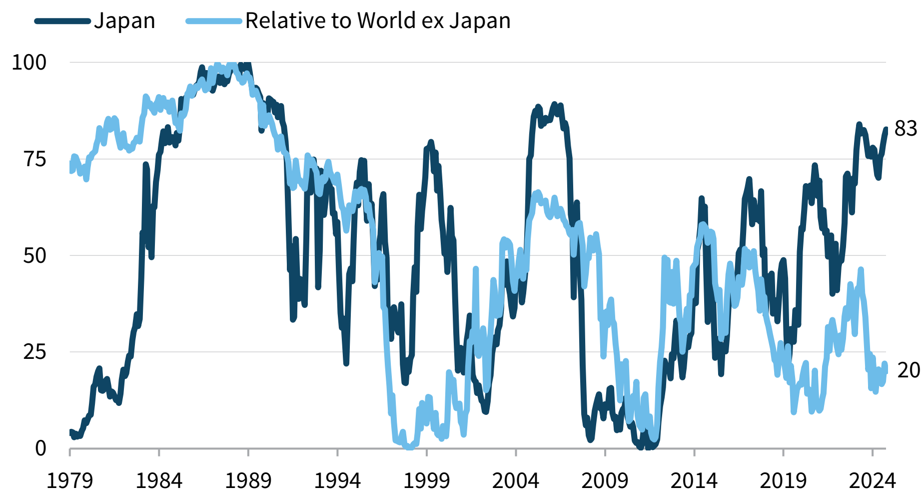
— Japan's real GDP growth expanded by 1.7% in 2Q, surprising to the upside and supported by stronger domestic consumption and business investments. Resilient economic momentum and persistent inflationary pressures have led to increased expectations that the BOJ will continue to normalize policy, albeit at a gradual pace, with futures markets pricing in 50 bps of rate hikes over the next 12 months.

— Analysts' expectations of 12-month forward earnings growth in Japan were revised higher over 3Q to 6.7% as of September 30, although this trails estimates for DM peers at 11.5%. The cooler pace of earnings growth forecasts likely reflects the market's dependency on US and global trade, which continues to face headwinds given US tariffs. Expectations of continued BOJ policy tightening and a stronger yen have also dampened the positive currency translation impact on earnings, which had been a driver of Japanese equity performance in LC terms over the trailing three years.

— The ROE on Japanese equities currently stands at 9.8%, which is above the historical median. Japan's ROE has been improving relative to its own history amid an increased focus on corporate governance and shareholder returns in Japan, although it remains lower compared to that of DM peers.

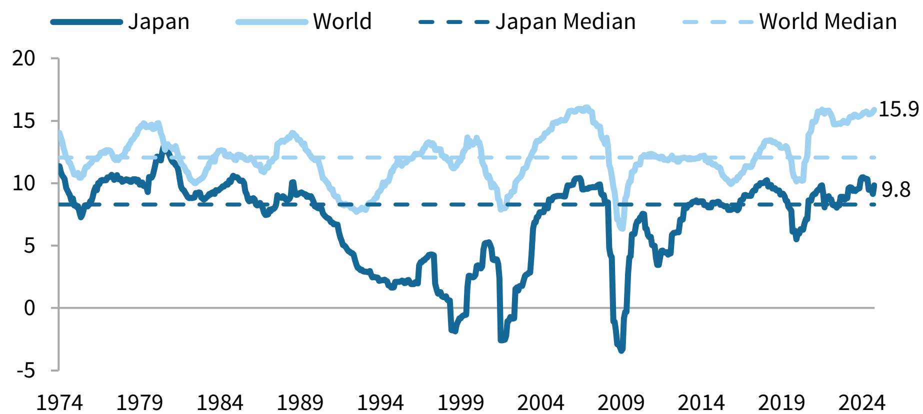
Cyclically adjusted price-to–cash earnings

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



ROE: MSCI Japan vs World

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



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EM equities gained 10.6% in USD terms in 3Q and 17.3% over the TTM period. Recent performance has been supported by a weaker US dollar, a global tech rally, and resilient economic growth. All major EM regions delivered solid gains YTD. Latin America (43.1%) was largely spared from the brunt of US tariffs and benefits from cheap currency and equity valuations. Tech-heavy EM Asia (26.4%) has been bolstered by AI updates and a Chinese equity rally. EMEA (26.8%) has been led by the European bloc given prospects for increased defense and infrastructure spending. EM topped DM by 3 ppts in 3Q and 10 ppts YTD.

— EM valuations are elevated, driven by larger Asian countries such as Taiwan, India, China, and Korea. Valuations for Latin America appear relatively cheap, particularly Brazil and Mexico. EM trades at a 34% discount to DM, although this has narrowed in recent quarters.

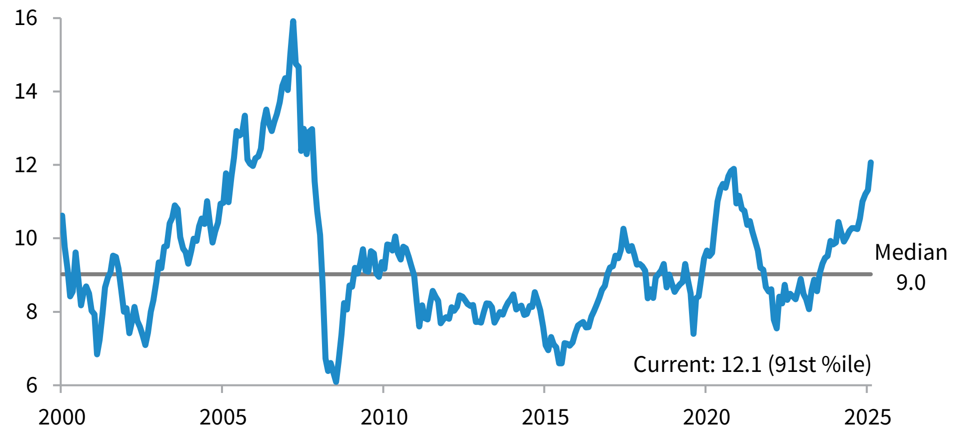
— Consensus expectations call for EM GDP growth of 4.1% and 4.0% in 2025 and 2026, respectively. While tariff front-running has supported growth this year, 2026 faces elevated downside risks as trade volume growth is expected to slow. This would disproportionately impact the export-heavy Asia region. However, policymakers retain ample room to stimulate in EM, particularly as the Fed has resumed interest rate cuts.

— Analysts expect EPS growth of 9.7% in 2025 and 14.6% in 2026. Like the economic outlook, EPS growth faces downside risk if trade flows moderate, given lofty expectations for Asia EPS growth in 2026 (15.9%). EM EPS growth averaged 2.3% per year over the past 20 years.

— Despite recent outperformance, EM still lags DM by more than 5 ppts annualized on a trailing three-year basis. Longer-term underperformance since 2010 was driven by USD appreciation, subpar earnings growth, and a narrowing economic growth differential. Several of these factors have shifted in favor of EM in 2025, namely a sharp weakening of the US dollar and mounting headwinds to DM growth.

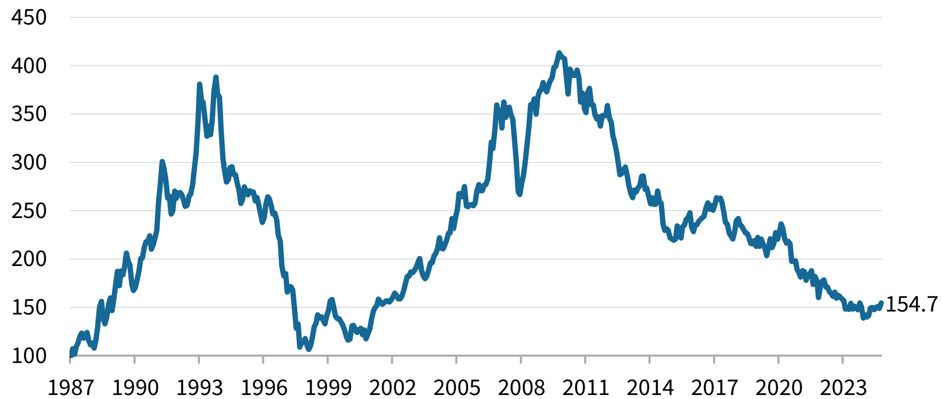
Cyclically adjusted price-to–cash earnings: MSCI EM

Aug 31, 2000 – Sep 30, 2025



EM/DM equity relative cumulative wealth

Dec 31, 1987 – Sep 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.

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Asia ex Japan Equities

Facts & Figures Third Quarter 2025

Asia ex Japan equities returned 10.8% in 3Q 2025 in USD terms, outperforming global equities by 3.1 ppts. 3Q performance was driven by a strong rally in China following an extension of the US-China trade truce, as well as gains in tech-heavy Taiwan and South Korea stocks which benefited from continued AI-related optimism. However, Indian equities meaningfully detracted amid an escalation in US-India trade tensions. On a TTM basis, Asia ex Japan equities returned 17.2%, on pace with global equities which returned 17.3%.

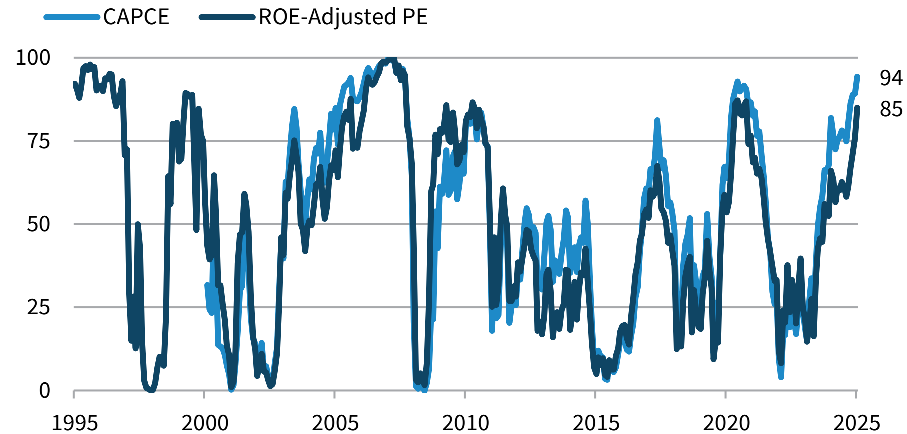
— Asia ex Japan valuations continued to rise in 3Q and are elevated relative to history. As of September 30, the index's ROE-adjusted P/E ratio is the 85th percentile of historical observations. The cyclically adjusted price-to–cash earnings (CAPCE) ratio, which excludes banks and insurance companies, is higher at the 94th percentile. Absolute valuations are mixed across countries and are elevated in Taiwan, Singapore, and India, but low to fairly valued elsewhere. Relative to DM equities, however, the MSCI AC Asia ex Japan Index trades lower at the 28th percentile of historical observations.

— Asia ex Japan real GDP growth expanded by 5.3% YOY in 2Q, supported by strong exports demand ahead of anticipated US tariffs. Latest consensus forecasts expect 2025 full-year growth to moderate to 4.4% as economic momentum cools in key markets such as China and India, although these forecasts are subject to change given uncertainty over the impact of US tariffs.

— Analysts' expectations of forward 12M EPS growth for Asia ex Japan were revised higher over 3Q to 13.1% as of September 30, compared to estimates for global peers at 11.7%. However, given the export-oriented and cyclically sensitive nature of most Asia ex Japan markets, a key risk to these earnings estimates is if prolonged US tariffs begin to weigh on global trade and growth, although this may be offset to a degree if China releases more aggressive stimulus in response.

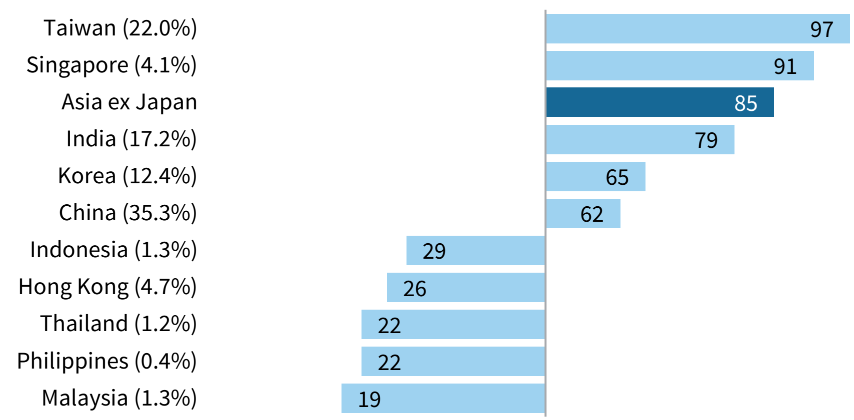
MSCI All Country Asia ex Japan Valuations

Sep 30, 1995 – Sep 30, 2025 • Percentile (%)



Country P/B Percentile: MSCI AC Asia ex Japan

As of Sep 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. CAPCE data begin October 31, 2000. Totals may not sum to 100% due to rounding.

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Chinese Equities

Facts & Figures Third Quarter 2025

Chinese equities rallied sharply in August and September following an extension of the US-China trade truce and returned 20.5% in 3Q 2025 in USD terms, outperforming global equities by 12.8 ppts. On a TTM basis, Chinese equities returned 25.3%. Offshore Chinese equities (30.8%) outperformed onshore A-shares (20.6%) over this period, supported by a rally in Chinese technology stocks.

— As of September 30, the composite P/E ratio for the MSCI China All Shares Index was at the 89th percentile, up from the 12th percentile in August 2024. Absolute valuations have risen to elevated levels given the market's recent rally, with offshore Chinese equities looking more expensive than onshore A-shares. However, valuations for both segments remain low relative to global equities.

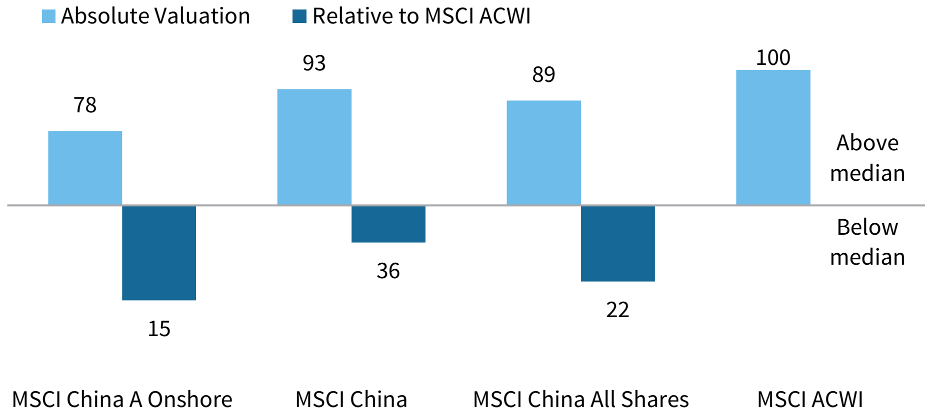
— China's real GDP growth expanded by 5.2% YOY in 2Q 2025, although this was boosted by strong exports ahead of anticipated US tariffs. While consensus forecasts still expect growth of 4.8% for full-year 2025, these forecasts may be subject to change given weak domestic activity and US tariffs on China that still amount to 55% as of September 30.

— 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 54% Hong Kong-listed equities, 3% US-listed equities, and 43% A-Shares.

— 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 overweight cyclicals and underweight tech, 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.

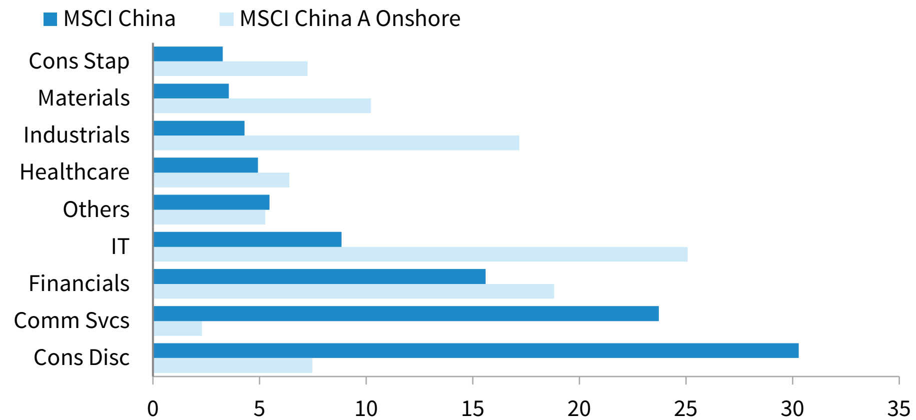
Composite P/E: Percentile

Feb 28, 2010 – Sep 30, 2025



Sector weights

As of Sep 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.

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US Small-Cap Equities

Facts & Figures Third Quarter 2025

US small-cap equities topped mid- to large-cap stocks by 0.8 ppts in 3Q, but have lagged by nearly 10 ppts over 12 months, as mega-cap tech has dominated equity market performance. Small caps remain deeply discounted on normalized P/CE basis, with sector underweights in tech and overweights in cyclicals shaping performance.

— Relative valuations between US small caps and mid-/large-cap peers are sharply discounted; small caps have never been cheaper on a normalized P/CE basis since 1999. Historically, small caps traded at a median 7% premium to large caps, but now trade at a 28% discount.

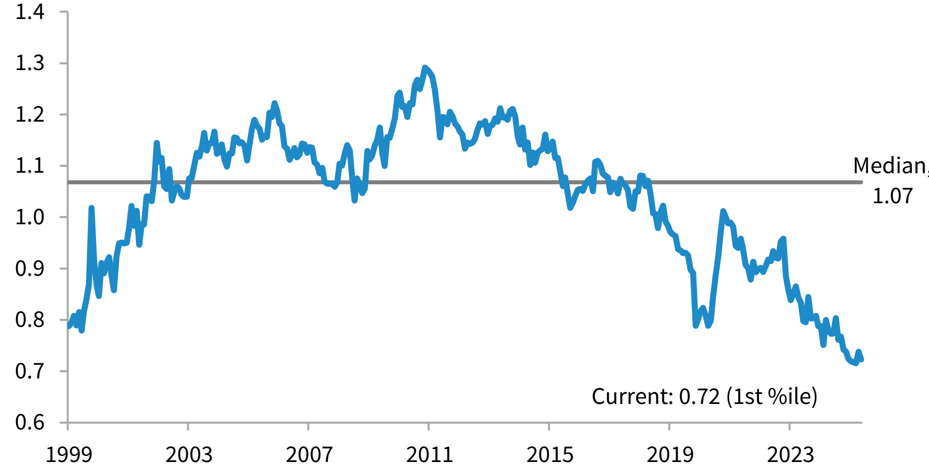
— Both large- and small-cap equities initially stumbled in 2Q as tariff announcements unsettled markets, but performance rebounded after 90-day tariff pauses and continued through 3Q. The rally in large-cap tech, with the Mag 7 resuming leadership after a weak 1Q, drove sector gains—these stocks returned 17.7% in 3Q on an equal-weighted basis.

— The US small-cap segment is overweight cyclicals and underweight tech relative to mid-/large-cap peers, making small caps more sensitive to the economic cycle and typically better performers during recovery phases. However, the recent rally favored tech-heavy large caps, leaving small caps behind.

— Momentum and technicals favored large caps, while small-caps' underperformance was compounded by sector tilts and limited tech exposure. Key risks include ongoing tariff policy uncertainty and macro headwinds, but small caps could benefit if the Trump administration eases tariffs or adopts more pro-growth policies. The recent US tax and spending bill may also support small-cap companies, which are generally more domestically focused.

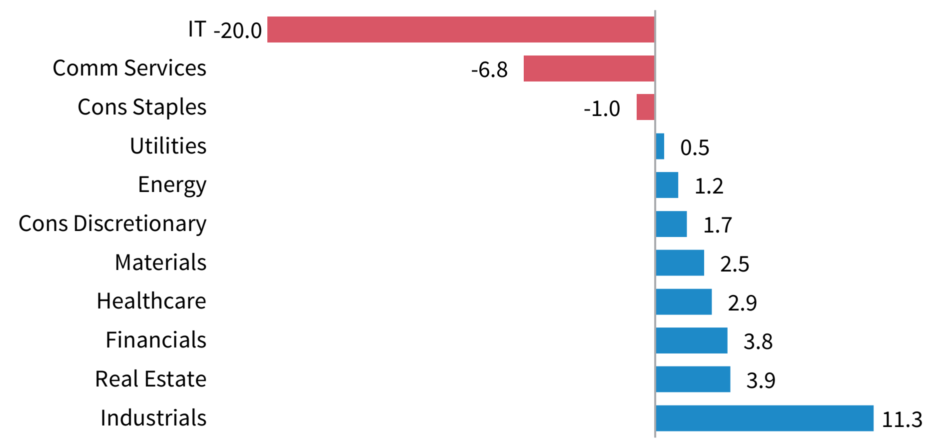
Relative 5-YR CAPCE: MSCI US SC vs US LC/MC

May 31, 1999 – Sep 30, 2025



Relative Sector Weights: US SC minus US LC/MC

As of Sep 30, 2025 • Percentage Points



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

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Developed Markets ex US Small-Cap Equities

Facts & Figures Third Quarter 2025

Developed ex US small-cap equities returned 7.3% in USD for 3Q and outperformed mid-/large-caps by 1.9 ppts. Over the past 12 months, they have outperformed by 3.3 ppts. Performance was driven largely by the strength of the materials sector.

— Developed ex US small-cap valuations increased in 3Q but remain sharply discounted relative to large-cap peers. As of September 30, DM ex US small caps traded at a 10.3x CAPCE ratio, in the 48th percentile of historical observations. On a relative basis, valuations are in the 18th percentile versus large-/mid-caps, at a ratio of 0.90—near the steepest discount in over 20 years.

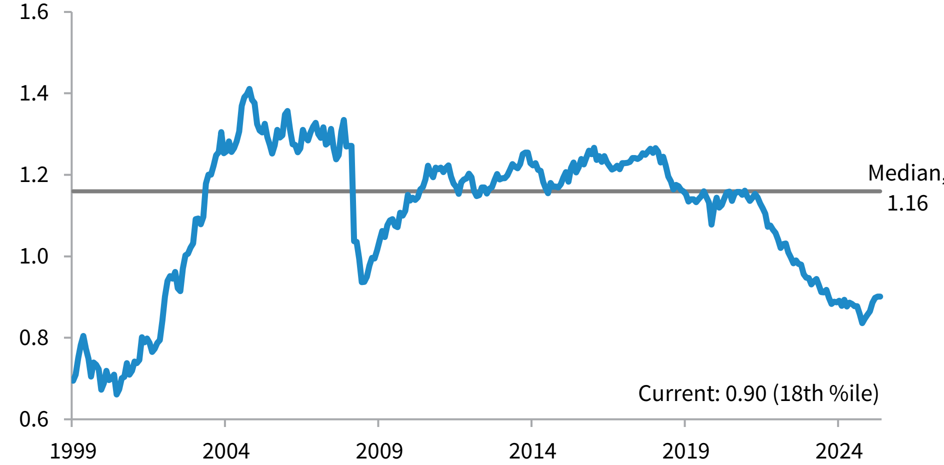
— From a sector exposure standpoint, DM ex US small caps are overweight cyclicals—particularly real estate and industrials—vis-à-vis their large-/mid-cap counterparts, partially offset by a large underweight to financials. In 3Q, the materials sector accounted for one-third of the index's performance. Defensive and higher-quality sectors, such as consumer staples and healthcare, are meaningfully underrepresented in the small-cap universe.

— Superior long-term earnings growth has helped DM ex US small caps outperform large-/mid-caps over time. Over the last 15 years, world ex US small-caps real cash EPS grew by 5.0% per annum, while real EPS for large-/mid-caps was just 0.9%. During that period, small caps returned 9.8% annualized in LC terms, compared to 8.9% for large-/mid-caps.

— The DM 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, but success requires expertise to navigate higher volatility, liquidity constraints, and elevated transaction costs.

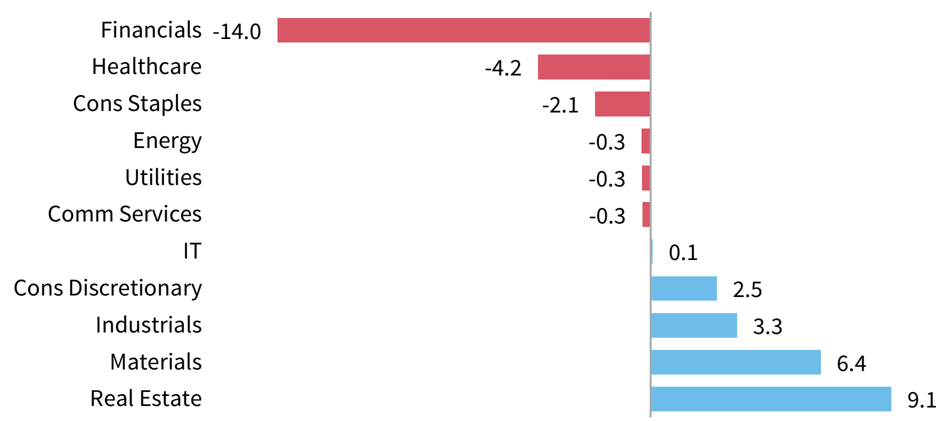
Relative 5-yr CAPCE: MSCI World ex US SC vs LC/MC

May 31, 1999 – Sep 30, 2025



Relative Sector Weights: MSCI World ex US SC minus World ex US LC/MC

As of Sep 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.

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US Growth and Value Equities

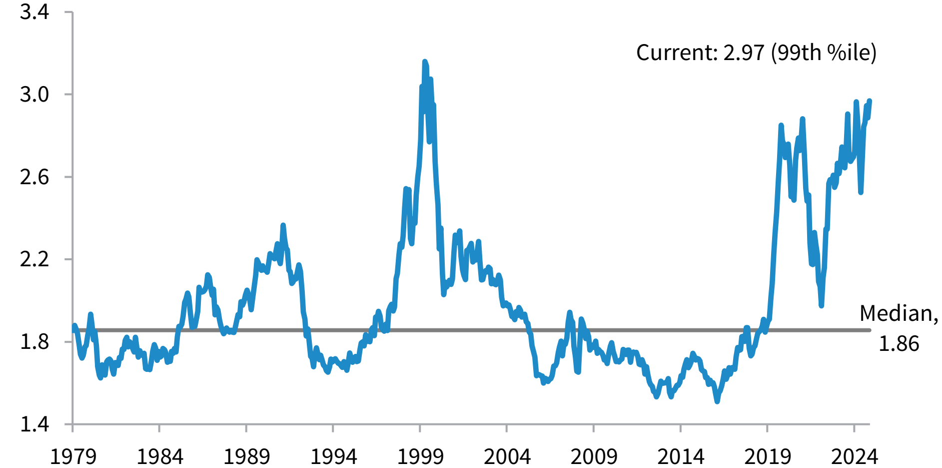
Facts & Figures Third Quarter 2025

US growth stocks gained 10.7% in 3Q, besting value by 6 ppts. Growth has returned 27% over 12 months and has outperformed by nearly 20 ppts during that time. Performance was again driven by the Magnificent 7, which extended its momentum from a strong 2Q, returning 17.7% in 3Q on an equal-weighted basis.

- Valuations for US growth stocks reached a new peak, with the MSCI US Growth Index trading at 41.2x normalized cash earnings. It trades at 3.0x the CAPCE ratio of the value index—99th percentile historically—a ratio only surpassed in late 1999 and early 2000. The price-to-forward earnings multiple for growth is 32x, or 1.8x that of value, 31% above the 20-year median. Investors continue to assign a premium to expected earnings for growth-oriented names.
- Growth stocks initially reacted negatively to the Trump Administration's tariff announcements in early 2Q, but sharply reversed course after a 90-day pause. Growth concerns faded, risk-on sentiment returned, and growth resumed its leadership over value. The US Fed also cut its benchmark policy rate by 25 bps, for the first time in almost a year, which helped boost investor sentiment.
- Corporate fundamentals remain strong for growth, which has traditionally generated higher ROE than value. The current wide ROE spread is driven by sector exposures, especially tech and financials, and helps explain the valuation gap between growth and value indexes.
- The Mag 7 accounts for nearly 60% of the growth index. Technicals reflect continued investor preference for growth, but key risks include elevated valuations and sensitivity to policy shocks.

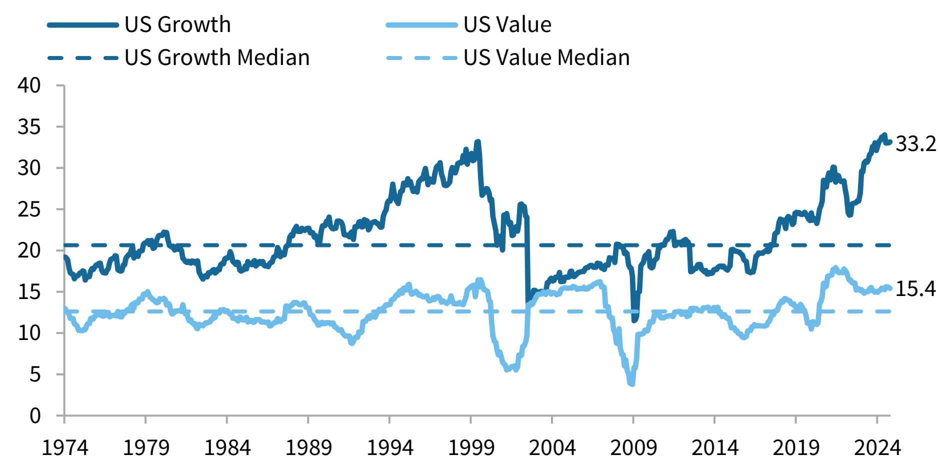
Relative 5-YR CAPCE: MSCI US Growth vs US Value

Nov 30, 1979 – Sep 30, 2025



ROE: MSCI US Growth vs US Value

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



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Developed Markets Equity Factors

Facts & Figures Third Quarter 2025

Most major factors underperformed developed markets equities (+7.5%) in 3Q, particularly min vol (+0.9%), as risk-on sentiment and continued upward momentum in AI-related stocks pushed growth-oriented names to new highs. Over 12 months, momentum was the top-performing factor (+20.4%).

— Valuations moved higher during the quarter, with quality commanding the highest premiums across valuation metrics. The P/B ratio tends to have the strongest relationship to subsequent five-year returns across factors, though the link is weak for momentum, given its focus on recent outperformers and high turnover.

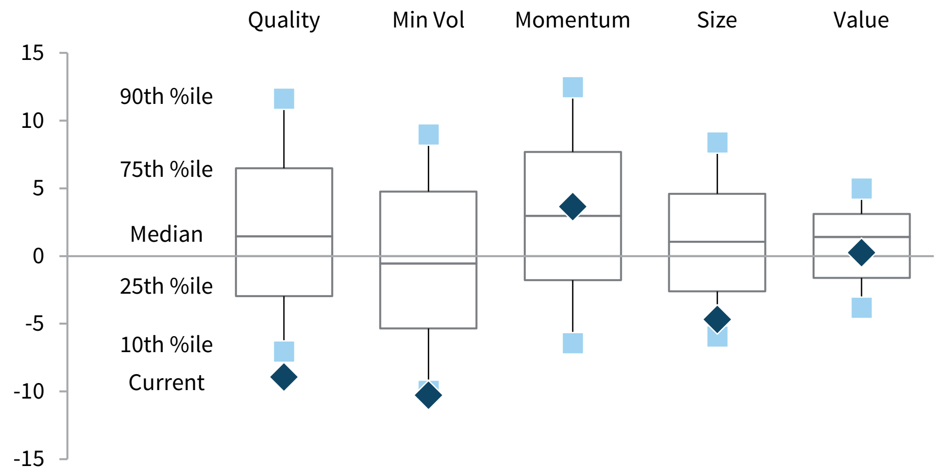
— Equity markets saw a continuation of their 2Q resilience, boosted by optimism on AI developments and a 25-bp Fed rate cut. This risk-on environment supported solid gains for momentum, quality, and value-weighted equities, while min vol lagged, as it typically outperforms in higher volatility periods. Indeed, momentum has continued to benefit as AI-related stocks have continued their dominance since the brief tariff-related market disruption in early 2Q.

— Excess returns across several strategies have low or negative correlations with each other. Combining these factors can add a diversification benefit and smooth out the pattern of portfolio performance over time. For example, value and momentum had strongly negative correlations over the trailing five-year period.

— Quality, minimum volatility, momentum, size, and value are five equity market factors commonly cited in academic research as sources of return, or "market premiums." These factors have historically demonstrated superior risk-adjusted returns compared to broad-market benchmarks over long periods, though performance can vary across different market environments. While growth is a widely used investment style, it is not typically considered a distinct academic factor premium.

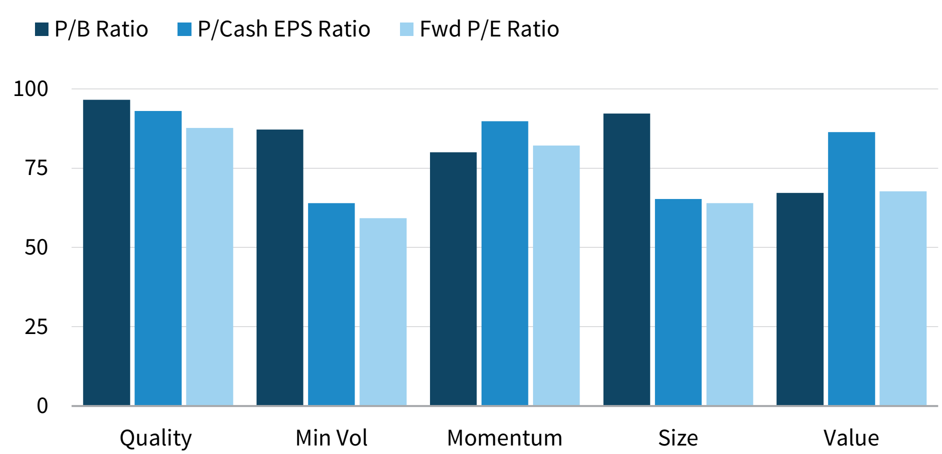
Factor returns in excess of developed markets equities

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



Current valuation percentile ranking by factor

As of Sep 30, 2025



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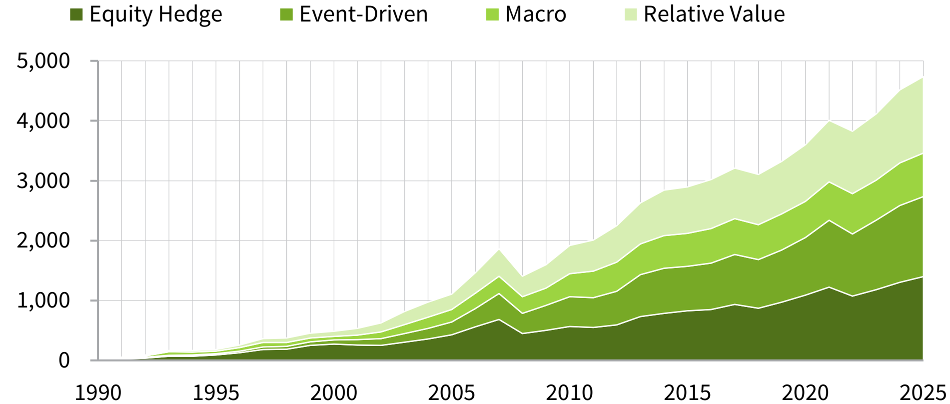
Notably, all major hedge fund strategies generated positive performance in 3Q 2025, consistent with strong returns for most risk assets globally.

- Relative value (RV) hedge funds, as measured by the HFRI Relative Value (Total) Index, posted another positive quarter (+2.6%). The asynchronous pace of central bank rate cuts, combined with ongoing uncertainty around inflation and tariffs, has continued to create arbitrage opportunities. After a challenging first half, macro managers rebounded with a 4.7% quarterly increase in the HFRI Macro (Total) Index; similarly, quantitative strategies bounced back with the HFRI Systematic Diversified Index returning 5.0%. Trend-following strategies staged a notable comeback in September, rebounding from a challenging 12-month period. The Barclay BTOP50 Index returned 4%, moving back into positive territory for the year, with gains primarily driven by price action in precious metals, currencies, and equities.
- Long/short equity strategies largely kept pace with equity markets in 3Q as a favorable stock picking environment led to alpha generation opportunities on both sides of the portfolio; the HFRI Equity Hedge (Total) Index gained 7.2%, while the HFRI Equity Market Neutral Index gained 2.9%. While investment themes tied to the AI value chain continued to dominate results, long/short and long-biased healthcare and biotech sector-focused strategies also participated to the upside as a flurry of deal activity reignited excitement in the sector.
- The HFRI Event-Driven (Total) Index returned 4.2% in 3Q, bringing YTD gains to 8.7%. Managers remain constructive on the opportunity set, citing robust convertible debt issuance, a significant pickup in deal activity, and abundant opportunities for activist value-unlocking initiatives—particularly in the current "AI versus everything else" environment, with notable activity in Japan and Korea. Although tight spreads have limited the attractiveness of credit generally, defaults have been ticking up and situations like First Brands and Tricolor may presage additional credit stress for funds to process.

HFRI historical asset growth breakout

1990–2025 (Jun) • US$B

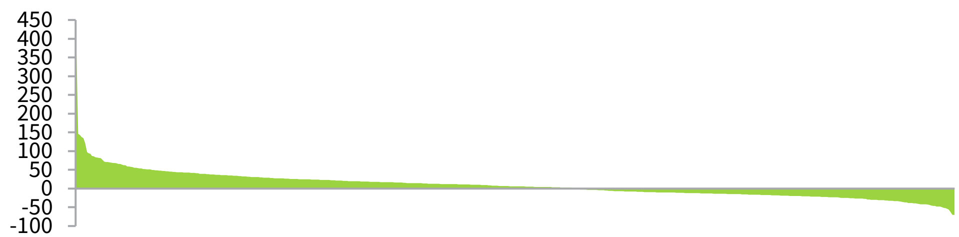


Equity dispersion: Total returns for the S&P 500 constituents

As of Sep 30, 2025

Trailing 3-Month Returns (%)

Trailing 12-Month Returns (%)



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

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