



CAMBRIDGE
ASSOCIATES

Tactical CA House Views

December 2025

Tactical CA House Views as of November 30, 2025

Our house views are aimed at generating value add over a three-year horizon. Differences in risk tolerance, time horizon, liquidity needs, currency exposure, and tax implications, as well as the potential for overlap with existing portfolio exposures, mean these views may not be suitable for all portfolios. Tactical positions should be sized modestly.

Overweight	Underweight	Key details	
California Carbon Allowance Futures (S&P Carbon Credit CCA Index)	Global Equities (MSCI All Country World Index)	Recommended since	Oct 31, 2021
Developed Markets ex US Small-Cap Equities (MSCI World ex US Small Cap Index)	Developed Markets ex US Equities (MSCI World ex US Index)	Recommended since	Sep 30, 2023
US Small-Cap Equities (S&P 600 Small Cap Index)	US Equities (MSCI US Index)	Recommended since	Apr 30, 2022
Global ex US Equities (MSCI ACWI ex US Index)	US Equities (MSCI US Index)	Recommended since	May 31, 2025
Latin American Equities (MSCI Latin America Index)	EM Equities (MSCI Emerging Markets Index)	Recommended since	June 30, 2025
Unhedged World ex US Treasuries (FTSE WGBI ex US Index)	US Treasuries (Bloomberg US Treasury Index)	Recommended since	May 31, 2025
Global Equity Long/Short (ELS) Hedge Funds (Basket of Global ELS Hedge Funds)	40% Equities/60% Bonds (40% MSCI ACWI [Net] [USD]/60% US Aggregate Bond Index [USD])	Recommended since	Sept 30, 2025
Current Coupon Agency MBS (ICE BofA US Current Coupon UMBS Index)	Investment-Grade Corporates (Bloomberg US Investment-Grade Corporate Bond Index)	Recommended since	Oct 31, 2025

Overweight California Carbon Allowances/Underweight Global Equities

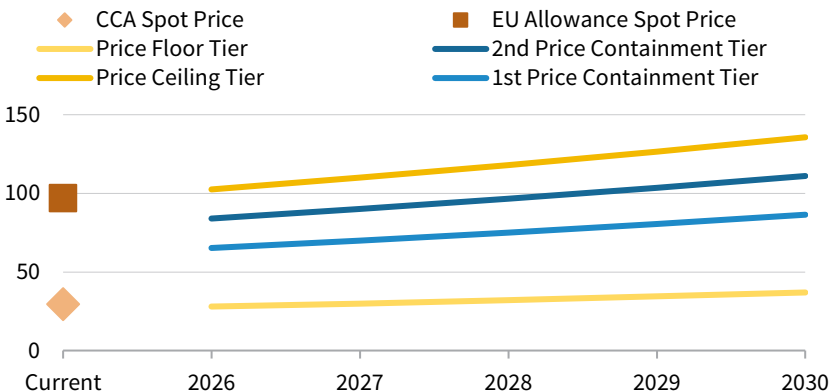
Recommended since October 31, 2021

Investment thesis: We believe California Carbon Allowances (CCAs) will outperform global equities, given our expectation that supply/demand fundamentals will drive CCA prices up toward their first price containment tier. With CCAs priced near the program's floor, they offer highly asymmetric return potential. We prefer owning physical allowances over futures implementation. Regulated entities are allotted free allowances for a portion of their emissions and must purchase additional credits to satisfy remaining obligations.

Key support 1: California projects that its cap-and-trade program will be needed to meet its emissions targets. Accordingly, the state must reduce CCA supply relative to demand. The California Air Resources Board (CARB) has provided more clarity on anticipated changes to tighten supply of allowances. CCA supply is expected to be cut by 118M between 2027 and 2030. These changes will increase expected CCA deficits, which in more mature carbon markets have typically led to price increases. CCA prices will receive an additional boost once it is joined with Washington state's program, which is expected by 2027.

CCA price compared to EU and price containment tiers

As of November 30, 2025 • US dollars



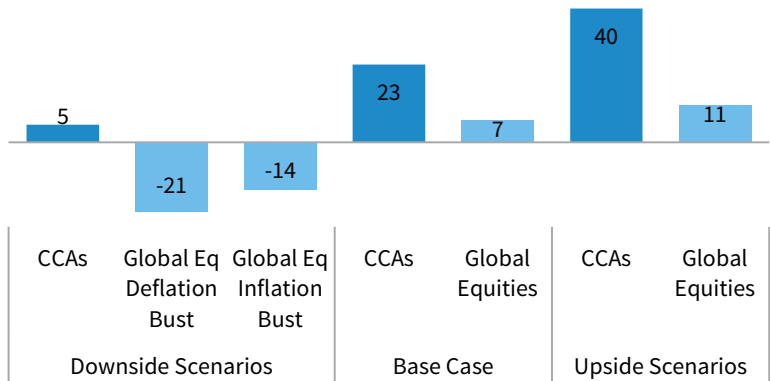
Sources: Bloomberg L.P., MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties. Notes: LHS - Spot prices use near-month futures. Price tiers rise 5% plus US TIPS 10-yr breakeven inflation annually. Price containment tiers trigger extra allowances to hedge higher costs. RHS - CCAs: Downside = 2029 price floor; Base case = halfway to 2029 1st containment tier; Upside scenario = 2029 1st containment tier. For Global Equities, Deflation bust: normalized P/E drops 50%, nominal normalized earnings growth averages -2% YOY. Inflation bust: Same P/E drop, 6% average growth. Base case: P/E unchanged, growth reflects recent averages. Upside: P/E rises by a decile (or to all-time max if >90th %ile), 6% average growth.

Key support 2: We anticipate that relative to equities, CCAs offer less downside risk with significantly more upside potential. The program includes a floor indexed by inflation plus 5% that limits downside risk, while reductions in supply relative to demand increase upside in contrast to global equities.

Key risks: Regulatory changes present the biggest risk to CCAs, although the program is well established and provides significant revenue to the state of California. As such, implementation delays and poor communication by CARB related to adoption of increased program stringency measures has put downward pressure on CCA prices. Therefore, we have extended the timeline by which prices are expected to increase in response to tightening supply as reflected in our return protections. Encouragingly, the program was extended from 2030 to 2045 in September. CCAs can also experience short-term volatility related to technical issues in the options and futures markets. Finally, global equity performance may exceed our expectations. From an implementation perspective, rolling futures cost an estimated 3%–5% annually, while options for owning physical allowances are limited.

Return projection scenarios: CCAs vs global equities

As of November 30, 2025 • 3-yr annualized average compound return (%)



Overweight Developed Markets ex US Small Caps/Underweight Developed Markets ex US Equities

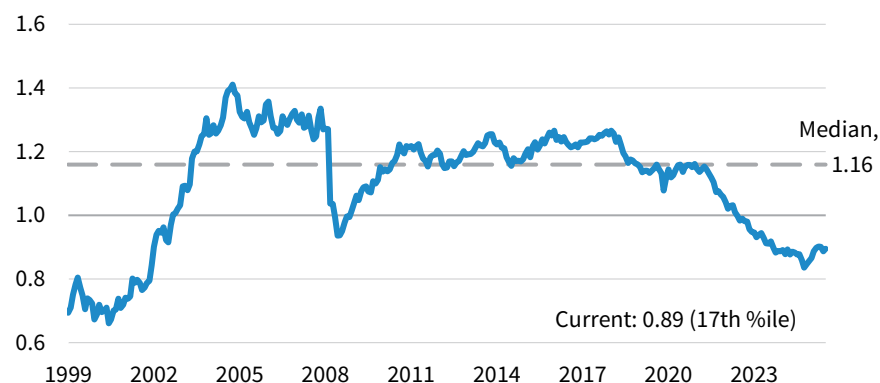
Recommended since September 30, 2023

Investment thesis: We expect developed markets (DM) ex US small-cap equities will outperform their mid-/large-cap counterparts, given their low relative valuations and favorable fundamental outlook. DM ex US small caps perform best during economic upswings and appear well-priced for a recessionary scenario. Small caps have outperformed in 2025 given their domestic orientation amid concerns over US tariff policy.

Key support 1: DM ex US small-cap equities trade at a 11% discount to their mid-/large-cap peers, according to our preferred normalized earnings multiple, compared to their typical 16% premium. Small caps have consistently outperformed mid-/large caps over subsequent three-year periods when starting valuations traded at a discount. Small caps are adequately priced for an economic downturn scenario, which should limit downside risk and support outperformance on a subsequent economic rebound. While momentum has rebounded in 2025, upside potential remains, supported by the current economic environment.

Relative normalized valuations: DM ex US large/mid cap

May 31, 1999 – November 30, 2025

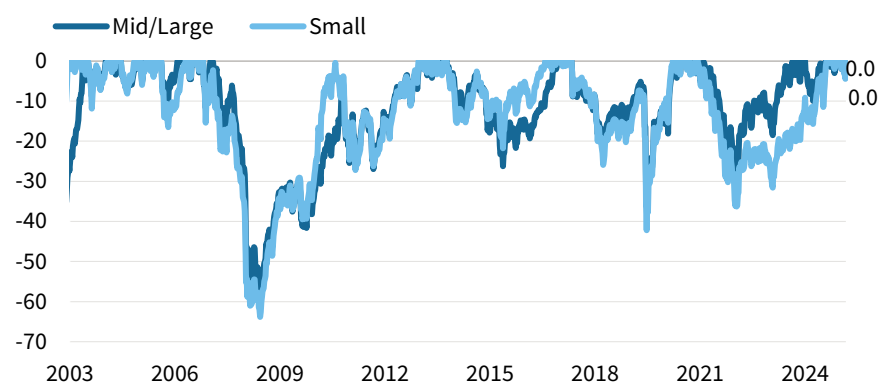


Key support 2: The fundamental outlook should support performance. While US tariff policy has increased uncertainty, non-US economic growth is expected to rebound over the next several years, which typically supports small-cap performance. Further, small caps are more domestically oriented than large caps, providing a buffer from further trade disruptions. On earnings, analysts expect EPS growth of close to 20% in the next 12 months, compared to 10% for the mid- and large-cap universe. The expected earnings outperformance is broadly based across geographies and sectors.

Key risks: Global economic uncertainty and GDP growth downgrades would likely weigh on small caps, given they are cyclically oriented and have higher leverage, lower profitability, and usually underperform during broader equity market drawdowns. The yen has recently weakened anew, as political leadership changes have raised doubts over near-term Bank of Japan policy normalization. However, fiscal policy shifts are likely to support domestic consumption and smaller firms, offsetting any headwinds from a weak yen.

Drawdown from rolling 3-yr high: DM ex US equity

January 1, 1993 – November 30, 2025 • US dollars • Percent (%)



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

Notes: Relative normalized P/E data are monthly and are based on an adjusted price-to-cash earnings ratio. The cyclically adjusted price-to-cash earnings (CAPCE) ratio is calculated by dividing the inflation-adjusted index price by trailing five-year average inflation-adjusted cash earnings. Cash earnings are defined as net income from continuing operations plus depreciation and amortization expense. MSCI does not publish cash earnings for banks and insurance companies and therefore excludes these two industry groups from index-level cash earnings. Drawdown data are weekly and based on index price levels.

Overweight US Small-Cap Equities/Underweight US Equities

Recommended since April 30, 2022

Investment thesis: We expect small-cap equities will outperform their large-cap counterparts in the United States given their historically large valuation discount. Profit growth has disappointed in recent years and hurt performance, but recent results and forecasts are encouraging. Downside risk exists for small-cap equities should growth disappoint, or inflation rise. However, as strong recent performance suggests, there could also be more upside for small companies from Fed easing and for sectors like industrials if efforts to boost US manufacturing bear fruit.

Key support 1: US small-cap valuations are steeply discounted relative to US mid- to large-cap equities. The S&P 600® Index trades at a 52% discount to the MSCI US Index using normalized price-to-cash earnings multiples, close to a historical low dating back to 2004. Small caps also trade at more than a 30% discount using forward P/E ratios whereas historically they have traded at close to an 11% premium.

Key support 2: Small-cap earnings have been weak in recent years, hurting relative performance, but pressure on margins from tight labor markets is fading. The S&P 600® Index posted healthy earnings growth in 3Q and 2026 expected growth of 16% may exceed that of the S&P 500 Index. Tariffs are a headwind for certain small-cap sectors, but Fed easing should be an offset.

Key risks: Small-cap companies have lower margins and higher debt levels than larger-cap stocks, making them more vulnerable to an economic slowdown. Strong earnings growth may continue to underpin performance of mega-cap tech stocks and impact relative small-cap performance. Persistent inflationary pressures could slow Fed easing and spur renewed concern about debt affordability. Geopolitics could underpin demand for higher quality large-cap stocks at the expense of small-cap peers, perpetuating the current valuation discount.

5-yr excess return S&P 600® vs MSCI US

December 31, 2003 – November 30, 2025 • Rolling 5-yr relative AACR (%)



Relative normalized P/E ratio: S&P 600® vs MSCI US

December 31, 2003 – November 30, 2025



Sources: Factset Research Systems, MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Excess return data are daily. The cyclically adjusted price-to-cash earnings (CAPCE) ratio is calculated by dividing the inflation-adjusted index price by trailing ten-year average inflation-adjusted cash earnings. Cash earnings are defined as net income from continuing operations plus depreciation and amortization expense. MSCI does not publish cash earnings for banks and insurance companies and therefore excludes these two industry groups from index-level cash earnings. S&P does not calculate a cash earnings metric; cash flow is used as a proxy.

Overweight Global ex US Equities/Underweight US Equities

Recommended since May 31, 2025

Investment thesis: We expect global ex US equities will outperform US equities as economic growth in the United States slows relative to elsewhere and the US dollar weakens. Relative valuations for global ex US equities remain very low, while relative momentum has more room to run as demonstrated in past episodes of USD weakness, thus allowing for higher upside potential.

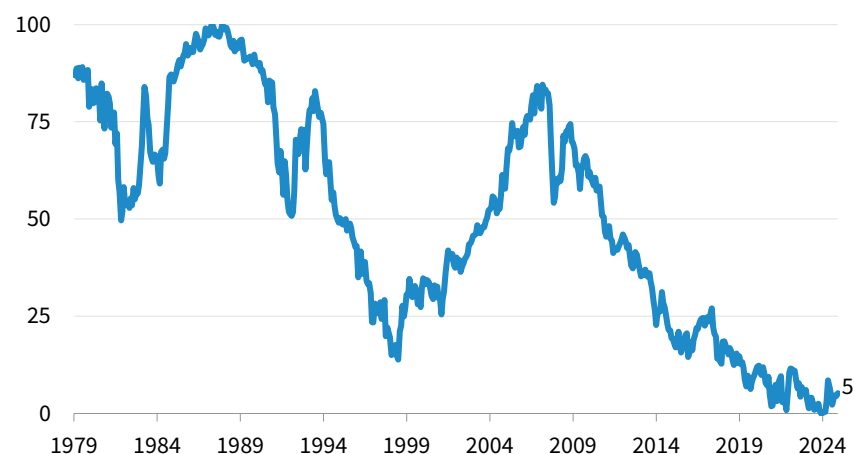
Key support 1: Global ex US equities have historically outperformed US equities in weak dollar cycles as non-US currencies rallied against the dollar. While they have lagged US equities for most of the past decade amid continued USD strength, they are outperforming so far in 2025 as the dollar weakened. We expect the dollar to continue to weaken over our tactical horizon as US tariffs and the lagged impact of tight monetary policy result in US economic growth slowing relative to elsewhere. US policy uncertainty may also continue to weigh on the demand for US assets and place downward pressure on the dollar.

Key support 2: Valuations for both US equities and the US dollar have run up and remain near all-time highs. In contrast, relative valuations for global ex US equities and currencies remain low, which should help to mitigate some downside risks. Relative equity and currency momentum also has more room to run as demonstrated by past weak dollar cycles, such as between 1971–78, 1985–95, and 2002–11, implying further upside potential remains.

Key risks: US tariffs and increased policy uncertainty may weigh on the growth of non-US economies, although continued monetary and fiscal policy easing should help to provide some support. Global ex-US equities are also underweight technology, which drove recent US equity outperformance amid stronger earnings growth. Nevertheless, elevated equity valuations for these sectors imply they are more vulnerable to downside shocks, particularly in the face of slowing global growth.

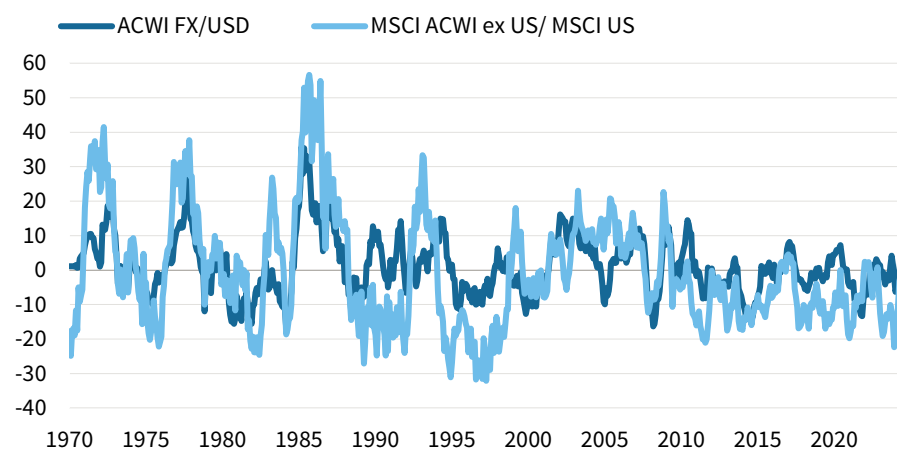
Relative CAPCE: MSCI ACWI ex US/MSCI US

December 31, 1979 – November 30, 2025 • Percentile (%)



Relative 12-month momentum

December 31, 1970 – November 30, 2025 • Percent (%)



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

Note: MSCI ACWI valuations prior to November 30, 1995, and MSCI ACWI performance prior to December 31, 1987, are proxied by the MSCI World ex US Index.

Overweight Latin American Equities/Underweight Emerging Markets Equities

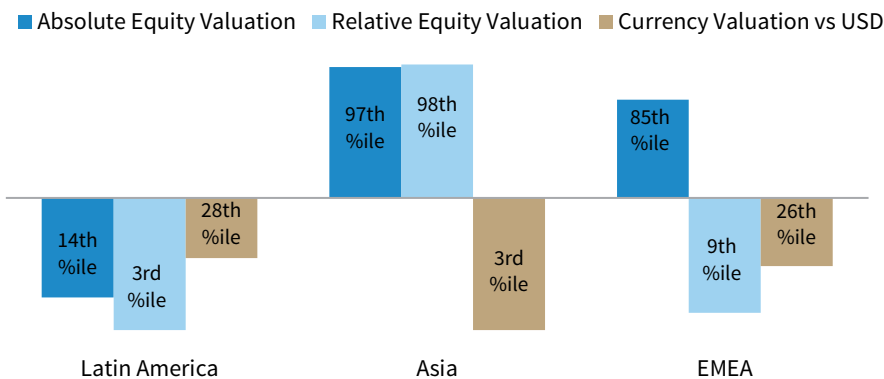
Recommended since June 30, 2025

Investment thesis: We expect Latin American (LatAm) equities will outperform emerging markets (EM) equities in an environment of disruptive shifts in US trade policy. LatAm valuations are deeply discounted, performance momentum has rebounded, and the impact of tariffs is likely to be limited compared to peers in Asia. While headline risks persist around US imposed tariffs, recent trade deals with LatAm countries offer relative positivity for the region.

Key support 1: LatAm equities trade at a 51% discount to broader EM, which is one of the cheapest levels on record and driven, in part, by rich valuations for their Asian peers. Starting relative valuations for this pair have shown a meaningful relationship with subsequent performance over tactical horizons. Momentum has rebounded, recovering from oversold conditions in 2024. However, prior cycles and current momentum metrics suggests potential for further upside. This combination of cheap valuations and budding momentum will support performance.

Equity and currency valuations of major EM regions

As of November 30, 2025 • Percentile relative to trailing 20-yr history

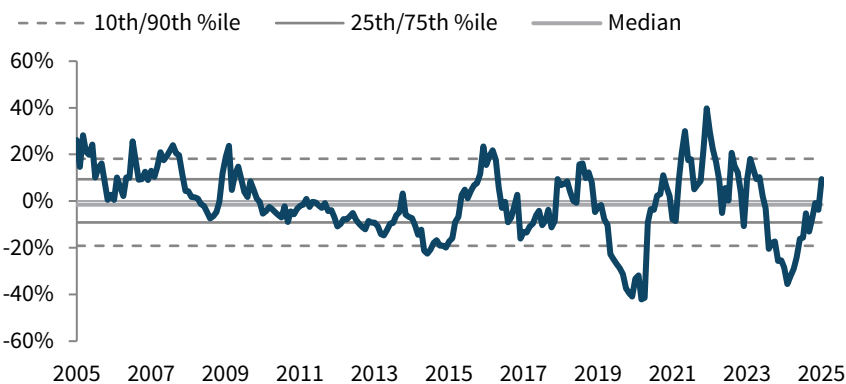


Key support 2: LatAm should be relatively insulated from US policy uncertainty. The region tends to run trade deficits or modest surpluses with the United States, in contrast to the export-heavy Asia region. This suggests elevated downside risk to EPS growth for the latter as tariffs lead to slower growth and reduced trade volumes. Global investors are underweight LatAm, which is an attractive destination for global capital given their low equity and currency valuations. Potential for higher commodity prices from escalating geopolitical tensions, a softer US dollar, and structural trends (e.g., energy transition and AI energy demands) would support performance.

Key risks: Political and fiscal risks are top of mind. Further US tariff escalation could weigh on investor sentiment toward the region. Major elections will be held across LatAm in the coming years, with spending likely to increase in the lead up amid already wide current account and fiscal deficits. Interest rates are elevated, which may restrict economic activity. LatAm is also underweight technology sectors, which could return to favor.

12-month relative price momentum: Lat Am vs EM

June 30, 2005 – November 30, 2025 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.
Notes: Equity valuations are based on the cyclically adjusted price-to-cash earnings ratio (CAPCE) using five-year trailing average real cash EPS. Relative equity valuations for the EM regions are compared to broader EM. Currency valuations are based on equal-weighted baskets of real exchange rates versus the US dollar for 20 of the 24 countries within the MSCI Emerging Markets Index. Greece (which uses the euro), Qatar, Saudi Arabia, and United Arab Emirates (which employ a fixed rate versus the US dollar) are excluded.

Overweight Unhedged World ex US Treasuries/Underweight US Treasuries

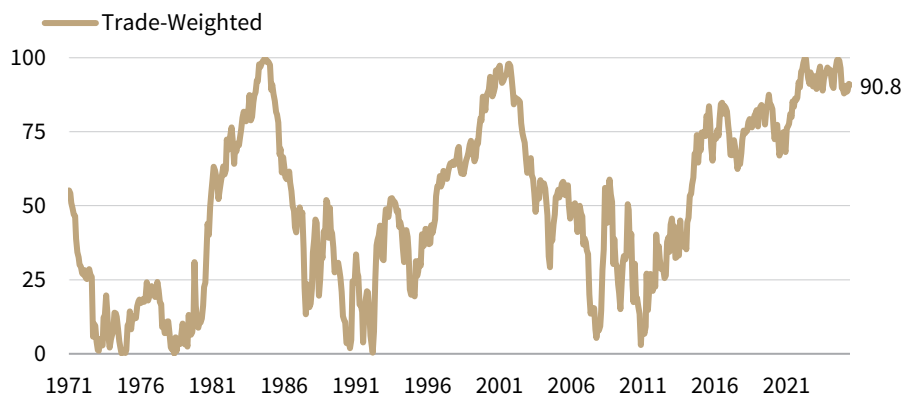
Recommended since May 31, 2025

Investment thesis: Unhedged global ex US Treasuries outperform US Treasuries when the dollar falls. In our view, the USD is expensive and likely to weaken over the next one to three years as the growth and interest rate edge of the US should moderate. Foreign demand for US assets may also wane given elevated US exposures, expensive US equity valuations, and recent US policies. This trade reflects our negative view on the USD and not the underlying bonds. This position is specifically intended as a way for US-based investors to underweight the USD.

Key support 1: The USD is expensive. Early this year, its trade-weighted real effective exchange hit its fourth highest level since 1971, and it remains elevated. When starting valuations are this high, it typically leads to a multi-year decline in the USD. This tends to support unhedged global ex US Treasuries relative to US Treasuries. Historically, when USD valuations are this elevated, subsequent rolling three-year annualized returns have ranged from -2% to 19%, averaging 7.7%.

USD basket trade-weighted real exchange rate

June 30, 1971 – November 30, 2025 • Percentile (%)

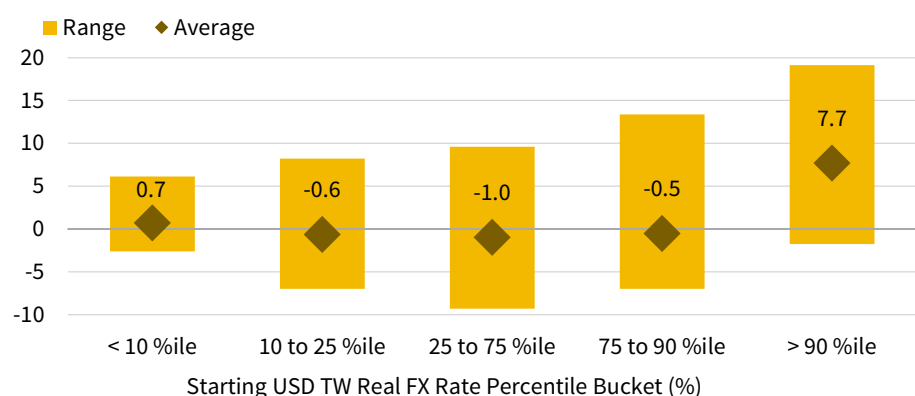


Key support 2: We expect USD weakness as secular US advantages fade. The USD's recent strength reflected robust US growth and higher interest rates, but these advantages are set to fade. A more balanced US economy, increased fiscal support in Europe and China, and higher US tariffs—likely to impact the US the most—has narrowed the growth differential between the US and the rest of the world. This has prompted the Fed to resume rate cuts, while other major central banks near the end of their easing cycles. Investors may also reduce exposure to the US at the margin, which has risen with US equity and dollar outperformance, amid growing policy uncertainty.

Key risks: This trade faces two-way risks. US tariffs may have a muted impact, allowing the US to maintain its growth advantage and attract capital. Conversely, a more significant global slowdown could trigger broader weakness and a flight to safety. Both scenarios may support the USD, illustrating the “dollar smile.” Implementing this trade incurs a cost, as US Treasuries currently yield 110 bps more than global ex US Treasuries.

Relative unhedged world ex US vs US treasury bond returns

January 31, 1985 – November 30, 2025 • 3-yr annualized return (%)



Sources: Bloomberg Index Services Limited, FTSE Russell, MSCI Inc., National Sources, OECD, Refinitiv, Thomson Reuters Datastream, and US Federal Reserve. MSCI data provided “as is” without any express or implied warranties.
Note: Inflation data are as of October 31, 2025.

Overweight Global Equity Long/Short Hedge Funds/Underweight 40% Equities/60% Bonds

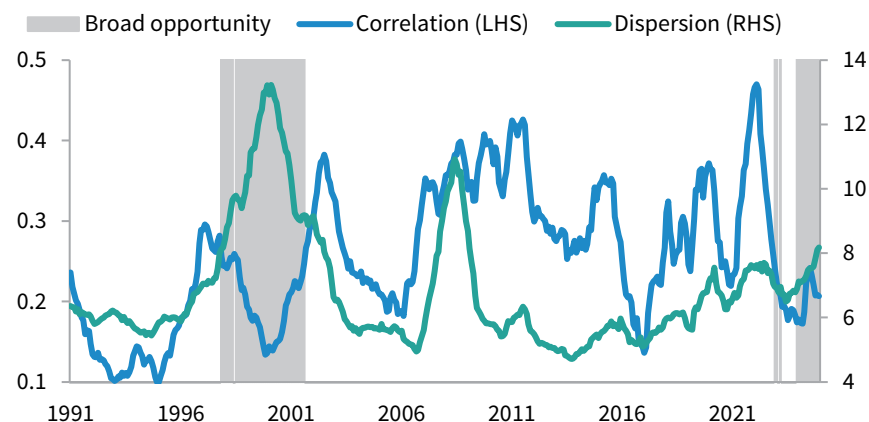
Recommended since September 30, 2025

Investment thesis: We expect equity long-short (ELS) hedge funds to outperform a 40/60 stock/bond blend, as increased equity dispersion creates more opportunities for ELS managers to generate differentiated returns. The rise of AI and policy changes may sustain this environment. ELS funds also benefit from a positive short rebate, which—despite a modest expected decline—should remain supportive and above previous low-rate levels.

Key support 1: Elevated dispersion in stock returns creates a more favorable environment for stock-pickers like ELS hedge funds, offering greater potential for differentiated performance on both long and short trades. While periods of higher dispersion and lower correlations have historically coincided with stronger ELS results—such as 1.4% average monthly returns versus 0.5% for a 40/60 stock/bond blend—research shows that dispersion, rather than correlation, is the meaningful driver of active manager opportunity.

Rolling 12-month S&P 500 correlation & dispersion

December 31, 1991 – November 30, 2025



Sources: CBOT, Federal Reserve, Standard and Poor's, and Thomson Reuters Datastream.

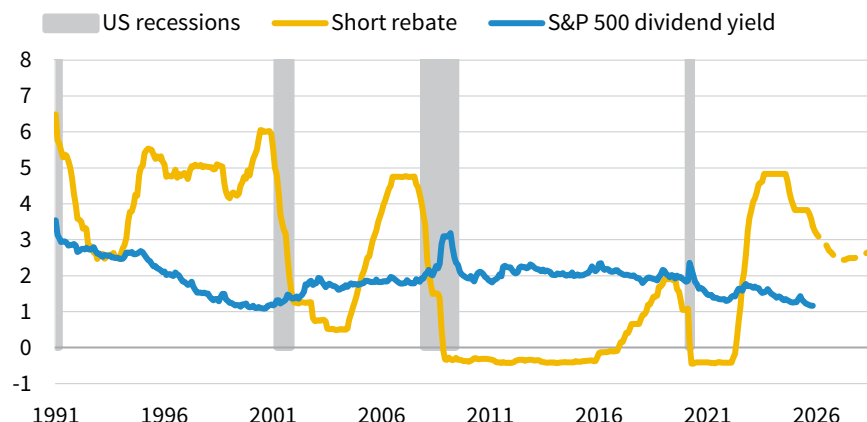
Notes: Correlation is calculated as the weighted average pairwise correlation across the stocks in the index over one month. Dispersion is calculated as the weighted cross-sectional standard deviation of the performance of stocks within the index for one month. Board opportunity reflects periods of above average dispersion and below average correlation. The short rebate is represented by the effective federal funds rate minus a 50-bp spread. Dashed line reflects short rebate expectations based on fed funds futures.

Key support 2: ELS hedge funds earn a short rebate—the interest on cash collateral from short sales, net of broker fees. From 2010–21, this rebate was minimal or even negative due to low rates. Today, it is much higher, boosting ELS baseline returns and supporting outperformance versus a 40/60 stock/bond blend. While rate cuts are expected, futures indicate rates will remain well above pre-COVID levels, keeping the short rebate supportive.

Key risks: ELS hedge funds may underperform if equity markets transition to an environment characterized by lower dispersion and higher correlations, as this limits alpha opportunities and causes beta to dominate returns, while short positions become a broader drag on performance. Additionally, if central banks cut rates more aggressively than anticipated, ELS hedge funds could lag both equity and bond markets and face greater challenges in capturing upside due to their short exposures.

Short rebate versus dividend yield

January 31, 1990 – December 31, 2028 • Percent (%)



Overweight Current Coupon Agency MBS/Underweight Investment-Grade Corporates

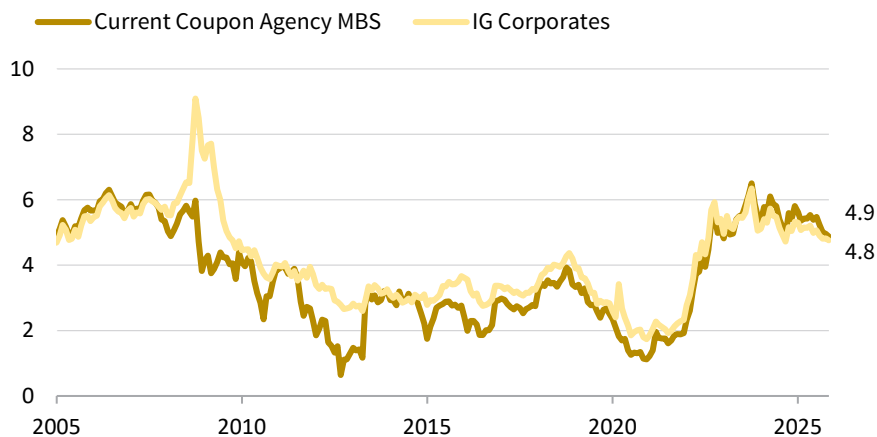
Recommended since October 31, 2025

Investment thesis: US current coupon agency MBS—more recently issued, higher-yielding securities—represent a high-quality, attractively valued segment within the investment-grade bond universe. With yields now above those of US corporates, they offer compelling relative value and are well positioned to outperform, providing defensive characteristics without sacrificing yield—especially as both credit and equity valuations appear stretched.

Key support 1: For the first time since 2007–08, current coupon yields exceed those of corporates, creating an attractive entry point. From these levels, current coupons have outperformed corporates 62% of the time over the next two years, with returns ranging from -3% to 11%. Meanwhile, corporate spreads are unusually tight and vulnerable to widening, given elevated risk asset valuations and early signs of labor market and low-end consumer weakness. As a AAA-rated sector, agency MBS provide additional spread and hedge against negative shocks.

US bond yields

January 31, 2005 – November 30, 2025 • Percent (%)

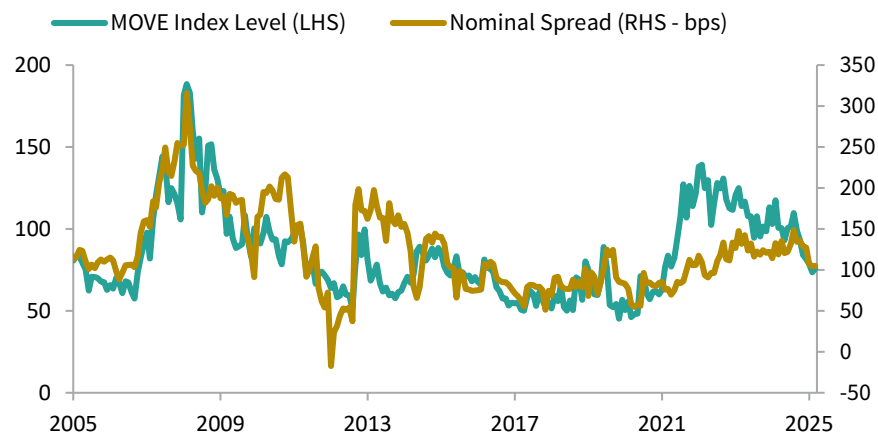


Key support 2: While corporate spreads are near historical tights, current coupon MBS spreads to Treasuries are less extreme—currently in the 42nd percentile over the past 20 years—leaving room for further tightening as rate volatility subsides. Although volatility has declined since its 2022 peak, it remains somewhat elevated. With quantitative tightening ending and further rate cuts likely once tariff-related inflation pressures ease, there is scope for volatility and MBS spreads to compress further, supporting returns.

Key risks: Fundamentals for MBS are not a major concern. The main risk is a resurgence in rate volatility, which, while still elevated, appears unlikely. Prepayment risk for recently issued, higher-yielding current coupons is limited, as Treasury and mortgage rates are expected to remain rangebound. The Fed’s ongoing MBS portfolio reduction has been a headwind but is likely priced in. The key uncertainty is potential privatization; however, the administration aims to limit market disruption, with a partial sale that preserves the government guarantee the most likely outcome.

Rate volatility and US Treasury nominal yield spread

January 31, 2005 – November 30, 2025



Sources: Bloomberg Index Services Limited, Intercontinental Exchange Inc., and Thomson Reuters Datastream.
Notes: The MOVE Index is a key indicator of expected volatility in the US Treasury market. Yield spread is calculated versus the Bloomberg US Treasury Index.

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