Q2 2025 investment outlook

Yes, no, maybe so: Uncertain policy produces uncertain markets

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Executive summary

Geopolitics remain investors' primary focus, with corporate earnings and macroeconomic data releases deferential to the latest tariff and trade headline. We see three scenarios unfolding in the months ahead, but despite the wide span of countries involved, U.S. and Chinese relations will be the key outcome. Our baseline scenario, or what we deem most probable, centers on aggregate/average tariffs above pre-April 2 levels but below the administration's ceiling levels announced post-April 2 for those countries that do not retaliate with the administration's April 2 stated levels. Those headline tariff levels would likely fall in the 10%-20% range. The positive capital market scenario is a fast détente, with resultant tariffs below 10%. The negative capital market scenario envisions a sustained push to onshore manufacturing and headline tariff rates are close to or exceed the April 2 baseline, with countries beyond China challenging the current administration's posture.

Within the baseline scenario, we see asset prices stuck in a defined range that is below the pre-tariff announcement day. The 90-day tariff implementation pause offers a range of possibilities, but the longer it takes to lower aggregate tariff rates, the greater the scar tissue for businesses and consumers who may anchor on higher costs impacting their spending decisions. The positive scenario likely pushes riskier asset classes higher than early April levels, but unless that scenario develops quickly and the administration can begin to implement more perceived pro-growth policies like corporate and personal tax rates, gains may follow a gradual ascent higher. The negative scenario anticipates the global economy enduring a significantly higher cost structure and asset prices falling further.

Investors need to revisit tried and true disciplines in all environments, including this one: Remaining communicative on liquidity needs and risk tolerance, establishing and revisiting a formal financial plan, and separating the emotional highs and lows that can accompany large swings in asset prices. The below content is our latest thinking as of early April, but the dynamic environment we expect to persist warrants frequent updates. We look forward to engaging with you and appreciate your trust.

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Global economic views

Recent tariff announcements are dampening growth prospects with uncertainty downgrading solid corporate fundamentals and stable consumer activity.

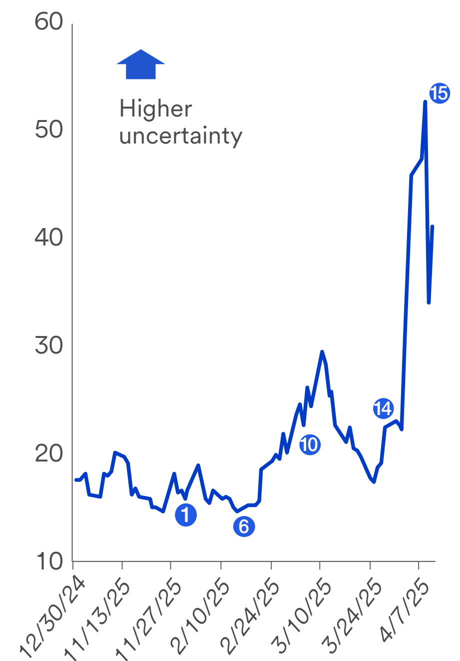
President Trump announced reciprocal tariffs on April 2 with 10% tariffs on all countries and higher rates for countries identified with trade barriers exceeding that level. While the administration announced a 90-day pause to those tariffs on April 9, the forward view remains shaped by tariff implementation timing and magnitude. U.S. consensus economic expectations call for moderating but still-positive economic growth as restrictive Federal Reserve (Fed) interest rates gradually slow economic activity, with tariff uncertainty a challenge for growth through higher costs.

Softening consumer and small business surveys reflect unease around policy uncertainty but may warn of further slowing ahead. Historically, correlations between sentiment-based surveys and forward asset returns are low, but we must look for corroboration (or lack thereof) via economic data such as retail sales that reflect changing behavior. Despite weak confidence surveys and elevated inflation concerns, consumers remain healthy in the aggregate with respect to pre-April 2 data, with rising inflation-adjusted incomes supporting strong spending growth. Recent comments from retailers, restaurants and airlines regarding early signs of slower activity bear monitoring. Concurrently, U.S. corporate fundamentals and profitability remain solid, as well, but have downside risk as they incorporate tariff costs.

Rapid policy announcements fuel uncertainty

#	Date	U.S. policy announcements
1	2/1	Executive orders announcing tariffs on Canada, Mexico, China
2	2/3	Canada and Mexico tariffs on hold
3	2/4	Tariffs on China go into effect; China announces retaliatory tariffs
4	2/5	Amendments to tariffs on China exclude de minimus (small dollar) items
5	2/10	Announcement of global steel and aluminum tariffs
6	2/13	Announcement of plans for reciprocal tariffs
7	2/21	Memorandum outlining concern with foreign treatment of U.S. companies
8	2/25	Executive order to investigate copper tariffs for national security
9	3/1	Executive order to investigate timber and lumber tariffs for national security
10	3/4	Tariffs on Canada and Mexico go into effect; additional 10% tariff on China
11	3/6	Executive order exempting tariffs on U.S.-Mexico-Canada Agreement items
12	3/12	Steel and aluminum tariffs go into effect; EU and Canada announce tariffs
13	3/26	Announcement of automobile tariffs
14	4/2	Announcement of universal base 10% tariff with higher reciprocal tariffs
15	4/9	Tariffs paused for 90 days on non-retaliating countries

S&P 500 expected volatility (VIX Index)



Sources: U.S. Bank Asset Management Group Research, Bloomberg, Peterson Institute for International Economics. Data period: December 30, 2024-April 10, 2025.

Elevated fiscal spending was a key post-COVID economic growth driver, but government expenditures may slow as Congress navigates toward a bill to lift the debt ceiling, extend the Tax Cuts and Jobs Act and enact new tax cuts.

Deficit spending since 2020 contributed to positive economic activity at the expense of growing debt loads and fiscal imbalances, but the new U.S. administration initiated aggressive efforts to slash spending and government employee headcount. The near-term aggregate economic impact remains small despite the material impact on the workers affected. However, deeper government spending and job cuts could boost longer-term productivity and fiscal sustainability but dampen employment growth and economic activity this year.

Liquidity remains ample by multiple measures, providing some cushion against capital market uncertainty. Liquidity represents the degree of excess money available in an economy to purchase goods, services and financial assets. Global money supply and U.S. money supply relative to economic growth both continue trending higher, a sign of strong liquidity trends. Furthermore, the U.S. Treasury Department is spending accumulated cash balances due to reaching the U.S. debt ceiling, injecting otherwise idle liquidity into the economic system. This added cash in the economy may buffer the impact of negative headlines and weaker investor sentiment on asset prices in the near term, but economic activity still dominates market direction.

Economies outside the U.S. experienced slower growth, with global trade headwinds offsetting some of the prior lift from an improved fiscal outlook and a consumer recovery.

Consensus economic forecasts shifted to flatter growth prospects across the globe as economists catch up to potential tariff impacts and offsets. The largest downgrades are across Asia given the large U.S. tariffs on China. The U.S. is China's second-largest export market after the Association of Southeast Asian Nations. Growth expectations for the eurozone and the United Kingdom (U.K.) remain modest, with both likely to avoid recession helped by lower interest rates and slowing inflation. A peaceful resolution to the Russia/Ukraine conflict could boost investor sentiment and economic prospects, but the ultimate outcome remains unclear. Pre-tariff announcements, China's government reiterated its goal for 5% economic expansion in 2025 and expressed willingness to use fiscal and monetary policy tools to improve consumption, but the magnitude and duration of tariffs remain the biggest swing factor for near term prospects.

U.S. equity markets

Weakening investor sentiment suppressed U.S. equity performance in the first quarter despite solid corporate fundamentals.

Larger companies outperformed smaller firms, while defensive sectors outperformed Technology and other secular growth sectors in the first quarter as investor sentiment worsened in February and March. Fundamentals are unclear in the near term due to tariff uncertainty, with many companies expected to suspend their forward guidance. U.S. corporate profit margins remain firm across company size cohorts, which may erode somewhat if companies absorb a portion of tariff impacts rather than pass along all cost increases to consumers. Elevated valuation, or the price investors are willing to pay for expected earnings, began compressing but remain above long-term averages for large cap-stocks. Mid- and small-cap equities are closer to normal historical valuations, recognizing a dynamic range of earnings outcomes.

U.S. equity performance

Index	2025*	2024
S&P 500	-4.6%	23.3%
S&P 500 Sectors		
Communication Services	-6.4%	38.9%
Consumer Discretionary	-14.0%	29.1%
Consumer Staples	4.6%	12.0%
Energy	9.3%	2.3%
Financials	3.1%	28.4%
Health Care	6.1%	0.9%
Industrials	-0.5%	15.6%
Information Technology	-12.8%	35.7%
Materials	2.3%	-1.8%
Real Estate	2.7%	1.7%
Utilities	4.1%	19.6%

*Through March 31, 2025.

Sources: FactSet Research Systems, S&P Global.

Wide ranging potential policy outcomes cloud U.S. equities' near-term outlook, but consumer and business spending will determine medium- to longer-term price movements.

Prior to the April 2 tariff announcements, solid business and consumer spending coupled with stable inflation and anticipated Fed policy easing informed analysts' positive

U.S. large-company earnings growth forecasts for 2025, bolstering their return potential. Post-April 2, investors, consumers and corporate capital allocators are weighing a range of policy outcomes, from a shorter-term negotiation process to full long-term economic reshoring scenario. Analysts have not materially adjusted earnings growth forecasts at the time of this publication, but we anticipate companies will likely withhold, temper or offer wide-ranging guidance when reporting first quarter results, unofficially beginning the week of April 8. Meanwhile, trade negotiations' impact on domestic growth and inflation remains uncertain, clouding the Fed's policy response. In the near term, headlines will likely overwhelm fundamentals in driving equity price movements, though ultimately consumer and corporate spending will shape medium-term growth prospects and equity price trends.

First quarter results and company commentary will also impact sentiment into midyear.

According to Factset, analysts forecast first quarter year-over-year earnings and revenue growth of 4.2% and 7.0%, respectively, modestly below fourth quarter results. It is likely that many companies that provide components into the manufacturing process or products into the retail distribution channel will post strong results this quarter, since manufacturers and retailers have stocked up on key components and products in front of tariff deadlines. This demand pull-forward environment may suggest that the next couple of quarters could be more challenging.

The evolution of artificial intelligence (AI) remains in its infancy but has the potential to change how we live, work and play, though technology remains an export-heavy industry vulnerable to trade disruption.

The world is changing at an unprecedented pace, and speed, scale and efficiencies do not occur without technology. This presents a favorable backdrop for AI-related buildout beneficiaries. For instance, companies focused on data capture, storage, processing, software and analytics, security and distribution appear positioned to benefit from longer-term growth drivers. Most recently, investors are debating computing and capital expenditure trends since China AI firm DeepSeek announced a model with significantly less cost and is allowing other technology companies to employ its methodologies. Already in 2025, of the "Magnificent 7" companies (Apple, NVIDIA, Microsoft, Amazon, Alphabet, Meta Platforms and Tesla), the largest companies in the S&P 500 and primarily technology focused, all are sharply negative for the year. Improved performance among these seven companies will be a key determinant for broad-based U.S. equity markets to trend higher.

Income-oriented sectors and companies also provide growth opportunities.

Defensive/income-oriented sectors such as Real Estate, Utilities, Consumer Staples, Industrials and select Healthcare companies should respond favorably in a slow-growth environment amid rising uncertainties. A balanced approach combining growth-oriented technology and defensive sectors provides exposure to evolving technologies as well as sectors and companies with favorable risk profiles to help mitigate periods of economic and political uncertainty.

Foreign equity markets

Trade policy outcomes will be key to unlocking foreign equity opportunities, with attractive valuations, major policy support and a value-oriented index composition representing positive catalysts.

Weak economic data and subdued asset price performance in 2024 set the stage for a first quarter rebound for developed market equities. Inexpensive valuations compared to other equity categories, strong current income with a 3.0% dividend yield and 1.4% share buyback yield, along with a higher allocation toward value-oriented companies provide a return buffer if investor sentiment remains overly cautious relative to the more growth-oriented U.S. market. Economic growth appeared to be in recovery mode pre-tariff announcements, with Germany announcing a landmark 500 billion euros stimulus package while bond yields reflect further central bank rate cuts in Europe and the U.K., supporting borrowers. Uncertain tariff policy outcomes discussed above as well as the ongoing conflict in Ukraine continue to weigh on investor sentiment. Meanwhile, structural challenges such as demographics, lower productivity growth and lower capital investment relative to the U.S. are medium- to longer-term headwinds.

Corporate fundamentals remain mixed. Mid-single-digit revenue growth expectations pre-tariff announcements paired with reasonable profit margins translated to modestly positive earnings growth expectations in foreign developed markets for 2025. Analysts' forecasts remain in flux, pending potential

implemented rates across countries and individual sectors or industries. Meanwhile, strong free cash flow growth in Japan remains a bright spot, in contrast to poor cash flow growth in core European markets like France and Germany. Subdued valuations already reflect a degree of mixed fundamental data and trade policy uncertainty, which could mute downside risks and provide upside potential if economic outcomes improve.

Emerging market stocks benefit from cheaper valuations and improving investor sentiment toward China, but materialized tariff risks temper the region's growth prospects.

Emerging market stocks produced low but positive returns in the first quarter, bolstered by improving sentiment toward Chinese stocks, which comprise nearly one-third of the emerging market equity index. China's policymakers unveiled a series of measures to stimulate domestic consumption, while initial responses to U.S. tariff announcements appeared measured. However, China's tougher response to the Trump Administration's "Liberation Day" reciprocal tariff announcement muddies emerging equities' near-term prospects. Oil-importing countries should benefit from cheaper energy costs after eight oil-producing countries agreed to expand production because of increasing U.S.-Iraninan tensions. Economic growth in China, India and Brazil remains strong and is corroborated by expansionary purchasing manager surveys. Despite expectations for moderating economic growth, low-double-digit profit margins supported pre-tariff expectations of robust earnings growth in 2025, though analysts' estimates will remain fluid amid escalating U.S.-China announcements. Pending greater trade and tariff clarity, the combination of cheap valuations, lower energy prices and solid earnings growth underscore emerging markets' return potential.

Fixed income markets

Bonds proved important portfolio diversifiers amid market volatility in the first quarter but exhibit volatility as investors weigh tariff implications.

Medium- and long-term Treasury yields fluctuated between 4% and 5% in the first quarter, ultimately falling (bond prices rose) as volatility gripped markets. Diversified bond exposures delivered favorable income and price returns relative to stocks, with safer investment-grade bonds outperforming riskier higher-yielding bonds. Credit spreads, or a measure of compensation lenders require relative to Treasury bonds, widened from low levels after economic growth concerns related to tariff announcements eroded investor confidence and risk appetite. Core exposures to high-quality bonds with supplemental allocations to riskier high yield debt and esoteric bond types like non-agency mortgages and reinsurance generate income that supports return opportunities going forward, but with associated price volatility.

Bond yields reflect expectations for the Fed to resume interest rate cuts later in the second quarter.

Solid labor market conditions prompted the Fed to pause interest rate cuts in the first quarter to focus on slowing inflation. Recognizing the 4.25%-4.50% policy rate is still somewhat restrictive, the Fed noted hesitancy to cut rates too soon and risk further inflation despite recent market stress, particularly given recent tariff announcements and the potential for higher prices as a result. Expectations for 2025 Fed rate cuts remain volatile, ranging from one to two 0.25% rate cuts earlier in the quarter to three to four at present.

Recent administration efforts to reduce government spending did little to cut the federal deficit thus far, which remains around 7% of gross domestic product (GDP). Until reaching the debt ceiling in January 2025, the U.S. Treasury issued short-term Treasury bills to fund government spending, preventing a disruptive increase in medium- and long-term bond supply. Auction sizes may increase in coming quarters, once the debt ceiling is lifted, but Treasury yields fairly compensate for Fed policy expectations, inflation ambiguity and heightened Treasury supply. Treasury prices initially rose (yields fell) as sentiment eroded late in the first quarter, but longer-term bond yields have risen with recent volatility.

Corporate and municipal bond prices fell relative to Treasuries and now offer more incremental yield than historical averages.

Issuer credit fundamentals have been on solid footing, but growing investor concern that tariffs will drag on economic growth and corporate profitability sent corporate and municipal bond prices lower recently. The extra yields on investment-grade corporate and municipal bonds over Treasuries, which compensate for their incremental risk, quickly adjusted from below to above normal. Municipal bond yields now offer significantly more yield relative to Treasuries (after adjusting for tax benefits) compared to historical norms, presenting compelling opportunities for highly taxed investors. Within municipal bonds, allocating to

slightly longer-term and lower-quality bonds to generate extra tax-exempt income can improve returns over time, albeit with increased periodic volatility.

Yield opportunities in bonds

*Municipal bond yields are tax adjusted with the highest federal tax bracket of 37% plus the 3.8% Affordable Care Act income tax.

Sources: Bloomberg, January 2, 2004-March 28, 2025. Yields are based on Bloomberg Aggregate Bond Index, Bloomberg High Yield Corporate Bond Index, Bloomberg Municipal Bond Index, Bloomberg High Yield Municipal Bond Index. See index definitions in the disclosure section.

Less traditional bond categories also present investors unique opportunities to generate compelling yields, albeit with periodic incremental volatility. Bond investors can improve on the approximate 4.5% yield on traditional aggregate bond exposures with allocations to residential mortgages not backed by a government agency that offer yields near 7%. Sound credit fundamentals in the form of healthy collateral values (home prices) and borrower incentives support the category. Homeowners have a strong incentive to pay low-cost fixed rate mortgages originated prior to Fed rate increases, high home prices backstop mortgage principal values, and higher-quality slices of these mortgages build in significant structural credit protection from potential mortgage payment delinquencies. Similarly, highly rated collateralized loan obligations (CLOs) have minimal credit risk due to strong structural protection from losses in underlying bank loan pools, and yields over 5% are superior to comparably rated corporate bonds. Insurance-linked securities (reinsurance) introduce a unique return stream to portfolios, with income tied to insurance premiums and insured losses in natural catastrophes. Recent insurance premium increases support over 10% yields on reinsurance, providing ample cushion against historical insurance claim losses, which average near 2% annually.

Real asset markets

Inflation uncertainty highlights real assets' importance for diversified portfolios.

Rising inflation expectations but falling Treasury yields benefited publicly traded real estate investment trusts (REITs) in the first quarter, although prices fell early in the second quarter as investor risk appetite abated. REITs compete with Treasuries as a source of income in investor portfolios, but rent increases provide some protection from sustained inflation. Commodities also performed well in the first quarter amid rising tariffs and inflation uncertainty, with broad commodity exposures generating nearly 9% returns. Performance eroded at the end of the quarter and early in the second quarter as growth concerns and, by extension, expectations for weaker commodity demand overwhelmed inflation worries.

The largest publicly traded real estate categories performed well in the first quarter prior to more recent volatility.

Retail, healthcare, telecommunications towers and industrial REITs represent roughly half of the publicly traded real estate market. The largest categories delivered strong returns in the first quarter, ranging from 1% for retail to 17% for telecommunications, indicating investor focus on categories with the strongest fundamentals. Low industrial vacancies, near 7%, and strong rent growth of almost 30% over the past three years continue to support valuations. Real estate trouble is concentrated in the office category, which accounts for less than 4% of broad REIT exposures. Office vacancies above 10% and falling net operating income indicate ongoing troubles, but prices reflect downbeat expectations after office REITs fell almost 10% in the first quarter.

REIT cap rates, the net operating income generated on a property compared to its price, are above their long-term average across property types. However, comparing REIT income to Treasury yields suggests REIT valuations remain elevated. REIT prices rose as Treasury yields fell in the first quarter. While lower Treasury yields improve the attractiveness of income opportunities in REITs and reduce financing costs for property owners, REITs may remain vulnerable to eroding economic growth concerns. Enthusiasm transitioned to concern as tariff announcements led to price declines in categories with weaker fundamentals (office REITs), higher valuations (industrial REITs) and sensitivity to changes in economic conditions (hotel REITs).

Commodity performance is split between categories most sensitive to growth, like energy commodities, and safe havens like precious metals.

Investor demand pushed gold prices to all-time highs in the first quarter, with further gains early in the second quarter, amid the shifting geopolitical landscape. Foreign central banks continued to add gold in reserves, providing a steady source of demand that pushed prices roughly 18% higher in the first quarter. Energy commodities, like oil, hinge on global economic activity fueling demand. The Organization of the Petroleum Exporting Countries (OPEC) increased oil production in early April, which, combined with recent economic growth concerns, propelled oil prices sharply lower over a brief period. Other economically sensitive commodities, such as industrial metals like copper, also fell after larger-than-expected tariff announcements. While commodities have served as an important inflation hedge over time, they also remain susceptible to growth expectations and deteriorating economic activity.

Alternative investments

Hedge funds are positioned well for the current market volatility.

Hedge fund managers are looking through the current market volatility for opportunities. When evaluating the spectrum of investment approaches spanning passive to active, hedge funds are at the edge of active management. Hedge fund managers trade their portfolios frequently, pursue investments to both buy long or sell short and may borrow additional money to invest, called leverage. Economic and geopolitical risks form a constructive background of market volatility and significant stock price movements, creating a wide range of performance among securities and an opportunity to generate strong returns with low correlation to underlying indices.

Hedge fund managers are increasing their short positions and adjusting their portfolios' sensitivity to broad market price movements, reducing their net exposure in the first quarter of this year. However, they are reacting to volatility differently than last summer, when similar turmoil led them to reduce leverage and net exposure by actively hedging for broad market declines. Managers are approaching volatility this year by more actively selling-short individual stocks.

We view hedge funds generally as compelling for their flexibility and strategy breadth, as well as diversification benefits. Their overall performance in 2024 demonstrated they can generate positive returns in a high-interest-rate environment, but they trailed U.S. equity markets' strong gains. Overall, hedge funds have become less correlated with equity markets since 2020 and are near their lowest correlations in 15 years. We believe select hedge fund opportunities can provide benefits to diversified investment portfolios. Equity market neutral is a strategy that performed well last year and can offer greater stability amid geopolitical and economic uncertainty. We are also intrigued by managers seeking to exploit market turmoil and inefficiencies. Event-driven strategies are also gaining renewed interest from investors anticipating a strong post-election merger and acquisition cycle.

Private markets

Optimism returned to private markets but with short-term hiccups.

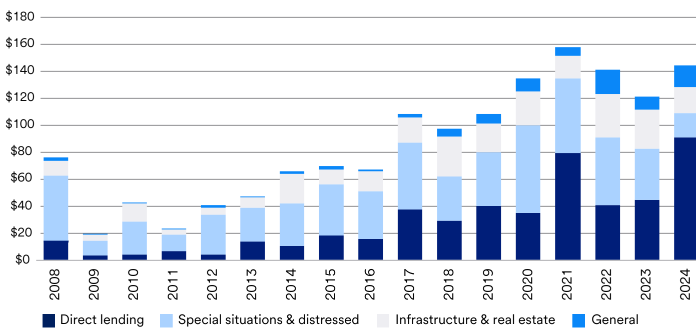
The first quarter began with optimism around a pickup in private market deal activity and more public listings of technology companies that have been waiting for the right time. This optimism was quickly met with some short-term uncertainty around tariffs and the impact of federal spending cuts. Looking ahead, the competing forces of pro-growth regulatory and tax policies with tariffs and federal spending cuts will delay some of the deals in the pipeline until there is more clarity around the combined economic impact of these initiatives.

Data from January and February show the number of new deal starts increased 6% and 7%, respectively, versus 2024. New deal starts track the commencement of the process of a purchase or sale of a company. However, the time spent performing diligence of these deals rose 3% over last year. This means buyers and sellers are taking more time to account for market uncertainty before closing deals. Evidencing elevated market volatility and uncertainly, both Klarna and StubHub postponed their highly anticipated initial public offerings (IPOs). We still foresee strong deal activity this year, particularly in the second half, but anticipate a bumpy ride in the near term.

Private debt managers raise record amounts of capital with significant interest from wealthy investors.

Private debt funds continue to make headlines as they raise large pools of investor capital. The lending shift from banks to non-bank private debt asset managers accelerated over the past five years. Direct lending, a type of private debt solution, attracted a record $91 billion in 2024 from investors. Many of the private debt funds are competing directly with banks for rating agencies' highly rated larger deals. With more capital available in this segment of the market, competition is heating up. Until buyout deal activity picks up, investment opportunities for these private debt funds remain limited, further intensifying competition that reduces credit spreads, or the additional yields investors receive for taking repayment risk.

Private debt capital raised by type (billions)



Sources: Pitchbook, U.S. Bank Asset Management Group Analysis, December 31, 2024.

Lower future returns could result if fund managers loosen credit underwriting standards to deploy the large pools of raised capital, especially if the economy hits a soft patch and the companies are unable to service the debt. We prefer a focus on opportunities in the middle market segment where competition is less intense and traditional lenders such as smaller banks are less active. Borrowers in this segment value the speed, flexibility and certainty of execution provided by the private debt managers.

Although defaults remain low, we have witnessed a pickup in certain arrangements known as "liability management exercises" to avoid default. Another arrangement, in which the borrower accrues the interest amount to the loan principal instead of paying cash interest payment (known as payment-in-kind) is on the rise. We are keeping an eye on these metrics but continue to maintain conviction in middle market private debt lending by partnering with high quality investment managers.

This commentary was prepared April 2025 and represents the opinion of U.S. Bank Wealth Management. The views are subject to change at any time based on market or other conditions and are not intended to be a forecast of future events or guarantee of future results, and are not intended to provide specific advice or to be construed as an offering of securities or recommendation to invest. Not for use as a primary basis of investment decisions. Not to be construed to meet the needs of any particular investor. Not a representation or solicitation or an offer to sell/buy any security. Investors should consult with their investment professional for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness. Any organizations mentioned in this commentary are not affiliated or associated with U.S. Bank in any way.

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Diversification and asset allocation do not guarantee returns or protect against losses. Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio.

Past performance is no guarantee of future results. All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. The **S&P 500 Index** is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. The **S&P 500 Total Return Index** includes the same stocks but include the reinvestment of dividends. The **MSCI EAFE Index** includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East (EAFE). The **MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets. The **Bloomberg U.S. Aggregate Bond Index** is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities. The **Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market and includes U.S. dollar denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. The **Bloomberg U.S. Corporate High Yield Bond Index** measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market. The **Bloomberg U.S. Municipal Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar denominated, fixed tax-exempt bond market. The index includes state and local general obligation, revenue, insured and pre-refunded bonds. The **Bloomberg High Yield Municipal Bond Index** is an unmanaged index consisting of non-investment grade, unrated or below Ba1 bonds. The **Volatility Index (VIX)** is the annualized implied volatility of a hypothetical S&P 500 stock option with 30 days to expiration.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. The value of **large-capitalization stocks** will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions. **Stocks of small-capitalization companies** involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies and may be expected to do so in the future. **Growth investments** focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends, which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. **Value investments** focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** is subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investments in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). **Hedge funds** are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. **Private capital investment funds** are speculative and involve a higher degree of risk. These investments usually involve a substantially more complicated set of investment strategies than traditional investments in stocks or bonds, including the risks of using derivatives, leverage, and short sales, which can magnify potential losses or gains. Always refer to a Fund's most current offering documents for a more thorough discussion of risks and other specific characteristics associated with investing in private capital and impact investment funds. **Private equity investments** provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt investments** may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies.