SS&C | ALPS ADVISORS

Investment Committee Review

Outlook Q2 2025

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SS&C ALPS Advisors is an open architecture boutique investment manager offering portfolio building blocks, active insight and an unwavering drive to guide clients to investment outcomes across sustainable income, thematic and alternative growth strategies.

Asset Class Reviews

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Introduction

Q1 2025 Review

In the first quarter of 2025, global equities declined by -6.9%, while core bonds gained +1.3%, reflecting tighter US financial conditions and heightened uncertainty stemming from evolving trade policies. Despite these headwinds, global liquidity remained modestly positive, supported by an expanding money supply and stabilizing mechanisms such as the US Treasury General Account. Inflation fell to its lowest monthly level since 2020, reinforcing projections of 2% – 3.5% inflation for the year. Economic growth showed signs of contraction, with a potential negative Q1 GDP print and labor market softening. However, recent job gains in cyclical sectors hint at a possible recovery. Corporate profit expectations have moderated, yet a weaker dollar and resilient demand—particularly in artificial intelligence (AI)-related areas—provide a counterbalance to risks tied to tariffs and trade uncertainty.

Q2 2025 Outlook

Executive Summary

We anticipate increased volatility in risk assets as markets adjust to shifting guidance from policymakers on tariffs and fiscal policy. Should inflation continue its downward trend, Federal Reserve (Fed) easing remains a possibility amid economic softness. We maintain a preference for higher-quality equities, real estate investment trusts (REITs) and fixed income, while staying cautious on commodities given the weakening macroeconomic environment.

Equities

US equities fell in Q1, led by a breakdown in the AI narrative and elevated uncertainty following tariff announcements from President Trump. Defensive sectors and low-volatility stocks outperformed, affirming the case for a more conservative equity allocation over expensive large-cap growth. International markets are gaining traction, bolstered by a weakening dollar, rising fiscal stimulus abroad, and a shift in capital flows—factors that may support non-US equities in the medium term. Looking ahead, we remain cautious on US equities due to margin pressures and slowing growth, though a reduction in trade tensions could lift cyclical sectors.

Fixed Income

Bonds delivered solid gains in Q1 2025, with the Bloomberg US Aggregate Bond Index returning 2.78%, driven by slowing economic growth, inflation concerns related to tariffs and a flight to quality. Treasuries and other high-grade securities outperformed, while municipal bonds lagged due to increased supply and risk aversion. Although the Fed paused its rate-cutting cycle, weakening economic indicators suggest potential easing later in the year. Fiscal policy uncertainty, particularly around debt and spending, remains a wildcard. In this environment, we recommend selectively extending duration, upgrading credit quality and diversifying beyond Treasuries to manage volatility and enhance returns.

Real Estate

REITs rebounded in Q1 after a weak close to 2024. The FTSE NAREIT All Equity REITs Index rose 2.75%, led by Cell Towers, Health Care and Residential sectors. Lodging and Data Centers underperformed, in part due to uncertainty following the DeepSeek AI announcement. Still, most sectors showed signs of recovery amid improving fundamentals. Valuations remain near historic lows relative to the S&P 500 Index, and delinquencies in commercial real estate debt may have peaked. Rising transaction values and more attractive earnings yields, especially in previously weaker areas like Office and Mall sectors, suggest stabilizing conditions. Limited supply growth and inflation-linked rent increases support a neutral-to-positive outlook for REITs in Q2.

Commodities

Commodities delivered strong Q1 performance, gaining 8.9%, led by precious metals (+18.3%) and energy (+11%), driven by natural gas price spikes tied to cold weather and supply constraints. Industrial metals also rose due to trade-related distortions, while agriculture underperformed. Despite the rally, the outlook for Q2 is cautious, given persistent global growth concerns and volatility triggered by US tariff moves. Energy markets remain mixed, with OPEC signaling production increases even as sanctions on Venezuela and Iran introduce potential disruptions. While gold continues to benefit from geopolitical risk and central bank buying, the broader commodities landscape remains vulnerable to policy shocks and an uncertain macro backdrop.

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Macro Summary

Liquidity Cycle

Global equities retreated -6.9% in the first quarter of 2025 while Core Bonds gained +1.3%. US economic data underperformed expectations during the period, coinciding with a wave of uncertainty from the new administration's evolving trade policies—setting the stage for the growth slowdown we had anticipated.

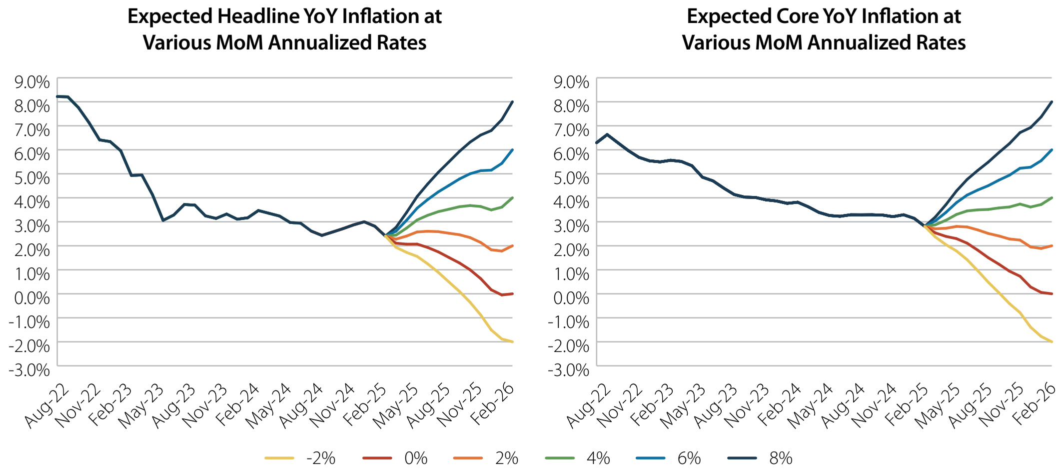
US financial conditions began tightening noticeably from their February peaks. Stocks near record highs and credit spreads approaching historical tights finally succumbed to the whiplash of unpredictable trade policy messaging. Meanwhile, the US Treasury General Account provided a welcome counterbalance to the Fed's ongoing quantitative tightening and the Reverse Repurchase Facility held steady.

Both the US dollar and oil prices weakened during the quarter and then fell sharply in early April, creating a buffer against tightening financial conditions. Furthermore, global money supply continues to expand from its cyclical low in October 2022, keeping global financial markets in a modestly positive liquidity cycle.

Inflation Cycle

March brought headline inflation of -0.05% month-over-month, the lowest reading since 2020. Despite concerning jumps in December and January, the 2-month average headline Consumer Price Index (CPI) is running below 1% annualized.

Our 2025 outlook maintains both headline and core inflation between 2% and 3.5%. While conventional wisdom initially viewed the incoming administration's policies as growth-friendly and inflationary, our previous assessment suggested these measures might initially have the opposite effect. We had identified reduced immigration and slowing labor force growth as headwinds, but it was the formal rollout of protectionist trade policies that dominated the market narrative. Recent inflation readings confirm the inseparable relationship between growth and inflation. The post-election economic surge may have created a vacuum where prices are now temporarily falling back to equilibrium.

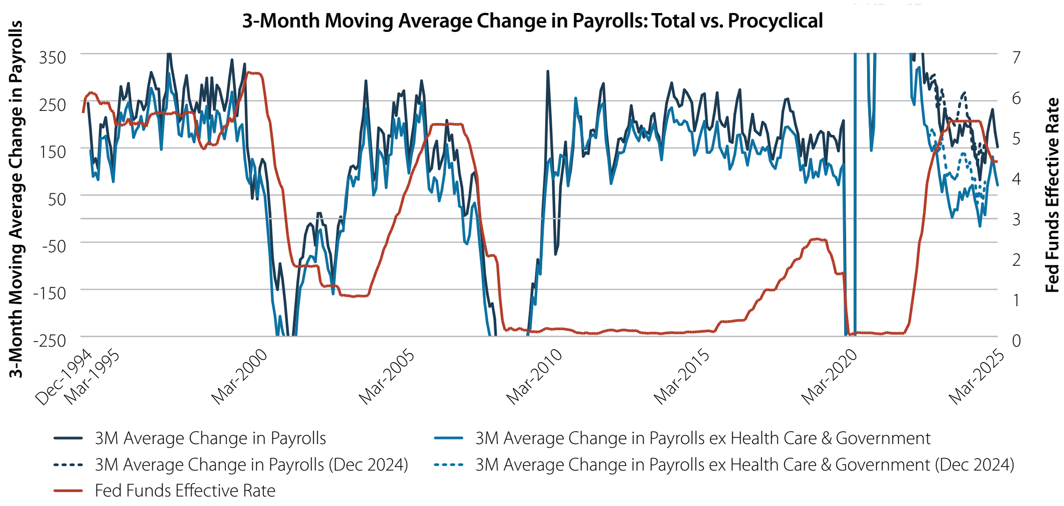


Source: Bloomberg, 8/31/2022 - 3/31/2026
Headline Inflation represented by the Consumer Price Index (CPI) and Core Inflation represented by the Personal Consumption Expenditures Price Index (PCE).

Growth Cycle

Over the last three quarters, we have highlighted signs of economic moderation: cooling housing investment, decelerating manufacturing construction and deteriorating labor market indicators. Today, the Atlanta Federal Reserve's real-time "nowcast" suggests Q1 may have delivered negative real GDP—unsurprising to us, though recent employment data has prompted us to recalibrate our view.

Last quarter we shared the chart below illustrating Nonfarm Payrolls (NFP) internals. The dotted lines represent data reported in December 2024, while solid lines show the latest figures. The stark difference reveals significant downward revisions to 2024 payrolls, with Change in Payrolls ex Health Care and Government now showing job losses in five months of 2024. While manufacturing strikes and natural disasters explained October's weakness, we now see these cyclical jobs were flashing pre-recession signals throughout last summer. Perhaps the easing cycle started by the Federal Reserve in September was timely.



Source: Bloomberg, SS&C ALPS Advisors Proprietary Research, as of 3/31/2025

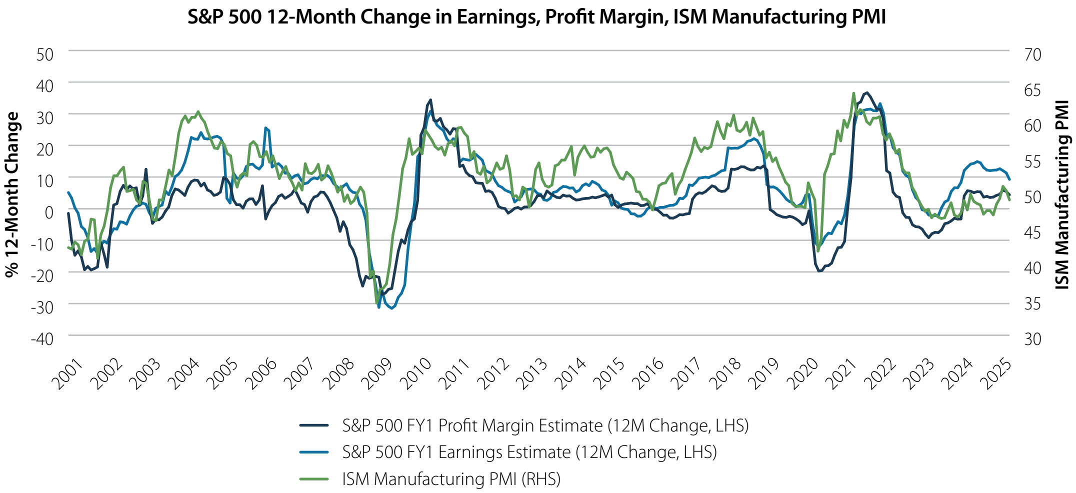
Intriguingly, this cyclical job category has shown signs of life over the past four months, recovering to levels just below the 30-year median. Simultaneously, Challenger Job Cut announcements for February and March reached recessionary thresholds—though predominantly in government-related positions along the East coast. As policy uncertainty creates volatility across these labor market segments, we remain vigilant for signals of continued deterioration or nascent recovery. For now, cyclical job growth in 2025 appears to be outpacing the lackluster second half of 2024.

Profit Cycle

S&P 500 earnings per share estimates for the coming year project 9% growth compared to year-ago forecasts, down from 14% in Q3 2024. Last quarter, we anticipated greater downside than upside risk to earnings revisions given economic deceleration, dollar strength and potential global tariff disruptions. However, the US dollar has now surrendered all its recent gains and then some, creating a tailwind for multinational earnings in early 2025.

Simultaneously, the erratic implementation of global tariff policies has injected significant uncertainty into markets and trade relations, potentially compromising the investment activities needed to achieve earnings projections. The range of potential profit cycle outcomes has widened given these developments, but we expect improving financial conditions and a modestly positive global liquidity environment to provide some defense against uncertainty in the medium term.

Finally, we remain laser-focused on monetization of recent AI investments. Demand remains robust for previously bottlenecked AI chips, orchestration software and workplace co-pilots. To the extent profitable applications emerge beyond data center buildouts, this investment theme may continue driving the profit cycle forward in this mid-to-late cycle macroeconomic environment.



Source: Bloomberg, as of 3/31/2025

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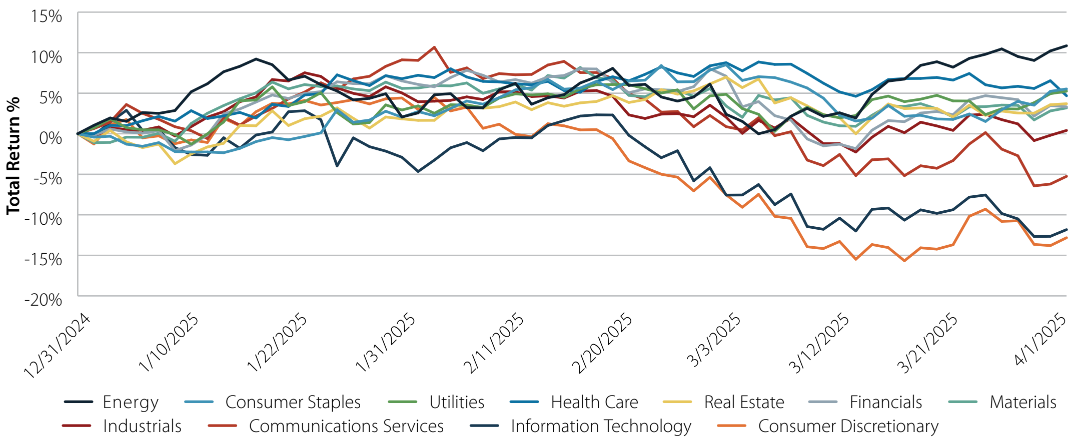
Equities Summary

Q1 2025 Review

Following two years of strong gains in the stock market, the first quarter of the year delivered a disappointing start. The initial setback came from DeepSeek, which disrupted the prevailing AI narrative surrounding dominant US technology companies. This was followed by market turmoil and uncertainty sparked by President Trump's tariff announcement.

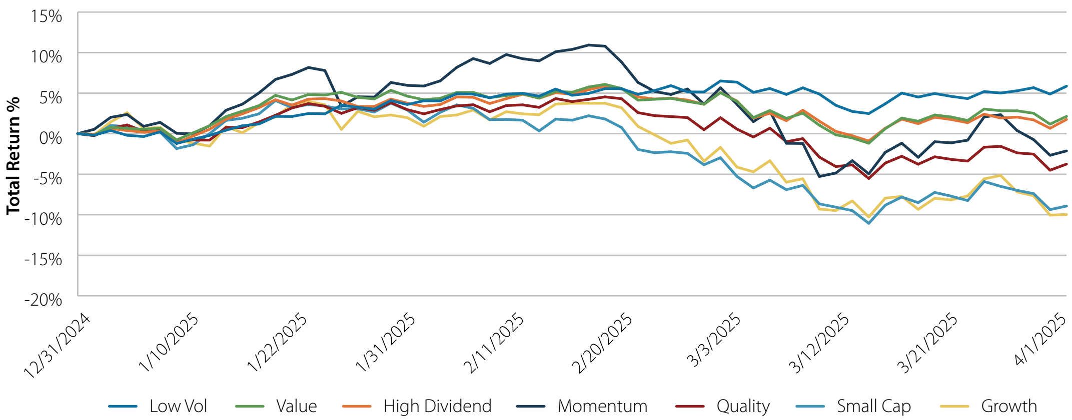
The S&P 500 declined by 4.28% during the quarter, while the Dow Jones Industrial Average fell 0.87% and the Nasdaq 100 Index dropped 8.07%. As shown in the charts below, sectors and factors that offered diversification outperformed, while higher-beta assets lagged significantly.

S&P 500 Returns by Sector



Source: Bloomberg, 12/31/2024 - 4/1/2025
Past performance is no guarantee of future results.

Returns by Factor



Source: Bloomberg, 12/31/2024 - 4/1/2025
Past performance is no guarantee of future results.

At the beginning of the year, we highlighted the valuation discrepancy between growth stocks—expensive relative to historical norms—and low volatility stocks, which appeared attractively priced. While we did not predict the specific catalyst, we were pleased to be positioned appropriately as events unfolded.

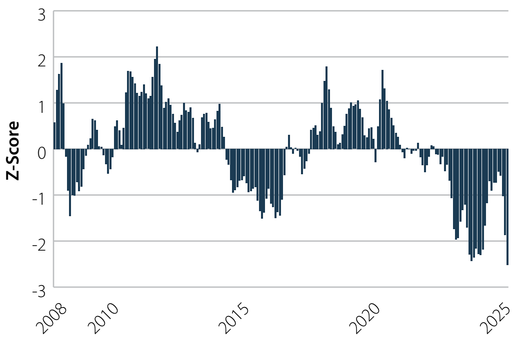
We have also consistently emphasized the relative opportunity in international equities, supported by our expectation of a weakening US dollar and the historically wide valuation gap between US and international stocks. Officials within the Trump administration have been outspoken about currency manipulation by trading partners, suggesting a belief that the dollar is overvalued. In our view, this points to a deliberate policy of dollar devaluation—one we believe is likely to persist.

Q2 2025 Outlook

Tariff policy will undoubtedly continue to be a dominant force in the markets, and much of the economic outlook hinges on whether current policies persist or are scaled back. In isolation, the cost burden of tariffs will likely be shared—partly absorbed by companies through shrinking margins and partly passed on to consumers, resulting in slower growth. Together, these pressures are expected to contribute to a broader slowdown in the US economy. While this is currently reflected in soft data, we anticipate it will soon become evident in the hard data as well.

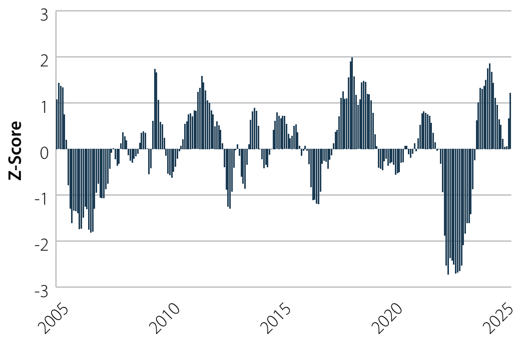
From a factor perspective, we continue to favor low volatility and defensive exposures, while remaining underweight growth. As illustrated below, there has been a significant rotation into stable free cash flow and high-quality stocks. That said, we do not see a compelling opportunity to make a directional bet on cyclicals at this time, as earnings in those sectors could quickly deteriorate if economic growth continues to weaken.

Z-Score Valuation Spread Between Top and Bottom Quintiles Based on FCF Volatility



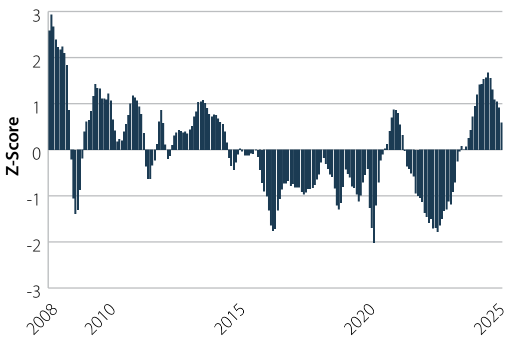
Source: Bloomberg, Bloomberg US 1000 Index, 4/30/2008 - 3/31/2025; free cash flow volatility is the standard deviation of last 12 quarters of free cash flow

Z-Score Valuation Spread Between Top and Bottom Quintiles Based on Quality



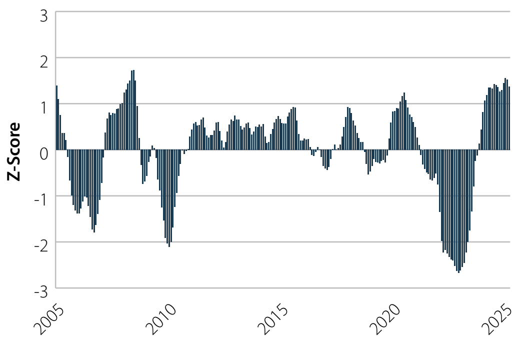
Source: Bloomberg, Bloomberg US 1000 Index, 2/28/2005 - 3/31/2025; quality is the trailing 12 month Return on Invested Capital (ROIC)

Z-Score Valuation Spread Between Top and Bottom Quintiles Based on Volatility



Source: Bloomberg, Bloomberg US 1000 Index, 1/31/2008 - 3/31/2025; volatility is the standard deviation of last 36 months stock price

Z-Score Valuation Spread Between Top and Bottom Quintiles Based on Revenue Growth



Source: Bloomberg, Bloomberg US Corporate High Yield Bond Index, 2/28/2005 - 3/31/2025; revenue growth is the last 12 months revenue growth

When we consider the broader macro landscape and piece together the various moving parts, we continue to see meaningful opportunity in international markets. One of the most persistent headwinds for US investors abroad—dollar strength—now appears to be reversing. A weaker dollar not only improves the return on foreign assets for US investors but also enhances the margins of international companies, further supporting growth abroad.

In addition, we are seeing a notable uptick in fiscal spending across several international economies, particularly in infrastructure and industrial policy, which we believe will drive new growth opportunities. This is occurring alongside a broader trend of capital repatriation, as international money managers reduce exposure to US assets and reallocate capital domestically.

Taken together—a weakening dollar, increased fiscal stimulus abroad and a shift in capital flows—we believe these forces could create a sustained tailwind for international equities over the medium term.

In summary, the first quarter of 2025 marked a clear shift in market dynamics, with headline volatility and policy uncertainty driving performance divergences across regions, sectors and styles. While domestic equities stumbled under the weight of disrupted growth narratives and escalating trade tensions, our emphasis on low volatility and quality factors proved timely. Looking ahead, we remain cautious on US equities, particularly in higher-beta segments, given the potential for continued margin pressure and slowing economic activity. Tariff policy remains a key source of uncertainty, and while it is unclear whether current measures will be scaled back or persist, we believe any indication of relief would likely be met with a positive market response, particularly in cyclical and trade-sensitive areas. Meanwhile, the evolving global backdrop—characterized by a weakening dollar, supportive international fiscal policy and a reallocation of global capital—positions international markets as an increasingly attractive source of return and diversification. As we move through the rest of the year, we will remain focused on managing risk, identifying asymmetric opportunities and adapting with agility to what continues to be a rapidly changing investment landscape.

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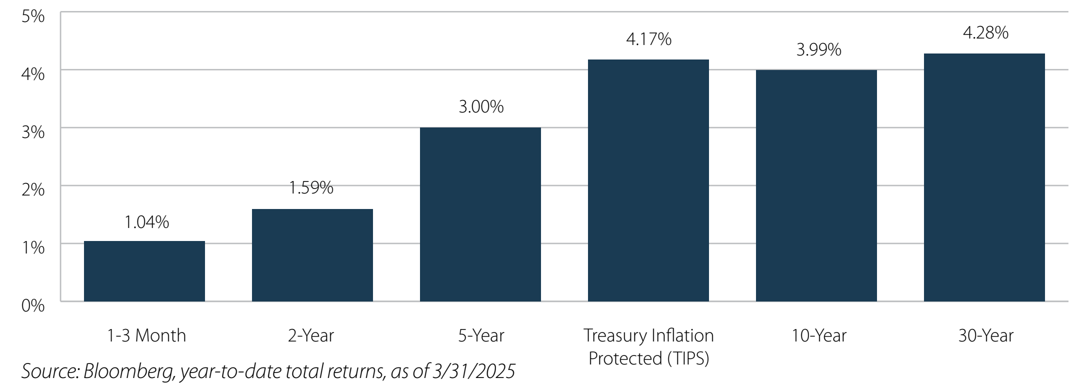
Fixed Income Summary

Q1 2025 Review

The US bond market delivered solid returns during the first quarter, driven by slowing economic growth and uncertainty surrounding the impact of tariffs on the global economy. The initial reaction to broad tariff increases was a perceived "tax on the consumer", which spurred inflation concerns and a notable slowdown in consumer spending. This environment triggered a "flight to quality", with Treasuries—particularly long-duration securities—emerging as the primary beneficiaries, as illustrated in the nearby chart.

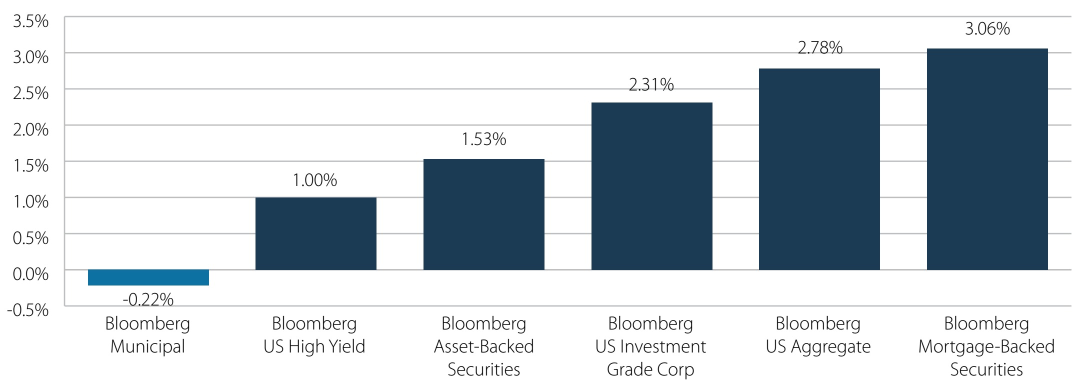
US Treasury Performance - Q1 2025
(Total Return, Sorted by Index Duration)



Source: Bloomberg, year-to-date total returns, as of 3/31/2025
Past performance is no guarantee of future results.

The Bloomberg US Aggregate Bond Index, a key benchmark for the US investment-grade bond market, returned 2.78% for the quarter, reflecting the bond market's resilience amid equity market volatility. Treasury Inflation-Protected Securities (TIPS) and Agency Mortgage-Backed Securities (MBS) were standout performers, benefitting from rising inflation expectations and tightening spreads over intermediate-term Treasuries, respectively. Conversely, credit sectors such as municipal bonds underperformed due to increased supply and investor caution regarding risk assets in general.

US Core Bond and Credit Sector Performance - Q1 2025
(Sorted by Total Return)



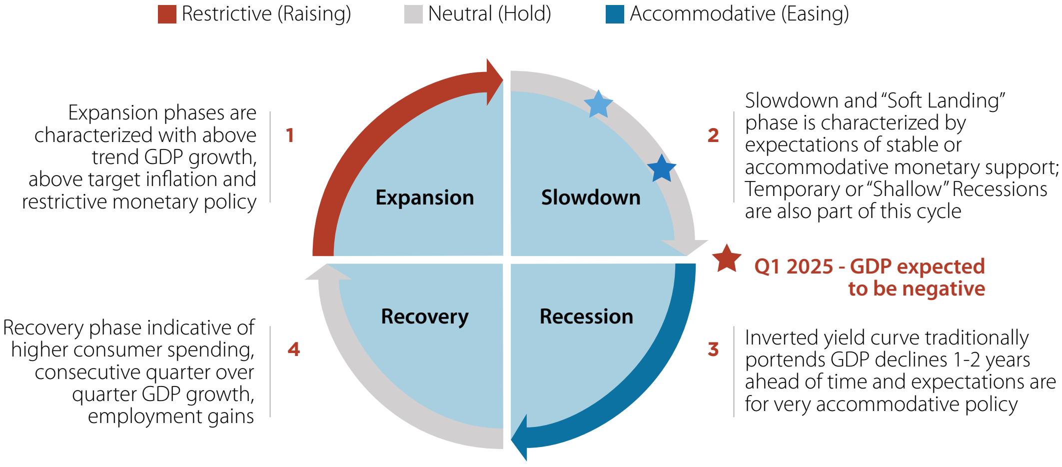
Source: Bloomberg, year-to-date total returns, as of 3/31/2025
Past performance is no guarantee of future results.

Q2 2025 Outlook

Monetary Policy

The Fed paused its preemptive easing cycle this year, citing persistent inflation and uncertainties surrounding tariff impacts. While short-term rates remain steady for now, weakening macroeconomic and price data supports the Fed's forecast of resuming rate cuts later in 2025. Additionally, the slowing pace of quantitative tightening has set a more constructive tone for monetary policy moving forward. However, any realization of the anticipated 50-75 basis points in easing will depend on continued moderation in jobs, inflation and wage growth.

Federal Reserve Policy and Business Cycle Progression



Source: SS&C ALPS Advisors Proprietary Research
For Illustrative Purposes Only

Fiscal Policy

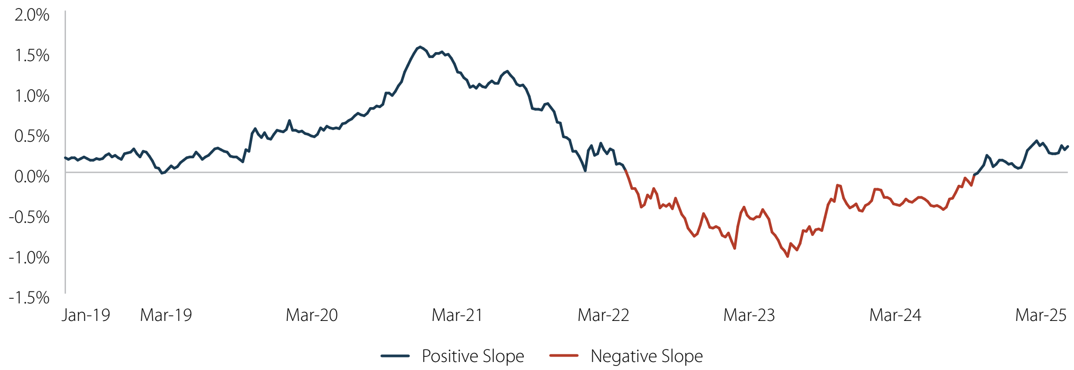
Fiscal policy introduces significant uncertainty for fixed income markets. Key concerns include spending levels, debt management strategies and actual changes to tax policy—all of which could impact the rate and credit markets both positively or negatively depending on their outcomes. While we expect the debt ceiling will be raised in Q2, whether or not debt can continue to grow at a slower rate of GDP will depend on Congressional budget priorities ahead of this event.

The Treasury department will need to carefully balance the nation's new borrowing and very large refinancing needs in a constrained and volatile environment for US Treasury debt. While it is no easy task managing over $36 trillion in debt, it is encouraging that the nation's interest costs have begun to slow its rate of growth. Additionally we are encouraged by the Treasury's communication and stated goal of keeping debt growth at 3% (far less than the entire preceding decade).

Yield Curve Dynamics

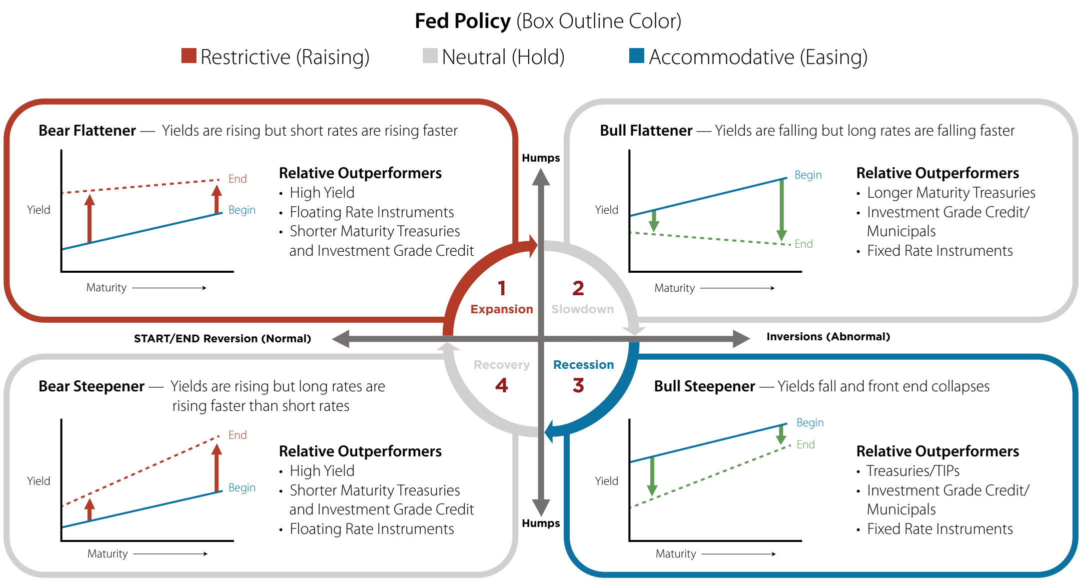
Like clockwork, the yield curve continues to normalize (as measured by the spread between 10-year and 2-year Treasury yields). Historically, positively sloped yield curves have favored core intermediate bonds, which tend to perform well when monetary policy becomes supportive. The yield curve steepness impacts investor preferences and flows into longer duration sectors, with many seeking higher yields further along the curve. The Fed's anticipated rate cuts later this year could further reinforce this trend.

Slope of the Yield Curve
Constant 10-Yr Maturity Treasury Minus Constant 2-Yr Maturity Treasury



Source: Federal Reserve Economic Data-FRED, 10-Year Treasury constant maturity minus the 2-Year Treasury constant maturity yield, 1/23/2019 – 3/26/2025

Positioning
Historically, fixed income has generated positive returns in late business cycle phases, as seen in Quadrant Three below. Fixed-rate, high-quality investments tend to perform well in a slowing economy, while floating-rate, short-term and high-yield assets often struggle until a sustainable recovery takes hold.



Source: SS&C ALPS Advisors Proprietary Research
For Illustrative Purposes Only

Recommendation – Actively Strengthen Your Core
Amid heightened volatility and shifting policy dynamics, active management remains critical for fixed income investors. It is important for bond investors to recognize that shifts in policy and market sentiment generally lead to higher volatility, and to adjustments within a risk-conscious framework. Despite higher volatility, we expect fixed income will provide critical portfolio ballast and positive returns for 2025. The new fiscal regime presents new risks, but also opportunities for active fixed income throughout the year.

Here are key recommendations:

- **Extend Duration Selectively** – Focus on intermediate sectors that benefit from a steeper yield curve.
- **Upgrade Credit Quality** – Upgrade in quality within high yield. Bonds rated single-B and below are not likely to outperform until a growth phase becomes more likely.
- **Avoid Overweighting Treasuries** – Consider other high-quality sectors like Mortgage-Backed Securities (MBS) and relatively cheaper sectors like high-grade Municipal Bonds in taxable accounts.

Despite risks such as fiscal uncertainty and inflationary pressures, higher short-term rates are unlikely to be the anecdote if the economy does continue to slow. In the current environment fixed income continues to serve as a vital portfolio ballast during this late-cycle phase.

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Real Estate Summary

Q1 2025 Review

After weak performance in Q4, REITs rebounded in Q1, with the FTSE NAREIT All Equity REITs Index returning 2.75% quarter-to-date and 9.23% for the prior twelve months. Cell Towers (16.39%), Health Care (13.90%), Diversified (9.62%), Industrial Warehouses (6.12%) and Residential (4.41%) sectors outperformed while Lodging (-17.22%), Data Centers (-15.21%) and Specialty (-11.14%) sectors lagged.

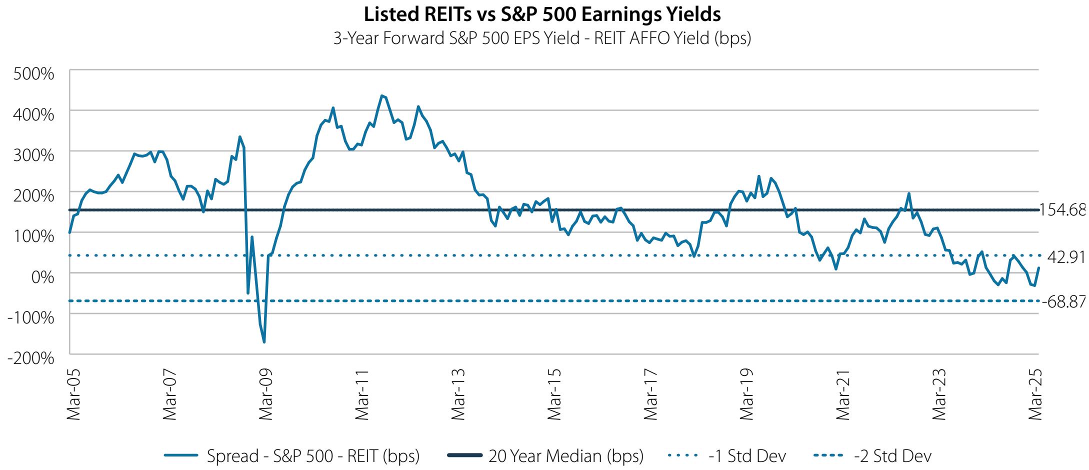
Key indicators, including lower vacancies, improving net operating income (NOI) growth, and a stabilizing rate environment point to a normalization of the real estate ecosystem. REITs now enjoy near-historic favorable valuations relative to the S&P 500, transaction valuations appear to be improving and commercial real estate debt delinquencies appear to have peaked.

The DeepSeek AI announcement in late January created significant uncertainty regarding the aggressively bullish outlook on data center construction and growth, and the entire AI supply chain, including REIT Data Centers, is undergoing revaluation. DeepSeek's impact on other REIT sectors appears to be minimal.

REIT Indices	QTD	YTD	1 Year
	1/1/2025 - 3/31/2025	1/1/2025 - 3/31/2025	4/1/2024 - 3/31/2025
FTSE NAREIT All Equity REITs	2.75	2.75	9.23
REIT Sector Indices:			
Residential			
FTSE NAREIT Equity Residential	4.41	4.41	17.46
Retail			
FTSE NAREIT Equity Retail	0.34	0.34	13.68
Lodging			
FTSE NAREIT Equity Lodging/Resorts	-17.22	-17.22	-23.20
Office			
FTSE NAREIT Equity Office	-10.58	-10.58	9.19
Industrial Warehouses			
FTSE NAREIT Equity Industrial	6.12	6.12	-10.51
Technology - Cell Towers and Data Centers			
FTSE NAREIT Infrastructure REITs	16.39	16.39	9.53
FTSE NAREIT Equity Data Centers	-15.21	-15.21	1.38
Health Care			
FTSE NAREIT Equity Health Care	13.90	13.90	43.06
Self Storage			
FTSE NAREIT Equity Self Storage	0.88	0.88	5.46
Diversified			
FTSE NAREIT Equity Diversified	9.62	9.62	10.14
Specialty			
FTSE NAREIT Equity Specialty	-11.14	-11.14	8.34

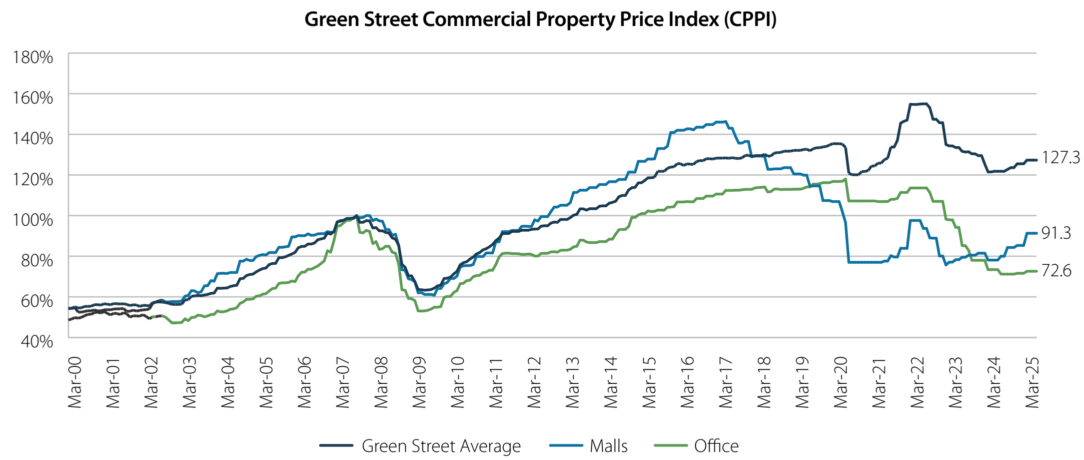
Source: Morningstar, as of 3/31/2025, returns presented are total return
Past performance is no guarantee of future results.

On an earnings yield basis, REITs are trading at near-historic lows (almost two standard deviations below the 20-year median spread) relative to S&P 500 earnings yields. Only during the Global Financial Crisis (2008-2009) did REITs trade on a more favorable basis.



Source: Green Street, as of 3/1/2025

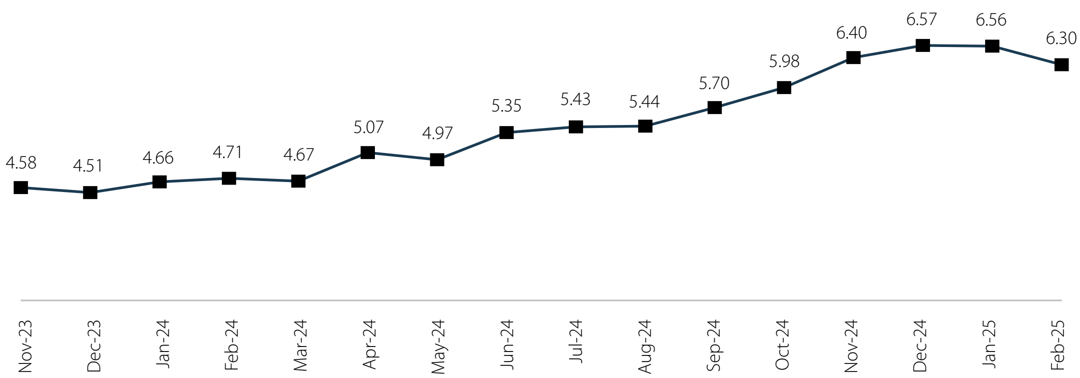
On a transaction basis (using the Green Street Commercial Property Price Index), REITs appear to have bottomed with overall valuations showing a slight increase over the past two quarters. Office and Mall, two of the weakest REIT sectors, continue to show stable-to-slight increases in valuations as fundamentals continue to improve.



Source: Green Street, as of 3/31/2025

Also improving are measures of delinquency for commercial real estate debt. Although early, it appears that 30+ day delinquencies may have peaked at year as the last two reported months are slightly lower.

Percentage of CMBS 30+ Days Delinquent



Source: Trepp, as of 2/28/2025

Q2 2025 Outlook

We expect continued normalization of commercial real estate with improving fundamentals. Inflation, which affects both supplies and labor construction costs, provides a natural barrier for supply growth.

Coupled with rent increases, which rental contracts typically allow, REITs are positioned to post strong fundamentals going forward.

Based on improving fundamentals and limited supply growth, we maintain a market weight for REITs.

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Commodities Summary

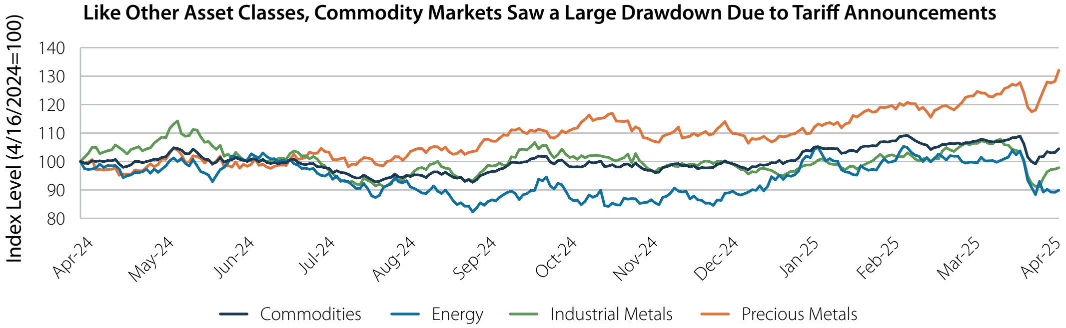
Q1 2025 Review

After an almost flat Q4, commodities had an impressive Q1 2025, returning 8.9%.[1] While each sector was positive, the standout performer was precious metals, up 18.3%, driven in part by massive flows into US gold exchange-traded funds (ETFs).[2] Energy woke from its slumber and returned 11%, primarily due to a big price move in natural gas thanks to exceptionally cold weather in January and February after a year of low production.[3] Industrial metals returned 8.6% as tariff fears caused a massive dislocation in US vs. foreign copper markets.[4] Livestock returned a healthy 4.7%, and agriculture, the worst performer, returned 2%.

Q2 2025 Outlook

We are leaving our broad commodities outlook at negative. We write this outlook in mid-April with the benefit of two weeks since the unprecedented tariff announcement from the US administration and a small glimmer of hope that the scope of the trade war will be far more limited than initially feared. While the tariffs did spark whispers of resurgent inflation, which has been correlated with strong commodity returns, we are of the opinion that damage to global growth will outweigh any inflation from manufactured supply constraints. Commodity markets appear to share the same view, with a -9% peak-to-trough return for broad commodities in the six days following the Liberation Day tariff announcement.[5] As of this writing, the asset class has recovered some of its losses after the 90-day "pause" on the majority of the extreme tariffs for most countries, but 10% baseline tariffs remain in effect and China and the US are still engaged in a tit-for-tat.[6,7]

Like Other Asset Classes, Commodity Markets Saw a Large Drawdown Due to Tariff Announcements



Source: Bloomberg, 4/16/2024 – 4/16/2025
See endnotes for reference indices.

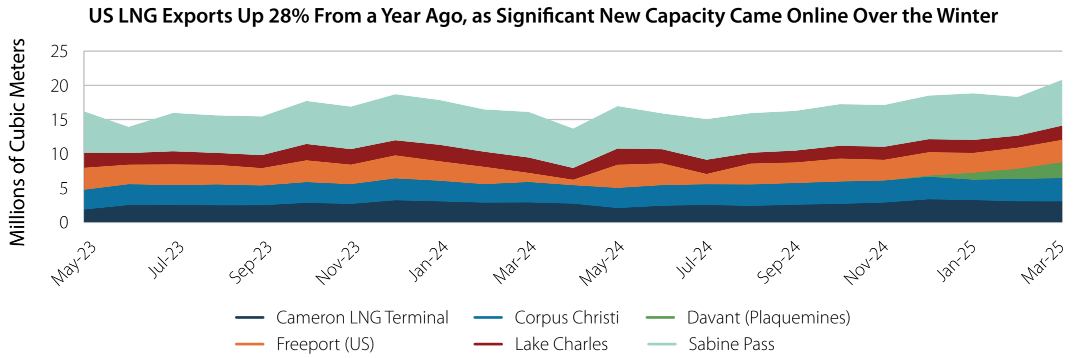
It is becoming cliché to mention the unpredictability of the Trump administration, but this unpredictability remains as pernicious as ever to the business of forecasting. While the consistent reliance on the door-in-the-face technique for negotiation predictably leads to relatively reasonable requests following the initial outrageous demand, the possibility remains that the "relatively reasonable" outcome will still be materially disruptive to global trade. Until deals are struck and some stability returns, we are doubtful that demand growth will put upward pressure on commodity prices.

Energy

Energy posted a healthy 11% return in Q1, with natural gas recovering from a price slump for much of 2024, with the front month contract posting a 31.9% total return. Oil returns were more muted, with 0.6% to WTI and 4.1% to Brent.[8]

Natural gas had an average price in 2024 of $2.51, which led to significant scaling-back of production. This underproduction acted in concert with a colder-than-expected winter in the US, resulting in a 47.5% increase in price between the end of January and early March.[3,9]

Another contributing factor was the ramping up of a new liquefied natural gas (LNG) export terminal in Louisiana. The new terminal, Plaquemines LNG, already accounted for 11% of LNG exports only four months after opening in December 2024.[10,11] With LNG export capacity forecast to increase by as much as 19% in 2025, LNG could be a source of material upward price pressure on natural gas.[12]

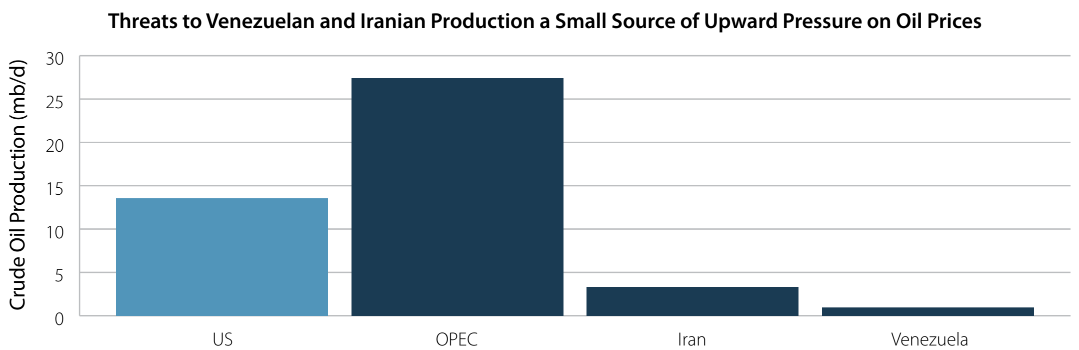


Source: Bloomberg, IHS, Genscape, May 2023 – March 2025

In oil markets, the major news was the long-awaited announcement that OPEC would finally begin production increases, rolling off the voluntary cuts implemented to help prop up prices. The first increase, which began in early April, will be mostly eaten up by members that are already overproducing. However, the increase slated to come into effect in May was announced on April 3rd at 411,000 barrels per day, more than 3x the amount that was expected.[13]

Even prior to the Liberation Day tariffs and the surprising OPEC announcement, the International Energy Agency (IEA) saw downside pressure for oil prices, primarily due to macroeconomic headwinds.[14] But with Brent crude down $10 since Liberation Day—which was the day before the OPEC announcement—it seems entirely possible that OPEC will change its mind on the May increase or delay further increases.[15] Brent has not spent any meaningful amount of time below $70/barrel since 2021, so it seems likely that further price declines would see a response from producers.[16] For this reason, we see relatively limited downside for oil from these levels, barring reimposition of the full tariffs announced on April 2nd.

The counterargument to this thesis centers around potential supply disruptions, with Venezuela and Iran as the focal points. The Trump administration has revoked the permits of several oil producers doing business in Venezuela and imposed a 25% tariff on nations importing Venezuelan crude. This has already had a measurable impact, with a 12% decrease in oil exports month-over-month in March and an 8% decrease year-over-year. China—the largest buyer—and India have already begun suspending shipments.[17] Venezuela only accounts for about 4% of OPEC's total output, so removal of this production is unlikely to cause huge swings in the price of oil.[18] However, it could provide a small measure of price support in a low growth environment.



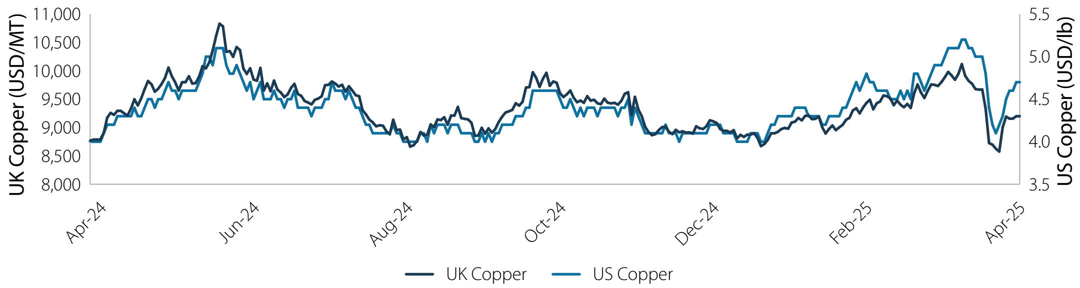
Source: Bloomberg News for OPEC and members, US Department of Energy via Bloomberg for US, as of 3/31/2025

Iran's oil exports are also under renewed threat, with the US Treasury imposing sanctions on Iran's "shadow fleet," a loose consortium of ships involved in skirting existing sanctions on the transfer of Iranian oil.[19] Iran is responsible for about 12% of OPEC's total output, and the White House's stated objective of bringing Iranian exports to zero could put significant short-term upward pressure on oil prices if the tap is turned off too quickly.[18] We think it is more likely that the flow is slowed gradually enough that other producers are able to compensate for the loss of production.

Industrial Metals

Copper was the major outperformer in the industrial metals sector in Q1, with a total return of almost 26%.[20] Rumors of an imminent tariff on copper imports sent the US copper contract skyrocketing as US buyers attempted to front-run the tax. This led to a dislocation between the New York and London copper contracts, which resulted in an influx of shipments to the US to take advantage of the price gap.[4] The tariff announcements on April 2nd excluded copper, and the price of the commodity fell precipitously, reflecting concern about growth prospects.[21]

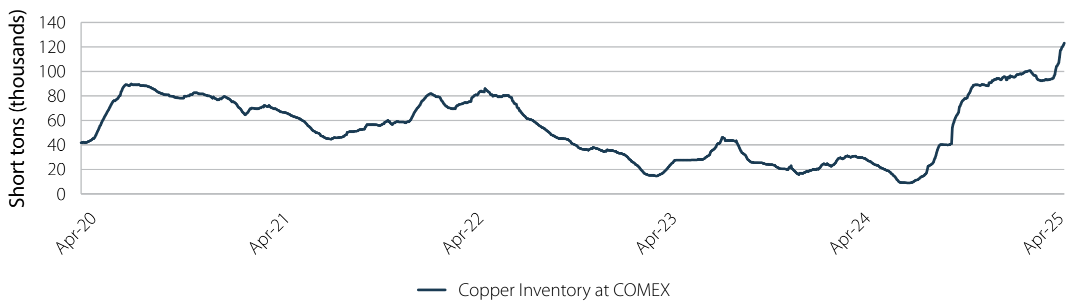
Concerns About a Tariff Targeting Copper Has Led to Disconnect Between LME and COMEX Contracts



Source: Bloomberg, 4/1/2024 – 4/16/2025
Reference asset for US copper is the front-month COMEX copper contract (HG1 Comdty). Reference asset for UK copper is the front-month LME copper contract (LP1 Comdty).

While there has been a material price recovery since April 2nd, the gap between the US and foreign copper contracts has not closed, even with efforts to arbitrage-away the price gap and front-run tariffs. If a tariff on copper is imposed within the next few weeks, the US copper contract could still climb higher, and the disconnect could persist. However, if the decision is pushed off, the inventory build in the US will likely close the gap to some degree. Slower growth and infrastructure spending will then return to the spotlight, and global copper may see a price decline.

Copper Inventory in the US Has Been Building Rapidly in the Last Few Weeks

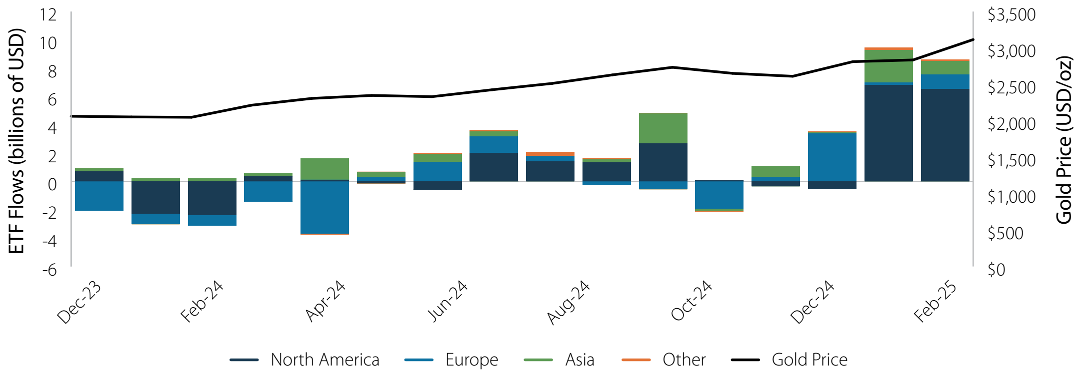


Source: Bloomberg, COMEX, 4/20/2020 – 4/17/2025

Precious Metals

Precious metals, which had already experienced an incredibly strong 2024, climbed even higher in Q1, largely thanks to massive flows into US gold ETFs. The February total of $9.4 billion is the highest single-month flow since March 2022, the month following Russia's full-scale invasion of Ukraine.[22]

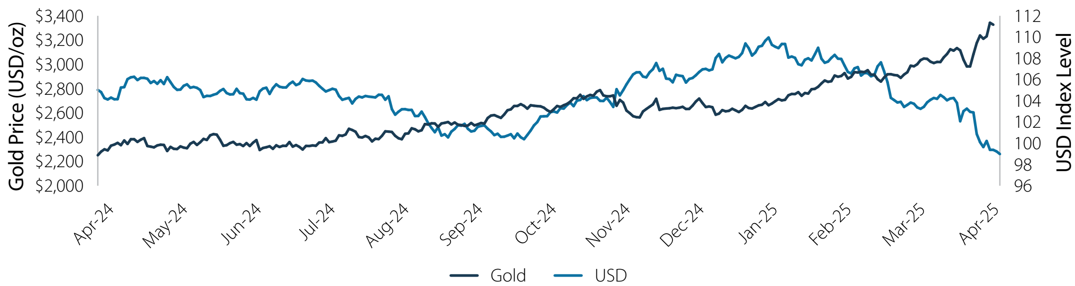
Massive ETF Flows In February and March Boosted Gold Prices



Source: World Gold Council, December 2023 – March 2025

The April 2nd tariff announcement had the initial effect of causing a decline in gold prices, perhaps as investors attempted to parse the implications for the dollar, interest rates and inflation. But buyers soon took control and gold climbed to a new record high of $3,343/oz. on April 16th as the US dollar plummeted.[23]

After a Liberation Day Dip, Gold Climbed on Geopolitical Risk, USD Weakness



Source: Bloomberg, 4/1/2024 – 4/16/2025
See endnote 23 for USD index description.

Central bank purchases seem likely to continue under an increasingly combative US administration, as concerns from 2022 about overstepping their authority in the global banking system have metastasized into fears that they will not honor treaty commitments.[24] This creates a confluence of factors all adding upside pressure to gold in an increasingly uncertain world.

Risks to Outlook

Much of our commodities outlook centers around US tariff expectations. There are several scenarios that present an upside risk to our negative asset class rating, and the most salient among them is a complete reversal (likely with a declaration of victory) of tariffs added on and after April 2nd. This would likely have the immediate effect of raising growth expectations, translating to an increase in expected demand for oil and industrial metals. While not our base case, this scenario is entirely in the realm of possibility.

If the US administration moves in the opposite direction and imposes new tariffs targeting oil and copper, this could cause a sharp increase in the prices for both commodities, as the US relies on significant imports of each.[25, 26] Tariffs targeting oil seem particularly unlikely, as there would be an obvious connection between this move and an immediate increase in US gasoline prices, which the average voter notices on a near-daily basis. Investors should be aware that this also means it is possible for Canada—the source of 65% of our imported oil—to unilaterally increase the price of gasoline in the US if they so choose.

Tariffs targeting copper, though telegraphed as imminent, seem less likely after the market reaction and near-immediate walk-back by the US administration in the wake of the April 2nd tariffs. While high copper prices will not be as noticeable as high gasoline prices, they will be felt and discussed throughout any industry remotely connected to construction just as the northern hemisphere enters building season.

While risks abound, we see the most likely scenario to be a lower-growth environment, with unnatural and unfamiliar barriers to trade and an overall unfavorable environment for commodities.

Returns for indices are total returns, while returns for individual commodities are price returns only.

All performance data sourced from Bloomberg.

The commodity asset class proxy is the Bloomberg Commodity Index (BCOMTR Index). The energy sector proxy used for this analysis is the Bloomberg Energy Subindex Total Return (BCOMENTR Index). The precious metals proxy is the Bloomberg Precious Metals Subindex Total Return (BCOMPRTR Index). The industrial metals sector proxy is the Bloomberg Industrial Metals Subindex Total Return (BCOMINTR Index). The agriculture sector proxy is the Bloomberg Agriculture Subindex Total Return (BCOMAGTR Index). The livestock sector proxy is the Bloomberg Livestock Subindex Total Return (BCOMLITR Index).

1 *In Q4 2024, Commodities returned -0.5%. The Q4 2024 time period is 9/30/2024 – 12/31/2024. The Q1 2025 time period is 12/31/2024 – 3/31/2025. Source: Bloomberg.*

2 *Gold Market Commentary: Riding a wave of uncertainty. World Gold Council. (February 2025).*

3 *Short-Term Energy Outlook, March 2025. US Energy Information Administration. (March 2025).*

4 *Home, A. (April 1, 2025). Copper Market Grows Wary of What Follows its US Tariff Rush. Reuters.*

5 *Source: Bloomberg, 4/2/2025 – 4/8/2025*

6 *Source for recovery since trough: Bloomberg, 4/8/2025 – 4/14/2025. BCOMTR Index return +3.9%.*

7 *Lowell, M. J., Heeren, P., Angotti, J., Rodriguez-Johnson, L., Lowell, K., & Fisher, C. E. (April 14, 2025). Trump 2.0 Tariff Tracker. Trade Compliance Resource Hub.*

8 *Source: Bloomberg, 12/31/2024 – 3/31/2025. The reference asset for natural gas returns is the front-month natural gas contract listed on the NYMEX exchange (NG1 Comdty). The reference asset for the WTI returns is the front-month WTI crude oil contract listed on the NYMEX exchange. The reference asset for the Brent returns is the front-month Brent crude oil contract listed on the NYMEX exchange.*

9 *Source: Bloomberg, 1/31/2025 – 3/10/2025. The reference asset for natural gas price is the front-month natural gas contract listed on the NYMEX exchange (NG1 Comdty).*

10 *Zaretskaya, V. (January 13, 2025). The Eighth U.S. Liquefied Natural Gas Export Terminal, Plaquemines LNG, Ships First Cargo. US Energy Information Administration (EIA).*

11 *Source: Bloomberg, 12/2024 – 3/2025. Terminal began operations in December 2024, and in March 2025 exported 2.3 million cubic meters out of total US exports of 21 million cubic meters.*

12 *Zaretskaya, V., & Ricker, C. (April 3, 2025). How Will the Start-up Timing of the New U.S. LNG Export Facilities Affect Our Forecast? US Energy Information Administration (EIA).*

13 *Astakhova, O., Ghaddar, A., & Lawler, A. (April 3, 2025). OPEC+ Unexpectedly Speeds up Oil Output Hikes, Oil Drops.*

14 *IEA. (2025). Oil Market Report - March 2025. IEA.*

15 *Source: Bloomberg. Proxy for Brent crude oil price is the front-month contract on the ICE Europe exchange (CO1 Comdty). The contract price on 4/2/2025 (prior to the tariff announcement) was $74.95, and the contract price on 4/14/2025 was $64.88.*

16 *Source: Bloomberg. Between 12/31/2021 and 2/28/2025, Brent crude (CO1 Comdty) was below $70/barrel for 1 day. In 2021, Brent was below $70/barrel for 117 days.*

17 *Parraga, M. (April 2, 2025). Venezuela's Oil Exports Fall 11.5% Over US Tariffs and Sanctions, Shipping Data Show. Reuters.*

18 *Source: Bloomberg News, as of 3/31/2025*

19 *US Department of the Treasury. (February 24, 2025). Treasury Imposes Additional Sanctions on Iran's Shadow Fleet as Part of Maximum Pressure Campaign [press release]. US Department of the Treasury.*

20 *Source: Bloomberg, 12/31/2025 – 3/31/2025. Reference asset is the front-month COMEX copper contract (HG1 Comdty).*

[21] *Home, A. (April 15, 2025). Copper Market Caught Between Trump's Twin Tariff Threats. Reuters.*

[22] *Gold ETF Flows: March 2025. World Gold Council. (April 8, 2025).*

[23] *Source: Bloomberg. Gold fell from $3,134 on April 2, 2025 to $2,983 on April 8, 2025 before climbing again to $3,343 on April 16, 2025. The referenced USD Index fell from 102.96 on April 8, 2025 to 99.38 on April 16, 2025. The USD Index (DXY Index) is an average of the USD against a basket of foreign currencies. A decrease in the index indicates a depreciation of the US dollar, and an increase in the index indicates an appreciation of the US dollar.*

[24] *Lunday, C. (February 21, 2025). Europe Should Brace for Trump to End NATO Protection, Germany's Merz Warns. POLITICO.*

[25] *Source: Bloomberg, US Department of Energy. In January 2025, the US imported 6.6 million barrels per day. Of that total, 4.3 million came from Canada.*

[26] *Jackson, L., & Lv, A. (February 25, 2025). Where Does the US Get its Copper? Reuters.*

Definitions

Basis Point (bps): a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

Bloomberg Agriculture Subindex (BCOMAGTR Index): formerly known as the Dow Jones-UBS Agriculture Subindex (DJUBAGTR), the index is a commodity group subindex of the Bloomberg CITR. The index is composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat. It reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Energy Subindex (BCOMENTR Index): a commodity index composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

Bloomberg Industrial Metals Subindex (BCOMINTR Index): reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

Bloomberg Intermediate US High Yield Index: measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The intermediate duration segment of the index includes bonds with maturities of 1 to 10 years.

Bloomberg Municipal Index: serves as a benchmark for the US municipal bond market.

Bloomberg Precious Metals Subindex (BCOMPRTR Index): reflects the returns that are potentially available through an unleveraged investment in the futures contracts on precious metals commodities. The Index currently consists of two precious metals commodities futures contracts (gold and silver).

Bloomberg US 1000 Index: a float market-cap-weighted benchmark of the 1000 most highly capitalized US companies.

Bloomberg US Aggregate Bond Index: a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS and CMBS (agency and non-agency).

Bloomberg US Asset-Backed Securities Index: a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index only includes ABS securities.

Bloomberg US Corporate Bond Index: measures the investment grade, fixed-rate, taxable corporate bond market.

Bloomberg US Corporate High Yield Bond Index: measures the USD-denominated, high yield, fixed-rate corporate bond market.

Bloomberg US Treasury US TIPS Index: measures the performance of the US treasury inflation-linked bond market.

Cash Flow: the net balance (inflows minus outflows) of cash moving into and out of a business at a specific point in time.

Consumer Price Index (CPI): a measure of the average change over time in the prices paid by urban consumers for a representative basket of consumer goods and services.

Core Inflation: a measure of the change in the costs of goods and services, excluding the costs of energy and food sectors.

Credit Quality: the risk of default, often in reference to a debt instrument.

Dow Jones Industrial Average: a stock market index of 30 prominent companies listed on stock exchanges in the United States. The DJIA is one of the oldest and most commonly followed equity indexes.

Federal Funds Rate: the target interest rate set by the Federal Open Market Committee (FOMC). This target is the rate at which the Fed suggests commercial banks borrow and lend their excess reserves to each other overnight.

FTSE NAREIT All Equity REITs Index: a free-float adjusted, market capitalization-weighted index of US equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

FTSE NAREIT Equity Data Centers Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Data Center REITs in the parent index.

FTSE NAREIT Equity Diversified Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Diversified REITs in the parent index.

FTSE NAREIT Equity Health Care Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Health Care REITs in the parent index.

FTSE NAREIT Equity Industrial Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Industrial REITs in the parent index.

FTSE NAREIT Equity Lodging/Resorts Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Lodging/Resorts REITs in the parent index.

FTSE NAREIT Equity Office Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Office REITs in the parent index.

FTSE NAREIT Equity Residential REIT Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Equity Residential REITs in the parent index.

FTSE NAREIT Equity Retail Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Retail REITs in the parent index.

FTSE NAREIT Equity Self Storage Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Self Storage REITs in the parent index.

FTSE NAREIT Equity Specialty Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Specialty REITs in the parent index.

FTSE NAREIT Infrastructure REITs Index: a subsector index of the FTSE NAREIT US Real Estate Index containing all Infrastructure REITs in the parent index.

Earnings Yield: calculated as 1/Current P/E Ratio.

Global Financial Crisis: a severe worldwide economic, banking and real estate crisis that occurred between 2007 and 2009. It was the most serious financial crisis since the Great Depression (1929).

Green Street Commercial Property Price Index (CPPI): a time series of unleveraged US commercial property values that captures the prices at which commercial real estate transactions are currently being negotiated and contracted. Features that differentiate this index are its timeliness, its emphasis on high-quality properties, and its ability to capture changes in the aggregate value of the commercial property sector.

Headline Inflation: the raw inflation figure reported through the Consumer Price Index (CPI) that is released monthly by the Bureau of Labor Statistics which is derived from the cost to purchase a fixed basket of goods.

High Yield: commonly referred to as "junk" or "junk bonds," fixed income securities rated below investment grade (below BBB). High yield bonds pay higher interest rates because they have lower credit ratings than investment-grade bonds.

Inflation Expectations: the rate at which people, including consumers, businesses and investors, expect prices to rise in the future.

ISM Manufacturing PMI: measures the change in production levels across the US Economy from month to month.

Investment Grade (IG): a rating that signifies that a municipal or corporate bond presents a relatively low risk of default. To be considered an investment grade issue, the company must be rated at 'BBB' or higher by Standard and Poor's or Moody's. Anything below this 'BBB' rating is considered non-investment grade.

Liquidity: the degree to which an asset or security can be bought or sold in the market without affecting the asset's price.

Mortgage-Backed Securities (MBS): bonds secured by home and other real estate loans. They are created when a number of these loans, usually with similar characteristics, are pooled together.

Municipal Bond: a debt security issued by a state, municipality, or county to finance its capital expenditures, including the construction of highways, bridges, or schools. They can be thought of as loans that investors make to local governments. Municipal bonds are often exempt from federal taxes and most state and local taxes (for residents), making them especially attractive to people in higher income tax brackets.

NASDAQ 100 Index: one of the world's preeminent large-cap growth indexes. It includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

Nonfarm Payroll (NFP) Industry Diffusion Index: the percent of industries with employment increasing plus one-half of the industries with unchanged employment, where 50 percent indicates an equal balance between industries with increasing and decreasing employment.

Personal Consumption Expenditures Price Index (PCE): a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

Price/Earnings (P/E) Ratio: a valuation ratio of a company's current share price compared to its per-share earnings.

Quantitative Tightening: a monetary policy strategy used by central banks where they reduce the pace of reinvestment of proceeds from maturing government bonds in an attempt to raise interest rates, decrease the supply of money, and reduce lending to consumers and businesses.

Real Estate Investment Trust (REIT): companies that own or finance income-producing real estate across a range of property sectors. Listed REITs have characteristics of both the income potential of bonds and growth potential of stocks.

S&P 500 Index: widely regarded as the best single gauge of large-cap US equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

US Dollar Index: measures the value of the US dollar relative to a basket of foreign currencies.

Yield Curve: a graphical representation of the yields (y-axis) on debt instruments with different maturities (x-axis).

Z-Score: a numerical measurement that describes a value's relationship to the mean of a group of values, measured as standard deviations from the mean. If a Z-score is 0, it indicates that the data point's score is identical to the mean score. A Z-score of 1.0 would indicate a value that is one standard deviation from the mean.

One may not invest directly in an index.

Important Disclosures

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