NORTHERN TRUST

FIRST QUARTER 2025

GROWTH WITH MODERATE INCOME

Policy uncertainty was the main surprise for the investor community in the first quarter. Trade policy was the focal point with potential widespread implications for both global trade and geopolitical relations. The U.S. economy remained on decent footing in the quarter. However, policy uncertainty weighed on survey-related economic data, with perceived risks around lower growth and higher inflation. This helped lead to fading U.S. economic momentum versus non-U.S. peers – a U.S. advantage over the better part of the last two years. First quarter financial market returns were generally positive aside from losses in U.S. equities. The confluence of a less-positive outlook for U.S. megacap tech and broader policy uncertainty led to headwinds for U.S. indexes, with the S&P 500 reaching a 10% correction. European and emerging market equities both outpaced the U.S. in dollar terms. Both regions benefited from a rebound off a weaker starting point versus the U.S., plus the historic re-alignment in German fiscal policy (for Europe) and China tech-related strength (for emerging markets). On the fixed income side, after rising early on, U.S. interest rates moved lower for the quarter while credit spreads widened. Net, this led to modest positive total returns for broader fixed income indexes. Real assets generally outperformed global equities, with stronger performance in natural resources and global listed infrastructure.

We made three changes in asset allocation in the quarter. In January, we increased inflation-linked fixed income, U.S. equities, global real estate and global listed infrastructure while reducing investment grade fixed income, high yield fixed income, developed ex-U.S. equities and natural resources. The tactical changes were primarily designed to adjust for our annual strategic asset allocation update and also help increase inflation protection. In February, we further trimmed our underweight to inflation-linked fixed income, funded by a slight reduction in investment grade fixed income. In March, we removed our developed ex-U.S. equities underweight (moving to equal-weight), funded by a modest reduction in our high yield fixed income overweight. The tactical change was primarily driven by a more constructive outlook on European equities following a significant pivot in Germany's fiscal stance. Currently, the portfolio has overweights in high yield fixed income, U.S. equities, emerging market equities, global real estate and global listed infrastructure, funded by underweights across investment grade fixed income, inflation-linked fixed income and cash. The portfolio ended the quarter with a moderately higher risk level than its strategic benchmark.

The portfolio outperformed in the quarter with benefits from fund implementation and strategic positioning outweighing headwinds from tactical positioning. Strategic positioning benefited performance as real assets and high yield fixed income outpaced global equities. Tactical positioning detracted from performance with headwinds from the underweight to investment grade fixed income, the previous underweight to developed ex-U.S. equities (currently equal-weight) and the overweight to U.S. equities, slightly offset by some help from the overweight to high yield fixed income and the overweight to global listed infrastructure. Our broader-based developed markets ex-U.S. factor tilt (TLTD), our quality large cap U.S. equity (QLC) and our broader-based emerging markets factor tilt (TLTE) were the main contributors in terms of fund implementation, while our value-scored high yield fixed income (HYGV) was the main detractor.

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