FIRST QUARTER 2025

MAXIMUM GROWTH

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 two changes in asset allocation in the quarter. In January, we increased U.S. equities and reduced developed ex-U.S. equities. The tactical changes were primarily designed to adjust for our annual strategic asset allocation update. In March, we added to developed ex-U.S. equities, funded by a reduction in high yield fixed income. 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 U.S. equities and emerging market equities, funded by underweights in developed ex-U.S. equities and natural resources. The portfolio ended the quarter with a similar risk level compared to its strategic starting point (the strategic allocation is 100% risk assets).

The portfolio outperformed in the quarter as benefits from fund implementation and strategic positioning outweighed some drag from tactical positioning. Strategic positioning benefited performance as real assets and high yield fixed income outpaced global equities. Tactical positioning weighed on performance given drag from our underweight positioning in developed ex-U.S. equities, our underweight positioning in natural resources and our overweight positioning in U.S. equities. 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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