

FOURTH QUARTER 2025

INCOME WITH MODERATE GROWTH

The fourth quarter began with a U.S. government shutdown, which lasted into mid-November. The U.S. economy avoided major broad-based disruption. However, the shutdown hampered economic data collection – creating a considerable information vacuum just as markets sought clarity on growth, inflation, and policy trajectories. Following resumed economic data, the broader U.S. macroeconomic landscape held firm with ongoing resilience amid a gradually cooling labor market. The downside labor market risk kept Federal Reserve easing in play, leading to two rate cuts in the quarter even as the economy expanded. The global tariff environment proved less disruptive than earlier fears. U.S. monthly tariff collections rose but remain well below levels implied by announced policies. Financial markets capped a strong 2025 with fourth-quarter gains in both equities and fixed income. The Treasury yield curve steepened as short-end rates moved lower, while credit spreads were mostly unchanged in both investment grade and high yield. Non-U.S. equities outpaced the U.S., leaving global equities with a low-single-digit gain. For the U.S., a strong third-quarter corporate earnings season helped bolster the earnings outlook heading into 2026. Artificial intelligence (AI) remained a central market topic, with investors shifting from broad-based enthusiasm to taking a more critical look at potential returns of AI-related investment plans. This led to more varied performance across the largest tech-related and AI-adjacent companies. Within real assets, metals prices continued to rise: gold, silver and copper prices were all up double-digits in the quarter.

We made no changes in asset allocation in the quarter. We retained a preference for equities over fixed income throughout the quarter with a broad-based global equities overweight across the major regions. We continue to expect moderating-but-still-positive U.S. economic growth along with gradual easing in Fed policy. As U.S. economic resilience remained intact and tariffs proved less economically disruptive than initially expected, we trimmed our scenario-implied U.S. recession odds in December (based on our macroeconomic outlook scenarios). With gradual cooling in the labor market still underway, we remain attuned to risks of a weaker labor market as well as higher inflation. Currently, the portfolio has overweights across each major global equity region, global listed infrastructure and cash, funded by underweights in municipal investment grade fixed income, inflation-linked fixed income and global real estate. The portfolio ended the quarter with a modestly higher risk level than its strategic benchmark.

The portfolio modestly underperformed in the quarter as modest benefits from tactical positioning were outweighed by headwinds related to strategic positioning. Strategic positioning detracted from performance with drag from weaker returns in inflation-linked fixed income versus municipal investment grade fixed income and global real estate trailing global equities. Tactical positioning modestly helped performance mainly driven by the overweight in non-U.S. developed market equities and the underweight in inflation-linked fixed income. Our global listed infrastructure (NFRA) was the main detractor in terms of fund implementation, while our broader-based developed markets ex-U.S. factor tilt (TLTD) was the main contributor.

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