Callan Institute

Second Quarter 2026

Capital Markets Review

Reality Bites, Economic Version

ECONOMY

2 PAGE

The stock market is soaring, the economy remains strong, job growth is good but not great, and real personal income after inflation is up from a year ago. So why is there so much consumer pessimism? Energy prices and the memory of inflation play a big part.

Returns Boosted by Strong Equity Gains

INSTITUTIONAL INVESTORS

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Nonprofits topped a 60% stocks/40% bonds benchmark in 2Q, while public defined benefit plans came close. Institutional investors continue to grapple with active manager underperformance, scrutiny about private credit, and concentration within large cap U.S. equities.

S&P 500 Hits 24 New Highs During Quarter

EQUITY

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The S&P 500 jumped 15.2% in 2Q26, powered by artificial intelligence enthusiasm. Nine S&P sectors posted gains; only two saw losses. Small caps topped large cap stocks. The MSCI ACWI ex-USA Index rose 14.5%, while developed ex-U.S. markets lagged the U.S.

Treasury Yields Rise Across the Curve

FIXED INCOME

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The Bloomberg Aggregate gained 0.7%, supported by tighter investment-grade credit spreads. The AI buildout fueled a significant amount of debt raised in the quarter. Global bonds gained slightly; emerging market debt did much better.

Stabilization Across Private Markets

REAL ESTATE/REAL ASSETS

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The NCREIF Open-End Diversified Core Equity Index rose 1.5%. REITs produced the strongest returns among liquid real assets, supported by healthy leasing activity and improving property fundamentals. Commodity futures fell as energy prices retreated.

Venture Capital Continues to Lead

PRIVATE EQUITY

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While private equity generated a modest 0.4% gain in 1Q26, that masks a growing divergence among strategies. Venture capital continued its AI-driven resurgence, while buyouts and growth equity struggled against a backdrop of weaker software valuations.

Holding Ground as Markets Reprice Risk

PRIVATE CREDIT

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Although private credit returns moderated, the asset class demonstrated its resilience by outperforming both leveraged loans and high yield bonds during a challenging first quarter for public credit. Investors continued to shift capital toward specialized lending strategies.

AI Trade Helps Drive Manager Gains

HEDGE FUNDS/MACs

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Hedge funds saw robust gains in 2Q26, powered by enthusiasm around all things AI as well as general strength in equities. The median manager in the Callan Institutional Hedge Fund Peer Group rose 3.2%, while the best-performing strategy within the HFRI indices was equity hedge.

DC Index Falls After Three Straight Gains

DEFINED CONTRIBUTION

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The Callan DC Index™ fell 1.9% during 1Q26 following three straight quarters of gains. Average participant balances fell 1.2% after rising 1.0% in the prior period. Emerging market equity saw one of the largest declines in prevalence, falling to 15% of plans.

Broad Market Quarterly Returns

U.S. Equity
Russell 3000

15.4%

Global ex-U.S. Equity
MSCI ACWI ex USA

14.5%

U.S. Fixed Income
Bloomberg Agg

0.7%

Global ex-U.S. Fixed Income
Bloomberg Global Agg ex US

1.0%

Sources: Bloomberg, FTSE Russell, MSCI

Reality Bites, Economic Version

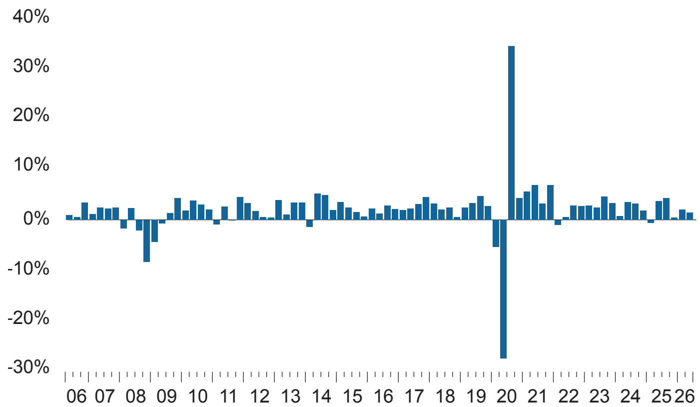
ECONOMY | Jay Kloepfer

The exuberance in the U.S. stock market during 2026 is eye-opening, with the S&P 500 setting 24 record closing highs during the first half of 2026 (or roughly once every five trading days). During 1Q, we saw hesitation on the part of equity investors, only to witness a strong reversal in 2Q, where 9 of 11 sectors posted gains. The only losing sectors were Energy and Utilities. Oil and gas prices rocketed up in the face of the Iran war, and the contention over the Strait of Hormuz seriously squeezed global energy supplies. We may think of the U.S. as energy independent, but oil and gas prices are set in the global market. Investors' love for things AI was the prime driver of the U.S. stock market, and this love has extended to emerging market equity and to a lesser extent the developed ex-U.S. markets.

Boundless enthusiasm in the stock market through the first half of 2026 sits in stark contrast to the on-the-ground economic news unfolding, like slowing job growth (just 57,000 new jobs in June, below the 100,000 needed to show economic expansion) and cooling GDP growth (1.5% for 2Q26, less than the 2.1% predicted by the consensus). Dragging down consumer and business sentiment are the sustained rising everyday cost of living for consumers, supply chain bottlenecks, higher prices for intermediate goods for businesses from tariff policy, and the very real consequences to the global energy system from a war in Iran that is over 150 days old with no evident exit plans. Exuberance and reality will need to be squared at some point.

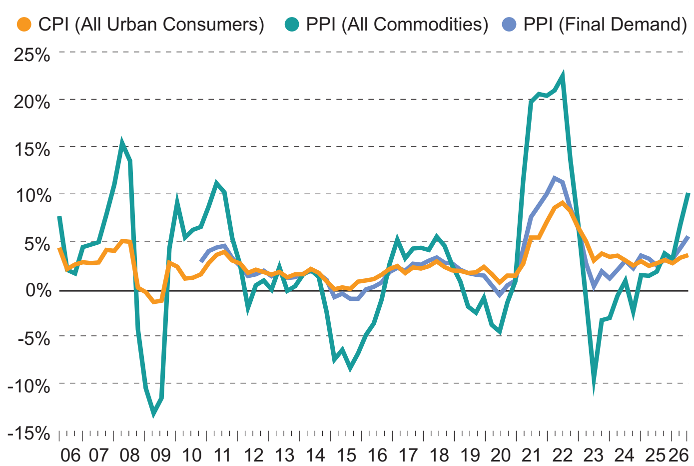
Headline inflation fell by 0.4% in June but is still registering 3.5% (year-over-year), down from 4.2% in May. The core inflation index (less food and energy) did not change in June, and core is up 2.6% over the past 12 months. The inflation metric upon which the Federal Reserve focuses is the Personal Consumption Expenditure (PCE) deflator, which tends to lag CPI-U. The deflator rose 3.3% year-over-year in June 2026. The inflation data through June does not reflect the renewed jump in energy prices in July as the Iran war continues and as new tariffs have been imposed.

Quarterly Real GDP Growth (20 Years)



Source: Bureau of Economic Analysis.

Inflation Year-Over-Year



Source: Bureau of Labor Statistics.

Underneath headline inflation, key prices squeezing companies and consumer budgets have been energy (8% of the CPI-U index), shelter (35%), and food (13%). The index for energy fell 5.7% in June, thanks to expectations that the war in Iran might be stopping (at the time of this print, oil prices were back up 15% in July). However, even with this June decline, gasoline prices are 26.7% higher than one year earlier, and fuel oil prices are 42.9% higher, providing serious upward pressure on costs and overall prices.

How we measure inflation is back on the hotseat. The shelter index, which includes rent and imputed rent for homeowners, is up 3.3% year over year, while food is up 3.0%. The calculation of the shelter index is a subject of eternal debate—how does one really compute the cost of a homeowner "renting" to themselves? The cost of a rental lodging is much clearer, and that inflation came in at 2.8% year-over-year in June.

A better question is how has the recent inflation experience compared to growth in income, and therefore real income (net of inflation) in particular? If wages have risen with inflation, if total compensation has risen with inflation, then households may be in better shape than headlines would suggest. The Bureau of Economic Analysis keeps detailed data on income by type (wages and salaries, interest income, proprietor's income, transfer payments, rental income); employee compensation is the biggest component at 60%. Total personal income rose 3.9% in June year-over-year, while the employee compensation component rose 4.2%. Disposable personal income (after taxes) also rose 4.2%. Using the preferred PCE deflator, which rose 3.3%, would suggest each of these measures of income rose relative to inflation. Over one year, real disposable income in the U.S. rose 0.5%; over five years, real disposable income rose almost 6%.

The Long-Term View

Index	2Q26	Periods Ended 6/30/26 1 Yr	5 Yrs	10 Yrs	25 Yrs
U.S. Equity					
Russell 3000	15.4	22.8	12.3	15.1	9.6
S&P 500	15.2	22.3	13.4	15.5	9.6
Russell 2000	21.5	40.8	7.0	11.6	8.8
Global ex-U.S. Equity					
MSCI EAFE	10.8	20.2	9.0	9.7	6.4
MSCI ACWI ex USA	14.5	27.7	8.8	9.9	6.9
MSCI Emerging Markets	24.1	43.5	7.2	10.1	9.5
MSCI ACWI ex USA Small Cap	9.6	19.8	6.3	9.1	8.9
Fixed Income					
Bloomberg Agg	0.7	3.8	0.1	1.5	3.7
90-Day T-Bill	0.9	3.8	3.5	2.3	1.8
Bloomberg Long G/C	1.5	3.9	-3.8	0.7	4.9
Bloomberg Gl Agg ex US	1.0	-1.9	-2.9	-0.7	3.2
Real Estate					
NCREIF Property	1.2	4.9	3.2	4.7	7.2
FTSE Nareit Equity	12.4	21.5	5.9	6.1	9.2
Alternatives					
Cambridge PE*	0.4	12.0	10.0	13.6	11.1
Cambridge Senior Debt*	-0.7	10.3	7.6	8.0	5.1
HFRI Fund Weighted	6.4	16.3	6.6	7.3	6.0
Bloomberg Commodity	-8.1	25.5	9.4	5.8	2.6
Inflation – CPI-U	1.1	3.5	4.2	3.3	2.5

*Data for most recent period lags. Data as of 1Q26.
Sources: Bloomberg, Bureau of Economic Analysis, FTSE Russell, Hedge Fund Research, MSCI, NCREIF, Refinitiv/Cambridge, S&P Dow Jones Indices

However, the emotional impact of inflation is not to be discounted. First, even if the rate of inflation subsides to, say, 2%, prices are permanently higher unless inflation goes negative. Second, we lived without inflation for almost 20 years; the adjustment to inflation is painful and feels "unfair." More importantly for the capital markets, inflation expectations inform Fed policy and market sentiment and will drive asset class returns across both ownership and debt assets. Fighting inflation involves raising interest rates, which is painful for capital users, for existing bond investors, and for evaluating equity investments. Higher interest rates can also be dangerous to politicians looking to retain voters' confidence. New Federal Reserve chair Kevin Warsh has been thrown into this balancing act of managing inflation pressures and job growth (the two stated mandates for the Fed) as well as political and market pressure to meet expectations for two different masters.

Recent Quarterly Economic Indicators

	2Q26	1Q26	4Q25	3Q25	2Q25	1Q25
Employment Cost: Total Compensation Growth	3.4%	3.4%	3.4%	3.5%	3.6%	3.6%
Nonfarm Business: Productivity Growth	1.4%	0.8%	1.6%	5.2%	4.2%	-0.9%
GDP Growth	1.5%	2.0%	0.5%	4.4%	3.8%	-0.6%
Manufacturing Capacity Utilization	75.7%	75.0%	74.9%	75.9%	75.6%	75.3%
Consumer Sentiment Index (1966=100)	48.0	55.4	52.5	58.3	55.0	64.5

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, IHS Economics, Reuters/University of Michigan

Returns Boosted by Strong Equity Gains

INSTITUTIONAL INVESTORS

Investor Performance

- Another quarter of robust gains for U.S. and global equities helped returns for most investor types.
- Nonprofits, with typically bigger allocations to alternatives, performed best over the trailing one year ending 2Q26, topping a 60% stocks/40% bonds benchmark.
- Public defined benefit (DB) plans were a close second, coming in slightly below the benchmark.
- Over the last 10 and 20 years, the performance comparison is tougher, with double-digit gains for stocks a major headwind.
- For annual returns, institutional investors have done quite well, with mostly double-digit gains aside from the one outlier year of 2022.

Quarterly Returns, Callan Database Groups (6/30/26)

	Public	Corporate	Nonprofit	Taft-Hartley	Insurance Assets
10th Percentile	10.7	9.3	10.7	9.7	6.4
25th Percentile	9.5	7.4	9.6	8.9	4.7
Median	8.4	4.9	8.4	7.9	3.6
75th Percentile	6.9	3.1	7.0	6.4	2.1
90th Percentile	5.9	1.8	5.0	4.2	1.6

Source: Callan

Macroeconomic Issues

- The Federal Reserve, under new chair Kevin Warsh, held rates steady at the first meeting under his tenure.
- But expectations flipped, with market participants expecting a rate hike this year rather than a rate cut.
- Ongoing investments by business in artificial intelligence and related areas continue to power the overall economy.
- But higher energy prices and a slowing labor market have been drags on economic performance.
- Headline inflation rose 4.2% in May, well above the Fed's 2% target. The Fed's preferred measure, the Personal Consumption Expenditures Index, hit 3.4%.
- The Treasury yield curve slightly flattened over the quarter.

Major Issues Across Investor Types

- **Public equity underperformance:** Most clients in our proprietary Callan Consultant Survey have been measured in their long-term approach. Managers that have

Callan Database Median and Index Returns* for Periods Ended 6/30/26

Database Group	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
Public Database	**8.4**	**14.7**	**12.1**	**6.9**	**9.1**	**7.4**
Corporate Database	**4.9**	**9.6**	**8.0**	**3.0**	**6.4**	**6.3**
Nonprofit Database	**8.4**	**15.1**	**12.7**	**7.1**	**9.1**	**7.3**
Taft-Hartley Database	**7.9**	**14.1**	**11.7**	**6.5**	**8.6**	**7.1**
Insurance Assets Database	**3.6**	**7.5**	**8.0**	**3.6**	**4.8**	**4.8**
All Institutional Investors	**7.7**	**13.9**	**11.6**	**6.4**	**8.6**	**7.1**
Large (>$1 billion)	**7.0**	**13.6**	**11.1**	**6.6**	**8.9**	**7.3**
Medium ($100mm - $1bn)	**7.8**	**13.9**	**11.7**	**6.4**	**8.6**	**7.2**
Small (<$100 million)	**8.2**	**14.6**	**12.2**	**6.5**	**8.5**	**6.9**
60% S&P 500/40% Bloomberg Agg	9.4	14.9	14.0	8.1	10.1	8.5

*Returns less than one year are not annualized.

Source: Callan. Callan's database includes the following groups: public defined benefit (DB) plans, corporate DB plans, nonprofits, insurance assets, and Taft-Hartley plans. Approximately 10% to 15% of the database constituents are Callan's clients. All database group returns presented gross of fees. Past performance is no guarantee of future results. Reference to or inclusion in this report of any product, service, or entity should not be construed as a recommendation, approval, affiliation, or endorsement of such product, service, or entity by Callan.

seen extreme downside performance have been terminated, but investment committees are making sure they understand the factors contributing to underperformance before acting.

- **Concentration:** Clients have taken a nuanced view. There is some fear of missing out from the S&P 500's gains, and few are taking action. For most clients they are committed to active management in smid and small cap and passive in large cap.
- **Private credit headlines:** Clients are concerned and asking more pointed questions, but there has not been a wholesale move away from the asset class.
- **Higher rates and fixed income:** Some clients are de-risking, but many have been adjusting for several years.

Public DB Plans

- Investors grappled with equity performance, both active and passive.
- For active managers, they are continuing to scrutinize returns compared to benchmarks.
- For passive portfolios, the concern was on concentration in U.S. large cap equities.
- Funding continues to be a concern, with the additional wrinkle of pressure for increased benefits from participants to offset inflation.

Corporate DB Plans

- For these investors, preserving funded status continues to be a core concern.
- There was a small bit of interest in adding private markets exposure by some clients in our Consultant Survey.

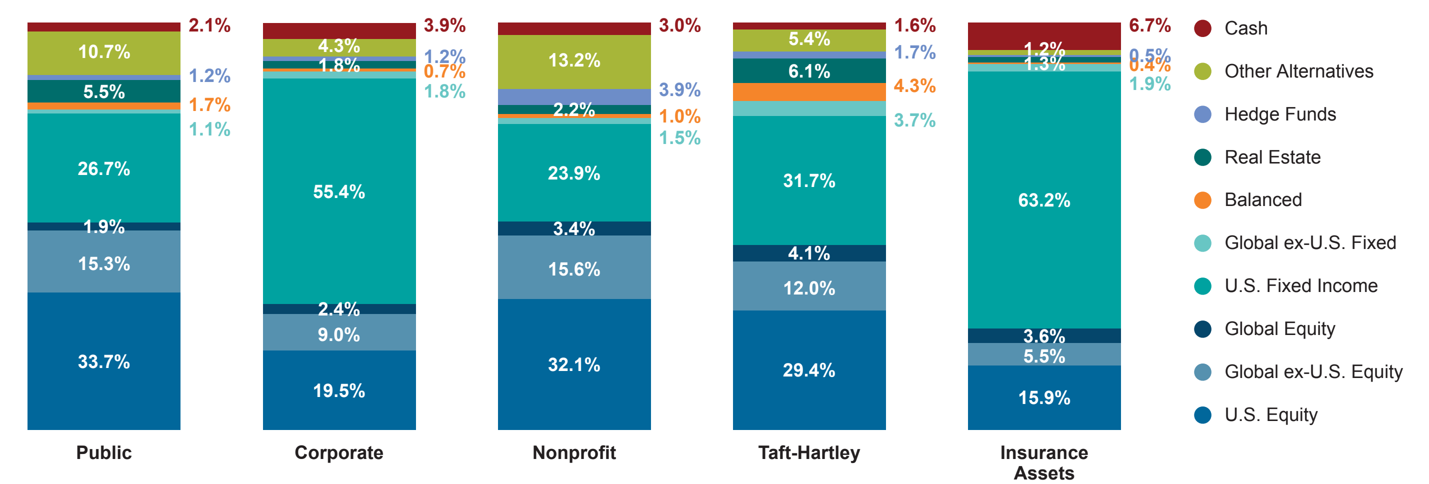
Nonprofits

- Preserving real purchasing power and making sure income-producing assets meet institutional goals were some of the areas of concern expressed by clients in our Consultant Survey.
- For some investors, private markets continue to be appealing, especially after the long uptick in public markets.

DC Plans

- The Callan DC Index fell 1.9% in 1Q26, the latest data available, after three straight quarters of gains.
- Alternatives in plans continues to be a subject of conversation with sponsors, but almost no action.
- Given their popularity, plan sponsors are evaluating their target date funds and considering searches if they had not gone out to market in many years.
- Manager performance is also under scrutiny for plans, with small and smid cap U.S. equity getting an especially close eye.

Average Asset Allocation, Callan Database Groups



Note: Charts may not sum to 100% due to rounding. Other alternatives include but is not limited to: diversified multi-asset, private credit, private equity, and real assets.
Source: Callan

Equity

U.S. Equities

S&P 500 rockets to new all-time highs

- The S&P 500 Index gained 15.2% in 2Q26, a big reversal following the decline of 4.3% in 1Q26. The results were driven across the AI value-chain, especially memory and semiconductor stocks, superseding Mag 7 dominance. The S&P 500 had 24 all-time closing highs in 1H26.
- Large cap returns for 1H26 were more broad-based as the S&P 500 Equal Weight Index gained 12.1% vs. 10.2% for the S&P 500 market cap-weighted index.
- In a reversal from 1Q26, 9 of the 11 S&P sectors posted gains. Technology (+31.8%) was the best-performing sector followed by Industrials (+14.9%). The worst-performing sectors were Energy (-13.4%) and Utilities (-0.5%).
- Small caps continued to outperform large caps, with the Russell 2000 up 21.5% during 2Q26 and 22.6% for 1H26.
- Growth outperformed value across the market cap spectrum during 2Q26, though value still outperformed growth YTD.

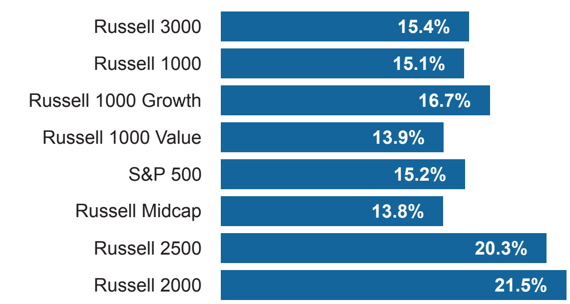
Equity investors shrug off U.S./Iran conflict

- Conflict began on Feb. 28, kicking off sharp equity declines through March 23 … but markets rebounded sharply starting in early April.
- Energy declined in 2Q after a big jump in 1Q; Technology rebounded in 2Q after 1Q decline.

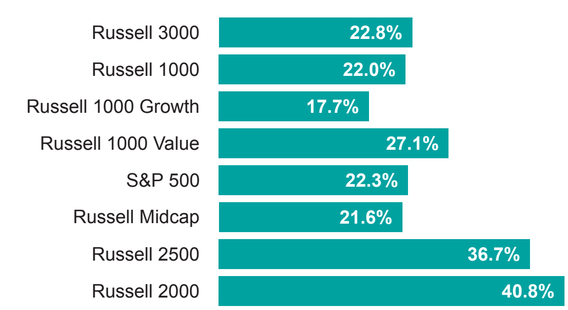
‘Magnificent’ no more?

- Large cap performance broadened out, away from concentration of Magnificent 7.
- Market sentiment turned on increased capex and decline in free cash flow to pay for the buildout.
- Small caps outperformed Mag 7 cohort of stocks in 2Q and YTD 2026.

U.S. Equity: Quarterly Returns (6/30/26)

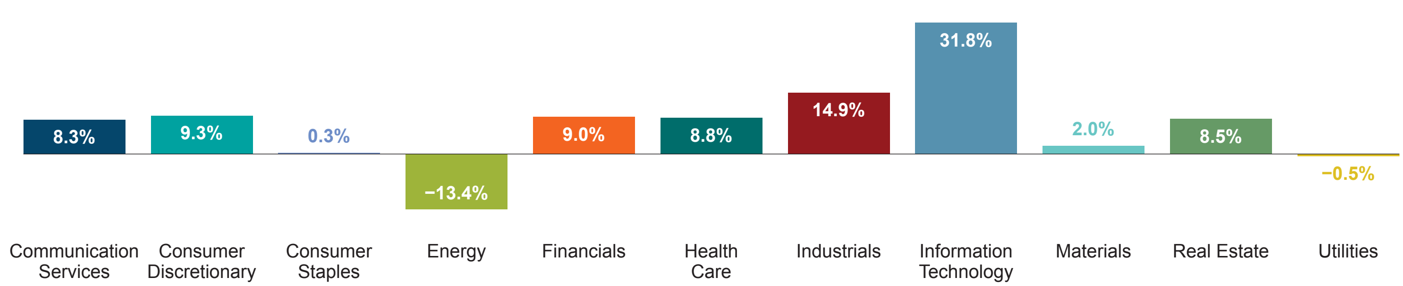


U.S. Equity: One-Year Returns (6/30/26)



Sources: FTSE Russell and S&P Dow Jones Indices

Quarterly Performance of Industry Sectors (6/30/26)



Source: S&P Dow Jones Indices

Global Equities

Growth reclaims leadership

- Developed ex-U.S. markets lagged the U.S. in 2Q26, reversing 1Q's leadership, though strong emerging markets drove the MSCI ACWI ex USA Index up 14.5%.
- Japan and the euro zone led developed ex-U.S. markets in 2Q26, while the U.K. lagged.
- South Korea and Taiwan led on AI-driven semiconductor strength. Brazil lagged amid persistent inflation and election uncertainty, while China (retail/auto weakness) and India (oil-driven volatility) missed the quarter's rally.
- MSCI EM concentration increased, with the top five holdings reaching roughly 35% of the index.

Growth vs. value

- Growth decisively reversed the prior quarter's trend, outperforming value across global markets.
- Technology was the clear sector leader, driven by AI enthusiasm and further supported by the successful June SpaceX IPO.
- Energy was the only major sector to post a loss as oil prices retreated sharply from 1Q highs.

U.S. dollar

- The U.S. dollar strengthened modestly in 2Q26 (DXY: +1.2%), driven by wider U.S. rate differentials, and remained a modest headwind for global ex-U.S. equity returns.

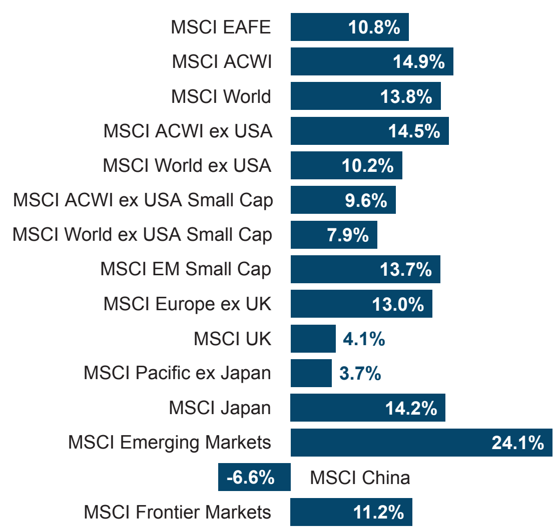
Momentum wins

- Momentum was the strongest style factor globally during the first half of 2026.
- Managers that entered the year with higher momentum exposure generally produced stronger relative returns.
- Momentum has historically been one of the best-performing investment factors, but also one of the most volatile. When momentum reverses, losses can be sudden and severe. Strong recent returns should not be mistaken for low risk.

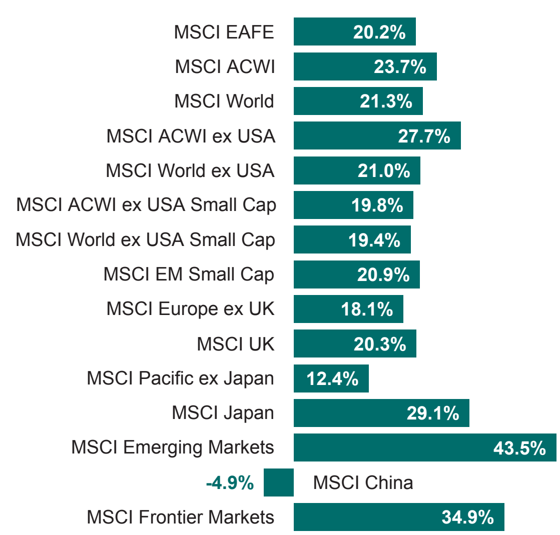
Emerging markets driven by AI

- AI-related industries accounted for 96% of positive EM returns despite representing just 25% of the index at the start of the year.
- Approximately 65% of positive returns were driven by earnings growth rather than valuation expansion, suggesting the rally was supported by improving fundamentals.
- While TSMC represented a large share of returns, AI-related hardware, specifically SK Hynix and Samsung, accounted for a significant portion of returns as well.

Global ex-U.S. Equity: Quarterly Returns (U.S. Dollar, 6/30/26)



Global ex-U.S. Equity: One-Year Returns (U.S. Dollar, 6/30/26)



Source: MSCI

Fixed Income

U.S. Fixed Income

Macro environment: A new Fed chair and hawkish rhetoric

- The Fed held rates unchanged at the June meeting, the first under new Chair Kevin Warsh.
- Consistently stubborn inflation led to hawkish rhetoric, and a keener eye on the inflation side of the Fed's dual mandate.
- Treasury yields rose across the belly and long end of the curve due to persistently sticky inflation.

Performance and drivers: Tighter credit spreads

- The Bloomberg US Aggregate Bond Index gained 0.7%, supported by tighter IG credit spreads versus the end of 1Q.
- IG corporate returns outpaced Treasuries due to spread tightening.

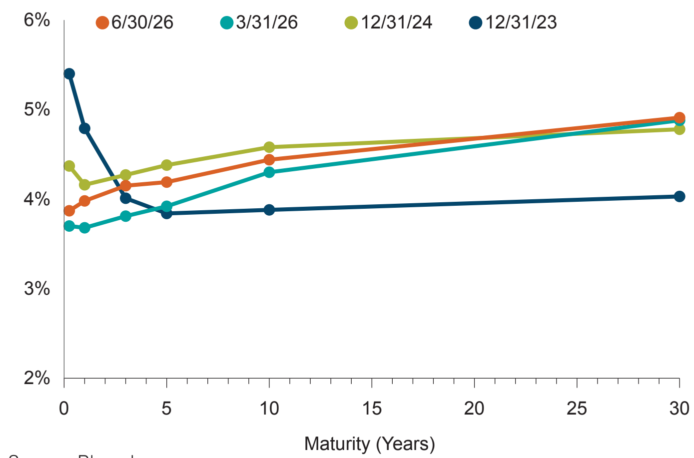
Valuations: Uptick in volatility fades

- Credit spreads widened at the end of 1Q amid continued geopolitical developments in the Middle East. However, credit spreads approached historic tights over the course of 2Q.
- Overall, yield should be the primary driver of fixed income returns moving forward. Market data has historically shown higher starting yields to be a key driver of fixed income returns, which is pertinent as credit spreads continue to hover near historic tights.

AI appetite: hype or demand

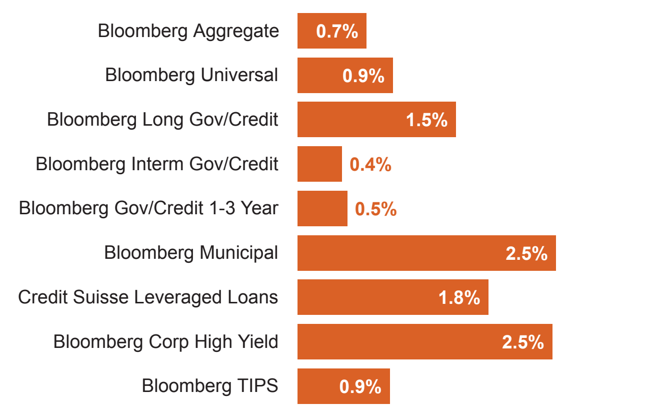
- The AI build-out continues, funded both by cash flow (from the hyperscalers), and debt issuance from both the hyper-scalers and non-hyperscalers. As the hyperscalers are all investment-grade rated, debt issued by these companies typically comes in the form of corporate bonds.
- However, a significant portion of debt issuance comes from non-hyperscalers in a variety of forms, including asset-backed securities, off-balance sheet financing via special purpose vehicles, joint ventures, commercial mortgage-backed securities, bank loans, and private credit.
- Despite the heavy wave of debt issuance, new deals largely remain oversubscribed, meaning there is more demand than supply. However, there is evidence that demand has become

U.S. Treasury Yield Curves

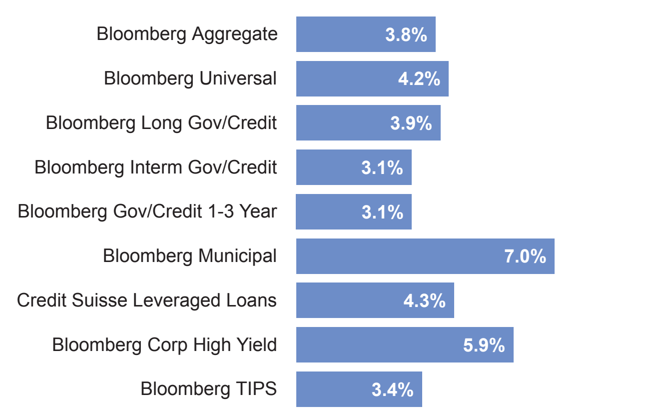


Source: Bloomberg

U.S. Fixed Income: Quarterly Returns (6/30/26)



U.S. Fixed Income: One-Year Returns (6/30/26)



Sources: Bloomberg and Credit Suisse

more selective compared to earlier in the issuance cycle, putting upward pressure on spreads for AI-related debt, specifically within the hyperscaler space.

Municipal Bonds

AAA municipal bond yield curve flattened in 2Q26

- Falling long-end yields drove the AAA muni bond yield curve flatter in 2Q.

Historic quarter for new issuance

- New issue volume continues to set records in the muni market, which posted historic calendar-year issuance in 2024 and 2025. In 2Q26, new issue volume was up 5% compared with the same period last year.
- Record new issuance continued to be met with solid demand as there were strong flows into municipal funds during the quarter.

Muni valuations remain tight

- Muni-to-Treasury ratios continue to fall below historical averages, indicating diminished relative value for tax-exempt municipals versus Treasuries.

Global Fixed Income

Macro environment: BOE holds steady, ECB gets proactive

- The BOE held rates steady in both April and June. Inflation remains above target, but policymakers opted to seek more data clarity before changing rates.
- The ECB was more proactive, raising policy rates at the June meeting with a higher revised inflation forecast and lower revised GDP growth forecast. Energy-driven inflation remained a key area of consideration for the ECB.

U.S. dollar remains front and center

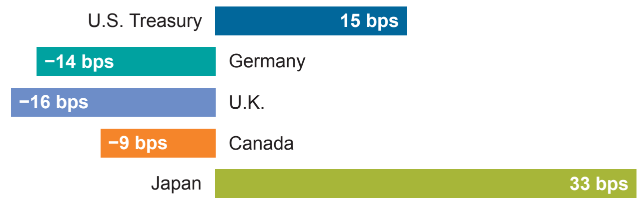
- A strengthening U.S. dollar led hedged indices to outperform unhedged counterparties. The dollar's strength in 2Q was particularly pronounced versus the Japanese yen, with USD/JPY trading at levels not seen since the 1980s.

Emerging market debt delivers another strong quarter

- A similar strengthening story was on display over the year for emerging market debt, with hard currency debt outperforming local currency.

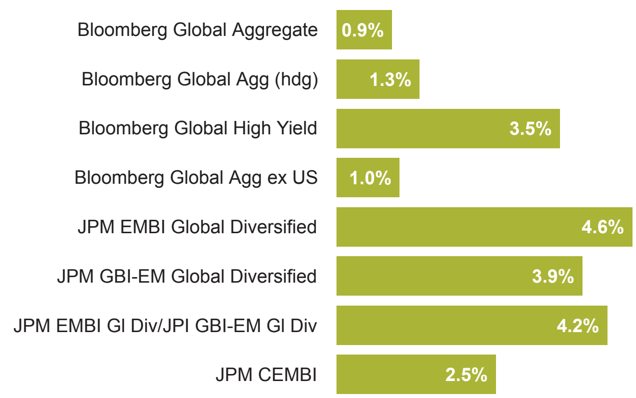
Change in 10-Year Global Government Bond Yields

1Q26 to 2Q26



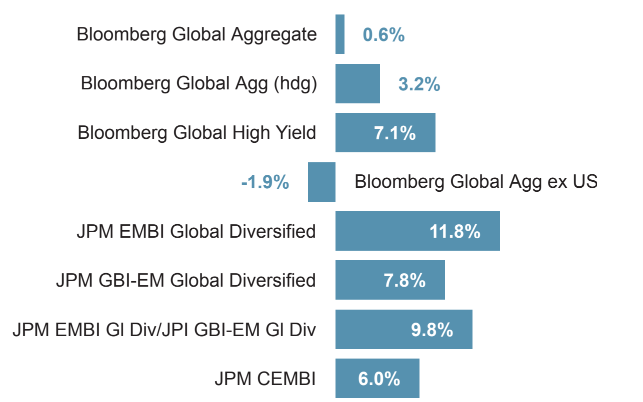
Source: Bloomberg

Global Fixed Income: Quarterly Returns (6/30/26)



Sources: Bloomberg and JPMorgan Chase

Global Fixed Income: One-Year Returns (6/30/26)



Sources: Bloomberg and JPMorgan Chase

Stabilization Continues Across Private Markets

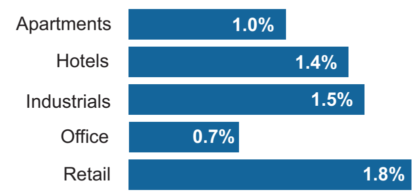
REAL ESTATE/REAL ASSETS | Aaron Quach

Signs of stabilization continued to emerge across real assets during 2Q26. Private real estate fundamentals improved modestly, transaction activity continued to recover, and infrastructure benefited from durable secular growth themes. At the same time, public real assets markets reflected a changing macroeconomic backdrop as easing geopolitical tensions, shifting interest rate expectations, and artificial intelligence (AI)-related investment continued to influence performance.

Private core real estate posted another positive quarter. The NCREIF Open-End Diversified Core Equity (ODCE) Index gained 1.3%. Industrial, Retail, Self-Storage, and Senior Housing all generated positive appreciation, while Residential and Office remained slightly negative. Regionally, the West lagged other parts of the country as softer industrial conditions in Southern California weighed on returns.

Core portfolios continue to evolve as institutional investors seek greater resilience. Industrial and Multi-family properties now account for a much larger share of ODCE portfolios than in prior decades, while Office and Retail exposures have steadily declined. Allocations to alternative property types have also grown as managers pursue sectors with lower capital expenditure requirements and less sensitivity to broad economic growth.

Sector Quarterly Returns by Property Type (6/30/26)



Source: NCREIF

Public real asset performance was mixed. REITs produced the strongest returns among liquid real assets, supported by healthy leasing activity and improving property fundamentals. U.S. REITs gained 12.4% during the quarter, led by Hotels, Self-Storage, Office, and Health Care. Even after this strong performance, global REITs continue to trade at a modest discount to net asset value, creating opportunities for selective public-to-private acquisitions.

Commodity futures declined as energy prices retreated following the easing of geopolitical tensions in the Middle East and the reopening of the Strait of Hormuz. Lower precious metals prices also weighed on returns as geopolitical risks moderated and expectations for tighter U.S. monetary policy strengthened. Natural-resource equities similarly declined as lower commodity prices pressured energy producers and precious metals miners.

Callan Database Median and Index Returns* for Periods Ended 6/30/26

Private Real Assets	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	20 Years
Real Estate ODCE Style	**1.2**	**1.9**	**3.8**	**-1.0**	**2.4**	**4.3**	**4.2**
NFI-ODCE (value-weighted, net)	1.3	2.3	3.6	-1.4	1.9	3.7	4.5
NCREIF Property	1.2	2.5	4.9	1.1	3.2	4.7	6.0
NCREIF Farmland	0.3	0.1	-0.1	0.4	3.7	4.6	9.2
NCREIF Timberland	1.0	2.1	4.4	6.5	8.5	5.5	6.0
Public Real Estate							
Global Real Estate Style	**9.1**	**10.6**	**13.8**	**10.6**	**2.8**	**5.6**	**5.6**
FTSE EPRA Nareit Developed	2.0	11.0	15.7	12.1	7.7	7.3	7.6
Global ex-U.S. Real Estate Style	**6.7**	**0.3**	**4.0**	**9.0**	**-1.1**	**4.6**	**3.8**
FTSE EPRA Nareit Dev ex US	2.6	-2.0	2.6	7.8	-2.2	1.7	2.2
U.S. REIT Style	**11.2**	**15.4**	**17.0**	**11.6**	**5.3**	**6.9**	**7.2**
FTSE EPRA Nareit Equity REITs	12.4	17.8	21.5	12.5	5.9	6.1	6.8

*Returns less than one year are not annualized. Sources: Callan, FTSE Russell, NCREIF

Venture Capital Continues to Lead

PRIVATE EQUITY | Aidan Davison

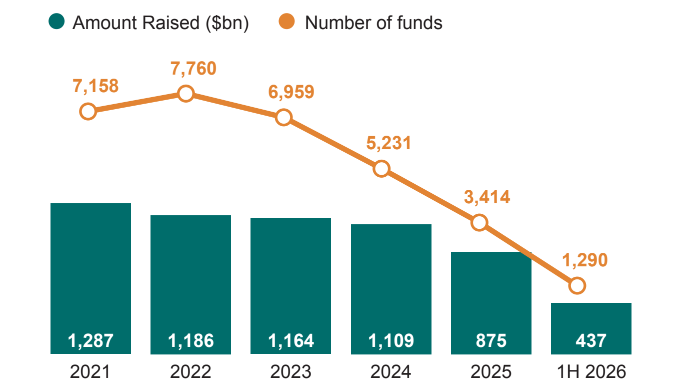
Private equity delivered a mixed start to 2026. While the overall asset class generated a modest 0.4% return in 1Q26, the headline result masks a growing divergence among strategies. Venture capital continued its AI-driven resurgence, while buyouts and growth equity struggled against a backdrop of weaker software valuations and macroeconomic uncertainty.

Performance ▶ Venture capital remained the standout performer, advancing 4.7% in 1Q26. Buyouts declined 1.3% for the quarter, while growth equity slipped 0.6%. Despite these short-term differences, longer-term results remain remarkably consistent. Over 10- and 20-year periods, venture capital, buyouts, growth equity, and the broader private equity universe all produced annualized returns in the 12%–15% range, outperforming the Russell 3000 public market equivalent (PME) Index.

Fundraising ▶ Private equity fundraising remained subdued through the first half of 2026, with capital raised tracking roughly in line with 2025 and well below the record pace established between 2021 and 2024.

Deal Activity ▶ Overall deal activity remained on pace with 2025, but underlying trends differed sharply across strategies. U.S. buyout volume declined roughly 25% year over year, while megadeals became much less common. Capital increasingly shifted toward energy and AI infrastructure opportunities, and valuation multiples remained elevated because the highest-quality assets continued to attract buyers.

Annual Fundraising (6/30/26)



Source: Pitchbook

Venture capital moved in the opposite direction. Venture-growth investment during the first half of 2026 already exceeded the total recorded during all of 2025, fueled by large financings for OpenAI, Anthropic, and xAI.

Exits ▶ Buyout exits did not sustain the improvement seen during 2025, with transaction volume declining from 1H25 despite larger average deal sizes. Venture capital liquidity, however, continued to improve. Record exit value in 2026 was led by SpaceX's initial public offering.

LP Distributions ▶ During 2025, distributions totaled 12% of beginning net asset value, compared with the long-term average of roughly 20%.

Private Equity Performance (%) (Pooled Horizon IRRs through 3/31/26*)

Strategy	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
Venture Capital	4.7%	23.3%	9.2%	6.2%	15.3%	12.9%
Growth Equity	-0.6%	10.3%	7.3%	5.8%	13.7%	12.6%
Buyouts	-1.3%	6.8%	7.2%	9.2%	14.0%	12.2%
Private Equity	**0.4%**	**11.5%**	**7.7%**	**7.7%**	**14.3%**	**12.4%**

Note: Private equity returns are net of fees. Sources: LSEG/Cambridge and S&P Dow Jones Indices
*Most recent data available at time of publication

Note: Transaction count and dollar volume figures across all private equity measures are preliminary figures and are subject to update in subsequent versions of the *Capital Markets Review* and other Callan publications.

Private Credit Holds Its Ground as Markets Reprice Risk

PRIVATE CREDIT | Daniel Brown

Private credit entered 2026 from a position of relative strength. Although returns moderated from the previous quarter, the asset class again demonstrated its resilience by outperforming both leveraged loans and high yield bonds during a challenging first quarter for public credit markets. At the same time, investors continued to shift capital toward specialized lending strategies, financing conditions became increasingly competitive, and early signs of a recovery in merger and acquisition (M&A) activity emerged.

Key Trends in Private Credit

Returns ▶ Private credit generated a pooled horizon net internal rate of return (IRR) of 0.2% in 1Q26, bringing its one-year return to 8.1% and its 10-year return to 9.0%. Despite the muted quarterly gain, the asset class outperformed both leveraged loans and high yield bonds, which posted negative returns during the quarter. Within private credit, subordinated debt and credit opportunities remained positive performers, while senior debt was the only major strategy to finish the quarter in negative territory.

Fundraising ▶ Capital raising remained selective but continued to evolve. Direct lending regained the lead in fundraising during the quarter, supported by large fund closes from Sixth Street and BlackRock. At the same time, investors maintained interest in complementary strategies, with secondaries and asset-based finance (ABF) represented among the largest funds raised. European-focused vehicles also featured prominently, accounting for two of the four largest fund closes. Although fundraising activity remained below the elevated levels seen several years ago, capital continues to flow toward established managers and differentiated lending strategies.

Spreads ▶ Competitive financing conditions continued to reshape the market. Direct lending spreads narrowed; nearly two-thirds of new direct lending leveraged buyout (LBO) deals over the past 12 months priced below 500 basis points over the benchmark rate, representing a sharp increase in this cohort from recent years. As a result, the spread premium over the broadly syndicated loan market narrowed to approximately 149 bps, the tightest level of the current cycle.

Issuance ▶ M&A-related loan issuance accelerated during the first quarter. Institutional issuance totaled $51.2 billion, including $29.0 billion supporting leveraged buyouts. If sustained, the current pace would annualize to approximately $205 billion—well above 2025's total of $142.4 billion. Sponsor-backed transactions represented more than half of quarterly issuance, suggesting private equity activity is beginning to recover as financing markets stabilize.

Headwinds ▶ Broader market headlines continued to focus on private credit's exposure to technology companies and AI-related investments. While software lending has historically benefited from recurring revenue models and attractive growth characteristics, rapid advances in artificial intelligence have prompted investors to reassess long-term valuations and business risks. At the same time, concerns surrounding AI infrastructure spending contributed to volatility in public business development companies (BDCs) and higher redemption requests at some semi-liquid private credit funds. Despite these concerns, the anticipated surge in credit defaults has yet to emerge.

Private Credit Performance (%) (Pooled Horizon IRRs by Strategy through 3/31/26*)

Strategy	Quarter	1 Year	5 Years	10 Years	20 Years
Senior Debt	-0.7	6.7	7.4	7.6	7.6
Subordinated	0.1	9.0	10.1	10.9	10.6
Credit Opportunities	0.7	8.6	9.0	9.0	9.0
Total Private Credit	**0.2**	**8.1**	**8.8**	**9.0**	**9.1**

Source: LSEG/Cambridge
*Most recent data available at time of publication

AI Trade Helps Drive Manager Gains

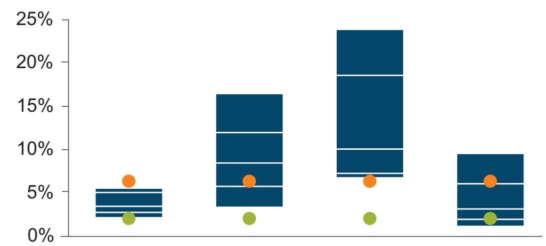
HEDGE FUNDS/MACs | Joe McGuane

U.S. equity markets rebounded sharply during 2Q26, more than offsetting the first-quarter decline, as resilient corporate earnings and continued enthusiasm surrounding AI-related investment drove broad-based gains across risk assets. Investor sentiment improved meaningfully as geopolitical tensions in the Middle East stabilized following elevated volatility in 1Q, allowing market participants to refocus on corporate fundamentals and earnings growth. The 10-year Treasury yield rose from 4.3% to 4.5%, while the 2-year jumped from 3.8% to 4.2%, its largest move around a single FOMC meeting in years, while the 30-year was roughly unchanged near 4.9%, flattening the curve.

The S&P 500 Index experienced one of its strongest quarters in years, as Technology led the market higher, with semiconductors posting extraordinary gains as the AI capital spending cycle reaccelerated on the back of hyperscaler capex raises announced with 1Q earnings, while Energy was the weakest sector as oil reversed.

Serving as a proxy for large, broadly diversified hedge funds with low beta exposure to the equity market, the median manager in the Callan Institutional Hedge Fund Peer Group rose 3.2%. Within this style group of 50 peers, the average Callan hedged equity manager gained 8.2%, as AI-related investment themes continued to broaden beyond semiconductor manufacturers into software, infrastructure, industrials, power, and data center beneficiaries, expanding the opportunity set for equity hedge managers. The average Callan hedged cross-asset manager

Hedge Fund Style Group Returns (6/30/26)



	Absolute Return FOF	Core Div. FOF	Long/Short Equity FOF	Institutional Hedge Funds
10th Percentile	5.6	16.5	23.9	9.6
25th Percentile	5.1	12.0	18.6	6.1
Median	3.5	8.5	10.1	3.2
75th Percentile	2.8	5.8	7.3	2.0
90th Percentile	2.2	3.4	6.8	1.2
HFRI Fund Wtd Index ●	6.4	6.4	6.4	6.4
90-Day T-Bills +5% ●	2.1	2.1	2.1	2.1

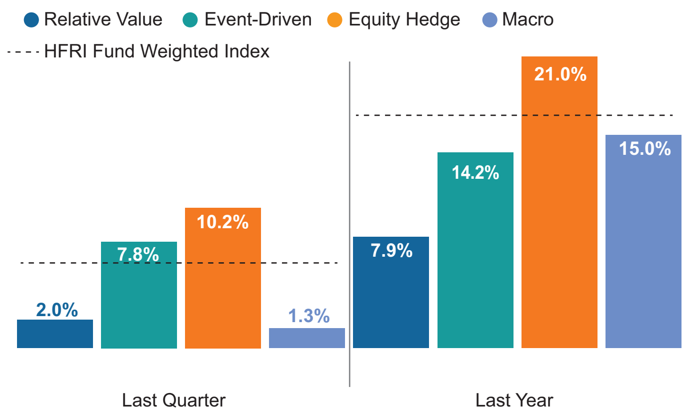
Sources: Callan, Credit Suisse, Federal Reserve

Callan Peer Group Median and Index Returns* for Periods Ended 6/30/26

Hedge Fund Universe	Quarter	1 Year	3 Years	5 Years	10 Years	15 Years
Callan Institutional Hedge Fund Peer Group	**3.2**	**10.4**	**10.1**	**8.1**	**8.5**	**7.8**
Callan Fund-of-Funds Peer Group	**7.1**	**16.4**	**12.1**	**7.8**	**7.5**	**6.3**
Callan Absolute Return FOF Style	**3.5**	**9.3**	**9.3**	**7.2**	**5.7**	**5.4**
Callan Core Diversified FOF Style	**8.5**	**16.3**	**11.9**	**8.2**	**7.5**	**6.4**
Callan Long/Short Equity FOF Style	**10.1**	**21.8**	**14.1**	**7.1**	**8.0**	**6.5**
HFRI Fund Weighted Index	6.4	16.2	11.5	6.6	7.3	5.6
HFRI Fixed Convertible Arbitrage	3.5	12.1	9.6	6.7	6.9	5.7
HFRI Distressed/Restructuring	9.1	19.8	13.2	7.5	8.2	6.1
HFRI Emerging Markets	7.6	17.5	12.9	5.0	6.9	4.4
HFRI Equity Market Neutral	2.2	8.9	9.8	6.8	4.7	4.0
HFRI Event-Driven	7.6	13.9	12.0	6.7	7.5	5.9
HFRI Relative Value	2.0	7.9	8.1	5.4	5.4	5.0
HFRI Macro	1.4	15.2	6.4	5.3	4.3	3.1
HFRI Equity Hedge	10.0	20.8	14.7	7.4	9.1	6.8
HFRI Multi-Strategy	6.9	14.3	14.6	6.1	6.5	4.8
HFRI Merger Arbitrage	3.0	9.3	9.3	6.0	6.1	4.9
90-Day T-Bill + 5%	2.1	8.8	9.6	8.5	7.3	6.6

*Net of fees. Sources: Callan, Credit Suisse, Hedge Fund Research

HFRI Hedge Fund-Weighted Strategy Returns (6/30/26)



Source: HFRI

gained 5.3%, as equity positioning drove performance during the quarter.

Within the HFRI Indices, the best-performing strategy was equity hedge, which had a strong quarter and gained 10.2%, as AI, technology, and stock selection drove returns. Event-driven strategies finished up 7.8%, as merger activity remained healthy and the highly anticipated SpaceX IPO created meaningful trading opportunities across IPO allocations, suppliers, and related securities. Relative value strategies ended up 2.0%, as fixed income arbitrage and yield-oriented strategies benefited from stable credit markets and improving interest rate expectations. Macro strategies closed up 1.3%, as discretionary managers benefited from opportunities across global interest rates, currencies, and sovereign debt amid evolving central bank expectations and geopolitical developments, while commodity and systematic trend-following managers were challenged by sharp reversals in energy prices and cross-asset market trends.

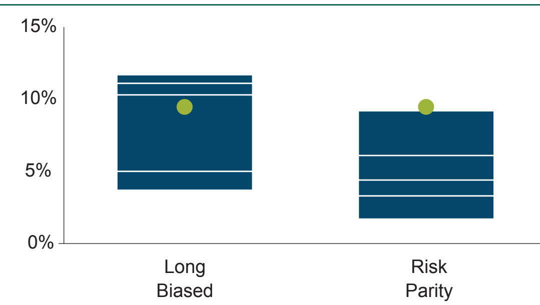
Across the Callan Hedge Fund-of-Funds (FOF) database, the median Callan long/short equity FOF was up 10.1%, as managers were able to profit from the rise in AI-related companies during the quarter. The Callan Core Diversified FOF index ended up 8.5%, as both equity hedge and discretionary macro managers drove performance higher. Meanwhile, the Callan Absolute Return FOF index gained 3.5%, as relative value strategies in addition to equity hedge strategies drove performance higher.

Since the Global Financial Crisis, liquid alternatives to hedge funds have become popular among investors for their attractive risk-adjusted returns that are similarly uncorrelated with traditional stock and bond investments but offered at a lower cost. Much of that interest is focused on rules-based, long-short strategies that isolate known risk premia such as value, momentum, and carry found across the various capital markets. These alternative risk premia are often embedded, to varying degrees, in hedge funds as well as other actively managed investment products.

Within Callan's database of liquid alternative solutions, the median Callan MAC Long Biased manager rose 10.3%, as strength came from AI-related enthusiasm. The median Callan Risk Parity MAC manager increased 4.4%, as positioning to equities pushed performance higher, while commodities offset some of that performance as oil moved lower during the quarter.

The opportunity set for hedge funds for the second half of 2026 remains constructive. Elevated stock dispersion, normalizing interest rates, and ongoing macro uncertainty continue to create opportunities for security selection and relative value trading, supporting the outlook for hedge fund alpha generation. While AI-related companies continue to drive earnings growth, market leadership has expanded beyond the largest technology companies into industrials, utilities, power infrastructure, financials, and select cyclical sectors. This broadening of the market should improve both long and short opportunities for fundamental equity managers. The current environment appears increasingly supportive of differentiated, idiosyncratic return generation rather than broad market beta.

MAC Style Group Returns (6/30/26)



	Long Biased	Risk Parity
10th Percentile	11.7	9.2
25th Percentile	11.1	6.1
Median	10.3	4.4
75th Percentile	5.0	3.3
90th Percentile	3.7	1.7
60% ACWI / 40% Bloomberg Agg ●	9.1	9.1

Sources: Bloomberg, Callan, Eurekahedge, S&P Dow Jones Indices

DC Index Falls After Three Straight Gains

DEFINED CONTRIBUTION | Scotty Lee

Performance: Markets Pull Back After Strong Run

– The Callan DC Index™ declined 1.9% during 1Q26 following three consecutive quarters of gains, bringing the trailing one-year return to 15.4%. The Callan Target Date 2045 Peer Group outperformed the Index during both the quarter (-1.4%) and the trailing one-year period (+18.3%).

Growth Sources: Contributions Offset Market Losses

– Average participant balances declined 1.2% during the quarter after increasing 1.0% in the prior period. Investment performance was the primary driver of the decline, detracting 1.9%, while positive net flows of 0.7% offset market losses.

Turnover: Net Transfer Activity Remains Negligible

– Turnover (i.e., net transfer activity within DC plans) was just 0.01% in 4Q25, its lowest level since Index inception.

Net Cash Flow Analysis: TDF Inflows Stay Strong

– Target date funds continued to attract the majority of inflows during the quarter, receiving 77.3% of total inflows. Global ex-U.S. equity (9.8%) and U.S. fixed income (7.7%) also experienced positive flows. Meanwhile, U.S. small/mid cap equity (-26.0%), U.S. large cap equity (-19.7%), and stable value (-19.3%) experienced notable outflows.

Equity Allocation: Exposure Stays Above Historical Levels

– The Index's overall equity allocation declined modestly from 75.3% to 74.8% during the quarter.

Asset Allocation: TDFs Continue to Gain Share

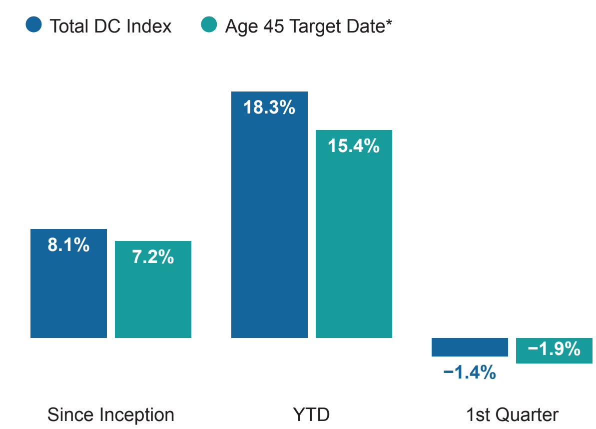
– Target date funds continued to increase their share of total plan assets and now represent 41% of assets within the Index. U.S. large cap equity remains the largest standalone equity allocation at 28% of assets.

Prevalence of Asset Class: Stable Value Remains Core

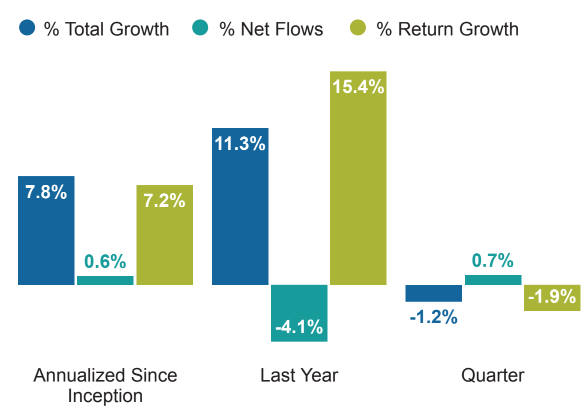
– Target date funds remain the most widely offered multi-asset solution, available in 90% of plans within the Index. Stable value funds increased in prevalence to 71%. Emerging market equity experienced one of the largest declines in prevalence during the quarter, falling to 15% of plans, reflecting the continued simplification of some investment lineups.

Underlying fund performance, asset allocation, and cash flows of more than 100 large defined contribution plans representing approximately $400 billion in assets are tracked in the Callan DC Index.

Investment Performance (3/31/26+)



Growth Sources (3/31/26+)



Net Cash Flow Analysis 1Q26+)
(Top Two and Bottom Two Asset Gatherers)

Asset Class	Flows as % of Total Net Flows
Target Date Funds	77.3%
Global ex-U.S. Equity	9.8%
U.S. Large Cap	-19.7%
U.S. Small/Mid Cap	-26.0%
Total Turnover**	**0.3%**

+ Data provided here is the most recent available at time of publication.

Source: Callan DC Index

Note: DC Index inception date is January 2006.

* The Age 45 Fund transitioned from the average 2040 TDF to the 2045 TDF in June 2023.

** Total Index "turnover" measures the percentage of total invested assets (transfers only, excluding contributions and withdrawals) that moved between asset classes.

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The *Capital Markets Review* is a quarterly macroeconomic indicator newsletter that provides thoughtful insights on the economy and recent performance in the equity, fixed income, alternatives, real estate, and other capital markets.

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