

Data Everywhere, nor Any Drop to Drink

ECONOMY

2 With little data to analyze, economists and market participants have struggled to make sense of the economy. And even when some data was eventually released after the government shutdown, investors struggled to analyze what it means since it generated conflicting signals.

Investors Expect Fed to Be Hawish in 2026

FIXED INCOME

8 The Aggregate gained 1.1% in 4Q, supported by declining short-term Treasury yields. Corporate credit spreads remain tight. Many market participants anticipate a measured approach to policy easing by the Fed. The U.S. dollar dominated global fixed income returns.

Sector Outperforms as Spreads Tighten

PRIVATE CREDIT

12 Net IRR of 8.9% over 10 years ending 3Q25 tops leveraged loans. Spreads and yields continued to grind tighter into 3Q25. Relative economics for switching from private credit into the syndicated loan market were broadly unchanged from last quarter.

Public DB Matches Benchmark in 4Q25

INSTITUTIONAL INVESTORS

4 Public DB plans gained nearly 14% in 4Q25, matching a stocks/bonds benchmark. Nonprofits did even better, while corporate DB plans and Taft-Hartley plans lagged. The Fed, tariffs, and artificial intelligence dominated investors' attention during the quarter.

Signs of Stabilization; Dispersion Persists

REAL ESTATE/REAL ASSETS

10 Real assets delivered mixed results in 4Q25 as public and private markets responded differently to easing valuation pressures, shifting rate expectations, and uneven fundamentals. While several segments showed early signs of stabilization, dispersion remained a defining feature.

Most Strategies Deliver Gains in 4Q

HEDGE FUNDS/MACs

13 This year appears to be a constructive environment for hedge funds relative to long-only assets, driven by elevated dispersion, policy uncertainty, and idiosyncratic outcomes across equities, credit, and macro markets, with returns attributable to alpha rather than beta.

S&P 500 Hits a High; Global Indices Soar

EQUITY

6 The S&P 500 gained 2.7% in 4Q, with strong gains across most sectors. Large cap topped small cap, while value outperformed growth across the market cap spectrum. Global ex-U.S. equities outpaced U.S. equities for the year. EAFE had its best return since 2009.

Fundraising Slows; Deals Rebound

PRIVATE EQUITY

11 Private equity posted steady gains of 2.6% in 3Q25, although trailing public equity's strong performance. Fundraising for YTD 3Q25 declined by ~30% versus YTD 3Q24. Deal volume rebounded and buyouts roared back, while exits picked up meaningfully.

Gain of 6% in 3Q25 Lags Target Date Index

DEFINED CONTRIBUTION

15 Balances within the Callan DC Index rose by 3.5%. Turnover hit 0.01%, an all-time low. Uncharacteristically, TDFs experienced net outflows (-37.4%), indicating that asset movement was primarily structural in nature rather than the result of participant reallocations.

Broad Market Quarterly Returns

U.S. Equity Russell 3000



2.4%

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



5.1%

U.S. Fixed Income Bloomberg Agg



1.1%

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



-0.5%

Sources: Bloomberg, FTSE Russell, MSCI

Data, Data Everywhere, nor Any Drop to Drink

ECONOMY | Jay Kloepfer

One of the most quoted lines in classic literature and adapted through modern culture is “water, water, everywhere, nor any drop to drink.” The line refers to a ship becalmed in a sea of saltwater, surrounded by abundance but unable to use it in its current form to slake the thirst of a ship’s crew. The source is a narrative poem, “The Rime of the Ancient Mariner” by Samuel Taylor Coleridge, first published in 1798.

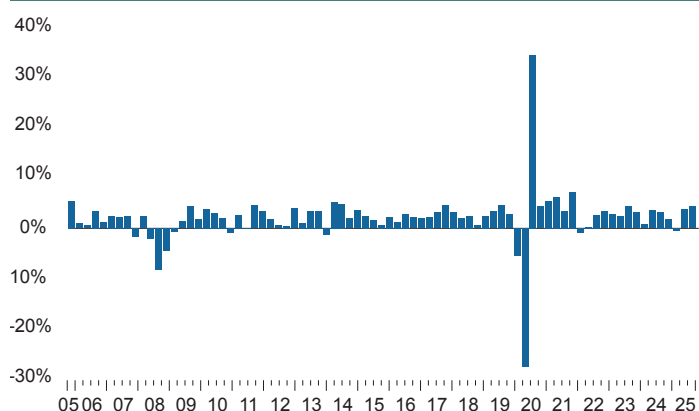
We as a modern economy are drowning in data, but the reliability of many indicators and the traditional interpretation of how market and financial data interact and help us forecast are under serious reconsideration. The shutdown of the U.S. government in the fall of 2025 delayed the release of inflation, employment, and GDP data. We view these broad data points as the canvas against which much more detailed production, consumption, income, and business spending and investment can be cast to get a picture of where we might be heading in the U.S. and the global economy.

After the release of these government data resumed, questions emerged about the quality of the data and the mixed and frankly crossed signals given off by these and many long-trusted market indicators. The fallibility of these data is baffling forecasters, policymakers, businesses, and consumers all. Can job growth grind to a halt in the U.S. for more than six months yet unemployment does not rise and GDP surges? How can we boost tariffs substantially, applied to many products still purchased throughout the U.S. economy, to effective tariff rates unseen in over 70 years, but inflation only floats up a touch and does not spike? How does consumer sentiment fall while spending continues to rise? Why is the stock market shooting through the roof while 2025 offered such a wild ride and uncertainty remains high? Investors loathe uncertainty, or so I have been led to believe for decades.

During the second and third quarters of 2025, the truism was that the highest option value for corporations planning investment, expansion, or capital spending was to do nothing in the face of policy uncertainty. That position has faded, and business investment has been strong, and blindingly so in the technology push to build up AI capabilities. U.S. GDP actually shrank in 1Q25, falling by 0.6%

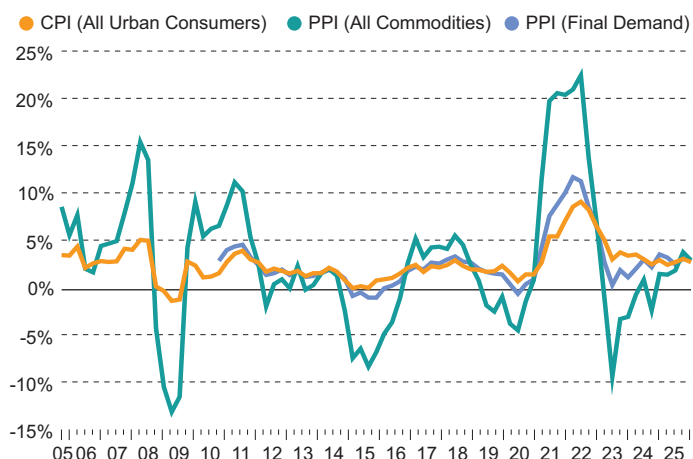
Quarterly Real GDP Growth

(20 Years)



Source: Bureau of Economic Analysis. 4Q25 data not available at time of publication.

Inflation Year-Over-Year



Source: Bureau of Labor Statistics.

annualized, only to surge by 3.8% in 2Q and 4.4% in 3Q, higher quarterly growth rates than any time since 3Q23. The 4Q25 release has been delayed until Feb. 20, 2026, almost a month late, and the estimates are all positive, ranging from 1% (mid-point of the Blue Chip consensus range of 0% to 2%) to an estimate of 4.2% from the model at the Atlanta Fed’s GDPNow as of Feb. 2, 2026).

In the meantime, the job market has reversed course, shifting from a “tight” characterization with strong monthly increases and high turnover to one of substantial loosening. The rule of thumb in economics for the U.S. non-farm job count has been characterized as the following: any count over 100,000 new jobs per month means the economy is still expanding. A count as high as 200,000 new

jobs means the economy is expanding rapidly, and a booming labor market can see counts as high as 300,000 or more. Anything below 100,000 monthly new jobs has in the past pointed to growing softness and a potential contraction in consumer spending, rising unemployment, falling GDP growth, and potentially a contraction in the overall economy.

In 2024, we averaged 167,000 new jobs per month. In the first four months of 2025, the labor market generated an average of 123,000 new jobs. From May through December 2025, non-farm jobs increased just 93,000 total, less than the monthly average since the start of 2024. Included in this sharp drop in the new job count was the decline in October due to the U.S. government shutdown. Yet the unemployment rate ticked up modestly, from 4.0% in January 2025 to 4.4% in December. Our interpretation of unemployment rates would have in the past considered 4.4% as historically low and a sign of a strong demand for labor and therefore a strong economy. What is going on? A halt to job creation is usually associated with a rise in the unemployment rate, as natural growth in the labor force (those working and those seeking work) would see fewer new jobs per participant seeking work. However, the decline in immigration and the number of foreign-born workers has limited the increase in the total number of people unemployed, hence the unemployment rate has risen only modestly. So labor force, employment, and growth rules of thumb are upended. Added to this uncertainty are questions about the quality of the labor market data; the most immediate measure of workers—the non-farm employment totals—are created by employers, and employers have to be encouraged to respond to the monthly employment surveys. There is evidence the response rate of employers has been affected by the uncertainty introduced by the immigration changes in the workforce.

COVID-19 delivered a supply and demand shock to the global economy, and the historical interpretation of the economic data collected

Recent Quarterly Economic Indicators

	4Q25	3Q25	2Q25	1Q25	4Q24	3Q24
Employment Cost: Total Compensation Growth	n/a	3.5%	3.6%	3.6%	3.8%	3.9%
Nonfarm Business: Productivity Growth	n/a	4.9%	4.1%	-2.1%	1.7%	2.9%
GDP Growth	n/a	4.4%	3.8%	-0.6%	2.4%	3.1%
Manufacturing Capacity Utilization	75.5%	75.9%	75.6%	75.3%	76.2%	76.7%
Consumer Sentiment Index (1966=100)	52.5	58.3	55.0	64.5	72.1	68.1

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

The Long-Term View

Index	4Q25	Periods Ended 12/31/25			
		1 Yr	5 Yrs	10 Yrs	25 Yrs
U.S. Equity					
Russell 3000	2.4	17.1	13.1	14.3	8.9
S&P 500	2.7	17.9	14.4	14.8	8.8
Russell 2000	2.2	12.8	6.1	9.6	8.2
Global ex-U.S. Equity					
MSCI EAFE	4.9	31.2	8.9	8.2	5.4
MSCI ACWI ex USA	5.1	32.4	7.9	8.4	5.8
MSCI Emerging Markets	4.7	33.6	4.2	8.4	8.5
MSCI ACWI ex USA Small Cap	3.0	29.3	6.9	8.1	8.2
Fixed Income					
Bloomberg Agg	1.1	7.3	-0.4	2.0	3.8
90-Day T-Bill	1.0	4.2	3.2	2.2	1.8
Bloomberg Long G/C	0.0	6.6	-4.9	2.0	5.0
Bloomberg GI Agg ex US	-0.5	8.8	-3.6	0.6	3.0
Real Estate					
NCREIF Property	1.2	4.9	3.8	4.8	7.3
FTSE Nareit Equity	-1.6	2.9	6.6	5.7	8.9
Alternatives					
Cambridge PE*	2.6	9.5	12.6	13.4	10.4
Cambridge Senior Debt*	1.1	7.8	8.3	8.0	5.0
HFRI Fund Weighted	2.8	12.4	7.1	6.6	5.9
Bloomberg Commodity	5.8	15.8	10.6	5.7	1.6
Inflation – CPI-U	-0.2	2.7	4.5	3.2	2.5

*Data for most recent period lags. Data as of 3Q25.

Sources: Bloomberg, Bureau of Economic Analysis, FTSE Russell, Hedge Fund Research, MSCI, NCREIF, Refinitiv/Cambridge, S&P Dow Jones Indices

during the pandemic and the patterns of interaction thought to predict the economy were severely tested. Reliable indicators of, say, recession are not so reliable; witness the incorrect annual prediction of recession at the start of each of the past three years. Even something as reliable as an inverted yield curve has proven to be a reliable indicator of, well, current interest rates but not the sentiment that normally leads to recession. Further dives into details of the data, all that data in which we are swimming, are likely required to find the true source of signal in our more complicated world order.

Public DB Plan Returns Match Benchmark in 4Q25

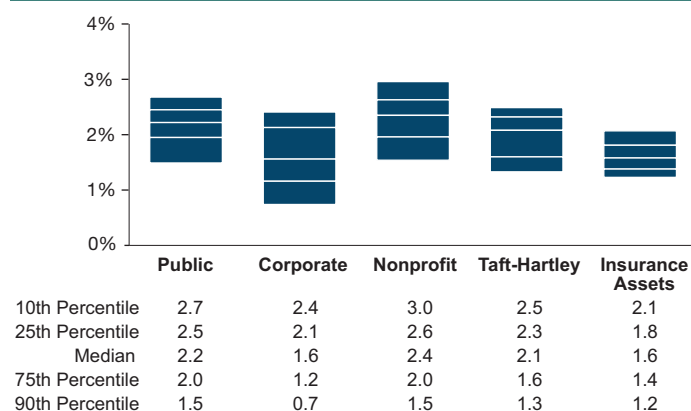
INSTITUTIONAL INVESTORS

Investor Performance

- Over the last year, Public DB plans matched a 60% S&P 500/40% Bloomberg Aggregate benchmark, gaining nearly 14%.
- Nonprofits did even better, while corporate DB plans and Taft-Hartley plans lagged.
- Over longer periods of time, the gap widens, with the benchmark outpacing all investor types. Much of that can be explained by the staggering returns of U.S. equities.
- DC-focused indices (the Callan DC Index™ and the Callan Target Date Index™) generally topped or matched the benchmark over shorter time periods but lagged over the last 5, 10, and 20 years.

Quarterly Returns, Callan Database Groups

(12/31/25)



Source: Callan

Macroeconomic Issues

- The Fed has now made three rate cuts of 25 bps each in September, October, and December. It is now signaling a cautious approach to cuts in 2026. Institutional investors are paying close attention to both the direction of rates and, as importantly, the independence of the Fed.
- After falling in 1Q25, GDP rebounded and is poised to finish the year with three straight positive reports (4Q data was delayed by the government shutdown).
- In addition to the Fed and its future, client conversations were also dominated by discussions about tariffs and their direction (and how they will impact inflation and employment).
- Artificial intelligence was another issue that investors are grappling with, both in terms of how it is affecting equity markets, how it will impact the energy grid, and how it might change their internal processes.

Callan Database Median and Index Returns* for Periods Ended 12/31/25

Database Group	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
Public Database	2.2	13.8	12.1	7.2	8.7	7.2
Corporate Database	1.6	11.6	9.2	3.2	6.6	6.4
Nonprofit Database	2.4	14.3	12.7	7.5	8.6	7.1
Taft-Hartley Database	2.1	13.2	11.6	7.0	8.2	6.9
Insurance Assets Database	1.6	9.3	8.6	3.9	5.0	4.8
All Institutional Investors	2.1	13.5	11.7	6.8	8.1	7.0
Large (>\$1 billion)	2.2	13.2	11.1	7.3	8.4	7.2
Medium (\$100mm - \$1bn)	2.1	13.5	12.0	6.8	8.2	7.0
Small (<\$100 million)	2.1	13.8	12.3	6.6	8.0	6.7
60% S&P 500/40% Bloomberg Agg	2.0	13.8	15.5	8.5	9.9	8.2

*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.

Public Defined Benefit (DB) Plans

- Plans are examining their asset-allocation strategies.
- Others are drilling down into equity allocations, both for U.S. stocks (after three strong years of returns) and global stocks (with an eye on managers that have more discretion over geographic decisions).

Corporate DB Plans

- Surpluses were a key area of focus for many plans.
- Pension risk transfers were another area that clients are examining amid a changing interest rate environment.

Nonprofits

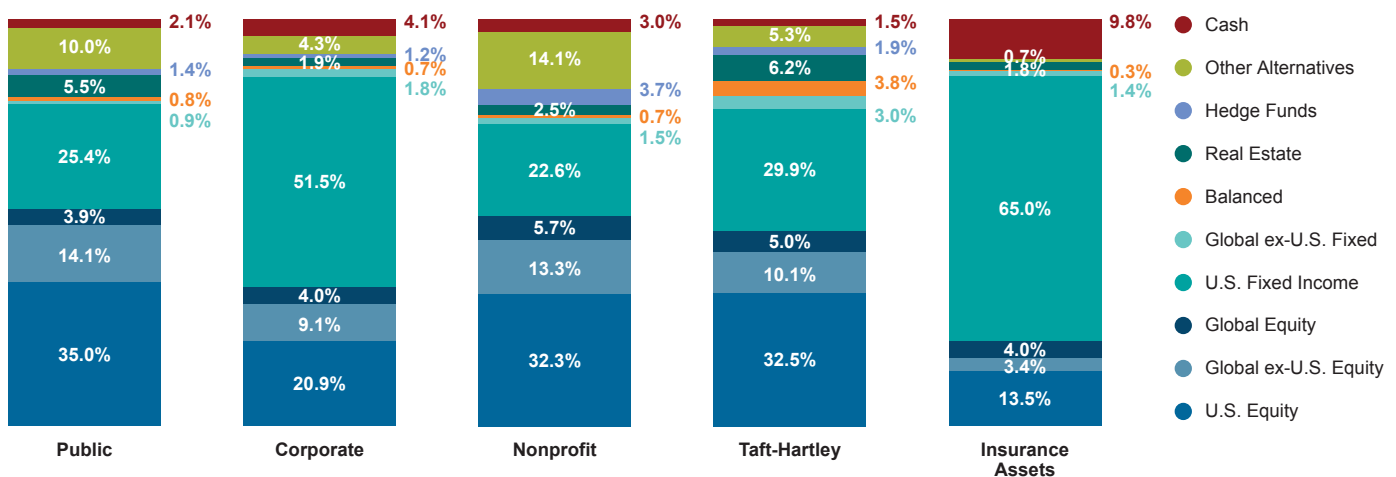
- Organizations are taking a hard look at their public equity allocations, as they face underperformance due to their smid cap bias and the generally challenging environment for active management.
- Diversification to achieve future returns is another area of focus given the rich valuations in U.S. equities.
- Fixed income is also under the microscope, especially how to enhance income and yield.

- Alternative investments continue to attract nonprofits' attention, focusing on a range of topics: secondaries funds, data center strategies, and private credit, as well as fixed income structures and small cap equity weightings.

Defined Contribution

- Sponsors continued to have discussions about, and seek education on, the possible inclusion of alternative investments in their plans, but so far almost no action has been taken.
- Strong U.S. stock gains over the last few years have led several plans to assess the role of active management in their lineups; the Magnificent Seven continues to have an outsize impact.
- Many sponsors are also moving from custom target date funds to off-the-shelf products.
- Retirement income continues to be another area of client interest, as plan sponsors weigh best how to help participants.

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

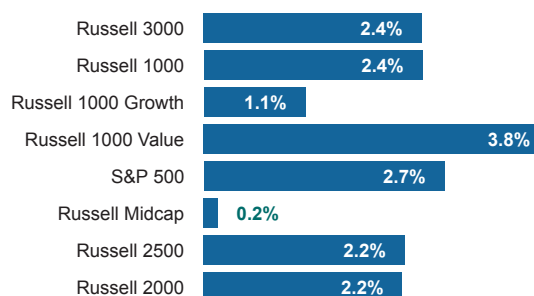
S&P 500 hits all-time highs as investors turn cautious

- The S&P 500 Index rose 2.7% in 4Q25, supported by a strong earnings season and continued enthusiasm around artificial intelligence.
- All S&P sectors posted gains except Real Estate and Utilities. Health Care (+11.7%) and Communication Services (+7.3%) were the top-performing sectors. Notably, the Technology sector underperformed the broad market amid rising concerns about the durability/trajectory of growth from some of the mega-cap stocks.
- Large cap indices outperformed small cap indices slightly. Value outperformed growth across the market-cap spectrum for the quarter.
- Concentration risk remains elevated, with the top 10 companies in the S&P 500 Index representing over 40% of the index's total market capitalization.
- Market leadership has begun to broaden beyond the hyperscalers; for example, only two of the Magnificent Seven stocks outperformed the S&P 500 Index in 2025.
- Earnings growth outside the Magnificent Seven has increased as a share of total S&P 500 Index EPS growth, which may position active managers that employ a more diversified approach in both holdings and alpha generation more favorably.
- Lower-quality stocks, including unprofitable companies, those with low return on equity, high short interest, and negative free cash flow, outperformed in 2025.

- Most small cap active managers were underweight non-earners, resulting in significant relative underperformance.
- Small cap earnings appear to be at an inflection point, based on analyst consensus estimates.
- The prospect of additional Fed rate cuts in 2026, combined with attractive relative valuations, suggests a possibly compelling entry point for small caps.

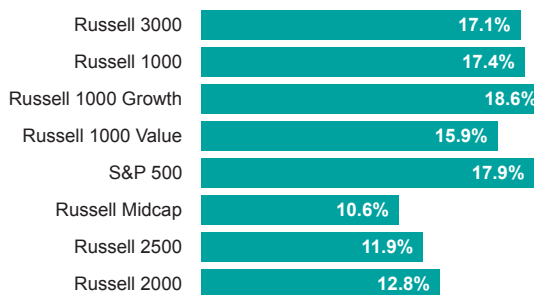
U.S. Equity: Quarterly Returns

(12/31/25)



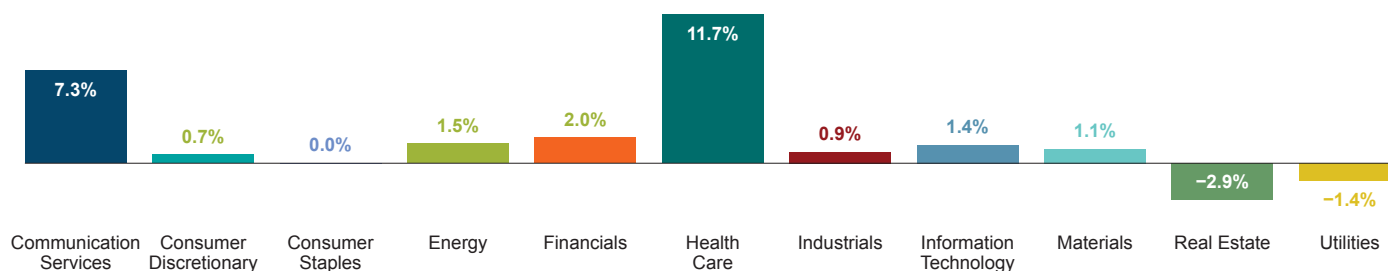
U.S. Equity: One-Year Returns

(12/31/25)



Sources: FTSE Russell and S&P Dow Jones Indices

Quarterly Performance of Industry Sectors (12/31/25)



Source: S&P Dow Jones Indices

Global Equities

Outpaced the U.S. over the full year

Broad market

- Global ex-U.S. equities outpaced the U.S. in 4Q25 and for the full calendar year as well.
- MSCI EAFE index delivered its best annual return since 2009.
- The U.K. was the strongest region for the quarter, assisted by a second rate cut in December and a heavy weighting in mining and resource companies that benefit from a continued metals rally.
- In 4Q25, global ex-U.S. small caps trailed large caps, but were assisted by Canadian small caps and their large weight in mining companies.
- China reversed course following a strong 3Q. Investors were disappointed by below-expectation government stimulus, property-sector issues, and deflation fears.

Growth vs. value

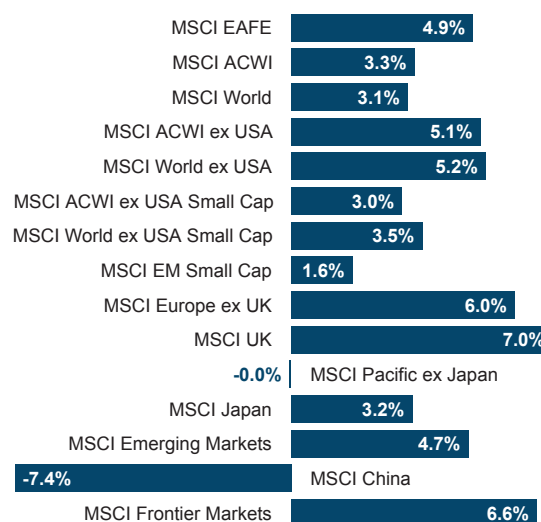
- EAFE Value's 2025 returns were its highest since 2003 and beat EAFE Growth by the most since the index's inception.

U.S. dollar

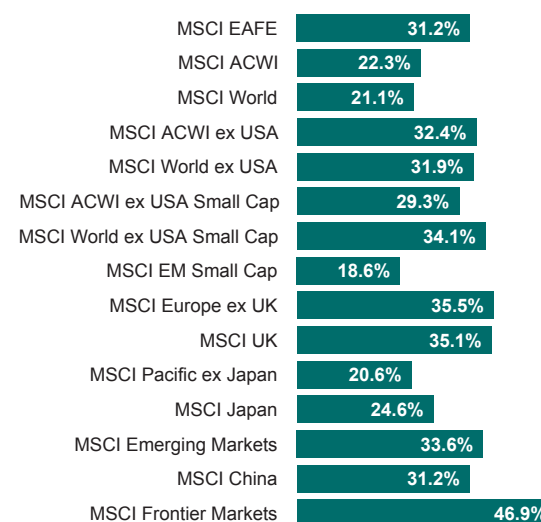
- The U.S. dollar stabilized in 4Q following a sharp decline in the first half of the year (-10%). For the full year, the dollar provided a substantial boost, accounting for around 11.5% of the EAFE Index's 31.2% gains, though its impact in the second half was negligible.
- Value dominated outside the U.S. in 4Q25 and for the full calendar year. But growth managers had better success versus their respective benchmark given the concentration in the value index.
- 96% of growth managers underperformed the core benchmark, while 57% underperformed the growth benchmark.
- 15% of value managers underperformed the core benchmark, while 67% underperformed the value benchmark.
- The top three names within emerging markets—Taiwan Semiconductor Manufacturing Co., Samsung Electronics Co., and SK Hynix Inc.—contributed 4% in 4Q and more than 11% for the full calendar year.

- The MSCI Emerging Markets Index is at a 40-year performance low vs. the MSCI USA Index.
- EM equity net flows, according to EPRF Global & J.P. Morgan, turned positive in May 2025 and moderately accelerated through year end 2025.

Global ex-U.S. Equity: Quarterly Returns (U.S. Dollar, 12/31/25)



Global ex-U.S. Equity: One-Year Returns (U.S. Dollar, 12/31/25)



Source: MSCI

Fixed Income

U.S. Fixed Income

Macro environment: Hawkish policy expected

- The Fed cut rates at the December meeting, with long-end rates moving higher for the quarter.
- Sentiment around monetary policy changed toward the end of the year, with markets anticipating more hawkish policy early in 2026.
- The yield curve steepened modestly, with the 2s/10s spread ending at 70 bps, up from 56 bps at the end of 3Q.

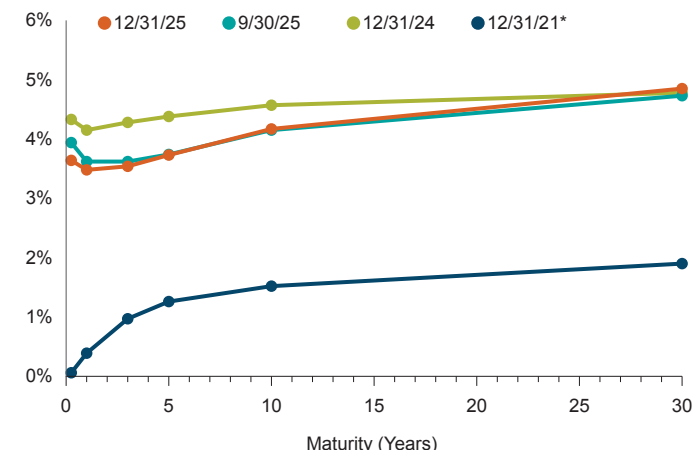
Performance and drivers: Falling Treasury yields

- The Bloomberg US Aggregate Bond Index gained over 1%, supported by declining short-term Treasury yields.
- IG corporate returns matched Treasuries due to rate cuts and steady spreads in corporate markets.

Valuations: Yields will drive returns

- Corporate credit spreads stayed relatively consistent versus 3Q but remain at tight levels, with value being in question.
- Overall, yield itself should be the primary driver of fixed income returns moving forward as yield curves have steepened, and the bulk of spread tightening appears to be behind us.
- After the Fed delivered 75 bps of rate cuts in 2025, the markets have repriced the path of monetary policy in 2026.
- The base case for many market participants now anticipates a more measured approach to policy easing as the Fed weighs its dual mandate of inflation and employment. But a new Fed chair combined with midterm elections may present different expectations in the second half the year.
- With AI infrastructure spending set to continue, its impact on the investment-grade credit market is increasingly important. Recent AI-related deals are massive, with issuers like Meta representing a significant share of 2025 IG supply. While leading AI firms generally have strong balance sheets, markets must absorb this large-scale issuance, and leverage should be closely monitored, especially for non-hyperscalers with weaker credit profiles.

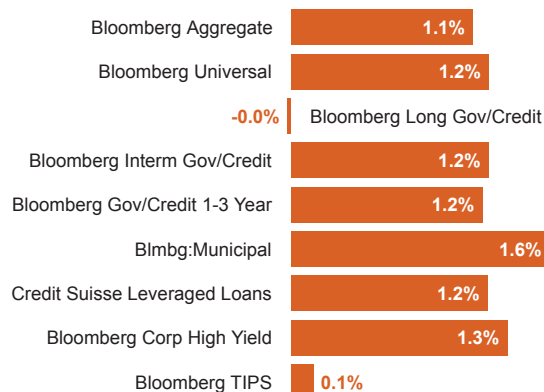
U.S. Treasury Yield Curves



Source: Bloomberg
* Last non-inverted yield curve.

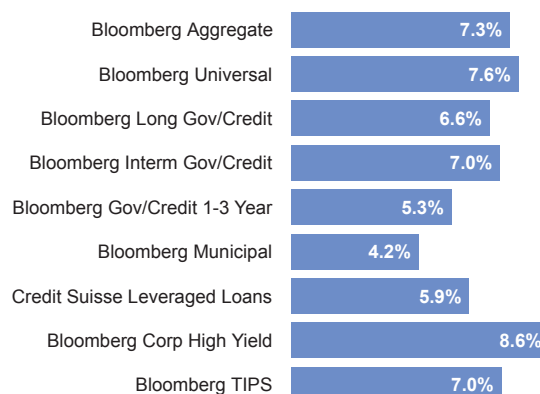
U.S. Fixed Income: Quarterly Returns

(12/31/25)



U.S. Fixed Income: One-Year Returns

(12/31/25)



Sources: Bloomberg and Credit Suisse

FIXED INCOME (Continued)

- AI's impact also extends to utilities, which must expand capacity to meet rising power demand. This is expected to drive higher issuance in a sector that already makes up a meaningful portion of the IG universe.

Municipal Bonds

AAA municipal bond yield curve flattened in 4Q25

- Demand for intermediate maturity bonds drove the AAA muni yield curve flatter in 4Q, with yields rising 0-12 bps for shorter maturities and falling up 7-23 bps for 10- to 20-year maturities.

Historic year for new issuance

- For the 2025 calendar year, \$580 billion of total issuance came to market, a 13% increase over 2024 and the second consecutive record annual volume.
- Record new issuance continued to be met with solid demand as there were strong flows into municipal funds during the quarter.

Muni valuations tightened during the quarter

- Muni-to-Treasury ratios finished the quarter below historical averages, indicating diminished relative value for tax-exempt municipals versus Treasuries.
- Longer maturities remained the cheapest segment as the 30-year Muni/Treasury ratio ended at roughly 88%.

Global Fixed Income

U.S. dollar strengthened as tariff shock settles

Macro environment: ECB holds steady; BOE cuts

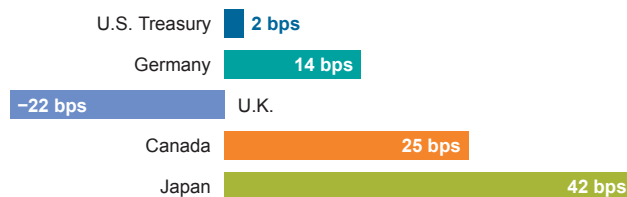
- After multiple cuts early in the year, the ECB held rates steady in the second half of 2025. Guidance in December suggested inflation should stabilize near the 2% target over the medium term.
- The BOE cut in December, citing the progress made in easing inflation pointing toward less restrictive monetary policy.

U.S. dollar remains front and center

- For the calendar year, the unhedged index substantially outperformed the hedged version amid a weaker dollar year over year.

Change in 10-Year Global Government Bond Yields

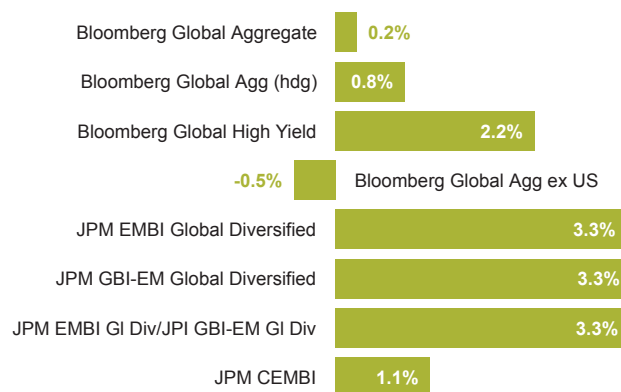
3Q25 to 4Q25



Source: Bloomberg

Global Fixed Income: Quarterly Returns

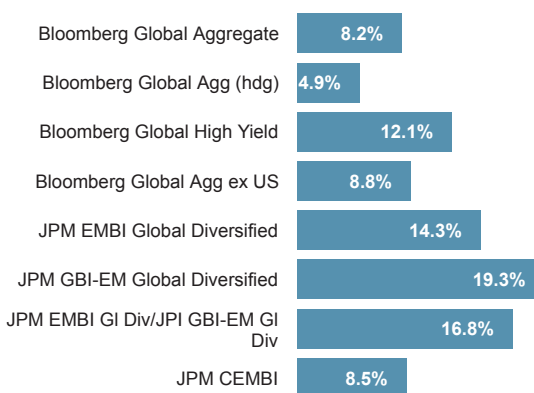
(12/31/25)



Sources: Bloomberg and JPMorgan Chase

Global Fixed Income: One-Year Returns

(12/31/25)



Sources: Bloomberg and JPMorgan Chase

Emerging market debt delivers another strong quarter

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

Early Signs of Stabilization, but Dispersion Persists

REAL ESTATE/REAL ASSETS | Munir Iman

Real assets delivered mixed results in 4Q25 as public and private markets responded differently to easing valuation pressures, shifting interest rate expectations, and uneven fundamentals across sectors. While several segments showed early signs of stabilization, dispersion remained a defining feature—particularly within real estate.

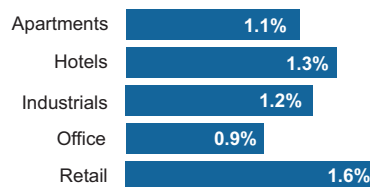
Private Real Estate

Private real estate performance improved, though recovery remains uneven. Valuations appear to have bottomed and are now in the early stages of recovery. Income returns were positive across sectors and regions, underscoring the durability of contractual cash flows even after several quarters of valuation pressure. Appreciation results, however, were mixed. Most property types posted flat or positive appreciation, while Office and Hotel continued to record declines. Regional dispersion also persisted: the West lagged, largely reflecting softer industrial fundamentals in Southern California.

Public Real Estate

Public real estate continued to lag broader equity markets. U.S. REITs declined in 4Q25, underperforming the S&P 500 Index, while global REITs also trailed global equities. Despite this near-term weakness, global REITs are trading at a meaningful discount to net asset value—well below historical norms. Sustained discounts, combined with ample private capital,

Sector Quarterly Returns by Property Type (12/31/25)



Source: NCREIF

continue to support take-private activity and highlight the growing disconnect between public and private real estate pricing.

Liquid Real Assets

Liquid real assets posted modest gains, led by commodities. Precious metals drove much of the strength, with gold recording its strongest annual return in roughly four decades. Central banks continued to increase gold reserves, reinforcing its role as a diversifier, while a weaker U.S. dollar supported demand. Listed natural resources also benefited from materials strength and steady energy demand. In contrast, listed infrastructure advanced modestly, constrained by elevated long-term yields and weakness in segments such as natural gas utilities and energy pipelines. Real estate investment trusts (REITs) declined during the quarter as higher yields weighed on valuations, while Treasury Inflation-Protected Securities (TIPS) were essentially flat as inflation expectations remained stable.

Callan Database Median and Index Returns* for Periods Ended 12/31/25

Private Real Assets	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	20 Years
Real Estate ODCE Style	0.8	3.7	3.7	-4.4	3.1	4.5	4.4
NFI-ODCE (value-weighted, net)	0.7	2.9	2.9	-4.3	2.5	3.9	4.7
NCREIF Property	1.2	4.9	4.9	-1.0	3.8	4.8	6.3
NCREIF Farmland	-0.7	0.2	0.2	1.3	4.2	4.9	9.6
NCREIF Timberland	1.6	4.6	4.6	7.0	8.6	5.4	6.2
Public Real Estate							
Global Real Estate Style	-0.5	10.0	10.0	8.1	4.0	5.1	5.7
FTSE EPRA Nareit Developed	0.1	14.4	14.4	8.5	6.7	7.6	7.4
Global ex-U.S. Real Estate Style	0.3	18.9	18.9	7.8	0.8	4.6	--
FTSE EPRA Nareit Dev ex US	1.2	25.2	25.2	6.8	-0.1	2.5	--
U.S. REIT Style	-1.4	3.0	3.0	8.4	6.5	6.3	7.1
FTSE EPRA Nareit Equity REITs	-1.6	2.9	2.9	8.4	6.6	5.7	6.5

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

Fundraising Stays Slow but Deal Volume Rebounds

PRIVATE EQUITY | Ashley Kahn and Roxanne Quinn

Returns ► Private equity posted steady gains of 2.6%, although trailing public equity's strong performance. Over the short term, private equity's more conservative valuation practices mean the asset class lags when public equity posts such outsized returns.

Fundraising ► By both volume and deal count, fundraising for YTD 3Q25 declined by ~30% versus YTD 3Q24. Persistent exit backlogs and limited distributions have constrained LP capacity for new commitments.

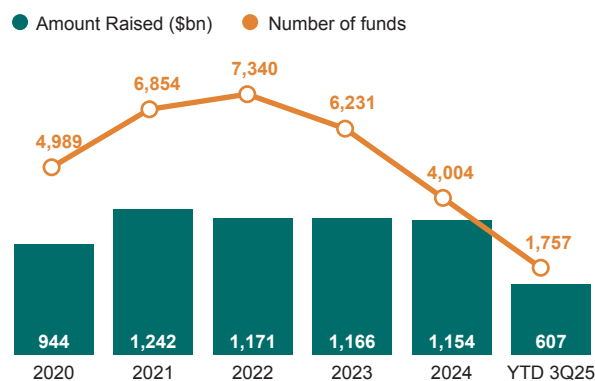
Deal Activity ► Deal volume rebounded sharply during the quarter, rising 80% versus 2Q25 and returning to levels last seen in 2021. Deal count continues to drop, however, falling an additional 6% this quarter. The divergence between rising deal volume and declining deal count has persisted throughout the year, reflecting the continued concentration of capital in larger transactions.

Buyouts ► Buyouts roared back in 3Q25 after a brief lull in 2Q25. Greater macroeconomic certainty, strong public markets performance, and Fed rate cuts fueled a rapid rebound in activity, confirming that the 2Q25 slowdown (following April's Liberation Day) was only temporary.

Venture Capital and Growth Equity ► The AI boom continues to drive venture capital activity, with deal volume and

Annual Fundraising

(9/30/25)



Source: Pitchbook

valuations pointing to a bull phase in venture's typically cyclical market. Capital is concentrated in the largest transactions; YTD 3Q25 deal volume is up 33% from the same time last year, while deal count is down 21%. AI "mega deals" (>\$1b) represented 70% of 2025 deal value.

Exits ► Exit volume picked up meaningfully during the quarter, with 3Q activity nearly doubling 2Q levels. M&A has driven the majority of the recovery in exits, posting the strongest rebound with YTD 3Q25 volume up by 57% from the same point last year. IPOs have also regained momentum in 2025, led by several high-profile listings like Figma and Navan. YTD 3Q25 activity is up 20% from the same point last year.

Private Equity Performance (%) (Pooled Horizon IRRs through 9/30/25*)

Strategy	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
Venture Capital	5.4%	14.4%	2.6%	12.2%	13.6%	12.4%
Growth Equity	3.0%	10.9%	6.3%	11.1%	13.6%	12.9%
Buyouts	1.7%	8.3%	9.5%	13.6%	14.2%	12.8%
Private Equity	2.6%	9.5%	7.2%	12.6%	13.4%	12.3%

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.

Outperformance Continues; Spreads Get Tighter

PRIVATE CREDIT | Constantine Braswell and Daniel Brown

Performance ► Over the past 10 years the asset class has generated a net IRR of 8.9%, outperforming leveraged loans as of Sept. 30, 2025. It has also topped leveraged loans and high yield over the last 1, 5, and 20 years ended 3Q25. Higher-risk strategies have performed better than lower-risk strategies.

Spreads ► Spreads and yields continued to grind tighter into 3Q25, with average M&A loan spreads compressing from 361 bps and YTM of 9.0% in September 2024 to 307 bps and 7.4% by September 2025, reflecting sustained credit spread tightening and materially lower all-in borrowing costs.

Fundraising ► The top four funds raised in 3Q25 were across various verticals of private credit. In 3Q25, secondaries strategies led capital formation, followed by opportunistic funds, with distressed debt trailing.

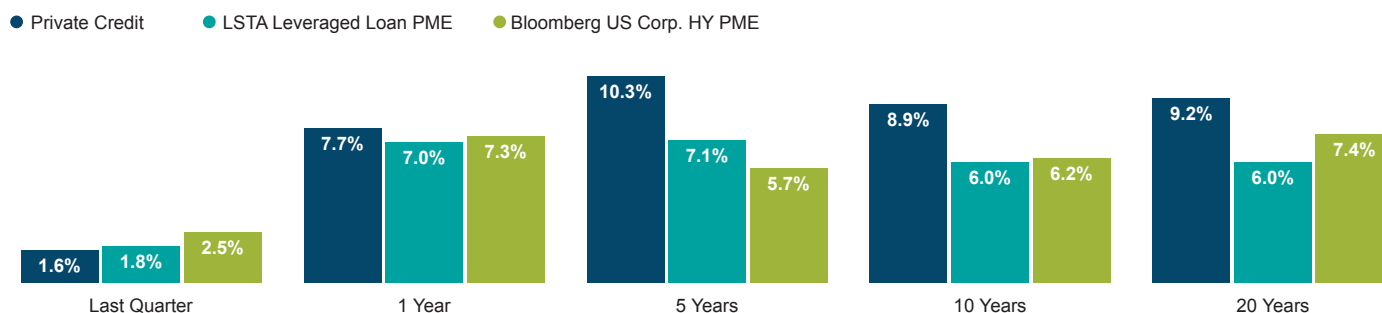
LBO Financings ► Relative economics for switching from private credit into the syndicated loan market were broadly unchanged from last quarter, with average spread savings in

2025 YTD holding around ~150 bps, modestly below the ~160 bps implied through mid-year and still well under the ~215 bps achieved in 2023, as direct lending spreads continued to compress in parallel with BSL pricing.

Yields ► Option-adjusted spreads tightened in 3Q25 as investors grew more confident in credit quality, defaults remained low, and demand for high yield stayed strong amid improving risk sentiment. Effective yields still increased, not because of higher base rates, but due to price declines in lower-quality segments, heavier issuance, and a shift toward riskier credits with higher coupons, which lifted the overall yield level even as spreads narrowed.

Distressed and Opportunistic Debt ► Default rates for U.S. corporate bonds and loans remained subdued through 3Q25, with LTM data continuing to trend below 2%, well under the historical average of 3% to 4%, reflecting a prolonged period of limited credit stress.

Private Credit Performance (%) (Pooled Horizon IRRs through 9/30/25*)



Private Credit Performance (%) (Pooled Horizon IRRs by Strategy through 9/30/25*)

Strategy	Quarter	1 Year	5 Years	10 Years	20 Years
Senior Debt	1.1	7.7	8.3	7.9	7.8
Subordinated	2.0	9.9	12.1	11.0	10.9
Credit Opportunities	1.8	7.0	10.6	8.5	9.0
Total Private Credit	1.6	7.7	10.3	8.9	9.2

Source: LSEG/Cambridge

*Most recent data available at time of publication

Most Strategies Deliver Gains in 4Q

HEDGE FUNDS/MACs | Joe McGuane

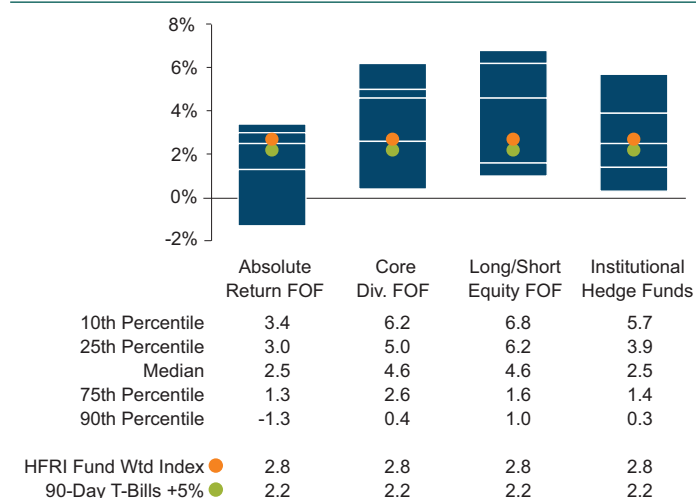
U.S. equity markets ended a choppy quarter higher, helped by strong corporate earnings as the Fed continued to lower rates during the quarter. Broad markets were volatile during the final quarter of the year, as mixed macroeconomic signals, concern around AI spending and valuations, and the longest U.S. government shutdown in history weighed on markets. Long-term rates moved modestly higher in 4Q25, with the 10-year Treasury ending the year at 4.17% and the 30-year at 4.84%. Rate volatility remained a key driver of equity dispersion and valuation sensitivity, particularly for high-growth Technology and capital-intensive Industrial sectors.

The S&P 500 performance was characterized by shifting leadership as the market balanced continued corporate earnings durability against persistent fiscal concerns. Rate expectations remain an important swing factor for equity valuations and factor leadership, particularly as markets price in a potential easing cycle for 2026.

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 2.5%. Within this style group of 50 peers, the average hedged equity manager gained 3.6%, as health care, industrials, financial services, and less-crowded technology exposures drove performance. The average hedged credit manager was up 1.4%, as credit relative value contributed positively to strategies during the final quarter of the year.

Hedge Fund Style Group Returns (12/31/25)



Sources: Callan, Credit Suisse, Federal Reserve

Callan Peer Group Median and Index Returns* for Periods Ended 12/31/25

Hedge Fund Universe	Quarter	1 Year	3 Years	5 Years	10 Years	15 Years
Callan Institutional Hedge Fund Peer Group	2.5	8.8	9.3	7.9	7.7	7.4
Callan Fund-of-Funds Peer Group	3.5	11.9	10.3	6.2	5.9	5.4
Callan Absolute Return FOF Style	2.5	8.8	7.4	6.8	5.0	4.5
Callan Core Diversified FOF Style	4.6	12.3	10.6	6.6	6.2	5.5
Callan Long/Short Equity FOF Style	4.6	15.9	12.9	5.1	6.0	5.9
HFRI Fund Weighted Index	2.8	12.5	10.1	7.1	6.6	5.2
HFRI Fixed Convertible Arbitrage	1.1	10.7	8.8	6.5	6.6	5.3
HFRI Distressed/Restructuring	2.2	9.2	9.8	8.0	7.3	5.6
HFRI Emerging Markets	1.8	18.4	12.0	5.5	6.5	3.9
HFRI Equity Market Neutral	2.7	11.2	9.1	7.1	4.3	3.8
HFRI Event-Driven	2.1	10.9	10.4	7.5	7.0	5.6
HFRI Relative Value	1.5	7.6	7.7	6.0	5.3	4.9
HFRI Macro	3.6	7.1	4.0	5.7	3.9	2.6
HFRI Equity Hedge	3.0	17.1	13.4	7.9	8.1	6.2
HFRI Multi-Strategy	2.6	15.0	12.9	6.7	5.7	4.6
HFRI Merger Arbitrage	1.6	9.9	6.8	6.8	5.7	4.7
90-Day T-Bill + 5%	2.2	9.2	9.8	8.2	7.2	6.5

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

Within the HFRI Indices, the best-performing strategy was macro, which had a strong final quarter and gained 3.6%, as managers profited from long metals and selective equity exposures along with short Japanese rates and U.S. and U.K. curve-steepening. Equity hedge was up 3% as alpha was generated on both the long and short sides amid high dispersion across health care, industrials, and financials. Event-driven strategies ended the quarter up 2.1%, as managers were able to profit from improved deal certainty, stable financing conditions, and healthy merger spreads late in the quarter. Relative value rose 1.5%; credit relative value contributed positively as dispersion widened materially within the category.

Across the Callan Hedge FOF database, the median Callan Core Diverse FOF ended 4.6% higher, helped by their exposure to macro and equity hedge managers. The Callan Long-Short index rose 4.6%, as higher beta managers outperformed those strategies running with lower net exposure. The Callan Absolute Return FOF Index ended up 2.5%, as managers with lower net exposure captured less of the upside during 4Q.

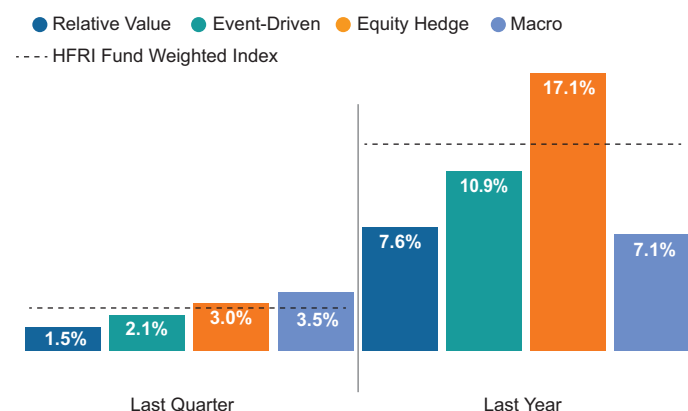
Since the Global Financial Crisis, liquid alternatives to hedge funds have become popular among investors for their attractive risk-adjusted returns that are similarly uncorrelated with traditional stock and bond investments but offered at a lower cost. Much of that interest is focused on rules-based,

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 Callan MAC Risk Parity median return was 2.8%, as managers profited from equity, fixed income, and commodity exposure during the quarter. The Callan MAC Long Biased median return was 2.5%, as strategies profited from strong performance from both growth and value equities.

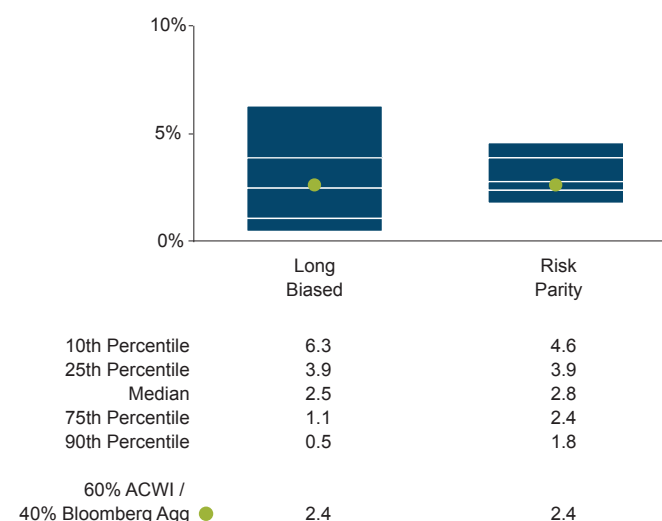
As we enter 2026, this appears to be a constructive environment for hedge funds relative to traditional long-only assets, driven by elevated dispersion, policy uncertainty, and idiosyncratic outcomes across equities, credit, and macro markets. Following five years of strong hedge fund performance, returns are increasingly attributable to alpha rather than beta, reinforcing the case for active, risk-controlled strategies. While headline valuations and credit spreads are priced to perfection, cross-sectional volatility remains high, favoring skilled security selection, relative value, and event-driven approaches. Callan expects greater dispersion across manager performance, placing a premium on underwriting discipline, portfolio construction, and liquidity management.

HFRI Hedge Fund-Weighted Strategy Returns (12/31/25)



Source: HFRI

MAC Style Group Returns (12/31/25)



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

Gain of 6% in 3Q25 Lags Target Date Index

DEFINED CONTRIBUTION | **Scotty Lee**

Performance: Index Gains for Second Straight Quarter

- The Callan DC Index™ gained 6.0% in 3Q25. The Age 45 Target Date Fund (analogous to the 2045 vintage) had a higher quarterly return (6.5%).

Growth Sources: Balances Rise Due to Investment Gains

- Balances within the DC Index rose by 3.5% after a 7.8% increase in the previous quarter. Investment gains (6.0%) were the primary cause as net flows (-2.6%) detracted.

Turnover: Net Transfer Activity Hits Lowest Level Ever

- Turnover (i.e., net transfer activity levels within DC plans) decreased to 0.01%, its lowest level since Index inception, from the previous quarter's 0.12%.

Net Cash Flow Analysis: U.S. Equity Falls Sharply Again

- Automatic features and their appeal to “do-it-for-me” investors have historically resulted in target date funds (TDFs) receiving the largest net inflows in the DC Index. In 3Q25, however, turnover's historically low level reflected minimal cross-asset-class reallocation. TDFs experienced net outflows (-37.4%), indicating that asset movement was primarily structural in nature rather than the result of participant reallocations within the Index.
- Notably, within equities, investors withdrew assets from U.S. large cap equity (-35.5%) and U.S. small/mid cap equity (-13.3%), similar to the large outflows of previous quarters.

Asset Allocation: U.S. Large Cap Equities Gain

- U.S. large cap equity (29.6%) was the asset class with the largest percentage increase in allocation despite outflows, signaling the asset class was an outperformer. Stable value (5.1%) and target date funds (35.5%) had the largest decreases in allocation from the previous quarter.

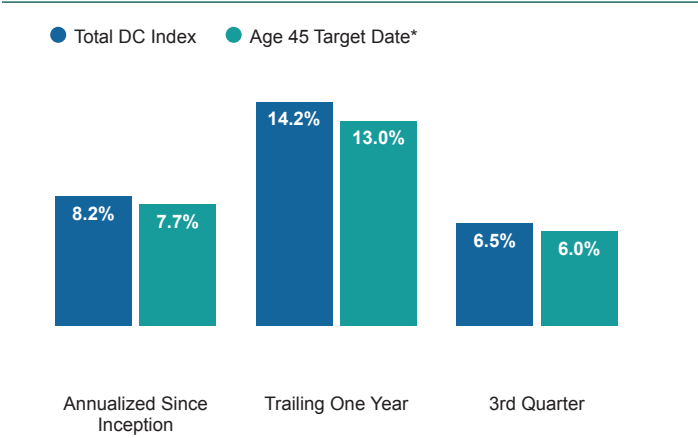
Prevalence of Asset Class: Money Market Funds Fall

- The prevalence of money market funds (55.3%) fell by 3.5 percentage points.

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.

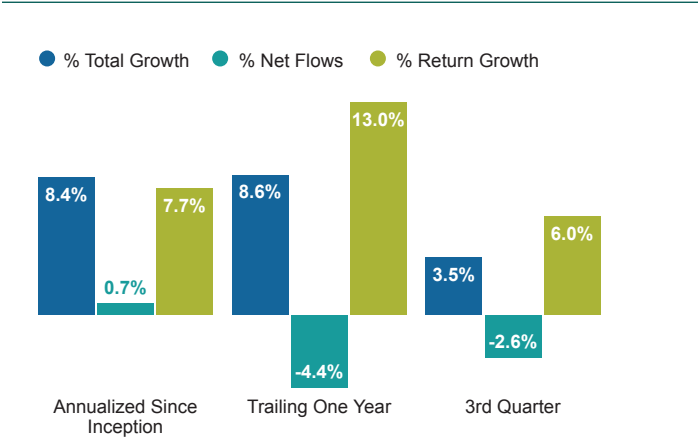
Investment Performance

(9/30/25*)



Growth Sources

(9/30/25*)



Net Cash Flow Analysis 3Q25

(Top Two and Bottom Two Asset Gatherers)

Asset Class	Flows as % of Total Net Flows
Real Return/TIPS	25.4%
High Yield Fixed Income	13.0%
U.S. Large Cap	-35.5%
Target Date Funds	-37.4%
Total Turnover**	0.0%

* 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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