Annual Capital Markets & Investment Outlook

Turning back to fundamentals: finding the groove in 2025

January 2025

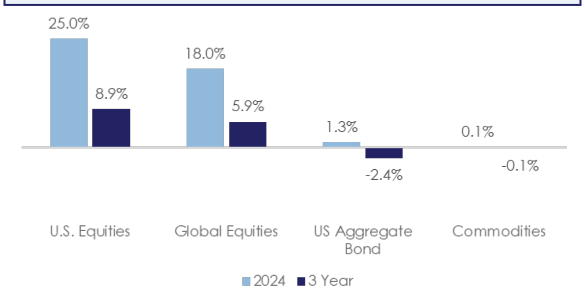
Executive Summary: Looking Back and Ahead

The years just fly by, don't they? Feels like just a few weeks ago we were writing last year's version of this letter.

A year ago we wrote that we thought the market had fully priced in a soft landing (i.e. stamping out inflation without causing a recession) and was expecting aggressive interest rate cuts to support prices and markets. While we noted we weren't overly concerned about a recession we also were less certain the Fed would be an aggressive rate-cutter in 2024. We also favored private credit over traditional credit/fixed income and pointed toward stretched valuations as reason to be selective in equities.

As it turned out, a recession was avoided, the Fed cut rates but signaled caution around future rate cuts, and private credit comfortably outperformed liquid fixed income. US equities, however, continued their torrid pace (Figure 1), with the biggest companies leading the way again, but suffered a small crisis of confidence in 2H'24 as valuations pushed ever higher, ongoing support from the Fed waned, and other alternatives drew attention and investor capital. Grading our crystal ball, we'd give ourselves a solid B+. Whether you think that's evidence of grade inflation may have something to do with where and when you went to undergrad.

Figure 1: Asset Class Returns
(2024 & 3-Year)



Source: Bloomberg, Nordwand Capital, as of Dec. 31, 2024. Note: US equities = S&P 500, Global equities = MSCI ACWI Index, Commodities = Bloomberg Commodities Index.

In 2025, we expect ***some*** of the same. The economic picture remains solid, with policy shifts that will impact risk tolerances in both directions, while the risk of tax increases has now faded considerably.

Interest rates on the long end of the curve have risen substantially since the Fed started cutting rates as inflation worries have reignited, validating our concern about longer-duration credit; we continue to prefer private credit to liquid fixed income given the miserly spreads on offer in many liquid markets.

In equities, we are stubbornly attached to the idea that valuations matter and would rather find good businesses, markets, and managers that are congruent with this view. In listed equities, we would remain invested but be patient committing new capital; private equity valuations are generally attractive and look compelling in many sectors. Overall: there are many interesting potential investments; let's not overpay or be the last to a party.

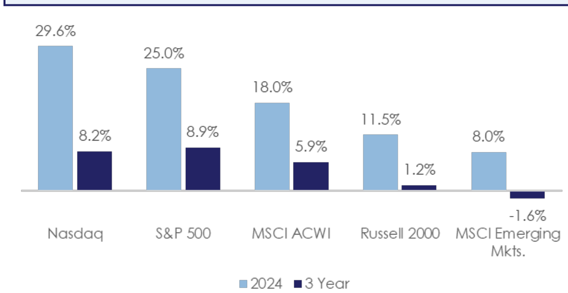
Reviewing 2024:
A deeper dive into last year

"Being too far ahead of your time is indistinguishable from being wrong…"

The aphorism above is generally attributed to Howard Marks of Oaktree Capital Management in the context of his early investing experiences in the 1970s. We find it relevant in the current environment because the global economy and global markets have been in the midst of a prolonged period of pre- and post-pandemic change that is impacting everything from interest rates and inflation to the AI explosion and equity valuations. These shifts are influencing portfolio construction and inform how we thought about risk and return in 2024 and will again be significant factors in our outlook and expectations from here.

Listed Equities: Figure 2 highlights another strong year for US and global equities, with the US dominating and led, partly, by technology companies.

Figure 2: Equity Market Returns
(2024 & 3-Year)



Source: Bloomberg, Nordwand Capital, as of Dec. 31, 2024.

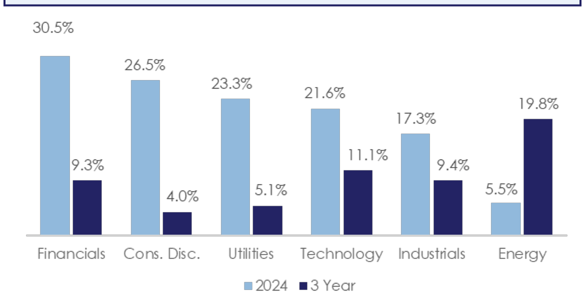
In spite of our worries about equity valuations in the US, we ultimately argued in favor of staying invested last year as our outlook is always focused on 3-5 years down the line and over that period it generally pays to stay invested.

That said, after a year of multiple all-time highs in large cap US equities last year, we're still dealing with the heightened risk that comes with an expensive market that could easily trip into a correction if an adverse event arises.

What was more notable in 2024 was the broadening participation in market winners as investors sought ways to extend their rallies and diversify away from the tech-heavy roster of 2023.

Global stocks were strong on the year as well, buoyed by the US component of their indices. In Europe – which is struggling to find economic growth and innovation – equities were up just under 10%, while emerging markets were up only 8%. EM has not outperformed broader US equities since 2017.

Figure 3: US Equity Sector Returns
(2024 & 3-Year)



Source: Bloomberg, Nordwand Capital, as of Dec. 31, 2024.

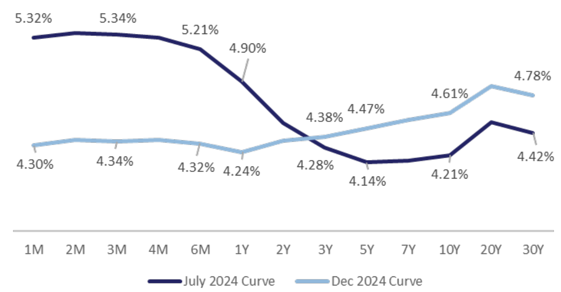
We highlight Figure 3 to bring attention to the fact that while technology was up almost 22% last year, financials and utilities both performed strongly last year as expected interest rate cuts provided a lift. Utilities also benefitted as an ancillary winner from the AI boom as investors correctly worked out that the power required to support all of this compute (Ed: for those our age who used to call it 'computing', please note there has been an update to the vernacular).

Small cap stocks in the US were up ~12% on the year (Figure 2, Russell 2000), trailing their large cap peers for the 4th year in a row. The lack of new small cap stocks coming public and the lack of earnings among some of the companies in that group did not help its standing with risk-conscious investors, although we look at this lag and find potential opportunity – with some important nuances we'll discuss later in this piece.

Liquid Credit: The US Aggregate Bond index was up ~1% last year while its global bond counterpart was down slightly. High yield bonds fared better, up ~8% on the year, as absolute yield levels were attractive, even while spreads over Treasuries (as a reminder, this is a good way to frame the incremental credit risk investors take to own something more risky than a US Treasury) were – and remain – uninspiring.

Treasuries themselves saw a lot of movement during 2024, with the yield curve moving away from its inverted posture for the first time in over 2 years.

Figure 4: Treasury Yield Curves
(July & December 2024)



Source: Bloomberg, Nordwand Capital, as of Dec. 31, 2024.

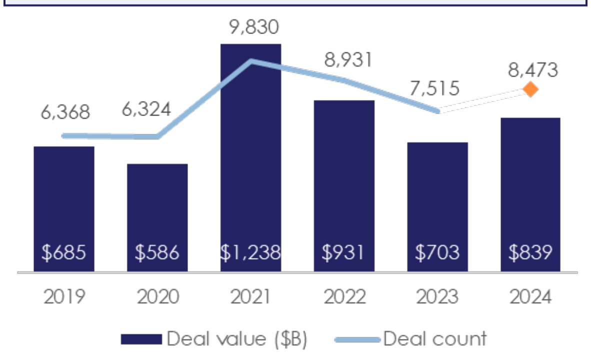
It is almost always the case that an inverted yield curve (i.e. interest rates at the short end are higher than at the long end) signals a recession. This was a concern going into 2024 as the Fed was moving toward a rate-cutting policy stance owing to worries about a weakening labor market.

Getting cause and effect in the right place, it's important to note that the reason a normalizing yield curve generally signals recession is that it is typically due to a central bank reducing rates to loosen credit conditions and improve growth conditions. In this case, the Fed cut rates by 100bps in the last 3.5 months of the year in spite of the fact that the economy seemed reasonably strong with what could be considered a weaker than normal justification for doing so. The result, so far, is a normalizing yield curve and no recession on the horizon.

Still, this is a good time to remember that our bias for credit investing was to remain in the short-to-intermediate part of the credit curve because we believed 1) the Fed would cut rates and it would positively accrue to shorter-duration credit, and 2) we did not believe the potential for long-term rates rising justified the possibility of excess returns. We feel validated in that stance and will discuss our view for this year later in this piece.

Private Markets: 2024 marked another year with depressed fundraising and exit activity in private equity markets. Activity appears to have shown signs of life this year (Figure 5) after 3-4 years, with the promise of more activity in 2025 if a quiet rate environment and positive listed equity market cooperate.

Figure 5: Private Equity Deal Activity
(2019-2024)

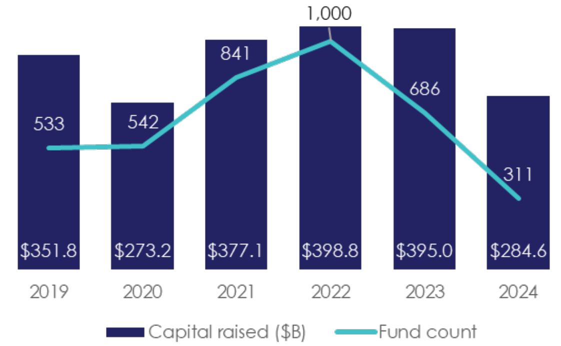


Source: Pitchbook, Nordwand Capital, as of Dec. 31, 2024. Final deal value and count for 2024 are estimates.

Overall, lower base rates owing to the Fed rate cuts and tighter spreads allowed for a better deal-making backdrop. Further, exit activity is picking up as well, which is welcome – probably necessary – as investors have become impatient with longer lock-up periods hampering their ability to reallocate and redeploy capital.

We've seen this also materialize in fundraising (Figure 6), which despite the pick-up in dealmaking has continued to fall as a very predictable buyers' strike remains in place until more meaningful distributions are made.

Figure 6: Private Equity Fundraising
(2019-2024)



Source: Pitchbook, Nordwand Capital, as of Dec. 31, 2024.

Fundraising reflects sentiment and is a lagging indicator in this market. The growth in activity is the green shoot we believe our clients should focus on as we move into 2025. Cooperative public equity markets and financing costs will be necessary to see this trend blossom further and would bode well for client returns.

Commodities & Real Assets: The commodities landscape in 2024 was varied. In energy, crude oil was up meaningfully while natural gas was weak. Both trade much more in line with short-term supply and demand dynamics rather than long-term views with frequent policy intrusions affecting prices.

Metals were equally complicated, with gold rocketing up 27% on the year while more industrially-linked metals like copper (+1.8%), platinum (-8.5%), and silver (+15.7%) were more sedate or down.

Bitcoin is so popular it feels like folks will start writing sonnets about it soon ("Ode to a Digital Currency on a Winter's Day"), with the halving event in April causing investors/speculators to buy into and through the event. It closed the year at 93,714, which was ~120% higher than the year before. During 2023 Bitcoin rose an astounding 157%. While there are many things to say about this, it's salient to note that Bitcoin was also down 64% in 2022, representing a level of volatility with which most clients may be uncomfortable.

Real estate was a mixed bag, with public REITs lagging equities but posting a gain of 8.8% on the year while private real estate was predictably much more mixed based on asset type and geography.

We see the same concerns many do surrounding pockets of office real estate, although the back-to-the-office trend continues to gain steam, with employers increasingly frustrated with the post-Covid approach; whether this gains more traction remains to be seen. Multi-family has been an extremely popular investment area, resulting in short-term over-build in key sunbelt markets (e.g. Houston, Nashville) that we expect will be worked-off in the next 12 months and lead to a resumption of rent growth. Segments of in-fill industrial, last-mile warehouses, and data center are obvious areas of interest over the coming cycle.

Infrastructure is at an interesting pivot point given its potential adjacency to the AI-fueled compute and data center cycle that is driving inordinate power demand growth forecasts. With fully-contracted assets that de-risk the cash flows and a potential tie to policy around how to increase supply to meet this need there could be opportunities for attractive returns over the next handful of years and a cheaper way to play the AI investment boom.

2025 Outlook
Macro & Markets

Looking ahead, we will start with macro and move to markets. A quick summary of those views is immediately below, followed by more detailed thoughts in the pages that follow.

Big picture, we believe **US equity markets** are expensive at the top end of the market, and cheaper but riskier at the lower end. International – both developed and emerging markets – presents an interesting value, but with structurally challenged growth drivers in many markets the discount may persist.

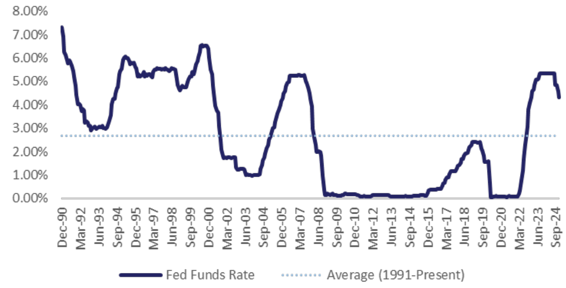
In **fixed income**, US Treasuries are showing signs of longer-term stress that once again has us anchored near the shorter-end of the curve (1-5 years). Investment grade and high yield credit is pricey, with credit spreads still pricing in the kind of perfection that leaves less room for tempting returns. This again points us toward the loan markets and private credit as the best risk-adjusted return options within the yield universe.

In **private markets**, the fundraising slowdown and activity acceleration among exits and deals, coupled with an attractive valuation in many areas within private markets and the proliferation of new innovative products, makes us very constructive on the outlook here.

Macro Outlook: Economic Growth, Geopolitics, & Policy

Perhaps the most challenging thing to parse over the last 2 years was how the US economy (and markets) could survive a rapid rate-hiking scheme to kill post-Covid inflation without triggering a recession.

Figure 7: Fed Funds Rate
(1991-Present)

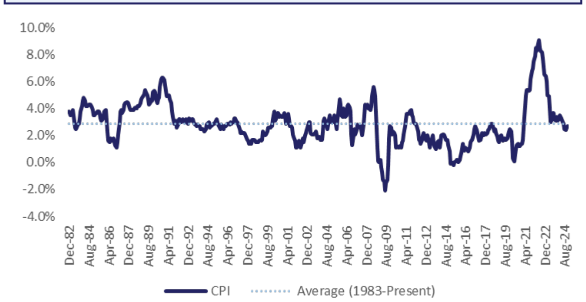


Source: Bloomberg, Nordwand Capital, as of Dec. 31, 2024.

We went further back with this chart (Figure 7) to highlight a few things. First, the hiking pace in 2022-2023 was historical in terms of both speed and amount. Second, the magnitude of the yield curve inversion that resulted from these moves has always led to a recession in the past. Third, the level of interest rates – currently at ~4.33% - is not the anomaly; the prior 10-15 years of near zero interest rates was the outlier. Since 1991, the average Fed Funds rate was 2.7%; if we look at rates from 1991-2007 (a normal economic period with strong PC/tech/internet-fueled productivity and economic growth) rates averaged 4.2%.

If we are moving towards a world with shifting trade and economic policies that favors domestic production for political and national security reasons, then higher base inflation levels may be a fact of life. Put another way, 2.5% inflation is normal by most long-term standards.

Figure 8: Consumer Price Inflation (CPI)
(1983-Present)



Source: Bloomberg, Nordwand Capital, as of Dec. 31, 2024.

Figure 8 illustrates this point nicely. Since defeating the hyperinflation of the 1970s the US has averaged 2.9% headline CPI rates. Both political parties have professed an interest in containing China's ambitions, a stance that brings with it a willingness to accept higher input costs.

In spite of higher interest rates and the spike in inflation owing to the re-opening of the post-Covid global economy and the fiscal stimulus that followed, economic growth in the US has been above trend and generally very solid. Labor markets are strong (4.1% unemployment rate as of Dec 31st), inflation at 2.7-2.8% is stable, rates have come down and are likely to continue moderating over the next 12-18 months. We don't see any obvious risk that would keep that from continuing – at least in the near-term.

The new administration will have its priorities, many of which support the 'continuing growth' narrative. Among these, a continuation of the 2017 Tax Cuts and Jobs Act (TCJA) is likely in part or in total, with potential increases to tax cuts that include an increase in the famous SALT (State and Local Taxes) exemption limit that was set at $10,000 in the original TCJA but which Northeast politicians of both parties would like to see increased to $20,000, or for the cap to be removed entirely.

In addition, it is expected that regulatory roll-backs that improve permitting or reduce overhangs will again be targets. The biggest areas of emphasis are likely to be energy and financial services. The path for these changes will flow through the courts, Congress, regulatory agencies themselves, and via executive action.

Assuming a budget, or at least a set of priorities, is established publicly in the first several weeks, we all will learn more about how the DOGE (Department of Government Efficiency) effort spearheaded by Elon Musk will intersect with it and impact the process of regulation and spending. The current plan is for DOGE to spend 2025 studying issues and holding hearings while, we expect, liberally discussing in public its goals and ambitions.

To state the obvious: this represents a gigantic variable unlike anything we can recall… ever.

On the other side of the ledger are items like tariffs, trade policy, and immigration. Having lived through the first Trump presidency, we recognize that there is a lot of jawboning that is meant to provoke response and movement rather than be taken at face value. We also note that the Biden administration largely left the prior Trump tariffs in place, so this is part of our bipartisan new reality. Immigration is another issue that can have economic impacts, although these may be much harder to determine depending on the level and timing of events.

The DOGE efforts, immigration reform that leads to a reduction in workforce sufficient to impact wages, and tariff increases all represent potential economic headwinds and will have to be watched closely.

Figure 9: Federal Budget Deficit, % of GDP
(1968-Present)

Source: Bloomberg, Nordwand Capital, as of Dec. 31, 2024.

Figure 9 highlights why the DOGE effort is a focus of the new administration, and indeed why the upward trajectory of long-term Treasury yields matters. We ended 2024 by averaging a 7% budget deficit over the last quarter of the outgoing administration. Once final GDP figures are out for 4Q we estimate that the debt-to-GDP ratio will stand at about 123% - that is $36.2 trillion of public debt vs. $29.4 trillion of GDP.

Not to make an overly simplistic point (although, you should play to your strengths!), but if the economy grows at 2.5%, inflation is 2.5%, and the deficit is 7% per year the debt will never be paid down and at some point, lead to issues. As has been well-discussed recently, the cost of servicing the national debt now exceeds $1 trillion annually – a figure that will grow thanks to both the annual deficits that exceed growth and the higher interest rates, particularly on the longer-end of the curve.

Equity Market Outlook

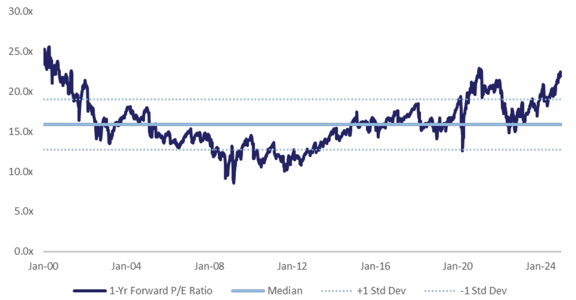
Now that we've set the table with a pleasant chat about the debt timebomb, let's discuss whether it matters to portfolios in the near-term. Short answer: it doesn't; longer answer: it will.

In addition, let's remember that we are investing for the long-term and not for a short-term trade. Earnings growth is a powerful long-term return driver. As much as we discuss the S&P 500 and how historically expensive large cap stocks are in the US, the index is seeing 10-12% annual earnings growth over the next 3 years.

So we have two questions to answer on behalf of clients: 1) are equities at risk of falling or becoming a poor investment allocation, and 2) where in the equities markets are the best places to be invested.

On the first question, we have worried about valuations for large cap stocks since the beginning of last year; they've gotten more expensive in the last 12 months.

Figure 10: S&P 500 1-Yr Forward P/E
(2000-Present)



Source: Bloomberg, Nordwand Capital, as of Dec. 31, 2024.

Investing in US equities in late 2022 was a much easier risk-reward decision since the market was cheaper (Figure 10). Two years of >20% annual returns and all-time highs complicates things. In addition, the equity risk premium (the excess return an investor should expect to receive vs. investing in a risk-free asset) is effectively nil – making the trade-off between equities and fixed income more intriguing. We'll come back to that in a bit when we discuss credit markets.

For now, however, when we look at things like earnings growth and the probability of a recession, we don't see a tactical reason to pull back from equity allocations, although also wouldn't argue in favor of adding risk to US equities versus current allocation targets given these mitigating factors. This hopefully won't surprise anyone reading this, as we maintain a long-term focus that being invested is better than not at most points.

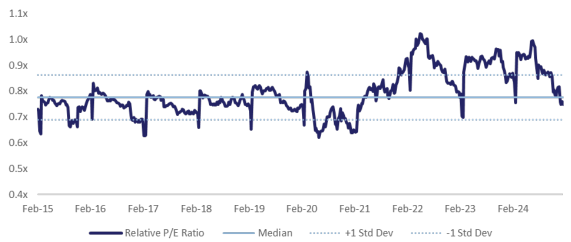
On the second question of where within equities to focus fire, there's a lot to unpack. First, it's important to note that we always look at things through a value lens. We've effectively been underweight value and overweight growth across client portfolios, because growth has had the better story to tell recently, even while it's been getting more expensive relative to the alternative.

In this case, we have championed adding to developed international, emerging markets (EM), and small cap stocks as an addition or diversifier to current large cap US positions. This is because those markets – or market segments – have lagged US large cap markets over an unusually long period of time in the super-low interest rate environment that existed from 2008-2023. So, while we have concerns about the lack of innovation in Europe, the leadership change in EM from China to India, and the profitability challenge and lack of new blood in small caps, we also felt that investors were not overpaying for the possibility of a rebound in those segments and that it therefore merited an allocation.

Another way to think of it is somewhat technical: when the whole investing world seems to own the same 7 stocks, it's often the right risk management decision to move away from those stocks. After all, what happens if everyone suddenly worries about some big macro factor – war in the Middle East, a trade war with China, etc.? Simple: they sell the things they own to take risk down. Lagging and under-owned markets often perform very well in those periods. So while we believe some of these areas have been cheap and worth exploring on fundamental grounds, we also utilize them to manage client risk and avoid over-concentration in the same positions everyone else has.

A special word on small cap stocks is warranted. While the Nasdaq was up ~30% last year and the S&P 500 was up ~25%, the Russell 2000 small cap index was up ~12% (Figure 2). Small caps have lagged their large cap peers since 2020, and in spite of ordinarily trading at a premium to large caps because of their high-growth potential, small caps have gotten even more expensive versus large caps (Figure 11) – even while lagging the S&P 500 – thanks to the lack of earnings growth in small cap land.

Figure 11: Relative Value of S&P 500 vs. Russell 2000 Small Cap Index (10-Years)



Source: Bloomberg, Nordwand Capital, as of Dec. 31, 2024.

The problems for small caps have been exacerbated by the lack of newer small cap public companies as private companies have been loath to make the move to become public of late. When successful private equity companies do go public, they often graduate right into inclusion in mid or large cap indices and skip the small cap world entirely.

The increase in activity we are seeing in private equity markets suggests some of this will be alleviated by investor pressure pushing more companies to go public, and any reduction in regulatory requirements that has made life harder for public companies in the last 20-25 years could improve the attractiveness and options as well.

Net of these factors, we are comfortable with our small cap positioning and may look to add to small or mid cap exposure for clients as we see reasons to be constructive about pent up earnings growth, new IPO activity, and overcrowded large cap positions that could see capital rotate back into the small and mid cap segments of the US market.

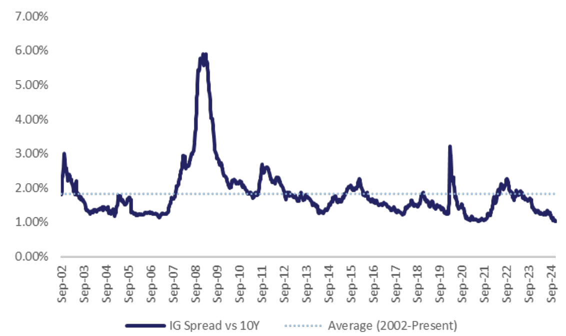
Overall, we believe staying in small cap, adding mid cap, and holding the line in international and EM markets offers a mix of risk diversification and growth potential that complements a good long-term portfolio and recent data have not changed our analysis here.

Credit Market Outlook

Like equity markets, looking at credit markets is both an absolute and a relative exercise. On absolute terms, liquid credit was once again underwhelming last year (Figure 1).

Furthermore, credit spreads for corporate credit remain historically tight. While this is a great sign that credit markets are not worried about a looming economy-wide problem that would lead to defaults on debt, it's less helpful when we're looking to invest in areas that are likely to produce excess return for clients.

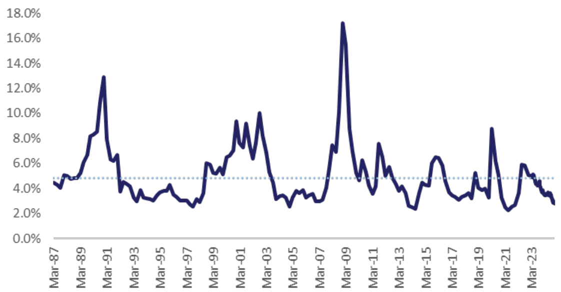
Figure 12: Yield Spreads: Investment Grade vs 10-Year Treasury (2002-Present)



Source: Bloomberg, Nordwand Capital, as of Dec. 31, 2024.

Figures 12 & 13 (above and below) highlight this point: investors are not being paid to take excess risk versus investing in US Treasuries.

Figure 13: Yield Spreads: High Yield vs 10-Year Treasury (1987-Present)



Source: Bloomberg, Nordwand Capital, as of Dec. 31, 2024.

Now it's time for a little perspective: the 10-year Treasury yield is currently around 4.6%, meaning that Investment Grade (IG) debt is yielding an average of 5.6% while high yield (HY) debt is yielding around 7.5%.

These yields are roughly 1-3% higher than cash, and 2x-3x the current annual rate of inflation. In other words, while not being paid well relative to historical risk, the absolute level of yield is decent.

Moving to Treasuries, as we highlighted earlier and illustrated in Figure 4, the curve has normalized and investors now have more incentive to lend longer-term to the US government. A year ago, yields on the 10-year Treasury were closer to 4.0%, adjusting to an emerging (at the time) expectation that the Fed would aggressively cut interest rates.

We felt at the time that this was fool's gold and cautioned that staying on the short-to-intermediate part of the curve was by far the more advisable path. These moves have been vindicating to our view over the last year, as rates in the 3-month to 5-year part of the curve have come down while 10-year yields have risen.

With yields and prices moving in opposite directions always and everywhere, this meant value was created by staying in shorter-duration over the last year. As of this writing, we still believe that positioning makes sense. If the Fed were to cut rates 1-2 more times this year it implies to us that it's still safer to stay in the first 5-7 years of the maturity spectrum. This applies both to Treasuries and to corporate bonds, in our view. In other words, if you're not being paid to take duration risk, don't.

Overall, in liquid credit markets – we will get to private credit in the next section – we think investors can find adequate returns with daily access and liquidity, with diversified multi-sector holdings to further offset risk.

We mentioned at the outset of this section that evaluating credit requires both an absolute and relative point of view. We laid out the absolute yield/return story above; the relative story comes down to whether equity investing can produce outsized returns again as it has for the last two years. We are still concerned about this for public equities in particular, making credit's solid return potential all the more appealing.

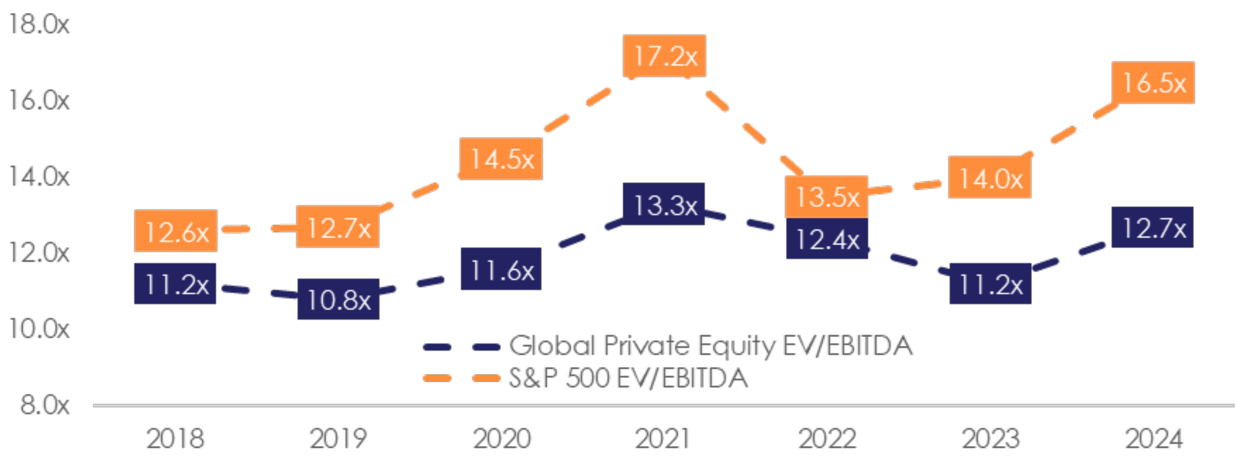
We once again would focus on debt that matures in less than 5-7 years to accomplish this. As we'll discuss in the next section, we would supplement these liquid multi-sector bond investments with private credit and loans to round out the credit/fixed income part of a portfolio.

Private Markets Outlook

Private markets are at an interesting inflection point. Fundraising has suffered (Figure 6) in part due to reduced deal activity (Figure 5) that has locked investors into investing timeframes that have stretched patience, all while valuations have come down as financing costs have risen.

As we also highlighted above, those conditions are beginning to unwind; deal activity is beginning to pick up, financing costs are ebbing, and the IPO market is showing the first signs of life in over 2 years.

Figure 14: Public vs Private Equity Valuations
(2018-2024)



Source: BlackRock, Nordwand Capital, as of 4Q2024.

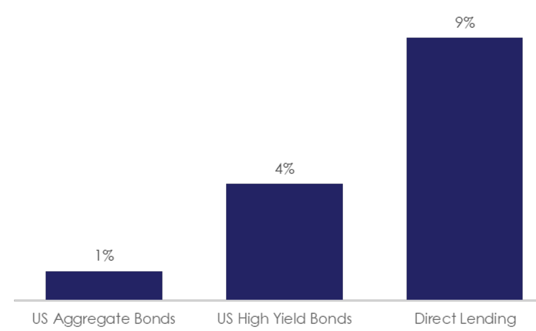
Helping to push this potential trend is the valuation spread between publicly-traded equities and their private equity counterparts. Figure 14 highlights the period since 2018, but going back even further to the last 10+ years shows private equity trading approximately 1.5 standard deviations cheap to its usual relationship with listed equities.

We are excited to put private equity capital to work at these valuations. Furthermore, we think it bodes extremely well for valuation uplift in the coming quarters and years when we would expect many of our clients' private investments to come to market to be sold. In short, for those with capital and patience this strikes us as among the better periods for making private investments in some time.

In private credit markets, we are also pleased with the environment. The backdrop over the last several years has been generally positive for investors, with meaningfully higher returns for direct lending over liquid credit.

Figure 15 illustrates this point: direct lending annualized returns over the last decade have more than doubled high yield bond returns. As a complement to a liquid credit allocation, we think it not only can improve return profiles, but also exposes investors to

Figure 15: Public vs. Private Credit Returns
(10 Years Annualized)



Source: Franklin Templeton Institute, Nordwand Capital, as of June 30, 2024

small to middle market companies that otherwise are largely absent from traditional fixed income investing menus.

In addition, direct lending, asset-backed lending, real estate loans and other sectors within the private credit universe may be used in concert to diversify single-sector risk for investors. These middle market companies and the accompanying loans also often offer higher yield spreads than larger broadly syndicated loans or high yield bonds, and as a result of their lower liquidity profile generally have an increased level of insulation from spread compression that is frequently seen with larger loans and companies. As a way to mitigate risk, we prefer to leverage these opportunities with partners and managers whose requirement for tighter covenants is intended to provide better protection in the event that credit issues arise.

Overall, with base rates (i.e. those directly influenced by the Fed's monetary policy movements) coming down but staying elevated, and the macroeconomic outlook expected to continue producing growth, the atmosphere for private credit as a portfolio component looks promising in 2025.

Summary

2024 was about many things, but the most important were almost certainly some combination of a global election cycle, shift in central bank monetary policy stances, heightened geopolitical tensions, and an innovation explosion that elevated AI to a mainstream concept while 'miracle' drugs like GLP-1s became the talk of the town.

In markets, 2024 continued the theme of 2023 in equities with huge performance among large caps while everyone else tried to keep up. Credit had to deal with shifting Fed policy as the debate of public vs private credit grew louder. It was also, if we're honest, very much about Bitcoin as it rose ~120% and we all argued about whether that made sense, required an allocation, or was sheer lunacy!

2025 looks to be about some of the same things, and hopefully NOT about some of the others. In the "more of the same" bucket, we expect:

- The Fed to continue cutting rates, albeit in a much, much more limited way (1-2 25bp cuts at most on current data)
- A decent but not stellar environment for equities, with perhaps more broadening into other segments of the market that have lagged US large caps. It's hard to follow 2 years of >20% returns and not expect something of a hangover, even while earnings are growing around 10%
- A soul-searching period for long-dated bonds, with yields bouncing around based on policy rumor and shifting investor risk appetite for equities. Shorter-dated bonds should again look like a better place to be.
- Private equity should see more exit activity, which should lead to more animal spirits and partial reflation of valuations.
- Private credit without a major credit event should again outperform its liquid peers.

In the "things are different this year" camp, we would include a much quieter global election cycle with a few notable exceptions (Canada, Germany, and the UK all stand out as places with growing uncertainty). We should also expect more central bank uniformity of direction, with flat to slightly down rates likely barring an unforeseen – and almost certainly unwelcome – event. Further, if we see a drop in geopolitical tensions in places like Israel and Ukraine – surely something we can at least hope for if not necessarily count on – the environment for risk-taking will improve.

All in, we expect public market returns to be a bit more muted while private markets see a welcome uptick in activity. We look forward to talking to all of you in the near future and will be rooting for a quiet and prosperous year for everyone!

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