

Relative Value & Tactical Asset Allocation

Q4 2025

Key Takeaways

- MetLife Investment Management (MIM)'s Global Economic & Market Strategy team expects turbulence in growth resulting from U.S. policy vacillations to continue to drive expectations for global activity and inflation risks.
- We maintain the call that the tariff impact on data is likely to lag survey and other data, suggesting that we are unlikely to see a significant acceleration in economic activity anytime soon.
- We see opportunities in sectors benchmarked on intermediate tenors as a steepening yield curve pushes up total return.

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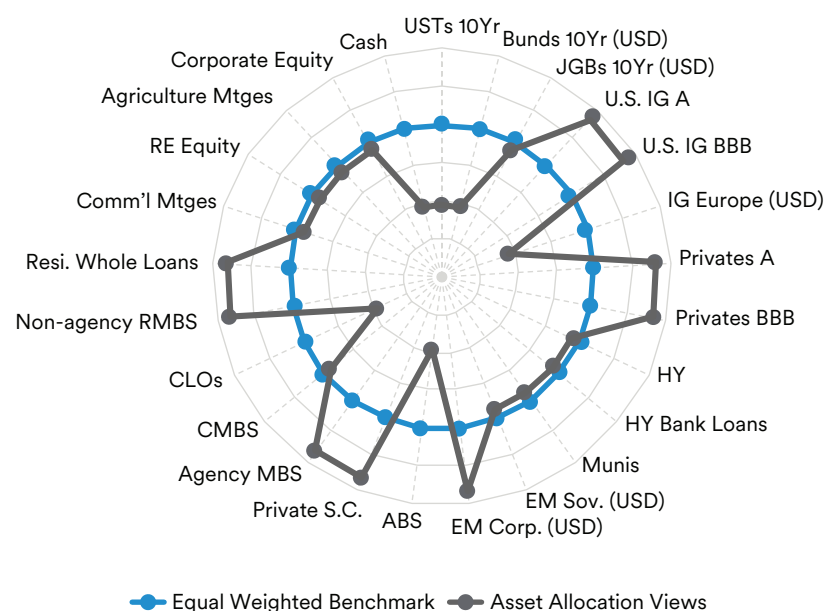
Dance While the Music Is Still Playing

Turbulence in growth resulting from U.S. policy vacillations continues to drive expectations for global activity and inflation risks. Although initial tariff announcements resulted in a significant equity market downturn and a surge in volatility, financial markets have recovered and rallied. However, the tariff impact on data is likely to lag survey and other data, suggesting that we are unlikely to see a significant acceleration in economic activity anytime soon.

The surge in effective tariff rates has caused some heightened volatility in economic data, an issue exacerbated by ongoing issues with U.S. data quality. With revisions, it appears as if the tariff rate increase at the start of the second quarter impacted the labor market almost immediately. The new, lower, reported rate of payroll growth is now consistent with the slowing in activity MIM had been anticipating.

However, despite the increase in tariffs and the still-high level of inflation relative to the Federal Reserve's 2% target, expectations of inflation remain sanguine. Market expectations of longer-term inflation, as measured by five-year, five-year forward measures, show little change compared to pre-tariff announcement levels and are near long-term averages, indicating little concern about rising long-term inflation rates.

Figure 1 | Tactical Asset Allocation Views



Note:

1. The asset class views in the accompanying chart are based solely on our macroeconomic views, sector fundamentals, and market expectations by the authors, **which may be different from MetLife's Portfolio Managers' and sector strategists' views, which are included in this report.** For illustrative purposes only.
2. The asset class views are not associated with any MetLife or Client portfolios.
3. No portfolio specific constraints are considered in these asset allocation views.
4. The asset class views reflect a relative directional overweight/underweight among the assets, without absolute weightings.

Source: MetLife Investment Management (MIM). As of Sep 12, 2025.

Gloomy Path for The Future of Global Growth

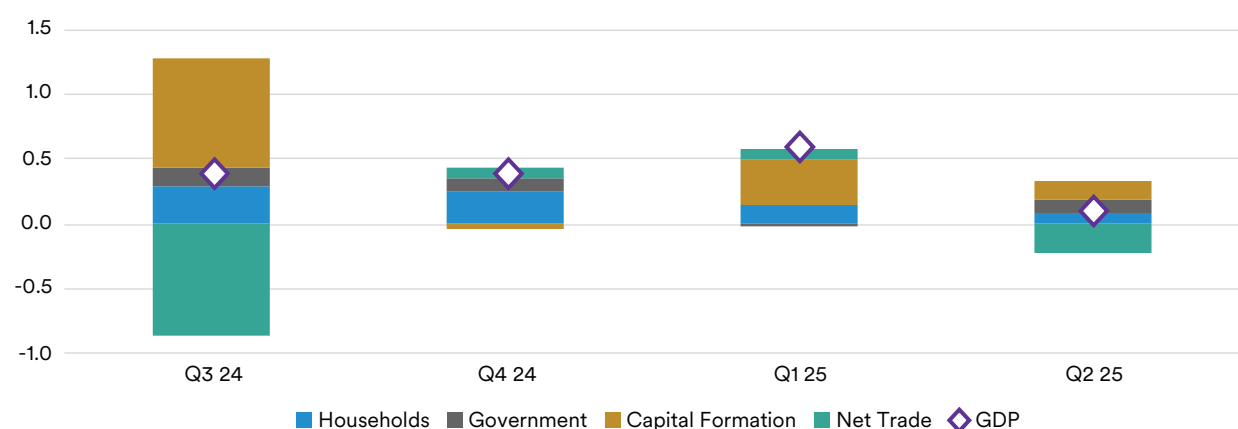
U.S. — MIM remains cautious on the U.S. growth outlook. Despite high economy-wide margins, U.S. investment fell off sharply in the second quarter, mirroring the rapid deceleration in employment growth. While the drop in investment may be temporary, the Conference Board survey of chief executive officers shows that a record percentage of executives expect to be reducing their workforce over the next three years. While some of this is likely a response to uncertainty, the survey also notes that almost all executives are counting on artificial intelligence tools to lower costs.

Though the view expressed in the survey may not come to fruition, the composition of labor market data suggests that artificial intelligence tools may be having an impact in a manner that raises broader questions about the stability of the economy and society. The rapidly growing share of youth unemployment in the economy has real social and economic impacts in both the short- and long-term. Although MIM believes advances in productivity resulting from improved educational outcomes and labor quality gains could solve a number of significant issues for the U.S. economy, youth unemployment highlights a risk posed by the transition.

A low nominal growth world continues to favor up in quality with a focus on valuation. There are no free lunches, but you do need to take extra care that you are being compensated (at least on a relative basis) for the fact that a low-growth world is a riskier world.

Europe — Euro area growth proved more resilient than anticipated in H1, with Q1 seeing a strong 0.6% QoQ expansion followed by subdued 0.1% QoQ growth in Q2 (see Figure 2), partly driven by initial optimism surrounding the EU-U.S. trade deal. However, H2 is expected to see a slower pace of GDP growth as the trade agreement's short-term confidence effects wane and the impact of higher U.S. tariffs escalates. Germany, while still an area of weakness with GDP contracting 0.3% QoQ in Q2, shows signs of potential stabilization in its manufacturing sector, and fiscal loosening could support growth in the longer term. Spain continues to outperform due to EU funding mobilization and robust immigration, while France faces uncertainties amidst political and policy challenges. The ECB has adopted a neutral monetary stance following two 25-bps rate cuts this year, with the near-term inflation target met. While disinflationary forces remain the dominant theme, a final 25bps rate cut is anticipated, reflecting low-confidence divergence from the broader consensus.

Figure 2 | Contributions to QoQ GDP Growth (%)



Source: Bloomberg and MIM. As of 08/31/2025.

UK — In the UK, GDP growth in H1 also exceeded forecasts, driven by optimism post the UK-U.S. trade deal; despite this resilience, H2 growth is expected to moderate. The Bank of England (BoE)'s cautious rate path has been tempered by elevated inflation, with wage growth pressures sustaining high inflation in services. While additional rate cuts are still expected, the pace has decelerated, given sticky inflation dynamics and the need for lower wage pressures to align with the BoE's medium-term target.

Asia — Asia has shown growth resilience in 1H25 as a rush of shipments to beat looming U.S. tariffs propped up regional exports. Now that tariffs have settled at an average 18% for the region, export (and capex) growth is expected to slow as we approach year-end. 2H25 regional growth will slow versus 1H25 due to reciprocal tariffs (in some cases, sectoral and transshipment tariffs if enacted) as

the boost from export front-loading fades. Regional central banks have maintained an easing bias, as they have looked past positive growth surprises YTD, in expectation of a 2H25 slowdown. Inflation readings should remain well within central bank targets, allowing for further policy rate cuts this year if necessary. For China, we revised up our 2025 GDP growth forecast to 4.7%, while we have revised down our end-of-year CPI forecast to 0.5% versus 0.6% assuming only partial success with Beijing's anti-inflation efforts. For Japan, wage growth momentum continues to support core CPI (revised up to 2.6% for the end of the year); however, our baseline remains for no BoJ hikes this year. The BoJ remains cautious on the growth outlook (in part due to U.S. tariff impacts on the Japanese economy), while it also believes that 'underlying inflation' remains below 2%.

Latin America — Growth in Latin America showed resilience in the past quarter despite facing numerous domestic and external challenges. Inflation dynamics have improved due to currency appreciation, facilitating central banks' ability to consider policy easing, although fiscal policies and labor markets pose risks. Long-term interest rates declined across the region, driven by expectations of monetary easing and anticipation of Fed rate cuts. However, risks tied to fiscal deficits and external pressures persist. Brazil experienced softening economic activity in Q2 due to weak consumption and tight monetary policy, but could see modest improvement from tax reforms and easing inflation. Mexico outperformed expectations with stronger Q2 growth and moderating inflation, but trade and fiscal risks linger amid U.S. policy uncertainty. Chile and Colombia have shown stable to slightly improving growth, although inflation remains stubborn in Colombia. Regionally, central banks are expected to take easing actions in the coming quarters to support growth, with long-end rates likely to stabilize or slightly rise depending on fiscal developments. LatAm bonds and loans may see moderate yield compression driven by easing monetary policies, though fiscal risks and growth uncertainties could limit performance gains.

Global Sovereigns Unappealing

U.S. Treasury (UST) — For the remainder of 2025, MIM believes that the Federal Reserve is limited in its ability to act by the inflationary aspect of the announced tariff policy, as well as the public political pressure being exerted on the organization. We see Federal Reserve leadership resisting acquiescing over concerns about creating a moral hazard that may lead to even more aggressive policies. That said, with weaker data and Federal Reserve officials arguing that tariffs represent a one-time price level shock (a view which the minutes of FOMC meetings suggest is also shared by Federal Reserve staff), we expect the Federal Reserve will gradually reduce rates, cutting the policy rate by a total of 150 bps over the remainder of 2025 and 2026.

Given the outlook and ongoing trade and budget uncertainty, MIM anticipates 10-year yields holding near 4.25%, within the range MIM sees as consistent with long-term economic fundamentals. However, persistent concerns about the budget deficit and the ability of the U.S. Treasury market to attract foreign investment flows represent an upside risk to yields.

Japanese Government Bonds (JGBs) — We raised our end-year 10Y JGB yield forecast to 1.50% versus 1.40% previously given improved headline inflation readings, driven in part by consistent wage growth momentum. Whereas the BoJ has expressed concern about 'underlying inflation' readings which include more conservative core measures of CPI, headline CPI figures remain in excess of 2%-3%. Weaker bond auctions due to supply-demand mismatch, particularly at the longer end, have also contributed to slightly higher yields.

Chinese Government Bonds (CGBs) — Slowing activity points to weaker 3Q25 and 4Q25 GDP growth, paving the way for modest policy support later in the year, which should prevent any imminent rally in CNY rates, especially given the ongoing robustness of the equity markets, which

has led to a rotation out of bonds. We are retaining our end-of-year forecast of 1.5% for 10Y CGB yields as evidence of growth slowdown becomes more pronounced and equity market rally sputters out. The key risk to this forecast is for Beijing to roll out only minimal policy support, and the equity market rally to sustain itself into next year. Should evidence of the latter grow, we would revise our end-year forecast for 10Y CGB to around 1.7%-1.8%.

German Bunds — German Bund fundamentals continue to benefit from strong fiscal positions and high-quality demand within the euro area. However, borrowing requirements are set to rise significantly as loosened fiscal rules allow for larger expenditures, particularly in defense and infrastructure. In terms of valuations, there's room for near-term yield declines at the short end of the curve if the ECB implements a further 25bps rate cut as predicted. However, on a longer-term view, bund yields face upward pressure due to increased debt issuance needs heading into 2026, coupled with the ECB's continued passive QT program.

Credit Metrics Remain Stable

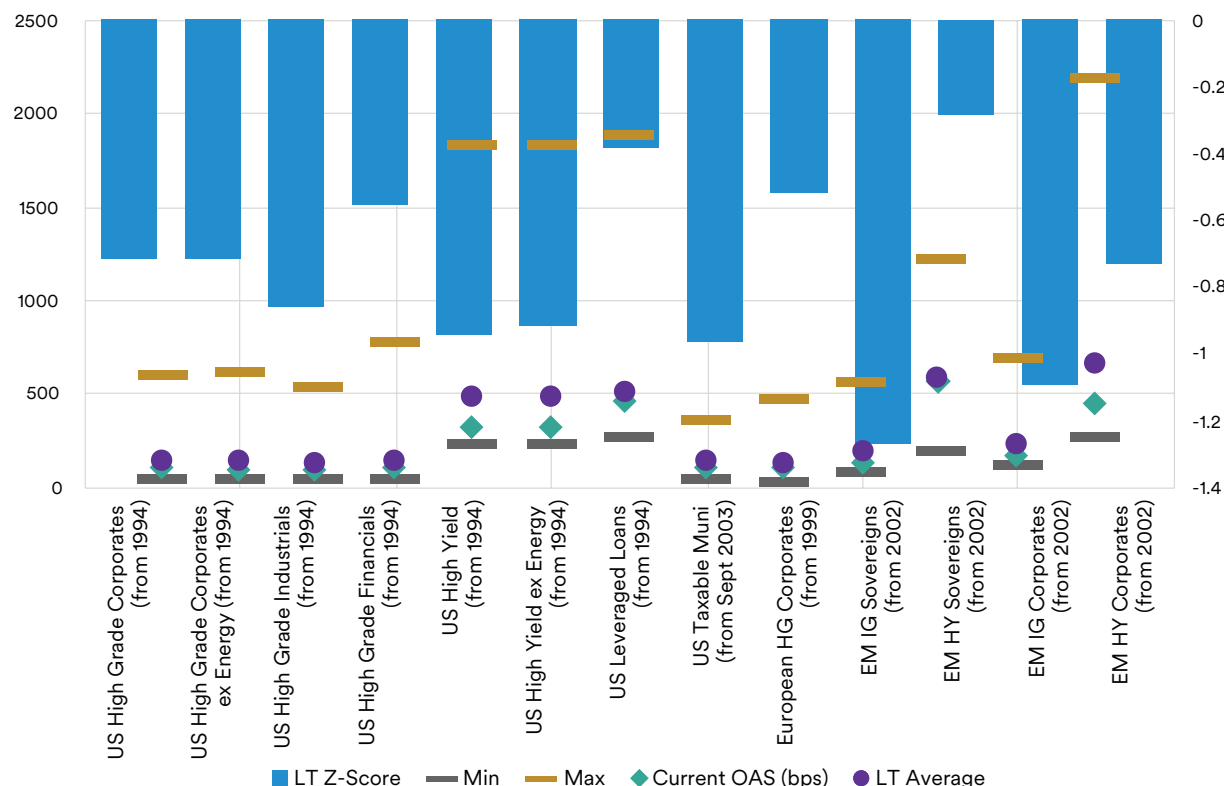
Macro Credit — Current credit cycle conditions remain tight. U.S. IG and HY fundamentals remain resilient. Credit metrics remain stable during 2Q25, except for the FCF/Total Debt ratio. For IG, the LTM Net Leverage ratio saw slight downward ticks for YoY and remained unchanged with QoQ. It is still below long-term averages. For HY, LTM Net Leverage ratios also saw slight downticks YoY and QoQ. Both were still below long-term averages. Coverage ratios also improved for both IG and HY. Q2 earnings also came in above expectations.

Default Outlook: peak in April 2025. Although Moody's expectation for U.S. speculative-grade default to continue a downward trend in 2025 to 2026 and fall to 3.0% from the current 5.7% level in 12 months, the forecast of the December 2025 default rate moves higher from last quarter's 3.8% to 4.3%.



Rating Migration Outlook: Slightly higher FA risk compared to the last quarter. We see an upward tick on the downgrade compared to the previous quarter. Spreads had almost reversed back to the pre-liberation tight level across credit markets (See Figure 3).

Figure 3 | Spreads Have Reversed Back to Pre Tariff Compressed Levels for Most of the Sectors



Note: Z-score is a metrics used to show how high or low the value relative to the average value using standard deviation as a unit. A Z-score of one indicates that the current value is one standard deviation higher than the average value. OAS refers to option-adjusted spread. Source: Bloomberg, J.P. Morgan, Barclays, Credit Suisse, MIM. As of 08/31/2025.

U.S. Investment Grade (IG) — Markets have shifted focus from the Trump Administration’s trade policy to a now-fully priced Fed rate cut narrative. Recent economic data points towards a weaker job market, as illustrated by September’s payroll numbers and the record BLS revision suggesting job growth was half of previously stated data. The risks as outlined by the Fed have shifted towards job growth stability, despite grappling with inflation that still remains above the Fed’s target. Against a weakening macro backdrop, spreads continue to grind towards all-time tights as all-in yields fall off their recent historical highs. New issuance in the High-grade space remains strong, which is matched by strong demand. Mutual Funds and ETF flows continue favoring IG with a 19-week inflow streak adding incremental demand to the market, which has also been supportive for spreads. While risks are tilted in favor of spread decompression, it is possible to see spreads hover around these tight levels in the near term. Credit fundamentals continue to remain healthy for 2Q 2025. EBITDA Margin improved slightly, however FCF/Total Debt ratio decreased but still sits around the 6-year average. With this current state of the market, companies likely will take advantage of the combination of tight spreads and low yields (77bps and 4.75%, respectively) with continued strong supply and an increase in capex and M&A activity. Announcements this week in telecom, media, and tech as well as metals and mining may already suggest a surge in activity. In previous cutting cycles, long end supply has picked up and can be expected again. Through the Fed’s actions it will remain to be seen whether yield sensitive investors continue supporting the market. MIM recommend overweight on the U.S IG.

European IG — European investment-grade bonds performed well in Q2, supported by solid earnings growth driven by the Communications, Financials, and Tech sectors, which outweighed weaknesses in commodity-related industries like Energy and Basics, as well as Autos. Spreads tightened significantly through mid-August, hitting a low of 79bps on 08/19, before stabilizing at 81bps. Robust primary supply persisted, with Q2 issuance slightly outpacing Q1, bolstered by record-breaking “Reverse Yankee” issuance from U.S. companies. Despite occasional political jitters, such as France’s sovereign downgrade by Fitch to A+, there has been minimal market impact on French sovereign or corporate bonds. Looking ahead, spreads are expected to stay relatively stable, although geopolitical risks and sustained high issuance levels may cap further tightening. After considering the FX hedge, the overall yield in EU IG is less attractive compared to the other sectors.

High Yield (HY) — High yield bonds provided their fifth consecutive monthly gain in August alongside falling Treasury yields, more dovish Fed rhetoric in response to softening labor market conditions, and equity gains. Additionally, earnings remained better-than-expected, inflows were supportive, and capital markets remained open to refinancing. Rates were lower, with 5y and 10y Treasuries down 28bp and 15bp, respectively. Capital markets remained active in the first half of August before slowing into the holiday. Specifically, high yield bond issuance totaled \$25.7bn or \$9.8bn ex-refi in August. Default/distressed exchange activity increased in August (\$5.2bn) after a 32-month low in July. As well, bond volume affected by a default/distressed exchange outpaced loans for the first time since November 2023. Year to date, 22 companies have had a payment default totaling \$16.3bn in bonds (\$5.0bn) and loans (\$11.3bn) and 19 companies have completed a distressed exchange totaling \$21.7bn in bonds (\$5.6bn) and loans (\$16.0bn). Including distressed exchanges, the par-weighted U.S. high-yield bond and loan default rates increased and decreased +8bp and -48bp m/m to 1.45% and 3.37%, respectively. Remarkably, the gap between leveraged loan and HY par-weighted default rates (12-mo.-low 192bp) has narrowed 110bp year-to-date off a high since 2000. High-yield funds reported their fourth consecutive inflow, recouping the largest monthly outflow since Mar-20. Specifically, High Yield funds reported inflows of +\$1.1bn in August. OAS has tightened 12 basis points quarter-to-date to 284 bps (08.31.25). High yield continues to be supported by solid fundamentals. We would expect the market to remain firm throughout the remainder of the year and offer comparable opportunities despite pockets of broader market volatility. MIM is neutral on HY.

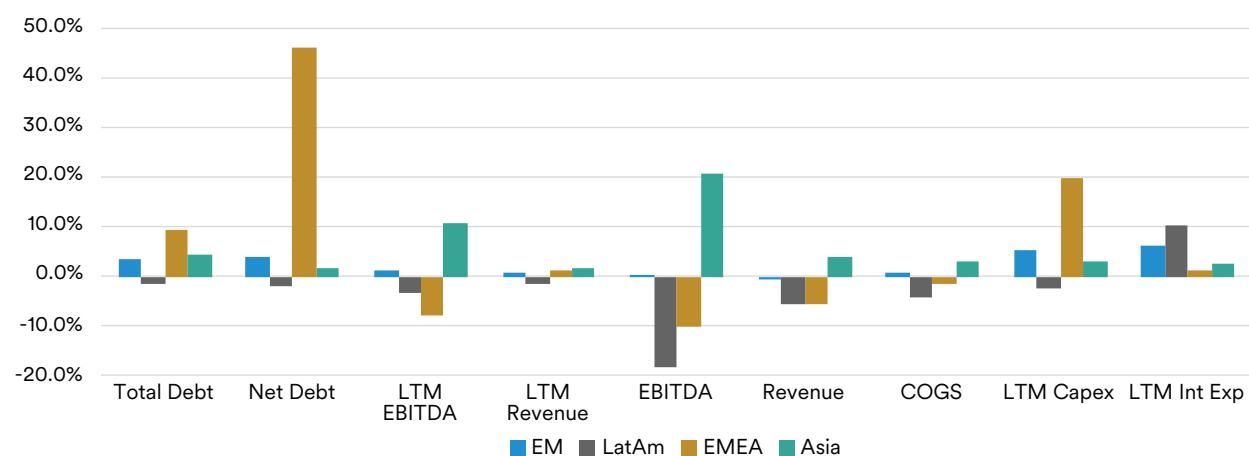
Leveraged Loans — We maintain our preference for an up-in-quality approach within bank loans as we expect macro moderation to remain supportive of loans in 2025. While spreads are near tight, the elevated base rate and all-in high yields continue to encourage buyers to chase loan yields. Strategists are calling for a 6-7% return expectation for 2025 as robust refi activity and a revival of animal spirits provide a backdrop for the leveraged loan market to grow again after a modest shrinkage last year. We expect more corporate M&A behavior due to falling debt costs, a rebound in earnings, and potential tailwinds from deregulation and lower corporate taxes. This sets the stage for more corporate deal-making, capital raising, and comfort around more balance sheet leverage. We believe that an up-in-quality approach in loan investing continues to mitigate as corporate animal spirits grow, and the range of economic outcomes widens. MIM recommends being neutral and cautious for the leveraged loan sector.

Municipals — The municipal bond market has been one of the best-performing sectors since our last paper from June. The Bloomberg Taxable Municipal Index posted a 3.54% return despite significant interest rate volatility and widening spreads early in the quarter due to heightened geopolitical tensions and concerns over Fed independence. Market spreads settled to end nearly flat, largely supported by robust investor demand for yield in a resilient macroeconomic environment. State General Obligation (GO) bonds led performance, benefitting from their shorter average duration, while education and healthcare bonds underperformed, driven by policy-specific risks related to tariffs and sector-targeted federal announcements.

Looking ahead, spreads are expected to widen slightly, with an estimated 95 basis points for the broad taxable municipal index by year-end. Major risks include tariff-related inflation, delayed CPI impacts, fiscal deficit concerns, and market nervousness due to possible shifts in the Federal Reserve's rate trajectory. However, higher yield levels (5.03% for the Bloomberg Taxable Municipal Index) present an attractive entry point for institutional investors, especially if inflation remains well-behaved. Tax-exempt markets face elevated issuance concerns as supply pressures mount. Fundamentals remain largely unchanged, with revenue-backed sectors like transportation and utilities maintaining stable outlooks despite operational pressures, while fiscal strength varies considerably among smaller issuers and specific rural healthcare facilities. MIM believes the Municipals would offer comparable returns to the other sectors.

Emerging Markets (EM) — The macro environment for Emerging Markets (EM) credit is heavily influenced by U.S. policy changes, particularly under the Trump administration, which has shifted towards tariffs and reciprocity in trade relations. This has led to anticipated slowing U.S. growth, aligning it closer to other Developed Market (DM) economies and potentially weakening the U.S. dollar, thereby benefiting EM countries that have dollar-denominated debt. Despite potential shocks, many EM sovereigns and corporates are well-positioned to withstand uncertainty, with a significant portion expected to remain resilient even in a global recession scenario. EM corporates and banks have healthy fundamentals (see Figure 4), with strong balance sheets and prudent liability management, although some metrics may moderate. While margins are expected to stay healthy, free cash flow is anticipated to remain strong, allowing continued focus on maintenance capital expenditures. Market conditions for EM are favorable, with improving fundamentals and investor interest potentially increasing due to a weaker U.S. dollar. EM bonds have been under-owned, presenting an opportunity for capital inflows. Additionally, while DM sovereigns face challenges, EM economies exhibit stronger fiscal discipline and have maintained market access, providing attractive investment opportunities. Overall, MIM upgraded EM Corporates from neutral to overweight, but remain natural on the EM Sovereigns.

Figure 4 | EM Fundamentals YOY % Change



Source: BofA and MIM. As of 08/31/2025.

Asset-backed Securities (ABS) — Year-to-date supply in the ABS sector is trailing last year's levels, although the gap has narrowed thanks to strong growth in unsecured consumer, data center, and fiber issuance. Investor demand remains robust, supported by momentum in digital infrastructure assets. Fundamentals suggest consumer credit resilience, though rising delinquency and loss rates, coupled with the resumption of student loan payments, present challenges for consumer spending. Economic growth shows signs of slowing, with elevated inflationary pressures adding to headwinds.

Valuations appear stretched, and credit curves remain flat, making certain segments like seasoned private loan deals and rate reduction bonds more attractive. Conversely, segments heavily exposed to discretionary consumer spending are being underweighted. Overall, we remain cautious about the sector due to the persistent pressure on U.S. consumers.

Collateralized Loan Obligations (CLOs) — CLO issuance has outpaced 2024 levels, though refinancing and reset activity have moderated. Fundamentals have weakened, including elevated downgrade activity and variable recovery rates, while broader economic uncertainties, including tariff pressures, weigh on the sector. Valuations are neutral, with spread widening but remaining constrained by a steeper curve. The market's appetite for new supply is being tested, though opportunities in middle-market CLOs, particularly in non-call structures, are gaining traction. Liquidity has improved further up the capital stack, offering incremental value in this segment. However, MIM finds floating rate products are less attractive and prefers opportunities in the other sectors.

Commercial Mortgage-backed Securities (CMBS) — Supply growth in CMBS has accelerated, with strong contributions from conduit, SASB, and Commercial Real Estate (CRE) CLO issuance. However, sector fundamentals remain pressured, with climbing delinquency rates and persistent stress in office properties. Positive signals include stabilization in office valuations and improving transaction volumes in multifamily. Valuations are neutral to rich, with spread tightening limited by constrained secondary market liquidity, especially in older deals with elevated delinquency exposure. High-quality assets, particularly ten-year SASB deals, are favored, although caution persists around early delinquencies in certain vintages. We believe CMBS offers comparable yield, and MIM is neutral on CMBS.

Agency MBS — Supply remains manageable, and muted prepayment activity, driven by high mortgage rates, supports stable fundamentals. Valuations appear neutral, with nominal spreads wide at 125 basis points, while option-adjusted spreads sit near 30 basis points. Agency MBS has benefitted from lower volatility and the recent lower rate environment, outperforming CMBS and corporate credit. Although refinance risk for higher-coupon loans may rise with a rally in 10-year Treasury notes, solid support for the sector is expected, particularly in a lower Fed funds rate path. We still see the sector attractive in the current environment.

Non-Agency MBS — Non-agency RMBS supply has grown 40% year-over-year, supported by favorable securitization economics. Fundamentals have softened, with delinquency rates rising across all segments, though housing credit remains comparatively robust versus broader consumer markets. Serious regional weaknesses have emerged in the Southeast, while valuations have shifted closer to fair value. Prime and agency-eligible tranches offer compelling relative value, while spreads in the non-QM sector have widened modestly. The outlook remains neutral as persistent supply and attractive yields balance risks related to rising delinquency rates. Overall, MIM recommends overweighting on the Non-Agency MBS.

Private Structured Credit (PSC) — The ABF market maintained strong momentum in Q3 2025, even as the broader U.S. credit environment faced heightened risks tied to slowing economic growth, tariffs, and federal workforce reductions earlier in the year. Credit spreads, which widened significantly in the first half of the year, have since tightened by 10–30 basis points on average, buoyed by healthy credit fundamentals, strong investor demand, and limited supply. Despite its appeal for income generation and diversification, caution remains warranted due to ongoing geopolitical and policy-related uncertainties. Looking forward, ABF spreads are anticipated to remain stable, with room for further tightening, supported by robust fundamentals, sustained demand, and a potential easing of Federal Reserve policy. Additionally, the One Big Beautiful Bill Act (OBBBA) is expected to have wide-ranging impacts on key sectors, including Solar, Auto, and Consumer ABS, requiring a careful and selective investment approach. MIM upgrades PSC from Natural to Overweight.

Residential Whole Loans — Housing fundamentals remain robust, supported by stable home prices nationwide and persistently low delinquency levels. Borrowers are actively safeguarding their accumulated equity from prior home price appreciation, leading to losses well below expectations. Spreads for residential whole loans and single-family rental debt financing continue to provide attractive relative value, with loss-adjusted spreads ranging in the low to mid-200s basis points, depending on the opportunity. Looking ahead, a potential lower rate environment is expected to drive an increase in supply, especially within the single-family rental debt financing space. MIM finds the sector as one of the most attractive in the current environment.

Commercial Real Estate (CRE) & Commercial Mortgage Loans (CML)

Real estate fundamentals showed mixed performance across sectors this past quarter. Apartments and industrial properties faced elevated vacancies and slowing rent growth, although a decline in new construction could mitigate further deterioration. Retail properties remain resilient with near-record-low vacancies driven by limited new supply and demolition of non-competitive inventory, while hotels posted a modest revenue growth reduction due to tariffs and weaker international travel. Office properties are still under pressure, with national vacancies at 19.1%, but the pace of deterioration is stabilizing, with improvements in markets like New York City and Florida. On the debt side, a steady recovery in capital markets has allowed new originations to rise significantly, while higher-yielding segments have begun to offer appealing relative value. Equity valuations appear fairly priced, with transaction volumes slightly improving year-to-date but still modest by historical standards. Looking ahead, we expect muted rent growth in most sectors, while improving technicals may continue to provide support for commercial mortgage spreads.

For CML, there has been little change in the more liquid segments of the CML sector. However, higher-yielding debt faces liquidity challenges, offering attractive relative value. Recent quarters have shown rising new debt originations as capital market stress has eased. According to the American Council of Life Insurers (ACLI), life insurers issued \$17 billion in commercial mortgages in Q2 2025, a 42% increase from Q2 2024. We expect further recovery and increased transaction activity in 2025. MIM is neutral in both Real Estate Equity and Commercial Mortgage Loans.

Agricultural Mortgage Remains Stable

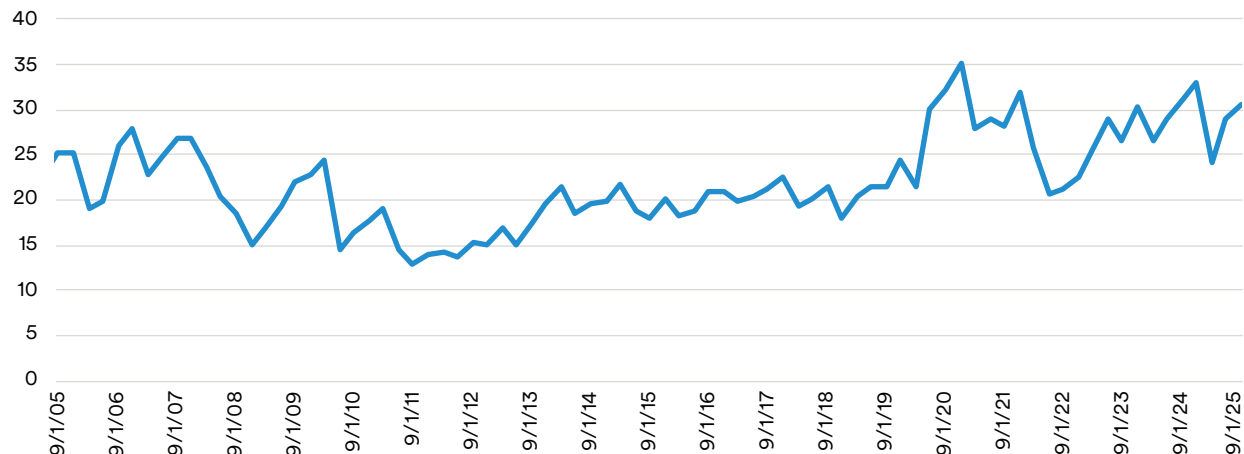
The agricultural sector experienced varied performance in the past quarter, with Net Farm Income (NFI) projected to jump by 40% year-over-year in 2025, largely owing to \$33 billion in government payments, including supplemental economic and disaster assistance from the American Relief Act of 2025. Despite this, annual crop growers are facing below-breakeven prices due to high input costs and moderating crop prices, though the OBBBA is expected to provide support starting in late 2026. Livestock producers, on the other hand, are enjoying record-high beef and cattle prices driven by contracting inventories and strong consumer demand. Agricultural mortgage spreads are stable, with achievable spreads at 207 bps, unchanged from the last quarter, though delinquency rates are rising modestly toward historical averages after record lows in 2023. Farmland values remain above inflation-adjusted trends, and while appreciation is expected to moderate, demand for agricultural mortgages continues to recover as incomes normalize from 2022 highs. Bond and loan yields in the agricultural mortgage space are likely to remain steady amid this normalization of credit demand, while timberland continues to benefit from long-term housing fundamentals despite short-term headwinds. MIM is neutral on the Agricultural Mortgage sector.

U.S. Equity

Investors are feeling both overexposed and wishing they had invested more. From a broad perspective, the market appears to reflect a lack of near-term recession concerns. The Fed's rate cuts, along with positive effects from AI and steady corporate profits reaffirmed U.S. exceptionalism. The U.S. hosts four companies valued at over \$3 trillion, with the top five accounting for 20% of global equity, and nine of the ten largest U.S. companies centered around AI. Concerns—political, fiscal, geopolitical, and economic—seem compartmentalized and overlooked. Cyclical are catching up due to the positive impact of rate cuts, and small-cap stocks are gaining attention. There is a tug-of-war between U.S. market strength and the desire for diversification. Flow trends show signs of a late-stage junk rally and short squeeze, with excessive behavior emerging, particularly in short positions. Last week we saw a tech surge: non-profitable tech up 8%, the most-shorteds up 6.7%, quantum up 30%, nuclear up 10% and the Nasdaq rising for three consecutive weeks. A short pause appears to be emerging as seasonal factors and profit-taking become relevant.

Is a tech bubble forming? It's hard to say yes, with the Nasdaq rallying in 16 of the last 17 years and generating around 2,250% returns, and the largest companies trading at 29 times earnings, below past peaks (see Figure 5). However, private markets are showing frothiness with some companies raising funds at high valuations. The concentration on AI raises the risk of sharp declines, similar to recent crypto volatility. The market and economic landscape is filled with mixed signals. While headline indices suggest stability, persistent inflation, declining trading volumes, margin compression, and job cuts are emerging, which adds more uncertainty. The Market Strategy team is still hesitant to go all in on U.S. equity; that being said, MIM moves U.S. equity from underweight to neutral.

Figure 5 | NDX Index - BEst P/E Ratio



Source: Bloomberg and MIM. As of 08/31/2025.

Private Equity Remains Well Positioned

The private equity (PE) market demonstrated resilience in 2Q25 despite facing significant economic and geopolitical challenges. Global deal activity was subdued, particularly in Asia, where investment reached a 10-year low of \$22.9 billion as U.S. tariffs exacerbated existing uncertainties. In contrast, growth capital investments in China and India showed resilience, increasing their share of regional deal activity. Europe experienced mixed performance, with modest improvements in deal activity towards the end of the quarter due to central bank monetary easing, despite a notable decline in exit activity. The U.S. buyout market remained active, though deal volumes were muted and

valuation multiples inched higher. Venture capital (VC) dealmaking has been dominated by artificial intelligence and machine learning themes, compensating for sluggish performance across other sectors. Fundraising for PE globally rebounded, increasing 22% QoQ to \$148 billion, demonstrating investor confidence in established managers with proven track records. Secondary market activity also reached record volumes thanks to improved pricing, while the IPO market gained traction with notable activity in Hong Kong and strong VC-backed exits in the U.S. Looking forward, while short-term returns may face pressure from persistent volatility and heightened selectivity, the private equity industry remains well positioned to capitalize on an economic reset.

Cross Current Weighs on Dollar

In the third quarter of 2025, the U.S. dollar (USD) stabilized, trading within a range against most currencies amid subdued volatility. The outlook for the USD remains bearish as the Federal Reserve pivots toward easing monetary policy and U.S. growth cools. Key factors include potential two-way moves around economic data and fiscal news, but a gradual USD depreciation is expected unless there is a significant re-acceleration in U.S. growth. In Asia, performance was mixed with the Thai baht (THB) showing strength, while the Indian rupee (INR) struggled due to geopolitical tensions. As macroeconomic conditions stabilize, Asian currencies are anticipated to perform better, supported by a weaker USD and easing inflation. In Europe, the Norwegian krone (NOK) and Swedish krona (SEK) outperformed while the euro (EUR) fluctuated. Although the EUR benefits from USD softness, fiscal considerations may limit its upside. The British pound (GBP) faced challenges, with weak UK data and contracting investment weighing on its performance. Latin America experienced a varied performance in Q3, with high-carry currency pairs doing well as the Fed's easing supports carry trades. Central banks in the region are expected to maintain or gradually ease monetary policy amid declining inflation, but trade uncertainties and tariffs, particularly from the U.S., continue to pose challenges for LATAM currencies.

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Public Fixed Income*

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