

## KOCAA Investment Roundtable: Mid-Year 2025

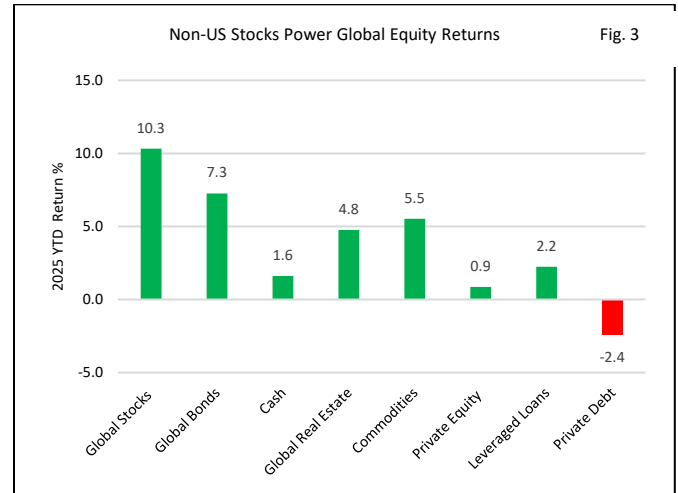
### ECONOMY – KEY DATA

US real GDP growth was -0.5% annualized in the first quarter despite a positive contribution from consumer spending and a big jump in private investment. The drop was entirely a function of a big decline in net exports, driven by corporations stockpiling inventories ahead of expected tariff announcements. The Atlanta Federal Reserve GDPNow forecast for the second quarter is annualized growth of 2%. For the year, the consensus forecast is 1.5%, down from 2.1% at the start of the year. Globally, forecasts are mostly unchanged to down from the start of the year except for small positive revisions to China and Brazil.

Employment, while hardly robust, has held up better than many expected at the start of the year, with private non-farm payrolls rising by a little more than 100,000 on average over the past six months. Service jobs particularly in health care education and state government continue to be the driver, despite federal employment declining. Manufacturing job growth, a major point of emphasis for the Trump administration, was barely positive.

Real wages are rising, helping sustain consumer spending at a decent, albeit softening clip. This is, however, skewed to the higher end of the income scale, as the multi-month contraction in revolving consumer credit shows pressure on lower income consumers. The Conference Board's Leading Economic Indicator fell in June, triggering a recession signal. Most indicators we watch are more mixed and some have improved lately. Money supply is growing and with the tax cuts contained in the One Big Beautiful Bill consumers

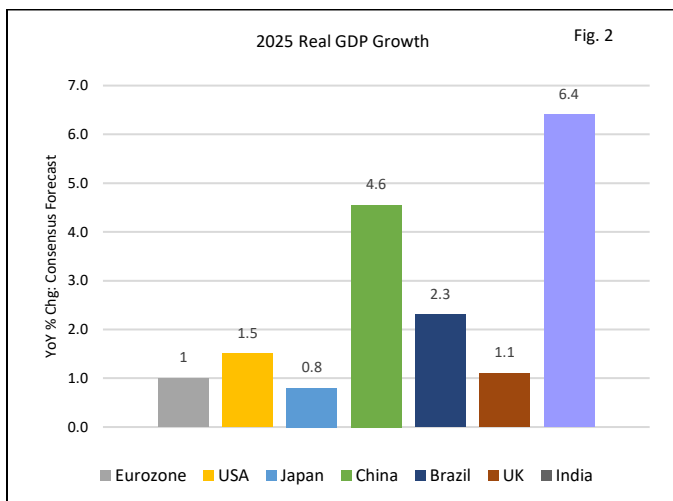
### MARKETS – OVERVIEW



and businesses should feel better about the future. Though it hasn't happened yet, tariffs are likely to show some teeth before the end of the year. If we can absorb a mild inflationary impulse without interest rates surging -the 10-year treasury note ended the first half at 4.23% - both the economy and stock market should perform well.

Global publicly traded stocks topped the leaderboard in 2025's first half, but the composition of leadership was quite different from years past. A dramatic shift in equity investor's appetite saw capital leave the US -contributing to a -10.7% 1H drop in the USD – and flow to international markets. The Bloomberg World Ex-US Index gained 17.1% through June versus 6.2% for the Bloomberg 1000 Index. Global bonds also did quite well, benefitting from capital flows, dollar depreciation, and interest rate cuts, while Private Debt was hurt by outflows.

Real Estate and Commodities had a respectable 1<sup>st</sup> half, but dispersion was high within the latter. Oil, industrial metals and agricultural products were weak, while precious metals continued their impressive run. Gold jumped nearly 26% and was finally joined by Silver, up just shy of 25%. Central banks continue to be large gold purchasers, fueling speculation that the world is moving away from the USD as the global reserve currency. That is likely a stretch for several reasons in the near term, but in a multi-polar world where natural resources are becoming increasingly important, some countries are looking for ways to reduce their dependence on the USD.





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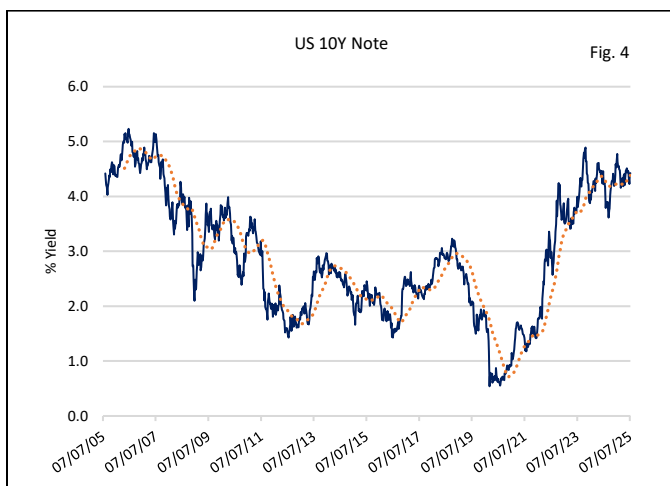
### FIXED INCOME – GOV'T

Benchmark 10-year U.S. Treasury rates continued to trade in the mid-4% range for the first half of the year. This single-point stability belies the significant changes taking place on the wings of the curve, where the steepener trade (short rates down, long rates up) mentioned in our last roundtable continues unabated.

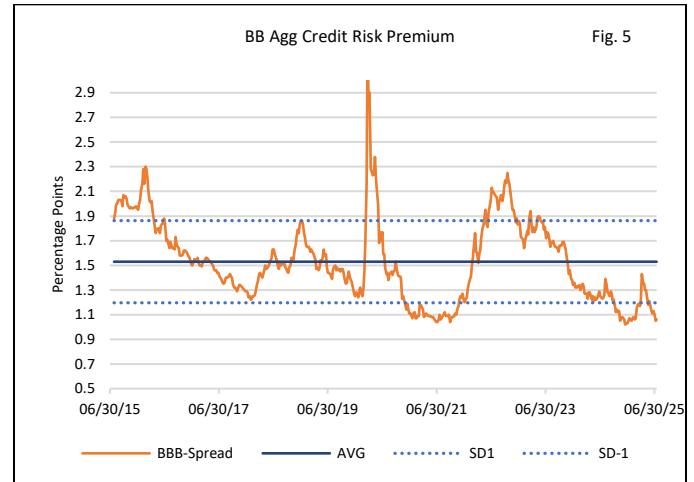
On the short end, the market is still confident that the Federal Reserve will resume interest rate cuts in the second half, especially with urging from the White House. However, that is likely dependent on further benign inflation data. On the long end, investors remain concerned about the sustainability of large deficit spending and the sheer amount of supply that needs to be absorbed. The difference between the yields on the 2-year and 30-year U.S. Treasuries has doubled since the end of 2024.

Now that the stimulative budget reconciliation bill has been signed into law, we hope that the Federal Reserve will show a fair degree of caution when it resumes its cutting cycle. We think that an overly accommodative Fed, coupled with tariffs and a stimulative fiscal policy, could lead to a resurgence in inflation. This outcome would put further pressure on long term Treasury yields.

We continue to like the intermediate part of the curve as a place where investors can earn an acceptable level of coupon income with a limited risk of significant price volatility. Like all other risk assets, corporate credit spreads



### FIXED INCOME – CREDIT



were liberated from their post-crisis tights when the Administration introduced their tariff plan in April. The short-term spike quickly reversed as the “pause” that came a week later calmed market fears and allowed investors to quickly jump back into the risk pool. Corporate credit spreads are now tighter for the year amidst seemingly insatiable investor demand.

We continue to prefer being close to neutral on corporate credit exposure, though we would lean tactically overweight in the short term. A stimulative federal government, an accommodative central bank, and healthy corporate balance sheets create an environment where it is hard to bet against credit. Away from corporate bonds, we still see value in the securitized products (i.e., mortgage and asset-backed) sector of the investment-grade markets where spreads are appreciably wider on higher-quality securities.

Investors have grown complacent around the unending headline bombardment from the West Wing. While we do not expect a replay of Liberation Day, we do not think another dramatic tariff plan is out of the question. Therefore, we would still be cautious about being fully risk-on, even with the widespread bullish sentiment prevailing in markets today. On the macroeconomic front, we continue to evaluate the pace of private sector job gains for any signs of significant deterioration that would prompt more aggressive Fed action.



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### EQUITIES –US RETURNS

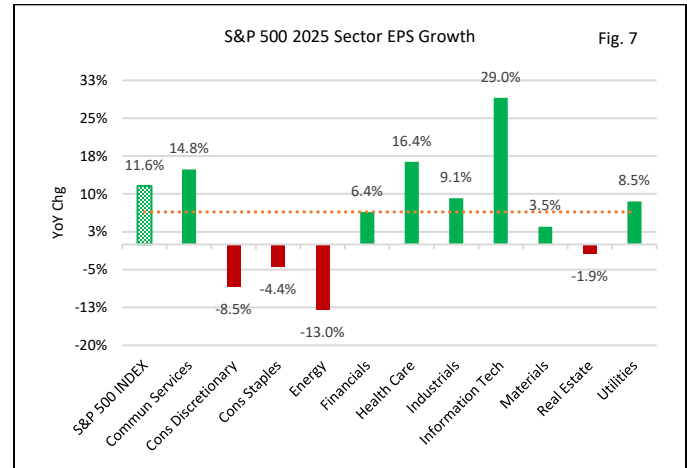
The S&P 500 Index was up 6.2% on a total return basis in the first half of 2025, though the path was anything but smooth. After peaking in mid-February large cap stocks sold off reflecting concerns about the size, timing, and ultimate impact of upcoming tariff proposals, with the index price down almost -7% from the high and -3.6% YTD by “Liberation Day”, April 2<sup>nd</sup>.

Following a brief plunge, stocks reversed up on the announcement of a “pause” in tariff implementation and it was off to the races for large caps. Small cap stocks fared considerably worse, peaking in November of 2024 and falling -16.5% by April 2<sup>nd</sup>. They did not, however, rally back to notch new highs and finished the first half with a negative absolute return. The Russell 2000 Index was down -1.8% while the Bloomberg 2000 Index lost -3.0%.

The market showed signs of broadening in the first quarter, with 62% of S&P 500 constituents outperforming the benchmark’s -4.28% return. Slightly less than half (47%) had a return greater than zero. The rally that began in April saw a return to concentrated market leadership, however. The S&P 500 Index gained 10.6% on a price-only basis, but less than 30% of constituents outperformed while 41% had a negative absolute return. Were it not for a 9.6% gain for Nvidia shares the benchmark would not have hit a new all-time high in the final week of the quarter.

The top performing sectors in the first half included Industrials and Communications Services, with the former led primarily by big gains in aerospace and defense stocks.

### EQUITIES – US METRICS

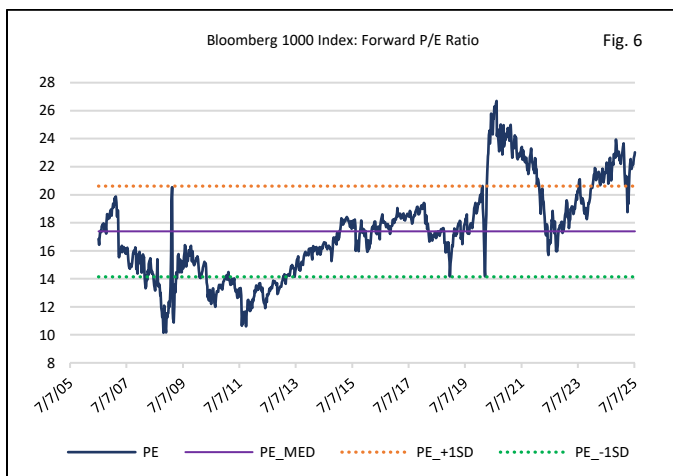


Information Technology, with the highest projected earnings growth in 2025, also outperformed. Consumer Discretionary and Healthcare finished the first half in the red. The former has many companies significantly exposed to tariff risk, while the latter faces increased regulatory risk under HHS Secretary JFK Jr.’s watch.

Aggregate valuation metrics among large cap stocks continue to place the market in a high-risk zone, historically speaking, and argue for only modest long-term returns. While S&P 500 forward PE Ratio is well below the high reached in 2020, it is back to 2 standard deviations above the 20-year average and essentially where it was at the start of the year.

Valuation, in and of itself, is not sufficient to prompt a decline in stock prices. Fortunately, the earnings outlook is improving. Estimates for both 2025 and 2026 bottomed in May and have been creeping higher over the past several weeks, with an expanding number of upward revisions at both the sector level and among individual companies.

For now, large cap growth stays in control. But a stronger economic backdrop would help drive more widespread corporate profit growth and be favorable for small caps and value stocks on a relative basis. In fact, we are beginning to see signs of life among cyclicals, which tend to be more value oriented. Broader price participation across sectors would signal a healthier market environment, supporting further equity gains.



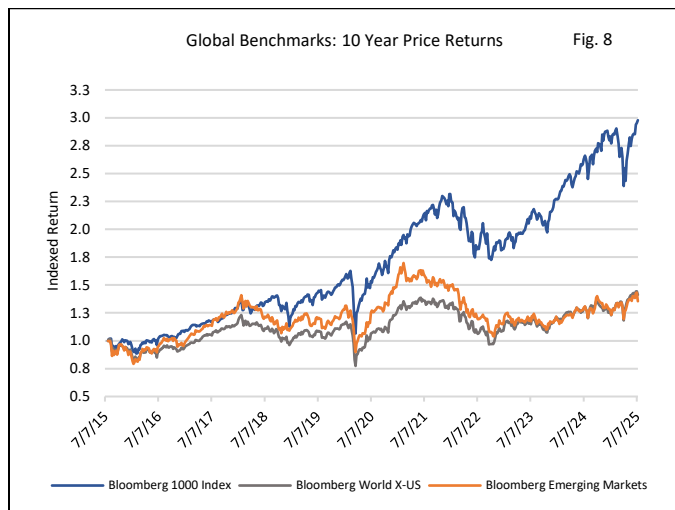
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### EQUITIES – INTERNATIONAL RETURNS

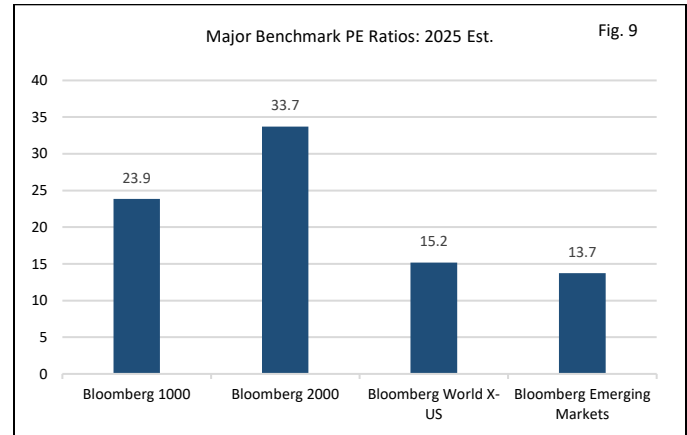
International equities continued their rally in the first half of 2025, building on momentum from late 2024, but with critical regional divergences. While overall returns have been strong, the pace of gains has moderated amid evolving geopolitical dynamics, divergent central bank policy paths, and currency fluctuations. The rally was fueled by stronger-than-expected global economic resilience, easing inflation pressures across Europe and Asia, as well as a sharp rebound in manufacturing activity, particularly in export-driven economies.

Latin America stood out in the first half of 2025, delivering a return of +26.5%, driven by robust performance in Financials (+47.7%) and Utilities (+42.3%). Fiscal reforms in Brazil and resilient consumption trends in Mexico underpinned the rally. Despite notable currency volatility, particularly in the Brazilian Real, local equity market strength helped offset foreign exchange headwinds.

Europe ex-UK also posted an impressive performance, gaining +25.7%, with broad participation across all sectors. The rally was driven by Utilities (+42%), Financials (+41%), and Industrials (+25%) as the region benefited from robust energy infrastructure investment and a rebound in cross-border manufacturing. Notably, Spain and Germany were key contributors, rising by +42% and +37% respectively. Both countries cumulatively hold a 7.7% weight in the benchmark.



### EQUITIES – INTERNATIONAL METRICS



China lagged the Bloomberg World Ex-US, returning +13%, as weak domestic consumption, ongoing instability in the property sector, and underwhelming stimulus efforts weighed on sentiment. However, the country experienced a modest recovery following a deep sell-off earlier in the year, as sentiment improved on renewed enthusiasm for domestic innovation. DeepSeek's breakthrough AI news briefly lifted tech-related names. Japan also lagged the benchmark with a +10.4% return, as equity gains were partially offset by a stronger yen, despite a favorable domestic earnings and reform backdrop.

In contrast, South Korea posted strong gains (+37%), supported by a sharp rebound in semiconductor exports and improving investor sentiment following the April parliamentary elections, which signaled better political stability and potential policy support for key industries. Across the broader EM Asia region, Indonesia (-4.28%), Thailand (-8.5%), and Macao (-6.9%) all recorded negative returns, largely due to weak external demand, capital outflows, and country-specific policy uncertainty.

The first half of 2025 marked a significant shift in global equities, with international markets outperforming US equities by a substantial margin. Supportive monetary conditions and investor rotation into undervalued regions fueled broad-based gains. Looking ahead, the path remains constructive but uneven, with geopolitical tensions, inflation persistence, and currency volatility likely to shape market direction in the second half of 2025.





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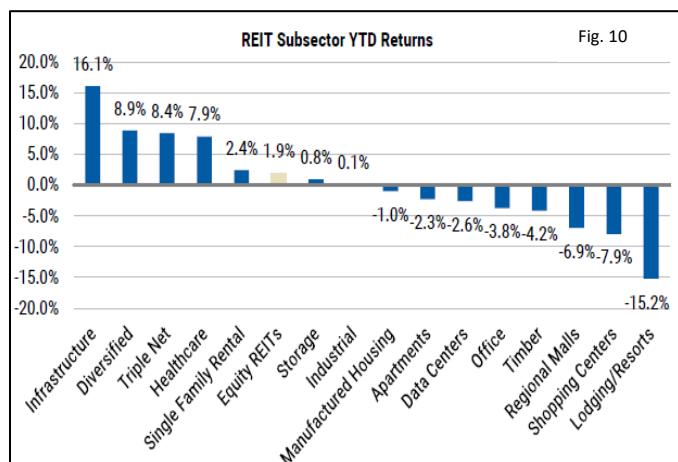
### REAL ESTATE – RETURNS

After a weak start for 2025, REITs outperformed the S&P 500 Index post-Liberation Day but still fell short of the S&P 500 in the first half of 2025 with a return of +1.9%. Based on the June Nareit meeting in NYC, sentiment in the REIT sector is cautiously optimistic, given well-capitalized balance sheets and opportunities to acquire assets at below replacement costs. However, a hawkish Federal Reserve and higher treasury yields kept the cap rate elevated above 6%, constraining valuations.

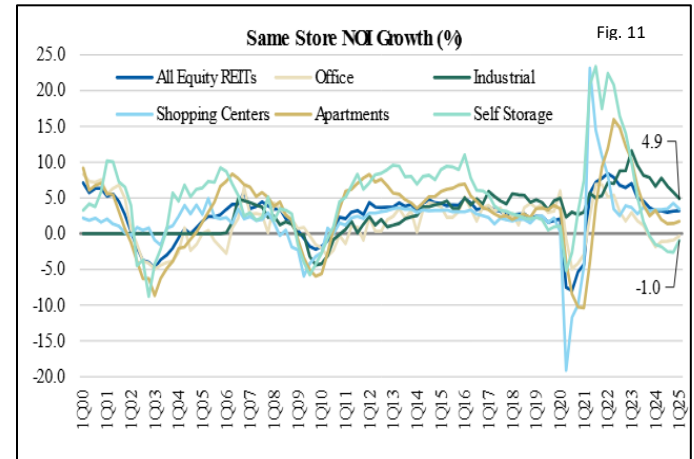
Same-Store NOI growth generally outpaced inflation, driven by robust performance from Industrials and Shopping Centers, while Self-Storage and Office NOI growth lagged. Equity market performance didn't quite match that of NOI. Industrials were affected by tariff concerns, and Shopping Centers, generally defensive, saw total returns below the broader REIT sector.

Office REITs face ongoing challenges, with national vacancy rates remaining high at 18.2% during 1Q25, over 40 bps higher YoY. However, the drop in construction starts helped to stabilize vacancies, and net absorptions have been trending positively as Office looks poised to inflect. Nonetheless, this high-beta sector posted a -3.8% gross return YTD.

Leasing momentum is emerging in NYC and Sunbelt markets, but recovery on the West Coast, particularly in SoCal, is lagging. The Bay Area is showing early improvements due to AI-related hiring.



### REAL ESTATE – METRICS



The market consensus remains that there will be stabilization some time in 2H25 driven by recent leasing gains while occupancy rates are expected to trough in 2025-26. Office transactions reached \$19bn in 1Q25, up 56% YoY but still around 30% below pre-pandemic levels. The Cap Rate in the first half was 8.3%, flat from 2024. While REITs and institutional investors are back into the market, they are still net sellers. Private investors and corporate owner-users are now buyers of office properties.

Industrial REITs posted only +0.1% gain YTD, below the sector average reflecting mixed performance. Leasing decisions are slower due to macro uncertainty and rent growth in SoCal remains negative but rent and NOI growth remain positive as below-market leases signed in the pre-pandemic period continue to roll off. Development leasing remains challenging, while tariff concerns could further impact sentiment for Industrials in the near-term.

Industrial REIT transaction activity topped \$26bn in 1Q25, up 37% YoY. Investors are still chasing the pre-pandemic mark-to-market opportunities and pandemic-era deliveries with long leases featuring 3-4% annual rent escalations. Further out, prospective demand remains constructive as chronic trade and supply chain disruptions reinforce the need for inventory buffers and redundant logistics footprints. The re-shoring of manufacturing, infrastructure build-out, and e-commerce growth remain supportive for the segment long-term.



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### SOURCE DATA

Exhibit	Source
Figure 1	Bloomberg, KOCAA
Figure 2	Bloomberg, KOCAA
Figure 3	Research Affiliates (RA), Bloomberg
Figure 4	Bloomberg, KOCAA
Figure 5	Bloomberg, KOCAA
Figure 6	Bloomberg, KOCAA
Figure 7	Bloomberg, KOCAA
Figure 8	Bloomberg, KOCAA
Figure 9	Bloomberg, KOCAA
Figure 10	Morgan Stanley
Figure 11	Morgan Stanley



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**Figures 3, 10, Return Data**

<b>Asset Class/Segment</b>	<b>Index</b>
Global Stocks	MSCI ACWI
Global Bonds	Barclays Global Agg USD
Cash	US 3M T-Bill
Global Real Estate	S&P Global REIT USD Index
Commodities	Bloomberg Commodity Index
Private Equity	Equally Weighted returns for NB Private Equity Partners, Harborvest Global Private Equity Ltd, Solactive Private Equity Select Index, FTSE Private Equity Buyout Index
Leveraged Loans	Markit iBOXX Liquid Leveraged loans
Private Debt	Indxx Private Credit Index
Office	FTSE NAREIT Office Sub Sector Total Return
Hotels	FTSE NAREIT Lodging/Resort Property Sub Sector Total Return
Commercial Mortgage	FTSE NAREIT Mortgage Commercial Financing Sub Sector Total Return
Retail	FTSE NAREIT Retail Property Sub Sector Total Return
Industrial	FTSE NAREIT Sub Sector Industrial Total Return
Data Center	FTSE NAREIT Sub Sector Sata Centers Total Return
Self-Storage	FTSE NAREIT Self Storage Property Sector Total Return
Health Care	FTSE NAREIT Health Care Property Sector Total Return
US LBO	RA: US LBO Simulation
US Venture Capital	RA: US VC Simulation
US Long/Short Equity	Bloomberg Equity Long/Short Hedge Fund Index
Infrastructure	Alerian MLP Index

\*Europe, Middle East, Africa