Bitterroot
CAPITAL ADVISORS

CAPITAL MARKETS REVIEW

2025 Quarter 3

October 2, 2025

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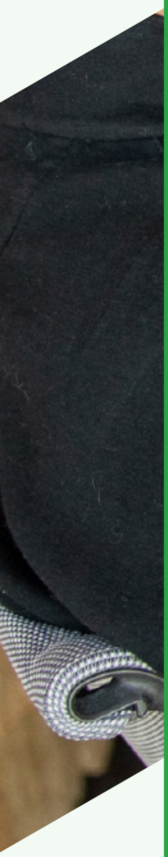
All public market data are as of September 30, 2025 unless indicated otherwise.



Executive Summary

Executive Summary

Both global equities and fixed income appreciated strongly during Q3 and continued their strong performance YTD. Tariff uncertainty abated significantly during the quarter with the impact on inflation and corporate earnings much lower than initially feared. US economic growth continued to rebound strongly following a Q1 lull, buoyed by resilient consumption and booming AI capex growth. However, the US labor market continues to cool faster than expected, which led the Fed to cut interest rates in September for the first time since December 2024. US inflation modestly accelerated over the last few months, but less than feared when tariff policy was first announced. Internationally, economic growth has stabilized in Europe and Canada, and the outlook appears brighter with significant fiscal policy spending likely to accelerate over 2026 and beyond

- Global equities (MSCI ACWI Index in USD) appreciated 7.6% in Q3 with strong performance across all major regions (+4.8% to +10.6%). Gains were attributable to abating tariff uncertainty, better than expected corporate earnings, and buoyant investor enthusiasm for AI-related themes. YTD performance improved to +18.6% with regional performance ranging from 14.5% to 27.4%.

- Fixed income (US Barclays Agg Index) appreciated 2.0% during Q3 (+6.1% YTD) with strong performance across both safe government and IG corporate bonds as well as riskier credit such as high yield bonds and leveraged loans. A combination of high coupon income coupled with price appreciation from declines in Treasury bond yields and modestly tightening spreads drove performance.

- Hedge funds appreciated 3.2% during Q3 (+5.7% YTD) with all strategies contributing positively. YTD, convertible arbitrage (+11.3%) and long-short equity (+8.4%) strategies performed best.

- Private real estate continues to stabilize in both performance and pricing demonstrating modest gains during Q2 (lagged reporting) and YTD. Rental demand remains strong for apartments and industrial sectors, but supply overhangs continue to restrain rent growth.

- Private credit appreciated 2.3% during Q2 (lagged reporting) and 4.0% YTD. Annualized performance of 8% is lower than the 10%-12% seen in recent years largely due to lower base rates. Credit quality remains solid although increasing liability management exercises and PIK income are worth monitoring as harbingers of potential credit issues down the road.

- Private equity appreciated 3.3% during Q2 (lagged reporting) and 4.6% YTD. The lag vs. large-cap public equities is due to lower exposure to technology and AI themes and a lack of true price discovery as portfolio company exits still remain below trend. Deal valuations have remained largely stable. Fundraising has been challenging with YTD 2025 activity 20% below comparable-period 2024 levels. On a positive note, dry powder peaked in 2024 and modestly declined in 2025. The IPO market has firmed during 2025, and investment bankers are reporting a significant surge in activity following weakness earlier in the year largely attributed to tariff uncertainty.

Despite the strong performance YTD and ebullient investor sentiment, several key risks remain:

- Equity valuations (especially in the US) are stretched, with high investor expectations for continued strong earnings growth.

- The S&P 500 has become increasingly driven by a small number of technology-related stocks with high exposure (40%+) to the AI theme.

- AI capex investment in 2025 is soaring with hyperscalers already spending $400bln+. Overall funding in capex has shifted towards debt financing rather than from free cash flow. Vendor financing has increased as well. This recent AI capex surge has drawn several parallels to prior technology capex bubbles.

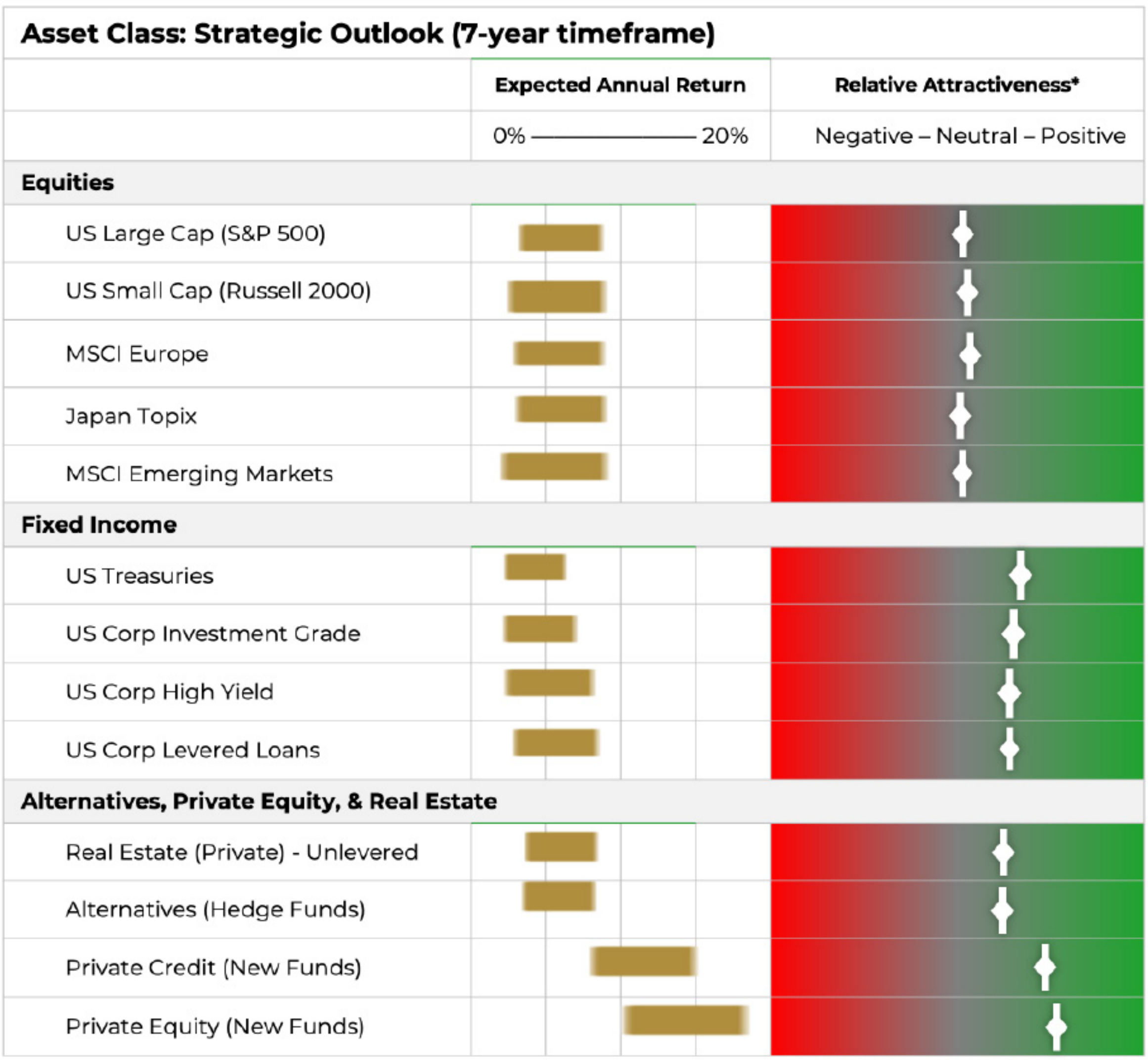
- Strong US economic growth has been largely driven by high-income consumers and buoyant AI capex spend. Lower income consumers continue to struggle, and labor markets have cooled significantly with extremely low job creation in recent months.

Strategic Asset Allocation (7-years)

- Public Equities
- Fixed Income
- Private Credit
- Private Equity

STRATEGIC ASSET ALLOCATION

Our 7-year forecasts consider several factors that will shape the mid-term investment landscape.



Note *: The attractiveness of each asset class (as depicted by the positioning of the sliders) is based upon riskadjusted returns when considering expected returns, volatility, and liquidity. Thus, US Treasuries with midsingle digit returns are shown as quite attractive given a low-risk profile whereas public equities are only rated modestly attractive despite their higher expected return as equities have much greater volatility.

Public Equities

- Expect mid-to-upper-mid SD annualized returns. Relative to prior quarters, we have slightly lowered our return forecast given higher initial starting valuations.

- Expect greater convergence between US and international equity returns given US markets' historically high valuations. We also expect more convergence between growth and value stocks given the relative elevated growth stock valuations.

Fixed Income

- Expect mid-single digit returns across both "safe" and riskier corporate credit".

- Returns largely driven by high initial coupons, expectations for future declines in base Treasury yields, coupled with spread widening from historically tight levels.

Private Credit

- Expect high-SD to low DD-returns for the asset class, with lower returns for sponsor-backed direct lending strategies and higher returns for asset-backed and specialty strategies.

- Going forward, we forecast lower base rates but slightly widening spreads.

Private Equity

- Expect low-to-mid-teens returns for new buyout funds with significant manager dispersion.

- For the broader mature segment of the industry, potential tailwinds include lower base rates, an improving exit environment, and better operational performance at portfolio companies (having navigated through supply chain and labor inflation).

Portfolio Positioning

- Public Equities
- Private Markets

Portfolio Positioning

We advocate clients express a long-term view in terms of building robust investment portfolios. Hallmarks include asset class diversification, consistent vintage year exposure to private investments where appropriate to augment LT expected returns, and tax efficiency.

Public Equities

- Valuations appear stretched and therefore we do not recommend adding exposure unless clients are building out public equity exposure through dollar cost averaging.
- For new money additions, consider diversifying away from AI themes given AI concentration in S&P 500. This may increase tracking error relative to market benchmarks but should reduce risk if the AI theme materially unwinds.
- For US clients, consider tax-loss harvesting strategies where capital losses can offset capital gains elsewhere (private investments, concentrated stock sales, significantly appreciated equities, or operating business liquidations).

Private Markets

We recommend that clients commit to private investment funds (largely drawdown) annually in a relatively consistent manner to ensure strategy and vintage year diversification. We highlight areas of focus:

- Lower middle market and middle market PE buyout: lower valuations, greater sourcing inefficiencies, and better opportunities for differentiated value creation strategies.
- Growth equity: valuations are much more compelling relative to 2021 and 2022, with better business models (mix of growth vs. profitability).
- Secondaries: Record high transaction volume with increased opportunity set for both LP and GP transactions. GP-led transactions continue to have attractive supply-demand characteristics.
- Niche private credit: Attractive opportunity set for bespoke capital solutions, asset-backed and specialty private credit strategies.
- Real estate debt – high SD to low DD returns for senior secured loans at low LTVs.
- Real estate Net REIT – modestly growing long-term contractual cash flows with potential for augmented returns through cap-rate compressions. High-SD to low DD expected returns with high tax efficiency for US clients.

Macroeconomic Conditions

- United States
- Canada
- Europe
- China

Macroeconomic Conditions

United States

After a 0.5% contraction in Q1 (due to front-loaded imports ahead of tariffs), the U.S. economy rebounded with 3.8% GDP growth in Q2. Economists have raised Q3 growth forecasts to 1.6% from 1.1%, though some models predict faster growth. Manufacturing PMIs remain soft but stabilized, while services activity supported the Q2 rebound.

Consumer spending strengthened, with high-income households driving gains (up 0.6% in August, 0.5% in July). High-income consumers have powered consumption gains while lower income households remain strained.

The labor market has cooled, averaging just 29K new jobs over the past three months. June saw a revised loss of 13K jobs—the first negative print since COVID. Despite slow hiring, layoffs remain low, keeping unemployment at 4.3%, supported by reduced immigration.

Inflation is trending modestly higher. Core PCE has risen 0.2–0.3% MoM, around 3% YoY. Tariff impacts have so far been milder than expected, but inflation risks remain. The Fed cut rates by 25bps in September (its first cut since Dec 2024) and projects two more cuts by year-end, bringing rates to 3.50–3.75%. One further cut is expected in 2026, though projections vary widely.

Canada

Preliminary data suggests Canada's economy is stabilizing after two weak quarters. July GDP rose 0.2%, and Q3 growth is tracking at 0.8% annualized—potentially reversing Q2's –1.6% contraction and easing recession concerns.

Consumer spending rose 4.5% in Q2 and remains resilient in Q3. However, business investment has been weak year-to-date. The labor market continues to struggle, with 65,500 jobs lost in August (mostly part-time), pushing unemployment to 7.1%, particularly in trade-exposed sectors.

The near-term outlook has improved as tariff impacts have been milder than expected. Exports and manufacturing sales have risen for three straight months, and housing markets are stabilizing. Government stimulus at both federal and provincial levels is expected to support growth. The Bank of Canada cut rates by 25bps in September to 2.5%, with more cuts likely ahead.

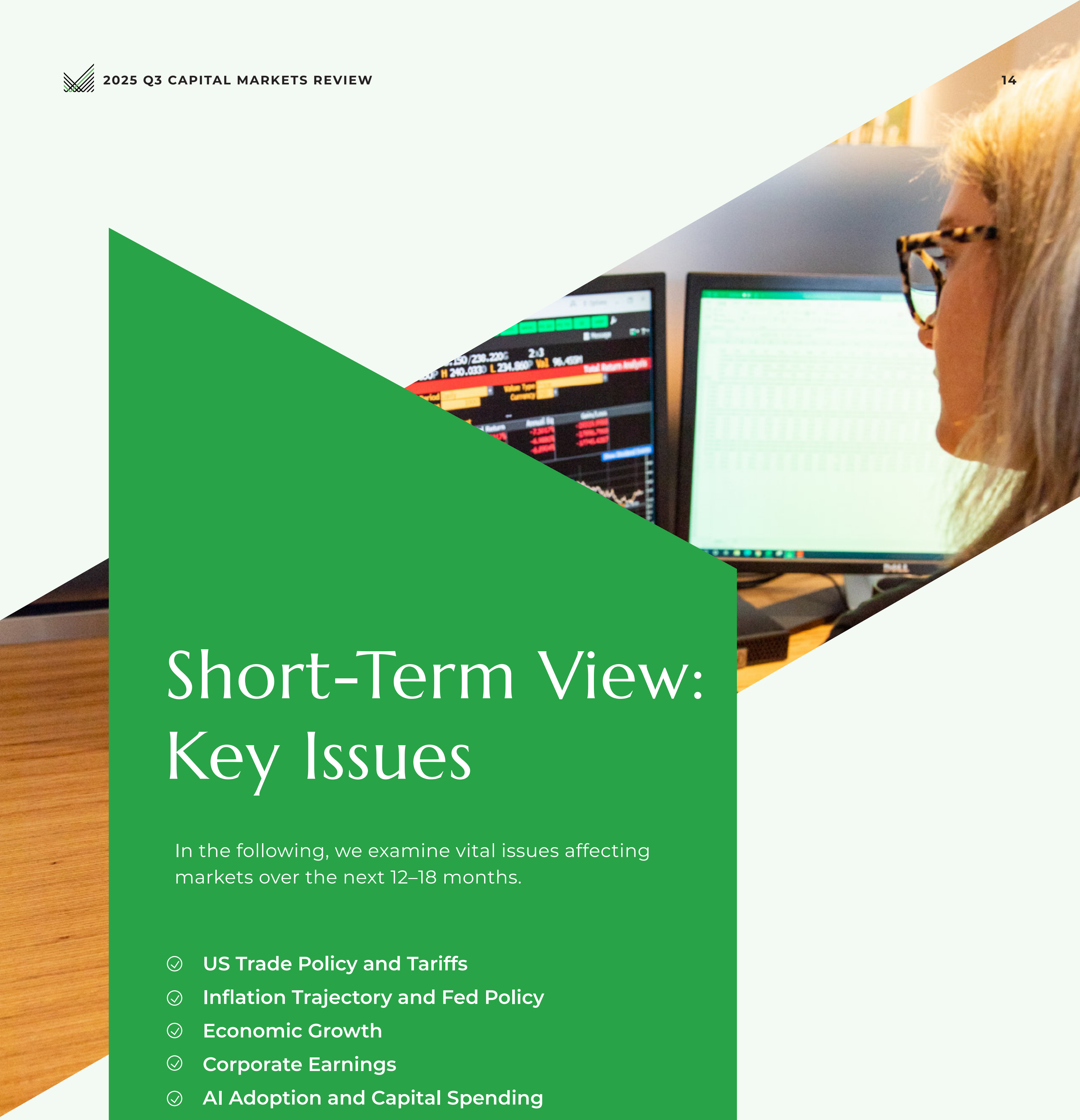
Europe

Europe is showing signs of a modest economic pickup in Q3 2025, led by manufacturing, but faces headwinds from global trade tensions and U.S. tariffs: particularly on exports to the U.S. Europe's resilient labor market is supporting domestic demand and unemployment is at record low levels. With inflation near target and strong employment levels, the ECB held interest rates steady in September after previously cutting rates in April and June.

Outlooks suggest slow GDP growth of 1.1% for 2025, but acceleration in the medium term due to private sector strength and increasing government spending on infrastructure and defense. The effect of tariffs remains to be seen, but thus far has been better than feared with the final tariff rate set at 15% vs. a 30% rate that was threatened during negotiations.

China

China's economy in Q3 2025 showed a mix of strong industrial output and exports but faced weak domestic demand, particularly in the property sector, leading to continued deflationary pressures despite government efforts to stimulate consumption. While the economy is on track with its annual growth target, growth momentum slowed after a strong Q1. Analysts expect a further deceleration in the second half of the year due to consumer spending front-loading, a struggling housing market, and elevated global uncertainty. The outlook depends on the success of ongoing, targeted stimulus efforts in restoring broader demand and managing trade tensions, with a gradual and potentially bumpy path to reflation.



Short-Term View: Key Issues

In the following, we examine vital issues affecting markets over the next 12–18 months.

- US Trade Policy and Tariffs
- Inflation Trajectory and Fed Policy
- Economic Growth
- Corporate Earnings
- AI Adoption and Capital Spending
- Potential for De-Dollarization and Move Away from US Assets

Issue #1: US Trade Policy and Tariffs

Thus far, tarriff impact has been much less than initially feared.

Tarriff uncertainty has abated significantly over the past several months. The Trump administration has reached frameworks surrounding trade deals with most major countries and regions. The overall US effective tariff rate (ETR) is roughly 15%, which is much higher than the 2% US ETR entering 2025, but is lower than initially feared. There is even some uncertainty as to whether many of the tariffs are legal (the US Supreme Court will decide in November 2025).

Inflation has modestly ticked up, but much of the tariffs seem to have been absorbed by goods producers or merchants and not end consumers. Contrary to initial expectations, the new US approach to tariffs has not unleashed a global trade war or shattered the world economy. Economists were initially forecasting a 0.5%-1.0% impact to global GDP In 2025 from the tariffs. This pessimism seems unjustified, with economists now forecasting a much more modest 0.1%-0.2% impact to global GDP.

Companies initially forecasted a significant reduction to 2025 earnings forecasts from tariff impact. However, in recent months, companies have moderated those assumptions and have generally raised 2025 guidance post Q2 earnings.

We caution that tariffs could still be unpredictable with additional sectoral levies likely. Additionally, legal decisions (upcoming Supreme Court ruling) could also add to uncertainty. However, it does appear that the ultimate impact is likely to be less than feared and that the administration is moving forward with other priorities.

Issue #2: Inflation Trajectory and Fed Policy

Thus far, tariffs have not had a material effect on inflation. However, the Fed is keenly watching the balance between the cooling US labor market and any potential resumption in inflation.

Core PCE inflation has modestly increased, rising 0.2–0.3% MoM and around 3.0% YoY in recent months. Tariffs have had less impact than expected, with corporations absorbing much of the cost. However, consumer prices could rise in late 2025 and early 2026 as pre-tariff inventories are depleted.

The Fed cut rates by 25bps in September and projects two more cuts in 2025, followed by one in 2026. Despite a wide range of views among Fed officials, current policy appears biased toward easing due to a cooling labor market, outweighing inflation concerns.

Issue #3: Economic Growth

Economic growth appears to be picking up after tariff driven uncertainty in H1.

U.S. economic growth has been uneven in 2025. Real GDP rose 1.6% in H1, with a Q1 contraction (-0.5%) followed by strong Q2 growth (+3.8%), largely driven by tariff-related import fluctuations. Consumption remains resilient, prompting economists to raise Q3 and full-year growth forecasts. New tax and deregulation policies are expected to support stronger growth in H2 2025 and into 2026. AI-driven capital expenditure—estimated at nearly $400B by major hyperscalers—is also a major growth driver, contributing to GDP on par with consumer spending.

The labor market has softened, with downward revisions to job gains, a slowdown in both hiring and firing, and a slight rise in unemployment. It's unclear whether this cooling will dampen consumption or if pro-growth policies and reduced tariff uncertainty will revive labor demand.

Globally, growth remains fragile but has recently stabilized, with modest improvements in the Eurozone and Canada.

Issue #4: Corporate Earnings

US corporate earnings have continued surprising to the upside and analysts have raised forecasts for 2025 and 2026 S&P 500 earnings.

S&P 500 earnings rose 12% YoY in Q2, exceeding expectations. Growth was driven by a 26% gain from the Magnificent Seven and 7% growth among the rest of the index. Strong H1 results have led to upward revisions in 2025 and 2026 earnings forecasts.

Looking ahead, key questions include whether AI-related firms—especially the Mag 7—can sustain high growth, and if non-AI sectors can accelerate. Analysts expect Mag 7 earnings growth to slow to the mid-teens in 2026, down from 20%+ in prior years. Rising depreciation from large-scale AI capex is a potential headwind. Additionally, if labor market weakness leads to layoffs, consumer spending and earnings across sectors could face pressure.

Issue #5: AI Adoption and Capital Spending

After a brief dip in early April, AI-related stocks have surged. YTD, the Magnificent Seven are up 19%, outpacing the S&P 500 (+14.7%) and the Equal-Weighted S&P 500 (+9.7%). Non-Mag 7 AI names like Broadcom, Oracle, and Palantir are up 43–140%, fueled by blowout earnings and growing investor enthusiasm for AI capex.

Massive capex is now embraced, with even new business models like the neocloud firms (Coreweave and Nebius) raising large amounts of debt to build AI-specific infrastructure and seeing explosive stock gains. Sentiment is reminiscent of past tech investment cycles. Bears draw parallels to the early-2000s internet/fiber bubble, warning of overcapacity and an eventual correction. Bulls liken the current trend to cloud infrastructure buildouts post-2012, which initially drew skepticism but led to massive long-term profits.

We believe AI-related capex is likely to result in overcapacity, as the economic benefits—through revenue growth or cost savings—may fall short of justifying the scale of investment. That said, the timing and likelihood of a market correction remain highly uncertain.

Issue 6: Potential for De-Dollarization and Move Away from US Assets

Capital flows for US assets remain strong, debunking, for now, the notion of a massive flight from US assets.

Investor concerns over a retreat from U.S. assets and resulting dollar weakness have eased. Demand for U.S. equities and bonds—both domestic and foreign—remains strong, and the USD has stabilized after sharp early-year declines.

Longer term, however, structural risks persist. U.S. foreign policy shifts, questions around Fed independence, and growing government intervention in private companies could gradually erode foreign appetite for U.S. assets.

Short-Term View: S&P 500 Scenarios

Given the considerable macro uncertainty surrounding tariffs, we discuss a range of scenarios below, with return percentages relative to the S&P 500's $6,688 September 30th closing price.

- **Scenario A: Base Case**
- **Scenario B: Optimistic Case**
- **Scenario C: Pessimistic Case**

Scenario A: Base Case

We assume that tariff rates remain at current levels. We also assume that the Fed cuts interest rates by 50bps over the remainder of the year and by at least 50bps in 2026. Inflation remains near 3.0% YOY through 2025 before moderating in 2026. AI capex continues to grow, although the YOY growth is lower in 2026 relative to 2025. We also assume that economic growth over the remainder of 2025 is inline-to-slightly better than H1 2025, before accelerating in 2026 as the effects from tax legislation and deregulation flow through.

We forecast S&P 500 earnings of $270-$275 in 2025, $290-$310 in 2026, and $315-$335 in 2027. Applying a 20x-22x earnings multiple to 2027 results in a target of $6,400-$7,300 range for the S&P 500, a total return of -3.2% to 11% over the next 12-15 months.

Scenario B: Optimistic Case

Businesses and consumers adjust to tariffs and display pent-up growth in 2026 and beyond. AI adoption accelerates and rapid AI capex growth continues and is rewarded by investors. We assume that inflation does not materially accelerate and the Fed cuts rates by 100bps over 2025 and 2026. Continued slow dollar weakness also adds to S&P 500 earnings growth. We anticipate that analysts' 2026 earnings accelerating to $300-$315 and 2027 earnings potential $330-$350. If multiples remain or slightly expand to 22x-24x EPS, we forecast the S&P climbs to $7,400-$8,300 by late 2026 (+12% to 25% total return from current levels)

Scenario C: Pessimistic Case

We assume that the AI capex plans once again face scrutiny as hyperscaler earnings fail to live up to lofty expectations. Inflation accelerates as tariffs are increasingly passed through to consumers. Labor weakness continues with job growth turning negative with increasing white-collar job loss. High-income consumers pull back on purchases as the macroeconomic climate becomes more negative. Analysts slash earnings estimates for 2026 and 2027. While accelerating rate cuts may mitigate the severity of market declines, we anticipate the S&P 500 declining by 15%-25% under this scenario.

Given the many conflicting signals, the continued uncertainty about tariff impacts, and the massive influence of AI exposure within the S&P 500, it is difficult to place probabilities with regards to any of the scenarios unfolding.

The Magnificent Seven now accounts 35% of the S&P 500 index. Including other AI bellwethers, the AI theme accounts for at least 40% of index exposure. Given full valuations and high expectations for many of these stocks, investors may wish to add equities diversification to other US sectors or to international markets.

Asset Class Reviews

- Public Equities
- Fixed Income
- Alternatives & Private Investments

Public Equities

Performance

	% Return YTD 9/30/25	Total Returns (%) - USD Qrt 9/30/25	Annualized Returns 9/30/25 1Y	3Y	5Y	7Y
US Large Cap (S&P 500)	14.5%	8.0%	17.1%	24.4%	15.9%	13.9%
US Small Cap (Russell 2000)	10.4%	12.4%	10.8%	15.2%	11.6%	6.8%
MSCI EAFE	25.1%	4.8%	15.0%	21.7%	11.1%	7.7%
MSCI Emerging Markets	27.5%	10.6%	17.3%	18.2%	7.0%	6.2%
MSCI ACWI	18.4%	7.6%	17.3%	23.1%	13.5%	11.3%
S&P 500 - Equal Weight	9.4%	4.7%	7.2%	15.7%	13.3%	10.1%
MSCI ACWI - Equal Weight	21.0%	7.6%	12.8%	15.9%	8.2%	6.3%
US Style Factors						
MSCI US Quality	11.3%	6.1%	10.6%	26.8%	15.0%	15.0%
Russell 1000 Growth	17.1%	10.5%	25.3%	31.3%	17.3%	17.8%
Russell 1000 Value	11.1%	5.2%	8.8%	16.2%	13.1%	8.8%

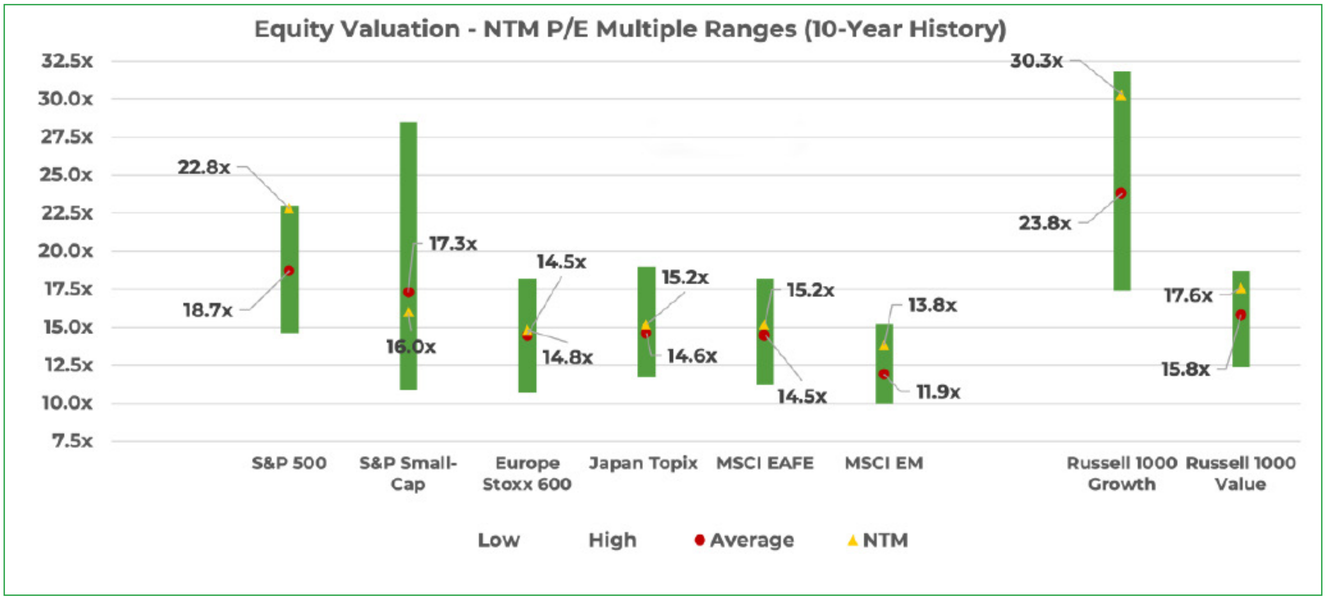
Key Observations

- In Q3, all regional equity markets performed well as tariff uncertainty abated materially and most central banks enacted monetary policy easing.

- In Q3, US growth stocks (+10.5%) substantially outperformed US value stocks (+5.2%) driven by higher exposure to AI-related technology stocks.

- YTD, international stocks have significantly outperformed US stocks in USD terms, with outperformance driven by a) investor perception that international equities will be less impacted by US tariff policy relative to US stocks, b) less demanding valuations for international stocks entering the year relative to US stocks, and c) favorable currency translation for international developed stocks as the US dollar index has declined by 11% YTD vs. a basket of major currencies.

Valuation



Key Observations

- US Large Cap equity valuations (S&P 500) are near recent peak levels (although remain lower than the 27x P/E reached during the dot-com bubble). Growth stock valuations (particularly those exposed to AI) are trading at near decade high valuations (similar to YE 2021), and these stocks may be vulnerable to pullbacks should AI capex sentiment sour or if underlying earnings disappoint lofty expectations.
- International developed markets are valued more reasonably relative to history. However, emerging markets are now trading at a meaningful premium and will need stronger earnings growth to materialize to support these valuations.

Fixed Income

Performance

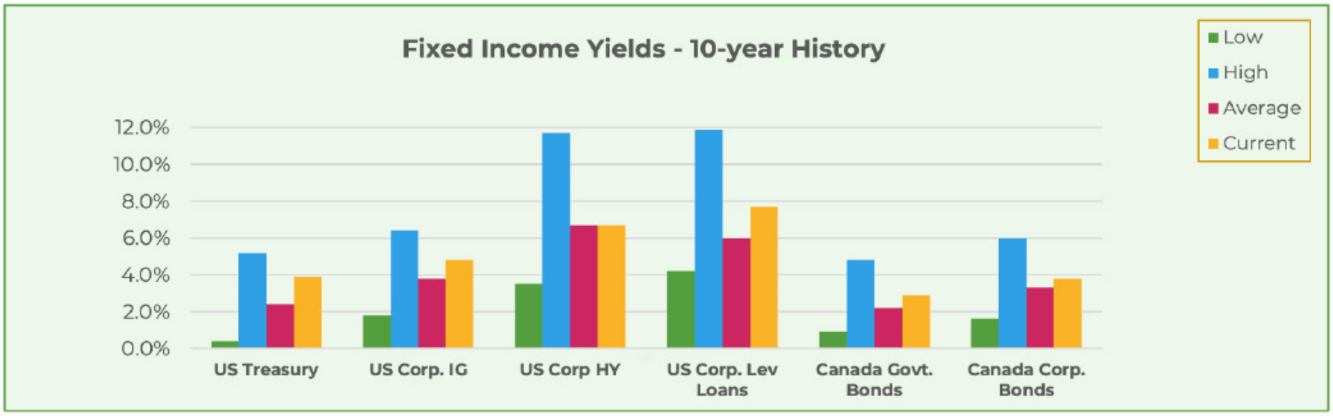
	% Ret YTD 9/30/25	% Ret Qrt 9/30/25	Annualized % Returns 9/30/25 1Y	3Y	5Y	7Y	Duration (yrs)
US Treasury	5.4%	1.5%	2.1%	3.6%	-1.3%	1.6%	5.9
US Corp. IG	6.9%	2.6%	3.6%	7.1%	0.3%	3.1%	7.0
US Corp HY	7.2%	2.5%	7.4%	11.1%	5.5%	5.3%	3.1
US Corp Lev. Loans	4.6%	1.8%	7.0%	9.8%	7.0%	5.5%	NA
Barclays US Aggregate	6.1%	2.0%	2.9%	4.9%	-0.4%	2.1%	6.1
Barclays Canada Agg. *	2.7%	1.5%	2.7%	4.5%	-0.2%	2.1%	7.4

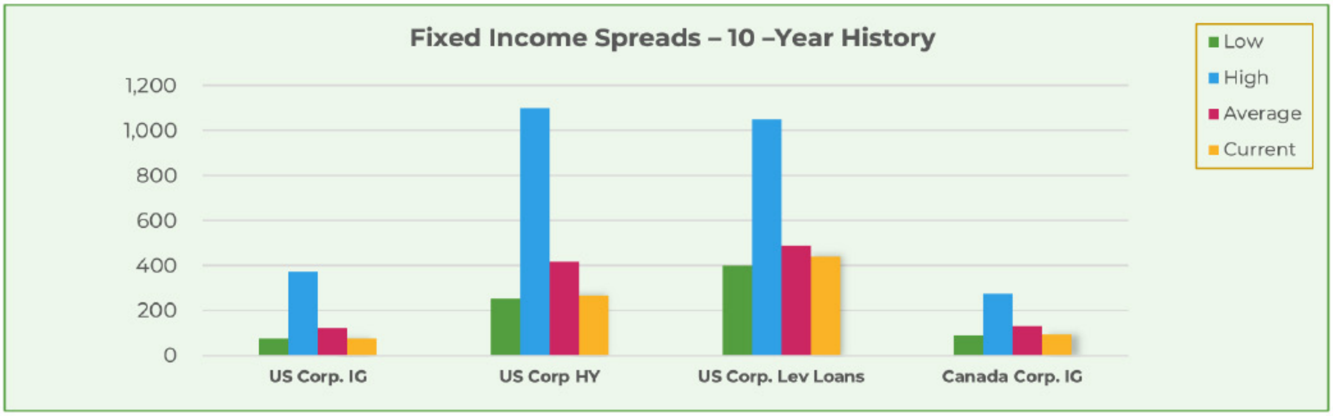
** Barclays Canada Aggregate Index returns in CAD*

Key Observations

- During Q3, government bonds appreciated strongly with performance driven by high coupon rates and US Treasury bond yields declining by 10bps-15bps across maturities.
- Credit benefitted from high coupon rates, declining bond yields (IG and HY bonds) and modestly tighter spreads.
- These trends have also positively impacted YTD performance.

Valuation





Key Observations

- Bond yields have declined by 15bps to 30bps across the US Treasuries curve with Treasuries yielding between 3.5% and 4.1% for most maturities (2-10 years). Leveraged loan yields will likely decline further as we project 100bps+ of Fed funds rate cuts over the next 12-18 months.
- Credit spreads are at all-time tight levels. While credit quality has remained strong, these spreads are far below those experienced during recessions.

Alternatives & Private Investments

Hedge Funds

Hedge funds (as measured by the HFRX Global Hedge Fund Index) were up 1.7% in Q2 and 5.7% YTD, with most strategies delivering positive performance. YTD, convertible arbitrage and long/short equity (+11.8% and +8.3%) performed best while global macro / trend following strategies performed worst (+2.6%).

Commercial Real Estate

Commercial real estate delivered flat to modestly positive performance during Q2 2025 (lagged reporting). On a YTD basis, pricing was generally up 1%-2% across most property types. Operating fundamentals remain mixed with apartment rents slightly down YOY due to still high supply offsetting strong demand, industrial market rents up 2.5% YOY with wide differences across locations and property types, and office rents relatively flat with stronger demand for high-quality assets in specific markets.

Private Credit

Private Credit (measured by non-traded BDC performance) increased by 2.3% during Q2 2025, slightly above Q1. YTD, performance is trending towards 8%-9% annualized returns, lower than 11%-13% achieved in 2023 and 2024 due to a combination of lower base rates and slight mark-to-market downward moves in loan carrying values. Credit quality remains solid with the percentage of loans in non-accrual status stable. However, the low headline default rate masks the increasing use of liability management exercises, which may lead to stress down the road. On the positive side, interest coverage ratios have modestly increased above 1.5x but remain well below the 2.5x+ levels seen in 2021). However, the percentage of income comprising paid-in-kind (PIK) rather than cash income has increased (8% in Q2 2025 vs 5.5% in 2022 and 2023), which could portend future credit issues.

In the sponsor-backed lending space, spreads range between SOFR+450 (large end of the market) to SOFR + 525-550 (lower middle market), down 100-150bps from peak spreads seen in mid-2023. Spreads remain wider for non-sponsor backed transactions.

YTD, fundraising is on track to modestly outpace 2024's $233bln level. While direct lending still accounts for the largest share of fundraising dollars, investors are increasingly allocating to asset-backed and specialty finance strategies where spreads are higher and less dry powder exists.

Private Equity

Preliminary data indicates the private equity returns rose 1.8% in Q1 (latest data due to lagged reporting). US PE Deal activity declined to $234bln in Q2 from $279bln in Q1 as volatile tariff policy and overall macro uncertainty led to a pause in new deal activity. However, YTD, deal activity is still up 60% YTD. Exits also declined sharply, with Q2 exit value of $119bln well below Q1's $221bln figure. However, exit value remained sharply higher than the quarterly levels of $50bln-$75bln seen through most of 2022 and 2023. Fundraising has slowed thus far in 2025, mirroring 2024's slowdown following three strong prior fundraising years.

The PE secondaries market represents a bright spot for deal activity with 45% YOY $ volume increases relative during Q1 2025 relative to Q1 2024. This buoyant activity follows a record $160bln year in 2024 in terms of transaction volume. Both the LP-led and GP-led segments of the secondary market are experiencing healthy demand. Pricing has recovered across LP-led deals, with younger, higher-quality portfolio interests trading in the low-to-mid-90s (discounts of 5%-10%). This recovery in pricing has led to a significant increase in secondaries brought to market, which enables smaller funds to hive off select LP fund interests where they see significant opportunities for continued value appreciation.

Venture Capital

Venture capital delivered 2.0% returns in Q1 according to the State Street PE Index.

- Q2 US VC deal activity at $70bln declined by 25% sequentially from Q1 2025's $93bln levels. However, deal count only declined by 2%. AI remains a dominant theme within VC with 2025 YTD deal value of $104bln equaling the full-year level for 2024. YTD, AI deals represent 64% of deal value, up from 49% for full-year 2024.
- At $68bln, Q2 exit activity improved by 31% vs. Q1's $52bln levels and has significantly improved from the $20bln to $40bln quarterly levels seen from 2022 through 2024.
- VC-backed IPOs have performed extremely well thus far in 2025 with the average stock up 137% and the median up 33%. Coreweave and Circle have been the notable star performers YTD.
- Signs of valuation froth are emerging with regards to AI venture deals. Outside of the AI sector, investor terms for new deals have become more favorable compared to the 2020-2021 period.

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