



QUARTERLY ASSET CLASS REVIEW:

NEPC Research

Third Quarter
2025

GLOBAL EQUITIES

Equities forged ahead in the third quarter propelled by technology and AI-driven stocks, and a powerful comeback staged by small-cap equities. During this period, the S&P 500 Index climbed 8.1% and small-cap stocks gained around 12%. For the three months ended September 30, the Russell 2000 Growth Index was up 12.2%, fueled by the surging popularity of artificial intelligence; the Russell 2000 Value Index added 12.6% driven by compelling entry point valuations as investors rotated into cyclical sectors, anticipating stronger economic growth and infrastructure spending.

Outside the U.S., emerging market equities led performance with gains of 10.6% in the third quarter, bolstered by strong performance in Chinese and Taiwanese artificial intelligence and semiconductor stocks. During this period, non-U.S. developed markets returned 4.8%, lagging behind due to their limited exposure to booming AI sectors and lingering uncertainty around economic policies.

Meanwhile, equity hedge funds also turned in a strong quarter with the HFRI Equity Hedge returning 7.2%. Following a robust second quarter, during which managers de-grossed and then re-grossed their portfolios, we observed continued buying with increasing gross and net exposures. Fundamental

Global Equity Market Returns as of 09/30/2025

Global Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI ACWI	7.6%	17.3%	23.1%	13.5%
US Equity	Quarter	1 Year	3 Yrs	5 Yrs
S&P 500	8.1%	17.6%	24.9%	16.5%
Russell 1000 Growth	10.5%	25.5%	31.6%	17.6%
Russell 1000 Value	5.3%	9.4%	17.0%	13.9%
Russell 2000	12.4%	10.8%	15.2%	11.6%
Russell 2000 Growth	12.2%	13.6%	16.7%	8.4%
Russell 2000 Value	12.6%	7.9%	13.6%	14.6%
International Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI EAFE	4.8%	15.0%	21.7%	11.2%
MSCI EAFE Hedged USD	5.4%	12.9%	16.9%	12.5%
MSCI EAFE Small Cap	6.2%	17.7%	19.6%	8.5%
MSCI Europe	3.6%	15.1%	22.9%	12.2%
MSCI Emerging Markets	10.6%	17.3%	18.2%	7.0%
MSCI Emerging Markets Small Cap	5.4%	8.3%	17.9%	12.5%
MSCI China	20.7%	30.8%	19.5%	0.4%
Alternative	Quarter	1 Year	3 Yrs	5 Yrs
HFRI Equity Hedge	7.2%	16.9%	10.0%	14.4%
HFRI Emerging Markets	8.4%	20.9%	9.0%	11.4%
HFRI ED: Activist	7.6%	9.5%	6.6%	15.3%
HFRI ED: Merger Arbitrage	3.4%	10.5%	6.8%	10.0%

Source: Internal NEPC, Factset, and Evestment

strategies generally participated in the equity market rally with particular strength among healthcare-focused and growth-oriented managers.

Additionally, Asia-focused long/short managers with exposure to Chinese technology stocks performed well. Quantitative managers lagged the broader market following a strong first quarter. Ongoing economic uncertainty and geopolitical turmoil will likely continue to provide long- and short-alpha opportunities for managers.

Elsewhere, fundraising for U.S. private equity remained subdued in the third quarter with \$214.4 billion raised compared to \$236.3 billion a year earlier, according to data from PitchBook. U.S. venture capital fundraising also declined to \$45.7 billion compared to \$65.1 billion a year ago. However, the number of closed private equity funds increased to 244, up from 220 last year, while venture capital fund closures stayed nearly flat at 376.

Deal activity in U.S. private equity surged, totaling \$869.4 billion in the third quarter, up from \$650.2 billion a year earlier. During this period, venture capital deal flow rose to \$250.2 billion compared to \$131.4 billion a year earlier. Although exits for private equity-backed companies have slowed since their strong start this year, they remain above 2024 levels, with \$516.2 billion across 1,251 exits versus \$303.3 billion across 1,034 deals. U.S. venture capital exit activity accelerated, reaching \$240.9 billion across 1,135 exits, up from \$68.9 billion across 938 exits last year.

GLOBAL FIXED INCOME

Fixed-income markets were generally in the black with lower yields and tighter spreads. The Federal Reserve cut rates by an expected 25 basis points while investors priced in additional future cuts over the next 12 months.

Global Fixed Income Market Returns as of 09/30/2025

Global Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
BBG Global Aggregate	0.6%	2.4%	5.4%	-1.6%
JPM EMBI Global Diversified	4.8%	8.5%	12.3%	2.3%
JPM GBI-EM Global Diversified	2.8%	7.4%	11.3%	2.3%
Domestic Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
BBG Aggregate Bond	2.0%	2.9%	4.9%	-0.4%
BBG Municipal Bond	3.0%	1.4%	4.7%	0.9%
BBG TIPS	2.1%	3.8%	4.9%	1.4%
BBG US Treasury	1.5%	2.1%	3.6%	-1.3%
BBG US Long Treasury	2.5%	-3.5%	0.4%	-7.8%
BBG MBS	2.4%	3.4%	5.0%	-0.1%
BBG US Credit	2.6%	3.6%	6.9%	0.3%
BBG US Long Credit	3.9%	1.0%	7.2%	-2.0%
BBG High Yield	2.5%	7.4%	11.1%	5.5%
BBG Muni High Yield	1.6%	0.2%	6.8%	2.9%
Morningstar LSTA Lev. Loan	2.0%	7.9%	10.4%	6.6%
BBG T-Bills	1.1%	4.4%	4.9%	3.0%
Alternative	Quarter	1 Year	3 Yrs	5 Yrs
HFRI Credit Index	3.5%	11.3%	7.4%	9.7%
HFRI ED: Credit Arbitrage	1.6%	8.6%	8.1%	10.7%
HFRI ED: Distressed/Restructuring	5.2%	12.3%	6.9%	12.6%
HFRI Relative Value	2.9%	9.5%	6.9%	8.8%

Source: Internal NEPC, Factset, and Evestment

Fed Chair Jerome Powell characterized the rate cut as a preemptive risk management measure to offset a potential economic slowdown amid increasing signs of weakness in the labor market. The move also underscored the central bank's shifting priority to bolster the labor market over its attempts to rein in inflation back to its target of 2%.

For the three months ended September 30, the yield on the 10-year Treasury note fell eight basis points to finish at 4.15% and the yield on the two-year note fell 11 basis points. Developed international sovereign bond markets lagged the Treasuries' 1.5% return over the quarter; during this period, Japan, the United Kingdom and Germany posted losses in local currency terms.

Spreads continued to contract, hovering around long-term tight levels. For the third quarter, high-yield spreads compressed 23 basis points to 267 basis points; during this period, spreads on investment-grade corporate debt ended nine basis points tighter at 74 basis points. The Bloomberg Aggregate Bond Index gained 1.09% in the third quarter, bringing year-to-date returns to 6.13%. During this period, the Bloomberg U.S. Corporate High Yield Index returned 2.54%, generating year-to-date gains of 7.22%.

REAL ASSETS

Commodities rebounded in the third quarter, with the Bloomberg Commodity Index up 3.6%, bringing year-to-date gains to 9.4%. An outlier, the WTI Crude Oil Spot fell 5.9% in the three months ended September 30, bringing year-to-date losses to 13.9%, as increased production outpaced global demand. Gold remained a bright spot, with gains of 16.8%. The S&P Global Infrastructure Index was up 3.7%, reflecting growing investor confidence amid evolving implications from tariffs and geopolitical events.

Real Asset Returns as of 09/30/2025

	Quarter	1 Year	3 Yrs	5 Yrs
Bloomberg Commodity	3.6%	8.9%	2.8%	11.5%
GSCI Commodity	4.1%	10.1%	4.7%	17.6%
Gold Spot	16.8%	46.4%	32.4%	15.4%
WTI Crude Oil Spot	-5.9%	-9.3%	-7.9%	9.3%
BBG Commodity - Agriculture	-0.8%	-4.0%	-3.0%	9.6%
BBG Commodity - Energy	-3.3%	0.8%	-11.7%	9.9%
BBG Commodity - Industrial Metals	0.2%	0.0%	5.9%	8.2%
BBG Commodity - Precious Metals	19.2%	44.7%	32.0%	14.3%
S&P Global Natural Resource Equities	9.5%	7.0%	10.7%	14.3%
NAREIT Composite Index	2.8%	-3.7%	8.5%	6.9%
NAREIT Global REIT Index	4.4%	-0.5%	10.0%	7.5%
Alerian Midstream Index	1.3%	21.4%	23.9%	28.8%

Source: Internal NEPC, Factset, and Evestment

Within private infrastructure, we continue to find attractive opportunities supported by strong deal flow and long-term trends in digital infrastructure, transportation and the energy transition covering the shift from fossil fuels to zero-carbon energy sources. Our preferred approach remains to diversify across real assets in the public and private sectors; we suggest private markets when it comes to implementing infrastructure and other real assets in an investment portfolio.

Meanwhile, private real estate delivered a modest performance in the third quarter with the NFI-ODCE Index reporting a 0.73% preliminary gross return, driven by income returns of 0.99%. Appreciation

returns entered negative territory at -0.26%, after a flat 0.01% return in the second quarter, signaling a slow recovery from two straight years of consecutive quarterly write-downs. Transaction volume is up year-over-year, but lenders and asset owners are proceeding with caution. Fundamentals remain stable but are highly dependent on specific sub-market locations. Some previously strong Southern U.S. apartment and coastal port industrial markets face high supply and slowing rent growth. Overall office vacancy is shy of 20%, though high-quality properties remain in demand, presenting select opportunities for investors. NEPC believes that real estate capital markets will continue their slow but steady recovery as investors gain clarity around the economy and broader capital markets normalize.

The FTSE NAREIT All Equity REITs Index rose 2.67% in the third quarter, reversing a 0.93% decline in the prior quarter. Gains were driven by stabilizing interest rates, improving fundamentals and optimism around REIT's earnings and transaction activity. Top-performing sectors included data centers fueled by AI demand, healthcare supported by strong senior housing trends, and retail/malls benefiting from consumer spending and low new supply. Apartment REITs underperformed amid rising vacancies and lower asking rents; cold storage REITs also lagged and are facing similar softening rent growth.

Given recent market dynamics, we encourage investors to remain disciplined and stick to long-term strategic asset allocation targets. We recommend investors maintain adequate liquidity for their cash flow needs, while taking advantage of opportunities to rebalance into equities and Treasuries.

Source: Internal NEPC, Factset, and Evestment

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