

The Shifting Landscape for Global Investments

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- The U.S. economy has grown faster than other developed economies over the last few decades
- Closely tied to the successful business sector, tech innovation, and hyper-scaler economy → the global expansion of the U.S. business sector
- Monetary and fiscal policy in the U.S. was increasingly accommodative, providing further tailwinds
- Despite low interest rates and loose fiscal policy, the U.S. dollar has appreciated significantly over the last 15 years
- U.S. policy was generally pro-globalization and pro-business

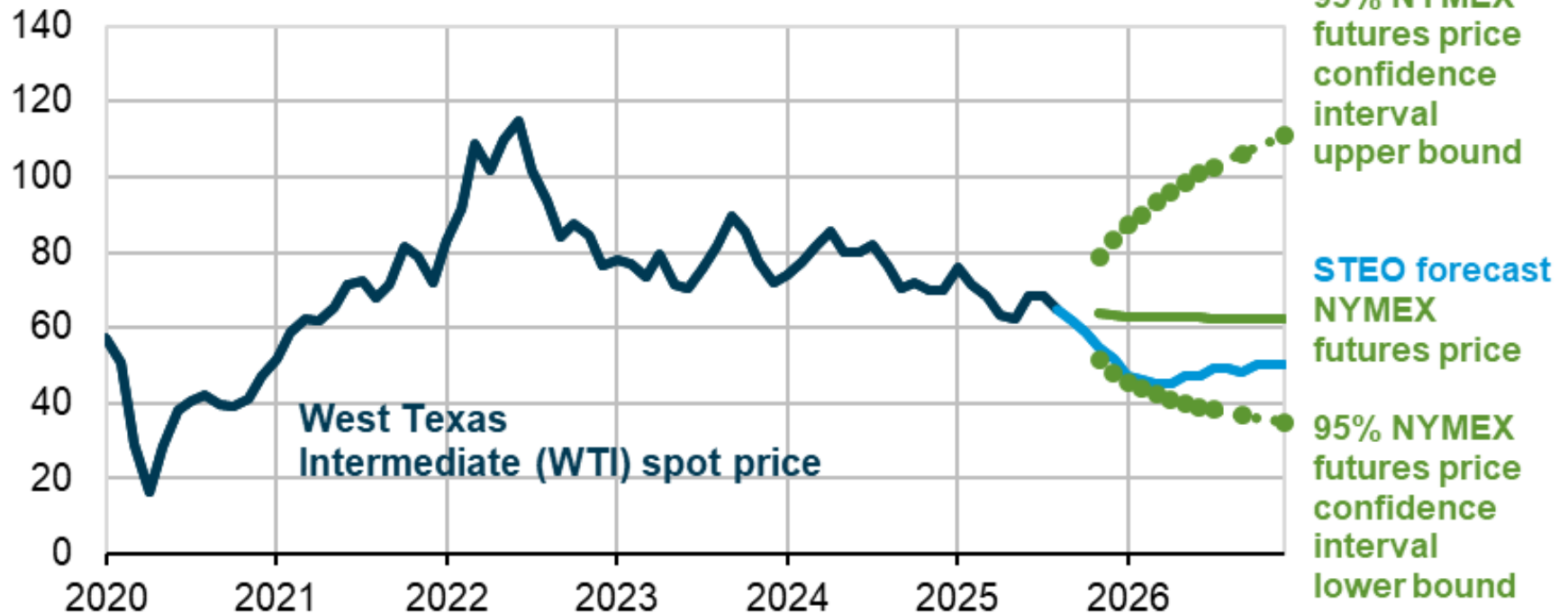
This may all be changing!

Example:

Energy Costs Forecast Risk

West Texas Intermediate (WTI) crude oil price and NYMEX confidence intervals

dollars per barrel



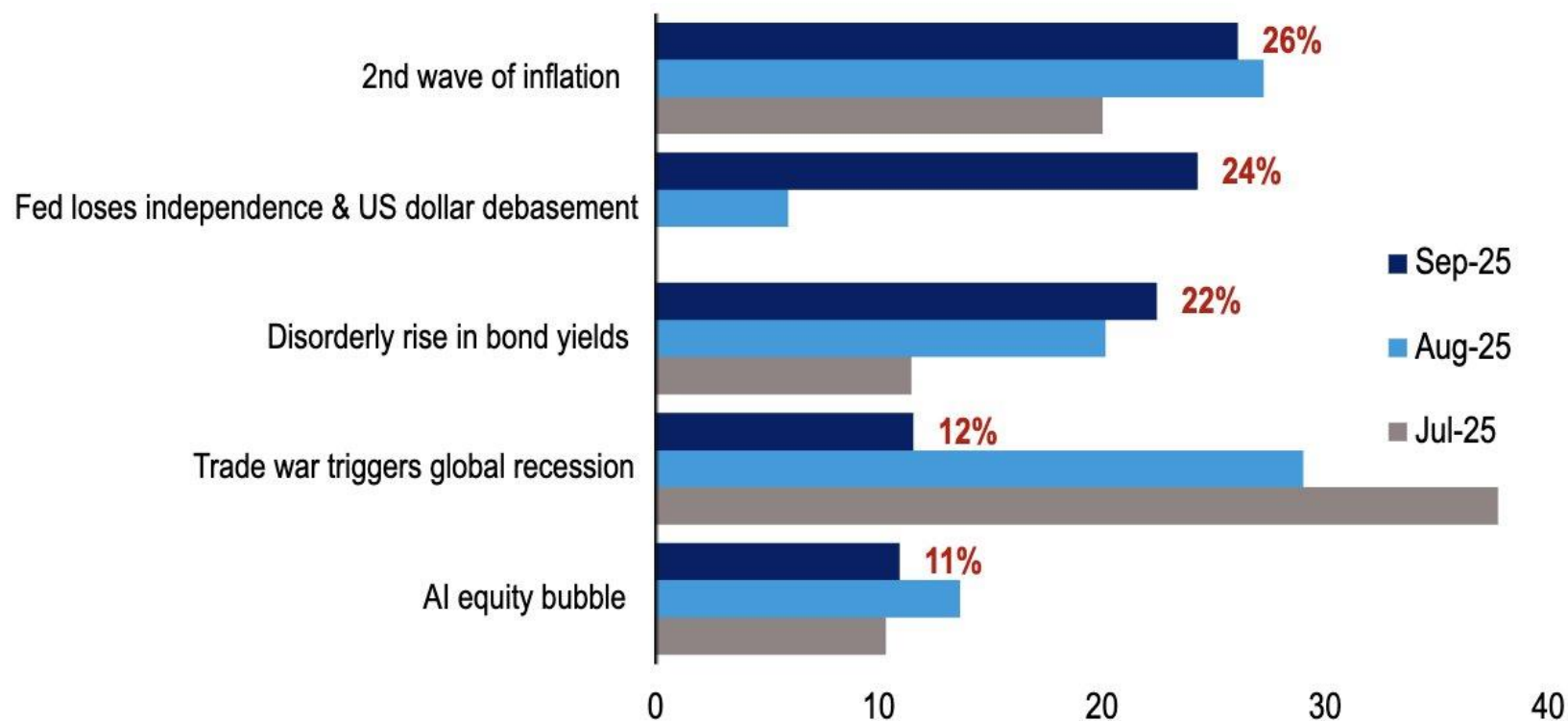
Data source: U.S. Energy Information Administration, Short-Term Energy Outlook, September 2025, CME Group, Bloomberg, L.P., and Refinitiv an LSEG Business

Note: Confidence interval derived from options market information for the five trading days ending September 4, 2025. Intervals not calculated for months with sparse trading in near-the-money options contracts.

“Tail Risks” Today?

Chart 8: 'Second wave of inflation' seen as the biggest 'tail risk'

What do you consider the biggest 'tail risk'?



Source: BofA Global Fund Manager Survey.

Possible Long-run Scenarios

Many possibilities, but here are some important issues being discussed regularly

1. Stagflation risk & Fed Independence

- Tariffs and a “Trump-Fed” lead to inflation, a slowing U.S. economy, and a further weakening of the U.S. dollar.

2. Fragmentation

- U.S. isolationism; Tighter European (and other developed countries) alignment; Russia-China-India – could freeze out the U.S. from beneficial trade

3. Decline of USD dominance

- The U.S. has benefited substantially in the post-WWII period, but some commentators fear that current policy/risks (like those above) threaten its dominance

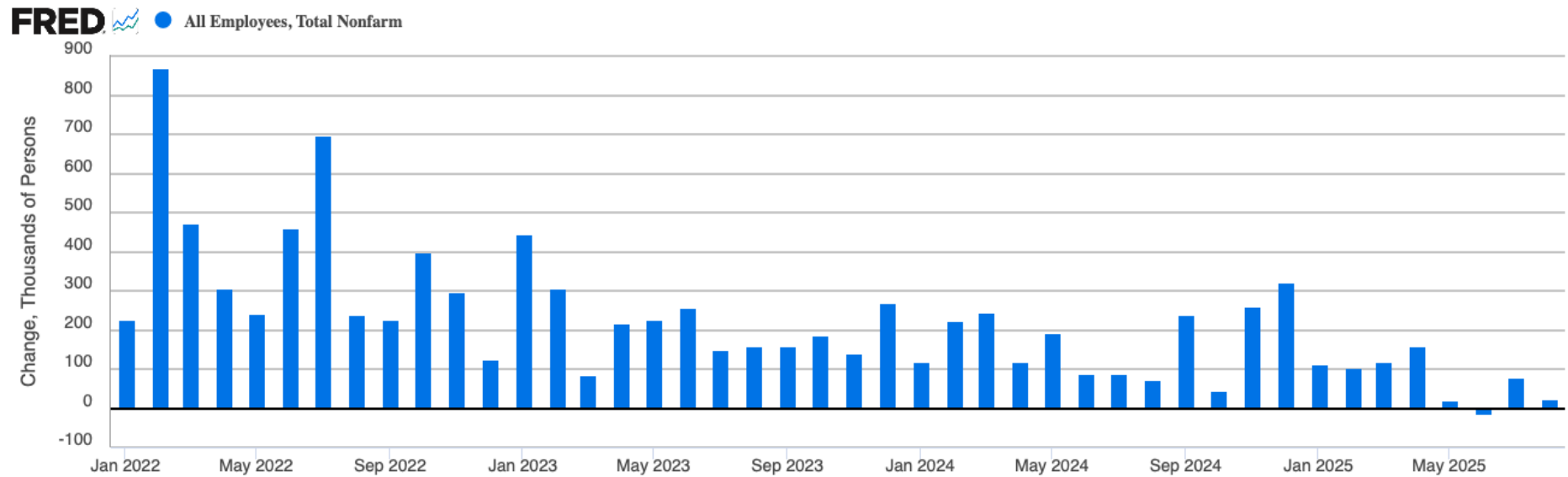
4. Fiscal irresponsibility

- The U.S. has been running unsustainable deficits forever. OBBBA is a continuation/institutionalization of these.

The Roadmap for Labor, Inflation, and Fed Policy

The Federal Reserve is navigating conflicting signals — labor markets, inflation, market expectations — without a clear map.

U.S. labor market is clearly slowing



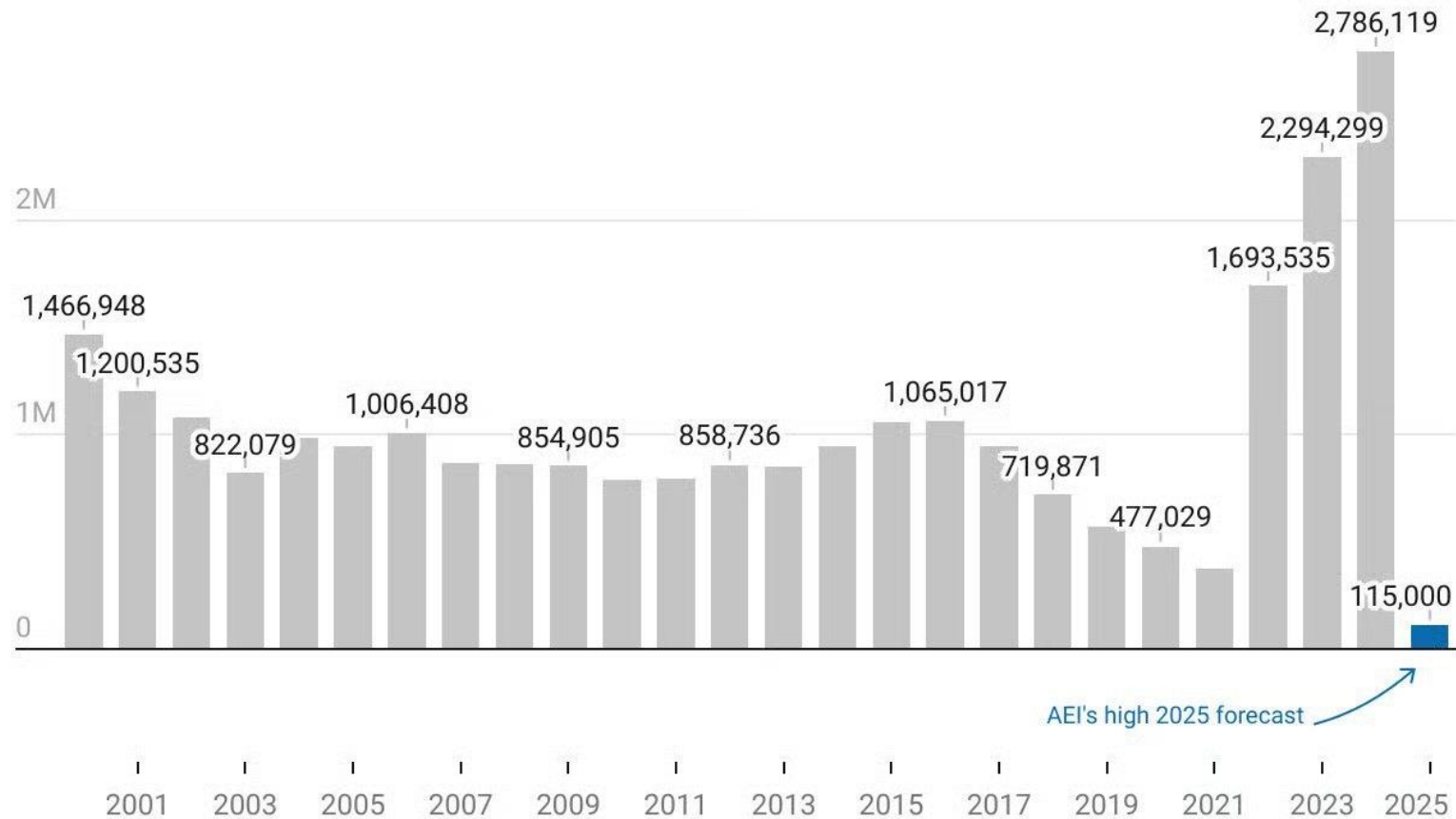
Source: U.S. Bureau of Labor Statistics via FRED®
Shaded areas indicate U.S. recessions.

fred.stlouisfed.org

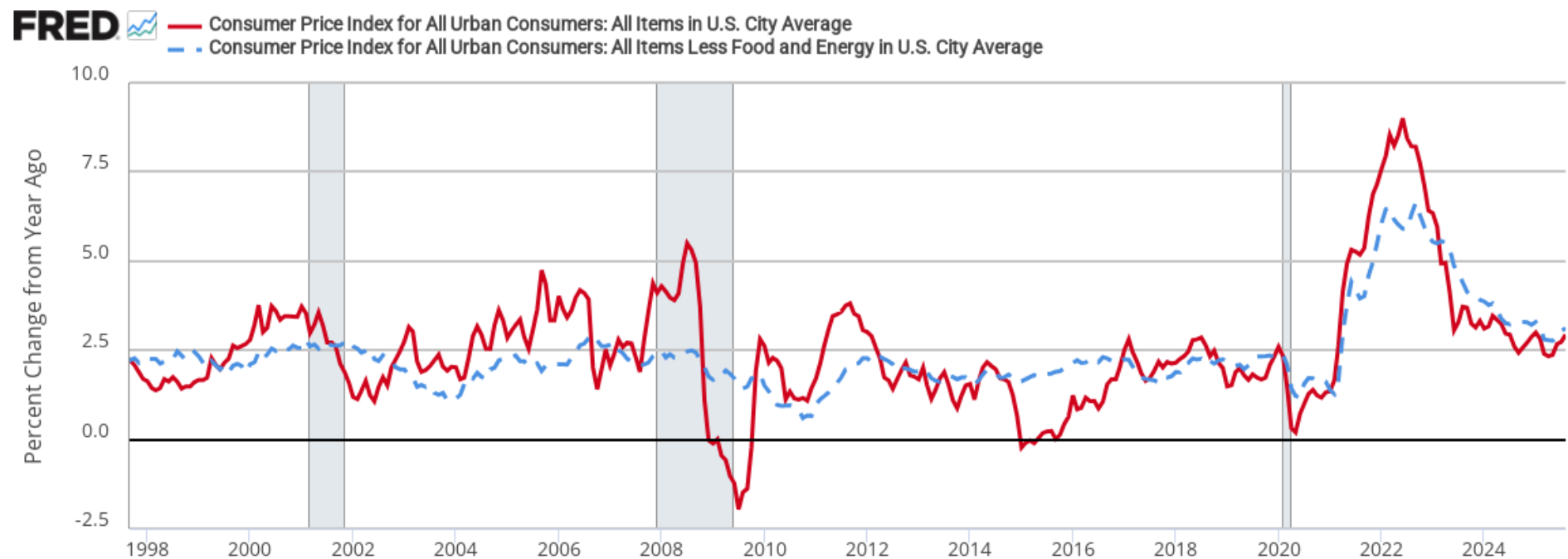
AEI's forecast range for net international migration in 2025

The shifts are from July to July. For example, 2024 = shift between July 2023 and July 2024.

AEI's high forecast for net international migration



Prices and inflation risks remain

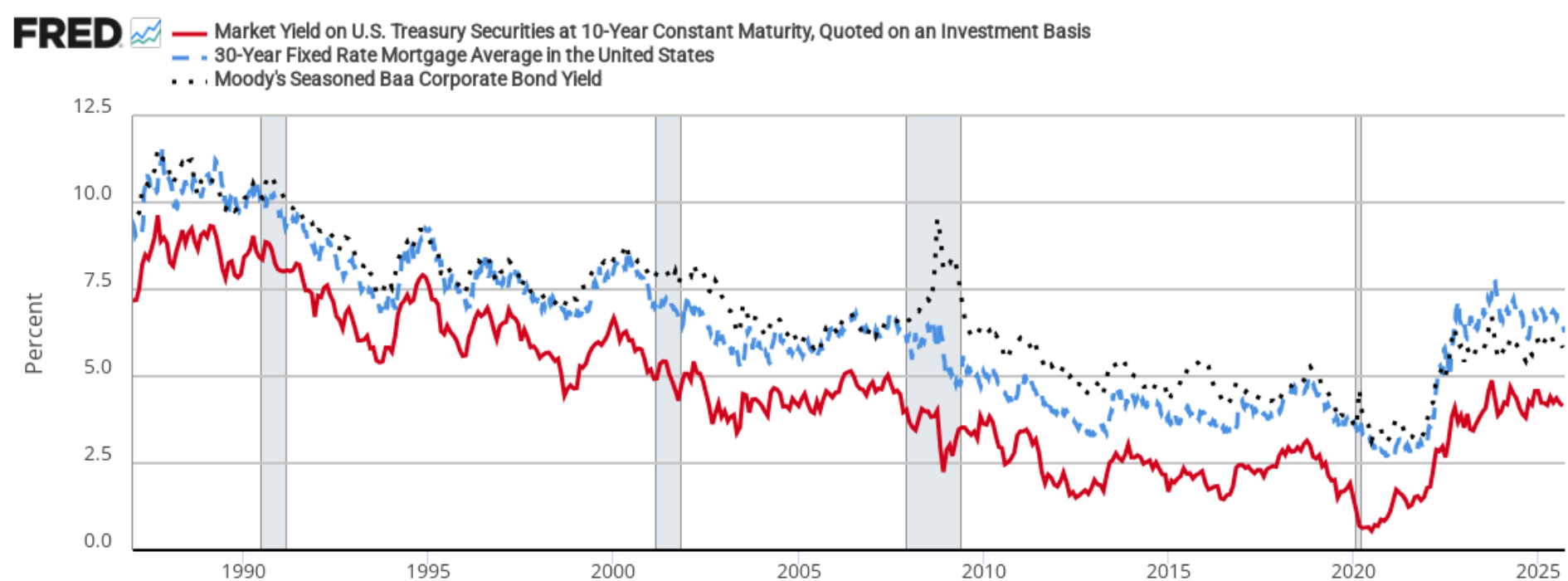


Source: U.S. Bureau of Labor Statistics via FRED®

Shaded areas indicate U.S. recessions.

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Implications for borrowing costs....



Sources: Board of Governors of the Federal Reserve System (US); Freddie Mac; Moody's via FRED®

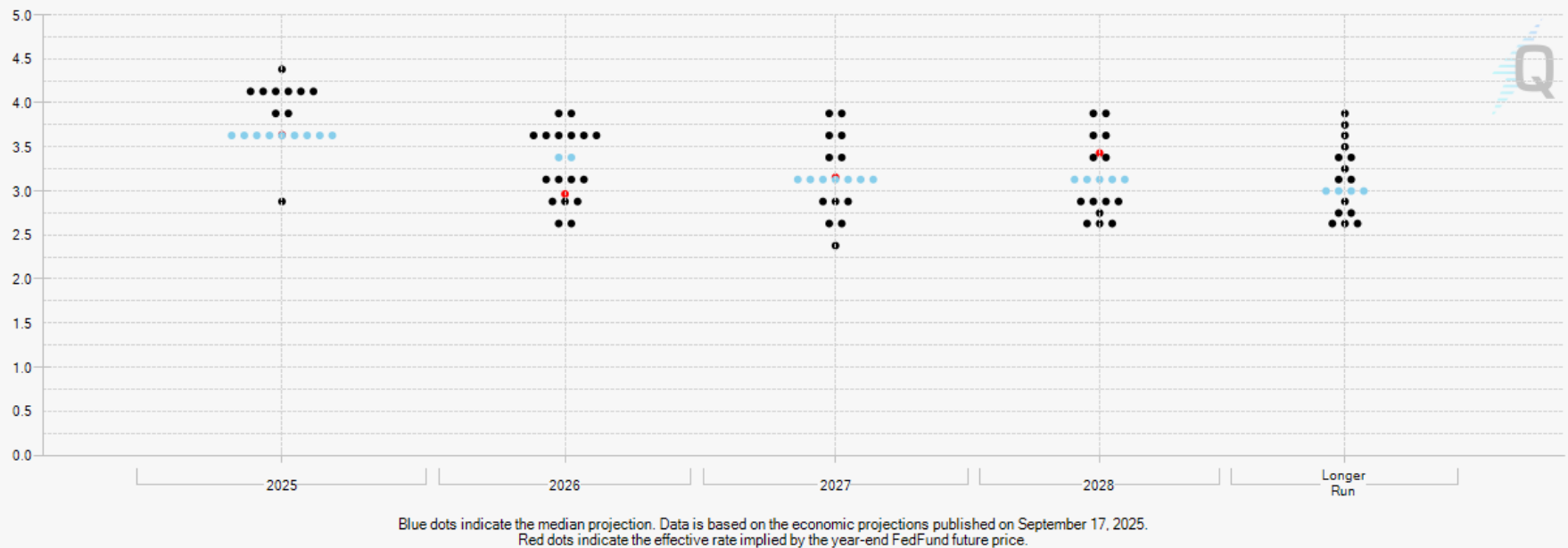
Shaded areas indicate U.S. recessions.

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U.S. Interest Rate Expectations

The view from inside and from derivatives markets

FOMC PARTICIPANTS' ASSESSMENTS OF APPROPRIATE MONETARY POLICY : "DOT-PLOT"



Tariffs and Market Reaction: Liberation or Capitulation?

U.S. Tariffs (April 2, 2025)

 Reciprocal Tariffs		
Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

 Reciprocal Tariffs		
Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%
Kazakhstan	54%	27%
Serbia	74%	37%
Egypt	10%	10%
Saudi Arabia	10%	10%
El Salvador	10%	10%
Côte d'Ivoire	41%	21%
Laos	95%	48%
Botswana	74%	37%
Trinidad and Tobago	12%	10%
Morocco	10%	10%

U.S. Tariffs

Customs duty revenue as a percent of goods imports

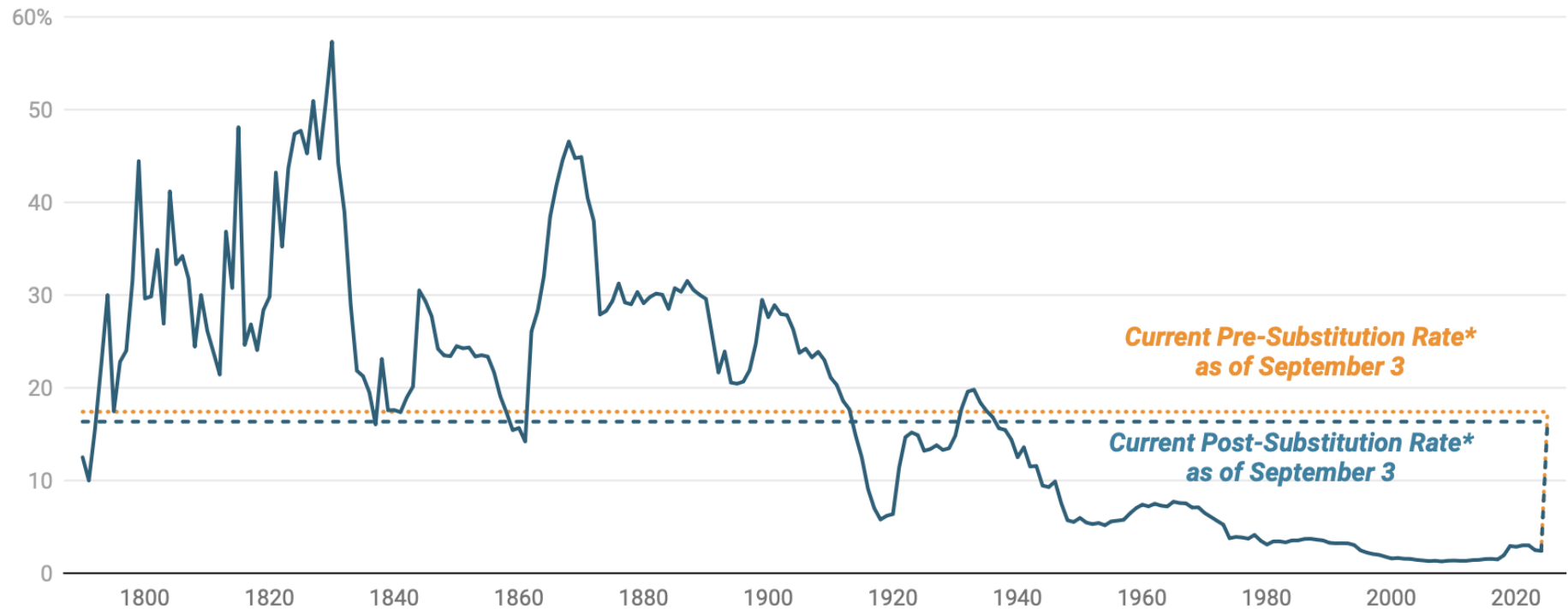
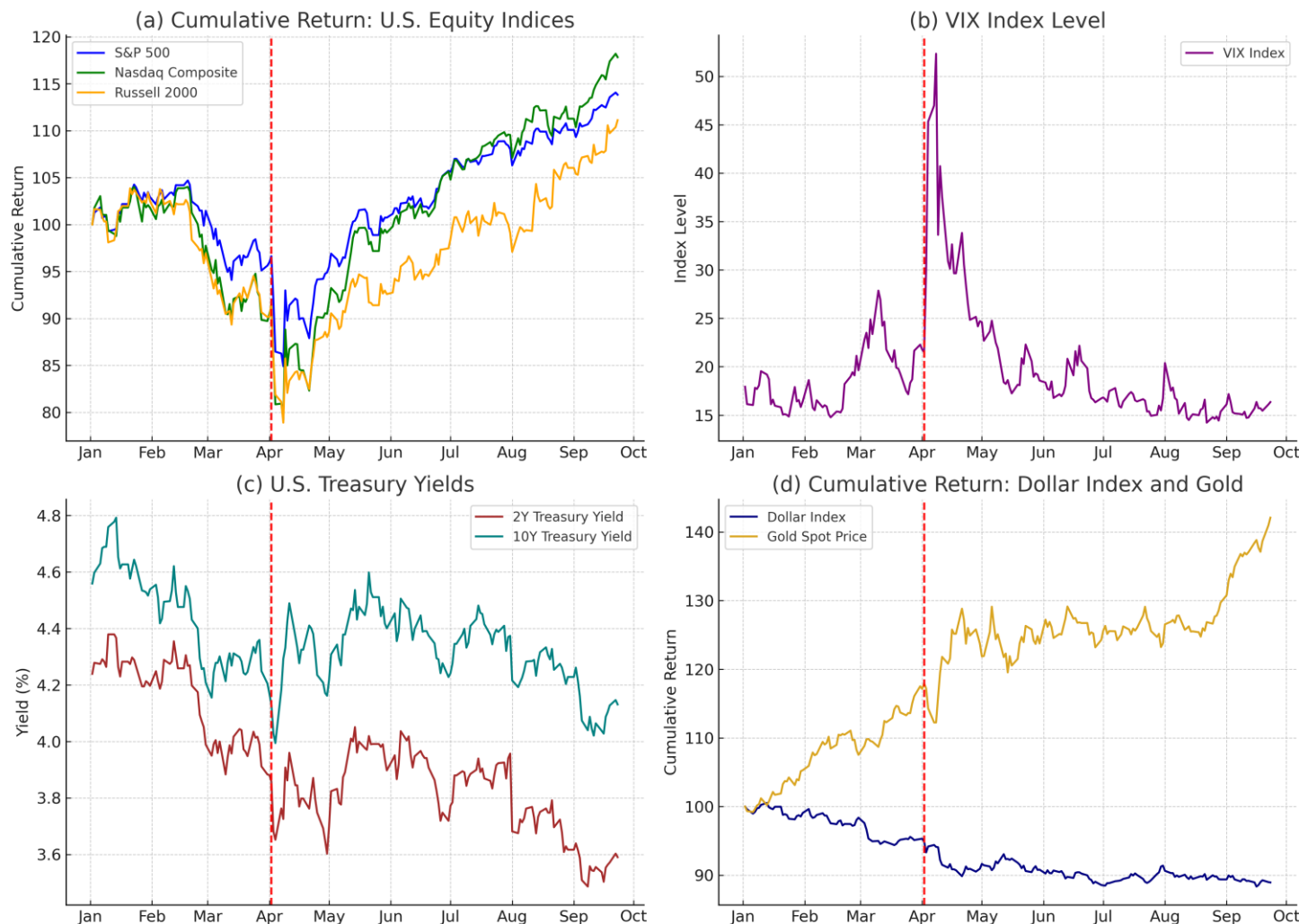


Chart: The Budget Lab • Source: Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis, The Budget Lab analysis. • Created with [Datavrapper](#)

Summary of U.S. Market Movements in 2025



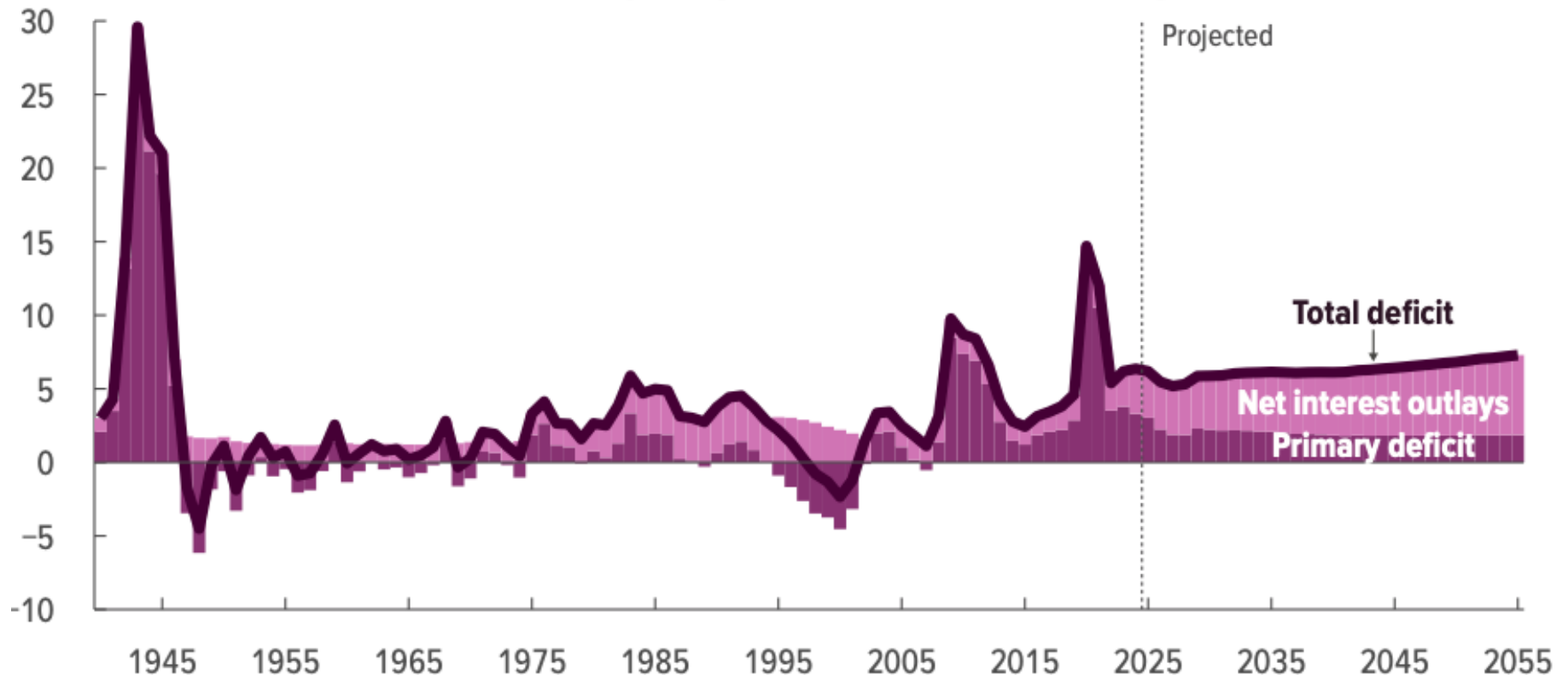
Equities, bonds, and volatility are largely back to levels before “liberation day.” The USD and Gold are not!

Fiscal Irresponsibility and the End of USD Dominance?

U.S. Fiscal Balance

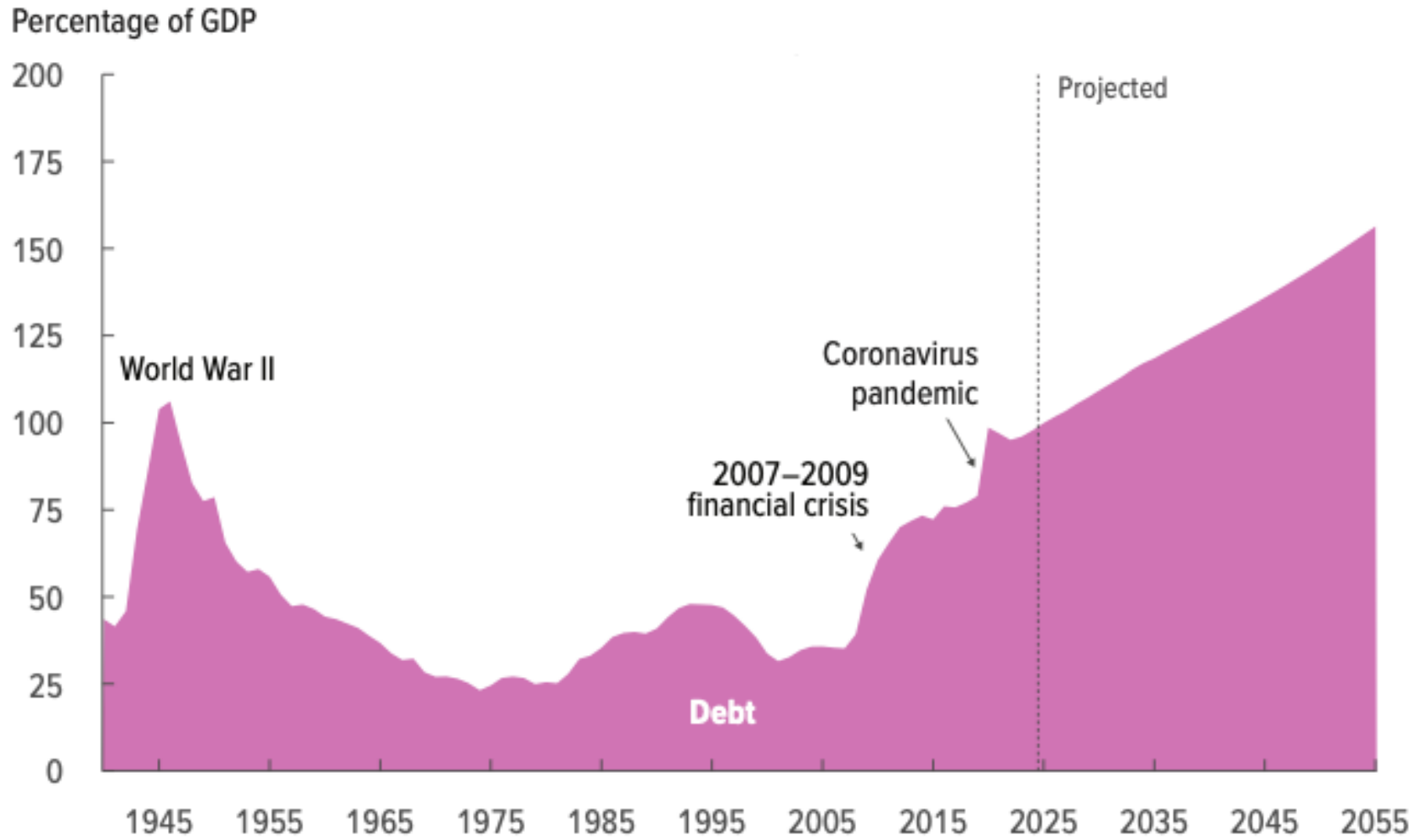
The threat so few mention

Total deficits, primary deficits, and net interest outlays



U.S. Fiscal Balance

The threat so few mention



U.S. Fiscal Balance

The threat so few mention

Percentage of GDP						
	Average, 1995–2024	Actual, 2024	2025	2035	2045	2055
Outlays	21.1	23.4	23.3	24.4	25.3	26.6
Mandatory	12.3	14.1	14.0	15.1	15.6	16.1
Social Security	4.5	5.0	5.2	6.0	5.9	6.1
Major health care programs	4.4	5.6	5.8	6.7	7.6	8.1
Medicare	2.6	3.0	3.1	4.0	4.8	5.2
Medicaid, CHIP, and premium tax credits and related spending	1.8	2.6	2.7	2.7	2.8	2.9
Other mandatory	3.3	3.4	3.0	2.4	2.1	1.9
Discretionary	7.0	6.3	6.1	5.3	5.1	5.1
Net interest	1.8	3.1	3.2	4.1	4.6	5.4

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The Challenge of Portfolio Resilience

Traditional diversification assumptions may be breaking down — equities and bonds may no longer be natural hedges.

Heavy allocations to private markets helped allocators achieve superior returns — but risks loom.

- **Traditional Diversification at Risk:**
Are equity and bond correlations shifting?
- **The Illusion of Safety in Government Bonds:**
Rising rates and inflation volatility threaten fixed income stability.
"Risk-free" assets may behave more like risk assets.
- **Private Market Dominance and Illiquidity Risks:**
Heavy allocations to private equity, credit, and real assets have been rewarded. But liquidity is precious in disruptions — and exits can be costly or impossible.

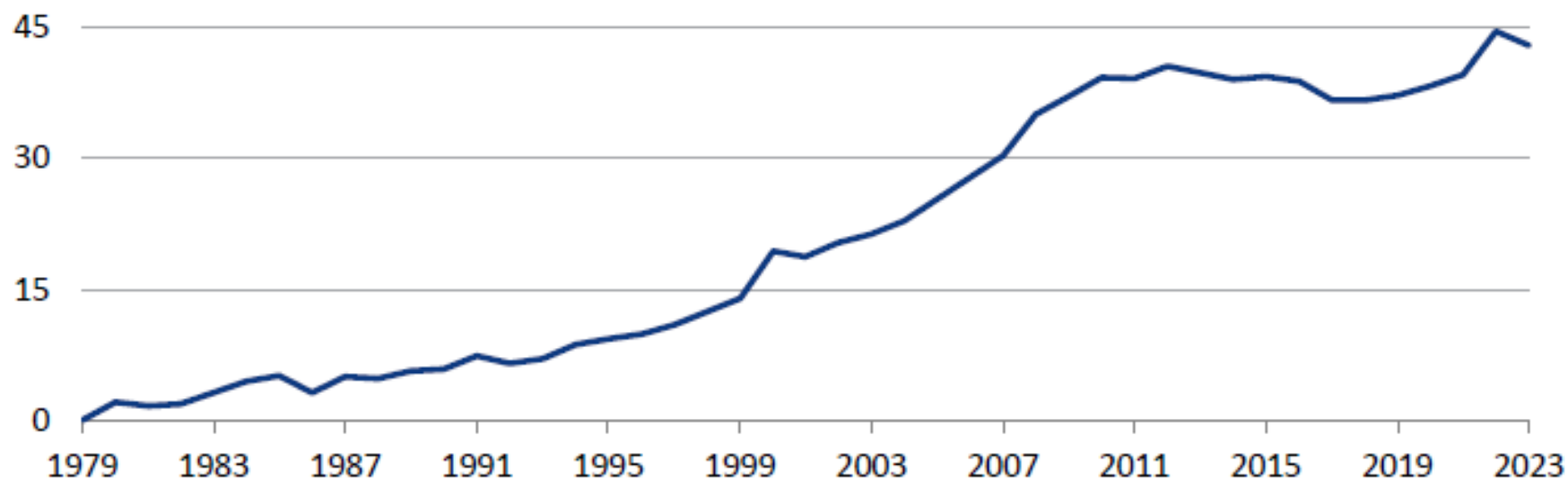
Workhorse: the 60-40 portfolio



Endowments Example

Average Allocation to Alternatives

1979–2023 • Periods Ended June 30 • Percent (%)



Sources: Cambridge Associates LLC.

Note: Alternatives include the following asset classes: Hedge Funds, Private Credit & Distressed Debt, Private Energy, Private Equity, Private Real Estate, and Venture Capital.

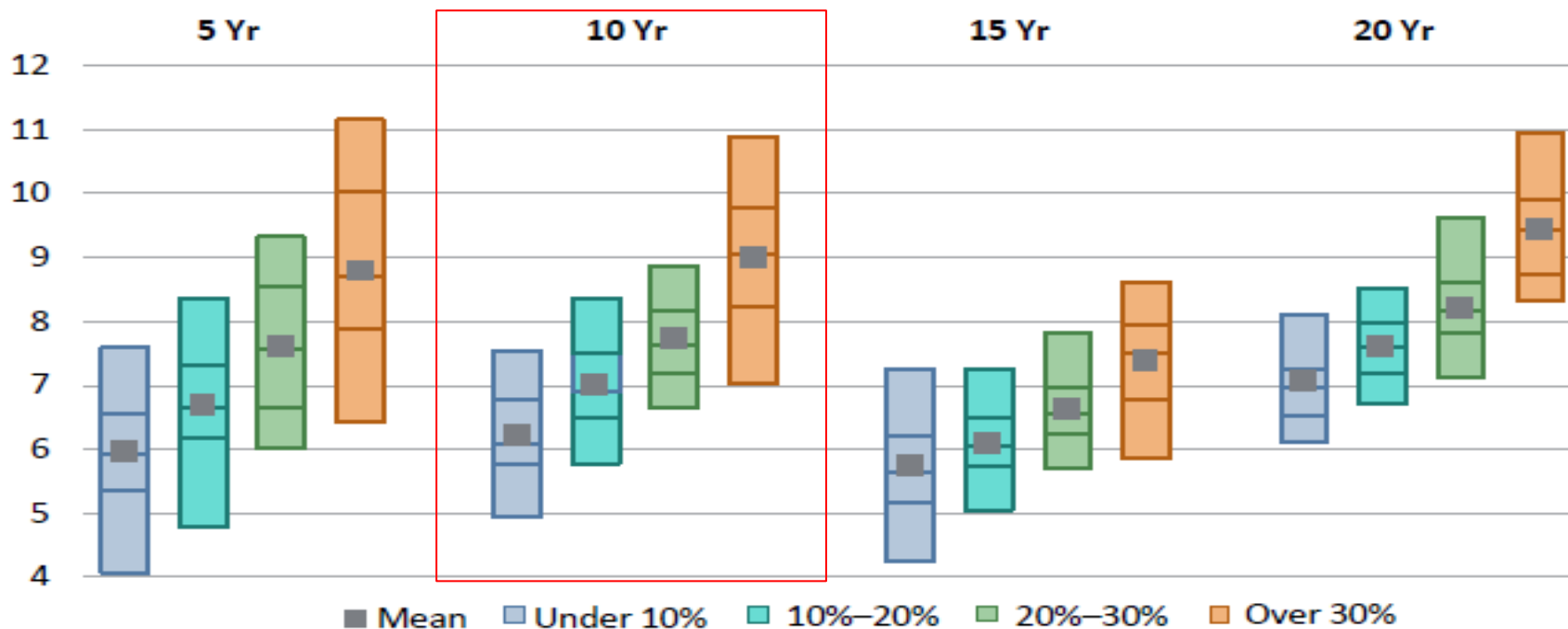
Asset Allocation Benchmarking

	Public Equity (%)	Fixed Income (%)	Hedge Funds (%)	Venture Capital & Private	Real Assets & Inflation Linked	Cash (%)	Other (%)
Colleges and Universities with AuM over \$3B USD (Cambridge Associates)							
Upper Quartile	37.4	5.9	23.1	39.0	13.4	4.2	4.7
Median	25.5	4.0	17.0	30.5	12.0	2.4	2.1
Lower Quartile	22.5	2.1	12.5	26.6	7.0	0.9	0.2

Endowments Example

Average Allocation to Alternatives

Average Annual Compound Returns (AACR) for Periods Ended June 30, 2023 • Percent (%)



Source: Endowment and foundation data as reported to Cambridge Associates LLC.

Building Blocks vs. A Changing Regime?

- Long-horizon outperformance in private capital and hedge funds is real and relevant [See several IPC papers on risk-adjusted performance and asset allocation]
- Earned under a macro regime of falling / low tariffs, Fed independence, low inflation, and capital market integration
- If policy now elevates trade frictions and politicizes monetary choices, do those historical payoffs map into the future?

Volatility: Macro shocks raise both public and private market volatility

Correlations: Policy surprises, dollar risk, and commodity shocks push correlations higher

Liquidity: Policy-led shocks raise redemption risk and limit exit optionality

- **19th-century tariffs:** Protectionism produced volatility and trade booms/busts.
- **Wars:** Policy coordination compresses dispersion short-term, then reshuffles winners.
- **Depression:** Policy uncertainty plus credit contraction raised tails and correlations.
- **EM crises:** Credibility loss spiked premia, FX volatility, and correlations.

Credibility premium: Predictable rules and institutions lower volatility floors.

Correlation: very state-dependent (dynamic)

Liquidity/exit options in an increasingly erratic world

Currency regime matters: Policy shocks raise dollar volatility and global funding risk.

When the World We Measured Becomes a Mirage

- The models and return histories we rely on were built in a very different regime
- If today's macro foundations are shifting — politicized central banks, tariffs, fiscal cliffs, and dollar erosion — then the fundamental relationships on which we have relied may be *illusions*
- Diversification, alternatives, and even “safe” assets may not behave as we expect when the rules are being rewritten
- **The true challenge**: portfolio construction in a world where the building blocks themselves may be unstable

Strategic patience: maintaining discipline in the face of noise, while deliberately preparing for regime shifts that could upend traditional portfolio logic.