NORTHERN TRUST

DIVERSIFIED STRATEGIST PORTFOLIOS
QUARTERLY COMMENTARY

SECOND QUARTER 2025
MAXIMUM GROWTH

Global markets contended with a turbulent macroeconomic landscape, largely shaped by evolving U.S. policy initiatives. After market consternation following early-April news of reciprocal tariffs, investor sentiment on the issue improved following eventual de-escalation efforts including 90-day pauses and emphasis on trade talks. Despite these efforts, the persistence of elevated tariffs and policy uncertainty continued to reshape the global economic environment. Consensus forecasts, led by U.S. revisions, shaved global growth expectations and pushed inflation projections higher. Global economic activity, while distorted by trade data and front-loading ahead of tariffs, proved relatively resilient. Inflation pressures were subdued across several major economies, but core inflation rates remain technically above central bank targets. Financial markets performed well in the second quarter with gains across most major asset classes. Equity markets proved quite resilient with double-digit gains for U.S. equities despite a 10%-plus sell-off in early April. U.S. equities received a substantial boost from megacap tech, given the resurgence in optimism around AI adoption. The U.S. dollar weakened throughout the quarter, benefitting returns for non-U.S. equity indexes in dollar terms. Fixed income returns were positive but much lower than equities. U.S. credit spreads tightened while longer-term interest rates were modestly higher, resulting in a more favorable setup for high yield fixed income versus investment grade.

We made three changes in asset allocation in the quarter. Across tactical changes in April and May, we moved closer to neutral with changes in a number of asset classes. In aggregate, the changes included moving from overweight to equal-weight in U.S. equities and emerging market equities and moving from underweight to overweight in non-U.S. developed market equities. We also slightly increased our global listed infrastructure allocation and slightly decreased our global real estate allocation. The April changes reflected a preference to increase exposure to non-U.S. assets following the early April equity market sell-off, while the May changes were also influenced by the subsequent recovery in equity markets and concern that markets were possibly too optimistic on trade negotiation progress. In June, we further added to our global listed infrastructure overweight, reflecting a more attractive earnings outlook for the asset class and exposure to technology-related themes such as global power demand. This move was funded by a reduction in global real estate. Currently, the portfolio has overweights in developed ex-U.S. equities and global listed infrastructure, funded by underweights in natural resources and global real estate. The portfolio ended the quarter with a slightly lower risk level than its strategic starting point (the strategic allocation is 100% risk assets).

The portfolio slightly outperformed in the quarter as benefits from tactical positioning and strategic positioning were substantially offset by drag from fund implementation. Strategic positioning modestly supported performance with benefits from risk assets outperforming less-risky assets somewhat offset by drag from real assets and high yield fixed income trailing global equities. Tactical positioning helped performance as benefits from the underweight to natural resources, the underweight to global real estate and the overweight to non-U.S. developed market equities (previously underweight) outweighed some drag from the overweight to global listed infrastructure (previously underweight). Our broader-based U.S. market factor tilt (TILT), our global listed infrastructure (NFRA) and our broader-based emerging markets factor tilt (TLTE) were the main detractors in terms of fund implementation, while our quality large cap U.S. equity (QLC) and our broader-based developed markets ex-U.S. factor tilt (TLTD) were the main contributors.

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