COMMERCE TRUST ECONOMIC AND MARKET OUTLOOK

Cooling Economy Counting on Resilience

MIDYEAR | 2025

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FROM THE COMMERCE TRUST CHIEF INVESTMENT OFFICER

We anticipated significant changes in 2025 with the new administration's policies. But we did not anticipate the level of turmoil created by tariffs and the organizational changes in the federal government. The wide-ranging impacts of these tremendous shifts have left us in a policy fog.

To better understand the potential impact of these changes, we can look to a similar situation, Brexit. In 2016, voters in the United Kingdom opted to leave the European Union trading agreement. After three and a half years of negotiations, a withdrawal agreement was struck, and the U.K. left the Eurozone trading bloc in January 2020. The aftermath of this departure points to what can happen when there is an attempt to reengineer a trade system.

Among other benefits, pro-Brexit supporters hoped the move would strengthen immigration controls and bolster trade. In the five years following Brexit, however, the U.K. has dealt with lagging economic growth, a depreciating currency, budget pressures due to flagging tax revenues, and a workforce no longer buttressed by immigration. While issues other than Brexit have factored into the U.K.'s underperformance, and our current situation differs in many ways, the Brexit experience can offer insights into the risks of abrupt changes to economic policy.

At the beginning of the year, the U.S. dollar was flirting with parity with the euro, as well as trading at high levels versus the Japanese yen and the British pound sterling. The Bloomberg Dollar Spot Index (a diversified basket of global currencies measured against the U.S. dollar) has been under pressure, falling over 7% since the beginning of 2025. The decline in relative value puts inflation into focus, as the dollar will buy fewer goods and services from abroad, effectively importing inflation. This currency effect, coupled with tariffs acting as a tax on consumers, is likely to raise inflation over the course of 2025. As global trade is disrupted by the new policy environment, paired with inflation, we should anticipate some consumer retrenchment. Consumers are likely to slow down purchasing, and when they do buy, are likely to apply substitutes, choosing less expensive versions of products.

The United States has benefited from immigration post-COVID as the growing workforce has fed into the robust jobs market. Jobs were a pillar of U.S. growth, contributing 2.2 million jobs to the economy last year, which grew 2.8% in real gross domestic product (GDP) over the course of 2024. If workforce participation remains stagnant, we should anticipate less economic growth for 2025. Businesses may find a beneficial regulatory environment as the Trump administration reduces the capacity and scope of administrative agencies of the federal government, but they have yet to experience the benefits of lighter regulations.

In the fixed income markets, concerns over economic growth and debt levels are driving foreign investors to sell U.S. Treasuries, adding pressure on the dollar and interest rates.

Yields have been volatile, with the 10-Year Treasury yield trading in a range of 80 basis points (bps) over the first five months of the year, despite closing on May 31, 2025 at 4.40%, just 17 bps lower than at the end of 2024. While revenue from tariffs could help reduce the approximately $2 trillion annual budget deficit, the growing national debt is raising questions about the U.S. Treasury's creditworthiness. Bond investors are asking for additional yield to mitigate some of this emerging credit risk.

Equity markets continuously distill economic information, scrutinize business environments, and assess valuations. Currently, markets are digesting all the operational and financial implications of higher tariffs on running a business. In slower economic growth environments, investors focus on top-line revenues to gauge consumers' reactions to all the uncertainty, and to potentially rising prices. Higher rates also weigh on equity valuations, as yields on fixed income securities serve as benchmarks for discounting cash flows and pricing risk. All of these circumstances have put pressure on stocks and will continue to be a focus as uncertainty seems to be a certainty.

Private markets have been segmented into two camps. Private equity is enduring in a challenged environment. Private credit has had plentiful tailwinds. Like public equity markets, private equity markets are operating with constrained deal activity, and equity is the lifeblood of Wall Street. The murky dealmaking environment is the result of higher interest rates suppressing valuations and uncertainty cloaking future operating performance. Private credit continues to be the beneficiary of a higher interest rate environment and demand for capital, while underwriting flexibility has allowed for aggressive dealmaking. Both of these investments reflect unique opportunities.

Amidst the uncertainty, we continue to hold to our core belief that asset allocation is the driver of returns. Asset allocation should reflect our clients' goals, characteristics, and circumstances, while reevaluating and rebalancing portfolios remains our path to investing success. We hope you find the insights in this report lead to robust conversations with your Commerce Trust team.

I am thankful to work with our seasoned team of investment professionals and grateful to our clients for the opportunity to work with you.

DAVID M. HAGEE
Chief Investment Officer, Commerce Trust

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Executive Summary

This year began with above-average economic momentum, but it did not last. The new administration enacted policies cutting the federal government workforce and restructuring government agencies, followed by the tariff announcements. The U.S. government deficit has reached extremely high levels relative to the size of the economy, despite fairly robust economic growth. And monetary policy is stuck on a modestly restrictive hold with higher long-term interest rates we haven't seen since before the global financial crisis of 2008.

Following the tariff announcements in April, there is a conflicting outlook between equity and fixed income markets. Equity markets are more on edge, pricing in stability and a return to earnings. Fixed income markets are more defensive and concerned about economic weakness. As we watch the impacts of the tariffs play out alongside rising inflation, recession risk looms but may be kept in check for now with low unemployment rates.

Equities are facing a challenging environment. The tariffs were a catalyst for U.S. stocks underperforming compared to international stocks. After a relatively steady post-pandemic earnings environment, a sustained level of volatility has returned to equity markets. Consumer spending is shifting as economic impacts settle in. A pullback in discretionary spending as tariffs and inflation push up prices, and a potential drop in demand later in the year, are likely to impact earnings.

Fixed income has experienced volatile and confounding moves as each new headline put markets on notice. Investors behaved quite nervously leading up to the tariff announcements, which prompted a swift risk-off reaction. Traders sold stocks and rushed into bonds, briefly driving 10-Year Treasury yields below 4%. However, as a decline in the U.S. dollar accelerated, Treasury yields curiously reversed course, and the 10-Year yield neared 4.5%. The historically unusual combination of rising Treasury yields and a falling dollar suggests that U.S. exceptionalism, the idea that the United States is a consistent safe haven for capital in times of uncertainty, could be on the wane.

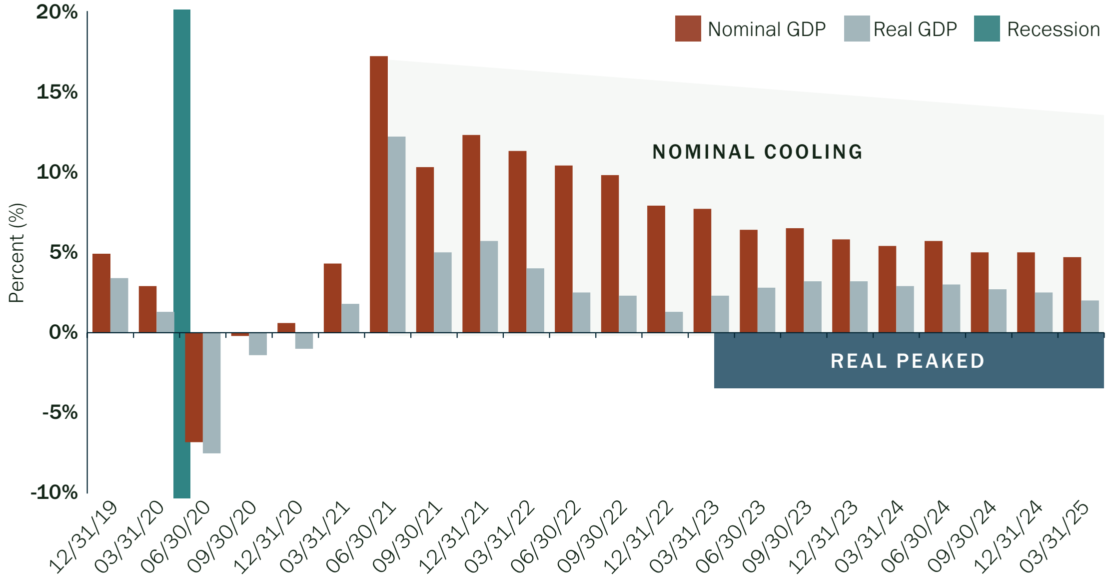
Alternative investments may be a compelling opportunity for some investors in today's shifting and volatile market. Hedged equity strategies can provide protection from downside while still participating in potential upside. Investors are flocking to gold as a safe-haven asset, raising its value more than 40% over the last 12 months. Mergers and acquisitions have slowed down in the midst of higher interest rates and policy uncertainty, leading to longer periods for private equity funds to realize gains.

ECONOMY

Future hinges on resilience

For many years the U.S. economy has been viewed globally as exceptional, measured by growth, corporate profits, and stock market performance relative to most of the world. And to start the year, even though growth had been cooling, the U.S. still maintained above-average economic momentum, near-full employment, and inflation approaching the U.S. Federal Reserve's (Fed) longer-term 2% target. However, the confluence of three headwinds quickly transformed the environment.

Gross Domestic Product (GDP) 12-Month Trailing
Economic cooling continues



Source: Bloomberg, Bureau of Economic Analysis, Commerce Trust

First, a flurry of administrative policies has been proposed or enacted, in particular, tariffs that have raised near-term inflation expectations, dulled economic output, and dramatically sapped business and consumer confidence.

Second, the U.S. government's debt burden continues to grow, reaching its highest level relative to the size of our economy since World War II.

Third, modestly restrictive monetary policy is stuck on hold, accompanied by higher long-term interest rates not seen since before the global financial crisis of 2008.

While the U.S. economy has lost some of its luster, consumers and businesses remain remarkably resilient. This resilience will be necessary to avoid slipping into recession. But resilience is not the same as exceptionalism. The gradual deterioration of U.S. economic performance likely warrants a more cautious stance and broader diversification, including international assets.

DRAMATIC PACE OF POLICY CHANGE

April hopefully represented the high tide of the administration's tariff activity. The stock market's reaction was extreme, falling nearly 20% from recent market highs. The U.S. dollar swiftly declined, interest rates spiked, and credit spreads widened. In response to the rapid financial deterioration, the administration instituted a 90-day pause on reciprocal tariffs, making certain exceptions while ratcheting up its focus on China. On May 28, the U.S. Court of International Trade declared the tariffs announced on April 2, as well as previous tariffs levied on Canada, Mexico, and China, were illegal. The Trump administration appealed the decision. While the tariff tide may be receding slowly, it will clearly boost inflation, reduce demand, and heighten business uncertainty. If nothing else, the surge in imports to beat the tariffs has already pushed first quarter GDP into negative territory.

Government cutbacks and staff reductions have impacted as many as 250,000 workers out of the three million in the federal government workforce. While this feels substantial, most of the impacted workers will remain on government payrolls through September. While federal jobs will likely fall throughout the year, the biggest decline will materialize late in the year as terminated employees' severance packages run out.

The latest immigration data shows detainments on the southern border this year are down nearly 90% from roughly 100,000 per month in the fourth quarter of 2024. Despite some high-profile cases, deportations are running at similar numbers to the prior administration and will likely remain at this pace unless there is a surge in staffing in the immigration courts. We would also expect to see a modest downturn in the issuance of legal immigrant visas eventually, but so far documented immigration continues at its past pace.

As a result, we expect net immigration to fall to half a million immigrants per year, compared to an average of more than two million per year over the past four years. Given our aging society, this could cause a decline in the key working age population of 18 to 64-year-olds. Fortunately, since older workers have been staying in their jobs a bit longer, the labor force participation rate could still grow, but future job gains, along with aggregate domestic demand, are likely to slow. The slowing population growth would offset an increase in the unemployment rate, even if the economy stumbles into recession.

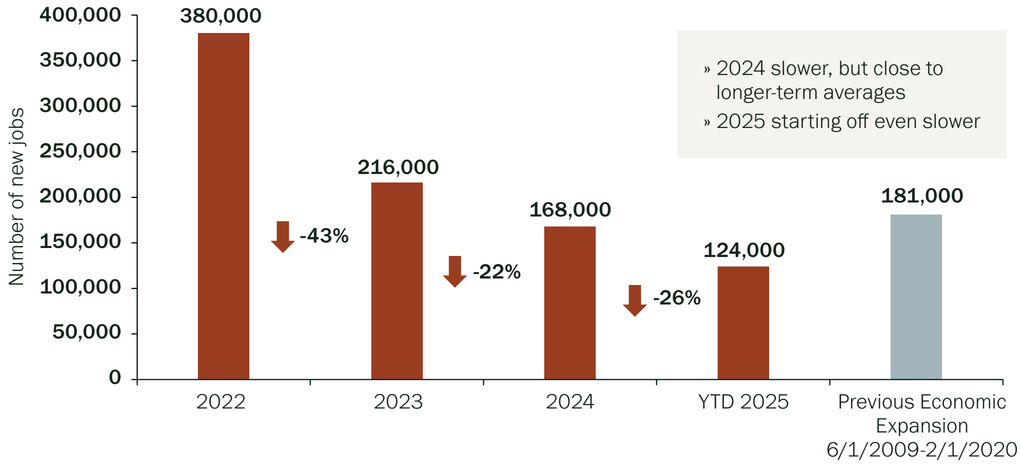
TARIFFS OFFSET STIMULATIVE TAX POLICY

In terms of the federal budget, the tax reconciliation bill contains the extension of the income tax cuts embedded in the 2017 Tax Cuts and Jobs Act, a modest reduction in the corporate tax for domestic producers, and an expansion of the cap on state and local tax deductions. While these measures are largely stimulative, other budget cutbacks and incremental tariff tax revenue probably offset the positive impacts from tax policy, resulting in a net neutral policy impact.

The Fed will wait for clarity on the pace of economic growth and inflation before cutting interest rates. With job growth averaging 124,000 jobs per month over the first five months of 2025, consistent hourly earnings growth, and a steady unemployment rate, we expect the Fed will remain on hold for most of the year. But with short-term interest rates still elevated at about 4.5%, they have material ammunition to lower rates if the economy stalls. Unfortunately, the odds of Fed help offsetting a sharp decline in economic activity have diminished since they will likely have to be reactive rather than proactive given an elevated inflation rate.

Average Job Growth per Month by Year

Job growth below average, but still positive



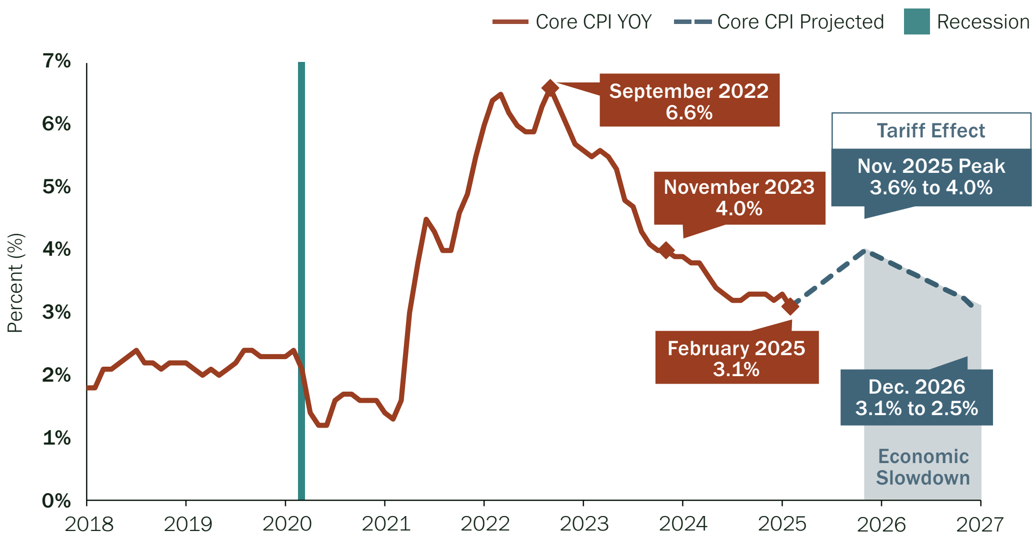
Source: Bureau of Labor Statistics; Federal Reserve Bank of St. Louis

INFLATION AND RECESSION RISK GROWING

We expect inflation to gradually rise the rest of the year given the tariff impact, with the Consumer Price Index (CPI) peaking late in the year, somewhere between 3.6% and 4.0%, before assuming a gradual fall closer to today's 2.8% rate. The magnitude of the inflationary increase likely depends on how well the markets navigate the tariff turmoil.

Core Consumer Price Index (CPI) Inflation Year-over-Year

Projecting the impact of tariffs



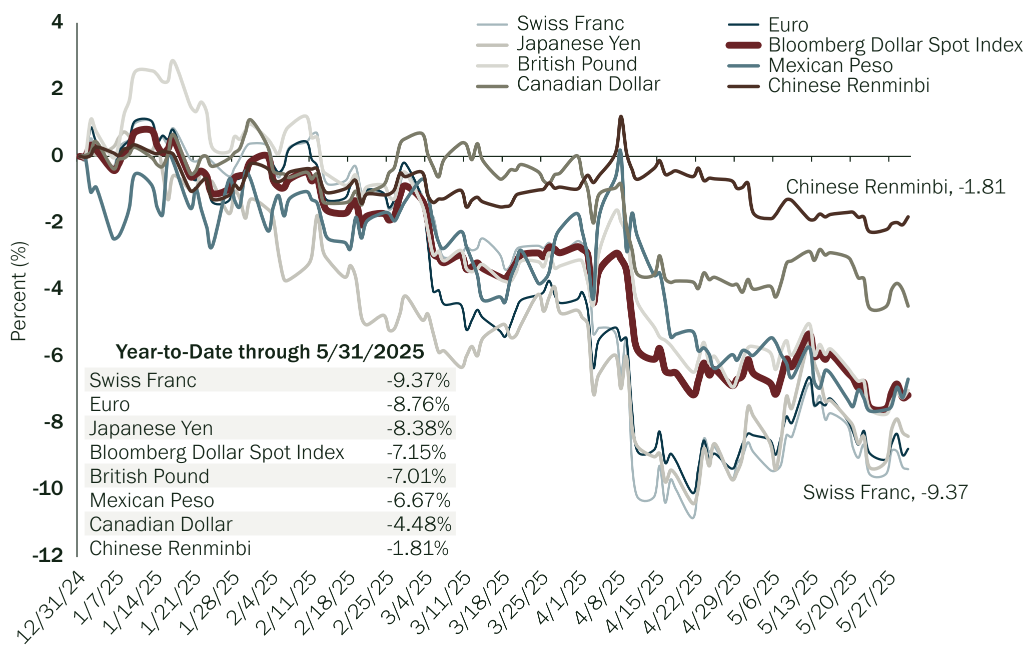
Source: Bureau of Economic Analysis; Bloomberg

The odds of slipping into a recession later this year have grown. Consumer demand is likely reduced by the trade war, supply lines are already disrupted, and inventories will thin as businesses investment slows.

SLOWER GROWTH, BUT STILL POSITIVE

Ultimately, recessions hinge on job growth. With minimal disruption in employment and salary growth so far, along with workforce growth limited by demographics and immigration policy, it is hard to envision a sharp increase in the unemployment rate that has accompanied every past recession. Real economic growth could remain cumulatively positive for the year in the 0.5% to 1.0% range, despite the first quarter's slightly negative growth rate. This is less than half our expected 2025 growth rate before tariffs were announced. Optimistically, the nearly fully employed consumer and entrepreneurial businesses that quickly adapt to any environment could provide the resilience for our economy to avoid a hard landing.

U.S. Dollar versus Major Currencies
Dollar's robust strength declining



Source: Bloomberg

A Diminished Dollar

Over the course of 2025, the U.S. dollar has weakened against other global currencies due in part to the shifting economic picture in the U.S. The dollar's loss in value has been felt across fixed income and equity markets.

Since the great financial crisis in 2008, the dollar had been in a period of robust strength, appreciating by 40% before it began to decline in early 2025. Demand for the dollar has dropped as the federal debt grows and deficits continue, paired with the drastic changes in trade policy. International investors appear to be pulling back on investing in U.S. financial markets, including U.S. Treasury bonds. Slower economic growth and trade barriers have also hurt demand for dollars as less economic activity requires limited dollar foreign exchange activity.

As global trade policy is reset by the current administration, we anticipate wide-ranging impacts from continued dollar movements.

EQUITIES

A new era of volatility

The U.S. equity markets started the year with momentum from robust earnings estimates and a balanced economy. But that quickly began to change as the new administration rolled out its new policies, especially with regard to tariffs. As we look forward to the rest of 2025, U.S. equities face a challenging environment.

NOT LIKE LAST TIME

During the trade wars in 2018, international equities underperformed domestic equities. The uncertainty at that time strengthened the U.S. dollar, making it a safe harbor. In 2025, the market looks very different. Tariff announcements have been a catalyst for U.S. stocks to underperform compared to international stocks. This has been a swift reversal, as U.S. securities have handily outperformed international securities since the global financial crisis of 2008. Year-to-date through May 31, 2025, the S&P 500 Index posted a total rate of return of just 1.1%. Smaller U.S. companies, measured by the Russell 2000 Index, also gave up ground, losing 6.9%. And the U.S. Bloomberg Dollar Spot Index is down 7.2%.

International equities have performed well against the weakening dollar and diminishing U.S. corporate earnings. The S&P Developed Ex-U.S. Index is up 16.5% and the S&P Emerging Markets Index is up 6.3%.

Equity Index and S&P Country Index Returns
International equities outperform weakening U.S. dollar

Equity Index Returns

	% Year-to-Date 5/31/25
S&P 500	1.06%
Dow Jones Industrial Average	-0.08%
NASDAQ Composite	-0.73%
Russell 3000	0.63%
S&P Developed Ex-U.S.	16.52%
S&P Emerging Markets	6.30%
S&P Developed Ex-U.S. SmallCap	16.08%
S&P Global Ex-U.S.	13.57%

S&P Country Index Returns

	% Year-to-Date 5/31/25
Japan	10.68%
United Kingdom	17.56%
Eurozone	25.47%
China	11.48%
Taiwan	1.13%
India	1.34%
South Korea	20.92%

Source: Bloomberg

VOLATILITY RETURNS

Equity market performance is influenced by valuations, interest rates, and economic activity. Since the global financial crisis of 2008, we had seen a remarkably stable earnings environment, with the exception of the COVID-19 pandemic. This is the first time we have seen this sustained level of volatility and pressure on earnings in nearly two decades. Equities will likely continue to have higher-than-normal volatility. If global leaders come to firm agreements on trade, we expect some trade and policy uncertainty to clear up. As uncertainty abates, we expect the equity markets to perform better, perhaps closer to the end of the year.

SHIFTS IN CONSUMER SPENDING

Consumer spending is likely to shift as economic impacts settle in. Consumer staples, such as groceries, household products, and personal care goods, are doing well because demand for necessities typically remains constant. But as consumers feel more pressure on their budgets, we expect to see a substitution effect, or consumers opting to purchase a less expensive version of goods.

Consumer discretionary spending will be a true reflection of tariff impacts. Discretionary spending, or purchases of non-essential items that can be deferred, is more closely tied to how expensive things feel. Discretionary consumption is largely made up of consumption of imported goods, especially from China. Stores are stocked now with pre-tariff goods, but as tariffed imports begin arriving in the U.S., retailers will likely pass at least some of the price increase along to consumers. As prices of discretionary goods rise, consumers are likely to pull back spending on items such as electronics and home furnishings.

CONSUMPTION SLOWS AND EARNINGS DROP

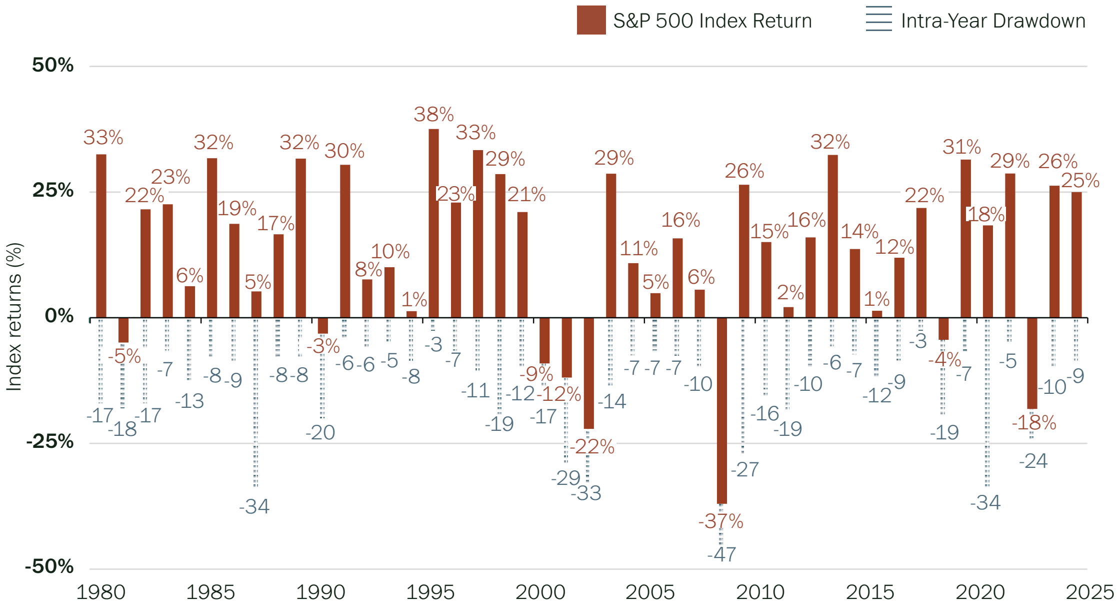
Consumption slowed mildly in the first quarter. Tariffs are likely to lead to increased costs, causing analysts to lower earnings estimates. There is also likelihood of an air pocket in demand as consumers pull purchases forward earlier than planned, before prices are impacted by tariffs. This behavior could create a drop in demand in the second half of 2025 as those purchases would already have been made. A drop in demand could further exacerbate the situation as consumer spending typically weakens during periods of rising prices and economic uncertainties. For corporations, we are already sensing the pause in spending and investment that typically takes place when there is uncertainty in the economy. At the beginning of the year, corporate earnings growth estimates for 2025 were north of 15%. Now they are closer to 7%, and the year will likely close out even lower.

VALUATIONS PRICED FOR GROWTH

The S&P 500 rallied significantly in 2023 and 2024 due to growing corporate profits and a strong outlook. By the end of 2024, the price-to-earnings (PE) ratio expanded to 26.5 times earnings. The market was expensive. At the end of May, the S&P 500 was trading at 21.7 times forward earnings. Valuations remain 20-30% above historical averages as markets are pricing for robust growth. As the earnings environment deteriorates those valuations are at risk.

S&P 500 Index Intra-Year Drawdowns and Annual Returns

Market corrections and drawdowns are normal



Source: Bloomberg, Commerce Trust

DOMESTIC STOCKS RIDING IT OUT

Domestically, large-cap stocks benefit from better pricing power and operational efficiency. Small-cap stocks have more economic sensitivity and are more interest-rate sensitive. Domestic stocks' quality growth attributes and lower earnings volatility continue to stand out.

INVESTORS TURN TO INTERNATIONAL EQUITIES

International equities are outperforming domestic equities in a meaningful way for the first time in nearly 15 years. Due to the weaker dollar and political and trade uncertainty, global investors are limiting new investments into the U.S. economy and allocating more to international equities.

Historically, during periods of economic uncertainty, equity markets have exhibited heightened volatility with an average downturn of 14%. As the markets are digesting uncertainty caused by a lack of earnings guidance and a shifting economic climate, we anticipate continued volatility for the rest of 2025.

FIXED INCOME

Markets calming, investors attuned to policymaking

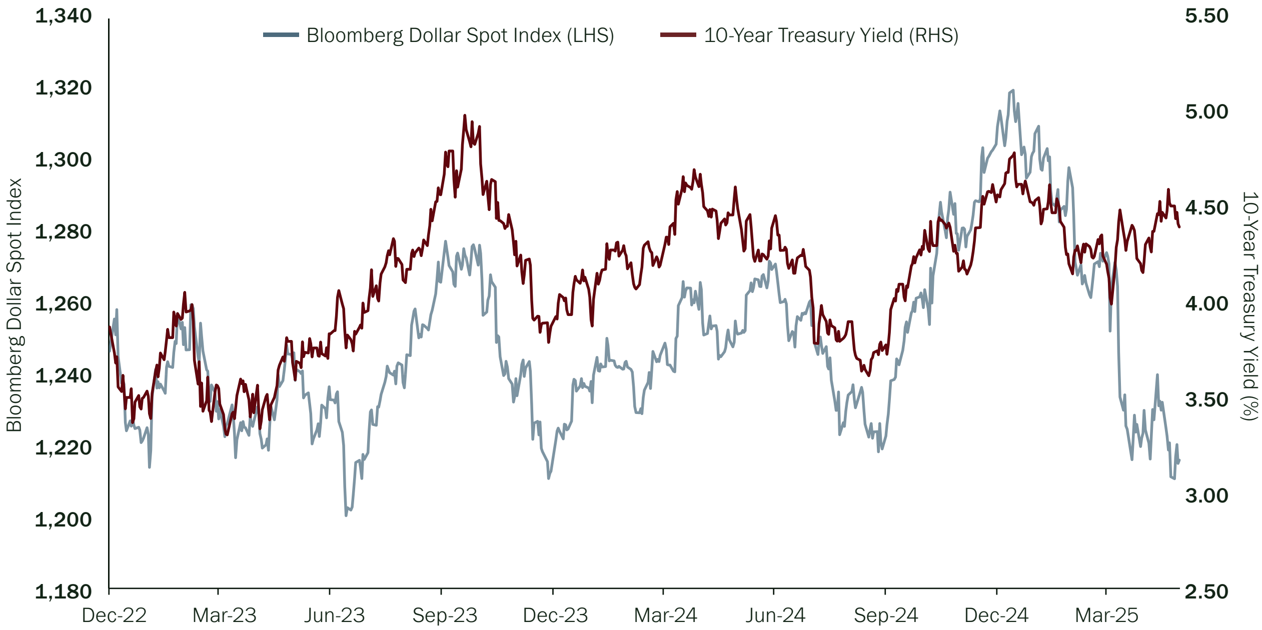
The relatively modest returns across fixed income markets through the first five months of the year mask a tremendous amount of volatility. As we entered 2025, bonds were still riding the wave of optimism for the U.S. economy that had rolled through financial markets in the aftermath of the November elections. That meant yields on longer-term bonds were rising, as investors priced in expectations of stronger growth and persistent inflation fueled by anticipated policies favoring lower taxes, deregulation, reduced immigration, and higher tariffs. The 10-Year Treasury yield peaked at 4.79% in mid-January, more than 1% above its 2024 low of 3.62% reached just four months earlier, a sharp contrast to the Fed's cumulative 1% cut in the federal funds rate over the same period.

But soon after the new administration took over in Washington D.C., the pro-growth, pro-business market enthusiasm faded as trade policy increasingly moved front and center. Each new headline seemed to put markets on notice that the relatively modest tariff hikes of President Trump's first term were merely a precursor to more aggressive measures in his second. Fearing a slowdown in growth that such trade restrictions would likely deliver, investors behaved quite nervously as they awaited the April 2 announcement that promised to lay out the administration's tariff plans in more detail. Treasury yields crept lower and credit spreads drifted wider in the weeks leading up to the Liberation Day press conference, but it was in its aftermath that fixed income markets experienced their most volatile and rather confounding moves.

The magnitude and global reach of the proposed tariffs far exceeded expectations and prompted more cautious behavior from investors, taking action to reduce their exposure to higher-risk assets. Fixed income traders sold stocks and rushed into Treasury bonds, pushing the 10-Year Treasury yield to just below 4% in the two days following the press conference. But as equity markets continued to swoon in the week that followed, bond yields curiously reversed course, and the 10-Year Treasury yield soared to almost 4.5% in extremely choppy trading across all fixed income markets. All the while, credit spreads gapped wider, as bond investors priced in a decidedly negative outlook for corporate profits, with high yield junk bonds hardest hit. And while the direct impact of the looming trade war on U.S. municipalities was deemed to be rather low, tax-exempt municipal bonds were not left unscathed from the market disruptions. At the extremes, municipal yields jumped close to 1% in just five daily trading sessions.

The market convulsions were not limited to stocks and bonds. The decline in the U.S. dollar that began at the start of the year accelerated amid the fallout of the tariff announcements, including comments from President Trump, that he later walked back, of potentially firing Fed chairman Jerome Powell before the end of his term. The unusual market action was perhaps most notable in the relationship between the dollar and long-term Treasury yields. Historically, a weaker dollar coincides with falling Treasury yields, but that correlation broke down in mid-April. Several explanations have been offered for the unexpected spike in Treasury yields, including margin calls, the unwinding of leveraged hedge fund bets, and limited balance sheet capacity at bond dealers. But an inescapable theme that emerged was that the U.S.'s status as a safe haven for global capital has come under scrutiny.

10-Year Treasury versus the U.S. Dollar
Dollar and Treasuries decoupling



Source: Bloomberg

As the administration has since pivoted from its sweeping reciprocal tariff proposal to more targeted bilateral negotiations, markets have calmed considerably. The dollar has stabilized, stocks have rebounded, and both Treasury yields and credit spreads are back to levels suggesting that the worst of the tariff storm may be behind us. But while reports of the demise of the U.S.'s exceptional reputation within the financial system appear to have been exaggerated, global investors remain highly attuned to the impact of changes in policymaking in Washington.

BALLOONING U.S. DEBT BURDEN

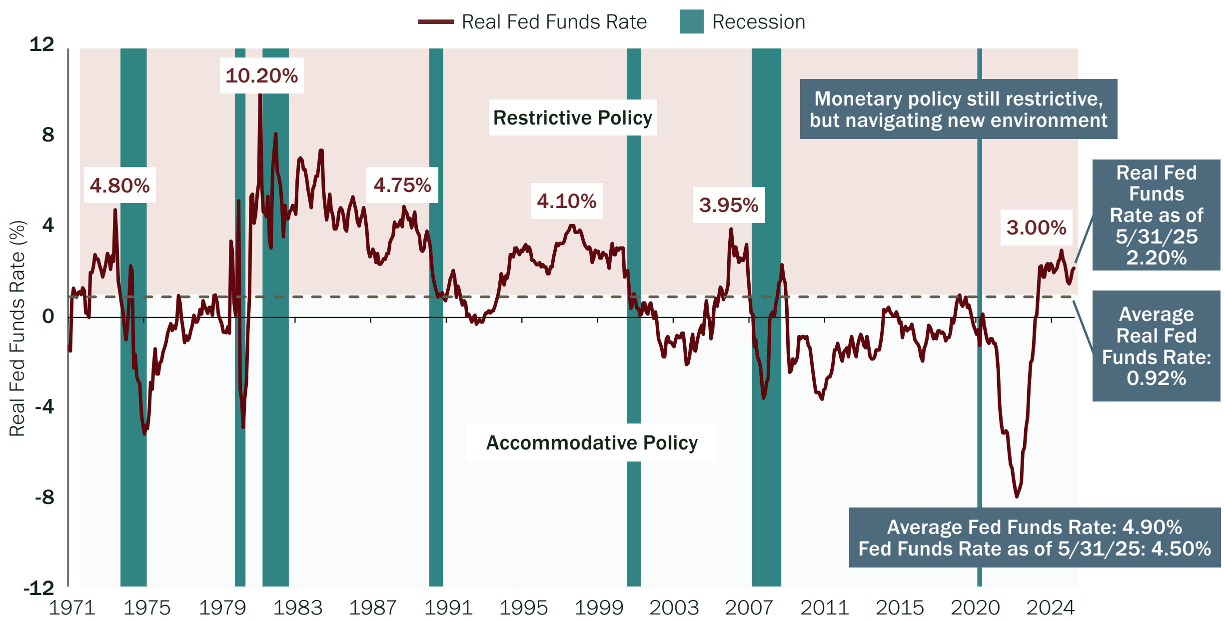
A list of long-term concerns remains, chief among them is the sustainability of the U.S. debt burden, which has ballooned to outpace U.S. GDP. On May 16, Moody's became the third of the three major credit rating agencies to downgrade the U.S.'s AAA credit rating. Having witnessed persistent deficit spending throughout the last three decades, Treasury bondholders would welcome almost any federal budget that includes even a modest mix of spending cuts and revenue increases. Time remains on our side to bend our debt-to-GDP curve, but the longer that Congress waits to act, the more painful the remedies become.

FED TO LOWER INTEREST RATES, BUT NOT YET

Beyond trade policy, U.S. monetary policy will likely be the biggest driver of fixed income returns over the remainder of 2025. Faced with the possibility that tariffs could both sap growth and reignite inflation, the Fed will want to wait to see more hard data to confirm which side of its dual mandate of maximum employment and stable inflation deserves more attention. We believe the Fed will ultimately resume its interest rate-cutting cycle, but probably not until later in the year.

The "Real" Federal Funds Rate

Federal funds rate minus CPI inflation



Source: Bloomberg

BOND MARKETS ATTRACTIVE FOR CASH

Regardless of the exact timing of any Fed rate cuts, many segments of the bond market are attractive, especially for any investors holding excess cash. Yields on money market funds, where investors currently sit on record piles of cash, follow the path of Fed policy very closely. Moving out of money market funds and into high-quality, longer-duration bonds may be a sensible move ahead of a potential decline in cash rates. With the recent widening of credit spreads, yields on investment grade corporate bonds approaching 5% represent one area for investors to consider. And for investors with a little more risk appetite, small allocations to emerging market debt, preferred stocks, and high-quality collateralized loan obligations (CLOs) could make sense in a broadly diversified fixed income portfolio.

VALUE IN MUNICIPAL BONDS

Another opportunity for income-oriented investors is in tax-exempt municipal bonds, a market where the tariff-related volatility and seasonal supply and demand imbalances have conspired to open up considerable value. Investors in the highest marginal income tax bracket can currently capture tax-equivalent yields in excess of 6% for bonds with maturities around ten years.

Though there has been some speculation that the federal tax exemption for municipal bond interest could be an item on the table for upcoming budget negotiations, we currently view the probability for a repeal of the federal tax exemption for municipal bond interest to be quite low. The Trump administration has given no indication of supporting such a proposal, and the idea gained little traction in tax reform proposals of previous administrations, given the significant burdens a repeal would impose on the thousands of small municipal issuers that depend on that market for financing.

Finding upside in down markets

Alternative investments can offer investors a compelling opportunity to diversify beyond traditional stocks and bonds, while at the same time potentially offering higher returns. There are three alternative strategies we believe could help balance portfolios and mitigate risk in today's shifting and volatile environment.

DOWNSIDE PROTECTION AND POSITIVE RETURNS IN HEDGE FUNDS

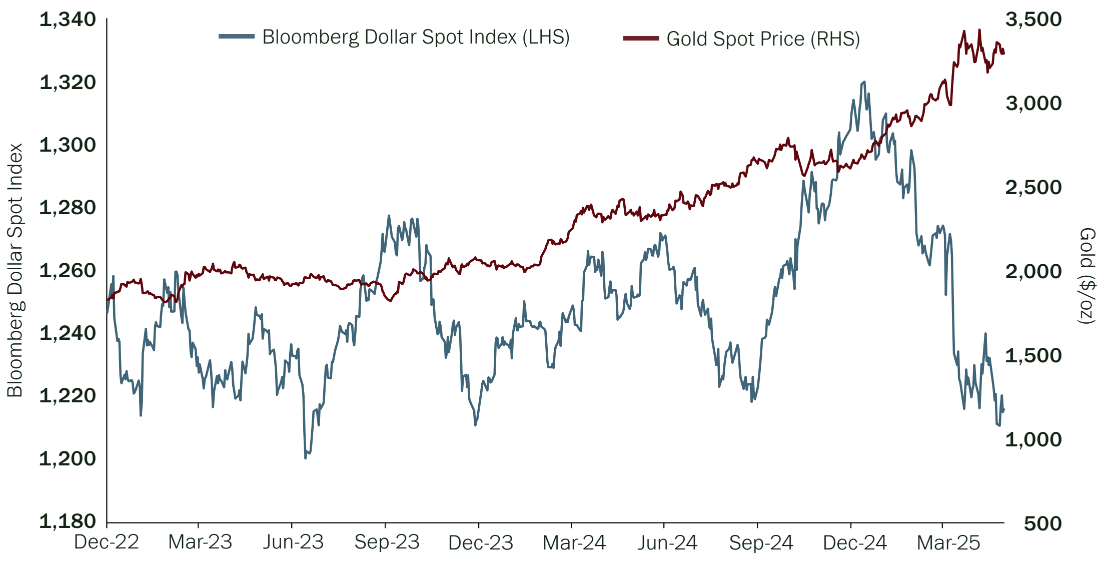
Within hedge funds, we continue to favor hedged equity and absolute return strategies. Hedged equity strategies are designed to limit downside, offering downside protection in declining markets while still participating in potential upside. Absolute return strategies seek to generate positive returns regardless of market conditions, making them less volatile than traditional investments. By focusing on capital preservation across non-correlated assets, absolute return strategies have performed positively in 2025, as they are designed to absorb volatility and can often produce positive returns in volatile markets. Hedged equity continues to provide downside protection during steep market declines.

INVESTORS FLOCK TO GOLD

Gold has kept its reputation with investors as a safe-haven asset. It is often seen as a store of value which could provide a hedge during periods of volatility and a falling U.S. dollar, which we are currently experiencing, as well as during rising inflation that we are anticipating. Investors have flocked to the metal over the last year, raising its value more than 25% year-to-date and more than 40% over the last 12 months. Investors may continue to look at gold as an alternative within their portfolio given its diversification benefits, but gold is limited by its inability to produce income and its speculative nature compared to stocks and bonds.

Value of Gold

A store of value against the diminished dollar



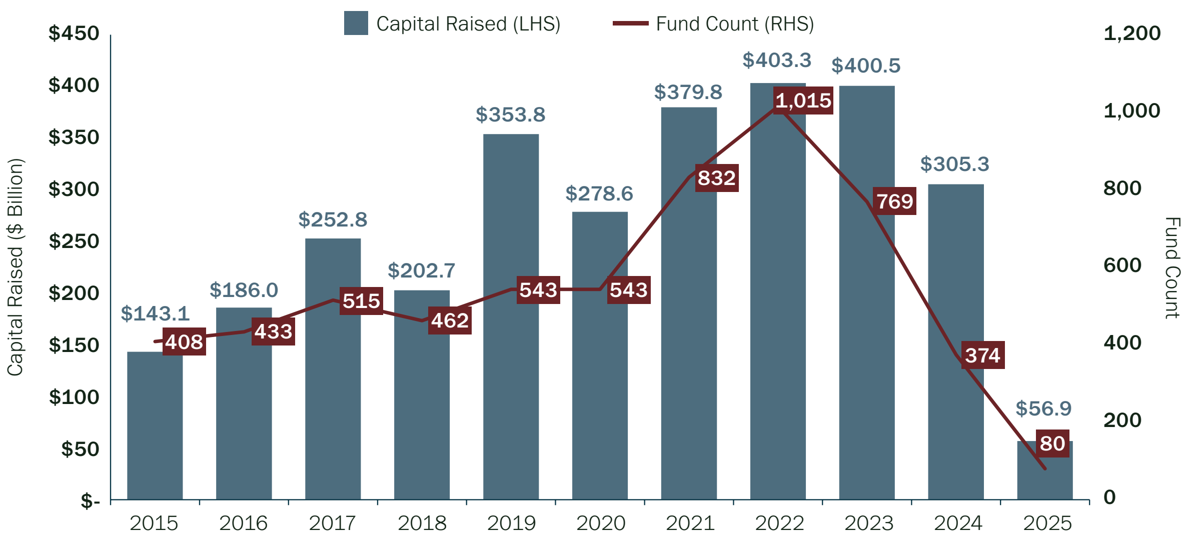
Source: Bloomberg

MERGERS AND ACQUISITIONS SLOW DOWN

Private equity has been impacted by recent market volatility, on top of a downward shift in the equity markets since interest rates rose in 2022. Private equity has not been immune to impacts from higher interest rates and policy uncertainty, which have driven a persistent slowdown in mergers and acquisitions activity, including the initial public offering (IPO) market. As a result, investors are looking at longer periods to realize gains inside their private equity funds.

Investors continue to receive minimal distributions from venture capital and private equity firms, due to a slowdown in investors selling their stakes in businesses. The exit environment will improve with policy certainty and a more accommodative interest rate environment. Until then, investors seeking liquidity will continue to look to selling positions on the secondary markets. Some investors will reduce future commitments to sell their interests, while other investors will reduce further commitments to these types of strategies.

Private Equity Fundraising
Downward shift accelerates



Source: PitchBook. As of March 31, 2025

OPPORTUNITY IN NON-TRADITIONAL LENDING

Private credit continues to attract borrowers seeking alternative financing solutions, alongside investors seeking alternative sources of income in their portfolios. Private credit lenders see greater opportunities during uncertain times when traditional lenders, such as banks, begin to pull back lending.

ALTERNATIVES ARE COMPLEX ASSETS

Commerce Trust views alternatives through the lens of how these strategies align with a client's investment strategy, risk tolerance, wealth plan, and overall financial situation.

It is important to understand alternatives are not suitable for all investors. Alternatives are complex assets that carry higher risks and may have more stringent eligibility requirements than traditional investments. Investors interested in alternatives should consult their private wealth management team to determine if these assets are a suitable fit for their investment portfolio and wealth plan.

COMMERCE TRUST INVESTMENT MANAGEMENT CONTRIBUTORS

The 2025 Midyear Outlook is the combined effort of the Commerce Trust investment leadership team, evaluating the opportunities currently available to our clients within financial markets. We endeavor to articulate views combining our perspectives and deep experiences to form a position on both the economy and financial markets.

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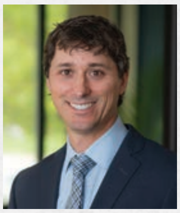

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[1] As of March 31, 2025.
[2] S&P Global Market Intelligence; ranking as of September 30, 2024.

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