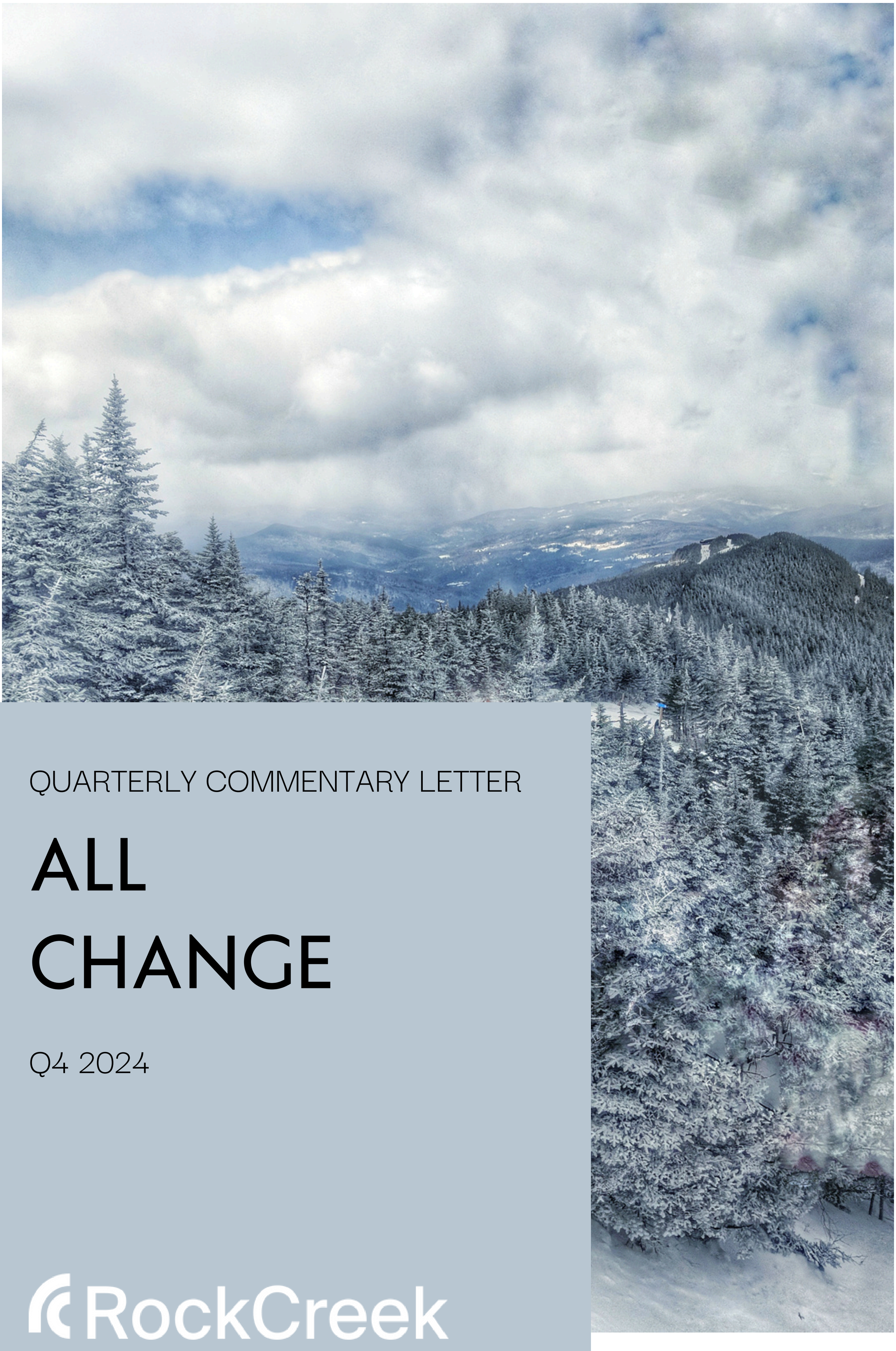


QUARTERLY COMMENTARY LETTER

ALL CHANGE

Q4 2024

RockCreek

CONTENTS

MACRO ENVIRONMENT

The end of 2024 signaled fundamental change in the global landscape.

The most important event – for the global economy as well as the geopolitical outlook – was the November 5 election of Donald Trump, four years after he originally left the White House. But political change was not limited to the US in Q4. Across the world, from Japan to Germany to Canada, governments changed or began to topple, often in response to economic disappointment.

This came as the US economy continued to outperform on growth and jobs, while inflation stayed above the Federal Reserve's 2% price target. Despite still-tight monetary policy, American businesses showed few signs of slowing in Q4. Payrolls jumped in December by 250,000, bringing the quarterly rise to an average 170,000 and outpacing the 159,000 monthly increase in Q3 despite disruptions from Hurricane Milton. The pace of job increases in 2024 was down somewhat from 2022-23 but, at 194,000 a month on average, was close to pre-Covid performance. Unemployment stayed contained during Q4, ticking down to 4.1% in December. Consistent with the still robust job market, vacancies climbed slightly in December. The strong end to 2024 showed definitively that recession fears were misplaced.

On inflation, markets have been cheered by better-than-expected underlying data for "core" price rises in December. At the end of Q4, fears that stalled progress on inflation might slow monetary easing led to a repricing of expected interest rate cuts and some wobbles in equity prices. But by mid-January, just ahead of the inauguration of President-elect Trump, these concerns were alleviated, at least for the time being. Further evidence of the strength of the economy, with buoyant retail sales and strong bank earnings for Q4 added to the market optimism following the December CPI print. Underlying "core" prices rose by less than expected during December, holding the year-on-year increase at 3.2% while the month-on-month rise was 2.7%.

The buoyant economy together with inflation still above the Fed's 2% price stability target is likely to mean that the Fed will pause this month before cutting rates again, as Fed policymaker Alberto Musalem – a new voter this year – indicated in early January. However, the monetary easing that began in Q3 is likely to continue in 2025 even if at a slower pace than seemed likely as Q4 began. After two 25 basis point cuts in the last three months of the year, on top of a 50 bp cut in September, policy is still in the restrictive zone at 4.25-4.5%.

After an initial burst of enthusiasm post-election, US financial markets softened at the end of Q4 and in early 2025. Market concerns that President-elect Trump's proposals on tariffs and immigration could push up prices and delay further interest rate cuts seemed to offset the

THREE THEMES FOR INVESTORS TO WATCH AS THE NEW US ADMINISTRATION TAKES SHAPE:

01

TAXES AND SPENDING

Tax cuts are coming in the US. The only question is timing. Republicans in Congress are divided over whether to roll the extension of the 2017 tax measures and any additional cuts into one big bill, together with measures on the border and immigration, or to address the border first and taxes later this year. Under budget rules, "reconciliation" bills can pass with just 50 Senate votes, essential for the passage of partisan measures. Speedy action on the border argues for splitting, but that risks delay in passing tax and spending cuts where the details are likely to prove contentious.

02

TARIFFS, TRADE AND INVESTMENT

President-elect Trump has promised – or threatened – across-the-board tariffs on imports from America's three biggest trading partners: Mexico, Canada, and China. He has also denied reports that his comments are an opening bid in a negotiation. If these tariffs are set at the levels that have been mentioned by President Trump, global business will be disrupted. RockCreek expects there to be room for compromise, as in the first Trump term, particularly if incoming Treasury Secretary Scott Bessent holds sway on economic policy. Trade has continued to grow in the past decade, despite growing protectionist measures from Presidents Biden and Trump. But uncertainty is never good for markets. The incoming Administration's approach to foreign investment in the US will also be important to watch after President Biden's widely criticized decision in January to halt the purchase of US Steel by Japanese company Nippon.

03

INFLATION, INTEREST RATES AND THE FEDERAL RESERVE

As long as inflation remains above target, the Fed will be reluctant to cut interest rates too rapidly. Fed policymakers in Q4 indicated that today's rates are still above the so-called neutral rate that they believe will balance inflation and employment objectives. The Fed sees this as around 3%. This leaves room for further cuts this year, provided inflation does not stall or accelerate. The pace of easing will be data-dependent. Chair Jerome Powell and colleagues will likely come under pressure from President Trump to cut rates quickly. Look for them to stand firm on monetary policy. Chair Powell was clear in November that he could not be made to resign under pressure, saying a blunt "no" in response to reporters' questions. There are no vacancies on the Fed Board at present. Interestingly, while Governor Michael Barr will give up his role as Vice-Chair for supervision – recognizing that regulation is under the purview of government – he has said he will stay on the Fed Board, limiting the incoming Administration's scope to affect monetary policy.

potential economic boost from expected tax cuts and deregulation. But by mid-January, markets were again in a risk-on mood, up by 0.9% from December 31 to the last day before the Presidential inauguration.

For Q4, equities were up for the quarter, with all of the 2.4% rise coming in the immediate wake of the election. Once again, strong consumer spending underpinned earnings and powered stock market gains. For 2024 as a whole, US equities climbed 24.6% compared to 17.5% for the global index. This far exceeded most market participants' expectations at the beginning of the year.

Economic developments outside the US were mostly disappointing. As RockCreek had expected, China's rhetorical shift in Q3 to focus on boosting consumption and economic growth has not so far been followed by the significant policy changes that would be needed to reorient the economy. The market rose dramatically off its September lows in the initial optimism around the policy announcements. Although a good amount of those gains was given back in Q4, the equity markets ended 19.4% higher on the year. The renminbi has weakened and China's reliance on heavily subsidized exports and state-directed investment to fuel growth continues. In Europe, strong growth in the southern economies of Spain, Portugal and Greece has not been enough to offset sluggish performance in Germany and France.

In developed countries from Europe to Asia to Canada, a wave of popular opposition to incumbents – often focused on the economy – brought down governments and weakened investor confidence in Q4.

In November, German Chancellor Olaf Scholz was forced to call early elections, taking place next month. His coalition broke down over the debt brake, which Scholz wanted to pause to allow for more spending to boost Germany's weak economy. In France, opposition to budget cuts led to the fall in December of the government after just three months. The new Prime Minister appointed by President Emmanuel Macron is struggling to pass a budget and survive. In Canada, a clash between Finance Minister Chrystia Freeland and Prime Minister Justin Trudeau over the budget and how best to prepare for possible US tariffs triggered Freeland's resignation in mid-December, followed by Trudeau's sudden announcement to resign in early January. And in Japan, defeat in snap parliamentary elections called in September led to the resignation of Prime Minister Fumio Kishida. His replacement, Shigeru Ishiba, is widely viewed as weak.

The shifting political landscape does not translate easily into guidance for investors. Markets have shrugged off many strategically important events post-pandemic, partly reflecting uncertainty about their economic impact, particularly in the short-term. This adds to the importance of taking a long-term view in portfolio positioning but having sufficient flexibility to respond to shorter term changes if needed.

In the US, Republican victories in the House and Senate, and a well-planned and swift roll-out of key appointments to his Administration in the weeks following the election, have given President-elect Trump an early opportunity to turn plans into legislative as well as executive action. The incoming President has promised immediate action on measures that would impact investors. While much attention is now focused on President-elect Trump's comments on foreign policy – from taking over Greenland to absorbing Canada into the US – the most important policies for investors are those affecting the economy. Reactions from business and Wall Street were initially mostly positive. Many believe that the President's appetite for disruptive measures on tariffs and immigration could be tempered if there is a negative market reaction.

SUSTAINABLE INVESTING

With climate ignored throughout the election season and the “red sweep” of the White House, the Senate, and the House, many in the sector reflexively assumed that the election outcome would destroy sustainable investing. At least a partial repeal of the Inflation Reduction Act (IRA) was expected.

However, early actions from the to-be Trump 2.0 Administration have made the sustainability crystal ball cloudy. The emergence of Elon Musk – who made his fortune from EVs, solar, and energy storage – as a potential key influencer in the Trump administration has given some hope that incentives might stay in place. The oil & gas lobby has made it clear that it likes certain areas of the IRA, including carbon capture and sequestration, sustainable aviation fuel, and green hydrogen – all areas that had previously been in the middle of a bullseye for repeal in a “red sweep” scenario. While uncertainty looms, many are now cautiously optimistic that profitable and sustainable companies will be able to grow and thrive in the coming years. This remains a big theme in the January meeting of the World Economic Forum in Davos.

There is consensus that global demand for power, largely driven by AI and its growing demand for data centers, is going to continue to accelerate. The prevailing message from the new administration, energy industry, and tech sector alike is that an “all of the above” strategy is going to be needed to meet that demand. This will likely mean reinvigorated investment in the traditional oil and gas industry, as well as growing investments in the renewable energy industry including nuclear energy.

Other related industries – such as energy efficiency, resource optimization, and complementary “picks and shovels” businesses that enable the power industry to thrive – will tangentially benefit. The AI boom has also led to the return of excitement and focus on the potential of nuclear power to serve as relatively cheap and CO2-free power. A number of major nuclear / tech deals were announced at the end of the year – for example, Google and Kairos partnering to build Small Nuclear Reactors (SMRs), Amazon investing in X-Energy, Microsoft and Constellation agreeing to reopen Three Mile Island. However, these projects still have regulatory and NIMBY hurdles that have halted the industry historically. A new regulatory environment at the federal level could help to change this, although state and local regulations remain important.

Political uncertainty combined with sustained high interest rates and a slow roll-out of IRA incentives led to a lackluster 2024 for sustainable investing, particularly compared to the frothy 2020–2022 time period. In private markets, 2024 sustainability investments totaled $30 billion across venture and growth, down 14.0% from the previous year. However, this contraction varied significantly by stage: late-stage venture and growth deals saw a nearly 40.0% decline in capital (deal count stayed the same, implying significantly smaller rounds), and earlier stage deals stayed relatively flat. The fourth quarter also provided an uptick in activity: $9.3 billion of private sustainability deals as compared to $6.1 billion in the same quarter of 2023 helped to close out the year on a positive note.

Sustainable and profitable companies will benefit from this dynamic as demand for power is at an all-time high creating an ideal environment for investing. While navigating the market to identify investment “winners” requires expertise, the upside potential remains highly attractive as we enter 2025.

A stark reminder of the need for more effective and commercial climate solutions has come in early 2025 with the tragic wildfire disasters in Los Angeles, California. Sustained high winds, extreme heat, and one of the driest periods on record, following two years of excess rainfall that had spurred vegetation growth, turned neighborhoods into burning infernos. Extreme weather patterns associated with climate change contributed to the rapid spread of uncontrollable fires, insurance companies continue to lead on this discussion as they continue to increase premiums. Singapore and Temasek continue to lead on carbon markets.

PUBLIC EQUITIES

2024 was another impressive year for US equities, despite a correction in December. The S&P 500 recorded a 23.3% gain, marking two consecutive years of returns above 20.0% for the first time since 1998-1999. Mega cap tech once again led the way, helped by the continued emergence of AI, and helped the Nasdaq register a 29.6% return for the year. The Mag 7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) stocks surged 67.3% in 2024, adding approximately $6 trillion of market cap. Meanwhile, cyclicals were mixed, with strong economic growth and prospects for deregulation helping financials move higher while continued weakness in China weighed on the energy and materials sectors. The market showed considerable discernment for quality with unprofitable tech, biotech, and small caps broadly underperforming in Q4 and for the year.

The picture was less rosy in Europe. High energy and other input costs, flagging export demand, regulatory hurdles, and worsening political gridlock weighed on the economy and markets. The MSCI Europe ex-UK index ended the quarter -3.6% lower, bringing its 2024 return to 8.1%. The UK did slightly better, losing -0.2% for the quarter and gaining 9.5% for the year although business sentiment fell in the final months, reflecting concerns about the new Labor government's inability to curb budget costs with rising interest rates on government debt and reluctance to raise taxes further. Going forward, little-to-no growth is priced into Europe, but this may present opportunities for value-oriented investors willing to look past the next six to twelve months.

Despite political upheaval, Japan ended the year on a high note with investors maintaining confidence that deflation had been defeated. In addition, exports were boosted by a weak yen and the corporate sector continued making progress with reforms. The TOPIX gained 5.4% in Q4, bringing it to +20.0% on the year (in local currency). Looking ahead, continued pressure for the West to decouple from China could mean more demand for Japanese heavy equipment, machine tools, and heavy manufacturing.

After two straight years of US economic and market outperformance, the biggest question is whether the US can sustain its dominance. Investor optimism is strong with retail participation in the market near record highs. Over $1 trillion flowed into US-based ETFs in 2024, more than doubling the previous record of $485 billion set in 2021. The consensus view is that a resilient economy and low interest rates will support US equities through the first half of the year, but potential headwinds in the form of tariffs, a constrained US consumer, and/or a hawkish Fed can start to put the brakes on markets. Valuation will be another limiting factor as there is limited scope for multiple expansion from current levels. The S&P 500's trailing multiple is now close to 29x, significantly above its historical median of 15x.

Heading into 2025, technology remains favored, with AI driving growth. While Nvidia dominated 2024's large-cap indices, two other notable stories emerged: Meta's successful AI implementation boosted user engagement and monetization across its platforms, and AI data centers' energy demands significantly impacted the utility sector. Companies like Constellation Energy and Tallon Energy saw substantial stock gains by offering co-location with nuclear power plants, demonstrating AI's influence on traditional sectors.

EMERGING MARKETS

Emerging markets closed 2024 relatively strong, rising 7.5% – not an outcome most investors predicted at the start of the year.

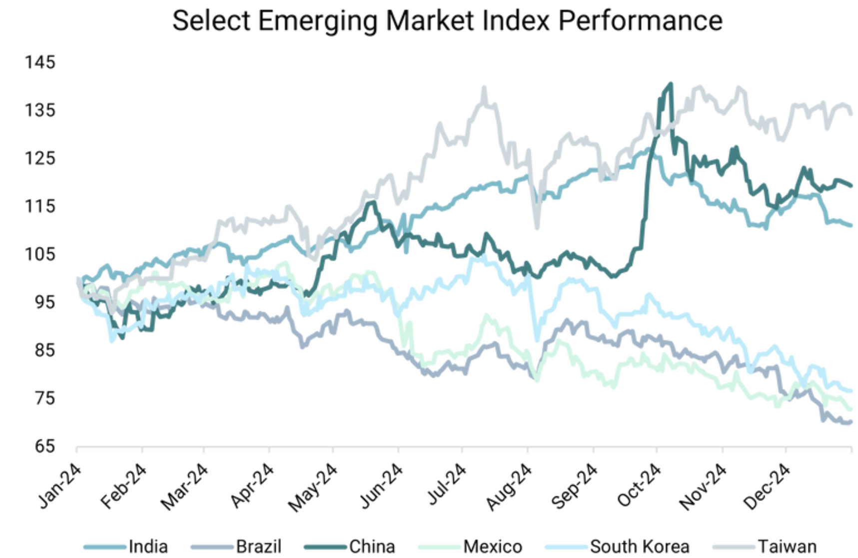
In Q4, the strength of Chinese markets – supported largely by local investors, particularly from Hong Kong – was surprising, given the backdrop of weaker than planned economic growth and considerable analyst skepticism about Beijing's attempts to boost the economy. Only Taiwan, buoyed by the AI-related tech boom, performed better than Chinese markets among larger EM equity markets in the quarter. Local investors reacted positively to a series of government measures aimed at shoring up support for equity markets and the overall economy. However, the difficulty of shifting China's fundamental economic structure that relies on investment and exports to spur growth and employment, rather than on domestic consumption, has led most outside observers to doubt Beijing's ability to sustain higher growth. The threat of tariffs and other constraints on exports, from Europe as well as the US, is also a cloud over sentiment. Chinese equities remain relatively cheap on a price-to-earnings basis, but investors remain wary given country fundamentals including President Xi's handling of the business community, weak GDP and consumption growth and the impact of US tariffs.

Indian markets had a difficult fourth quarter and gave back some of the year's earlier gains. Nonetheless, the local Sensex was up over 8.0% for the year. A slowdown in economic activity as consumers experienced higher inflation, combined with a pullback in earnings growth, led to an overall market correction. Small and mid-cap companies bore the brunt of the market slide. While the market remains expensive, looking ahead India could regain some of its earlier momentum.

Latin American markets experienced a very difficult fourth quarter and 2024. Mexico and Brazil were impacted by a strong dollar, and internal politics. However, the region is showing signs of improvement. Economic data has been encouraging, particularly in Brazil, Argentina, and to some extent, Mexico. The potential EU-Mercosur trade deal as well as the expansion of BRICs could signal a trend towards more trading blocs forming agreements to mitigate the impact of US tariff increases.

Among the smaller emerging markets, Türkiye was one of the standout performers, closing the year over 18% in USD despite a Turkish Lira that depreciated more than 16% versus the greenback. Persistent inflation drove investors to seek shelter in local equities. Exporters in particular did well, taking full advantage of the country's competitive currency. Construction names also did well on the back of robust infrastructure spending.

As we enter 2025, we are keeping a watchful eye on the strength of the US dollar, which diluted EM returns in the fourth quarter and is expected to persist at least through the first half of 2025. This trend may favor domestic EM companies with less exposure to USD input costs. Emerging market central banks are anticipated to hike rates to combat the stronger USD and sticky inflation, which could potentially depress overall GDP growth estimates. Divergence in central bank policies across emerging markets may create both challenges and opportunities for investors.



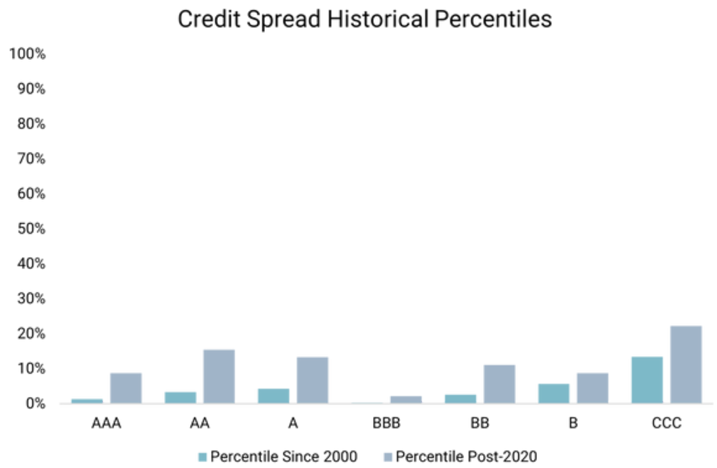
Source: MSCI.

FIXED INCOME

Fixed income performance was negative in the fourth quarter of 2024. Losses in October and December more than offset gains in November. The US Aggregate Index outperformed its Global counterpart by approximately two percentage points, leaving the US index in the green for the year, while the Global Aggregate lost money for the third year out of the last four. Global underperformance was driven by Japanese and European bonds. Japanese bonds fell 9.9% while those in western Europe fell 7.0%. UK bonds fared even worse, falling 8.3%. Within the US, credit outperformed treasuries and mortgages, as well as the broader index.

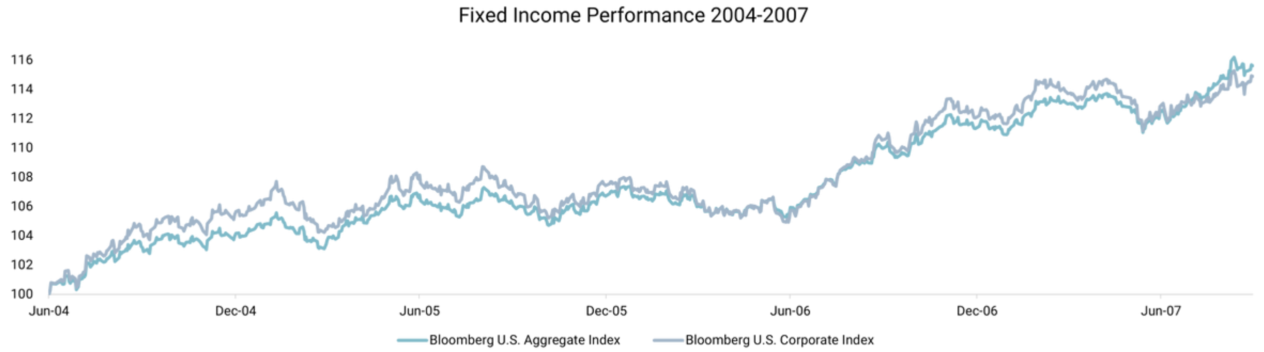
While asynchronous Japanese monetary policy and fiscal concerns in Europe drove a back-up in rates in those regions, broader risk-off sentiment in Fixed Income markets was driven by a reassessment of Fed policy going forward. In October, a stronger-than-expected jobs report drove the US 10yr yield 30 basis points higher and took about two expected interest rate cuts out of 2025. In December, while the Fed delivered the market anticipated amount of easing, forward guidance – particularly the Dot Plot – caused a further shift in expectations. 10-year yields rose another 20bps following the Fed decision and another cut and a half was dropped from the markets 2025 Fed policy expectations

Despite this hawkish shift in monetary policy expectations, sentiment in the fixed income market certainly seems to favor the soft-landing narrative, despite the notable back-up in rates. This quarter's outperformance by credit is its ninth of the past ten. This consistent outperformance pushed corporate spreads to near all-time tights by the end of 2024. Even more telling is the spread performance at the ratings level for the quarter. Triple A rated bonds widened by two basis points, while triple B securities narrowed by 14 basis points – hardly a risk-off move.



Source: Bloomberg.

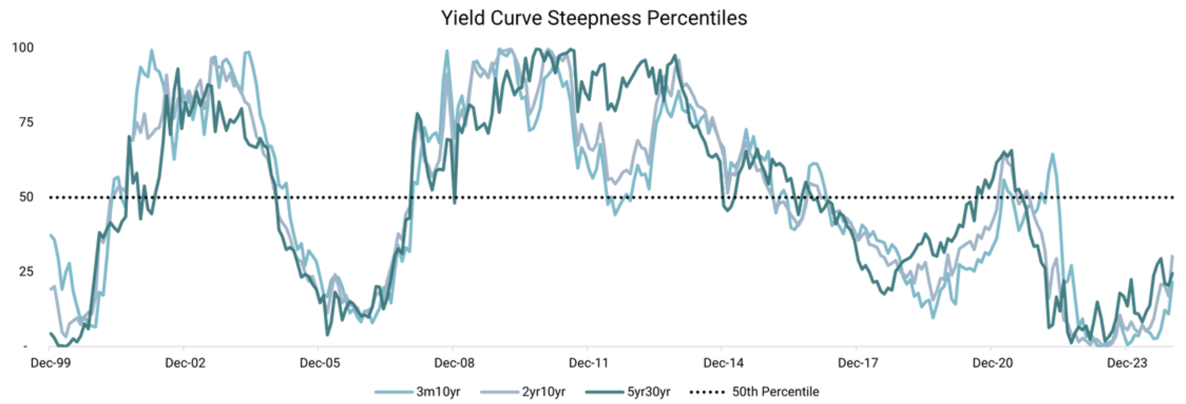
This compression in spreads has led investors to question how much value is left in corporate bonds. Historically, such rich valuations portend relative underperformance in subsequent periods. There is, however, recent precedent (mid 2004 to early 2007) where spreads were this tight for an extended period and, despite some volatility, investment grade credit did eke out some outperformance vs. the aggregate – just shy of one percentage point over the roughly three-year span.



Source: Bloomberg.

In less than one quarter, from April to June 2007, most of that outperformance was given back, and by the end of the year it had more than evaporated. History lesson aside, it illustrates how quickly the incremental gain from a narrow-yield pick-up can evaporate amid spread widening.

In addition to credit spreads, duration and key rate positioning remain topics of significant focus for fixed income investors as markets jostle with concerns over the incoming Administration's potential policy impact on inflation, and the normalization of the yield curve. While policy has yet to take shape, the yield curve has already bear steepened. Although the path forward is unknown, it seems worthwhile to check-in again on the 10yr fair value model we have written about often in the past as well as the percentile ranking of current yield curve steepness to get a sense of where markets are on a fundamental and historical basis.



Source: Bloomberg.

As is displayed in the charts, the 10yr yield based on the current levels of inflation and growth is tracking its expected value. Going forward any judgement on the direction would seem largely dependent on one's view on the economy. As such, markets will have to wait for more economic data and more tangible policy details. The curve's normalization is shifting rapidly but is still flatter than "average" at various key points.

PUBLIC CREDIT

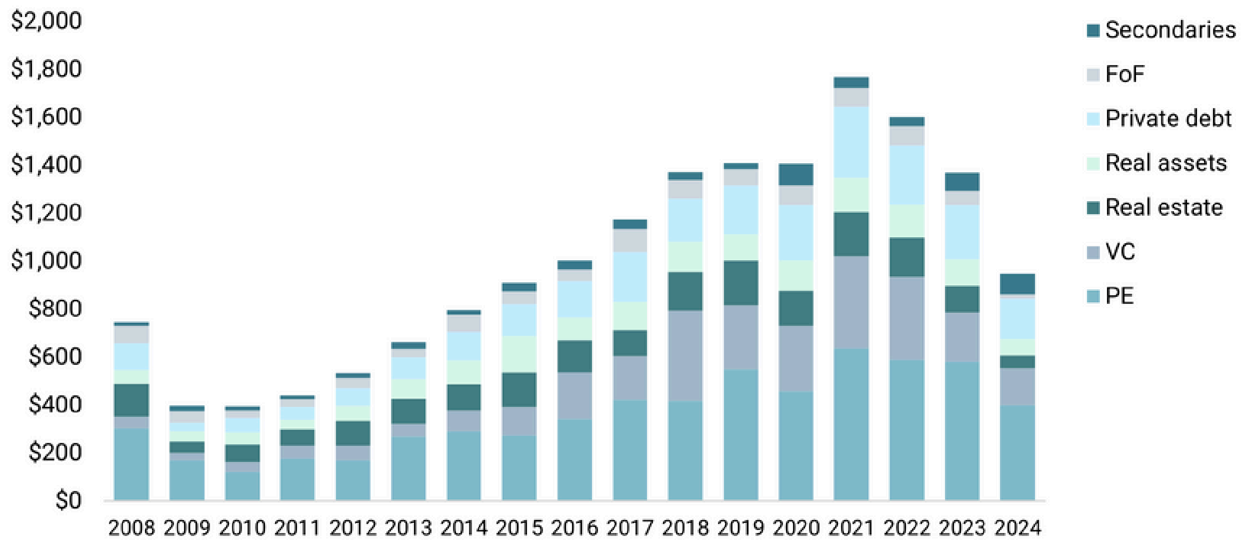
Public Credit rounded out 2024 in a state of optimism. In addition to investment grade performance, lower quality credits had an even better quarter and year. Leveraged Loans finished the year +9.0% after returning +2.3% in Q4. High Yield Bonds similarly returned +8.2% in 2024 and were up slightly (+0.2%) in the last quarter. CCC and lower bonds continued to outperform their peers as well, returning +2.5% for Q4 and +18.2% in 2024.

Despite falling policy rates, Leveraged Loans (LLs) had another strong year in 2024. Borrowers have leveraged this strong demand to obtain more favorable deals from lenders. Re-pricings of LLs were at all-time highs in the past quarter, accounting for 75% of new loan transactions. Borrowers continue to utilize the supply and demand imbalance in the market to negotiate lower borrowing spreads with some going back repeatedly for better terms – so called "repeat re-pricers." Thirty-four loans launched in Q4 were repriced at least once in 2024. Prices of LLs also increased over the quarter with ~70% of them priced at, or over, par. The average price of LLs ended the year at $97.3, up from $96.2 at the end of 2023. This dynamic is likely to persist as long as investors continue to look for yield in fixed income while net new loan issuance remains low.

PRIVATE CREDIT

The prevailing trend towards lower base rates appears to be to the detriment of private credit, a predominantly floating rate asset class. Segments of the market that have seen the greatest inflows, both historically and/or in recent periods, have witnessed increased competition and precipitous spread compression. The upper middle market sponsored lending market, for example, has seen new loans originated or outstanding loans repriced as tight as 300 bps to 400 bps over SOFR, offering de minimis illiquidity premium relative to the broadly syndicated loan (BSL) market. Private credit investors can no longer rely on the "beta" of the asset class to deliver an attractive risk-adjusted return.

Yet, investors continue to be drawn to the asset class. As shown in the graph below, private credit fundraising has continued to demonstrate strong momentum in 2024, second to only private equity when compared to other private market asset classes.



Source: Pitchbook.

The increased involvement by institutional investors has coincided in a greater appreciation for the universe of non-corporate-based private credit strategies. Asset-based finance (ABF) has more recently become a diversifying complement to most private credit exposures. The ABF market is exceedingly broad-based in terms of collateral type and investment structure. Certain ABF strategies will seek to own a cash-flowing asset outright, while others will lend against a cash-flowing asset. Comparing this market to private corporate lending, certain segments are significantly more scalable due to low barriers to entry. Significant capital flow and high competition reduce risk-adjusted returns.

One possible attractive segment of the ABF market is US residential credit, a massive market estimated at $14 trillion debt outstanding across US residential mortgages and homebuilder finance. Despite its size, barriers to entry are substantial given the needs for specialized origination, servicing, and asset management. While the magnitude and breadth of the US residential credit market creates interesting opportunities to originate and acquire individual securities on a performing, sub-performing, and non-performing basis, additional opportunities are borne out of the ability to package and securitize assets characterized by uncorrelated cash flows with resilient (historically appreciating) collateral values.

The US residential credit investment landscape has been significantly shaped by four key factors: fluctuating mortgage rates, housing supply shortages, substantial homeowner equity, and the retreat of traditional lenders. In addition, the impending Basel III Endgame regulations are expected to curtail bank participation in mortgage lending, potentially favoring lower-risk borrowers and conventional mortgages.

Current market conditions present compelling investment opportunities. Key areas for potential returns include second lien mortgages and HELOCs, which capitalize on high home equity levels while offering attractive rates and remaining more economical than cash-out refinancing. Additionally, homebuilder finance opportunities, such as short-duration transitional and bridge loans for new construction and property flipping, command higher rates than conventional mortgages. Lot banking has also emerged as a strategic opportunity, supporting homebuilders' transition to asset-light models, addressing housing supply shortages, and improving their ROE.

PRIVATE EQUITY AND VENTURE CAPITAL

The results of the 2024 Presidential Election are likely to have a significant impact on both the private equity and venture capital landscape, particularly in healthcare, cryptocurrency, technology, and financial services. As regulatory approaches evolve, deregulation and changes in the M&A market are likely to be central themes heading into 2025, shaping the outlook for these industries.

The healthcare services sector has seen considerable growth, especially within the Health Insurance Exchange (HIX) market, where it has become a key player in expanding care. However, recent volatility in the sector has created uncertainty, especially among Medicare Advantage (MA) plans. The nomination of Robert Kennedy Jr. to lead the Department of Health & Human Services has increased unpredictability.

Despite these challenges, there is optimism for biotech investors. Key appointments, such as Martin Makary to the FDA and Mehmet Oz to the Centers for Medicare & Medicaid Services (CMS), signal potential deregulation and support for industry innovation. Makary is expected to push for reforms aimed at expediting medical treatments' approval through a data-driven approach. Oz's long-standing support for Medicare Advantage could bring positive changes to the program, possibly fostering more privatization and benefiting companies pursuing value-based care models. As these dynamics unfold, there will likely be winners and losers within the healthcare services sector, but the overall sentiment is cautiously optimistic.

Cryptocurrencies, which have been at the center of regulatory uncertainty, are positioned for potential tailwinds in 2025. In recent years, the lack of a clear regulatory framework has hindered the development of crypto. However, the introduction of FIT21 (Financial Innovation and Technology for the 21st Century Act), a bill that passed the House, proposes clearer guidelines for classifying tokens as securities or commodities. This move is seen as a potential game-changer for the industry, offering a more structured environment for growth. The new administration's crypto-friendly stance – bolstered by over 200 pro-crypto now serving in Congress – has positioned the sector for a more favorable regulatory climate. This shift in the political landscape could fuel investor confidence and further propel the adoption of cryptocurrencies as both a mainstream and institutional asset class.

The technology sector, particularly small-cap companies, is expected to see robust M&A activity. Small-cap tech firms, especially those involved in artificial intelligence (AI), software development, and cybersecurity, are likely to remain attractive targets for mergers and acquisitions as investors look to capitalize on rapid innovation and evolving technologies. An accommodative FTC with a more lenient approach to M&A could further accelerate these trends in 2025. Similarly, the IPO market is anticipated to gain momentum, with high-profile companies like Databricks making headlines. The data and AI platform raised a $10 billion pre-IPO funding round at a $62 billion valuation, highlighting the growing demand for cutting-edge technologies that drive data-driven transformation across industries.

REAL ASSETS

The real estate market in the fourth quarter of 2024 showed signs of stabilization and recovery across key sectors. Asset values have rebounded from their prior 2024 trough, driven by compressing going-in yields, increased bidder depth, and a resurgence of institutional buyers. Yields for core assets compressed by 25 to 30 basis points since Memorial Day, with healthy rental rate growth underpinning investor confidence.

In US commercial real estate, the office sector experienced uneven recovery. New York City led the rebound, while San Francisco and Chicago struggled with remote work trends which have begun to reverse with recent announcements along with the AI boom from companies like YC. Prime retail locations showed renewed activity, reflecting broader confidence in key market segments. Over the past 25 years, commercial real estate (office, retail, industrial) has consistently outperformed corporate bonds and non-agency CMBS, with strong returns even in periods of cyclical disruption.

Residential and multifamily markets continued to grapple with affordability challenges particularly in cities like Toronto where the luxury market continues to outperform while lack of supply in other non-luxury segments compounds these challenges. Housing prices rose 3.4% year-over-year amid limited supply. The luxury segment outperformed in cities like Toronto where Multifamily assets, however, saw robust demand in cities like Phoenix, Dallas, and Atlanta. Green Street's tightened national multifamily cap rates following the KKR/Quarterra transaction highlight the sector's resilience and positive rental growth outlook. Rising mortgage rates increased suburban distressed sales.

Lending trends were defined by a dominance of refinancing as acquisition financing approached an inflection point, supported by tighter spreads and moderating interest rates. Lenders became more active, pursuing and winning deals, while the 2025–2026 maturity pipeline expanded with exhausted extension options acting as a catalyst for increased activity.

Construction activity fell sharply, impacted by high costs and interest rates. Office and industrial sectors saw an 80% decline from peak starts, hitting the lowest levels since early 2024. This slowdown has led to supply shortages, creating opportunities in affordable housing, industrial facilities near growing populations, and Tier 1 office assets.

Industrial real estate remained strong, driven by demand for last-mile distribution centers and e-commerce growth. Rent increases persisted, alongside a focus on energy-efficient and green-certified warehouses.

Private capital markets also improved. US core funds (ODCE) saw redemption queues peak at 19% in Q2 2022 before stabilizing at 18% by mid-2024. Positive quarterly returns and increased acquisition activity are expected to further reduce queues and bolster asset values.

Looking to 2025, multifamily and industrial sectors are poised for continued growth. Interest rate trends will influence pricing and borrowing costs, while housing policy changes will shape investment strategies. With stabilizing markets and renewed institutional activity, CRE offers opportunities for long-term value creation and portfolio diversification.

Important Disclosures & Risk Considerations

The contents herein are intended for informational purposes only. The information presented is based upon RockCreek's interpretation. There can be no guarantee that the information presented is accurate. The information presented does not constitute tax, legal, investment or regulatory advice, and we encourage you to consult your legal and/or tax advisors should you have any questions relating to the materials presented herein. Opinions expressed reflect the current opinions of the Rock Creek Group as of the date appearing in this material only.

This material is intended only to facilitate your discussions with RockCreek; it is not intended to be used as a general guide to investing, or as a source of any specific investment recommendations, and makes no implied or express recommendations concerning the manner in which any client's account should or would be handled, as appropriate investment strategies depend upon the client's investment objectives. Information included herein may be provided to discuss general market activity; industry or sector trends; or other broad-based economic, market, or political conditions. Discussions herein concerning general economic conditions and political developments are not intended to be used as a general guide to investing, or as a source of any specific investment recommendations, and RockCreek makes no implied or express recommendations or warranties concerning the manner in which any account should or would be handled, as appropriate investment strategies depend upon the investor's unique investment objectives. This document does not constitute an offer or solicitation with respect to the purchase or sale of any security in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it would be unlawful to make such offer or solicitation. As such, the information contained herein has been prepared solely for general informational purposes. None of RockCreek or any affiliates or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein shall be relied upon as a promise or representation as to the past or future performance. Information and opinions are as of the date of this material only and are subject to change without notice.

Any information contained herein regarding a fund or manager is based upon information prepared by the underlying manager. RockCreek has not verified and is not liable or responsible for the completeness or accuracy of such information (including but not limited to any information relating to the past or future performance of such fund or manager, or any related vehicle).

Any information contained herein that relates to an investment in a company is based upon available information prepared by such company. RockCreek has not verified and is not liable or responsible for the completeness or accuracy of such information concerning the company prepared by such company. Prior transactions and their returns are not indicative of future results.

The performance statistics herein, if any, have not been subject to audit.

The volatility of any indices referenced herein may be materially different from that of an investor's account's portfolio. In addition, an account's holdings may differ significantly from the securities that comprise the indices. The indices have not been selected to represent appropriate benchmarks to compare an account's performance, but rather are disclosed to allow for comparison of the performance of accounts and managers in general to that of well-known and widely recognized indices. Information contained herein regarding performance of any index or security is based on information obtained from the indicated sources as of the specified dates, but there is no guarantee as to the accuracy of such information.

The quantitative methods that may be included and described herein are tools used in selecting investments and controlling risk, but such methods cannot alone determine investment success.

Discussions and calculations regarding potential future events and their impact on the account are based solely on historic information and estimates and/or opinions, are provide for illustrative purposes only, and are subject to further limitations as specified elsewhere in this report. No guarantee can be made of the occurrence of such events or the actual impact such events would have on the account's future performance. In addition, the opinions, forecast, assumptions, estimates and commentary contained in this report are based on information provided to RockCreek on both a formal and informal basis. Further, any such opinions, forecasts, assumptions, estimates and commentary are made only as of the date indicated, are subject to change at any time without prior notice and cannot be guaranteed as being accurate.

The materials linked and accessed electronically are provided "as is" without warranty of any kind, either express or implied, to the fullest extent permissible pursuant to applicable law. RockCreek is not responsible for the content of any site linked or linking to this letter. Links from this letter to any other third-party website do not mean that RockCreek approves of, endorses, or recommends that website. RockCreek disclaims all warranties, express or implied, as to the accuracy, legality, reliability, or validity of any content on any other website. Your linking to any such third-party sites is at your own risk.

Please note that the investment outlook and opportunities noted above (and throughout this letter) are prospective and based upon the opinion of RockCreek and there is no guarantee of success in our efforts to implement strategies that take advantage of such perceived opportunities.