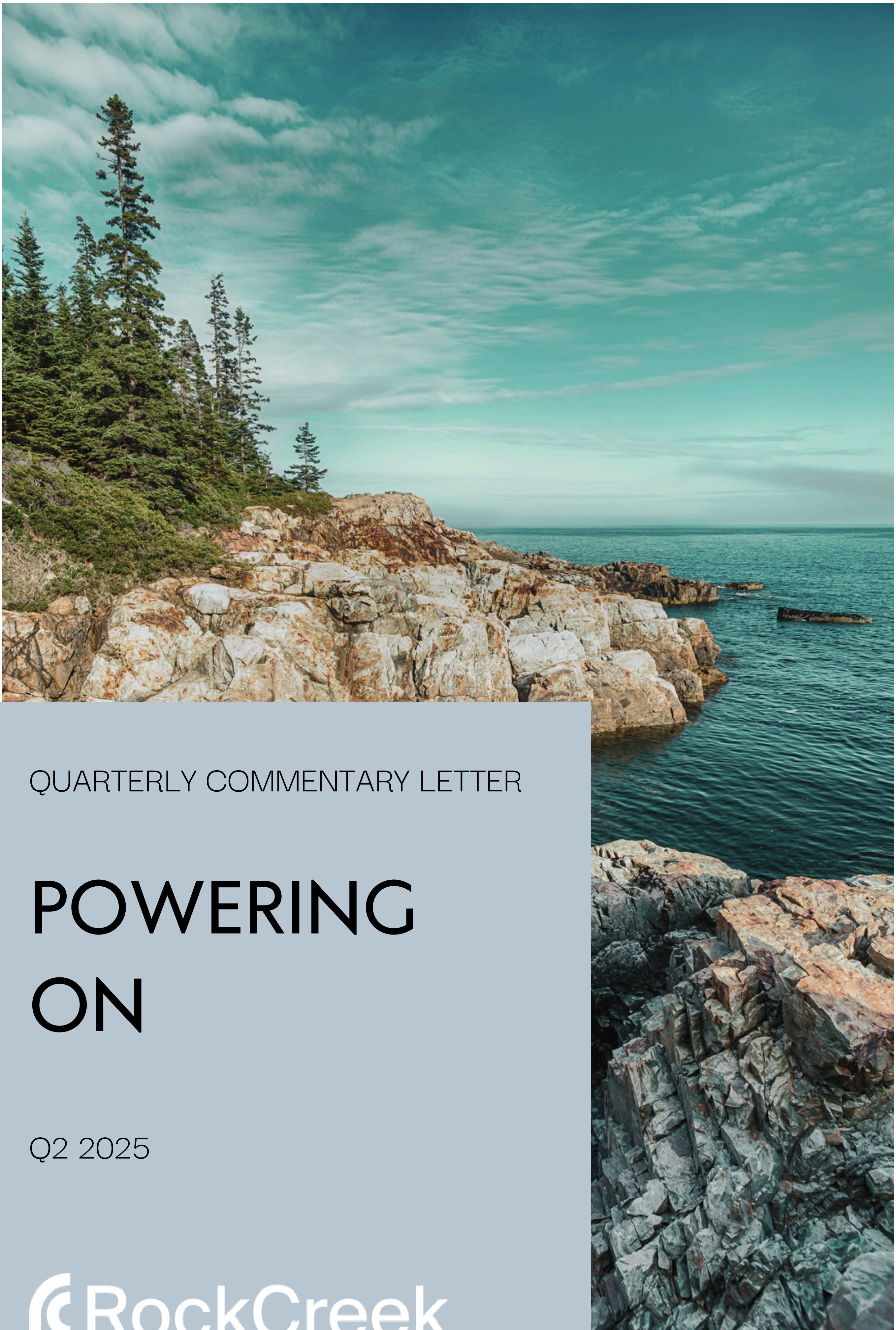
QUARTERLY COMMENTARY LETTER

POWERING ON

Q2 2025



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MACRO ENVIRONMENT

Markets ended Q2 close to or above where they began – and were still climbing as the quarter closed – despite a series of extraordinary economic and geopolitical events.

Have investors become inured to policy and political shocks which came thick and fast in Q2? Or were fundamental strengths buoying equity markets in the US and some other major markets?

Fears of a sharp increase in prices and a possible recession flared at the start of the second quarter, with President Trump's "Liberation Day" announcement of unexpectedly high tariffs on all trading partners. By the end of the quarter, after successive retreats from the highest tariffs, equity markets had recovered – globally and in the US. But for the US, there was a twist. Interest rates are still high, notably at the long-end. And the dollar has dropped sharply.

Recession, what recession?

In Q2, there seemed to be no holding back the US economy. A dramatic increase in risk and volatility at the beginning of the quarter faded as the weeks passed.

Output continued to grow. Unemployment declined, though private sector hiring slowed down. And inflation, while not down to the Federal Reserve 2% goal, remained contained. This apparently steady performance came despite extraordinary twists and turns in economic policy, notably on trade, and amid continued geopolitical turmoil – including an outbreak of hostilities between Israel and Iran that led to massive American bombings in mid-June but did not have a lasting impact on the price of oil.

The second quarter opened with an effective declaration of trade war from President Trump. On April 2, the President announced much higher than expected tariffs on allies and adversaries alike. This shocked investors and threatened to trigger a run from US assets. Fears of recession and higher inflation abounded. Equities sank and bond yields shot up. Talk of a shift in the global economy away from US dominance became widespread. But while the President continued to insist on the need to curb the trade deficit with protectionist measures, he quickly moved to soften the blow on April 9 by deferring the highest "reciprocal" tariffs for 90 days to July 9. (The White House has since announced a further delay to early August.)

After April 9, investor concerns gradually faded. President Trump repeatedly threatened to impose extraordinary increases in tariffs – in the case of China, to a level of over 100%, equivalent to a block on trade. But the President either postponed or cut short the biggest increases, leaving a base rate for "reciprocal" tariffs of 10% on most imports. Exceptions for both higher and lower

ROCKCREEK SEES THREE MACRO THEMES FOR INVESTORS TO WATCH IN Q3:

01

DOLLAR WEAKNESS AND INTERNATIONAL DIVERSIFICATION

Dollar weakness – after dropping 10% in the first half of 2025, will the dollar stabilize? A fundamental shift in investor views of the dollar was evident in April. Risk-off sentiment caused the dollar to fall, in contrast to the traditional pattern of a flight to safety. That phenomenon was evident again in mid-July. The dollar dropped in the brief period when markets feared that the Federal Reserve Chair was about to be fired. Evidence of US economic resilience has helped to stabilize the currency at around $1.17 to the Euro. But a strong rebound remains unlikely. Other developed markets, long seen as undervalued but also unattractive, are coming into their own. It is more likely given the potential for a more political Fed and the other economic shifts in the US for the dollar to continue weakening relative to the Euro, Yen, Swiss Franc and for gold to continue strengthening.

02

INTEREST RATE MOVES AS PRESSURE BUILDS ON FED CHAIR JEROME POWELL

Interest rates – other major central banks have cut rates in 2025; when will the Fed follow? Obviously, economic dynamics in Europe, Japan and many emerging markets differ from the US. The Federal Reserve has held off cutting policy rates this year. It is unlikely to move until the end of Q3, in September. Louder calls from President Trump for an earlier cut will not move Chair Jerome Powell, even if he faces a split in the July meeting. There was an unusual public pushback from two Fed governors appointed by President Trump to Powell's June message of continued "wait and see". But the inflation data is not good enough, and the labor market data not bad enough, to justify moving.

03

TARIFF AND TRADE UNCERTAINTY

Tariffs – how will they impact the US and global economy? In Q2, the few signs of an impact from higher tariffs on prices and growth were smaller than economists expected. The White House has now pushed to August the deadline to reimpose the high "Liberation Day" April 2 tariffs. Markets expect further changes that will temper the impact on the economy. But even without further increases, the current effective tariff rate, estimated at 12-15% across all imports, is far higher than the 2-3% average of the past 50 years. That represents a tax increase on Americans likely to be felt in the second half of 2025.

rates have put the effective average rate at 12-15%. By the end of June, US equity markets were well on their way to new record highs. After a volatile ride through April, bond yields also stabilized. The key 10-year Treasury yield ended the quarter lower than three months earlier. It is still high relative to pre-pandemic levels.

There is an important twist to the story of continued demand for US assets and US exceptionalism. The US dollar fell, yet again, in Q2, ending the quarter some 7% lower against major trading partners than at the end of March. Indeed, the first half of 2025 saw the biggest six-month dollar decline for more than fifty years.

Back then, in 1973, the US experienced the first oil shock, rising inflation, and uncertainty about the role of the dollar after the break-up of the post-WW2 system of fixed exchange rates. In 2025, some again have cast doubt on the dollar as the anchor of the global financial system. A sustained flight from the US currency and economy is unlikely. There is no other major economy with an equivalent deep and liquid financial market. But foreign investors who continue to buy US assets – funding the current account deficit – have started to hedge some of their exposure this year, reflecting more uncertainty about the likely direction of US policy and the economy. Investors in the US are increasingly considering leaving their non-US exposure unhedged.

It is also too soon to conclude that tariffs and policy uncertainty will not affect the US economy. The larger tariff numbers threatened by President Trump in April have not yet happened. The President has recently said he would impose even higher rates in August on some countries, e.g., 50% on Brazil. Even if he backs off from raising tariffs further, the current tariffs will continue to work through the system in coming months. Strong payroll growth in Q2 largely reflected public sector jobs – at state level – rather than private sector growth. Other labor market data show a static labor market, with few layoffs but also fewer hires. Corporate earnings reports this year will start to shed more light on whether companies are affected by cost increases. Large companies with greater ability to switch suppliers are less likely to be hurt.

Sentiment indicators suggest that consumers are worried, although June was a little better than earlier in Q2. A pullback in consumption – which has been the engine of US, and global, growth – would ease inflation fears and hasten likely rate cuts. But it would also slow growth and employment. The passage in early July of the President's "One Big Beautiful Bill" may do little to support the economy. Although it contains large tax cuts, these are mainly extending policies already in place but set to expire. And the bill, which polls unfavorably, favors the wealthier who spend less, while cutting benefits, notably Medicaid, for those who tend to spend more.

The US versus the world? Not so much.

President Trump's early April trade announcements reinforced fears after his inauguration that the US would seek to decouple from the rest of the world and abandon its historic leadership role on global issues from climate to finance and security.

The April 2 move away from established global norms for trade policy followed earlier decisions that signaled disengagement. The Secretaries of State and Treasury did not attend meetings of the G-20 in Q1, Elon Musk's Department of Government Efficiency effectively dismantled US overseas aid assistance, and Administration officials questioned the cost to the US of the reserve role of the US dollar. On the most important foreign policy issue for Europe, Russia's continued fight against Ukraine, the new Administration's initial worrisome stance was made vivid with the White House treatment of Ukraine President Volodymyr Zelensky. More broadly, allies feared that the Administration's commitment to NATO might flag.

Since then, although uncertainty persists, notably on trade, something of a sense of normalcy has returned in America's foreign relations. That has contributed to improved investor sentiment. On the dollar, President Trump has made supportive comments about the US reserve currency role: "You leave the dollar, you are not doing business with the United States." Treasury Secretary Scott Bessent has reiterated that a strong dollar policy is in place, while noting that the US reserve currency role does not mean that the currency may not depreciate. On trade, traditional allies and partners avoided retaliatory measures in Q2 and mostly tried to reach accommodation with the US.

In June, President Trump attended the G7 and NATO leaders' summits. At NATO, the President allayed fears of US withdrawal as European and Canadian members agreed to an unprecedented rise in the goal for defense spending to 5% of GDP, substantially above the current 3% spending level in the US. At the G7 summit, hosted in mid-June by newly elected Canadian Prime Minister Mark Carney, President Trump complained about Russia's exclusion from the group and left early, despite a planned meeting with President Zelensky. But more recently, the President appears to have lost patience with Russian President Putin. He has had cordial interactions with President Zelensky and – most importantly – pledged immediate weapons supply, albeit to be financed by others.

If not the US, then where?

Estimates of global as well as US growth were marked down sharply in the wake of the April 2 tariff announcements by both private and official forecasters. The odds of a US recession climbed. In the US, the consensus forecast is now about one-third probability, with a few outliers who still expect a 50% or greater chance of a US recession this year.

As doubts grew about continued rapid growth in the US economy and earnings, investors have looked with more favor on other developed markets. That makes sense. As noted in our last quarterly report, this year has seen an important shift towards expansionary fiscal policy in Germany – the largest European economy. The European Central Bank – and other major central banks – have continued to ease policy while the Fed has stood still. Other developed market currencies also may strengthen. Canada is more vulnerable to trade policy in the US, which accounts for three-quarters of its exports. But this dependence is mitigated by the US need for Canadian commodities and power, the intertwined supply chains in the auto industry, and the US-Mexico-Canada trade agreement (USMCA) that was negotiated by Trump in his first term.

Why the Fed is standing still

Since the Federal Reserve began its current easing cycle in September 2024, financial markets have tended to expect more rate cuts than the Fed has indicated or carried out. To the frustration of President Trump, the Fed held steady throughout the first half of 2025. As Fed Chair Jerome Powell has indicated, the degree of uncertainty from tariff policy puts a high premium on steady monetary policy. Better-than-expected inflation numbers in April and May opened the way for Fed rate cuts. But the June data suggested that the Fed's preferred measure of inflation, PCE, was still higher than the central bank would like. And with few signs of a collapse in the labor market, most of the Fed policymakers see no need to rush. The latest Fed minutes show the central bankers still expect tariffs to feed into the inflation data, making it wise to hold still over the summer.

More important for households are the longer-term rates that determine the cost of mortgages, auto loans, and credit card rates. The yield on 10-year Treasuries came down somewhat during Q2, but not enough to meaningfully reduce mortgage rates, which were still hovering around multi-decade highs at 6.8% at the end of the quarter. With a large and growing fiscal deficit, a return to much lower rates is unlikely, even if the Fed goes ahead with a cut in its policy rate later this year.

SUSTAINABLE INVESTING

The second quarter was full of drama for sustainable investing. The quarter started with Trump's "Liberation Day," which included a number of steep proposed tariffs on many of the countries that are essential to the production of hardware associated with the energy transition. The quarter ended with back-and-forth between the House and the Senate over the One Big Beautiful Bill (OBBB), each version of which contemplated different treatment of key Inflation Reduction Act (IRA) incentives for clean energy and related solutions.

As the quarter-long soap opera concluded, how the dust settled differs significantly by sector. Carbon capture, nuclear power, and sustainable fuels saw an extension and expansions of terms of the IRA. Energy storage projects largely remained untouched, although IRA incentives for renewable energy projects that are typically paired with such projects saw earlier sunsetting than what was originally contemplated. Green hydrogen similarly saw a shorter runway for incentives. Consumers – both of EVs and of residential solar – were the losers, seeing incentives going away faster.

The need for power and for modernizing the grid is increasing rapidly and existing power projects, as well as those underway, should ideally continue so as not to delay meeting energy needs. Most estimates show energy from all sources will be needed for AI. Also, the underlying drivers behind sustainable investing – climate change, energy security, and industry modernization – have not changed. The sustainable investing industry is historically used to this type of policy whipsaw (e.g., prior to the IRA, renewable energy tax incentives typically expired on a nearly annual basis; while the OBBB shortens the runway of incentives, the sector still has more guaranteed incentives than it has historically seen). The volatility created from the policy arena is also creating opportunities for agile growth-stage companies that can navigate the new environment.

China has been growing its renewable energy the fastest. In the US private market investing rose 21% in H1 2025 compared to the same period in 2024, according to CTVC. This growth was driven by growing interest in gridtech, nuclear power, and SAF, each of which had a number of companies raising large rounds. Europe did not keep pace, leading to an overall reduction in capital invested globally YTD relative to the same period in the prior year.

While some investors are pausing to reassess, others see the current environment as an opportunity to invest in strong companies at more attractive valuations.

PUBLIC EQUITIES

Developed market equities surged by 11.5% in the second quarter, bringing them to 9.5% YTD, as measured by the MSCI World Index. US equities were particularly volatile coming off a negative Q1, dropping another 12% during the week immediately after the April 2 tariff announcement. At that point, negative sentiment towards the US bottomed out and the S&P 500 went on to stage an impressive rally, finishing the quarter up 10.9%, and YTD 6.2%.

The US market was led again by large-cap growth, especially companies benefiting from AI Innovation. The Mag7 outperformed the broader S&P 500 while tech sector momentum quickly broadened across other segments of semi makers, software, power generation, and related commodities. Many semiconductor equipment companies remain well below their previous highs due to evolving restrictions on selling into China, although global demand remains extremely robust with outlays expected to exceed $100 billion this year. Global chip sales totaled $624 billion last year and are forecasted by some to exceed $1 trillion by 2030. It's quite extraordinary how broadly the market's conviction in AI and demand for computing resources have fortified since the DeepSeek saga this past January.

Market breadth was quite robust with industrials, consumer discretionary, utilities, and financials also generating solid returns in Q2. On the other hand, energy and healthcare exposures were quite challenging with energy hurt by concerns of oversupply of oil and gas amid an economic slowdown and healthcare impacted by a combination of regulatory and policy uncertainty and persistent cost pressures. Meanwhile, uneven risk appetite weighed on unprofitable biotech and small-caps more broadly.

European equities were up about 3.0% in local currency terms; however, the US dollar's substantial weakness provided a significant boost to international holdings with the MSCI Europe posting a +9.4% gain in US dollar terms. Banks, defense companies, and industrials were propelled by monetary easing, lower inflation, and fiscal spending, particularly Germany's renewed spending commitments to infrastructure and defense. European valuations remain significantly cheaper than US peers. However, questions remain as to whether Europe can make the necessary structural changes to sustain economic growth and continue attracting capital flows.

Asian markets broadly outperformed Europe with the MSCI Pacific ex-Japan and MSCI Japan indices recording Q2 gains of 14.2% and 11.4%, respectively, in US dollar terms. Asian equities benefited the most from the easing in trade tensions with technology companies across semiconductors and software remaining key beneficiaries of the overarching momentum of AI. However, it is worth noting how currency strength and US tariffs are expected to weigh on the profits of exporters. Due to tariffs and currency fluctuations, total net profits of companies listed on Japan’s TSE Prime market are forecasted to be down 7% from a year earlier, which would be the first decrease in six years. Investors are more bullish on the outlook for consumer cyclicals, technology, and domestic infrastructure that are more insulated from global trade tensions.

After many quarters of crowding into US equities, investors have continued to rebalance, seeking diversification both globally and within the US. Earlier this year, capital flowed out of the US and into Europe, though that trend has cooled recently with profit-taking triggering outflows from both regions. Within the US, flows have favored under-owned areas like infrastructure and financials, with industrials notching 11 straight weeks of inflows and small-caps outperforming large-caps in recent weeks. Meanwhile, US tech may be getting affected by profit taking, and early signs of renewed interest in Asia are emerging. Despite the S&P 500 trading at a stretched 21.9x forward earnings – well above its 5- and 10-year averages – earnings expectations are sliding, with projected Q2 growth now just 5.0%, down sharply from 9.4% three months ago.

DOLLAR – DOWNDRAFT OR DOLDRUMS?

Approximately three months after the announcement of sweeping “reciprocal” tariffs on “Liberation Day,” asset prices have more than recovered from the sharp drop induced by the policy announcement. One notable exception is the US Dollar. The dollar is 10% weaker YTD as measured by both the US Dollar Index (DXY) and the Bloomberg Dollar Index (BBDXY), with about two-thirds of that performance coming in the second quarter. Both indices calculate dollar strength based on a basket of currencies, and while DXY is often the most quoted, BBDXY is a more diverse basket of foreign exchange. As such both are highlighted to emphasize the breadth of weakness being exhibited by the dollar. Standouts include traditional safe-haven currencies such as the Euro and Swiss Franc rising about 14% each against the greenback through June 30. There are more pro-cyclical currencies, including those in emerging markets, that have performed nearly as well, including those from Norway and Mexico. In fact, a broad index of only emerging market currencies is 7% stronger over the same period.

Arguably, the single most notable attribute of this recent bout of currency weakness has been the dollar’s inability to act as a haven currency in the wake of the tariff announcements and subsequently. There have been brief periods of time since April 2 where risk-off/dollar higher has worked, including in some of the tense Iran moments as well as following the posting of letters to Japan, Korea South Africa, and other trade partners on July 7, but overall, the dollar has not been the traditional ballast to portfolios that it has been for many years. Non-currency alternatives, specifically Gold and Bitcoin, have held up well overall, but it is clear that Bitcoin continues to have other drivers of performance aside from safe-haven demand. Demand for gold has been bolstered in recent years by a steady flow of central bank buying as they look to diversify their reserves.

This behavior has caused investors to question, really for the first time in decades, whether there actually is such a thing as too much dollar exposure. While it is early and the discussions are ongoing, it does appear that the answer is yes, and that investors are exploring and implementing ways to reduce their exposure. So far, the primary mode of reduction has been through hedging and withholding additional inflows to dollar-denominated assets.

So, what is driving this weakness? First, it is important to highlight that for the dollar, the concern about the currency’s haven status can, itself, drive further weakness and potentially create a negative feedback loop. More fundamentally, ongoing concerns about the fiscal deficits have weighed on investors’ minds for some time. This, coupled with an aggressive anti-globalization agenda pursued by the current administration, has catalyzed a move lower and accelerated the discussions mentioned above on foreign investors’ dollar exposure. Where it ends is not entirely clear: a weaker dollar can benefit the administration by offsetting tariff price pressures but, as mentioned above, there are indications the Administration still wants a strong dollar. Perhaps most importantly, the actions of investors, both domestic and foreign, are not governed by the Administration's preferences.

PRIVATE EQUITY AND VENTURE CAPITAL

Momentum in private markets continued to build in Q2, with a steady drumbeat of highly anticipated IPOs, a handful of notable funding rounds, and an AI talent acquisition spree led by Meta.

According to Dealogic, US IPO and M&A volumes in the first half of 2025 reached their highest levels since 2021. A total of 174 companies raised more than $31 billion through IPOs, while US M&A activity is approaching $1 trillion. Among the more notable public debuts were two fintech companies – Circle (NYSE: CRCL) and Chime (Nasdaq: CHYM); two digital health companies – Omada Health (Nasdaq: OMDA) and Hinge Health (NYSE: HNGE); and one space and defense tech firm – Voyager Technologies (NYSE: VOYG).

These IPOs didn't just price well, they held up through the quarter, signaling growing investor confidence in businesses with real earnings and structural tailwinds. Circle, which debuted in mid-June at $31/share, surged 168% on its first day to close at $83, and by June 30 was still trading near $181, maintaining a ~490% premium. The move was buoyed by strong Q1 revenues and renewed optimism around crypto regulation following the passage of the GENIUS Act. Chime priced at $27 (above the expected range), opened at $43, and closed day one with a 59% gain. The stock remained elevated through June, reflecting steady institutional demand. Hinge Health, the first significant VC-backed digital health IPO in over three years, priced at $32/share and raised $437 million at a $2.9 billion valuation, roughly 60% below its 2021 private round. The stock closed day one at $37 and held steady into the end of Q2. Omada, another digital chronic care provider, priced at $19 and opened at $23 (+21%), climbing over 30% intraday and finishing the quarter in the mid-$20s. Voyager Technologies priced at $31 and saw a 125% day-one pop, trading near $70 before settling in the $50 range by quarter-end. Each deal priced within or above expectations, evidence that the IPO window is no longer theoretical, but functional for businesses with traction and narrative clarity.

According to Pitchbook data, Buyout activity slowed a bit, with quarterly volume at its lowest level since the third quarter of 2020, though the total dollar volume remained strong. Venture activity also remained strong in targeted areas. Investors continued to back companies solving complex technical problems, with outsized capital concentrating around AI infrastructure and applications. Most notably, Anysphere (Cursor), an AI-native coding assistant, raised $900 million at a $9 billion valuation, while Safe Superintelligence (SSI), founded by OpenAI co-founder Ilya Sutskever, raised a $2 billion Series B led by Greenoaks, valuing the company at $32 billion.

Unlike past cycles, where incumbents were often slow to adapt, today's tech leaders are moving aggressively. After months of acquisition rumors, Scale AI surprised many by announcing a talentcentric deal with Meta, one of two major “acqui-hires” the company completed this quarter. The other, SSI (mentioned above), was less about scale and more about strategic signal, reinforcing Meta’s push to reshape its AI leadership bench in a post-OpenAI world. Meta allegedly attempted to acquire SSI outright before pivoting to a strategic acqui-hire, bringing on SSI co-founders Daniel Gross and Nat Friedman, co-founders of AI investment firm NFDG and among the most respected minds in AI and entrepreneurship. Gross, formerly head of AI at Apple and a Y Combinator partner, will reportedly lead Meta’s new superintelligence group, reinforcing the extent to which AI talent has become as strategic as infrastructure itself.

Meanwhile, the secondaries market is heating up. Yale is reportedly moving forward with a $3–4 billion sale of private equity fund interests (prior rumors suggested $6 billion), one of the largest LP-led transactions ever. According to StepStone, LP-led secondaries volume is up 22% year-over-year, with the denominator effect and constrained institutional budgets driving renewed urgency.

Taken together, Q2 marks a definitive step forward. Exits are happening and capital is flowing. While macro risks remain, the private markets have clearly moved from frozen to selective, and in some sectors, even competitive again.

FIXED INCOME

The second quarter of 2025 was an exciting one for fixed income. While both the Global and US Aggregate indices finished the quarter in positive territory, the path upward was anything but direct. In addition, global bonds outperformed the US by the widest margin (more than three percentage points) since the third quarter of 2010. While currency performance accounted for the vast majority of outperformance between the two it is worth highlighting the credit and duration components of the indices as well. Duration outperformed in various geographies vs. the United States, and the net tightening of credit spreads was essentially equal through the quarter.

On a net basis, the total return credit spread tightening added to performance in fixed income was positive, with US spreads outperforming rest of world by a few basis points. The Global Agg finished the quarter nine basis points tighter vs. eleven for the US Agg. Despite this positive contribution from credit in the end, it was far from certain that would be the case for a significant part of the quarter. While spread widening began in March of this year, it accelerated drastically in April as the threat of financial Armageddon intensified in the early days of “reciprocal” tariffs. The US Agg average OAS spread opened the quarter at about 94 basis points and reached a high of nearly 120 basis points in early April, closing the month well above 100 basis points. As the worst risks of the announced trade policies faded from the front of investors’ minds in May and June, the indices more than recovered the April move and near their February tights.

Duration was a net beneficiary for global bonds vs. the US for the quarter. At the outset of the quarter, amidst that immediate risk off move in assets, 10-year rates rallied across geographies, with Japanese rates moving quite aggressively – even exhibiting signs of position unwind – likely from hedge funds that were short the bonds to express a view on monetary policy. As markets digested the tariff news, including the 90-day extension, rates began to normalize, but this time it was the Treasury issue that stood out. US 10-year rates began to back-up above their pre-announcement levels and continued to do so throughout the quarter on inflationary, fiscal, and flow concerns. European and Japanese 10-year rates ended the quarter lower, while US equivalents ended slightly higher. This was true for points across the curve from 1-10 years in Japan and 1-20 years in Europe. In the US, 1-7 year points also ended the quarter lower but 10s out were all higher. Against Europe in particular, the belly did not rally as much.

Last, but certainly not least, currency exposure was a major contributor to global bonds’ excess returns in Q2. In fact, Bloomberg’s attribution model indicates that currency added more than 90% of the excess return during the quarter. While it may seem that saving this section for last is burying the lede, the real rationale is that there is a whole special section of this note devoted to the weakening US Dollar.

PUBLIC CREDIT

As discussed above, credit markets experienced a jolt at the start of the second quarter following President Trump's announcement of the "Liberation Day" tariffs. At the height of the turmoil, high yield spreads widened by approximately 120 basis points in just ten days. Even after volatility subsided, the market remained largely shut throughout April. The high yield market saw no new bond issuance for two weeks post-announcement. Likewise, leveraged loans and CLOs paused activity, waiting for more clarity on tariff policy. However, CLOs posted record issuance in May, evidence of continued strong investor demand.

The "Liberation Day" tariffs generated volatility that tested the resilience of credit markets. Higher quality bonds proved more stable, as investors rotated up in credit quality and away from names with elevated default risk. CCC-rated debt has yet to recover alongside other tranches and continues to underperform the broader credit market on a year-to-date basis. Simultaneously, tariffs and broader economic uncertainty placed upward pressure on the long end of the yield curve throughout most of Q2, rendering longer duration corporate assets less attractive. With both high- and low-rated credits facing headwinds, investors gravitated toward short-duration, higher-quality names. This particularly included BB and B-rated bonds, both of which returned +3.5% in Q2. As demand for these segments increased, index pricing migrated incredibly close to par.

In the immediate aftermath of the tariff announcements, investors not only sought to migrate into quality in the corporate market but also to uncorrelated asset classes. Structured products, specifically CMBS and MBS, were seen as safe havens in days following the announcement. Their differentiated collateral provided downside protection that was attractive in the risk-off environment. Furthermore, the diversification of the asset class through wide collateral pools provides additional protection. Although structured products later sold off as market conditions normalized, April served as a useful test case in assessing investor behavior for sustained credit volatility. The market's response suggests that structured products remain a preferred vehicle for defensive positioning in this scenario.

As mentioned in other parts of this letter, a preference for non-dollar assets was a theme for Q2. This extended into credit markets. Europe, in particular, has strong credit market-related tailwinds, including equity support through investment, a falling rate environment, and fiscal stimulus. Flow data from Europe supports an increase in investment based upon an improved view of risk sentiment. However, Europe is also seeing dispersion between high- and low-quality credits, with CCCs severely lagging other tranches. This is creating pockets of the continent where knowledgeable investors have a strong opportunity set for outsized returns.

PRIVATE CREDIT

The growth in Asset Based Finance (ABF) has redefined the typical institutional allocation to private credit. Many institutions have now looked beyond the scope of corporate direct lending and built exposures in these more “esoteric” strategies, with the goal of generating additional yield and downside protection through diversification and hard-asset collateral. Institutional appreciation and capital flows have, however, begun to shape these markets in similar ways to the corporate direct lending market – with a clear bifurcation between the upper and lower ends.

The upper end of the corporate direct lend market is – in our opinions – crowded. Private lenders are competing with bank-led financing through the Broadly Syndicated Loan (BSL) market. As a result, the illiquidity premium and many creditor protections associated with private loans have disappeared. At the same time, the lower middle market remains fragmented and underserved, offering opportunities for lenders that can underwrite the credit additional credit risk.

Specialty finance has followed suit with large private asset-based lenders now competing more directly with banks, insurance capital, and/or low-cost financing through public or private securitizations. Most scaled transactions are also completed in the form of whole loan purchases or forward flow agreements. In contrast, the smaller end of the market is fragmented, underserved, and more likely to benefit from structural protections.

Even more esoteric segments of the private credit market are starting to bear similarities. Homebuilder finance, for example, has evolved such that solutions are either provided through scaled, bespoke relationships with the largest publicly traded national homebuilders or to the smaller, often privately traded regional homebuilders. The lower end of the market can offer 400 to 600 bps of excess spread for similar or shorter duration land assets of equal quality.

In each case, the need for scaled deployment in the upper end of the market has resulted in less favorable risk-adjusted returns. The need for scaled deployment is not only due to the growing institutional appreciation of the asset class but also a convergence of structural forces.

Consolidation across asset managers and the rise of GP-stakes platforms have pushed alternative lenders up-market in search of larger deals and broader mandates, intensifying competition for large transactions. Simultaneously, the push toward retail fundraising has incentivized scale, further concentrating capital in the upper tier of the market. On the regulatory front, a shift toward looser bank oversight under the current administration has enabled large banks to reassert themselves in credit markets, encroaching on territory once ceded to private lenders. Meanwhile, insurance companies seeking higher returns in a low-yield environment are aggressively allocating to private credit, often with a lower cost of capital, allowing them to outbid traditional private credit funds.

Each of these dynamics has created a crowded and margin-pressured environment at the top of the market. In contrast, compelling alpha remains available to small and mid-sized managers with the flexibility and specialization to access inefficient, overlooked, and underserved segments of the credit landscape.

REAL ASSETS

The private real assets market in the second quarter of 2025 showed signs of recalibration after a period marked by heightened macroeconomic uncertainty. Elevated interest rates and persistent inflation continued to influence market dynamics. Deal activity moderated as financing became more selective and underwriting standards tightened. These factors contributed to wider bid-ask spreads and longer transaction timelines, especially in capital-intensive sectors. Despite these headwinds, institutional demand for real assets as a reliable inflation hedge and income source remained strong. Secondary market transactions increased, providing liquidity options for investors seeking to rebalance or reposition portfolios.

Sector performance this quarter reflected a variety of forces shaping real assets across geographies and asset types. In New York City, the mayoral primary reinforced a strong focus on expanding affordable housing, creating favorable conditions for Section 8 programs and related strategies. Federally, the recent legislation under the Trump administration increased funding for the Low-Income Housing Tax Credit (LIHTC) program and preserved project-based Section 8, providing important continuity and support for affordable housing developers. Meanwhile, changes to Fannie Mae and Freddie Mac's interest rate discounts now remove incentives for projects that qualify solely on green credentials. Discounts remain available only when projects incorporate social or affordability components, emphasizing a more integrated approach to sustainable housing. In the industrial sector, ongoing tariff impacts continue to affect business plans and decision making, especially for markets closely tied to ports and international trade. Elevated tariff costs and supply chain uncertainties are driving demand for flexible industrial spaces near key logistics hubs, reinforcing rent growth and investment opportunities. The office sector remains bifurcated. Prime, top-tier assets in Manhattan and similar gateway markets benefit from constrained supply and robust demand, supporting strong rental rates. Conversely, secondary and tertiary markets face significant headwinds, including elevated vacancy and oversupply, due to evolving workplace preferences and slower leasing velocity. This divergence highlights the need for targeted strategies and active management in office portfolios.

Sustainability and regulatory developments were an important focus during the quarter. Bipartisan support for clean energy infrastructure remains a critical driver for real assets. However, recent legislation signed into law in early 2025, often referred to as the "One Big Beautiful Bill," made notable modifications to the tax incentives first introduced under the Inflation Reduction Act. While many key IRA incentives, such as production and investment tax credits for renewable energy, remain intact, the new law introduces tighter eligibility rules and phase-outs for certain technologies. This results in a more targeted approach to clean energy incentives. Specifically, some emerging clean energy technologies now face stricter criteria and shorter timelines for tax benefits. On the other hand, incentives for grid modernization, energy storage, and electrification infrastructure have been preserved or strengthened, underscoring the ongoing policy focus on scalable and pragmatic solutions that facilitate the energy transition. These legislative changes require investors to be especially diligent in structuring clean infrastructure investments to maximize available incentives. Navigating this evolving regulatory landscape highlights the importance of active engagement and expertise to align real asset strategies with both sustainability objectives and government priorities.

Looking ahead, we expect market volatility and disciplined financing to persist through the remainder of 2025. Transaction activity is likely to remain selective, favoring high-quality assets with resilient cash flows and strategic locations. Private real assets continue to provide attractive diversification and inflation protection, making them a core component of balanced portfolios. Our investment approach prioritizes assets and strategies that combine income durability with environmental, social, and governance integration. We are actively exploring both primary and secondary opportunities to capitalize on market dislocations and evolving trends.

In a complex market environment, disciplined manager selection and thematic alignment are critical to managing risk and capturing value. We remain focused on identifying high-quality opportunities across sectors such as affordable housing and energy transition infrastructure. Our goal is to position portfolios to navigate uncertainty and deliver durable long-term performance.

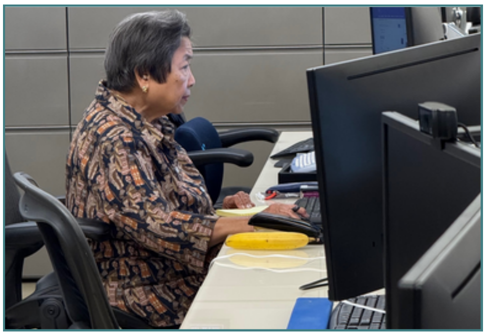
ROCKCREEK UPDATE

ROCKCREEK IN THE NEWS | VIDEO

Afsaneh Beschloss, RockCreek Founder & CEO, joined 'Closing Bell Overtime' to talk about the impact of the Trump tariff rollout and the latest round of tariff threats. Watch here.

FAREWELL AND CONGRATULATIONS TO ELEANOR VALENCIA

We would like to extend our heartfelt congratulations to Eleanor Valencia, RockCreek's Administrative Manager, who just retired.



Eleanor brought a wealth of experience to our firm, having previously worked in the Office of the Vice President & Treasurer at the World Bank. Earlier in her career, she managed budget and administration for the World Bank's Investment Department and worked as a Financial Assistant on derivatives and structured products. Eleanor is a proud graduate of the University of San Francisco, where she earned her B.A. in Economics and of George Washington University, where she did her graduate studies.

We are deeply grateful for Eleanor's many years of dedication and her mentoring of the next generation. Please join us in wishing her all the best as she embarks on this exciting new chapter.

Thank you, Eleanor, for everything—you will be greatly missed!

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