2024 Year In Review & 2025 Outlook

2024 was another banner year for US economic and market outperformance. The main highlights of the year were: record levels of earnings/market/return concentration, the continued unfolding of the AI narrative, crypto outperformance, the beginning of the global monetary policy easing cycle, stimulus measures in China, rate hikes in Japan, elections in a majority of the world's democracies, and ever-evolving geopolitical tensions in Ukraine and the Middle East.

Despite significant sources of uncertainty, our outlook for 2025 remains optimistic. Domestically, AI and the incoming administration's pro-business initiatives continue to bolster confidence. Globally, there are signs of improvement as well (in particular in China and to a lesser extent, Europe). Nonetheless, given the significant uncertainty around tax and tariff policy implementation, as well as the monetary policy trajectory, we believe 2025 will be a volatile, if also positive year for risk assets.

U.S. Economy, 2024 In Review: Against the prognostication of many, 2024 proved to be a year of resilient economic growth, rising but stable unemployment, and continued disinflation. US real GDP grew at 2.7%, delivering its third straight year of growth above 2.5%, and significantly faster than every G7 economy. Though US unemployment has been creeping up since mid-2023, at 4.1% it continues to be below the frictional level of 5%. Most importantly, inflation has continued to meaningfully decelerate towards the Fed's target of 2%, which allowed the Fed to kick-off the monetary easing cycle with a jumbo rate cut of 50 bps in September, followed by 25 bps cuts in November and December. Though 2024 saw various moments of concern over the growth outlook and monetary policy being too restrictive, ultimately the twin engines of the US economy – the consumer and corporate profits – proved resilient.

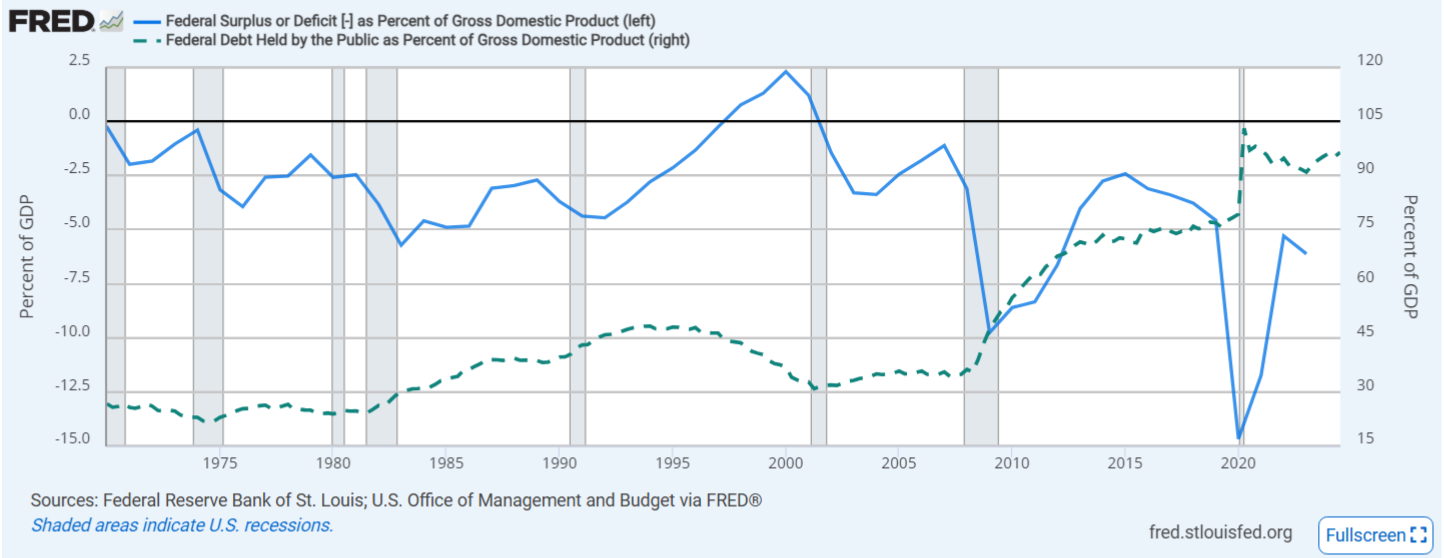
% Real GDP Growth	2022A	2023A	2024A	2025E	2026E	2027E
Developed						
United States	2.5	2.9	2.7	2.1	2.0	1.9
Canada	4.2	1.5	1.2	1.8	1.9	1.7
France	2.6	1.1	1.1	0.8	1.1	1.3
United Kingdom	4.8	0.4	0.9	1.4	1.4	1.5
Eurozone	3.6	0.5	0.8	1.1	1.3	1.4
Italy	4.8	0.8	0.5	0.8	1.0	1.1
Germany	1.7	(0.3)	(0.1)	0.5	1.0	1.0
Japan	0.9	1.5	(0.2)	1.1	1.0	0.8
Australia	4.1	2.1	1.1	2.0	2.4	2.9
Emerging						
India	7.0	8.2	6.8	6.5	6.5	6.4
Indonesia	5.3	5.0	5.0	5.1	5.1	5.0
China	3.0	5.2	4.8	4.5	4.3	4.0
Taiwan	2.7	1.1	4.3	2.9	2.5	3.0
Brazil	3.0	3.2	3.1	2.0	1.9	2.0
Mexico	3.7	3.3	1.6	1.4	1.9	2.3

Source: Factset

2024 also saw a renewed focus on the continued deterioration in the US fiscal situation which has seen the federal government accrue debt at the fastest pace in its history, while running persistent budget deficits of 5-6% of GDP. Though the federal debt has been an ongoing topic of concern since the financial crisis of '08, concern over the increasing share of interest expense in the federal budget has prompted new calls for fiscal restraint. It should come as no surprise then, that the election of a pro-business, and pro-fiscal austerity candidate to a second term as President was received positively by markets.

Trump 2.0: The Trump platform can be distilled into three core economic ideas: (1) private sector liberalization (i.e. lower taxes, less regulation, more investment); (2) trade protectionism (i.e. tariffs) and (3) and fiscal efficiency (i.e. cutting waste in the federal budget). The first is widely seen as a tailwind to continued economic expansion, while the second is viewed with greater skepticism. The third is viewed positively but will ultimately depend on the details of the budget-making process. This is because, though federal spending is expected to decrease, so are tax revenues, such that the ultimate effect on the deficit still remains to be seen. As of now, we are of the view that with the exception of tax cuts and deregulation, most of Trump's policy proposals (particularly tariffs) are bargaining chips with which to extract concessions

from trade partners on a host of issues. We also believe that, though Republicans will control all three branches of government, the majority in the House is razor thin, while the power of individual dissent via the filibuster remains in the Senate. Passing policy that is *too heterodox* with this type of majority will prove difficult (which we see as an ideal outcome). We should also note that Trump's willingness to take more categorical actions to end the wars in Ukraine and in the Middle East are desirable, but not without the possibility of creating short-term volatility.



U.S. Economic Outlook: In general, we agree with the consensus on continued, above-trend economic growth and low unemployment, but are more in the camp that inflation will settle above the Fed's target of 2%, perhaps even reaccelerating towards 4%. In that regard we are somewhere in between the "soft" and "no landing" camps, where economic growth, above target inflation, and higher interest rates continue to coexist. Central to our thinking on inflation is Don Rissmiller at Strategas' work which shows that 9 out of 10 times, waves of high inflation (above 6%) tend to be followed by second waves of inflation. This is explained partly by central banks cutting rates prematurely, and partly by the fact that the cumulative nature of consumer price inflation causes workers to continue driving *wage* inflation even after the initial wave of price increases.

The only reason we believe that there is only *moderate* additional inflationary pressure is that the longer-term disinflationary effects of technological innovation and productivity gains remain in place (and will likely be augmented by the advent of AI). However, if the more extreme Trump trade proposals result in the relocation of production out of low-cost regions, or if a tough stance on immigration policy begins to put pressure on the labor market, we would likely revisit our inflation outlook. However, this is not currently our base case, for the aforementioned reasons regarding legislative consensus and negotiating tactics. To be sure, we believe that reshoring initiatives which secure America's supply chains are longer-term necessities that will be positive for domestic investment and growth in manufacturing and infrastructure. We would just highlight that the short-term cost of those initiatives might be higher consumer prices.

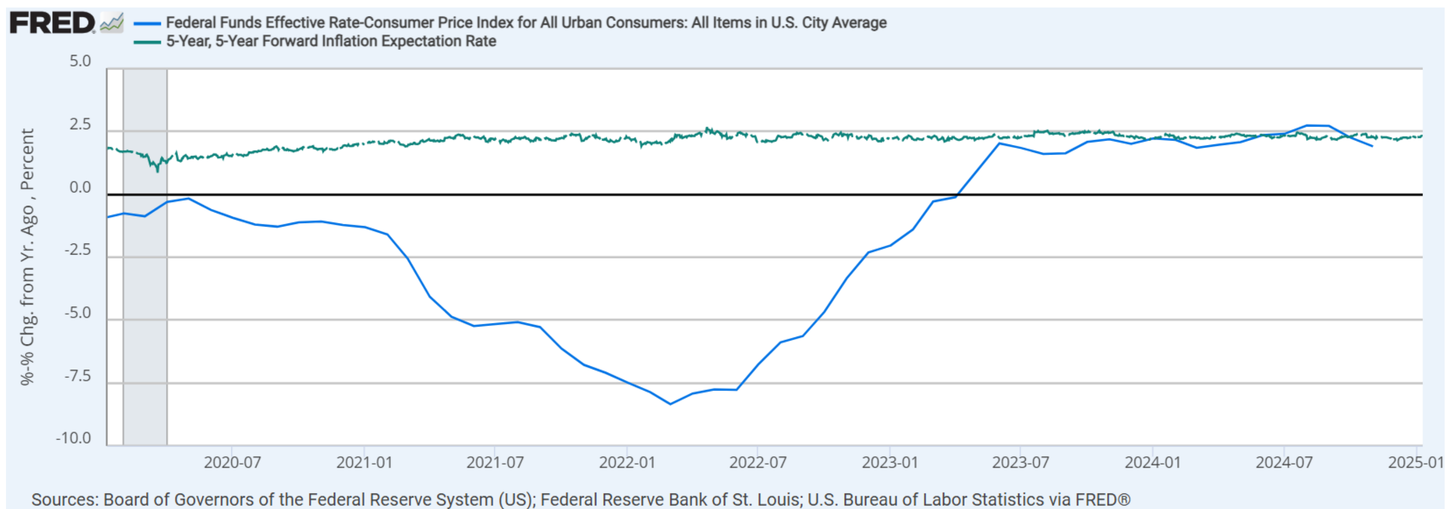
Interest Rates, 2024 in Review: a persistent feature of the last few years, including 2024, has been significant interest rate volatility, as the market has been forced to price, and re-price changing monetary policy outlooks. For the first time since the pandemic, the spread between the 2 and 10 year Treasury yields turned positive, as short-end rates retreated in line with 100 bps of cuts to the Fed funds rate (which now stands at a target range of 4.25%-4.5%). At the long-end of the curve, the 10 Year Treasury increased some 70bps in the first two quarters of 2024, and then proceeded to fall 100 bps as the Fed began to line-up its communication on rate cuts. Since September, however, the long end of the curve has given up the entirety of its mid-2024 gains. Following the election and nomination of Scott Bessent as Treasury Secretary, rates experienced some relief, but have since resumed their upwards march. In our view this price action is a reflection of both (1) the pricing of a higher neutral interest as a result of stickier long-term inflation and (2) concerns over the longer-term creditworthiness of the federal government.

Nonetheless, given the attractiveness of all-in yields in corporate credit, spreads continued to tighten for most of 2024. Investment Grade (IG) and High Yield (HY) spreads in the Bloomberg US Corporate Aggregates are now ~80 bps and ~290bps, respectively, near all time tights; while all in yields stand at ~5.5% and ~7.7%, respectively.

Benchmark	'24 % Price Change	'24 Spread Change (bps)	'24 Yield Change
Bloomberg US Corporate IG	-1.8%	-19 bps	+0.3%
Bloomberg US Corporate HY	2.6%	-36 bps	-0.2%
Bloomberg USD Corporate (1-5 Yrs)	0.7%	-17 bps	-0.1%
Bloomberg USD Corporate (10+ Yrs)	-6.0%	-18 bps	+0.6%

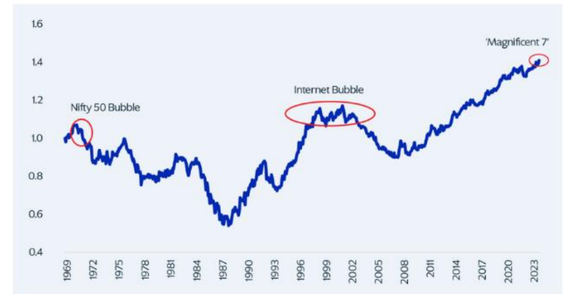
Source: Factset

U.S. Interest Rates & Corporate Credit Outlook: we continue to favor U.S. corporates in spite of tighter spreads, due to attractive all-in real yields, but are cautious on taking too much duration risk given our concerns about a moderate reacceleration in inflation. Real returns are still close to 3% at the front end of the curve, and close to 4% at the long end of the curve for IG credits. However, extrapolating that real return into the future requires having conviction that inflation will run at 2.5% for the investment period, which for us is still somewhat of an unknown. Long term inflation expectations remain well anchored at precisely this level of inflation, as measured by the 5 year, 5 year forward breakeven inflation, but we are not yet so convinced that we will not see short term episodes of dislocation. Outside of senior unsecured corporate bonds, we continue to like junior bank perpetual preferreds that offer attractive yield pick-up, and attractive coupon reset spreads (especially where coupon payments are treated as qualified dividend income for U.S. taxpayers)



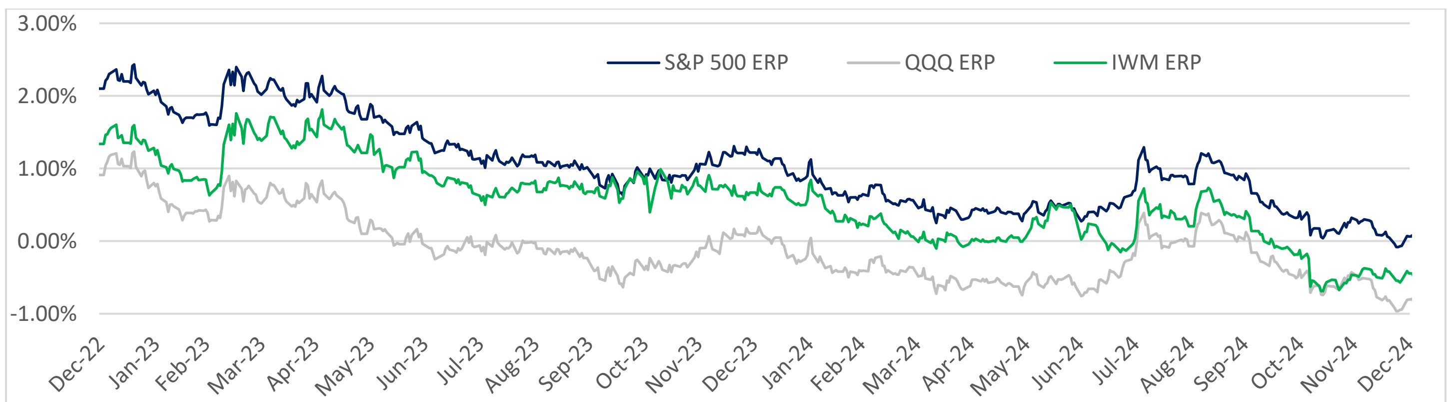
Equities, 2024 in Review: the US equity market delivered a second consecutive year of 20%+ returns, first on the back of AI optimism, and then on the back of Trump optimism. Like 2023, 2024 was another year of extreme market concentration with the Magnificent 7 accounting for more than 70% of the S&P 500's return. It goes without saying that it has been difficult for many managers to beat indices in the last couple of years on account of this extreme concentration of returns in mega-cap tech. Indices that give a larger weight to companies other than the Mag 7, like the Russell 2000 and S&P 500 equal weight indices delivered less than half of the S&P 500 return, coming in at ~10-11% total return in the year. The same holds for global equity markets, which have had to contend with both anemic growth, poor capital flows, and significant dollar strength.

Relative Performance of U.S. Equities vs. Global Equities

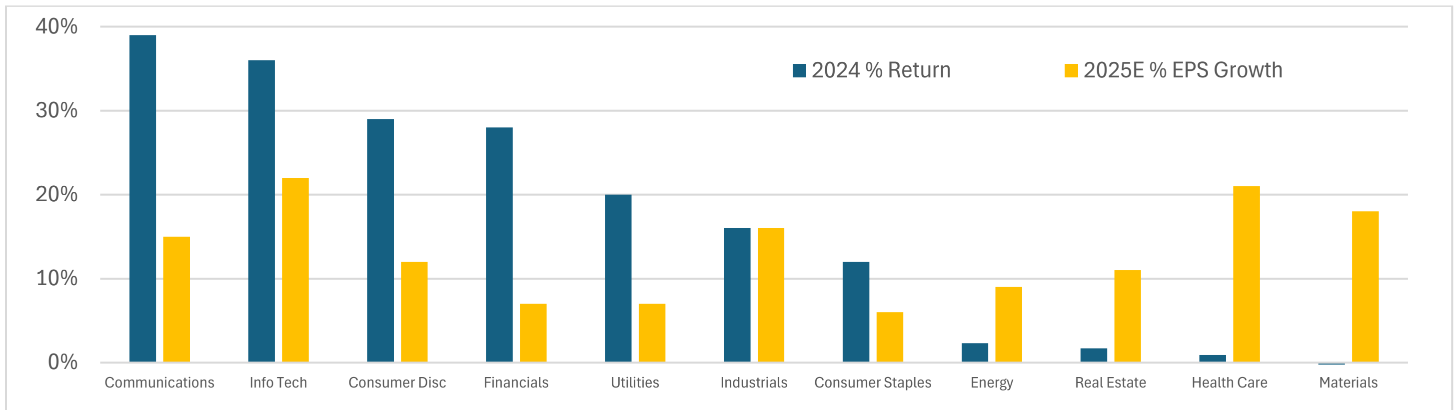


Company	2024 Return	S&P 500 Ranking
NVIDIA	171%	2
Meta Platforms	65%	24
Tesla	63%	27
Amazon.com	44%	56
Alphabet	36%	94
Apple	30%	113
Nasdaq	29%	NA
S&P 500	23%	NA
Microsoft	12%	233
S&P 500 Eq. Weight	11%	NA
Russell 2000	10%	NA

U.S. Equities Outlook: in spite of being bullish on the American economy we are less bullish on the U.S. stock market, due to the view that nearly all of our optimism is already priced-in. At 22.0x forward earnings US stocks are expensive by historical standards. Consensus estimates are calling for 15% in 2025 earnings growth relative to 2024, which we see as the upper limit to returns for the year (assuming that earnings multiples do not have much more room to expand and/or that there isn't much more upside to earnings estimates). The expensiveness of the market is particularly evident when considering the equity risk premium (ERP), which as of this writing is now negative across large and small cap indices. The ERP measures the excess compensation that equity investors receive for assuming risk in excess of U.S. Treasuries. If the equity market is going to rally more than its forecasted earnings growth, it will need some relief from falling interest rates (which we see as a difficult proposition given our inflationary / interest rate outlook).



Overall, we remain constructive on the U.S. stock market and consider it our top risk asset but will be carefully and opportunistically managing exposure via covered call writing and single stock selection. Our favored industries are industrials and healthcare, which we see as having a decent margin of safety on earnings multiples, as well as attractive earnings growth upside. We also see industrials, in particular (machinery, construction equipment, and industrial automation) as benefitting from reshoring initiatives which are likely to drive a reacceleration in domestic capital investment. We see healthcare, in particular biotech, as being underappreciated beneficiaries of AI for novel drug discovery and development. Additional themes we continue to favor are: cybersecurity, energy production in its various forms (fossil fuels, renewables, nuclear, and copper miners), as well as investment banks and alternative asset managers which will benefit from increased M&A, capital markets, and private market investment activity.



International Equities Outlook: Given that our focus as a firm tends to be on U.S. assets we limit our comments mostly to the US economy. We would note however, that the outlook for certain international equities is also somewhat brighter, particularly as a result of the major stimulus measures coming out of China. After playing a waiting game for more than three years, China has finally decided to provide massive fiscal and monetary stimulus programs to its ailing domestic economy and property sector. For the time being we remain on sidelines as we believe there are two main risks to the Chinese economy: (1) penstroke policy risks which places decision making in the hands of relatively few leaders within the Chinese Communist Party and (2) the effects of continued U.S./China decoupling. Nonetheless, Chinese equities trade in the low double digit earnings multiples which is potentially attractive for investors with a long-term outlook and higher risk tolerance.

India: We are also believers in the longer-term bull case for the Indian economy and equities, which we see as having all of the important characteristics of an emerging economy in transition: (1) a growing middle class with increasing buying power, (2) a large and well-educated population of young people (3) digital and financial infrastructure to facilitate transactions and investment and (4) democratic values and institutions which make it an attractive alternative to other autocratic or politically unstable Asian economies. However, given the extended valuation multiples in the Indian equity market we are waiting for a more attractive entry point, particularly for equities that will benefit from the e-commerce/digitization theme.

Japan: Lastly, we continue to have a bullish outlook for Japanese equities as we see continued momentum behind a virtuous wage/price cycle, in addition to the significant capital market/corporate reforms which are continuing to push companies to better allocate their capital. We would also expect to see eventual yen strengthening (which will benefit unhedged Japanese equity investments) as the Bank of Japan continues to normalize policy. However, given the upside risk to U.S. inflation, and the resulting slower pace of rate cutting in the U.S., yen strength will probably take longer to unfold.

Cryptocurrency: given the doubling in price of Bitcoin over the course of 2024, we have received more and more questions on where we stand with respect to Bitcoin. Given the approval of spot Bitcoin ETF's in early 2024 we are believers that increased institutional adoption will continue to drive increased demand for Bitcoin. Additional tailwinds include the Trump's administration support, as well as monetary debasement risks, which favor supply-constrained assets like Bitcoin and gold.

Summary of Key Themes for 2025

1. **AI and Productivity Growth:** AI is transforming industries by driving a massive data capex investing cycle, while also beginning to turbo-charge productivity for end users. Key beneficiaries include software, biotech, and manufacturing, where productivity drives profitability. The democratization of AI tools may also benefit smaller firms, leveling the competitive playing field and creating a positive feedback loop for economic growth.

2. **Deregulation Under Trump 2.0:** Trump's second administration is expected to pursue aggressive deregulation, fostering a business-friendly environment. Energy, financial services, and healthcare sectors are likely to benefit from reduced compliance costs and increased investment. Notably, energy independence initiatives could lower input costs across the economy, while financial deregulation might boost lending capacity, stimulating broader economic activity. However, deregulation carries potential risks, including environmental and social backlash.

3. **Global Synchronized Growth:** The global economy is anticipated to experience synchronized growth, with China's recovery playing a central role. Fiscal stimulus is set to reinvigorate the China's economy, with potential ripple effects benefiting other emerging markets. Systemic risks within China's property sector and potential geopolitical tensions remain critical factors to monitor (i.e. further US / China decoupling).

4. **Monetary Policy:** The Federal Reserve's pivot to easing monetary policy, with two to three rate cuts anticipated in 2025, provides a favorable tailwind. Lower borrowing costs should stimulate consumer spending and business investment, though the pace of cuts will depend on inflation and labor market trends. While lower rates encourage risk-taking, tactical portfolio management remains essential amid potential volatility.

5. **Department of Government Efficiency (DOGE):** The proposed DOGE initiative aims to streamline federal spending. This effort could improve fiscal discipline, boost transparency, and inspire investor confidence. However, its success depends on bipartisan support and sustained political commitment.

Key Risks for 2025

1. **Sticky Inflation:** Persistent services inflation, driven by tight labor markets and rising wages, could constrain the Fed's ability to cut rates aggressively. Interest-rate sensitive sectors like utilities, real estate, and healthcare are most vulnerable, as well as longer duration equities and fixed income.

2. **Narrow Market Breadth:** The post-election equities rally has been disproportionately driven by a few mega-cap tech stocks, raising concerns about market fragility and valuation imbalances. Broader participation from mid- and small-cap stocks remains limited, leaving markets vulnerable to the success of a handful of firms.

3. **Policy Volatility:** Pro-business policies under Trump 2.0 could spur growth but may also introduce significant market volatility. Geopolitical tensions, trade disruptions, and unpredictable policy changes could delay corporate decision-making and destabilize global supply chains, impacting long-term growth.

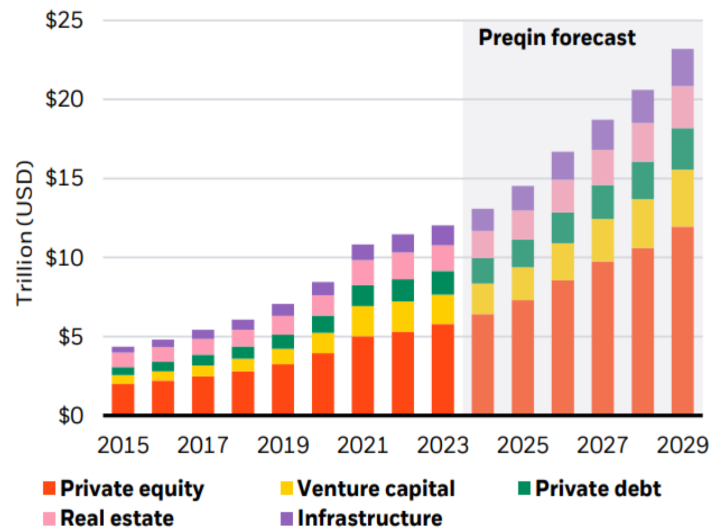
4. **Speculative Behavior and Excessive Optimism:** Elevated valuations in speculative assets, particularly cryptocurrencies and AI-driven stocks, heighten correction risk. Investors should focus on fundamentals and disciplined strategies, as unmet growth expectations could trigger sharp sell-offs in high-valuation segments.

5. **Baby Boomer Wealth Effect:** Robust consumer spending driven by Baby Boomer wealth masks underlying vulnerabilities in low-end consumer segments. Rising income inequality may exacerbate long-term economic imbalances, influencing policy debates and posing risks to sectors dependent on discretionary spending.

Alternative Investment Outlook for 2025

At BigSur, we have deliberately slowed our pace of commitments to alternative investments in recent years due to two factors: a slowdown in private market distributions, (which hindered capital recycling into subsequent funds) and a disconnect between private and public market valuations. This cautious strategy aimed to avoid deploying capital at extended valuations, while taking advantage of compelling opportunities in public markets.

Private markets have experienced remarkable growth, fueled by the democratization of investment access. With a current valuation of ~$13 trillion, private asset valuations are projected to surpass $20 trillion by 2030, according to Preqin. Despite this growth, individual investors, on average, allocate just 1-2% of their portfolios to private assets, highlighting the significant potential for growth. In response, major fund managers have launched private wealth divisions, while technology-driven platforms are opening their doors to smaller investors.



As the number of listed companies continues to contract (from 8,000 in the mid-1990s to around 4,000 today) private asset investors have benefited. According to Hamilton Lane, 87% of businesses generating over $100 million in revenue remain private. As a result of the abundance of private capital, many companies are choosing to forego the administrative and public market demands of going public.

Another emerging development in private markets is the rise of semi-liquid evergreen vehicles, designed to balance investor interest in alternatives with liquidity. While these vehicles aim to offer flexibility, it's important to note that they all continue to have some sort of quarterly or monthly gating which limits aggregate redemption to 5% of the funds assets. Given that investors tend to demand liquidity at the same time, the liquidity in practice of these funds can be relatively limited nonetheless.

Looking into 2025, we are anticipating a return to a more typical cadence of deployment activity, driven by improving exit conditions and capital flow momentum. Below, we outline key areas of opportunity across the various alternative sub-asset classes.

Private Equity Outlook

The private equity (PE) landscape in 2025 offers a mix of opportunities and challenges. Fundraising has slowed, reflecting reduced dry powder and longer fund lives, and emphasizing the need for strategic capital deployment. However, improving macroeconomic conditions and renewed exit activity have the potential to reignite growth and restore investor confidence.

Vintage Year Diversification: Diversifying across vintage years remains essential for mitigating market cycle risk. By selectively avoiding deployment into vintages that are buying companies at high multiples, we have positioned ourselves to seize attractive opportunities in 2025. As distributions pick up, we anticipate deploying into newer vintages in order to ensure that our alternatives program remains well-aligned with its long-term objectives.

Aging Funds Pressure: According to Pitchbook, over 52% of active PE funds are now six years or older, reaching the midpoint of their 12-year lifespan (which typically includes a 10-year extension). Funds raised between 2015 and 2018 are particularly under pressure to exit assets as they near the end of their fund lives. This dynamic has created a "maturity wall," where the urgency to realize returns is escalating while sluggish exit activity persists as a significant challenge. Fund extensions and continuation vehicles offer temporary relief, but liquidity constraints remain unresolved. The absence of consistent exits hampers the ability of GP's to raise new funds, intensifying the need for innovative capital solutions.

Liquidity and the PE "Flywheel": Liquidity constraints are disrupting the PE "flywheel," a process where distributions allow LP's to reinvest in new funds. With fewer distributions, the cycle slows. Improved line of sight into the economic and monetary policy outlook, could provide a much-needed boost to exits, potentially reigniting PE fundraising and deal activity in 2025.

IPOs and Secondary Markets: PE-backed companies are better positioned for IPOs than their VC-backed counterparts, benefiting from stronger valuations and profitability. IPOs postponed in 2024 (largely due to election uncertainty and equity market volatility) are anticipated to proceed in 2025. Secondary markets also continue to play a crucial role in the PE ecosystem, offering liquidity through LP and GP-led transactions. Secondaries continue to be a preferred method of unlocking capital, either to enable portfolio rebalancing, or to satisfy other unforeseen liquidity needs.

Operational Expertise: As we do each year, we emphasize the importance of partnering with top-quartile managers who have successfully navigated multiple market cycles. GPs with operational improvement playbooks excel during market slowdowns by better controlling uncorrelated sources of return (like margin expansion and improved capital allocation at portfolio companies). Our approach to due diligence prioritizes this type of expertise, increasing the chances that we can generate alpha in a variety of market conditions.

Infrastructure PE: Infrastructure private equity is gaining momentum as evergreen structures provide liquidity and access to long-duration assets. Historically under-allocated due to its long horizons and complexity, the sector is now seeing increased demand driven by domestic development initiatives and "America First" policies. Leading managers are raising dedicated vehicles to capitalize on these opportunities.

Venture Capital Outlook

In spite of ongoing challenges, venture capital is set to rebound in 2025. IPO activity is poised to accelerate, fueled by a backlog of aging unicorns. However, the recovery is uneven, as some companies face valuation resets after failing to meet growth expectations that were set in overly optimistic funding rounds.

Aging Unicorns and Uneven Recovery: According to PitchBook, 40% of unicorns are now nine years or older, collectively representing over $1 trillion in market value. Sustained by an abundance of capital and secondary market activity, many of these companies have been able to remain private longer than anticipated. However, with investor patience waning, there is growing pressure to fully monetize investments. The shift from a "growth at all costs" mindset to a focus on sustainable, profitable growth has further complicated exits, leaving many investors still "in the red" and highlighting the sector's uneven recovery.

Liquidity and Secondary Markets: Distribution rates for LPs remain near decade lows, constraining their ability to reinvest. Secondary markets have provided a partial solution by offering liquidity to early investors and employees. However, these opportunities are largely concentrated among top-tier companies, further underscoring the uneven nature of exit activity.

M&A Activity: With valuation gaps narrowing, M&A activity is anticipated to increase, offering late-stage startups a critical exit route and opportunities to recalibrate their growth strategies. Strong equity markets and well-capitalized strategic acquirers are expected to drive these transactions, creating additional avenues for growth. Furthermore, options like growth equity investments and private equity buyouts provide flexible pathways for capital infusion, supporting companies in their next stages of development.

Fundraising Trends: Fundraising is projected to exceed 2024 levels but will remain concentrated among established GPs with proven track records. This "feed the winners" strategy highlights investor preference for experienced managers and poses challenges for new entrants. According to PitchBook, approximately 80% of funds raised in 2024 went to established managers (defined as those who have raised at least four prior funds).

AI & Specialization: The surge of investment in AI presents both opportunities and risks, as the sector is still in its early stages. The abundance of dollars chasing relatively few opportunities makes it crucial for investors to work with specialized managers who have deep domain expertise and a “building, not betting” mindset. This disciplined approach is key to mitigating risks and ensuring sustainable growth in an environment where hype often obscures reality.

Private Debt Outlook

Private debt continues to serve as a compelling alternative to traditional bank lending, particularly as regional banks pull back following the collapse of Silicon Valley Bank and Signature Bank. Despite compressed spreads and growing competition, the asset class still provides an attractive illiquidity premium compared to traditional fixed income. As interest rates decline, borrowing costs are expected to fall, potentially reducing returns marginally but simultaneously fueling M&A activity and increasing middle-market loan demand. Sponsored private equity, heavily reliant on debt financing for acquisitions, is likely to remain a significant driver of deal flow in the private debt market.

Opportunities Within Senior Secured Debt: Senior secured private debt continues to deliver attractive risk-adjusted returns, particularly in sectors with strong secular growth trends. Software lending remains a standout due to its recurring revenue, robust cash flow, and adaptable expense structures, supported by consistent growth and strong fundamentals. Real estate lending is also gaining momentum as equity valuations stabilize and transaction volumes recover. To further diversify portfolios and enhance returns, we look to sources of non-correlated alpha that are senior in the capital structure, like royalty-backed loans to the pharmaceutical/medical device industry.

Private Debt Secondaries: Private debt secondaries is a growing segment, which provides liquidity to investors and access to seasoned assets at attractive discounts. While discounts on senior secured assets remain relatively modest, mezzanine and opportunistic funds offer deeper discounts, resembling traditional private equity secondaries. This segment provides an attractive yield diversifier at discounted prices.

Increased Competition: The private credit market is becoming increasingly crowded, with overlapping strategies and heightened competition for the same assets. Evergreen business development companies (BDCs) are a significant contributor to this trend, enabling efficient capital deployment without traditional drawdown structures. While BDCs offer diversification benefits, they can also increase exposure overlap, necessitating careful allocation to avoid concentration in any single portfolio company or sector. In this competitive landscape, success will require disciplined strategies emphasizing risk management, diversification, and balancing yield potential.

Signs of Credit Stress: We are seeing signs of credit stress, highlighted by elevated payment-in-kind (PIK) rates, which, while not defaults, suggest potential cash flow constraints for some borrowers. This indicates pressure on credit fundamentals in certain sectors, though relief is expected as declining interest rates ease debt servicing burdens and reduce default risks.

Real Estate Outlook

The real estate market is stabilizing as it continues to address the challenges of higher inflation, elevated financing costs, and the lingering effects of the pandemic. Economic growth and strengthening fundamentals are expected to support a moderate rebound in investment activity, though outcomes will vary significantly by asset type and geographic region.

A sharp decline in new construction, driven by rising costs, labor shortages, and constrained financing, has tightened supply across most property categories. This supply-demand imbalance is creating attractive opportunities for high-quality, well-located assets, drawing institutional investors back to the market with renewed confidence and increased capital allocations. Key trends shaping the different real estate property types include:

Data Centers: According to CBRE, data centers are experiencing unprecedented demand due to AI, cloud computing, and data storage needs, with vacancy rates in primary markets at a record-low 2.8% and pre-leasing exceeding 90%. Despite active construction, growth is constrained by land and power shortages. Expanding digital infrastructure by hyperscalers and enterprises is driving higher utilization rates and rising rents. As construction peaks in 2025, securing power capacity remains a key challenge, highlighting the sector's robust but resource-dependent growth.

Residential: The rental market remains strong, driven by demand, rent growth, and the affordability gap with homeownership. According to CBRE, by year-end 2025, multifamily vacancy is estimated to fall to 4.9%, with 2.6% annual rent growth. Additionally, construction starts are projected to drop 74% below 2021 peak levels by mid-2025. High home prices and mortgage rates sustain rental demand, especially in high-growth Sun Belt and Mountain regions. Nearly 80% of homeowners with sub-5% mortgage rates further limit housing supply.

Industrial: The industrial real estate market remains strong, supported by e-commerce growth, supply chain shifts, and reshoring initiatives. Demand for modern, high-quality facilities drives a "flight to quality," with tenants upgrading while older properties face higher vacancies. Leasing remains robust, but net absorption is set to remain low, as new leases replace outdated spaces. Reshoring is increasing demand for U.S. distribution centers near transportation hubs and along the Mexico-U.S. border.

Office: The office market shows signs of stabilization after pandemic-related challenges. High-quality spaces in prime locations are in demand, with tenants seeking upgrades. Slower new construction and declining servicing costs are expected to reduce vacancy rates in top-tier assets, driving increased competition and lease renewals. According to JLL, Boston, Chicago, and New York will see new office construction drop 73% from peak levels. The gap between high and lower quality assets is widening, with well-located, mixed-use properties attracting tenants, while commodity buildings in less desirable areas facing higher tenant loss risks. The market is poised for recovery, particularly for prime spaces.

Retail: Retail enters 2025 with strong momentum, driven by demand in prime locations and sectors like experiential shopping and essential services. Tenants are competing intensely for well-located spaces. Vacancy rates are the lowest in commercial real estate, with high interest in suburban markets and Sun Belt cities. While retailer consolidation continues, institutional capital is returning, targeting mixed-use developments and high-traffic locations. Limited space availability is pushing rents higher, though store closures in key areas may present opportunities. Grocery-anchored centers remain highly sought after, reflecting consumer focus on essential goods, which account for two-thirds of spending.

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