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Capital Markets and Alternatives Insights

May 2025

Macroeconomic Outlook

Executive Summary

Macroeconomic and Capital Markets Outlook

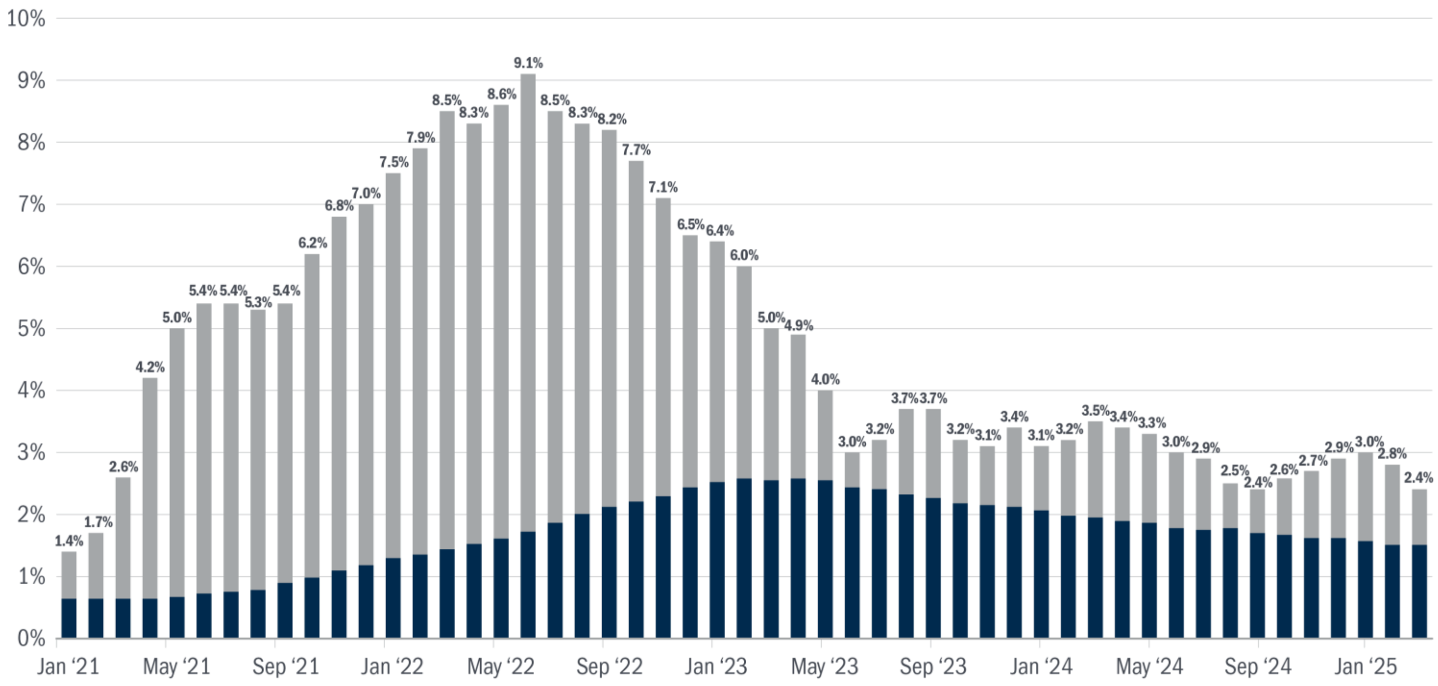
Inflation has slowed, but tariff proposals may reignite modest inflation	The latest month-over-month inflation was negative and year-over-year numbers are near the Fed's 2% inflation target. However, goods may see a transitory spike in inflation driven by tariffs. Shelter and energy, other large drivers of inflation, are trending down.
The Fed will tread carefully in 2025	Given the tariff uncertainty, we expect the Fed to exercise caution in 2025, keeping the Fed Funds rate at or near 4% to avoid reigniting inflationary pressure, while monitoring closely for tariff-driven stagnation risk.
Extraordinary market volatility will likely benefit private alternatives such as private real estate and private credit	Unprecedented volatility in stock and bond markets is likely to drive investor demand for more stable portfolio diversifiers. Private real estate has already absorbed significant price declines and is attractively valued relative to stocks and bonds.[1] Private credit can still capitalize on the higher interest rate regime.

[1] Clarion, Green Street Commercial Property Price Index

Inflation lowest in 4 years, but eyes are on tariffs and potential resulting inflation upticks

Year-over-Year % Change in CPI Inflation

As of March 2025

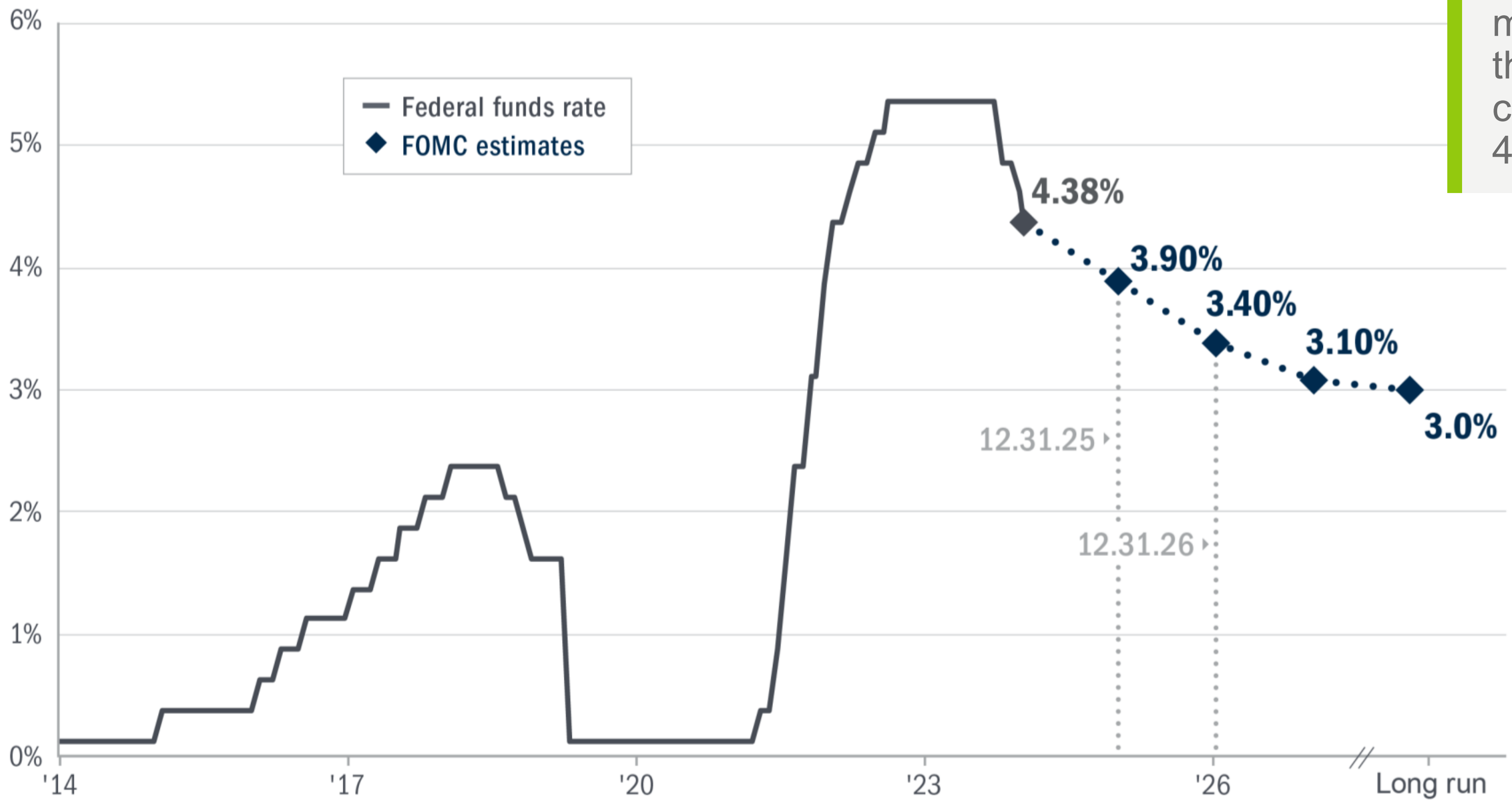


- Inflation has moderated, nearing the Fed's year-over-year target.
- Main components of inflation are shelter and energy, both of which are decreasing.
- Goods are only 10% of total inflation, and any increase may be transitory.

Sources: JP Morgan Guide to the Markets, 3.31.2025, Bureau of Labor Statistics

Short-term interest rates have an uncertain path due to uncertain economic policy, but likely to decline slightly during 2025

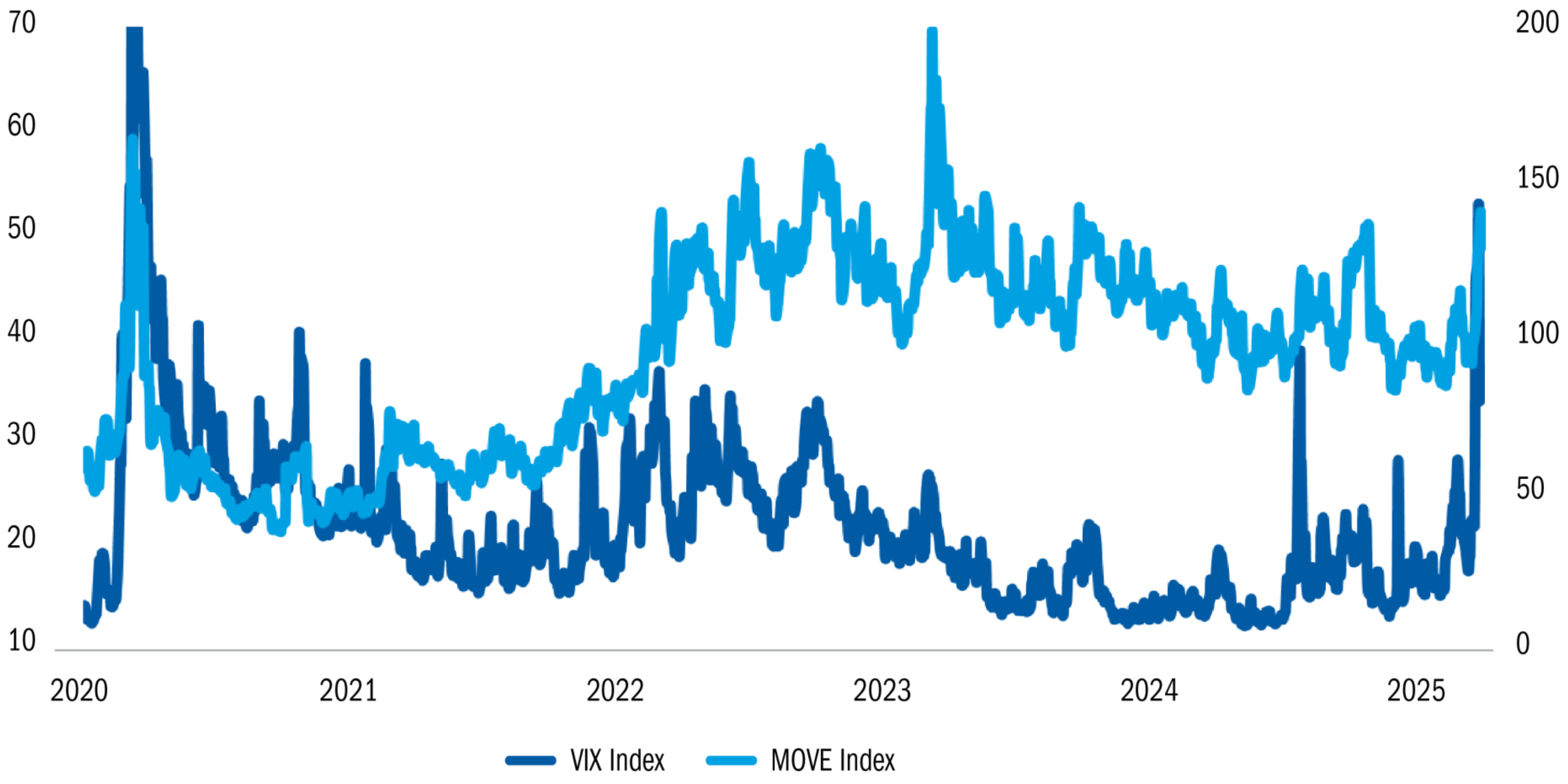
Federal Funds Rate Expectations



While significant rate cuts are unlikely given labor market strength, we expect the Federal Funds rate to come down to approximately 4% in 2025.

Sources: JP Morgan Guide to the Markets, 3.31.2025

Equity and bond volatility has spiked in 2025 due to economic uncertainty



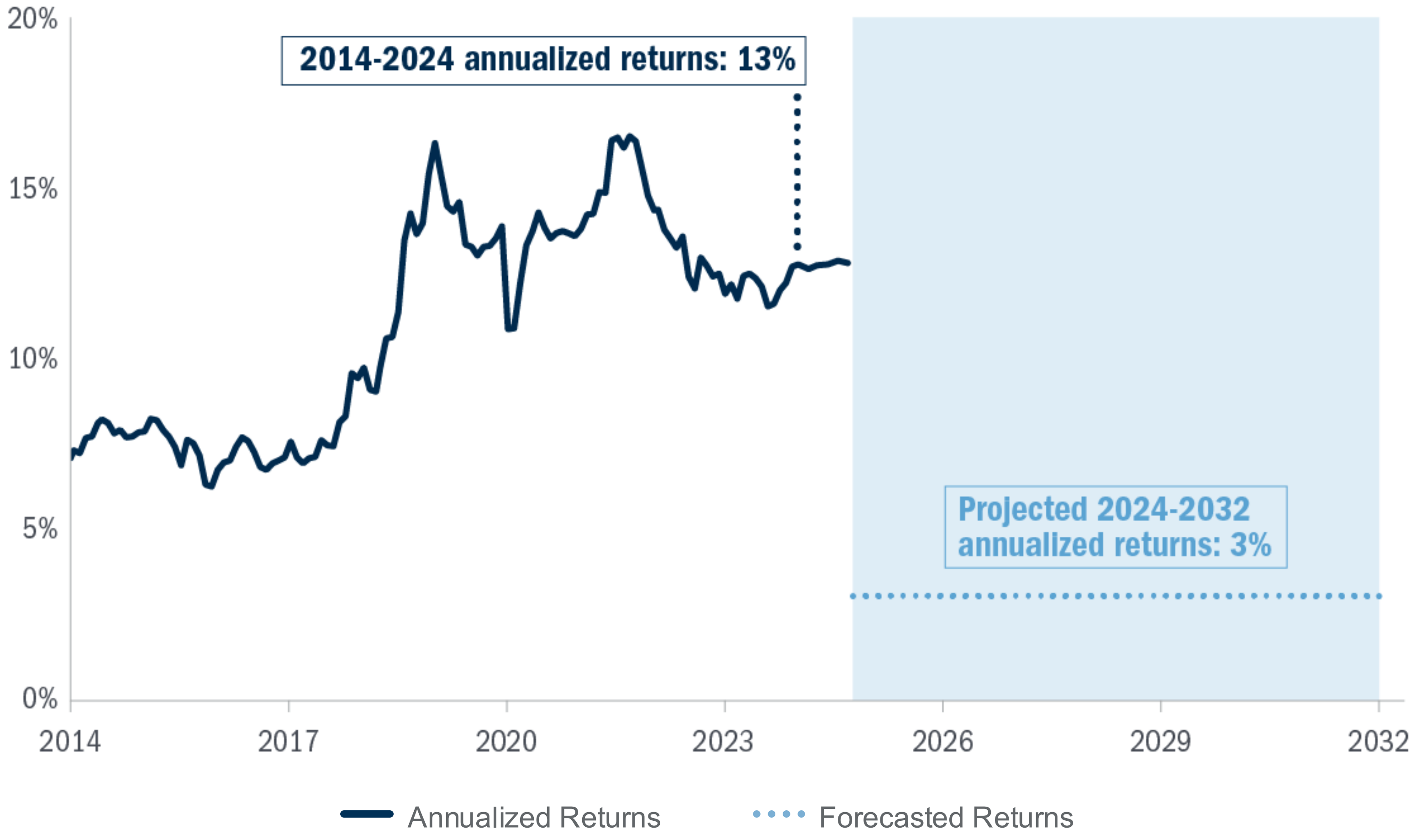
High stock and bond market volatility tends to increase demand for low volatility alternatives. Volatility in public markets is expected to remain elevated given high economic policy uncertainty.

The VIX Index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPX℠) call and put options. On a global basis, it is one of the most recognized measures of volatility -- widely reported by financial media and closely followed by a variety of market participants as a daily market indicator. The MOVE Index tracks volatility in Treasuries to provide insight into the fixed income market and sometimes can even outpace the VIX as a red flag. Fixed income is the second largest market in the wold behind currencies.

Sources: Bloomberg, Morgan Stanley Wealth Management GIC. Data as of April 8, 2025.

Richly valued equities unlikely to deliver

S&P 500 Annualized Trailing 10-Year Returns



- While equities have generated over 13% annually over the last decade, expected returns are forecasted to decline dramatically.
- With the stock market expected to deliver only 3% annually through 2032, alternatives can play an increasingly important role in individual investor portfolios.

Sources: Goldman Sachs, Portfolio Strategy Research, October 2024, 2014-2014 actual, 2024-2032 estimated

The 60/40 portfolio continues to underperform

60% stocks/ 40% bond portfolio, (January 2022-March 2025)

The 60/40 portfolio has generated little return since the beginning of 2022, with only a 2% annualized return for the past three and a half years.

Source: Apollo

Broad market volatility will benefit private alternatives

Investors will demand more stable portfolio diversifiers such as private real estate and private credit

Real Estate

- Long-term private real estate has **delivered substantially lower volatility** versus stocks and bonds[1]
- Real estate is at low relative valuations versus equities and fixed income, and **we see attractive entry points** in many commercial real estate sectors[2]
- Real estate is **well-positioned regardless of inflation trend;** real estate has historically outperformed in inflationary environments[3], and disinflation can spur lower cost of capital and higher valuations

Private Credit

- We see **selective opportunities in private credit** as a shifting economic environment provides a favorable backdrop for active management
- Overleveraged real estate transactions from peak pricing may bring **opportunities for unconventional financings**, including recapitalizations and mezzanine debt
- We believe **alternative credit may be the most attractive** way to access these opportunities with higher yields and relatively low downside risk.

[1] Morningstar Direct

[2] Clarion

[3] JP Morgan Guide to the Markets

Private Real Estate Outlook

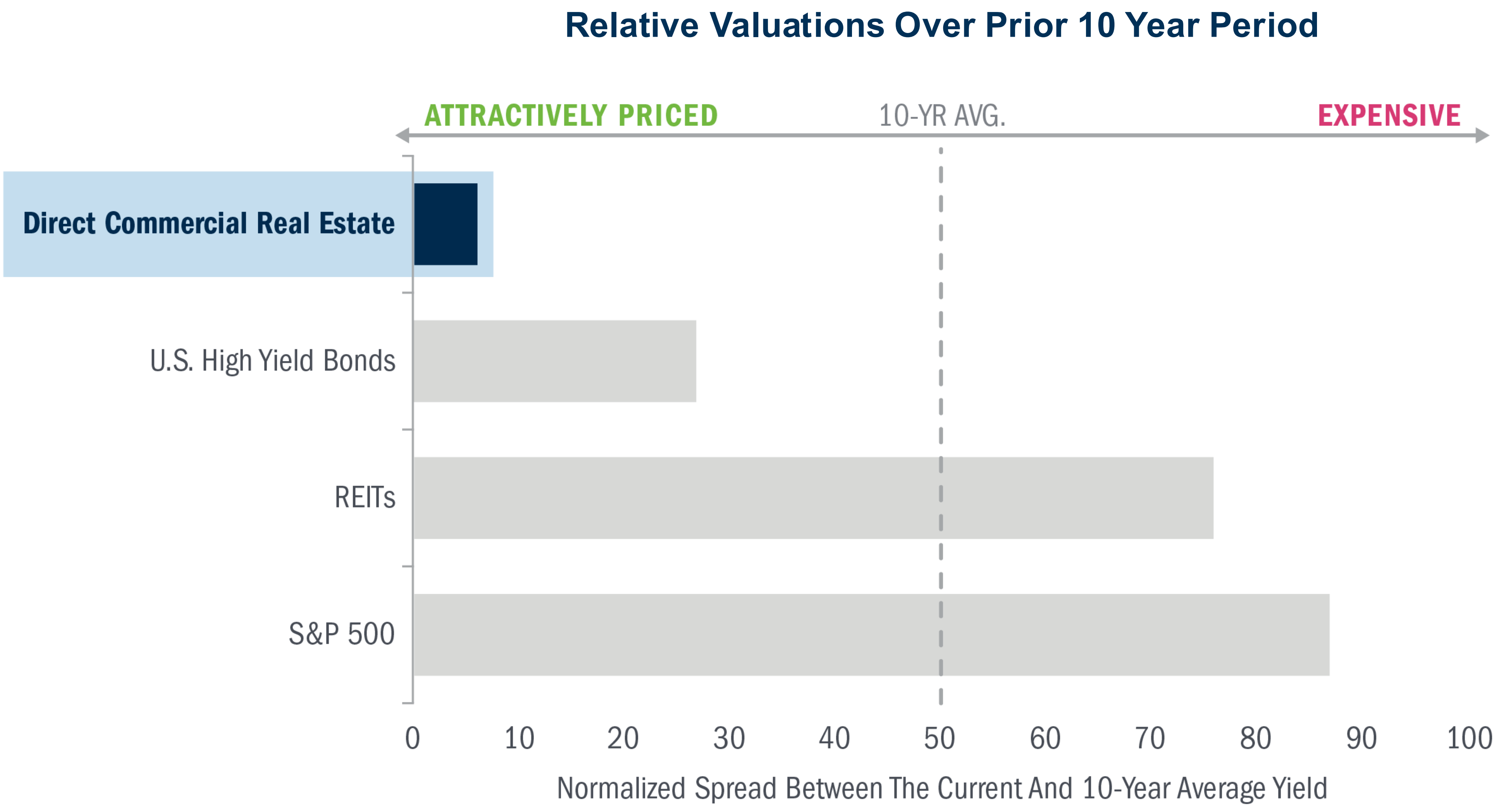
Executive Summary

Private Real Estate Outlook

Inflation-adjusted real estate values are at 15-year lows	Real estate values turned positive during Q4 2024, signaling the start of a pricing rebound following the correction over the previous two years.[1] With transaction volumes ticking up, we expect a strong multi-year recovery, consistent with previous real estate cycles.
Supply constraints and increasing construction costs may drive real estate valuations higher	Increased construction costs are limiting new supply of real estate deliveries. However, performance diverges widely by property type and geography[2] making experienced active management critical to performance. Our highest conviction sectors include industrial, single-family rentals, and specialty sectors. Increasing transaction volumes may accelerate and extend upwards price movement.
Wider real estate spreads and extended refinancing periods may create credit investing opportunities	Real estate credit investors can capitalize on attractive yields vs. the bond market, and the extension of loan maturities opens up additional opportunities in credit refinancing and recapitalization.

[1] NCREIF Property Index
[2] DWS U.S. Strategic Real Estate Outlook, Dec 2024

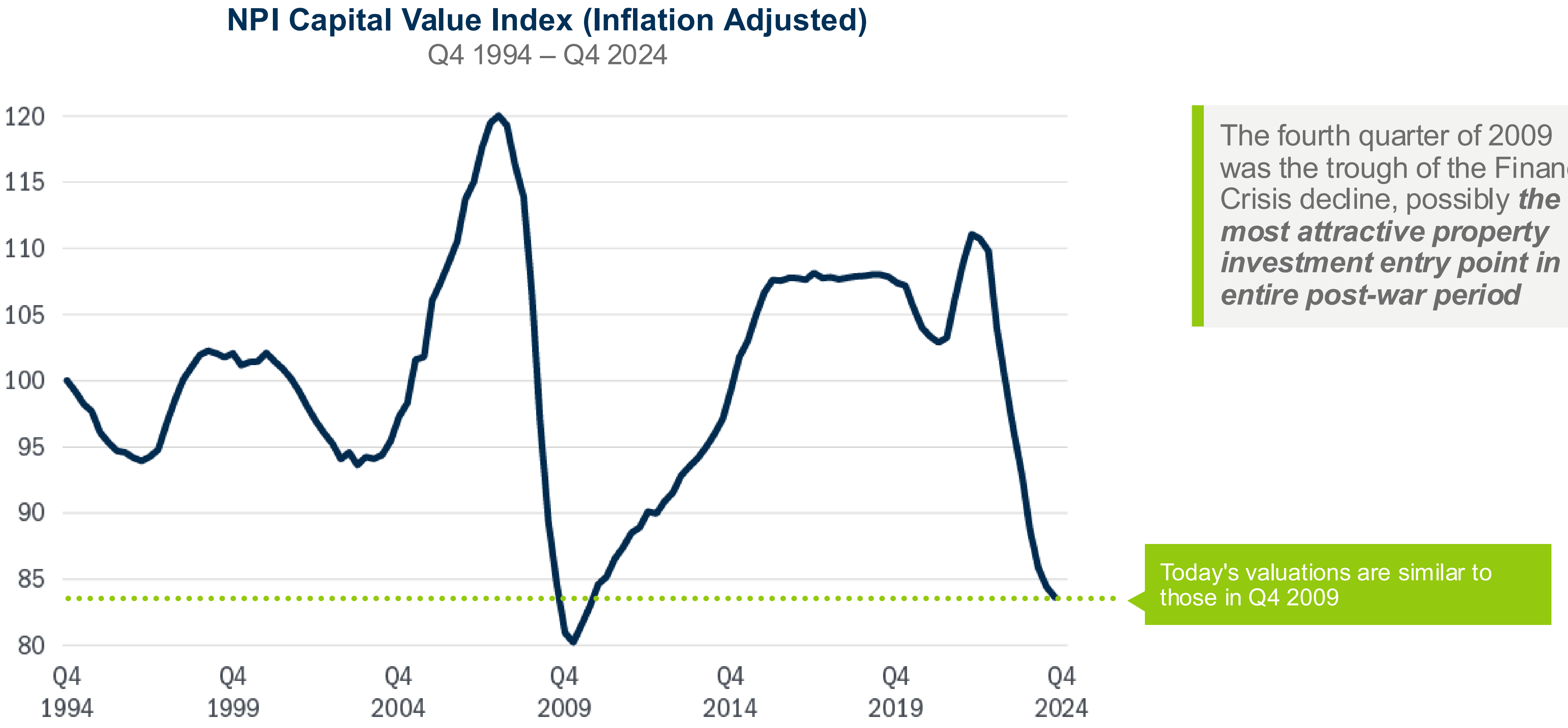
Real estate is valued at cyclical lows while other asset classes are relatively rich



Source: Clarion

Note: Valuation metrics: Corporate and high-yield bonds: yield-to-worst, direct CRE: cap rates, REITs: implied cap rate, S&P500: P/E Ratio. The asset classes are associated with different levels of volatility, liquidity and other risks. **Past performance is not indicative of future results**

Inflation-adjusted real estate values are near 30-year lows



The fourth quarter of 2009 was the trough of the Financial Crisis decline, possibly ***the most attractive property investment entry point in the entire post-war period***

Inflation Adjusted (=100 in Q4 1994)

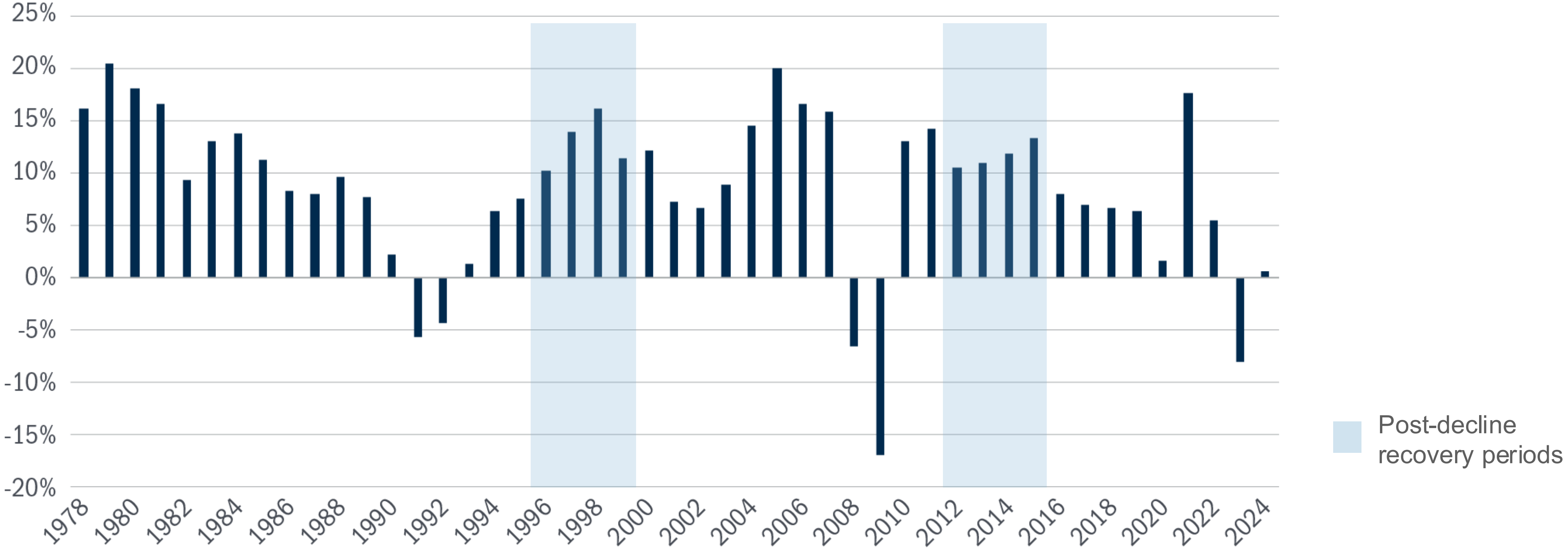
Source: AEW Research and Strategy, U.S. Economic and Property Market Perspective, Q3 2024; NCREIF. NPI is the National Council of Real Estate Investment Fiduciaries Property Index. You can not invest in an index. Index data does not reflect the deduction of fees and other expenses which would reduce returns. Past performance is not indicative of future results.

Post-decline environments have historically generated outsized returns

12.9% average return generated in post-decline recovery periods[1]

NCREIF Property Index Total Return

1978 – 2024

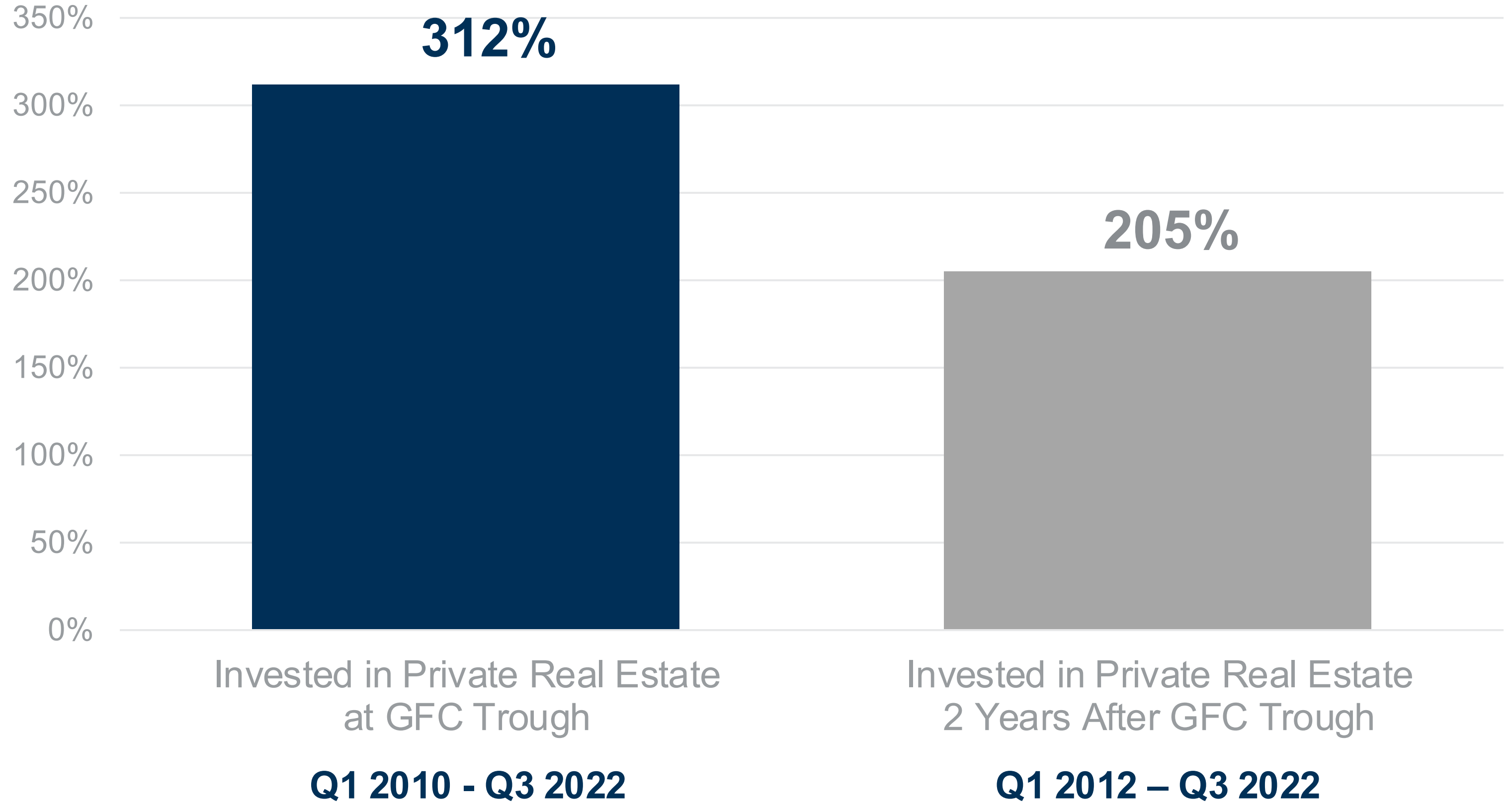


Sources: National Council of Real Estate Investment Fiduciaries Property Index (NPI). Morningstar Direct. Past performance is not indicative of future results. You can not invest directly in an index.

[1] In the four-year periods following the previous two market declines, the NPI hasaveraged a 12.9% annualized return.

It can be costly to wait to invest in private real estate, especially as real estate cycles intensify

Cumulative Total Returns Following The Global Financial Crisis (2008-09) Through Recent Peak

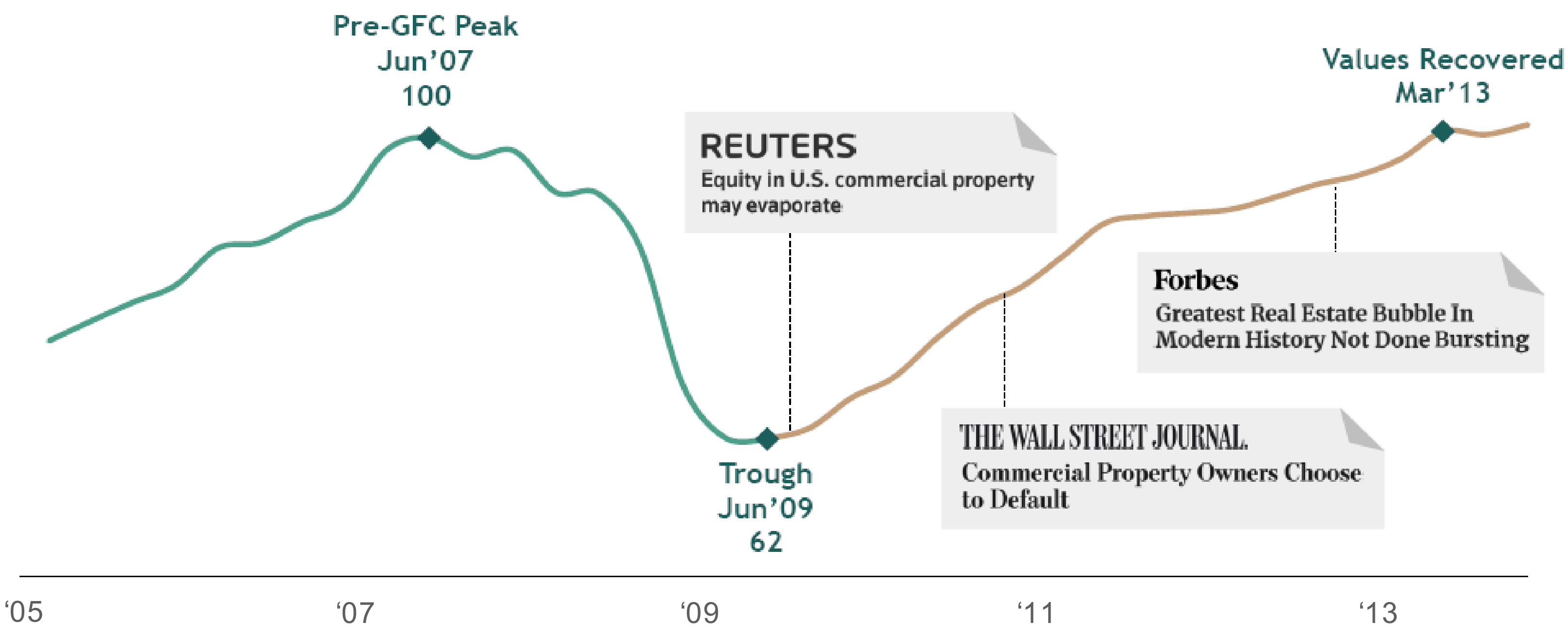


Source: J.P. Morgan Asset Management; NCREIF; Timeframes: 1q10-3q22, 1q12-3q22.

Note: the Global Financial Crisis was a severe economic downturn that started in the United States and spread globally, significantly impacting financial markets and economies. It began with a downturn in the US housing market, which led to losses on mortgage-backed securities and caused a crisis of confidence in financial institutions.

Seizing the moment before press headlines turn positive

Commercial Real Estate Values Through the Global Financial Crisis

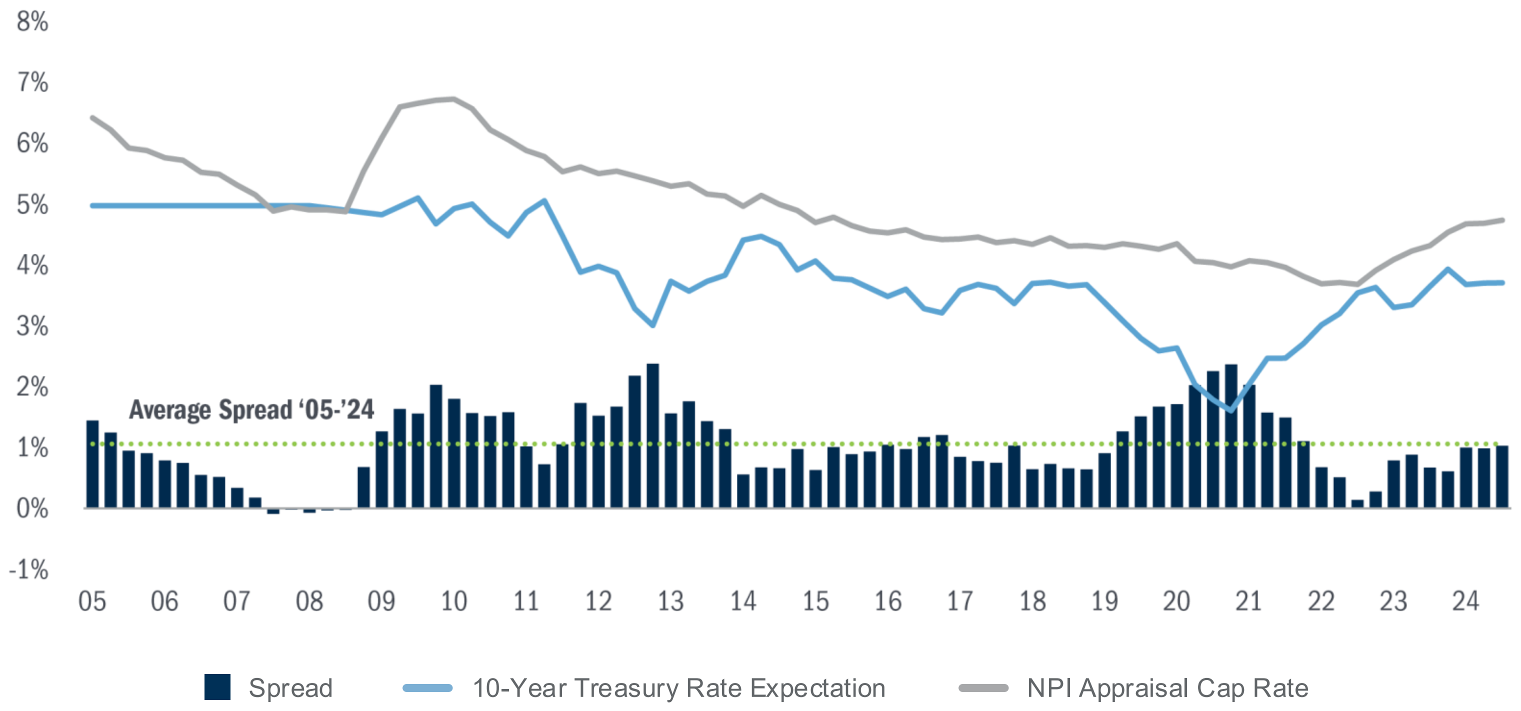


The post-GFC trough in real estate valuations **preceded a positive turn in mass media sentiment**

Sources: Blackstone, LinkedIn, Green Street Advisors as of December 31, 2023. Commercial Real Estate Values Through the GFC, Indexed, June 2007 = 100.
https://cdn.pficdn.com/cms1/pgim-real-estate/sites/default/files/PGIMRealEstate_Research_Note_Why_US_Core_Now.pdf
https://www.bloomberg.com/news/articles/2024-09-24/commercial-real-estate-activity-picks-up-with-buyers-lenders-returning
There is no assurance the trends described herein will continue.

Private real estate cap rates have normalized vs interest rates

NPI Appraisal Cap Rates vs. Three-Year Ahead 10-Year Treasury Yield Expectation*



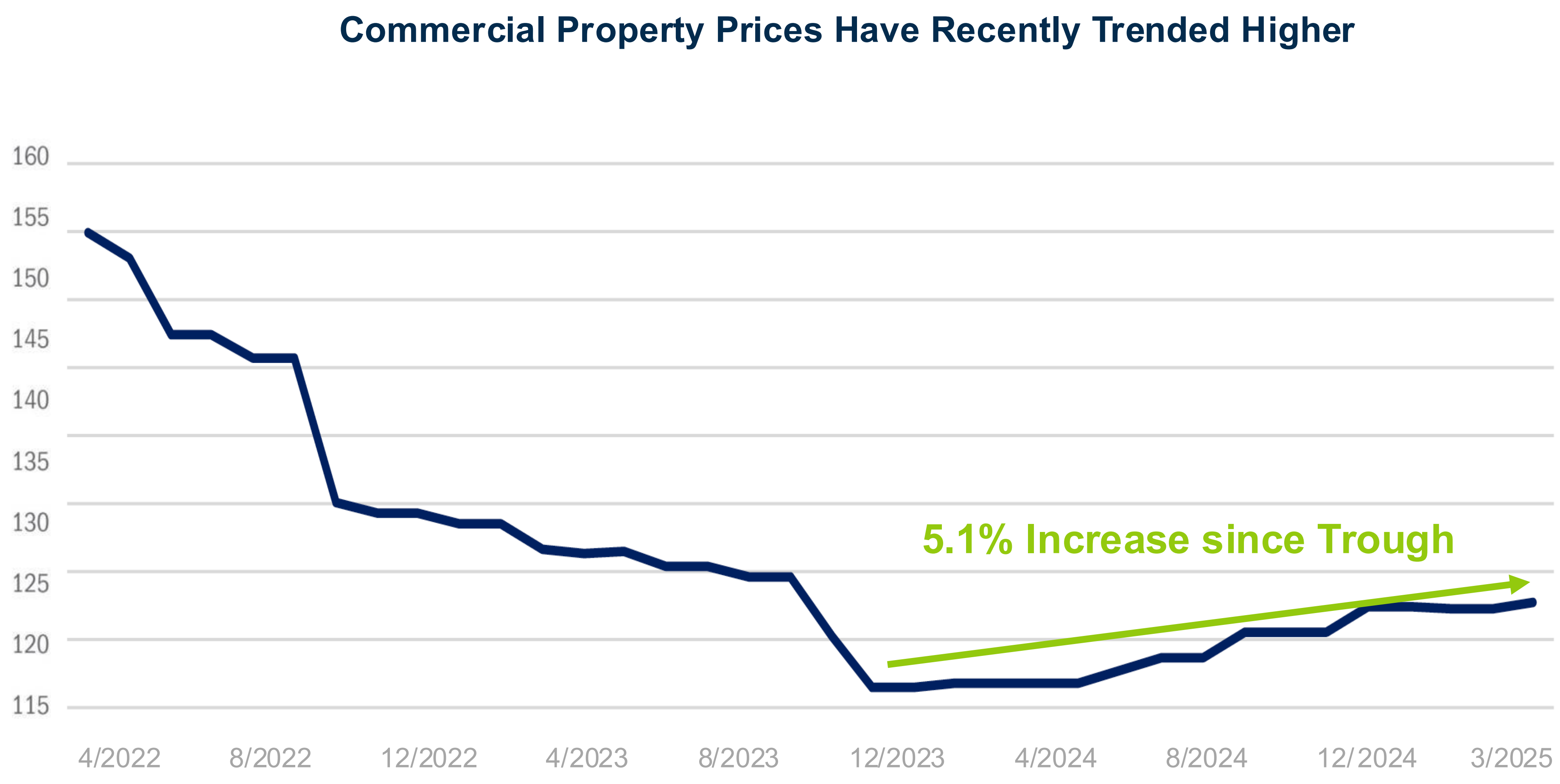
Real estate cap rates (purchase yields) historically have a modest premium to risk free U.S. Treasury yield expectations. That spread has normalized indicating real estate is consistent with historical valuations.

NPI is the National Council of Real Estate Investment Fiduciaries Property Index. You can not invest in an index. Index datadoes not reflect the deduction of fees and other expenses which would reduce returns. Past performance is not indicative of future results.

*Note: 10-Year Treasury yield expectation is based on the median expected 10-Year Treasury yield three years ahead of the year in which the forecast was made. Data is unavailable prior to 2009. For years prior to 2009, we use the median expected 10-Year Treasury yield over the next 10 years and interpolate the data across quarters. Both data series come from the Survey of Professional Forecasters.

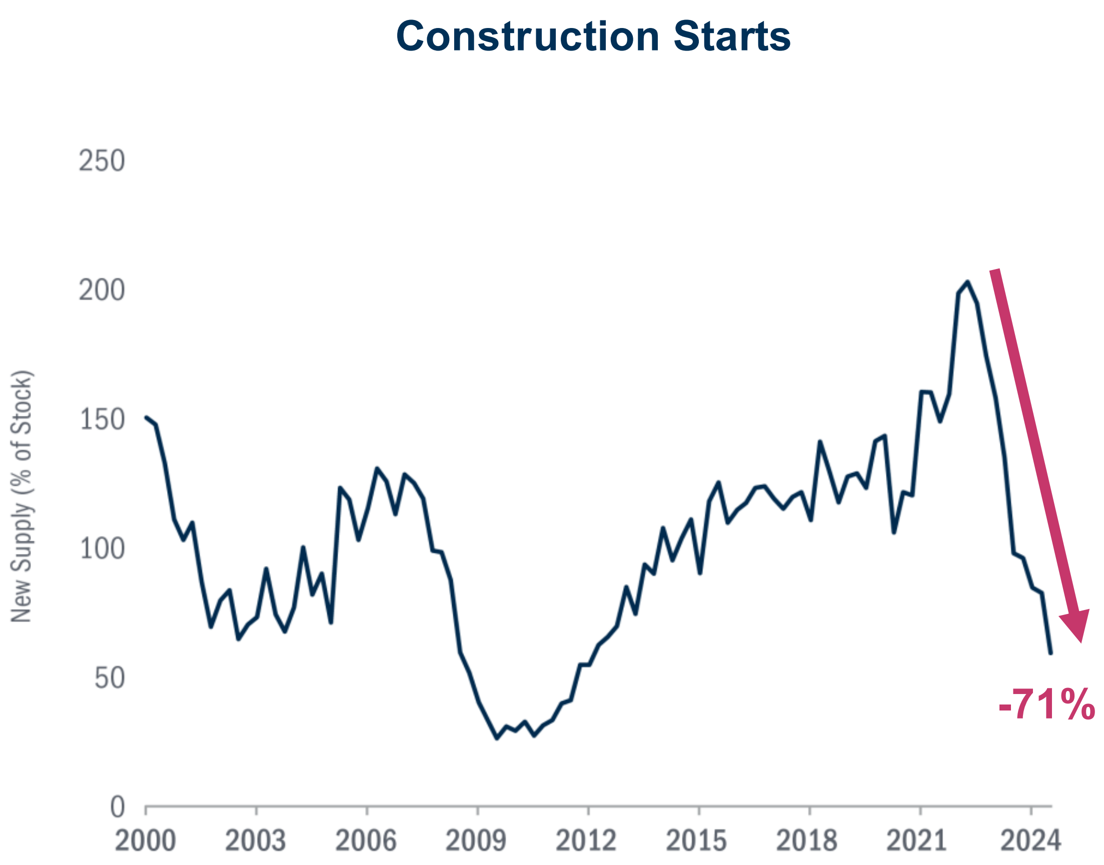
Source: PGIM 2025 Real Estate Outlook

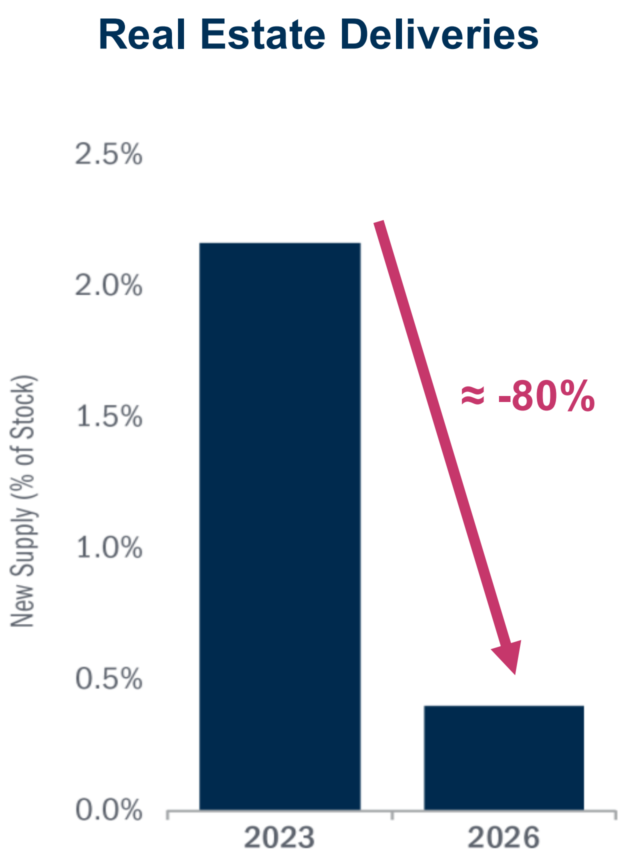
Private real estate pricing is rebounding



Source: Green Street CPPI, January 2025.

Limited near-term supply should create higher future NOI growth





- Substantial declines in real estate starts will result in very low new construction deliveries
- With limited supply and continued strong demand in many sectors, we are likely to see a rebound in valuations

Source: DWS U.S. Real Estate Strategic Outlook December 2024, Deliveries from DWS

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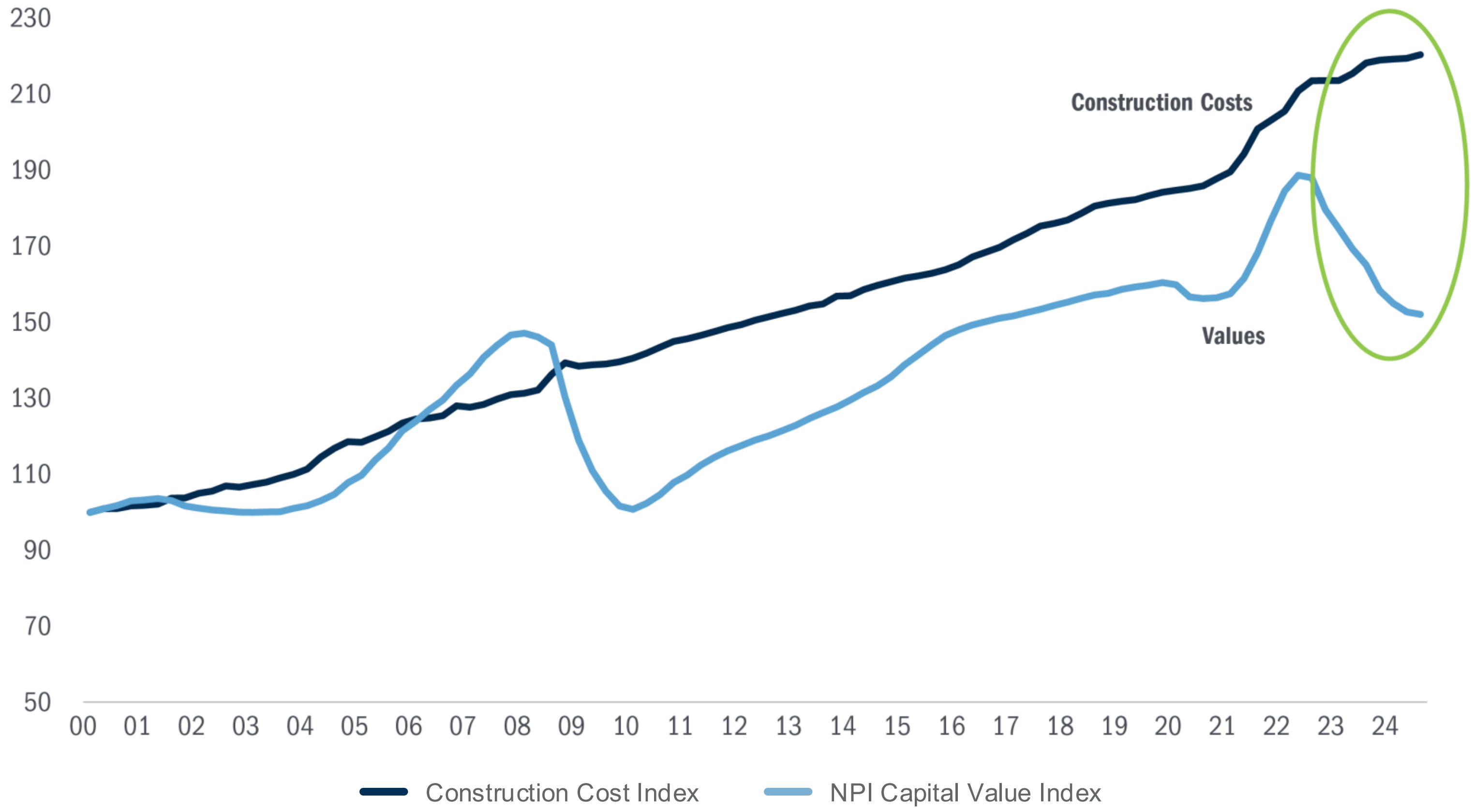
Value departure from construction costs signal possible near term value gains

Construction Cost Index vs. Capital Value Index (1Q 2000= 100)

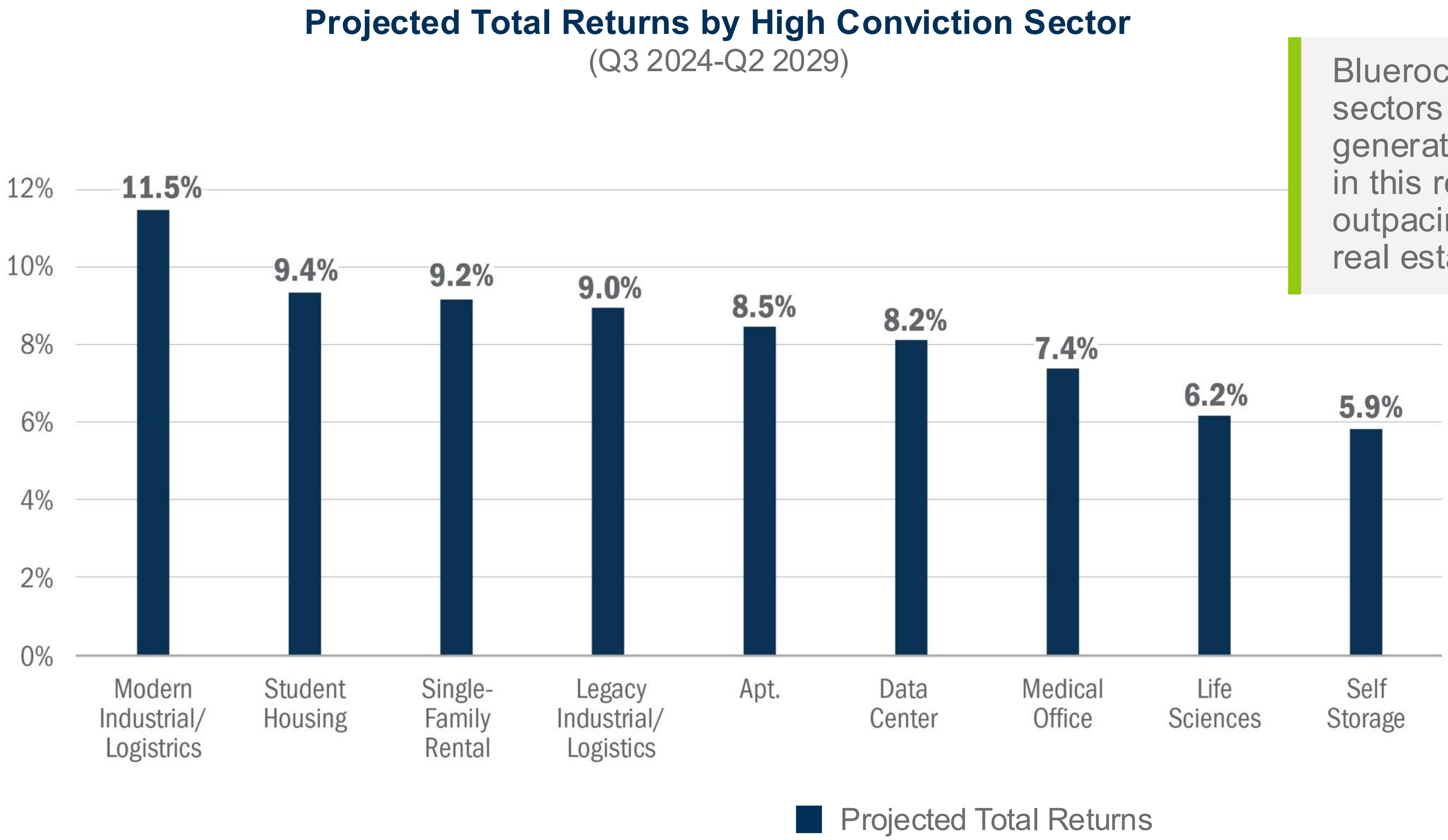


In the long term, values tend to align with costs as supply will be limited until replacement values rise. The current large disconnect signals that values are set to rise.

NPI is the National Council of Real Estate Investment Fiduciaries Property Index. You can not invest in an index. Index data does not reflect the deduction of fees and other expenses which would reduce returns. Past performance is not indicative of future results.

Source: PGIM 2025 Real Estate Outlook

High conviction sectors projected to deliver strong outperformance



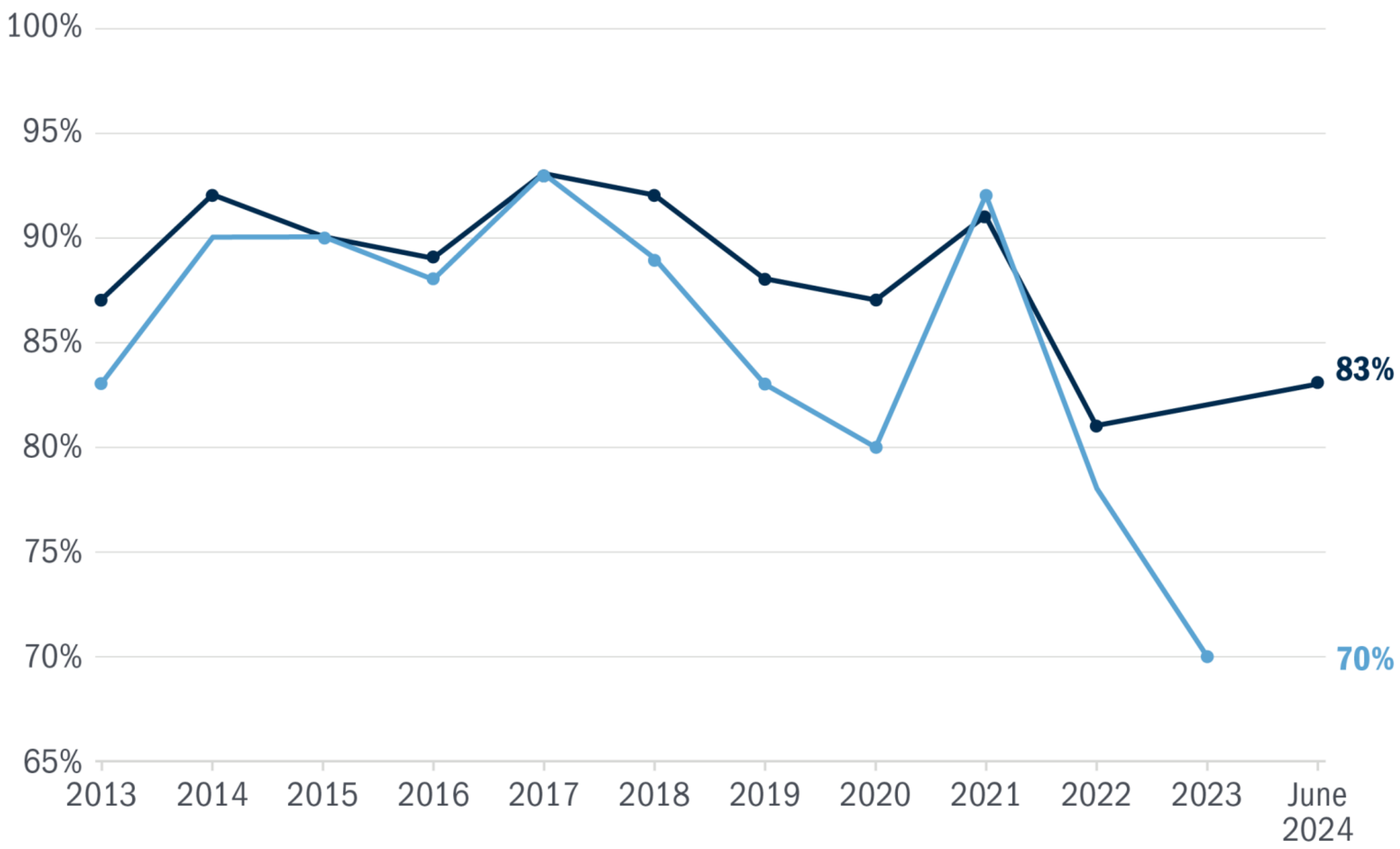
Bluerock's high conviction sectors are forecasted to generate strong outperformance in this real estate cycle, outpacing the broad commercial real estate market

Source: CBRE IM Market Update, July 2024

Secondaries priced at attractive discounts to net asset value

Global Secondary Discounts: Historical Secondary Pricing

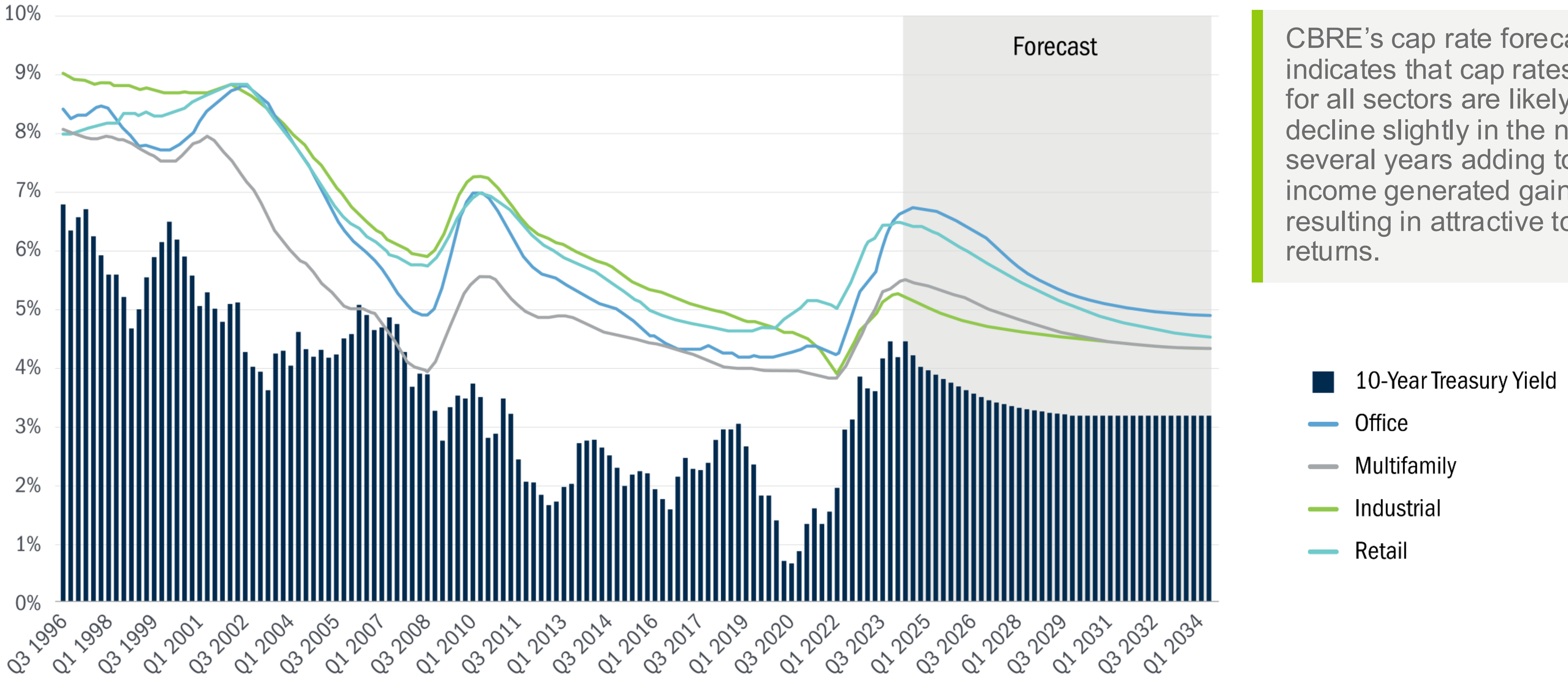
(% of Net Asset Value)



Real estate secondaries currently offer the highest discounts to net asset value compared to other strategies which could generate attractive returns

Source: FS 2025 Outlook

Private real estate is poised for a long bull run

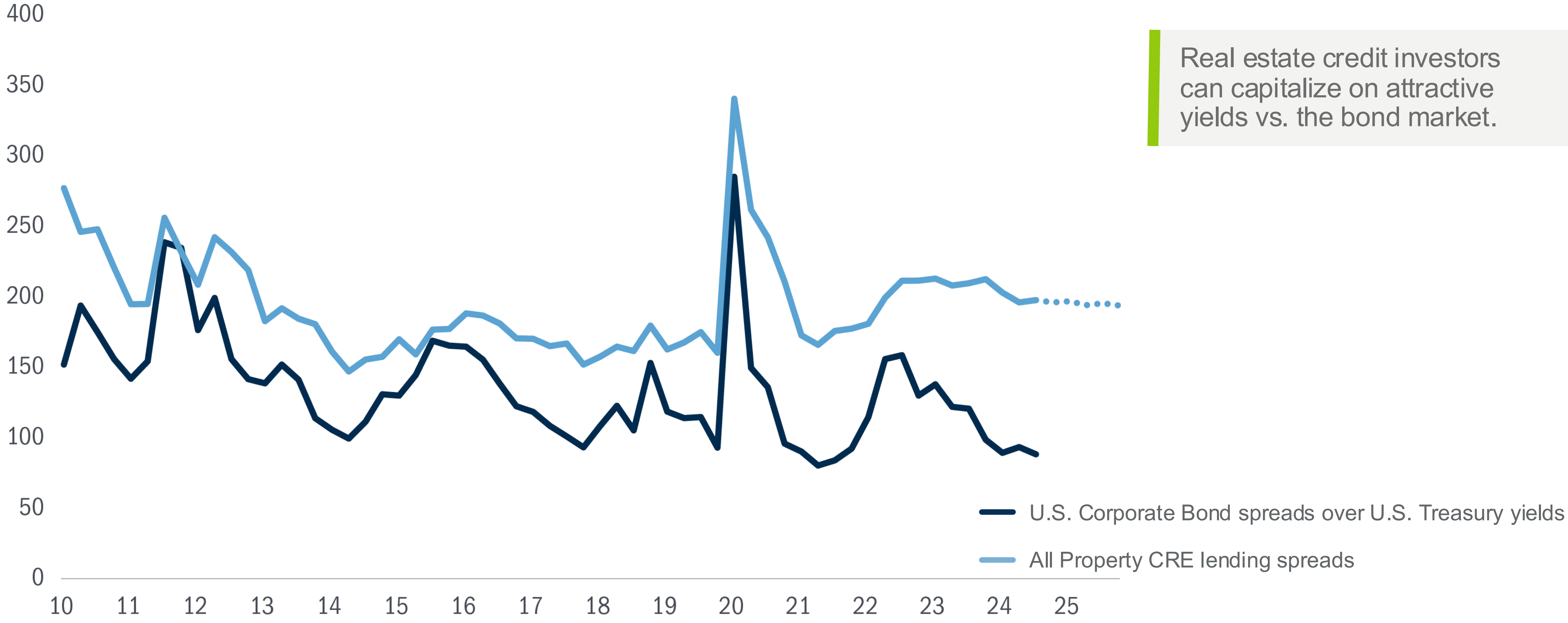


CBRE's cap rate forecast indicates that cap rates for all sectors are likely to decline slightly in the next several years adding to income generated gains resulting in attractive total returns.

Source: CBRE, August 2024

Commercial real estate debt spreads very attractive for credit investors

CRE Spreads* vs. Investment Grade Corporate Bond Spreads



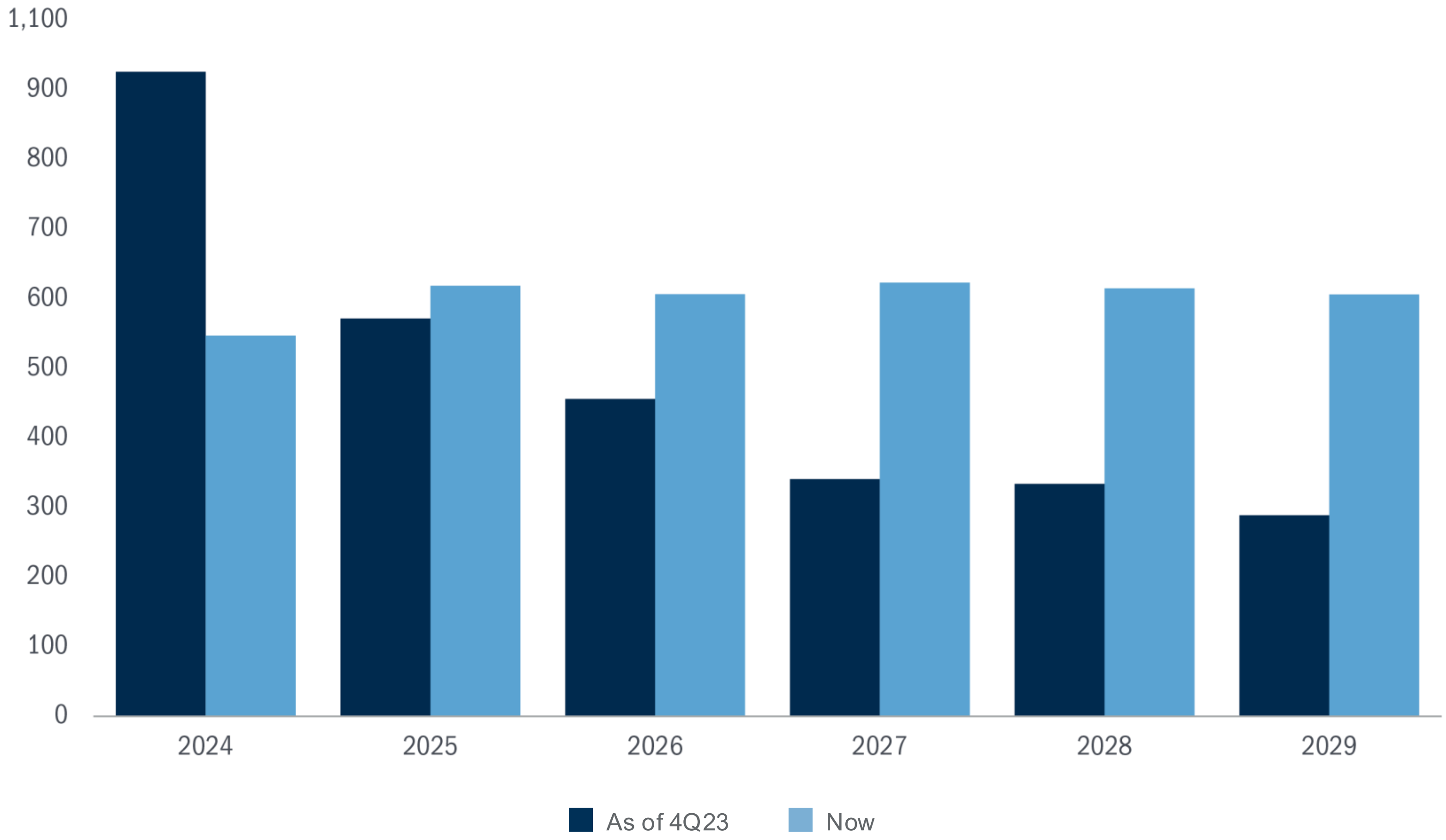
Real estate credit investors can capitalize on attractive yields vs. the bond market.

*CRE spreads refer to 10-year fixed rate balance sheet spreads 60-65% LTV amortizing for banks, life insurance companies and investment managers, up to October 4, 2024.

Source: PGIM 2025 Real Estate Outlook

An extended refinancing period presents credit opportunities

Loan Maturities by Year (US$ Billions)



The extension of loan maturities opens up additional opportunities in credit refinancing and recapitalization.

Source: PGIM 2025 Real Estate Outlook

Industrial Real Estate Outlook

Executive Summary

Industrial Real Estate Outlook

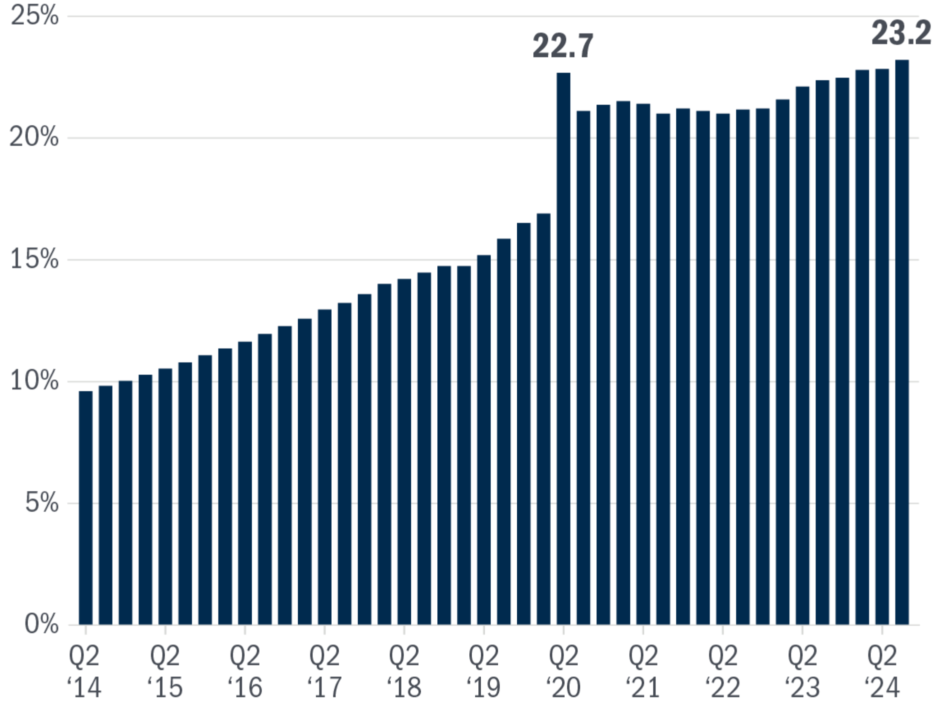
Strong industrial demand is being powered by the continued growth of e-commerce	E-commerce growth continues to eclipse store-based sales with on-line shopping expected to grow at triple the rate of in-store purchases over the next five years, driving increased warehouse demand.[1]
Contract rents are at a discount to market rents creating large upside as leases mature	We expect strong rent growth in the industrial sector as current leases mature and reset to market rates, which are materially higher.
The small bay segment of the industrial market is one of the most attractive subsectors	Small bay industrial buildings, an area of the market less accessible to large managers, are experiencing extremely high demand as a result of the increasing need for "last mile" fulfillment warehouses located in infill locations.[2]

[1] Green Street
[2] Bridge 2025 Investment Outlook

E-commerce powering demand for industrial space

E-commerce market share continues to grow

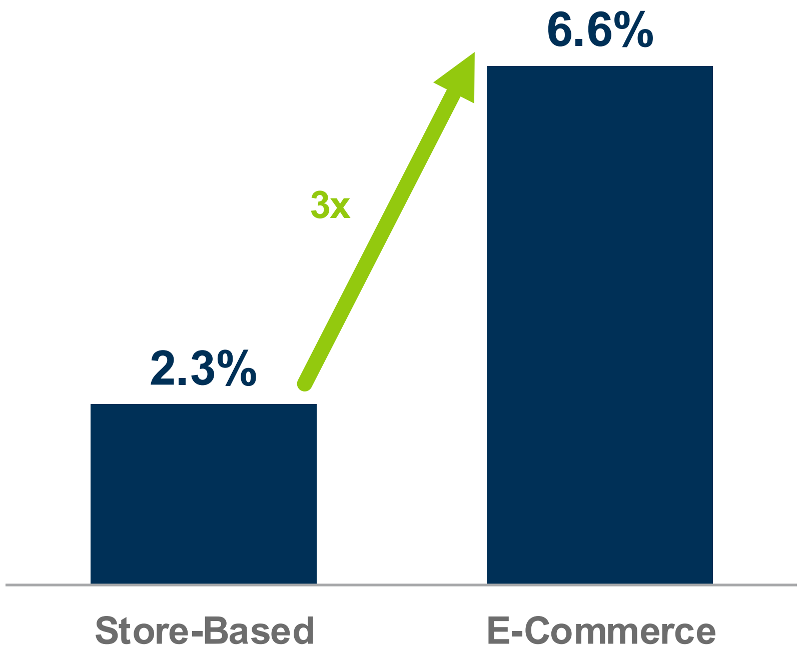
E-Commerce market share as a percent of total sales



E-commerce growing at nearly 3x the rate of store-based sales

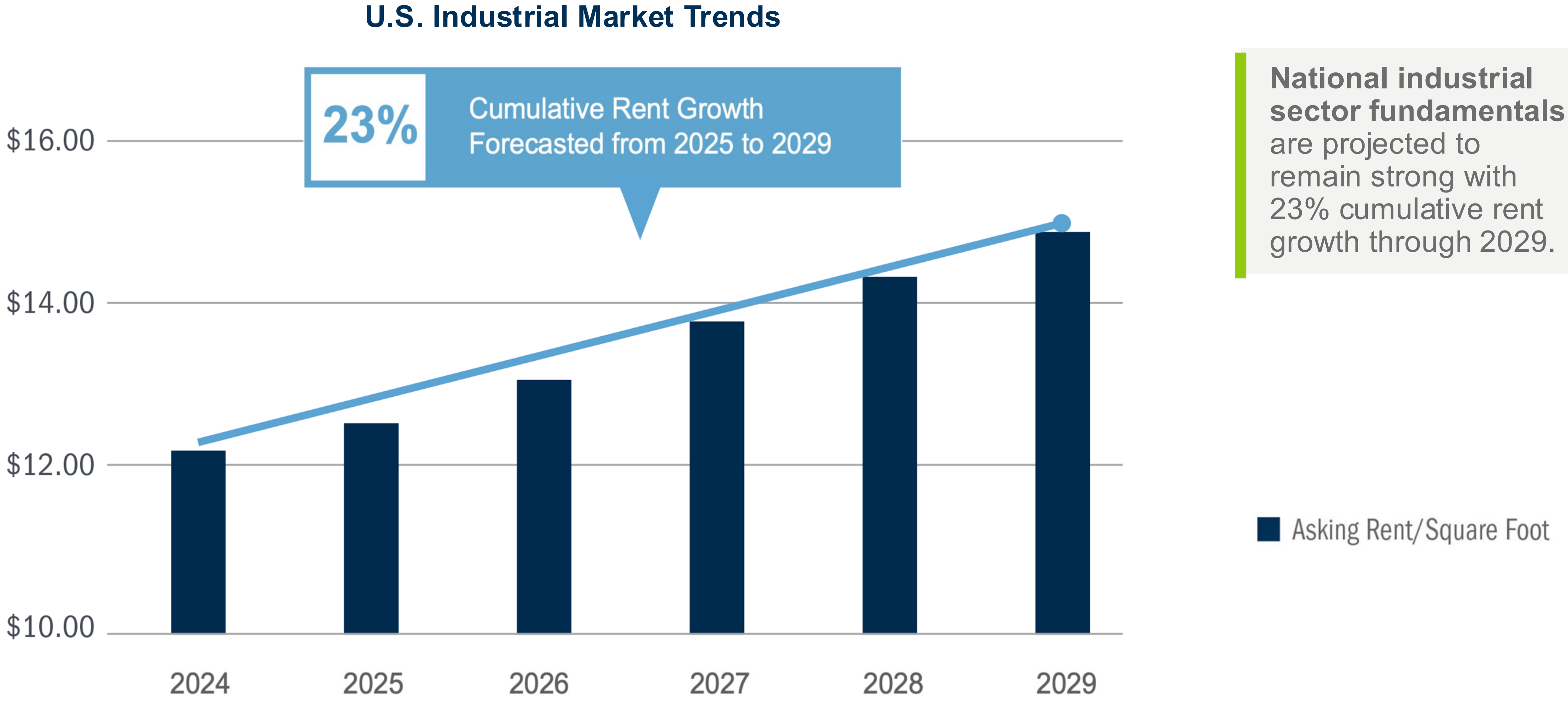
E-commerce vs. Store-based Sales Forecasts

(2024 to 2028 Annual Growth Rate)



Sources: CBRE U.S. Real Estate Market Outlook 2024, Green Street

Robust market fundamentals: Record absorption, positive rent growth



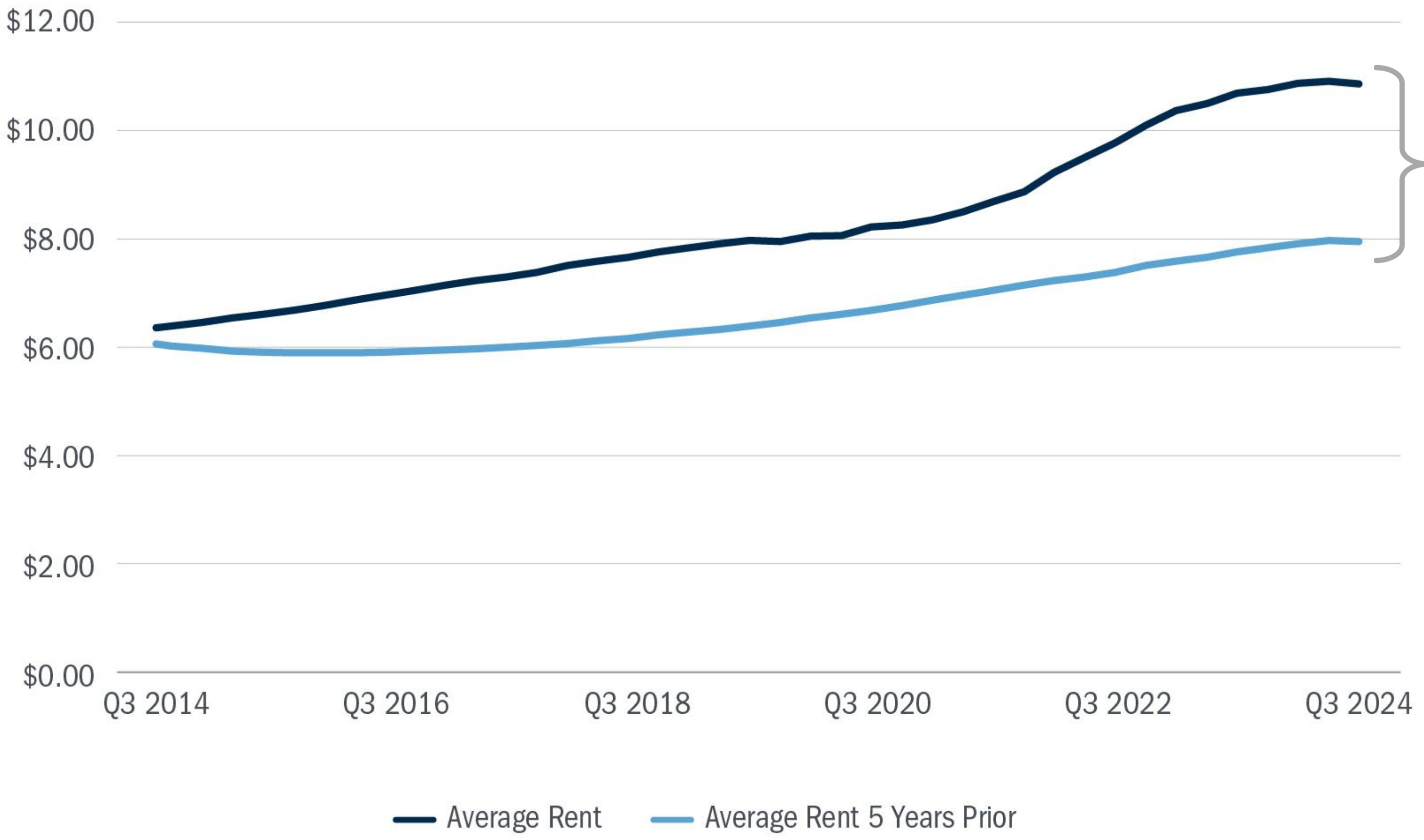
National industrial sector fundamentals are projected to remain strong with 23% cumulative rent growth through 2029.

[1] Source: CBRE Q4 2024 U.S. Logistics and Industrial Figures.

[2] Source: Costar Industrial National Report, February 2025.

Strong upside potential as industrial leases mature

Average Industrial Rent Today vs. Five Years Prior



Strong upside potential with market rent more than $3/sq ft more expensive than contracted rents

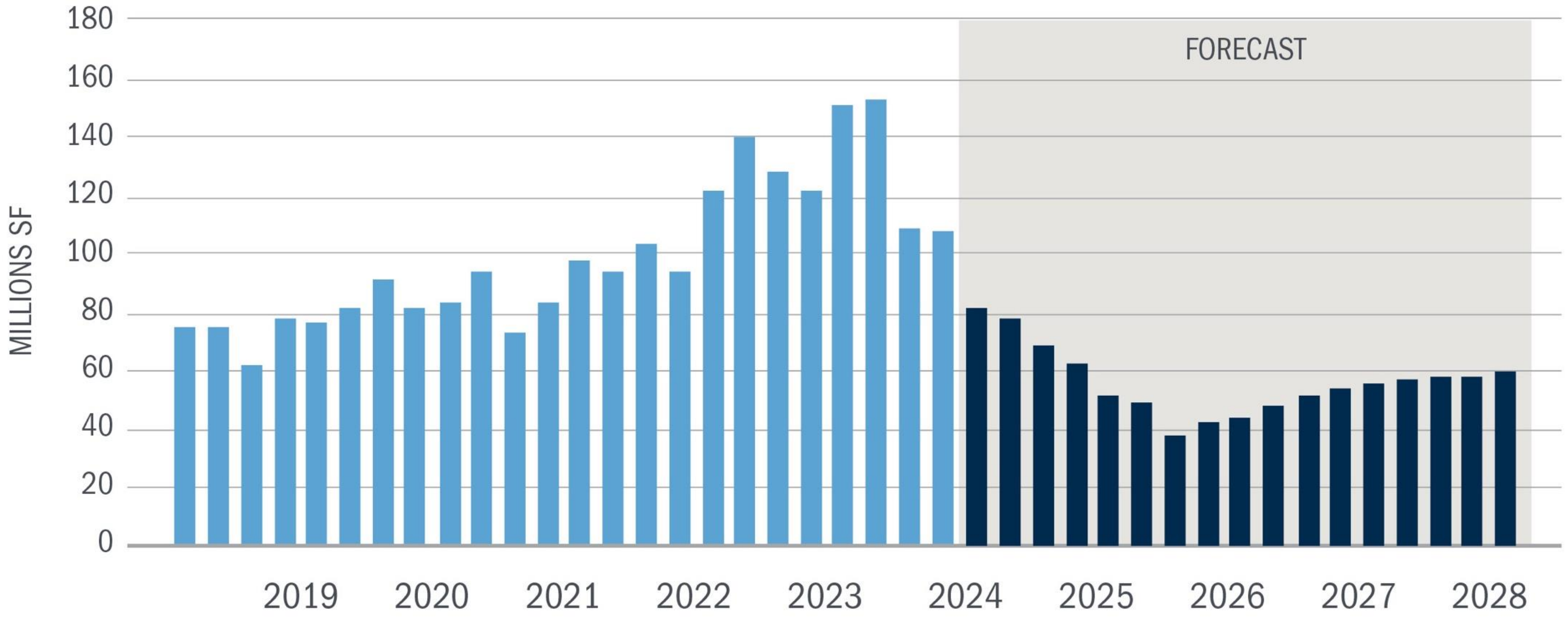
- Industrial rents for in-place leases are more than 35% lower than market rates.
- Industrial landlords will capture these gains as leases mature and reset to market rates.

Source: AEW, U.S. Property Market Outlook, October 2024

Industrial deliveries are projected to drop precipitously in 2025 and 2026, leading to future higher occupancy rates and rents

New industrial construction starts are down 36% year-over-year. Amid the rapidly thinning pipeline and continued positive net absorption, the industrial market is poised to tighten in 2025. – Cushman & Wakefield, Q4 2024

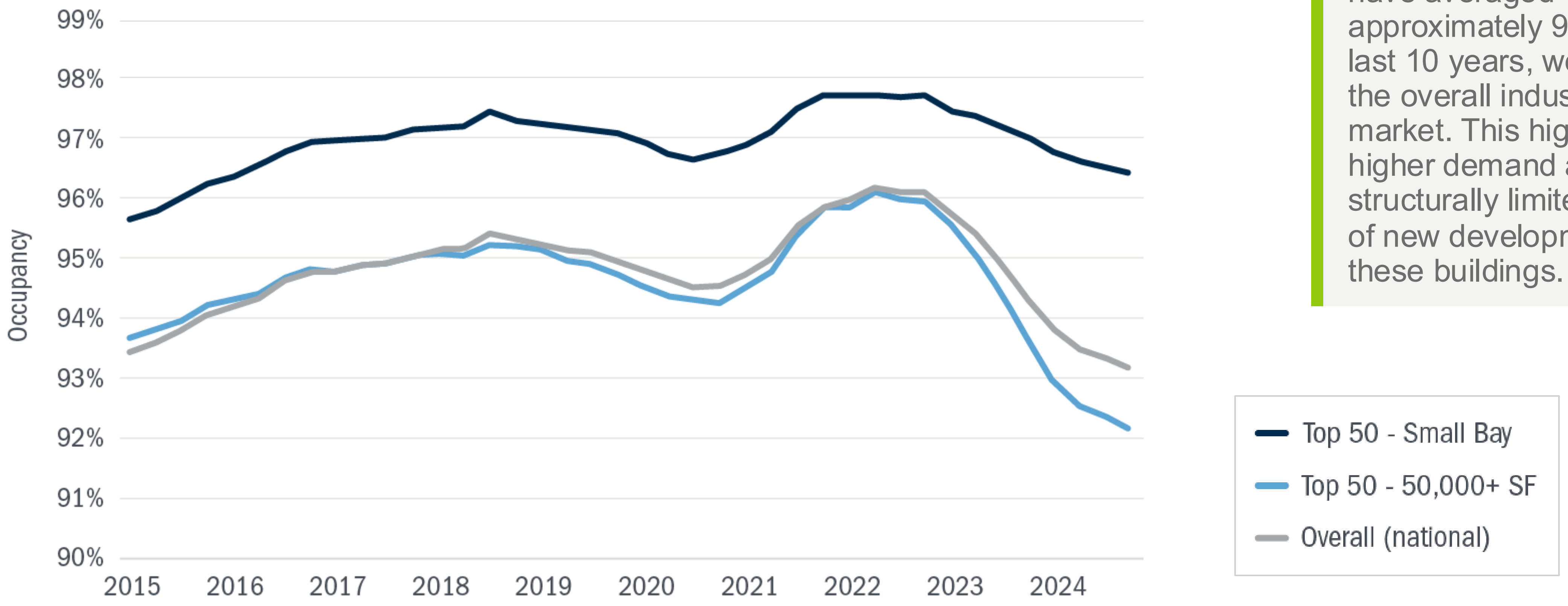
Industrial Deliveries



Source: Costar Industrial National Report, August 2024.

Small bay industrial has achieved consistently higher occupancy rates than overall industrial space in the last 10 years

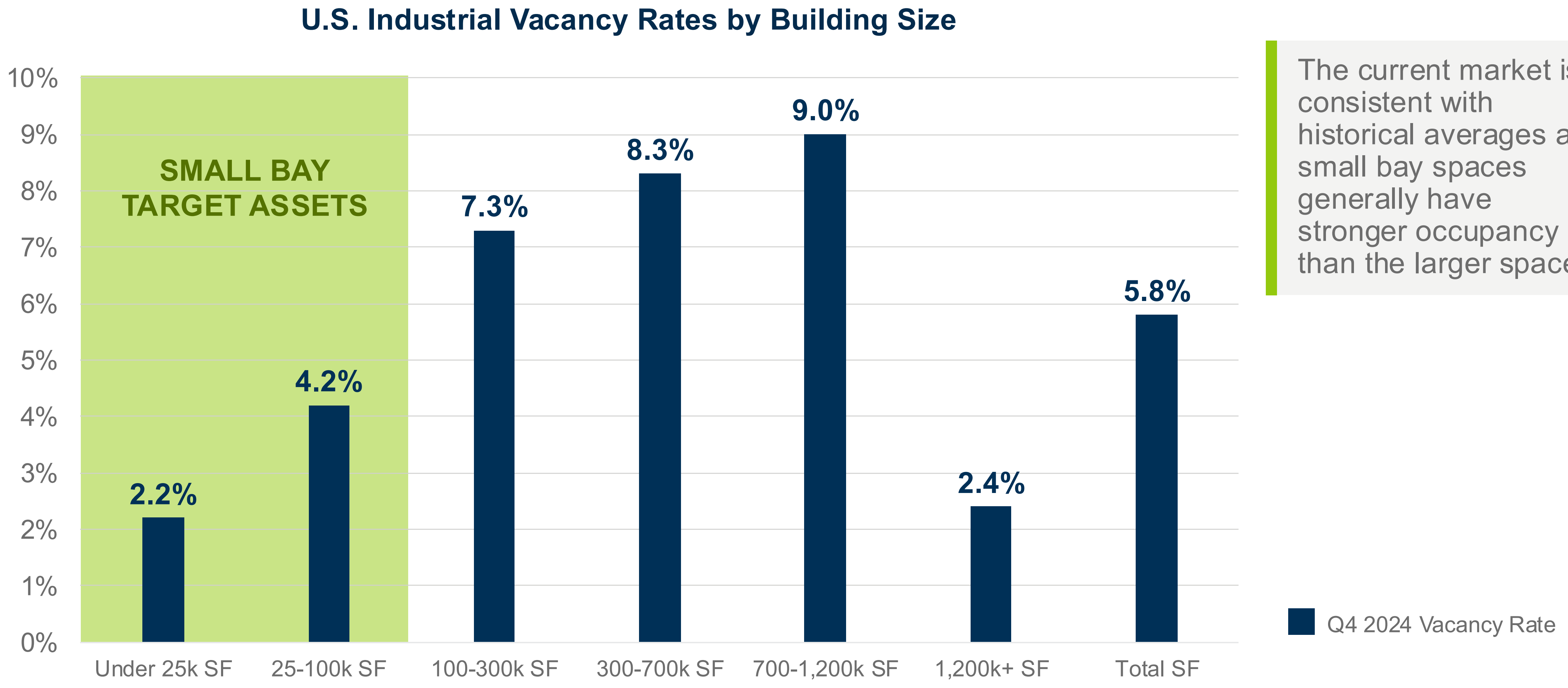
Small Bay Industrial (50 Largest U.S. Markets) vs. Larger Industrial vs. Overall



Small bay occupancy rates have averaged approximately 97% in the last 10 years, well above the overall industrial market. This highlights the higher demand and structurally limited capacity of new development of these buildings.

Source: Bridge 2025 Outlook

Small bay among the lowest vacancy rates of the entire industrial sector



The current market is consistent with historical averages as small bay spaces generally have stronger occupancy than the larger spaces

Source: CBRE Econometric Advisors Q3 2024

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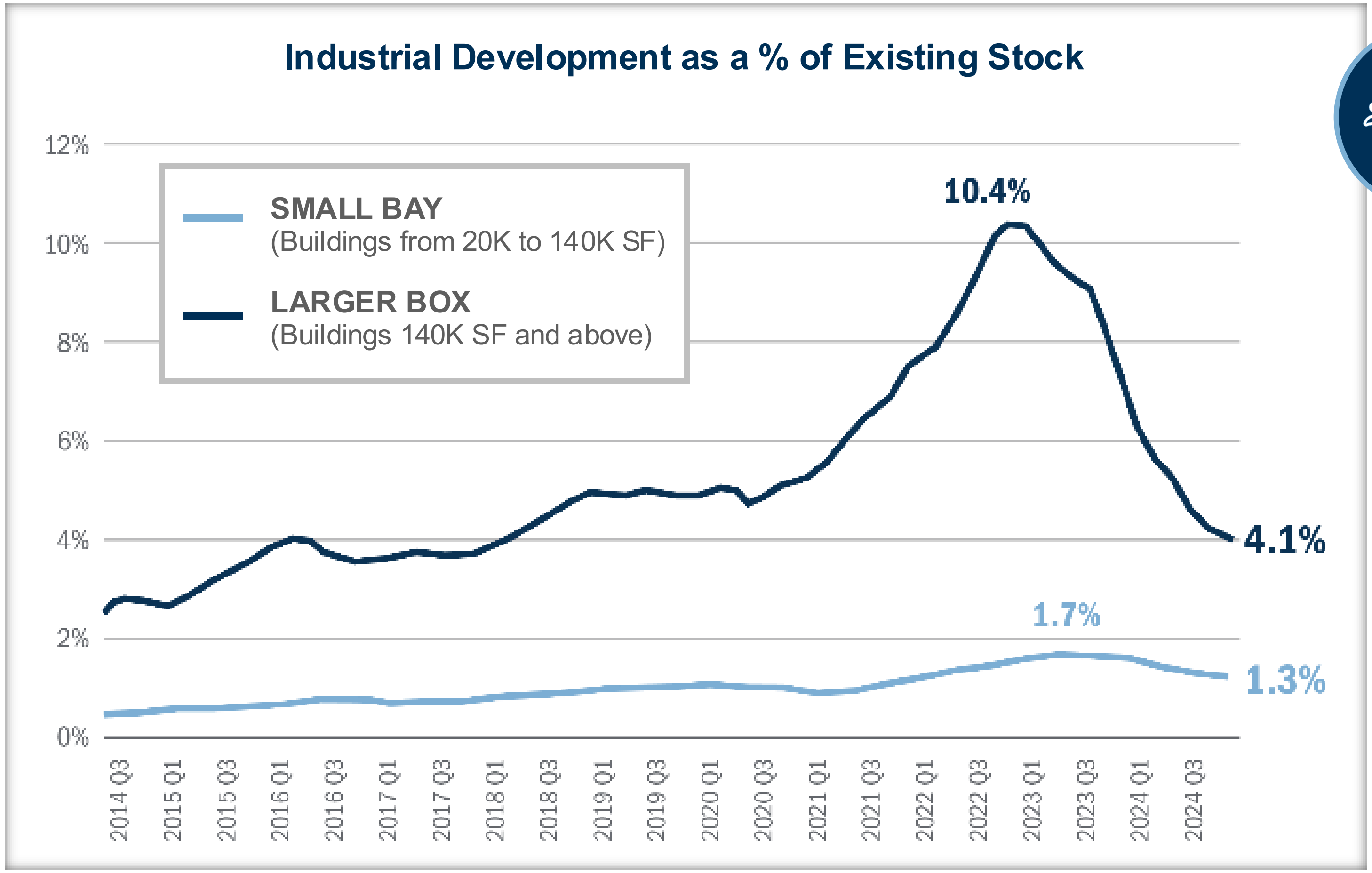
Small bay industrial: Limited supply and diversification benefits

Small Bay development has historically represented a lower percentage of existing industrial stock, translating to decreased investor competition



TENANT DIVERSIFICATION BENEFITS

- Varied unit sizes capture the sweet spot of the market and allow for growth within the parks, leading to higher tenant retention
- Diversified rent rolls limit property owners' exposure to secular downturns in any one industry
- Multiple tenants create stable occupancy and reduce cash flow volatility

Source: AVANT by Avison Young; CoStar

Residential Real Estate Outlook

Executive Summary

Residential Real Estate Outlook

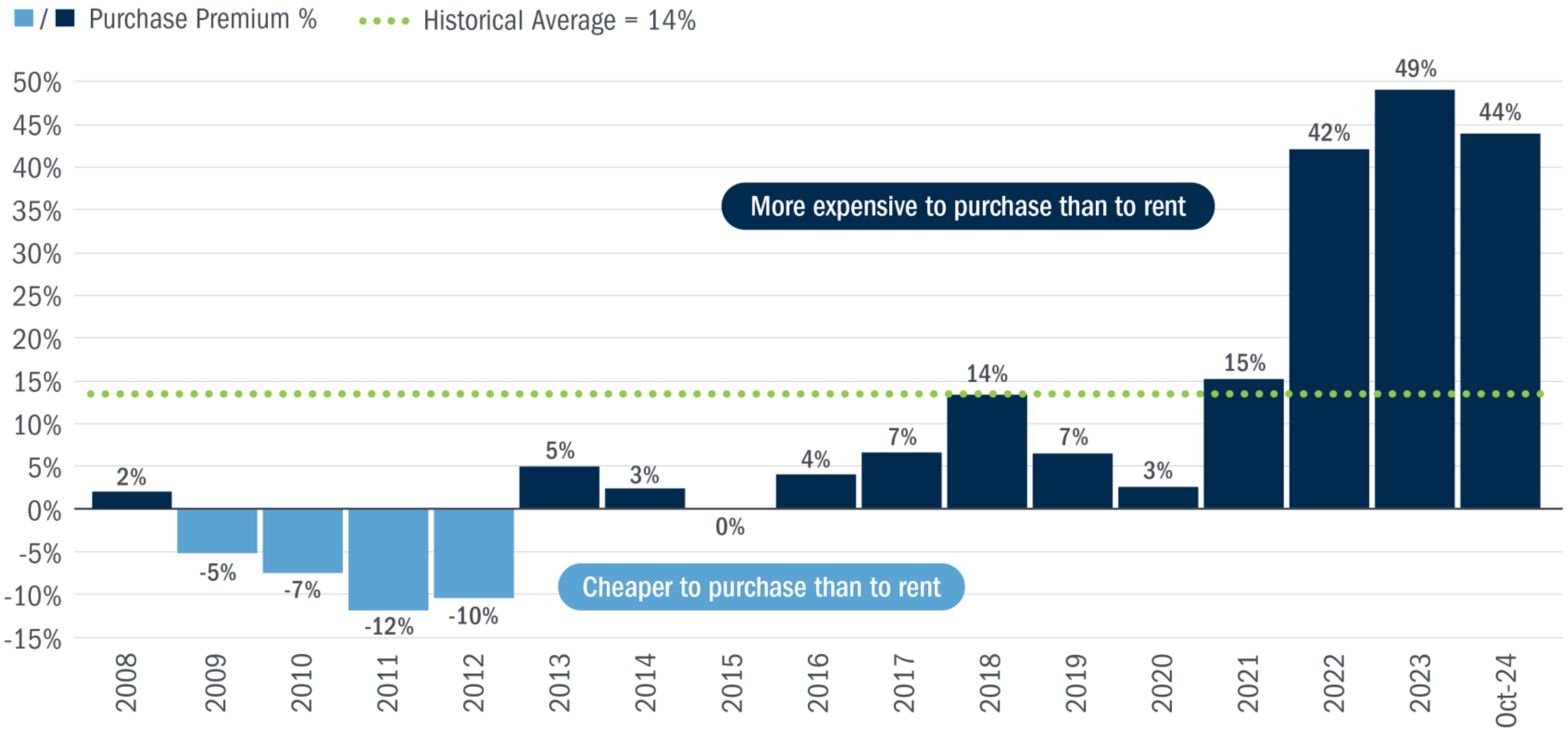
Favorable renting economics	With the cost of housing rents now at a record discount vs. the cost of a mortgage, fundamentals for the single-family rental sector are attractive.[1]
Overall housing shortage	The decline of overall rental and for-sale housing completions per capita have left the nation with an acute housing shortage.[2]

[1] John Burns, September 2024, includes maintenance for single-family starter home, historical average calculated 2000
[2] Bridge Investment 2025 Outlook

Families are priced out of home purchases and must rent for longer

National Cost Of Purchasing vs. Renting Single Family Starter Home

Monthly mortgage payment vs. monthly rent %



- It is 44% more expensive nationally to purchase a single-family starter home than to rent a same-valued home, among **the highest premiums ever.**
- This suggests rental rates will increase more rapidly to offset this difference.

Source: John Burns, September 2024, includes maintenance for single-family starter home, historical average calculated 2000

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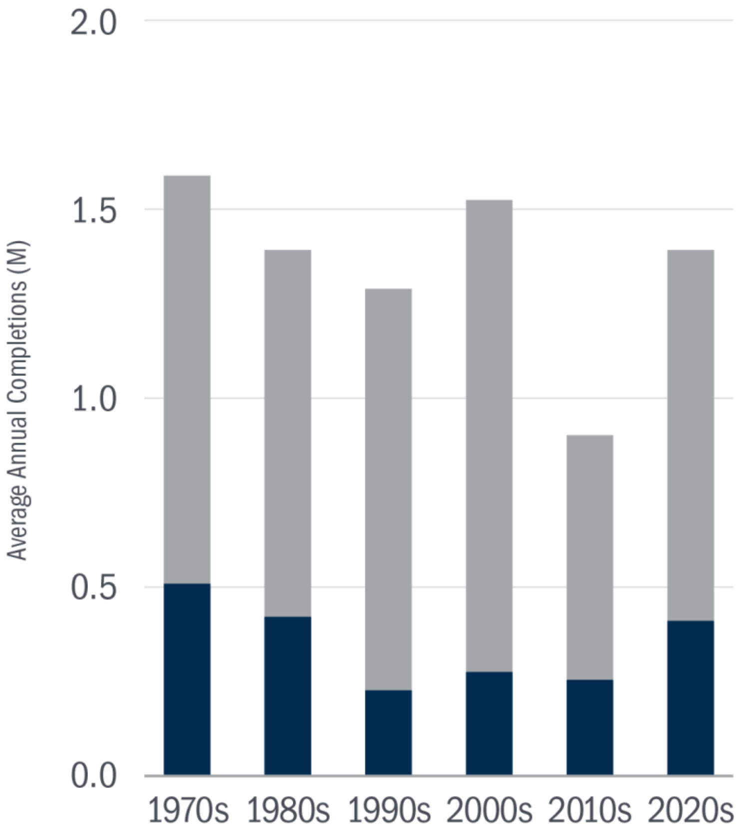
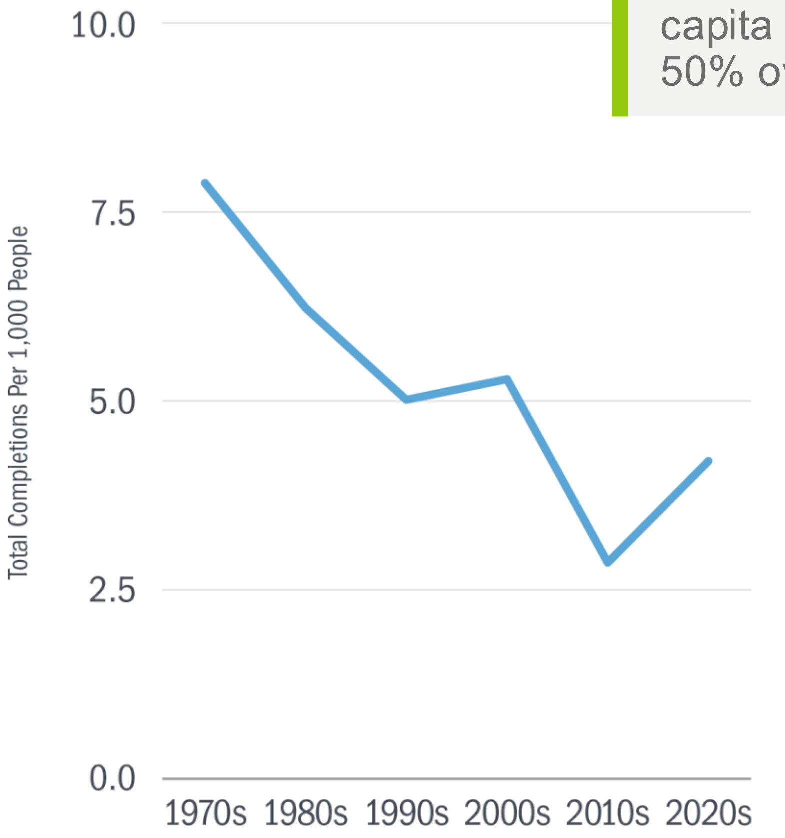
Low overall housing supply contributes to shortage and higher rents

Single-Family Completions | Multifamily Completions | Total Completions Per 1,000 People



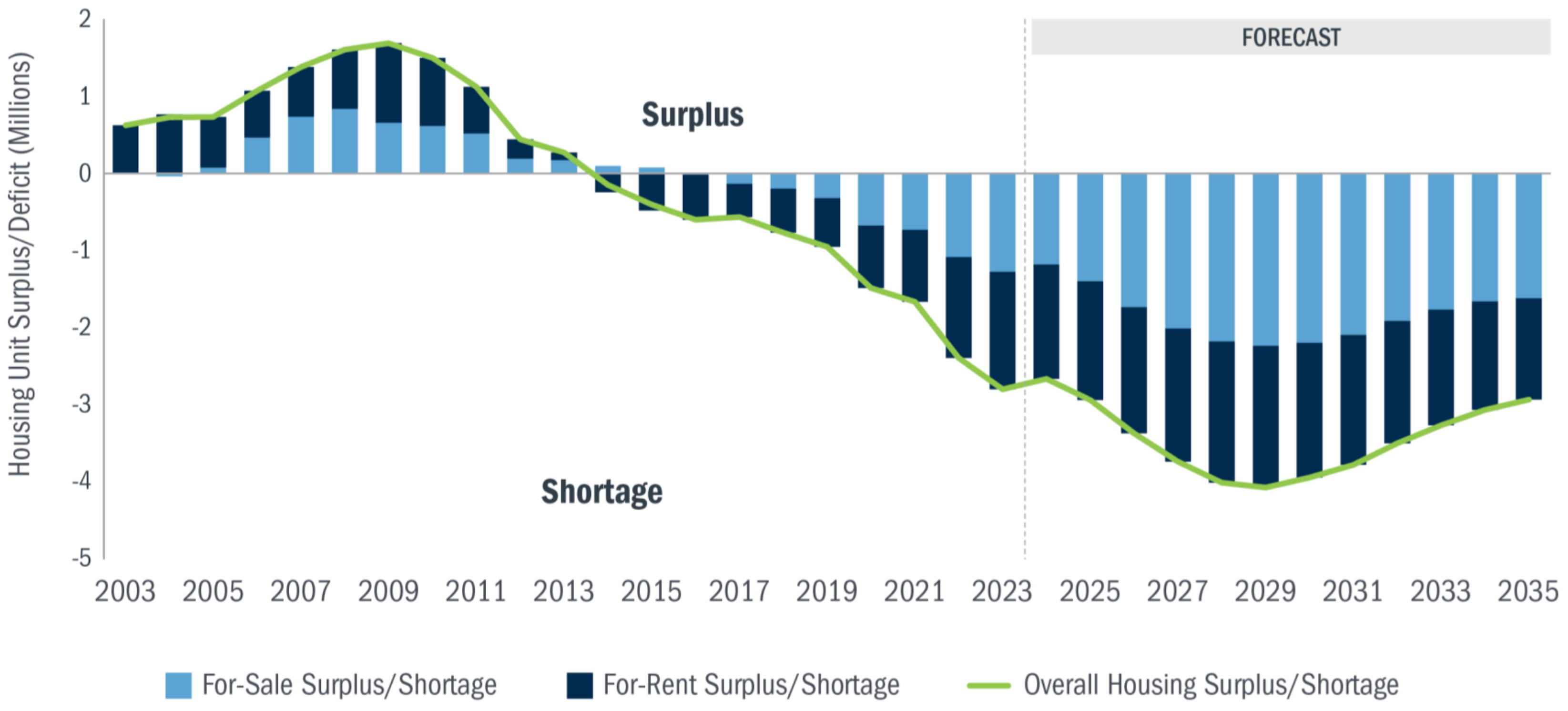


Housing completions per capita have declined nearly 50% over the past 50 years.

Source: Bridge Investment 2025 Outlook

Overall housing shortage is positive for rent and value growth

U.S. Housing Surplus/Shortage



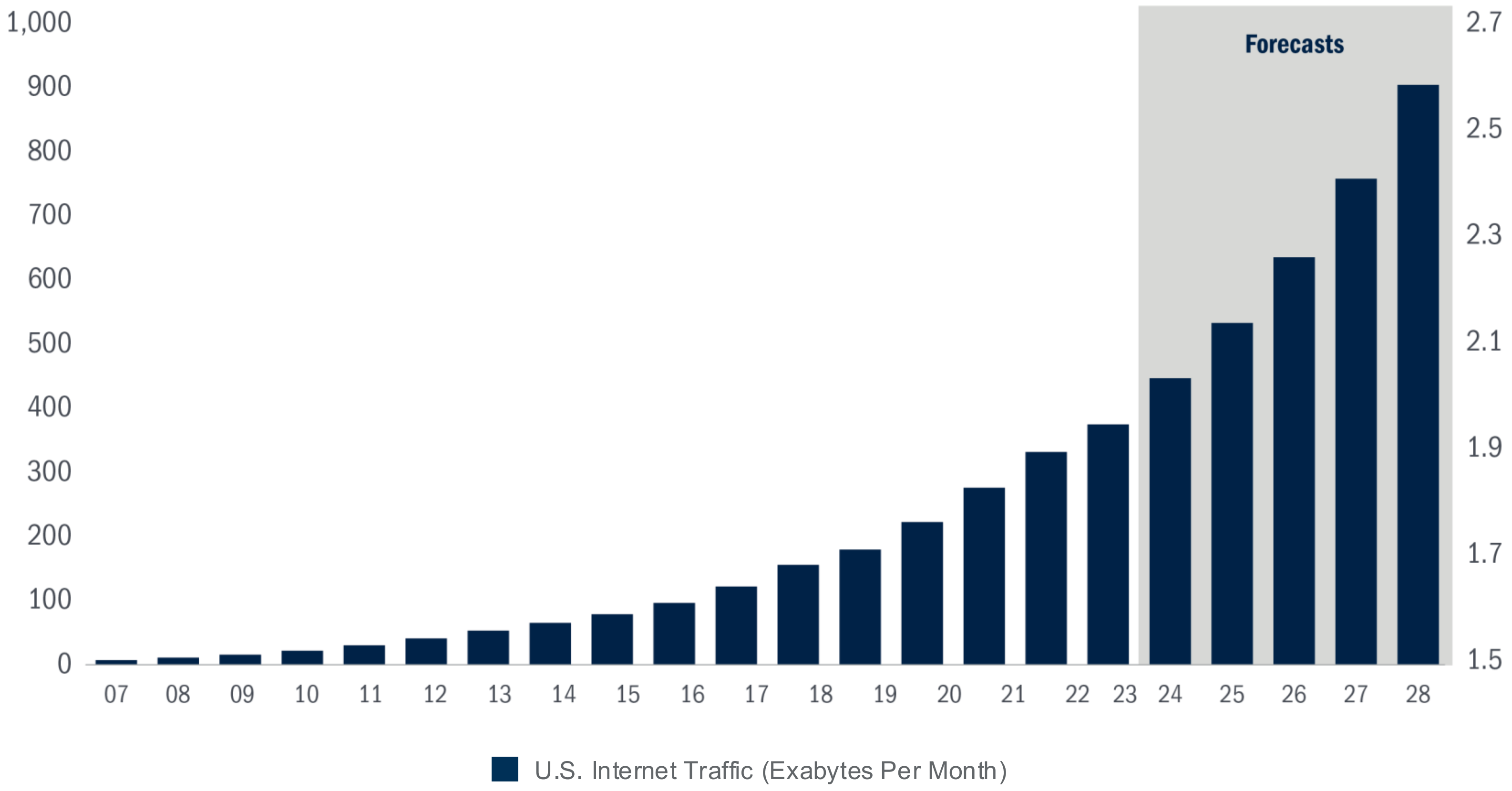
The for rent and for sale housing shortage is expected to spike in the next five years which should boost residential rents.

Source: Clarion, Class, October 2024

Data Center Outlook

Data center demand to be boosted by higher internet traffic

U.S. Internet Traffic Volume and Global Data Center Power Usage Effectiveness

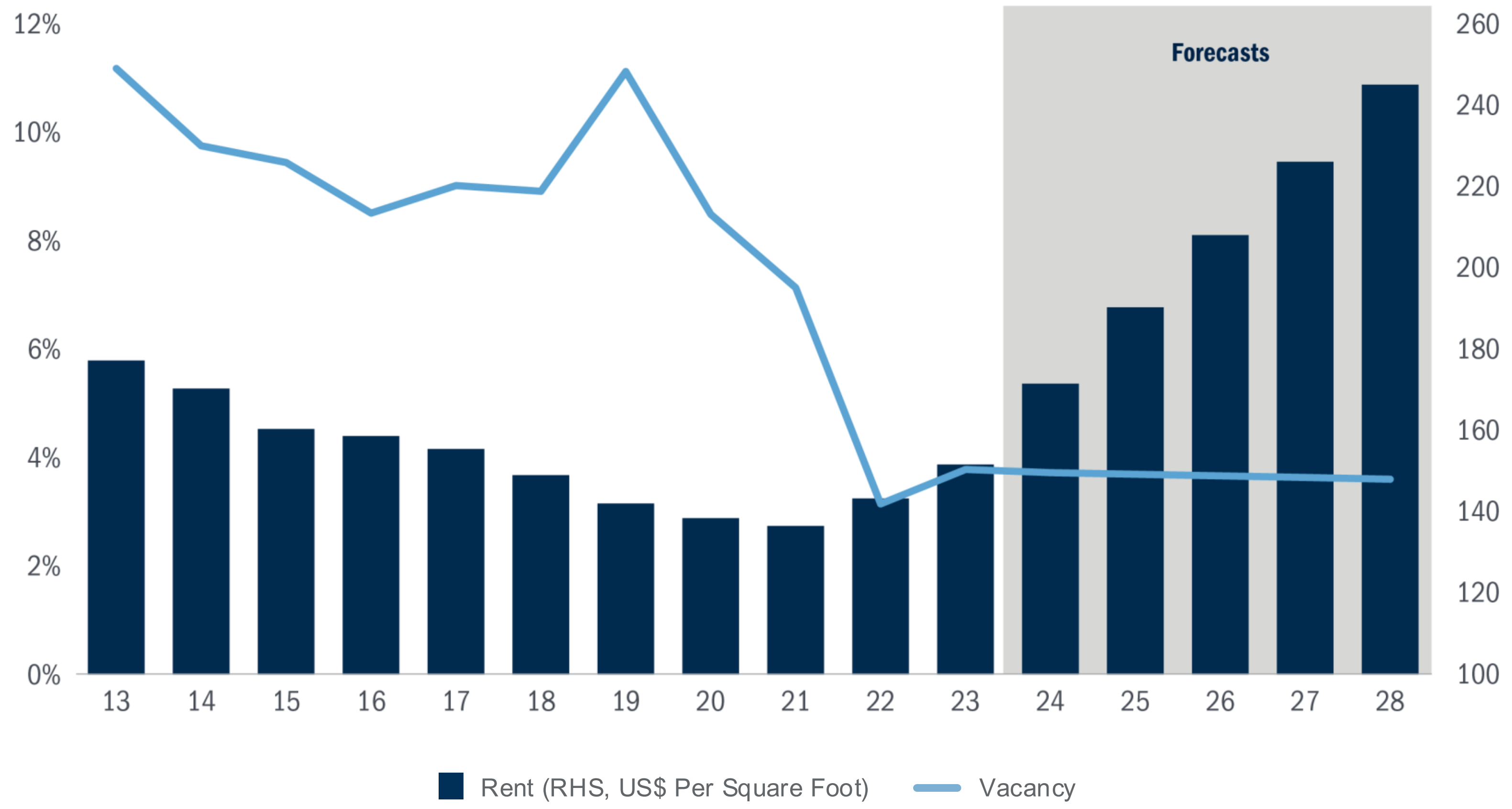


Higher internet traffic, including the increase in artificial intelligence, is likely to boost data center demand in the coming years.

Source: PGIM 2025 Real Estate Outlook

Data center rents projected to soar with sustained low vacancy rates

Data Center Vacancy Rate vs. Rent (US$ Per Square Foot)



Increased data center demand is expected to keep vacancy rates low and boost rental rates significantly over the next several years.

Source: PGIM 2025 Real Estate Outlook

Alternative Private Credit Outlook

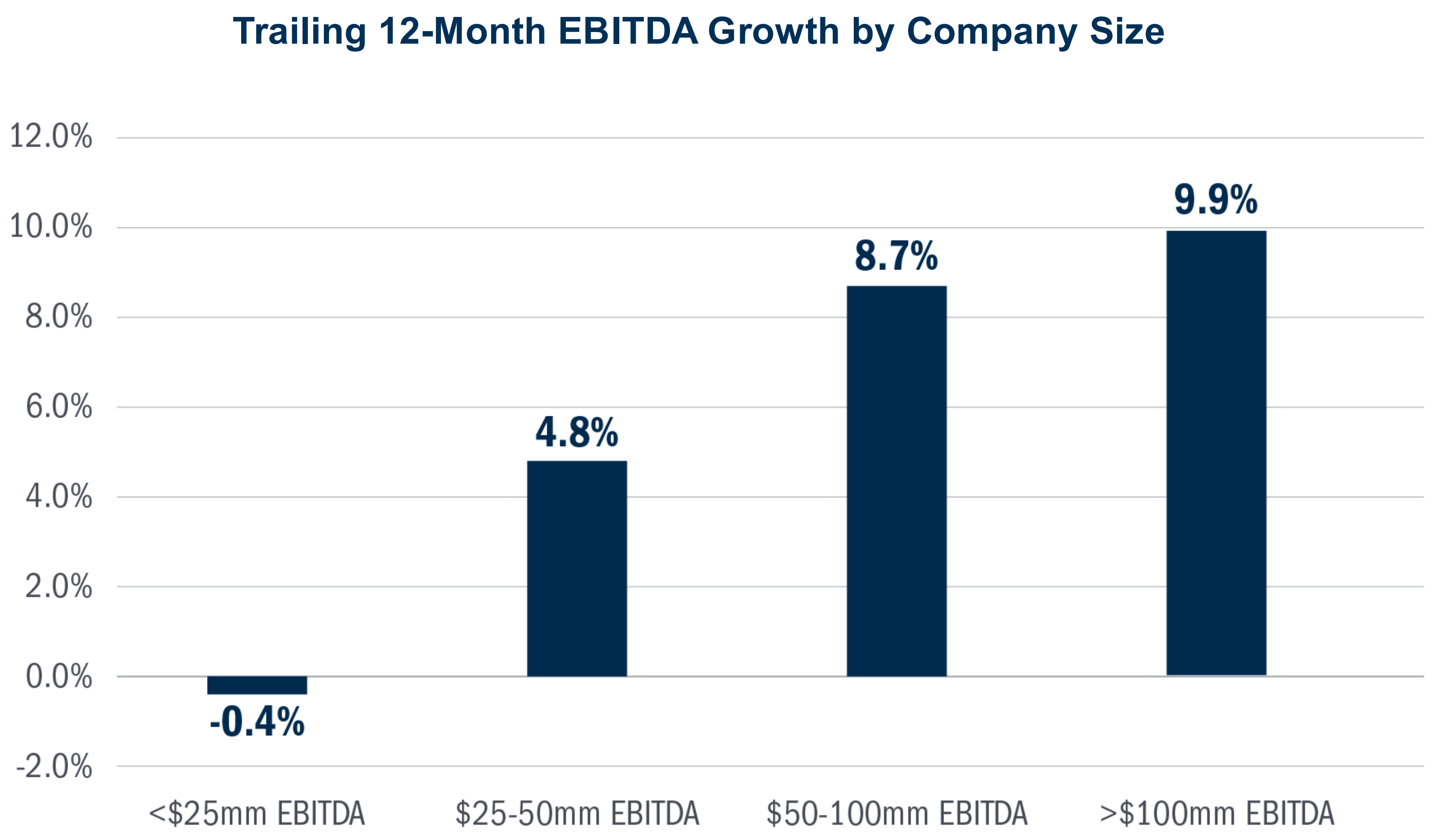
Executive Summary

Alternative Private Credit Outlook

Loan market fundamentals are strong	Larger companies have recently performed better than smaller companies providing a better cushion against defaults and losses.[1]
Yields continue to remain elevated vs. recent historical standards	Yields across many fixed income markets are attractive, particularly senior secured loans.[2]
Amidst a moderating rate environment, fixed income asset class selection is critical	Certain fixed income categories perform particularly well in declining rate environments, such as senior secured loans.[2]

[1] Morgan Stanley The Road Ahead, Private Credit in 2025
[2] JP Morgan Guide to the Markets, Q4 2024

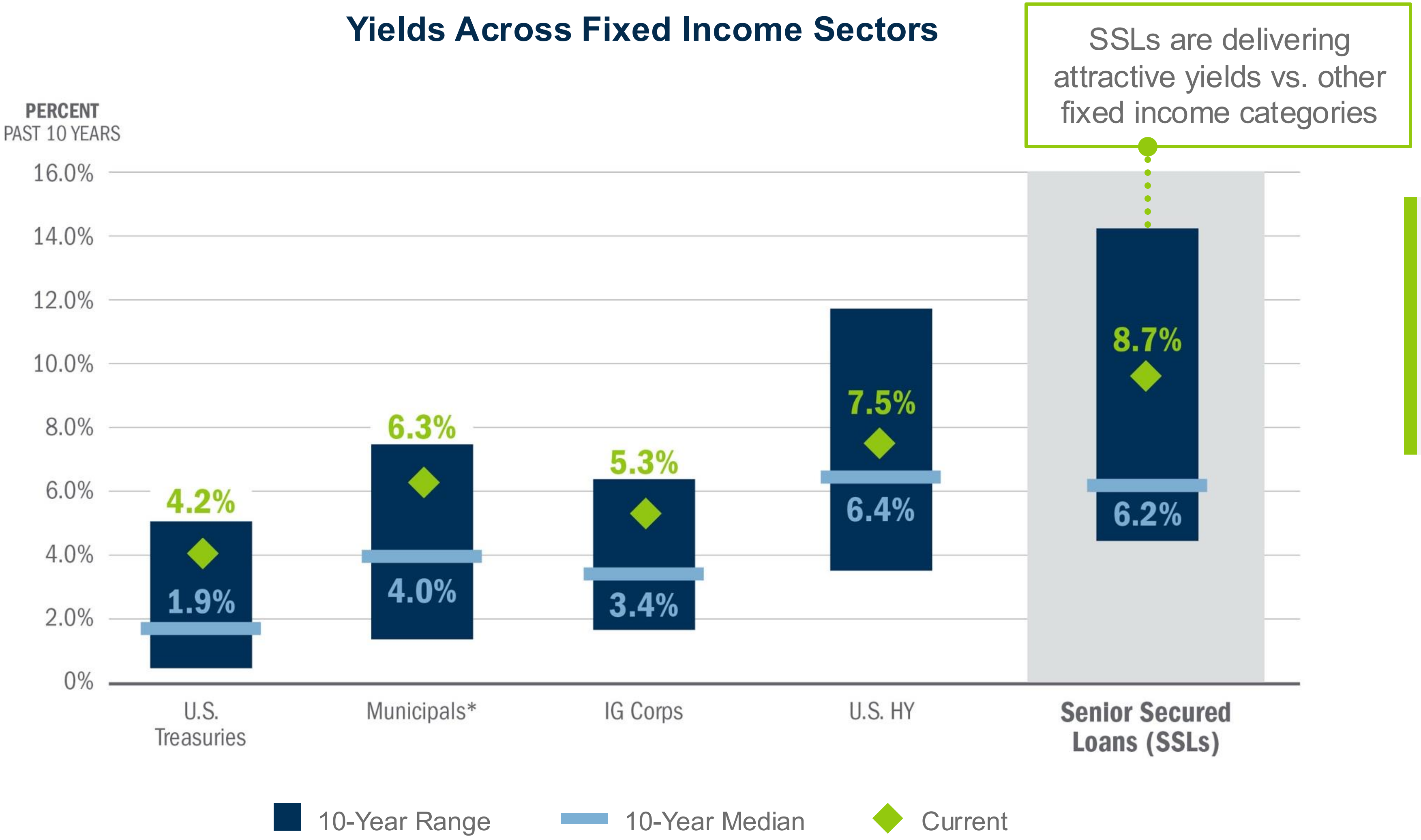
Credit market fundamentals are strong



Stronger EBITDA growth among larger companies provides more cushion against loan defaults and losses.

Sources: Morgan Stanley The Road Ahead, Private Credit in 2025

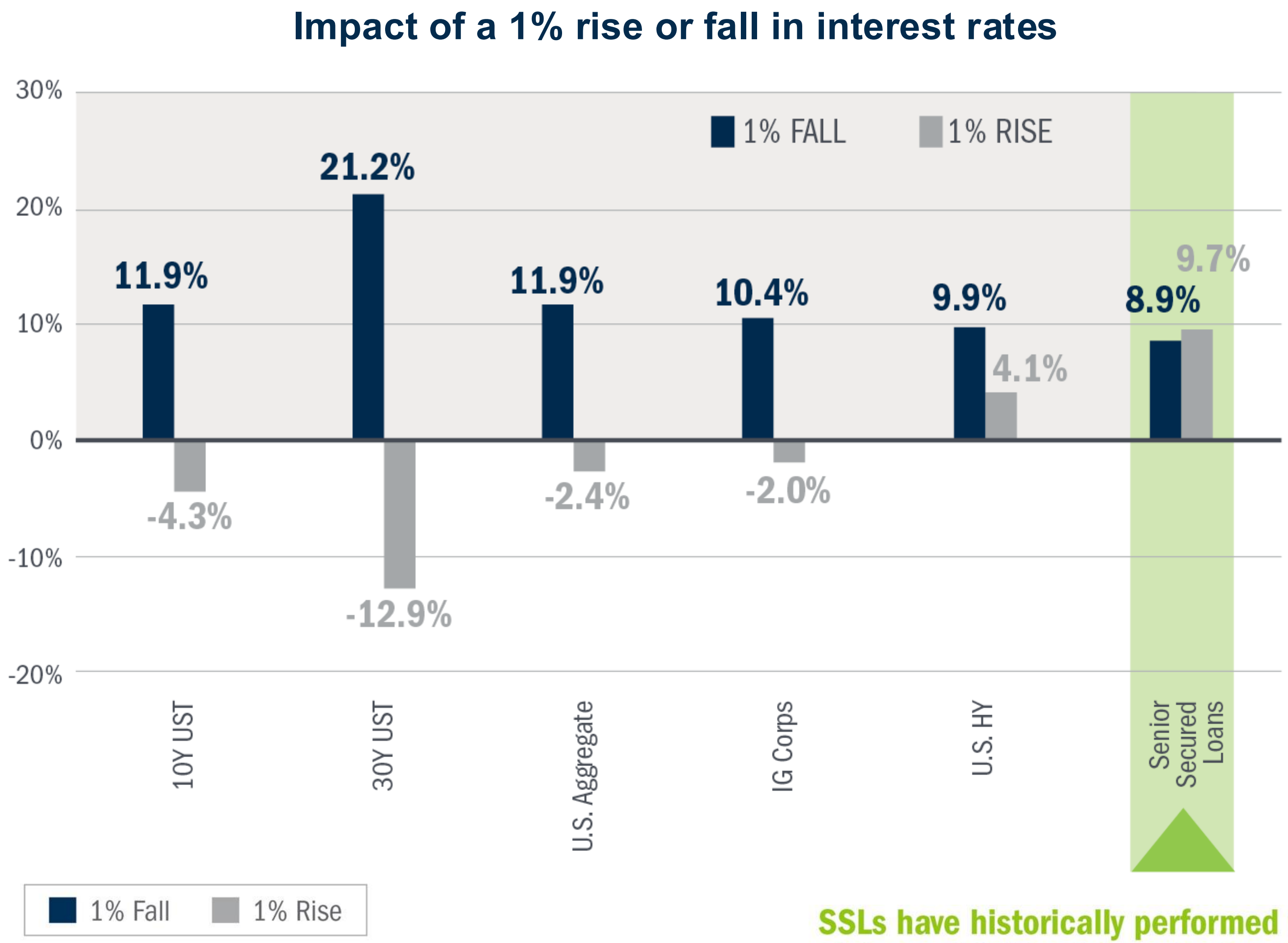
Senior Secured Loans (SSLs) are currently and historically among the highest yield-generating asset classes



Current yields are still near their highest levels in the past decade, illustrating that some fixed income categories continue to offer meaningful income

Source: JPMorgan Guide to the Markets 4Q 2024.

SSLs' floating rate nature have allowed them to perform well in rising and falling interest rate environments

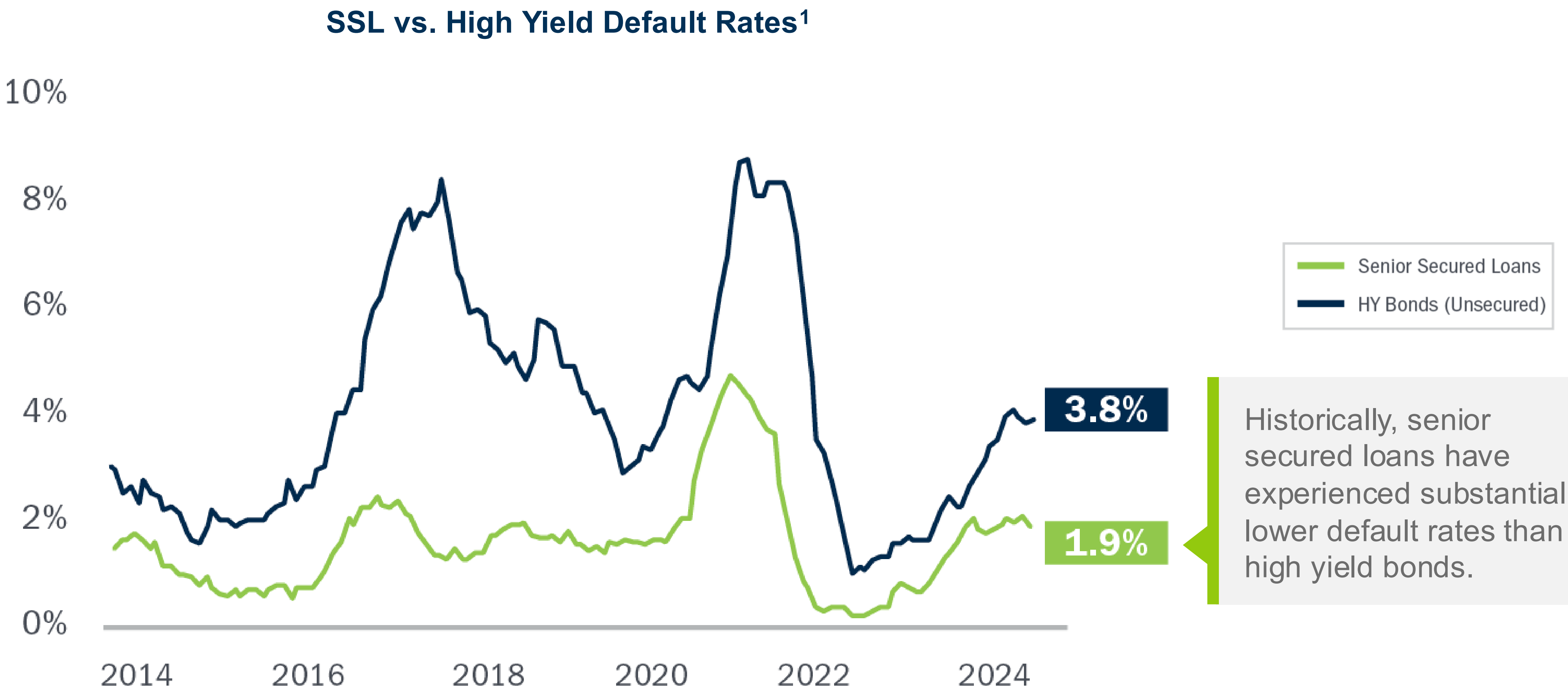


Floating rate senior secured loans historically deliver meaningful positive returns in both rising and falling rate environments

SSLs have historically performed well in both rising and falling interest rate environments

Source: JPMorgan Guide to the Markets 4Q 2024, Total return, assumes a parallel shift in the yield curve.

SSL default rates historically less than 50% of high yield bonds



Historically, senior secured loans have experienced substantially lower default rates than high yield bonds.

[1] Source: Morgan Stanley Research: Leveraged Loans and CLO Dashboard, April 2024, SSL index is the Morningstar Leveraged Loan Index

Alternative private credit is a compelling standalone allocation or an attractive complement to traditional private credit

Large Corporate Borrower Focus

- Exposure to large, established and well-known corporate borrowers
- Direct lending funds tend to dominate middle market private equity-backed

Diversification Benefits

- Minimal overlap of holdings with traditional private credit funds.
- Traditional private credit funds tend to have high levels of overlap in their holdings given their smaller market size.

Secondary Market Access

- The secondary market for large corporate borrowers is active and liquid allowing for ample active management,
- Middle-market loans must be held to maturity and have no liquidity.

Active Management & Liquidity

- Structured credit investments are generally liquid and allow the managers to actively allocate based on value and performance trends to maximize returns.

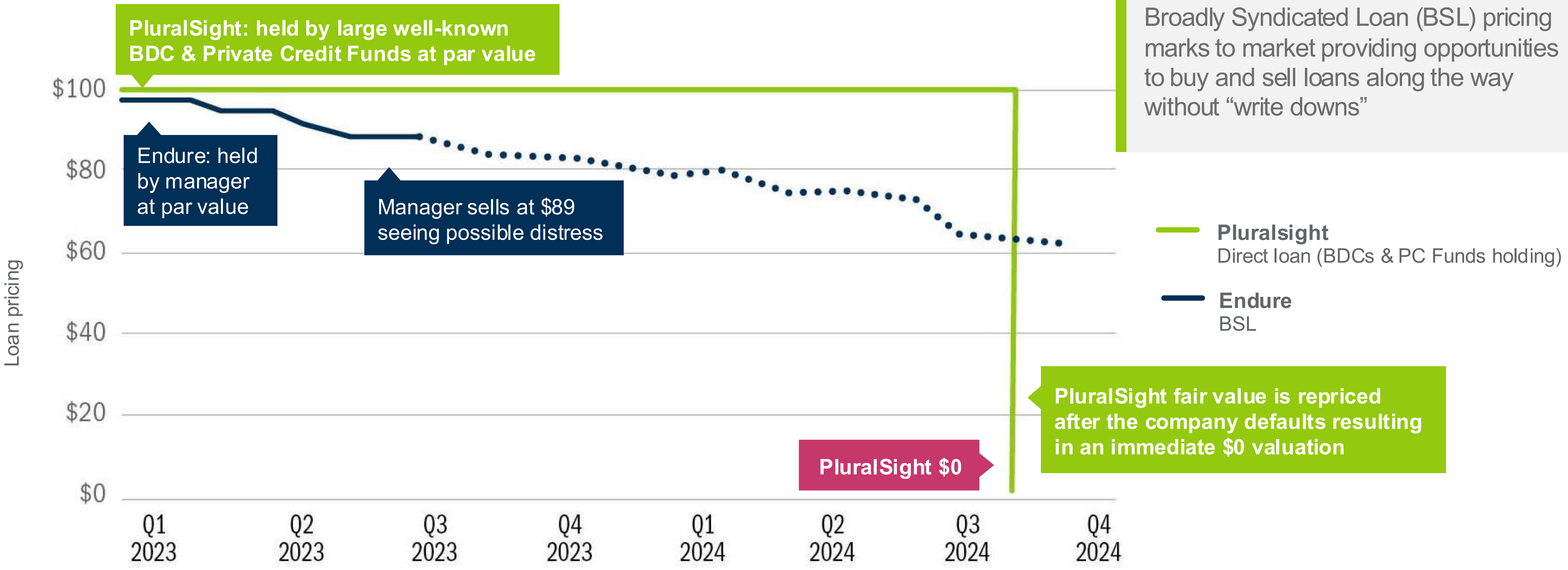
Alternative private credit offers the benefits of traditional private credit with unique advantages

	Traditional private credit (Direct Lending)	Alternative private credit
High Yields	✔	✔
Low Volatility	✔	✔
Low Correlation to Broader Markets	✔	✔
Invested in Corporate Loans	✔	✔
Large Corporate Borrowers	✖	✔
Pricing Transparency	✖	✔
Secondary Market Liquidity	✖	✔
Active Management Opportunities	✖	✔
Highly Diversified Loan Exposure	✖	✔
Differentiated Fund Holdings vs Peers	✖	✔

Case study: Alternative private credit vs. direct lending

Pricing visibility **and liquidity** create active management opportunities

PluralSight (Direct loan) vs. Endure (BSL) Price



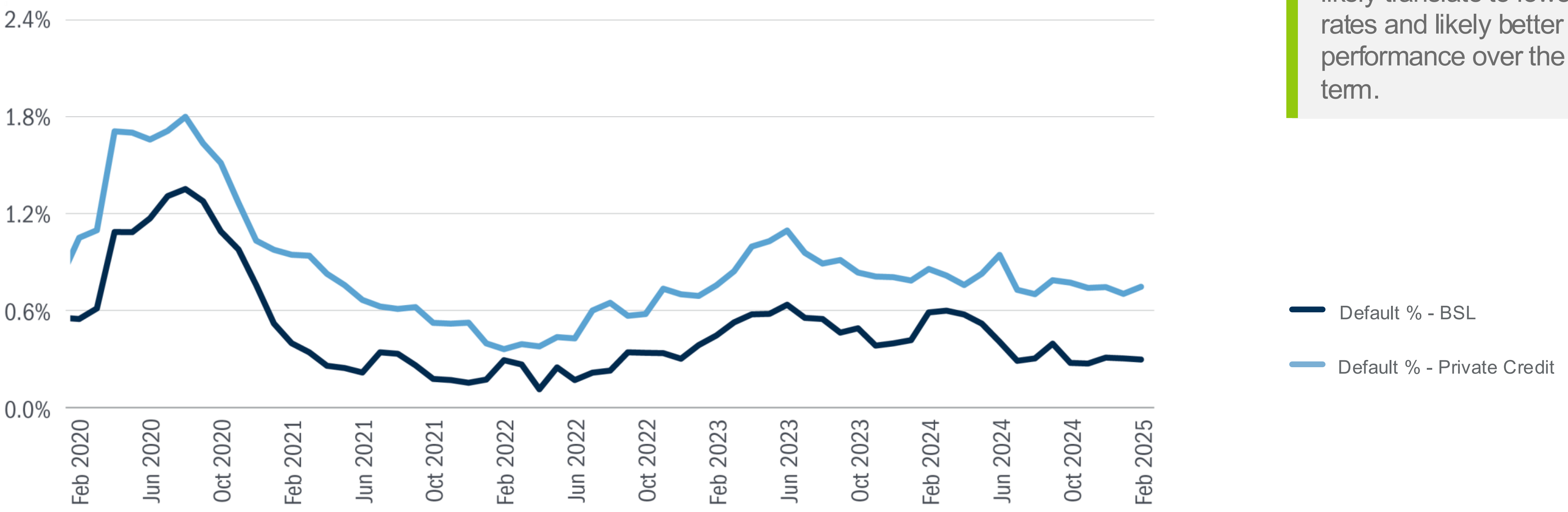
Broadly Syndicated Loan (BSL) pricing marks to market providing opportunities to buy and sell loans along the way without "write downs"

Source: Bluerock; public filings

BSLs have lower default rates than traditional private credit

Private Credit (PC) and BSL default rates

Default rates for loans in PC CLOs are materially higher vs defaults in BSL CLOs



BSL's lower default rates likely translate to lower loss rates and likely better performance over the long term.

Source: BofA CLO Research Private Credit, Headwinds and Tailwinds, March 2025

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