



Global Investment Outlook 2025: Navigating the Year Ahead

NORTHERN TRUST ASSET MANAGEMENT SOLUTIONS

U.S. Equities

Earnings may support large cap valuations, small caps promising

We expect continued U.S. economic growth in the near- and intermediate-term to translate into healthy revenue growth. While we anticipate some modest multiple contraction in the coming years, we are constructive on U.S. large cap equities and feel earnings growth will outpace any multiple decline.

While strong economic growth should also elevate small caps, we think declining interest rates will further aid performance as about half of small cap debt is floating interest rate. Lower rates will help margins and President-elect Donald Trump's re-shoring efforts will likely boost earnings. These, combined with reasonable valuations, leads us to be constructive on U.S. small caps.

- Tax-Advantaged Equity
- Tax-Managed Equity
- Direct Indexing
- FlexShares U.S. Quality Low Volatility ETF (QLV)
- Northern Trust U.S. Quality Low Volatility SMA
- FlexShares U.S. Quality Large Cap ETF (QLC)
- Northern Trust U.S. Quality Large Cap Core SMA
- Northern Small Cap Core Fund (NSCKX)

Emerging Markets Equities

Riding the tailwinds of valuation and growth

High share issuance in emerging markets, versus the global market, caused emerging markets to underperform over the past 10 years. However, we believe emerging markets are positioned for better performance going forward. Emerging market equities can continue to play an important role in investor portfolios, especially given the potential offered by favorable valuations, earnings growth and diversification benefits to developed market equities.

- FlexShares Emerging Markets Quality Low Volatility Index Fund (QLVE)
- Northern Emerging Markets Equity Index Fund (NOEMX)

Liquidity

Evolving monetary policy continues

In 2025, there is significant uncertainty over the economic outlook and monetary policy. A fairly wide range of outcomes with respect to the federal funds target range is possible. Importantly for money market investors, we and the markets see little chance rates return to the zero lower bound anytime soon.

- FlexShares Ultra-Short Income ETF (RAVI)
- Northern Ultra-Short Fixed Income Fund (NUSFX)
- Northern Tax-Advantaged Ultra-Short Fixed Income (NTAUX)
- Northern Trust Ultra-Short Bond SMA
- Northern Trust Ultra-Short Tax Advantaged Bond SMA

Treasury Inflation-Protected Securities (TIPS)

Inflation pressure may benefit TIPS investors in 2025

TIPS are one of few asset classes that we expect to perform well in a defensive environment with a direct link to inflation. While we have our expectations of inflation settling into a range above 2% for 2025, we expect the path to be bumpy. We believe TIPS are an important defensive portfolio component for unanticipated inflation.

- FlexShares iBoxx 3-Year Target Duration TIPS Index Fund (TDTT)
- FlexShares iBoxx 5-Year Target Duration TIPS Index Fund (TDTF)
- Northern Trust Laddered 1–5 Yr TIPS SMA
- Northern Trust Laddered 1–10 Yr TIPS SMA

High Yield Bonds

Yields and credit quality support attractive outlook

We expect high yield bond credit spreads to stay range bound below the long-term average driven by strong fundamentals, supportive technical trends and attractive yields. The composition of the high yield market remains close to the highest quality since inception. Valuation remains favorable in the high yield market. Above-average yields, combined with historically high credit ratings support a strong outlook. Our expectation of low defaults and a supportive Federal Reserve are positive for investors seeking total returns with reduced volatility compared to other risk assets.

- FlexShares High Yield Value-Scored Bond Index Fund (HYGV)
- Northern High Yield Fixed Income Fund (NHFIX)
- Northern Trust High Yield Bond SMA

Real Assets

Real estate, infrastructure and natural resources positioned well

Real estate appears positively positioned for 2025, with improving Fed clarity on the path of interest rates. We expect further normalization in investment volumes and asset pricing, supported by falling borrowing costs. We believe sizeable areas of the global REITs market are positioned for structural growth including data centers, industrial, healthcare and residential real estate.

We expect infrastructure to continue to serve as a useful tool for diversification, inflation mitigation and income generation. Many areas of the asset class should benefit from surging forecasts for global power demand and the investment needed by utilities to service this growth.

We favor global natural resources as a hedge against geopolitical risk; oil production restraint remains a tailwind for the asset class. Continued strong fundamentals (persistent cash flows, tight commodity markets, stronger balance sheets and lower capital expenditures) should support natural resources as an important hedge against higher inflation and geopolitical escalations.

- FlexShares Morningstar Global Upstream Natural Resources Index Fund (GUNR)
- FlexShares STOXX Global Broad Infrastructure Index Fund (NFRA)
- FlexShares Global Quality Real Estate Index Fund (GQRE)

Private Markets

Growth theme for hedge funds and private credit with signs of private equity rebound

The wide variety of hedge fund strategies results in a wide dispersion of returns. Manager selection is the key to a successful hedge fund allocation. The economic and market environment may prove more favorable for equity hedge, event-driven, macro, and relative value strategies.

Private credit is now the second largest private capital asset class behind private equity. The growth of private credit appears to be well supported by the secular shift of lending from traditional capital providers to private credit asset managers, as well as the size of the private equity market and private business sector. We believe private credit deployment will increase in conjunction with the expected pickup in M&A activity.

Multiples for acquisitions have remained low while public market valuations have rebounded. This explains one reason why private equity outperformance over public equities has narrowed. We expect the outperformance to revert to more normal levels as interest rates fall.

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Learn More

To explore our full outlook across asset classes, read our [Global Investment Outlook 2025](#).

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