2025 Global Fixed Income Outlook

Getting comfortable with being uncomfortable

We believe that we are reaching an inflection point in markets where the economic market structure that has existed since the Great Financial Crisis (GFC), with prolonged business cycles driven by government intervention and mispriced risk, is running out of steam. We believe this to be an opportunity for active management, underpinned by fundamental and sustainable investment research, to return to the forefront.

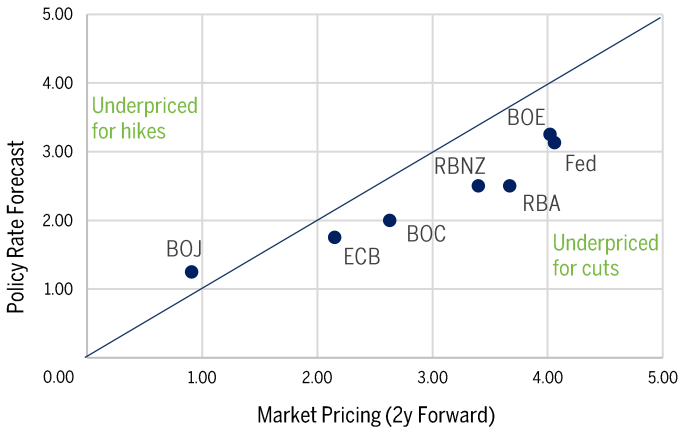
Whilst some market participants believe that a second Trump presidency may lead to better economic outcomes and an elongation of the current business cycle, we would argue that the world ahead will likely be one with increased volatility and uncertainty on the back of trade, fiscal, immigration, and regulatory policy. We cannot remember a time in our careers when the range of our economic outlook and scenarios, as we think about a twelve-month period ahead, have been so wide-ranging.

Economic Outlook Scenarios 2025 And Beyond

U.S. policy is creating a high degree of uncertainty for global fixed income markets in 2025 and beyond. Whilst we don't believe that our base case scenario has materially changed, we have assigned the lowest probability to a central scenario in our 15 years of doing this together as a team. Our base case calls for moderate growth with the U.S. continuing to outperform the rest of the developed world, and a continuation of the disinflationary process that has been evident over the past two and a half years. We believe that monetary policy and financial conditions are still tight and that central banks will continue to ease policy to a more neutral stance. The resilience of labour markets post-pandemic, and particularly in the U.S., has enhanced stability and averted an outright global recession. In our view, the appreciation of home prices and equities have supported consumption over this period. The performance of asset prices will be an important determinant as to whether this current phase of the economic cycle can continue through 2025.

We expect the U.S. to see better economic performance coupled with ever-expanding deficits thus limiting a decline in longer-term interest rates. On the other hand, we continue to see a weaker economic picture in countries such as Canada, New Zealand, and within Europe. While we expect international markets to grow below trend, the threat of U.S. tariffs, either directly or indirectly, adds further downside risk to growth, driving down inflation and leading to further and significant monetary easing in 2025, albeit at a slower pace than in the previous year. Japan remains the exception to this trend in developed market economies as the Bank of Japan, in our view, will continue to raise interest rates to slow upward pressure in wages and inflation.

CENTRAL BANK FORECASTS VS MARKET



Source: Brown Advisory, Bloomberg, as of 01/31/25.

	Market Pricing 2Yf	Policy Rate Forecast 2Yf	Difference
United States (Fed)	4.06	3.13	-0.93
Canada (BOC)	2.63	2.00	-0.63
Australia (RBA)	3.67	2.50	-1.17
New Zealand (RBNZ)	3.40	2.50	-0.90
Japan (BOJ)	0.91	1.25	0.34
Euro area (ECB)	2.15	1.75	-0.40
United Kingdom (BOE)	4.02	3.25	-0.77

Source: Bloomberg, Brown Advisory, as of 01/31/25.

In such a scenario emerging market (EM) countries would be challenged by the uncertainty associated with U.S. trade policy. Weakening local currencies and bloated debt levels could severely limit financial and economic flexibility in the emerging world.

In our annual scenario forecasting, we have increased the probabilities assigned to negative tail-risks to the global economy. What is different this year, perhaps, is that we can envision two distinct negative outcomes: the first, a more traditional economic slowdown which is accompanied by slowing inflation; the second, a stagflationary environment that includes weaker growth with higher inflation as a result of tariffs and supply chain disruptions. Both would result in risk markets underperforming, but the implications for central bank policy and interest rates would be markedly different.

In the first negative scenario, we would expect to see aggressive central bank easing on the back of materially weaker growth and inflation. As unemployment rises and consumption weakens, overnight rates will have to move below neutral in order to stimulate economies. In a stagflationary environment, similar to 2022, interest rates would have to remain high in order to offset the inflationary pressures caused by higher tariffs alongside fiscal expansion. This is the environment – whilst less likely, in our view, than a traditional economic slowdown – that concerns us the most.

"As we manage assets in an asymmetric asset class that has limited upside and where downside can be zero, we need to constantly be focused on protecting our clients' capital by constructing portfolios that can not only deliver performance in positive markets but be an important counterbalance to equity risk in more challenging times."

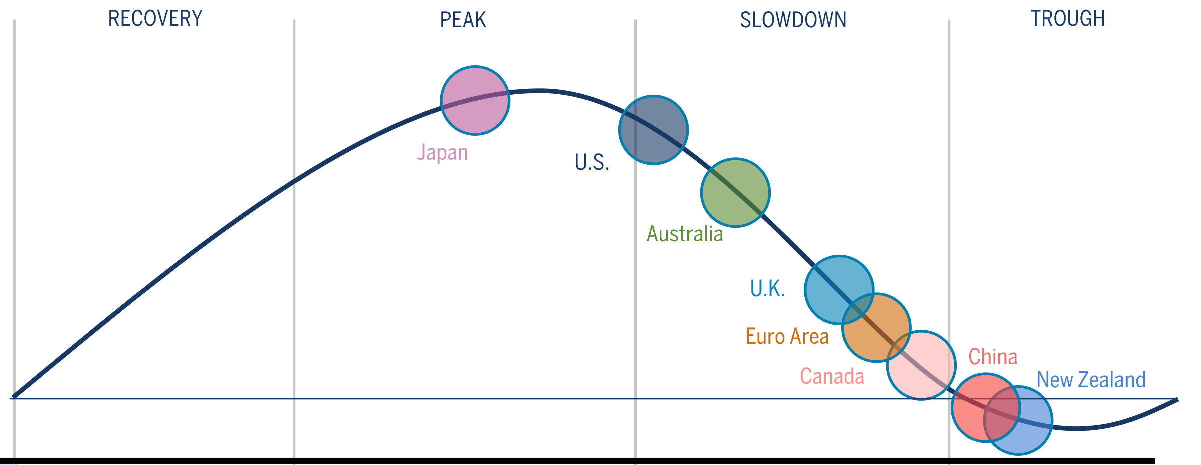
Ryan Myerberg, Global Sustainable Fixed Income Portfolio Manager

Investment Implications And Positioning

We maintain the core view that positioning for steeper yield curves will be effective in both a growth slowdown and a fiscally expansionary environment. As such, the portfolio has concentrated duration positions in short to intermediate maturities across the developed world. We believe that the Fed will continue to ease monetary policy, and that term premium further out the yield curve is too low. We also generally favour other developed-world duration outside the U.S., such as Canada, New Zealand, Australia, and Europe. We've long suggested that the post-GFC environment of stubbornly harmonized economic and fiscal/monetary cycles is over, and we're seeing clearer signs of divergences in the economic outlooks for countries around the world. **We believe that 2025 will provide compelling levels to add to countries and regions where rate cuts continue to be likely and necessary.**

Our strategy is dynamic and unconstrained by a benchmark and looks to generate attractive risk-adjusted returns through an economic cycle with positive sustainability outcomes. This allows us to dynamically allocate risk between a broad set of asset classes and geographies. Based on our economic cycle assessment we expect most returns to be driven in 2025 by our rates positioning whilst we wait for better opportunities to increase our exposure to corporate credit. We see a deterioration of fundamentals, driven by weaker revenue, higher cost of capital and lower pricing power affecting margins and profits. At the same time, we continue to see credit spreads as expensive, making the asset class relatively less attractive. In this environment we prefer high quality credit and have focused on optimizing our existing positions for yield as well as building out a ready-to-buy list in corporate credit with the anticipation of having attractive entry points in 2025.

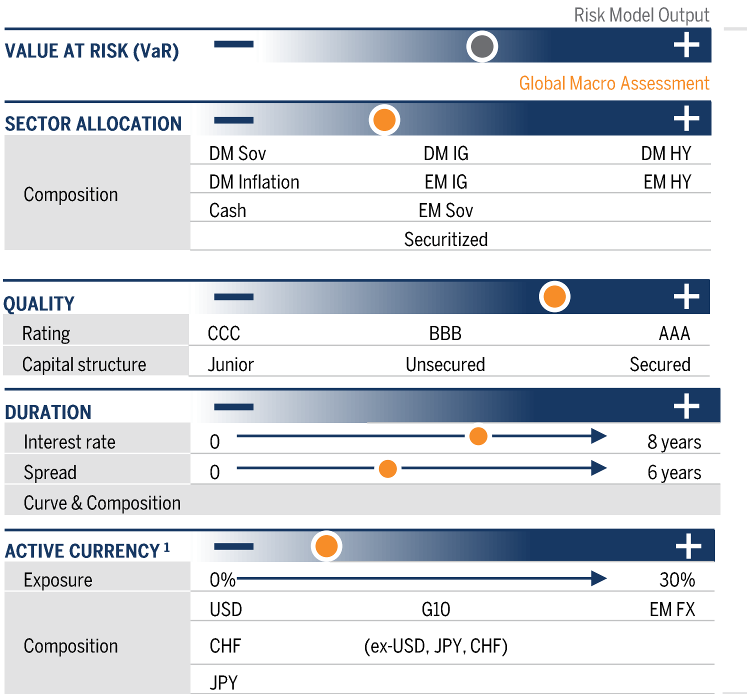
CYCLE ASSESSMENT FOR MAJOR ECONOMIES



	RECOVERY	PEAK	SLOWDOWN	TROUGH
Rates:	Higher	Mixed	Lower	Lower
Curve:	Steep	Flattening	Steepening	Steep
Currency:	Weak Dollar	Weak Dollar	Strong Dollar	Mixed
Spreads:	Narrowing	Stable	Mixed	Widening
Portfolio Strategy:	Risk-taking	Active	Sell riskier assets and maximize diversification	Exploit and provide liquidity
VaR Strategy:	Highest	Medium	Lowest	Medium

Source: Brown Advisory, as of 12/31/2024.

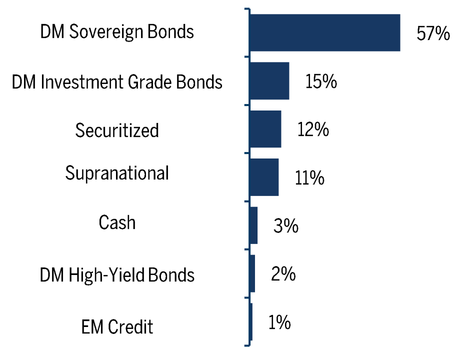
A FRAMEWORK FOR DYNAMIC ASSET ALLOCATION [2]



HYPOTHETICAL PORTFOLIO CHARACTERISTICS [2]

Portfolio Risk (VaR)	4.8%
Interest Rate Duration	5.95 years
Spread Duration	1.90 years
Average Credit Rating	AA

HYPOTHETICAL PORTFOLIO WEIGHTS [2,3]

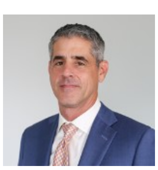


[1] Currency exposure resulting from an allocation to bonds is fully hedged. Currency exposure in the portfolio is an active decision.
[2] Based on a hypothetical asset allocation, does not represent an actual client's investments and is intended for illustrative purposes only.
[3] Sum of portfolio weights is more than 100% as the chart does not include futures used to hedge duration exposure. Please see the end of the presentation for important disclosures.

Three Years Of The Brown Advisory Global Sustainable Total Return Bond Strategy

This year marks the strategy's third anniversary. From a performance perspective, the Brown Advisory Global Sustainable Total Return Bond strategy has outperformed many of its peers during its three-year lifespan and exhibited strong downside capture and maximum drawdown management over that time. Since inception, its total net return of 2.0% is 3.9% above the performance of the Bloomberg Global Aggregate Bond Net Index.[1] This performance was achieved during a time when challenging market conditions have often warranted a more cautious stance, and we have prioritized downside protection ahead of chasing the upside. The heart of our investment approach has always been to offer clients two core deliverables: attractive risk-adjusted returns over the course of an economic cycle, as well as the preservation of capital, especially during challenging market environments. To us, these goals are the foundation of our investment philosophy, which has been formulated over nearly 15 years of working together and informs our strategic and flexible approach to navigating markets. Past success doesn't mean we will now rest on our laurels. We constantly strive to be better and ensure our process can adjust to changing market conditions. We are confident that our strategy will continue to be able to capture future opportunities, avoid downside risk and deliver sustainability outcomes for the next three years and beyond.

PORTFOLIO MANAGERS



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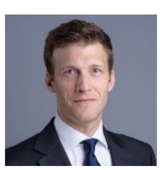

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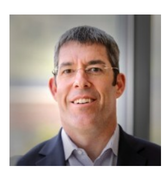

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1. Factset®, as of 01/31/25. Calculated net of fees. All returns greater than one year are annualized. Past performance is not indicative of future results.

Unless otherwise stated, sources are as of the most recent company reports available at the time of publication. All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted

Bloomberg Global Aggregate Index (1-10Y) (GBP Hedged) represents a close estimation of the performance that can be achieved by hedging the currency exposure of its parent index, the Bloomberg Global Aggregate Bond Index, to GBP. The index is 100% hedged to the GBP by selling the forwards of all the currencies in the parent index at the one-month Forward rate. The parent index is composed of government, government-related and corporate bonds, as well as asset-backed, mortgage-backed and commercial mortgage-backed securities from both developed and emerging markets issuers.

Bloomberg Global Aggregate Net Index (GBP Hedged) measure of global investment grade debt from twenty-eight local currency markets. Bloomberg Indexes and its associated data, Copyright ©2022 Bloomberg Index Services Limited. Bloomberg® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material or guarantee the accuracy or completeness of any information herein, nor does Bloomberg make any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, Bloomberg shall not have any liability or responsibility for injury or damages arising in connection therewith.

Duration is a time measure of a bond's interest-rate sensitivity, based on the weighted average of the time periods over which a bond's cash flows accrue to the bondholder.

Volatility is the degree of variation of a trading price series over time, usually measured by the standard deviation of returns.

GLOBAL SUSTAINABLE TOTAL RETURN BOND (GBP) COMPOSITE

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Composite 3-Yr Annualized Standard Deviation (%)	Bank of England's SONIA Compounded Index		Bloomberg Global Aggregate 1-10 Year Total Return Index (GBP Hedged)		Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets (GBP Millions)*	GIPS Firm Assets ($USD Millions)*
				Benchmark Returns (%)	Benchmark 3-Yr Annualized Standard Deviation (%)	Benchmark Returns (%)	Benchmark 3-Yr Annualized Standard Deviation (%)				
2023	4.2	3.6	N/A	4.6	N/A	5.8	N/A	Five or fewer	N/A	284	81,325
2022**	-4.6	-5.1	N/A	1.4	N/A	-7.3	N/A	Five or fewer	N/A	2	58,575

**Return is for period February 1, 2022 through December 31, 2022.

Brown Advisory Institutional claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory Institutional has been independently verified for the periods from January 1, 1993 through December 31, 2023. The Verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

1. *For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
2. The Global Sustainable Total Return Bond (GBP) Composite (the Composite) includes all discretionary portfolios invested in the Global Sustainable Total Return Bond (GBP) strategy. The objective of the Global Sustainable Total Return Bond (GBP) strategy is to target a positive total return (comprising current income and capital gains) above the Bank of England's SONIA Compounded Index over a full economic cycle, by investing in a broad range of global fixed-income securities and associated FDIs and currencies.
3. Sustainable investment considerations are one of multiple informational inputs into the investment process, alongside data on traditional financial factors, and so are not the sole driver of decision-making. Sustainable investment analysis may not be performed for every holding in the strategy. Sustainable investment considerations that are material will vary by investment style, sector/industry, market trends and client objectives. The Global Sustainable Total Return Bond Strategy ("Strategy") seeks to identify issuers that it believes may be desirable based on our analysis of sustainable investment related risks and opportunities, but investors may differ in their views. As a result, the Strategy may invest in issuers that do not reflect the beliefs and values of any particular investor. The Strategy may also invest in issuers that would otherwise be excluded from other strategies that focus on sustainable investment risks. Security selection will be impacted by the combined focus on sustainable investment research assessments and fundamental research assessments including the return forecasts. The Strategy incorporates data from third parties in its research process but does not make investment decisions based on third-party data alone.
4. The Composite creation date is February 28, 2022. The Composite inception date is February 1, 2022.
5. The Composite benchmarks are the Bank of England's SONIA Compounded Index and the Bloomberg Global Aggregate 1-10 Year Total Return Index (GBP Hedged). The Bank of England's SONIA Compounded Index is a measure of the rate at which interest is paid on sterling short-term wholesale funds in circumstances where credit, liquidity and other risks are minimal. SONIA is measured as the trimmed mean of interest rates paid on eligible sterling denominated deposit transactions. The Bloomberg Global Aggregate 1-10 Year Total Return Index (GBP Hedged) represents a close estimation of the performance that can be achieved by hedging the currency exposure of its parent index, the Bloomberg Global Aggregate Index, to GBP and limiting to bonds with maturities between 1 and 10 years. The Index is 100% hedged to the GBP by selling the forwards of all the currencies in the parent index at the one-month Forward rate. The parent index is composed of government, government-related and corporate bonds, as well as asset-backed, mortgage-backed and commercial mortgage-backed securities from both developed and emerging markets issuers. SONIA and/or SONIA Compounded Index data licensed under the Open Government License v3.0 and copyright the Governor and Company of the Bank of England. The trade marks "Bank of England" and "SONIA" are registered trade marks of the Bank of England. "Bloomberg®" and Bloomberg Global Aggregate Bond Index are service marks of Bloomberg Finance L.P. and its affiliates including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Brown Advisory. Bloomberg is not affiliated with Brown Advisory, and Bloomberg does not approve, endorse, review, or recommend the Global Sustainable Total Return Bond strategy. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the Global Sustainable Total Return Bond (GBP) Composite. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.
6. Composite dispersion is an equal-weighted standard deviation of portfolio gross returns calculated for the accounts in the Composite for the entire calendar year period. The composite dispersion is not applicable (N/A) for periods where there were five or fewer accounts in the Composite for the entire period.
7. Gross-of-fees performance returns are presented before management fees but after all trading commissions, and gross of foreign withholding taxes (if applicable). Net-of-fees performance returns are calculated by adjusting the gross-of-fees performance return by the highest fee for the institutional strategy as outlined in Part 2A of the firm's Form ADV, applied on a monthly basis. Other expenses can reduce returns to investors. The standard management fee schedule is as follows, converted to GBP at the prevailing exchange rate: 0.50% on the first $50 million; 0.30% on the next $50 million; 0.25% on the next $50 million; and 0.20% on the balance over $150 million, with a minimum account market value of $100 million. Further information regarding investment advisory fees is described in Part II A of the firm's Form ADV. Actual fees paid by accounts in the Composite may differ from the current fee schedule.
8. Effective July 1, 2023, the firm transitioned from using actual account fees in the calculation of net performance returns to applying the highest fee for the institutional strategy as outlined in Part 2A of the firm's Form ADV. The net performance track record was revised back to Composite inception.
9. The three-year annualized ex-post standard deviation measures the variability of the Composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The 3 year annualized standard deviation is not presented as of December 31, 2022 and December 31, 2023 because 36 month returns for the Composite were not available (N/A).
10. The use of derivatives is integral to the investment process of the strategy. The strategy may use, for investment or hedging purposes, exchange traded and OTC derivatives, including futures and options, forward foreign currency contracts, FX futures and FX spots and OTC swaps, and credit default swaps on indices, the underlying reference assets for which will be bonds in which the fund may invest directly, and interest rates and currencies.
11. The strategy may employ leverage, but it is not integral to the investment process. The strategy may borrow up to 10% of its Net Asset Value on a temporary basis. It is not intended to borrow for leverage purposes. The strategy may also be leveraged through the use of derivatives, and under normal circumstances is not expected to exceed 500% of its Net Asset Value.
12. Valuations and performance returns are computed and stated in British Pounds. All returns reflect the reinvestment of income and other earnings.
13. A complete list of composite descriptions and broad distribution and limited distribution pooled funds is available upon request.
14. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.
15. Past performance is not indicative of future results.
16. This is not an offer to sell securities. That may only be accomplished by the issuance of a private offering memorandum/subscription documents.
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