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INVESTMENT MANAGEMENT

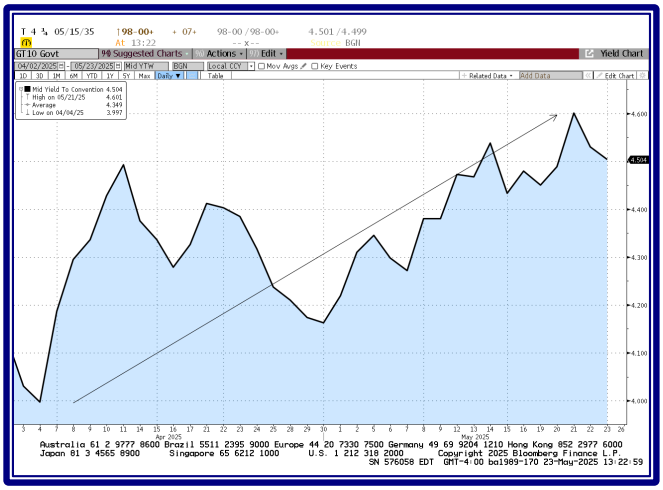
MARKET PERSPECTIVE

MAY, 2025

IN FOCUS:

The postponement of tariffs alongside some negotiated relaxations, in addition to strong earnings and economic data, boosted a market rally off April lows. The S&P 500 index lurched ahead 17% as compared to a negative -0.29% for bonds, as measured by the Bank of America Corp Government Bond Index. The market recently shifted its focus to budgetary legislation, as the House approved its latest version of the Tax bill which is now with the Senate for further negotiations. The bill is intended to boost economic growth by way of tax cuts and incentives for domestic manufacturing. The rationale has been that tariff revenues will in part pay for future tax cuts and extensions. Coupled with an emphasis on domestic manufacturing, these efforts should collectively spur economic growth providing residual support for continued tax cuts and deficit reductions.

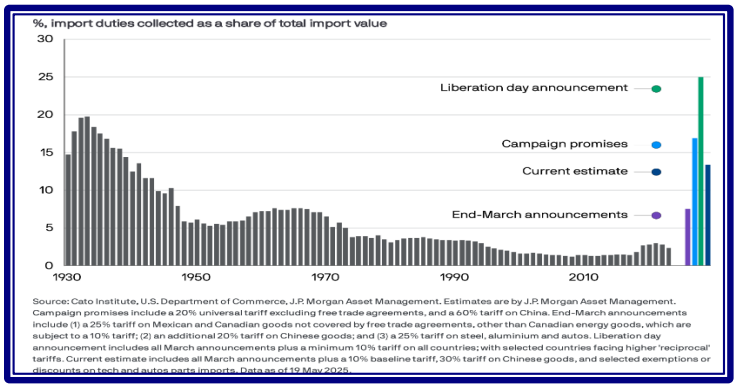
Yields on the 10-Year Treasury Rallied as High as 4.6% since early April 2025



While it's too early to gauge the success of these initiatives, it is difficult to ignore the risks associated with such endeavors particularly when proper timing and pristine execution are of the essence. According to the Congressional Budget Office, the budget bill is expected to increase the deficit by ~$4 trillion over the next decade, raising already elevated concerns over financial restraint. The current U.S. deficit has swelled to over 6% of GDP, inching higher under both Democratic and Republican-led administrations over the past several decades. The International Monetary Fund estimates the U.S. federal shortfall will expand to two thirds of the global deficit over the next decade. As a result, vulnerability in American exceptionalism is being reflected in both absolute and relative long-term Treasury yields. The anticipated increase in U.S. debt levels and subsequent increase in its cost of debt has already led to a downgrade in U.S. sovereign debt by Moody's. Bond vigilantes also appeared to test tolerance levels in April as yields rallied in protest of exorbitantly high tariff rates. This was before going on high alert as the budget bill moves its way through Congress.

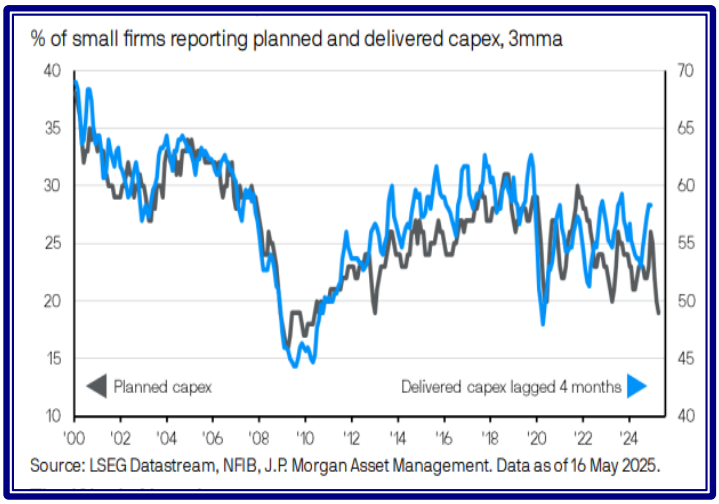
As we stated earlier, tariff revenues are not expected to cover the full cost of tax cuts and extensions, but rather the success of the bill relies upon various boosts to economic growth and continuing budget cut efforts over time. But this ignores the inflationary impact of tariff policies. Leading economists now estimate universal tariff rates to settle somewhere around 12-13%. Although many initial levies have eased to a large degree, the overall tariff rate remains substantially higher than it has been since the 1930s. As the July postponement deadline nears, we are hearing of additional threats against specific companies and countries, for example Apple and the European Union just this past week, keeping uncertainty elevated. We expect threats and negotiations to be ongoing with inflation likely remaining sticky, undermining efforts to accelerate economic growth.

Historical look at the U.S. Effective Tariff Rate

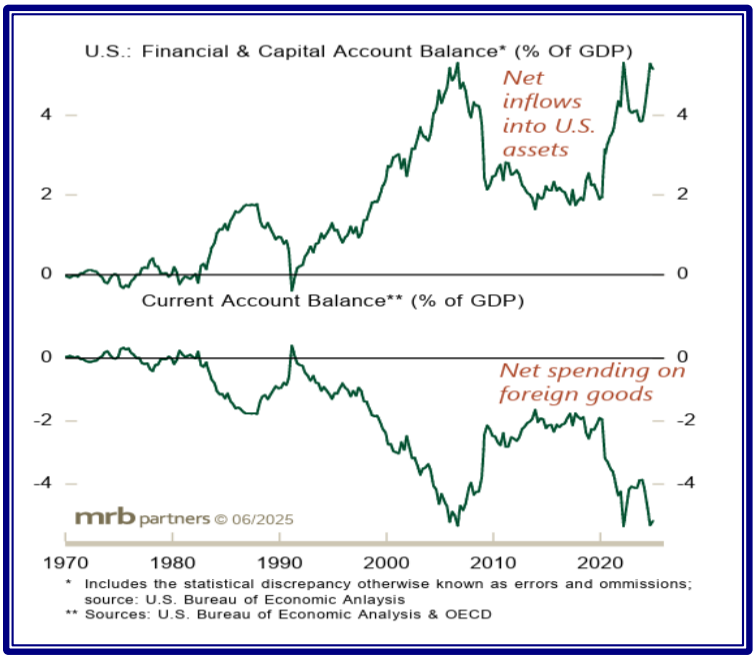


A slowdown to some degree is expected, as upcoming data releases begin to more fully reflect the impact of policy changes. Economic data so far has been strong indicating resilience in the economy. However, it's important to note the lagging impact many of this administration's policies could have on results over the next few months. Many factors including immigration crackdowns, government budget cuts, labor force reductions, and funding cutbacks have yet to work through into reports. The summer months should reveal at least some of the initial impact on growth and inflation, but until then many corporations remain in limbo awaiting clarity. A review of the National Federation of Independent Business by J.P. Morgan found planned capex by U.S. small businesses has fallen significantly. Their unwillingness to spend in this environment underscores the fragility of growth trends for at least the near future. Even as calls for a recession in the U.S. have been revised lower, many to less than a 50% probability, small businesses are looking for any signs of reassurance before they begin to invest in future growth.

U.S. Small Business Capex Looks Set to Fall



Efforts to redesign global trade in favor of U.S. manufacturing is not without consequences to the U.S. position as the leading financial market. The U.S. has indeed been a major beneficiary of globalization over the last several decades. During this time, global investment into U.S. financial assets has grown significantly to ~$30 trillion. The U.S. now accounts for 65% of global equity investments. This is due in large part to increasing foreign investment in U.S. corporate equity securities and direct equity investment. As globalization fuels foreign wealth, monies funnel back into the U.S. financial account, which is in a surplus of over 4% of GDP, mirroring the current account deficit. The relationship between these two highlights the fact that efforts to reduce the current account deficit will not be in isolation and any benefits could have an offsetting impact on the financial account side of the equation.



We expect the U.S. policy uncertainty to persist into the summer, but a resilient U.S. economy should provide a reasonable backstop for risk assets (stocks) at least until bond yields threaten overall valuations. Given the mounting pressure on ever growing deficit spending in both houses of Congress, we are underweighting fixed income participation in multi-asset portfolios and remain below benchmarks in terms of weighted average maturities. Over the past few years, we have been supportive that the U.S. economy was operating under a solid foundation, and monetary policy was not particularly restrictive. Tariffs have certainly created a good deal of angst with both U.S. and global investors, as estimates of the scale and duration of tariffs have certainly threatened global economic growth prospects.

Consistent with current economic conditions in the U.S., we believe that we are investing in a late-cycle environment. We conclude that taking outsized risk at this time is not warranted, especially as we take into account a longer-term valuation perspective. A deteriorating U.S. fiscal outlook, combined with inherent upside inflation risks and accommodative monetary policy, could ultimately push yields higher and put a cap on equity and bond market progress in the months ahead.

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No gross performance returns that are referenced that are calculated after brokerage commissions but before investment counsel fees are presented without the comparable net performance figures after both commissions, investment counseling fees and other custodial charges. The net counseling fees are the actual average counseling fee calculated across all the portfolios included in the composite. All performance figures are presented on a time-weighted total return basis and assume all income is reinvested. The investment advisory fees are disclosed in Part II-A of the Investment Form ADV. Some clients may benefit from available discounting in the management fee schedule associated with the overall size of the portfolio. Management fees will reduce overall returns to the client.

The composites were created in 2001 and the inception dates start on August 17th, 2001.The composites include only discretionary fee-paying accounts managed in the strategies, and additional information associated with the composites are available such as: dispersion in individual portfolio results as well as the % of the firms AUM in the strategy. All performance calculations are presented within the GIPS® guidelines of the CFA Institute. The CFA institute does not endorse or promote this organization nor does it warrant the accuracy of the content herein.

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