Q1 2025

NOTES ON THE MARKET

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STRATEGIC INVESTMENTS

Q1 2025 RECAP

The first quarter of the year was remarkable in many ways. The velocity at which the new administration came in and began to enact policy changes was swift and ferocious. Intraday, individual stocks swung violently in response as uncertainty mounted. Growth stocks, which had been leading markets the past couple of years, took a backseat as investors cycled to defensive value stocks mid-February and recession fears mounted through March. US equities toed the line on correction territory, and the NASDAQ Composite stocks had the worst quarter since 2022. Uncertainty loomed large as we hurtled towards April 2 and a hopeful resolution on tariffs.

“Through discipline comes freedom.” ~Aristotle

FROM AMERICA FIRST, TO AMERICA BEHIND

As the United States policy moves from globalism to protectionism, domestic markets faltered, trailing European and developed country counterparts.

DEVELOPED COUNTRIES TAKE THE LEAD IN Q1

- Domestic stocks have sold off sharply as policy risk and uncertainty loom large.
- The S&P 500 fell -4.59% for the quarter, while developed countries ex-US rose +8.09% as evidenced by the EFA ETF.
- Developed countries, such as Europe, have stepped up to fill the gap in defense spending as the U.S. takes a backseat at NATO, creating space for them to have stronger growth.
- With the E.U. expanding spending and the U.S. looking to make spending cuts, investment has rotated away from domestic stocks towards foreign companies.

YTD S&P 500 versus Developed Countries

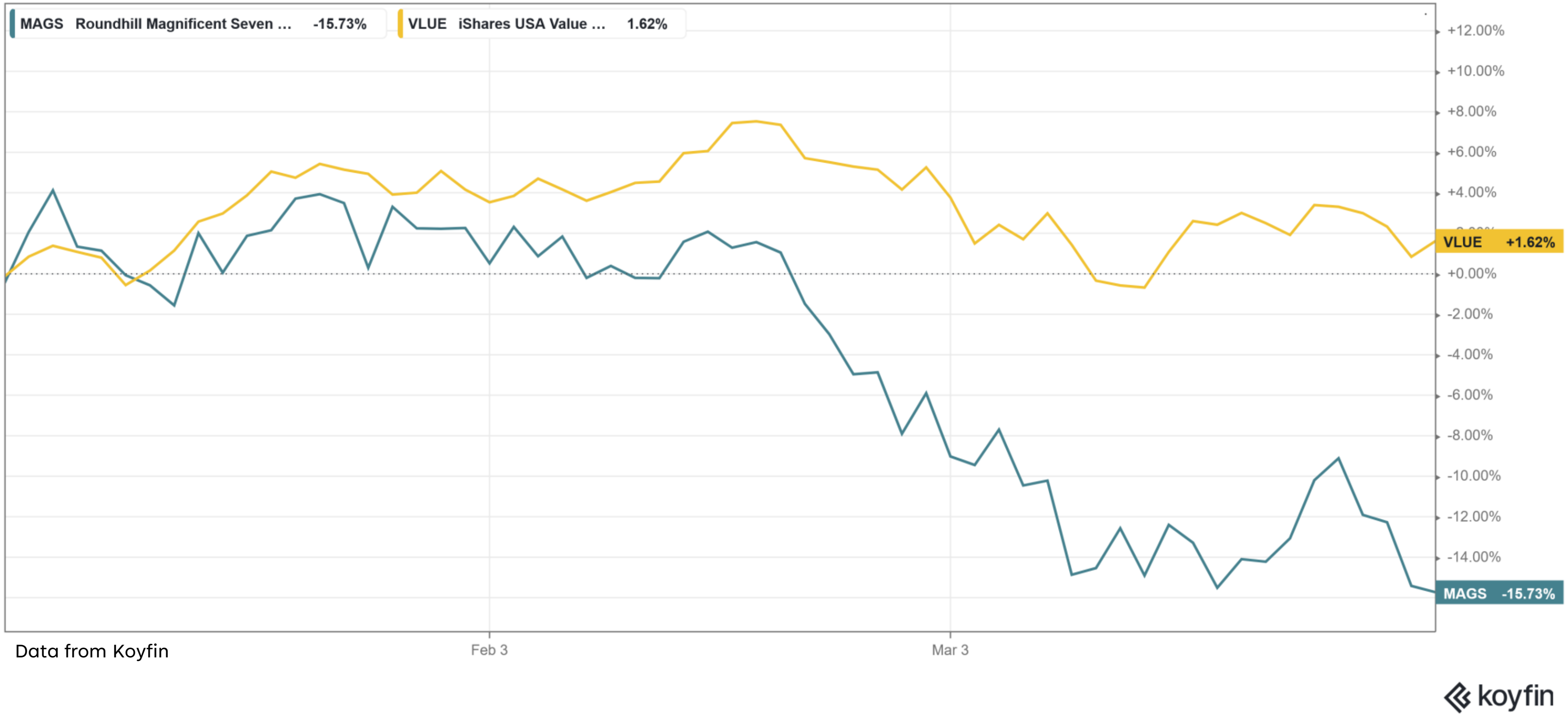
Data from Koyfin

CHANGING OF THE GUARD

The “Magnificent 7” stocks, which have outperformed the past couple years, posted large losses in the quarter as investors rotated into blue chip defensive and value stocks over concerns of a slowdown in the economy.

THE ROTATION FROM LEADERS TO LAGGARDS HAS BEEN FAST AND FURIOUS

Magnificent 7 Stocks versus Value Stocks

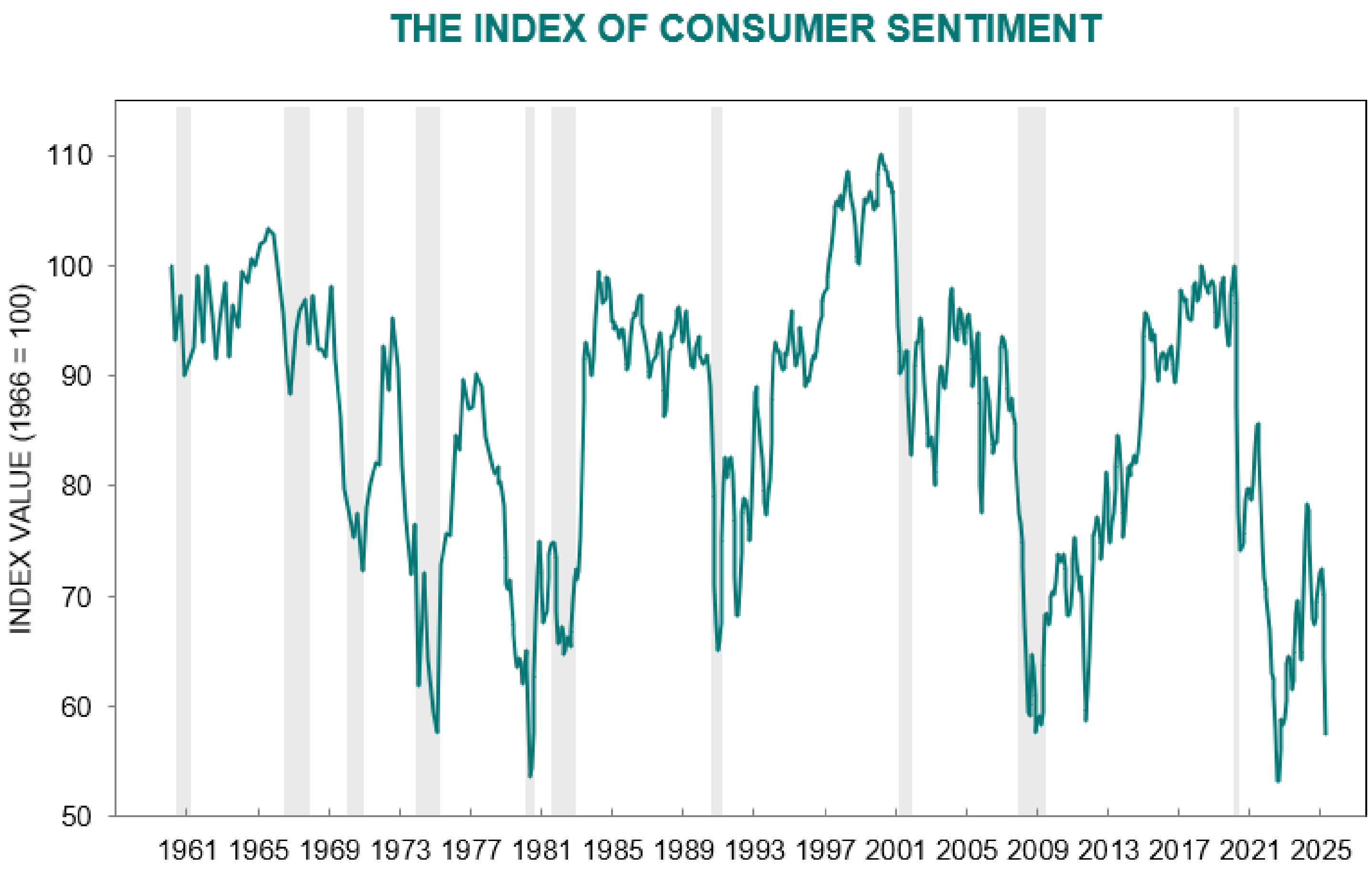


Data from Koyfin

- The "Magnificent 7" stocks, which had been pulling indexes higher the past couple years, have capitulated, losing -15.73% versus value stocks which held up throughout Q1 returning +1.62%.

CONSUMER CONFIDENCE FALLS TO MULTI-YEAR LOWS

CONSUMERS FEAR MOUNTS AS POLICY UNCERTAINTY GROWS



Data from The Regents of the University of Michigan. Grey areas indicate recession

- Confidence has dropped nearly 30% since December.
- Steep declines in consumer sentiment often serve as an indication of a looming recession. This has only been narrowly avoided in 2022 as the Fed navigated high inflation off the back of the COVID-19 global shutdown.
- Worries over a global trade war and rising inflation have weighed heavily on sentiment throughout the quarter.

APRIL TARIFFS BRING MAY FLOWERS?

The April 2nd tariff announcement caused widespread market turmoil, but an end to the uncertainty may be near, providing more stability to markets globally, potentially allowing space for a turnaround in equities.

RECIPROCAL TARIFFS FAR EXCEED THE EXPECTED WORST-CASE SCENARIO

- What does the calculation mean?

At a basic level, the calculation takes the trade deficit (exports from U.S minus imports to U.S.) and divides it by the dollar value of exports from the U.S. This was then divided in half. For countries with no trade deficit there was a blanket 10% tariff enacted to prevent countries such as China from simply diverting exports though other countries into the U.S. to avoid the penalty.

- What was the reaction?

The market reaction was swift and remarkable. Stocks across the globe dropped violently as the U.S. embarked on a trade war with not only contentious countries but with friends and allies alike. Many of the tariffs were heavily enacted on smaller Asian countries that would be ruinous to their economies. The risk of recession in the U.S. given the global tariffs rose dramatically from a near zero level to a 50%/50% chance as inflation expectations rose.

CALCULATION TO DETERMINE TARIFF

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}.$$

Courtesy: United States Trade Representative

Reciprocal Tariffs

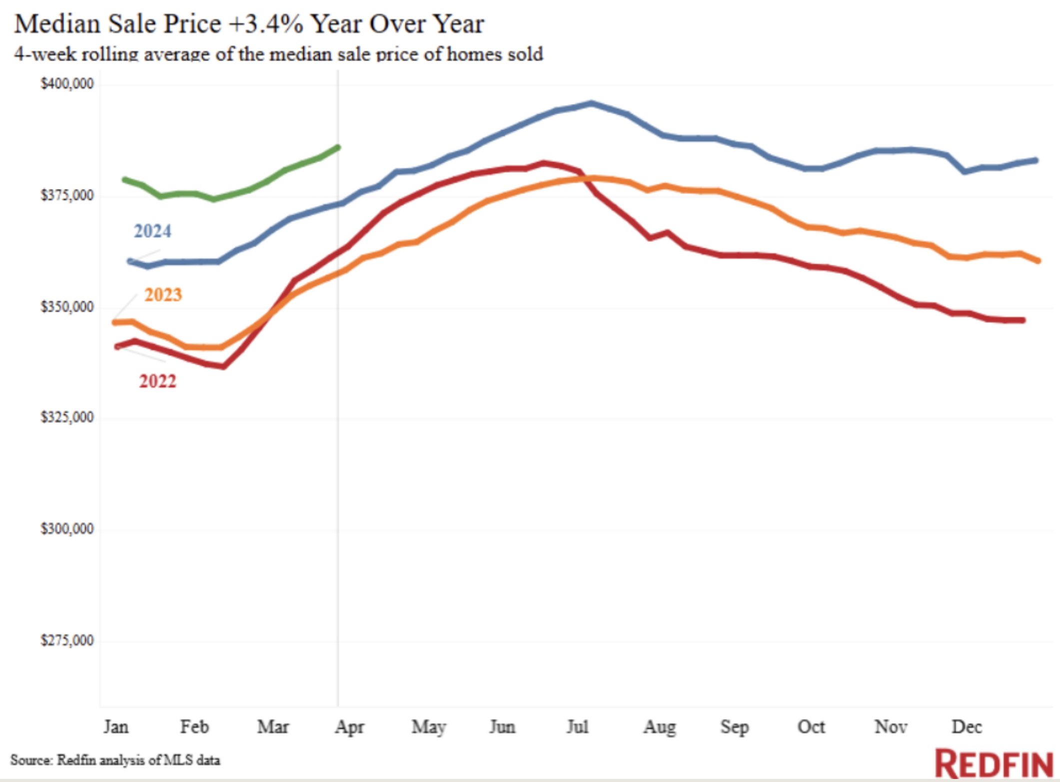
Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

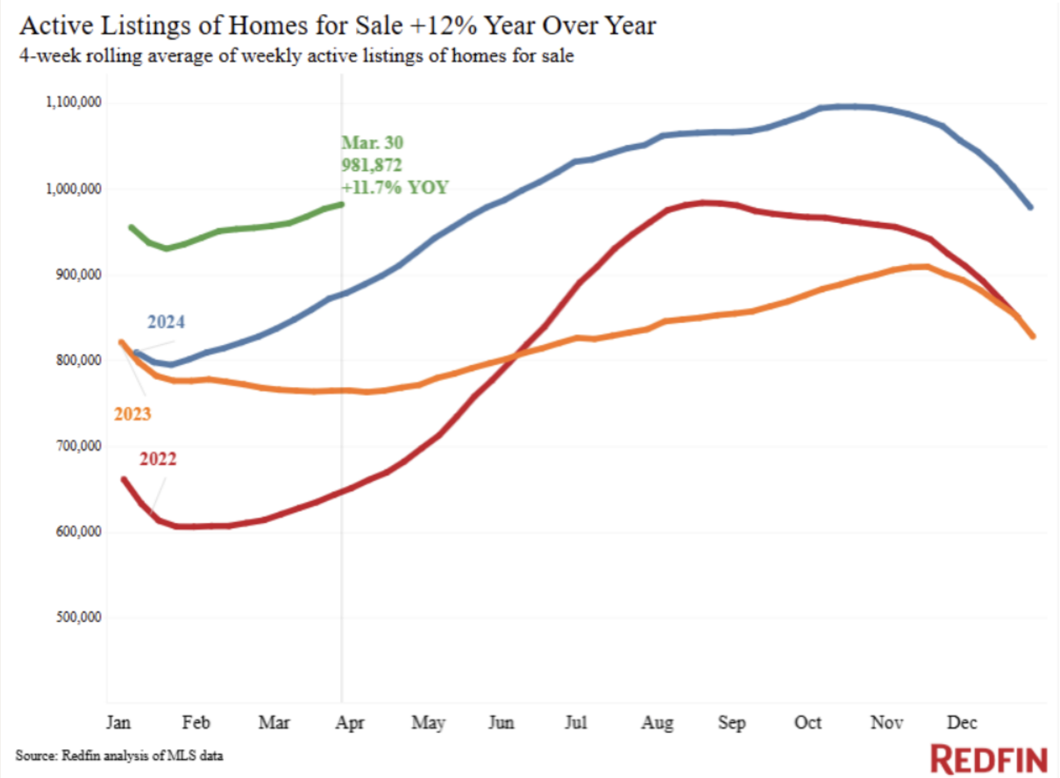
Courtesy: U.S. President Donald Trump via Truth Social

HOUSING SUPPLY EASES AS RATES FALL AND SELLERS LOOK TO TIME THE MARKET TOP

HOUSING SUPPLY INCREASES AS SELLERS LOOK FOR A TOP

- Prices continue to climb but signs of supply easing are becoming apparent. Active listings are up nearly 12% year-over-year as more sellers are comfortable listing their homes. Some of this may be due to people attempting to hit the top in market prices.
- Mortgage rates have dropped to 6.65% as of March 30, close to the lows last seen in December.
- Time on market is increasing, with fewer homes selling in under two weeks and the average time to sale increasing to 45 days.
- Average sale-to-list ratio continues to decline, with sale prices in certain metro areas in Florida being hardest hit.





Data from Redfin

WHERE DO WE GO FROM HERE?

While volatility within equities was modestly expected as the new administration moved in, the expectation that the "Trump Put" would prop up markets ultimately proved incorrect. While we are likely to see volatility remain high in the short-term, the long-term outlook still remains positive for now. There is a high probability that the new administration in moving fast and breaking things from Day 1, has looked past the short-term market volatility by getting the "bad stuff" out of the way early. Moving towards the second half of the year it is likely that Trump, as well as the media, will refocus on more positive policies such as broad tax cuts, that are generally well received. Markets already appear to be somewhat desensitized to the onslaught of headlines and able to look forward after the April 2nd shock. While Q2 may still contain large intraday swings and higher volatility, look for the last half of the year to bring a greater sense of calm with a rebound as uncertainty ebbs.

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Questions? Comments? Like what you read?
Reach out to chat or schedule a financial review:

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