SMB Trust Services

First Quarter 2025

Quarterly Market Insights

The Trade Winds Swirl

EXECUTIVE SUMMARY

- The DeepSeek news initiated 1Q market pressure
- Tariff angst amplified volatility up through April 2
- The bond market forced the April 9 de-escalation
- Gold has outshined the USD, Treasuries, and Bitcoin
- Diversification is an investor's best friend in 2025

The Trump administration's aggressive and sometimes confusing approach to trade policy and concerns about a slowdown in AI-related capital expenditures combined to pressure U.S. stock indexes in the first three-and-a-half months of the year. The S&P 500 experienced an 18.9% drawdown from its closing high of 6,147 on February 19 to a 12-month closing low of 4,983 on April 8. Over roughly the same period, the technology-heavy Nasdaq and small cap Russell 2000 declined 23.9% and 22.9%, respectively. The blue-chip Dow Jones Industrial Average (-15.7%) and international stocks as proxied by the MSCI All-Country World Index (-10.2%) endured shallower corrections. Over half of the nearly-20% decline in the S&P 500 occurred in the four trading sessions after "Liberation Day" on April 2, when President Trump and Commerce Secretary Howard Lutnick announced a set of reciprocal tariffs on U.S. trading partners that were much higher than expected.

The market staged an explosive rally on April 9 that retraced about 60% of the post-April 2 declines after Trump announced reciprocal tariffs would be reduced to 10% over the next 90 days for all countries except China to provide more time for negotiations. A sudden spike in long-term Treasury yields on April 7 and April 8 (along with other signs of potential disorder in the bond market) seemed to coax the Trump administration toward providing a temporary off-ramp from their maximum tariff pressure strategy. Over the last three months, Treasury Secretary Scott Bessent has been very clear the Trump administration will prioritize policy that promotes lower 10-year U.S. Treasury yields, while expressing ambivalence about stock market weakness. From the administration's perspective, lower yields would improve the federal government's financing options and could reinvigorate housing market activity. It probably should not come as a surprise, then, that convulsions in the bond market were likely what caused Trump to hit the pause button on his "no exemptions" and "no negotiations" stance.

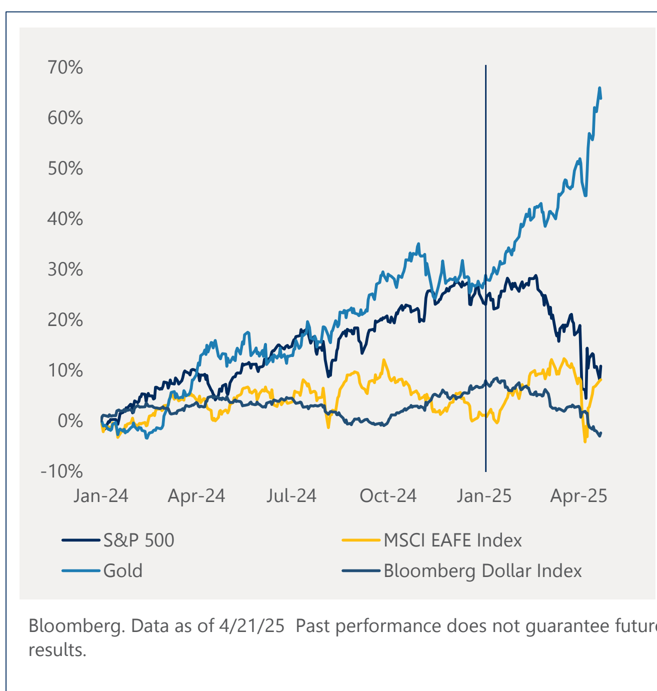
For most of the first quarter leading up to the surprise tariff announcement, the so-called "hard" economic data (nonfarm payrolls, initial jobless claims, retail sales, consumer price index) pointed to a U.S. economy that was likely slowing on the margin but not on the brink of contraction. As the quarter wore on, however, "soft" economic data including purchasing manager indexes, consumer sentiment measures, and CEO confidence surveys, suggested tariff-related uncertainty was taking a toll.

Growing concerns of stagflation (stagnant growth, elevated unemployment, stubbornly high inflation) along with foreign sales of U.S. assets seemed to keep a floor under Treasury yields, put pressure on the dollar, and support gold in the quarter. The lowest closing level of the 10-year Treasury yield in the early April market turmoil was 3.99%, which was significantly above the 3.62% closing low from September 16 during the summer growth scare. Over half of the "progress" achieved by pushing the 10-year yield from a 14-month high of 4.79% on January 14 to 3.99% on April 4 evaporated in just one week as the benchmark yield surged back near 4.5%.

Some commentators have suggested the difference in the way the 10-year U.S. Treasury yield acted in early April compared to early September could mean investors are now requiring a higher risk premium for one of the world's premier risk-free assets due to uncertainty around trade policy and inflation. Beginning in early February, gold surged well above $2,800 per ounce and seemed to make new all-time highs on a weekly basis over the next ten weeks. Meanwhile, the Bloomberg Dollar Index fell 11% from a 27-month high of 109.96 on January 13 to a 36-month low of 98.28 on April 21. Chart 1 depicts the year-to-date relative strength of gold and international stocks, along with the weakness in the S&P 500 and U.S. dollar.

CHART 1

Gold and International Stocks are YTD Winners



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The DeepSeek Moment

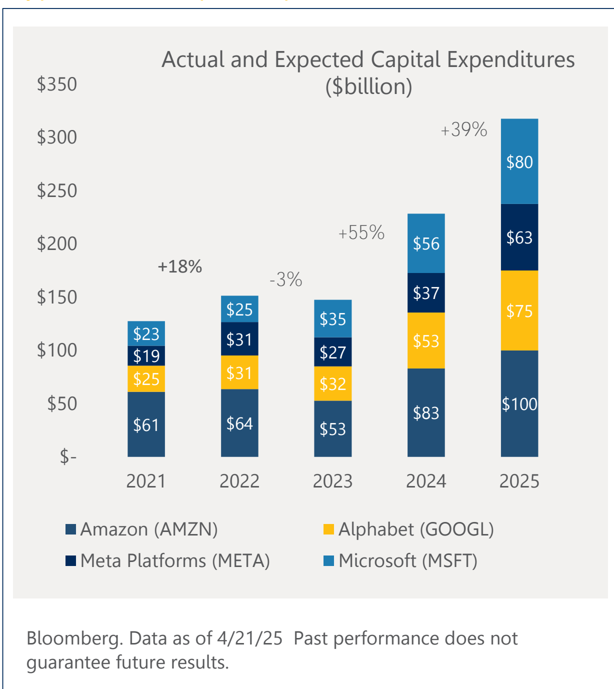
Prior to the escalation of tariff uncertainty, the release of open-sourced generative artificial intelligence (AI) large language model (LLM) DeepSeek-R1 by researchers in China on January 20 caused shockwaves in the U.S. technology sector. The most pronounced market reactions were seen in major semiconductor stocks and shares of industrial and utility companies most closely tied to the rapid expansion of AI data center capacity. The R1 model's combination of low training costs and performance on par with the most advanced US LLMs raised concerns about the continued need for massive spending on computing power and data centers for generative AI. NVIDIA (NVDA) shares sank 17% on Monday, January 27 after DeepSeek overtook ChatGPT as the most downloaded app on Apple's (AAPL) U.S. App Store.

The weakness in NVDA shares and other AI-related semiconductor stocks put pressure on the broad technology sector. From January 27 through April 8 (one day before President Trumps tariff pause), the S&P 500 technology sector (-25.5%) underperformed the broad S&P 500 (-18.3%) by more than 7%. The arrival of the R1 model has reignited a debate between those who believe growth in demand for AI-enabled semiconductors, servers, and data centers will inevitably slow and those who expect an acceleration in demand. The optimists suggest the DeepSeek breakthrough might actually increase demand for AI computing power as the cost of that power declines.

Many industry observers and technologists have suggested DeepSeek's claim that it only spent $5 million training its R1 LLM significantly understates the overall cost. Even if the training and inference costs are well below what western competitors are paying to train LLMs, the democratization of AI training could expand overall demand for AI computing power given costs would be less of a constraint. This is a phenomenon known as Jevons Paradox, a scenario in which increased efficiency in the use of a resource can paradoxically drive increased consumption of that resource rather than decreased consumption. The concept dates back to mid-19th century Victorian Britain, when economist William Jevons observed that technological improvements which increased the efficiency of coal use ultimately led to higher levels of coal consumption in a wide range of industries.

CHART 2

Hyperscalers' Capital Expenditures



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Despite concerns about AI spending, during the first quarter, mega cap technology companies have largely confirmed their plans to significantly increase spending on their data center expansions in 2025 as overall AI demand exceeds current computing capacity. As seen on Chart 2, the world's four biggest spenders on data centers that power cloud computing and artificial intelligence (AI) expect to spend a combined $318 billion on capital expenditures in 2025, up 39% from $228 billion last year. Although these ambitious plans could be scaled back in the face of economic weakness, the sheer scale of the outlays suggests the long-term race to build out AI infrastructure is likely here to stay despite DeepSeek's efficiency breakthrough. Amazon (AMZN) CEO Andy Jassy did not mince words on his company's 4Q analyst call when he said, "AI represents for sure the biggest opportunity since cloud and probably the biggest technology shift and opportunity in business since the internet."

Tariff Tempest

In January and February, NVIDIA (along with several of its Magnificent 7 peers) was the poster child for DeepSeek-related concerns. In April, the company has come under increasing focus due to the potential impacts of tariffs on its Taiwan-based production and constraints imposed by the Trump administration on its ability to sell advanced graphics processing units (GPUs) to customers in mainland China. In our view, NVDA and Apple (AAPL) present a case study for the likely objectives of the Trump administration. First, there is a well-documented desire in the White House to reinvigorate the U.S. manufacturing sector. A renaissance in advanced factory production could 1) lead to more well-paying manufacturing jobs in deindustrialized portions of the country and 2) create better terms of trade that benefits the U.S. export sector. A vast majority of APPL's iPhones and NVDA's AI-enabled GPUs are produced in mainland China or Taiwan.

Through its hard-charging approach to tariffs, the Trump administration is also likely attempting to limit China's ability to access strategically important technology, including the GPUs sold by NVDA that empowered the DeepSeek breakthrough. In recent weeks, the U.S. Department of Commerce announced that NVDA's H20 AI chips, along with AMD's MI308 chips, would require export licenses for sales to China. These restrictions are seen as part of a broader effort to prevent China's access to advanced semiconductors that could enhance its military and cyber warfare capabilities through the development of supercomputers and malicious AI technologies.

The H20 chip was specifically designed by NVDA to comply with earlier U.S. regulations and was the most powerful chip produced by the company available in China. Despite its tailored design, the U.S. government has expressed concerns that these chips could be utilized in Chinese supercomputing efforts, prompting the implementation of rigid licensing requirements.

As was the case with the Biden administration (see 2022 National Security Strategy), the U.S. government under President Trump officially views China as a "strategic competitor" and the US-China relationship as the "most consequential geopolitical challenge" facing the country. As such, the Trump administration's ultimate strategic play could be to build a global trade coalition to more effectively confront Beijing. This strategy came into focus with the April 9 announcement that all reciprocal tariffs would be lowered to 10% for every country except China, while raising the all-in tariff rate to 84% on Chinese imports.

External Revenue Service

Finally, the administration has outlined its plans to use tariff revenue to help offset the proposed extension of the 2017 tax cuts, along with additional reductions in tax revenue including a tax-exemption for tips and more focused tax relief for middle-income Americans. In January, President Trump publicly floated the idea of an "external revenue service" that would be responsible for collecting tariffs and duties from foreign entities and become more important than the Internal Revenue Service. The establishment of such an entity seems unlikely as a new federal agency requires an act of Congress that must past the 60-vote filibuster litmus test in the Senate.

Nevertheless, the prospect of raising additional revenue from tariffs to help support tax cuts or lower the budget deficit appears to be an important pillar of the Trump administration's trade policy. The U.S. imported $3.27 trillion worth of goods in 2024, which was about 11% of the country's $29.72 trillion nominal gross domestic product (GDP) last year (See Chart 3). If one assumes a 25% average tariff rate on $3.27 billion of imported goods, approximately $820 billion of tariff revenue would be raised on an import base of $3.27 billion. This is approximately 40% of the Congressional Budget Office's $1.9 trillion projected federal budget deficit for fiscal year 2025.

U.S. imports have undeniably surged over the last several decades, which is clearly a major area of alarm for the Trump administration. However, imports have grown as a share of the domestic economy at a much more measured pace. U.S. imports skyrocketed 590% from $473.2 billion in 1989 to $3.27 trillion in 2024, an annualized rate of 5.5%. Over the same 36-year period, the country's nominal GDP grew 430% from $5.75 trillion to $29.72 trillion, which translates to an annualized rate of 4.8%. So, the growth rate of imports from 1989 through 2024 was about 0.7% faster than nominal economic growth. Imports represented 8.2% of domestic nominal GDP in 1989, while three-and-half decades later they accounted for a slightly higher 11% of the overall economy. While imports are an important and growing component of the overall U.S economic picture, the world's largest economy remains a relatively inward-looking system that is less reliant on trade in goods compared to other major developed nations like Japan, Germany, and Canada.

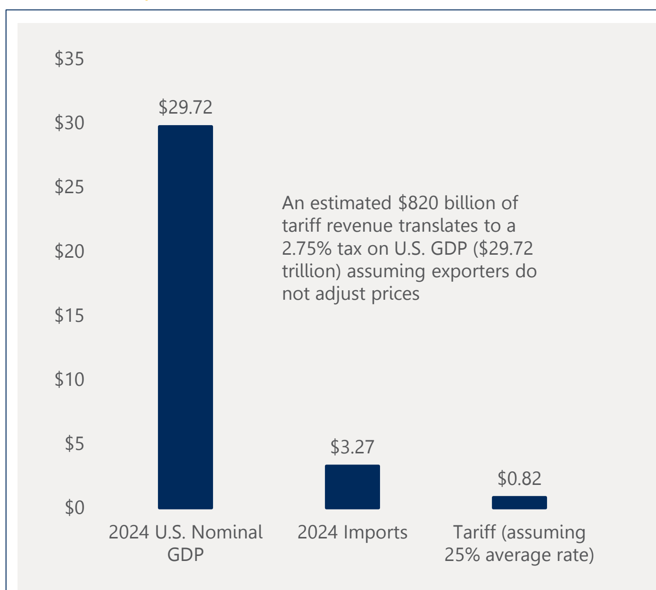
The Consumer Effect

One area in which the potentially destabilizing effects of tariffs can be most clearly seen is in the inflation expectations of U.S. consumers. The preliminary April reading of The University of Michigan's sentiment index showed consumers expected prices to increase at a staggering clip of 6.7% over the next year. This marked the highest level since 1981 and was well above expectations of 5.4% inflation at the peak of the Covid-era inflation surge in the spring of 2022. As has been the case for the last 8-10 years, the survey responses were heavily politicized. Democrats and political independents expected 7.9% and 6.2% inflation, respectively, over the next 12 months. Meanwhile, Republican survey respondents expected the overall price level to rise just 0.9% in a year's time. Overall consumer sentiment as measured by the University of Michigan survey dropped to 50.8 in early April, its lowest level since June 2022 and second-lowest level since the survey began in 1978.

In recent weeks, management teams of several high-profile companies in the consumer discretionary sector have raised caution about building tariff-driven uncertainty across their customer bases. National air carrier Delta Airlines (DAL),

CHART 3

US GDP, Imports, Estimated Tariffs ($Trillions)



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packaged food giant General Mills (GIS), discount retailer Dollar General (DG), quick-casual restaurant chain Chipotle Mexican Grill (CMG), and luxury brand LVMH Moet Hennessy Louis Vuitton have all pointed to signs of weaker demand tied to tariff angst.

In contrast to consumer inflation expectations that have become concerningly unanchored, actual inflation data has remained subdued. March year-over-year readings for the consumer price index (CPI) and producer price index (PPI) were 2.4% and 0.9%, respectively. Even though these readings came before the Trump administration's sweeping tariff announcements on April 2, they hardly suggest inflationary pressure was building in the system during March.

Market-based measures of long-term expected inflation have also been rather tame during the tariff turmoil. The five-year breakeven inflation rate reached a two-year high near 2.7% in late February but has retreated to 2.3% in the second half of April. Breakeven inflation rates, which measure the expected rate of annual inflation over a certain period based on Treasury market pricing, are monitored by Federal Reserve policymakers as an indicator of the market's confidence in the central bank achieving its long-term inflation target of 2%.

The Fed's Predicament

The Federal Reserve has remained on pause for the last five months after cutting its policy rate by 100 basis points to range of 4.25%-4.5% from last September through December. Fed officials led by Chairman Jerome Powell have described their approach as "wait-and-see" with official inflation data making stubbornly slow progress toward their 2% target. The year-over-year change in the core personal consumption expenditures (PCE) index, their preferred inflation gauge, has wavered between 2.6% and 2.9% for ten straight months. To provide some context, annual core PCE averaged 1.7% from 2017 through 2019 during the pre-pandemic stretch of the first Trump administration.

In public remarks during April, Powell and other Fed policymakers warned the imposition of widespread reciprocal tariffs could cause inflation to temporarily accelerate. Attempts by consumers and businesses to front-run tariff-driven price increases and slowdowns in global supply chains could fuel bouts of inflation similar to what was seen during the Covid-19 pandemic. In comments before the Economic Club of Chicago on April 17, Jerome Powell emphasized the central bank's price stability mandate. He acknowledged slowing growth and elevated inflation would present a challenge for policymakers but declared the U.S. labor market would struggle to achieve durable strength without stable prices.

Some Fed officials have raised the specter of stagflation, which would present a formidable challenge to policymakers' ability to simultaneously pursue both price stability and full employment. It should be noted an unemployment rate of 4.2% in March along with a year-over-year consumer price index (CPI) reading of 2.4% is hardly stagflation territory for the U.S. economy. For context, the average unemployment rate in the truly stagflationary 1973-1980 era was 6.6%, while annual CPI averaged 8.9%. Setting aside any strained comparisons to the 1970s, the combination of higher inflation and a worsening job market in 2025 would force the Fed to choose between easing policy to support growth and maintaining a more restrictive policy stance to combat excess inflation. For now, pricing in fed funds futures markets imply between 75 and 100 basis points of Fed rate cuts by the end of 2025. This would take the policy rate to a range of 3.25%-3.75% and unwind about 30%-40% of the rate hikes implemented between March 2022 and July 2023.

Bond Market Bullies

What could force the Fed to abandon its hawkish stance in the event of a bout of tariff-driven inflationary pressure and pursue a combination of aggressive rate cuts and asset purchases? Evidence of rapidly building stress in bond markets would almost certainly bring the so-called "Fed put" or "Fed pivot" into play. Acute disruption in funding markets caused various levels of Fed intervention in September 2019 (Repo Market Turmoil) and March 2020 (Covid-19). The Bank of England was forced to provide emergency market liquidity during the fall of 2022 after UK government bond yields skyrocketed in response to the Liz Truss government's ill-conceived unfunded tax cuts.

As shown in Chart 4, long-term bond yields unexpectedly surged in the first week of April while high yield credit spreads widened. This took many investors by surprise given Treasury yields

CHART 4

Treasury Yields and Credit Spreads

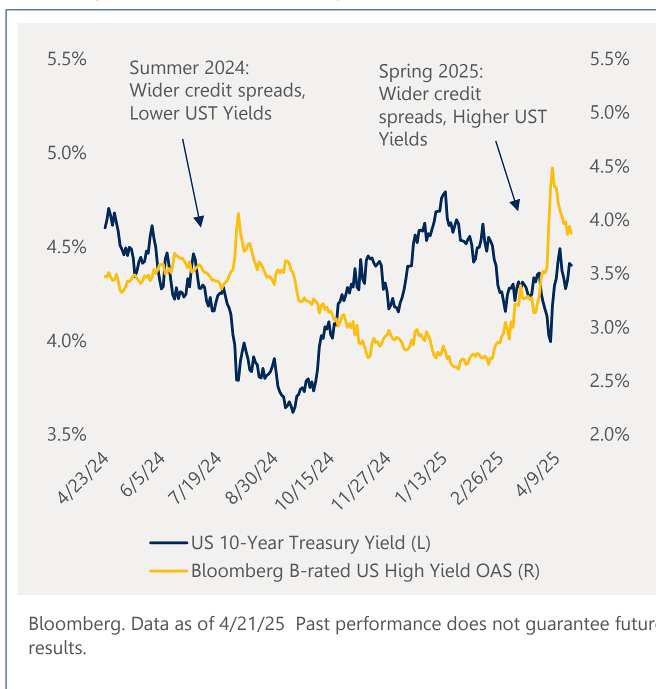

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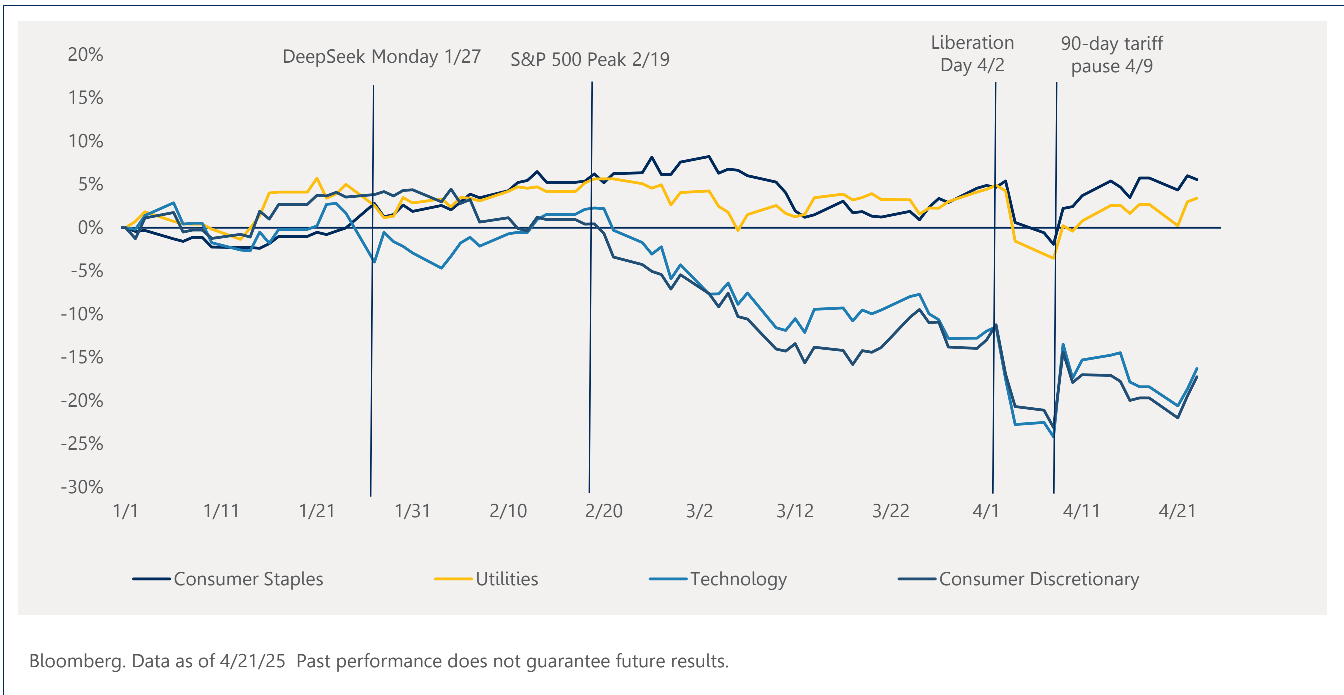
CHART 5

S&P 500 Defensive Sector Leadership



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generally fell in most instances of market stress over the last 15-20 years. Some observers suggested retaliatory Treasury security sales by the Chinese government put upward pressure on yields. Others pointed to signs of a forced unwind of a popular leveraged hedge fund trading strategy as the catalyst for higher Treasury yields. An acceleration in the sales of all U.S. dollar assets by institutional investors in Europe and Japan in response to the extreme tariff uncertainty between April 2 and April 9 was floated as another potential driver of the Treasury sell off. Despite all of the volatility, investment grade bonds still managed to provide some stability for diversified portfolios in the first 3-4 months of the year. The Bloomberg Intermediate Government/Credit Index (comprised of mostly Treasuries, Agency bonds, and investment-grade corporate bonds) generated a total year-to-date return of 1.80% through April 23. The coupon portion of this return (1.18%) was nearly double the price return (0.62%), which highlights the benefit of a coupon cushion in a volatile environment.

Searching for Safe Havens

While high-quality bonds did a decent job of providing investors some stability in the tariff storm, gold has been the premier safe have asset thus far in 2025. In spot price terms, the precious metal climbed approximately 30% from $2,625 per ounce at the end of 2024 to a recent peak of $3,425 per ounce. Even after the Trump administration's tariff pause, gold surged more than 10% from April 8 through April 23. A combination of widespread policy uncertainty, concerns about Federal Reserve independence, U.S dollar weakness, and steady central bank purchases led by the People's Bank of China have seemingly reaffirmed gold's role as a legitimate store of value in unstable environments.

Recent price action in Bitcoin has also been interesting. After peaking around $108,000 on Inauguration Day, the digital currency proceeded to fall about 30% to an intraday low of $75,000 on April 7. Over the following two weeks, however, Bitcoin appears to have regained its momentum, pushing back above $90,000 for the first time since early March. A 30% peak-to-trough drawdown for any asset is nothing to take lightly, however, it feels a bit tame for Bitcoin given its extremely volatile history. For instance, Bitcoin's 77% decline from $68,000 in November 2021 to $16,000 in November 2022 was roughly triple the magnitude of the S&P 500's 25% drawdown in the first ten months of 2022. Bitcoin's surprisingly shallow decline thus far in 2025 could be a sign of the professional investor community's begrudging acceptance of its viability as an alternative asset that theoretically provides diversification from the global fiat currency system.

Inside the Stock Market

Capital preservation and safety were also the preeminent themes in the U.S. stock market from mid-February through the third week of April. As Chart 5 illustrates, S&P 500 leadership was found in the traditionally defensive sectors, including utilities and consumer staples. Conversely, the Magnificent 7-dominated technology and consumer discretionary sectors have been among the worst performing S&P 500 groups thus far in 2025. Among the 30 Dow stocks, beverage giant Coca-Cola (KO),

quick-service restaurant heavyweight McDonald's (MCD), and property and casualty insurer Traveler's (TRV) were the three best performers on a year-to-date basis through April 23. Meanwhile, Salesforce.com (CRM), NVIDIA (NVDA), and Nike (NKE) were the biggest Dow laggards, with losses of 20%-25% over the same period.

Industries and companies with the best combinations of pricing power and low exposure to tariffs generally attracted the most buyers. These groups included property and casualty insurers, insurance brokers, grocery and convenience store operators, regulated utilities, tobacco products, telecommunications carriers, managed care, and healthcare distributors. On the other side of the ledger, industries and companies with the most exposure to potential tariff pain, U.S discretionary spending, and Chinese production or end markets have encountered the most intense selling pressure. This cohort includes footwear and apparel firms, auto manufacturers, airlines, cruise line operators, chipmakers, homebuilders, and home furnishings retailers.

European markets have been an area of relative strength in 2025 as expectations of pro-growth fiscal policy in major economies like Germany have lifted previously dormant investor sentiment. U.S. dollar weakness and signs of an ongoing repatriation of European and Asian institutional flows out of the U.S. in the wake of tariff unrest have also likely supported the recent outperformance of international equity indexes. As of April 23, the MSCI EAFE, a proxy for developed non-U.S. markets, has outpaced the S&P 500 by nearly 18% on a year-to-date basis (+8.1% vs. -9.7%).

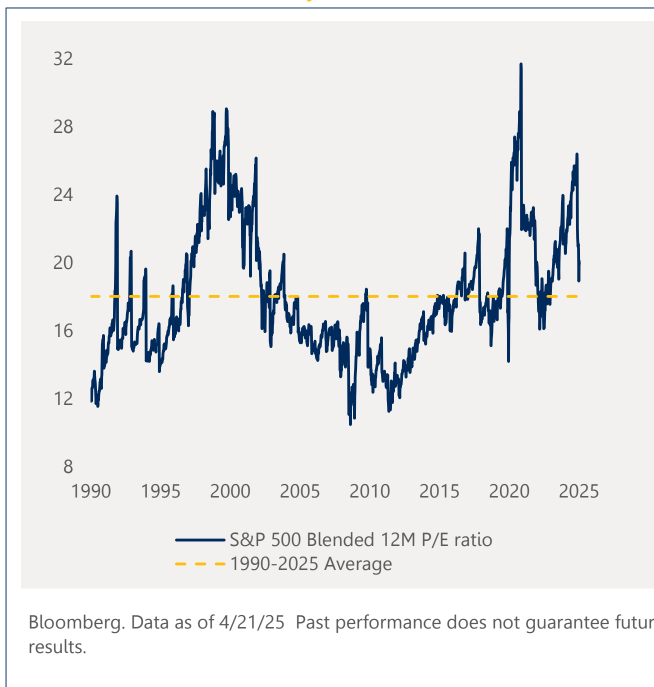
Valuation and Earnings

Heading into the year the U.S. stock market as measured by the S&P 500 enjoyed a fairly full valuation, trading at roughly 22-times index-level expected adjusted earnings per share (EPS) of $273 as aggregated by Bloomberg. This was 5% above the benchmark's 10-year average and approximately 17% above its 30-year average (see Chart 6). A three-decade time period is useful because it incorporates the excessive valuation eras of 1998-1999 and 2021, along with the recessionary valuation stretch of 2008-2009.

S&P 500 expected 2025 earnings have declined about 5% from a peak of $278 in July 2024 to $265 as of April 23. Over half of this downward revision has occurred since early February following the DeepSeek news (January 27) and the Trump administration's initial Canada-Mexico tariff announcement (February 3). With expected earnings of $265, this implies profit growth of 8% from 2024, which is down from 12% at the beginning of the year. Among the eleven S&P 500 sectors, healthcare (+17%), technology (+16%), and industrials (+8%) are expected to achieve the strongest profit growth in 2025, while energy (-8%), real estate (-1%), and consumer staples (0%) are projected to experience contracting or flat earnings. Expected EPS growth from the Magnificent 7 cohort is 14% down from 34% in 2024.

CHART 6

S&P 500 Valuation History: 1990-2025



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Moving Forward

Since mid-February, a more defensive risk stance and broader diversification have benefited portfolios, given signs of slowing in certain areas of the U.S economy and heightened policy risk around tariffs and government spending. Looking ahead, we expect additional episodes of market volatility through the summer related to tariff negotiations, Fed policy expectations, and labor market data. We acknowledge a weaker fiscal impulse in the U.S. in 2025 compared to stimulus-heavy years of 2021-2024 and the potential for higher inflation driven by tariffs are headwinds. Yet, we do not think it is time to prepare investment portfolios for an imminent recession. Overall economic data remains mixed with weak survey/sentiment readings at odds with stability in various hard data, including private payrolls, initial jobless claims, and retail sales. Corporate profit growth expectations for 2025 likely need to be reset but there seems to be a path for earnings to regain their upward trajectory in 2026.

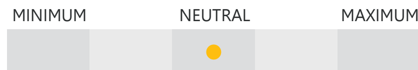
Finally, the Federal Reserve still has ample room to ease policy with further rate cuts and balance sheet expansion in the event of stress in funding and credit markets. We expect exposure to defensive assets (high-quality bonds, gold, cash) will dull a portfolio's exposure to market volatility for the remainder of 2025. An appropriately sized allocation to growth assets (equities) will enable the portfolio to participate in market upside when the fiscal and trade policy environments stabilize. Looking further out to the back half of 2025, we expect the Trump administration to shift its focus away from trade policy and toward the more growth-positive aspects of its agenda, including tax cuts, supporting domestic manufacturing, and deregulation focused on the energy and financial sectors.

Economic Outlook and Investment Policy

ECONOMIC FACTORS	CURRENT OUTLOOK
U.S. GDP Growth	We expect domestic economic growth to decelerate to 0.5%-1.0% in 1H25 and potentially rebound in 2H25 depending on policy.
Federal Funds Rate	The Fed is likely to lower its policy rate by 50 to 100 basis points in 2025 with a first cut potentially on June 18.
Inflation	The imposition of widespread tariffs will likely cause a short-term reacceleration of Y/Y consumer inflation toward the 3%-3.5% range.
Employment	We anticipate slower hiring in coming months (but not a contraction in payrolls) as U.S. employers adapt to the new tariff environment.
Consumer Confidence	Tariff-driven uncertainty is likely to continue weighing on consumer sentiment. Incremental tax cuts in 2H25 could improve confidence.
Oil	We see WTI crude oil prices between $65-$70/barrel as constructive for U.S. energy producer profitability and consumer sentiment.
Housing	Activity in the existing homes market remains suppressed with low inventory levels and the average 30-year mortgage rate back above 7%.
International Economies	Fiscal stimulus in Germany and continued secular growth in India are likely to be the two international bright spots in 2025.

MINIMUM NEUTRAL MAXIMUM

FIXED INCOME



	MINIMUM		NEUTRAL		MAXIMUM
Core Bonds				●	
TIPS	●				
Non-Investment Grade			●		
International	●				

CURRENT OUTLOOK

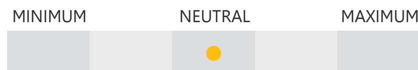
We have reduced credit exposure in portfolios by redeeming high yield bond positions and reallocating to Treasuries. We do not think high yield bond valuations appropriately compensate investors for their embedded risk in the current environment of elevated policy uncertainty surrounding tariffs and reductions in government spending. High yield credit spreads remain tight compared to historical ranges despite recent widening. High yield issuers could face a more challenging market in the 2H25 and 1H26 as a wave of 2021 issuance will need to be financed.

We prefer to hold short to intermediate-term US government bonds and investment-grade corporate bonds. We expect this posture will benefit from a continued steeping of the yield curve (when the gap between short rates and long rates expands).

High quality bonds are likely to play a key role in dampening the volatility of diversified portfolios in 2025 and beyond due to 1) significant coupon income and 2) price appreciation potential in the event of another "growth scare" similar to what we saw in the summer of 2024.

MINIMUM NEUTRAL MAXIMUM

EQUITIES



	MINIMUM		NEUTRAL		MAXIMUM
Large Cap			●		
Mid Cap				●	
Small Cap		●			
Developed International			●		
Emerging Markets		●			

CURRENT OUTLOOK

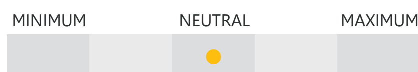
We think target equity weightings should be retained in portfolios following the roughly 20% sell off in the U.S. market from mid-February through early April. Policy risk is clearly elevated but could shift abruptly toward positive outcomes in both the trade and fiscal arenas. A below-target equity weighting could become warranted if bilaterial trade negotiations are slower than expected or the U.S. labor market begins show signs of deterioration.

Valuations in U.S. large cap stocks have contracted by 10%-15% in the first four months of the year, while S&P 500 profit growth estimates have been downwardly revised by about 5%. While 2025 earnings estimates probably have further to fall, in coming months investors will likely turn their focus to what could be an improved trajectory for 2026 profit growth.

Given the balance of risks and opportunities, we think it makes sense to keep equity allocations focused on areas of the market that exhibit quality characteristics in terms of leverage, earnings volatility, and return on capital. Small cap, value style, and international stocks could become more appealing if we see signs of a durable cyclical reacceleration in the global economy accompanied by lower interest rates and subdued inflation.

MINIMUM NEUTRAL MAXIMUM

ALTERNATIVES*



	Cap Pres	IWSG	Balanced	GWSI	Growth
Gold		●	●	●	
Hedged Equity					
Arbitrage					

CURRENT OUTLOOK

We recommend most portfolios maintain a moderate allocation to gold given our assessment that the economic, policy, and geopolitical backdrops remain well suited for the precious metal. A reset in global trade relations, the beginning of a Fed rate cut cycle, two active wars, and strong global central bank demand outside the U.S. should position gold to improve the risk-adjusted returns of portfolios in 2025. Our alternatives allocations, as seen in the table to the left, are designed to decrease the overall risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, and GROWTH.)

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a 6-12 month horizon and are those of the MSA Investment Committee.

*Cap Pres: Capital Preservation, IWSG: Income with some growth, GWSI: Growth with some income

IMPORTANT DISCLOSURE INFORMATION

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