

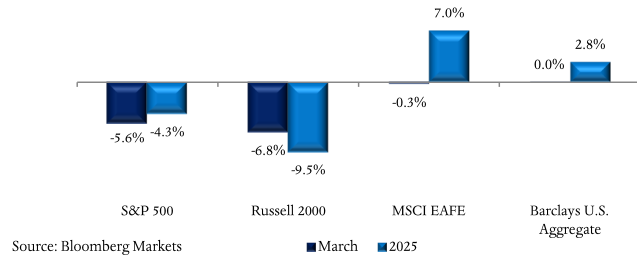


MARKETS

While the year started off on a positive note for equities, February transitioned to risk-off mode, and the roller coaster ride continued in March. Overall, the incoming Trump administration ushered in a period of economic, geopolitical and financial market uncertainty. Slowing economic data, rising global tensions and aggressive political actions were fuel for increased stock market volatility. In this context, the S&P 500 index tumbled -5.6% in March, ending the first quarter with a decline of -4.3%. However, it was smaller capitalization and technology oriented stocks that bore the brunt of the selling. The Russell 2000 index retreated -6.8% in March and -9.5% in last quarter, while the tech-heavy Nasdaq composite fell -8.1% in March and -10.3% in Q1. At quarter-end, each of the major indexes had corrected at least 10% from their recent highs. Conversely, overseas stocks in the bellwether MSCI EAFE index rose +7.0% during the quarter, with only a fractional -0.3% pullback in March, coupled with local currency advances against the US Dollar. For the quarter, the Euro Stoxx 50 index rose +8.2%, while China's Hang Seng index rallied +16.1%. The exception was Japan, whose Nikkei 225 index declined -9.9% on the back of a stronger Yen, driven by narrowing interest rate differentials.

In fixed income markets, the 10-year US Treasury finished the quarter yielding 4.21%, 36 basis points less than at the start of the year. Last month, the 2's/10's yield curve steepened in response to concerns of slowing economic growth and re-accelerating inflation. Lower interest rates over the quarter led the Bloomberg Barclays Aggregate bond index to a string of three positive months and a robust gain of +2.8%.

Commodities were solid performers in the first quarter, rising +4.9% on average, boosted by a +19.0% advance in gold, which soared to record highs amid a weaker US



Dollar, persistent inflation and global trade jitters. Crude oil finished the quarter slightly lower, recovering from a deeper decline on improved Chinese data and higher demand expectations from Europe.

GEOPOLITICS

Since taking office, the Trump Administration has set in motion a string of tariffs on the US's three most important trade partners. On March 4, tariffs of 25% went into effect on Canadian and Mexican goods not-covered by the USMCA trade agreement, with a lower 10% rate on Canadian energy and potash imports. Later, on March 12, tariffs of 25% were levied on steel and aluminum imports and, on April 3, tariffs of 25% were effectuated on automobiles imported from Canada and Mexico. The US also intends to apply 25% tariffs on certain automobile parts. According to press reports, only half of imported products from Mexico and about 38% from Canada are exempt. Most recently, on April 2, President Trump announced major import tariffs targeting a broad range of countries, featuring a 10% "baseline" rate, plus country-specific "reciprocal" tariffs, notably 20% on the EU, 24% on Japan, 26% on India and 32% on Taiwan. With regard to China, the 10% levies instituted in February were increased to 20% in March and 54% in early April. Overall, US import tariffs are set to jump to approximately 22% from roughly 3%. These actions have set the stage for a series of negotiations and retaliations by trading partners. China was the first to act, immediately countering with its own 34% levies

and various other trade barriers.

US

US economic data cooled during the first quarter. Consumer confidence tumbled, with future expectations reaching a 12-year low, well below the threshold that usually signals a recession ahead. The consensus among economists calls for 2025 GDP growth of 2.0%. However, the Atlanta Fed GDPNow economic models have rapidly adjusted, currently projecting a first quarter contraction between -0.5% and -2.8%. The labor market continued to be the bright spot, adding 228,000 jobs in March, showing resilience in the face of trade concerns and cuts to the federal workforce. The strong performance partially reflected a rebound from the job losses triggered by severe storms and strikes this winter. The nation's unemployment rate ticked up to 4.2%, as job seekers, enticed by higher wages which have risen 3.8% year-over-year, entered the labor market.

Given elevated uncertainty, the Federal Reserve elected to leave interest rates unchanged during the quarter. While the central bank's preferred measure of inflation, the core PCE, showed an acceleration (to 2.8% over the trailing 12-months), Chairman Powell suggested that he was more concerned about the downside risks to growth than the upside risks to inflation.

EUROPE

The Trump administration's more confrontational approach towards Europe, casting doubt on NATO mutual defense clauses, galvanized European policymakers. EU Commission President Ursula von der Leyen announced an €800bn spending proposal aimed at boosting the union's military capabilities. Funds are to be sourced from €150bn of new borrowings, and €650bn of deficit spending. Notably, Germany also released its "fiscal brake" to not only allow for the aforementioned military build-up, but to also invest €500bn in infrastructure. These actions had the effect of improving the region's growth outlook.

March 2025 Economic Statistics

	Mar-25	Dec-23	Dec-22
Federal Funds Target Rate	4.25 - 4.50%	5.25 - 5.50%	4.25 - 4.50%
Consumer Confidence Index	92.9	110.7	108.3
Manufacturing PMI Index	49.0%	47.4%	48.4%
Unemployment Rate	4.2%	3.7%	3.5%
JPY / USD	149.95	141.06	131.11
USD / EUR	1.0817	1.1036	1.0702
Gold / oz.	\$3,123.05	\$2,062.59	\$1,824.40
Oil (WTI) / bbl	\$71.48	\$71.65	\$80.26

Sources: see disclosure *

The European Central Bank supported the prospect of further fiscal stimulus, with its President Christine Lagarde explicitly praising the change in approach at the bank's March meeting. Eurozone interest rates were cut twice during the quarter, with a further 60 basis points of reductions expected for the remainder of 2025.

ASIA

Chinese policymakers reiterated their supportive growth stance at this year's "Two Sessions" in early March. Edicts included expanding the country's fiscal deficit by one percent, to a record high 4% of GDP, to enable economic growth, targeted at "around 5%," with associated 2% inflation. Planned stimulus measures include wage increases for millions of government workers, higher state and local government bond issuance to support real estate and the banking system, and expansion of the consumer goods trade-in program. There was also discussion about the importance of technology, encouraging local governments to compete with each other, vying for national recognition as local high-tech champions, building AI clusters, robotics hubs, and biotechnology centers, to prove their worth.

OUTLOOK

Confounding the prevailing consensus at the start of 2025, US equities exhibited the weakest quarterly performance in nearly three years. The volatile nature of US trade policy and fears of inflation and recession have unnerved investors. Meanwhile, in Europe, a fis-

cal impulse promises to stimulate local economies.

From a fundamental equity investor perspective, projected S&P 500 earnings growth for 2025 has declined from 14.8% at the start of the year to 11.5% at quarter-end, with expected revenue growth decelerating from 5.8% to 5.4%. As of March 31st, the S&P 500's forward 12-month PE ratio was 20.5, somewhat above the 5 and 10-year averages of 19.9 and 18.3, respectively. The index's price-to-sales ratio ended the quarter at approximately 2.8, compared to the record high 3.2 reached at the market top in late 2021. To put this figure into perspective, it has averaged at 1.5 over the past 30 years, bottoming at 0.7 during the financial crisis in early 2009. From a higher level perspective, US stock market value compared to US GDP (the "Buffett Indicator") reached an all-time high of 211% at the start of the year. Considering relative value, we must also consider that the US stock market capitalization recently peaked at 72% of total global equities, versus commanding 24% of global GDP. With regard to investor sentiment, retail investors added \$33 billion into US equities in the 28 days from the February 19th market low through quarter-end. This magnitude of "buying of the dip" registered in the 97th percentile since 2014. Further, FINRA margin debt is currently at a near record level of \$918 billion, up 24% from a year ago. It is therefore not surprising, and perhaps healthy, that US equities are losing some froth.

President Trump and his trusted advisors (Peter Navarro, Senior Counselor to the President for Trade and Manufacturing; Stephen Miran, Chairman of the Council of Economic Advisers; and Howard Lutnick, Secretary of Commerce) believe that the new tariff regime are what is required to reinvigorate and reindustrialize the US economy. Foreign country payments should also allow for a virtuous cycle of tax cuts and accelerating GDP growth as well as reduced trade and fiscal deficits. Should such a scenario come to pass, it truly would usher in a "Golden Age" for the US. But this surely won't happen in short order and the uncertainty of confronting the end of a decades-old order is unsettling. Historically, tariffs haven't worked as intended, often because other countries retali-

ate, resulting in trade wars and economic slowdowns on all sides. With regard to the return of manufacturing to the US, a truly worthy goal, it will take a long time to build factories and adjust intricate supply chains, all at significant cost, which is inflationary. Meanwhile, Treasury Secretary Scott Bessent warned of a "detox period" resulting from the much needed reductions in federal spending sought by the Department of Government Efficiency and the associated headwind to the economy. Already, several administrative departments have been shut down or experienced significant cutbacks on short notice, leading to rising job insecurity among employees. Returning to a fiscally sustainable path for the US economy under Trump's plan will require a period of austerity, featuring heightened inflation stemming from tariffs, as well as a recession, likely accompanied by financial market turbulence. However, while volatility introduces mark-to-market risks, it also offers opportunities. Some equity allocation adjustment may be prudent, but it's important not to overreact based on still-evolving policies.

The defensive qualities of risk-free bonds have served investors well thus far in 2025. The implied odds the Federal Reserve will cut interest rates rose after enacted tariffs increased fears of an economic slowdown. Futures markets are forecasting four quarter-point rate cuts which would bring the fed funds rate down near 3.375%.

The pick-up in financial market volatility is a stark reminder that select hedge funds and non-market correlated investments can add alpha and provide downside protection during turbulent periods. Similarly, our recommended precious metal miner investments have begun to follow the appreciation of gold and silver bullion but our research indicates it is still early innings for this theme. We also see opportunities to benefit from dislocations in credit markets. For capital appreciation oriented investors, select software equities, with an activist element, offer good value after the recent pull-back. We have also identified innovative private equity funds with expertise in the cybersecurity, education and healthcare industries.

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*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.