

A Deep Breath

Considering the events of the first quarter have been overshadowed by the first few days of April, we have extended the coverage of this quarter's commentary to include the events of recent days.

Upon reflection, both the potential collapse of the global financial system during the 2008 financial crisis and the sudden shutdown of virtually every economy on earth during the 2020 Covid crisis seemed like existential threats to financial markets, and some investors fear the same from a potential 2025 trade war. That's the thing about crises – they feel like “this time is different,” but ultimately, that fear recedes, sometimes leaving regret on the part of those who made moves out of panic.

Consistent themes in these quarterly newsletters have been the increasing vulnerability of valuations in the U.S. stock market, especially among the “Magnificent Seven” tech stocks, and the diversifying moves we have taken to prepare for what we feared might be a tumultuous end to a 15-year climb in those valuations. We have worked to make portfolios more durable to better weather such periods while preserving the ability to generate healthy long-term returns, believing that preparing for volatility yields superior results than reacting to it.

With so many market forces colliding recently, including years of climbing valuations in the U.S. stock market, especially among A.I.-related stocks, the announcements of U.S. tariffs and their fallout, rapid changes in investor and consumer sentiment, ongoing inflation concerns, and increasing anxiety over federal debt levels, we hope to reassure investors with:

- » Perspectives on three distinct phases the markets have experienced in recent months
- » Explanations of how, while the exact events unfolding may be unpredictable, the pattern they follow and the factors that contribute to them are not
- » The surprising way in which trade deficits have directly impacted your investments in U.S. markets
- » Why the markets reevaluated their initial reaction to the 2024 elections, and why they were so surprised at the widely anticipated April 2 tariff announcements
- » How similar the market reaction is to when President Trump initiated a trade war with China in 2018, and how those lessons may be driving his “shock and awe” approach to these tariff announcements
- » Why we think clients can find reassurance in our durable portfolio approach

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An Eventful Quarter

After back-to-back years where “U.S. exceptionalism” was the mantra describing global markets and economies, 2025 has seen a stunning reversal in those sentiments. There have been three distinct phases to market behavior in the past several months:

- » **Post-election:** markets were fueled by the pro-growth prospects of extending the 2017 tax cuts and reducing regulation, with the expectation that the cost of the tax extension would be funded by heavier government borrowing and some incremental tariff revenue, but tariffs were largely dismissed as more of a negotiating tactic to improve trade deals. The stock market cheered, and the bond market protested at the implications for the federal debt.
- » **Post-Inauguration:** with a “shock and awe” approach from the White House in addressing a range of issues, including tariffs, markets were surprised at the aggressiveness against trade partners and an apparent indifference to recessionary implications. Markets essentially unwound all their post-election gains and uncertainty paused many corporate decisions as tariff announcements were quickly delayed or reversed, and sometimes reinstated.
- » **Post-April 2 tariff announcements:** despite being a well-telegraphed announcement, the April 2 tariff announcements shocked the markets not only in terms of their breadth, timing, and magnitude, but also in the surprising manner in which the tariffs were calculated. With the increased likelihood of a global trade war and the appearance of tariffs becoming more policy than negotiating tactic, markets fell into panic mode.

Markets and the economy appear to be at an inflection point. Upcoming events and their market ramifications will determine if now is the time that we see a damaging catalyst that unleashes market pressures that have been building for years or if this is just another correction that will fade in its impact.

Helpful perspective

As the years surprisingly accumulate and each passing crisis feels less and less dire, I am constantly reminded that somewhere along the line I became one of the “gray hairs” in the office whose grown kids still stare at me in disbelief when I tell of times when friends would call your neighbors to pass along a message because they kept getting a busy signal when they called your house. But with gray hair also comes perspective and the ability to draw parallels to things you’ve seen before, and at times like these, I find those perspectives particularly valuable.

As I reflect on the chaos in markets and the 25th anniversary of the internet bubble’s stock market peak, I can’t help but think of parallels between that spectacular internet mania and today’s artificial intelligence (A.I.) boom, as well as to my experiences growing up on the edge of the “rust belt” in the industrial Midwest.

To frame the former, it is notable to recall that the internet-fueled NASDAQ Composite gained 300% from 1997-2000, only to see all those gains evaporate over the next three years.

NASDAQ Composite % Change 1997-2002



Source: Y-Charts

Bear markets are the consequence of excesses that build up over years, leaving the market increasingly vulnerable to a negative catalyst

To frame the latter, growing up in Ohio, my father worked for a small industrial foundry, whose largest customers were the “Big Three” U.S. automakers, at a time when those automakers were losing substantial market share to Japanese imports and calls for tariffs were commonplace. The most dramatic parallel came when I was 10-years-old and, just as the internet stock market bust resulted from years of accumulated excesses and destroyed entire companies, that Ohio foundry’s main plant, due to an issue that built up over many decades, suffered a catastrophic explosion, destroying the entire building (fortunately almost all employees escaped serious injury). It was replaced by a newer, safer, more productive plant with greater capabilities, reminding me of every bull/bear market cycle in the stock market.

Bear markets never trace back to single events or singular policies that appear to spur them, but rather they are the consequence of excesses that build up over years, leaving the market increasingly vulnerable to a negative catalyst. Inside that foundry in Ohio, dating back to the late 1800s, giant machines ground coal, and the foundational supports of those machines penetrated the ground floor into a sub-basement. For many decades, fine coal dust, which is highly combustible, slowly accumulated by finding its way through seams around those supports into that unused sub-basement. On that day in 1980, repair work one floor up from the coal grinding created a spark that fell and started a small coal fire. They had experienced small coal fires before, but the difference that time was that some burning coal slipped down through one of those seams, igniting the highly combustible accumulation of coal dust, triggering the explosion.

Anticipating bear markets?

As with many bear markets, that explosion was the consequence of excesses that accumulated over years, eventually sparked by a negative catalyst, followed by a chain reaction of events that led to disaster. In bear markets, that chain reaction of unfortunate events often includes the spiral of a recession.

Clients have seen durable portfolios implemented through new allocations over the last couple of years to diversify away from a concentration in U.S. large caps, especially tech stocks

How can excesses appear? Consider this: 15 years ago, investors in the S&P 500 paid approximately \$12 for each dollar of earnings; at its peak this February, investors were paying \$22 for the same dollar of earnings. When legendary investor Warren Buffett started accumulating shares of Apple in 2016, he paid just over \$10 for each dollar of earnings; at the end of 2024, investors were paying almost \$32 for each dollar of earnings even though those earnings were growing much more slowly than they were leading up to 2016ⁱ. Fans of Mr. Buffett have not found it surprising that he has been a seller of S&P 500 stocks, especially Apple, over the past year, as have we.

The point being, as we all enjoy the prosperity of building excesses during bull markets, history has taught us that they all eventually end, typically with a negative catalyst that surprises markets somehow. While it is impossible to predict the timing or the magnitude of the negative catalyst, as well as the positive catalyst that kicks off the next bull market, we can most certainly predict that they will both eventually occur. This is our guiding principle in serving clients by constructing what we call “durable portfolios” that anticipate these events and are designed to weather any “explosions” in one part of the markets while preserving our ability to prosper while we wait to see when they will unfold, as well as while the markets recover from them. Clients have seen durable portfolios implemented through new allocations over the last couple of years to diversify away from a concentration in U.S. large caps, especially tech stocks, into a wider range of asset classes, including international markets, alternatives, and private markets.

Essential background on trade deficits and tariffs

Market swings can be unnerving because the market’s “perspective” can be difficult to understand when much of our information comes from a mixture of headlines, market prognosticators, and politicians. These sources often have some degree of vested interest or agenda. Markets have no agenda, no sympathy, and no stake in the outcome as opposing sides must find a point of balance – they are simply a reflection of aggregate financial expectations. Our objective in providing investment commentary to clients is to provide an unvarnished perspective to help in understanding the reasons for market movements when you clear away the noise, hopefully adding reassurance during volatile times. Understanding the current market turmoil requires essential, but simple background on how we got to this point and what government policy can and can’t control.

There have been three stated objectives of newly announced tariffs:

- » Bring back American manufacturing jobs
- » Raise government revenues
- » Equalize terms of trade

The jobs-related justification for new tariff policies is the most cited, and it traces back to the state of U.S. manufacturing and the trade deficit. It again takes me to my analogy of growing up in Ohio where I had exposure to the full spectrum of views on trade, from a very strong familial perspective that imports were unfairly threatening American jobs to my own passion for studying economics and learning how the U.S. became a superpower partly by taking the lead in global trade with initiatives like the Marshall Plan following World War II. Considering all those views provides some perspective and understanding of larger forces driving markets and the economy today.

ⁱ <https://www.macrotrends.net/stocks/charts/AAPL/apple/pe-ratio>

A byproduct of this economic evolution is that 85% of the private sector jobs in this country are now in the service sector; in 1950 that number was about 10%.

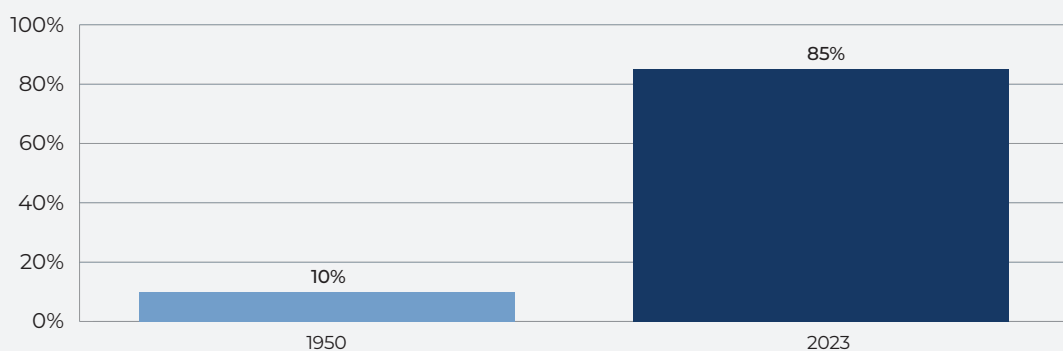
From the early 1940s, my father grew up on a farm. He later worked for a company in heavy industry at a time when many industrial jobs were going overseas, and years later, I went to college with plans to work in investments, a service industry.

That progression typifies the American experience for many families over the last century:

- » **Agricultural generation:** The children of this generation went to work in manufacturing, producing goods, making higher real wages, and raising their standard of living.
- » **Manufacturing generation:** Many of this generation saved some of those higher real wages to help their kids pay for college, viewed as the gateway to even greater prosperity
- » **Services generation:** Many of those college graduates studied to become engineers, doctors, lawyers, investment managers, and more—service sector fields generally making higher real wages and raising their standard of living.

A byproduct of this economic evolution is that 85% of the private sector jobs in this country are now in the service sectorⁱⁱ; in 1950 that number was about 10%ⁱⁱⁱ. That shift doesn't leave a lot of workers to manufacture goods in the U.S. anymore, meaning we need a supply of goods from other countries. While that leaves us with a large goods deficit, our overall trade deficit is significantly smaller because we are not only the world's largest importer of goods, but also its largest exporter of services.

% Private Sector Workforce in Services



Sources: 1950 Census of Population, Bureau of Labor Statistics

While the trade deficit may fluctuate with tariffs, it seems unlikely, given our history, that U.S. workers will make a massive shift back into goods producing sectors, meaning that a portion of our trade deficit is a structural necessity. Any incremental labor shift to industry will likely be in highly skilled, higher paying jobs in modern factories with a high economic productivity per worker, not in the industrial jobs of decades ago.

However, there is a less publicized flipside to all those dollars leaving the country to import goods because those dollars must be redeemed somehow since the foreign exporter can't typically spend dollars in their home country. What doesn't get spent reciprocally on U.S. produced goods and services must go toward some sort of capital investment in the U.S. This could take the form

ii. Bureau of Labor Statistics, as of 12/31/ 2023

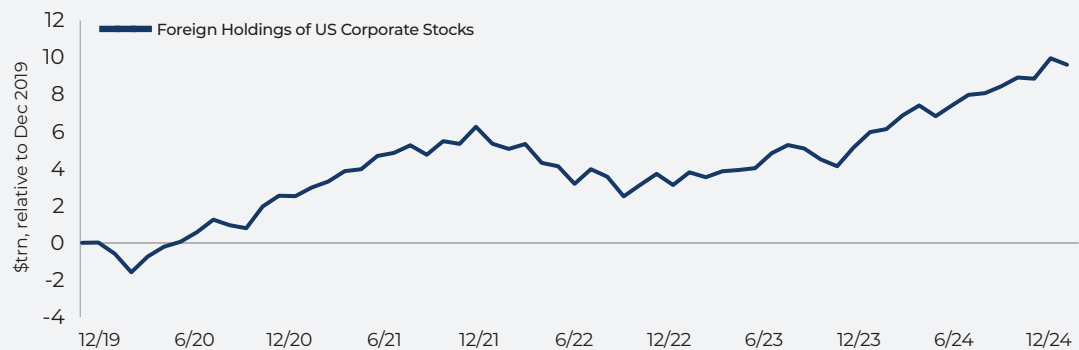
iii. 1950 Census of Population, U.S. Census (gov)

**Simply stated,
our trade deficit
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in the past five
years**

of foreign direct investment, such as Taiwan Semiconductor's \$165 billion capital investment to build a chip plant in Arizona^{iv} - the type of capital investment that is a "force multiplier" in job creation, requiring a highly skilled workforce, construction workers, suppliers, transport, infrastructure, etc. Capital can also take the form of investment in public equity and fixed income markets, meaning that our trade deficit has financed the creation of a new generation of jobs, as well as fueling our stock markets and ability of companies to raise capital in the U.S. (all that capital raised by the Magnificent Seven has resulted in 1.5 million jobs^v).

As the chart below shows, this capital inflow has included almost \$10 trillion of foreign investment in the U.S. stock market in the past five years.

Significant Rise in Foreign Holdings of US Equities



Sources: US Treasury, Haver Analytics, Apollo Chief Economist

To put that in perspective, the entire market capitalization of the U.S. stock market was \$62 trillion^{iv} at the end of those past five years, and those international inflows accounted for about one-third of the total growth in market capitalization over that time. Simply stated, our trade deficit dollars have returned to the U.S. to finance one-third of the growth in the U.S. stock market in the past five years, in addition to investments in the U.S. bond market, real estate, and direct investment in factories and businesses.

As for raising government revenues, tariffs will not offset the collective benefits to the workforce that has fueled the shift to a services economy, so the inelasticity of our demand for imports means that the government will indeed see incremental revenues as the general population will be better off paying the taxes on imports than shifting careers.

Finally, there is the question of using tariffs to try to equalize unfair terms of trade. As with the other motivations for tariffs, there is no simple answer to this problem. This is the aspect that is most open to interpretation in terms of what is "fair." At times, tariffs have a strategic developmental objective, such as protecting an industry vital to a nation's security or protecting a fledgling industry. Other times this question becomes much more of a political one. Even experts who are like-minded in their position on the political spectrum find it difficult to agree on where that line should be drawn. There are also non-tariff barriers to trade such as subsidies, quotas, licensing requirements, and government contracts. Because these tactics have no quantifiable impact, it is very challenging to try to calculate the total value of trade barriers.

iv. TSMC (Taiwan Semiconductor) Press Release, March 4, 2025

v. <https://techjury.net/blog/truths-about-the-magnificent-7/>

vi. <https://siblisresearch.com/data/us-stock-market-value/>

Considering the president's deal-making personality, we can't ignore the possibility that he needed to create more leverage after his tariff promises had been dismissed as mere negotiating ploys.

Phase One: Post-election market celebration

Considering that background of how trade deficits and tariffs are intertwined with our capital markets gives us perspective into how markets have reacted during the previously mentioned three phases that have unfolded in recent months.

The well-documented stock market "celebration" post-election was at the prospect of pro-growth policies in the form of extending the 2017 tax cuts and reducing regulation. Concurrently, the bond market protested the implications for higher federal deficits. President Trump's campaign promises on tariffs were largely dismissed as negotiating tactics to obtain more favorable trade deals. Despite having a leading total volume of global trade, the U.S. relies on trade for a much smaller percentage of its overall economy than any other industrialized country. This aligned with the interpretation that tariffs would be used as a negotiating position because the U.S. is seen to have the upper hand in trade negotiations. The fact that the U.S. economy was enjoying such strong growth and that faltering economies in both Europe and China could ill-afford a trade war, reinforced this perception.

The Fed appeared to have engineered a "soft landing" for the economy after the post-Covid inflation battle, and, having avoided a potential negative catalyst in about \$4 trillion in higher taxes over the next 10 years with the expiration of the tax cuts, the markets were more concerned with a potential reacceleration of the economy than any possibility of a recession.

Phase Two: Post-inauguration market reevaluation

Soon after the inauguration, President Trump's approach to tariffs began to cause concern they could become a more dangerous catalyst than anticipated. Aggressive announcements of tariffs against Mexico and Canada were almost immediately delayed, not only surprising markets with their magnitude, but also with the quick apparent reversal after relatively small concessions, furthering the perception that tariffs would largely be used as a negotiating tool.

As further aggressive tariff stances were announced against major trading partners, markets became much more concerned that there may be more permanent policy implications than initially thought. Considering the president's deal-making personality, we can't ignore the possibility that he needed to create more leverage after his tariff promises had been dismissed as mere negotiating ploys. However, the aggressive positioning did heighten concern about the potential for a global trade war, inflation, and derailing the economy's soft landing into a recession.

Perhaps an even greater risk to the economy emerged with the unexpectedly rapid sequencing of announcements, delays, and reversals of tariffs as corporate decision-makers began to pause on a range of decisions impacted by whether various tariffs were a temporary negotiating tactic or a more permanent policy change. This inability to make important decisions combined with the other concerns about tariffs to sharply dent the confidence of corporate CEOs in the economy.

CEO Confidence Declining



Sources: Chief Executive Magazine, Bloomberg, Macrobond, Apollo Chief Economist

It was well-telegraphed that big tariff announcements were coming on April 2, so why were the markets so surprised?

Phase Three: Post-April 2 market panic

It was well-telegraphed that big tariff announcements were coming on April 2, so why were the markets so surprised?

We believe market expectations heading into the April 2 tariff announcements were largely framed by the budget resolution that passed in the House of Representatives, allowing for \$4.5 trillion in unspecified tax cuts over 10 years and \$1.7 trillion in unspecified spending cuts^{vii}, leaving approximately \$2.8 trillion, or \$280 billion yearly, that still needs to be funded, with tariffs being viewed as the main contributor. If more spending cuts can be found or tariff revenues are unexpectedly high, that increases capacity for tax cuts as the resolution is based on the \$2.8 trillion difference, not the absolute numbers.

Given the above math, markets were likely anticipating somewhere around \$280 billion annually in new tariffs, which would represent an incremental tax of about 8.5% on total US goods imports of \$3.3 trillion.^{viii} On top of about 2.5% in existing tariffs^{ix}, that would have called for an average levy of about 11% after whatever trade deals resulted from negotiations. The April 2 tariff announcements indicate an average tariff of 22%^x, vastly exceeding market expectations even after allowing for some reduction through new trade deals. This sparked fears of significantly higher costs to consumers, retaliatory escalation into a damaging trade war, and the potential for a resulting recession.

If these tariffs stand, the U.S. average tariff would be even higher than it was after the Smoot-Hawley Act of 1930. However, given that creating chaos ahead of negotiations seems to be a long-standing tactic in the Trump playbook, history would indicate that the end-result will be somewhere in the middle.

Also, we ask ourselves, “What could possibly be the plan behind all this chaotic behavior? Why take such an extreme position that would clearly cause significant market stress?” As it is unlikely that the president seeks to destroy immense wealth among his biggest supporters and himself, why might he think that this approach will serve him well? Without knowing the inner workings of the administration, we do think there are some possible clues in examining

vii. House Ways and Means (gov)

viii. U.S. Bureau of Economic Analysis Press Release, February 5, 2025

ix. <https://www.statista.com/chart/34236/average-effective-tariff-rate-on-us-imports/>

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President Trump has long seen the stock market as the ultimate barometer of his performance, but he may feel emboldened because he has “seen this play” before as the S&P 500 quickly dropped about 10% when he initiated a trade war with China in 2018.

his past experiences with tariffs and midterm elections, as well as the structure of the tariffs and the leeway that a strong economy gives him.

- » **Déjà vu:** President Trump has long seen the stock market as the ultimate barometer of his performance, but he may feel emboldened because he has “seen this play” before as the S&P 500 quickly dropped about 10% when he initiated a trade war with China in 2018. Consistent with our earlier description of excesses in the market being revealed by negative catalysts, it bears pointing out that in 2018, the S&P 500 was trading around historical average valuations versus the possibly “excessive” valuations at which it finished 2024. While the index fell around 6% for the full year in 2018, it climbed almost 29% the following year before Trump even finalized new trade deals with China, Mexico, and Canada.
- » **Midterm elections:** It is possible that President Trump is taking a lesson from the 2018 midterm elections when Republicans lost 40 seats and control of the chamber to Democrats. If he thinks the markets will recover a year later like they did in 2018, he likely wants to put more distance between his tariff announcements and the midterms. Passing a new tax bill later this year could be helpful in that transition. Aggressive tariffs in 2025 and higher than expected spending cuts through the elimination of federal jobs would likely be used as justification for larger tax cuts.
- » **Tariff structuring:** We think part of the market’s alarm after the announcements was due to a surprising lack of alignment of the new tariffs with their stated objectives. The market expected targeted tariffs punishing those countries perceived to be the “most unfair” in their trade policies with the U.S. Instead, existing trade barriers were not even part of the equation, which led to some puzzling outcomes including high tariffs against countries that have little or no tariffs on U.S. goods, for example countries exporting coffee and bananas to the U.S.; the U.S. imports these products because our climate is not generally suitable to their growth, but those exporting countries have virtually no tariffs on U.S. goods (they just can’t afford to buy what we produce). The tariff equation also focused exclusively on trade deficits in goods while ignoring U.S. surpluses in services, where we are the world’s largest exporter. While we can’t be certain, we would think that if these tariffs were truly intended to be permanent policy, their design would have been more thoughtful.
- » **Strength of U.S. economy:** Heading into 2025 with an economy that grew at 2.8% last year, leading major industrial economies, and with very low unemployment at just 4.1%, now would be an opportune time to take any action that might have an economic cost. Considering that last year’s 2.8% translates to about \$1.5 trillion in growth last year, we do have some cushion to withstand economic shocks and avoid recession.

While investors are panicked and shocked at the apparent randomness and capriciousness of the unfolding trade policy, we do think it is likely that at least some of what we have seen is part of a larger plan to strengthen an already strong hand in trade negotiations that the new administration believes the U.S. has been too timid to play.

Not surprisingly, the Magnificent Seven, with their lofty valuations and high mix of international revenues, have been particularly impacted by recent events.

What does all this mean for the stock market?

As mentioned earlier, the S&P 500 gave back its post-election gains in February and March as investors questioned the impact of tariffs and whether recently slowing economic statistics were the beginning of a negative trend. In addition, the high proportion of revenues from international trade for the S&P 500, and even higher for the Magnificent Seven, has caused even greater concern. While smaller companies suffered more in Q1, with much less reliance on international trade, we would expect Midcaps and Small Caps to fare better longer-term in a higher tariff environment.

These trends clearly accelerated on the heels of the April 2 tariff announcements, so we have presented the return tables this quarter with an additional column that updates the Q1 returns to show the incremental impact on year-to-date returns from the first calendar week in April.

U.S. Equities

Index	Q1 2025	Apr 4 YTD	2024
S&P 500	-4.3%	-13.4%	25.0%
Equal-Weighted S&P 500 Index	-0.6%	-9.8%	13.0%
Dow Jones Industrial Average	-0.9%	-9.5%	15.0%
Nasdaq Composite	-10.3%	-19.1%	29.6%
Russell 2000 (Small Caps)	-9.5%	-17.8%	11.5%

Source: Morningstar

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Magnificent Seven

Index	Q1 2025	Apr 4 YTD	2024
Apple Inc	-11.2%	-24.7%	30.6%
Tesla Inc	-35.8%	-40.7%	62.5%
Alphabet Inc (A)	-18.2%	-23.0%	35.9%
NVIDIA Corp	-19.3%	-29.8%	171.2%
Meta Platforms Inc	-1.5%	-13.7%	66.0%
Microsoft Corp	-10.7%	-14.5%	12.9%
Amazon.com Inc	-13.3%	-22.1%	44.4%

Source: Morningstar

While, on the margin, the U.S. saw economic slowing and investors rotating out of U.S. stocks in Q1, international markets saw the opposite, demonstrating strength in the face of U.S. market weakness, especially in Europe.

Germany passed a plan to implement a massive buildout of its military and infrastructure. This will provide a substantial boost to the German economy for the next decade.

International Equities

Index	Q1 2025	Apr 4 YTD	2024
MSCI EAFE (Developed Markets)	6.9%	1.6%	3.8%
MSCI Emerging Markets	2.9%	1.7%	7.5%

Source: Morningstar

For the past century, the saying “When America sneezes, the world catches cold” has reflected the impact of the U.S. in an interconnected global economy. It is hard to imagine that the truth of this axiom could disappear, but a more apt question might be how strongly it holds in a world trending toward deglobalization?

The German economy has been the slumbering giant of Europe for the past five years, with near zero economic growth, shackled in their ability to stimulate their economy due to constitutional restrictions on government deficits. Perceiving an increased threat from Russia since the beginning of the Ukraine war and feeling they should no longer rely on the U.S. to provide a military umbrella, new government leadership in Germany passed a plan to eliminate those constitutional restraints and implement a massive buildout of its military and infrastructure. This will provide a substantial boost to the German economy for the next decade.

Finding themselves in similar situations, other EU countries are also increasing borrowing to strengthen defense forces. As most of these expenditures will be targeted to European companies, the entire continent saw a strong Q1 for equities markets.

Next to Germany, the second biggest focal point for economic stimulus in Q1 was China. Following years of lackluster efforts, China finally displayed some increased urgency in trying to jumpstart an economy on the verge of deflation and boosted optimism for their economic fortunes by finally cutting interest rates, which lifted emerging markets broadly in the quarter.

How is this impacting interest rates and The Fed?

For the first time in a few years, Federal Reserve monetary policy took a back seat this quarter as it has been in more of a “wait and see” mode, not wanting to move interest rate policy before gaining greater clarity regarding the impact of tariffs on inflation and the economy.

With the Fed’s dual mandate of maximum employment and stable prices, they face two key questions in the coming months:

- » Will new tariffs re-ignite inflation?
- » Will any tariff-related cost increases and federal job cuts slow the economy?

From the last Fed meeting on March 19, we saw the median forecast among 19 Fed central bankers for 2025 was lower for real GDP growth, down from 2.1% to 1.7%, while their core inflation forecast rose from 2.5% to 2.8%, and Fed comments since the tariffs reinforce these expectations in both directions. If the hard data follows these trends, investors will likely have increasing concerns about the U.S. slipping into a “stagflation” scenario, meaning stagnant growth, but with inflation so high that the Fed is precluded from cutting interest rates due to risks of fueling further inflation, which can be far more damaging than a single recession.

We have had clients ask if we should be reacting to the turmoil with portfolio adjustments.

Fixed Income

Index	Q1 2025	Apr 4 YTD	2024
Bloomberg US Aggregate Bond Index	2.8%	3.7%	1.3%
Bloomberg Global Aggregate Bond Index	2.8%	3.8%	1.1%
Bloomberg Municipal 5-Yr Index	0.9%	1.8%	1.2%

Source: Morningstar

What does this mean for client portfolios?

We have had clients ask if we should be reacting to the turmoil with portfolio adjustments, but hopefully we have made clear that, despite the unpredictability of catalysts or even how big their impact will be, the fact that nearly all market cycles end with one is predictable. This has been the driver of the allocation changes clients have seen over the past couple years, especially to international markets, private markets, and alternatives. It is still too early to tell what the market fallout will be from recent events, but we do believe the time for action is before the volatility of a negative catalyst arrives, not after, and we have worked to better prepare client portfolios for the time when the accumulated excesses from a 15-year secular climb in U.S. valuations face the spark of a negative catalyst. To the extent that clients are still incorporating our diversifying allocation changes, we certainly want to continue down that path as we feel confident that not only would diversifying into the different asset classes help mitigate the damage from upcoming volatility, but also better position portfolios for sustainable long-term returns.



Dennis Follmer

Chief Investment Officer

April 5, 2025

MONTIS COMPANY NEWS



WELCOME MARIA ALCINDOR: We are excited to welcome Maria Alcindor, our new Senior Operations Associate, to the Montis Financial team! Maria brings a wealth of experience in financial operations and a strong commitment to efficiency and client service. She will play a key role in

supporting our growing firm, ensuring seamless operations and exceptional service for our clients. Please join us in welcoming Maria to the Montis family!

GIVING BACK TO THE COMMUNITY: At Montis Financial, we believe in giving back to the communities we serve. Recently, our team had the privilege of volunteering with Cradles to Crayons Massachusetts, an incredible

organization dedicated to providing essential items to children in need. Together, we sorted, packed, and prepared donations to support local families, ensuring every child has access to clothing and other necessities.



The experience was both rewarding and impactful, reminding us of the power of community and the difference we can make when we come together. We look forward to future opportunities to give back!

How to Help Your Adult Children (Without Overstepping)

Three Legal Documents Every Parent Should Consider

Imagine this: your 18-year-old has just left for college. It's an exciting time.

Two months into the semester, you get a call. They're not feeling well and are heading to the emergency room. The next few hours are tense as you wait for an update.

Thankfully, it turns out to be a mild fever that just requires antibiotics.

But what if it had been more serious? What could you have done to help?

The answer might surprise you: nothing.

Why? Because once your child turns 18, you no longer have the legal right to make medical or financial decisions for them. As an adult, they are responsible for those decisions on their own. Without proper legal documents, you could be left out of critical conversations during an emergency.

To avoid this, there are a few simple steps you can take now to ensure that you can step in if needed.

Here are three important legal documents we recommend for any child who is 18 or older and not yet married:

1. Durable Power of Attorney

This document allows a trusted person to manage financial matters on behalf of your child. There are two types:

- An **Immediate** Durable Power of Attorney becomes effective as soon as it is signed.
- A **Springing** Power of Attorney only takes effect after a specific event, such as incapacity.

2. Health Care Proxy (Medical Power of Attorney)

This allows someone to make medical decisions if your child is unable to. Without it, you may not be legally allowed to speak with doctors or access important health information.

3. HIPAA Release Form

HIPAA stands for the Health Insurance Portability and Accountability Act. A HIPAA release form permits someone other than the patient to access medical records and speak with healthcare providers.

We suggest you have these documents in place for any child over the age of 18. Once they are married, they can update the documents and appoint their spouse as their representative.

If you already work with an attorney, they can help you draft these documents. If you need a referral, we are happy to connect you with someone who specializes in this area.

A little planning now can make a big difference later—for you and your child.

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