



## Quarterly Update – March 31, 2025

Markets kicked off the year in a bullish mood as the positive post-election sentiment continued into January. Corporate earnings have been strong, inflation continues to soften, and consumer spending is holding steady. The start of the correction in the tech heavy NASDAQ began when a Chinese technology company, DeepSeek, released information about their AI large language models. They revealed information about the depth of the AI capabilities combined with a cost structure significantly lower than most US companies. This surprise led growth investors to reevaluate their positions and many growth stocks felt the selling pressure. The NASDAQ ended the quarter down over -10%.

The correction in growth stocks weighed on US markets across the cap spectrum. S&P500 was down -4.27%, midcap stocks were down -3.40%, and small caps were off -9.48%. The Barclay's Aggregate Bond Index gained 2.78% as interest rates slowly retreated. International developed market and emerging market stocks performed well as money flowed out of the US. International stocks gained 6.86% and emerging markets gained 2.93%.

Here are the returns of the major asset classes at the end of the 4th quarter 2024:

Asset Class	Index	1st Q	YTD	1yr	3yr*	5yr*
US Large Cap Stocks	S&P500	-4.27%	-4.27%	8.25%	9.06%	18.58%
US Mid Cap Stocks	Russell Midcap	-3.40%	-3.40%	2.59%	4.61%	16.27%
US Small Cap Stocks	Russell 2000	-9.48%	-9.48%	-4.01%	0.52%	13.26%
Dow Jones Industrial Avg	DJIA	-0.87%	-0.87%	7.40%	8.74%	16.19%
US Dividend Paying Stocks	DJ Select Dividend	3.25%	3.25%	13.49%	5.91%	17.43%
NASDAQ	NASDAQ	-10.42%	-10.42%	5.62%	6.74%	17.56%
Int'l Developed Mkt Stocks	MSCI EAFE	6.86%	6.86%	5.00%	6.05%	11.76%
Int'l Emerging Mkt Stocks	MSCI EM	2.93%	2.93%	8.39%	1.44%	7.94%
US Bonds	Bar Aggregate Bond	2.78%	2.78%	4.88%	0.52%	-0.40%

YTD = Year to Date

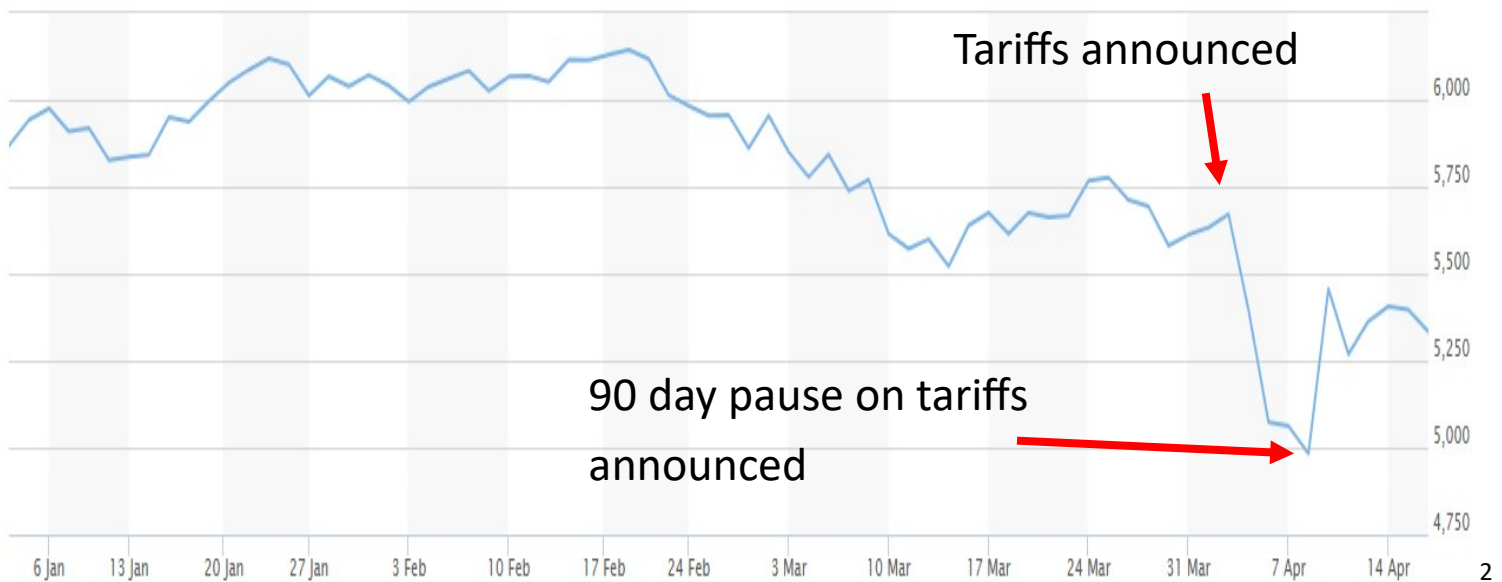
\*return is annualized

Worries about the Trump administration's new tariff policy started to be priced into the market at the end of March. The details of the tariff plan were set to be released on April 2nd. Investors were expecting to see a series of retaliatory tariffs and a clear policy outlining efforts aimed at correcting trade restrictions and imbalances that hurt US exporters. The administration announced sweeping reciprocal tariffs and set a 10% tariff floor for all imports. These tariff levels were significantly higher than anticipated by investors and business executives.

<sup>1</sup> Source: Raymond James Client Center Reporting

Our market commentary is typically centered around discussing market topics. We look at the investment landscape in terms of earnings growth, market valuations, investor sentiment, consumer behavior, and fiscal and monetary policy. For the next few months, we do not think any of that really matters. Investors are focused on one thing and one thing only...tariffs.

The tariff policy is important because the initial level of tariffs announced by the administration could significantly slow economic growth in the short run while potentially raising prices. The potential for “stagflation” was immediately priced into the market and the S&P500 index fell about –12% from April 2nd to April 8th. Then on April 9th the S&P500 rallied about 10% as the administration announced a 90 day waiting period to implement the tariffs. They will use this time to negotiate trade deals with each country (except China as the tariffs were increased).

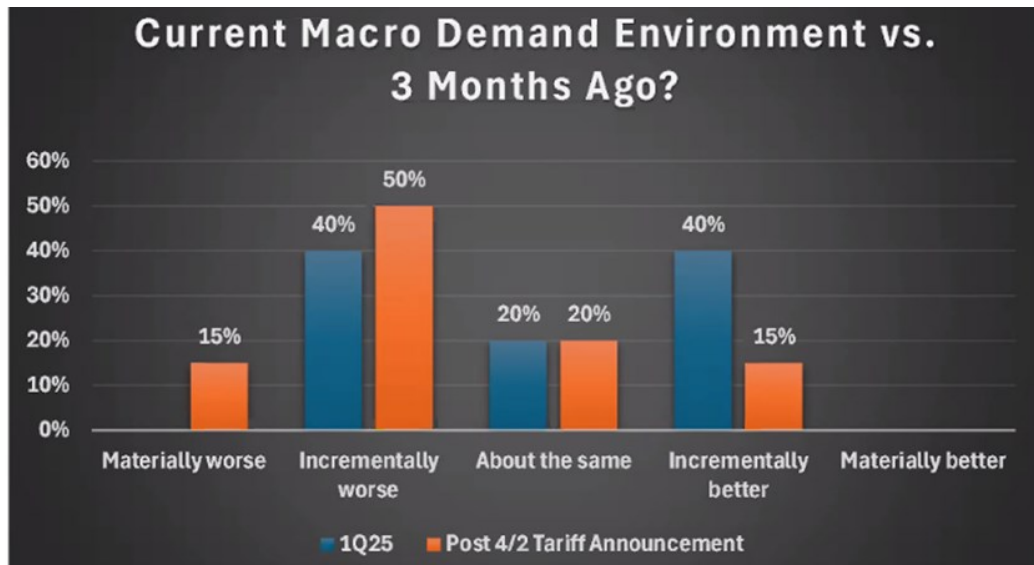


As you can see in the S&P500 chart above, the volatility caused by these tariff announcements are dominating market sentiment. Until these details are worked out, nothing else really matters. Trying to decide between large caps and small caps, value or growth companies, or even US vs international stocks is almost impossible until trade rules are re-established.

In our commentary last quarter, we wrote the following regarding tariffs, “...we believe the new administration will use tariffs tactically as a bargaining chip to improve outcomes with our trading partners. If applied appropriately, we don’t think it will have a major impact on inflation in the near term. We will wait and see.” Unfortunately, the initial version of the tariff policy was much more heavy-handed than we expected. We continue to be in “wait and see mode” as the details of the tariff policy are negotiated. Hopefully it will result in very favorable terms to US exporters over the long run.

<sup>2</sup> Source: FactSet, S&P500 Index-Charting

We believe that one of the unintended consequences of the recent tariff policy is the negative impact on business and consumer confidence. Unsettled trade policies tend to make business leaders temporarily pause or delay certain plans to evaluate the financial impact of the new policy. This can materially impact growth in the short run even if the policy is productive over the long run. A preferred research provider, ISI Evercore, recently published results from a survey of business decision makers.

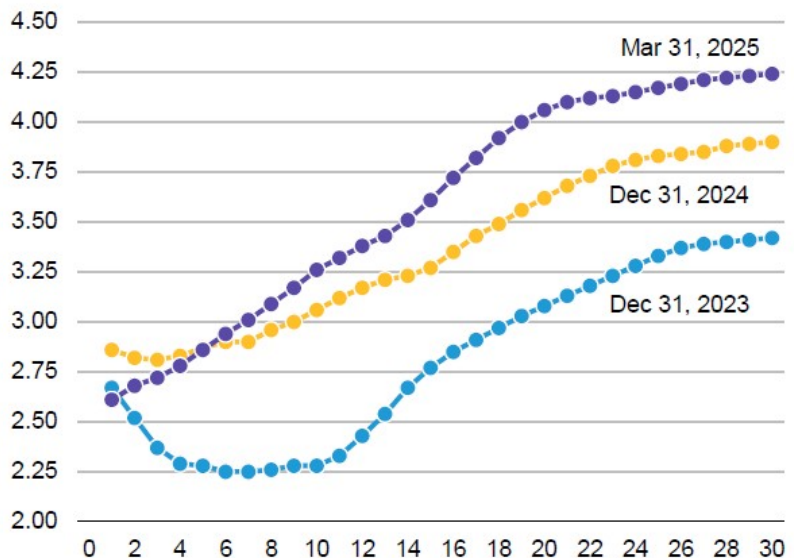


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The chart above reveals how quickly business sentiment has shifted. According to this survey, the demand environment has moved materially worse for 15% and incrementally worse for 10% of responders. Those that believe the environment is incrementally better dropped 25%. We believe this macro uncertainty may continue throughout the 2nd quarter of 2025 while the administration works on bilateral trade deals with upwards of 75 countries.

Even with some policy headwinds, we still think that we will have modest but slower growth, cooling inflation, and moderate wage growth in the US. We also think that by year end, we could see the impact of pro growth policies such as tax cuts, deficit reduction, de-regulation, and domestic infrastructure improvement.

AAA Municipal Yield Curve (Percent)



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<sup>3</sup> Source: ISI Evercore, “Thinking Through Implications of DOGE and Tariff Uncertainty” p. 2

<sup>4</sup> Source: Alliance Bernstein, “AB 2Q 2025 Capital Markets Review” p. 41



One opportunity we want to highlight in the market is municipal bonds. Yields have been rising in municipal bonds over the last few years and we think tax equivalent yields are currently very favorable. The chart on the previous page shows the municipal yield curve in 2023 (blue), 2024 (yellow), and 2025 (purple). The current yields are higher at almost every maturity compared to two years ago. For those with the proper time horizon, we specifically favor the 5 to 20 year maturities.

In general, we remain positive on corporate and municipal bonds as balance sheets are strong. We suggest staying on the shorter end of the curve to avoid price volatility and simply clip the coupon. We think this is a good time to look at tax loss harvesting in taxable portfolios. It also makes sense for long term investors to prudently add to high quality stocks or select international stocks. Given the pullback in the equity market, there appears to be plenty of stocks “on sale”, but we all know there is a chance they get cheaper before they find the ultimate bottom. Dollar cost averaging into these positions will help reduce the stress of searching for the perfect price to buy.

As always, we thank you for the trust you place in our team. Please reach out to us with any questions.

-Shaw Investment Management

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