Q1 MARKET INSIGHTS

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FINANCIAL PARTNERS

Spring 2025

KEY TAKEAWAYS

The S&P 500® Index posted its worst quarterly return in nearly three years due to concerns about U.S. trade policy.

Despite the April 2nd tariff announcement, there is still significant uncertainty surrounding the potential impact of tariffs on overall economic activity.

President Trump's track record of making abrupt changes to policy provides an additional level of unpredictability and presents a challenge to investors looking for stability.

It's tempting to sit on the sidelines during periods of extreme volatility, however, timing the market is extremely difficult. Missing out on the best days has historically reduced long-term performance.

While the early focus has been on trade policy, the administration's broader agenda features initiatives that, if enacted, may benefit markets.

European equities surged in the first quarter amid renewed fiscal flexibility and reindustrialization hopes, but long-term sustainability appears uncertain.

After two years of strong returns, drawdowns represent a normal and anticipated feature of market cycles and should be viewed as a natural part of long-term investing.

Market volatility may persist, but staying invested through uncertainty has historically delivered positive results.

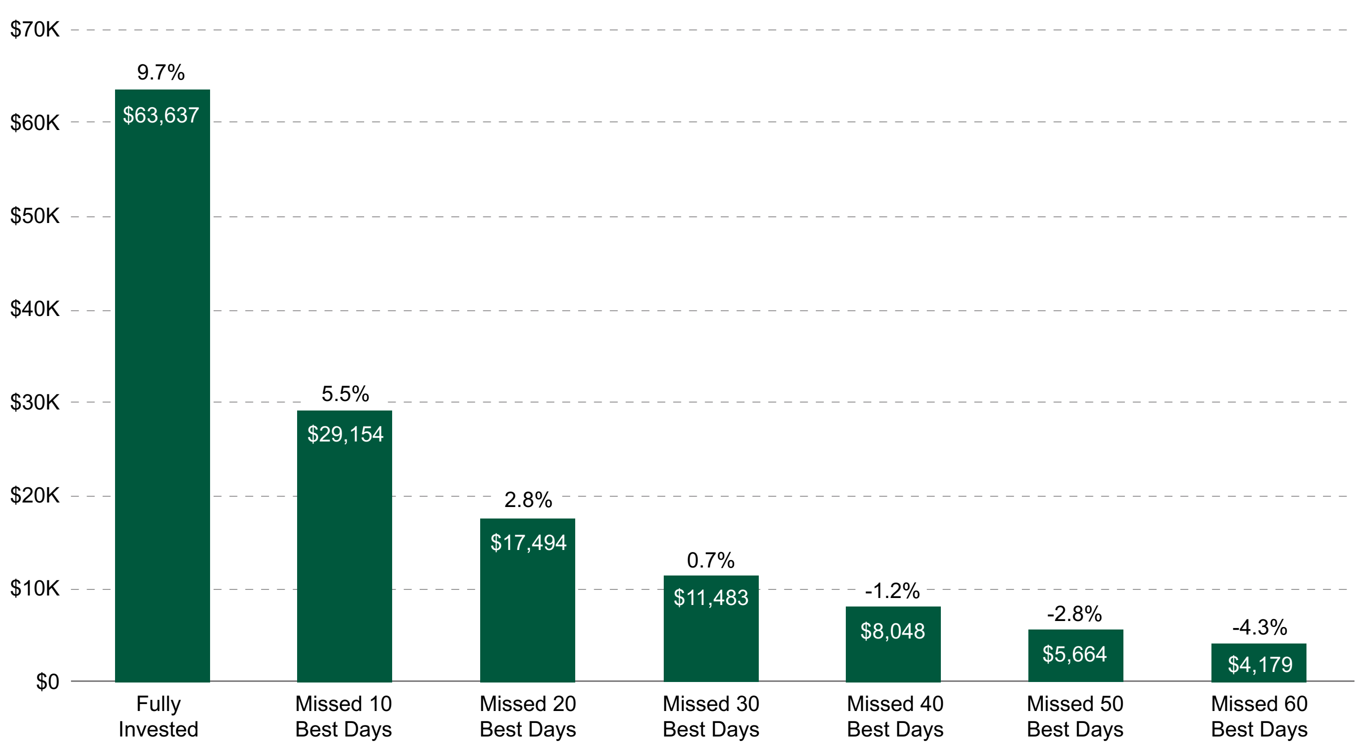
The first quarter of 2025 was marked by significant market fluctuations. At the start of the year, investor optimism, driven by expectations of a pro-growth agenda and potential tax cuts, gave way to mounting concerns over a possible global trade war and its impact on the U.S. economy. Uncertainty surrounding the direction, implementation, and consequences of President Trump's proposed tariffs fueled heightened volatility, particularly in the latter part of the quarter. As a result, the S&P 500 Index posted its worst quarterly performance in nearly three years, declining 4.28%—the weakest showing since the third quarter of 2022. Looking internationally, foreign equity markets outpaced their U.S. counterparts for the first time since the second quarter of 2022. Foreign developed markets led the gains, outperforming emerging markets, as Germany and other EU nations signaled a willingness to increase deficit spending to strengthen military readiness. This commitment to higher defense expenditures boosted investor confidence and drove European equities higher. Foreign developed markets, represented by the MSCI EAFE Index, registered a 7.03% gain for the quarter. Meanwhile, emerging markets posted more modest gains, supported by advancements in artificial intelligence among select Chinese companies, which helped offset broader macroeconomic uncertainties in the region. The MSCI Emerging Markets Index rose 2.97% during the quarter. Turning to fixed income markets, the leading benchmark for bonds, the Bloomberg Barclays U.S. Aggregate Bond Index realized a positive 2.78% return for the first three months of the year. Better-than-expected inflation data and growing concerns over economic growth fueled demand for bonds as investors sought safety amidst the elevated policy uncertainty.

TARIFF DAY FINALLY ARRIVES

Following weeks of uncertainty and increasing market volatility, the Trump administration finally unveiled its sweeping tariff plan shortly after the quarter ended. On April 2nd, the U.S. announced a baseline 10% tariff on all imported goods (with certain exceptions) and higher "reciprocal" tariffs on imports from countries with which the U.S. has the largest trade deficits. As discussed in our recent client note, understanding the strategic motives behind U.S. trade policy is very important. We believe three main hypotheses capture the current administration's motives. First, tariffs are viewed as a significant source of tax revenue paid by other countries, which could fund tax cuts for U.S. citizens. Second, tariffs are regarded as a negotiation tool to extract concessions from other countries (such as greater investment in border security, increased consumption of U.S. exports, and additional defense spending from NATO partners). Third, tariffs are being implemented in an attempt to strengthen U.S. manufacturing by encouraging domestic production, thereby reducing reliance on foreign goods, and rebalancing trade flows. While broadly anticipated, the announcement exceeded investor expectations in both scope and magnitude and significantly impacted the financial markets in the days that followed.

The evolving nature of trade negotiations, the scope and scale of proposed tariffs, and the potential for further retaliatory measures all contribute to a complex and fluid situation. Adding to the chaos is President Trump's history of abrupt policy shifts. For instance, in just a few short days after announcing new "reciprocal" tariffs, Trump unexpectedly paused their implementation for three months—excluding tariffs targeting China. This reversal came despite his earlier insistence that the tariffs were here to stay. Equity markets responded swiftly. On April 9th, the S&P 500 surged 9.5% in a single day, highlighting how quickly sentiment can shift. This abrupt change underscores the challenge of investing in a volatile, uncertain environment and the importance of maintaining a long-term perspective. While it is frustrating to watch portfolio values decline, it's critical not to overreact to daily market volatility. Trying to time the market is extremely difficult, especially in an era when a single social media post from the President can materially swing investor sentiment. Investors who are tempted to avoid downturns by shifting to cash may risk missing out on some of the market's biggest gains while waiting on the sidelines. Historically, markets tend to rebound quickly during periods of extreme volatility, and missing just a few strong days can significantly impact

Impact of Time Out of the Market



Source: JP Morgan Asset Management. The dollar amount shows the performance of a $10,000 investment between Jan. 1, 2004 and Dec. 29, 2023. See Disclosures for additional information.

> “Despite concerns about the potential risks of a recession, the U.S. economy entered 2025 on strong footing, with U.S. GDP growing by 2.8% in 2024, driven largely by a robust labor market."

long-term returns. A recent J.P. Morgan study illustrates this point clearly. Between January 1, 2004, and December 29, 2023, six of the seven best days in the market occurred shortly after the worst days. In fact, seven of the top ten days happened within two weeks of the ten worst days during that 20-year span. So, what happens if you're out of the market during those key days? The impact can be substantial. If you had remained fully invested in an S&P 500 index fund over that period, your average annual return would have been 9.7%. However, missing just the 10 best days would have cut that return nearly in half—to 5.7%. Missing the top 20 days would have reduced it even further by more than 70% (see chart on previous page). These findings reinforce a crucial lesson: missing even a few of the market's strongest days can lead to significant underperformance. While it's true that being out of the market can mean avoiding some of the worst days, history shows that the best and worst often occur close together. To benefit from the upside, investors must be willing to endure the downside. In short, adhering to a long-term investment strategy and staying the course, despite the unpredictability of political and geopolitical situations, has historically been the most reliable way to achieve financial goals. Though it may seem prudent to wait out market downturns from the sidelines, doing so could mean missing the key days that drive long-term performance.

Looking ahead, there is still significant uncertainty surrounding the potential impact of tariffs on overall economic activity. Despite President Trump delaying the “reciprocal” tariffs for 90 days, the U.S. is still going ahead with its 10% universal tariff on most goods. It is difficult to accurately assess how businesses, consumers, and global supply chains will respond or what the long-term implications may be for economic growth, inflation, and corporate profitability. Many economists at major Wall Street firms have grown increasingly concerned about the long-term effects of a potential ongoing trade war. They warn that if tensions continue to escalate, it could significantly dampen consumer and business confidence, disrupt global supply chains, and ultimately weigh on U.S. economic growth.

Some analysts have suggested that prolonged trade disputes could increase the risk of the U.S. economy slipping into a recession if these tensions are not resolved in a timely manner. Despite concerns about the potential risks of a recession, the U.S. economy entered 2025 on strong footing, with U.S. GDP growing by 2.8% in 2024, driven largely by a robust labor market. This trend continued through the first three months of the year as the March employment report marked another solid month of job gains and a continuation of a historic streak for the labor market. The U.S. has now added jobs for 51 months in a row, marking the second-longest expansion on record. In addition, the unemployment rate remains near historical lows at 4.2%. While there are expectations for growth to moderate in the coming quarters, largely due to the ongoing impact of tariffs and trade uncertainty, we believe the odds of a recession occurring near-term remain low—as long as job growth stays strong. As such, we will continue to monitor future employment data as it is released for any signs of deterioration. That being said, the first quarter of 2025 could potentially see a negative GDP reading, primarily due to elevated levels of imports, as businesses and consumers rushed to bring in goods ahead of anticipated tariff increases (please note that imports are a detractor to the calculation of GDP). This front-loading of imports may temporarily distort economic activity in the short term, but it may not necessarily signal a deeper downturn. Additionally, inflationary pressures have been easing in recent months, although inflation is still not at levels that would fully satisfy the Federal Reserve's (the “Fed”) targets. While tariffs do add an inflationary burden, they are a one-time shock to the system rather than a persistent driver of ongoing price increases. As a result, inflationary pressures are expected to moderate once the initial impacts of tariffs fade. Given the current economic backdrop, we believe the Fed will likely remain data-dependent, watching for signs that inflation is more sustainably under control and that the labor market remains strong enough to avoid a downturn before deciding on the future path of interest rates.

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As long-term, fundamental investors, we continue to believe that interest rates and corporate earnings are the most important drivers of equity prices. While we believe that inflationary pressures from tariffs will largely be one-time in nature, we would caution that elevated inflation readings could unsettle some investors. In such a scenario, the likelihood of rising interest rates increases, which in turn could weigh on equity valuations. With the first-quarter 2025 earnings season set to begin in mid-April, this reporting cycle will be critical in providing early insight into how U.S. companies are navigating a complex and uncertain policy environment. Investors will be examining management commentary for indications of how recently announced tariffs and broader trade policy uncertainty are affecting operations, profitability, and forward-looking plans. In particular, they will be watching for signs that companies are scaling back capital expenditures or delaying hiring decisions due to the shifting policy landscape. It is also likely that some companies will choose to withdraw or revise their earnings guidance altogether—further contributing to market volatility. While equity valuations currently appear relatively attractive, given the recent market pullback, the outlook for corporate earnings appears to be less certain. There is a growing risk that earnings expectations for the second half of 2025, and potentially into 2026, could be revised lower, reflecting the impact of slower economic growth, persistent cost pressures, and ongoing geopolitical tensions. Against this backdrop, we believe it is best to maintain exposure to companies that are market share leaders with strong, sustainable competitive advantages. These firms typically possess pricing power, which can help insulate themselves from the adverse effects of tariffs. In addition, these companies operate with low levels of leverage and generate above-average free cash flow, providing the flexibility to pursue accretive acquisitions or return capital to shareholders through share repurchases and dividends.

It is important to recognize that tariffs represent only the initial phase of President Trump's broader, more comprehensive strategy to reshape the U.S. economy. While the early focus has been on trade policy, the administration's agenda also includes potentially more market-friendly components that have yet to be fully enacted. These include further deregulation across key industries and additional tax reform measures aimed at enhancing U.S. competitiveness. If implemented, such pro-growth policies could serve as a counterbalance to the near-term headwinds created by trade tensions. Deregulation, for example, could reduce the compliance burden on businesses, thereby lowering operating costs and encouraging investment. Similarly, targeted tax cuts could boost corporate profitability and consumer spending and support broader economic growth.

EUROPEAN EQUITIES OUTPERFORM AMID FISCAL SHIFT—BUT CAN IT LAST?

European equities delivered strong outperformance in the first quarter, buoyed by growing investor optimism as Germany and several other EU member states signaled a readiness to expand deficit spending in order to bolster military capabilities. This renewed fiscal flexibility represents a notable policy shift, raising the question of whether such momentum can be sustained over the longer term. This development is a direct consequence of escalating geopolitical tensions involving the United States, Ukraine, and Russia. Europe is beginning to reassess its strategic and economic position in a world where the long-standing

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security guarantees, relied upon since the end of World War II, seem less assured than in the past. In response, European policymakers seem to be undergoing a generational re-evaluation of long-standing fiscal constraints, especially those tied to defense spending. This pivot has fueled hopes for a broader reindustrialization of Europe, driving equities higher on expectations of increased government investment and industrial revitalization. While these developments surprised many market participants, questions remain regarding the durability of this rally. Despite the emergence of a more supportive fiscal stance, the Eurozone continues to face deep-rooted structural challenges. Demographic headwinds, fragmented coalition politics, and a dearth of high-growth sectors have long impeded the region's economic dynamism. The lack of reliable and affordable energy sources also acts as a major obstacle. For decades, European industries benefited from relatively cheap oil and natural gas imports, particularly from Russia, allowing them to keep production costs down and remain globally competitive. However, the geopolitical fallout from Russia's invasion of Ukraine disrupted this dynamic as Europe moved to eliminate its dependence on Russian energy. This shift has led to higher energy costs and supply uncertainty, which could undermine Europe's ability to attract investment and rebuild its industrial base. Additionally, Europe's traditionally socialist-leaning policy frameworks tend to limit capital availability, while regulatory burdens often constrain innovation. The recent inclination toward protectionism and the imposition of tariffs further complicates the growth outlook. In this context, while European equities may continue to outperform U.S. counterparts in the short term, partly due to valuation gaps and cyclical tailwinds, we remain skeptical about the sustainability of this outperformance. Structural limitations remain deeply embedded, and without meaningful reform, it is difficult to envision a scenario in which Europe consistently delivers superior returns relative to its global peers.

MAXIMIZING YOUR CASH RETURNS: HOW WE'RE RESPONDING TO FIDELITY'S CASH POLICY CHANGE

We would like to update you on an important development affecting clients with non-retirement brokerage accounts held at Fidelity Investments. In December 2024, you may have received a notice from Fidelity informing you of a change to your account's default core cash position that went into effect in March. Previously, most accounts used the Fidelity Government Cash Reserves money market fund (symbol: FDRXX) as the default cash vehicle. However, Fidelity has now replaced FDRXX with its proprietary Fidelity Cash money market fund (symbol: FCASH) as the default option. We were disappointed to learn of this policy change. As of April 10th, FDRXX is yielding 4.05%, while FCASH is yielding 2.21%—a 1.84% difference in favor of FDRXX. By automatically moving client cash into the lower-yielding FCASH fund, Fidelity is retaining a larger share of the yield for itself at the direct expense of your potential return. We've expressed our concerns about this change to our relationship team at Fidelity and want to assure you that we're taking proactive steps to protect your interests. While you can still hold FDRXX in your brokerage account, you now need to place a separate trade to invest in it, as it is no longer the default. To help you continue earning a more competitive return on your uninvested cash, we've implemented a process to automatically move cash from FCASH into FDRXX on a weekly basis. If you have cash in your brokerage account, you'll begin receiving trade confirmations from Fidelity reflecting purchases of FDRXX as part of this ongoing effort. This is just one example of how we continue to monitor your accounts and advocate on your behalf. Please don't hesitate to reach out if you have any questions or would like to discuss this in more detail.

"As of April 10th, FDRXX is yielding 4.05%, while FCASH is yielding 2.21%—a 1.84% difference in favor of FDRXX."

IN CLOSING

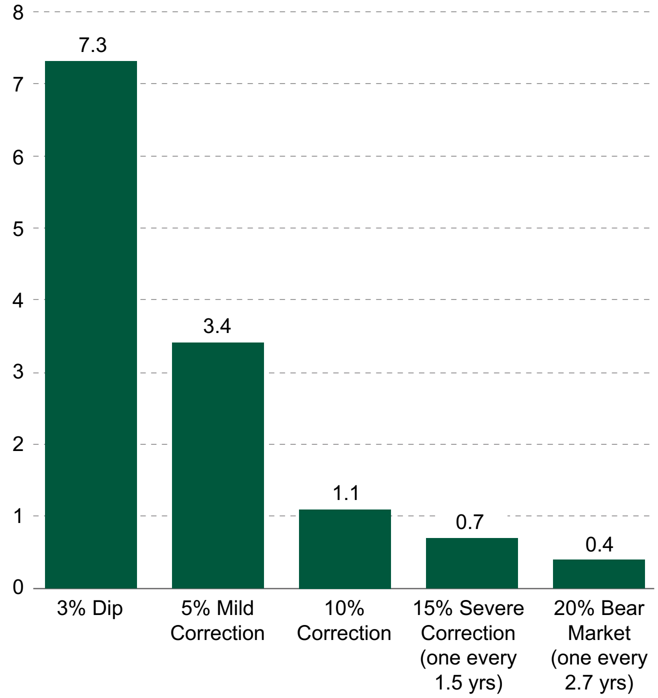
Given the number of unknowns and the rapid pace at which developments are unfolding, we anticipate that market volatility will remain elevated in the near term. Investors are likely to continue reacting strongly to headlines, policy announcements, and shifts in sentiment until there is more concrete visibility into the ultimate outcome of these trade tensions. It's the unpredictability, not necessarily the policy, that tends to disrupt sentiment and drive instability.

Market volatility and periodic declines can understandably feel unsettling to investors, but it's important to remember that they are a normal part of investing. During the trading day on April 8th, the S&P 500 experienced a peak-to-trough decline of approximately 20% from its recent high on February 19th. Although the market rebounded somewhat by the end of that day, the drop still qualifies as a move into bear market territory, which is typically defined as a decline of 20% or more from a recent peak. While this may feel significant, the chart to the right, courtesy of Ned Davis Research, offers helpful context by illustrating the historical frequency of various levels of market pullbacks. According to their data, bear markets in the S&P 500 have occurred, on average, once every 2.7 years. With the last bear market ending in October 2022, the current market behavior, by historical standards, is right on schedule. For investors seeking the long-term growth potential that equities have historically delivered, enduring some level of market volatility is not just inevitable, but necessary. Temporary drawdowns, while uncomfortable, are often the price paid for longer-term gains. During times like this, it can be easy to forget that the S&P 500 delivered an impressive total return of 26.3% in 2023, followed by a gain of 24.9% in 2024. Even after the recent pullback, the index has still posted a cumulative return of 41.9% from the beginning of 2023 through April 10th, 2025. That equates to a 16.6% annualized return—well above historical averages. This underscores the importance of maintaining a long-term perspective and staying invested, even in the face of short-term turbulence.

We sincerely thank you for your ongoing confidence and trust in us. If you have any questions or would like to discuss your portfolio allocation, please don't hesitate to reach out to your relationship manager. We're here to support you in making informed decisions that best serve your interests.

Volatility Is the Toll We Pay To Invest

S&P 500 Market Corrections (Number of Times Per Year)



Source: Ned Davis Research

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The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East), excluding the US & Canada. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. With 913 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Indices are not managed and do not incur fees or expenses. Performance numbers for the index are total return with dividends reinvested in the index.

The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries*. With 838 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Performance numbers for the index are total return with dividends reinvested in the index.

The Bloomberg Barclays US Aggregate Bond Index provides a measure of the total return performance of the U.S. dollar denominated investment grade bond market, which includes investment grade government bonds, investment grade corporate bonds, mortgage pass through securities, commercial mortgage backed securities and asset backed securities that are publicly for sale in the United States.

Please contact us for more information on how we can assist you with your financial needs.

Disclosures:

Past performance is no guarantee of future results. An investment cannot be made directly in an index. Investment return and principal value will fluctuate; you may have a gain or loss when positions are sold.

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Additional notes to the chart labeled Impact Of Time Out Of The Market: The dollar amount shows the performance of a $10,000 investment between Jan. 1, 2004 and Dec. 29, 2023. Returns are based on the S&P 500 Total Return Index. Indices do not include fees or operating expenses and are not available for investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. Calculations are gross of fees but include reinvested dividends. Hypothetical performance do not reflect actual trading, liquidity constraints, fees and other costs and may not account for the impact of certain market factors such as lack of liquidity. Simulated trading programs are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future results.