TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

April 2025

Quarterly Insights

EXECUTIVE SUMMARY

Foreign Stocks Out-Perform And Bonds Up In Q1

In the First Quarter, the domestic S&P 500 Index was down 4.27% and lagged all major regions. All developed foreign regions were positive. Europe was up 12.17% and China was up 15.02% in Q1. While it appears these areas benefitted short-term from tariff fears, we also believe that foreign exposure has become more attractive in the long term. Consumer Discretionary (-13.96%) and Technology (-12.80%) were the lagging sectors. In its March 19 meeting, the Fed announced no rate cut and indicated a future possible two 0.25% rate cuts. In Q1, the Bloomberg US Aggregate Bond Total Return USD Index (AGG) rose 2.78%.

The Trade Wars: Should You Be Tariffied?

Much of the financial news in the First Quarter centered on the potential actions of the new Administration regarding tariffs. History shows that large tariffs are destructive. The U.S. stock market reacted negatively to the tariff threats. Should you be tariffied?

We know the recent market turbulence due to tariffs is upsetting - but do not panic. Market corrections are historically normal. It is time in the market that is important, not timing the market. We continue to assess our positions and make portfolio adjustments accordingly. One adjustment we have already started is increasing foreign exposure. The main reasons are:

1. U.S. companies are uncertain about the economy
2. U.S. consumers are uncertain about the economy
3. Europe is increasing its spending

First Quarter 2025

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Tariff Threats Were The Headline News In Q1

Much of the financial news in the First Quarter centered on the potential actions of the new Administration regarding tariffs. President Donald Trump threatened several large tariffs in the range of 25%-200%, significantly impacting U.S. trade relations with key trading partners. Affected industries included automotive, steel and metal, agriculture, electricity, consumer goods, alcohol, and electricity. Key trading partners included China, Canada, Mexico, and Europe. The threats, retaliations and implementations have created uncertainty in the global market, affecting various industries and potentially reshaping trade relationships between the U.S. and its partners. Navigating macro-level uncertainty can make it difficult for companies to invest in strategic growth. Hence the Q1 U.S. market fluctuated in mostly a negative manner.

What Is A Tariff?

Current Misconceptions About Tariffs

MYTH	TRUTH
1. Tariffs are paid by the exporting country.	Tariffs are paid by importers and ultimately by U.S. consumers.
2. Tariffs protect U.S. manufacturing jobs.	Tariffs can hurt jobs. Economic studies indicate no job gains in sectors receiving protection, while sectors targeted for retaliation lost jobs due to decreased exports.
3. Tariffs boost U.S. exports.	Tariffs harm U.S. exports. Many U.S. manufacturers need imported components, and industries facing higher input costs or foreign retaliation experience job losses and lower export growth.
4. Tariffs don't increase U.S. prices.	Tariffs increase U.S. prices by forcing importing firms to pay tariffs or switch to more expensive U.S.-made goods.
5. Tariffs can reduce the trade deficit.	Tariffs don't generally affect the overall U.S. trade balance.
6. Tariffs boost the U.S. economy.	Tariffs generally reduce national and global economic output.

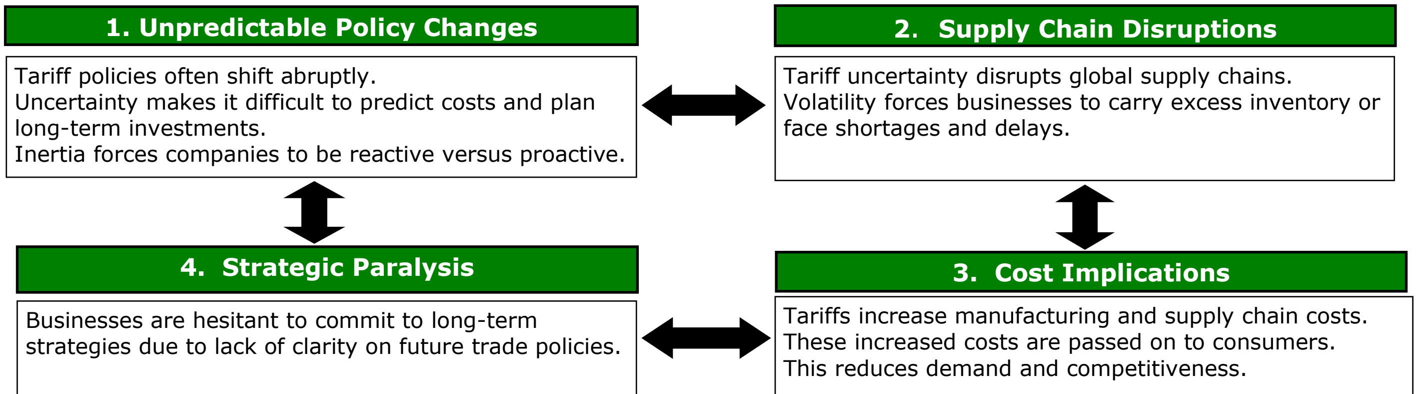
The Case For Comparative Advantage: Everyone Should Do What They Do Best

History shows that large tariffs are destructive. All trading partners win when they do what they do best (comparative advantage) and trade with their other partners. To illustrate, Iowa is best at producing corn and Maine is best at catching lobsters. They should trade with each other. It would be inefficient for Iowa to try and build a lobster industry. It would be equally inefficient for Maine to try and build a corn industry.

Why We Are Increasing Our Foreign Stock Exposure

1. U.S. Companies Are Uncertain About The Economy

U.S. companies struggle to plan strategies amidst tariff uncertainty due to several interconnected challenges.



2. U.S. Consumers Are Uncertain About The Economy

The Expectations Index (March 25) shows U.S. consumers are increasingly nervous with tariffs, inflation, and proposed spending cuts. This signals a potentially weaker economy - consumer spending is 70% of U.S. GDP.

3. Europe Is Increasing Its Spending

The European Union's (EU) budget deficit rules require member states to keep their deficits below 3% of GDP and public debt below 60% of GDP. Times are changing. In response to increased defense spending needs primarily due to the war in Ukraine and NATO commitments, the EU is considering adjustments including:

1. **Relaxing Budget Rules for Defense** - the European Commission has proposed expanding what qualifies as defense investment, potentially excluding certain military expenditures from deficit calculations
2. **Escape Clause** - A temporary clause could allow countries to exceed the 3% deficit limit for defense spending without triggering penalties - this might allow an additional $700 billion additional spending
3. **Cohesion Funds and Joint Borrowing** - the EU may create a further $150 billion fund for military needs

Increased defense and infrastructure spending should stimulate the European economy and benefit its stocks.

It Has Been A Very Long Time Since We Have Increased Our Foreign Exposure

More often than not, the consensus is wrong when it comes to investing. Investors are usually late to the party. Perhaps Warren Buffett has said it best: "Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well."

Back in 2011, we made a conscious decision to prioritize U.S. large cap stock exposure. At the time, we were going against the market consensus. U.S. blue chip stocks were being left for dead. Why? The perception was that the US could not compete with China, India or Brazil. Emerging markets had out-performed over the last 10 years. Instead, we believed that U.S. blue chip stocks were unloved and trading at outstanding valuations. They had the healthiest balance sheets and were paying strong dividends, yet were trading at a 40% discount to small cap companies. These were our thoughts:

US Blue Chip Stocks: Unloved And Attractive (July 2011 Quarterly Insights, page 2)

Skyrocketing oil prices, higher emerging markets demand for oil, and a weak US Dollar stemming from the Fed's quantitative easing, has resulted in oil companies making more money than any industry in history. Gold has broken through the $1500 an ounce range. Emerging markets regions such as China and India boast higher GDP growth and are up 200% in market value over the past decade. In a delayed response, investors are hitching up to oil, materials, and emerging markets. Will they be late to the party? We think so. Investors should look elsewhere. We think the time is right for US blue chip stocks.

We followed our thesis back in 2011 and emphasized large cap U.S. stocks. The out-performance of the S&P 500 Index over a soon-to-follow 12 year period (2012-2024) was stunning, as was the high double-digit S&P 500 Index out-performance in 2024.

Compound Annual Growth Rates (%)			
Time Frame	**S&P 500**	**MSCI EAFE**	**MSCI EM**
2002 to 2010	11.29%	8.98%	16.41%
2012 to 2024	12.39%	7.70%	3.70%
2024	25.02%	3.82%	7.50%

We believe we are now facing a similar crossroads that we faced in 2011. Are foreign stocks unloved and attractive? This may be the case. In terms of valuation, the PE (price/earnings) ratio of the S&P 500 Index is roughly 20 and the PE ratio of the MSCI Europe Index is roughly 14.

CONCLUDING THOUGHTS - The Trade Wars: Should You Be Tariffied?

We know the recent market turbulence due to tariffs is upsetting, but do not panic. Market corrections are historically normal. We continue to assess our positions and make portfolio adjustments accordingly (such as increasing foreign exposure). Patience is key. It is time in the market that is important, not timing the market.

The market's tariff concerns have many layers. There's the question of which companies will be impacted by tariffs. There's the question of which companies will be impacted by counter-tariffs. And then there are further questions on how any potential price increases in some industries could also raise prices for other products. President Trump announced his tariff plans on April 2. Please see Outside The Box, page 8.

Foreign Stocks Out-Perform In Q1

In the First Quarter, the domestic S&P 500 Index was down 4.27% and lagged all major regions. All developed foreign regions were positive. Europe was up 12.17% and China was up 15.02% in Q1. While it appears these areas benefitted short-term from tariff fears, we also believe that foreign exposure has become more attractive in the long-term, and have consequently started to increase our foreign exposure.

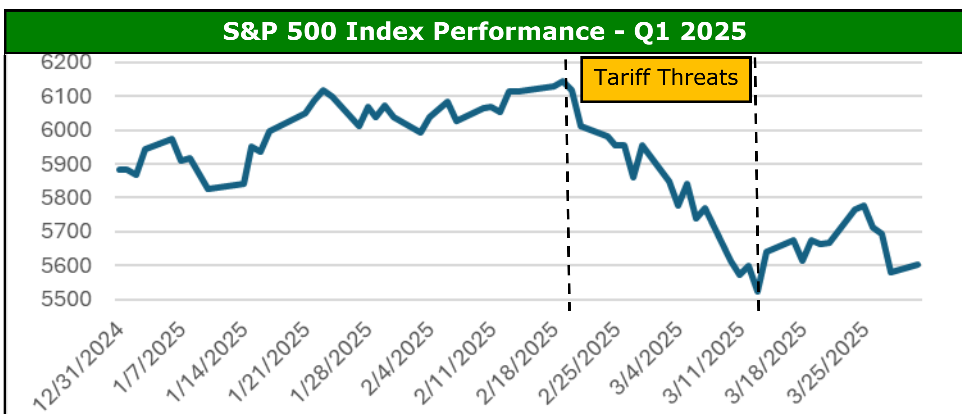
Equity Index Performance

Index	Q1 2025	2024
S&P 500 (Domestic)	**(4.27%)**	**25.02%**
MSCI EAFE (Foreign) *	**6.86%**	**3.82%**
MSCI Emerging Markets	**2.93%**	**7.50%**
MSCI EMU (European Monetary Union)	**12.17%**	**2.64%**
MSCI Japan	**0.34%**	**8.31%**

* Europe, Australia and the Far East

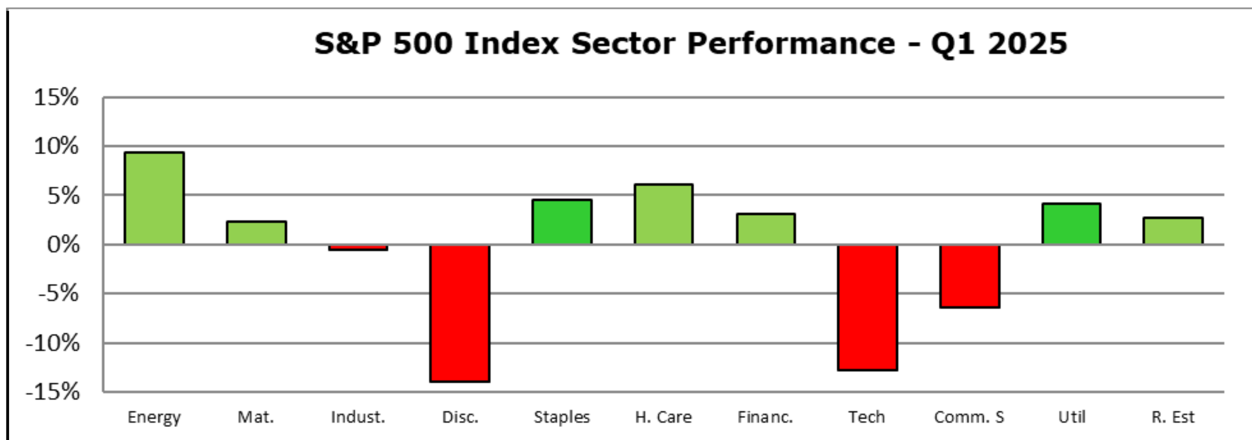
The S&P 500 Index Was A Wild Ride In Q1

Q1 started out well. The S&P 500 Index was up 4.47% through February 19. Then the tariff threats dominated the news. On March 13, the S&P Index had fallen 10.14% from its peak on February 19. During this rapid U.S. correction, investors moved to foreign stocks and U.S. Treasurys, and the U.S. Dollar fell 3.96% to the Euro.



Consumer Discretionary and Technology Were The Lagging Sectors In Q1

Given the tariff-related economic uncertainty tied to both U.S. companies and U.S. consumers, it was not surprising that the lagging Q1 sectors were Consumer Discretionary (-13.96%) and Technology (-12.80%).



Bonds Rise In Q1

The Bloomberg US Aggregate Bond Total Return USD Index (AGG), a broad-based representation of bond performance, rose 2.78% in the First Quarter. In 2024, the index was up 1.25%. The Fed's preferred inflation gauge, the core Personal Consumption Expenditures Index, rose 2.5% in February. In its March 19 meeting, the Fed announced no rate cut and indicated a future possible two 0.25% rate cuts.

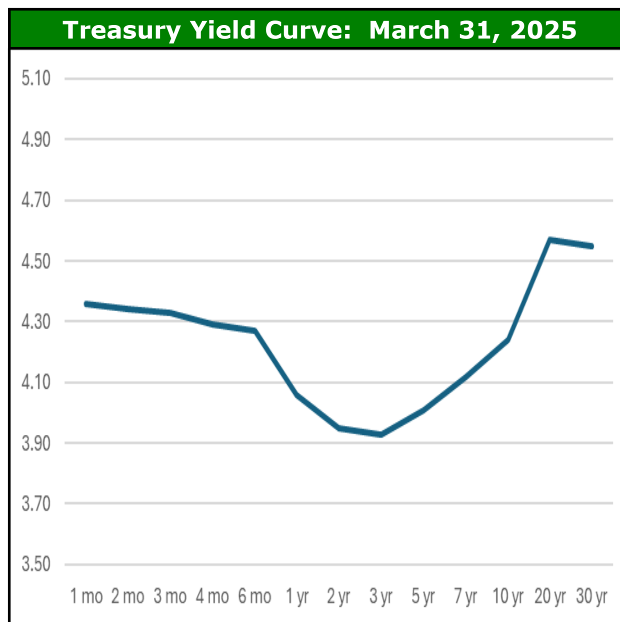
Key US Interest Rates	March 31, 2025	Dec. 31, 2024	Change
Federal Reserve Board Funds Target Rate	4.25% - 4.50%	4.25% - 4.50%	No Change
2-Year Treasury (Constant Maturity)	3.89%	4.25%	- 36 basis points
5-Year Treasury (Constant Maturity)	3.96%	4.38%	- 42 basis points
10-Year Treasury (Constant Maturity)	4.23%	4.58%	- 35 basis points

Why Bonds Rose In Q1

Remember the inverse relationship between bond prices and bond yields. As prices rise, yields fall (and vice versa). In Q1, bond prices rose and Treasury yields fell.

Amidst Q1 tariff anxiety, declining consumer confidence, and mostly negative U.S. stock momentum, bonds were viewed as a flight to safety. Investors shifted some funds from stocks to bonds, and also moved cash to higher-yielding bonds with the prospect of future Fed rate cuts. Both of these actions propped up bond prices.

As yields fell in Q1, the Treasury Yield Curve shifted downward. The other interesting phenomenon was that the yield curve became more inverted (less "normalized"). This reflected heightened recession concerns as investors expected lower interest rates in the future in the event of an economic downturn.



Bonds Buffered Stocks In Q1

Bonds performed very well in Q1, both appreciating in price and paying interest. For portfolios with a mixed target asset allocation, bonds provided a nice buffer to a U.S. stock market that was challenged by potential tariffs. Q1 illustrated the importance of portfolio risk control via a component of bond exposure.

Now Is A Great Time For Financial Planning

Now that the tax season is over, it is a great time to shift attention to financial planning. Technology has advanced to enable greater mutual collaboration to test multiple scenarios and evaluate the tradeoffs to achieving your ideal retirement. We provide this advanced technology (MoneyGuidePro) to our clients. The assessment is complimentary because we deem it so important.

The "Top 2" concerns in retirement are running out of money and suffering investment losses.

1. Running Out of Money

A successful retirement can be defined as "not running out of money". We want your probability of success (stated as a percentage) to be in a very high "safe zone". Advanced technology will calculate this number.

2. Suffering Investment Losses

When calculating your probability of success, there are assumptions used regarding long-term rates of return for stocks and bonds. We want to run these assumptions under a variety of market scenarios (good and bad). Advanced technology enables Monte Carlo simulations - running your retirement scenario 1000 times under various market conditions and concluding your overall average probability of success.

We target a "probability of success" that is 80% or greater. This is a calculation that should be done on a regular (annual) basis because conditions change. If the "probability of success" calculation is below 80%, the collaborative effort is to see how to get the calculation to 80% or better.

Adjustments To Improve Your Probability Of Success (In Order Of Impact)	
FACTORS IN YOUR CONTROL:	1. Spending 2. Asset Allocation 3. When To Take Social Security 4. Other Considerations
FACTORS OUT OF YOUR CONTROL:	Health Issues Cost of Health Care / Long Term Care (LTC) Market Returns (why we run Monte Carlo Simulations)

Open Invitation

For many clients, we have initiated MoneyGuidePro and we should update the assessment. For other clients, we need to initiate MoneyGuidePro. Contact us anytime.

On April 2, President Donald Trump announced a comprehensive tariff policy during an event he called "Liberation Day". A baseline 10% tariff will be imposed on all U.S. trading partners (Mexico and Canada are exempt, as they already had a 25% tariff applied). Reciprocal tariffs were also announced. A reciprocal tariff is an additional tariff above the baseline where the U.S. imposes a level of tariffs on imports from another country because that country imposes tariffs on the U.S. for the U.S. exports to that country. Why do this? It is an attempt to reduce the U.S. trade deficit with countries having the largest trade imbalances with the U.S. High reciprocal tariffs announced include:

European Union: 20%
China: 34%
Japan: 24%
India: 26%

Over the last several decades, world economic growth was achieved through heightened global trade. Now we may be going in the opposite direction. With less globalization, foreign diversification is more valuable to the portfolio. In the near-term, we see potential continued market volatility as the tariff conditions may be in a state of flux. Amidst this volatility, we will seek opportunities to buy excellent foreign companies.

There is no cause for abrupt actions. We have faith in the market because we believe in capitalism: over the last century, companies have consistently adapted to new market conditions in a manner that has maximized profits. And we expect this trend to continue over the next century. Have faith in the market - we do.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.