



# ALTAIR INSIGHT

Quarterly Market Review

## Reign of Tariffs April 2025



First Quarter 2025  
Key Topics

Cliffs of Moher, County Clare, Ireland  
Colleen Norton, Director of Firm Relations

1. Trump's tariff faceoff with China, not the world, is the most dangerous threat to the global economy.

2. The U.S. economy was already slowing but the tariffs may push it into recession.

3. Markets have been whipsawed by Trump tariff chaos; diversification has helped portfolios.

4. The Fed is standing by but is not likely to bail out markets any time soon.

5. Tax cuts are still likely, but an important battle in Congress will determine their extent along with spending cuts.



President Trump launched a trade war in April with steep new import tariffs that affect dozens of countries but single out China as the primary target. Trump has called China's President Xi Jinping "a pretty good poker player." The two are locked in a high-stakes showdown.

*"There could be some disturbance, a little bit of disturbance."* – **President Donald Trump** (March 7th)

It was Franklin D. Roosevelt who first emphasized and even coined the term for a president's "first 100 days" after generating a blizzard of emergency laws that became the backbone of the New Deal. But in 2025, Donald J. Trump has overhauled, redefined and jackhammered his way through all prior conceptions of what a president can do in 100 days – for better or worse, depending on one's political beliefs. And that was the case long before we reach the 100<sup>th</sup> day of his second term in office on April 30<sup>th</sup>.

Given the maelstrom of daily events and presidential posts on Truth Social, this quarterly market commentary risks being outdated by the time the "digital ink" dries. We will therefore keep our primary focus on the big picture for investors while also looking back at a first quarter that, while rocky, seems relatively serene in retrospect.

President Trump's first 100 days have little historical parallel and may exceed even FDR's in the volume and magnitude of actions taken.

Even he admits it will take considerable time to determine whether he succeeds in his goal of generating more growth and a global trading system that eliminates what he believes is an unfair tilt against the United States. The immediate impact has led to global economic uncertainty and cast an enormous cloud over the future. The president is gambling that the U.S. can win a trade war with multiple countries and overhaul the global trade structure without causing lasting damage.

The outcome remains to be seen. We said in our January quarterly commentary that the president keeps a close eye on the stock market and that he would likely adapt and adjust policy with the market in mind between now and 2026 midterm elections, which could strengthen or weaken his support. That remains our belief, and it was reaffirmed by his suspension of extreme tariffs this month soon after markets recoiled – the bond markets in particular, as he acknowledged. But he has proven willing to withstand more stock-market turmoil than we expected. Financial markets have been shaken and could face further decline if consumers pull back amid higher import prices from tariffs and companies suspend or shrink their investment plans.



Chances of a recession, very low at the start of 2025, have increased to the point where one may already have begun. The depth and duration of any recession likely will depend on negotiations between the U.S. and its trading partners, especially China, to ease the trade war from the all-out level it rose to in early April. We believe a recession is far more likely to be mild than severe, for reasons we discuss further on.

The start to 2025 has unquestionably been rough for investors. Portfolio diversification has at least helped mitigate the downside somewhat while also providing hope of riding out the volatility as evenly as possible. While growth stocks and the Magnificent Seven that had carried the bull market for two years have slumped, value and international stocks flourished in the first quarter and bonds were positive. As of this writing, the S&P 500 has fallen 13% below its February 19<sup>th</sup> all-time high. A continuing decline could present an excellent long-term buying opportunity and we are poised to buy more higher-risk assets, as discussed further below.

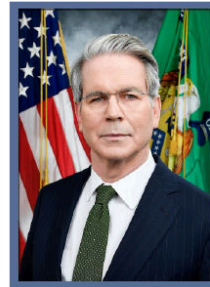
Adding to investors' fears this month was a sudden sell-off in bonds during the tariff chaos, raising questions about why bonds momentarily did not play their usual safe-haven role in a crisis. In turn, yields rose as a result of falling bond prices. The reasons remain less than fully clear at this writing. It appears to us that the panic was overdone, however, as intermediate and long-term yields have abated since their historic three-day spike. We maintain our belief in bonds as a buffer for portfolios.

Please read on for further discussion of the events of a tumultuous year to date.

### 1. Trump's tariff faceoff with China, not the world, is the most dangerous threat to the global economy.

President Trump's fusillade of tariffs against every U.S. trading partner on April 2<sup>nd</sup>, his self-proclaimed "Liberation Day," stunned the markets and the world. The shock was not because of the tariffs themselves – their arrival was well-telegraphed – it was the above-expected levels that sent markets reeling. Even after the swift suspension of most of the new tariffs for 90 days,

the remaining flat 10% tariff cast the United States as the boogeyman whose severe levies stand to send the global economy into retreat. We have no doubt that the tariffs will be a major headwind for the world economy if left unchecked. However, we believe that negotiations will ultimately lower the tariffs on dozens of countries and lessen the risk of a crippling global contraction.

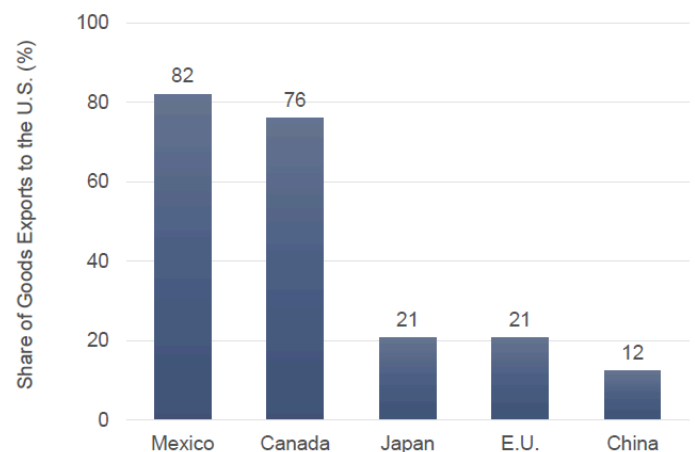


"Come to us with your offers on how you're going to drop tariffs, ...and at a point, President Trump will be ready to negotiate."

- **Scott Bessent**, U.S. Treasury Secretary

In the end, we believe this showdown will be less about the U.S. vs. the world than it is about the U.S. vs. China. In a 21<sup>st</sup>-century equivalent of a Cold War arms race, both countries have imposed more than 100% tariffs on each other. Those aggressive stances will make compromise difficult for both Presidents Trump and Xi Jinping. It is difficult to see a satisfactory middle ground in this battle at this early stage. But the fact that neither would benefit from an economic meltdown should eventually guide them to some kind of resolution that mitigates the tumult. The larger question is which country will flinch first.

U.S. Market Fuels Goods Exports  
2024





The uncertainty in the meantime has fueled a slowdown that will leave no country untouched by the tariff turmoil, particularly given the reliance of many trading partners on the U.S. market. Despite being reeled back, the tariffs will drive up prices on many products, hurt business profits and hit consumers' pocketbooks worldwide. The effective tariff rate for the world's largest economy is pegged at 28%, the highest level since 1909, by the Budget Lab at Yale, a nonpartisan research center that analyzes federal policy proposals. Other countries' tariffs, too, have risen in retaliation.

The economic effects have yet to hit. But companies, economists and consumers all are bracing for a big jolt. The tariffs are certain to hit global growth, push up prices and potentially play havoc with financial markets, according to the head of the International Monetary Fund, Kristalina Georgieva, who called global trade policy uncertainty "literally off the charts." In a sobering April update to its World Economic Outlook, the IMF said tariff developments are unfolding so rapidly and unpredictably that forecasts are difficult to make but it expects to see a significantly negative impact on global economic activity. The IMF's U.S. growth forecast for 2025 was downgraded by nearly a full percentage point to 1.8% from 2.7%, pending data that is likely to alter its outlook further, and the global growth estimate was trimmed by half a point to 2.8%. It said that "intensifying downside risks dominate the outlook" for the global economy, citing the threats of dimming growth prospects, broader financial instability and even social unrest.

The full extent of the Trump administration's goals in this trade war remains somewhat unclear. Some in the administration believe tariffs represent a permanent way to raise revenue. The White House says tariffs are part of a plan to address the persistent U.S. trade deficits that have weakened domestic manufacturing, stagnating production and falling manufacturing share of employment. Many economists and investors suspect that the tariffs are just the opening volley in a strategy to put unrelenting economic pressure on the rest of the world in order to weaken the dollar.

A weaker dollar will help boost exports, lower the U.S.'s massive trade deficit and encourage the return of manufacturing jobs in America. That is the gist of a blueprint written by Stephen Miran, chair of the White House Council of Economic Advisers. The "User's Guide to Restructuring the Global Trading System," also known as the Mar-a-Lago Accord, aims to revise post-WWII global trade rules. The White House does not confirm or deny reports that the 41-page plan is driving current strategy. Notably, however, as of this writing the dollar has fallen more than 4% against a basket of other leading currencies in April and 9% since Trump took office.

What is abundantly clear, however, is that China is increasingly the main target of Trump's trade offensive. The trend has its roots in Trump's first term, when he raised tariffs on many goods from China by comparatively modest amounts. But the approach in Trump 2.0 is vastly more aggressive.

The accelerated trade war took on an ominous tone this month. China lashed back after Trump jacked up the tariff on its products far beyond those of any other country, Trump responded by hiking it to 154%, and Beijing labeled that "a joke" and settled for a 125% tariff on U.S. imports. Unless or until lowered substantially, those tit-for-tat extreme tariffs will create havoc in the relationship between the world's two largest economies, as well as for consumers. China accounted for about 13% of all U.S. goods last year, from smartphones to toys and industrial parts. Many U.S. businesses and consumers alike depend on items produced in China. And for China, losing its foothold in the world's biggest consumer market will be a major jolt to its economy.

There is no shortage of viewpoints - pro and con - regarding President Trump's tariffs, but there mostly seems to be agreement on one front: It is a risky gamble. Trump is gambling that he can win a high-stakes showdown against Xi, whom he has called "a good poker player." Treasury Secretary Scott Bessent thinks the cards are stacked against China.



Borrowing the lingo from Texas Hold ‘Em, Bessent said recently: “I think it was a big mistake, this Chinese escalation, because they’re playing with a pair of twos.” We do not know who will “win.” For investors’ sake, we just hope this is not a long-term clash since the longer the duration, the harder it will be to revive the global economy.

The global turbulence from tariffs is unlikely to end soon. We are convinced that Trump plans to keep a universal minimum tariff in place long-term. But the good news is that we have likely seen peak tariffs and the man long associated with “The Art of the Deal” clearly still loves to cut deals. We expect he will make more of them that help mitigate current fears in the not-distant future – while, yes, still keeping a close eye on the markets.

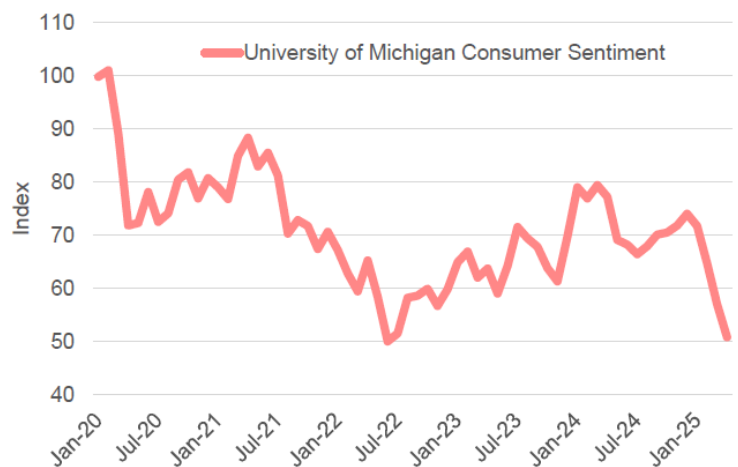
## 2. The U.S. economy was already slowing but the tariffs may push it into recession.

A figurative snapshot of the U.S. economy at the beginning of April would have shown the equivalent of a sturdy skyscraper with a few cracks starting to appear. Households had burned through their excess savings from the pandemic. Loan delinquencies were creeping up. Retail sales were growing more slowly. And first-quarter growth appeared poised to go negative, due partly to a surge of imports driven by businesses stocking up in anticipation of tariffs.

A retake of that photo is likely to show more and wider cracks very soon. Companies are issuing more pessimistic profit outlooks and raising prices due to tariffs. Manufacturers face lower demand and are sliding back into a slump. Consumer confidence has plummeted. A key market fear indicator, the CBOE Volatility Index (VIX), closed at a five-year high. U.S. exports will almost certainly suffer from retaliation. Economists have slashed estimates for growth while raising them for inflation and unemployment.

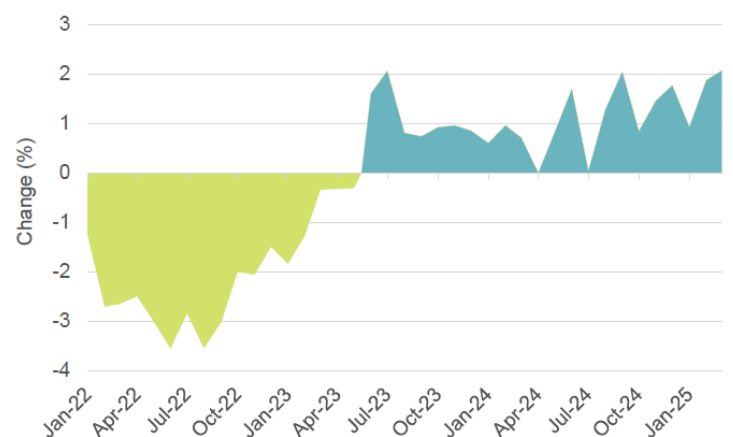
### Tariffs Shaking Sentiment ...

January 2020 – April 2025



### But Real Wage Growth Provides Cushion

January 2024 – December 2024



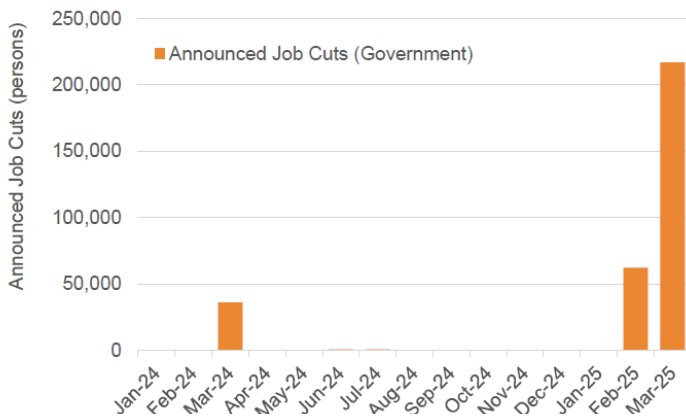
So far, it is soft data – indicators that capture opinions, sentiments and expectations about the economy – that is down significantly rather than direct measurements of economic activity. We believe a recession is increasingly likely as we await economic data showing the impacts of tariffs. Some positive fundamentals as we entered this period – such as solid wage growth, healthy corporate default rates, and large business investments in AI infrastructure and domestic production – should help the economy power through a slowdown.

The labor market and consumers have long been twin pillars of the economy, ensuring it defied economists’ recession forecasts in recent years when inflation and interest rates surged. Both are now in limbo.



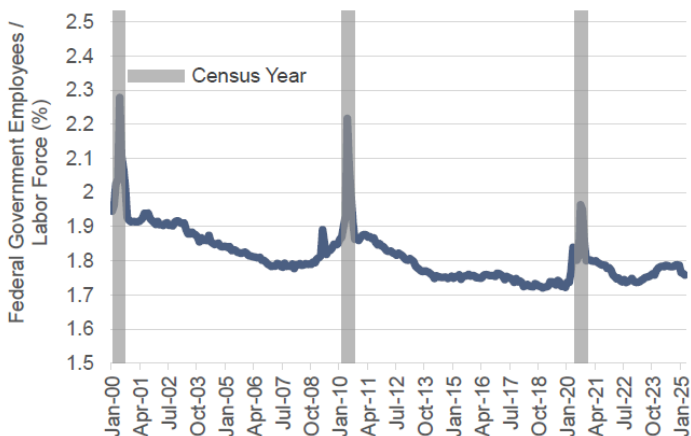
## Federal Government is Shedding Jobs ...

January 2023 – March 2025



## ... But is a Small Part of Labor Force

January 2023 – March 2025



The unemployment rate remains low at 4.2%, based on data through March. But job cuts have risen, totaling 275,000 over the most recent month, according to outplacement firm Challenger, Gray & Christmas. Most were tied to the ongoing slashing of federal government jobs by Elon Musk's Department of Government Efficiency, or DOGE. We do not expect that campaign to have a material impact on the workforce as there are only 3 million federal positions, compared with 20 million state and local jobs, which are not affected by DOGE. A negative carryover effect on spending and other areas of the economy is likely to have an increasing effect as DOGE proceeds, however.

Consumer spending has continued doggedly since the pandemic and an upsurge is reportedly under way in April in a scramble to capitalize on existing prices before tariff-related increases. But because consumption accounts for 70% of the U.S. economy, any pullback because of tariffs would pose a threat.

A recession is possible this year, perhaps probable. But we believe that if one occurs it is not likely to be severe.

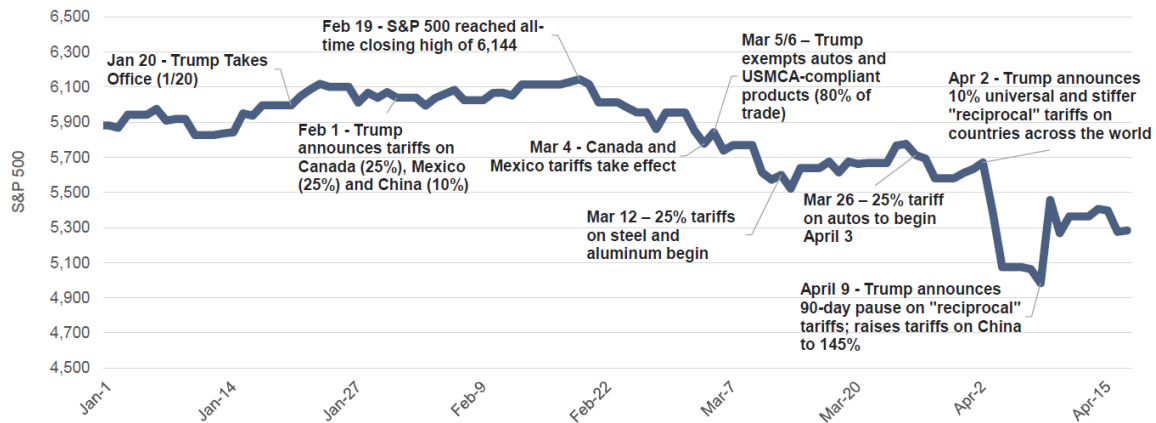
The Trump administration clearly is serious about using tariffs to implement its long-term vision for America despite pain incurred in the short term. Therefore, we expect tariffs to remain in place at some level for the duration of Trump's term, but not at a level that poses a dire threat to the U.S. economy. The 90-day suspension of extreme tariffs, flurry of negotiations, and some exemptions already by the White House confirm our belief that the president does not want a highly damaging recession to happen on his watch, particularly with midterm elections occurring next year.

We believe the combination of robust economic fundamentals entering this period and the administration's demonstrated willingness to back off its harshest positions in the face of serious threats to the markets or economy should help contain any recession to the mild category.

### 3. Markets have been whipsawed by Trump tariff chaos; diversification has helped portfolios.

One of the most volatile periods this century – certainly the wildest since the early months of the pandemic – has produced twists and turns in markets that financial historians will be discussing for a long time. More big market swings in both directions likely lie ahead in 2025. While much uncertainty remains, our long-term outlook remains positive.

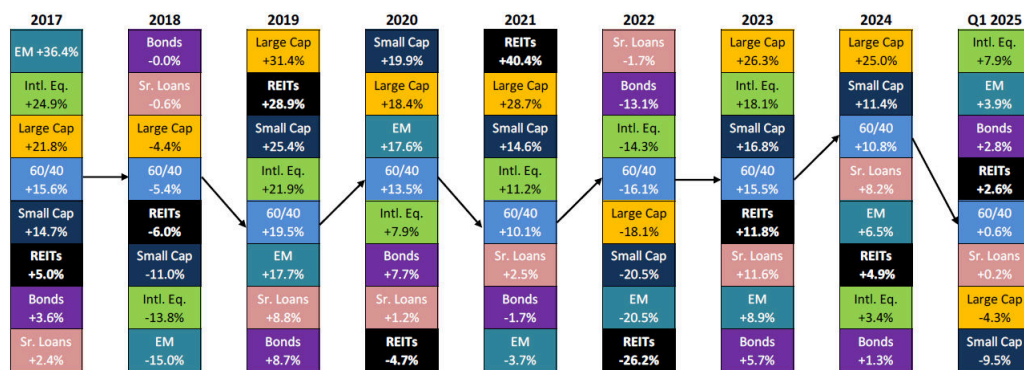
## Tariffs Jolt S&P 500 Off Highs January 1, 2025 - April 17, 2025



U.S. companies are sending the message loud and clear during the current earnings reporting season that the combination of tariffs and uncertainty about unpredictable policymaking is forcing them to reduce or hold off on investments. Improvement to outlooks, and markets, will hinge on positive developments coming out of the trade war. Firms’ resilience will vary widely by company and industry. We count on our recommended managers across asset classes to successfully navigate these trends.

Diversification has provided a welcome partial offset to volatility in portfolios this year when investment categories that had previously flourished, slumped. Investing in a variety of asset classes does not always produce stellar returns or even, as has been evident in the April turmoil, positive returns in the short term. Still, the benefits of diversification have been evident in 2025, reaffirming our belief in its value over the long term.

### Asset Classes Take Turns Leading



EM represented by iShares MSCI Emerging Markets ETF (EEM), Intl. Eq. represented by iShares MSCI EAFE ETF, Large Cap represented by iShares Core S&P 500 ETF, 60/40 represented by 60% MSCI ACWI ETF (ACWI) and 40% Vanguard Total Bond Market ETF (BND), Small Cap represented by iShares Russell 2000 ETF, REITs represented by Vanguard Real Estate ETF (VNQ), Bonds represented by Vanguard Total Bond Market ETF (BND), and Sr. Loans represented by Invesco Senior Loan ETF (BKLN).

Several notable trends from the first three-plus months of this year, diversification included, merit calling attention to:

**International outperformance** – Long-lagging international stocks turned the tables on their U.S. peers in a big way in the first quarter. Foreign stocks as measured by the MSCI All Country World Index ex-U.S. returned 6.3% to -4.3% for the Standard & Poor’s 500 – their largest quarterly advantage (10.6 percentage points) in a decade or more – as the “American exceptionalism” trade stopped booming.



Non-U.S. stocks joined the worldwide downturn in April but with somewhat smaller declines. The drop in the dollar has contributed. (More in the dollar item below.) European markets have been among the biggest advancers for a variety of reasons: investors' switch away from U.S. markets during the tariff turmoil; major increases in defense spending by Germany and other countries that could jump-start the continent's sluggish economy; and some steps by the European Union and UK to reduce regulations.

**Bonds as ballast** – Bonds historically, though not always, move in the opposite direction from stocks and thus play a key role during periods of stock-market volatility. They resumed that relationship in the first quarter, holding up well as stocks struggled. The Vanguard Total Bond Market ETF, a proxy for taxable investment-grade U.S. bonds, gained 2.8%.

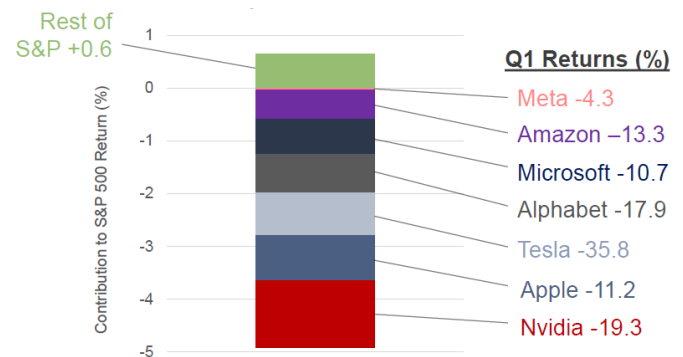
**Surprising rise in bond yields** – Treasuries unexpectedly surged across the yield curve during the April tariff chaos, temporarily abandoning their traditional role as a safe haven. That sent bond prices sharply lower. (Prices move inversely to yields.) Just why remains unclear; reasons put forward include basis trade unwinds (reversals of trades intended to take advantage of shifting market prices), foreign selling and renewed concerns over supply.

But we see nothing to suggest the unusual trend will last. The 10-year U.S. Treasury yield rose from 4.0% to 4.5% in just over a week, a rise that has important consequences because the 10-year is the benchmark long-term borrowing rate for consumers. The mortgage rate and other lending rates moved higher as a result. The good news is that yields have abated since the three-day spike.

**Dollar's big decline** – Another noteworthy and surprising trend has been the relatively swift drop in the dollar's value against other leading currencies – down more than 4% in April and 8% year-to-date. This likely reflects reduced investor confidence in the world's reserve currency as well as global growth concerns amid Trump's flurry of tariff actions targeting other countries. As with the tariffs themselves, it will take some time to determine where the U.S. currency settles, but Trump has long said he wants a weaker dollar.

**Value over growth** – Value stocks have lagged growth stocks for the past decade-plus, particularly during the bull market of the last 2½ years. But they outperformed them by 12 percentage points in the first quarter, based on the Russell 1000 benchmarks. Pricier growth stocks tumbled on expectations of a pullback in spending by consumers, businesses and the federal government. Value stocks' reversal demonstrated why we believe in the importance of including fund managers that specifically focus on that style.

**Not So Magnificent Seven**  
January 1, 2025 – March 31, 2025



**Not-so-Magnificent Seven** – The “Mag 7” stocks (Nvidia, Meta Platforms, Apple, Amazon, Microsoft, Alphabet and Tesla) that launched the market to big gains in 2023 and 2024 struggled. Without their losses, the S&P 500 would have been slightly positive (+0.5%) in the first quarter. We are not convinced the AI boom that propelled them is over, however. With less lofty valuations, the Mag 7 are better-positioned to rise again.

The bull market nearly turned into a bear market in early April – Wall Street's term for a sustained downturn when a stock index closes 20% off its last peak. Steep declines are unsettling but can represent excellent long-term buying opportunities. If the S&P 500 extends its slide to about 25% off the recent high, putting it well into bear-market territory, we plan to buy higher-risk assets. Given our belief that a recession would not be severe, historical precedent suggests there would be limited additional downside in that scenario. Of the past 6 bear markets that occurred without a severe recession, the median decline was 28%.

### Last 10 Bear Markets

Peak	Trough	Price Decline From Peak to Trough (%)	Months from Peak to Trough	Months from Peak to Breakeven	Total GDP Decline (%)	Peak to Trough Earnings Decline (%)
12/12/1961	6/26/1962	-28.0	6.5	20.7	-1.3	-13.6
2/9/1966	10/7/1966	-22.2	8.0	14.8	No Recession	
11/29/1968	5/26/1970	-36.1	18.1	39.2	-1.1	-20.6
11/28/1980	8/12/1982	-27.1	20.7	23.2	-2.2	-16.0
8/25/1987	12/4/1987	-33.5	3.4	23.0	No Recession	
1/3/2022	10/12/2022	-25.2	9.4	24.5	No Recession	
Median		-28.7	11.0	24.2		

Peak	Trough	Price Decline From Peak to Trough (%)	Months from Peak to Trough	Months from Peak to Breakeven	Total GDP Decline (%)	Peak to Trough Earnings Decline (%)
1/11/1973	10/3/1974	-48.2	21.0	90.2	-3.1	-21.1
3/24/2000	10/9/2002	-49.1	31.0	86.2	-0.4	-55.3
10/9/2007	3/9/2009	-56.8	17.2	65.6	-4.0	-92.1
2/19/2020	3/23/2020	-33.9	1.1	5.9	-10.1	-31.7
Median		-48.7	19.1	75.9		

**Mild**  
Less than 3% GDP Decline and Less than 50% Earnings Decline

**Severe**  
More than 3% GDP Decline and/or More than 50% Earnings Decline

See disclosures at end of document. Sources: Altair Advisers, St. Louis Federal Reserve, Morningstar, Robert J. Shiller

Past performance is no guarantee of future results. But the market has a long history of eventual recovery from extreme downturns. We believe that such a purchase would prove wise in the long run.

#### 4. The Fed is standing by but is not likely to bail out markets any time soon.

While we do not expect another big leap in broad-based inflation akin to the one earlier this decade, it is almost certain to accelerate once tariffs hit with full force. Inflation was down to 2.4% in March as tracked by the Consumer Price Index (with so-called core inflation, excluding food and energy, at 2.8%). We expect it to top 3% in the months ahead. And with import taxes alone estimated by Capital Economics to add about 2.5% to consumer prices, it could approach 4% by the end of the year.

That puts Federal Reserve Chair Jerome Powell and his colleagues in a dilemma without an easy solution.

The tariffs threaten to generate not only higher short-term inflation but also a recession. The central bank normally could respond by dropping interest rates substantially to jump-start growth as it did most recently when the pandemic struck. President Trump has argued forcefully for that since before recession dangers even arose. But cutting rates could stimulate inflation at a time when it remains above the Fed's 2% target. And a short-term stimulus from Republican-led tax legislation now pending in Congress could put even more inflationary pressure on the economy.

Raising rates, which Powell has not ruled out, could do material damage to a slowing economy and make any recession deeper. Thus the Fed remains in wait-and-see mode, keeping rates on hold until it sees evidence of the

economy's direction; even then, it is only expected to make incremental moves.

Economist Mohamed El-Erian, a former Altair resource as Pimco's CEO when that firm was one of our recommended bond managers, says the Powell-led Fed has made mistakes (we agree) but could be viewed as "one of the unluckiest on record." El-Erian explained that the Fed during Powell's tenure, which predates pandemic-era inflation, "has faced one big external shock after the other." Now it faces an uncomfortable choice of whether to cut rates or not, likely taking blame for whatever goes wrong.

Powell acknowledged the difficulty of its position because of tariffs during his April 16<sup>th</sup> appearance at the Economic Club of Chicago, which a number of us from Altair attended. "The shock that we're experiencing, the impulses we're feeling, are for higher unemployment and higher inflation," he said during an onstage interview. "Our tool does only one of those two things at the same time. So it's a difficult place for central banks to be in, in terms of what to do."

#### Markets Expects Four Cuts

January 1, 2025 – April 17, 2025



See disclosures at end of document. Sources: CME Group, Federal Open Market Committee (FOMC)



We think the Fed will need to decide soon. The consensus Wall Street estimate is for it to make about four quarter-percentage-point cuts by year-end, which is on the higher end of our expectations as we believe there will be some mitigating policies and the consumer will be more resilient than expected. We do agree, however, that it would probably begin no later than its June meeting if in fact there is hard evidence of economic deterioration.

An acknowledged Deadhead who enjoys playing guitar in down time, Powell still escapes into the Grateful Dead's music at age 72 when time permits. (He joked in Chicago that "I keep waiting for the three months of calm. It never comes.") We wonder which Dead song lyric resonates most these days as he confronts this tough new challenge. Perhaps "The time has come to weigh these things, this space is gettin' hot" (Althea). Or "One way or another this darkness got to give" (New Speedway Boogie). On a bad day, maybe "G\*ddamn, well, I declare, have you seen the like?" (Uncle John's Band).

The eyes of the world are certainly on him and the Fed as inflation sits poised for another rise and the economy heads into uncharted territory.

#### **5. Tax cuts are still likely, but an important battle in Congress will determine their extent along with spending cuts.**

Financial markets have justifiably been laser-focused on tariffs and their potential consequences in recent weeks and months. But a massive fiscal package containing tax cuts and spending, already the subject of fierce debate in Congress, also will play a huge role in how markets and the U.S. economy fare for the rest of 2025.

Substantial stimulus from the legislation could help stave off or at least lessen the impact of a recession. However, it could also stoke inflation while adding to the deficit. We will be monitoring the process and could potentially change our outlook depending on the final legislation.

The White House and Republican leaders in Congress are pushing for a "big, beautiful bill," as Trump envisions it, that would extend and potentially expand the president's 2017 tax cuts, many of which are set to expire at year-end. Bessent is working to broaden the cuts and make good on campaign promises with no taxes on tipped wages and overtime pay, among other items. Republicans also are proposing an expansion of the state and local tax (SALT) deduction that would raise the SALT cap from \$10,000 per person to as high as \$25,000.

Even with the addition of substantial revenue anticipated from the new import tariffs, Republicans are digging hard to find more to fund the tax cuts. Proposals on the table include a new 40% tax rate for taxpayers earning \$1 million or more annually and a higher corporate tax rate, which businesses have been hoping would be reduced as it was in 2017 when Trump lowered it from 35% to the current 21%.

Tax cuts ultimately will be determined in the so-called reconciliation process between the House and Senate after both chambers passed their budget plans this spring. They will be heavily influenced by how much money is left for them following a showdown over spending cuts intended to address the government's runaway debt. The House plan calls for \$1.5 trillion in spending cuts compared to just \$4 billion by the Senate. But the Senate plan would enable an additional trillion dollars for tax cuts: more than \$5 trillion over a decade, compared to \$4 trillion in the House version.

It is too early to even guesstimate what the final legislation will contain, particularly given the Republicans' fragile majorities in Congress. But it is important to provide a snapshot of these deliberations, as this potentially impactful legislation has been underreported as tariffs have dominated the news. We will be closely watching the proceedings that may last well into the summer.

## Our Outlook

- **The trade war** is a fast-evolving risk that can cause substantial damage to the global economy if it lasts. We believe the harshest tariffs on most countries will be short-lived, however, and that China tariffs also will eventually be negotiated much lower, mitigating the economic impact.
- **A U.S. recession** is increasingly possible this year as businesses and consumers are on the cusp of pulling back in the face of higher prices and other tariff-related pressures. If one happens, we believe it is likely to be relatively short and shallow, due in part to an economy that entered this turbulent period in strong fundamental shape.
- **Financial markets** have been buffeted by the rollout of harsh tariffs and extreme uncertainty about U.S. trade policy. We expect the volatility to continue until there is more clarity about both tariffs and the depth and potential duration of the trade war.
- **Inflation** is likely to rise back above 3% by year-end due to the tariffs, but we do not expect it to accelerate longer-term as we witnessed in 2021 and 2022. Any uptick should be short-lived due to tariffs that will lead to higher prices and reduced demand, cooling the economy.
- **The Federal Reserve** will probably resume interest-rate cuts in June and reduce the 4.25% benchmark rate to 3.5% or lower by year-end. The Fed is not likely to preemptively speed up its rate cuts because of tariffs.

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### Quotes of the Quarter



"BE COOL! Everything is going to work out well."

**Donald Trump**

*U.S. president*

"The level of the tariff increases announced so far is significantly larger than anticipated. The same is likely to be true of the economic effects, which will include higher inflation and slower growth."



**Jerome Powell**

*Federal Reserve chair*



"We're dancing with recession."

**Joe Davis**

*Vanguard chief economist*

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## Market Data

### U.S. Stocks

Investors' worries that tariffs enacted by the Trump administration would have a negative impact on the economy, inflation and corporate profits resulted in the worst quarter for the stock market in nearly three years. Optimism that the new president's policies would boost growth and business lifted the S&P 500 2.5% in his first month in office, reaching its latest all-time high on February 19<sup>th</sup>. But tough White House rhetoric on import tariffs that ultimately would be followed by unexpectedly high levies doused market enthusiasm and sent the iShares S&P 500 ETF to a -4.3% quarterly return, the worst for the index since the third quarter of 2022.

The big tech stocks that had powered the market's growth fell hardest amid concerns about AI spending and demand. All of the Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) tumbled, their declines averaging 15.8%. Yet most sectors aside from technology (-12.8%) and consumer discretionary (-14%) were positive, led by energy (9.3%) and health care (6.1%). Small-cap stocks, which generally fare worst when investors pull back, also had their worst quarter since 2022. The iShares Russell 2000 ETF sank 9.5%, with two-thirds of its loss coming in March. Value stocks walloped growth stocks in a dramatic reversal of the trend of recent years. Among large caps, the value benchmark was up 2.1% while the growth benchmark was down 10.0%.

### International Stocks

Stocks in Europe and other overseas developed markets logged a banner quarter in an overdue catch-up against their U.S. peers, propelled by a rise in local currencies against the dollar and other tailwinds. The iShares MSCI EAFE ETF, which tracks stocks in developed markets outside the U.S. and Canada, gained 8.1%. Much of the gain was tied to the dollar's 4% drop against other leading global currencies. But international markets also benefited from the tariff uncertainty that caused some investors to shift out of volatile U.S. stocks, as well as from a surge in defense and energy stocks in Europe over changing U.S. policy on Ukraine.

The Euro Stoxx 600 index, a gauge of stocks in 17 countries, rose nearly 5% in outpacing the S&P 500 by 9.8 percentage points – its biggest quarterly advantage since the beginning of 2015. Stocks in Germany, France and Italy all saw double-digit percentage gains.

The dollar's decline was a big help to dollar-based investments in developed markets. Conversion to the weaker greenback boosted the EAFE index by 5.1 percentage points. It also was the key contributor to the 4.5% quarterly rise for the iShares MSCI Emerging Markets ETF. Stocks in China, the index's largest component, surged on investor enthusiasm for economic stimulus and AI startups; an MSCI index of Chinese stocks rose 16%.

### Real Estate

REITs outperformed the broader market, rebounding from a poor fourth quarter. The Vanguard Real Estate Index Fund, which tracks REITs and other U.S. equity real estate investments, started the year strong and finished the quarter with a 2.7% gain. The index turned more volatile in March on uncertainty related to future economic growth, consumer sentiment and inflation concerns. REITs focused on telecommunications, health care and gaming were up double digits. The office sector struggled, as did lodging/resorts and data centers.

### Hedged/Oppportunistic

Investments in publicly traded senior bank loans as benchmarked by the Invesco Senior Bank Loan ETF returned -0.1%, tilting negative in a poor March. It was the first quarterly decline for the category in three years – since the Fed's accelerated rate hikes prompted a significant downturn in the second quarter of 2022. Private credit managers have generally continued to benefit from the higher yields of private loans.

**Fixed Income**

Taxable bonds benefited from falling yields as investors worried about a softening economy and sought refuge in less risky assets. The 10-year Treasury note yield declined from 4.6% to 4.2%; bond prices rise as yields fall. The Vanguard Total Bond Market ETF, a proxy for taxable investment-grade U.S. bonds, added 2.8% in the quarter.

Altair's benchmark for municipal bonds, a blend of the Market Vectors short and intermediate ETFs, eked out a 0.1% advance. Munis underperformed the taxable market, pressured by heavy supply and selling pressure ahead of April 15<sup>th</sup> tax payments.



## Investable Benchmark Returns through March 31, 2025

	Quarter (%)	Year-to-Date (%)	Annualized			
			1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
<b>Large Cap Equity</b>						
iShares S&P 500 ETF	-4.3	-4.3	8.3	9.0	18.6	12.5
iShares Russell 1000 Growth ETF	-10.0	-10.0	7.6	9.8	19.8	14.9
iShares Russell 1000 Value ETF	2.1	2.1	7.1	6.2	15.8	8.5
<b>Small Cap Equity</b>						
iShares Russell 2000 ETF	-9.5	-9.5	-4.0	0.4	13.2	6.2
iShares Russell 2000 Growth ETF	-11.1	-11.1	-4.8	0.8	10.8	6.1
iShares Russell 2000 Value ETF	-7.7	-7.7	-3.2	-0.2	15.2	5.9
<b>International Equity</b>						
iShares MSCI ACWI ex US ETF	6.3	6.3	6.9	4.9	11.0	5.0
iShares MSCI EAFE ETF	8.1	8.1	5.6	6.7	12.1	5.5
MSCI EAFE Index - in local <sup>1</sup>	3.0	3.0	4.7	9.3	13.8	6.9
Vanguard FTSE Europe ETF	11.1	11.1	7.7	7.7	13.6	5.9
Vanguard FTSE Pacific ETF	2.6	2.6	-1.6	2.5	8.7	4.6
iShares MSCI Emerging Mkts ETF	4.5	4.5	8.9	1.4	7.4	3.1
<b>Fixed Income</b>						
Market Vectors Sh/Inter Muni ETF	0.1	0.1	2.2	1.7	1.1	1.5
Barclays 5 Yr Muni Index <sup>1</sup>	0.9	0.9	2.5	2.1	1.3	1.7
SPDR Nuveen Barclays Muni Bond	-0.7	-0.7	-0.1	0.5	0.1	1.5
Vanguard Total Bond Market ETF	2.8	2.8	4.9	0.5	-0.2	1.4
GI FixedInc Investable Benchmark	2.6	2.6	2.1	-1.7	-1.8	0.2
iShares BarclaysInt Govt/Credit	2.3	2.3	5.5	2.0	0.7	1.6
<b>Alternative</b>						
SPDR Barclays High Yield Bond	0.9	0.9	6.9	4.1	6.0	3.7
Vanguard REIT Index Fund	2.7	2.7	9.0	-1.9	9.4	4.9
Vanguard GI Ex-US Real Estate	2.6	2.6	0.8	-5.1	2.4	0.8
HFRX Global Index	0.5	0.5	3.2	1.9	4.4	1.8
Invesco Senior Loan ETF	-0.1	-0.1	6.1	6.1	6.3	3.6
iPath Bloomberg Commodity ETN	10.0	10.0	13.5	-1.5	16.4	2.4
CEF Blended Benchmark <sup>1</sup>	1.4	1.4	10.7	3.6	10.9	5.4
<b>Other Common Benchmarks</b>						
SPDR Dow Jones Industrial Avg	-0.8	-0.8	7.3	8.6	16.0	11.3
Fidelity Nasdaq Comp. ETF	-10.4	-10.4	6.4	7.9	18.8	14.6
iShares MSCI ACWI ETF	-0.9	-0.9	7.5	7.2	15.2	9.0
SPDR Barclays 1-3 Month T-Bill	1.0	1.0	4.9	4.2	2.5	1.7
Inflation - CPI <sup>1</sup>	1.3	1.3	2.4	3.6	4.4	3.1

<sup>1</sup>There is no investable equivalent for this index

Source: Financial Times Interactive Data (IDC) and Charles Schwab.

**This table was prepared using investment performance and other information obtained from third-party sources, which we believe to be reliable; however, we have not audited the data from these sources and are not responsible for its accuracy.**

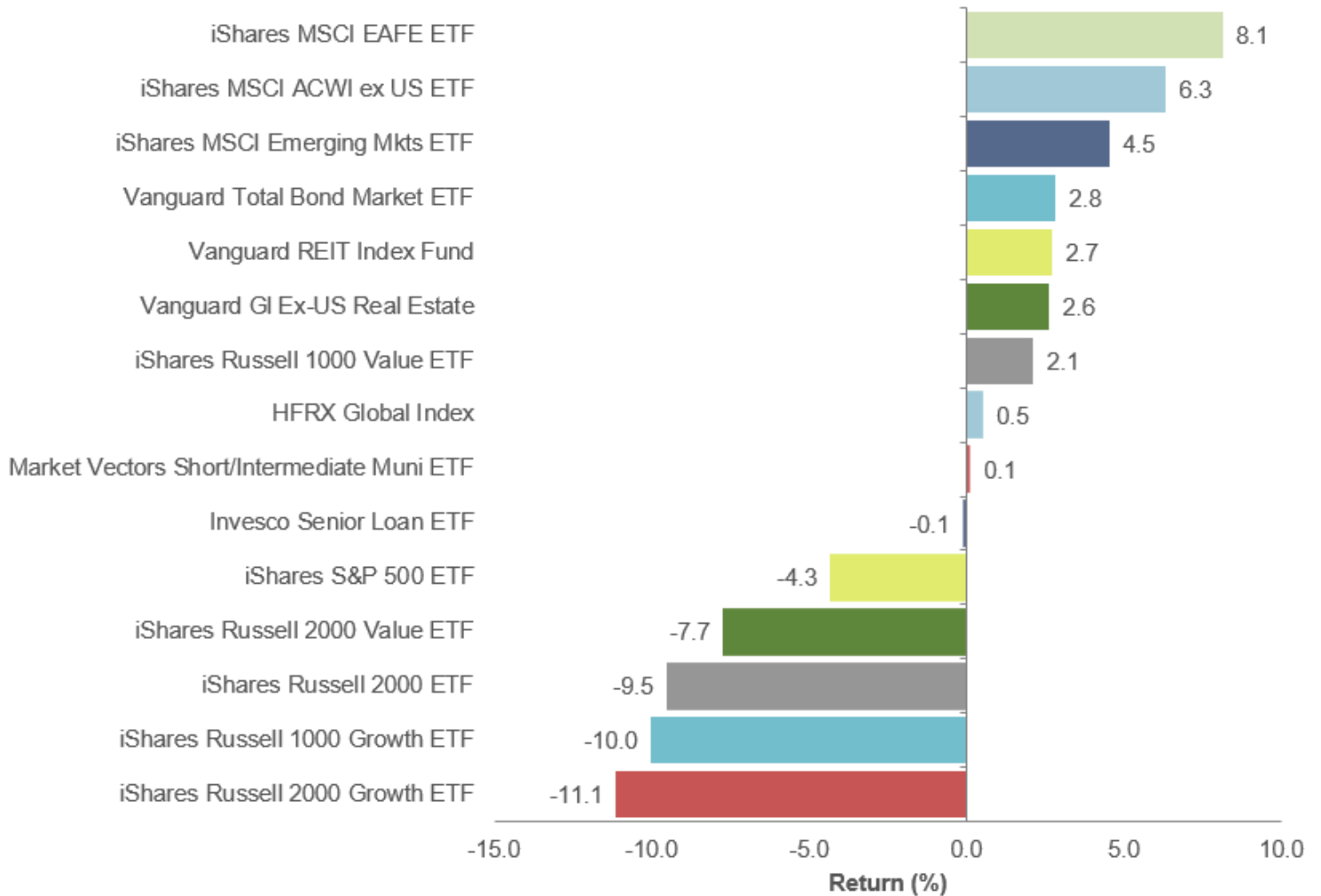
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**Past performance is no guarantee of future results.**

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# 1st Quarter 2025 Market Returns





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The Closed-End Fund Blended Benchmark consists of 60% First Trust Equity Closed-End Fund TR USD Index, 20% Invesco CEF Income Composite ETF, and 20% VanEck Vectors CEF Municipal Income ETF.

The Securitized Credit Benchmark consists of 65% iShares MBS ETF and 35% iShares iBoxx \$ High Yield Corporate Bond ETF.

The U.S. Municipal Bonds Benchmark consists of 65% VanEck Short Muni ETF and 35% VanEck Intermediate Muni ETF.

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# Altair's Senior Team

## Managing Directors



**Rebekah L. Kohmescher**  
CFP®, CPA  
Chief Executive Officer



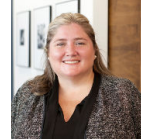
**Steven B. Weinstein**  
CFA, CFP®  
Chairman



**Jason M. Laurie**  
CFA, CFP®  
Chief Investment Officer



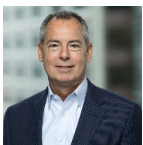
**Tim G. French**  
CFP®, CPA  
Chief Client Officer



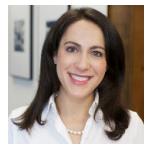
**Claire C. Browne**  
Compliance



**David J. Lin**  
CFA  
Head of Investment Research



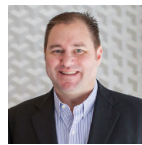
**Bryan R. Malis**  
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Managing Director



**Rachael Halstuk Mangoubi**  
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Managing Director



**Michael J. Murray**  
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**Allison L. DiLiberto**  
MBA  
Head of Finance and Operations



**Anna E. Nichols**  
Head of Client Education

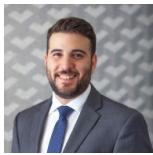
## Client Service

## Financial Planning

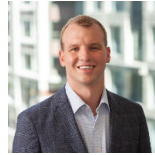
## Project Management



**Patrick T. Kelly**  
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Director



**Benjamin H. Kresner**  
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Associate Director



**J. Gus Miller**  
CFP®, CEPA®  
Associate Director



**Daniel J. Scherding**  
CFP®, CEPA®  
Associate Director



**Caitlin M. Dixon**  
CFP®, NSSA®  
Director of Financial Planning



**Hannah R. Koch**  
Director of Strategic Initiatives

## Client Reporting

## Client Operations

## Firm Relations

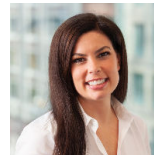
## Business Development



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**Megan L. Messer**  
Director of Client Operations



**Colleen B. Norton**  
Director of Firm Relations



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CIMA®, CPWA®  
Director of Strategic Growth

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