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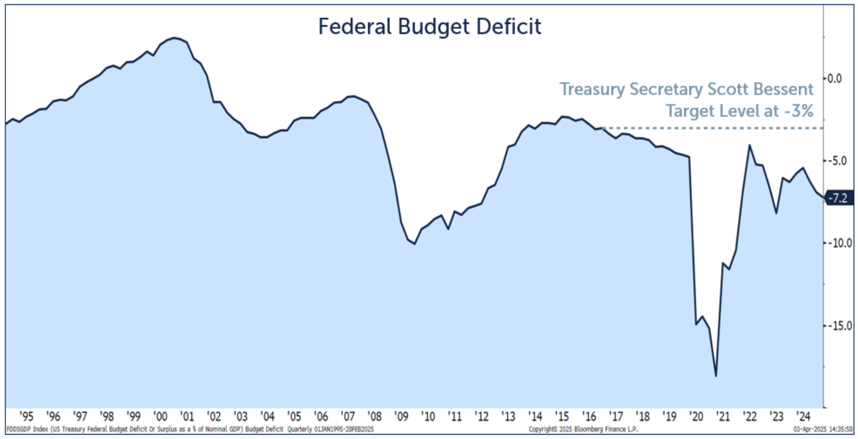
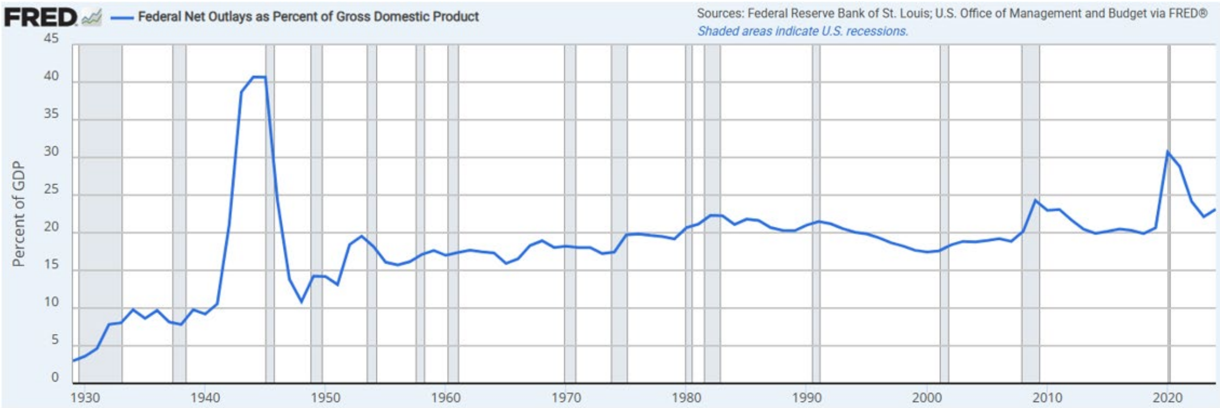
Monthly Update – April 2025

March Review – The fog of trade wars has thickened



The "fog of war" is a metaphor that was first used by Carl von Clausewitz (1780-1831), a Prussian strategic theorist, to illustrate the outcome of a battle is always uncertain.[i] There are many battles brewing in Washington right now and it is hard for the financial markets to absorb so much change in a short period of time.

In this period of uncertainty, it's important to focus on what is clear and what the goals are to make sense of the fog we are trying to see through. The primary issues today are fiscal policy and trade policy. Let's start with internal policy matters first. We have been living with twin deficits (Federal Budget and trade) since the last budget surplus over 20 years ago as shown in the Federal Budget Deficit chart above.[ii] Treasury Secretary Scott Bessent has outlined a 3-3-3 strategy that includes a reduction in the budget deficit from 7.2% of GDP down to just 3% of GDP.[iii] (The other two 3's represent a GDP growth target and in incremental 3 million barrels of oil per day.) In order to get the deficit much lower, fairly dramatic cuts to government outlays have to occur and that's why there is so much uncertainty around the efforts of DOGE. Our debt level has reached 120% of GDP[iv] and we continue to spend at levels of around 23% of GDP each year as shown in the chart from the St. Louis Federal Reserve below. It may not feel great while the Government is undertaking this effort, but a reduced deficit would allow for a healthier economic baseline to enable the targeted level of growth.



Improving our fiscal position is an essential objective designed to fortify America's economy. Before we move onto external matters, here's a look at last month:

March Market Review

Stocks reacted poorly to Tarriff uncertainty, increasing inflation and slowing growth.

- Large cap domestic stocks were down 5.6%, with the most severe weakness exhibited by communications, technology and consumer discretionary stocks.
- Small cap stocks backtracked by 6.8% due to fears that a pronounced economic slowdown could be developing.
- International markets showed resilience in the face of tariff concerns. International stocks were barely down and remain positive at 5.4% for the year. Emerging showed a modest positive return.
- Aggregate bonds were relatively flat as rates held steady. High yield dropped 1% due to increased concerns of economic uncertainty.

Market Returns Ending 3/31/2025

Category	March	YTD	1 year
US Stocks			
S&P 500	-5.6%	-4.3%	8.2%
Russell 2000	-6.8%	-9.5%	-4.0%
International Stocks			
MSCI ACWI ex-US	-0.1%	5.4%	6.6%
MSCI Emerging Markets	0.6%	3.0%	8.5%
Bonds			
Bloomberg Aggregate Bond	0.0%	2.8%	4.9%
Bloomberg US High Yield Bond	-1.0%	1.0%	7.7%

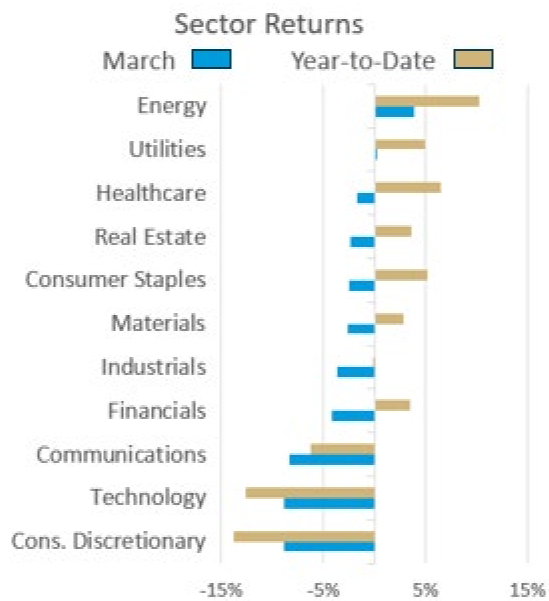
Source: Bloomberg

Category	March	YTD	1 year
Russell 3000 Growth	-8.4%	-10.0%	7.2%
Russell 3000 Value	-2.9%	1.6%	6.6%

Source: Bloomberg

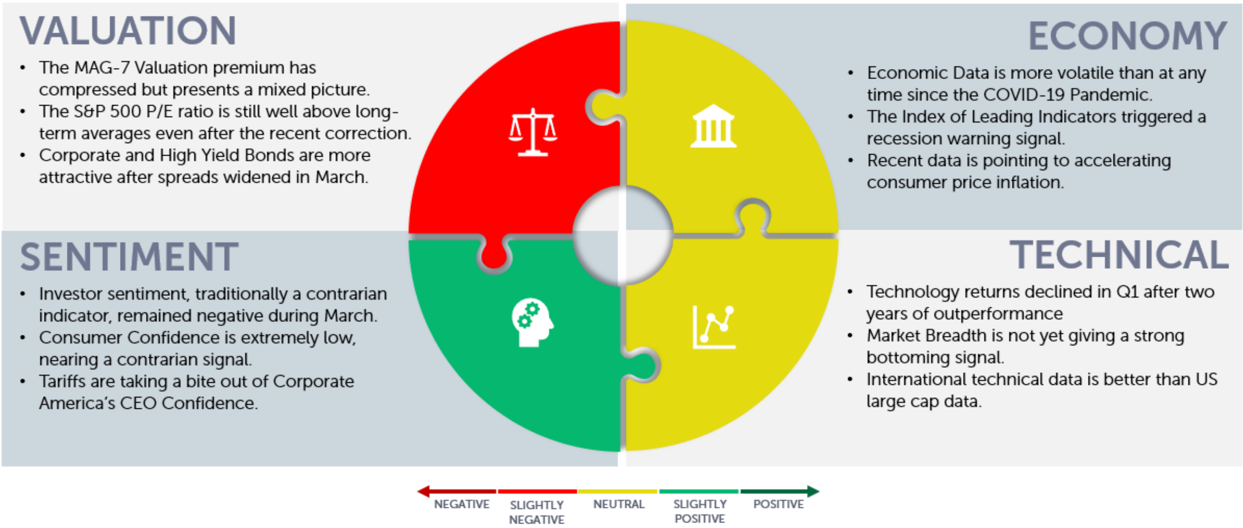
Stock sector movements displayed a consistent reaction to valuation risks posed by slowing earnings and economic growth.

- Energy led the way for the month of March due to slightly higher oil prices.
- Utilities, healthcare, REITs and staples showed their defensive appeal due to lower risk profile.
- For the second straight month, the MAG-7 sectors - Communications, Tech and Consumer Discretionary– showed pronounced weakness. Last year's winners dropped to the bottom of the barrel in the first quarter and last year's laggards rose to the top. It has been written that "the first shall be last" and it is proving to be quite true thus far in 2025.



Our Navigator framework informs us of our outlook.

April 2025 Navigator Outlook:



<u>Economy</u>: Economic data has been weakening, and we have lowered our rating from slightly positive to neutral. Economic data is now more volatile than at any time since the COVID-19 Pandemic. The Index of Leading Indicators triggered a recession warning signal. Recent data is pointing to accelerating consumer price inflation.

<u>Technicals</u>: Technical market measures also present a mixed bag. Technology returns declined more than the market in Q1 after two years of outperformance. Market breadth is not yet giving a strong bottoming signal. International technical data looks more encouraging than in the US.

<u>Sentiment</u>: Sentiment signals have reached levels that have historically flashed a 'buy' signal. Investor sentiment, traditionally a contrarian indicator, remained negative during March and is near its worst readings in history. Consumer confidence is extremely low, nearing a level that is consistent with historical 'buy' signals. Tariffs are taking a bite out of Corporate America's CEO Confidence as well.

<u>Valuation</u>: P/E ratios have continued to contract. The valuation premium for the MAG-7 has compressed, but it still presents a mixed picture. The S&P 500 P/E ratio is still well above long-term averages even after the recent correction. Corporate and High Yield Bonds are more attractive after spreads widened in March.

Outlook and Recommendations: In a world of flux, focus on diversification and trust the process

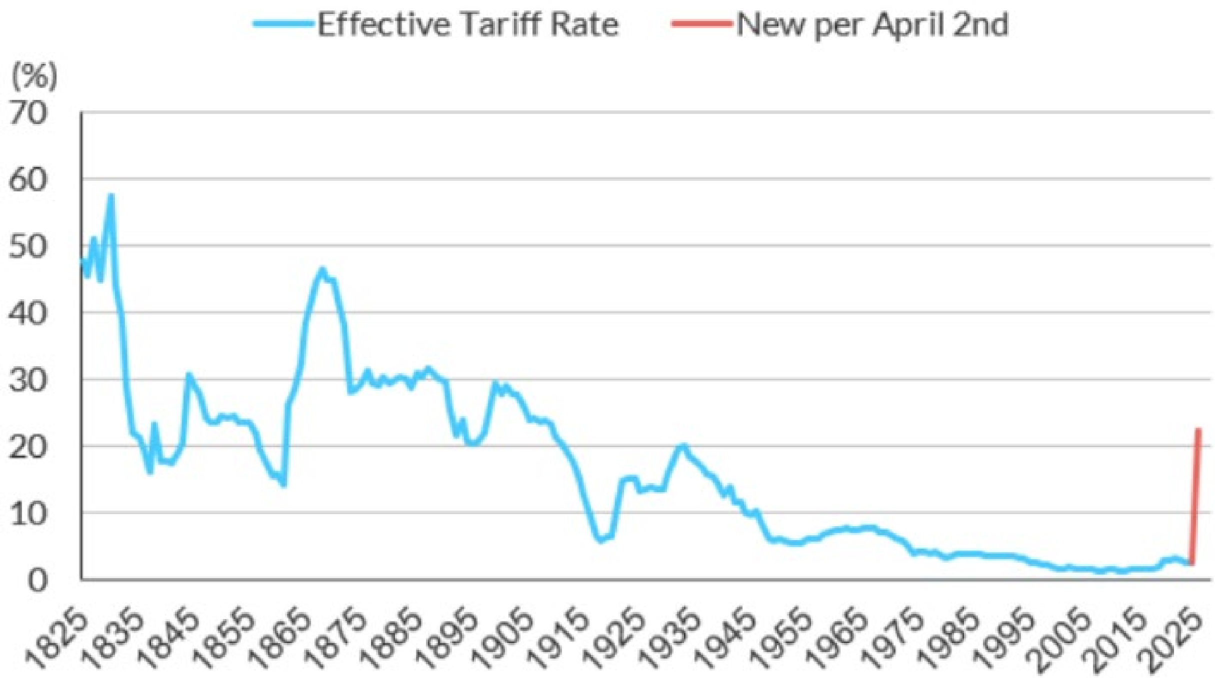
> *"You cannot step into the same river twice, for constant waters are ever flowing" - Heraclitus*[v]

The writings of Heraclitus are not as well known as many of the other Ancient Greek philosophers, but his views on change have been influential to many philosophical schools. If the world is always undergoing some level of change, then it should follow that there is always a degree of uncertainty in the outlook. When the fog is thicker than normal, it is of paramount importance to rely on a foundational process to find clarity.

Our Navigator framework is designed to assess four quadrants of inputs to cut through the noise of the day. Sentiment and Technical factors are shorter-term indicators of the market's current temperature, with the Economy extending into a more intermediate timeframe. Valuation measures the longest duration within the Navigator outlook process. We have highlighted the vulnerability of high valuations, but the rest of the Navigator has pointed to at least neutral or slightly positive readings for a rather long stretch of time. Recent economic data has shown enough softening to reduce our views on that front to neutral, but volatility has shifted Sentiment to such extremes that it triggered a change in view to positive.

A resilient process requires flexibility to adapt to the ever-changing world that Heraclitus so aptly observed. As we turn now to the external issue pressing Washington's policymakers, we can clearly see the adjustment currently taking place in global trade is creating storm clouds that appear to be more ominous than the market originally believed. The chart below showing the new US Effective Tariff Rate[vi] shows the magnitude and sharpness of the change to tariff policy. Based on the April 2nd White House release of tariffs, the new tariff rate jumps from a historically low range to a level not witnessed in over 100 years – and it exceeds 20%.

U.S. Effective Tariff Rate



Source: Fitch Ratings, White House

The purpose of tariff implementation is to improve our trade deficit and insulate US intellectual property to ensure a more secure future for America's economy. Many of the secondary impacts, such as severity of retaliation, long-term consequences for trade negotiations and the intended length of the measures and many others, remain unknown. What we do know is that American corporations have survived and thrived across many upheavals, and we only need to look back to the uncertainty of the pandemic to see how resilient the American economy and its corporations are.

The volatility in the market at the start of April is a reaction to the news and it represents the market's best attempt to discount what these changes imply for the economy and corporate profitability. Historically, these sharp adjustments often price in the worst possible outcomes long before the weakness in profits or economic data emerges and it has rarely been wise to overreact amidst sudden market swings.

The best way to remove emotional influence in the midst of extreme and unexpected volatility is to focus on the discipline in process and investment philosophy as we do at OneAscent. Here are a few reminders:

- Values aligned – we focus on 'investing that elevates' to promote human flourishing. The core of our process centers on the long-term value our investments provide.
- Globally Diversified – we find opportunities across the globe, not just in whatever market happens to be most in favor in the current moment. The history of tariff wars suggests that the country implementing tariffs often experiences more economic uncertainty than the country that is targeted. A focus on global diversification is critical for multi-asset portfolios at this moment.
- Long-Term – long-term return expectations, such as those found in our Capital Market Assumption White Paper are designed to smooth out the impacts of short-term volatility episodes. If long-term return assumptions are used properly, then short-term market disruption should offer improved long-term returns.

The market is responding to the economic risks of trade policy by adjusting prices for equities lower. This is also creating opportunities as the prices of certain securities could be well enduring an overreaction to the news. Eventually, the fog will clear, and we position our portfolios with current risks in mind and an eye on the opportunities that we believe should emerge in time.

Portfolio Positioning

Our positioning reflects our long-term focus while adjusting appropriately those portfolios which have a tactical component:

- We remain globally diversified, with exposure to mid-cap, small-cap and international stocks. We acknowledge the downside risk to the equity market but remain invested in a portfolio of attractively valued assets.
- We recently increased international stocks in our tactical portfolios as their earnings and technical position have improved versus the US. History also shows that when international stocks outperform significantly during the first few weeks of the year, as they have in 2025, they tend to lead for the remainder of the year.[vii]
- Our bond portfolios are positioned for steady interest rates, with exposure to floating rate high yield debt in our tactical sleeve and higher allocations to corporate and mortgage bonds, with fewer treasuries.

The benefits of diversification have been on wide display throughout the first quarter, and we are positioned to benefit from this trend going forward.

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[i] Source: French Newspaper *Le Monde* article: *"'Fog of War': When cunning becomes a weapon"*, June 24, 2023.
[ii] Source: Bloomberg.
[iii] UMB Bank Capital Markets Division Blog. March 17, 2025.
[iv] Source: Federal Reserve Bank of St. Louis.
[v] Loose translation of Heraclitus philosophy from David Quammen in a series of short stories, *"Natural Acts."*
[vi] Source: Bloomberg. Fitch Ratings and the White House. John Authers' article *"You Can NOT Be Serious!"*
[vii] Source: Bloomberg [(4) Activity | Gillian Wolff, CFA | LinkedIn]

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