***Equity Markets**:*

The past few weeks have been a rough ride for most major markets. The S&P 500 has seen massive intra-day swings, 5% down days, and a near -10% single-day rally. Market volatility has reached levels surpassing COVID and was last seen during the Great Financial Crisis[1]. The VIX, which gives insight into investors' expectations for near-term market volatility, has increased 75% year-to-date. After reaching a level of 60, following "Liberation Day", the VIX has settled in the 30 range over the last week of trading. From peak to trough, the S&P 500 briefly entered bear market territory after falling 21.3% from its previous high of 6,147 on February 19 of this year. The trough was short-lived. Then came the announcement of temporary tariff reductions and a 90-day pause for most countries, excluding China. The markets rallied, and while we are still in a correction territory, we are significantly off the lows.

The whipsaw nature of the last few weeks highlights why we believe the foundation of your portfolio should be built using a thoughtfully developed strategic allocation that can help you achieve your long-term investing goals and, more importantly, align with your ability and ***willingness*** to take risk. Constructing a portfolio with an appropriate level of risk is extremely important to increase the probability of having a favorable outcome in long-term investing. First, the ability to take risk, reduces the potential need for selling assets during times of market drawdowns to fund spending. Willingness to take risk reduces the need to act emotionally during market downturns. We believe the core of a portfolio should be focused on a long-term horizon. This helps block out headline noise, intraday volatility, and panic selling. There is inherent risk investing in the equity market, and oftentimes, risk happens fast. But, with that risk comes the potential for sharp moves to the upside, similar to the one on April 9th.

Maintaining a diversified portfolio with exposures to various asset classes, geographies, sectors, and styles is also a core tenet of our portfolio construction. Mega-Cap growth dominated the previous two years' headlines and attributed the lion's share of the S&P 500 return[2]. This shifted quickly this year as investors migrated away from risk. The Russell 1000 Value Index has fared significantly better than its growth peer. As of last week's close, Large-Cap Value is down a modest 4.33% year-to-date while growth is down 12.55%[3]. Similar to risk, style shifts often happen fast and with little warning. Maintaining diversified exposures can be frustrating during times of market concentration, but can be beneficial when market sentiment shifts quickly.

Going forward, we acknowledge the level of uncertainty. When we look at the underlying fundamentals, there is still strength and resilience. Earnings season has begun, and so far appears to be stable. Net profit margins for the S&P 500 this quarter are anticipated to be 12.1%[4]. While slightly lower than last quarter, margins remain near historically high levels. This should allow more flexibility for companies going forward as they navigate quickly to changing policy. We anticipate volatility to remain elevated until there is more clarity around final tariff actions. Volatility levels have dramatically fallen but remain nearly double what we have become accustomed to over the last two years.

***Fixed Income Markets**:*

Fixed income allocations showed their worth during the days of massive drawdowns. Negative correlation returned, and we saw the yield on the 10-year Treasury fall below 3.9%. Following the rally, bonds sold off quickly as the equity market rallied. The 10-year yield has settled in the 4.3% range after nearly touching 4.5%. Inflation concerns remain elevated due to the uncertainty on the impact of tariffs. Consumer inflation expectations hit the highest in years. One-year expected inflation jumped to 6.7%, the highest reading since 1981 and long-run inflation expectations pushed up to 4.4%[5], according the University of Michigan Consumer Sentiment Index.

Our long-term view of the bond market remains positive. At current yield levels, expected future returns on bonds is attractive. It's worth noting that how returns in fixed income are realized is likely different from the previous cycle. We see rates staying higher than they were following the housing crash. We do not see policy makers cutting the fed fund's rate to near zero like in the previous cycle. So, a bond's return will likely be comprised primarily of the income component and not price appreciation.

***Economic**:*

Despite inflation concerns, inflation readings have continued to soften. March Headline CPI came in at 2.4% and Core CPI, which excludes food and energy, came in at 2.8%. These numbers do not include the potential impacts of tariffs so we could see this change quickly. Backward looking data is likely to be less important over the next few weeks due to many of these reports excluding the tariff announcements. Growth concerns have skyrocketed since the tariff announcement on April 2. We will be paying close attention to employment reports and consumer sentiment. Consumer spending makes up nearly 70% of our GDP[6]. If the consumer remains strong we believe it can temper weakness we may see due to tariffs being implemented.

**** *See Important Disclosures on following page*

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