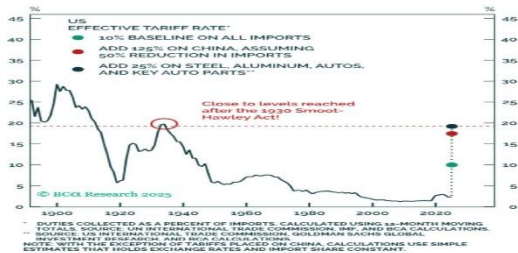


Market outlook as of April 2025

Last week, the Trump administration's Liberation Day tariffs were much harsher than expected, sending world financial markets into a tailspin. As investors continue to process the historic magnitude of the tariffs and as governments worldwide react over the next few months, the situation remains unresolved. President Trump's tariffs and China's strong retaliatory measures are symptomatic of a new contest for global leadership that is possibly reshaping the economic and geopolitical world order.



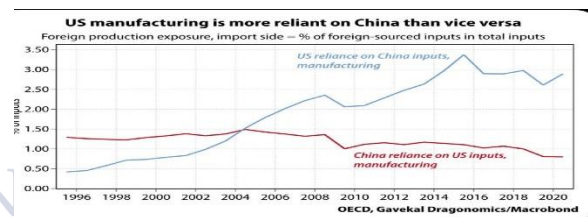
When I have spoken at investment conferences, I often mention Nassim Taleb's great book "The Black Swan".

- A black swan is an extremely rare event with potentially severe consequences.
- It cannot be predicted beforehand, though after the fact, many falsely claim it should have been predictable.
- Black swan events can cause catastrophic damage to an economy by negatively impacting markets and investments.
- Reliance on standard forecasting tools can both fail to predict and potentially increase vulnerability to black swans by propagating risk and offering false security.

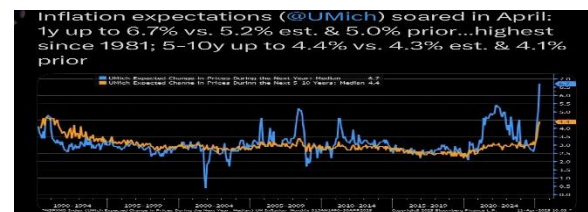
The world economy has experienced numerous "Black Swan" events, even good ones like the fall of the Soviet empire or not so good ones recently such as the financial mortgage and housing crises

in 2008, the global pandemic, a ground war in central Europe, and now a global trade war following the Trump administration's announcement of massive tariffs last week. Every one of these "once-in-a-century" occurrences has caused enormous market moves and apocalyptic predictions.

What's next? Nobody knows. The market is still pessimistic and estimates of earnings are declining. The likelihood of a recession is increasing. The same is true for inflation projections. All eyes are now on China. Due to severe stock and bond market stress Trump paused the reciprocal tariffs for 90 days, with the exception of hitting China with an additional 125% in tariffs.



Federal Reserve : Given their dual mandate to combat inflation and promote job growth, the job of the Federal Reserve has become much more difficult. Fed officials must choose whether to keep interest rates high or even raise them to combat inflation, or to lower them to support the economy, businesses, and the consumer. We believe that if the labor market begins to weaken significantly, the Fed is more likely to enact cuts. We think a bout of "Stagflation" is upon us where the economy slows, and we get higher prices for now.



Not everyone is benefiting from the U.S. economy, particularly those in the bottom 50% of

income earners. Treasury Secretary Bessent used the example of some Americans taking extravagant vacations in Europe while others are using food banks at record-high levels to illustrate this paradox. These disparities are seen as systemic failings by the present administration, along with growing debt and foreign dependency.

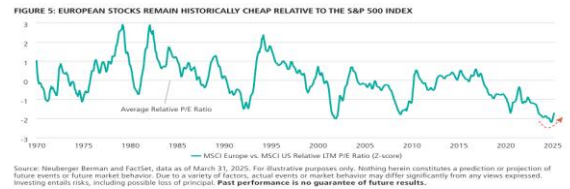
The National Emergency Act of 1976, which was used as justification for this aggressive trade approach, made this action possible. We are starting to see the larger plan underlying this audacious economic move, even though we disagree with the velocity and extent upfront. These actions are geopolitical as well as economic. They seek to rebalance trade relations, lessen reliance on China, and reform the fundamental framework of our economy. The \$36 trillion national debt is another factor contributing to the emergency. In 2025, \$9.2 trillion debt must be refinanced.

President Trump's reasoning seems to be as follows: increase tariffs to impede international trade, slow the economy sufficiently to support interest rate reductions, refinance our soaring national debt at reduced interest rates, and use the pressure to reintroduce manufacturing domestically. There is much debate as to the practicality and achievability of all of the objectives.

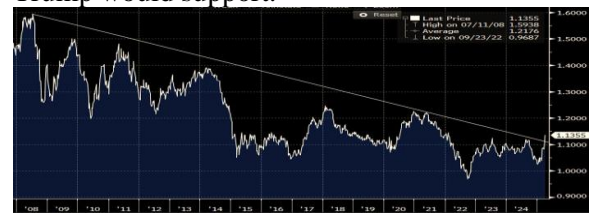
Europe looks like the place to be for additional investment diversification.

Until recently investors have underweighted Europe. The MSCI Europe Index's relative P/E ratio to the S&P 500 Index is still two standard deviations below its long-term average, which is close to a five-decade low (see figure 5 below). We advocate for an overweight position in European stocks in a global portfolio, since there is ample opportunity for relative revaluation. Led by Germany, Europe has now also woken up to increase defense spending dramatically supporting their local industries wherever possible.

April 2025



We also think there will be a tail wind on the currency as the Euro looks set to strengthen against the US Dollar, something which president Trump would support.



So what's an investor to do:- Since 1950 there have been 56 market drops of over 10% and 12 months later stocks were higher 49 times (87,5%) (Bloomberg). Staying calm and staying invested based on your asset allocation strategy in the markets has almost always paid off.

Although it's difficult to say whether stocks have bottomed out, this sell-off seems to be mostly self-inflicted rather than systemic. The economy is still doing well, and AI's potential advantages are still achievable. If tariffs have a negative effect on the economy, President Trump can change course, which might lessen the harm and hasten the recovery. Hopefully the worst of the tariff shock is now priced in.

Prioritize the long term; "Staying in the market for a long time is more crucial than timing it." It is anticipated that volatility will continue to be high in the foreseeable future. Short-term results have historically been very unpredictable, with daily performance akin to a coin flip. But it's important to keep in mind that investing in stocks with a long-term outlook greatly raises the possibility of profitable returns, supporting the adage that ***"time in the market matters more than timing the market."***

There are always plenty of reasons to not invest, and only one to invest – the magical power of compounding

