Much like the markets, the weather in Chicago has been difficult to predict. Brief moments of warm weather are followed by a week of freezing temperatures and snow. While it can be tempting to focus on the inclement weather, I do my best to recognize that the beautiful days we experienced in March were non-existent in February. The capital markets, like seasons, are cyclical- and (at least in Chicago) no season lasts forever. I hope that wherever you are, and no matter what the weather looks like there, you too, are looking forward to pleasant days ahead.

In Q1 2025, the S&P 500 declined 4.3%. Growth stocks, represented by the Russell 1000 Growth index were down 10.0%, while the Russell 1000 Value index held ground and returned 2.1%. Internationally, the MSCI EAFE index gained 7.0% and the MSCI Emerging Markets gained 3.0%.[1] While understanding the returns as of quarter end is important, I recognize that a lot has transpired in the last two weeks as I finalized this letter. Accordingly, I am providing updated figures as of 04/15/2025. The S&P 500 declined 7.9%, the Russell 1000 Growth declined 12.1%, the Russell 1000 Value declined 3.4%, the MSCI EAFE rose 6.5%, and the MSCI Emerging Markets rose 0.2%.[2] The speed at which important policy decisions and economic changes have been taking place makes writing about them in a static letter challenging. Below is a summary as of the date of this letter.

News about the implementation of tariffs has sent a wave of uncertainty through the capital markets. While the first quarter of the year was characterized by ruminations of what tariffs may look like in the future as well as announcements regarding key trade partners such as Canada, Mexico, and China, President Trump provided the markets with some direction regarding broader goals on April 2nd during his "Liberation Day" statement. This sweeping communiqué outlined plans to impose tariffs of anywhere between 10% and 50% on roughly 185 countries, with a universal 10% tariff on all countries starting on April 9th and April 5th, respectively. In the days following the announcement, governments around the world scrambled to negotiate with or retaliate against the Trump administration.

The former of the two groups received some reprieve when, on April 9th, the White House confirmed that it would be pausing additional tariffs on countries that tried to negotiate with the administration.[3] Many nations who retaliated with tariffs of their own were subject to stark repercussions. As policies stand today, duties on Chinese imports to the United States have risen steadily to roughly 145% while duties on US imports to China have risen to 125%.[4]

Since this news was announced, there has been much speculation (both in the markets and on the news) as to what the tariff endgame will look like. Unfortunately, the outcome is almost impossible to predict. This uncertainty colors many things, but a factor worth focusing on is business investment around the world. Companies are often reticent to invest in times where such uncertainty prevails. This indecision can have a long-term impact on growth.[5] Morgan Stanley's US Economics team has cut 2025 GDP Growth expectations from 1.5% to 0.8%, and "increased the odds of a [US] recession from 25% to 40%".[6,7] To put things into perspective, GDP growth in 2024 was 2.5%. Additionally, our analysts forecast that higher tariffs might cause an increase in inflation, with the Personal Consumption Expenditures Price Index expected to rise to 3.9% by year-end, which is almost 1% higher than previous estimates.[6,7] Given that these two factors (inflation and slowing growth) are usually prescribed conflicting remedies (increasing interest rates versus decreasing interest rates), our Global Investment Office expects the Fed to maintain a cautious approach to changes in monetary policy, making the pace and magnitude of any potential rate cuts difficult to predict.

This uncertainty with respect to business investment has echoed within the US treasury market over the past couple of weeks. Typically, when investors feel trepidation about the state of equity markets, they move assets to "safe haven" investments. One of the most liquid of these assets are US treasuries. While this relationship held at the beginning of the recent tariff-induced volatility, our fixed income team outlines the surprising shift in this trend in a report published on April 15th, 2025:

> *Historically, when risk assets have experienced sharp drawdowns, long-term US Treasuries have rallied, benefiting from a "flight-to-safety" bid. Over the past 10 days, the typical relationship between falling risk sentiment and lower long-term Treasury yields broke down. Notably, the sell-off in long-term US Treasury yields has contradicted the following forces: 1) increased recession*

risk; 2) the recent pull-forward of market discounted Fed rate cuts; and 3) the collapse in long-term inflation pricing. Recently poor performance of traditionally defensive assets like US Treasuries reflects broad deleveraging pressures across financial markets, with many investors seeking to shore up liquidity. Moreover, the US dollar experienced notable weakness as Treasury yields rose over the past two weeks, snapping a tight multi-year pattern of higher Treasury yields and stronger US dollar.[8]

The reason this shift is important is because the United States' ability to borrow is paramount to the healthy functioning of our government and our country. In fact, many credit the disruption in the bond market, not the stock market, for President Trump's decision to pause tariffs.[9]

The question becomes: how does one respond to the disruption we have witnessed in capital markets over the past few months? While we have confidence that global business will endure, we are facing a number of uncertain headwinds that could make for a bumpy ride. During times like these, proper asset allocation is paramount, as is resisting the urge to "do something" as a reaction to what is going on. Many of our clients feel protected as a result of owning high quality assets, having a steady stream of income to help support lifestyle expenses, and liquidity for unexpected needs.

While the optimist in me would love to hope that every market season is summer or spring, part of being a prudent investor is recognizing that winter will usually come. Our goal is to make sure that our clients are prepared when the seasons change.

Thank you, as always, for your trust in our team.