Q1
25
WEALTH MANAGEMENT QUARTERLY INVESTMENT LETTER

Opus CAPITAL MANAGEMENT

From Optimism To Uncertainty

Quick Look

» The first quarter of Trump 2.0 saw markets rotate away from the assets that rallied immediately after Trump's Election win.

» U.S. stocks finished the quarter down, highlighted by a 15% decline in the Mag-7 stocks that have powered S&P 500 gains for the past two years.

» Gains in international stocks and U.S. bonds largely offset the losses in U.S. stocks, helping balanced portfolios finish around breakeven for the quarter.

» The Trump administration has wasted no time in reconstructing fiscal policy. Tariffs, DOGE, immigration, foreign policy, etc. are all ingredients being stirred into the fiscal policy pot.

» A measure of trade policy uncertainty developed by Federal Reserve economists shows this quarter accelerating to the second highest level in the last 40 years, trailing only the onset of the pandemic.

» The Federal Reserve's statement at their March meeting noted that "Uncertainty around the economic outlook has increased."

» The coming quarter should provide us with some hard data that will prove whether the economy is truly slowing.

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Opus Capital is an evidenced-based investment advisory firm driven by our overriding mission to help people. We believe the marriage of comprehensive financial planning + statistically proven investment principles creates the clearest roadmap to long-term success.

We are independent and transparent in all aspects of investment management decision making and financial planning. We selectively partner with like-minded individuals and families, endowments, foundations, and 401(k) plans in over 30 states.

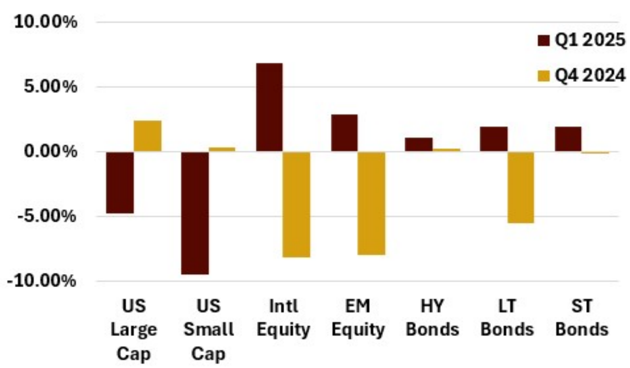
Quarterly Investment Letter, Q1 2025

"I hate to predict things like that. There is a period of transition, because what we're doing is very big. We're bringing wealth back to America. That's a big thing. And there are always periods of…it takes a little time. It takes a little time…There will be a little disruption".

This was President Trump's response in early March during a Fox News interview when asked if he was expecting a recession this year. The President can be forgiven on punting the recession question; any other President would do the same. Rather, what was eye-opening was the President's acknowledgment of a "period of transition" and "disruption". The Trump administration has wasted no time in reconstructing fiscal policy, and what they are doing is, to use the President's words, very big. Tariffs, DOGE, immigration, foreign policy, etc. are all ingredients being stirred into the fiscal policy pot. Only time will tell if it is a recipe for success, or for that matter, what the end recipe is. For now, we are in a period of transition, and with that comes uncertainty.

Uncertainty, unpredictability, confusion – however you want to define it, President Trump embraces it. This firebrand nature is part of his appeal to his base, and what his detractors find disconcerting. Markets, however, have no political affiliation, and this quarter's stock market correction can be interpreted that not all of the new administration's agenda is being viewed favorably. More so, markets hate uncertainty.

Q1 2025 vs. Q4 2024 Returns



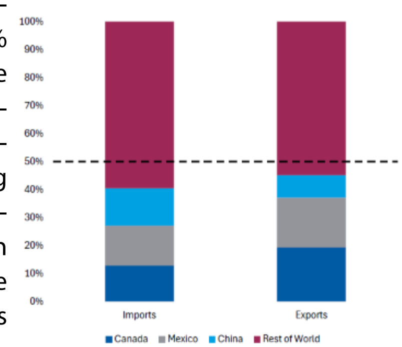
Source: Morningstar

Ironically, the first quarter of Trump 2.0 saw markets rotate away from the assets that rallied immediately after Trump's Election win last November. U.S. stocks finished the quarter down, highlighted by a 15% decline in the Mag-7 stocks that have powered S&P 500 gains for the past two years. Tesla led the way lower, falling 45% from its post-Election highs. The crypto space collectively struggled through the quarter as well; Trump's own memecoin tumbled 85% from its pre-Inauguration launch. The U.S. dollar weakened, as did bond yields, likely driven lower by heightened uncertainty. Interestingly, the U.S. stock decline was an outlier during the quarter as most global indices were positive, headlined by double-digit gains in European stocks. The gains in international stocks and U.S. bonds largely offset the losses in U.S. stocks, helping balanced portfolios finish around breakeven for the quarter.

Chief among investor concerns has been tariffs, which, along with government spending cuts, have taken priority over more growth-oriented fiscal matters like deregulation and tax cuts. Conversely, tariffs are widely assumed to raise prices, slow economic growth, and drag on company profits. Tariffs are a tax on importers typically passed through to consumers and the debate as to whether tariffs are inflationary or just a one-time price hike seems semantics; in the short run, tariffs will almost certainly raise prices.

To this point, the tariff focus has been on the nation's three largest trading partners, China, Canada, and Mexico, which collectively make up 40% of all U.S. imports. The China tariffs are an additional 20% on top of existing tariffs originating from Trump's first tenure that Biden kept in place. Trump has twice placed 25% on imports from Canada

China, Canada, and Mexico are Nearly Half of U.S. Trade



Source: JP Morgan

U.S. EQUITY RETURNS (%)

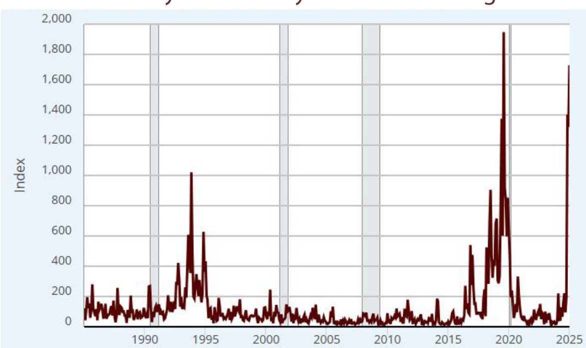
As of 3/31/2025	Q1 2025	1-Year	3-Year	5-Year	10-Year
S&P 500	-4.3	8.3	9.1	18.6	12.5
Russell 1000 (Large Cap) Growth	-10.0	7.8	10.1	20.1	15.1
Russell 1000 (Large Cap) Value	2.1	7.2	6.6	16.2	8.8
Russell 2000	-9.5	-4.0	0.5	13.3	6.3
Russell 2000 (Small Cap) Growth	-11.1	-4.9	0.8	10.8	6.1
Russell 2000 (Small Cap) Value	-7.7	-3.1	0.1	15.3	6.1

Source: Morningstar

Continued from page 2 . . .

and Mexico, only to immediately delay them for 30 days. Barring another delay, some tariffs are scheduled to go into effect on April 2. The on again, off again nature of tariff policy has only exacerbated uncertainty. A measure of trade policy uncertainty developed by Federal Reserve economists shows this quarter accelerating to the second highest level in the last 40 years, trailing only the onset of the pandemic.

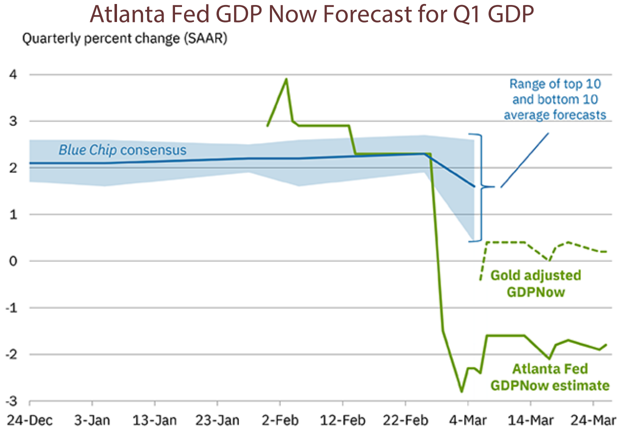
Trade Policy Uncertainty Near All-Time Highs



Source: FRED, Baker, BNloom, and Davis

Research firm Bespoke found the Fed's latest Beige Book, which gathers anecdotal information on current market conditions, mentioned the word "uncertainty" in its March publication more than any time in its 50+ year history. Consumer Sentiment, which initially surged post-Election, fell to three-year lows in its latest reading. Regional manufacturing surveys show a sharp reversal in expected new orders from the same surveys three months ago, while input prices are turning higher. Delta recently lowered its earnings outlook, citing a reduction in consumer confidence and business confidence from increased macro uncertainty.

Atlanta Fed GDP Now Forecast for Q1 GDP



Source: Atlanta Fed

Arguably, the soft data point that grabbed the most headlines was the Atlanta Fed's GDPNow model, which measures current quarter GDP growth in real time as data inputs arrive. Their model abruptly turned negative in early March, falling from consensus estimates of 2% growth to a 2% decline in economic activity. This pivot was due to a surge in imports as businesses tried to get in front of announced tariffs, as well as an upswing in gold imports on concerns that precious metals may also get hit with tariffs. Adjusting for gold, the model currently estimates flat growth for the quarter. Consumer-related data, once released, should raise the GDPNow model back into positive territory, but the model has been the most striking evidence that a growth slowdown could be underway.

U.S. Trade Balance Decline From a Surge in Imports

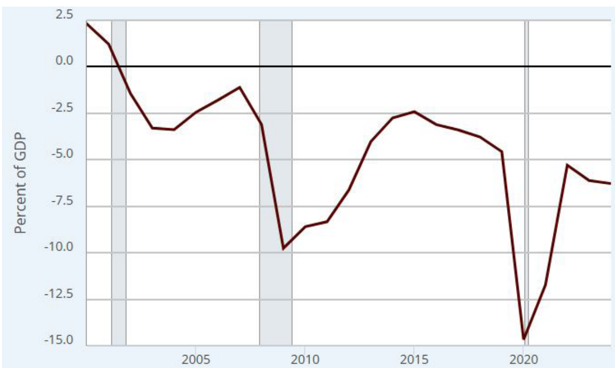
Source: FRED, BEA

The Federal Reserve's statement at their March meeting noted that "Uncertainty around the economic outlook has increased." The Fed's forecast suggested rising stagflation concerns, as the Fed revised their economic growth projections lower and their inflation expectations higher for the year. Stagflation is a lose-lose situation for the Fed. Rate cuts could fan inflation, while rate hikes could squash already-fragile economic growth. The last three years have been marked by tight monetary policy fighting the effects of loose fiscal policy. The Fed finally felt confident enough that inflation had dampened to cut rates three times last year. We may now be seeing roles reversed where monetary policy is loose versus tight fiscal policy.

"The market and the economy have just become hooked and we've become addicted to this government spending and there's going to be a detox period. There's going to be a detox period".

This statement came from Treasury Secretary Scott Bessent during an interview with CNBC the same day as Trump's "period of transition" comments. Tight fiscal policy would be a novel concept; fiscal policy this century has been either loose or looser. The brief fiscal surplus of the late 1990s was quickly overcome by spending necessary to fund two wars and the costs of the Great Recession. Trump's first tenure was unique in being the first to increase budget deficits without the rationale of a major war or recession, a practice that Biden then continued (even ignoring pandemic-aid spending for both). Deficit spending is now 6% of GDP, roughly double the average of Obama's final year in office, despite only one of the past 32 quarters being recessionary. This time around, President Trump sees tariffs as a means of revenue generation, allowing for an extension of his 2017 tax cuts while avoiding the same rapidity of deficit increases that marked his first tenure.

U.S. Federal Deficit as a Percent of GDP



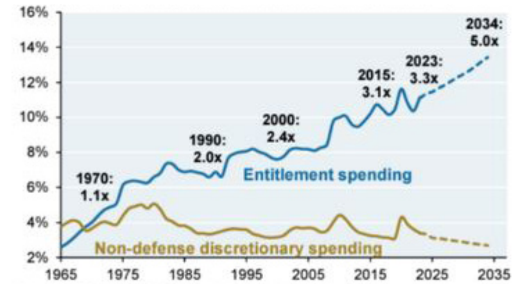
Source: FRED, OMB

Cutting government spending would be helpful in long-run, but it is not without short-term pain. Government spending accounts for nearly 25% of GDP, so meaningful reductions would detract from total economic activity. The push to reduce government waste and malinvestment should be broadly supported, but the manner of the undertaking via DOGE and Elon Musk have made the issue highly polarizing, adding to fiscal uncertainty.

Amid the uncertainty, one thing is certain. The new administration is overseeing a massive undertaking in reshaping the economy. Tariffs are a huge unknown, but the reality is there is no modern-day precedent. One must go back to the 1930s to find tariffs at these levels. Are the tariffs strictly a negotiating tactic? Can tariff revenue really contribute to filling the gap in our budget deficit? What will be the retaliatory impact from our trading partners? Can the DOGE cuts really move the needle without touching entitlement spending? When does the administration pivot to more growth-oriented agenda items such as bank deregulation? How does the unwinding of globalization impact corporate profits and profit margins?

Federal Government Spending as a Percent of GDP

Ratio of Entitlement to Non-Defense Discretionary Spending



Source: JP Morgan, Cembalest, CBO

The coming quarter should provide us with some hard data that will prove whether the economy is truly slowing or if the recent surveys and anecdotes are just more of our 2020's-era "Vibecession", where gloom persists contrary to solid economic growth. As always, watch employment, which has remained solid. Personal consumption is nearly 70% of the U.S. economy, and consumers should continue to spend so long as job growth remains positive. The new administration is banking on the reduction of government jobs to be fully digested by private sector employment growth.

As for the 10% correction in stocks, the selloff, to this point, has been orderly and more of a rotation out of some of the frothier areas of the market. The S&P 500 entered the year with premium valuations and lofty earnings growth expectations. Optimism has given way to uncertainty and the market is repricing accordingly. 10% corrections always bring fears of a recession, but recessions only materialize one out of every three such corrections. The other two-thirds of the time, they have proven to be pretty good entry points for long-term investors. In the meantime, this quarter was a great reminder that diversification among other asset classes outside of U.S. stocks is a great way to weather the risks of rising uncertainty.

INTERNATIONAL RETURNS (%)

As of 3/31/2025	Q1 2025	1-Year	3-Year	5-Year	10-Year
Int'l Developed ex US	6.9	4.9	6.1	11.8	5.4
Emerging Markets	2.9	8.1	1.4	7.9	3.7

Source: Morningstar

FIXED INCOME RETURNS (%)

As of 3/31/2025	Q1 2025	1-Year	3-Year	5-Year	10-Year
Aggregate Bond	2.8	4.9	0.5	-0.4	1.5
Muni	-0.1	1.6	1.5	1.2	1.8
Int'l Bonds	2.7	3.3	-0.5	0.4	0.8
High-Yield	0.9	6.7	4.2	6.4	3.9
Short-Term	1.7	5.9	3.3	2.6	1.9
90-Day T-Bill	1.1	5.0	4.6	2.8	2.0

Source: Morningstar

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