April 2025

Quarterly Market Review

First Quarter of 2025

Riding the Whiplash: Navigating a Rapid-Fire News Cycle

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The current market environment is undeniably fluid and uncertain. The recent, larger-than-expected tariffs announced by the Trump administration have introduced a significant amount of volatility, with "shock and awe" trade policy driving near-term sentiment. However, visibility remains low, given that tariff policy may still be negotiated down, reversed in court, or met with retaliatory measures such as those China has implemented in recent days. Clarity is limited as economic data doesn't yet reflect the magnitude of the sweeping changes taking place.

We've lowered our baseline 2025 GDP growth forecast to the 1.25%–1.75% range to account for the drag these tariffs could impose on overall economic activity. The trajectory will hinge on how tariffs ultimately unfold and whether consumer and business caution evolve into a more sustained slowdown. Our probability of a recession starting in the near term has risen significantly—from about one in five at the beginning of the year to nearly one in two now. We can't rule out a negative GDP print as early as Q2 if trade disruptions weigh heavily on consumer and business spending.

Amid equity volatility in Q1, bonds once again demonstrated their defensive qualities. Uncertainty caused the growth giants to stumble, while bonds and dividend growth found their footing.

Period Total Return	Bloomberg US Aggregate Bond Index	S&P 500 Index	S&P 500 Equal Weight Index	S&P 500 Dividend Aristocrats	S&P Midcap 400 Index	S&P Small Cap 600 Index	Bloomberg Magnificent 7 Index
Quarter To Date	2.8	(4.3)	(0.6)	3.2	(6.1)	(8.9)	(16.0)
1 Year	4.9	8.3	4.1	3.2	(2.7)	(3.4)	20.0

Source: YCM, Bloomberg, S&P. Performance as of 03/31/2025. Index performance is provided for illustrative purposes only and does not represent the performance of any accounts managed by Yousif Capital Management. It is not possible to invest directly in an index. Actual account performance would be reduced by the impact of advisory fees and transaction costs. At any time, the holdings and performance of any actual portfolio managed will vary from those of the index. Quarter to Date returns are not annualized.

Markets have continued to sell off in early Q2 as a trade war with China appears evident and headlines change market sentiment hourly. Nonetheless, equity markets may quickly find support if tariff negotiations evolve favorably or if there is any fiscal stimulus (such as tax relief in the next reconciliation bill) that can help offset trade headwinds. Meanwhile, some potential tailwinds exist in the form of possible monetary easing by the Federal Reserve, which could provide a buffer should growth begin to slow too quickly. The Fed's response is a wildcard, and there is a reasonable possibility we may see multiple rate cuts this year if growth decelerates dramatically.

From the Desk of our Chief Investment Officer

Given the uncertainties, we **do not** recommend making knee-jerk changes to strategic allocations or strategies at this time. Equity allocations in many portfolios have naturally declined due to market price movements, and this organic de-risking helps moderate overall volatility without forcing portfolios to sell into weakness. Moreover, history shows that a significant portion of equity returns occur on just a handful of trading days each year, meaning that attempts to time the market can result in missing these crucial "best days." By staying invested and maintaining a long-term view, portfolios remain positioned to participate in potential rebounds and avoid the pitfalls of reactionary decision-making.

On the fixed income side, we entered the year with what we consider a relatively conservative overweight position to credit exposure within our bond strategies, anticipating potential market headwinds and heightened volatility. As spreads have widened in response to recent uncertainty, we're selectively adding positions in high-quality credits that we believe can withstand trade-related disruptions. Spread widening with an overweight to credit caused most of our active fixed income strategies to trail their benchmarks by 10-20 basis points in Q1 2025. In terms of duration, we've remained relatively neutral until very recently, given the elevated market volatility and our limited visibility on where interest rates might ultimately settle. With sticky inflation, the risk of further price pressures from tariffs, and slowing growth all in play, the range of potential outcomes is broader than usual. Our philosophy has always been to capitalize on high-conviction opportunities while carefully managing risk – a strategy we see no reason to abandon now. This measured approach allows us to pursue attractive risk-adjusted returns while maintaining our commitment to capital preservation. This recently led to multiple PSN Top Guns Awards for several of our active fixed income strategies as of 12/31/2024. Among the honors, YCM earned the prestigious 6 star rating in multiple categories, as well as the "Manager of the Decade" award for the Short Term Fixed (1-3 A or better) strategy. These awards place YCM amongst the TOP-10 performing investment managers in their respective categories over the last 5 and 10 year periods.

Though we remain optimistic that cooler heads will eventually prevail, and a negotiated settlement will be reached, we remain vigilant to the risk of adverse scenarios. By maintaining a balanced, disciplined posture, we ensure our clients' equity, bond, and balanced portfolios are well-positioned to adapt and thrive amid ever-evolving conditions.

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