March 4, 2025

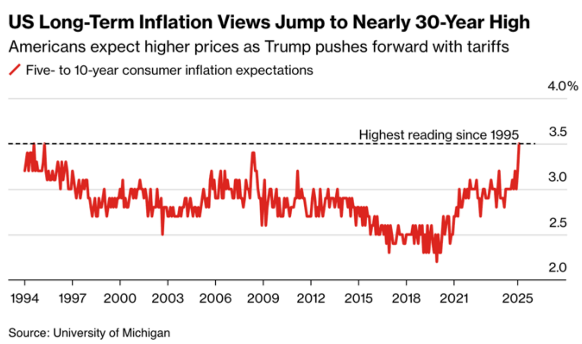
Overview

This past month, a combination of tariff threats from the US on the rest of the world, stubborn inflation stateside and signs of a weakening economic environment contributed to US equities losing momentum.

The S&Ps' 500 lost **1.30%** overall while the Nasdaq composite slumped **3.91%** and the Russell 2000 (Small Cap Stocks) cratered **5.35%**.

Internationally, a deteriorating geopolitical situation and a weakening of the USD seemed to play, at least temporarily, in favor of non-US markets with the EPAC BM Index of developed economies (ex-US) gaining **1.16%** and emerging markets faring relatively well, the MSCI EM (emerging markets) rising **.50%** and the MSCI Frontier 100 index a greater **2.14%.**

The chart below illustrates the expectations of US consumers with respect to inflation over the coming years. The FED is likely to view them quite negatively and to delay even more a possible reduction of interest rates as a result.



The big winners in February were the US fixed income markets. Propelled by geopolitical uncertainties and weakening economics, the AGG index finished the month with a **2.20%** gain, while Investment Grade and High Yield bonds rose respectively **2.04%** and **.67%.** The Bloomberg municipal index was up **.99%.**

Our median portfolio was up **.29%** in February**.** Over the same period, a portfolio consisting of 50% ACWI (All Country World Index) and 50% AGG (US Bond Aggregate) rose **1.04%.** Year to Date (YTD) our median portfolio is up **2.69%** vs. **2.80%** for our benchmark.

Market developments

The constant threat of tariffs imposed by the US on its major partners, be they friends or traditional foes, played a major role in the increased volatility of the US equity markets. Adding to this negative background were signs of weakening economics, as shown below in one of the metrics listed:

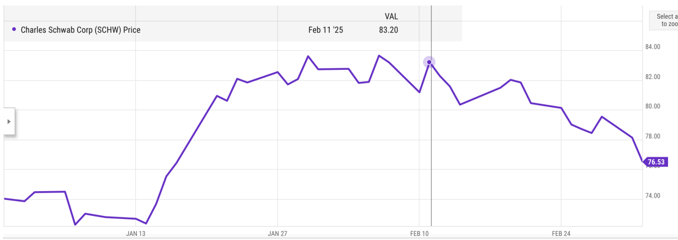
Metric	Actual	Estimate
PCE price index (MoM)	+0.3%	+0.3%
Core PCE price index (MoM)	+0.3%	+0.3%
PCE price index (YoY)	+2.5%	+2.5%
Core PCE price index (YoY)	+2.6%	+2.6%
Real consumer spending (MoM)	-0.5%	-0.1%

The "actual" column is for the month of January. The last line item (real consumer spending) is the most important for now. While the other data point to a stubborn level of inflation, the last line indicates a weakening of the level of consumption in the US. With consumption representing two thirds of GDP, the consequences, in terms of economic growth, are real.

Adding to this uncomfortable situation, the economic and geopolitical uncertainties created by the Trump Administration's gutting of Federal Agencies and upending of Nato, to speak of a few consequential items, could very well lead the US consumer to adopt a more prudent posture going forward. While this trend needs to be confirmed, the stubborn level of inflation in the US economy, does not help either, as shown below:

Portfolio commentary

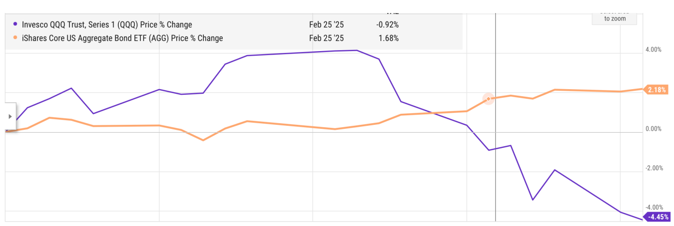
In February, I sold the remaining investment that we had in SCHW. I was fortunate to sell it at what appears to be the short-term high point for the stock, as illustrated below:



I was able to exit this position at a little over $84, for all of you.

Separately, given the rising geopolitical tensions caused by the Trump Administration's announced policies and the signs of a weakening economic environment, I continued to reduce our investment in QQQ, the growth/Tech ETF that I use to give us exposure of this sector of the market. I invested the proceeds in AGG, the US bond aggregate.

My timing was good, as illustrated in the chart below:



I increased our allocation to AGG (yellow line) and decreased our allocation to QQQ (purple line) at the time indicated by the vertical bar.

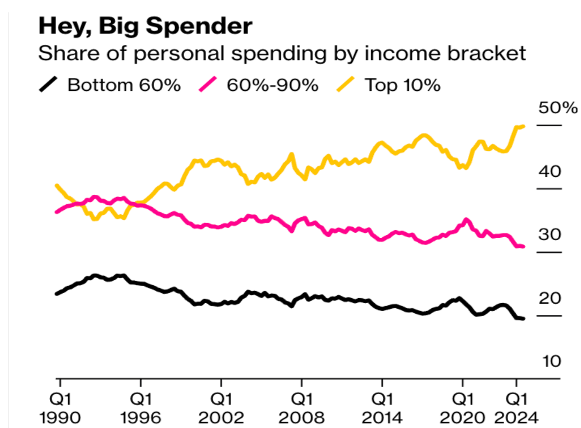
This will have the combined effect of reducing our overall level of risk (reduction of our aggregate equity investments) and increasing our sensitivity to US interest rates, which should be adding to our performance should the weakening of the US economy be confirmed.

Conclusion

Today, as I write this newsletter, I feel a bit like I am arranging the chairs on the deck of the Titanic as the ship is sinking…I wish I could do more than just inform you of how I see the markets and the economic implications of what the US Administration is doing. Rather than remaining silent about the very consequential and disturbing political, geopolitical and economic developments that will ensue, let me give voice to others. Here are the comments offered by Mike Zandi, a respected and well-known economist with Moody's. That commentary accompanied the chart immediately under it and was reported by Bloomberg's services on February 25:

> Letting so many of the country's economic resources accrue to so few people, Zandi says, risks a lot more than just the economy–it eats away at social cohesion in ways that have leaked into other areas of American life and politics. It breeds distrust and recrimination among individuals and groups of people, as well as toward the systems and institutions we're supposed to trust to make society work in ways that are at least minimally fair. The end result is a combination of economic fragility and social disaffection that eventually even high earners might not be able to buy their way out of.

Zandi was commenting on the following chart:



The actions of the current US Administration are likely to worsen these trends, if only by eviscerating agencies that are supposed to serve us all. Thank you for your continued trust.

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