MARKET UPDATE

April 7th, 2025

CONCENTRATION IS THE KEY TO WEALTH.

DIVERSIFICATION IS THE KEY TO SURVIVAL.

1. WHAT'S HAPPENING:

Tariff Standoff Drives Recession Fears: Global markets collapsed following the announcement of America's expanded tariff policies last Thursday. The move was then exacerbated by a strong, retaliatory response from China. The ensuing standoff has left markets in a panicked state of flux as they seek to balance the unusual risks of a voluntary global recession with the potential rewards of a spring-loaded rebound that could fire at the faintest hint of compromise.

Capital Flows Shifting Overseas: For US investors, the drop in stocks this year has been worsened by a coinciding decline in the dollar. In relative terms, this has buffered the performance of international markets and reinforced the more recent trend of capital fleeing America for opportunities abroad. Though those international markets are also experiencing large declines, the broader theme of a continued global rebalancing will be a critical factor in determining the net wealth effects of this trade war.

Oil Price Declines: Amidst all this pain, oil may offer some relief. Despite the fears of falling aggregate demand, OPEC+ moved forward with a surprise increase in oil output. In short order, oil prices have fallen below $65 per barrel, down approximately -13% in the last 3 trading days. If sustained, these declines will help ease near-term inflationary pressures for US consumers as well as for large oil importers like China and the EU.

2. HOW IT'S IMPACTING MARKETS:

Flight To Safety: In the global sell-off, investors have flocked to risk-free government bonds, driving 10-year Treasury yields as low as 3.8% from as high as 4.4% the week prior. While the flight to safety has pushed risk-free rates lower, credit spreads in riskier bonds have also widened due to the panic, largely offsetting the decline in base rates.

H**eightened Volatility:** The VIX spiked as high as 60 today indicating extreme market stress and likely forced selling. Historically, such fear-driven movements have often preceded long-term buying opportunities. That said, volatility is often trendy and self-reinforcing, so this short-term instability is likely to persist before there is a return to calm.

Dollar Rebound & Uncertainty: After an additional drop following the tariff announcements, the dollar has stabilized somewhat in the last couple trading days. This matters as the dollar's global reserve currency status will be an important factor in shaping how wealth is redistributed in these trade shakeouts. While it maintains an enviable position today, that status could be vulnerable to new policy developments.

3. ACTIONS WE'RE TAKING:

Tax Loss Harvesting: Market volatility should not be wasted. To take advantage of the pain, we're working to capture tax benefits from this downturn. By actively harvesting losses as they arise, we can offset taxable gains and optimize for greater after-tax portfolio returns.

Dynamic Portfolio Rebalancing: Where appropriate, we are taking advantage of market volatility through portfolio rebalancing. Sticking to our strategic allocation targets in chaotic times like these causes us to naturally buy underperforming classes and sell overperforming ones. As long-term valuations tend to revert, this can both reduce portfolio volatility and improve expected returns over time.

Long-Term Positioning: Finally, while short-term uncertainty remains high, history teaches that broad market downturns represent long-term opportunities. We remain focused on implementing disciplined investment strategies to navigate this uncertainty and position your wealth for future growth.

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