MARCH: US EQUITY TARIFF TANTRUM

RISING UNCERTAINTY DRIVES US STOCKS LOWER

Figure 1: 3/31/2025 Returns (source: FactSet)

Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	YTD	1YR	vs. 52-wk High	vs. 52-wk Low
US Aggregate Fixed Income	AGG	0.0%	2.7%	4.9%	-3.1%	4.3%
Investment Grade Corp Bonds	LQD	-0.5%	2.5%	4.3%	-4.7%	4.4%
U.S. 20+ YR Treasuries	TLT	-1.2%	4.9%	0.2%	-10.4%	7.2%
Muni Bonds	MUB	-1.8%	-0.5%	1.0%	-3.1%	0.8%
US High Yield	HYG	-1.1%	1.2%	7.7%	-1.8%	4.4%
Non-US Corp Bonds	IBND	3.0%	4.4%	3.9%	-6.1%	6.5%
Emerging Markets Bond LC	EMLC	1.3%	4.3%	3.7%	-6.6%	4.0%
Global Equity						
ACWI Global Equity	ACWI	-3.7%	-0.9%	7.5%	-6.3%	11.6%
ACWI Global Equity ex US	ACWX	0.2%	6.3%	6.9%	-4.3%	11.3%
International Developed	EFA	0.2%	8.1%	5.6%	-4.1%	10.6%
Emerging Markets	EEM	1.1%	4.5%	8.9%	-7.9%	10.9%
Global Equity by Region						
United States	VTI	-5.9%	-4.8%	7.2%	-9.4%	12.4%
Europe	IEUR	0.4%	11.4%	7.5%	-4.3%	12.9%
Asia ex-Japan	AAXJ	0.4%	2.5%	11.2%	-10.0%	13.3%
China	MCHI	1.5%	16.1%	40.1%	-9.0%	40.1%
Japan	BBJP	0.3%	2.3%	-1.4%	-7.4%	12.1%
Latin America	ILF	5.1%	12.6%	-11.5%	-18.9%	13.1%
US Equity						
US S&P 500	IVV	-5.6%	-4.2%	8.3%	-8.8%	13.2%
NASDAQ 100 QQQ	QQQ	-7.6%	-8.1%	6.3%	-13.3%	13.5%
US Large Growth	IWF	-8.4%	-10.0%	7.6%	-13.9%	14.5%
US Large Value	IWD	-2.8%	2.1%	7.1%	-6.1%	11.4%
US Eqwt S&P 500	RSP	-3.4%	-0.7%	3.9%	-7.9%	9.1%
US Mid Cap	IJH	-5.4%	-6.1%	-2.6%	-14.6%	4.2%
US Small Cap	VTWO	-6.8%	-9.5%	-3.9%	-18.6%	4.3%

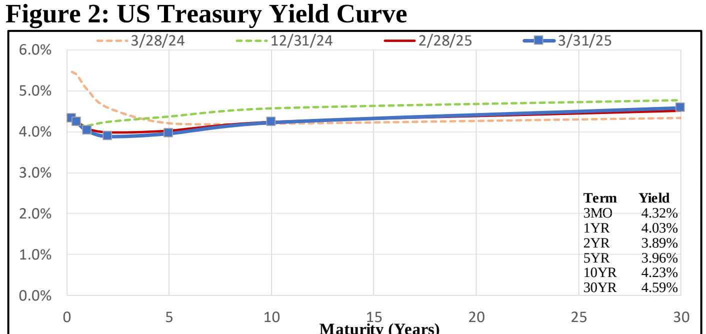
US stocks continued the selloff that began in late February as consumer confidence weakened further amid heightened inflation and growth concerns (tariffs and trade wars). Non-US equities have continued to rise, aided by a weakening US dollar. Performance highlights for March and year-to-date (YTD) are below.

- Bonds: The US Aggregate index (AGG) was flat in March (+2.7% YTD). Long-term Treasuries (TLT) are very sensitive to interest rates, falling 1.2% (+4.9% YTD) as long yields rose. Corporate bonds (LQD) fell 0.5% (+2.5% YTD); high yield (HYG) fell 1.1% (+1.2% YTD) as credit spreads widened.
- Global equity (ACWI): -3.7% in March (-0.9% YTD).
- US Equity: The broad market (VTI) fell 5.9% (-4.8% YTD), and the S&P 500 (IVV) lost 5.6% (-4.2% YTD). The selloff has been led by the high-profile tech-oriented stocks that have powered the market ever higher over the past several years, but losses were broad-based. Small stocks (VTWO) were down 6.8% (-9.5% YTD) amid rising economic uncertainty. Energy stocks gained 3.5% as oil prices rose over $71 per barrel, but most sectors were down, with 8% losses in Technology and Consumer Discretionary stocks ("Magnificent 7" selloff).
- Non-US Equity: Stocks outside of the US continued to rebound in March. Developed markets (EFA) gained 0.2% (+8.1% YTD), with modest gains in Europe (IEUR) and Japan (BBJP), partially due to currency strength versus the dollar. Emerging market stocks (EEM) gained 1.1% (+4.5% YTD), with the strongest gains of more than 7% in India (INDA) and Brazil (EWZ), two markets that have lagged over the past year.

Interest Rates and the Economy

Interest rates have been volatile amid concerns about tariffs, inflation and economic growth but ended March relatively unchanged. The Federal Reserve (Fed) again held rates steady, but their updated Summary of Economic Projections suggested potential stagflation (inflation and unemployment forecasts revised higher, economic growth forecasts lower). Investors continue to focus on incoming economic data to set expectations for future rate cuts with two or three more 0.25% cuts expected later this year. The yield curve (Figure 2) plots the interest rates for various US Treasury maturities. US 10-year Treasuries now yield 4.23%.

Figure 2: US Treasury Yield Curve

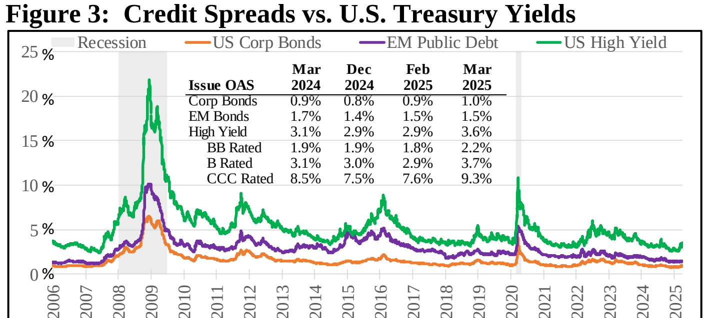


Source: Board of Governers of the Federal Reserve System via St. Louis Fed (FRED)

For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism; high or widening spreads signal fear. Spreads widened this month, reflecting the "risk off" tone of US markets.

- Investment grade corporate bond spreads widened to +1.0% but have been relatively stable over the past year.
- High yield (non-investment grade) spreads widened to +3.6% last month and are up from the +3.1% spreads a year ago. Spreads of the riskiest bonds (rated CCC & below) widened to +9.3% and are well above the +8.5% spreads one year ago.
- Emerging market spreads were steady at +1.5% but have tightened over the past year; investors see low risk in EM debt.

Figure 3: Credit Spreads vs. U.S. Treasury Yields



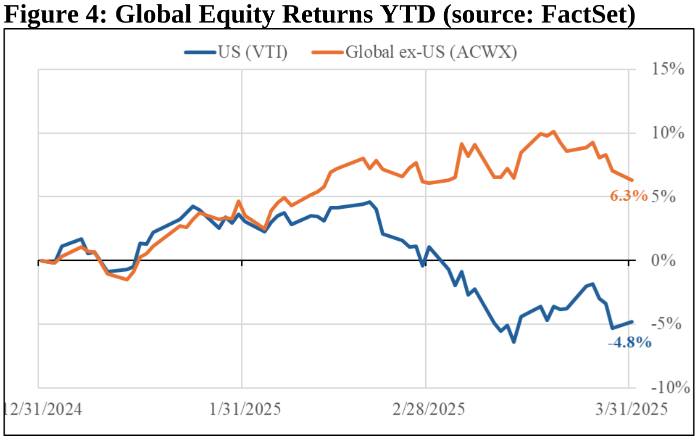
Source: Ice Data Indices, LLC via St. Louis Fed (FRED)

Rising Uncertainty Drives US Stocks Lower

US markets and corporate America are spooked by looming tariffs and the potential for an all-out trade war as our trading partners retaliate. Economists and investment banks are growing increasingly concerned about the economic impact of the new administration's tariff and trade policies. Goldman Sachs' chief economist warned on Monday that tariffs will likely increase consumer prices, raising his 2025 forecast for core personal consumption expenditures (core PCE, the Fed's favored inflation metric) to 3.5% versus the current reading of 2.8% year-over-year as of February. He also increased the odds of a recession over the next twelve months to 35% (from 20% previously) and lowered his forecast for 2025 real GDP growth to 1%, much lower than 2024 growth of 2.8%. (Note: Real Gross Domestic Product is the value of all final goods and services produced, net of inflation).

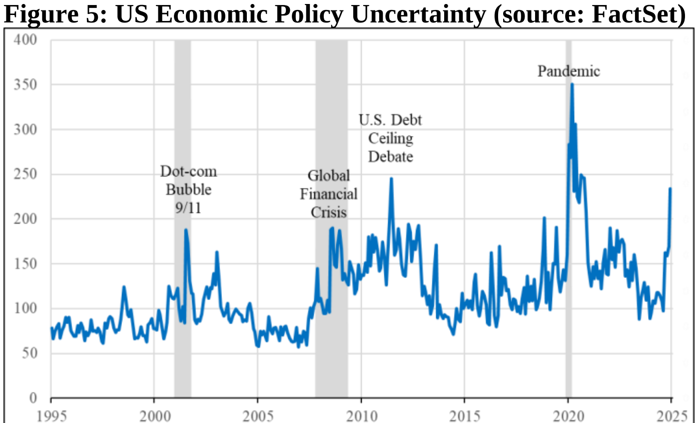
US stocks were down again in March and are now nearly 10% below all-time highs set earlier this year. Interestingly, the painful sell-off has been almost purely a US phenomenon; non-US stocks are doing just fine so far this year, as illustrated in Figure 4.

Figure 4: Global Equity Returns YTD (source: FactSet)



Perhaps surprisingly given the tariff rhetoric, Chinese stocks (ETF: MCHI) are up 16% year-to-date, Mexican shares (EWW) are up nearly 9%, and Canadian stocks (BBCA) are up almost 2% while US markets are down. Stocks in Europe (IEUR) are up over 11% year-to-date (partially due to dollar weakness). The constant back-and-forth on tariffs is causing economic uncertainty to spike in the US, as illustrated in Figure 5, and markets hate uncertainty. (Note: The shaded gray areas denote recessionary periods.)

Figure 5: US Economic Policy Uncertainty (source: FactSet)



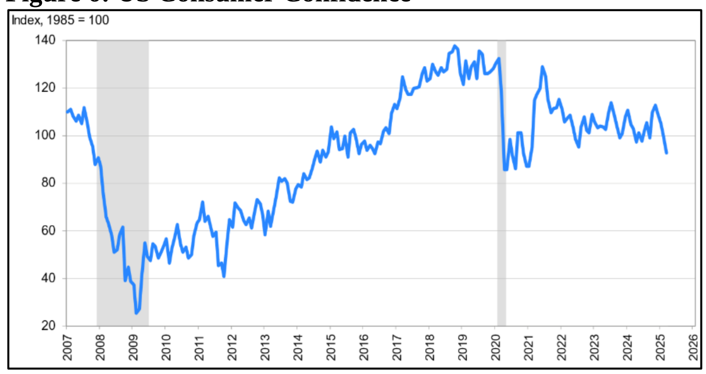
Source: Economic Policy Uncertainty (www.policyuncertainty.com)

This uncertainty index tracks data across three categories: news coverages, tax code data, and dispersion of economic forecasts.

- News Coverage: Data analysis tracking mentions of terms relating to the economy, uncertainty and economic policy;
- Tax Code Expiration Data: Uses data from the Congressional Budget Office (CBO) to track the revenue impact of expiring or pending tax code provisions;
- Disagreement among Economic Forecasters: Uses data from the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters to measure the dispersion of forecasts of inflation and government expenditures (Federal, state, and local).

Economic uncertainty has spiked to levels rarely seen in the past 30 years, only surpassed during and after the pandemic and a brief spike in 2011 amid a contentious US debt ceiling debate. This uncertainty is impacting consumer sentiment, as illustrated in Figure 6. Consumers are increasingly concerned about future inflation and weaker employment prospects, with overall consumer confidence now near post-pandemic lows. It remains to be seen whether this pessimism causes a change in spending habits, but a healthy consumer is critical; personal consumption drives two-thirds of the US economy and is the primary driver of growth.

Figure 6: US Consumer Confidence



Source: The Conference Board, NBER

Bottom Line

The US stock market briefly entered correction territory (down 10% from February highs), ending the first quarter down nearly 5%. Economic uncertainty has spiked and consumer confidence is falling amid concerns about the impact of tariffs on inflation and growth. Markets hate uncertainty, and the prospect of a trade war is unnerving businesses, consumers and investors alike. Interestingly, non-US markets are holding up well, partially reversing the under-performance versus the US in recent years.

In addition to tariffs and trade, investors remain focused on interest rates, analyzing incoming data on inflation, employment and economic growth to assess if and when the Fed will cut interest rates further. Lower interest rates tend to be good for the economy, fueling growth and investment, but a growth scare can also result in Fed rate cuts. Economists and market strategists are now worried about the potential for stagflation (lower GDP growth and higher inflation) and are seeing a rising risk for recession.

Given the uncertainty around tariffs and the long list of the new administration's policy priorities pending in a closely divided, highly partisan Congress, markets will likely remain volatile in the near term. Diversification is critical. While most investments outside of the US have under-performed over the past decade, we are seeing evidence of rotation, with US stocks down so far this year, but international developed and emerging markets equities gaining. Whether these trends are sustainable remains to be seen.

Disclaimer:

ACIMA Private Wealth LLC ("ACIMA" or the "Firm") is a federally registered investment adviser based in Richmond, Virginia since January 2016. The Firm is a fee-only investment advisory firm with the intent to provide exceptional service to high-net-worth individuals, families, trusts, charitable foundations and institutions. ACIMA's purpose is to implement integrated wealth management solutions that meet the financial needs and reflect the personal values of our clients. For additional important information regarding ACIMA, its investment management services, compensation, conflicts of interest, and other matters, is contained in its disclosure document, Form ADV Part 2A and Wrap Fee Brochure. A copy of which is available on through the Firm's website or upon request to the Chief Compliance Officer at (804) 422-8450.

The information and views contained in this document were prepared and compiled by ACIMA. The statements provided herein are based solely on the opinions of ACIMA and are solely for informational purposes only. It is not a research report, as such term is defined by applicable law and regulations, and is not a solicitation or an offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Any opinions provided herein should not be relied upon for investment decisions. The information contained herein was obtained from sources believed are reliable but has not been independently verified by ACIMA and for which no guarantee of accuracy is proffered.