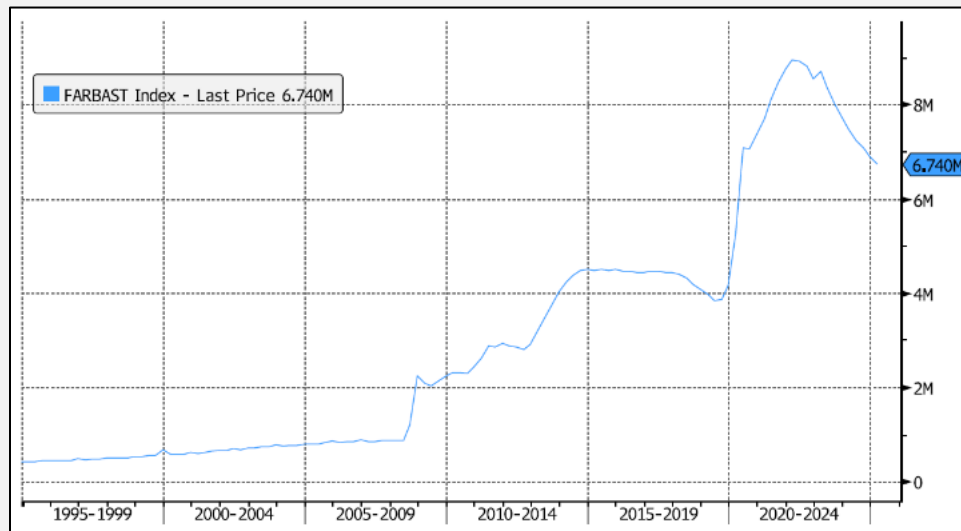


Current Market Environment

Uncertainty continues to be the primary driver of market action as evidenced by the Fed statements, the potential impact of announced/expected layoffs to labor data and increased market volatility. In the short run, this will maintain our view of higher volatility for longer and we are using these inputs as a guide to shaping our longer-term perspective. We highlight each of these inputs below:

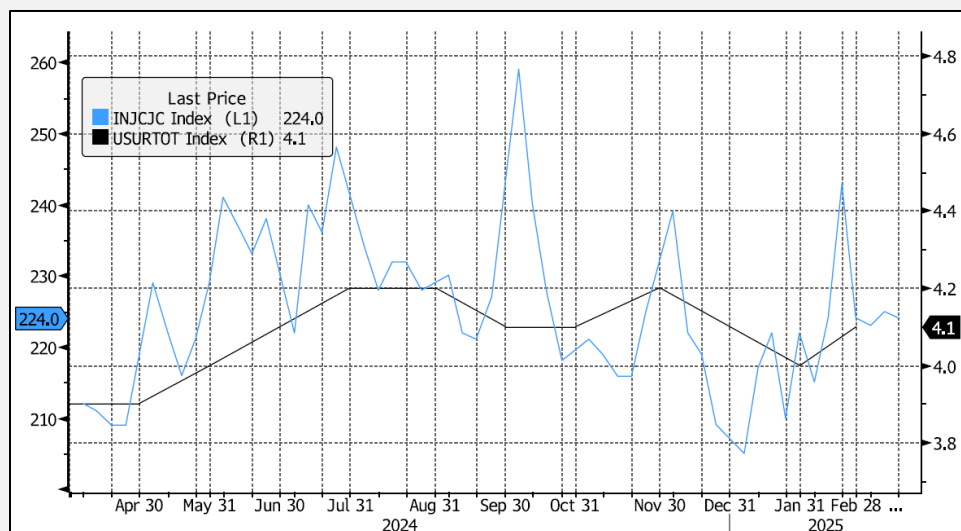
- The Fed clearly called out that “uncertainty around the economic outlook has increased” in their March 19th meeting statement. As mentioned in previous commentaries, although the Fed paused in December 2024 after 100bps in rate cuts that year, they have continued to reduce their balance sheet from a max of \$9tn in April 2022 to \$6.8tn currently. Despite the easing Fed policy, this balance sheet reduction, although necessary from a fiscal standpoint, is a relatively restrictive move which had signaled some comfort with the state of the economy. The Fed is now slowing the pace of that balance sheet reduction. Additionally, Chairman Powell’s comments about tariffs were telling. His current opinion that the impact of tariffs “could be transitory to inflation” says a lot about where they will focus in the near term. We are back to a single front battle with the Fed squarely focused on labor in the near term. Finally, it is our opinion that the Fed also made a bold statement about what to expect from them. The way Chairmen Powell presented the committee’s statement and the conviction in his responses to the Q&A told us that the Fed will continue to focus on economic data to inform policy and will fiercely uphold their operating independence of markets despite presidential rhetoric. In short, we believe the Fed is focused, positioned well to manage shocks to the economy and is more likely to discount inflation concerns. The Fed is leaning dovish, which is in-line with the market pricing three 25bp cuts this year, and we believe this transparent stance is supportive of risk assets. It is worth noting that despite what the market is pricing in, we still believe the Fed will be challenged to make any policy changes before year-end, but we are admittedly growing concerned about that view.

U.S. Condition of All Federal Reserve Banks Total Assets



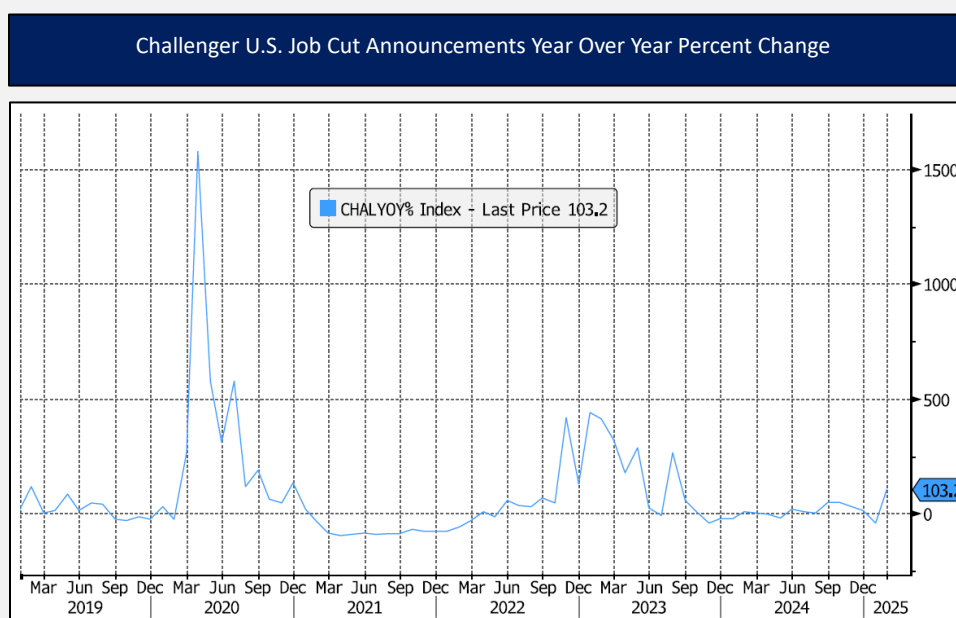
- As we just discussed, the labor markets are in the crosshairs for the Fed. Recent U.S. Initial Jobless Claims numbers have remained relatively in-line with expectations with the last reading on March 22nd coming in at 224k. This reading was below the 225k estimate and is also well below the long-term average pre-2020 of 352k. In addition, the unemployment rate for February came in at 4.1% just slightly above the survey of 4.0%. On the surface, these data points are not particularly concerning relative to trend, estimates and a long-term unemployment average rate of 5.7%.

U.S. Initial Jobless Claims vs. U-3 U.S. Unemployment Rate



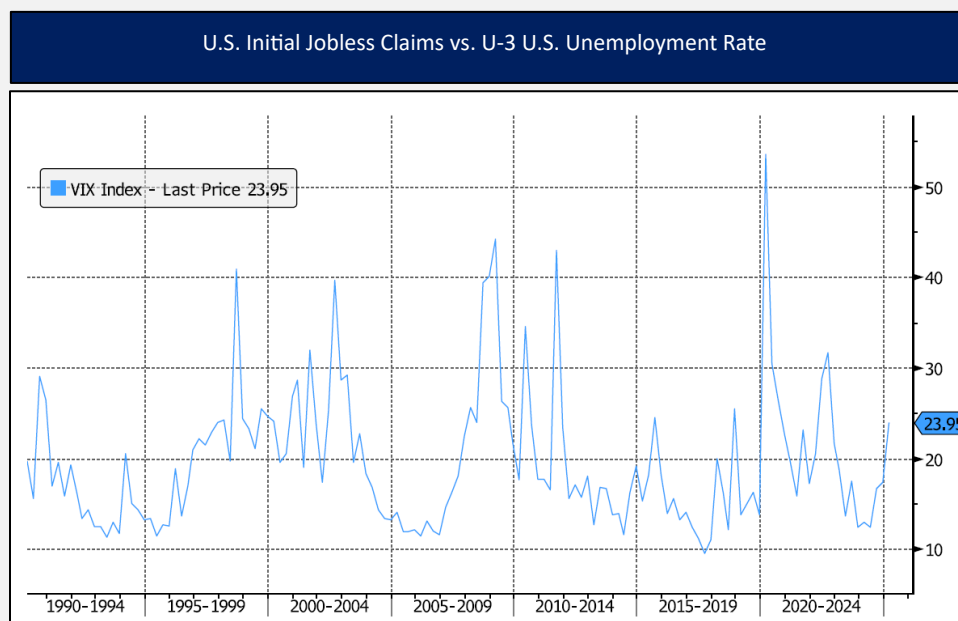
(Data and charts as of 3/31/25 per Bloomberg)

What is more concerning is the potential leading indicator of job cut announcements. As we noted last month, anecdotally we felt there were numerous companies announcing layoffs but that was not represented in the data at the time. It is now. Challenger U.S. Job Cut Announcements, on a year-over-year basis for 2024 averaged ~11%, but have now jumped to ~103% in the latest reading from the end of February. A lot of this is driven by the wave of layoffs in the Federal government care of DOGE but it is on top of corporate layoffs as well. Until there is more clarity on the future state of the economy, corporations are likely to remain protective of their bottom line. Obviously, daily tariff whipsaws are not helping.



- Although volatility is a result of the uncertainty created by the administration and economic data, we still think it is important to recognize the current state of the market when making investment decisions. As we have mentioned numerous times, volatility will remain high, which brings with it some dramatic price action that is not necessarily always reflective of the state of the economy. In addition, market repricings/corrections are healthy to rationalize pricing of securities that are in-line with fundamentals. Typically, increased volatility is likely the result of less market liquidity and depth. This means that there are less willing market participants to step in during drastic price movement which exacerbates price changes. That does not mean that there are no buyers at lower levels, it just means that there are no buyers right now. As investors get greater clarity on the future state of administrative policies and the path of the economy, this will support an increase in market liquidity and more

rational market moves. So, the name of the game in the short run is to avoid panicking (it is not a great investment strategy anyway!), maintain a nimble approach and identify opportunities. This market is fickle and will remain as such for the foreseeable future, but this will create opportunities for active investment managers.



Additional Considerations

Now that we have framed the market, there are still a couple of topics that need to be considered. We believe the new administration's hyper focus on market performance is important to keep in perspective. In addition, despite significant international trade wars, it seems that the market has completely lost sight of the geopolitical instability that exists in multiple regions, and we would caution against completely discounting their potential impact.

- This administration was very public about being aggressive with effecting change as priority number one. They have also made it clear in comments from cabinet members such as Treasury Secretary Bessent and Commerce Secretary Lutnick that a recession may be what the U.S. needs to get to the other side of years of excessive fiscal spending. Despite that, and we believe we have seen some of this already from tariffs getting delayed or adjusted quickly after their announcement, this administration, more so than others, is hyper-focused on their impact to financial

markets. Now that may have become less of a consensus view, but we do not think it can be ignored. In Trump 2.0, we are getting the medicine first and the candy later. While they may be playing more of a long game this time around, as drastic as the medicine, and, in turn, the uncertainty is today, we are likely to see more favorable financial market policies over time. The counter to that is that extending Trump 1.0 tax cuts will not have as much of a market impact as the original implementation of those tax cuts so it will take more than that to placate the market and inspire growth and investment.

- From a geopolitical standpoint, it continues to surprise us how little of an impact the events of any world conflict has on the market. Whether it be the Israel vs. Hamas conflict that grew to include the Houthis/Iran/Yemen; a direct assault from the U.S. on Houthis in Yemen; or Ukraine vs. Russia, financial markets do not seem to care – for now. Add to that the additional instability brought to the world in the form of non-military conflicts via direct opposition from the U.S., in the form of rhetoric and tariffs, to decades long alliances with nations north, south and across the Atlantic. Maybe geopolitical conflicts have simply become more difficult to directly assess economic impact. One thing that is clear, though, is that all of this adds to the economic uncertainty. Markets can still perform with limited points of uncertainty but when multiple events have the potential to change the economic landscape, investors find ways to become more defensive until greater clarity emerges. This probably means the markets' geopolitical concern is mitigated for now. As greater clarity emerges around the end-state result of tariffs, though, geopolitical conflicts and alliances bear some focus as they could lead to greater financial market impacts.

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