Seelaus Asset Management
Market Commentary

June 27, 2025

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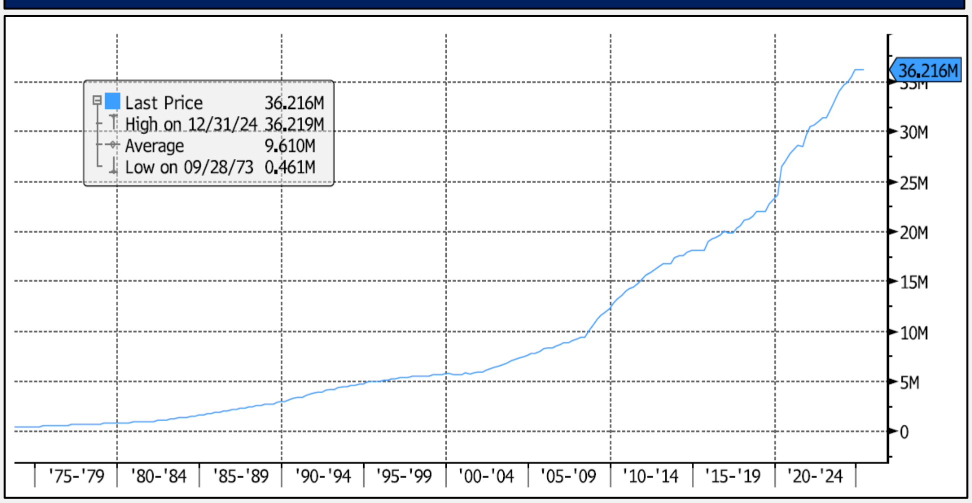
ASSET MANAGEMENT

A New Paradigm

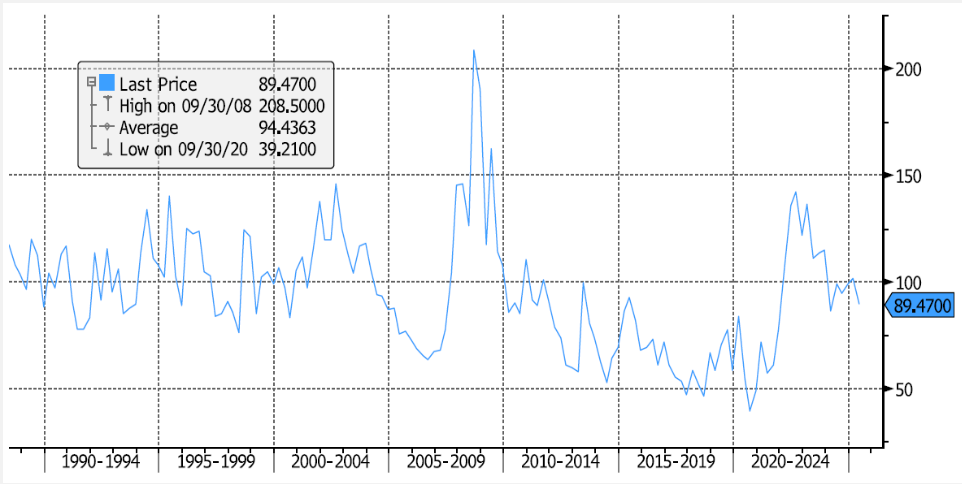
We believe we have entered a new paradigm for how things will "work" going forward. With the U.S. administration's playbook becoming clearer and the risk of the worst-case tariff scenario decreasing we believe tariff volatility is behind us and puts the U.S. deficit front and center. In addition, the military actions of the past weekend have catapulted the U.S. into a new model of global conflict that appears to be supportive of markets while still impactful enough to effect change globally.

- For the first time since Bill Clinton's campaign pledge in 1992 to balance the budget we believe the time is right for fiscal spending to take a hyperfocus from both politicians and the market. With the U.S. debt hitting an all-time high at the end of 2024 of $36+ trillion, it is now 56% higher than the beginning of January 2020 prior to the pandemic and 317% higher since January 2007 prior to the Global Financial Crisis. As expected, U.S. monthly interest expense on treasuries also hit all-time highs ~$93bn in March. To put that in perspective, using the last U.S. fiscal year which runs from October 1st to September 30th, interest expense was ~$883bn which is about the same size as the GDP of countries like Taiwan and Switzerland! We believe this could be a wild card for an Administration that is calling for lower rates and could bring additional volatility to the rates market in the short run. As much as volatility (as indicated by the MOVE index) has come down from the highs of the year, the pre-pandemic 5-year average for the MOVE is ~65. Today, we are ~89 and the YTD average is ~100. This may be a new paradigm for rate volatility but at the very least it may be reality for now and could create challenges for risk assets that tend to appreciate rationale rate moves.

US Total Debt Outstanding



ICE BofA MOVE index



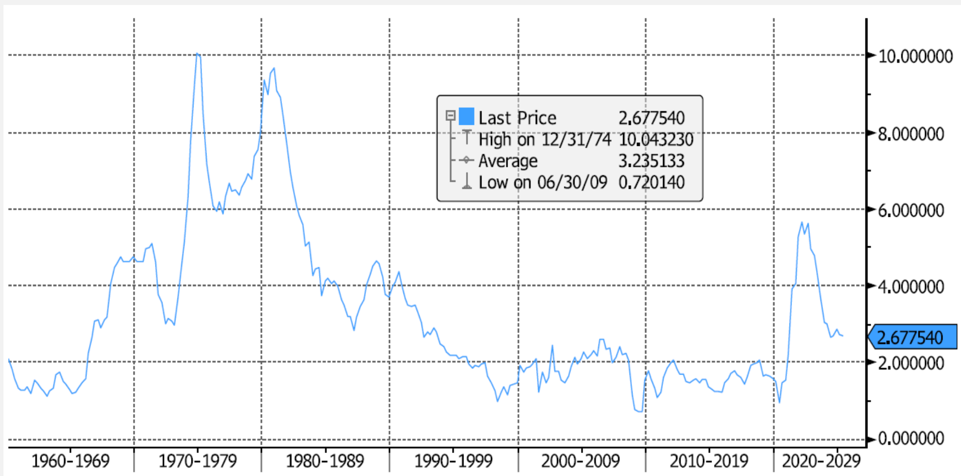
- Geopolitics will be different going forward. Not only is the approach to global trade different as represented from Liberation Day in April but the military actions over Iran are also setting a new stage for how the U.S. may participate as a "force for good" in future conflicts. With an America first approach, the U.S. is not only forcing Europe to increase their spending on defense but also demonstrating that the U.S. can still have an influence (beyond supplying weapons to foreign allies) without dragging the military into a ground war. So why does this matter? Well for one, drawn out conflicts for the U.S. military can, among other things, be expensive, which would add to the deficit, and can be inflationary as there is an increased demand for resources, which could negatively impact the economy. As witnessed this past week, this new approach to conflict has shown to the market that we can avoid these potential economic challenges and, in turn, risk assets, and risk-free assets, are rallying. We believe this approach supports the view we mentioned above that without future geopolitical conflicts becoming a distraction, the focus can, and should, remain on balancing the U.S. fiscal budget. For this reason, we believe markets will have an increased focus on fiscal implications.

Are lower U.S. rates coming? Maybe…

- Despite the market pricing in two 25bps cuts before the end of the year, we think it is challenging that the Fed acknowledged in their June Fed statement that "[u]ncertainty about the economic outlook has diminished but remains elevated." The Fed has been on hold because they were waiting to see what impact tariffs would have on inflation and the state of employment. In addition, the Fed also noted "economic activity has continued to expand at a solid pace," unemployment "remains low," and inflation is still above their 2% target. Core PCE YoY for May came in at 2.7%. This was above expectations, and the prior month was adjusted up 0.1% as well. This economic setup still seems to warrant a pause in adjusting Fed policy. We believe until you get a consistent trend lower in inflation, and a significant move higher in unemployment, the Fed is likely to wait despite market expectations or verbal abuse from the Administration. That said, the FOMC Summary of Economic Projections released in June vs. March, lowered growth expectations for

2025 from 1.4% to 1.7% and increased their expectations for Core PCE to 3.1% from 2.8%. It is possible that if corporations are potentially absorbing tariff impacts, which could keep inflation at a level below Fed projections, and the Fed still expects a slow down in the economy, this could support current market expectations. As mentioned in our April market commentary, we believe that the probability of cuts to the Fed Funds rate is increasing for 2025.

US Personal Consumption Expenditure Core Price Index YoY



- Fed Chairman Powell's term comes to an end on May 14, 2026. Historically, the President will nominate the Chairman of the Federal Reserve a few months in advance of the outgoing chairman. As we all know at this point, this Administration is big on not being "standard" and we are likely to have a nominee ~11 months in advance. As we also know, the President is going to nominate an individual that is closely aligned with his views and is likely to be quite dovish. For this reason, we believe the market is beginning to adjust to this expectation. The 10yr U.S. Treasury yield which is now at 4.25% is down from the near-term highs of 4.6% in May. In addition, we believe with the U.S. Treasuries 2s10s curve continuing to steepen, this is also indicative of that expectation. We started the year ~32bps and are now at 52bps. That said, it will be challenging to have a "shadow" Fed chair that may be messaging something different than the current Fed chair. Expectations drive the market, and it is possible we may just be looking through to the eventuality of May 2026. We also believe this would support our view of a higher volatility rate environment.

Commentary as of 6/27/25. Data and charts as of 6/27/25, per Bloomberg.

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Our Values

- *Innovative*
- *Diverse Perspective*
- *Impactful*
- *Authentic*

Our Mission

To be an agent for change in the finance industry by demonstrating a straight line between the support we receive as a women-owned firm and the support we provide to women in the industry and in the community.

To learn more about our investment offerings, please call 212-935-0755, email ir@seelausam.com or visit https://www.rseelaus.com/asset-management/

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