

2025 Q2 Market Outlook

Executive Summary

As we enter Q2 2025, markets face increasing headwinds from slower growth expectations amidst an evolving policy landscape. The initial wave of post-election optimism has faded, giving way to concerns around tariffs, tightening fiscal conditions, and more persistent inflation risks. Data continues to suggest we remain in a late-cycle phase with an elevated risk of recession. Given this backdrop, we advocate for a more defensive investment approach—a stance designed to preserve capital while retaining the flexibility to pivot toward new opportunities as our market bottoming indicators trigger.

Economic Data Check

Growth to slow in the upcoming quarters.

- Initial optimism following the presidential election has faded. After forecasting an acceleration in Q1, consensus now projects growth will slow through year end as uncertainty mounts (**p3**).
- Although the overall labor market remains stable, DOGE-related layoffs have increased public apprehension about future employment prospects, increasing the risk of higher unemployment (**p5**).
- Data suggests we remain in a late-cycle environment where recession risk remains elevated (**p6**).

Equities

Favor being underweight stocks.

- U.S. equities underperformed in Q1 amid a rotation into international markets, with growth and technology sectors lagging (**p7**). Despite rising pessimism, we maintain a favorable long-term view on U.S. stocks.
- Slowing economic growth may present a headwind to corporate profits, limiting equity upside in the near-term (**p8**). Although valuations are more reasonable than they entered the year (**p9**), they remain elevated—presenting an additional headwind for stocks.
- AI-driven themes continue to support long-term equity exposure—especially in semiconductors—although near-term headwinds may persist (**p10**).

Fixed Income

Favor reducing fixed income to neutral.

- Although bonds typically perform well during slowdowns, unusual macro conditions warrant a neutral stance (**p11**).
- Tariff-related inflation risks may limit bond upside, making gold a more effective hedge in stagflationary environments (**p11**).
- We favor U.S. Treasuries over high yield bonds, which remain vulnerable to further spread widening if conditions worsen (**p11**).

Commodities

Favor a bias toward gold.

- We favor an overweight position in gold as a hedge against slowing growth, rising debt burdens, and a continued increase in the money supply.

Summary

Favor a defensive posture.

- Slower economic growth expectations, elevated recession risks, and high asset valuations warrant a more cautious investment approach.
- If the administration can improve sentiment, it could (1) lift growth forecasts, (2) deactivate some of our late-cycle indicators, or (3) trigger early-cycle signals—any of which would support a shift toward a more pro-growth asset allocation.

Positioning Summary for Tactical Portfolios:

 **Underweight**
Global Equities

 **Neutral**
Fixed Income

 **Overweight**
Commodities

 **Overweight**
Cash

Q1 Review: Diversification delivers as tariffs weigh on stocks.

- The introduction of tariffs by President Trump triggered a **sharp sell-off in U.S. stocks**. The tariffs were far larger and more pervasive than many expected and have prompted analysts to [reduce their forecasts for economic growth and corporate profits](#). While hard economic data remains resilient, the market reaction suggests investors are bracing for a potential slowdown ahead.

Big Tech notably lagged. The Mag 7 collectively entered bear market territory, falling as much as **-28%** from their mid-December peak. Tesla and Nvidia are down **-51%** and **-32%**, respectively, from their respective highs.

U.S. equities underperformed international markets by **-9.5%**—their worst relative quarter since 2009. Bank of America’s March Global Fund Manager Survey reported the steepest drop in U.S. equity allocations in survey history.

Chinese equities led, supported by targeted stimulus and a renewed push for leadership in strategic sectors like AI and semiconductors, helping reverse some of the underperformance from the past few years.

- Treasuries rallied** on a flight-to-quality as growth expectations softened.
- Meanwhile, **gold surged to an all-time high** of \$3,120/oz, gaining +19.3% during the quarter—its strongest quarterly performance since 1986—as investors sought protection against stagflation risks.

The **strength in gold and Treasuries helped cushion portfolio volatility** amid weakness in stocks.

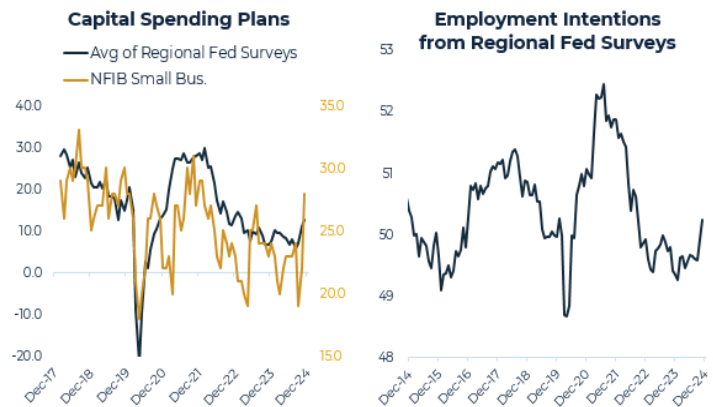
MARKET REPORT CARD – As of March 31, 2025

Performance Reported in US Dollars	2025	2024	12/31/21-to-Present
Equities			
Global (MSCI All World Equity Index)	-1.3%	+17.5%	+15.7%
United States (Russell 3000 Index)	-4.7%	+23.8%	+20.0%
US Equal Weight (S&P 500 Equal Weight Index)	-0.6%	+13.0%	+13.3%
International Developed (MSCI EAFE Index)	+6.9%	+3.8%	+12.2%
Emerging Markets (MSCIEM Index)	+2.9%	+7.5%	-2.9%
Fixed Income			
Barclays US Aggregate Bond Index	+2.8%	+1.3%	-4.5%
Long-Term Treasuries (Barclays 20+ Year)	+4.6%	-8.0%	-31.9%
Investment-Grade Bonds (Barclays USCorp)	+2.3%	+2.1%	-4.5%
High-Yield Bonds (Barclays US HYCorp)	+1.0%	+8.2%	+10.1%
Commodities			
Commodities (S&P GSCI Index)	+4.9%	+9.2%	+38.2%
Crude Oil (S&P Crude Oil Index)	+2.8%	+14.4%	+44.3%
Gold (LBMA Gold PM Price Index)	+18.2%	+26.6%	+67.6%

Economic Data Check (I): Post-election optimism has faded. Growth is expected to slow in the upcoming quarters.

Growth: Last quarter, we highlighted a strengthening near-term economic backdrop, driven by an acceleration in leading indicators such as new business formation, hiring intentions, and capital expenditure plans (**Fig 1**) following the presidential election. Less than three months later, that **optimism has quickly faded**. Businesses and market participants are adjusting to emerging policy clarity and have grown more cautious amid concerns over tariffs and fiscal tightening. After forecasting an acceleration in Q1, consensus projects growth will slow through year end (**Fig 2**) as uncertainty mounts. The Fed also revised its outlook in its most recent meeting, lowering its 2025 growth forecast from 2.1% to 1.7%.

Fig 1: Capital spending plans and hiring intentions had accelerated through the end of 2024.



Data shown as of Dec. 2024

Analysis prepared using data sourced from Bloomberg Finance L.P.

Inflation: Consensus projects that inflation will stabilize just above 3% through 2025 (**Fig 3**). Disinflation in goods and cooling wage growth support this trend, although proposed tariffs may cause inflation to remain stubborn in the near term. Even so, **we anticipate inflation will remain on a relatively steady trajectory, which should provide the Fed with room to pivot if growth slows meaningfully.**

Fig 2: U.S. YoY Real GDP Growth

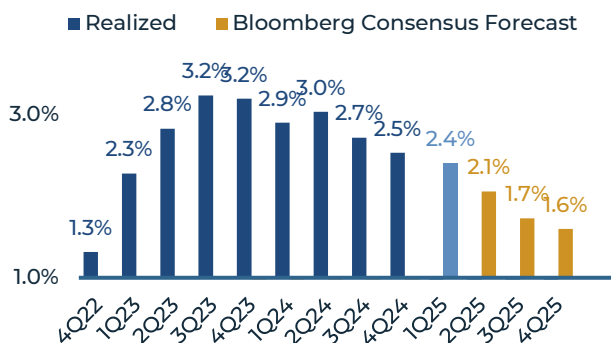
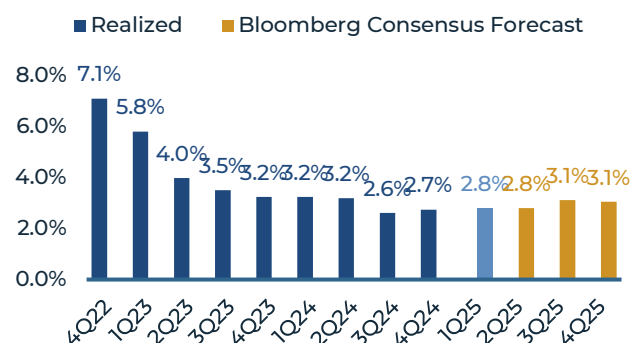


Fig 3: U.S. YoY CPI Growth



Analysis prepared using data sourced from Bloomberg Finance L.P.

Fig 4: Softening growth suggests a reversion back to a disinflation/stagflation regime through year end.

Historical Regimes											Forecasted Regimes		
3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
D	D	G	G	G	D	D	G	D	S	R	D	S	D
G = Goldilocks (G▲, i▼) R = Reflation (G▲, i▲) S = Stagflation (G▼, i▲) D = Disinflation (G▼, i▼)													

Analysis prepared using data sourced from Bloomberg Finance L.P.

Economic Data Check (2): Trump's tariffs stir trade tensions and uncertainty.

On April 2, President Trump announced a new tariff policy imposing a universal 10% tax on all imported goods, with additional "reciprocal" levies (**Fig 5**) targeting specific countries. Canada and Mexico were notable exemptions, whereas China, Europe, and Japan will face tariffs of 34%, 20%, and 24%, respectively.

Fig 5: Reciprocal tariffs were imposed on many countries at the higher of 10% or half of the trade imbalance with each respective nation.

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%

The White House

These tariffs are not based on traditional price-based measures but rather reflect trade imbalances—perhaps signaling how serious the administration is about rebalancing global trade. The administration justifies these tariffs as necessary to counter what it views as long-standing exploitation of U.S. trade policies and to ensure a fairer trading environment for American businesses.

However, businesses, economists, and market participants have raised concerns that these tariffs will likely lead to increased consumer prices and [potential economic stagnation](#). Tariff costs are often passed through to consumers, driving price increases across a broad range of goods, which could weigh on economic growth.

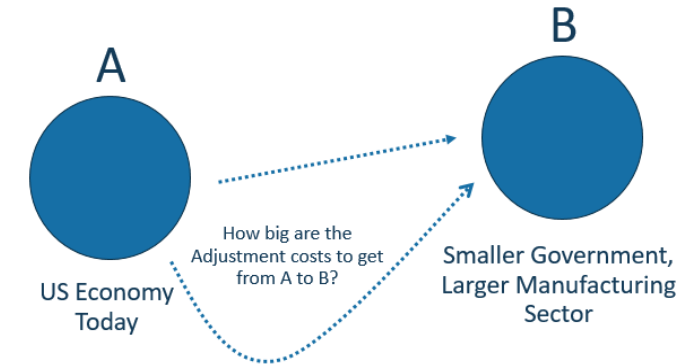
The scope of President Trump's tariff policy is far more aggressive than expected. It's unclear whether this is a negotiating tactic or a firm stance. He emphasizes that foreign firms can avoid tariffs by producing in the U.S. and highlights the revenue potential of tariffs—both suggesting limited interest in traditional free-trade deals.

President Trump has historically used aggressive opening positions to extract concessions, particularly in trade. At the same time, the potential for large-scale reshoring may be limited, as (1) businesses may be hesitant to commit significant capital amid ongoing policy uncertainty, and (2) many of the targeted manufacturing jobs are now highly automated—an effect likely to accelerate with advances in AI—suggesting that any economic gains may come more from capital investment than broad-based job creation. Nonetheless, aggressive trade barriers pose a meaningful risk to future economic growth.

Economic Data Check (3): DOGE may prove beneficial in the long term but is causing angst in the short term.

The Department of Government Efficiency (DOGE) is a federal initiative aimed at reducing the budget deficit by eliminating waste—an effort many view as long overdue. However, transitioning the U.S. economy from its current state (A) characterized by higher government expenditures toward a potentially more efficient future state with smaller government and an expanded manufacturing base (B), may involve meaningful short-term adjustment costs. The key uncertainty is how large and persistent these costs will be.

Fig 6: DOGE and Tariffs: Short-term pain for long-term gain?

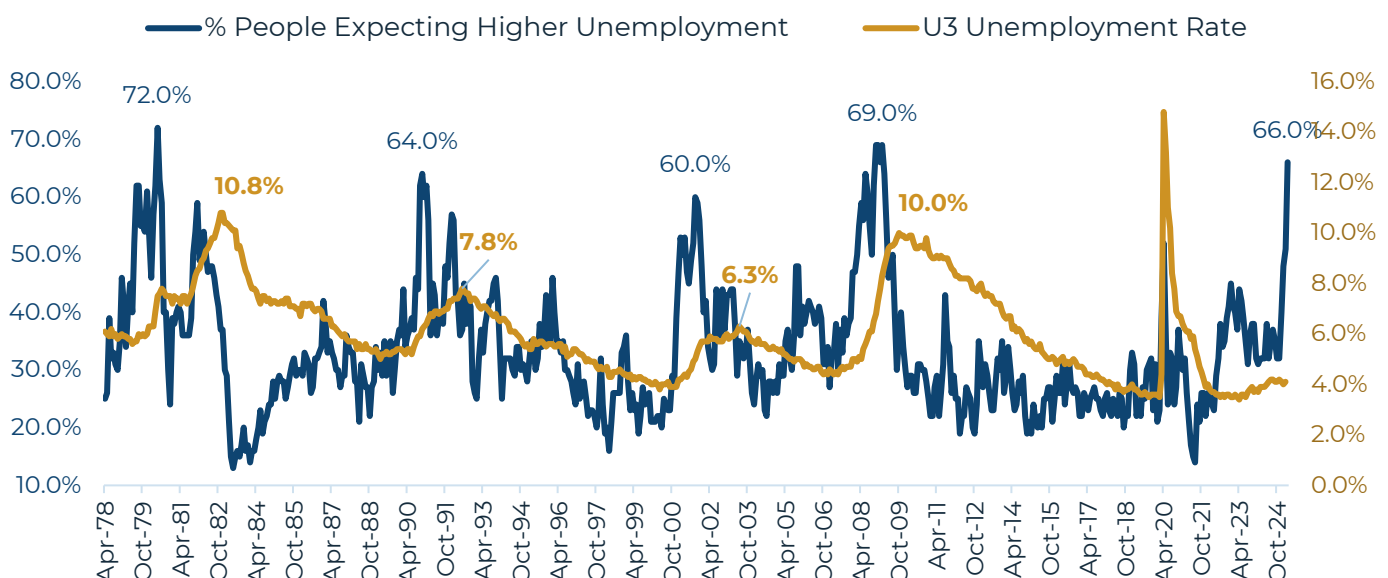


Source: Apollo

While long-term policy shifts may prove beneficial, near-term concerns are increasing as uncertainty weighs on sentiment. Unemployment fears have risen sharply, largely due to federal workforce reductions initiated by DOGE. These layoffs have affected numerous agencies, with reports indicating that 62,530 job cuts occurred across 17 federal agencies through February. While these actions aim to streamline government operations, they have raised concerns about potential disruptions to public services and broader economic consequences. Additionally, the cancellation of federal contracts under DOGE's cost-cutting measures has heightened anxieties among government contractors and related industries.

Although the overall labor market remains stable, the targeted nature of these layoffs has led to localized economic strains and increased public apprehension about future employment prospects. **Figure 7** shows that historically, material spikes in employment anxiety have often preceded higher unemployment. While labor market weakness isn't a foregone conclusion, this is a relationship worth watching closely.

Fig 7: Surging job loss fears have historically preceded higher unemployment

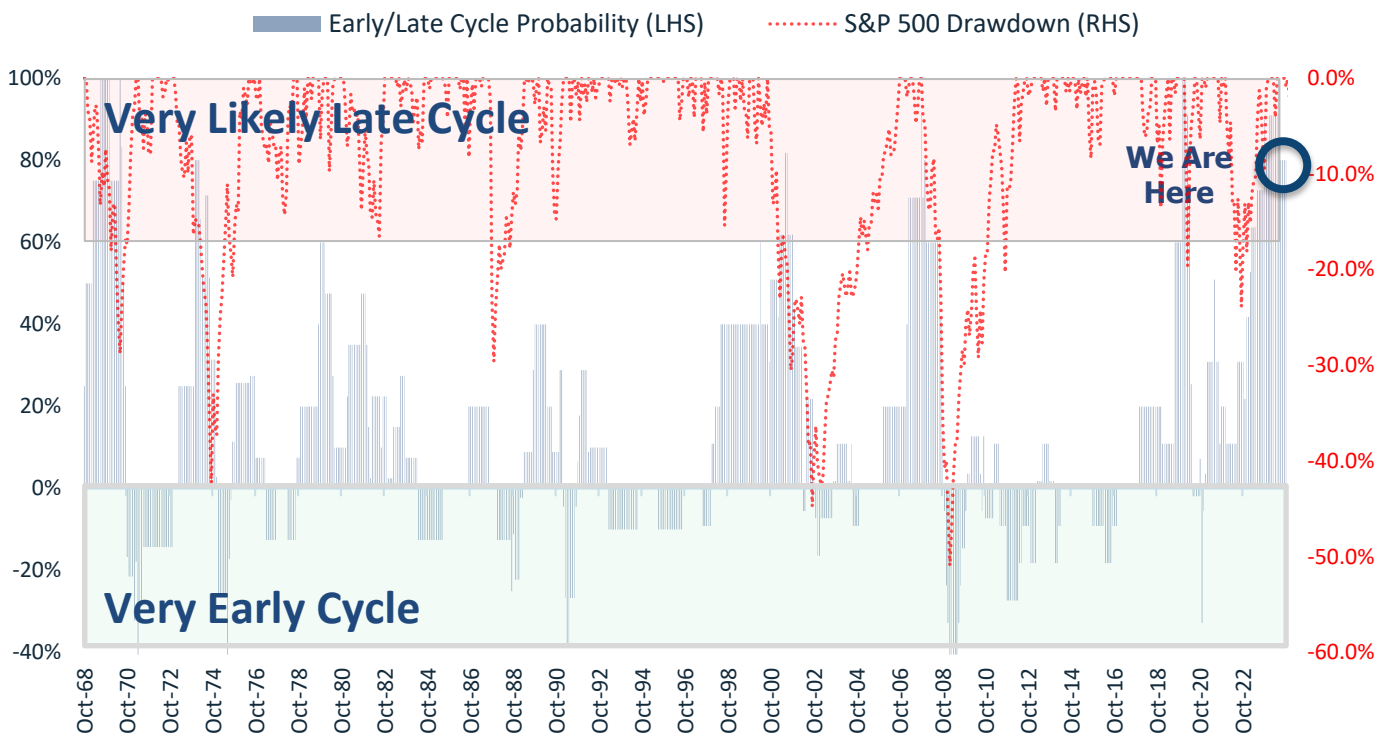


Analysis Prepared Using Data Sourced by Bloomberg Finance L.P.

Economic Data Check (4): Our checklists still suggest we are in a late-cycle economic environment.

80% of the indicators in our late-cycle checklist are currently active, while only ~10% of our early-cycle indicators are active (**see appendix I & II for details**). This suggests the economy remains in a late-cycle phase, where the risk of recession is elevated. **Figure 8** shows that historically, the risk of large equity market drawdowns increases later in the economic cycle.

Fig 8: Our data checklists suggest the economy is in the late stages of the economic cycle.



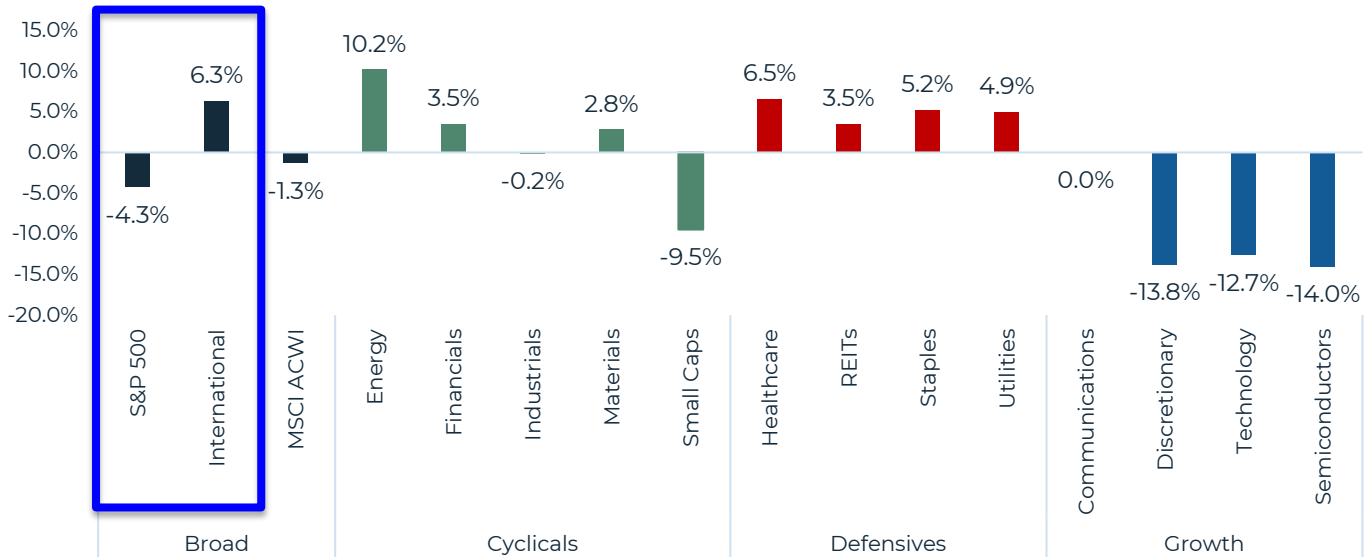
Analysis prepared using data sourced from Bloomberg Finance L.P.

If the administration can improve sentiment, it could (1) lift growth forecasts, (2) deactivate some of our late-cycle indicators, or (3) activate early-cycle signals—any of which would support a shift toward a more pro-growth asset allocation. For now, however, our economic and market inputs continue to warrant a cautious stance.

Equities (1): We continue to favor U.S. stocks, even as investors rotated out in Q1.

The two major stories in equity markets during Q1 were: (1) the sharp underperformance of growth stocks and (2) the resurgence of international equities (+6.3%) relative to U.S. stocks (-4.3%). This follows a five-year period during which U.S. equities outperformed international peers by a wide margin (+97% vs. +23%).

Fig 9: 1Q25 Equity Returns

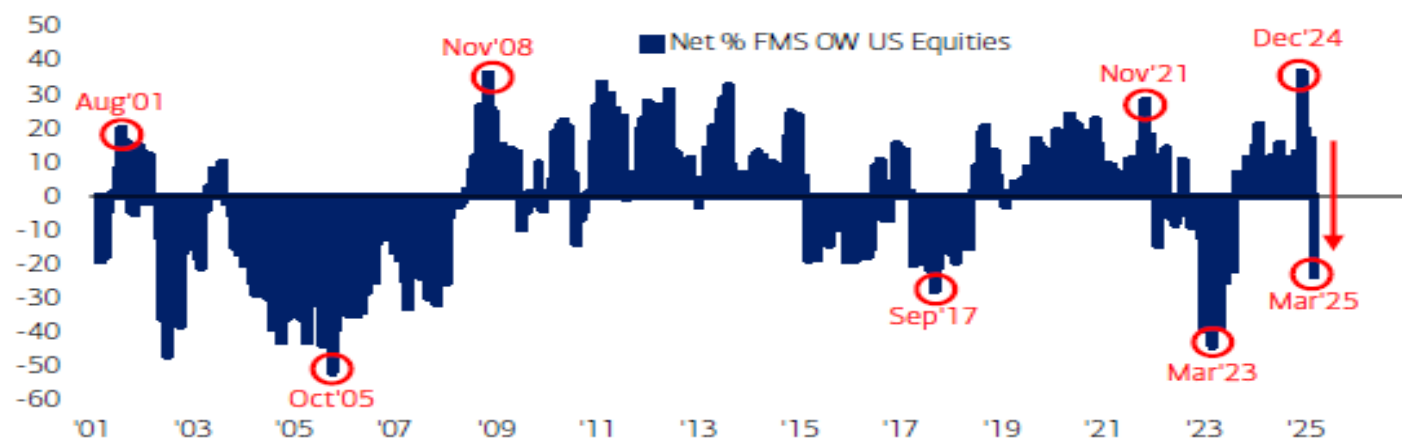


Analysis prepared using data sourced from Bloomberg Finance L.P.

This performance gap coincided with a record rotation out of U.S. equities (**Fig 10**). In the latest Bank of America Fund Manager Survey, 69% of respondents said they believe the era of U.S. exceptionalism is over. Although divergent fiscal paths may create near-term headwinds for U.S. stocks, we continue to favor the U.S. market due to its (1) technological leadership, (2) deep capital markets, (3) strong consumer base, (4) rule of law, (5) relatively favorable immigration policy, and (6) abundant natural resources.

Fig 10: Q1 saw a record rotation out of U.S. stocks.

Net % FMS overweight US equities



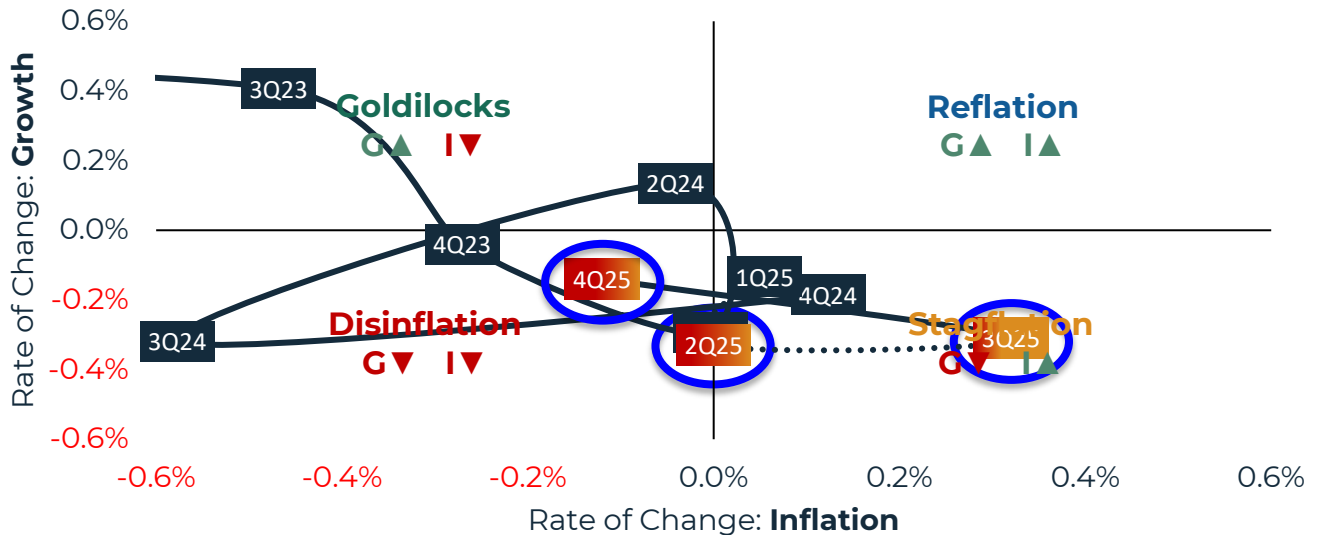
Source: BofA Global Fund Manager Survey.

BofA GLOBAL RESEARCH

Equities (2): Favor underweight stocks, as slower growth may constrain near-term equity returns.

Consensus expects growth to slow through year-end, likely placing the U.S. economy in either a disinflation (G▼, i▼) or stagflation (G▼, i▲) regime over the next few quarters (Fig 11).

Fig 11: Economic Regimes: History and Forecasts



Analysis prepared using data sourced from Bloomberg Finance L.P.

Historically, stocks haven't performed as well when growth is slowing, especially if accompanied by recession (Fig 12). If unemployment transitions higher, the U.S. economy could enter a recession even if growth ultimately remains positive—we note that GDP growth remained positive throughout the 2001 recession. Last week, [J.P. Morgan](#) raised its recession probability to 60%.

Fig 12: Average Quarterly Returns by Sector in Varying Economic Regimes (1992 to Present)

	No Recession				Recession			
	G	R	S	D	G	R	S	D
S&P 500	5.2%	5.0%	1.4%	3.4%			-6.0%	-8.2%
Technology	7.3%	8.0%	2.2%	2.7%			-6.1%	-8.7%
Consumer Discretionary	6.4%	4.8%	1.0%	3.2%			-6.1%	-6.2%
Financials	5.1%	5.2%	1.9%	5.1%			-11.5%	-11.0%
Materials	5.1%	4.8%	0.5%	2.8%			-5.3%	-7.0%
Energy	3.4%	5.8%	4.4%	2.1%			-2.3%	-12.4%
Industrials	5.1%	5.2%	1.3%	4.7%			-6.8%	-10.2%
Utilities	2.4%	1.2%	4.2%	5.0%			-3.1%	-8.0%
Healthcare	4.3%	4.2%	0.9%	5.1%			-3.1%	-5.2%
Consumer Staples	4.1%	3.4%	1.0%	4.5%			0.3%	-5.0%
Real Estate	3.5%	3.3%	1.6%	4.6%			-4.7%	-8.4%
Russell 2000	5.3%	5.4%	0.3%	3.2%			-3.8%	-9.1%
MSCI Emerging Markets	6.5%	4.9%	-0.7%	1.8%			-8.7%	-5.5%

G = Goldilocks (G▲, i▼)

R = Reflation (G▲, i▲)

S = Stagflation (G▼, i▲)

D = Disinflation (G▼, i▼)

Analysis prepared using data sourced from Bloomberg Finance L.P.

Equities (3): Elevated valuations combined with low unemployment pose an additional headwind to stocks over the medium term.

Historical data shows that equity returns over 3–5 years are heavily influenced by starting valuations and labor market conditions. Today’s environment—characterized by high valuations (P/E of 22x) and low unemployment (4.2%)—has historically been associated with below-average forward returns (**Fig 13**).

This dynamic is logical:

- **Elevated valuations** limit room for multiple expansion, requiring strong earnings growth to justify prices—any shortfall can trigger compression.
- **A tight labor market** pressures profit margins and constrains hiring, often slowing consumer spending and corporate earnings.

That said, valuations have compressed by **-17%** already this year, bringing prices to a more reasonable level—assuming earnings remain stable.

Fig 13: Avg 3-Year Forward Returns for S&P 500 at Various Valuation and Unemployment Levels

		Trailing P/E Multiple of S&P 500									
		Cheap					Expensive				
		3 to 6	6 to 9	9 to 12	12 to 15	15 to 18	18 to 21	21 to 24	24 to 27	27 to 30	30 to 33
US Unemployment Rate	2.5 to 3			111.0%							
	3 to 3.5		57.5%	61.4%		14.9%	9.8%				
	3.5 to 4		94.4%	88.0%	32.2%	18.8%	-3.7%	-11.7%	-28.7%	-40.9%	
	4 to 4.5		45.0%		35.6%	5.3%	1.9%	2.1%	-10.9%	-18.3%	
	4.5 to 5		77.2%	43.0%	27.5%	-0.4%	37.4%	31.2%			
	5 to 5.5			52.2%	37.4%	40.3%	60.0%		11.1%		
	5.5 to 6	127.7%	46.5%	65.3%	58.1%	55.1%	20.2%		26.9%	8.4%	
	6 to 6.5		77.5%		62.1%	37.8%	62.4%	30.6%			
	6.5 to 7		74.2%	48.6%	45.6%	41.3%	44.2%	39.1%			71.3%
	7 to 7.5		53.9%	64.9%	61.9%	44.3%		42.8%	35.1%		61.0%
	7.5 to 8		54.4%	34.7%	47.3%	39.8%		52.0%	45.2%		
	8 to 8.5		58.3%	47.8%	58.9%						
	8.5 to 9		86.5%	14.8%	80.3%	50.7%					
	9 to 9.5		101.3%		58.0%	56.9%					
	9.5 to 10			73.1%		54.6%	40.7%				

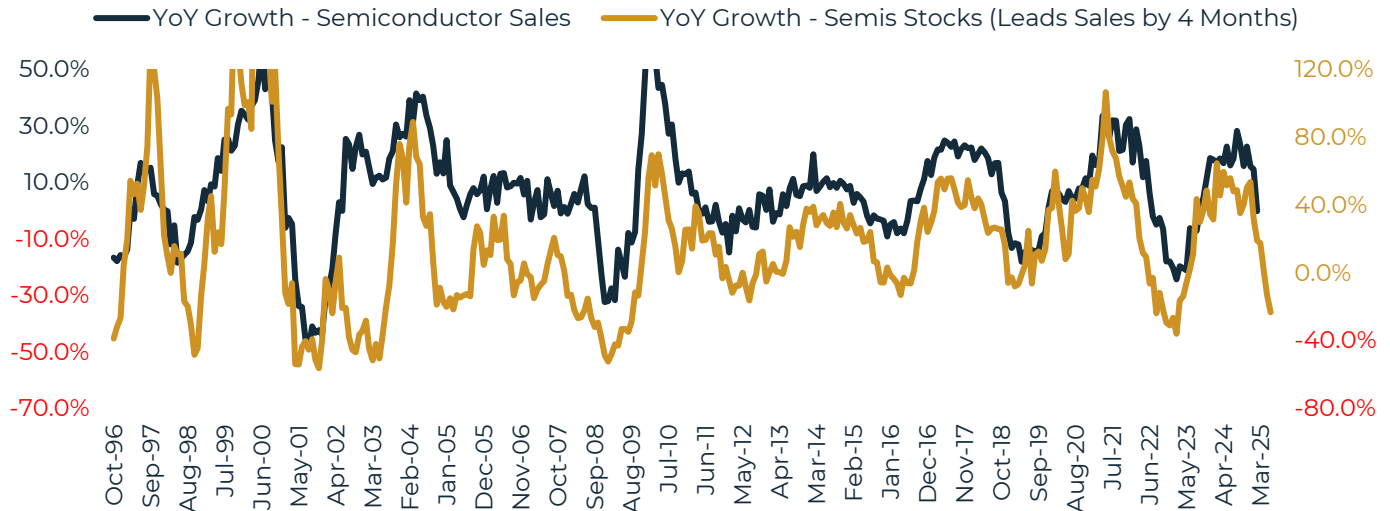
Analysis prepared using data sourced from Bloomberg Finance L.P.

Returns are based on quarterly data from 1948 through 2019

Equities (4): Semiconductor stocks are signaling a slowdown, even as AI demand remains robust.

Semiconductor stocks have declined **-37%** since peaking in July. Historically, chip stock performance has led chip sales by roughly four months (**Fig 14**)—suggesting a potential softening in demand ahead. While the long-term growth story remains intact, the sector may face a deeper washout before recovery.

Fig 14: Semiconductor Stocks vs Global Chip Sales



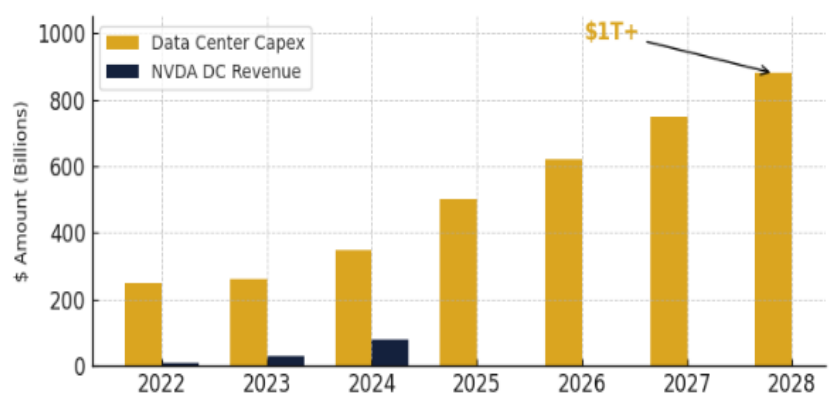
Analysis prepared using data sourced from Bloomberg Finance L.P.

Despite early concerns that DeepSeek might dampen AI-related data center capex, those fears now appear exaggerated. We've since concluded that DeepSeek is very likely positive for long-term compute demand, as reasoning models require significantly more compute than preceding models. At NVIDIA's March GTC conference, CEO Jensen Huang underscored this shift, stating: **"The amount of computation we need now, due to agentic AI and reasoning, is easily 100 times more than we thought we needed this time last year."**

In its presentation, NVIDIA forecasted that data center capex could nearly triple over the next few years (**Fig 15**) as we move into the next phase of AI—one defined by emerging applications like humanoid robots, AI copilots for real-time decision support, and digital assistants that retain user history—all of which demand vastly more compute than the earlier generative models.

However, while AI accounts for a growing share of chip sales, it still represents less than 20% of total industry revenue and is unlikely to fully offset weaker demand across other semiconductor segments if the economy slows. Additionally, tariffs may weigh on AI-related spending by disrupting global supply chains and increasing input costs. We maintain a favorable long-term view on semiconductors while recognizing that near-term headwinds may persist.

Fig 15: Data Center Spend to Remain Robust



Nvidia GTC

Fixed Income: Favor a neutral stance on bonds despite growth concerns.

Although bonds have historically performed well during periods of slowing growth (**Fig 16**), we favor maintaining a neutral stance given the unusual macro backdrop. Instead, we favor expressing our defensive positioning through gold, which has historically served as a more effective hedge in stagflationary environments (illustrated on the next page). If tariff policy raises the risk of near-term supply-side inflation, gold may provide more reliable downside protection in a scenario where growth slows but inflation remains stubborn.

Fig 16: Avg Quarterly Return by Regime – Fixed Income

	No Recession				Recession			
	G	R	S	D	G	R	S	D
U.S. Aggregate	1.1%	0.9%	0.9%	1.8%			0.9%	2.5%
IG Corporates	1.5%	1.4%	0.8%	2.2%			-1.7%	2.6%
HY Corporates	3.0%	2.5%	1.0%	2.3%			-2.9%	-0.2%
7-10 Yr Treasury	1.0%	0.5%	1.1%	2.1%			2.6%	3.5%
20+ Year Treasury	1.2%	-0.1%	1.4%	3.4%			2.6%	4.8%

G = Goldilocks (G▲, i▼)

R = Reflation (G▲, i▲)

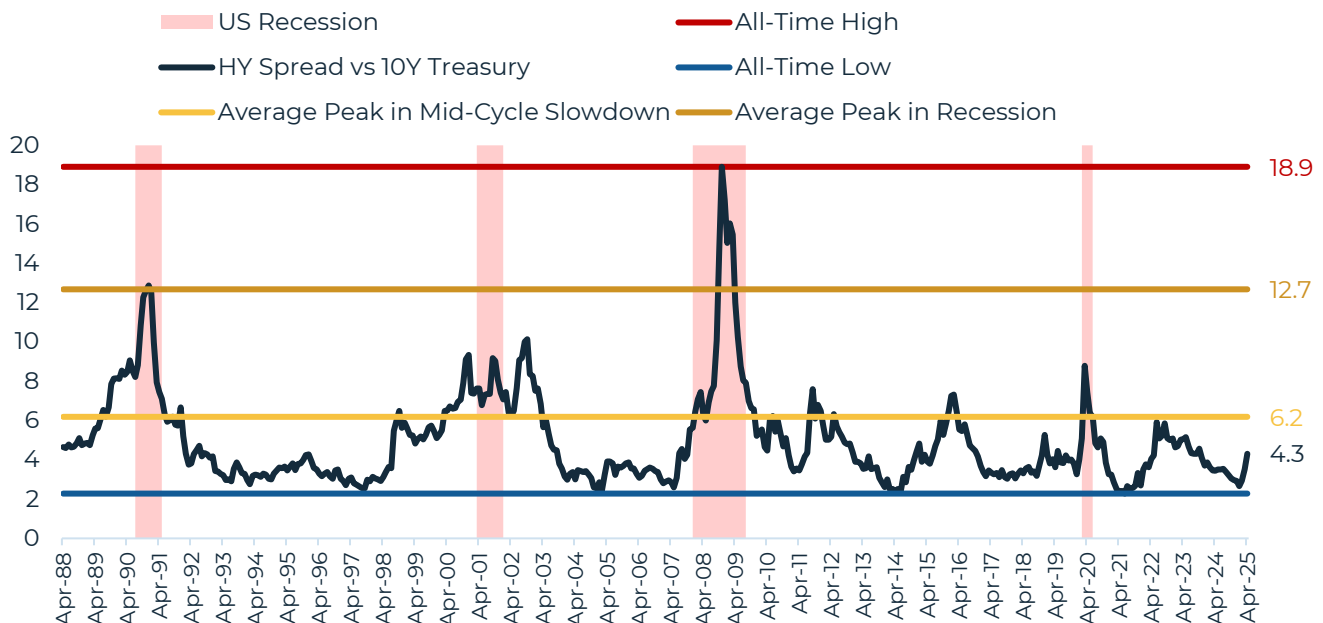
S = Stagflation (G▼, i▲)

D = Disinflation (G▼, i▼)

Analysis prepared using data sourced from Bloomberg Finance L.P.

We continue to favor U.S. Treasuries over high yield bonds, as they provide a more reliable hedge against slowing growth. While high yield spreads have widened modestly, they remain vulnerable to further widening if macro conditions deteriorate (**Fig 17**). Until the outlook on tariff policy improves, we believe the risk-reward profile of high-yield bonds is unfavorable.

Fig 17: US High Yield Spreads - Historical Context



Analysis prepared using data sourced from Bloomberg Finance L.P.

Commodities: Favor overweight, with a bias toward gold.

Gold has provided ballast to diversified portfolios. Over the past three years, gold has appreciated +57%, significantly outperforming the S&P 500 (+17%) and the global stock index (+12%).

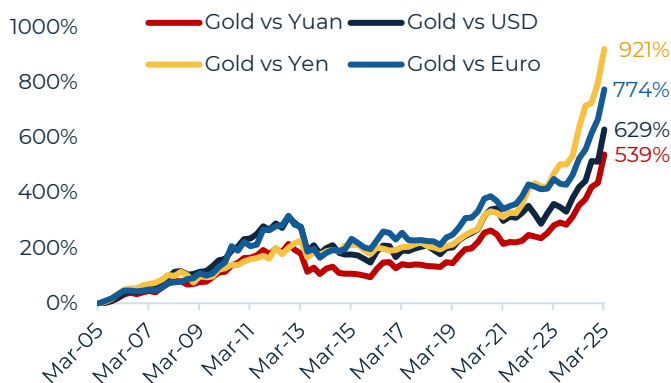
Why is gold performing so well? Gold remains the world's premier store of value, offering protection against a variety of economic scenarios, including sluggish growth, mounting debt burdens, and expansionary monetary policy. Recently, these conditions have converged, fueling strong demand for the precious metal.

What makes gold a store of value? Its exceptionally high stock-to-flow ratio, which compares the total existing supply (stock) to annual production (flow). Unlike most commodities, gold's supply grows slowly—only +1.5% to +2.0% per year—making it difficult to dilute—enhancing its role as a hedge against currency debasement.

Over the past two decades, gold has appreciated 5x to 9x relative to major global currencies (**Fig 18**), driven in part by rapid money supply growth. Across the U.S., Europe, Japan, and China, the money supply has expanded at over +7% annually in USD terms—far outpacing gold's modest supply growth. We view this supply gap as a key structural driver of gold's outperformance versus fiat currencies.

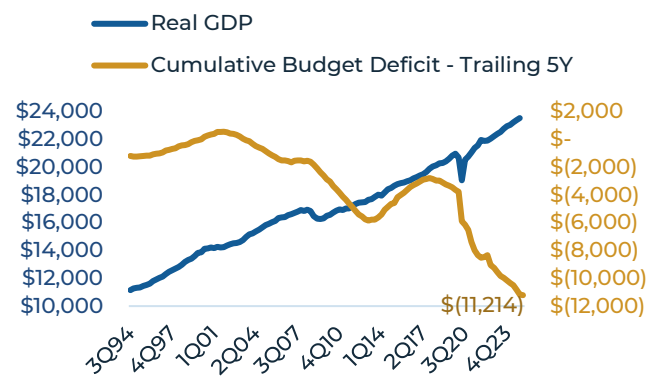
Given the surge in government debt (**Fig 19**), we believe gold's role in portfolios is more compelling than ever. Its scarcity, resilience, and history as a hedge make it well-suited for today's complex macro environment.

Fig 18: Performance of Gold vs Fiat: Past 20 Years



Analysis prepared using data sourced from Bloomberg Finance L.P.

Fig 19: U.S. Budget Deficit v.s. GDP in Trillions USD



Gold has historically outperformed in stagflationary environments and should offer more downside protection than broad commodities if growth slows enough to push the economy into disinflation (**Fig 20**). Additionally, any moves by the Trump administration to boost oil supply could weigh on oil and broad commodity prices. We favor a tactical overweight to gold but will look to broaden commodity exposure when signs of reflation emerge.

Fig 20: Avg Quarterly Return by Regime – Real Assets

	No Recession				Recession			
	G	R	S	D	G	R	S	D
Broad Commodities	1.3%	5.7%	2.5%	-3.3%			7.0%	-8.9%
Gold	2.3%	2.2%	1.5%	0.2%			4.0%	2.4%

Analysis prepared using data sourced from Bloomberg Finance L.P.

Positioning Summary for Tactical Portfolios:

 **Underweight**
Global Equities

 **Neutral**
Fixed Income

 **Overweight**
Commodities

 **Overweight**
Cash

Positioning Rationale:

▪ **Equities: Underweight**

We favor an underweight position in equities, reflecting a less favorable economic backdrop, persistent late-cycle signals, and elevated valuations. Within equities, we maintain a preference for U.S. companies and those positioned to benefit from secular growth drivers like AI adoption—even if near-term challenges persist before the outlook improves.

▪ **Fixed Income: Neutral**

We favor a neutral posture in fixed income despite expectations for slower growth. While bonds have historically performed well in such periods, the current macro environment—marked by policy uncertainty and resilient yields—warrants caution. Instead, we prefer to express our defensive positioning through gold, which has historically been a more effective hedge in stagflationary regimes.

▪ **Commodities: Overweight**

We favor an overweight position in gold as a hedge against slowing growth, rising debt burdens, and a continued increase in the money supply. If tariff policy increases the risk of supply-side inflation, gold may offer more reliable downside protection in an environment where growth slows but inflation remains persistent.

▪ **Cash: Overweight**

We favor being overweight cash given that recession risk remains elevated. Cash can help reduce portfolio volatility while providing dry powder to reinvest opportunistically. Within cash, we favor holding short-term Treasury bills which are still yielding more than +4%.

As always, thank you for your continued trust and confidence. Please don't hesitate to reach out with any questions regarding our outlook or the management of your portfolio. We'll continue to keep you informed of any important developments.

Sincerely,

Your advice team at Wealthspire.

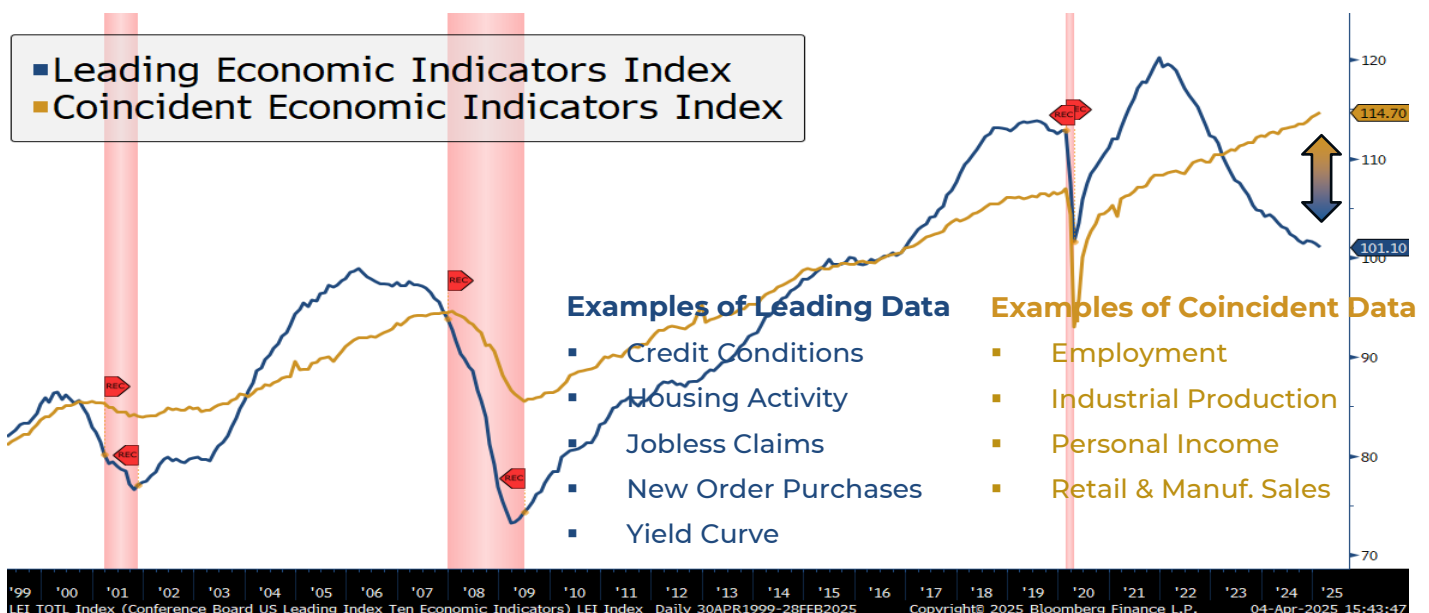
Appendix I: Late-cycle Checklist

Historically, on average, the S&P 500 has peaked eight months prior to the beginning of a recession, with nearly 40% of the peak-to-trough drawdown typically occurring before the recession begins.. As a result, we have constructed a probabilistic framework for determining when the risk of a recession occurring within the next 12–18 months is elevated versus not.

Today, four of the five indicators in our late-cycle checklist have triggered, suggesting that the risk of a recession occurring within the next 12 months is elevated, despite the ongoing resilience in coincident economic data. Furthermore, leading economic indicators are in a deep contraction, which is typical of a late-cycle environment (**see chart at the bottom**).

Indicators in our Late-cycle Checklist include:

1. **✓ Tight Headline Labor Market + Slowing Momentum:** Becomes active when the unemployment rate is below 5% and the year-over-year change in continuing jobless claims turns positive.
2. **✓ Slowing Momentum in Small Business Job Openings:** Becomes active when the 6-month moving average of small business openings crosses below the 2-year moving average.
3. **✓ Yield Curve:** Becomes active when the 10-year US Treasury Yield crosses below the 1-year US Treasury yield. **Although the curve has since normalized, the signal remains active based on our six-month lookback period, which helps reduce noise. So long as the yield curve spread remains positive, this indicator will deactivate next quarter.**
4. **✓ Overconfidence:** Becomes active when consumers are significantly more confident in the current situation than they are in their future situation. We read this as a sign of potential exuberance.
5. **X Contracting Import Growth:** Becomes active when import growth contracts on a year-over-year basis. **Import growth is currently positive.**



Bloomberg Finance, L.P.,

Appendix II: Early-Cycle Checklist (Market Bottoming Indicators)

Below is our checklist for probabilistically identifying that we are likely entering the early phase of the business cycle.

Excessive pessimism: 1 of 2 indicators are active

1. **✓ Excessive Bear/Bull Ratio:** When more than two investors are bearish for every one that is bullish, it is generally a sign that participants have become too pessimistic, and stocks may be oversold. **Activated in March.**
2. **X Plunge in Relative Consumer Confidence:** Generally, consumers have more confidence in their present situation than their future situation. However, during very trying times, consumer confidence plummets such that surveys reflect higher confidence in the future than the present. This has often coincided with major market bottoms.

Exhausted selling: 0 of 4 indicators are active

3. **X Coppock Guide:** The [Coppock Guide](#) measures long-term momentum in asset prices. When the Coppock Guide reverses from a very low position, it generally signals a positive shift in price momentum. **Last activated in March 2023.**
4. **X Zweig Thrust:** Zweig Thrust is a momentum indicator that signals strong market breadth, triggered when a large percentage of stocks advance sharply over a short period. It is widely viewed as a reliable indicator of major market bottoms, often coinciding with the start of bull markets and early-cycle recoveries. **Last activated in November 2023.**
5. **X Volatility of Volatility:** Stabilization in the volatility of volatility often signals a market bottom, as it suggests that the rate of change in investor fear is slowing—even if overall fear remains elevated. **Last activated in 2020.**
6. **X VIX Divergence:** When the market falls sharply but the VIX doesn't spike, it can suggest fear is already fully priced in—a sign that selling pressure may be exhausted. Lack of new panic means fewer forced sellers — often experienced near market bottoms. **Last activated in November 2022.**

Deteriorated fundamentals: 0 of 4 indicators are active

7. **X Manufacturing Contraction:** Major market bottoms generally do not form until there is a deep contraction followed by an acceleration in manufacturing new orders. **Last activated in September 2024 but is no longer active.**
8. **X Consumption Contraction:** Oftentimes major market bottoms do not form until real personal consumption has contracted. Exceptions include recessions in 1970 and 2001, where consumption growth remained positive throughout.
9. **X Rising Unemployment:** Generally, major market bottoms do not form until the unemployment rate rises by at least +1.5%. **Currently, the unemployment rate is only +0.8% higher than its cycle low.**
10. **X Recession Announcement:** The National Bureau of Economic Research generally doesn't announce that the US economy is in a recession until 6 to 12 months after a recession begins. It is often the case that by that time, the worst of the recession has played out, and therefore, the announcement tends to occur near a major market bottom. **We do not anticipate an imminent recession announcement from NBER given the current strength in nonfarm payrolls.**

Accelerating liquidity: 0 of 1 indicators are active

11. **X Monetary Stimulus:** Accelerating liquidity generally provides a tailwind to economic activity and asset prices. **We do not anticipate a meaningful acceleration in liquidity until the Fed cuts interest rates and engages in the re-expansion of its balance sheet.**

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