



Market Volatility Update

The start of 2025 has been somewhat turbulent, and client inquiries are *just* beginning to pick up. Based on our 2025 Outlook calling for market fragility, near-term volatility is not all that surprising. Interestingly, the level of concern we're sensing doesn't seem to square with the numbers quite yet. The S&P 500 is down just 1.6% year-to-date and remains only 6% off its all-time high in February.

However, we appreciate market performance alone doesn't tell the whole story. The Trump administration's policy direction appears as fluid as my seven-year-old's attention span. This lack of clarity has left investors uncertain about the road ahead. Markets, as always, dislike uncertainty, and as it rises, investors tend to pull back on risk. That shift is evident in recent performance trends:

- **Style:** Large-cap value has outperformed large-cap growth by 800 basis points.
- **Capitalization:** Large-cap core is ahead of small-cap core by 500 basis points.
- **Sectors:** Defensive positioning is clear, with consumer staples outperforming consumer discretionary by 1,700 basis points.
- **Geography:** A notable exception to this risk-averse trend is the U.S. versus international markets. The S&P 500 trails the MSCI EAFE by 1,200 basis points and the MSCI Emerging Markets index by 700 basis points.

The divergence in regional returns is being driven by a dramatic shift in U.S. foreign policy—arguably the most significant realignment since the post-WWII transition to Cold War containment. In the absence of clear U.S. leadership, Europe—particularly Germany—has stepped into the power vacuum, taking a more prominent role on the global stage. Markets have responded favorably and the shift lower in the U.S. dollar has been tailwind for international returns.

As we look ahead, our 2025 Outlook remains highly relevant, offering a strong foundation for positioning discussions and client conversations. The key drivers of Fragility—valuations, concentration, and inflation—are playing out as anticipated in the short term.

Should market volatility persist or escalate, you can expect our operating tempo to increase accordingly with updates and support. For now, as we navigate this relatively “typical” period of market fluctuation, know that we are here, prepared, and ready to assist as needed.



Resources

Fiducient Market Collateral – The central repository for market-based commentary. Market Insights – Produced monthly with a broad and deep data set on the economy, fixed income, U.S. Equity, International Equity and real assets. Available in the first few business days of the month, client ready and compliance approved.

Market Recap – A mini quarterly considerations. Quick hit commentary on markets movers. Available in the first few business days of the month, client ready and compliance approved.

Market Review – Monthly written market commentary. This month we cover the economic growth scare and U.S. Equity market Exceptionalism as a 'forgone conclusion'.

Bullets on Tariffs

Tariff & Trade Policy Uncertainty – The evolving US tariff landscape (including potential reciprocal tariffs on April 2) will impact global trade, with China, India, Brazil, and Europe at risk of higher US tariffs. Reshoring and friend-shoring trends (especially in Mexico and Southeast Asia) continue, but scrutiny is increasing on "backdoor" Chinese exports via third countries like Mexico.

Impact of Tariff Increases – Tariffs have surged significantly, with average tariff rates rising from 2.3% to 10.1%, the highest since 1946. New tariffs targeting China, Mexico, Canada, and the EU are contributing to inflationary pressures and slowing economic growth. The actual throughput on tariff impact is yet to be seen as policies shift frequently and meaningfully.

Bullets on the Economy

Government Spending Cutbacks – Federal workforce reductions, grant freezes and general budget cutbacks are contributing to weaker business and consumer sentiment. While the direct economic impact is small, the psychological effect on confidence is more pronounced.

U.S. Growth Scare Continues – The U.S. economy is showing signs of slowing down, with small cracks in economic growth becoming more apparent. Key data points include a rise in the unemployment rate to 4.1%, an increase in underemployment to 8.0%, and a decline in the labor force participation rate to 62.4%. These indicators suggest further labor market cracks could develop as federal layoffs increase.



Consumer Spending at Risk – The Fed's Beige Book report for February indicates lower consumer spending on balance, with solid demand for essential goods mixed with increased price sensitivity for discretionary items, particularly among lower-income shoppers.

European Defense Spending Exemption – Germany's expected next chancellor, Friedrich Merz, has proposed that necessary defense spending above 1% of GDP should be exempt from debt brake restrictions, with no upper limit. This proposal aims to address threats to freedom and peace on the continent and could have significant implications for European fiscal policy.

China's Local Stimulus – China has unveiled an annual economic growth target of around 5% and pledged to address sluggish consumer spending at home. Despite deflationary pressures, the Chinese government is focusing on local stimulus aimed at boosting consumer demand, which could help mitigate global economic challenge.

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