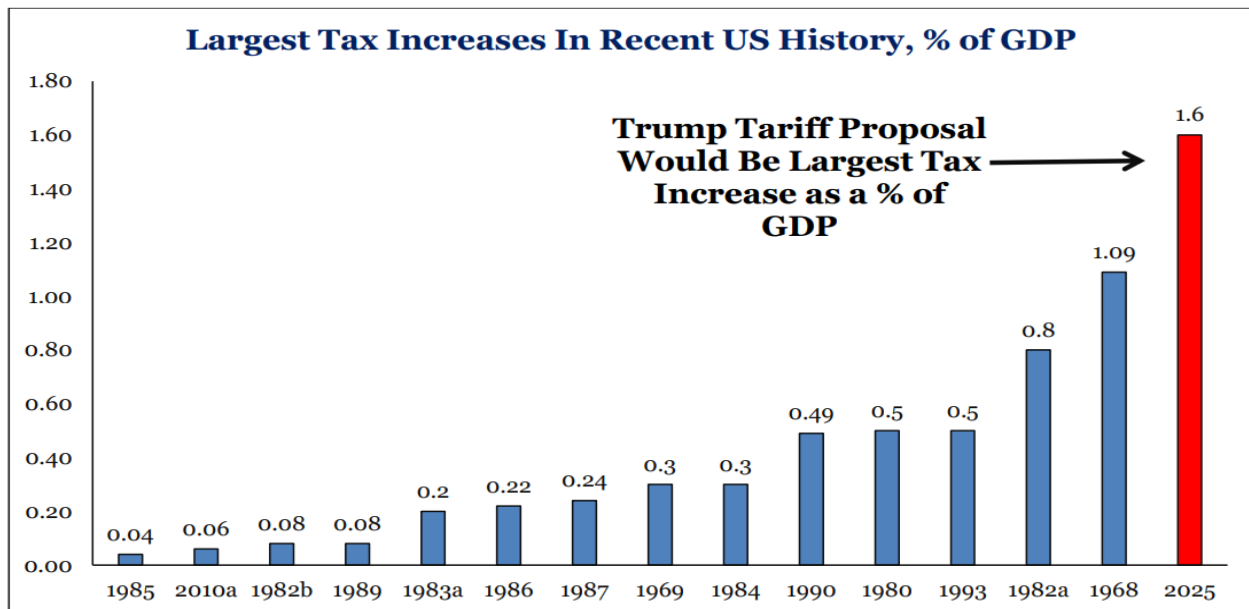


1Q 2025 – Quarterly Commentary

What a difference a few months can make, and this was true even before the announcement of shockingly high tariffs to be imposed on every U.S. trading partner. Relative to the second half of last year the economic data turned decidedly more uncertain following the election, and has continued to deteriorate into 2025. An increasing number of datapoints, which include consumer spending, business confidence and capex, have turned sharply lower during the current quarter signaling a clear downturn in economic activity. Survey data on consumer confidence looks particularly troublesome with current readings at levels last seen during prior recessions. The labor market continues to be a key fundamental area of support for the economy, however mass government layoffs pose a significant threat although we have yet to see evidence of a contagion in the weekly jobless claims data. This will be a very important data point to monitor in the months ahead. This was the uncertain outlook facing investors BEFORE the tariff announcement and helps explain why the market sold off in such dramatic fashion.

The administration’s goal to rewire global trade and reduce the size of government within the context of a fragile economy has reignited memories of 1970’s era stagflation. The battle to address the first wave of inflation was won by the Federal Reserve but how policy responds to this current threat of sharply lower economic activity and a near-term surge in prices will be critically important if the U.S economy is to avoid a recession. At present the market is anticipating three or four rate cuts by the end of this year. Negotiations around the Tax Bill currently under debate in Congress will also play a key role in the economic outlook. If fully enacted the Trump Tariff Proposal would mark the largest tax increase in modern U.S. history, potentially providing Congress the revenue to sterilize the hit to economic activity by offsetting it with meaningful income and corporate tax rate reductions.

TRUMP TARIFF PROPOSAL WOULD MARK THE LARGEST TAX INCREASE IN MODERN US HISTORY



Source: Strategas

The negative reaction to the tariff announcement witnessed in the U.S. equity market was just as prevalent in the credit markets. The initial response was sharply wider corporate bond spreads and lower U.S Treasury yields as an increased risk of a recession was quickly priced into the market.

As we have highlighted for quite some time historically rich valuations in corporate credit have led us to maintain a defensive stance in this area of the portfolio, both with respect to credit quality and interest rate exposure which has been a benefit to portfolio returns in recent weeks. Equally beneficial has been our decision to maintain above average exposure to U.S Treasury securities which have been the top performing asset class during the most recent market volatility. Recent developments also deepen our conviction that the yield curve will steepen from current levels and we continue to favor short to intermediate maturities that we expect to benefit from this ongoing trend.

Our outlook for forward returns in the bond market continues to be very positive with yields on a large segment of high-quality bonds now approaching 6.0 percent.

Birch Run Investments, LLC

April 2025