FORTHRIGHT PARTNERS, LLC

INVESTMENT LETTER, 1ST QUARTER 2025

EXECUTIVE SUMMARY

Everything, everywhere, all in flux.

High tariffs may lead to slower economic growth, higher inflation and lower corporate margins.

Uncertainties abound:
New trade regime
Budget negotiations
Raising the debt ceiling

Stay defensive and well - diversified.

DECIDEDLY UNCERTAIN

Three months ago, we wrote that "2025 can perhaps be best described as a year of uncertainties. Even when policies become clear, reactions (both domestic and international) remain difficult to gauge." Three months into a new year that has already seen numerous policy changes, we find ourselves more or less in the same situation.

A NEW TRADE REGIME…IN FLUX

President Trump's tariff announcement on April 2nd has helped clarify the US's new trading policy, at least for the next 90 days. The sweeping and broad-based nature of US tariffs, if fully implemented, will likely create many short- and intermediate-term headwinds for foreign and US companies alike.

Investors are concerned about a breakdown of globalization. A benign trade environment has been in place for 40 years from the time the Reagan-Bush 41 administration lowered trade barriers leading to increased economic growth opportunities not just for the US but for many countries across the globe. We might be seeing the unwinding of this "trade regime" in real-time.

In the short-term, when confronted with higher input costs resulting from tariffs, companies have 3 options: 1) ask for price concessions from overseas manufacturers; 2) increase selling prices to customers; 3) absorb some of the higher costs, thereby reducing their own profit margins. Most companies will probably take an approach that combines elements from all three options. Ergo, this will likely result in the US economy encountering higher inflation, companies seeing lower profit margins and American households experiencing a decline in buying power.

In the medium term, for companies that bring manufacturing back to the US, retrofitting old factories or building new ones will take time and resources. Given America's relatively higher input costs, net increases in demand for labor and energy/raw materials will also lead to higher prices for consumers. Yes, the number of manufacturing jobs will eventually increase in the US, but it is not without trade-offs, just like globalization.

Even if the April 2nd tariff plan represents a ceiling and changes will occur based on negotiations, such uncertainties are both deleterious and detrimental as they prevent companies from making informed business decisions, not to mention households budgeting for their everyday expenses. And we have not even touched upon potential retaliations from the rest of the world. More uncertainties are not what investors like to hear.

Perhaps more importantly, it is difficult to imagine what the new trade regime will look like and what it will mean geopolitically. Trade wars, as in all wars, will inflict pain, casualties and unintended consequences. Globalization, for all its failings, does create shared economic interests which in turn incentivize peaceful diplomacy. Will a more US-centric policy push the world into a multi-axis world (US, European Union, China, Pacific Asia) that is more conflict-prone, less productive and less cooperative?

THE ECONOMY, TAX CUTS AND BUDGET DEFICITS

Recent economic data suggests that economic growth is already slowing in the US. Consumer spending showed tepid growth in the first quarter after robust spending during this past Christmas season. Surveys also pointed to waning consumer and business confidence, perhaps because of federal worker layoffs and tariff uncertainties. The just-released University of Michigan consumer survey shows sentiment collapsing to its lowest level since June 2022 as inflation worries spiked. While the economy remains in solid health, recession risks have risen.

According to the Congressional Budget Office, the government will run out of money in August/September unless the national debt ceiling is raised. While the Administration is trying to rein in spending, budget proposals with $2-5 trillion tax cuts over the next 10 years are being discussed by both houses of Congress. Unless tax cuts go beyond the extension of the 2017 Tax Cuts & Jobs Act, there will be **no stimulative effect** on the economy. On the other hand, a stimulative fiscal policy may disappoint bond investors and cause bond yields to rise because of the continually ballooning budget deficits.

For the long-term health of the country, fiscal restraints are necessary but such restraints will cause short-term stress on the economy. There are no easy answers.

ON STOCKS AND BONDS – CHOPPY WATERS

The FOMO (Fear Of Missing Out) mentality of 2024 has given way to simply FEAR. After reaching record highs in February, the S&P 500 Index dropped almost 9% in March alone to finish the first quarter with a 4% loss. The stock markets then proceeded to lose an additional 10% in the two days after the tariff announcement on April 2nd. Tariff announcements and soft economic data have led to particularly weak performance for mid-cap and small-cap stocks. AI-related stocks have also declined as strong earnings that did not quite meet sky-high expectations and the threat from China's DeepSeek cast doubts upon the sustainability of continued high pace of AI capital spending.

Unlike the previous two years, diversification actually added value in the first quarter. Overseas stocks have outperformed US stocks in spite of tariff threats. European defense stocks also got a boost due to the growing US / NATO chasm.

The stock market meltdown in early April brought US stock valuations to more reasonable levels, but they remain elevated in historical contexts. As the US appears to be at an inflection point regarding its trade and budget policies, more uncertainties and therefore market volatility are likely to stay for the rest of 2025. Until the new trading regime and the rules of engagement are better defined, it will be difficult for US corporations to properly adjust. In the interim, it may serve investors well to stay defensive and well-diversified.

Bond prices have initially benefited from the recent stock market turmoil but 10-year yields have been volatile as well. At current levels, we are neutral on bonds: on one hand, bond yields may decline further if the economy falters; on the other hand, they may rise if the US national debt continues its seemingly uncontrolled ascent.

These are uncertain times. As always, please do not hesitate to contact us if you have any questions.

"The two most powerful warriors are patience and time."

Leo Tolstoy

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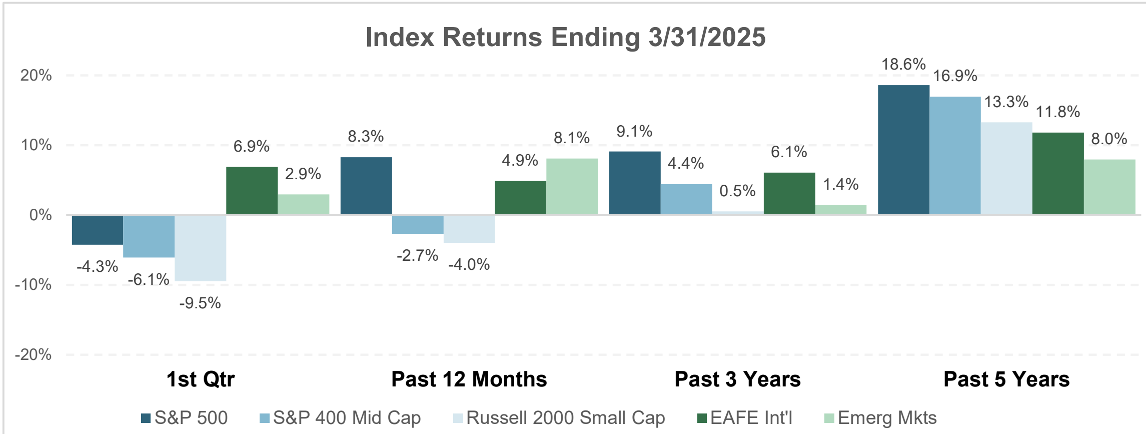
FIRST QUARTER 2025 MARKET HIGHLIGHTS

Stocks

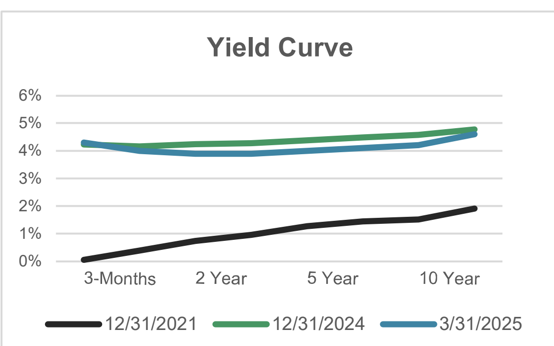


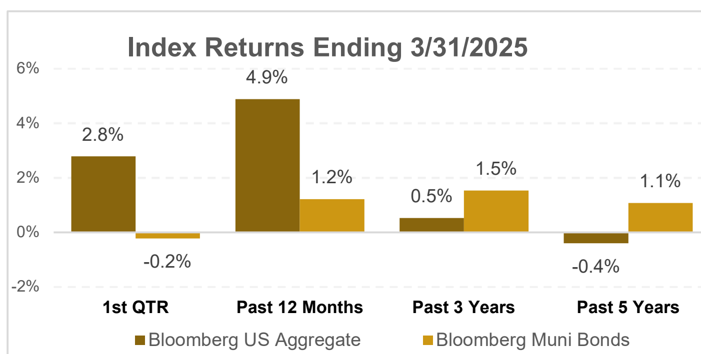
- The S&P 500 declined almost 9% from its peak reached on February 19th. The index ended the quarter with a 4.3% loss.
- Tariff uncertainties, inflation fears and weaker-than-expected economic data sent US stock prices lower, especially small cap stocks.
- Value stocks finally outperformed growth stocks in the first quarter. The Russell 1000 Value Index gained 2% while the Russell 1000 Growth Index lost 10% in the last three months. Semiconductor stocks were particularly weak as investors started to doubt the sustainability of their high growth rates.
- International and emerging markets posted positive returns in the last three months in spite of looming trade wars.

Bonds

- The Federal Reserve held interest rates steady in the March meeting. However, it has lowered its expectations for economic growth.
- Bond yields fell slightly in the first quarter amidst signs of a slowing economy.
- Municipal bonds posted a slight loss in the first quarter. Heavy issuance and concerns about Federal spending cuts (which may negatively impact state finances) are to blame.

	2 Year Bond Yields	10 Year Bond Yields
12/31/2022	4.4%	3.9%
12/31/2023	4.3%	3.9%
12/31/2024	4.3%	4.6%
3/31/2025	3.9%	4.2%





The US Dollar, Again

When we showed the trade-weighted US dollar index chart last quarter, the mighty US dollar was at an all-time high. Since then, the dollar has declined roughly 3.5%.

A weaker dollar makes imports more expensive and exports more competitive.

For investors, a weaker dollar also makes international investments more attractive.