C Y P R E S S

Asset Management, Inc.

MARKET COMMENTARY **April, 2025**

2025 1Q ASSET PERFORMANCE

	Q1 25
S&P 500 Total Return	-4.59%
NASDAQ	-10.42%
Dow Jones	-1.28%
Russell 2000	-9.79%
World ex. US	2.79%
Gold ($3150/oz)	19.39%
Oil ($71.48/bbl)	-0.43%
Long Term Treasury (4.51%)	4.82%

As of March 31, 2025

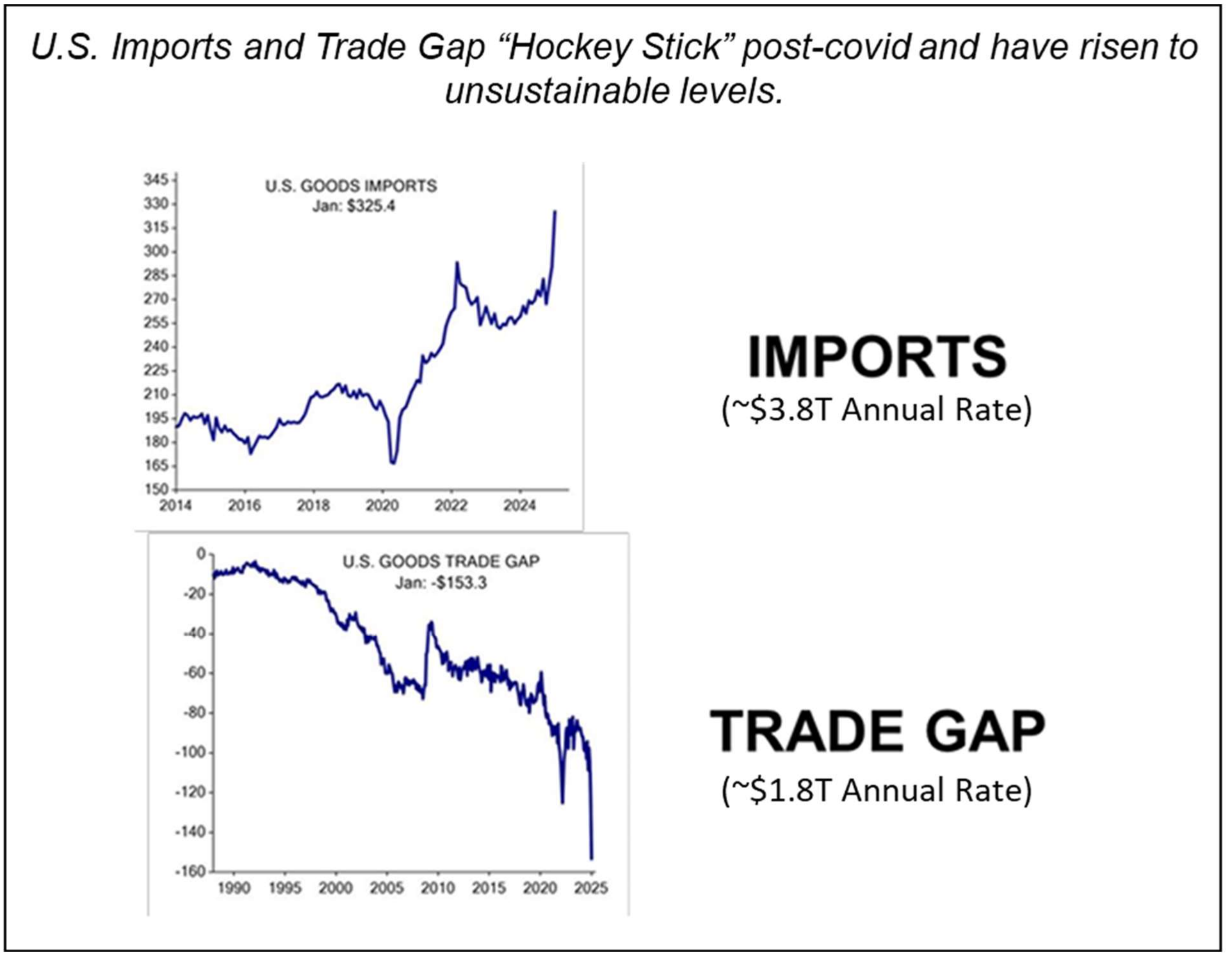
The first quarter of 2025 was marked by significant volatility in U.S. markets driven by sweeping tariffs and a dramatic shift in trade policy. The S&P 500 ended the quarter down 4.6%, the Nasdaq Composite fell 10.4%, while the VIX equity market volatility index rose 28.4%. While the Trump Administration's sweeping tariffs were widely anticipated, the magnitude of the April 2nd liberation day tariffs and their unpredictable implementation was a negative shock to the market.

Tariffs: An Unknowable Environment for Equities

Tariffs present both a disruption to the economy and markets and an unknowable environment for investors. Fear has taken hold of the market. The market and the press reflect this sense of uncertainty through weaker prices and alarmist headlines. Market strategist, Ed Yardeni, recently noted, "The outlook is definitely less rosy, but time will tell whether markets are paying too much attention to headlines out of Washington, as they often do." He then added, "Federal Reserve Chair Jerome Powell used the word "uncertainty" 16 times in his press conference today". The ultimate scope of the tariffs, their implementation, and effect on the global economy, consumers and business is all largely unknown.

At this point, like the market, we have more questions than answers and the range of outcomes is exceedingly wide and disparate. One end of the range is global downturn, recession, declining corporate profits and a bear market while at the other end is a fairer and more balanced global trading regime, a fundamentally stronger U.S. economy and resumption of the bull market.

The recent decision to announce a 90-day pause of the sweeping "reciprocal tariffs" on essentially all countries but China suggests there is room to negotiate and encourages cooperation with our allies. This diminishes the risk of recession or a severe stagflationary period in the U.S. economy, and a sharp drop in corporate earnings. It is also a tactical pivot to de-escalate tensions with allies and non-retaliating nations and to put us in a better position to take on China. At the same time, ratcheting tariffs to 145% on China represents an attempt to isolate China as a bad actor and strengthen our hand to address unfair trading practices and unsustainable imbalances.



Source: Evercore ISI

The Path to a Better Outcome

In the end, the U.S. will be stronger if it gets low/no tariff trade deals and a more level playing field with our key trading partners and allies (Europe, Japan, India, South Korea, Mexico and Canada, Australia, Argentina et. al.). Our post WWII "rules based" global trading system was outdated by the mid-1970s and the imbalances and manipulation have only become worse over time. There is the real potential for a better, fairer outcome that balances the value of global trade with vital national interests like security, jobs and domestic industry and production. A new and better framework for trade and cooperation with China, our great rival, would represent the ultimate positive outcome for all involved. But it is critical for the Trump Administration to show strong and historic leadership, to show statesmanship, and pursue these laudable goals in a coherent, strategic and steady manner.

In order to stay the course, we must also build and begin to put in place the economic foundation for revitalizing domestic manufacturing and production This means deep and sweeping deregulation, reducing the time to permit, build and produce products, structures, and factories from years and decades to less than half the time. We must treat this as a national emergency and demonstrate national resolve as we did during WWII when we became the world's manufacturing superpower and later in the 1960s when America put a man on the moon in 8 years starting from a nascent space program which lagged the Soviets. Otherwise, we are in a vulnerable position in relation to China- who is very prepared – in a trade war or traditional war.

Your Cypress Portfolio

Your portfolio is built on a foundation of strong, best of breed companies. It is important to remember in times like these that they provide valuable goods and services, possess robust and enviable balance sheets, generate lots of free cash flow, and are led by seasoned management teams committed to long term shareholder value. As the environment normalizes and trade issues start to resolve these great companies will recover and thrive in a transforming global economy.

2025 Outlook: Big Picture

- Current mid-cycle economy good for U.S stocks, can last for many years, but sweeping tariffs bring heightened market volatility and cloud economic outlook
- Fed rate hike cycle is over and rate cut cycle has begun
- Inflation has come down but tariffs complicate outlook
- AI spending boom, favorable pro-business growth policies of incoming Trump administration including deregulation & lower tax rates temporarily disrupted by tariff agenda
- Decades-long trade imbalances and massive immigration challenge the framework of post WWII global world order

POSITIVE	NEGATIVE
• U.S. Economy Still In Mid-Cycle Growth Phase with growth, jobs, and inflation approaching equilibrium "pre tariffs"	• Tariffs Create Economic Uncertainty & Recessionary Fears : currency, debt and equity markets all rattled by tariff turbulence
• In spite of the rough nature of Trump tariff talk , most trading partners should share China concerns and see that the U.S. remains the indispensable market	• Restructuring of Global World Order
• Fed Rate Cut Cycle Began Fall 2024, further cuts only a matter of time	• Wars in Ukraine and Middle East & Flashpoints of Conflict in Taiwan, Korea, and Asia Pacific
• DOGE discoveries point to significant cost cutting and efficiency opportunities that could have positive long-term impact on government , citizens and markets	• Market Valuation: PE Level lower but does not fully discount earnings decline or recession
• AI & Technology Investment Spending Boom appears to have legs and to be a critical foundation in the high stakes global battle for technological advantage	• US National Debt at Record High Level ($36T), @1.25x Greater than Nominal GDP: Challenge to U.S. Debt Markets and Interest Rates

Notable Quotes

“"The quicker this issue (tariffs) is resolved, the better, because some of the negative effects increase cumulatively over time and would be hard to reverse…The economy is facing considerable turbulence (including geopolitics), with the potential positives of tax reform and deregulation and the potential negatives of tariffs and ‘trade wars,’ ongoing sticky inflation, high fiscal deficits and still rather high asset prices and volatility."– Jamie Dimon

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“I’m not against ‘America First,’ but we cannot be ‘America alone.’” – Jamie Dimon