STOKES CAPITAL ADVISORS, LLC

Market Commentary
March 31, 2025

Quarterly Market Review

Global equity markets started the new year on a positive note with the S&P 500 reaching an all-time closing high of 6,147 on February 19th. However, investors faded the rally in March as uncertainty surrounding trade policy and weakening broader economic data weighed on risk assets pushing the S&P 500 into correction territory to finish the quarter down -4.27%.

Among the hardest hit areas of the equity market were the MAG7 and technology sector, the leaders of the equity market for the last two years. Small and mid-cap equities finished deep in the red as well as investors rotated into the historically less volatile large cap value/dividend payers, which have significantly lagged their large cap growth counterpart for the past two years.

Index Description	2023	2024	2025 *
Russell 1000 Growth	42.68%	33.36%	-9.97%
Russell 1000 Value	11.46%	14.37%	2.14%

*Data as of March 31, 2025

The other long overdue rotation within the global equity market was the performance in foreign equity markets relative to domestic equity markets. U.S. economic exceptionalism has reigned for over a decade primarily on the backs of the mega U.S. technology companies. The combined market capitalization of the MAG7, at $16 trillion is larger than the U.K., German, and China stock exchanges combined. (see table below)

Description	Market Cap
MAG7	$16.1 Trillion
German DAX Stock Exchange	$2.0 Trillion
U.K FTSE 100 Stock Exchange	$2.3 Trillion
China Shanghai Stock Exchange	$6.4 Trillion

The rotation within the global equity markets has now “leveled the field” in terms of performance on a trailing 1-year basis as investors begin to fade the U.S. economic exceptionalism theme while the Trump Administration begins to implement its “fair trade policies” and the potential of a global trade war looms.

Description	YTD	1 Yr	3 Yr	5 Yr	10 Yr
MSCI AC World Ex U.S. Index	2.15	8.18	10.5	9.85	6.85
S&P 500 Index	-4.27	8.25	9.06	18.58	12.49

Turning to the bond market, bond yields declined during the quarter as bond prices rallied in the risk-off mood and subsequent flight to safety trade enveloped the global capital markets in the latter part of the first quarter. However, there is no evidence of panic or liquidity issues present in the credit and cash markets. Credit spreads widened during the quarter but not to any material level that warrant concerns. The take-down of the global capital markets, while violent, has been orderly. As the old market saying goes, “markets go up in an escalator but go down in an elevator”.

Gold reached an all-time high to close at 3,115 $/otz. The precious metal, sought by many investors as a store of value and a hedge against inflation, has now doubled in price in just 28 months, underscoring investor concerns over stagflation and a possible 1970’s style recession. Kelly’s Heros starring Clint Eastwood and Telly Savalas was one of my favorite 1970’s movies…..they liked gold. In the film the gold was worth about $190 million, using today’s price it would be worth $17.6 billion. Not a bad heist Kelly!

The U.S. dollar reversed course during the quarter in a traditional negative correlated move against gold (gold up/dollar down) as investors sold U.S. dollars and invested in currencies with higher real interest rates.

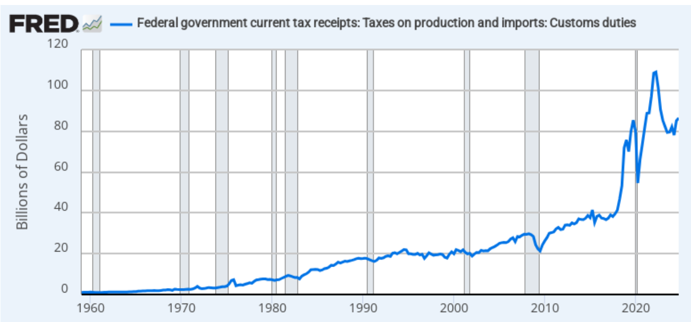
Lastly, oil witnessed significant selling pressure late in the quarter as concerns over global demand and Saudi production increases pressured Brent Crude to sub $70 per barrel, levels we have not seen since late 2021.

Investment Strategy & Outlook

Last year we cautioned investors about the narrow leadership in the equity market and that valuations in the broader equity market had reached historically high levels particularly in the technology sector harkening back to the tech bubble of the late 1990s. The narrative at the time was the earnings growth and momentum of these mega technology companies, dubbed the MAG7 would carry well into the future and the lofty valuations would be validated over time.

In addition, it was apparent to us that U.S. equities were priced to perfection with little downside risk priced in the broader equity market and risk assets in general. In the case of global capital markets, investors clearly did not have the probability of a global trade war priced in and with equities priced to perfection and trading at historically high valuations, the unwelcome news from the Trump Administration triggered a global take down of risk assets.

Initially, Trump's tariff policy was expected to raise around $270 billion per year. The "Liberation Day" announcement on Wednesday April 2nd, effectively increased this to $500-700 billion….The equivalent to a "tariff bazooka" or 5 to 7 times more than 2022 all-time high tariff policies of $100 billion. (see table below)



Source: U.S. Bureau of Economic Analysis via FRED®
Shaded areas indicate U.S. recessions.

If the tariffs introduced on April 2nd stay in effect for all of 2025, earnings projections for the broader market must come down. How much lower is difficult to say but markets are very efficient mechanisms at pricing in the most probable outcomes. Essentially equity markets are bringing down earnings estimates in real time as well as adjusting the risk premium and multiple investors are willing to pay for these future earnings. Prior to the announced tariffs, the 2025 consensus earnings per share estimate for the S&P 500 was $269. If you apply an historic PE multiple of 18 times you arrive at a fair value of 4,842 which is -13.7% below the March 31, 2025, close of 5,611. Admittedly this is a very simple analysis and is only a static snapshot in time which does not consider earnings growth, investor sentiment and the willingness of investors to pay up for equities relative to U.S. Treasury securities, also known as a the "risk premium".

So, if the Trump Administration tariffs turn out to be a drag on corporate earnings, reduce economic growth, curtail consumer spending and act as a tax on the consumer, then you must bring down the inputs to the simple equation above and this is exactly what the market pricing mechanism does across all asset classes in real time.

However, there are some time-tested and proven investment truths one should never ignore and, in some cases, can lean into when the "investment skies darken". Historically, steep declines in the equity market, like the one we are in right now, have been excellent buying opportunities for long-term investors. Unfortunately, there is no way to predict the exact bottom to these market declines so investors should avoid market timing schemes as they almost always prove to be damaging to portfolio returns. The perils of market timing are well documented, see the table below for the evidence.

The Perils of Market Timing - Annualized Total Returns 1994 to 2023	Annualized Return	Growth of $10,000
S&P 500 Index Total Return – All Days	10.14%	$181,763
Missed 10 Best Days	7.32%	$82,272
Missed 20 Best Days	5.43%	$48,874
Missed 30 Best Days	3.83%	$30,889

In addition, there have been a lot more positive years than negative in the equity market over the last 50 years with 40 being positive and 10 negative.

S&P 500 Index 1975 - 2024	# of Years	Average	Cumulative
Positive Years	40	18.05%	740%
Negative Years	10	-13.2%	-127%

That's a "batting average" of .800 which any major league player would love to own! (Ty Cobb holds the MLB record at .3662 if you are curious). Volatility and market declines are simply part of the process and the "admission ticket" investors must pay to benefit from the most powerful engine of wealth creation humanity has ever known, compound returns, the eighth wonder of the world.

Capital Markets Scorecard

Benchmark Description	Q1	1 Year
U.S. Treasury 3 Month T-Bill	1.04%	5.02%
Barclays Aggregate Bond Index	2.78%	4.88%
Bloomberg US High Yield Bond	1.00%	7.69%
S&P 500 Index Total Return	-4.27%	8.25%
S&P 500 Equal Weight Index Total Return	-0.61%	4.09%
NASDAQ Composite Total Return	-10.26%	6.37%
S&P U.S. Dividend Growers Total Return	-0.45%	8.18%
Russell 2000 Index Total Return	-9.48%	-4.01%
Alerian MLP Index Total Return	12.58%	22.99%
MSCI Emerging Markets Index	2.73%	11.70%
China SCI 300 Index Local Currency	-0.80%	12.44%
U.K. FTSE 100 Index Local Currency	6.11%	11.90%
Japan Nikkei 225 Index Local Currency	-9.91%	-10.07%