

## Portfolio Changes

### Model Changes:

- Sold SPYD 5%, IWF 5%, KWEB 1.5%, XLI 1%, VNQI 2% & ROBO 2%, XLRE 2%, XLP 2%.
- Bought BIL 15%.
- Bought BTAL 5%.
- Added 1% to PPA & 0.5% ETHA.

## Drivers of Portfolio Changes

### Growth & Income Models

- Equity correlations have quickly approached 1 which has us reducing equity exposure and holding cash (BIL) as the uncertainty settles.
- Earnings expectations remain elevated, and any further lower revisions can have another leg of re-rating on valuations which can translate into lower equities.
- Maintain beta with smaller positions while holding cash.
- Model Yield 2.6%
  - Bond Yield – 4.8%, Average Duration 6.2

## Current Economic Highlights

- Personal consumption 2.7% YoY vs 2.7% prior revised.
- Headline retail sales 4.5% YoY vs 3.5% prior revised.
- Retail Sales control group down to 4.6% YoY vs 5.1% prior revised.
- Industrial production 1.3% YoY vs 1.5% prior revised.
- The unemployment rate ticked up to 4.2% vs 4.1% prior.
- Aggregate Hours worked 0.7% YoY vs 1.0% prior revised.
- Aggregate labor income 4.4% YoY vs 4.8% prior.
- Total employees on non-farm payrolls 1.2% YoY vs 1.2% prior.
- ISM manufacturing PMI back in contraction at 49.0 vs 50.3 prior.
- ISM Services PMI down to 50.8 vs 53.5 prior.
- Core PCE ticked up to 2.8% vs 2.7% revised the previous month.
- Q4 2024 GDP – 2.5% YoY vs 2.7% YoY in Q3 2024  
2.3% QoQ vs 3.1% QoQ in Q3 2024
- Personal Consumption Expenditures 4.2% vs 3.7% (Q4 2024 annualized)

## Forecast

- With higher degrees of uncertainty about the timeline and implementation of tariffs, earnings estimates cannot be relied upon due to the nature of policy implementation. Revenues and earnings were already in a downward trajectory prior to tariffs albeit still growing; however, the magnitude of tariffs should warrant higher caution as these expectations can quickly translate into an earnings contraction while valuations remain quite elevated.
- The economy should continue to slow over the next few quarters with distortions in Q1 growth caused by the front-running imports to avoid tariffs.
- Inflation remains above trend but moving towards 2%, however, it remains to be seen how tariff impact plays out to the upside while the economic slowdown impacts the downside.
- Cross asset volatility is elevated and starting to trend which is an environment where risks should remain elevated.