

## Portfolio Changes

### Model Changes:

- Bought ITB 2.5%, XLU 2%
- Trimmed SMIN 1%, DIVI 1%, PPA 1%, URNM 0.5%
- Bought EVTR 15%
- Added IUSB 5%, FBND 5%
- Sold JBBB 10%, FLOT 10%
- Trimmed JAAA 5%

## Drivers of Portfolio Changes

- Adding some more exposure to assets that work in a stagflationary environment as inflation expectations are adjusted up as growth expectations are taken down.
- Maintain some cash while having exposure to higher beta assets that work in the current economic regime.
- Moving fixed income exposures closer to benchmark with slightly higher yield and slightly lower duration.
- Model Yield 2.8%
  - Bond Yield – 4.77%, Effective Duration 5.33

## Current Economic Highlights

- Personal consumption 2.7% YoY vs 2.2% prior revised.
- Headline retail sales 3.9% YoY vs 3.3% prior.
- Retail Sales control group down to 4.0% YoY vs 4.8% prior revised.
- Industrial production 0.7% YoY vs 0.7% prior revised.
- The unemployment rate was down to 4.1% vs 4.2% prior.
- Aggregate Hours worked 0.9% YoY vs 1.3% prior revised.
- Aggregate labor income 4.5% YoY vs 4.9% prior revised.
- Total employees on non-farm payrolls 1.2% YoY vs 1.1% prior revised.
- ISM manufacturing PMI still in contraction at 49.0 vs 48.5 prior.
- ISM Services PMI up to 50.8 vs 49.9 prior.
- Core PCE ticked down to 2.7% vs 2.6%, revised the previous month.
- Q1 2025 GDP – 2.1% YoY vs 2.5% YoY in Q4 2024  
-0.3% QoQ vs 2.4% QoQ in Q4 2024
- Personal Consumption Expenditures 1.8% vs 4% (Q1 2025 annualized)

## Forecast

- Consensus expectations continue to get whipsawed as biases have caused distortion in estimates as tariff impacts on inflation are not as impactful as expected. Some of the impacts from tariffs are offset by a slowdown in demand as consumption over the next quarter or two is somewhat muted. Post which the wealth effects, renewed spending from reshoring and impacts of tax policy should provide a strong tailwind as we progress into next year.
- Inflation will trend higher till year end but not at a magnitude seen in the 2021 episode.
- Growth will trend lower as we progress over the quarter and likely trough sometime around the fourth quarter and reaccelerate after.
- Valuations will remain a concern at the index level while at the single stock level and down the cap spectrum they are much more compelling and should provide support for a broader participation than experienced in the last few years.