

Portfolio Changes

Model Changes:

- Bought SCHG 5%, INDA 3%, SMIN 2%.
- Added BTAL 5%
- Sold VGLT 10%, BIL 15%, & reduced JAAA 5%.
- Bought FLOT 5%, IAGG 5%.
- Added IUSB 2.5%, FBND 2.5%.

Drivers of Portfolio Changes

Growth & Income Models

- Adding back some core exposure along with some diversification in EM where growth is relatively higher.
- Valuations remain elevated and markets have quickly recovered with risk still elevated with respect to earnings as the actual impacts of tariffs start to be reported in Q2.
- Toning down some beta while remaining invested.
- Model Yield 2.4%
 - Bond Yield – 5.2%, Effective Duration 5.3

Current Economic Highlights

- Personal consumption 2.7% YoY vs 3.3% prior revised.
- Headline retail sales 5.2% YoY vs 5.3% prior revised.
- Retail Sales control group was down to 4.9% YoY vs 5.3% prior revised.
- Industrial production 1.5% YoY vs 1.3% prior revised.
- The unemployment rate was flat at 4.2% vs prior.
- Aggregate Hours worked 1.7% YoY vs 1.0% prior revised.
- Aggregate labor income 5.3% YoY vs 4.7% prior revised.
- Total employees on non-farm payrolls 1.2% YoY vs 1.2% prior.
- ISM manufacturing PMI still in contraction at 48.7 vs 49.0 prior.
- ISM Services PMI up to 51.6 vs 50.8 prior.
- Core PCE ticked down to 2.3% vs 2.7% 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

- With the pause in tariffs, peak uncertainty is out of the way for now, which should lead to some aggressive pull forward in consumption as both companies and individuals rush to buy before the pause deadline that should have some positive impact on growth. However, growth continues to slow further over the next few quarters.
- The resolve to cut spending should now be considered obsolete and deficit spending should remain elevated with the proposed tax plan and federal budget.
- With a large amount of debt maturing and borrowing needs of the government, elevated risk may be more persistent in the bond markets compared to equities going forward with a caveat of yields moving up too fast which can ultimately impact valuations.
- Inflation starts to bottom out around here and starts to gradually tick higher into year-end which will likely keep the FED on pause for a tad bit longer.