PRIVATE CAPITAL MANAGEMENT

March 2025 Market Note

Dear PCM clients:

This year started with a flurry of regulatory activity and market volatility leaving investors feeling overwhelmed. As of writing, U.S. markets are near correction territory (down 10% from the peak) with many individual companies' stock prices down substantially more. While it is easy to get caught up in the headlines and fret over uncertainty, we suggest focusing on what you can control, and rely on the power of diversification to withstand market volatility.

Disruption in D.C.

President Trump is following through with campaign promises and has been focusing on government efficiency and trade negotiations. While it is difficult to separate signals from noise in trade talks, tariffs are being used as a negotiation tactic to build better terms of trade for the U.S.

Effective Date	Target Countries	Tariff Rate	Goods Targeted
February 4	China	10%	All
March 4	Canada & Mexico	25%; 10% for Canadian Energy	Most
March 12	Major Exporters	25%	Steel, Aluminum
April 2	Major Exporters	25%	Cars, Chips & Pharma
April 2	All Nations	Reciprocal Tariffs	-
April 2	European Union	25%	All

- **On March 4th, President Trump imposed the largest tariffs in modern U.S. history (which were subsequently partially rolled back).**
- **Tariff Details:**
  - **Mexico:** 25% tariff on all imports.
  - **Canada:** 10% tariff on energy products, 25% on all other goods.
  - **China:** Existing 10% tariffs doubled (imposed 30 days ago).
- **Economic Impact:**
  - Covers $1.3 trillion in U.S. imports.
  - Affects 42% of all goods entering the U.S.

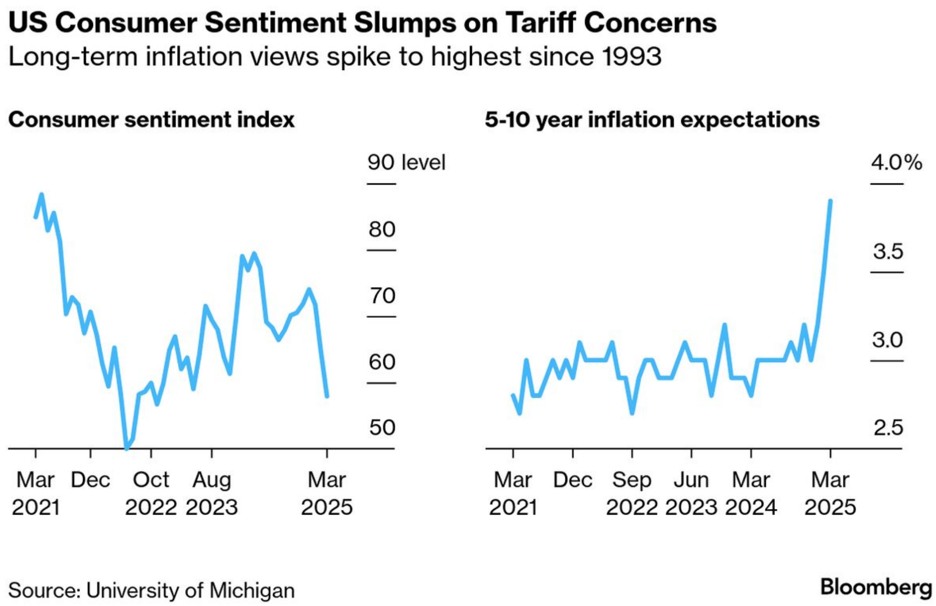
Source: Springtide Partners, Apollo, Bloomberg

This has been a chaotic process with retaliatory tariffs being applied to many goods exchanged between our long-time trading partners. Most free trade economists will argue that tariffs largely act as a tax on the consumer as producers raise prices, yet the long-term effects are less clear. Treasury Secretary Scott Bessent is urging markets and consumers to bear the short-term pain of government spending cuts and tariffs for long-term gains stemming from the anticipated boost in domestic manufacturing and capital investment. Supply chains cannot be built overnight, so 'short-term' may be subject to interpretation.

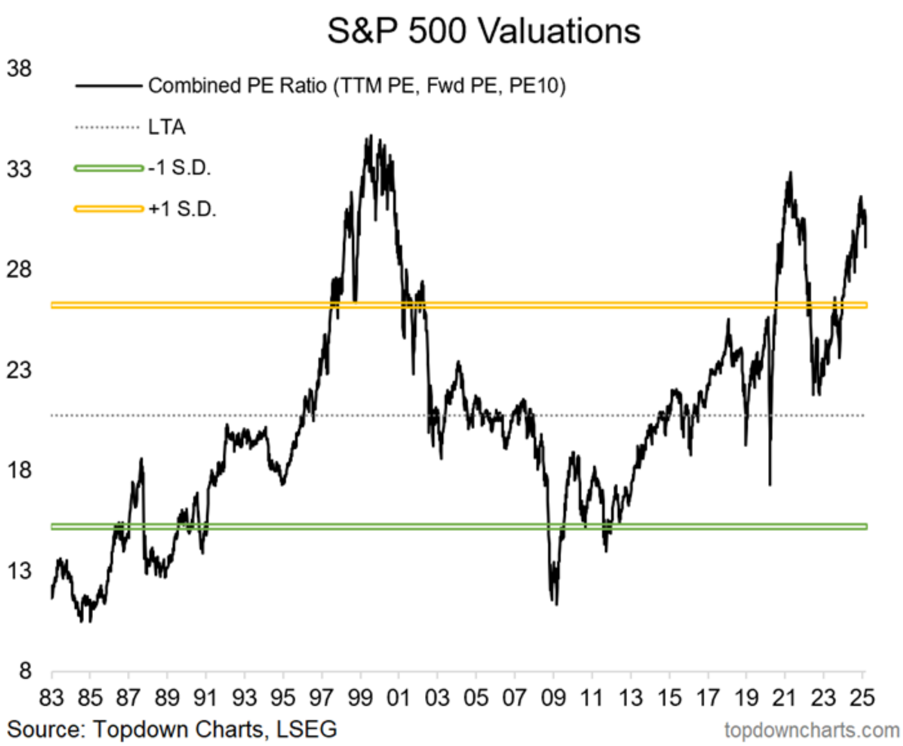
The Trump administration has made it clear that reducing the fiscal deficit is one of its primary objectives. The newly created Department of Government Efficiency (DOGE) was created to improve government accountability and efficiency through strategic oversight and reform initiatives. DOGE's methods have been unorthodox, and certainly controversial, creating substantial uncertainty for government employees and programs. That said, recent polls suggest that Americans across party lines support more accountability and less wasteful spending by the U.S. government.

Economic and Market Update

The U.S. economy ended the year in good shape, but warning signals of a growth scare are emerging. Recently, personal spending contracted, consumer confidence and sentiment dropped, and housing



remains weak. The Atlanta Fed GDP Now is also tracking an economic contraction for the first time since 2022.[1] A key reason for the sharp decline was a notable increase in U.S. trade deficits as imports surged in an effort to avoid forthcoming tariffs.[2] Recent data from the University of Michigan consumer surveys (left) suggest 5–10-year inflation expectations are rising again. Fortunately, February's CPI report showed that inflation eased marginally to 2.8% over the last 12 months with core inflation rising 3.1%.[3] We are not expecting a recession in 2025, but these risks will be monitored.



Investor sentiment had reached extreme levels coming into 2025 with animal spirits running high, fund manager cash balances low, and margin debt levels at record levels. Sentiment indicators have staged a complete reversal and cratered into panic mode in the last few weeks. Equity markets often rally from these 'oversold' conditions. That said, despite the recent correction, valuations remain elevated for U.S. stocks with certain sectors trading far above long-term averages. Counterintuitively, foreign stocks have fared well since Trump's inauguration. Part of this rally may be driven by relatively attractive valuations, but also the potential for above-consensus growth from foreign markets. Investment grade bonds have held up well since the election with U.S. Treasuries benefitting from a flight to quality during recent market turmoil. Given positive real yields and lower volatility profiles, we advise clients to maintain exposure to their long-

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[1] https://www.atlantafed.org/cqer/research/gdpnow

[2] Bloomberg: https://www.bloomberg.com/news/articles/2025-03-06/us-trade-deficit-surges-to-a-record-ahead-of-trump-tariffs

[3] https://www.bls.gov/cpi/

term target allocation to bonds. Diversification is about not trying to time the market to pick the best (or avoid the worst) asset class in any given year. Year-to-date returns across asset classes highlight this point well. All-in-all, the recent market pullback may be just that, a healthy reset.

Outlook and Portfolio Positioning

We will be closely monitoring economic momentum, consumer sentiment, and policy changes in the coming quarter. The key question going forward is whether market volatility, political uncertainty, and declining consumer sentiment start to reinforce a negative feedback loop on consumer spending and stock prices. We believe diversified investors will survive this bout of volatility as they always have. Avoid taking excessive risks and stay invested in portfolios that can perform well in a variety of economic and regulatory environments.

Sincerely,
The Private Capital Management Team

Based on sources deemed reliable but which have not been independently verified. Please see Important Disclosure Information at the end of this presentation.