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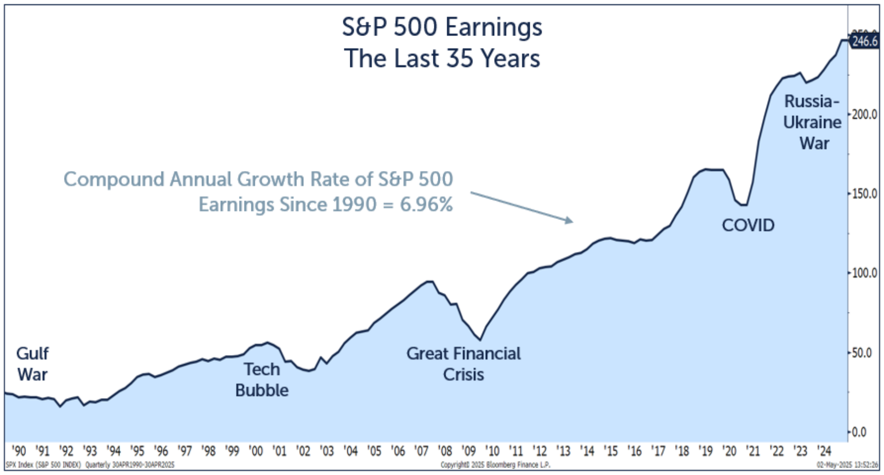
Monthly Update – May 2025

April Review – Focus on long-term principles to see through the fog of uncertainty



"Without goals, and plans to reach them, you are like a ship that has set sail with no destination." -Fitzhugh Dodson[i]

We highlighted the extreme uncertainty facing the economy last month with our reference to the "fog of war". In the midst of chaos and volatility, it is often best to reassess and refresh conviction in long-term principles.

Perhaps the most important first principle concept for investing is earnings growth determines the level of success for investors. Since 1990, the S&P 500 has compounded earnings by nearly 7% as shown in the chart at upper right.[ii] The resilience of American corporations is the hallmark of long-term investing. This 35 year history includes the Gulf War, the Tech-Bubble, September 11 attacks and follow-on wars, the Great Financial Crisis, COVID, inflation spike of 2022, and the Russia-Ukraine war, along with many other crisis events. Yet, American companies have managed to grow their earnings steadily over time. This is why we keep a long-term focus on investing in equities and remain invested throughout the turbulence.

Investors can potentially amplify returns by emphasizing equities at lower valuations and reducing equity exposure at very high valuations, but it is the exposure to long-term earnings growth that enables portfolios to continuously compound. As Charlie Munger once said, "The big money is not in the buying and selling…but in the waiting." This is always a good reminder in times of heightened uncertainty.

The implementation of tariffs does have the potential to upset the trajectory of earnings for a period of time and that is the essential reason the market reacted so negatively in the wake of the tariff announcement on April 2nd. The sharp drawdown of more than 12% in the S&P 500 and excessive volatility in the bond market in the following week showed the Trump administration how disruptive these actions ould be and the 90-day pause for negotiations for most countries was enacted. This sparked one of the sharpest rallies in stock market history on April 9th as the S&P rose 474 points or 9.5% on the day.[iii] The dramatic reversal underscores the importance of the Charlie Munger quote all the more.

Before we delve into the outlook, here's a look at market details from last month:

April Market Review

Stocks dropped dramatically at the start of the month due to the details of the "Liberation Day" tariff announcement, but rallied strongly on the pause of tariffs and the hopes of ensuing trade deals:

- Remarkably, large cap domestic stocks were only down 0.7% for the month. After closing below 5000 on April 8th, the S&P 500 rallied more than 11% to end the month at 5569.
- Small cap stocks declined by 2.3% due to growing evidence that an economic slowdown could lead to weaker earnings.
- International markets impressed with solid returns. Developed markets advanced 3.7% and emerging markets moved up by 1.3%. Currency movements were the big driver as the Bloomberg Dollar Index declined by 4%.
- Aggregate bonds improved slightly in a highly volatile month for interest rates. High yield ended the month flat.

Market Returns Ending 4/30/2025

Category	April	YTD	1 year
US Stocks			
S&P 500	-0.7%	-4.9%	12.1%
Russell 2000	-2.3%	-11.6%	0.9%
International Stocks			
MSCI ACWI ex-US	3.7%	9.3%	12.5%
MSCI Emerging Markets	1.3%	4.4%	9.5%
Bonds			
Bloomberg Aggregate Bond	0.4%	3.2%	8.0%
Bloomberg US High Yield Bond	0.0%	1.0%	8.7%

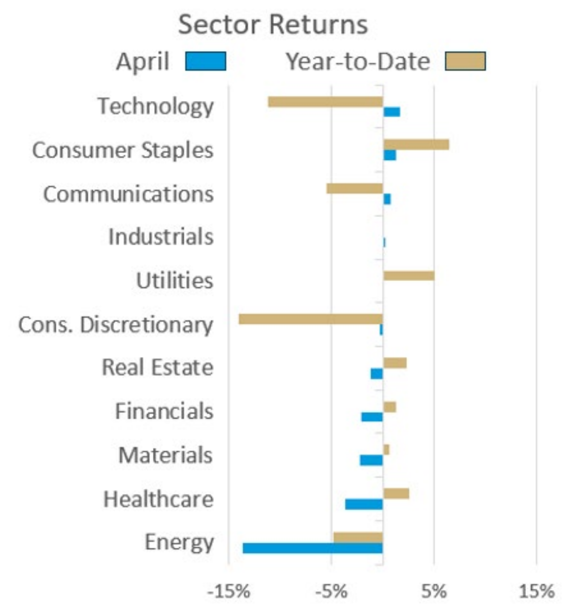
Source: Bloomberg

Category	April	YTD	1 year
Russell 3000 Growth	1.7%	-8.4%	14.1%
Russell 3000 Value	-3.1%	-1.5%	8.1%

Source: Bloomberg

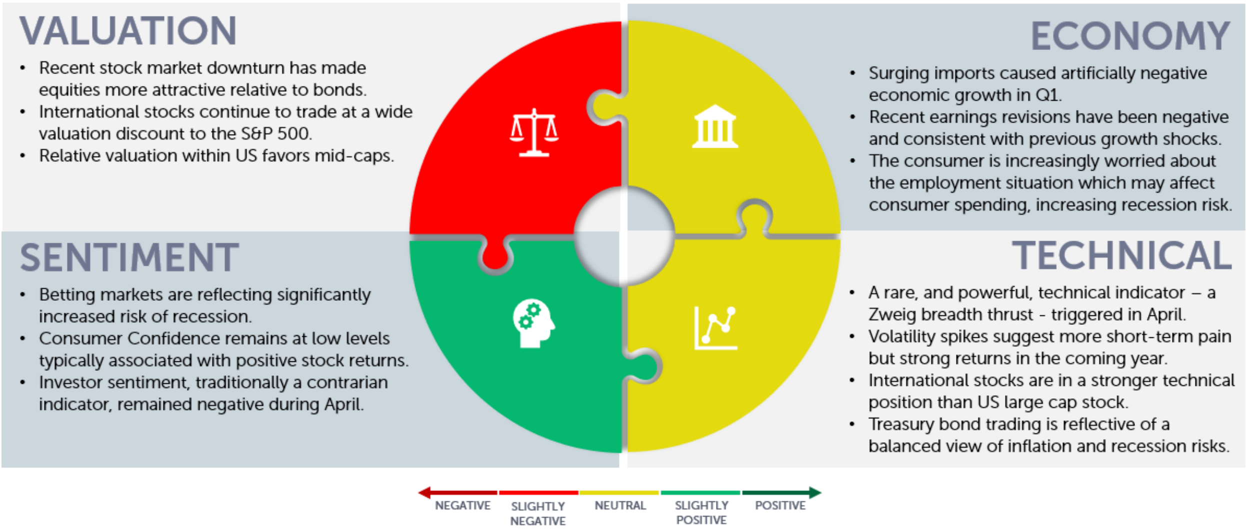
Stock sector movements showed a significant reversal from the first quarter in April as the month featured a sharp drawdown and epic comeback:

- Technology led the way for the month of April but remains negative for the year.
- Staples exhibited solid performance and communications mirrored technology.
- Several sectors that were positive at the of Q1 were negative for the month including: Real Estate, Financials, Materials, Healthcare and Energy. Energy suffered worst in April as the oil price declined from over $70/barrel to below $60/barrel by month end.



Our Navigator framework informs us of our outlook.

May 2025 Navigator Outlook:



Economy: Surging imports caused artificial negative economic growth in Q1. Due to economic uncertainty, recent earnings revisions have been negative and consistent with previous growth shocks. As a result, the consumer is increasingly worried about the employment situation which may affect consumer spending, increasing recession risk.

Technicals: A rare, and powerful, technical indicator–a Zweig breadth thrust-triggered in April. Volatility spikes suggest more short-term pain but strong returns in the coming year. International stocks remain in a stronger technical position than US large cap stocks. Treasury bond trading is reflective of a balanced view of inflation and recession risks.

Sentiment: Betting markets reflect significantly increased risk of recession. Consistent with recession fear, Consumer Confidence remains at low levels. Low levels of Consumer Confidence are typically associated with positive stock returns. Investor sentiment, traditionally a contrarian indicator, remained negative during April.

Valuation: Recent stock market downturn has made equities more attractive relative to bonds. International stocks continue to trade at a wide discount to the S&P 500. Relative valuation within the US favors mid-cap companies.

Outlook and Recommendations: Remain risk aware, but focus on the long-term

The primary emphasis of this month's message is to maintain focus on long-term objectives, but it is highly relevant for the understanding of risk management to understand just how extreme the behavior of markets in April turned out to be. As an illustration, it was only the 5th month since 1928 to see a range of at least 10% for equity prices and a net change for the full month under 1%. The other occurrences were in the Great Depression (June, 1932), twice following the Tech-Bubble (August 2002 and March 2003) and in the Great Financial Crisis (December, 2008).[iv]

The important distinction this time is that the volatility blow-out in early April happened in a solid economy while each of the previous events happened well into the crisis period or even in its aftermath. This unique attribute makes it difficult to discern whether we have carved out a durable bottom or if we still have some challenges to traverse. Our Navigator framework can help us isolate the key issues to determine conditions that would support a strong recovery:

- Valuations: opportunities in select asset classes, but the S&P 500 didn't become nearly as cheap as previous bottoms (caution still warranted)
- Sentiment: extremely oversold markets/panic (contrarian green light)
- Economy: earnings revisions showing downgrades (red light)
- Economy Part 2: monetary and fiscal response – less flexibility than some previous crises, but we will likely see some fiscal expansion from the the extension of the TCJA (Tax Cut and Jobs Act) (yellow light)
- Technical: picture is mixed, but it is healing (yellow light for now)

A review of durable bottoms after significant drawdowns of the last 25 years would identify the following attributes: more reasonable valuations than today, washed out sentiment (similar to April lows), a trough in the earnings revision cycle, either monetary or fiscal support (or both) and a more enticing technical picture. In short, there may still be some bumps in the road before we can articulate an all clear sign using our Navigator framework.

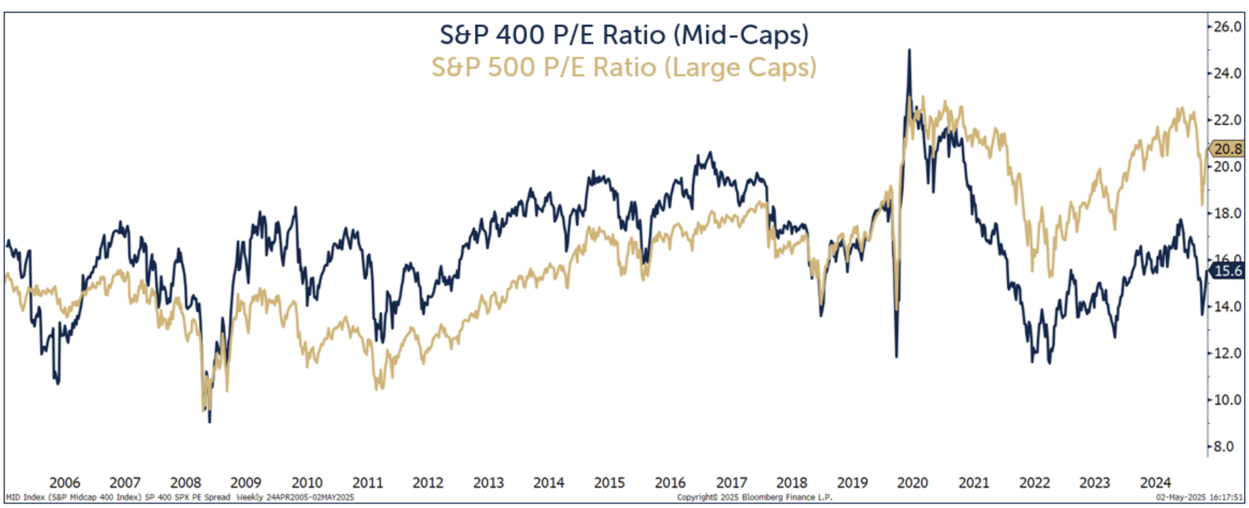
However, we must remain alert to the fact that the underlying economy is more resilient than the previous events even though we just experienced a negative GDP announcement for the first quarter. The distortions in trade due to front running the implementation of tariffs clearly undermined the data.

On the positive side, employment and consumer spending continue be quite healthy even though consumer confidence has weakened due to uncertainty. Ironically, consumer confidence is a contrarian indicator and a low reading is typically associated with positive forward returns for stocks.

In addition, it must be noted that the probability of recession has increased markedly over the last 2 months with the uncertainty surrounding global trade and tariff implementation. Yet, with all the clouds on the horizon, there is still potential for trade negotiations to progress in the right direction, a fiscal package to pass through Washington by mid-summer and opportunity for deregulation in energy and finance this fall. The strong recovery since April 9th would suggest that the market has taken a more optimistic view of the opportunities ahead.

Portfolio Construction and Positioning

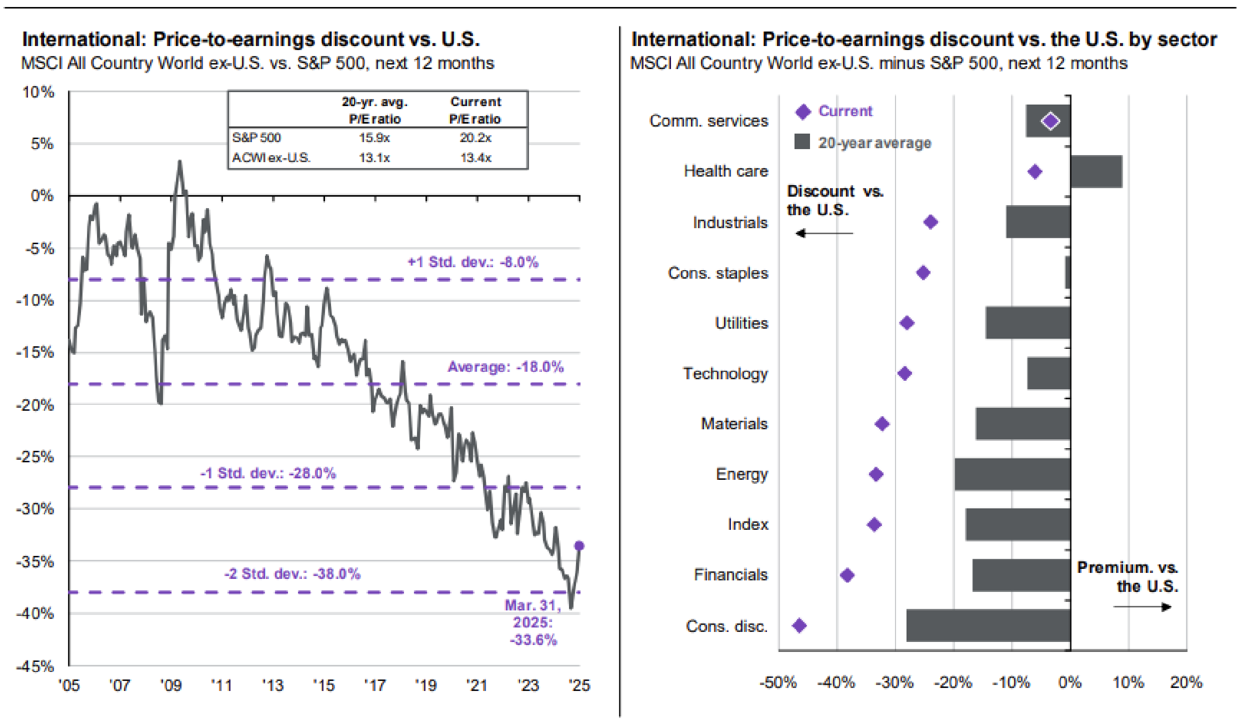
The uncertain outlook coupled with less than desirable valuations for large cap equities presents some difficulty for portfolio construction. Another first principle concept for long-term investing is that attractive valuations tend to provide better than average returns over extended time periods. One area of the market that offers attractive valuations is the Mid-Cap universe. As you can see from the 20-year chart below, Mid-Caps trade at more than a 5 multiple point discount to Large Cap US equities and for most of the previous decade they traded at a premium. Much of this is due to the extreme differences in valuations of the large cap tech sector, but we can expect to enjoy very attractive risk-adjusted returns from Mid-Caps with valuations at the current level and our portfolio is well positioned for the opportunity.



Source: Bloomberg.

Maintaining global diversification is also a seminal first principle concept and it has been quite helpful so far this year as illustrated in the table on the second page showing that MSCI ACWI ex-US has advanced by 9.3% this year. Our overweight position in International Developed markets has offset a significant portion of the negative performance of the domestic equity market thus far in 2025.

The long-term opportunity in International Developed markets can be illustrated by a review of relative valuations over the last 20 years and the current valuations of sectors throughout the developed world versus the US. The graphic below from JP Morgan Asset Management highlights the differences very well.[v]



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. *Guide to the Markets – U.S.* Data are as of March 31, 2025.

J.P.Morgan
ASSET MANAGEMENT

International markets were trading at an extreme level of 2 standard deviations below the US at the onset of the year. While recent performance has improved the discrepancy, there is still a lot of room for additional reversion. Moreover, nearly every sector trades at an enormous discount to its US counterpart and all but one trades below its commensurate 20-year average discount. The opportunity for attractive returns from a globally diversified portfolio looks rather appealing.

Summary Remarks

Severe short-term bouts of volatility can create unnecessary anxiety for investors. The best way to manage through these events is to honor the objectives of long-term planning and rely on first principles that comprise foundational beliefs. The discipline we instill in process and philosophy at OneAscent emphasizes the following key criteria:

- Values aligned – we focus on 'investing that elevates' to promote human flourishing. Allocating capital to advance the Kingdom is core to our process.
- Global Diversification – there are attractive valuations throughout the developed world and our process is designed to allocate capital to areas with the best return potential. Global diversification offers tremendous opportunity for multi-asset portfolios at this juncture.
- Valuation – we emphasize long-term return expectations in portfolio construction and adhere to research from our Capital Market Assumption White Paper. Attractive valuations may not provide much differentiation over shorter horizons, but they have proven to be historically effective in the long run.

Our portfolios are designed to compound effectively over time whether the environment is uncertain, or the sky is clear. The events of the past month offer great reminders for staying invested for the long-term and maintaining focus on first principles.

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[i] Source: Wikipedia: Fitzhugh Dodson was an American clinical psychologist who authored several popular books.
[ii] Source: Bloomberg data.
[iii] Source: Bloomberg data.
[iv] Source: Bloomberg article by Cameron Crise: *"Using Macro Data to Trade Stocks Is Awfully Difficult: Macro Man"*. May 1, 2025.
[v] Source: JP Morgan Asset Management: Guide to the Markets, 3/31/2025.