TRUST COMPANY
OF THE SOUTH

Monthly Market Dashboard

March 2025

ELEMENT	TREND	COMMENTS
VALUATION	Negative	Valuations are high, certainly for the largest companies.
INTEREST RATES	Positive	Interest rates, which had climbed meaningfully, are drifting lower.
INFLATION	Neutral	Inflation is lower, but still slightly above benign levels.
VOLATILITY	Negative	Price volatility has been creeping higher.
MONETARY POLICY	Positive	The Fed will continue cutting rates, but the pace is debatable.
DOMESTIC POLICY	Positive	Domestic economic policy now seen as pro-business.
GEOPOLITICAL	Negative	Tariffs likely to impact global trade; China's economy faltering.

Tariff Talk

The enactment of new tariffs on Canada, Mexico and China and the emergence of retaliatory tariffs is contributing to some deterioration in investor sentiment within financial markets. Stocks are off to a rocky start in March, as the Trump administration made good on threats to impose tariffs on its closest trading partners. This comes on the heels of a challenging February for financial markets, as the mere threat of these tariffs, plus an unexpected slowdown in federal spending, plus some signs of cooling AI enthusiasm each weighed on stock prices.

While the extent to which tariffs flow through the economy is debatable, there is no case to be made that tariffs, which are taxes, support broad economic growth. Stock prices of companies that are leveraged to economic growth, such as financials, energy companies, consumer discretionary companies and other cyclical businesses could be impacted the most.

It is anyone's guess how long these tariffs might be in place; a popular narrative is that this administration merely wants to use the threat of tariffs as leverage. We will see. The trouble with these tariffs is not just that they are taxes that transfer dollars to governments and away from businesses and consumers, but that there is no way to gauge how long they may last. It is highly unlikely that any future administration would underwrite meaningful regressive taxes, and because of that, it is unlikely that any meaningful amount of onshoring of American manufacturing jobs will occur. Few corporate boardrooms will be willing to bet the future of their companies on political winds that change not just every few years, but seemingly every few minutes.

	2023	1Q24	2Q24	3Q24	4Q24	2024	Jan.	Feb.	YTD
MSCI All Country World	22.2	8.2	2.9	6.6	-1.0	17.5	2.7	-0.6	2.7
S&P 500	26.3	10.6	4.3	5.9	2.4	25.0	1.4	-1.3	1.4
DJIA	16.2	6.1	-1.3	8.7	0.9	15.0	3.3	-1.4	3.3
NASDAQ	44.7	9.3	8.5	2.8	6.4	29.6	-2.3	-3.9	-2.3
Russell 2000	16.9	5.2	-3.3	9.3	0.3	11.5	-2.9	-5.4	-2.9
Russell 2000 Value	14.6	2.6	-3.7	10.1	-1.1	7.6	-1.9	-3.8	-1.9
Russell 2000 Growth	18.5	7.5	-2.9	8.4	1.7	15.0	-3.8	-6.8	-3.8
Russell 3000	25.9	10.0	3.2	6.2	2.6	23.8	1.2	-1.9	1.2
Russell 3000 Value	11.6	8.6	-2.3	9.5	-2.0	14.0	4.7	0.2	4.7
Russell 3000 Growth	41.2	11.2	7.8	3.4	6.8	32.4	-1.8	-3.7	-1.8
International*	15.6	4.7	1.0	8.1	-7.6	5.5	5.5	1.4	5.5

Source: Bloomberg
*MSCI ACWI ex USA Net Total Return USD Index

Trouble In Tech Town?

Before tariffs took center stage this week, the story of the year was weakness in "growthy" stocks and in small-cap stocks. Small caps soared last summer as it became clear that the Fed would begin cutting short-term interest rates, but have since been giving back those gains as longer-term rates went in the wrong direction. The Russell 2000 Growth Index, which represents small-cap growth stocks, was down 6.8% last month. Large-cap growth was also down meaningfully, as tech darlings such as NVIDIA are having a tougher time beating lofty investor expectations. Life was a little better in large-cap value-land, which managed to post a small gain, and international stocks continued their strong performance this year.

Tariffs or No Tariffs, Signs of a Slowdown?

Our view is that the market is reacting not just to the tariffs but to the prospects of a slowing economy, stemming from tariffs and the prospect of sudden changes in federal spending and employment. To complicate matters, this market has been priced for continued strong growth. Beginning last fall, even before the election results were known, longer-term rates started creeping higher anticipating pro-growth policies and potentially re-emergent inflation. While perhaps painful for small-cap stocks and other borrowers, a positively sloping yield curve is generally a pretty good thing—it generally means the economy is expected to grow. Well, about a month ago, the curve, which had been positive, began to invert again, indicating the expectation of a slowing economy between one year and three years out. Yield curves have a way of changing rapidly, but that is an interesting development. Healthy economies don't typically sport inverted yield curves.

Talk Is Cheap

Our portfolios skew toward value, so while all assets have some exposure to an economic slowdown, we believe we have a considerable margin of safety vs. the broader market. Maybe economic conditions soften, but maybe what sounds like jawboning turns out to be just that. The news, whether from Washington, Warsaw or Winnetka, can change quickly. Our approach typically does not.

FOR MORE INFORMATION, PLEASE REACH OUT TO:

M. Burke Koonce III
Investment Strategist
bkoonce@trustcompanyofthesouth.com

Daniel L. Tolomay, CFA
Chief Investment Officer
dtolomay@trustcompanyofthesouth.com

DISCLOSURES

This communication is for informational purposes only and should not be used for any other purpose, as it does not constitute a recommendation or solicitation of the purchase or sale of any security or of any investment services. Some information referenced in this memo is generated by independent, third parties that are believed but not guaranteed to be reliable. Opinions expressed herein are subject to change without notice. These materials are not intended to be tax or legal advice, and readers are encouraged to consult with their own legal, tax, and investment advisors before implementing any financial strategy.