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Monthly Market Dashboard

May 2025

ELEMENT	TREND	COMMENTS
VALUATION	Positive	Valuations remain elevated, despite the recent drawdown.
INTEREST RATES	Neutral	Short-term rates are poised to decline even as long-term rates rise.
INFLATION	Neutral	Inflation is lower, though the outlook has become murkier.
VOLATILITY	Negative	Price volatility has increased significantly.
MONETARY POLICY	Positive	The Fed will continue to cut rates, though the pace is uncertain.
DOMESTIC POLICY	Neutral	Tariffs and uncertainty offsetting deregulation.
GEOPOLITICAL	Negative	Tariffs will impact global trade; U.S. international relations strained.

The Month After

Investors of a certain age will remember the made-for-television special The Day After, which depicted life in a post-nuclear-strike Kansas. More than 100 million people tuned in, and President Reagan later said the show influenced his thinking on nuclear arms reduction.

Mercifully, last month did not end in nuclear war, just a trade war, and a toned-down version of what had initially been rolled out on April 2, “Liberation Day,” when massive global tariffs were announced. Of course, what followed was a near meltdown in financial markets, with the S&P 500 down more than 10% during the first two trading days of the month. In the subsequent days, as retaliatory tariffs emerged, credit markets began to buckle. When that started happening,

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someone in the administration may have had a Reagan-esque reaction, and a 90-day cooling-off period was announced. Immediately, markets rallied, with the S&P 500 posting its largest one-day gain since October 2008, up almost 10%. With big tech posting strong earnings, major market indices closed out the month on a powerful note, essentially erasing the losses created by the tariff tantrum.

	2023	1Q24	2Q24	3Q24	4Q24	1Q25	April	YTD
MSCI All Country World	22.2	8.2	2.9	6.6	-1.0	-1.3	0.9	-0.4
S&P 500	26.3	10.6	4.3	5.9	2.4	-4.3	-0.7	-4.9
DJIA	16.2	6.1	-1.3	8.7	0.9	-0.9	-3.1	-3.9
NASDAQ	44.7	9.3	8.5	2.8	6.4	-10.3	0.9	-9.5
Russell 2000	16.9	5.2	-3.3	9.3	0.3	-9.5	-2.3	-11.6
Russell 2000 Value	14.6	2.6	-3.7	10.1	-1.1	-7.7	-4.1	-11.5
Russell 2000 Growth	18.5	7.5	-2.9	8.4	1.7	-11.1	-0.8	-11.8
Russell 3000	25.9	10.0	3.2	6.2	2.6	-4.7	-0.7	-5.4
Russell 3000 Value	11.6	8.6	-2.3	9.5	-2.0	1.6	-3.1	-1.5
Russell 3000 Growth	41.2	11.2	7.8	3.4	6.8	-10.0	1.7	-8.4
International*	15.6	4.7	1.0	8.1	-7.6	5.2	3.6	9.0

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

Near-Term Impact

We would expect that the impact of tariffs will be unevenly distributed across markets. We would expect larger, more established firms to fare better than smaller firms, all else equal. We would expect that if the economy were to slow significantly, or even enter a recession, that companies with stocks priced for high growth would be especially vulnerable vs. companies with more modest growth expectations. Finally, we would expect that international shares, which are by and large much more modestly priced, to outperform their domestic counterparts. All of these make intuitive sense.

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The Hard Part

On the other hand, it is far from clear what the actual level of tariffs will be. It's too late to avoid the impact of the ginormous tariffs enacted between the U.S. and China, and this summer is likely to present some unpleasant surprises. However, with the 90-day pause the administration announced to give countries an opportunity to negotiate, there is a chance that tariffs could be meaningfully reduced in many cases. That seems to be what the markets are pricing in, as, broadly, valuations have essentially returned to their lofty pre-tantrum levels. This suggests risks to the downside should negotiations not go well, but it also underscores that this market can continue to motor ahead on the underlying strength of the economy if we just let it.

The Warren Buffett View

Over the weekend, Warren Buffett announced he would step down as CEO of Berkshire Hathaway at the end of the year, but in classic Buffett fashion, he spent the vast majority of the public Q&A portion of the Berkshire annual meeting discussing his business and the economy, not his own plans. While Buffett made clear he was no fan of trade wars, he also made fairly clear that Berkshire Hathaway was not making wholesale changes to its portfolio of businesses based on tariffs. With a cash stockpile of almost $350 billion, it is fairly clear that Berkshire would be a buyer of businesses should the opportunity arise. He indicated in his remarks that Berkshire had come close in recent weeks to making a small acquisition ($10 billion is small in the Berkshire universe) but that it had not come to fruition.

While some observers are nervous that Berkshire has accumulated such a large cash position instead of deploying it more quickly, it is perhaps a bigger and more bullish signal that the company has not been a larger net seller of stocks, despite reductions in notable positions such as Apple and Bank of America.

There have been plenty of great Buffett business anecdotes floating around since Saturday, but one of the best was this one in the WSJ: Jim Weber, former CEO of Brooks Running, a Berkshire subsidiary, recalled Buffett keeping him focused on the long-term. When a stronger dollar meant Brooks was making less money on shoes in Europe, Weber called Buffett for help.

After listening, Buffett said: "Ignore all that, because you can't do anything about it," Weber recalled. "He said, 'If I were you, I'd focus on your customer.'"

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Conclusion

The markets haven't seen meaningful tariffs in decades, and there could be additional volatility ahead. However, markets are impossible to predict, and it is always good practice to remember Buffett's observation that "the market is there to serve you, not to guide you," and to remember that equity investments are investments in real companies, not just pieces of paper or numbers on a screen.

Despite what one may feel, the American Tailwind is still blowing.

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

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