

ELEMENT	TREND	COMMENTS
VALUATION	Negative	Valuations remain high despite the recent drawdown.
INTEREST RATES	Neutral	Short-term rates are poised to decline even as long-term rates rise.
INFLATION	Positive	Inflation is lower, though the outlook has become murkier.
VOLATILITY	Neutral	Price volatility, while lower than April's spike, is elevated.
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.

“I’m Still Alive”

Every generation has its anthem of resilience and defiance, and there are lots of great songs that might qualify for my generation’s. Generation X was born amid the collapse of the 1960s feel-good movement, as punk and disco were on the rise. Disco came and went while we were in elementary school, but our middle and high school experiences were shaped by R&B superstars, stadium rock and metal’s golden age. Then everything changed again while we were in college with the rise of grunge, led by Nirvana (briefly) and Pearl Jam (permanently). One could say our resilience anthem catalog starts with Gloria Gaynor’s massive 1979 hit “I Will Survive” and ends with Pearl Jam’s “Alive.”

Pearl Jam was in Raleigh last month for the first time in 22 years, so we here are still basking in the afterglow of hearing Alive played live. The song’s lyricist, Eddie Vedder, wrote the song about the burden of living through trauma; it was not a song of triumph and resilience. But audiences

heard it differently; they heard a survivor singing. So, over time, like any commercially sentient artist, Pearl Jam embraced the new meaning as it was sung back to them. It had become a generation's anthem.

Well, here we are, two months after century-high tariffs sent markets into a free-fall, and we are still alive. Not merely alive, but within striking distance of all-time highs. Indeed, just as the meaning of the song changed for Pearl Jam, perhaps the reality and extent of tariffs have changed based on the crowd's reaction.

While the S&P 500 fell almost 19% from its February highs to its April low, the market's rebound that began after many of the tariffs were put on hold continued through May. Globally, stocks turned in not just a good month, but a great one, with the MSCI All Country World Index returning 5.7%. The S&P 500 returned 6.3%, and the NASDAQ, which had been hit the hardest, roared back 9.6%. The three major U.S. indices are now modestly positive for the year, while international stocks are having a banner year so far, up 14%.

Small-cap stocks, which tend to be more economically sensitive, are still fairly beaten down, with the Russell 2000 down almost 7% on the year, and value stocks are performing slightly better than growth stocks so far in 2025, despite the strong rebound in growth during May.

	2023	1Q24	2Q24	3Q24	4Q24	2024	1Q25	April	May	YTD
MSCI All Country World	22.2	8.2	2.9	6.6	-1.0	17.5	-1.3	0.9	5.7	5.3
S&P 500	26.3	10.6	4.3	5.9	25.0	-4.3	-4.3	-0.7	6.3	1.1
DJIA	16.2	6.1	-1.3	8.7	15.0	-0.9	-0.9	-3.1	4.2	0.1
NASDAQ	44.7	9.3	8.5	2.8	29.6	-10.3	-10.3	0.9	9.6	-0.7
Russell 2000	16.9	5.2	-3.3	9.3	11.5	-9.5	-9.5	-2.3	5.3	-6.9
Russell 2000 Value	14.6	2.6	-3.7	10.1	7.6	-7.7	-7.7	-4.1	4.2	-7.8
Russell 2000 Growth	18.5	7.5	-2.9	8.4	15.0	-11.1	-11.1	-0.8	6.3	-6.2
Russell 3000	25.9	10.0	3.2	6.2	23.8	-4.7	-4.7	-0.7	6.3	0.6
Russell 3000 Value	11.6	8.6	-2.3	9.5	14.0	1.6	1.6	-3.1	3.5	2.0
Russell 3000 Growth	41.2	11.2	7.8	3.4	32.4	-10.0	-10.0	1.7	8.7	-0.5
International*	15.6	4.7	1.0	8.1	5.5	5.2	5.2	3.6	4.6	14.0

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

We do not expect that tariffs will completely derail the global economy, which seemed a possibility, even if a small one, in early April. It now appears that tariffs will erode margins in many sectors, and while some damage will be done in the real economy, it is perhaps less catastrophic for markets, which are already weighted toward tech and other tariff-resistant sectors.

Mr. Market Votes for Tariff-Resistant AI and Tech Shares

Of course, a huge part of the rally has been the amazing performance of AI-driven and other tech stocks. While the outlook for many industries has been at least marginally diminished in the near term by the prospect of tariffs, the performance of information technology, which constitutes almost a third of the S&P 500, has offset weakness outside of that subsector. The S&P 500 Information Technology index has returned more than 15% quarter-to-date, serving to obscure negative performance in sectors such as energy (-2.8%), healthcare (-3.8%) and consumer discretionary (-5.5%). In short, investors are flocking to shares of companies seen as tariff-resistant, and many of those are in tech. Nvidia Corp. posted \$44 billion in revenue in the latest quarter, up 69% from the prior year. Other tech giants, Microsoft and Netflix, also posted remarkable growth during the first quarter. Because of the large market capitalizations of these tech giants, large-cap indices have held up remarkably well (and remain quite pricey) while small-cap indices such as the Russell 2000 have been more impacted.

International's Time In The Spotlight

International stocks, which have trailed domestic shares for years, are having their star turn. In part due to U.S. dollar weakness, but also because they had been pounded into the earth in terms of valuation, international shares are providing valuable outperformance this year, helping to offset the volatility in the U.S. While we are not massively overweight international, we have long maintained a meaningful allocation to international markets and of course, we are pleased that this discipline is paying off this year.

U.S. Deficits A Growing Concern

While tariffs have dominated the headlines during the first half of 2025, concerns about the fiscal health of the U.S. government have also grown. The most recent federal budget proposal appears to widen the yawning budget deficit (the nonpartisan Congressional Budget Office estimates the bill will add \$2.4 trillion to the deficit over 10 years). So far, anyway, the bond market's bark over the growing deficit has been worse than its bite, with 10-year Treasury yields moving slightly up but in an orderly fashion. The 30-year Treasury yield remains under 5%, for now.

“Even Flow, Thoughts Arrive Like Butterflies”

Like the unstable protagonist in “Even Flow,” one of Pearl Jam’s best-known songs, investors are continually besieged by information, much of which is contradictory and does not necessarily make sense. The point is that reacting to every headline, positive or negative, is a surefire way to achieve mediocre investment results. While maintaining focus on the long-term is seldom easy, and while completely tuning out one’s environment is impossible, staying in one’s seat is by far the best prescription for investment success. And speaking of generational anthems, it’s also the only way you might hear Pearl Jam perform The Who’s “Baba O-Riley” as an encore:

“Out here in the fields,

I fight for my meals

I get my back into my living

I don’t need to fight

To prove I’m right

I don’t need to be forgiven!”

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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