

ELEMENT	TREND	COMMENTS
VALUATION	Negative	Stock prices are stretched, particularly among the largest companies.
INTEREST RATES	Positive	Long-term rates have moved lower YTD.
INFLATION	Neutral	Inflation is steady, but upside risk remains.
VOLATILITY	Neutral	Price volatility has climbed recently from relatively low levels.
MONETARY POLICY	Positive	The Fed is expected to deliver two more 25-bps rate cuts this year.
DOMESTIC POLICY	Positive	Despite headline drama, deregulation and lower taxes support growth.
GEOPOLITICAL	Negative	Tariffs, shuffling alliances and war are affecting global trade.

## Regime Change

After weeks of saber rattling, war broke out over the weekend as the U.S. and Israel carried out strikes against Iran, and Iran's longtime leader, Ali Khamenei, was killed in the attacks. These military actions had been well telegraphed, with the U.S. having moved major Navy assets into position during recent weeks, so while markets have been volatile and lower since the attacks, there does not appear to be any panic. As one might have surmised, energy and commodity prices have climbed, as have bond prices and the U.S. dollar. No one disputes that Khamenei's regime was oppressive and dangerous; however, it is far from clear what the short-term or long-term impact of these strikes against Iran will be. The world hopes for a peaceful transition to a more forward-looking and less dangerous Iranian government.

Meanwhile, it is far clearer that there has also been a regime change in financial markets. After years of bullish enthusiasm for all things tech at virtually any price, and especially any asset associated with

artificial intelligence, markets seem to be reflecting growing skepticism regarding the economics underpinning technology companies and how they will translate into actual returns for shareholders. Moreover, there is an emerging concern about the extent to which AI might disrupt the business models of many successful software companies rather than making them more productive. The “software as a service” business model, perhaps the most successful subscription business model of the last two decades, is under siege as AI agents appear to be capable of duplicating a wide array of tasks that are typically handled by SaaS programs. As a result, shares of some software giants tumbled last month, with Salesforce falling 8.3%, Microsoft down 8.5%, and Oracle dropping 11.7%.

Accordingly, last month saw a continuation of the performance dispersion we saw in January. To begin the year, shares of small-cap companies began to outpace their large-cap brethren, as investors sought lower-priced earnings growth. Last month, the performance of growth companies, large and small, started to turn negative. The Russell 3000 Growth Index and the Russell 2000 Growth Index (smaller companies), as well as the NASDAQ, were all lower for the month. Meanwhile, more modestly priced “value” stocks continued their strong 2026 YTD performance. By way of comparison, as of the end of February, small-cap value is outperforming large-cap growth by almost 14 percentage points.

### Major Equity Index Returns

	2024	1Q25	2Q25	3Q25	4Q25	2025	Jan	Feb	YTD
MSCI All Country World	17.5	-1.3	11.5	7.6	3.3	22.3	3.0	1.3	4.3
S&P 500	25.0	-4.3	10.9	8.1	2.7	17.9	1.4	-0.8	0.7
DJIA	15.0	-0.9	5.5	5.7	4.0	14.9	1.8	0.3	2.1
NASDAQ	29.6	-10.3	18.0	11.4	2.7	21.2	1.0	-3.3	-2.4
Russell 2000	11.5	-9.5	8.5	12.4	2.2	12.8	5.4	0.8	6.2
Russell 2000 Value	7.6	-7.7	5.0	12.6	3.1	12.4	7.0	1.9	9.0
Russell 2000 Growth	15.0	-11.1	12.0	12.1	1.2	12.9	4.1	-0.3	3.8
Russell 3000	23.8	-4.7	11.0	8.2	2.4	17.1	1.5	-0.5	1.1
Russell 3000 Value	14.0	1.6	3.8	5.6	3.8	15.7	4.6	2.6	7.3
Russell 3000 Growth	32.4	-10.0	17.6	10.4	1.1	18.1	-1.3	-3.3	-4.6
International*	5.5	5.2	12.0	6.9	5.1	32.4	6.0	5.0	11.3

Source: Bloomberg

\*MSCI ACWI ex USA Net Total Return USD Index

Fears about exposure to a weakening software sector have also impacted the share performance of banks and other financial companies. The KBW Bank Index, a widely followed price index of national money center banks and large regional institutions, fell 10% from its mid-month peak.

Shares of asset management companies with significant exposure to private credit were hit especially hard, with Blue Owl down 21%, Apollo down 22% and KKR falling 23%.

Lastly, growing concerns about persistent inflation have also contributed to equity market angst. Three key measures of price changes (personal consumption expenditures, the producer price index and the ISM Prices Paid) flashed signs of lurking inflation. All stocks are priced on expectations of future cash flows to shareholders, but some stocks are especially dependent on those expectations—companies that presently have zero or even negative current cash flows but that are expected to have significant future cash flows are more impacted by inflationary scares.

Amid all these developments, and while performance certainly varies, this has still been an excellent start to the year for many Trust Company portfolios. As we have written many times, our standard models tilt toward value stocks and away from growth stocks, and they tilt toward shares of smaller companies and away from those of ginormous ones. They also tend to have a healthy allocation toward international stocks. It is usually the case that some of these tilts are outperforming during any given period and that others are underperforming. That's the point, really. It is rare indeed for each one of these tilts, or factors, to be outperforming the market at the same time, but lo and behold, that is what is happening right now. The longstanding reign of large-cap growth at all costs seems to be at an end. Of course, we do not know how long these conditions will persist (we only know that they will not last forever), but we are pleased to be able to deliver these rewards for patient investor behavior. We thank you for your trust in our team.

#### FOR MORE INFORMATION, PLEASE REACH OUT TO:

**M. Burke Koonce III**

Investment Strategist

[bkoonce@trustcompanyofthesouth.com](mailto:bkoonce@trustcompanyofthesouth.com)

**Daniel L. Tolomay, CFA**

Chief Investment Officer

[dtolomay@trustcompanyofthesouth.com](mailto:dtolomay@trustcompanyofthesouth.com)

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