Quarterly Economic Commentary

April 2025

By Jim Watts, KS Trust
Senior Portfolio Manager

Market Returns

	12/31/2024	03/31/2025	% Gain/Loss
Dow	42,544	42,002	-1.65%*
S&P 500	5,882	5,612	-4.76%*
NASDAQ	19,311	17,299	-10.33%*

**Total Return Including Dividends*

What you see above does not reflect where we are now! I wanted to wait until after "Liberation Day" to write this. What has transpired over the past two days has been very concerning, but not hysteria. While I have vivid memories of the 2008 – 2009 market crash, following the collapse of several large financial companies in the US, things were much different then. At this time, we are not facing an economic collapse; employment is strong, the economy is strong, inflation, while elevated, is still less than 3%, and interest rates have come down significantly over the past few days. In addition, some economists are looking for possibly five rate cuts this year. While not an economist, I do not expect anywhere near five rate cuts this year. In fact, I will be surprised by two.

This has to be one of the toughest commentaries I have ever written because of the uncertainty we are facing. The feeling (not the situation, but the feeling) is very reminiscent of the financial collapse. Since the end of 2024 through today's close, April 4th, the indices have dropped as follows: Dow -9.94%; S&P 500 -13.74%; NASDAQ -19.28%. There are some great opportunities in the stock market right now. But buying this drop is uncomfortable, to say the least. A Wall Street guru, Walter Deemer, once said, "When the time comes to buy, you won't want to." That is very appropriate at this point.

The major beneficiary of this disruption has been fixed income. I have been warning about this over the past six to nine months. I am so glad we did "lock in" some of those 5%, 5-year CDs over the past 15 months. In January, I purchased the 10-year US Treasury for several clients, yielding 4.63%. I was hesitant to make that buy. However, I knew that interest rates should go down during 2025, but locking in that security was daunting. Almost immediately, the yield went to 4.75%, and I was "kicking my butt" for not waiting a little longer. However, I have missed too many opportunities waiting just a little while longer for the price to get right. Now, with the 10-year Treasury yielding 4%, I can rest more easily with that purchase. Buying stocks right now, in this market, is very daunting, but I believe that by December

31st, we will rest much easier.

Another positive over the past few days has been the price of oil, which has also dropped more than 10%. I hope we see that at the gas pumps, but today, it seems they are the highest they have been since the election. Lower prices at the pump would help in several ways; it would allow the consumer to have more money in their pocket and filter through inflation for transportation costs. The sooner, the better, given the current consumer sentiment, which has slipped lately.

As is normal, I would like to provide additional commentary from two of our partners, UBS and Invesco. I will provide this on the next page. This is, of course, an evolving situation, so we will try to provide updates regularly.

UBS Daily House View: April 4th, 2025

Thought of the Day

On Wednesday, April 2nd, President Trump announced one of the biggest changes in US economic policy in a generation. The measures announced will bring the effective tariff rate on imports into the United States to its highest level in at least 100 years.

Markets have since been digesting the impact, with equities falling sharply, bonds and gold rallying, and the US dollar depreciating against most major currencies. In this note, we consider the outlook from here, the impact on economies and markets, and what investors should do.

In Short:

In the near term, we believe the effective tariff rates could be higher still, and without President Trump taking active steps to reduce tariffs over the next three to six months, we are likely to enter a downside scenario, including a meaningful US recession and lower equity markets. Uncertainty could be exacerbated if "maximum pressure" strategies extend into foreign policy (Iran and Ukraine-Russia) and fiscal policy (extension of US tax cuts). Nevertheless, as we look over a three- to six-month horizon, our base case reflects our belief that the effective tariff rate will gradually reduce as economic, political, and business pressures mount. This will nonetheless mean a much slower US and global growth period and an extended period of market volatility.

In recent months, we had cautioned around potential volatility and advised hedging equity exposures and diversifying portfolios. However, the extent of the announced tariffs has surprised both the market and us more broadly. In light of lower earnings growth prospects, continued uncertainty about tariffs, and a likely prolonged period of volatility ahead, we downgrade US equities to Neutral (from Attractive) and the US technology sector, AI, and Taiwanese equities to Attractive (from Most Attractive).

At times of heightened uncertainty and elevated volatility, there are broadly three strategies investors can pursue: managing volatility, looking through volatility, and taking advantage of volatility. We believe that investors have ample opportunities to consider a combination of all three despite a challenging market backdrop.

What's the Outlook for Tariffs from here?

We estimate that the tariffs announced on Wednesday will bring the US effective tariff rate (tariffs as a percent of US imports) up to around 25%. That's compared to 9% before the announcement and 2.5% ahead of the US election.

In the near term, we believe the effective tariff rates will be higher still. We believe that the EU and China are likely to retaliate and that the "reciprocal" approach to US tariffs means that retaliation by trading partners is likely to be met with even higher US tariffs.

We are also conscious of the apparent high degree of conviction the Trump administration has in the merits of restrictive trade policies. Without President Trump taking active steps to change the policy trajectory, we are likely to enter a downside scenario, which would likely include a meaningful US recession and lower equity markets.

Nonetheless, in our base case, we believe the effective tariff rate will gradually decrease over a three- to six-month horizon. Various individual countries have suggested that they do not intend to retaliate and that deals with individual countries could begin to bring the overall effective tariff rate down.

Domestically, President Trump is likely to face legal, business, and political pressure to negotiate. The latest tariffs were under the aegis of the International Emergency Economic Powers Act (IEEPA). While this was invoked to place tariffs on Canada, China, and Mexico on national security, drug trafficking, and immigration grounds, it looks more open to challenge when used as the legal basis for tariffs across a far wider range of countries. We also anticipate extensive business lobbying to water down initial tariff proposals or establish sector carve-outs, especially as US companies' ability to diversify supply chains is harder, given the breadth of the levies. Political considerations may also lead to a softening as midterm elections move closer into view.

We believe some potentially acceptable "off-ramps" that could enable all sides to declare victory could include some combination of higher European defense spending, measures in Asia to prevent dumping of excess supply into global markets, reductions in existing tariff or non-tariff barriers, or measures to increase inward investment into the US.

In our base case, we think that from around 25% today, effective US tariff rates will peak in the region of 25-30%, be on a downward trajectory by the third quarter, and end 2025 at 10-15%.

Invesco Rapid Response | Global Market Strategy Office

How have Markets Reacted?

US stocks have been hit hard, along with Vietnamese stocks. The 10-year yield of the US Treasury fell largely due to a fall in the real yield (TIPS). The bond market seems to be reacting more to concerns about falling growth than to concerns about a resurgence in inflation (for the moment).

What is our Outlook on the Situation?

The tariffs on China are so high, at 54% (and for some products, as high as 67%), that they are almost restrictive for US-China trade. This suggests it is unlikely they will be long-term in nature, although we could see an escalation of tariff wars in the short term. Keep in mind that it has been reported that China, South Korea, and Japan will have a coordinated retaliatory response to the US tariffs.

These tariffs place a high burden on US consumers and businesses, which are likely to be hit hardest. While prices will rise in the near term, aggregate demand will likely fall as consumers reduce spending in response to the tariffs. There will also be a negative impact on those countries with higher tariffs, such as China and Vietnam.

This certainly increases the risk of recession for every day that these high tariffs are in force. We anticipate significant volatility and downward pressure on risk assets in the near term. The risk of stagflation has also increased. And a resurgence in inflation may prevent the Fed from acting quickly to cut rates in order to support the economy.

We also must recognize that earnings uncertainty increases for each day that these high tariffs are in force. The good news is that there are staggered implementation dates, which supports the theory that these tariffs are being used as a bargaining tool and are not expected to be long-term in nature. And some countries have indicated they will reduce the tariffs they apply to US imports.

We are likely to see a mix of responses, from retaliation to renegotiation. We should also expect strong fiscal responses from some countries to try to offset the damage to exports and investment. China and the EU seem likely to continue to take these steps, which should help cushion the immediate blow in case these tariffs are fully implemented. In the longer term, both China and the EU will probably respond with higher consumption or investment, which would, in our view, be positive for global and regional growth, making these economies less subject to US cycles.

What is our Resulting Investment View?

In the short term, there will likely be significant downward pressure on US stocks and stocks of countries with high tariffs. We expect the US dollar to weaken as growth slows and demand for dollar-denominated assets declines with an anticipated reduction in the trade deficit. We anticipate gold will continue to rise on geopolitical and economic policy uncertainty. For those with a short time horizon, we believe it would be prudent to be risk off.

We think European and Chinese equities could perform well, assuming fiscal stimulus will help support economic growth.

For those with a longer time horizon, investors could benefit from taking advantage of sell-offs in order to increase their exposure to risk assets, taking cash off the sidelines. Investors with long time horizons should remain well diversified.

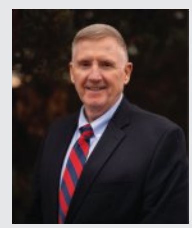
Finally, I would like to introduce you to our newest team member, Noah Holt. Noah has been with the Bank now for more than 3 years. Most recently, he worked at our Smithfield office. He is a graduate of Campbell University with a BA degree in Business Administration. He has been working with Heidi over the past few months, learning our accounting system, day-to-day operations, and our client base. Currently, he has his hand in a little bit of everything, learning the ropes. Eventually, working under my direction, his main focus will be portfolio management. We will be splitting certain duties over time as he becomes more familiar with our process. We have been blessed to have significant growth over the past 10 years (June 1st is the official 10-year mark). As such, we are developing a team for our future.

We appreciate each client's uniqueness and will always strive to do what is best for each individual client. Please do not hesitate to ask us questions or express your concerns. This is your money, and we are your stewards.

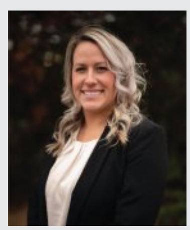
We are committed to maintaining a clear focus on building and preserving client's wealth and enhancing their quality of life, both now and in the future. Working in a fiduciary capacity, the KS Trust team provides a single point of contact for a full array of investment services.

Our team's collective knowledge and experience forges our ability to serve our clients more extensively and develop a clear path. It allows us to address the increasingly complex challenges of today's landscape and provide comprehensive financial advice with a clear vision for the future.

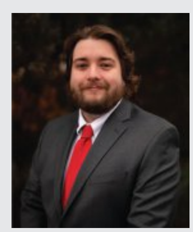
Roger Thomas
Chief Wealth Officer
rthomas@ksbankinc.com



Jim Watts
Senior Portfolio Manager
jwatts@ksbankinc.com



Shannon Austin
Senior Wealth Consultant
saustin@ksbankinc.com



Noah Holt
Wealth Consultant
nholt@ksbankinc.com

Heidi Watkins
Trust Operations Manager
hwatkins@ksbankinc.com

KS Trust®
Wealth & Investment Management

Investments managed by KS Bank's Trust Department are: Not insured by the FDIC or any other government agency, are not bank guaranteed, not bank deposits or obligations, and may lose value.