April 21, 2025
Jack White, CFA
Todd Asset Management

After the Worst-Case Scenario

TAM US Q1 2025 Review and Outlook Chartbook

We could wax eloquent on the first quarter, but the most important market developments began in April and probably center on the "outlook" side of this update. "Liberation day" (April 2) was the worst-case scenario for tariff introductions, with an average of ~ 20+% tariffs placed on our imports. **The US may be losing the confidence of global investors as a haven with bond and dollar weakness concurrently.** Part of the problem is that prior to the tariffs, the Administration said the quiet part out loud; ***Government cuts and tariffs may lead to a recession***. Now the question is how we negotiate through the process and determine if a recession is likely.

A brief review of Q1 is in order. Entering the quarter investors were excited about the potential for the new U.S. Administration to be more pro-growth and de-regulatory. Earnings were strong and broadening to sectors outside of technology that participated in the rally. Then **US Tech stocks weakened in January as Deepseek, a Chinese AI competitor, put the world on notice that the Magnificent 7[1] were not the only players in that space.** Chinese and Hong Kong stocks soared on that news. As we moved to the middle of the quarter, **a growth scare was brewing** as investors digested plans for reduced immigration, tariffs, and reduced government spending. The Administration also started picking fights with our largest trading partners, Mexico and Canada. Government officials talked down economic expectations. Market **sectors that led the S&P 500 were traditional defensives of Health Care, Utilities and Staples, and investors appeared to anticipate a U.S. recession**. President Trump was also seeking a resolution to the Ukraine War and hosted an uncomfortable late February Oval Office meeting that devolved into a shouting match with the Ukrainian president. This forced Europe to band together and pass **historic (~2 trillion Euro) stimulus measures** to provide for their common defense and infrastructure. During this period, international stocks handily outperformed the U.S., and many international indexes started posting new highs. European stocks were getting re-valued as investors factored a potential peace deal into their models. **International markets acted better and differently than the U.S** as many of their economically sensitive areas were leaders.

"Move Fast and Break Things" seems to be the rallying cry in Washington to start the second quarter. The April 2 tariff announcements were shockingly high and prompted concerns on recession, inflation, and the US Status as a reserve currency in their wake. The S&P 500 declined by over 20% at its worst point and volatility increased to levels rivalling the Great Financial Crisis (GFC) and Covid. Bond yields rose and the Dollar weakened. Economic projections are worthless while policy is changing dramatically on a day-by-day basis. What do we know for sure? Here's a few points:

- There is no alternative to the Dollar as a reserve currency. but **unpredictable US policies may force rates up** as a higher risk premium gets factored in.
- A **fundamental pivot** is occurring as the US is pursuing contractionary measures while Europe, and China are pursuing stimulus. These trends usually last for years.
- **Capex is still in focus**, with AI data centers, infrastructure, and reshoring of US manufacturing. Many companies could pause short term to watch Washington.
- **Some deals are likely** and may improve sentiment. A US Budget deal may include some stimulus. Trade deals with allies and cease fires with Russia and Iran are being negotiated. A China trade deal may be elusive.

- **The odds of a recession have increased** as tariffs are inflationary and keep the Fed on hold.

So, what is an investor to do? First, **stay invested** in something. If you sell and move to cash, you need to be right about when to sell AND when to buy. Nobody does that consistently. Time in the market, not timing the market is what pays off for investors. Second, **does your asset allocation suit your view** of the world? Many investors overstay their welcome in their old winners. Secular forces are changing at a rapid pace that probably results in a different leadership. **Diversification is your friend**. The diversifying asset classes many investors underweight now are the International and Value oriented strategies. If our two theses on the fundamental pivot and higher cost (interest rate) for being a reserve currency are correct, **rotation should continue to favor those diversifiers**.

This letter may sound more downbeat than our prior letters. That is not the intent. Things have changed and we want to realistically assess the current situation and offer advice for investors to handle that. Our base case is not a recession, but odds are higher for one and you cannot rule it out. **The S&P 500 has declined far and fast enough that historic comparisons suggest it usually recovers and provides good returns for some years to come. Over the short term though, more uncertainty is probable.** It is good that the Administration appears to be backing away from the worst-case scenario presented on April 2 and working on compromises with our trading partners. There are still uncertainties to work out though and getting from here to the long term we may need to traverse some chaos. Hang in there and you'll likely do fine.

We present our Domestic Large Cap Intrinsic Value and Intrinsic Value Opportunity performance comparison in the following charts and would urge you to **<u>review our individual strategy commentaries (available as separate reports) for further details</u>**. We still believe the outlook for value-oriented strategies is good. Call us if you would like to discuss this.

Large Cap Intrinsic Value Annualized Returns (%)

All Periods Ending 03/31/2025

Inception Date: January 1, 1981

	QTD	1 Yr.	3 Yrs.	5 Yrs.	7 Yrs.	10 Yrs.
Large CapIntrinsicValue *(Net)*	**-2.51**	**2.11**	**6.33**	**19.14**	**9.44**	**9.46**
S&P 500	-4.27	8.25	9.07	18.59	13.25	12.50
LCIV Net Excess Return	1.76	-6.14	-2.74	0.55	-3.81	-3.04
Russell 1000 Value	2.14	7.18	6.64	16.15	9.19	8.79
LCIV Net Excess Return	-4.65	-5.07	-0.31	2.99	0.25	0.67
Large Cap IntrinsicValue *(Gross)*	**-2.37**	**2.70**	**6.96**	**19.84**	**10.09**	**10.11**
S&P 500	-4.27	8.25	9.07	18.59	13.25	12.50
LCIV Gross Excess Return	1.90	-5.55	-2.11	1.25	-3.16	-2.39
Russell 1000 Value	2.14	7.18	6.64	16.15	9.19	8.79
LCIV Gross Excess Return	-4.51	-4.48	0.32	3.69	0.90	1.32

Data Source: Todd Asset Management, Standard and Poor's® and Russell® Indexes. QTD and YTD returns are not annualized. Past performance does not provide any guarantee of future performance, and one should not rely on the composite as an indication of future performance. There is no guarantee that this investment strategy will work under all market conditions. Refer to the Performance Disclosure and Additional Disclosures for more information on the performance numbers and benchmark data presented. These notes are an integral part of this chart and should not be reproduced or duplicated without these notes.

Intrinsic Value Opportunity Annualized Returns (%)

All Periods Ending 03/31/2025

Inception Date: April 1, 2006

	QTD	1 Yr.	3 Yrs.	5 Yrs.	7 Yrs.	10 Yrs.
IntrinsicValue Opportunity *(Net)*	**-0.60**	**17.84**	**11.50**	**23.83**	**12.70**	**8.75**
S&P 500	-4.27	8.25	9.07	18.59	13.25	12.50
IVO Net Excess Return	3.67	9.59	2.43	5.24	-0.55	-3.75
Russell 1000 Value	2.14	7.18	6.64	16.15	9.19	8.79
IVO Net Excess Return	-2.74	10.66	4.86	7.68	3.51	-0.04
IntrinsicValue Opportunity *(Gross)*	**-0.39**	**18.82**	**12.44**	**24.86**	**13.65**	**9.67**
S&P 500	-4.27	8.25	9.07	18.59	13.25	12.50
IVO Gross Excess Return	3.88	10.57	3.37	6.27	0.40	-2.83
Russell 1000 Value	2.14	7.18	6.64	16.15	9.19	8.79
IVO Gross Excess Return	-2.53	11.64	5.80	8.71	4.46	0.88

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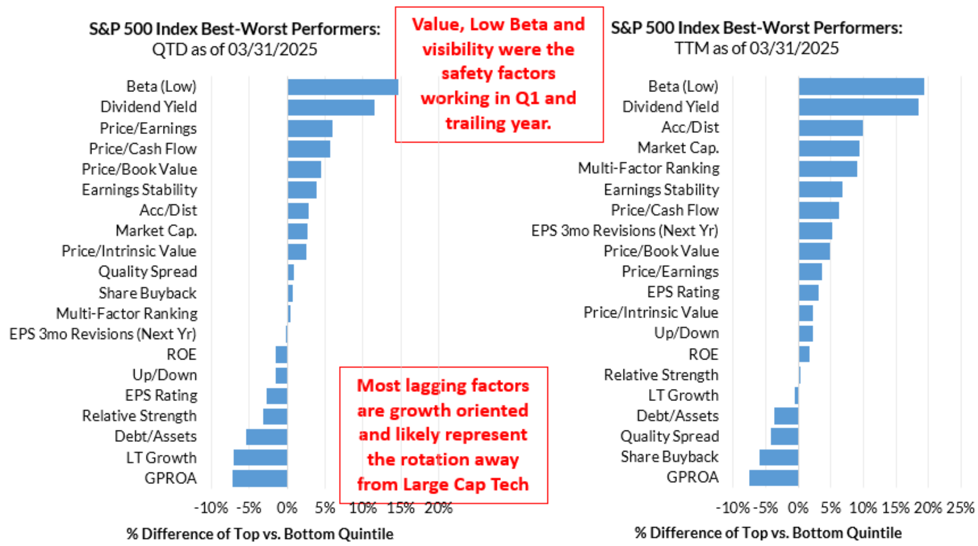
Charts we are sharing with clients this quarter:

Domestic Factor Analysis- Value, Low Beta and Visibility working

As of 3/31/2025



Data Source: Bloomberg, William O'Neill & Co. and TAM. The noted index is unmanaged, and not available for direct investment; it includes reinvestment of dividends; it does not reflect management fees or transaction costs. The volatility of the index and a client account will not be the same.

Why to Diversify into Value and International- Updated

Source: Strategas, Bloomberg, Data as of 3/31/2025

The largest 10 stocks[1] make up ~35% of the S&P 500 and have rolled over. After the last peak (2000 internet) that concentration dwindled for 15 years and the core index went sideways for 13 years, while Value and International advanced.

Source: Strategas Review in Charts as of 03/31/25

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1. The largest 10 stocks: AAPL, MSFT, NVDA, AMZN, META, BRK-A, GOOGL, AVGO, TSLA, AND JPM

Trump's Tariffs Were Off the Charts

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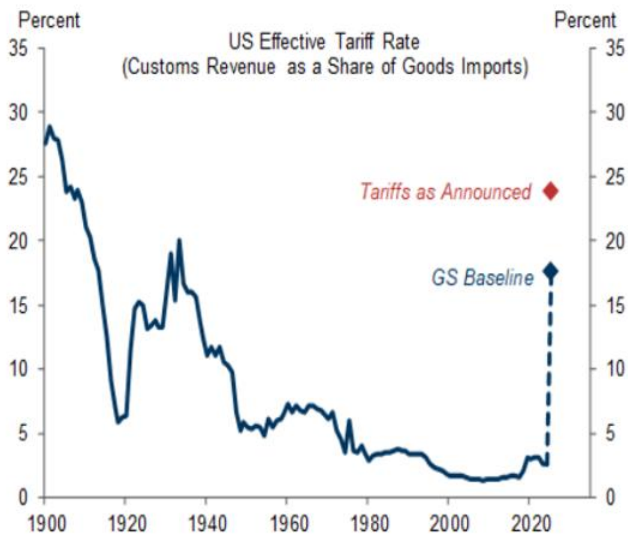

- Goldman estimates the tariffs as announced amount to the highest since the early 1900s.
- Their base assumption is they get watered down a bit but remain significant.
- Economists worry this could drive companies not to invest, consumers to scrimp and potentially, a recession.

Source: Goldman Sachs – Economics Research 4-7-25

Problem: Uncertainty has hit Confidence Measures

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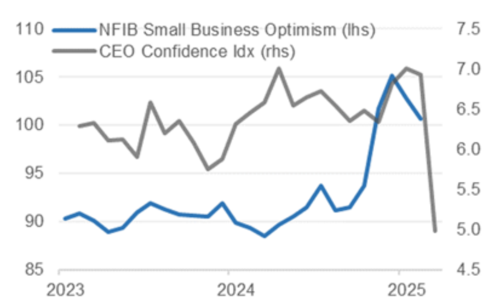
Trade War Sends Business "Animal Spirits" Into Hibernation



Source: Chief Executive Magazine, Bloomberg, Evercore ISI Research

Soft data (surveys) are deteriorating rapidly for both corporations (chart left) and consumers (chart right). Meanwhile, hard data (economic numbers) still look good as demand was pulled forward by tariffs.

Source: Eversore ISI – Emmanuel Macro Note 4-6-25, Strategas Qtrly Chart Book 3-31-25

Problem- Yields and Dollar Suggest Less Confidence in US

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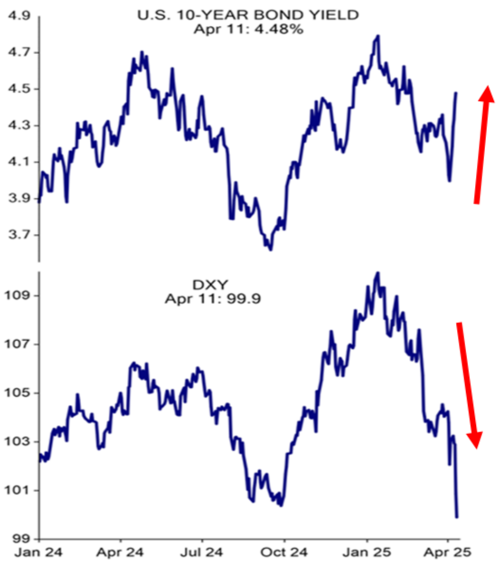

- US assets have historically been beneficiaries of a flight to safety. That stopped after the introduction of tariffs.
- Bond yields surged and the Dollar (DXY) weakened despite economic concerns.
- Skeptics worry this could reflect less confidence in US as a haven in times of stress.

Source: Evercore ISI Economics Brief 4-13-25.

Government Finances are in Tough Shape

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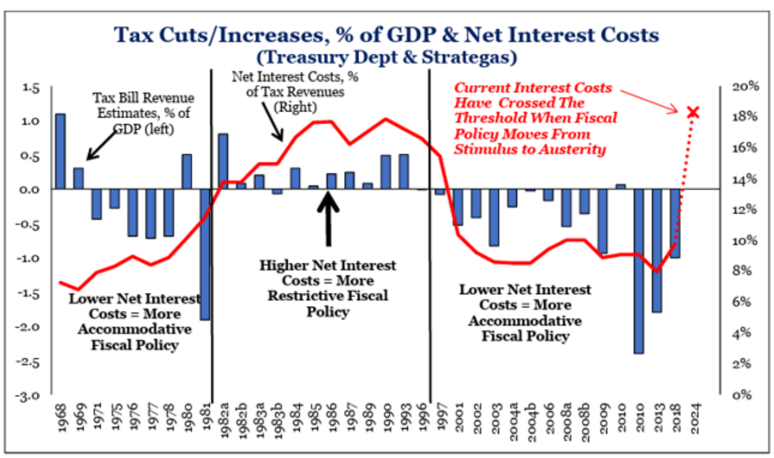
THE US FISCAL SITUATION IS NOW NET RESTRICTIVE FOR THE FIRST TIME IN 29 YEARS



Higher rates and fiscal deficits have increased interest costs as a % of tax revenues to levels where austerity has occurred in the past.

Source: Strategas Quarterly Review in Charts 3-31-25

Opportunity- Consumers Still in Good Shape

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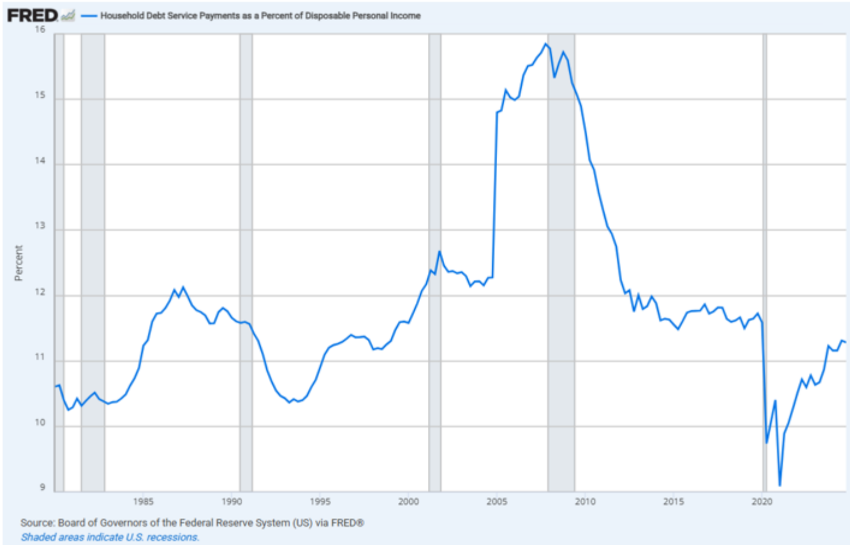

Consumer Debt Service ratio remains below pre covid levels.

Source: St. Louis Fed
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Opportunity- S&P Company Balance Sheets Remain in Good Shape

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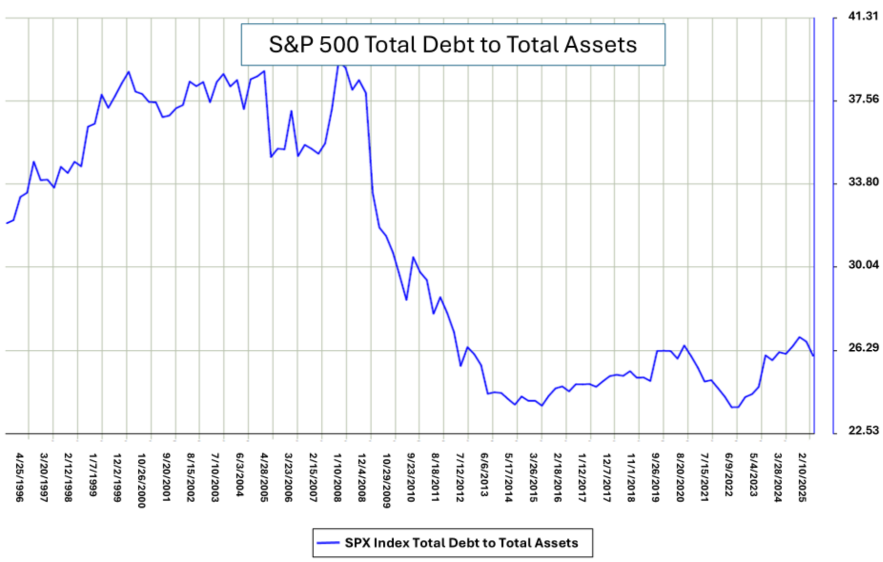

S&P 500 Total Debt to Total Assets remains well below pre-Great Financial Crisis levels.

Source: Bloomberg Data as of 4-7-25
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European Defense Spending Can Go Higher

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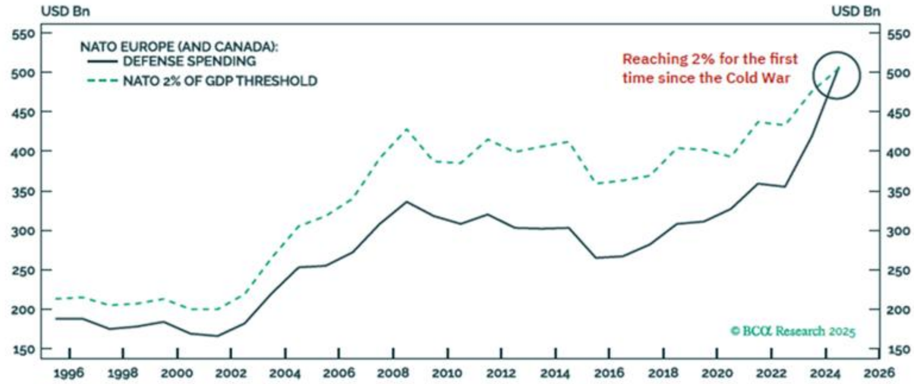
Western European Defense Spending

3% Is Already The New 2%



SOURCE: NATO PUBLIC DIPLOMACY DIVISION

Defense Spending by Europe and Canada has already risen to 2%, but new calls are occurring to raise that to 3% of GDP. This is stimulative.

Source: BCA Research EIS Strategy Insight 3-17-25
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Global Banks- Well Capitalized with Good Loan Quality

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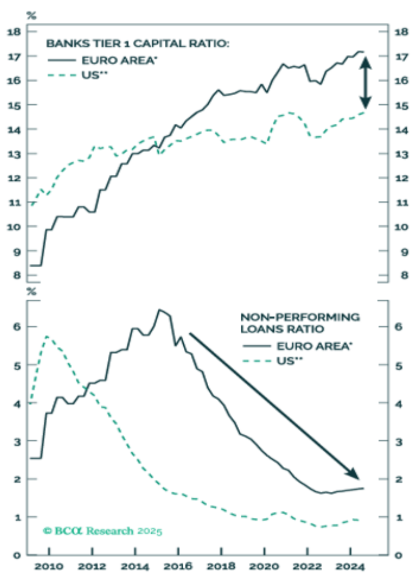

* SOURCE: EUROPEAN CENTRAL BANK
** SOURCE: FEDERAL RESERVE BANK OF NEW YORK

- Global banks have been cleaning up their balance sheets since the great financial crisis, by selling loans, curtailing payouts to shareholders and retaining earnings.
- It has worked, as Europe and and US banks have better capital ratios (chart left, top) and fewer Non-Performing Loans (chart left bottom.) European banks are better capitalized than US banks.
- We believe this improvement paves the way for better lending growth and improved returns to shareholders.

Source: BCA Research – Europe is no longer a value trap, 2-14-25
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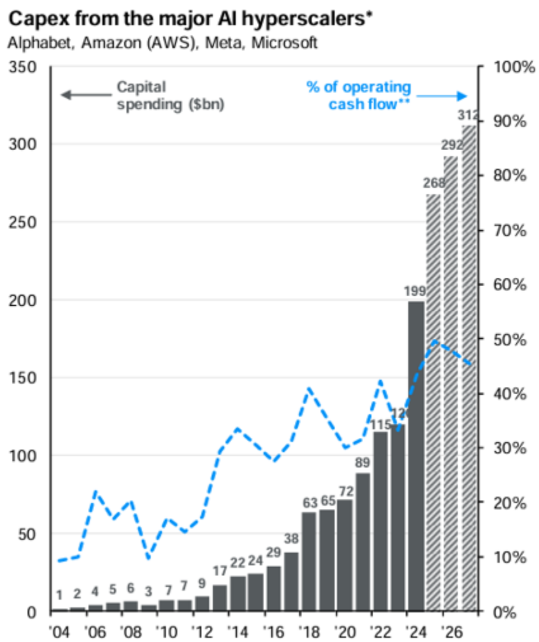
Cap Spending- Strong AI Investment Plans



- AI related capital spending for the 4 largest data center operators is expected to more than double between 2023 and 2025 to $268 Billion.
- Companies are engaged in a “Land Rush” mentality and expect first movers garner market share.
- Technology companies are changing from a capital light model to more capital intensity. **Investors are starting to ask more about ROI metrics.**
- ***Look for users to benefit!***

Source: JP Morgan Guide to the Markets 04-25

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Curt Scott, CFA
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04/21/25
S&P 500 – 5,158
Russell 1000 Value – 1,702

1. Magnificent 7 includes Apple, NVIDIA, Microsoft, Alphabet, Amazon, Meta and Tesla.

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LARGE CAP INTRINSIC VALUE COMPOSITE DISCLOSURE

Past performance does not provide any guarantee of future performance, and one should not rely on the Composite or any security's performance as an indication of future performance. Investment return and principal value of an investment will fluctuate so that the value of the account may be worth more or less than the original invested cost. There is no guarantee that this investment strategy will work under all market conditions.

Specific stocks discussed are included to help demonstrate the investment process or, as a review of the Composite's results; and are not intended as recommendations of said securities and carry no implications about past or future performance. All or some of the specific stocks mentioned may have been purchased or sold by accounts within the Composite during the period, or since the period, and may be purchased or sold in the future. The compilation of information contained herein reflects the views and opinions of TAM financial professionals at the time of creation which may change at any time without prior notification. There is no guarantee that any forward-looking opinions will occur.

Todd Asset Management LLC ("TAM") is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The performance presented represents a Composite of tax-exempt fully discretionary intrinsic value accounts, invested primarily in large cap domestic equity securities with the objective to seek capital appreciation. This goal is pursued by investing in a diversified portfolio of equity securities that TAM believes are trading at a discount to their intrinsic value. The minimum account size for this Composite is $1 million.

Todd Asset Management LLC, formerly Todd-Veredus Asset Management LLC began operations on June 1, 1998 as Veredus Asset Management LLC (VAM). Effective May 1, 2009, VAM combined with Todd Investment Advisors, Inc. (TIA). TIA (and its predecessors) was founded in 1967 by Bosworth M. Todd. Upon the combination of VAM and TIA in 2009, Veredus Asset Management LLC changed its name to Todd-Veredus Asset Management LLC (TVAM). On February 28, 2013, after a change in ownership involving some VAM unitholders, TVAM changed its name to Todd Asset Management LLC. The firm continues to offer the same strategies managed by individuals using the process founded under TIA.

The Large Cap Intrinsic Value Composite contains fully discretionary, tax-exempt accounts that use either the S&P 500 Index or Russell 1000 Value Index as the benchmark. Prior to April 1, 2010, this Composite was known as the Relative Value Equity Composite; no changes in the strategy were made in conjunction with the name change. All fee-paying, fully discretionary portfolios under our management are included in a Composite. Accounts are eligible for inclusion in the Composite at the beginning of the first calendar quarter after the month of initial funding and upon being fully invested.

TAM claims compliance with the Global Investment Performance Standards (GIPS®). The Firm has been independently verified for the periods January 1, 2008 through December 31, 2024. VAM was verified for the period July 1, 1989 through December 31, 2007 by a previous verifier. TIA's compliance with the GIPS® standards has been verified for the period January 1, 1993 through April 30, 2009. The Large Cap intrinsic Value Composite has been examined for the periods January 1, 2011 through December 31, 2024. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. To receive additional information regarding TAM, including a GIPS Composite Report for the strategy presented, contact Monica Slyter at 1-888-544-8633, or write Todd Asset Management LLC, 101 South Fifth Street, Suite 3100, Louisville, Kentucky 40202, or mslyter@toddasset.com.

The performance information is presented on a trade date basis, both gross and net of management fees, net of transaction costs and includes the reinvestment of all income. Net of fee performance was calculated using the applicable annual management fee schedule of .60% applied monthly. Prior to September 2001, the management fee schedule applied to the Composite was .50%. Actual investment advisory fees incurred by clients may vary. The currency used to calculate and express performance is U.S. dollars. All cash reserves and equivalents have been included in the performance.

The Composite performance has been compared to the following benchmarks. The indexes are unmanaged, and not available for direct investment; they include reinvestment of dividends; they do not reflect management fees or transaction costs. The volatility of the index and a client account will not be the same.

S&P 500 Index is a widely recognized index of market activity based on the aggregate performance of a selected portfolio of publicly traded common stocks. The performance data was supplied by Standard & Poor's. It is included to indicate the effect of general market conditions.

Russell 1000 Value Index is a widely recognized index of market activity based on the aggregate performance of common stocks from the Russell 1000 Index, with lower price-to-book ratios and lower forecasted growth values. The performance data was supplied by Frank Russell Trust Company.

Risks - Investments involve varying degrees of risk, and there can be no assurance that this product is suitable or profitable for your investment portfolio. The LCIV product is designed for long-term investors, who are willing to accept short-term market price fluctuations. Stock market and business risks are general risks associated with the product. There are times the overall market may not favor value-style investing, and it is possible the intrinsic value of the underlying stocks may never be realized.

At acceptance, TAM will provide all clients with a copy of our current Form ADV, Part 2A ("Disclosure Brochure"), Form ADV Part 2Bs, which are the Brochure Supplements for each advisory person supporting a particular client, and, if an individual investor, the Form ADV Part 3 (client Relationship Summary or Form CRS). You may also obtain a copy of these disclosures on the SEC website at http://adviserinfo.sec.gov.

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