NEW REPUBLIC PARTNERS

MARKET COMMENTARY

Q1 2025

NEW REPUBLIC PARTNERS

Market Commentary

Market Monitor 2025	Q1
MSCI All-Country World Index	-1.3%
S&P 500 Index	-4.3%
Bloomberg U.S. Agg. Index	2.8%
Bloomberg Commodity Index	8.9%

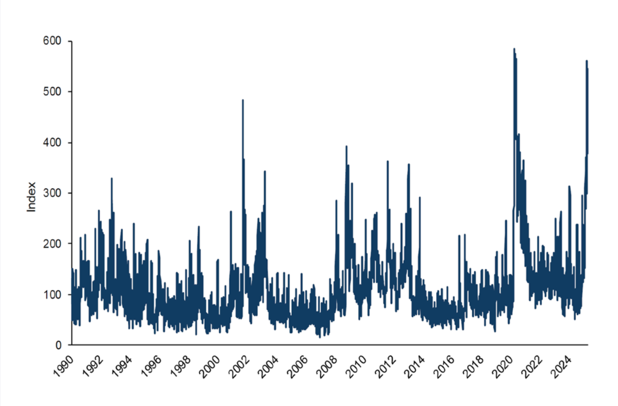
Q1 2025 Review and 2025 Outlook

Stocks fell in the first quarter after two consecutive years of gains exceeding 20% in U.S. equity markets. The S&P 500 reached an all-time high in mid-February. However, sentiment shifted later in the month amid rising policy uncertainty in Washington, and the S&P 500 ended the quarter down.

It is difficult to review Q1 without acknowledging the "Liberation Day" tariff rate announcement in early April which sent market uncertainty to new heights and drove nearly all major U.S. indices into bear market territory (i.e., -20% from peak). Global equity markets felt the pinch and the sheer breadth of the Trump administration's tariff policy left only a few markets untouched. Equity markets were arguably prepared for the telegraphed announcement date, but not for the magnitude of the tariff hike, as the effective tariff rate increased from less than 3% to over 20% — the highest in over a century.

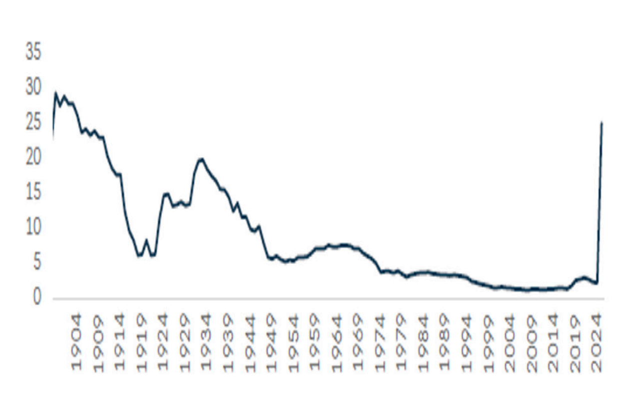
The magnitude of the market response was proportionate as nearly $6 trillion in market value was wiped from the S&P 500 at one point post announcement. As forward-looking, discounting mechanisms, equity markets sought to price in the impacts of a global trade war and policy uncertainty, which, if sustained, can hamper business investment, R&D, corporate earnings and ultimately economic growth. As reflected in betting markets and sell-side estimates, the risk of recession rose significantly post Liberation Day to over 50%.

U.S. ECONOMIC POLICY UNCERTAINTY INDEX



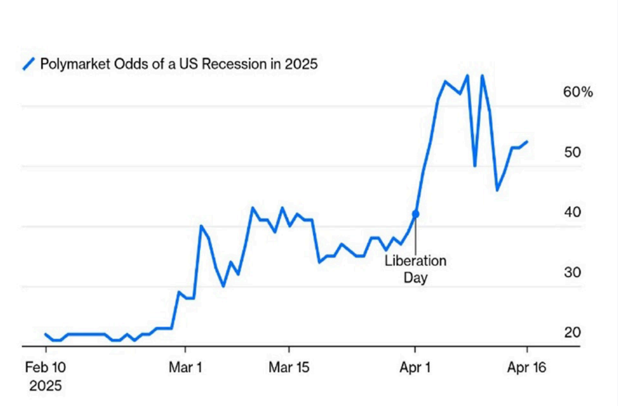
Source: Goldman Sachs, through April 7th.

U.S. EFFECTIVE TARIFF RATE SKYROCKETED



Source: Bloomberg.

RECESSION ODDS NOW OVER 50%



Source: Bloomberg.

NEW REPUBLIC PARTNERS

Market Commentary

Making Sense of the Tariff Turmoil

While some of the bite of the tariffs has since been delayed or withdrawn, as capital allocators, we take note when our managers use words like "regime shift" rather than "noise" to describe market developments. As one of our Macro managers, Broad Reach Capital, recently stated, "We believe that as currently implemented, U.S. trade policy represents a sea change in the global economic architecture … when financial markets undergo substantial regime shifts, we believe there is no better tool to deploy than traditional discretionary macro investing in liquid markets. This is clearly such a time."

We believe it is in these transition periods when having Macro manager exposure within an investor's long-term asset allocation stands out. There is a need for substantial flexibility in an investor's mandate to take advantage of such an environment.

"We believe that as currently implemented, U.S. trade policy represents a sea change in the global economic architecture … when financial markets undergo substantial regime shifts, we believe there is no better tool to deploy than traditional discretionary macro investing in liquid markets. This is clearly such a time."

- Broad Reach Capital

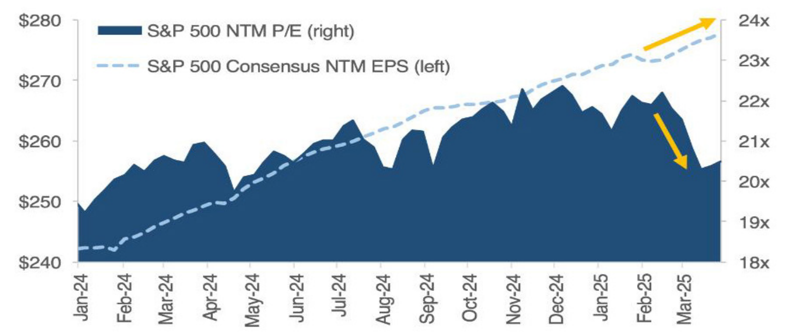
U.S. Equity Valuations Take an Elevator Down

While Macro managers can exploit the short- to medium-term market moves and events, as long-term allocators, we reflect on what trends were in place prior to the storm of Liberation Day. One of those big developments in Q1 was falling stock market valuations, as rising policy uncertainty was already weighing on investor sentiment.

The chart on the right provides context around the recent pullback, highlighting the divergence between earnings estimates and valuations. Earnings estimates tend to be less volatile than P/E ratios, which is natural as the market often swings between optimism and pessimism. As the venerable value investor, Ben Graham, famously quipped, "In the short run, the market is a voting machine, but in the long run, it is a weighing machine."

The shift in sentiment during Q1, from optimism to caution, caused valuations to decline and stocks to fall. Wall Street analysts slightly lowered their earnings forecast in Q1, citing the potential for tariffs and slower growth. Meanwhile, the S&P 500's P/E ratio

EARNINGS STRENGTH NOW UNDER QUESTION



Source: MarketDesk.

NEW REPUBLIC PARTNERS

Market Commentary

U.S. Equity Valuations Take an Elevator Down continued

declined from over 22x to around 20x. This trend only deepened in early April as the market multiple fell to 18x and investors waited to see the ripple effects of the base and reciprocal tariffs on economic growth, investment, and corporate earnings. The U.S. exceptionalism narrative that was popular just two months ago has given way to a “sell America” narrative, emphasizing the need for investors to have equity portfolios that are diversified globally, particularly as both U.S. assets and the U.S. Dollar come under further pressure from foreign outflows.

International Equities Finally Standout

To that end, a second development of note in Q1 was that international stocks outperformed U.S. stocks, posting one of its biggest quarters of outperformance since 2000. The underperformance of U.S. mega-cap tech stocks contributed to international’s outperformance. Outside the U.S., the MSCI EAFE Index of developed market stocks gained +8% in Q1. Much of that strength came from Europe, where investor sentiment improved as governments unveiled plans to increase spending. This triggered a rotation out of U.S. stocks and into Europe in anticipation of increased government spending leading to stronger economic growth. Meanwhile, the MSCI Emerging Index gained +4.5% in Q1, underperforming the developed index but outperforming the S&P 500 by nearly +9%. While it will be difficult for global equities to detach from the U.S.-driven market volatility, we believe this trend of the ex-U.S. markets outperforming the U.S. has more room to continue through the balance of 2025, particularly if the U.S. can avoid an economic hard landing or recession due to tariff policy impacts.

A Gut Check for the AI Enthusiasts

And finally, before Liberation Day, tariff wars, and heightened recession risk impacted the U.S., fears of an AI slowdown were growing due to the AI efficiency achievements of Deepseek, the latest AI model out of China, and news of Microsoft, one of the lead hyperscaler spenders in the AI race, paring back its AI spend. Notably, our tech-focused managers believe now is the time to look through the market pullback in technology and AI-related themes, as they still see a secular demand story that will be more resilient than other parts of the economy in a tariff-led slowdown scenario. Though it lost its luster in recent years, active equity management is needed in such periods as these managers can be selective in their Mag 7 exposure and source companies with strong recurring revenues, less direct tariff exposure, and less economic sensitivity.

NEW REPUBLIC PARTNERS

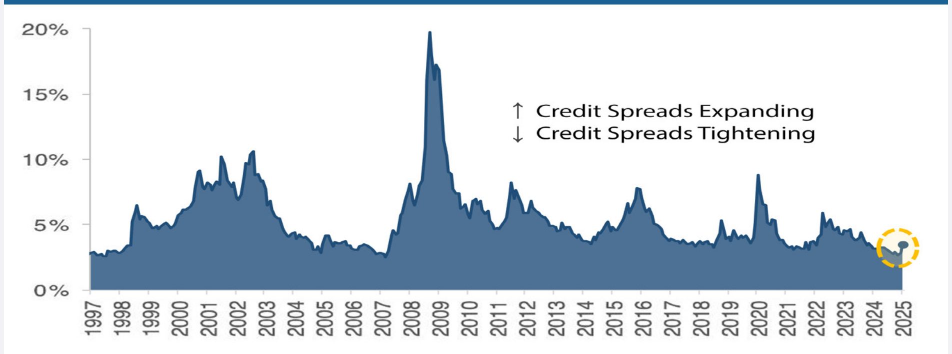
Market Commentary

Curious Developments in Credit Markets

In credit markets, there were two notable themes that prevailed in Q1: falling U.S. Treasury bond yields and wider credit spreads. However, by early April, tariff policy reversed the former and rising recession risk widened the latter. Credit spreads measure the difference in yield between high yield corporate bonds and safer government bonds, such as U.S. Treasuries. Spread levels can serve as a real-time gauge of market sentiment as well as perceived default risk. The graph on the right shows the high yield credit spread since 1997. The high yield spread narrowed in late 2024 as the Federal Reserve cut interest rates, reaching levels last seen in 2007. However, as the yellow circle in the chart shows, credit spreads widened in Q1. The increase indicates investors were becoming more cautious even before early April with the potential for tariffs and slower economic growth leading to higher credit risk.

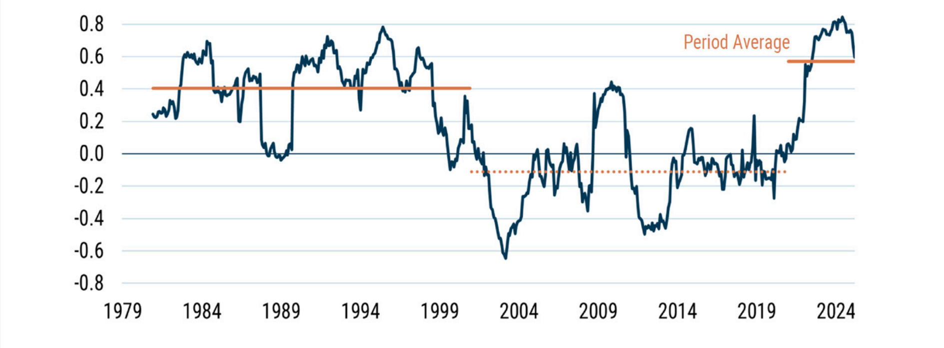
With the increased risk of recession, caution is warranted on incremental investment in High Yield credit, and Absolute Return strategies are prized over long-term bonds as a safe haven. There is no guarantee the long end of the curve is headed lower as the Fed continues its rate cut cycle, particularly if foreign investors have lost their appetite for U.S. treasuries and the Dollar.

CREDIT SPREAD WIDENING FROM TIGHT LEVELS



Source: MarketDesk.

STOCK-BOND CORRELATION BACK TO AN OLD PARADIGM



Source: GMO.

When a Long-Term Perspective is Critical

Finally, taking a step back from the fast-moving markets of the past few weeks, a public service announcement is needed: market volatility can be unsettling, but it is a normal part of investing. History shows that staying invested through the volatility and maintaining a longer-term perspective is the prudent approach. During the last market downturn in late 2021 thru 2022, if one had missed the five best days in that 3-year period of peak-to-trough-to-full recovery, the compound return would have been 4% vs. 11% in the S&P 500.[1]

[1]Alliance Bernstein.

NEW REPUBLIC PARTNERS

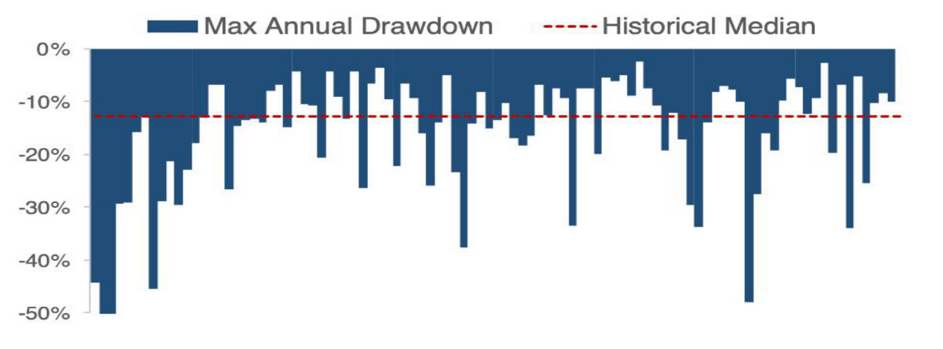
Market Commentary

As the chart on the right highlights, market corrections are a normal part of the cycle and volatility is the price of admission to investing. It's been said that the "Market Timing Hall of Fame" is empty because it is extremely difficult to do. One reason is that equity markets tend to bottom when the news is still worrisome and fundamentals are still deteriorating. Instead, maintaining a long-term asset allocation that incorporates alternatives in equity and fixed income exposures helps calibrate portfolios so investors stay invested through the ups and downs — compounding capital over time.

Having a long-term asset allocation affords us, as capital allocators, the opportunity to ask a different set of questions amidst the market volatility. The additional factors we are focused on today include: 1) analyzing the diversification our alternatives provide during this period of volatility vs. a traditional equity/bond portfolio and the opportunities for excess return, 2) re-underwriting our geographic allocations and expectations for future global growth, 3) reviewing the sensitivity of managers and portfolios to various economic factors and scenarios, and 4) confirming liquidity buffers and potential opportunities we can lean into more effectively than other investors.

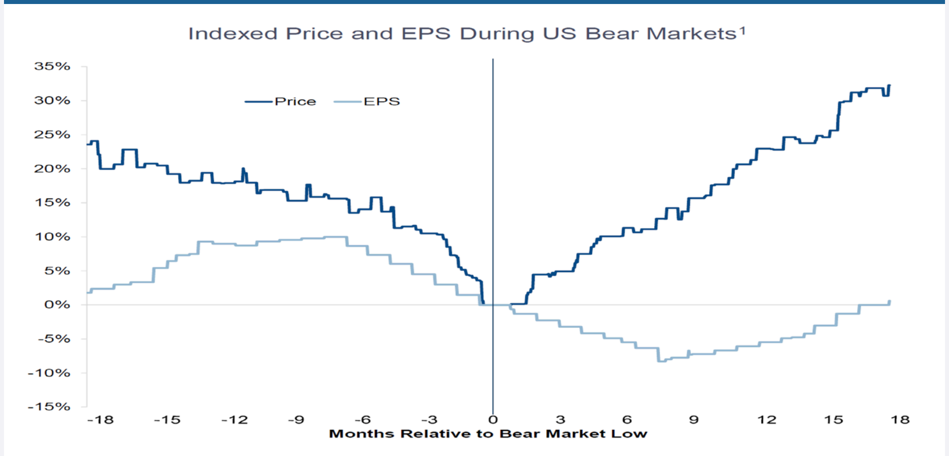
—NRP Investment Committee
April 28, 2025

S&P 500 MAX DRAWDOWN BY YEAR



Source: S&P Global.

EQUITY MARKETS BOTTOM BEFORE EARNINGS REACH A TROUGH



Source: Goldman Sachs.

Disclosure

This communication is not a "research report" as defined by the SEC. All discussion is limited to commentary on economic, political or market conditions, and statistical summaries. No investment decision should be made in reliance on this material, which is condensed, not comprehensive, and does not include all risk factors or other matters that may be material. This is not a recommendation or investment advice or an offer or solicitation.

This document may contain certain information that constitutes "forward-looking statements" which can be identified by the use of forward-looking terminology such as "may," "expect," "will," "hope," "forecast," "intend," "target," "believe," and/or comparable terminology. No assurance, representation, or warranty is made by any person that any of New Republic Partners' assumptions, expectations, objectives, and/or goals will be achieved. Nothing contained in this document may be relied upon as a guarantee, promise, assurance, or representation as to the future. NRP LLC shall have no liability for its contents.

There is no guarantee of the future performance of any New Republic Partners portfolio. All investments involve risk, including loss of principal and there is no guarantee that investment objectives will be met.Material presented has been derived from sources considered to be reliable, but accuracy and completeness cannot be guaranteed. The opinions expressed are those of New Republic Partners. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass.

New Republic Capital, LLC (d/b/a New Republic Partners) is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about New Republic Partners' investment advisory services can be found in its Form ADV Part 2 and/or Form CRS, both of which are available upon request.

NEW REPUBLIC PARTNERS

704.626.1526

NEWREPUBLICPARTNERS.COM