MONTHLY COMMENTARY

March, 2025

Solutions Based on TAG Macro & RPg Quantitative Strategies

The following commentary is the opinion of our Portfolio Manager at the time of its writing. Please see important disclosures.

OVERVIEW

Tariffs, tariffs and more tariffs. That pretty much dominated the economic news, leading to a crescendo of panic over uncertainty. That culminated in a large selloff on the last Friday of the month in reaction (overreaction) to an otherwise benign inflation report and reaffirmation of an earlier in the month estimate of the March *Consumer Sentiment Survey* (which we consider a whimsical, headline reacting indicator). Meanwhile, the economy looks to be on a stable footing with manufacturing, services, housing and jobs all reporting steady, modest growth. Overseas, in reaction to the changing NATO political environment and other domestic factors, Germany announced a new $1 trillion spending plan on civilian and defense projects and an additional €500 billion investment fund for long neglected infrastructure. Brazil's economy reported further business growth, allaying fears from last year about potential drag from monetary disciplines. Finally, China took a major policy shift. First, President XI hosted a meeting with 40 multinational corporation business executives defending global trade and stating China is open for business. Secondly, Xi courted Chinese tech companies to invest in their expansion, a stark reversal to his regulatory crackdown two years ago.

The S&P 500 ended the month down -5.63% with Foreign Developed at -0.29% and Emerging Markets up 0.64%. In the US, Large Cap bested Small Cap and Value bested Growth, both reflecting the negative sentiment.

Bonds followed suit with Interest notching a small fractional gain against losses for Blend and Credit. Global Bonds outperformed with a larger fractional gain aided by a substantial decline in the Dollar. We see the Dollar's decline as ironic given last year's post-election strong rally in the Dollar due to tariff expectations.

Commodities were broadly positive with particularly strong gains in Precious Metals in reaction to tariff fears.

PERFORMANCE

TAG TACTICAL STRATEGIES: Global Macro

All three *Core Strategies* substantially outperformed their proxies with fractional gains or much smaller losses. Overweight allocations to Foreign Equities and Bonds and Natural Resources drove the outperformance. March also caps substantial year to date outperformance.

Tactical Income posted a fractional loss due to positions in Credit sensitive income securities. The yield as of March 31, 2025, is at 4.74%. Despite March, *Tactical Income* posted substantial year to date outperformance.

Tactical Equity substantially outperformed its proxies posting a fractional gain. Overweight positions in Natural Resources, Emerging Markets and Defense drove the outperformance. March caps substantial year to date outperformance.

RPg STRATEGIES: Quantitative Formula

Tactical US Equity generated a smaller loss than the S&P 500 due to over weights in Value Sectors. March caps substantial year to date outperformance. *Tactical US Equity FT* generated an even smaller loss due to its inherent Value weighting. March also caps year to date outperformance.

Tactical Global Balanced substantially outperformed its domestic proxy due to Foreign and US Value Sector Equity weightings. March caps substantial year to date outperformance.

OUTLOOK

It would appear President Trump's agenda is spurring a renewed global economic growth. Europe has been shaken out of its long post WWII socialistic complacency by Russia's invasion of Ukraine and Trump's insistence that Europe begin taking more responsibility for its defense. Also, Trump's move to reciprocal tariffs will force Europe to compete on a more equal footing. China appears to be likewise motivated by tariffs and geopolitical realignment.

With regard to tariffs, we agree there is an element of uncertainty as Trump attempts a major realignment of the world trade order. However, as we have stated previously, tariffs are not likely to result in a one for one price increase in the tariffed goods. The foreign manufacturer may seek more cost efficiencies to offset some of the tariff cost, they may also choose to absorb some of the tariff cost to maintain market share. The US importer may choose to absorb some of the tariff cost, as may the US retailer. Finally, currency adjustments may mitigate some of the tariff impact.

As to any final impact of tariffs on inflation, there is an increasing school of thought that their inflationary impact is transitory. Scott Bessant, US Treasury Secretray stated "nothing is more transitory than tariffs". Robert Dietz, Chief Economist, NAHB stated "prices will move up, but probably just as a one-time adjustment, rather than a persistent increase". Finally, for what it's worth, Fed Chairman Powell dared to bring out the "T" word again stating that "tariff inflation can be transitory".

The other source of panic (and political outrage) is over the DOGE reductions to government spending. First, reductions to overhead are not reductions to program spending (i.e. Dept of Education). Secondly, reductions to deemed wasteful program spending will always generate legitimate debate. Perhaps most importantly, a targeted reduction of approximately 200,000 federal government employees plus its knock-on impact on government contract workers, does represent short term fiscal drag. However, the January *JOLTS Report* (Job Openings and Labor Turnover Status) showed we still have 7.740 million job openings. Losing one's job is an unpleasant experience. Remaining unemployed would appear to be mostly by choice. Layoffs and terminations happen every day in the private sector; where are the news cameras showing the perp walk out of the office? The Trump agenda is trying to move the economy from more of a government driven one to more of a private sector driven one. That is hoped to improve inflation and "real wages" for more Americans.

The *TAG* and *RPG Strategies* are allocated to a broad and balanced approach for a transitioning global economy.

Your RPg Investment Team

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We welcome your comments and questions regarding the foregoing.
Please direct them to: support@riskparadigmgroup.com
Please read and refer to important disclosures that follow.

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Sources: Bloomberg.

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