Hollow Brook Quarterly Roundup

1Q 2025

Market Overview

As we finalize our first-quarter update, both equity and bond markets are experiencing historic volatility, largely driven by fast-moving developments in U.S. trade policy and shifting tariff headlines out of Washington D.C. Candidly, this has been one of the most challenging letters to write in recent memory.

The market has been flooded with conflicting signals—reacting to headlines that often point in opposite directions:

- **From mid-February to mid-March, the S&P 500 fell 10%—**marking one of the fastest corrections since 1950. Just weeks later, when President Trump softened his stance on reciprocal tariffs, markets staged a historic rally: the Nasdaq soared 12%—its best day in 24 years—while the S&P 500 jumped 9.5%, its biggest gain since 2008. The Dow rose 7.9%, its strongest day since 2020. As of writing, the S&P 500 has declined by over -8% for the year.
- **U.S. Treasuries, typically a safe haven in times of stress, have not been immune to volatility.** For example, on April 17, changes in U.S. tariff policy triggered heightened market uncertainty, causing Treasury prices to rise 3.9% overnight—only to reverse course and fall 2.7% during regular trading hours (Strategas Research, *Daily Macro Brief*, 4/17/25).
- **The U.S. dollar has fallen quickly**, hitting a three-year low amid an escalating trade war and President Trump's public criticism of the Federal Reserve.

Our friends at GaveKal Research captured the moment more succinctly:

"For the U.S. dollar to go down in a global risk-off move is unusual. For bonds and equities to collapse at the same time is even more rare. This is a combination typically seen in emerging markets rather than developed markets."

To say the macroeconomic backdrop is uncertain would be an understatement. That said, we are hard at work at Hollow Brook, focused as ever on our mission: protecting and growing client capital.

We remain focused on ensuring client portfolios can support financial plans regardless of market outcomes. As experienced investors we are focused on asset allocation, liquidity, diversification, valuation and being long-term oriented. We are seeking to earn attractive risk adjusted returns across all market cycles.

The Uncertainty Equation:

The U.S. has long been the world's most open market—welcoming capital, goods, and innovation. That openness helped to facilitate the largest economy on Earth. However, the pivot to aggressive tariffs is now stress-testing that model.

On April 2, 2025, President Trump signed an executive order imposing a minimum 10% tariff on all U.S. imports with higher "reciprocal" tariffs on imports from 57 specific countries. Some countries—Japan, South Korea, Vietnam—came to the table. Others, like China and parts of Europe, struck back. Markets stumbled. Between April 3–8, the S&P 500 dropped -12%, bonds wobbled, and the dollar weakened.

Then came the pause. The U.S. granted a 90-day delay on "reciprocal" tariffs for everyone except China. Was this a strategic plan or a reaction to market pressure? Either way, it bought time.

In turn, we may now be staring down what Apollo's Torsten Sløk calls a Voluntary Trade Reset Recession (VTRR). As he put it: "The probability of a VTRR is now 90%. Tariffs are a tax increase on U.S. consumers and businesses, and if they stay in place, a significant slowdown is coming."

Ironically, the economic data remained solid before tariffs entered the picture. Retail sales rose 1.4% in March, jobless claims fell to a multi-month low, and the unemployment rate, at 4.2%, remained well below the historical average of 5.7%. Inflation was also easing—March headline CPI fell to 2.4% and core CPI to 2.8%, both at their lowest levels since early 2021.

But as one strategist put it, "Usually, pain leads to policy. This time, policy is causing the pain—and no one knows when it will stop."

Uncertainty is now beginning to show in the "soft data". The Michigan Consumer Sentiment Index dropped to 50.8 in April, its second-lowest reading ever, just above the June 2022 low. At the same time, the Atlanta Fed projects Q1 real GDP will contract at -2.2% annualized.

Pessimism is mounting as consumers brace for the impact of tariff-driven price increases. While tariffs don't fuel inflation in the traditional sense, they act as a one-time price increase—potentially disruptive enough to ripple through the broader economy. The fallout could be significant over time, resulting in compressed profit margins, less deal activity, and rising unemployment.

The economic climate appears difficult for the Federal Reserve. Tariffs push prices higher while simultaneously weighing on growth—a challenging duality the Fed cannot address with a single tool. For now, policymakers remain on the sidelines, watching the data unfold. Should consumer spending, GDP, and employment meaningfully deteriorate, the consensus view is that the Fed will respond—likely with two or three rate cuts in the second half of 2025.

Rate cuts or not, tariffs remain a potential headwind—especially for goods crossing multiple borders, where layered costs can challenge inventory planning.

Tariffs are just one piece of the macroeconomic backdrop, as ongoing geopolitical tensions continue to add complexity to the outlook.

- **Tensions with allies:** President Trump stirred controversy by calling Canada the "51st state" and once again floated ideas around U.S. influence in Greenland and the Panama Canal.
- **Middle East flashpoints:** U.S. airstrikes targeting the Houthis in Yemen added strain to an already delicate situation, with Iran vowing a response. Talks between the U.S. and Iran over a renewed nuclear deal could be a step forward—but so far, it's just talk, not policy.
- **Renewed instability in Gaza:** A ceasefire between Israel and Hamas collapsed in late March, reigniting concerns of broader regional unrest.
- **Ongoing war in Ukraine:** The conflict continues with no major shifts, remaining a constant overhang for European and global risk markets.

Investment Outlook

In this environment, it is no surprise investors are struggling to price risk. The narrative keeps changing—and so does the market. As a result, the first quarter flipped many consensus views on their heads. The most confident trades heading into 2025—buy U.S. growth, avoid China and Europe, sell bonds—have largely been turned upside down.

The "Magnificent Seven" stocks that powered markets through 2023 and much of 2024 have now entered correction territory. This sharp reversal underscores two key themes.

First, concentration cuts both ways. Because large-cap tech stocks hold disproportionately heavy weights in the S&P 500, their performance can skew index returns far more than the average constituent. At their peak, the Magnificent Seven accounted for nearly 32% of the S&P 500's market cap. Just as their explosive gains buoyed the broader market on the way up, their recent sell-off has weighed heavily on index-level performance to start the year.

Momentum can lift markets for a while, but it rarely lasts forever. Eventually, fundamentals catch up.

That said, there is a more encouraging story unfolding beneath the surface. As of writing, 155 stocks in the S&P 500 have posted positive year-to-date returns, and over 51% outperformed the index itself. Market breadth is quietly improving, a healthy sign that gains are starting to come from a wider base of companies, not just a handful of leaders. And that is a positive development for markets moving forward.

Second, valuation dispersion persists. The S&P 500 market-cap-weighted index is currently trading at a forward price-to-earnings ratio of 19.8x, while its equal-weighted counterpart sits at 16.4x. Additionally, even after significant drawdowns year-to-date (Nvidia—down -22%), the broader tech sector remains expensive. At 23x earnings, tech still trades well above its 15-year average of 18x. In contrast, the energy sector trades at 13.7x.

Although the broader energy sector has followed oil prices lower to start the year, energy stocks have been a top-performing sector over the past five years, returning an impressive +153%. That is more than double the gain from the tech sector over the same period. And yet, energy remains underrepresented in the index, with a sector weight of just 3.6%, which is barely less than Amazon's 3.7%. Despite policy moves, the energy sector should continue to show resilience, driven by capital discipline, and improved efficiency.

There is also an encouraging story taking shape overseas. When the new administration began emphasizing tariffs, many expected international and emerging markets to struggle. But so far, that has not been the case—once again, markets are showing that outcomes do not always follow initial assumptions.

Global policymakers, particularly in Europe and China, still have tools to support growth. Unlike the U.S., where inflation remains a key concern, these regions are primarily facing softer demand. This allows for more flexibility in responding through measures like interest rate cuts and focused fiscal spending. In China, recent stimulus appears to be gaining traction, with manufacturing activity expanding at its fastest pace in over a year. In Europe, investment and innovation are becoming key priorities. The European Commission recently proposed nearly €800 billion in spending to strengthen the region's defense capabilities, while Germany announced a significant €500 billion fiscal initiative to support long-term growth.

Additionally, in the tariff standoff, the U.S. faces a unique challenge: China's cultural emphasis on saving face and long-term endurance. Unlike the

U.S., which often thinks in quarters and election cycles, China may be willing to absorb short-term pain in pursuit of a longer-term strategic “win”. With President Trump operating on a political timeline—two years until midterms, four until the end of his term—China may see time as its advantage, not its constraint. At the same time, do not underestimate China’s awareness of global dynamics—it understands the importance of maintaining strong relationships with other key trading partners, especially Europe. All this to say, China will not be immune to the pain of tariffs.

Lastly, many economies outside the U.S.—particularly in Europe and Asia—are making steady strides. Yet, despite their growing share of global economic output, their stock markets continue to be underrepresented in global indices. While the U.S. comprises more than 64% of the MSCI ACWI Index, it accounts for just 26% of global GDP. This disparity reflects both the strength and depth of U.S. capital markets, as well as the relative underperformance of international equities over the past decade.

A key question now is whether this long-standing preference for U.S. assets is beginning to shift. Since the Global Financial Crisis, U.S. markets have led the way—driven by strong corporate earnings, expanding valuations, favorable investor sentiment, and a persistently strong dollar. But as economic momentum builds abroad and valuations remain more attractive in many international markets, the case for global diversification is strengthening. If capital begins to rotate meaningfully back into non-U.S. equities, it could signal the start of a new phase in global market leadership.

Of course, similar narratives have emerged in the past—often ahead of their time. But with the global landscape evolving, this time may warrant a closer look.

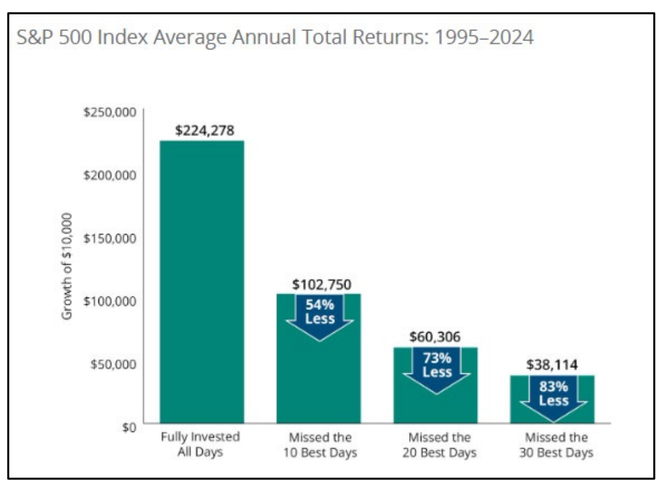
Lastly, gold surged past $3,400 per ounce for the first time ever. While it has since retraced, gold is still up +25% year-to-date. Unlike past cycles, gold is rallying alongside a strong dollar and elevated rates, underscoring its role as a hedge not just against inflation, but also against volatility, geopolitical risk, and currency movements. Central banks continue to accumulate gold, and demand for the metal has increased. At HB, our strategic allocation to gold reflects its long-standing role as a diversifier amid market uncertainty and store of value—and this positioning has meaningfully contributed to portfolio resilience in recent quarters.

Portfolio Positioning

There is an old adage that *it is not about timing the market, but time in the market.* At HB, we have structured portfolios to stay invested through all market environments.

This approach provides stability during periods of volatility while allowing us flexibility to be opportunistic when dislocations occur. Portfolios can participate in equity market rallies without being forced to time the market—something history shows is nearly impossible to do.

In fact, missing just the top 10 days over the last 30 years would have cost an investor more than half their potential return.



By staying disciplined and thoughtfully positioned, one can turn volatility into opportunity—ensuring our clients remain on track toward their long-term goals.

Here is how we are navigating the current environment:

- **Focus on Quality:** We favor businesses with strong balance sheets, healthy free cash flow, pricing power, and durable models built to weather inflation. We are still cautious when it comes to valuation and believe current growth expectations can be questioned given current global trade frictions.
- **Asset Allocation & Diversification:** Equities remain foundational; however, we believe true diversification means more than owning the index — which has become increasingly concentrated in a few large-cap tech names. We continue to remain largely underweight the Mag 7 names and focus on differentiated high-conviction ideas designed to deliver durable returns over time. For larger portfolios, we complement them with assets like opportunistic credit, farmland, real assets, and unique, asymmetric investments.
- **Conviction in Key Sectors:** We continue to favor sectors like energy, industrials, and health care, where long-term tailwinds—like tech innovation and infrastructure investment—create compelling opportunities.
- **Focus on Liquidity:** Liquidity in financial markets is a given until it is suddenly nowhere to be seen. We believe that the cornerstone of prudent portfolio management and risk control is to continually monitor liquidity and position portfolios so a client's life is not disrupted should there be a change in market liquidity.

Staying the Course

This past quarter was a powerful reminder of how quickly market sentiment can shift.

When we began writing this letter, the tone was decidedly negative, dominated by renewed tariff threats and rising geopolitical tension. As we finalized this commentary, the narrative remains ever evolving: the White House now reports receiving 18 trade proposals from foreign governments, with top officials meeting with 34 countries this week alone. While these developments are far from resolved, they reflect how fast sentiment can change—and how much of today's market movement is being driven by headline news.

That is why we remain focused on what we can control. No matter the market mood, we lean into our process. We stay rooted in fundamentals, guided by conviction, and disciplined in how we allocate capital. That means holding firm to our buy discipline—not simply reacting to falling prices but waiting for the true margin of safety.

Thank you for your continued trust and partnership. As always, we are here to help you navigate whatever comes next as well as stay focused on what matters most: your long-term financial goals.

Sincerely,

The HB Team

Equity Indices	Price	MTD	QTD	YTD
S&P 500	5611.85	-5.63%	-4.28%	-4.28%
Nasdaq	19278.45	-7.61%	-8.07%	-8.07%
Dow Jones Industrials	42001.76	-4.06%	-0.87%	-0.87%
Russell 2000	2011.913	-6.81%	-9.48%	-9.48%
Russell 3000	3187.858	-5.83%	-4.73%	-4.73%
S&P 500 Sectors				
Utilities	400.81	0.26%	4.94%	4.94%
Consumer Disc.	1575.395	-8.91%	-13.80%	-13.80%
Telco	319.75	-8.28%	-6.21%	-6.21%
Consumer Staples	892.71	-2.43%	5.23%	5.23%
Industrials	1109.72	-3.59%	-0.19%	-0.19%
Technology	4019.98	-8.83%	-12.65%	-12.65%
HealthCare	1702.26	-1.70%	6.54%	6.54%
Materials	541.98	-2.62%	2.81%	2.81%
Financials	829.46	-4.20%	3.48%	3.48%
Energy	715.75	3.85%	10.21%	10.21%
Real Estate	262.9	-2.41%	3.58%	3.58%
US Interest Rates				
3 Month	4.29	-0.01%	-0.48%	-0.48%
2-Year Note	3.88	-2.65%	-8.45%	-8.45%
5-Year Note	3.95	-1.73%	-9.87%	-9.87%
10-Year Bond	4.21	-0.07%	-7.96%	-7.96%
30-Year Bond	4.57	1.81%	-4.40%	-4.40%
Commodities				
Crude (WTI)	71.48	3.09%	1.39%	1.39%
Brent	74.77	3.44%	1.64%	1.64%
N. Gas	4.12	5.72%	30.47%	30.47%
Gold	3123.57	9.30%	19.02%	19.02%
Silver	34.09	9.42%	17.94%	17.94%
Currencies				
DXY	104.21	-3.16%	-3.94%	-3.94%
EUR	1.08	4.25%	4.44%	4.44%
CAD	1.44	-0.51%	-0.01%	-0.01%
GBP	1.29	2.71%	3.20%	3.20%
JPY	149.96	-0.44%	-4.63%	-4.63%

Source: Bloomberg as of 3/31/2025

Quotes of the Quarter

Life is change. Growth is optional. Choose wisely.

Karen Kaiser Clark

All past declines look like an opportunity; all future declines look like a risk.

Morgan Housel

Opportunities multiply as they are seized.

Sun Tzu

The bond vigilantes have struck again. As far as we can tell, at least with respect to US financial markets, they are the only 1.000 hitters in history.

Ed Yardeni

The future is built on the economy - where we are, what we are, people should earn more, and professionals with jobs should live better. And we have absolutely everything for this - we need peace.

Far better is it to dare mighty things, to win glorious triumphs, even though checkered by failure, than to rank with those poor spirits who neither enjoy much nor suffer much, because they live in a gray twilight that knows not victory nor defeat

Theodore Roosevelt

History is a guide to navigation in perilous times. History is who we are and why we are the way we are.

David McCullough

Headline Highlights

US Judge Temporarily Blocks Trump's Order Restricting Birthright Citizenship
The states argued that Trump's order violated the right enshrined in the citizenship clause of the U.S. Constitution's 14th Amendment that provides that anyone born in the United States is a citizen.

Saudi Economy Minister Announces $600B Package with US
Saudi Arabia's Minister of Economy and Planning Faisal Alibrahim said on Friday that the $600 billion of expanded investment and trade with the United States mentioned by Saudi Crown Prince Mohammed bin Salman includes investments as well as procurement from the public and private sectors.

'Sputnik Moment': $1T Wiped Off US Stocks After Chinese Firm Unveils AI
The tech-heavy Nasdaq Composite closed down 3.1%, with the drop at one point wiping more than $1tn off the index from its closing value of $32.5tn last week, as investors digested the implications of the latest AI model developed by DeepSeek.

FDA Approves Painkiller Designed to Eliminate the Risk of Addiction Associated with Opioids
It's the first new pharmaceutical approach to treating pain in more than 20 years, offering an alternative to both opioids and over-the-counter medications like ibuprofen and acetaminophen.

Rangers Get Back on Track in Milestone Win for Jonathan Quick
The Rangers' netminder became the first American-born goalie to reach 400 career wins after defeating his old club, the Vegas Golden Knights, 4-2, inside Madison Square Garden.

'Conclave' Triumphs at SAG Awards and Timothée Chalamet Wins for Best Actor
The papal thriller "Conclave" won best ensemble and Timothée Chalamet took best actor at the 31st Screen Actors Guild Awards, a pair of twists that added a few final wrinkles to an unusually unpredictable awards season.

Ukraine, US Reach Agreement on Minerals Deal
The final version of the agreement, dated Feb. 24, establishes a fund to which Ukraine will contribute 50% of proceeds from the "future monetization" of state-owned mineral resources, including oil, gas, and related logistics. The fund will invest in projects within Ukraine.

Trump Signs Executive Order Designating English as Official Language of USA
President Donald Trump has signed an executive order designating English as the official language of the United States. The order allows government agencies and organizations that receive federal funding to choose whether to continue to offer documents and services in languages other than English.

Scientists Aiming to Bring Back Woolly Mammoth Create Woolly Mice
Scientists at the US biotechnology company Colossal Biosciences plan to "de-extinct" the prehistoric pachyderms by genetically modifying Asian elephants to give them woolly mammoth traits. They hope the first calf will be born by the end of 2028.

Private Spacecraft Lands on Moon - But May Be on its Side
A private US company says it has landed a spacecraft close to the Moon's South Pole but fears the machine is not upright. The Athena spacecraft is communicating with Earth, but is not in the "correct attitude", Intuitive Machines chief executive said in a press conference.

Biden Praises Carter's Character as Former President's Casket Heads to Georgia
Jimmy Carter's casket is making its final journey home to Georgia after the former president's state funeral was held in Washington.

US Pauses Financial Contributions to WTO
The United States has paused contributions to the World Trade Organization, three trade sources told Reuters, as U.S. President Donald Trump's administration ramps up efforts to cut government spending.

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