RISKBRIDGE

CIO Chartbook

April 28, 2025

Week of April 28, 2025

Observations & Opinions

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3. Mild Market Healing
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8. Inflation Lower Than Expected – For Now
9. Liquidity Still Leaving the System
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12. Yield Curve Inverted (again)
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Week Ahead

This could prove to be a pivotal week. The weakness in the US survey data may become evident in the real sector data, with a dismal Q1 GDP reading that may show the economy stalled before the tariff bite, and job growth may have slowed considerably.

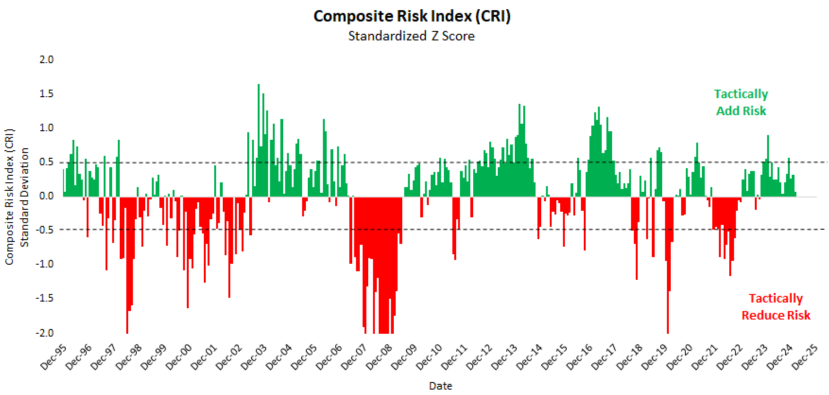
The tariff on de minimis goods comes into effect this week, and the most impacted Chinese companies have announced large price increases. Many expect Trump to announce some sort of modification or delay in the 25% tariff on auto parts that is to start later this week.

Meanwhile, a controversy is brewing. Trump claims that trade talks are ongoing with China and that he has talked with Chinese leader Xi. Beijing denies it.

Canada holds its national election. Carney's lead has narrowed, but he is still favored to get a popular mandate.

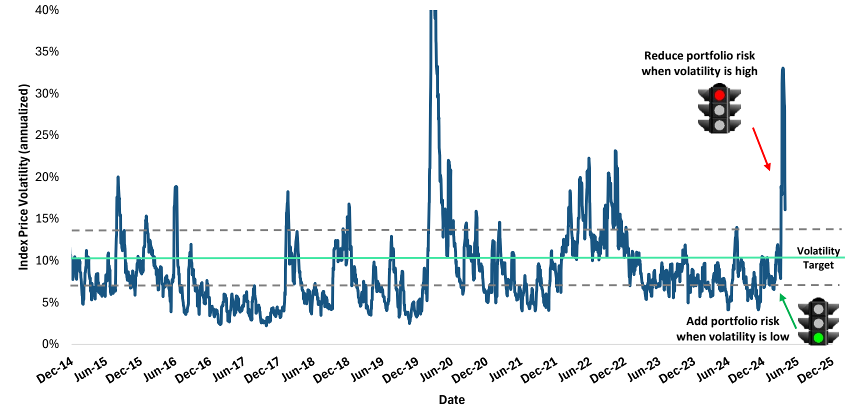
1. Key Risk Metrics

CRI = +.07σ (“Neutral”)

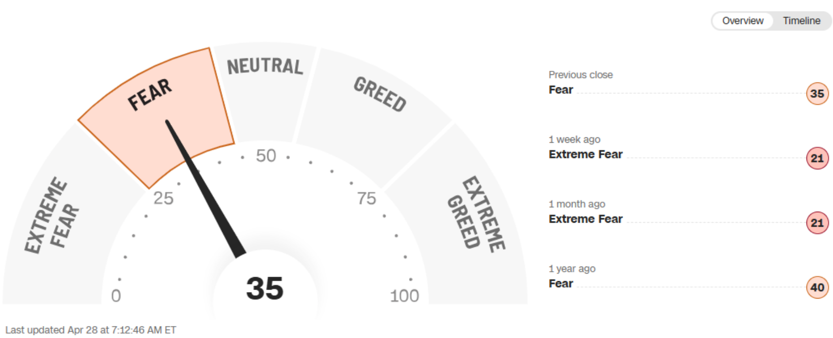


Volatility of the S&P Target Risk Growth Index

Annualized standard deviation of daily returns, monthly rolling periods



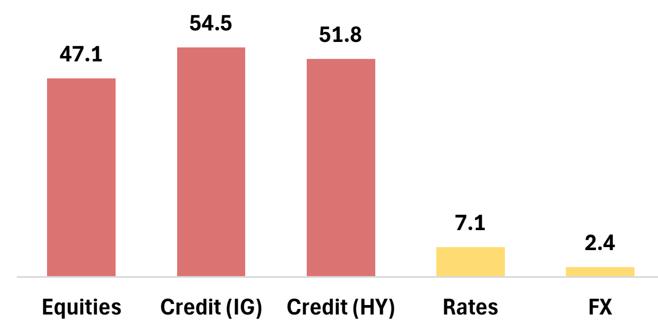
CNN Fear Greed Indicator



Volatility Complex

% YTD

Source: Bloomberg

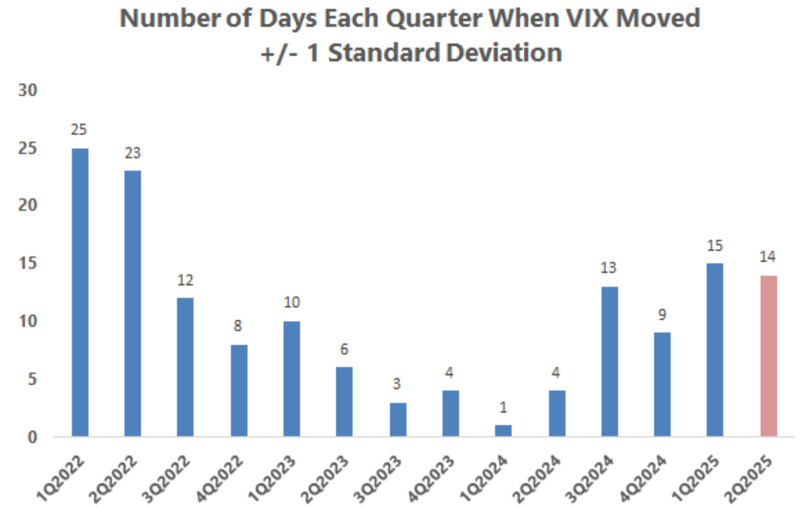


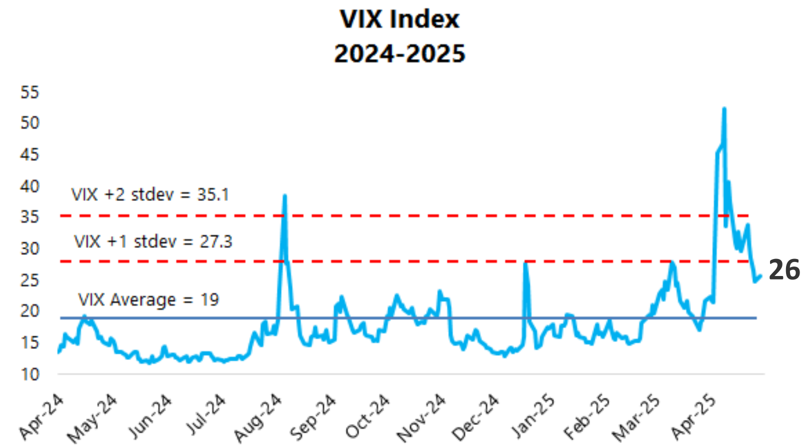
2. When Will the Stock Market Bottom?

- History shows a market bottom when the number of days with a VIX move of +/-1σ starts to slow after a change in policy or geopolitical events. The number of big VIX moves in 2Q is on pace to accelerate that of 1Q.

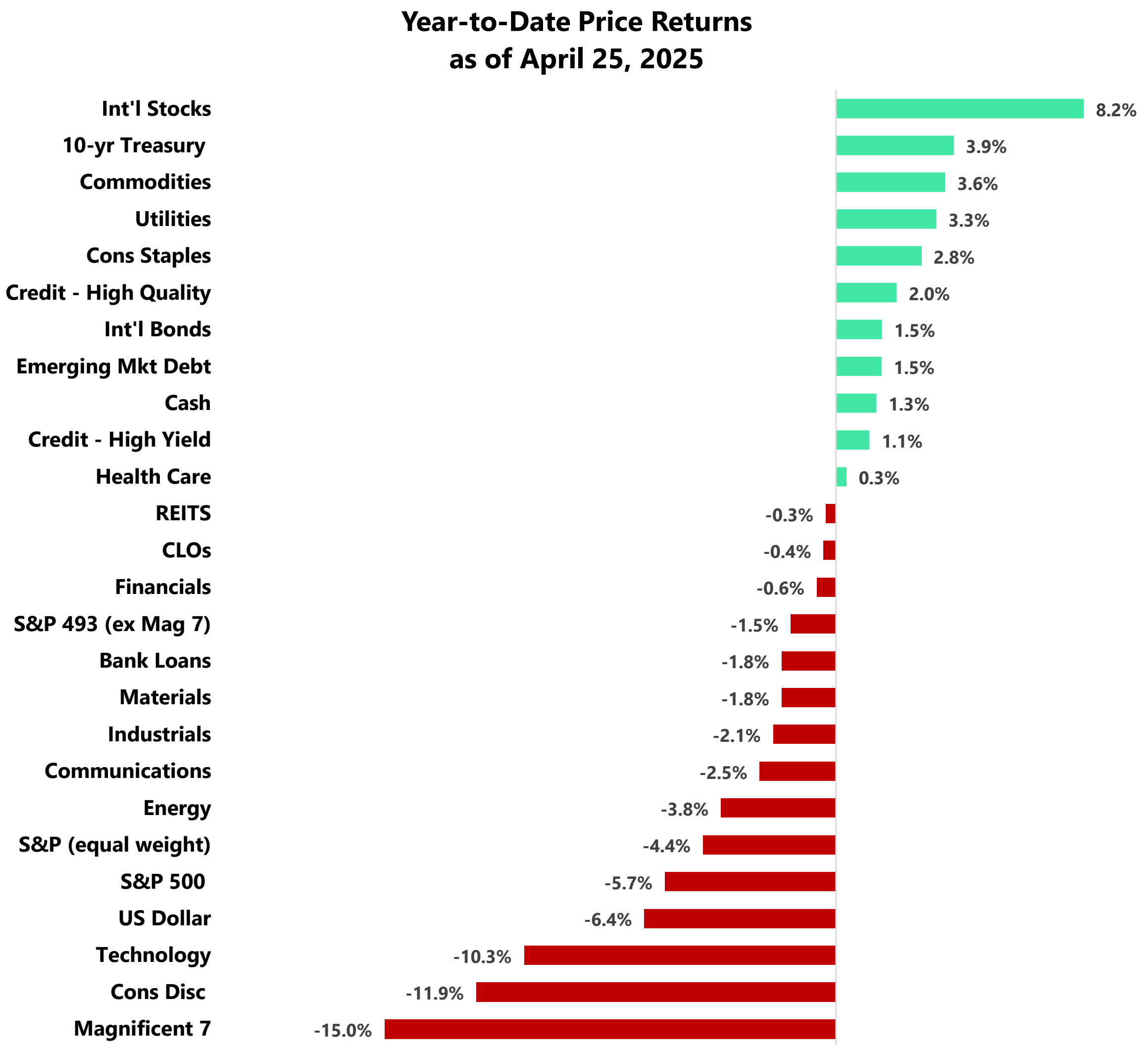
- We view the tariff pivot on 4/8 as a meaningful policy event signal. However, the VIX has receded to “neutral.” Our long-term allocation approach will wait until we see a further reduction in the VIX index.

- VIX Playbook (sliding scale)
  Risk On (VIX < 19)
  Neutral (19<VIX<27.3)
  Risk Off (27.3 < 35.1)
  Risk On (VIX > 35.1)





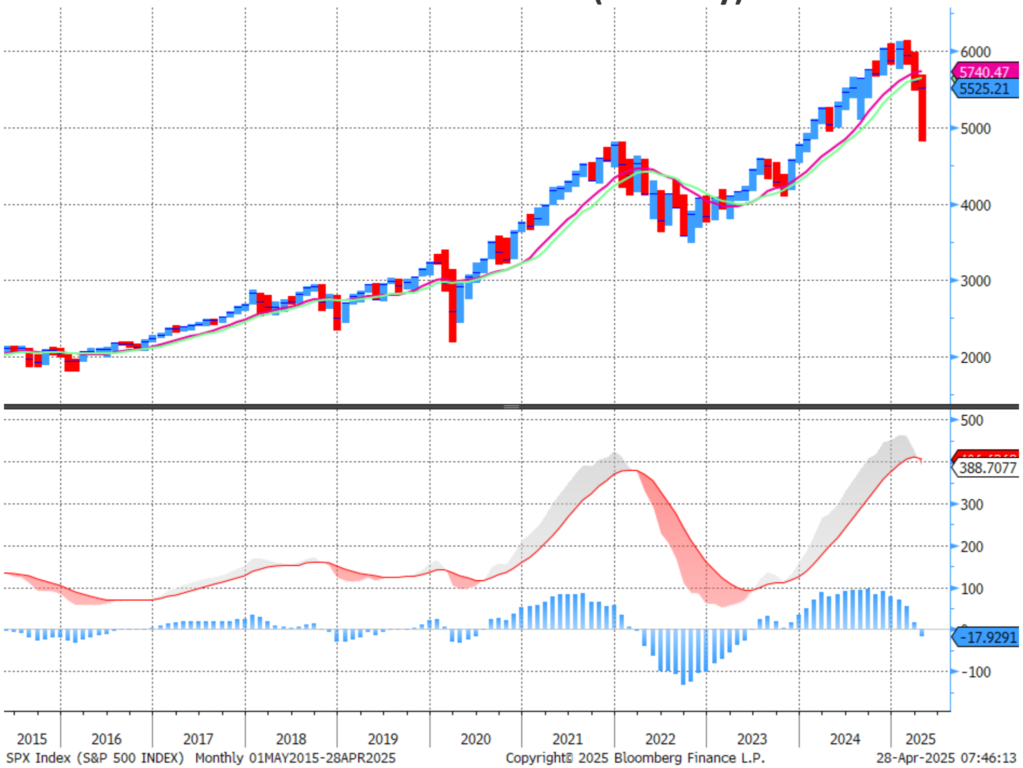
3. Market Returns



Source: RiskBridge, Bloomberg. Data as of 04/25/2025. “Industrials” based on XLI, “Financials” based on XLF, Bberg US Large Cap ex Mag 7 (B500xM7T Index), Commodities (BCOM Index), Int’l Stocks (MXWDU Index), S&P Equal Weight (SPW Index), Magnificent 7 (BM7T Index), Emerging Mkt Debt (EMB), Credit High Yield (LF98TRUU Index), CLOSs (JAAA), Bank Loans (BKLN), Cash (G0O1 Index), Credit High Quality (LUACTRUU Index), 10-yr Treasury (GA10 Index), US Dollar (BBDXY Index). Past performance does not guarantee future results.

4. Equity Views

S&P 500 Index with MACD Indicator (monthly)



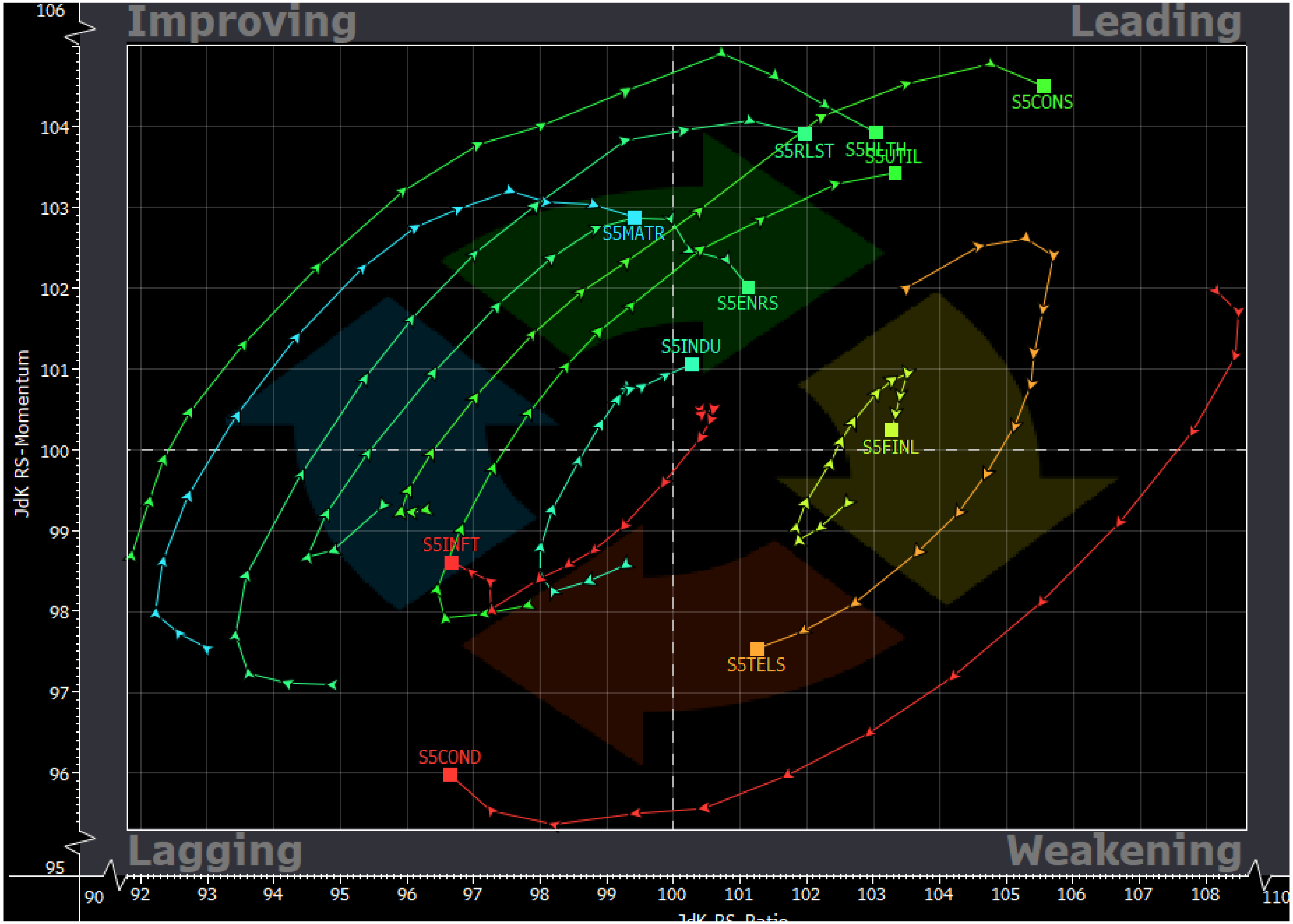
US Stock Market Fundamentals	7-year avg	2024	2025	Consensus
S&P EPS ($)	$167.76	$243.02	$255.00	$263.77
S&P EPS (y/y %)	10.5%	10.4%	4.9%	8.5%
Price/Earnings Multiple	21.9	22.7	21.7	20.9

S&P 500 Index (current)	**5,525**	
S&P 500 Upside	**5,700**	**3.2%**
S&P 500 Downside	**4,600**	**-16.7%**

History shows that bear markets don't bottom with PE ratios at 21x and high forward earnings expectations. Although consensus earnings expectations have fallen from $275/share to $264/share, we believe the air still needs to be let out of the earnings and multiple expectations before jumping back into US equities.

Source: RiskBridge, Blomberg. The S&P 500 Index shows monthly returns, with the uptrend confirmed by the 11- and 13-month moving averages. Moving Average Convergence Divergence (MACD) is a common technical indicator used to spot momentum and trend changes. Data as of 04/25/2025.
Past performance does not guarantee future results

4.1 Equities - Sector Leadership



Source: RiskBridge, Bloomberg. The Relative Rotation Graph (RRG) allows one to visualize the relative strength of a universe of sectors against the S&P 500 Index against each other, to identify market areas of interest and to explore further. RRG uses proprietary indicators to plot the relative strength and the direction of the S&P 500 sectors. RRG, JdK RS-=Ratio, Jdk RS-Momentum are Trademarks registered by RRG Research. Updated 04/25/2025.
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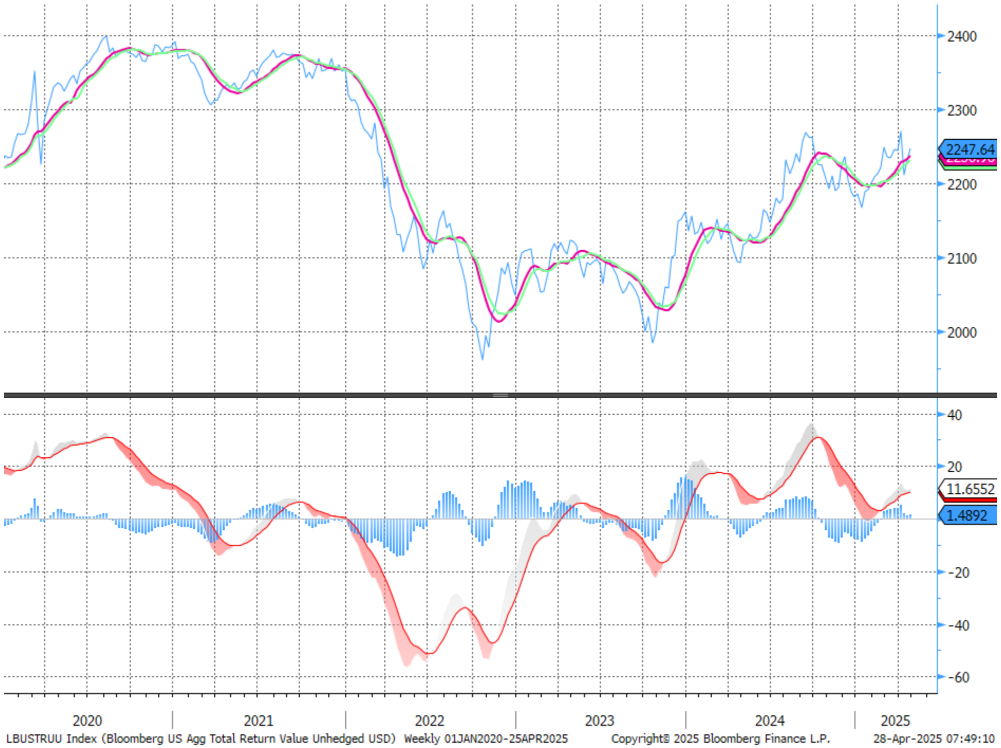
5. Fixed Income Views

Bloomberg US Aggregate Bond Index (Price) with MACD Indicator (weekly)



The Bloomberg US Aggregate Bond Index (+2.7%) outperformed stocks (-5.7%) year to date in 2025.

In our view, US bonds have a 1% upside and a 4% downside over the next six months. If we are correct that (a) the engineered slide in the 10-year yield is transitory, and (b) yields are subject to moving higher once the administration distributes “fiscal candy” (tax cuts, deregulation), then the bond market risk is to the downside over a 12 to 18-month horizon.

IG credit spreads are 101 bps (in line with our 100-bps target), and HY credit spreads are 360 bps (above our 350-bps target). The ratio of credit rating upgrades/downgrades is 0.9, YTD.

- **Investment grade credit** yields 5.21% with a 6.8yr duration
- **High yield credit** yields 7.80% with a 3.0yr duration
- **EM debt**(USD) yields 6.62% with 5.9yr duration
- **MBS (residential)** yields 5.01% and 6.1yr duration
- **MBS (commercial)** yields 4.98% and 4.0yr duration

Source: RiskBridge, Blomberg. The Bloomberg US Aggregate Bond Index shows monthly price levels, with the uptrend confirmed by the 11- and 13-month moving averages. Moving Average Convergence Divergence (MACD) is a common technical indicator used to spot momentum and trend changes. Data as of 04/25/2025.
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6. Asset Price Trends

POSITIVE TREND

- Large-cap value
- Communications
- Staples
- Utilities
- NASDAQ/QQQ
- Financials/banks/insurance/asset managers
- Discretionary
- Int'l equities - developed

- Treasuries – Short (on watch)
- Treasuries – Intermediate
- RMBS
- CMBS
- AAA CLOs
- Fixed Income Opportunistic
- Convertibles

- CTAs
- Commodities
- Precious metals
- Infrastructure

NEGATIVE TREND

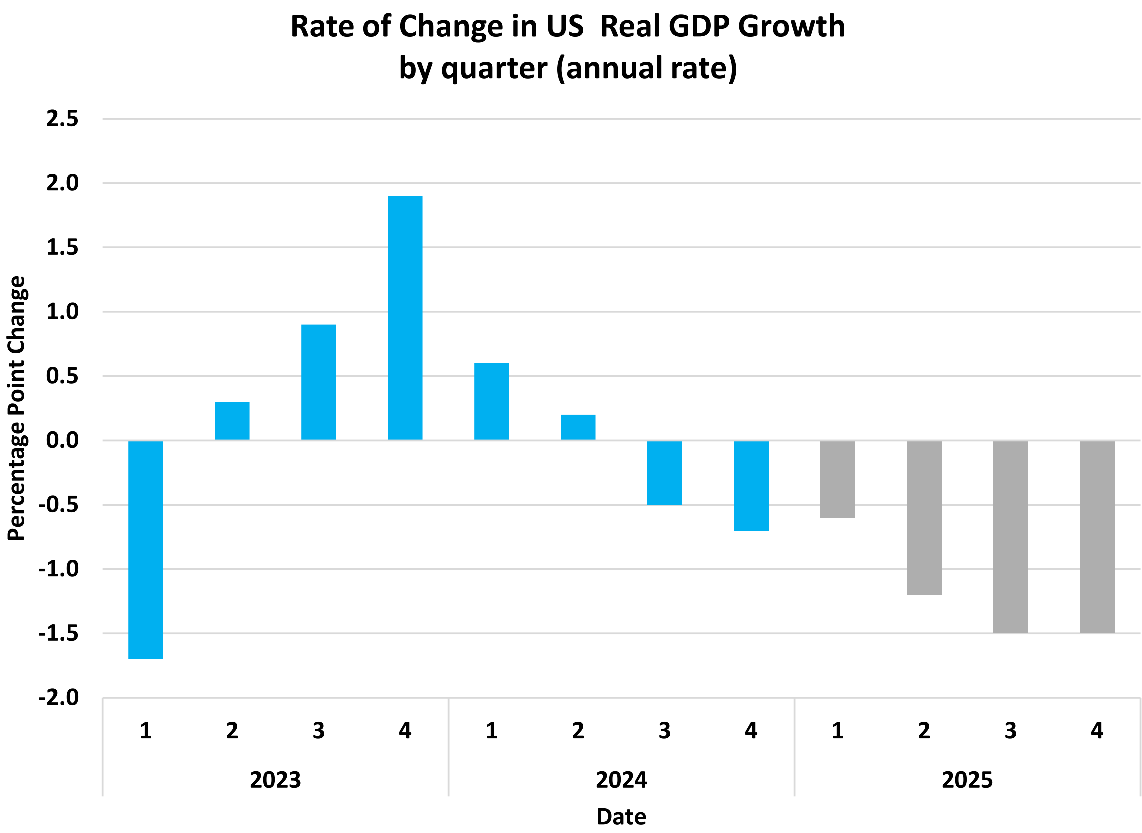
- US Large Cap Stocks
- Large-cap growth
- US SMID
- REITS
- Energy
- Health care/Biotech
- S&P equal weight
- Industrials
- Materials
- Technology
- Int'l equities – emerging

- Core bonds
- Treasuries – long
- Credit – Investment Grade
- Credit – High Yield
- Bank loans
- Emerging market debt
- Municipal Bonds
- Preferreds

- Oil
- Industrial metals
- Agriculture

Source: RiskBridge, Bloomberg. Trend analysis measures each asset relative to the S&P 500 Index for equities, relative to the Bloomberg US Aggregate Bond Index for fixed income, and relative to the Bloomberg Commodity Index for commodities. The analysis generates a trend regression using two years of daily price data. "Positive Trends" are upward-sloping, and "Negative Trends" are downward-sloping. Data as of 04/25/2025. Past performance does not guarantee future results.

7. Economic Growth



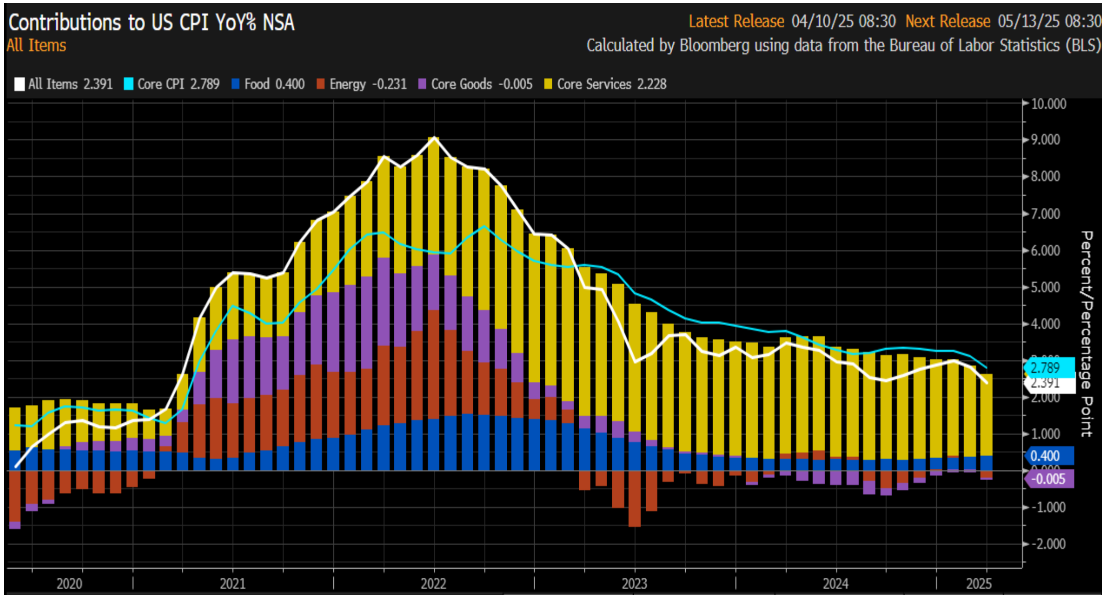
The Bloomberg consensus forecast for 2025 US real GDP continues to be revised lower to 1.4% compared to 2.8% in 2024.

RiskBridge expects US real GDP growth of 0.8% in 2025, with a 50% probability of a recession.

Economic Slowdown: The Atlanta Fed's GDPNow for Q1 is -2.5%. The probability of two consecutive quarters of contracting GDP (textbook definition of a recession) is high.

Source: RiskBridge, Bloomberg. Data as of 04/28/2025. US Real GDP (y/y%) and rate of change vs. prior year.
Past performance does not guarantee future results.

8. Inflation



March inflation data came in much lower than expected. US headline inflation (CPI) was 2.391%, and core inflation (core CPI) is 2.79%.

Food and personal services inflation climbed, but slowing CPI was a function of shelter, transportation, and energy.

We maintain our view that the US trade war and tariff regime will be inflationary and potentially push 2025 CPI towards 3.5% year over year.

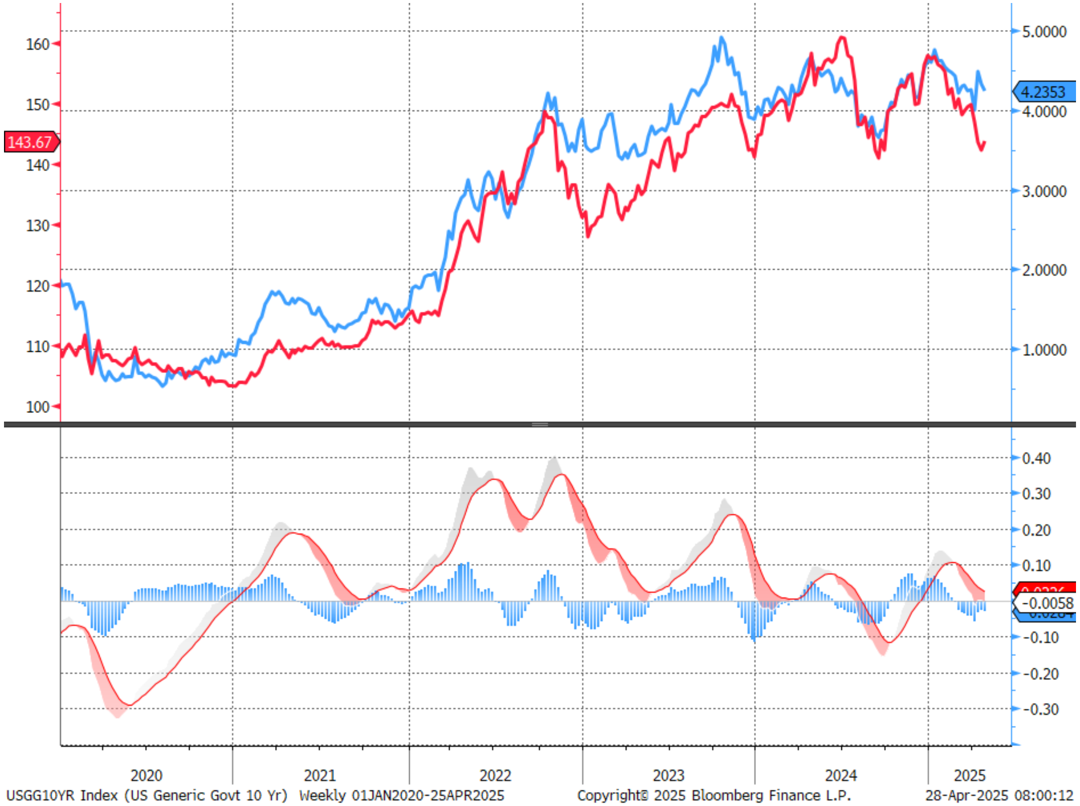
We continue to monitor Japan, where inflation is 3.7% y/y, and China with disinflation of -0.1% y/y.

The long-term outlook for inflation depends on the policy mix (monetary, fiscal, trade, immigration, regulatory). But if rent and housing prices are falling, a second wave of inflation may likely be off the table in 2025.

Source: RiskBridge, Bloomberg, Bureau of Labor Statistics. Data as of 04/11/2025.
Past performance does not guarantee future results.

9. Liquidity

10yr Treasury Yield (blue) and USDJPY spot rate (red) – weekly



There is evidence that an unwind in levered hedge fund bets (the basis trade and the carry trade) contributed to bond price weakness/yield rise, leading to “alligator jaws” between the 10-year Treasury yield (blue line) and the USDJPY pair (red line).

The USD/JPY pair serves as a key indicator of global liquidity because Japan is a primary funding currency in carry trades. Investors borrow cheaply in yen to invest in higher-yielding assets abroad.

Generally, during liquidity contractions or market stress, these trades unwind rapidly as investors liquidate foreign positions and repatriate funds to Japan, strengthening the yen and pushing USD/JPY (red line) and US Treasury yields (blue line) lower.

Source: RiskBridge, Bloomberg, The Conference Board. Data as of 04/25/2025.
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10. Interest Rates

10-Year Treasury Yield (daily) with Trading Band & Fibonacci

The 10-year Treasury (+3.9%) is outperforming the Bloomberg US Aggregate Bond Index (+2.7%), YTD. The 10-year Treasury yield fell -28 bps YTD.

The April 8 tariff “pause” wasn’t enough to halt the wrecking ball set to hit US economic growth and inflation. US trade policy will be ~ a 1.7% drag on US GDP growth in 2025, equivalent to a $600b tax hike.

With over $14 trillion in US federal debt to mature in the next 3 years, the administration is focused on refinancing at lower yields.

It is plausible that the 10-year yield could trade as high as 5.0% (stagflation, unwinding leveraged trades) and as low as 2.75% (US recession).

We see two material technical risks that could push yields higher: (1) the term premium, an important component of the nominal 10-year Treasury yield, could continue to rise from 0.65% to its long-term average of 1.00%, and (2) a credit rating downgrade of US Treasury debt.

Source: RiskBridge, Bloomberg. 10-year generic US Treasury yield from 01/01/2020-04/25/2025.
Past performance does not guarantee future results.

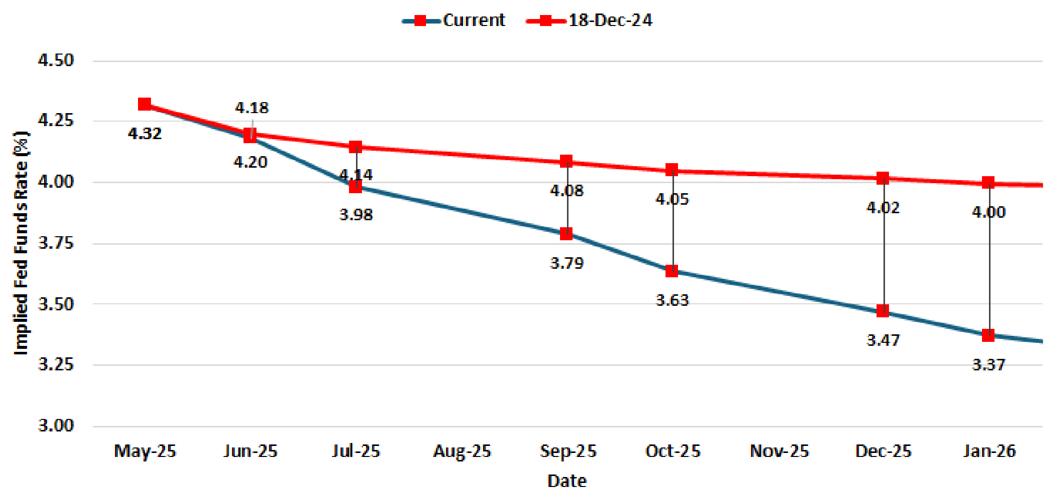
11. Futures Suggest 5 More Rate Cuts By Year-End

Implied Probability of Fed Rate Cuts Based on Fed Fund Futures

Date of Fed Policy Announcement

Implied Fed Funds Target Rate	5/7/2025	6/18/2025	7/30/2025	9/17/2025	10/29/2025	12/10/2025	1/28/2025
4.25%							
4.00%	9.0%						
3.75%		55.3%					
3.50%			82.2%				
3.25%				77.1%			
3.25%					62.9%		
3.00%						64.7%	
							37.3%

Implied Fed Funds Rate
(based on OIS swap pricing)



Futures imply five Fed rate cuts by the end of 2025. We think that is unlikely.

As US economic data has weakened, the implied probabilities of rate cuts at the June, July, September, October, and December FOMC meetings are rising.

In our view, the Fed faces a tough task trying to battle aggressive fiscal retrenchment that is stagflationary (slowing growth, rising inflation) in nature.

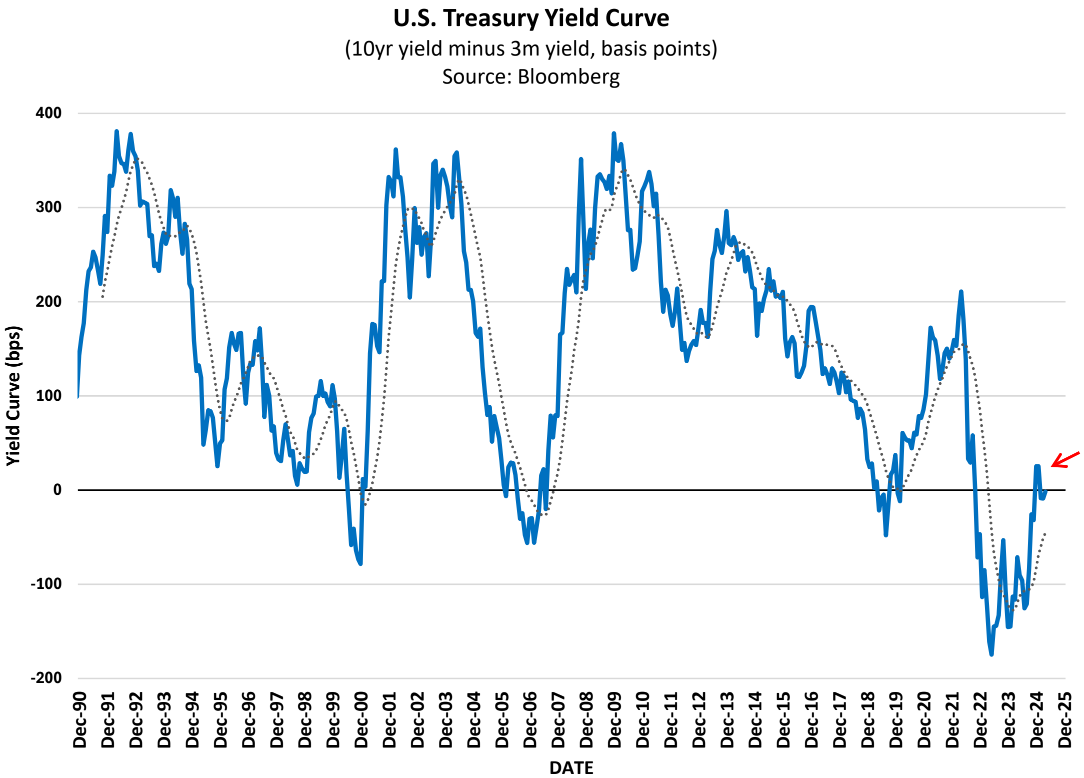
"…under the large tariff scenario, economic growth is likely to slow to a crawl and significantly raise the unemployment rate. I do expect inflation to rise significantly…

While I expect the inflationary effects of higher tariffs to be temporary, their effects on output and employment could be longer-lasting and an important factor in determining the appropriate stance of monetary policy. If the slowdown is significant and even threatens a recession, then I would expect to favor cutting the FOMC's policy rate sooner, and to a greater extent than I had previously thought."

- FOMC Governor Christopher Waller

Source: RiskBridge, Bloomberg. Data as of 04/28/2025. Implied Fed Funds Rate based on Overnight Interest Swap (OIS) rates. Past performance does not guarantee future results.

12. Yield Curve Is Inverted (again)



The state of the yield curve reflects investors' beliefs about the economy and Fed rate cycles.

The yield curve (10yr minus 3mo) is now -2 bps.

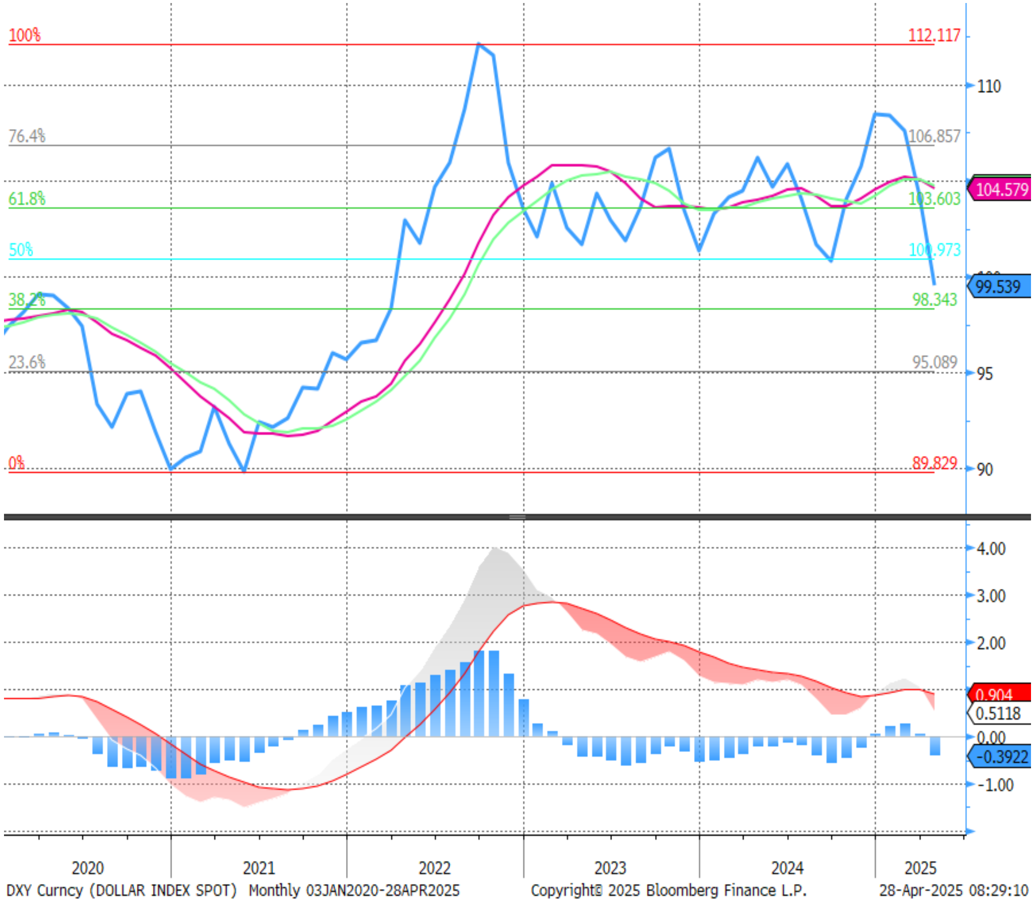
This is consistent with rising policy uncertainty and slower growth expected throughout 2025.

The 10-year yield now trades above the Fed funds rate, by 4 basis points.

Source: RiskBridge, Bloomberg. 10-year generic US Treasury yield minus the 3-month T-bill yield from 1990-2024. Data as of 04/25/2025.
Past performance does not guarantee future results.

13. USD Weakness Confirmed

DXY Index (weekly) with Moving Average Convergence/Divergence



The Dollar Index has returned -6.8% YTD and has a confirming long-term sell signal.

The DXY index has spent the last eight sessions below 100 (currently 99.5).

Leading up to next week's FOMC meeting, we will get the first estimate of Q1 GDP this week. The median forecast in Bloomberg's survey is that the economy nearly stagnated in Q1 (0.4%) from the prior quarter (2.4%), and this is before the impact of the tariffs and the tariff pivot. The PCE deflator is expected to slow to 2.2% from 2.5%.

The median forecast in Bloomberg's survey sees a 130k increase in non-farm payrolls, down from 228k in March and an average of about 150k in Q1.

Source: RiskBridge, Bloomberg. US Dollar Index (DXY) from 01/01/2020 through 04/28/2025.
Past performance does not guarantee future results.

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S&P 500® Index is a market capitalization-weighted index of 500 of the largest U.S. companies, designed to measure broad U.S. equity performance.

VIX (VIX Index) is a financial benchmark designed to be an up-to-the-minute market estimate of the expected volatility of the S&P 500 Index and is calculated by using the midpoint of real-time S&P 500® Index (SPX) option bid/ask quotes. The VIX Index is intended to provide an instantaneous measure of how much the market thinks the S&P 500 Index will fluctuate in the 30 days from the time of each tick of the VIX Index.

Drawdown Analysis measures the peak-to-trough decline or the maximum loss an investment might experience during a specific period. A prudent investor may have a maximum drawdown threshold, which triggers taking risk mitigation measures to protect a portfolio. The recovery window is also a key consideration of drawdown assessment. This is the length of time it takes to recover or overcome the drawdown experienced. The recovery window will vary depending on the type of assets held by the portfolio and the investor's goals.

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