

MARKET COMMENTARY

CAPITAL WEALTH MANAGEMENT, LLC



The end of the first quarter seems like a distant memory even though we are only two weeks removed from 3/31/25. As of this writing, the Trump administration has instituted a 90-day pause on many of the worldwide tariffs that were announced on April 2 and implemented on April 5. However, several tariffs remain in place. Among them, the 25% tariff on foreign vehicles, steel, and aluminum imports and the 145% tariff on Chinese imports (specific goods from China now face up to 245% in tariffs). The financial markets' reaction to "Liberation Day" and the expansive tariff policy was resoundingly negative. Upon the declaration of the pause, domestic stock markets roared higher on April 9 and have demonstrated a degree of relative stability since then.

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While we have seen significant deterioration in “soft” data (surveys, sentiment/confidence indicators, etc.), we have yet to see deterioration carry over to economic “hard” data statistics. In recent weeks, there have been reports showing strength in employment indicators, a welcome decline in CPI (Consumer Price Index) inflation, and stronger than expected March retail sales. March’s CPI release predates the tariffs, and the retail sales estimate comes with the recognition that consumers rushed to front-load purchases to avoid the new tariffs, especially on bigger-ticket items. In this season of uncertainty, most strategists and economists have changed their economic projections to include higher inflation, lower economic and corporate earnings growth, and a higher probability of recession.

After the S&P 500 Index outperformed international stocks (MSCI All World Ex U.S. Index) by more than ten percentage points during last year’s final quarter (first time in over 16 years), the latter index returned the favor (outperformance relative to the S&P 500 Index) for the first time since the second quarter in 2009.

And while our preferred global stock benchmark (MSCI All Country World Index) remains dominated by U.S. stocks (approximately 64% of the index was U.S. as of quarter end), the benefits of international investments were evident in that benchmark’s minor -1.3% first quarter loss (The S&P 500 Index dropped nearly 4.3%). As of mid-April, this performance trend has not only persisted, but the level of outperformance in favor of international stocks has increased.

Large cap value stocks (as measured by the S&P 500 Value Index) eked out a marginal quarterly gain, while large cap growth stocks (S&P 500 Growth Index) suffered the most, down 8.5%. Value stocks’ outperformance was a consistent market theme, regardless of company size and geography. Europe and China did best, posting double-digit total returns. Developed international stocks (MSCI EAFE Index) returned nearly 7% while emerging markets (MSCI Emerging Markets Index) rose nearly 3%. Except for emerging markets stocks, international stocks have preserved their 2025 gains through mid-April, helped by a weakening dollar. In April alone, the Euro has appreciated 5% relative to the U.S. Dollar.

During the month of April, smaller-cap domestic stocks have been hit hard as these underlying companies tend to have fewer options to help offset significant cost structure increases and are more dependent on floating interest rate debt.

Bonds played their key role as protection from the storm. Even with all the clouds surrounding the economic outlook, higher risk bond segments like high yield debt and floating rate debt showed marginally positive returns during the quarter. More plain vanilla and interest rate sensitive bonds (intermediate term bonds) did better with gains of about 2% to 3%. Since the quarter end, bond segments that are highly correlated to stocks (high yield) have participated in the market's slide. We are closely tracking the movements in the 10-Year U.S. Treasury as well as both investment grade and high yield corporate bond interest rate spreads (The additional yield investors demand for taking on increased credit risk relative to a U.S. Treasury).

Commodities (driven by energy, industrial and precious metals) and real estate also provided shelter from the elevated volatility. Commodities and real assets tend to outperform during periods of unexpected inflation or higher inflation expectations. Despite the sharp drop in oil prices (down about 10% in April), our core commodity and real estate holdings continue to be additive (less negative) to year-to-date returns.



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