YERBA BUENA
Financial Partners

Weekly Focus – Think About It

"Courage is the price that life exacts for granting peace."

– *Amelia Earhart, Aviation pioneer*

RISK-ON. RISK-OFF

If you read the financial press, you may have seen the terms "risk-on" and "risk-off". When investing, there is a risk-return spectrum. Stocks typically have higher risk and higher return potential than high-quality bonds. High-quality bonds have lower risk and lower return potential than stocks, although they typically have higher risk and higher return potential than cash.

In financial speak, investors are:

- **Risk-on** when they are excited about investing in stocks (and other types of assets that have higher risk profiles). "Risk-on environments can be carried by expanding corporate earnings, optimistic economic outlook, accommodative central bank policies, and speculation. As the market displays strong influential fundamentals, investors perceive less risk about the market and its outlook," reported Adam Hayes for Investopedia. A risk-on environment may lead to rising stock prices.

- **Risk-off** when they become cautious and concerned about losses. Risk averse investors may sell some types of stocks (and other types of assets that have higher risk profiles) in favor of dividend-paying stocks and more stable types of investments that can help preserve principal. Risk-off environments may arise when economic growth slows, economic uncertainty rises, company earnings slide lower, consumer confidence wavers, or financial markets experience other kinds of disruptions. A risk-off environment may lead to falling stock prices.

Last week, investors moved from a risk-on to a risk-off outlook. The change in attitude resulted from concerns about:

- **Tariffs**. Concerns about tariffs intensified last week when "An unexpected move against car imports this week renewed warnings from economists that tariffs will almost surely raise consumer prices and harm economic growth," reported Jeran Wittenstein and Ryan Vlastelica of Bloomberg.

- **Sticky inflation**. Last week, the personal consumption expenditures (PCE) index, which is one of the Federal Reserve's preferred inflation gauges, showed that headline inflation remained steady month to month and year to year. However, core inflation, which excludes food and energy prices, rose month to month and year to year.

- **Consumer sentiment**. The final reading for consumer sentiment in March did not improve. "This month's decline reflects a clear consensus across all demographic and

> political affiliations; Republicans joined independents and Democrats in expressing worsening expectations since February for their personal finances, business conditions, unemployment, and inflation," wrote University of Michigan Surveys of Consumers Director Joanne Hsu.

During periods of market volatility, it's important to keep a long-term perspective. Having an asset allocation strategy that reflects your risk tolerance and financial goals helps insulate your assets from market turbulence. Asset allocation helps manage risk, but it does not prevent losses.

Last week, major U.S. stock indices moved lower. Yields on U.S. Treasuries were mixed.

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Data as of 3-28-25	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
						
Standard & Poor's 500 (Domestic Stocks)	-1.5%	-5.1%	6.2%	6.9%	16.3%	10.3%
Dow Jones Global ex-U.S.	-1.2	5.7	5.1	2.6	8.9	2.7
10-year Treasury Note (Yield Only)	4.3	N/A	4.2	2.5	0.7	2.0
Gold (per ounce)	1.9	17.7	38.7	16.6	13.7	10.0
Bloomberg Commodity Index	0.5	7.1	6.3	-5.7	11.3	0.6

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. *Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.*

THE SILVER LINING OF MARKET DOWNTURNS

Volatile markets are challenging. Watching the value of your assets bounce higher and lower can be frustrating. In times like these, it can be helpful to focus on the opportunities that can be created by market volatility. One of those opportunities is tax-loss harvesting.

Investors "harvest" tax losses by selling an asset for less than they purchased it. Unfortunately, not every investment delivers stellar returns. Almost every investor has either owned an asset that loses value due to company underperformance or a market downturn. When the asset is sold at a lower value than its purchase price, the investor realizes a capital loss.

From a tax perspective, losses are quite valuable. They can help:

1. **Minimize capital gains tax.** Capital losses can be used to offset capital gains, dollar for dollar. For example, if an investor sells shares of Company A for a gain of $1 and sells shares of Company B for a loss of $1, then the loss offsets the gain.

2. **Reduce taxable income today.** When tax losses aren't used to offset gains, the losses can reduce taxable income by up to $3,000. So, if an investor has a capital loss of $6,000 and a capital gain of $3,000, the capital loss could offset the capital gain and the $3,000 loss that is leftover could be used to reduce the investor's taxable income.

3. **Reduce capital gains and taxable income tomorrow**. When capital losses are greater than capital gains and income reductions combined, the extra losses can be carried forward and used to offset capital gains and taxable income in the future.

The key to tax loss harvesting is that the money from the asset sale must be invested in a new opportunity – perhaps capitalizing on the chance to invest in a strong company at an attractive price, which is another benefit of market downturns. In general, the new investment should fill a similar role in the investor's asset allocation strategy to the investment that was sold.

The silver lining of market downturns is that investment losses can be tax wins.

Best regards,

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Sources:

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

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* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.

* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.

* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.

* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

* Asset allocation does not ensure a profit or protect against a loss.

* Consult your financial professional before making any investment decision.

* To unsubscribe from the Weekly Market Commentary please email us at info@ybpf.com

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