

Monthly Download

April 2025

Summary

US Tariff Policy gripped markets in April following President Trump's "liberation day" announcement after the market close on April 2nd. Swift equity market reaction and concerns over the US dollar and Treasury markets led the administration to delay reciprocal tariff implementation for 90 days which drove a substantial market recovery. Investors are now focused on whether the administration can deliver trade deals and whether damage to economic activity will be temporary or lasting. Meanwhile, companies are caught dealing with uncertainty leading to lower confidence in earnings guidance that may create a headwind for risk assets.

By Summit Trail Investment Team

David Romhilt, CFA
Seth Katz
Ben Johnson, CFA
Michelle Zeng, CFA
Jonathan Lewis
Chris Hopkins, CAIA
Charu Lahiri, CFA
Isabelle Kane
Kevin Dawson, CFA
Louis Filippelli
Ryan Gell, CFA
Tobit Powell
Darryl Frank
Dylan Wehrly

Market Overview

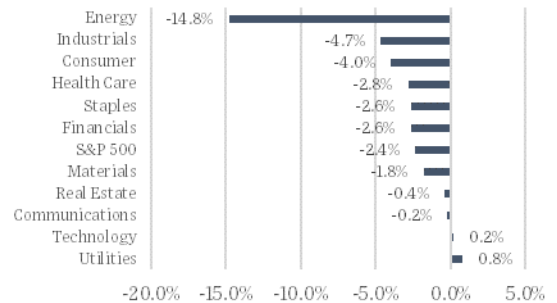
- ◆ **Equity markets** experienced a volatile April with the S&P 500 index dropping over 12% in just 4 trading sessions after President Trump's "liberation day" announcement on reciprocal tariff policy. On April 9th, reciprocal tariffs were delayed by 90 days to allow for trade agreement negotiation. Stocks remained volatile but rallied into month-end on hopes tariffs would not be fully implemented and resilient 1st quarter earnings. The MSCI All Country World Index delivered a positive return in April of 0.9%, reducing losses in 2025 to just 0.4%.
 - US Large Cap stocks (S&P 500) lost 0.7% in April after being down over 11% for the month on April 8th, the day before reciprocal tariff implementation was paused. Mega cap companies and the Mag7 generally led performance as the S&P 500 equal weight index slid 2.3% in April. Year to date performance of the S&P 500 dropped slightly lower to negative 4.9%.
 - US Small Cap stocks (Russell 2000) lost 2.3% for the month, as higher concentrations in regional banks and REITs hurt relative performance. Biotech was a bright spot for small companies returning 3.9% in April as the space benefited from increasing fed rate cut expectations and relative insulation from tariff impact. Small cap stocks are now down 11.6% for the year.
 - Non-US stocks (MSCI EAFE Net) continued their substantial out-performance to US indexes with a positive 4.6% return in April. The entirety of the return was US dollar depreciation as the index was flat in local currency. Non-US stocks are now up 11.8% for the year, almost 17% better than the S&P 500 index.
 - Emerging Markets (MSCI Emerging Markets Net) returned 1.3% for the month, also out-pacing US stocks. Almost all emerging countries were positive performers in April, with the notable exception of China which has a substantial weighting in the index. China slipped due to the back and forth between the US and China in April resulting in 145% and 125% tariffs on imports, respectively. Emerging Markets have returned positive 4.3% this year.
- ◆ **Interest rates** were volatile as well during April as rates initially fell from 4.25% below 4% as investors painted a gloomier economic picture due to tariff impact. Rates then spiked as non-US investors appear to be moving away from US Treasury markets, or at minimum diversifying. Weaker demand for US debt drove rates higher initially to 4.49% on April 11th before settling back down to 4.18% to close the month as investors tried to rationalize expected corporate earnings outcomes and an increased outlook for Fed rate cuts.

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- High Grade Taxable bonds (Bloomberg US Aggregate) returned 0.4% for the month in the face of interest rate volatility. Year to date returns are now up above 3.2% for 2025.
- Municipal bonds (Bloomberg 1-10 Year Muni Bond) had a large miss relative to Treasury bond performance for April as the index declined 0.6% for the month. Tax-exempt bonds were impacted by supply issuance, poor timing as investors make April 15th tax payments, and rumors that municipal tax exemption may be on the table for the Republicans' tax bill. Municipal bonds are now up just 0.1% in 2025.
- High Yield spreads widened during April as markets tried to rationalize the sudden tariff implementation after April 2nd. Spreads on more speculative Single B-rated debt spiked by over 100bps in early April before settling back to a more modest increase of 39bps for the month. The level of spreads even at the April peak was not close to where spreads had been as recently as summer of 2022 during economic and recession concerns (461bps in April vs. 600bps in mid-2022). Investment Grade bonds (Bloomberg Corporate Investment Grade) and High Yield bonds (Bloomberg Corporate High Yield) returned negative 3 and 2bps, respectively in April. Investment grade bonds remain up 2.3% for the year while High Yield has returned 1.0%.
- ◆ **Commodities** had been the standout performer for 2025 going into April, with a return for the 1st quarter just under 9%. However, April brought lower energy prices with Crude Oil dropping 18.6% for the month. Questions on global growth combined with increases in OPEC and US energy production pressured the market below \$60/barrel. Despite selling off towards the end of April, Gold continued its positive performance after an 18% rally in the 1st quarter, adding 5.8% for the month.

Economic Commentary

April and "Liberation Day" brought the most volatility to markets since mid-2022 as the S&P 500 Index dropped over 12% in the four trading days after President Trump's April 2nd reciprocal tariff announcement. The administration's walk back of the reciprocal tariff implementation on April 9th then reversed some of the market losses and solid 1st quarter earnings and various teases by the administration on trade agreements have brought markets back to the levels at the end of the 1st quarter. The uncertainty created by the administration's on-again-off-again tariff implementation as well as covering negotiations like a sporting event is certainly tamping down economic activity but also appears to be keeping businesses from implementing more negative economic actions like layoffs. No business leader wants to scale down or reduce employees just to see the Trump administration immediately change course yet again. Unemployment data in the US remains steady at levels well below past economic downturns. Corporate earnings will start to paint a picture of the economic impact of the uncertainty. 1st quarter earnings were strong, with S&P 500 earnings growth of 13% but much of that activity took place pre-tariff implementation and may have even benefited from certain production or activity being pushed forward in advance of tariffs. 2nd quarter earnings will provide a more accurate picture of tariff impact. As part of 1st quarter earnings calls, we are seeing guidance pulled by many companies more directly impacted by tariff policy and negative revisions to previous guidance. Only Utilities and Technology saw increases in 2nd quarter earnings expectations during April, with the 9 remaining GICS sectors all showing negative revisions. Energy has been hit the hardest but that is more about the decline oil prices than tariff policy. The other sectors seeing more significant downward revisions align with industries more exposed to tariff impact in Industrials and Consumer Discretionary. The overall

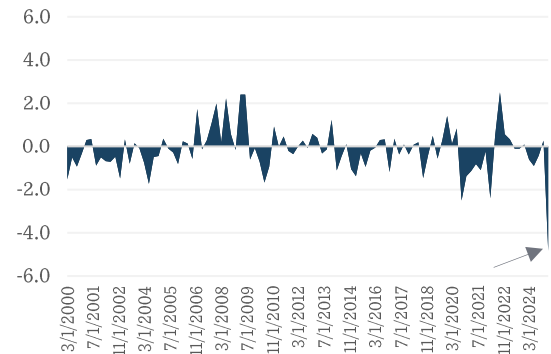


Sector-Level Change in 2q25 Earnings Guidance
Source: Factset, Data from 3/31 to 4/30/25

decline in 2nd quarter earnings expectations during April was 2.4% for the S&P 500 index, an increase from recent quarters but not out of line with difficult economic periods as recently as 2022. 2nd quarter year-over-year S&P 500 earnings growth is now down to 5%, a significant drop-off from 1st quarter growth. Tariff policy will force companies into the difficult decision of passing through the costs to consumers and risking demand destruction (or political scrutiny) or eating the higher costs and delivering lower margins and earnings for investors.

1st Quarter US Gross Domestic Product (GDP) reported negative growth of 0.3% in the initial estimate by the

Commerce Department for the first economic contraction since early 2022. GDP is designed to measure the sum of all goods and services produced domestically by adding consumption to investment and government spending and then adding or subtracting net exports. Net exports are historically a drag to the US GDP calculation given our trade deficits. The Trump administration's tariff policy led to a surge in US imports in March as companies moved to front-run tariff implementation and import more goods and materials prior to tariffs increasing costs. Imports increased by 41% in the first quarter (51% for goods), the largest increase outside of the Covid recovery since 1974. The impact of net exports to GDP of -4.8% was the largest negative contribution in the history of the data being available, going back to 1947. The GDP report was not all negative, as increases in imports alone are not a sign of declining economic activity. Consumption slowed but remained positive at 1.8% growth. While domestic private investment saw a substantial increase of 22%, likely also driven to some degree by tariff policy and companies realigning supply and production plans. Given the likely decrease in imports post-tariff implementation, GDP numbers may see an opposite impact for the remainder of 2025. 2nd quarter GDP growth is tracking above 2% according to the AtlantaFed GDPNow tracker. Investors will need to pay more attention to Consumption and Investment going forward given the impact of trade policy and the nature of GDP calculations.



US Net Exports of Goods & Services Contribution to Real GDP

Source: YCharts, Bureau of Economic Analysis. Data is quarter over quarter.

Google, Meta, and Apple all remain squarely in the eye of regulators and anti-trust proceedings despite the shift to the Trump administration. US District Court Judge Amit Mehta ruled in August 2024 that Google was an illegal monopoly in the online search engine marketplace. Key evidence to the government's case was Google's practice of paying large sums to create exclusive agreements making Google the default search engine on devices from Apple and Samsung. The 2nd phase of the trial began in April to review the government's potential remedies to the monopolistic behavior. The government has proposed forcing Google to divest its browser Chrome or share data with competitors while Google has proposed more modest measures. Markets moved in early May on testimony from Apple executive Eddy Cue when he detailed how artificial intelligence (AI) is cannibalizing traditional search and Apple is actively looking to move its Safari browser towards AI-powered search, but not Google's AI Gemini product. Google's stock dropped just over 7% on the day of Cue's testimony and the company released data rebutting testimony saying it had seen increases in overall queries from Apple devices on search. Google is in the difficult position of defending their online search business from the market's concerns on AI replacement, while not presenting the business as dominant enough to warrant government remedies. Apple is already set to lose out on an estimated \$20 billion per year from Google as part of the government's case against Google's monopolistic behavior, yet in April Apple was on the receiving end of an injunction due to a case brought against its own monopoly in the App store. In 2021, Epic games had sued Apple over its competitive practices that required "in-app" payments only via the Apple system to allow for

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commission payments to go to Apple. While Apple was deemed to have fared well in the 2021 case outcome, Epic had followed up stating Apple's actions since that ruling were at odds with the court's injunction. Judge Yvonne Gonzalez Rogers agreed with Epic and blistered Apple's behavior since the 2021 ruling, stating "this is an injunction, not a negotiation. There are no do-overs once a party willfully disregards a court order". The judge is referring Apple to federal prosecutors for an investigation into criminal contempt, which creates risk for Apple's executives. In a response to the latest decision, Apple stated the latest restrictions "will cost Apple substantial sums annually". Apple has struggled over the past couple of years to show top-line growth given reliance on its iPhone and the smartphone market slowing globally while Apple's market share declines. The company is also being impacted by tariff policy, especially tariffs directed at China that the company announced could cost Apple \$900 million in the coming quarter. Not to be outdone, Meta's antitrust trial kicked off in April as the Federal Trade Commission (FTC) seeks a mulligan on approvals to Facebook's acquisitions of Instagram and WhatsApp. The FTC cites Meta as having a "social media monopoly" and is looking to force a sale or reversal of the acquisitions. Testimony included Meta's CEO Mark Zuckerberg defending the acquisitions and touting the competition in the space. The government is likely in the weakest position versus Meta. The acquisitions were approved by the FTC at the time in 2012 (Instagram) and 2014 (WhatsApp). In addition, the rise of TikTok as a formidable and popular opponent to Meta shows robust competition in the space. The antitrust cases show the challenges for many of the large Technology companies at a time when markets are focused on AI, but history tells us the type of success experienced by the Mag7 companies leads to competition and regulation. Competition is coming from other Mag7 companies as well as the inflection point created by AI and technology regulation is one of the few bipartisan measures in Congress. Given the companies' importance to S&P 500 earnings, investors should pay close attention to antitrust outcomes.

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