



April 25, 2025

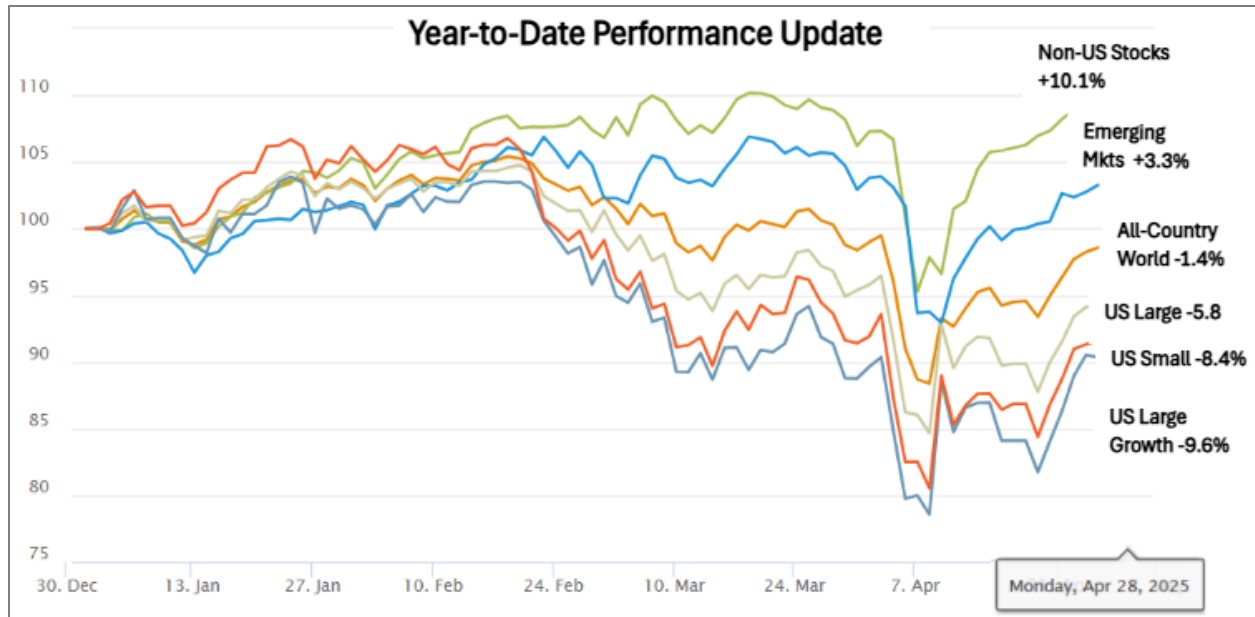
Steady at the Helm – Looking Beyond the Turmoil

The stock market has continued along a volatile path since our last Steady at the Helm email in mid-April. Investors are clearly reacting to the barrage of social media posts and statements from the White House which can either send the markets plunging or rallying. The most recent market-rattling post from the president occurred last week when he indicated he would like to remove Federal Reserve Chairman Jerome Powell from his post (stocks dropped by 1%), but on the next day he backtracked by stating that he had no intention of firing the Fed Chair (stocks recouped the loss). The investment markets are rightly concerned about the independence of the Federal Reserve given that our financial system relies on monetary policies which are based upon sound economic principles rather than being subject to short-term political pressures. Not that the Fed has been perfect in its decisions or in their timing, but the investment markets rely upon the belief that the Fed is acting in the best long-term interests of the U.S. economy. This is true for the other bulwarks of our financial system, including regulatory agencies like the Federal Deposit Insurance Corporation and the Securities Exchange Commission which were created to protect consumers and investors.



Clearly the near-term direction of the economy and the investment markets is highly uncertain given the potential impact of extreme tariffs, the shake-up of government agencies, as well as repercussions of the pending tax proposals currently making their way through Congress. Geopolitics will also play a major role in shaping the future direction of the global economy. No one likes uncertainty, and the drumbeat of unsettling headlines in the media only serves to further fray the nerves of investors. We believe the best way to deal with this set of uncertainties is to maintain a focus on long-term investment principles which have served investors well over the past 100 years, during tumultuous times as well as peaceful times. The primary principle is to establish a portfolio structure which is balanced between safe assets (i.e., cash reserves and high-quality bonds) and equities which have the potential to deliver favorable long-term returns. The high-quality bonds can provide for our financial needs during economic downturns and avoid the need to sell equities when their prices might be down. Having a properly balanced portfolio has helped investors weather the storms of the Great Depression, World War II, the Oil Embargo recession of 1973-74, the bursting of the Tech Bubble of 2000-02 and the Great Recession of 2008-09. Other important investment principles include diversifying equities across a broad spectrum of stock asset classes. Through their academic research, Dimensional Fund Advisors has identified asset classes which have historically outperformed over the past 100 years, including stocks of smaller companies, stocks with lower prices, and stocks of the most profitable companies. Warren Buffet's time-proven advice to "be fearful when others are greedy and be greedy when others are fearful" is another guiding principle which has served investors well. By utilizing these principles, as well as others, we can build portfolios which should improve the odds of a successful long-term investment voyage.

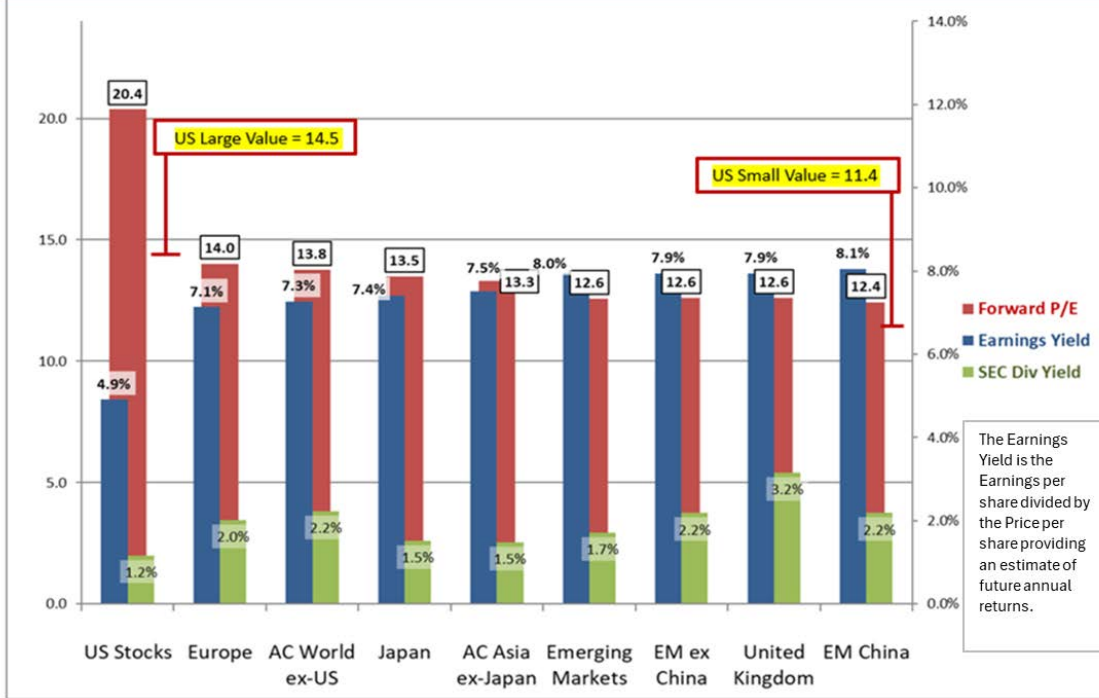
The benefits of diversification can clearly be seen in the performance of some of the major asset classes so far in 2025. U.S. Large Growth stocks, which are heavily skewed toward technology companies, are down by close to 10% for the year-to-date through April 28th (they were down by more than 20% in early April). Information Technology stocks have soared over the past five years leading to unsustainably high prices which are expected to lag behind most of the other stock asset classes as they revert to more normal valuation levels over the next 5-10 years. On the positive side, Non-U.S. Stocks have performed exceptionally well so far this year with a gain of 10.1%. Emerging Markets stocks have a modest gain (+3.3%) while the All Country World Stock Market is only slightly down (-1.4%). U.S. Large Cap stocks are down by 5.8% with U.S. Small Caps down by 8.4%. A representative 50% bond and 50% stock portfolio is flat for the year-to-date having benefited from the 3% positive return on bonds.



Stock Market Valuations

One of the more useful measures for forecasting future returns for stocks is the Price-to-Earnings Ratio (i.e., P/E Ratio, or the Price per share divided by the next 12 months' estimated Earnings per share). Generally, stocks of profitable companies with low prices tend to outperform stocks with higher prices over the long term. Stocks with very high P/E Ratios, such as technology stocks were coming into 2025, might be expected to underperform as their prices revert to more normal valuation levels. On the other hand, stocks of profitable companies with lower P/E Ratios might be expected to outperform. In the bar chart on the next page you will note that stocks in the U.S. have a weighted average P/E Ratio of 20.4 which compares to non-U.S. stocks with P/E Ratios ranging between 12.4- and 14-times earnings. We also highlighted the P/E Ratios of US Large Value and Small Value Stocks which are priced favorably, especially U.S. Small Cap Value stocks with an average P/E Ratio of 11.4. (Of note, since the founding of Aequitas in 1991, among the major U.S. stock indices, Small Value stocks have cumulatively outperformed all of the other asset classes, including Large Growth, Large Value and Small Growth stocks.)

Valuations and Yields Around the Globe



Looking at the Latest 10-Year Future Rate of Return Forecasts

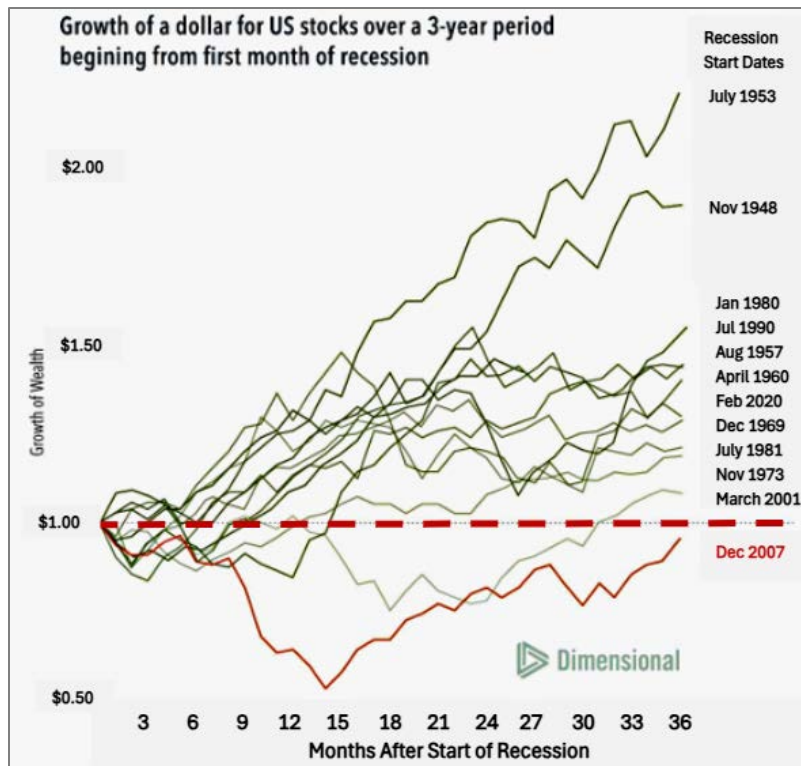
Another useful measure in forecasting future stock market returns is the CAPE-10 Ratio which was developed by Robert Shiller, former Yale professor of economics and winner of the 2013 Nobel Prize in Economics for his stock market research. The CAPE-10 method (CAPE = Cyclically Adjusted Price-to-Earnings) utilizes the historic earnings of companies over the past 10 years, adjusted for inflation, compared to their current stock prices to estimate future returns. In the table below, the returns in the red shaded section indicate the expected future returns for some

	10 Year "Expected" Return	Risk Level (Standard Deviation)
Equities		
Non-US Developed Markets	8.9%	16.2%
Emerging Markets	9.1%	19.8%
US Small Cap Value	8.6%	19.5%
Global Equities Mix	7.0%	16.1%
US Small Cap Growth	7.0%	22.5%
US Large Cap Value	4.6%	15.3%
US Large Cap Growth	2.5%	17.2%
Fixed Assets		
Diversified Bonds	4.9%	2.7%
Cash (Money Market Funds)	3.7%	0.8%
Balanced Portfolios		
20% Fixed - 80% Equities	6.8%	13.1%
40% Fixed - 60% Equities	6.5%	10.0%
50% Fixed - 50% Equities	6.3%	8.5%
60% Fixed - 40% Equities	6.0%	7.1%
Inflation	2.6%	NA

of the major stock asset classes which range from a low of 2.5% per year for U.S. Large Growth stocks to a high of 8.9% for Non-U.S. Developed Markets stocks. The estimated future return for Global Equities is 7.0%. A Diversified portfolio of U.S. Government and Corporate Bonds is expected to generate an average annual return of close to 5% with Cash, or money market funds, expected to return 3.7% (even higher than the expected annual return for U.S. Large Growth stocks!). In the green shaded section, we indicate expected returns for various balanced portfolios ranging from 6.0% to 6.8%. Bear in mind that these estimated future returns are based upon historic relationships between stock prices and subsequent returns, as well as reasonable assumptions about future interest rates and inflation.

What About a Possible Recession?

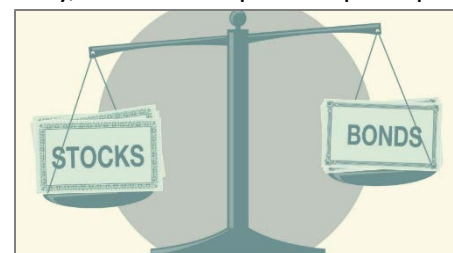
Coming into 2025, the consensus was that the U.S. economy would continue expanding, perhaps at a somewhat slower rate than in 2024, with a near-zero chance of a recession. Economists factored in the prospect of tariffs in their forecasts, but not the extreme tariffs laid out on “Liberation Day.” Furthermore, economists assumed that the negative economic impact of a milder set of tariffs would be more than offset by the stimulative fiscal benefits of Trump’s economic plan which includes less regulation for businesses and lower taxes for individuals and corporations. Unfortunately, the announcement of extreme reciprocal tariffs sent the investment markets tumbling and significantly increased the odds of a recession.



How have stocks fared during past recessions? There have been 12 recessions over the past 75 years occurring on average every 6 years. The most recent recessions were in 2020, 2007 and 2001, with the worst by far being the Great Recession of 2007-09 which lasted for 18 months. In 11 out of the 12 of the recessions displayed in the line chart to the left, stocks fully recovered their losses within 3 years, with the vast majority recovering within 12 months. Even during the Great Recession, stocks came very close to reaching a full recovery after 36 months. The average of the 3-year cumulative returns

after the start of a recession was 43.2% which is remarkably close to the average return of all 3-year periods over the past 75 years (41.8%). (In the line chart above, stocks are represented the Fama/French Total U.S. Market Research Index.)

While the past performance of the stock market during recessionary periods is somewhat encouraging for long-term investors (in hindsight), living through a recession is far from pleasant, especially when seeing one’s portfolio negatively impacted. Studies show that investors view losses with twice the emotional impact as they view comparable gains. Given that stocks have negative annual returns about 25% of the time, we should expect to be unhappy or distressed about once every four years (2025 certainly feels like one of those years). We believe that the best way to minimize distress and the negative impact on portfolios is to adhere to time-tested investment principles which we briefly outlined above. In summary, the most important principle is to establish an appropriate mix of high-quality bonds and stocks based upon the investment time horizon. This would naturally result in younger investors having a higher allocation to stocks than investors in or near retirement. Within the stock allocation, emphasizing asset classes with lower prices and higher expected returns should help improve long-term performance (currently U.S. Small and



Mid-Cap Value stocks and Non-U.S. stocks look particularly attractive). Finally, keeping Warren Buffet's sage advice in mind through the discipline of regular portfolio rebalancing which requires trimming stocks when prices are high and adding to stocks when prices are low. A variant of the rebalancing process for conservative investors is to rebalance out of stocks when prices are high, but not to rebalance out of bonds when the markets are plunging and when nerves are frayed. The most critical investment principle for both conservative and aggressive investors, however, is to avoid selling stocks when their prices are low.

In closing, I've noticed in my drive to work the past few days that the flowers and blooming trees seem particularly bright and beautiful this spring. Maybe it is because the news seems so dark. In any case, here's to the sense of renewal and optimism which springtime brings to our lives.

Please let us know if you have any questions or would like to discuss your portfolio and/or financial plan.

Best regards,

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