GENTRUST

Q2 Investment Perspectives | 2025

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Executive Summary

Q1 '25 Recap – Global equities are -1.1% YTD while bonds are +2.5% YTD. US Equities have struggled -4.9% while European Equities are +12.3%.[1] Concerns about tariffs, fiscal discipline, and slowing growth have rattled markets. Economic data has yet to show much of this weakness although leading indicators point to the slowing.

The Big Picture – The 2024 US presidential election marked a sea change for global trade and an acceleration in nationalistic tendencies. Tariffs are creating great uncertainty among the business community, paralyzing their ability to move forward. Large scale spending cuts driven by DOGE are also hampering growth.

Changing World Order – For much of the last several years, US assets have enjoyed stellar outperformance relative to global peers as the theme of "American Exceptionalism" took hold. As we stand here today, the current focus on reorganizing trade policy has caused investors to question the narrative of US Exceptionalism going forward.

AI Beneficiary Basket – Given the high level of expectations in Mag7 stocks[2], we prefer to pivot our investments towards companies likely to benefit from AI efficiency gains. We took a very programmatic and methodical approach to identifying the stocks in GAIBBY (GenTrust AI Beneficiary Basket). The basket contains 14 stocks we believe will greatly benefit from AI efficiency gains and is intended to have a 3-5 year investment horizon.

Liquid Alts – Investors are increasingly turning to private markets and alternative investments, although they pose timing and liquidity challenges. We developed GLDS (GenTrust Liquid Diversifying Strategy) to provide an uncorrelated and resilient risk exposure that over time could generate more returns than an alternative cash allocation, but with high degrees of liquidity. Each fund delivers a specific risk to the portfolio to earn that extra return, but in aggregate it has a low correlation to the broad market.

Positioning – We are neutral across asset classes with very moderate amounts of tilts in portfolios, preferring to stay nimble and react to the changing landscape.

[1] YTD return numbers are from yCharts as of 3/28/25. Equities are proxied by the ACWI ETF, bonds are proxied by the AGG ETF, US equities by SPY ETF and European equities by VGK ETF. All forecasts are expressions of opinion and subject to change without notice and are not intended to be a guarantee of future events. Past results do not guarantee future results. Real results may vary. [2] Mag7 includes AAPL, NVDA, MSFT, AMZN, GOOG, META, and TSLA

Q1 2025 Market Review

"Markets started 2025 on a mixed note as concerns of tariffs and slowing growth dominated markets. Global equities were down 1.1% in Q1..."

Markets started 2025 on a mixed note as concerns of tariffs and slowing growth dominated markets. Global equities (ACWI) are down 1.1% YTD although the dispersion was large. US large cap equities (SPY) are down 4.9% while Europe (VGK) is up 12.3%. Growth (IWF) struggled -10.1% compared to value (IWD) +1.0%. Small cap stocks (IWM) continued to lag -10.1%. Divergence across sectors was also large with defensive sectors such as health care (XLV) +5.5% and utilities (XLU) +3.8%, faring well, while high beta sectors such as technology (XLK) -11.1% and consumer discretionary (XLY) -11.9% struggled.[3]

Fixed income posted solid gains given the slowing growth concerns and are +2.5% (AGG) YTD. Credit has performed surprisingly well despite lower equities, but duration has outperformed with 20y US Treasuries (TLT) +3.9%. Inflation linked bonds (TIP) have also performed well +3.9%.[4]

Broad-based commodity indices are up +3.8% (DBC) on the year although gold (GLD) has been a standout +17.3% YTD.[5]

Asset Class	Ticker	YTD 2025	2024	'08-'23 Ann	Asset Class	Ticker	YTD 2025	2024	'08-'23 Ann
Short Municipal Bonds	SHM	0.75%	1.22%	1.96%	MSCI All Country All World	ACWI	-1.07%	17.46%	7.29%
Long Municipal Bonds	MUB	-0.77%	1.26%	3.54%	US Large Cap (S&P 500)	SPY	-4.91%	24.89%	10.02%
US Aggregate Fixed Income	AGG	2.54%	1.31%	3.24%	US Small Cap (Russell 2000)	IWM	-9.08%	11.39%	7.67%
Short US Treasury Bonds (1-3y)	SHY	1.49%	3.92%	1.50%	US Value Equities (R1000 Value)	IWD	1.05%	14.18%	7.17%
Intermediate US Treasury Bonds (7-10y)	IEF	3.48%	-0.64%	3.66%	US Growth Equities (R1000 Growth)	IWF	-10.12%	33.12%	12.62%
Long US Treasury Bonds (20y+)	TLT	3.91%	-8.06%	4.67%	Canadian Equities	EWC	0.67%	12.40%	3.72%
US Investment Grade Bonds	LQD	2.29%	0.86%	5.03%	European Equities (FTSE Europe)	VGK	12.29%	1.89%	3.42%
US Treasury Inflation Linked Bonds	TIP	3.85%	1.65%	3.76%	Pacific Equities (FTSE Pacific)	VPL	3.33%	1.68%	3.06%
US High Yield Bonds	HYG	1.12%	7.97%	4.98%	Emerging Market Equities (MSCI EM)	VWO	2.99%	10.58%	1.36%
Convertible Bonds	CWB	-0.92%	10.06%	15.01%	Consumer Discretionary	XLY	-11.94%	26.51%	13.44%
USD EM Bonds (JPM)	EMB	2.44%	5.54%	4.48%	Consumer Staples	XLP	2.83%	12.19%	9.70%
Alerian MLP Index	MLPX	6.68%	42.87%	7.53%	Financials	XLF	2.18%	30.55%	3.77%
US REITs (MSCI REITs)	VNQ	1.75%	4.81%	6.48%	Health Care	XLV	5.46%	2.47%	12.27%
Commodities	DBC	3.79%	2.18%	-0.90%	Industrials	XLI	-0.92%	17.31%	9.29%
Gold	GLD	17.32%	26.66%	7.32%	Materials	XLB	1.56%	0.14%	7.30%
Energy	XLE	8.74%	5.52%	3.98%	Technology	XLK	-11.09%	21.63%	15.29%
Agriculture	DBA	-0.45%	33.47%	-1.15%	Utilities	XLU	3.76%	23.28%	6.38%

Source: yCharts.com all YTD 2025 numbers are as of 3/28/2025

For illustrative and informational purposes only. All YTD return numbers are from yCharts as of 3/28/2025. Equities are proxied by the ACWI ETF. [3] US Equities are proxied by the SPY ETF. Europe equities are proxied by the VGK ETF. Asia equities are proxied by the VPL ETF. Growth stocks are proxied by the IWF ETF. Value stocks are proxied by the IWD ETF. Small cap stocks are proxied by the IWM ETF. Financial stocks are proxied by the XLF ETF. Utilities stocks are proxied by the XLU ETF. Health care stocks are proxied by the XLV ETF.
[4] Fixed income is proxied by the AGG ETF. Credit is proxied by the HYG ETF. Duration is proxied by the TLT ETF. EM bonds are proxied by the EMB ETF.
[5] Commodities are proxied by the DBC ETF. MLPs are proxied by the MLPX ETF. Gold is proxied by the GLD ETF. All forecasts are expressions of opinion and subject to change without notice and are not intended to be a guarantee of future events. Past results do not guarantee future results. Real results may vary. The market returns presented herein are gross of fees and do not account for any management fees, advisory fees, trading costs, or other expenses that may be incurred in the management of an investment portfolio. As a result, the actual returns experienced by an investor will be lower than the gross returns presented. Investors should consider the impact of fees and expenses on their investment returns and consult with their financial advisor.

Big Picture

In the years following the Great Financial Crisis, we were in an economic paradigm characterized by lower-than-expected growth and inflation, which enabled global central banks to stimulate the economy through low interest rates. Following the COVID-19 pandemic, governments responded with fiscal stimulus as well, injecting large amounts of money directly into the economy and into the hands of consumers. As the world began to normalize, consumers flush with cash from government stimulus spent money at record levels, while at the same time supply chains were heavily strained. In addition, the commodities markets were upended following Russia's invasion of Ukraine. These dynamics ultimately led to the highest levels of inflation in 40 years and resulted in central banks aggressively raising interest rates to slow demand and reduce pricing pressure.

"The 2024 US presidential election marked a sea change for global trade and an acceleration in nationalistic tendencies… Tariffs are creating great uncertainty among the business community, paralyzing their ability to move forward…"

Higher rates flowed through the economy with long and variable lags, and, while global growth slowed, it did so in a surprisingly measured fashion while inflation returned close to normal levels. Labor markets that were extremely robust in 2023 started to weaken slightly in 2024, and central banks have responded by lowering interest rates in Europe, Canada, and the US. Large capital investments in AI created a massive tailwind to technology and strong equity performance in a small handful of companies, which in turn led to increased market concentration in the US. These levels of market concentration have historically been unsustainable and increased risks for investors.

The 2024 US presidential election marked a sea change for global trade and an acceleration in nationalistic tendencies. President Trump is threatening large scale tariffs on various countries and products, in an attempt to have tariffs on the US reduced and accomplish other political objectives. The Department of Government Efficiency (DOGE) is also undertaking massive spending cuts in an effort to trim 15% or $1trn per year off the federal budget. Tariffs are creating great uncertainty among the business community, paralyzing their ability to move forward in a normal fashion. This, paired with the huge DOGE driven spending cuts, looks to be pushing economic growth down materially. A slowing in economic growth will make achieving the 10%+ earnings growth that's priced into US equity markets that much more difficult. At the same time, concerns about inflation from tariffs and immigration reduction are making it harder for central banks to respond to slowing growth with lower rates. A market that was priced for perfection in 2024 is now undergoing large changes and increased volatility.

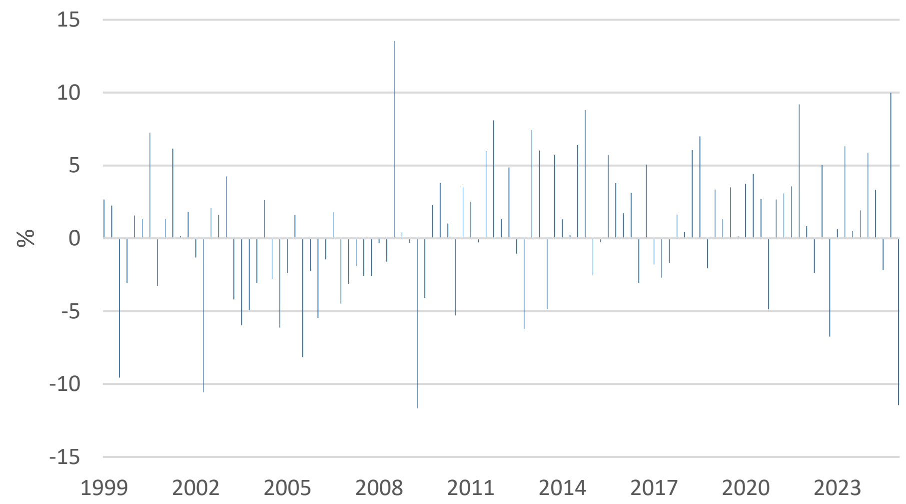
In our view, the key to investing in times of increased volatility is sticking to your core principles. Diversification has helped investors tremendously as global equity markets have been less impacted than US markets and bonds have rallied on growth concerns. Having a risk framework which considers not just historical portfolio moves but also stress tests those portfolios to potential future volatility is paramount to taking the appropriate level of risk.

Changing World Order

For much of the last several years, US assets have enjoyed stellar outperformance relative to global peers as the theme of "American Exceptionalism" took hold. Following the election of President Trump in November, this theme was immediately priced in to continue. As we stand here today, while it is still early in President Trump's second term, investors have begun to price in the reality that the policy goals of the current Administration increase the risks to US exceptionalism going forward. To that end, the S&P 500 underperformed the MSCI All Country World Excluding US Index by the most in Q1 2025 since 2009.

"As we stand here today, while it is still early in President Trump's second term, investors have begun to price in the reality that the policy goals of the current Administration increase the risks to US exceptionalism going forward…"

S&P 500 Minus ACWI Ex US Index Performance by Quarter



Performance data for the S&P 500 and MSCI ACWI ex US Index is sourced from Bloomberg. Data covers quarterly performance from 03/31/1999 to 03/31/2025. All performance figures are net of fees. Past performance is not indicative of future results. Investors should consider their own risk tolerance and investment objectives before making investment decisions.

Tariffs

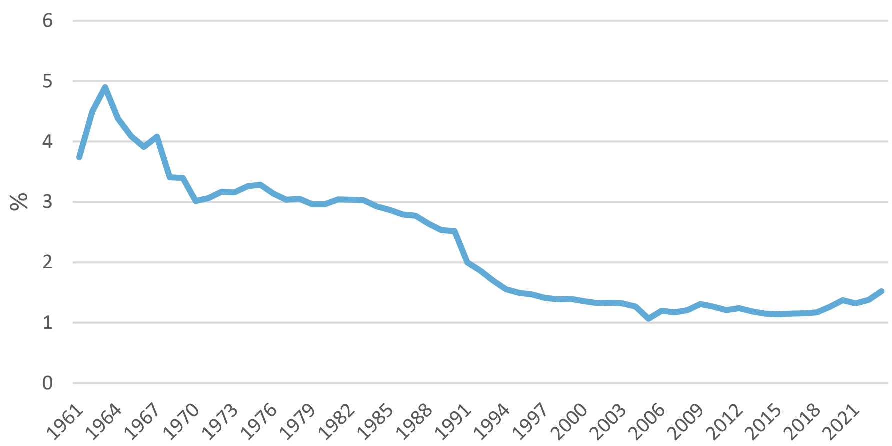
The immediate focus of the current Administration has been on implementing tariffs to combat what policy makers believe to be unfair trade practices. While we continue to believe that tariffs will be used as a negotiating tool to achieve other policy goals, the Administration moved forward with very aggressive tariffs on April 2nd. The incremental tariffs announced amount to an additional 16.5% on top of the already 7.7% announced earlier. If these tariffs stay, they could be up to a 2.5% negative impact on US GDP and increases in core inflation of at least 1% (Exante). The likelihood of stagflation in the United States, which is a period characterized by high inflation and low growth, has increased.

At the same time, other regions such as Europe have started to recognize that the United States is taking a more protectionist approach, and in response they are stimulating their economy through increased spending.

“Despite the weakness in equity markets and the recent downward revisions to GDP, expectations for future rate cuts in 2025 have only risen from 2 to 4 rate cuts from the beginning of the year to today…”

Most notably, Germany approved a plan to increase spending by 500bn Euros earlier this month as well as ease restrictions on defense spending. This announcement was significant not only due to the magnitude of the stimulus, but because it represents a seismic shift for a nation that has historically demonstrated austerity. For the last 30 years, Germany has spent below 1.5% of their GDP on military expenditures, and this change could bring spending as high as 3-4% over the coming years.

Germany Military Expenditure % of GDP



Source: https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS?locations=DE

Deficits

Concerns over the US fiscal deficit dominated headlines immediately following the election but have since taken a back seat to the tariff story. Despite this change in focus, the deficit, which is currently over 6% of GDP, remains a meaningful constraint for policy makers. Ultimately, the largest contributor to the deficit going forward is likely to be interest outlays, which means that the Fed will have to lower interest rates to make meaningful progress in reducing the deficit.

Unfortunately, the inflationary impact of tariffs complicates the picture for the Fed because they will likely be hesitant to lower rates if future inflation data remains sticky. As we have seen, despite the weakness in equity markets and the recent downward revisions to GDP, expectations for future rate cuts in 2025 have only risen from 2 to 4 rate cuts from the beginning of the year to today.

Looking Forward

As we assess the potential path of markets going forward, the stagflationary impacts of tariffs coupled with the challenge of the current fiscal deficit increase the risk to US exceptionalism going forward. Our expectation is that tariffs will increase inflation while hurting growth, which will ultimately constrain the Fed from being able to lower interest rates. Given the high fiscal deficit, if the Fed cannot adequately lower interest rates, it makes the possibility of future stimulative policy measures such as extending the tax cuts more challenging. We will be carefully watching for any resolutions to the burgeoning trade war, as well as other policies such as deregulation which may ameliorate some of these risks.

AI Beneficiaries

> "Given the high level of expectations priced into Mag7 stocks, we prefer to pivot our investments towards companies likely to benefit from AI efficiency gains..."

The question we often hear is how to best invest in an AI future? Clearly, we know the answer retrospectively was to be allocated to NVDA and the other "Mag7" (MSFT, META, AMZN, AAPL, TSLA, GOOG). With many of those companies struggling so far in 2025 and expectations so high, it may be time to revisit that approach going forward.

Several market strategists have proposed that the AI boom will come in various phases. The first two phases are the "picks and shovels" phase where the firms selling the basic infrastructure needed for AI such as NVDA, cloud providers and data centers will benefit. The third phase would include software and IT services firms that can monetize the trend through AI enabled increases in revenue. Finally, the fourth phase would include companies that are poised to benefit from the use of AI to improve efficiency and margins within their business.

Logically, the performance of each phase varies successively. During the initial buildout, the first two phases have dominated as the Mag7 finished up over 100% in 2023 and up over 60% in 2024 on average as a group. As we have mentioned, these 7 companies now represent nearly 1/3 of the S&P 500. Further, there is currently a lot of expectations built into the Mag7 stocks: both the expected revenue growth as well as the expected EPS growth of the Mag7 in 2025 are 20%.

Given the high level of expectations in Mag7 stocks, we prefer to pivot our investments towards companies likely to benefit from AI efficiency gains. One simple way to accomplish this, which we implemented in portfolios in late 2024, is to begin moving US large cap exposure away from Mag7. We made this adjustment by adding an equal-weighted SP500 ETF (RSP) to the US large cap bucket, effectively decreasing the weight to the largest components of the market capitalization weighted SP500 (Mag7 names) and increasing it to others. Many of our clients have come asking for a more "super charged" version that focused more specifically on those companies best positioned to benefit from the next phase of the AI evolution.

Introducing GAIBBY: GenTrust AI Beneficiary Basket

As we don't fashion ourselves as stock pickers, we took a very programmatic and methodical approach to identifying the stocks in GAIBBY. Given we want to capture the AI beneficiary theme but also minimize idiosyncratic risks, we were looking to build a basket of somewhere between 10-20 stocks total. Below outlines the process we followed to identify and formulate the basket:

1. We started with the Russell 1000 index, which represents the 1000 largest companies in the US, as the entire possible universe of candidates. We then did a search for all companies that had specific mentions of AI in their press releases or earnings reports. We compared this initial list to baskets created by other firms to further narrow down the list of potential. That left us with a list of around 100 stocks.

2. We then filtered the list to only include companies which would have the sort of financial trends we'd expect to see if AI had become an important initiative, namely increased technology spend and some improvement in profit margins over the last 3 years. We also removed companies with high debt-to-equity ratios since we didn't want our view on AI to be sidetracked by liquidity problems with companies within the basket. This reduced the list to around 40 stocks.

“…GAIBBY is less focused on technology and more broadly diversified than the S&P500...”

3. We looked at the websites and press releases for each company looking for concrete examples of where they had adopted AI and had demonstrated efficiency gains. This narrowed the list down to 14 stocks.

4. Finally, we volatility weighted the 14 names so that higher risk names didn’t dominate the performance of the basket.

GAIBBY is less focused on technology and more broadly diversified than the S&P500, similar in concentration more to the equal weight S&P500 (RSP).

	S&P500	GAIBBY	RSP
Information Technology	31.8%	6.0%	15.8%
Health Care	11.1%	5.7%	12.9%
Consumer Staples	5.8%	8.6%	7.4%
Real Estate	2.2%	5.8%	6.2%
Energy	3.5%	8.0%	5.0%
Consumer Discretionary	10.2%	14.8%	10.4%
Materials	1.8%	6.2%	4.3%
Financials	14.0%	20.3%	13.9%
Communication Services	9.4%	11.4%	4.0%
Utilities	2.7%	0.0%	7.0%
Industrials	7.5%	13.2%	13.5%

Source: yCharts.com as of 3/28/2025. The chart illustrates the sector allocation percentages for GAIBBY, the S&P 500, and the RSP as of March 28,2025. This information is for illustrative and informational purposes only. Past performance is not indicative of future results. RSP is represented by The Invesco S&P 500 Equal Weight ETF (RSP) is based on the S&P 500 Equal Weight Index

Our expectation is that GAIBBY will have a 3-5 year investment horizon. We will rebalance and modify (moderately) this basket over time if conditions change at any of the basket companies.

If you are interested in adding this to your portfolio, please contact your GenTrust advisor for more information.

Liquid Alternatives

Higher yields have made investing easier the past few years because bonds now offer another source of return for investors that is less correlated to equity markets. At the same time, the increased concentration of equity markets has made equity investing more difficult. As a result, investors are increasingly turning to private markets and alternative investments. While we have been advocates of alternative investments since day 1, they do pose some challenges. Some funds draw down capital over time which means investors need to keep excess money in cash waiting for those calls. Second, most alternative investments provide infrequent liquidity opportunities, making them more constraining to invest in. As a result, we developed GenTrust's liquid diversifying strategy ("GLDS").

GLDS seeks to provide an uncorrelated and resilient risk exposure that over time could generate more returns than an alternative cash allocation. This strategy is developed to be a shorter-term allocation as clients expand their traditional alternatives allocation, but this strategy is also designed with the idea it could stand alone as a longer-term investment thesis. GLDS is designed to be dynamic; the allocation and funds will change over time as opportunities present themselves. The strategy is currently constructed using four funds that are either daily liquid or interval in nature. Each fund delivers a specific risk to the portfolio, and in aggregate they have a low correlation to risk assets.

The objectives of this strategy include:

- Liquid or semi-liquid in nature
- Expected return greater than cash or cash equivalents
- Relatively uncorrelated as a package of 4 funds, targeting a beta comparable to most alternatives indices (0.2-0.4)

If you are interested in adding GLDS to your portfolio, please contact your GenTrust advisor for more information.

Summary

2025 has been a more challenging year than 2024 for investments. Uncertain trade policy has slowed businesses at the same time equity markets had priced in very strong levels of growth. Cuts in government spending are adding to the concern. From a positioning perspective, we are neutral across asset classes. We have very moderate amounts of tilts in portfolios, preferring to stay nimble and react to the changing landscape. We have developed two strategies in recent months to take advantage of long-term AI trends and also provide a liquid, low correlation return stream to client portfolios.

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