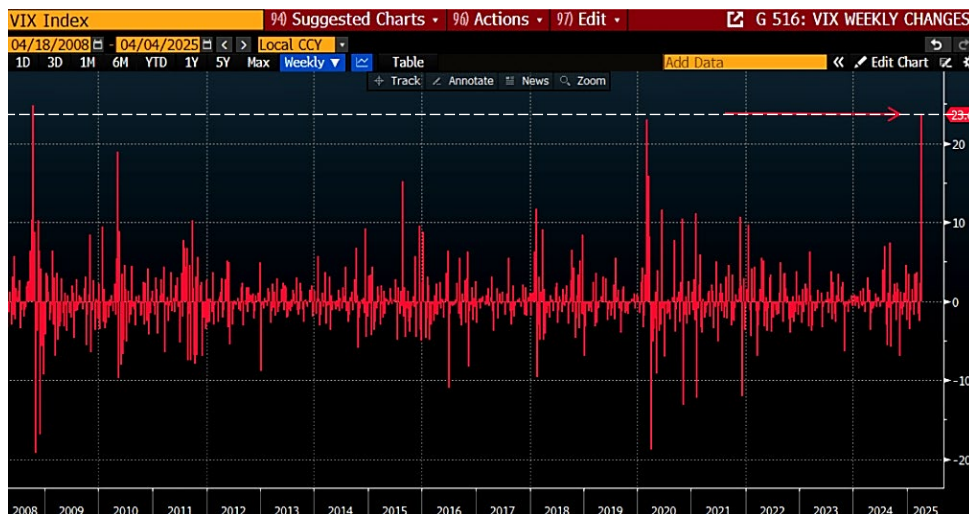




April 8, 2025

Dear Valued Castleview Advisors & Friends,

Recent equity market weakness trends are showing signs of possible near-term exhaustion. S&P 500 volatility measurements in equity markets which have hit “extreme” levels only seen in relatively rare instances over the past 20 years. The volatility index (VIX) jumped over 20 points last week – a spike not experienced since 2008.



Looking forward, expect markets to ebb and flow until either better equity valuations are realized or until global fiscal and monetary pulses are implemented. Such fiscal and monetary changes could be forthcoming within a relatively short time horizon. Markets rarely move in a straight line and current oversold conditions often precede sizeable counter-rallies.

Dow Industrials after three consecutive losses > -3%

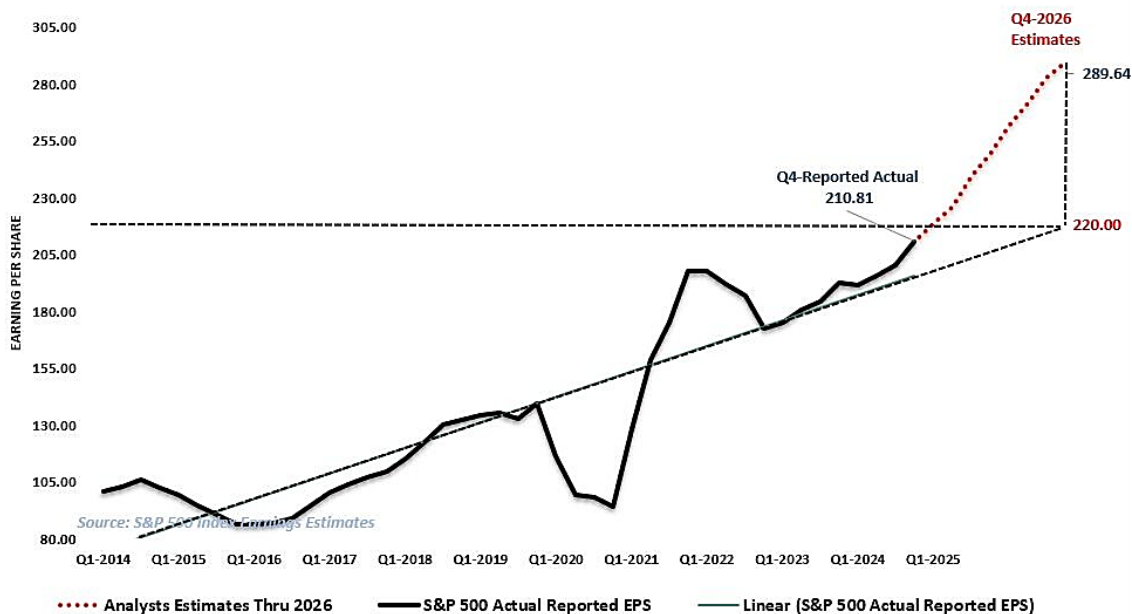
| Dates of 4 Signals | 1 Week Later (%) | 2 Weeks Later (%) | 1 Month Later (%) | 2 Months Later (%) | 3 Months Later (%) | 6 Months Later (%) | 12 Months Later (%) |
|-----------------------|---------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|------------------------|
| 1929-11-13 | 21.4 | 20.3 | 23.8 | 25.3 | 36.2 | 36.7 | -9.2 |
| 1931-09-30 | 0.7 | 2.2 | 7.6 | -9.0 | -19.4 | -20.1 | -26.0 |
| 1932-09-14 | 14.1 | 11.6 | -3.1 | -0.9 | -7.2 | -13.8 | 47.9 |
| 1933-07-21 | 6.6 | 4.4 | 12.9 | 17.2 | -2.3 | 18.5 | 3.7 |
| 2025-04-07 | ??? | | | | | | |

© SENTIMENTRADER Numbers are % return after signal; Risk = avg max loss; Reward = avg max gain; Z-Score +/- 2

S&P 500 falls more than -14% over the past 3 days

| S&P 500 after falling more than -14% over the past 3 days | | | | | | | | |
|---|-------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| @SubuTrade | | | | | | | | |
| | 1 Day Later | 2 Days Later | 3 Days Later | 4 Days Later | 1 Week Later | 2 Weeks Later | 3 Weeks Later | 1 Month Later |
| October 29, 1929 | 12.53% | 18.21% | 11.99% | 0.88% | 4.60% | -5.82% | 5.78% | 5.97% |
| November 6, 1929 | 3.69% | 2.77% | -3.64% | -9.12% | -14.31% | 3.20% | 1.50% | 10.29% |
| November 13, 1929 | 8.95% | 14.95% | 13.76% | 17.21% | 20.44% | 18.46% | 27.12% | 22.88% |
| September 14, 1932 | 4.22% | 2.99% | 2.04% | -0.14% | 3.67% | 9.39% | 10.88% | -7.89% |
| July 21, 1933 | 0.62% | 8.81% | 6.94% | 9.74% | 10.67% | 7.36% | 10.16% | 9.64% |
| October 19, 1987 | 5.33% | 14.92% | 10.41% | 10.40% | 1.26% | 13.75% | 8.15% | 8.09% |
| April 7, 2025? | | | | | | | | |
| Average: | 5.89% | 10.44% | 6.92% | 4.83% | 4.39% | 7.72% | 10.60% | 8.16% |
| % Positive: | 100% | 100% | 83% | 67% | 83% | 83% | 100% | 83% |

Alternatively, U.S. equity market valuations, absent fiscal or monetary “stimulus” measures, would likely take longer to normalize. **If** current tariff levels are maintained and economic activity cools, then a typical recessionary profit decline of -10% to -15% would not be unexpected (average decline in recessions is -13%). Current FY2025 S&P earnings [expectations of \\$270](#) would be expected to drift closer to \$235. If markets gravitate to a more historically normalized P/E multiple of 18x-20x on reduced EPS expectations, then index values may seek equilibrium at lower levels.



The S&P 500 EPS vs. P/E 'Matrix'

| | | S&P 500 12m fwd EPS | | | | |
|--------------|------|---------------------|------|------|------|------|
| | | 230 | 250 | 270 | 290 | 310 |
| P/E multiple | 16.0 | 3680 | 4000 | 4320 | 4640 | 4960 |
| | 18.0 | 4140 | 4500 | 4860 | 5220 | 5580 |
| | 20.0 | 4600 | 5000 | 5400 | 5800 | 6200 |
| | 22.0 | 5060 | 5500 | 5940 | 6380 | 6820 |
| | 24.0 | 5520 | 6000 | 6480 | 6960 | 7440 |

Source: BofA Global Investment Strategy, Bloomberg

Viewing the bigger picture, current budget deficits and debt levels ([\\$36 Tn](#)) dictate that fiscal and monetary actions are forthcoming. US Government debt is not sustainable at current levels with interest rates in the 4% - 5% range. Debt levels must be brought down or there is significant risk that Treasury debt buyers will back away until a better risk/reward balance is in place. This risk can also be mitigated through lowered interest rates as the [interest cost burden](#) is lessened as rates decline.

Additionally, an economic “event” provides the Federal Reserve the cover it needs to lower interest rates. Otherwise, the case is difficult to envision set against the recent economic backdrop of equity market highs, headline job growth stability and above-plan inflation readings. All else being equal, the likely outcome of DOGE-instituted federal government job cuts and recent tariff targets is weakened employment data, higher pricing resulting from higher tariff-driven input costs coupled with reduced import price competition in finished goods (initially) – and softer demand. Perhaps this is the intended strategy of the Trump administration led by Treasury Secretary, [Scott Bessent](#) (Soros Fund Management partner 1991-2000; CIO at SFM 2011-2015).

Lower employment headlines and slower economic growth would also indicate receding future inflationary pressures. In combination, this backdrop would provide the US Treasury and the Fed with the needed narrative to take action. What could that action look like? In short form – centralized activism. Reflecting on trends in US economic policy since the late 1990s, and

taking Treasury Secretary Bessent's [stated admiration](#) for the economic policies of Shinzo Abe, late Japanese Prime Minister, at face value, we should anticipate an active government response. Abe's action plan was built on "[Three Arrows](#)" involving:

- ❖ **Loose Monetary Policy:** Implementation of [Modern Monetary Theory](#) through large-scale asset purchases via domestic Quantitative Easing programs. Increased bond buying would lower US Treasury bond interest costs, lower corporate debt costs and re-stimulate commercial/residential real estate markets. Expect [change in Fed Chair](#) role.
- ❖ **Fiscal Flexibility:** Increased spending packages from US Congress and/or Presidential directives. Expect increased money supply and perhaps paired with reduced statutory tax rates (acknowledging inflationary policies are invisible taxes on consumers). Early signals that this strategy will be pursued include Treasury Secretary Bessent's planned launch of a [US Sovereign Wealth Fund](#) (vehicle for purchase of [varied financial assets](#)).
- ❖ **Structural Economic Reforms:** [Suspension or removal of US debt ceiling](#) limits. Changes to US workforce. Increased [automation and robotics](#) to offset money supply growth inflation. Increased "transfer payments" or transitional universal basic income subsidies. [Stablecoin/cryptocurrency adoption](#) and implementation.

Expect short-end rates to be adjusted lower with Fed Funds cuts and lower longer-term interest rates through yield-curve measures (as implemented broadly in Japan under PM Abe) in line with the degree of financial market weakness. For context, as shown below, in 12 prior recessions dating back to WW2, the median SPX drawdown was -24%. I expect interest rates to be a key driver of financial markets in 2025 and the topic was discussed at greater length [in a prior webcast last month](#).



While acknowledging the difficulty of timing market movements in a precise manner, equity valuation risks remain unless preliminary tariff levels are reduced and/or fiscal/monetary policy actions are imposed to [offset tariff impacts](#). Recalling prior asset allocation recommendations over the past several quarters, I continue to recommend focusing on long-term financial goals in a prudent manner and tilting asset class exposures as previously mentioned:

- ❖ Moving up the corporate capital structure (increasing debt exposure to gain collateral backing)
- ❖ Opportunistically tilt Value > Growth in US
- ❖ Overweight valuation-oriented ("Value" focused) international equity managers
- ❖ Add exposure to hard assets ([energy/agriculture commodities and precious metals](#))
- ❖ Increase exposure to high-quality secured fixed income vs low-quality unsecured fixed income
- ❖ Add low-correlated non-correlated investments to help mitigate possible heightened risk in equities

Looking ahead, and using history as a guide, we anticipate an upcoming monetary response from global central banks. Fiscal packages from European and Asian countries are also likely. Should one or both of these entities respond with an influx of liquidity via central bank managed asset purchase programs or increased fiscal spending packages, then our primary concern likely shifts even further to protecting against purchasing power erosion. I expect these decisions will become clearer in the days ahead and we will follow up with additional thoughts as events unfold.

IDEAS TO CONSIDER

Similar to comments expressed over the past few quarters, and our expectation for continued uncertainty and volatility in financial markets in 2025, we continue to recommend clients of the firm stay diversified and scrutinize their long-term financial planning objectives. It is these planning objectives formulated in close consultation with professional advisory expertise that should guide macro-level asset allocation decisions. Our current outlook continues to recognize the need for investors to defend against both rising costs as well as [higher than average valuations](#) in large cap US equities.

Finally, as we look ahead, and as personal circumstances dictate, it may be worth considering a greater tilt toward value-oriented and international (DM and EM) equities, high-quality intermediate duration fixed income, as well as an increased allocation to what are often times referred to as "alternative investments" ([commodities](#), tactical and/or hedged equity strategies as well as selective private credit or equity strategies). Monitoring balance sheet strength remains a focus in 2025.

Thank you for your continued trust and confidence.

Sincerely,



Scott Zachary
Director – Investment Management

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