

Market Outlook

The Hammer Has Dropped
Q2 2025



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Q1 Recap

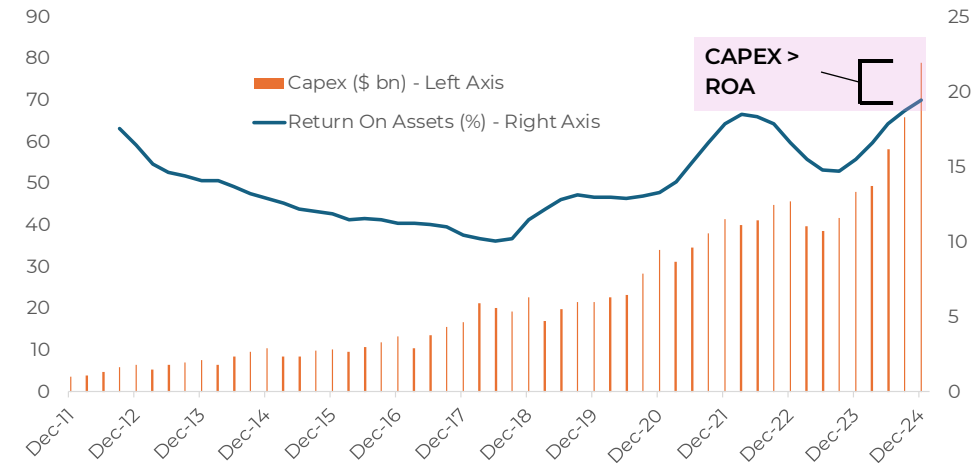
DeepSeek

Q1 Recap

- The Magnificent 7 and other AI adopters have ramped up Capex levels over the last couple of years with plans integrate AI into their business and ultimately increase productivity and decrease costs
- Shareholders have been increasingly looking for return on assets (ROA) generated from the Capex to justify the spending
- DeepSeek's launch of its R2 model in February put it into the public spotlight, with claims that it had developed its model at a fraction of the cost – calling into question the large capex spend by large US tech companies



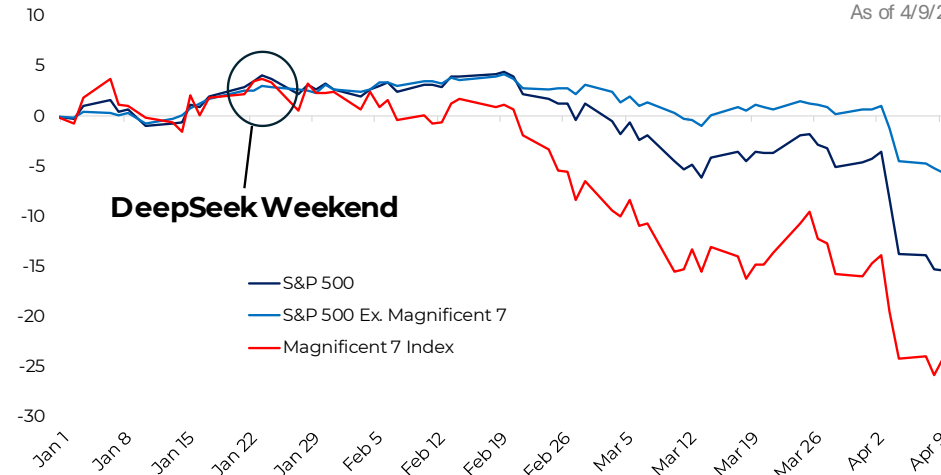
Mag 7 Cap Ex and Return on Assets: 2011-Present



Mag 7: AAPL, AMZN, GOOGL, META, MSFT, NVDA, TSLA

S&P 500 YTD Performance (%) With and Without Magnificent 7

As of 4/9/25

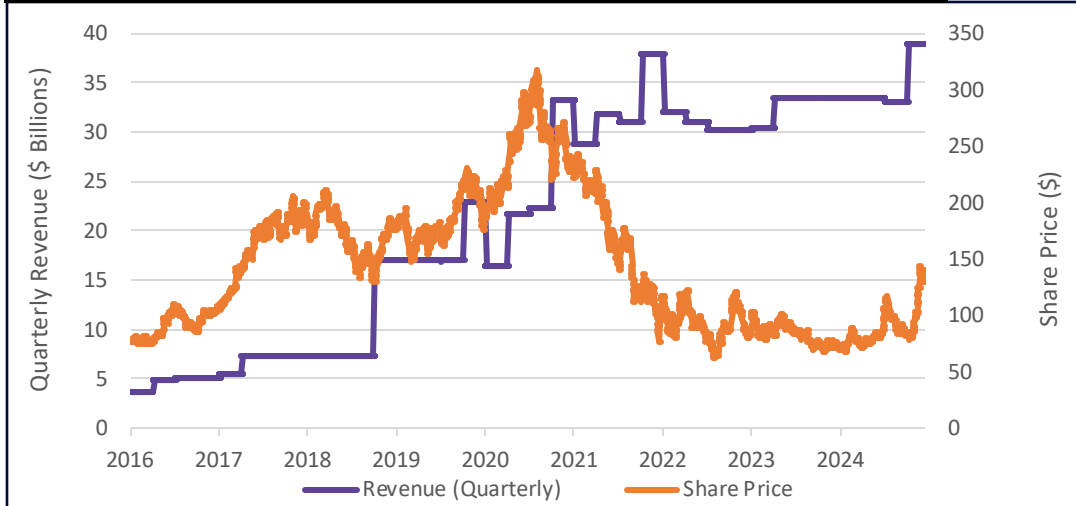


China's Tech Revival

Q1 Recap



Alibaba's Disconnected Revenues And Price



- As one of the top tech companies in China, Alibaba's share price (along with other companies in China) has been trading at a significant discount due to relationship with the government
- In February, there was a symbolic handshake between Xi Jinping and Jack Ma, symbolizing the end of the government's strict regulations and fines, promoting a more conducive environment

Relative Strength of World (CWI) vs US (SPY)

0.057 MSCI All Country Ex US (CWI)/SPDR S&P 500 (SPY)



- As China reiterates its 5% GDP growth target and emphasizes their renewed focus on the consumer, there is a growing risk of remaining underweight China
- During the China National People's Congress in March, there was a significant shift in focus on driving the Chinese consumer via stimulus, which has been absent in the past

Germany Goes Fiscal

Q1 Recap

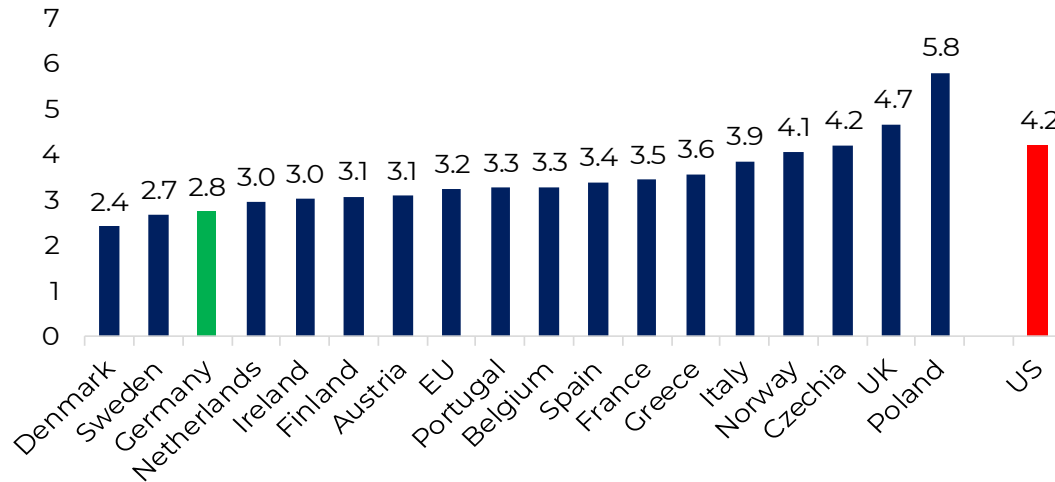


Policy Uptick

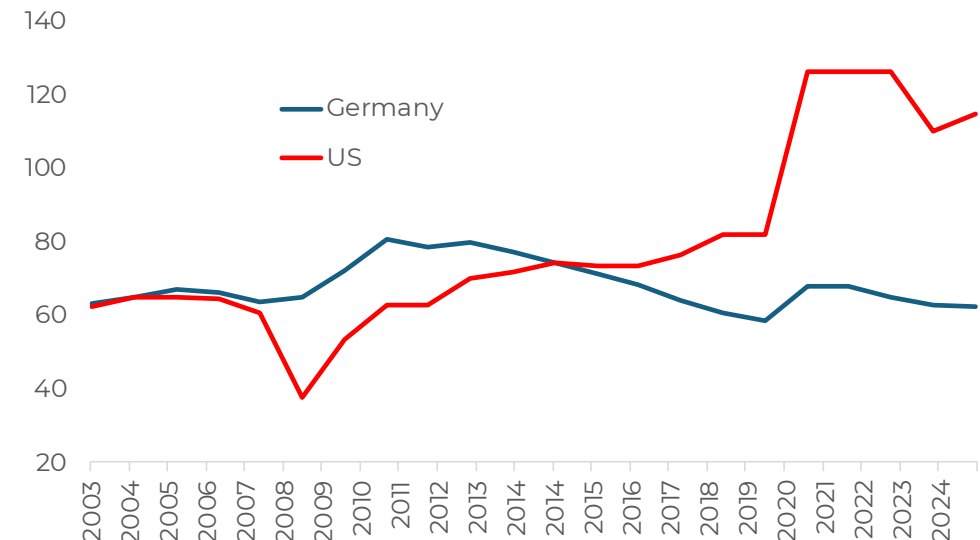
Germany's soon-to-be government announced a sweeping spending plan to kickstart the economy, including lifting their foot off the “Debt Brake” to finance the plan. After years of fiscal austerity, their plan will lead to higher defense and infrastructure spending. Germany's fiscal policies (up until the plan takes effect) couldn't be more different to the US, where the “debt ceiling” is extended quite frequently. Germany and other European countries are in a stronger fiscal position to increase spending, unlike the US.

Difference Between Governments Across the Globe

10y Government Bond Yields (%)



Government Debt as % of GDP

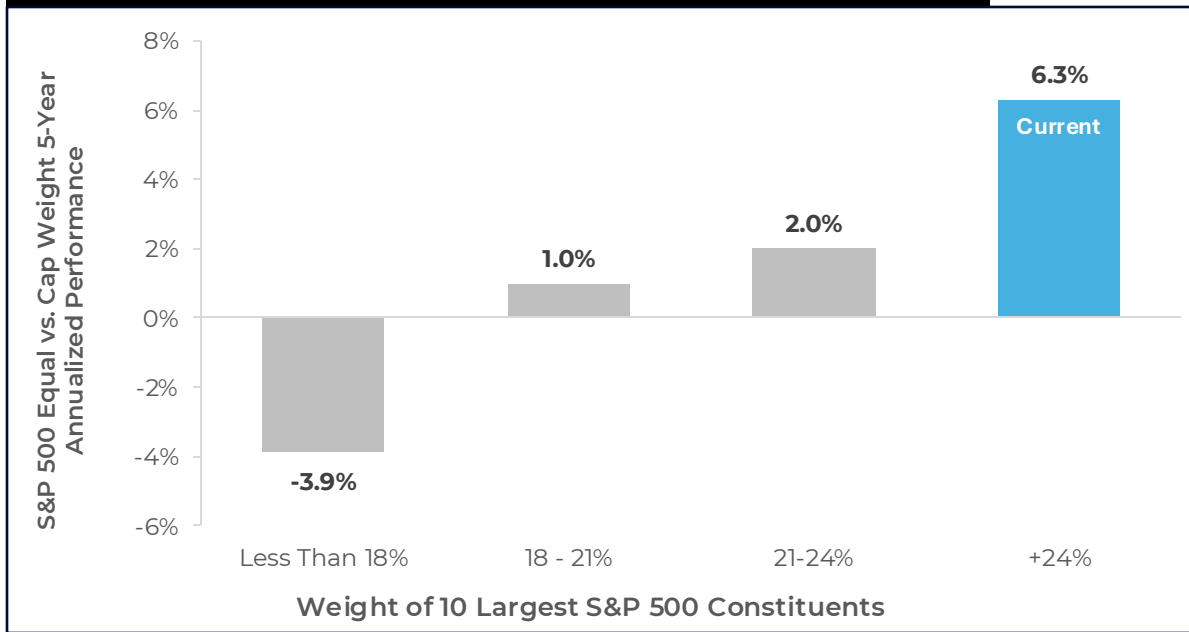


Market Broadening

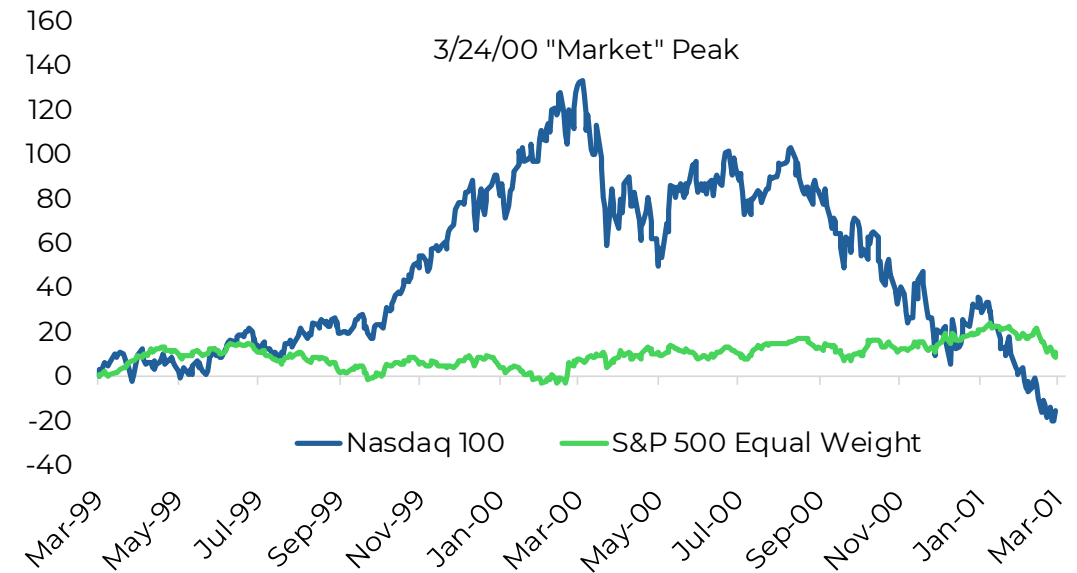
Q1 Recap



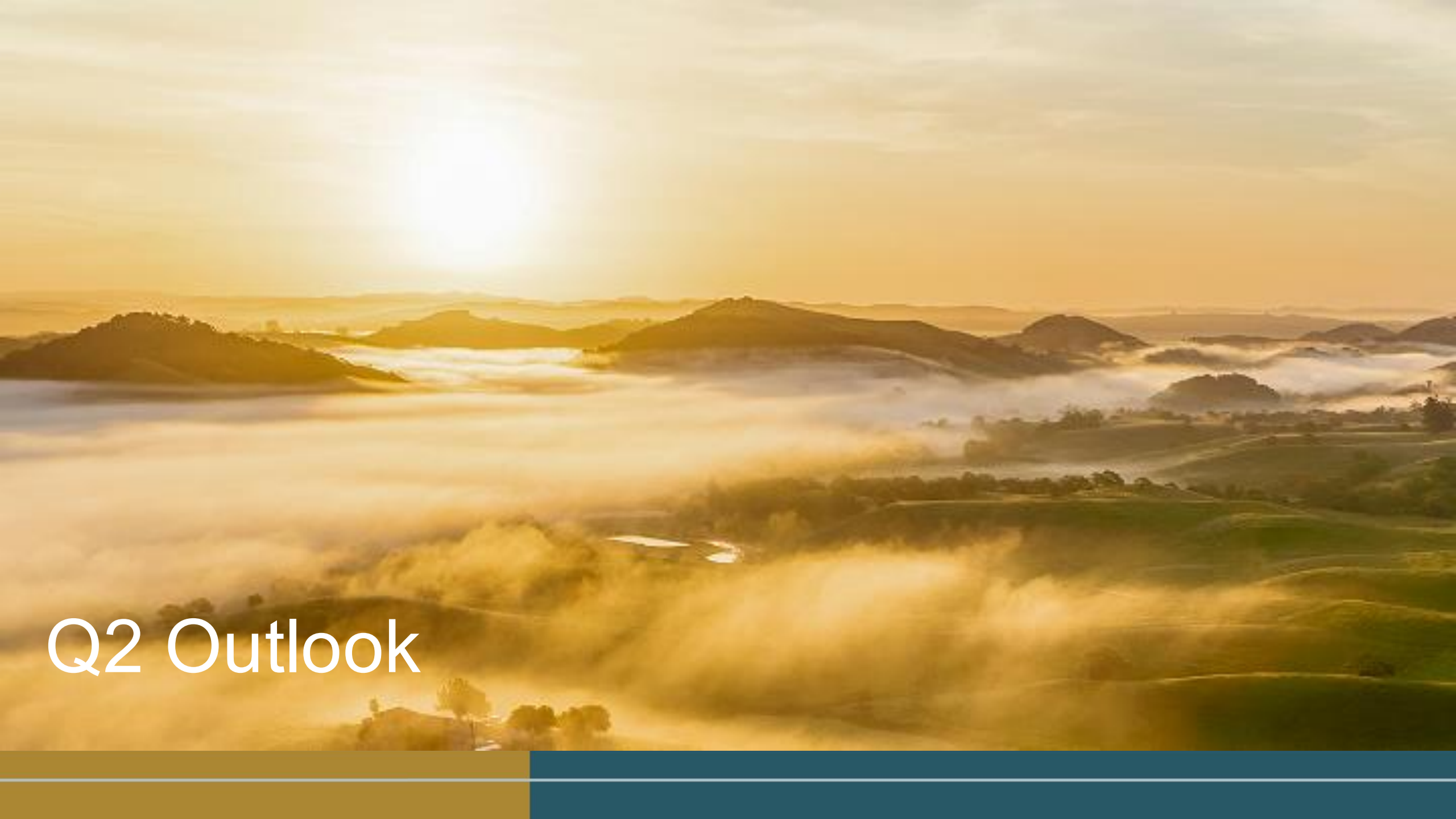
Relative Performance of Equal Weight S&P 500 after periods of concentration



Nasdaq 100 vs. S&P 500 Equal Weight: Year Before and After 3/24/00 Peak (% Change)



- When the top ten weights in the S&P 500 have historically made up an outsized share of the benchmark, the equal-weight S&P 500 outperforms its cap-weighted counterpart over the next five years.
- While the Magnificent 7 earnings growth continues to exceed those of the broader market, the rest of the market is catching up, with the gap between them narrowing.



Q2 Outlook

Trump 1.0 vs Trump 2.0

Q2 Outlook

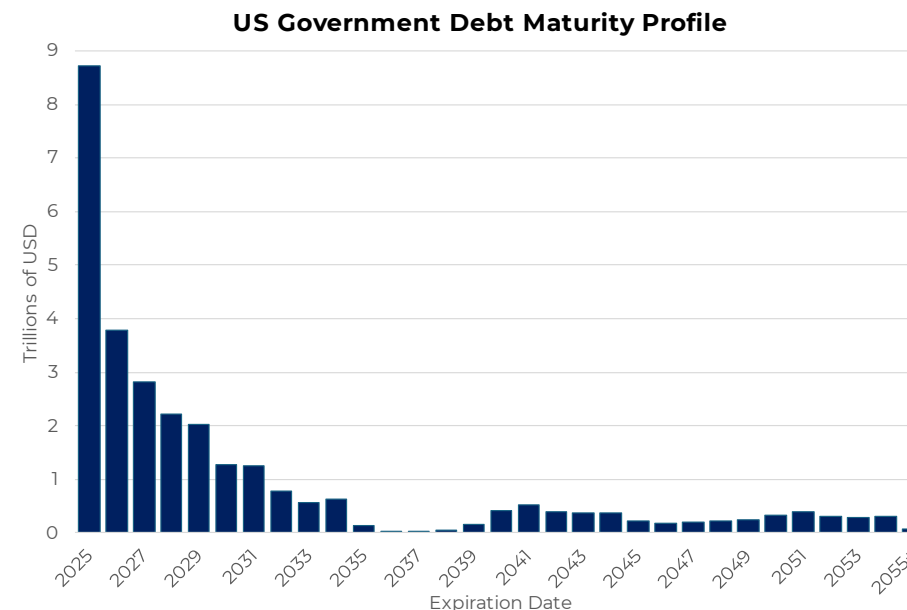
The Most Important Price

As the US prepares to refinance \$9.2 Trillion of debt in 2025, the Treasury Department is focused on a lower 10-year treasury yield to refinance debt at lower levels and term out treasury debt over time

One Plus One Doesn't Equal Two

In a change of pace from his first term, Trump has reiterated focus on the importance of a lower ten-year treasury rather than the stock market

The US bond market uncovered the “Trump Put”, seen mainly in the long-end of the treasury curve and credit spreads



S&P 500 % Change Since Taking Office: Trump 1.0 vs. Trump 2.0



*As of 4/9/25

Trump's Tariff Timeline

Q2 Outlook



Campaign Trail

While campaigning, Donald Trump says “10-20% tariffs on foreign countries that have been ripping us off for years”

Tariff Announcement Planned

President Trump announces April 2nd will be the day he unveils the tariffs to be enacted. Around this time, the market was pricing in a ~10% tariff across the board

Liberation Day

Markets completely underestimated the size and scope of the tariffs announced, investors are blindsided by the extent of the plan as well as the math behind the calculations

Critics question the delivery method of the tariffs, as President Trump used a large physical poster during his speech

Post-Liberation Day

Markets slip the next open, and weakness remained until Trump was forced to blink after the bond market began selling off and spreads widened

Communication from the White House has been poor and digested badly by markets and caused heightened volatility

President Trump later announces a 90-day pause and exemptions in specific situations. Markets rise as a result

Source: Goldman Sachs: “Lowering our S&P 500 EPS and valuation forecasts as the “Maleficent 7” pushes the index to the brink of correction”

Liberation Day: By the Numbers

Q2 Outlook

- Leading up to Liberation Day on April 2nd, Trump had enacted tariffs equating to about a 10% effective tariff rate, mainly targeting countries such as China, Canada, and Mexico
- In a highly telegraphed event, the White House **shook** the markets with the surprise of proposing ~\$470B of reciprocal tariffs or ~25% effective tariff rate
- Typically markets look for a calming voice from The Federal Reserve or the White House in times like this, but this time there was no solace from either

Trump's Rose Garden "Reciprocal Tariffs" Percentages					
Country	"Tariffs Charged to the U.S."	"U.S. Discounted Reciprocal Tariffs"	Country	"Tariffs Charged to the U.S."	"U.S. Discounted Reciprocal Tariffs"
Lesotho	99%	50%	Nigeria	27%	14%
Cambodia	97%	49%	Dem. Rep. Congo	22%	11%
Laos	95%	48%	Cameroon	22%	11%
Madagascar	93%	47%	United Kingdom	10%	10%
Vietnam	90%	46%	Brazil	10%	10%
Sri Lanka	88%	44%	Singapore	10%	10%
Myanmar (Burma)	88%	44%	Chile	10%	10%
Mauritius	80%	40%	Australia	10%	10%
Iraq	78%	39%	Turkey	10%	10%
Guyana	76%	38%	Colombia	10%	10%
Bangladesh	74%	37%	Peru	10%	10%
Serbia	74%	37%	Costa Rica	17%	10%
Botswana	74%	37%	Dominican Rep.	10%	10%
Liechtenstein	73%	37%	UAE	10%	10%
Thailand	72%	36%	New Zealand	20%	10%
Bosnia and Herzegovina	70%	35%	Argentina	10%	10%
China	67%	34%	Ecuador	12%	10%
North Macedonia	65%	33%	Guatemala	10%	10%
Taiwan	64%	32%	Honduras	10%	10%
Indonesia	64%	32%	Egypt	10%	10%
Fiji	63%	32%	Saudi Arabia	10%	10%
Angola	63%	32%	El Salvador	10%	10%
Switzerland	61%	31%	Trinidad and Tobago	12%	10%
Moldova	61%	31%	Morocco	10%	10%
South Africa	60%	30%	Oman	10%	10%
Algeria	59%	30%	Uruguay	10%	10%
Pakistan	58%	29%	Bahamas	10%	10%
Tunisia	55%	28%	Ukraine	10%	10%
Kazakhstan	54%	27%	Bahrain	10%	10%
India	52%	26%	Qatar	10%	10%
South Korea	50%	25%	Iceland	10%	10%
Japan	46%	24%	Haiti	10%	10%
Malaysia	47%	24%	Bolivia	20%	10%
Brunei	47%	24%	Panama	10%	10%
Côte d'Ivoire	41%	21%	Ethiopia	10%	10%
Namibia	42%	21%	Ghana	17%	10%
European Union	39%	20%	Jamaica	10%	10%
Jordan	40%	20%	Paraguay	10%	10%
Nicaragua	36%	18%	Lebanon	10%	10%
Israel	33%	17%	Georgia	10%	10%
Philippines	34%	17%	Senegal	10%	10%
Zambia	33%	17%	Azerbaijan	10%	10%
Mozambique	31%	16%	Uganda	20%	10%
Norway	30%	15%	Albania	10%	10%
Venezuela	29%	15%	Armenia	10%	10%



April Market Shocks

Q2 Outlook



April 1st – Market Close on April 2nd

Markets priced in a ~10% tariff across the board, and had no real reason to panic

After Close on April 2nd

President Trump announces a sweeping tariff plan that far exceeded expectations

April 4th

China announces a retaliatory tariff of 34%

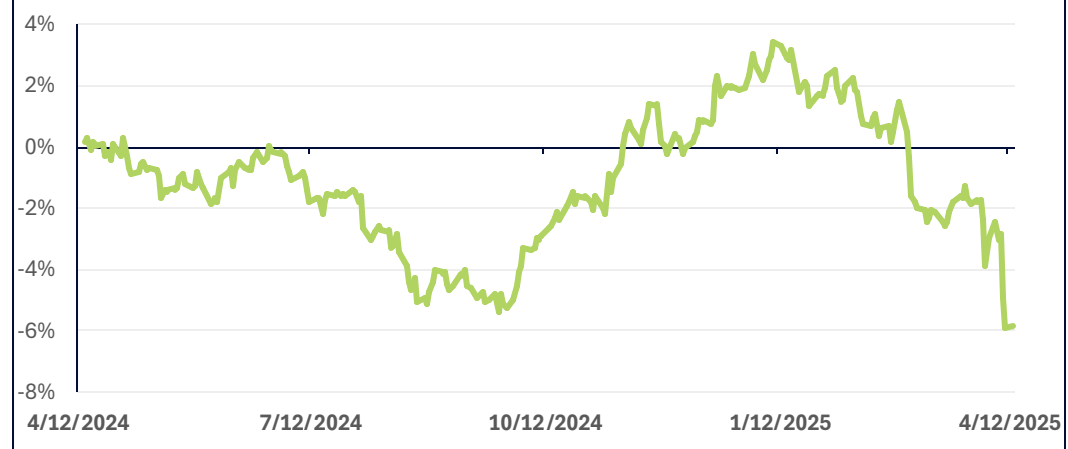
April 8th

Markets jump, then lose steam

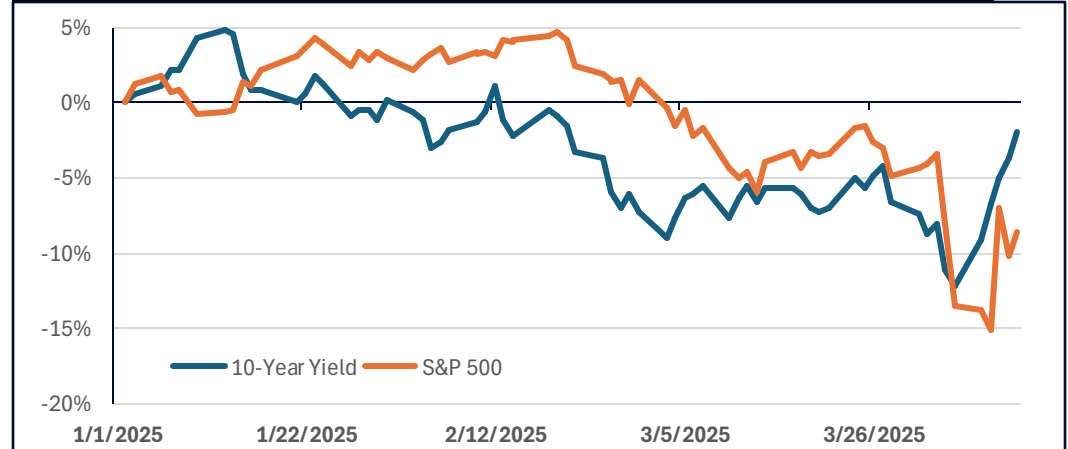
April 9th

President Trump announces a 90-day pause on tariffs as well as reducing reciprocal tariffs to a 10% baseline for 60 countries. The S&P 500 has its 9th largest single-day % change in history

1Y Relative (%) Change in US Dollar Index



YTD Relative (%) Change in US Gov't 10 Year Yield and S&P 500

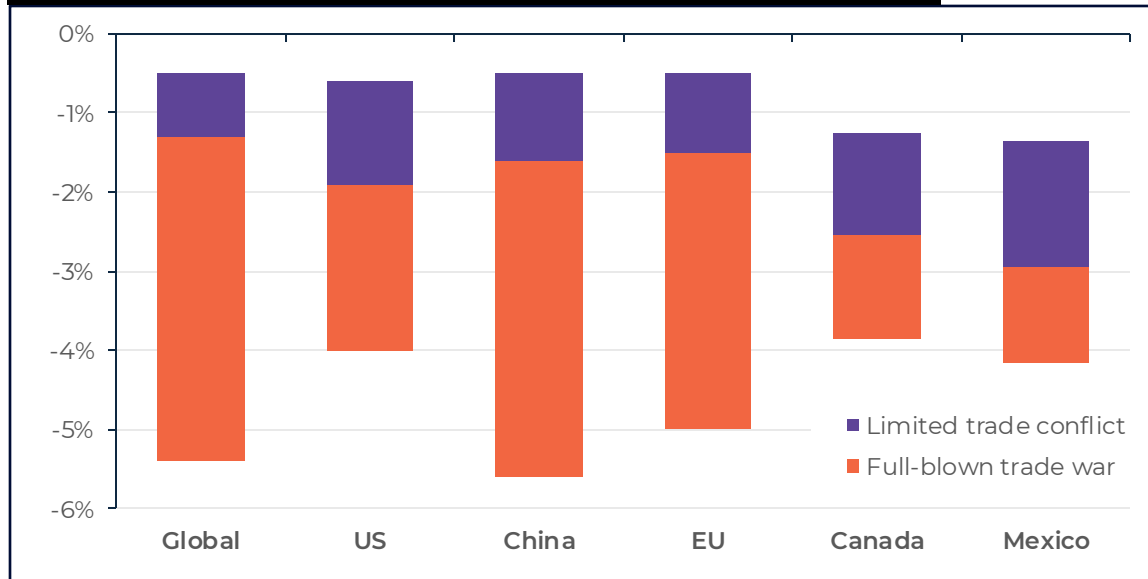


Stagflation

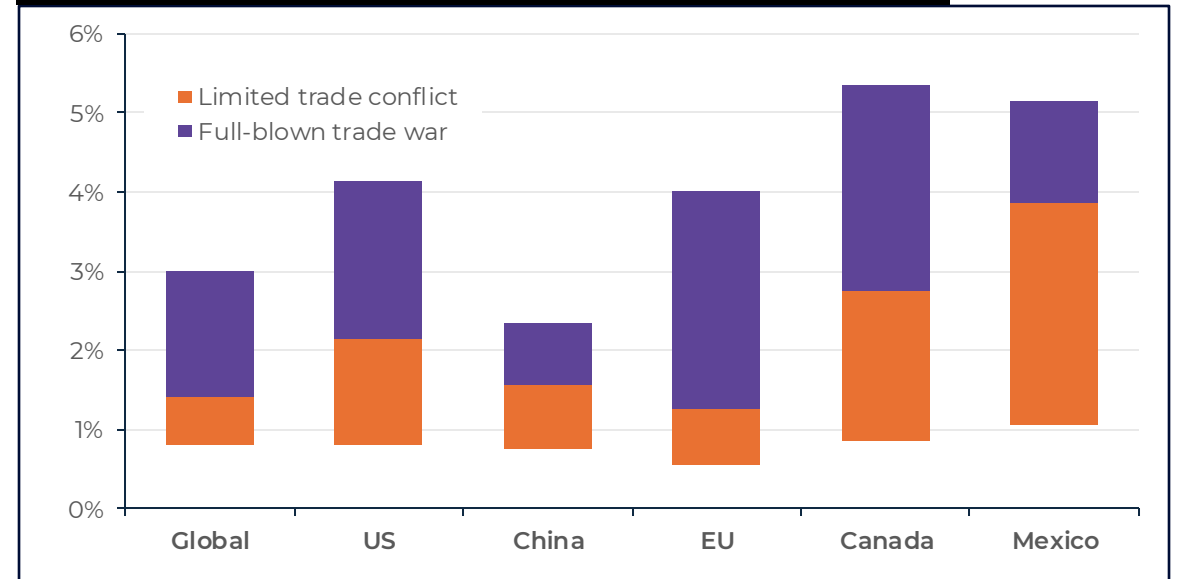
Q2 Outlook



Tariff Impact on GDP vs. Baseline Scenarios



Tariff Impact on CPI vs. Baseline Scenarios



- Sustained high tariffs could disrupt supply chains, drive up prices, and weigh on both U.S. businesses and consumers, ultimately dragging down economic growth
- The last major period of Stagflation in the US was during the 1970's, which resulted due to a function of skyrocketing oil prices, a GDP slowdown, and inflation that was invertedly worsened by the government's response to the crisis
- If the tariffs remain at their existing levels, Stagflation is a real possibility the US could have to face

Correlations Up, Markets Down

Q2 Outlook



Rising Correlations

- Markets in stress typically see correlations converge across asset classes
- Since the start of March, correlations between major asset classes have increased, making it harder to properly diversify during turbulent markets

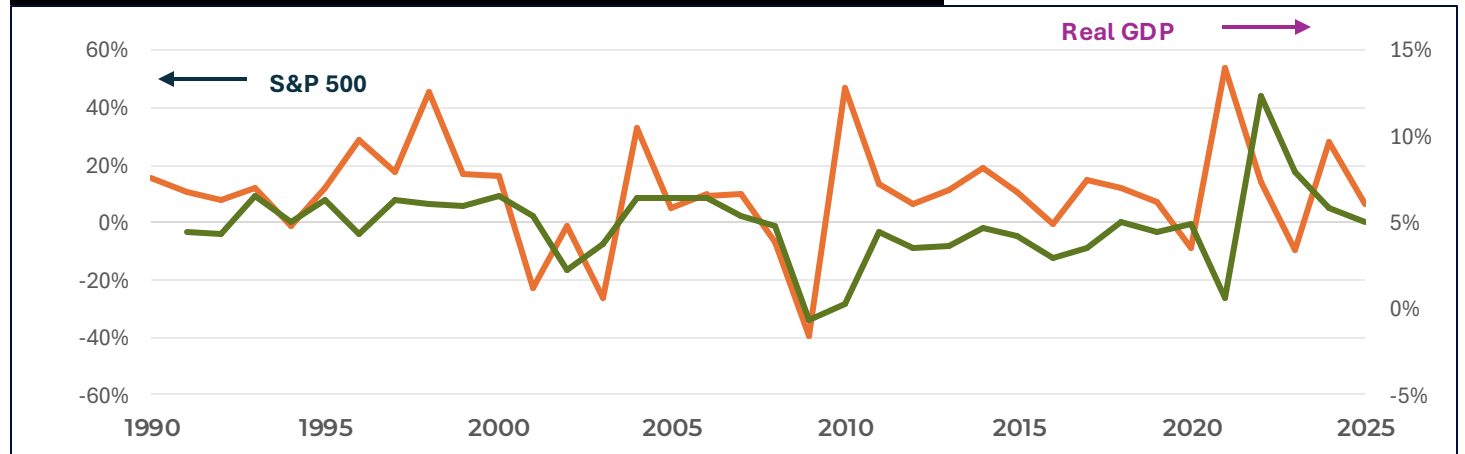
Markets in Step with GDP

- While the administration has expressed their focus on “Main Street” instead of “Wall Street”, the stock market is often highly correlated to the health of the economy and economic growth, especially when large moves occur

Correlations of Various Assets to the S&P 500

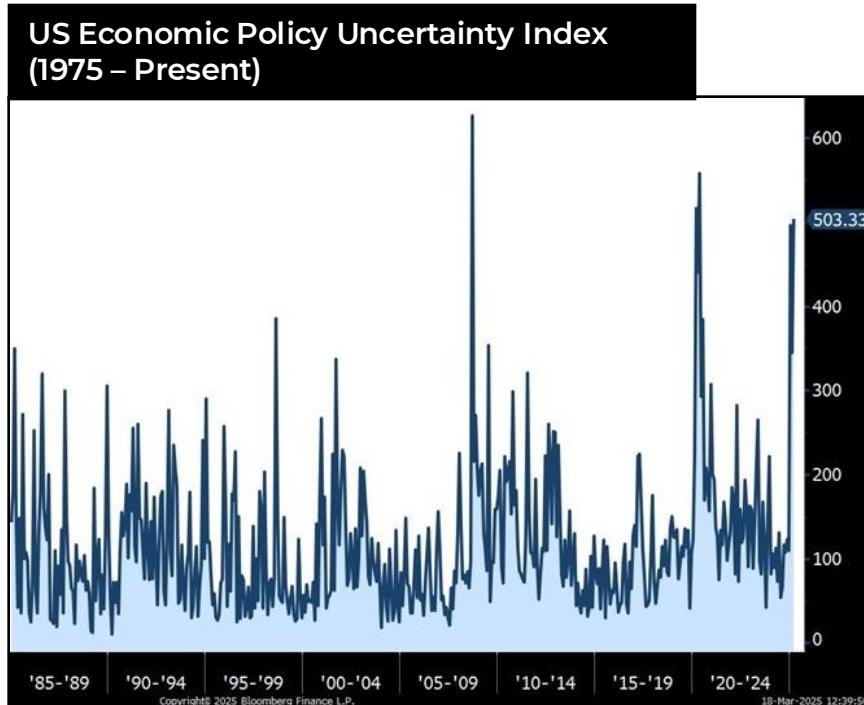


S&P 500 vs. US Real GDP Growth (YoY%)

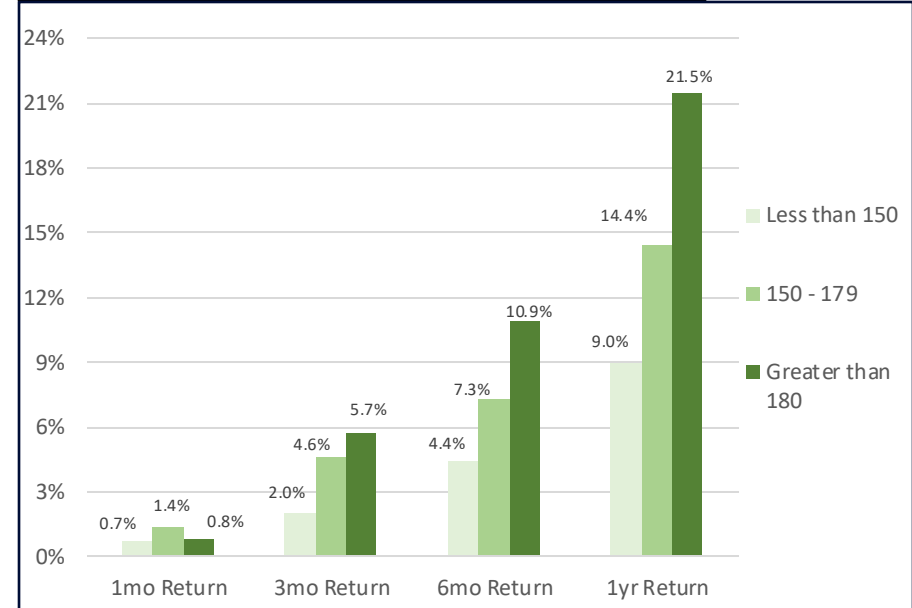


Peak Uncertainty

Q2 Outlook



Avg. S&P 500 Returns Following US Policy Uncertainty Spikes (1985 – Feb. 2025)



- Driven by on-again, off-again tariffs, US policy uncertainty is close to levels last seen in the Great Financial Crisis
- Going back to 1985, periods of uncertainty have historically been followed by strong stock market returns, presuming the US does not go into recession
- At the same time, prolonged uncertainty makes it hard for businesses and consumers to make decisions regarding spending. The longer it remains, the worse the impact could be

Four Prices

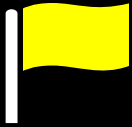
Q2 Outlook



The U.S. Dollar, credit spreads, absolute level of yields, slope of the yield curve, and crude oil serve as tactical indicators.

These indicators have been shifting into negative territory.

United States Dollar



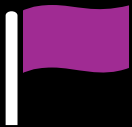
The USD has weakened as outflows from the US continue on the back of uncertainty. A weaker USD supports domestic industry and imports, however the dollar is falling for the wrong reasons

Credit Spreads



While spreads have widened, they remain historically low and have been tame amongst the volatility

Yields



The bond market has seen a major sell off with the 10-year yield increasing ~50bps in a matter of days. Higher rates mean higher funding costs for businesses and the housing market, which could create resistance

Crude Oil



Driven lower by recession fears, crude oil prices are at a one year low. Lower crude oil prices could translate to lower input prices for businesses and the consumer

Implications

Q2 Outlook



We expect concessions to exceed retaliation and the ultimate effective tariff rate to be closer to 15% rather than 25%, potentially serving as an eventual relief tailwind to risk assets.

A Potential Collapse In Confidence Leading To Slower Growth Is A Primary Concern

Consumer spending has remained strong despite sentiment surveys suggesting otherwise. If this reverses, we will see it through credit card spending, job postings and openings, and weekly jobless claims data.

Strategists Across The Street Are Raising Their Recession Odds

While these rates have been proposed as the ceiling for where tariffs could go, if they remain in place, there will be consequences for the growth outlook in the US economy.

The Economic Impact Of These Tariffs Remains Unclear If They Are Here To Stay

Downstream effects of a supply chain disruption this large scale have an unknown future effect on inflation. Experts have proposed tariffs will be a one-time shift to upward to inflation, as either US consumers or companies will absorb price increases from tariffs.

Congress Front-Loading The Tax Bill Could Help To Offset The Tariffs

Appealing the tariffs in court is a low probability outcome considering the method of rollout by the Trump administration. We are watching for congress to potentially move the timeline for the tax bill up, which could support some of the fallout from tariffs.

Gauging the Next Move

Q2 Outlook



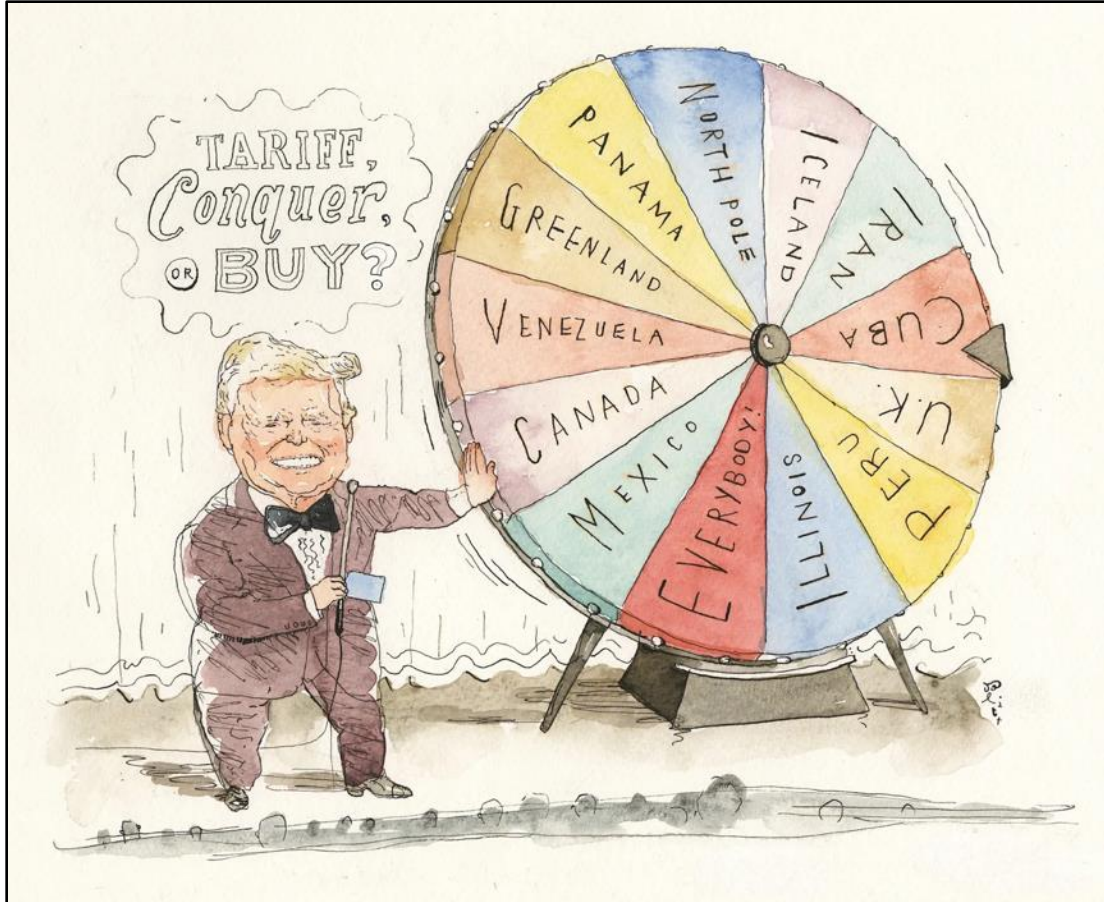
What We are Watching

- **Where Total Effective Tariffs Land** – currently around ~25% total, anticipating a move down to the 10-15% range when chaos subsides
- **How Tariffs Will Be Digested** – consumer sentiment, profit margins, long-run inflation expectations, and supply chain disruptions are key indicators of response
- **Impact on Earnings** – economic data and earnings revisions for 2025 and beyond and the multiple the market will be willing to pay

Source: Yahoo Finance “The US's effective tariff rate keeps changing. But estimates still put it at the highest level in over 100 years.”

What's Next?

Q2 Outlook



Source: Barry Blitt, The New Yorker

After an eventful first 85 days in office, one thing has become clear: ***uncertainty now dominates the outlook***. Markets had anticipated a more measured approach to trade policy and were caught off guard by a more aggressive tariff stance followed by immediate reversals.

As we enter Q2, expectations for growth likely require a reset. The sharp market moves in early April revealed how misaligned investor assumptions were with the evolving policy direction. Defensive sector rotation and broader de-risking suggest this adjustment is already underway.

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