Quarterly Outlook Report

Spring 2025

UNIVERSITY of WASHINGTON
INVESTMENT GROUP

Prepared by The Portfolio Management Committee

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University of Washington Investment Group
PM Quarterly Outlook Report – Spring 2025
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UWIG

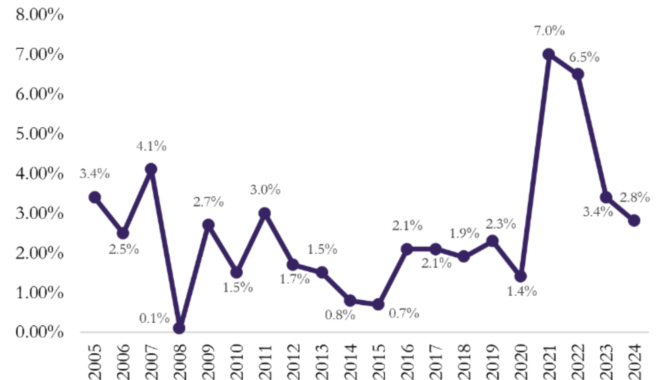
1) Market Overview

Inflation

CPI, or the Consumer Price Index, tracks consumers' average price change for a basket of goods. This metric is crucial to understanding market trends and consumer purchasing power. CPI is generally tracked over one-year intervals, as this helps examine market conditions through a macro perspective. The CPI equated to 2.4% over the 12 months ending March 2025.

[1] Compared to the 3.2% seen over the 12 months ending in February 2024, we can see slow improvements consistent with the Fed's target inflation rate of 2% over the long term. These changes were primarily driven by monetary policy adjustments: the Fed aggressively raised interest rates during 2022, followed by more gradual rate hikes in 2023 to fight inflation.[2] Raised interest rates were considered as a delayed action based on the state of the economy and changes in it that have already occurred. While it took time for these policy changes to be realized and lower the growth of the inflation rate, it didn't reduce the price levels.

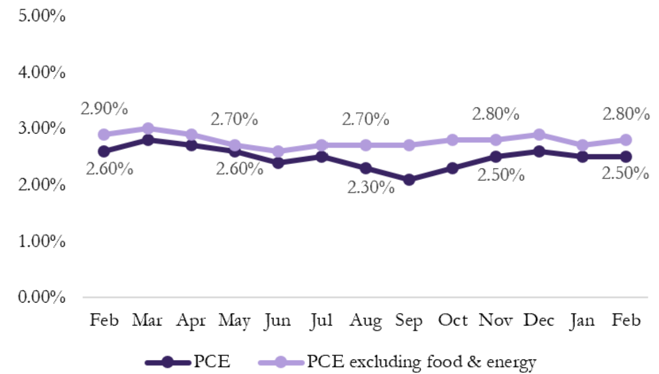
Figure 1: Historical CPI Percentage Change



Source: US Bureau of Labor Statistics

Core Inflation, which is the CPI less food and energy, is also an important metric. The FED prefers examining core inflation and basing decisions primarily on this metric due to the volatility of food and energy as commodities. Despite Core Inflation for the 12-month ending in March 2025 being higher than the CPI at 2.8%, it should be noted that Core Inflation is also down compared to the 12-month ending for February 2024 (3.8%). Primary drivers for this annualized decline include a 5.3% decline in airfare and a 3.5% decline in the cost of lodging away from home. Within a shorter-term timeframe, CPI increased 0.3% month-over-month, up from 0.2% in February 2025. This actual figure was in line with economists' expectations. However, the year-over-year Core Inflation

Figure 2: Percent Change in PCE, TTM monthly basis ('24-'25)



Source: US Bureau of Economic Analysis

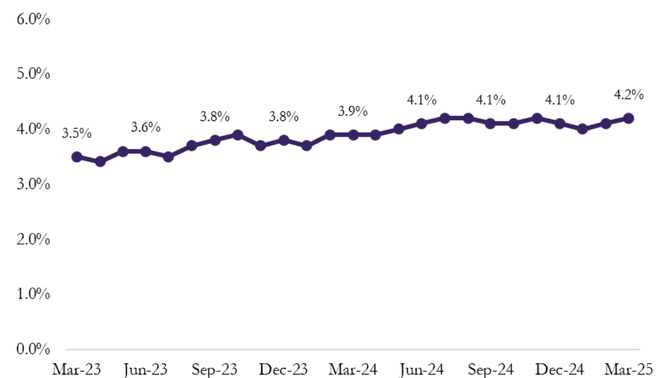
The PCE, or Personal Consumption Expenditures index, measures changes in consumer spending on goods and services. The PCE measured 0.3% in February and 0.4% in January, excluding food and energy. These increases were primarily driven by huge expenditures on nondurable goods and financial and insurance services.[3]

Unemployment

The unemployment rate measures the share of the jobless labor force and actively seeking work. The Fed monitors unemployment, another key indicator of an economy's health. The Fed carries the dual mandate of promoting maximum employment while maintaining price stability.

The unemployment rate in January 2025 was 4%, and it rose to 4.1% in February before rising again to 4.2% in March 2025. Overall, no noteworthy changes in the unemployment rate have occurred, as it has fluctuated between 4% and 4.2% since May 2024.

Figure 3: Historical Unemployment Rate, Seasonally Adjusted



Source: US Bureau of Labor Statistics

Economic Growth

US GDP measures the value of all goods and services the US produces in a given period, usually a year. US GDP has grown at a consistent rate over the past three years. For the year ended December 2022, US GDP increased 2.5%. For the year ended 2023, US GDP increased 2.9%. As of the most recent GDP data, the 2024 US GDP has been confirmed at 2.8%, while the 2025 US GDP is forecasted to be 2.7%.[4] Most of the US GDP growth rate over the most recent quarter has been driven by real estate rental and leasing, followed closely by professional, scientific, and technical services.

Similarly, the World's GDP measures the value of all goods and services produced worldwide. For the year ended 2020, the World's GDP fell 2.9%, largely due to the coronavirus outbreak. The year 2021 saw the World's GDP rebound 6.4%. The year 2022 saw an increase of 3.2%, while the year 2023 saw an increase of 2.8%.[5]

Examining the US GDP as a percentage of the world GDP allows us to evaluate the strength of the US economy. The historical average US GDP as a percentage of the World GDP has been 28.72%. In recent years, the US economy has fallen short of this number. In 2020, the US accounted for only 24.90% of World GDP and dropped even lower to 24.20% in 2021. However, a reversal seems likely, as 2022 saw US GDP account for 25.55% of World GDP, and 26.11% in 2023.

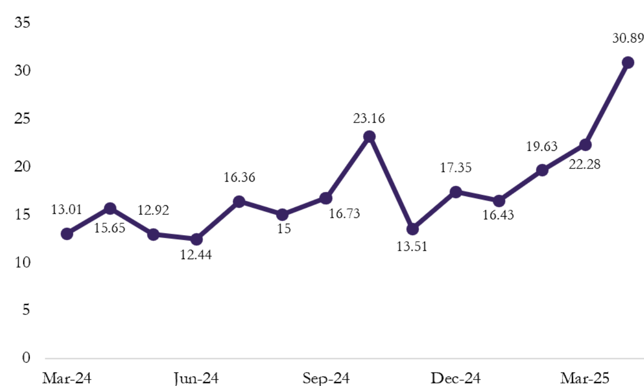
Remarks from the Fed

The Fed has faced significant challenges stemming from post-pandemic inflation, primarily beginning in 2021. This sparked the Fed's rate hike campaign in 2022. These inflationary headwinds have only recently started to see improvements. On April 4th, 2025, Chairman of the Fed Powell said explicitly that tariffs enacted by the Trump administration will likely increase both inflation and unemployment, posing a unique challenge to the Fed's dual mandate and threatening to undo progress made on the inflation front up to this point. Powell said that tariffs are "larger than expected," and that tariffs could "[elevate] risks of both higher unemployment and higher inflation." Given these challenges, the Fed announced its decision to wait for more data on the tariff's impacts on the economy before making decisions regarding changes to interest rates.[6] This decision follows recent history, as in both January[7] and March 2025[8], the Fed decided to maintain interest rates after cutting them 25 basis points in November 2024[9], followed by another 25 basis point cut in December 2024.[10]

Economy Overview

The economy currently faces significant negative sentiment from institutional and retail investors. JP Morgan estimates a 60% risk of the United States falling into economic recession in 2025.[11] Goldman Sachs estimates a 35% risk.[12] This is self-evident in the market, as volatility has been extremely high. The VIX, or CBOE's Volatility Index, is currently trading at $37.56, nearly double its 50-day moving average of $20 per share. Comparatively, the VIX peaked at just under $80/share during the 2008 financial crisis and peaked again at roughly $65/share during the coronavirus outbreak. Considerable market volatility is primarily driven by Trump's tariff announcement on Friday, 4/4. Additionally, CNN's Fear and Greed index, which historically tracks investor sentiment at any given time based on a number from 0 to 100 (0 meaning most fearful, and 100 meaning most greedy), currently rates investor sentiment in the market at 13, which indicates that extreme fear is driving the market.[13]

Figure 4: CBOE Volatility Index (VIX)



Source: Google Finance

In summary, recent tariffs announced by the Trump administration are the primary drivers of current market volatility and will likely continue to cause volatility. Retail and institutional investors remain uncertain about the market. Despite this, inflation and unemployment seem healthy currently and throughout recent timeframes.

2) Tariffs

Tariffs are taxes that a country places on imported goods from other nations. While they primarily function as barriers to international trade, they can also serve as a source of government revenue.[14] Additionally, tariffs function as a political tool, enabling governments to pressure foreign countries during trade negotiations or political disputes. Their imposition typically results in higher prices and reduced availability of foreign goods and services for local businesses and consumers, simultaneously creating economic strain for foreign exporters.

How Tariffs Impact the Economy and Consumers

Tariffs negatively impact several parties within international trade. Businesses that import goods face direct costs, as they pay the tariff fee to their government, which reduces their profit margins. To combat this, businesses respond by ceasing imports or relocating factories and production plants to countries with lower or no tariffs, thereby disrupting existing trade relationships.[15]

This disruption significantly affects businesses in exporting countries due to reduced demand, potentially leading to slower GDP growth and unemployment. Firms in both importing and exporting nations may raise product prices to mitigate decreased margins.[16] Consequently, these increased costs flow to consumers, resulting in inflation, diminished purchasing power, and lower discretionary spending. Reduced consumer spending can lead to slower overall economic growth and higher unemployment rates.

On the positive side, tariffs can benefit certain parties involved in international trade. Tariffs disrupt global value chains by increasing imported goods' costs, leading companies to reconsider where they source materials or manufacture goods. Companies may shift production to countries unaffected by tariffs to avoid added costs. As a result, new countries can emerge as attractive alternative markets or production hubs when tariffs are imposed elsewhere. This realignment can reshape trade routes, investment flows, and supply chain strategies. Additionally, tariffs protect domestic industries against foreign competition by making imported goods more expensive, encouraging consumers to buy domestically produced products.[17] Governments benefit from increased revenue collected through tariffs, which can be utilized to fund public projects, infrastructure, and other services. Additionally, by reducing dependence on imported goods, tariffs can encourage innovation and growth in domestic industries, potentially strengthening the country's overall economic resilience.

Historical Tariffs and Their Impacts

Historical tariffs have significantly impacted both the economy and trade dynamics in the United States. The first tariff established by Congress was the Tariff Act of 1789, aimed at promoting trade and generating federal revenue. Alexander Hamilton supported this act, believing it would protect American manufacturers from foreign competition and foster long-term industrial growth. Indeed, tariffs proved crucial during the 19th century, providing up to 90% of federal government revenue in certain years.[18] By the early 1900s, the adoption of income tax and the industrial expansion of the late 1800s meant the tariff was no longer needed as a source of government revenue or as protection against foreign competition.[19]

Another significant tariff legislation was the Smoot-Hawley Tariff Act of 1930, which dramatically increased duties on around 20,000 imported goods by an average of 40-60%.[20] The primary intent was to protect American farmers who faced hardship following World War I due to renewed European competition and plummeting agricultural prices. Smoot-Hawley notably raised the average tariff on dutiable imports from 40% to 47%, reaching approximately 60% by 1932 due to Depression-era deflation. President Herbert Hoover signed this controversial act into law on June 17, 1930, despite strong opposition from economists who warned of potential negative consequences.[21]

The immediate international backlash was severe, with nine countries retaliating by imposing tariffs on U.S. exports: Canada's response notably damaged U.S. export revenues significantly. This sparked a global trade war, exacerbating the Great Depression. As a result, U.S. exports to retaliating nations dropped approximately 28-32%, and imports from those countries decreased by 15-23%. A 2003 Federal Reserve Bank of New York study estimated that the Smoot-Hawley tariffs alone caused a 2% reduction in U.S. economic output by 1932. Additionally, the tariffs heightened productive inefficiencies, inflating input costs for manufacturers dependent on imported materials, which accounted for a 15-25% decline in productivity during the Depression. Overall, the Smoot-Hawley Tariff Act contributed significantly to a 10% decrease in GDP.[22]

These historical tariffs offer a valuable context for understanding the motivation behind Trump's tariffs. While the Smoot-Hawley Tariff was intended to protect domestic industries during the Great Depression, the act led to retaliatory tariffs from trading partners. It

contributed to a collapse in global trade. Similarly, Trump's tariffs mark a return to this protectionist ideology to shield domestic industries, address America's trade imbalances, and reassert US leverage in international negotiations. However, these have also prompted retaliatory actions, disrupting global supply chains and increasing costs for U.S. businesses and consumers.

Looking at these historical patterns, we see the potentially recurring themes of short-term protection leading to long-term global consequences, including reduced competitiveness, retaliatory trade barriers, and market inefficiencies. Therefore, history suggests that while Trump's tariffs may bring targeted relief or bargaining power, they also carry risks of broader economic fallout, just as seen in the past.

Currency Exchange Rates and Their Impacts on Trade and the Economy

Currency exchange rates significantly impact trade and the broader economy. As of April 8, 2025, the EUR/USD exchange rate is 1.0978,[23] marking the euro's strongest position in six months since October 2024. This strength in the euro is primarily due to the weakening dollar, driven by concerns of a U.S. economic slowdown and inflationary pressures from recent tariffs.[24] Additionally, Europe's growth expectations have been buoyed by significant fiscal stimulus measures, such as Germany's €500 billion infrastructure investment package and relaxed debt rules, enhancing overall economic optimism within the EU.[25]

The USD/CNY exchange rate reached 7.3312 on April 8, 2025, its highest level since 2022,[26] and analysts predict it will remain at this elevated level throughout the current quarter, potentially reaching 7.37 by year-end.[27] The rise is attributed mainly to U.S. tariff pressures, including a baseline 10% tariff on all imports and additional duties totaling 54% on Chinese goods. These tariffs are prompting increased capital outflows from China, worsening the yuan's depreciation.

These currency fluctuations notably affect international trade. A stronger euro increases the cost of U.S. goods by approximately 11% in European markets, placing sectors like aerospace and pharmaceuticals under heightened competitive pressure from European manufacturers such as Airbus. Furthermore, escalating tensions have prompted the EU to announce plans to implement retaliatory tariffs of 25% on U.S. exports,[28] intensifying the trade conflict and further impacting bilateral economic relations.

This growing economic friction underscores the broader impact of currency rates on global trade. As exchange rates shift, they alter the relative pricing of goods and influence trade policy responses, supply chain decisions, and cross-border competitiveness. The strength of a nation's currency becomes a key determinant in shaping both its export performance and its exposure to foreign retaliation in a tense global trade environment.

Currency strength significantly impacts U.S. trade relationships and various industries. A strong dollar increases purchasing power, effectively lowering the dollar cost of imported goods. This benefits U.S. consumers and businesses reliant on imports, especially those importing raw materials like steel and electronics, as it can help reduce domestic prices. Additionally, a strong dollar typically helps lower and stabilize inflation rates. However, it also has drawbacks, notably making U.S. goods more expensive abroad, which hampers competitiveness and reduces the attractiveness of American products in international markets.

Conversely, a weak dollar reduces purchasing power domestically, resulting in higher import prices. This negatively affects U.S. businesses that are dependent on imported raw materials, potentially increasing costs for businesses and consumers. On the positive side, a weaker dollar makes U.S. exports more affordable in foreign markets, boosting demand and potentially increasing export-driven economic growth.

Trump Tariffs and Their Consequences on the Economy

President Trump believes that his tariffs will address the "national emergency posed by the large and persistent trade deficit" and the "mistreatment" of the United States by other nations on trade grounds.[29] In February 2025, a 10% baseline tariff was imposed on Chinese goods, but that rate was soon increased by 20% in March. In the same month, 25% tariffs were imposed on Canada and Mexico and on automobiles, steel, and aluminum imports. On April 2nd, 2025, Trump announced "reciprocal" tariffs (ranging from 11-50%) aimed at "hitting back" at those countries that ran trade surpluses with the US.[30] As of April 9th, 2025, a 90-day pause has been put on the reciprocal tariffs on most nations, excluding China, which has been hit with a dramatic 145% tariff, and Canada and Mexico, whose tariffs remained unchanged at 25%. The pause was implemented after "over 75 countries contacted representatives of the United States" to negotiate trade solutions rather than imposing retaliatory tariffs.

Some reports estimate Trump's tariffs will reduce the US GDP by 0.7% before accounting for foreign retaliation, while the Budget Lab at Yale suggests a more severe GDP growth reduction of 0.9% in 2025. They also calculated that the tariffs have raised consumer prices by 2.3% in the short run, equivalent to an average household cost of $3,800 annually. Lower-income households face annual losses of approximately $1,700.[31] Consumer confidence also fell to its lowest level in 12 years.[32]

As the tariffs have only recently been announced and are now put on hold, most consumers won't immediately see price increases due to existing inventory and the "on-the-water clause" exempting goods already in transit. According to Richmond Federal Reserve President Tom Barkin, higher prices will likely appear by June as companies exhaust their 30-60 days of pre-tariff inventory. Certain perishable goods might see price increases within the next month or two. Food prices from Mexican imports (which account for 60% of U.S. vegetable consumption) will likely increase first. In contrast, automotive price effects may take longer as companies have built up inventory and implemented temporary price protections.[33]

President Trump has indicated that a "major tariff on pharmaceuticals" will be announced "very shortly," though specific rates and implementation timelines have not yet been provided.

Trump has overlooked the driving force behind the US's GDP: services. Services comprise around 70-80% of the US GDP, with the goods-producing sectors accounting for the remainder.[34] While discussions on trade often emphasize the trade deficit for goods, it's essential to recognize the substantial contribution of services exports. In 2024, the U.S. achieved a services trade surplus of $295 billion, driven by exports in financial services, software, and media sectors. This surplus not only offsets a portion of the goods trade deficit but also highlights the global competitiveness of U.S. service industries.[35] For context, the U.S. exports more services than any other nation, yet tariffs do not address this strength.[36] Instead, they risk inflating costs for goods-reliant industries (e.g., automotive, electronics) without meaningfully addressing the trade balance, as services already offset 16.5% of the goods deficit.

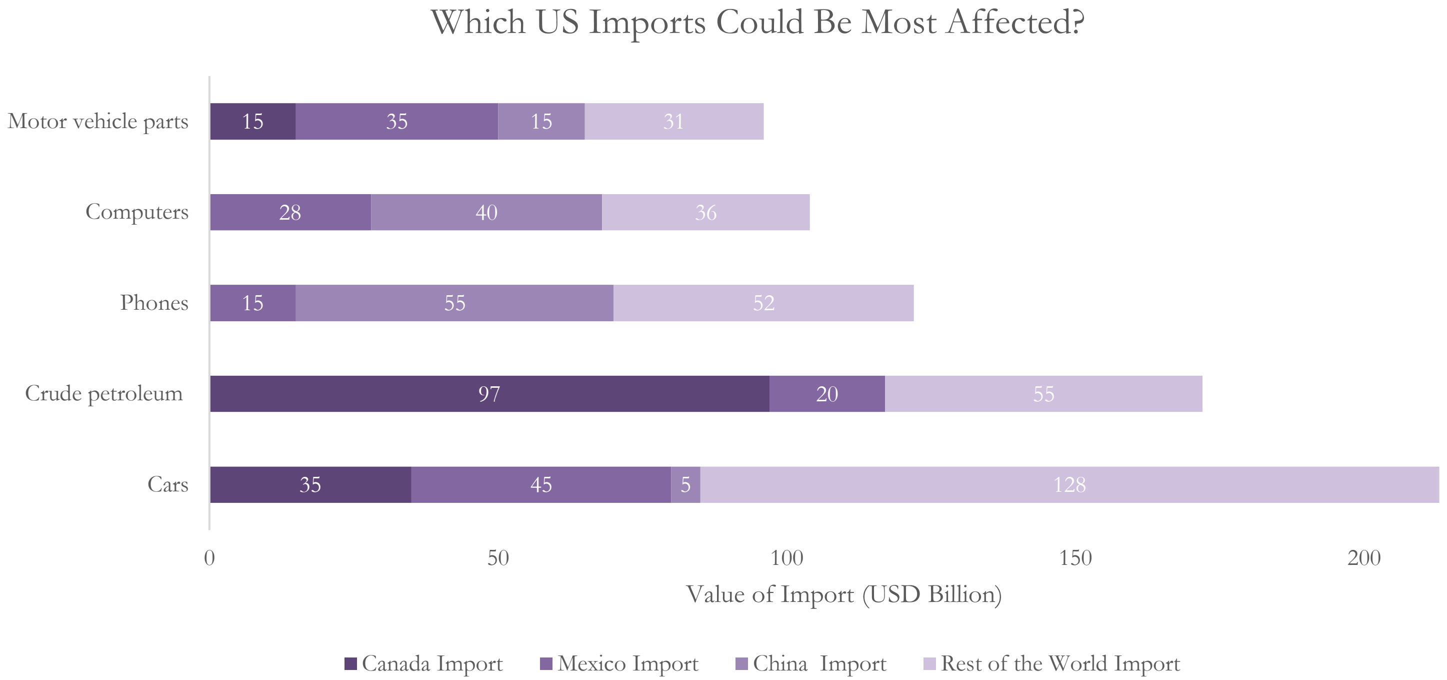
Lastly, JP Morgan estimates that the chances of a recession are now 60%, up from 40% due to the tariffs.[37] The Yale Budget Lab estimates that the U.S. economy will be persistently 0.6% smaller in the long run, equivalent to $180 billion annually in 2024 dollars. Markets anticipate the Federal Reserve will need to reduce interest rates by approximately 200 basis points this year, beginning with a reduction in June, to counteract economic damage.[38] The April 2 announcement alone is projected to raise $1.4 trillion over 2026-35 when conventionally scored, though $366 billion less when dynamic revenue effects are considered.

Companies Most Likely to Be Affected by the Tariffs as Per U.S. Imports and Exports

1. Cars: Toyota, Honda, Volkswagen, Magna, Aptiv
2. Consumer electronics and technology: Apple, Best Buy, Walmart, Dell, HP, Target
3. Energy: Chevron, ExxonMobil
4. Pharmaceuticals: Pfizer, Moderna, Johnson & Johnson

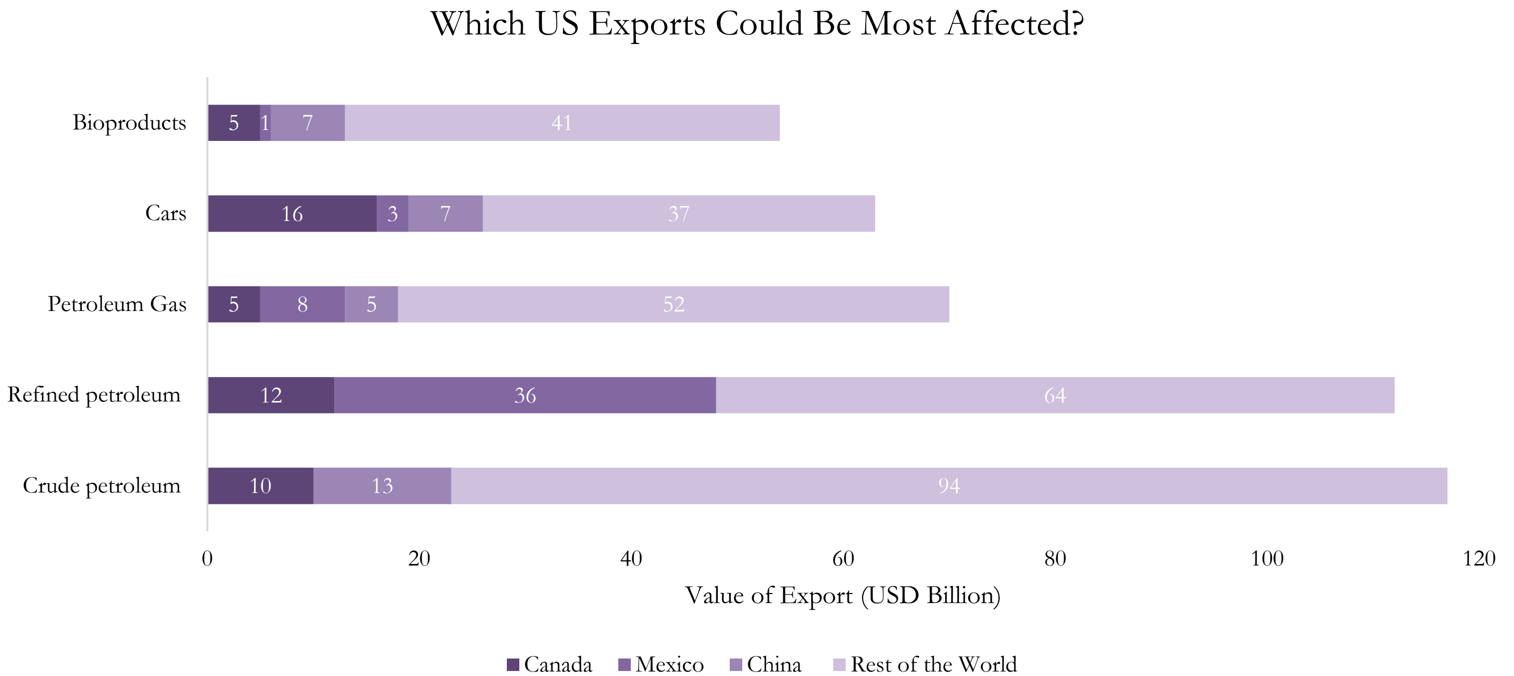
Consequences on Industries and Countries Involved

Figure 5: Top 5 US import products by origin country, 2023



Source: UN Comtrade

Figure 6: Top 5 US export products by destination country, 2023



Source: UN Comtrade

Impacts on Major Trade Partners of the U.S.

China faces severe economic consequences as the primary target of U.S. tariffs, with combined tariffs reaching 145% on exports to the United States.[39] This measure will shrink China's economic output by approximately 0.2% in the long run.[40] In response, China has implemented retaliatory measures, placing 10-15% tariffs on critical U.S. exports, including coal, liquefied natural gas, crude oil, and agricultural machinery. Additionally, China has introduced export controls on essential minerals like tungsten, tellurium, molybdenum, bismuth, and indium, which are crucial for high-tech industries.[41]

Canada and Mexico will face significant tariff pressures in the coming months, with the U.S. imposing 25% tariffs on numerous goods. Canada's economy could experience a long-term contraction of 2.1% in real terms due to U.S. tariffs and Canadian retaliation.[42] Notably, Canada operates 156 automotive supply production sites across 19 U.S. states, now directly impacted by these tariffs. Mexico's automotive industry also faces considerable pressure, although paradoxically, its economy might slightly expand in the long run despite these measures. The tariffs imposed on both nations are subject to monthly negotiations, adding uncertainty to trade relations. Honda Canada and Toyota Canada have indicated they will maintain their current production levels and actively collaborate with partners and government bodies to mitigate immediate and long-term impacts.[43]

The European Union, subject to potential reciprocal tariffs of 20%, might experience a modest long-term economic growth of around 0.1%, potentially due to trade diversion.[44] However, the EU prepares retaliatory measures if negotiations with the U.S. fail. Ursula von der Leyen, President of the EU Commission, warned of severe global repercussions. Recent developments show potential improvement in relations, with discussions resuming between China and the EU on electric vehicle supply chains. Additionally, the EU is pursuing a free-trade agreement (FTA) with India, emphasizing the urgency following U.S. tariff announcements. The EU and Mexico recently revamped their trade agreement, significantly reducing tariffs on agri-food exports, marking an effort to bolster bilateral trade amid global tariff uncertainties.[45]

Several Asian nations also face notable tariff impacts. Vietnam, Laos, and Cambodia are confronting unprecedented tariffs ranging between 46% and 49%, significantly affecting their machinery, electronics, and textile exports to the U.S. Similarly, Japan and South Korea face tariffs of 24% and 25%, respectively, creating substantial barriers for their exports to the U.S.

Impact on Specific Industries

The automotive sector faces substantial challenges due to recently implemented tariffs. On April 3, 2025, a 25% tariff was introduced on automobiles and auto parts, significantly impacting the highly integrated North American supply chain, where components frequently cross borders multiple times during production. Car parts, for example, may cross the U.S.-Canada border up to eight times before final assembly, incurring duties with each crossing. Reliant on global sourcing for rare materials, electric vehicle manufacturers face increased production costs, likely resulting in substantially higher consumer prices.[46]

The steel and aluminum industries are similarly affected, with 25% tariffs applied to all imports. Domestic prices have surged sharply in anticipation of these tariffs. Historically, similar tariffs imposed during the Trump administration reduced steel imports by an average of 24% from 2018 to 2021.[47] Increased costs for steel and aluminum significantly impact downstream industries, including construction and beverage manufacturing.

Semiconductor supply chains may experience significant disruptions in technology and electronics, potentially causing dramatic price increases for consumer electronics. Proposed tariffs on Taiwanese semiconductors, potentially matching Taiwan's general 32% tariff rate, have alarmed industry stakeholders.[48] In response, companies like Cisco Systems and HP Inc. are actively exploring strategies to mitigate impacts, such as diversifying supply chains and employing tariff engineering.

Treasury Notes

U.S. Government debt has been subject to quite capricious changes in the past few weeks, with most yields spiking as investors seek to offload U.S. bonds. While our portfolio isn't directly invested in specific bonds (except through some holdings in money-market funds), the yields determine our government's borrowing costs, directly impacting U.S. equities. When borrowing costs increase, general investment decreases, which lowers economic growth and activity across the board. At Thursday's last auction of U.S. debt, the 30-Year Bond sold at a yield of 4.813%, a three-month high. Foreign investors purchased 61.9% of the $22 billion supply, roughly 5.4% less than average. However, direct bidders (usually pension funds and insurance companies) purchase 25.8% of the supply, which is 7.7% higher than average.[49] Some speculate that the decreased demand came from foreign investors who were not buying bonds in response to the

trade war, which would raise rates. Another theory is the unwinding of basis trades, which comes from futures contracts and swaps that attempt to exploit price differences in fixed-income instruments,[50] but the exact reason is still unclear.

Impact of Tariffs on UWIG's Current Holdings

Toyota Motor Corporation faces considerable vulnerabilities due to auto imports and reciprocal tariffs from Japan. The upcoming tariff on auto parts, scheduled for implementation in May, further complicates operations, particularly affecting Toyota's vehicles assembled in the US. Toyota initially aims to reduce costs to maintain operational stability before increasing consumer prices.[51] Moreover, Toyota's exposure is heightened as its vehicles are assembled in countries heavily impacted by tariffs, such as Japan, Mexico, Austria, and Canada.[52]

Best Buy Co. Inc. is significantly exposed to tariff pressures, as approximately 55% of its sales originate from China and roughly 20% from Mexico, affecting around 75% of its product offerings currently affected by tariffs.[53] The company projects a 1-percentage-point decline in comparable sales, with impacts expected from the second through the fourth quarters of FY25. Coupled with declining consumer discretionary spending and consumer confidence, this tariff environment compounds the challenge of reversing the company's three-year sales slump.[54] Best Buy has not yet announced pricing adjustments, but the overall impact is projected to be negative.

Micron Technology Inc. experienced nearly a 6% decline in stock value on April 4 following tariff announcements. The company is particularly vulnerable due to significant supply chain operations located in heavily tariffed countries like Vietnam (46%), Cambodia (49%), and Indonesia (32%). Declining NAND prices, pressure on profit margins, and weaknesses within the automotive and mobile segments intensify this vulnerability. Increased inventory levels are also a concern, negatively impacting cash flow and operational efficiency. Despite year-over-year growth in DRAM sales, sequential sales declines raise concerns about demand sustainability, particularly in memory products used in AI computing platforms.[55]

Target Corporation faces vulnerability primarily in discretionary product categories such as clothing and electronics, which aligns with the declining consumer confidence observed since February. Despite tariff pressures, Target anticipates a modest net sales growth of 1% in 2025, potentially boosted by seasonal consumer spending during Easter and warmer months. Reports indicate that Target, Walmart, and Costco are encouraging Chinese suppliers to absorb some tariff-related costs, thereby attempting to mitigate direct pricing impacts on consumers.[56]

Cisco Systems Inc. has proactively managed its tariff exposure, reducing dependence on Chinese-made goods by 80%. The company operates nine global manufacturing sites, three logistics hubs, and four dual-purpose manufacturing and repair facilities, strategically diversifying its production beyond China, including significant investments in India. Cisco's management emphasizes supply chain adjustments over price increases to mitigate the effects of a 25% tariff on steel and aluminum imports. Despite tariff-related challenges, Cisco anticipates slightly improved revenues and adjusted gross margins in FY2025, projecting earnings per share (EPS) between $3.68 and $3.74.[57]

Hewlett-Packard Enterprise Company (HPE) faces tariff exposure predominantly in components and finished products. Aligning with broader industry trends, HPE will likely pursue supply chain diversification, mirroring HP Inc.'s strategy to manufacture 90% of North American products outside China by the end of the year.[58] Selective price increases are anticipated; however, as a primarily business-to-business entity, HPE faces unique contractual constraints compared to consumer-focused companies. Tariffs could also pressure enterprise technology firms' R&D budgets, potentially affecting long-term innovation and competitiveness.

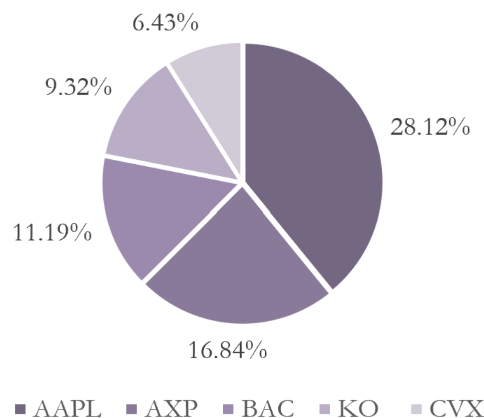
AbbVie Inc. appears least vulnerable among the holdings discussed, as pharmaceutical products have been exempted from reciprocal tariffs, temporarily boosting its stock by around 2%.[59] However, future uncertainties persist, with US officials indicating potential sector-specific tariffs targeting pharmaceuticals. Analysts highlight AbbVie's significant overseas manufacturing operations, which create potential vulnerabilities for future tariff adjustments. Additionally, tariffs on essential raw materials like organic chemicals and glassware used in drug production could increase manufacturing costs, further complicating AbbVie's strategic outlook.

3) Institutional Investor Position Changes

Warren Buffett (Berkshire Hathaway)

Berkshire sold $134 billion worth of stocks in 2024, bringing their cash position to $334 billion by the end of the year, making up almost a third of their entire AUM of $1.1 trillion.[60] In Q4 2024, Berkshire bought shares in six companies: Occidental Petroleum, Verisign, Domino's Pizza, Pool Corp., Sirius XM, and Constellation Brands. At the same time, the company significantly reduced its holdings in big banks, decreasing its stake in Bank of America from 13% to 8.9%.[61] This marks nine consecutive quarters of net stock sales, with the largest reduction being Apple - Berkshire shed 70% of its holdings in the company across the first three quarters of 2024. Much of the divested capital was reallocated into highly liquid short-term Treasury bills in the first half of 2024 when valuations were elevated, and T-bills were yielding 4.31% (now at 4.01%).[62]

Figure 7: Weightings of Berkshire Hathaway's Top Holdings



Source: Berkshire Hathaway 13F Filing (Dec.2014)

Despite this defensive strategy, Buffett reiterated in his 2024 shareholder letter that Berkshire "will never prefer ownership of cash-equivalent assets over the ownership of good businesses," emphasizing the long-term risks of paper money and fixed-coupon bonds amid fiscal mismanagement. Buffett also stated his intention to increase investment in five Japanese trading companies - Mitsubishi Corp, Mitsui & Co, Itochu Corp, Sumitomo Corp, and Marubeni Corp - which have agreed to waive a 10% ownership cap for Berkshire. He plans to hold these positions for decades.[63]

"Each of the five companies increases dividends when appropriate, repurchases their shares when it is sensible to do so, and top managers are far less aggressive in their compensation programs than their U.S. counterparts." - Buffett's Annual Shareholders' Letter.

Even after paring down exposure to U.S. banks, Berkshire remains heavily weighted in financials via Bank of America and American Express. The firm is also overweight energy (Chevron and Occidental comprise 11% of the portfolio compared to 3% in the S&P 500) and consumer staples (notably Coca-Cola). It is underweight in healthcare, communication services, and consumer discretionary. It's worth noting that many of Berkshire's investments are wholly owned businesses not disclosed in 13F filings, which can skew our understanding of the company's diversification and exposure in different sectors.[64]

Bill Ackman (Pershing Square Capital Management)

Bill Ackman has taken a very different approach. As of February 2025, his top holdings include Uber (15.6% of the portfolio), Alphabet (13.8%), and Brookfield Corporation (13.7%).[65] His most significant purchases in December 2024 were Nike, Brookfield, and Seaport Entertainment, while the biggest sales were Hilton and Chipotle.[66] Specifically, Ackman boosted his Nike position by 15% and trimmed Chipotle by 14%.[67] He has expressed confidence that Donald Trump may delay tariffs to "make deals," and has maintained a crypto-friendly stance, noting that crypto markets have shown resilience relative to U.S. equities.[68] As of April 11th, tariffs have indeed been paused for 90 days.

Unlike Berkshire, Pershing Square lowered its cash holdings in 2024, allocating more capital toward select large-cap names, particularly Uber, in early 2025. Ackman's portfolio is highly concentrated and leans heavily into consumer discretionary (Nike, Chipotle) and financials (Brookfield). It is underweighted in technology (only Alphabet), healthcare, energy, industrials, consumer staples, & utilities [70]

Jamie Dimon (JPMorgan Chase)

In his 2024 shareholder letter, Jamie Dimon presented a measured outlook marked by caution and adaptability.[69] He warned that persistent fiscal deficits combined with tariff-induced uncertainties will likely keep inflation and interest rates high, creating short-term market headwinds and a challenging economic landscape. He emphasized that Trump's presidency and tariffs could dampen consumer and investor confidence, potentially leading to a recession. Unlike Buffett's confidence in long-term ownership of "good businesses" or Ackman's concentrated bets in consumer and financial sectors, Dimon stressed the need for proactive risk management. He underscored JPMorgan's commitment to maintaining its "fortress" balance sheet while recalibrating exposure.

For investors, Dimon's strategy implies that while groundbreaking technologies can drive future growth, it is equally critical to hedge against sudden economic shocks. This reinforces the importance of a diversified portfolio and maintaining robust balance sheets even in bullish times.

BlackRock

BlackRock, the world's largest asset manager with $11.55 trillion in AUM as of Q4 2024, is far more diversified than Ackman's fund. Its top holdings include Apple (5.69%), Nvidia (5.13%), Microsoft (4.91%), Amazon (3.06%), and Meta (1.95%).[70] The firm's top buys and sells of 2024 are seen in Figure 8 below. We observe that the firm has doubled down on big-name tech and lightened its exposure to healthcare and energy. Notably, its cash reserves have tripled since March 2023.[71]

Figure 8: Top Buys and Sells for BlackRock in 2024

BlackRock 13F Filing 12/31/2024[72]	
Top 5 Buys	Top 5 Sells
Tesla (NASDAQ: TSLA)	UnitedHealth Group (NYSE: UNH)
Amazon (NASDAQ: AMZN)	Coca-Cola (NYSE: KO)
Broadcom (NASDAQ: AVGO)	Exxon Mobil (NYSE: XOM)
Nvidia (NASDAQ: NVDA)	Elevance Health (NYSE: ELV)
Apple (NASDAQ: AAPL)	Thermo Fisher Scientific (NYSE: TMO)

Over the past 12 months, BlackRock outperformed the S&P 500 by 6.67%, though it's down 19% year-to-date versus the S&P 500's 13% drawdown.[73] Historically, BlackRock tends to outperform in bull markets and underperform in bear markets, reflecting its higher volatility relative to the index. Regarding asset allocation, BlackRock favors a "risk-on" approach, overweighting U.S. equities (particularly large-cap growth stocks) over international markets, and highlighting assets with a fixed supply, such as gold and bitcoin.[74]
For a more recent outlook, BlackRock's sentiment towards the market has noticeably soured, and paints a grimmer picture of the coming months and what's to come.

"We expected risk assets would remain under pressure until uncertainty starts to dissipate. But this week's developments suggest pressure could grow – and it is now less clear over how long or short a period policy uncertainty could cloud the outlook. We now expect a bigger growth drag and inflation boost."- BlackRock, April 4th, 2025.[75]

Management is still hopeful that U.S. equities will eventually be able to reclaim global leadership with respect to the global market, but this week's developments have forced them to shorten their tactical horizon to only three months and derisk themselves. They also believe that the assumption of 4-5 rate cuts this year is hopeful at best, and the increased likelihood of inflation is more likely to result in fewer cuts than the market is hoping for.

Blackstone

Blackstone, the largest alternative asset manager globally with $1.1 trillion in AUM,[76] has focused on the energy sector. Its top five holdings include Cheniere Energy Partners (CQP), Corebridge Financial (CRBG), FirstEnergy (FE), Energy Transfer (ET), and Excelerate Energy (EXE), with 4 of the top 5 in energy. In 2024, Blackstone's significant buys included Williams Companies (WMB), Enbridge (ENB), SPY Puts, TC Energy (TRP), and Kinetik Holdings (KNTK), while it sold positions in ET, Gates Industrial (GTES), LNG, Plains All American Pipeline (PAA), and QQQ Puts.[77] The purchase of SPY puts while selling QQQ puts suggests a potential hedge against its energy-heavy portfolio by expressing caution toward the broader market and adding exposure to tech.

Over the past year, Blackstone outperformed the S&P 500 by 0.88%. However, it is down 28% year-to-date, much more than the S&P 500's 13% drop.[78] While energy is often considered safer than growth sectors during volatile periods, BlackRock's growth-oriented portfolio has thus far outperformed Blackstone in 2025.

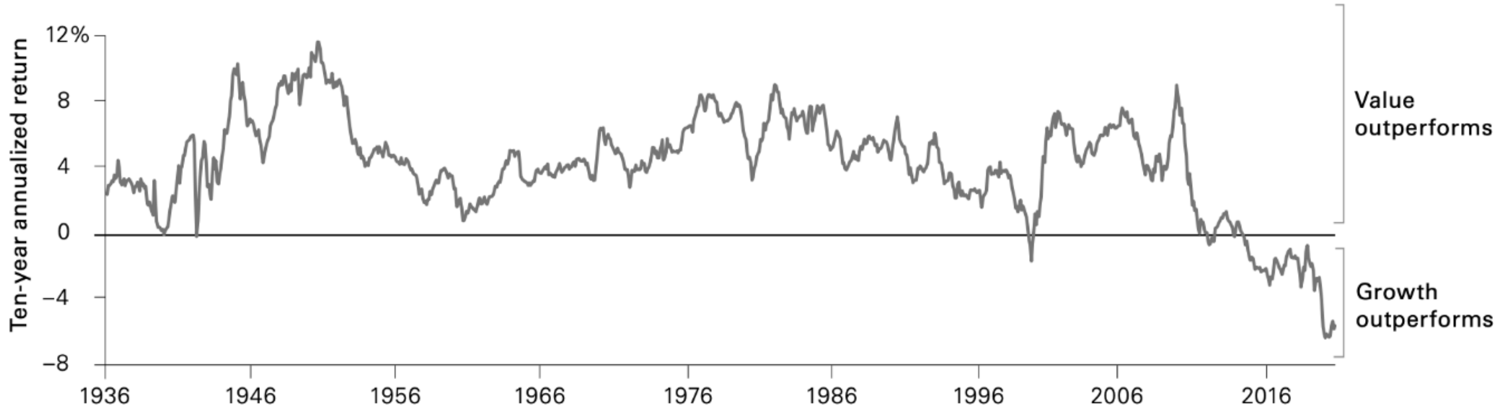
Consensus

Institutional investors are pursuing several differing strategies. Many are leaning cautious amidst economic uncertainty and tariff speculation. Still, several trends emerge - most are overweight technology and financials, while underweight healthcare. Opinions on energy differ; some are overweight (Berkshire, Blackstone), others are underweight (BlackRock, Pershing). This divergence underscores varying perspectives on market direction and risk management across firms.

4) Value Versus Growth Investing

Value investing has historically outperformed growth investing over long periods. Fama and French found that from 1975 to 1995, value stocks outperformed growth stocks in 12 of 13 developed countries, with a global return premium of 7.6% per year.[79] Similarly, since 1927, value has outperformed growth by an average of 4.4% annually.[80] Despite this long-term trend, the past decade has been an outlier - U.S. growth stocks have outperformed value stocks by an average of 7.8% annually, primarily driven by rapid innovation, low interest rates, and tech companies' dominance. However, from 1936 until recently, value outperformed growth nearly every 10-year trailing period, emphasizing its long-term resilience (Figure 6).[81] This is a good reminder that even though technology grows exponentially, factors such as innovation plateau, market saturation, and cyclical investor sentiment have historically played a role in restoring a balance between growth and value stocks. We can expect this trend to continue over the long term.

Figure 9: Historical 10-year annualized returns since 1936, Value vs. Growth

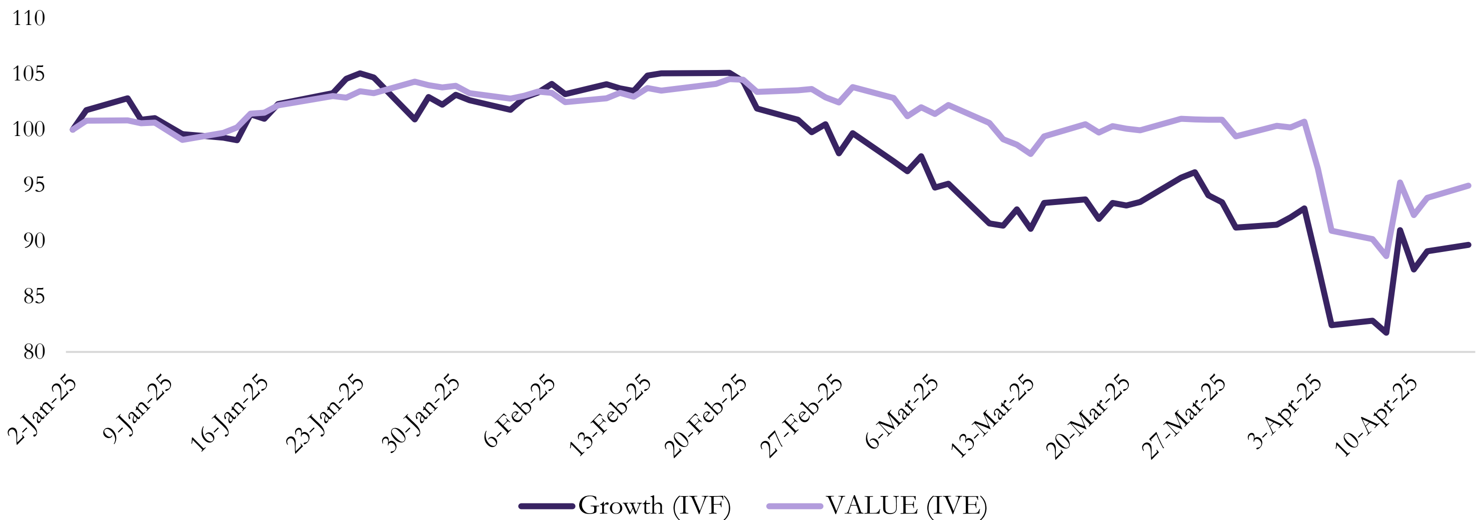


Source: Bank of Charles Town

Looking at specific decades, value investing excelled in the 2000s as markets corrected after the dot-com bubble and investors shifted toward more reliable, undervalued companies. In contrast, the 2010s were dominated by growth, with tech firms leading market gains. The 2020s remain uncertain. While value investing remains historically favored, recent performance has been mixed. Year-to-date, the Value Index is down 7%, while the Growth Index is down 20%, reflecting broader economic instability.[82]

In market stress, investors often favor value stocks due to their perceived stability and lower valuation multiples. This defensive behavior is currently visible, with institutional investors like Warren Buffett leaning into value-oriented strategies, including parking capital in high-quality, liquid assets like U.S. Treasury Bills while waiting for undervalued opportunities to emerge.

Figure 10: YTD Returns, Growth Index vs. Value Index



Source: Google Finance

5) Current Top-Performing Funds

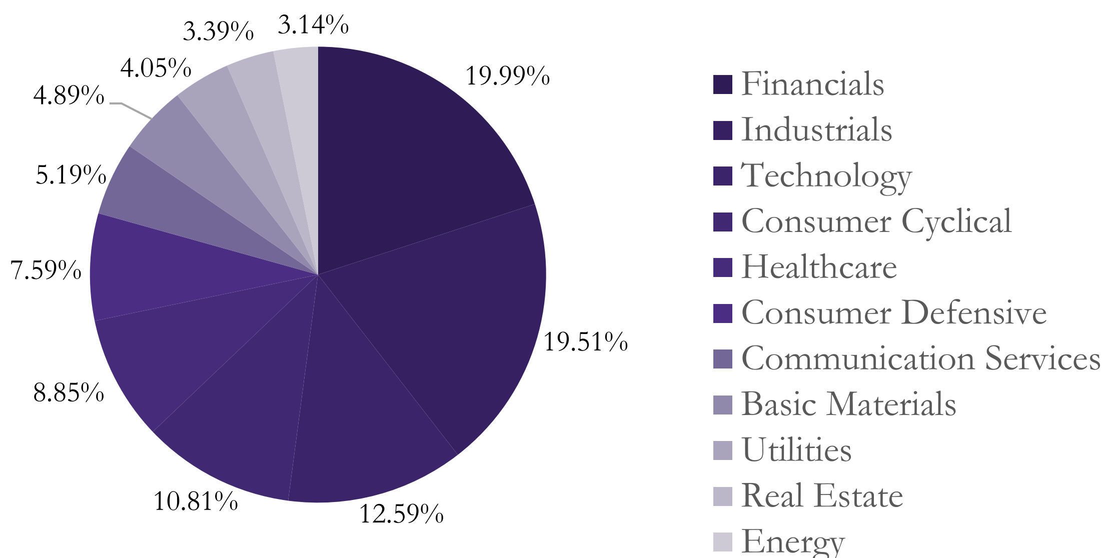
AQR's Style Premia Alternative Fund (QSPIX) (As of Mar 31st)

AQR's Style Premia Alternative Fund has managed to stay in the black despite the current market conditions. Boasting a YTD return of 6.5%, this fund employs four investment styles: Value, Momentum, Carry, and Defensive. While the fund invests in several different asset categories, it mainly comprises stocks, fixed income instruments, and currencies. This fund is significantly levered, with a whopping 10.21x gross exposure over all positions.[83]

The fund is managed by AQR Co-Founder Cliff Asness (PhD). Judging by recent tweets from his X page, he seems to lament the recent tariff policies implemented by the Trump Administration.

"Btw, the tariff insanity isn't insane because markets are going down. They could go up tomorrow and it would still be insane. It's insane because it's insane on its face." (@CliffordAsness)[84]

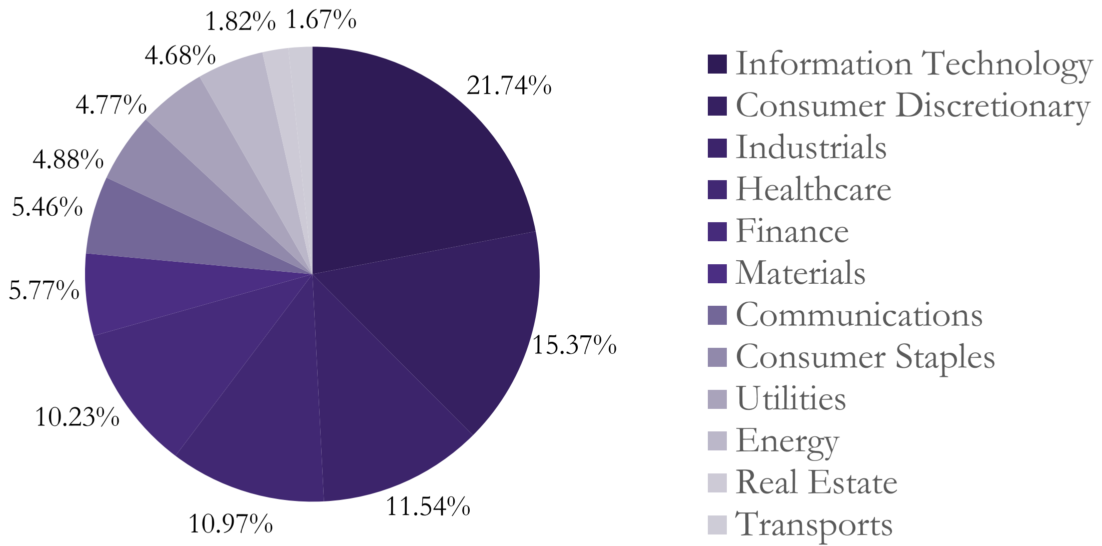
AQR 13F Filing 12/31/2024[85]	
Top Long Positions	Top Short Positions
Veeva Systems, Inc. (NYSE: VEEV)	Apollo Global Management, Inc (NYSE: APO)
Zoom Video Communications, Inc. (NASDAQ: ZOOM)	Boeing Co (NYSE: BA)
Lockheed Martin Corp. (NYSE: LMT)	Tesla, Inc. (NASDAQ: TSLA)
Walmart, Inc. (NYSE: WMT)	Southwest Airlines Co (NYSE: LUV)
AT&T, Inc. (NYSE: T)	EQT Corp (NYSE: EQT)



Engineers Gate's MF Domestic Fund (As of Dec. 31st)

Engineers Gate is a quantitative investment company that employs systematic trading strategies. Their master domestic fund has a current YTD return of 6.2%, with about $7.8 billion AUM. The domestic fund employs a systematic long-short strategy, investing in equities and other asset classes domiciled in the United States. The fund is closed to public investors, making leverage indeterminate. It also has slightly larger positions in the Industrials and Consumer Discretionary sectors.[86]

Engineers Gate 13F Filing 12/31/2024[87]	
Recent Purchases	Recent Sells
Invesco QQQ Trust, S (NASDAQ: QQQ) CVS Health Corp (NYSE: CVS) Booking Holdings Inc. (NASDAQ: BKNG) Uber Technologies Inc. (NYSE: UBER) Medtronic Plc (NYSE: MDT)	Costco Wholesale Corp (NASDAQ: COST) Micron Technology Inc. (NASDAQ: MU) Alphabet Inc. Class A (NASDAQ: GOOGL) Chevron Corp. (NYSE: CVX) Bristol-Myers Squibb Co (NYSE: BMY)



6) Portfolio Managers' Perspective

PM Analysts' Perspective

Looking forward, the road seems rocky at best. Volatility will define the next few months, as expectations for the future have become blurred. While this outlook may seem bleak, being correct and steadfast in our choices will pay off well.

We need to monitor companies from a sector-based perspective, as stocks within the same sector tend to be more correlated in response to tariffs and the broader macroeconomic landscape, at least for the next few months. By maintaining diversification across industries, we can cushion potential impacts from tariffs on specific areas such as Technology or Consumer Discretionary. It's also crucial to keep a close eye on treasury yields and the Federal Reserve, especially as other countries, especially from Asia, continue offloading a significant portion of U.S. debt securities, leading to a rate spike and making government borrowing more challenging. The most significant reversal of the tariff policies happened the next day after the substantial sell-off in the U.S. debt securities overnight, when Asian markets were open. The United States and China are also actively devaluing their currencies to make their goods and services more attractive to foreign investors and customers. In contrast, other currencies have strengthened over the last several months. To gain deeper insight into market sentiment, we should compare our investment ideas against the holdings of hedge funds, even if the data is slightly delayed. Reviewing 13F filings can offer valuable clues into which sectors are favored. When investing in specific sectors, the goal should be to outperform the industry rather than the broader market—our portfolios function as a team, and we don't need every stock to deliver outsized returns. Instead, our returns should be well-hedged and as uncorrelated as possible. With many equities in the red for the year, now may be a favorable time to explore discounted buying opportunities.

PM's Closing Remarks

With the recent macroeconomic events in the previous few months, there is a lot to consider when deciding what to do with the portfolios. Current market conditions present some challenges regarding market volatility, tariff impacts, and shifting investor sentiment, so understanding these issues is critical in establishing the portfolios' positioning for the months ahead.

Critical factors in this quarterly outlook and market assessment are various economic indicators that point out the economy's condition at one point. However, these economic indicators are often delayed relative to fundamental economic changes. Key metrics such as unemployment, interest rates, and the Consumer Price Index (CPI) usually develop for a few months following policy changes or significant economic shifts. With these lagging indicators in mind, it is essential to realize that there will be a delay in available information to review, requiring forward-looking analysis rather than reacting to current and published data. The effects of recent economic shifts are expected to become more apparent as economic reports are released over the upcoming months. As this information comes in, we can make a more solid decision on portfolio strategy when the time comes to rebalance the DA Davidson portfolio.

With the implementation of tariffs on numerous countries from which US companies import, there is an expectation of lasting effects throughout the economy. Rising prices for imported goods will diminish consumer purchasing power over time as companies pass off the import tax to the consumers. In addition, if inflation expectations increase, consumers will likely reduce their discretionary spending as they lose purchasing power. During the high inflation of the COVID-19 era, we experienced a phenomenon where consumer sentiment was negative. However, spending is mainly continued by exhausting savings and increasing debt balances. Rising inflation and exhausting purchasing power apply pressure to non-essential and luxury industries, as consumers begin to cut their spending habits to save money. It is essential to carry this knowledge into stock selection during rising inflation, as companies with high input costs and weak pricing power may see their margins and valuations decline over time.

Our deep analysis of the 13F filing reveals significant shifts in institutional investor portfolio positioning, offering valuable insight into how major market players adapt to the volatile economic environment. These filings highlight emerging sector trends and display the broader investor sentiment within the market and its risks. By integrating perspectives from industry professionals into our strategies, we can enhance our portfolio with more informed, forward-looking decisions.

Historical analysis consistently supports the argument that value investing strategies outperform growth investing strategies during economic uncertainty and increased market volatility. Historical trends support this pattern, which appears to be emerging again in our current economic environment. Usually, value stocks provide a margin of safety during volatile periods with their generally low price-to-earnings ratios and steady cash flow streams. As investors flee from the higher-risk growth stocks, they tend to flock towards the safer value stocks, rationalizing the outperformance we tend to see. With this in mind, a focused allocation to value-based securities is warranted to outperform growth stocks, given the current market conditions. As we have seen, some significant shifts have shifted from riskier assets to safer ones (spikes in treasury purchases by some investor groups). In a period of high uncertainty, value stocks could play a critical role in generating "Alpha" and maintaining better performance than the benchmark.

Following this trend of volatility in the market, there is no practical method to try to time market entry. Instead of trying to time the market and not knowing whether the market will go up or down, we have implemented a disciplined dollar cost averaging strategy for our Husky Traders portfolio. To deploy our available cash reserves, we will transition into the Vanguard S&P 500 ETF (VOO) through fixed amounts over incremental trade intervals. This approach allows us to reduce the impact of market timing mistakes as we spread out our entry points over time. Additionally, we capitalize on periods when the market declines and can have entry points at a relative discount.

We were once told that while you can't predict the unknown, you can position yourself by acting decisively on the information you do know. You cannot predict what you don't know, so act upon what you do know. We have considered this as the upcoming portfolio rebalancing presents a significant decision point for the portfolio managers and the organization. We may not know what tomorrow will bring to the markets; however, we can act upon the information we have gathered in this report on top of the skills and knowledge shared among our Executives and Analysts. With the potential timeframes of post-ICOMM decisions in June or at the end of summer in August, we must decide what to do with the DA Davidson portfolio when it comes time to rebalance. Major macroeconomic information and events will significantly influence our decision during this process. With the lagging indicators beginning to realize the effects of the current economic shifts, we will be better positioned to make rational and calculated decisions on our current portfolios. While making those decisions requires a lot of courage, confidence, and intellectual support, our fiduciary duty, as the Portfolio Management team, is to act in the club's best interest to perform our work at the highest quality to seek the best results while remaining vigilant and transparent with the members and investors on our gains and losses.

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