Adaptive Asset Program – Hybrid Program

First Quarter 2025 in Review

The highly valued US stock market was vulnerable to bad news. The threat of a trade war has provided the catalyst for the sell-off in the US stock market. Despite the potential for tariffs to cause higher short-term inflation, bond yields have fallen as investors expect a slowdown in the economy as well. US tech stocks have been hit the hardest while bonds, international stocks, and gold have risen.

Outlook:

“American exceptionalism” was the mantra used to justify high US stock prices. However, in recent weeks, Chinese companies have recently announced major advances in the fields of artificial intelligence and electric vehicles that undermine the preeminence of their US rivals. Europe has unveiled plans for massive defense spending that will bypass US suppliers in favor of European ones. After years of living in the shadow of the US, Chinese and European stock markets have risen sharply.

Trump’s trade war has injected uncertainty into the thinking of investors and businesses. Businesses operate in a competitive world and have spent decades optimizing their supply chains across the globe to provide the lowest cost goods to consumers. Reversing this, while justified for critically important goods, is a delicate operation that will take time. Attempting to do this quickly and clumsily could create more problems than it solves, including higher costs and disruptions.

Macroeconomic accounting shows that imbalances between consumption and production in countries are mirrored by imbalances in savings and investment. Countries that consume more than they produce (The US) will have inadequate savings to fund longer-term investment. Conversely, countries that consume less than they produce (China and Germany) will have excess savings that they can send elsewhere for investment. US treasury bonds have been a favored destination for the surplus savings, allowing US government spending to vastly exceed tax revenue for decades.

Although the US has a trade deficit in goods, it has a surplus in services – including technology. In a trade war, countries could target these companies with taxes or regulatory action. US tech companies are vulnerable, having been accused of intellectual property theft, monopolistic behavior, tax evasion, providing extremist political content and algorithmic programming that is harmful to young people, addictive and polarizing.

The current disruptive approach to governance and diplomacy has caused foreign investors and partners to reconsider our reliability. This could result in trouble for the dollar and US treasury bonds. As always, a diversified approach to managing your portfolio is best and that includes exposure to foreign currencies through foreign stocks and bonds – which have recently proven their worth.

Your account:

Our overweight position in international stocks was beneficial to our portfolio in the first quarter. Our oil and gas pipeline companies rose earlier this year on expectations of a more friendly regulatory environment. We are keeping our US bond holdings at short maturities due to rising levels of government debt that could test the market’s appetite for Treasury bonds.

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