NorthCoast Asset Management

Quarterly Client Update

Q1 2025

March 31, 2025

"In preparing for battle, I have always found that plans are useless, but planning is indispensable."

~ Dwight D. Eisenhower

This past weekend, I took a break from the stock market's latest gyrations to do something even more intense: parent my son through a crew competition in New Jersey. The conditions were brutal—freezing temperatures, cold rain, heavy wind, and choppy water that tested every boat and every rower. The seasoned organizers called it the worst conditions they ever witnessed.

Watching from the shore, it struck me just how much competitive rowing in those conditions resembles what it's like to invest in today's volatile, uncertain markets.

When the water is calm and everything's going according to plan, every boat looks fast. Every investor looks smart. But when the winds pick up—whether it's driven by politics, interest rates, or the latest macro scare—the boats that win aren't the ones that panic or row harder. They're the ones that stay in sync, stay disciplined, and trust the guidance of their coxswain.

And here's the key: the coxswain doesn't row. In fact, to the untrained eye, they might look like dead weight. But in moments of chaos, that "dead weight" is doing the most important job of all—reading the course, calling adjustments, and making sure every stroke contributes to forward progress.

In the investing world, that's the role of a solid financial plan.

When volatility strikes and the headlines get loud, it's tempting to overreact—pull harder, change direction, or jump ship entirely. But just like on the river, that's when having a plan (and sticking to it) matters most. Financial planning serves as your coxswain—helping you stay focused, adjust when necessary, and keep moving forward while others get tossed around.

Because ultimately, market turbulence is inevitable. The difference lies in how you steer through it.

Achieving financial success starts with regularly reviewing your goals—that's why we've simplified the process with our MyGPS financial planning evaluation, a tool designed to provide clear insights and actionable steps for your financial journey. In partnership with your NorthCoast advisor, we'll align your investment strategy with your life priorities. https://2999832.fs1.hubspotusercontent-na1.net/hubfs/2999832/NorthCoast_MyGPS_FactSheet.pdf

Our goal is always to provide you with the most objective guidance and the most innovative and cost-effective solutions adapted to the uncertainty of investing, guiding you through an optimal allocation according to your financial goals and risk tolerance. Now for my view on the topics affecting your investments.

A CIO's View

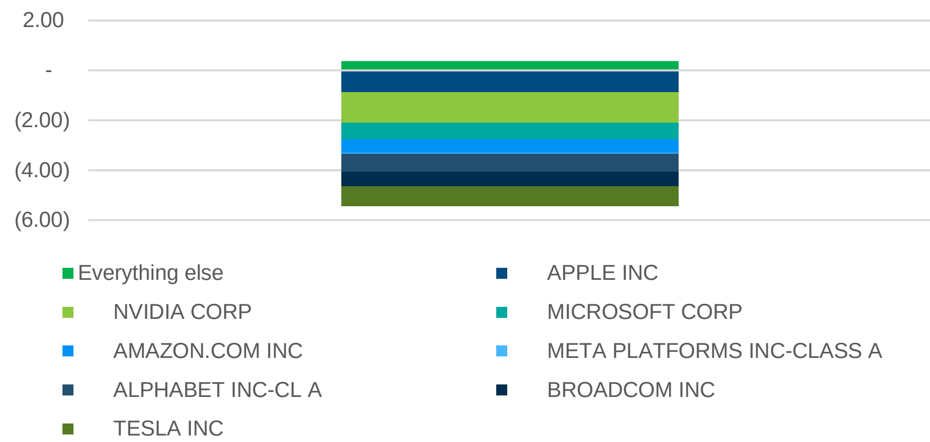
Movement in these areas is monitored daily by our models. We also regularly cover these topics in our monthly Navigator and quarterly Fixed Income Commentary.

Market Return: A Narrow and Negative Quarter

Last quarter the artificial intelligence gold rush and some technology stocks continued to show signs of cooling off. The S&P 500 index was down 4.3% and the average stock in the index was down 0.5%, with 63% of the stocks being the S&P Index and even 47% of stocks having positive returns.

When breaking out this performance at the individual stock level, in particular the top eight stocks which carry 34% of weight in the index were down on average 18.4%. These stocks have affected the index disproportionately on the way down: The rest of the Index was up 0.4%

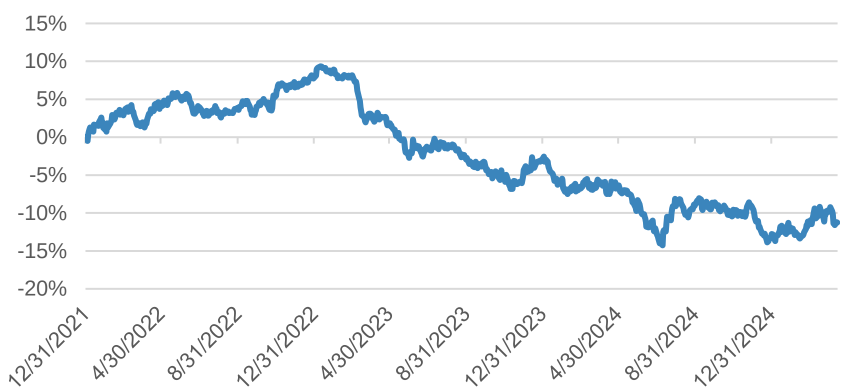
Exhibit 1: S&P Performance Q1 2025



Source: Bloomberg.

We like to measure the notion of market breadth by comparing the performance of the equal-weighted S&P 500 index versus the cap-weighted index performance. For a longer term perspective on this important notion, please refer to our paper on the subject (https://21355211.fs1.hubspotusercontent-na1.net/hubfs/21355211/DoesSizeMatter_Commentary.pdf). This is the attribution above already illustrated; diversification was very helpful this past quarter and is further depicted below by an increase in the ratio of equal weighted to cap weighted indices.

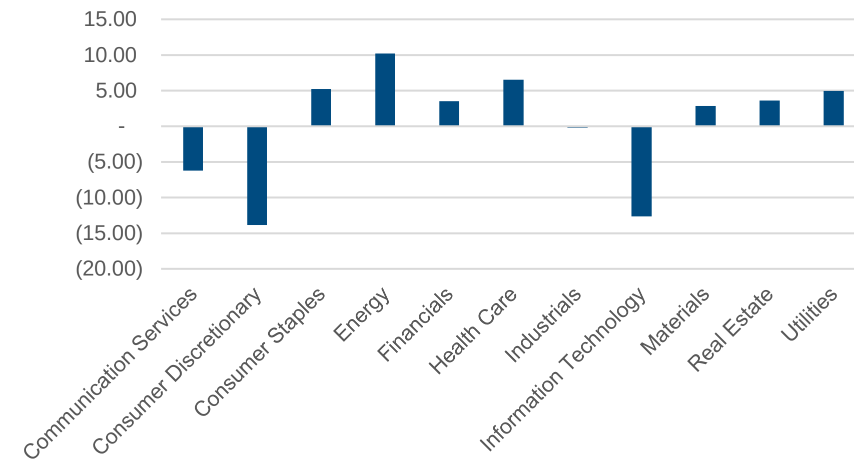
Exhibit 2: S&P 500 Cap-Weighted vs. Equal-Weighted Performance



Source: Bloomberg.

We have stressed over the past quarters the importance of diversification. While the S&P 500 has lost 4.3%, seven out of 10 sectors generated gains: the energy sector gained 10.2%, health care 6.5% consumer staples 5.2%, utilities 4.9% followed by real estate, financials and materials. The laggards were consumer discretionary -14%, information technology -12.6%, communication services -6.2%. Quite a change from the previous quarter (almost exactly the opposite ranking!). This sector perspective underscores the value of a well-diversified portfolio and a reminder that past returns are not indicative of future performance. (Exhibit 3).

Exhibit 3: 2025 Q1 Sector Returns



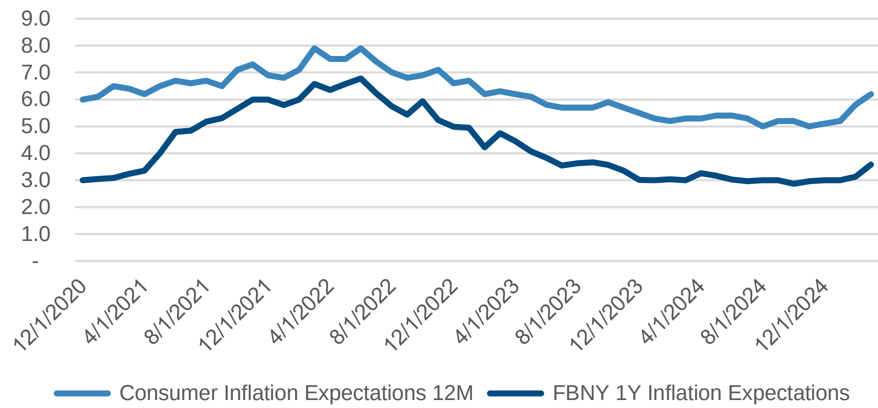
Source: Bloomberg.

Inflation: Improvements so far but Concerns Ahead

The latest CPI report showed again lower inflation (Exhibit 4), with CPI at 2.4% and core CPI at 2.8%, even lower than expectations for that month. However, the current tariff war has already had an impact on inflation expectations with the consumer board inflation expectations at 6.2% and the Federal Bank of New York at 3.6%

With this data in mind, the report is making the possibility of imminent rate cuts less palatable and has caused short-term Treasury yields to increase slightly.

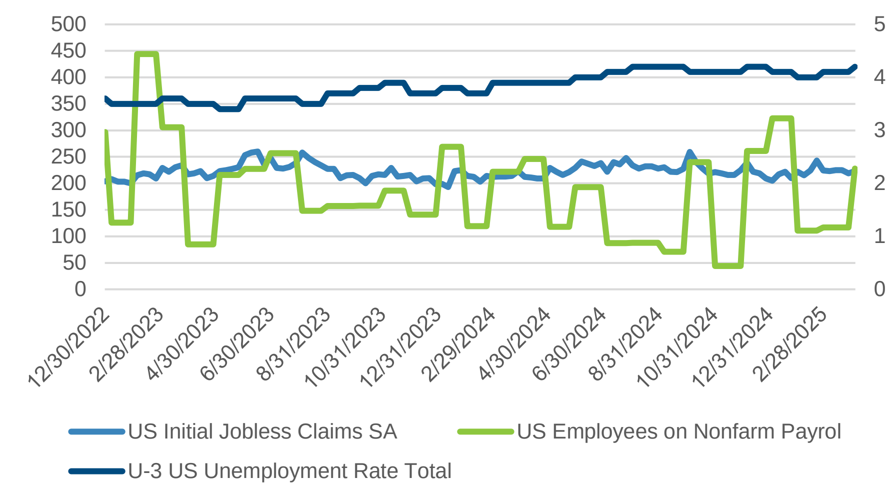
Exhibit 4: US Inflation Expectations Increased



Source: Bloomberg.

The labor market was above expectations in March with nonfarm payrolls rising to 228,000 versus 140,000 estimated. The unemployment rate increased to 4.2% (Exhibit 5). This news also decreased the likelihood of more FOMC cuts in 2025.

Exhibit 5: Unemployment/Nonfarm Payroll Display Resilient Economy



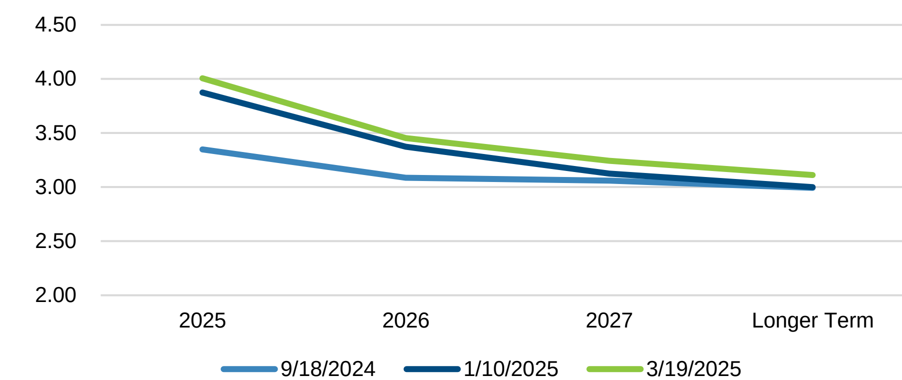
Source: Bloomberg.

FOMC March Meeting: a Balancing Act

The Federal Reserve held interest rates steady at 4.25%–4.5% in March, while raising its inflation forecast (PCE median now 2.8%) and lowering GDP growth expectations (1.7% vs. 2.1% in December). Despite these shifts, the Fed still projects two rate cuts in 2025, reflecting concerns about slowing growth amid rising trade tensions and tariffs. The Fed is balancing its dual mandate—controlling inflation and supporting employment—but may lean toward cutting rates if the labor market weakens. Markets have adjusted slightly dovish, with futures pricing in a year-end 2025 rate of 3.6%, down from 3.9% forecasted in December.

The dot plot is now higher at all forecasted horizons (Exhibit 6).

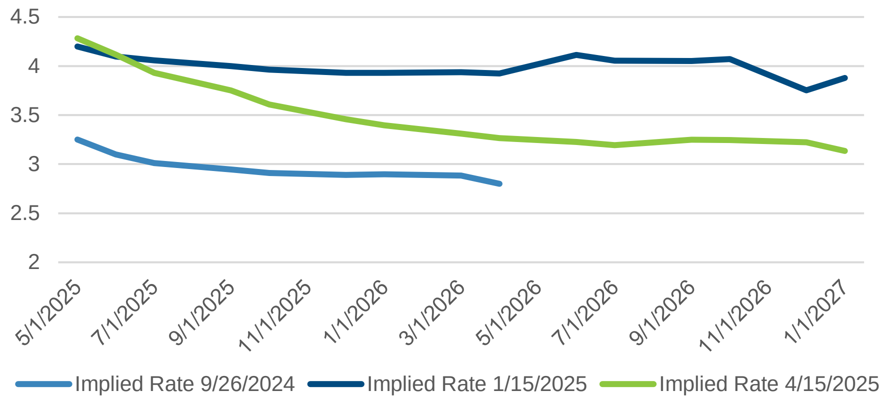
Exhibit 6: FOMC Dot Plots Continue to Signal High Rates for Longer



Source: Bloomberg.

Growth expectations for 2025 have been downgraded due to rising trade barriers, which are expected to increase inflation and dampen consumption, investment, and exports. Tighter immigration policies and rising layoffs may further weaken consumer spending. Reflecting these concerns, the stock market has pulled back while the bond market has appreciated, with a noticeable decrease in implied rates (Exhibit 7).

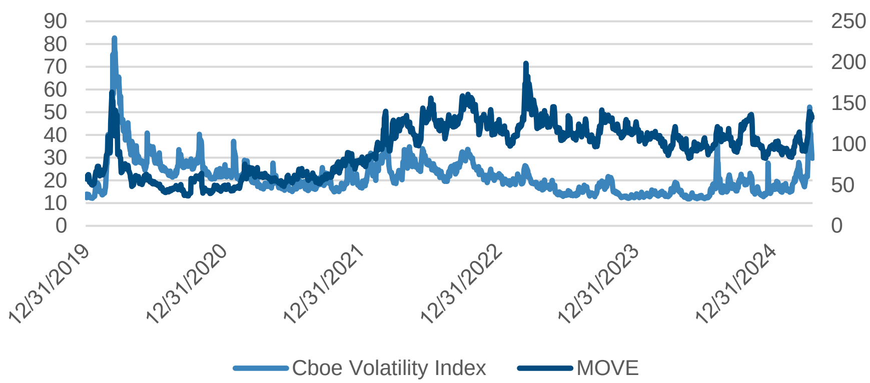
Exhibit 7: Implied Rates Have Significantly Increased in Q4



Source: Bloomberg.

Uncertainty has risen in both the equities and rates markets seen in Exhibit 8. The MOVE Index (implied volatility of a basket of OTC options on US interest rate swaps) illustrates the uncertain environment we are in and the impact of recent events. Similarly, the VIX (Volatility) Index jumped to a 5 year high of 50.

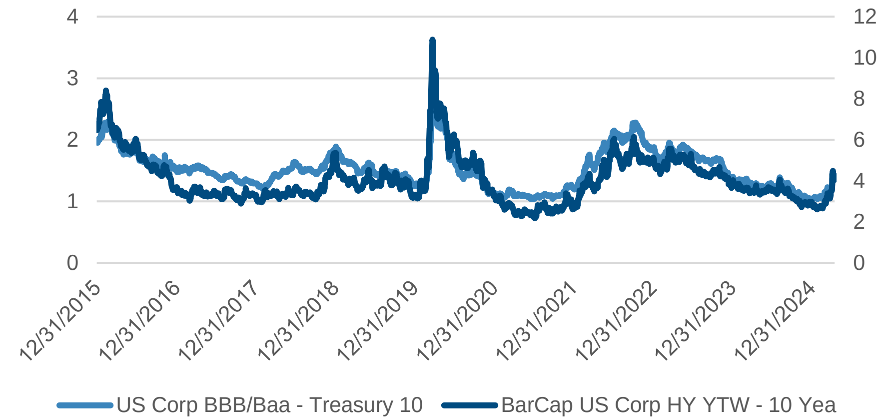
Exhibit 8: The MOVE and VIX Indices Indicate High Uncertainty



Source: Bloomberg.

With the market pullback, multiples have contracted and become more attractive: We see US equities trading at multiples of 20X-23X with some concerns of economic slowdown in combination with potentially rising inflation. We had warned over the past quarters that risk assets seemed overbought, exposing vulnerabilities in US equities. In contrast, the Euro Stoxx 50 is trading at 14X-15X multiples, the Nikkei 225 Index is trading at 17X, and the S&P TSX Index is trading at 15-18X, offering viable competing alternatives to US equities. Yield spreads have widened and are in the 40%-60% percentile range over a 10-year window both in the corporate and high yield segments (Exhibit 9).

Exhibit 9: Yield Spread has Widened Back to Historical Averages



Source: Bloomberg.

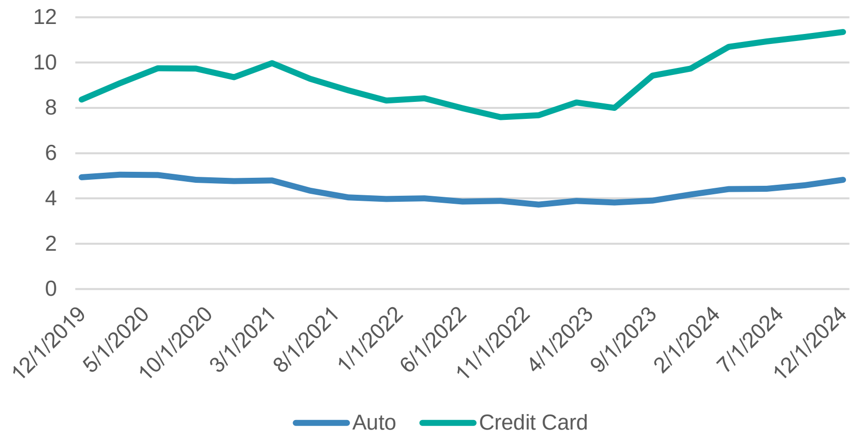
Economy: Resilient with a Moderate Slowdown

Recession risks have risen from 20% to 30%. This probability went as high as 50% in some unofficial reports, before the 90-day tariff pause was announced.

For 2025, we are continuing to see some further signs of slowdown which could grow more substantial: for instance, tariff negotiation or trade wars, personal savings buffers are lower than post-pandemic which could diminish consumer strength. In addition, fiscal policy is uncertain with the potential lapsing of past policies, the additional labor participation rate looks more challenging, the delayed impact of variable rate debt is likely to be seen in more corners of the economy, and geopolitical tensions could create additional headwinds.

Relatedly, credit card delinquencies are rising to levels now higher than the 2020 recession with Auto delinquencies also rising (Exhibit 10).

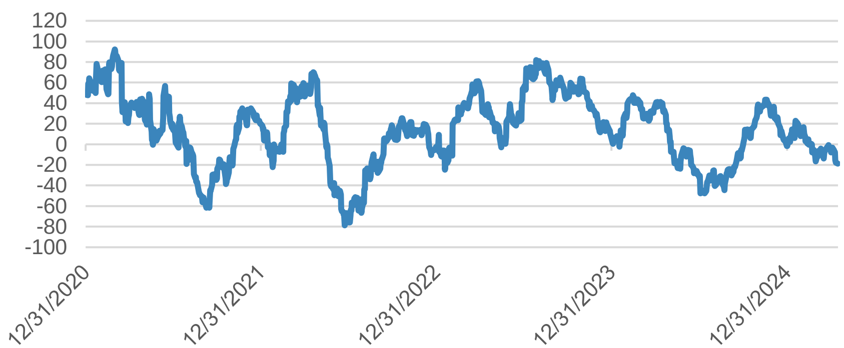
Exhibit 10: Credit Card Delinquencies Starting to Rise (% of balance delinquent 90+ days)



Source: Bloomberg

Another sign of economic slowdown is the Citigroup Economic Surprise Index which despite a rebound last quarter stayed in neutral territory, indicating that while still resilient, the US economy is no longer posting as many strong positive surprises as the majority of 2023 and 2024 (Exhibit 11).

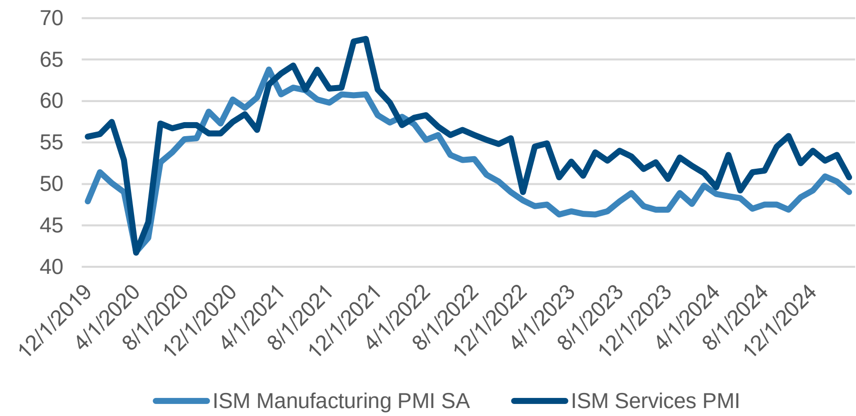
Exhibit 11: The Citigroup Economic Surprise Index Indicates How Economic Data Compares with Consensus Estimates



Source: Bloomberg, Citigroup.

Further signs of a moderate slowdown can be seen in the leading indicators of the PMI ISM surveys (Exhibit 12). Both indices are hovering around the neutral 50 level. While the declines seem to have stabilized over the past two years, they have not shown any clear signs of improvement over the past six months and clearly dipped during the last quarter.

Exhibit 12: ISM Manufacturing and Services Indices are in Neutral Territory

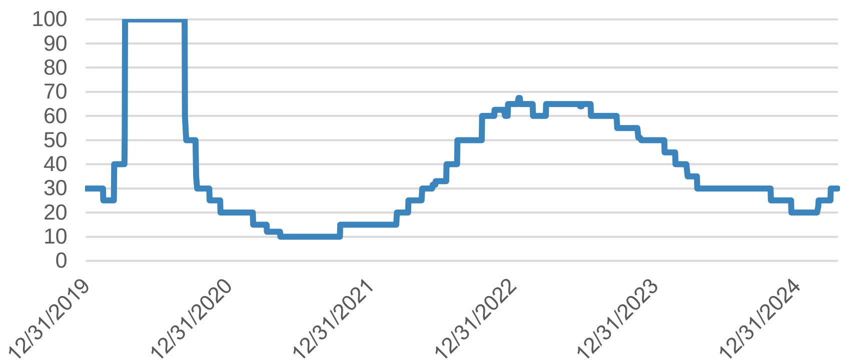


Source: Bloomberg.

Tariffs: Uncertainty and Our Response

The recent market volatility underscores the deeper economic concerns that continue to weigh on investor sentiment. While the temporary suspension of certain tariffs brought short-lived relief, we caution that the underlying economic uncertainties remain unresolved—particularly with the intensifying pressure on Chinese imports and the looming threat of broader global retaliation. According to research from the sell-side, the cumulative impact of tariffs to date is projected to reduce U.S. GDP by approximately 1.46%, with inflation expected to rise by a similar margin. Recession risks are also rising. Market-based models, including surveys by Bloomberg and pricing in the S&P 500, now estimate a 30% probability of recession within the next 12 months. (Exhibit 13)

Exhibit 13: United States Recession Probability Higher at 30%



Source: Bloomberg, PredictIt

Investment Implications

In this fast-moving environment, we remain grounded in our disciplined, data-driven investment process. We are maintaining a cautious stance as we expect continued volatility and near-term pressure on risk assets. Earlier this month, we adjusted our asset allocation to reflect this view: we reduced our exposure to long-duration fixed income, trimmed our long-term credit positions, and modestly increased exposure to international fixed income markets. At the same time, the recent sharp selloff provided us with an opportunity to increase equity exposure, particularly in our international tactical strategy.

Our position remains focused on preserving flexibility and managing downside risks. We continue to hold a 33% cash allocation in U.S. tactical strategies, giving us dry powder to respond opportunistically. We've maintained underweight positions in discretionary, technology, and high-beta sectors, while our stock selection approach continues to deliver value—our position remains focused on preserving flexibility and managing downside risks which has been particularly productive year to date.

Throughout the week, we executed several tax-loss harvesting trades to capture tax alpha, and we slightly increased equity exposure in our Tactical International strategy amid market dislocation.

With the VIX hovering around 41, fear remains elevated, presenting both risk and opportunity. We remain vigilant and prepared to adapt, guided by a long-term view and a commitment to prudent risk management. As always, we welcome your questions and are here to discuss how our approach aligns with your goals in this evolving environment.

Looking forward, while we acknowledge the high political uncertainty, the current return/risk environment does not appear the most favorable, thus our cautious stance to look for higher quality equity and fixed-income segments, more emphasis toward international equities, as well as a willingness to embrace any trading weaknesses to capitalize on future opportunities.

Given the current market conditions, we reiterate our beliefs:

- Diversify-Diversify-Diversify: by asset class (bonds, equities, alternatives, options), by investment approach (long, tactical, premium income), by style (active, passive, defined outcome), by benchmark (equal-weighted vs. cap-weighted), by geography (US, international, global). Embrace other scenarios.
- Be realistic and remain cautious and opportunistic in the current environment with active risk management and tactical strategies.
- Follow a systematic and flexible approach and stick with it during episodes of volatility.

I hope this letter finds you and your family happy, healthy, and enjoying the spring.

If you have any questions about your portfolio or would like to discuss your current positioning, please contact your advisor at any time. Our team always has your best interests at heart and stands ready to help you meet your goals with the appropriate allocations and proactive financial planning. As always, we thank you for your trust and business.

Warm regards,

Patrick Jamin
President & CIO

Important Disclosure Information

Kovitz Investment Group Partners, LLC (Kovitz) dba NorthCoast Asset Management is an investment adviser register with the Securities and Exchange Commission under the Investment Advisers Act of 1940 that provides investment management services to individual and institutional clients. Effective June 1, 2024, NorthCoast Asset Management underwent an organizational change and all persons responsible for portfolio management became employees of Kovitz Investment Group Partners, LLC. Prior to June 1, 2024, NorthCoast Asset management was previously overseen by Focus partner Connectus Wealth since November 1, 2021. From 2008 until November 2021, the Firm was defined as NorthCoast Investment Management, LLC. The accounts managed at the predecessor firms are sufficiently similar to the accounts managed at NorthCoast Asset Management, such that the performance results would provide relevant information to clients or investors.

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