PATHSTONE
THE FAMILY OFFICE℠

Monthly Market Insights

MAY 2025

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1 De-escalation optimism on tariffs is alleviating some economic and market concerns

- Bessent says the current China situation is "unsustainable," Trump says China tariffs will come down "substantially"
- White House said China tariffs could be 50-65%, while the WSJ reported 35% for items not related to national security
- White House closing in on general agreements with Japan and India, establishing "memos of understanding"

… but now we need to see actual tariff reductions follow through, as effective tariffs rates are still 15-20%[1]

- Lutnick said the first trade deal was reached, but it's not fully finalized and declined to name the country
- 25% tariffs on imported vehicles remain in place, but additional tariffs stacked on top have been rolled back[2]
- Chinese tariff levels remain elevated despite optimism, and are acting as an embargo impacting supply chains

2 Hard data has been better than feared, in line with our prior view of a "cooling, not cratering" economy

- Domestic demand, investment, and labor markets remain relatively strong, albeit cooling from above trend levels

… but IF we see tariffs "higher for longer," we may see further and faster cooling of the data

- Go-forward sentiment has deteriorated and could prompt pullbacks in consumption and corporate investment
- Uncertainty alone is already having some impact, but elevated tariffs remaining in place would be a drag on growth

3 This optimism has propelled a strong recovery rally in equity markets

- The S&P 500 rallied over 10% in 10 trading days through May 2nd, taking the NTM P/E ratio to back to over 20x[3]

… but it has also pushed back up valuations, so a level of caution remains warranted

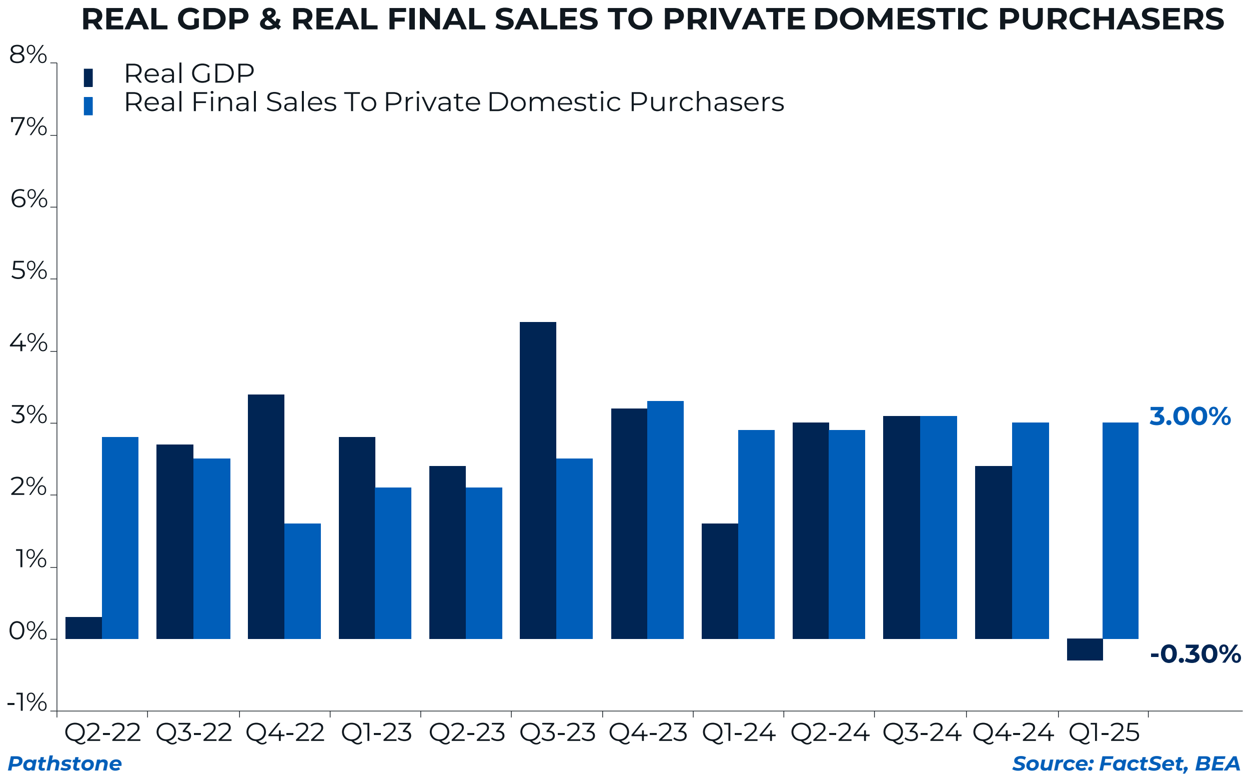
- But IF tariffs remain "higher for longer," we could see more cooling in the economic data, which could hit earnings
- Thus, caution is still warranted and modest underweights to equity/risk assets provides a more conservative stance

Source: 1 – Evercore ISI, 2 – Wall Street Journal, 3 – FactSet.
Footnote: See disclosures for definitions.

1Q GDP CONTRACTED, DRIVEN BY A SURGE IN IMPORTS, WHILE DOMESTIC DEMAND REMAINED STRONG

"Real Final Sales to Private Domestic Purchasers" strips out government spending, inventories, and net exports, reflecting the underlying strength of consumer and business demand within the domestic economy, which remains relatively healthy

- GDP is backwards looking, but important to note that import pull-forwards offset otherwise strong domestic demand, meaning that deteriorations in consumer sentiment "soft data" have not yet pulled through to material downturns in "hard data"
- But this data is pre "liberation day," and so while April data looks good so far, watching leading indicators of spending is critical



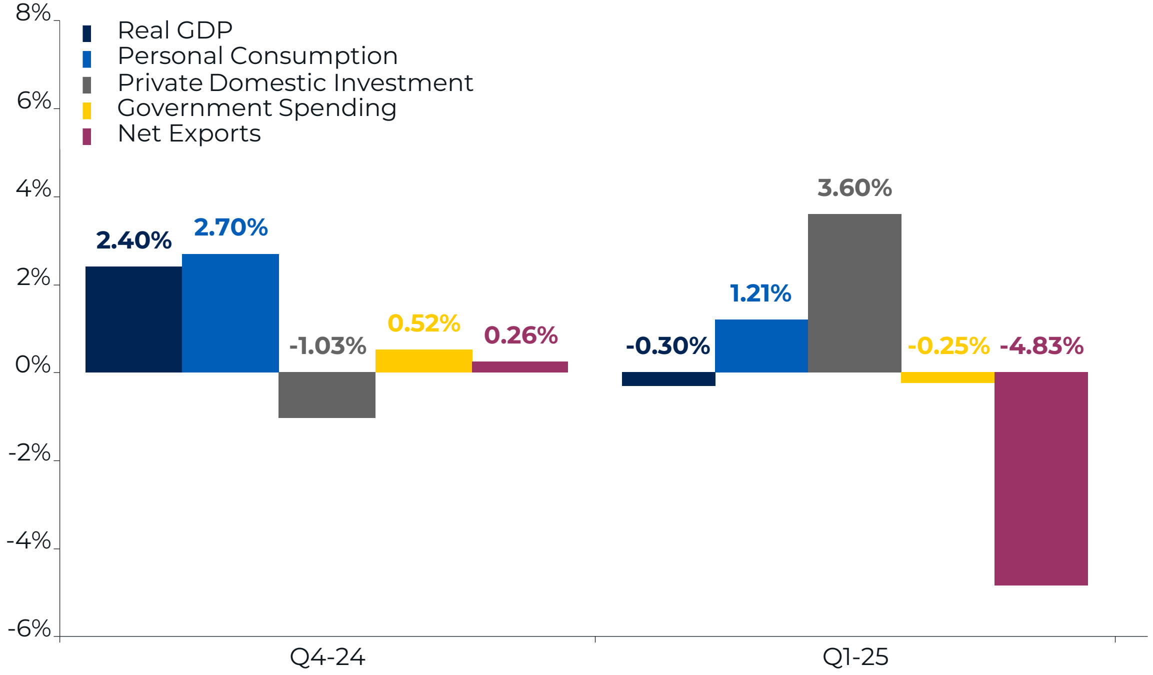
Footnote: See disclosures for definitions.
Past performance is no guarantee of future returns. As with any investment, there is the risk of loss.

GDP CONTRACTION DRIVEN BY A SURGE IN IMPORTS, LARGEST IN HISTORY BACK TO 1950

Tariff related pull-forward of demand drove an unusually large surge in imports (so net exports declined), the primary detractor

- This was the biggest negative impact to GDP since this data series began in 1950
- Personal consumption declined modestly but remained positive, and private domestic investment jumped on building inventories, which was 2.3% of the 3.6% increase, again reflecting the effects of pulling forward imports ahead of tariff concerns
- GDP = Consumption + Investment + Government Spending + (Exports – Imports)

CONTRIBUTION TO REAL GDP



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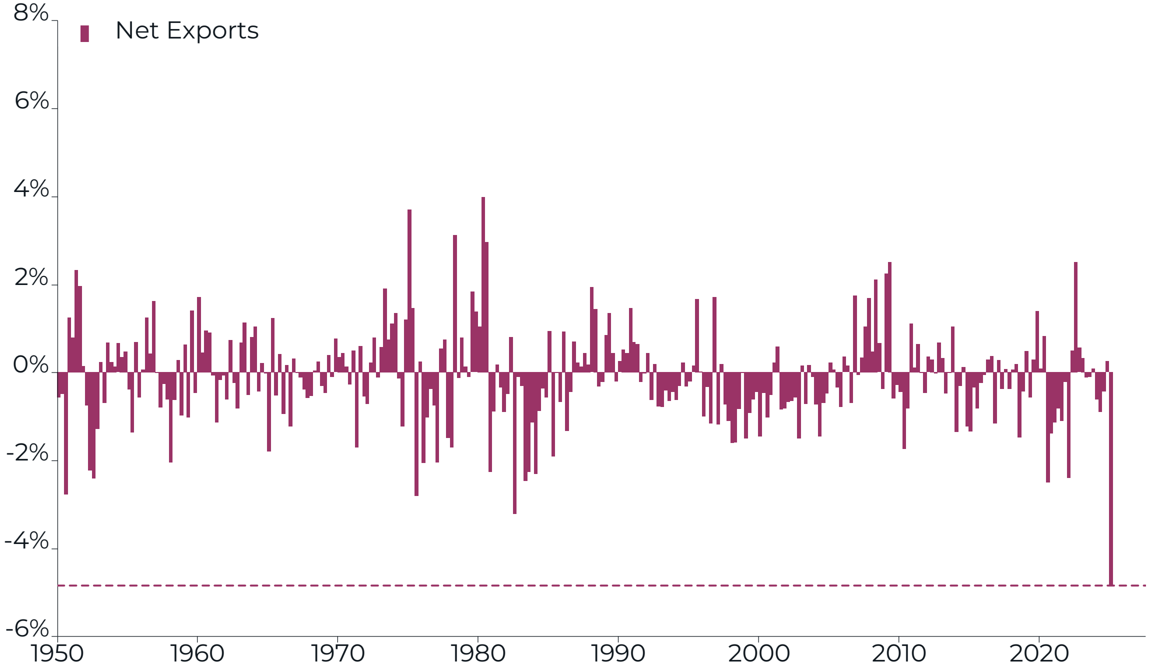
Source: FactSet, BEA

NET EXPORT CONTRIBUTION TO REAL GDP



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Source: FactSet, BEA

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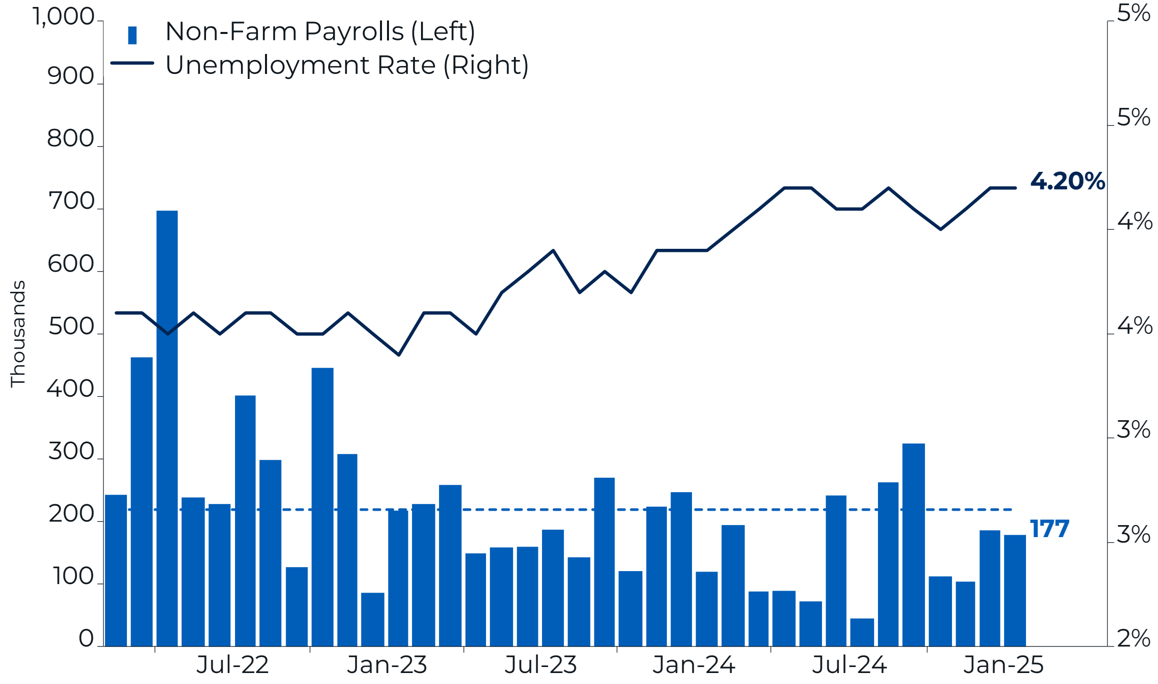
Non-farm payrolls added 177,000 jobs in April (vs. 137,000 expected), while layoffs and initial unemployment claims remain relatively moderate, reflecting good news as April business and hiring activity has carried on despite tariff concerns

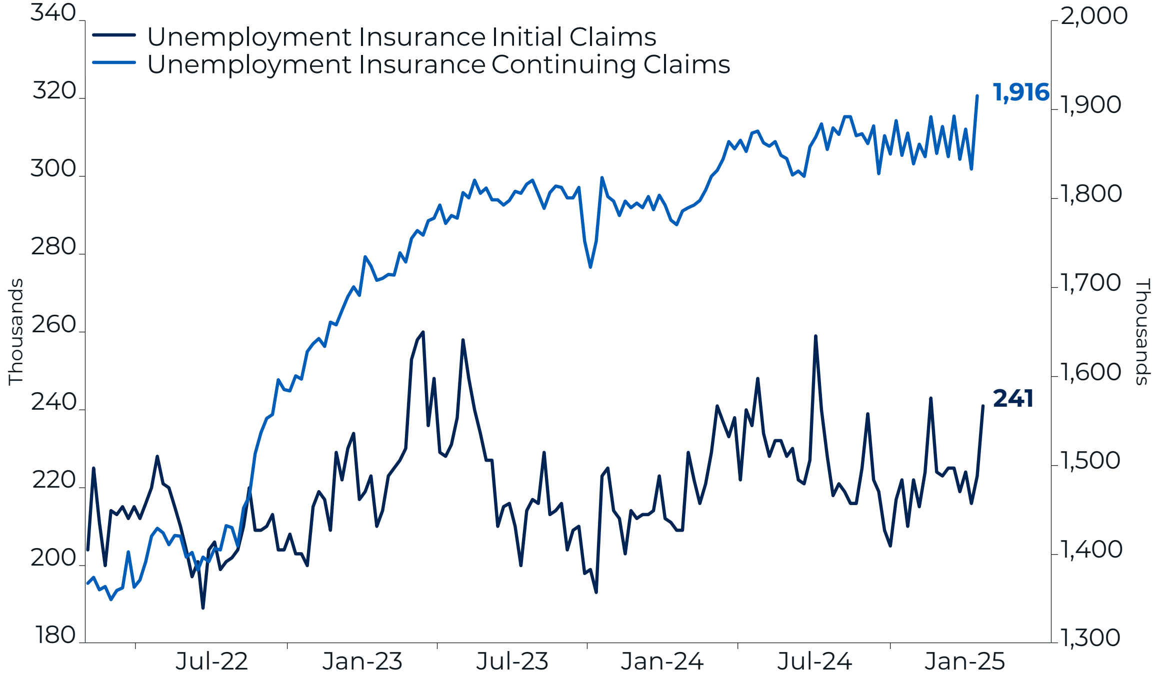
- Initial Unemployment Claims picked up, but not beyond the range of the last 3 years, reflecting minimal increase in layoffs
- These data were better than expected as many thought tariff-induced concerns would start showing up in the April “hard data”
- But Continuing Unemployment Claims has steadily been rising, reflecting a more challenging environment to find a new job
- Our attention remains on the go-forward impact of tariffs and domestic policy on labor markets

NONFARM PAYROLLS & UNEMPLOYMENT RATE



Pathstone *Source: FactSet, US Department of Labor*

INITIAL & CONTINUING UNEMPLOYMENT CLAIMS



Pathstone *Source: FactSet, Department of Labor*

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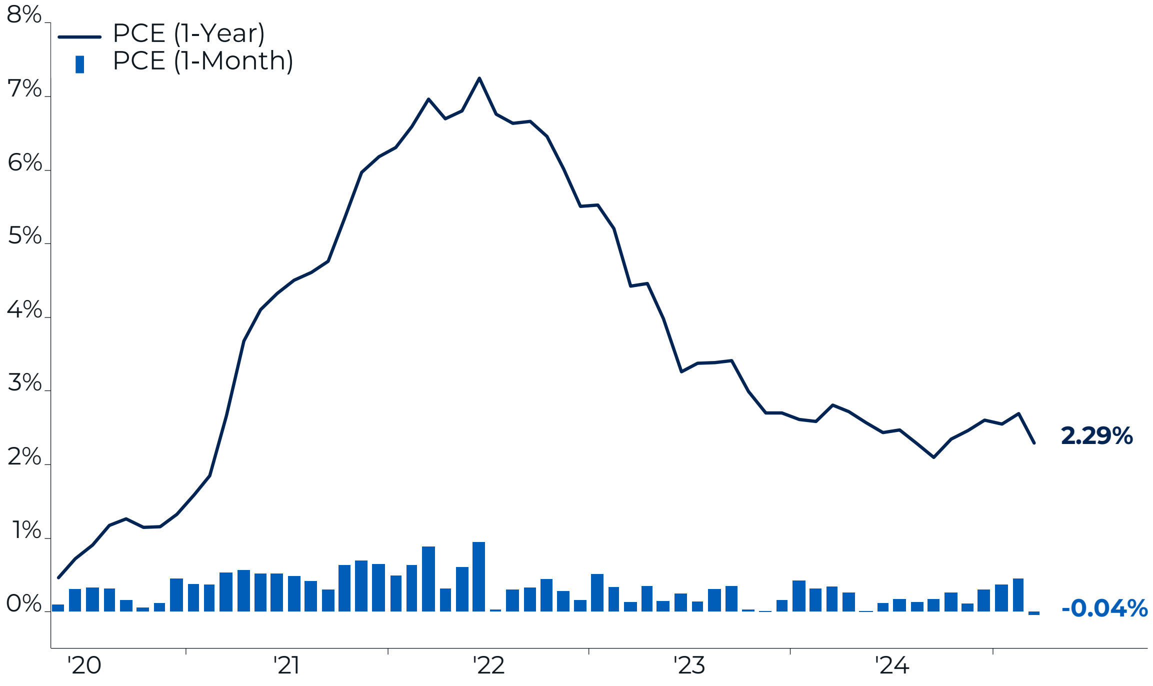
BOTH HEADLINE AND CORE PCE PRICE DEFLATOR COME IN FLAT MONTH/MONTH AND LOWER YEAR/YEAR

PCE price deflator, the Fed's preferred inflation gauge (vs. Consumer Price Index – CPI), came in favorable

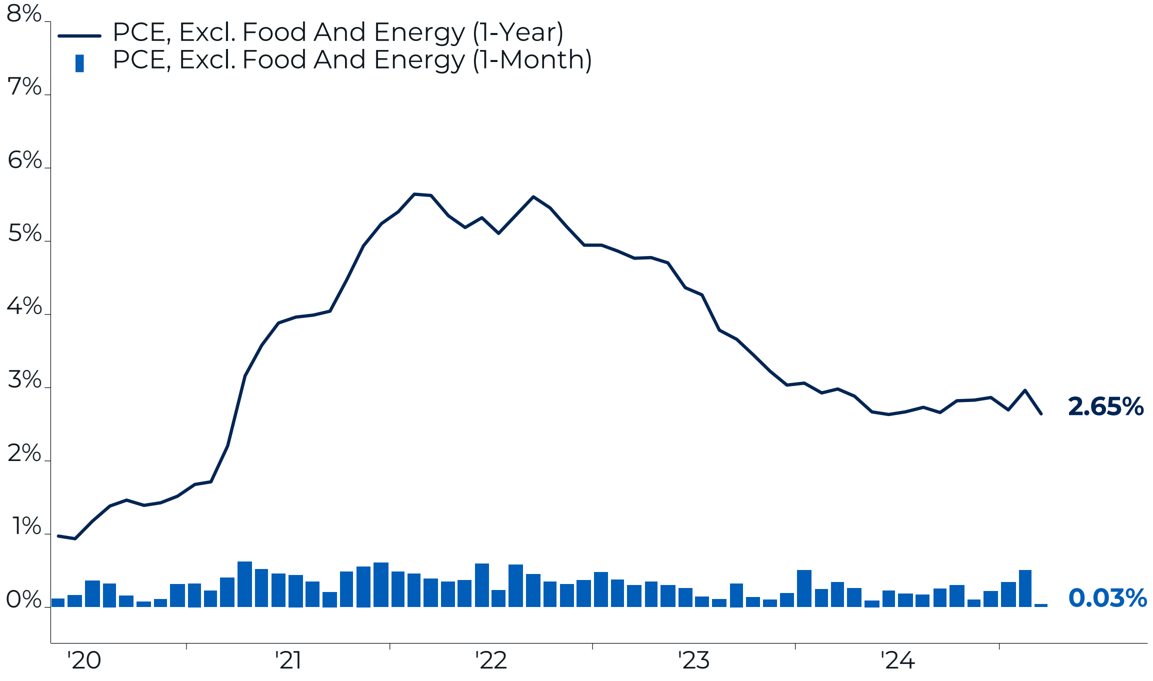
- This was largely expected but gives the Fed comfort that inflation has continued to moderate in the early days of tariff concerns
- Of course, the focus is on what could happen going forward under elevated tariffs, but good news = good news for now…
- The strong payrolls report + lower inflation has pushed the expectations for a June Fed cut to only 30%[1], which means markets are now pushing out their expectations for the next Fed cut not to occur until the July meeting
- We get another round of payrolls and inflation prior to the June meeting, so a lot can change, stay tuned…

PCE PRICE DEFLATOR



Pathstone *Source: FactSet, BEA*

CORE PCE PRICE DEFLATOR



Pathstone *Source: FactSet, BEA*

Source: 1 – Chicago Mercantile Exchange.
Footnote: See disclosures for definitions.
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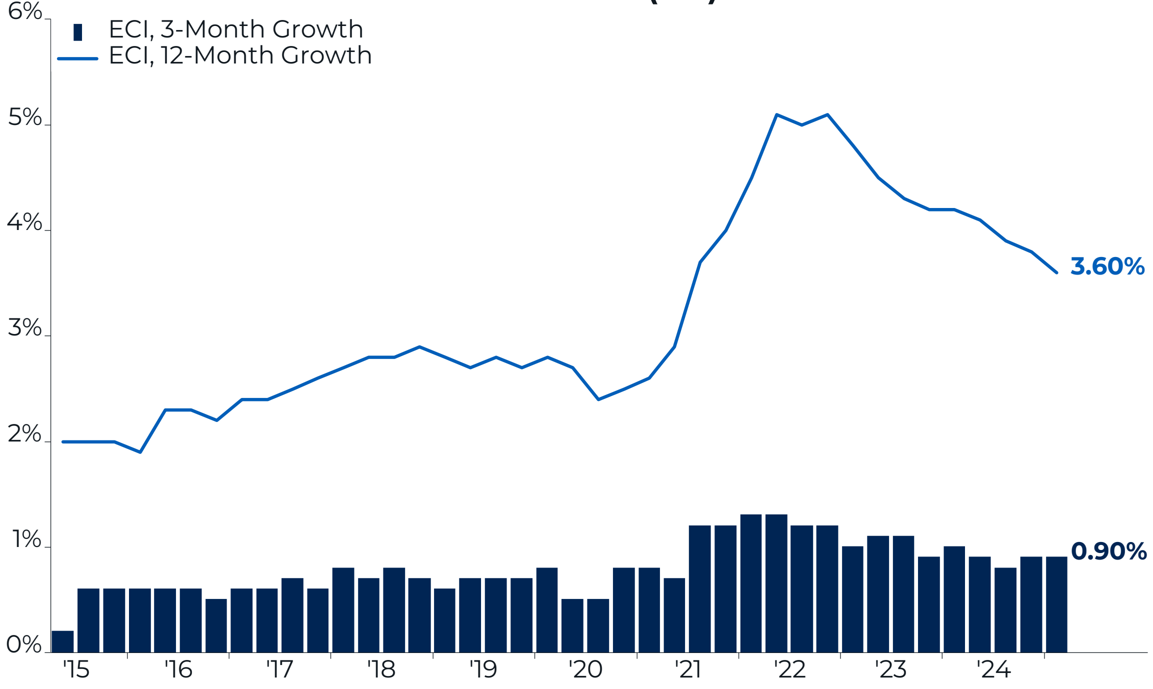
The Employment Cost Index (ECI) reflects continued wage gains, providing real-time support for consumers

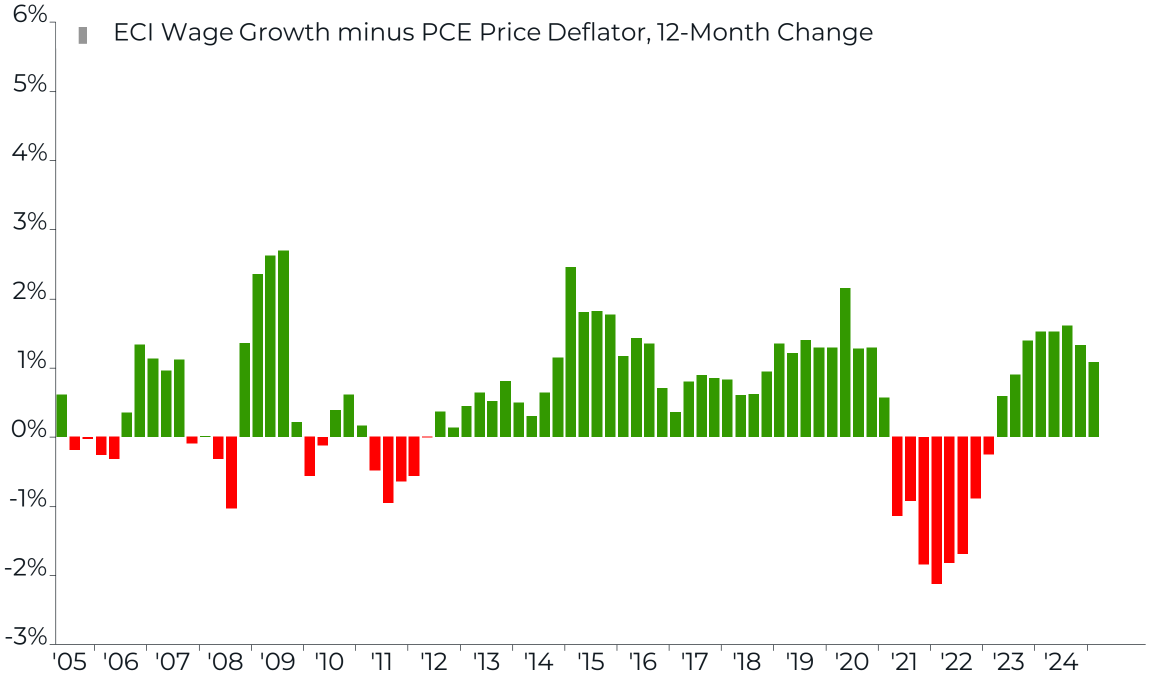
- Wages staying elevated amidst declining inflation has kept real, inflation-adjusted wages positive since mid-2023
- This continues to support consumer income statements, debt service ratios, and consumption trends
- Again, this reflects less wage moderation in the early days of tariff concerns, so good news for now…

EMPLOYMENT COST INDEX (ECI) WAGE GROWTH



Pathstone *Source: FactSet, BLS*

REAL WAGE GROWTH



Pathstone *Source: FactSet, Department of Labor*

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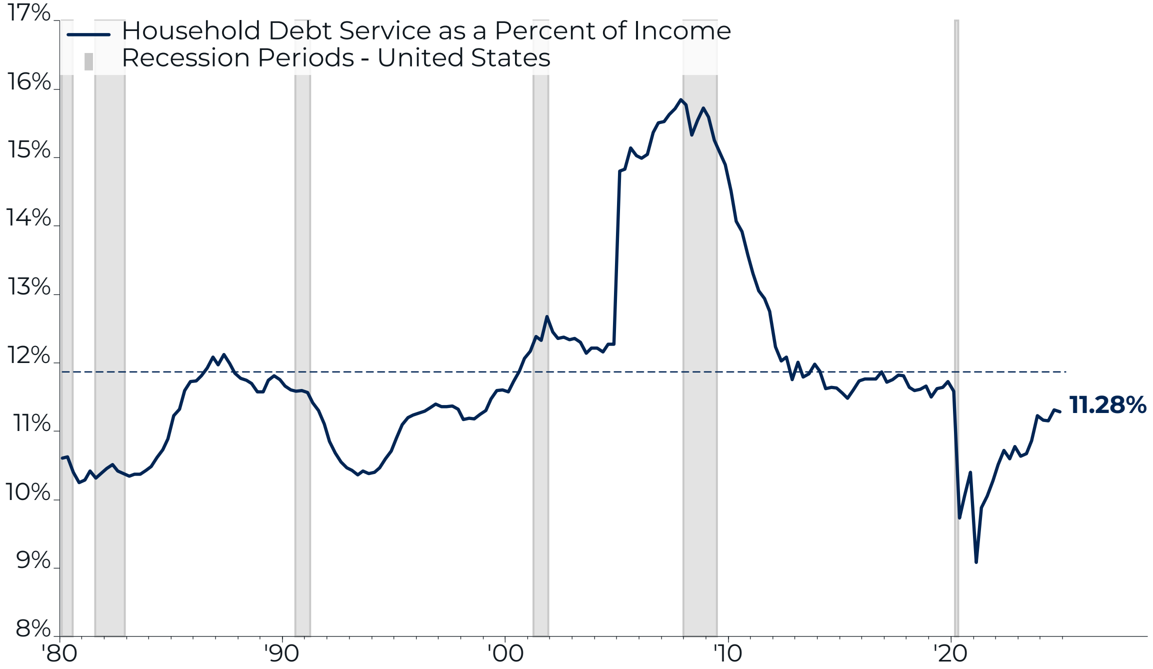
GROWING WAGES ARE HELPING TO KEEP HOUSEHOLD DEBT SERVICE MANAGEABLE, BUT TICKING UP

Household debt service ratios have been rising, along with delinquencies, but all remain below historic averages, for now…

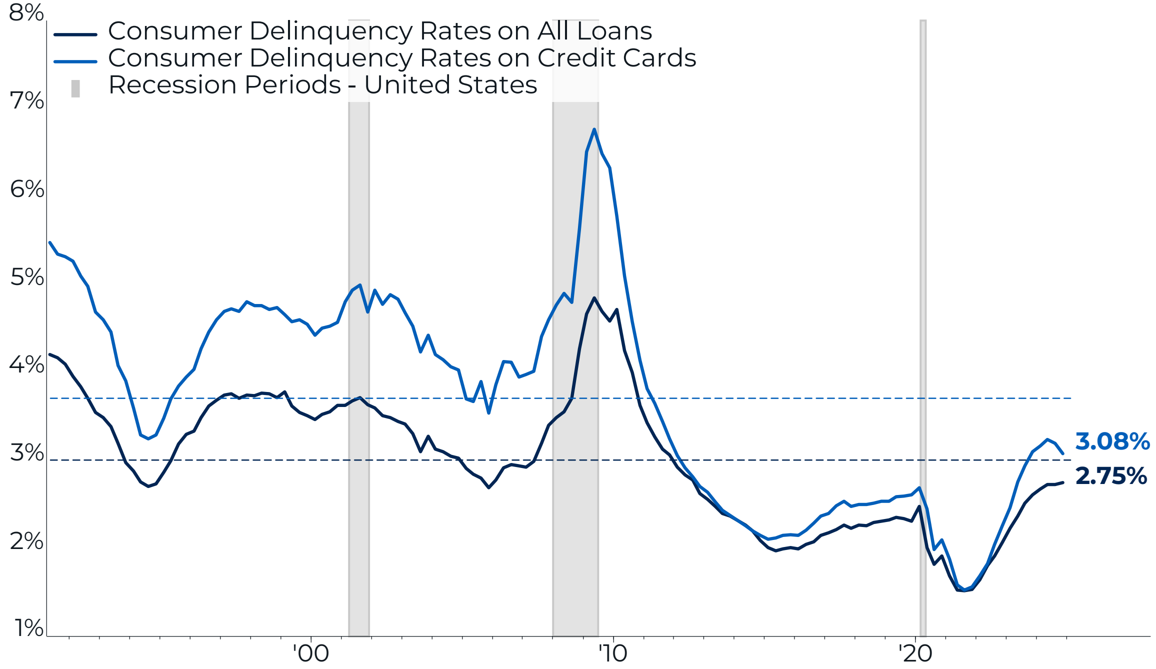
- Delinquency rates had been rising from multi-decade lows but are also showing signs of plateauing or declining
- Notably, higher interest rates have had less impact on the economy this cycle given a) consumer debt is heavily weighted towards low mortgage rates (73% of mortgages are less than 5%[1]), and b) corporate debt has been termed out at fixed rates
- We keep writing "for now…" because this reflects the "hard data" continuing to be relatively healthy, even if moderating, but expectations are that IF tariffs remain "higher for longer" we could see further, faster, erosion of some of this "hard data"

HOUSEHOLD INCOME STATEMENT: DEBT SERVICE RATIO



Pathstone *Source: FactSet, Federal Reserve*

CONSUMER DELINQUENCY RATES



Pathstone *Source: FactSet, Federal Reserve*

Source: 1 – Federal Housing Finance Agency (FHFA)
Footnote: See disclosures for definitions.
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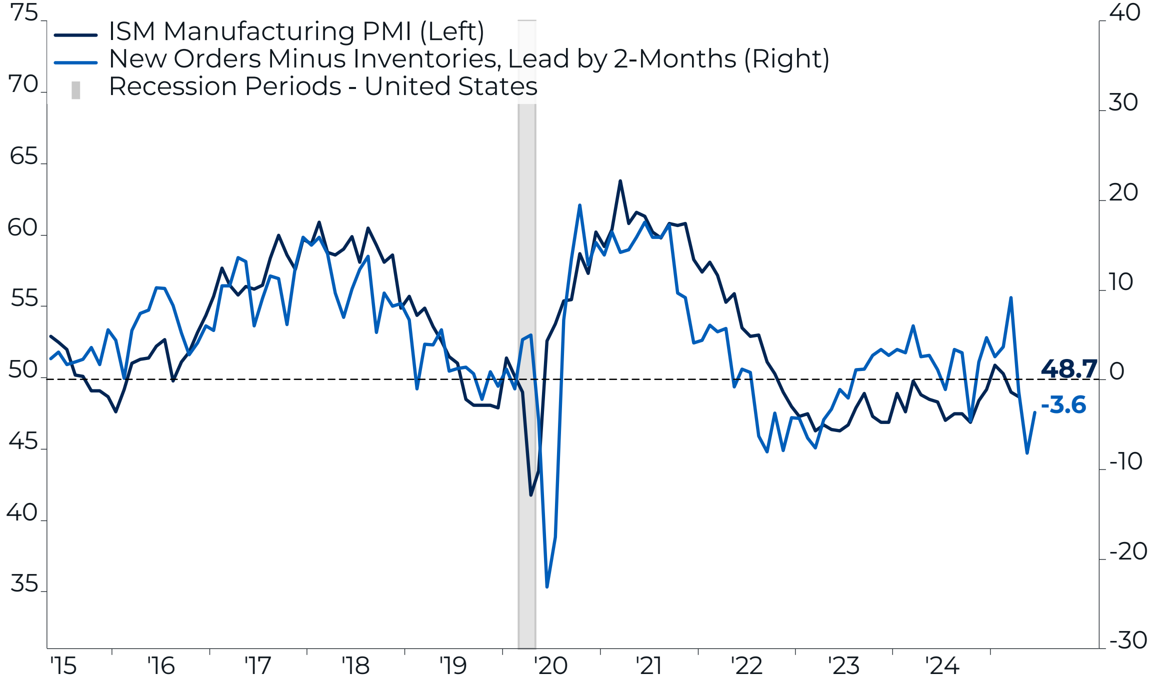
MANUFACTURING IN BOTH THE U.S. AND CHINA IS CONTRACTING, OCEAN FREIGHT IS SLOWING

Manufacturing is contracting, pull-forward demand likely drained inventory while new orders are declining

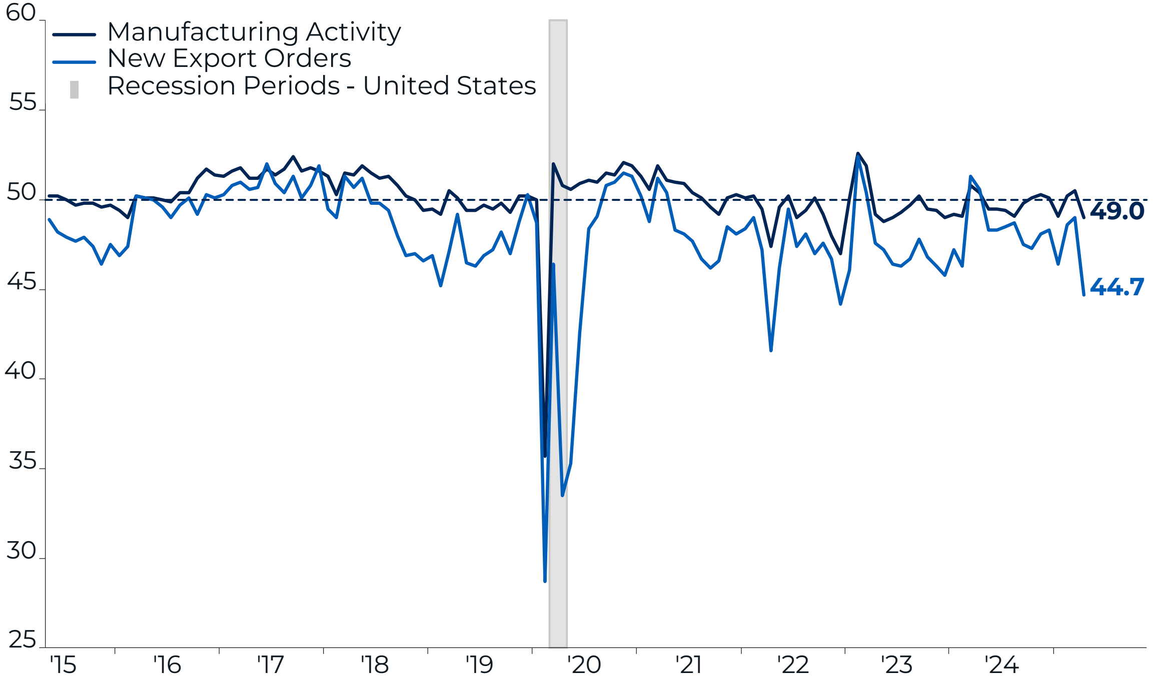
- We are also seeing this in supply-chain data, showing ocean freight departures and bookings are falling post-tariff effective date
  - Container ship tonnage departures from China to the U.S. declined over 35% in April[1]
  - Container ship bookings from China to the U.S. declined 60% industry wide[2]
- Further delays in de-escalation on Chinese tariff levels are likely to continue to add to supply chain related shortages
- We have yet to see activity decline to the Covid shock levels, but given the challenges and time required to repair supply chains post-Covid, this is critical to watch, especially if supply chains are being reoriented out of China, which would take longer

ISM MANUFACTURING NEW ORDERS MINUS INVENTORIES LEADS PMI



Pathstone *Source: FactSet, Institute for Supply Management*

CHINA MANUFACTURING PMI & NEW EXPORT ORDERS



Pathstone *Source: FactSet, National Bureau of Statistics of China*

Source: 1 – Apollo, Bloomberg, Macrobond. 2 – Ryan Petersen @typesfast.
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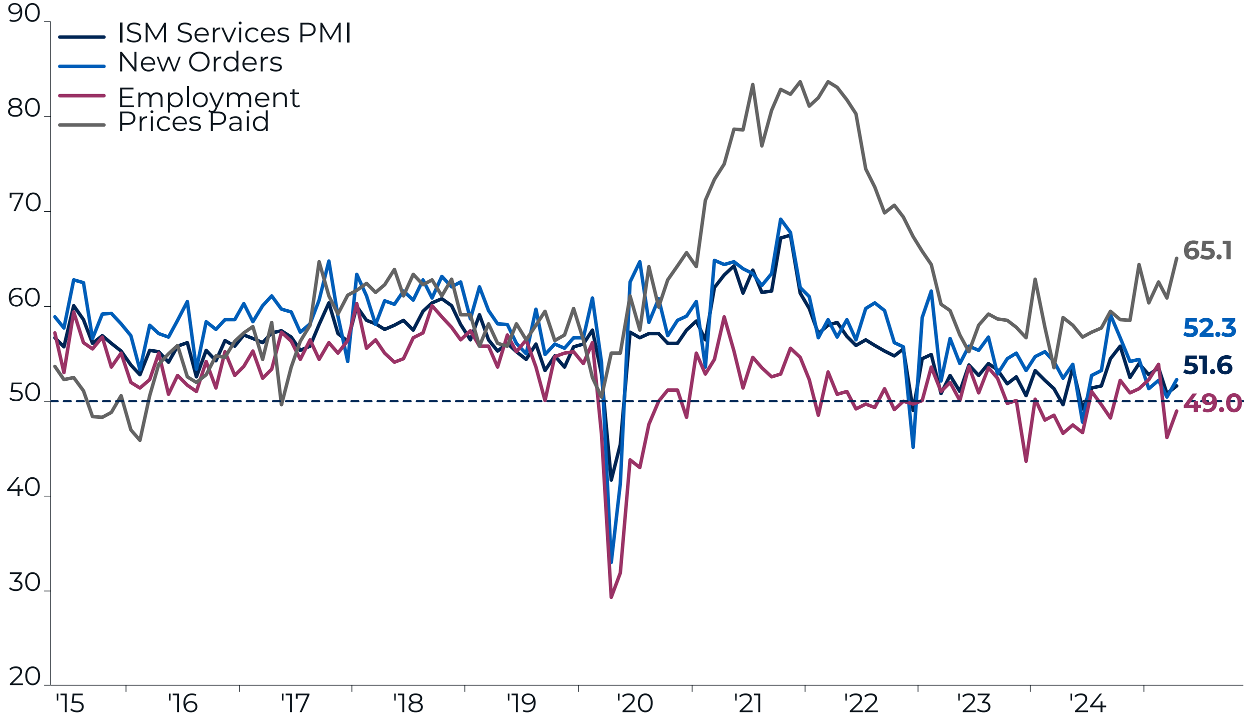
April New Orders increasing reflects continued expansion of the service sector amidst challenges in the goods sector

- Employment was in slight contraction (below 50 represents contraction) but improved month over month, yet another data point that April service economy activity remained relatively stable amidst tariff concerns
- But prices paid moved notably higher, providing some concern about go-forward inflationary pressures building

ISM SERVICES PMI



Pathstone *Source: FactSet, Institute for Supply Management*

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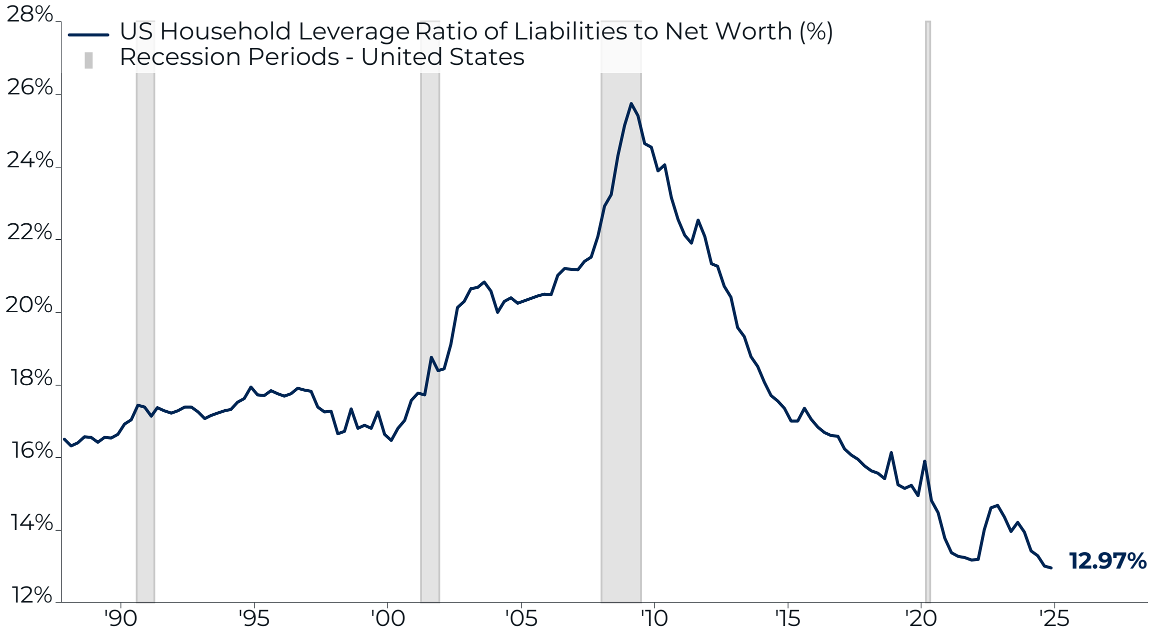
Consumers' assets have grown much faster than liabilities (debt), so household net leverage ratios are at multi-decade lows

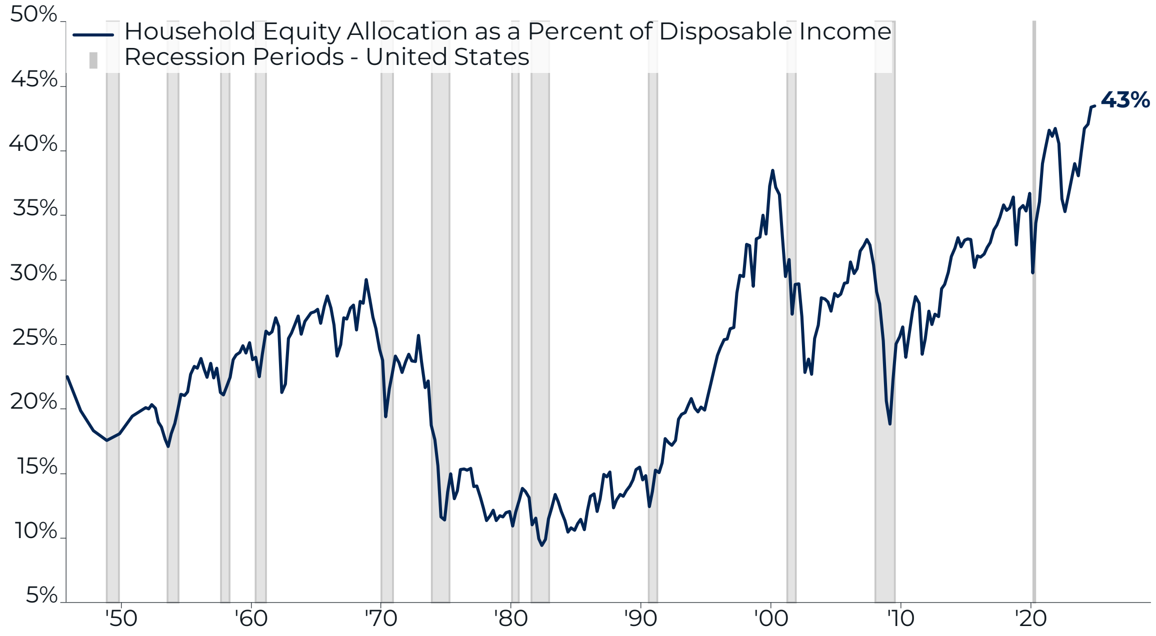
- Household assets have grown over $50 trillion since Covid to $169 trillion, which has benefited from positive fiscal impulse, home price appreciation, and equity market gains – this is, of course, in aggregate, and we do see some stress at lower income quintiles
- Notably, household equity allocations are the highest on record, which also means consumer net worth is more sensitive to changes in equity markets than ever before, and equity market pullbacks could have an outsized impact on consumer sentiment
- "Consumer resiliency" has been a key theme for several years, so with mostly stable labor markets, rising real wages, and healthy consumer balance sheets, the consumer, at a minimum, is in a stronger position to weather potential tariff shocks, for now…

US HOUSEHOLD LEVERAGE: RATIO OF LIABILITIES TO NET WORTH



Pathstone Source: FactSet, Federal Reserve

HOUSEHOLD EQUITY ALLOCATION LEVEL



Pathstone Source: FactSet, Federal Reserve

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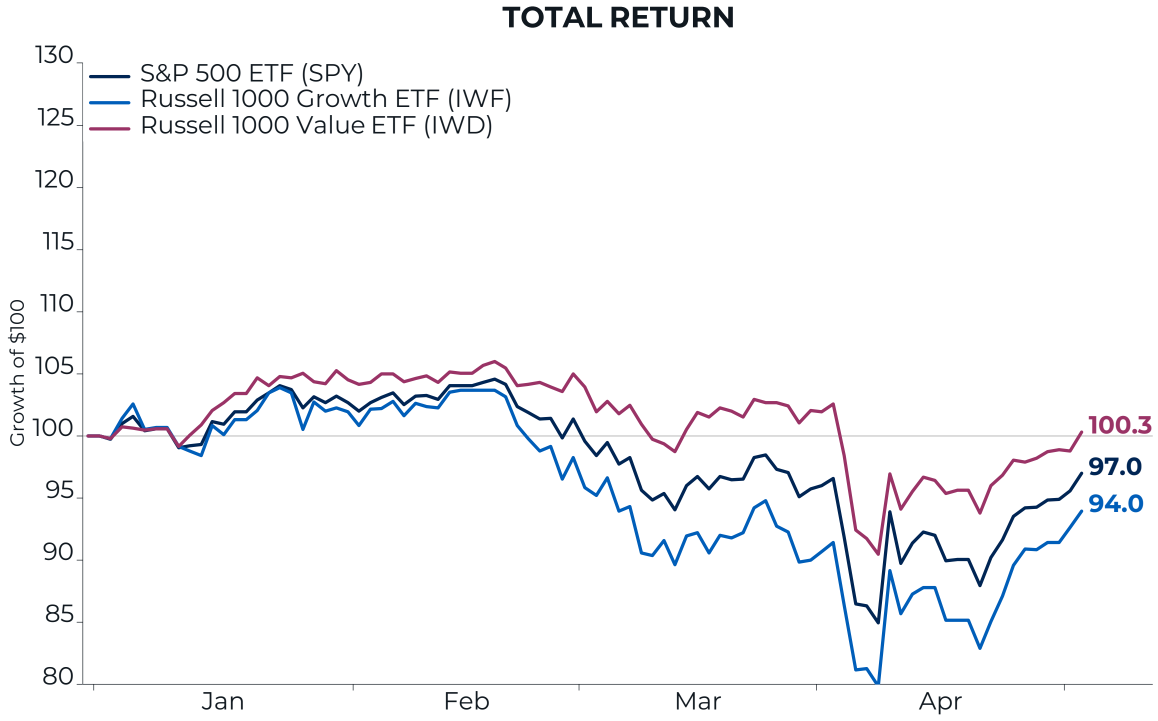
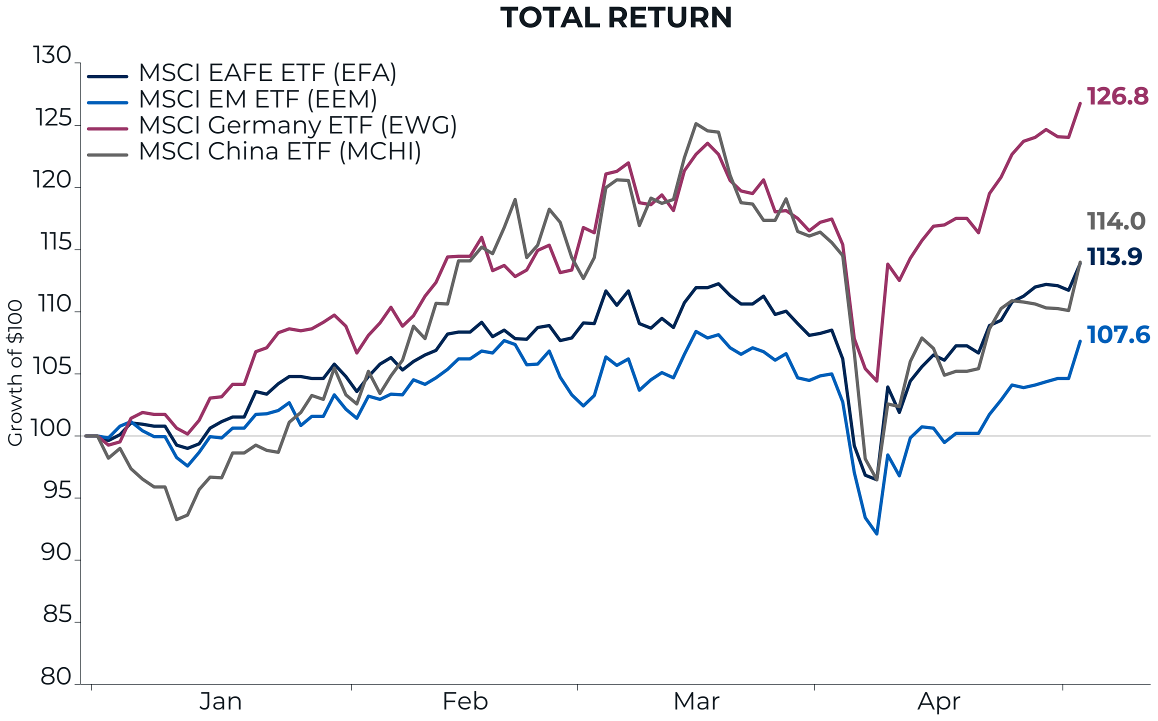
S&P 500 has fully recovered its decline following the April 2nd "liberation day" tariff announcement and is down only -3% YTD

- Large cap growth is up over 13% and large cap value almost 7% over the same 10-day period, with value now positive YTD
- International markets have also moved higher and continue to well outperform U.S. indices YTD
- Germany and China are notable upside outliers in non-U.S., where expectations and valuations were much lower than the U.S. coming into the year; both countries are injecting fiscal stimulus and domestic reforms in attempt to bolster growth





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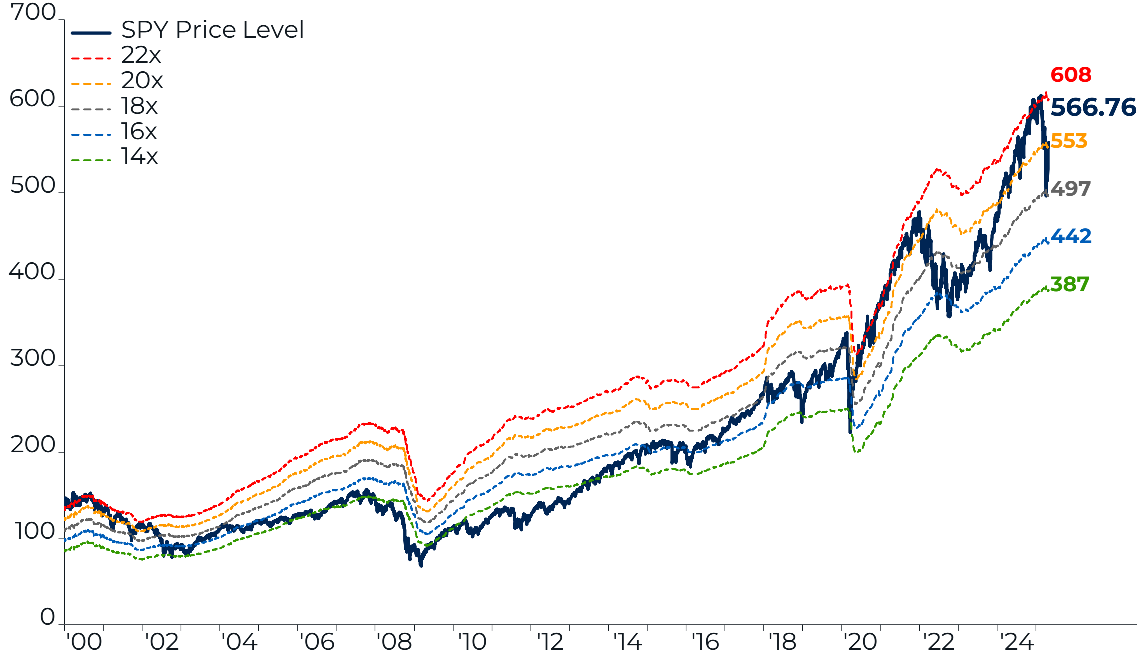
S&P 500 BACK OVER 20X NTM PE, WITH CONSENSUS ESTIMATES OF DOUBLE-DIGIT EARNINGS GROWTH

S&P 500 is back up to expensive valuation levels, while we have seen strong 1Q earnings keep 2025 earnings estimates elevated

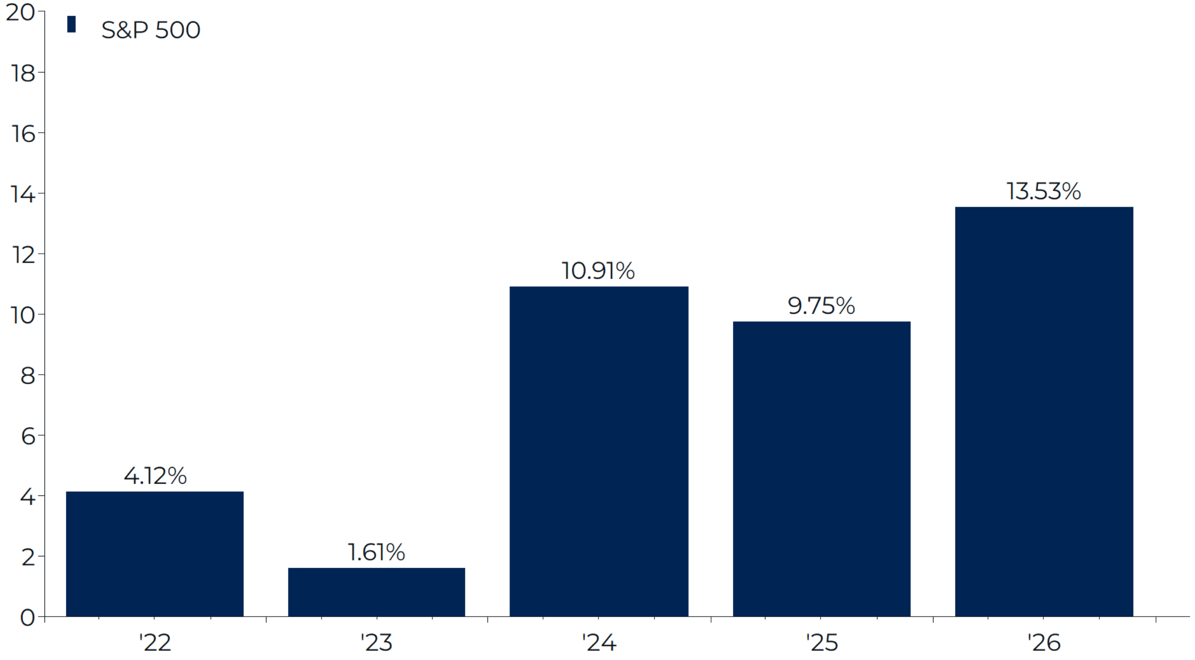
- 20.1x NTM PE is versus a historic average of 16.4x since 2000, with an "E" (earnings growth) assumption of over 10%[1]
- 1Q earnings have been ahead of consensus estimates, on pace for 12.8% vs. 7.2% estimates at the beginning of the quarter[2]
- Given the hard data through April has been better than expected, 2Q earnings expectations are holding up relatively well
- That said, we would note some caution is warranted IF tariffs stay "higher for longer", as that could present more material headwinds to corporate revenues, margins, and ultimately earnings as we move through the year
- Thus, caution is still warranted and modest underweights to equity/risk assets provide a more conservative stance

SPDR S&P 500 ETF (SPY) vs. VARIOUS NTM PE LEVELS



Pathstone *Source: FactSet*

CALENDAR YEAR EARNINGS GROWTH, ACTUALS & ESTIMATES ('25, '26)



Pathstone *Source: FactSet*

Source: 1 & 2 – FactSet.
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DISCLOSURES

Next Twelve Months Price/Earnings Ratio (NTM P/E) – A valuation metric that compares a company's current stock price to its projected earnings over the next twelve months, offering a forward-looking view of investor expectations.

Real GDP – The inflation-adjusted value of all goods and services produced within a country, used to measure true economic growth over time.

Real Final Sales to Private Domestic Purchasers – A component of GDP that excludes inventories, net exports, and government spending, focusing on underlying consumer and business demand within the U.S. economy.

Initial Unemployment Claims – A weekly measure of the number of individuals filing for unemployment benefits for the first time, indicating short-term labor market disruptions.

Continuing Unemployment Claims – The number of people who remain on unemployment insurance after filing an initial claim, reflecting ongoing joblessness in the economy.

Non-Farm Payrolls – A monthly statistic from the U.S. Bureau of Labor Statistics that measures the net number of jobs added or lost in the economy, excluding farm workers, government employees, and certain other job categories.

Unemployment Rate – The percentage of the labor force that is actively seeking work but currently unemployed, serving as a key gauge of labor market health.

PCE Price Deflator – An inflation measure from the Bureau of Economic Analysis that tracks changes in the prices of goods and services consumed by households, and is the Federal Reserve's preferred gauge of overall inflation.

Core PCE Price Deflator – A version of the PCE Price Deflator that excludes food and energy prices to better reflect underlying inflation trends.

Consumer Price Index (CPI) – A measure of the average change over time in prices paid by consumers for a fixed basket of goods and services, widely used as a benchmark for inflation.

Employment Cost Index (ECI) – A quarterly report from the Bureau of Labor Statistics that tracks changes in the cost of labor, including wages and benefits, and is closely watched by the Federal Reserve for signs of wage inflation.

Real Wage Growth – The rate at which wages increase after adjusting for inflation, indicating whether workers' purchasing power is improving or eroding.

Household Debt Service Ratio – The share of disposable income households must devote to required interest and principal payments on mortgage and consumer debt, used to assess financial strain.

Consumer Delinquency Rates on All Loans – The percentage of total outstanding loans (across all categories) that are past due, serving as an indicator of household credit stress.

Consumer Delinquency Rates on Credit Cards – The percentage of revolving credit card balances that are delinquent, reflecting financial pressure or payment behavior among households.

ISM PMI (Manufacturing PMI) – A monthly index published by the Institute for Supply Management that measures economic activity in the U.S. manufacturing sector, with readings above 50 indicating expansion.

ISM Services PMI – A monthly index published by the Institute for Supply Management that measures economic activity in the U.S. services sector—including industries like health care, finance, and retail—with readings above 50 indicating expansion.

China Manufacturing PMI – A monthly indicator of factory activity in China, published by government or private sources (e.g., Caixin), used to assess trends in output, orders, and employment.

Household Ratio of Liabilities to Net Worth – A measure of household leverage that compares total debt to total net assets, used to assess financial vulnerability or stability.

Household Equity Allocation Level – The percentage of household financial assets held in equities, often used as a sentiment or risk appetite indicator among U.S. investors