# Equity Risk Management Strategy

## Portfolio Manager Commentary

As of 3/31/2025

EquityCompass

## Q1 2025 Overview

The first quarter was a departure from what we saw in 2023 and 2024. Concerns about tariffs and their impact on the economy injected uncertainty into the market while the emergence of a chatbot introduced by a Chinese startup also led to questions around AI-related stocks that had driven market gains the last two years.

After the presidential election, with anticipation of lower corporate tax rates, coupled with fewer government regulations, investors enthusiastically embraced the stock market. These good feelings carried over into the first few weeks of the new year.

But, on February 19, the stock market narrative changed. Investors suddenly became fixated on the new administration's announcement for increased tariffs on Canadian steel, aluminum, and lumber. The trade war that candidate Trump promised had arrived. In a snap, the stock market went from euphoria to concern.

Markets don't like uncertainty, and the recent turmoil has resulted in heightened volatility and stocks retreating in the first quarter. Losses were led by those stocks that had carried markets over the past two years. While the Dow Jones Industrial Average was down 0.9% in the quarter, the S&P 500—with heavier growth exposure—declined 4.3%, the NASDAQ Composite dropped 10.3%, and Bloomberg's Magnificent 7 Index fell 16.0%. In the month of March, the NASDAQ declined by 2% or more on five occasions, the most for a single month since June 2022.

While growth stock weakness was a drag on markets, there were areas of strength. Income stocks, which had fallen in the fourth quarter, did well to start the year, with the S&P 500 Low Volatility High Dividend Index up nearly 5%. The average stock fared better than cap-weighted indices, with the S&P 500 Equal Weight Index off only 0.6%. Seven of the 11 economic sectors were higher in the quarter, with eight outperforming the S&P 500. The Bloomberg U.S. Aggregate Bond Index was up 2.8% as investors sought safety. While there is unease in the market, the sky did not completely fall.

However, the Trump administration's April 2 announcement of planned tariffs, and resulting retaliatory actions by China, roiled markets, leading to two days of intense selling and double-digit declines for both the S&P 500 and the NASDAQ Composite. Some investors have sought the perceived safety of bonds, with the 10-year U.S. Treasury yield plunging to 3.99% from 4.25% on March 31. Market volatility is likely to remain high as investors watch the situation unfold.

### Objective

Tactical allocation strategy that seeks to adjust a portfolio's equity exposure to potentially provide downside risk mitigation and volatility control

### Portfolio Management Team

Christopher M. Mutascio
*Senior Managing Director*

Timothy M. McCann
*Senior Portfolio Manager*

### About EquityCompass

EquityCompass is a Baltimore-based SEC registered investment adviser offering a broad range of portfolio strategies and custom plans for individuals, financial intermediaries, and institutional clients in the U.S. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets of approximately $5.2 billion as of March 31, 2025.*

The EquityCompass team of professionals represents deep industry experience in security analysis, capital markets, and portfolio management. We are committed to a consistent investment process that relies on enduring principles, sound empirical reasoning, and the recognition of a dynamic investment environment with a global reach.

| | Total Returns | | | Annualized Returns | | | | | Calendar-Year Returns | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3-Mos | 6-Mos | YTD | 1-year | 3-year | 5-year | 10-year | Incp. | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Gross % | -1.34 | -0.16 | -1.34 | 5.56 | 1.98 | 10.17 | 5.47 | 7.61 | -0.41 | 7.32 | 21.24 | -5.45 | 5.97 | 2.91 | 27.15 | -18.75 | 11.60 | 12.04 |
| Benchmark % | -1.28 | 0.06 | -1.28 | 5.05 | 4.94 | 11.24 | 5.95 | 6.33 | -0.97 | 5.47 | 13.29 | -7.14 | 13.71 | 17.89 | 11.67 | -10.13 | 11.37 | 11.87 |
| Net % | -2.07 | -1.64 | -2.07 | 2.43 | -1.03 | 6.93 | 2.37 | 4.45 | -3.31 | 4.15 | 17.70 | -8.25 | 2.82 | -0.10 | 23.50 | -21.19 | 8.33 | 8.71 |

As of 3/31/2025; Inception – October 1, 2012; Benchmark = HFRI Equity Hedge Index
ERMS performance represents the standalone Separately Managed Account (SMA) strategy on Stifel's Custom Advisory Portfolio platform.
Net returns reflect the deduction of the potential maximum managed account fee of 3.00% which includes the wrap sponsor fee and EquityCompass investment management fees. Actual fees may vary.

## Allocation Overview

During the first quarter, the **Equity Risk Management Strategy (ERMS)** remained in a neutral position, as it has throughout the past several quarters—allocated between 50% equities and 50% cash and short-term 1-3 month U.S. Treasury bills.

Corporate earnings expectations, while upward trending, have begun to reflect the uncertainty created by the potential ramifications of evolving tariff policies. Although expectations for earnings suggest a more favorable growth outlook in the back half of the year, companies have begun to temper those expectations. We will continue to monitor those trends to see if heightened uncertainty materializes into a reduced outlook for corporate earnings. From an economic perspective, high-frequency data confirms a mixed picture for corporate earnings and the economic outlook.

With yields on short-term 1-3 month U.S. Treasury bills offering a compelling opportunity to lower the risk profile of the portfolio without deterring from its long-term objectives, we remain comfortable with the current positioning of the tactical allocation while paying close attention to the potential impact of global trade developments.

### Most Dominant 2023/2024 Trends Reversed in Q1 2025 — Table 1

As of 3/31/2025 | Source: Bloomberg Finance, LP

| | 2020 | 2021 | 2022 | 2023 | 2024 | Q1 2025 |
|---|---|---|---|---|---|---|
| **Weighting Methodology** | | | | | | |
| S&P 500 Index | 18.4% | 28.7% | -18.1% | 26.3% | 25.0% | -4.3% |
| S&P 500 Equal Weight Index | 12.8% | 29.6% | -11.4% | 13.9% | 13.0% | -0.6% |
| **Sector** | | | | | | |
| S&P 500 Information Technology | 43.4% | 34.2% | -28.4% | 57.4% | 36.3% | -12.7% |
| S&P 500 Communication Svcs. | 23.2% | 21.3% | -40.0% | 55.4% | 39.8% | -6.3% |
| S&P 500 Consumer Discretionary | 32.9% | 24.2% | -37.2% | 42.0% | 29.8% | -13.9% |
| S&P 500 Industrials | 10.4% | 20.6% | -6.0% | 17.5% | 16.9% | -0.3% |
| S&P 500 Financials | -2.4% | 34.3% | -11.1% | 11.5% | 29.9% | 3.4% |
| S&P 500 Materials | 19.9% | 26.6% | -12.8% | 11.8% | -0.6% | 2.7% |
| S&P 500 Health Care | 12.8% | 25.5% | -2.4% | 1.5% | 2.1% | 6.4% |
| S&P 500 Consumer Staples | 9.8% | 17.7% | -1.4% | -0.3% | 14.0% | 5.0% |
| S&P 500 Real Estate | -3.1% | 45.1% | -26.8% | 11.1% | 4.2% | 3.3% |
| S&P 500 Energy | -34.8% | 52.5% | 63.7% | -2.4% | 4.7% | 9.9% |
| S&P 500 Utilities | -0.5% | 16.6% | 0.7% | -8.0% | 22.3% | 4.7% |
| **Size** | | | | | | |
| S&P 500 (Large) | 18.4% | 28.7% | -18.1% | 26.3% | 25.0% | -4.3% |
| S&P MidCap 400 | 13.7% | 24.8% | -13.1% | 16.4% | 13.9% | -6.1% |
| S&P SmallCap 600 | 11.3% | 26.8% | -16.1% | 16.1% | 8.7% | -8.9% |
| **Style** | | | | | | |
| S&P 500 Growth | 33.5% | 32.0% | -29.4% | 30.0% | 36.1% | -8.5% |
| S&P 500 Value | 1.4% | 24.9% | -5.2% | 22.2% | 12.3% | 0.3% |
| **Performance Spreads** | | | | | | |
| Cap Weight – Equal Weight | 5.6% | -0.9% | -6.7% | 12.4% | 12.0% | -3.7% |
| Large Cap – Small Cap Spread | 7.1% | 1.9% | -2.0% | 10.2% | 16.3% | 4.7% |
| Growth – Value Spread | 32.1% | 7.1% | -24.2% | 7.8% | 23.8% | -8.8% |

**DISCLOSURES**

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The Equity Risk Management Strategy invests primarily in ETFs, which are subject to the risk that the values will fluctuate with the value of the underlying investments or indices the ETFs are tracking. ***Exchange Traded Funds (ETFs) represent a share of all stocks in a respective index. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal, and may trade for less than their net asset value. The value of ETFs will fluctuate with the value of the underlying securities. Investors should review the prospectus and consider the ETF's investment objectives, risks, charges, and expenses carefully before investing. Prospectuses are available through your Financial Advisor and include this and other important information.*** Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications.

The **S&P 500® Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The **S&P 500 Equal Weight Index** is based on the S&P 500. All index constituents are members of the S&P 500 and follow the eligibility criteria for that index. The S&P EWI is maintained in accordance with the index methodology of the S&P 500, which measures 500 leading companies in leading U.S. industries. The S&P EWI measures the performance of the same 500 companies, in equal weights. As such, sector exposures in the S&P EWI will differ. The **S&P MidCap 400®** provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis. The **S&P SmallCap 600®** seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The S**&P 500® Growth Index** measures constituents from the S&P 500 that are classified as growth stocks based on three factors: sales growth, the ratio of earnings change to price, and momentum. The **S&P 500® Value Index** measures constituents from the S&P 500 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price. The **S&P 500 Low Volatility High Dividend Index** measures the performance of the 50 least-volatile high dividend-yielding stocks in the S&P 500. The index is designed to serve as a benchmark for income-seeking investors in the U.S. equity market. All components of the S&P 500® are assigned to one of the eleven **Select Sector Indices**, which seek to track major economic segments and are highly liquid benchmarks. Stock classifications are based on the Global Industry Classification Standard (GICS®). Capping is applied to ensure diversification among companies within each index. The **Dow Jones Industrial Average (DJIA)** is an unmanaged, price-weighted index that consists of 30 blue chip U.S. stocks selected for their history of successful growth and interest among investors. The price-weighted arithmetic average is calculated with the divisor adjusted to reflect stock splits and occasional stock switches in the index. The **NASDAQ Composite Index**, comprised mostly of technology and growth companies, is a market value-weighted index of all common stocks listed on NASDAQ. The **Bloomberg Magnificent 7 Index** is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by the Bloomberg Industry Classification System (BICS). The indices are calculated in Price, Total and Net Return variants. The **Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency). The **HFRI Equity Hedge Index** is a fund-weighted index of strategies that maintain positions both long and short in primarily equity and equity derivative securities. All index returns are shown on a total return basis and assume that all cash distributions, such as dividends, are reinvested. The volatility of the indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

*Total assets combines both Assets Under Management and Assets Under Advisement as of March 31, 2025. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

**Past performance does not guarantee future performance or investment results.**



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