



Wealth Management Report

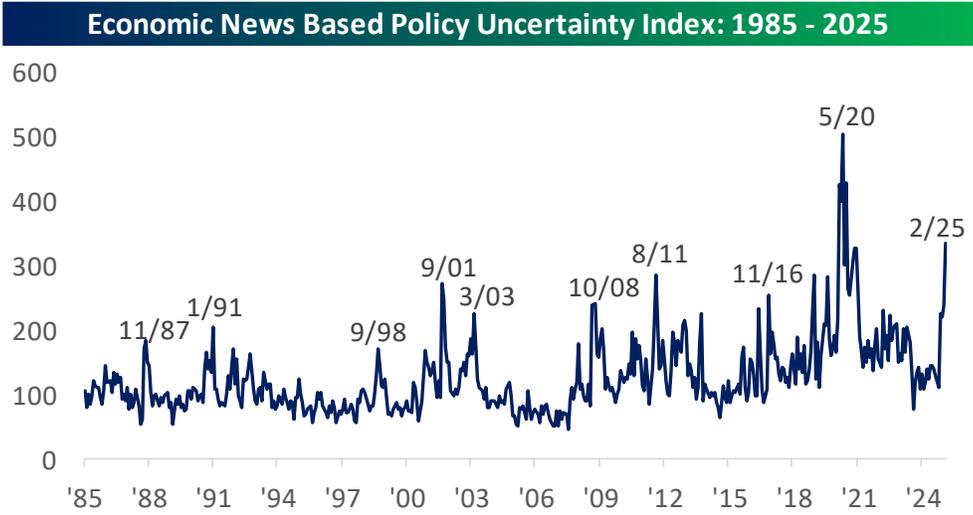
Dear Investors:

On March 18th, Google parent Alphabet (GOOGL) announced a \$32 billion deal to acquire Israeli cybersecurity startup Wiz. Any M&A transaction with that big of a price tag will always make headlines, but for Alphabet, it ranks as the company’s largest ever, and it’s also one of the largest in Silicon Valley history. Keep in mind that Wiz is barely five years old; it was founded in March 2020 right at the depths of the Covid lockdowns.

Think back to March 2020 for a minute. Businesses and schools around the country were closing, air traffic came to a halt, Americans were locked down in their homes, store shelves were empty (at least with the things you needed), markets crashed, and all anyone could do was watch TV for the latest updates on case counts and the daily briefings from President Trump, Tony Fauci, and Andrew Cuomo. Amid the chaos, four entrepreneurs got together at what many would have called the worst time possible, and they decided to launch a cloud cybersecurity startup - one that is now worth \$32 billion. In retrospect, it all looks so easy, but hindsight is 20/20.

Covid is history (thankfully), but another wave of uncertainty concerning geo-politics, trade, and tariffs has engulfed markets and the economy over the last three months. Investors have been forced to reassess how a herky-jerky trade and tariff policy will impact inflation, economic activity, and ultimately corporate profits. Meanwhile, countries around the world have found themselves embroiled in a “he loves me, he loves me not” type game with respect to the size of the tariffs that the Trump administration will place on their exports to the United States.

All this confusion has caused measures of ‘uncertainty’ to surge to some of their highest levels ever recorded. The *Economic News Based Policy Uncertainty Index* measures mentions of words or phrases related to ‘uncertainty’ in ten of the country’s largest newspapers. In October, the index was at a level of 109, or modestly below its average historical reading of 125. In just four months, the index has more than tripled to 335, which is a level it has only exceeded once before: during the Covid crisis.





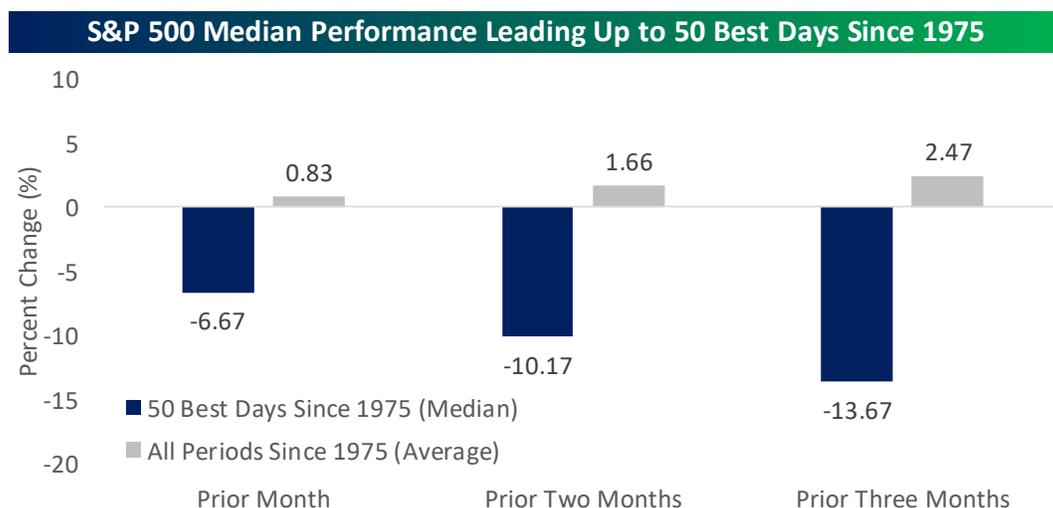
Wealth Management Report

With uncertainty near the highest levels ever recorded, you can't fault investors for wanting to take a step back. The phrase about markets *climbing a wall of worry* has become a cliché, but there really is truth to it. Going back to 1985, the current period represents the tenth spike in uncertainty, but a year after the nine prior peaks, the S&P 500 was higher eight times for a median gain of 18.9%. The only exception was after the 9/11 attacks during the unwind of the dot-com bubble. The market repeatedly teaches investors that the worst time to panic is when everyone else is doing the same.

Investors most frequently tend to panic during periods when the market has already experienced big drawdowns. Eventually, the weakest hands reach a breaking point, and they want out. In doing so, they often miss out on what have historically been the best market days. Over the last 50 years, the 50 best days for the S&P 500 have seen gains of between 4.0% and 11.6%, and as shown in the chart below, they typically follow periods of major weakness.

The chart shows how the S&P 500 performed in the one, two, and three months leading up to the 50 best days for the index over the last 50 years. One month before the best 50 days, the S&P 500 was down by a median of 6.67% and was only up in the month leading up to the big gains 18% of the time. Similarly, two and three months before the 50 best market days in history, the S&P saw median declines of 10.2% and 13.7% respectively, and the S&P 500 was higher only 12% of the time!

Missing out on the stock market's best days will seriously impair investment returns over time. Based on the S&P 500's performance over the last 50 years, a \$1,000 investment at the start of 1985 would be worth \$82,780 today (not including dividends), which works out to an annualized gain of 9.2%. Had you missed the 50 best trading days during that period, that same \$1,000 would be worth just \$5,801, or an annualized gain of just 3.6%. Odds are that you wouldn't miss all of the best days, but for every one of those days missed, returns suffer.





Wealth Management Report

Surveys show that consumer optimism has been negatively impacted by the uncertainty surrounding the tariffs the Trump Administration plans to enact and what the impact of those tariffs will be on prices. Consumers say they are taking a more cautious tone in terms of spending, but that hasn't played out in the actual economic data—yet. Consumers and businesses are saying one thing but still doing another. By its nature, economic data is backward looking, so it may just be that the weak sentiment has yet to show up in the data. However, jobless claims are one of the most real-time indicators we have, and they have shown no notable increase. Through the week ending 3/21, initial jobless claims were slightly below their one-year average, and each of the last four weekly reports was lower than expected. If the economy was rapidly weakening, jobless claims should be much higher.

The tape-delayed nature of economic data means that the upcoming earnings seasons beginning in April could give us a better idea as to how the economy is shaping up. Corporate management teams will have no incentive to sound overly optimistic, but their commentary will give clues as to how bad things really were or are. Between the fires out West and some extreme cold weather, there were multiple one-time items that may have impacted results early in the quarter, but commentary regarding March and the early days of Q2 will be key.

Two of the biggest questions we face now are, within the US, can the mega-caps that account for ~30% of the market bounce back after a rough Q1, or should investors look elsewhere? And separately, from a global perspective, will the outperformance of international stocks that we saw play out in Q1 have lasting staying power?

Starting with the mega-caps as a group, given their outperformance over the last decade, the biggest gains are probably behind them. Of the ten largest stocks in the S&P 500 as of year-end 2024, all ten were up at least 200% (not including dividends) over the last ten years, and their median gain was 913% (the average was nearly 3,700% because of Nvidia's gain of nearly 26,700%). Over that same period, the S&P 500 was up just 185%, meaning that all ten of the largest stocks outperformed the overall index. These stocks could keep rising, but they can't outperform forever. The creative destruction of capitalism means that new leaders will eventually emerge.

To cite another example, March also marked the 25th anniversary of the dot-com peak. Of the ten largest stocks in the S&P 500 in March 2000, their average performance in the 25 years that followed was a gain of 134%, which was less than half of the 275% gain in the S&P 500. Of those ten stocks, only two – Microsoft (MSFT) and Walmart (WMT) - have outperformed the S&P 500 since then, and MSFT is the only one still in the top ten now. It's almost a guarantee that the list of the ten largest stocks in 2050 will look much, much different than the list now. While there are a few mega-caps that we still like long-term, our larger focus as growth managers is finding “the next mega-caps.”



Wealth Management Report

When it comes to US versus international stocks, the valuation gap was at historically extreme levels coming into the year, so the case can be made that investors should increase their exposure to international markets at the margins. However, in a potential trade war, international companies are more at risk than US companies. US companies already collectively face higher barriers to international trade than their counterparts who export to the US. Higher tariffs on imported goods would only put US and international companies on a more equal footing.

This letter serves as another example of how much the topic of tariffs has impacted the economy. Forecasting their impact would be hard enough even if we knew the actual levels and countries the tariffs would impact. Making matters worse, no one, perhaps not even the President himself, knows what the actual levels will be. Two months into the second Trump Administration, officials have made numerous announcements that have contradicted previous statements that themselves contradicted prior statements. Forget about a firm policy, at this point, we'd be happy with a fluid situation rather than the current arbitrary state of affairs.

The President has referred to April 2nd as "Liberation Day," and investors hope that it will be a day when we finally start to get some clarity on tariffs. That seems unlikely. Even if the administration announces a set of policies and doesn't make any subsequent changes, who knows what the responses of the countries facing tariffs will be? Will they back down and lower their duties? Will they do nothing? Or will they retaliate. All three potential responses will result in different market outcomes. April 2nd could just add more short-term confusion.

After a solid start to the year, the sharp declines in the second half of Q1 serve as a reminder that the market isn't a one-way street. As painful as the declines have been in the short-term, they also deflated much of the optimism that pervaded the markets towards the end of last year. That's bullish longer-term. But volatility and uncertainty doesn't usually just turn off with a switch. Like a fog, though, it does burn off. Sometimes it takes longer than others, but eventually the sun will come out again, trees will bloom, birds will chirp, and stocks will rally.

It's never easy to keep calm during a market correction or bear market, so if you find yourself feeling uneasy, please reach out. We're here to help you stay grounded in any market environment and can make adjustments where needed should we collectively agree that it's warranted.

If you'd like to speak with us about our wealth management services, please email us at client@bespokeinvest.com or give us a call any time at 914-315-1248. You can also learn more about Bespoke Wealth Management at our [website here](#).