THE BARRISTER QUARTERLY

BARRISTER

PLANNING | INVESTMENTS | INSURANCE

Issue: 1Q2025

Charles C. Weeks Jr., JD, CFP®
Founder

Barrister was founded with the sole mission of offering clients an opportunity to meet their financial objectives through independent, ethical, unbiased and expert professional guidance.

Barrister works with individuals, companies and non-profits providing financial planning, asset management, insurance, and employee benefit solutions.

501 Office Center Drive
Suite 125
Ft. Washington, PA 19034
contact@barrister.net
www.barrister.net
800-465-8140

Dear Friends,

It is amazing how quickly things can change in just a span of a few weeks. On February 26th I was playing golf with a couple friends who don't work in finance. We were discussing market darlings NVIDIA and Palantir. Those stocks had recently sold off a bit, but both of my friends were extremely confident that they were screaming buys with any price pullback. Who could blame them? We have been spoiled over the past 15 years with low volatility, extremely low interest rates and a market that bounced back with every dip. As investors though we can't base our decisions squarely on past performance, we definitely can't react emotionally based on current market conditions, we have to be forward looking and invest accordingly.

As you all know I have been tilted defensively now for some time, mainly because markets were extremely overvalued and other economic and financial factors that I have previously written about. However, I was a bit early and that is why we are never all-in or all-out when we invest. This holds true when we are optimistic about markets as well as when we think capital preservation should be our main strategy, as it remains to be today.

I have been fielding calls and emails from very nervous clients about the state of their portfolios. Based on overall index performance, some individual stock performance and the terrible headlines they are reading, they all assumed they had large drawdowns. Thankfully, because their portfolios already had reduced equity exposure, and were well-diversified, they were happy to see that was not the case. Year-to-date the S&P 500 is down 13.73%, NASDAQ is down 17.20% and the Russell 2000 which tracks small-cap stocks is down 18.08%. Client portfolios are only down a fraction of those numbers, that includes our Aggressive, Moderate and Conservative model portfolios.

I believe over the short-term there will be more market pain to come, and in a more detailed explanation below I will explain why I think this administration was willing to inflict it.

Best,

Today I learned that the Fed Chair, Jerome Powell, only wears purple ties because he doesn't want anyone to think that if he were wearing a red or blue tie, that he was choosing one political party over another. What follows is not political, nor does it delve into the pros and cons of specific policies like tariffs. Like the Fed I keep politics out of how I manage assets. Whether Democrats or Republicans are in charge, it is my responsibility to analyze fiscal and monetary policy, economics, and financial markets, and to position client portfolios as optimally as possible given the environment we find ourselves in. Here is my best effort to explain why the administration is doing what it is doing, and why if it was not this one, it would have been another.

Improve the long-term trajectory of the government's finances

The US government has not had a balanced budget since 2001. In the early 2000's we were mainly able to cover our annual federal spending without borrowing relatively large sums versus our revenues. However, with the Great Financial Crisis we had four years in a row with deficits in each year of over $1 trillion dollars. Borrowing settled back down (still almost $500 billion!) in 2015 but with an aging population and a growing federal government, we began spending more and more each year until 2019 when we were back at almost a trillion-dollar annual deficit again. This likely would have continued back at a normal growth rate but when COVID hit, spending, and therefore deficits, grew exponentially. In '20 our deficit was $3.13 trillion, '21 was $2.77 trillion, '22 was $1.38 trillion, '23 was $1.7 trillion, and '24 was $1.83 trillion. Unlike in other crises there was no reduction in government spending when the markets and economy improved. From 2015 through 2024 our federal spending as a percentage of our GDP stayed around 20% outside COVID times, but some would argue we were using a very loose monetary and fiscal policy to keep the economy growing, moving away from a more market-based economy. The problem with that strategy is that if you continue to use government spending and you have to fund it through borrowing, eventually you will not be able to borrow enough or inexpensively enough to keep it going. Think about if you ran your household how we had been running the government, borrowing more and more each year on credit cards and using those funds to attempt to increase your income, but your income wasn't growing at a rate high enough to cover your increased spending each year. Initially as your debt level increased lenders would increase your interest rates to compensate for the chance you may default, that would increase your interest expense causing you to borrow more until you eventually went bankrupt. $7.6 trillion government debt, about 31% of all outstanding debt, will be maturing in the next year. Treasury Secretary Bessent has been very clear that his focus is on lowering interest expense, in a recent interview he said; "The 10-Year bond, having almost peaked at five, is now through four. Every basis point is about a billion dollars in savings, so we've saved $100 billion. We're setting the sails for much better fiscal times." How do you push the 10-year down and continue to do so? By eliminating annual deficits and reducing the need to borrow, therefore lowering the supply of government bonds. Prices go up with limited supply, pushing interest rates down. DOGE is an attempt to reduce government spending outside of interest expense, while tariffs are an attempt to increase government revenues. Deflation can also lead investors to seek "quality" or "safe" investments, which again would limit supply and decrease interest rates. Since April 2nd Oil is down 11.54%, the S&P is down almost 9%, Gold is down 2.87% as is the 10-year treasury rate, this all points to market participants expecting deflation.

Reduce U.S. reliance on foreign manufacturing specifically in Asia

COVID brought the realization for many citizens how little we manufacture here in the U.S. All of a sudden it became very difficult to get emergency room drugs from India, new cars with chips from Taiwan and even golf clubs produced in China. Now imagine in a time of war with a country like China, what would happen. The first thing China would do is block U.S. trading access to Vietnam, Philippines, South Korea and especially Taiwan where Taiwan Semi is a major producer of semiconductors for U.S. military systems. China has brought the U.S. very cheap goods through their near zero labor costs which made manufacturing very inexpensive. In turn we enriched a nation who spent heavily on their military and who has over the years become more and more aggressive towards the U.S. and its allies in the Pacific. Over the years we thought we were exporting democracy and capitalism to China, meanwhile in reality they were importing their communist beliefs while openly stealing our company's technology, supplying Mexican cartels with fentanyl killing hundreds of thousands of Americans and using Tik-Tok to spy on its users. It would seem we are at a point where US citizens have to ask themselves are they willing to trade national security for cheap products?

MARKET & ECONOMIC INDICATORS

Indicator	*Note [change vs prior quarter]*
Investor Sentiment AAII	43.4 Bullish [-2.9%] | 32.5% Neutral [+3.9%] | 24% Bearish [-1.1%]
Investor Sentiment CNN	46 Neutrel [-30]
Leisure and Entertainment (PEJ)	Up 10.56% YTD, beating the S&P 500 by .17%
Technology (XLK)	Up 8.38% YTD, trailing the S&P 500 by 2.01%
SemiConductors (SMH)	Up 28.66% YTD, beating the S&P 500 by 18.27%
Financials (XLF)	Up 12.44% YTD, beating the S&P 500 by 2.05%
Staples (VDC)	Up 7.36% YTD, trailing the S&P 500 by 3.03%
Healthcare (XLV)	Up 8.71% YTD, trailing the S&P 500 by 1.68%
Utilities (XLU)	Up 4.52% YTD, trailing the S&P 500 by 5.87%
Commodities (PDBC)	Up 4.29% YTD, trailing the S&P 500 by 6.1%
Real Estate (ICF)	Down 1.31% YTD, trailing the S&P 500 by 11.7%
20yr+ Treasury (TLT)	Down 3.70% YTD, trailing the Barclays Bond Index by 2.96%
2yr/10yr Government Bond Spread	Spread is negative at -.37% [-.02 bps]
High Yield Bonds (HYG)	Up 1.51% YTD, beating the Barclays Bond Index by 2.25%
HYG spread vs 10yr Treasury	+316 bps [-23 bps]
YOY Corporate Earnings	Analysts increased earnings estimates 6% for Q1, a record-high
Central Bank Activity	Fed holding steady with only two expected interest rate cuts in 2024
Average Hourly Earnings	YOY increase of .6% for the period ending March 2024
Fund Flows	-$45.03 billion from equity funds and +$24.86 billion to bund funds over the past 30 days
Market Breadth	S&P 500, Dow & NASDAQ all declining off recent highs

DISCLOSURES

Past performance may not be indicative of future results. Historical performance results for investment benchmarks/indexes have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that an account's holdings correspond directly to any comparative benchmark or index. Each index used as proxy for a given asset class/investment category referenced in this newsletter is a commonly used benchmark for that asset class. An investor may not directly invest in an index.

Some information in this newsletter is gleaned from third party sources, and while believed to be reliable, is not independently verified. Other information presented herein is based upon facts derived from publicly available information, and is also based on certain assumptions, including that there are no additional changes to current tax law, and that demographic information regarding retirement plan contributions also remains unchanged.

This material is intended to be educational in nature, and not as a recommendation of any particular strategy, approach, product or concept for any particular advisor or client. These materials are not intended as any form of substitute for individualized investment advice. The discussion is general in nature, and therefore not intended to recommend or endorse any asset class, security, or technical aspect of any security for the purpose of allowing a reader to use the approach on their own. Before participating in any investment program or making any investment, clients as well as all other readers are encouraged to consult with their own professional advisers, including investment advisers and tax advisors. Barrister can assist in determining a suitable investment approach for a given individual, which may or may not closely resemble the strategies outlined herein.

Barrister is registered as an investment adviser within the jurisdictions in which it is required to do so, Registration as an investment adviser does not imply any certain degree of skill or training. Barrister's ADV Firm Brochure is available at www.Barrister.net