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CAPTRUST Investment Committee

Update on Tariffs

Mike Vogelzang: Welcome to our call with the CAPTRUST Investment Team. As Kara said, I'm Mike Vogelzang. I'm the Chief Investment Officer here at CAPTRUST. I'm joined by a few moment, a few members of the team and a few minutes. Senior Director of Portfolio Management and Jim Underwood will be joining. And as also joined by our senior investment strategist Sam Kirby.

Whenever we have a call like this, you can rest assured that it's not because the stock market was up 5% the day before. Clearly we have a lot of upset going on in the market. Mostly caused and catalyzed by tariffs. So today we're gonna be digging into a number of things. One is the changing world trade landscape, of course, right?

What we know and more importantly, what we don't how the trade tariffs will impact the global economy. And then of course, to follow up on those two, what are the investment implications? Around the increased trade tariffs that we've seen. We'll have some time at the end for q and a. So please drop any comments you have or questions you have into the chat box, and our team will try to curate them into groups of topics that are most on your mind.

We shouldn't be terribly long, I'm hoping 20 to 25 minutes of prepared comments and then into your q and a. A couple of other just administrative notes. One, we have a, on the call today, a wide range of CAPTRUST clients. Some of our clients are in our defined contribution business.

Some are in our wealth space, and others we have as endowment clients, foundation clients, and so on. Nothing will say today is specific to your portfolio. You have an advisor that's why we you have one. Our job is really to try to be a general discussion today around the state of Mark.

And lastly, I don't like to say this, but we have to, in addition, in today's world, it's impossible to escape politics or sounding political in quotations whenever discussing economic policy. So please rest assured that we have no agenda, we have no political motive here. Our goal is to simply play the ball as it lies to see the reality that we face and to respond in the best and the most productive way we can.

But we do have opinions. That's what you pay us for, after all. And you'll hear some of those today, but they come through the lens of investment professionals, not political or political creatures or politicians. So with that let's jump in. So for the last number of decades, America has been simply the shiniest star on the tree in terms of investment destinations.

The world is a hyper competitive place, and the US has been in the number one place for investors of all kinds, insurance companies, foreign sheex, oil, magnates, you name it. They come to the United States to invest. What do they find here? They find most importantly, they can rely on the rule of law. They rely on the safety of our markets and regulation of our markets.

They rely on the strong innovation in our companies. They look for good and stable returns, which frankly have been better than almost any company or any country. In the last 20 years. We've had strong growth, high levels of productivity, growth in that productivity, which is really important and an incredibly resilient economy.

Our specific topic today won't discuss tariffs a whole lot. There's plenty you can click on and find out about tariffs and people's opinions on them and the facts around them. Nothing we can say today will change the fact that tariffs are here. So rather we're gonna concentrate on the market's reaction and how it might change or continue in the days and weeks ahead.

Kara, if we could jump to the first slide please. Generally, tariffs are an increase inefficient in the inefficiency of global, of the global economy. That is to say they. Increase the drag on the global economy. They decrease efficiency. They simply raise the cost of doing business, right? There's nothing they add.

They don't add productivity. They don't add new interesting ideas about how to make a product better. They simply raise costs. So by that definition, tariffs are inefficient. The size of the US tariffs that were announced this week are massive. They're gonna amount to, as you can see in the slide here, they're gonna amount to roughly 20% of.

A GDP. This is the highest level of tariffs we've seen since back, in the end of World War I, a hundred years or so. We know how the late the 1920s ended and that's when tariffs, frankly, really began to come down. With that as precedent, right? We're a little concerned about the size, but what's really incredible is if you look at this next slide with \$600 billion in tariff that actually exceeds.

The amount of corporate tax revenues that the US government takes in any year. So tariffs with the revenue could replace the corporate tax revenue for the US government. It's an astonishing number and it gives you a sense of how large this is. By the way, as an aside, one of the goals of this tariff program is to really offset revenues that are gonna be lost through tax cuts that are likely to be coming, but that's a different webinar.

We'll talk about that another time. As a result of these tariffs, the markets are seeing the inefficiency increase that is efficiency fall, and questioning the resilience of the US economy and the global economy. In normal times, we all know this, stock prices and interest rates generally hover around equilibrium, where the majority of players in the system agree that.

The prices are about right. We get squiggles every day, a stock up and down here and there, but generally things move pretty slowly around that equilibrium. That is given what we know. But when a major external variable and externality, as the economists like to call it, think covid, think massive defaults on home mortgages back in the global financial crisis in 2007 and eight, think about, oh, I don't know, a global tariff war when those external variables come in and impact the market.

Impacts those calm, that calm equilibrium. Markets have to find a new balancing point and the markets are searching for that balancing point right now. If you haven't looked on today's market action, I would encourage you not to US markets are down about 4%. Again, international markets are down anywhere from two to four.

So yes, we're having a desperate search is going on today. So before this morning's, I wanna show the next slide, next few slides please. Kara, the US market has actually dropped about 12 point a half percent from its high in February 19, down 8% for the year. So not a horrible year, not much fun, but 12 point a half percent from its high, which is important.

Small companies, however, have been hit much worse. They're down 14% from their high inter international markets. After trailing the US for decades are actually a bright spot this year. They're up about 6%. Yeah, those are small and large. I'm sorry, I'm looking at the slides. What's the next slide look like, Kara?

So that's international. You can see clearly a, an upside here. While they're not up 5.8% anymore, there's, after today they're still up three or 3% or so. And the next slide, bonds have also been involved with this repricing with the yield on the 10 year treasury dropping precipitous.

Treasury notes were at, we're paying 4.57% at the beginning of the year, and today they're around 3.9. Another topic, which we might answer questions on later is this could have a big impact on the housing market, which is a positive, so we'll see. We'll talk about that later. One critical variable in trying to understand the market's destination in this is the R word, are we going to have a recession?

Without a recession, if we have an earnings or a growth slowdown, let's say from two and a half percent GDP growth down to 1%, markets tend to fall modestly anywhere from 10 to 15, 18%. Stay away from that 20% bear market definition. And again, that's if it doesn't fall into a recession, but if it does, the damage to stocks is generally worse.

If we do get to recession, generally damage gets worse. So it's important here to point out. That as the old phrase goes, the market has predicted nine out of the last three recessions, right? So there's lots of false positives in this data set. But today the odds of a recession are rising quickly.

The damage of course being done by the burgeoning tariff war at the beginning of the year, odds from forecasters on Wall Street for for a recession were around 10 or 15%, roughly, right? So would we have a recession in 20 25, 10, or 15% chance? Today, that's well over 50%, probably around 50, 45 to 60% depending on who you ask.

So that's really important for us and that's why the market struggling a little bit. So why are recessions so critical to stock prices? Because the health of the economy or not in this case, has a huge impact on corporate profits, which is what price, equities, the earnings, the companies we invest in on your behalf.

What did they earn? And then what's the multiple of those earnings in their price? So if the earnings fall prices will fall almost every time. So expectations for 2025 and 2026 earnings are just beginning to inch a bit lower. We haven't seen wholesale markdowns yet, but it's a fair assumption that these inching down assumptions or expectations will continue to fall and maybe faster throughout the spring and the summer.

As analysts sharpen their pencils, figure out how much fewer yoga pants yo Lulu's gonna sell because the prices will be higher, or how much less furniture Williams Sonoma will sell at REM with higher prices. In addition, companies will provide guidance. The first quarter earnings announcement season talks about companies, how the companies did in the first quarter, we'll just beginning is just getting underway.

We will really ramp that up in the next week or so. We're gonna learn a lot more about the direction of earnings this month. Something we're paying very close attention to in our, specifically in our research team and our individual security stock research team. So that's the scope of the problem and the challenge we have.

I'd like to introduce Jim Underwood. On the call, Jim's gonna talk a little bit about investment implications around these tariffs around a slowing economy weaker profits. Jim's down in Alabama. I live in Boston. And together we make a, we make an unusual pair but as Jim likes to say, he teaches me sometimes how to speak Southern.

So I'll I'll let Jim take it away from there.

Jim Underwood: I appreciate it, Mike. I think for a lot of the reasons that you, you mentioned earlier, given the wide audience that we have, we're gonna, I'm not gonna get into very specific trades 'cause your portfolio is definitely gonna be custom to your situation.

But I wanna provide a little context for a lot of the subjects that we're debating within the investment committee. Gonna start with two concepts that really shape how I think about investing broadly, and there's certainly applicable today. The first is Lory Deon's definition of risk. He argues risk means more things can happen than will happen.

It sure feels like the range of things that can happen today is exceedingly wide. Heck, even Chairman Powell, I think acknowledged that this wider range of potential outcomes recently has been when he commented that however fat you think the distributions are, they're even fatter than that. The second concept is actually from a gentleman named Frank Knight.

When he differentiates risk and Uncertainty, he argues that risk is an unknown outcome, but the distributions of outcomes is known. While uncertainty is an unknown outcome and the distributions of outcomes is unknown, so it's certainly a little different, and it feels like today we have both risk and uncertainty.

So how do we make investment decisions against the backdrop of heightened volatilities? And, what actions are we considering within portfolios today? One of our most fundamental portfolio management principles as we think about portfolios is. We don't want to try to predict what will happen.

Rather, we want to be prepared for what can happen in our investment committee meetings. Mike is always challenging the investment committee to think through what's the range of potential outcomes over the next 12 months, what are the headlines going to be 12 months from now? And I would tell you the best way to predict or prepare for uncertainty is to diversify your portfolio.

Mike highlighted a couple of data points during his presentation and that. Yes, US equity markets have had a pretty difficult start to 2025, but during the first quarter, foreign equity markets certainly held up a lot better. They're coming under some pressure today as China announced some retaliatory tariffs.

And again, I think we're gonna continue to see a lot of volatility around that. But we'll talk about how we're viewing that global equity volatility unlike 2022 when everybody failed to get any diversification benefits from their bond portfolios. We've actually seen bonds be very additive port to portfolios this year.

As the risk of recession has climbed bond yields have fallen, which means bond prices have come up. And so that's been a support for most portfolios, I suspect. You as a client, when you see your first quarter statement, you've clearly heard all the emotional headlines from the financial media.

You're probably gonna be mildly surprised at when you open those statements because you did see some value from diversification, and we clearly feel like given the current range of potential outcomes, you need to remain widely diversified. So that's certainly a broad point that I don't think anybody would argue hasn't been very additive over the last couple of years.

But clearly you see the value of diversification here in the first quarter. Kind digging deeper into the portfolios. We are actively discussing the makeup of our US and non-US equity portfolios, and more specifically the weighting between the two. For the last two decades, the US has absolutely dominated the global equity landscape.

Foreign economies have been able to have, they've had the luxury of riding the US momentum and really they failed at delivering any meaningful economic growth to initiatives. Clearly with some of the recent announcements by the new administration these countries now, instead of being able to rely on the US for all of their solutions they're at, they're being forced to look inwardly to find new solutions.

I think if you if you look at the recent growth initiatives that have been announced in both Europe and Japan. I think we could see some of the significant valuation discrepancies between the US equity markets and non-US equity markets start to resolve. We would caution you to be pretty gradual if you want to start increasing exposure outside the us mainly because we've seen previous episodes of empty words, meaning they've made some they've done the easy part.

They talk about it, but they failed to follow through. But I think this time it feels a little different because they may not have another option. And I think the first action that we've seen by Germany to actually lift some of their debt limits is one of the most impactful actions we've seen that say, this time we might actually see a different changing here.

Nothing brings people together like a common enemy. And unfortunately it seems like our new president is making a lot of common enemies outside the us. While that's certainly going to help from a protection standpoint to protect our industries, but it's going to force them to come up with new trade agreements.

And again, to us, this is a regime change that's forcing us to review our US and non-US exposures within our US equity portfolios Today, we're not terribly interested in trimming some of our exposure to the mega cap growth companies. I think, it, I think they've been a little bit oversold in a world of uncertainty.

I think what I probably have the most confidence in is these companies have operating efficiency and cash flows like nothing we've ever seen before. Clearly they are relatively expensive. They have, they're probably the largest target from a retaliation standpoint, but they also should benefit if the dollar weakens.

And they probably have the most flexibility to pivot because they have minimal debt. One of the things I often tell folks, government doesn't solve problems. Private innovation solves problems. And these cash flow giants have proven to be some of the most powerful problem solvers on the planet.

So again not saying they're cheap, not saying they're. They couldn't have some additional volatility. We just don't feel like selling them after they're down 20% makes a lot of sense given they could be the leaders of our next way, quite frankly. I think we all recognize productivity is going to be part of our long-term solution, and their business model is to basically support productivity.

So again we're not looking at that part of our portfolios. So I guess I'm gonna conclude real quickly. With another fundamental principle that really drives a

lot of what we do. And people laugh at me from time to time 'cause I come up with these little sayings that help me remind these principles.

But basically it's, if we can protect the downside, the upside should take care of itself. And I don't mean protecting the down, protecting downside doesn't mean avoiding the downside. Rather, it means never being forced to turn a temporary decline into a permanent loss due to poor management, poor emotional control, or poor planning.

And one of my favorite reminders is a fellow written by a fellow named Morgan House only. He says, every historical pullback looks like an opportunity. Every future pullback looks like a risk. We're certainly looking for those opportunities that seem to be getting cheaper every day to day, and we're gonna be prepared to act.

But we're also going to be maintaining that broader diversification to be prepared for, as I said earlier, this wider range of potential outcomes. So with that, I'm gonna turn it over to Mike and we certainly can get into more depth in specifics as we go through the q and a session of this presentation.

Mike Vogelzang: Yeah, I'll thanks Jim. The questions are coming in fast and furiously. So just a couple of other points before we wrap up and go to q and a. So one of the big questions is, what don't we know yet? We are clearly in a war. I don't want to trivialize real war with comparing it to a financial or economic one, but we're in the fog here for sure.

And so I'm just gonna tick off a few things that we don't know that all have significant implications, but we simply have to wait to find out what's happening. So one is retaliation. How much of the tariffs that that we've put on will be retaliated against and in response to ours. We saw today, China.

Put a 34% tariff across the board on the US goods. They also are limiting access to rare earth metals, which is important for our battery and semiconductor industries. So that's the first shot, which is part of the reason why the market's down 4% today. A spiraling global trade war, right?

Tit for tap will simply make the economic environment worse. So that's something we're watching carefully. Not terribly optimistic about that, but we'll see. Trump's response is another one we don't know about. If countries attempt to negotiate what's the new US tariff baseline? We saw a headline today that came out that said Vietnam, which is one of the most penalized companies, countries rather, 13% of their GDP is affected by tariffs.

Are trying to get tariffs removed. And Trump's response, I think, was on a tweet on X said, we're happy to, we're happy to get 'em to zero if you do the following things. So again, there's a good response because it means that maybe these tariffs won't stick around.

Another one is, are more tariffs coming? There's not much in the way of tariffs right now on pharma or semiconductors. The Venezuelan oil, indirect second tax is their tariff, right? If so, if people are buying Venezuelan oil, they get another 25% tax. That's rumored to be coming. We don't know yet what that's going to be.

What about the political response from citizens and from congress? Congress has a voice here. We haven't heard it at all. And the question is, when will the political will start to shift the other direction? How much pain can we take? The last two I think are probably the most important. What is the Federal Reserve's response?

How will the Federal Open Market Committee and Jay Powell respond to these events Today he was asked in a, I guess a press conference are you talking with other central banks around the globe? And he simply said, no comment. That's not engendering A lot of confidence. One of the ways the market pays attention to how the Fed's going to do is they front run the fed.

They think we know what the Fed's gonna do. And so three months ago, the expectation for 2025 for federal reserve rate cuts was one that has taken the rate from four to four point a quarter down to 3 75 to 4%, right? Not much in the way of fiscal or monetary stimulus after the last week though the market is today expecting between four and five rate cuts.

Almost five. So we're not talking about under 3% rates potentially by the end of the year. How the Federal Reserve responds to these tariffs will have a lot to say about where the stock market goes. That is the Federal Reserve has a put that is they can put a floor under this market by reducing interest rates and we simply don't know.

They've been quiet. That's a huge thing that we're watching. But last is really we had a couple of questions in this already, is really how permanent is the damage? To Americans, the American business reputation, and the American government's reputation for being a trustworthy partner. I don't think anybody knows that answer.

It depends how deep and how hard this gets, but clearly the damage is fairly significant. The question is, how long and permanent will it be? How long will it be permanent, at least for the next, for the foreseeable future. So again, all those things we don't know. Let me turn to some good news.

Okay. Let's turn to some good news. So if you could go to the next slide, please, Kara, that would be great. So we're in a period of extraordinary what's called policy uncertainty. And take a look at the left side of this chart. Like with apps on your phone, there's an index on Bloomberg for everything, including policy uncertainty.

And that's the blue line you see here. Policy uncertainties is, I'll explain it if you'd like, just send me a note or send me an email. But at the moment we're starting to approach policy uncertainty levels from back in 2009 and eight and 10. Policy uncertainty after covid. Clearly we're above this index this dotted line there of 180, which is a magic line for policy.

We're well above that. Here's the important part. Take a look on the right hand side of this page. Yes, we have a lot of uncertainty, but if you if and when policy peaks, if you calculate market, stock market returns a year later, this is the bar on the far right of the page, the sort of tan bar, almost the average return from the year after policy uncertainty peaks, you're up 21.5%.

There's, I don't believe, I can't recall I think I read this, I saw this in the data that there's never been a negative return after policy has peaked. Now listen, we don't know if policy uncertainty peak yet. We could get another ramp up here, so we don't know. But at some point when policy uncertainty settles down, when we have a little more stability in what's going on in the market, we should see some positive responses from the stock market.

Okay? Really important for us to understand. All of this of course, makes investing extremely challenging, but again, we think there's positive outcomes once we get by some of the negativity that we have going. Alright, so let's conclude and then we'll go to q and a much has been made about the productivity, about increased productivity and improvements in life with artificial intelligence and the technological innovation.

The last few weeks, we haven't heard much about that. These remain firmly in front of us. This isn't going away. Microsoft and Amazon aren't gonna stop building cloud. Ai, large language models, NVIDIA's not stopping building chips. It may cost 'em a little more to do but it's not going away. We expect this

improvement in productivity to be a strong offset to the drag of tariffs going forward.

We're not there yet. It's not coming quickly. It's gonna take some time, but this is a very positive and powerful injection of energy into an economy that right now feels pretty blooming. Jim talked about this a minute ago. The US has some of the most dominant global leaders in innovation generating unprecedented levels of free cash flow focused on solving new problems.

I'm talking about the Magnificent seven. These companies aren't going away. Their profits aren't going to zero fact. They're probably not gonna take much of a dip at all. This is really important. It's why we haven't lowered our expectations or our positions in Mag seven. It's really important general thought for investors in times like this, maintain your focus on time horizon.

Not tomorrow, not next week, not next quarter, but what's your time horizon, right? What are you trying to do with this money and when will you need it? Because that gives you the freedom to ride through some of the bumps. Avoid what, Jim, with this beautiful phrase is what Jim calls financial awful.

Those who take. A kernel of bad news and blow it into a tree of horrible news, right? We see them all the time to get clicks. We live in that world with the internet and with particularly stock markets. They profit from selling bad news. Avoid some of that stuff. Read it a little bit, but you can avoid it.

Focus on your time horizon and what your portfolio has done in the last three years, because frankly, it's been pretty good. And then lastly, bad decisions are made during times of stress. Okay, bad investment decisions are made during really heavy times of stress. Like today, these bad decisions can undo years and frankly, decades of really smart, good decisions.

Don't make a generational mistake by selling all your risk assets in a turbulent period. And here's the reason why. Volatility is the price that we pay as investors for higher returns in stocks. If the higher returns we got from stock markets were free. Everybody would invest, but if we don't like the volatility, what's your choice?

You have to go to treasury bills, which are gonna be three or 4% at the moment. For a decade or so, they were less than 1%. So volatility is the price that we pay for those higher returns of 6, 8, 10, 12% in the stock market. That's what you're living through now. You're living through some of that volatility.

So there are positives here. It doesn't feel like it today guaranteed that but we will get through this and the market will, most importantly, companies will adapt, right? That's why we own shares of privately owned businesses, publicly owned businesses that's owned by you, me, and us, because they adapt to different circumstances.

So very positive. Impact for good and for positive returns going forward. We just gotta get through a little more challenge here. So with that Kara, can we open it up for q and a and we'll see what we have. We're gonna invite Sam to join us. Sam Kirby again our senior Investment strategist at CAPTRUST and the face of the investment committee to our clients.

Sam Kirby: Okay, great. Thank you Mike and Jim, and also to our great team behind the scenes here. We've had tons of questions coming in well before the session even started. We're up now to coming on 150 questions. So what I'm gonna try to do here is really. Bundle some of these questions together so we can get through as many as we can.

There's one question that actually I have, which is, should I go ahead and upgrade my iPhone before prices go up? I'll have to, I'll have to think about that one, but in the meantime, please keep the questions coming. The first question I will ask this has come in a couple different ways, but from a precedent standpoint are there any lessons that we can learn from other periods from President Trump's first term, for example.

And this trade agenda, the reaction both globally and in the markets back in the 2018 kind of timeframe?

Mike Vogelzang: Not much. The answer is these are so much larger. They're in a completely different scale. I. And they're annoying and creating enormous levels of anger around the globe.

And I just don't think we've seen anything like this since, literally, since the 1920s. And again I don't know how, I don't know how we learned lessons from a relative and modest period like that.

Sam Kirby: Yeah. I think the ships at that time were still coal driven steam engines on the ships

Mike Vogelzang: very

didn't even have, they didn't even have Teslas back then, Sam.

Sam Kirby: Maybe Nicolette Tesla. A lot of questions here about the negotiation process itself and strategy. I think you mentioned, Mike, that a lot of this certainly is unknown, but any other comments about how other countries have responded, what are the risks of further escalation, what that could look like?

Mike Vogelzang: Yeah. It's the future path is all tied up in that question. How quickly will countries respond? Will they, as the phrase goes, bend the knee and come back to the president and ask for some relief on these sanctions and what's his response? Very hard to know.

China it appears China carefully calibrated their response to avoid inflaming the situation further which I guess is good. But they're still putting a 34% tariff on everything from the US that goes to China. That's not insignificant. Listen, international trade will slow down.

There's just no doubt about it. And we have to ask the simple question. Do we really want to take manufacturing away from Vietnam and Cambodia, the two countries that are hurt most by these terrorists, and bring that manufacturing back to the United States so we can make shoes and we can make yoga pants and we can make lousy cheap furniture that goes in kids' dorm rooms, right? Tho those are the questions. Do we really wanna be able to build those here, or would we rather do the things that we're better at? And I it feels like there's not a lot of thought given to the actual outcomes here.

Jim Underwood: Sam, I, if I could add there, I think and this is a little bit of a longer, bigger discussion than just that question, but I think it touches on some things. I've certainly read through the rolling questions here. I think we're getting really focused on very specific policies and understandably clearly Trump the tariffs are getting all the headlines.

But, I think it's our job to try to take it all together. Take, try to put all the pieces together to see if there's a bigger framework that we can grasp. And so when I look at this framework, I think there's four pieces to it. There's clearly this piece of using fiscal policy to. To get the monetary policy or interest rates lower?

I think Besson has repeatedly said the goal is to get 10 year treasury yields lower. What that will do is certainly take a lot of pressure off the US debt situation where we're spending more and more of our cash flow and interest expense, and if we can refinance that debt. At lower rates, that's certainly going to be additive.

It's going to be able to, for folks to be able to invest in domestically and bring more domestic investment at cheaper costs of capital. And clearly, as Mike mentioned earlier and I saw a couple questions from a housing perspective, it allows us to unlock some value that's really been locked in the housing market is transaction activity is completely eliminated on the tariff side that we talk about.

It feels like they're using tariff policy to really push some domestic agendas. You, whether that's to protect selected industries, whether that's to encourage domestic investment, we've clearly seen a lot of companies come back and make large investments in the us. And then finally is, and this is the one that I think we're all going to be having to watch, is well, PF revenue allow them to cut corporate income tax rates.

As Mike said earlier, that showed the slide of the. Tariff revenue versus corporate income taxes? I'm not sure about it. I have some caution and concerns that it actually will work. I think a lot of these policies are at best untested. The other thing is if the third piece of this pie that I think is very important is best essence 3, 3, 3 plan, or is trying to, we have a debt, US has a debt problem, and his plan, I think actually makes some sense that we could.

We can grow ourselves out of our debt problem. If we can really get GDP growth above 3% real, we can get budget deficits below 3% and we obviously can keep inflation under control. So again, I think trying to look at it policy by policy is likely not going to give you the full picture. But again I do have concerns that, these are very untraditional policies.

As Mike said, we haven't seen these kind of tariffs since the twenties. So for us to say there's a point there's a historical precedent to point to I think is very applicable. We don't have any ideas and so that what gives me pause and it is clearly this transition period is creating a lot of challenges for investors.

Sorry to take it much higher, but I think that's trying to address a lot of the questions that I keep seeing rolling through here.

Sam Kirby: Yeah, that, that's great, Jim. And if, maybe we can just drill a little bit deeper. One of the really the questions that's coming through is on the housing market specifically.

And I think for good reason, because this is a topic that affects both all of our micro economies as well as the economy as a whole. I read some time one time that a new home has the same economic impact as 12 new cars. So clearly

there's been a lot of value and wealth accumulated within home equity over the past number of years, and.

You know what what could be the impact of unlocking some of that with rates going lower?

Mike Vogelzang: Yeah. So this is a real wild card. As you said. Hou housing is a multiplier, right? If you buy new house, you get new carpeting, you redo things, right? You build a new addition, you put in new kitchen, all those things.

It's a multiplier of people spending. So it's a really important economic variable in today's economy. It has been forever. One of the challenges we've had in the housing markets have been it's effectively the housing market has been frozen because there's no supply. One of the reason why the new home builders are doing have done well in the last few years but there's no supply of secondary homes.

That is a lot of, if you have a 3% mortgage or even lower what's your incentive to sell to move to another home? If your mortgage rate at your new home's gonna be six or seven, six or 7%. And it's not. So people have been forced economically to stay home. And so the hope here is as interest rates have fallen from five and a half or so on the high in the 10 year yield down to under four today, 3.9 that drives mortgage rates down.

And if we get mortgage rates down to, potentially under, under five, 4%. You might see that a little falling in the housing market, and you might shake loose some of those folks who didn't want to sell 'cause they had such a low rate when rates come back down.

Sam Kirby: Great. Okay.

So again trying to bundle some of these questions together. This one is one that's come through in a number of different ways, but it's really back to the really the main topic of tariffs and what that means specifically for inflation. How quickly could higher prices begin to show up for consumers?

Is it a one-time sort of step function increase or something that goes on for longer? Or on the other side of that coin, how quickly could we begin to see profit margin pressures for for companies?

Mike Vogelzang: Two very different questions. I think inflation will start to show up soon. As the price of cars and the price of all imported goods starts to ripple through the economy because they are going up.

Make no mistake about that. They may not go up the same extent as tariffs, right? Some companies may take a little bit the folks who are exporting to the United States may take a little bit of that gain of that loss rather. But at some point the prices are gonna rise. And so we'll, we expect inflation to, in, to, to move up.

The question is it a one-time inflation adjustment through tariffs? Or will it begin to build on itself? And I don't think we know the answer to that question because we don't know the extent of the trade war yet. So that's an open question. The second half of your question was not inflation, but I.

Oh corporate earnings. Corporate earnings. Yeah. So corporate earnings, we're gonna find out sooner. The most important part about corporate earnings days when, Microsoft announces earnings for the third, for the first quarter of 2025, the most important things that mark, that the market pays attention to is not so much what happened in the.

Past quarter. 'cause we know that it's really their forecast, their look ahead are, do we expect orders to improve? Do we expect prices to go up? Do we see a weakness in consumer demand? Those are gonna, the really important and that's all starting in the next week or two. So we're gonna start to see corporate earnings impacts I think probably in the next couple of weeks.

And again, I think the market's pricing some of that in now.

Sam Kirby: Okay, great. So maybe one or two more broader economic questions and then maybe shifting into some of the more invested questions we've been getting. This is a good question. It's one that I think is also very important and complex.

And that is, we've seen the dollar weaken since the tariff announcement, which I think is a little bit surprising. What do you think is driving the dollar lower? What's the impact of.

Mike Vogelzang: I was hoping we'd get through this whole thing without having to talk about the dollar with currencies.

They just add a layer of complexity on top of this that makes it really difficult. And because, currencies are all price relative, right? So the US to the Japanese yen is a very different currency, very different market than the US dollar to the European Euro, right?

So all, and then the end of the Euro is another one, right? So they're very difficult to parse through and understand. I don't think there's any doubt that. When the tariffs were installed and put on that the administration expected the currency to dollar the US dollar move up. Instead it's moved exactly the opposite.

It's moved down fairly substantially after a period of being fairly strong. It's really hard to understand what that means. I think it means that the relative competitive position of the US is now weaker. Today than it was pre tariffs. That's my interpretation, right? The dollar is in some sense a vote of confidence by external investors on who wants to buy dollars.

And if we're slowing down the amount of trade between countries, fewer dollars are needed. By the way, if Brazil buys cars from Japan, they pay for those cars in US dollars. So every bit of trade that goes on in the globe, it's something like 85 or 95% of all trade in the globe, oil, et cetera, is all paid for in US dollars.

That's called the reserve currency. That's why we have the position we have, and if there's lower trade, there's gonna be less demand for dollars. I think in some ways it's that simple. It's way more complicated than that but I think the softer dollar has surprised the administration.

Jim Underwood: And what I would, my, my response to that would actually answer a little bit of the last question as well. And that is, inflation is certainly a potential concern with the current policies, but clearly the US markets are saying economic growth is a lot bigger concern. And as a result, interest rates have been coming down while I said earlier, Germany is going through a phase of increasing their debts, deficit spending, which.

That is definitely inflationary. And so I think you're getting some of the interest rate policy differentials really impacting that currency move today as much as the tariff policies.

Mike Vogelzang: Hey, Sam, there's a good question coming here. To summarize in succinct bullet points the current administration intent with these tariffs, and I think there's a really important question.

We haven't really talked about it much. I do think that the Economy and the country in general, while we have a super strong economy, very resilient, very dynamic has developed the number of imbalances. Okay. Those imbalances are things like the trade deficit. We import a lot more than we export.

That's an imbalance, and it's been that way since in the 40 years of my career. It's very, one of my first investment meetings. They talked about the large US trade deficit. And every year we've read that it keeps growing and it just continues to expand. That's a significant imbalance, I think.

I think clearly what the Trump administration's trying to do is restore that balance. I do think there's two other really important things that they're trying to accomplish here. So that's number one is restore that imbalance. The second imbalance we have, of course, is our deficit, our fiscal deficit.

That is what we spend as a government versus what revenues we take in. It's now seven or 8% of GDP. As Jim said earlier, Scott Bessant, the new Secretary of Treasury, wants to get that down to 3%. Man, that's some heavy lifting. So one of the things we need to do is one of, one of the exploding income statement lines in the federal government is the debt on the US Treasury, I'm sorry, the interest on a US treasury debt.

Okay. It gets a little in the weeds. Don't wanna get too deep here, but we're paying more in interest today as a country than we're spending. In defense stock, in defense spending. Think about that. It's the first time, it's happened in a long time, and it's just recent. So the question is how do we get that ex, that interest expense down?

And so one of the ways we're trying to do it is to push down interest rates, just like the housing market. If we can push down interest rates, we can save some money on paying interest and help our deficit out to get to that 3% of GDP from seven. So tho those are a couple of things I think that are really important.

And the last thing, the last objective is. Jim mentioned it earlier and that is to create revenue to afford further tax cuts. You ask yourself, how does that work with the number two bullet point with reducing deficit? I don't know. It's a it's against the grain here, but, and there's no question that the federal that this administration wants to create and carry forward tax cuts that were created in the first Trump administration.

So that's gonna happen only if they can pay for it. And I think the tariffs are a way to pay for it. So I hope that helps Paul, but there's three main reasons, really big bullet points that's driving the motivation here behind tariff increases.

Sam Kirby: Great. Here's a question and I think this is a good one because it applies to so many different, type types of clients on the call today, and it's really a question about future return expectations, long-term planning.

How do the events of the last few days affect your view or our view on the amount of returns we can expect, the return environment that we can expect over the next 5, 7, 10 year sort of planning environment. Wanna grab that one? Jim?

Jim Underwood: You want me to, am I happy to? Sure, yeah. Clearly valuations are a lot better today.

And I still think the power of artificial intelligence is real. I think we have the ability to generate productivity enhancements that, that unlike anything we've ever seen before. One of my favorite lines about artificial intelligence is eventually it will turn every company into a technology company.

I think that's a powerful growth engine. It could absolutely solve some of the. But I could go on and on about artificial intelligence, and I'm pretty skeptical about it generally, but I also recognize it's the most powerful growth engine that's potentially out there. And so I certainly don't want to assume that the challenges that we're facing today are going to be solved with today's solutions.

They're gonna be solved with solutions that, that we probably haven't even thought about quite frankly. And so I still feel like longer term just. Again, if you're able to withstand the volatility of investing in equity markets you will report it. There's never been a time where markets haven't recovered and I feel confident saying that's going to happen again.

It feels like we've jumped from one crisis to the other over the last 10 years, whether it was the, over the last 20 years, quite frankly whether it was the. Tech boom and bust the great financial crisis. Clearly covid was a crisis. We had inflation in 2022 over the, in recently.

It's like we've jumped crisis to crisis, but we've continued to compound it, 10% plus. Not saying we'll get to those levels of returns, continuing to get those low levels of return, but I feel confident in saying that there are more people that wake up every morning trying to solve problems and trying to cause them.

And I, that gives me optimism that we will get through this just like we've gotten through everything else and that we should continue to maintain that long-term perspective. But it certainly feels anxiety inducing during the moment, during the period of storm.

Mike Vogelzang: Yeah. Let me add a perspective to that because I think the way I like to think about future returns is in some grand scheme of future state, I think 10 years from now.

I don't wanna say preordained but at some point we're gonna have a valuation on the S and P 500. And P 500 is around, 5,300 Today, assume that number is 20,000. Okay? Some point in the future, the S and P 500 will be at 20,000. I'd rather buy it today at 5,300 than a week ago. At six, at 50 at, what is it?

58, 5900, a couple of months ago, because that's gonna gimme better returns to that ultimate date ultimate valuation of 20,000 down the road, right? So every time you get a pullback, you're gonna get a better return out to that long term return down the road. To Jim's point companies innovate, companies figure out how to grow their earnings companies.

The US companies the US corporate world is incredibly efficient, folks. It's just a remarkable thing. We've never seen anything like it. There's a tremendous amount of data that goes with that we can't share today, but we'd love to at some point. It's a machine that will continue to work whether we have a short-term interruption from tariffs or whether we have, thankfully, a short term interruption from Covid or even the global financial crisis.

So probably one more Sam, and then we should probably call it.

Sam Kirby: Okay, this is I think a good place to, to stop. And this question has come through many times in many ways. And I'll, maybe I'll pair a couple of these together, but a, what's the best way to protect my portfolio during this period of volatility?

And then on the other side of that, where do we see the biggest opportunities in this type of environment?

Mike Vogelzang: Volatility and downside risk, as Jim talked about earlier, is protected against before the event. So it's hard to do it today, right? That's the definition of a negative environment. You protect yourself against it while times are good and you do that mostly through diversification and not getting carried up, carried away.

It is a remarkable thing. Our year end commentary in January of 2025, so just a three month period ago, we were calming and encouraging clients to, to cool down the animal spirits were too high. People wanted to put every nickel they had into AI stocks. Everybody wanted to jump aboard the artificial intelligence train and technology.

Nvidia was flying high. People thought it was gonna go to the moon. It was just three months ago. And now we're on the other side of that equation. So these things change on a dime and you can't predict them. They're always around the next corner. And so the key is diversification. If you have an urgent, and psychologically Im, IM impossible to resist urge to sell something, I would sell something that's done pretty well that hasn't gone down as much as the market and sell a little bit of it.

Just to scratch the itch, but please don't abandon this market and think that, hey, we've got another 10% down, and we may have another 10 or 15% down, but in the end of the day, you'll you people who sell today won't get back in at that bottom. They just simply won't. It's been proven time and time again.

They feel smart. After they sell today, it goes down where they're 10% and then the market starts to go up and they don't wanna buy back. It's, it says right as rain. We've been in this, the three of us have been in this industry for a long time, and we've seen that sad story play out time and time again.

It's driven because it's human emotion, right?

Jim Underwood: Yeah, it's diversification is absolutely going to be important. Time is the factor I think most people know. I write a lot and I recently wrote, time can be your biggest risk. It can be your biggest risk du reducer. You can have too much time, can be a risk too little time can be a risk.

Generally how you spend it is how people define what success is. And so to us, making sure you've got adequate time to man. And that's the reason why. One of that, what Mike mentioned earlier, is always focused on your time horizon because that's all to me, you want to buy insurance for everything.

That time is a risk. And right now, as long as you've got time and you've got diversification, you, I feel very comfortable. You'll survive and get through this and. And have a very successful long-term outcome.

Sam Kirby: Yeah. Yeah. And the only thing I would add to that is, any time that we're thinking about risk and our appetite for it, anytime we're thinking

about time horizon and how we plan for it, that's naturally a con a time to have a conversation with your financial advisor and the folks who, who know you and your situation best.

So I think that is always good advice for sure.

Mike Vogelzang: Thank you all very much for joining us. It's been a, it's been a, I don't know if it's been a long or a short hour a depressing hour or an uplifting one but we hope we've clarified a little bit of the fog of war and again, we encourage you to repeat Sam's advice.

Each of you on this call has an advisor that's trained in helping you sort through your specific situation. We encourage you to do that, and in the meantime we'll we'll continue to watch the markets and look ahead for development. So thank you very much for joining us and hopefully we don't have another one of these soon.

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