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FIRST QUARTER MARKET OVERVIEW

W. REID CULP III
PRESIDENT

Thank you for the trust and support you've shown to TAGStone. Your introductions are the foundation of our growth.

If someone you care about could benefit from thoughtful investment or financial planning advice, I'd be honored to be introduced. I remain committed to delivering the same level of care and insight you've come to expect. Your relationship is truly valued.

TAGStone CAPITAL INC

First Quarter **2025**

Investing Through Uncertainty and Volatility

The first quarter of 2025 served as another vivid reminder that while history doesn't repeat itself in investing, it often rhymes.

We entered the year amid considerable volatility, as the largest technology stocks fell into bear market territory, **triggering the seventh-fastest 10% correction in the S&P 500** since 1929. This correction gained momentum following President Trump's tariff announcement on April 2. Although the implementation of these measures was later postponed for 90 days—now set for July 9—the delay has not resolved the underlying uncertainty. The market has staged a partial rebound, but sentiment remains fragile.

At the heart of this volatility is a familiar challenge—how to make confident, informed decisions in the face of economic uncertainty. Just as businesses struggle to operate under constantly shifting conditions, investors too are tested when predictability disappears. This challenge lies at the core of the current market correction.

Of course, periods of turmoil—however unsettling—are nothing new. We've navigated them before. Think back to early 2020, when the onset of COVID-19 sparked a swift and brutal decline, with large U.S. stocks plunging 34% in just 33 days amid fears that companies might indefinitely lose their ability to generate profits. That left investors with a critical question: had the world's strongest businesses really lost a third of their value—or was the market simply overreacting?

SELECTED 2025 EQUITY INDICES

	Mar. '25	1st Qtr.	YTD
S&P 500 Total Return (Large-Cap Stocks)	-5.63%	-4.27%	-
Russell 2000 Total Return (Small-Cap Stocks)	-6.81%	-9.48%	-
MSCI EAFE (Developed International Stocks)	-0.40%	6.86%	-
MSCI Emerging Markets (International Emerging Stocks)	0.63%	2.93%	-

SELECTED 2025 FIXED INCOME INDICES

	Mar. '25	1st Qtr.	YTD
Bloomberg U.S. Aggregate (Broad Domestic Bonds)	0.04%	2.78%	-
Bloomberg 1-5 Yr. Credit (Short-Term Domestic Bonds)	0.43%	1.99%	-
Bloomberg 5-10 Yr. Credit (Intermediate-Term Domestic Bonds)	0.11%	2.78%	-
Bloomberg U.S. TIPS (Treasury Inflation Protected Securities)	0.64%	4.17%	-
FTSE World Gov't 1-5 Yr. Hedg'd (Short-Term Global Bonds)	0.37%	1.43%	-

History gave us a clear answer. Fueled by aggressive monetary and fiscal stimulus, markets not only rebounded within five months, but went on to compound at nearly 20% annually over the next five years.

Today, amid renewed uncertainty driven by tariffs and global trade tensions, investors face a strikingly similar dilemma: will tariffs cause lasting harm to the long-term earning power of the world's leading enterprises—or is this another moment when market prices are diverging from economic reality?

We've seen this pattern before. During the 2008–2009 Global Financial Crisis, markets dropped 57% at the peak of panic, with the global financial system hanging by a thread. And yet, from that extreme low point, large U.S. stocks delivered a remarkable 16% annualized return over the following sixteen years—fueled by innovation, resilience, and the strength of global enterprise.

As of this writing, a broad basket of large U.S. stocks is roughly 10% off its recent peak—returning us to levels last seen in September 2024. In long-term context, that's hardly catastrophic. But it's during moments like these—when fear is elevated—that investors often feel compelled to "do something," even when doing nothing may be the wiser course.

Fortunately, we can look to historical data for perspective. Periods of heightened volatility, especially those marked by spikes in the VIX (the "fear index"), have often signaled compelling long-term opportunities. Since 1990, when the VIX has closed above 45—as it did on April 4—the average return over the next 12 months has been 39%, with a five-year average return of 139%. That's not a prediction, but a reminder: fear and opportunity often travel together.

How to Operate in Periods of Maximum Uncertainty

Periods like the one we're in now are characterized by a wide range of potential outcomes, unreliable or incomplete information, and a heightened emotional atmosphere. These dynamics distort judgment, often pushing people to one of two extremes: freezing in indecision—or overreacting in an effort to regain control.

Even the most experienced and well-informed experts cannot reliably forecast how or when today's uncertainty will resolve. The future is, by its nature, unknowable and influenced by countless factors beyond any individual's control.

That's why, in moments like these, long-term investors face a fundamental choice: chase the illusion of clarity or lean on the structure and discipline that have guided successful investors through past crises. We choose the latter.

We ground our approach in a set of enduring principles:

1. Even in calmer times, markets and economic trends cannot be consistently forecast or timed.
2. No one—not experts, strategists, or headlines—knows exactly how or when today's uncertainties will be resolved.
3. Your portfolio is built on a long-term investment plan tailored to your unique goals, not on short-term speculation.
4. Your investment and withdrawal strategy is designed for resilience and is based on tests of similar strategies through past market cycles.

In light of these realities, the wisest course of action is to remain grounded in your plan. The strength of our strategy lies not in reacting to every headline, but in maintaining clarity and composure through both calm and turbulent times.

Wealth Management Principles

The challenges of this year have once again reaffirmed the core wealth management principles we outlined in February's year-end letter. These principles haven't changed. They continue to serve clients well across every market cycle.

We've long emphasized the importance of broad diversification, steering clear of speculative bets and the temptation to chase investment fads. At times—especially last year—this discipline may have felt like driving in the slow lane while faster-moving trends surged ahead. But recent volatility has reminded us that staying the course is often what ultimately keeps investors safely on track.

In that same spirit, we encouraged portfolio rebalancing earlier this year. This simple yet powerful discipline—selling what's become overweight and buying what's become underweight—often runs counter to our instincts. It can feel uncomfortable to trim recent winners and add to laggards. Yet this very act of "buying low and selling high" is what positions long-term investors for resilience when markets turn volatile.

We also cautioned that fully valued markets are more susceptible to shocks. Persistent inflation and unpredictable trade policy were two risks we identified as being underappreciated earlier in the year. Both have since materialized—reinforcing the value of maintaining cautious optimism even in seemingly strong markets.

Finally, it's essential to recognize that volatility is not a deviation from the norm—it's an expected part of stock investing. Historically, markets experience at least one meaningful correction per year, averaging around 15%, and a deeper downturn about once every five years. These are not market malfunctions—they are the price of admission for the long-term growth stocks have historically delivered. Investors who internalize this truth often find that patience, not panic, is their most valuable ally.

Stocks for the Long-Run—But Not Always

While every significant market downturn has ultimately proven temporary, it's important to acknowledge that the path is not always smooth. Across wars, recessions, pandemics, and political upheaval, publicly traded businesses—both in the U.S. and globally—have not only recovered, but often emerged stronger. This enduring resilience is why we invest in them for the long term.

Still, long-term investing doesn't mean uninterrupted progress. Even Jeremy Siegel—the renowned Wharton professor and author of *Stocks for the Long Run*—has noted that stocks, while unmatched over time, have endured long periods of underperformance. From 1966 to 1982, for example, stocks produced essentially no real return, while cash and bonds outpaced them. Similar stretches occurred in the 1920s and early 2000s. And more recently, Professor Edward McQuarrie's expanded research, dating back to 1793, has identified several additional multi-decade periods when bonds delivered better returns than stocks.

These insights reinforce a key lesson: long-term investing requires not just optimism, but balance. A diversified portfolio—including bonds or reliable sources of cash flow—provides critical support during periods when stocks may lag. That balance becomes especially important for investors who may not have the luxury of waiting out an extended downturn.

Ultimately, the most effective strategy remains clear: stay patient, stay disciplined, and stay appropriately diversified. While we can't predict the next headline or policy shift, we can control how we respond. Rest assured, we remain here with you—focused on guiding your portfolio through uncertainty and steadily toward your most important financial goals.

Past performance does not guarantee future results. All investments include risk and have the potential for loss as well as gain.

Data sources for returns and standard statistical data are provided by the sources referenced and are based on data obtained from recognized statistical services or other sources we believe to be reliable. However, some or all information has not been verified prior to the analysis, and we do not make any representations as to its accuracy or completeness. Any analysis nonfactual in nature constitutes only current opinions, which are subject to change. Benchmarks or indices are included for information purposes only to reflect the current market environment; no index is a directly tradable investment. There may be instances when consultant opinions regarding any fundamental or quantitative analysis do not agree.

The commentary contained herein has been compiled by W. Reid Culp III from sources provided by TAGStone Capital, as well as commentary provided by Mr. Culp, personally, and information independently obtained by Mr. Culp. The pronoun "we," as used herein, references collectively the sources noted above.

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