

COLONIAL TRUST *Quarterly*

Q1 Findings

In The Spotlight with Sarabeth

Rose Garden Announcement



REVIEW OF THE QUARTER

THE S&P 500 AND NASDAQ COMPOSITE HAD THEIR WORST QUARTER SINCE 2022, WITH A NEGATIVE 4.3% TOTAL RETURN FOR THE S&P AND NEGATIVE 10.3% FOR THE NASDAQ.

The market had a convincing start to the quarter, with the S&P rising 4.5% and hitting an all-time high on February 19th. However, this gave way to selling and the market fell 10.1% through March 13th and spent the remainder of the quarter trading between 5,600 and 5,800. The tech-heavy Nasdaq is in correction territory, ending the quarter down 14.3% from its December 16th high. The DJIA fared better, returning -0.9% for the quarter. US small-cap stocks were not spared from the selloff, with the Russell 2000 returning -9.5% for the quarter. International markets outperformed domestic markets, with returns for the MSCI EAFE developed market index and MSCI Emerging Market index of 9.3% and 4.8%, respectively. The Bloomberg Aggregate Bond Index returned 2.8% for the quarter.

US large-cap and international indices remain positive over the last year; however, increased volatility and a correction in the S&P 500 have stunted investor optimism about economic and earnings growth. We ended the quarter with consumer sentiment at multi-year lows and the American Association of Individual Investor (AAII) Bearish Sentiment at the highest levels in over two years.

Total Returns	1Q Return	1 yr. Return
S&P 500	-4.3%	8.2%
DJIA	-0.9%	7.4%
Nasdaq Composite	-10.3%	6.4%
Russell 2000	-9.5%	-4.0%
MSCI EAFE	9.3%	7.7%
MSCI Emerging Markets	4.8%	10.4%
Bloomberg Agg Bond	2.8%	4.9%

Source: Bloomberg, LP

IN THE SPOTLIGHT



SARABETH SHALALA
Client Service
Representative

SaraBeth Shalala joined Colonial Trust in October of 2024 to assist our Spartanburg office's client service team. She holds a bachelor's degree in finance from Bob Jones University, an MBA from Walsh University, and is a registered investment advisor representative. She has worked for private wealth management firms in the past and enjoys building client relationships and assisting them with their account needs.

Originally from Ohio, she enjoys the many activities that South Carolina has to offer in the great outdoors. You'll find her rock climbing, gardening or creating ceramic creations in the pottery studio. She also enjoys volunteering with HALTER, a unique equine therapy program in Spartanburg, and serving with her local church.

WHAT CHANGED IN THE FIRST QUARTER?

The quarter began with optimism surrounding the continued development of artificial intelligence (AI) and the pro-growth agenda from Trump 2.0. The prior two years saw north of 20% returns in the equity markets and forecasts for 2025 earnings growth for the S&P 500 were 12%.

Cracks began to emerge in the AI trade on January 20th when a Chinese company, DeepSeek, announced it developed an AI application that performed similarly to US offerings at significantly lower cost. This called into question the massive capital spending plans of Microsoft, Google, Meta, Amazon, and others as they build out AI infrastructure. AI spending and AI-related stocks were the story of 2024 and expectations for 2025 included aggressive spending on chips, data centers, connectivity, and power generation to build out the infrastructure to drive this AI transformation. The possibility that a Chinese company, without access to next generation chips, was able to bring a competitive model to market at a lower cost and lower power consumption raised doubts about the necessity of these investments.

THE BROAD MARKET CONTINUED TO MOVE HIGHER FOR THE NEXT MONTH, WITHOUT A POSITIVE CONTRIBUTION FROM THE MAG-7 AND AI NAMES.

The S&P 500 increased 2.5% from the DeepSeek announcement until February 19th. Then the market began to turn quickly on tariff announcements from President Trump. Investors entered 2025 believing the tariff threats were a negotiating tactic. This thesis was strengthened when Trump announced 25% tariffs on Colombia for refusing to accept deportees on January 26th. Quickly, Colombia's President Gustavo Petro changed his tune and Trump halted the tariffs. This was seen as the playbook for tariffs, as a threat to bring leaders to the table to negotiate.

Then Trump announced 25% tariffs on imports from Mexico and Canada and 10% tariffs on Chinese imports on February 1st. Two days later, he instituted a 30 day pause on Mexican and Canadian tariffs, while maintaining the 10% tariffs on Chinese imports. Ten days later, Trump announced tariffs of 25% on steel and aluminum and on February 13th he promised to announce reciprocal tariffs to be announced soon "for the purpose of fairness." The other tariff announcements are too numerous to detail but include a 25% tariff on imports from countries that buy Venezuelan oil, 25% tariff on auto imports, an additional 10% tariff on China, and the threat of 200% tariff on European wine. During the latter half of March the market waited anxiously for the tariff announcements on April 2nd, "Liberation Day", which may rewire global supply chains.

C-Suite executives and markets like to know the rules of the road, allowing the former to plan and the latter to estimate the impact on earnings. When the rules change daily it creates heightened uncertainty, companies delay investment, and markets cannot project earnings. The byproduct of the chaotic tariff rollout has been increased market volatility, a correction in the stock market, and negative readings in "soft economic data" that could bleed into hard economic data.

Wall Street's fear gauge, the VIX Index, nearly doubled from Valentine's Day until March 10th. The correction and uncertain policy landscape have caused Wall Street strategists to reduce year-end price targets and earnings estimates for the S&P 500. In short, over the last three months we have seen skepticism arise about former market leadership, the AI trade, and the haphazard rollout of trade policy, which caused a correction in the equity market.

TRUMP'S ROSE GARDEN ANNOUNCEMENT

We waited until President Trump's tariffs announcement on April 2nd to complete this newsletter. We hoped the announcement would provide clarity, allowing investors, business leaders, and governments to assess the announcement and react. We have learned waiting for more certainty from Trump is like waiting for Godot. Trump is going to Trump.

FIRST, WE WILL LAY OUT WHAT WE KNOW. TRUMP ANNOUNCED A 10% MINIMUM TARIFF ON ALL IMPORTED GOODS.

There are sixty countries that have "reciprocal" tariffs greater than 10%, ranging from 11% to 50%. Notable trading partners include China (34%), the EU (20%), Vietnam (46%), Taiwan (32%), Japan (24%), and India (26%). The White House provided a formula for the computation of these tariff levels, which is our trade deficit in goods with a country, divided by total imports from that country, divided by two. This was done under the Emergency Economic Powers Act of 1977 and Trump declaration that the US's persistent trade deficit is a national emergency.

Excluded from these tariffs were (1) articles continuing to be subject to the 50 USC 1702(b) exclusions; (2) steel/aluminum articles and auto parts already subject to tariffs (3) copper, pharmaceuticals, semiconductors, and lumber; (4) gold; (5) energy and other minerals not available in the US; and (6) imports from Canada and Mexico except products not covered by USMCA, which are subject to 25% tariff with the exception of energy which is tariffed at 10%. The 25% auto tariffs remain in place, as does the 25% tariff on countries that import Venezuelan oil, and the 20% existing tariff on China.

Tariffs have been part of our history since George Washington signed the Tariff Act of 1789. At times they generated 95% of federal revenues, prior to when the federal income tax was introduced in 1913. Lessons from the Smoot-Hawley Tariff Act of 1930 and the adoption of Ricardo's theory of comparative advantage saw average tariff rates fall from 20% in the 1930s to 2.4% in 2024. It is estimated these tariffs would raise the effective tariff rate to 25%. The rationale for Trump's tariffs is that "free" trade has not been free. Countries impose tariffs, restrictions, subsidies, and currency manipulation to advantage domestic industries. These trade barriers arose over decades, at the beckoning of certain industries petitioning their governments for protection. The result is a byzantine system that insulates specific industries from competition. This system encourages rent-seeking over competition; however, this has been the system since WWII. The rise of globalization under this system produced global supply chains, with division of production scattered around the world.

It is possible to believe this is a poor system that disadvantages America and simultaneously that tearing this system down quickly is bad policy. If these tariffs remain in place, the rewiring of global trade will be disruptive. It took decades for this system to arise, and global supply chains cannot be changed overnight.

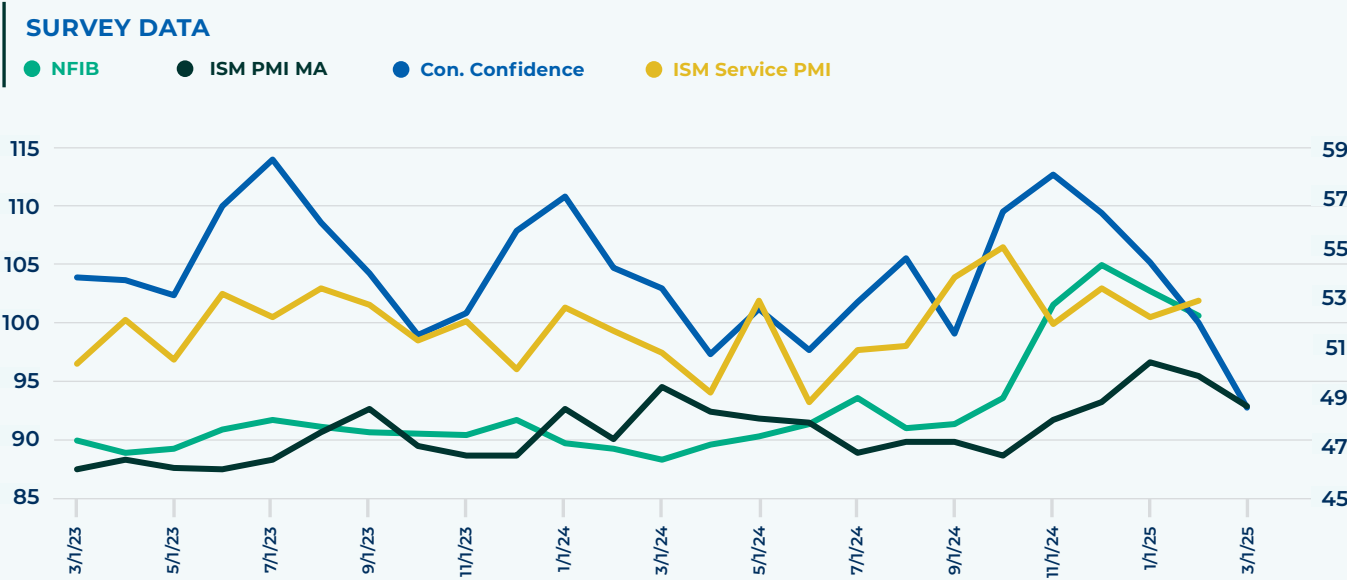
We will see how countries and businesses react over the next several weeks. Countries can either introduce retaliatory tariffs, negotiate down their tariffs and trade restrictions, or do nothing. Their decision will be a function of their level of tariffs and reliance of the US market. We suspect we

will see some countries reduce their trade barriers and others put up a fight. Businesses will also evaluate their options. Those with pricing power and scale will pressure suppliers and customers on price. Domestic-focused companies, particularly in the service sector, will be less impacted. Companies who are heavily reliant on foreign suppliers will source goods elsewhere or onshore production, which will take time.

We will not know for years whether Trump's aim of increasing domestic production is successful due to the time-consuming process of building manufacturing capacity. Businesses must make multi-decade decisions based on policy that changes rapidly.

ASSUMING THEY REMAIN, THE FIRST ORDER EFFECT OF THESE TARIFFS WILL BE HIGHER PRICES FOR IMPORTED GOODS.

The second order effect is what this will mean for economic activity for the remainder of the year. Economic growth in 2024 was 2.8% and 2.4% in the fourth quarter. Results in the first quarter were mixed, but below Wall Street estimates. There was weakness in survey data, with Consumer Confidence falling from 112.8 post-election to 92.9 in March. Stubborn inflation and fears of higher prices from tariffs have increased consumer anxiety. Inflation progress was aided by falling goods prices, yet the tariffs will raise prices for goods. Business confidence has also fallen, with NFIB Small Business Optimism Index and ISM Purchasing Managers Indices for manufacturing and services all falling.



Source: Bloomberg, LP The Conference Board, the National Assoc. of Independent Businesses, and the Institute for Supply Management.

The US economy is driven by what the consumer does, rather than how they feel. Consumer spending was poor in January, with negative reads in retail sales and personal consumption. This coincided with record cold temperatures in much of the country and both measures rebounded in February. The year-on-year increases in retail sales and personal consumption were 3.1% and 5.3% in February. The labor market is healthy. February data showed a 4.1% unemployment rate, average hourly earnings up 4.0% over 2024, and total personal income as calculated by the BEA up 4.6% over the prior year.

CONSUMER FINANCES BEGAN THE YEAR IN EXCELLENT SHAPE, WITH HOUSEHOLD NET WORTH OF \$160 TRILLION.

Financial assets represent 43% of net worth and the decline in equity prices will reduce this reading for the quarter; however, home prices continue to increase as measured by S&P CoreLogic Case-Shiller Composite, which rose 4.7% in January. The top 10% of earners, with over \$250,000 in household income, account for 50% of consumer spending. This cohort owns the most equities, which are down year-to-date but are positive on a one-year basis. But the consumer is not monolithic, and lower-end consumers are stretched. Delinquencies have increased for auto loans and credit card debt, with credit card balances 30+ days delinquent at 9%, up from less than 5% in 2022 according to JP Morgan.

The direction of consumer spending will depend on employment. The labor market faces elevated retirements and lower immigration, which may provide a ballast against high unemployment. Consumer spending will be negatively impacted by tariff-driven price hikes and wealth destruction from the equity markets. The extent of a reduction in spending will be influenced by the duration of the tariffs and possible solutions through negotiations.

The manufacturing sector has been weak since 2022. However, there were signs of life in the first quarter. Industrial production was positive for the last three months and capacity utilization has risen for the last two months. Durable goods orders were positive in the first two months of 2025; however, forward-looking capital goods orders fell in February after rising the prior three quarters. Certainly, future capital investments will be delayed as businesses consider the implications and permanence of these tariffs. To the extent Trump's objective to increase investment in the US occurs, it will play out over years or decades, rather than months. The manufacturing sector must now evaluate all investments through the lens of tariffs.

The market impact of the announcement has been decidedly negative, with companies exposed to tariffs falling the most. US multi-nationals are seeing more downside than international companies. The direction of the equity markets for 2025 is in the hands of Trump, who has not been shaken by the selloff. Earnings expectations for 2025 began the year with 12% growth. Growth estimates for the first quarter have been reduced from 11.7% to 7.3% prior to April 2nd. We expect further reductions in estimates for 2025. The magnitude will depend on tariff negotiations and company reactions to rising costs. The S&P 500 began 2025 trading at 21.5x forward earnings and ended the quarter at 20.2x. The April 3rd selloff lowers the valuation to 19.5x; however, there is uncertainty about future earnings. Until the smoke clears, market volatility will remain elevated, and the path of least resistance will be lower.

INTEREST RATES FELL FOR THE QUARTER, WITH THE 10YR FALLING FROM 4.57% TO 4.21%.

On April 3rd, this rate is 4.04%. The path of rates for the remainder of the year is uncertain. Slower growth and flight to quality will pressure rates lower; however, higher inflation from tariffs will pressure rates higher. The eventual winner of this duel will be determined by the magnitude of a growth slowdown. This puts Jay Powell in a difficult situation of reacting to negative shocks to both growth and inflation simultaneously.

We began the year optimistic about the US economy and prospects for earnings growth. We expected earnings to outperform equities and valuations to moderate. We are less optimistic about the economy given the tariff policy. Rather than reduce uncertainty, Trump's April 2nd announcement has increased uncertainty. We are sure you can see that in our writing.

IN SUMMARY

We are apolitical in evaluating markets and economics, although we, like all our clients, bring bias into our analysis. We have short-term, medium-term, and long-term concerns about what has occurred in the last twenty-four hours. Negotiations or retaliation from trading partners will determine the short-term impact on economic growth. This will determine how markets react over the next few months.

Over the medium term, companies will reevaluate their supply chains and make the necessary changes. This will create winners and losers, with strong companies with durable competitive advantages taking market share. We may see increased domestic investment, but this will take years, and our demographics mean that investments will include robotics and technology because we do not have enough labor to make many of the products we consume.

The long-term implications are the most significant. One reason the dollar is the reserve currency is the trade deficit we run versus the rest of the world. Other countries sell us goods and we pay them in dollars, which are recycled into our economy. A reserve currency has the benefit of lower interest rates from the purchase of financial assets. We also carry a large stick with the world as the largest importer of goods. However, the US runs a nearly \$300 billion trade surplus in services with the rest of the world. This includes things like financial services, media, and cloud computing. Our leadership in these areas may be impacted by this change in policy. Lastly, the United States is the leader of the free world. This comes with benefits and responsibilities. One of these responsibilities is stability. While we are sympathetic to the notion that global trade is unfair and should be addressed, taking tariff levels to the highest level in a century on a single Wednesday afternoon may cause the world to question the stability provided by the US.

We understand our clients are concerned; we sympathize. We saw a correction in the first quarter, rallied, and then fell further to begin April. We believe the US economy and capitalism will deal with the changing facts on the ground and do what they do best. They compete to deliver the best goods and services to customers at a profit. Their resilience and ability to navigate challenges has been tested throughout history, and in total they have always succeeded. The current conditions will challenge some more than others. This is why we recommend a diversified portfolio and equity positions in quality companies with wide economic moats. We continuously evaluate our clients' holdings to assess their prospects and will act where we see opportunities or a change in long-term fundamentals. In challenging times, it is difficult to remain optimistic. But these times also create opportunities.



OUR LEADERSHIP

H. Walter Barre

Bert D. Barre, CFA

Barry D. Wynn

Camp R. Wynn, CFA

Lorie L. Barton

Henry E. Batts III, AWMA®

Charles W. Clementson

James C. Fiske, CFP®

Jamison W. Hinds, JD

Thomas S. Ledbetter, Jr., CFA

Karen H. Longhurst, ATFA, CTFA

Pamela G. McCauley

Ansley J. Mitcham

Matt Van Name, CFP®, CRPS®, AIF®

Kathryn A. Smith, CPA/PFS, CFP®

Brittany E. Nethercutt

W. Charlton Wieters, CTFA

LOCATIONS

SPARTANBURG

233 S. Pine St.
Spartanburg, SC 29302

864.582.3356

GREENVILLE

101 E Washington St.,
Suite 200
Greenville, SC 29601

864.370.0737

COLUMBIA

6 Calendar Ct.,
Suite 1
Columbia, SC 29206

803.782.7646

CHARLESTON

578 East Bay St.,
Suite B
Charleston, SC 29403

843.577.0444

COLONIALTRUST.COM

Colonial Trust Company, founded in 1913, is a state chartered trust company providing fiduciary services as regulated by the SC State Board of Financial Institutions. Colonial Asset Management, Inc. (also known as Colonial Trust Advisors), was formed in 1996 and provides investment management and planning services as a Registered Investment Adviser. Both entities conduct business under the name "Colonial Trust".