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INVESTMENT REVIEW

1Q 2025

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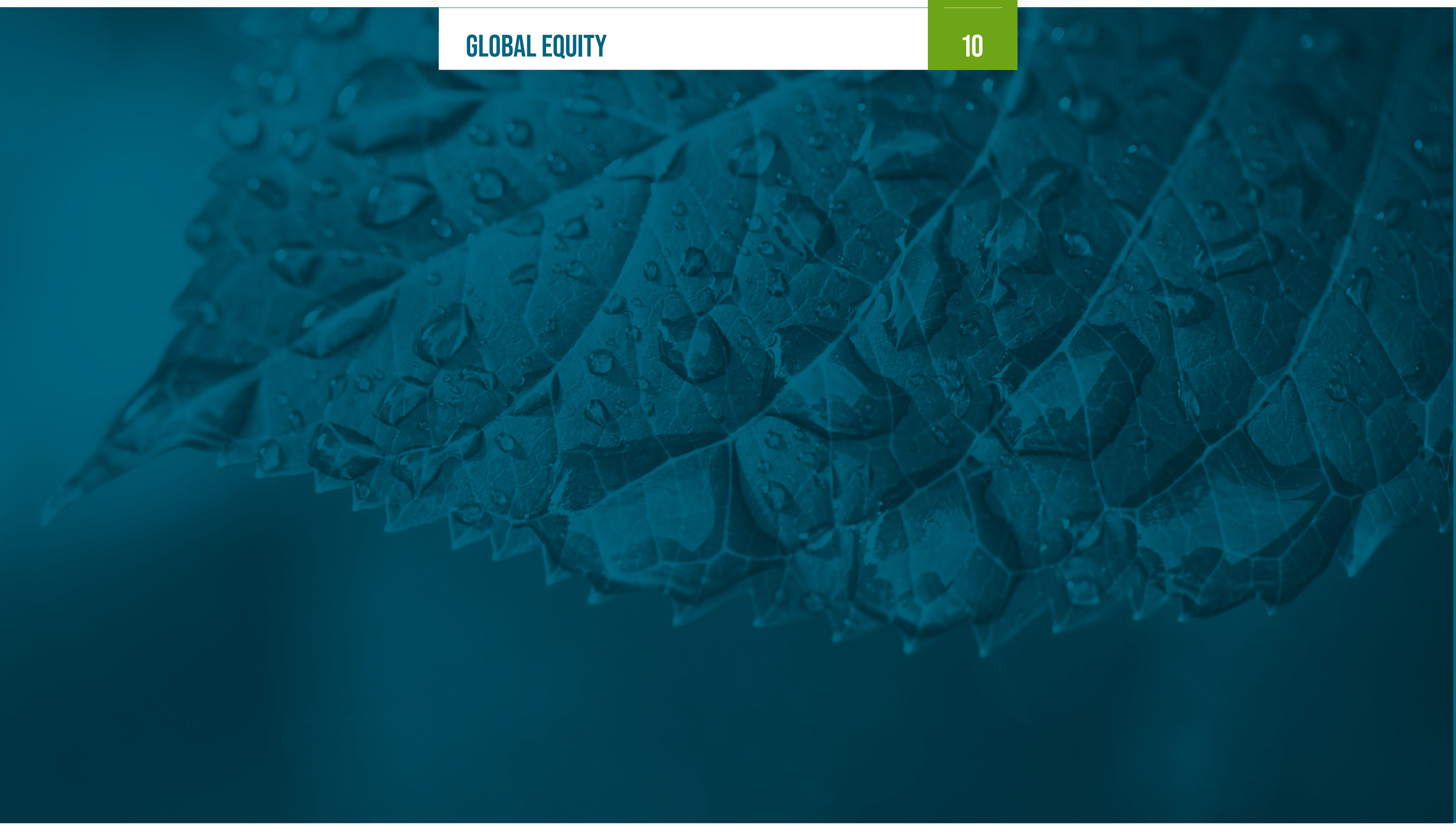

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ECONOMIC COMMENTARY

BY HAROLD G. KOTLER, CFA

Founder-Chairman, Chief Investment Officer

Investing today requires some fundamental beliefs. First and foremost, is confidence in our system and the conviction that the entrepreneurial spirit is alive and well. Another, is the idea that capitalism itself provides the basic tools for innovation, creativity, and change.

How will President Trump's announced tariffs affect all this? Will they lead to stagnation or even a mild recession? Anything is possible, and as of this writing, the markets are down 10% - 20% in response. But it would be foolish to predict the short- or even intermediate-term impact on valuations because there's no way to know if markets have properly discounted the impact of this new reality. Remember, in the post-World War II world, these types of corrections have always provided buying opportunities.

Our basic premise is the stock market provides investors with access to a changing world. Investing in great companies will always be a winning formula. At times, the market may feel fully valued or even overvalued. But our portfolio managers only buy companies that they believe will provide reasonable rates of return. To measure that in days, months, or even a year, is impossible. But for a full cycle, it has worked. What we do know is that if you are out of the stock market, even for only a few days in a cycle, you can lose a significant part of the return. If you are trying to time the market, you are engaging in speculation, not investing.

The other leg of our portfolio is investing in taxable and tax-exempt bonds. Evaluating the investment thesis for bonds is quite different than for stocks. Bonds provide predictable cash flow. A healthy allocation was the mainstay of our investment approach until 2020, when interest rates plummeted during the onset of the Covid pandemic. The 10-year Treasury yield spent most of that year treading under 1%. For client portfolios weighted heavily toward fixed income, we began to complement bond allotments with stocks that provided attractive dividends.

"There are many parts of the economy hoping that rates decline, but there is a silver lining to yields remaining where they are: bond investors finally have the opportunity to enjoy attractive returns."

As we have seen, short- and long-term interest rates have risen over the last four-plus years and most of the discussions are now centered around Federal Reserve policy—and more specifically, when, or if, they will reduce interest rates in the face of unacceptable levels of inflation. There are many parts of the economy hoping that rates decline, but there is a silver lining to yields remaining where they are: bond investors finally have the opportunity to enjoy attractive returns.

Continued on next page

A quick history on the yield of 10-year Treasury bonds—it was way back in 2000 that bond yields hovered around 6%, and for the next 20 years, rates fell steadily, averaging around 3.5%. After dipping under 1% in 2020 and treading water for two years, rates shot higher in 2022, in response to inflationary fears that had been dormant for decades. By 2023, yields on the 10-year Treasury had climbed to 5%. So, in just three years, yields jumped from 1% to 5%, causing a major decline in bond values.

So where are we now? 10-year Treasury yields are 4.25% and tax-exempt yields are 3.30%—not at their peaks, but far more appealing than it has been for most of the last 25 years. With growth easing, there is little risk that rates will rise markedly from here, so bonds should continue to complement other more aggressive parts of your portfolio.

The lesson is timeless: diversify your assets. In a well-balanced and healthy portfolio, when certain areas underperform, others are positioned to do well. But over the investment cycle of five to 10 years, it is amazing how they all find their footing.

Harold G. Kotler, CFA
Founder-Chairman, Chief Investment Officer

GW&K NEWS

GW&K ANNOUNCES TWO NEW PARTNERS

Gayle Hodus, Director, Human Resources
Leigh S. Williamson, CFA, Client Portfolio Manager

GW&K is dedicated to cultivating a team that demonstrates exemplary leadership, a collaborative spirit, and unwavering dedication to help ensure the firm's ongoing success.

As Director of Human Resources, Gayle leads a team responsible for developing and executing HR strategy in support of the firm's strategic business goals and objectives.

As a Client Portfolio Manager, Leigh is an integral member of our domestic equity team, supporting client retention and business development primarily for the firm's domestic small cap equity strategies.

GW&K EXPANDS TAXABLE BOND TEAM

Brett Kozlowski, CFA, Principal, joined GW&K's Taxable Bond Team as a seasoned portfolio manager this quarter.

Brett has deep knowledge of the fixed income market, with a particular focus on the structured credit universe. His experience is well aligned with GW&K's long-standing philosophy of applying an active total return approach supported by in-depth independent research. As our taxable bond assets grow, we continue to add skilled professionals to our investment team.

GW&K ADDS CHIEF FINANCIAL OFFICER

In January, Brian Maguire, CPA joined GW&K as Principal, Chief Financial Officer (CFO), a newly created position at the firm. As CFO, Brian provides oversight of the firm's finance functions, including management of the firm's Finance & Administration staff. He plays a key role in helping to ensure the organization's financial health and provides strategic contributions to the firm's Executive team.

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$51.6 BILLION TOTAL ASSETS UNDER MANAGEMENT

183 EMPLOYEES

49 INVESTMENT PROFESSIONALS

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FIRST QUARTER 2025

ECONOMY

- The economy entered 2025 with solid economic momentum and moderating inflation, with Q4 growth of 2.4% powered by consumer spending and services activity.
- Growth appears to have downshifted in Q1 with consumer and business confidence having plunged based on economic policy uncertainty, large tariff hikes, and unpredictable government cutbacks.
- The Atlanta Fed puts Q1 GDP growth at -1.4% based on weak consumer spending and a surge in imports to beat tariff hikes. Labor market indicators remain solid, with unemployment at a low 4.1% rate.
- Tariff hikes are likely to dampen consumer spending and temporarily raise inflation. The magnitude of the impact is uncertain, but slower overall growth and higher inflation are probable.

FED ACTION

- The Federal Open Market Committee (FOMC) has maintained the federal funds rate at 4.25%-4.5% during its recent meetings, adopting a cautious approach amid heightened economic uncertainty.
- Officials have signaled a "wait-and-see" stance, indicating that future rate adjustments will depend on clearer economic indicators, particularly in light of recent tariff hikes and their potential impact on inflation and growth.
- The FOMC's latest projections have revised the 2025 GDP growth forecast downward to 1.7% from the previous 2.1%, reflecting concerns over trade policies and their economic ramifications. Officials continued to project two rate cuts in 2025.
- Inflation expectations have been adjusted upward, with the core PCE price index projected to reach 2.7% by the end of 2025, surpassing the Fed's 2% target and suggesting persistent price pressures.

BOND MARKETS

- The Bloomberg Aggregate Bond Index delivered a solid return for Q1, recovering most of the ground it lost in Q4. Mid-quarter, softer economic data and volatile tariff policies sparked a change in the narrative from optimism to concern about growth and inflation.
- The shift to a risk-off stance drove investors into bonds, pushing the belly of the curve lower. In January, the 10-year Treasury yield briefly hit 4.8%, its highest level since October 2023, before rallying to end the quarter 37 bps lower. Similarly, the 2-year Treasury yield fell 36 bps.
- Gains in corporate bonds masked the swing in sentiment that widened IG and HY spreads. Lower-rated securities underperformed. Despite this more cautious outlook, many factors that have made the corporate sector appealing remain.
- Municipal bonds posted negative returns for Q1 as heavy supply collided with weakening rollover demand late in the period.

INDEX PERFORMANCE

3/31/25	QUARTER	YEAR TO DATE
Bloomberg 10-Year Municipal Bond Index	0.26%	0.26%
Bloomberg Aggregate Bond Index	2.78%	2.78%
Bloomberg High Yield Index	1.00%	1.00%
Dow Jones Industrial Average	-0.87%	-0.87%
S&P 500 Index	-4.27%	-4.27%
Russell 2000 Index	-9.48%	-9.48%
MSCI World Small Cap ex USA Index	3.40%	3.40%
MSCI World Index	-1.79%	-1.79%

DOMESTIC EQUITY MARKETS

- US equity markets declined in volatile trading in Q1 as policy uncertainty — predominately around tariffs — weighed on US economic growth and inflation expectations, consumer confidence, and corporate visibility.
- The S&P 500 fell -4.3% and experienced a sharp rotation in leadership away from the Magnificent 7 (valuation and competitive concerns) and into value stocks. Despite the weakness, large caps still outperformed small caps (Russell 2000, -9.5%), which suffered from concerns around slowing growth.
- Within large caps, value-oriented and defensive sectors led. Energy, Health Care, Consumer Staples, and Utilities performed best, while the Magnificent 7-heavy Consumer Discretionary, Information Technology, and Communication Services lagged meaningfully.
- Investors demonstrated a mixed preference for quality within large caps with valuation a greater driver of relative results, though quality led within small caps.

GLOBAL EQUITY MARKETS

- Non-US markets advanced in Q1, though finished off best levels due to escalating tariff concerns. The MSCI World ex US Index (LC) gained 6.2%; the MSCI World SC ex USA Index rose 3.4%. Currency had a meaningful impact as the US Dollar Index fell -3.9%.
- MSCI Europe rallied 12.3%, well above other developed market regions, thanks to surging investment flows, a €1 trillion stimulus package unveiled by the new German government, and a remarkable shift in European defense spending plans amid fraught relations with the US.
- In large caps, sector leaders included Financials, Utilities, and Energy, while Information Technology, Consumer Discretionary, and Real Estate trailed the Index. In small caps, Materials, Financials, and Communication Services led, while Energy, Information Technology, and Consumer Discretionary underperformed.

INVESTMENT STRATEGIES

MUNICIPAL BOND

We combine a rigorous, research intensive, credit selection process with active management. Our goal is to take advantage of market inefficiencies and find opportunities across the yield curve to protect and grow principal and income.

TAXABLE BOND

Our multi-sector approach takes advantage of the relative valuation among distinct bond sectors and the increased opportunities to generate income and capital appreciation. We build diversified, yield-advantaged portfolios that generate steady, incremental income and provide downside risk protection.

DOMESTIC EQUITY

We develop a deep understanding of the companies in which we invest through disciplined and intensive fundamental research. Our focus is on finding well-managed, quality companies, that are resilient.

GLOBAL EQUITY

We take advantage of market inefficiencies to find quality growth companies that may be undervalued, underappreciated, or under-researched. Our rigorous, bottom-up process focuses on a company's upside potential and downside risk.

MUNICIPAL BOND STRATEGIES

Municipal bonds posted negative returns for the first quarter as heavy supply collided with weakening rollover demand late in the period. For much of January and February, municipal bonds held up reasonably well despite the elevated issuance, thanks to strong seasonal flows and sustained demand for attractive tax-exempt income. But that tone faded in March as reinvestment slowed to a trickle and selling pressure picked up ahead of the April 15 tax-payment deadline. The long end took the brunt of the weakness over the quarter, struggling to keep pace with its shorter counterparts, even when the latter were rallying. The resulting curve steepening may reflect a return to more traditional demand patterns, where retail buyers gravitate toward the front end and steer clear of longer-dated maturities. Municipal/Treasury ratios, already stretched entering the year, offered little cushion in the selloff, and headlines around potential tax-policy shifts may have added to the hesitation for some investors.

In the background, Treasury yields offered a window into the broader economic mood—short rates fell sharply as investors leaned into expectations for Fed cuts, while long-end yields declined more modestly, steepening the curve to its widest point in three years. Much of that reflected the market's struggle to make sense of evolving trade policy, as shifting tariff announcements introduced a fresh layer of uncertainty to the outlook. At times, it seemed clear that tariffs might weigh on growth and pull rates lower. At others, the inflationary implications received more attention, nudging long-term yields higher and dampening conviction around the pace of easing. While market odds for rate cuts increased over the quarter, they did so unevenly, with plenty of second-guessing along the way. The Fed largely mirrored that tension—pausing for now, but reiterating its expectation to cut rates later this year. As the quarter came to a close, trade policy emerged as the key wild card, and markets appeared to be adjusting to the possibility that priorities—and the responses they provoke—can shift without much warning.

Our trading activity in the first quarter focused on locking in higher yields for a longer period of time. For most of the quarter, that meant taking advantage of elevated new-issue supply, selectively participating in deals that offered strong relative value, particularly in call-protected maturities inside 15 years, where spreads and roll potential became increasingly compelling. Roughly 70% of our purchases came from the primary market, which included a wave of large offerings from New York issuers that priced with meaningful concessions. We also found value in electric utilities, hospitals and higher education credits, which priced at spreads that stood out against other offerings. On the sell side, we continued a deliberate effort to rotate out of short-call structures, many of which had performed well in the prior cycle but were increasingly exposed to reinvestment risk. Sales were also concentrated in tight specialty-state holdings, where spreads had compressed to levels that offered little future value for non-resident accounts.

15 MUNICIPAL INVESTMENT PROFESSIONALS

22 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

John B. Fox, CFA	Partner, Director, Fixed Income
Brian T. Moreland, CFA	Partner, Portfolio Manager
Kara M. South, CFA	Partner, Portfolio Manager
Martin R. Tourigny, CFA	Partner, Portfolio Manager

GW&K MUNICIPAL BOND STRATEGIES

SHORT-TERM MUNICIPAL BOND

2–8 YEAR ACTIVE MUNICIPAL BOND

2–8 YEAR ACTIVE MUNICIPAL BOND ESG

MUNICIPAL BOND

MUNICIPAL BOND ESG

MUNICIPAL BOND PLUS

MUNICIPAL ENHANCED YIELD

> *"Municipal bonds enter the second quarter with higher yields, a steeper curve, and a market narrative increasingly shaped by uncertainty around inflation, growth, and trade. Near-term technicals still need to be worked through, but underlying demand for tax-exempt income remains firm, supported by stable credit fundamentals and cheaper valuations."*

Municipal bonds enter the second quarter with higher yields, a steeper curve, and a market narrative increasingly shaped by uncertainty around inflation, growth, and trade. Near-term technicals still need to be worked through, but underlying demand for tax-exempt income remains firm, supported by stable credit fundamentals and cheaper valuations. Even amid recent volatility, municipal bonds continued to behave as you'd expect from one of the more stable corners of fixed income. The rise in 10-year municipal/Treasury ratios to over 75%, up from around 60% a year ago, has helped restore some of the relative value that had been missing for much of the past year. At the same time, curve steepening reflects both heightened inflation anxiety and a market still anticipating easing on a delayed timeline. Against this backdrop, we remain focused on opportunities to add selectively, especially where recent weakness has improved entry points without altering the long-term case for the asset class.

TAXABLE BOND STRATEGIES

13 TAXABLE INVESTMENT PROFESSIONALS

22 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

John B. Fox, CFA	Partner, Director, Fixed Income
Mary F. Kane, CFA	Partner, Portfolio Manager
Brett Kozlowski, CFA	Principal, Portfolio Manager

GW&K TAXABLE BOND STRATEGIES

- SHORT-TERM TAXABLE BOND
- INTERMEDIATE TAXABLE BOND
- CORE BOND
- CORE BOND ESG
- ENHANCED CORE BOND
- ENHANCED CORE BOND ESG
- TOTAL RETURN BOND
- CORPORATE BOND OPPORTUNITIES
- SHORT-TERM FOCUSED HIGH INCOME

The first quarter offered a reminder of how quickly market narratives can shift. The period began with continued optimism around the strength of the US economy, underpinned by a solid labor market, and resilient consumer. However, midway through the quarter, the emergence of softer economic data and fluctuating tariff policies drove market sentiment toward a heightened sense of apprehension around the growth and inflation outlook. Investors sought the safe haven of fixed income, as the market quickly shifted its focus to recession fears and global trade tensions. Throughout this shift, the Fed held rates steady, as expected, while signaling a more cautious growth and worrisome inflation outlook. The market, though, remains even more bearish on the economy, pricing in three cuts by the end of 2025 versus the Fed projecting just two.

The Bloomberg Aggregate Bond Index delivered a solid 2.8% return in the first quarter, recovering most of the ground it lost in the fourth quarter. The market's shift to a risk-off stance drove investors into bonds, pushing the belly of the curve lower. In January, the 10-year Treasury yield briefly hit 4.8%, its highest level since October 2023, before rallying 60 basis points to end the quarter 37 basis points lower. Similarly, the 2-year Treasury yield fell 36 basis points, leaving the 2s-to10s yield curve little changed. Ultra-short rates, by contrast, held relatively steady during a bull flattening of the 3mos-to-10s yield curve, which ended the quarter back in negative territory, where it had been for the past two and a half years.

Positive returns in the corporate credit market masked the abrupt shift in sentiment. Investment grade and high-yield spreads rose by 14 and 60 basis points, respectively. Both segments delivered negative excess returns as their carry advantage was not enough to offset the impact of wider spreads. Driven by softer economic readings and concerns about tariff effects, lower-rated securities uniformly underperformed across the corporate credit market. CCC-rated securities highlighted the risk-off move as the only quality bucket to deliver a negative total return. Despite the more cautious risk outlook, many factors that have made the corporate bond sector appealing remain in place. Market dynamics are still healthy, with economic conditions supporting robust corporate credit fundamentals, and attractive all-in yields driving investor demand.

The securitized sector was not immune to the broader risk-off move as it underperformed comparable duration Treasuries. Growing concerns around potential changes to the Government Sponsored Enterprises' (GSEs) regulatory framework and the risk of privatization led to negative excess returns for Agency MBS and overwhelmed the positive effects of a favorable technical environment and limited rate volatility. Within MBS, performance was mixed as lower coupon securities underperformed mid-to-higher coupon bonds, which delivered strong excess returns. Asset-backed securities (ABS) lagged, primarily due to weakness in the utility sector, which continues to face pressures related to California wildfires. In sympathy with growing macro uncertainty, consumer-facing ABS spreads also moved wider. Despite these challenges, we remain constructive on the securitized sector. MBS spreads are attractive relative to historical averages, while ABS finds support from strong underlying collateral performance and structural protections.

"As we enter the second quarter, the economy is experiencing an uncommonly pronounced divergence between soft and hard economic data. Our belief is that policy uncertainty has caused a shift in the balance of risks to the downside as consumer confidence and business sentiment have weakened."

As we enter the second quarter, the economy is experiencing an uncommonly pronounced divergence between soft and hard economic data. Our belief is that policy uncertainty has caused a shift in the balance of risks to the downside as consumer confidence and business sentiment have weakened. Current US economic fundamentals remain sound on the back of a resilient labor market and rising incomes, but a consumer pull back would lead to slower growth ahead. That said, the Fed has conveyed a willingness to ease policy in the interest of pursuing its dual mandate, so any deterioration in fundamentals is likely to be brief and shallow.

Our duration stance is neutral, as the upward pressure of rising inflation expectations is offset by emerging evidence of some real growth concerns in the data. We believe rates should remain relatively rangebound until the market gains direction from either the hard or soft economic data, and further clarity around new trade and tariff policies is received.

DOMESTIC EQUITY STRATEGIES

14 EQUITY INVESTMENT PROFESSIONALS

26 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director, Equities
Aaron C. Clark, CFA	Partner, Portfolio Manager
Joseph C. Craigen, CFA	Partner, Portfolio Manager
Jeffrey W. Thibault, CFA	Partner, Portfolio Manager
Jeffrey O. Whitney, CFA	Partner, Portfolio Manager

GW&K DOMESTIC EQUITY STRATEGIES

- EQUITY DIVIDEND PLUS
- DIVERSIFIED EQUITY
- SMALL/MID CAP CORE
- SMALL/MID CAP GROWTH
- SMALL CAP VALUE
- SMALL CAP CORE
- SMALL CAP GROWTH

After holding onto gains through the first two months of the quarter—the S&P 500 hit an all-time high in mid-February—domestic equity markets finally succumbed to the uncertainties surrounding Trump policies, especially the looming trade war and DOGE-related layoffs, and their impact on economic growth and inflation. Cracks in the AI-growth theme added to the quarter's troubles, especially among the Magnificent 7. This quarter's decline breaks the large cap market's five-quarter winning streak and has pushed most market indexes into correction territory. Fixed income markets posted modest gains, as the flight to safety trade overwhelmed the typical negative response to inflationary fears. Without the support of the Magnificent 7, the S&P 500 lost -4.3% in the quarter. Indeed, nearly all of the S&P's decline can be attributed to the mid-teen's percentage drop in these stocks. Thus, the Magnificent 7-heavy sectors of Consumer Discretionary, Information Technology, and Communication Services underperformed, while the more defensive Energy, Health Care, Utilities, Consumer Staples, Financials, and Real Estate sectors outperformed.

The Russell 2000 Index, having hit its all-time highs last November, continued to slide amid declining earnings expectations, falling -9.5% for the quarter. Only Utilities posted a gain, while several sectors posted double-digit losses. Information Technology was hit particularly hard, with semiconductor and software names responsible for most of the sector's decline.

Value investing returned to the fore in the quarter, with Value outperforming Growth by over 12% among large caps and by over 3% among small caps. Here too, it was the growthy Magnificent 7-heavy sectors of Information Technology and Consumer Discretionary lagging, while the value-oriented Financials, Health Care, and Energy sectors performed well. In the small cap realm, the relative performance gap was driven by strength among the Value-oriented Financials, Utilities, and Real Estate sectors, as well as weakness in Growth-heavy Information Technology. Among smaller companies, style factors favored quality this quarter, with larger size, higher ROE, and lower beta among the best performing factors.

The outlook for the US economy has become more uncertain. There is still a non-trivial list of positives. Earnings for 2024 finished the year strong, and current earnings projections are showing good growth in 2025. The labor market is still in a good place, as the unemployment rate remains low and non-farm payrolls are steady. ISM survey work supports growth in Services, still the majority of our economy, although the Manufacturing survey did slip back into contraction territory. Corporate balance sheets remain healthy, providing ample firepower for share buybacks, dividends, and acquisitions. Personal balance sheets also remain strong, although a declining stock market has hurt personal net worth, and credit card delinquencies have been on the rise.

Yet, Trump policy uncertainties have started to impact business and consumer sentiment, with CEO and business confidence surveys falling and consumer confidence dropping to its lowest level since the pandemic. Indeed, with tariffs and layoffs certainly on the rise, a cutback in spending only makes sense. While one could argue that tariffs, if used prudently, could help the US economy, it is the sledgehammer approach to their application that creates the most risk in the near term. Chinese advances in AI, at lower costs, have also created concerns over this key component of economic growth and spending expectations. The GDP outlook, though still positive, has been trimmed back, while inflation readings have remained stubbornly above the Fed's 2% target. Further near-term Fed rate cuts have also been put on hold given the uncertain outlook.

> *"First quarter earnings reports are key, perhaps more so than in any recent quarter, as management guidance and outlook statements will give us a first look at how Corporate America and consumers are experiencing and reacting to the impact of Trump policies, especially the trade war."*

First quarter earnings reports are key, perhaps more so than in any recent quarter, as management guidance and outlook statements will give us a first look at how Corporate America and consumers are experiencing and reacting to the impact of Trump policies, especially the trade war. Whereas the only certainty would seem to be more market volatility, investor sentiment has turned so negative that a relief rally can't be ruled out.

While we attempt to give our best prediction on the economic outlook, our primary charge remains finding companies that can best lead us through the economic mine field, coming out the other side in an improved competitive position. We have found that such companies possess similar quality traits, including leading market positions, experienced management teams, and solid financial characteristics. Our experience gives us confidence that our quality portfolios will continue to outperform in the long term.

GLOBAL EQUITY STRATEGIES

9 EQUITY INVESTMENT PROFESSIONALS

25 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director, Equities
Reid T. Galas, CFA	Partner, Portfolio Manager
Karl M. Kyriss, CFA	Partner, Portfolio Manager

GW&K GLOBAL EQUITY STRATEGIES

GLOBAL SMALL CAP

INTERNATIONAL SMALL CAP

Global equity markets (ex-USA) were higher to start the year, with particular strength in Europe. The MSCI World ex-USA Index rose 6.2%, as the MSCI World ex USA Small Cap Index advanced 3.4%. US dollar weakness (-3.9% for the DXY) added to returns. While it is too early to make a call, we have been waiting a long time for the dollar strength headwind to reverse and would expect a meaningful benefit to US-based investors in overseas assets when it finally does.

Most of the market's return came in January with volatility increasing later in the quarter. Growing trade tensions and uncertainty regarding US-tariff policy, investor rotations in Asia—noticeably a shift from Japan to China—and a sea change in EU governments' propensity to spend after the German elections, combined with a pause in central bank easing kept markets range-bound later in the quarter. The change in Europe is particularly noteworthy as Germany announced plans to spend up to one trillion euros on a combination of defense and infrastructure. They have the balance sheet to fund this spending without triggering the debt concerns such a plan would engender elsewhere on the continent. This elimination of the German 'debt-break,' combined with an under-owned equity market was enough of a catalyst to drive the German DAX Index—up 11.3% in local terms and 15.8% in USD. We think there are better long-term opportunities elsewhere in Europe, but do see the change as meaningful. To be clear, this shift in German fiscal policy potentially has enormous significance. If creditor nations need to repatriate national savings, it can only come from the debtor nations. In addition, if this change represents a shift of monetary authority back to the nation state, it puts into question the authority of Brussels to direct European policy, the implications of which would not stop at Germany. Japan underperformed as investors shifted their focus back to China. We continue to find an abundance of attractive opportunities within Japan, but have been shifting our exposure towards domestically-focused businesses.

It is important not to exclude the US markets from our consideration of global markets. Global equity markets have been caught up in the frenetic shifts in US trade and geopolitical policy. None more so than the US itself. This highlights a potential shift in global investment flows, triggered somewhat by the US market's relatively high valuation during a time of heightened uncertainty. According to the Fed, foreign ownership of US stocks was nearly $20 trillion at the end of 2024. That is a staggering number, but a significant US equity allocation has clearly been the right choice for foreign investors, at least until this quarter. Even a modest shift in flows to other markets, due to US valuation concerns, the allure of fiscal spending in Europe, or improving prospects in Asia, could lead to broader geographic performance in the near term. Longer term, business fundamentals should drive performance, and much will depend on earnings growth outside the US. In terms of global small cap equities, we have long commented on their attractiveness, particularly in Europe and Japan where stock prices often do not reflect underlying business quality. A combination of relative earnings strength and a renewed focus on geographic diversification could lead to extended period of strong performance for global small cap markets.

> *"Longer term, business fundamentals should drive performance, and much will depend on earnings growth outside the US. In terms of global small cap equities, we have long commented on their attractiveness, particularly in Europe and Japan where stock prices often do not reflect underlying business quality."*

Our recent trip to Asia reinforced our view of the region's dynamism and vast investment potential. We can't predict whether the recent change in market leadership will continue. We actively seek global opportunities poised for growth and encourage investors to reassess their geographic allocations while the opportunity exists.

US-tariff policy is being announced as of this writing and there remain many open questions. The most important of which is: "To what extent is the US administration's intent to negotiate trade terms versus raise revenue and reshore manufacturing?" Watch to see how quickly deals are negotiated, with a willingness to deal indicating the intention is more towards the former and likely to be better for equity markets.

Our core approach has not changed. We continue to look for growing companies at attractive valuations. This approach is our preferred method to participate in strong markets, while still weathering the difficult periods.

Our passion for providing thoughtful and highly disciplined investment strategies, combined with a deep commitment to personal service, results in long-term relationships built on trust. We believe accessibility, a willingness to listen, and a desire to educate can be just as important as investment acumen. With more than 50 years' experience managing assets for individuals and families, we are a partner you can trust.

GET IN TOUCH

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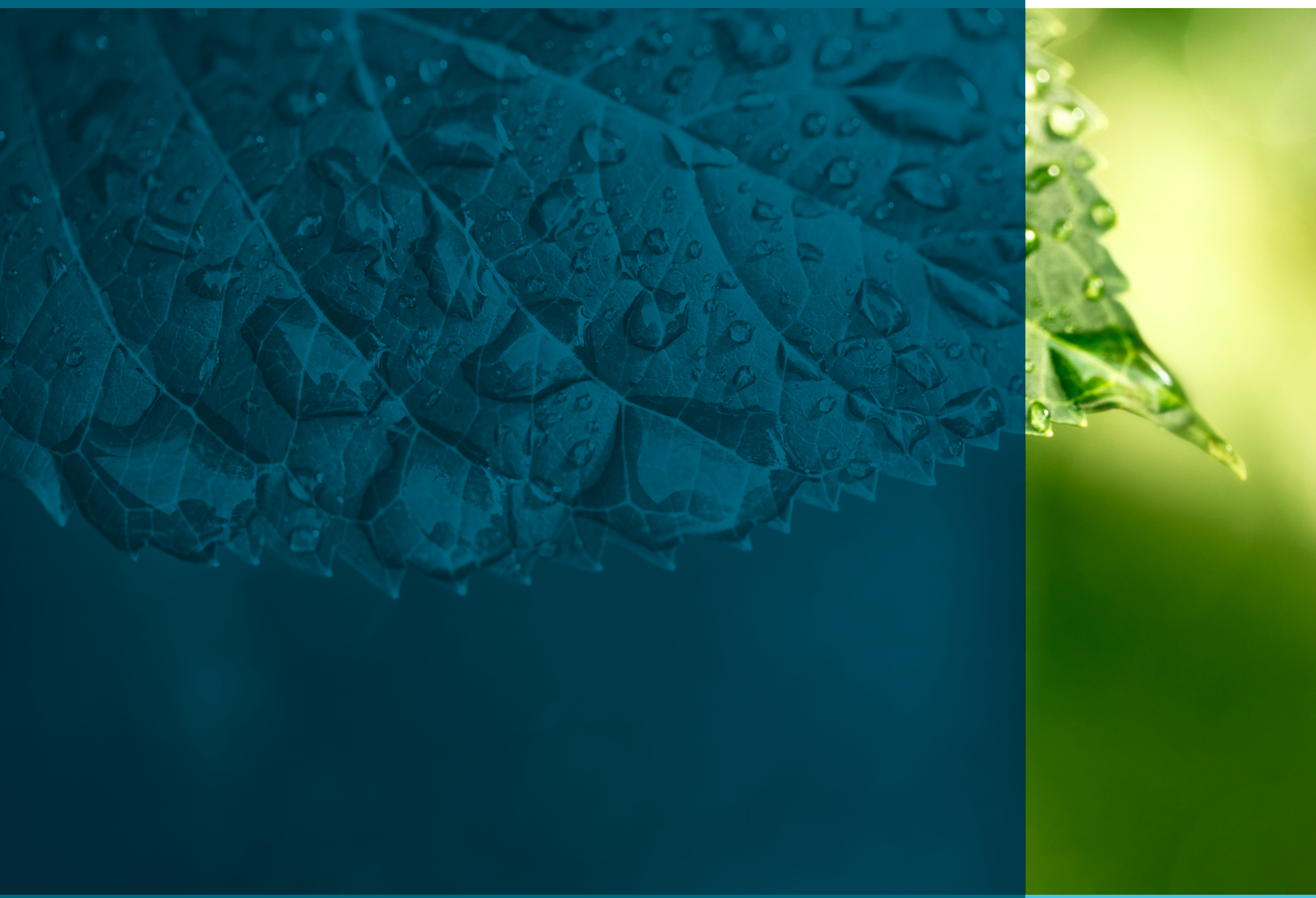
ENTREPRENEURIAL DRIVEN, CLIENT FOCUSED

GW&K is a Boston-based investment firm with a half a century of creating long-term, trusted client relationships.



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