



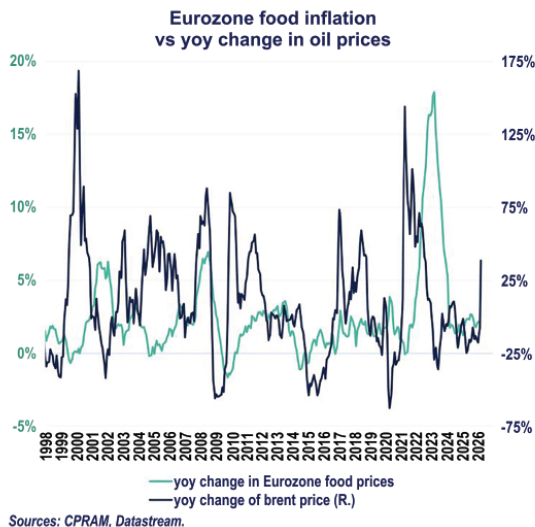
EQUITY & FIXED INCOME MARKETS

The Iran crisis and high oil prices did not rattle investor confidence in the Artificial Intelligence (AI) trade in April. Led by the Information Technology sector, the S&P 500 Index rose 10.5%, posting its best month since November 2020, while the Dow was up 7.2% and the Nasdaq Composite 15.3%. Mid- and small-cap stocks also rose, with the S&P 400 Mid-Cap Index up 7.9% and the S&P 600 Small-Cap Index up 10.4%. International markets also rose, with developed markets ex-U.S. up 7% and emerging markets up 14.5%. On a year-to-date basis, the S&P 500 is up 5.7%, the Dow 3.8%, and the Nasdaq 7.3%. GFC's Fixed Income Benchmark is up 0.2%.

APRIL SHOWERS

While the equity markets have rallied at a torrid pace, it has not been a broad-based rally as the outperformance was mostly isolated to Artificial Intelligence-related technology stocks. For historical context on the S&P 500's return this month, the index has gained 10% or more in a month 30 times since 1928, with just four instances since 1992. On average, it gained just 1.6% in the following month. Given the old adage that narrow markets (on performance) are dangerous markets, we would continue to urge caution in this environment and plan to maintain our overall defensive posture.

Having met with multiple energy experts over the past month, our key takeaway was that the damage has already been done from the Iran crisis to increase inflation in many countries in the near-term. This may happen even if there is a quick resolution, as it would take many months to build back the oil, gas, and fertilizer infrastructure that has been destroyed. Another takeaway was that many countries are also rethinking their dependence on the long-haul transport of oil supply, so even if the traffic is resumed on the Strait of Hormuz, oil prices may not fall as quickly as expected. While the U.S. is relatively insulated as a net energy exporter, U.S. gas prices are continuing to climb since oil is priced in global markets. Any extended disruption to global supply will tighten global availability and push crude prices higher worldwide, and U.S. gas prices will keep following suit. This will have important implications on upcoming U.S. midterm elections.



Fertilizer prices also play an important role in the global economy. In 2024, around 30% of global fertilizers and 20% of LNG, an important feedstock, went through the Strait of Hormuz. Since there are only limited times of the year when crops must be planted and sown, any disruption in supply impacts future crop yields. The U.S. may not be immune to this disruption, as 17% of U.S. phosphate consumption travels through the Strait of Hormuz. China recently placed export bans on phosphate fertilizers in March, and other countries that supply phosphate (mainly Russian and Morocco) to the U.S are subject to large tariffs.

Regardless, we remain more concerned about the implications for Europe than the U.S. and have lowered our exposure accordingly. As the attached chart shows, food inflation in Europe has historically closely tracked moves in oil prices. We also think the industrial production bases in Italy and Germany, which respectively had a 50% and 39% contribution from fossil fuels to its energy mix for electricity use in 2024, will be relatively less competitive in the global marketplace in the near-term. Asia

may be relatively more immune, as countries such as Japan and China made significant renewable energy buildouts over the past decade to shield their industrial bases from oil price swings and the loss of control in physical flows due to unforeseen geopolitical events.

The U.S. earnings season has provided a welcome counterpoint to the bad news coming from the Middle East. U.S. companies continue to outperform profit expectations, and recent inflation worries have not dented positive outlooks. Economic news also remains generally positive, as we are seeing early signs of the tax benefits of the One Big Beautiful Bill permeate through the economy. The key risk will be how long the Iran crisis festers, and how much of a move in oil and fertilizer prices can companies and consumers absorb before the strong earnings momentum that is driving the markets begins to normalize.

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REFERENCED INDICES

It is not possible to invest directly in an index. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses.

- **S&P 500® Index** – a market-cap weighted index composed of the common stock of 500 leading companies in leading industries of the U.S. economy.
- **S&P 500® Equal Weight Index (EWI)** – the equal-weight version of the S&P 500® Index. The index includes the same constituents as the capitalization-weighted S&P 500® Index, but each company in the S&P 500 EWI is allocated a fixed weight – or 0.2% – of the index total at each quarterly rebalance.
- **S&P Mid Cap 400® Index** – a market-cap weighted index composed of the common stock of 400 mid-sized companies reflecting the distinctive risk and return characteristics of the U.S. mid-cap equities sector.
- **S&P SmallCap 600® Index** – a market-cap weighted index composed of the common stock of 600 small-sized companies reflecting the distinctive risk and return characteristics of the U.S. small-cap equities sector.
- **Blended Equity Benchmark** – a customized index comprised of a blend of a 50% weight to the S&P 500® Index, 30% to the S&P MidCap 400® Index and 20% to the S&P SmallCap 600® index.
- **Dow Jones Industrial Average® (The Dow®)** – a price-weighted index composed of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.
- **Nasdaq Composite Index** – an index that measures all Nasdaq domestic and international based stocks listed on the Nasdaq Stock Market.
- **Bloomberg Intermediate US Govt/Credit TR Index Value Unhedged** – the index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities with a maturity greater than 1 year but less than 10 years.