# Coho Relative Value Equity

Monthly Portfolio Commentary

## March 31, 2025

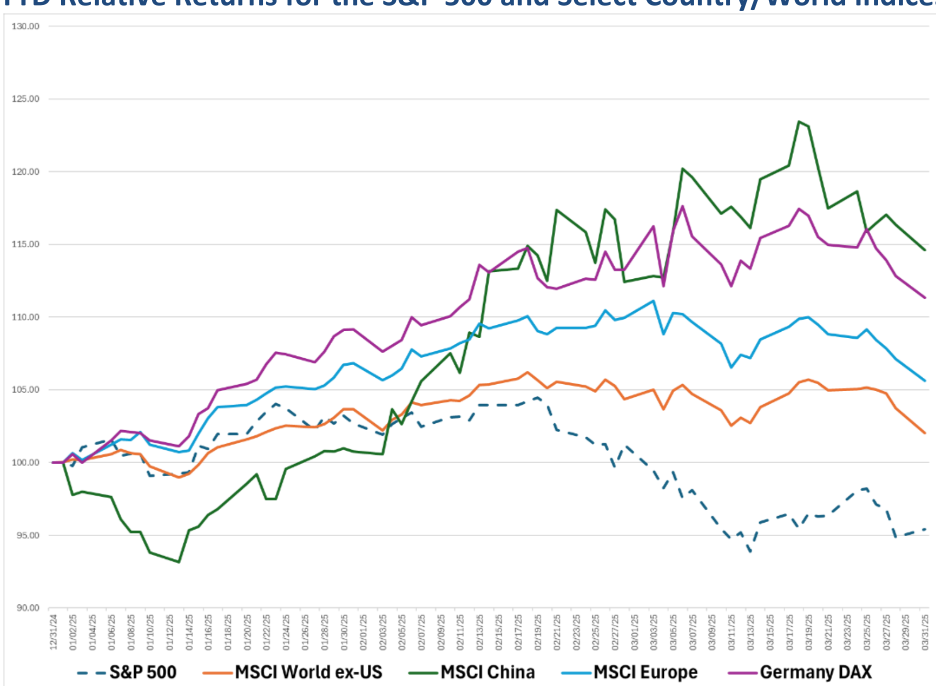
Where protection and participation meet®

The first three months of 2025 saw market returns start strong in January, weaken in February, and deteriorate further in March. The Coho Relative Value Equity portfolio's relative returns to both the S&P 500 and the Russell 1000 Value indices improved sequentially each month. March saw the S&P 500 Index tumble -5.6% and the Russell 1000 Value Index fall -2.8% while the Coho Relative Value Equity portfolio experienced a modest decline of -0.8%. Year-to-date (YTD), the portfolio has outperformed both indices with a positive return of 4.0% compared to a negative -4.3% return for the S&P 500 Index and a 2.1% gain for the Russell 1000 Value Index.

The optimism following last November's election that deregulation, lower taxes, and a more business-friendly administration would unleash a golden age of economic prosperity has given way to concerns over stalling GDP growth due to policy uncertainty and rising inflation expectations due to a tariff induced escalation of trade tensions. The consensus view entering the year was that "American Exceptionalism" would persist, but that narrative began to unravel in late January when DeepSeek exploded onto the scene and further crumbled as tariff concerns increased.

**Chart 1**

**YTD Relative Returns for the S&P 500 and Select Country/World Indices**

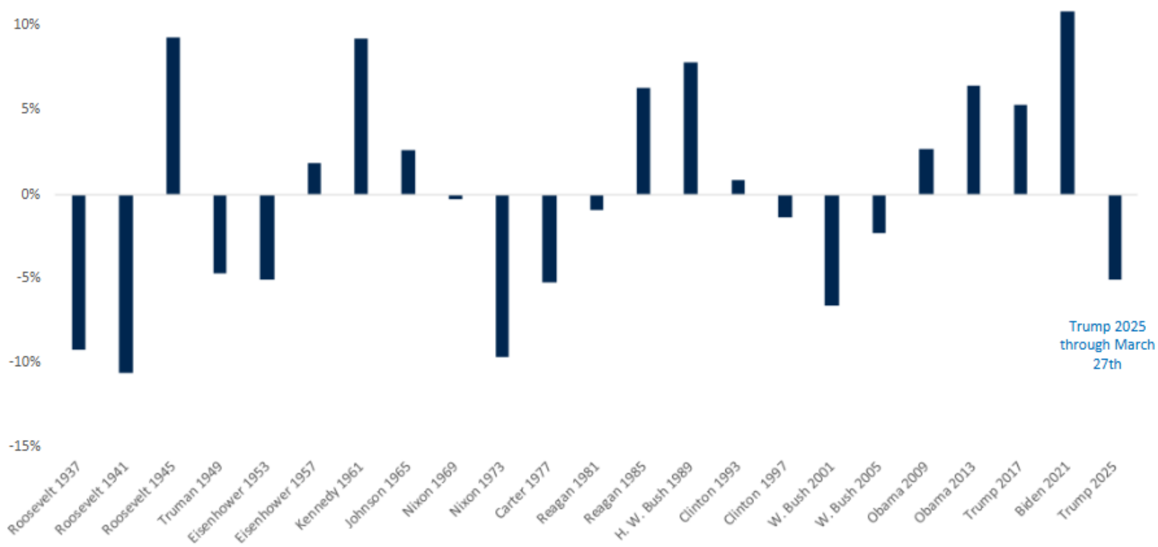



Sources: FactSet, Coho Partners, Ltd.

Chart 1 on the prior page shows S&P 500 Index YTD returns significantly lagging those of China, Germany, broader Europe, and the rest of the World. Below, Chart 2 shows that President Trump is on pace to oversee the worst S&P 500 Index return of any president in his first 100 days since George Bush following the terrorist attacks of 9/11. Prior to that, we must go back to the Carter administration to find a tougher start for a new administration.

**Chart 2**

**S&P 500 Performance over 1st 100 Days Following Presidential Inauguration**




Sources: RBC US Equity Strategy, Bloomberg

Against that backdrop, we find ourselves asking whether this matters to Trump. The stock market was certainly an important barometer for him during his first term, but so far, the messaging has been more Main Street over Wall Street and that a little pain may be justified to attain his longer-term goals. That suggests a hoped for "Trump put" may not exist.

Without a Trump put, investors have tried to decipher whether a Fed put remains in place. Since the financial crisis, the Federal Reserve has effectively calmed market nerves via unprecedented policy moves that facilitated an easy money environment. This supported a risk-on mentality that drove above average returns as investors (rightfully) assumed any dip could be bought thanks to Fed support. Whether that Fed put remains in place is a pertinent question.

After raising rates by more than 500 basis points (bps) in 2022 and 2023 in an effort to tame inflation, the Fed cut rates by 100 bps in 2024. With the target Fed Funds rate at 4.25% - 4.50%, there is room to cut rates further, but the agency is constrained by persistent elevated inflation. The concern moving forward is that newly implemented tariffs could stoke further inflation while at the same time slowing economic growth. That creates a conundrum for the Fed's dual mandate to balance both unemployment and inflation. We believe it will tend to pursue the former at the expense of the latter, but the calculus is difficult, particularly when policy and its knock-on effects are difficult to predict.

**Chart 3**

**ISM Manufacturing Data YTD 2025**

| ISM Manufacturing | Series Index January | Series Index February | Series Index March |
|---|---|---|---|
| Manufacturing PMI | 50.9 ⇧ | 50.3 ⇩ | 49.0 ⇩ |
| New Orders | 55.1 ⇧ | 48.6 ⇩ | 45.2 ⇩ |
| Prices | 54.9 ⇧ | 62.4 ⇧ | 69.4 ⇧ |

Source: Institute for Supply Management

In any case, slowing growth and rising inflation is not a desirable outcome. Stagflation concerns are increasing and are supported by data like the ISM manufacturing purchasing managers index (PMI). Chart 3 above shows that the manufacturing PMI moved into contraction territory in March. Underlying that downturn is a swift drop in new orders where February data showed the largest monthly decline since the pandemic. New orders then fell further in March. While activity is turning down, prices have surged higher this year and have risen for six consecutive months. As Chair of the ISM, Tim Fiore, put it, "demand and output weakened while input [costs] strengthened further, a negative for economic growth."

Economic signals like this coupled with potential tariff impacts caused the Fed to revise several of its forecasts at its March FOMC meeting. Both unemployment and inflation expectations moved higher for 2025 while its GDP estimate moved lower for each of the next three years. That puts the GDP forecast below 2% through 2027. The good news is that doesn't portend a recession; however, it does have stagflationary undertones. The bad news is that a recession is not a prerequisite for stocks to struggle.

**Chart 4**

**S&P 500 Returns During Various GDP Environments**

| Real GDP Range | # of Instances | % of Time S&P 500 > 0 % | Med. Return (Current Year) | Avg. Return (Current Year) | Min. Return (Current Year) | Max Return (Current Year) |
|---|---|---|---|---|---|---|
| < 0% | 11 | 82% | 23.5% | 18.3% | -29.7% | 45.0% |
| 0.1 - 1.0% | 3 | 33% | -13.0% | -17.1% | -38.5% | 0.1% |
| 1.1 - 2.0% | 5 | 40% | 0.0% | -3.4% | -23.4% | 9.5% |
| 2.1 - 3.0% | 21 | 71% | 18.4% | 11.3% | -19.4% | 34.1% |
| 3.1 - 4.0% | 11 | 82% | 9.0% | 8.3% | -11.4% | 27.3% |
| 4.1 - 5.0% | 13 | 69% | 12.4% | 11.0% | -11.5% | 31.0% |
| > 5.1% | 14 | 79% | 11.0% | 8.4% | -17.4% | 26.9% |
| All Years (1947 - 2024) | 78 | 72% | 11.6% | 9.2% | -38.5% | 45.0% |

Sources: RBC US Equity Strategy, Haver Analytics

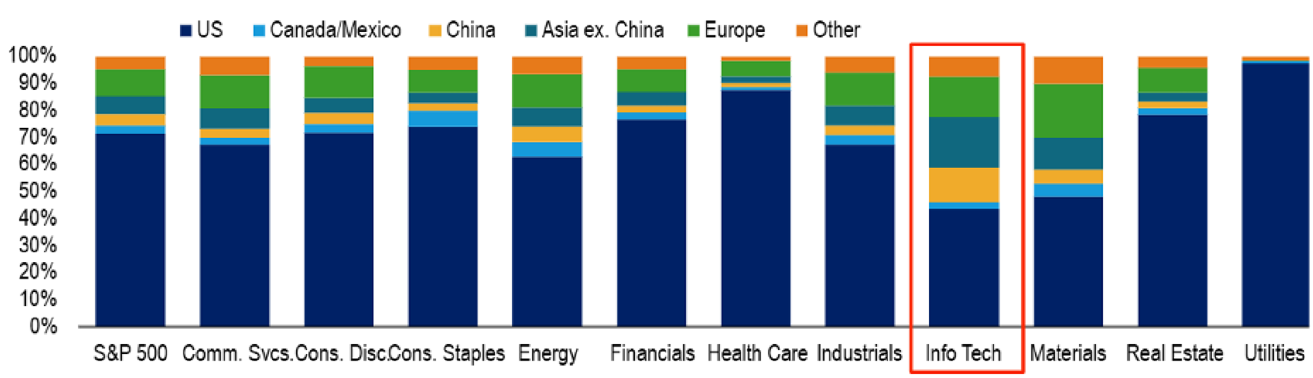
Chart 4 on the previous page shows S&P 500 Index returns since 1947 relative to GDP growth rates. In years in which GDP grew between 0% and 2%, both the median and average returns were flat to negative, and not once did the market generate a double-digit return. The good news for Coho investors, is that in periods of modest growth, the stable, predictable stocks that we prefer tend to outperform. We have shared data in past commentaries highlighting that Demand Defensive sectors, which we tend to overweight, have outperformed 100% of the time when market returns are between 0% and 10%. We saw that hold true this quarter with all three Demand Defensive sectors of Health Care, Consumer Staples, and Utilities outperforming both the S&P 500 and the Russell 1000 Value indices while more Economically Sensitive sectors like Consumer Discretionary and Information Technology underperformed.

The Coho Relative Value Equity portfolio is not immune to tariff concerns, but generally we believe our stocks have lower exposure relative to the broader market. Chart 5 shows that our largest sector overweight, Health Care, has among the lowest foreign direct sales exposure of any economic sector while one of our largest underweights, Information Technology, has among the highest. At the stock level, our largest exposure sits with Constellation Brands, a beverage company that imports 100% of its beer brands from Mexico. Our view is the tariff impact will be reduced in time, and it will continue to gain share in the interim. Nonetheless, the initial implementation of tariffs was a driver of the stock's 16% decline this quarter causing it to be among our largest detractors for the period.

As is typical for Coho, there are natural hedges within the portfolio to any overarching macro concern. On tariffs specifically, we point to our holding in auto parts retailer, AutoZone (AZO). Auto tariffs will likely lead to lower demand for new cars as affordability will be squeezed. This will lead both to increased demand for used cars and to individuals holding on to existing vehicles for longer. Both trends are positive for AutoZone as used and older vehicles require more repair and maintenance. This was appreciated by investors, driving AZO shares up 19% this quarter and making it one of the top contributors to performance.

**Chart 5**

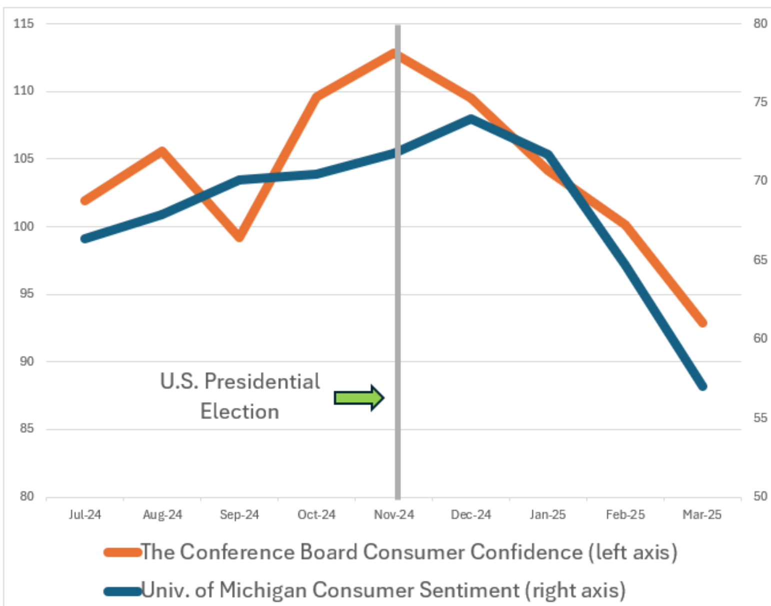
**S&P 500 Foreign Direct Sales Exposure by Sector**




Sources: FactSet, BofA US Equity & Quant Strategy

Other detractors in the quarter generally reflected wider economic concerns. Stocks like Ross Stores (ROST), The Walt Disney Company (DIS) and Global Payments (GPN) were each down more than 10% in the quarter and each has consumer exposure. The U.S. economy is a consumer driven one, and while the hard data (most importantly employment) has been holding up reasonably well thus far, the soft data raises some concern. Most notably, consumer confidence has been trending lower for the past several months. Whether measured by the University of Michigan Consumer Sentiment or The Conference Board Consumer Confidence index, optimism was clearly rising heading into last November's election. However, since that time, the trends have turned decidedly negative (Chart 6). Many of the companies we talk to have noted that the consumer is getting more cautious and becoming more value conscious. That matches the data in these consumer surveys that highlight a meaningful deterioration in future expected financial situations and a jump in long-term inflation expectations to 30+ year highs.

**Chart 6**
**Consumer Confidence & Sentiment 4 Months Pre/Post Election**




Sources: The Conference Board, University of Michigan, Coho Partners, Ltd.

While acknowledging the weakness in DIS, GPN, and ROST shares, we were pleased to see each of them meet or beat earnings expectations for the fourth quarter. That was generally the case across most our stocks, and a healthy portion of the portfolio saw forward earnings expectations rise. This compares to accelerating negative earnings revisions for the broader market. This speaks to the stability and predictability of the companies in which we invest and is a key reason why our outperformance this quarter was not only driven by sector positioning but also included strong contributions from positive stock selection.

In a quarter in which the S&P 500 Index fell 4% and the Russell 1000 Value Index was up 2%, the Coho Relative Value Equity portfolio had 12 stocks, or >40% of the portfolio, produce double-digit returns. Three stocks, Cencora (COR), W.R. Berkley (WRB), and Amgen (AMGN) were each up more than 20%, and Philip Morris International (PM) was the best performing stock this quarter rising 33%.

The positive contributors this quarter reflect both our diligence in continuously optimizing the portfolio and our patience in investing for the long term. AZO and WRB are relatively new holdings in the portfolio, both having been added in the fourth quarter of 2024, and each has outperformed the funding sales used to establish the positions. Philip Morris had in the past been a detractor to returns, but our conviction in the shift to smoke-free tobacco alternatives, and PM's leadership in this area, have started to pay off as the market has come to appreciate what we have projected for years.

As the Magnificent 7 and A.I. euphoria has begun to subside, we are encouraged to see our long-term historical pattern of returns reemerge. We are pleased with the portfolio's outperformance in the quarter and hope to see a continuation in the quarters ahead as market performance broadens further. Regardless, we will remain true to our investment process and philosophy that focuses first on downside protection and couples that with compelling upside participation.

If you have questions or concerns about our outlook or the portfolio's positioning, please do not hesitate to call us. We look forward to updating you on the progress of the portfolio as the year progresses.