



Quarterly Investment Report



**For the period ended March 31, 2025
(Unaudited)**

Prepared by: Barbara A. Parker, County Auditor

Downtown County Annex

320 S. Campbell St., Ste 140

(915) 273-3262

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EL PASO COUNTY | TEXAS
Quarterly Investment Report
12/31/2024 - 03/31/2025



Prepared by:

Barbara A. Parker, County Auditor

320 S. Campbell, Suite 140

El Paso, Texas 79901-2407 (915) 273-3262

A report of the investment transactions for the second quarter ended March 31, 2025, is herewith submitted. All investments have been made in compliance with the County's investment policy and pursuant to Texas Government Code, Title 10, §2256.023. TexPool, TexPool Prime, Treasuries, and Agencies, investment tools are authorized under the Texas Government Code, Title 10, §2256.016 and managed by Federated Investors, Incorporated, have affirmed adherence to the County's investment policy and provisions of the Texas Government Code, Title 10, §2256.023(8) (a) and (b).

Issuer	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
FHLB	5,000,000.00	4,946,941.94	4,962,101.39	1.01	4.24	65
Frost Bank	70,312.13	70,312.13	70,312.13	0.01	0.00	1
TexPool	6,216,396.89	6,216,396.89	6,216,396.89	1.27	4.34	1
TexPool Prime	444,220,379.62	444,220,379.62	444,220,379.62	90.63	4.47	1
Vantage Checking	14,926,072.09	14,926,072.09	14,926,072.09	3.05	2.73	1
Vantage Consolidated	19,753,432.80	19,753,432.80	19,753,432.80	4.03	2.83	1
Total / Average	490,186,593.53	490,133,535.47	490,148,694.92	100.00	4.35	2

/s/ Roxanne Davila

Roxanne Davila, Audit Accountant

Treasury

/s/ Jacobo Fuentes

Jacobo Fuentes, Audit Accountant Senior

Treasury

/s/ Raymond Gomez

Raymond Gomez, Audit Manager

Treasury

/s/ Donna Teague

Donna Teague, Director of Financial Operations

/s/ Michael Lamas

Michael Lamas, First Assistant

/s/ Barbara Parker

Barbara A. Parker, County Auditor



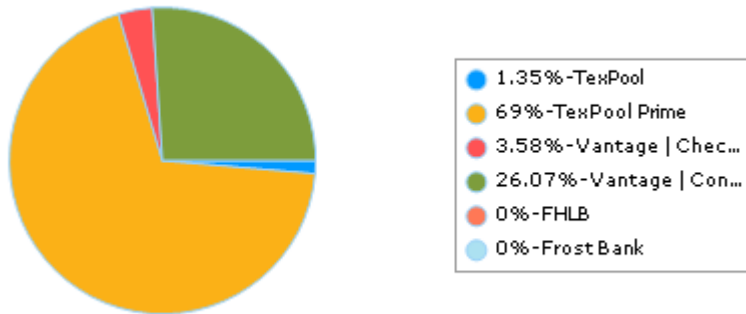
El Paso County TX Distribution by Issuer - Market Value All Portfolios

Begin Date: 12/31/2024, End Date: 3/31/2025

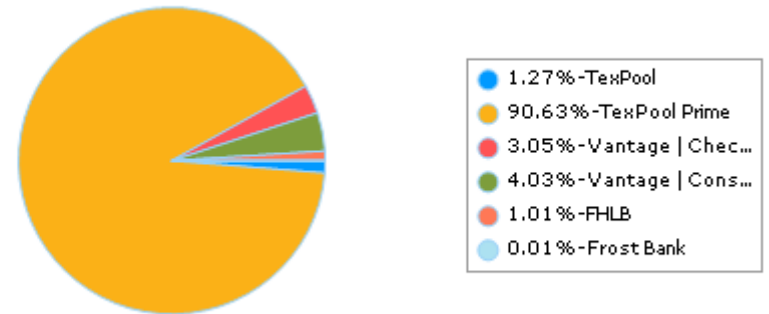
Issuer Allocation

Issuer	Market Value 12/31/2024	% of Portfolio 12/31/2024	Market Value 3/31/2025	% of Portfolio 3/31/2025
TexPool	6,150,030.82	1.35	6,216,396.89	1.27
TexPool Prime	314,475,035.84	69.00	444,220,379.62	90.63
Vantage Checking	16,316,106.04	3.58	14,926,072.09	3.05
Vantage Consolidated	118,834,381.98	26.07	19,753,432.80	4.03
FHLB	0.00	0.00	4,946,941.94	1.01
Frost Bank	0.00	0.00	70,312.13	0.01
Total / Average	455,775,554.68	100.00	490,133,535.47	100.00

Portfolio Holdings as of 12/31/2024



Portfolio Holdings as of 3/31/2025



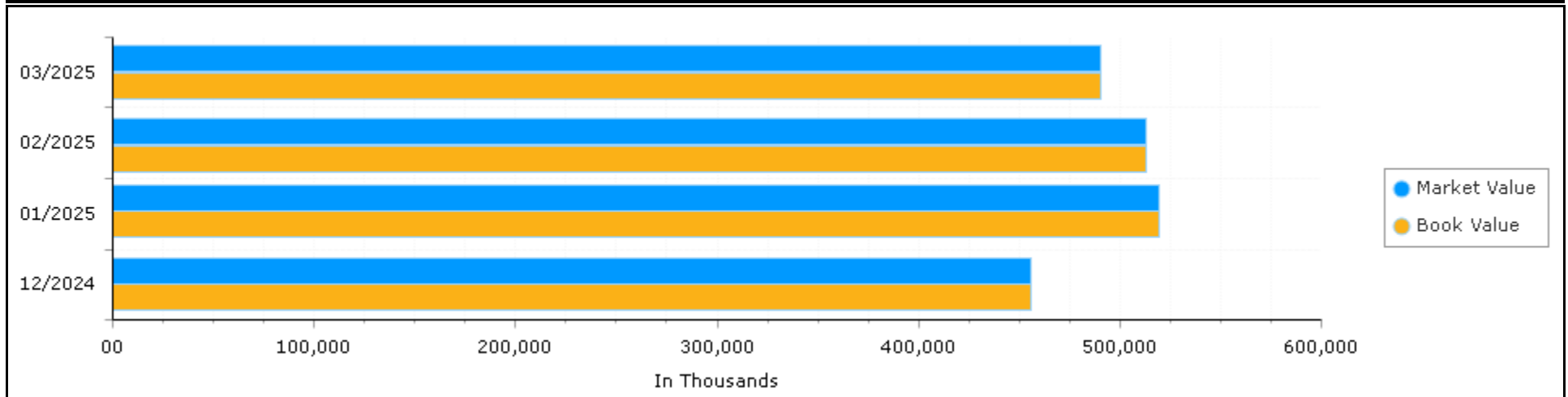


El Paso County TX Portfolio Summary by Month All Portfolios

Begin Date: 12/31/2024, End Date: 3/31/2025

Month	Market Value	Book Value	Unrealized Gain/Loss	YTM @ Cost	YTM @ Market	Duration	Days To Maturity
12/31/2024	455,775,554.68	455,775,554.68	0.00	4.14	4.14	0.00	1
1/31/2025	519,109,603.98	519,109,603.98	0.00	4.39	4.39	0.00	1
2/28/2025	512,650,502.24	512,664,652.24	-14,150.00	4.39	4.64	0.00	1
3/31/2025	490,133,535.47	490,148,694.92	-15,159.45	4.35	4.36	0.00	2
Total / Average	494,417,299.09	494,424,626.46	-7,327.36	4.32	4.39	0.00	1

Market Value / Book Value Comparison

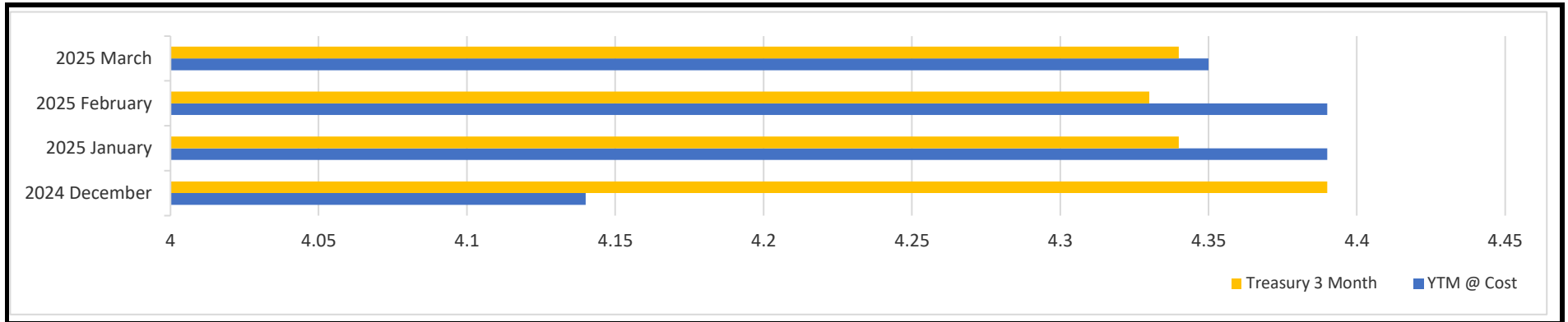




El Paso County TX Investment Income - Book Value by Month Report Group | All Portfolios

Begin Date: 12/31/2024, End Date: 03/31/2025

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
12/31/2024	362,935,540.30	1,434,364.16	0.00	1,434,364.16	455,775,554.68	4.14	4.39
1/31/2025	455,775,554.68	1,975,921.01	0.00	1,975,921.01	519,109,603.98	4.39	4.34
2/28/2025	519,109,603.98	1,782,067.30	0.00	1,782,067.30	512,664,652.24	4.39	4.33
3/31/2025	512,664,652.24	1,877,195.61	0.00	1,877,195.61	490,148,694.92	4.35	4.34
Total/Average	462,621,337.80	7,069,548.08	0.00	7,069,548.08	494,424,626.46	4.32	4.35





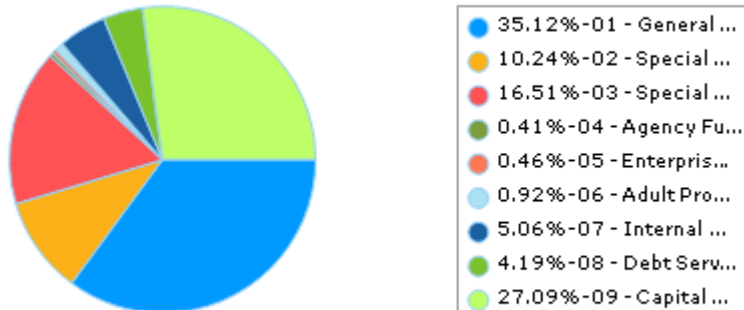
El Paso County TX **Distribution by Main Fund - Market Value** **All Portfolios**

Begin Date: 12/31/2024, End Date: 3/31/2025

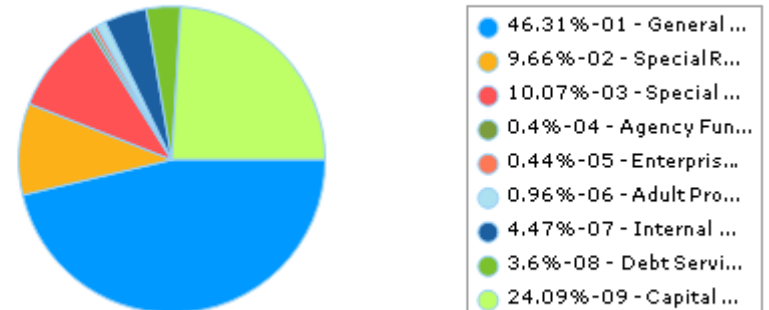
Main Fund Allocation

Main Fund	Market Value 12/31/2024	% of Portfolio 12/31/2024	Market Value 3/31/2025	% of Portfolio 3/31/2025
01 - General Fund	160,058,905.12	35.12	226,956,531.36	46.31
02 - Special Revenue	46,694,196.18	10.24	47,334,647.80	9.66
03 - Special Revenue Grants	75,234,565.60	16.51	49,350,684.18	10.07
04 - Agency Fund	1,854,560.25	0.41	1,957,143.22	0.40
05 - Enterprise Funds	2,079,397.82	0.46	2,171,625.63	0.44
06 - Adult Probation	4,212,696.37	0.92	4,723,615.85	0.96
07 - Internal Service	23,065,778.90	5.06	21,927,097.82	4.47
08 - Debt Service	19,096,020.98	4.19	17,647,074.01	3.60
09 - Capital Projects	123,479,433.46	27.09	118,065,115.60	24.09
Total / Average	455,775,554.68	100.00	490,133,535.47	100.00

Portfolio Holdings as of 12/31/2024



Portfolio Holdings as of 3/31/2025





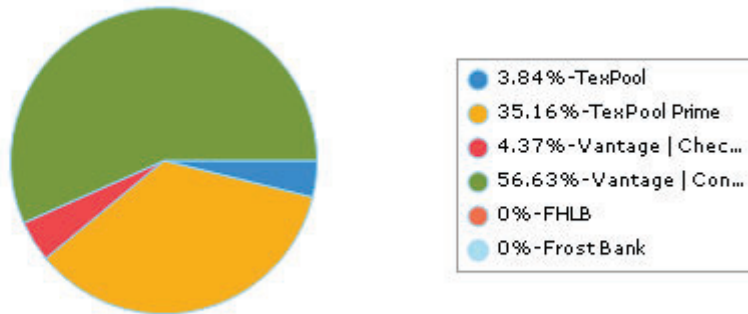
El Paso County TX Distribution by Issuer - Market Value Report Group | General Fund

Begin Date: 12/31/2024, End Date: 3/31/2025

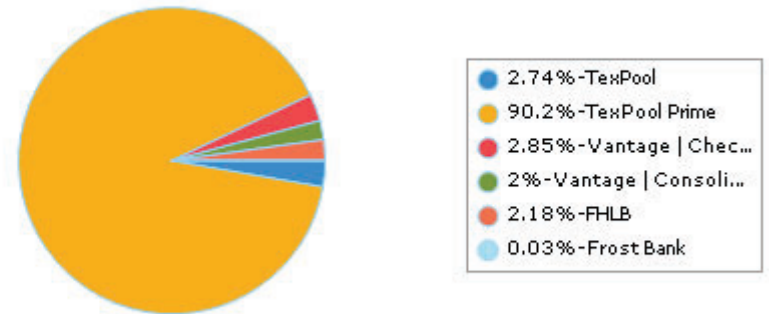
Issuer Allocation

Issuer	Market Value 12/31/2024	% of Portfolio 12/31/2024	Market Value 3/31/2025	% of Portfolio 3/31/2025
TexPool	6,150,030.82	3.84	6,216,396.89	2.74
TexPool Prime	56,271,603.84	35.16	204,723,452.91	90.20
Vantage Checking	6,999,403.89	4.37	6,457,222.36	2.85
Vantage Consolidated	90,637,866.57	56.63	4,542,205.13	2.00
FHLB	0.00	0.00	4,946,941.94	2.18
Frost Bank	0.00	0.00	70,312.13	0.03
Total / Average	160,058,905.12	100.00	226,956,531.36	100.00

Portfolio Holdings as of 12/31/2024



Portfolio Holdings as of 3/31/2025

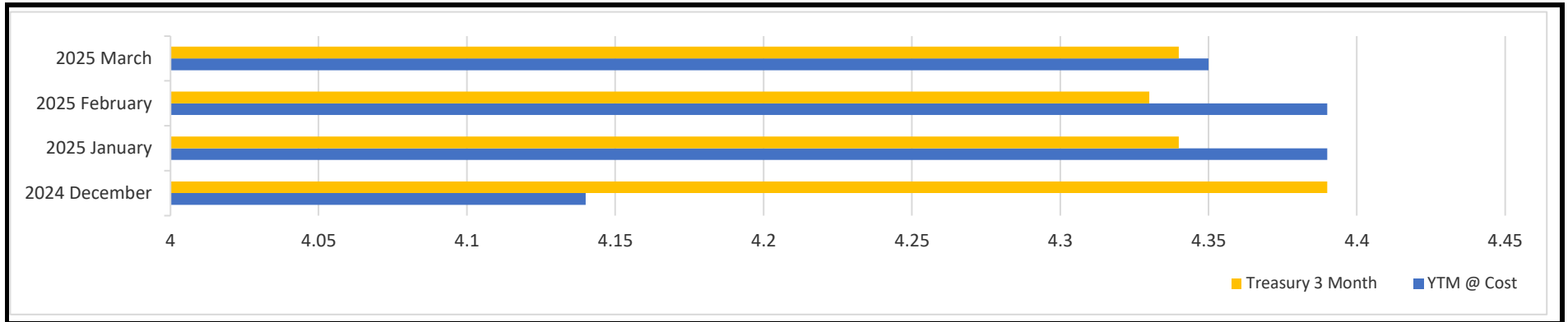




El Paso County TX Investment Income - Book Value by Month Report Group | General Fund

Begin Date: 12/31/2024, End Date: 03/31/2025

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
12/31/2024	76,868,849.24	630,788.33	0.00	630,788.33	160,058,905.12	4.14	4.39
1/31/2025	160,058,905.12	1,024,143.49	0.00	1,024,143.49	223,792,499.98	4.39	4.34
2/28/2025	223,792,499.98	1,028,439.99	0.00	1,028,439.99	242,144,328.60	4.39	4.33
3/31/2025	242,144,328.60	1,096,533.12	0.00	1,096,533.12	226,956,531.36	4.35	4.34
Total/Average	175,716,145.74	3,779,904.93	0.00	3,779,904.93	213,238,066.27	4.32	4.35





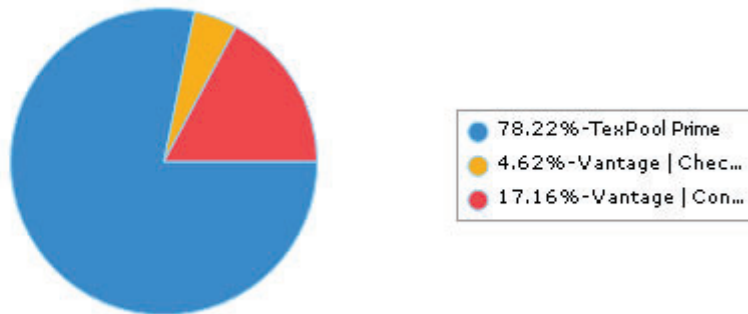
El Paso County TX Distribution by Issuer - Market Value Report Group | Special Revenue

Begin Date: 12/31/2024, End Date: 3/31/2025

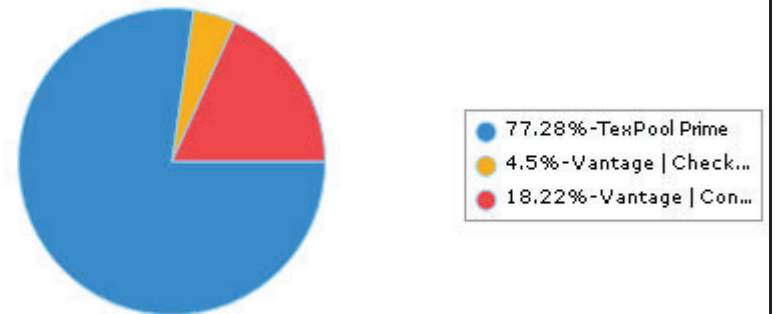
Issuer Allocation

Issuer	Market Value 12/31/2024	% of Portfolio 12/31/2024	Market Value 3/31/2025	% of Portfolio 3/31/2025
TexPool Prime	36,525,067.48	78.22	36,581,605.03	77.28
Vantage Checking	2,157,200.95	4.62	2,130,126.72	4.50
Vantage Consolidated	8,011,927.75	17.16	8,622,916.05	18.22
Total / Average	46,694,196.18	100.00	47,334,647.80	100.00

Portfolio Holdings as of 12/31/2024



Portfolio Holdings as of 3/31/2025

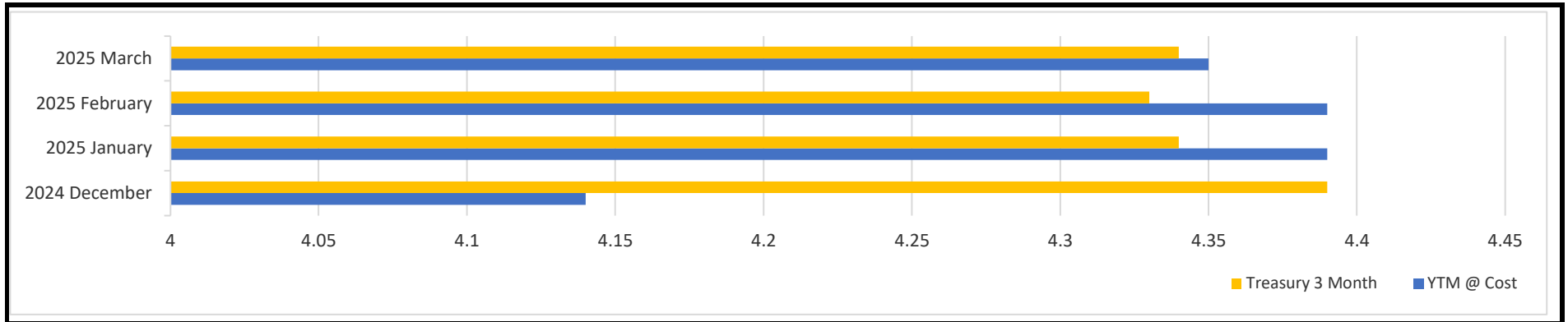




El Paso County TX Investment Income - Book Value by Month Report Group | Special Revenue

Begin Date: 12/31/2024, End Date: 03/31/2025

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
12/31/2024	47,506,838.01	153,854.21	0.00	153,854.21	46,694,196.18	4.14	4.39
1/31/2025	46,694,196.18	264,696.89	0.00	264,696.89	47,262,600.20	4.39	4.34
2/28/2025	47,262,600.20	146,306.43	0.00	146,306.43	47,268,858.39	4.39	4.33
3/31/2025	47,268,858.39	158,795.37	0.00	158,795.37	47,334,647.80	4.35	4.34
Total/Average	47,183,123.20	723,652.90	0.00	723,652.90	47,140,075.64	4.32	4.35



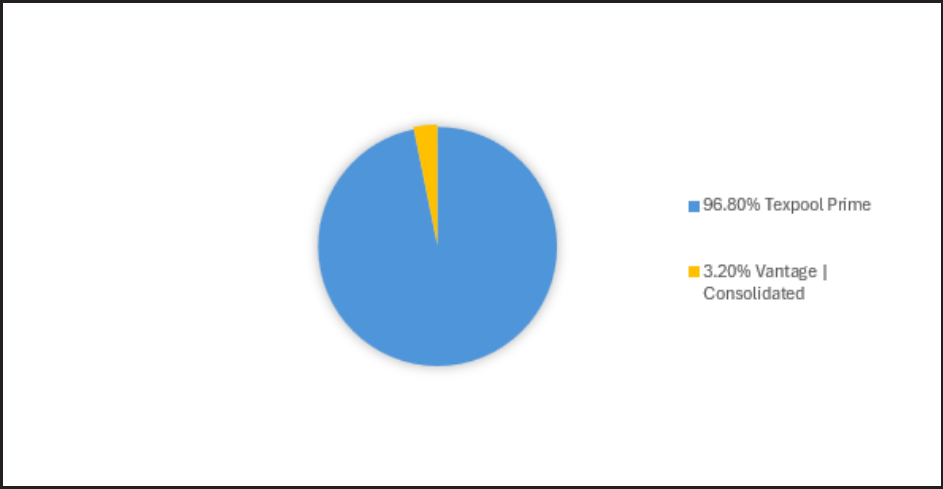


El Paso County TX
Distribution by Issuer - Market Value
Report Group | Special Revenue Grants

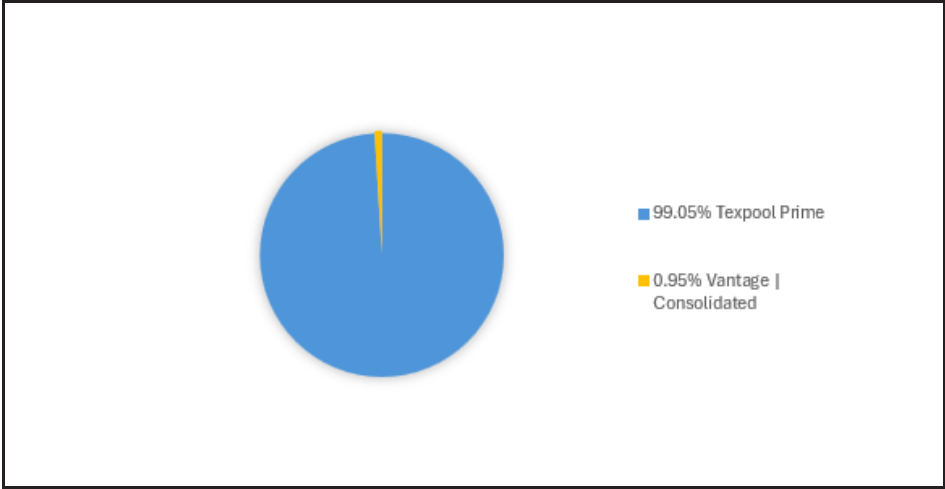
Begin Date: 12/31/2024, End Date: 3/31/2025

Issuer Allocation				
Issuer	Market Value 12/31/2024	% of Portfolio 12/31/2024	Market Value 3/31/2025	% of Portfolio 3/31/2025
TexPool Prime	72,824,640.72	96.80	48,883,150.00	99.05
Vantage Consolidated	2,409,924.88	3.20	467,534.18	0.95
Total / Average	75,234,565.60	100.00	49,350,684.18	100.00

Portfolio Holdings as of 12/31/2024



Portfolio Holdings as of 3/31/2025

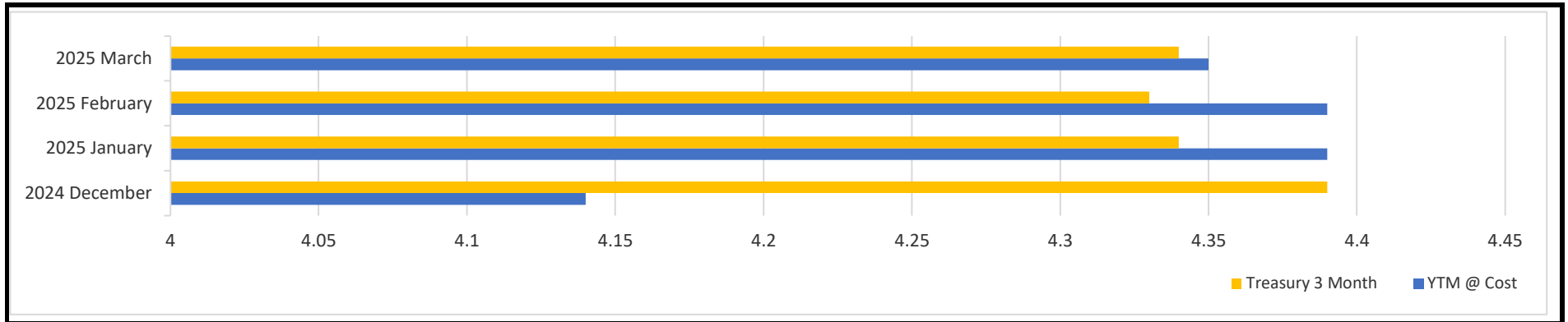




El Paso County TX Investment Income - Book Value by Month Report Group | Special Revenue Grants

Begin Date: 12/31/2024, End Date: 03/31/2025

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
12/31/2024	80,136,795.39	31,320.53	0.00	31,320.53	75,234,565.60	4.14	4.39
1/31/2025	75,234,565.60	32,779.61	0.00	32,779.61	66,348,456.58	4.39	4.34
2/28/2025	66,348,456.58	16,393.44	0.00	16,393.44	57,652,355.88	4.39	4.33
3/31/2025	57,652,355.88	8,765.29	0.00	8,765.29	49,350,684.18	4.35	4.34
Total/Average	69,974,891.32	89,258.87	0.00	89,258.87	62,397,730.62	4.32	4.35

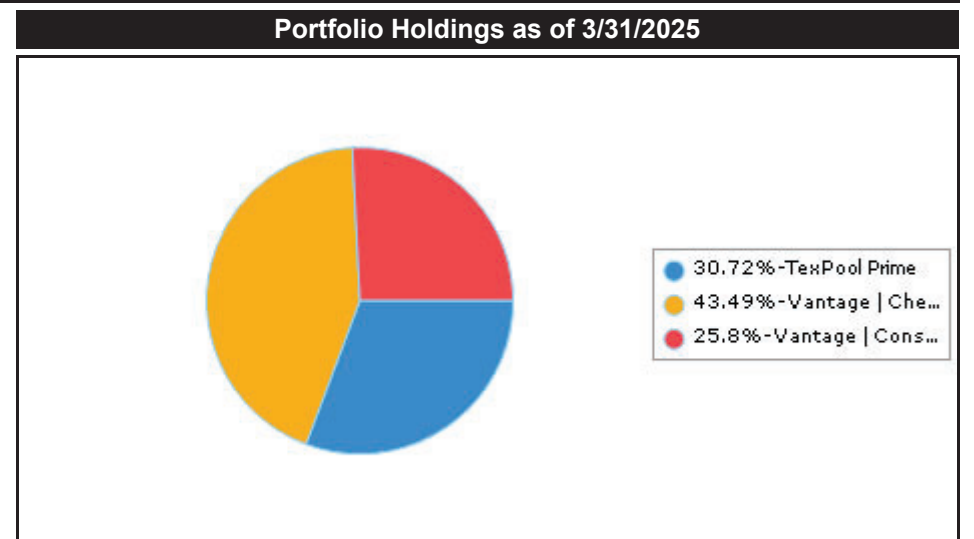
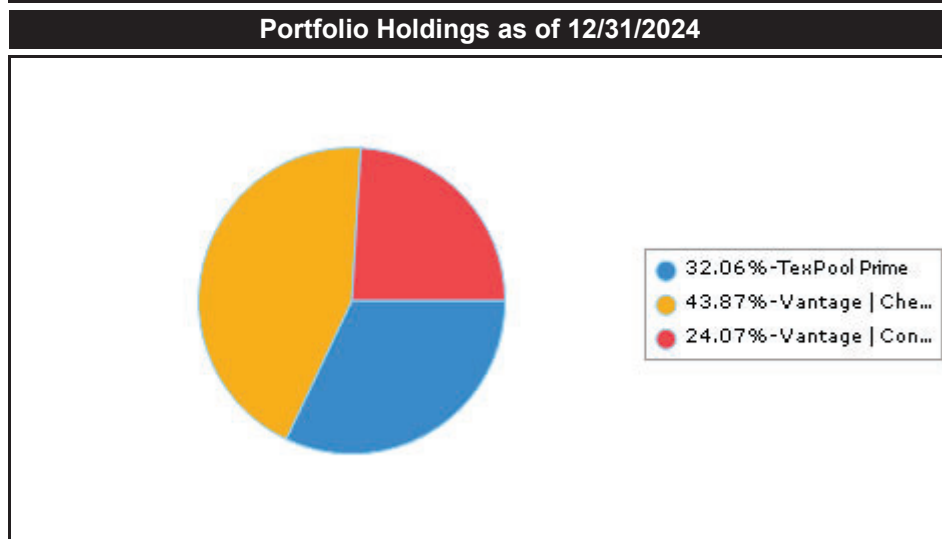




El Paso County TX Distribution by Issuer - Market Value Report Group | Agency Fund

Begin Date: 12/31/2024, End Date: 3/31/2025

Issuer Allocation				
Issuer	Market Value 12/31/2024	% of Portfolio 12/31/2024	Market Value 3/31/2025	% of Portfolio 3/31/2025
TexPool Prime	594,565.63	32.06	601,174.37	30.72
Vantage Checking	813,675.77	43.87	851,119.52	43.49
Vantage Consolidated	446,318.85	24.07	504,849.33	25.80
Total / Average	1,854,560.25	100.00	1,957,143.22	100.00

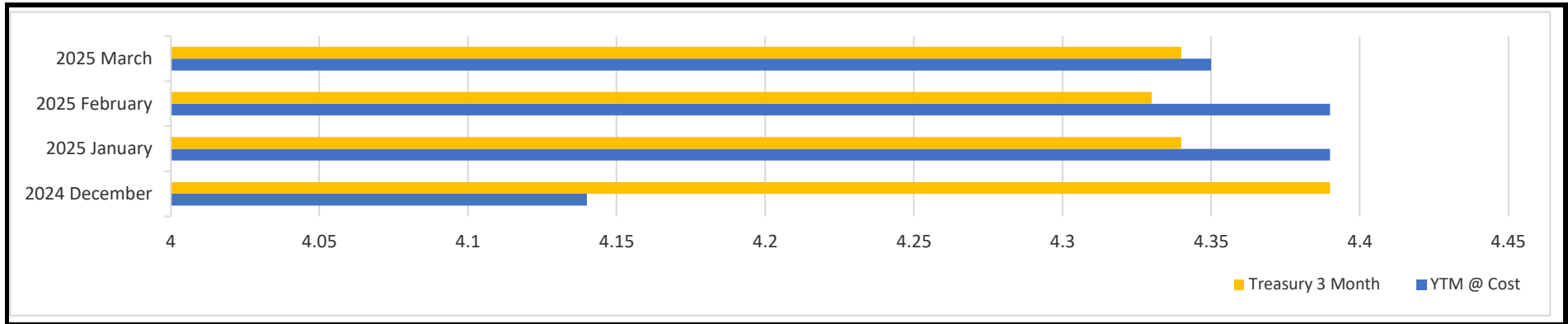




El Paso County TX Investment Income - Book Value by Month Report Group | Agency Fund

Begin Date: 12/31/2024, End Date: 03/31/2025

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
12/31/2024	1,860,456.45	5,933.80	0.00	5,933.80	1,854,560.25	4.14	4.39
1/31/2025	1,854,560.25	6,222.56	0.00	6,222.56	1,898,978.41	4.39	4.34
2/28/2025	1,898,978.41	5,676.26	0.00	5,676.26	1,938,950.15	4.39	4.33
3/31/2025	1,938,950.15	6,318.66	0.00	6,318.66	1,957,143.22	4.35	4.34
Total/Average	1,888,236.32	24,151.28	0.00	24,151.28	1,912,408.01	4.32	4.35





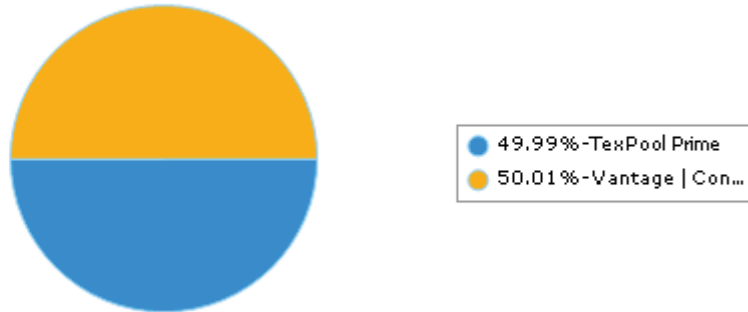
El Paso County TX
Distribution by Issuer - Market Value
Report Group | Enterprise Fund

Begin Date: 12/31/2024, End Date: 3/31/2025

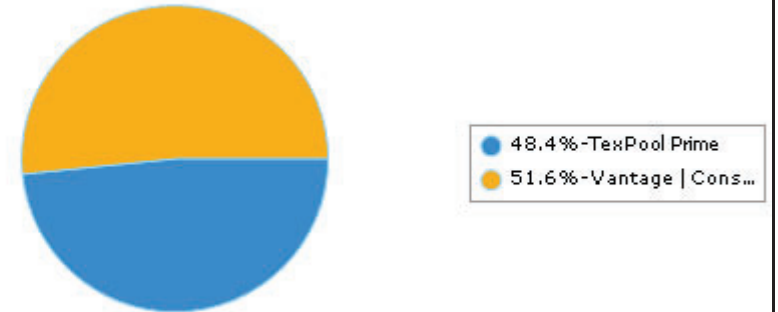
Issuer Allocation

Issuer	Market Value 12/31/2024	% of Portfolio 12/31/2024	Market Value 3/31/2025	% of Portfolio 3/31/2025
TexPool Prime	1,039,589.10	49.99	1,051,144.38	48.40
Vantage Consolidated	1,039,808.72	50.01	1,120,481.25	51.60
Total / Average	2,079,397.82	100.00	2,171,625.63	100.00

Portfolio Holdings as of 12/31/2024



Portfolio Holdings as of 3/31/2025

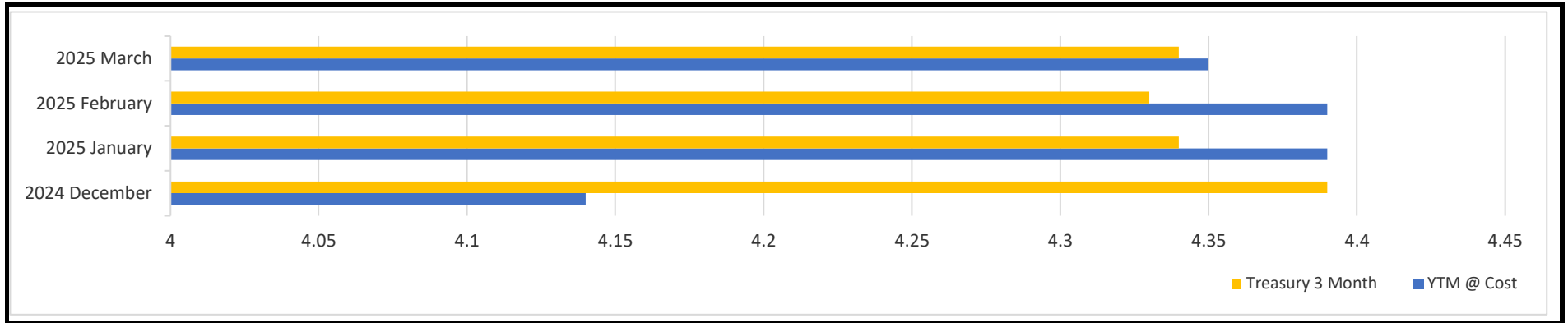




El Paso County TX Investment Income - Book Value by Month Report Group | Enterprise Fund

Begin Date: 12/31/2024, End Date: 03/31/2025

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
12/31/2024	2,205,935.38	4,929.43	0.00	4,929.43	2,079,397.82	4.14	4.39
1/31/2025	2,079,397.82	6,746.35	0.00	6,746.35	2,258,814.52	4.39	4.34
2/28/2025	2,258,814.52	6,058.72	0.00	6,058.72	2,215,456.95	4.39	4.33
3/31/2025	2,215,456.95	6,606.98	0.00	6,606.98	2,171,625.63	4.35	4.34
Total/Average	2,189,901.17	24,341.48	0.00	24,341.48	2,181,323.73	4.32	4.35



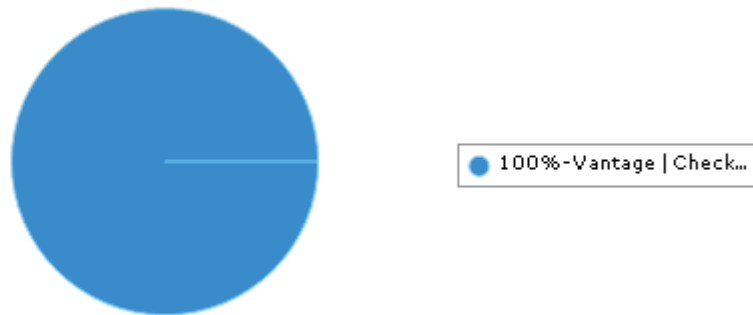


El Paso County TX
Distribution by Issuer - Market Value
Report Group | Adult Supervision

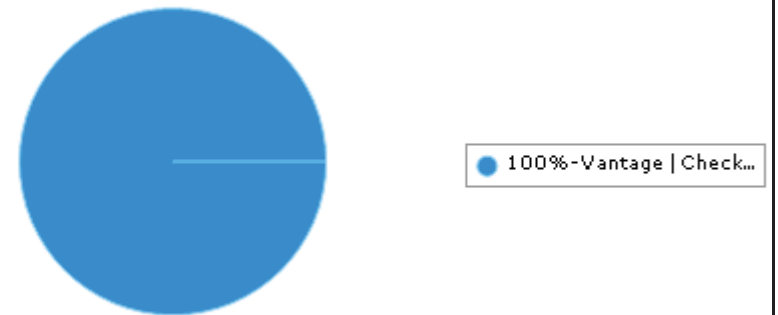
Begin Date: 12/31/2024, End Date: 3/31/2025

Issuer Allocation				
Issuer	Market Value 12/31/2024	% of Portfolio 12/31/2024	Market Value 3/31/2025	% of Portfolio 3/31/2025
Vantage Checking	4,212,696.37	100.00	4,723,615.85	100.00
Total / Average	4,212,696.37	100.00	4,723,615.85	100.00

Portfolio Holdings as of 12/31/2024



Portfolio Holdings as of 3/31/2025

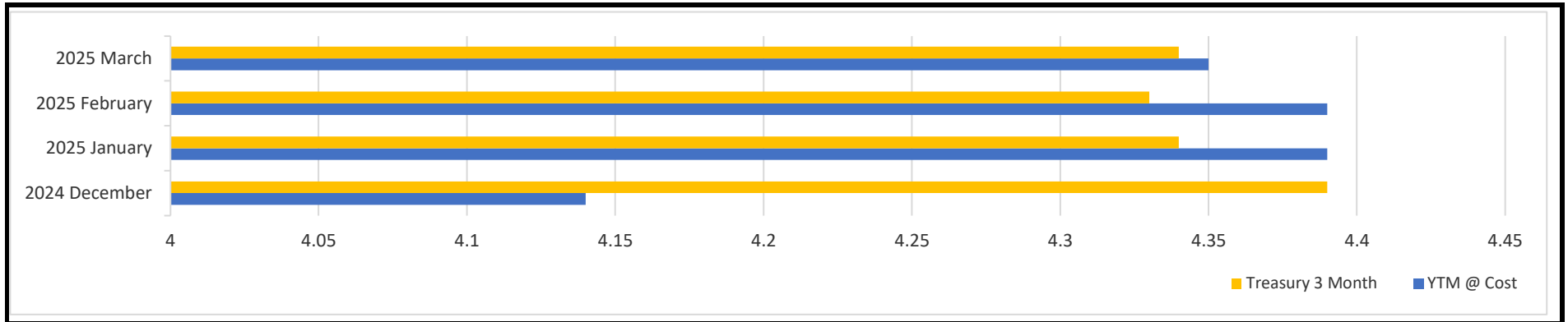




El Paso County TX Investment Income - Book Value by Month Report Group | Adult Supervision

Begin Date: 12/31/2024, End Date: 03/31/2025

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
12/31/2024	2,361,939.19	10,117.07	0.00	10,117.07	4,212,696.37	4.14	4.39
1/31/2025	4,212,696.37	8,888.62	0.00	8,888.62	3,492,403.30	4.39	4.34
2/28/2025	3,492,403.30	6,329.66	0.00	6,329.66	2,671,376.17	4.39	4.33
3/31/2025	2,671,376.17	10,818.90	0.00	10,818.90	4,723,615.85	4.35	4.34
Total/Average	3,184,603.76	36,154.25	0.00	36,154.25	3,775,022.92	4.32	4.35

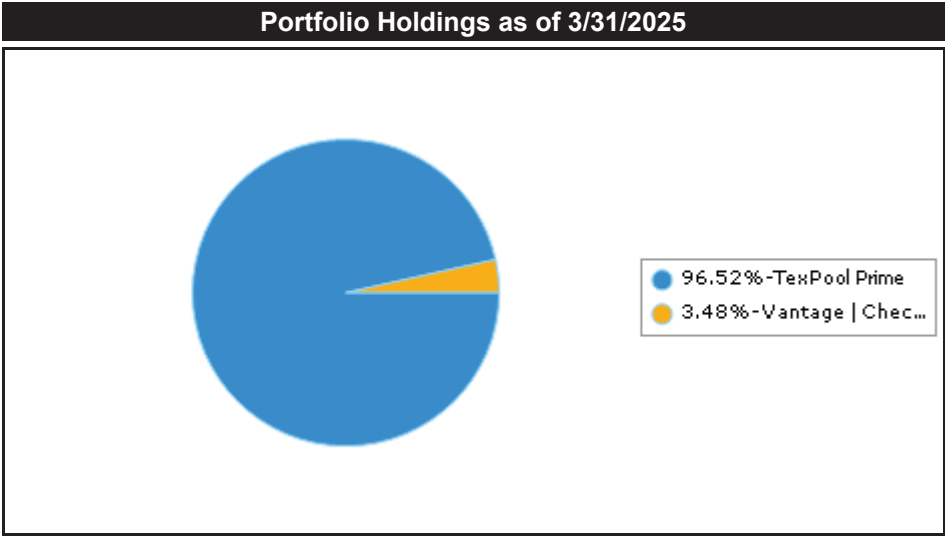
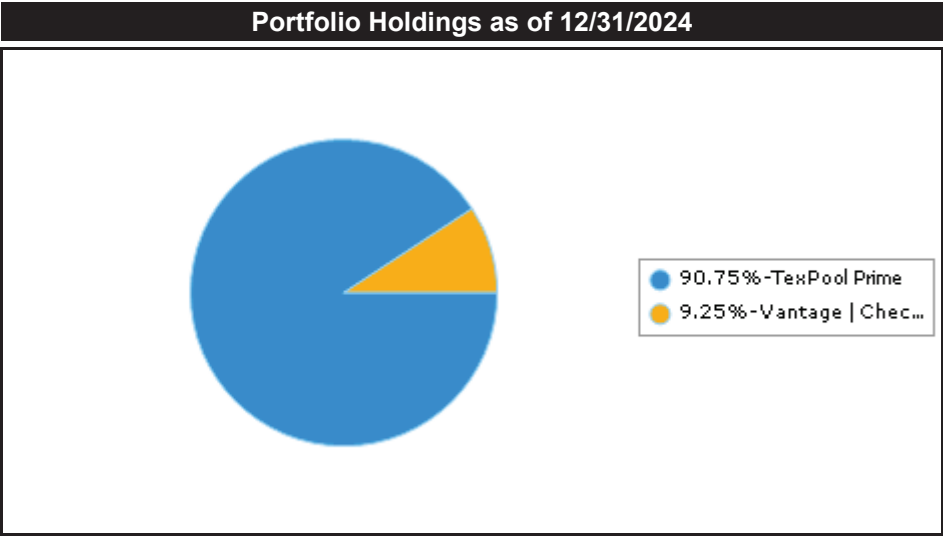




El Paso County TX
Distribution by Issuer - Market Value
Report Group | Internal Service

Begin Date: 12/31/2024, End Date: 3/31/2025

Issuer Allocation				
Issuer	Market Value 12/31/2024	% of Portfolio 12/31/2024	Market Value 3/31/2025	% of Portfolio 3/31/2025
TexPool Prime	20,932,649.84	90.75	21,163,110.18	96.52
Vantage Checking	2,133,129.06	9.25	763,987.64	3.48
Total / Average	23,065,778.90	100.00	21,927,097.82	100.00

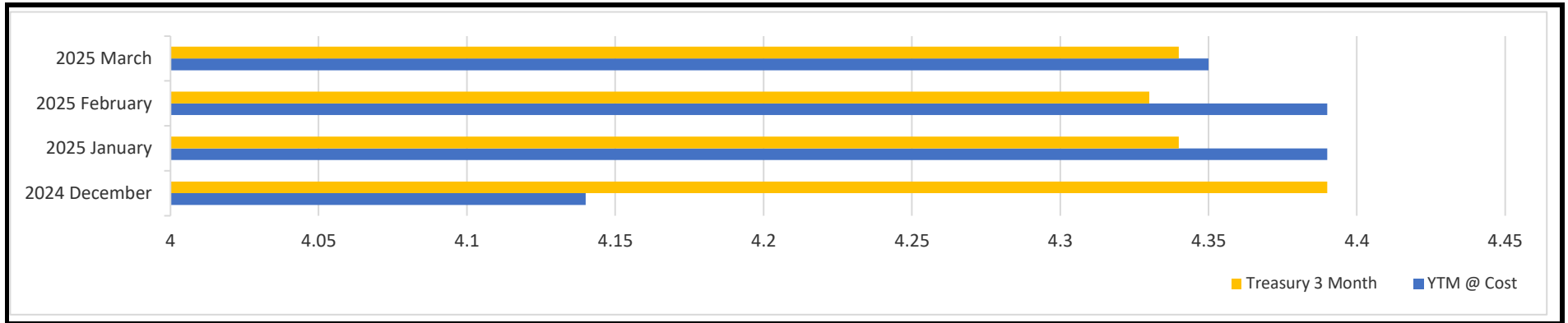




El Paso County TX Investment Income - Book Value by Month Report Group | Internal Service

Begin Date: 12/31/2024, End Date: 03/31/2025

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
12/31/2024	22,365,940.48	85,642.50	0.00	85,642.50	23,065,778.90	4.14	4.39
1/31/2025	23,065,778.90	81,434.41	0.00	81,434.41	21,112,602.38	4.39	4.34
2/28/2025	21,112,602.38	73,826.63	0.00	73,826.63	21,503,370.49	4.39	4.33
3/31/2025	21,503,370.49	82,183.81	0.00	82,183.81	21,927,097.82	4.35	4.34
Total/Average	22,011,923.06	323,087.35	0.00	323,087.35	21,901,462.40	4.32	4.35

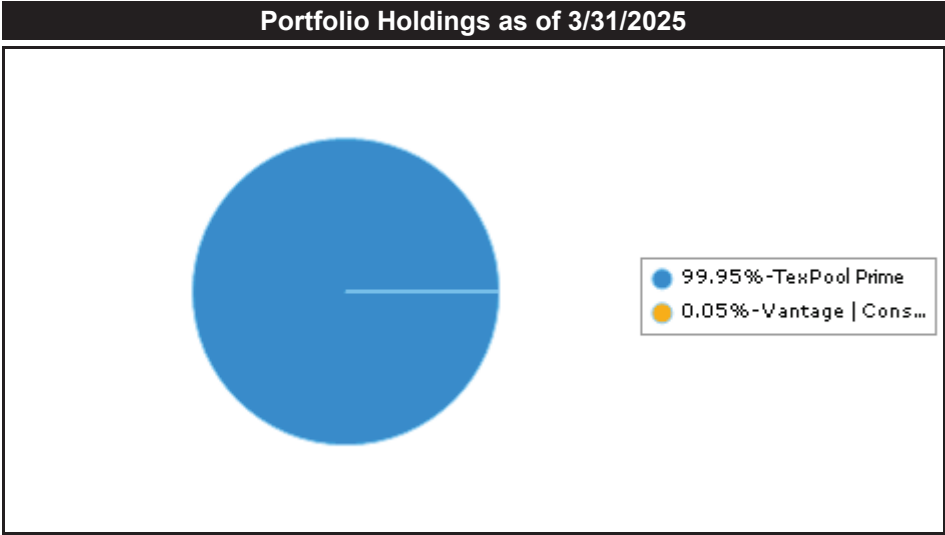
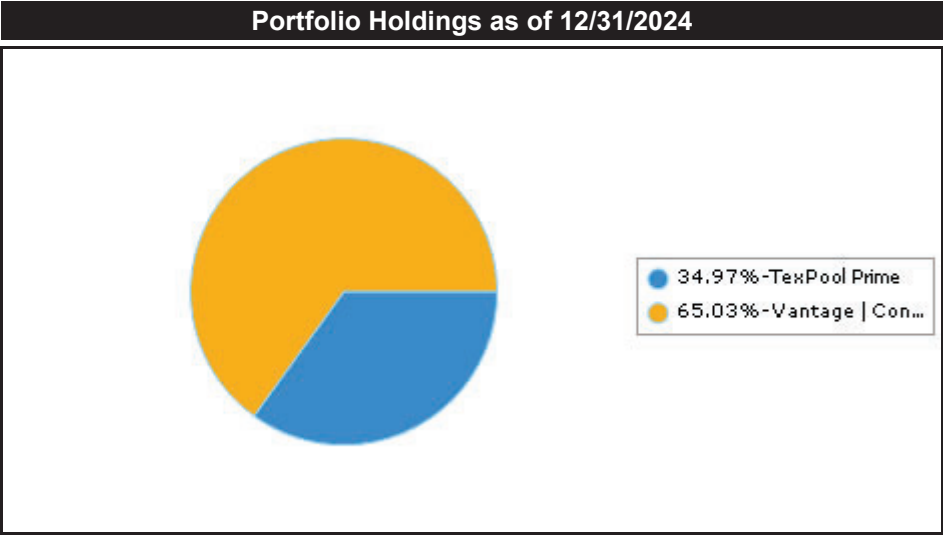




El Paso County TX Distribution by Issuer - Market Value Report Group | Debt Service

Begin Date: 12/31/2024, End Date: 3/31/2025

Issuer Allocation				
Issuer	Market Value 12/31/2024	% of Portfolio 12/31/2024	Market Value 3/31/2025	% of Portfolio 3/31/2025
TexPool Prime	6,678,139.94	34.97	17,638,891.91	99.95
Vantage Consolidated	12,417,881.04	65.03	8,182.10	0.05
Total / Average	19,096,020.98	100.00	17,647,074.01	100.00

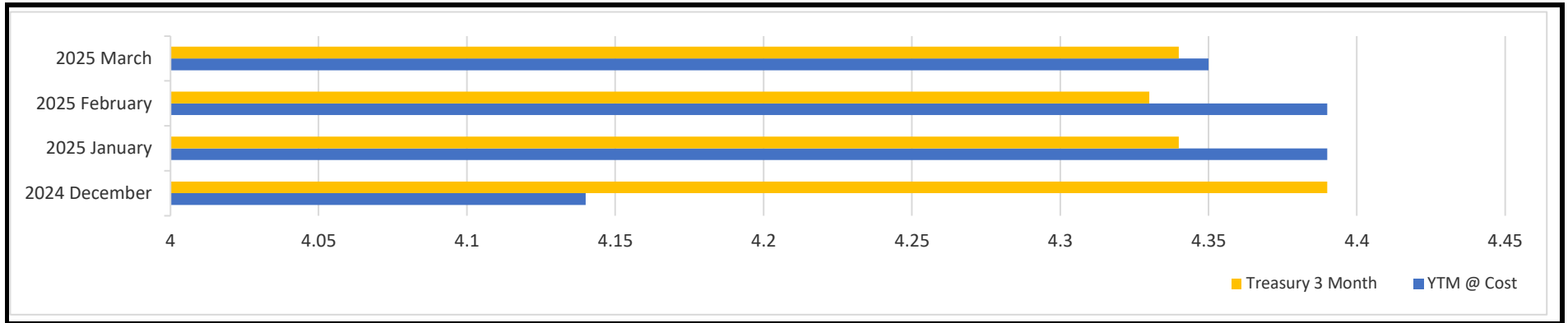




El Paso County TX Investment Income - Book Value by Month Report Group | Debt Service

Begin Date: 12/31/2024, End Date: 03/31/2025

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
12/31/2024	4,129,894.88	30,383.75	0.00	30,383.75	19,096,020.98	4.14	4.39
1/31/2025	19,096,020.98	89,615.24	0.00	89,615.24	31,102,591.87	4.39	4.34
2/28/2025	31,102,591.87	94,760.39	0.00	94,760.39	17,627,227.19	4.39	4.33
3/31/2025	17,627,227.19	67,242.82	0.00	67,242.82	17,647,074.01	4.35	4.34
Total/Average	17,988,933.73	282,002.20	0.00	282,002.20	21,368,228.51	4.32	4.35



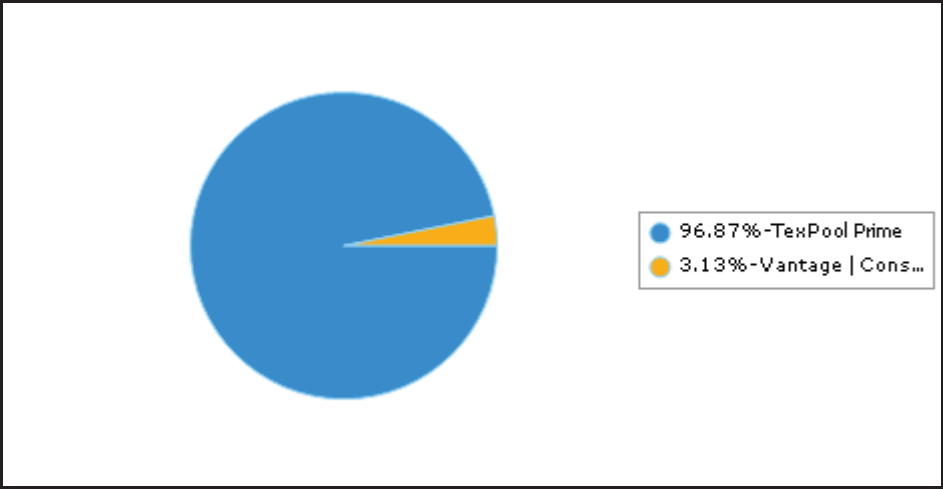


El Paso County TX
Distribution by Issuer - Market Value
Report Group | Capital Projects

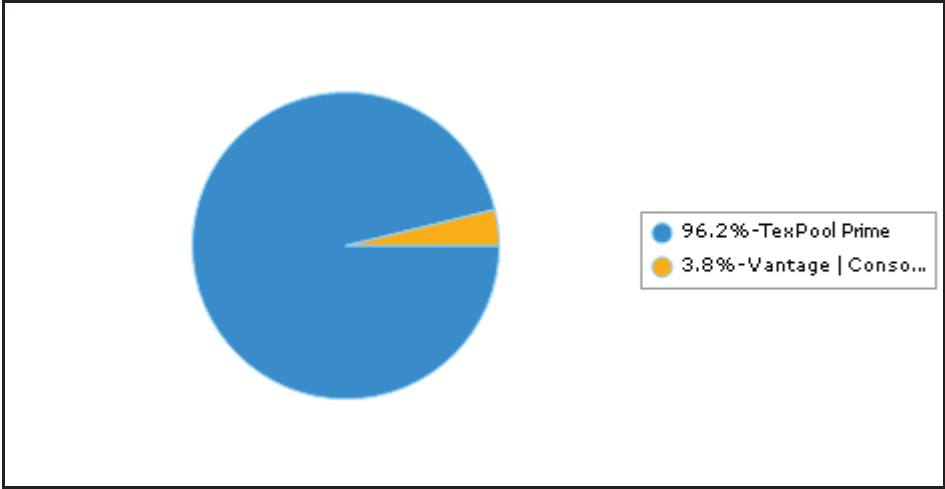
Begin Date: 12/31/2024, End Date: 3/31/2025

Issuer Allocation				
Issuer	Market Value 12/31/2024	% of Portfolio 12/31/2024	Market Value 3/31/2025	% of Portfolio 3/31/2025
TexPool Prime	119,608,779.29	96.87	113,577,850.84	96.20
Vantage Consolidated	3,870,654.17	3.13	4,487,264.76	3.80
Total / Average	123,479,433.46	100.00	118,065,115.60	100.00

Portfolio Holdings as of 12/31/2024



Portfolio Holdings as of 3/31/2025

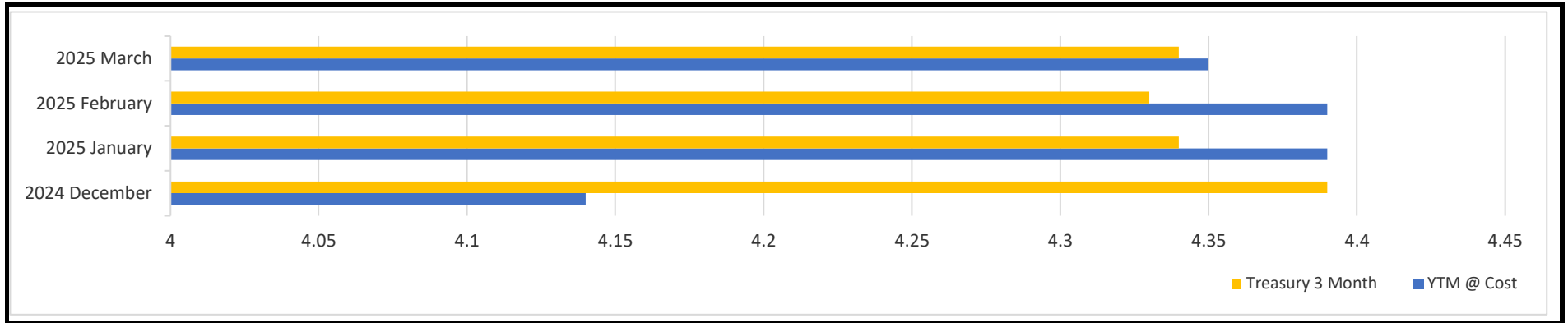




El Paso County TX Investment Income - Book Value by Month Report Group | Capital Projects

Begin Date: 12/31/2024, End Date: 03/31/2025

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
12/31/2024	125,498,891.28	481,394.54	0.00	481,394.54	123,479,433.46	4.14	4.39
1/31/2025	123,479,433.46	461,393.84	0.00	461,393.84	121,839,656.74	4.39	4.34
2/28/2025	121,839,656.74	404,275.78	0.00	404,275.78	119,642,728.42	4.39	4.33
3/31/2025	119,642,728.42	439,930.66	0.00	439,930.66	118,065,115.60	4.35	4.34
Total/Average	122,615,177.48	1,786,994.82	0.00	1,786,994.82	120,756,733.56	4.32	4.35



Economic Summary – Q1 2025

The new year began amid the uncertainty surrounding a polarizing incoming president with a perceived mandate and a mission to reorder D.C. politics, even if it meant dismantling a significant part of the government. On Inauguration Day, President Trump reiterated promises made on the campaign trail, many of which he quickly signed into law by executive order. Among these was establishment of the Department of Government Efficiency (DOGE) and the declaration of a national emergency at the southern border, which opened the door for expected mass deportations. Both of these actions will have a significant effect on GDP growth and the labor market over time, but the series of announcements defining the first quarter economy and perhaps reshaping global alliances for generations to come was Trump's tariff pursuit.

The president disagreed with economists and market professionals in his understanding of how tariffs worked, believing them to be a significant source of net revenue paid by exporting countries. At the risk of repeating an explanation that everyone should have committed to heart by now, *the domestic company that imports the goods pays the tariff to the U.S. Treasury*. Businesses typically pass most, if not all of that cost on to consumers in the form of higher prices. Over time, elevated consumer prices lead to fewer purchases which negatively impact businesses and ultimately GDP.

When the first round of tariffs was announced in early February, it included a 10% tax on goods imported from China and an unexpected 25% tax on imports from Mexico and Canada (the two largest U.S. trade partners). The Trump Administration's main gripe with neighboring countries centered around border security, and in particular, the flow of fentanyl into the U.S.

The U.S. Constitution grants power to impose duties and regulate foreign commerce to the legislature, but for the first time, a U.S. president evoked the International Emergency Economic Powers Act (IEEPA) to impose tariffs. The import taxes on Mexico and Canada also appeared to be in violation of the USMCA trade agreement negotiated and signed during Trump's previous term, but both countries accepted U.S. terms in return for a 30-day postponement. Mexico promised to station 10,000 National Guard troops at its northern border, while Canada pledged to appoint a fentanyl czar, establish a joint task force to combat drug trafficking, designate drug cartels as terrorist organizations, and allocate \$200 million for a new intelligence directive. Many figured the president would declare victory and focus primary attention on China, but this didn't happen.

Days later, Trump unexpectedly announced a 25% import tax on all steel and aluminum. This may not have been targeted at U.S. border nations, but they would feel the brunt of the impact. Canada is the largest exporter of aluminum into the U.S. according to the International Trade Organization, while Mexico and Canada combine to supply 40% of U.S. steel requirements, supporting the defense, shipbuilding and auto industries.

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

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Many U.S. companies were alarmed at the rapidly unfolding situation. At an investor conference shortly after the announcement, Ford CEO Jim Farley said, "... long term, a 25% tariff across the Mexico and Canada borders would blow a hole in the U.S. industry that we've never seen." Farley went on to say, "Frankly, it gives free rein to South Korean, Japanese and European companies that are bringing 1.5 million to 2 million vehicles into the U.S. that wouldn't be subject to those Mexican and Canadian tariffs. It would be one of the biggest windfalls for those companies ever." *Before quarter end, Trump's vehicle tariffs would ultimately include all automobiles assembled outside the United States, alleviating Farley's concerns of competitor advantage.*

When the 30-day postponement period ended, a 25% tax on all goods imported from Canada and Mexico took effect, along with an additional 10% tariff on goods from China. Canada and China responded with a series of retaliatory measures.

Trump was widely-expected to use the leverage of the mighty U.S. consumer to exert pressure on its trade partners but may have overplayed his hand.

The next day, Trump granted a one-month reprieve to U.S. automakers on imports from the two border nations. Later, he issued an exemption covering goods outlined in the USMCA agreement. This was followed by threats of reciprocal tariffs on Canadian dairy products and lumber. The province of Ontario retaliated with a 25% tax on electricity but backed down when the U.S. promised to hike steel and aluminum tariffs to 50%. *By early March, it had become nearly impossible to guess (with any degree of certainty) whether or not there was an actual plan in place.*

Before the quarter ended, the evolving trade war would include 25% taxes on all foreign-made autos and auto parts, with broad reciprocal tariffs on all countries to be announced on April 2nd, a day President Trump declared "Liberation Day."

Trump was widely-expected to use the leverage of the mighty U.S. consumer to exert pressure on its trade partners but may have overplayed his hand. Mexico, Canada and the EU have grown increasingly agitated and less cooperative.

Massive public opposition to U.S. actions has hardened the resolve of border nation leaders. Canadian Prime Minister Mark Carney scheduled a snap federal election on April 28, seeking a decisive mandate from the people. According to Carney, "We are facing the most significant crisis of our lifetimes because of President Trump's unjustified trade actions and his threats to our sovereignty." Canadian economist David Rosenberg in response to Trump threats said "... when the bully in the schoolyard gives you a black eye, you don't punch back, you go burn down his house."

The problem for the U.S. is that the recent negotiations among global countries are in response to U.S. tariff threats and don't include the United States. The concern is that damage may be long-lasting and not easily undone.

Countries around the world are pivoting, instead of surrendering. The early results suggest a rewrite of trade policy with an increase in free trade, rather than a decrease. The problem for the U.S. is that the recent negotiations among global countries are in response to U.S. tariff threats and don't include the United States. *The concern is that damage may be long-lasting and not easily undone.*

Developing Asian countries, with a considerable amount at stake, are forming alliances and negotiating free trade agreements (FTAs) at a historically frantic pace. The 10-member Association of Southeast Nations (ASEAN), representing one of the fastest growing regions in the world, hopes to wrap up its FTA with Canada later this year.

Malaysia, Thailand and the Philippines are in the process of finalizing FTA agreements with the European Union. Indonesia hopes to finalize an FTA with the Gulf Cooperation Council later this year.

Representatives from the EU visited India in February with the goal of establishing an FTA by the end of the year along with a proposal for a defense and security partnership.

Indonesia, Malaysia, Thailand and Vietnam became the first Southeast Asian countries to join the BRICS (Brazil, Russia, India, China, South Africa) intergovernmental organization.

Perhaps the most remarkable turn of events occurred in late March when Chinese state media announced that China, Japan and South Korea would conduct speedy negotiations toward a trilateral free-trade agreement and will strengthen dialogue on supply-chain cooperation and export controls. The three countries, representing the third, fourth and sixth largest trading partners of the U.S., began discussions on a trilateral free-trade agreement in 2012, but had made no substantial progress until now.

A good argument can (and will) be made that *most of the economic data released during the quarter was immediately stale and is now largely irrelevant given the escalating trade situation*. However, an economic condition check is worthwhile for a base of understanding:

- The monthly CPI headline and core rates were both below forecast in February. The year-over-year core rate was the lowest in almost four years at +3.1%. Grocery prices were flat, pump prices were down, and shelter costs continued to soften.
- Nonfarm payrolls averaged +138k for the first two months of 2025, after averaging +292k for the final two months of 2024, while the unemployment rate ended February at 4.1%, matching the average from the previous 10 months.
- Final fourth quarter GDP was revised upward to +2.4%, despite a significant inventory drain during the period.

Soft survey data was much more reflective of impending trade war fears. The Conference Board's consumer confidence future expectations index plunged to its lowest measure in 12 years in March, while long-term inflation expectations from the University of Michigan consumer sentiment survey hit a 32-year high.

The second FOMC meeting of the year took place in mid-March. As expected, the committee again held the overnight funds rate steady. The Fed's summary of economic projections (the first since December) showed slightly higher inflation for 2025 and slightly lower GDP growth, but Powell, mindful of the tariff mayhem, repeatedly emphasized the uncertainty of the outlook.

Fed officials are in a tough spot. Global trade wars are toxic for economic growth. GDP will most certainly slow while tariffs will increase prices, not just on finished imported goods, but also for domestic manufacturers using imported parts. It's likely that even U.S. companies producing goods with domestic materials will realize the opportunity to increase prices to match the level of imports.

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The Fed's summary of economic projections (the first since December) showed slightly higher inflation for 2025 and slightly lower GDP growth, but Powell, mindful of the tariff mayhem, repeatedly emphasized the uncertainty of the outlook.

In rare instances when a central bank is forced to choose between fighting inflation and stimulating the economy, the economy typically loses. However, Powell’s belief that “tariff-related inflation” would be temporary suggests the committee could cut sooner and more aggressively *if the labor market and the economy weakens*, even if the rate of inflation moved higher ... as long as it was the tariffs that drove the increase.

In rare instances when a central bank is forced to choose between fighting inflation and stimulating the economy, the economy typically loses.

In the meantime, Trump will badger Powell incessantly to cut rates, and assuming the Chairman stands firm, he’ll be replaced next year with someone less familiar with monetary policy and more willing to take direction from the president.

The Markets

Corporate profits reached an all-time high in the fourth quarter, but all three major U.S. stock indexes fell during the first quarter with the DOW shedding -1.3%, the S&P500 -4.6% and the Nasdaq -10.3%. *The decline would get much worse in the first four days of April.*

The overnight funds rate didn’t budge, but Treasury yields moved lower across the curve during a very volatile quarter.

Q1 Interest Rates

		Fed Funds	3 mo. T-bill	12 mo. T-bill	2 yr. T-note	5 yr. T-note	10 yr. T-note
Last	12/31/2024	4.25-4.50%	4.31%	4.14%	4.24%	4.38%	4.57%
High			4.33%	4.27%	4.38%	4.60%	4.79%
Low			4.28%	3.98%	3.88%	3.95%	4.15%
End	3/31/2025	4.25-4.50%	4.29%	4.03%	3.88%	3.95%	4.20%

Source: Federal Reserve, U.S. Department of the Treasury

Economic growth in 2025 will depend on the outcome of the global trade war, which has become increasingly heated and inherently complicated.

Economic and Interest Rate Outlook

Economic growth in 2025 will depend on the outcome of the global trade war, which has become increasingly heated and inherently complicated. Trump’s “liberation day” announcement, on April 2nd, turned out to be much more severe than expected with an average “discounted” reciprocal tariff rate of roughly 20% on over 200 countries.

The reality is that most average tariff rates (weighted to reflect goods actually traded) are surprisingly low.

Canada and Mexico were spared additional pain, but surprisingly large import taxes were slapped on Japan (24%), South Korea (25%), India (26%), the European Union (20%) and Israel (17%), while an *additional* 34% was imposed on China, bringing total taxes on Chinese imports to a staggering 54%. Trump called these rates *kind*, indicating they were roughly half of what countries were charging the U.S. *This isn’t true.*

The reality is that most average tariff rates (weighted to reflect goods actually traded) are

surprisingly low. The WTO calculates the U.S. at 2.2%, compared to the EU at 2.7%, Japan 1.9%, China 3%, Canada 3.4%, and Mexico 3.9%.

The formula the White House used to determine reciprocal rates was a mystery, until economic journalist James Surowiecki cracked the code the next day. The formula (which still makes no logical sense) reportedly divides the U.S. trade deficit with that country by the country's exports to the U.S. ...and cuts it in half.

It's important to remember that the current trade imbalance is extremely nuanced. Companies and individuals act in their own self-interest. In a capitalistic system, businesses will seek countries with a comparative advantage in production to lower costs and maximize profit. Outsourcing, *along with major advances in technology*, are why domestic manufacturing jobs have been disappearing since the early 70's. These are also primary reasons why the annual core inflation rate averaged around +2.0% for three decades before the pandemic. The sad reality is that U.S. businesses essentially traded factory jobs for lower prices.

The comparative advantage for the U.S. is in financial assets with well-regulated, mature markets, and government bonds offering full-faith-and-credit guarantees. The countries that have large trade surpluses with the U.S. are among the largest buyers of our government debt. If the trade imbalances were to shrink, so too would foreign Treasury purchases. With the supply of U.S. debt expected to rise by almost \$24 trillion over the next decade (CBO, Jan '25), a decrease in demand from foreign buyers points to higher future borrowing costs.

Now that the trade threat has become a full blown trade war, the next question is, *when does it end?* Whereas most had assumed Trump would shoot high, negotiate down, claim a few wins and call it a day, his main focus has shifted to the "tremendous wealth" the tariffs were expected to bring in. Days before, White House aide Peter Navarro set the stage, telling CNBC that vehicle tariffs would be "like a 'golden age gold rush' for auto companies," while telling Fox News the proposed 20% tariffs on all imports would raise more than \$600 billion annually over the next ten years.

The more the administration focuses on revenue, the more reluctant it will be to negotiate it all away. In fact, Navarro later admitted that the tariffs were not intended as a negotiating tactic and are likely here to stay. When China responded with a 34% tax on all US imports and export controls on rare earth elements, an angry Trump vowed he would *never change* his economic policy. Nor did the administration offer countries instruction on how to restore trade balance beyond buying massive amounts of American goods (which don't always exist) or building factories in the U.S. (which would take years). This lack of remedy reinforces the notion that tariffs were intended to be in place long-term.

The Bloomberg survey of 85 economists, conducted before Trump's big announcement, indicated U.S. GDP would grow at a rate of +1.5% to +2.0% in 2025, with consumer inflation at +3.0%. Unfortunately, like the March economic data, these forecasts are now worthless.

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Describing the outlook as cloudy is a huge understatement. So far, only China has retaliated to the April 2nd announcement, but the 27-country European Union has promised a united response, and other nations will seek equitable solutions. In the meantime, prices will rise, economies will weaken, and President Trump will demand rate cuts while Fed officials wait for increasingly illusive clarity.

Prices will rise, economies will weaken, and President Trump will demand rate cuts while Fed officials wait for increasingly illusive clarity.

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