JENSEN INVESTMENT MANAGEMENT

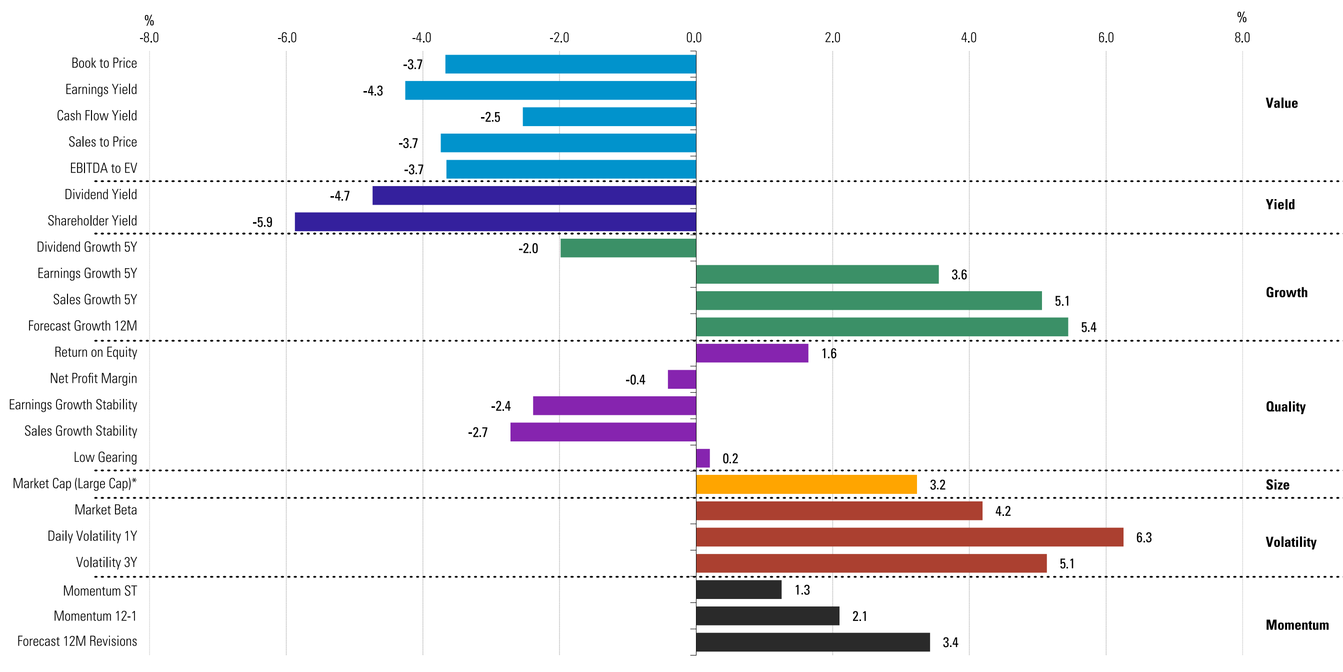
INSIGHTS
APRIL 2025

Volatility is Back. What Now?

We could characterize investor sentiment in 2023 and 2024 as "artificial intelligence at any price, downside risk is an afterthought." That attitude, however, changed significantly in early 2025. Risk matters again. Accordingly, high-quality factors are back in favor as investors seek a safe haven amid heightened policy and economic uncertainty. In recent days, though, market movements have felt indiscriminate as volatility impacted all stocks somewhat proportionately, with little discernment between high-quality and low-quality stocks. This environment creates opportunities for high-conviction, long-term investment managers.

The chart below details a factor analysis illustrating the drivers of U.S. stock market performance in 2023 and 2024, corroborating our characterization of market sentiment in those years. Growth, momentum and volatility factors were rewarded while value and cash flow were given short shrift. The quality factors were mixed but overall tilted negative.

Style Factor Performance (USD) - Return Relative to U.S. Market - (Top 50% of Style)
2 Years Annualized - Sector Adjusted, Market Return = 24.5

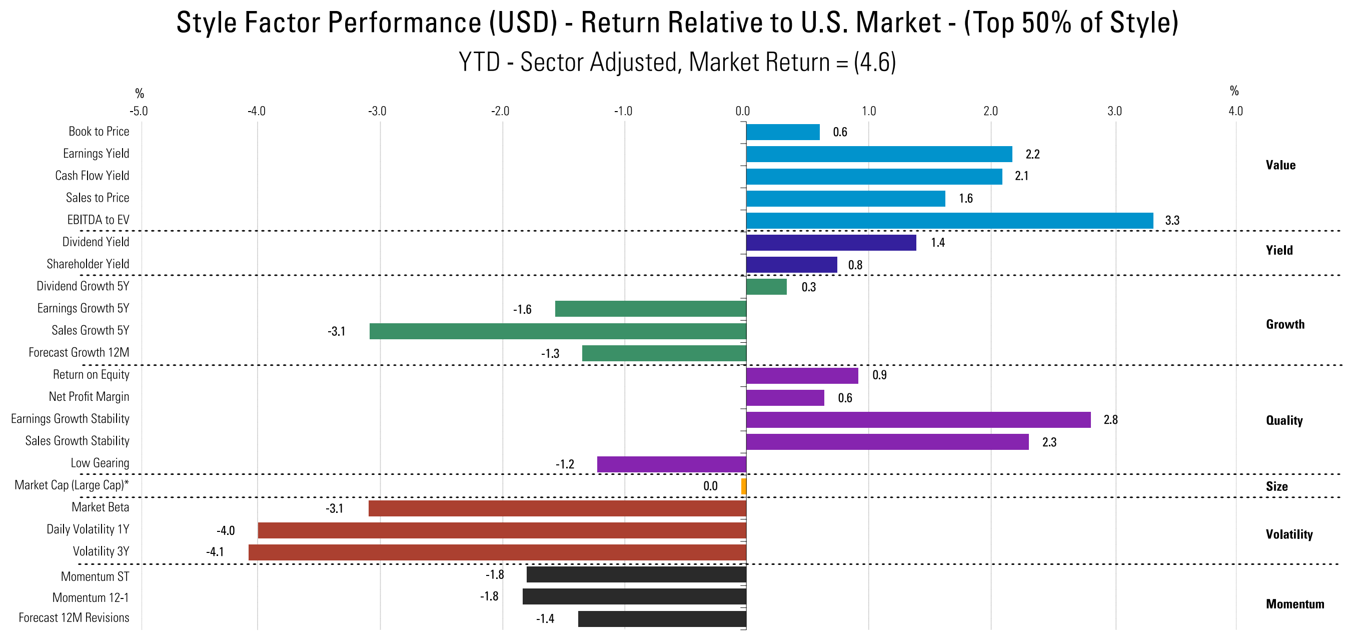


StyleAnalytics
AN INVESTMENT METRICS COMPANY

**Market Cap = Top 70% of U.S. Market. U.S. Factor Data Ending December 2024.*

For more information about each factor shown in the above graph, please review the disclosure section on page 3.

Fast forwarding to 2025, that picture changes dramatically. Value, cash flow and quality factors are now in favor while investors have shunned volatility, momentum and growth. The data in the chart below encompasses the first three months of 2025 and illustrates clear discernment among equity investors, perhaps highlighting the unwinding of "risk-on" trades made during the previous two years.

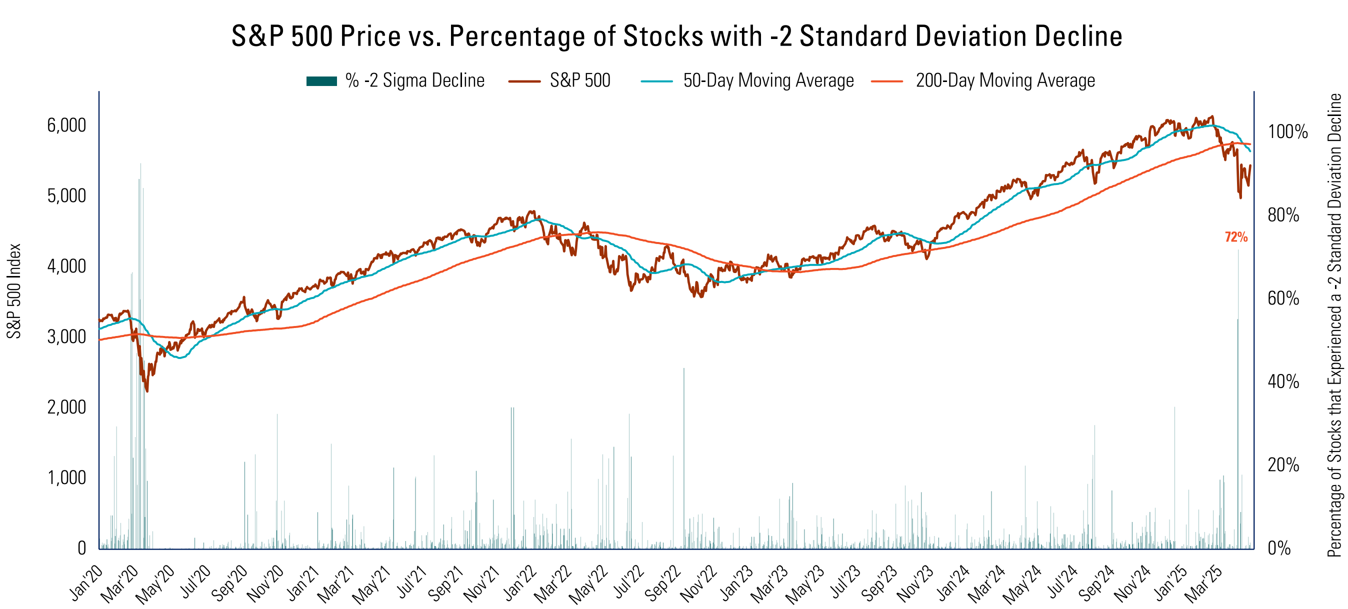


StyleAnalytics
AN INVESTMENT METRICS COMPANY

**Market Cap = Top 70% of U.S. Market. U.S. Factor Data Ending March 2025.*

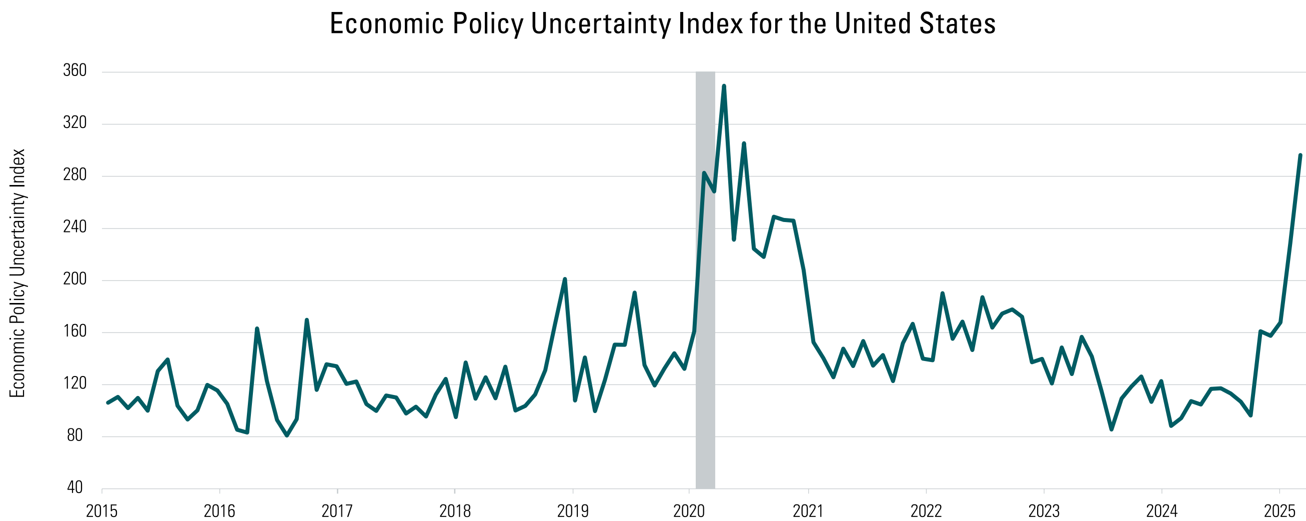
For more information about each factor shown in the above graph, please review the disclosure section on page 3.

However, market fluctuations have been more correlated in April. A microcosm of this behavioral shift can be seen in the chart below, prepared by investment research firm Strategas, showing lockstep stock price declines on April 4 as market participants reacted to higher-than-expected tariff policy announcements.



Source: Strategas, Bloomberg Finance L.P., as of April 2025.

In our view, the trend toward interrelated stock price movements is being driven by unpredictable trade policy. As we know, uncertainty often leads to volatility in the stock market. It can also paralyze decision making among business leaders, leading to delays in investment outlays and threatening the prospects for future business value creation. The chart below, from the St. Louis Federal Reserve, illustrates the recent spike in policy uncertainty. The current reading is near levels observed in the early days of the COVID-19 outbreak.



Shaded area indicates U.S. recession.
Source: Baker, Scott R., Bloom, Nick and Davis, Stephen J., via FRED, Federal Reserve Bank of St. Louis; as of April 2025.

Looking forward, elevated uncertainty and market volatility seem likely to persist. This instability can be unsettling, but our experience managing quality strategies through past analogues reminds us that investor trepidation in the short term can lead to long-term opportunities. We believe our portfolios are well positioned to withstand turbulent markets. This offers us the flexibility to deploy capital opportunistically to help enhance the quality, growth and risk-adjusted return profile of our strategies.

In volatile markets, it pays to know what you own.

JENSEN™
INVESTMENT MANAGEMENT

5500 Meadows Road, Suite 200
Lake Oswego, OR 97035
800.221.4384
jenseninvestment.com

The Style Analytics chart represents a statistical sampling technique to evaluate different factors in the market under value, quality, growth, momentum, etc. Top 50% highest scoring companies (positive or negative) are being measured under each factor. 70% of the largest companies in the index are being scored under market cap factor only, so that mega caps do not skew the result. Sector adjustment is applied so that no one company or industry has an outsized influence, meaning the scores are neutralized to the actual sector weights in the U.S. market as measured by the MSCI USA Investable Market Index for the indicated period.

The MSCI USA Investable Market Index (IMI) is designed to measure the performance of the large-, mid-, and small-cap segments of the U.S. market. With 2,282 constituents, the index covers approximately 99% of the free-float-adjusted market capitalization in the United States.