REAMS ASSET MANAGEMENT

April 3, 2025

Dear Clients and Friends:

The field of evolutionary biology has long fascinated me, as I believe every human behavior (or every animal behavior for that matter) can be easily explained by this field of study. We may think we are too advanced for seemingly primitive behaviors, but that is not the case. So, imagine my surprise when I found the concept, often inappropriately denigrated, of reversion to the mean was first put forth by Francis Galton, a cousin of none other than Chuck Darwin himself. Galton posited that nature exhibits a powerful reversion to the mean and offered as an example that offspring of shorter parents tend to be taller than their parents. Of course, this is a broad generality across large numbers and longer stretches of time. I can attest that it isn't perfect, as I am unfortunately shorter than my not tall parents. Darwin was mortified, as the idea that there exists a mean in nature fits uncomfortably with the idea of progressive evolution. You may or may not find this interesting, but you may be asking yourself what this has to do with the first quarter of 2025. Quite a bit.

We witnessed last fall an inevitable reversion to the mean in the political and social landscape. You may argue that it blasted right through the mean to the other end of the distribution, but that is simply semantics. We have seen equity prices fall, in some cases significantly, credit spreads widen, and volatility increase. In the last few years, we have seen interest rates - both real and nominal - return to, well, more normal levels. No crystal ball was required for any of these events. Valuations simply returned to the mean or closer to it.

In terms of investment outlook and positioning, we have stated for some time that real interest rates had returned to at least an average valuation, and we have been positioned accordingly. We believe credit was long overdue for a return to the mean, and while that process has begun, it still has a way to go. Reversion to the mean, while important, is hardly the entire story. Given what remain stretched valuations, even if less than they have been, the backdrop is decidedly uncertain and, to some, terrifying. Given the possibility - if not likelihood - of intense levels of volatility to persist, and valuations that do not yet reflect this reality, we remain cautious with levels of liquidity high and a defensive stance. When we see the reversion we anticipate…it usually blasts right through fair…we will not hesitate to deploy this capital on your behalf, seeking to secure returns commensurate with the risk taken.

Sincerely,

Mark M. Egan, CFA
Managing Director

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