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Q1 2025 | Quarterly Commentary

WHAT'S GOOD FOR THE GOOSE

BLACK SWANS FROM MOUNT TAMBORA TO MODERN CRISES

Photo Credit: wili_hybrid

In April 1815, a mountain that few outside Indonesia had ever heard of roared into history. Mount Tambora, a stratovolcano[1] on the island of Sumbawa, exploded with a force ten times greater than Krakatoa's famous eruption in 1883 (the equivalent of 800 megatons of TNT). In a matter of days, the mountain lost more than 4,000 feet of its peak. The explosion spewed an estimated 25 cubic miles of volcanic material into the stratosphere, blanketing skies in darkness and altering global climate patterns for years to come. It was the most powerful volcanic eruption in recorded human history.[2]

The consequences were swift and severe. By 1816, the world found itself in the grip of what became known as the "Year Without a Summer.[3]" Temperatures plummeted, crops failed, and famine seized entire populations. In New England, June frosts wiped out staple crops like corn, squash, and wheat; in Switzerland, snow fell in July; in China, rice paddies withered under unseasonable cold. Starvation bred instability. Bread riots erupted across the European continent, and mass migrations to the American West intensified—which was to have its own unprecedented impact on the future of the US. Some people blamed the tumult on the alignment of planets, others on sunspots or divine retribution.[4]

Yet amid the hardship, something else was brewing. Holed up in a Swiss villa during that same frigid summer, Lord Byron, Percy Bysshe Shelley, and Mary Shelley spent their time telling ghost stories. Mary Shelley would turn her story into the seminal novel Frankenstein, a reflection of the anxieties of an age thrown into chaos by forces beyond its control. Artists like J.M.W. Turner and John Constable developed a resurgent naturalism, emphasizing nature's beauty in the face of both industrial progress and the anomalous weather of 1816, crafting works defined by dramatic skies and striking light effects. The eruption of Mount Tambora had given birth not only to destruction but also to enduring works of art and artistic movements—an unintended consequence of a catastrophe no one had foreseen.

> **IF ONE DOES NOT KNOW TO WHICH PORT ONE IS SAILING, NO WIND IS FAVORABLE.**
>
> SENECA

Darkling Wings: Preparing for the Unforeseen

Fast forward two centuries, and once again, the world is confronted by crises whose consequences—both predictable and unforeseeable—are reshaping global society. Wars in Ukraine and Palestine are redrawing geopolitical fault lines, disrupting energy markets, global trade, and supply chains. But for US institutional investors, the primary unknown quantity remains the economic and political ramifications of President Donald Trump's second administration.

Much like a volcanic eruption, the ripple effects of sweeping policy changes—especially those implemented by a superpower—can be both immediate and delayed, often manifesting in ways unanticipated by policymakers and analysts alike. Trump's second term, like his first, has been defined by an unorthodox approach to governance. His policies on trade, fiscal stimulus, and deregulation have created a volatile investment climate, marked by short-term booms and busts and long-term uncertainty.

His aggressive trade policies, particularly with China, offer a case in point. While tariffs and protectionist measures should yield short-term gains for domestic manufacturing, the ultimate effect will likely exacerbate inflationary pressures, disrupt supply chains, and prompt retaliatory actions. The US-China trade war, reignited in his second term, has led to persistent economic uncertainty, exemplified by the Nasdaq Composite's 10.4% decline from its December 2024 record high by March 2025.[6] Consumers and businesses are already feeling the squeeze.[7]

American farmers, especially soybean and pork producers,[8] have suffered as China has shifted toward trade partnerships with Brazil and Argentina.[9] Government subsidies have softened the blow,[10] but the situation evokes echoes of the 1930s Smoot-Hawley Tariff Act, which ultimately deepened the Great Depression.[11] (The Act was intended to protect American industries by imposing high tariffs on imports, but led to trade restrictions from other nations, a sharp decline in global trade, and deeper economic turmoil). Likewise, Trump's tariffs on Canada and Mexico, framed as corrective measures against illegal immigration and trade imbalances, have sparked retaliatory action in turn, infl ating prices on everything from food to vehicles and raising concerns about USMCA[12] violations. Further complicating the matter, the pace and timing of these measures has been delayed, adjusted, or paused at various times, adding to a sense of ambiguity.

Beyond trade, Trump's renewed fiscal policy goals for his second term involve continuing to drive short-term economic growth through extended tax cuts, although such actions have fueled inflation and pushed national debt projections toward $40 trillion by 2030.[13] Ongoing supply chain disruptions and geopolitical instability—particularly in energy and technology such as AI—have further pressured the Federal Reserve into maintaining higher interest rates. Meanwhile, aggressive deregulation in energy and manufacturing has benefited select industries while heightening concerns of systemic financial risks and environmental risks more broadly. For long-term investors, these policies reinforce the necessity of diversified portfolios and broader risk-mitigation strategies.

U.S. TRADE IN GOODS WITH CHINA

YEAR	EXPORTS	IMPORTS	BALANCE
2024	143,545.70	438,947.40	-295,401.60
2023	147,777.80	426,885.00	-279,107.20
2022	154,125.40	536,259.30	-382,133.80

The Impact of Policy Shifts on Nonprofit Funding

But even as markets and investors adjust to heightened volatility, on the ground, many nonprofit organizations—especially smaller institutions and community-focused initiatives—face more immediate existential threats due to shifting federal funding priorities in this new environment.

- Federal Funding Freezes: In January 2025, OMB memo M-25-13 halted federal financial assistance tied to programs implicated by specific executive orders, disrupting 2,600 federal programs, including Medicaid, SNAP, housing assistance, and K-12 education grants. The freeze was later rescinded,[14] but its shock exposed the fragility of funding-dependent organizations.
    - To build resilience against such volatility, some nonprofits have begun adopting blended finance models, combining philanthropic grants, impact investments, and public-private partnerships to reduce reliance on federal funding. These models leverage low-interest social impact bonds and pay-for-success agreements, ensuring critical services can continue even amid government funding disruptions.[15]
- Strained Local and Regional Institutions: Unlike elite universities with substantial endowments (although some larger universities are starting to sweat[16]), smaller colleges and public institutions heavily reliant on federal grants are experiencing significant financial strains due to recent policy changes. The decision to lay off approximately 1,300 employees from the Department of Education—nearly half its workforce—has disrupted essential services, including the administration of Pell Grants and oversight of federal funding programs. This reduction in support from the Trump administration has led to faculty layoffs, reduced student aid, and the closure of essential programs at many institutions, jeopardizing educational opportunities for a massive amount of students, while resulting in hiring freezes, layoffs, and rescinded job offers among the organizations themselves. For example, a projected $2.7 billion shortfall in the Pell Grant program for the upcoming fiscal year endangers federal financial aid for over 30% of American college students; without congressional intervention, low-income students may lose critical funding, exacerbating financial strains on establishments that serve these populations.[17]
    - One innovative response includes implementing income-share agreements (ISAs), allowing students to repay tuition as a percentage of future earnings, reducing reliance on federal loans while aligning education costs with post-graduate income.[18] This model offers a potential hedge against financial volatility in the sector while ensuring access to education remains viable for lower-income students.

- Restrictions on Arts, Culture, and Community Development Programs: Recent federal guidelines have significantly impacted funding for diversity, equity, and inclusion (DEI) initiatives, gender studies, and public-interest journalism, disproportionately affecting grassroots arts organizations and independent media. For example, the National Endowment for the Arts (NEA) has eliminated its Challenge America grant program for fiscal year 2026, which primarily supported small organizations reaching historically underserved communities with limited access to the arts.[19] For fiscal year 2025, Challenge America provided 272 grants totaling $2,720,000 to small arts groups across all 50 states; the termination of this program leaves a substantial funding gap for many small organizations that relied on these grants to support low-cost arts events.[20] The program's $10,000 grants have funded a wide range of initiatives by groups across the country, from free or reduced prices for theater tickets in Florida, to an arts program for Native American residents at a nursing facility in North Carolina.[21] Moreover, the NEA has issued new guidelines requiring all grant applicants to comply with executive orders that prohibit promoting DEI initiatives or "gender ideology.[22]" Organizations nationwide have expressed concern over these changes, fearing a chilling effect on artistic expression and the sustainability of programs that foster inclusivity and representation.
    - Some arts groups are shifting to social enterprise models, generating revenue through ticketed events, merchandise, and educational workshops to sustain programming amid grant eliminations; these models work by aligning income-generating activities with the organization's mission, allowing them to fund core programs independently and reduce reliance on external grants.[23]

For nonprofit endowments and foundations, these shifts are not theoretical—they demand an urgent reassessment of financial strategies and revenue diversification. Surviving today is not enough; resilience must be built for an era of nonlinear disruptions, cascading events, and fluid and unpredictable—or predictably antagonistic—funding landscapes.

$2.7 BILLION

shortfall

A PROJECTED $2.7 BILLION SHORTFALL IN THE PELL GRANT PROGRAM FOR THE UPCOMING FISCAL YEAR ENDANGERS FEDERAL FINANCIAL AID FOR OVER 30% OF AMERICAN COLLEGE STUDENTS

PROJECTED PELL GRANT FUNDING GAP — FY2025

YEAR	REQUIRED FUNDING	PROJECTED FUNDING	SHORTFALL
2024	$30.6B	$30.6B	$0B
2025	$33.3B	$30.6B	$2.7B

Lessons from The Flock: Strategies for Long-Term Resilience

At Crewcial Partners, we recognize that institutional investors require more than market awareness—they need proactive, sustainable strategies to thrive amid volatility and uncertainty. The accelerating pace of geopolitical, technological, and economic shifts necessitates a more dynamic, adaptable, and liquidity-conscious investment framework. Investors must navigate a world shaped by geopolitical fragmentation, Environmental, Social, and Governance (ESG)-driven structural shifts, and evolving trade alliances, all while maintaining flexibility and liquidity to seize opportunities as they arise.

- A key component of long-term resilience lies in understanding the short- and long-term impact of geopolitical risks. As trade wars, sovereign debt crises, and protectionist policies shape capital markets, institutional investors must stress-test portfolios for geopolitical disruption and deploy uncorrelated mechanisms that balance exposure across sovereign bonds, commodities, and diversified international allocations. Understanding and mitigating capital-market restrictions (e.g., foreign investment limits, sanctions, or capital controls that inhibit cross-border flows) is equally critical, ensuring that institutional strategies remain compliant and adaptable in an era of rapidly evolving regulation.

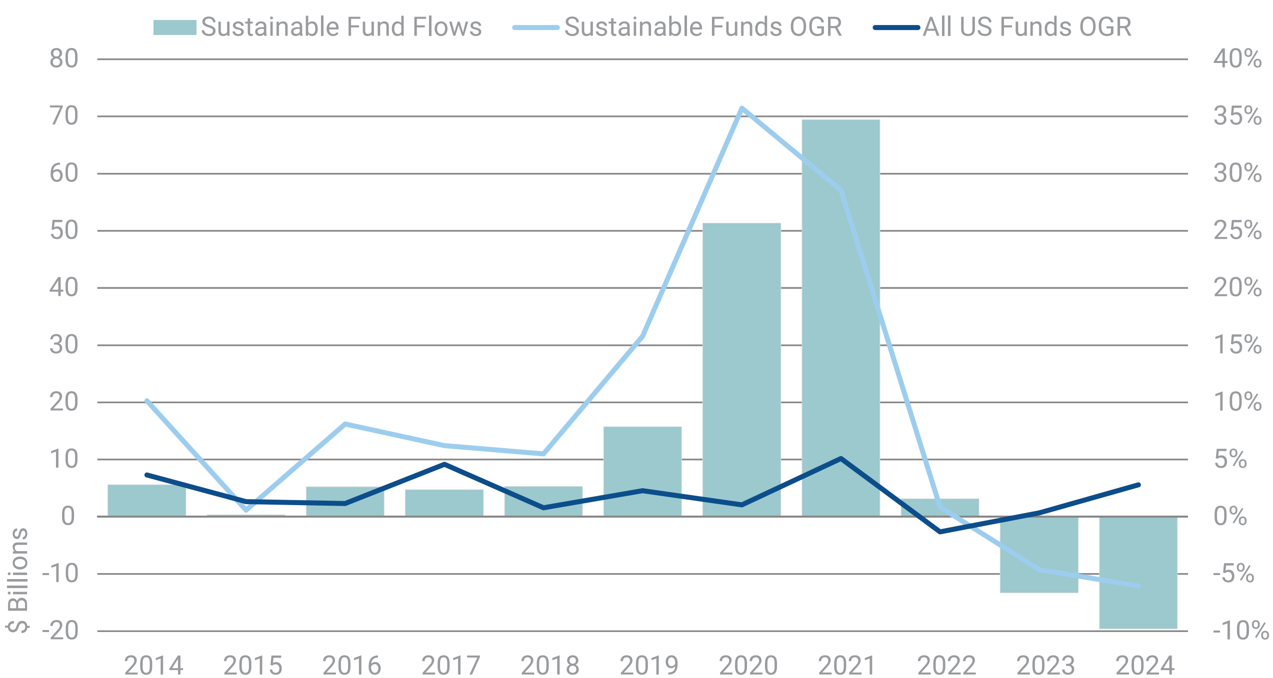
- Perhaps most importantly, ESG considerations are no longer optional add-ons but essential elements of risk management. ESG factors influence financial stability, regulatory exposure, and consumer sentiment, requiring investors to move beyond superficial sustainability measures. Rather than relying on exclusionary mandates, a materiality-focused ESG strategy enables risk-based assessments that identify governance weaknesses and climate-related vulnerabilities before they become market dislocations. This approach not only strengthens portfolio resilience but also aligns investors with global regulatory shifts favoring clean energy, corporate transparency, and socially responsible business models emerging in response to public or political backlash. By emphasizing material impact over blanket exclusions, investors can drive more effective change—encouraging companies to implement concrete, measurable improvements instead of opting out of ESG engagement altogether.

- As traditional trade hubs fragment, new economic centers are emerging, requiring investors to look beyond the usual markets. Supply chain realignments and regional trade agreements have fueled economic momentum in Latin America, Africa, and Southeast Asia. Similarly, the bifurcation of global technology ecosystems—driven by competing regulatory frameworks between the US, EU, and China—has made it imperative for institutional portfolios to maintain exposure to diverse innovation hubs while avoiding overreliance on a single economic bloc. Decentralized infrastructure investments, including renewable energy grids, smart cities, and local industrial revitalization, represent additional growth avenues in regions prioritizing economic self-sufficiency.

- In such an unpredictable macroeconomic climate, liquidity remains a fundamental safeguard against permanent capital destruction. A well-structured liquidity budget enables portfolios to balance private-market exposure with flexible capital pools, ensuring that institutional investors can adjust allocations in response to emerging risks and opportunities.

- One area of significant opportunity in this shifting landscape is the small- and mid-cap sector. Historically, these companies have demonstrated strong resilience and outperformance, particularly during recovery periods following economic downturns. Their localized domestic-demand-driven models shield them from the earnings volatility often caused by the significant percentage of foreign-derived revenue that often plagues larger multinationals, while their agility allows them to pivot in response to changing consumer trends and regulatory environments. Sectors such as AI-driven automation, advanced manufacturing, fintech, and green energy infrastructure are particularly promising, as they are positioned to benefit from both technological advancements and shifting investment mandates prioritizing sustainability and innovation in the face of top-heavy indices.

SUSTAINABLE FUNDS' OUTFLOWS CONTRAST WITH SIGNIFICANT INFLOWS INTO CONVENTIONAL PEERS



Source: Morningstar Direct. Data as of Dec. 31, 2024. Includes funds that have liquidated. Excludes funds of funds.

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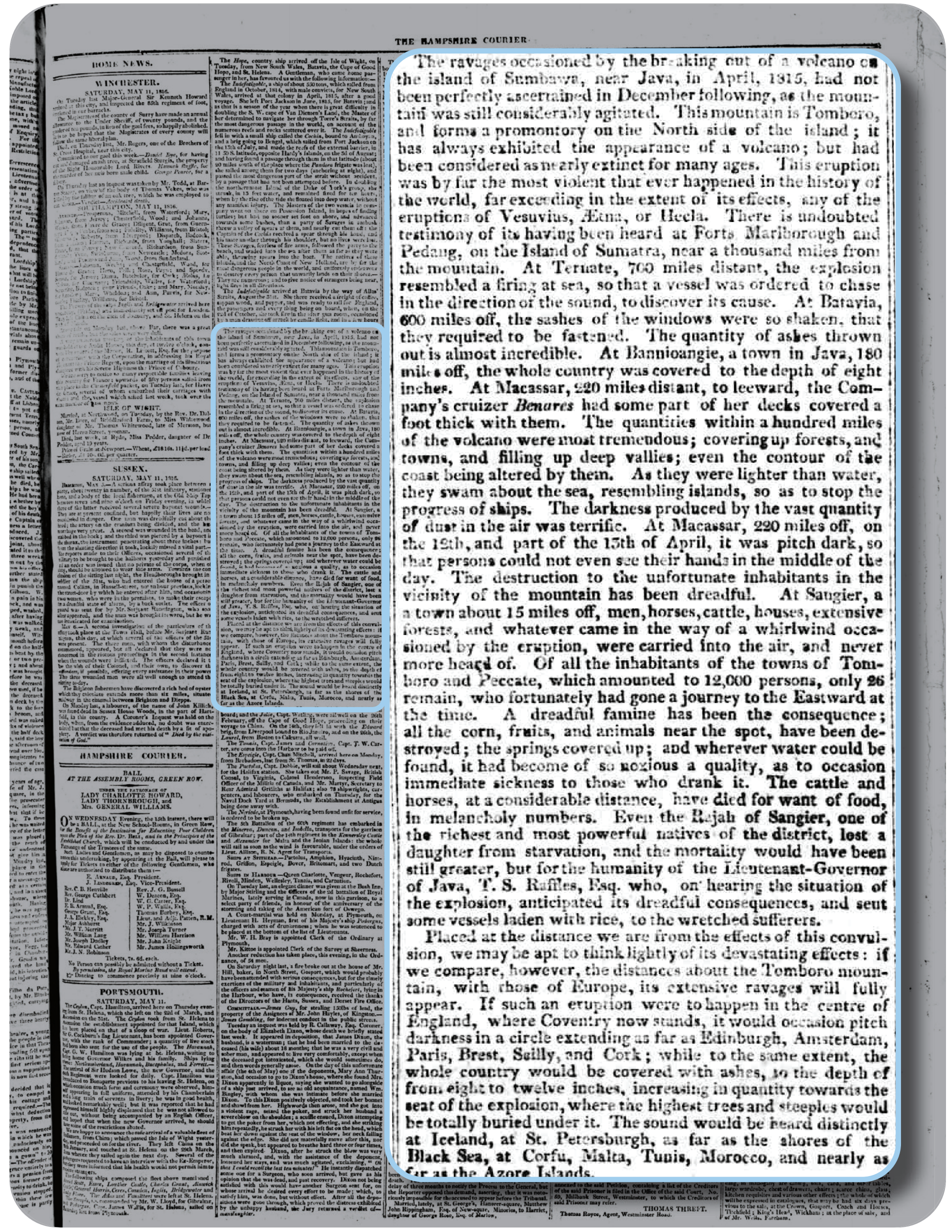
From Destruction to Creation

A black swan event in today's financial system doesn't need to be a natural disaster; a single decision—a stroke of a pen—can disrupt global economic equilibrium. The role of the prudent investor is not simply to weather the storm but to harness the winds of change. Because even in catastrophe, opportunities emerge. Just as Mary Shelley's Frankenstein was born from a summer of uncertainty, today's global disruptions offer a chance for institutional investors to rethink their strategies; these crises—climate/sustainability concerns, economic upheaval, and geopolitical instability—create space for innovation, with unintended consequences opening up gaps for new ideas. Investors can leverage today's disruptions to reshape investing into a more resilient, forward-thinking model, fostering growth and innovation amid uncertainty. If we are to learn anything from 1816, it is that the ability to adapt—to recognize both risk and opportunity—is what separates those who merely survive from those who shape the future. In an era where volatility is the norm, adaptability is the greatest asset of all.



THE HAMPSHIRE COURIER.

The ravages occasioned by the breaking out of a volcano on the island of Sumbawa, near Java, in April, 1815, had not been perfectly ascertained in December following, as the mountain was still considerably agitated. This mountain is Tombero, and forms a promontory on the North side of the island; it has always exhibited the appearance of a volcano; but had been considered as nearly extinct for many ages. This eruption was by far the most violent that ever happened in the history of the world, far exceeding in the extent of its effects, any of the eruptions of Vesuvius, Ætna, or Hecla. There is undoubted testimony of its having been heard at Forts Marlborough and Pedang, on the Island of Sumatra, near a thousand miles from the mountain. At Ternate, 700 miles distant, the explosion resembled a firing at sea, so that a vessel was ordered to chase in the direction of the sound, to discover its cause. At Batavia, 600 miles off, the sashes of the windows were so shaken, that they required to be fastened. The quantity of ashes thrown out is almost incredible. At Bannioangie, a town in Java, 180 miles off, the whole country was covered to the depth of eight inches. At Macassar, 220 miles distant, to leeward, the Company's cruizer *Benares* had some part of her decks covered a foot thick with them. The quantities within a hundred miles of the volcano were most tremendous; covering up forests, and towns, and filling up deep vallies; even the contour of the coast being altered by them. As they were lighter than water, they swam about the sea, resembling islands, so as to stop the progress of ships. The darkness produced by the vast quantity of dust in the air was terrific. At Macassar, 220 miles off, on the 12th, and part of the 13th of April, it was pitch dark, so that persons could not even see their hands in the middle of the day. The destruction to the unfortunate inhabitants in the vicinity of the mountain has been dreadful. At Saugier, a a town about 15 miles off, men, horses, cattle, houses, extensive forests, and whatever came in the way of a whirlwind occasioned by the eruption, were carried into the air, and never more heard of. Of all the inhabitants of the towns of Tomboro and Peccate, which amounted to 12,000 persons, only 26 remain, who fortunately had gone a journey to the Eastward at the time. A dreadful famine has been the consequence; all the corn, fruits, and animals near the spot, have been destroyed; the springs covered up; and wherever water could be found, it had become of so noxious a quality, as to occasion immediate sickness to those who drank it. The cattle and horses, at a considerable distance, have died for want of food, in melancholy numbers. Even the Rajah of Sangier, one of the richest and most powerful natives of the district, lost a daughter from starvation, and the mortality would have been still greater, but for the humanity of the Lieutenant-Governor of Java, T. S. Raffles, Esq. who, on hearing the situation of the explosion, anticipated its dreadful consequences, and sent some vessels laden with rice, to the wretched sufferers.

Placed at the distance we are from the effects of this convulsion, we may be apt to think lightly of its devastating effects: if we compare, however, the distances about the Tomboro mountain, with those of Europe, its extensive ravages will fully appear. If such an eruption were to happen in the centre of England, where Coventry now stands, it would occasion pitch darkness in a circle extending as far as Edinburgh, Amsterdam, Paris, Brest, Scilly, and Cork; while to the same extent, the whole country would be covered with ashes, to the depth of from eight to twelve inches, increasing in quantity towards the seat of the explosion, where the highest trees and steeples would be totally buried under it. The sound would be heard distinctly at Iceland, at St. Petersburgh, as far as the shores of the Black Sea, at Corfu, Malta, Tunis, Morocco, and nearly as far as the Azore Islands.

https://www.britishnewspaperarchive

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Endnotes

1 A stratovolcano is a type of volcano with a steep, cone-shaped mountain made from layers of lava and ash built up over time. Unlike flatter, gently sloping volcanoes (like shield volcanoes), stratovolcanoes tend to erupt more explosively, making them more dramatic and dangerous.

2 https://www.britannica.1 com/place/Mount-Tambora

3 https://www.almanac.com/year-without-summer-mount-tambora-volcanic-eruption

4 ibid

5 https://forbes5.pitt.edu/article/romantic-year-without-summer

6 https://www.reuters.com/markets/us/wall-street-sells-off-tariff-policy-tech-concerns-mount-2025-03-06/

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7 https://www.reuters.com/world/china/china-impose-extra-tariffs-10-15-various-us-products-2025-03-04/

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10 https://m.farms.com/ag-industry-news/government-aid-boosts-farm-income-recovery-in-2025-247.aspx

11 https://www.economist.com/finance-and-economics/2025/03/06/it-is-not-the-economic-impact-of-tariffs-thatis-most-worrying

12 The United States-Mexico-Canada Agreement (USMCA) is a trade pact that replaced NAFTA in 2020. USMCA violations refer to breaches of its trade, labor, environmental, or intellectual property commitments, which can lead to disputes, enforcement actions, or retaliatory measures.

13 https://www.cbo.gov/publication/61172

14 https://www.theguardian.com/us-news/2025/jan/28/trump-pauses-grants-loans

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23 https://www.academies-se.org/post/the-ultimate-guide-to-social-entrepreneurship-for-nonprofits


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