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MARKET VIEW QUARTERLY

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If ever a word defined a fiscal quarter, it was uncertainty that characterized Q1 2025. Domestic equity markets sold off as post-election optimism was replaced by tariff, trade, and fiscal policy uncertainty, erasing all the returns since early November and leaving investors to grapple with the potential impact on economic growth, inflation, and monetary policy. While drawdowns of this magnitude are difficult to bear, investors must remember that corrections are a normal part of investing and don't necessarily indicate weakness in economic fundamentals or the long-term market outlook. Since 2008, the average drawdown in any given quarter has been roughly 8%,[1] making these distressing last three months better than average. Surprisingly, President Trump's aggressive negotiating and tariff policy has helped spur fiscal spending globally, particularly in Europe and on defense, adding to the existing motivation to rearm and deter or protect against Russian aggression, which helped drive international stocks higher. Bonds reestablished a consistent negative correlation to equities and supported diversified portfolios through substantial stock market volatility. Despite the negative performance from benchmark indices like the S&P 500 and NASDAQ, earnings growth expectations remain strong, the outlook for domestic stocks is positive, and the drawdown appears to have served as a healthy reset for overextended valuations. Additional unpriced risk certainly exists, but economic fundamentals remain solid, and a well-diversified portfolio is primed to steer investors through whatever uncertainty and volatility will come.

DOMESTIC EQUITIES[2]

Volatility in equity markets increased meaningfully during the first quarter, driving the benchmark S&P 500 Index down 5.63% through the first three months of the year. Despite solid gains in January, uncertainty over tariffs and trade policy shook domestic markets in February and March, forcing both the S&P 500 and NASDAQ into correction territory – selling off more than 10% from recent highs. Although index-level returns were disappointing, outperformance in a few recently unloved sectors provided several bright spots. Defensive sectors, like Health Care and Utilities, finished the quarter with positive returns. Sectors with significant exposure to the "Magnificent 7", like Technology and Consumer Discretionary, were some of the hardest hit – both fell more than 12.5% through March. General economic growth concerns and specific emerging artificial intelligence (AI) competition (DeepSeek) in conjunction with perceived decreasing demand for computer chips drove investors to question the lofty valuations of these dominant market leaders. Subsequent profit-taking across the "Magnificent 7" and mega-cap tech (not unreasonable after back-to-back banner years) dragged the market lower. Expectedly, given the defensive shift in domestic markets, value stocks outperformed their growth counterparts. Large-cap companies with strong balance sheets and consistent cash flow benefited, relatively, at the expense of small-cap equities, which are generally perceived to be more cyclical and dependent on economic growth. Although investor sentiment soured on small caps, the investment thesis is still intact, and down-cap equities could rally later this year. Despite lackluster performance thus far, earnings growth remained resilient, and economic fundamentals held solid. This drawdown was, more than likely, driven by high valuations and market reactions to alarming headline news, and ultimately, should prove a healthy reset for domestic stocks.

INTERNATIONAL EQUITIES[2]

International equities outperformed domestic stocks in the first quarter, with the MSCI EAFE Index, a broad benchmark of developed stocks in Europe, Asia, and Australia, returning an impressive 7.03% YTD. Anticipation of a more pro-growth agenda across the Eurozone and increased fiscal spending from numerous member states drove European equity markets higher. Incoming German Chancellor Fredrich Merz introduced a stimulus bill equivalent to $535 billion dollars to bolster defense spending and improve domestic infrastructure.[3] This shift away from an extended period of fiscal austerity should help stimulate growth. Dollar depreciation, relative to the Euro and other currencies, further supported international equity performance. Emerging markets also produced strong returns to start the year. China generated substantial investor enthusiasm amidst a fledging artificial intelligence boom sparked by the success of DeepSeek – a rival to ChatGPT that costs substantially less. Although the country still struggles with a troubled property sector and an excessively high savings rate, the government appears more receptive to providing additional fiscal and monetary stimulus to spur economic growth. Despite the euphoric rally across international markets through the first quarter, weaker consumer spending, likely higher tariffs, and strict regulation could limit continued outperformance. Until investors see accelerating earnings growth internationally, further returns may hinge on successful multiples expansion.

FIXED INCOME[2]

Bonds are back to doing what bonds are intended to do: providing meaningful, stable income and diversification from equity market risk. For the first time in nearly three years, the Federal Reserve's projected path for interest rate policy was not the primary focus for the fixed income market. Instead, attention shifted to the new administration's trade and foreign policy changes. After cutting rates by a full percent over the last four months of 2024, the Federal Reserve (Fed) paused any further cuts in the first quarter as inflation made only marginal progress toward the central bank's 2% target. Concerns over slowing economic growth and potentially higher prices, further complicated by shifting tariff, trade, and fiscal policy, added to a general sense of uncertainty that permeated markets and left the Fed in "wait and see" mode. Fed Chairman Jerome Powell recently stated that the Fed was in "no rush" to cut rates, lowering expectations for interest rate cuts for the remainder of the year. Since the end of 2023, the 10-year yield has been volatile but range-bound between 3.8% and 4.6%. The benchmark 10-year Treasury yield started the year at 4.57% and finished the quarter at 4.23% – a decline of 34 basis points. Declining interest rates support bond performance and drove the U.S. Aggregate Bond Index up 2.78%. Investment grade and high yield credit spreads began to widen from historically low levels in mid-February, given rising concerns over slowing growth, but remain well within historical averages during periods of economic stress. Through the first quarter, fixed income bolstered diversified portfolios as U.S. equities pulled back amidst widespread uncertainty and weakening investor sentiment. A backdrop of higher starting yields, increasing economic growth concerns, and elevated inflation make high-quality fixed income assets very attractive, particularly given current equity market volatility.

ALTERNATIVES AND REAL ESTATE[2]

In a dynamic start to 2025, broad-basket commodity performance has been quite strong (8.88%), but a closer look reveals more varied performance across this diverse asset class. Prices for precious and industrial metals rose on the back of continued central bank buying and resurgent manufacturing, but energy markets painted a different picture. Gold soared to record highs, topping $3,162 per oz, and silver breached $35 as escalating geopolitical tensions, sticky inflation, and growing bets on Fed rate cuts boosted demand for safe-haven assets. Copper climbed past $10,000 per ton, largely driven by China's industrial rebound and concerns over tariffs that threatened to disrupt global supply chains.[4] Oil prices edged higher in recent weeks but remain down year-to-date after a decently volatile first quarter that saw a spike above $82 in mid-January. Brent crude prices now hover near $74 in a tight market oscillating between simmering geopolitical risks and current but capricious supply discipline from OPEC+.

The U.S. housing market showed modest strength despite ongoing affordability challenges. The median and average prices for a new home stood at $414,500 and $487,100, respectively, in February (latest data available).[5] Mortgage rates remained elevated and volatile, with the

30-year fixed rate averaging 6.65% as of March 27th.[6] High borrowing costs continued to weigh on affordability; however, pending sales rose 2% in February,[7] suggesting resilient demand. Looking ahead, analysts expect rates to ease towards 6.5% by midyear and possibly dip below 6% before year-end, which could further support market activity.[8]

CONCLUSION

Uncertainty drove domestic stocks lower through the first quarter. Uncertainty will continue, at least to some degree, given the new administration's free-wheeling negotiating strategy and apparent liberal use of tariff and trade policy as both carrot and stick. Investors hate uncertainty. So, how might the outlook for US equities improve through the end of the year? Savvy participants tend to refocus on the fundamentals when volatility engulfs markets. In doing so, investors will find that economic growth continues to expand solidly, the labor market is stable – people are employed and consumer spending is positive, earnings are projected to grow meaningfully, and inflation is slightly elevated. None of that indicates a higher probability of a recession or even a negative outlook for stocks. Developed international stocks had a tremendous run through the first quarter, but increasing fiscal spending will need to transition to tangible earnings growth for the trend to hold. Bonds should continue to play an important role in portfolio construction to help mitigate any unexpected volatility and bolster diversified portfolios with consistent income. More important than any individual piece of an investment portfolio, however, is simply staying invested, particularly through elevated volatility. Staying invested is the key to long-term success, and historically, patient investors have been handsomely rewarded in market recoveries.

Economic Definitions

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Existing Home Sales: This concept tracks the sales of previously owned homes during the reference period. Total existing home sales include single-family homes, townhomes, condominiums and co-ops. All sales are based on closings from Multiple Listing Services. Foreclosed homes are only counted in the inventory if the bank is working with a realtor. Foreclosed homes that sell via auction (or other closings outside of the Multiple Listing Services) are not included.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

West Texas Intermediate (WTI): West Texas Inter-mediate (WTI) is crude stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams and which is traded in the domestic spot market at Cushing, Oklahoma.

Index Definitions

S&P 500®: The S&P 500 is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

S&P 500® Equal Weight Index (EWI): The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight — or 0.2% of the index total at each quarterly rebalance.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell 1000 Growth: The Russel 1000 Growth measures the performance of the large-cap growth segment of the US equity securities. It includes the Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value: The Russell 1000 Value measures the performance of the large-cap value segment of the US equity securities. It includes the Russell 1000 index companies with lower price-to-book ratios and lower expected growth values.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI China Index: The MSCI China Index captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 717 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Alerian MLP Index: The index measures the performance of energy segment US equity securities. It is a composite of the 50 most prominent energy Master Limited Partnerships ('MLPs'). The index is calculated using a float-adjusted, capitalization-weighted methodology.

Dax 40: The DAX 40 (Deutscher Aktienindex) tracks the performance of the 40 largest German companies listed on the Frankfurt Stock Exchange. The constituents are picked by their free-float market capitalization.

STOXX Europe 600: The STOXX Europe 600, also called STOXX 600, SXXP, is a stock index of European stocks designed by STOXX Ltd. The index has a fixed number of 600 components representing large, mid and small capitalization companies among 17 European countries, covering approximately 90% of the free-float market capitalization of the European stock market.

CAC 40: The CAC 40 is the benchmark equity index for public companies traded on the Euronext Paris. The index is made up of the largest 40 companies listed in France screened by market capitalization, trading activity, size of balance sheet, and liquidity.

London Stock Exchange (LSE): The London Stock Exchange (LSE) is the primary stock exchange in the United Kingdom and its largest.

Housing Affordability Index: Housing Affordability Index measures whether or not a typical family could qualify for a mortgage loan on a typical home. A typical home is defined as the national median-priced, existing single-family home as calculated by NAR. The typical family is defined as one earning the median family income as reported by the U.S. Bureau of the Census. The prevailing mortgage interest rate is the effective rate on loans closed on existing homes from the Federal Housing Finance Board. These components are used to determine if the median income family can qualify for a mortgage on a typical home. To interpret the indices, a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20 percent down payment.

DISCLOSURES

1 Bloomberg, Blackrock – Calculation from 1/1/2008 to 3/31/2025

2 Data obtained from Bloomberg Terminal as of 3/31/2025

3 'Germany is back': Country agrees bumper $1.3 trillion spending package to revive economy | Fortune Europe

4 Copper hits $10,000 in rally fueled by Trump's tariff threats

5 newressales.pdf

6 The 30-Year Fixed-Rate Mortgage Ticks Down | Freddie Mac

7 Pending Home Sales

8 2025 Housing Forecast: When Will Mortgage Rates Go Down? | U.S. News

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