

MARKET COMMENTARY

Q1 2025 COMMENTARY

Economic Summary

The first quarter was marked by heightened volatility and broad market declines as investors faced persistent inflation, tariff rhetoric, and concerns over economic growth. Many major equity indices posted negative returns, and bond markets reflected shifting expectations around monetary policy and slowing economic indicators.

Against this backdrop, corporate earnings expectations have been revised downward. According to FactSet, S&P 500 companies are now projected to post earnings growth of 7.3% year-over-year, a meaningful slowdown from the 11.7% growth expected at the beginning of the year. This deceleration reflects margin compression caused by higher input costs, softening demand, and the adverse effects of trade-related uncertainty on business investment and supply chains.

Consumer sentiment has also weakened considerably. Surveys show that expectations for future economic conditions have dropped to their lowest levels in more than a decade (Chart 1). Fewer consumers anticipate improvements in business conditions or personal income growth, raising concerns about the sustainability of household spending, a key pillar of the U.S. economy.

Looking ahead, the economic outlook for the remainder of 2025 remains mixed. Growth projections have been downgraded, with some forecasters calling for near-zero or slightly negative GDP growth in the coming quarters. Meanwhile, inflation remains above the Federal Reserve's (the Fed) 2% target, complicating the central bank's path forward. Financial markets are closely looking for potential policy shifts, including the possibility of rate cuts later this year, as the



Chart 1

Source: Strategas Research Partners, "Quarterly Review in Charts", 4/1/25

Economic Summary (continued)

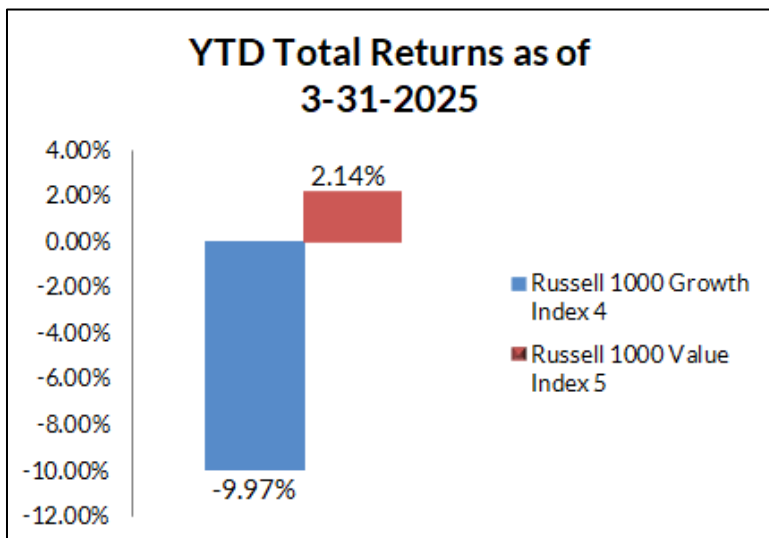
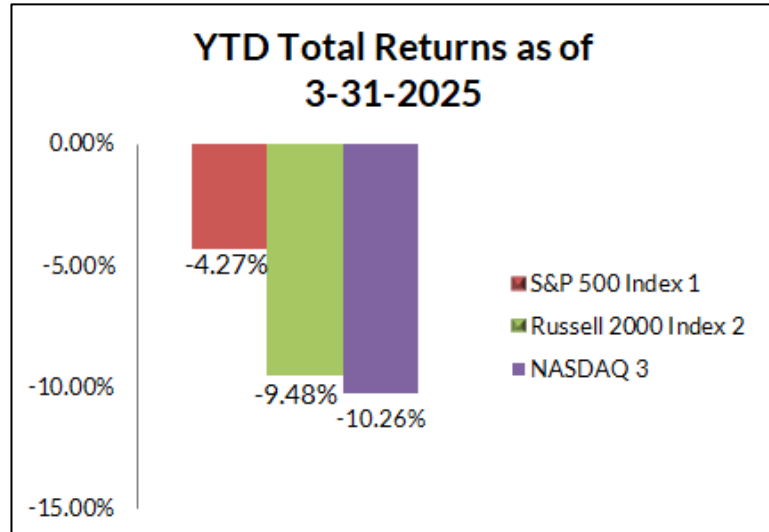
Fed seeks to balance inflation control with economic stability. In this environment, focusing on high-quality assets and disciplined portfolio management remains essential.

The Stock Market

It's been a challenging start to the year, with most major indices posting significant declines. The large-cap dominant S&P 500 held up relatively well, falling -4.3%, while small caps, as measured by the Russell 2000, dropped -9.5%. The technology-heavy NASDAQ saw the steepest decline, down -10.3% (Chart 2)..

Value stocks delivered standout performance, as the Russell 1000 Value Index posted a gain of 2.1% during the period, offering a stark contrast to the Russell 1000 Growth Index, which declined by -10.0% (Chart 3). This significant divergence highlights the continued rotation out of growth-oriented names, particularly in the technology and consumer discretionary sectors, and into more defensive, income generating, and fundamentally strong value stocks.

At the sector level for the S&P 500, Energy, Health Care, and Consumer Staples were top performers for the quarter, delivering returns of 10.2%, 6.5%, and 5.2%, respectively. Conversely, the Consumer Discretionary, Technology, and Communication Services lagged, posting returns of -13.8%, -12.7%, and -6.2%, respectively.



Charts 2 & 3
Source: Morningstar Direct

¹The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. ²The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index. ³The NASDAQ Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange (more than 2500 stocks). You cannot invest directly in an index. ⁴The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. ⁵The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

Past performance does not guarantee future results.

The Bond Market

The yield on the 10-year U.S. Treasury Note began the year at 4.6% and declined to 4.2% by the end of the quarter, reflecting shifting investor sentiment as markets absorbed ongoing inflation concerns, the impact of tariffs, and broader uncertainty about the overall health of the economy. The move in yields suggests a rising expectation that economic growth may slow, even as inflation remains above the Fed's long-term target of 2% (Chart 4).

Given these circumstances, the Federal Reserve faces a policy dilemma. On one hand, loosening monetary policy too soon could risk reigniting inflationary pressures. On the other hand, maintaining or further tightening policy could increase economic headwinds. Striking the right balance between managing inflation and supporting economic stability will remain a key challenge for the Fed.

Corporate credit spreads widened modestly during the quarter, reflecting the heightened volatility in the equity markets and a more cautious investor. Despite this movement, spreads remain tight relative to historical averages, suggesting that investors are still not being adequately compensated for assuming additional credit risk. Given this backdrop, emphasis should be placed on high-quality issuers with strong balance sheets and resilient business models, as investors seek to preserve capital and avoid unnecessary exposure to credit risk.

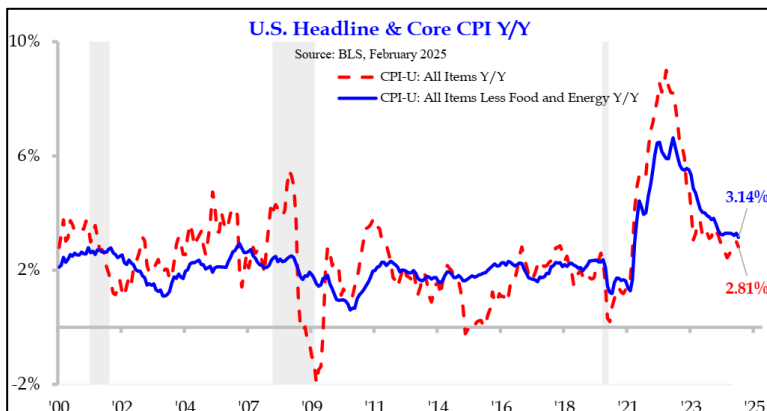


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