

CLUTINGER, WILLIAMS & VERHOYE, INC.

REGISTERED INVESTMENT ADVISORS

6398 Del Cerro Blvd – Suite 3 – San Diego, CA 92120

SCOTT B. WILLIAMS, CFA, CFP
KENT EDWIN STONE

TELEPHONE: 619-326-0900

Economic and Market Outlook

March 31st, 2025

Linear Thinking

*Fear and greed are probably the worst emotions to have
in connection with the purchase and sale of stocks.*

- *Walter Schloss*

Section I. Introduction

Linear thinking, simply stated, is believing that recent events will continue to occur well into the future. Believing that since the market rose 20% plus the last two years that it will continue to do so, or believing that the sky is falling because of short term market pullbacks, are examples of linear thinking. Fear and greed are the emotions that drive this type of behavior. Cyclicalities are closer to reality.

Walter Schloss, while not as well-known as Warren Buffett, was also a disciple of Benjamin Graham. He worked for Graham, and then successfully ran his own firm for 47 years. He believed like we do that a long term view and sound investment principles can help keep emotion out of investment decisions.

Short term movements in the stock market, up or down, do not have a single cause and cannot be explained by a single narrative. Equity markets swing wildly from day to day, and year to year, on the smallest of news, rally and retreat on sentiment and emotion, and celebrate or vilify the most inane data points. In reality, market prices result from billions of shares being bought or sold in reaction to each investor's perception. It's important not to get caught up in the madness and instead to stay rational and patient.

There are always reasons stock market investments can be considered risky and may tempt investors to sell their holdings. We continue to advocate for a long term perspective as part of our investment strategy. We manage risk through position size and sector allocation and understand that successful investing is a lifetime endeavor where fear and greed cannot be allowed to affect our decisions.

Section II. The Bull Market

2025 has begun with heightened volatility in markets. While the media tries to provide reasons for this, the reality is this occurs whenever a new administration enters the White House, regardless of party affiliation. Once new policies are in place, some degree of uncertainty will dissipate.

The S&P 500, after reaching an all-time closing high of 6144.15 on February 19th, experienced a 10.2% pullback. Chart #1 is a table of intra-year drawdowns and end of year returns since 1928. In 59 of those years when the maximum intra-year drawdown was less than 15%, the average return for those years was 20.37% with 98.3% positive years. For the 38 years when the drawdowns were 15% or greater, the average return was -1.39% and returns were negative 65.8% of the time. Remove five outliers, three of which were during the 1930's, and the average return drops to -7.25%.

Bull markets do not die of old age. We are approaching 29 months in this bull market. Since World War II there have been 13 bull markets and the average gain was 164%, and on average they lasted 57 months. It is also true that recent bull markets have generated higher returns over longer periods of time. On average, the last five bull markets since 1980 have seen stocks advance about 240% over a period of 70 months.

Bull markets end because of Black Swan events or because of recessions in the economy. By definition, Black Swan events cannot be predicted. For reasons cited later in this report, we do not see a recession coming in the near future.

To be clear, in the short term we fully expect some type of correction or consolidation in the market from time to time. Corrections of less than 10% are part of normal volatility, and are healthy for the market. In addition, corrections are historically quick and sudden pullbacks while Bear Markets are slow and rolling like a dripping leaky faucet.

Statistics would suggest a continued gain this year, but by a lesser magnitude, probably 6% to 9%. Analysts are all over the map, some calling for a decline while others expect robust gains to continue. The average return on the S&P 500 for the last

10 years is around 11%, and over last century the stock market is up on a yearly basis 76% of the time.

Despite recent market fluctuations and uncertainties, the momentum behind AI-driven technologies remains strong. The energy demands of AI will create other opportunities. As companies across industries continue to embrace AI to drive innovation and efficiency, investors are presented with unique opportunities to capitalize on the transformative power of artificial intelligence. The AI revolution is not just a fleeting trend but rather a fundamental shift that is poised to reshape industries and create new opportunities for growth and innovation. In our view this could be the next economic revolution.

Section III. Inflation

Currently the Consumer Price Index (CPI) is up 2.8% on an annual basis, and core CPI, which excludes food and energy, is up 3.1%. Both readings are for February 2025. CPI has risen slightly since our last report by 0.1%. Core CPI dropped by 0.2%. While the CPI reading peaked in June of 2023 at 9.1%, the core rate actually peaked in September of 2023 at 6.6%. This is still above the Federal Reserve's 2% target. As expected, the move from 3% to 2% is proving to be difficult.

Chart #2 shows the contributors and detractors of inflation. Studied closely it Shows earnings up 4.0% and overall inflation up 2.8% as previously stated. This is a positive for the economy because it means real wages are rising.

The Federal Reserve prefers to use a measure called the Personal Consumption Expenditures (PCE) Price Index to gauge inflation. The reading for PCE in January was 2.5% and the core rate was 2.6%. February data will be released March 28th. Inflation in the Euro Zone was running at 2.3% on an annual basis in February.

Remember that containing inflation is not about lower prices, but about stable prices. It appears that the Fed's previously aggressive approach has somewhat had its desired effect. The resilient economy continues to mute the effects of restrictive Fed policy.

Section IV. The Federal Reserve and Interest Rates

The Federal Reserve continues to alter their previous monetary policy path. After holding rates steady at 9 of 10 meetings, Federal Reserve Chairman Jerome Powell

and the committee cut rates at the next 3 meetings. The first cut was by 50 basis points in September, and then by 25 basis points in November and December, for a total of 100 basis points. Since then they have held rates steady at the last 2 meetings. At the March meeting Powell felt the economy "continues to be in a good place".

Starting in April, they will reduce the roll off of \$60 billion of bonds to \$40 billion from the Fed balance sheet each month. By shrinking the Fed balance sheet slower they will improve the odds of a soft landing for the economy. This is reflected by the fact that growth in M2 money for February year over year increased to 1.0% from 0.5% at our last report. It also brings us closer to the end of Quantitative Tightening (QT).

We still expect the Fed will cut interest rates only one time in 2025. Remember that cutting rates is usually a sign that the economy is slowing, which is not the case currently. The economy and employment continues to show strength. The Federal Reserve must remain restrictive until inflation cools further.

Rates in most European 10-year bonds are steady to higher because of a strengthening European economy. The U.S. 10-year bond still remains more attractive to international investors for its yield and AA+ credit rating, though the spread is narrowing. The U.K. 10-year yields 4.73% (AA), German 10-year yields 2.77% (AAA), France 10-year yields 3.49% (AA), Italian 10-year yields 3.88% (BBB) and Swiss 10-year yields 0.67% (AAA). These compare to our 4.34% 10-year yield.

Section V. The Recession Model

As we have discussed in past reports, earnings and the economy are the true long term influences on the stock market. Recessions, or fear of recessions, are the major reason we experience corrections of more than 10%. Corrections of less than 10% are just part of normal volatility and tend to happen multiple times each year.

The official arbiter of recessions in the U.S. is the National Bureau of Economic Research (NBER). They determine when our economy enters and exits recessions. The problem is that usually by the time they declare the official start date of the recession the economy is probably coming out or already done with that recession, in other words no predictive value.

At Clutinger, Williams & Verhoye we have developed what we view as a recession indicator which tracks 5 data sets on a monthly basis. If 3 of the 5 indicators are negative and the S&P 500 is below its 40 week moving average, it is a very strong indication that a recession is near or may already be underway.

Indicator number one compares the current monthly unemployment rate to its 12 month moving average. As of February, the unemployment rate was 4.1% and the 12 month moving average was 4.08%. By being above the moving average this indicator has stayed negative, but barely.

Indicator number two is represented in Chart #3. This represents the year over year percentage change of Advance Real Retail and Food Service Sales. This is one method to measure the strength of the consumer. Currently the reading is 0.28% for February, so this indicator remains positive.

Indicator number three is represented in Chart #4. This shows the year over year change in Industrial Production. This indicator has turned positive. It currently sits at 1.44% for February 2025.

For indicator number four (Chart #5), we look at Total Nonfarm Payrolls divided by the Civilian Labor Force Level on a year over year percentage change basis. This indicator stands at -0.48% showing a slight weakness in employment. Therefore this indicator is negative.

Indicator number five (Chart #6) represents the Average Weekly Hours of Production and Nonsupervisory Employees-Manufacturing on a year over year percentage basis. Currently the reading is 0.74%, so this indicator remains positive.

Currently three of the five indicators are positive and the S&P 500 Index is 1.88% below its 40-week moving average as of March 21st. Although the S&P 500 is below its forty week moving average this model is not giving a recession warning sign. We will be closely monitoring these indicators in the coming months.

The above indicators are only updated on a monthly basis. To offset this situation we also track two other indicators. They are both indicators that are updated more frequently (on a weekly or daily basis) and we consider them as early recession indicators. Both are somewhat volatile so we track three month moving averages. These two indicators are separate and independent of the first five and either one can indicate the possibility of recession on its own.

The first one is the Aruoba-Diebold-Scotti Business Conditions Index which is updated on a daily basis and published by the Philadelphia Federal Reserve. The 91 day moving average is slightly positive and is at 0.32 currently, the highest reading in 33 months. The divining line for entering and exiting recessions is -0.8.

The second indicator for recessions is the Chicago Fed Business Activity Index. It is reported weekly and the divining line for entering recessions is -0.7. The three month moving average also recorded a 33 month high and stands at 0.15.

In summary, the two "early warning signs" are not predicting recession at this time.

Section VI. Market Psychology

The American Association for Individual Investors (AAII) does a weekly survey asking if investors are bullish, neutral or bearish on the stock market. This is viewed as a contrary indicator. Chart #7 shows what happens historically when bearishness reaches 60%. In addition, for the first time since they started the survey in 1978, the bearish reading was higher than 57% 4 weeks in a row. AAII also asked the respondents what they felt were the odds of a recession before the end of the year. 72.1% thought it was highly likely or a greater than typical chance. More often than not Mr. Market does the opposite of what the majority expects.

For decades we have measured market psychology using price and volume data in the short and long term from the Dow Jones Industrial Average as well as a 17 week moving average of advancing and declining stocks on the New York Stock Exchange.

Currently, 3 out of 12 of our price/volume indicators are positive. The S&P has pulled back to 5700. But that doesn't necessarily mean the end of the rally. The market needs corrections from time to time in the short term to stay healthy and growing over the long term.

Our advance/decline line has been positive for the last several weeks but dropped below 50% five weeks ago and sits at 45.1%, and is reflecting the recent sell off helping to prevent the market from getting overheated.

Our technical model measures the first and second derivative of price and volume for the market. We have developed this model to recognize patterns and spot buy and sell signals from reviewing years of historical data. This model is providing positive signs and our proprietary charting is reflecting a pattern seen during past bull markets as previously sighted in this report. After moving to the negative side of the model during this pullback, the model produced an important buy signal over the last couple weeks. In the previous thirteen times we received this signal the market was positive twelve times six months later with an average gain of 11.79%.

Section VII. The Economy

Indexes that measure manufacturing data are mixed. The Philly Fed Manufacturing Index has turned positive. It rose to 12.5 in February of 2025. The Empire State Manufacturing Index fell to -20.0 in March, the lowest since May of 2023. The national ISM manufacturing index improved to 50.3% in February and the ISM services index was 53.5% (above 50 is considered growth, above 55 is considered exceptional growth). Most these readings reflect a moderately strong economy. Weather could be affecting the Empire State reading.

Multiple Wall Street and Federal Reserve predictions for Gross Domestic Product (GDP) have stayed around 1.5%. GDP for the fourth quarter was 2.4%. GDPNow is estimating GDP for the first quarter of 2025 will be a -1.8% reading. This data stream has been distorted by a large amount of gold imports. Adjusting for this would result in a reading closer to 0.6% reflecting the short term uncertainty.

Section VIII. Conclusion

While volatility has increased, it is mostly a reaction to various sentiment readings or, in other words, emotions. The facts and history indicate that patience is in order.

We continue to be optimistic moving forward. As previously stated we expect a positive, but more muted, return over the next twelve months. Over the short term, directional moves in the stock market are always going to be somewhat unpredictable. Though a correction, like we just experienced, always remains within the realm of possibilities, given what history tells us about market valuations, the historic data on market returns and economic growth it is crystal clear that investing for the long haul is a winning formula.

Remaining vigilant,


Scott B. Williams, CFA, CFP

Kent Edwin Stone

S&P 500 Index: Max Intra-Year Drawdowns vs. End of Year Total Returns (1928 - 2025)

Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR
1928	-10.3%	43.8%	1948	-13.5%	5.7%	1968	-9.3%	10.8%	1988	-7.6%	16.6%	2008	-48.8%	-37.0%
1929	-44.6%	-8.3%	1949	-13.2%	18.3%	1969	-16.0%	-8.2%	1989	-7.6%	31.7%	2009	-27.6%	26.5%
1930	-44.3%	-25.1%	1950	-14.0%	30.8%	1970	-25.9%	3.6%	1990	-19.9%	-3.1%	2010	-16.0%	15.1%
1931	-57.5%	-43.8%	1951	-8.1%	23.7%	1971	-13.9%	14.2%	1991	-5.7%	30.5%	2011	-19.4%	2.1%
1932	-51.0%	-8.6%	1952	-6.8%	18.2%	1972	-5.1%	18.8%	1992	-6.2%	7.6%	2012	-9.9%	16.0%
1933	-29.4%	50.0%	1953	-14.8%	-1.2%	1973	-23.4%	-14.3%	1993	-5.0%	10.1%	2013	-5.8%	32.4%
1934	-29.3%	-1.2%	1954	-4.4%	52.6%	1974	-37.6%	-25.9%	1994	-8.9%	1.3%	2014	-7.4%	13.7%
1935	-15.9%	46.7%	1955	-10.6%	32.6%	1975	-14.1%	37.0%	1995	-2.5%	37.6%	2015	-12.4%	1.4%
1936	-12.8%	31.9%	1956	-10.8%	7.4%	1976	-8.4%	23.8%	1996	-7.6%	23.0%	2016	-10.5%	12.0%
1937	-45.5%	-35.3%	1957	-20.7%	-10.5%	1977	-15.6%	-7.0%	1997	-10.8%	33.4%	2017	-2.8%	21.8%
1938	-28.9%	29.3%	1958	-4.4%	43.7%	1978	-13.6%	6.5%	1998	-19.3%	28.6%	2018	-19.8%	-4.4%
1939	-21.2%	-1.1%	1959	-9.2%	12.1%	1979	-10.2%	18.5%	1999	-12.1%	21.0%	2019	-6.8%	31.5%
1940	-29.6%	-10.7%	1960	-13.4%	0.3%	1980	-17.1%	31.7%	2000	-17.2%	-9.1%	2020	-33.9%	18.4%
1941	-22.9%	-12.8%	1961	-4.4%	26.6%	1981	-18.4%	-4.7%	2001	-29.7%	-11.9%	2021	-5.2%	28.7%
1942	-17.8%	19.2%	1962	-26.9%	-8.8%	1982	-16.6%	20.4%	2002	-33.8%	-22.1%	2022	-25.4%	-18.1%
1943	-13.1%	25.1%	1963	-6.5%	22.6%	1983	-6.9%	22.3%	2003	-14.1%	28.7%	2023	-10.3%	26.3%
1944	-6.9%	19.0%	1964	-3.5%	16.4%	1984	-12.7%	6.1%	2004	-8.2%	10.9%	2024	-8.5%	25.0%
1945	-6.9%	35.8%	1965	-9.6%	12.4%	1985	-7.7%	31.2%	2005	-7.2%	4.9%	2025 YTD	-8.6%	?
1946	-26.6%	-8.4%	1966	-22.2%	-10.0%	1986	-9.4%	18.5%	2006	-7.7%	15.8%			
1947	-14.7%	5.2%	1967	-6.6%	23.8%	1987	-33.5%	5.8%	2007	-10.1%	5.5%			

Note: Closing Prices for Drawdowns
as of 3/10/25 (does not include intra-
day or dividends)

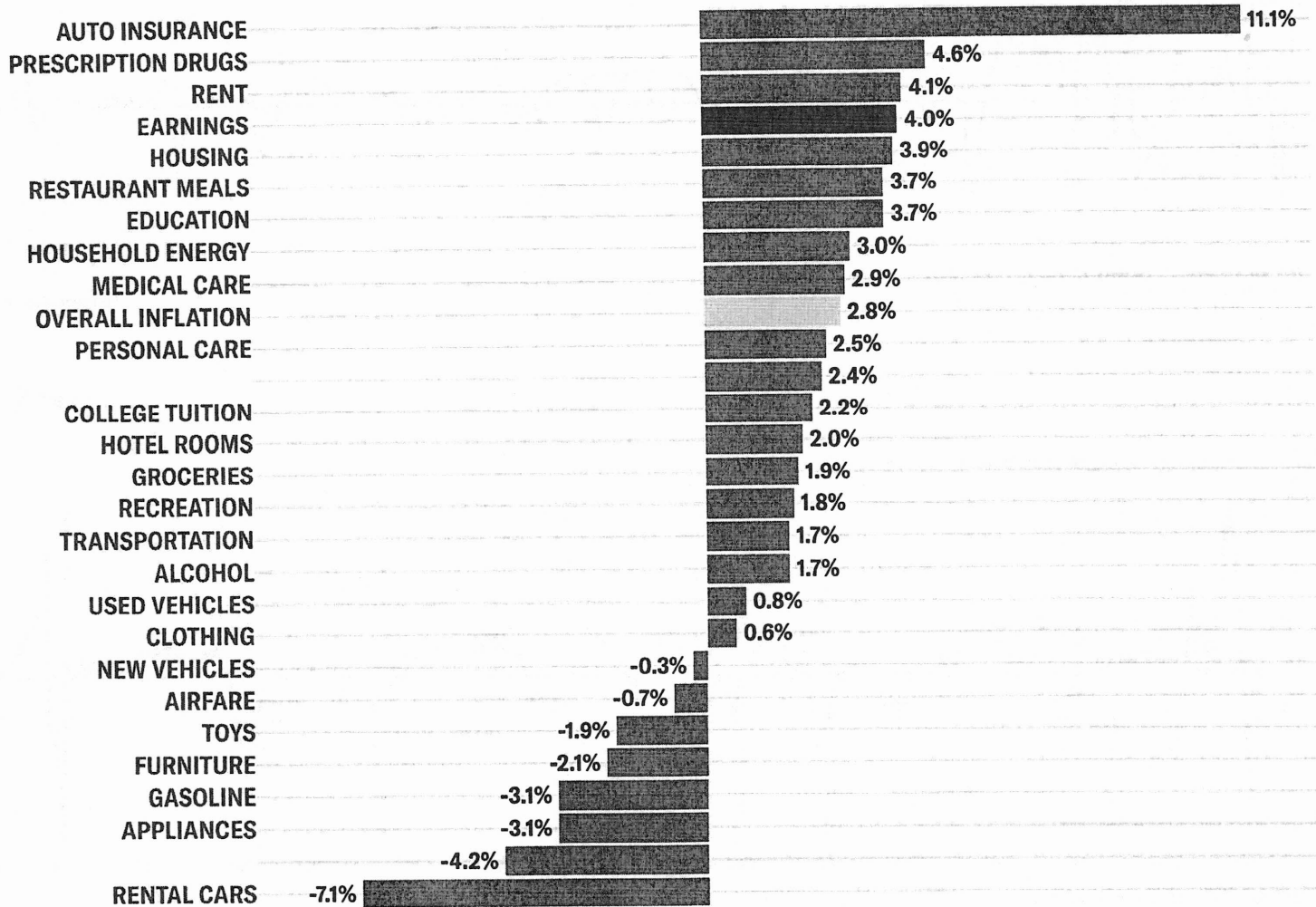
 CREATIVE PLANNING

@CharlieBilello

WHERE INFLATION IS... AND ISN'T

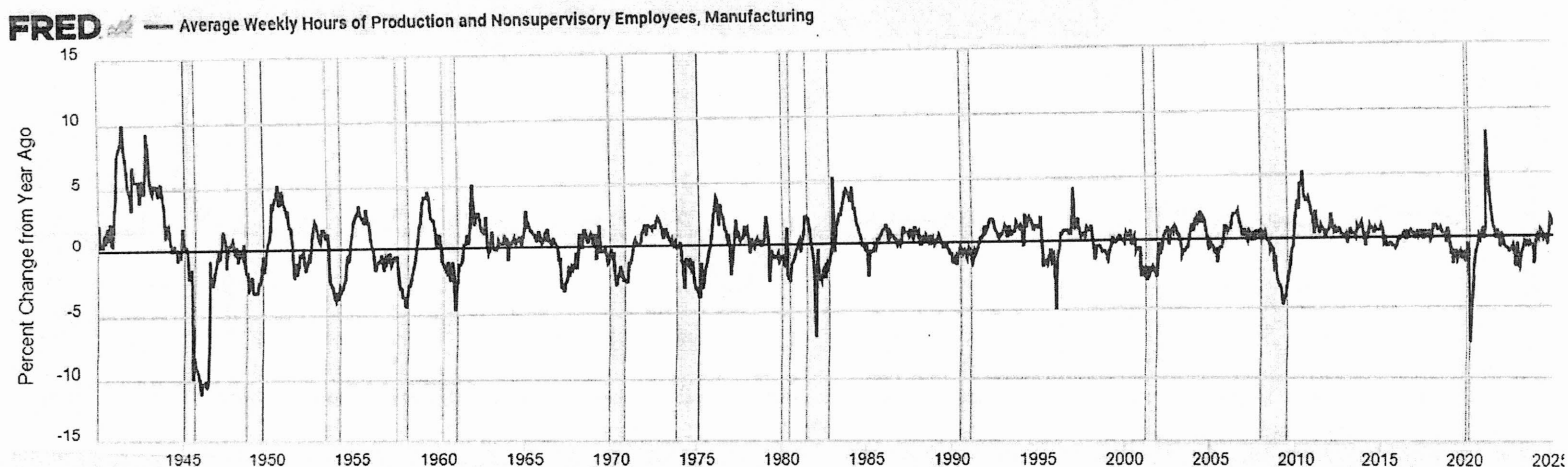
Chart 2

12-month change in the price of:



SOURCE: BUREAU OF LABOR STATISTICS. DATA AS OF FEBRUARY 2025

Chart 3



Source: U.S. Bureau of Labor Statistics via FRED®
Shaded areas indicate U.S. recessions.

fred.stlouisfed.org

Chart 4

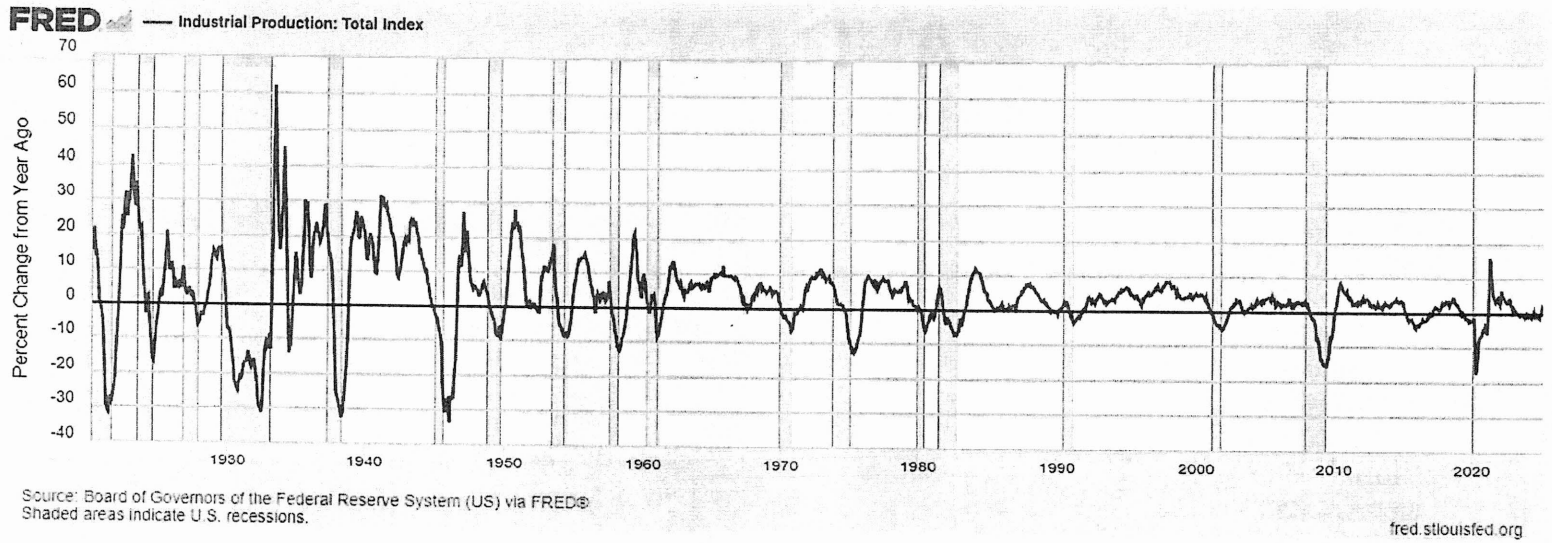


Chart 5

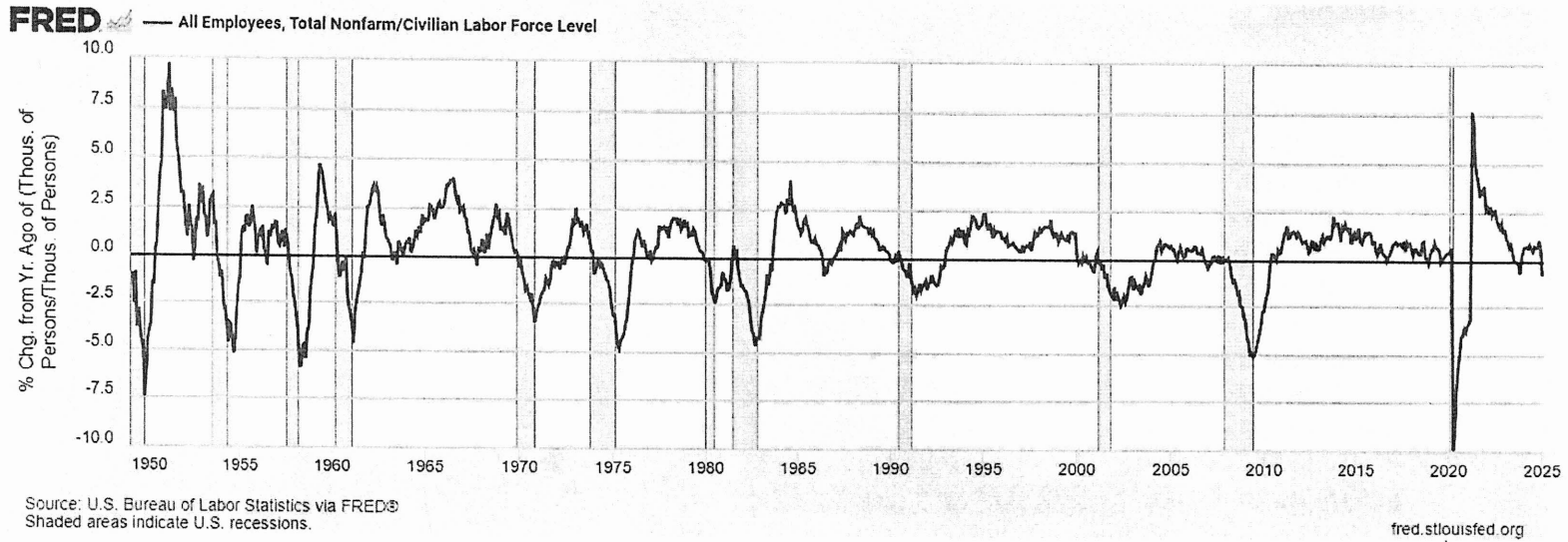
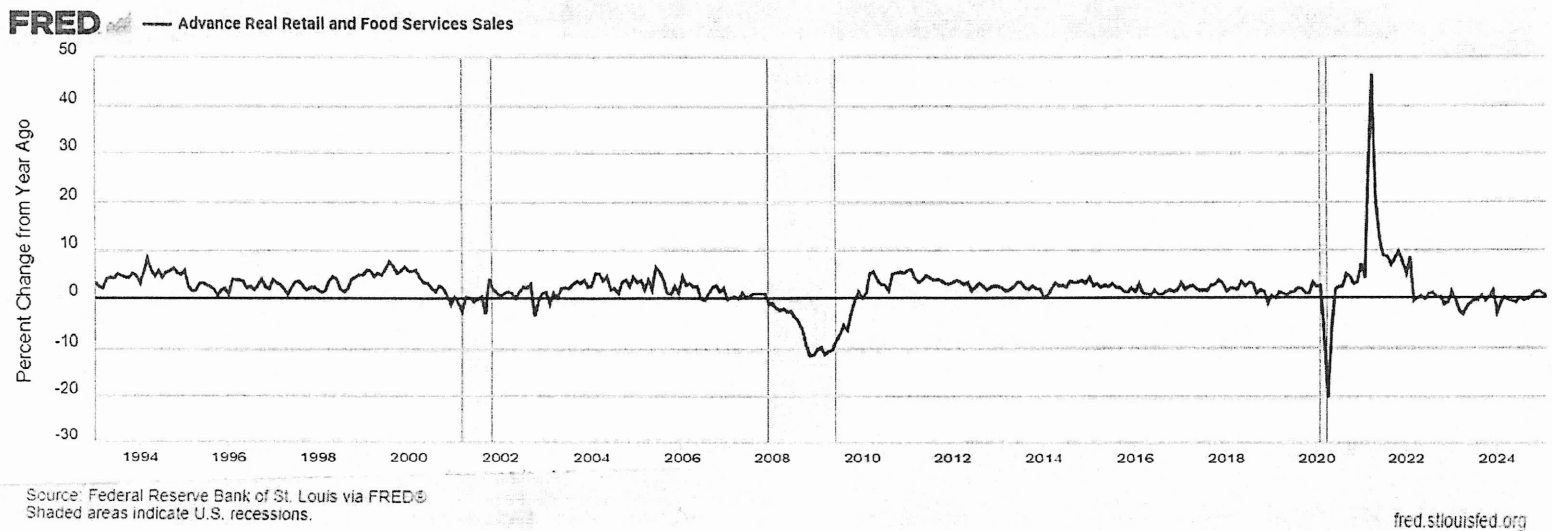


Chart 6



Bearish Investor Sentiment is Near All-Time Highs

Chart 7

S&P 500 Returns After Circled Dates

Date	13 Weeks Later	26 Weeks Later	39 Weeks Later	52 Weeks Later
8/31/1990	0.9%	17.0%	24.1%	26.9%
10/19/1990	7.3%	25.1%	26.2%	29.9%
10/10/2008	-0.2%	-3.5%	-0.1%	22.3%
3/6/2009	38.4%	50.5%	64.6%	70.3%
9/23/2022	4.6%	8.5%	19.3%	19.0%

60.6% of
Respondents
Were Bearish
Last Week

100%
95%
90%
85%
80%
75%
70%
65%
60%
55%
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%

8/31/1990

10/19/1990

10/9/2008

3/6/2009

9/23/2022

American Association of Individual Investors
(AAII) Survey: "Bearish on Stocks"

@JeffWeniger

1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012 2014 2016 2018 2020 2022 2024

Source: Refinitiv, as of 2/26/2025. File #1001

