Market Commentary – First Quarter of 2025

U.S. Stocks had a rough start to the year, with the S&P 500 down 4.3%. This was the worst quarterly performance for the S&P 500 since 2022. Tech stocks fared even worse, with the Nasdaq Composite down by over 10%. Tariff news dominated the headlines, and political uncertainty has led to greater volatility. The top performing sectors for the quarter included Energy, Health Care, and Consumer Staples. Poor performing sectors included Consumer Discretionary, Technology and Industrials.

The table below shows first quarter and trailing twelve months' returns as of 3/31/2025 (percentages are for total returns):

Time Period	Dow Jones Industrial Average	S&P 500 Index	Nasdaq Composite	Barclays U.S. Aggregate Bond
First Quarter	-0.9%	-4.3%	-10.3%	2.8%
Last 12 Months	7.4%	8.3%	6.4%	4.9%

Equity Markets

Tariffs are government taxes designed to protect domestic industries from foreign competition and raise government revenue in the process. The stock market has responded to the announcement of tariffs with heightened volatility as investors recalibrate expectations about future corporate earnings. Industries like semiconductors, automobiles and consumer electronics have experienced immediate price movements as investors attempt to price in potential impacts. Companies that are more domestic based and that can pass on the cost of tariffs to consumers tend to outperform their import-dependent counterparts during periods of trade tension. Defensive sectors such as healthcare, utilities and regional banks tend to outperform. Overall, the U.S. is less dependent on trade compared with its largest trading partners, Mexico and Canada. This potentially insulates the U.S. economy from the impacts of a trade war. Tariffs can lead to supply chain disruptions, inventory shortages and production delays. This in turn leads to inflation. It is no surprise that consumer confidence expectations this past month slumped to a 12-year low as more Americans are expressing concerns about these issues.

Fixed Income Markets

The uncertainty around tariffs spills over into the fixed income market and the impact on interest rates. The first quarter experienced a nice return as investors fled to the fixed income market for certainty. The Federal Reserve (Fed) has held interest rates steady this year although announcing that a couple cuts are still expected by the end of the year. In our view, sustained tariffs would likely lead the Fed to maintain its policy rate and delay further rate cuts. However, U.S. economic momentum has slowed in the first few months of 2025. If this continues, it could prompt the Fed to continue cutting rates to support the economy and the labor market. For the time being, interest rates still remain favorable in the 4-5% range which has helped savers and investors earn a good return to beat inflation.

Economic Outlook and Portfolio Strategy

By historical standards, inflation and interest rates are currently at relatively low levels, which tends to support strong economic growth and a healthy stock market. When both inflation and interest rates are low, consumers and corporations are better able to afford borrowing, which stimulates spending and economic expansion. However, the economy is showing signs of slowing down. Growth is sluggish, manufacturing activity is decelerating, consumer spending is becoming more cautious, and corporate earnings expectations are more modest due to uncertainties surrounding tariffs, geopolitical tensions, and the direction of inflation. Amid this economic transition and the increase in stock market volatility, we remain focused on maintaining diversified portfolios that emphasize high-quality, stable companies with strong balance sheets, solid earnings, and healthy cash flow. It is important to look beyond the daily headlines and focus on the factors within our control - developing a financial plan, asset allocation and educating ourselves about markets and volatility. As your wealth advisor, we are here to assist you with these steps and help you navigate through these challenging times. We thank you for your ongoing confidence and trust. We look forward to connecting with you soon via a live meeting, voice or video call.