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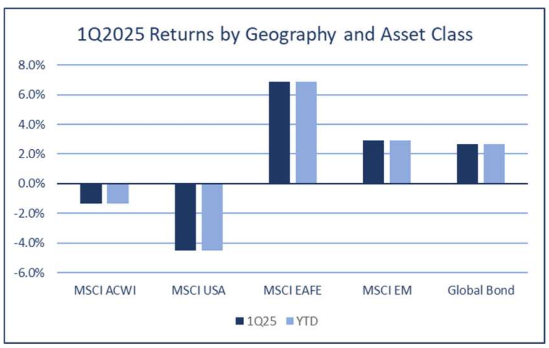
A Look Back…1st Quarter 2025

We call our quarterly review "A Look Back" to remind our readers that is all it is – backward looking. While it is important to keep tabs on what your portfolio is doing, it is equally important to ignore short-term results. Keep focused on the long-term goals of your portfolio and whether it is achieving them.

The Markets

The first quarter of 2025 started out on an optimistic note as global markets surged in January. That, however, proved short-lived as February and March got progressively more negative. But there were some underlying nuances. Especially in February, global weakness was driven entirely by negative returns in the US and this was, to a lesser extent, the case in March as well. As a result, although the MSCI All Country World Index was lower for the quarter, it was not nearly as bad as US market-watchers would have thought. The primary drivers of weakness here at home were (1) tariffs, their impact on US company sales overseas, and their potential impact on inflation and (2) growing concerns about a weak US economy with inflation remaining stubbornly above the Federal Reserve's target rate. The one bright spot was bonds – concerns about the economy and a flight to safety drove fixed income higher as the Bloomberg Barclays Global Aggregate Bond Index rose.



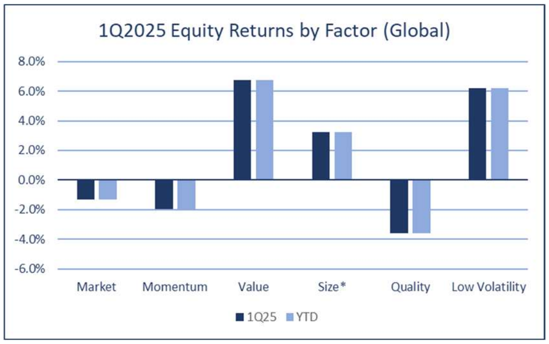
Source: Morningstar; As of 3/31/25

Outlook

Unlike previous market downturns (i.e. the 2008 financial crisis, Covid in 2020, and Federal Reserve rate hikes in 2022), the current weakness in stock prices is being driven by policy uncertainty. Investors are unsure what to do with investments as the global trade landscape seems to change minute to minute. Forecasts in general are inaccurate and not useful, but they are even more futile now. The hope is for a de-escalation of the tariff spat with China, which would ideally help alleviate inflaiton concerns. However, there is a time clock in place. The Federal Reserve is not in a position to lower its benchmark interest rate to help support the economy because inflation remains above its desired level. So any tariff settlements need to be completed in time to allow the central bank to evaluate some inflation and economic releases post-tariffs and make an unfettered decision about rate policy.

The Factors

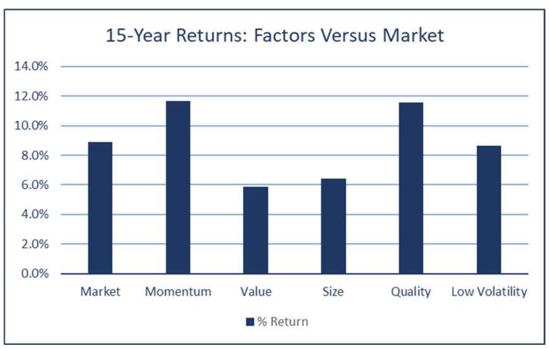
On the equity front, it was a much stronger quarter for factors as Value, Size, and Low Volatility outperformed the broader MSCI All Country World Index (ACWI). The other side of that coin is the the weakness for Technology stocks (particularly chip stocks facing tariff issues in China) meant a difficult quarter for both Momentum and Quality. The strength for factors was more than offset by our overweight to underperforming US stocks and so the portfolio was unable to beat the broader MSCI ACWI for the quarter.



Source: Morningstar; As of 3/31/25

The Long-Term Record

While factors can be cyclical in that they will go through periods of doing better and worse than a simple market index like the MSCI ACWI, the long-term track record is clear as shown below. Although some of the record includes back-tested returns (i.e. before the indexes were actually created), the methodologies (how they screen for stocks) remain consistent. We include for full disclosure the inception dates of all indexes.



Source: Morningstar; As of 3/31/25
Global Stocks = MSCI ACWI NR USD Index (Inception: 1/1/01)
Global Momentum= MSCI ACWI Momentum NR USD Index (Inception: 11/30/95)
Global Value = MSCI ACWI Enhanced Value NR USD Index (Inception: 5/29/15)
Global Quality = MSCI ACWI Quality NR USD Index (Inception: 5/29/92)
Global Low Vol = MSCI ACWI Minimum Volatility (USD) NR USD Index (Inception: 5/28/93)
Global Size = MSCI ACWI Risk Weighted NR USD Index (Inception: 4/6/11)

Disclosures

Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk. Therefore, it should not be assumed that future performance of any specific investment or investment strategy will be profitable or equal the corresponding indicated performance level(s). Moreover, you should not assume that any of the above content serves as the receipt of, or as a substitute for, personalized investment advice from Metric Financial. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and, unless otherwise noted, do not reflect the deduction of transaction, custodial, or investment management fees, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings do or will correspond directly to any comparative indices. Investing involves risk, including loss of principal.

The Factors

Momentum: Data suggests that stocks that have outperformed recently may continue to do so in the near-term.
Value: Data suggests that relatively cheap stocks may outperform more expensive ones over time.
Size: Data suggests that smaller company stocks may outperform those of larger ones over time.
Quality: Data suggests that stocks of high quality companies may outperform those of lesser quality over time.
Low Volatility: Data suggests that low volatility stocks may outperform on a risk-adjusted basis over time.