FINANCIAL MARKETS HIGHLIGHTS

First Quarter 2025

The S&P 500 index of large and mega-sized US stocks declined 4.3% during the first quarter 2025 following two years of returns greater than 25%. While the majority of business sectors posted positive or near-flat quarterly returns, led by Energy (10.2%), Health Care (6.5%) and Consumer Staples (5.2%), the large Consumer Discretionary and Technology sectors detracted significantly from broad market returns, declining 13.8% and 12.7%, respectively. The *Magnificent Seven* mega-cap stocks Alphabet, Apple, Amazon, Meta, Microsoft, NVIDIA and Tesla, whose outsized returns drove gains in previous quarters, reversed and led the market down during Q1, detracting approximately five percentage points from the S&P 500's return, turning what would have been a slightly positive quarter negative. While large and mega-cap technology and growth-oriented stocks were down, their value-oriented counterparts posted positive results. The Russell 1000 Value index returned 2.1% during the quarter, though small and mid-sized company stocks were unable to escape the quarter's events unscathed and declined mid-to-high single digits.

The root of investor consternation was, and continues to be, the uncertainty of President Trump's pronouncements on trade and tariffs, plus the related interest rate outlook. The impact on economic growth, price levels and inflation is very unclear, and further, the Administration's policies are, to say the least, fluid. Regarding the interest rate outlook, the Federal Reserve ("Fed") Open Market Committee left its target, short-term Fed Funds rate unchanged during the quarter, at a range of 4.25% to 4.50%, and based on the current outlook, signaled one, perhaps two-quarter point interest rate cuts for the remainder of 2025. Recall that in late 2024 the outlook was for far lower rates in 2025, perhaps in the 3.00% to 3.50% range. The fly in the ointment is inflation, which remains "sticky" and above the Fed's 2% target. The Fed's preferred inflation gauge, the Personal Consumption Expenditures ("PCE") index, rose 2.5% year-over-year in February, unchanged from January. The core PCE index, which strips out volatile categories like food and energy, ticked up to 2.8% year-over-year, up from 2.7% in January.

Apart from the Fed Funds rate, market-based interest rates declined modestly during the quarter, benefitting bond investors. The Bloomberg Aggregate Bond index returned 2.8% and the Bloomberg US Government/Credit index returned 2.7%. The 10-year US Treasury interest rate declined from 4.6% to 4.4% during the quarter, and the national average 30-year fixed mortgage rate from ~7.0% to ~6.7%.

Lower domestic interest rates weakened the US dollar during the quarter, falling ~4% relative to a basket of

Selected Index Returns (%) as of March 31, 2025 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.

	January	February	March	QTR	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	2.78	-1.30	-5.63	-4.27	-4.27	8.25	9.06	18.59	12.50
S&P 400	3.85	-4.35	-5.47	-6.10	-6.10	-2.71	4.42	16.91	8.43
Russell 2000	2.62	-5.35	-6.81	-9.48	-9.48	-4.01	0.52	13.27	6.30
Wilshire US REIT Index	1.02	3.67	-3.55	1.01	1.01	10.23	-0.84	11.15	5.33
MSCI EAFE	5.26	1.94	-0.40	6.86	6.86	4.88	6.05	11.77	5.40
MSCI Emerging Markets	1.79	0.48	0.63	2.93	2.93	8.09	1.44	7.94	3.71
Bloomberg US Aggregate Bond	0.53	2.20	0.04	2.78	2.78	4.88	0.52	-0.40	1.46
Bloomberg High Yield	1.37	0.67	-1.02	1.00	1.00	7.69	4.98	7.29	5.01

major currencies as measured by the DXY US Dollar index. This was a boon for US investors holding international equities. The MSCI EAFE index of developed market securities and MSCI Emerging Market index returned 2.9% and 2.7% during the quarter in local currency terms. In US dollar terms, though, they returned 6.9% and 2.9%, respectively.

Despite the ever-present uncertainties, earnings growth projections remain positive. Aggregate 2025 S&P 500 analyst earnings forecasts compiled by LSEG I/B/E/S are for high single digit growth, though, to be fair, some analysts are cutting projections in real time. Notably, Goldman Sachs just reduced its S&P 500 earnings growth outlook for 2025 from 7% to 3%. Yet the economy underlying corporate earnings remains in good shape. During Q4 the economy, defined as gross domestic product, grew 2.4%. Unemployment remains low at 4.1%. Bottom line, never underestimate Corporate America's ability to do what it does best – grow earnings, assets and dividends.

Long-term, the market climbs a wall of worry. During volatile and down markets one manages risk with thoughtful asset allocation and broad diversification. One never wants to see losses, but attempting to tactically shift allocations in the short run is probably unwise. Also, we are reminded that there were meaningful pockets of strength during the quarter – large-cap value stocks, international stocks, bonds, Master Limited Partnerships, commodities and energy stocks – and that is a good thing. It is the essence of holding a diversified portfolio. Have a wonderful spring season, and please be in touch should you require anything.

Selected Index Returns (%) as of March 31, 2025 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.

	January	February	March	QTR	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	2.78	-1.30	-5.63	-4.27	-4.27	8.25	9.06	18.59	12.50
S&P 400	3.85	-4.35	-5.47	-6.10	-6.10	-2.71	4.42	16.91	8.43
Russell 2000	2.62	-5.35	-6.81	-9.48	-9.48	-4.01	0.52	13.27	6.30
Wilshire US REIT Index	1.02	3.67	-3.55	1.01	1.01	10.23	-0.84	11.15	5.33
MSCI EAFE	5.26	1.94	-0.40	6.86	6.86	4.88	6.05	11.77	5.40
MSCI Emerging Markets	1.79	0.48	0.63	2.93	2.93	8.09	1.44	7.94	3.71
Bloomberg US Aggregate Bond	0.53	2.20	0.04	2.78	2.78	4.88	0.52	-0.40	1.46
Bloomberg High Yield	1.37	0.67	-1.02	1.00	1.00	7.69	4.98	7.29	5.01