Quarterly Economic Update
First Quarter 2025

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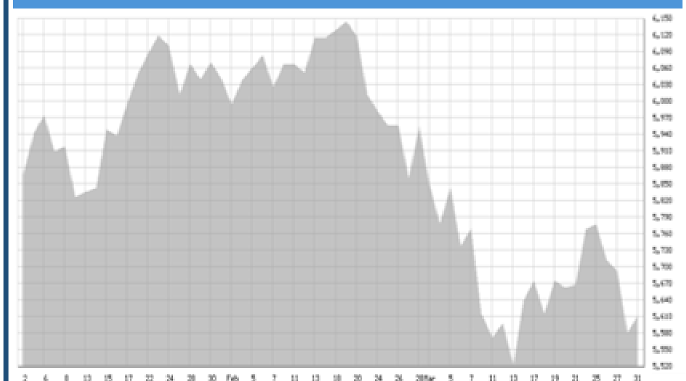
Most analysts did not anticipate the volatility that investors would face in the first quarter of 2025. The equity markets started the quarter with strong momentum, buoyed by President Trump's return to leadership of the world's largest economy and financial markets. After achieving impressive annual returns of over 20% in both 2023 and 2024, the equity markets reached another all-time high in February. Experienced investors knew that a market retreat could happen at some point during the year, as it is historically common for a pullback or correction to follow such positive performance. In the latter half of the first quarter, uncertainty took center stage in the headlines, leading to a swift and widely reported market decline.

The new administration came in as it indicated it would, and President Trump's first agenda was to make quick and sweeping change. The transitional time between new administrations typically brings some uncertainty and thus volatility, so it has been hard to predict the reaction to the aggressive agenda of this administration. Some investors have become wary of the new administration's agenda and concerns over global trade wars and the tariffs have added to that uncertainty.

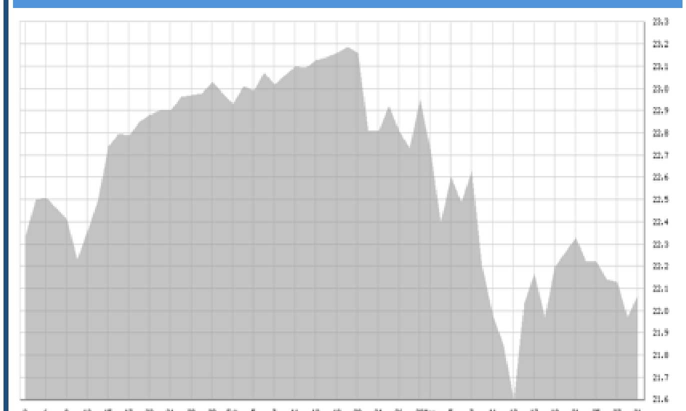
A correction is defined as a decline of more than 10% from a recent closing high. On March 13, the S&P 500 fell 10% from its new high set just three weeks prior due to easing inflationary pressure and positive earnings. The Dow Jones Industrial Average (DJIA) started its path toward correction territory but remained just above a 10% decline. Additional factors contributing to these declines included government employee layoffs, the possibility of a government shutdown, and concerns about an uptick in inflation. *(Source: Investopedia.com; 3/13/25)*

S&P 500 and DJIA Quarter 1 2025

S&P 500 **-4.6%**



DJIA **-1.3%**



Source: bigcharts.com

MONEY RATE *(as posted in Barron's 03/31/2024)*

	LATEST WEEK	YR AGO
Fed Funds Rate*	4.33%	5.08%
Bank Money Market[z]	0.44%	0.32%
12-month Certif[z]	1.88%	1.72%

*Z – Bankrate.com; * - Average effective offer* *(Source: Barron's; bankrate.com)*

The S&P 500 and DJIA entered the first quarter with positive momentum, after reaching all-time highs in December 2024. The "Magnificent Seven" composed of Apple, Microsoft, Nvidia, Alphabet, Amazon, Meta and Tesla were the driving force behind the U.S. stock market's strength in the past two years. As a group, they accounted for more than 50% of the S&P 500's return in both 2023 and 2024. That leadership continued through early February, however after a rough March, as a group, these tech stocks experienced their worst month and quarter on record. By March's end, the S&P 500 registered its most difficult quarter since the second quarter of 2022. The S&P 500 closed the first quarter of 2025 down 4.6% and the DJIA closed the quarter down 1.3%. *(Sources: CNBC.com; 3/31/2025, First Trust 1/8/2025)*

As your financial professionals, we are committed to keeping you aware of any changes that could directly affect your situation. Our goal is to consistently review our clients' investments and confirm they align with their time horizon, risk tolerance and goals.

Tariffs

Tariffs have become a nightly news agenda item and widely discussed topic and there are sizable concerns about their potential impact on the U.S. economy. The Trump administration is actively implementing several tariffs to protect domestic industries and boost sales of American-made products by taxing imports from countries like China, Canada, and Mexico. The White House has suggested that their tariffs will grow the American economy, help reduce our deficit and create jobs, but as of this report's writing, it had not issued complete guidance or specifics including how long they will be in place. As of the quarter's end, it remained uncertain how much these tariffs will affect the economy and inflation moving forward. **Change nearly always brings uncertainty and we remain committed to keeping a watchful eye on these tariffs and their effects on our client's investment portfolios.**

Inflation & Interest Rates

Key Points:

- **Interest rates remained unchanged at 4.25 – 4.50% during the first quarter of 2025.**
- **The Fed is still forecasting rate cuts in 2025.**
- **U.S. inflation decreased in February to 2.80%.**

In the first quarter of 2025, the Federal Open Market Committee (FOMC) decided to maintain interest rates in the range of 4.25% to 4.50%. The Federal Reserve indicated that rate cuts are still possible this year, depending on whether inflation continues to decrease, and the job market remains robust. With two FOMC meetings scheduled for the second quarter and another four more planned for the remainder of the year, the Fed remains committed to making further rate cuts contingent upon inflation trends and economic conditions.

Good news emerged with lower-than-expected inflation numbers reported, showing that U.S. inflation decreased to 2.80% in February, down from 3% in January 2025. Nonetheless, inflation pressures remain a concern in the coming months as we see

KEY TAKEAWAYS

- After two robust years for equities, the S&P 500 entered correction territory in the first quarter of 2025.
- Talk of tariffs contributed to equity market uncertainty.
- The Fed held the federal funds rate range steady at 4.25 – 4.5%, however, they are still forecasting rate cuts in 2025.
- U.S. inflation decreased to 2.8% in February, down from 3% in January 2025.
- Focusing on what you can control and minimizing your exposure to inflammatory news can help you stay well-grounded in times of volatility.
- Maintaining the consistency of a well-devised, long-term focused plan has historically served investors well.
- ***We are here for you to discuss any questions or concerns you may have.***

how tariffs affect the economy and spending. *(Source: cnbc.com; 3/12/25)*

In February, the Consumer Price Index (CPI) for both core and all-items increased 0.2%. On a year-by-year basis, inflation was 2.8% and core inflation was 3.1%. The core CPI, which excludes food and energy prices, is often viewed by economists as a better gauge of future inflation. The increase in shelter costs in February accounted for nearly 50% of the overall CPI rise. *(Source: cnbc.com; 3/12/25)*

Interest and inflation rate movements are integral for investors' financial planning indicators closely and we will continue to monitor these key economic issues.

The Bond Market and Treasury Yields

Key Points:

- **The outlook for bonds in 2025 remains unclear. Interest rates, inflation trends, and clarity on tariffs are all contributing to higher yields; however, they remain sensitive to ongoing uncertainties.**
- **Current bond yields could present an appealing option for investors seeking more stability against market volatility.**

Multiple factors are keeping U.S. Treasury yields higher, including economic uncertainty and a reluctant inflation rate, and unchanged Fed interest rates. On March 31, the benchmark 10-year yields reached 4.23% and 30-year yields hit 4.59%. The shorter-term 2-year and 5-year yields were 3.89% and 3.96% respectively.*(Source: U.S. Department of Treasury)*

Diversification is an important strategy for a well-balanced portfolio and bonds can be a good defense play against market volatility. Bonds can offer stability and a steady interest income during times of market decline. We consider using them for clients based on each client's unique situation. Please remember that while diversification in your portfolio can help you pursue your goals, it does not ensure a profit or guarantee against loss.

Investor's Outlook

Key Points:

- **More changes are likely to come, and volatility is likely to remain during this transitionary period.**
- **Proactive planning with a well-diversified portfolio that takes into consideration your risk tolerance and time horizon is advised.**

Investing is a long-term activity, and short-term fluctuations should not sidetrack you from your long-term goals. Working with a qualified financial professional can help you understand market conditions and if and how they may affect your overall strategy.

While no one can predict the future, strategists have been adjusting their year-end forecasts, but almost all of them are still predicting higher levels by year end. "We've revised our year-end S&P 500 target to

Tariff Basics

What are tariffs?

A tariff is a tax on goods that are imported or exported between countries. They are a type of trade barrier that can raise availability prices and reduce the availability of goods and services. Tariffs have been used by many countries for centuries.

How do tariffs work?

Companies that import foreign goods pay the tariff to the government. Tariffs can be a percentage of the value of the imported product, or they can be a flat tax charged on each imported good.

Why are tariffs used?

Tariffs are used to protect domestic industries and jobs. They can also be used to punish or discourage actions a country disapproves of.

What are the effects of tariffs?

Tariffs can increase the cost of production and the cost to the consumer. They can also create tensions between countries and lead to trade wars and they can negatively affect the stock prices of companies that rely on imported goods.

6,400, down from 6,600, reflecting the anticipated impact of tariffs on earnings growth. Despite this adjustment, we still foresee meaningful upside driven by positive US growth and robust AI demand," UBS stated. "While we do expect ongoing uncertainty and volatility in the near term, our base case is that tariffs will not derail the economy. We expect the US economy to grow close to its 2% trend this year," UBS added. *(Source: seekingalpha.com; 3/31/2025)*

Uncertainty is dominating the headlines and investors will continue to seek clarity about many things in the coming months. Change usually comes with some volatility. How investors and savers navigate this volatility and uncertainty is vital for the direction of their financial goals. One of the most important things to remember is that investing is a long-term activity.

What you can control is how you react. Three things you can control are; your behavior; your risk tolerance or appetite; and your time horizon. If you have a firm grasp of each of these, you should be able to maintain discipline and remain calm when volatility and market fluctuations arise.

So, what should investors do? Remember, the past two years have been exceptional for the U.S. stock market. Seasoned investors know this cannot always be the case, and that at some point a market correction would be inevitable. Corrections are unpleasant, but they are a part of the investing experience. As a reminder, the term "correction" is used to describe downturns of 10% to 20%, because historically, the market drop often "corrects" and returns equity prices to their longer-term trend.

Regardless of whether equities are rising or falling, investors should always put their primary focus on their own personal objectives. If you need to, we can revisit your financial plan to make sure you are still situated on the best path toward your goals. Equities should be viewed primarily as long-term investments, and a well-crafted plan incorporates the fact that they do not move in a straight line. As always, you should stay informed about the news but minimize your exposure to avoid getting caught up in speculative claims, unfounded predictions and fearmongering.

2025 will continue to be a year of change for the U.S. As stewards of your wealth, we will continue to monitor areas we feel are important to your financial situation.

Our team is here to help you with every step of your journey toward your financial goals. Please feel free to reach out to us with any questions or concerns you may have.

Disclaimer

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