Q1 2025 Market Update

Market Snapshot

Dow Index 42,002	**10-year Treasury rate** 4.23%
S&P 500 Index 5,612	**1-year Treasury rate** 4.03%
NASDAQ Index 17,299	**Prime mortgage rate** 7.50%

**As of 3/31/2025*

By the Numbers

- As of its March meeting, Federal Reserve projections suggest that GDP may only grow 1.7% in 2025, a slowdown from 2.5% in 2024 according to the Bureau of Economic Analysis.
- The S&P 500 declined 4.6% in the first quarter of the year, the Nasdaq 10.4%, and the Dow Jones Industrial Average 1.3%.
- The Bloomberg U.S. Aggregate Bond index gained 2.8%. The 10-year Treasury yield ended the quarter at 4.2% after reaching as high as 4.8% in January.
- Developed market international stocks (MSCI EAFE) gained 6.1%
- In the economy, headline inflation (Consumer Price Index) rose 2.8% year-over-year in March, while the Core measure, which excludes food and energy, rose 3.1%.
- The University of Michigan Consumer Sentiment index fell to 57, the lowest level since 2022. Consumers expect inflation of 5% over the next year.
- The Federal Reserve kept rates unchanged within a range of 4.25 to 4.5% in March, and now projects just 2 interest rate cuts in 2025.

Policy Uncertainty | Tariff Whack-a-Mole

One of the few constants in investing is that markets hate uncertainty, and today they are swimming in it. The new administration has made clear that speed and size is more important than accuracy, and the confetti cannon of new policies is nearly impossible to keep up with. Tariffs and immigration receive the most ink, but tied to them are other major factors such as DOGE layoffs, reshoring, Ukraine & NATO, public health policy and, of course, the price of eggs. Investors are forgiven for struggling to keep up.

The first quarter of 2025 saw a spike in volatility in US markets, with most of the darlings of the Magnificent 7 punished while international stocks, particularly European, rallied. Bonds have helped insulate the volatility of stocks, with the U.S. Aggregate Bond index returning 2.8%.

Rapidly changing trade policies (aka Tariffs) have produced the most whipsaw. According to the Institute of Supply Management, manufacturing new orders dropped 18% since January and JPMorgan cites a significant drop in small business capital expenditure spending plans. Domestic businesses must assess their confidence in the economy, and raw material costs, when making decisions regarding hiring (or firing) and deploying capital for growth. The key narrative here is duration: per Liz Ann Sonders, Schwab's Chief Investment Strategist, "in general, government policies that impose trade barriers and limit immigration have the potential to raise inflation in the short run and slow growth in the long run."

The Fed | Interest Rates

In its Summary of Economic Projections published after its recent March meeting, The Federal Reserve downgraded the outlook for economic growth. These projections suggest that GDP may only grow 1.7% in 2025, a slowdown from 2.5% in 2024 according to the Bureau of Economic Analysis. What gives?

'Transitory Inflation' is back. Echoing Schwab, if tariffs are short-term, this is transitory. If long-term, inflation will be more durable and slow the economy, or lead to stagflation.

The good news is that we still have a strong economy. Fed Chair Jerome Powell recently highlighted low unemployment, rising wages, and significant job openings as important indicators of economic health. This balancing act keeps the Fed in limbo; at the March meeting they are now projecting only 2 rate cuts in 2025.

We remain optimistic that the new administration can find its footing, and balance a pro-growth policy stance with a more stable implementation.

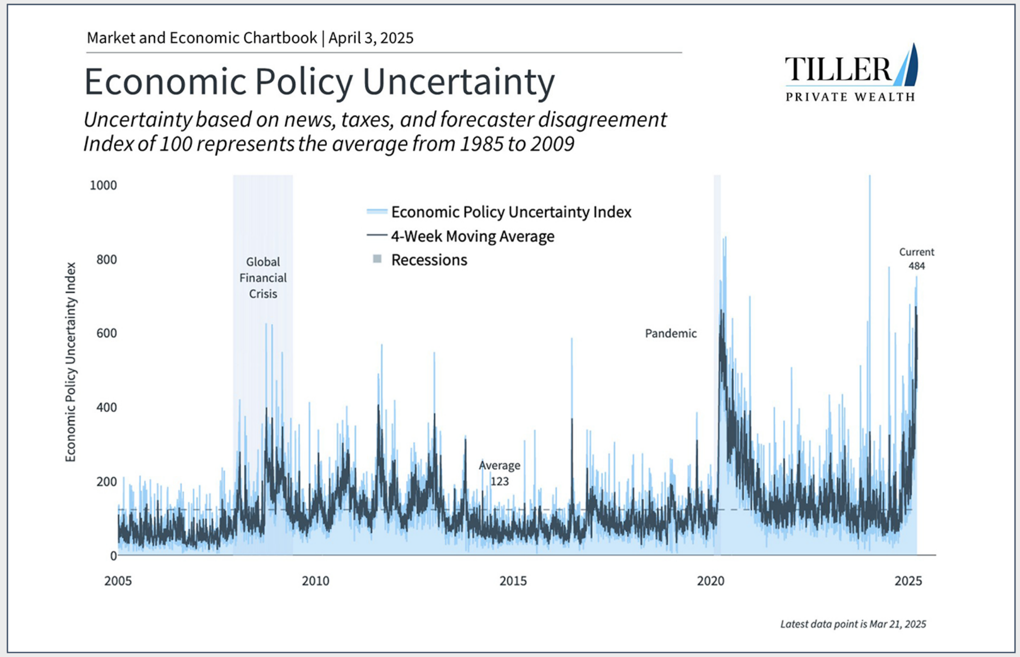
Weathering the Storm | Rebalancing

Despite today's uncertainty, we continue to advocate investing patience. There is not yet enough clarity to inform any potential allocation adjustments. We maintain diversified portfolios precisely for times like this: cash and bonds offer stability and short-term cash flow, while equities remain the long-term growth engine. We use volatility to rebalance, selling gains from high performers and using the proceeds to buy things out of favor in the short term.

As always, we are monitoring the current economic and political climate carefully on your behalf. If, despite this, you are feeling nervous about the uncertainty, please reach out.

Chart of the Month

Why You Need Diversification



Sources: Clearnomics, Baker, Bloom, and Davis, Federal Reserve