QUARTERLY
Market
REPORT

1ST QUARTER - 2025

Markets started 2025 strong before stumbling amid tariff uncertainties, inflation concerns and economic slowdown. Maintain long-term focus and consult your advisor during this crucial inflection point.

A STRONG START

We closed 2024 on a remarkable high note, with 57 record highs charted throughout the year as markets delivered their best two-year stretch since 1998.[1,2] The enthusiasm carried into 2025 as markets looked ahead to the new administration and policies with potentially positive economic impact.

With all this momentum behind them, markets took off in January.[3] This strong start is particularly noteworthy as history suggests that when January delivers positive returns, there's about a 70% chance of finishing the year in positive territory based on previous numbers.[4] Traditional energy, financials, defense and small caps — sectors collectively thought of as "Trump trade" — performed especially well as they were viewed as likely beneficiaries of the new administration's policies.[5]

Once inaugurated in mid-January, President Trump moved with lightning speed, unleashing a flurry of executive actions which quickly unwound previous policies while implementing promised campaign initiatives. As things unfolded, markets focused heavily on three key areas:

- Proposed tariffs on Canada, Mexico and China
- Persistent inflation concerns
- Actions by the Department of Government Efficiency (DOGE)

MARKETS STUMBLE

The back-and-forth on tariffs, combined with inflation concerns, created notable market volatility by mid-quarter. February turned particularly sour, erasing many of January's gains amid fears the Federal Reserve would delay anticipated interest rate cuts.

The volatility continued well into March, prolonged by the uncertainty surrounding tariffs, a looming government shutdown and potential DOGE-related layoffs and disruptions. The chaos weighed heavily on both business investment decisions and consumer confidence, pushing the major benchmark indexes downward.[6]

Equity Performance as of March 31, 2025

Equity Index	Q1/YTD	1 YR	3 YRS	5YRS
S&P 500:	-4.59%	6.80%	7.40%	16.77%
NASDAQ:	-10.42%	5.62%	6.75%	17.57%
DJIA:	-1.28%	5.51%	6.59%	13.89%

Source: Morningstar. Index Performance: Return (%). https://www.morningstar.com/markets?CustId&CLogin&CType&CName&_LPAGE=%2FFORBIDDEN%2FCONTENTARCHIVED.HTML&_BPA=N. Accessed April 1, 2025.

QUARTERLY
Market
REPORT
1ST QUARTER - 2025

ECONOMIC HURDLES

The economy currently sits at a crucial inflection point. Fourth-quarter 2024 gross domestic product (GDP) showed the economy grew by 2.3%, down from the 3.1% reading in the third quarter.[7,8] More concerning, as of late February, the Atlanta Fed was predicting negative growth for the first quarter of 2025.[9]

Some of the potential contraction stems from a massive surge in imports, particularly industrial supplies, as businesses rushed to import goods ahead of anticipated tariffs.[10] Employment data has also begun to weaken, with the unemployment rate ticking up to 4.1% in February.[11] And consumers are showing signs of strain, carrying higher credit card balances with still-high interest rates.[12]

The yield curve remained mostly flat throughout the quarter. The 10-year U.S. Treasury note, which had been approaching 5%, dropped to 4.25% as investors sought safety amid economic uncertainty.[13]

All of this has caused expectations regarding Fed policy to fluctuate significantly.[14] After previously discounting the likelihood of rate cuts, slowing economic data in March revived expectations for possibly three or four rate cuts in 2025. Yet with inflation still stuck at 3%, it remains unclear whether rate cuts would effectively address current economic challenges.[15] The Fed will likely wait for more certainty around tariffs' potential impact on the economy to make a decision about future cuts.

LOOKING AHEAD

We find ourselves in a precarious position where conditions could just as easily improve as they could deteriorate. If the administration can successfully lower energy costs, reduce regulatory burdens or increase efficiency by cutting government waste, economic prospects could brighten considerably. Much depends on the consumer's resilience and whether anticipated legislative actions — including the extension or permanent adoption of tax cuts — come to fruition.

The remainder of 2025 will likely be shaped by how quickly tariff uncertainties are resolved, whether productivity gains materialize and if inflation resumes a downward trajectory. While we're still optimistic markets can turn around, we must acknowledge the very real possibility of economic headwinds over the next several months.

This is an ideal time to review your financial plan and investment allocations with your advisor. Remember to stay focused on the long-term and concentrate on fundamentals. If you haven't recently, schedule a financial checkup to help ensure your portfolio aligns with your current risk tolerance and rebalance to maintain your target asset allocation. You might also consider harvesting gains and/or losses to help manage your tax situation for the year.

QUARTERLY
Market
REPORT
1ST QUARTER - 2025

Most importantly, maintain open, two-way communication with your financial advisor. Be clear about your goals, risk tolerance and concerns. They are here to help you navigate these crossroads with confidence and clarity.

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