

## A View From the Bevy – 1Q25

### Market Review

Perhaps the best word to describe the first quarter was harrowing. The euphoria, or Trump Bump, in the stock market leading up to inauguration day quickly turned to uncertainty and fear when the new administration imposed tariffs on many of our largest trade partners.

President Trump had promised change, but the markets were not ready for the speed or magnitude of what transpired. Americans have also been disappointed that food and other prices have not fallen, resulting in lower consumer confidence and growing concern of rising inflation and a recession. Consumer spending declined in January for the first time in two years.

The straw that broke the camel's back and sent the markets tumbling near quarter-end was the announcement of a 25% tariff on all imported autos and auto parts.

As a result of all of this uncertainty, U.S. stocks ended the quarter down five of the last six weeks, with the S&P 500 having its worst quarter in three years and snapping a five-quarter win streak. As shown below, international markets did better than the U.S., posting positive results.

Stock Market Indices	1 <sup>st</sup> Quarter 2025
S&P 500	-4.27%
S&P 500 (Equal-Weight)	-0.61%
Dow Jones Industrial Average (DJIA)	-0.87%
NASDAQ Composite	-10.42%
Russell 2000	-9.48 %
Bloomberg US Agg Bond	2.78%
MSCI World	-1.79 %
MSCI World ex U.S.	6.20%
MSCI Emerging Markets	2.93%

Source: AJO. Data supplied by FactSet Research Systems.

Technology stocks were down significantly during the quarter. The Magnificent Seven (Apple, Microsoft, Nvidia, Alphabet, Amazon, Meta and Tesla) all declined sharply, led by Tesla (-35%). The AI sector cooled as well, but consumer discretionary was the worst performing sector.

On the flip side, gold reached record levels as a safe haven from stocks and other risky assets. Health care bounced back from a weak 2024, with CVS being the best performing stock in the S&P500. Financials and energy were among other somewhat safe havens along with bonds.

## Market Outlook

So, what comes next? In the short-term, more uncertainty is likely as the on again-off again tariff game looks likely to continue. The Trump administration shows no signs of slowing down its change agenda even as opposition grows, as do lawsuits and court interjections.

But the president is also a pragmatist, and as investors and market professionals become more adept at reading the tea leaves, we are hopeful that investors will realize that inflation is not that bad, and that the economy and corporate profits remain solid.

Let's also not forget, as we discussed last year, valuations were very high in general as the year began, following two very good years in the market. A correction was not unexpected, although few market watchers could have predicted the speed and the underlying cause. Corrections are a healthy part of bull markets, and the last two years notwithstanding, are not uncommon. Patience will be crucial, as downturns typically happen more quickly than the ensuing recoveries.

On the positive side, the U.S. economy entered this year with momentum. That gives a bit of extra margin to withstand a slowdown in growth without entering a recession. We have also "cleared the deck" of excessive valuations from the artificial intelligence frenzy of the past year plus. High valuations mean high expectations, and at some point those expectations can't be met. This correction gives the market a chance to reevaluate expectations around AI while businesses work toward efficient use cases.

It is hard to say when this current bout of volatility will subside given the nature of the tariff back-and-forth. While cooler heads should eventually prevail – since that is in everyone's best interest – we can't say when. This lack of clarity is likely to weigh on confidence levels in the near-term for both consumers and businesses. A general "wait and see" approach seems prevalent, and that is resulting in delayed spending decisions. That means consumers waiting to buy a new car or businesses putting off hiring a new employee, which will ultimately drag on economic growth.

Despite this uncertain environment, we will be looking to take advantage of the opportunity to buy solid companies selling at discounted prices for client portfolios. Let's not forget that the long-term outlook for many companies remains solid. Businesses always find a way to adapt to new conditions, the key is having a bit more certainty about the environment they are operating in.

We understand that these market gyrations can be difficult to stomach, but we encourage you to remain focused on your long-term goals and objectives. Let's hope for a better quarter for the markets. Please don't hesitate to contact us with any questions, and if warranted, we will be back during the quarter with updated comments.

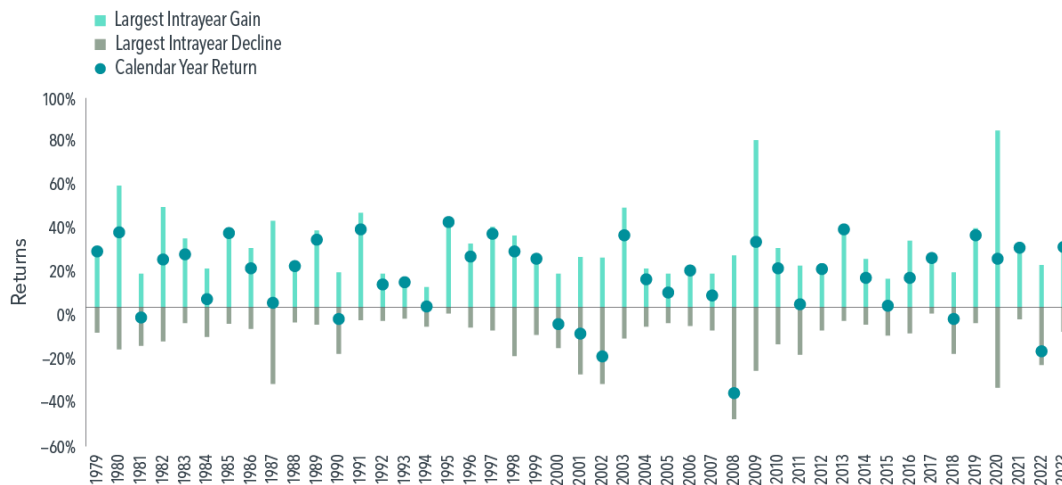
## Of Interest: Riding the Stock Market Roller Coaster

The last few months have certainly reinforced the idea that investing has its ups and downs. One-minute stocks are climbing higher and the next they are declining. So, it's never a bad time to review some important axioms of investing to help keep you calm:

### 1. Keep Your Eye on the Horizon

Decades of stock market returns illustrate how often the market declines. Dimensional Fund Advisors (Dimensional) looked at the largest intra-year declines for the U.S. stock market in every year from 1979 to 2023. Those declines averaged -14%. Despite these drops, 37 of the past 45 calendar years have ended with positive returns, as illustrated below. Instead of getting anxious over near-term drops, keeping an eye on the horizon can help keep the queasiness at bay.

U.S. Market Intra-year Gains and Declines vs. Calendar Year Returns (1979-2023)



### 2. Stay in Your Seat

When the stock market drops precipitously, or headlines speculate it might, it can be tempting to jump out of the market to try to avoid further losses. But just as roller-coaster riders are warned to keep their seat belts fastened and stay seated, investors are well advised to do the same.

Attempting to time the market to avoid the worst days could cause you to miss out on some of the best days. Consider that \$1,000 invested in the S&P 500 Index back in 1990 would have grown to

\$27,221 by the end of 2023 if left untouched. However, if an investor had pulled their money out and missed the single best day over the more than 30-year period, their ending wealth would be reduced by nearly \$3,000. Worse, if an investor had missed the five best single days, their ending wealth would be reduced by more than \$10,000. A few days can make a big difference.

Markets have marched upward through the decades, even amid domestic and global uncertainty, and rewarded disciplined investors over time. Despite the bumps experienced in the short term, you may have a better ride by staying in your seat.

### 3. Know Your Risk Tolerance

The same way theme-park goers can choose rides that align with their thrill tolerance, investors can choose an asset allocation that aligns with their risk tolerance. We help clients explore their investment objectives and time horizons and help them build an appropriately diversified portfolio.

Investing doesn't have to be a harrowing, white-knuckle experience. A few simple reminders and the help of an investment professional can give you the confidence to ride out the rough patches.

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