

## Current Market Perspective

- We remain cautious over the short term and anticipate increased volatility and possibly a modest correction but not a bear market in equities. Corrections are typical, occurring every 1.1 years on average, and particularly after a momentum-driven bounce in equities.
- While policy uncertainty remains, healthy earnings growth is expected in most industries. We expect new highs in equity indices before the end of this year.
- Long-term relationships are returning to the fixed income markets. The inverted relationship between the 2-year and 10-year treasury has been eliminated allowing the longer end of the yield curve to be positively sloping. Recent Inflation data implies resilience in inflation and moderation of rate cuts from the Fed.
- Overall, our market thesis is that we are past the volatile range-bound secular bear market that lasted from 2000 until the end of 2012, and we are amid a secular bull market that began in the beginning of 2013.

## Longer-Term View

- We believe the economy is in a post-COVID productivity-led economic boom, which is likely to sustain the ongoing secular bull market in equities.
- The volatility we are currently seeing should be a short-term lapse in terms of duration and the amount of decline.
- As the election uncertainty diminishes and we continue to see healthy earnings growth, we anticipate that the secular bull should resume. This pattern is evident in the history of our financial markets demonstrated in the charts shown and consistent with our message.
- The present productivity-led boom is primarily fueled by advancements in artificial intelligence and technology, yet we foresee its expansion into other sectors beyond technology.
- It is expected that we will return to long-term relationships in the fixed income markets. We expect the yield curve inversion to be reduced or eliminated over the next 12 to 18 months resulting in an ascending yield curve.

## Q1 2025 Economic Review

Transitory again. The Trump administration's tariff policies have added uncertainty to the economic outlook prompting the Federal Reserve to reduce its expectations for real gross domestic product growth in 2025 to 1.7% from 2.1% previously.

Federal Reserve Chairman Powell said the current base case is that tariff-related inflation will be transitory. According to the FOMC statement, recent indicators suggest that economic activity has continued to expand at a solid pace, the unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid, while inflation remains somewhat elevated.

- Real GDP grew at an annual rate of 2.4% in the fourth quarter, according to the Bureau of Economic Analysis. The latest Atlanta Fed alternate GDPNow estimate for the first quarter of 2025 is negative at -0.5%.
- As widely expected, the Federal Reserve maintained the target range for the federal funds rate at 4.25% to 4.50% in its most recent policy decision. The Summary of Economic Projections, known as the "dot plot," indicates two more interest rate cuts by year end to a range of 3.75%-4.00%.
- The Fed's preferred inflation measure, the Personal Consumption Price index (PCE) stood at 2.5% in February. The Core PCE (excluding food and energy) at 2.8% has stayed in a narrow range between 2.6% and 2.9% since December 2023. The Fed's projection for PCE at year end has moved up from 2.5% to 2.8%.
- The unemployment rate and the number of unemployed people were little changed at 4.1% in February. The unemployment rate has remained in a narrow range of 4.0%-4.2% since last May. The Federal Reserve projections are for unemployment to rise modestly to 4.4% by year end.
- Economic activity in the manufacturing sector expanded for the second month in a row in February after 26 consecutive months of contraction, according to the latest Manufacturing ISM® *Report On Business*®. The overall economy continued in expansion for the 58th month since April 2020.
- According to the National Association of Realtors, existing home sales advanced 4.2% in February to a seasonally adjusted annual rate of 4.26 million. Sales slipped 1.2% from one year ago. The median existing home sales price rose 3.8% from February 2024 to \$398,400.
- The Consumer Confidence Index declined for a fourth consecutive month in March. Consumers' expectations were especially gloomy about future business conditions deepening and confidence about future employment prospects fell to a 12-year low.

Category/Style	Total Returns* (03/31/25)			Annualized Returns (03/31/25)		
	1st Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500	-4.27	-4.27	8.25	9.06	18.59	12.50
S&P Midcap 400	-6.10	-6.10	-2.71	4.42	16.91	8.43
S&P Small Cap 600	-8.93	-8.93	-3.38	0.71	15.09	7.52
Russell 1000 Large Cap Growth	-9.97	-9.97	7.76	10.10	20.09	15.12
Russell 1000 Large Cap Value	2.14	2.14	7.18	6.64	16.15	8.79
Russell 2000 Small Cap Growth	-11.12	-11.12	-4.86	0.78	10.78	6.14
Russell 2000 Small Cap Value	-7.74	-7.74	-3.12	0.05	15.31	6.07

Source: Standard and Poor's, Frank Russell Company \* returns include reinvested dividends

## Q1 2025 Financial Markets Review

### Domestic Stock Market

After setting a record high in mid-February, the S&P 500 fell 10% into correction territory and ended the quarter at 5,611.85, down -4.27%. The NASDAQ Composite was more brutal, falling more than 13% before ending the quarter with a loss of -10.26% to 17,299.29. And the Dow Jones Industrial Average slipped -0.87% to end the period at 42,001.76.

It was not a pretty quarter for the "Magnificent Seven." The market dominant AI technology stocks dropped significantly. Tesla crashed -35.83%, followed in losses by NVIDIA (-19.29%), Alphabet (-18.20%), Amazon (-13.28%), Apple (-11.20%), Microsoft (-10.74%) and Meta (-1.47%). Other notable highlights:

- Value stocks notably outperformed growth stocks in the first quarter as investors looked for safer havens. Year-to-date, large cap value outperformed large growth by 12.11%. Small cap value beat small growth by 3.38%.
- The DJIA top performers for the first quarter were Amgen (+20.45%), followed by Chevron (+16.68%) and Coca-Cola (+15.85%). The worst performers were Salesforce Inc (-19.73%), NVIDIA (-19.29%) and Nike (-15.58%).
- Of the 11 S&P 500 sectors, energy was the leader (+10.21%), followed by healthcare (+6.54%) and consumer staples (+5.23%). Consumer Discretionary trailed the group (-13.80%), along with information technology (-12.65%) and communication services (-6.21%).
- Top performing industry groups included telecom services (+20.73%), insurance (+11.88%) and food beverage & tobacco (+10.95%). Laggards included autos and components (-32.86%), semiconductors and equip. (-17.52%) and consumer durables and apparel (-12.93%).
- According to FactSet, for the S&P 500, analysts are anticipating first quarter earnings growth of 7.3%, second quarter earnings growth of 9.3%, and full year earnings growth of 11.4% on revenue growth of 6.0%.

### International Stock Markets

- International markets were a bright spot in the first quarter, with global stocks trouncing their U.S. counterparts on an improving outlook and a falling dollar.
- Expectations of increased defense spending and economic stimulus pushed the MSCI EAFE Index of developed markets 6.86% higher in the first quarter. The MSCI Emerging Markets Index advanced 2.93% and the MSCI Frontier Markets Index jumped 7.93%. Q1 highlights:
- European stocks have outperformed U.S. stocks this year, driven by the prospect of increased defense spending and expectations of economic growth.
- Things are looking up in the eurozone. The PMI increased for the third month in a row into growth territory. There is some hope that fiscal spending in Germany will not only increase significantly but also spread to other countries boosting their growth rates as well.

#### Q1 highlights:

- Most Euro markets gained ground in the first quarter. The Stoxx Europe 600 Index was up 5.75% to 533.92. In local currencies, Germany's DAX Index surged 11.32% to 22163.49, France's CAC-40 rose 6.52% to 7,790.71, and the London FTSE 100 advanced 5.68% to 8,582.81.
- In Asia-Pacific markets, Japan's manufacturing sector slipped deeper into decline at the end of the first quarter, with the headline PMI hitting a one-year low. Indices for output and new orders fell further into contraction territory as companies noted weaker demand from both domestic and international clients. Japan's Nikkei stock index tumbled -10.72% to 35,617.56.
- In emerging markets, China's job market remained relatively sluggish, and deflationary pressures persisted due to insufficient effective demand at home and market participants' week optimism. The China Shanghai Composite Index slid -2.10% for the quarter to 3,335.75. In India, optimism around business activity, profitability and employment softened a tad but were stronger than global averages. The S&P BSE Sensex Index declined -1.06% to 77,414.92.

- The U.S. Dollar Index (DXY) weakened in the first quarter by -4.02%, to 104.21. The dollar lost -4.50% against the yen to \$149.95 (JPY/USD) and was -4.14% lower vs. the euro at \$1.0817 (USD/EUR).

### World Bond Markets

With the Fed holding rates steady, the U.S. 3-month T-Bill yield was little changed at 4.30% at the end of the first quarter. Further out the yield curve, the 2-year note slipped to 3.91% and the U.S. 10-year treasury bond edged down to 4.24%.

Bond returns were mostly positive for the quarter. The Bloomberg Aggregate Bond Index was up 2.78%. The Bloomberg Municipal Index dipped -0.22% and the Barclays U.S. Treasury TIPS Index gained 4.17%. Money market yields remained in the 4's at 4.14%, as reported by the Crane 100 Money Fund Index.

According to Value Line, yields on 10-year government bonds were mixed for the quarter. For major markets, the United Kingdom 10-year rose to 4.76%, Canada fell to 3.10%, Germany gained to 2.79% and Japan advanced to 1.58%.

At its March meeting, the European Central Bank Governing Council cut the deposit facility rate by another 25 basis points to 2.5%, further easing restrictive monetary policy. ECB president, Christine Lagarde stated that inflation has continued to develop broadly, and the latest projections closely align with the previous inflation outlook. The ECB staff projects headline inflation to average 2.3% in 2025, and 1.9% in 2026 and 20% in 2027.

### Commodities

Commodities were ahead in the first quarter by 5.79% to close at 1,081.55 according to the DJ Commodity Index. Oil prices were steady at \$71.48/barrel. And, according to AAA, consumers saw prices at the pump rise another 14 cents to \$3.20/gallon. Gold, seen as a haven in times of trouble is trading at record highs. Gold ended the quarter up, \$493.60 (+18.77%) to \$3,122.80/troy oz.

### Mutual Funds/Exchange-Traded Funds

Exchange-traded funds have become an investment vehicle of choice. According to the Investment Company Institute, assets in exchange-traded funds (ETFs) are now in excess of \$10 trillion, for a gain of 25.72% over the past year. And the number of ETFs has grown by another 591 funds (18.71%) to 3,750. On the other hand, the total number of mutual funds continues to decline with a loss of 228 funds over the past year to 6,993.

### MUTUAL FUNDS OVERVIEW AS OF MARCH 31, 2025

Category	Total Returns			Annualized Returns		
	1st Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Interim-Term	-0.10	-0.10	1.68	1.61	1.26	1.79
Short-Term Taxable Bond	1.68	1.68	5.89	3.35	2.61	2.06
Intermediate Taxable Bond	2.63	2.63	4.96	0.57	0.02	1.40
Long-Term Taxable Bond	2.71	2.71	2.94	-2.64	-1.36	1.71
High Yield Bond	0.86	0.86	6.85	4.47	6.83	4.23
Global Bond	2.68	2.68	3.07	-0.36	0.45	0.62
Small-Cap Blend	-8.08	-8.08	-3.38	2.00	15.31	6.68
Mid-Cap Blend	-4.72	-4.72	-0.45	4.43	15.94	7.99
Large-Cap Blend	-3.73	-3.73	5.89	7.82	17.21	11.01
Global Stock Large Blend	-0.13	-0.13	5.08	6.26	14.11	8.16
Foreign Large Blend	6.62	6.62	6.23	5.70	11.53	5.25
Natural Resources	0.01	0.01	-6.97	-1.93	18.21	5.90
Real Estate	1.47	1.47	8.44	-2.09	9.72	4.45

Source: Morningstar Category Returns, Morningstar, Inc.

## Important Definitions and Disclosures

*The opinions and material presented are provided for informational purposes only. No person or system can predict the market. Past performance is no guarantee of future results. This material includes forward-looking statements that are subject to certain risks and uncertainties. Actual results, performance or achievements may differ materially from those expressed or implied. No predictions or forecasts can be guaranteed. Companies mentioned are for informational purposes only. It should not be considered a solicitation for the purchase or sale of the securities. Any investment should be consistent with your objectives, time frame and risk tolerance. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the risk of principal loss. There is no assurance that the investment goals and process described herein will consistently lead to successful investing. The investment return and principal value of an investment will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost. Funds that invest in small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments. An investment in a money market fund is not insured or guaranteed by the FDIC, or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.*

*The information shown does not constitute investment advice and does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact with respect to any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. Nothing contained herein should be construed as a recommendation to buy or sell any individual securities. It should not be assumed that an investment in any of the securities identified was or will be profitable.*

**The Bureau of Economic Analysis (BEA)** of the United States Department of Commerce is a U.S. government agency that provides official macroeconomic and industry statistics, most notably reports about the gross domestic product (GDP) of the United States and its various units such as states, cities, towns, townships, and villages. **Gross Domestic Product (GDP)** is a measure of output from U.S. factories and related consumption in the United States. It does not include products made by U.S. companies in foreign markets. **Real Gross Domestic Product (real GDP)** is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). **Purchasing Managers' Index™ (PMI™)** is a survey-based economic indicator designed to provide a timely insight into business conditions. Flash PMI data are published by S&P Global and are early estimates of the company's final PMI numbers. The Flash PMI data are published approximately one week before final PMI data each month and are typically based on 85%-90% of total PMI responses received each month. Flash manufacturing, services and composite indices are published for: Australia, Eurozone, France, Germany, Japan, United Kingdom, and the United States. **The Conference Board Leading Economic Index® (LEI)** for the U.S. are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components. **Personal Consumption Expenditures (PCE)** is a measure of price changes in consumer goods and services and consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. **The Federal Reserve System** (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. **The Federal Open Market Committee (FOMC)**, a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). The **unemployment rate** percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of weakening economy that may call for cut in interest rate. A falling rate, similarly, indicates a growing economy, which is usually accompanied by higher inflation rate and may call for increase in interest rates. Labor force participation rate is the percentage of working age population that is part of the labor force. It is a measure of what proportion of a country's population is employed or actively looking for employment. The index of leading economic indicators is intended to predict future economic activity. Typically, three consecutive monthly LEI changes in the same direction suggest a turning point in the economy. **Inflation** is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times. A **recession** is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); although the National Bureau of Economic Research (NBER) does not necessarily need to see this occur to call a recession. **Treasury Yield Curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. **The International Monetary Fund (IMF)** is an international organization that was initiated in 1944 at the Bretton Woods Conference and formally created in 1945 by 29-member countries. Each survey contains approximately 50 core questions, and each respondent is contacted again for another survey six months after completing the first one. The answers to these questions form the basis of the index. An **exchange-traded fund (ETF)** is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Indexes are unmanaged and investors cannot invest directly in an index.

**Morningstar Category Returns** are composed of the average return for the funds in each Morningstar category over the indicated time period. Categories are defined by Morningstar based on holdings statistics. The category returns are adjusted for survivorship bias, meaning they include all investments even if liquidated, merged or otherwise now obsolete. The returns also include funds that were in a given Morningstar category but have since changed to another category.



## Benchmark Definitions

The **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the U.S. from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. The **S&P Midcap 400** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The **S&P SmallCap 600** seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The **Russell 2000 Index** is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small-cap securities market. The **Russell 1000 Index** is a subset of the Russell 3000 Index that includes approximately 1,000 of the largest companies in the US equity universe, representative of the US small-cap securities market. **Russell Large Cap Growth Index** measures the performance of those Russell 1000 Index securities with higher price-to-book ratios and higher forecasted growth values, representative of US securities exhibiting growth characteristics. **Russell Large Cap Value Index** measures the performance of those Russell 1000 Index securities with lower price-to-book ratios and lower forecasted growth values, representative of US securities exhibiting value characteristics. **MSCI EAFE Index** is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. The **MSCI Frontier Markets Index** provides a broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. **S&P BSE Sensex index**, is the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively-traded stocks on the BSE, providing an accurate gauge of India's economy. **Bloomberg Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million. The **Bloomberg Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital U.S. Government Inflation-Linked Bond Index** (U.S. TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from \$1000 to \$1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. The **10-year Treasury Note** represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The **Crane 100 Money Fund Index** measures the average yield of the 100 largest taxable money market funds. The **Dow Jones Commodity Index**<sup>SM</sup> is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. The index is designed to minimize concentration in any one commodity or sector. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk. The **U.S. dollar index (DXY)** is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.