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Investment Management

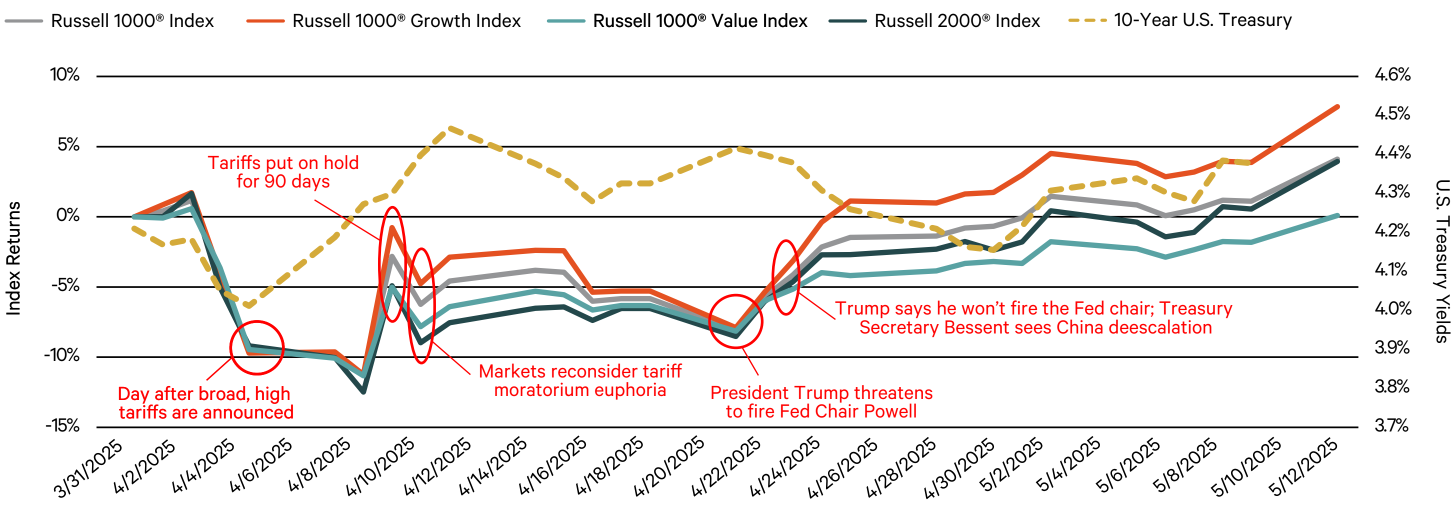
Market Review Commentary

APR 2025

"April is the cruelest month," according to the old weather adage, and April 2025 certainly delivered many extremes in the atmosphere across U.S. financial markets. On April 2nd, President Trump announced the highest import tariffs in 100 years to be levied on virtually every U.S. trading partner. The stock market plummeted and the bellwether 10-year U.S. Treasury yield started climbing, rising nearly 50 basis points in 10 days.

Stocks recovered much of their losses after the president announced a 90-day moratorium on most tariffs except Chinese imports. Beijing retaliated with its own tariffs, resulting in a *de facto* trade embargo between the two countries. U.S. equities tumbled again when the president publicly mused about firing Fed Chairman Powell, then recovered when that language was softened. After other comments led investors to expect most tariffs will be negotiated down to a more manageable level, by April 30th markets overall had erased their losses for the month.

FIGURE 1: MARKET REACTIONS
March 31, 2025 through May 12, 2025



Data presented is as of May 12, 2025, is obtained from FactSet and is assumed to be reliable. The indexes are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. Please see the end of this commentary for important information regarding the indexes. ***Past performance is no guarantee of future results.***

Against this backdrop, actual inflation and employment numbers ("hard data") held up well, but consumer and business confidence ("soft data") fell to an almost five-year low. The share of consumers who expect business conditions to be worse six months from now has risen to the highest level since March 2009.

To summarize the performance of key market indices for the month of April:

- Returns for broad U.S. stock market indices over the month mask the extreme volatility seen intramonth. The S&P 500 Index of large cap stocks ended up almost where it started, dropping by less than one-tenth of a percent (-0.68%), while the NASDAQ 100 Index rose 1.55% after declining close to 12% earlier in the month.

- Small cap stocks, which may be more sensitive to tariffs than large caps and would likely suffer more in a recession should we end up there, delivered a loss for the month, with the Russell 2000® Index declining 2.31%.

- Large cap growth stocks outperformed large cap value stocks, measured by the Russell 1000 Growth® and Russell 1000 Value® indices, respectively. After declining by more than 11% early in April, growth stocks ended the month 1.77% higher. Value stocks matched growth stocks' decline on the way down but did not recover as well, ending down 3.05%.

Negative GDP Growth in Q1, but Why?

Many have said the most-used word in April was "uncertainty," and at the end of the month we learned that U.S. GDP contracted in the first quarter (the traditional definition of a recession is two consecutive quarters of negative GDP growth). The causes of the decline in GDP makes it difficult to draw useful conclusions about what to expect next quarter.

Recall that GDP is the total value of goods and services produced in the U.S. Instead of asking businesses to report the value of whatever they made, we add up purchases made by domestic consumers, businesses, the government sector, and foreign buyers (exports). This graph shows these four groups as a share of U.S. GDP over time, which explains why the U.S. economy is described as consumer-driven.

FIGURE 2: WHOSE DEMAND DRIVES THE U.S. ECONOMY?
Here's How the Breakdown Has Changed Over the Decades

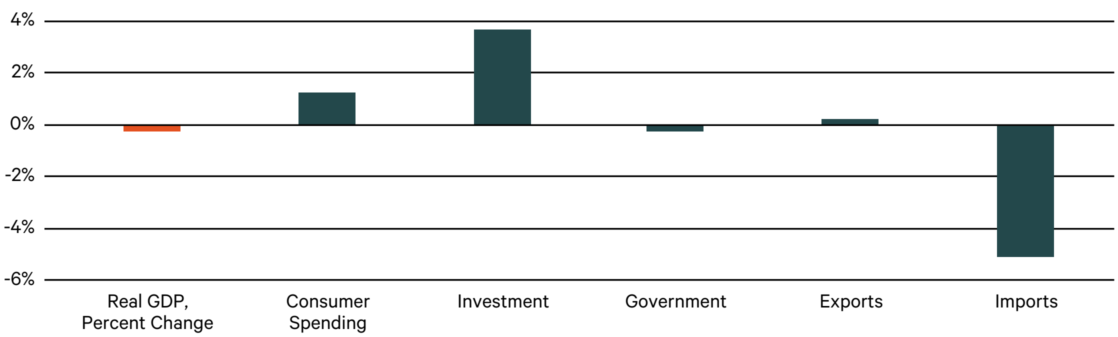
Data presented is as of March 31, 2025, is obtained from Bloomberg and the Bureau of Economic Analysis and is assumed to be reliable. Households = Consumption + Residential Investment; Business = Private Investment - Residential Investment.

In the first quarter of 2025, U.S. household spending on both goods and services rose sequentially, contributing just under 2% to GDP growth. Business investing contributed strongly, *but that included a huge increase in business inventories*. Businesses may be stockpiling in anticipation of prices rising. Spending by the government sector was a small drag on GDP and exports held fairly steady, making a small positive contribution.

In computing GDP, we add up all of the purchases made across the economy (including exports) including the change in inventories. But purchases of imports, which are not produced domestically, must be subtracted to determine the final GDP number. This quarter, the biggest factor in the GDP report was a huge increase in imports, which subtracted roughly 5% compared to the prior quarter. This increase in imports partly explains the rise in business investment, supporting the "stockpiling" theory.

FIGURE 3: CONTRIBUTIONS TO PERCENT CHANGE IN REAL GDP

Real GDP Decreased 0.3 Percent



Data presented is for the quarter ending March 31, 2025, is obtained from the U.S. Bureau of Economic Analysis and is assumed to be reliable. Imports are a subtraction in the calculation of GDP; thus, an increase in imports results in a negative contribution to GDP.

As we noted in February's commentary, the Fed consistently says it will respond to data, not speculation, including how tariffs may impact inflation and the job market. In our opinion, the Q1 GDP report does not provide clear insights into what we might see over the next few months and supports the Fed's wait-and-see attitude.

The president has stated he intends to reshape the U.S. economy, testing investors' ability to stay focused on the long term. As investment managers, we remain focused on quality companies that are doing what they can to deal with the high level of uncertainty. For many, that means postponing investment until more information is available. That in itself is an important factor in our outlook.

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Julie Biel, CFA is Chief Market Strategist, Portfolio Manager, and Senior Research Analyst with primary research responsibilities for the small and mid-capitalization information technology and health-care sectors. Ms. Biel began her equity research career in 2004.

The S&P 500® Index is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. The Russell 1000® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Russell 1000® Value Index is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Russell 2000® Index is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Nasdaq-100® is one of the world's preeminent large-cap growth indexes. It includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization. The Russell 1000® Index measures the performance of the large-cap segment of the US equity universe. The Russell 1000 Index is a subset of the Russell 3000® Index which is designed to represent approximately 98% of the investable US equity market. It includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment. This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. ***Past performance is no guarantee of future results.***

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