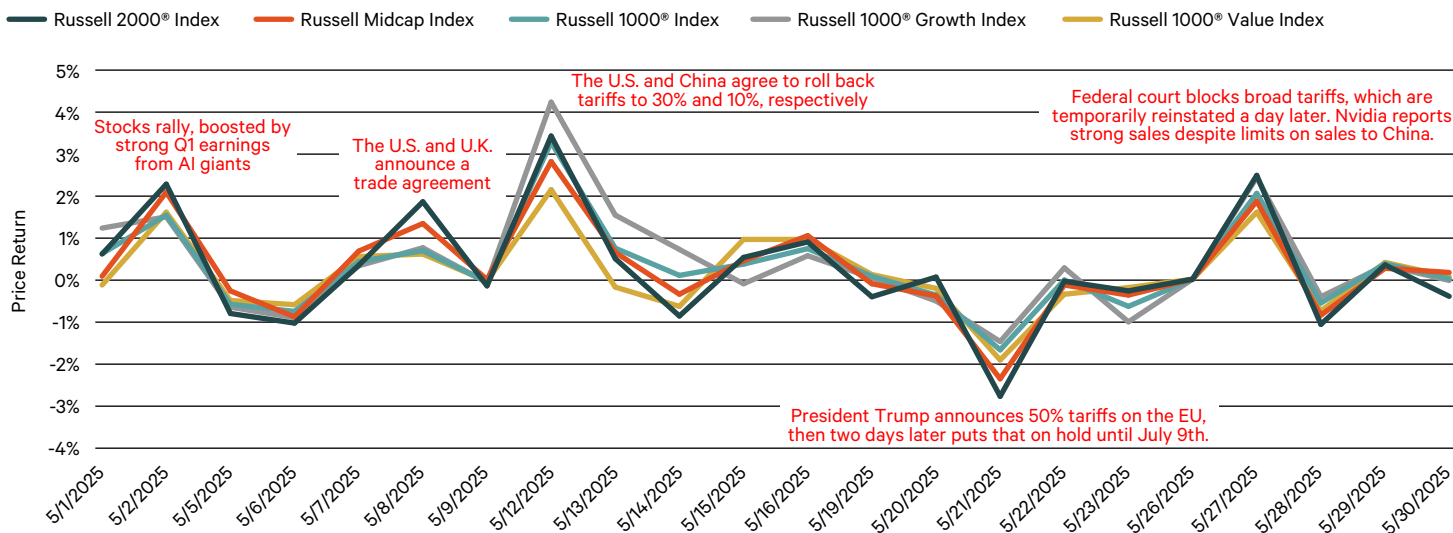


Market Review Commentary

**MAY
2025**

The volatility in daily stock returns throughout May (see Figure 1) highlights the extraordinary level of uncertainty facing U.S. businesses. Whether it's manufacturers working to align production with shifting input costs or retailers placing inventory orders months in advance, planning has become increasingly difficult. It's not unlike trying to manage a household budget when fixed expenses—like rent or car payments—could fluctuate at any moment.

FIGURE 1: DAILY STOCK MARKET RETURNS



Data presented is as of May 30, 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.**

Volatility in small cap and growth stocks measured by the Russell 2000® and Russell 1000 Growth® indices, respectively, was notable in May, as various tariffs—either threatened, imposed, paused, or revised—once again dominated the news. Against this backdrop, companies announced their Q1 2025 earnings, which we discuss later in this market review.

Here's what markets experienced over the entire month of May:

- Despite high day-to-day volatility, large cap growth stocks bounced back after a bad start to the year, dominating mid-cap and small cap stocks. All sectors in the S&P 500 other than health care posted positive returns—technology was on top, followed by consumer discretionary stocks.
- Value stocks, which outperformed growth stocks in the first quarter, underperformed in May. This holds true even on a risk-adjusted basis, when the one-month return for each market segment is divided by the volatility of those daily returns.
- International developed markets (measured by the MSCI EAFE Index) underperformed the U.S. market except for small caps, but with much less volatility. Therefore, on a risk-adjusted basis, international markets outperformed all U.S. market segments except for large cap growth stocks.

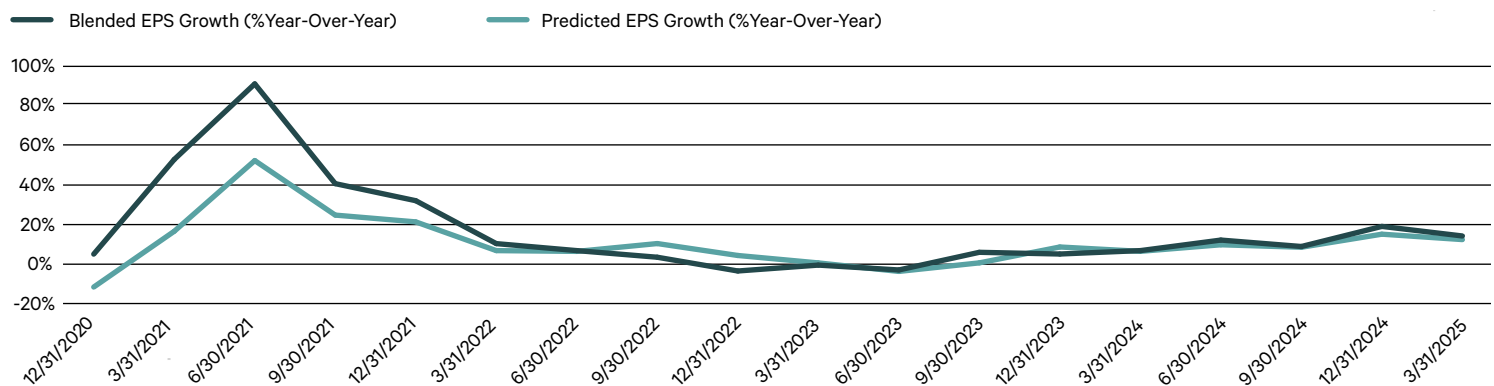
Q1 2025 Corporate Earnings—The Rearview Mirror Doesn't Show Us What's Ahead

For the most part, the Q1 2025 earnings season revealed that overall, revenues and earnings held up quite well for U.S. companies, even better than expected in some cases, particularly for large cap stocks. Many reported results that met or beat forecasts, indicating that consumers and the overall economy were in good shape during the first three months of the year.

Earnings Growth Thus Far Versus Forward Guidance

The large cap companies that comprise the S&P 500 Index provided first quarter earnings growth of roughly 12.5%¹. Technology companies made a particularly strong showing this period, especially artificial intelligence businesses that are trading at high valuation multiples.

FIGURE 2: EARNINGS GROWTH IS BEATING EXPECTATIONS



Data presented is as of March 31, 2025, is obtained from Factset and is assumed to be reliable. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and it is not available for direct investment. Please see the end of this commentary for additional information regarding the index. **Past performance is no guarantee of future results.**

¹Financial Advisor Magazine, May 5th – This Earnings Season Is a Rorschach Test for Investors <https://www.fa-mag.com/news/this-earnings-season-is-a-rorschach-test-for-investors-82379.html>.

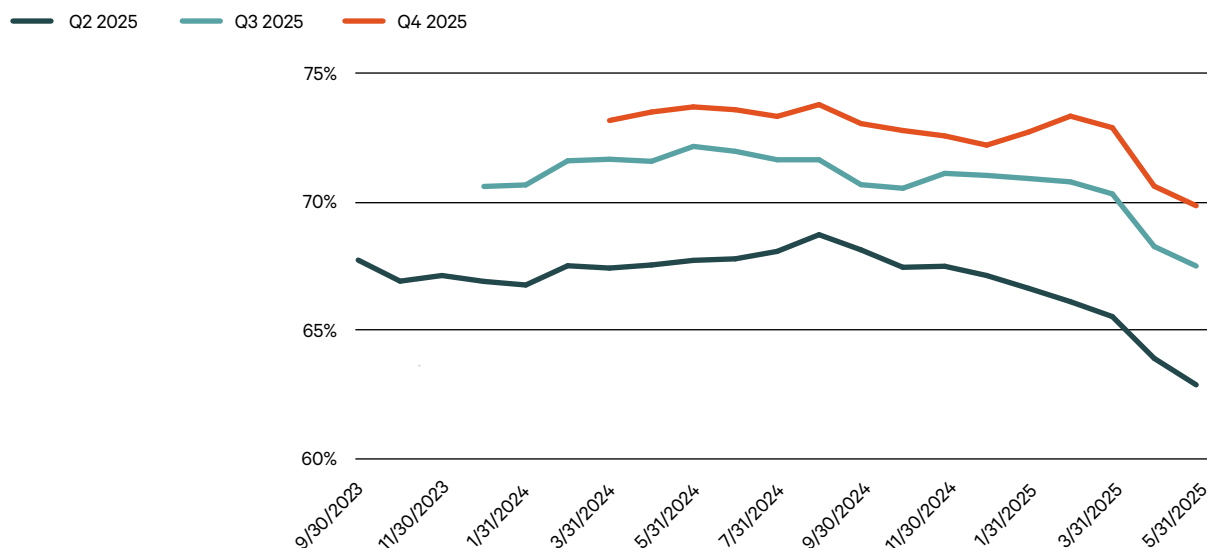
Small and mid-cap companies tell a different story. At the beginning of the year, many expected small caps to outperform; however, by the end of Q1 both small- and mid-caps earnings showed little to no growth year-over-year. Depending upon the basis for the estimate (e.g., Russell versus S&P indices, weighting schemes, etc.), earnings for small and mid-cap stocks in Q1 2025 either declined compared to Q1 2024, or grew by no more than 2%. Mid-cap stocks showed only slightly better earnings growth than small caps.

How Does All of This Affect the Outlook Going Forward?

Tariffs had little impact on Q1 results and investors are hungry for guidance about how tariffs might affect costs, sales, and profits in Q2 and for the rest of the year.

Despite the healthy earnings growth seen in Q1, as illustrated in Figure 3 the proportion of companies in the S&P 500 Index that raised their earnings outlook compared to those that held or reduced them (the “profit guidance momentum”) fell dramatically.

FIGURE 3: QUARTERLY EPS ESTIMATES



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Several companies provided no forward guidance when delivering Q1 results, noting tariff policies made forecasting too uncertain. According to Bloomberg, mentions of tariffs in earnings calls for S&P 500 and Stoxx 600 companies set a record this season, and were much more common than in President Trump’s 2018 trade war. One observer summed things up by saying that *nobody cared what companies did in the first quarter except as a starting point for the “new tariff economy.”*²

²Dey, Esha, and Sagarika Jaisinghani. “Grim Outlooks Take Centerstage as Tariffs Loom: Earnings Watch.” Bloomberg News, Bloomberg, L.P., 16 May 2025, www.bloomberg.com/news/articles/2025-05-16/grim-outlooks-take-centerstage-as-tariffs-loom-earnings-watch.

It's too early to say how tariffs might affect earnings and the real economy over the rest of 2025. We believe companies will sell down pre-tariff inventories and goods imported during the tariff moratorium ending July 9th. So, it may be well into summer before we see any real impact, and that assumes no further pauses or "permanent" tariff reductions.

Also note that positive announcements can be a useful signal but the absence of bad news is not necessarily good news. Recall that President Trump personally called Jeff Bezos to complain after it was reported that Amazon would display tariff-related costs for products³. Whether this was actually Amazon's plan or not, the Administration called it "a hostile and political act," showing companies the risk of publicly stating that their costs and prices are rising as a result of tariffs.

While this may not mean we are headed for an earnings recession, we hesitate to draw major conclusions about what will happen in the next few quarters based on what we saw in Q1.



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³Ibid.

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 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.**