Market Commentary
First Quarter 2025

RETIREMENT PLAN ADVISORS

THE FUTURE IS BETTER THAN YOU THINK

MARKET SNAPSHOT

After reaching an all-time high in mid-February, U.S. stocks faced their first 10% correction since 2023, with the S&P 500 ending the quarter down 5%.

International and emerging-market equities outperformed the U.S., as the MSCI EAFE rose nearly 7% and emerging-market stocks gained 3%.

The 10-year Treasury rate dropped from 4.57% to 4.36%, benefiting core fixed income and investment-grade bonds.

Unexpected tariff announcements, including a 54% tariff on Chinese imports and a 20% tariff on European imports, sparked a second 10% U.S. market correction in early April.

The quarter underscored the importance of diversification, as losses in U.S. growth stocks were balanced by gains in large-cap value stocks, international equities, and investment-grade bonds.

Market Recap

Global stock markets displayed wide dispersion of performance across regions and styles over the first quarter of the year. After making a new all-time high in mid-February, U.S. stocks (S&P 500 Index) suffered their first 10% correction since 2023 before recovering to end the quarter down 5%. Smaller-cap U.S. stocks (Russell 2000 Index), which tend to be more volatile than their larger-cap counterparts, declined further, ending the quarter down 10%. Large-cap growth stocks (Russell 1000 Growth Index), which have led the market higher for several years, finally lagged this quarter as investors rotated into U.S. large-cap value (Russell 1000 Value) and foreign stocks (MSCI EAFE) amid economic uncertainty.

In contrast to the U.S., many European and Asian markets rose sharply. Developed international stocks (MSCI EAFE Index) gained nearly 7%, driven in large part by a fiscal policy shift in Germany focused on increased defense spending. Emerging-market stocks (MSCI EM Index) also fared well, finishing the quarter up 3%. Gains in emerging markets were bolstered by China, which delivered solid double-digit returns of 15% (MSCI China Index).

Interest rates experienced significant volatility throughout the quarter, fluctuating amid shifting inflation expectations, Federal Reserve policy signals, and broader market uncertainty. Overall, the 10-year Treasury rate declined from 4.57% at the start of the year to finish the quarter at 4.36%. The rate's decline benefitted investment-grade bonds (Bloomberg U.S. Aggregate Bond Index), which gained 3%. High-yield bonds (ICE BofA High Yield Index) also ended in positive territory, gaining just under 1%.

Performance in the first quarter was a great reminder of the benefits of diversification. Unexpected losses in U.S. stocks (growth stocks in particular) were offset by gains in U.S. large-cap value stocks, foreign stocks, and investment-grade bonds.

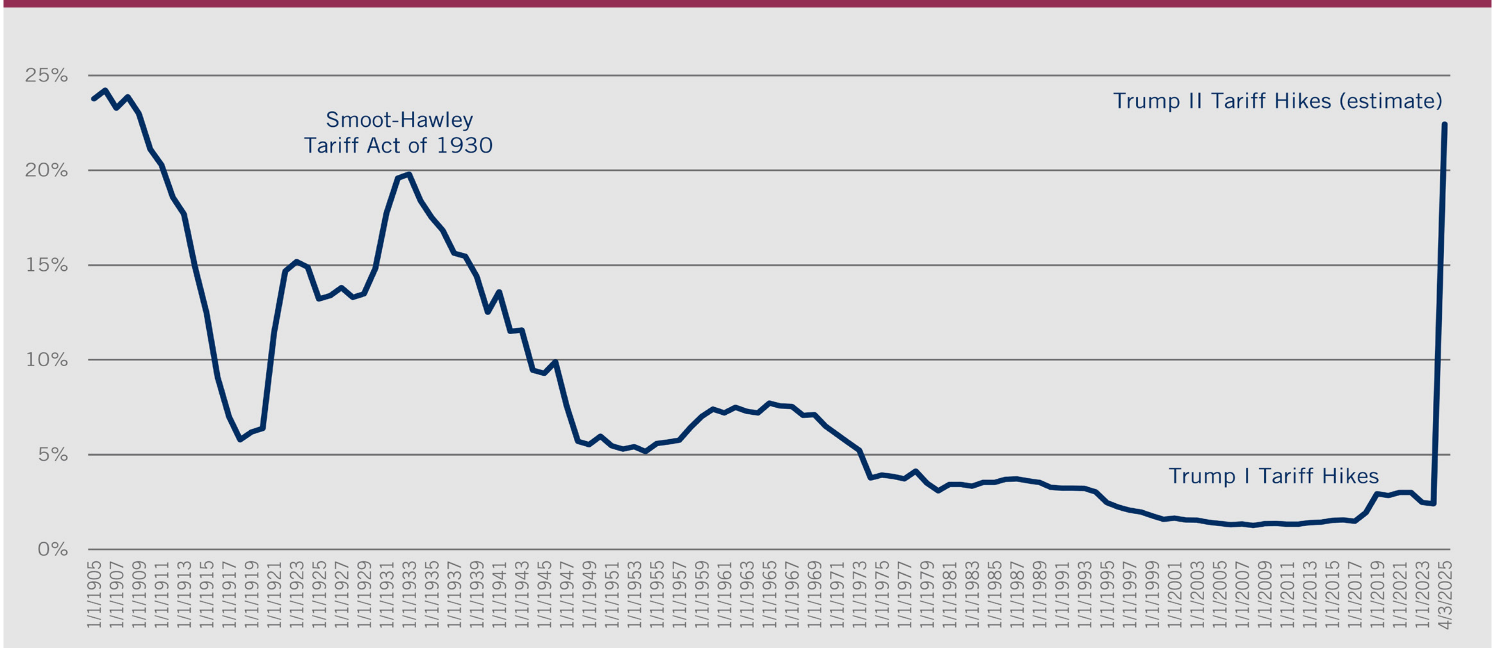
Investment Outlook & Portfolio Positioning

Heading into the year, we expressed caution that elevated stock market valuations, especially for U.S. technology companies, combined with policy uncertainty, could leave the market vulnerable to volatility. Indeed, this is what transpired over the first quarter of the year.

After hitting new highs on February 19, U.S. stocks suffered their first "correction" since 2023, when the S&P 500 index declined a total of 10% through March 15. The narrative around U.S. stocks started to shift in late January beginning with the release of DeepSeek, a Chinese-built artificial intelligence model that is seen as a direct threat to U.S. tech companies' dominance of the AI industry. The sell-off was exacerbated in early February amid tensions around trade, tariffs, and policy uncertainty.

President Trump further shocked investors on April 2 by announcing a comprehensive set of much-higher-than-expected tariffs. These included a 10% baseline tariff on all imports and unexpected and significantly higher tariffs for certain trade partners, such as 54% for China and 20% for the European Union. These tariffs in aggregate, if implemented and maintained, would result in the effective tariff rate on all imports rising to 24%, putting it at a 125-year high.

U.S. Average Effective Tariff Rate



Source: Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis, The Budget Lab. Data as of 4/3/2025.

In response to Trump's announcement, equity markets suffered sharp declines, with the S&P 500 Index suffering its second correction of the year, dropping roughly 10% in the two days following the announcement. European and Asian stock indexes also fell meaningfully. The U.S. dollar weakened against major currencies, and longer-term interest rates plummeted over fears of an economic slowdown.

Perhaps the most surprising aspect to the announcements was the equation used to arrive at "reciprocal" tariff levels. This so-called "reciprocal tariff" is a bit of a misnomer because it does not truly reciprocate the existing tariff levels imposed on the U.S. by other countries. Instead, the administration simply took an economy's exports to the U.S. as a percentage of its trade balance with the U.S. and assigned that as the tariff, meaning that countries with larger trade surpluses with the U.S. are being subjected to higher tariffs—whether or not they impose high tariffs on U.S. goods. In this way, the announced tariffs seem to be more of a blunt tool aimed at reducing trade deficits. One week later, on April 9, the White House announced a 90-day pause in the reciprocal tariffs with countries that had reached out to negotiate in good faith. During the hiatus, a baseline 10% tariff will be applied to negotiating countries. China was excluded from this grace period, and has subsequently seen its tariff rate rise to 145%.

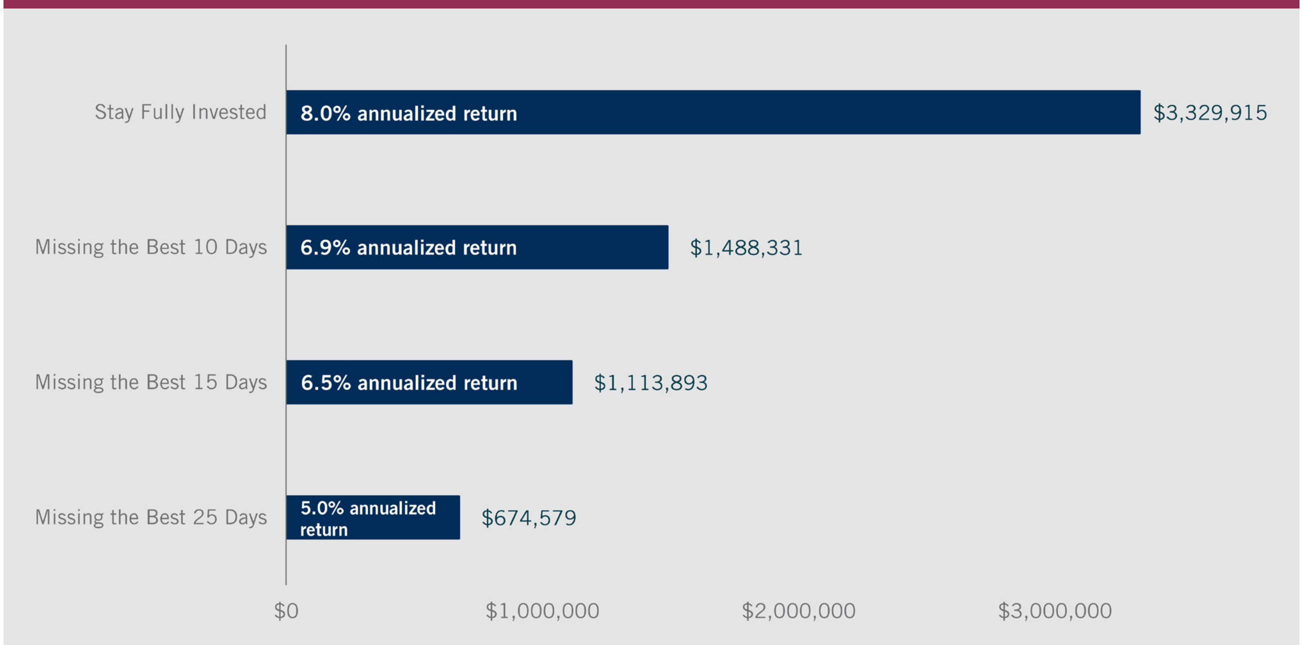
Looking ahead, one of the key questions facing investors is whether tariffs will push the global economy into recession and cause further declines in global stock markets. If left intact, we believe this is a likely outcome. According to the IMF and Ned Davis Research, a 10% universal tariff, coupled with retaliation abroad, would reduce global economic growth by 0.5%. This latest announcement puts the tariff at least double that (i.e., over 20%), doubling the damage—or worse. The global economy's one saving grace is that it was in good shape prior to the tariff announcement.

Our expectation is that trade partners will negotiate with varying degrees of success, but may also retaliate, if only for their own political motives. Moreover, we believe there is a valid possibility, given President's Trump's penchant for bargaining, that reduced tariffs will be negotiated over the coming weeks and months that could lead to a more optimistic outcome for all involved. The administration has already signaled an openness to negotiations, but trade tensions with China could very easily escalate further.

The decline in stocks and increased uncertainty have led to heightened anxiety, but history suggests that corrections (and volatility) are a normal part of long-term investing and do not always signal a crisis. Since 1950, the S&P 500 has experienced 34 corrections of this magnitude, yet only about a third have escalated into bear markets with losses exceeding 20%.

During periods of heightened volatility, we find it valuable to not overreact to the latest headline that could tempt investors to sell their equity exposure. Historically, stock market corrections recover within a few months, and investors who stay the course often benefit as markets rebound. As illustrated in the chart below, panic selling during risk-off markets can be a significant drag on long-term returns. As the old saying goes, "time in the market is more important than timing the market."

Hypothetical Growth of $10,000 Invested in the S&P 500 Index



Leading up to April 2, economic conditions in the U.S. were reasonable and the overall economic backdrop was relatively stable. Despite ongoing volatility and concerns about slowing economic growth, we still saw some supportive underlying economic fundamentals. For example, corporate earnings continued to surprise to the upside, with many companies exceeding expectations and maintaining strong profit margins. GDP is still expanding, albeit at a slower pace, reflecting a resilient economy even in the face of higher interest rates. Meanwhile, the labor market remains in decent shape, with unemployment at historically low levels and key sectors such as construction, healthcare, technology, and professional services still adding jobs. Furthermore, despite markedly weaker consumer sentiment in recent months, consumer spending has remained relatively steady and businesses have yet to signal widespread distress.

The ever-changing tariff landscape is clearly adding to overall uncertainty. The rapidly changing policies make it difficult to keep up in real time, and frequent reversals can make any analysis moot within hours. Uncertainty seems to be a tactical tool in Trump's governance toolkit, as if to give him political leverage to achieve his desired outcome. Without details, the long-term market impacts are unclear, and the broader investment implications will take time to play out.

Put simply, the stock market hates uncertainty, and uncertainty around trade and tariffs will continue to be a headwind for U.S. stocks.

However, while we're seeing headwinds in the U.S., we're getting some good news in other parts of the world. European stocks have been a bright spot this year, significantly outperforming U.S. stocks—their widest quarterly outperformance gap versus U.S. stocks in 40 years. Fiscal stimulus, particularly from Europe's largest economies in Germany and France, increased defense spending, and accommodative monetary policy could stimulate economic activity and bolster equity markets.

Closing Thoughts

It goes without saying that tariffs and trade policy have injected a big dose of additional uncertainty in the financial markets, and we understand that such developments can be worrying. There are still many lingering questions, including what potential retaliatory measures will come from countries hit with tariffs, whether the announced tariff levels will remain in place or possibly be lowered, and what their ultimate impact will be on the financial markets. Until there is more clarity, the volatile environment will likely continue.

Currently, it seems like stock prices are at least reflecting some of the bad/unexpected news regarding tariffs. While many foreign and U.S. economies were in relatively good shape prior to Trump's tariff announcement, it has led us to raise the probability of a recession. We are actively assessing a range of economic outcomes and their impacts on the markets.

The current market environment is noisy, volatile, and frankly too tough to call with confidence. More than ever, we believe it's important to stay disciplined and avoid making reactive portfolio shifts. This is a challenging environment, but one that reinforces the importance of diversification, patience, and a clear investment process.

As always, thank you for your continued confidence and trust.

Best regards,

Retirement Plan Advisors

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Market Indicators
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RPA
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S&P Sectors

	QTR	YTD	1Y	5Y
S&P Technology Select Sector TR USD	-11.01	-11.01	-0.16	21.92
S&P Financial Select Sector TR USD	3.52	3.52	20.18	21.47
S&P Consumer Disc Select Sector TR USD	-11.72	-11.72	8.38	16.08
S&P Health Care Select Sector TR USD	6.54	6.54	0.40	12.37
S&P Industrial Select Sector TR USD	-0.19	-0.19	5.65	19.28
S&P Cons Staples Select Sector TR USD	4.48	4.48	9.81	11.45
S&P Energy Select Sector TR USD	9.98	9.98	2.32	31.80
S&P Utilities Select Sector TR USD	4.94	4.94	23.87	10.82
S&P Real Estate Select Sector TR USD	3.58	3.58	9.60	9.90
S&P Materials Select Sector TR USD	2.72	2.72	-5.61	16.16
S&P Telecom Select Industry TR USD	-6.22	-6.22	36.01	12.27

Market Returns

	QTR	YTD	1Y	5Y	10Y
S&P 500	-4.27	-4.27	8.25	18.59	12.50
Russell Mid Cap	-3.40	-3.40	2.59	16.28	8.82
Russell 2000	-9.48	-9.48	-4.01	13.27	6.30
MSCI EAFE	6.86	6.86	4.88	11.77	5.39
MSCI Emerging Markets	2.93	2.93	8.09	7.95	3.71
BBgBarc U.S. Agg Bond	2.78	2.78	4.88	-0.40	1.46
High Yield	1.00	1.00	7.69	7.30	5.01

Value / Growth Returns

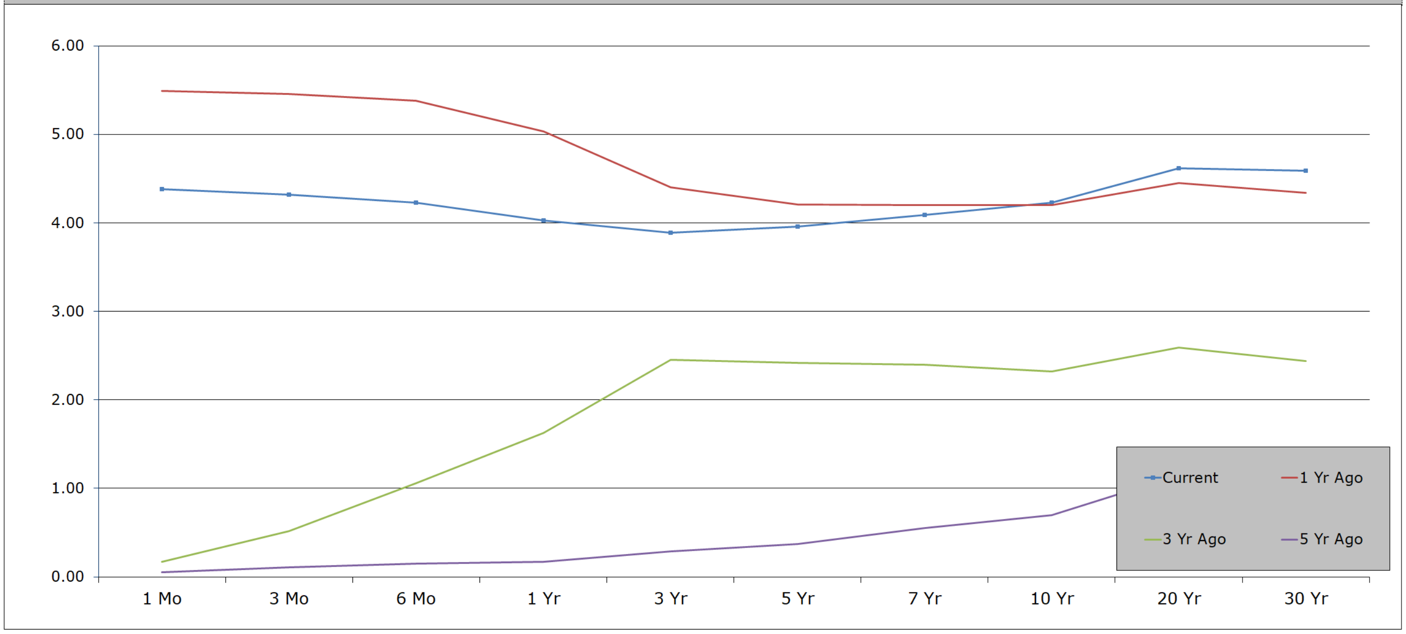
	YTD			Previous Calendar Year		
	Large	Mid	Small	Large	Mid	Small
Value	0.28	-3.70	-10.41	12.29	11.71	5.15
Growth	-8.47	-8.36	-7.96	36.07	15.94	9.63

Benchmarks by size/style – Large Value: S&P500 Value; Large Growth: S&P500 Growth; Mid Value: S&P400 Value; Mid Growth: S&P400 Growth; Small Value: S&P600 Value; Small Growth: S&P600 Growth

Index Characteristics

	LTM P/E	NTM P/E	Div Yld	Earn Yld
S&P 500	24.90	20.90	1.28	4.79%
Russell Mid Cap	20.34	17.33	1.37	5.77%
Russell 2000	16.50	14.14	1.24	7.07%
MSCI EAFE	16.22	14.07	3.00	7.11%
MSCI Emerging Markets	13.79	12.53	2.33	7.98%

Long-Term Outlook on Treasury Yield Curve



Source: Morningstar

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