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2025 First Quarter Stock Market Update

A Change of Tone

April 2025

The first quarter was very eventful and brought a change of tone tomarkets. We started the year on a decent foot, but stocks weakened inmid-February amid political and economic uncertainty. While the S&P500® Index finished the quarter down only 4.3% year-to-date (worststart to a year since 2020), other indices were worse as evidenced bydeclines of9.5% and 10.4%, respectively, for the Russell 2000®Index and NASDAQ Composite®Index. Furthermore, the S&Pretreated 8.5% from its highs and temporarily entered“correction” territory (down 10% or more) in early March. According to CNBC, 203stocks inthe S&P 500 were down more than 20% from their highs asof March 10th.

Even the much loved “Magnificent 7” cooled off. In fact, thiscollection of technology leaders was down 16.0% in Q1 after leadingmarkets higher in 2024. Of note, the “Mag 7” has underperformedthe broader market for 12 of the last 13 weeks as of this writing. We have posited that markets were due for a rotation away from hot,momentum-oriented areas and this proved to be the case as theartificial intelligence (AI) trade faltered. However,many segments ofthe market were weak. Economically sensitive stocks, especially thoseinthe consumer discretionary sector, were hit particularly hard asrecession fears mounted.Notable safe havens included traditionallydefensive sectors such as consumer staples,health care and utilities.The same can be said for shares of businesses thought to berelativelyimmuneto policy shifts.

Like him or not, it appears the Trump administration has broughtuncertainty to markets. President Trump was elected in part under pretense of providing a boost to the economy, but markets are now down since the election. Perhaps this is a case of short-term pain for long-term gain, but every day seems to being a new surprise and the economic outlook has become murkier. The biggest issues are tariffs and DOGE (Department of Government Efficiency). As currently planned, the tariff rate would be the highest since 1946 according to PSC Macro. Tariffs may or may not be necessary, but will clearly lift inflation and could weigh on economic growth. For its part, DOGE may bring efficiency and reduce waste, but it also means reduced government spending and large-scale layoffs.

Some early cracks in the economy have emerged. Employment data has weakened asmidge, manufacturing data has slackened, spending has slowed and consumer confidencerecently fell to a four-year low. Many fear the tea leaves are pointing towards stagflation, the undesirable scenario of low economic growth combined with stubborn inflation. A March 28