



The Davenport FundAdvisor Quarterly Update



First Quarter Update 2025

FundAdvisor Update

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FUNDADVISOR UPDATE

FIRST QUARTER 2025

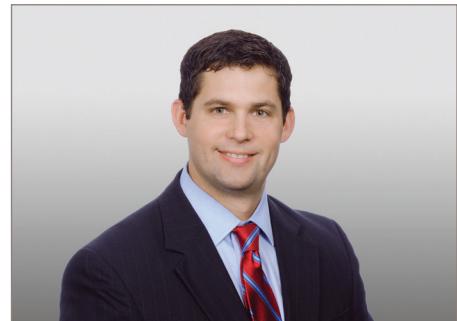
Market Returns (%)	Year-to-Date Returns
Large Cap Stocks	-4.3
Value Stocks	2.1
Growth Stocks	-10.0
Small Cap Stocks	-9.5
Developed International Stocks	6.9
Emerging Market Stocks	2.9
Bloomberg U.S. Aggregate Bond	2.8
Dow Jones U.S. Select Dividend	3.3

Source: Morningstar Direct. Please see last page for index definitions.



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Market Review

It has been a crazy year so far and the end doesn't seem to be in sight just yet. Coming into the year, we were expecting to see some rotation from the Magnificent 7[†] stocks (Apple, Amazon, Google, NVIDIA, etc.) to some of the other areas of the market. We have mostly seen a rotation to more "risk-off" areas like health care, utilities, consumer staples, and Treasury bonds as recession calls have increased, more talk of stagflation has appeared, and tariff uncertainty continues. In fact, the Magnificent 7 stocks were down 15.8% in the first quarter, sending "growth" stocks down about 10%, whereas the Dow Jones U.S. Select Dividend® Index gained 3.3%. Small cap stocks declined 9.5%. A surprising bright spot has been the international markets which posted gains in the first quarter due to a combination of relatively low valuations and investor's desire to diversify their portfolios not knowing who will be the winners and losers in the fight over tariffs.

Trump, Tariffs, and Timing

We were due for a cooling market to reset some of the inflated valuations from the past few years, but some early cracks have emerged in the economy, increasing the odds of a recession. Employment data has weakened a smidge, manufacturing data has slackened, spending has slowed and consumer confidence recently fell to a four-year low. And this was all before the announcement of reciprocal tariffs on April 2. Many fear a period of stagflation, which we haven't seen since the 1970's. This is the undesirable scenario of low economic growth combined with stubborn inflation, which handcuffs the Federal Reserve in its mission toward full employment and moderate inflation.

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The Davenport Asset Management FundAdvisor program offers six globally diversified portfolios of stock and bond funds to help our clients meet their long term objectives, which can include growth, income, and protection. The benefits of FundAdvisor include diversification among multiple asset classes, cost-efficiency, annual rebalancing, and ongoing monitoring of the mutual fund positions.

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[†]The Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

Historically, President Trump has been very sensitive to economic conditions and stock market moves but he recently cautioned of a transition period and has not dismissed the possibility of a recession while on a journey to a stronger economy. Similarly, Treasury Secretary Scott Bessent has warned of a “detox period” as we migrate from government spending to private spending.

After a 5-year period with a 135% gain in the S&P 500® Index, we stick by our expectation for lower-than-average stock returns over the next few years, but for now it seems that the markets have already discounted a lot of bad news. We also think the Trump agenda could moderate if economic and/or market weakness becomes more pronounced (we think he is still sensitive to market action). Finally, bear in mind the Federal Reserve has more than ample room to lower interest rates to stimulate the economy. Its job has been made more complicated by Trump’s agenda and the potential inflationary impact of tariffs, but the Fed seems ready to move if economic data weakens. Fed Chairman Powell recently noted that policymakers were aware of increased economic uncertainty. “Easier” monetary policy should provide support to stocks if its effects aren’t overwhelmed by other policy changes.

At this point, it is difficult to predict what the outcomes will be since we don’t even know what the final tariffs will look like. Therefore, we think it is important for investors to take another look at their stock allocation to be sure that they are comfortable with the wide swings we have been experiencing. But we also must remember that timing the market is next to impossible, particularly when the daily volatility is as wide as it has been in the last few weeks.

How does the market do after a 20% correction?

While it can be difficult in times like these, we try not to make knee jerk reactions to sharp movements in the stock market and focus instead on long term trends to develop long-term asset allocation models. Shortly after the announcement of reciprocal tariffs, the S&P 500 was down more than 20% from its February high. To put this in perspective, we did a research study on market returns after a 20% decline and found:

- Since 1970, there have been 11 other periods when the S&P 500 was down around 20% or more (the date that marks the end of each period is shown in the adjacent table)
- S&P 500 gained in 10 of 11 periods over the next year
- Average gain was +26.5%
- The only down period was 2008 when the market went down an additional 24.2% after the 20% decline
- 6 of the 11 were recessionary bear markets (marked by * in table), but 5 of those 6 resulted in market gains over the next 12 months

While there is a lot of volatility in the market, this gives us a glimmer of hope that it could be short lived and if we get some resolution or good news, the market could even move higher. Time will tell.

Market Down 20% during period ended:	Next 12 Month Return
4/30/1974 *	1.4%
7/31/1982 *	59.3%
10/31/1987	14.8%
10/11/1990 *	33.6%
8/31/1998	39.8%
3/12/2001 *	0.1%
7/14/2008 *	-24.2%
10/3/2011	35.0%
12/25/2018	39.9%
3/16/2020 *	69.0%
10/10/2022	22.7%
Average	26.5%

Source: Morningstar Direct.

Conclusion

We are in the process of evaluating our asset allocations and rebalancing our mutual fund and ETF portfolios. Given the market volatility, we are looking for possible opportunities to add some areas that have been hit the hardest but will continue to keep our focus on the longer term. We will report those changes to you in our next update. Until then, we appreciate your business.

Sincerely,

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Diversification and Asset Allocation does not ensure a profit or guarantee protection against a loss. It is important to note that short-term and trailing performance will fluctuate. We expect all of the funds at some point to experience underperformance versus their benchmarks and peer groups. However, we believe that our research process has helped us identify funds that are likely to perform well over the long term. Our decision to remove a fund is not based on short-term performance, but on in-depth analysis using our Monitoring Criteria. The mutual fund categories are determined by Davenport using a combination of Morningstar categories and a returns-based style analysis provided by Morningstar Direct.

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Bonds are subject to market and interest risk; values expect to decline as interest rates rise. Bonds may not be suitable for all investors and you should consider specific risks such as credit risk, default risk and volatility prior to investing.

Index Definitions: Large Cap Stocks represented by the S&P 500 Total Return Index. Value Stocks represented by the Russell 1000 Value Index. Growth Stocks represented by the Russell 1000 Growth Index. Mid Cap Stocks represented by the Russell Midcap Index. Small Cap Stocks represented by the Russell 2000 Index. Developed International Stocks represented by the MSCI EAFE Index. Emerging Market Stocks represented by MSCI EM Index.

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