Market Review & Outlook

1Q 2025 | As of March 31, 2025

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Market Environment

March 31, 2025

- Interest rates reversed course again and fell in Q1, generating positive returns in the bond market. The fall in rates was led by intermediate term maturities as the market priced in expectations of the Fed resuming their policy of lowering short term interest rates.

- Equity markets fell in Q1, led by the growth stocks, and the "mag 7" in particular as those heavyweights suffered significant declines.

Index	MTD Return	YTD Return	1 Year Return
Aggregate Bond	0.0%	2.8%	4.9%
Dow Industrials	-4.1%	-0.9%	7.4%
S&P 500	-5.6%	-4.3%	8.2%
NASDAQ	-8.1%	-10.3%	6.4%

- Market volatility progressively increased through Q1 amid softer economic data, a multitude of tariff announcements, and an earnings season that showed continued growth in earnings; however, a near universal assessment of moderating growth looking forward. Equity markets fell while the bond market rose in a flight to quality and a deceleration of economic conditions.

- Markets priced in the chance of 2 to 3 rate cuts for 2025, which may be well justified as we continue to expect inflation to continues to decline toward Fed targets, regardless of the ultimate tariff policy.

- Equity markets again rotated; however, this time it was out of Growth and the large cap tech stocks in favor of Value stocks as investors backed off the AI craze. The (market weighted) S&P 500 index returned a loss of -4.3%, while the equal weighted index lost only -0.6% for the quarter. The top 10 heavy weights were down -14% for the quarter, and the "Mag 7" was down -17.1%

- Shorter term interest rates are now closer to fair value and near equilibrium with the economy, but longer-term rates are still subject to upward pressures from significant Treasury debt issuance needs from the past three years of Fiscal spending commitments.

- The expectations of the incoming Trump administration for lower taxes, less regulation, significant immigration reform, and higher tariffs are coming to fruition faster and more furious than expected, with significant disruption, creating uncertainty for markets, particularly in tariff developments.

- Even before the new administration took office and tariffs dominated market discussion, there were obvious indicators of slowing growth and highly elevated equity market valuations with unrealistic earnings growth expectations that are in the process of correcting. Geopolitical risk remains highly elevated as major country governments leaderships turn over.

Market Environment

March 31, 2025

- **Policy**
  - The Federal Reserve continues to struggle to come up with a consistent monetary policy.
  - The most recent Fed outlook policy has now reduced growth expectations, while increasing inflation expectations, ie. stagflation. Their outlook is largely based on speculation of the impact of potential tariffs; however, Powell deemed them "transitory".
  - At the March 19 FOMC meeting, the outlook was for 2 eases in 2025, followed up by 2 more in 2026. This is fewer than they collectively expected at their December meeting. The market has gone the other way and is pricing in 3 cuts for 2025.
  - We feel that economic growth and inflation will come in below expectations, allowing the Fed to resume easing.
  - The European, Canadian, and other global central banks have entered easing modes, while Japan has shifted to a tightening mode.
  - Significant Treasury debt issuance of well over $2 trillion will be issued in 2025 with an interest expense of over $1 Trillion.
  - Continuous debt issuance will continue to pressure longer term rates, with future funding needs uncertain with the new administration.
  - Fiscal policy to renew the 2017 tax cuts is on track, and will likely be passed.
  - The new Trump administration immediately shifted focus back to fossil fuels that will enhance natural gas production, use, and export activity. We have seen a significant drop in energy prices, contributing to decelerating inflation.
  - Trade policy focused on correcting the US trade deficit by reshoring manufacturing via tariffs is causing extraordinary volatility and uncertainty in the short term; however, is showing signs of success.

- **Economic Environment**
  - Q4 2024 nominal GDP printed an annualized rate of 5%, with a price index rise of 2.4%, leaving a net 2.3%.
  - The US economy overall has been strong in recent years due to the excessive amount of monetary and fiscal stimulus. While some residual programs will continue to provide some stimulus, that phase of the economic cycle is nearing an end.
  - Consumption has been steady until recently as consumer spending in both goods and services has waned under ever increasing prices.
  - We expect economic activity to slow amid additional rejection of higher prices, which will in turn reduce overall inflation.
  - While overall GDP has slowed to ideal levels, the question is whether the economy has arrived at these levels, just passing through to softer conditions. A reacceleration under renewed stimulative policies is unlikely.
  - Higher interest rates and home prices has continued to idle housing activity, and home price increases have stalled.
  - Employment trends including jobs available, additions to payrolls and the unemployment rate continue to incrementally soften.
  - Geopolitical events continue to disrupt and stress international relations and trade flows, increasing economic and market risks.

Market Outlook

March 31, 2025

- Interest rates seem to have risen to a point of equilibrium with the economy, while the equity market maintains historically high valuations across a wide variety of measures and have recently shown some instability.
- Our expectations are for a slower economic environment, including a softening labor market that will provide the opportunity for the Fed to continue to ease rates due to labor market conditions, with a now higher probability that inflation will continue toward the Feds 2% target.
- Expectations of monetary policy, with an easing of .25% around mid year and another .25% by year end seem reasonable.
- The yield curve continues to revert to a more normal shape, with short rates stable to lower and longer term rates higher, moving toward its average yields since 1984 (see page 14), our base case scenario; however, a slower economy and equity market correction may lead to a flight to quality and lower overall rates.
- We expect the cautious outlooks of last earnings season will become more significant and broad based in the upcoming earnings season, as reduced pricing power will reduce margins and earnings growth.
- Outlooks and forecasting have become extremely difficult amid potential tariffs that may be offset by lower energy costs.
- Some market sectors have corrected significantly and show better value, while many stocks remain over valued. The environment is becoming more of a stock pickers market.
- With an adjustment of P/E ratios to lower levels, along with a reevaluation of earnings growth may bring equities to lower levels on a market weighted basis. The "equal weight" S&P 500 should outperform the "market weight" S&P 500 going forward.

Investment Strategy

March 31, 2025

- Our overall asset allocation has moved to an underweight in equity allocation and an overweight in fixed income based on relative value. Strategy remains defensive within Equity; however, have become more fully invested in and Fixed Income.
- In Fixed Income, our base case interest rate scenario has been a return to the average yields since 1987. We have achieved that in short and intermediate term rates but not yet longer-term rates, so the implications are for slightly lower short-term rates and slightly higher long-term rates and a steeper yield curve as we move through 2025.
- We do see an increased risk of recession and equity market correction that may lead to a more aggressive Fed and lower rates.
- Our equity strategy can best be described as Growth and Income, with Growth at a reasonable price, and more "Equal Weight", or diversified, established using a top-down/bottom-up Economy, Industry, Company approach
- Fixed income strategy has successfully defended against rising interest rates for the past three years and have now moved out the yield curve into intermediate maturities but remain shy of longer-term maturities as more pain may be in store.
- Equity prices remain at extraordinarily rich valuations, particularly in high flying growth stocks, with expectations of strong earnings growth. We are curious if we are in the later stages of a dot.com 2.0 environment.
- Many of the non tech sectors have also appreciated significantly and maintain high valuations via their high PE and growth expectations; however, there are sectors and companies that have corrected and/or remain undervalued.
- We see opportunity in growth areas away from the (Magnificent 7) that are priced at reasonable levels.
- Rate sensitive sectors such as Utilities, Real Estate and Small Cap stocks, which got hit in the recent rate move higher, should provide a combination of growth, income, and stability to portfolio strategy going forward.
- Risk premiums are low across financial assets including narrow spreads on corporate bonds and high P/Es across equities, with some exceptions. Mortgages provide enhanced yield without the credit risk, while some equity sectors are undervalued.
- We continue to underweight our allocation to the eight rich stocks that dominate the S&P 500, aka the "Mag 7". Core holdings do include an allocation to some, but not all or as heavy, in those market leaders. Strategy does have significant technology and growth exposure, and will continue to, but more diversified, and at what we consider at a more reasonable price.
- We have begun to add allocations to Small and Mid cap stocks, which have underperformed, and further diversified the equity strategy with small allocations to the international equity markets where appropriate.
- Geopolitical risks have continued and will continue to have consequences on the global economy and markets.

Fixed Income Strategy

March 31, 2025

- Fixed income strategy has successfully defended against rising interest rates for the past three years and have now moved out the yield curve into intermediate maturities but remain shy of longer-term maturities as more pain may be in store.
- Our base case interest rate scenario continues to be a return to the average yields since 1987. We have achieved that in short term rates but not yet longer-term rates, so the implications are for slightly lower short-term rates and slightly higher long-term rates and a steeper yield curve as we move through 2025.
- With expectations of stability in short term rates in a now positively sloped yield curve, strategy is to maintain a core position in intermediate (2-7 year) maturities to lock in these higher rates for longer, while increasing yield relative to shorter term and cash equivalents with funds not needed for liquidity. We are still cautious on longer term maturities.
- While longer term yields (10-30 year) have risen toward their highest levels reached in 2024, there may be continued upward pressure on long term yields amid continuous issuance of Treasury debt. There is also a risk the incoming Treasury may alter the debt issuance structure, shifting more borrowings to long term from rolling over T Bills.
- The current higher rate environment has negatively impacted the current high priced housing market, after helping to stimulate home purchases and refinancings at the lower Q3 rates – supporting our economic equilibrium stance for rates.
- Longer term rates may sway higher between debt issuance and lower amid slower growth, lower inflation, and a flight to quality. Earlier in the year we further extended into longer maturities as rates rose to lock in the higher yields for longer.
- Yield spreads on Corporate bonds have become historically tight, while Government guaranteed Mortgages continue to provide generous incremental income with no credit risk.
- We continue to maintain an allocation to shorter term and floating rate notes, as well as maintaining the two to five year notes and Mortgage Backed Securities we extended into to maximize income.
- Rates may continue to see periodic flights to quality as equity market adjustments occur, geopolitical risks escalate, or signs of economic slowdown present themselves, such as consumers rejecting higher prices or a slowdown in employment and inflation.

Equity Strategy
March 31, 2025

- The stock market is overvalued on so many measures in both absolute and relative terms.
- There has been a bit of a correction in the high flyers, providing a reality check to the long running “risk on” environment.
- While tariff discussions are creating significant volatility in markets, the market adjustment shows it does not take much to alter the market environment as stocks have been priced to perfection.
- Even after the correction, price earnings multiples and expected future earnings growth remain at extraordinarily high levels. One key measure, earnings yield, is at an extremely low level, particularly relative to bond yields.
- We reflect to the time when markets were buying significant amounts of 10-year Treasury notes yielding .50%. By any measure, the 10-year Treasury note was rich, yet continued to attract buyers. Rates have since risen over 400 basis points with a negative return of -25%.
- High valuations can go on for extended periods, until they don’t…
- While extremely rich valuations are concentrated in a few large companies and sectors, much of the broader based market had also richened up, but recent market moves have brought the some of the rest of the market back closer to reasonable valuations.
- Overall equity strategy can best be described as Growth (at a reasonable price) and Income, and “Equal Weight”.
- Favored Growth sectors do include Technology such as data center infrastructure and all their inputs, cyber security, and medical devices. While strategy does include some of the Great 8 large caps, there are a number of technology companies at a more reasonable price.
- Within Income, a more equal weighted market exposure and allocations to Value stocks such as Energy and certain Utilities, some Health Care, some Staples, and Industrials will provide Income and stability.
- Small and Mid Cap stocks also provide good relative value and growth opportunity, particularly with potentially increased M&A activity in the upcoming deregulatory administration.
- We also view some sectors as hybrid growth and income such as Energy, where expanded natural gas production, use, and export will provide high dividends as well as upside potential. Also, Utilities and other energy generation provide high and steady income, while also provide the energy source for data center growth. Natural gas will need to become more prominent as a transition energy source, for both exports for global energy, and increased domestic energy demand from data center demand, which continues to support Utilities.
- Utilities and other Value stocks may also serve as a flight to quality haven.
- A quantitative approach to Equity market valuations suggests implied earnings growth remains too high for the market weighted index suggesting a further setback; however, valuations across the broader market are closer to fair value suggesting opportunity elsewhere.
- The international market remains questionable amid economic slowdowns and government reformation, but may have merit.

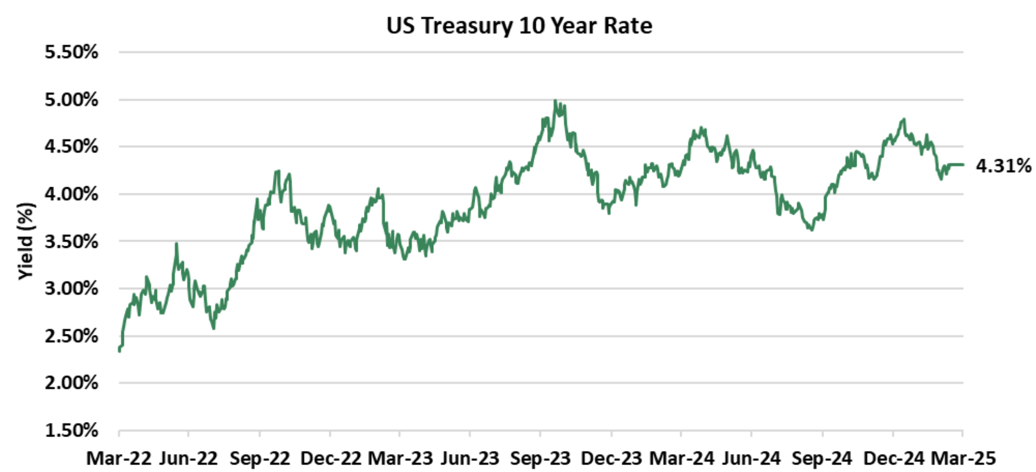
Market Review
Executive Summary

- 1Q25 saw increased volatility as uncertainty around tariff policies and increasing probabilities of an economic slowdown have caused equity valuations to pull back from their elevated levels.

- Equity markets entered a technical correction in the first quarter as the S&P 500 Index fell -10.1% from its February high. Earnings season wrapped up mostly mixed, with strong results but weaker outlooks.

- Interest rates fell in Q1 generating positive returns in the bond market. Expectations of more Fed rate cuts increased due to volatility in the equity markets and uncertainties surrounding the economy.

- We see volatility continuing through much of 2025.



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Market Review
Market Scoreboard

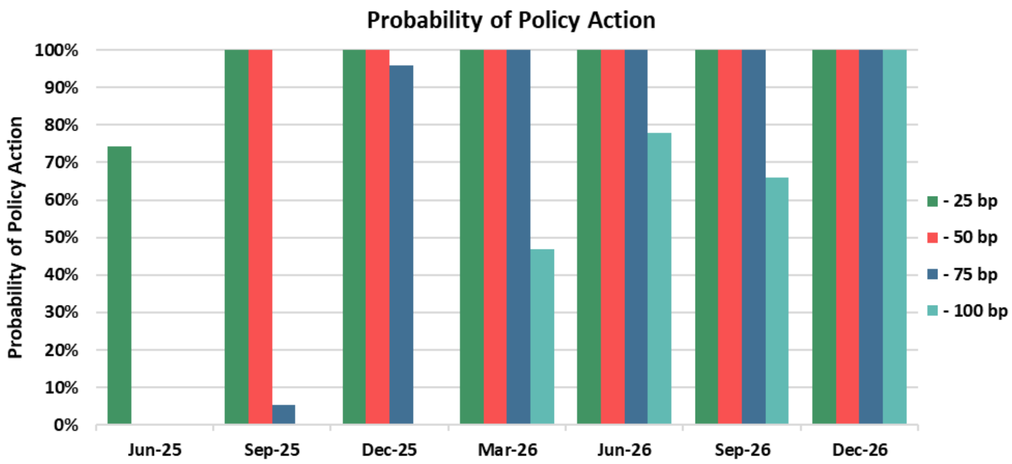
Market Summary - March 31st, 2025					
Bond Market	**MTD**	**QTD**	**YTD**	**1 Year**	**Yield**
Total Bond Market	0.0%	2.8%	2.8%	4.9%	4.6%
US Treasuries	0.2%	3.0%	3.0%	4.5%	4.1%
US MBS Index	0.0%	3.0%	3.0%	5.5%	5.0%
Corporate Bonds	-0.3%	2.4%	2.4%	5.3%	5.2%
High Yield Corporates	-1.1%	0.9%	0.9%	7.6%	7.5%
US TIPS (Inflation Prot.)	0.7%	4.2%	4.2%	6.3%	1.5%
Merrill Muni Index	-1.7%	-0.5%	-0.5%	1.4%	3.6%
Floating Rate Corp	0.3%	1.1%	1.1%	5.7%	4.8%
International Bonds	1.0%	2.9%	2.9%	-0.8%	2.6%
Commodities/Other	**MTD**	**QTD**	**YTD**	**1 Year**	**End Value**
Gold	9.3%	19.0%	19.0%	40.1%	$ 3,124
Dollar Index	-3.2%	-3.9%	-3.9%	-0.3%	$ 104
Oil (WTI)	3.1%	1.4%	1.4%	-4.8%	$ 71

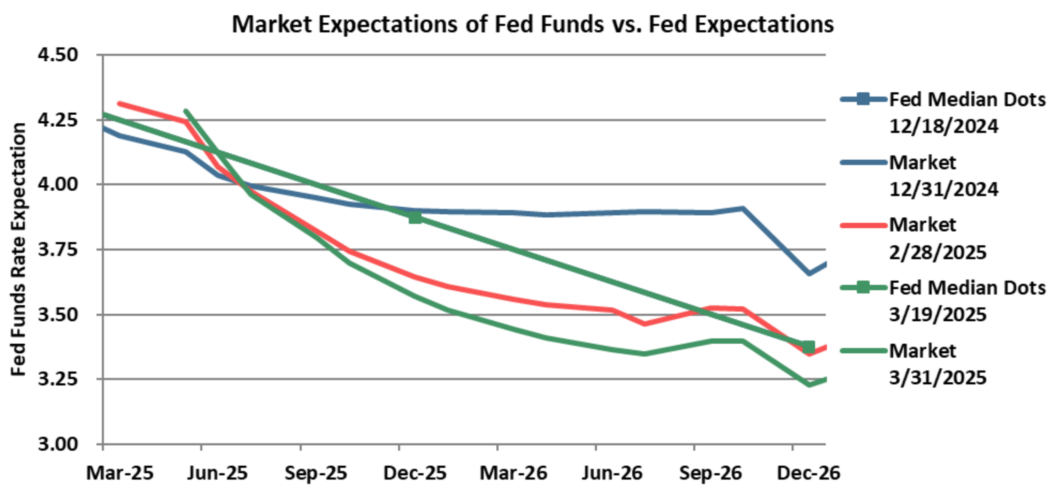
Market Summary - March 31st, 2025					
Stock Market Indices	**MTD**	**QTD**	**YTD**	**1 Year**	**End Value**
Dow Jones Avg.	-4.1%	-0.9%	-0.9%	7.4%	$ 42,002
NASDAQ Composite	-8.1%	-10.3%	-10.3%	6.4%	$ 17,299
Large Cap Core (S&P 500)	-5.6%	-4.3%	-4.3%	8.2%	$ 5,612
Large Cap Growth	-8.2%	-8.5%	-8.5%	10.4%	$ 3,742
Large Cap Value	-2.9%	0.3%	0.3%	4.2%	$ 1,882
Mid Cap Core	-5.5%	-6.1%	-6.1%	-2.7%	$ 2,919
Mid Cap Growth	-6.5%	-8.4%	-8.4%	-8.1%	$ 1,350
Mid Cap Value	-4.5%	-3.7%	-3.7%	3.3%	$ 960
Small Cap Core	-6.8%	-9.5%	-9.5%	-4.0%	$ 2,012
Small Cap Growth	-7.6%	-11.1%	-11.1%	-4.9%	$ 9,588
Small Cap Value	-6.0%	-7.7%	-7.7%	-3.1%	$ 16,209
Europe	1.0%	12.6%	12.6%	8.0%	$ 542
England	0.4%	9.4%	9.4%	14.3%	$ 8,583
Japan	-3.1%	-5.6%	-5.6%	-8.8%	$ 35,618
Shanghi 300	0.2%	-0.4%	-0.4%	13.6%	$ 3,932
International Stocks	-0.3%	7.0%	7.0%	5.5%	$ 2,401
MSCI China	2.0%	15.0%	15.0%	40.6%	$ 584
Emerging Markets	1.1%	4.5%	4.5%	8.9%	$ 44

Market Review

Fixed Income – Fed Policy

- The market is pricing in over 90% probability of 3 cuts in 2025, and one additional cut in 2026.
- The most recent March Fed meeting occurred amid stronger economic data and amid uncertainty around trade policies. The fed maintained its expectations of 2 cuts in 2025.
- Current market interest rates are now close equilibrium with the economy, and market expectations seem reasonable for 203 cuts this year if our expectations of continued disinflation and economic moderation come to fruition.
- While short term rates seem fair value, longer-term interest rates may climb due to Treasury debt issuance, which would in turn lead to further economic slowdown and justify further easing measures later in the year or next.





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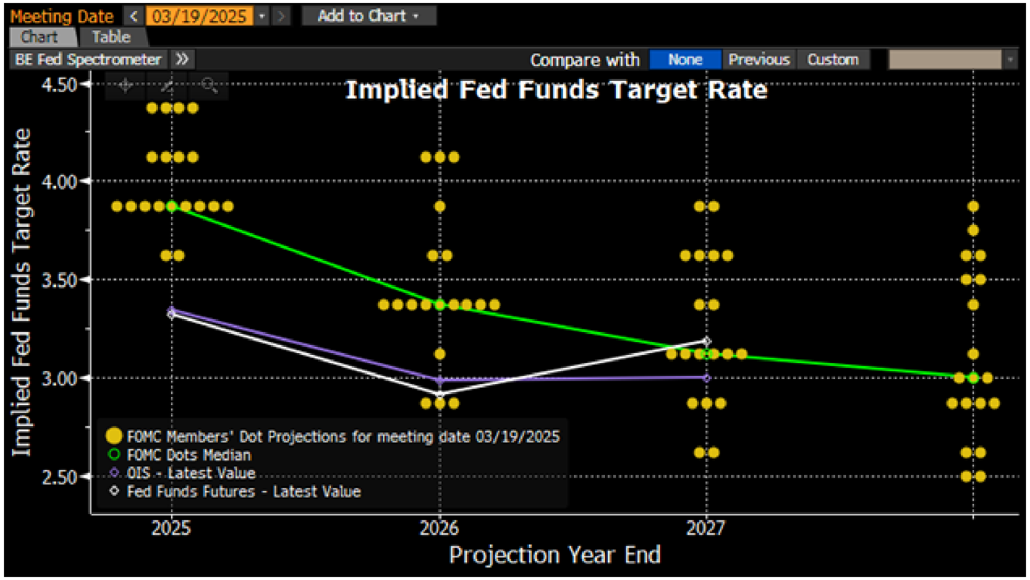
Market Review

Fixed Income – Fed Policy

- The Feds Dot Plot shows all Fed Governors thoughts on where rates will be over time.
- The median estimates looking forward are unchanged from December; however, there was an overall migration higher, reducing probability of cuts.
- The median Fed expectations are for 50 bps by the end of 2025 to 3.875, and another 50bp in 2026 to 3.375%. The market expects more cuts.
- The long term expected Funds rate is 3%, unchanged from the December meeting.
- Market expectations of inflation are running around 2.6-3.3% over the next 2-5 years, above the feds goal of 2%.



Current Fed Funds Rate
4.31

10 Year Tip	10 Year UST	Implied Inflation Premium
1.83	4.21	**2.37**

5 Year Tip	5 Year UST	Implied Inflation Premium
1.31	3.95	**2.64**

2 Year Tip	2 Year UST	Implied Inflation Premium
0.63	3.88	**3.25**

Market Review

Fixed Income – Fed Policy

- The Fed lowered growth expectations for 2025-2027 from 2.1% to 1.7% in 2025. This is understandable given the softer economic data that has been coming in.

- The Fed sees unemployment slightly higher at 4.4% in 2025. In the event of a slowdown this could rise, with some economists projecting unemployment above 5%.

- The Fed increased inflation expectations primarily due to tariffs, but has also stated they would be "transitory"

- The Fed has gone against their previous declaration of not making policy on potential fiscal and other government policies, by explicitly factoring in a risk of higher inflation due to the impact of tariffs and trade by the new administration.

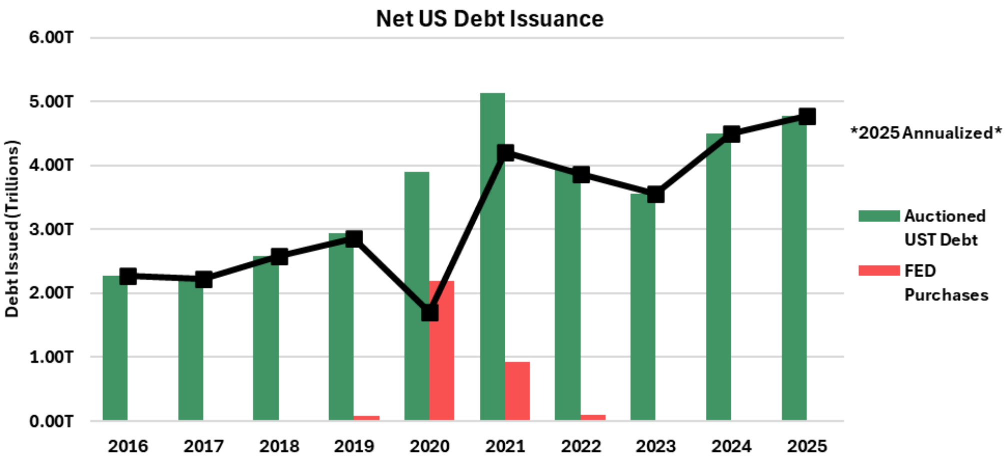
Federal Reserve Median Economic Projections
As of 3/19/2025

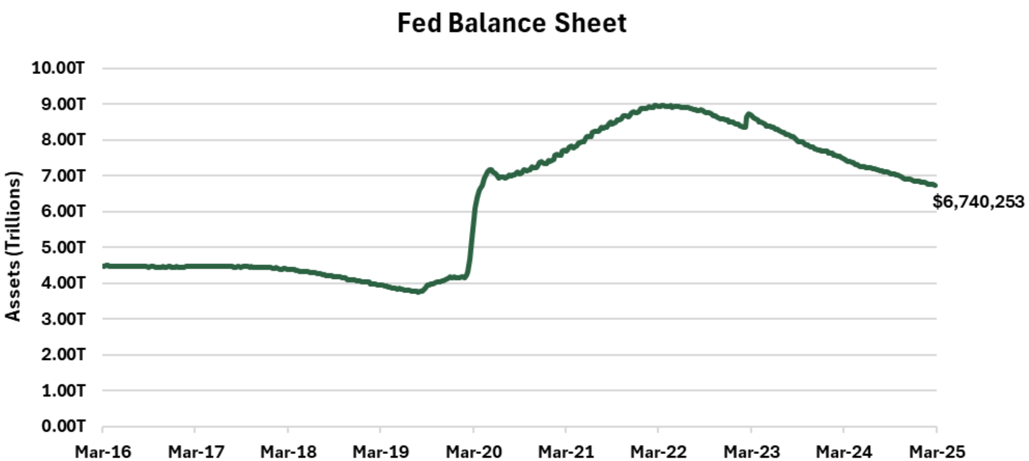
Change in GDP	**Actual**	**2025**	**2026**	**2027**	**Longer Run**
March 2025 Projection		1.7	1.8	1.8	1.8
December 2024 Projection		2.1	2.0	1.9	1.8
September 2024 Projection		2.0	2.0	2.0	1.8
Actual Q4 2024	**2.5%**				
Unemployment Rate					
March 2025 Projection		4.4	4.3	4.3	4.2
December 2024 Projection		4.3	4.3	4.3	4.2
September 2024 Projection		4.4	4.3	4.2	4.2
Actual March 2025	**4.2%**				
PCE Inflation					
March 2025 Projection		2.7	2.2	2.0	2.0
December 2024 Projection		2.5	2.1	2.0	2.0
September 2024 Projection		2.1	2.0	2.0	2.0
Actual Feb 2025	**2.5%**				
Core PCE Inflation					
March 2025 Projection		2.8	2.2	2.0	
December 2024 Projection		2.5	2.2	2.0	
September 2024 Projection		2.2	2.0	2.0	
Actual Feb 2025	**2.8%**				
Projected Policy Path- Fed Funds					
March 2025 Projection		3.9	3.4	3.1	3.0
December 2024 Projection		3.9	3.4	3.1	3.0
Actual March 2025	4.4%				

Market Review

Fixed Income – Treasury & Fed

- The US Treasury has auctioned off around $4.5 Trillion in Debt in 2024. After the first quarter of 2025, annualized debt issuance is $4.8 trillion.
- Interest payments on Treasury debt will exceed $1 Trillion in 2025.
- The Federal Reserve has continued to work down its balance sheet, reducing previous quantitative easing, but has much further to go.
- The Fed still holds about $6.7 Trillion in US Debt.
- The Fed recently declared they will be reducing the amount of run off in the portfolio – another potential policy error.





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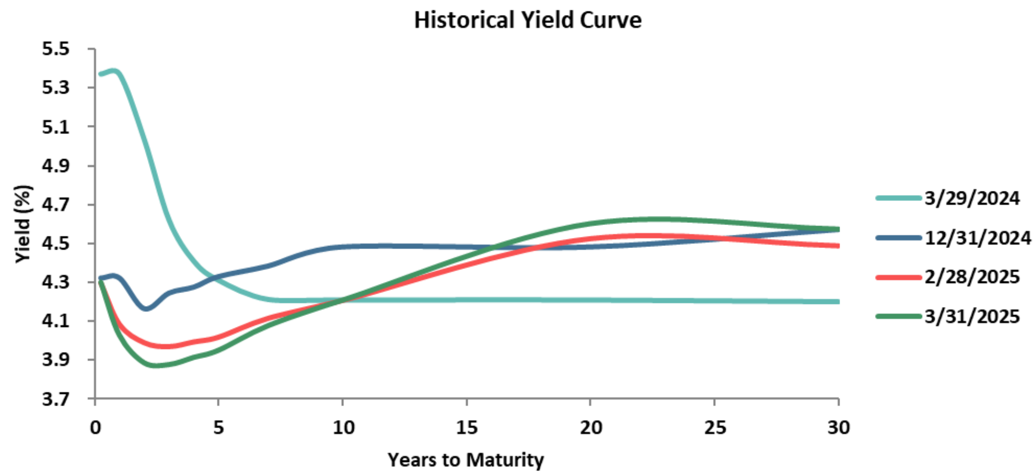
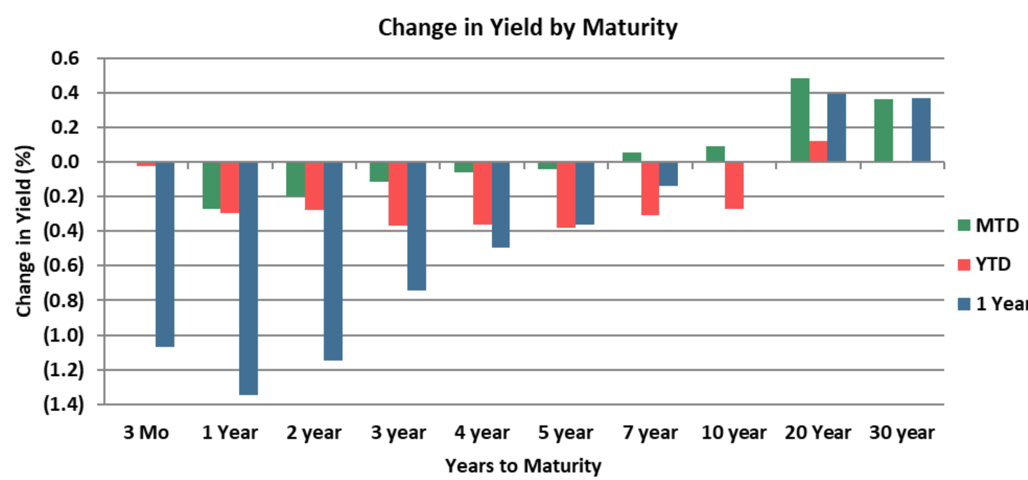
Market Review

Fixed Income – Yield Curve

- The yield curve steepened in Q1 with yields falling across short and intermediate term maturities, with longer maturities seeing a rise in yields.
- Rates are now closer to fair value, and near equilibrium with the economy. The yield curve has continued to "normalize" as it steepens.
- Short term rates are near their long term average levels, while longer term rates are still below their long-term average. We expect further steepening.
- Longer-term rates are still at risk of rising due to a steady stream of Treasury debt to come.





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Market Review

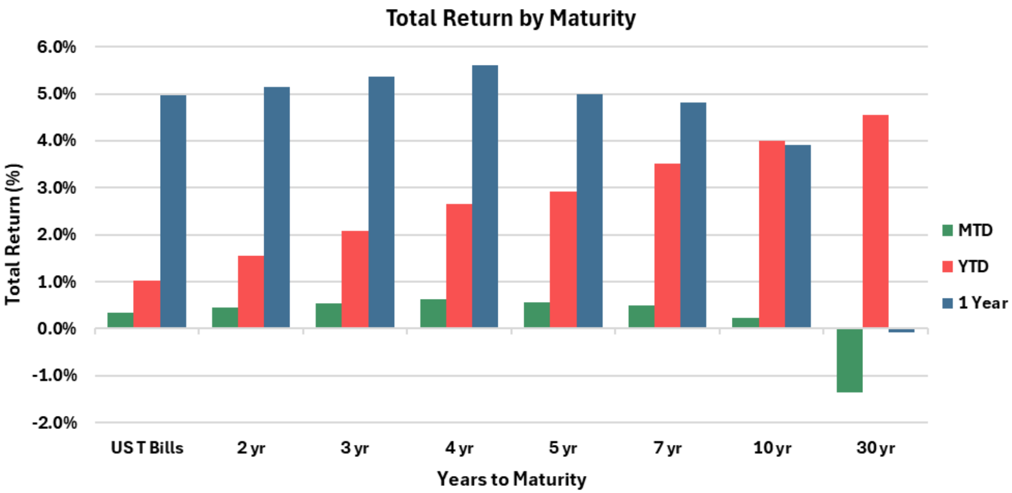
Fixed Income – Returns

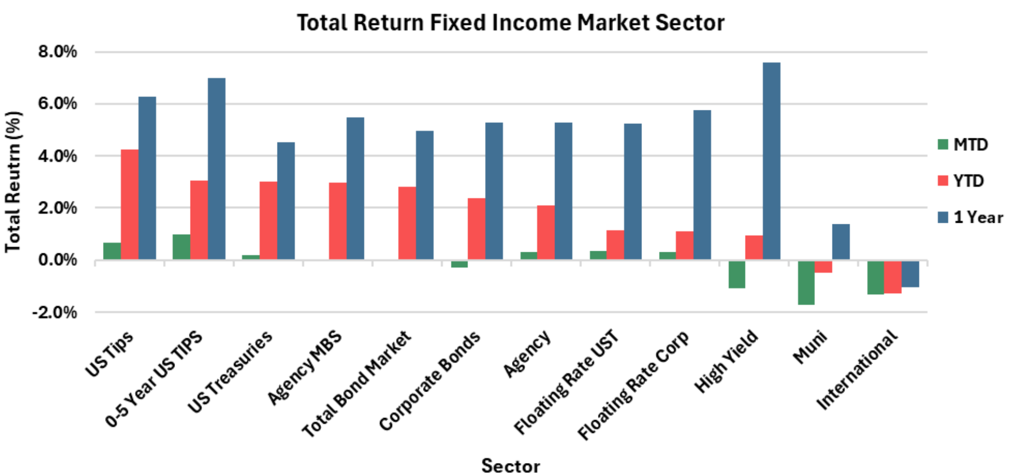
- Yields fell during the quarter across the curve causing longer term maturities to perform the best. Over the last year the 2–4-year section of the yield curve has been the optimal allocation.

- US Tips were the best performing sector YTD as inflation expectations have surged in response to new tariff policies, followed by US treasuries and MBS, while corporate bonds and Municipals have been the worst.

- Vectors Fixed Income strategy has been focused on intermediate term maturities and MBS.

- International markets have generated negative returns despite weakening in the dollar in the first quarter.





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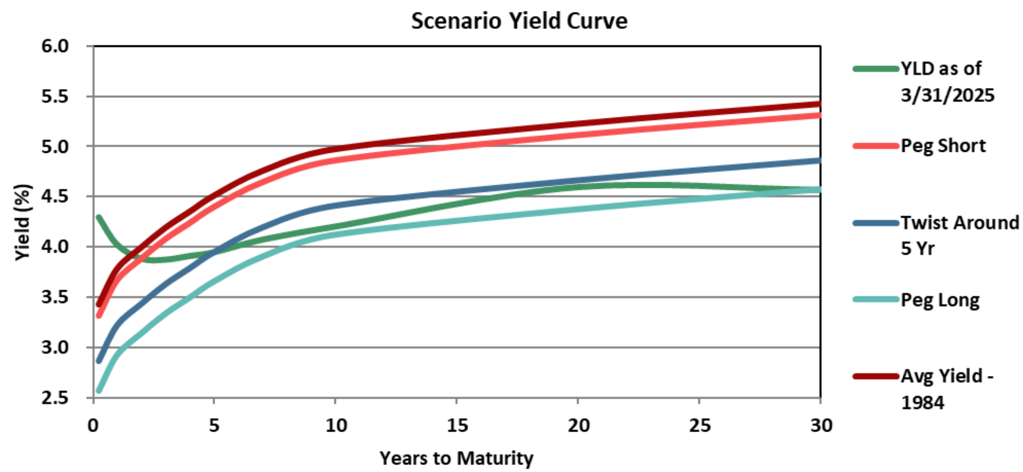
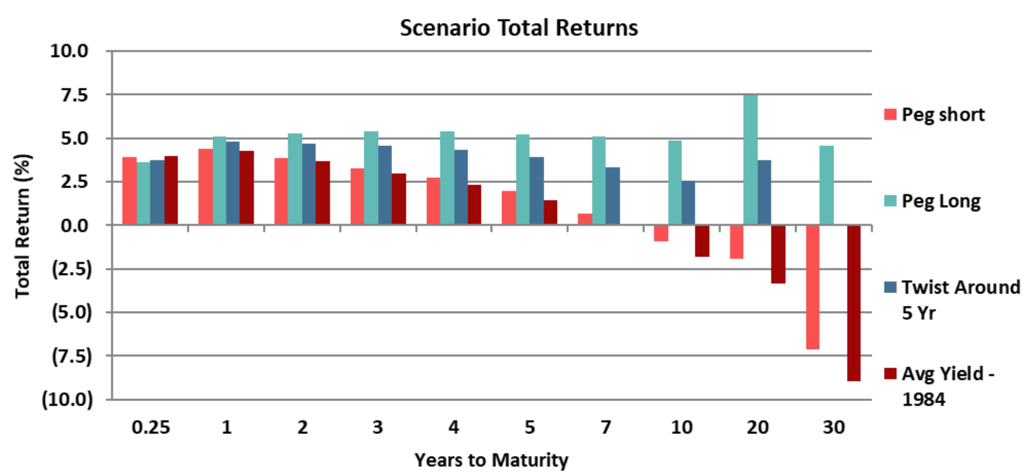
Market Review
Fixed Income – Yield Curve

- The yield curve is now positively sloped, providing higher yields for longer maturities.
- We expect shorter term maturities to continue to fall with fed easing, while longer term maturities could continue to climb toward their long-term averages.
- In most scenarios returning the yield curve to its long-term average slope, including returning all yields to their average levels since 1984, 2–7-year maturities are most attractive, performing best in most scenarios.
- We feel that a return to average yields since 1984 is a reasonable base case scenario; however, a slowing economy and continued disinflation could shift all rates lower, providing a twist around the 5 year scenario.

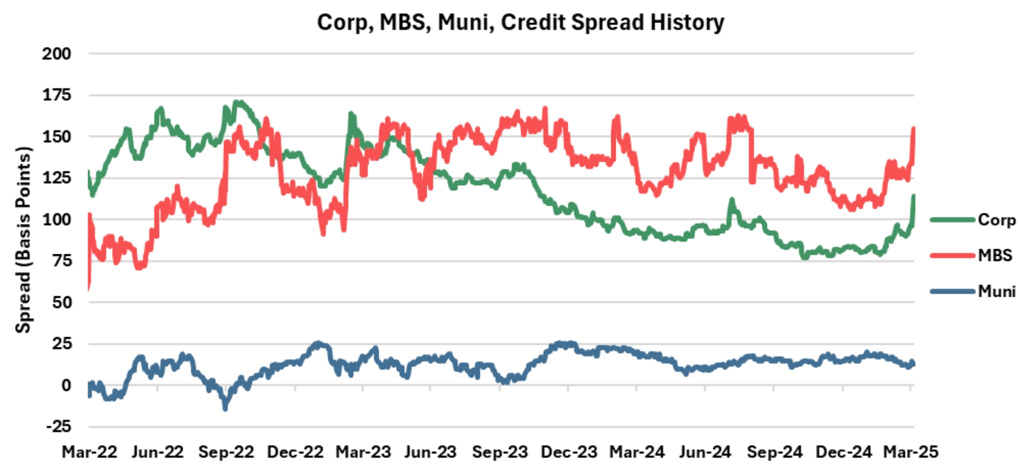


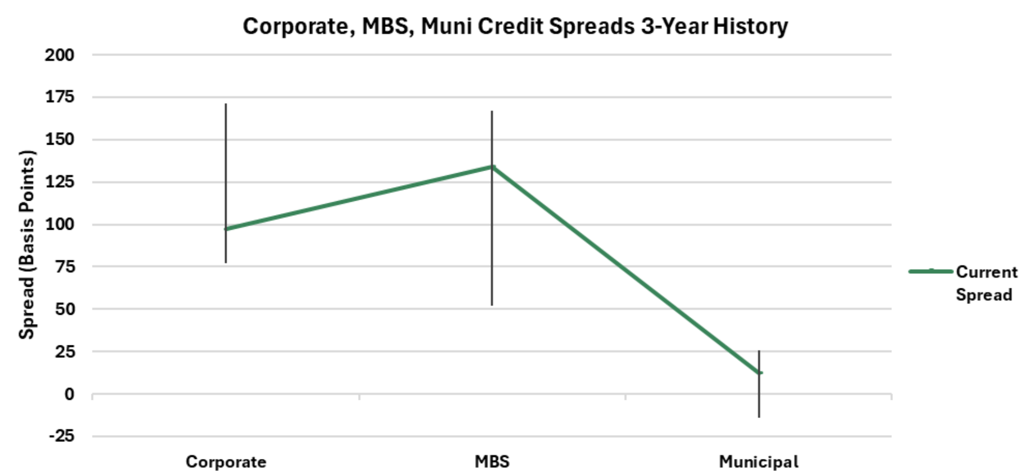


Market Review

Fixed Income – Yield Spreads

- Corporate spreads began to widen as concern over softer economic data and uncertainty around impacts of new tariff policies.
- Mortgage-backed-securities also widened but are historically high already. Corporates are still tight compared to history.
- Municipals are also historically tight but are now closer to their historical median. However, the yield difference between MBS and municipals is significant with MBS producing much higher income, even after taxes.





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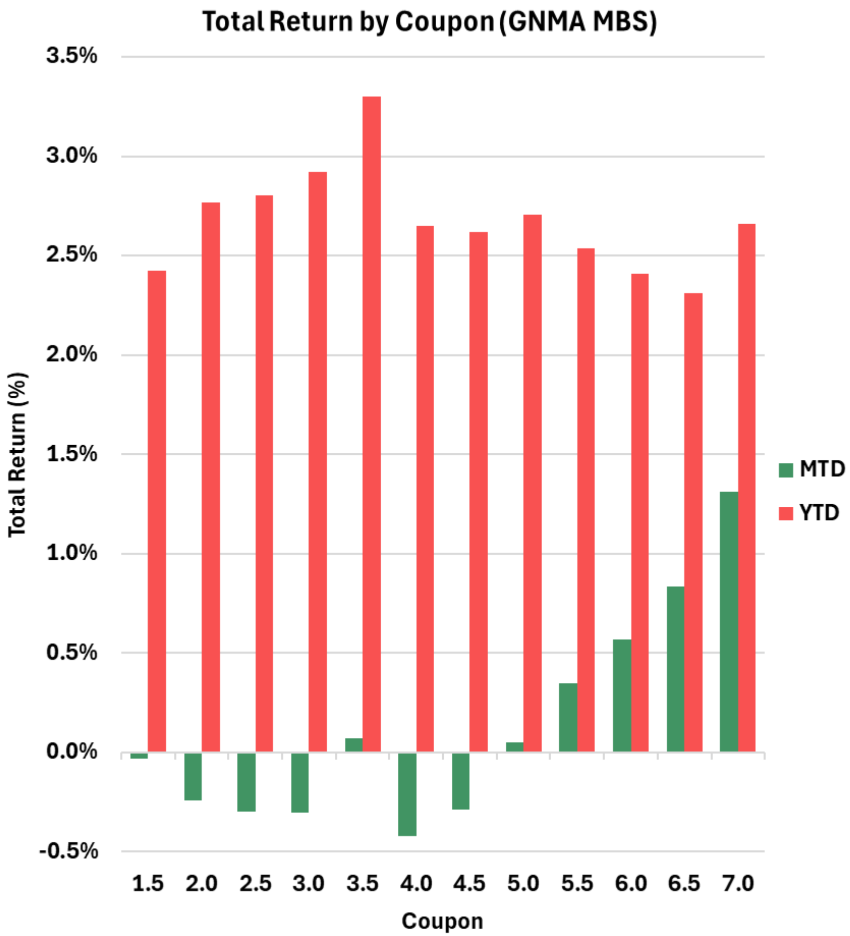
Market Review

Fixed Income – Returns

- Lower coupon mortgages are longer in duration so have more interest rate sensitivity and performed best in Q1, but across most coupons YTD performance has been very similar, as higher coupons outperformed in March.

- Higher coupon mortgages are shorter in duration but collect more income, so have generated an attractive positive return profile.

- Vectors strategy has focused on 4.5% through 6% coupons.



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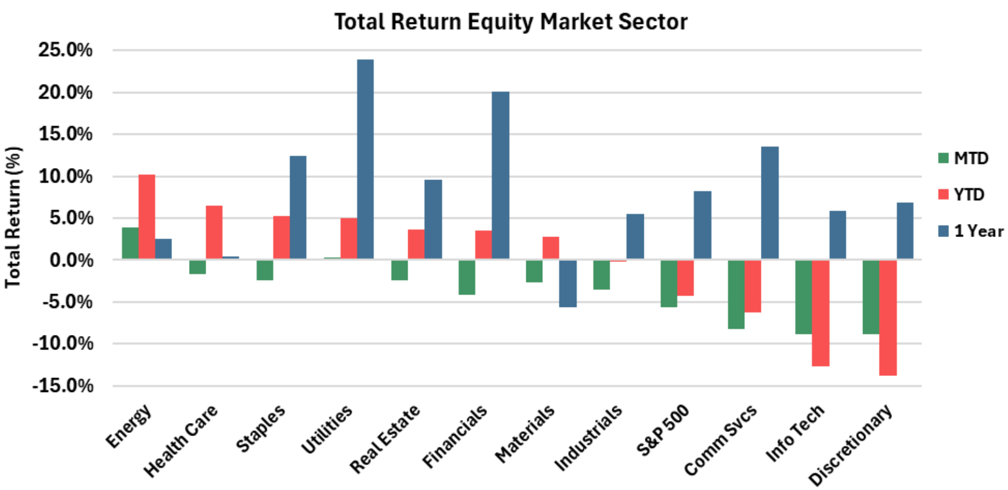
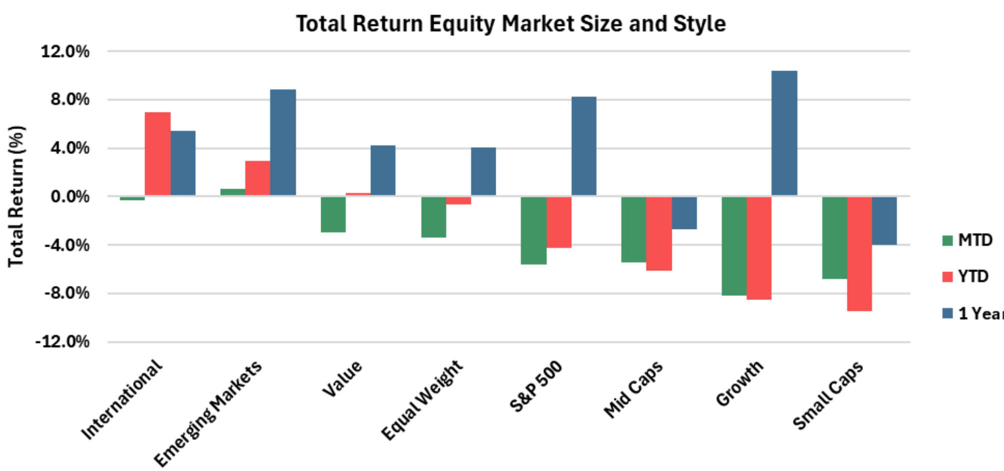
Market Review
Equity Market – Returns

- Defensive sectors performed the best in Q1, as Energy led followed by Health Care, Consumer Staples, and Utilities.
- Technology, Discretionary, and Communications sold off as markets repriced risk assets on softer economic data and uncertainty surrounding new global trade policies which led the S&P 500 lower year-to-date.
- International stocks and Emerging markets performed best as the dollar weakened and profits taken in US markets were reallocated to more international equity exposure.
- Mid and Small cap stocks underperformed as risk-off themes dominated the quarter.





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Market Review

Equity Market – S&P 500 Top 10

- The Magnificent Seven corrected in Q1 amid broad market volatility. They led the market index lower as the top 10 fell over 14% in Q1, and were reduced from 37.3% of the index to 33.4%.
- The "mag 7" collectively fell over 17% for the first quarter.
- Only Meta and Berkshire Hathaway outperformed the market weighted index year-to-date, with Tesla and Broadcom lagging the most.
- The equal weighted S&P 500 index (SPW) was down -0.6% in Q1 while the market weighted was down -4.3%.

Top 10 Holdings Vs. Rest of S&P 500

Company	Name	3-31-2025 % Weight in SPX	12-31-2024 % Weight in SPX	MTD Return	MTD Contribution	YTD Return	YTD Contribution
AAPL	Apple Inc	6.6%	7.6%	-8.2%	-0.6%	-11.2%	-0.9%
MSFT	Microsoft Corp	6.2%	6.3%	-5.4%	-0.3%	-10.8%	-0.7%
NVDA	NVIDIA Corp	5.4%	6.6%	-13.2%	-0.8%	-19.3%	-1.3%
AMZN	Amazon.com Inc	3.8%	4.1%	-10.4%	-0.4%	-13.3%	-0.5%
META	Meta Platforms Inc	2.6%	2.6%	-13.7%	-0.4%	-1.5%	0.0%
GOOGL	Alphabet Inc Class A	2.0%	2.2%	-9.1%	-0.2%	-18.2%	-0.4%
TSLA	Tesla Inc	1.6%	2.3%	-11.5%	-0.2%	-35.8%	-0.8%
AVGO	Broadcom Inc	1.6%	2.2%	-15.8%	-0.3%	-27.6%	-0.6%
GOOG	Alphabet Inc Class C	1.6%	1.8%	-9.2%	-0.1%	-17.9%	-0.3%
BRK/B	Berkshire Hathaway Inc	2.1%	1.7%	3.6%	0.1%	17.5%	0.3%
Top 10 of SPX		33.4%	37.3%	-9.3%	-3.3%	-14.0%	-5.2%
Rest of SPX		66.6%	62.7%	-3.7%	-2.4%	1.5%	1.0%
Total		100.0%	100.0%	-5.6%	-5.6%	-4.3%	-4.3%
SPW Returns				-3.4%	-3.4%	-0.6%	-0.6%

Market Review

Equity Market – S&P 500 Relative Valuation

- Even after an 8.7% fall from the February high, the S&P 500 is still valued above long-term historical average earnings multiples at 22.4 trailing with an actual 9.6% growth rate, and a forward looking P/E of 20.1 with 11.1% expected growth in earnings.

- Uncertainty around trade policy will be a headwind at least until the 90-day pause of reciprocal tariffs ends, and possibly beyond that. Slower growth could cause the market to further reprice to longer-term average valuations.

- Current earnings expectations will likely be revised down. We see the 4.1% growth as a likely scenario, which would support an index price anywhere between $5263 (-6.2%) at the current multiple to $4201 (-25.2%) at the 20-year average P/E multiple.

SPX Index	Act. Growth	9.6%	Est. Growth	11.0%	9.0%	4.1%
S&P 500	Act. EPS	$250.8	Est. EPS	$278.5	$273.5	$261.2
Scenario	LTM P/E	Price	NTM P/E	Price		
3/31/2025	22.4	$5,612	20.1	$5,612	$5,511	$5,263
5-Year Average	21.9	$5,504	20.0	$5,565	$5,465	$5,219
10-Year Average	20.0	$5,029	18.4	$5,138	$5,045	$4,818
15-Year Average	18.3	$4,591	16.8	$4,679	$4,594	$4,388
20-Year Average	17.6	$4,407	16.1	$4,479	$4,398	$4,201

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Market Review

Equity Market – Equal Weight Relative Valuation

- The equal weighted index should also see slower growth but is more diversified across sectors and has a lower downside risk in the scenario that valuations return to long-term averages.

- If earnings expectations are reduced to 7.2% from 14.1%, it would support an index price of $6828 (-2.9%) at the 5-year average multiple to $6378 (-9.3%) at the 20-year average multiple.

- Due to lower concentration risk, the equal weight lets us retain a higher equity exposure while minimizing the risk in scenarios involving a market correction.

SPW Index	Act. Growth	-6.5%	Est. Growth	14.1%	12.1%	7.2%
S&P 500 Equal Weight	Act. EPS	$376.7	Est. EPS	$429.7	$422.2	$403.7
Scenario	LTM P/E	Price	NTM P/E	Price		
5-Year Average	19.1	$7,186	16.9	$7,268	$7,140	$6,828
10-Year Average	18.2	$6,839	16.6	$7,123	$6,998	$6,692
3/31/2025	18.6	$7,024	16.3	$7,024	$6,901	$6,599
15-Year Average	17.3	$6,513	15.8	$6,793	$6,674	$6,382
20-Year Average	17.3	$6,521	15.8	$6,789	$6,670	$6,378

Market Review

Equity Market – Small/Mid Cap Relative Valuation

- Small and mid caps have underperformed YTD but are cheap compared to large caps on a relative valuation basis.
- It is possible for small and mid caps to continue to underperform while trade policy remains uncertain, and a risk of economic slowdown continues to be priced in.
- However, at these valuations small and mid cap stocks are set up to outperform in a return to a stronger macroeconomic environment.

MID Index	Act. Growth	0.3%	Est. Growth	10.4%	8.4%	3.5%
S&P Midcap 400	Act. EPS	$182.3	Est. EPS	$201.3	$197.7	$188.8
Scenario	LTM P/E	Price	NTM P/E	Price		
10-Year Average	17.9	$3,257	16.2	$3,264	$3,204	$3,060
15-Year Average	17.9	$3,256	16.0	$3,217	$3,159	$3,016
20-Year Average	17.5	$3,193	15.6	$3,141	$3,084	$2,945
5-Year Average	17.3	$3,154	15.6	$3,136	$3,080	$2,940
3/31/2025	16.0	$2,919	14.5	$2,919	$2,866	$2,737

SML Index	Act. Growth	-5.9%	Est. Growth	14.1%	12.1%	7.2%
S&P Smallcap 600	Act. EPS	$81.5	Est. EPS	$93.1	$91.4	$87.4
Scenario	LTM P/E	Price	NTM P/E	Price		
10-Year Average	19.1	$1,554	16.3	$1,517	$1,491	$1,426
15-Year Average	19.1	$1,561	16.2	$1,510	$1,483	$1,418
20-Year Average	18.4	$1,502	15.8	$1,474	$1,448	$1,385
5-Year Average	18.0	$1,464	15.1	$1,407	$1,382	$1,322
3/31/2025	15.7	$1,277	13.7	$1,277	$1,255	$1,200

Market Review

Equity Market – International Relative Valuation

- International stocks (MXEA) and emerging markets (MXEF) have performed well YTD as the dollar weakened and US stocks underperformed.
- You would expect earnings growth to slow globally in the event of a slowdown in spending coming from the US.
- However, their cheaper valuation makes them an attractive hedge to a potentially weaker dollar amid new trade policies, with less downside risk than US large caps.

MXEA Index	Act. Growth	-1.7%	Est. Growth	6.3%	4.3%	-0.6%
International	Act. EPS	$157.8	Est. EPS	$167.8	$164.6	$156.9
Scenario	LTM P/E	Price	NTM P/E	Price		
5-Year Average	15.9	$2,504	14.7	$2,470	$2,423	$2,309
10-Year Average	15.7	$2,485	14.6	$2,446	$2,400	$2,287
3/31/2025	15.2	$2,401	14.3	$2,401	$2,356	$2,245
15-Year Average	15.2	$2,399	13.8	$2,323	$2,279	$2,172
20-Year Average	15.1	$2,389	13.7	$2,303	$2,259	$2,153

MXEF Index	Act. Growth	7.4%	Est. Growth	14.7%	12.7%	7.8%
Emerging Markets	Act. EPS	$80.1	Est. EPS	$91.9	$90.3	$86.4
Scenario	LTM P/E	Price	NTM P/E	Price		
5-Year Average	14.0	$1,122	12.4	$1,142	$1,122	$1,073
3/31/2025	13.8	$1,101	12.0	$1,101	$1,082	$1,035
10-Year Average	13.5	$1,078	12.0	$1,102	$1,083	$1,036
20-Year Average	13.1	$1,052	11.6	$1,065	$1,047	$1,001
15-Year Average	12.8	$1,028	11.4	$1,046	$1,028	$983

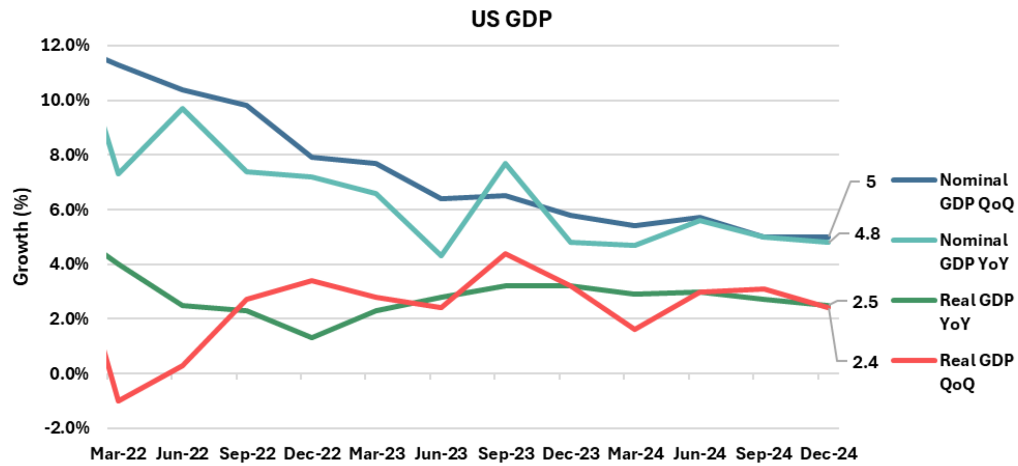
Economic Environment

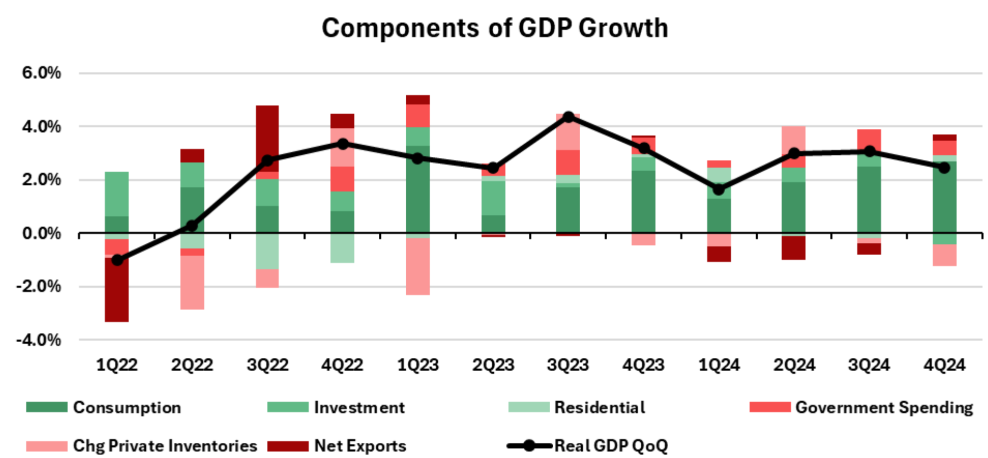
Economic Activity

- Nominal GDP is still a healthy 4.8% year-over-year but has steadily declined from the stimulus driven peak in growth following the COVID-19 pandemic.

- Consumer spending continues to be the largest contributor to GDP. This may decline amid high prices, falling consumer confidence and an increase in unemployment in 2025.

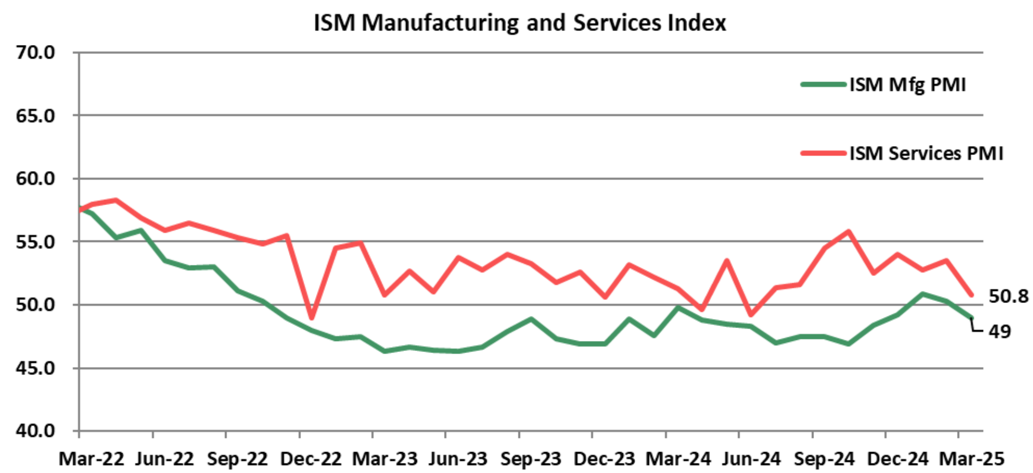
- The tariff policies are upending the global trade environment. US trade deficit was -$918 Billion in 2024, made up of $-1.2 Trillion in goods deficit offset by +$293 surplus in services. The impact to overall GDP is relatively small, but significant to specific industries and countries.





Economic Environment
Economic Activity

- The Citi surprise index is back to negative levels after some strong surprises in the 4th quarter of 2024.
- Both ISM manufacturing and services have trended down over the last 3 years, with services remaining more robust and manufacturing more sluggish.
- This softer economic data spurred a repricing of risk assets and a flight-to-quality.



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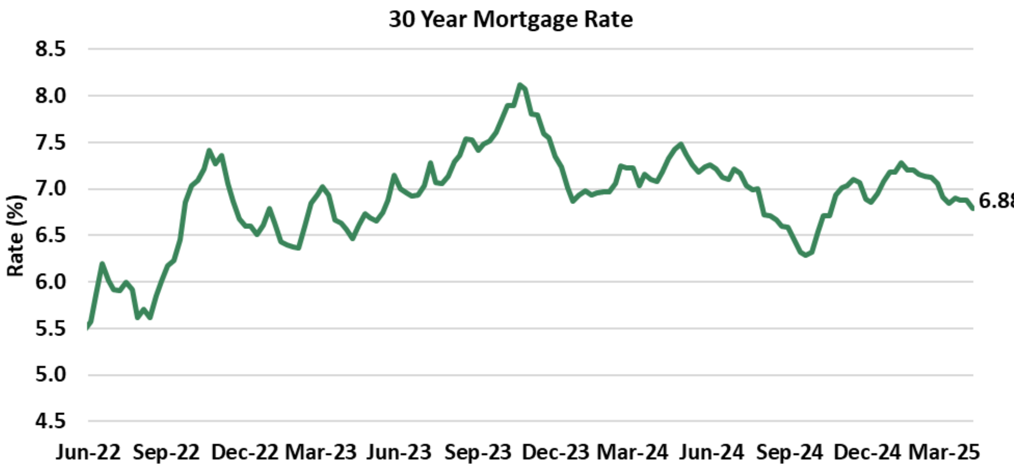
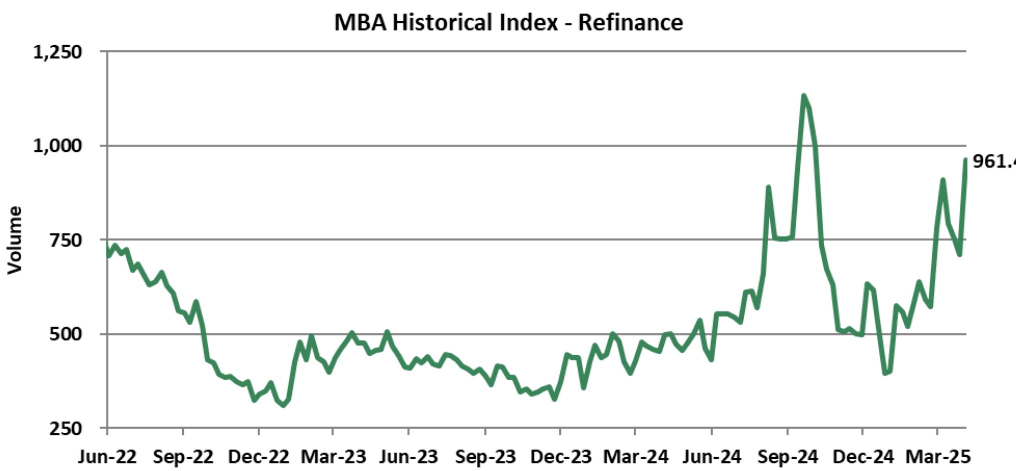
Economic Environment

Housing

- Mortgage rates rebounded as it became clear that this Fed cut cycle would be longer than initially anticipated by the market.
- Refinances declined sharply with rates above 7%, before rising again as rates fell below 7%. That seems to be a key level that spurs some refinancing activity, but rates would need to move closer to 6% for significant stimulus.
- Interest rates have been volatile in a range near that have kept mortgage rates higher than the majority of outstanding mortgages, combined with high home prices has also limiting housing turnover.





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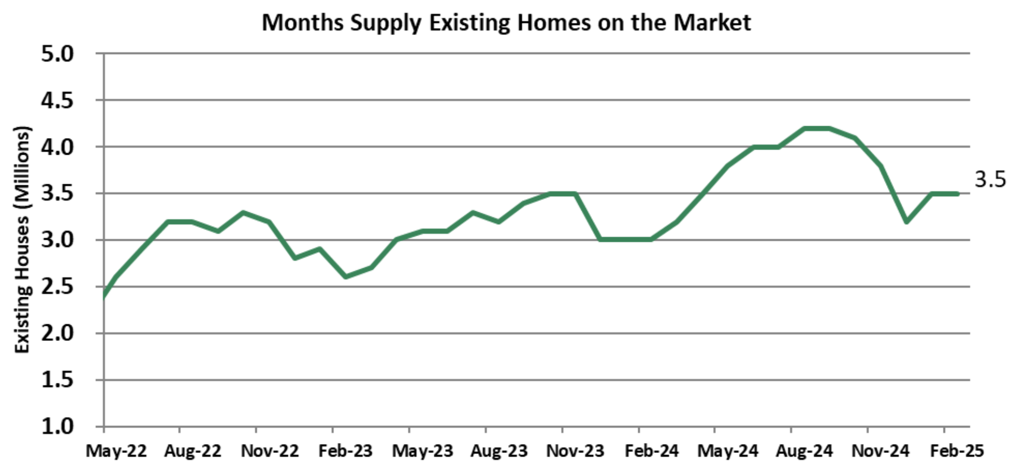
Economic Environment
Housing

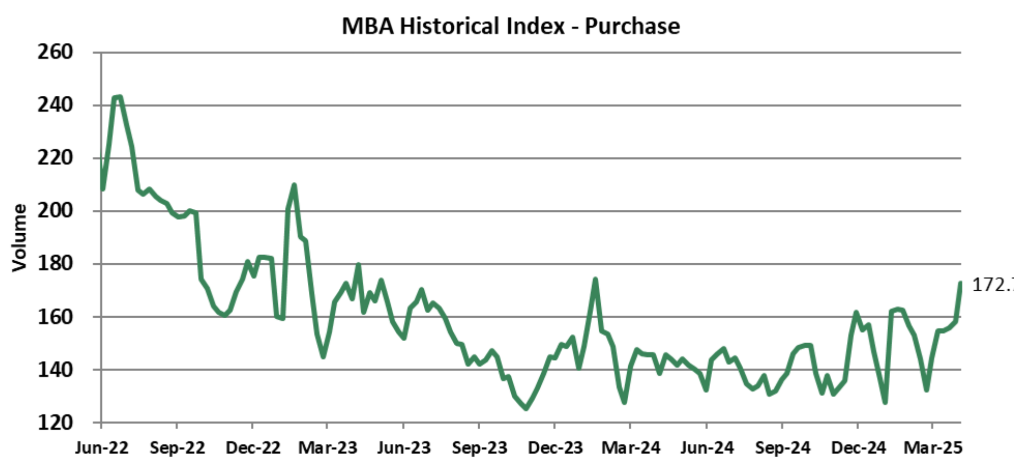
- There has been an increase in the supply of homes in the market as higher home prices and rates slowed purchases, and new homes were built.

- Home purchases have begun to increase again as rates fell below 7%.

- Perhaps the greater inventory and home purchases are due to lower pricing, that may be discovered in the months to come.

- The housing market behavior suggests a rate closer to 6%, and/or lower prices is needed to spur significant activity.



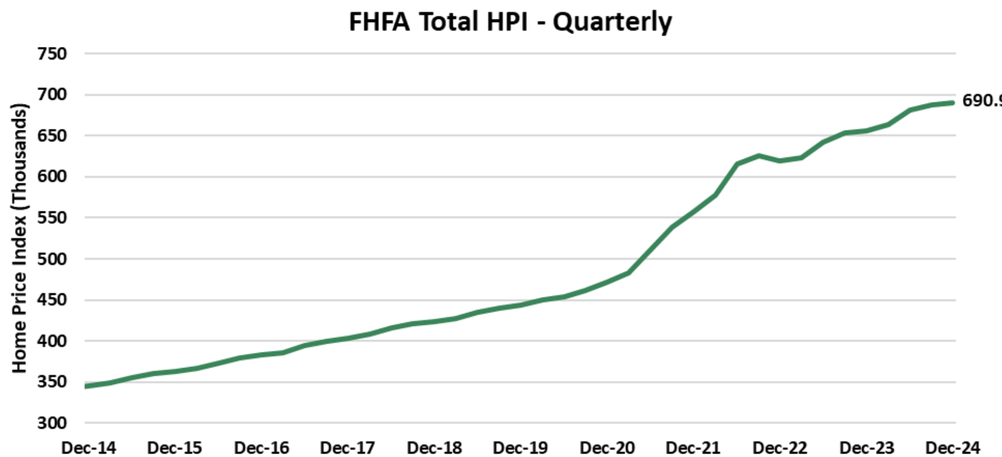


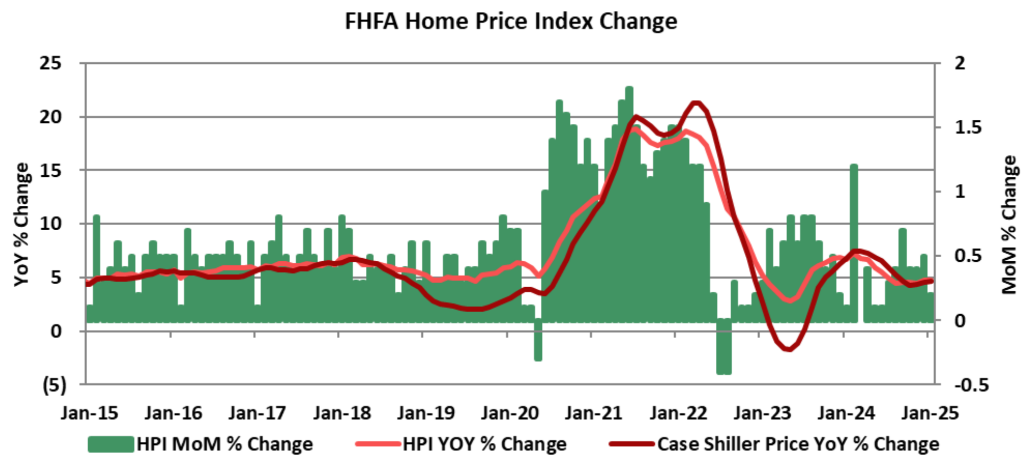
Economic Environment

Housing

- Home prices remain near record high levels due to strong demand and limited supply, curbing new home purchases.

- Higher prices have had a significant impact on continued higher than expected inflation, and potentially stalling home price appreciation may finally flow through to lower overall inflation.





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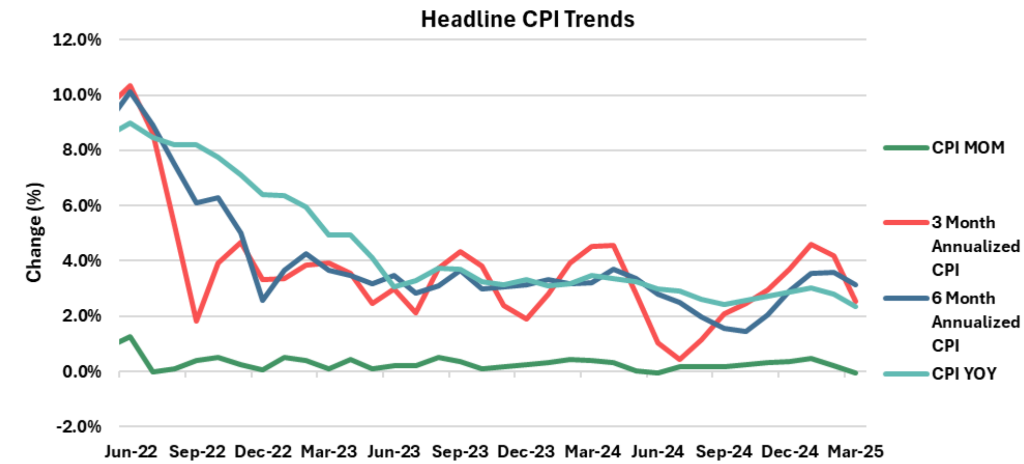
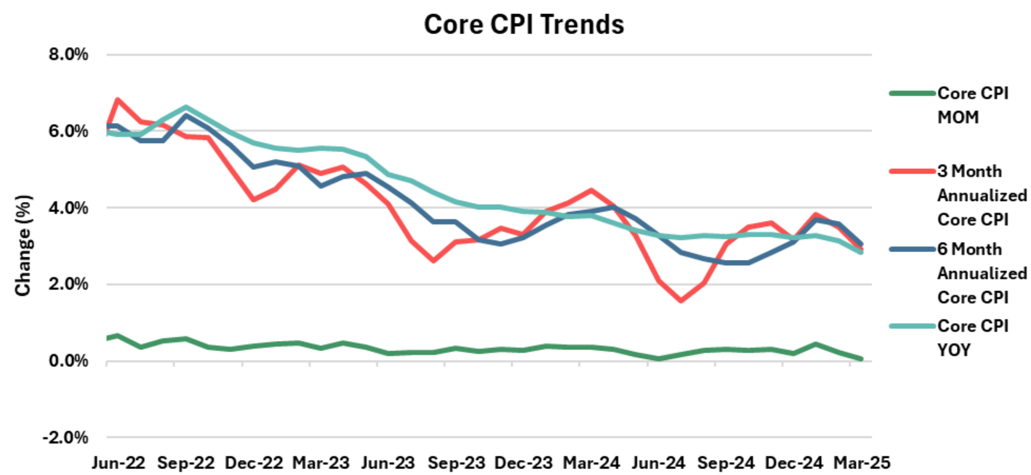
Economic Environment
Inflation

- Inflation saw some improvements in the first quarter as consumers rejected higher prices.
- We feel inflation will continue to recede regardless of tariffs.
- Uncertainty around new trade policy has caused inflation expectations for the next year to increase.
- The Fed's inflation target remains at 2%, and they have publicly stated that they see tariffs as a near term risk to inflation.

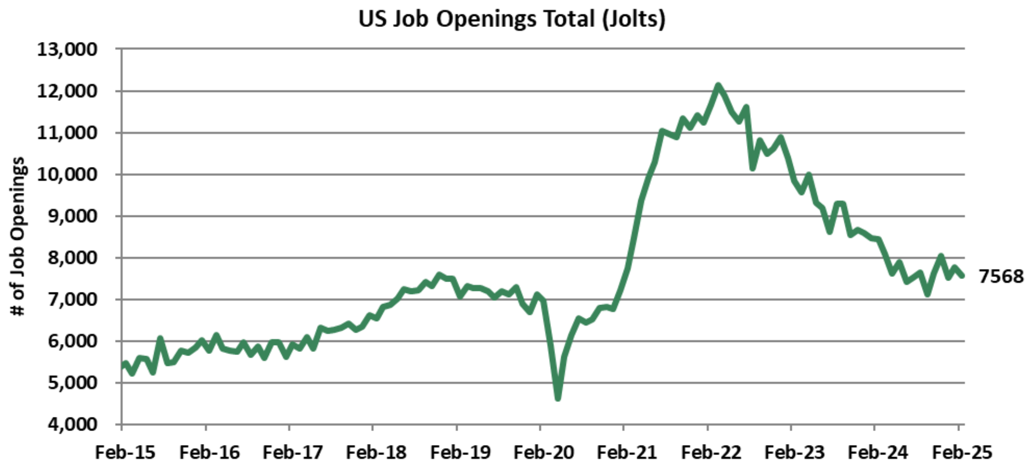




Economic Environment

Labor Market

- Steady employment gains have reduced stress in the job market, bringing down the number of jobs openings.
- Job openings have reverted to near pre pandemic levels (with a healthy economy) and recently ticked up. The quits rate continues to decline.
- Weekly unemployment claims have remained steady at a low rate, suggesting limited layoffs; however, the continuing claims information is escalating, suggesting it is taking longer for those that are laid off to find new work.



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Economic Environment

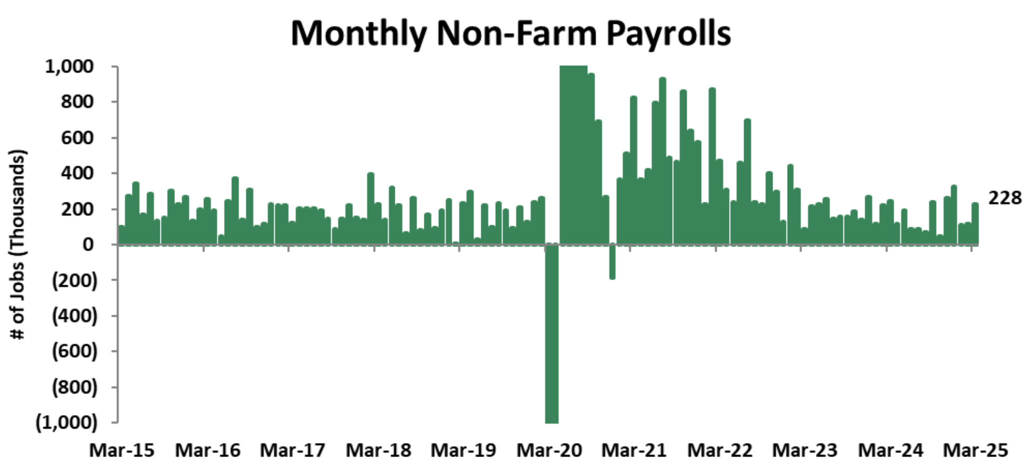
Labor Market

- The unemployment rate has maintained a level of over 4% and is holding steady as the job market seems to have stabilized.

- Monthly payrolls additions have been volatile, but continue at strong levels, certainly stronger than market expectations. Jobs are being filled in government, health care, and services sectors.

- Layoffs continue in technology, and have spread to some other cyclical economic sectors, while new jobs are getting harder to find.

- We expect government and corporate layoff announcements to flow through the data later in 2025.



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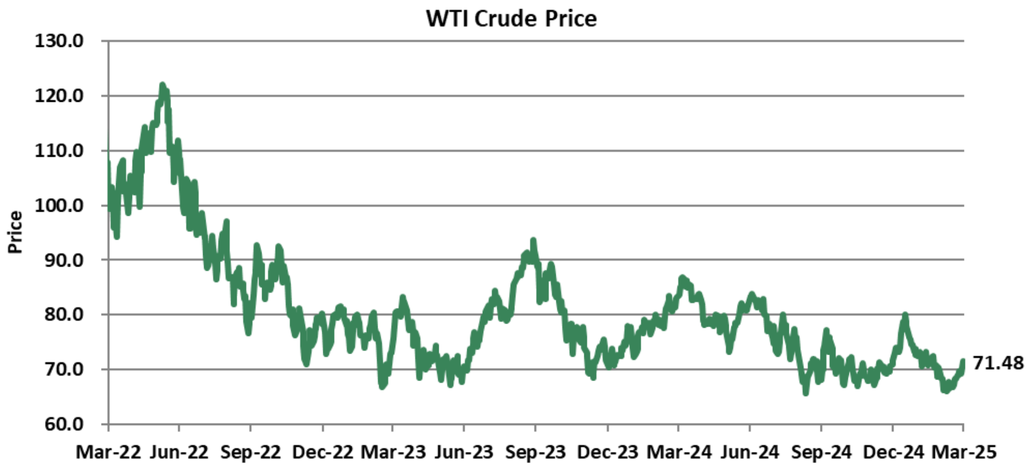
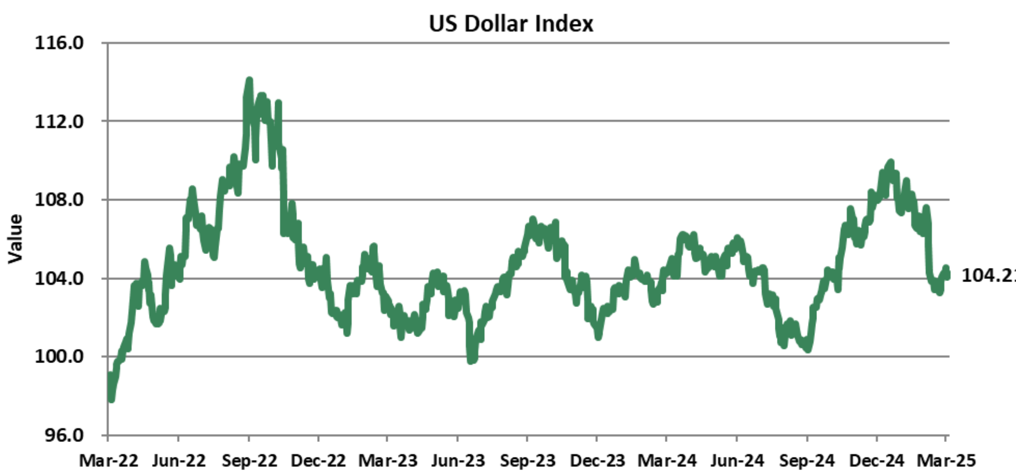
Economic Environment
Oil Prices and The Dollar

- Dynamics of energy and oil prices are about to materially change with the new Trump administration.
- Oil prices have declined amid expectations of higher production and slower economic conditions.
- Natural Gas will take on a greater role in energy going forward including production and exporting of liquified natural gas.
- The dollar has retreated from December highs amid changes in US trade policy.
- The dollar may continue to weaken until uncertainty around trade policy subsides.





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