

# Market Newsletter

## First Quarter 2025



## EXECUTIVE SUMMARY

- In the first quarter, US stocks fell, but non-US stocks and bonds appreciated.
- The US economy had been faring well with sturdy growth, plentiful jobs and declining inflation, before the uncertainty brought about by trade tariffs.
- Survey data from consumers and businesses shows a significant decline in sentiment in response to tariffs.
- Initial calculations show that tariffs will lead to a decrease in economic growth around the world.
- The impact of various events on stock prices could be surprising sometimes. For example, stocks of the primary targets for tariffs in March—Canada, Mexico, and China—were up for the year. This is because market prices incorporate the aggregate expectations of investors.
- Over the long term, turbulence in the market such as the one we are currently experiencing seems like a blip in the long-term graph of stock appreciation.
- Successful investing requires one to capitalize on the favorable long-term odds and protect permanent loss from the unfavorable short-term odds, by creating diversified, resilient portfolios and good planning.



**Table 1: Market indices**

<i>(Returns include dividends reinvested)</i>	<b>Quarter to date</b>	<b>Year to date</b>	<b>1 Year</b>	<b>3 Year Annualized</b>	<b>5 Year Annualized</b>
S&P 500	-4.27%	-4.27%	8.25%	9.06%	18.59%
S&P Mid Cap 400	-6.10%	-6.10%	-2.70%	4.42%	16.91%
S&P Small Cap 600	-8.93%	-8.93%	-3.38%	0.38%	15.09%
MSCI Emerging Markets	3.01%	3.01%	8.65%	1.91%	8.38%
MSCI EAFE	7.01%	7.01%	5.41%	6.60%	12.31%
Vanguard Total Bond Market Index	2.70%	2.70%	4.70%	0.39%	-0.53%
Investment Grade Credit	2.36%	2.36%	5.30%	1.48%	1.79%
Non-Investment Grade Credit	0.94%	0.94%	7.60%	4.84%	7.21%
Bloomberg Commodity Index	8.88%	8.88%	12.28%	-0.77%	14.51%
Dollar Index	-3.94%	-3.94%	-0.27%	1.96%	1.02%
10 Yr. Rate	4.25% 03/31/2025	4.25% 12/31/2024	4.21% 03/31/2024	2.33% 03/31/2022	0.70% 03/31/2020

Source: S&P Dow Jones, ml.com, MSCI.com, Morningstar, Bloomberg, Yahoo Finance

**Table 2: Vanguard Life Strategy (Asset Allocation) Funds**

	<b>Quarter to date</b>	<b>Year to date</b>	<b>1 Year</b>	<b>3 Year Annualized</b>	<b>5 Year Annualized</b>
Income (20% stocks)	1.43%	1.43%	5.11%	1.95%	2.78%
Conservative Growth (40% stocks)	0.79%	0.79%	5.53%	3.19%	5.9%
Moderate Growth (60% stocks)	0.22%	0.22%	5.93%	4.37%	9.01%
Growth (80% stocks)	-0.32%	-0.32%	6.37%	5.55%	12.18%

Source: Vanguard

**Table 3: Recent Major US Economic Releases (These indicators have a significant impact on the stock market)**

As of 04/03/2025			
	Latest Release	Recent Trend	Notes
Non-Farm Employment	228,000	Positive	Jobs data surprised to the upside reflecting a strong labor market. However, this data is backward looking and it remains to be seen what effect Tariffs and cuts in government employees will have on future numbers.
Weekly Claims for Unemployment Insurance	219,000	Positive	Initial jobless claims are still well below historical average. However continuing claims rose to the highest level since November 2021 perhaps because out of work people can't find jobs.
ISM Manufacturing Index (over 50 indicates growth)	49	Negative	The index has inched up from the end of last year, but is below 50 indicating that manufacturing is contracting. Survey participants cited tariffs as the main concern for their pessimism



	Latest Release	Recent Trend	Notes
ISM Non Manufacturing Index (Over 50 indicates growth)	50.8	Negative	The services index dipped to the lowest level in 9 months. Employment and new orders dropped bringing down the index.
Consumer Prices (Month over month change)	0.2%	Positive	Inflation was 2.8% for the year. Inflation has been well contained although the last mile to bring it below the Fed's preferred level of 2% year over year has been difficult.
Producer Prices (Month over month change)	0%	Positive	Like consumer prices, producer prices have been stable. Year over year producer prices rose 3.2%
Retail Sales (Month over month change)	0.2%	Negative	Retail sales inched up from the previous month but there are signs that there is a sharp decline in discretionary spending as receipts from restaurants and bars declined significantly.
Consumer Confidence (Conference Board)	92.9	Negative	Consumer confidence declined for a fourth consecutive month. Both present situation and future expectations declined remarkably.
Durable Goods Orders (Month over month change)	0.9%	Positive	Durable goods orders rose for the second month. However, this could be because of front loading ahead of tariffs. Orders for nondefense capital goods excluding aircraft, a proxy for business spending, fell 0.3%.
Industrial Production (Month over month change)	0.7%	Positive	Industrial production rose the most in a year driven by strong durable goods manufacturing and the rebound in mining activities. However, this could be because of stockpiling ahead of tariff increase.
Capacity Utilization	78.2%	Positive	Capacity utilization has been steady and close to its long term average.
Housing Starts	1.50 Million	Positive	Housing starts rose to the highest level in a year as low housing inventory spurred builders to act. However, builder sentiment continues to sour with worries of trade wars and price increase.
Home Prices (Case-Shiller Home Price Index- Year over Year)	4.70%	Positive	Home prices continue to hit all time highs. New York recorded the highest gain among 20 cities in the index, followed by Chicago and Boston.
GDP (Real, Annualized)	2.4%	Positive	The latest estimate of 4th quarter GDP showed continued growth. In 2024, the US GDP grew by a healthy 2.8% as compared to 2.9% in 2023. However, the GDP is expected to have slipped in the first quarter 2025.

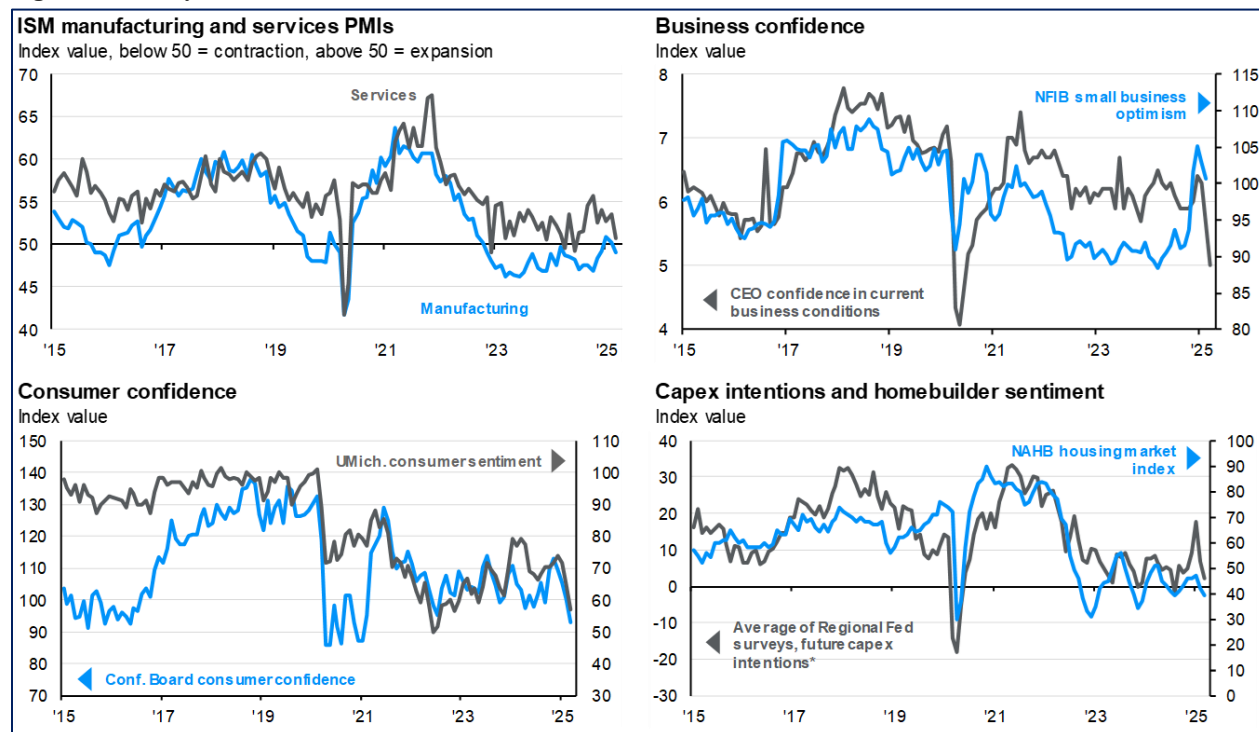
Source: Bloomberg, [www.federalreserve.gov](http://www.federalreserve.gov), [www.bls.gov](http://www.bls.gov), [www.ismword.org](http://www.ismword.org), [www.nahb.org](http://www.nahb.org)



US stocks of all kinds had a difficult first quarter and dropped for the year. While stocks of companies outside the US and commodities rose, as the US dollar declined (A weak dollar vs other currencies helps non-US stocks and commodities). Interest rates dropped in the first quarter and therefore bonds rose (They have an indirect relationship). Within US stocks, value stocks shone and outperformed growth stocks as valuation concerns were heightened with market volatility.

The US economy had been faring well with sturdy growth, plentiful jobs and declining inflation as seen in the table above. However, with the heightened risk of Tariffs, survey data from consumers and business shows a significant decline in sentiment as seen in Figure 1. It remains to be seen if these survey data will translate into weaker hard economic data.

Figure 1: Survey Data



Source: JP Morgan

The Tariff announced by President Trump on April 2, turned out to be significantly harsher than expected. When fully enacted, it will take effective US tariff rates to the highest level in over 100 years. These rates could get higher if sector specific rates(232s') are implemented as seen in Figure 2. The expected impact on US GDP growth rate could be over -1% initially before tapering off to -0.6% (Figure 3). Tariffs and trade policy uncertainty are also expected to affect countries/regions around the world as seen in Figure 4

As is the case usually, these forecasts on the impact on GDP are in some cases based on assuming 'all else will remain equal' and in other cases can underestimate the resilience of businesses in adapting to changes. The number of companies addressing the impact of tariffs and their company's plans to address increased to the highest level in 10 years in March, well before the latest tariff announcement. (Figure 5). While the initial impact on corporate earnings could be significant, some companies are navigating uncertainty expertly and making their employees happy.

The US Federal reserve held interest rates steady at 4.25%-4.50% in March, after cutting them a full percentage point last year, citing elevated inflation and an uncertain economic outlook. Chairman Jerome Powell said that he expects President Trump's tariffs to raise inflation and lower growth. He also said the Fed is 'well positioned to wait for greater clarity before considering any adjustments to policy stance and that it is too soon to say what will be the appropriate path for monetary policy'. Federal Funds futures markets are reflecting a 66.8% chance that the Fed will keep its benchmark interest rate at



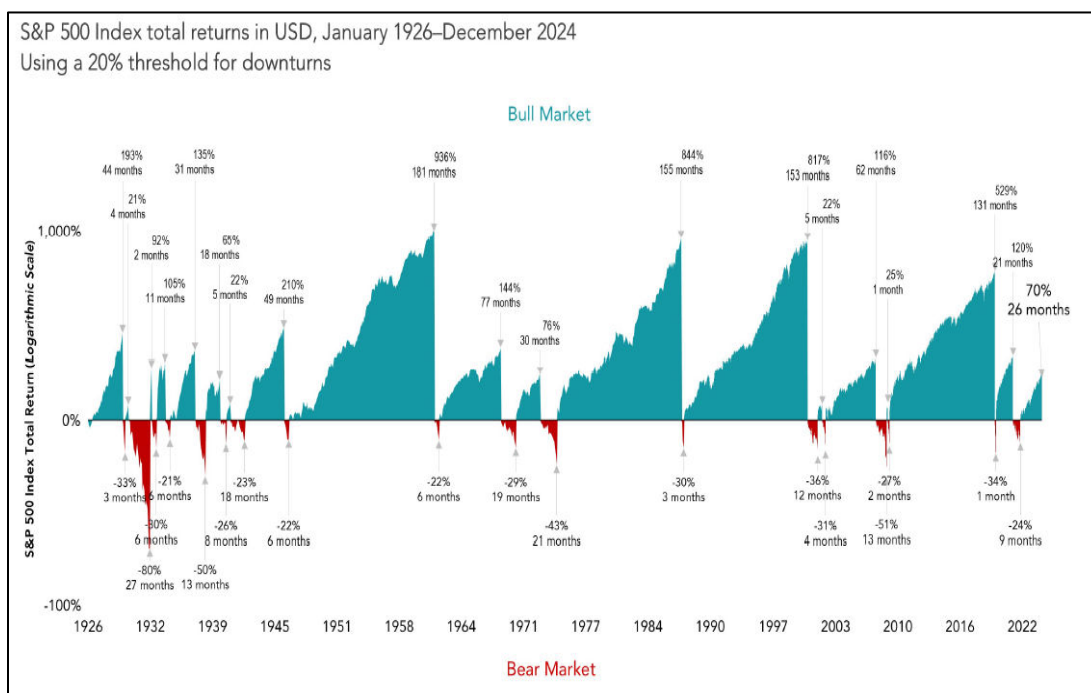




policy discussions. Market prices incorporate the aggregate expectations of investors. It could be that tariff developments thus far were in line with those expectations and therefore already priced in by the market.

Over the long term, turbulent events such as these seem like a blip in the long-term graph of stock appreciation. [SEE HERE](#). Seen from a long-term perspective, market drops such as the one we are experiencing are a much smaller part of the trajectory than the rallies (i.e. stock appreciation) as seen in Figure 6. However, the speed and magnitude of price drops are almost always higher than price gains, leading to a stronger emotional response to the former than the latter, as discussed previously. [SEE HERE](#). Successful investing requires one to capitalize on the favorable long-term odds and protect permanent loss from the unfavorable short-term odds, by creating diversified, resilient portfolios and good planning.

Figure 6: Bull and Bear markets (>20% drop in prices) over the long term



Source: Dimensional Fund Advisors