Market Commentary

April 2025

Equity and Bond Market Update

(as of March 31, 2025)

Index	YTD	1-Year
Dow Jones Industrial Average TR	-0.9%	+7.4%
S&P 500 Total Return Index	-4.3%	+8.3%
Russell 2000 Total Return Index	-9.5%	-4.0%
MSCI EAFE Index (net)	+6.9%	+5.0%
MSCI Emerging Markets Index (net)	+2.9%	+8.4%
Bloomberg US Aggregate Bond TR	+2.8%	+4.9%

Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	4.2%	Mar 2025
Gross Domestic Product (GDP)	2.4%	Q4 2024
Consumer Price Index (CPI) – Y/Y	+2.8%	Feb 2025
Consumer Confidence (1985=100)	92.9	Mar 2025
30-year fixed mortgage rate	6.72%	Wk of Mar 30
Housing Starts (single family)	1,108,000	Feb 2025
10-Year Treasury Yield	4.02%	4/3/2025

As U.S. stock markets moved into early March, we were already seeing some weakness in the major indices. The large-cap S&P 500 Index is now down -4.3% year-to-date through March 31, and the small-cap Russell 2000 Index is down -9.5% for the same period. Foreign developed markets and emerging markets have held their values this year as the U.S. Dollar began to weaken in early February. Aggregate bond markets have fared well too, returning almost +3.0% through the end of March, concurrently as the 10-year Treasury rate fell from 4.8% on January 10th down to 4.2% as of the end of March.

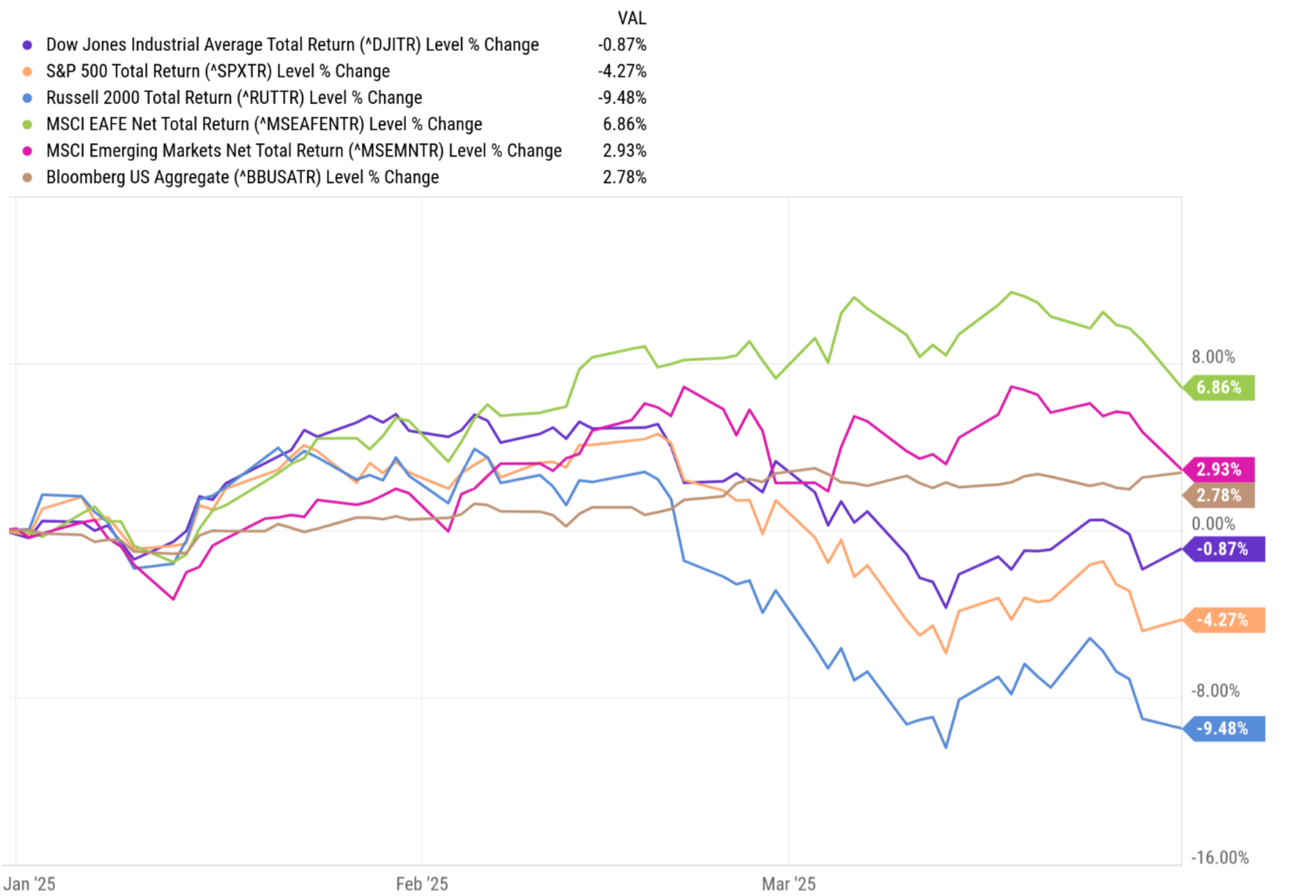
On April 2nd after market close, President Trump held a "Liberation Day" press conference to announce the final decisions of worldwide tariffs to be enacted over the next week to help bring manufacturing back to the U.S. and address what he identifies as trade imbalances between the U.S. and the rest of the world. Non-targeted trading partner countries will have at least a 10% tariff on imported goods, with other major partners being assessed much higher (based on existing country-specific trading parameters already in effect from foreign countries). On average and weighted for export and import activity, the tariffs will amount to approximately 25% - 30%. Each country's tariff rate is estimated to be that country's trade deficit with the U.S. divided by their total imports into the U.S. The magnitude of tariffs and the speed at which they were announced to go into effect are what we believe caught the stock market off guard. We all knew there was going to be an inevitable announcement, but the wide-ranging reach of these trade policies were more than expected. Due to the uncertainty of various expansive policies, it is hard to gauge the effects of how global economies will react, and especially as it pertains to tariffs, who will bear the majority of the burden for their potential increase in costs, the consumer or businesses.

Stock market futures overnight reacted negatively to the news, and by mid-morning on April 3rd (at the time of this commentary writing), markets were trading anywhere from -2.8% on the Dow Industrial Average, to -4.0% for the S&P 500 Index, -4.8% for the NASDAQ 100 Index, and -6.3% for the Russell 2000 Index in just the first couple hours of trading.

The decline is not necessarily due to any concrete facts that the tariffs will have some or widespread negative effects on global economies, but rather that there is a significant level of uncertainty of what the outcomes will be…and the market does not like uncertainty. Uncertainties range from: what effects will these tariffs have on fiscal and monetary policy? Who will bear the majority of the burden? Will this drive the U.S. into recession? Outcomes can range from an all-out global trade war to a very busy upcoming schedule over the next few weeks of negotiations with foreign trading partners on fair trading policies to enact on a country-by-country basis.

Keep in consideration that all of this will be played out significantly in the mainstream media, with opinions coming in both directions of left-wing and right-wing bias. At this point, it is impossible to gauge the final outcomes of these new policies, and even if they will last very long. In addition to the just released tariff policies, we have also gone through significant government waste and job cuts, substantial differences in immigration policy and outcomes in just a couple of months, ongoing discussion of tax policy including extension of the TCJA of 2017, and increased deregulation initiatives, among other things. Many of these significant policy shifts will offset each other, but some may also exacerbate each other.

Major Market Indices Price Return (YTD through February 28, 2025)



Source: YCharts

The bottom line for investors is that it really doesn't matter what you think about the tariffs; it's how the remainder of market participants translate them into their investment strategies that will move markets up or down. These market participants have vastly different philosophies and objectives than you have. As a matter of fact, the majority of market participants are trading by digital algorithms that take advantage of different situations to squeeze out a little extra return. In the same way, this does not affect your strategy on a day-to-day trading basis.

As for recession fears, we have already had this brewing for some time based on various factors and events we have recently gone through that are historically common to pre-date many past U.S. recessions. We have seen an inversion and un-inversion of the yield curve that has preceded each of the last eight recessions going back to the 1970s. An inevitable recession is still unlikely at this point when looking over current economic indicators, but it cannot be ruled out. Currently, economic measures such as housing permits, jobless claims, retail sales, wage growth, commodity prices, profit margins, credit spreads, and the money supply all point to a healthy economy. We will have to keep a close eye on these measures in the coming months to see if any weakness wriggles into our economic picture.

Investing as it relates to financial planning is not a game. Properly allocating your portfolio is a strategy to attain a goal that is three, five, ten or twenty years or more into the future. The main component of this is time. If the market declines over a week, month or quarter, it will only be a blip on the screen when you get to the end of your time horizon and look back over the last ten or twenty years. Obviously, the shorter your time frame to your goal, the less you want to see your portfolio drop, so allocating a greater portion to investments that are less tied to the stock market (like alternative investments, bonds and cash) is the prudent act to take. However, should your time frame be ten years or longer, the best option is to take advantage of declines by buying good, quality stocks at depressed prices in anticipation of the recovery. All stock market declines have recovered. As a matter of fact, the worst five-year return period for the S&P 500 Index since 1950 has been an annualized -2%. If you extend that out to all 20-year periods since 1950, the worst 20 years has been +6% annualized. Keeping the long haul in perspective makes it much easier to navigate through the market's short-term down cycles.

As mentioned, should you be worried about volatility in the stock market and your time horizon is three years or less, then you are not allocated according to the lower risk you should be seeking. You should have very limited exposure to the stock market in this scenario, such as only 20% or even lower based on how much income and return you can anticipate receiving in other assets classes like fixed income. Currently, money market funds (invested only in short-term, highly liquid debt securities, such as Treasury bills and Certificates of Deposit [CDs]), are paying monthly income equal to an annualized yield up to 4.25%. You can also achieve a bit higher yield income by investing in other short-term debt instruments that are a bit more risky but much less than the stock market. We use these in our more conservative portfolios both to predict more accurately the expected return, as well as provide a more stable account value over this short period.

The best way to set these strategies into action is to talk to your financial advisor, discuss your time horizons for different goals, assess your ability and willingness to take on market risk, discuss ahead of time what actions, if any, will be taken when markets experience stress, and initiate diversified investment policies that match these criteria. Making these decisions ahead of time before we are right in the middle of market stress sets expectations that can be reviewed from when markets, and your emotions, were more in check. It may also be a good time to re-visit the Risk Tolerance Questionnaire you filled out when opening your account to ensure it still meets your financial situation and feelings.

Given the aforementioned commentary, we have strategies built into our risk-based portfolios to mitigate the volatility that was expected from earlier this year. These holdings have a lower beta (reaction to major market moves) than the broad stock market, and some even have not pulled back while the stock market declined. In addition, with the bond market once again paying decent yields when compared to the last twenty or so years, we have holdings that are uncorrelated with stock market declines and actually have provided positive returns in 2025.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 612-2035 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources:
S&P Dow Jones Indices website (us.spindices.com)
MSCI Barra website (http://www.mscibarra.com)
The Conference Board (www.conference-board.org)
Bureau of Economic Analysis (www.bea.gov)
JP Morgan Guide to the Markets
CME FedWatch Tool (www.cmegroup.com)
FTSE Russell (www.ftserussell.com)
Bankrate.com (www.bankrate.com)
Bureau of Labor Statistics (www.bls.gov)
United States Census Bureau website (www.census.gov)
Federal Reserve Bank of Atlanta (https://www.atlantafed.org/cqer/research/gdpnow)

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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