Quarterly Insights – April 2025

Policy Uncertainty and Tariff Threats Create Market Volatility

Dear Client,

Volatility gripped markets in the first quarter of 2025, and the major stock indices saw moderate declines as chaotic U.S. trade and tariff policies caused a steep plunge in business and consumer confidence, which raised concerns that economic growth would dramatically slow and corporate earnings growth would disappoint.

Stocks started the new year by extending the declines of late 2024, as worries the Federal Reserve could pause interest rate cuts weighed on the markets early in January. However, solid economic data, encouraging inflation readings, and positive commentary from Fed officials about future rate cuts pushed back on those fears, and the S&P 500 recovered much of those initial losses by mid-month. Additionally, stocks rallied into and following Inauguration Day, as investors anticipated a "pro-growth" administration taking power while fears of dramatic tariffs on "Day One" of the Trump presidency went unfulfilled. The S&P 500 hit a new all-time high shortly after President Trump's inauguration, and the rally continued into late January after the Fed signaled it still expected to cut rates in 2025, further calming fears of a pause in rate cuts. However, at the very end of January, investors saw looming tariff/trade volatility when President Trump threatened 25% tariffs on Colombia. However, those tariffs were not ultimately implemented, so markets largely ignored them, and stocks finished January with a solid gain.

However, trade and tariff policy became a major influence on markets in February, dramatically increasing market volatility by month-end. During the first few days of February, President Trump threatened and then delayed 25% tariffs on Mexico and Canada, which temporarily spiked market volatility. However, the one-month delay of those tariffs led markets to believe that President Trump was using tariff threats as a negotiating tactic and that substantial tariffs would not be implemented after all. That sentiment helped to ease investor concerns while economic data remained solid. Those factors combined sent the S&P 500 to a new all-time high on February 19th. However, the rally would not last. In late February, consumer confidence declined dramatically, and some economic reports implied that trade and tariff uncertainty was starting to slow economic growth. Those fears were reinforced when the Atlanta Fed's GDPNow turned negative, implying economic growth may be stalling. Meanwhile, tariff threats and general policy volatility continued through the end of the month and that, combined with plunging consumer sentiment, sparked a "growth scare" amongst investors that weighed on stocks and sent the S&P 500 marginally lower in February.

The market declines accelerated in March as President Trump made good on his threat to implement 25% tariffs on Mexico and Canada (and an additional 10% tariff on China). President Trump delayed some of those tariffs on Mexico and Canada until early April, but many other tariffs were left in place and that shattered investors' belief that tariff threats were just a negotiating tactic. Meanwhile, several corporations from various sectors began to lower earnings guidance, citing reduced consumer spending and business investment. Those guidance cuts reinforced fears that policy uncertainty could cause an economic slowdown, and the S&P 500 fell to a six-month low. In late March, markets tried to rebound amidst a lull in tariff threats, but it didn't last as President Trump announced 25% auto tariffs on March 26th, sending stocks lower once again. The S&P 500 finished the quarter near the year-to-date lows.

In sum, investor optimism for a pro-growth agenda and tax cuts was replaced by rising concerns about a new global trade war and a slowing U.S. economy, as policy uncertainty and ineffective communication crushed investor and consumer confidence.

First Quarter Performance Review

Market internals revealed that while the S&P 500 logged a moderately negative return for the quarter, the declines in the index were mostly due to sharp drops in widely held technology and consumer stocks, as other parts of the market proved resilient.

To that point, on a sector level, only four of the 11 S&P 500 sectors finished the quarter with a negative return, and two of those four sectors saw only fractional declines. As mentioned, the consumer discretionary and tech sectors were, by far, the worst-performing sectors in the first quarter, as both saw substantial declines. And, since those two sectors carry some of the largest weights in the S&P 500, they weighed on the overall index performance. The consumer discretionary sector was the worst performer for the quarter as it was hit by intense weakness in one of the largest consumer stocks (Tesla) combined with general concerns about lower consumer spending in the face of policy uncertainty. The technology sector was the other substantially negative performer in the first quarter as tech stocks fell following the debut of the Chinese AI program DeepSeek, which challenged assumptions about the future economic benefit of AI for major tech firms.

Considering sector outperformers, energy was the top-performing sector in Q1 thanks to rising demand expectations following strong Chinese economic data and after some European countries committed to increasing debt to fund economic growth. The healthcare, utilities, and consumer staples sectors logged modest gains in Q1, as those traditionally defensive sectors were viewed as more insulated from any new trade wars and tend to be more resilient in the face of an economic slowdown.

From an investment style standpoint, value significantly outperformed growth in Q1 as growth strategies posted substantial losses due to their large weightings of tech and consumer stocks. Value strategies logged a slightly positive return over the past three months and benefited from exposure to a broader array of sectors that traded at lower valuations and were not as impacted by the negative headlines in the first quarter.

Finally, looking at performance by market cap, small caps declined sharply in the first quarter and lagged large caps thanks to a combination of rising worries about economic growth and still high interest rates. Large cap indices also declined in the first quarter, although those losses were more modest.

US Equity Indexes	Q1 Return	YTD
S&P 500	-4.27%	-4.27%

DJ Industrial Average	-0.87%	-0.87%
NASDAQ 100	-8.07%	-8.07%
S&P MidCap 400	-6.10%	-6.10%
Russell 2000	-9.48%	-9.48%

Source: YCharts

Internationally, foreign markets massively outperformed the S&P 500 and finished the quarter with a substantially positive return. Foreign-developed markets saw the largest gains and outperformed emerging markets after Germany and other EU countries signaled a willingness to increase deficit spending to boost economic growth and defense. Emerging markets logged more modest gains thanks to better-than-expected Chinese economic data.

International Equity Indexes	Q1 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	7.01%	7.01%
MSCI EM TR USD (Emerging Markets)	3.01%	3.01%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	5.36%	5.36%

Source: YCharts

Commodities were modestly positive in the first quarter as gold strength helped boost the major commodity indices. Gold hit a new record high and traded above $3000/oz. thanks to a weaker U.S. dollar and increased demand following policy volatility from the new administration. Oil logged a small loss but finished well off the lows of the quarter thanks to better-than-expected Chinese economic data and expectations for more demand from Europe.

Commodity Indexes	Q1 Return	YTD
S&P GSCI (Broad-Based Commodities)	4.89%	4.89%
S&P GSCI Crude Oil	-0.51%	-0.51%
GLD Gold Price	19.02%	19.02%

Source: YCharts/Koyfin.com

Switching to fixed-income markets, the leading bond benchmark (Bloomberg Barclays US Aggregate Bond Index) realized a modestly positive return for the first quarter of 2025. Better-than-expected inflation readings and general concerns about economic growth boosted bonds broadly and helped longer-duration bonds to outperform shorter-duration bills and notes, as investors sought higher long-term yields amidst policy uncertainty.

Turning to the corporate bond market, higher-quality but lower-yielding investment-grade bonds outperformed higher-yielding but lower-quality bonds in the first quarter, reflecting investor concerns about future economic growth amidst policy uncertainty. However, both investment-grade and high-yield corporate bonds finished the first quarter with modest gains, reflecting a still present sense of economic optimism from bond investors.

US Bond Indexes	Q1 Return	YTD
BBgBarc US Agg Bond	2.78%	2.78%
BBgBarc US T-Bill 1-3 Mon	1.04%	1.04%
ICE US T-Bond 7-10 Year	3.90%	3.90%
BBgBarc US MBS (Mortgage-backed)	3.06%	3.06%
BBgBarc Municipal	-0.22%	-0.22%
BBgBarc US Corporate Invest Grade	2.31%	2.31%
BBgBarc US Corporate High Yield	1.00%	1.00%

Source: YCharts

Second Quarter Market Outlook

Stocks begin the second quarter of 2025 following the worst quarterly performance in nearly three years and facing dual market headwinds of policy uncertainty and potentially slowing economic growth. However, while markets are facing legitimate headwinds, it's important to realize that stocks fell in the first quarter mostly on fears of what might happen in the economy, not because of what is actually occurring. If future policy decisions and an economic slowdown aren't as bad as currently feared, it could cause a substantial market rebound in the coming months.

Starting with trade and tariff policy, there can obviously be an improvement in the communication strategy from the administration regarding its policy goals, and there were signs late in the first quarter that officials realized their errors and were working to communicate more directly, effectively, and consistently with markets. Regardless of what actual tariff policy ultimately looks like, improving communication of the administration's policy goals will be a market positive and could help end this pullback.

Turning to economic growth, while fears of a slowdown surged in the first quarter, economic data stayed mostly resilient. Jobless claims remained subdued, manufacturing and service activity measures showed continued expansion, and the unemployment rate remained historically low, close to 4.0%. Put simply, there was little in the actual data in Q1 to imply the economy is weakening. If economic data stays solid throughout the second quarter, it will push back on those recession fears and could help fuel a market rebound.

On market valuation, the declines of the first quarter have resulted in the S&P 500 trading at a more reasonable valuation compared to the start of the year, as extremely bullish investor sentiment has been replaced by a decidedly bearish outlook (which has historically set the stage for a market rebound). Bottom line, the market was richly valued at the start of the year, and investor sentiment was complacent, but the volatility of the first quarter has removed both of those conditions, and that is a general positive for the markets.

Finally, while the S&P 500 suffered moderate declines in the first quarter, many parts of the market weathered the volatility and posted positive returns. More than half of the sectors within the S&P 500 logged positive returns in the first quarter, while two other sectors only saw slight declines, underscoring that the volatility we witnessed in the first quarter didn't result in a broad market wipeout and some sectors and factors can continue to outperform in this environment.

Bottom line, the first quarter did contain several negative surprises for investors, and we begin the second quarter with significant uncertainty on trade policies and legitimate concerns about future economic growth. But positive factors at work must be considered, including a still-resilient economy and looming positive economic policies such as deregulation and potential tax cut extensions. So, despite depressed investor sentiment, the outlook for the economy and markets is not universally negative.

At Goodwater Wealth Management Group, we have experienced these markets before and are committed to helping you navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and through both bull and bear markets, we will remain focused on the diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

We remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions or comments or to schedule a portfolio review.

Sincerely,

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Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses, which would reduce returns.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.

The NASDAQ-100 (^NDX) is a stock market index made up of 103 equity securities issued by 100 of the largest non-financial companies listed on the NASDAQ. It is a modified capitalization-weighted index. ... It is based on exchange, and it is not an index of U.S.-based companies.

The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The S&P/TSX composite index is the Canadian equivalent to the S&P 500 market index in the United States. The S&P/TSX composite index represents about 70% of the total market capitalization on the Toronto Stock Exchange (TSX).

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

The MSCI ACWI ex USA Investable Market Index (IMI) captures large, mid and small cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States) and 24 Emerging Markets (EM) countries. With 6,211 constituents, the index covers approximately 99% of the global equity opportunity set outside the US.

S&P GSCI Crude Oil is an index tracking changes in the spot price for crude oil.

The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Barclays Capital US Aggregate Government-Treasury is an unmanaged index comprising all US Treasury Notes and Bonds having a maturity of at least 1 year.

The Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity.

The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility and Finance, which include both U.S. and non-U.S. corporations.