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WEALTH MANAGEMENT

Spring, 2025

Investment Commentary

Q1 2025 Market Summary

Markets faced a sharp reversal in tone during the first quarter of 2025. After a strong finish to 2024, the S&P 500 fell 4.6%, marking its worst quarterly performance since Q3 of 2022. The Nasdaq declined 10.4%, and the small-cap Russell 2000 dropped 9.8%, weighed down by renewed concerns about economic growth, trade policy uncertainty, and the sustainability of the AI-fueled rally that dominated headlines last year.

The quarter started on solid footing, with the S&P 500 reaching a record high on February 19. However, sentiment deteriorated rapidly in March, as equity markets sold off on a mix of disappointing earnings revisions, cracks in the AI investment narrative, and growing fears around protectionist trade policy. By the end of the quarter, the S&P had dipped into correction territory before recovering slightly, finishing just shy of 10% below its February peak. The Nasdaq fared worse, falling nearly 16% from its highs as mega-cap tech stocks—the so-called "Magnificent Seven"—collectively entered bear market territory.

Total Returns	1st Quarter
US Stocks	
Standard & Poor's 500	-4.3%
S&P 500 Equal Weight	-0.6%
Nasdaq Composite	-10.3%
Russell 2000	-9.5%
International Stocks	
MSCI World Ex-US	6.4%
MSCI Emerging Markets	2.9%
Fixed Income	
Bloomberg US Agg Bond Index	2.8%
90-Day Treasury Bill	1.1%

Return figures from FactSet

One of the primary overhangs for investors in the first quarter was the reemergence of trade policy as a market-moving issue. President Trump signaled the possibility of sweeping reciprocal tariffs as part of a broader "Trump 2.0" economic agenda. While some of the initial rhetoric in January and February was downplayed as posturing, comments in mid-March indicated a more serious intent. Trump declared that April 2 would be "Liberation Day," teasing the potential for 25% tariffs on auto imports and new restrictions on trade with key

partners, including Canada and Mexico. Uncertainty surrounding the implementation and economic consequences of these proposed tariffs contributed meaningfully to market volatility *(we'll discuss post-quarter-end trade policy developments in a separate section below)*.

Meanwhile, investors were also contending with mixed economic data. Inflation readings showed a modest improvement in some areas, though not enough to materially change the Fed's cautious stance. Core CPI rose 0.3% in February, a slight cooling from January's 0.4% reading. On a year-over-year basis, core CPI came in at 3.2%, the lowest annualized reading since April 2021. However, inflation expectations ticked higher. The March University of Michigan survey showed one-year inflation expectations rising to 5.0%—the highest level since November 2022—while five-year expectations climbed to 4.1%, a 32-year high. These readings, along with higher cost pressures noted in the latest manufacturing PMIs, reinforced the idea that disinflation progress may stall in the coming months.

At the same time, "hard" economic data remained relatively stable. The labor market continued to show resilience, with December nonfarm payrolls adding 353,000 jobs—the strongest print in over a year—followed by healthy readings in January and February. Retail sales (control group), industrial production, and existing home sales also surprised to the upside, suggesting that consumer activity and business output haven't slowed dramatically—yet.

The bond market responded to uncertainty with a rally across the curve. The 2-year Treasury yield fell 35 basis points to end the quarter just under 3.90%, while the 10-year yield declined by a similar margin to approximately 4.20%. These moves reflected a modest increase in expectations for Federal Reserve rate cuts, despite some hawkish commentary from Fed officials. The Fed's March Summary of Economic Projections continued to show two cuts expected later this year, assuming inflation continues to cool.

Gold prices surged 19.3%—their strongest quarterly gain since 1986—as investors sought defensive positioning. Conversely, Bitcoin futures declined 12.2%, while WTI crude oil finished the quarter essentially flat, down just 0.3%.

The market entered Q2 grappling with multiple sources of uncertainty: an evolving trade agenda, unclear signals from inflation and growth data, and shifting investor sentiment. While the long-term outlook remains constructive, especially in areas of structural innovation, the road forward may be bumpier than the one investors traveled in 2023 and 2024.

The Weight of Uncertainty

Uncertainty has emerged as the defining feature of the current market environment—one that is being shaped as much by what we don't know as by what we do. In recent weeks, a wide range of data has pointed to a disconnect between hard economic numbers and the mood among investors, consumers, and businesses.

A particularly telling signal comes from the Federal Reserve's March Summary of Economic Projections (SEP), where a significant number of FOMC participants noted heightened uncertainty around both GDP growth and inflation compared to their December outlook. This shift reflects how policy and economic forecasts are being clouded by complex, interrelated variables: sweeping new tariffs, the durability of AI-related investment, inflation stickiness, and political uncertainty heading into the U.S. election cycle.

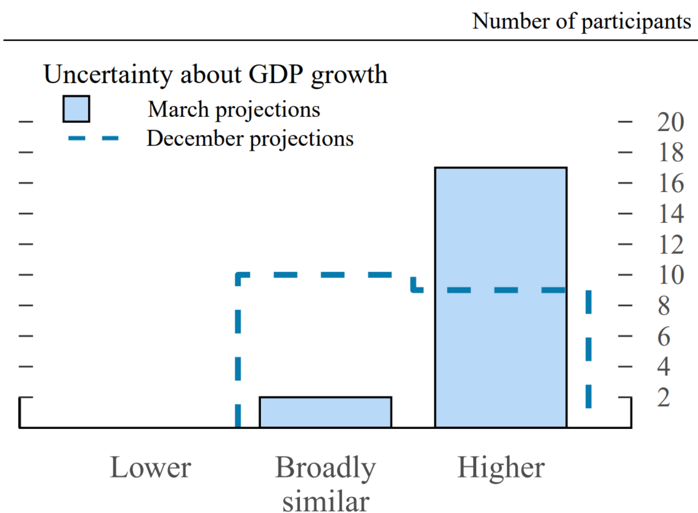
This uncertain backdrop is feeding directly into sentiment. The Conference Board's Consumer Confidence Index fell by over 7 points in March, with the Expectations Index dropping to its lowest level in over a decade—historically a level associated with upcoming recessions. The University of Michigan's Consumer Sentiment Index mirrored this caution, reaching its lowest reading since late 2022. Business leaders have also expressed unease, particularly around trade policy and inflation.

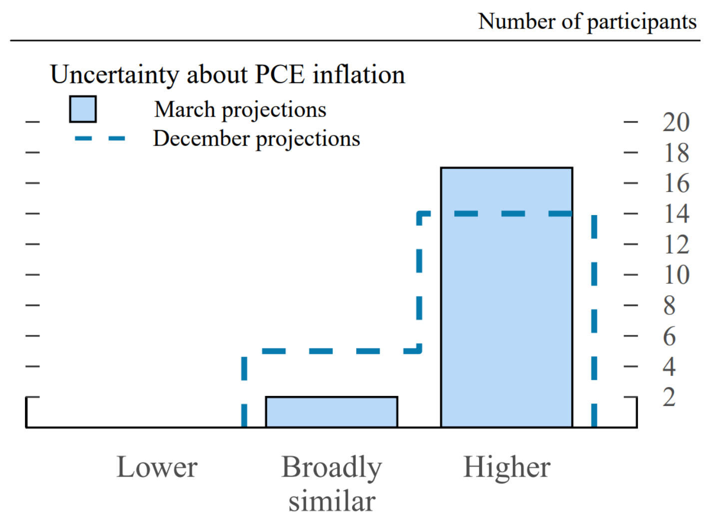
Investor sentiment, meanwhile, has softened notably. Goldman Sachs recently revised its near-term S&P 500 price target downward, citing elevated risk premia and expectations of weaker earnings growth. The firm now anticipates just 3% EPS growth in 2025, down from a previously forecast 7%. Their recession probability estimate has risen to 35%, and market strategists across Wall Street—from Barclays to RBC to BofA—have similarly turned more cautious, emphasizing valuation compression and downside risk as defining themes for the coming months.

This sentiment shift has not been driven by sharply deteriorating fundamentals...yet. In fact, employment data has remained strong, and several measures of economic output—like control group retail sales and industrial production—have surprised to the upside. What has changed is confidence in the outlook. If policymakers themselves are grappling with how to model the next six to twelve months, it's not surprising that markets are struggling to price risk with conviction.

FOMC Participants Assessments of Uncertainty and Risks Around Their Economic Projections

From March Summary of Economic Projections





Source: Federal Reserve

Okay, Let's Talk Tariffs

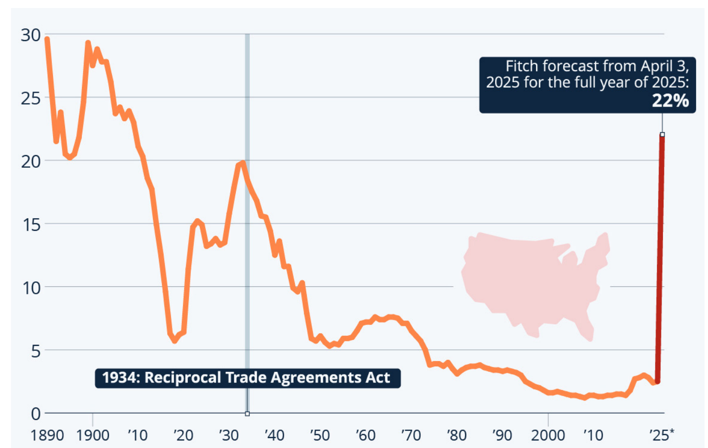
Trying to write a cogent quarterly commentary has been challenging, to say the least, given that two days after quarter-end, we were hit by the shock of President Trump's "Liberation Day" tariff announcement. On April 2nd, the President unveiled a sweeping new trade policy that included a blanket 10% tariff on all imports, and an additional set of "reciprocal" tariffs, which analysts estimate could push the effective average tariff rate to roughly 25%. That's higher than the infamous Smoot-Hawley tariffs of the 1930s—and was well beyond what markets had been expecting.

Investor reaction was swift. In the two trading days following the announcement, the S&P 500 dropped more than 10%, wiping out what was left of the early-year rally. International equities, bond yields, and oil prices followed suit, all moving sharply lower as markets recalibrated to a more adversarial and inflationary global trade environment. Volatility continued when on April 9th, President Trump announced a 90-day pause on 'reciprocal' tariffs (with the exception of China), resulting in the S&P 500's eight-best day ever at +9.5%. In response to China's retaliatory tariffs, the Trump administration bumped the tariff rate on Chinese imports to ~145%, before adding a "temporary" exception for smartphones and other electronics as of this writing.

The market's initial downside reaction to "Liberation Day" wasn't just about the size of the tariffs—it was about the broader implications. The announcement was accompanied by a handout listing inflated and questionable claims about foreign tariff rates. While labeled as "reciprocal," the math used to support the new policy bore little resemblance to real trade statistics. This lack of transparency, combined with the scale of the measures and the abruptness of the rollout, has further deepened investor and business uncertainty—at a time when confidence was already fragile.

US Tariffs Forecast to Hit Highest Levels Since 1910

Average effective tariff rate on US imports (%)



Source: Statista, US International Trade Commission, Fitch Ratings

Economically, the implications are potentially severe. In 2024, imported goods represented 11% of U.S. nominal GDP. If the new tariffs are fully implemented and sustained, even under conservative assumptions (e.g., only half of the costs are passed on to consumers), they could add 1.3% to headline inflation, according to JP Morgan. Higher prices for imported goods could squeeze consumer wallets, while retaliatory measures from key trading partners—including announced tariffs from China and Canada—would likely compound the damage.

Perhaps even more concerning than the direct inflationary and demand impacts is the chilling effect this uncertainty may have on business behavior. Companies may delay hiring, hold off on capital investments, and reduce inventory purchases—not just because of higher costs, but because of fears the rules could change again. This hesitation could sap productivity growth, widen income inequality, and slow economic momentum just as the economy was finding its footing.

And while there's speculation that further policy pivots—whether monetary easing, fiscal stimulus, or negotiated tariff deals—could materialize in the months ahead, there's little clarity on when or how those decisions would unfold. For now, businesses and markets are left guessing, and that lack of clarity is a risk factor in its own right. To put it plainly: these are not small tweaks to trade policy. Even with the 90-day pause and potential for negotiated deals, they represent a fundamental shift in the rules of global commerce, rolled out in a way that undermines confidence and raises the odds of policy error.

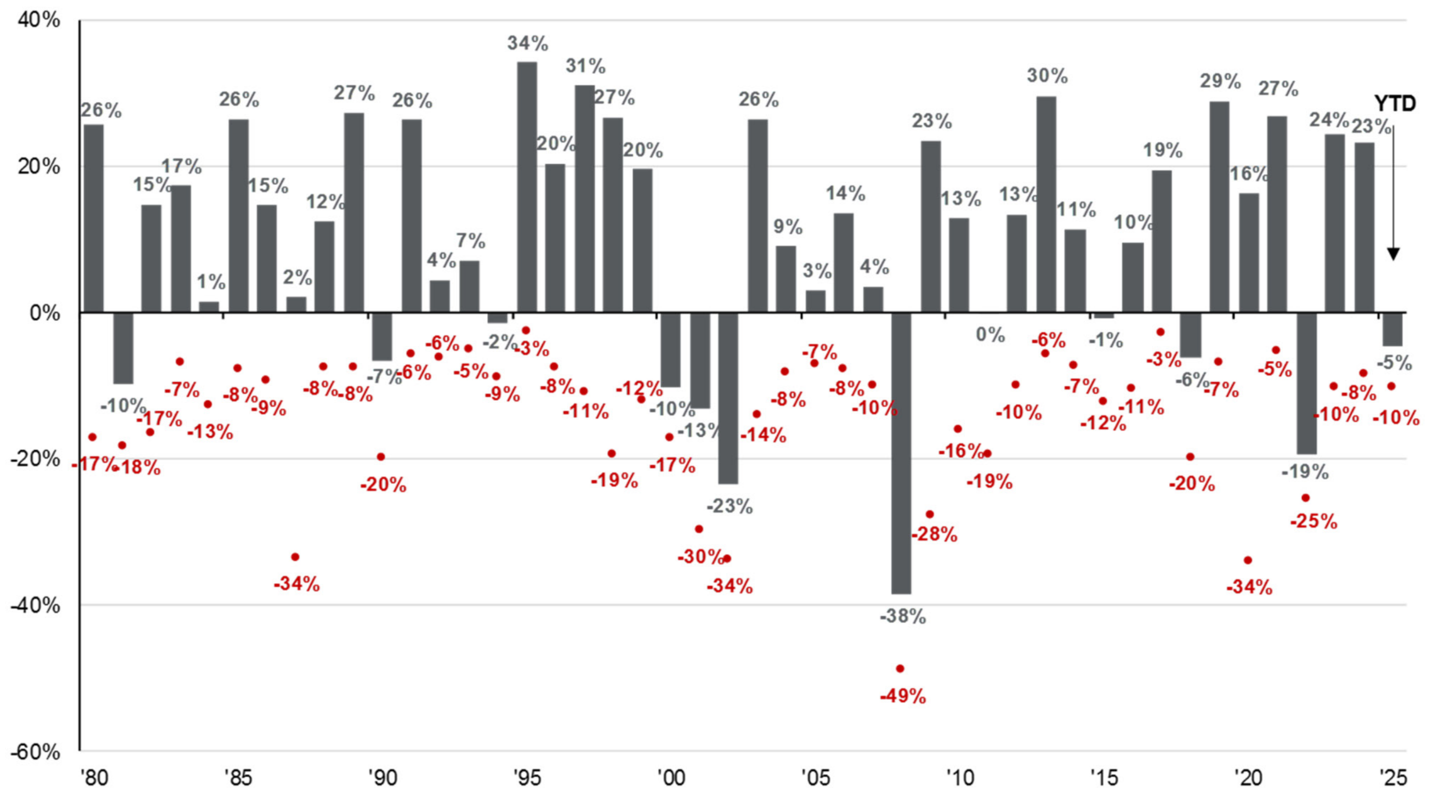
We view these developments not in isolation, but as part of the broader theme of rising uncertainty that has defined the first quarter—and now extends into Q2 and beyond. Tariffs may or may not remain in place over the long term, but the signal they send is already influencing behavior. Whether in boardrooms, on trading floors, or at kitchen tables, the mood has shifted.

Closing Thoughts

At times like this, it's worth remembering that uncertainty is not new—and our process is built with that reality in mind. Volatility and ambiguity are not obstacles to be avoided, but features of the market to be managed. By emphasizing balance, diversification, and a long-term orientation, our portfolios are designed to adapt to evolving conditions regardless of the market backdrop. While it's tempting to wait for a clearer picture before making decisions, markets tend to move ahead of the news. Timing the market is effectively impossible, and the market's best days tend to cluster near its worst ones in volatile periods. As we pointed out in a recent article, missing those big up days can be fatal to portfolio returns. Staying invested, staying disciplined, and avoiding emotional responses to short-term shifts remain key to achieving long-term financial goals. ▪

S&P Intra-Year Declines vs. Calendar Year Returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2024, over which the average annual return was 10.6%.
Guide to the Markets – U.S. Data are as of March 31, 2025.

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