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First Quarter Market Watch

The start of 2025 was marked by optimism in the markets: continued AI breakthroughs, pro-business policies from a new administration, and economic momentum were expected to drive another year of strong market returns. What materialized in the first quarter was not quite as rosy. Tariff uncertainty and a fizzling rally of information technology stocks have pressured the US stock markets. The S&P 500 dipped into correction territory in March after hitting a record in February, declining 6% for the month, marking its biggest one-month slide since September 2022. The Nasdaq lost 8% in March, while the Dow fell 5.2%. For the first quarter, the S&P 500 declined 4.6%, snapping a five-quarter winning streak. The Nasdaq lost 10.3% for the quarter, which marked its biggest quarterly pullback since a 22.4% plunge in the second quarter of 2022. The Dow shed 2.3% in the first quarter.

The biggest US technology stocks that powered the market higher in recent years, such as Nvidia, Apple, and Microsoft have pulled back 2025 year to date. Nvidia, the main beneficiary of the artificial intelligence boom, stumbled 25% in Q1, triggered by the emergence of a more cost-efficient AI model from Chinese company DeepSeek. Apple and Microsoft fell 10% and 13% for the quarter, respectively.

The US stock market decline has pushed investors to look overseas for opportunities. European stocks have outperformed US stocks year to date, driven by the prospect of increased defense spending and expectations of economic growth. The EURO STOXX 50, the Eurozone's leading blue-chip index, returned 15.4% in the first quarter. Bank of America's March 2025 global fund manager survey showed a record rotation out of US stocks, with 23% of respondents underweight shares of US companies. Meanwhile, preference for eurozone equities has increased to its highest level since July 2021. More recently, with Europe less able to depend on military protection from the US, Germany and other countries have announced major increases in defense spending. Some economists believe it could jump start the region's economy.

Sweeping tariffs of 20% on Chinese goods, 25% on Canadian and Mexican goods, and 25% on all steel and aluminum imports went into effect in February. Although there will exemptions, tariffs again hit the tapes in early April, what President Trump has called "Liberation Day", including a baseline duty of 10% on imports and larger reciprocal tariffs. China was hit with an additional 34% on top of the 20% tariff applied in February, followed by further retaliatory tariffs post Liberation Day. When combined with levies from previous administrations, economists estimate that China now faces total tariffs of well over 100%. The European union faces a new 20% tariff. While the real impact of these tariffs take time to play out, the uncertainty is already putting significant downward pressure on risk assets. In retaliation, China has imposed a 34% tariff on all goods imported from the US, on top of the 10-15% levy on US farm goods including grains and livestock, and other targeted measures on US goods. Canada also retaliated

	Date	1 Quarter Ago		1 Year Ago	
	3/29/2025	12/31/2024	% chg	3/31/2024	% chg
DJIA	42,001.76	42,544.22	-0.9%	39,807.37	7.4%
S&P 500	5,611.85	5,881.63	-4.6%	5,254.35	8.3%
NASDAQ Composite	17,299.29	19,310.79	-10.3%	16,379.46	6.4%
Russell 2000	5,000.11	5,542.50	-9.5%	5,280.03	-4.0%

	Date	1 Quarter Ago		1 Year Ago	
	3/29/2025	12/31/2024	% chg	3/31/2024	% chg
Japan Nikkei 225	35,617.56	39,894.54	-6.2%	40,369.44	0.3%
MSCI EM (Emerging Markets)	1,101.40	1,075.48	3.0%	1,040.39	8.9%
MSCI EAFE	2,400.82	2,261.81	7.0%	2,346.84	5.5%
MSCI AC World	827.15	841.33	-1.2%	783.17	7.7%
FTSE 100	9,616.97	9,063.04	9.4%	8,594.29	17.8%
SSE Composite Index	3,335.75	3,351.76	0.2%	3,041.17	9.7%

US Equity Sector

	Q1	1-yr ret.
Consumer Discretionary	-13.8%	12.2%
Consumer Staples	5.2%	20.9%
Energy	10.2%	16.5%
Financials	3.5%	35.2%
Health Care	6.5%	9.3%
Industrials	-0.2%	17.2%
Information Tech	-12.7%	19.3%
Materials	2.8%	2.8%
Communication Services	-6.2%	31.5%
Utilities	4.9%	29.5%

US Equity Style

	Q1	1-yr ret.
Russell 1000 Value	2.1%	16.8%
Russell 1000 Growth	-10.0%	20.1%
Russell 2000 Value	-7.7%	-0.3%
Russell 2000 Growth	-11.1%	2.4%

Commodity Prices

	Mar 2025	1 Qtr Ago	1 Yr. Ago
Gold	3,150.30	2,641.00	2,238.40
Crude Oil	71.48	71.72	83.17
UD Dollar Index	103.88	108.30	104.27
Commodity Index	106.40	98.76	99.49

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with a 25% tax on products imported from the US, effective immediately, and has also threatened to impose a 25% charge on its energy exports to the US. While not directly targeted, the European Union (EU) has also imposed counter measures. Tariff negotiations among nations affected have started but may take time to fully resolve, which leads to an extended period of uncertainty about the scope, levels, and timing of tariffs (as we write this, President Trump has announced a 90 day pause on tariffs with all countries but China). With the widespread implications spanning from domestic businesses to the global economy and world trade, tariffs will likely remain the focus of all market participants. The macro uncertainty resulting from trade tensions have triggered meltdown in US stock markets, resurfacing recession fears. Even without real implications, prolonged foreign and economic policy uncertainty can have detrimental effects on consumer confidence and consumer spending. Both the US and Global Economic Policy Uncertainty Index rallied to their highest since early 2020, when the breakout of COVID-19 wreaked havoc on the global economy.

Global geopolitical stability has also been declining. Russia and Ukraine have reportedly agreed to pause attacks on energy infrastructure, though Russia has not fully conceded with the US' ceasefire proposal. In the Middle East, after a two-month relief, Israel has resumed attacks in Gaza in March 2025. The previously agreed deal for Israeli forces to withdraw from Gaza no has crumbled. Meanwhile, friction between the US and China is growing.

Turning to the currency markets, while Trump's tariff plans had initially boosted the US dollar, the same tailwind has now become a headwind for the greenback. The growing unpredictability of the trade war has fed the US recession narrative, causing investors to seek safe haven assets such as gold. In contrast, the economic outlook for China and Europe had been improving prior to Liberation Day, driven by government stimulus.

The Federal Reserve's interest rate cut expectations also continue to gyrate, but markets now anticipate as many as five rate cuts this year, even if faced with stubborn inflation. Lower US rates are generally negative for the US dollar. Meanwhile, the 10-year treasury yield sat at 4.21% at the end of March, the same levels seen at the end of February.

Commodities, not crypto currencies, continued to climb. Gold prices surged 19% during the first quarter and touched an all-time high, as central banks, particularly in emerging markets, accelerated purchases to hedge against geopolitical uncertainty. Copper prices have risen 24% year to date, as businesses and traders rushed to front-run tariffs expected later this year. Bitcoin, however, declined 12% after an impressive run last year.

US Treasury Bond Yields

	Mar '25	Dec '24	1 Yr. Ago
90 Day	4.29	4.32	5.35
2 Year	3.89	4.24	4.62
5 Year	3.95	4.38	4.22
10 Year	4.21	4.57	4.20
30 Year	4.58	4.78	4.34

Interest Rates

	Mar 2025	1 Qtr Ago	1 Yr. Ago
Prime Rate	7.50	7.50	8.50
Federal Funds Rate	4.33	4.58	5.33
30 Year Fixed Mortgage Rate	6.65	6.91	6.87

Foreign Exchange

	Mar '25	1 Qtr Ago	1 Year Ago
Euro per U.S. Dollar	0.926	0.905	0.920
British Pounds per U.S. Dollar	0.792	0.784	0.809
China Renminbi per U.S. Dollar	7.227	7.092	6.872
Indian Rupee per U.S. Dollar	83.403	83.214	82.183
Japanese Yen per U.S. Dollar	151.345	140.980	133.090

Economic Data

	Mar '25	Dec '24	Mar '24
Unemployment Rate	4.20	4.10	3.90
Capacity Utilization)	78.20	77.60	77.85

Heightened volatility in the public markets underscore value of diversification in portfolios. Hedge fund strategies with low correlation to equities and bonds can serve as a valuable source of returns in an otherwise difficult market environment. Additionally, private markets offer investors the ability to partner with top tier fund managers who are building value in smaller companies, and can ride through periods of volatility given their long time horizon.

Looking ahead, policy turbulence is unlikely to fade and rate volatility will likely persist. The rapid pace of advances of the US equities in the past two years will be difficult to repeat. Despite the sell-off year to date, the S&P 500 ended the first quarter trading at 20.2 times its forward earnings, above a 30-year average of 16.9 times. With the market priced well above its long-term average, stocks remain vulnerable to pullbacks. In the past two years, multiple expansion has contributed the majority of the returns of the S&P 500. In 2025, we believe earnings will be the key driver of performance. With equity risk premium near record low, it pays to be highly selective. Our investment professionals at the 1911 Trust rigorously select quality securities and investment vehicles with attractive valuations to safeguard your assets.

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