After two years of stellar returns, equity markets got a reality check. Post election euphoria based on anticipated tax cuts, deregulation and increased merger activity gave way to concerns about uncertainty on tariffs and the impact on prices, businesses and consumers. Additionally, ongoing DOGE layoffs and government spending cuts further unsettled investors. Leading economic indicators declined largely due to consumer and business confidence weakening. For the quarter, the S&P 500 was down 4.3%, the DJIA was down 1.3% and the NASDAQ was down 10.4%. All domestic equity sector returns were negative with the exception of large cap value which was up 1.5%. One bright spot was international equity markets, which were all positive with the exception of India. The Bloomberg Aggregate Bond Index was up 2.8%. All bond categories were positive with the exception of intermediate and long-term municipal bonds.

Policy uncertainty from Washington is complicating the Federal Reserve’s decision on interest rates as tariffs may increase inflation limiting the Fed’s ability to reduce rates this year (as previously expected). Further if unemployment increases due to economic fallout related to tariffs, the Fed may be reluctant to reduce rates to stimulate the economy in the face of rising inflation. That said the Fed does not control longer term rates (e.g. 10 year) and rates in this market are driven largely by supply and demand.

International conflicts remain ongoing with the potential for market disruption. The Russia/Ukraine war; Houthi disruption of trade in the Red Sea; China’s overt aggression toward Taiwan and the continuing conflict in the Middle East all remain significant to stability/volatility of global markets.

First quarter and full year results are detailed below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending** **3/31/2025** | **12 MONTHS Ending****3/31/2025** | **THREE YEARS Ending** **3/31/2025** | **FIVE YEARS Ending** **3/31/2025** |
| **DJIA** | -1.3% | 7.4% | 8.8% | 16.2% |
| **S & P 500** | -4.3% | 8.3% | 9.1% | 18.6% |
| **NASDAQ Composite** | -10.4% | 5.6% | 6.8% | 17.6% |
| **Bloomberg Agg. Bond** | 2.8% | 4.9% | 0.5% | -0.4% |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
|  *Large Cap* |  |  |  |  |
|  Growth | -8.6% | 5.0% | 7.7% | 16.8% |
|  Value | 1.5% | 6.7% | 7.0% | 16.7% |
|  *Small Cap* |  |  |  |  |
|  Growth | -10.6% | -4.6% | -0.4% | 11.9% |
|  Value | -7.2% | -3.4% | 2.6% | 17.8% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| International |  |  |  |  |
|  Europe  | 9.4% | 6.4% | 7.0% | 13.1% |
|  Latin America | 13.2% | -13.9% | -3.3% | 10.0% |
|  Japan  | 1.8% | 2.8% | 9.6% | 11.4% |
|  Pacific ex Japan  | 1.1% | 9.6% | 1.6% | 8.3% |
|  China  | 9.0% | 23.6% | -2.9% | 2.4% |
|  India  | -4.8% | 2.6% | 6.6% |  19.7% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending** **3/31/2025** | **12 MONTHS Ending****3/31/2025** | **THREE YEARS Ending****3/31/2025** | **FIVE YEARS Ending** **3/31/2025** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
|  Long | 2.7% | 2.9% | -2.6% | -1.4% |
|  Intermediate |  2.6% | 5.0% | 0.6% | 0.0% |
|  Short |  1.7% | 5.9% | 3.4% | 2.6% |
| Government Bond |  |  |  |  |
|  Long  | 4.4% | 0.9% | -8.3% | -8.2% |
|  Intermediate | 3.0% | 5.0% | 0.3% | -0.9% |
|  Short | 1.8% | 5.4% | 2.6% | 1.0% |
| Municipal Bond |  |  |  |  |
|  Long  | -0.7% | 1.4% | 1.0% | 1.1% |
|  Intermediate | -0.1% | 1.7% | 1.6% | 1.3% |
|  Short | 1.8% | 3.1% | 2.2% | 1.5% |

**Market Outlook**

Economic data continues to trend downward and the DOW Theory (a technical method of predicting turns in the market)has classified the current market as a bear market based on the closing levels of the Dow Industrials and the Dow Transports. Given the ongoing uncertainty, we remain very cautious for the near term. However, a favorable resolution of the tariff issues as well as progress on tax reform and the US deficit may turn the outlook around very quickly. That said a prolonged period of uncertainty surrounding tariffs may lead to a pullback in business and consumer spending leading to a recession. Therefore, we recommend that investors maintain their asset allocation targets for now, take advantage of tax loss harvesting opportunities and suspend automatic reinvestment of dividends and capital gains for investors currently in retirement.

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