



Market Update

First Quarter 2025

It has been a rocky start to the year overall for U.S. equities. The S&P 500 rallied about 5% to a new all-time high by February 19th, only to retreat nearly 10% over the next several weeks. By the quarter’s end, the index was down 4.3% year-to-date and since then has fallen further with historic levels of volatility.

In our view, two central themes drove the market’s weaker performance in Q1: growing investor caution toward AI-related companies and increased uncertainty around U.S. trade and economic policy.

Equity Markets (Total Return)	1Q'25	1-Year
Dow Jones Industrial Average	-0.9%	7.4%
S&P 500	-4.3%	8.2%
S&P 400 Mid-Cap	-6.1%	-2.7%
S&P 600 Small-Cap	-8.9%	-3.4%
MSCI All-Country World	-1.2%	7.7%
MSCI Foreign Developed Markets	7.0%	5.6%
MSCI Foreign Emerging Markets	3.0%	8.8%
US Bond Markets (Total Return)	1Q'25	1-Year
Bloomberg US Treasury	2.9%	4.5%
Bloomberg US Municipal	-0.2%	1.2%
Bloomberg US Corporate Investment Grade	2.3%	4.9%

Source: Bloomberg

AI Optimism Tempered

Investor sentiment began to cool toward some of the market’s biggest winners of recent years—particularly those tied to artificial intelligence. While their stocks experienced a bout of weakness last summer, the key trigger this year was the emergence of a Chinese-developed AI model that seems to deliver performance comparable to leading U.S. systems with significantly lower computing requirements and associated costs.

This raised concerns that U.S. companies poised to benefit from AI—such as semiconductor makers and data center providers—could see slower growth if more efficient, lower-cost alternatives gain traction, pressuring their stocks.

Trade Policy Takes Center Stage

Simultaneously, markets grappled with a new phase of U.S. trade policy. Following his return to office, President Trump quickly moved to advance his “America First” agenda, with a renewed emphasis on trade and tariffs.

Leveling the playing field with global partners has long been a priority for Trump who views tariffs as the key tool. In the first quarter, newly announced tariffs primarily targeted China,

Canada, and Mexico, though President Trump also signaled his intention to broaden the scope—an intention that materialized in early April.

Both the substance and style of these policy announcements have created a high degree of uncertainty for investors and businesses. At times, markets interpreted the administration's strong rhetoric as simply part of a broader negotiating strategy; at other times, there was growing concern that these measures could meaningfully disrupt global trade and economic growth. Ambiguity around the staying power of the tariffs and the ultimate rates has made it difficult for companies to assess potential impacts or plan for any adjustments to their operations and supply chains.

On April 2nd, the administration followed through with a sweeping round of tariffs that applied to all major trading partners, but more onerously on those with the largest trade deficits with the U.S. These tariffs were broader and more aggressive than anticipated, prompting a sharp sell-off in equity markets as investors attempted to quantify the financial implications.

International responses followed quickly. China imposed retaliatory tariffs, escalating trade tensions, while the European Union signaled its intent to do the same. In contrast, some countries—such as Vietnam—appeared more inclined to seek a cooperative resolution.

One week later, on April 9th, President Trump announced a 90-day pause on the new tariffs for countries that had not enacted retaliatory measures, essentially creating a showdown between the U.S. and China. Markets responded positively to the announcement, interpreting it as a potential window for productive negotiations between the U.S. and its trading partners, increasing the chances that better outcomes will prevail.

In the meantime, some corporate management teams have already revised earnings forecasts downward or withdrawn guidance altogether, citing heightened uncertainty. That said, many businesses will likely welcome the additional time provided by the tariff freeze to prepare contingency plans or adapt supply chains accordingly.

Economic and Market Implications

While the goal of promoting domestic industry has appeal in principle, the methods employed have raised concerns across much of the investment and economic community. Chief among them are the potential for tariffs to reaccelerate inflation which the Federal Reserve has worked hard to bring under control in recent years, and their negative impacts on economic growth.

Should inflation rise meaningfully because of tariffs, consumers may reduce spending, corporate margins could compress, and businesses might scale back investment or hiring. This scenario creates the risk of a negative feedback loop that weighs on economic growth.

Despite the inflationary risk, markets now expect the Federal Reserve to cut interest rates more aggressively in the coming months to cushion potential economic weakness stemming from trade frictions and broader uncertainty.

Another initiative under discussion is an extension and possibly an expansion of the 2017 tax cuts. If passed, such legislation could help modestly counterbalance some of the downside risks of a trade war, but as of this writing, details remain limited and legislative progress is ongoing.

Navigating Uncertainty

So far, U.S. economic data—such as consumer spending, payrolls, and industrial production—have softened but remain in expansionary territory. However, consumer sentiment has declined, likely reflecting concerns over policy shifts and heightened market volatility. Additional uncertainty surrounding what the administration has called “Liberation Day” policies may continue to weigh on sentiment for everyone from foreign investors to companies as negotiations with trade partners unfold and as the implications of whatever policies are ultimately enacted on a more permanent basis become clearer.

Extreme market volatility, while uncomfortable, is a periodic part of long-term investing. We continue to emphasize that client portfolios are built around high-quality businesses with proven histories of navigating change—whether economic, technological, or political.

As always, we remind clients of the importance of staying invested. Market timing is notoriously difficult, and missing just a handful of the strongest rebound days can significantly impact long-term returns. History has shown that patience, discipline, and a long-term mindset remain the most reliable path to achieving investment success.

The information contained in this market update has been taken from sources which we deem reliable. We do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed herein reflect our judgment at this date and are subject to change.