Q1

Economic & Market Review

First Quarter 2025

Gould Asset Management®

Economic Review

First Quarter 2025

US Enters 2025 on Uncertain Footing

The US economy expanded at a healthy 2.4% annualized rate in the fourth quarter of 2024, supported by strong consumer spending in the final months of the year. However, first quarter GDP is expected to show a marked slowdown.

The job market looked healthy as of March, before the US announcement of sweeping tariffs. Unemployment ticked up to 4.2% last month, but hiring remained strong. The economy added roughly 152,000 jobs per month in the first quarter, slightly below the 168,000 average for the same period last year. Average hourly earnings grew 3.8% year-over-year in March, cooling a bit from the 4.0% pace in February.

Consumer spending rose 0.4% in February following a drop of 0.3% in January. Spending surged on motor vehicles, furniture, and other durable goods as consumers likely moved up the timing of large purchases to get ahead of looming tariffs. Spending on restaurants and hotels declined as consumers reduced their discretionary expenditures.

US manufacturing activity slipped into contraction territory following two months of expansion. Demand softened and production slowed as input prices surged due to uncertainty surrounding the impact of potential tariffs.

The Fed's Conundrum

The Federal Reserve held its federal funds rate steady between 4.25% and 4.50% in March, opting for a wait-and-see approach as it assesses the administration's policy changes on trade, government spending, taxes, and immigration.

The Fed is in a tricky position. New tariffs have raised concerns about a combination of slower growth and rising inflation, a scenario often referred to as stagflation. Fed Chair Jerome Powell noted that economic uncertainty remains high. In its latest projections, the Fed sees growth slowing from 2.1% to 1.7% in 2025, while inflation is expected to rise from 2.5% to 2.8%.

Fed officials projected two 0.25% cuts to the federal funds rate this year, unchanged from their December forecast. This was largely in line with market expectations at the time. However, since the tariff announcements, market participants are now pricing in three to four 0.25% cuts.

Europe and Japan Face Challenges

The Eurozone economy expanded 0.2% in the fourth quarter of 2024, a deceleration from 0.4% in the third quarter. Private consumption, government spending, and investment were positive contributors but also weaker than in the previous quarter. Germany and France, two of the bloc's largest economies, contracted 0.2% and 0.1%, respectively, while the economies of Portugal, Spain, and Italy expanded by 1.5%, 0.8%, and 0.1%.

The European Central Bank (ECB) cut its benchmark rate by 0.25% to 2.50% in March. ECB President Christine Lagarde emphasized a data-driven approach going forward, as trade tensions increased stagflation fears. She estimated that a 25% tariff on European imports could reduce GDP growth by approximately 0.3% in 2025. Before the announcement of tariffs, ECB officials were expecting the eurozone economy to expand by 0.9% in 2025, down from 1.1% in their previous forecast.

In Japan, the economy grew by 0.6% in the fourth quarter, better than the previous quarter's 0.4% pace. Strong business investment and exports supported growth, though consumer spending was flat as households continued to be cautious amid rising prices. The Bank of Japan left interest rates unchanged in their latest meeting and, like other central banks, pointed to growing uncertainty due to US trade policy.

China, India Lead Emerging Markets Growth; Trade Threats Loom

China's economy grew 5.4% year-over-year in the fourth quarter, propelled by fiscal stimulus measures implemented in late 2024. However, growth is projected to slow in 2025 amid an intensifying trade conflict with the United States, potentially prompting Beijing to introduce additional economic support measures.

India's economy grew 6.2% year-over-year in the fourth quarter, cementing its place as the world's fastest-growing large economy. Growth is expected to slow somewhat due to US tariffs, but the initial tariff rate applied to India was about half that of China.

Brazil's economy decelerated in the fourth quarter, growing 3.6% year-over-year. High inflation and tight monetary policy weighed on household spending and fixed investment.

Market Review: Stocks

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Stock Market Performance Mixed in Q1

Q1 2025 saw US equities decline amid concerns over new tariffs and policy uncertainties, while international markets outperformed, bolstered by significant fiscal stimulus measures, including Germany's €500bn spending plan. Shifting expectations around the Fed's rate cut timeline, now anticipated to begin in the second half of the year, added to the uncertain equity market outlook.

US stocks lost ground in Q1, with the S&P 500 falling 4.3%, marking its worst quarter since Q3 2022. **Inflation concerns and renewed trade tensions gave investors pause**, weighing on the "Magnificent Seven," which have been key drivers of the US market in recently. Nvidia, a Wall Street favorite over the past two years, saw a sharp pullback as enthusiasm around AI cooled.

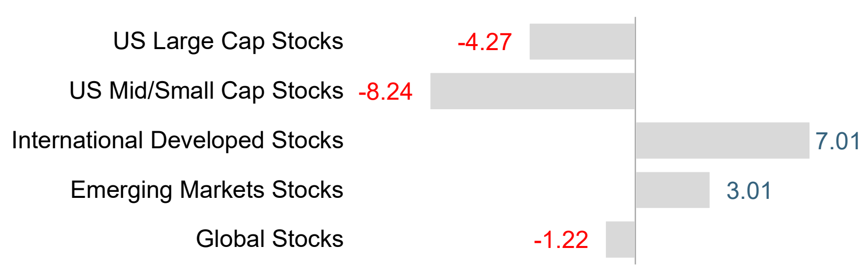
Health Care (up 6.5%) **and Utilities** (up 4.9%) **led all US sectors in Q1. Consumer Staples** (up 4.5%) **also posted solid gains**, consistent with past periods of economic growth concerns. In contrast, **Consumer Discretionary** (down 11.7%) was the worst performing sector. Weakness in Technology (down 11.0%) and Communication Services (down 6.2%) further weighed on US markets.

Mid- and small-cap stocks lagged large caps in Q1; the Wilshire 4500 Index declined 8.2% to start the year. Investors favored large multinational companies, viewing them as less exposed to economic concerns and rising trade tensions. Weakness in the biotech sector also dragged on performance.

International stocks delivered a strong start to 2025, with developed markets rising 7.0% and emerging markets gaining 3.0%. **A weak US dollar**—down 4.1% against the euro—**helped boost returns**. Looking ahead, trade policies and the direction of the dollar will be key factors influencing performance in foreign markets.

Volatility increased in Q1, as is common during periods of market weakness. Rising concerns over tariffs and the potential for trade wars amplified fears of slowing economic growth, leading to a more turbulent ride for stocks. The VIX index, a key gauge of equity volatility, rose from 17.4 at the beginning of the quarter to a peak of 29.6 in mid-March, before settling at 22.3 by quarter-end.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	-4.27	8.25	9.06	18.59
US Mid/Small Cap Stocks	-8.24	-0.22	3.31	16.73
International Developed Stocks	7.01	5.41	6.60	12.31
Emerging Markets Stocks	3.01	8.65	1.91	8.38
Global Stocks	-1.22	7.63	7.42	15.71

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of $1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Full Cap Index) and Foreign Stocks (All Country World Index ex US).

Market Review: Bonds

First Quarter 2025

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Treasury Yields Decline in Q1 as Investors Seek Safety

Interest rates declined during the first quarter, as US tariff policy and mounting economic concerns raised the price of less risky assets. Bond prices rose (prices move inversely to yields), and the US fixed income market, as measured by the Bloomberg US Aggregate Bond Index, returned 2.8%. After two cuts in Q4 2024, **the Federal Reserve held rates steady in Q1**, signaling a pause to assess economic impacts of the administration's policies.

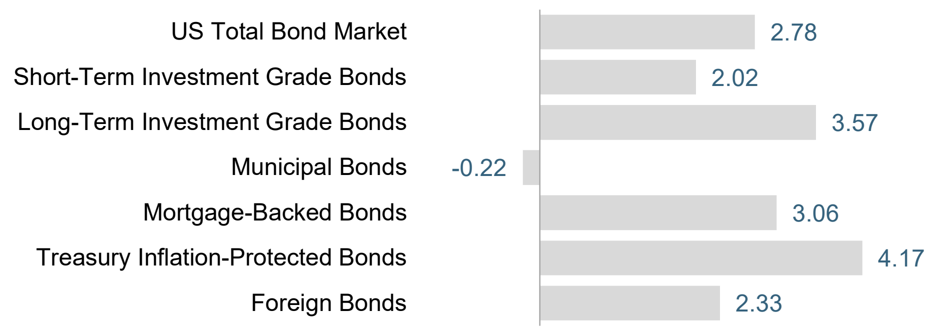
Yields fell across the US Treasury curve, partially reversing the sharp rise seen in Q4 2024. The 2-year Treasury yield dropped from 4.25% to 3.89% and the 10-year yield declined from 4.58% to 4.23%. **Economic data showed moderating inflation, along with signs of softer consumer spending and a weakening labor market**, which prompted investors to price in additional 2025 rate cuts beyond the two already projected by the Fed.

US government bonds outperformed other fixed income sectors in Q1. Notably, long dated Treasurys returned 4.7% and Treasury Inflation-Protected Securities (TIPS) gained 4.2%. In contrast, corporate bond sectors underperformed, reflecting concerns about economic slowing and its impact on companies' financial strength.

Tax-exempt municipal bonds posted a modest loss (-0.2%) in Q1, underperforming their taxable counterparts. **The municipal market faced headwinds**, including elevated supply of new bonds as issuers rushed to market amid speculation that federal tax reforms could threaten the tax exemption of certain types of municipal bonds issued in the future. **The California municipal market experienced volatility** due to the Los Angeles wildfires.

US Treasurys are likely to face continued volatility ahead. While equity market uncertainty traditionally drives safe-haven Treasury demand, that dynamic has not held in recent weeks. The fiscal deficit remains a persistent concern, and tariffs could reintroduce inflationary pressures that delay further Fed rate cuts.

Returns for the Quarter (%)



Period Returns (%)

*Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	2.78	4.88	0.52	-0.40
Short-Term Investment Grade Bonds	2.02	5.71	2.81	1.27
Long-Term Investment Grade Bonds	3.57	1.72	-4.51	-3.74
Municipal Bonds	-0.22	1.22	1.53	1.07
Mortgage-Backed Bonds	3.06	5.39	0.55	-0.69
Treasury Inflation-Protected Bonds	4.17	6.17	0.06	2.36
Foreign Bonds	2.33	0.32	-4.89	-4.01

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Market Review: Alternatives

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Gold Leads Strong Performance for Alternatives in Q1

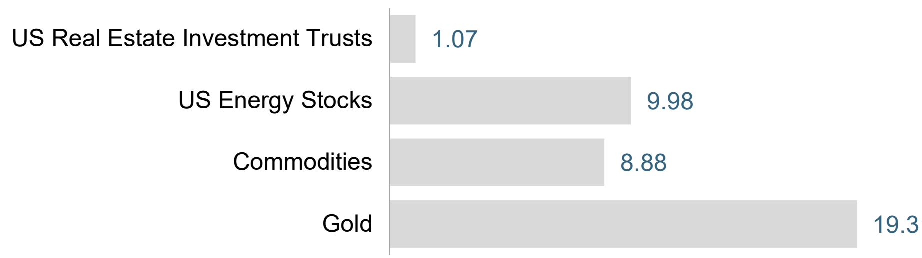
Alternative asset classes posted strong gains in Q1, offering valuable diversification in a volatile market environment. Amid increasing economic and financial market uncertainty, **gold and energy stocks delivered double-digit returns**, while REITs notched modest gains as interest rates declined.

Gold extended its impressive run into 2025, surging 19.3% in Q1 following a 26.6% gain in 2024. Escalating trade tensions and heightened market volatility spurred demand for safe-haven assets like gold, while central banks, particularly in emerging markets, remained active buyers during the quarter.

US energy stocks advanced 10.0% in Q1, driven by a 30% jump in natural gas prices and the Trump administration's renewed focus on environmental deregulation and expanded fossil fuel production. Crude oil prices were volatile, rising briefly above $80, retreating to about $66, and ending the quarter at just under $72 (-0.8%). **Commodities overall delivered a strong quarter**, advancing 8.9%, led by industrial metals such as copper.

REITs posted modest gains, rising 1.1% in Q1 and outperforming broader US equities. While data center REITs pulled back following strong 2024 performance driven by AI demand, the sector as a whole remained relatively insulated from broader financial market volatility. Falling interest rates supported property valuations and lowered borrowing costs, aiding REIT performance during the quarter.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	1.07	10.26	-0.55	11.32
US Energy Stocks	9.98	2.32	10.97	31.79
Commodities	8.88	12.28	-0.77	14.51
Gold	19.31	40.68	17.06	14.64

Market Summary

Index Returns

Q1 2025	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
	STOCKS				BONDS/DOLLAR	
	-4.27%	-8.24%	7.01%	3.01%	2.78%	-1.97%

Since Jan. 2001	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Avg. Quarterly Return	2.3%	2.7%	1.7%	2.4%	1.0%	0.4%
Best Quarter	20.5% **Q2 2020**	30.3% **Q2 2020**	25.8% **Q2 2009**	34.8% **Q2 2009**	6.8% **Q4 2023**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**	-5.9% **Q1 2022**	-5.8% **Q2 2009**

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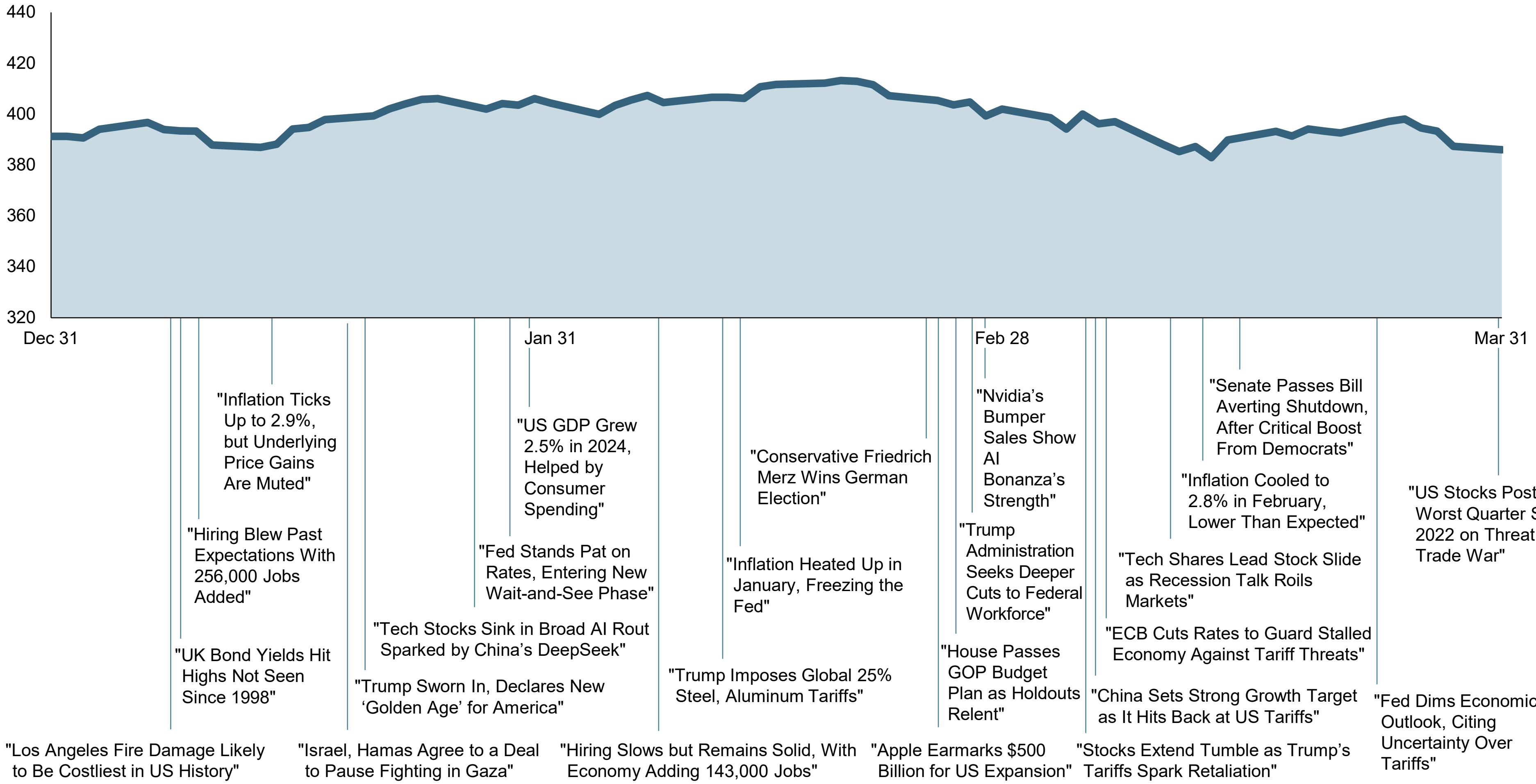
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data Bloomberg data provided by Bloomberg.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2025



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2025, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Federal Finances

First Quarter 2025

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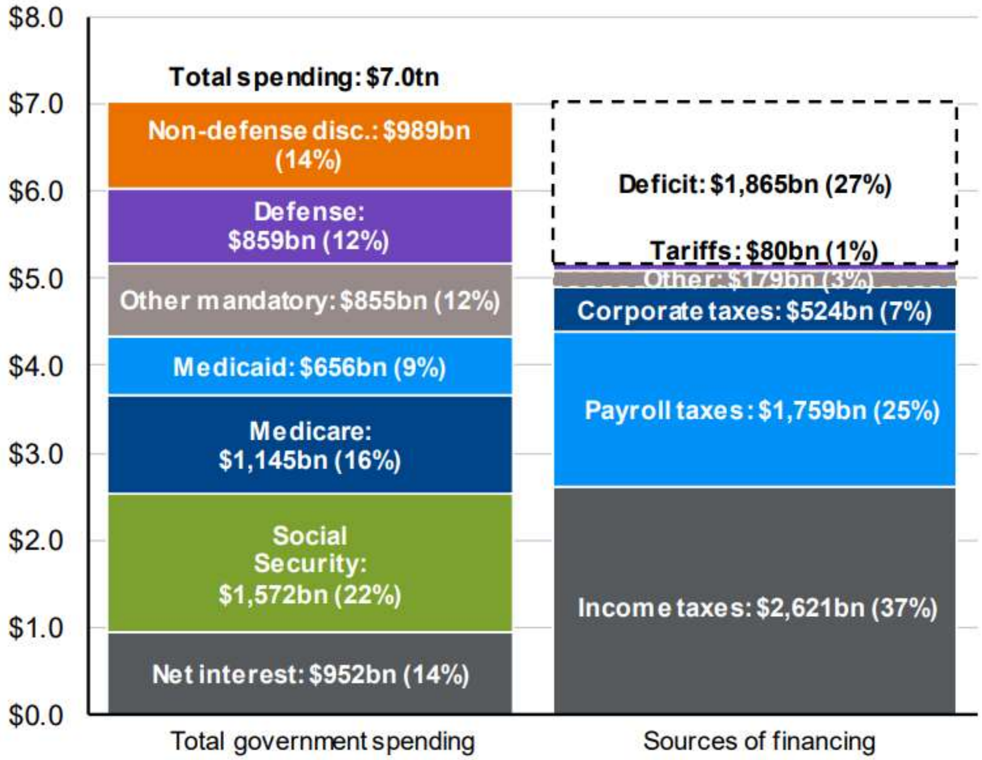
The 2025 federal budget

USD trillions



CBO's Baseline economic assumptions

	2025	'26-'27	'28-'29	'30-'35
Real GDP growth	2.2%	1.8%	1.8%	1.8%
10-year Treasury	4.1%	3.9%	3.9%	3.8%
Headline inflation (CPI)	2.3%	2.4%	2.3%	2.2%
Unemployment	4.2%	4.4%	4.4%	4.4%

The US runs a chronic budget deficit, with the government consistently spending more than it collects in taxes. The 2025 US budget deficit is projected at almost $1.9 trillion, or more than 6% of GDP, a high number for an economy that's been operating near full employment and generating lots of tax revenue.

With nearly half the federal budget allocated to popular entitlement programs (Social Security, Medicare, Medicaid) and another 14% to paying interest on the national debt, shrinking the deficit through budget cutting will be very difficult.

The deficit could be even larger than projected if the economy slows due to tariffs or other factors. Yet another concern: according to a recent Washington Post article, senior tax officials project a staggering $500 billion shortfall in tax receipts this year due to staffing cutbacks at the IRS and indications that taxpayers see this as an opportunity (or even encouragement) for less strict compliance.

At its current size, the annual deficit is causing the national debt to grow faster than GDP. Other things being equal, this means that interest expense (interest paid on Treasury debt) will continue to grow as a portion of the federal budget. This situation can persist for a long time, but not forever.

Source: CBO, J.P. Morgan Asset Management. *Guide to the Markets – US* Data are as of March 31, 2025.

Tariffs on US Imports

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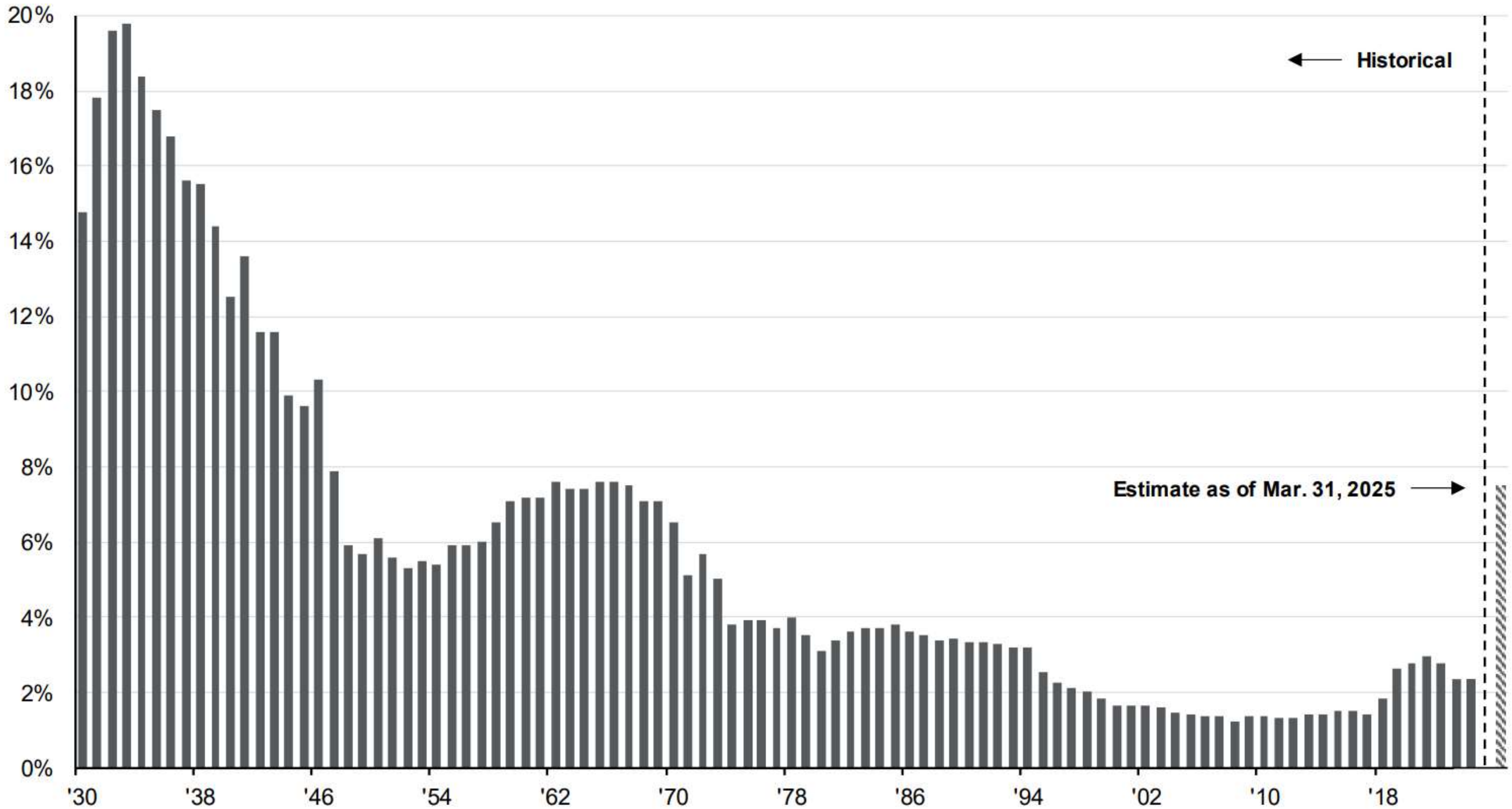
The chart below shows historical average tariff rates on US imports. President Trump's tariffs, announced in early April, would cause a huge jump in the rate after decades of general decline. By some estimates, the new tariff rates will be the highest in US history. Global stock markets have moved lower, fearing both slower economic growth and higher prices from the increased tariff rates. Where tariff rates ultimately settle is anyone's guess, as rates could go up or down depending on the extent of foreign retaliation, the outcome of negotiations, and the prospect of continued policy reversals.

Average tariff rate on US good imports for consumption

Duties collected / value of total goods imports for consumption



Source: Goldman Sachs Investment Research, United States International Trade Commission, J.P Morgan Asset Management. *Guide to the Markets – U.S.* Data are as of March 31, 2025.

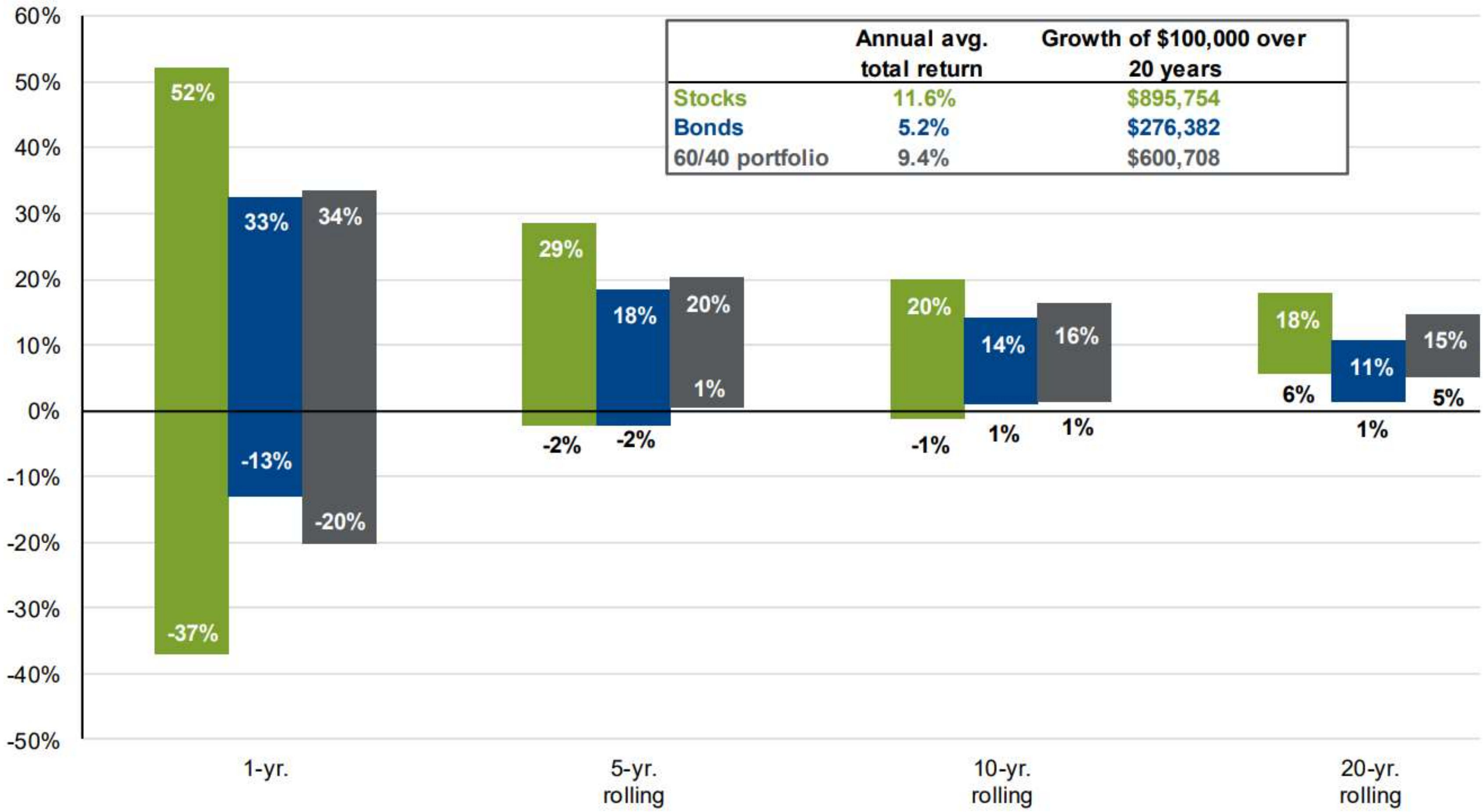
Time, Diversification and the Volatility of Returns

First Quarter 2025

The chart below shows how the range of annualized returns narrows as holding period increases. Based on data from the last 75 years, we see an 89 percentage point range (-37% to +52%) of returns on stocks in one-year holding periods. In contrast, in 20-year holding periods, the range of annualized returns shrinks to 12 percentage points (+6% to +18%), reinforcing the point that investors should have long time horizons for their stock market investments. As expected, stocks exhibited a wider range of outcomes than bonds for any holding period and their realized return was commensurately higher. It is worth noting that these returns represent a particular period in the history of a particular country (the US, 1950-2024). Though often said, it bears repeating: past returns are no guarantee of future returns.

Range of stock, bond and blended total returns

Annual total returns, 1950–2024



Source: Bloomberg, FactSet, Federal Reserve, Standard & Poor's, Strategas/Ibbotson, J.P Morgan Asset Management. *Guide to the Markets – U.S.*
Data are as of March 31, 2025.