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CHIEF INVESTMENT OFFICE

Investment Insights

From Off the Horse To Back In The Saddle

March 2025

All data, projections and opinions are as of the date of this report and subject to change.

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Data as of March 10, 2025.

Bull market cycles have their fair share of setbacks. Over the course of many decades, equity market bull cycles (as measured by the S&P 500) have historically experienced more volatile, choppy and, many times, a high level of uncertainty in their third year—especially if the third anniversary is the first year of a new presidential term. 2025 appears to be unfolding in a similar manner. It is more common than not to experience one 10% or more correction or, on average, three 5% pullbacks in any one year. We believe this repricing of risk is targeting the premium valuation of the broader market especially the high growth Nasdaq Composite, which is down about 13% from its peak in a 13-day period (Monday March 10 the NASDAQ experienced its worst decline of any day since September 2022—marking a 13-day drop that rivals a similar fall during the pandemic crash of May 2020).

In addition, the S&P 500 fell Monday, March 10, to its lowest level since September of last year. The enthusiasm of a pro-business, high growth atmosphere has turned quickly into rising recession concerns driven by a slump period in the economy in January which was largely weather induced and significant uncertainty over tariffs and global trade.

We continue to emphasize that reset periods are normal and usually occur when a sharp rise in uncertainty develops such as this. This uncertainty then is confirmed by negative headlines, emotion, and accelerated profit taking promulgated by the “what if” scenarios. This time around the dark gray clouds that have gathered include new tariffs and trade concerns, an uptick in geopolitical uneasiness, and economic growth worries. The culmination of the dark clouds is pressuring risk assets despite a sharp fall in Treasury yields in the past month or so given the fact that markets reached premium valuations.

Growth concerns with high valuations can lead to accelerated vulnerability particularly when the headlines are consistently negative. Investor sentiment is now decidedly bearish and down to levels associated with previous panic periods that have led to a turn around in market direction for the better. A number of gauges are pointing to short-term extreme bearishness. In contrast, our latest readings in the economy suggest that the broader spending trends are stable and business investment has not deteriorated materially. In addition, new stimulus in Europe, led by Germany, mixed with renewed support in China should help global growth in the coming months. After this U.S. small reset period, we expect economic growth to resume its firmer footing even in the face of a so-called “detox” period. We will continue to closely watch employment market data, consumer and business confidence and their commensurate spending, and, perhaps most importantly, corporate profits for any signs that the “noise” and often mentioned “soft data” are turning into visible “hard data.”

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Vulnerable markets tend to take the elevator down past their preferred level before taking the escalator back up again. We prefer to focus on the medium-to-long run through the balance of the year and beyond. With this in mind, we expect four main drivers to propel Equities back up again and re-establish its bull trend.

Four Main Drivers for Equities:

1. Attractive above average growth for corporate earnings should become more visible further into this year.

2. Broader participation is already developing within the equity markets which should lead to healthier, less narrow trends post this reset. This includes non-U.S. markets appreciation as the world rebalancing moves forward.

3. Financial conditions should become easier as we progress through 2025 (slightly weaker Dollar, a Federal Reserve possibly ready to lower rates if needed, attractive long term yields overall, potential deregulation).

4. An improved corporate landscape in the second half of 2025 into 2026 (potential deregulation, mergers and acquisition cycle begins, tax act extension, productivity gains, non-U.S. fiscal stimulus, etc.).

The combination of the four main drivers above should turn investor sentiment for the better once we get through the short-term pain, in our view. We are buyers of diversified Equity exposure overall on weakness as our highest conviction view is overweight Equities relative to Fixed Income. We still favor the U.S. relative to the rest of the world but are now neutral overseas given their very discounted valuation gap, better growth prospects, portfolio diversification benefits, and a global investor that is ready to add to international exposure for the first extended time in many years.

In the U.S., asset allocation mixture of income, Growth, Value, defensive and cyclical areas are favored in order to participate in the broadening out of the market. We suggest using strength to rebalance as you increase diversification. In addition, we are moving into a market environment in which active asset allocation decisions and exposure to longer term themes are becoming more important. Higher global defense spending, defensive exposure via healthcare and utilities, productivity beneficiaries from generative artificial intelligence, infrastructure redevelopment and onshoring growth, power generation and portfolio risk reducers such as gold and key commodities should continue to increase in demand, in our view.

Lastly, in terms of Fixed Income, credit spreads have largely been tame in this large risk off period. We remain neutral across credit and believe yields are range bound throughout this year across the curve.

Stay the course. Stay active and increase diversification.

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in U.S. dollars.

S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange. Along with the Dow Jones Industrial Average and S&P 500, it is one of the three most-followed stock market indices in the United States.

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