

MARKET REPORT FIRST QUARTER 2025

Key Points

- The quarter can be separated into two distinct periods.
- Everyone is looking for an answer to tariffs.
- Volatility created opportunities.
- Our perspective from year-end is largely unchanged.

A Review of the Quarter

The first quarter can be separated into two distinct periods: Pre-Inauguration and Post-Inauguration.

During the Pre-Inauguration period, many businesses and equity markets expected the incoming Administration to be unquestionably pro-business and looked forward to a lighter regulatory touch. Equity markets lifted in anticipation.

Post-Inauguration, swift changes started almost immediately with Executive Orders being signed soon after the ceremony ended. As of quarter-end, 109 had been signed. While this volume is notable, it is **not** a first-year record – yet. Franklin D. Roosevelt signed 256 in 1937 and Harry S. Truman 139 in 1945, according to the Federal Register. Unfortunately, in modern society, twenty-four-hour news cycles and social media magnify events and stoke the population's emotions. The celebratory ambiance quickly faded and the S&P 500 contracted 10% intra-quarter (and roughly 19% through April 8) with a handful of mega-caps leading to the downside.

Some of the Administration's ideas are intuitive, like reducing the deficit and size of government, yet others like making Canada the 51st state and developing Gaza are head-scratchers. Negotiating in public can have its downside.

Total Return as of March 31, 2025						
	Annualized					
	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr
S&P 500	-4.3%	-4.3%	8.2%	9.0%	18.6%	12.5%
NASDAQ	-10.3%	-10.3%	6.4%	7.6%	18.5%	14.6%
Russell 3000						
Index	-4.7%	-4.7%	7.2%	8.2%	18.2%	11.8%
Value	1.6%	1.6%	6.7%	6.3%	16.1%	8.6%
Growth	-10.0%	-10.0%	7.2%	9.6%	19.6%	14.6%
Russell Mid Cap						
Index	-3.4%	-3.4%	2.6%	4.6%	16.3%	8.8%
Value	-2.1%	-2.1%	2.3%	3.8%	16.7%	7.6%
Growth	-7.1%	-7.1%	3.6%	6.2%	14.9%	10.1%
Russell 2000 (Small Cap)						
Index	-9.5%	-9.5%	-4.0%	0.5%	13.3%	6.3%
Value	-7.7%	-7.7%	-3.1%	0.1%	15.3%	6.1%
Growth	-11.1%	-11.1%	-4.9%	0.8%	10.8%	6.1%

While there are numerous Post-Inauguration topics worthy of discussion, **tariffs** are one of the more consequential items from a near-term economic standpoint. As of quarter-end, the U.S.'s tariff policy remained fluid and was creating confusion in the marketplace. An abnormally high degree of uncertainty can impair economic activity if not resolved in a timely manner.

The combination of feedback from bond markets, equity markets and the field (i.e. constituents) should ultimately cause cooler heads to prevail in Washington and abroad. We remain optimistic that any final agreement on tariffs will be less onerous than currently perceived, but there is **likely** to be fallout along the way with some smaller private companies being disproportionately impacted. Publicly traded companies, on average, should fare better given they have more levers to pull in the way of capital and suppliers (some companies are pursuing an "anything but China strategy"), as well as legal and political resources. On the other hand, new opportunities can emerge for small private companies and publicly traded companies alike.

We have noted a **near-endless** supply of presentations and conference calls, regarding tariffs, offered by an array of firms within the financial services space, as well as law and consulting firms. Everyone wants to serve their client, as they should. However, when the "base case" swings wildly from day-to-day (or hour-to-hour), the proverbial crystal ball becomes murkier than usual. Living and making decisions with a higher degree of uncertainty **may** simply be the new norm. Recent quarterly letters addressing Risk vs Uncertainty are available at: [Market Report - Eubel Brady & Suttman, Investment + Wealth Management](#).

Rather than attempting to predict a particular tariff outcome, we spend our time focusing on corporate fundamentals that drive long-term shareholder value and incorporating those variables into our intrinsic value calculations. Ultimately, our world is reduced to price-to-value at the individual security level, which immensely helps filter out the inherent noise embedded in the daily news flow. When the price-to-value ("PV") relationship of a given investment is attractive in absolute terms and relative to what is already held in a strategy, we may be on the buy side. If a PV is not attractive, we are likely to sell an investment that we own and/or pass on an investment candidate that meets our criteria except for price. Filtering out noise is incredibly important for long-term success, in our view.

U.S. Equities

Value-oriented issues fared the best during the quarter (see data table on page one) as some of the froth came off the top of the usual mega-cap suspects. Within the S&P 500, consumer discretionary and technology sectors contracted the most, and energy and healthcare fared the best. As pointed out in the March 17, 2025, issue of Barron's, value stocks are "supposed to do better than growth stocks over time. And they have, over the longest periods. Since 1926, a dollar invested in value stocks has turned into \$131,534, versus \$11,744 for growth stocks. That's based on the ratio of price-to-book value, using data compiled by Kenneth French at Dartmouth College, and reported by UBS."

Within our strategies calling for individual stocks, volatility during the period created **opportunities** to add to a few existing positions. When we initiate a new position in our strategies, we sometimes start small with plans to add to the position over time to reach our intended target. As a reminder, we manage risk at the portfolio level through the allocation to equities and fixed-income, and at the security level via PVs and position sizes.

Fixed Income & Commodities

Corporate bonds' total returns, as measured by the ICE BofA U.S. Corporates 1-10 Yr. index, increased 2.3% during the quarter and are up 6.5% over the last year. U.S. Treasuries and Agencies, as measured by a similar index, increased 2.5% for the quarter, bringing the one-year return to 5.4%. Credit spreads (e.g., the difference in yield between a corporate bond and a U.S. Treasury of equal maturity) expanded slightly beyond the one-year mark but generally remain tight.

The bond market has remained reasonably calm during this transition period, which can be, in part, attributed to Federal Reserve Chairman Powell's steady hand. Despite talk about an early termination for the Chairman, this is highly improbable due to the required procedural steps. While it may seem historic, it is **fairly common** for a sitting U.S. President to criticize the Fed Chairman. President Nixon succeeded in getting lower rates by leaning on Chairman Burns who was a friend. History suggests those actions contributed to the higher inflation of the '70s. Presidents Reagan and G.W. Bush also publicly pushed for lower rates. In our view, there is an inherent conflict between monetary policy and politics. The Federal Reserve's independence is important.

Commodities, as measured by the Bloomberg Commodity Index, increased 7.7% for the quarter and are up roughly 7.0% Y/Y. Oil (WTI) decreased 0.3% during the quarter, bringing the one-year return to -14.1%. U.S. oil production remained near record highs.

There was near-constant chatter during the quarter about Greenland's and Ukraine's minerals and the U.S.'s interest in both. However, there was little discussion about Greenland's harsh environment, poor infrastructure and the fact that around 80% of the island is covered by ice. Current mining operations there are limited and whether future large-scale operations can be conducted with adequate levels of profitability is still a question. Ukraine also has many hurdles like infrastructure, energy and an ornery neighbor that may cause private capital to take pause.

The U.S. already mines around 12% of the world's supply of rare earths, putting it only behind China, but exports around 2/3s of that production to China for processing. The U.S. needs more processing capacity, but it is a dirty business that no one will want in their backyard. Progress is unlikely to be as fast as desired.

Looking Ahead

As we stated in our year-end letter, “we believe the range of potential investment, economic and trade outcomes is wider than usual given the unknown magnitude of tariffs, the associated impact on economic growth and inflation, and the bevy of possible executive orders.” This perspective still holds; however, we would not be surprised if the range of potential tariff outcomes is markedly narrowed by late-May or early-June.

Investors are often impacted by “recency” and may relate the current debacle – as it relates to supply chains – to the dark days of COVID. Then, the issue was largely labor from the beginning to the end of the supply chain. Currently, labor is not the issue and any potential “supply shocks” should be resolvable in a reasonable amount of time **if** a commercially viable level of tariffs can be agreed upon by the U.S. and its trading partners, particularly China. We will continue our hunt for value and strive to use volatility to our advantage, as always.

Enjoy spring!

Past performance is not indicative of future results and all investments involve some degree of risk. Market and economic data have been provided by third party sources. This data, while believed to be reliable, has not been independently verified by EBS.