MONTHLY **INVESTMENT OUTLOOK** | MARCH 2025

KEY POINTS

After advancing in January, US equity markets fell in February after making a record close mid-month. In February, bonds were the best-performing asset class as yields sank due to a growth scare as the 10-Year Treasury yield declined over 60 bps from its January high. Policy uncertainty has led to a pickup in market volatility as investors await clarity on trade, immigration, and fiscal budget policies. Diversification has benefitted portfolios this year as international equities have outperformed domestic equities, defensive sectors have led cyclical sectors, and gold has advanced 8%.

MACRO LANDSCAPE IN 2025: While growth is expected to be a solid 2.6% globally in 2025, with US growth of 2.3%, recent activity indicators have been softening. Consumer confidence, retail sales, auto sales, and services PMI have been weaker of late. Adding to the economic soft patch is uncertainty over the US administration's policies of cutting fiscal deficits by reducing waste and reducing immigration. The threat of tariffs and aggressive trade policies to rebalance global trade could dampen business sentiment. On the positive side, US consumer fundamentals remain strong, including consumer income, employment, and household wealth.

PRO-GROWTH/PRO-BUSINESS FISCAL POLICY: The new Administration's pro-growth and pro-business focus has at its core a *"Three Arrows"* strategy: increase real GDP growth to +3% through deregulation and tax incentives; reduce the federal budget deficit to 3% of US GDP *(DOGE)*; and raise US energy production to 3 million barrels per day to lower inflation. The sequencing of these initiatives starts with reducing fiscal spending, and new tariffs that raise inflation, both of which are a headwind to growth in the short term. The measures that increase growth *(deregulation, lower taxes, and increased supply)* will take more time to implement and occur over the intermediate term.

FEDERAL RESERVE PAUSES RATE CUTS: The Fed paused cutting interest rates at its January meeting as it awaits further confirmation that inflation is cooling and further clarity on the administration's policies. Recently, inflation has been somewhat hotter and inflation expectations have spiked, which complicates the Fed's desire to cut interest rates. Cash and short-term bond yields of over 4% continue to be attractive for fixed-income investors.

TEMPER EQUITY PERFORMANCE EXPECTATIONS: Valuations are stretched at 22 times forward earnings vs. the long-term average of 16-17 times, which requires expectations for equity market returns to be scaled back for 2025. With PE multiples stretched, stock market gains will be dependent on corporate earnings growth, which is expected to be 12% in 2025. If the growth scare accelerates, it may lead to downward revisions to GDP and earnings growth estimates for the year.

ASSET ALLOCATION: Asset allocation remains a key factor and is important for investors' portfolios with the rapidly evolving macro landscape. Challenges include sticky inflation, policy uncertainty, reshoring of supply chains, and high global debt levels. We favor balanced positioning with a quality tilt as equity valuations are elevated and bonds provide a solid income cushion. Equities, despite stretched valuations, remain favorable with global growth in the mid-2% range and inflation slowly cooling. In fixed income, we take advantage of higher yields that provide income and portfolio protection during recession or geopolitical turmoil. We include gold and alternatives to enhance diversification and lower portfolio volatility. We see greater macro volatility leading to a higher dispersion of returns across styles, sectors, and geographies, which creates an opportunity for active management of portfolios.

KEY TAKEAWAYS FOR INVESTORS:

- The roadmap for 2025 points to a higher and more volatile path for US equities based on potential higher growth from pro-business policies and deregulation.
- Greater volatility is creating opportunities across sectors and geographies that lead to opportunities in active portfolio management and the need for a flexible approach.
- Bond yields remain attractive for portfolios providing an income cushion, portfolio diversification, and capital preservation during recessions.
- The key to reaching your long-term investment goals is diversification, balanced asset allocation, and focus on the long-term horizon.

SUCCESSFUL INVESTMENT PRINCIPLES: FOCUS ON THE LONG GAME

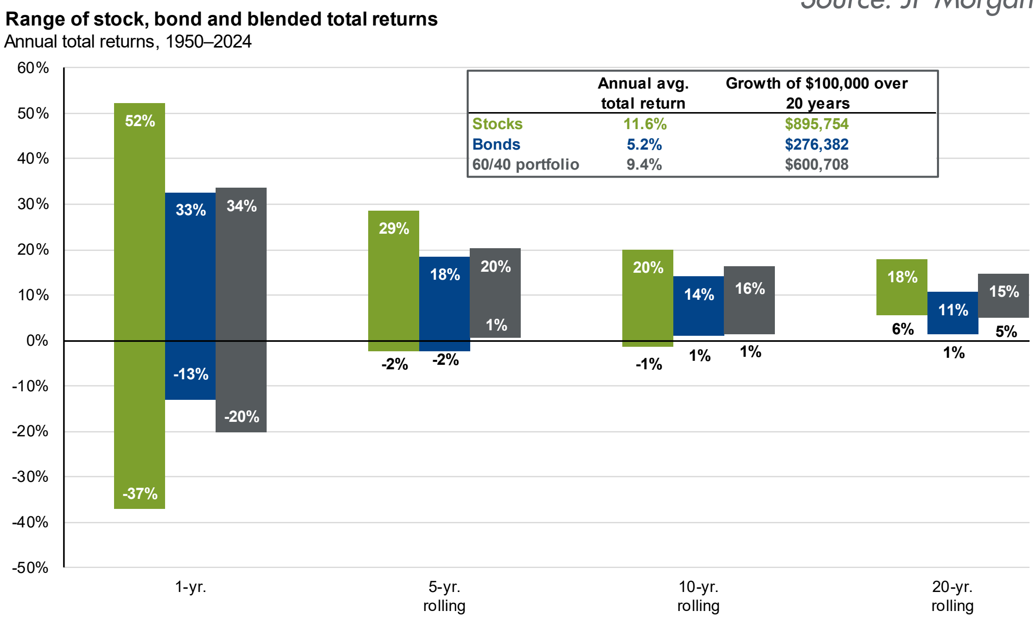
Successful investors maximize the odds of success by focusing on the long term and maintaining a long-term investment plan based on their goals. Studies show individual investors significantly underperform the broad stock market. Individuals are more likely to be driven by emotions that lead to reducing equity and risk assets after market declines during times of volatility.

By taking a multi-year view, investors stack the odds in their favor of achieving investment success and achieving their goals. As can be seen in the chart below, over any one-year period the annual return for the S&P 500 can be volatile with returns from -37% to +52% since 1950. Over any 5-year period, the range shrinks to -2% to +29%. Most importantly, there has never been a twenty-year period since 1950 where equities have experienced losses, as returns ranged from +6% to 18% per year for the S&P 500.

For balanced accounts, data shows that there has never been a rolling 5-, 10-, or 20-year period where a simple 60/40 portfolio of stocks and bonds had a negative return. Overall, from 1950 to 2024, a 60/40 portfolio compounded 9.4% per year. The lesson here is that the more time you have and the more diverse your portfolio, the less risk there tends to be and, lastly, to focus on the long term to achieve your goals.

TIME, DIVERSIFICATION, AND THE VOLATILITY OF RETURNS

Source: JP Morgan



	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.6%	$895,754
Bonds	5.2%	$276,382
60/40 portfolio	9.4%	$600,708

ECONOMIC DATA

- US and global growth continue to be solid in 2025 reflecting real income growth, lower interest rates, and further progress on inflation. For 2025, growth is estimated to be 2.3% in the US and 2.6% for global growth. For 2026, consensus estimates for global growth are 2.6%, while US growth is estimated to slow to 2.0%. In 2026, US growth has the potential to increase based on the new administration's pro-growth policies.
- S&P 500 earnings were $208 (+48%) in 2021, $219 (+5%) in 2022, and $220 (+1%) in 2023 (FactSet). Final estimates for 2024 are $242 (+10%) with estimated revenue growth of 5.2%. Estimates for 2025 are $271 (+12%) with estimated revenue growth of 5.5%.
- Valuations continue to be above the long-term historical averages.
- The trailing 12-month operating price-earnings ratio is 24.1 times operating earnings compared to the 5-year average of 24.3 times and the 50-year average of 14.2 times.
- The forward operating price-earnings ratio stands at 21.5 times earnings, exceeding the 5-year historical average of 19.8x, the 10-year average of 18.3x, and the 30-year average of 16.9x.

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MARKET RECAP (AS OF FEBRUARY 28, 2025)

- In February, US equities closed the month broadly lower due to a torrent of headlines on the new administration's policies, an uptick in inflation data, and concerns about slowing growth.
- Year-to-date, international developed equities jumped 6.3% outpacing both the S&P 500's gain of 1.4% and Emerging Markets that rose 1.2%. Value outperformed with a gain of 5.1%, while Growth fell 1.7% in the US.
- The Bloomberg U.S. Aggregate Bond Index rose 2.7% year-to-date as bond yields moved sharply lower from a mid-January peak.
- Credit continues to be resilient as credit spreads remain tight. Floating rate bank loans rose 0.8%, and emerging market debt gained 3.0%, year-to-date.
- Gold notched another record high and gained 7.9% year-to-date, proving its value as a hedge against uncertainty and excess money printing. Oil fell below $70 and is 1.6% lower for the year.
- Alternatives: Overall, fixed-income substitutes and unconstrained alternatives had a solid month exceeding nominal bond returns.

Period Ending February 28, 2025 *Source: Bloomberg.* *Past performance is not indicative of future results.*

			Trailing Performance (annualized for periods > 1 year)				
Asset Class	**Index**	**MTD**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**
EQUITIES							
Benchmark	MSCI All Country World IMI	(0.9)	2.4	14.6	8.5	12.4	8.8
Large Cap	S&P 500	(1.3)	1.4	19.0	12.5	16.8	13.0
Long-Short	[50% S&P 500, 50% ICE 0-3m T-Bill]	(0.5)	1.1	12.1	8.4	9.7	7.4
Small/Mid Cap	Russell 2500	(4.7)	(1.3)	8.4	4.5	10.8	8.3
International	MSCI World Ex US IMI (net)	1.5	6.3	9.4	5.5	8.5	5.3
Emerging Markets	MSCI Emerging Markets IMI (net)	0.0	1.2	8.6	0.7	4.9	3.6
FIXED INCOME							
Benchmark	FTSE World Broad Investment Grade	1.6	2.1	3.4	(2.7)	(2.1)	0.4
U.S. Aggregate	Barclays US Aggregate	2.2	2.7	6.0	(0.4)	(0.5)	1.5
U.S. TIPS	Bloomberg US TIPS	2.2	3.5	6.6	(0.8)	1.9	2.4
Tax Exempt	S&P Municipal Bond Index	1.0	1.4	3.4	1.2	0.9	2.4
U.S. Corp High Yield	Bloomberg US Corporate High Yield	0.7	2.0	10.2	4.9	4.9	5.1
U.S. Floating Rate	S&P/LSTA Leveraged Loan	0.1	0.8	8.1	7.3	6.2	5.1
International	FTSE Non USD WGBI	0.8	1.3	(0.1)	(6.4)	(4.8)	(1.2)
Emerging Markets	JPM Emerging Markets	1.6	3.0	10.0	3.4	0.6	3.3
REAL ASSETS							
Benchmark	Gold	0.5	7.9	39.4	14.4	12.7	8.9
Inflation	*Consumer Price Index (CPI)*	0.0	0.5	3.0	3.9	4.3	3.1
Commodities	Bloomberg Commodities	0.8	4.8	11.7	0.7	10.6	1.8
ALTERNATIVES							
Benchmark	[20% S&P 500, 80% ICE 0-3m T-Bill]	0.0	0.8	7.9	5.9	5.4	4.0
Multi-Strategy	Credit Suisse Multi-Strategy I		1.5	7.8	6.2	6.5	5.1
Global Macro	Credit Suisse Global Macro Ind		3.7	7.9	4.0	7.5	4.7
Managed Futures	Credit Suisse Managed Futures		0.7	2.3	5.0	5.8	2.0