U.S. Equities

April 10, 2025

Main Points

In Q1, the S&P 500 fell 4.6%, the most since Q3 2022 and experienced its first 10% correction since mid-2023.

The Nasdaq Composite, U.S. equities versus international peers, and U.S. equities versus bonds all recorded their weakest quarters since Q2 2022.

Following the U.S. tariffs announcement, the S&P 500 suffered a waterfall decline and is now deeply oversold.

The first quarter of 2025 stood in stark contrast to the previous year, delivering a harsh blow to equity bulls, AI optimists, and crypto investors. The S&P 500 suffered its largest quarterly decline since Q3 2022 and experienced its first 10% correction since mid-2023. The Nasdaq Composite, U.S. equities versus international peers, and U.S. equities versus bonds all recorded their weakest quarters since Q2 2022. Growth underperformed value dramatically, with the Russell 1000 Growth lagging the Russell 1000 Value by the widest margin since Q1 2001. Strong showings from dividend yield and sales/price were also prevalent. Size, cash holdings, and some macro signals struggled, highlighting a mixed, stagflation-like environment.

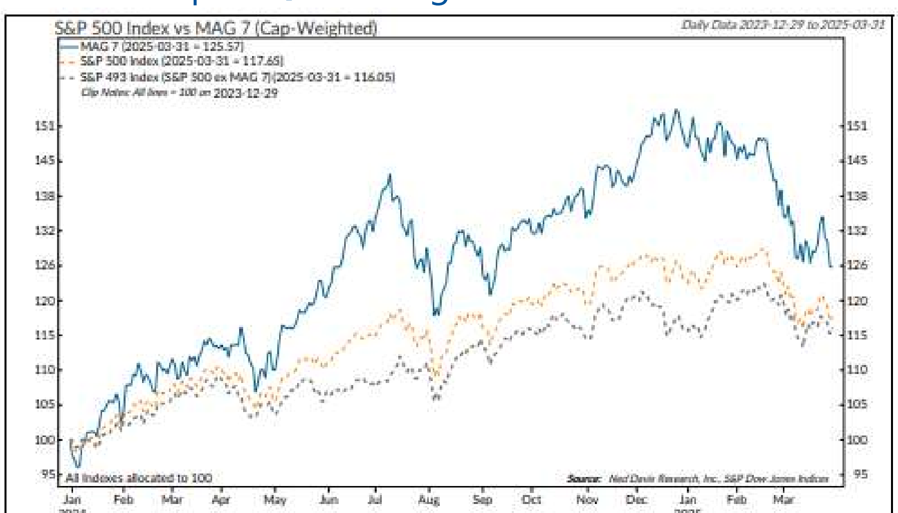
At the heart of these trends was the sharp reversal in the Magnificent 7 stocks, which after leading markets higher in 2024, fell 15.0% collectively in Q1, dragging down cap-weighted indices. Outside of META, the group broadly underperformed, while the rest of the S&P 500 saw a modest gain of 0.4% (chart below).

Beyond mega-caps, small-caps also struggled. The Russell 2000 trailed the Russell Top 200 by 4.69%, and the S&P 600 underperformed the S&P 500 by 4.66%. Within the Russell universe, mid-caps led performance, outpacing both large- and small-caps. In the S&P benchmarks, mid-caps beat small-caps by 2.8% but trailed large-caps slightly.

Style spreads favored value, especially among large-caps, with the Russell Top 200 Value outperforming Growth by 14.6%. The S&P Small-Cap 600 Growth beat its value counterpart by 2.0%.

Following the U.S. tariffs announcement, the S&P 500 suffered a waterfall decline. Studies on waterfall declines and big two-day drops show the market is deeply oversold. If there was a larger recession bear market, following those lows, historically it has been a good buying opportunity as the S&P 500 has had strong returns.

S&P 500 up in Q1 ex. Mag 7



Ticker	Name
META	Meta (Facebook)
AMZN	Amazon.com
MSFT	Microsoft
AAPL	Apple
GOOGL	Alphabet
TSLA	Tesla
NVDA	Nvidia

Index (Cap-Weighted)	Gain/Annum % 2023-12-29 to 2025-03-31	YTD % 2024-12-31 to 2025-03-31
MAG 7	19.90	-15.02
S&P 500 Index	13.83	-4.59
S&P 493 Index (S&P 500 ex MAG 7)	12.60	0.35

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U.S. Sectors

April 10, 2025

Main Points

Growth sectors closed out Q1 on a low note—Communication Services, Technology, and Consumer Discretionary all fell more than 8%.

At the sector level, Information Technology's weighting in the S&P 500 reached nearly 33% by January 2025.

A poor Q1 often shifts the odds against the Tech sector for the remainder of the year.

Growth sectors closed out Q1 on a low note, with Communication Services, Technology, and Consumer Discretionary all falling by more than 8% in March. The sectors were the biggest drags on the S&P 500, subtracting a total of 4.5% points from index's return.

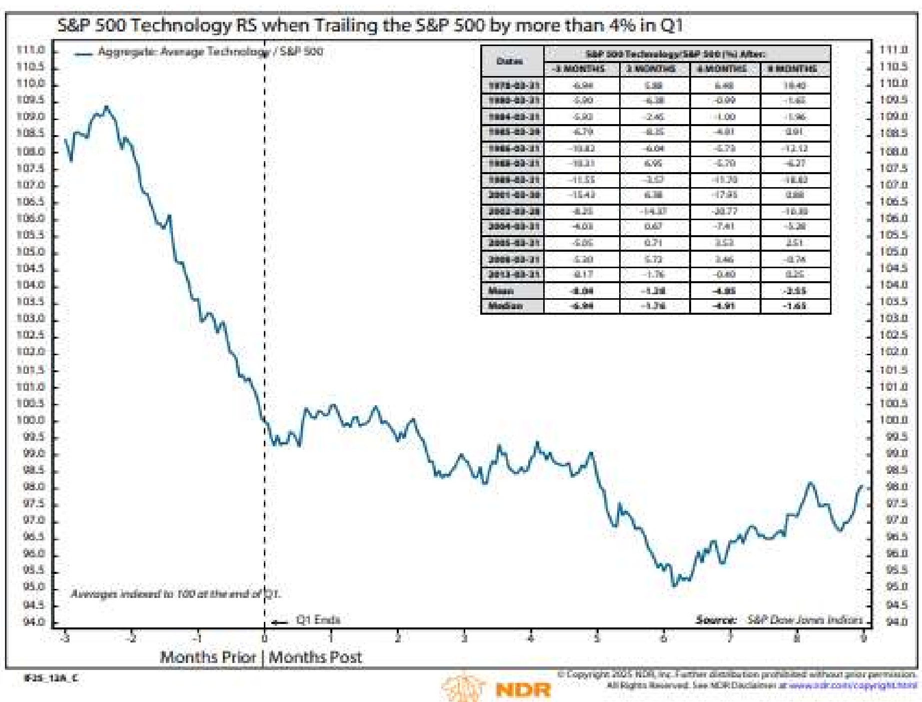
Since the September 2022 bear market bottom, mega-cap stocks significantly increased market concentration. The top 10 companies in the S&P 500 saw their combined weight rise from 25% in January 2023 to a record 39% by January 2025. However, in Q1 2025, these mega-caps underperformed, with the Nasdaq Composite dropping 10.5%—its worst quarterly performance since 2022—highlighting concentration risks.

At the sector level, Information Technology's weighting in the S&P 500 reached nearly 33% by January 2025, approaching the record set in August 2000. The sector declined by 10% year-to-date, subtracting over 3 percentage points from the S&P 500's return, making it the biggest drag on the index in Q1. This underperformance marked Technology's worst Q1 relative to the S&P 500 since 2002.

Historically, when Technology underperforms the S&P 500 by more than 4% in Q1, the sector tends to continue lagging in Q2 and Q3 before rebounding in Q4. Out of 13 such instances, eight saw continued underperformance through year-end. This pattern suggests that a poor Q1 often shifts the odds against the sector for the remainder of the year (chart below).

Energy was the top-performing sector in March, rising 3.8% versus a 5.8% decline for the S&P 500. For Q1, the sector was up an impressive 9.3% versus a 4.6% drop in the broad index. The selloff to begin the year has reaffirmed Energy's spot as the top defensive sector, with the sector outperforming the S&P 500 in the last 14 S&P 500 selloffs of 5% or more. If inflation remains a top concern for investors, the relationship is likely to hold.

Weak Q1 from Tech often leads to weak rest of year



Dates	S&P 500 Technology/S&P 500 (%) After:			
	-3 MONTHS	3 MONTHS	6 MONTHS	9 MONTHS
1978-03-31	-6.94	5.88	6.48	16.45
1980-03-31	-5.90	-6.38	-0.99	-1.65
1984-03-31	-5.93	-2.45	-1.00	-1.96
1985-03-29	-6.79	-8.25	-4.81	0.91
1986-03-31	-10.82	-6.04	-5.73	-12.12
1988-03-31	-10.31	6.95	-5.70	-6.27
1989-03-31	-11.55	-3.57	-11.70	-18.83
2001-03-30	-15.43	6.38	-17.95	0.88
2002-03-28	-8.25	-14.37	-30.77	-16.88
2004-03-31	-4.03	0.67	-7.41	-5.28
2005-03-31	-5.06	0.71	3.53	2.51
2008-03-31	-5.30	5.73	3.46	-0.74
2013-03-31	-6.17	-1.76	-0.40	0.25
Mean	-8.04	-1.28	-4.85	-2.55
Median	-6.94	-1.76	-4.91	-1.65

U.S. Economy & Fixed Income

April 10, 2025

Main Points

The U.S. economy was expected to slow in 2025 due to policy uncertainty. However, the U.S. tariffs increase the odds of a recession.

The Float-Adjusted U.S. Aggregate gained 2.7% in Q1, led by long-term Treasurys (+4.7%) and TIPS (+4.2%).

Unless economic momentum slows significantly, inflation pressures will likely intensify through mid-year.

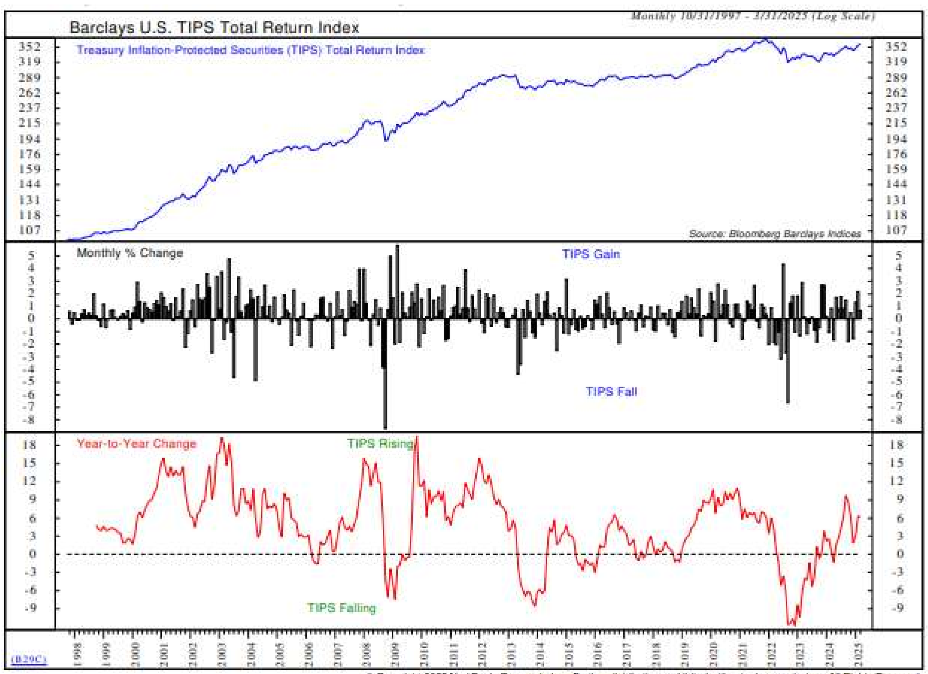
The U.S. economy faced a turbulent start to 2025, marked by severe winter weather, California wildfires, and an early drag on consumer spending and housing activity. These cyclical challenges have been compounded by rising policy uncertainty, including threats of a government shutdown, purging of federal workers, and escalating geopolitical tensions from reduced support for Ukraine. Despite solid personal income growth, low unemployment, and manageable household debt service, confidence among businesses and consumers remains fragile.

The Trump administration's focus on tariffs has created vicious headwinds, particularly as the anticipated tariff reprieve failed to materialize, triggering fresh uncertainty. The rollout of new tariffs, particularly on intermediate goods, is raising inflation risks by increasing input costs and pressuring corporate margins. A recent Fed study suggests a 10% rise in trade costs could lift CPI inflation by 0.8 percentage points in a year, with more persistent effects from tariffs on production inputs. With tariff rates now averaging 25%, inflation could rise by up to 2.0 points in the next 12 months, compounding the current 2.8% rate. Although USMCA-compliant goods and certain exempt imports offer limited relief, the weakened U.S. dollar is accelerating the passthrough of higher tariffs into prices. Unless economic momentum slows significantly, inflation pressures will likely intensify through mid-year.

While stocks struggled, bonds rebounded in Q1. The Float-Adjusted U.S. Aggregate gained 2.7%, led by long-term Treasurys (+4.7%) and TIPS (+4.2%, chart below), as falling yields and rising inflation expectations created a rare tailwind.

Considering the extreme economic and policy uncertainty, investors are de-risking across fixed income sectors. Spreads have widened, ratios have fallen, and lower-rated credits are underperforming. Higher quality and liquidity areas are likely to perform better.

Exceptional Q1 TIPS performance



International Equities

April 10, 2025

Main Points

In Q1, international outpaced U.S. equities. EAFE was up 6.8%, while Emerging Markets gained 2.9%.

Tariffs have changed the outlook. If inflation rises and growth slows, global equities could come under even greater pressure.

Equity investors are particularly concerned about the ripple effects across Asia.

In Q1, on a U.S-dollar basis, the MSCI EAFE Index climbed 6.8%, and Emerging Markets added 2.9%, both outpacing U.S. equities.

Following the implementation of steep U.S. tariffs, the outlook for global equities has become more uncertain. These tariffs, far exceeding prior expectations, could severely impact global trade flows, potentially tipping the world economy into recession.

Equity investors are particularly concerned about the ripple effects across Asia, where export-driven economies like South Korea, Taiwan, and nations in Southeast Asia face tariffs as high as 50% (chart across). These regions are U.S. allies, making their targeting perplexing and geopolitically risky. China may exploit the situation by strengthening ties in Asia, further isolating U.S. influence. Sectors most exposed to U.S. imports—autos, machinery, electronics, and pharmaceuticals—face substantial risk, with European and Asian manufacturers facing immense profit margin erosion. Meanwhile, U.S. multinationals dependent on global supply chains are at risk of rising input costs and disrupted operations.

Easing monetary policy across both developed and emerging markets has helped cushion the blow, and earnings growth remains positive despite a more cautious revisions trend.

It's likely that weakening global market breadth would lead deteriorating economic breadth. But if global central banks can maintain their easing cycles despite the tariffs, global breadth should hold up, and the U.S. market may be able to get in synch with it.

If the market's focus shifts from tariffs to the impact of monetary policy on economic growth and earnings, a recovery can be expected. If instead we see the trade war lifting inflation and slowing growth and earnings, then the risk of a global bear market increases.

Some economies tied more than others to U.S.