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2025 Q1 Review

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The S&P 500 fell by 4.8% in the first quarter, though the decline felt more significant because the market had advanced through February and the fall from higher intra-quarter levels was near 10%. The Nasdaq fell by 11.6% in the quarter, including significant losses in the now infamous Magnificent 7 stocks, with meaningful declines in Tesla, Nvidia, Apple, Google and Amazon.

The Dow Jones Industrials fell by 1.3%, and the Russell 2000 Small Cap Index fell by 10.8%. International performance was stronger, coming from lower valuations following years of underperformance, with the MSCI ex US Index up 5%, and the MSCI Emerging Markets Index up 2.4%. Fixed income performance for the quarter was notable, as the 10-year US Treasury yield fell from 4.6% in January to 4.2% at quarter end.

Index	End 1Q	QTD	% From High	4/8/2025	YTD	% From High	P/E	FP/E
SPX	5,611.9	-4.8%	-9.5%	4,982.8	-15.3%	18.9%	20.3x	18.5x
CCMP	17,299.3	-11.6%	-15.9%	15,267.9	-20.9%	23.9%	26.3x	22.6x
INDU	42,001.8	-1.3%	-6.3%	37,645.6	-11.5%	15.6%	19.1x	18.1x

Index	End 1Q	QTD	% From High	4/8/2025	YTD	% From High	P/E	FP/E
RTY	2,011.9	-10.8%	-13.4%	1,760.7	-21.0%	-22.9%		20.4x
MID	2,919.2	-6.9%	-9.9%	2,560.9	-17.9%	-20.2%	14.3x	13.2x
M1WDU	322.4	5.0%	-1.7%	296.1	-3.4%	-9.7%	13.2x	12.1x
MXEF	1,101.4	2.4%	-3.2%	1,002.6	-6.8%	-11.8%	13.0x	11.3x

Source: TRB Trust & Wealth Management, Bloomberg

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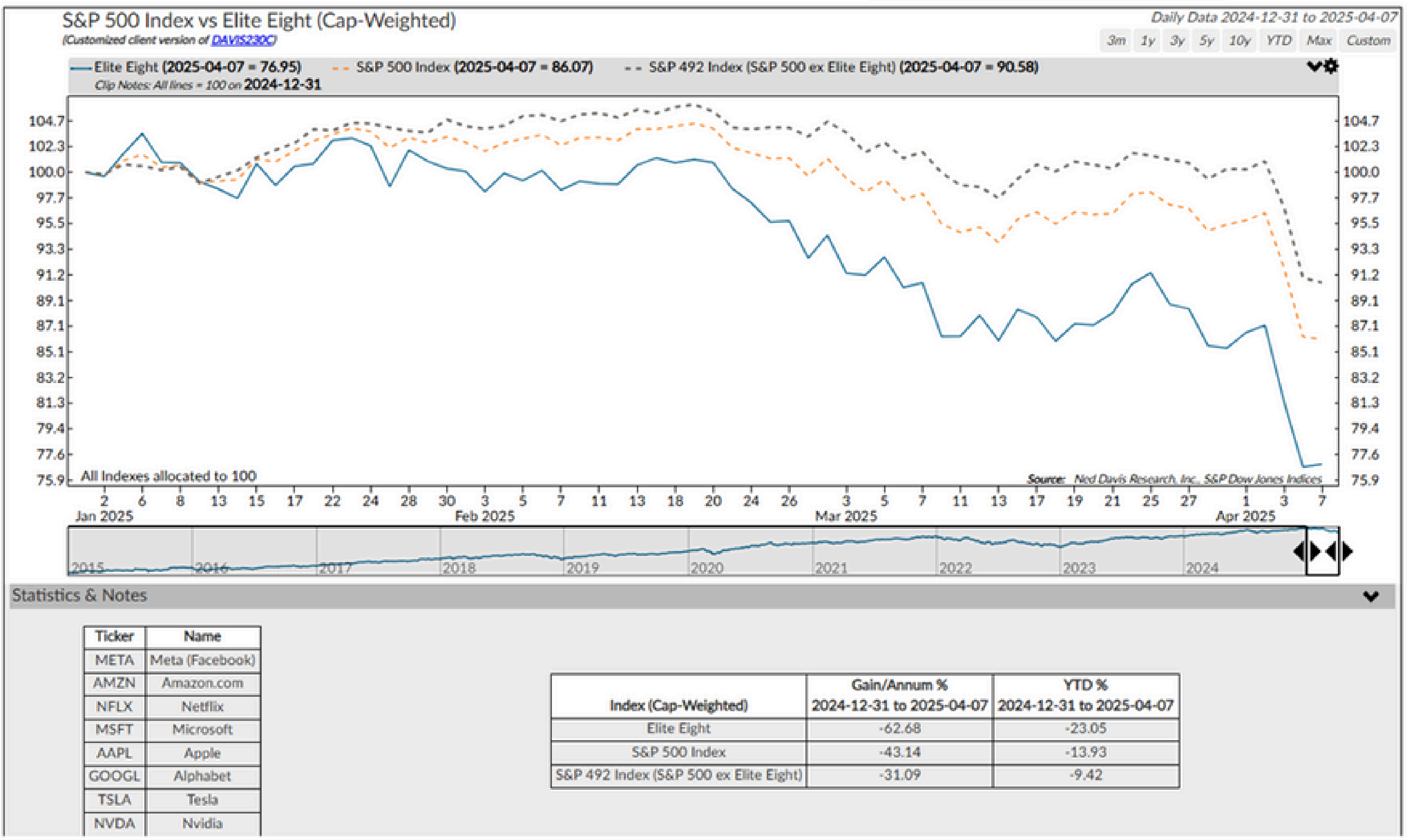
COUNTER-TREND PERFORMANCE

The trends that have driven portfolio performance over the last two years shifted abruptly in the first quarter. The small group of stocks that we have referred to interchangeably as the Magnificent 7 or Elite 8 fell by 14.6% (Elite 8). Their influence was so significant that the S&P 500, including the Elite 8 stocks, fell by -4.6% but actually showed a slight gain without the Elite 8 included (S&P 492). As we moved beyond the first quarter into the days of market turmoil following President Trump's tariff announcements, the Elite 8 group of stocks was down 24.8% on a year-to-date basis through April 8, leading the S&P to a 15.28% early April YTD decline, while the index without those 8 stocks fell significantly less, at -10.6%. There is no arguing the quality or economic positioning of most of the companies in the Elite 8, but valuation matters, and investments at 25x earnings or greater represent a risk case that allows the stocks to be significantly affected by market volatility. See our previous discussion of the market impact of Elite 8 stocks here (Market Concentration & Valuation).



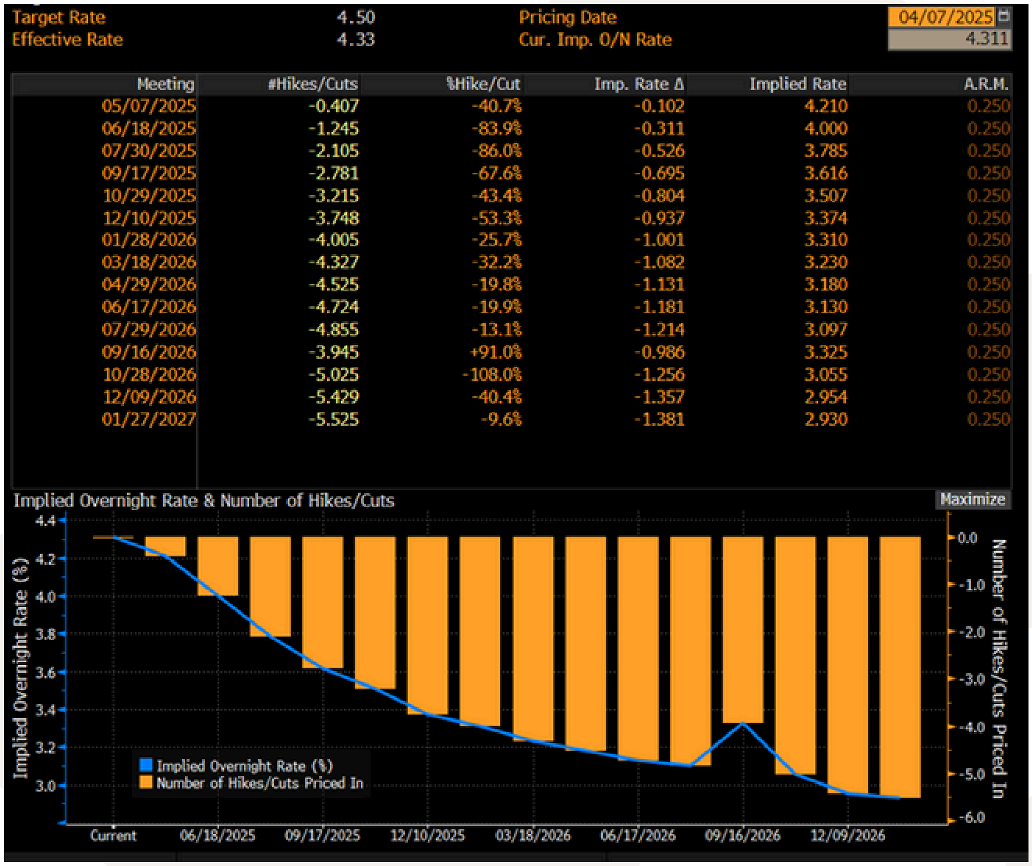
Ticker	Name
META	Meta (Facebook)
AMZN	Amazon.com
NFLX	Netflix
MSFT	Microsoft
AAPL	Apple
GOOGL	Alphabet
TSLA	Tesla
NVDA	Nvidia

Index (Cap-Weighted)	Gain/Annum % 2024-12-31 to 2025-04-07	YTD % 2024-12-31 to 2025-04-07
Elite Eight	-62.68	-23.05
S&P 500 Index	-43.14	-13.93
S&P 492 Index (S&P 500 ex Elite Eight)	-31.09	-9.42

Additional counter-trend performance in the first quarter included outperformance of stocks classified as value stocks over that of growth stocks and strong equity performance internationally. Valuation, in those two cases, has become much more attractive, highlighted by the developed international markets and emerging markets indices with forward price to earnings ratios below 15x as opposed to 20x or higher for US markets. International markets have historically featured long trends of underperformance punctuated by sharp catch-up phases. Some valuation discount to the United States is warranted given that the North American continent's geographic advantage, relatively stable currency, democratic political system, and superior military argue for stronger fundamental value, but we want to benefit from international allocations when the value case supports it, as now. Additionally, if EU countries intend to increase debt financed military spending in accordance with Trump administration / NATO demands, their public companies and markets are likely to benefit from the surge in spending. Finally, specific emerging economies such as India have rapid development in store, as their populations strive to catch up with the higher end of global standards of living, though investors should be selective in emerging markets, potentially limiting or avoiding exposure to China's economy at this time.

YIELDS AND THE FED

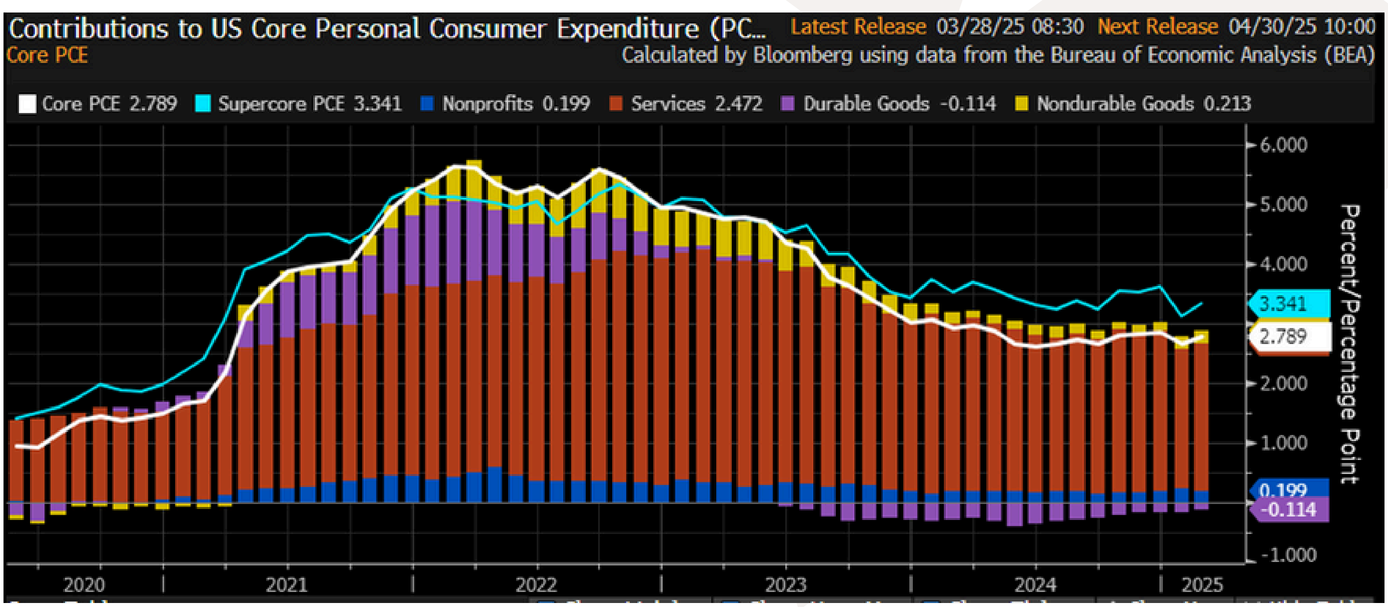
The benchmark US Treasury yield has been unusually volatile, pushing to 4.8% during the first quarter, near its 5% high, then dropping steadily through March, ending the period at 4.2%. Following the quarter, the 10-year yield briefly dropped below 4% during the first days of the tariff-driven market turmoil then abruptly inflected back up to near 4.4% as investors grappled with the inflationary possibility of the policies. Treasury Secretary Scott Bessent has made managing the 10-year yield a key administration focus because higher benchmark rates could serve as a check on many other presidential goals, and that focus, including the structure of monthly treasury auctions, had borne fruit prior to the tariff policy announcements. In terms of potential Federal Reserve action, market expectations for further cuts have quickly moved from an estimate of less than 2 quarter-point cuts to an expectation for more than 4 quarter-point cuts in 2025, as tariff policy has increased the probability of economic weakness.



Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
05/07/2025	-0.407	-40.7%	-0.102	4.210	0.250
06/18/2025	-1.245	-83.9%	-0.311	4.000	0.250
07/30/2025	-2.105	-86.0%	-0.526	3.785	0.250
09/17/2025	-2.781	-67.6%	-0.695	3.616	0.250
10/29/2025	-3.215	-43.4%	-0.804	3.507	0.250
12/10/2025	-3.748	-53.3%	-0.937	3.374	0.250
01/28/2026	-4.005	-25.7%	-1.001	3.310	0.250
03/18/2026	-4.327	-32.2%	-1.082	3.230	0.250
04/29/2026	-4.525	-19.8%	-1.131	3.180	0.250
06/17/2026	-4.724	-19.9%	-1.181	3.130	0.250
07/29/2026	-4.855	-13.1%	-1.214	3.097	0.250
09/16/2026	-3.945	+91.0%	-0.986	3.325	0.250
10/28/2026	-5.025	-108.0%	-1.256	3.055	0.250
12/09/2026	-5.429	-40.4%	-1.357	2.954	0.250
01/27/2027	-5.525	-9.6%	-1.381	2.930	0.250

Source: Bloomberg

At the same time, both CPI and the Fed's preferred gauge of inflation, Core Personal Consumer Expenditures (PCE), have remained stubbornly high. While oil prices and rates have both fallen, there is the potential for recently enacted tariffs to add to existing inflationary pressure and make rate cuts difficult for Fed Chairman Jerome Powell to justify. The interplay between these two factors, the volatility in benchmark yields, as well as the political element —assuming the Federal Reserve Board might prefer to allow the market to expose any of the bureaucracy's perceived faults within the administration's policies—will make forecasting Federal Reserve policy difficult over the course of 2025.



Source: Bloomberg

TARIFFS

Looking beyond the first quarter, the scale and scope of the worldwide tariffs that Donald Trump announced on April 2 took investors by surprise, and the market reaction has been powerful, with the S&P 500 falling 12.1%+ over the following four trading days for the 12th largest 4-day decline since 1950. Those index declines are additive to the first quarter drop, leaving the benchmark for large cap US stocks down over 15% year-to-date through April 8.

There are two popular ways of viewing the tariff policies that the administration announced last week, the first being the textbook global macroeconomic view of long-term tariffs for revenue generation as well as an attempt to balance trade flows or even erase trade deficits. Reciprocal tariffs leading to 'trade wars' are a possibility, and that concern has been validated by China's reactionary counter-tariffs. At the end of this macroeconomic chain of logic lies the future of the US dollar as a reserve currency, which requires trade deficits to distribute dollars abroad which are then recycled to finance the home country debt created by the trade deficit. If the Trump administration's intention is to dissolve this long-term construct, then investors should brace for a significant period of volatility and reconstruction of the familiar pillars of the financial system and investment landscape that US investors have benefited from since the Berlin wall came down. This permanent macroeconomic shift scenario with extended trade-war-oriented tariff implementation is the viewpoint that has investors most concerned.

The other way to view the Trump Administration's tariff announcement is that this is a complex approach to softening up the battlefield prior to negotiation; the 'Art of the Deal' at the presidential level, in which Trump gets to use US global trade policy to anchor terms ahead of a negotiation between major trading partners that potentially enshrines advantageous US terms for the next half decade. The discussion with China involves more than just trade policy, as within this negotiation lies a play for the future of the Panama Canal as well as TikTok, both of which require Chinese acquiescence that, in Trump's mind, is better obtained if the communists start the conversation on their back foot. This path is centered on China's current economic weakness and implies quicker results as well as less long-term structural change and is one that the market can become comfortable with if the administration can quickly demonstrate negotiated results with a large group of trading partners.

These are two different extremes in terms of what US trade policy becomes, and the ultimate result will fall somewhere between them. It is worth acknowledging that doing nothing, while attractive in the short term, is not an option. The current direction of deficit spending and debt accumulation is unsustainable for the United States, as we have written about previously (Yields, the Fed, & Fiscal Uncertainty). The current level of US interest payments alone has risen to nearly $1 trillion, and the US borrows to pay that interest, leading to further debt and higher interest payments in a cycle that is the definition of a debt spiral. Give credit to this administration for separating themselves from generations of politicians who have ignored fiscal reality while focusing campaigns, presidential administrations, policy, and spending on the shiny object of the moment because near-sighted policy made for easier short-term governance and better short-term results than would addressing the ever-growing fiscal disaster.

Political realities should be factored in. In gauging the President's plan, it makes sense to keep in mind that President Trump is unlikely to be able to stomach protracted economic malaise. He needs to show economic progress in order to hold the votes for the tax plan that his administration is trying to work through congress, and if he goes into the mid-term elections with the country focused on economic and stock market turmoil, then majorities in congress are at risk and so is his agenda. All of this, and everything we have come to know about President Trump, argues toward seeing the recent policy changes in the light of short to intermediate-term negotiation along with whatever positive structural changes that he can make stick in a context of near-term US economic gains and global economic health.

"Doing nothing, while attractive in the short term, is not an option."

SUMMARY

Great long-term investors look forward to periods of market dislocation such as we've seen over the past quarter, and particularly over the days following the administration's announcement of new tariff policy. If it is possible to buy a strong, fast-growing company at a significant discount and an attractive cash flow yield because of a market panic that temporarily drops the stock price by half, then sign us up for shopping in the sale aisle. With a ten to twenty-year hold-period, the problems that markets are focused on today are likely to fade to irrelevance while earnings power and future cash flow distribution compounds relative to our entry price. At the right valuation, the same is true for other investments, including many of the funds and ETFs that dominate most investors' portfolios.

Unfortunately, investing is, in part, an emotional exercise. The reason the aforementioned stock dropped was profit taking and fear, which leads to second-order effects like margin calls and forced selling, which shows up in lower prices and even more fear, more selling and even lower prices. The reality is that most human beings are simply not wired to be great investors because, by definition, lows are created at moments where the perception is of much more bad news to come, and the fear induced by this process creates a desire for action, the desire to escape, and the easiest action of all is simply to sell, to step aside until the facts are more clear and the markets more stable. Unfortunately, when that stability returns and the fear subsides, the price of the stock or fund will also have recovered, and to re-enter the trade, the investor gives up long-term returns for that soothing feeling of comfort. Warren Buffett's advice is to "be fearful when others are greedy and greedy when others are fearful," something that is easy to say, but hard to do when the stocks on the screen are all red, and a ridiculous talking-head on CNBC is pulling at his hair, blowing air horns, and screaming about the1987 crash while mumbling vaguely-understood economic theory. At those moments, the whole long-term investing idea seems different than it did when planning it out in your advisors' tranquil office and stopping the pain becomes emotionally easier than considering the less immediate concepts implicit in valuation, long-term outlooks and compounding. It has been a while since we got a taste of that kind of panic, but we've seen it in markets again over the last few days.

Investors do best when they use periods of strength and high expectations to trim holdings and adjust portfolio exposures, and when they use weakness like we have seen over recent days to allocate cash into measurable value. Valuation and entry points matter, and markets entered this phase of volatility at very high valuations, leaving room for a healthy correction in prices. Current values are most attractive in value-oriented stocks, certain international markets, and in smaller capitalization stocks. US large cap stocks, while much more attractive than they were 100 days ago, are 'cheaper' but not yet 'cheap'. This is a good time for a thoughtful conversation with your Wealth Advisor to discuss the ways your portfolio can take advantage of the turmoil and, in some cases, the discounts.

It is reasonable to expect continued volatility ahead relative to investors' experience of the previous two years. A Presidential Administration that is trying to reset long-term economic relationships, a Federal Reserve whose hands may be tied by inflation to a degree that the Federal Reserve prior to 2020 was not, interest rate levels that have compelling reasons to adjust higher due to growing US borrowing needs, and elevated valuation ranges for large cap stocks will all be contributing factors to a regime of higher uncertainty and wider trading ranges. The good news is that volatility creates opportunity, and well-advised investors can position themselves to take advantage. We have a strong and growing team of Wealth Advisors through the state of Texas. Each of them is prepared to have a detailed conversation about your portfolio and the current balance of risks and opportunities.

"Be fearful when others are greedy and greedy when others are fearful."

- Warren Buffett