**COMMENTARY**
**Q1 2025**

The first quarter of 2025 saw a retreat in equities and a rebound in fixed income amidst growing uncertainty emanating from governmental policies. There is a recognition in the administration that there are about 9 months to make sweeping changes before mid-term election campaigning begins in earnest, and this is fueling the current velocity of policy pronouncements – chaos is another good word for today's policy-driven environment.

Tariff concerns are the major driver in looking at the potential economic impact of the outlined policies. There was a lack of clarity during the first quarter, whether the president was planning to use tariffs as a tactic to force concessions from trading partners or more broadly as a strategy to raise revenue and fundamentally remake the U.S. economy. It now appears that there is a strong tilt toward the latter approach, and markets are rushing to adjust current price levels to reflect the expected impact of those policies on future earnings and inflationary expectations. The other side of the argument is a hope that there may be economic benefits to less regulation of corporations, less government cost and a streamlined bureaucracy, and the promise of lower taxes and higher domestic manufacturing.

Rapidly shifting policy pronouncements are also distorting traditional economic indicator data making the markets difficult to read. For instance, inventories popped in the first quarter not due to anticipated demand increases, but because importers are trying to avoid anticipated tariffs. Corporations are having difficulty in planning and are reducing capital expenditures accordingly. Consumer confidence is down from 64.7 to 57.9 according to the University of Michigan consumer sentiment survey with marked declines in U.S. tourism expectations.

The U.S. economy does remain strong, with lower inflation at 3% and full employment at 4.1%. Case-Shiller home price growth is stable at 4% and private-sector layoffs are low. In addition, employment is growing at 125,000 - 150,000 per month. Some weakness from the first quarter is anticipated to be reflected in gross domestic product with current estimates of 2% growth in 2025. The 7 companies that have been deemed the Magnificent 7 (Apple, Microsoft, Nvidia, Amazon, Alphabet, Meta and Tesla) and which made up more than half of S&P500 returns in 2024 have been laggards in early 2025. The Russell 1000 Value Index outperformed the Russell 1000 Growth Index by over 11%, and the Technology Sector lagged the Health Care sector by 17%. Looking ahead, more volatility is expected as tariff decisions are implemented, and investors should be poised to take advantage of opportunities as they arise.