

# Making Sense of Finance

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## First Quarter 2025 Review

### STOCK MARKET

Following back-to-back years of 20% or more gains in the S&P 500 Index, it appeared as if 2025 was going to continue that trend with market gains in January leading up to a record high in the S&P 500 in mid-February. Since then, the market has been skittish. Although S&P 500 corporate earnings estimates have come down only slightly since the beginning of the year, the decline in stocks was more due to the valuation placed on the stocks rather than the earnings forecasts decreasing. Optimism earlier in the quarter turned to caution which led the index to drop by over 4% in the first quarter. Other major US stock indexes also retreated. The Dow Jones Industrial Average had a negative 1% return while the Nasdaq Composite Index pulled back 10%. Of course, much of this change in sentiment was due to increasing policy uncertainty, especially when it comes to tariffs (both proposed and actual). In particular, the lack of details in the scope and timing of these tariffs, and the continual changing of the terms, has caused some lack of confidence in business operations. This in turn has resulted in investor avoidance of risky assets

in the aggregate. Volatility in the stock market isn't new. The market typically has a decline of 5% or more in any calendar year; it has happened 91 times in the past 98 years with a median decrease of 13%. If economic policy becomes more certain (whether good or bad), we may be experiencing a normal pullback after robust returns in the past couple of years. Time will tell.

The first shall be last. Market dynamics had reversed in the first quarter. The top performing sectors of the fourth quarter of 2024 became the worst performing sectors in the new year. Consumer discretionary and technology stocks had the largest declines in the first quarter. Every other sector was flat or had a gain last quarter. The largest market cap stocks brought the market down in the first quarter. The Magnificent 7 stocks dropped 15% while the equal-weighted S&P 500 index only declined 1%. The best performing groups were healthcare and energy (even though oil prices declined slightly in the first quarter). Gold

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Everyone and their neighbor has an opinion. At Karagosian Financial Services, we have a combined 40 plus years of investment experience. We have seen the markets at their highest highs and lowest lows. Through this newsletter we attempt to convey our opinions on current events in the investment world and their likely outcomes. Forecasting is inherently difficult and our advice is geared toward making sensible and prudent choices based on logic and experience, and not based on emotion.

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attracted a lot of attention as it climbed to new highs.

Foreign markets outperformed their U.S. equivalents to start 2025. Last quarter was one of the biggest quarters of outperformance by foreign stocks. The MSCI EAFE Index, an index of developed country stock markets, rose over 6% in the first quarter in US dollar terms. Stocks in the UK and Germany were among the best. The Japanese market declined after a record setting 2024. Fiscal and monetary stimulus and the weaker dollar helped foreign stocks to outperform. Chinese stocks did well among emerging markets. The MSCI Emerging Market Index rose 3% in US dollar terms. In local currency terms, international stock markets, although still positive, had a slightly lower rate of return.

## **BOND MARKET**

In a reversal from the fourth quarter of 2024, bond prices rose (yields were down) in the first quarter even though the Federal Reserve withheld from any rate cuts so far this year. Short term rates still did come down marginally. The One Year Treasury Bill rate declined from 4.16% at the end of the year, to 4.03% at the end of the first quarter. The Fed's focus is on inflation and is concerned about the inflationary effects of tariffs. As mentioned in the previous newsletter, longer term rates are set in the global bond market. The Ten-Year Treasury dipped from a year end rate of 4.58% to 4.23% at the end of the first quarter but has since risen to 4.3%. This is a

rate that is watched for indications in the direction of mortgage rates.

The Bloomberg US Aggregate Bond Index had a total return of 2.7% last quarter. TIPS (Inflation Adjusted Bonds) and intermediate and long-term Treasuries were the best performing categories. Municipal bonds performed the worst, with a slight negative return, as the issuance of municipal securities remained strong. Although still low by historical standards, credit spreads widened slightly as investors became more cautious. This caused investment grade bonds to perform better than their lower quality high yield counterparts last quarter.

## **OUTLOOK**

With the Trump Presidency, we had expected the unexpected. This included many reversals of the President's former fiscal and economic plans, namely tariffs. We don't expect anything to change for the rest of Trump's term, as he seems to revel in making bold statements, however, the market's reaction towards his announcements may well become more muted over time, leading to more stable markets. Like in many cases, regarding Trump, much of the public has grown used to his news headlines. Many of our clients should note that we mostly avoided the precipitous decline in the more speculative tech stocks in the NASDAQ index. As evidenced by history, lower volatility stocks can lead to higher returns by losing less during down markets.

While the economic data have not markedly changed since Trump took office, the uncertainty the administration causes could lead to a stalled economy due to companies and consumers pulling back and being more conservative in their fiscal spending habits. In the short-term, there could be a benefit from imports to get ahead of further tariffs, but then that could lead to too much inventory later on in the year or in early 2026.

In the 15 years since I began contributing to this newsletter, my message has stayed the same; "Stay the course". Stocks are ownership in companies and have the ability to adjust to new challenges. The Equity markets have been averaging returns of about 10% per year for over 100 years, despite, two World Wars, the Korean and Vietnam conflicts, hyper-inflation in the 1970s, the Oil Embargo, Desert Storm, the Internet Bust, 911, the 2008 Financial Crisis, and on and on....If anything, this recent pullback could present good entry points in previously expensive markets.

With bond yields still inverted, we think shorter-term bonds are the best choice. Yields have become more attractive to more conservative investors and now offer a decent alternative to equities for more conservative investors.