QUARTERLY MARKET REPORT

FIRST QUARTER 2025

VOGEL CONSULTING
YOUR FAMILY OFFICE®
WWW.VOGELCG.COM

VOGEL CONSULTING, LICENSED INVESTMENT ADVISORS, 3415 GATEWAY ROAD, BROOKFIELD, WI 53045-5111

First Quarter Highlights

Mixed economic data, government policy moves, and AI news led to volatile markets

Financial Markets

- U.S. equity markets were volatile with new highs set early in the quarter and indices falling into correction territory later in the period as a cheaper Chinese artificial intelligence (AI) model upset the AI enthusiasm and trade policy uncertainty dragged prices lower. Foreign equities outperformed the U.S. boosted by stimulus plans.
- Bond yields fell as economic growth worries intensified. The U.S. dollar weakened almost 4%.

Overview of the Economy

- Earnings reports for the fourth quarter were generally strong with earnings for the S&P 500 companies up 18% over the prior year. U.S. gross domestic product (GDP) growth of 2.4% outpaced other economies such as the Eurozone which had GDP growth of 0.2%. Both figures were lower than in the third quarter.
- The inflation rate slowed slightly in the U.S. and Europe but rose in Canada and Japan.
- Surveys of U.S. business and consumer confidence weakened sharply during the quarter on concerns that tariff policy will spur stagflation. However, hard data, such as the number of new jobs created, wage growth, industrial production, retail sales growth, and a pick-up in existing home sales, indicate the economy is still solid even though there may be some slowing to prepandemic levels. Some improvement was reported in other regions, such as the Eurozone manufacturing purchasing managers index (PMI) hitting a two-year high.
- China's economy remains mixed with retail sales up 4% from a year ago, but the unemployment rate is up to the highest in two years and property development investment continuing its slump down 10% from a year ago.

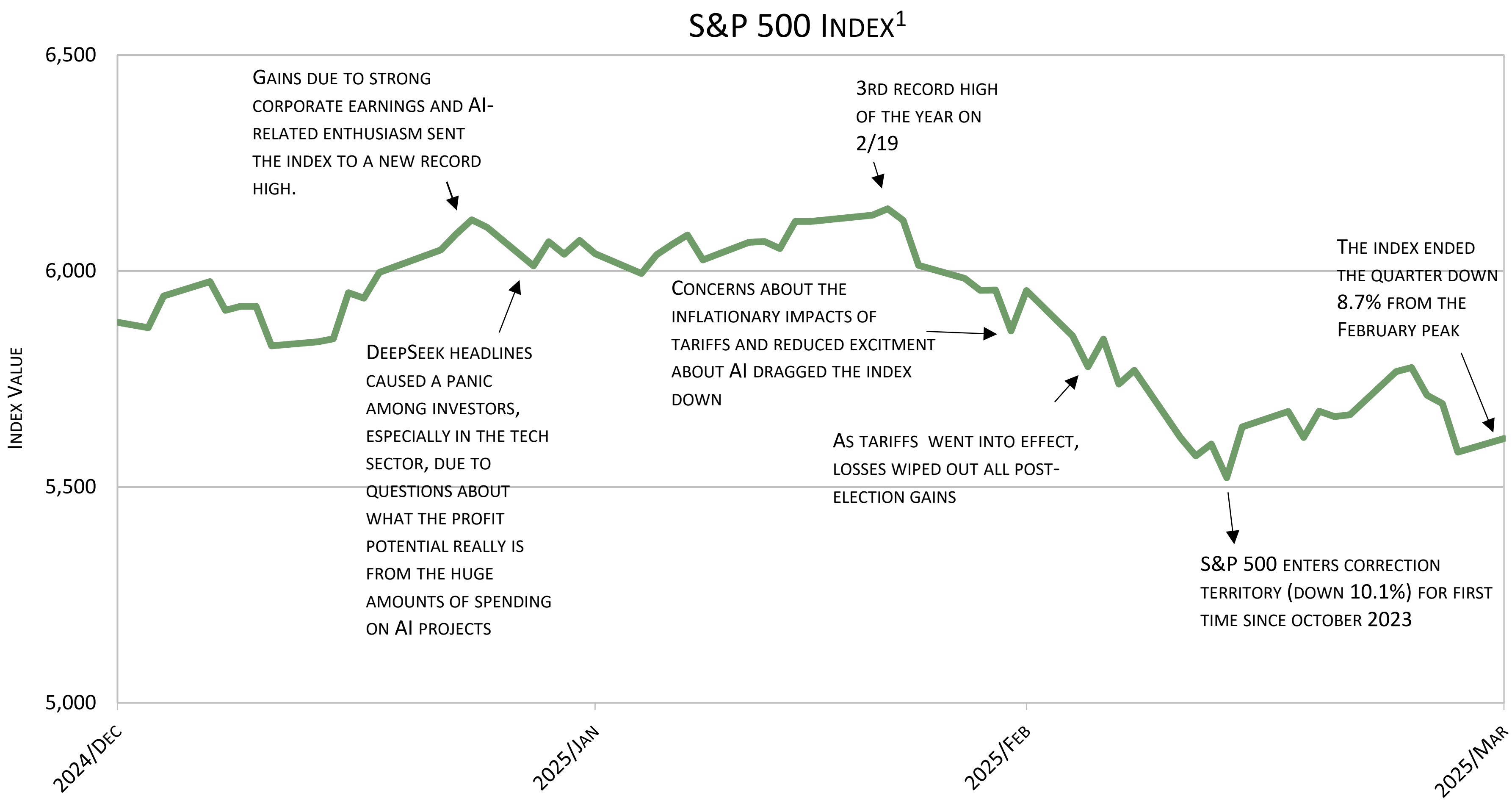
Notable Events

- Tariff related news rattled sentiment and financial markets. The U.S. imposed tariffs on imports from Mexico, Canada, and China and on steel, aluminum, and autos. But the announcements slated for April 2 and threats of retaliatory actions drove a spike in uncertainty and worries about higher inflation and slower global growth.

First Quarter Highlights

Uncertainty led to heightened volatility in the equity market

The quarter began on a positive note on expectations that "America First" policies and artificial intelligence projects would propel growth in the U.S. economy and corporate earnings. The S&P 500 set new record highs. Then the mood changed as worries about the inflationary and economic slowing impacts of U.S. tariff policy and any retaliatory actions by other nations dampened sentiment and pushed equity markets sharply lower.



Vogel Consulting

First Quarter Highlights

Corrections are typical with most years having a drop of 10% or more

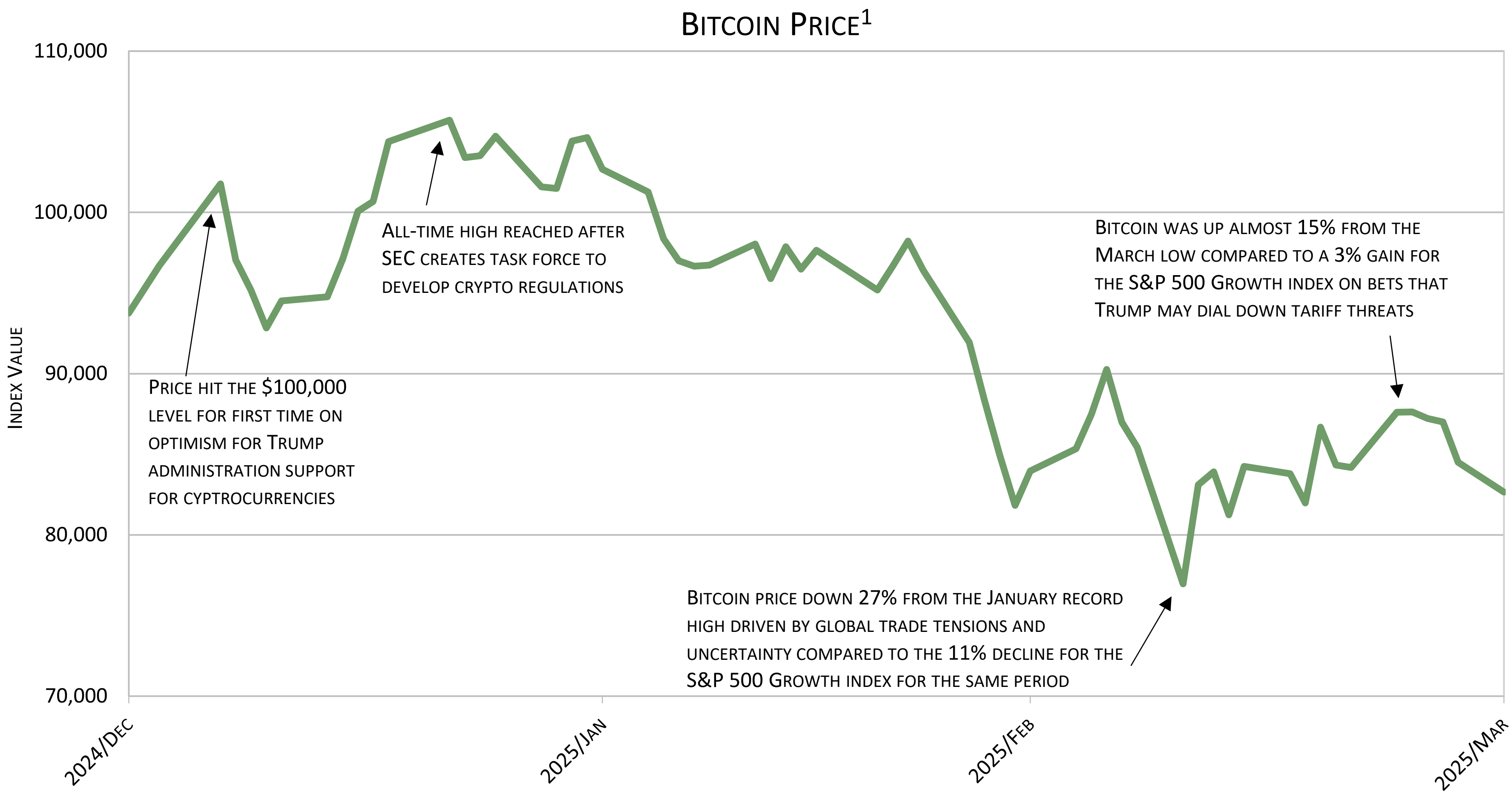
The S&P 500 index hit correction territory on March 13 with a drop of 10% from the latest record high on Febuay 19. A correction at some point was not totally unexpected since there had not been a decline of 10% or more since late 2023. The index did rebound modestly before quarter-end.

S&P 500 Intra-Year Declines[2]

First Quarter Highlights

The price of Bitcoin was highly volatile in reaction to the risk-on/risk-off sentiment in markets

Despite some investors' view that cryptocurrency prices are uncorrelated to equity prices or are a store of value different from other risk assets, recent movements in the price of Bitcoin show that while cryptocurrency prices moved in reaction to sector specific news, prices were more volatile than growth stocks in reaction to policy and economic news.



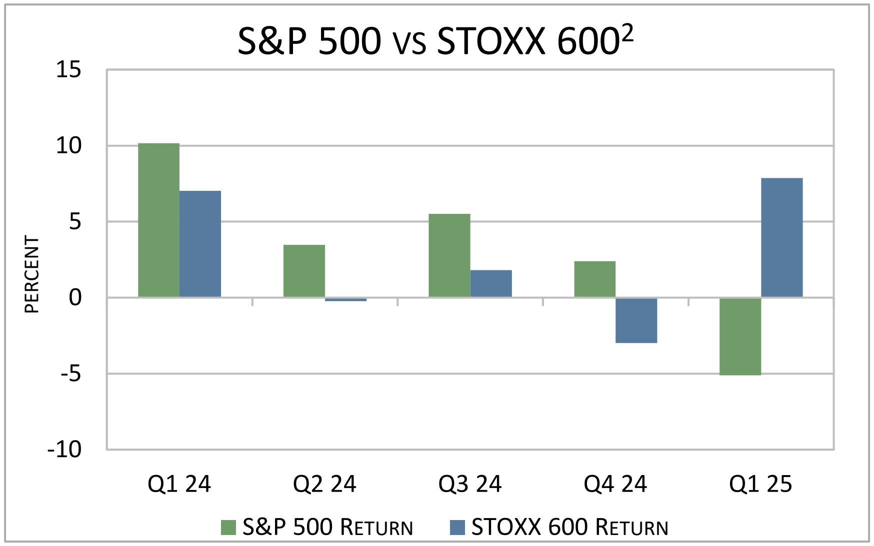
Vogel Consulting

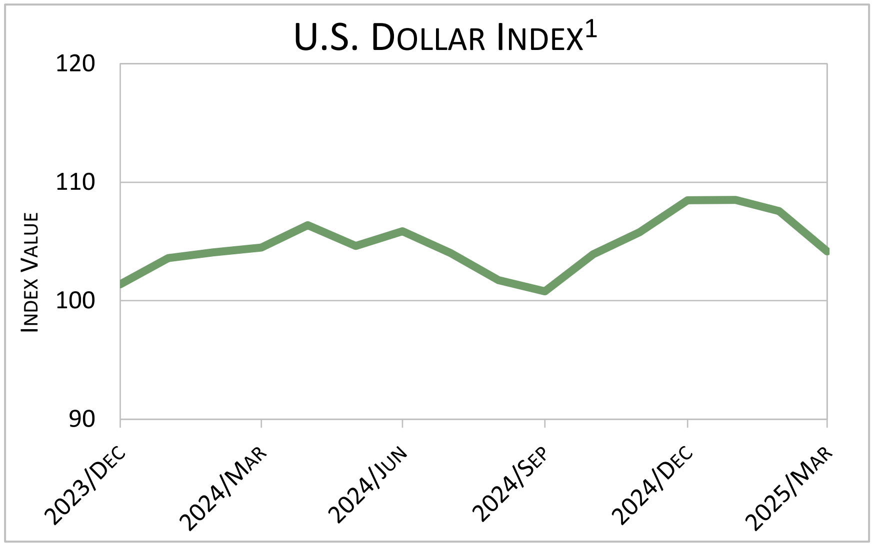
First Quarter Highlights

International equities outperformed the U.S. helped by a drop in the dollar

After many quarters of U.S. equities measured by the S&P 500 index outperforming developed international country equities, there was a significant shift in performance leadership in the first quarter. New policies by the Trump administration fueled expectations for higher inflation and slower growth and sent U.S. stocks prices down. In addition, U.S. technology and AI related stocks experienced sizeable declines after Chinese company DeepSeek introduced a new AI model that was much less expensive to train and uses less energy than comparable models. This news caused investors to question the return from the substantial amount of capital spending going on for AI infrastructure and dragged stock prices down especially for the Magnificent Seven stocks.

At the same time European stocks represented by the STOXX 600 index had steep gains boosted by new fiscal and defense spending plans and some better economic data. International equity returns for U.S. investors were also boosted by the sharp drop in the value of the dollar especially against the yen, euro, and pound.





Vogel Consulting

First Quarter Highlights

Bond yields trended lower during most of the quarter

Treasury bond yields rose to the highest level in over a year in January after strong jobs reports pushed back expecations for the next Federal Reserve interest rate cut until mid-year at the earliest. However, yields drifted lower for most of the quarter as economic growth concerns drove up demand for the safety of Treasury bonds.

U.S. Treasury Yields[3]

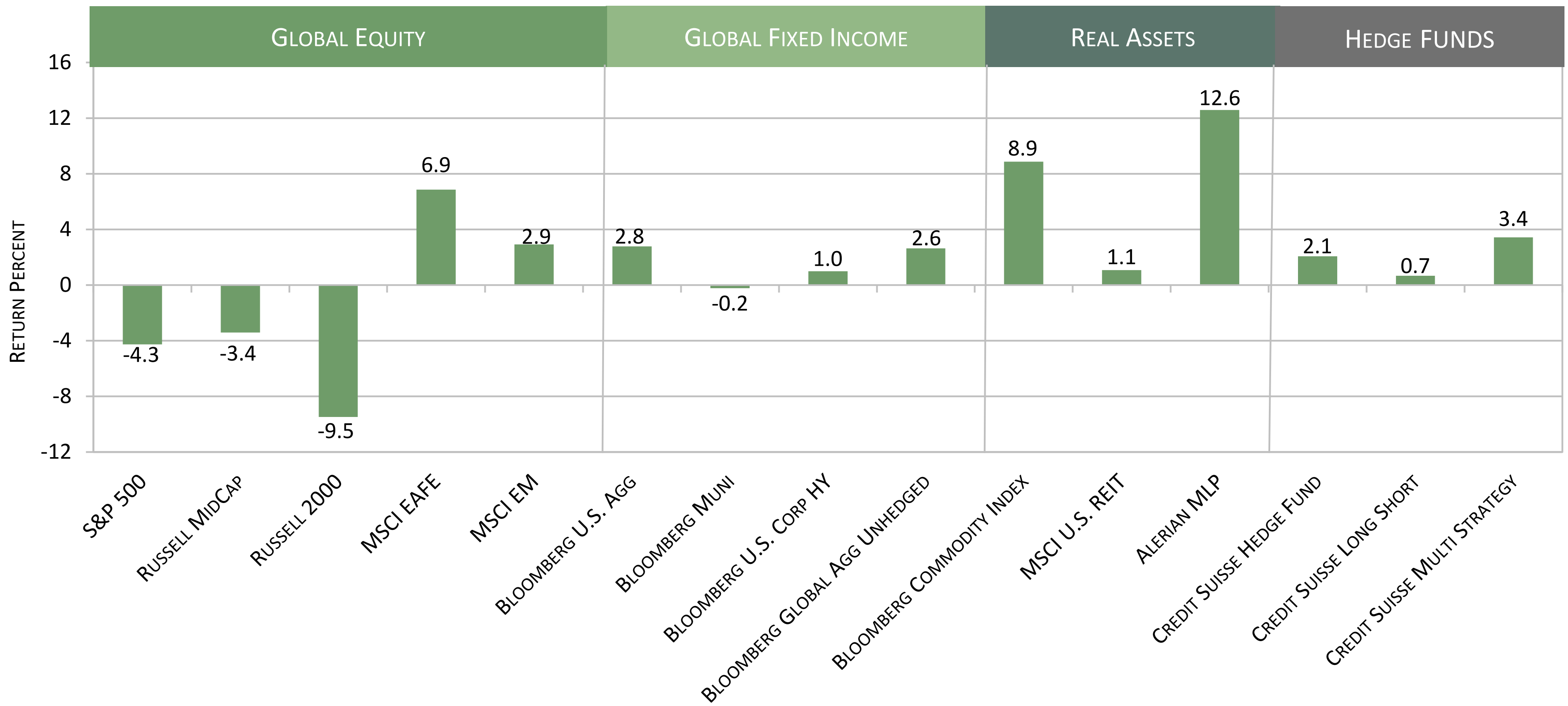
Vogel Consulting

First Quarter Highlights

International and Commodity Related Stocks Had the Top Quarterly Returns

Uncertainty surrounding Trump administration trade and immigration policies fueled expecations for higher inflation and slower growth sending U.S. stocks prices down and precious metals and bond prices up. Stimulus plan announcements and currency moves boosted European and Chinese stock returns. MLP prices moved higher on strong natural gas demand and improving company fundamentals.

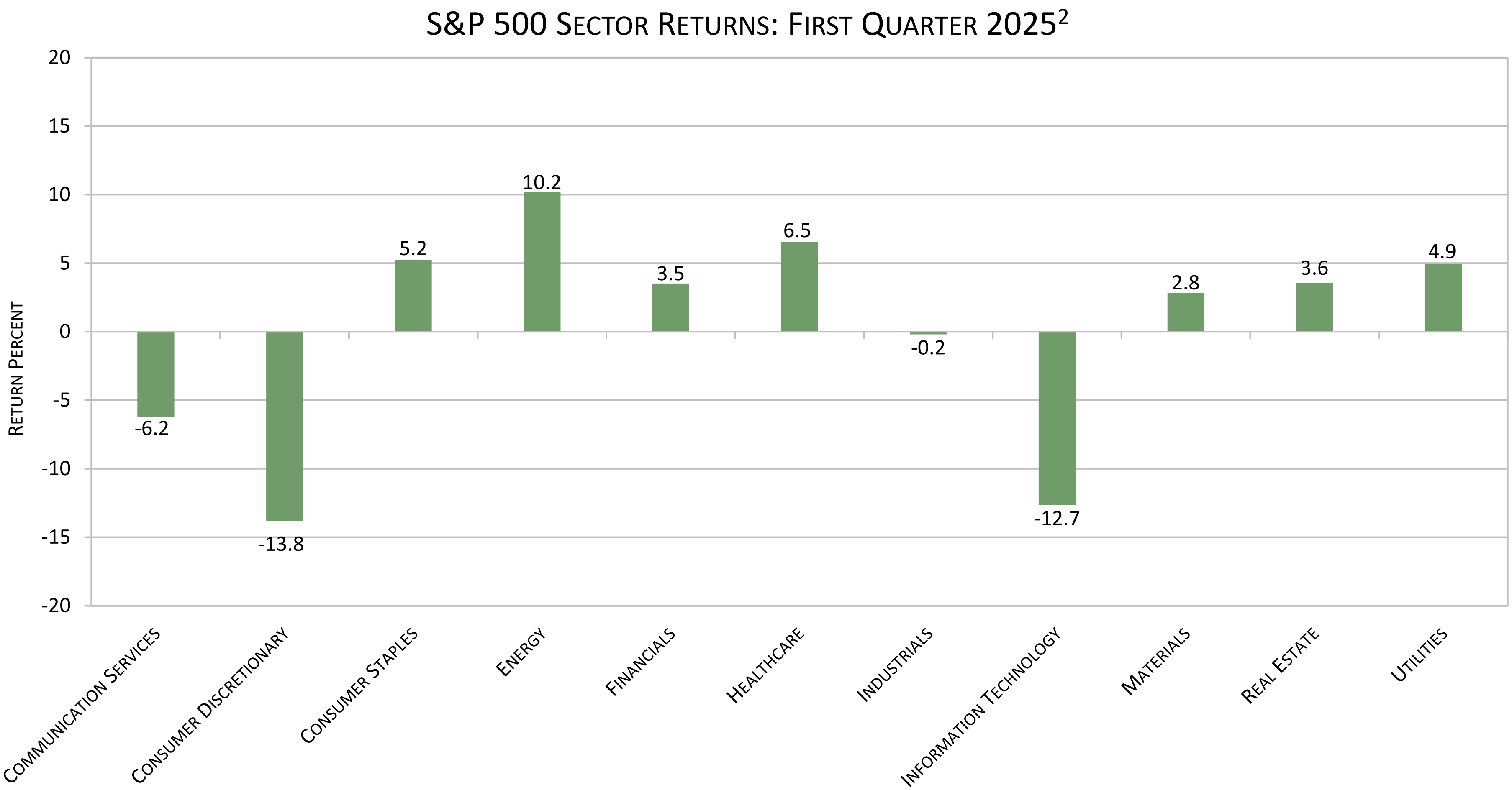
Market Returns: First Quarter 2025[2]



First Quarter Highlights

Defensive sectors outperformed growth sectors as sentiment weakened

The enthusiasim for AI related stocks waned as questions about the high levels of capital spending gained traction driving returns lower for prior market leaders that had high valuations. Concerns over a slowing U.S. economy hurt consumer discretionary stocks as investors rotated to sectors with more stable demand characteristics. Strong earnings and geopolitical issues drove energy stocks higher.



Vogel Consulting

Outlook

Heightened uncertainty is likely to continue to cause markets to be highly volatile

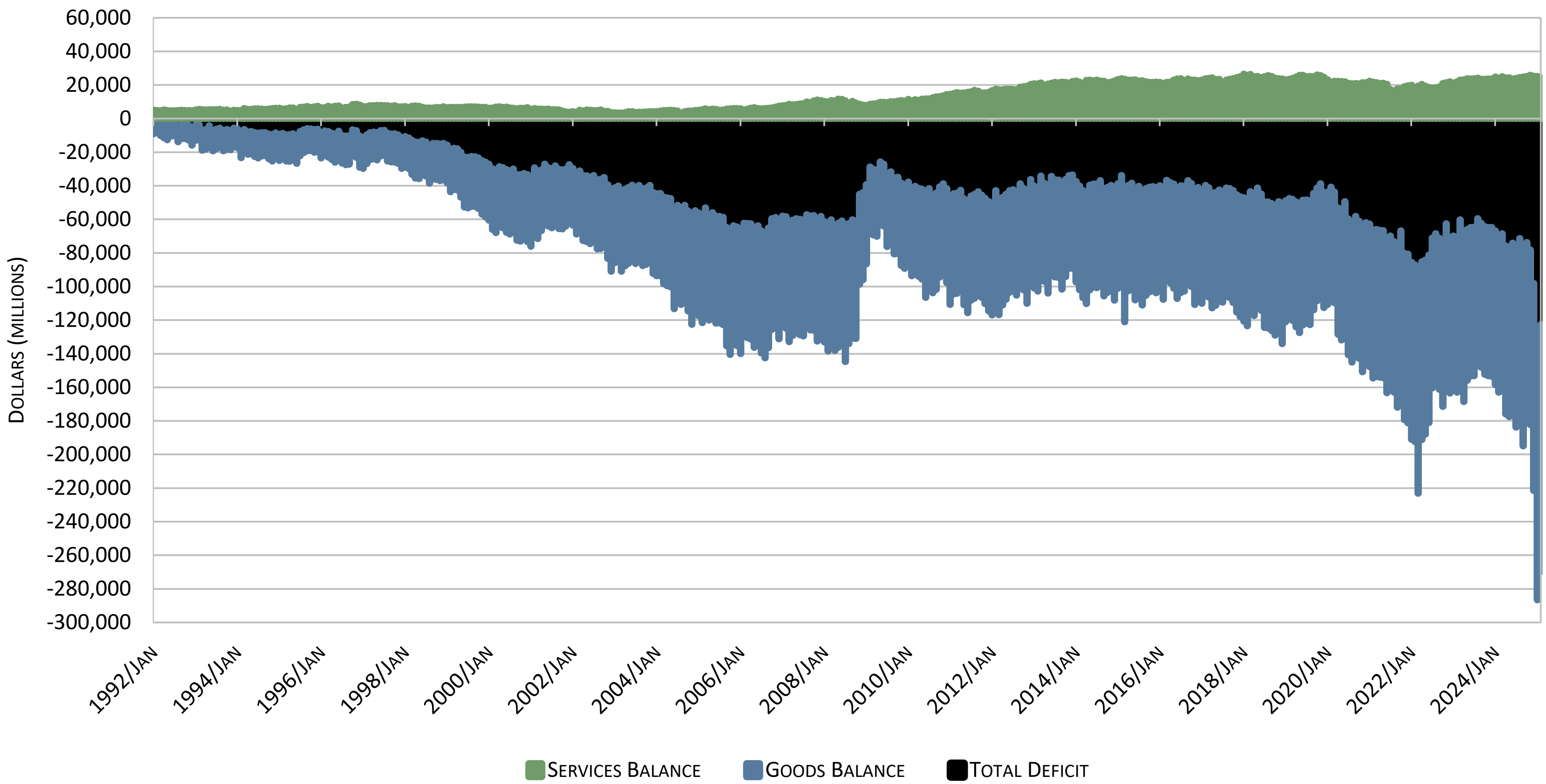
- Investor, consumer, and business sentiment has been rattled by the rapidly changing tariff policies and the government spending cuts that have spurred uncertainty about the outlook for inflation, employment, corporate earnings, business expansion, and spurred much talk about recession and stagflation. This is likely to continue until there is some sort of clarity around trade, government spending, and tax policy along with more news on if and how other nations may retaliate or negotiate with the U.S. on trade policy. The uncertainty is likely to result in some slowing of economic activity at least in the short-term. However, it is likely the trade policy uncertainty will fade over the coming months.
    - Inflation and employment data will continue to be key indicators for clues to the path of interest rates but rates may stay higher for longer.
    - The global impact of U.S. tariff policy will differ by region and will depend on negotiations and any supply chain or customer consumption adjustments.
- The outlook for Europe is better after Germany's announcement of a €500 billion infrastructure spending fund and reforms to exempt defense spending from debt limits. Inflation is falling so there could be more interest rate cuts.
- China's economy continues to be constrained by debt problems in the property sector and dampened consumer sentiment. Additional stimulus actions may help but the trade policy fight with the U.S. could more than offset any benefits to the Chinese economy from the stimulus.
- Valuations in U.S. equity markets are much lower after the first quarter sell-off especially in the previously crowded trades such as the Magnificent Seven stocks. Valuations across most global financial markets have come down more in April. However, markets are expected to be choppy in reaction to tariff news, central bank comments, economic data reports or corporate leader comments.

Outlook

The enormous goods trade deficit is a primary reason for Trump's tough tariff policies

Trump is using tariffs to accomplish various objectives including generating revenue, reviving U.S. manufacturing and reducing the trade deficit, eliminating foreign trade barriers for U.S. companies, and negotiating geopolitical concessions. The rapidly changing policies are increasing risks to the economy and corporate earnings as well as volatility in finanical markets in the short-term but could bring longer-term benefits.

U.S. Goods and Services Trade Balances[4,5,6]

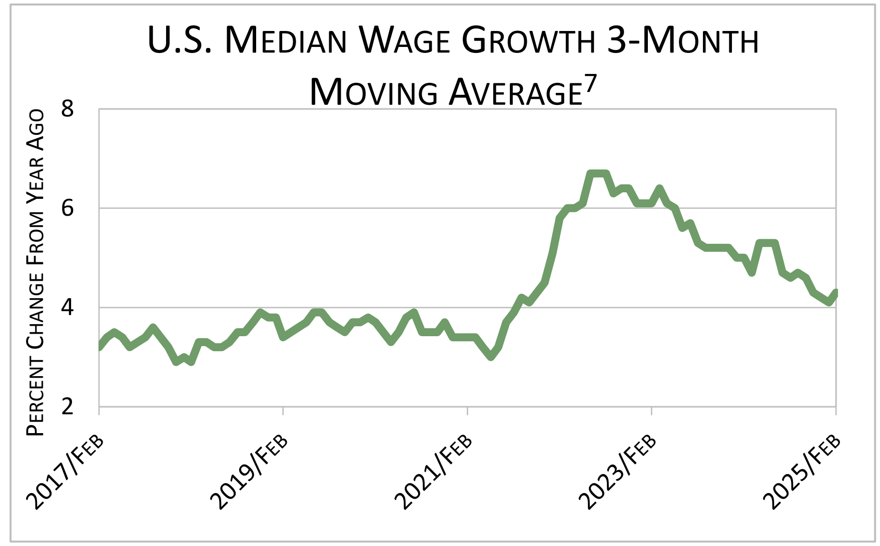


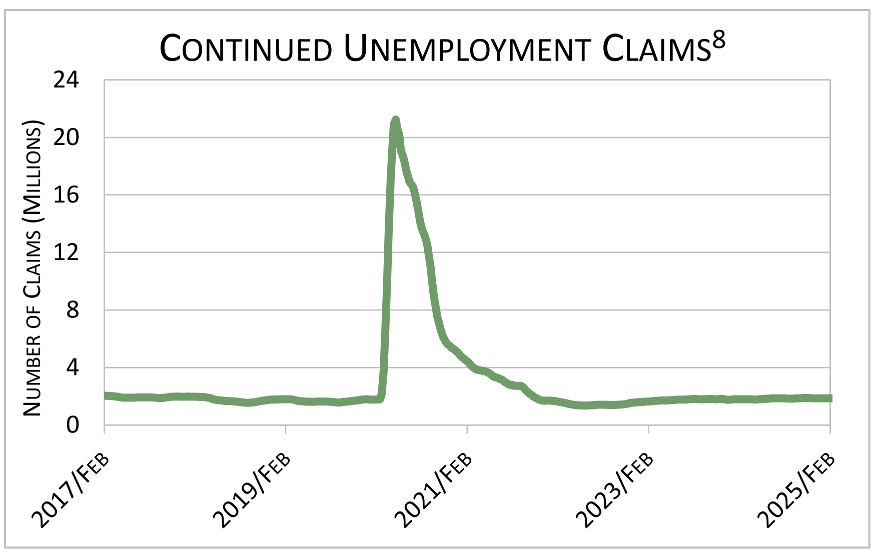
Vogel Consulting

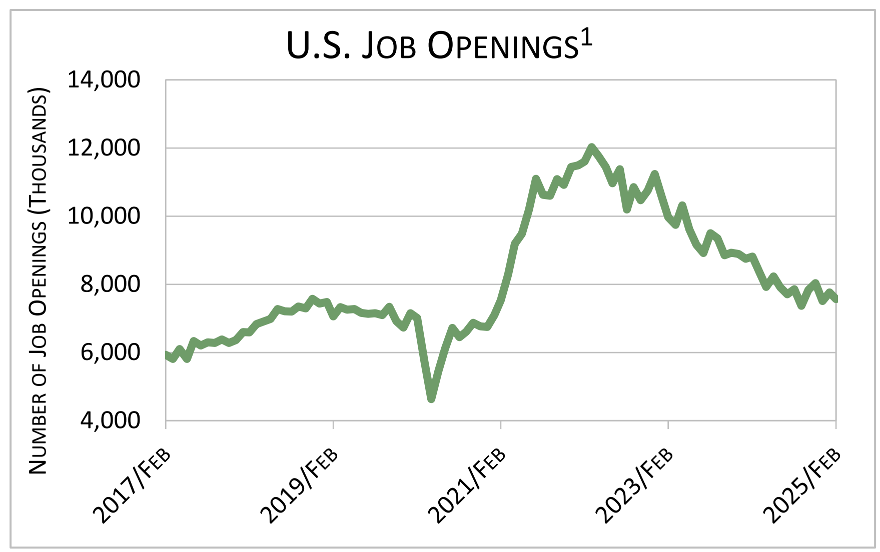
OUTLOOK

TARIFFS MAY PUSH PRICES UP BUT THE LABOR MARKET IS STILL A KEY DRIVER OF INFLATION

The rate of inflation seems to have stalled above the Federal Reserve's target due to persistent increases in essential services. Tariffs could fuel inflation by adding costs or by disruptions to supply chains. However, the labor market is cooling from recent peaks back to prepandemic levels which should ease inflationary pressures.



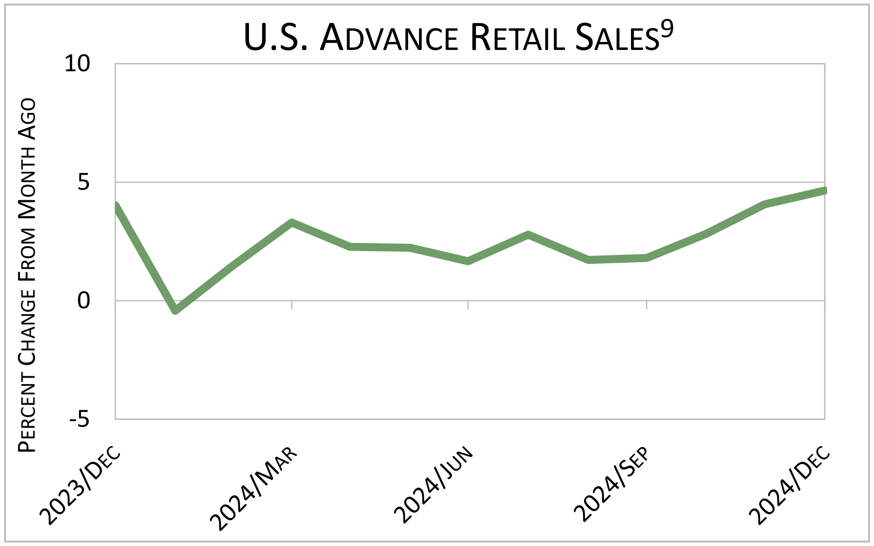


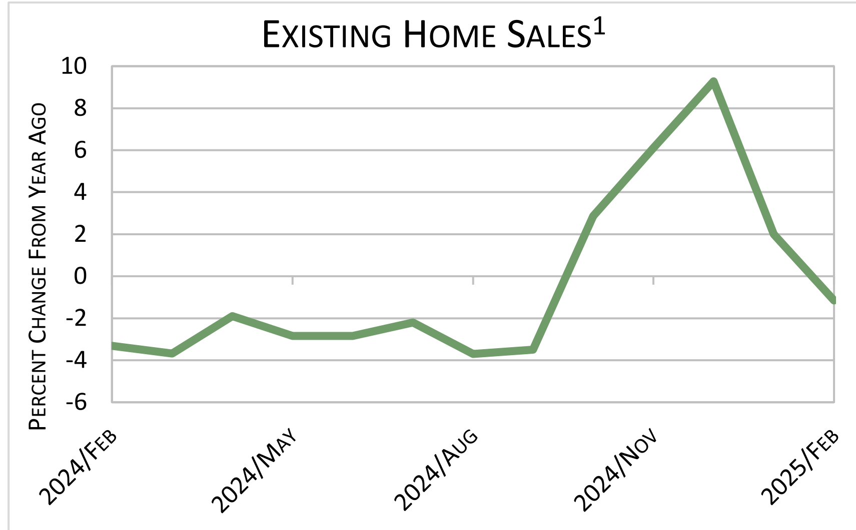


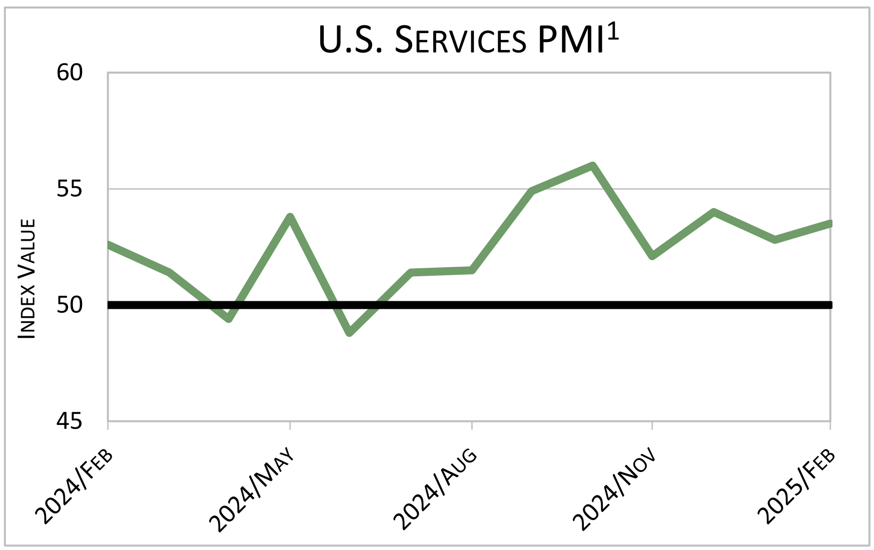
VOGEL CONSULTING

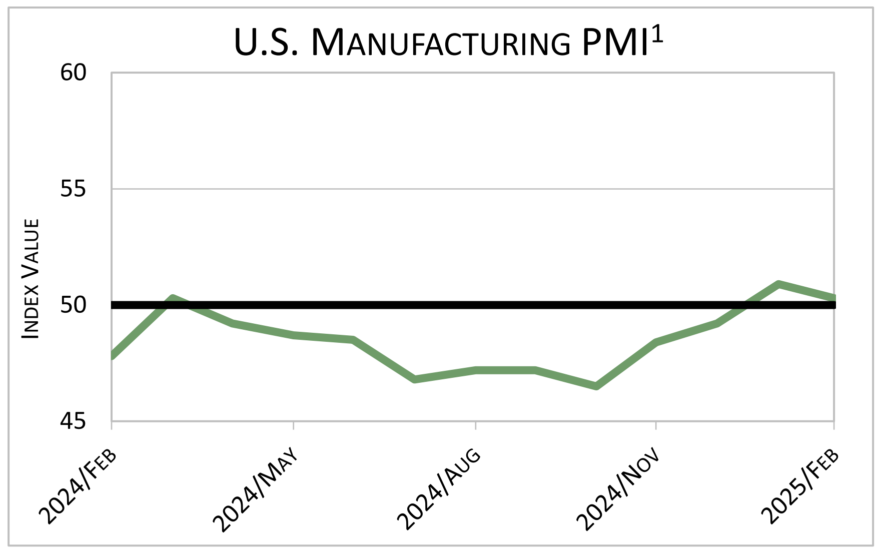
Outlook

Some data has been in an uptrend but tariff impacts could weaken activity in the near term







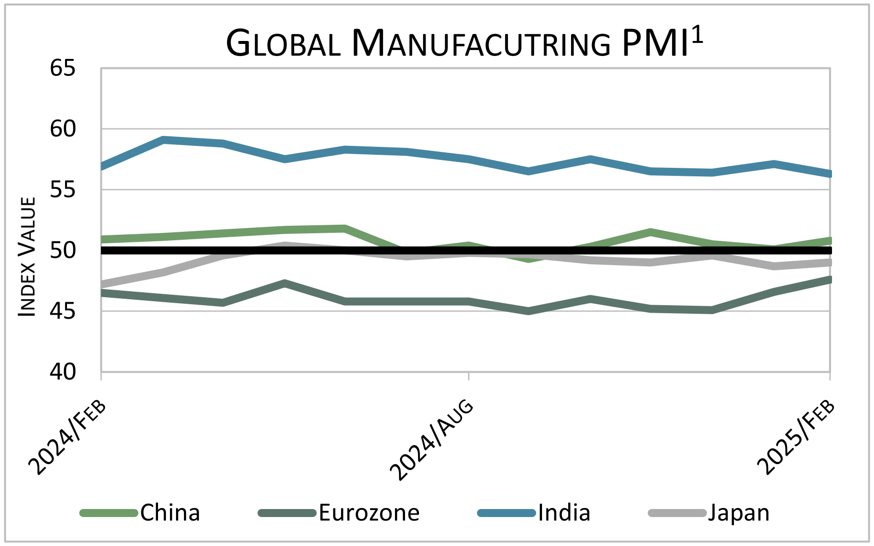


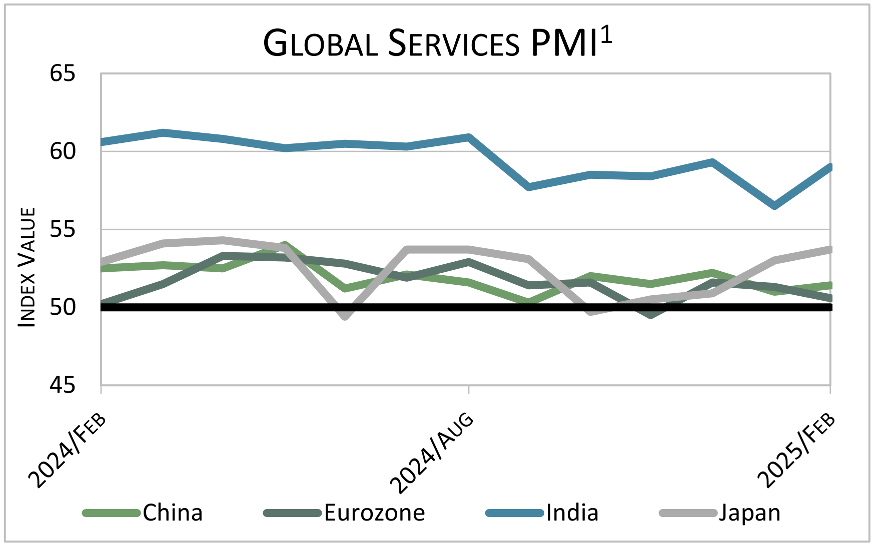
Vogel Consulting

Outlook

Economic data outside U.S. is mixed with some improvement in the Eurozone and China

Despite generally weak momentum, some economic data outside the U.S. has shown modest improvement. For example, the manufacturing purchasing managers index (PMI) for the Eurozone hit a 2-year high and for China moved above 50 into expansion territory in the latest report. Recent policy changes aimed at boosting defense and infrastructure spending in Europe and consumer consumption in China could spur economic growth. Another boost could come from additional interest rate cuts by summer in the United Kingdom and the Eurozone. However, the impact of tariffs remains uncertain.

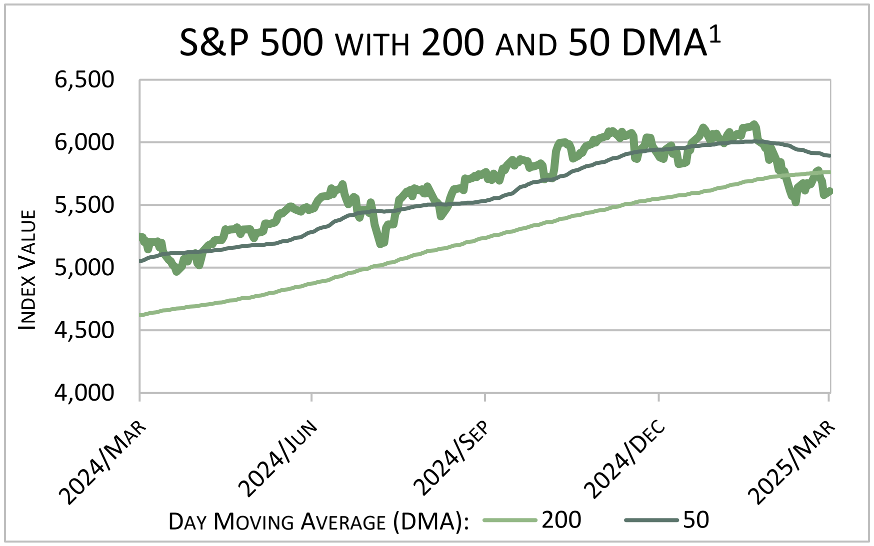


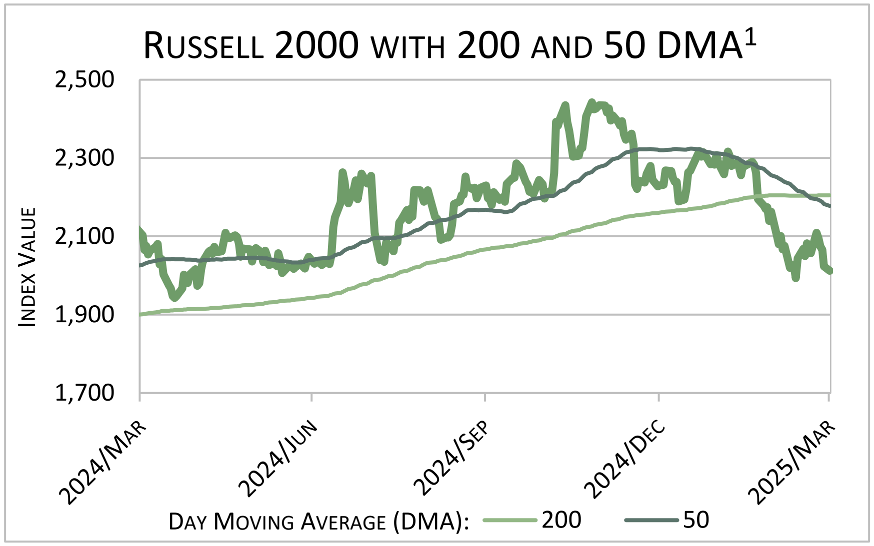


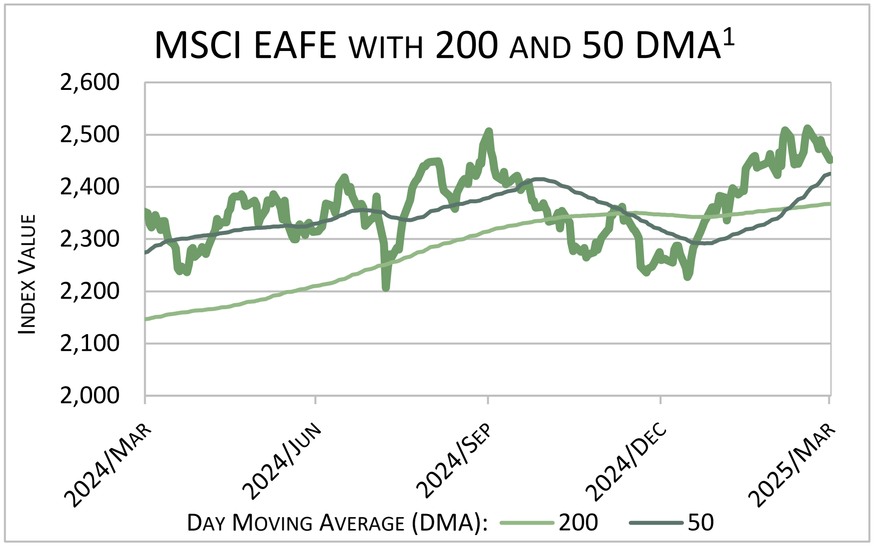
Vogel Consulting

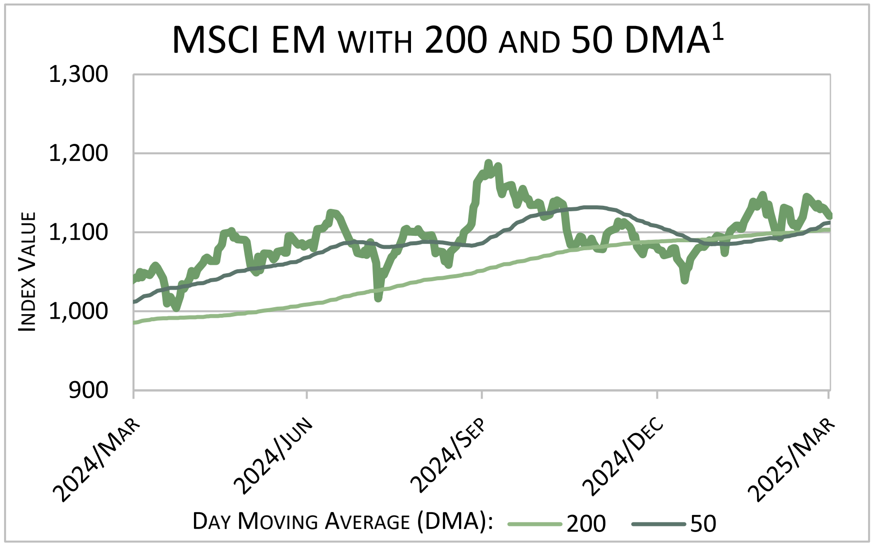
Outlook

Technical indicators are bearish with U.S. indices breaching the 200 day moving average









Vogel Tactical Recommendations

Neutral view on most asset classes. Retain overweight to cash due to volatility risk.

Asset Class	Action	Commentary
Domestic Large-Cap Equity	Equal weight	Earnings growth and resilient economic activity are likely to support equity prices but there is a risk that sticky inflation, higher for longer interest rates, stretched consumers, or new trade policy impacts fuel a slowdown. Volatility is likely on news.
Domestic Mid-Cap Equity	Equal weight	Earnings growth and resilient economic activity are likely to support equity prices but there is a risk that sticky inflation, higher for longer interest rates, stretched consumers, or new trade policy impacts fuel a slowdown. Volatility is likely on news.
Domestic Small-Cap Equity	Equal weight	Deregulation moves or a pick-up in acquisition activity could provide a boost to small-cap prices, but uncertainly about macroeconomic conditions increases volatility risk.
International Developed Equity	Equal weight	More rate cuts are expected since concerns remain about weakness in exports and manufacturing and about the impact of trade policy. New government stimulus measures are expected to provide a boost especially to European industrial and materials sectors. Valuations still at a discount to U.S. equity markets.
International Emerging Market Equity	Underweight	Trade policy uncertainty is likely to have a dampening effect but will vary by country. Optimism about Chinese stimulus measures is a boost but structural issues remain in that economy. Easing dollar valuation is a tailwind for returns for U.S. investors.
Fixed Income	Equal weight	The high yields are a source of income and diversification. Fundamentals are still solid so default risk is low, but valuations are high so limited price appreciation likely.
Hedge Strategies	Underweight	The flexibility to position for various risk scenarios can provide return opportunities, but rapid and sharp market swings can be challenging for some strategies.
Real Assets	Equal Weight	High income potential for real estate assets is attractive. Demand is driving prices for precious metals but valuations are high.
Cash	Overweight	Yields are attractive. Cash still provides a hedge against macro risks.

Vogel Consulting

DISCLOSURES

Important Disclosures:
This report is being provided to you for your review and consideration and does not constitute a recommendation to purchase, sell or hold any security, and should not be construed as investment advice. Past financial performance is no guarantee of future results.

The statistical information contained in this report was derived from sources that Vogel Consulting LLC (Vogel) believes are reliable, and such information has not been independently verified by Vogel. The information contained in this report represents the opinion of the author(s) as of its date and is subject to change at any time due to market or economic conditions.

Sources: *Number below corresponds to the superscript notation in chart titles and text blocks*

Sources:

1. Telemet America, Inc.
2. Advent Software, Inc.
3. Daily Treasury Yield Curve Rates, retrieved from U.S. Department of Treasury; https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield, April 1, 2025.
4. U.S. Census Bureau and U.S. Bureau of Economic Analysis, Trade Balance: Goods and Services, Balance of Payments Basis [BOPGSTB], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BOPGSTB, April 1, 2025.
5. U.S. Census Bureau and U.S. Bureau of Economic Analysis, Trade Balance: Goods, Balance of Payments Basis [BOPGTB], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BOPGTB, April 1, 2025.
6. U.S. Census Bureau and U.S. Bureau of Economic Analysis, Trade Balance: Services, Balance of Payments Basis [BOPSTB], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BOPSTB, April 1, 2025.
7. Atlantafed.org/chcs/wage-growth-tracker.
8. U.S. Employment and Training Administration, 4-Week Moving Average of Continued Claims (Insured Unemployment) [CC4WSA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CC4WSA, April 1, 2025.
9. U.S. Census Bureau, Advance Retail Sales: Retail Trade [RSXFS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/RSXFS, April 1, 2025.