INVESTMENT STRATEGY UPDATE

MARKET REPORT
APRIL 2025

ASCENTIAL WEALTH ADVISORS

US EQUITY MARKETS FALL ON UNCERTAINTY

Uncertainty became the focus for financial markets in the first quarter of 2025, causing US equity markets to decline into correction territory. Investor optimism that the Trump administration would create an immediate boost to corporate profits through deregulation and business-friendly policy was replaced by concerns surrounding how a trade war might disrupt the global economy. This was coupled with uncertainty about the impact of the new administration's overhaul of the US Federal government through the newly created "Department of Government Efficiency" and changes to the US labor force due to immigration policy shifts. Markets overlooked current economic data, which remained relatively healthy, and focused on the potential longer-term disruptions from these policy changes.

US equities were broadly lower for the quarter with technology names, including the Magnificent 7, posting the largest declines. The NASDAQ closed the quarter down -10.42% with small cap stocks not far behind with the Russell 2000 down -9.48%.

Index	*2025 (through 3/31)*
S&P 500	-4.27
Dow Jones Ind. Avg.	-0.87
MSCI EAFE	+6.86
BC US Aggr. Bond	+2.78

In a reversal from the preceding couple of years, value stocks outperformed growth stocks with the Russell 1000 value even posting a positive +2.14% return, as a bright spot in the market. Growth stocks started the year with more expensive valuations and were consequently more impacted by the fresh uncertainties to their future earnings outlook.

In another reversal of recent patterns, international equities outperformed US equities, also posting positive returns. The MSCI EAFE Index, representing developed international markets such as Europe and Canada, was up +6.86%, while the MSCI Emerging Markets index also rose +2.93%. International equity performance was fueled by lower starting valuations and a repatriation of capital from US equities to foreign markets due to trade-related concerns. For US investors, international returns were enhanced by a decline in the value of the US dollar against other currencies.

Dow Jones Relative Risk Benchmarks	
Conservative	-0.77
Moderate	+0.14
Aggressive	-1.14

Bonds offered a buffer in portfolios, helping to offset equity market volatility with a positive return for the quarter. Although the US Federal Reserve held rates steady while waiting to assess the economic impact of current policy decisions, investor concerns about slowing economic activity superseded, causing bond prices to rise and yields to fall. The yield on the 10-year US Treasury fell from 4.58% on December 31, 2024 to 4.25% on March 31, 2025. The drop in yields also lowered long-term rates for borrowing on loans such as home mortgages.

OUR VIEW

FIXED INCOME:
Fixed income offered a counterbalance to equity volatility amid economic uncertainty. Investors leaned into bonds which felt less uncertain than stocks. This demand pushed bond prices up, despite ambiguity regarding the path for Fed interest rate policy as it weighs a slowing economy with the possibility that inflation could reignite due to tariffs. Given the unclear path for the economy, interest rates, and inflation, we are in favor of a combination of traditional fixed income and fixed income alternatives to provide portfolios with income and an offset to equity risk.

US EQUITY:
After two consecutive years of gains, US stocks began 2025 with above average valuations and prices reflecting high expectations for future earnings. Thus, it is not surprising that stock prices fell as the economic outlook and corporate earnings forecasts were called into question due to policy shifts. More expensive growth stocks saw the largest losses while value stocks fared better, with many names delivering positive quarterly returns. Time will tell whether this is merely a normal market correction or a more significant recessionary market drawdown. While there may be additional volatility ahead for US stocks, we believe they remain a key component in long-term portfolios. Given the lack of clarity, we remain in favor of a balance between growth and value, along with more selectivity and incorporating flexible strategies that can respond to changing market conditions. Policy changes will not impact all companies the same, and those that can adapt more quickly will likely recover faster as well.

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INTERNATIONAL EQUITY:

Despite tariff rhetoric, foreign equities were positive for the quarter. The rally was fueled by less frothy starting valuations and investors seeking to diversify away from the US equity market. For US investors, foreign equity returns also received a boost from a falling US dollar, as returns paid in other currencies converted to more US dollars. Geopolitical risks remain elevated, and the uncertainty that comes with proposed changes to the world trade landscape will impact foreign equities as well. However, not all countries or companies will be equally impacted by changing trade policy. We believe investing in foreign equities provides critical diversification in long-term portfolios, and there are many great companies domiciled outside of the US and investors should have exposure. Even after the recent rally, foreign stocks remain much cheaper than US stocks, and we continue to recommend allocating to foreign equities with a cautious and selective approach.

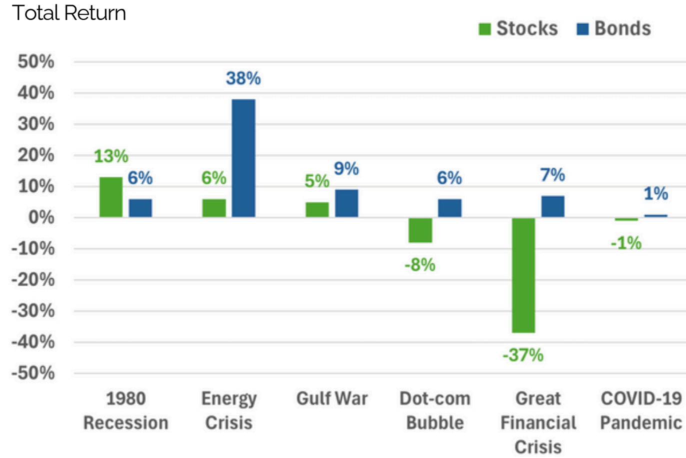
Bonds Provide an Offset to Volatile Equity Markets

Diversification can feel disappointing during periods of equity market outperformance, but having fixed income in a portfolio historically has helped to buffer losses during market corrections and recessionary drawdowns. In 2022, diversification did not help portfolios as bonds fell alongside stocks due to rising interest rates. However, in the first quarter of 2025, bonds provided a valuable cushion in portfolios as US equities fell. The recent equity drawdown is a reminder of why we incorporate fixed income in portfolios.

When investors are worried about uncertain outcomes, they tend to seek safety in fixed income, pushing prices up. Fixed income can function as an uncorrelated stabilizer in portfolios during equity market declines, along with offering income for distribution needs and a reserve that can be drawn on to avoid selling into equity weakness. The goal of asset allocation investing, and including fixed income, is to help manage portfolio volatility allowing investors to stay in the market for the long run.

Stock and bond returns during recessions

Total Return



Source: JP Morgan Guide to Markets, March 2025

S&P 500 Index 1942-2025			
Type of Decline	**Average Frequency**	**Average Length**	**Last Occurrence**
-5% or more	About 3 times/year	39 days	March 2025
-10% or more	About every 16 months	127 days	March 2025
-15% or more	About every 3 years	230 days	October 2022
-20% or more	About every 5.5 years	335 days	October 2022

Source: First Trust, March 2025

Market Declines in Perspective

Volatility is an inevitable part of investing in equity markets. Despite periods of losses, the S&P 500 has consistently provided positive returns over the long-term, and investors that stay the course and maintain a long-term focus have been rewarded.

- **From 1926-2024, the average annual return for the S&P 500 was 10.4%**
- **Over that 99-year period, there were 73 years of positive returns and 26 years of negative returns**