

Patten & Patten, Inc.

2Q25 Market Outlook

April 8, 2025



Market Outlook

Market Commentary – *March 31, 2025*

The S&P 500 continued its post-election rally until peaking mid-February as trade and policy uncertainties began to weigh on investor sentiment. Through the end of the quarter, equity indices corrected substantially from all-time highs. Notably, large tech stocks led declines as investors rotated from concentrated positions in the so-called Magnificent Seven stocks to mid-cap value stocks and European equities. Investors also sought protection from volatility in money market funds and gold. On a year-to-date basis, the S&P 500 posted a single-digit decline while the benchmark bond index provided moderate returns.

Historically, American trade policy limited the use of tariffs to ensure low prices on imported consumer goods. The Trump Administration's preference for tariffs represents a drastic policy shift away from post-Cold War global trade agreements. Some of the first quarter's volatility reflects investor adjustments to a new paradigm that establishes tariffs as a key component of economic and foreign policy. As the Trump Administration has demonstrated, tariffs provide effective leverage during negotiations. They are also a source of revenue that could offset, at least in part, anticipated tax cuts. Long term, tariffs could catalyze global trade rebalancing.

Economic data have been clouded by adjustments to anticipated tariffs. For instance, reports indicate importers accumulated excess inventory during Q4 2024 to lock-in costs prior to tariff effective dates. During Q1 2025, there was a "pay back" impact in certain sectors as importers drew down existing inventories. We expect Q2 GDP should benefit from inventory re-accumulation and advanced purchases of goods subject to tariffs. However, there is considerable uncertainty whether higher costs will be absorbed by manufacturers or passed on to consumers. In addition, US tariffs could divert imported goods to other countries that could, in turn, impose their own tariffs. These are second and third order effects of a policy shift that add considerable uncertainty to the outlook. The full economic impact of new trade policy, therefore, lacks visibility.

Most economists believe the net impact of the new trade policy will be higher inflation. In an environment of cost increases, the Fed could face a dilemma to the extent their recalibration policy (i.e., lower rates) conflicts with generally higher inflation. Currency flows should provide insight as to near-term market impacts. The relative value of the Dollar, for example, should adjust to global trade and capital flows. (Cont.)

Market Commentary cont. – *March 31, 2025*

We believe investors will favor countries that engage in fiscal expansion over countries that contract fiscal support. At the same time, higher costs and policy uncertainties could contribute to a loss of confidence that manifests in reduced consumption. The combination of rising inflation and moderating growth has corresponded with a substantial increase in stagflation forecasts.

The US economy remains robust, with relatively low unemployment. Corporate and household balance sheets are strong, with stable credit trends. When uncertainty increases, we advocate a well-diversified strategy to offset short-term volatility. We maintain a long-term approach to asset allocation. More important, we caution against over-reacting to announcements and proposals. Instead, we emphasize objective, critical analysis. We look forward to discussing our outlook with you. Please contact the firm to schedule a meeting or video conference to review your accounts.

Markets

Year to date and historical performance of select asset classes

		Annualized				
	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Domestic Equities						
S&P 500	-13.63	-1.41	5.61	15.51	11.81	11.30
S&P 500 Equal Weight (RSP)	-10.63	-4.80	1.59	14.35	8.75	8.53
S&P 100	-15.14	0.66	7.33	16.61	13.33	12.49
Dow Jones Ind. Avg.	-10.36	-0.66	5.24	13.12	9.09	10.25
NASDAQ Comp	-19.05	-3.29	4.77	15.51	13.29	13.32
Russell 2000 (IWM)	-18.56	-11.16	-2.10	11.11	3.89	5.12
International Equities						
Shanghai Composite (CIN)	-7.80	-0.19	-5.93	1.15	-2.26	-4.03
Hedged Japan (DXJ)	-12.84	-7.46	19.17	21.16	11.48	8.77
Hedged Europe (HEDJ)	-2.79	-7.32	8.37	13.18	7.21	5.81
Emerging Marlets (EEM)	-6.58	-3.01	-2.13	4.42	-0.38	1.61
Canada (EWC)	-6.23	0.97	0.56	13.63	7.01	5.30
Bonds						
Long Treasuries (TLT)	4.17	2.63	-7.57	-9.16	-1.62	-1.19
Inv. Grade Corporates (LQD)	0.96	4.13	0.64	0.44	2.12	2.05
High Yield Corporates (HYG)	-1.87	5.07	3.87	5.59	3.68	3.51
Core US Aggregate Bond (AGG)	2.32	5.48	0.92	-0.60	1.49	1.34
US 1-3 Month T-bills (BIL)	1.09	4.87	4.20	2.48	2.31	1.72
Real Assets/Commodities						
Commodities (BCI)	0.35	0.00	-4.09	11.75	3.92	-
Gold (GLD)	13.04	27.22	14.92	11.90	11.66	8.95
Oil (BNO)	-10.42	-19.74	-2.39	22.22	5.46	2.06
Real Estate Investment Trusts (RMZ)	-10.47	-2.19	-8.20	5.00	1.57	0.09
Agriculture (DBA)	-4.21	5.73	8.18	14.96	6.24	2.37

YTD through 04/07/2025

Note: returns presented as %, assumes dividends are reinvested

Source: FactSet

Year to date and historical performance of select equity sectors

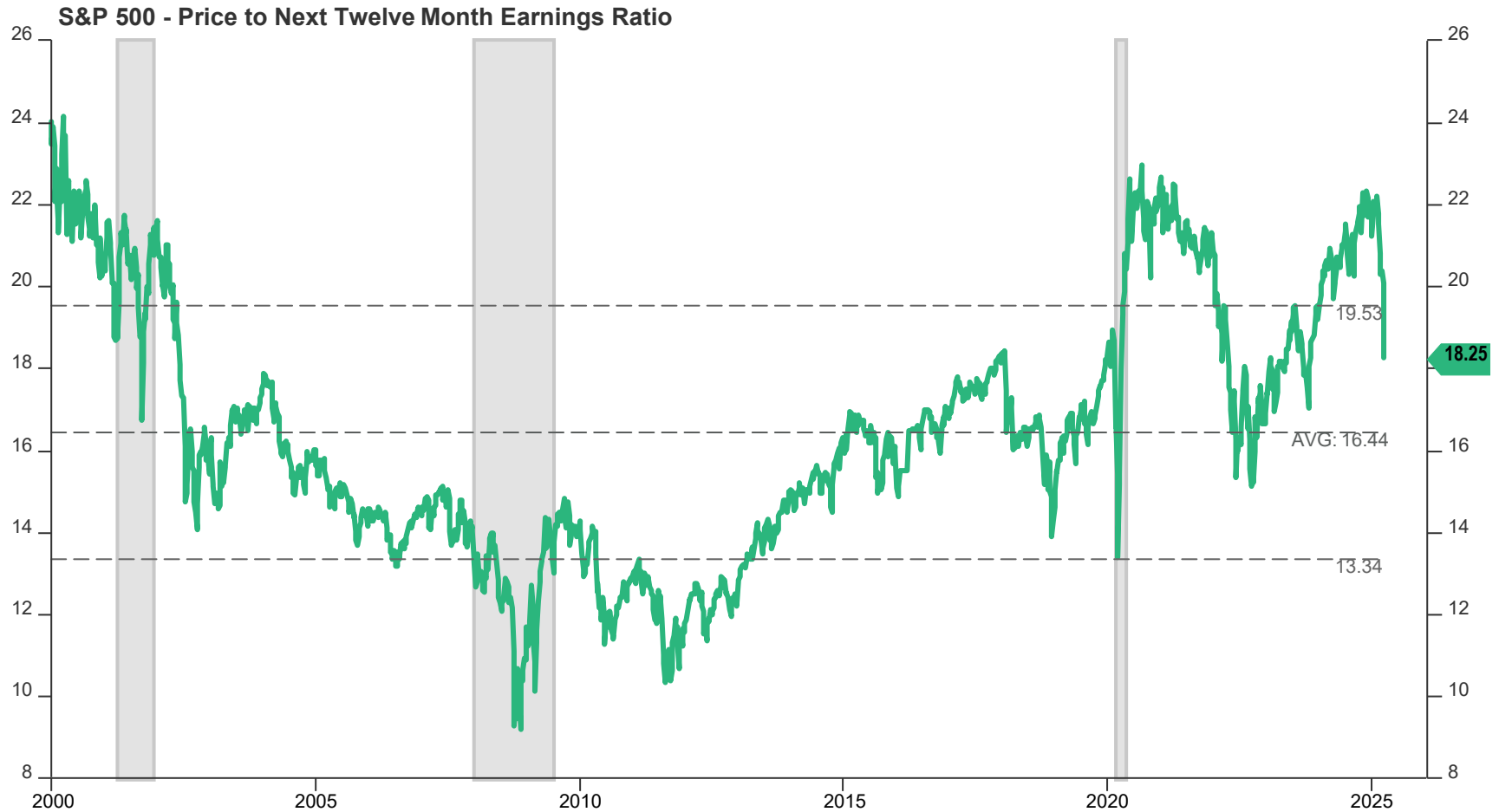
Domestic Equity Sectors, Tilts & Factors	YTD	Annualized				
		1 Year	3 Year	5 Year	7 Year	10 Year
Sectors						
Consumer Discretionary	-21.12	-0.90	0.30	11.96	8.77	9.18
Retail (XRT)	-18.72	-12.18	-3.17	17.65	7.17	4.11
Consumer Staples	-0.58	7.10	1.15	7.75	6.66	5.29
Energy	-7.98	-19.59	0.74	19.64	2.77	0.39
Oil & Gas Exploration	-19.27	-32.23	-5.66	25.85	-1.65	-4.91
Financial Services	-8.77	6.16	5.57	15.73	7.20	8.48
Regional Banks (KRE)	-17.83	5.11	-6.09	11.56	0.09	4.40
Health Care	-2.26	-6.14	-1.77	8.24	7.83	6.50
Industrials	-10.86	-6.55	5.50	14.37	7.17	7.57
Aerospace & Defense (XAR)	-11.85	6.58	6.32	14.77	8.59	10.48
Transportation (IYT)	-16.14	-17.55	-1.22	11.15	4.34	5.12
Materials	-8.66	-17.19	-4.31	10.39	4.57	4.57
Homebuilders (XHB)	-13.62	-16.53	14.68	25.12	12.98	10.41
Technology	-22.51	-5.58	9.56	19.61	18.08	17.78
Communication Services	-13.61	1.33	8.28	13.82	10.00	6.63
Utilities	-3.07	12.73	-1.44	5.90	5.54	5.10
Real Estate	-6.70	-0.86	-8.32	4.11	3.25	2.10
Style Tilts						
Large Cap Growth (IWF)	-18.72	-2.12	6.88	16.84	14.45	13.71
Large Cap Value (IWD)	-8.23	-2.46	2.72	12.90	7.55	7.43
US High Dividend (HDV)	-1.40	4.42	4.19	12.05	7.83	7.65
Factors						
Minimum Volatility (USMV)	-2.56	6.41	4.80	11.05	9.60	9.68
Momentum (MTUM)	-11.47	-1.68	4.87	12.44	9.84	11.38
Quality (QUAL)	-12.99	-3.90	6.35	14.56	11.22	11.01

YTD through 04/07/2025

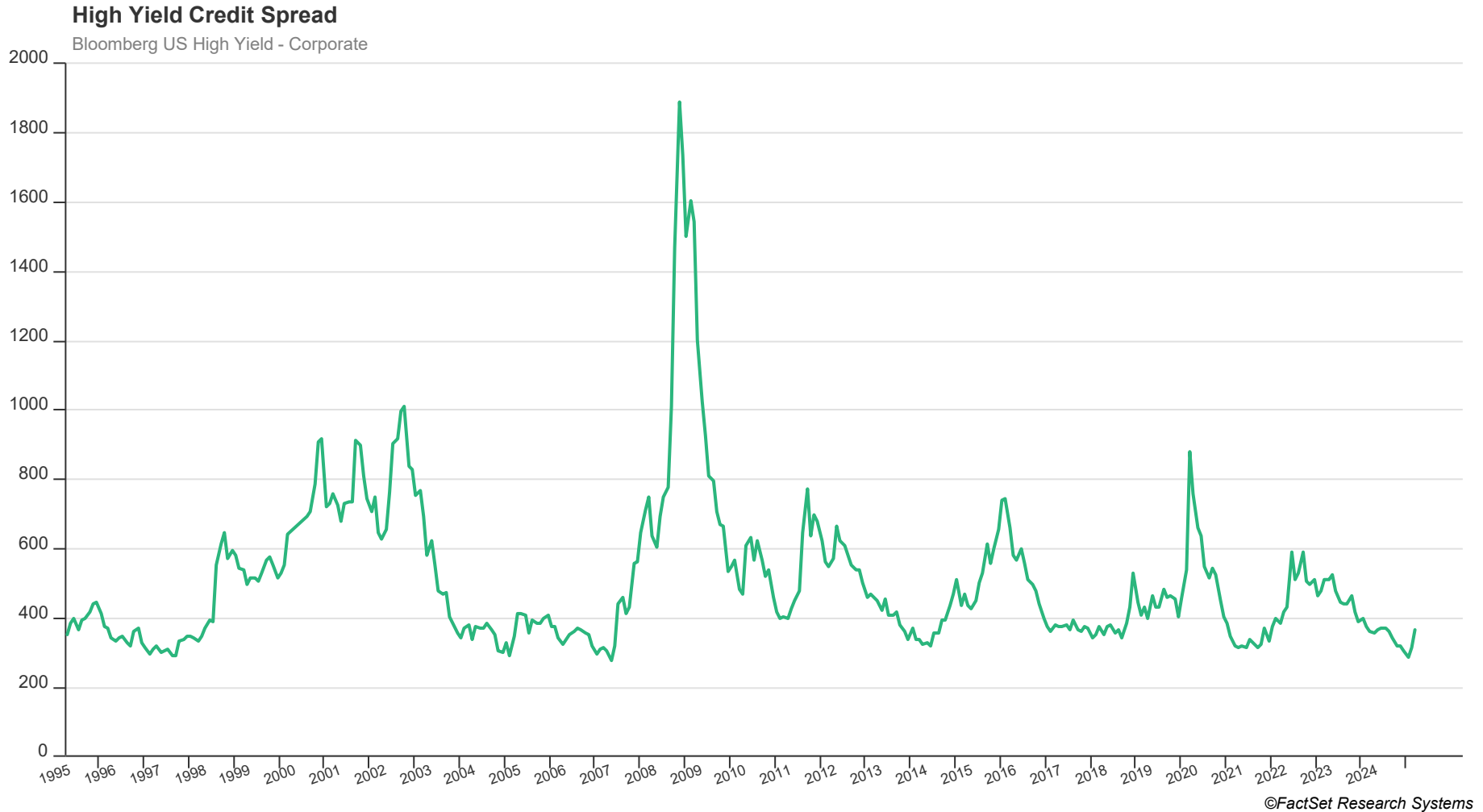
Note: returns presented as %, assumes dividends are reinvested

Source: FactSet

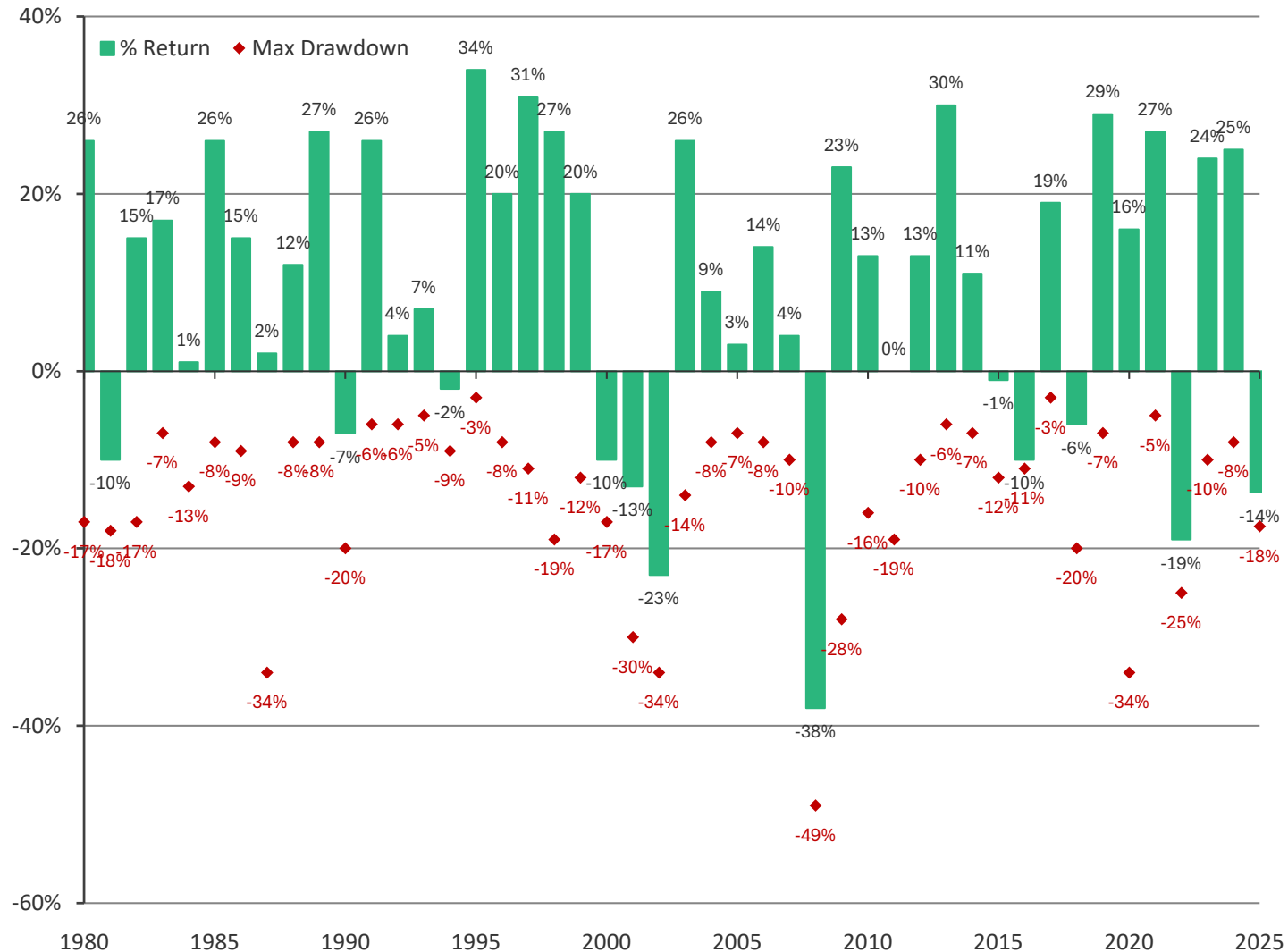
S&P 500 Valuation



Credit Spreads

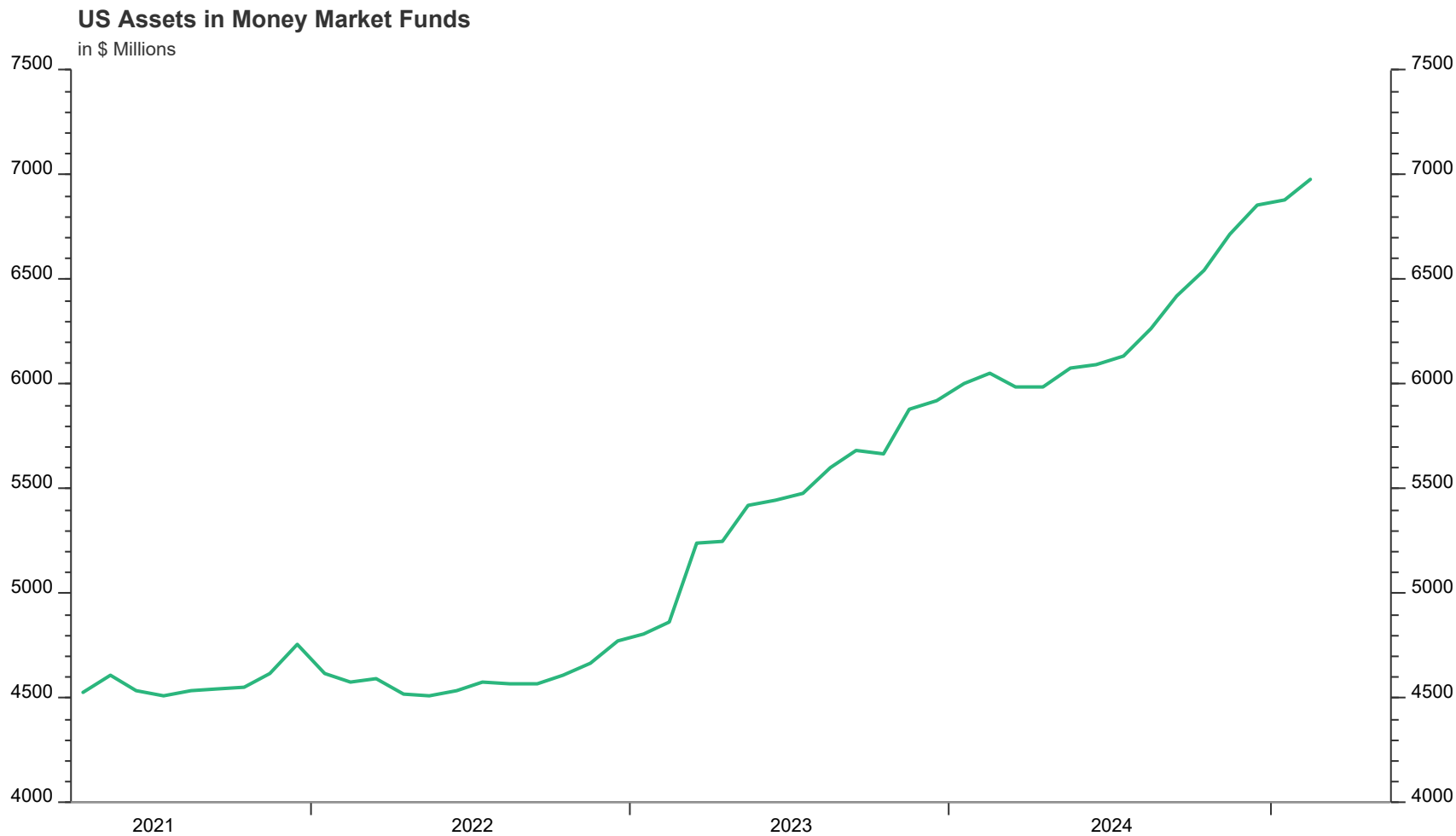


Stock Market Performance and Max Drawdowns by Year



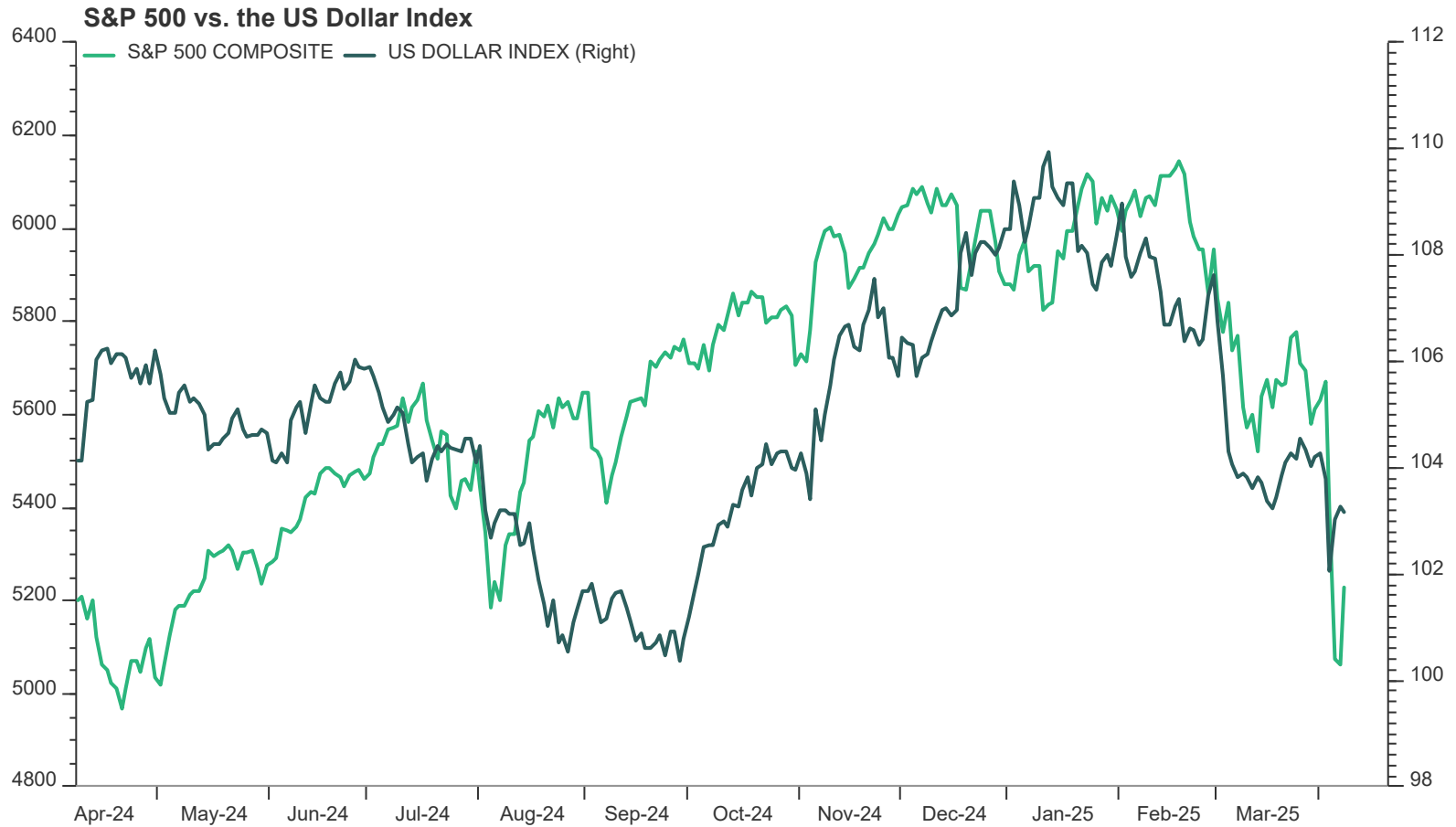
Source: FactSet

Flight to Cash

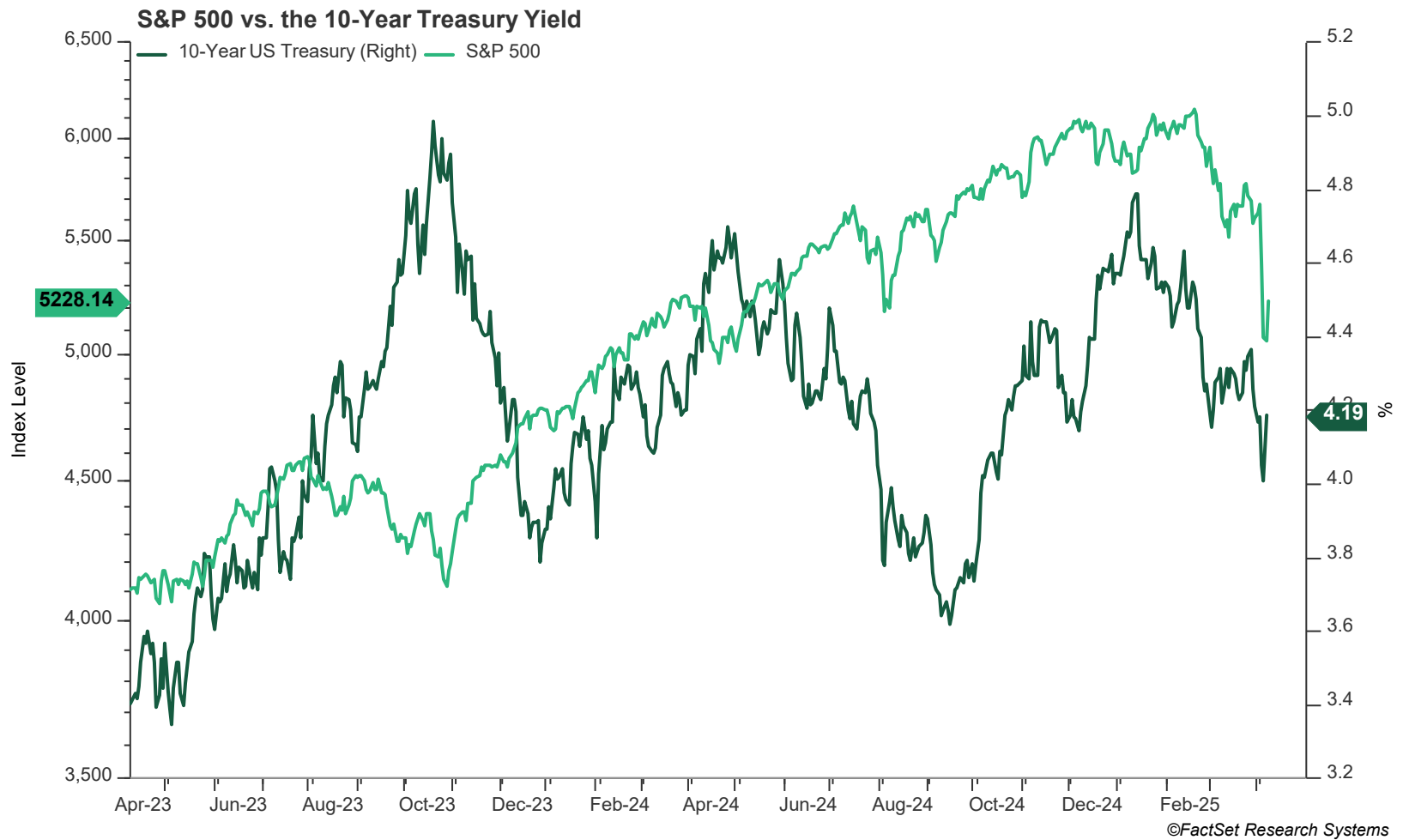


Source: FactSet

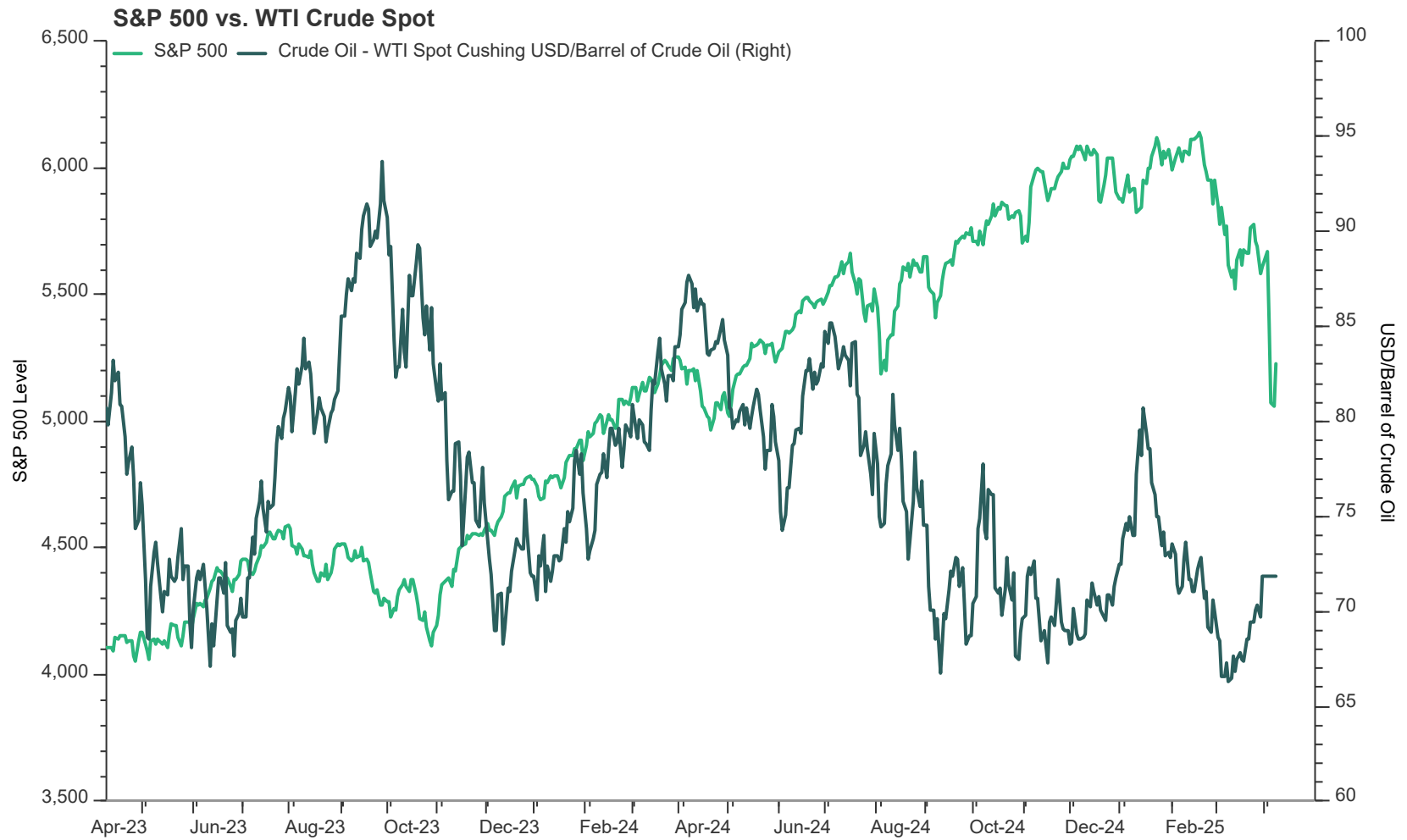
S&P 500 vs. the US Dollar Index



S&P 500 vs. the 10-Year Treasury Yield

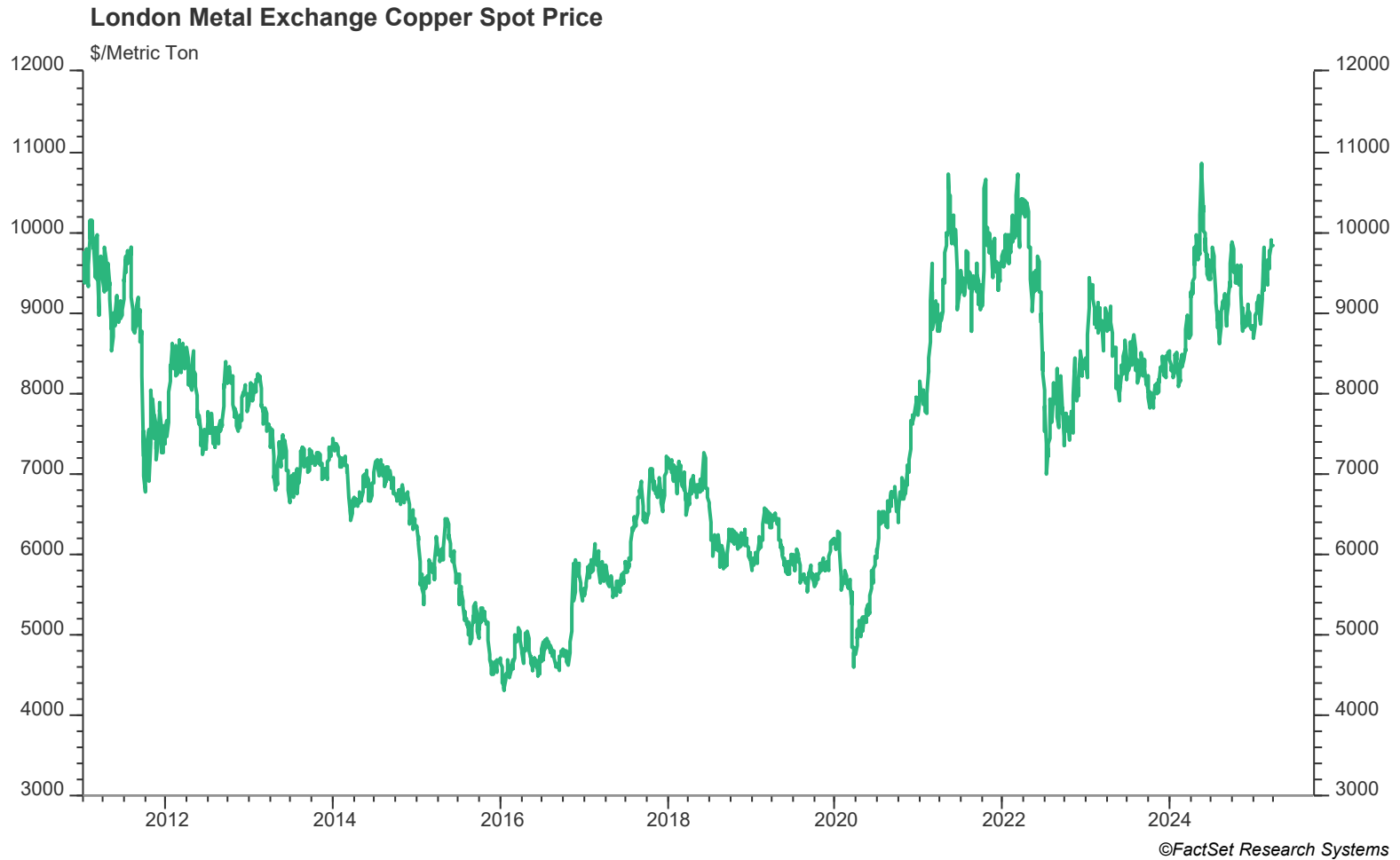


S&P 500 vs. the Price of Crude Oil



Source: FactSet

Dr. Copper



Interest Rate Outlook

Global Interest Rates

Global Bond Yields on 04/07/2025

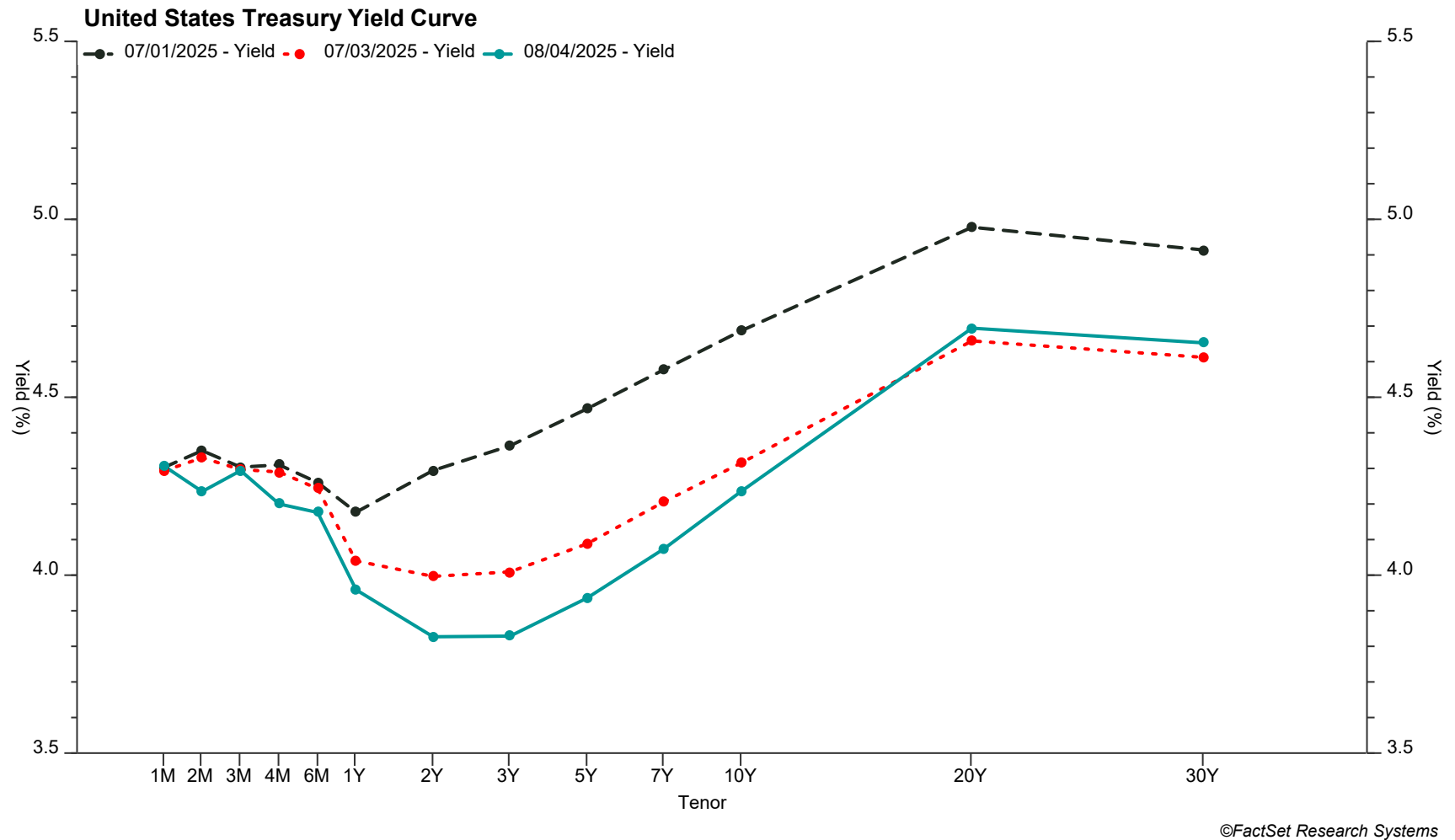
Maturity	US	Canada	UK	Germany	Switzerland	Japan	Spain	Italy	Brazil	Greece
2Y	3.764	2.431	4.002	1.813	0.095	0.575	2.067	2.147	14.206	
5Y	3.879	2.581	4.122	2.128	0.204	0.732	2.561	2.970	14.597	
10Y	4.188	3.014	4.606	2.615	0.448	1.111	3.341	3.835	15.003	3.511
30Y	4.615	3.323	5.306	3.023	0.589	2.280	4.149	4.624		

Change in Global Bond Yields since 03/31/2025

Maturity	US	Canada	UK	Germany	Switzerland	Japan	Spain	Italy	Brazil	Greece
2Y	-0.127	-0.051	-0.161	-0.186	-0.030	-0.270	-0.095	-0.090	-0.841	
5Y	-0.075	-0.025	-0.148	-0.167	-0.108	-0.379	-0.076	0.132	-0.512	
10Y	-0.022	0.014	-0.062	-0.080	-0.097	-0.404	0.001	-0.001	-0.246	-0.021
30Y	0.031	0.062	0.037	-0.038	-0.095	-0.256	0.044	0.056		

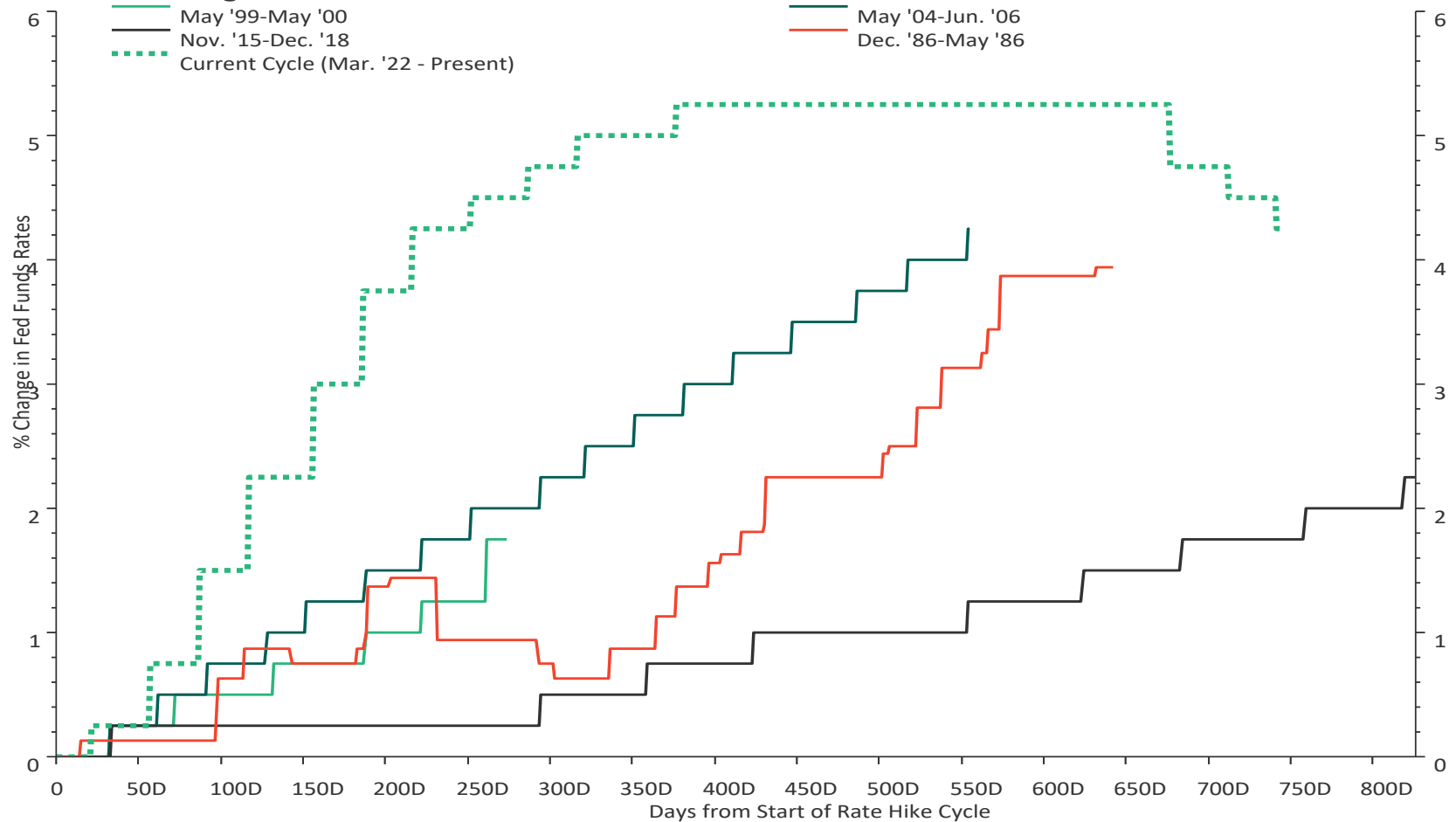
Source: FactSet

US Treasury Yield Curve



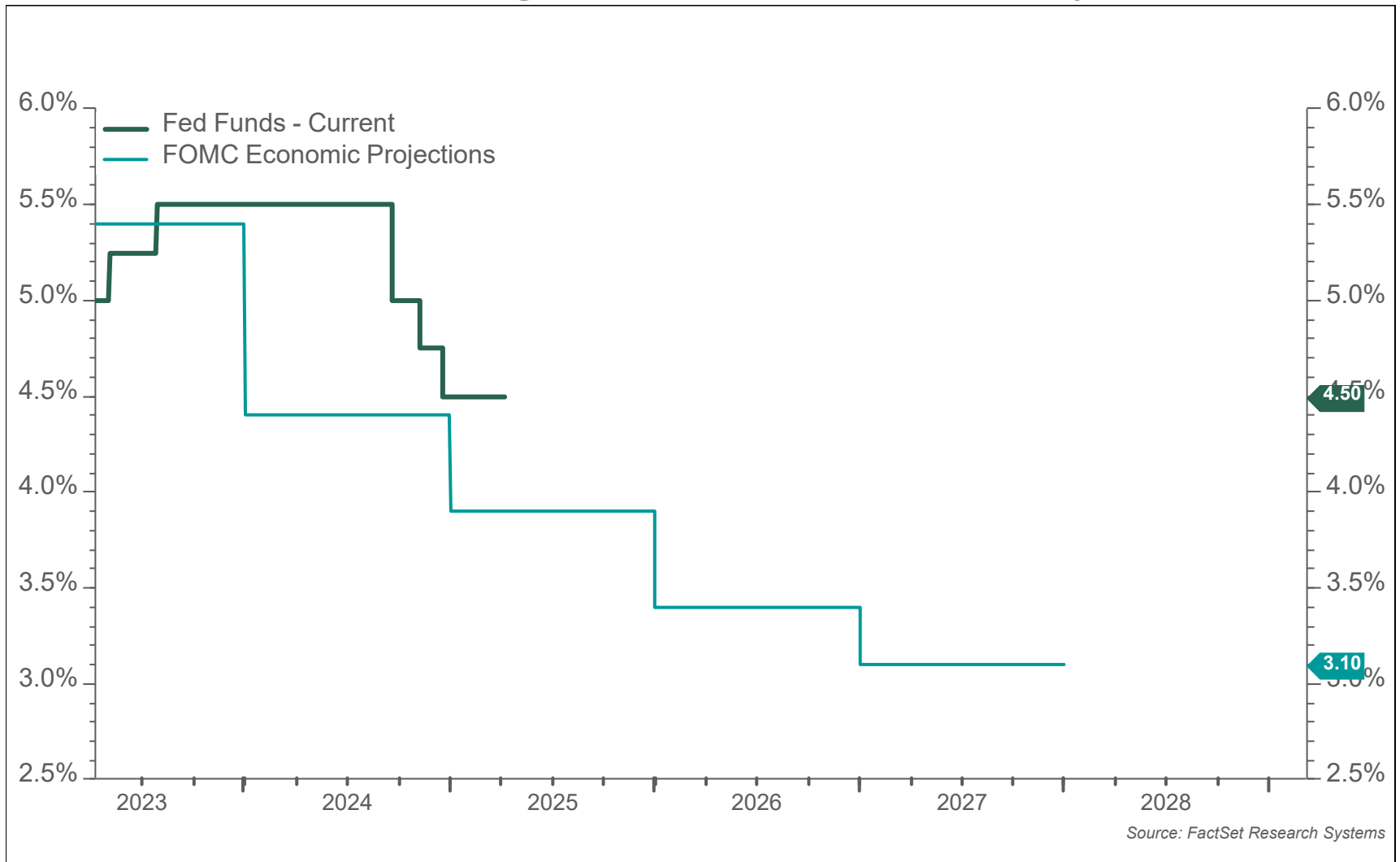
Historical Perspective of Current Fed Policy

Cumulative Change in Federal Funds Rate Since First Hike



Source: LSEG Datastream

US Federal Funds Target Rate: Current vs. Projected



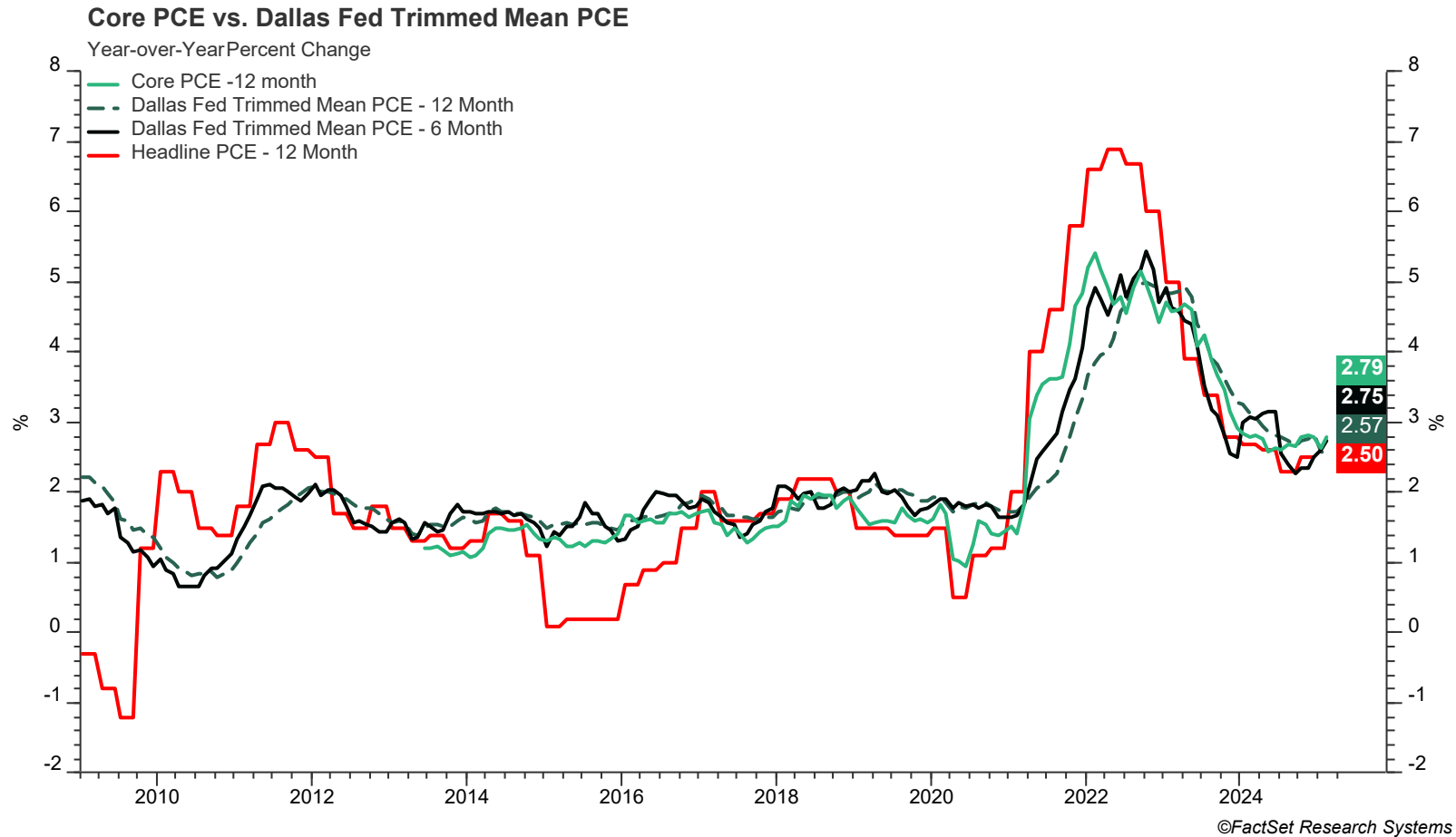
Fed Rate Cut Probability

Rate Probability by Meeting

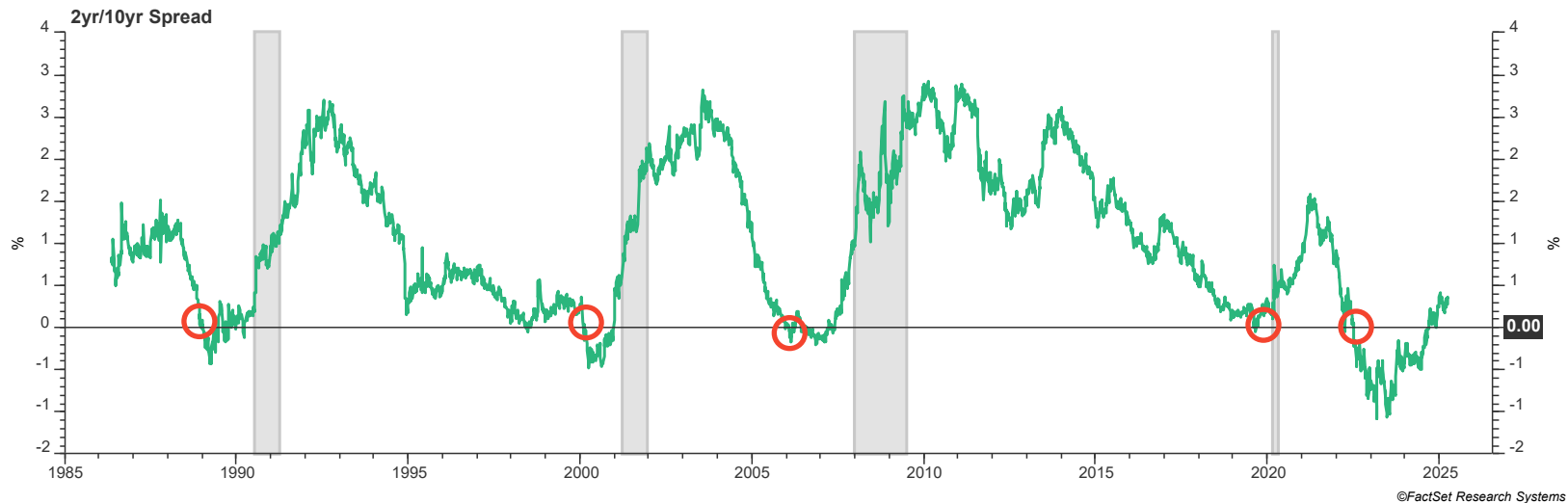
Meeting Date	Mid-Point of Fed Funds Target Range: Current Market Expectations							
	2.625	2.875	3.125	3.375	3.625	3.875	4.125	4.375
5/7/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	22.5%	77.5%
6/18/2025	0.0%	0.0%	0.0%	0.0%	0.0%	19.7%	70.7%	9.6%
7/30/2025	0.0%	0.0%	0.0%	0.0%	15.0%	58.7%	24.0%	2.3%
9/17/2025	0.0%	0.0%	0.0%	9.5%	42.7%	36.7%	10.2%	0.8%
10/29/2025	0.0%	0.0%	3.8%	22.7%	40.3%	26.2%	6.5%	0.5%
12/10/2025	0.0%	1.9%	13.2%	31.5%	33.3%	16.4%	3.5%	0.3%
1/28/2026	0.4%	4.3%	17.1%	31.9%	29.7%	13.7%	2.8%	0.2%
3/18/2026	1.6%	8.2%	21.6%	31.2%	24.8%	10.4%	2.0%	0.1%
4/29/2026	2.7%	10.4%	23.2%	30.2%	22.4%	9.0%	1.7%	0.1%
6/17/2026	4.5%	13.4%	24.8%	28.3%	19.3%	7.3%	1.3%	0.1%
7/29/2026	5.1%	14.2%	25.1%	27.7%	18.4%	6.8%	1.2%	0.1%
9/16/2026	10.2%	20.3%	26.5%	22.5%	11.9%	3.7%	0.6%	0.0%
10/28/2026	9.6%	19.4%	26.0%	22.8%	12.9%	4.4%	0.9%	0.1%
12/9/2026	8.1%	17.1%	24.4%	23.6%	15.2%	6.5%	1.7%	0.3%

Source: FactSet & CME FedWatch

Inflation Measures

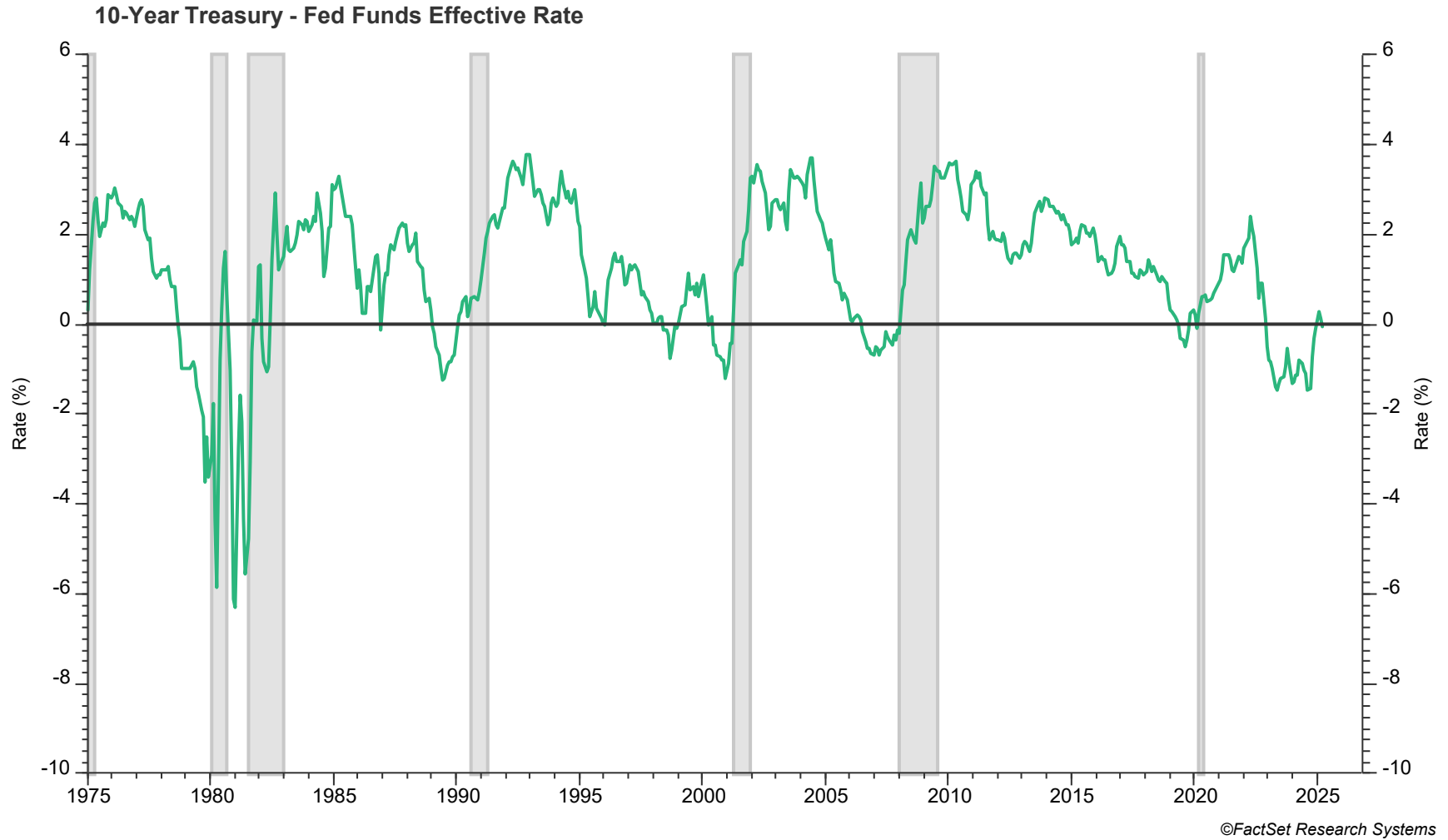


Treasury Yield Spread

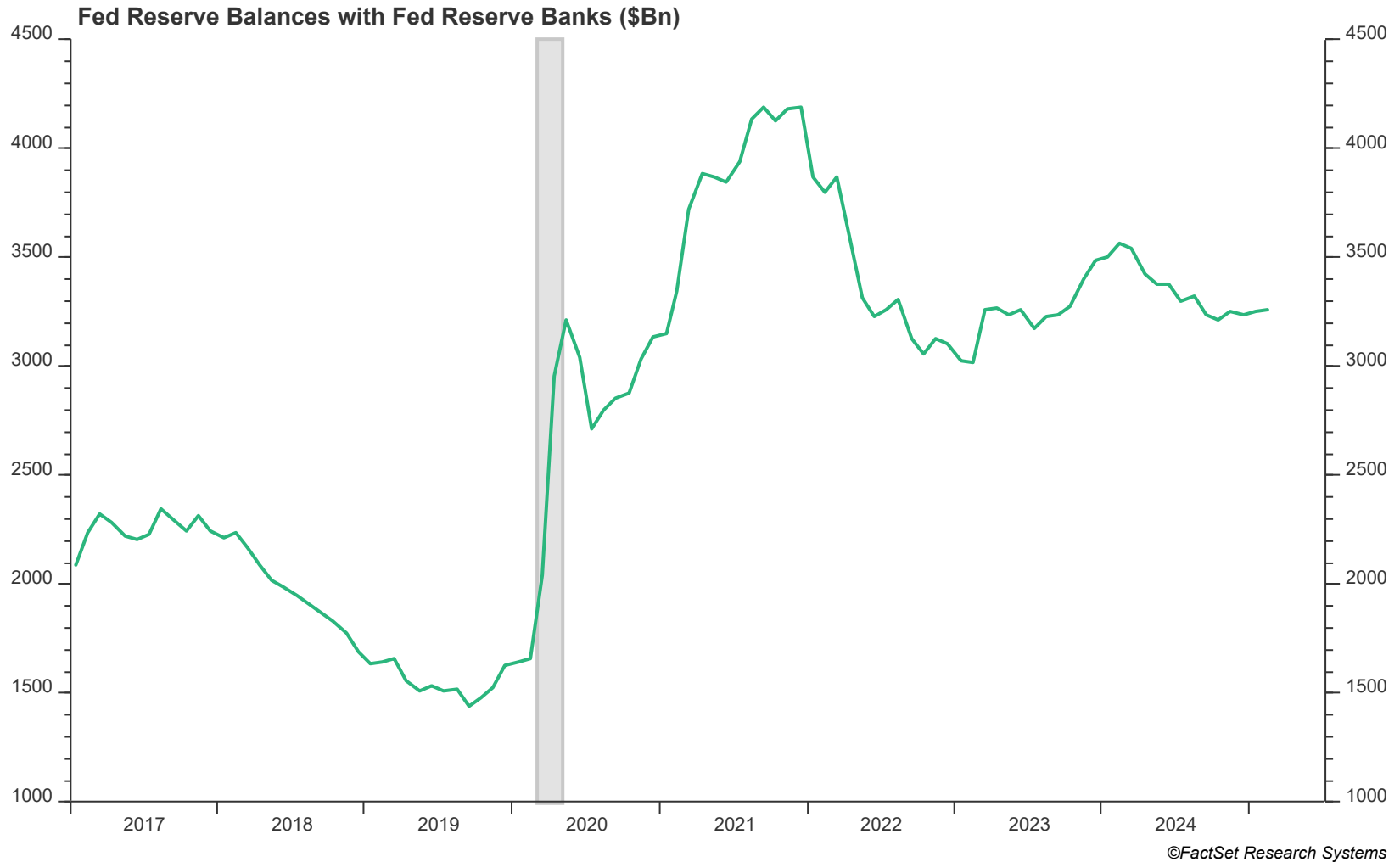


Yield Curve Inversion	Recession Lag	S&P 500 Peak Lag	S&P 500 Return to Peak post Yield Curve Inversion
Aug-78	17 months	19 months	17.70%
Sep-80	10 months	3 months	13.60%
Dec-88	19 months	20 months	35.70%
Feb-00	13 months	2 months	8.40%
Dec-05	24 months	23 months	23.50%
Aug-19	6 months	6 months	0.75%

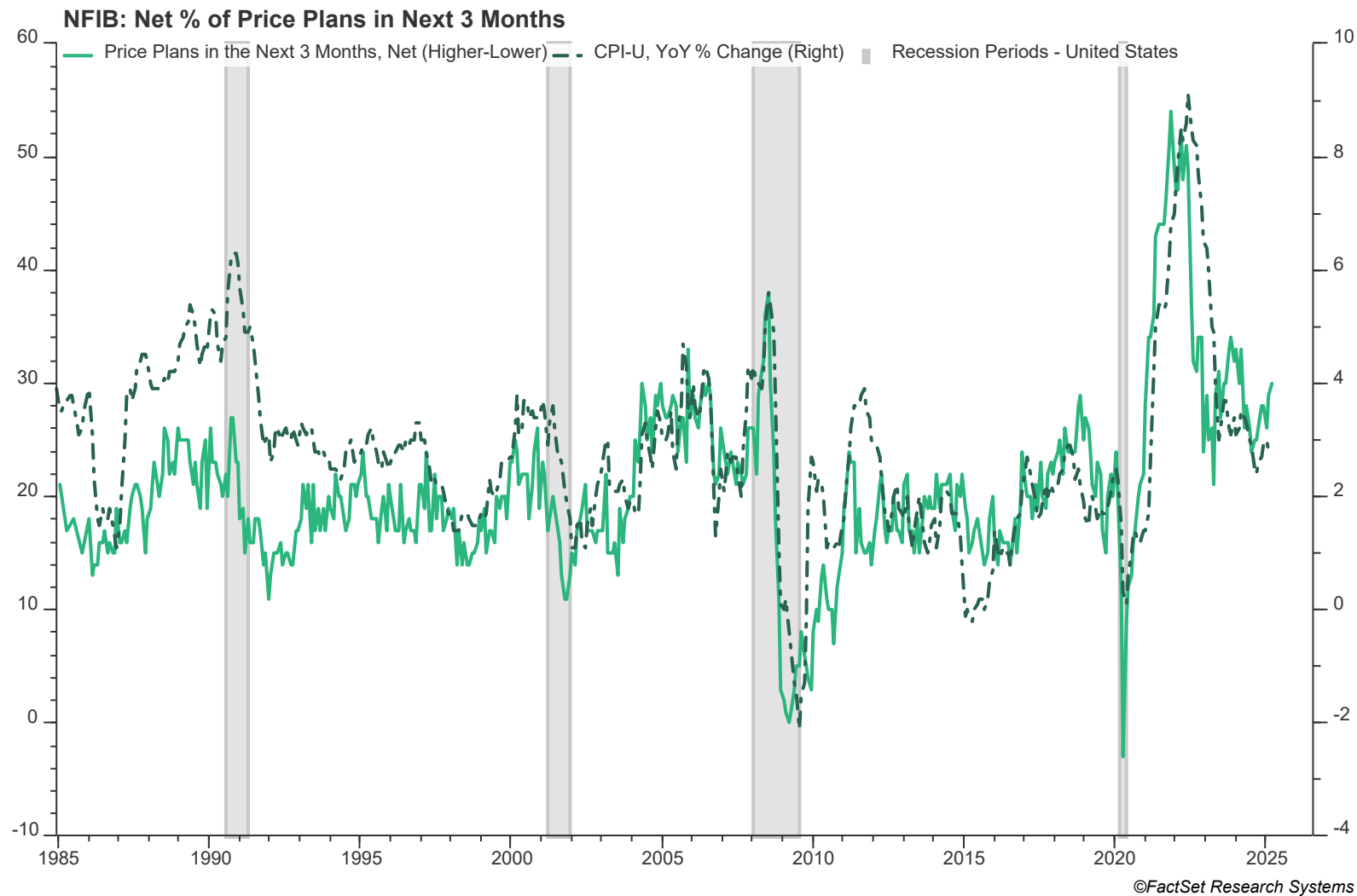
Interest Rate Spreads



Fed Balance Sheet

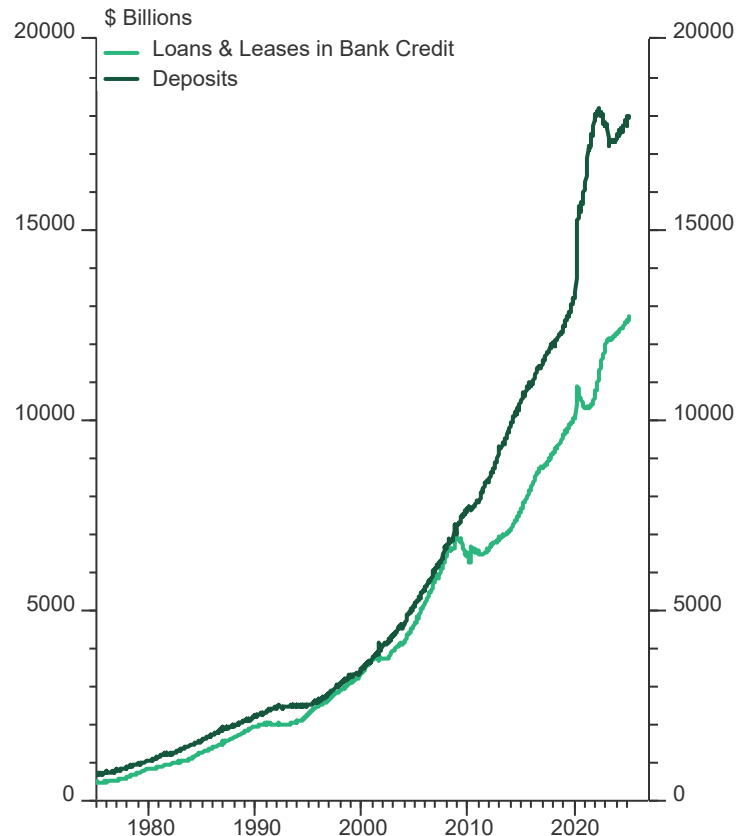


Businesses Plan Price Increases

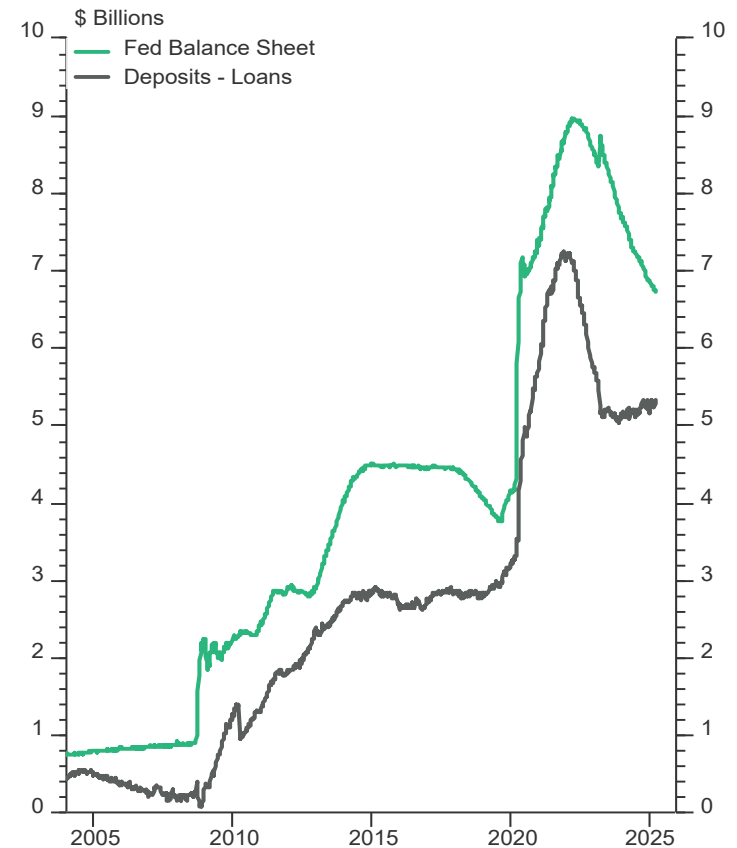


Credit Growth has Lagged Deposit Growth

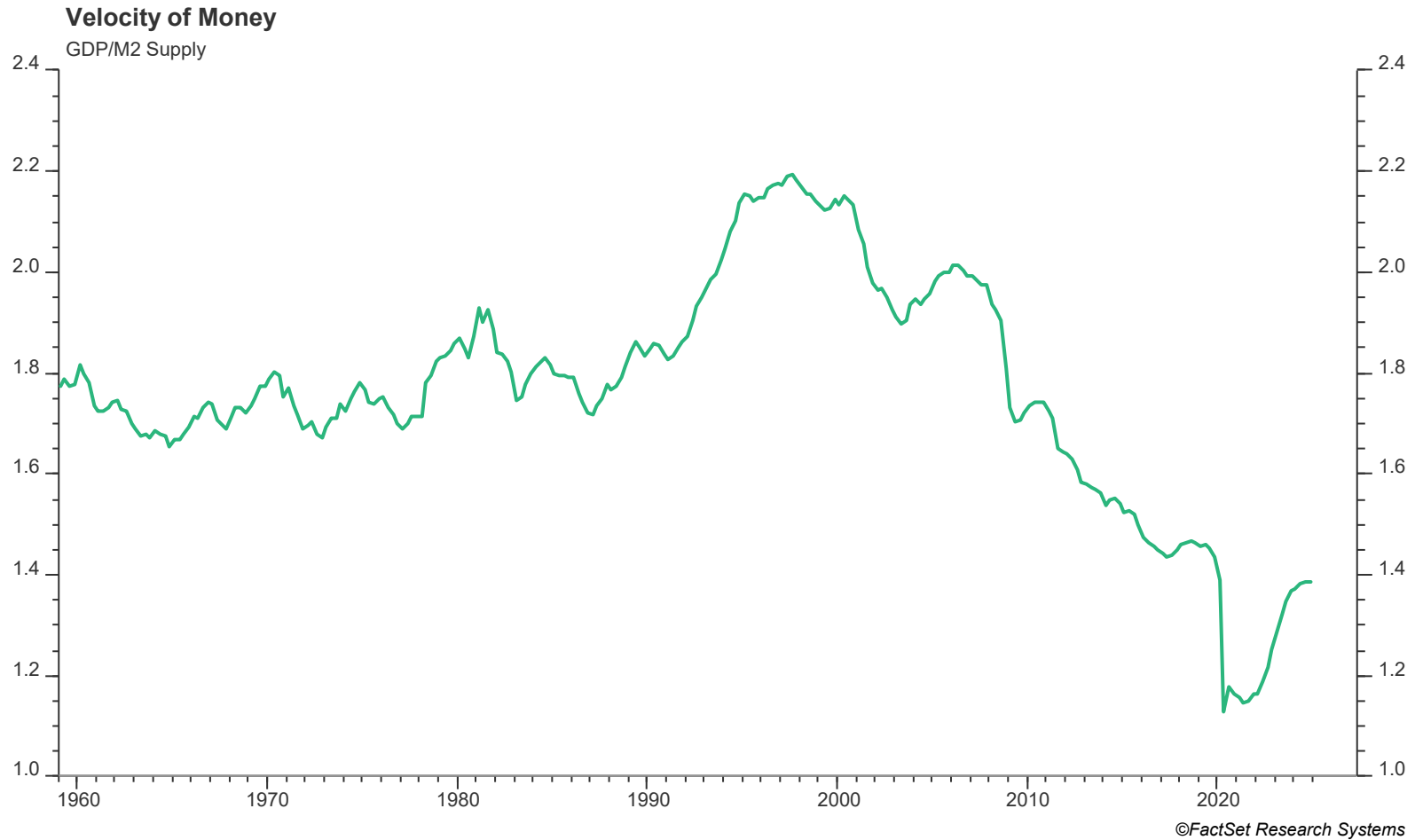
US Commercial Bank Loans and Deposits



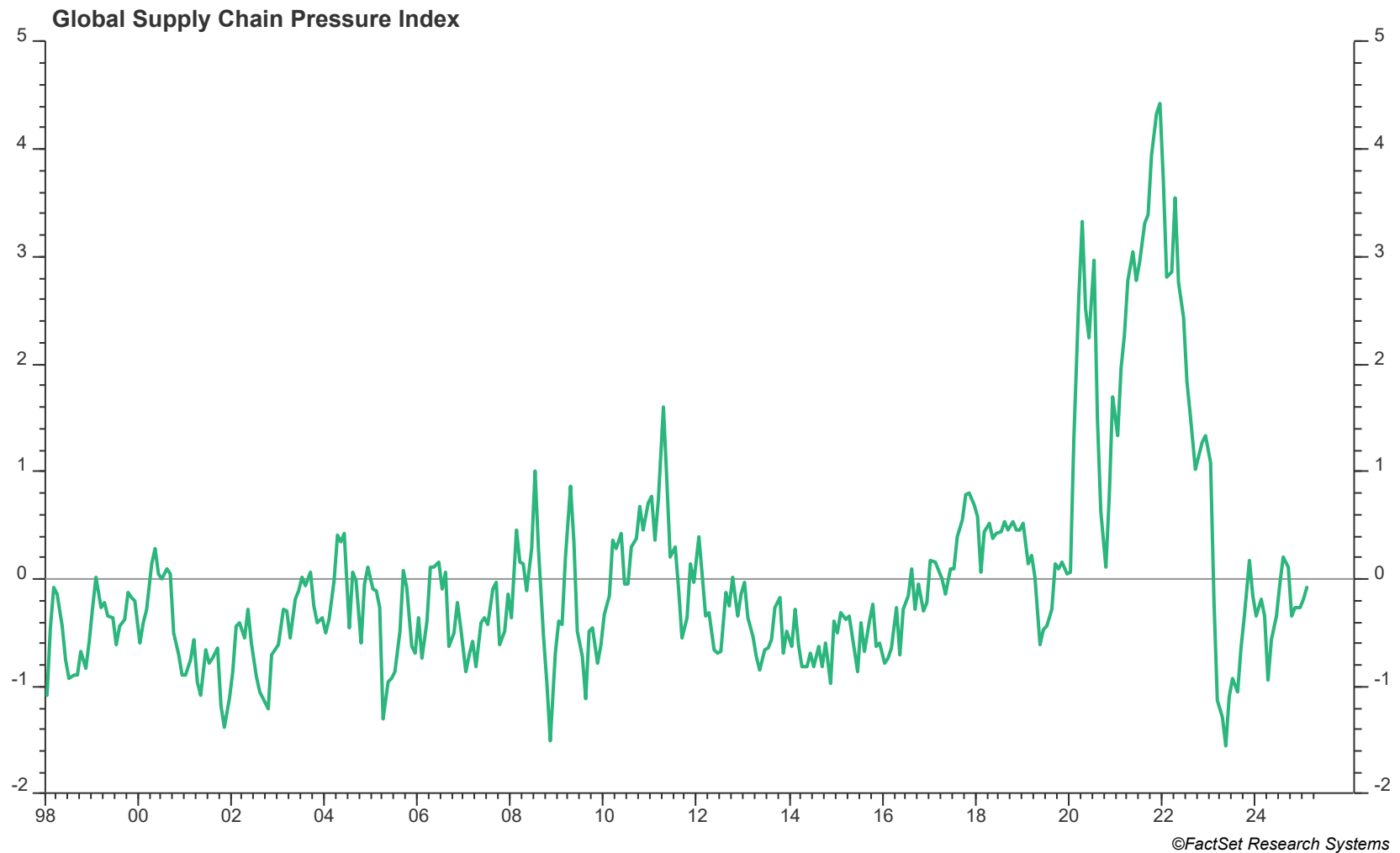
Fed Balance Sheet and Deposit Growth



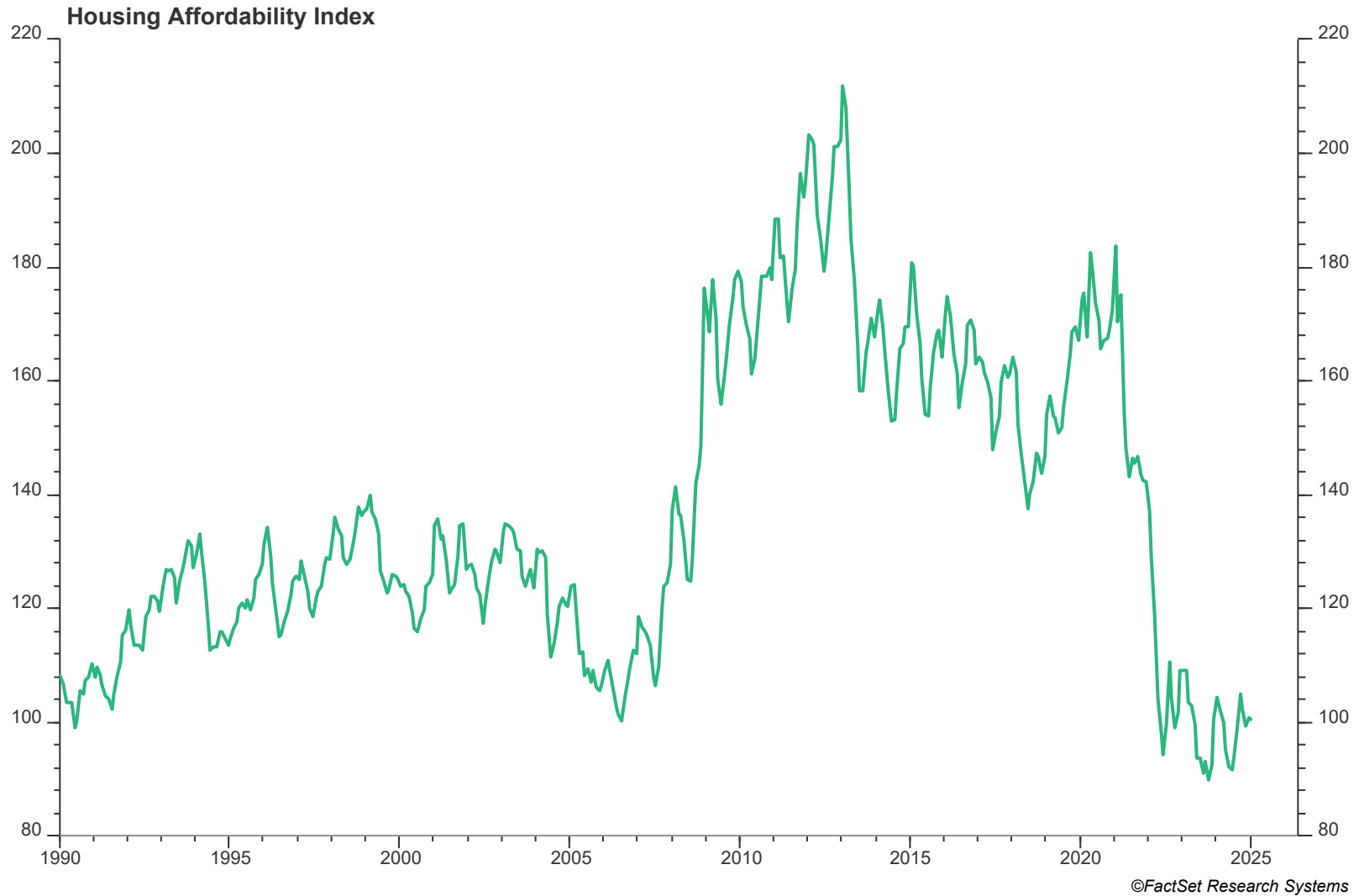
Velocity of Money Near All-Time Lows



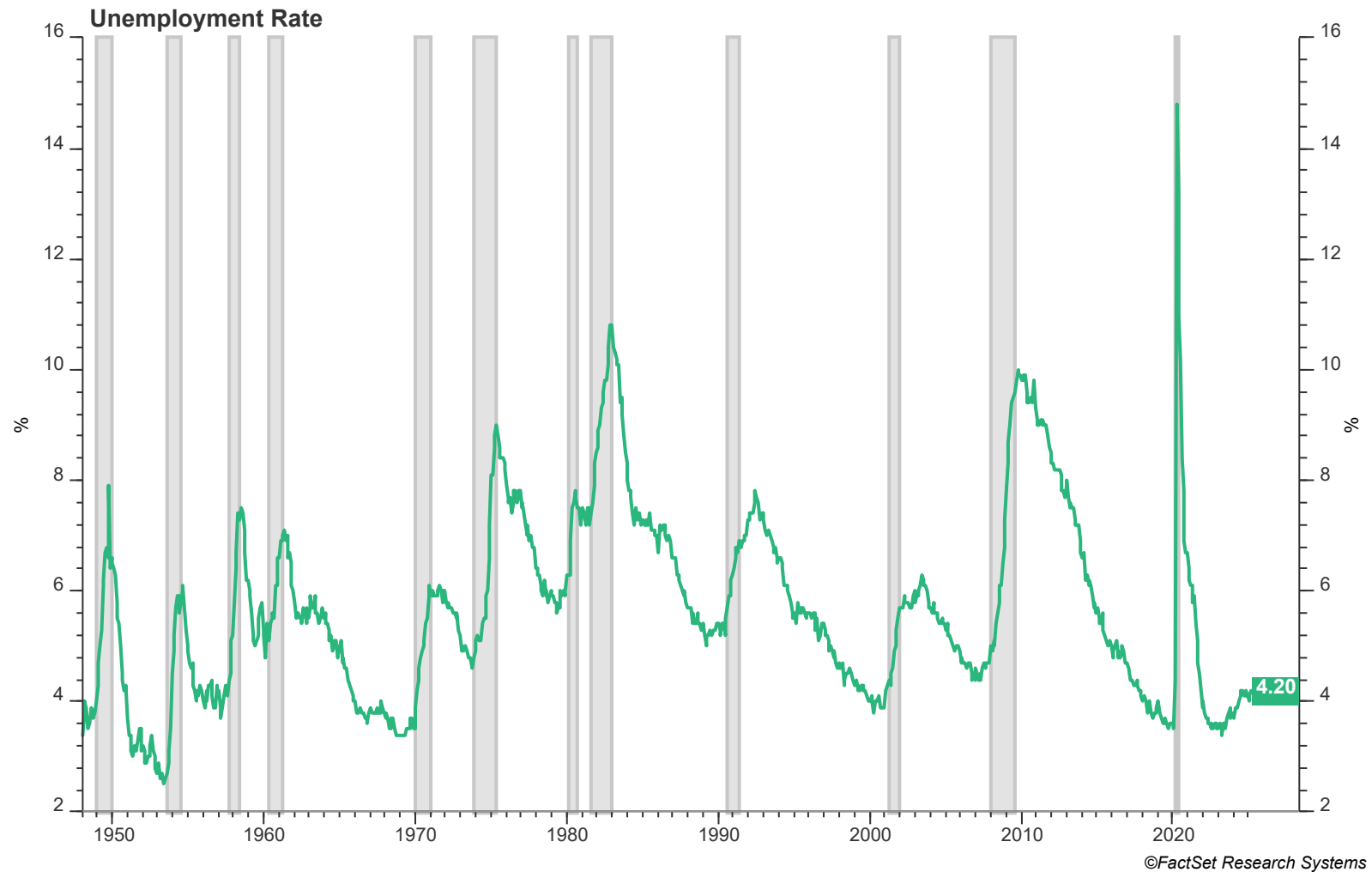
Supply Chain Normalization



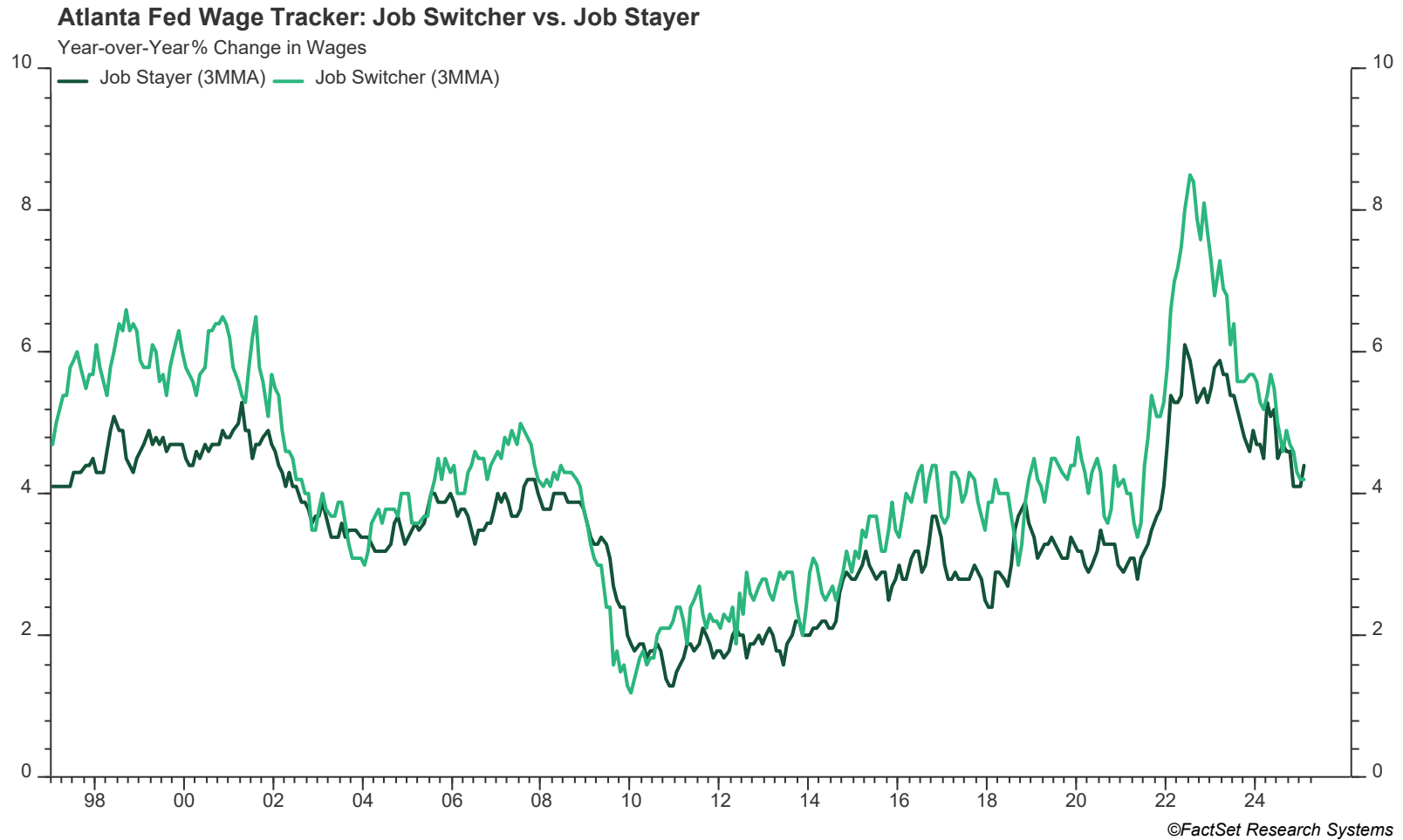
Housing Affordability Has Declined



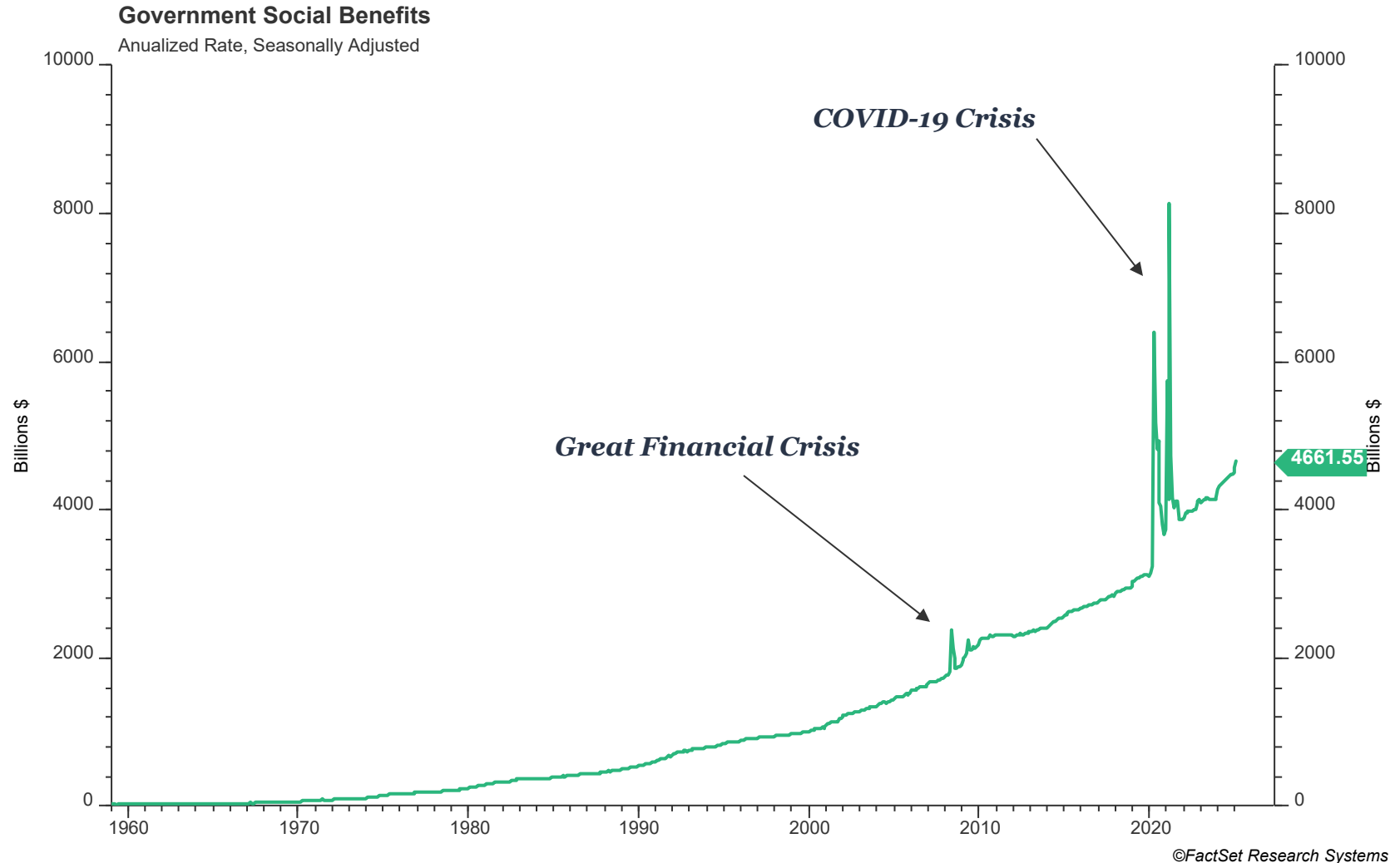
Strong Domestic Labor Market



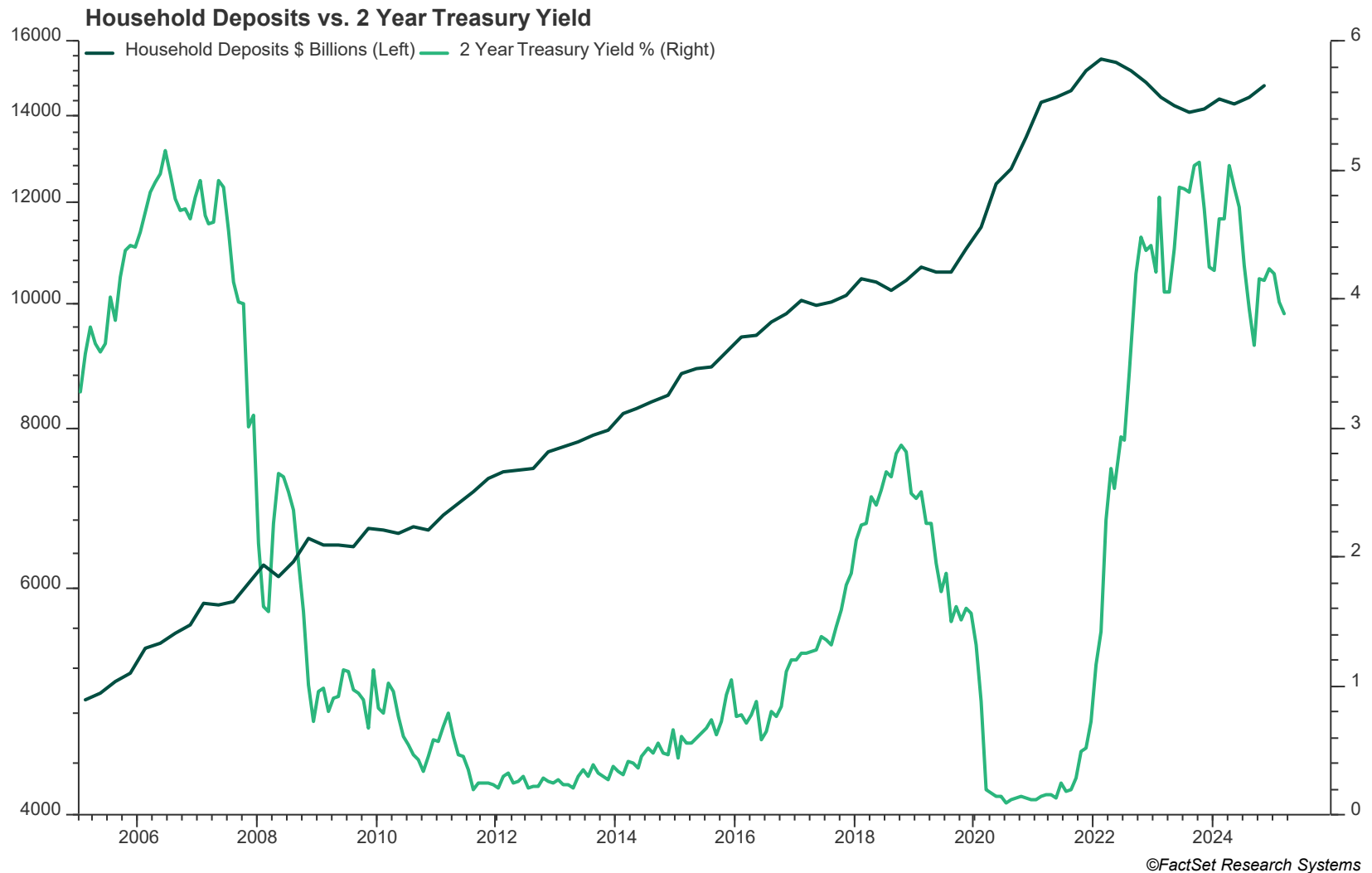
Wage Inflation High but Moderating



Rapid, Large-scale Support for the Economy



Households Hoard Stimulus

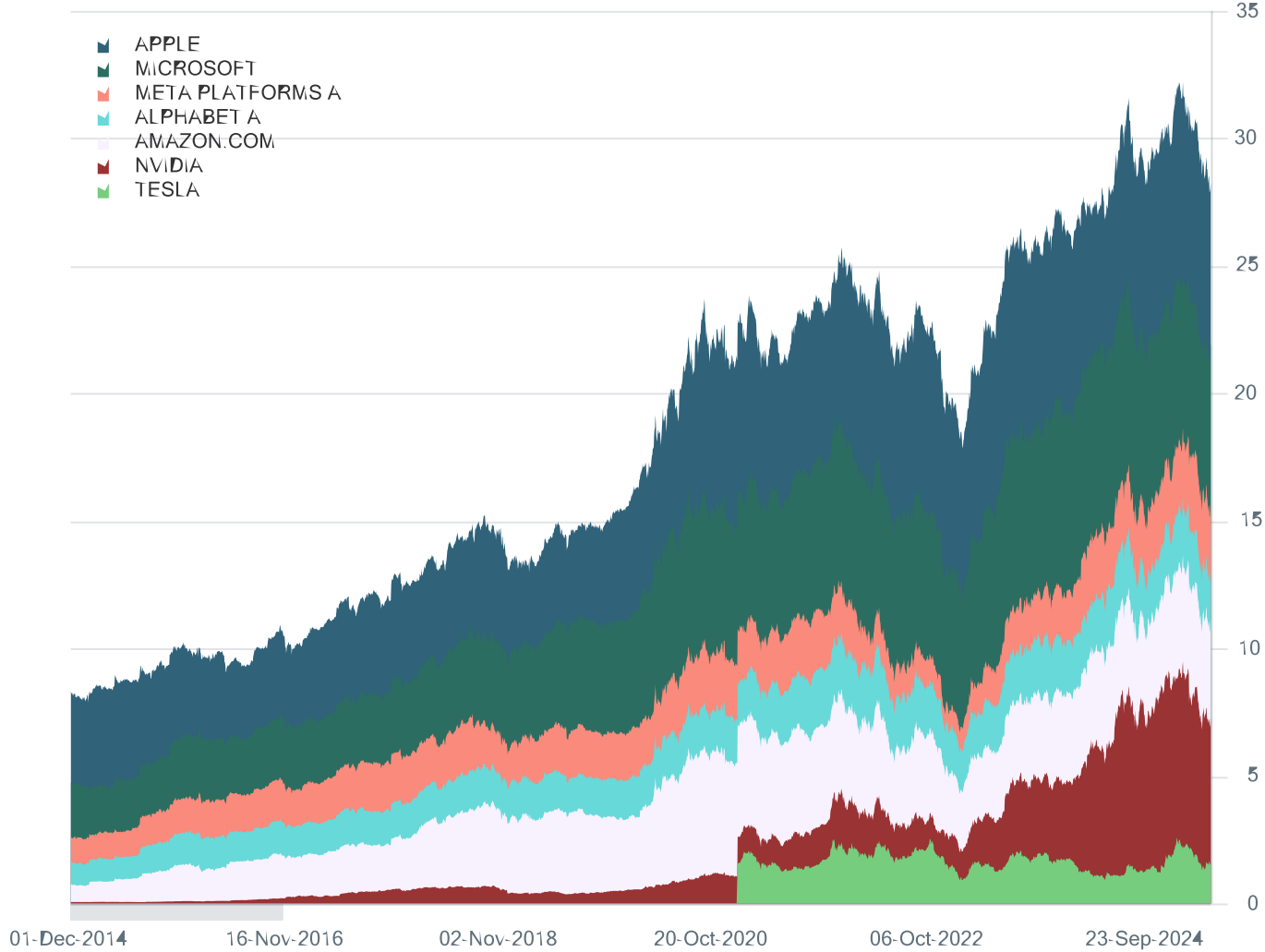


Appendix

Historical Market Concentration

Mag 7 % of S&P 500

01-DEC-2014 to 08-APR-2025



Source: FactSet

31 Years of Market Returns

# of Years Forward	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1	10%	1%	38%	23%	33%	29%	21%	-9%	-12%	-22%	29%	11%	5%	16%	6%	-37%	26%	15%	2%	16%	32%	14%	1%	12%	22%	-4%	31%	18%	29%	-18%	26%
2	6%	18%	30%	28%	31%	25%	5%	-11%	-17%	0%	19%	8%	10%	11%	-18%	-11%	21%	8%	9%	24%	23%	7%	7%	17%	8%	12%	25%	23%	3%	2%	
3	15%	20%	31%	28%	28%	12%	-1%	-15%	-4%	4%	14%	10%	9%	-8%	-6%	-3%	14%	11%	16%	20%	15%	9%	11%	9%	15%	14%	26%	8%	10%		
4	17%	23%	30%	26%	17%	6%	-7%	-5%	-1%	4%	15%	9%	-5%	-1%	-1%	-2%	15%	16%	16%	15%	14%	12%	7%	14%	16%	18%	13%	12%			
5	20%	24%	28%	18%	11%	-1%	-1%	-2%	1%	6%	13%	-2%	0%	2%	0%	2%	18%	15%	13%	15%	16%	8%	12%	15%	18%	9%	16%				
6	22%	24%	24%	13%	4%	4%	1%	-1%	3%	6%	2%	2%	3%	2%	2%	6%	17%	13%	12%	16%	12%	12%	13%	17%	11%	12%					
7	22%	18%	16%	7%	8%	5%	2%	1%	3%	-2%	6%	4%	3%	4%	6%	7%	15%	13%	14%	13%	15%	13%	15%	11%	13%						
8	17%	14%	10%	9%	8%	5%	3%	2%	-3%	2%	7%	4%	4%	7%	7%	7%	14%	14%	11%	15%	15%	15%	10%	13%							
9	14%	9%	12%	10%	8%	6%	4%	-4%	0%	3%	6%	5%	7%	8%	6%	7%	15%	12%	13%	15%	17%	11%	12%								
10	9%	11%	12%	9%	8%	6%	-1%	-1%	1%	3%	7%	7%	8%	7%	7%	8%	13%	14%	14%	17%	13%	12%									
11	11%	11%	11%	10%	8%	1%	1%	0%	1%	4%	9%	8%	7%	8%	8%	7%	15%	14%	15%	13%	14%										
12	11%	11%	12%	9%	3%	3%	2%	1%	3%	6%	10%	7%	7%	9%	7%	9%	15%	15%	12%	14%											
13	10%	11%	11%	5%	5%	4%	2%	2%	5%	7%	9%	8%	9%	8%	9%	10%	16%	12%	13%												
14	11%	11%	7%	6%	6%	4%	3%	4%	5%	6%	9%	9%	8%	9%	9%	11%	13%	13%													
15	10%	6%	8%	7%	5%	4%	5%	4%	5%	7%	10%	8%	9%	10%	11%	9%	14%														
16	7%	8%	8%	6%	6%	6%	5%	4%	5%	8%	9%	9%	10%	11%	9%	10%															
17	8%	8%	8%	7%	7%	6%	5%	5%	6%	7%	10%	10%	11%	9%	10%																
18	8%	8%	9%	8%	8%	6%	5%	5%	6%	8%	11%	11%	9%	10%																	
19	8%	8%	10%	9%	7%	6%	6%	5%	7%	9%	11%	9%	10%																		
20	8%	9%	10%	8%	8%	7%	6%	6%	7%	10%	10%	10%																			
21	9%	9%	9%	8%	8%	7%	7%	7%	8%	8%	11%																				
22	9%	9%	10%	9%	8%	8%	7%	8%	7%	9%																					
23	9%	9%	10%	8%	9%	8%	8%	6%	8%																						
24	9%	10%	9%	9%	9%	9%	7%	7%																							
25	10%	9%	10%	10%	10%	8%	8%																								
26	9%	10%	11%	10%	9%	8%																									
27	10%	10%	11%	9%	9%																										
28	10%	11%	10%	10%																											
29	11%	10%	10%																												
30	10%	10%																													
31	10%																														

Calendar-Year Annualized Forward Returns

For any given year, 1993 – 2023 (X-axis), the chart provides the annualized return after a number of years (Y-axis).

Example: If you invested in the S&P 500 on 1/1/1993, the 5-year annualized return was 20%. The 31-year annualized return was 10%.

Source: Ritholtz Wealth Management, *A Wealth of Common Sense* blog, Sept. 4, 2024