NDS WEALTH ADVISORS

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MARKET REVIEW & OUTLOOK

1st Quarter 2025

The Tempest of Change

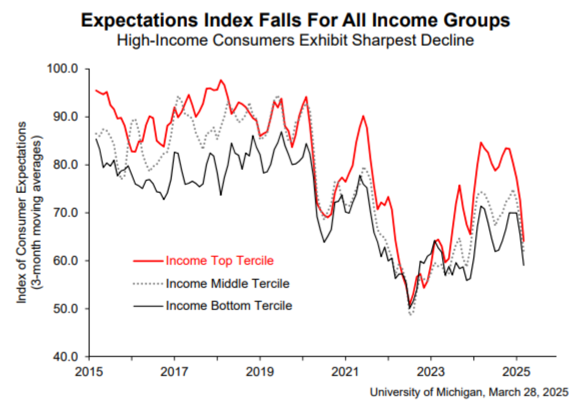
ECONOMY & MARKETS

The Tempest by William Shakespeare tells the story of a shipwreck caused by a fierce storm, orchestrated by Prospero—a powerful and complex figure wielding both fear and hope. Amidst the chaos of the tempest *(sound familiar?)*, the characters face trials, confront their fears, and uncover opportunities for reconciliation and transformation. The storm serves as both a destructive force and a catalyst for growth, leading to resolution and renewal by the play's end.

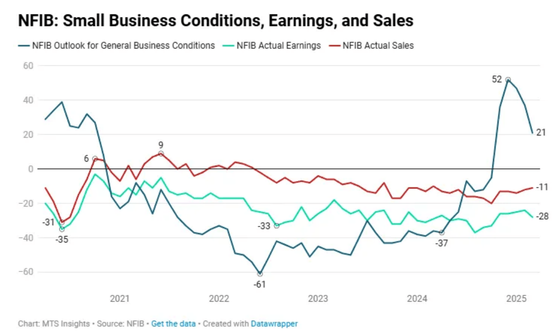
In much the same way, today's volatile markets and global geopolitical tensions feel like a storm engineered by an unpredictable convergence of forces—economic shifts, policy changes *(and then some ...)*, and unforeseen events. Investors, like Prospero's castaways, must navigate the uncertainty, trusting that the turbulence will eventually subside. Though the tempest may shake confidence, it also reminds us of the resilience that leads to new opportunities in the aftermath.

The first quarter of 2025 was the worst quarter for the S&P 500 and the Nasdaq since 2022. For the quarter, the **DJIA** lost 1.4% while the top-heavy **S&P 500** declined 4.6% and suffered its first 10% correction since mid-2023. The **NASDAQ** tumbled 10.4% as tech stocks sold off and the Magnificent 7 stocks fell 15% collectively. Interestingly, the S&P 500 x-Mag 7 stocks posted a modest gain of 0.4%. International markets provided some welcome relief as the **EAFE** Index jumped 6.9% for the quarter. Bonds finally provided investors with a safe haven as bond yields dropped and prices rose in a flight-to-safety move leading the Bloomberg Aggregate **Bond Index** to finish the quarter higher by 2.8%.

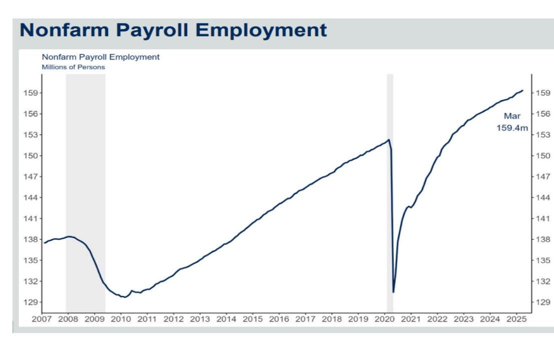
Escalating trade and geopolitical tensions along with economic growth concerns are beginning to show up in economic data points. It is no surprise that consumer sentiment has turned lower for the third consecutive month, as depicted in **The Index of Consumer Expectations** (*see below*). The sharp drop is historically consistent with a slowdown in economic growth.



Along with the consumer, **small business optimism** has deteriorated *(see below)*.

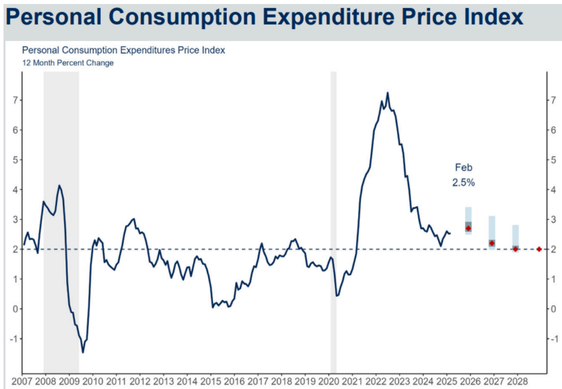


Offsetting weakening sentiment is a **labor market** that remains resilient *(see below)*.



Inflation is OK for now, but ...

A relatively strong labor market along with moderating inflation *(see below)* are admirable, but the upcoming tariffs will likely lead to softening employment and rising inflation.



OUTLOOK

Global Trade War

Bottom Line – When the facts change, we change our outlook … and things have changed a lot recently. The administration's hardline on tariffs has set-off a global trade war. Perhaps tariff rates get negotiated lower, but companies around the world are scrambling to adjust to news that seems to change hourly. Without more certainty, companies will be reluctant to provide forward guidance when they report first quarter earnings in the weeks ahead. Higher input costs will impact company profit margins and earnings and consumers will ultimately pay the price. Slowing economic growth and rising inflation, otherwise known as stagflation, is not a good outcome for the US and global economy. S&P 500 earnings growth for 2025 will likely be only 3%, down from estimates of 12% at the beginning of the year. 2025 GDP estimates for the US are now in the range of plus 0.3%. The deficit-financed consumption had to come to an end at some point.

Growth will slow

According to FactSet, consensus 2025 earnings expectations for the S&P 500 are $277. Given earnings of $277, the S&P 500 is selling for 20.2X forward earnings … decently higher than the 30-year average of 16.9X but lower than the year-end number of 21.5X. We expect consensus earnings numbers to come down considerably as a result of the tariff uncertainty and a potential recession. Speaking of recessions – some investors have begun to wonder whether the recent stock market correction is issuing a warning that a recession is imminent. Perhaps the US will enter a recession this year, but the stock market has not always been a good indicator. As Nobel Lauriate economist Paul Samuelson once said, "the stock market has predicted nine out of the last five recessions". However, the likely result of trade tariffs (unless negotiated materially lower) will increase the odds of a recession considerably. Major Wall Street firms including Goldman Sachs and JP Morgan recently raised the probability of a recession within the next 12 months to 45% and 60%, respectively. Of course, recessions are quite normal in an economic cycle and tend to happen every five years or so as a type of clearing mechanism.

Bond yields should remain range-bound with a slightly upward bias during the quarter as potentially higher inflation from tariffs keeps the Fed on hold at least until their June or July meeting. Given the possibility of a stagflationary environment, we expect to keep bond duration in portfolios in the 4 to 5-year range while focusing on higher quality credits.

Small and mid-cap equities add value to an overall asset allocation strategy; however, we remain underweight given their sensitivity to slower economic growth and tightening credit. We are moderately underweight *international equities.* Their cheap valuations and attractive yields offer reasonable diversification in a portfolio as the recent quarter demonstrates. The S&P 500 trades at a forward P/E of 20.2X while international equities (ACWI ex-US) trade at 13.4X. However, the US tariff threats are surely headwinds to international markets as they are to US markets. *Large-cap domestic equities* - particularly those with higher quality attributes and increasing dividends, remain a core position in client portfolios. Companies with strong balance sheets and cash flow will be able to weather the economic storm that is brewing.

We continue to stress the importance of proper diversification and risk management. We suggest that investors maintain a fully diversified portfolio consistent with one's longer-term objectives and risk tolerance.

This economic storm will end … they always do. As always, we remain available.

Best wishes for a Happy Spring!

We Welcome R. Parker Moffett, CIMA® to NDS Wealth Advisors!

Welcome!

We are excited to announce that Parker Moffett has joined NDS Wealth Advisors as a Senior Investment Advisor. With an extensive background in the investment management industry, Parker brings a richly diverse perspective to his role. Before his tenure at NDS, he successfully founded and led an independent Registered Investment Advisory practice. This followed a distinguished 15-year career at Capital Group, home of American Funds.

Parker earned his undergraduate degree in Economics from the University of California, San Diego, and his MBA from the Peter F. Drucker School of Management in Claremont, California. His commitment to continuous professional development is underscored by additional studies at Cambridge University and Carnegie Mellon. Parker holds the Certified Investment Management Analyst, CIMA®, designation. The CIMA designation is an advanced professional certification for finance professionals who integrate complex investment knowledge with practical application to serve individual and institutional investors. It is recognized as the global standard for investment consulting and wealth management credentials, particularly in the areas of asset allocation, manager search and selection, due diligence, risk management, and performance measurement.

Parker resides on the East Side of Providence, Rhode Island with his wife, Erin, and their five children.

Resilience of Long-Term Investing: Fewer Losses Over Time

Investing for the long run has historically proven to be remarkably resilient. While stocks can be volatile in the short term, the probability of experiencing a negative return falls dramatically as your holding period lengthens. Over the past ~50 years, the U.S. stock market (S&P 500 Total Return) has been positive about 80% of the time (4 out of 5 periods) on a one-year basis This is using a rolling return basis, meaning all 12-month periods, not just 50 calendar periods.

Extend the horizon, and the odds of loss shrink substantially: only 16% of all 3-year periods were negative, and losses became even rarer over 5-year spans (only ~8% of 5-year periods showed a negative return). In 10-year rolling periods, negative results were extremely uncommon (only ~3%), and over 20-year periods there were virtually no instances of a loss (0%). This illustrates that the longer you stay invested, the greater the likelihood of a positive outcome.

Diversification Works

Approximate % of Periods With Negative Total Return		
Rolling Period	**S&P 500**	**60/40 Portfolio**
1-Year	~20% (about 1 in 5)	~19% (roughly 1 in 5)
3-Year	~16%	<5% (extremely rare)
5-Year	~8%	0% (none in last 50+ yrs)
10-Year	~3%	0% (none on record)
20-Year	0%	0% (never observed)

Importantly, a diversified 60/40 portfolio (60% S&P 500 / 40% U.S. Aggregate Bonds, rebalanced annually) has shown even more resilience. Even though a 60/40 mix will still have occasional down years (see 2022!), adding bonds has historically softened the blows. For example, since 1976 (when comprehensive bond index data begins), a 60/40 portfolio experienced negative one-year returns in about 9 out of 47 years (~19% of the time) – slightly better than stocks alone. Multi-year losses have been extremely scarce for the 60/40 fund. Apart from a rare downturn in the early 2000s, there have been essentially no 3-year or longer rolling periods where a 60/40 portfolio lost money in the last half-century. In fact, not a single 5-year period since the 1970s has ended with a negative total return for a 60/40 allocation, and no 10-year period on record has ever seen the 60/40 portfolio lose value. Even the worst 20-year outcomes for the 60/40 portfolio were still modest positive gains (annualized returns in the +3% range in the most challenging eras).

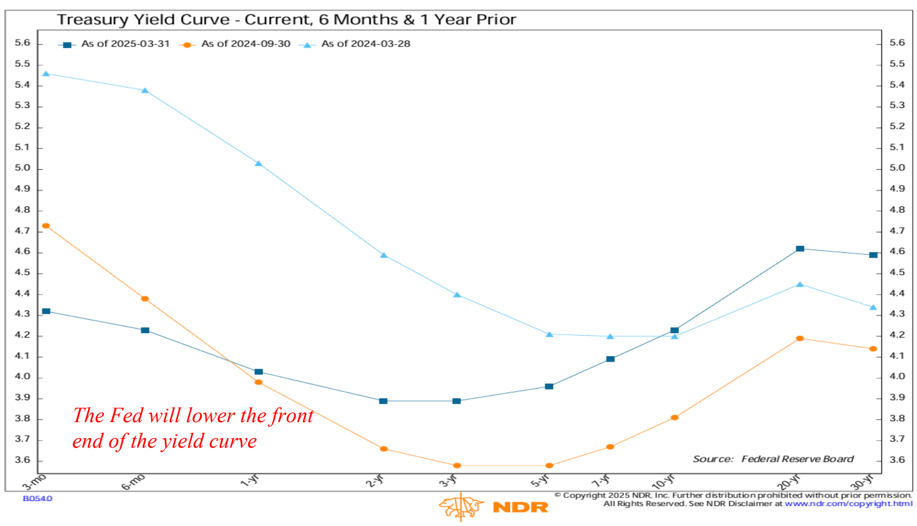
1st QUARTER 2025 SCOREBOARD

Index	Close	1st Quarter % Change	Year-to-Date % Change
DJIA	42001.8	-1.3	-1.3
S&P 500	5611.8	-4.6	-4.6
NASDAQ	17299.3	-10.4	-10.4
Russell 2000	2011.9	-9.8	-9.8
MSCI EAFE	2400.8	6.1	6.1

3 Month T-Bill	4.20%	Fed Funds Rate	4.25% - 4.50%
5 Year T-Note	3.98%	Prime Rate	7.50%
10 Year T-Note	4.25%	Gold	$3122.80
30 Year T-Note	4.61%	Oil	$71.48

Index returns are price only

Bonds provided a bit of safety in Q1



The entire yield curve moved lower in Q1

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Newman Dignan & Sheerar, Inc.; d/b/a NDS Wealth Advisors ("NDS"), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from NDS. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. NDS is neither a law firm, nor a certified public accounting firm, and no portion of the newsletter content should be construed as legal or accounting advice. A copy of NDS's current written disclosure Brochure discussing our advisory services and fees is available upon request or at www.newmandignan.com. Please Note: If you are a NDS client, please remember to contact NDS, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. NDS shall continue to rely on the accuracy of information that you have provided. Please Note: If you are a NDS client, please advise us if you have not been receiving account statements (at least quarterly) from the account custodian.

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