

First Quarter 2025 Letter



Figure 1 – S&P 500



Figure 2 – U.S. 10-Year Treasury Yield

Enclosed is a copy of BWM's Privacy Policy, which we must share with clients annually. In addition, SEC regulations require that we provide a copy of our Form ADV Part 2 upon request, and that we notify clients of any material changes. In our most recent update we disclosed the following material change:

December 31, 2024: Effective March 31st, 2025, Bernard Wealth Management Corp. will no longer be involved with Proxy Voting for the securities we hold. The effort and resources needed to effectively administer a proxy program in compliance with federal regulations is not justifiable to our clients. Our positions are not large enough to justify voting proxies and our clients would benefit from those resources being dedicated to their financial plans and portfolio management. If any clients would like to resume proxy voting on their own behalf, BWM will happily administer those updates to their Schwab accounts.

If you wish to receive a copy, please contact us at (248) 556-2900 or ken@bernard-wealth.com, or visit www.bernard-wealth.com/compliance.

Market Recap

Stocks rose in the first half of the quarter in a continuation of the post-election rally. Investors were generally optimistic about the potential for deregulation and tax cuts. The rally stalled mid-February as confusion over the Trump administration's plans, particularly with respect to tariffs on imports, led to profit taking. The ensuing selloff wiped out all gains in U.S. indices since the November election, while consumer confidence plunged. The threat of tariffs has raised concerns about future inflation, possible recession and stagflation. On April 2nd, President Trump announced tariffs on imports from almost all countries. The tariffs were much higher than expected, throwing stocks into a further steep selloff. At the end of trading on April 4th, the tech-heavy Nasdaq had officially entered bear market territory, down more than 20% from its recent high.

U.S. stock indexes fell in the first quarter of 2025 as policy uncertainty from Washington weighed on investor sentiment. The large cap S&P 500 (**Figure 1 – S&P 500**) lost 4.3% in its worst quarter since 2022. Smaller stocks fared worse, with the S&P Midcap -6.1% and the Russell 2000 Small Cap -9.5%. Value stocks (+0.3%) held up better than growth (-8.5%), as investors reduced positions in last year's big tech leaders. In a reversal of the previous quarter's trading, international indices posted broad gains. MSCI's Europe, Australia & Far East index rose 6.9%, led by strong results in Europe. Emerging markets also performed well (+2.9%). Bond prices generally rose, boosted by a decline in intermediate Treasury yields (**Figure 2 – U.S. 10-Year Treasury Yield**).

In the fourth quarter, earnings at S&P 500 companies grew 13.8% on 5.5% revenue growth, an acceleration from the prior quarter's +8.4%, and solidly higher than the 7.4% growth forecast before earnings season began. 80% of companies beat expectations, a solid improvement over the prior quarter's result of 73.9%, and a sign that earnings growth may be broadening. The technology sector again delivered very strong earnings (+26.2%) while energy was among the weakest sectors (-22.4%). Earnings for the first quarter are now expected to grow 5.9% on 3.7% higher revenues. However, given this week's tariff shock, all focus will be on company guidance for the 2nd quarter and the coming year.

Economic Perspective

U.S. gross domestic product (GDP) grew 2.4% in the fourth quarter of 2024, slowing from 3.1% growth in prior quarter. Consumer spending, the majority of our economy, remained strong. Forecasts for the 1st quarter of 2025 have been steadily reduced, with economists now expecting tepid growth of 0.3%. This decline in expected growth was supported by purchasing manager surveys, which weakened as it became clearer that tariffs would be part of the administration's long-term plans, and not just a negotiation tactic. Manufacturing signaled expansion in January and February but fell back into contraction in March. Similarly, readings in the larger services sector dropped in March after two months of modest growth. The housing sector showed some signs of stability. New housing starts and permits continued at a similar rate to the prior quarter. Existing home sales bounced back in February after a slow January, as more buyers entered the market.

The economy added new jobs every month in the first quarter. In March, 228,000 jobs were added, marking 51 consecutive months of job growth, the second longest expansion on record. The unemployment rate ticked up from 4.1% to 4.2%, as more job seekers entered the labor force. Wage growth of 3.8% was also slightly slower than the 3.9% logged in February but still represented solid gains for households. These numbers apparently do not yet reflect the potential impact from job cuts at the federal level, which may weigh on the unemployment rate in the future. In addition, hiring plans may be on hold as companies attempt to assess the impact of the new tariff regime. Employment is often a trailing indicator of economic conditions. It may look good as the economy weakens, and terrible when growth improves.

In a repeat of last quarter's letter, inflation is still higher than the Federal Reserve's long-term target of 2%. The consumer price index (CPI) rose 2.8% in February, slightly lower than January's reading of 3.0%. The Federal Reserve has held off on additional interest rate cuts while the CPI has remained elevated. Last week's tariff announcement will probably not help, as it will almost certainly raise prices for many goods and services. The Federal Reserve will be left with a difficult decision. Should they wait for inflation to slow or cut interest rates in anticipation of declining demand and growth? Consumers are facing a similar dilemma. Should they make large purchases now before potential prices increase or hold savings that may be needed if the economy slows significantly?

Looking Ahead

The past month's market declines have been sharp and for many, painful. Markets are signaling slowing in the global economy, including the U.S., and volatility, which has spiked higher, (**Figure 4 – Volatility Index (VIX)**) may continue to plague investors. At the same time, our economy has a strong history of rebounding and resuming growth. Times of extreme pessimism are often buying opportunities. The Franklin Templeton Institute reported that when the Volatility Index rises above 30, the average 12 month return for the S&P 500 is 21.59%. In a similar vein, the American Institute for Individual Investors reported yesterday that their sentiment survey reached the third most negative reading in its 38 years of existence. The S&P 500 index realized a six-month gain of 25.6% following the October 19, 1990, negative sentiment reading of 67.0%. It rebounded 56.9% following the March 5, 2009, bearish sentiment reading of 70.3%.

We realize that historical data may be cold comfort for investors worried about their portfolios today. We'll be contacting you to discuss your investments and financial situation. At the same time, we'll be rebalancing accounts to take advantage of lower stock prices and to ensure sufficient liquidity for your spending needs. And we'll be researching opportunities among companies that may benefit from the current situation. The biggest losers were among last year's winners (**Figure 3 – Technology Sector**), underscoring the value of diversification in smoothing portfolio returns. For those with taxable accounts, we'll also be harvesting tax losses, which can be used to reduce future tax liabilities.



Figure 3 – Technology Sector

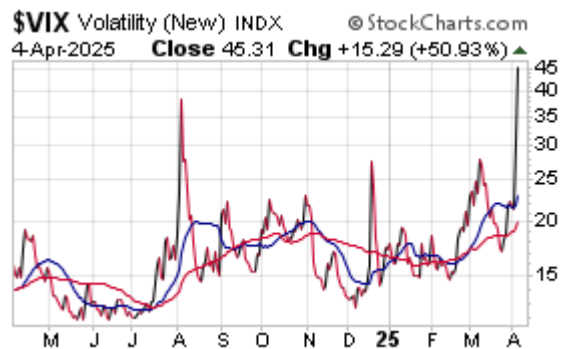


Figure 4 – Volatility Index (VIX)

We hope, through this rough market, that you're enjoying spring weather. And as always, we look forward to speaking with you soon.

Best regards,

Kenneth M. Bernard

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