

Investment and Economic Update First Quarter 2025



Following an awful first quarter that saw negative returns across the board, the U.S. investment markets staged a remarkable comeback, banishing (for the moment) worries about the risk of a recession, a slowdown in consumer spending and the uncertainty over trade wars and tariffs. The markets flirted with a bear market and then produced a series of remarkable gains.

A breakdown shows that just about every U.S. investment category experienced double-digit quarterly gains. The widely quoted S&P 500 index of large company stocks gained 10.57% in the second quarter, to bring investors back to a 5.50% year-to-date gain. As measured by the Russell 2000 Small-Cap Index, investors in smaller companies are sitting on a 2.47% decline for the year so far, which represents a promising recovery. The technology-heavy Nasdaq Composite Index dropped 10.42% during the first quarter of 2025 but has since rebounded, posting a 5.48% gain for the first half of the year.

Despite the domestic recovery, foreign markets are still outpacing the U.S. equity scene. The broad-based EAFE index of companies in developed foreign economies gained 10.58%, in dollar terms, in the second quarter of 2025, now delivering a robust 17.37% return for the first half of the year. In aggregate, European stocks are up 20.67% so far this year, while EAFE's Far East Index gained 11.51%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 11.02% in dollar terms in the recent quarter, posting a 13.70% gain for the first half of 2025.

In the bond markets, we are still experiencing an unusual yield inversion, where yields on Treasuries of 3-month (4.30%) and 6-month (4.23%) duration are higher than they are for 1-year (3.95%) and 5-year (3.78%) Treasuries. 30-year government bonds are holding steady at 4.75%; 10-year maturities are yielding 4.21%. Five-year municipal bonds are yielding 2.72% in aggregate, while 30-year municipal bonds are yielding 4.52%.

What changed from one quarter to the next? The difference seems to be largely psychological; the first quarter financial press was dominated by discouraging predictions of tariff-induced inflation, layoffs and a recession. The three-month pause and promise of reciprocal negotiations brought attention back to the economic facts on the ground: that the unemployment rate has remained low (the most recent jobs report showed an increase of 147,000 jobs added in June, vs. expectations of 106,000) and so has the inflation rate (2.4% per the latest report).

Overall, corporate earnings are still strong, but the traditional measure of consumer confidence continues to decline, which might signal a decline in spending that hasn't shown up statistically yet. The Conference Board's latest consumer confidence index fell from 98.4 in May to 93.0 in June; more worrisome, the less-publicized Expectations Index, which measures consumers' short-term outlook for income, business and the labor markets, now stands at 69.0. Any number under 80 is considered a recession signal.

Perhaps the biggest change between last quarter and this one has been the change in narrative. While the first quarter was all about the specter of unprecedented tariffs, the news this quarter has mostly been about the new tax bill. With the July 9 deadline now behind us and the possibility of reinstating major trade measures deferred to August 1, the conversation will likely shift back to concerns over the unpredictability tied to this evolving trade policy.

There's a sense among investors that the press has cried 'wolf' one too many times, with economists offering quotes to the effect that we are about to experience inflation, a recession, layoffs and worse. When those expectations didn't materialize, traders returned to their typical activity. But those predictions were based on a high tariff regime, which may or may not kick in August 1 and thereafter, depending on whether more countries come to the negotiating table. Meanwhile, many U.S. companies have taken advantage of the 90-day moratorium to pre-order inventory and speed up their supply chains. The impact of trade policy may not be felt until later in the year, further discrediting the economic predictions.

The honest truth is that we don't know what's going to happen. It would have been logical for investors to flee the investment markets based on the gloomy first quarter returns; who could know that the downturn would be followed by a greater upturn?

Once again, it was the patient investors—those who tuned out the noise and stayed the course through market volatility—who saw the strongest results. It brings to mind the well-known paraphrase of Winston Churchill's remark about democracy being the worst system, except for all the others. The same could be said for investing: buy and hold, paired with the humility to accept the limits of our foresight, may feel imperfect—but it continues to outperform the alternatives.

Below, we have summarized some of the widely quoted indexes for your reference. As a reminder the challenge is, the DJIA is not the same as the S&P 500, which is not the same as the NASDAQ – and none of these indexes perfectly match your own distinct mix of assets and their expected returns, especially if you own a globally diversified portfolio with exposure to stocks and bonds, large and small companies, value and growth companies, and U.S. and non-U.S. based companies. The following returns are quarter year-to-date, and a rolling one year; respectively:

S&P 500: 10.57%, 5.50%, 13.33%

Dow Jones: 4.98, 3.64, 12.57%

NASDAQ Composite: 17.75%, 5.48%, 13.93%

Russell 2000 (Small-Cap): 8.11%, -2.47%, 7.14%

MSCI EAFE (International): 10.58%, 17.37%, 14.70%

Barclay's Capital US Aggregate Bond: 1.21%, 4.02%, 6.69%

Please remember that past performance is not 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 made reference to directly or indirectly in this economic update, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, 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 update serves as the receipt of, or as a substitute for, personalized investment advice from Allos Investment Advisors®, LLC. To the extent that a reader is not a client of Allos Investment Advisors®, LLC and has 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. For our clients, please remember to contact Allos Investment Advisors®, LLC 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. A copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.