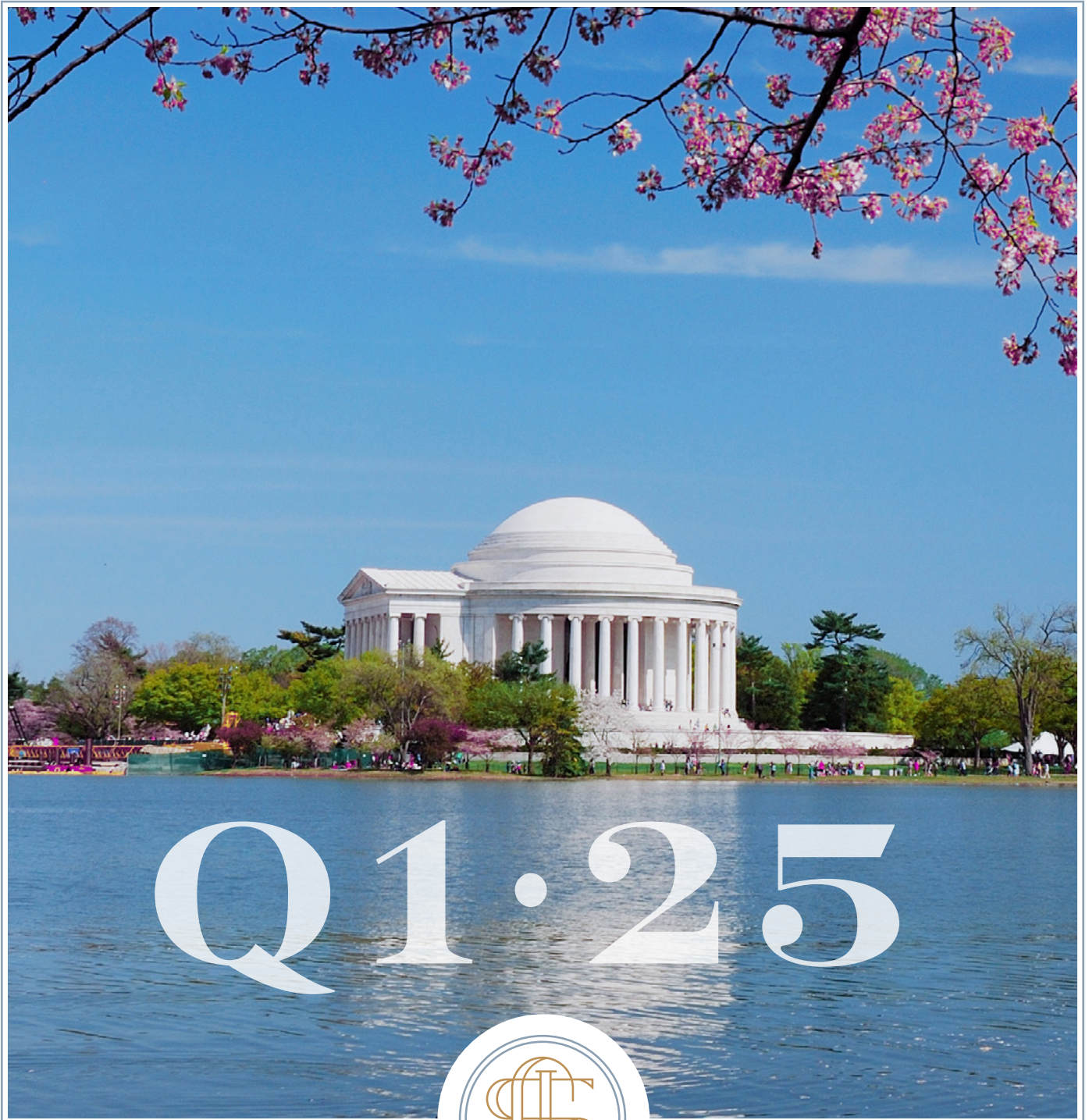


QUARTERLY MARKET REVIEW

FIRST QUARTER 2025



Q1.25



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APRIL 16, 2025

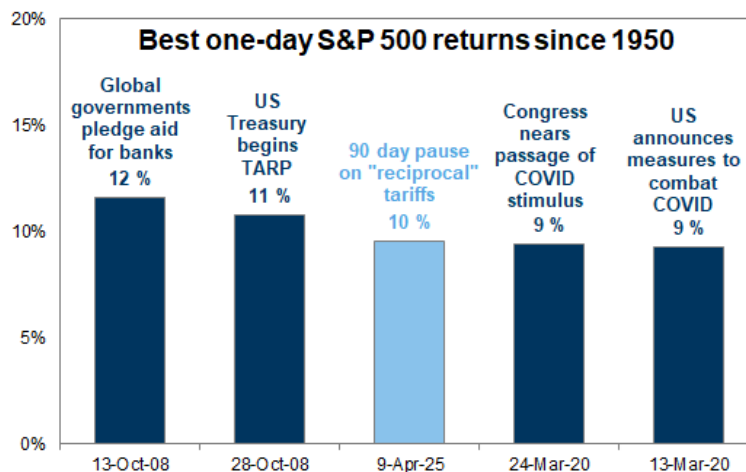
Dear Investors,

To state the first quarter of 2025 was extraordinary feels like an understatement. The inauguration of Donald Trump to his second term ushered in a wave of policy shifts—most notably on trade—that took Wall Street by surprise. The broad-based tariff increases aimed at narrowing trade deficits and raising revenue unsettled markets. While investors had initially focused on the potential benefits of tax cuts and deregulation, concerns quickly shifted toward the risk of slowing economic growth. Much like during Trump's first term, the result was a period of heightened stock market volatility.

The first six weeks of this year saw stocks race to new heights, only to reverse course in the following six weeks. After rallying 4.5% to start the quarter, the S&P 500 Index's year-to-date return was down 4.6% by the end. For the month of March, the S&P 500 was off 5.63%, while the Bloomberg Barclays U.S. Aggregate Bond Index ("Agg") was positive 0.04%, bringing the YTD number on the Agg to a positive 2.78%.ⁱ

Following the initial tariff announcement, most of the affected nations reached out to the White House to engage in trade negotiations, according to the U.S. Trade Representative's office. To say the least, this episode has been a test of investors' resolve and is a clear reminder of why we stay focused on long-term fundamentals.

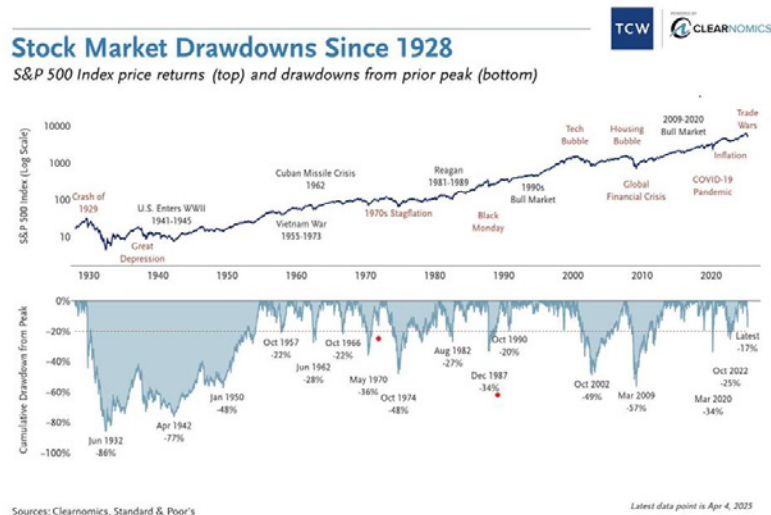
On Thursday, April 3, we circulated a market update note in response to the initial tariffs announced by the Trump administration on what was dubbed "Liberation Day." The measures were far more significant than expected. Our core message was to remain patient amid the unrest and uncertainty. We highlighted the historical impact of missing a handful of the market's best performing days – many of which typically occur close to the worst-performing ones. Case in point: following a 6% drop on Friday, April 4, the S&P 500 posted its third best daily return since 1950 just three days later, on Wednesday, April 9 (see the chart below for context).ⁱⁱ



Source: Goldman Sachs Global Investment Research

Flood, John. Continued Volatility. Best one-day S&P500 returns since 1950. Goldman Sachs Global Banking and Markets. 13 April 2025.ⁱⁱⁱ

The key takeaway is to remain patient and focused on fundamentals during periods of heightened volatility and strive to stay unemotional—even when conditions feel especially challenging. These scenarios tend to follow a familiar pattern: volatility spikes, triggering a market selloff; in response, policymakers and central banks take notice; new details begin to emerge; markets experience sharp swings as investors interpret developments. As efforts to address the underlying issues gain traction, confidence among businesses and consumers typically rebounds, supporting increased spending and broader economic growth. This renewed optimism usually sets the stage for capital to flow back into stocks and bonds, helping financial markets stabilize. The chart below from financial data provider Clearnomics illustrates the point well, showing nearly a century of S&P 500 drawdowns and the resilience that followed each period of volatility going back to 1928.^{iv}



- This chart documents historical drawdowns for the S&P 500 since the Great Depression.
- It highlights that the market has experienced many downturns over the past century, but has also recovered.
- This historical perspective is important for investors in times of volatility.

TCW Clearnomics. Special Webinar: Tariffs and the Market Pullback. Stock Market Drawdowns Since 1928. 7 April 2025.

Wall Street constantly tries to anticipate where the economy will be 8 to 12 months ahead. That’s why, when concerns arise that current events could dampen future demand and hurt corporate earnings, some investors begin to sell in anticipation of an earnings reset. Recently, the initial announcement of tariffs led to greater uncertainty about the global economy, including calls for a recession. Economists at brokerage firms JPMorgan and Goldman Sachs both raised the potential for such a scenario to play out in the second half of this year.

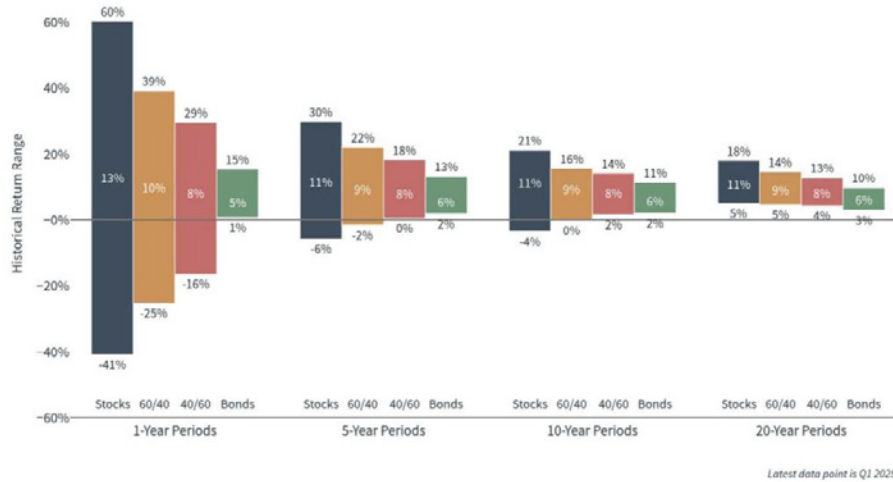
However, the same forward-looking behavior works in reverse. To the point, the stock market historically bottomed roughly nine months before corporate earnings hit their lows.

Consider what happened during the COVID-19 pandemic in 2020: the S&P 500 peaked at the end of 2019, but the first decline in earnings wasn’t seen until the end of Q1 2020. At the same time, the first quarter also marked the low point from a price perspective. It wasn’t until the end of 2020 that reported earnings finally stopped declining. As we can see in the return profiles below, this is again why we as investors, not traders, must remain focused on fundamentals and maintain a long-term time horizon.^v

Based on the way financial markets tend to react in times of stress, we appear to be moving on to the second phase of the typical stress cycle. After the initial drop, government officials are already responding. The White House has announced a 90-day reciprocal tariff pause and signaled a willingness to negotiate. Federal Reserve Chair Jerome Powell also indicated the Fed is prepared to support the economy should growth slow or job losses increase. The shift caused Goldman Sachs to lower its recession expectation.

Historical Stock and Bond Return Ranges

S&P Composite, 10-year Treasury bonds, and asset allocation historical estimates
Min, max, and average annual total returns over each time horizon since World War II



TCW Clearnomics. Market and Economic Chartbook. Historical Stock and Bond Returns. 7 April 2025.

Looking at earnings expectations, we can already see some sectors, as well as a number of management teams, that are pricing in a recessionary environment. But the severity and duration of an economic downturn can be difficult to predict. Considering our global trading partners are already in discussions to resolve trade differences, the current situation has the potential to turn on a dime. And, based on a potential rebound in the stock market, investors may be ready to pounce at the first sign of a resolution.

As history has shown, we must avoid letting emotional topics like political policy dictate our investing strategies. Policy can change in an instant on a shift of opinions, and historically it has not been a reliable driver of long-term investment success. Instead, we remain focused on your long-term strategic risk allocation and not diverting during periods of short-term volatility.

As always, we appreciate the trust and confidence that you place in us.

Sincerely,

Your Sargent Investment Group Team

ⁱ Orion Advisor Solutions. *Blended Benchmark Performance*. 31 March 2025.

ⁱⁱ YCharts. *After the Storm: How Active Bond ETFs Weathered Recent Volatility*. 14 April 2025.

ⁱⁱⁱ Flood, John. *Continued Volatility. Best one-day S&P500 returns since 1950*. Goldman Sachs Global Banking and Markets. 13 April 2025

^{iv} TCW Clearnomics. *Special Webinar: Tariffs and the Market Pullback. Stock Market Drawdowns Since 1928*. 7 April 2025.

^v TCW Clearnomics. *Market and Economic Chartbook. Historical Stock and Bond Returns*. 7 April 2025.

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