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"NO PAIN, NO GAIN"

Over the past year or two the stock market had a robust rally that we would describe as moving five steps higher. This year we expect the stock market to be moving slower with more volatility than last year, while gradually grinding higher. We believe this because the US economy is healthy and the US Federal Reserve is hoping to gradually lower interest rates this year. We realize this is dependent upon inflation, gradually moving towards the 2% range. When you have a big upward move in the stock market like we had in 2024, stock prices can become stretched versus earnings. Over the past few weeks, due to the uncertainty that has been caused by the new administration's trade negotiations and the Federal government downsizing, the stock market has had a pull back. The stock market decline is enabling the ratio of stock prices versus earnings (known as the P/E ratio) to become more attractive for investors, which may ultimately lead to higher stock prices in the future.

In February, the 10 year average P/E ratio of the S&P 500 stock index was around 20. As of March 13 2025, the S&P 500 stock index P/E ratio was around 26.3. A big reason for the higher current PE ratio has been the dominance of a handful of mega cap technology stocks. Over the past decade, these stocks have accounted for a disproportionate share of stock market returns. Should you have some exposure to these stocks in your portfolio? We believe the answer is yes, depending on your risk tolerance and investment objectives. A more important consideration may be – what percentage of your portfolio should you have allocated to these companies? These companies are the most profitable and they have solid balance sheets. The prudent answer is to be diversified and to have an exposure to these companies that you are comfortable with. Financial analysts have been whispering over the past year or so that PE ratios are significantly lower for U.S. Midcap and International stocks. In moderation, these stock asset classes can provide a hedge against being concentrated in US large technology companies.

The following is commentary from Janet Brown, President of One Capital Management, LLC from the March edition of the *Bottom Line Personal*. The bull market is likely to continue through early 2025, but after two years of double-digit gains and new record highs investor should expect plenty of turmoil. She sees powerful catalysts for economic and corporate profit growth in the new Trump administration. At the same time, the risk of higher inflation, trade wars and stretched stock valuations means heightened volatility.

Janet cited **six key trends** that she feels may enable investors to be best positioned to **find opportunities and protect their portfolios**.

1 FINANCIAL SERVICES STOCKS COULD BOUNCE BACK. This sector was up nearly 30% in 2024, much of that gain since the November presidential election the stocks would benefit from Trump administration policies, such as deregulation and a more favorable environment for murders and acquisitions.

2 US CONSUMERS ARE LIKELY TO MAINTAIN HEAVY SPENDING. Aggregate household balance sheets remain robust. Rising labor incomes plus a strong wealth effect from record highs in stock and home prices will continue to support consumer discretionary spending this year. The GOP election sweep also means that the 2017 tax cuts and jobs act will likely be extended in full.

3 TECHNOLOGY STOCKS CAN STILL DOMINATE. Artificial intelligence is still in its early innings, and tech firms are best positioned to continue to capture this opportunity. The digital economy is expected to rise 6 to 9% annually through 2028 – a much faster pace than overall US economic growth. On the other hand, tariffs on imports from some countries like China and Mexico could disrupt global supply chains, affecting the tech sectors access to essential components.

4 GROWTH SHOULD OUTPERFORM VALUE. Growth stocks in the S&P 500 index returned about 35% in 2024 versus 10% for their value counterparts. Several analysts suggest this momentum of rising productivity, improving corporate earnings, lowering corporate taxes, and cutting interest rates by the federal reserve, can help growth stocks by supporting higher stock valuations. But because valuations are stretched now, there may be a shift to higher quality companies that offer less speculative, more sustainable growth.

5 MIDCAPS COULD OUTPERFORM. The stock market rally will continue to rally amongst a handful of mega cap tech firms. Midcap stocks present a unique risk return profile that combines the growth potential of small caps with the stability of large caps. Midcaps also look attractive because they're evaluations are 20% less than large caps.

6 INFLATION REMAINS STICKY. The US inflation rate was 2.9% for the 12-month period ending in December 2024. The Federal Reserve is unlikely to reach its target rate of 2% because potential US trade tariffs and rising Federal budget deficits support higher inflation. Cautious investors can consider investments that temper expected stock market pullbacks and selloffs.

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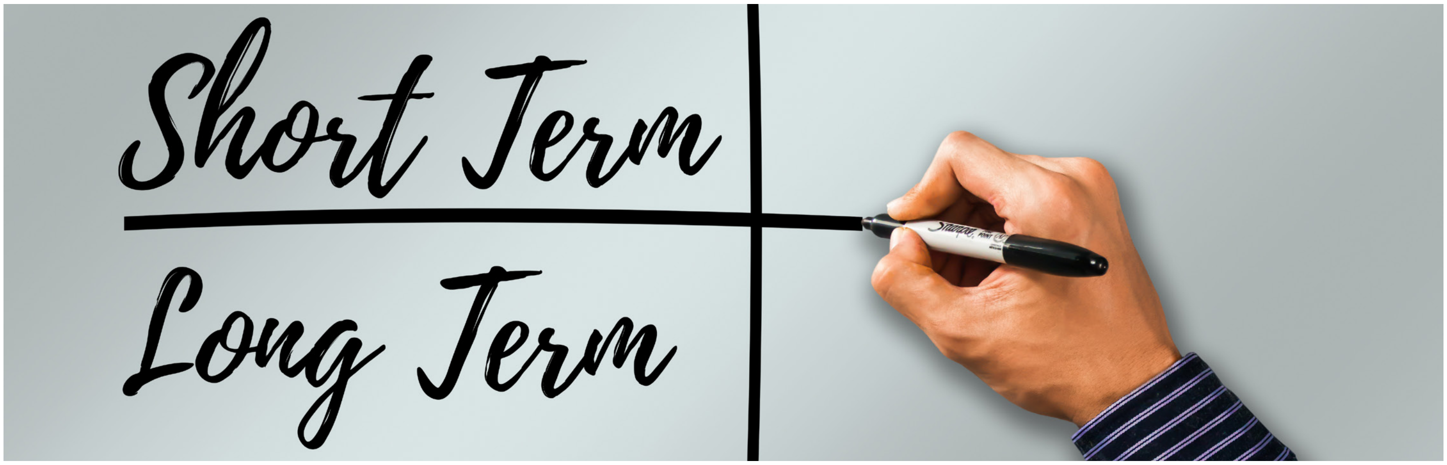

The Following is investment commentary from T Rowe Price Investments "*Key Insights*" March 2025:

The S&P 500 has fallen nearly 9% from its February highs, with the technology-heavy Nasdaq officially in correction territory, while markets outside the U.S. continue to outperform.

• Trade tensions and economic uncertainty are fueling a broad equity sell-off, impacting investor sentiment and stock valuations.

• Investors face a "transition period" as the administration signals willingness to endure short-term economic pain for long-term goals.

• Market volatility may persist, but central banks could stabilize growth, creating opportunities in bonds and risk hedges.

RISING UNCERTAINTY ON "TRANSITION PERIOD"

• What started with a decline in expensive tech stocks has given way to a broad-based equity sell-off as the looming threat of extended trade wars and softer economic data has stoked fears of recession.

• While it seemed investors had largely believed tariffs would be used as an initial tool to bring trading partners to the table and reach agreements to satisfy U.S. demands, recent comments by the administration signaling that they are willing to experience short-term economic pain in the pursuit of longer-term goals has rattled investors trying to adjust to this "transition period."

• Elevated stock market valuations, notably in the U.S. are being questioned, while at the same time, economic activity, both consumer and corporate are showing signs of softening, and is likely to lead to postponement on spending and hiring decisions.

INVESTOR IMPLICATIONS

• Taking President Trump at his word, we expect this uncertainty to persist over the near-term as his administration continues to take aggressive policy actions to achieve longer-term goals, which will likely weigh on growth and market sentiment, and possibly reignite inflation.

• During Trump's first term, trade negotiations with China lasted approximately 19 months, and while volatile, the markets largely responded positively to progress on negotiations. This time, however, seems different with the larger goals in mind.

• While volatility may persist, we do believe the Fed and other central banks will likely step in to stabilize growth if the economy and labor markets deteriorate more quickly, with inflation possibly taking a backseat. As a result, in this risk-off environment, bonds could continue to offer support as yields may decline further, near-term.

• Importantly, diversification away from previously narrow markets is providing support in the sell-off and we're closely monitoring the markets as dislocation typically creates opportunities.

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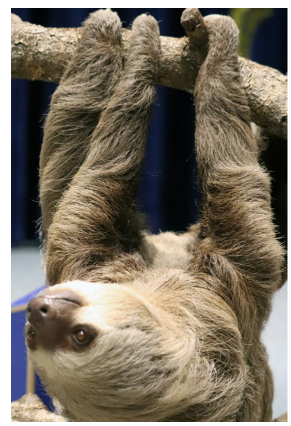
ENVIRONMENTAL FITNESS

In the March 8 weekend edition of the *Wall Street Journal*, there was an article titled “Tech Millionaire Pivots to Plant One Trillion Trees” by Perry Peck. Yishan Wong a tech millionaire is the founder of reforestation company Terraformation. When it comes to fixing the climate, he says you want to keep it simple. Many climate change proposals involve some technological solution. He believes that a high-tech approach would generate more problems than solve. He believes that you want a very low-tech reliable solution. In his approach in process to improve the environment, he settled on planting trees. The only hurdle is there might not be enough land to do it at the scale he envisages.

Trees absorb carbon dioxide from the air and release oxygen. A single mature tree will store about 22 kg of carbon a year. Terraformation has been described as a for-profit company whose goal is to help the world plant 1 trillion trees, a reforestation business that wants to see 3 billion acres of woodland restored, or a seed to carbon accelerator that serves as a conduit to channel cash and know how into forestry projects. Many people want to get into the mass reforestation business, but most of them lack skills or resources. This is where his accelerator can help by providing basic business skills, or linking developers with native seed suppliers or solving simple, plant nursery problems, such as knowing about shading or how to keep pests out.

We know that we have recently taken a step or two backward in the stock market during the recent transition activities. As we deal with uncertainty and volatility that may continue over the next few months, we are hopeful that if you look out toward the end of the year that the stock market will stabilize and move back to higher levels.



Hang in there!

Talk to you soon.

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