



Old Port Advisors

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VIEWPOINTS

ADVISORY NEWSLETTER

MARKET COMMENTARY

BY FREDRIC W. WILLIAMS

DESPITE THE HEADLINES.....

Without overstating the obvious, it's clear that the new year is off to an eventful start. Between the intensifying election season in the U.S., ongoing geopolitical tensions, and persistent questions about the direction of interest rates, headlines have no shortage of drama. Volatility has returned to global markets, and investor sentiment has been swayed by each data point and press conference. The media thrives on urgency - political brinkmanship, economic "cliffs," or unexpected market pullbacks, and these frequently lead the coverage as a means of attracting the requisite advertising eyeballs.

Often pulling back from the fray for a broader perspective helps put things in context. Even Fed Chairman Powell, when recently speaking to the Economic Club of Chicago, referenced the apparent velocity of change within current developments when discussing the Federal Reserve's decision-making process:



"As that great Chicagoan Ferris Bueller once noted, 'Life moves pretty fast'. For the time being, we are well-positioned to wait for greater clarity before considering any adjustments to our policy stance."

For sure, uncertainties remain given the magnitude of the tariffs being discussed and the recalibrations to global trade being considered. Despite the noise, many core segments of the economy remain resilient. Consumer spending, while softening slightly, has not collapsed. Labor markets are cooling but remain historically strong. And while inflation remains a central theme, the pace of increases has moderated, giving central banks more flexibility than they had a year ago.

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As we pointed out in our previous market note earlier this month:

"History provides helpful context: the crash of 1987, the dot-com bubble of 2000, the 2008 financial crisis, and the COVID-induced downturn of 2020 all felt jarring as they unfolded. Yet, those who maintained diversified portfolios and stayed the course were ultimately rewarded."

And although sometimes unsettling to live through at the time, perspective helps put one's emotional concerns at bay so decisions can be better made with the longer-term view:

"Since 1928, the average bear market — defined by a decline of 20% or more from recent highs — has lasted less than 10 months...In the scope of the several decades you likely plan on investing, that's practically no time at all."



"And even if living through it can be scary, keep your eyes on the prize: your long-term goals. By continuing to consistently invest as the market declines, you effectively buy stocks when they're selling at a discount. As long as you take a well-diversified approach to investing, you'll get a better and better deal the further stock prices fall." -R Emery, CNBC – 4/3/25

So, despite the current unease – as well as the media's drama-focused reporting, staying the course – and possibly taking advantage of the opportunities, should your circumstances warrant it, could very well be the best plan:

"But history indicates market drops – even those caused by genuinely bad news like the 2008 financial crisis or the 2020 pandemic – are often good buying times for longer-term investors."

"The past is telling: Since 1980, the S&P 500 has traded higher after a market correction (a 10% drop) by an average of 13.1% just three months later and nearly 30% a year later... -M Mitra, Barron's – 4/4/25

Areas to focus on, should they fit your circumstances, to help ride out the turbulence could be the global markets where valuations (price/earnings ratios, for example) are lower than the U.S., the bond market given the recent uptrend in current yields, as well as our oft-cited domestic dividend paying equities:

“Rattled by the threat of trade restrictions and a slowing economy, some investors are turning to a classic defensive play: dividend stocks. Shares of companies that offer relatively hefty cash payouts are beating the broader market this year.”

“Some of the largest dividend players have posted significant gains. The S&P 500 Dividend Aristocrats – an index of companies that have raised dividends in each of the past 25 years – has returned about 3.5% (YTD through March 7th)” -H Lang, WSJ – 3/8/25

As a “seasoned” member of our team recently pointed out in a memo to clients:

“A few thoughts on getting through markets like this: First – don't try to be strategic and attempt to outthink this. There are too many moving parts and players. Secondly, at this point, we're in the throes of it and need to ride it out. We've done this through other unsettled times. Thirdly, staying calm (I know it can be tough) and staying diversified will see us through. We are not invested in just the S&P, Dow Jones or NASDAQ indexes. Our portfolios are diversified across equities as well as fixed income...”-C Ryan, OPA Senior Wealth Advisor



Another perspective (with even more gray hair) can be found from Warren Buffett's 2017 shareholder letter where he quotes Rudyard Kipling's classic poem “If”, circa 1895:

“If you can keep you head when all about you are losing theirs...If you can wait and not be tired by waiting...If you can think – and not make thoughts your aim...If you can trust yourself when all men doubt you...Yours is the Earth and everything that's in it.”

Remaining diversified and focused on your long-term goals will mitigate the emotion of the moment and provide the discipline to best navigate these volatile times, as many have done numerous times in the past. But if your timeline warrants and your allocations are measured, you could also consider Buffett's 2009 shareholder letter where he points out:

“Big opportunities come infrequently. When it's raining gold, reach for a bucket, not a thimble.”

GLOBAL MARKET OVERVIEW

The U.S. stock market had a challenging first quarter of 2025, with the S&P 500 down 4.3%, and the small-cap Russell 2000 Index declining 9.5%. This was the worst quarter for both U.S. large- and small-cap stocks since the second quarter of 2022. In contrast, U.S. fixed income markets fared better, with the Bloomberg U.S. Aggregate Bond Index gaining 2.8% in the first three months of the new year.

Index Returns			
Equities	Percentage Change for the 1 st Quarter	Percentage Change for the Year	Annualized 10-Year Returns
S&P 500	-4.27%	-4.27%	11.99%
MSCI EAFE*	6.86%	6.86%	5.40%
MSCI Emerging Markets*	2.93%	2.93%	3.71%
Bloomberg Commodity Index TR	8.88%	8.88%	2.77%
FTSE NAREIT Equity REIT Index	0.91%	0.91%	5.33%
Fixed Income			
Bloomberg Barclays U.S. Aggregate Bond	2.78%	2.78%	1.46%
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond	4.17%	4.17%	2.51%
<p>Source: BlackRock, Bloomberg, FTSE™, NAREIT®, YCharts *Returns are calculated with net dividends in USD</p> <p>Index returns are for illustrative purposes only and do not represent actual performance of any investment. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.</p>			

Final fourth-quarter gross domestic product (GDP) results, released at the end of March, confirmed that the U.S. economy continued its steady pace of growth throughout 2024. Government spending increased at an annualized rate of 3.1% while consumer spending grew by 4.0%, the strongest pace of 2024. Personal income has grown steadily in 2025, rising 0.9% month-over-month in January, followed by another strong increase of 0.8% in February. Although personal savings remain below pre-pandemic levels, they have started to recover, reaching 4.6% in February as income growth outpaced spending. Meanwhile, U.S. household debt-to-GDP levels have declined to 70%, the lowest since 2001.

Headline inflation rose to 3.0% year-over-year in January before easing to 2.8% in February, aided by declines in food and energy prices. Notably, core inflation in February rose at the slowest pace since April 2021, increasing by 3.1% year-over-year. As expected, the Federal Reserve kept interest rates unchanged at its March Federal Open Market Committee meeting. The Fed also announced plans to slow the pace of quantitative tightening, reducing its monthly runoff from \$60 billion to \$40 billion.

The Magnificent Seven—Apple, Microsoft, Amazon, Alphabet, Nvidia, Meta, and Tesla—have been a driving force behind the S&P 500's rally in recent years, fueled by strong fundamentals, market leadership, and exposure to transformative trends like artificial intelligence. However, together, the group ended the first quarter down 16%, driven by Tesla (-36%), Nvidia (-19%), and Alphabet (-18%). The downturn in stock prices led to a pullback in valuations, bringing Magnificent Seven's valuation premium relative to the rest of the S&P 500 to its lowest level since 2017.

Domestic stocks underperformed global equities by the widest margin since 2009. Large-cap stocks in developed international markets outpaced their U.S. counterparts by more than 10%, with the MSCI EAFE Index gaining 7%. The MSCI Europe was up 11% during the quarter. It was European equities' strongest quarter relative to the S&P 500 since September 1985, back when the Plaza Accord was signed with the goal of weakening the dollar to reduce the U.S. trade deficit. German stocks were notably strong with the MSCI Germany Index rallying 16%. International developed-market small-cap stocks rose 4% over the quarter vs. then U.S. small-cap stocks loss of fell 10% which made them the worst-performing major asset class year-to-date.

Among emerging markets, Brazil (+14.1%) and China (+15.0%) led the gains. Meanwhile, after reaching a two-year high on January 13, the U.S. dollar weakened, ending the quarter down 4%. This sharp reversal in performance brought relative valuations between U.S. and non-U.S. stocks back in line with their five-year average, although they remain above longer-term averages.

Fixed-income markets had a strong start to the year, with U.S. intermediate-term bonds gaining 3% over the quarter. After rising to 4.8% in mid-January (the highest level since October 2023), the 10-year U.S. Treasury yield ended March below 4.2% due to rising uncertainty surrounding tariffs. The yield curve (the spread between the 10-year and 2-year Treasury yields) remained positive throughout the quarter, finishing March at 0.3%.

Gold gained 20% over the quarter, closing March at a new all-time high above \$3,100. West Texas Intermediate (WTI) crude oil prices declined by \$7 per barrel over the quarter to end at \$71 per barrel, despite news of slowing U.S. oil production, which in January fell to the lowest level in a year.

The above occurred before April 2, when the administration decided to put their stamp on the global economy with a disorganized implementation of extremely aggressive tariffs on various countries and global trade sectors. Baseline tariffs of 10% were announced on all imports to the U.S., including from countries that run a deficit with the U.S. like Australia and the Netherlands. Higher rates were implemented for major trading partners including China (54%), the European Union (20%), Vietnam (46%), South Africa (30%), and Japan (24%). The administration is famed for their ready, shoot, aim approach to policy, so the above with no doubt be revised, repealed or disavowed. Carve outs will be made for well-connected sectors and industries.

The economy and markets abhor uncertainty and unfortunately, that is inevitable when decisions are announced without reasoned planning. Billion-dollar decisions to site plants will not be made based on a trade policy that made be revised at any moment. Uncertainty weighed on consumer confidence with the Conference Board's Consumer Confidence Index in March fell to its lowest level since the pandemic; the University of Michigan's survey recorded its lowest sentiment reading since November 2022 with expectations for personal finances at the lowest level since 1978, and an unprecedented 51% of respondents made unsolicited negative comments about government economic policy. Depending on political affiliation, consumer inflation expectations notably diverged over the quarter. Those identifying as Democrats expect inflation to more than double, rising to 6.5% over the next year, while Republican-leaning survey respondents believe that inflation is going to all but disappear over the next twelve months. Across both investor and consumer surveys, tariffs were cited as the primary cause of growing uncertainty.

PREPARING FOR THE EXPECTED

As Teddy Roosevelt once observed, "Old age is like everything else. To make a success of it, you've got to start young."

The challenges seniors have met throughout their lives have made them wiser and stronger, preparing them for the unique challenges that come with aging.

As we age, the potential for cognitive decline increases, ranging from simple forgetfulness to dementia. Long-term illness can sap time and energy from tending to your financial affairs in retirement. Even a decline in vision may make it harder to manage your financial affairs.



Fortunately, you can look ahead to help protect yourself and your family against the financial consequences of deteriorating health, and in many cases, insurance may play an important role. Let's examine some of the ways you can employ insurance to help protect your financial health.

Healthcare Costs: For some, healthcare costs represent a larger share of their budget as the years pass.

Recognizing this, you may want to consider Medigap insurance to cover the expenses that Medicare does not, which can add up quickly. You also might want to consider some form of extended-care insurance, which can be structured to pay for nursing home and home healthcare services—two services that Medicare doesn't cover.

Managing Your Wealth: The involvement you have with managing your investments may change as you age. For many seniors, that sort of day-to-day responsibility is unattractive and even untenable.

If that's the case, you may wish to consider what role annuities can play. Annuities can be structured to pay you income for as long as you live, relieving you of the concern of outliving your retirement money. Certain annuities even offer extended-care benefits, which allow you to address two concerns with one decision.¹

Transferring Your Estate: If you're like many seniors, you have a strong desire to leave something to your children, grandchildren, and perhaps a favorite charity. Through the use of life insurance, you can pursue these objectives. For example, life insurance can be used to create an estate or to equalize an estate transfer among your heirs.²

Insurance will never be able to prevent the health issues that come inexorably with age, but it can be used to mitigate their potential financial consequences.



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