Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE MARCH 2025

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MARKET COMMENTARY

US stock indices retreated in the first quarter. Large cap stocks in the S&P 500 fell -4.27% in the quarter. Small cap stocks in the Russell 2000 Index were punished with a -9.48% loss. International stocks did much better as developed market stocks had gains of 6.86% and emerging market stocks were up 2.93%. Yields fell during the quarter so the Barclays U.S. Aggregate Bond Index had a gain of 2.78%.

After growth sectors dominated the past two years, they are now hurting. The Consumer Discretionary, Technology, and Communication Services sectors had negative returns of -13.8%, -12.7% and -6.2%, respectively. Besides Industrials which were down negligibly at -0.2%, all other sectors had positive returns. The Energy sector was the best with a 10.2% return followed by Healthcare with a 6.5% return.

The S&P 500 reported strong fourth quarter earnings growth of 13.8%. This strength brought full year earnings growth to 10.6% on revenue growth of 5.5%. Zacks projects the S&P 500 as a whole to have earnings growth of 9.6% in 2025. The Magnificent 7 stocks had much higher earnings growth than the rest of the S&P 500 in 2024, but that difference is expected to wane in 2025. Zacks expects the Magnificent 7 to have earnings growth of 12.6% in 2025 (after growing 40.4% in 2024).

The S&P 500's price/earnings multiple (PE) has fallen from 21.5 times earnings to 20.2 times. This is still higher than its long-term average PE of 16.7 times. The top 10 stocks of the S&P 500 have also seen their PE ratio decline from 29.8 times earnings to 24.4 times. These stocks had made up 39% of the weighting of the S&P 500 but with their larger decline, they are now only 35% of the index.

GDP grew 2.4% in the fourth quarter after growing 3.1% in the third quarter. GDP for the full year of 2024 was 2.8%. The Fed has revised its GDP estimate for 2025 to be 1.7% and then 1.8% thereafter.

Normally, once an election is over so is the uncertainty. However, the new administration has brought accelerated change in its first months of office which has kept uncertainty levels high. This uncertainty is perplexing to investors as well as analysts, and markets have been volatile in response. Tariffs, immigration policies and DOGE cost cutting could have a significant effect on earnings, inflation, and unemployment. Earning projections could fall, inflation could rise, and unemployment could climb. As a result, GDP growth could slow or we could even enter into recession. Strategas Research has increased its recession odds to 45% for 2025. Short-term we may feel some pain, but longer term, these policies and potential tax cuts could be stimulative to economic growth through job creation, domestic production and a stronger dollar.

Unemployment declined to 4.1%. This figure is before the government downsizing and tariffs so is likely to increase. The Fed's projection for year end is 4.4%. After the tariffs were announce in early April, Strategas projected unemployment could rise to 5%.

Inflation has held steady the last few months and the Fed's favorite measure—the Core PCE deflator—was at 2.8% in February. The tariffs could be inflationary initially but may be muted longer term depending on which costs trickle down to consumers. The Fed isn't expecting to reach its 2% target until 2027.

The Fed paused on rate cuts this quarter partly due to the uncertainty. The current rate is between 4.25% and 4.50%. Fed Chairman Powell had indicated the Fed would be moving slower regarding future rate cuts. Currently, the Fed is projecting to cut rates twice in 2025 but some analysts are starting to project three rate

2025 BENCHMARK RATES OF RETURN

INDEX	FIRST QUARTER	YTD
S&P 500	-4.27%	-4.27%
Russell 2000	-9.48%	-9.48%
International	6.86%	6.86%
Fixed Income	2.78%	2.78%
JPMorgan Diversified*	0.13%	0.13%

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

We value our relationship with you, and we are always available to meet with you in person, virtually or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

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cuts. Further cuts are expected in 2026 and 2027 with a projected ending rate around 3.0%.

Money markets are yielding around 4.2% The 10-year Treasury bond yield fell from 4.57% at the end 2024 to 4.25% at the end of March and even further after the tariff announcement. The fixed 30-year mortgage rate fell to 6.63% - it's lowest level since October according to Mortgage News Daily.

Bitcoin and crypto currencies have pulled back even though the Trump administration is seen as crypto friendly. We recognize digital assets can be very volatile but also acknowledge their long term growth potential. We continue to exercise caution when investing in these types of securities.

Diversification continues to be prudent in times of uncertainty. Having exposure to bonds in the first quarter portrayed this. "Target outcome" or "buffer" ETFs can also add protection to portfolios and provide upside potential if stock prices rise. Dividend income is also attractive in equity and premium income funds. In these funds, managers own dividend paying stocks and sell out-of-the-money call options to collect extra income. The dividends help with total returns or with income needs depending on the account.

Measuring risk tolerance and investing accordingly is important in this environment. Timing the market or chasing returns may work in the short-term but is more difficult over longer periods. The goal is to be invested appropriately so that you don't panic and sell when the market goes down. Strategas points out "big spikes of policy uncertainty usually foreshadow strong equity market returns" especially twelve months later. Selling out when markets are volatile, can be detrimental. We use Nitrogen software to help us measure your risk tolerance and make sure you have the appropriate risk in your accounts. Want to check your risk tolerance? Scan this QR code and you will be directed to a risk survey. We'll receive your results and compare it to your current risk score.

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CAMBRIDGE ADVISORS NEWS

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DON'T BE CONFUSED

You may have seen a headline in the news about the SEC charging an advisor with fiduciary breaches. The advisor was Cambridge Investment Research Advisors. We are in no way related or affiliated with this firm but are sometimes confused with them since we are in the same industry and have a similar name. They were investing client assets in mutual funds and money market funds where they had a revenue sharing arrangement so benefited from these actions and did not disclose the conflict of interest as required. We do not have any of these revenue sharing arrangements and do not benefit from investing client monies in specific securities. Our only source of revenue is our management fee, financial planning fee (if applicable), and any interest or dividends we earn on our own corporate account.

SCAM ALERT

Each quarter we want to highlight a scam we've seen in hopes it helps prevent it from happening to you. Impostor scams are some of the most common. In this scam, you receive a phone call, email or a text message from what looks to be your bank, credit card company, Schwab, another financial institution, or other seemingly reputable organization. Use caution when you receive an unexpected email or text. Do not immediately click on any link until confirming that it is safe to do so. Better yet, always log in your normal way, not using the link provided. Some giveaways that it could be a scam is if the email address is not from the company's email address, if it has misspellings, or if it is trying to get you to act immediately to avoid fines or jail. Any request for payment in cryptocurrency, gift cards and bank wires should be regarded as red flags. Do not provide or confirm any of your personal identification information such as social security number, birthdate and definitely not user ids or passwords. Be aware and be cautious and let us know if you have seen other scams we should alert our clients to in future newsletters.