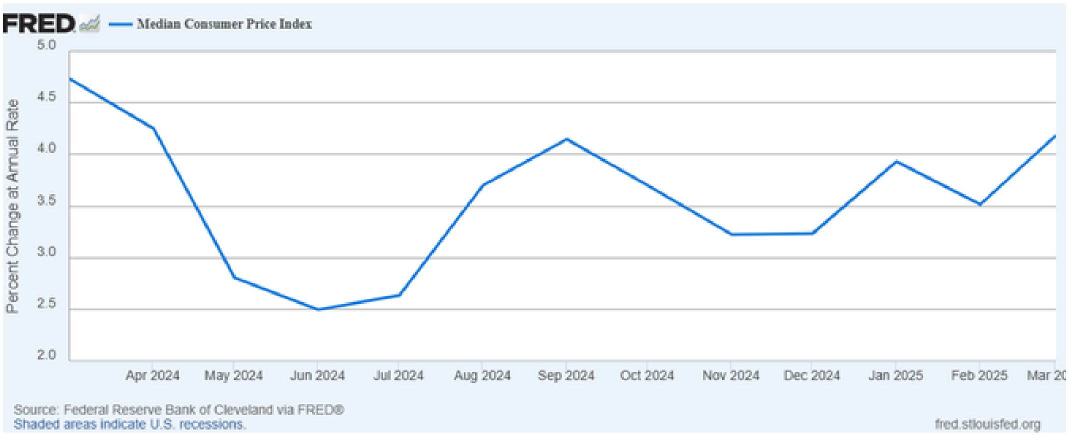
# Mosaicfi *Market Insights*

April 2025




## *Q1 2025*

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It is hard to remember life before tariffs. Tariff talk began in the first quarter with Mexico and Canada being the primary targets. It peaked with 'liberation day' on April 2 which set the markets off on a wild ride. Investors had been warned that tariffs were coming but nobody (literally) expected the levels that President Trump presented that day.

There were other significant geopolitical events that occurred in the 1st quarter which created some unintended market reactions. With the U.S. military and financial support of Ukraine in their war with Russia called to question, the European Union had to

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acknowledge the position they were in and recognize the need to strengthen their military might to be better positioned to protect themselves.

This created an unexpected stimulus to the EU economy. For example, a normally fiscally conservative Germany passed legislation to increase their debt levels to allow for additional defense spending. As a result, investors took this as a signal that Europe's growth potential from the stimulus could be just what their middling economies needed; European equity markets took off. At the same time, these isolationist policies put a strain on the global perception of the United States.

There is growing concern about how the world perceives the U.S. as an investment opportunity.

The U.S. markets could suffer due to our pivot to a more protectionist trading partner to the rest of the world. The U.S. equity markets have enjoyed significantly higher price/earnings multiples relative to the rest of the developed world; it has been referred to as 'U.S. exceptionalism'.

It was believed that because the U.S. had so few barriers regarding investing, trade, low regulation, access to capital, and rule of law, capitalism could thrive in this country better than anywhere else in the world. Whether this is still the case is being questioned by investors.

The result may be a compression of the valuations that U.S. companies have enjoyed relative to the rest of the world.

## THE EQUITY MARKETS

Global equity markets, as measured by the MSCI All Country World Index, were down -1.61% in the 1st quarter of 2025.

In a dramatic shift, international developed equity markets significantly outperformed U.S. equity markets for the quarter. International developed markets were up 6.20% for the quarter vs. U.S. equity markets, which were down -4.72%. Emerging markets also had a relatively strong quarter, up 2.93%. U.S. REITs had a modest positive return of 1.17% for the quarter.

The small cap market continues to struggle with U.S. small cap stocks underperforming large caps. Small cap stocks were down -9.48% for the quarter versus large caps, which were down -4.49%.

The bigger shift was the outperformance of large cap value vs. large cap growth. In recent years large cap growth has been the primary driver of returns but in Q1 large cap value was up 2.14% and large cap growth was down -9.97%.

## THE FIXED INCOME MARKETS

With expectations that the Fed would lower interest rates at least a few times in 2025, interest rates declined across the yield curve in the 1st quarter. The yield on the 10-year UST was 35 basis points lower over the 1st quarter. Given the decline in interest rates, the U.S. bond market, as measured by the Bloomberg U.S. Aggregate Bond Index, returned 2.78% for the quarter.

There was talk about Washington considering taking away the tax-exempt status of municipal bonds (unfounded), along with other seasonal factors, causing the municipal bond market to underperform the taxable bond market. Muni bonds ended the quarter down -.22%.

Corporate bonds slightly underperformed the treasury market in the 1st quarter.

Intermediate corporate bonds were up 2.27%, with comparable treasuries up 2.49%. The high-yield market underperformed the investment grade market but still had a positive return in the 1st quarter, up 1%. U.S. TIPS (inflation protected securities) were the best performing segment of the bond market up 4.17% for the quarter.

So, what did all this mean for investors? Depending on the asset allocation, given the performance of the stock and bond markets, a diversified index portfolio in the 1st quarter was flat to down -2%.

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## LOOKING AHEAD

It appears that investor obsession has pivoted away from the risk of inflation and how the Federal Reserve will respond. Instead, the focus has turned to the risk of what the Trump administration's tariff policies will do to the global economy. There is a growing consensus that the tariff and trade wars will push the U.S. into a recession. Anecdotally there are a lot of corporate CEOs indicating that they are unsure of how to run their businesses with so much uncertainty around the tariffs. This will undoubtedly affect capital expenditures and hiring.

We just turned the five-year corner since COVID upended the world and turned the markets upside down. We were staring into the abyss not knowing how and when we were getting to the other side. It was a wild ride for sure. Reviewing the market performance since then, it is interesting to note that on an annualized basis the global equity markets are up 15.02%. Who would have guessed?! This is a great reminder of why we can't react to the day-to-day market movements that cause an emotional roller coaster telling you to sell when the markets are down and to buy when the markets are up which, of course, is contrary to the rule of thumb to buy-low, sell-high. Staying focused on your long-term objectives and the markets' long-term returns will allow you to enjoy those returns and avoid doing the wrong things at the wrong times.

As always, we would love to hear from you, so feel free to contact us at any time.



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