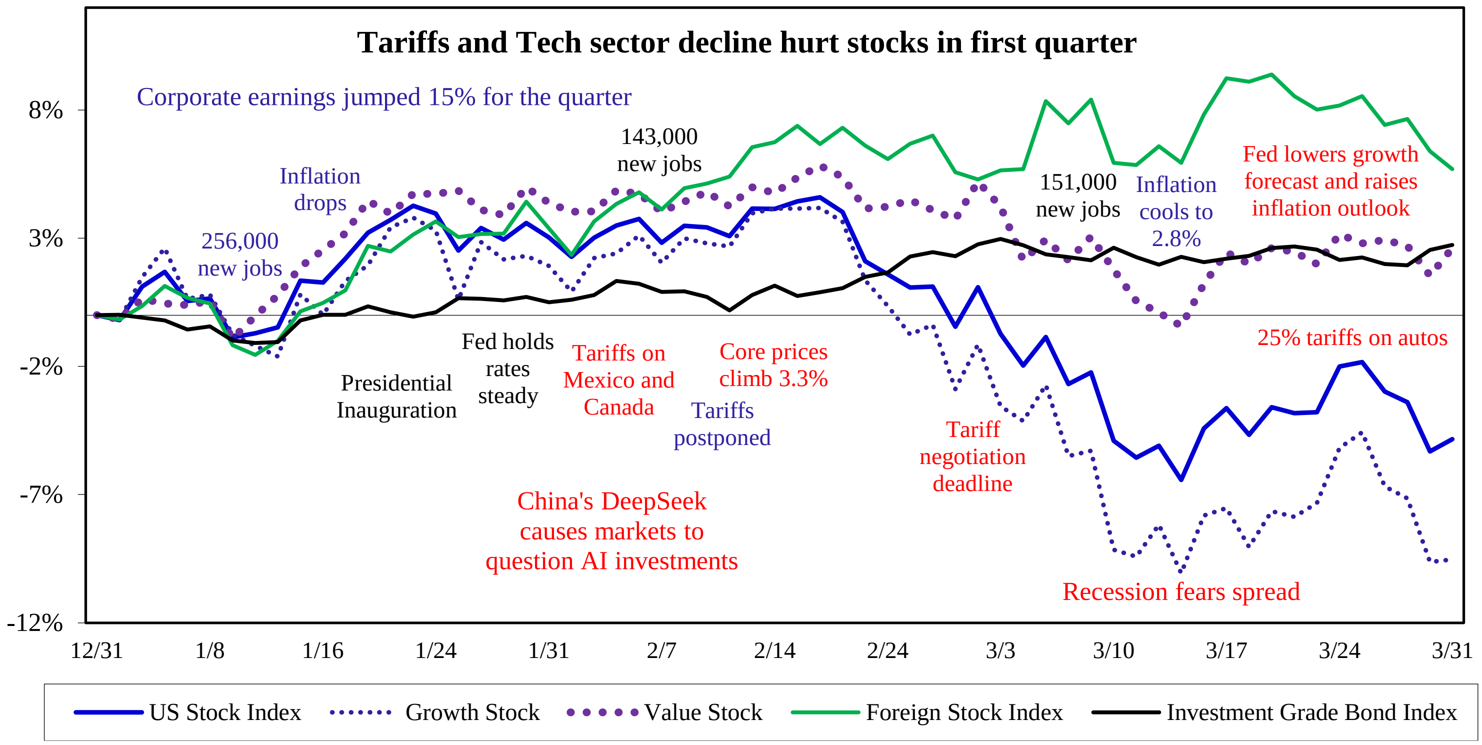
Economic and Financial Market Summary

First Quarter 2025

Disciplined Investors LLC

After reaching an all-time high in mid-February, U.S. stocks declined through the end of the first quarter as worries about tariffs and technology stocks set in. While large-cap growth stocks led the markets for most of the past ten years, they fell 10% in the first quarter and dragged U.S. stocks down 5% overall. Diversification with bonds and foreign stocks helped offset the losses. These investments had gains in the quarter as funds rotated out of U.S. stocks at a record pace. Value stocks also cushioned the decline with a 3% average return for the first quarter.

At the start of the year, U.S. stocks were boosted by hopes for a strong economy and tax cuts while foreign stocks were pressured by slow growth and looming tariffs. The thinking changed with so much uncertainty and some signs of a slowdown. (Economists have raised the odds of a recession to about 50/50.) Foreign countries moved to stimulate their economies and build up their militaries in reaction to warnings about tariffs and countries needing to defend themselves. For example, Germany plans to spend an extra trillion dollars on infrastructure and defense over the next ten years.



The announcement about the Artificial Intelligence model from China (DeepSeek) shocked investors. Claims of a competitive AI model built much cheaper and with less computing resources than U.S. models made people wonder if the spending on AI could be a bubble. The “Magnificent 7” dropped 16% on average in the first quarter with Tesla (-39%), Nvidia (-22%), Alphabet (-20%), and Amazon (-15%) flipping from market leaders to laggers. Since the Mag 7 represented about a third of the S&P 500 Index, their weakness seriously impacted the markets.

Stocks dropped further at the beginning of April with the higher-than-expected tariffs. The decline and volatility were the worst for equities since Covid caused chaos in 2020. Normally, volatility falls quickly after reaching a peak like this, and markets will watch closely for tariff deals with foreign countries. Fears of a recession may be exaggerated with the labor market remaining strong unless the uncertainty causes consumers and businesses to pull back spending. High quality bonds have been a safe haven during the volatility and could continue to offset some stock market losses. Stock valuations have dropped from lofty levels reducing one headwind for future returns.

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