Capital Market Review

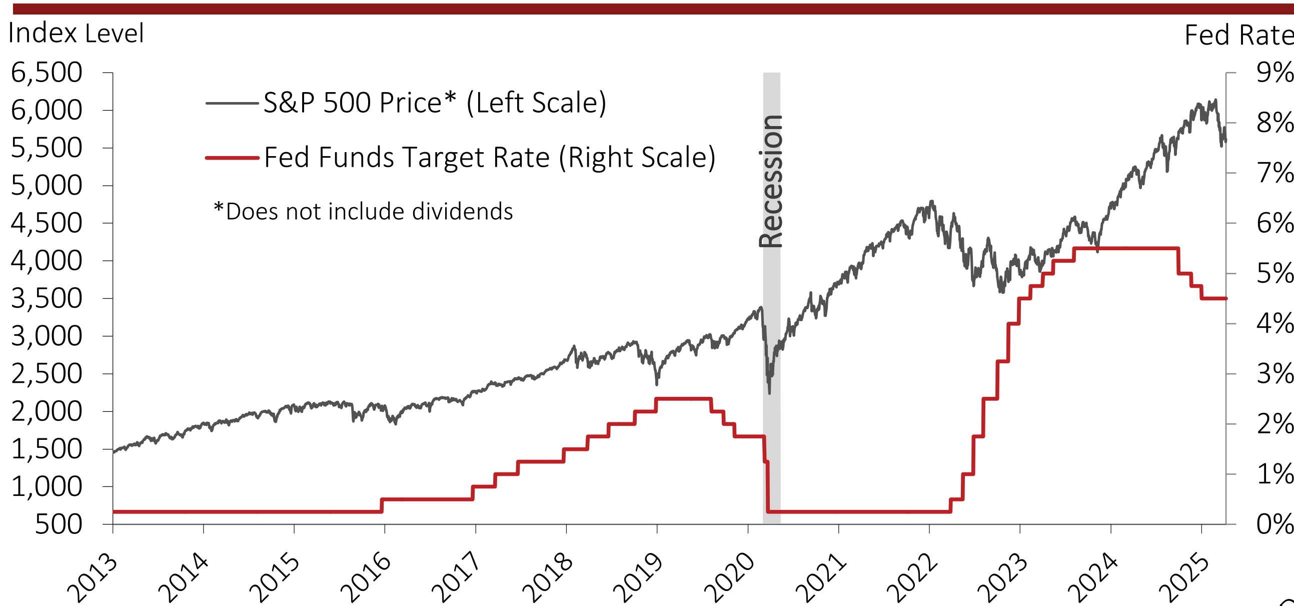
March 31, 2025

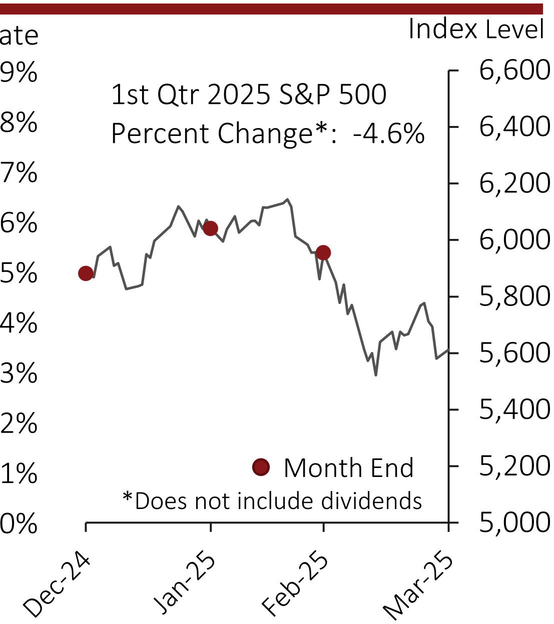



DeMarche

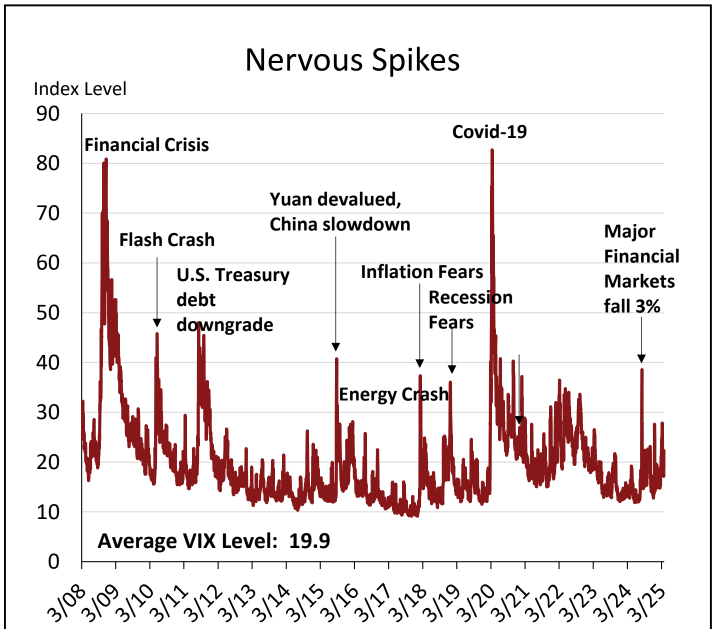
[Watch the Capital Markets Review Key Takeaways Video]

Tariff Tantrum



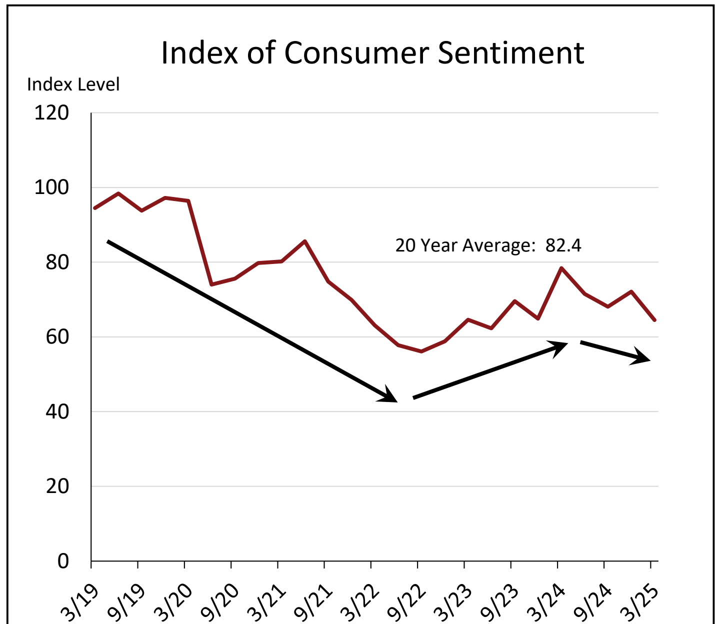


Source: Standard & Poor's, Federal Reserve



Source: Federal Reserve of St. Louis

Stocks began to reprice downward in February and closed the quarter with a 4.3% loss as markets began to digest slowing economic growth and the impact of new tariffs. The concern seems to be centered on consumer sentiment: how will consumers, already apprehensive about inflation (per the Conference Board), respond to higher prices on imported goods? The chart to the right shows the reversal of an upward trend after 2022 to end of 2024. When such uncertainty hits markets, the VIX (CBOE Volatility Index) tends to spike. While we see spikes at the end of March 2025, there are numerous examples in recent history of market turmoil.



Source: University of Michigan

Broad Market Overview

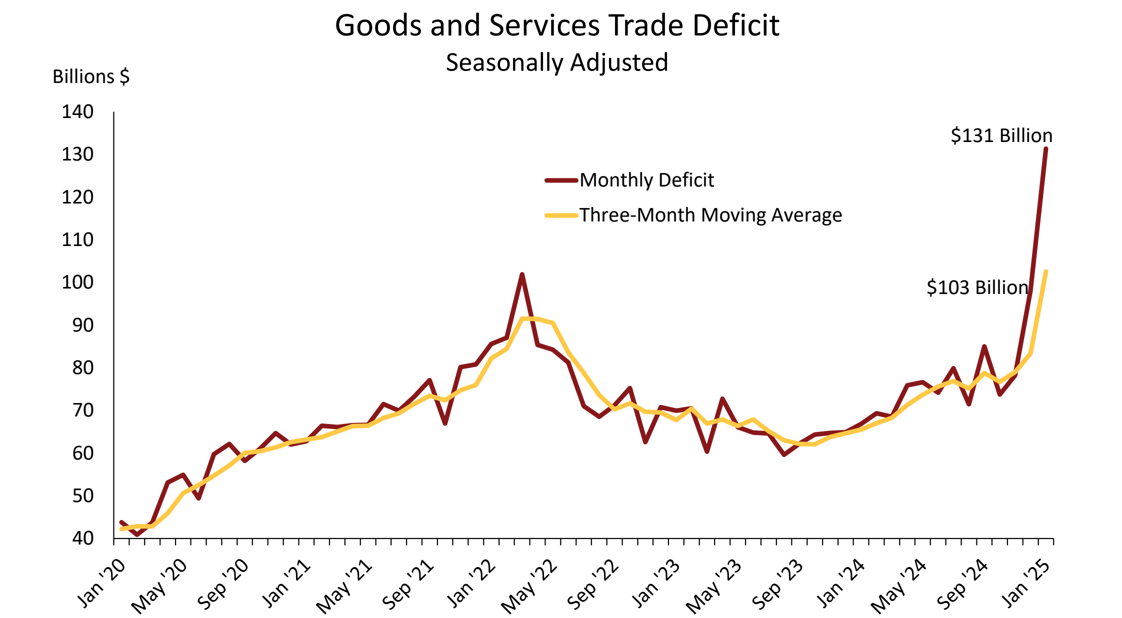
March 31, 2025

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	-1.8	7.0	7.6	16.1	9.5
Russell 3000	-4.7	7.2	8.2	18.2	11.8
S&P 500	-4.3	8.3	9.1	18.6	12.5
MSCI EAFE USD	6.9	4.9	6.1	11.8	5.4
MSCI Emerging Markets USD	2.9	8.1	1.4	7.9	3.7
Bloomberg Aggregate	2.8	4.9	0.5	-0.4	1.5
Bloomberg Global Aggregate	2.6	3.0	-1.6	-1.4	0.6
FTSE Non-US Gov't Bond	2.3	0.3	-4.9	-4.0	-0.9
NAREIT (Public RE)	2.9	8.7	-1.8	9.6	5.5
Bloomberg Commodity	8.9	12.3	-0.8	14.5	2.8

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

U.S. Indicators Yr. Ending 3/31	2025	2024	2023	2022	50 Yr. Average
GDP Annual Growth Rate*	2.0	2.9	2.3	4.0	2.7
Unemployment	4.2	3.8	3.5	3.6	6.1
Inflation (CPI)	2.4	3.5	5.0	8.5	3.7
10-Year Interest Rates	4.2	4.2	3.5	2.3	5.9

**Note: GDP Percent Change from one year ago – released by BEA; Prior to the GDP release, value shown is the annual GDPNow model estimate released by the Atlanta Fed..*



Source: U.S. Bureau of Economic Analysis

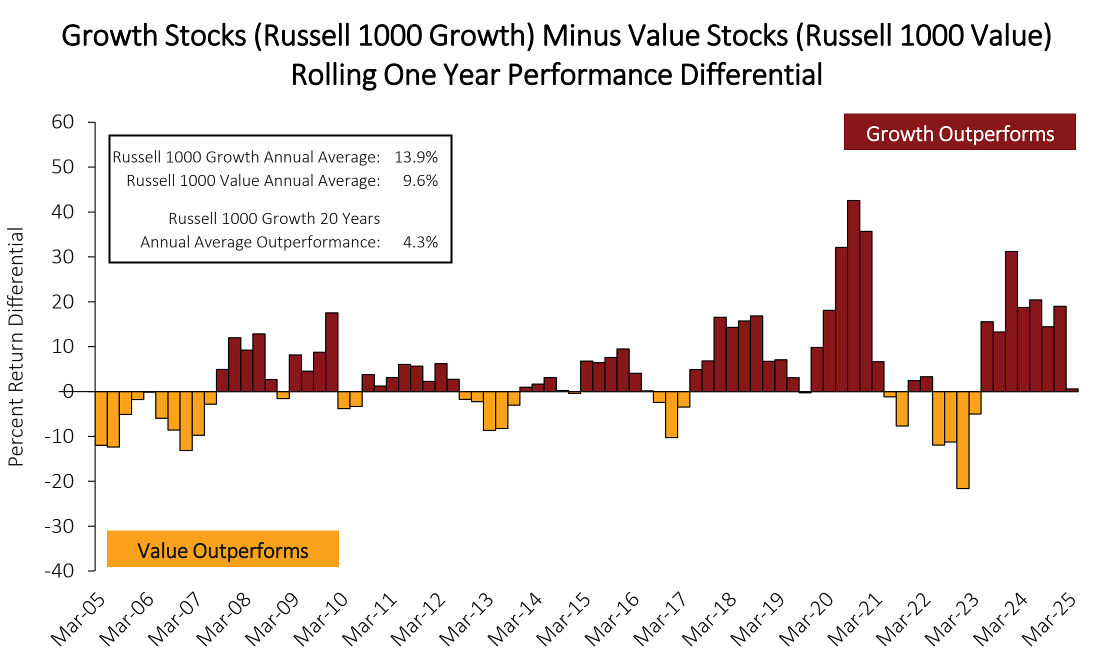
- The S&P 500 posted a negative return in the first quarter 2025 of 4.3%, but fell 8.5% from the high point in February. This is the first negative quarter since third quarter 2023. In 2023 and in 2024, the S&P 500 had intra-year price drawdowns of 10.3% and 8.5%, respectively. In both calendar years, the S&P 500 was up over 25%. Even in the Covid year of 2020, the index fell 34%, in price, intra-year, but closed the year up 18.4%.
- Bond returns for the year have looked attractive compared to the longer term history. Interest rates fell slightly in the quarter and the Bloomberg Aggregate posted a 2.8% return, while over a one year horizon it returned 4.9%.
- The US dollar weakened in the quarter, providing a tailwind to international stocks. For context, the dollar was trading at a very high level against other currencies at the end of 2024 as US interest rates were higher than global rates. The dollar is now trading within its recent historical trading range.
- Imports to the US and exports from the US are offset against each other in the calculation of GDP for each quarter. Imports are a negative to GDP and exports are a positive. With the large increase in imports so far this year (see chart to the left), which many view as an effort to "front run" tariffs, some economists (i.e. Atlanta Fed) have raised the probability of negative GDP growth for the first quarter of 2025.

DeFact

In every year since 2010, the S&P 500 has experienced an intra-year drawdown ranging from -2.8% in 2017 to -33.9% in 2020. Of those 15 years (2010-2024), two years were negative – 2018 and 2022. The average annual calendar year return over this horizon was 14.8%. ~DeMarche

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500	-4.3	8.3	9.1	18.6	12.5
S&P Mid-Cap 400	-6.1	-2.7	4.4	16.9	8.4
S&P Small-Cap 600	-8.9	-3.4	0.7	15.1	7.5
Russell 1000	-4.5	7.8	8.7	18.5	12.2
Russell 1000 Growth	-10.0	7.8	10.1	20.1	15.1
Russell 1000 Value	2.1	7.2	6.6	16.1	8.8
Russell 2000	-9.5	-4.0	0.5	13.3	6.3
Russell 2000 Growth	-11.1	-4.9	0.8	10.8	6.1
Russell 2000 Value	-7.7	-3.1	0.0	15.3	6.1

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.



Source: DeMarche

- Value stocks outperformed in the first quarter by a large margin, leading growth by 12.1 percentage points. The large growth index still leads value for the past year and over the longer haul. Technology and consumer discretionary stocks led the way down in the quarter.

- Small cap stocks posted a negative return for the quarter and the past one year. Small growth fell 3.4 percentage points more than value. The drawdown in small cap stocks was driven by the technology and consumer discretionary sectors. The consumer staples and healthcare sectors performed relatively better.

- The chart to the left shows the tremendous outperformance of growth stocks to value stocks for the past twenty years. The trend is especially evident in the past decade, which was boosted by low interest rates. When value stocks outperform, it often corresponds to periods of market uncertainty, most recently, the interest rate shock of 2022.

DeFact

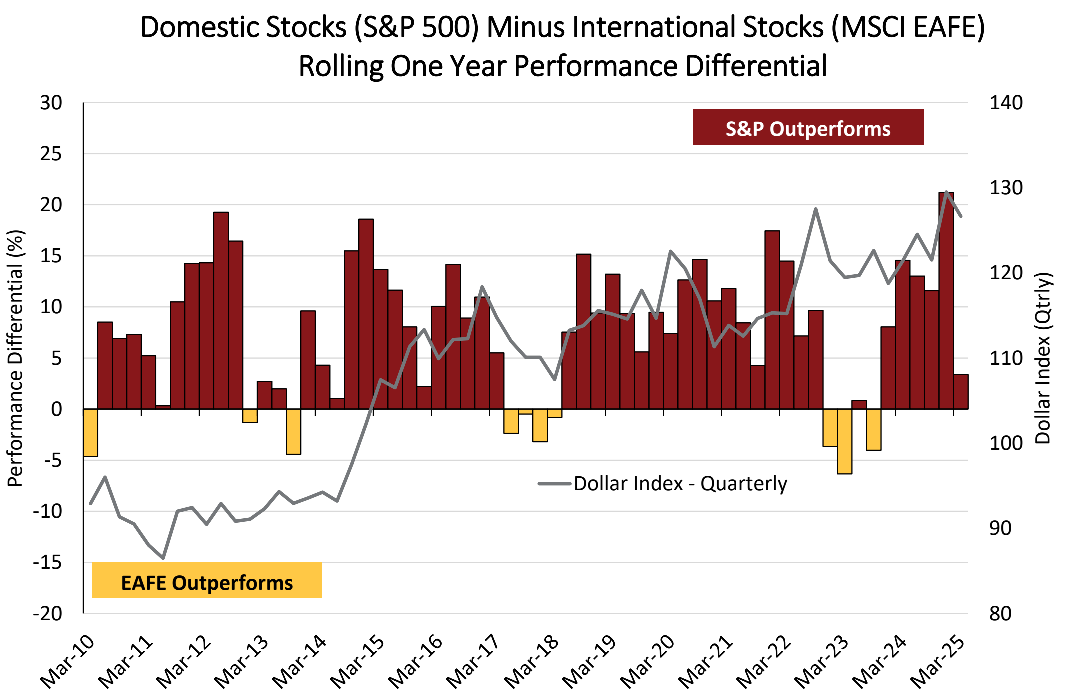
How much of the cost of a pair of Air Jordan Max sneakers would be subject to tariffs? While complicated, footwear analysts at UBS looked over Nike data and figured that a pair of Air Jordans retailing in the US at $180 could increase in price to $198. For context, most of the price of the shoe is in retail markup and Nike's licensing and design fees.

~Footwear News

International Equities

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	2.9	4.1	8.7	13.3	6.3
MSCI EAFE USD	6.9	4.9	6.1	11.8	5.4
Growth	2.1	-2.6	2.4	8.5	5.5
Value	11.6	12.8	9.7	14.8	5.1
MSCI All Country-ex US	5.2	6.1	4.5	10.9	5.0
MSCI AC Asia-ex Japan	1.8	11.3	1.8	7.2	4.2
MSCI Emerging Markets	2.9	8.1	1.4	7.9	3.7
MSCI EAFE Small Cap	3.7	3.1	0.9	9.9	5.3
MSCI Japan	0.3	-2.1	5.3	8.8	5.3
MSCI China	15.0	40.4	3.5	1.5	2.5
MSCI Germany	15.5	19.0	11.8	14.4	4.8
MSCI France	10.3	-1.4	6.3	13.5	6.8
MSCI UK	9.7	14.4	7.9	13.8	4.9

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized



Source: DeMarche, Federal Reserve Bank of St. Louis (FRED)

- As interest rates fell in the quarter and the dollar repriced lower against other currencies, international stocks outperformed domestic stocks by 11.2%. International stock outperformance of this magnitude has been rare, with the most recent occurrence taking place in the fourth quarter of 2022 (+9.8%). Interestingly, European defense and aerospace stocks performed the best, including Rolls Royce and BAE Systems.

- Emerging market stocks also posted better relative returns than the US market. Chinese stocks were up 15% in the quarter, while previous winners such as Taiwan and India fell in the quarter. Despite the rebound, longer term performance for Chinese stocks still lags other international and domestic indexes.

- The chart to the left shows the dominance of the US large cap equity market versus international stocks since 2010. The gray line moving left to right demonstrates the strength of the US dollar versus a trade weighted basket of currencies. Since 2010, the dollar has been on an upward slope and therefore a headwind to international returns.

DeFact

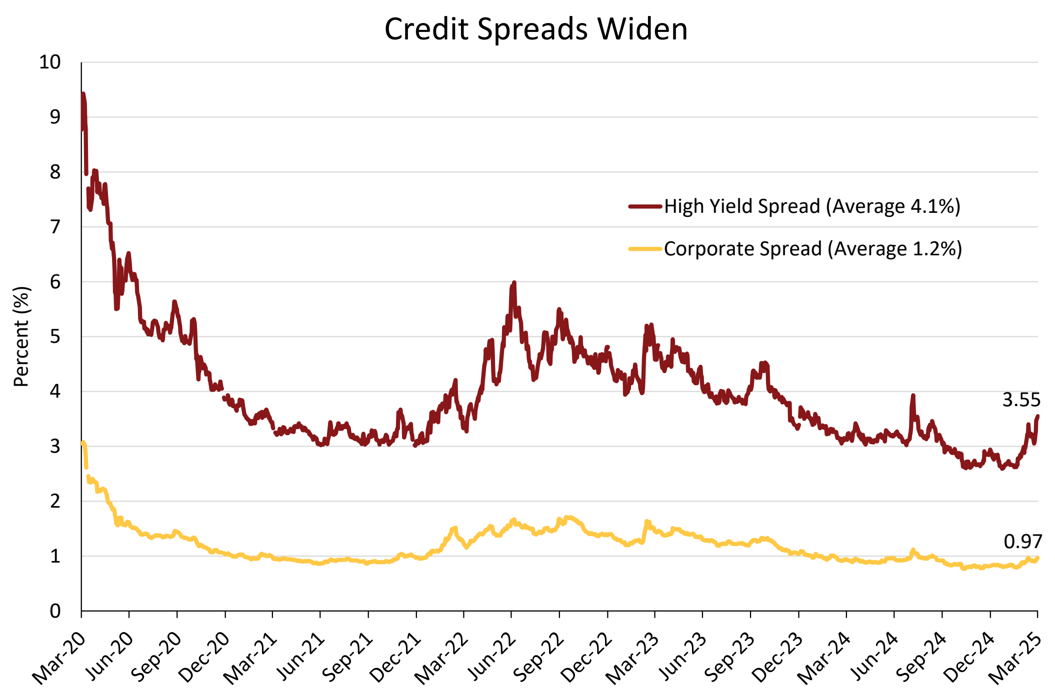
Annual consumer price growth in the Eurozone ticked down in March to 2.2% from 2.3% in February. Underlying price pressures were softer than forecast, adding to expectations of an interest rate cut in April. The European Central Bank has been cutting rates recently even with a stated target of 2% inflation. The Bank of Japan has been hiking rates but may pause in light of global economic uncertainty. ~ T.Rowe Price

Fixed Income

March 31, 2025

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Bloomberg Aggregate	2.8	4.9	0.5	-0.4	1.5
Bloomberg 1-3 Gov Credit	1.6	5.6	3.1	1.6	1.7
Bloomberg Gov Credit Long	3.6	1.7	-4.5	-3.7	1.0
Bloomberg US TIPS	4.2	6.2	0.1	2.4	2.5
ICE BofA Merrill Lynch High Yield	1.0	7.5	4.8	7.2	4.9
S&P UBS Levgd. Loan (bank loans)	0.6	7.0	7.1	8.9	5.0
Bloomberg Global Aggregate	2.6	3.0	-1.6	-1.4	0.6
Blmbrg EmgMkt Sovereign (hard)	2.2	6.6	2.9	2.8	2.8

Notes: Data are presented as percent returns. All 3, 5-, and 10-year returns are annualized.



Source: Federal Reserve Bank of St. Louis (FRED), ICE BofA High Yield Index Option-Adjusted Spread and ICE BofA Corporate Index Option-Adjusted Spread

- Interest rates fell in the quarter and that boosted returns for bonds. The Aggregate posted a 2.8% return for the quarter and 4.9% for the past twelve months. Longer term results still bear the pain of 2022 and the low rate environment of the past decade.
- High yield bonds staggered slightly in the quarter, posting a 1.0% return. Credit spreads at the end of March widened out, which is a headwind to lower quality bonds. The same trend is evident in the bank loan sector. Longer term performance has been boosted by higher coupons.
- The chart to the left shows the historically tight credit spread of the past 5 years beginning to reverse in 2025. The red line represents high yield credit spreads and the yellow line represents investment grade credit spreads. Investors will demand higher yields to bear credit risk with the prospect of a slowing economy looming ahead.

DeFact

Bonds, as measured by the Aggregate, posted a 2.8% return versus a negative 4.3% for the S&P 500 in the quarter. The difference between the two returns was 7.1 percentage points. That difference is wider than any calendar year going back to the 2008-2009 market crash. However, looking at returns every quarter, bonds have outperformed stocks many times since March 2009 (bottom of the S&P 500), but in only 7 quarters have bonds beaten stocks by more than 7 percentage points. ~DeMarche

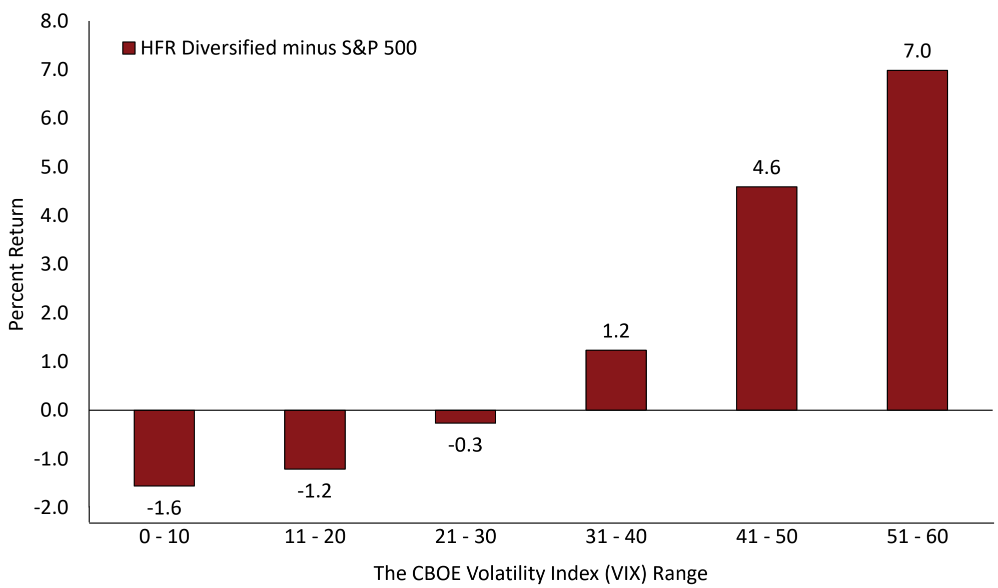
Less Liquid Strategies – Lagged One Quarter

March 31, 2025

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF ODCE	1.2	-1.4	-2.3	2.9	5.9
NCREIF Property (Private RE)	0.9	0.6	-0.8	3.2	5.7
Residential	1.2	1.5	0.4	4.3	5.8
Industrial	1.2	2.7	4.1	12.6	13.1
Office	-0.6	-0.3	-7.4	-3.1	2.1
Retail	1.9	5.3	2.3	0.7	3.6
NCREIF Timberland	1.4	7.0	9.8	7.8	5.4
NCREIF Farmland	-1.3	-1.0	4.4	4.8	5.9
HFR FOF Composite	0.6	7.5	2.6	4.9	3.6
Conservative	1.4	6.5	4.0	5.2	3.8
Diversified	2.9	9.6	3.8	5.6	3.9
Preqin Private Equity	2.8	6.9	3.4	14.0	13.7
Private Debt	1.8	8.4	7.4	9.2	8.4
Preqin Infrastructure	3.0	10.2	10.4	10.2	9.8

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.
All data in the table above are as of 12/31

Average Monthly Relative Return In Different Risk (VIX) Environments During Last 20 Years



Source: Federal Reserve Bank of St. Louis (FRED)

- The real estate market seems to be bottoming out in the last quarter of 2024 after struggling the past few years. Office properties have repriced dramatically lower due to higher interest rates and hybrid work arrangements.
- Farmland posted a negative return for the quarter due to pressure from excess supply in the permanent crop (primarily nuts) space. In addition, the stronger dollar has negatively impacted exports, making them more expensive. In a bright spot, annual crops have been providing a steady return, albeit in the single digits.
- With the market volatility in March, hedge funds posted mixed results. Global macro strategies did well while equity focused hedge strategies were negatively impacted given the volatility in the equity markets in the first quarter.
- Hedge Funds, as so named, hedge against market volatility. As the chart to the left shows, when market volatility is high, as measured by the Volatility Index (VIX), stocks face significant headwinds. In these types of environments, hedge funds tend to outperform the S&P 500.

DeFact

We have discussed the change in the office space market in real estate many times during the past few years. Office deliveries hit a 10-year low in 2024 and it is expected to be lower in 2025, as only 11.3 million square feet of new space was started in 2024. One building in Chicago, the largest sale so far in 2025, sold for $68 million, nearly 70% less than its 2013 sale price of $214.5 million.

~CommercialEdge

42nd Annual Client and Investor Conference – Disruption 2.0

Be sure to mark your calendar for the 42nd Annual DeMarche Client and Investor Conference from October 6-8 at the Loews Kansas City Hotel.

Our theme this year is Disruption 2.0. The potential disruption arising from global trade realignment, artificial intelligence, and budgetary priorities could portend the ascension of new strategies and asset classes to the fore of performance results. Our conference theme in 2016 was Disruption (1.0). At that time we said that global disruptors were more prevalent and impacted investors with much greater speed and force than ever before. That's even more true in 2025.

The strategic questions that institutional investors like you are asking require expert insight. The DeMarche Client and Investor Conference is designed to keep you on top of the critical investment topics, market forces, and developing industry trends that shape investment strategies and portfolio returns.

Please plan to join us this October to prepare for the economic, market, and geopolitical cycles to come. Learn from our consultants, analysts, and invited industry experts while networking with investment leaders, colleagues, and other institutional investors.

Registration and hotel reservations will begin in June.

SAVE THE DATE

October 6-8, 2025

Loews Kansas City Hotel

DeMarche

CELEBRATING 50 YEARS 1974-2024