Quarterly Market Review

Q1

First Quarter 2025

Honest questions. Genuine advice.

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WEALTH MANAGEMENT

Quarterly Market Review

First quarter 2025

This report features VeraBank Wealth Management market commentary, global stock and bond market performance data, and a timeline of events for the past quarter.

With commentary about what has taken place in the financial markets and economy from January 2025 through March 2025; you'll also find returns data for major asset classes which we also include in client portfolios.

The report concludes with our current views on the market and an article providing perspective on navigating volatility in financial markets.

Contact a VeraBank Wealth Management Advisor with any questions or if you know someone who might benefit from our expert advice.

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Volatility spikes in equity markets as tariffs spark fears of a global trade war

- Volatility has increased in equity markets, as investors price in the impact of higher tariffs on the American consumer, inflation, and corporate profits. At the moment, critical announcements that likely impact each of these factors are made almost daily, and the market is reacting accordingly.

- Diversification Wins: Non-US stocks significantly outperformed the US stock market. Non-US Developed country stocks were up 6.20% and Emerging Market country stocks were up 2.93% in Q1, while the US stock market lost -4.72%.

- Diversification also played an important role in performance within the US stock market. Large Value companies outperformed Large Growth, 2.14% to -11.12%, respectively. This is a deviation from the recent trend of the technology-heavy Large Growth stocks leading the stock market performance.

Interest rates volatile, but generally decline during Q1

- The Fed Funds target rate has remained steady at 4.25-4.50% since the Federal Reserve last cut a quarter point in December 2024.

- The bond market is less concerned about the Fed, and more focused on inflation staying on its declining course (and certainly not increasing). The impact of tariffs on the cost of living and the potential of starting a global trade war are greatly impacting interest rates.

- On the short end of the yield curve, the 1-Month US Treasury Bill yield decreased only 2 basis points (bps) to +4.38%, while the 2-Year US Treasury Note yield decreased 36 bps to +3.89%. The yield on the 10-Year US Treasury Note decreased 35 bps to +4.23%.

- Total returns on bonds were positive, fueled by decreasing yields, with the US Aggregate bond index gaining 2.78% in the first quarter.

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Quarterly Market Summary

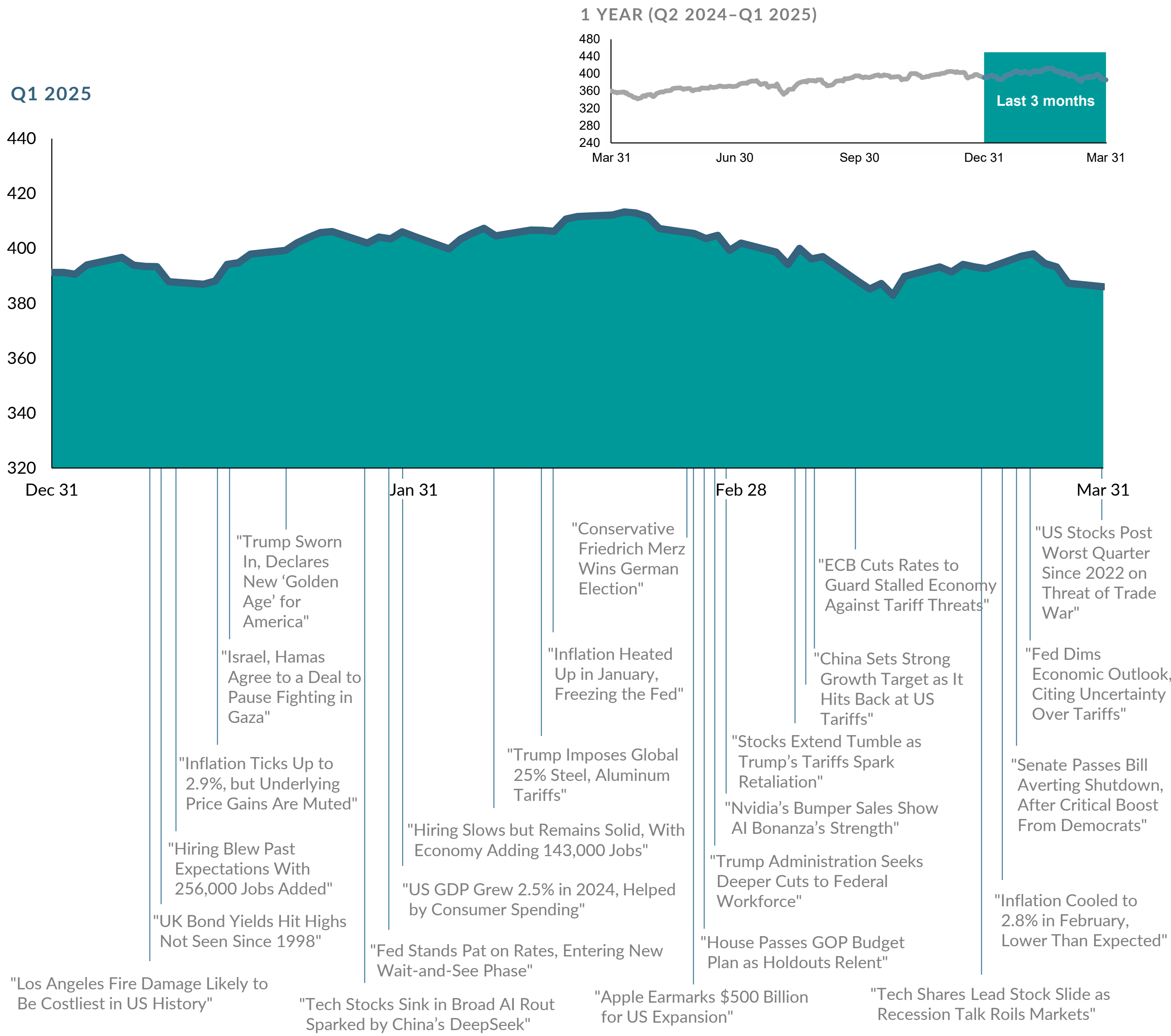
Index Returns as of March 31, 2025

	Stocks				Bonds	
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q1 2025	-4.72%	6.20%	2.93%	1.37%	2.78%	-0.17%
Since January 2001						
Average Quarterly Return	2.4%	1.6%	2.5%	2.2%	0.9%	0.9%
Best Quarter	22.0% 2020 Q2	25.9% 2009 Q2	34.7% 2009 Q2	32.3% 2009 Q3	6.8% 2023 Q4	5.4% 2023 Q4
Worst Quarter	-22.8% 2008 Q4	-23.3% 2020 Q1	-27.6% 2008 Q4	-36.1% 2008 Q4	-5.9% 2022 Q1	-4.1% 2022 Q1

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2025



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

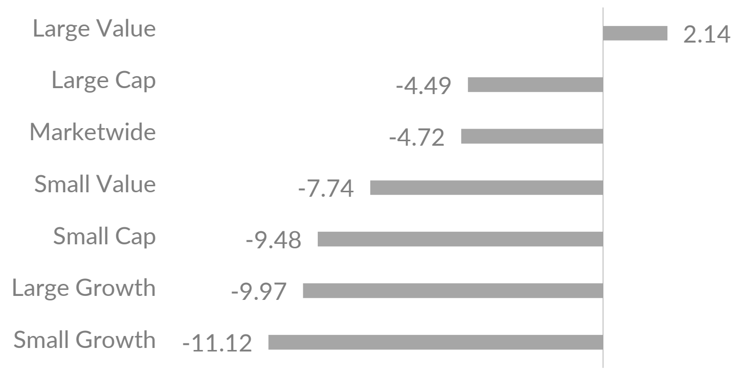
Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2025, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.
Past performance is not a guarantee of future results.

US Stocks

First quarter 2025 index returns

- The US equity market posted negative returns for the quarter and underperformed both non-US developed and emerging markets.
- Value outperformed growth.
- Small caps underperformed large caps.

Ranked Returns (%)



Periodic Returns (%)

		ANNUALIZED					
Asset Class	QTR	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Large Value	2.14	7.18	6.64	16.15	8.79	10.42	8.00
Large Cap	-4.49	7.82	8.65	18.47	12.18	13.02	10.24
Marketwide	-4.72	7.22	8.22	18.18	11.80	12.76	10.08
Small Value	-7.74	-3.12	0.05	15.31	6.07	8.19	6.80
Small Cap	-9.48	-4.01	0.52	13.27	6.30	8.98	7.55
Large Growth	-9.97	7.76	10.10	20.09	15.12	15.29	12.20
Small Growth	-11.12	-4.86	0.78	10.78	6.14	9.51	8.06

World Market Capitalization

63% US Market

$53.8 trillion

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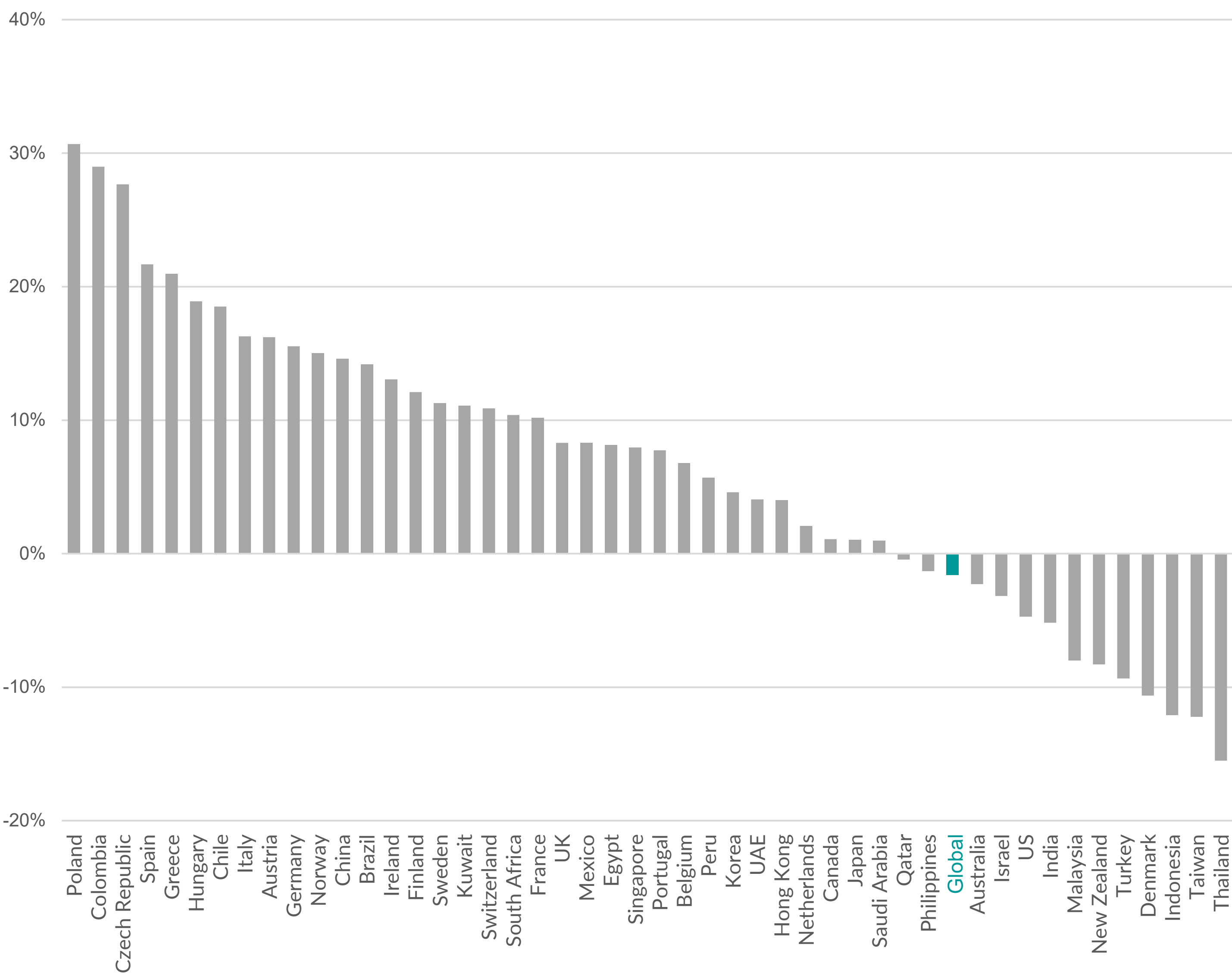
Country Returns

First quarter 2025 index returns



Past performance is no guarantee of future results. Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. MSCI data © MSCI 2025, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes.

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Fixed Income

First quarter 2025 index returns

Within the US Treasury market, interest rates generally decreased during the quarter.

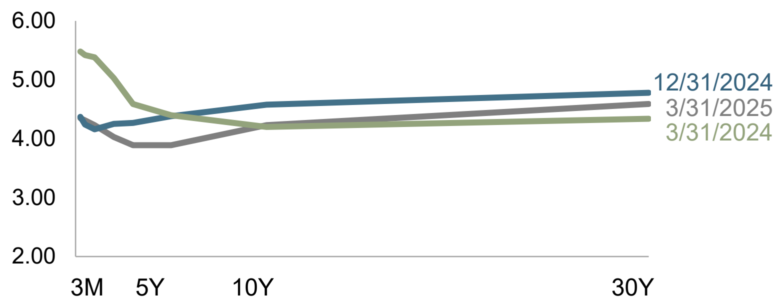
On the short end of the yield curve, the 1-Month US Treasury Bill yield decreased 2 basis points (bps) to 4.38%, while the 1-Year US Treasury Bill yield decreased 13 bps to 4.03%. The yield on the 2-Year US Treasury Note decreased 36 bps to 3.89%.

The yield on the 5-Year US Treasury Note decreased 42 bps to 3.96%. The yield on the 10-Year US Treasury Note decreased 35 bps to 4.23%. The yield on the 30-Year US Treasury Bond decreased 19 bps to 4.59%.

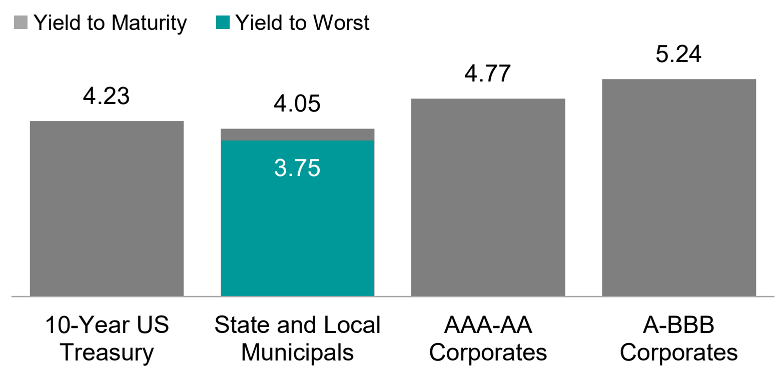
In terms of total returns, short-term US treasury bonds returned +2.04% while intermediate-term US treasury bonds returned +2.49%. Short-term corporate bonds returned +1.96% and intermediate-term corporate bonds returned +2.27%.

The total returns for short- and intermediate-term municipal bonds were +1.00% and +0.64%, respectively. Within the municipal fixed income market, general obligation bonds returned -0.29% while revenue bonds returned -0.22%.

US Treasury Yield Curve (%)



Bond Yields Across Issuers (%)



Periodic Returns (%)

Asset Class	QTR	ANNUALIZED 1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Bloomberg U.S. Government Bond Index Long	4.67	1.28	-7.17	-7.83	-0.54	3.01	3.56
Bloomberg U.S. TIPS Index	4.17	6.17	0.06	2.36	2.51	3.10	3.53
Bloomberg U.S. Aggregate Bond Index	2.78	4.88	0.52	-0.40	1.46	2.44	3.18
FTSE World Government Bond Index 1-5 Years	2.75	4.26	0.67	-0.12	0.71	0.22	1.28
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.43	5.52	2.90	1.27	1.75	1.75	2.43
ICE BofA 1-Year US Treasury Note Index	1.05	4.98	3.42	1.88	1.73	1.28	1.86
ICE BofA US 3-Month Treasury Bill Index	1.02	4.97	4.23	2.56	1.87	1.27	1.68
Bloomberg U.S. High Yield Corporate Bond Index	1.00	7.69	4.98	7.29	5.01	6.19	6.59
Bloomberg Municipal Bond Index	-0.22	1.22	1.53	1.07	2.13	3.11	3.48

1. Bloomberg US Treasury and US Corporate Bond Indices.
2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results.** Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Bloomberg data provided by Bloomberg.

Market Perspectives

VeraBank Wealth Management Commentary

Short-term Uncertainty

- A stock price represents the value of the company – more importantly the expectation of the future value of the company. Investors should expect a stock price to move almost instantly when any news is announced that impacts the value of a company and its future profits.

- Over the last several weeks, there have been frequent announcements that likely have potential impact on most companies across the world either now or in the future.

- Uncertainty can be unsettling, but it shouldn't impact investors who have a well-thought out, well-designed, and managed investment strategy. Asset allocation is important. Equity markets have shown to be resilient over the course of history, with a diversified portfolio bouncing back quickly after sell-offs. Fixed income and cash allocations are structured so that short and intermediate cash needs are covered, thus eliminating much of the concern over short-term stock volatility.

What's Next?

- While no one can predict the future, you can plan for it. The time to discuss asset allocation and investments in stocks and bonds is not during volatile times – it should be the first decision made before investing and revisited regularly as an investor's life, needs, or preferences change.

- Our job is to work with clients, so they understand what it means to invest in stocks and bonds, why we allocate certain percentages of their assets to stocks and bonds, and we partner with them to find the right mix of investments for not only their needs, but also their peace of mind.

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Navigating Market Volatility: Perspective Can Go A Long Way

It's often said victory favors the prepared and when it comes to investing, we believe it to be true. During times of increased market volatility, it's good to take a step back, get some perspective, and confirm that our clients are adequately prepared for the ups and downs that come from investing in financial markets.

Financial markets are inherently volatile, with periods of heightened uncertainty often causing concern among investors. We understand the concern since assets held in client portfolios are an important source of funding for many of their most important goals. Market downturns, geopolitical instability, and macroeconomic shifts can all contribute to short-term fluctuations that may tempt investors to make reactive decisions. However, understanding the nature of volatility, maintaining a long-term perspective, and aligning an investment strategy with personal financial goals are essential to achieving sustained investment success.

Short-Term Volatility: A Natural Market Phenomenon

Volatility is a normal and expected part of investing and seems to be increasing. From 2000-2007, measured by an increase in the VIX index of greater than five points, US Equity markets experienced five volatility shocks. From 2008-2024, the total rose to 72. Prices fluctuate as investors digest the steady flow of economic data, earnings reports, interest rate changes, and external shocks such as global conflicts or pandemics. During periods of heightened volatility, stocks may experience sharp declines, leading some investors to panic and move to cash or other "safe" assets. However, history shows that reacting to short-term market movements can be detrimental to long-term returns.

Being able to tune out the short-term noise and focus on what's important helps investors to avoid dangerous behaviors like selling during market downturns. Those that sell often miss out on the subsequent recovery that typically begins long before the news gets materially better. For example, the S&P 500 declined more than 50% from its peak in the financial crisis of 2008-2009 but rebounded strongly in the following years. Those who remained invested not only recouped their losses but also benefited from a historic bull market.

The Power of Long-Term Investing

Markets have historically trended upward over extended periods. Historical data supports the notion that patient, long-term investors are rewarded for staying the course. According to studies of the S&P 500, while the market has had numerous short-term downturns, it has delivered an average annual return of approximately 10% over the past century. Investors who focus on short-term declines risk missing out on the compounding growth that occurs over years and decades. We are often reminded that time in the market is where real wealth is created. And since short term market movements are difficult to accurately predict, we must stay disciplined and engaged.

Navigating Market Volatility: Perspective Can Go A Long Way

The Power of Long-Term Investing *(Continued)*

Diversification plays a key role in mitigating risk over the long term. A well-diversified portfolio that includes a mix of equities, bonds, real assets, and alternative investments can reduce the impact of volatility on overall returns. Diversification ensures that investors are not overly exposed to the short-term risks of any single asset class or market segment. For example, as of this writing, the S&P 500 has declined 7.4% YTD 2025, and the EAFE Index (International Equities) and AGG Index (US Fixed Income) are up 4.11% and 1.69%, respectively. A portfolio balanced across stocks and bonds is down just over 2% YTD through mid-April.

Aligning Investment Strategy with Financial Goals

One of the most critical aspects of investing is ensuring that portfolio strategies align with an individual's specific financial goals, time horizon, and risk tolerance. Investors with longer time horizons—such as those saving for retirement—can typically afford to withstand short-term volatility in exchange for higher potential long-term returns. On the other hand, those with shorter investment horizons, such as individuals approaching retirement or planning for a near-term expense, may need to take a more conservative approach with greater emphasis on capital preservation.

A well-structured investment plan should be based on the following principles:

- Clearly Defined Objectives – Understanding whether the goal is retirement income, wealth accumulation, or funding an upcoming expense helps determine asset allocation.
- Risk Tolerance Assessment – Investors need to determine how much short-term fluctuation they can tolerate without making emotional decisions.
- Portfolio Diversification – Spreading investments across asset classes reduces risk while maintaining growth potential.
- Periodic Rebalancing – Over time, market movements may shift a portfolio's asset allocation. Regular rebalancing ensures that the portfolio remains aligned with the investor's original objectives.

Market volatility is inevitable, but it shouldn't be feared. Investors who adopt a long-term mindset, stay disciplined, and align their investment strategies with their personal financial goals are better positioned to achieve success. Rather than reacting to short-term market movements, individuals should focus on sound investment principles that prioritize consistency, diversification, and patience. By maintaining perspective and avoiding impulsive decisions, investors can navigate volatility while securing their financial future.

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