THE SERIOUS INVESTOR: SPRING 2025

Welcome to the spring edition of LVW's *The Serious Investor*.

Following two years of exceptional returns, 2025 has marked a pivotal shift in market dynamics. The relative calm of 2024 gave way to heightened uncertainty after the President's April 2 announcement of expanded tariff policies. Global equity markets reacted sharply, with the S&P 500 dropping nearly 19% from its February 19 peak.[1]

This week brought slight reprieve as the administration implemented a 90-day pause on most "reciprocal" tariffs. However, the 10% broad duty remains in effect while trade negotiations begin. Notably, Chinese imports are excluded from the pause, and both nations have escalated their tariff measures despite hints of potential high-level discussions.

Despite the pause, the ultimate resolution remains uncertain, and the potential for the U.S. to slip into a recession is rising. As of April 11, despite a partial rebound, the S&P 500 remains over 12% below its February peak. The NASDAQ and the "Magnificent 7" technology stocks have suffered sharper declines of 15% and 19%, respectively. Meanwhile international markets, which held up better during the first quarter, are now also seeing significant pullbacks.

One of the most striking developments this quarter has been the shift in market leadership. In 2023 and 2024, the "Magnificent 7" technology companies drove market gains, contributing 63% and 55% of the S&P 500's returns, respectively. By early 2025, these companies accounted for roughly 33% of the index.[2]

During the first quarter, however, these same technology giants were responsible for 101% of the S&P 500's negative returns.[3] This means the remaining 493 companies in the index showed positive aggregate returns, highlighting the critical importance of diversification in today's market.

Our portfolios have generally maintained a modestly defensive positioning, which we believe has helped navigate the dramatic spike in volatility.

Our investment process continues to be driven by our valuation, growth, and liquidity framework, which currently presents a cautionary outlook:

Valuation

The valuation picture for U.S. equities is mixed. With the recent pullback, the S&P 500 is trading at roughly 19x forward earnings.[4] This is certainly more attractive than the 22x we observed earlier this year, but it remains above the long-term average. U.S. small cap stocks, international equities, and emerging markets present more reasonable valuations.

Growth

The Q1 2025 growth outlook deteriorated significantly as uncertain policy initiatives added to already softening economic data. Early forecasts projected strong Q1 GDP growth of more than 2%, yet as the quarter progressed, weaker-than-expected consumer spending, declining exports, and rising unemployment claims led to a sharp reassessment. By the end of March, the Atlanta Fed's GDPNow tracker pointed to a contraction of 2.8%. Notably, February saw a surge in imports, though it is uncertain whether this reflects spending ahead of tariffs or decreased demand for U.S. goods.

While we have seen a decline in first quarter earnings estimates, we believe the uncertain playing field has also made analysts reluctant to meaningfully adjust their full-year 2025 expectations.

Liquidity

Despite market volatility, liquidity conditions, for the most part, have remained orderly. The Federal Reserve paused further rate cuts in Q1, signaling caution in the face of economic uncertainty. Chair Jerome Powell's dovish tone following the March meeting emphasized the Fed's commitment to stability while closely monitoring inflation and labor market dynamics. Credit spreads remained low during the quarter but rose significantly in April after the President's "liberation day" announcement and barely retreated after the pause was announced. Nonetheless, credit spreads remain in line or slightly below the long-term average.

Market Positioning and Investment Outlook

Uncertainty and volatility will likely be with us for the foreseeable future. While markets have partially rebounded from their April 8 lows, we could certainly retest those lows or go further down as events continue to unfold. Having lived through numerous downturns in the past, we have learned that trying to predict outcomes is folly and the best way to navigate uncertainty is to maintain discipline.

While the "self-inflicted" nature of this market correction is unsettling, thus far the magnitude is not unusual. Since 1980, the S&P 500 has seen 25 corrections of 10% or more, with an average intra-year drawdown of 14.1%.[5] When not tied to recessions, markets have typically recovered within 4-6 months following such corrections.

We continue to focus on high-quality investments with strong balance sheets and stable cash flows. We see fixed income, multi-strategy investments, and cash as important sources of portfolio stability, and we currently have plenty of flexibility to make thoughtful rebalancing decisions as opportunities arise.

Conclusion

Periods of transition bring both risk and opportunity. As markets evolve, disciplined investors who focus on fundamentals rather than short-term fluctuations should be well-positioned to capitalize on opportunities that may be created. Most importantly, we encourage investors to maintain perspective and stay focused on their long-term financial objectives.

Please feel free to reach out with any questions or to discuss your portfolio strategy further. We appreciate your continued trust and confidence in LVW Advisors.

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1 Bloomberg, April 14, 2025
2 J.P. Morgan Guide to the Markets, April 10, 2025
3 J.P. Morgan Guide to the Markets, April 10, 2025
4 Bloomberg, April 14, 2025
5 J.P. Morgan Guide to the Markets, April 10, 2025

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