Monthly Market Update

April 2025

Madison INVESTMENTS

Highlights:

- The S&P 500 fell -5.6% in March, bringing the year-to-date loss to -4.3%, driven by concerns over tariffs and economic uncertainty.
- Despite the downturn, seven of the eleven S&P 500 sectors remained positive for the year, with Energy leading and Technology, Consumer Discretionary, and Communication Services lagging.
- Bonds outperformed equities, with the U.S. Aggregate Index up 2.8% year-to-date, reflecting expectations of potential Federal Reserve rate cuts.
- Falling consumer and business confidence may slow economic activity, with preliminary data suggesting negative GDP growth in Q1.

Our February observation of investment uncertainty has morphed in a month into market cliché. This environment dragged the S&P 500 Index to a -5.6% loss in March, taking the year-to-date and first quarter return to -4.3%. Consumer and business sentiment plummeted, reflecting a number of concerns topped by the threat of tariffs and their repercussions. For much of March, investors looked to April 2 for clarity, the date President Trump promised to announce tariff policies. We held this letter for this moment, but as many feared, the revelations raised more questions than they answered. One element seemed clear: the size and breadth of the initial tariffs surpassed expectations, and this was not a market positive. The likelihood of retaliation and the expectations of unpredictable nation-by-nation negotiations were widely unsettling.

But we have to emphasize that the gloomy mood over March returns was not entirely justified. Seven of the eleven S&P 500 sectors remained positive for the year, and the broader market did better than the indices. Just as the megacap tech names had driven the market upward in 2024, they led the recent retreat, leaving the year-to-date equal-weighted S&P 500 just fractionally lower. The trailing sectors for the month and quarter were Technology and Consumer Discretionary, followed by Communication Services. The top performing sector was Energy, while the defensive sectors of Consumer Staples and Health Care beat the market handily. Midcap and small-cap stocks underperformed.

Bond investments generally outperformed equities for the month and quarter, with the U.S. Aggregate Index up 2.8% year-to-date. Rates were down across the curve for the quarter, but most pronounced at the front end in the one-to-three-year range. This reflected the consensus that the Federal Reserve was still likely to drop rates twice more this year, although sticky inflation could give the board pause. The ending ten-year Treasury yield of 4.2% was well above the 2024 lows of 3.6% and suggested that bond investors were not fearing an impending recession.

Looking forward, we are among the many who see more fog than clarity. If we can clear some of the tariff air over the next few months, the prospect of lower regulation and taxation could be an economic boost in the second half of the year. On the other hand, dipping consumer and business sentiment can become self-fulfilling if investors retreat from the stock market and consumers step back from the consumer marketplace. Should the new tariffs drive prices upward, as the CEOs of major retailers project, consumer sentiment is unlikely to rebound. Preliminary numbers suggest negative GDP growth in the first quarter and portend a challenging year.

The prevailing uncertainty has already been felt in corporate capital expenditure spending and may well bleed over to staffing. The kind of massive manufacturing investiture that President Trump triumphs as a tariff windfall may indeed take place, but will likely not have an impact for years. In the meantime, the disparate sector and company returns of March suggest to us that we are in a period where careful security selection is paramount.

Portfolio Manager Q&A - Joe Maginot

What are you hearing from management teams as it relates to tariffs and the state of business?

The comments have been varied, as you can imagine, depending on the nature of the business. Companies that are asset-light or service-oriented, meaning they do not manufacture tangible goods, should be relatively unaffected by tariffs as long as their customers don't experience a significant impact as well. For companies that do manufacture tangible goods and ship those goods across borders to end customers, you'll likely see varying degrees of impact. Many of the companies we speak with and invest in implemented mitigation strategies during the last trade war in the 2010s. Things like diversifying the supply chain—not having a sole source for raw materials—and "local for local" manufacturing policies, in which products are made in the same geographic area as the end customers.

Joe Maginot
Portfolio Manager, Analyst

These strategies should provide a degree of insulation compared to companies that may have a sole source supply chain or ship across borders.

How does the team assess macro threats, like the impact of tariffs, on the portfolio?

Whenever a shock like this happens, our first step is to look at what we own and assess the opportunities and threats. In this latest case with tariffs, we looked at the first order impact on revenue. Then we evaluated the impact it will have on the company's customers. We then review the income statement to determine the impact on the business's cost structure. In other words, how sensitive is the company's cost of goods to an inflationary impulse such as a tariff? Can they pass that pricing through or not? Will they have to absorb it in the margin structure? If they have to absorb it, how big of an impact will that be?

More broadly, our philosophy and process lead us to what we call "all-weather" companies. We don't construct our portfolios based on any type of underlying environment. Rather, we want to invest in companies that can absorb a wide range of outcomes. Shocks like these are inevitable over time, and we want to invest in companies that can survive, thrive, and hopefully take market share during tough environments.

Are opportunities emerging, given the recent selloff?

The two areas of the market where we are finding incremental opportunities are U.S. housing and life science tools—both industries that have been hit with near-term headwinds. On some measures, the U.S. housing market is about as bad as it has been the better part of the last 10-15 years. There are many excellent businesses that offer attractive returns on capital and promising growth prospects, but are currently navigating the headwinds affecting their industry, including higher mortgage rates, low housing turnover, and similar factors. In our opinion, many of these stocks are attractively priced.

Within life science tools, there continues to be negative news flow surrounding the industry, whether it's the NIH budget being cut or biotech funding problems. However, there are also excellent companies that we believe will become significantly larger in the future. They have attractive business economics, and they grow revenues in line with GDP, if not at some multiple of GDP. And this is where we like to lean into during times of uncertainty.

U.S. Equities (%)

	March	QTD	YTD	1 Year	3 Year	5 Year	10 Year
DJ Industrial Average	-4.1	-0.9	-0.9	7.4	8.8	16.2	11.4
S&P 500	-5.6	-4.3	-4.3	8.3	9.1	18.6	12.5
Russell 1000	-5.8	-4.5	-4.5	7.8	8.7	18.5	12.2
Russell 1000 Value	-2.8	2.1	2.1	7.2	6.6	16.2	8.8
Russell 1000 Growth	-8.4	-10.0	-10.0	7.8	10.1	20.1	15.1
Russell Midcap	-4.6	-3.4	-3.4	2.6	4.6	16.3	8.8
Russell 2000	-6.8	-9.5	-9.5	-4.0	0.5	13.3	6.3

U.S. Equity Characteristics - S&P 500

	March	2024
Price/Earnings Ratio (NTM)	20.3	21.6
Weighted Avg. Market Cap ($B)	906.4	1,117.1
Dividend Yield (%)	1.3	1.3

International Equities (%)

	March	QTD	YTD	1 Year	3 Year	5 Year	10 Year
ACWI	-4.0	-1.3	-1.3	7.2	6.9	15.2	8.8
ACWI ex USA	-0.2	5.2	5.2	6.1	4.5	10.9	5.0
MSCI EAFE	-0.4	6.9	6.9	4.9	6.1	11.8	5.4
Emerging Markets	0.6	2.9	2.9	8.1	1.4	7.9	3.7
China	2.0	15.0	15.0	40.4	3.5	1.5	2.5
Japan	0.2	0.3	0.3	-2.1	5.3	8.8	5.3
Germany	1.7	15.6	15.6	19.0	11.8	14.4	4.8
United Kingdom	0.7	9.7	9.7	14.4	8.0	13.8	4.9
India	9.4	-3.0	-3.0	1.8	6.9	20.5	7.8

Fixed Income (%)

	March	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Government Bond	0.2	2.9	2.9	4.5	0.0	-1.6	1.0
Municipal	-1.7	-0.2	-0.2	1.2	1.5	1.1	2.1
U.S. Aggregate Bond	0.0	2.8	2.8	4.9	0.5	-0.4	1.5
Investment Grade Corporate	-0.2	2.4	2.4	4.9	1.1	1.4	2.3
High Yield	-1.0	1.0	1.0	7.7	5.0	7.3	5.0

U.S. Equity Sectors - S&P 500 (%)

	March	QTD	YTD	Weight
Communication Services	-8.3	-6.2	-6.2	9.2
Consumer Discretionary	-8.9	-13.8	-13.8	10.3
Consumer Staples	-2.4	5.2	5.2	6.1
Energy	3.9	10.2	10.2	3.7
Financials	-4.2	3.5	3.5	14.7
Health Care	-1.7	6.5	6.5	11.2
Industrials	-3.6	-0.2	-0.2	8.5
Information Technology	-8.8	-12.7	-12.7	29.6
Materials	-2.6	2.8	2.8	2.0
Real Estate	-2.4	3.6	3.6	2.3
Utilities	0.3	4.9	4.9	2.5

Key Asset Prices

	March	2024
EUR/USD	1.08	1.04
USD/CAD	1.43	1.44
USD/JPY	150.26	157.37
GBP/USD	1.29	1.25
Bitcoin ($)	82,548.9	93,429.2
Gold ($/oz)	3,126.0	2,608.0
Crude Oil (WTI) ($/bbl)	70.0	72.4

U.S. Treasury Yields (%)

	March	2024
3-Month	4.3	4.4
6-Month	4.2	4.2
2-Year	3.9	4.3
5-Year	4.0	4.4
10-Year	4.2	4.6
30-Year	4.6	4.8

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Large Cap investing is based on the expectation of positive price performance due to continued earnings growth or anticipated changes in the market or within the company itself. However, if a company fails to meet that expectation or anticipated changes do not occur, its stock price may decline. Moreover, as with all equity investing, there is the risk that an unexpected change in the market or within the company itself may have an adverse effect on its stock. Investing in growth-oriented stocks involves potentially higher volatility and risk than investing in income-generating stocks. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

Diversification does not assure a profit or protect against loss in a declining market.

Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only, and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The S&P 500® Index is a large-cap market index which measures the performance of a representative sample of 500 leading companies in leading industries in the U.S.

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 89% of the total market capitalization of the Russell 3000 Index.

The Russell 1000® Growth Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit growth characteristics.

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Russell 2000® Index is a small-cap market index which measures the performance of the smallest 2,000 companies in the Russell 3000® Index.

The Russell Midcap® Index is a mid-cap market index which measures the performance of the mid-cap segment of the U.S. equity universe.

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The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 23 Emerging Markets countries. With 1,843 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The MSCI EAFE (Europe, Australasia & Far East) Index is a free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada.

Emerging Markets - MSCI Emerging Market Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,138 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

China - MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

Japan - MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

Germany - MSCI Germany Index is designed to measure the performance of the large and mid cap segments of the German market.

United Kingdom - MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market.

India - MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market.

Government Bond - Bloomberg US Government Index measures the performance of the U.S. Treasury and US Agency Indices, including Treasuries and US agency debentures. It is a component of the US Government/ Credit Index and the US Aggregate Index.

Municipal - Bloomberg US Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

U.S. Aggregate Bond - Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

Investment Grade Corporate - Bloomberg US Credit Index measures the investment grade, USD-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

High Yield - Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

Weighted Avg. Market Cap: measures the size of the companies in which the portfolio invests. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its price per share.

Price-to-Earnings (P/E) Ratio: measures how expensive a stock is. It is calculated by the weighted average of a stock's current price divided by the company's earnings per share of stock in a portfolio.

Dividend Yield: the portfolio's weighted average of the underlying portfolio holdings and not the yield of the portfolio.

Bond Spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, and risk, calculated by deducting the yield of one instrument from another.

A basis point is one hundredth of a percent.

Yield Curve: a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward-sloping curve), inverted (downward-sloping curve), and flat.

The Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

The federal funds rate is the target interest rate range set by the Federal Open Market Committee (FOMC) for banks to lend or borrow excess reserves overnight. It influences monetary and financial conditions, short-term interest rates, and the stock market.

Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. Duration measures how long it takes, in years, for an investor to be repaid the bond's price by the bond's total cash flows.

Upon request, Madison may furnish to the client or institution a list of all security recommendations made within the past year.

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