INTELLIGENT INVESTMENT

First Quarter 2025

S&P 500 YTD (-4.59%)[3]

MSCI ALL WORLD ex US YTD 2.01%[3]

"But go crazy on you…
Crazy on you… Let me go crazy, crazy on you "[1]…

2025 certainly has provided "Nada One"[1], but several items to cover. Following two strong 20% plus years, markets appear unsure of what to expect which has caused them to "Go Crazy on You"[1]. What could be causing the heightened volatility and turmoil? Will markets calm down or will we be contending with this "Barracuda"[1] for the foreseeable future?

Wall Street got off to a good start to begin 2025 and continued to rally for much of the quarter. January opened the year on a high note, stocks moved generally higher, with each of the benchmark indices closing in positive territory. The S&P 500 gained 2.7%[4], the NASDAQ climbed 1.6%[4], and the Dow rose 4.7%[4]. Several of the benchmarks reached record highs in January through mid-February. However, "These Dreams"[1] turned into a nightmare as U.S. stocks closed the first quarter in a tailspin, unable to keep pace other global markets. The S&P 500 lost nearly 5.0%[4], while the NASDAQ declined over 10.0%[4]. Among the market sectors, the first quarter saw consumer discretionary fall more than 16.0%[4], information technology decline about 15.0%[4], and communication services drop nearly 8.0%[4].

It seems nearly unthinkable how "Heartless"[1] markets treated investors during the first quarter. Following the presidential election, investors began the January hopeful that the new administration would encourage economic growth and lasso inflation. However, the Trump administration embarked on an economic policy that threatened or imposed tariffs on goods from major trade partners including Canada, Mexico, and China, as well as the European Union. Throughout March, investors worried about the impact of a trade war, rising inflation, and a potential economic recession. Clearly investors "Never"[1] expected the Trump administration to be headwind.

"Who Will You Run To?"[1] if the Trump administration has "Stranded"[1] financial markets. Investors of course turned to the "Magic Man" Fed Chair Powell during his press conference on March 19th hopeful he would provide sage wisdom and policy direction keeping markets and economies bolstered while the new administration commences with their aggressive tariff policy adventure. Unfortunately for investors it doesn't appear the Fed is going to run to the rescue until there is sufficient data to implement a change in monetary policy. Chair Powell said "Looking ahead, the new administration is in the process of implementing significant policy changes in four distinct areas: trade, immigration, fiscal policy and deregulation. It is the net effect of these policies that will matter for the economy and for the path of monetary policy." In a nutshell the Fed needs to see hard data resulting from the implementation of the administration's new policies before they are willing to chart a new course.

Although relief for investors from the monetary policy side doesn't seem to be forthcoming in the immediate future, there is some good news, moreover we are not in uncharted waters. ARPG views this current market action similarly to 2018 and 2020 during the first wave of tariffs under Trump's first administration as well as the Covid pandemic. In 2018, S&P 500 cratered over 10% from January 26th to February 8th triggered by President Trump's comments on tariffs at Davos on January 26th only for the markets to be fully recovered by August 24th[4]. Moreover the unimaginable market volatility we witnessed stemming from Covid in 2020 took the broad market down a monumental 34% in just 23 trading days From February 19th to March 23rd again only to be fully recovered by August 18th[4]. The S&P 500 reached an all-time high this year of 6144 on February 19th[4]… is this pattern starting to look familiar? I would say it is, we have seen these late winter / early springs market swoons before.

The economy is strong, earnings are robust and interest rates are coming down. Unemployment is well at the lower end of its historical range of 4.2%[4], with 7.57 million open jobs, well above the 20-year average of 5.7 million[4]. Interest rates are beginning to become a tailwind with the 2-year note ending the quarter at about 3.92%, a decrease of 28.0 basis points from the beginning of the quarter as well as the 10 year Treasury note finishing the quarter 0.37% lower at 4.21%[4]. Earnings estimates are holding in strong as we have seen S&P 500 estimates contract by basically" Nothing at All" , at $268.18 down from $270.14 or just 0.7% from January 31 to March 31st[4]. Earnings estimates from 6 of the Magnificent 7, Apple, Amazon, Meta, Google, Nvidia and Microsoft have actually expanded by an average of 0.2% since January[4].

There is as much to be hopeful for as there is to be dour. During these times of turmoil, I am reminded of a few lines from my favorite poem "If" by Rudyard Kipling:

If you can keep your head when all about you
Are losing theirs,

If you can think—and not make thoughts your aim;
If you can meet with Triumph and Disaster
And treat those two impostors just the same;

Yours is the Earth and everything that's in it[5]

Spring is here time to head outside and enjoy the warmth and remember, you are not "Alone" …and this too shall pass. Pour yourself a tasty beverage, be it coffee, tea or "White Lightning and Wine"[1]. In any season or market, the best investors always focus on the long term and ARPG will continue to practice our approach to value investing, "Intelligent Investment is Investment on Value, buying high quality companies in low quality times". This is what we believe sets ARPG apart from the rest. As always, we thank you for your confidence and are humbled by your trust. Please feel free to contact us at any time.

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Sincerely,
Matthew D. Dahl
Chief Investment Officer

1. Heart
2. Federal Reserve Chairman Jerome Powell
3. ARPG / Stockcharts.com
4. Factset
5. Rudyard Kipling