



## *2025 SPRING INVESTMENT OUTLOOK*

**A**s winter turns to spring, the capital markets are undergoing a change of character. Economic growth was already slowing somewhat as 2025 commenced and coupled now with the policy uncertainty from the new Trump administration in Washington this has led to a pick-up in stock market volatility not seen since last year's 8.5% mid-summer swoon. Headline equity indices entered the year at frothy valuations and have now transitioned into a price correction trend, falling more than the 10% threshold in the 16 trading days following the February 19<sup>th</sup> peak.

The consumption-driven U.S. economy has performed unevenly throughout the first quarter. Retail sales declined -1.2% in January from the prior month and bounced back a modest +0.2% in February, well below consensus expectations. Discretionary spending has been particularly weak with categories like autos, electronics, apparel, and foodservice declining quarter-to-date. Such fundamental weakness was affirmed by the management teams of many large retailers during the most recent quarterly earnings calls. Broader measures of service activity are also off to a slow start.

Crude oil prices have declined 16% since mid-January, bringing a welcome relief to both businesses and consumers. While the inflation prints over the coming three months face some easy comparisons in terms of prior year base effects, the implementation of tariffs will now complicate the future trajectory. The Treasury market seems to be discounting the tariffs as a one-time price adjustment (not an upward spiral) and contemplating a slower growth regime. Two-year Treasury yields sit at 3.92%, falling from a mid-January high of 4.38%. Ten-year yields have declined 62 bps to 4.17%, meaningfully below the 4.99% cyclical peak of October '23.

Equity investor posture also seems to be more defensive as the first quarter nears an end. An examination of positioning data and manager surveys show institutional investors rotating away from the more cyclical sectors of the market and hot pockets of recent times. Value stocks have provided some investors a cushion during the correction, declining just 3.7% from the February 19<sup>th</sup> S&P 500 peak relative to the 11.0% decline in the growth index. The so-called Magnificent 7 megacap tech stocks are down 19.5% collectively since peaking in mid-December as investors contemplate a more sober growth path relative to the breakneck pace of the past two years. Innovation around AI and the cloud will continue and at a premium speed relative to the economy, but at a decelerating rate-of-change on an absolute basis (at least for now). The Dow Jones Transportation Average is down nearly 17% from its November peak, flashing a worrisome sign for the headline Industrial index which it usually leads.

The Atlanta Fed GDPNow model currently projects a -1.8% GDP decline for U.S. growth in the first quarter but much of this weakness reflects the pull-forward of imports ahead of the Trump tariffs and the subsequent math to account for this distortion (as to not double-count the future consumption of these goods). Underlying growth is still relatively weak nonetheless in terms of the trend in real final sales, currently modeled at +1.5% by the Atlanta Fed and somewhat below the economy's 1.8%-2.0% longer run potential. Thus, the data reflects an economy that could be in "transition" (to use President Trump's own

words) and a re-assessment of growth prospects is warranted for at least the first half of this year given some of the wildcards.

The stock market correction has been quite orderly thus far and we haven't yet observed the rapid decline in prices that induces a negative feedback loop between the economy and markets, which usually precipitates a recession. However, we wouldn't be surprised to see additional price weakness towards the average 16% drawdown over the past 60 years for a run-of-the-mill correction given the many variables at play.

### 2025 YTD Total Returns

|                    | <u>3/19/25</u> | <u>% Change</u> |
|--------------------|----------------|-----------------|
| Dow 30 Industrials | 41,965         | -1.0%           |
| S&P 500            | 5,675          | -3.2%           |
| NASDAQ Composite   | 17,751         | -7.9%           |
| MSCI ACWI ex-USA   | 354            | +9.2%           |

The Dow 30 Industrial Index is a price-weighted index of 30 U.S. blue-chip companies. The S&P 500 Index is a market capitalization-weighted index of 500 large capitalization stocks commonly used to represent the US equity market. The NASDAQ Composite Index is a market capitalization-weighted index of over 2,500 companies listed on The NASDAQ Stock Market. The MSCI ACWI ex USA Index is a market capitalization-weighted index representative of developed and emerging market stocks excluding the U.S.

### *Outlook*

**W**hile some indicators clearly reflect a soft patch in the economy, other real-time gauges support the thesis that recession prospects are far off for now. Initial weekly jobless claims for unemployment insurance continue to average just 225k on a four-week moving basis, near the lows of the past decade and despite the impact of DOGE on the government workforce. Monthly payrolls, although a little more lagging than the claims data, have averaged a solid 138k average additions per month to start the year on a seasonally adjusted basis. Combined with solid wage growth this combination provides the aggregate income needed to keep the consumption-driven economy on-trend.

The implied probability of a recession through the lens of the credit markets is also very low. Credit is the mother's milk of economic activity and hence the movement of corporate spreads (the extra interest rate relative to Treasuries) has historically been a decent leading indicator for both the stock market and the economy. High yield spreads are currently +319 bps wider than Treasuries and have widened 63 bps off the late January low. The widening has been mild thus far. When financial conditions tightened in 2022 and 2023 high yield spreads spiked to +500-575 bps wide; and during recessions the spread widening is always much sharper, usually spiking to more than +1,000 bps over Treasuries within 1-3 months of a local bottom. Observing the trends in jobless claims and credit spreads will be informative to get a good read on the economy as it transitions towards mid-year.

While a slowing economy would normally help put the breaks on price inflation, the near-term inflation trajectory will be impacted by the Trump administration sprinting out of the gates with tariffs as a means to rebalance trade flows, boost domestic manufacturing, and combat an influx of illegal drugs. There is broad agreement among economists that tariffs are a tax on imported goods that are normally paid by the importing company, which in turn passes on some or most of the cost of the tariff to consumers in the form of higher prices. Research by four economists at the Atlanta Fed estimate that the latest tariffs on goods from China, Mexico, and Canada could increase consumer prices between 0.81% and 1.63%, assuming half to full pass-through. A raft of additional measures is expected on April 2<sup>nd</sup> so the policy uncertainty around tariffs is far from over.

Crude oil prices are on the administration's side at the moment with prices of WTI near \$67 per bbl and approaching the bottom of the 5-year price range. OPEC is under pressure from the Trump administration to slowly reverse the 2.2 million bpd in output reduction beginning with 138,000 bpd in April (and potentially more to come) despite modest incremental demand. Sustaining lower oil prices could help offset some of the price pressures from tariffs. There is also the possibility that President Trump is looking for quick wins and that some of the tariff bite will lessen as the year unfolds as new arrangements are negotiated. New Canadian prime minister Mark Carney told reporters last Friday that progress has already been made in discussions with Trump's administration after weeks of initial hostilities.

The Federal Reserve is apt to continue its data-dependent approach and evaluate this dynamic backdrop as the year unfolds, presenting its own risks should it be too slow to react to the changing environment. The key federal funds policy rate of 4.375% (midpoint) is still tight relative to the range of expectations for its longer run neutral rate and the front end of the Treasury yield curve. At its latest FOMC meeting yesterday, committee members lowered their median GDP growth forecast to 1.7% for 2025 (compared to 2.1% in December) and raised the median core PCE inflation projection to 2.8% (from 2.5% in December). Inflation forecasts for 2026-2027 remained the same. FOMC members still expect to cut interest rates by 50 bps in 2025 (no change vs. December). The futures market is discounting one 25 bps rate cut in fed funds by summer (in June or July) and an additional one to two rate cuts in the fourth quarter.

President Trump has led with the more punitive parts of his agenda in trade and immigration in the opening months of his administration. Eventually the pro-growth initiatives will come to the fore but the effects are unlikely to be felt until the second half of 2025 at the earliest and into 2026. While the benefits of tax reform on the economy and markets are likely to be quite marginal this time around relative to the 2017 legislation (and present some deficit challenges), solutions like full bonus depreciation alongside the deregulatory agenda could help lift market sentiment and re-instill business confidence, which has fallen to the lowest level since 2012 amid tariff uncertainty. Business equipment and intellectual property (i.e., software, R&D) comprise two-thirds of fixed investment and have collectively grown at a 5.3% annualized rate on a real basis over the past four years. Thus, it is essential for the administration to eventually restore some stability in the operating environment and give executives the confidence needed for capital investment as to maintain the productive capacity of the economy.

The University of Michigan Index of Consumer Expectations has fallen to the lowest level since the fall of 2022. While this survey probably tracks the direction of the stock market to a degree and has a significant partisan divide, it bears watching considering the impact of the wealth effect on spending. Moody's Analytics and other sources show the wealthiest 10% of households (making \$250k or more per year) now account for 50% of consumer spending and one-third of GDP. Continued stock market volatility and additional price declines could be an underappreciated headwind to consumption in the near term. Most other consumers are stretched as income growth has barely kept pace with inflation. Auto loan and credit card delinquencies are at the highest levels since 2010 and rising.

First quarter earnings season will kick-off in roughly three weeks. Consensus expectations have already been coming down for full-year 2025 growth forecasts. Wall Street entered the year anticipating 13% profit growth but the sluggish start and heightened policy uncertainty have led to forecasts being revised lower to 10%. It is also likely that some tariffs will be absorbed by corporations and not fully-passed on to consumers, impacting profit margins for some companies. Thus, additional downward revisions to profit growth seem likely. FactSet estimates for the first quarter show a 7.1% growth forecast with the largest downward revisions throughout the quarter coming from the consumer, materials, and energy sectors—not a surprise given the weak consumption data to start the year and the decline in commodity prices in response to slower growth prospects.

Embedded in and important to the economic outlook are policies of the second Trump administration which is using executive authority to implement fiscal expense reductions to address the \$1.8 trillion deficit, which could become an inflationary force if not managed over the medium run. War in Ukraine and the Middle East conflict are yet to be resolved. Concerns regarding the appropriate balance of power have come to the forefront not just with the current administration but with many executive actions over recent election cycles. Angst regarding the judicial system is understood but the 250-year historical experience of the American Republic gives comfort that the rule of law will prevail and solutions to many of the near term challenges will be found.

### ***Investment Conclusion***

**T**he stock market correction and uncertain policy backdrop have created opportunities for new investment in sectors like healthcare, where in some cases we reallocated funds generated from select trimming of our highly-valued winners of this cycle. Additional market weakness could present value in other sectors and secular themes that we have been closely following so we are sharpening our due diligence and patiently awaiting the right price. In the meantime, excess cash can be allocated to bonds. Even Treasuries remain appealing with yields near 4%, a similar return compared to current money market rates but with the option to lock-in some term as monetary policy is normalized and potentially loosened in response to sub-par growth.

March 20, 2025

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schedule, any disciplinary information, conflicts of interest, and the educational and business background of certain advisory personnel of the Firm. Please contact David Gately, Chief Compliance Officer, at (617) 951-9969 if you would like to receive a copy of our most recent ADV Part 2 filing.

***Material Changes***

This Item of the Brochure discusses specific material changes that have been made to the Brochure since the Firm's last annual update (on March 19, 2024). Below is a summary of the material changes that have been made to the brochure in our March 11, 2025 filing:

• **Item 4 – Assets Under Management**

WIC's assets under management were updated to reflect that our firm has discretionary assets under management of approximately \$1.08 billion as of December 31, 2024.

• **Item 8 - Methods of Analysis, Investment Strategies**

WIC amended its disclosure pertaining to the risks associated with certain investment instruments, cybersecurity, and other business resiliency events.

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We are pleased to announce that Sarah Valerio, our Director of Client Services, has been made a partner of the firm.