MARKET OVERVIEW

2nd Quarter 2025 / April Mid-Month Update

Central Bank Wealth Management Group

Economy

- To begin 2025, the Fed was already attempting to guide the economy to a soft landing – from an environment of inflationary overheat to one of continued albeit slower growth, without an actual contraction. Economic forecasts have now required significant revision, given the uncertainty of global trade & tariff policy shifts. Realistic growth expectations have reset lower and the phrase “stall speed” has entered the economic lexicon. Forecasts point toward at least a minimal-growth adjustment period as the Administration’s intent of onshoring investment has a chance to materialize.
- Recession remains a lower-probability outcome, owing to the strength & resilience of the domestic and global economy. Underlying inflation trends generally point lower, outside of tariff impacts. Pockets of inflation remain headline news, but larger segments like Energy costs have come down significantly. Powell’s Fed remains patient but stands ready, with ample tools to support its dual mandate of full employment and price stability.

Equities

- After two consecutive years of S&P 500 returns over 20%, optimism pervaded to start the year. Further tailwinds were expected from the Trump administration’s pro-growth agenda. After January’s bullish start, domestic equity markets trended down with the flagship S&P benchmark down 4.3% for the 1st Quarter. “Magnificent 7” stocks generally fared worse, as did the S&P Midcap 400 and Russell 2000, down 6.1% and 9.5% respectively.
- Reversing a persistent trend of the last decade, International equities dramatically outperformed markets in the United States during Q1. The EAFE index of developed markets returned 6.9% while Emerging Markets gained 2.9%. Such decoupling from US markets stemmed from a likelihood of higher government outlays in historically austere countries like Germany and its European peers, which should be stimulative to their economies. This new deficit spending attitude stems partly from national security concerns percolating across Europe. Higher military investment is likely, given Russia’s continued aggressive stance and newfound uncertainty surrounding NATO and United States security guarantees across the continent.
- April’s first two weeks saw intense downside stock market reactions to the United States announcing the most dramatic shifts in US trade policy in our lifetimes. Policy announcement and implementation guidance remains fluid on a near-daily basis. Following the 90-day tariff pause and impending country-by-country negotiations, equity markets recovered from their lows.
- At mid-month, April 15, the S&P 500 closed at 5,396 -- down 7.9% year to date. Comparatively, S&P Midcap posted an 11.5% decline and the Russell 2000 was down 15.3%. EAFE remains up on the year by 6.5%. Emerging markets are essentialy flat, +0.2% YTD.
- Q1 earnings season is now underway. High single-digit profit growth on low single-digit revenue growth is projected for S&P 500 as a whole.
- While still growing faster than average, mega-cap tech & AI-focused stocks have shed a portion of their premium valuation. We don’t expect the wide outperformance of past years, but remain optimistic bout their growth prospects.
- International vs United States equity performance has historically oscillated in cycles. Following nearly uninterrupted US outperformance following the Great Financial Crisis, trade and government spending shifts open the possibility for this dynamic to change moving forward.

Fixed Income

- Fixed income allocations have balanced out equity downside in our client portfolios, with the Bloomberg Aggregate returning 1.9% YTD. Yet under the hood, the bond market has shown above average volatility itself. The 10-Year Treasury now yields 4. 32%, having already carved out a wide YTD range between the 4.8% high in January and low of 3.88% in early April. Tariffs being both fundamentally inflationary and detrimental to growth, the bond market is still deciding which factor to weight most heavily in pricing the cost of government borrowing.
- With potential for yields to fall based on weakening growth or rise in response to renewed inflationary pressures (tariff-driven or otherwise), bonds appear fairly priced and remain a valuable piece in client allocations.