

# Economic *update*

Most analysts did not anticipate the volatility that investors would face in the first quarter of 2025. The equity markets started the quarter with strong momentum, buoyed by President Trump's return to leadership of the world's largest economy and financial markets. After achieving impressive annual returns of over 20% in both 2023 and 2024, the equity markets reached another all-time high in February. Experienced investors knew that a market retreat could happen at some point during the year, as it's historically common for a pullback or correction to follow such a positive performance. In the latter half of the first quarter, uncertainty took center stage in the headlines, leading to a swift and widely reported market decline.

The new administration came in as foretold with quick and sweeping changes. The transitional time between new administrations typically brings some uncertainty and thus market volatility, so it has been hard to predict the level of reaction to this administration's aggressive agenda. Optimistic investor sentiment quickly dampened as campaign promises were put into place. Understandably, some investors have become wary, and concerns over global trade wars and the tariffs have added to that uncertainty.

A correction is defined as a decline of more than 10% from a recent closing high. On March 13<sup>th</sup>, the S&P 500 fell 10% from its high that had been set just three weeks prior as inflation pressures eased and positive earnings were being reported. The Dow Jones Industrial Average (DJIA) started its path toward correction territory but remained just above a 10% decline. Additional factors contributing to these declines included government employee layoffs, the possibility of a government shutdown, trade war probabilities, and concerns about an uptick in inflation.

The S&P 500 and DJIA entered the first quarter with positive momentum, after both having reached all-time highs in December 2024. The "Magnificent Seven," composed of Apple, Microsoft, Nvidia, Alphabet, Amazon, Meta and Tesla, were the driving forces behind

the U.S. stock market's strength over the past two years. Together, they accounted for more than 50% of the S&P 500's return in both 2023 and 2024 and continued through early February. However, these tech stocks experienced their worst month in March and quarter on record. By March's end, the S&P 500 registered its most difficult quarter since the second quarter of 2022, closing the first quarter of 2025 down 4.6% and the DJIA closing the quarter down 1.3%.

After experiencing three interest rate cuts in the latter half of 2024, the Federal Open Market Committee (FOMC) decided to maintain interest rates during the first quarter of 2025. Current Federal Funds interest rates are in the range of 4.25% to 4.50%.

In February, the unemployment rate was 4.1%, a slight increase from January's 4.0%. Government employee layoffs began during this quarter with federal government employment declining in February by 10,000 although government payrolls rose by 11,000 overall.

As your financial advisors, we are committed to keeping you aware of any changes that could directly affect your situation. Our role is to consistently review your investment portfolios and confirm they align with your time horizon, risk tolerance, and goals.

# INFLATION & INTEREST RATES



## KEY POINTS:

- Interest rates remained at 4.25 – 4.50% during the first quarter of 2025
- The Fed is still forecasting rate cuts in 2025
- U.S. inflation decreased in February to 2.8%



In the first quarter of 2025, the Federal Open Market Committee (FOMC) decided to maintain interest rates in the range of 4.25% to 4.50%. This news positively influenced investor sentiment, leading to a brief rise in stock prices following the announcement. The Fed indicated that rate cuts are still possible this year, depending on whether inflation continues to decrease, and the job market remains robust.

In March, Federal Open Market Committee (FOMC) stated, "Economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated."

However, the committee stated anticipation that the economy will slow down more than previously expected this year. Federal Reserve Chair Jerome Powell stated, "some near-term measures of inflation expectations have recently moved up." He continued, "We see this in both market- and survey-based measures. Survey respondents, both consumers and businesses, are mentioning tariffs as a driving factor. Beyond the next year or so, however, most measures of longer-term expectations remain consistent with our 2% inflation goal."

Good news emerged with reports of lower-than-expected inflation numbers, showing that U.S. inflation decreased to 2.8% in February, down from 3% in January. Nonetheless, inflation pressures remain a concern in the coming months as we wait to see how tariffs affect the economy and consumer spending.

The current economic climate presents significant uncertainty, and much like investors, the FOMC is acutely aware of this as we find ourselves in a "wait and see" situation. Chair Powell has expressed, "We're going to have to see how things actually work out."

In February, the Consumer Price Index (CPI) for both core and all-items increased 0.2%. On a year-by-year basis, inflation was 2.8% and core inflation was 3.1%. The core CPI, which excludes food and energy prices, is often viewed by economists as a better gauge of future inflation. In February, increased shelter costs accounted for nearly 50% of the overall CPI rise.

The FOMC is vigilant in monitoring key economic indicators, including labor market conditions, inflation pressures, and expectations, as well as financial and international developments. With two FOMC meetings scheduled for the second quarter and four more planned for the second half of 2025, the Fed remains committed to the possibility of interest rate cuts contingent upon inflation trends and economic conditions.

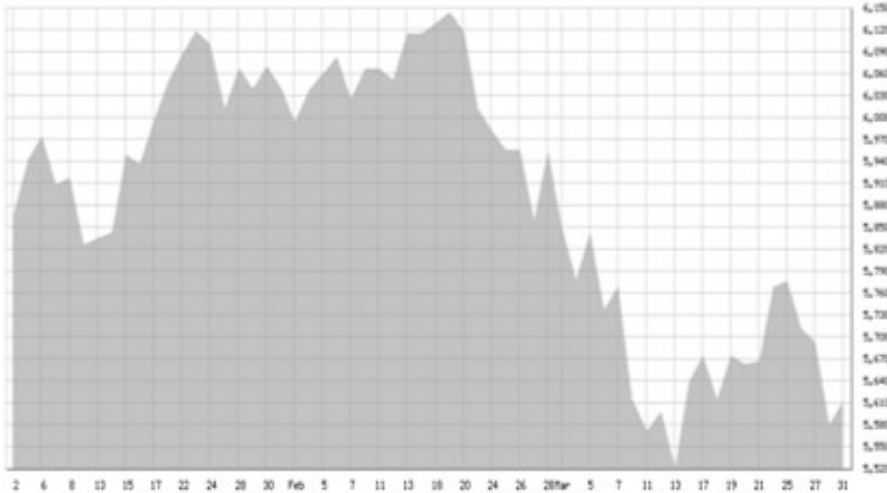
**Interest and inflation rate movements are integral for investors' financial planning, and we will continue to monitor these key economic indicators closely.**

# S&P 500 and Dow Jones Industrial Average

## QUARTER 1, 2025

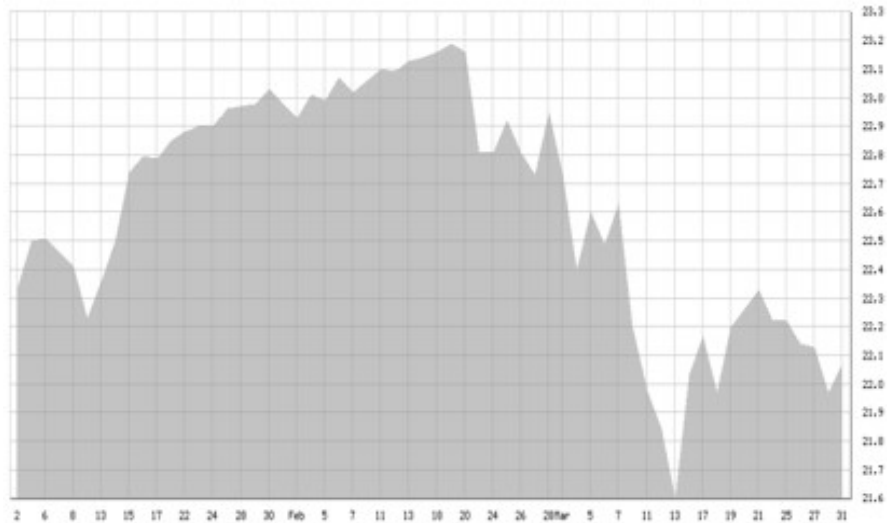
S&P 500

- 4.6%



Dow Jones Industrial Average

- 1.3%



## MONEY RATES

(as posted in Barron's 3/31/25)

	LATEST WEEK	YEAR AGO
Fed Funds Rate *	4.33%	5.08%
Bank Money Market <sup>z</sup>	0.44%	0.32%
12-Month Certif <sup>z</sup>	1.88%	1.72%
Z – Bankrate.com * - Avg Effective Offer Source: Barron's, bankrate.com		



- After two robust years for equities, the S&P 500 entered correction territory in the first quarter of 2025
- The new administration brought many changes; talks of tariffs have created confusion and uncertainty for equity markets
- The Fed held the federal funds rate range steady at 4.25 – 4.5% after three rate cuts in the latter part of 2024; as of March, they are still forecasting rate cuts in 2025
- Better than expected inflation numbers came in showing that U.S. inflation decreased to 2.8% in February, down from 3% in January
- Bonds present a less volatile alternative to equities and an additional option for those looking to diversify their portfolio
- Focusing on what you can control and minimizing your exposure to inflammatory news can help you stay well-grounded in times of volatility
- Market declines are a normal part of the investment experience and maintaining the consistency of a well-devised, long-term focused plan has historically served investors well
- Your HFS Team is always here for you to discuss your personal financial situation and help with any concerns or questions**

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# The Bond Market & Treasury Yields

## KEY POINTS:

- In 2025, the outlook for bonds remains unclear. Interest rates, inflation trends, and clarity on tariffs, are all contributing to higher yields; however, they remain sensitive to ongoing uncertainties.
- Current bond yields could present an appealing option for investors seeking more stability against market volatility.

Multiple factors are keeping U.S. Treasury yields higher, including economic uncertainty, a reluctant inflation rate, and unchanged interest rates. During the first quarter, yields still experienced slight ups and downs. A rally seen earlier in the quarter was quickly undone as investors rode the fence of uncertainty due to tariffs and trade decisions that were still up in the air.

U.S. Treasury long-term yields rose to their highest levels in over a month on March 27. On March 31, the benchmark 10-year yields reached 4.23% and 30-year yields hit 4.59%. The shorter-term 2-year and 5-year yields were 3.89% and 3.96%, respectively.

### Treasury Par Yield Curve Rates

January 2, 2024				January 2, 2025				March 31, 2025			
5-year	10-year	20-year	30-year	5-year	10-year	20-year	30-year	5-year	10-year	20-year	30-year
3.93%	3.95%	4.25%	4.08%	4.38%	4.57%	4.86%	4.79%	3.96%	4.23%	4.62%	4.59%

Bonds have an inverse relationship with interest rates – when one goes up, the other usually goes down. Historically, bonds have been less risky in times of market uncertainty. If interest rates continue to fall, bonds should appreciate. However, interest rates were stagnant this quarter. Should inflation gain more momentum as feared, interest rates could remain in stagnation mode or even rise.

Diversification is an important strategy for a well-balanced portfolio and bonds can be a good defensive play against market volatility. They can offer stability and a steady interest income during times of market decline. Depending on each client's unique situation, the HFS Investment Committee may consider them as a viable investment tool. Please remember that while diversification in your portfolio can help you pursue your goals, it does not ensure a profit or guarantee against loss.



## INVESTOR OUTLOOK

Heading into 2025, investor sentiment was primarily optimistic, with a sprinkle of anticipation and caution. This sentiment quickly changed as the new administration was ushered in and a deluge of changes began coming to realization. The major disruption came when tariffs were discussed, and confusion among investors and the markets heightened.

More changes are still being discussed in other sectors of the government, including tax policy adjustments, especially with the sunset of the Tax Cuts and Jobs Act (TCJA) provisions at the end of 2025.



While no one can predict the future, strategists have been adjusting their year-end forecast for 2025. As seen in this chart, major bank strategists slightly lowered their initial year-end targets after the S&P 500 landed in correction territory. "We've revised our year-end S&P 500 target to 6,400, down from 6,600, reflecting the anticipated impact of tariffs on earnings growth. Despite this adjustment, we still foresee meaningful upside driven by positive U.S. growth and robust AI demand," UBS stated. "While we do expect ongoing uncertainty and volatility in the near term, our base case is that tariffs will not derail the economy. We expect the U.S. economy to grow close to its 2% trend this year," they added.

Increased talk of a recession is being revived in the news. However, analysts like Lori Calvasina of RBC Capital Markets, don't see a recession on the horizon. "Some economic forecasters around the Street have started to dial down their 2025 GDP forecasts, but are not calling for a recession," she wrote in mid-March. "Historically, the dialing down of economic growth on its own presents a significant headwind for the stock market to overcome."

The bottom line is that uncertainty is dominating the headlines and investors will continue to seek clarity in the coming months. Remember: change usually comes with some volatility. How investors and savers navigate this volatility and uncertainty is vital to the direction of their financial goals. One of the most important things to remember is that investing is a long-term activity and always involves some sort of market volatility.

We urge you to remember what is in your control, and what is not. Uncontrollable: tariffs and trade wars; monetary policy adjustments; inflation and interest rate changes; and equity responses to these and other issues.



## KEY POINTS:

- Additional changes are likely to come, and volatility is likely to remain during this transitional period.
- Focus on what you can control. Proactive planning with a well-diversified portfolio that takes into consideration your risk tolerance and time horizon is advised.
- Investing is a long-term activity, and short-term fluctuations should not sidetrack you from your long-term goals.
- Collaborating with Hughes Financial Services can help you understand market conditions and if and how they may affect your overall investment strategy.

What you can control is how you react, especially in these three areas:

1. Your behavior
2. Your risk tolerance
3. Your time horizon

The first thing you should keep in mind is not to panic. In times of market volatility, investors tend to become unnerved and anxious, especially with the constant media magnification. Most often, this is not the best mindset to make rational decisions. Remember, we're here to be the non-emotional, objective advisor in your corner.

Risk tolerance is the degree to which you are able or willing to withstand fluctuations in the stock market and your portfolio in return for growth potential. Knowing what your risk appetite is and having risk awareness should be a part of your financial strategy. If this changes then you need to call us.

Your investment time horizon is another vital component that you can control. Knowing how much time you have to reach your goals will help you determine other key elements like your risk tolerance. While no one can determine what will happen in equity markets in the short- or long-term, you may have more choices or a willingness to take on more risk if your horizon is longer. For example, an investor who can commit to a 10-year time horizon can consider different selections compared to someone who needs to use that money in the next six months.

# TARIFFS

Tariffs, the nightly news agenda item and most widely discussed topic of the quarter, comes with sizable concerns about their potential impact on the U.S. economy. The Trump administration is actively implementing several tariffs to protect domestic industries and boost sales of American-made products by taxing imports from countries like China, Canada, and Mexico, including a 25% tariff on all foreign-made cars that is set to take effect in the second quarter. The White House has suggested that the tariffs will grow the American economy, help reduce our deficit and create jobs, but as of the first quarter's end, has not issued complete guidance or specifics including how long they will be in place.

For now, it remains uncertain how much these tariffs will affect the economy and inflation looking forward. Change always brings uncertainty, which remains a primary theme as the new administration's overhaul is bringing growing and transitional pains in many areas of the U.S. government.

**We remain committed to keeping a watchful eye on the tariffs and their impact on your investment portfolios.**



## WHAT IS A TARIFF?

A tariff is a tax on goods that are imported or exported between countries. Tariffs are a type of trade barrier that can raise prices and reduce the availability of goods and services.

## HOW DO TARIFFS WORK?

- Companies that import foreign goods pay the tariff to the government.
- Tariffs can be a percentage of the value of the imported product.
- Tariffs can also be a flat tax charged on each imported good.

## WHY ARE TARIFFS USED?

- Tariffs are used to protect domestic industries and jobs.
- Tariffs can be used to punish or discourage actions that a country disapproves of.

## WHAT ARE THE EFFECTS OF TARIFFS?

- Tariffs can increase the cost of production and the cost to the consumer.
- Tariffs can create tensions between countries and lead to trade wars.
- Tariffs can negatively affect the stock prices of companies that rely on imported goods.



## SO, WHAT SHOULD INVESTORS DO?

Remember, the past two years have been exceptional ones for the U.S. stock market. Seasoned investors know this cannot always be the case, and that at some point a market correction would be inevitable. Corrections are unpleasant, but they are a normal part of the investing experience. As a reminder, the term "correction" is used to describe downturns of 10% to 20%, because historically, the market drop often "corrects" and returns equity prices to their longer-term trend.

Regardless of whether equities are rising or falling, investors should always put their focus on their own personal objectives. If needed, we can revisit your financial plan to make sure you are still situated on the best path toward your goals. Considering potential changes in your time horizon and risk tolerance should always be a part of your review.

As a reminder, equities should be viewed primarily as long-term investments, and you should be prepared to hold equity positions for at least three to five years or more. Short-term volatility comes and goes and should not distract you from your long-term plans. A well-crafted plan incorporates the fact that equities do not move in a straight line and can withstand the inevitable fluctuations of the markets.

Inflation is relatively moderate compared to previous years, but it is still above the Fed's target of 2%. While the Fed still forecasts the possibility of rate cuts in 2025, uncertainty is prevalent, and recent years have taught us to remain vigilant and prepared for unexpected circumstances.

Regardless of what happens moving forward, it's still wise to "proceed with caution." We also want to reiterate that in times of volatility, we know that the temptation to deviate from your long-term strategies can arise. Please remember that "cashing out when fear takes over," could result in missing out on the gains from a market recovery. Market downturns can be temporary and potentially even open a window of opportunity for good entry points into equities.

We stand by our belief that investing is a long-term activity and that a well-planned, long-term strategy

that considers market volatility, time horizon, and risk tolerance, is the best practice for savvy investors. Rebalancing (which we recently performed for HFS clients) and appropriate portfolio diversification are important for all HFS clients. We believe in proactive preparation, and our aim is to provide you with a solid financial strategy that is thoughtfully designed for all kinds of market environments.

As always, you should stay informed about the news but minimize your exposure to avoid getting caught up in speculative claims, unfounded predictions and fearmongering.

Yes, 2025 is definitely a year of change for the U.S.! As stewards of your wealth, we will continue to monitor areas we feel are important to your financial situation and acknowledge that the current changes are bringing uncertainty and increased market volatility. We are here to be your sounding board should you feel apprehensive about your portfolio and financial plans.

Please keep us aware of any changes to your personal situation such as divorce, health issues, selling of property, inheritance or any changes to your risk tolerance or time horizon. Additionally, we always recommend discussing any changes, concerns, or ideas you may have with us before making any financial decisions. Keep in mind that there are often other factors to consider when altering anything in your financial plan, such as tax implications. The more knowledge we have about your unique financial situation the better equipped we will be to best advise you.

Our goal is to exceed your expectations. We take pride in offering a high-level service that includes consistent and meaningful communication throughout the year.



**Your HFS Team is here to help you with every step of your journey toward reaching your financial goals. As a valued client, we want you to know that we are here for you. Please feel free to reach out to us with any questions or concerns you may have. We appreciate the trust and confidence you have in our firm.**





Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) working closely with individuals and families in or near retirement to provide direction and strategies on how to financially achieve their personal goals and dreams. We take a holistic, personalized approach to bring all the pieces of your financial life together.

Our adherence to the highest fiduciary standards when providing advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- investment management
- tax minimization/planning
- estate planning
- risk/protection management
- education planning

The financial advisors at Hughes Financial Services proudly hold a variety of professional designations and certifications, including the standard of excellence for financial planners, the CERTIFIED FINANCIAL PLANNER™ certification, and are well-versed in several financial disciplines. We specialize in helping employees and retirees of local government and school systems, business owners, medical professionals, and the U.S. military with their retirement options.

Our combined education and experience allow us to offer you independent financial advice and solutions we are proud to provide.

Located in Herndon, Virginia (Fairfax County), Hughes Financial Services works with clients across the United States.