Market Update

MAY 2025

"The only winning move is not to play."
War Games

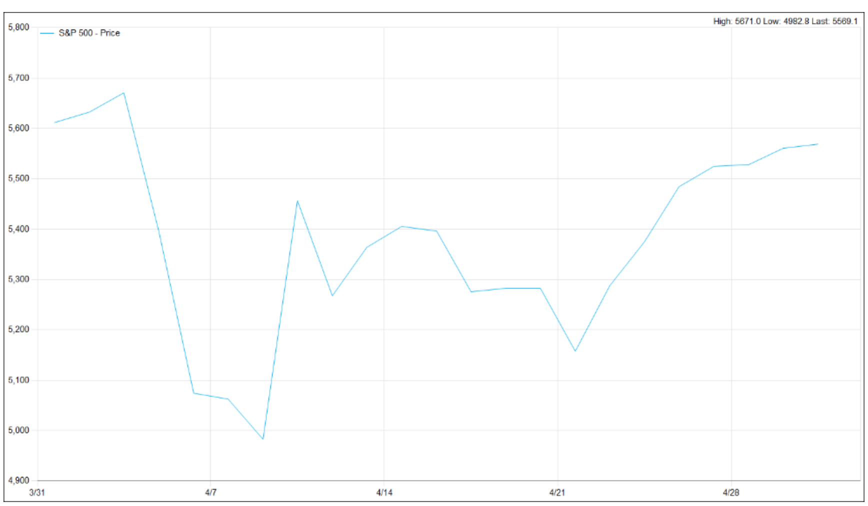
Index	April 2025*	YTD 2025*
S&P 500	-0.7%	-4.9%
Russell 2000	-2.3%	-11.6%
MSCI World, Ex-US	0.0%	2.8%
Bloomberg AGG Bond	0.4%	3.2%

*Total Returns Source: Factset Data

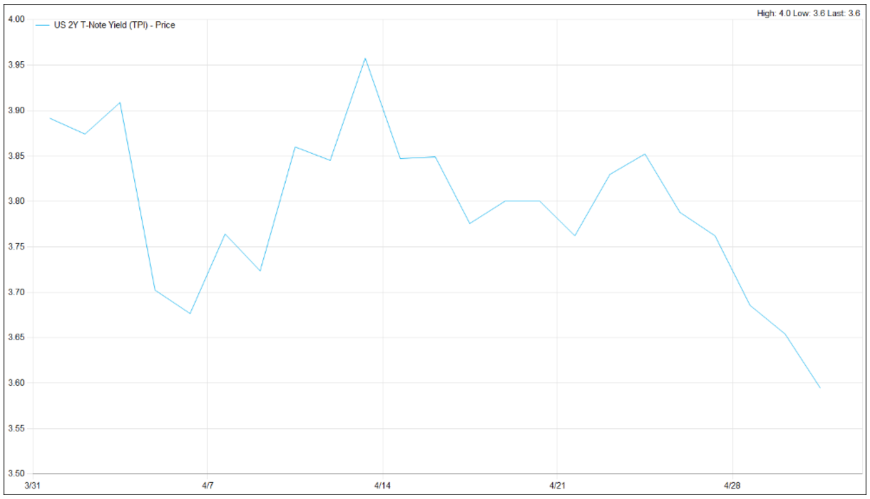
Markets experienced extreme volatility during April, mostly for naught as the ending values for both the S&P 500 and the policy-sensitive yield of the 2-year treasury note (see charts below) were no disaster for investors. If anything, both the equity and bond markets gave investors opportunities throughout the month for those who eschewed the game of big asset allocation changes and instead focused on long-term value.

Tariffs dominated the financial news cycle all through April. It is clear markets do not like war of any kind and they do not like uncertainty. The April 4th through 9th lows illustrated both. Tariff announcements beyond any prior estimated levels sowed fears of a global trade war and added maximum uncertainty about future economic growth. Overreaction to these headlines was not the right move. Tariff pressures eased, and earnings results, starting with the largest banks and continuing through most of the Magnificent 7 tech companies, showed a resilient US economy.

In fact, details underlying the first reading of Q1 2025 US GDP showed stronger consumer spending and industrial production with only a large increase in imports (ahead of tariffs) responsible for pushing the overall number slightly negative. The most recent update to the Atlanta Fed's GDPNow forecast for US Q2 2025 GDP is for 1.1% growth – no recession.



Source: Factset Data Research



Source: Factset Data Research

The current first quarter earnings "season" has revealed two important things for investors to consider. First, the narrative that hyperscale AI (Artificial Intelligence) cloud providers like Microsoft, Google, and Amazon are pulling back on infrastructure investments is false. Each has reiterated capital spending plans backed by solid demand signals across all client segments. Downstream this is helping Seacoast Wealth Management equity holdings like Corning, Eaton, and Southern Company rebound from the lows. Visibility is strong well into 2026 for products like fiber optic cables and connectors, electrical power management and stable, consistent electricity needed to create data center capacity. On the April 30th earnings conference call, Microsoft CEO Satya Nadella said, "Cloud and AI are the essential inputs for every business to expand output, reduce costs, and accelerate growth."

The second narrative losing some steam is the magnitude of earnings declines driven by tariffs. While there are pockets of industries more affected than others, we note an absence of large, broad-based guidance reductions. As noted in prior commentaries the US economy arrived at this moment of tariff-related uncertainty in a relatively strong position. Unemployment was just over 4%, inflation was coming down towards Fed targets, and the financial system was in far better shape than in prior downturns. As tariffs are negotiated to manageable levels and US companies announce domestic capacity expansions, markets will quickly turn attention to tax legislation as the next significant policy hurdle.

At Seacoast Wealth Management we will continue to avoid the game of portfolio changes based on reactions to headlines and instead hunt for the value that market volatility provides.

As always, we appreciate the opportunity to work with you, and if you have any questions, please do not hesitate to reach out to your Seacoast Wealth Management Associate.
