# BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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## INSIDE THIS ISSUE



## FINANCIAL MARKET OVERVIEW

The 2025 first quarter performance for stocks was a complete reversal compared to the past two years. Not only was the overall stock market down about 5% during the first quarter, but also the darling stock categories (Tech and Growth stocks) of the past two years took a beating – Tech stocks down 11% and Growth stocks down 10% (including technology). The "Magnificent Seven" stocks (Amazon, Meta, Nvidia, Apple, etc.) were down over 19% during the first quarter and Tesla was down over 49%. The NASDAQ stock index, dominated by technology stocks, was down over 10% during the first quarter.

One positive aspect of the first quarter performance is that traditional dividend-paying large-company "value" stocks such as Chevron (up 16%) and Verizon (up 13%), etc. had positive returns averaging over 2%. None of the other U.S. stock categories had a positive return during the first quarter.

Investors should take note that when any asset category becomes generously overvalued over a period of years, a reversion process is likely to occur at some point – meaning undervalued stock categories ("Value stocks") rally and overvalued stocks (in this case Tech stocks) will pause or decline toward reasonable valuations. The Dow Jones Industrial Average (30 largest companies) was down only 1.28%.

Both mid-size and small-company *growth stocks* were also down during the first quarter ranging between 7% and 11% while the mid and small-company *value stocks* had smaller declines ranging between 2% to 7%.

International stocks had the worst relative performance compared to U.S. stock categories *during 2024* – up only 3.5% compared to the overall 22% gain from the U.S stock market. In **2025**, the first quarter international stock price performance was *up over 8%* - another example of undervalued stock categories adjusting upward and overvalued asset categories adjusting downward. Approximately 20% of U.S. stocks are held by foreign investors and when the U.S. stock market declines (while international stocks are up) along with a decline in the value of the U.S Dollar, international investors are losing even more after considering currency exchange rates. A growing number of foreign investors are reducing their U.S. stock holdings and increasing their foreign-company stock positions.

Four other stock categories also posted gains during the first quarter. Emerging markets (smaller-country international stock indexes) were up about 4.5% during the first quarter 2025. Investment real estate prices (real estate investment trusts – not home values) were also up about 2.7% as real estate loan rates dropped slightly during the first quarter 2025. Water utility stocks also posted modest positive returns and energy stocks were up nearly 10% during the first quarter.

Gold price performance was the stand out category. Gold was up 19% during the first quarter. Gold prices jump when uncertainty and concern grow regarding conflicts, tariffs, inflation and the world economy. Bitcoin was up 50% from November 1st to Dec. 16, 2024 and then reversed course by plunging down 11% over the last two weeks of the year. Bitcoin continued to decline another 9% in 2025 – the total decline since December 15, 2024 is nearly 20%.

The total return of guaranteed Fixed Income (CD's and Treasuries) for intermediate and long-term bonds rose 3.8% during the first quarter and very short-term

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Treasuries earned 1.56% during the first quarter, 2025.
9-Month certificates of deposit are paying a 4.1% risk-free return.

The following chart displays sample returns of various asset categories for the calendar year-to-date and during the first quarter of 2025:

| **Yr-To-Date 2025** | **1st Qtr. 2025** | **Index Return** (*includes dividends reinvested*) |
|---|---|---|
| **- 1.28%** | **- 1.28%** | **Dow Jones Industrial Average (^DJI)** |
| **- 4.31%** | **- 4.31%** | **Standard & Poor's 500 Index (^GSPC)** |
| **- 5.22%** | **- 5.22%** | **DJ U.S. Total Stock Market (VTI)** |
| **- 10.03%** | **- 10.03%** | **Large-company stock-Growth (IWF)** |
| **+ 2.05%** | **+ 2.05%** | **Large-company stock-Value (IWD)** |
| **- 7.22%** | **- 7.22%** | **Mid-Size Stocks – Growth (IWP)** |
| **- 2.24%** | **- 2.24%** | **Mid-Size Stocks – Value (IWS)** |
| **- 11.11%** | **- 11.11%** | **Small-company stock- Growth (IWO)** |
| **- 7.75%** | **- 7.75%** | **Small-company stock- Value (IWN)** |
| **+ 8.04%** | **+ 8.04%** | **International (EFA)** |
| **+ 4.47%** | **+ 4.47%** | **Emerging Markets (EEM)** |
| **+ 2.69%** | **+ 2.69%** | **Real Estate Investment Trusts (VNQ)** |
| | | *Fixed Income (includes appreciation)* |
| **+ 1.56%** | **+ 1.56%** | **Short-term U.S. Treasury (SHY)** |
| **+ 3.79%** | **+ 3.79%** | **Intermediate U.S. Treasury (IEF)** |
| | | *Alternative Investment Category* |
| **+ 19.00%** | **+ 19.00%** | **Gold (GLD)** |

**All returns calculated using adjusted historical quotes from finance.yahoo.com*

## FINANCIAL MARKET OUTLOOK

The first quarter 2025 was a sharp turn. In our previous newsletter, the first few sentences under this "Financial Market Outlook" section stated: "*The fourth quarter stock market performance was excellent for one category: growth stocks ……in particular, large-company tech/AI stocks. This sector (tech growth stocks) is already very generously valued. Seven tech companies (Apple, Nvidia, Microsoft, Alphabet, Amazon, Meta Platform and Tesla) accounted for 65% of the total stock market's 24% gain in 2023 and 57% of the 23% total stock market gain in 2024. In other words, the broad market stock index would have been up only 9.9% (verses 23%) in 2024 if we excluded the seven tech stocks above*".

Suddenly, the best performing sector in the stock market (tech) over the previous 2 years became the worst performing sector during the first quarter 2025 - down 10% and the "Magnificent Seven" stocks listed above were down an average of over 15% in just three months. Also, the recent speculative fever to own Bitcoin has also been kicked hard – down 21% since December 15, 2024. On the flip side, the price of gold has jumped 19% over the first quarter, 2025.

In addition, the second catalyst that supported well-above average stock market performance over the past 2 years was the expectation that interest rates would fall. Newspapers, financial news networks and most of the media outlets tirelessly repeated stories and predictions about how pending interest rate cuts by the Federal Reserve in 2024 would rocket the stock market even higher. And now the only stories we hear is crickets.

The new theme for 2025 that is currently affecting the financial markets is ….. Tariffs. This subject is relatively new and no one knows with any degree of certainty how long the financial markets will react, and more importantly, for how long. An analogy for the current tariff uncertainty is similar to someone trying to predict the consequences of COVID in mid-2020 shortly after the illness was identified. There is going to be a period of elevated uncertainty.

## TARIFFS

A tariff is simply a tax on imported goods. Why do countries impose tariffs? Because applying mandatory tariffs on imported products and materials coming from foreign countries makes them more expensive. The expectation is that many consumers will gradually start buying less imported goods and purchase more domestic goods rather than more expensive imports. Corporations will build or reopen plants in their own country and bring back more jobs.
In simplified terms, the importing *company* pays the tariff to the Federal government, passes the increased cost on and into the price on their products, and consumers end up paying the increased cost.

If consumers buy more products from domestic companies (because tariffs increase the cost of foreign manufactured goods), local jobs are better protected rather than eliminated and corporations are more likely to keep manufacturing in their home country. The need for more workers protects local jobs and the increased

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demand brings manufacturing companies back to their "home country". Simply stated, tariffs give a price advantage to the company's products that are manufactured in a domestic country instead of allowing cheaper imports from foreign competition.

Nearly all countries impose tariffs. And for decades, American consumers were happy to buy cheaper products made overseas while American producers were subjected to tariffs on their products sold abroad. Over time, a significant number of manufactures (steel, autos, clothing, auto parts, cell phones, solar panels, computers, etc.) moved overseas as well as the jobs to produce those goods. What has changed or is likely to change, is the U.S. is going to start charging equal or higher tariffs on foreign goods. Point the finger wherever you'd like, but the bottom line is: Consumers will pay the higher cost of tariffs.

The shallow conclusion made by many in the media is that higher prices will automatically increase inflation. But, that statement is only true if all consumers continue to buy the same amount of goods at higher prices and continue doing so at the same rate or as often as they had in the past. Most people realize that higher prices do impact buying decisions and overall consumption is more likely to decrease over time.

Now, we are in the initial phase of entering and traveling down a new and unknown path. No one knows what the final outcome will be at this time. It appears more likely than not, that after all countries have "barked" back at each other with their own new or increased tariffs and after all parties (countries) have suffered economically, they will realize everyone loses in this game. Eventually, all parties will finally agree to a more equitable use of tariffs and balance of trade. The primary difference today is *actions* are occurring rather than simply talking, complaining and doing nothing about it. In the meantime, expect this tariff uncertainty to increase fear, irrational trading decisions and increased volatility.

The current assessment and expectations for near-term economic activity are essentially flat. The inflation rate expectations are around 2.7% for 2025 and Gross Domestic Product is expected to fall slightly from 2% to 1.7%. Polling indicates that Consumer Sentiment (confidence or simply people's view of the economy) is falling over recent weeks which is not surprising. With the stock market down during the first quarter of 2025 along with daily news about "what if" scenarios of higher tariffs, people naturally feel less confident compared to 3 months ago. The real importance of a decline in consumer sentiment is whether consumer spending will follow and decelerate over the reminder of this year.

## Investment Outlook and Recommendations

All of the above discussions and topics impact our outlook and the investment decisions we make. Again, we do not see a quick fix nor do we expect the well-above average stock market investment returns like we had in 2023 and 2024 to repeat in 2025. Expect increased financial market volatility in stock prices over the short-term, little change in interest rates, some inflation pressures continuing, and more "normalized" investment rates of return for at least this year. If I were betting and not investing, I would go with a short period of stock price volatility in both directions followed by a relief rally with normalized investment performance thereafter.

We are still taking a moderate/balanced approach to risk and return possibilities after increasing our clients' exposure to stocks during the fourth quarter 2024. Again, in order for the stock market to maintain the gains made over the previous two years, it will be necessary for all of the "non-tech" stocks to participate in the rally. After the first quarter, that is exactly what has occurred.

We will continue to add *value stocks*, mid-size and small-company stocks to client portfolios during the second and third quarters of 2025 and we continue to prefer short-term fixed income securities (CD's and Treasuries) until the inflation, interest rate and tariff picture becomes clearer. Emerging markets (mid-to-small international stocks) also look promising.

We have identified several stock investments that we intend to add to client portfolios outlined on your blue recommendation sheets, but the timing of when to make additional stock purchases is still uncertain. Ideally, we will continue the second phase of increased stock exposure to client portfolios methodically and carefully over the next 9 months.

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## OWNERS/CLIENTS OF INHERITED IRAS

The rules pertaining to *annual* required minimum distributions have been clarified for anyone who inherited an IRA from the original IRA account holder beginning in 2020 (meaning the original IRA account holder died in or after 2020). The new rules apply to everyone except surviving spouses, minor children, disabled or chronically ill individuals, and *beneficiaries not more than 10 years younger than the deceased* (ex; IRA holder died at age 80 and you as the beneficiary are age 70 - 80.). Spouses are the big exception, so after excluding the 4 exceptions above, most inherited IRA owners must:

(1) Fully distribute the Inherited IRA account value by the end of the tenth year after the original account holder died
(2) If the original IRA account holder died *after* he or she had already started taking required minimum distributions, then you, the new Inherited IRA account holder, must also take annual minimum required distributions as well.

We have calculated the RMDs for our Inherited IRA Account clients. Just realize that you, as an inherited IRA account holder, must deplete (meaning take taxable withdrawals) from your Inherited IRA within 10 years (1st year is the year after the death of the original IRA account holder).

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