Capital Market Review / *1st Quarter 2025*

The Big Picture

Perception vs. Reality

What we perceive and what is real are not always the same. One of the main arguments for tariffs is that we need to bring back the good blue-collar jobs that have been lost by deindustrialization. No one could possibly argue against this, if only it were factual. Here are the facts:

U.S. manufacturing output as a percentage of real GDP has varied only 2% (13% - 11%) since 1947, according to the St. Louis Fed.

According to data from the U.S. Bureau of Labor Statistics (BLS), manufacturing employment peaked in 1979. Since that time, we have lost 6.7 million manufacturing jobs, and we have gained 9.4 million jobs in trade, transportation, and utilities. So, for every manufacturing job that has been lost since 1979, 1.4 jobs have been created in trade, transportation, and utilities, yet no-one talks about it.

Finally, there are more automotive manufacturing jobs in America today then there were in 1993 when Bill Clinton signed NAFTA. According to the BLS, there are 308,000 jobs today versus 298,000 at the peek of the 1990s. Does that surprise you?

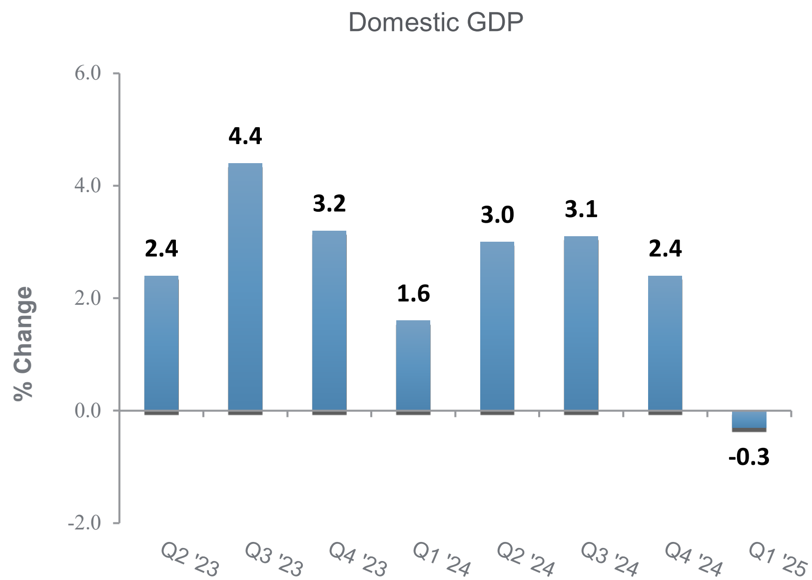
> *There are more automotive manufacturing jobs in the U.S. today than in 1993 when NAFTA was signed.*

The Economy

The 4th quarter 2024 GDP growth came in up 2.4 percent, which is still solid, but less than expected. The initial reading for 1st quarter 2025 is -0.3 percent. The broken clock doomsayers might finally be right.

The official unemployment rate was 4.2 percent through March. The labor market remains steady. We have been in the 4 percent range for a while now. This will be a key indicator of any potential recession, and we will be watching it closely.

Inflation is 2.4 percent based on the latest consumer price index report. There has been progress since the last quarter's reading. The producer price index, which tracks wholesale prices, is up 2.7 percent over the last 12 months, slightly below last quarter but above retail levels.



Source: Factset

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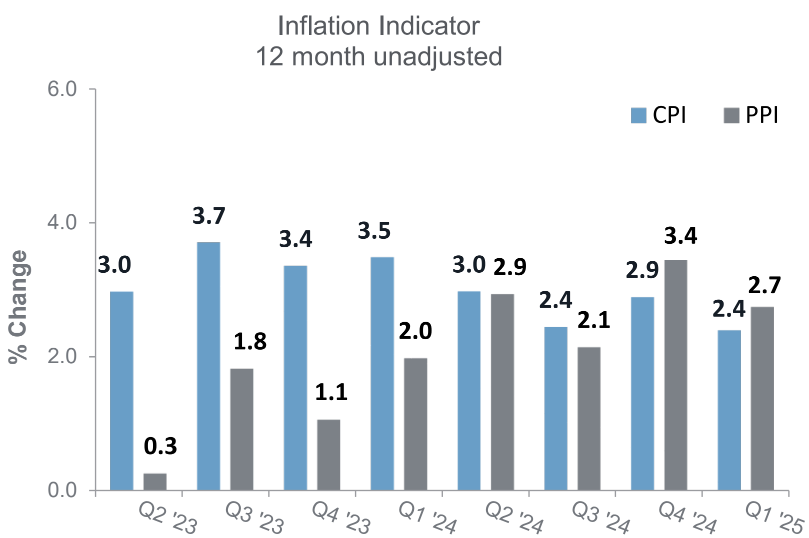

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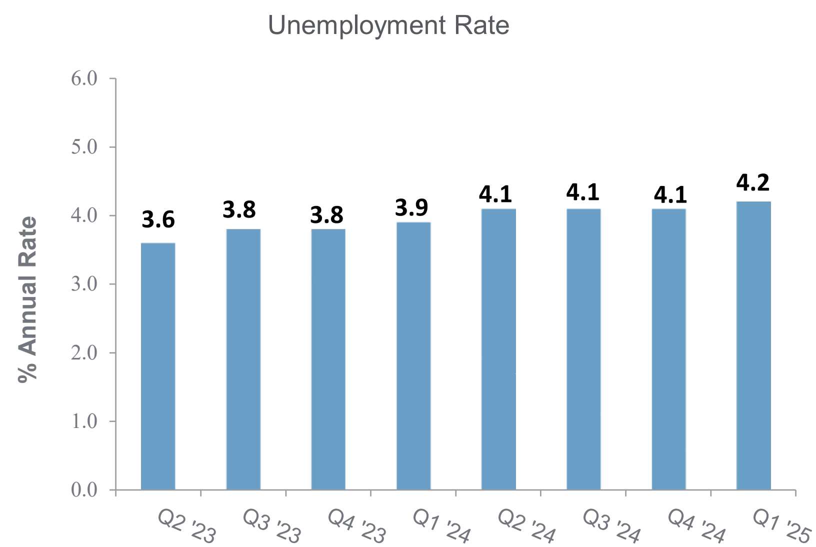
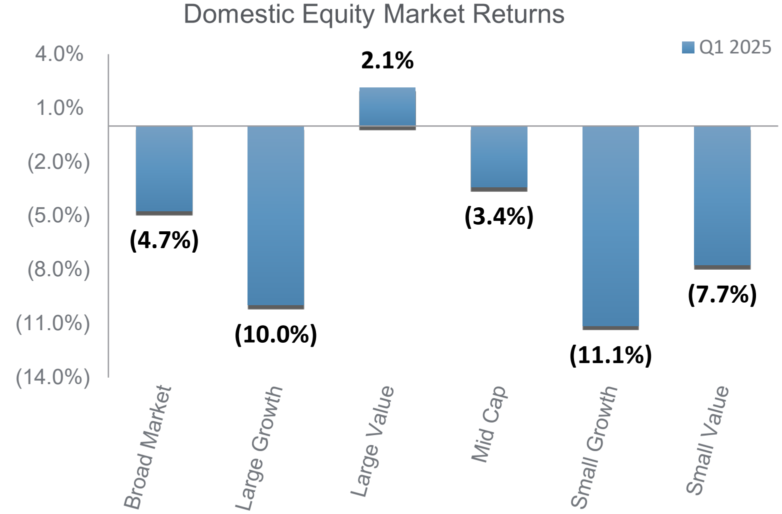


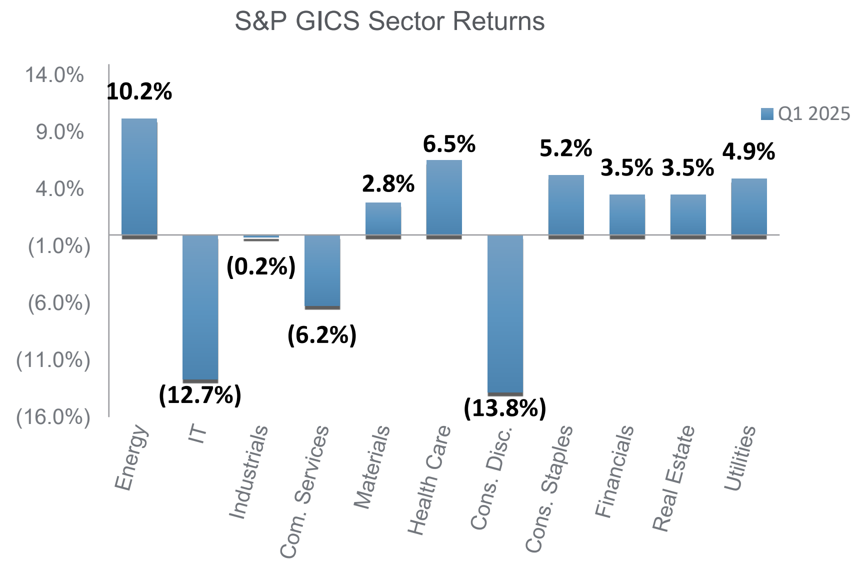
Source: Factset

Domestic Equity Markets

The market dropped in the first quarter. For the quarter, the S&P 500 finished down 4.21 percent, while small company stocks represented by the Russell 2000 index were down 9.48 percent. Value held up better with the Russell 1000 Growth index down 9.97 percent while the value index was actually up 2.14 percent. For small companies, the value index was down 7.74 percent, and the growth index was down 11.12 percent.

Energy was the best place to be, followed by healthcare. Consumer discretionary was the hardest hit, followed by technology. This was a reversal of the growth dominance in the previous quarter as sectors associated with value investing delivered gains.

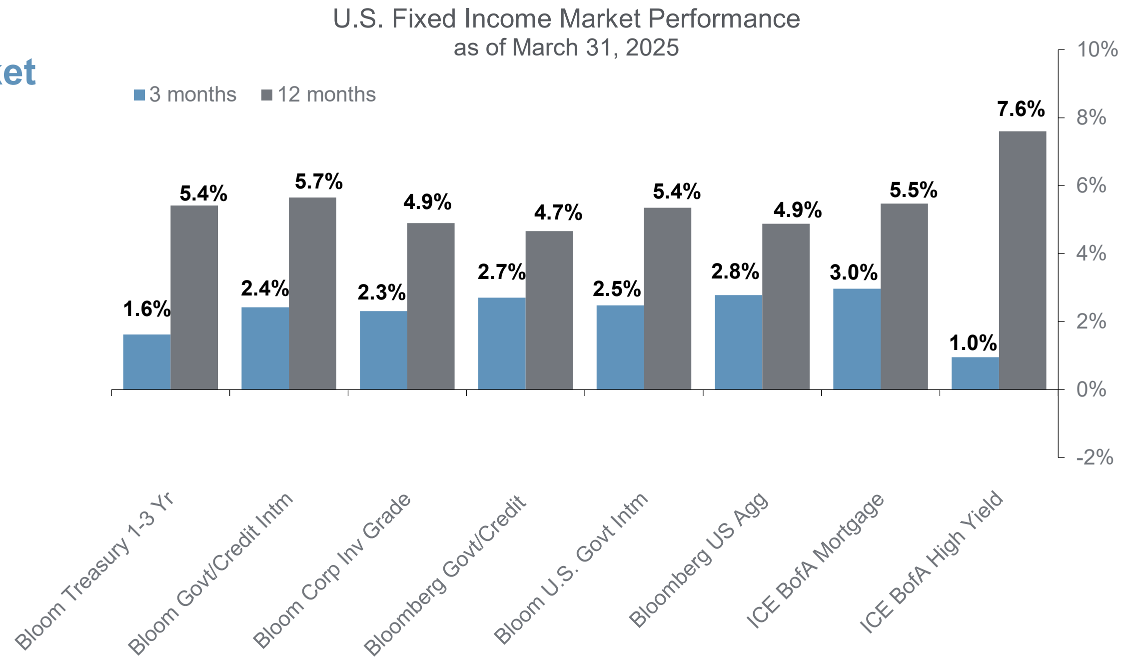




Domestic Fixed Income Market

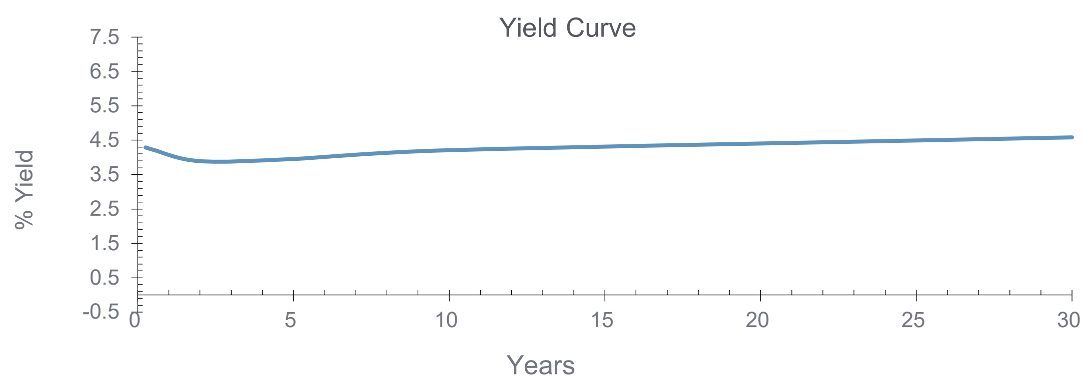
Bonds were up as interest rates dropped. The Bloomberg U.S. Aggregate Bond index ended up 2.78 percent. High yield bonds rose 0.97 percent. Bond yields went from the highs of their range to the lows of their range. They have behaved as bonds should during a down market, providing much needed relief.

The ten-year Treasury ended the quarter with a 4.21 percent yield. The yield curve remains negative at the short end but has steepened from the 2 year to the thirty.



Yield Curve as of March 31, 2025

Time to Maturity	Interest Rate
3 Month	4.29
6 Month	4.22
2 Year	3.89
5 Year	3.95
10 Year	4.21
30 Year	4.58

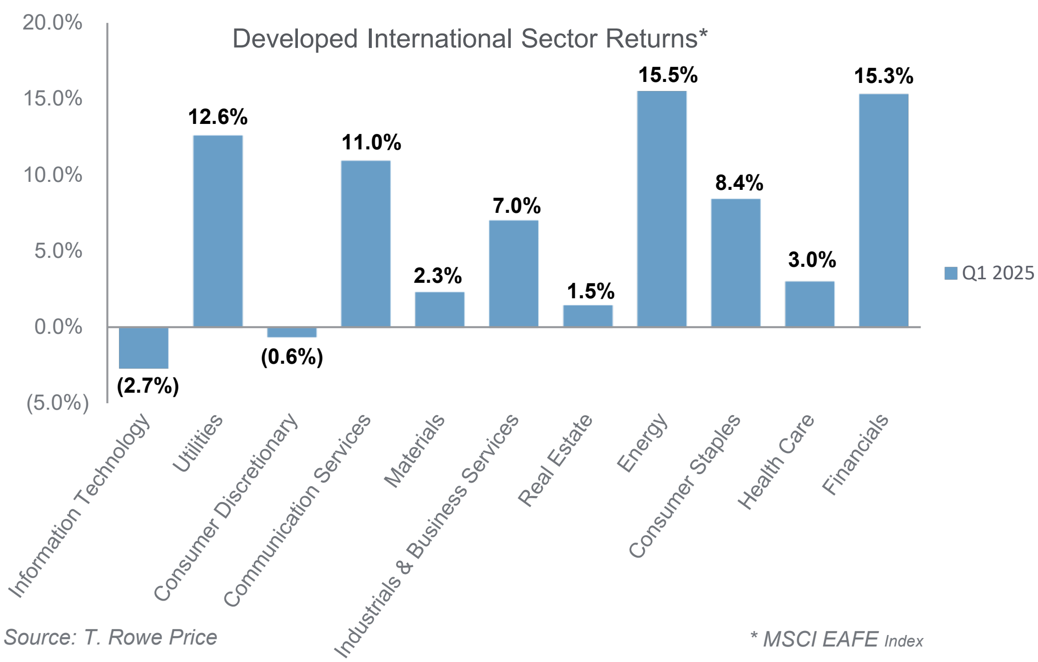


International Markets

International stocks were positive. The EAFE index finished up 7.01 percent and the MSCI Emerging Markets index ended the quarter up 3.01 percent.

European stocks were up 10.64 percent while the U.S. was negative. This is a significant change in leadership. The question is: Is this is a new trend, or are we going to flip right back?

China has bounced back with its market up 15 percent this quarter. The threat of U.S. tariffs doesn't seem to be impacting them as much as it is impacting the U.S.



Source: T. Rowe Price

** MSCI EAFE Index*

MSCI Country Returns

Three Months Ending March 31, 2025

	Return US$ (%)	Return Local Currency (%)	Currency Effect (%)
Austria	13.18%	8.49%	4.68%
Belgium	6.07%	1.68%	4.39%
Denmark	-11.65%	-15.27%	3.62%
Finland	14.37%	9.63%	4.73%
France	10.33%	5.77%	4.57%
Germany	15.63%	10.85%	4.79%
Ireland	16.29%	11.48%	4.81%
Italy	17.40%	12.54%	4.86%
Netherlands	1.99%	-2.04%	4.03%
Norway	21.00%	12.24%	8.76%
Portugal	3.36%	-0.92%	4.28%
Spain	22.47%	17.40%	5.07%
Sweden	12.56%	3.72%	8.85%
Switzerland	11.87%	9.22%	2.65%
UK	9.70%	6.45%	3.26%
Europe Total	**10.64%**	**6.38%**	**4.26%**
Australia	-2.61%	-3.23%	0.62%
Hong Kong	4.40%	4.56%	-0.16%
Japan	0.50%	-4.37%	4.87%
New Zealand	-8.82%	-9.80%	0.98%
Singapore	9.52%	8.26%	1.26%
Pacific Total	**0.46%**	**-3.03%**	**3.49%**
Brazil	14.12%	6.88%	7.24%
Canada	1.30%	1.38%	-0.07%
China	15.06%	15.03%	0.03%
Greece	23.45%	18.34%	5.11%
Hungary	17.99%	10.82%	7.17%
India	-2.90%	-3.06%	0.16%
Indonesia	-11.03%	-8.46%	-2.57%
Korea	5.18%	5.21%	-0.03%
Mexico	8.60%	6.85%	1.75%
Poland	31.27%	23.24%	8.03%
Thailand	-13.56%	-13.99%	0.43%
Emerging Markets	**3.01%**	**2.73%**	**0.28%**

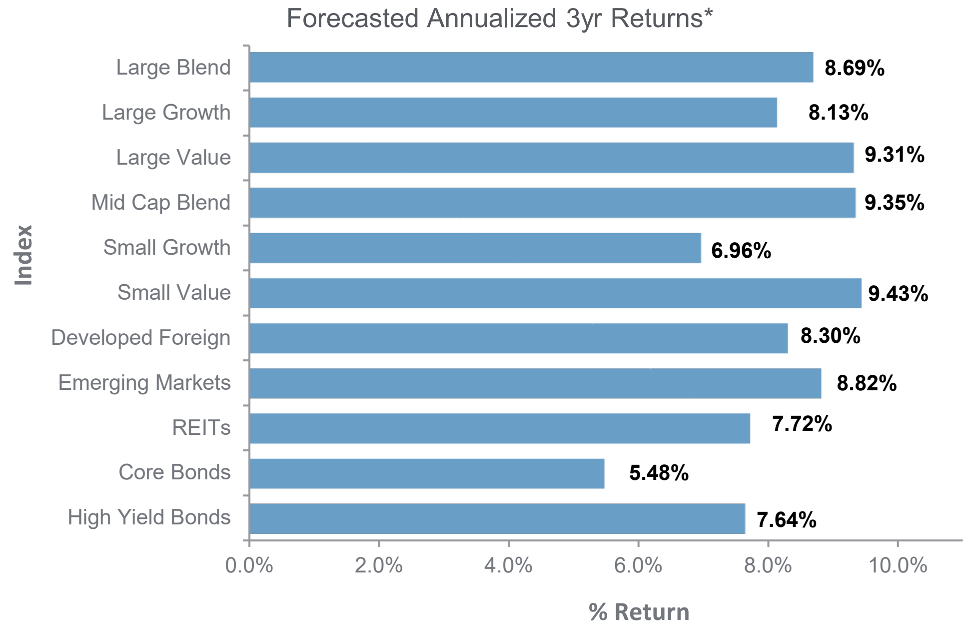
Source: MSCI

Market Forecast

Seldom does a single act change everything, but this is one of those times. With tariffs going into place, the outlook in the short term is negative. Defense will be the key for the foreseeable future. However, stay alert because what was done by a single action could also be undone by a single action.

Ultimately stocks will be driven by fundamentals regardless of government policy. Valuations have come down quickly. International will likely continue to do relatively well as a weak dollar will assist U.S. investors in foreign markets. Small companies will likely struggle more than large companies to find tariff work arounds. A flight to quality will likely take place.

Bonds have done their job in protecting on the downside. There will continue to be downward pressure on rates as growth slows due to trade restrictions.



Changes in Return Expectations
as of March 31, 2025

Asset Class	Change Over Quarter	Change Over Year
Large Blend	0.09%	-0.46%
Large Growth	0.14%	-0.30%
Large Value	0.05%	-0.68%
Mid Cap Blend	0.06%	-0.37%
Small Growth	0.07%	-0.49%
Small Value	0.13%	-0.39%
Developed Foreign	-0.10%	-0.44%
Emerging Markets	0.12%	-0.22%
REITs	-0.03%	-0.29%
Core Bonds	0.05%	-0.37%
High Yield Bonds	0.17%	-0.34%

*Forecasted 3-year annualized returns represent Iron Capital's investment return expectations for various asset classes over the next 3 years. They are calculated using a weighted average of historic returns and forward return assumptions. They are meant to be a tool to judge relative attractiveness of asset classes and not a guarantee of future investment returns.

SELECTED INDEX RETURNS - PERIODS ENDING March 31, 2025

	Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
US EQUITIES						
Broad Stock Market - Russell 3000	-4.72%	-4.72%	7.22%	8.22%	18.18%	11.80%
Large Stocks - S&P 500	-4.27%	-4.27%	8.25%	9.06%	18.59%	12.50%
Dow Jones Industrial Average	-0.87%	-0.87%	7.40%	8.75%	16.20%	11.43%
Medium-Size Stocks - Russell Mid-Cap	-3.40%	-3.40%	2.59%	4.62%	16.28%	8.82%
Small Stocks - Russell 2000	-9.48%	-9.48%	-4.01%	0.52%	13.27%	6.30%
Small Value Stocks- Russell 2000 Value	-7.74%	-7.74%	-3.12%	0.05%	15.31%	6.07%
Small Growth Stocks- Russell 2000 Growth	-11.12%	-11.12%	-4.86%	0.78%	10.78%	6.14%
Large Value Stocks - Russell 1000 Value	2.14%	2.14%	7.18%	6.64%	16.15%	8.79%
Large Growth Stocks - Russell 1000 Growth	-9.97%	-9.97%	7.76%	10.10%	20.09%	15.12%
US FIXED INCOME						
1-3 Yr Treasury (Gov't) Bonds - Bloomberg	1.62%	1.62%	5.42%	2.84%	1.14%	1.49%
US Government Bonds Int - Bloomberg	2.48%	2.48%	5.35%	1.79%	-0.03%	1.36%
US Corporate Inv Grade Bonds - Bloomberg	2.31%	2.31%	4.90%	1.14%	1.51%	2.43%
Government/Credit (Corp) Bonds - Bloomberg	2.70%	2.70%	4.66%	0.45%	-0.34%	1.58%
Int Govt/Credit (Corp) Bond - Bloomberg	2.42%	2.42%	5.65%	2.18%	0.86%	1.81%
US Aggregate Bond Market - Bloomberg	2.78%	2.78%	4.88%	0.52%	-0.40%	1.46%
Mortgage Backed Securities - ICE BofA	2.97%	2.97%	5.47%	0.55%	-0.70%	1.12%
US High Yield Bonds - ICE BofA	0.95%	0.95%	7.60%	4.84%	7.21%	4.92%
INTERNATIONAL (Measured in US Dollars)						
Non-US Stocks - MSCI EAFE	7.01%	7.01%	5.41%	6.60%	12.31%	5.91%
World Stocks (includes US) - MSCI World	-1.68%	-1.68%	7.50%	8.10%	16.67%	10.07%
European Stocks - MSCI Europe	10.64%	10.64%	7.53%	8.00%	13.83%	6.31%
Japanese Stocks - MSCI Japan	0.50%	0.50%	-1.74%	5.68%	9.20%	5.63%
Asian Stocks (Ex-Japan) - MSCI Pacific ex-Japan	0.36%	0.36%	6.88%	0.50%	10.21%	4.24%
Chinese Stocks - MSCI China	15.06%	15.06%	40.79%	3.74%	1.63%	2.69%
Indian Stocks - MSCI India	-2.90%	-2.90%	2.86%	7.65%	21.16%	8.13%
Emerging Markets - MSCI EM	3.01%	3.01%	8.65%	1.91%	8.38%	4.11%
Int'l Gov't Bonds -FTSE Non-USD World Gov't Bond	2.33%	2.33%	0.32%	-4.89%	-4.01%	-0.86%
REAL ESTATE						
FTSE NAREIT Equity-Reits Index	0.91%	0.91%	9.94%	-0.61%	11.34%	5.29%
SHORT TERM INTEREST RATES						
T-Bills	1.10%	1.10%	5.17%	4.43%	2.69%	1.90%

Note: Returns for periods longer than 12 months are annualized.