Volatility Spikes and Markets Whipsaw as Tariffs, Economic and Geopolitical Tensions Unsettle Investors

Domestic Equities

After two exceptionally strong years in US markets with consecutive 23%+ gains, domestic equities closed lower in the first quarter of 2025 amid heightened economic and political uncertainty. The S&P 500 and the Nasdaq Composite experienced their biggest quarterly drop since 2022, with the S&P 500 Index dropping 4.3%, and the Nasdaq Composite falling just over 10% for the quarter. This broad market selloff continued for most cyclical areas of the markets as the on and off nature of tariff negotiations and threats intensified.

Domestic Index Returns

Name	Q1	YTD	1 Year
S&P 500	-4.3%	-4.3%	8.4%
Nasdaq Composite	-10.3%	-10.3%	6.3%
Dow Jones	-0.9%	-0.9%	8.1%
Russell 1000	-4.5%	-4.5%	8.1%
Russell 1000 Growth	-10.0%	-10.0%	7.8%
Russell 1000 Value	2.1%	2.1%	7.7%
Russell 2000	-9.5%	-9.5%	-3.0%
Russell 2000 Growth	-11.1%	-11.1%	-4.1%
Russell 2000 Value	-7.7%	-7.7%	-1.9%

Source: Bloomberg

US stocks started the year strong, with the S&P 500 gaining a little over 4.5% and hitting an all-time high in February just before President Trump's tariff policies shocked markets around the globe, proceeded by a sharp 10% selloff from all-time highs. In the U.S. investors rotated out of consumer discretionary and information technology sectors in favor of more defensive and value plays with healthcare, utilities, and staples. Energy was the strongest sector fueled by rising global demand expectations.

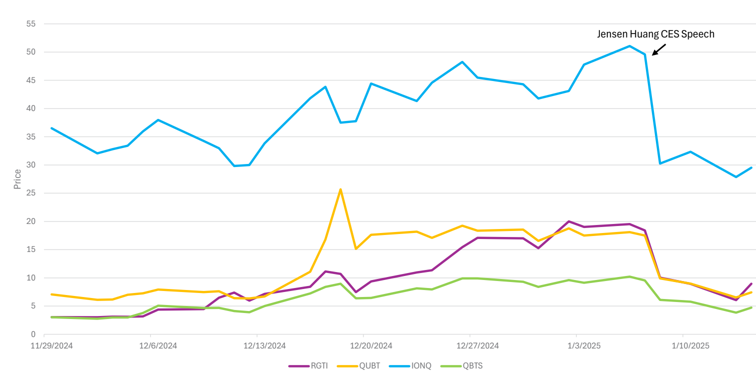
S&P 500 GICS Sector Returns

Name	Q1	YTD	1 Year
S&P 500 Financials	3.5%	3.5%	20.9%
S&P 500 Info Tech	-12.7%	-12.7%	5.7%
S&P 500 Energy	10.2%	10.2%	1.7%
S&P 500 Healthcare	6.5%	6.5%	1.3%
S&P 500 Staples	5.2%	5.2%	13.3%
S&P 500 Discretionary	-13.8%	-13.8%	7.5%
S&P 500 Utilities	4.9%	4.9%	24.7%
S&P 500 Industrials	-0.2%	-0.2%	6.3%
S&P 500 Communication Services	-6.2%	-6.2%	11.9%
S&P 500 Materials	2.8%	2.8%	-5.4%
S&P 500 Real Estate	3.6%	3.6%	11.6%

Source: Bloomberg

January was a shock to tech stocks and their peripherals as DeepSeek, a divergent and inexpensive Chinese AI platform, unsettled investor expectations surrounding domestic tech valuations and AI spend. Moreover, quantum computing stocks plunged in early January after Nvidia's CEO Jensen Huang spoke at the Consumer Electronics Show in Las Vegas, stating that useful quantum computers are likely "a few decades away".

Quantum Computing Stocks Collapse



Source: Bloomberg

International Equities

Following a difficult fourth quarter in 2024, driven by fears of tariff impacts and the potential for a global trade war, international equities saw a reversal in the first quarter of 2025. Developed international and emerging market stocks bucked a decade long trend of underperformance relative to US stocks, leading to a significant (10-14%+) total return spread between international and domestic equities. The MSCI EAFE and MSCI EM indices advanced 7% and 3%, respectively.

International vs Domestic

***Ratio chart of EFA/SPY**

Source: Bloomberg

International equities in Europe were particularly strong, with Defense, Banks, and Infrastructure being the clear sector winners. The rally in defense was supported by expectations of a rearmament campaign across Europe, while manufacturing also advanced as investors bet on potential infrastructure modernization efforts in Ukraine. Emerging markets posted modest gains, supported by stronger-than-expected economic data from China along with promising innovative technology in the AI/Tech and EV market segments.

International Index Returns			
Name	Q1	YTD	1 Year
MSCI Greece	18.3%	18.3%	28.8%
MSCI Spain	17.8%	17.8%	27.2%
MSCI Austria	8.5%	8.5%	34.4%
MSCI Italy	12.5%	12.5%	17.7%
MSCI Germany	10.9%	10.9%	21.1%
MSCI Sweden	2.3%	2.3%	1.4%
MSCI Norway	12.2%	12.2%	20.8%
MSCI Switzerland	9.2%	9.2%	10.7%
MSCI France	5.8%	5.8%	0.2%
MSCI UK	6.4%	6.4%	12.2%
MSCI Netherlands	-2.2%	-2.2%	-10.3%
MSCI India	-3.1%	-3.1%	4.6%
MSCI Emerging Markets	3.0%	3.0%	8.7%
MSCI China	15.2%	15.2%	39.3%
MSCI Europe	6.1%	6.1%	7.5%

Source: Bloomberg

Commodities

Despite turmoil in equity markets, commodities performed relatively well for the quarter, with strength in precious metals as gold hit a record high over $3,100/oz, and silver hit a multi-year high over $34/oz, advancing 18-19%, powered by increased demand and a weaker US dollar. Oil went for a wild ride, advancing in early January, plunging over 17% from its mid-January highs, and then recovering to finish the quarter about 1.4% higher on news of higher expected demand in Europe.

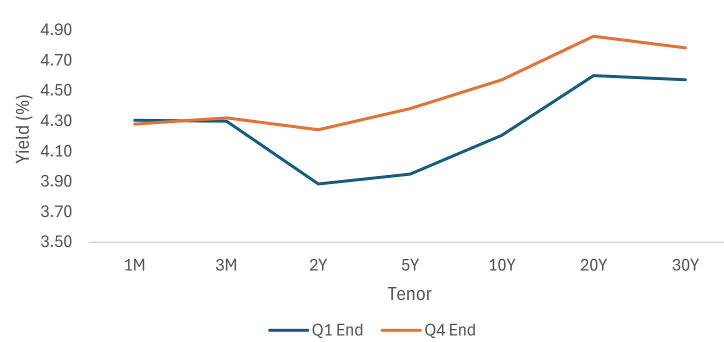
Commodity Returns			
Name	Q1	YTD	1 Year
Coffee	21.7%	21.7%	96.3%
Corn	-1.2%	-1.2%	-6.6%
Cotton	-3.6%	-3.6%	-20.5%
Soybeans	-0.6%	-0.6%	-14.2%
Sugar	6.6%	6.6%	-9.2%
Wheat	-3.3%	-3.3%	-14.1%
WTI Crude	1.4%	1.4%	-4.7%
Natural Gas	30.5%	30.5%	32.3%
Gold	19.0%	19.0%	38.7%
Silver	17.9%	17.9%	35.9%
Platinum	9.9%	9.9%	10.2%
Palladium	8.6%	8.6%	-1.7%

Source: Bloomberg

Fixed Income

Equity markets were risk-off for the second half of Q1, with capital pouring into high quality fixed income assets. Despite a lack of cuts and higher for longer outlook from the Fed in 2025, yields rallied materially in the belly of the curve (-43bps in the 5Y). This was a reversal in sentiment from the drift higher and bear steepening that dominated Q4.

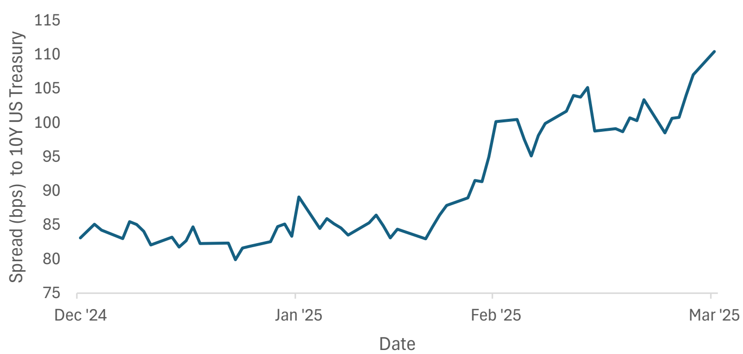
US Treasury Yield Curve Q1



Source: Bloomberg

Given the nature of the move, credit products were not as well bid in Q1. Investment Grade AAA corporate spreads widened by 27bps on the quarter to 110bps as of Q1 end (according to Bloomberg's BASPCAAA Index, which subtracts the 10Y US Treasury Yield from Moody's Bond Indices Corporate AAA Index [MOODCAAA] Index). In one of our previous notes, we underscored the richness of credit spreads and a case for them to widen out to low triple digits. As the market digests the volatile flow of information on the US trade stance and economic outlook, investors are pricing in higher credit risk.

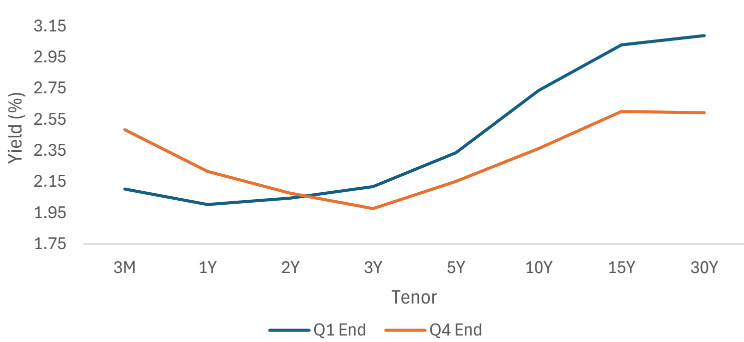
AAA Credit Spreads Widen 27bps in Q1 '25



Source: Bloomberg

International bonds experienced the opposite in Q1 – stimulated by a sharp pivot in fiscal policy. Following a heated televised negotiation between the US and Ukraine, the EU put together an €800 billion defense package and Germany increased its debt limit. European bonds rose in response to the fiscal policy changes, the 10Y bund selling off by more than 30bps on March 5, its largest one-day selloff since 1990. European growth, which has been muted, may be stimulated by fiscal policy, necessitating less cuts by the ECB (in the month of March, the number of ECB cuts priced in for 2025 decreased by 1).

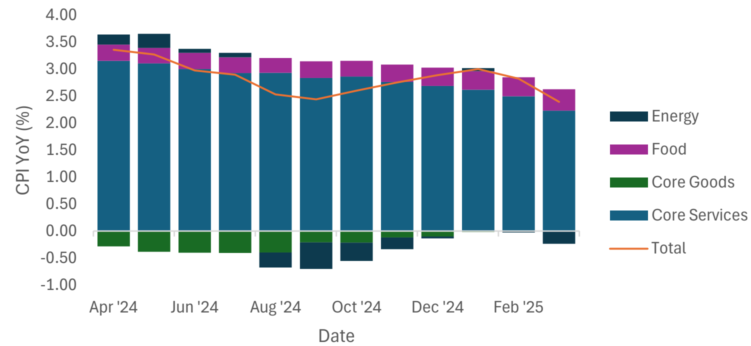
Germany Sovereign Yield Curve Q1



Source: Bloomberg

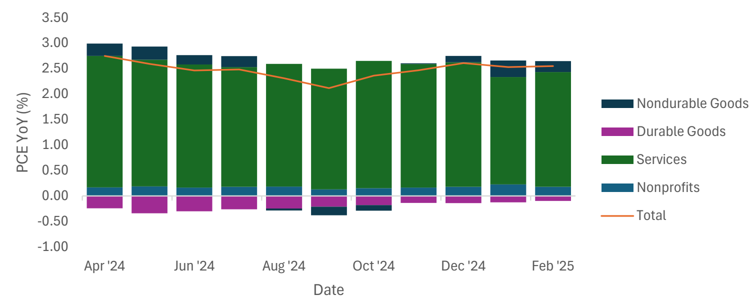
With the tough US trade stance and onset of tariffs, the Fed has been left with very little wiggle room to lower rates. On one hand, policy remains restrictive and US consumer data and sentiment are weakening, with retail sales prints through February coming in below consensus (-0.9% Jan vs. -0.2% consensus, 0.2% Feb vs. 0.6% consensus) and the University of Michigan Consumer Sentiment survey declining 19% on the quarter.

CPI YoY TTM



Source: Bloomberg

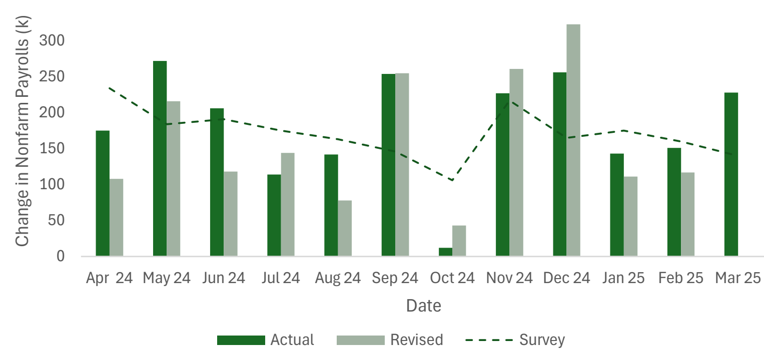
PCE YoY TTM



Source: Bloomberg

On the other hand, core services inflation remains elevated and has the potential to increase as the delayed effects of tariffs start to feed into the data. Jobs data has recently been resilient but may show weakness in future prints as the Department of Government Efficiency cuts are reflected. Unless the Fed has a basis in the data to cut, their toolbox is limited, despite 3 cuts being priced in for 2025 as of Q3 end.

Change in Nonfarm Payrolls TTM



Source: Bloomberg