April 2025

Market Commentary

First Affirmative Financial Network

Invest for a Sustainable Future

By Theresa Gusman

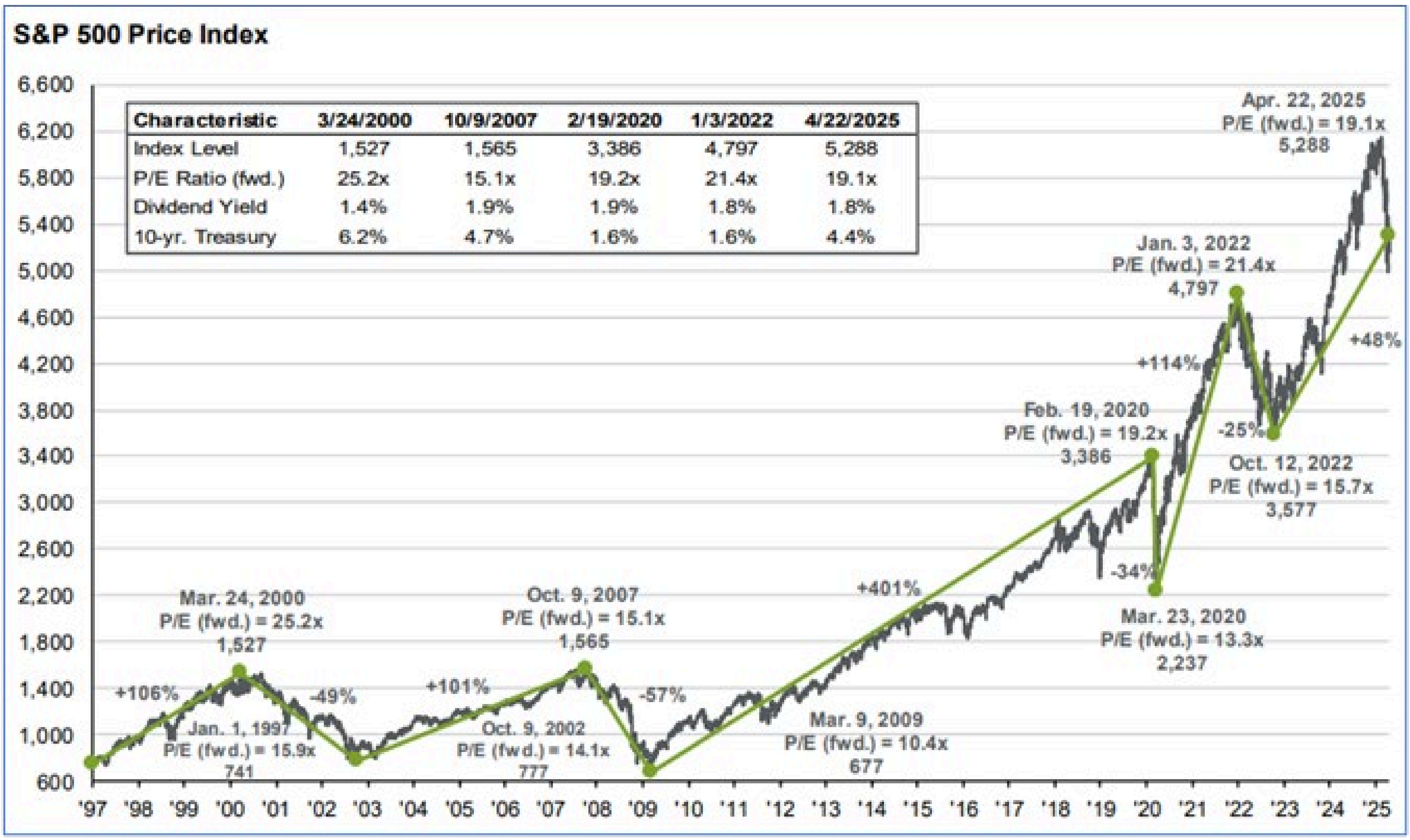
The Future is not what it used to be[1]

Overview

Over the past two years, the US equity market enjoyed a long, steady march higher, with the S&P 500 climbing 25% in 2024 following a 26% gain in 2023. In stark contrast, 2025's year-to-date period has been a rollercoaster. The S&P 500 declined 5.8% in March, bringing the first quarter decrease to 4.3%. We thought that was bad until the market plunged 9.1% in the five days after President Trump's April 2nd "Liberation Day" tariff announcement, then surged 9.5% in the days after the April 9th tariff rollback. As the President approaches his first 100 days in office (April 29th), the pace of announcements on slashing government waste, immigration reform, tariffs, deregulation, accelerating US investment, and Congressional budget deliberations has been manic, and global equity, debt, and currency markets have reacted -- with daily 2%-5%-plus up and down moves becoming commonplace.

Figure 1 shows the recent market downdraft and partial recovery. As noted, even with the recent decline, the market is up 136% from its COVID low and 48% from the 2022 bottom – albeit down 14% from its February 2025 peak.

Figure 1. S&P 500 at Inflection Points - Bull and Bear Markets, 1996 to Date



Source: J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of April 22, 2025

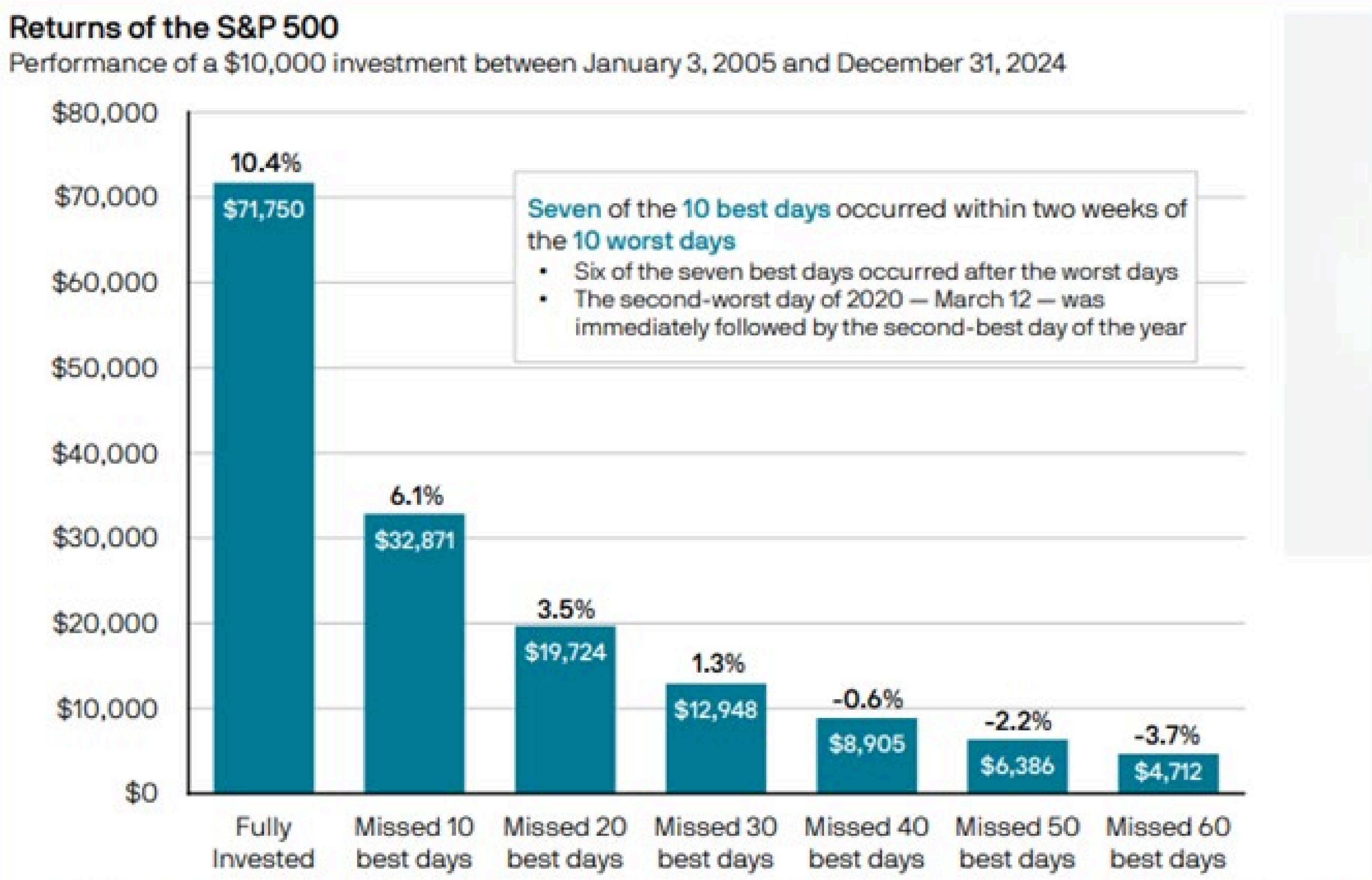
The quote, "The future is not what it used to be" is most attributed to the French poet and philosopher Paul Valery. I heard it in her speech by Christine Lagarde, President of the European Central Bank, titled, "A robust strategy for a new era" delivered on March 12, 2025.

Where do we go from here?

So, where do we go from here? As one market pundit put it, “uncertainty is a feature, not a bug” for the current administration. This means we must learn to live with volatility as the President continues to issue sweeping edicts only to retreat to pragmatism as the market, political, and economic consequences become apparent. Amid the Trump clamor, the US economy, employment, and corporate earnings remain resilient, and inflation continues to decline. Depending on the tariff endgame, US economic activity may decelerate, and inflation may tick up in the near term. Over the longer term, we believe deregulation, increased foreign investment, innovation (particularly AI-driven automation), declining global geopolitical tensions, rising legal immigration, and unleashing “animal spirits” could underpin US economic growth, corporate earnings, and the equity market.

Against this backdrop, investors should stay invested. Depending on their investment horizon and risk tolerance, investors may want to reduce risk on “up”days. However, as shown in Figure 2, selling out of the market after the worst days is a losing strategy. In fact, if an investor in the S&P 500 missed only ten of the best days over the past 20 years, their returns would have been only 6.1%, rather than an annualized 10.4% per year on average if they had remained fully invested. As JP Morgan put it (and we and our clients know), “losses hurt more than gains feel good, <and> market lows can result in emotional decision-making.” According to JP Morgan, “taking control by selling out of the market after the worst days is likely to result in missing the best days that follow <because> seven of the ten best days occurred within two weeks of the ten worst days.” Investing in a well-diversified, professionally managed portfolio for the long term can result in better financial outcomes.

Figure 2. The Impact of Being Out of the Market, Date as of December 31, 2024



Source: J.P. Morgan Asset Management using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2024.

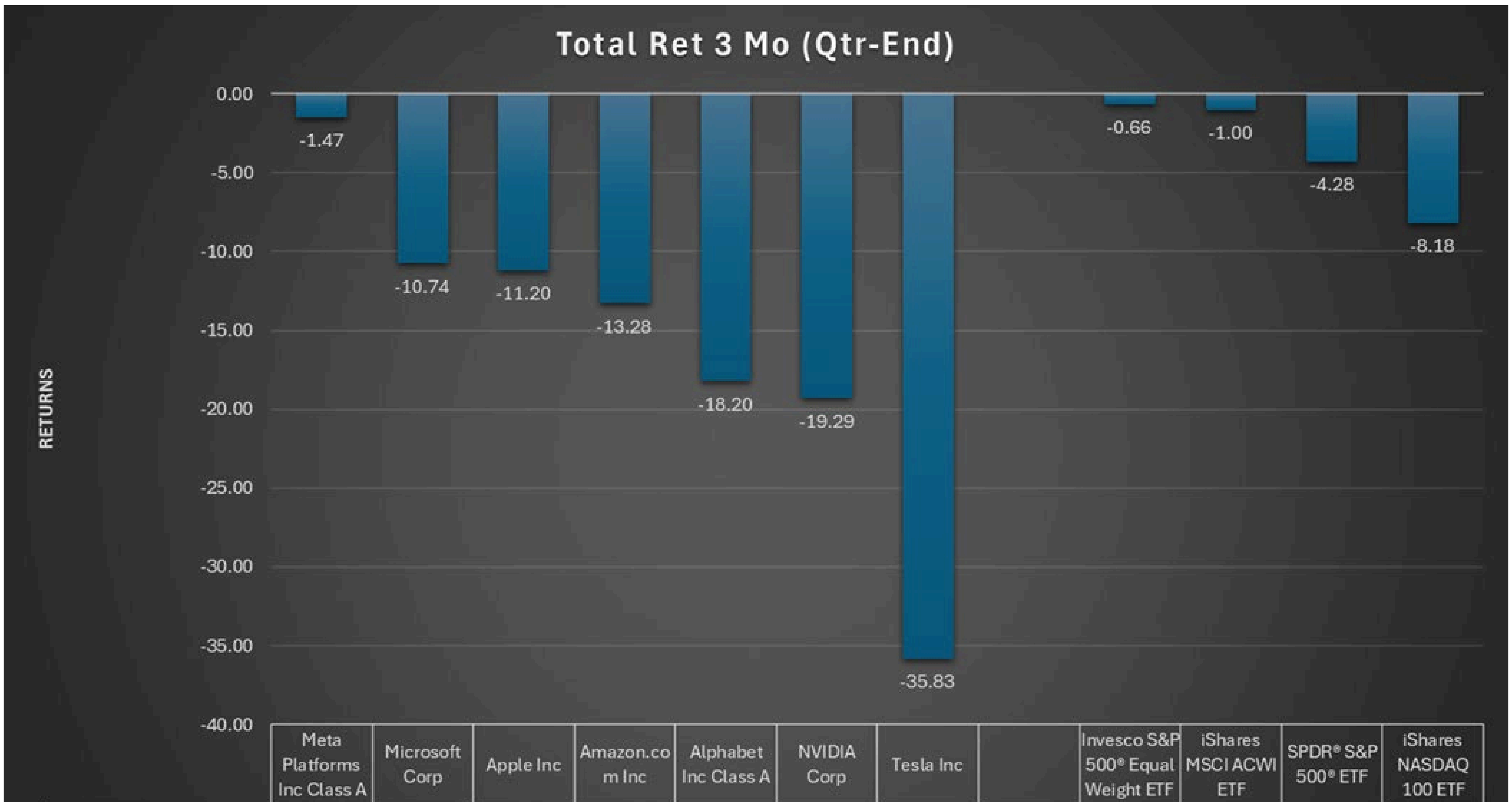
The Great Rotation

Recent winners – the "Magnificent Seven" v the other 493, Growth stocks v Value Stocks, Mega v SMID, and the US v the Rest of the World – became the biggest losers over the year-to-date period. Of course, these trends are highly correlated because even after the recent underperformance, the Magnificent Seven (all mega cap growth stocks) comprised 30% of US (S&P 500) market capitalization, and the US comprised 65% of global market capitalization. Nonetheless, the recent change in market leadership has been dramatic, and it is important to think about whether it will continue.

- **The Magnificent Seven.** As shown in Figure 3, the Magnificent Seven fell between 1.47% (Meta) and 35.8% (Tesla) in the first quarter, and the decline continued. As of April 22nd, the Magnificent Seven fell 21.1% and the other 493 stocks in the S&P 500 declined 3.1%, resulting in a 10.1% (indexed price return) year-to-date decline in the S&P 500 (see Figure 4).

  As shown in Figure 5, Magnificent Seven earnings growth continues to far outpace the earnings growth of the Other 493 – albeit at a decelerating pace – and valuations are more attractive in the wake of the recent downdraft. Artificial intelligence–driven automation will be essential to scaling US production amid rising tariffs. The now more attractively valued Magnificent Seven – along with emerging innovator – are well positioned to enable the advanced manufacturing and supply chain transformation required to capitalize on this strategic shift.

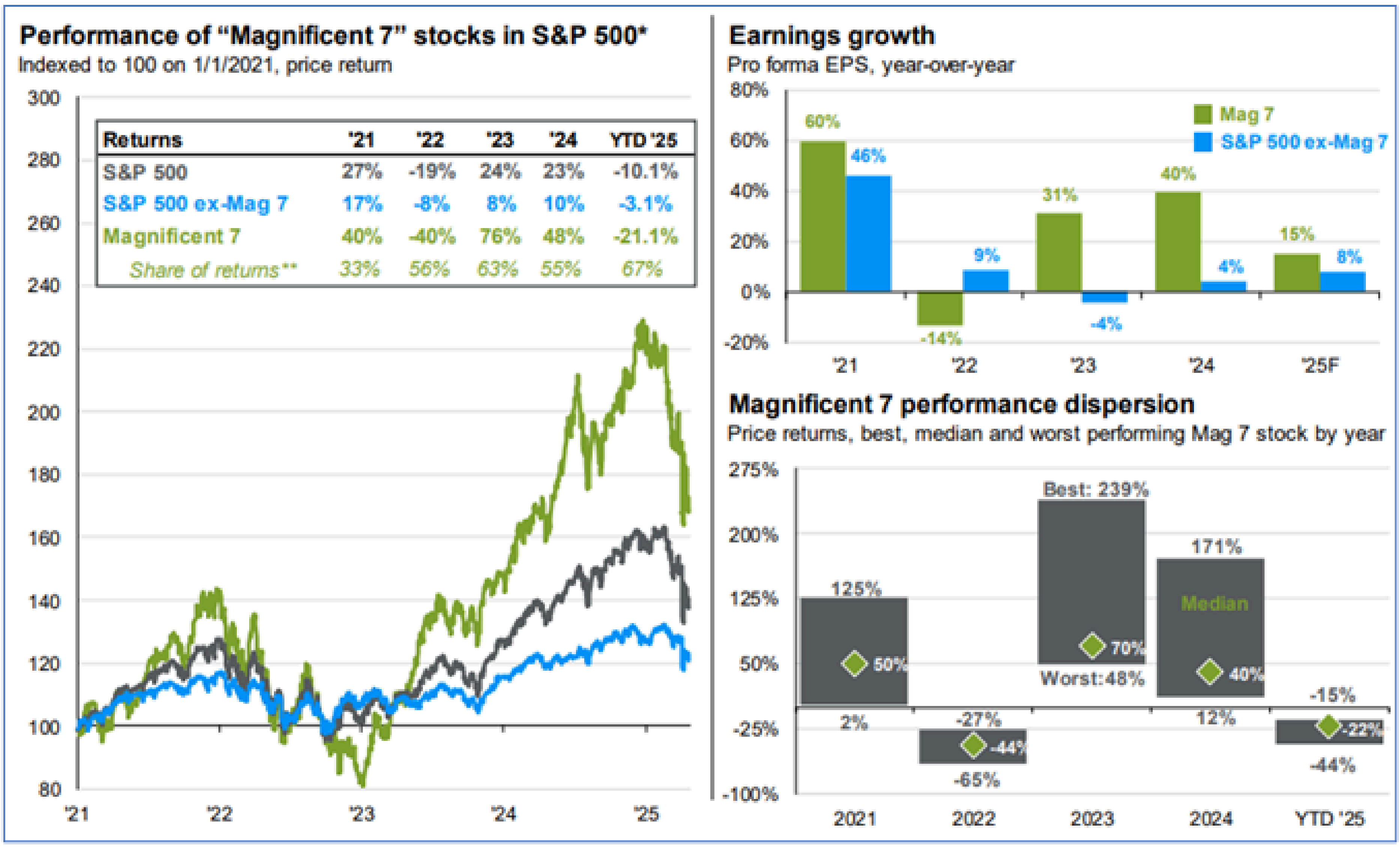
Figure 3. Magnificent Seven Returns, 1Q 2025 Returns



	Meta Platforms Inc Class A	Microsoft Corp	Apple Inc	Amazon.com Inc	Alphabet Inc Class A	NVIDIA Corp	Tesla Inc		Invesco S&P 500® Equal Weight ETF	iShares MSCI ACWI ETF	SPDR® S&P 500® ETF	iShares NASDAQ 100 ETF
Total Ret 3 Mo (Qtr-End)	-1.47	-10.74	-11.20	-13.28	-18.20	-19.29	-35.83		-0.66	-1.00	-4.28	-8.18

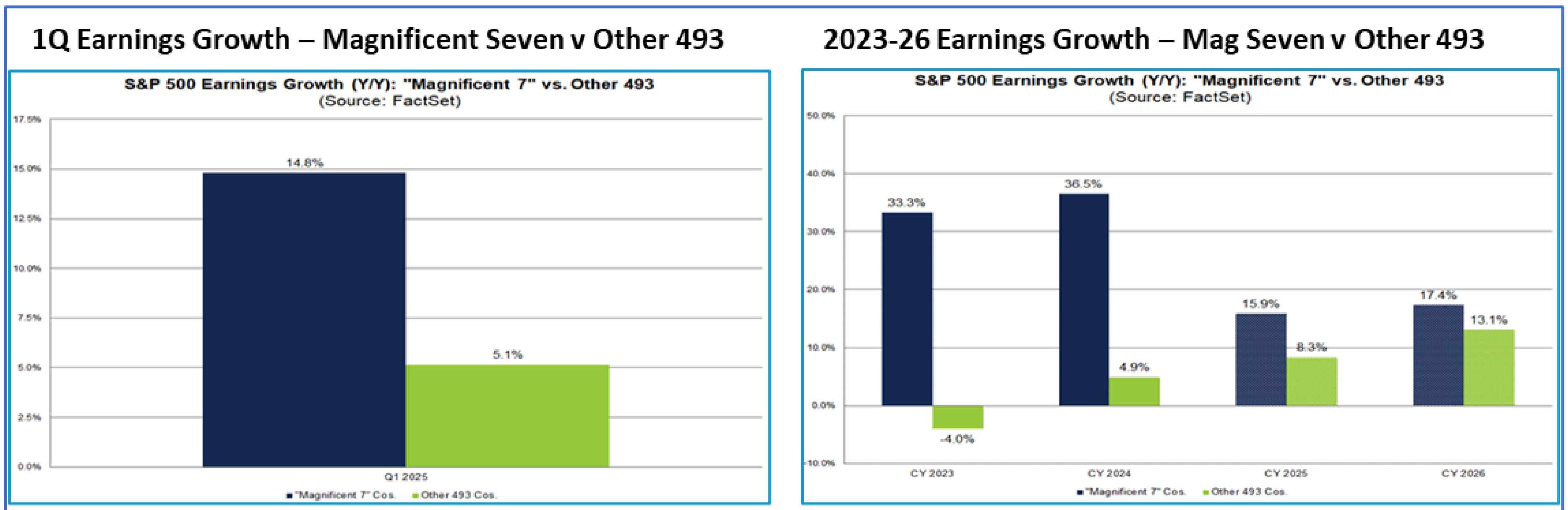
Source: First Affirmative, Data are as March 31, 2025

Figure 4. Magnificent Seven Performance and Earnings Dynamics, As of April 22, 2025



Source: J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of April 22, 2025

Figure 5. Magnificent Seven v Other 493



Source: FactSet, March 31, 2024

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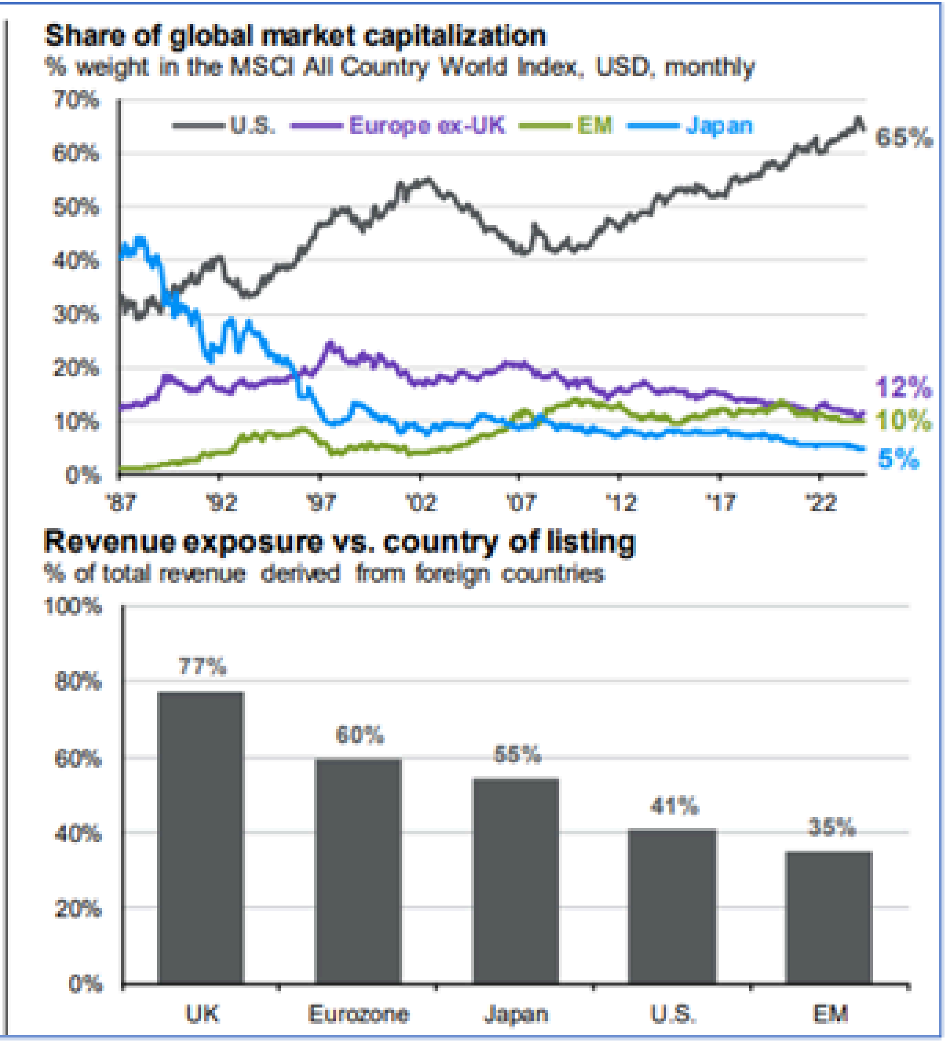
- **US v the Rest of the World.** As US equities fueled by the Magnificent Seven fell in the first quarter, international markets advanced. In March, Germany unveiled spending plans that broke the country's long-standing tight fiscal discipline and sharply boosted stocks. Following the April 2nd US tariff announcement, global markets became more volatile as tariff announcements, walk backs, and reinstatements became the norm. As shown in Figure 6, international markets – driven by the Eurozone (+14.7%) -- dramatically outperformed the US year to date through April 22nd. The excess performance of the markets in local currency has been magnified by significant US dollar weakness. Only the Taiwanese market – which is dominated by semiconductor behemoth TSMC – underperformed the US year to date.

Figure 6. Global Equity Markets Performance, As of April 22, 2025

Returns	YTD 2025		2024		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	-9.7	-	25.0	13.2	1.0
AC World ex-U.S.	-1.1	5.5	13.2	6.1	5.4	1.0
EAFE	-1.3	8.1	11.8	4.3	6.2	1.0
Eurozone	3.5	14.7	10.3	3.4	6.3	1.2
Emerging markets	-0.6	0.6	13.7	8.1	3.4	1.0
Selected Countries						
Japan	-9.6	1.0	21.2	8.7	5.8	0.7
United Kingdom	3.5	10.6	9.5	7.5	5.6	1.0
France	0.1	10.9	1.8	-4.6	6.7	1.2
Canada	-0.9	3.1	23.0	12.7	5.6	1.1
Germany	7.5	19.1	18.4	11.0	6.9	1.3
China	7.1	7.3	19.8	19.7	3.6	0.9
Taiwan	-19.5	-18.7	44.3	35.1	11.3	1.0
India	0.1	0.6	15.7	12.4	6.3	0.9
Brazil	7.0	13.7	-11.4	-29.5	-1.6	1.3



Source: J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of April 22, 2025

- **Equity Style Box Performance.** As the Magnificent Seven and other large technology companies faltered, value stocks outperformed growth stocks in the first quarter, and mid cap outperformed large cap. As shown in Figure 7, Large- (+5.95%) and mid- (+2.15%) cap Value stocks dramatically outperformed large- (-7.53%) and mid- (-6.27%) cap Growth. Small caps struggled across the capitalization spectrum, with small-cap growth falling 8.43%, more than any other category.

Figure 7. US Equity Style Box Performance, March 31,2025

Q1 2025

	Value	Blend	Growth
Large	5.95	-3.57	-7.53
Mid	2.15	-3.01	-6.27
Small	-3.74	-6.25	-8.43

Q4 2024

	Value	Blend	Growth
Large	-2.51	0.53	8.90
Mid	-2.31	-2.44	7.24
Small	0.77	-1.83	1.79

1-Year

	Value	Blend	Growth
Large	11.59	6.71	7.79
Mid	6.02	2.11	2.02
Small	0.90	-4.01	-1.82

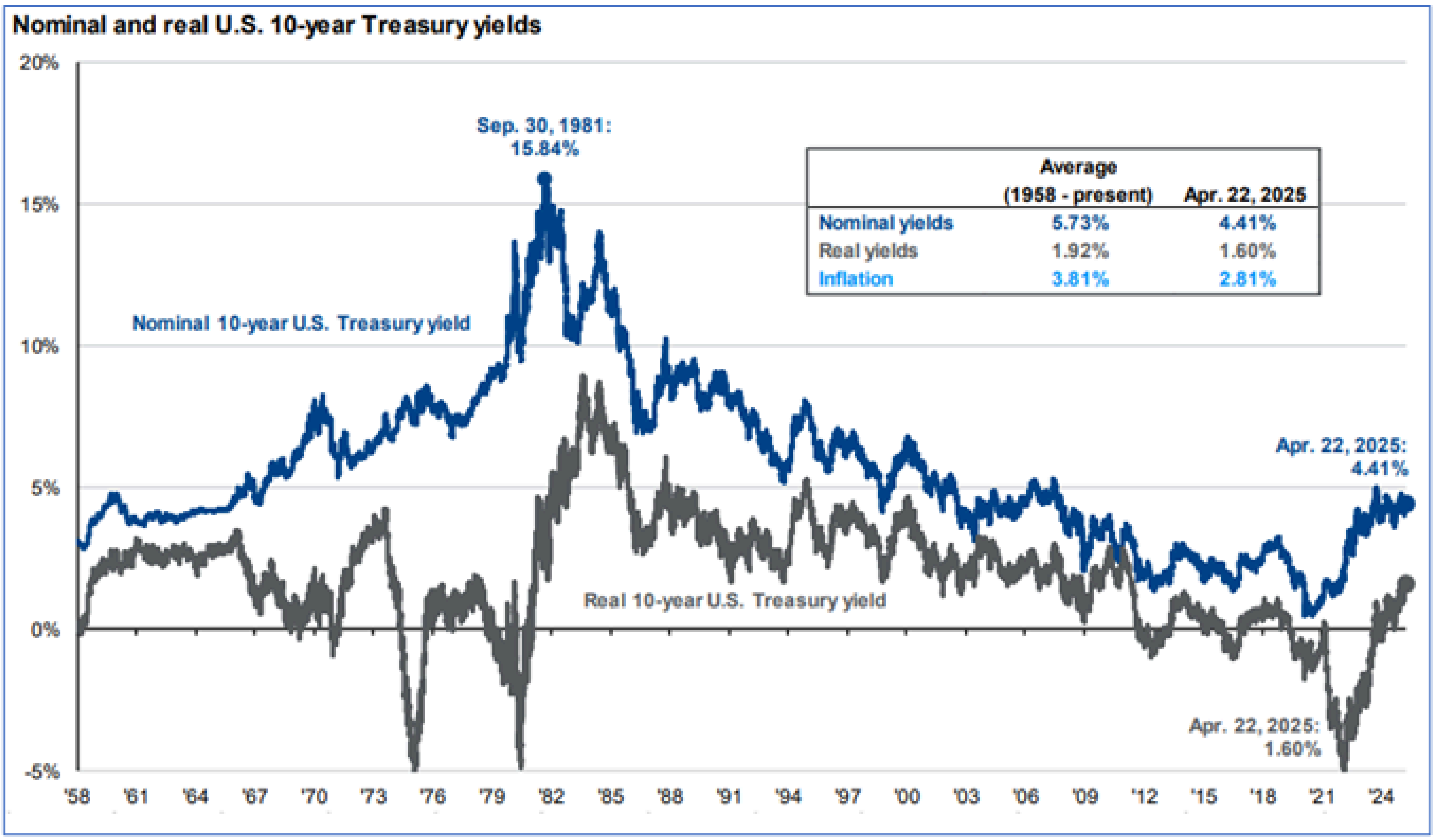
Source: Morningstar -- Data are as of March 31, 2025

Economic Resiliency, Strong Earnings Growth, More Attractive Valuations

The near-term outlook for the economy and inflation are dependent on the final tariff picture. As we move through the mishmash of individual country negotiations and associated announcements and retractions, we expect market volatility to persist. When the dust settles, we believe inflation will be marginally higher, US economic growth will slow, and corporate earnings will remain resilient. In the wake of the recent market rout, growth stock valuations are attractive relative to other categories, and for the first time in a long time the US is attractive relative to the rest of the world.

Although the Fed has made progress toward its dual inflation and unemployment mandates, recent communications indicate that it will hold interest rates steady until tariff negotiations are finalized and the economic impact can be assessed. As shown in Figure 8, real 10-year Treasury yields continue to approach their long-term average after a long period of significant divergence in inflation and interest rates.

Figure 8. Nominal and Real US 10-Year Treasury Yields, As of April 22, 2025

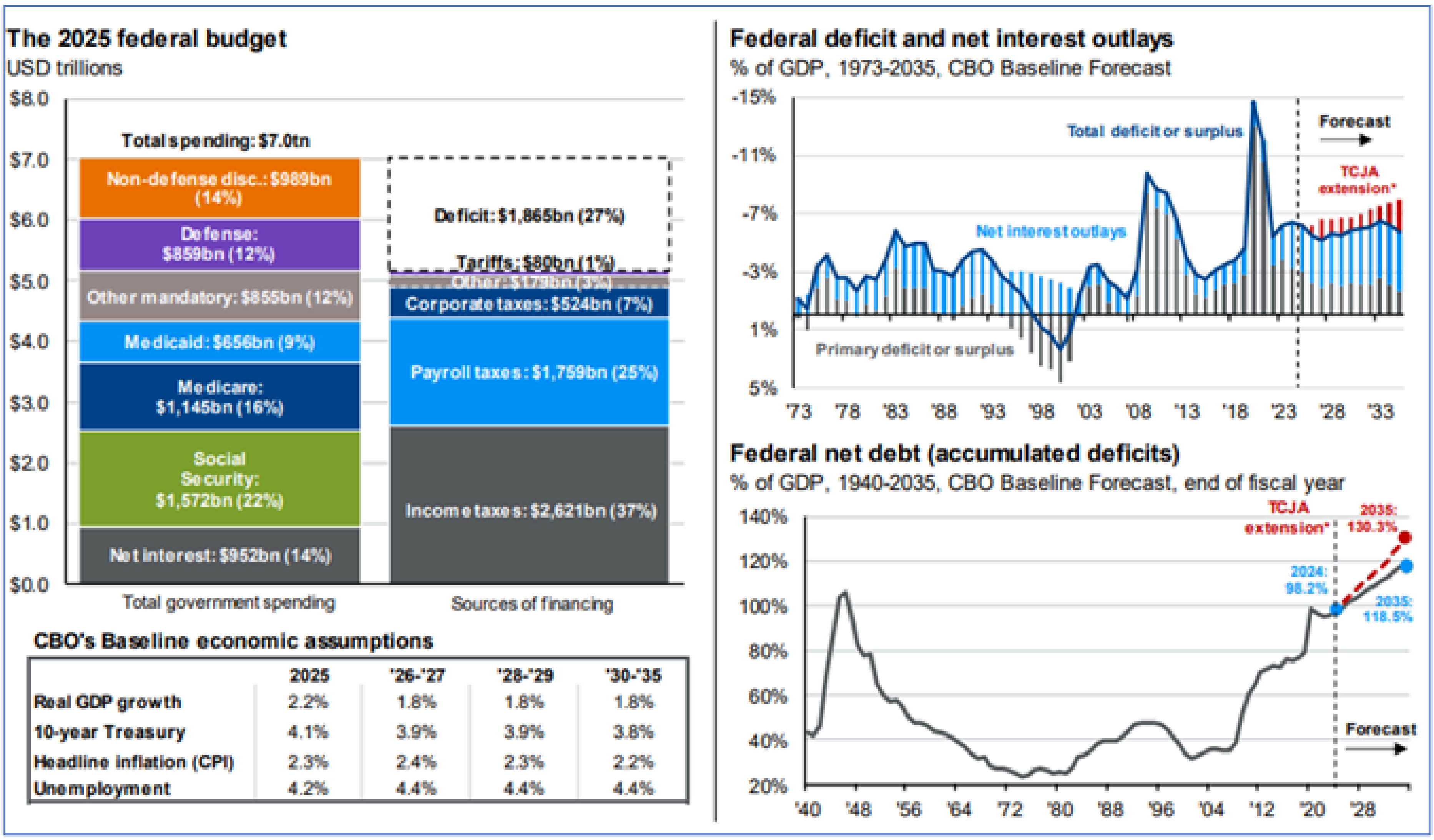


	Average (1958 - present)	Apr. 22, 2025
Nominal yields	5.73%	4.41%
Real yields	1.92%	1.60%
Inflation	3.81%	2.81%

Source: J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of April 22, 2025

Interest rates – and the Fed's reluctance to cut rates – not only affect consumers and debt-laden businesses, but also the federal government (see Figure 9). In 2025, the federal government is slated to spend $952 billion on Net Interest Expense, 11% more than it spends on Defense and a little less than Non-Defense Discretionary spending (i.e., everything other than Social Security and Medicare/Medicaid). The Congressional Budget Office (CBO) is targeting 2.3% inflation this year and next, declining to 1.8% thereafter. According to the CBO, interest rates will follow a similar trajectory. Given the magnitude of federal borrowings, even marginally higher inflation and interest rates (perhaps because of higher tariffs) could have a significant impact on the federal budget – and by extension US taxpayers and the economy

Figure 9. US Government Federal Finances

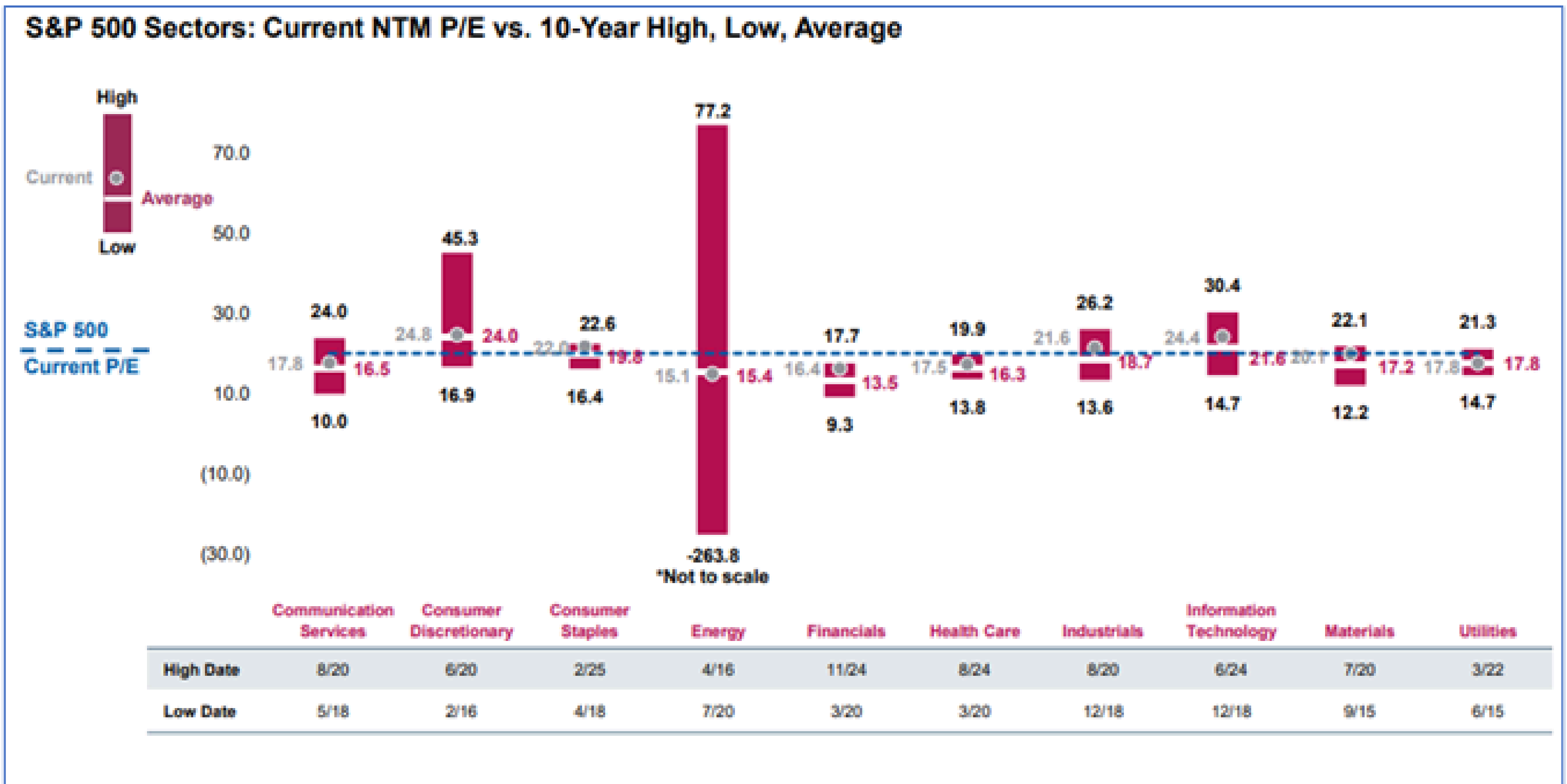


	2025	'26-'27	'28-'29	'30-'35
Real GDP growth	2.2%	1.8%	1.8%	1.8%
10-year Treasury	4.1%	3.9%	3.9%	3.8%
Headline inflation (CPI)	2.3%	2.4%	2.3%	2.2%
Unemployment	4.2%	4.4%	4.4%	4.4%

Source: J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of April 22, 225

As shown in Figures 10 and 11, global equity markets were fairly--valued at the end of the first quarter. The recent downdraft has yielded more attractive valuations – particularly for the large cap, growth-oriented categories (Russell 1000, S&P 500) and sectors (Information Technology). Value-oriented sectors (Consumer Staples, Materials, Industrials were more expensive relative to their recent valuations at the end of the first quarter.

Figure 10. Valuation Analysis - S&P 500 Sectors: Current NTM P/E v 10-Year High, Low, Average

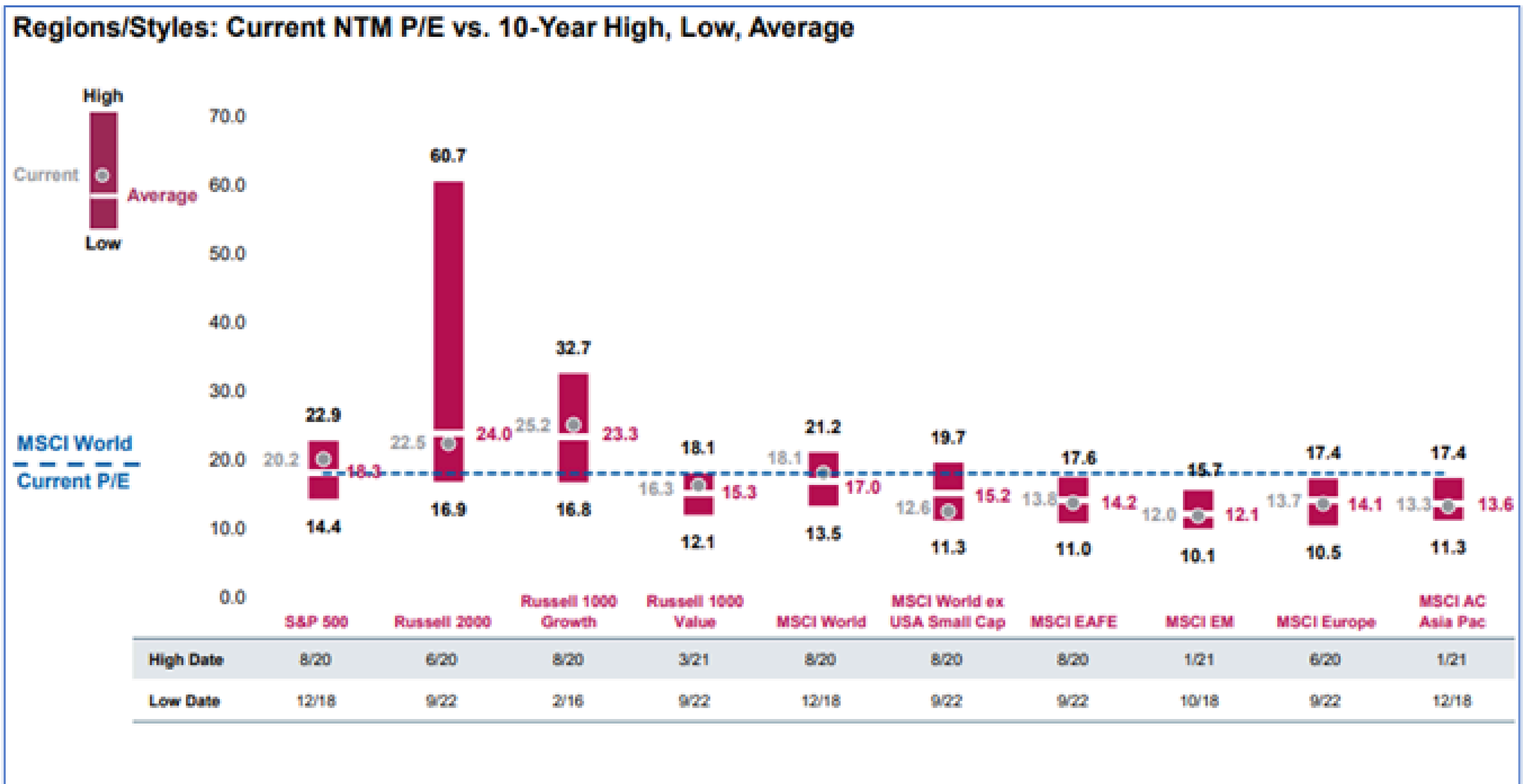


	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Utilities
High Date	8/20	6/20	2/25	4/16	11/24	8/24	8/20	6/24	7/20	3/22
Low Date	5/18	2/16	4/18	7/20	3/20	3/20	12/18	12/18	9/15	6/15

Source: FactSet as of 3/31/25. NTM P/E is market price per share divided by expected earnings per share over the next twelve months. The Real Estate sector is excluded from this 10-year chart since the sector was created on August 31, 2016. Data provided is for informational use only. See end of report for important additional information. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

Source: Eaton Vance Monthly Market Monitor, March 2025

Figure 11. Valuation Analysis - Regions/Styles: Current NTM P/E v 10-Year High, Low, Average



Source: FactSet as of 3/31/25. NTM P/E is market price per share divided by expected earnings per share over the next twelve months. Data provided is for informational use only. See end of report for important additional information. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

Source: Eaton Vance Monthly Market Monitor, March 2025

Values-Aligned Investments - This Too Shall Pass

Although market breadth widened in the first quarter, sustainability-themed strategies remained out of favor, with most underperforming their Morningstar categories (see Figure 12). In fact, the broad MSCI KLD 400 index fell 7.00%, compared with the 4.27% decline in the S&P 500 in the first quarter. As a reminder, the KLDI is a market capitalization weighted index comprised of 400 US securities and provides exposure to companies with outstanding Environmental, Social and Governance (ESG) ratings (according to MSCI) and excludes companies whose products have negative social or environmental impacts. The index has outperformed the S&P 500 by 190 bps per year, on average, since 1990 (see Figure 13), and we believe the recent underperformance of this sustainability focused index is temporary. We look for excess performance to resume as we move through the current period of sustainable, responsible, and impact investing backlash.

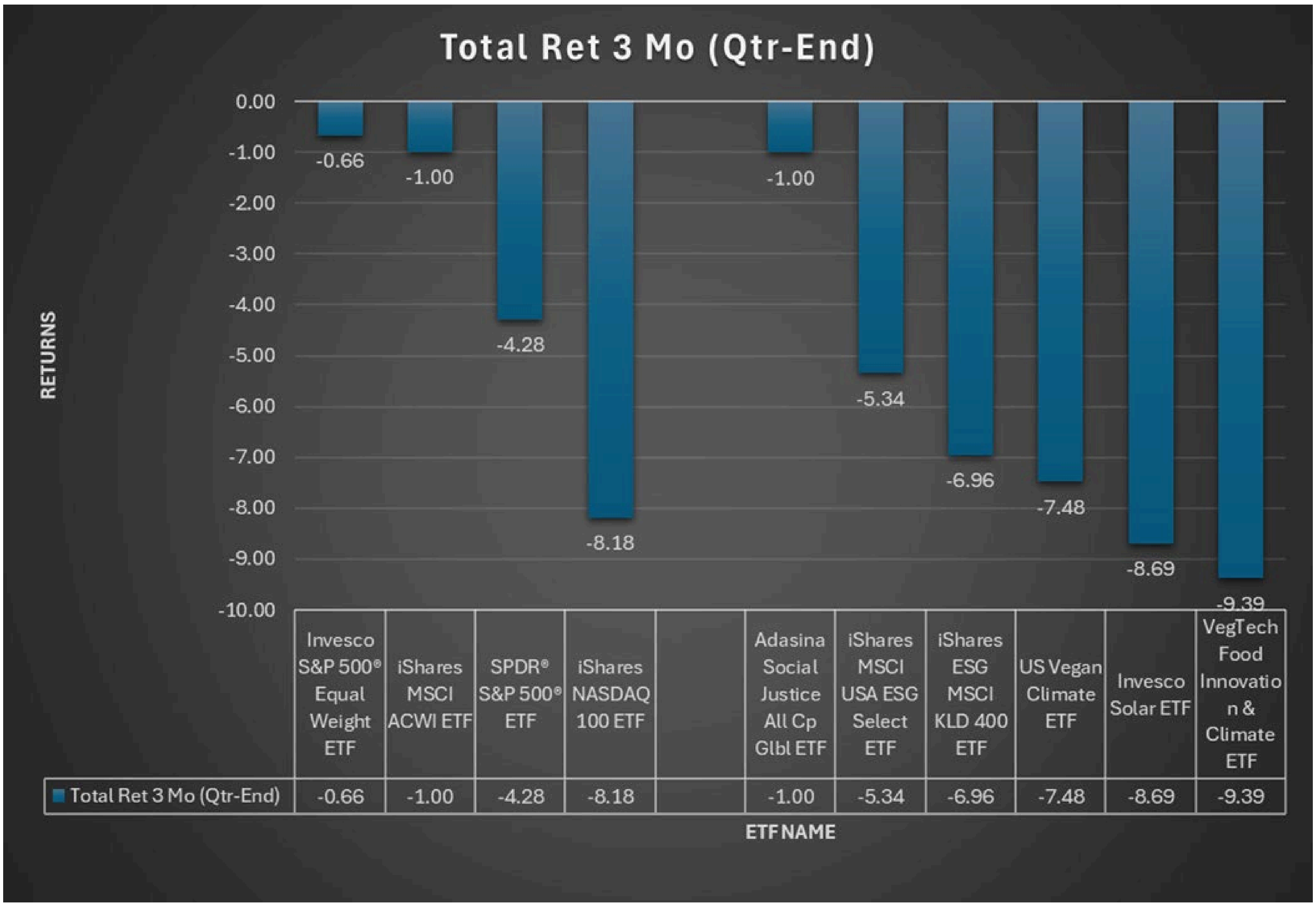
President Trump's January 20th climate-related executive orders immediately disrupted clean energy funding, halted wind projects, and signaled a fossil fuel-centric policy shift, creating uncertainty for US solar and wind producers. Diversity, Equity, and Inclusion (DEI) orders have eliminated federal programs and pressured contractors, with investigations looming over private sector initiatives. Some companies, like Target and Walmart, followed the government's lead by scaling back climate and DEI commitments, while others, like Google and First Solar, are adapting to maintain commitments amid market and global pressures.

The pause in Inflation Reduction Act (IRA) subsidies and wind leasing poses a challenge for solar and wind producers, suggesting subsidy cuts may outweigh tariff benefits. Ongoing legal challenges and market dynamics will shape the long-term impact, but the immediate effect is a slowdown in clean energy and DEI progress – and stalled performance for many sustainability themed investment strategies.

We believe the best way forward for values-focused Advisors and their clients is to emphasize education, accessibility, transparency, and personalization in in their interactions, and portfolio management, proxy voting, and corporate advocacy efforts. Our Values Aligned Direct Index Solution (VADIS) and proxy voting and advocacy efforts enable advisors to educate their clients and work with them to identify the Values Set best aligned the client's view of the world, incorporate those Values into the client's personal Investment Universe, and construct a portfolio and advocacy plan targeting the client's long-term financial and impact objectives.

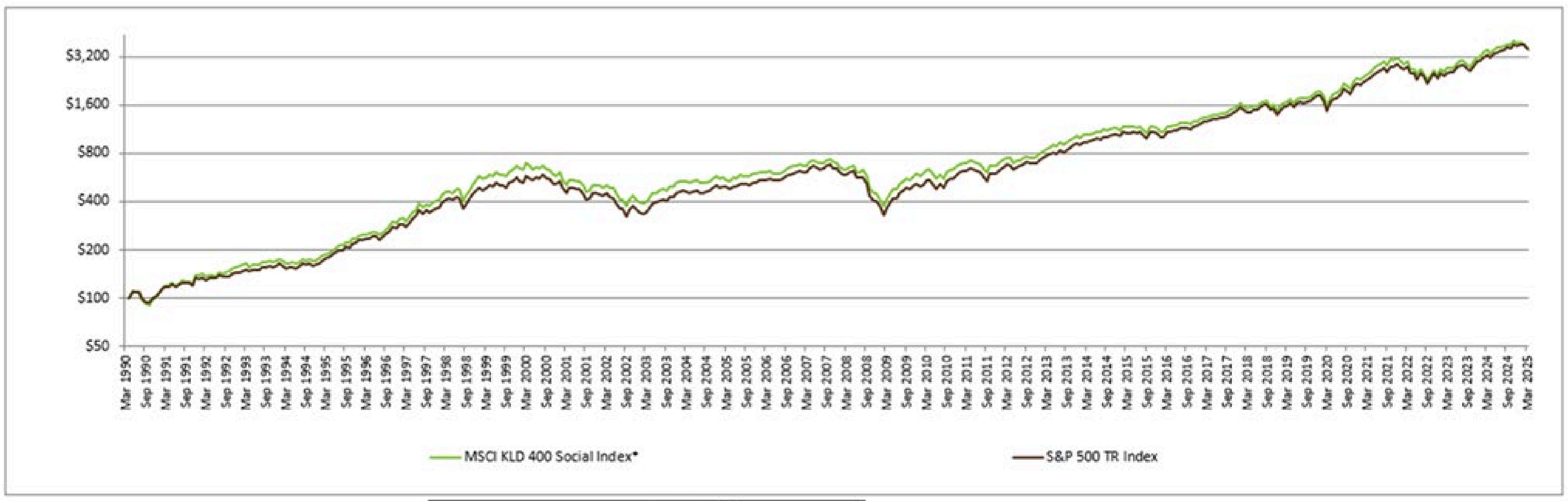
As we know, the market reflects the world as it is today. Values-aligned investors invest in the world as they want it to be and look to achieve long-term financial and impact goals aligned with their values. At First Affirmative, we remain convinced investors must take responsibility for the impact their money has in the world. Since 1988, we have served individuals and institutions seeking to achieve financial returns and align their portfolios with their values to meet both their financial and impact objectives. VADIS represents the future of hyper-customized portfolio management and enables clients to invest in the world as they want it to be. By combining trusted personal financial advice, leading sustainable and responsible investment expertise, and scalable technology, VADIS enables advisors to provide personalized portfolios aligned to each client's financial goals and values.

Figure 12. Selected Sustainability - Themed ETFs - First Quarter 2025 Returns



Source: First Affirmative, Data are as March 31, 2025

Figure 13. MSCI KLD 400 vs S&P 500 Indices, March 31, 2025



	MSCI KLD 400 Social Index*	S&P 500 TR Index
Annualized Return Since 5/1/90:	12.57%	10.67%

Source: Morningstar. *Data prior to 9/1/2010 is that of the MSCI KLD 400 Social Index GR, while data since 9/1/2010 is that of the MSCI KLD 400 Social Index NR. Indices are unmanaged groups of securities. Index performance does not include the impact of cash, fees, or transaction costs. Investors cannot invest directly in indices but may purchase mutual funds or other investment products designed to track the performance of various indices.

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