

Market Perspective

April 2025



New styles for 2025: Diversification is back in vogue

After substantially outperforming foreign markets since 2016, U.S. stocks succumbed to profit-taking while Europe, Latin America and other global markets have benefitted from the anticipation of a resolution to the conflict in Ukraine, and a renewed interest in cheaper international markets following safe-haven investment flows into the U.S. The “Magnificent 7” stocks as a group sustained a decline of almost 16% through March, after gains of 75% and 64% in 2023 and 2024, respectively. The S&P 500 Index fell by 4.5%, although many energy, electric utility and healthcare stocks performed well following previous years of lagging the S&P returns.

Although international stock indexes have rallied in 2025, small-cap stocks continue to underperform their larger brethren as the Russell 2000 Index has declined 9.8%, essentially giving up the gain of 10.1% in 2024. The strength of U.S. markets compared to the rest of the world over the last eight years has now reversed, and it remains to be seen how long this fundamental shift in investment flows will last.

Along came a tariff

While the large technology stocks began to stumble in late January, the rest of the market was stable until mid-February when tariff rhetoric dominated the headlines. Given that tariffs are a tax on consumers, the market began to factor in slower economic growth or a recession, and market volatility increased along with the uncertainty.

Of course, U.S. tariffs have been in place since 1789 when initially passed by Congress, comprising the lion's share of Federal revenue until the passage of the income tax via the 16th amendment in 1913. Tariff rates fluctuated wildly over the decades, rising as high as 60% in 1838 and almost as high in the 1930 Smoot-Hawley Act. Bribery became notorious as tariff-seeking industries lobbied congressmen for protective tariffs during the 19th and 20th centuries. The Smoot-Hawley tariffs, coupled with a Federal Reserve that was fearful of inflation and reticent to add monetary stimulus, proved to be a spectacular failure and severely deepened the economic decline during the depression. Trade policy was handed over to the executive branch in 1934, relieving Congress of the tedious task of setting separate tariffs on individual goods. After World War II, global tariffs gradually declined from 60% to less than 30%. That brings us to the present, and the White House has instituted reciprocal tariffs, which are subject to interpretation, to negotiate more favorable trade terms for those American goods that face higher import fees. We don't anticipate a quick resolution, and the European bloc will likely pose the greatest challenge, although we do expect that, eventually, the trade partners will come to a resolution for the sake of economic preservation. We recognize that a prolonged impasse will slow global economic growth and may tip the U.S. into recession. That said we do not see the precursors of a financial crisis that would lead to a broad-based bear market.

Asset Allocation

As interest rates peaked in early January and continued to slide lower, investment-grade bonds provided positive returns during the quarter, offsetting some of the decline in equity prices. The early months of 2025 illustrate the importance of diversification among stock sectors, as well as the need for bond investments to provide income while also reducing portfolio volatility. In balancing long-term investment goals with heightened uncertainty in the near term, we maintain a well-diversified, balanced approach.

We are always available to hear your thoughts or concerns.

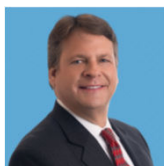
The Fed began cutting interest rates in September 2024

Recessions historically begin eight months after the first Fed rate cut.

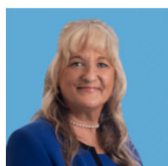
In spite of heightened recession risks, earnings are still expected to grow in 2025



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