March 6th, 2025

Monthly Commentary

If You Don't Know, Don't Shoot! | Steve Henderly, CFA

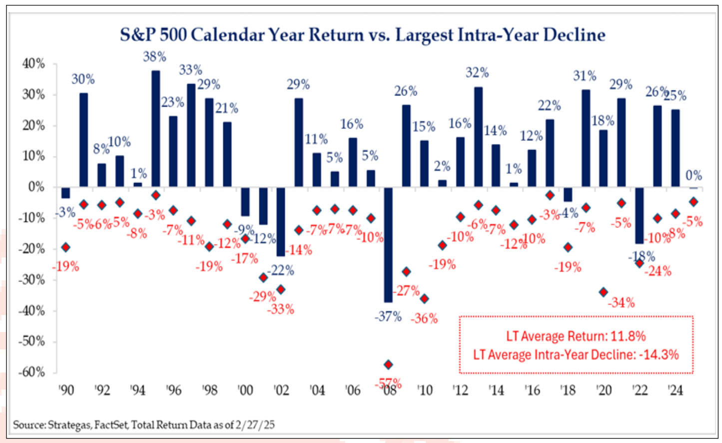
Did you know that the U.S. unfortunately experiences nearly 1,000 hunting-related injuries annually? Most are not fatal (thankfully), but 80% stem from human error. The golden rule of hunting safety is simple: if you can't identify your target, don't shoot. This principle feels remarkably relevant to today's investing and economic landscape.

Let's face it - 2025 is chaotic so far. The relentless pace of news is exhausting! Turbulent financial markets and an intensifying economic growth scare are rattling investors. Surveys show individual investor bearishness is now at its highest level since September 2022, a sentiment echoed in our client conversations. Such pessimistic views on the markets can often signal near-term market lows. The bearishness in September 2022 happened just weeks before the nine month market low and the start of the next bull market ensued. Building on last month's commentary - "Press Pause" advocated that investors avoid letting emotions control the trigger.

Style	February	YTD
Foreign Stocks	+2.2%	+6.7%
Bloomberg Bond Idx	+2.2%	+2.7%
S&P 500	*-1.3%*	*+1.4%*
Large-Cap Stocks	-1.6%	+1.7%
Avg US Stock Fund	-2.8%	+0.5%
Mid-Cap Stocks	-3.3%	+0.6%
Small-Cap Stocks	-5.0%	-2.1%

The S&P500 dropped a modest -1.3% in February, but it probably *felt* worse. After establishing three new all-time highs, the index retreated 4.5% between February 19 and month-end, with the most intense pressure being experienced by several of the market's biggest winners of the last several years (members of the Mag7). Despite this recent drawdown, the S&P500 remained up 1.4% year-to-date thru 2/28. However, the tech heavy Nasdaq index is now slightly negative year to date (-0.6%).

It's also important to highlight areas of the market which are outperforming. International equities, as measured by the MSCI EAFE, are *up* +7.3% thru month-end (!). Bond yields decreased sharply off recent elevated levels (4.8% down to 4.2%), providing a nice boost to the total return experience for fixed income during the month. Total return for the Bloomberg Aggregate index is +2.74% YTD. Wasn't Trump 2.0 supposed to be good for domestic stocks, and difficult for bonds? Diversification is helping portfolios in early 2025.



Still, the jitters stand out considering the market notched new record highs last month and is less than 5% off its peak as of this writing - a modest pullback by historical standards. We know stock market volatility is normal and part of every investor's journey. Despite the S&P500's historical long-term annual return of +11.8%, intra-year drawdowns average 14.3%.

It's common for the market to "chop" in the early months of a new presidency, and year three of a bull market tends to be more sideways and volatile than the first two. What we are seeing in 2025 shouldn't spark panic on its own, but rapid headlines and recent negative revisions to some economic datapoints are fueling a "growth scare," tempting some investors to capitulate, or shoot first and aim later. Key takeaways:

- **Valuations Matter:** Stocks or assets sporting high valuations (Price-to-Earnings or P/E) are more prone to sharp correction when growth expectations soften. Market darlings like NVDA (47x), TSLA (117x), AAPL (34x), or even WMT (30x), all trade at valuations well above the market average (22x). These high flyers experienced sharp adjustments lower in recent weeks. Investors appear to be reducing exposure and deploying proceeds into more attractively valued areas, including international markets. *International equities, up +7.3% through the end of February*, continue to defy tariff concerns.

- **Stubborn Inflation and Tariffs Loom Large:** Inflation is still simmering (egg prices!). Unfortunately like toothpaste, inflation is not easy to simply "put back in the tube". Once prices rise, they are likely here to stay. The only way economically to *reduce* prices is for a significant rise in unemployment – an unpopular trade-off! Arresting a second wave of inflation is now the Fed's goal. Tariffs can further aggravate inflation because businesses may pass added costs onto consumers. And as supply chains are re-shored, an already tight job market could create new upward wage pressure.

- **Media Noise:** The media excels at amplifying Washington's flurry of directives and DOGE-related actions. There's been an eye popping 75 executive orders so far. Some seem of trivial consequence (Gulf of America/Mexico?) while others like tariffs, geopolitical relations (Russia/Ukraine), Federal job cuts, or taxes carry deeper implications. But it's hard to know what the impact of any news will mean longer-term based on headlines alone… if you don't know, don't shoot. The combination of monetary, fiscal, trade, and regulatory policies – as a package – will determine future growth and inflation.

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Government Shutdowns Have Not Been Major Economic or Stock Market Events Historically		
Start Date	**Full Days**	**S&P Total Return**
10/5/1990	3	-2.1%
11/13/1995	5	1.4%
12/15/1995	21	0.2%
9/30/2013	16	3.2%
1/19/2018	2	0.8%
12/21/2018	34	10.4%
AVG	**13.5**	**2.3%**

- Growth Scare: Investors were likely shocked to see a significant downward revision for estimated economic growth; the adjusted estimate is the combination of a huge pull forward of imports during January (to avoid potential tariff impact, but meaning imports likely stall in the 2Q) and consumer spending declined.
- Government Shutdowns: It appears we could be headed for another budget impasse this month and government shutdown; however, historically shutdowns are not major economic or stock market events (reference chart).

While each of the above items may seem digestible on its own, the uncertainty created by *all* of them hitting at the same time is causing the markets to continue experiencing noticeable pressure. Markets dislike uncertainty, and right now they seem to wonder if Trump 2.0 might dampen the economy before boosting it. DC Uncertainty is "trumping" Animal Spirts; higher tariffs, deportations, and federal job cuts are hitting before tax cuts, deregulation, and lower energy prices kick in.

Caution makes sense amid this uncertainty - the market may experience more pressure over the coming weeks. We would advise against "firing at shadows". International market strength in 2025, despite tariff concerns, is evidence that headlines don't always predict forward-looking investment outcomes. Companies and individuals adapt – they will pivot to keep progressing forward. Reversal or removal of an uncertainty or two can cause the market to rebound quickly. As with election year advice, don't let political noise derail your long-term investment objectives. If you don't know, don't shoot! Instead, recall the phrase from our commentary last month: "Press Pause" - and keep time on your side.

Portfolio Updates:

International Equity ETF: Brandes International Equity (BINV) boasts a strong long-term track record of finding companies trading at significant discounts to estimated fair value. Despite all the noise of tariffs, international equities are doing great in early 2025. This particular fund is up roughly 9% since the start of the year, but it's not alone. Perhaps international is getting attention as a more attractively valued space to invest relative to the higher valuations associated with domestic. This new position will gradually replace Oakmark International, held for many years in client portfolio but is more "streaky" while BINV exhibits a more consistent performance history.

Energy Infrastructure: We initiated a position in First Trust's North American Energy Infrastructure fund (EMLP). This actively-managed ETF tactically invests in companies focused on expanding the generation and distribution of electricity in the US. With the boom in Artificial Intelligence, data centers, and reshoring of supply chains amid trade uncertainties, this theme aligns with the growing need for domestic energy and grid expansion. LINK for video commentary on this fund.

Welcome Albert!

Welcome Albert!

We are so excited to welcome Albert Van Fossen to the team! Albert earned a dual degree in Finance and Risk Management & Insurance from the Lacy School of Business at Butler University in 2020. After graduating, he began his career as a licensed representative at Charles Schwab, holding both the Series 7 and 63 licenses. His experience in financial markets and client service provides a strong foundation for his work at Nvest. Albert and his wife, Allison, reside in Lewis Center, where they enjoy being close to both of their families. Outside of work, Albert enjoys playing pool, staying active through sports, and spending time with his two nieces and nephew.

Please help us welcome Albert to Team Nvest!

Nvest Engagement:

- Cheers to Three Years! Please help us congratulate **Jordan Ranly** on his three year "workiversary" with Nvest!
- A special provision in Secure Act 2.0 allows for "super catch-up" contributions to 401k's beginning in 2025 for those aged 60-63. LINK
- An interesting article and approach on how to optimize marginal tax rates. Fun read for those who enjoy crunching numbers LINK
- Warren Buffet's annual letter warrants a few minutes of every investor's time. "The cardinal sin is delaying the correction of mistakes or what Charlie Munger called "thumb-sucking." Problems, he would tell me, cannot be wished away. They require action, however uncomfortable that may be." LINK

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