March 2025

Alexis Investment Partners

Practical | Tactical

Summary

February was a volatile month for stocks. Tech continued the selloff that started in late December, with the Magnificent 7 falling -8.1% in the month. Bonds and gold helped stabilize portfolios. It was interesting to see foreign stocks fare well, especially Europe.

Fourth quarter earnings reports were solid, but several leading stocks sold off despite delivering earning beats. Tariffs and inflation fueled worries about growth. Mixed economic data and policy uncertainty prompted investors to raise recession concerns and investor sentiment fell precipitously.

Key Market and Economic Data

- The S&P500 ETF (SPY) fell -1.3% in February but is still up +1.4% for the year
- Bonds (AGG) did well, gaining +2.2% for the month (10y Treasury yield reached 4.6% then fell to 4.2%)
- Investor Sentiment reached levels normally seen at bear market lows (last seen March 2020)
- Foreign stocks gained (EFA +2.9%), especially Europe (VGK +4%)
- Bitcoin's price fell from $102,000 to $84,000, Gold gained +1.8%

Experience has taught us that stock market corrections tend to happen in either time or price. Stocks are basically where they were 3 months ago having bounced around in a volatile but relatively tight range. The current hit to investor confidence would typically follow a much deeper decline, especially considering that most indexes are positive year-to-date.

We welcome any updates, questions or concerns. Open and frequent communication is our best defense against losses in volatile times. All tax forms are available now. If you need help accessing your documents, we're happy to retrieve them for you.

What to Expect in Portfolios

Last month we wrote: "The rebound was encouraging but most stocks have yet to breach new highs. The good news is that consolidation patterns like we see today typically resolve in the direction of the trend…"

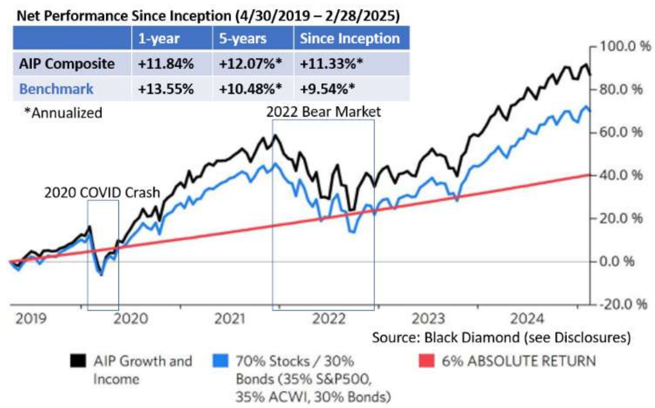
February started strong but finished weak, especially for leading names.

We continue to see stocks tracing out a consolidation pattern that has served to reset sentiment and potentially help avoid a deep correction. Headline risk is elevated. It's premature to rule out further deterioration and difficult to know how long it might take to break out of the current range.

Contents

The chart below shows the trailing 2-years to **put recent volatility in perspective** and because it is easier to see what we mean by "consolidation" (stock indexes are basically in the same place they were 3 months ago). **Headlines make it seem like stocks have been in a bear market, but damage has been limited to confidence (at least thus far).**

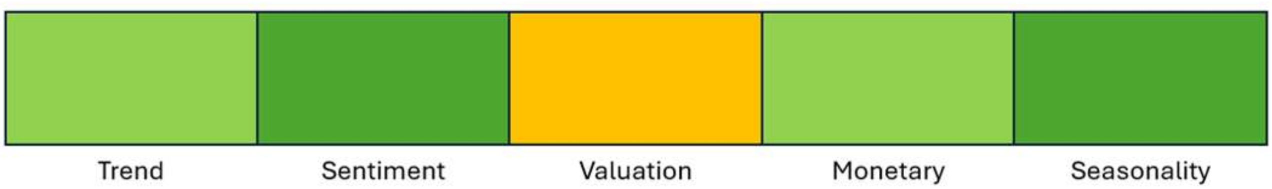
The chart below shows the **net performance of our most popular composite** since inception (120 accounts – see disclosures on page 4). The 5+ years shown have been volatile including COVID and the 2022 Bear market. **Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.**



Insights and Commentary

Investing can be an emotional roller coaster, leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants,

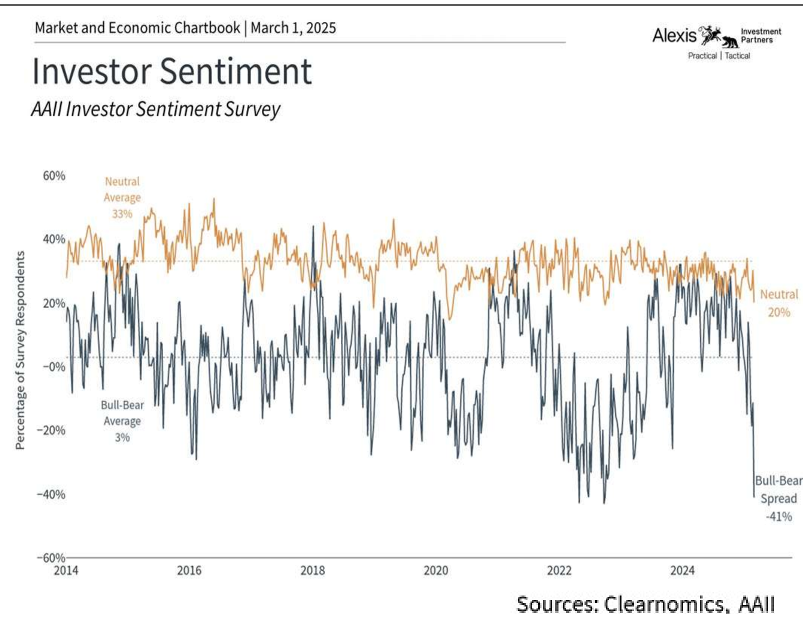
(Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) The tiles below summarize current conditions:

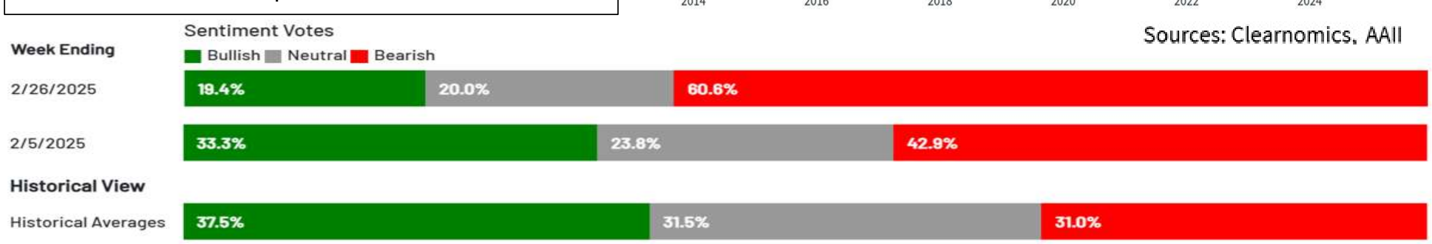


Sentiment Smashed

There has been a barrage of news lately adding to the angst of recent stock market volatility. The chart at right shows investor sentiment measured by AAII falling to levels last seen in the heat of the COVID crash in 2020 when the pandemic was raging, the economy was closed, and stocks had fallen -30%.

The chart below shows how quickly sentiment faded. **Sentiment extremes are often a contrary indicator. Fear prompts people to sell stocks they like at prices they wouldn't normally accept providing opportunities for those with the fortitude to look past current concerns.**





Update, Observations, Indicators and Outlook:

In terms of our current Market Pulse (right), the Bull Market remains intact. February's pullback was unsettling but did little damage to the overall trend. As we have suggested for 3 months now, the market appears to be consolidating following strong performance for the prior 2 years. We can't rule out the possibility of a full-blown correction until this pattern runs its course (leading to new highs or a fresh breakdown).

Trade headlines continue to weigh on markets as new tariffs go into effect. President Trump recently confirmed tariffs on Canada, Mexico and China, dashing hopes of more extensions or last-minute deals. Reciprocal tariffs against countries that impose duties on U.S. goods may still be forthcoming.

Taken in isolation, tariffs increase costs that can either be passed along to consumers, subsidized by government or written off against profits. That said, nothing happens in a vacuum, which may help explain why initial market reactions to tariff announcements often prove more dramatic than their actual economic impact.

For example, companies may stand to benefit from reduced taxes or regulatory expenses that may offset tariffs. Tariffs may also be used as a negotiating tactic. The previous round of tariffs during Trump's first term led to trade deals with Mexico, China, and others. While markets were choppy from 2017 to 2019 when trade wars were a concern, markets generally performed quite well.

We went into this year expecting increased volatility within the context of expectations for a potentially good year. It's not fun to give back gains and news is certainly unsettling, but our models and indicators continue to paint a positive picture. March is typically a good month with some notable exceptions (2000 and 2020).

Volatility tests investor confidence. Although it's best to resist the temptation to make emotionally driven investment decisions, it's also important not to ignore your feelings. If you are concerned, let's talk about it and walk through our strategy for different scenarios. We don't have a crystal ball, and things may get uncomfortable before they get better. If we need to adjust keep you on track, it's best to do that proactively.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3- 6 months.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18- 24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

AIP acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.

Disclosures

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