2025 First Quarter Financial & Investment Management General Commentary

This is our first-quarter commentary report for 2025. While we understand that market volatility picked up in April, this report is intended as a market review of the first quarter with some financial commentary to consider going forward.

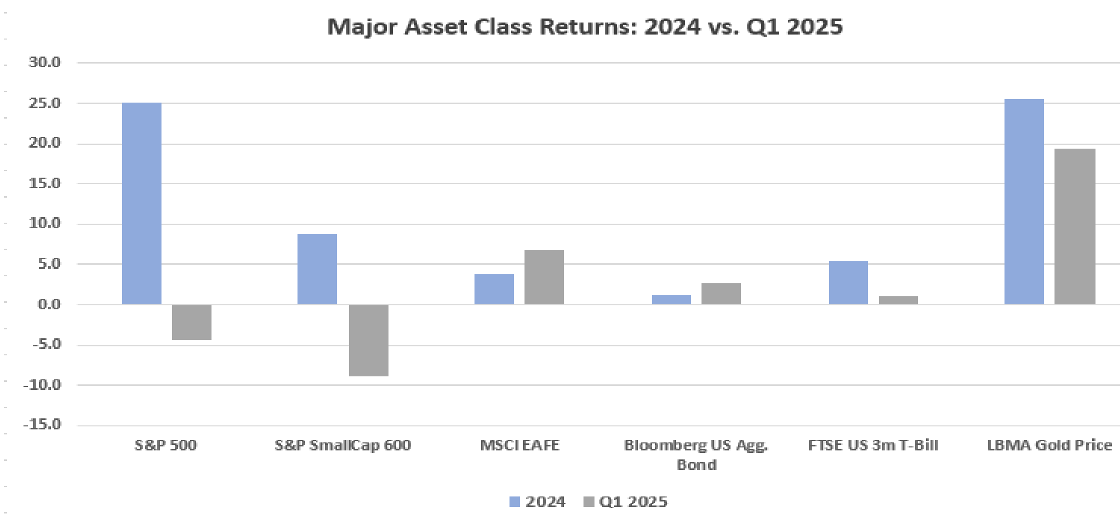
Whether considered a rollover or correction, the downturn in the domestic stock market began in late January to mid-February, depending on the index, and lasted through the rest of the quarter. International stocks did not begin the downturn until mid-March. The bond market was positive through the quarter until early April, when it began to fall off.

It was expected that much of the tariff talk was baked into the market, but in hindsight, we think the market underestimated the degree or impact of the tariffs. Concerns going forward relate to Congress's ability to pass the tax bill and if they can get the national debt under control. In addition, the confrontation with China is an open question. While most feel this is overdue, there is disagreement on the tactics. As taxes, inflation, jobs and international trade are the most important drivers of our economy, we stand by to see the results.

Market Overview:

Market Recap

Stock market volatility continued into the new year as post-election growth enthusiasm became post-inauguration fear and doubt. Come February, the dialogue shifted toward DOGE and tariff-induced inflation and declining economic growth, changing the trajectory of US equities for the quarter. The mere suggestion of trade tariffs and gutting of wasteful government spending was enough to create a risk-off environment for US stock investors. Media headlines and opinion pieces effectively swayed investor sentiment, and calls for lower year-end S&P 500 price targets and expected returns are being made before anything significant has materialized. As mentioned in our year-end commentary, we expected to see a more level playing field across asset class returns in the near term. The chart below compares asset class returns for calendar year 2024 vs. the 1st quarter of 2025.



Despite being one quarter, this is not exactly how we envisioned the broadening out to begin. As emotions taper and more certainty is provided, we'll see how things materialize throughout the next few quarters. In the following sections, we will provide more insight into the key macroeconomic factors and their impact upon major market segments.

Equities: US equities reversed course to finish the quarter in negative territory, as the S&P 500 declined 4.3%. This was driven by intense selling within the technology, consumer discretionary, and communication services sectors, which have been the leading sectors for the last several years. However, this is clearly not a profit-taking exercise.

It is likely the realization that the current trajectory was not sustainable and that the new administration will change the tone and path for future growth. While it can be said that we were in a recession in 2022 and that continued government spending was delaying the obvious, the reality of an economic slowdown is now visible. Inflation, interest rate, and job loss concerns particularly impacted smaller capitalization issues as the S&P MidCap 400 returned -6.1% and the S&P SmallCap 600 index posted -8.9% for the quarter. Non-US markets rebounded as news of government spending out of Germany and China enticed investors to move their money to non-US markets. Strong European performance drove the developed markets MSCI EAFE Index upward 6.9% while its emerging markets counterpart, MSCI Emerging Markets returned 2.9%. What remains to be seen is if this performance bump is sustainable. Central planning-based spending does not generally equate to equity market growth, particularly in emerging economies, and the fallout from tariff policy could swing some markets in the opposite direction.

***Fixed Income*:** Given a risk-off environment, investors gravitated towards fixed income, bringing yields down across the maturity spectrum and boosting quarterly returns. The Bloomberg US Aggregate Bond Index returned 2.8% for the quarter while the short-term Bloomberg US Agg. 1-3 Yr. Index returned 1.6%. T-bills returned 1.1% in-line with money market funds. Contrary to years past, fixed income yields are relatively robust, ranging from 4-8% and in-line with historical averages. This allows investors to "clip coupons" with some wiggle room for rates to move. Accordingly, fixed income will likely see additional exposure in investors' asset allocations at the expense of equities.

***Real Assets*:** Continued geopolitical risk and tariff concerns propel commodities, as the Bloomberg Commodity Index was up 8.9% for the quarter. Outside of Agriculture, all other sectors were positive for the period. Precious metals carried returns, led by Gold, which jumped over 19%. Given uncertainty over tariffs and their impact on inflation and economic growth, further volatility within commodity markets is expected in the near term.

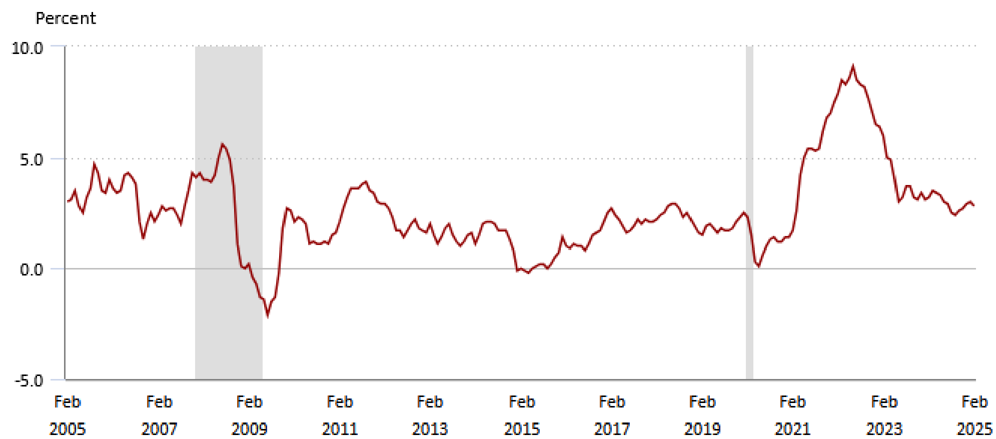
Bitcoin: It's hard, if not impossible, to ignore the Bitcoin phenomenon. This past year, regulated Bitcoin-tracking ETFs became available. For those who do not want to purchase and store actual Bitcoin, these ETFs allow them to purchase the tracked performance of Bitcoin without owning Bitcoins. We have added a small position of a Bitcoin ETF in some of our clients' portfolios.

If you have questions specifically about Bitcoin or other digital assets in general, our investment team is available to discuss them with you. Bryan has experience in this space, has personally invested in Bitcoin in its early days, and has a professional certification in blockchain and digital assets.

Economic Outlook

Inflation

In February, the Consumer Price Index for All Urban Consumers rose 0.2%, seasonally adjusted, and rose 2.8% over the last 12 months, not seasonally adjusted. The index for all items less food and energy increased 0.2% in February (SA); up 3.1% over the year (NSA). The chart below shows the 12-month percentage change for the index, not seasonally adjusted, for the last 20 years.



Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

Per the latest release, the 12-month figure is down slightly, driven by decreasing energy prices. As part of the current administration's policy, energy independence should yield lower prices across goods and services and keep inflation between 2-3%. Other factors influencing inflation's path will be the pace and direction of government spending and the impact of tariffs. Current expectations for each vary daily, and the ultimate effect upon inflation will take time to materialize.

Interest Rates

In March, the Federal Reserve unanimously voted to hold interest rates steady at 4.5% for a second straight meeting. Street expectations are two 25 basis point (0.25%) cuts by year-end, but the Fed appears to be adopting a wait and see approach in 2025. A variety of factors could justify or trigger a response from the Fed: increasing unemployment, economic slowdown, falling inflation or any combination thereof. As rampant government spending appears to be curtailed (for now), there is less concern for the 10-year Treasury rate to rise above 5%. This has positive implications for stock valuations and mortgage rates. For now, we continue to be in a holding period for lower short-term rates until there is more certainty around the underlying economic fundamentals. What does appear certain is that we are moving back towards a healthy and normal interest rate environment.

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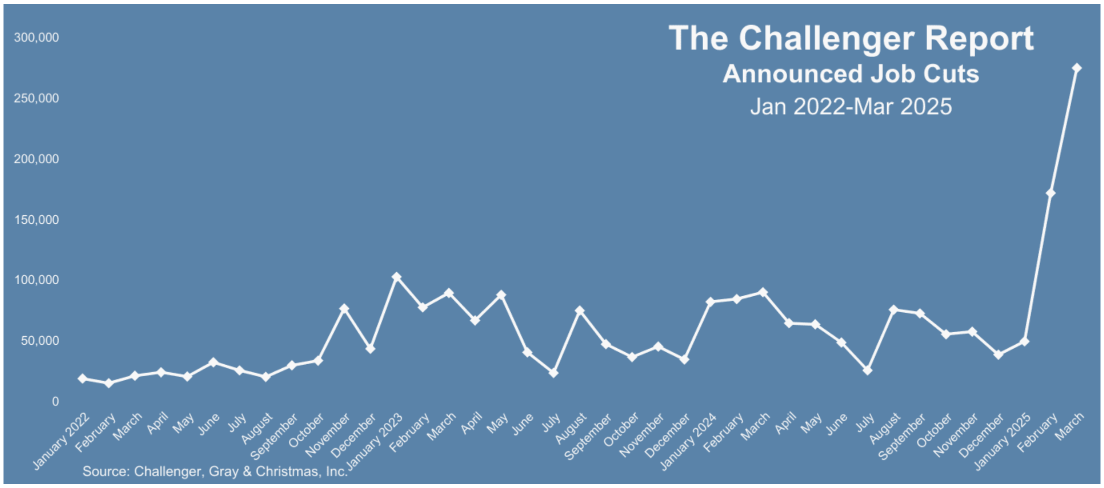
Jobs

The economy added 228,000 jobs in March, far surpassing the estimated 140,000. Similar to January and February's combined 48,000 downward revisions, this figure will likely see a similar fate. Despite payroll growth, the unemployment rate increased to 4.2% from 4.1%, a complete reversal from last quarter but relatively unchanged.

Per the Challenger Report, U.S.-based employers have announced 275,240 job cuts in March, bringing the 2025 total to 497,052. According to Andrew Challenger, Senior Vice President and workplace expert for Challenger, Gray & Christmas, "Job cut announcements were dominated last month by Department of Government Efficiency [DOGE] plans to eliminate positions in the federal government. It would have otherwise been a fairly quiet month for layoffs." The chart below depicts monthly job cut announcements from Jan 2022 to present.



It remains to be seen if the entirety of government job cuts materializes, as judicial interference attempts to block or overturn DOGE initiatives. Future jobs reports will reflect the cuts as they happen, and it's entirely possible to see an uptick in unemployment as the potential restructuring of the US economy takes place. What we can ultimately expect to see is increased hiring in the private sector versus the public sector. This should be accretive to wages and economic growth.

Putting it All Together

As expected, the markets are reacting to headline narratives and sentiment has changed accordingly. Ultimately, the ongoing trajectory of the economy and markets was unsustainable:

- Government spending-fueled GDP growth
- Stock market driven by a handful of names (Magnificent 7)
- Job growth via taxpayer-funded Federal Government positions

The Trump administration's policies aim to steer the country on a more sustainable path across a variety of initiatives to include trade, regulations, tax and spending reform, manufacturing and others. We expect continued turbulence as new policies and procedures potentially disrupt the historic order. We cannot control the outcome and must be patient and hope for a successful outcome. In the meantime, we will maintain a diversified portfolio with a disciplined approach for the long-term and consider adjustments when necessary.

Patience and Impatience

Investing is not intended to be a get-rich-quick endeavor. While some investors may take risks with high-priced concentrated portfolios, this comes with high risk, and any miss in the growth expectations could lead to catastrophic losses. Investing with a reasonable level of risk involves longer-term planning. Being a long-term investor takes patience. While investing in a handful of high-flying stocks can be exciting, taking risk into consideration, it is important to understand the value of being able to sleep at night and not worrying about having all your eggs in one basket.

Financial Planning and Services:

It's Tax Time

Lots of questions this time of the year. After April 15th, little can be done to affect your 2024 tax exposure. One exception if you're self-employed and have a SEP IRA or a Solo 401(k), you can make a 2024 contribution up until October 15th by filing an extension.

For the rest of us, it's about managing 2025 from now on. If you need to make estimated tax payments, you want to beat the Estimated Tax Penalty with Strategic Withholding or estimated payments.

The due dates for the 2025 estimated tax payments are April 15, June 16, September 15, and January 15, 2026. Missing these dates incurs penalties, with the current rate for underpaying of the first payment being 7 percent. In the 37 percent tax bracket, this penalty effectively rises to 11.11 percent.

Penalties from Q1 can't be resolved with a January 15, 2026, payment, but you can avoid them by using strategic withholding from IRA rollovers, W-2 wages, and Social Security. Suppose you're receiving your Social Security benefit. Ask the IRS to withhold income taxes from your benefit. This is a good way of covering income subject to tax from all sources and works like W2 wage withholding, with an amount withheld each month. For clients who are using their IRAs for income in retirement, this is a much better method than having taxes paid from the IRA, which many do.

Here is how to set it up.

1. **Fill out IRS Form W-4V** which you can download here: https://www.irs.gov/forms-pubs/about-form-w-4v.
    - You can choose to have **7%, 10%, 12%, or 22%** of your monthly benefit withheld.
    - These are the only withholding rates allowed for Social Security benefits.
2. **Submit the form to the Social Security Administration (SSA)**
    - You can **mail or deliver** the completed W-4V to your **local Social Security office**.
    - Find your local office: https://secure.ssa.gov/ICON/main.jsp
3. **Wait for the change to take effect**
    - It may take **30–60 days** for withholding to begin.
    - The new withholding will appear on your monthly payment statement from SSA.

Additionally, be mindful of paying enough so that you enter the "Safe Harbor" and avoid penalties (but not interest).

Safe Harbor Rules:

1. 90% Rule: Avoid penalties by paying at least 90% of your current year's tax through timely estimated payments.
2. 100% Rule: If your prior year's AGI is $150,000 or less ($75,000 if married filing separately), pay at least 100% of the prior year's tax to avoid penalties.
3. 110% Rule: For AGI over $150,000 ($75,000 if married filing separately), pay 110% of the prior year's tax.

When to File for Social Security

Deciding when to file for Social Security is crucial in financial planning, and we get many questions about this subject.

Basic Guidelines:

Assess your cash needs and employment status. If working and your income covers expenses, consider delaying benefits.

Part-time work may be an option for retirees with limited resources. Health and life expectancy are important factors; the average life expectancy after age 67 is 82.63 for males and 85.23 for females (Social Security 2024 Trustees report).

Options:

Claim Early: If you want to retire now or have health concerns, claiming early as early as age 62 with reduced benefit amount may be beneficial. The breakeven point for benefits is typically between 78 and 82.

Claim Later: If you enjoy working, are healthy, and have additional income sources, waiting until age 70 can increase benefits.

Bridging the Gap:

If you retire before 70 but want to wait to claim benefits, larger withdrawals from retirement savings can help cover expenses, but consider other income sources and possible expense reductions.

Spousal Considerations:

A spouse can claim benefits based on the other's earnings if they are at least 62 and the primary earner is receiving benefits. The spousal benefit can be up to 50% of the primary earner's amount but will not increase if claimed early. A lower-earning spouse might file first, allowing the higher earner to delay their benefits.

Summary:

Your choice will depend on various personal factors and what best serves your financial plan. If you are a planning client with questions, don't hesitate to reach out to us.

Health Insurance Before and After Retirement

Most employees rely on employers for health insurance, as individual plans available under the Affordable Care Act can be costly. Premium subsidies are contingent on income and asset limits. For those under 65, an employer or spouse's plan is typically the best option.

If a client retires before 65, they need immediate coverage post-employment. Options include retiree insurance if offered by the former employer, joining a spouse's plan, or utilizing COBRA to maintain employer insurance at the full cost. Otherwise, they may need to purchase an individual policy until Medicare starts at 65, which should be factored into the retirement budget. We have people we can refer you to who can help find an individual policy if needed.

After turning 65, Medicare becomes an option. Retirees with ACA plans will likely switch to Medicare for cost savings. Those with retiree plans may be required to enroll, and spouses on employer plans should check their plan requirements regarding Medicare enrollment.

Once Medicare you become eligible is available, evaluating it against existing health insurance plans is essential. Despite some thinking employer insurance is superior, costs and coverage can vary significantly, especially as aging may necessitate more healthcare services. Employer plans often come with higher deductibles, burdening those needing more regular care. Combined with appropriate supplemental coverage or with a Medicare Advantage plan, some type of Medicare Plan may better suit their needs.

IRA Rollover-and-Replace Solution

Imagine it's late in the year, and you realize you're short $10,000 in estimated tax payments. To fix this, you take a $10,000 IRA distribution in December and request 100 percent withholding—so the entire $10,000 goes to the IRS.

Then, within 60 days, you redeposit $10,000 back into the IRA, avoiding tax on the December distribution. The $10,000 paid to the IRS is treated as tax withholding for the year and counts as if it were paid evenly across all four quarters. Problem solved. *Note: You can only do one 60-day rollover per 12-month period.*

Safeguards Against IRA Distribution Tax Traps

IRA distributions are generally taxed as ordinary income, but certain situations allow for nontaxability. Here are common traps with Traditional IRA distributions and how to avoid them:

1. Double Taxation Due to Custodian Reporting

Nondeductible contributions create a tax basis, making some distributions nontaxable. Custodians may incorrectly report these as fully taxable on Form 1099-R.

Solution: File IRS Form 8606 to report the nontaxable portion and correct any missed filings from prior years.

2. QCDs Reported as Taxable

Qualified charitable distributions (QCDs) for those aged 70½ or older are tax-exempt but often reported as taxable.

Solution: Report QCDs as nontaxable on Form 1040 by entering the amount on line 4a and noting "QCD" on line 4b.

3. Rollovers Reported as Taxable

If not rolled over within 60 days, distributions are included in income, yet custodians may still report them as taxable as custodian may have no way of knowing where the funds end up.

Solution: Report the rollover on Form 1040, including only the distribution on line 4a and marking "rollover" next to line 4b.

4. Payors Not Reporting Exceptions

Early distributions before age 59½ usually incur a 10% tax unless exceptions apply, which custodians must report using specific codes.

Solution: If a custodian incorrectly uses Code 1, request a correction or claim exceptions by filing IRS Form 5329.

These strategies can help you navigate potential tax traps associated with IRA distributions.

Six College Financial Highlights

You can save on college costs by becoming familiar with the highlights below.

1. Colleges Desire Appeals: Colleges are open to appeals on their award packages. Many students don't respond to initial offers, which prevents schools from improving offers to entice undecided students.

2. Initial Offers Aren't the Best: Most colleges intentionally leave room in their initial offers. They aim to find out what families will accept and may have more to give if families appeal.

3. Different Pricing Curves: Most schools have a bell curve in pricing, with many students receiving aid packages. However, wealthy applicants in elite schools tend to pay full price, resulting in a different curve.

4. Appeals at State Universities: While appealing awards can work at private schools, they can also be effective at many regional state universities, though not highly selective ones.

5. Merit vs. Need-Based Aid: The distinction between need-based and merit aid is increasingly irrelevant as colleges often offer discounts to meet enrollment goals, regardless of financial need.

6. When loans are due, explore state forgiveness programs. Many states offer these programs to address shortages in essential professions like nursing, teaching, and social work and to attract young graduates from aging

populations. Some may qualify by working in low-income areas. A list of 143 state and federal loan forgiveness programs is available at Education State Initiative.

Understanding these insights can lead to better financial decisions regarding college funding costs.

Helpful Checklists

Surgeons, airline pilots, and astronauts all use them. We are talking about the checklist. We have the following available for the asking.

Send your request to btotri@stjohnfinancial.com. In the subject line, list the checklist you request, and Bryan will ensure that you receive a copy by return email.

- What Documents Do I Need To Collect For Filing My Tax Return?
- What Issues Should I Consider When Establishing & Maintaining My Emergency Fund?
- What Issues Should I Consider During A Recession Or Market Correction?

For our full-service financial planning clients:

We realize many of you are anxious about recent events in the financial markets. How does any of this affect your plan? The checklist below will give you the basis for questions you may have that we're here to help answer.

Issues To Consider for A Client Review Meeting

If you don't have a financial plan, how do you get one started?

Below is a visual representation of the process.

We have a full-service model that includes financial planning services such as:

Please contact us to discuss designing a financial plan for you.

Now is the Time to Have a Financial Plan – Here is How We Do It

MARKET PORTFOLIO RETURNS

Below are the returns for index categories making up the broader markets. Morningstar sourced these index returns. Returns beyond one year are annualized.

Asset Class	Benchmark	Q1 2025	1 Year	3 Year	5 Year	10 Year
US Equity	DJ Industrial Average	-0.87	7.40	8.75	16.20	11.43
	Russell 1000	-4.49	7.82	8.65	18.47	12.18
	S&P 500	-4.27	8.25	9.06	18.59	12.50
	S&P 500 Growth	-8.47	10.46	7.74	18.70	13.99
	S&P 500 Value	0.28	4.21	9.32	17.21	10.11
	S&P MidCap 400	-6.10	-2.71	4.42	16.91	8.43
	S&P MidCap 400 Growth	-8.36	-8.09	3.61	14.43	8.12
	S&P MidCap 400 Value	-3.70	3.32	5.14	19.26	8.42
	Russell 2000	-9.48	-4.01	0.52	13.27	6.30
	S&P SmallCap 600	-8.93	-3.38	0.71	15.09	7.52
	S&P SmallCap 600 Growth	-7.96	-3.70	1.01	13.73	7.95
	S&P SmallCap 600 Value	-9.92	-3.24	0.22	16.25	6.92
	Russell 3000	-4.72	7.22	8.22	18.18	11.80
	S&P 500 Equal Weighted	-0.61	4.09	5.20	17.71	10.00
Non-US Equity	MSCI World	-1.79	7.04	7.58	16.13	9.50
	MSCI EAFE	6.86	4.88	6.05	11.77	5.40
	MSCI EAFE Growth	2.13	-2.63	2.35	8.54	5.46
	MSCI EAFE Value	11.56	12.85	9.69	14.77	5.06
	MSCI Emerging Markets	2.93	8.09	1.44	7.94	3.71
Real Assets	Bloomberg Commodity	8.88	12.28	-0.77	14.51	2.77
	LBMA Gold Price	19.39	40.68	17.06	14.13	10.13
	DJ US Real Estate	3.49	9.80	-0.84	9.68	5.56
Fixed income	Bloomberg US Agg Bond	2.78	4.88	0.52	-0.40	1.46
	Bloomberg US Agg 1-3 Yr	1.63	5.61	3.11	1.50	1.71
Cash	Fidelity Money Market	1.11	4.98	3.77	2.32	1.66

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