HCR WEALTH ADVISORS

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April 30, 2025

Market Commentary

- Markets shifted tone and investors grew more anxious of the current economic environment as foreign trade policy took hold with the Trump administration's announcement of a 10% universal tariff and additional tariffs on various countries. Consumer confidence fell, touching levels last seen in 2021, as the risk of recession grew and inflation remains elevated. Recent economic projections suggest the Fed may be comfortable maintaining their current restrictive policy stance running counter to the current administration's hopes.

- International equities outpaced domestic by a substantial margin during the first quarter as fragile markets began to crack. MSCI EAFE beat the S&P 500 by the widest margin since Q2 2002. Non-U.S. benefited from easing policy in Europe, increased defense spending and renewed economic policy efforts in China, while growing uncertainty on the economic outlook hindered markets in the U.S.

Fixed Income

- Fixed income markets were positive as interest rates declined during the quarter. Growing concerns regarding the U.S. economy pushed investors to seek "safe haven" assets, fueling the move lower in rates. The Bloomberg U.S. Agg Bond Index returned 2.8% during the quarter. The Federal Reserve held rates steady at both the January and March meetings, maintaining a restrictive policy stance. Longer duration bonds, core fixed income, and inflation protected bonds fared best.

- The Bloomberg US Corporate High Yield Index generated a positive 1% return for the quarter but lagged the core fixed income market. Market volatility trickled into the corporate credit market during the period with widening spreads as investors digested the potential impact of policy announcements on corporate fundamentals. Valuations still appear elevated as the spread level remains below the long-term average, but all-in yield remains attractive.

Equity

- U.S. equity markets came under pressure in the quarter. The S&P 500 fell 4.3% while the Russell 2000 declined 9.5%. Evolving trade policy (i.e., tariffs) and other government actions drove uncertainty and reduced optimism. Elevated valuations and heavy index concentration laid the groundwork for heightened market volatility. Despite 61% of underlying constituents in the S&P 500 beating the index, the "Magnificent 7" dragged down the benchmark as six of the stocks fell double digits.

- It was a strong quarter for non-U.S. markets with both MSCI EAFE and MSCI EM producing positive returns: 6.9% and 2.9%, respectively. Europe was particularly strong, posting a double-digit return, benefiting from comparatively stable economic policies to the U.S. China, Brazil and Mexico helped propel emerging markets. Strength in China was supported by favorable manufacturing data and optimism around President Xi's policy efforts.

Real Assets

- REITs generated a positive return, benefitting from the declining interest rate environment. More defensive areas, such as health care and infrastructure, outperformed. Data centers took a step back during the period in sympathy to the AI sell-off.

- Commodities were among the strongest asset classes during the period benefiting from robust precious metal performance and strong energy returns. Gold prices surged among growing economic uncertainty, sticky inflation and a general preference for "safe haven" asset amidst heightened volatility.

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- **Bloomberg Aggregate Bond Index** covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.
- **Bloomberg US Corporate High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
- **S&P 500 Index** is a capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
- **Russell 2000 Index** consists of the 2,000 smallest U.S. companies in the Russell 3000 index.
- **MSCI EAFE Index** is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
- **MSCI Emerging Markets Index** captures large and mid-cap representation across Emerging Markets countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country.
- **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification.
- **FTSE Nareit All Equity REITs Index** is a free-float adjusted, market capitalization weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

Material Risks Disclosures

- **Fixed Income securities** are subject to interest rate risks, the risk of default and liquidity risk. U.S. investors exposed to non-U.S. fixed income may also be subject to currency risk and fluctuations.
- **Domestic Equity** can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry factors, or other macro events. These may happen quickly and unpredictably.
- **International Equity** can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry impacts, or other macro events. These may happen quickly and unpredictably. International equity allocations may also be impact by currency and/or country specific risks which may result in lower liquidity in some markets.
- **Real Assets** can be volatile and may include asset segments that may have greater volatility than investment in traditional equity securities. Such volatility could be influenced by a myriad of factors including, but not limited to overall market volatility, changes in interest rates, political and regulatory developments, or other exogenous events like weather or natural disaster.