MARKET STRATEGY
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Stocks Post Year-to-Date Gains; Let the Tariff Games Begin

Major Equity Indices (total return)	Value (2/14/25)	2025 YTD 12/31/24 to 2/14/25	February 2025 as of 2/14/25	January 2025	1-Year 1/31/24 to 1/31/25
Dow Jones Industrial Average	44,546.08	4.9%	0.1%	4.8%	18.9%
S&P 500	**6,114.63**	**4.1%**	**1.3%**	**2.8%**	**26.4%**
NASDAQ Composite	20,026.77	3.8%	2.1%	1.7%	30.4%
S&P Equal Weight	7,329.46	3.4%	-0.1%	3.5%	17.9%
Russell Indices					
Russell 1000 Value	1,181.12	5.1%	0.5%	4.6%	19.5%
Russell 1000 Growth	2,771.69	3.8%	1.8%	2.0%	32.7%
Russell 2000	2,279.98	2.3%	-0.3%	2.6%	19.1%

Data Source: FactSet, as of 2/14/25. Total return includes dividends. Calculations use closing prices. Year-to-date (YTD) is 12/31/24 to 2/14/25. January 2025 is 12/31/24 to 1/31/25. 1-year period is 1/31/24 to 1/31/25.

U.S. financial markets proved resilient through the first six weeks of 2025, with solid equity gains and volatile, but ultimately stable, interest rates. Through 2/14/25, the widely followed S&P 500 index increased +4.1% (including dividends) year-to-date (YTD). Other popular indices were positive as well, including leadership from the Russell 1000 Value index (+5.1%), reflecting broad-based gains across multiple sectors and capitalization sizes (large-company indices still led the way as the small-company Russell 2000 index was up +2.3% YTD but lagged the S&P 500). Although U.S. interest rates were relatively stable by mid-February, the U.S. 10-year Treasury yield (a proxy for long-term interest rates) was 4.48% on 2/14/25, and while it traded up to 4.80% in mid-January, the yield is now below the year-end (12/31/24) level of 4.57%. The U.S. 2-year Treasury yield (reflects short-term interest rates) was 4.26% on 2/14/25, in line with the year-end yield of 4.24%.

Investors have navigated multiple uncertainties to start the year, although, admittedly, uncertainties are always present and investors devote significant attention to U.S. economic growth data, inflation trends, and corporate earnings. Fourth quarter (4Q24) U.S. economic growth, as measured by inflation-adjusted gross domestic product (real GDP), increased +2.3%, which was a lower growth rate than the previous two quarters and below 2024's full-year growth of +2.8%. However, the consumer spending component (which comprised 69% of 4Q24 real GDP) increased +4.2%, its best growth quarter since 1Q23 (7 quarters). This suggests that key underlying growth trends were perhaps better than reported, although business investment was weaker than expected. Nonetheless, +2.3% annualized growth reflects a healthy U.S. economy, in our view. The trend of improving inflation data in 2023 and early 2024 stalled in recent months and a key consumer inflation indicator, the consumer price index, or CPI (reported by the Bureau of Labor Statistics), increased +3.0% year-over-year (Y/Y) in January 2025, higher than +2.4% in September 2024, and back to the same level of June last year. This suggests that interest rates are likely to remain higher than expected in 2025, creating a potential headwind for equity valuations. Investors have looked past inflation concerns and have reacted positively to recent earnings reports, which have exceeded expectations. Through 2/15/25, 77% of S&P 500 companies had reported 4Q24-equivalent financial results, and earnings increased +16.7% Y/Y (compared to 4Q23), above the pre-reporting estimate of +11.4%, as of 12/31/24. The quarter is on track to finish as the best earnings growth quarter in three years (12 quarters) since the fourth quarter of 2021 (+32.1%). In our view, these solid 4Q24 earnings results provide good momentum for continued earnings growth in 2025, with the current FactSet consensus estimating +12.5% for the full year. An emerging uncertainty now facing investors, tariff policy, is less predictable and could lead to more volatility in the weeks ahead.

In the first two weeks of February, President Trump (Trump) imposed, then delayed (until 3/1/25), 25% tariffs on all imports from Mexico and Canada, implemented 10% tariffs on China, set blanket 25% tariffs on all imported steel and aluminum (regardless of origin), and most recently announced a framework for "reciprocal tariffs" that would be tailored to each country to match that country's trade imbalance with the U.S. This flurry of activity has not weighed on equity markets in the near-term (the S&P 500's February total return was +1.3% month-to-date as of 2/14/25), which we attribute to Trump's past record of using tariffs mostly as a negotiating strategy, leading to limited disruption and successful outcomes for many companies. We acknowledge, however, that the second Trump Administration (Trump 2.0) appears prepared to install a more tariff-aggressive trade policy. The Trump 2.0 mid-February "Fair and Reciprocal Plan" is set to begin in April, although detailed tariff programs could take up to six months. The seemingly complex Reciprocal Plan could lead to some positive outcomes with new trade deals and a potential reduction or elimination of some tariffs. However, Trump 2.0 will consider value-added taxes, other taxes, and some currency policies as forms of tariffs as well, which, in our view, will limit the range of positive outcomes. We expect periods of uncertainty and potential market volatility (in the form of equity market pullbacks) throughout this process.

A common concern regarding tariffs is that they cause price increases that can contribute to inflation. During the first Trump Administration, the largest tariff battle was with China, which started in 2018 but didn't gain steam until 2019 (and a "phase one" trade agreement was signed in January 2020). This led to higher prices on some goods (mainly agriculture, but also solar panels, and some electronics and apparel), but also included the positive outcome of China purchasing more U.S. goods. Consumer inflation in the U.S. (as measured by the consumer price index, or CPI) averaged +2.4% in 2018, but dropped to +1.8% in 2019. The CPI in 2020 was even lower at +1.2%, although by then the economy was dealing with the COVID-19 pandemic. In January 2025, U.S. CPI was +3.0%, a higher level than in 2018, which creates more anxiety about potential tariff-driven price increases in the current environment. Our most pressing tariff concern is not inflation, however, as we believe that consumers and companies can often adjust to tariffs on imports, especially if the U.S. dollar rallies (a stronger dollar makes imported goods

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cheaper) to minimize the impact. Our worry is a trade war, with retaliatory, “tit-for-tat” tariffs that escalate and can become a headwind for trade, limiting U.S. exports and creating demand disruption. S&P 500 companies rely on foreign markets so earnings growth could be impacted, especially if large trading partners fall into recession. In addition, unknown tariffs and retaliation, along with trade deal uncertainty, can create havoc with supply chains and production schedules, adding cost to corporate operations. For now, we remain constructive on U.S. equities as economic and earnings growth trends are healthy, and efforts to reduce business regulations and lower corporate taxes can drive growth in 2025. But we continue to advocate for sector diversification and frequent rebalancing within portfolios.

Trump 2.0’s trade policy focuses on the U.S. trade imbalance in goods with each trading partner. When the U.S. imports more that it exports from a trading country, that creates a trade deficit (and a trade surplus when exports are larger). In 2024, the U.S. had total exports (goods and services) of $3.19 trillion (T) and imports of $4.11T, for a trade deficit of $918 billion (B). But the U.S. operates a services surplus (mostly due to tourism) that partially offset a goods deficit of $1.21T (with the six largest trade partners comprising 75%). The U.S. has operated successfully with an annual trade deficit for many years as imports have contributed to lower consumer prices and increased the supply of U.S. dollars abroad, which are in demand due to the dollar’s status as a global reserve currency. Strong U.S. dollar demand supports lower U.S. interest rates and helps to finance the budget deficit (foreign holdings of U.S. dollars are often invested in U.S. Treasury securities). But over time, fewer U.S. exports relative to imports has contributed to lower U.S.-based manufacturing jobs, and potential national security issues if the U.S. relies too heavily on foreign countries to manufacture critical products (perhaps for national defense or health care, for example).

President Trump, in our view, is focused on the U.S. trade deficit in goods with each trading partner, with a goal of becoming trade neutral (imports and exports in balance). This can be achieved in many ways, but the president would like to see fewer imports (with consumers shifting to goods produced domestically) and expanded exports (as trade countries commit to buying more U.S. goods). The challenge will be to drive imports lower without driving higher prices and inflation, and also achieve export growth in the face of likely retaliatory tariffs. In addition, the president’s primary focus on goods appears to ignore the services trade surplus overall (+$294B), including a surplus with each major trading partner. Since 2018, during the first Trump Administration, the U.S. goods deficit increased +26% (to $1.21T from $891B), but the goods deficit with China decreased -30% to $295B. This is a consequence of the trade wars in 2019 and 2020, and as many tariffs remain, U.S. companies have redesigned supply chains to be less reliant on China, and China has built other trade relationships. At the same time (since 2018), the U.S. goods deficit with the European Union (EU) surged +39% and deficits with Mexico and Canada more than doubled. This explains the Trump 2.0’s attention to Mexico and Canada initially, although tariff threats with the EU are coming and we expect the EU to be a key focus in the Reciprocal tariffs plan. In our view, the “Tariff Games” remain in early stages and investors should expect surprises (positive and negative) along the way.

U.S. International Trade in Goods and Services
($ billions)

	2024			change since	2023			2018		
	exports	imports	net	2018	exports	imports	net	exports	imports	net
Total U.S.	**3,192**	**4,110**	**(918)**	**48%**	**3,072**	**3,857**	**(785)**	**2,500**	**3,121**	**(621)**
as a % of GDP (nominal)	11%	14%	-3%		11%	14%	-3%	12%	15%	-3%
Goods	2024			change since	2023			2018		
	exports	imports	net	2018	exports	imports	net	exports	imports	net
Total U.S.	**2,084**	**3,296**	**(1,212)**	**36%**	**2,045**	**3,109**	**(1,063)**	**1,672**	**2,563**	**(891)**
China	144	439	(295)	-30%	136	393	(257)	120	540	(419)
European Union	370	606	(236)	39%	336	528	(192)	319	488	(169)
Mexico	334	506	(172)	111%	299	439	(140)	265	347	(82)
Canada	349	413	(63)	221%	326	385	(59)	299	318	(20)
Japan	80	148	(68)	-12%	69	136	(66)	75	153	(78)
South Korea	67	132	(65)	262%	59	106	(46)	56	74	(18)
Goods as % GDP (nominal U.S.)	7%	11%	-4%		7%	11%	-4%	8%	12%	-4%
Services	2024			change since	2023			2018		
	exports	imports	net	2018	exports	imports	net	exports	imports	net
Total U.S.	**1,108**	**813**	**294**	**9%**	**1,027**	**748**	**278**	**828**	**558**	**270**
Services as % GDP (nominal)	4%	3%	1%		4%	3%	1%	4%	3%	1%
GDP	**2024**				**2023**			**2018**		
U.S. Nominal GDP	**29,179**				**27,721**			**20,657**		

Data Source: U.S. international trade in goods and services is from the Bureau of Economic Analysis (BEA) and is reported monthly. U.S. economic growth, gross domestic product (or GDP), is also reported by the BEA. Nominal GDP is not adjusted for inflation, and we used the annual GDP number reported by the BEA in the year-end, fourth quarter release.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Russell 1000 Growth index includes the Russell 1000 companies that exhibit relatively higher price-to-book ratios, and higher expected earnings and sales growth. The Russell 1000 Value index includes the Russell 1000 companies that exhibit relatively lower price-to-book ratios and lower than average expected earnings and sales growth. The S&P 500 Equal Weight Index is the equal-weight version of the S&P 500, which is weighted by market capitalization. In the Equal Weight version, each company is assigned an equal weight, about 0.2%, and is rebalanced quarterly.

Other Disclosures:

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data on a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet Consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

S&P 500 earnings growth reflect the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury bonds, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury bonds are widely followed barometers of the current U.S. interest rate environment. Treasury bond data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis (BEA). We also track the BEA data on Non-Residential Fixed Investment, as a measure of business investment.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

Volatility is how much and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

2024 Election Day was 11/5/24. On the national level, voters selected the next president of the U.S. and state elections determined the party control (Democratic or Republican) of Congress, both the U.S. House of Representatives and the U.S. Senate. Since Inauguration Day on 1/20/25, President Trump has proposed the use of widespread (global) tariffs to counter tariffs on U.S. goods in other countries, as well as to incentivize more U.S. manufacturing. Follow the link for more information on Reciprocal Trade and Tariffs.

The U.S. Dollar Index measures the value of the U.S. dollar relative to the currencies of six trading partners (Euro, Swiss franc, Japanese yen, Canadian dollar, British pound, and Swedish krona).

International Trade in Goods and Services is published monthly by the Bureau of Economic Analysis. It measures trade in goods and services between U.S. residents and residents of other countries. U.S. sales are exports, U.S. purchases are imports.