James D. Ragan, CFA
March 18, 2025

D|A|DAVIDSON
WEALTH MANAGEMENT

Growth Scare Drives Market Correction, We Remain Constructive

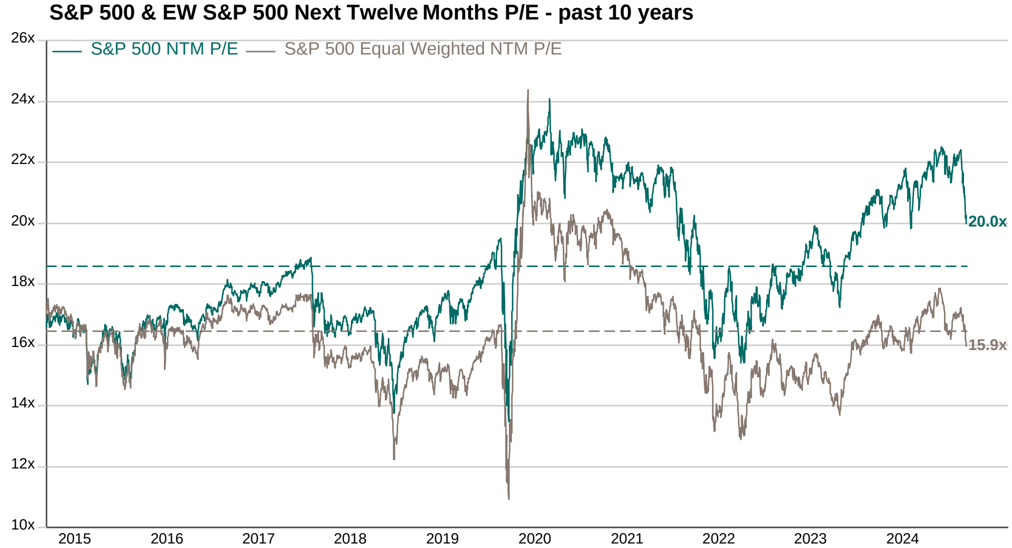
Major Equity Indices (price return)	Index Level 3/14/25	2025 YTD % 12/31/24-3/14/25	Date of Recent High	Date of Recent Low	Peak-to-Trough % Pullback
Russell 1000 Value	1,128	**0.2%**	11/29/24	3/13/25	**-8.5%**
S&P 500 Equal Weight	6,976	**-1.8%**	11/29/24	3/13/25	**-9.8%**
Dow Jones Industrial Average	41,488	**-2.5%**	12/4/24	3/13/25	**-9.3%**
S&P 500	5,639	**-4.1%**	2/19/25	3/13/25	**-10.1%**
Russell 1000 Growth	2,457	**-8.1%**	1/23/25	3/13/25	**-13.8%**

Data Source: FactSet as of 3/14/25. Price return (excludes the impact of dividends). Calculations use closing prices. Date of most recent high ocurred on different dates for each index, some were in 2024 and some in 2025.

U.S. equity markets moved sharply lower since late February, and last week, on 3/13/25, each of the indices above set a closing price low for the year-to-date (YTD). A combination of slowing January consumer data, erratic U.S. trade policy, and elevated equity index valuations has led to investor caution, including an exodus from many technology-centric growth stocks and better relative performance from bonds (interest rates have moved lower), defensive S&P 500 sectors, and value stocks. While the near-term economic outlook has softened, including emerging recession worries, we believe that equity investors should stay the course with diversified portfolios of quality stocks. While it is possible for equities to move lower from recent levels, especially if solid 2024 U.S. economic growth stalls, we still see a decent environment for economic activity and corporate earnings. Despite the S&P 500's double-digit percentage decline over three weeks, the index was down a more modest -4.1% year-to-date (YTD) as of 3/14/25, and the Equal Weight S&P 500 (EW S&P) which, in our view, represents the performance of the average S&P 500 stock, was down just -1.8%. Growth stocks have led the market lower during the recent sell-off and the YTD decline of the Russell 1000 Growth index was -8.1%, while the Russell 1000 Value index was positive YTD, up +0.2%.

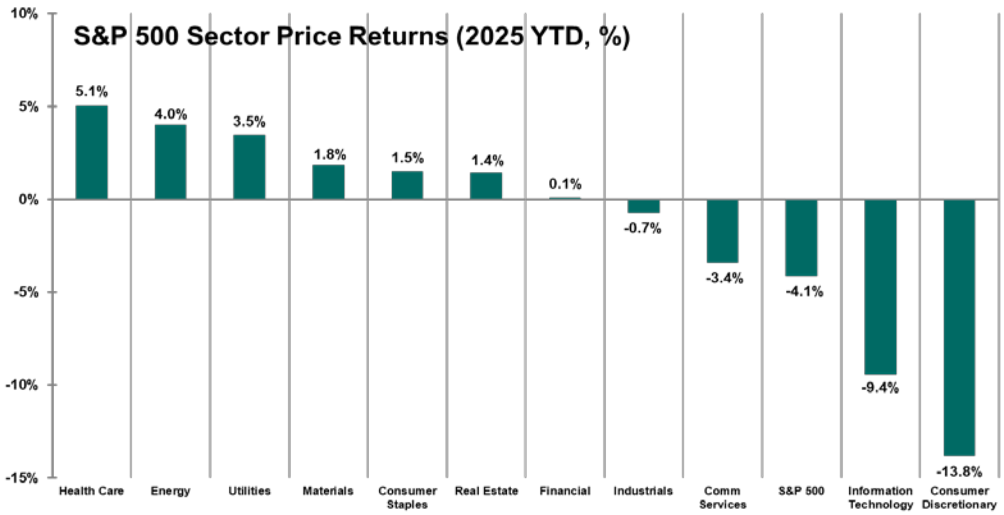
We keep our S&P 500 fair value estimate of 6,300, representing a gain of +11.7% from the 3/14/25 closing price. However, we also keep in place our relatively wide fair value range of 5,200 to 6,800 and would not be surprised to see further near-term downside in equity indices. We entered the year with modest expectations relative to 2023 and 2024 and discussed a potential "substantial market correction in 2025 after two years of low volatility," but we were also encouraged by resilient corporate earnings growth. S&P 500 fourth quarter year-over-year (Y/Y) earnings growth of +18% exceeded estimates, reflecting strong results and good business momentum for many companies. Equity prices of many high-quality companies have traded lower, presenting more attractive entry points, in our view, compared to several weeks ago. The EW S&P, as of 3/13/25, traded at 15.9x the next twelve months (NTM) earnings estimates, and is now at a discount to an average forward P/E (over the past 10 years) of 16.5x. The S&P 500 forward P/E of 20.0x still trades at a premium to its 10-year average of 18.6x but has come down from a P/E above 22.0x in February.

S&P 500 & EW S&P 500 Next Twelve Months P/E - past 10 years



Data source: FactSet, as of 3/13/25. 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) as compiled by FactSet. The green line is the S&P 500 forward P/E from 3/31/15 to 3/13/25. The gray line is the forward P/E for the Equal Weight S&P 500. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance. Dashed lines are the 10-year average P/E for the respective index.

While the overall S&P index was down -4.1% in 2025 through 3/14/25, sector performance was skewed to the positive. While four of eleven S&P 500 GICS (as measured by MSCI's Global Industry Classification Standards) sectors were also down YTD, only two were worse than the overall index with Information Technology and Consumer Discretionary down -9.4% and -13.8% YTD, respectively. Communications Services also declined YTD, and those three sectors include many of the leading technology- and growth-centric companies that have led market gains in recent years, but that are lagging to begin 2025. Seven of the eleven sectors were positive YTD through 3/14/25, led by Health Care and Energy, up +5.1% and +4.0%, respectively. A few common threads are observed from 2025 YTD sector performance. First, defensive sectors (Health Care, Utilities, and Consumer Staples) have produced gains. Defensive sectors include companies that can deliver consistent results in a slowing economy, and the improved relative performance reflects recent economic concerns. But other more-cyclical sectors have also produced gains, which for us, dulls the economic slowdown signal, suggesting other drivers of sector rotation are present as well. As mentioned, value stocks have outperformed relative to the broader index in 2025, with the Russell 1000 Value index up +0.2% YTD. Value stocks include companies that trade at discounted valuations relative to the market, sector, and/or peer group. The largest sectors by market capitalization in the Russell 1000 index are Financials, Industrials, and Health Care, and within the S&P 500, each of those sectors has outperformed the index YTD. In our view, this indicates that investors are watching valuations more closely, seeking relative value and being more selective when considering paying a premium for growth. Should equity market volatility continue as tariff policy develops, we would expect defensive sectors to perform better, and over time we look for expected equity gains to include many of the value sectors that lagged the market for the past two years.



Data source: FactSet; through 3/14/25, price returns does not include dividends. 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. YTD is year-to-date.

When the S&P 500 equity index closed at 5,522 on Thursday 3/13/25, its decline was -10.1% from its 6,144 high just three weeks earlier. This was the largest S&P 500 pullback in 17 months. A peak-to-trough decline greater than -10% is commonly referred to as a market correction, and the most recent correction was -10.3%, which occurred over 13 weeks in 2023 and made a bottom on 10/27/23 (a bear market is called when a peak-to-trough decline exceeds -20%). Despite and including Friday's (3/14/25) relief rally of +2.1% on the day, the index declined -2.3% for the week, and investor sentiment, in our view, remained negative. We attribute market weakness to fears of slowing economic activity caused by President Trump's erratic trade policy including extreme tariff uncertainty. In addition, the combination of two years of strong equity gains (S&P 500 price returns were +24.2% and +23.3% in 2023 and 2024, respectively) and elevated valuations (on a price-to-earnings, P/E, basis, the S&P 500 at year-end traded at 21.5x 2025 consensus earnings estimates) increased the potential for more volatility. While a market correction was likely overdue, declines are painful and lead to fear of additional declines. We believe that economic weakness remains the biggest headwind to market gains as a recession (a decline in gross domestic product, or GDP), or even a soft landing (GDP growth that remains positive but slows to +1% or less) would pressure earnings growth. The good news is that economic and earnings momentum was strong at the end of 2024, providing some cushion for slower activity in 2025. U.S. retail sales were weak in January but rebounded modestly in February, and jobs data was solidly positive (although below late 2024 levels). Inflation, as measured by the Consumer Price Index (CPI), increased +2.8% in February Y/Y, its lowest level in five months, and core CPI (which excludes food and energy prices) increased +3.1% Y/Y, the lowest monthly Y/Y increase since March 2021. While the latest inflation improvement was only one month, a continuation of the trend would be positive for the economy. But tariff uncertainty, along with federal layoffs inspired by the Department of Government Efficiency (DOGE), has contributed to lower consumer confidence and business optimism, creating headwinds to sustained economic growth in the months ahead. In addition, the equity market correction could drive a reverse wealth effect, and, as traders and investors (many are high income earners and spenders) see account values decline, they could reduce spending on goods and services.

President Trump's 2025 trade policy to date has been inconsistent. Policy uncertainty is characterized by on again/off again (including tit for tat) tariffs with Mexico and Canada, widespread tariffs on China and global aluminum and steel, and soon (4/2/25) the introduction of reciprocal tariffs with all countries that enact tariffs and other fees on U.S. products. The President appears committed to more aggressive tariffs in his second term vs. the first term, but we believe that he continues to use many tariff threats as a negotiation strategy. While we expect some tariffs to remain in place (especially for products deemed central to national security), we also expect to see trade deals in the weeks and months ahead. This will play out over the course of 2025, creating a layer of investor uncertainty that remains in place. In our view, the U.S. economy remains fundamentally sound, but emerging economic challenges could slow growth rates over the near-term.

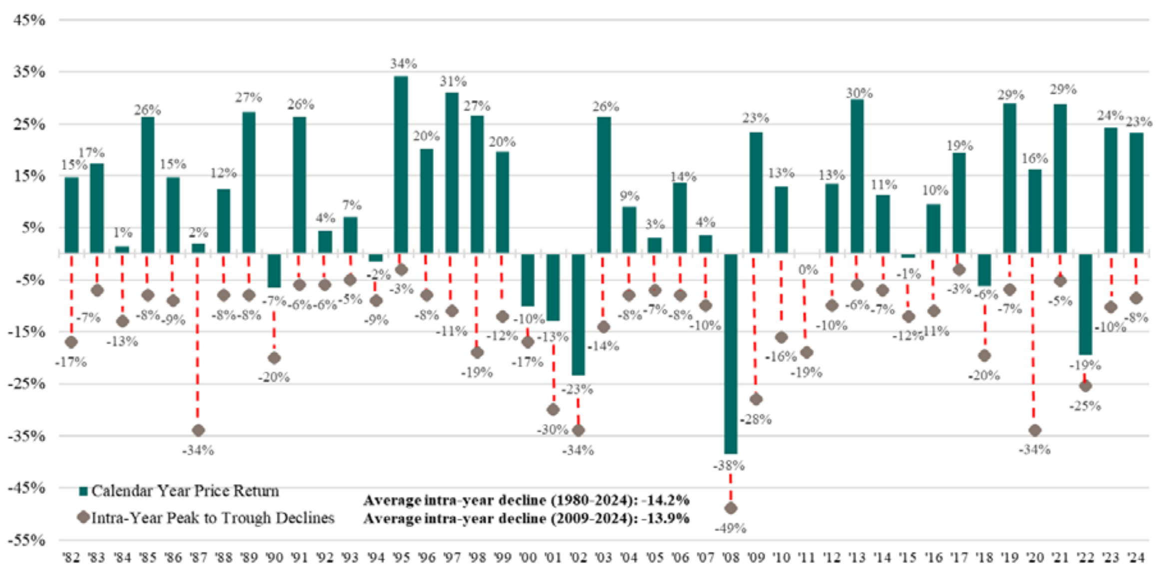
Equity market pullbacks (below -10%) occur very frequently, but corrections are common as well (since 1980, 45 years, the average intra-year S&P 500 peak-to-trough decline exceeded -14%). Since late 2009 (the end of the Global Financial Crisis), there were 13 other market declines greater than -7%, which included bear markets in 2020, -33.9%, and 2022, -25.4%. Excluding those years, it took an average of 13 weeks (three months) to recover the decline. While equity corrections are normal, they still weigh on sentiment and stoke investor fear. The table below shows all S&P 500 declines greater than -7% since the beginning of 2010 and also lists the time (in weeks) from peak-to-trough, as well as the number of weeks for the index to move above the pre-decline high. The average decline of all 13 periods was -14.8%, and -12.1% excluding the two bear markets. The final chart shows annual gains and peak intra-year declines for the S&P 500 from 1982 to 2024. Market pullbacks and/or corrections occur across all Presidential terms and during periods of political and economic uncertainty. Quality companies, with leading market share, experienced management, resilient profitability, and solid balance sheets are better positioned to navigate uncertain economic cycles and can often capitalize on unexpected opportunities that drive long-term shareholder value. Stay the course.

S&P 500 Index Price Declines More than 7%
since 2010 (post financial crisis)

Start date	End Date	Start Value	End Value	Price Change	# of weeks peak-to-trough	# of weeks to recover decline
4/23/2010	7/2/2010	1,217.28	1,022.58	**-16.0%**	10	18
4/29/2011	10/3/2011	1,363.61	1,099.23	**-19.4%**	22	21
4/2/2012	6/3/2012	1,419.04	1,278.04	**-9.9%**	9	13
9/14/2012	11/15/2012	1,465.77	1,353.33	**-7.7%**	9	7
9/5/2014	10/15/2014	2,007.71	1,862.49	**-7.2%**	6	2
5/21/2015	2/11/2016	2,130.82	1,829.08	**-14.2%**	38	22
1/26/2018	4/2/2018	2,872.87	2,581.88	**-10.1%**	9	21
9/20/2018	12/24/2018	2,930.75	2,351.10	**-19.8%**	14	17
2/19/2020	3/23/2020	3,386.15	2,237.40	**-33.9%**	34	21
9/2/2020	9/23/2020	3,580.84	3,236.92	**-9.6%**	3	7
1/3/2022	10/12/2022	4,796.56	3,577.03	**-25.4%**	40	66
7/31/2023	10/27/2023	4,589.96	4,117.37	**-10.3%**	13	5
7/16/2024	8/5/2024	5,667.20	5,186.33	**-8.5%**	3	7
2/19/2025	3/13/2025	6,144.15	5,521.52	**-10.1%**	3	?
			Average	**-14.8%**	**16**	**17**
		Average (ex-2020, 2022 bear markets)		**-12.1%**	**12**	**13**

Data source: FactSet, D.A. Davidson. S&P 500 index values are closing prices, and percentage change does not include dividends.

S&P 500 Annual Returns and Intra-Year Declines



Data source: FactSet, D.A. Davidson through 12/31/24. S&P 500 index values are closing prices, and percentage change does not include dividends. The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. You may not invest directly in an index. Past performance is not an indicator of future results.

James D. Ragan, CFA
Co-CIO, Director of Investment Management & Research
(206)389-4070
jragan@dadco.com

Important Disclosure: Information contained herein has been obtained by sources we consider reliable, but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of the data available to us at the time of the original publication of the report. These opinions are subject to change at any time without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return, and yield. Investors should also remember that past performance is not necessarily an indicator of future performance and D.A. Davidson & Co makes no guarantee, expressed or implied to future performance. Investors should consult their Financial and/or Tax Advisor before implementing any investment plan.

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 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. Our view on elevated valuations refers to the current S&P 500 P/E ratio of 20.0x the consensus earnings estimate of the next four quarters compared to its 10-year average P/E of18.5x.

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.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER defines recession as “a significant decline in economic activity that is spread across the economy and that lasts more than a few months;” and also looks at the depth, diffusion, and duration of the downturn.

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 Conference Board conducts a monthly Consumer Confidence Survey design to reflect prevailing business conditions and potential outcomes in the months ahead. It surveys consumer attitudes, buying intent, and expectations stratified by age and income in nine U.S. regions.

The NFIB Research Foundation conducts monthly surveys to track small business economic trends data. Surveys are given to members of the National Federation of Independent Business.

When we discuss "growth stocks" we are referring to companies that generate expected earnings growth (over a multi-year period) that is above expected earnings growth for the overall market (typically the S&P 500 index). The largest sector weights (by market capitalization) in the Russell 1000 growth index (as of 12/31/24) were Information Technology, Consumer Discretionary, and Communication Services. "Value" stocks are characterized by companies that trade at discounted valuations to an index, sector, and/or a peer group. The largest sector weights in the Russell 1000 value index (as of 12/31/24) were Financials, Industrials and Health Care.

Defensive sectors include companies that are historically less sensitive to economic cycles as product demand remains relatively more consistent across the business cycle. Cyclical sectors include companies that are more exposed to the business cycle such that growth accelerates when economic growth is above trend and decelerates when the economy slows.