BLBB Advisors
FINANCIAL GUIDANCE SINCE 1964

QUARTERLY *review*

1ST Quarter 2025

Economic Update

t's Been a Difficult First Quarter for U.S. Financial Markets.

We started the year optimistically, with many of the major equity indices well into positive territory at the end of January. Historically, when U.S. equity markets end January on a positive note, 84% of the time they also close out the year in positive territory.[1] While it remains to be seen how the rest of 2025 will play out, there is plenty of precedent suggesting we could certainly end above where we began the year. Unfortunately, though, the tenor of the market turned negative in February as tariff concerns and other uncertainties took center stage and consumer confidence began to slide. Market volatility, as measured by the VIX (CBOE Volatility Index), also ramped up as equity markets sold off, especially during the latter half of the quarter. Some of the major U.S. equity indices, including the NASDAQ and the S&P 500, even briefly dipped into correction mode (falling more than 10% from their recent highs) before rebounding later in March.

In short, 2025 is off to a tumultuous start which, in turn, is fraying some investors' nerves. It is critically important, though, for investors to keep several key investment principles in mind as they ride out this storm:

1. As a seasoned investor, you probably already know financial markets do not like uncertainty and express their displeasure with heightened uncertainties by ratcheting up the volatility. If you are newer to investing, this may be your first time experiencing such a negative tone to the market coupled with some sharp, even extreme, market swings. Whether you are used to this kind of market activity or not, it is uncomfortable for most investors and alarming to some.

   The current reality is that our financial markets are grappling with many domestic and global uncertainties. There is a new administration in Washington and change is coming at us quickly. The daily twists and turns of the tariff saga, alone, are difficult to follow and resulting in many stressed Americans who are worried tariffs will cause inflation to rise again and the U.S. economy to slow.

   While the volatility we have experienced over the last 6+ weeks is unpleasant, it is also evidence of our financial markets behaving exactly the way we would expect them to behave in the current scenario. Also, it is reasonable to expect that as uncertainties subside—something they always eventually do—volatility will also recede. Keep in mind bouts of market volatility are normal and mostly a short-term phenomenon.

2. At least some of the U.S. economic turmoil of late is more tied to the many economic and geo-political undercurrents swirling about and is not really the byproduct of a poorly operating or weak domestic economy. For example, the tariff situation is completely fluid and every time a tidbit of good or bad news pops up, financial markets swiftly respond positively or negatively. This is evidence of volatility related to uncertainty (see #1 above) and should not be conflated with, or assumed to be, evidence of an imminent recession. Additionally, U.S. Leading Economic Index data released on 3/20/25 predicts U.S. GDP growth this year will be about 2% and suggests the "headwinds in the economy as of February may have moderated compared to last year." Additionally, the Coincident Economic

Index, rose by 0.3% in February 2025 and by 1.2% over the preceding 6 months—twice its growth rate from the 6 months before that. Furthermore, key data (like payroll employment, personal income, and industrial production) which is often used to determine whether a recession is underway, all rose in February, suggesting we are not in or about to enter a recession.[2]

3. While it remains to be seen whether the U.S. economy will eventually dip into a mild recession—something a number of economists and market watchers have been predicting since the Federal Reserve first started raising the federal funds rate back in 2022—keep in mind recessions occur fairly regularly and are usually not long-lived. There have been 6 recessions since 1980 and on average they have lasted less than 10 months.[3]
4. Peaks and troughs in business cycles and economic activity are all part of a properly functioning economy. The National Bureau of Economic Research (NBER) tracks the U.S. economy and is charged with identifying the start and end of any U.S. recession. According to the NBER, a recession is defined as a *significant decline in economic activity that is spread across the economy and that lasts more than a few months. The committee's view is that while each of the three criteria—depth, diffusion, and duration—needs to be met individually to some degree, extreme conditions revealed by one criterion may partially offset weaker indications from another.*[4] At present, there is little evidence the U.S. economy is teetering on the edge of a recession although there is some evidence economic growth may be slowing slightly.
5. While a recession can be unpleasant and worrisome, it is often a shorter-term event in the context of most investor's longer-term investing horizons. In other words, in retrospect, it is a short bump in a long road. Keep in mind you are investing for the long haul—whether it be a 25+ year retirement or college tuition for recently born children or grandchildren. Proper planning and asset allocation will help sustain you during the inevitable down periods in financial markets and/or the economy.
6. Towards the latter part of this quarter, it began feeling like many retail investors were heading for the doors; with some choosing to liquidate at least some of their equity holdings. Cash levels are quite high in the U.S. as a result, with a record $7.3 trillion now sitting in money markets.[5] This "dry powder" is a good sign that financial resources are available and most likely will be used when investors are willing to re-enter the market. But the challenge with holding cash in response to geopolitical risk is that these situations are often extremely fluid. Geopolitical risk is a moving target, and it can be difficult, if not impossible, to predict the timeline or the potential consequences. In many cases, news-driven market pullbacks are followed by a rebound in a matter of just days. Timing the market is not usually a good idea and often results in an investor selling into a falling market and then hesitating to reinvest until after the market has mostly recovered.
7. The U.S. economy has a very long history of resilience and has always managed to successfully recover from numerous domestic and international economic and geo-political events. There is no indication this time is any different.

Beyond Tariffs

While the constantly fluctuating tariff situation is responsible for much of the recent market angst this quarter, the current administration's swift and decisive moves to dismantle some government departments, reduce the number of federal employees, and cut some federal programs has begun adding more fuel to the fire. The reality we are now living is something former Fed chairman Ben Bernanke predicted 15 years ago would eventually happen—a "rapid and painful response" to an unsustainable level of federal debt. The Trump administration is taking drastic measures to cut government costs and address the mountains of debt the U.S. has accumulated through decades of vigorous government borrowing and spending.[6]

Economic Update

Politics aside, this day of reckoning is overdue. U.S. federal debt stood at $36 trillion when numbers were last reported by the Treasury Department in October of 2024. That's 123% of our Gross Domestic Product (GDP) and almost double the 62% figure from two decades ago. This situation has been brewing for years and warning calls, like the one from Mr. Bernanke in 2010, unfortunately failed to result in much action. Now, we find ourselves with an unwieldy amount of debt and a populace accustomed to government largesse and immune to the shocking amount of debt on our country's balance sheet. In 2025 alone, servicing this debt will cost U.S. taxpayers over $478 billion.[7] Change can be uncomfortable, but most economists agree that paying down this country's outstanding debt is necessary, not only for the health of our economy today, but also for the future generations who will inherit this bill if it continues to grow unchecked.

A Painful Response

Strategic government cost-cutting measures are coming at a time when tariffs pose the risk of driving up prices, fueling inflation, and potentially prompting the Fed to start tightening again. A meaningful drop in U.S. consumer sentiment over the last few months highlights the emotional or psychological impact our current economic environment is having on investors.

Fed chairman Jerome Powell attempted to ease these fears on March 20, insisting that any tariff-related price hikes would be "transitory," and work their way through the economy quickly. His comments appeared to help at least a little.

Still, volatility-fueled market corrections can be unsettling. But they are another fairly common occurrence in a healthy, fully functioning market, especially when valuations are running high. This is why they are called "corrections." They bring stock prices back into alignment and closer to their historic norms.

One positive phenomenon that now appears to be underway is the broadening of U.S. equity markets. For the last year or two, the "Mag 7" (Nvidia, Apple, Microsoft, Amazon, Alphabet, Meta, and Tesla) was the engine that drove much of the return in the S&P 500. Now, as these 7 stocks take a breather and consolidate, a number of other stocks are playing a larger role in driving the equity indices. This is a good sign and suggests U.S. equity markets could be in the initial stages of building a stronger base for additional forward momentum in the future.

Looking ahead

Only time will tell whether the first quarter pullback is fleeting, or if it will linger. Three things seem certain though—1. The current uncertainties, and thus periods of heightened volatility, will be with us for a while longer as the changes underway in Washington proceed; 2. Eventually these uncertainties will ease and be replaced with more certainty and clarity; and 3. There is always something else "waiting in the wings" to inject new uncertainties into the mix.

We also recognize that current uncertainties and associated market volatility are causing heightened angst and concern for many investors; particularly those who are imminently heading into retirement or already there.

If you are worried or feeling a bit adrift, please do not hesitate to reach out to your BLBB financial advisor (215-643-9100). We can help you update and/or stress test your financial plan. We can also help you consider whether to adjust your asset allocation. Perhaps you would like to better understand how moving to a more conservative asset allocation will impact your financial plan. Or maybe you just want to talk with a voice of reason who can help you understand your current financial situation and how you are positioned to withstand these kinds of market events. We are here for you!

Economic Update

1 https://www.guggenheiminvestments.com/perspectives/weekly-viewpoint/as-january-goes,-so-goes-the-year-2025#:~:text=According%20to%20the%20Stock%20Trader's,gains%2084%25%20of%20the%20time

2 https://www.conference-board.org/topics/us-leading-indicators

3 https://www.investopedia.com/articles/economics/08/past-recessions.asp

4 https://www.nber.org/research/business-cycle-dating/business-cycle-dating-procedure-frequently-asked-questions

5 https://www.reuters.com/markets/wealth/us-retail-investors-wary-buying-dip-trump-anxiety-deepens-2025-03-11/

6 "Fiscal Sustainability and Fiscal Rules," Annual Meeting of the Rhode Island Public Expenditure Council, Providence, Rhode Island, October 4, 2010.

7 U.S. Treasury Fiscal Data, September 2024.

Investment advisory services provided by BLBB Advisors, a Pennsylvania-based investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Registration as an investment advisor does not imply a certain level of skill or training.

The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. Any investment strategies or perspectives considered here may not be suitable for everyone and each investor needs to review an investment strategy for his or her own particular situation before making any investment decision. All expressions of opinion contained herein are subject to change without notice based on shifting market conditions.

Data contained herein from third-party providers is obtained from what BLBB believes are reliable sources. However, its accuracy, completeness, or reliability cannot be guaranteed. Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve.

This content was created as of a specific past date and reflects the author's views as of that date and the author's opinions are subject to change, without notice, in reaction to shifting economic, business, and other conditions affecting securities markets.

Past performance is no guarantee of future results and investing involves risk including loss of principal.

Comments and opinions contained herein, while based on historical experience, are for illustrative purposes only and are not a recommendation, offer to sell, or a solicitation of an offer to buy any security. References for any claim or statistical information is footnoted accordingly.

Asset allocation and diversification does not guarantee a profit or protect against a loss in a declining market. They are methods used to help manage investment risk.

BLBB does not support or endorse any particular political party.

Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices does not account for any fees, commissions, or other expenses that would be incurred. Returns do not include reinvested dividends.

The VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options. Often referred to as the fear index or the fear gauge, it represents one measure of the market's expectation of stock market volatility over the next 30-day period.

The Nasdaq Composite Index is a market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks. The index includes all Nasdaq listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debentures.

The Standard & Poor's 500 (S&P 500) Index is a free-float weighted index that tracks the 500 most widely held stocks on the NYSE or NASDAQ and is representative of the stock market in general. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

The Conference Board Leading Economic Index (LEI) is an American economic leading indicator intended to forecast future economic activity. It is calculated by The Conference Board, a non-governmental organization, which determines the value of the index from the values of ten key variables. These variables have historically turned downward before a recession and upward before an expansion. The per cent change year over year of the LEI is a lagging indicator of the market directions.

BLBB Advisors
FINANCIAL GUIDANCE SINCE 1964

www.BLBB.com
215.643.9100

Mailing address
P.O. Box 1010, Montgomeryville, PA 18936

Street address
103 Montgomery Avenue, Montgomeryville, PA 18936

Additional information about BLBB is available in our current disclosure documents which are available on BLBB's website (www.blbb.com) or the SEC's public disclosure database (IAPD) at https://adviserinfo.sec.gov/.