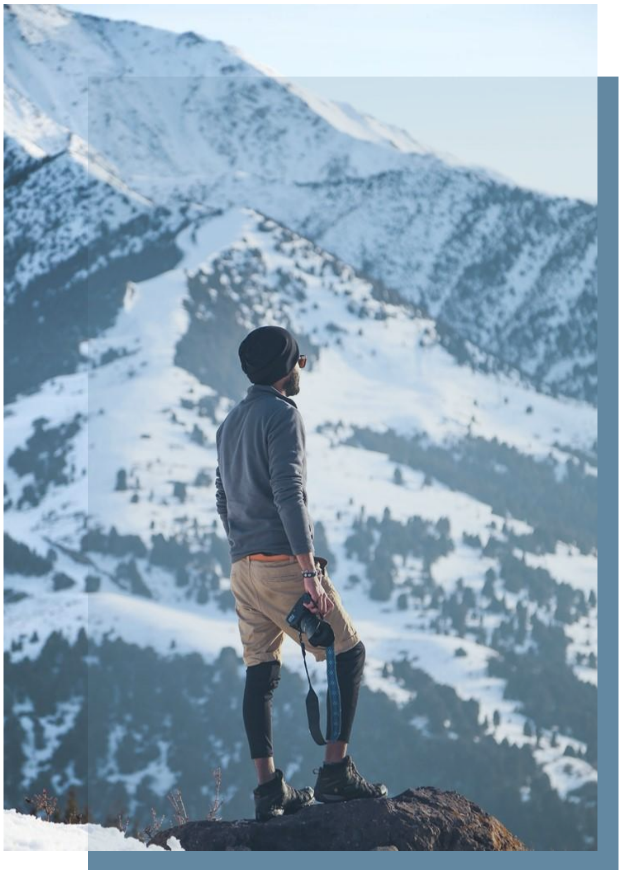
PERSPECTIVES

Benefit Financial Services Group Newsletter
Quarter Ending March 31, 2025



What's New

Market Recap

Brent Miller, CFA® (Senior Portfolio Manager)

Since reaching respective all-time highs on February 2025 and December 2024, the S&P 500 Index[1] and the Nasdaq Composite Index[2] both reached correction territory in Q1 2025, indicating a decline of between 10% and 20% from these record levels. A deeper analysis, however, reveals that the Q1 2025 market environment was impacted by both a broad-based selloff and a market rotation, both of which were triggered by concerns about the prospect of slowing economic growth and the impact of proposed tariffs from the new presidential administration.

On the market rotation front, we believe the Q1 2025 market environment is best characterized by a material shift away from growth-oriented and more economically sensitive stocks to value-focused and defensive equities. Perhaps the best example of this performance divergence is the tech-heavy Nasdaq-100 Index[3], which declined by 8.1% in Q1 2025 compared to a comparatively smaller 0.9% loss in the more value-oriented Dow Jones Industrial Average[4]. In addition, while growth and cyclical sectors lagged, defensive and value focused sectors outperformed[5], further demonstrating that the first three months of 2025 were defined by both a broad-based correction and a rotation out of growth and into value.

As a further consequence of this market rotation, market breadth improved considerably, and domestic stock index performance became less reliant on a handful of mega cap technology and technology adjacent stocks. For an example of this trend, consider that after narrowing in Q4 2024, market leadership broadened materially in Q1 2025 as the market-cap weighted S&P 500 Index declined by 4.3% compared to a 0.7% drop in the S&P 500 Equal Weight Index[6], indicating a 359 basis point performance advantage for the broader version of the index, which in turn signals broader market leadership.

The improved market breadth did not extend to small and mid-cap ("SMID") U.S. listed stocks, however, with the SMID-focused Russell 2000 Index[7] declining by 9.5% in Q1 2025. SMID stocks in the U.S. were seen as being more vulnerable to both slowing economic growth and tariff-induced inflation, hampering share price performance in this segment of the market. In addition, a more cautious approach to near-term rate cuts by the Federal Reserve appeared to indicate that rates were destined to remain higher for longer, possibly continuing to pressure highly levered SMID companies via elevated interest expense.

After materially lagging U.S. equities for the last several years, international stocks significantly outperformed their U.S. counterparts in Q1 2025. The MSCI World ex USA Index[8] appreciated by 6.3% in Q1 2025, led to a large extent by European equities. In the Eurozone, a combination of attractive relative valuations, accommodative monetary policy from the European Central Bank, and fiscal stimulus from countries such as Germany propelled the iShares Core MSCI Europe ETF[9] up by 11.4% in Q1 2025.

Emerging market equity performance was only modestly worse than that of developed markets, with the MSCI Emerging Markets Index[10] appreciating by 4.5% in the quarter, driven by robust performance from Chinese equities. A significant rally in Chinese stocks, particularly in technology and AI-related stocks, was sparked by optimism surrounding innovations such as the DeepSeek AI model, which was released in early 2025. This enthusiasm was further buttressed by Beijing's perceived shift to a more supportive policy stance relating to the private sector and technological innovation.

After cutting the federal funds rate by 100 basis points from September 2024 to December 2024, the Federal Open Market Committee of the Federal Reserve System ("the Fed"), opted to stay put at the late January 2025 and mid-March 2025 meetings. In its 3/19/25 press release, although the Fed stated that economic uncertainty has increased and inflation remained elevated, it also highlighted robust growth in economic activity and solid labor market conditions.[11] The Fed's updated Summary of Economic Projections released on 3/19/24 indicated a median expectation among Federal Open Market Committee members of two 25 basis point rate cuts in 2025, down from an expectation of four 25 basis point cuts in September 2024. 30-Day Fed Funds futures prices imply a more aggressive rate cutting path, perhaps in response to more concrete information on tariffs that came to light on 4/2/24. 30-Day Fed Fund futures prices currently suggest an expectation of four 25 basis point rate cuts by year end.[12]

10-year U.S. Treasury yields were on the rise from the beginning of the quarter until 1/13/25, when a year-to-date peak of 4.81% was reached. This initial surge in yields was driven by a combination of strong economic data, shifting expectations about Federal Reserve policy, and heightened inflationary concerns tied to proposed tariffs from the incoming Trump Administration. From mid-January to the end of the quarter, however, growing pessimism about U.S. economic growth resulted in the 10-year U.S. Treasury yield contracting to close at 4.20% on 3/31/25. The protracted decline in Treasury yields resulted in the Bloomberg Aggregate Bond Index[13] increasing by 2.8% in Q1 2025. The biggest gains came from long duration bonds, which tend to be more sensitive to changes in interest rates and interest rate expectations. As a case in point, the iShares 20+ Year Treasury Bond ETF (TLT)[14] appreciated by 4.9% in Q1 2025 compared to a 1.6% increase in the iShares 1-3 Year Treasury Bond ETF (SHY).[15]

On the commodity front, intensifying U.S. sanctions on Russia and Iran, OPEC+ production cuts, and unusually cold weather in the Northern Hemisphere caused the price of Brent Oil to surge by 9.9% from 1/1/25 to 1/14/25. However, Brent Oil prices posted a precipitous decline from mid-January to early March, due to concerns about slowing economic growth and OPEC+ production increases. After bottoming out on 3/4/25, Brent Oil prices increased by 7.8% to close out the quarter on a high note. After taking these movements into account, the price of Brent Oil over the entire quarter was relatively flat.

We look forward to the remainder of 2025 and are hopeful that market volatility will dissipate as the economic outlook and the impact of fiscal policy initiatives become more certain. If the economy is merely slowing and not heading towards a recession, the Fed can continue to keep monetary policy relatively restrictive, combatting sticky inflation without negatively impacting the labor market. Under this scenario, the equity markets could end the year on a high note once economic uncertainty dissipates, bringing the focus back on a relatively solid economic backdrop and strong underlying fundamentals.

Forecast

Steven Yamshon, Ph.D. (Managing Principal)

Investors are concerned about the aftermath of imposed tariffs by President Trump. The main concerns, among others, are stagflation and a slowing economy.

Stagflation is an economic condition in which the growth of the economy slows down and inflation increases at the same time. This causes an environment that is not ideal for the economy, stocks, or bonds. The fear is that a prolonged tariff war could lead to weaker growth and higher inflation. The truth is that the downside in growth outweighs the rise in inflation, because as growth slows, inflation will subside.

Higher tariffs can lead to a temporary spike in inflation that eventually gives way to renewed deflation as demand destruction takes hold. Tariffs are a tax that the consumer will end up paying, not the foreign government. Governments don't pay tariffs, only importing companies pay the levy, and in most cases, companies pass their higher costs on to the consumer. The higher "tax" acts as a drag on consumer spending and therefore pulls down inflation and over time, this becomes deflationary. It is important to note that tariffs alone cannot lead to a rise in sustained inflation, but easy monetary policy by the Federal Reserve and government fiscal spending would. Therefore, for inflation to drop it will require restraint by the Federal Reserve and Washington. Any further tax cuts could fuel the fires of inflation as well because it will put more money in the pockets of consumers to spend.

If we look to the 1930's, the Smoot-Hawley Tariff Act was not the primary cause of the Great Depression. Higher interest rates that choked off a speculative and overvalued stock market, combined with Hoover's policy mistakes was the culprit. However, the deflationary aspect of the tariffs worsened and extended the depression that essentially lasted until 1942.

Let's hope that this trade war is a skirmish and not a full-blown trade war because the world economic order since 1945 has been built on trade, free or not, and that a large collapse of trade could have devastating effects. For the next three to six months, I would expect that the tariff pain will be at its peak as other countries retaliate and as the Trump Administration plays tit-for-tat.

Despite the increased tariffs, the U.S. will keep on running large trade deficits because there is a gap between domestic savings and what we must borrow abroad to fill that gap. With U.S. government running $1.5 trillion annual budget deficits, and a current account deficit of (-3.9%), this will be a very difficult challenge to meet.

It should be obvious that there is a paradigm shift and it is quite likely that the playbook of the past five years will not work for the next five and that a well-diversified portfolio would be the best insurance policy for such an outcome.

Portfolio Management

Michael Allbee, CFP® (Principal/Senior Portfolio Manager)

One of the proven ways to reach your long-term financial goals is through an investment technique known as diversification. Diversification basically means spreading out your invested money across different investments types, industries, countries, etc., which can smooth out the performance of your portfolio and may lead to stronger returns over the long term.

A guiding factor behind diversification is that not all investment categories perform well at the same time; as some are increasing in value, others may be decreasing. Each asset class (i.e., stocks, bonds, alternatives, cash) comes with varying degrees of risk and return characteristics, and typically perform differently in certain market environments.[16]

It's also important to avoid concentrating your portfolio in one particular area only (i.e., S&P 500, tech stocks, etc.), since you will risk missing out on attractive investment opportunities in other markets. For example, a home-country bias leaves investors overly exposed to domestic markets, missing valuable opportunities abroad.

We created your portfolio based on your long term goals and to make sure you are well diversified, so you don't need to worry about occasional market dips which newspapers and other media tend to sensationalize. Essentially, your portfolio represents a collection of different investments that work in harmony to help you reach your goals.

Staying invested is also crucial for long-term success. Trying to time the market is nearly impossible, so it's better to focus on building a resilient portfolio that can handle different market conditions. While diversification might not give the highest returns during a bull market, it provides essential protection when the market shifts. Although large market drops can be unsettling, they often present valuable buying opportunities for those who are prepared.

For our BFSG clients, if there are any changes in your personal/financial situation or investment objectives, let's work together to create a strategy that offers protection while still positioning you for growth.[17]

Talk With Us!

Paul Horn, CFP® (Director of Financial Planning)

We have been having conversations with clients who were previously impacted by Windfall Elimination Provision (WEP) and Government Pension Offset (GPO). Late last year both the WEP and GPO were eliminated and as a result many civil service and government employees will receive a boost in their Social Security.

The immediate focus is on the best uses for the one-time retro payment that most will receive in March. According to the Social Security Administration (SSA), the average retro payment is about $6,700.[18] For many retirees, this lump-sum back payment and the bump in monthly income come at a critical time, as everyday costs remain high. The goal is to utilize this money to greatly improve the financial security of those that receive retroactive payments.

In addition to the lump sum, make the most of the higher monthly benefit. For instance, you can reassess your monthly budget now that your Social Security check will be larger. The extra few hundred dollars (or more) per month can be used to ease month-to-month cash flow pressures (covering rising costs of food, gas, or utilities), so you don't have to draw down savings as quickly. Some retirees might choose to allocate a portion of the new monthly income to recurring expenses like medications or insurance premiums and perhaps set aside a bit each month into savings if possible. Overall, use this increase to restore financial balance in your life. After years of tighter budgets under WEP/GPO reductions, you can now breathe a bit easier knowing you'll have a more adequate Social Security income to count on.

By planning how to use them wisely, recipients can significantly improve their financial situation. Here are some ways new recipients can best utilize their retroactive Social Security payments to strengthen their finances:

- ***Pay Down High-Interest Debt:*** If you've accumulated credit card debt or other high-interest loans to cope with rising expenses, consider using part of the lump sum to reduce or eliminate that debt.

- ***Boost Emergency Savings:*** It's wise to set aside some of this windfall for emergencies. Many seniors have had to dip into savings due to inflation. The retroactive funds you receive can help build an emergency cushion to protect you against unexpected expenses (like medical bills or home repairs) and prevent you from going into debt when surprise costs arise.

- ***Cover Deferred Expenses:*** You can allocate part of the money to catch up on any essential expenses you may have been putting off. For example, you might address health care needs (get dental work or new glasses) or perform maintenance on your home or car that was delayed due to tight finances. Using the funds for these needs can improve your quality of life and potentially save money in the long run by fixing issues before they worsen.

- ***Help loved ones:*** If your immediate needs and emergency fund are in good shape, you may want to use the proceeds to help loved ones who could use some financial support. Perhaps a family member could use some of the money to pay down debt or get medical procedures completed.

- ***Invest for the Future:*** This could help your nest egg grow and provide additional income down the road. Even relatively conservative investments or savings could offset inflation over time. The key is to ensure the money continues to work for you in a way that aligns with your risk tolerance and needs. Consulting a financial advisor can be helpful if you're unsure about the best investment choices for your situation.

Anyone who could be potentially impacted by the Windfall Elimination Provision (WEP) or the Government Pension Offset (GPO) should revisit or develop a financial plan. Many individuals could benefit from this and not realize it. For example, the GPO formula was harsh, and in many cases, it eliminated individuals from collecting Social Security spousal or survivor benefits that they now would be eligible to receive. If a worker has a government pension but is close to qualifying for Social Security benefits by obtaining 40 quarters of work history, should see how qualifying for Social Security could benefit them. Now would be a good time to review to see if the changes allow you to collect a benefit you may be entitled to.

Retroactive payments and increased monthly benefits represent significant financial relief for individuals previously affected by the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO). Proactive planning and adjustments to financial strategies can help recipients fully benefit from these changes. Recipients should adjust their financial strategies to reflect the increase, aligning financial goals with their improved income. Talk With Us to see how this change impacts you!

In the News

- NAPA Names BFSG as Top DC Advisor Team for 2025.*
- BFSG is excited to announce that Tina Schackman, Chad Noorani, and Braden Priest were named as 2025 PLANADVISER Top Retirement Plan Advisers.**
- Paul Horn was interviewed by U.S. News on how retirees should see increased Social Security benefits in April following the repeal of WEP and GPO.

** The National Association of Plan Advisors (NAPA) Top DC Advisor Teams listing focuses on firms (or in a wirehouse environment, teams), broadly defined as being in a single physical location, and having at least $100 million in Defined Contribution (DC) assets under advisement. It is based on self-reported assets under advisement as of December 31, 2024, unless otherwise noted. The inaugural list was published in 2017. The Top DC Advisor Teams listing can be seen here. BFSG did not pay a fee to participate in this award.*

*** The 2025 PLANADVISER Top Retirement Plan Advisers recognition is based solely on self-reported quantitative data about an adviser's practice. To be included in this year's list, advisers had to have a minimum of 50 plan clients or retirement plan assets under advisement of $400 million or more, as of year-end 2024. After meeting the minimum plan or asset count, advisers are also highlighted if they meet the following criteria: 91% - 100% of clients that are 401(k) plan sponsors, or 10 or more 403(b), 457, nonqualified, DB, cash balance, SEP, SIMPLE or MEP/PEP plan clients. As this recognition is based solely on quantitative figures, there is no judging or subjective measurement, and it is not indicative of any adviser's future performance. Neither advisory firms nor their employees pay a fee in exchange for this recognition. More information here: https://www.planadviser.com/awards/2025-top-retirement-planadvisers/*

The Score Board

	03/31/2025	YTD Change
Dow Jones Industrial Average	42,001.76	-0.87%
S&P 500*	5,611.85	-4.58%
NASDAQ Composite*	17,299.29	-10.42%
MSCI EAFE (USD)*	2,400.82	6.15%
Bloomberg Commodity Index	106.46	7.73%
U.S. Aggregate Bond Index	2,249.90	2.78%
10 Yr U.S. Treasury Bond Yield	4.20%	-37bps
30 Yr Fixed Mortgage Rate	6.77%	-51bps
Prime Rate	7.50%	UNCH
Crude Oil ($ / Barrel)	$71.48	-0.33%
Gold ($ / Oz.)	$3,123.57	19.01%
U.S. $ / Euro €	$0.92	-4.29%
Core Inflation (excluding food / energy)**		3.1%
Inflation (including food / energy)**		2.8%

**Without Dividends; **Unadjusted 12-Months ended February 2025; bps (1 Basis Point = 1/100%); UNCH (Unchanged)*
Sources for Score Board and quoted statistics: WSJ, US Dept. of Labor, Federal Reserve

Sources:

1. The S&P 500 Index is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market.
2. The Nasdaq Composite is a capitalization-weighted index and dominated by technology companies.
3. The Nasdaq-100 Index is U.S. stock market index comprised of the largest 100 non-financial companies listed on the Nasdaq stock exchange. The index is commonly used as proxy for U.S. large cap technology performance.
4. The Dow Jones Industrial Average is a widely followed, price weighted stock market index of 30 prominent companies listed on stock exchanges in the United States.
5. For example, consider that the worst performing S&P 500 sectors in Q1 2025 were the cyclical Consumer Discretionary sector (-11.8%) and the growth-oriented Information Technology (-11.0%). By contrast, the top performing S&P 500 sectors were Energy (+9.9%), Health Care (+6.5%), Utilities (+4.9%), Consumer Staples (+4.4%), Real Estate (+3.6%), and Financials (+3.4%), all of which can be characterized as defensive and/or value sectors.

6. The S&P 500 Equal Weight Index (EWI) is the equal-weight version of the S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight of 0.2% of the index total at each quarterly rebalance.
7. The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index. The index is commonly used as proxy for U.S. small cap stock market performance.
8. The MSCI World ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets countries (excluding the U.S.) and 24 Emerging Markets countries.
9. The iShares Core MSCI Europe ETF tracks the investment results of an index composed of large-, mid- and small-capitalization European equities.
10. The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets countries.
11. https://www.federalreserve.gov/monetarypolicy/files/monetary20250319a1.pdf
12. https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html
13. The Bloomberg U.S. Aggregate Bond Index is a broad-based index that is commonly used as a proxy for the U.S. bond market.
14. The iShares 20+ Year Treasury Bond ETF seeks investment results that correspond generally to the price and yield performance of the long-term sector of the U.S. Treasury market as defined by the Barclays Capital 20+ Year Treasury Index.
15. The iShares 2-3 Year Treasury Bond ETF seeks investment results that correspond generally to the price and yield performance of the short-term sector of the U.S. Treasury market as defined by the Barclays Capital 1-3 Year Treasury Index.
16. During times of extreme market duress, no diversification strategy is foolproof.
17. Parts of this section was prepared by AdvisorStream and is legally licensed for use by AdvisorStream.
18. https://blog.ssa.gov/social-security-pays-billions-of-dollars-in-retroactive-payments/#:~:text=the%20Social%20Security%20Fairness%20Act,payment%20so%20far%20is%20%246%2C710

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