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Aletheia Private Client Group Market Update 1Q25

Volatility Returns, Diversification Proves Its Value

Markets reminded us again last week that volatility is a constant in investing. The S&P 500 fell -2.0% on Friday and -1.5% for the week, bringing the year-to-date decline to -5.1%. The index is now more than -9.0% below February's all-time high and on pace for its worst quarter since 2022.

Geopolitical and policy uncertainty is also adding to the market's caution. With the Trump administration's sweeping tariff measures beginning to take effect, investors are grappling with renewed risks to global supply chains and economic growth.

Still, we're encouraged by areas of strength within our portfolios. We've long expressed concern about the concentration and valuation risks in U.S. large-cap growth stocks, particularly those priced for perfection after years of outperformance. This year's pullback has been led by the "Magnificent Seven" (Apple, Microsoft, Alphabet, Amazon, Meta, NVIDIA, and Tesla), which are down collectively by -16% year-to-date.

In contrast, many other asset classes are performing well. Here's a snapshot of year-to-date returns as of March 31, 2025 at 1PM ET (Source: CNBC):

Index / Category	YTD Return
Magnificent Seven Index*	-16%
S&P 500 (Broad U.S. Large Cap)	-5%
NASDAQ Composite	-10%
Russell 2000 (U.S. Small Cap)	-9%
Russell 1000 Value (U.S. Large Cap Value)	+1%
MSCI ACWI ex-U.S. (International)	+7%
U.S. Core Aggregate Bond Index	+2%

Note: *The 'Magnificent 7' represents Apple, NVIDIA, Microsoft, Amazon, Alphabet (Google), Tesla, and Meta (Facebook).

We're especially pleased with the performance of our diversified allocations—including international equities, value stocks, and high-quality bonds—which have helped offset the declines in the most concentrated parts of the U.S. equity market.

We're also encouraged by the performance of investments in areas designed to be less correlated to traditional stock or bond markets. In a period of rising volatility and macroeconomic uncertainty, these asset classes are providing valuable diversification benefits.

While not all clients hold private investments, those who do may be encouraged by early signs of recovery in the IPO market and a noticeable interest in M&A activity—especially among fast-growing, high-quality businesses. Meanwhile, private credit continues to perform well, offering attractive yields in a "flatish" bond environment and providing stability and income without the same sensitivity to interest rate movements.

Finally, another area that has added value is our tactical positioning in short-duration fixed income. We've selectively moved capital from money markets into higher-yielding short-duration bonds, which has delivered near "equity-like" returns without taking "equity-like" risk. That move has meaningfully benefited portfolios in this choppy environment.

To help illustrate our view of current market positioning, it is important to recognize that we entered 2025 with a significant amount of optimism already priced in.

Two observations coming into this year:

a) Corporate profit margins at 70-year highs, and

b) Consensus S&P 500 earnings growth forecasts of +18% for 2025, and +15% for 2026 (Note: 2025 EPS growth has already come down).

With so much already priced for perfection, the path for upside surprises is narrow—and the risk of disappointment is meaningful. While this has supported strong market performance in recent years, it leaves very little room for further improvement.

The chart below from helps illustrate this dynamic. It shows how S&P 500 returns could vary based on different combinations of earnings per share (EPS) growth and forward P/E multiples. As you'll see, even modest revisions to earnings growth could result in downside in prices if valuations compress—highlighting the importance of both earnings delivery and multiple stability.

For example, the S&P 500 was trading at a Forward P/E of 22x as of January 2025 (top column). The "Baseline" 2025 EPS scenario (middle column) was $253 Earnings / Share). A reversion to the most recent 10-year average Forward P/E of 18x, results in a ~20% correction to current S&P 500 price levels. Any downward revisions to EPS, and things get even more difficult.

		2025 EPS scenario		
		Recession scenario **$220**	GS baseline **$253**	Bottom-up consensus **$269**
	y/y growth	*(-11%)*	*(+3%)*	*(+9%)*
Forward P/E **22x**	*Jan. 2025*	-13% 4850	-1% 5550	6% 5900
20x	*5-year avg*	-21% 4400	-10% 5050	-3% 5400
18x	10-year avg	-29% 3950	-18% 4550	-13% 4850
16x	30-year avg	-37% 3500	-27% 4050	-23% 4300
14x	*2018 low*	-44% 3100	-36% 3550	-33% 3750

Source: Goldman Sachs & Mike Zaccardi via X (3/30/2025).

This is exactly why we emphasize staying diversified and managing risk—especially after a period where just a handful of stocks have driven most of the market's returns.

We say this with humility: markets are complex and ever-changing, and no one can predict them with precision. But we believe the core principles we've built your portfolio on—diversification, valuation discipline, and thoughtful risk management—are proving their value in real time. We remain constructive on our positioning and grateful for the trust you place in us.

We look forward to connecting with you in the second quarter, but please don't hesitate to reach out in the interim if you have a question, or there's something specific you'd like to discuss related to your portfolio or financial goals. We're always here for you.

Warm regards,

Demos, David, Cary and the Aletheia Private Client Group

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If you would like to discuss any of these comments in greater detail, or to learn more about how the current market environment impacts your investment allocation or portfolio, please give us a call at (314) 746 – 2591.