



Aptus Market Outlook: Q1 2025 Highlights

2025 in Progress and the Importance of Perspective

After a strong rally in 2023 and 2024, the first quarter of 2025 brought a dose of volatility to markets. The S&P 500 ended Q1 down 4.3%, following a 10% correction from earlier highs. Despite negative sentiment, economic fundamentals remain largely intact. Aptus continues to believe in the resilience of the U.S. consumer and corporate sector and stresses the need for perspective amid uncertainty. Volatility, while uncomfortable, is both normal and healthy. Pullbacks do not always lead to bear markets, and investor patience is often rewarded.

Consumer Resilience and Corporate Strength

The strength of the U.S. consumer remains a key driver of economic stability. While spending growth has slowed slightly, year-over-year consumption remains within a historically healthy 3% to 6% range. Despite the noise around policy and tariffs, the underlying economy continues to hold up. Corporate earnings are projected to grow 11% in Q1 after growing 16% in Q4 of 2024, showcasing corporate America's continued ability to adapt and thrive.

Fixed Income Developments

The bond market posted positive returns in Q1, with yields falling across the curve. The 10-year Treasury yield declined from 4.8% to 4.2%, and the 2-year fell from 4.2% to 3.9%. Long-duration bonds outperformed, while TIPS posted solid gains due to inflation concerns tied to potential tariff impacts. However, credit spreads widened, especially in lower-quality sectors, tempering overall returns. Bonds also regained some of their traditional diversification benefits, helping buffer equity losses.

Equity Market Insights

Q1 saw a correction in U.S. equities, with particular weakness in small caps, which declined 9.5%. The selloff was driven by a combination of momentum unwind, policy uncertainty (especially tariffs), and concerns over a potential growth slowdown. Despite these concerns, international equities surged 8.1%, the strongest relative quarter in over two decades, as investors rotated out of mega-cap U.S. stocks. Aptus maintains that large-cap U.S. companies retain strong operating leverage and profitability, and valuation metrics have improved as prices have pulled back. The team believes recent shifts in sentiment could reverse quickly with clarity on macro policy and strong corporate earnings.

Policy and Macro Environment

Uncertainty around tariff and fiscal policy has created market jitters, but Aptus emphasizes that only about 15% of GDP is tariff-sensitive, leaving the bulk of the economy unaffected. The consumer remains strong, and inflationary pressures may ease if tariffs modestly reduce spending. The Fed is expected to cut rates two to three times in 2025, depending on labor market and growth data. The fiscal deficit remains elevated, and future deregulation and tax reform could be a tailwind.

Outlook and Portfolio Strategy for 2025

Aptus continues to emphasize the importance of owning high-quality equities, while maintaining selective exposure to fixed income. Strategies to mitigate downside risks, such as hedging, remain part of the portfolio construction process. Despite near-term volatility, Aptus sees continued long-term opportunities in equity markets, particularly as inflation moderates and corporate profitability proves durable.

Political dynamics may influence sentiment, but investors are reminded to focus on fundamentals and maintain perspective. Market corrections offer opportunities, and Aptus continues to see a favorable setup for long-term investors.

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