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ECONOMIC AND MARKET COMMENTARY

1st Quarter 2025

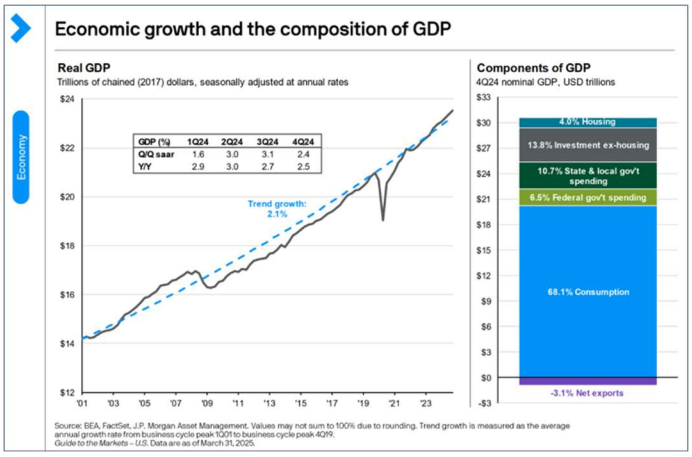
I. FIRST-QUARTER 2025 ECONOMIC RECAP

By Frank Smith, III, CFA

U.S. Economy in Q1 2025 – Navigating Uncertainty Amid Shifting Dynamics

The U.S. economy showed resilience in the first quarter of 2025, but emerging vulnerabilities have appeared. The economy entered the year with momentum but has encountered headwinds that have sparked concerns about growth prospects and inflationary pressures. This commentary explores the key trends shaping the economic landscape.

Economic Growth



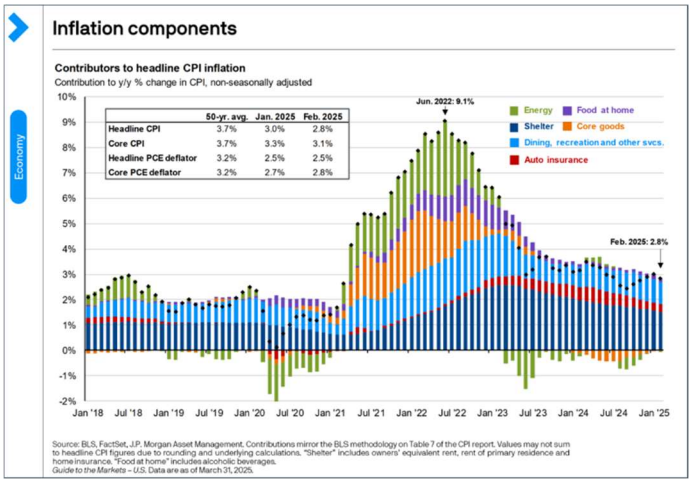
The U.S. economy carried forward strong momentum from 2024, buoyed by consumer spending, which accounts for nearly 70% of GDP and grew at an impressive 4.2% annualized rate in Q4 2024. However, Q1 2025 has seen a noticeable slowdown. Consumer spending has softened, with weaker retail and vehicle sales signaling a pullback from the prior quarter's vigor. Consumer confidence has also slumped to multi-year lows, reflecting unease over policy uncertainty and economic prospects. Business investment, meanwhile, has decelerated, likely due to the lingering effects of elevated interest rates.

Trade dynamics have further complicated the growth outlook. A surge in imports, driven by businesses stockpiling goods ahead of anticipated tariffs, risks weighing on Q1 GDP through a widened trade deficit. While government spending provided a tailwind in recent quarters, potential budget constraints may limit its role moving forward. These factors suggest the economy is downshifting, raising questions about whether this is temporary moderation or the precursor to a deeper slowdown.

Labor Market

The labor market remains stable, with the unemployment rate holding steady at 4.1% in February 2025, up slightly from its cycle low of 3.4% but still historically low. Job growth has slowed but remains positive, supported by low layoffs and solid corporate profits. Wage growth has moderated to 4.1% year-over-year, aligning with long-term trends and easing concerns about wage-driven inflation. However, restrictive immigration policies pose a wildcard. A sharp decline in border encounters—from 250,000 per month in Q4 2023 to under 12,000 in February 2025—signals a potential contraction in labor supply, which could tighten labor markets, lift wages, and reignite inflationary pressures if productivity gains falter.

Inflation



Inflation remains a focal point, with the headline CPI easing to 2.8% year-over-year in February from 3.0% in January but trending higher since last September's 2.4%. Core goods prices, previously a source of deflation, have begun to rise, driven by demand for vehicles post-natural disasters. Energy and food prices, though cooling slightly, remain volatile, while shelter and

auto insurance continues to exert upward pressure. Introducing tariffs—25% on Mexico and Canada (excluding energy), 10% on Canadian energy, and 10% on China—threatens to amplify these pressures. Estimates suggest inflation could approach or exceed 3% by year-end, complicating the Federal Reserve's efforts to guide prices back to its 2% target.

***Since this writing, the Trump administration has put hefty tariffs worldwide, only to put a 90-day pause on virtually all countries except for China. Markets are now bracing for a trade war between the United States and China.

Monetary Policy

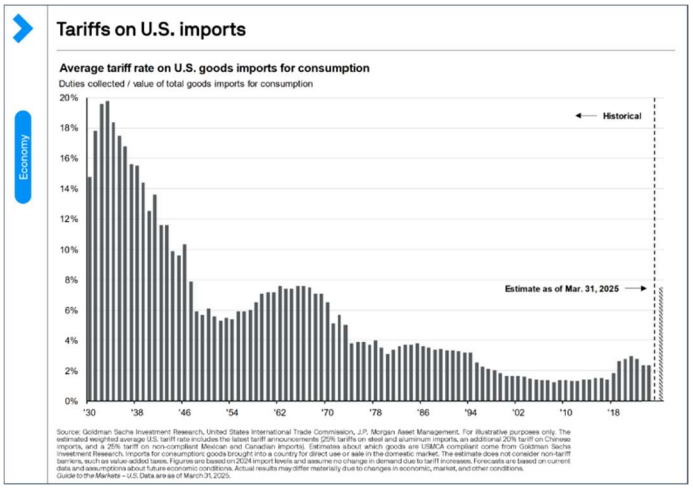
The Federal Reserve faces a challenging environment. After cutting rates by 100 basis points in 2024, the Fed held the federal funds rate steady at 4.25–4.5% in Q1 2025, reflecting caution amid slowing growth and sticky inflation. Updated projections signal lower growth expectations (1.7% for 2025, down from 2.1%) and higher near-term inflation, though the Fed views tariff-driven price pressures as transitory. Markets anticipate roughly three rate cuts in 2025, but this hinges on economic data. A resilient economy with elevated inflation could limit cuts to one or two, while a sharper downturn might prompt more aggressive easing. The Fed's decision to slow quantitative tightening, reducing Treasury redemption caps, underscores its cautious approach to liquidity management.

Financial Markets

Equity markets have faced turbulence, with the S&P 500 entering correction territory after a 10% drawdown from February highs. A sell-off in the "Magnificent 7" stocks, which dominate index weightings and include some of the market's largest and most influential companies, has driven much of this decline, highlighting risks tied to concentrated valuations. Despite strong 2024 earnings growth (10% for the S&P 500, with ex-Magnificent 7 earnings up 15%), lofty analyst projections for 2025 (11%) and 2026 (14%) appear optimistic, given slowing nominal growth and potential margin pressures from tariffs. Corporate credit markets, meanwhile, remain resilient, with investment-grade and high-yield spreads widening modestly, but yields are still attractive relative to history.

Globally, international equities have outperformed U.S. stocks, driven by undervaluation and sector-specific tailwinds, such as European defense spending and Chinese tech earnings. A weakening U.S. dollar has further boosted returns for U.S. investors, underscoring the value of global diversification in uncertain times. However, this weakening could also affect international trade and currency markets, which investors and policymakers should monitor closely.

Policy Uncertainty



Policy shifts under the new administration have introduced significant uncertainty. Tariffs, now averaging 6.4% on U.S. imports (up from 2.3% in 2024), risk higher consumer prices and retaliatory trade measures, potentially dampening export demand. Proposals to extend the Tax Cuts and Jobs Act and lower corporate taxes could stimulate growth but widen deficits, with federal debt projected to rise to 120–130% of GDP by 2035. However, the potential boost to consumer spending and business investment from these tax cuts could also be significant and should be considered in any economic analysis. Meanwhile, immigration restrictions threaten labor force growth, and fiscal austerity measures, such as federal workforce reductions, may yield limited savings given their small share of the budget. These policies create a delicate balancing act for economic stability.

Outlook

The U.S. economy in Q1 2025 stands at a crossroads. While underlying strengths—low unemployment, solid corporate earnings, and consumer wealth—provide a buffer, risks from policy uncertainty, inflation, and

slowing momentum loom large. Policy implementation and clarity of economic data will shape the path as the year progresses. For now, the economy is neither roaring nor faltering—it is adapting, and so must those be steering through it.

II. FIRST-QUARTER 2025 EQUITY MARKET RECAP

By Dodd Williams, CFA

During the quarter U.S. stocks reacted negatively to the news of the Trump Administration's pending trade tariffs. Market participants tend to be negative when the future appears cloudy. At the moment, the market is struggling to see forward and evaluate the economic picture. Equity investors are unsure if elevated trade tariffs will be a short-term effect or longer-term.

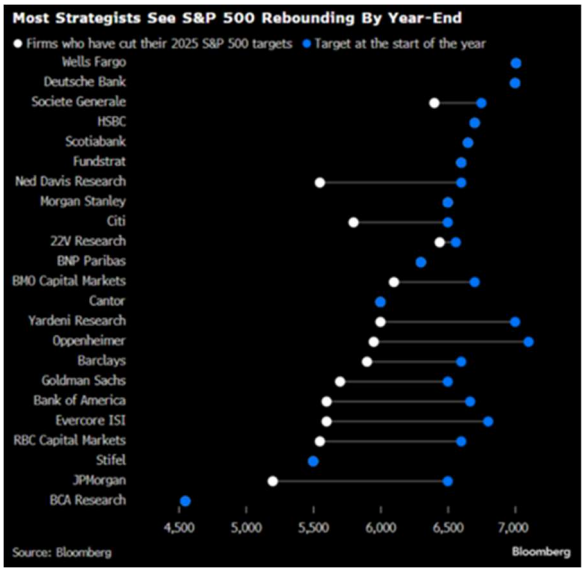
For the quarter, the S&P 500 Index (SPX) fell 4.28% effectively reversing the gains from the 4th quarter of 2024. Small Cap stocks continued to underperform relative to the S&P 500 Index as has been the trend for the last several years.

Index	Ticker	Description	Quarterly Return
S&P 100	OEX	The largest 100 companies	(5.96%)
S&P 400	MID	The 101st to 500th largest companies	(6.11%)
S&P 500	SPX	The largest 500 companies combined	(4.28%)
S&P 600	SML	Small capitalization companies – smaller than S&P 500	(8.94%)
Russell 1000	RIY	The largest 1000 companies – comprises 93% of the investable market	(4.49%)
Russell 2000	RTY	Another index of small capitalization companies (the next 2000 after the Russell 1000) – comprises only 8% of the larger Russell 3000	(9.48%)
Russell 3000	RAY	The broadest representation of the U.S. stock market representing 98% of the investable market	(4.72%)

Source: Smith Shellnut Wilson, Research Department

The S&P 500 Equal-Weight Index outperformed the cap-weighted S&P 500 Index returning (0.67%) versus (4.28%)

As noted below, many Wall Street equity strategists have recently cut their forecast for the S&P 500 Index, but the large majority still have the S&P 500 rebounding from its current levels by the end of the year. Today, the S&P 500 stands just below 5,400. Only BCA Research and JP Morgan project the S&P 500 to settle lower by year-end. All other firms have the SPX higher with Wells Fargo and Deutsche Bank both forecasting the index at 7,000 or ~30% higher.



International equities have generally outperformed U.S. stocks so far this year. The MSCI Euro is up 7.43%. The Chinese Shanghai Shenzhen CSI 300 Index is down 0.99% while the Japanese Nikkei 225 is down 9.94%.

III. FIRST-QUARTER 2025 BOND MARKET RECAP

By Chad McKeithen

During the first quarter of 2025, the Federal Open Market Committee (FOMC) maintained overnight rates, yet the bond market faced several significant challenges affecting yields and returns. Various factors, including weakened consumer sentiment and concerns over both domestic and global economic growth, contributed to heightened uncertainty. Consequently, economists have increasingly raised the probability of a recession, with Bloomberg's 12-month consensus now at 30%. Although the Fed did not cut rates during the first quarter, it forecasted two rate cuts later in the year.

This economic uncertainty, coupled with slowing consumer growth, has led to a flight to quality as stocks declined and investors gravitated towards safer assets. Bonds had a strong quarter, with the Morningstar Core Bond Index rising 2.8%, as U.S. interest rates broadly fell. Specifically, the 2-year Treasury yield declined from 4.24% to 3.89%, while the 10-year Treasury yield dropped from 4.57% to 4.18% during the first quarter. Most government-backed bond segments saw strong returns.

Chart 1 – 1st Quarter Rate & Bond Sector Changes

Rates	1st Q 25 End	4th Q 24 End	Q / Q Change
Prime	7.50	7.50	0.00
Effective Fed Funds	4.33	4.33	0.00
3m Tbill	4.30	4.31	-0.01
2yr UST	3.89	4.24	-0.35
10yr UST	4.18	4.57	-0.39
2-10yr UST Spread	28.90	0.33	28.57
2y AAA Muni/10y UST	68%	65%	3%
10y AAA Muni/10y UST	76%	67%	9%
Bond Sector Yields	**1st Q 25 End**	**4th Q 24 End**	**Qtr Change**
U.S. Aggregate	4.60	4.91	-0.31
IG Corps	5.15	5.33	-0.18
U.S. High Yield	7.73	7.49	0.24
Municipals	3.85	3.74	0.11
MBS	4.92	5.27	-0.35
Asset Backed	5.08	5.38	-0.30
AAA CLO	5.58	5.43	0.15

Source: JP Morgan/Bloomberg

However, not all bonds benefited equally from the flight to quality. Municipal bonds struggled this quarter. While the broad aggregate bond market was up 2.8%, the municipal market was down marginally (-0.22%), and riskier segments of corporate bonds also faced challenges. For instance, the high-yield corporate market had a total return of 1.00%, with yields increasing from 7.49% to 7.73%, despite the 10-year Treasury yield dropping by 39 basis points. This is typical during periods of increased uncertainty, as the credit spread on bonds with underlying credit risk must compensate investors for the additional exposure.

It is not unusual for municipals to lag behind Treasury bonds, often catching up in subsequent quarters. This quarter, state and local governments faced additional challenges, including threats from the White House to cut funding for certain programs. Furthermore, the deduction for state and local taxes (SALT) may be increasing, which could lower the tax bill for many Americans and slightly reduce the benefit of owning municipal bonds.

The source of the information in this commentary is SSW, S&P Capital IQ, GICS and Bloomberg.

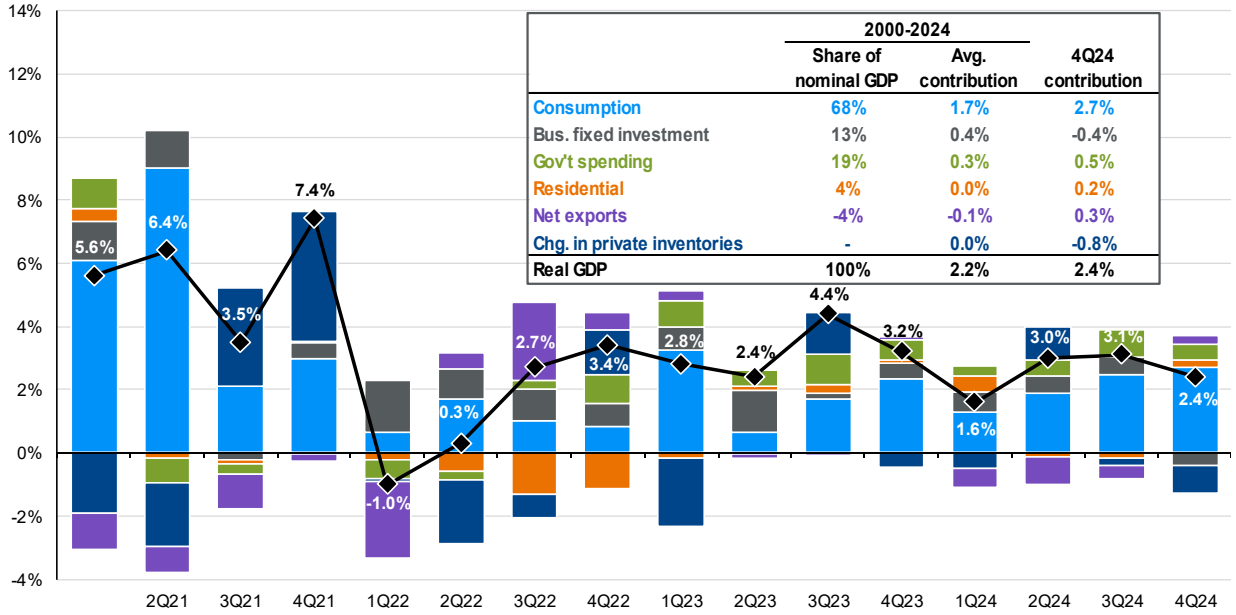
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Components of GDP growth

Contributors to real GDP growth

Quarter-over-quarter, seasonally adjusted annualized rate



	2000-2024 Share of nominal GDP	2000-2024 Avg. contribution	4Q24 contribution
Consumption	68%	1.7%	2.7%
Bus. fixed investment	13%	0.4%	-0.4%
Gov't spending	19%	0.3%	0.5%
Residential	4%	0.0%	0.2%
Net exports	-4%	-0.1%	0.3%
Chg. in private inventories	-	0.0%	-0.8%
Real GDP	100%	2.2%	2.4%

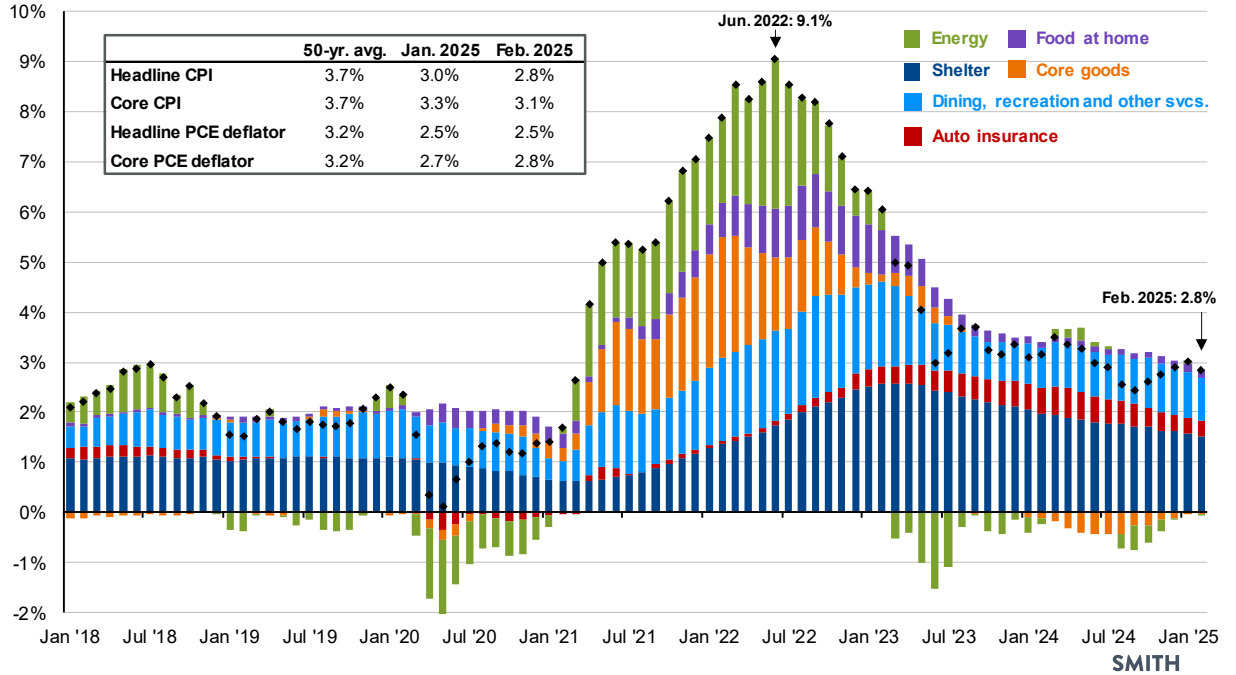
Source: BEA. FactSet. J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of March 31, 2025.

Economy

Inflation components

Contributors to headline CPI inflation

Contribution to y/y % change in CPI, non-seasonally adjusted



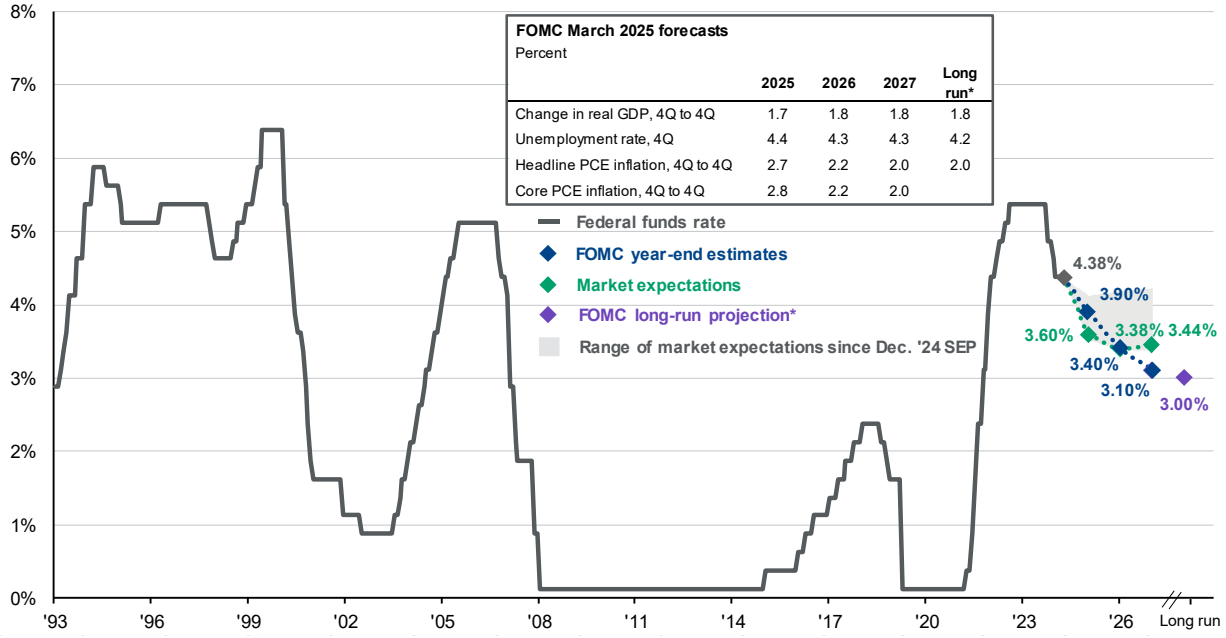
	50-yr. avg.	Jan. 2025	Feb. 2025
Headline CPI	3.7%	3.0%	2.8%
Core CPI	3.7%	3.3%	3.1%
Headline PCE deflator	3.2%	2.5%	2.5%
Core PCE deflator	3.2%	2.7%	2.8%

Source: BLS. FactSet. J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners' equivalent rent, rent of primary residence and home insurance. "Food at home" includes alcoholic beverages.
Guide to the Markets – U.S. Data are as of March 31, 2025.

The Fed and interest rates

Federal funds rate expectations

FOMC and market expectations for the federal funds rate

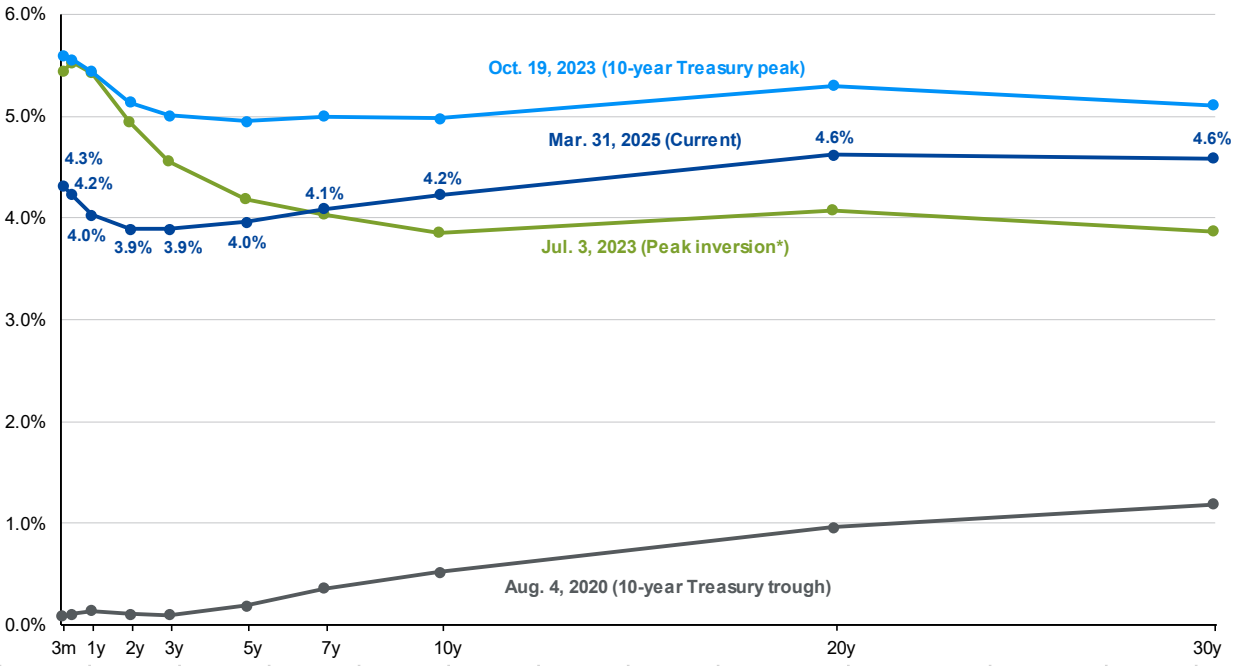


Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of USD Overnight Index Swaps. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
Guide to the Markets – U.S. Data are as of March 31, 2025.

Fixed Income

Yield curve

U.S. Treasury yield curve

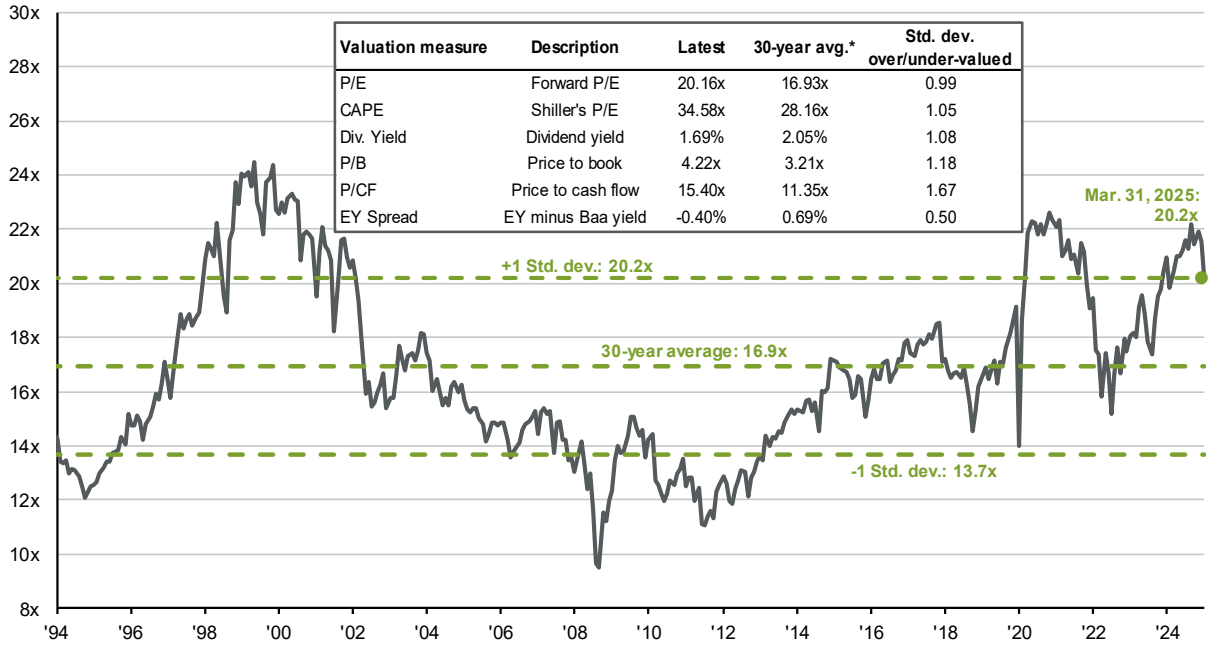


Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. Analysis references data back to 2020. *Peak inversion is measured by the spread between the yield on a 10-year Treasury and 2-year Treasury.
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S&P 500 valuation measures

S&P 500 Index: Forward P/E ratio



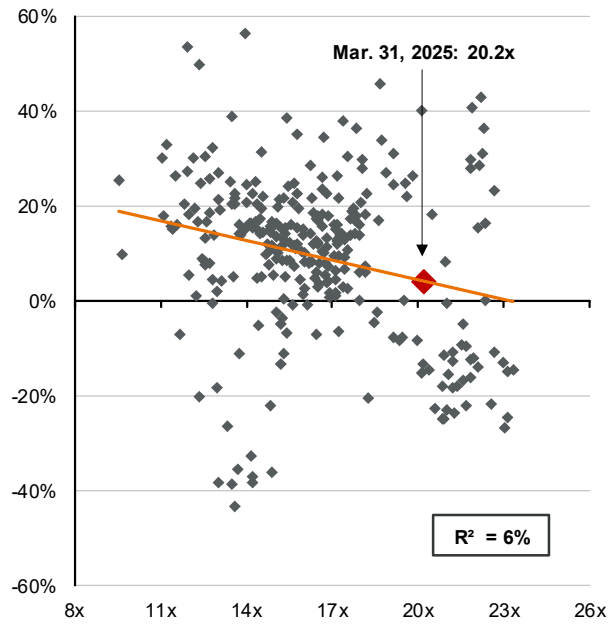
Valuation measure	Description	Latest	30-year avg.*	Std. dev. over/under-valued
P/E	Forward P/E	20.16x	16.93x	0.99
CAPE	Shiller's P/E	34.58x	28.16x	1.05
Div. Yield	Dividend yield	1.69%	2.05%	1.08
P/B	Price to book	4.22x	3.21x	1.18
P/CF	Price to cash flow	15.40x	11.35x	1.67
EY Spread	EY minus Baa yield	-0.40%	0.69%	0.50

Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since March 1994 and by FactSet since January 2022. Average P/E and standard deviations are calculated using 30 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Bloomberg US corporate Baa yield since December 2008 and interpolated using the Moody's Baa seasoned corporate bond yield for values beforehand. Std. dev. over-/under-valued is calculated using the average and standard deviation over 30 years for each measure. *Averages and standard deviations for dividend yield and P/CF are since November 1995 due to data availability.
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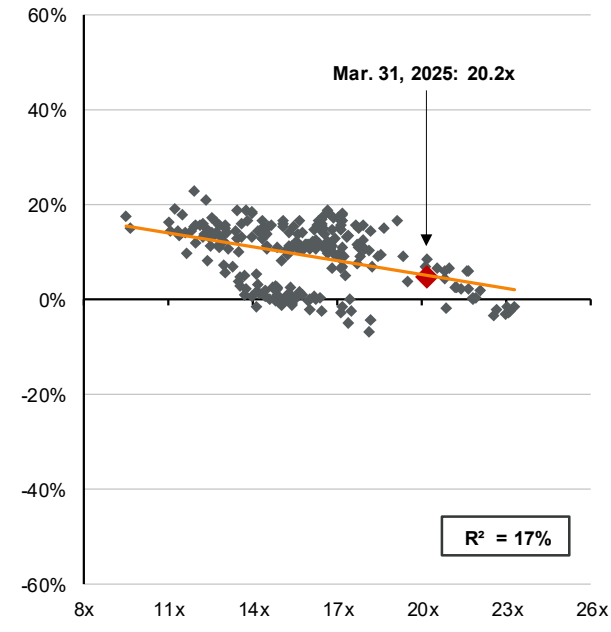
Equities

P/E ratios and equity returns

Forward P/E and subsequent 1-yr. returns
S&P 500 Total Return Index



Forward P/E and subsequent 5-yr. annualized returns
S&P 500 Total Return Index



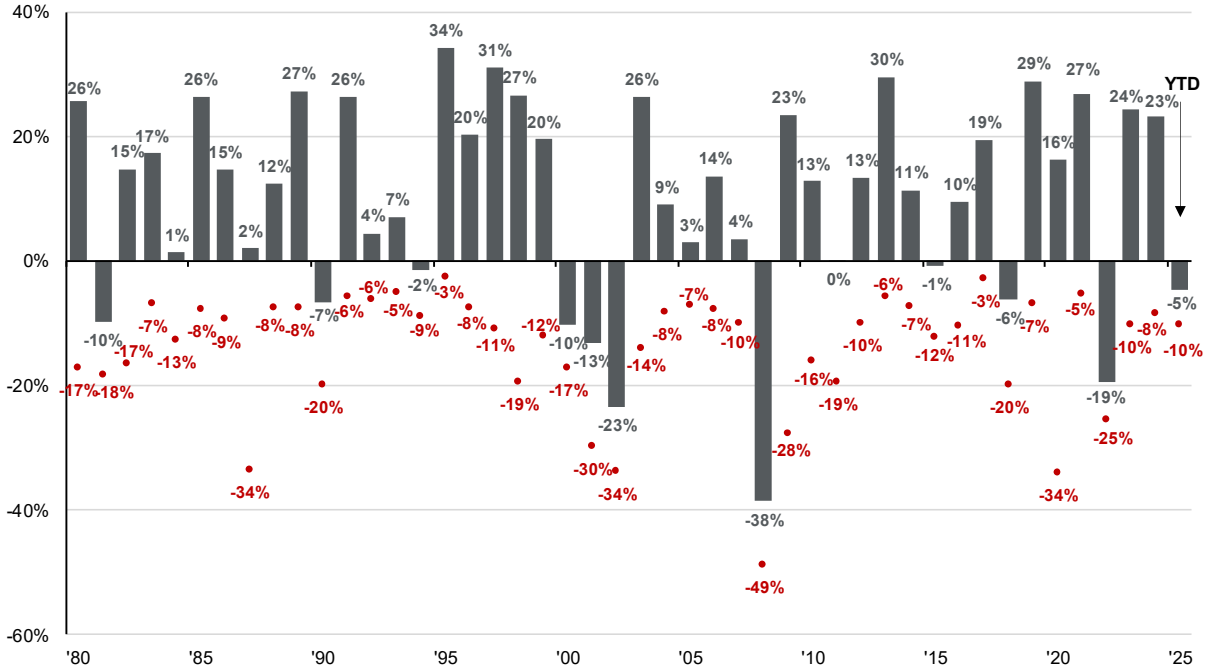
Source: FactSet, Refinitiv Datastream, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Returns are 12-month and 60-month annualized total returns, measured monthly, beginning 2/28/1999. R^2 represents the percent of total variation in total returns that can be explained by forward price-to-earnings ratios. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since May 1999 and by FactSet since January 2022.
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Annual returns and intra-year declines

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years



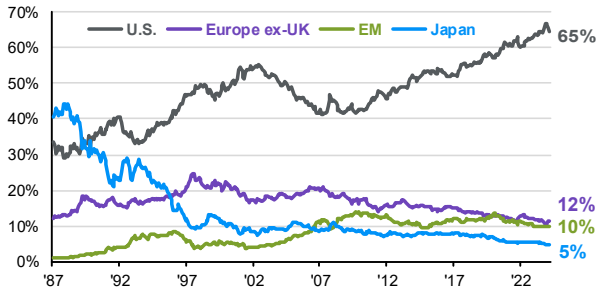
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2024, over which the average annual return was 10.6%.
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Global equity markets

Returns	YTD 2025		2024		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	-4.3	-	25.0	13.2	1.0
AC World ex-U.S.	2.8	5.4	13.2	6.1	5.4	1.0
EAFE	3.0	7.0	11.8	4.3	6.2	1.0
Eurozone	7.7	12.3	10.3	3.4	6.3	1.2
Emerging markets	2.7	3.0	13.7	8.1	3.4	1.0
Selected Countries						
Japan	-4.4	0.5	21.2	8.7	5.8	0.7
United Kingdom	6.4	9.7	9.5	7.5	5.6	1.0
France	5.8	10.3	1.8	-4.6	6.7	1.2
Canada	1.4	1.3	23.0	12.7	5.6	1.1
Germany	10.8	15.6	18.4	11.0	6.9	1.3
China	15.0	15.1	19.8	19.7	3.6	0.9
Taiwan	-11.4	-12.6	44.3	35.1	11.3	1.0
India	-3.1	-2.9	15.7	12.4	6.3	0.9
Brazil	6.9	14.1	-11.4	-29.5	-1.6	1.3

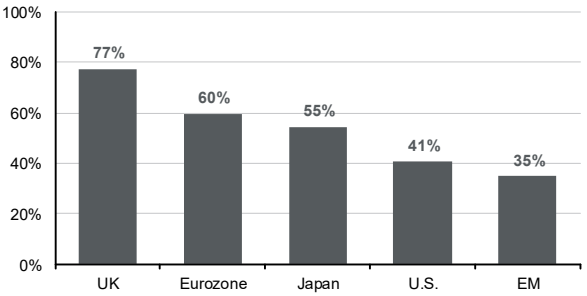
Share of global market capitalization

% weight in the MSCI All Country World Index, USD, monthly



Revenue exposure vs. country of listing

% of total revenue derived from foreign countries



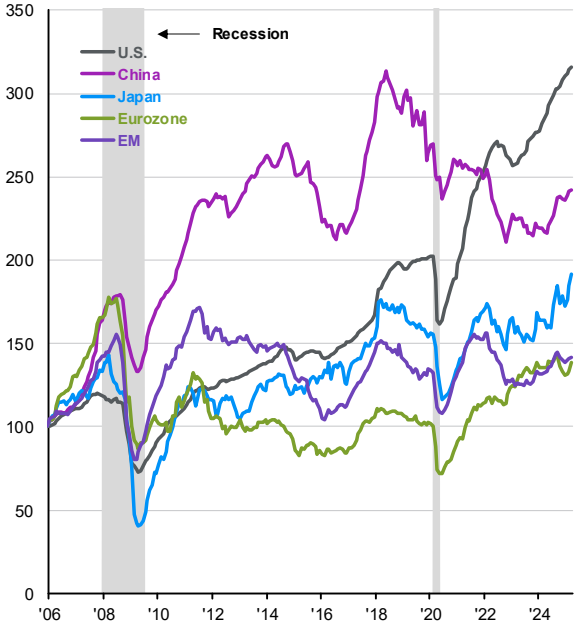
Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. (Left) All return values are MSCI Total Return Index (Gross) data. 15-year history based on USD returns. 15-year return and beta figures are calculated using a rolling 12-month period ending with the previous month-end. Beta is for monthly returns relative to the MSCI All Country World Index. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of four. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results. (Bottom right) Revenue exposure data are as of the previous quarter-end.
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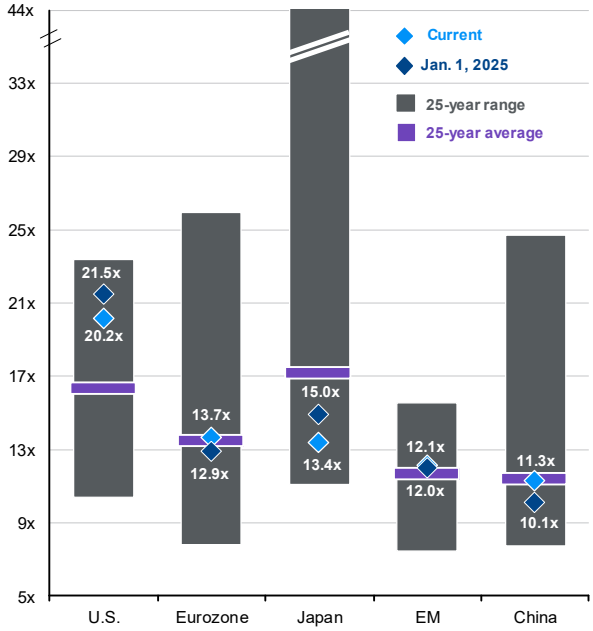
International

Global equity earnings and valuations

Global earnings estimates
Jan. 2006 = 100, next 12 months consensus estimates, U.S. dollars



Global valuations
Current and 25-year next 12 months price-to-earnings ratio

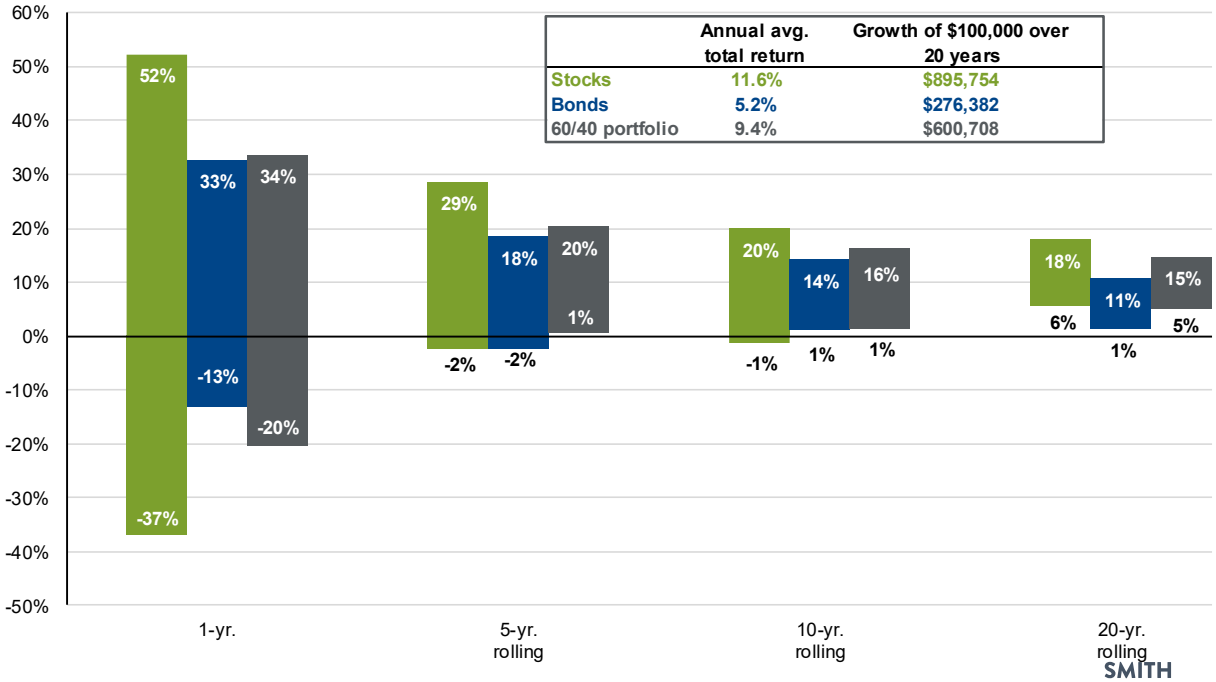


Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. (Left) Next 12 months consensus estimates are based on pro-forma earnings and are in U.S. dollars. (Right) The purple bars for EM and China show 20-year averages due to a lack of available data. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of March 31, 2025.

Investing Principles

Time, diversification and the volatility of returns

Range of stock, bond and blended total returns
Annual total returns, 1950–2024



	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.6%	$895,754
Bonds	5.2%	$276,382
60/40 portfolio	9.4%	$600,708

Source: Bloomberg, FactSet, Federal Reserve, Standard & Poor's, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2024. Bonds represent Strategas/Ibbotson for periods prior to 1976 and the Bloomberg Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2024.
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