

Quarterly Newsletter

Market Commentary

Market volatility has dominated recent headlines

Over the past eight trading days (as of 3/11/2025), the S&P 500 Index has moved up or down by at least 1% on seven occasions. While this type of fluctuation is notable, the broader picture seems less alarming. Year-to-date, the S&P500 is down 4.45%, while the Dow Jones Industrial Average has dropped just 1.49%. Given the strong market performance over the past two calendar years, these shifts seem more like an adjustment rather than a cause for concern.

The NASDAQ, however, has been hit hard – down 10.27% on the year. Many of the high-profile growth stocks that surged in 2023 and 2024 are having sharp selloffs, a trend we are closely monitoring. Despite this, other areas of the market have shown resilience. Value stocks and bond prices have held their own, reinforcing the advantages of a well-diversified portfolio. As of this writing (3/11/2025), the Russell 1000 Value Index is flat, while the U.S. Aggregate Bond Index has delivered a positive 2.49% year-to-date return. This highlights the importance of diversification, as different sectors and asset classes react uniquely to unpredictable market conditions. Overall, we view the current market as a reflection of economic uncertainty and shifting financial conditions rather than a signal of deeper instability. We think it is important to note that while media headlines may amplify concerns, they may not accurately reflect how your investment portfolio is performing.

Economic Landscape

One of the biggest influences on market movement is the uncertainty surrounding economic growth. A key measure of economic health is Gross Domestic Product (GDP), which reflects the total value of goods and services produced. Several factors influence GDP, including employment, inflation and interest rates – all which play a role in shaping economic conditions and market expectations. The following outlines these factors and their potential impact on GDP.

Employment

Strong job reports indicate economic stability, as low unemployment supports consumer spending. This drives demand and contributes to GDP growth. If unemployment rises, consumer spending declines, weakening market outlook.

Inflation

Moderate inflation supports growth, as it can support rising wages and demand. However, high inflation, as we've experienced, reduces purchasing power making goods and services more expensive, resulting in slowing GDP growth.

Interest rates

Lower interest rates encourage borrowing, spending and investment. This can help boost GDP. Higher rates, on the other hand, slow borrowing and spending, leading to slower economic growth.

7495 Paragon Road, Suite A • Dayton, OH 45459
(937) 432-9100 • (800) 460-9133 • Fax: (937) 432-9498
callahanfinmgmt.wfadv.com

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In consideration to the above indicators, current economic conditions appear relatively stable. Unemployment remains slightly above 4%, only .3% higher than this time last year. Although fluid, inflation has continued to cool from its peak in 2022. As for interest rates, the Federal Reserve is expected to remain cautious with their decision making, but slightly lower rates are expected by year end – which could lead to lower borrowing costs and improved credit markets. If these three factors can stabilize and/or improve, consumer spending could also strengthen, helping GDP outlook. In short, we still see room for economic growth, even if the pace moderates.

The Focus on Tariffs

With Tariffs taking center stage in the current political landscape, their impact on trade – particularly involving North America and China – remains a key issue. Whether in the short or long term, the effects on the U.S. economy remain uncertain, as markets react in real time to new developments. Given the fluid nature of this situation, understanding tariffs can provide valuable context.

Tariffs are taxes on goods imported from other countries. Imagine deciding between purchasing a product made in the U.S. versus one manufactured abroad. As a consumer, you typically choose the lower-cost option. However, when a tariff imposes an additional tax on an imported product, it increases the overall price, making U.S. made goods more competitive. The intended goal of tariffs is to reduce trade deficits and encourage domestic production by keeping competition within the U.S. This is the current administration's goal anyway – incentivizing businesses to stay in OR return to the U.S., rather than outsourcing operations abroad. In short, the long-term effects of tariffs remain uncertain. While they may strengthen domestic industries, they also risk disrupting global supply chains and economic stability. The stock market is reacting immediately to these developments, but the broader economic impact will take longer to unfold.

Given the ongoing uncertainty surrounding tariffs and the broader economy, we recommend staying composed and aligned with your goals and risk tolerance. While we remain optimistic about market performance in 2025, staying focused with fundamental investment principles will be key to navigating short-term fluctuations. It's easy to get caught up in market noise, but times like these reinforce the importance of discipline. For those holding cash, we may even see investment opportunities emerge as valuations adjust. Additionally, we think that the current market environment may signal a shift in value of discretionary portfolios vs. passive index investing – emphasizing the value of actively managed portfolios with strong fundamentals. Regardless of investment strategy, we believe staying disciplined will be important moving forward. As always, we're here to support you – whether you have questions, concerns or simply want to give us an update. Don't hesitate to reach out anytime.

We thank you for your continued business and trust.



Corey Callahan, CFP®
Financial Advisor

The Callahan Financial Management Group, LLC

David J. Callahan - *Principal, Managing Director and Financial Advisor*

Corey J. Callahan - *CFP® and Financial Advisor*

Keith Waleskowski - *Financial Advisor*

Stacy Lamme – *Operations Manager*

Sara Gallagher – *Senior Marketing Associate*

Julie Haywood – *Client Service Associate*

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* S&P 500 Index is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies.

*Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

*Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

*Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.