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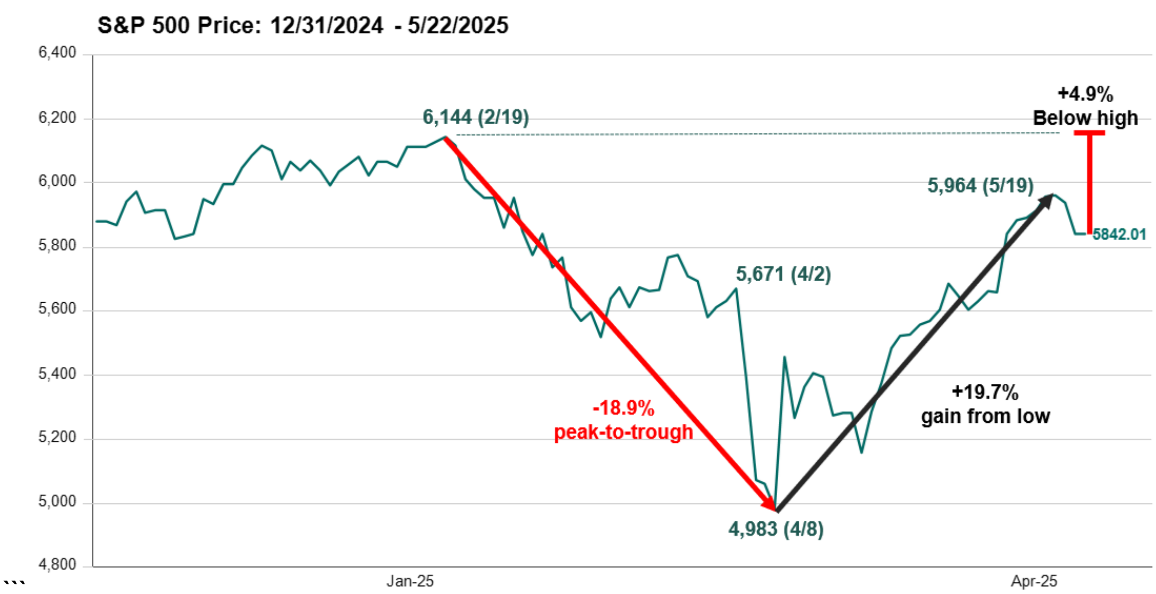
How to Spell Rally With a V

Major Equity Indices (price return, no dividends)	Price 5/22/2025	YTD price return	Gain From 4/8 Low	Date of Peak	% Below Peak	1Q25 12/31/24-3/31/25	Date of Trough	Peak-to-Trough % Pullback
Russell 1000 Value	1,132	**0.5%**	11.6%	11/29/24	-6.5%	**1.6%**	4/8/25	**-16.2%**
S&P 500 Equal Weight	7,086	**-0.2%**	14.3%	11/29/24	-6.6%	**-1.1%**	4/8/25	**-18.3%**
S&P 500	**5,842**	**-0.7%**	17.2%	2/19/25	-4.9%	**-4.6%**	4/8/25	**-18.9%**
Dow Jones Industrial Average	41,859	**-1.6%**	11.2%	12/4/24	-7.0%	**-1.3%**	4/8/25	**-16.4%**
Russell 1000 Growth	2,626	**-1.8%**	23.1%	1/23/25	-5.5%	**-10.1%**	4/8/25	**-23.3%**

Data Source: FactSet as of 5/22/25. Price return (excludes the impact of dividends). Calculations use closing prices. Date of most recent high (peak) ocurred on different dates for each index, some were in 2024 and some in 2025. 1Q25 is the first quarter.

Since closing at 2025 lows on 4/8/25 (including a peak-to-trough decline for the S&P 500 equity index of -18.9%), U.S. equity indices surged over the next five weeks, although not to the level of previous highs. On a year-to-date (YTD) basis (12/31/24 to 5/22/25), major indices remained modestly lower on a price basis, although the Russell 1000 Value index was positive YTD with a +0.5% price gain. The widely followed S&P 500 equity index was down -0.7% YTD (after briefly moving to positive territory on 5/19/25). A rapid (five-week) recovery from a near bear market (we define a bear market as a decline of at least 20%) was largely unexpected, given extreme tariff uncertainty and market disruption. We attribute the rally from lows to the Trump administration's tariff and trade pivot that included a 90-day pause on universal tariffs excluding China (on 4/9), followed by a 90-day de-escalation of China tariffs (on 5/12). A tariff pause, while only temporary for now, limits the more immediate impact of economic headwinds caused by higher import costs and supply chain disruptions, easing the potential for a U.S. recession. Since tariff escalation that peaked on 4/2/25 was also the primary driver of the S&P 500 decline from late February to early April (in our view), it is logical that tariff relief contributed to rebounding investor sentiment. However, we believe that investor expectations have now shifted to anticipating more trade deals and lower tariffs, setting up the potential for disappointment if trade talks, which are being negotiated country by country, are not completed successfully. Indeed, just today President Trump threatened new tariffs with the European Union (EU) as he believes trade talks have stalled. This drove equity market weakness for the day, highlighting the potential for ongoing volatility as markets assess trade progress, economic growth trends, U.S. budget negotiations, interest rates and inflation, and corporate earnings trends. With the S&P 500 back in line with our 5,800 fair value estimate, we are cautious in the near-term, and see potential catalysts balanced by risks. We continue to see opportunities in individual equities as companies navigate challenges and we recommend a balanced approach with diversification across sectors. We see better relative opportunities in value sectors over growth.

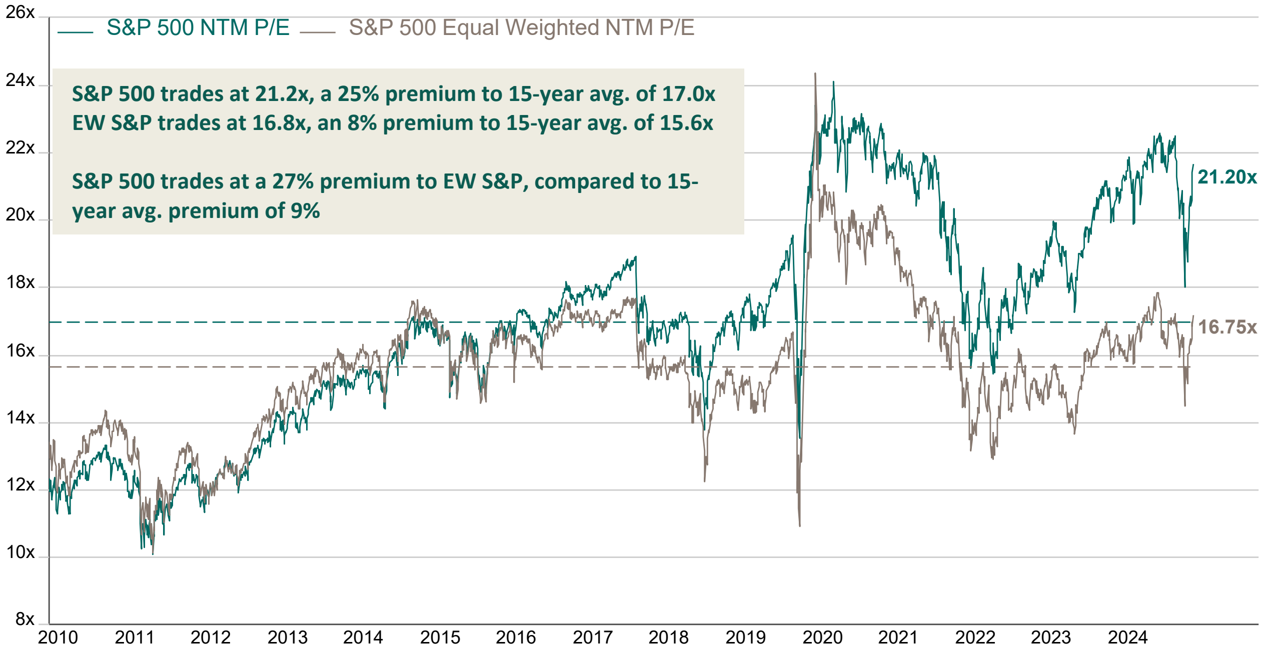


Data source: S&P 500 closing prices 12/31/24 to 5/22/25 from FactSet and DA Davidson. Does not include the impact of dividends. 2/19/25 was the 2025 to-date highest closing price and 4/8/25 was the lowest 2025 to-date closing price. 4/2/25 was the day that the Trump Administration labeled "Tariff Liberation Day."

Are valuations still elevated? On a price-to-earnings (P/E) basis, the S&P 500 trades at 21.2x the FactSet consensus earnings estimate for the next four quarters, a sizable premium of 25% above its average 17.0x P/E over the past 15 years. On 4/8/25, after the S&P had declined nearly -19% from its February highs, the forward P/E dropped to 18.0x, much closer to the long-term average. But the P/E has risen again following the V-shaped recovery, placing the valuation back to an elevated level. Since the end of March, the FactSet consensus earnings per share (EPS) estimate for 2025 dropped -2% (to $263 from $268), which would reflect year-over-year (Y/Y) earnings growth of +9.6%. Estimates have come down despite first quarter (1Q25) reported earnings tracking +13%, which exceeded estimates for +7% growth. A more cautious 2025 earnings outlook is due to tariff and trade uncertainty, and a view that the U.S. economy will slow if global tariffs that could exceed 10%

remain in place. We do not expect P/E multiples to expand from current levels, linking potential equity market gains more closely with earnings growth. If earnings estimates continue to erode, equity indices are likely to move lower, in our opinion. Equities could rally on the other hand if earnings estimates move higher, or if investors look forward to the outlook for 2026. The FactSet consensus EPS estimate for 2026 was $298 (as of 5/22), representing an estimated +13% growth from 2025. That estimate is lower (-3%) from the level at the end of March, also reflecting increasing uncertainty, but even lowered, +13% Y/Y growth appears optimistic in our view. Despite equity indices trading at high valuations, we believe there will be individual companies that trade higher, and many others that outperform on a relative basis. In fact, valuations of many stocks still trade more in line with historical levels.

S&P 500 Next Twelve Months P/E



Data Source: FactSet through 5/22/25. The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM) as compiled by FactSet. The green line is the S&P 500 forward P/E from 6/30/09 to 5/21/25. The gray line is the forward P/E for the equal weight S&P 500.

The Equal Weight S&P 500 (EWSP) trades at a discount to the S&P 500, its market capitalization (cap) weighted parent. The S&P 500 index is weighted by equity market capitalization, so that the largest companies (by market cap) comprise larger weights in the index. This means that a limited number of companies can have an outsized impact on index performance. According to S&P Global, the index, which includes 503 companies, covers approximately 80% of available U.S. equity market capitalization. The market capitalization weighting makes sense as it represents where investor money is invested. But as of 4/30/25, the ten largest market caps comprised 34.1% of the value of the index. An alternative is to look at the EWSP, which assigns all 503 S&P 500 companies an equal weight (approximately 0.2%). In our view, the EWSP gives a more accurate representation of the performance of the "average" large company (these 503 companies comprise 80% of the U.S. market). The EWSP, as of 5/22, gained +14.3% from the 4/8 2025 closing low. This trailed the S&P 500's +17.2% rally, but on a YTD basis through 5/22, the EWSP's -0.2% was slightly better that the S&P 500. Over the past 15 years, the S&P 500's P/E has averaged a 9% premium to the EWSP (17.0x vs 15.6x), but the premium is 27% today. We expect that differential to narrow over time, making the EWSP more attractive on a relative valuation basis. Much like the S&P 500, the EWSP, at the market lows on 4/8, had a P/E level which drifted lower, and it actually traded at a P/E of 14.5x, below its 15.6x long-term average. Following the V-shaped recovery, it now trades at modest premium, but also appears more attractive on a relative basis. From current levels, potential multiple expansion is more likely to come from the average stock represented by the EWSP vs. the market cap weighted index. In our view, this becomes more of a "stock-picker's" market and can reward investors who become more diversified across sectors and companies. We see an opportunity to rebalance portfolios by trimming positions that have become overweight vs. portfolio targets and adding to positions that are trading below target weights.

What does the data say? U.S. gross domestic product (GDP) decreased -0.3% (at an annual rate) in the first quarter (1Q25), but trade adjustments caused the decline while core elements showed growth. Consumer spending grew +1.8% in 1Q25, which slowed from a +4.0% pace in 4Q24. But after a weak January, spending rebounded in February and March. The data was better-than-expected, although caution remains as many consumer-facing companies representing travel services, restaurants, and retailers have reported mixed results. Business investment increased +9.8% in 1Q25, its strongest quarterly growth in nearly two years, attributed to expanding technology equipment and software for data centers and generative artificial intelligence investment. The combination of consumer, business, and housing investment contributed +2.6% to 1Q25 GDP, a tick higher from +2.5% in the prior quarter (4Q24). April nonfarm payrolls (jobs) increased +177 thousand (K) and beat the +125K FactSet consensus estimate. Given prevailing economic uncertainty and changes in corporate behavior due to pending tariffs, we viewed the data favorably, reflecting ongoing resilience in the U.S. economy. In addition, wage growth, as measured by average hourly earnings, grew +3.8% in April, in line with the average of the prior three months. Consumer spending, jobs and wage data were much better than consumer surveys, which reflect cautious views and a negative outlook. One popular confidence survey, from the Conference Board, has dropped for five consecutive months through April, and moved to its lowest level since 2020 during the COVID-19 pandemic.

Consumer expectations, a component of the survey, have eroded and appear tied to fears that tariffs will both add to inflation and cause job losses. Surveys have not been updated since tariff threats were de-escalated, but we continue to monitor data to see if consumer spending patterns weaken. Corporate commentary (through earnings reports and conference call transcripts) reflects emerging weakness from low income consumers with less disruption from higher income groups.

As of 5/22/25, the FactSet consensus estimate for U.S. economic growth (as measured by gross domestic product, or GDP) was +1.7%, below 2024 full year GDP growth of +2.8%. The estimates for the next two quarters, 2Q25 and 3Q25, are +1.5% and +0.8%, respectively. To us, this reflects expected lags in the impact of tariffs, as it is possible that marginal economic activity has been pulled forward in recent months to get ahead of widespread uncertainty. In our view, this highlights difficulty in predicting the economic impact of tariffs, which also explains why investor sentiment surges when tariff rhetoric is deemphasized. Economic growth of +1.7%, in our view, represents a "soft-landing," which reflects growth, but below optimal trends (for five years pre-pandemic, 2015 to 2019, annual GDP growth averaged +2.5%). But that would be a decent number given the 1Q25 negative number and fears of a slowdown. But the Trump Administration would like to see at least +3% GDP growth as a result of pro-growth policies. In our view, +3% growth in 2025 is highly unlikely, and better growth in 2026 and beyond is highly dependent upon successful trade negotiations along with tangible domestic investment.

What are the risks? Near-term risks are numerous and related. The clock is ticking on the 90-day tariff pause, creating anticipation for positive outcomes. The U.S. Congress has set a goal to pass its 2025 budget bill by the July 4th Holiday, and U.S. long-term interest rates have surged higher in recent weeks, placing the spotlight on the U.S. budget deficit and growing debt. In February, as investors contemplated Trump's largely undefined tariff strategy, we discussed whether the policy would be the "art of the deal" or if tariffs were "here to stay." We still believe that final trade policy will include both, including many 10% global tariffs that will remain in place, and country-specific deals will be pursued to open foreign markets for U.S. goods and, over time, reduce the U.S. trade deficit (either by lower imports or higher exports). The most challenging piece, in our view, is to create more domestic investment and a manufacturing resurgence, and while the outlines of recent trade agreements were light on that topic, several individual companies have announced plans to accelerate U.S. investment. While President Trump views tariffs a source of revenue for the U.S. government, we believe that he will prefer trade deals that promote U.S. manufacturing and production.

On 5/22/25, the U.S. House of Representatives narrowly passed its version of the 2025 budget bill (unofficially, for now, called "one big beautiful bill"), which now sits at the U.S. Senate for potential modifications and revisions. As expected, the bill extends the 2017 tax cuts for individuals at existing levels, removing a potential tax increase that was possible. We will review what is in the bill once the Senate process is underway, but in general the bill (according to scoring from the Congressional Budget Office) adds to the estimated deficit an estimated $350 billion annually. This has placed a spotlight on the annual budget deficit, which is expected to total $1.9 trillion (T) in fiscal 2025 (ending September), slightly higher than the fiscal 2025 deficit of $1.8T. While deficit spending has been a problem for most of the past decade, the combination of higher interest rates and rising total debt (debt held by the public was $28.8T as of 12/31/24 compared to $16.8T as of 12/31/19) has created rising interest expenses, which significantly impacts the budget.

U.S. interest rates have surged higher in May, with the U.S. 10-year Treasury yield closing at 4.51% on 5/23/25, up from 4.16% at the end of April. This remained below the 2025 high yield of 4.79% in January, but higher interest rates in early 2025 were tied to pro-growth optimism from the incoming Trump administration, whereas now the rate surge is attributed to factors highlighted by the annual budget deficit, growing national debt, and global investment dollars rebalancing away from U.S. assets. The Trump plan is to reduce the debt by stimulating growth through regulatory reform, stable low energy prices, tax incentives, and pro-growth trade deals. Part of the pro-growth plan however, is lower interest rates, which can restrict economic activity and investment. We believe the administration will monitor interest rates closely and could alter policy, especially around tariffs and trade, if bond market volatility increases. For now, 10-year interest rates remain with a past 2-year range (May 2023 to May 2025) of 3.80% to 4.71%, although are now trending near the high end of that range. In our view, factors that can help bring interest rates lower include more tariff de-escalation and the final passage of the 2025 budget bill.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The Russell 1000 Growth index includes the Russell 1000 companies that exhibit relatively higher price-to-book ratios, and higher expected earnings and sales growth. The Russell 1000 Value index includes the Russell 1000 companies that exhibit relatively lower price-to-book ratios and lower than average expected earnings and sales growth. The S&P 500 Equal Weight Index is the equal-weight version of the S&P 500, which is weighted by market capitalization. In the Equal Weight version, each company is assigned an equal weight, about 0.2%, and is rebalanced quarterly.

Other Disclosures:

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data on a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet Consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

S&P 500 earnings growth reflect the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury bonds, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury bonds are widely followed barometers of the current U.S. interest rate environment. Treasury bond data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis (BEA). We also track the BEA data on Non-Residential Fixed Investment, as a measure of business investment.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months;" and also looks at the depth, diffusion, and duration of the downturn.

We define a "market correction" as a peak-to-trough decline exceeding 10%, but less than 20% (a decline exceeding 20% would be a bear market). In 2025 the S&P 500 closed at 6,144 on 2/19/25, at the time the closing high price for the year-to-date. On 4/8/25, the index closed at 4,983, a decline of -18.9% from the closing high price. A "bear market" is when the peak-to-trough (closing price) decline exceeds 20.0%.

When we discuss "growth stocks" we are referring to companies that generate expected earnings growth (over a multi-year period) that is above expected earnings growth for the overall market (typically the S&P 500 index). The largest sector weights (by market capitalization) in the Russell 1000 growth index (as of 12/31/24) were Information Technology, Consumer Discretionary, and Communication Services. "Value" stocks are characterized by companies that trade at discounted valuations to an index, sector, and/or a peer group. The largest sector weights in the Russell 1000 value index (as of 12/31/24) were Financials, Industrials and Health Care.

Defensive sectors include companies that are historically less sensitive to economic cycles as product demand remains relatively more consistent across the business cycle. Cyclical sectors include companies that are more exposed to the business cycle such that growth accelerates when economic growth is above trend and decelerates when the economy slows.

International Trade in Goods and Services is published monthly by the Bureau of Economic Analysis. It measures trade in goods and services between U.S. residents and residents of other countries. U.S. sales are exports, U.S. purchases are imports. According to the year end 2024 report the U.S. trade deficit in goods was $1.21 trillion (imports of $3.30 trillion and exports of $2.08 trillion).

Information on the America First Trade Policy Memorandum is available from the White House.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. An alternative measure of consumer inflation is the Personal Consumption Expenditure (PCE) price index. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). The index is published monthly by the U.S. Bureau of Economic Analysis.

The Conference Board conducts a monthly Consumer Confidence Survey design to reflect prevailing business conditions and potential outcomes in the months ahead. It surveys consumer attitudes, buying intent, and expectations stratified by age and income in nine U.S. regions. A second widely followed survey of consumer confidence is conducted monthly by the University of Michigan. Its Survey of Consumers, surveys personal finances, business condition, unemployment and inflation.

The Tax Cuts and Jobs Act was tax legislation passed by Congress in 2017. The legislation reduced the statutory corporate income tax rate, and also lowered tax rates across personal income tax brackets. It also made changes to the personal standard deduction, personal exemption and estate taxes. Many of the provisions of the TCJA (not the corporate tax rate) are set to expire at the end of 2025, unless extended.

Volatility is how much and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

Information on the America First Trade Policy Memorandum is available from the White House. On 2/12/25, the Trump Administration announced a framework for its Reciprocal Tariffs, with a link to the memorandum, “Fair and Reciprocal Plan.” On 3/26/25, the White House announced tariffs on imported automobiles and certain automobile parts. Here is a link to a Fact Sheet from the President that outlines the action. The President’s April 2, 2024 Tariff Announcement is also linked. Also linked is the White House Fact Sheet on the U.K. trade agreement.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index. According to FactSet the earnings growth for the market capitalization weighted S&P 500 index increased 12.4% in Q1 2025 compared to Q1 2024 (with 94% of S&P 500 constituents having reported as of 5/21/25). This exceeded the consensus estimate for 7.2% growth (as of 3/31/25).

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

We track a measure of wages, average hourly earnings of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a “gross” basis (includes overtime and late shift work, but excludes benefits).

In 2025 the U.S. Congress (both the Senate of House of Representatives) will work on a joint budget bill that is expected to include an increase in the debt ceiling and include spending priorities and spending cuts supported by the President. The reconciliation process is a way the expedite bills, as they can be passed by a simple majority vote in the senate as long as certain budgetary rules are followed. The U.S. House of Representatives passed its first version of the bill in a narrow vote on 5/22/25, where it now moves to the U.S. Senate.

Generative artificial intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem-solving and decision-making. While still predictive models, generative AI can give detailed responses much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities.