DUNNING
WEALTH MANAGEMENT

QUARTER 1, 2025

"SPRING IS WHEN YOU FEEL LIKE WHISTLING, EVEN WITH A SHOE FULL OF SLUSH."

DOUG LARSON

TEAM UPDATE

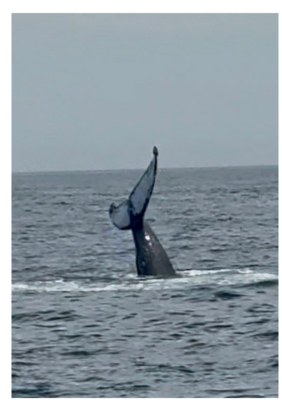
Kyle enjoyed a Snowmobile trip 30 miles into the Frank Church wilderness to Burgdorf hot springs and enjoyed a burger at Secesh Stage Stop with his wife Holly.

Brayden and his Wife Heather got to enjoy a long February weekend out of the cold, in Sedona, Arizona.

Vicki and her family spent two weeks travelling around the Philippines in January. It was an unforgettable adventure watching her daughter experience another part of the world.

Greg made his 7th annual trek to Bandon Dunes. He played all 5 courses plus the new Par 3 Shorty's course. He also added Pumpkin Ridge and Gearhart Golf Links on the way home.

In early March Brandee spent a week in Cabo San Lucas with a group of friends catching the tail end of whale migration season.

Kyle	Brayden	Vicki	Greg	Brandee
				

PUT THE RECENT VOLATILITY INTO PERSPECTIVE

KEY TAKEAWAYS

- Growth scare more likely a soft patch than a recession
- The recent market decline has washed out the over-exuberance
- Volatility is the price you pay to be in the market – stay the course

Keep calm and carry on. Recent weeks have seen financial markets rattled by swirling news headlines, tariff whiplash, and rising economic uncertainty. Since late January, the constant stream of negative news has impacted consumer and business confidence, dampened investor sentiment, and pushed volatility to its highest levels since last August. These factors have driven equity prices lower, with the S&P 500 now officially in correction territory – down ~10% from its recent peak. While this may be unsettling for investors, especially after the S&P 500 experienced its worst weekly drop in six months, it's crucial to maintain perspective. The key point: avoid panic and resist knee-jerk reactions in your investment portfolio. Volatility is a normal part of the market journey. Below, we put the recent volatility into perspective and explain why we believe this pullback will be short-lived.

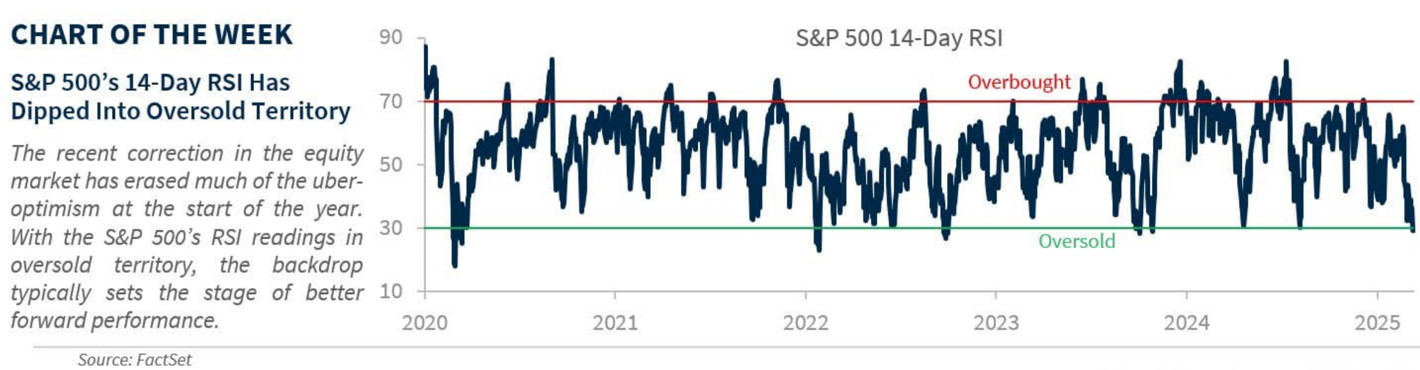
Growth Scare More Likely A Soft Patch Than A Recession | Between tariffs, DOGE's cost-cutting efforts, and sweeping government layoffs, sentiment has soured quickly. While the economy started the year strong, prolonged uncertainty poses a significant risk. It could potentially lead to a 'self-fulfilling recession' if consumers and businesses simultaneously cut back on spending—but we don't believe we're there yet. Yes, 'soft' data is showing warning signs, but it hasn't appeared in the 'hard' data. Chair Powell recently downplayed the significance of 'soft' survey data, noting that sentiment hasn't reliably predicted consumption growth in recent years. While there are some cracks building, the labor market remains healthy, consumers are still spending, lower yields should boost housing, and a potential ceasefire in Ukraine could lower energy prices—keeping the economy stable. Remember, the first quarter was also affected by the coldest winter since 1988, which sidelined over 500,000 workers in January and February, and the worst flu season in 15 years—so a rebound is likely. While vigilance is necessary, these factors suggest the soft patch should prove short-lived, with growth remaining around 2% in 2025.

Fed Easing Cycle Will Continue To Lend Support | Heading into 2025, expectations for Fed rate cuts had diminished. However, recent growth concerns and improving inflation data have brought rate cuts back into consideration. Now, three rate cuts are anticipated by the end of 2025—slightly more than the two our economist predicts. The key point: the Fed has ample tools to support the economy if necessary. While policymakers haven't shown urgency to cut rates until there's more clarity on the new administration's policies, next week's Fed meeting could be revealing. The March 18-19 meeting will provide updated economic forecasts, likely reflecting the Fed's initial views on how Trump's policies might affect its outlook, and a new dot plot. Although we don't expect a rate cut next week, Chair Powell might adopt a more dovish tone during the post-meeting press conference, given the recent slowdown in economic momentum and progress on inflation. If this happens, it could boost sentiment and support both the economy and financial markets.

Exuberance Has Been Washed Out | As our readers know, we started the year with a cautious, below-consensus 2025 S&P 500 year-end target of 6,375 due to concerns about investor overoptimism. However, the recent market decline has tempered much of this exuberance. For instance, the percentage of bullish investors has dropped significantly in recent weeks, reaching extremely low levels. Meanwhile, put volumes (indicating investors seeking downside protection) have hit record highs, and Wall Street strategists, who began the year with overly optimistic S&P 500 targets (some above 7,000), are now tempering their bullish outlooks. These signals, including oversold RSI levels, have historically been good contrarian indicators, suggesting that the market may be nearing a bottom as sentiment shifts from over-optimism to fear. When such extremes occur in a short period, it typically sets the stage for better forward-looking equity performance.

Putting The Recent Volatility Into Perspective | Volatility is an inherent part of the market, and the recent decline is not unusual. Typically, dating back to 1980, the market experiences three to four pullbacks of 5% or more, one pullback of over 10%, and an average maximum intra-year drawdown of 13% each year. Given that the S&P 500 hasn't seen a 10% pullback since August 2023, this was long overdue. While volatility can be unsettling, it's important to maintain perspective. Pullbacks are inevitable, but investors who stay the course and ride out the volatility—whether short-lived or more severe—are often rewarded. For example, the S&P 500 has delivered an annualized return of over 12% over the past decade, despite the COVID downturn, the Russia/Ukraine war bear market, and several other 10%+ pullbacks. These pullbacks often present good buying opportunities for long-term investors. Another key point is that time in the market is more important than timing the market. While it's challenging to remain patient during volatile periods, history shows that the probability of a positive outcome increases with the length of the holding period.

***Bottom Line* |** Volatility is never comfortable, but history shows that panic selling during volatile periods can harm performance. With over-optimism now tempered and the economy on solid footing, we are growing more optimistic about equity performance moving forward.



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FALLING GAS PRICES COULD PROVIDE A BOOST TO CONSUMER SPENDING

KEY TAKEAWAYS

- Falling gas prices could provide a boost to consumer spending
- Interest-rate sensitive sectors will benefit from falling interest rates
- Tariffs are not likely to be as severe or long lasting as expected

While we will lose an hour of sleep this weekend as we move our clocks forward, we've already been losing sleep this year. Why? Despite high valuations and optimism for tax cuts, deregulation, and US exceptionalism, expectations for the economy and equity markets to 'spring forward' unabated in 2025 seemed unrealistic. We anticipated increased volatility, which has indeed picked up recently due to the new administration's tariff plans. These plans have dented consumer and business confidence, soured investor sentiment, and raised concerns about the US economy's growth outlook. Yet, amidst the uncertainty from Washington in recent weeks, some green shoots have appeared. While media headlines focus on the negative repercussions of Trump's policies, we highlight some underreported positive developments that could keep economic growth on track and support higher equity prices in the months ahead:

Potential Peace Deal Between Russia-Ukraine Sparks Massive Fiscal Boost In Europe | With the Russia/Ukraine conflict entering its fourth year, President Trump aims to secure a peace agreement. While a full settlement remains elusive, the threat of losing US financial support and security guarantees has triggered a significant shift in European fiscal policy, which has been constrained by rigid budgetary rules for years. After talks with Ukraine collapsed in the Oval Office last week, Europe was forced to step up to support their military needs. Within days, Europe unveiled an $840 billion package to strengthen their defense capabilities, the new German government announced a €500 billion infrastructure bill to revive growth, and Ukraine now appears willing to sign the proposed mineral deal, which is necessary for ongoing US support. As Europe picks up the fiscal baton from the US, looser fiscal policy could offset any downside growth risks from tariffs.

Falling Gas Prices And Tax Season Could Spur Consumer Spending | Concerns about consumer health have been growing, especially as consumer confidence fell to its lowest level in eight months in February, marking the largest monthly drop since August 2021. Retailers like Target and Home Depot have also reported softer consumer spending at the start of the first quarter. Despite this, there are signs of relief on the horizon with lower gasoline prices. While national gas prices (currently $3.10/gal) remain slightly above last year's lows, the recent 15% decline in crude oil prices (to $66/bbl) is historically consistent with lower prices at the pump. Since gas prices and consumer confidence are highly correlated, falling gas prices should help stabilize confidence and spending. Additionally, tax season is ramping up, and with refunds being issued at the fastest pace since 2020, this should provide a boost to consumer spending moving forward.

Interest-Rate Sensitive Sectors Should Benefit From Falling Interest Rates | Elevated rates have weighed on the housing market, with pending home sales hitting a record low in January. However, falling longer-duration bond yields have driven the 30-year fixed-rate mortgage to a five-month low (below 7%), showing signs of life ahead of the spring selling season. Last week, mortgage purchase applications and refinances rose by 20% and 37%, respectively, indicating an uptick in future demand. With interest-sensitive areas like the S&P 500 homebuilder industry down ~30% from recent highs, falling rates should help boost economic growth and benefit interest rate-sensitive areas such as homebuilders and autos in the equity market.

Softer Growth Patch Puts Fed Rate Cuts Back On The Table | After its December policy meeting, Fed officials indicated that an extended pause was likely due to rising policy uncertainty and stalled inflation progress. With resilient growth in Q4 2024, market expectations for rate cuts in 2025 were largely unwound, and there was even talk of the Fed potentially hiking interest rates later this year. However, with growth risks increasing, as shown by the Citi Economic Surprise Index dropping to a multi-month low, market expectations have shifted again to anticipate three rate cuts by the end of 2025. While we still expect the Fed to deliver two rate cuts this year, we expect it to deliver enough cuts (and end Quantitative Tightening) to provide additional support to extend the ongoing economic expansion.

Tariffs Not Likely To Be As Severe Or Long Lasting | When it comes to trade, the Trump administration has been more aggressive than expected, implementing 25% tariffs on Canada and Mexico, 20% tariffs on China, and proposing additional tariffs set to take effect on April 2 (including 25% on the EU). This has weighed on business and consumer sentiment, as evidenced by a record number of 'uncertainty' mentions in the Fed's Beige Book and the US Economic Policy Uncertainty Index reaching its highest level on record ex-COVID. However, we expect the Trump administration to roll back some tariffs on our closest allies (e.g., Mexico and Canada), and we have already seen some flexibility by delaying auto tariffs on Canada and Mexico and excluding agricultural products. Ultimately, we expect the weighted average tariff to increase from 2.5% to 7.5%, which in our analysis would result in a 1% downside hit to 2025 S&P 500 earnings ($265-$267). Despite this, a healthy 10-11% earnings growth should support the equity market moving higher over the next 12 months.

Trump Awareness To Market Moves And Sentiment | President Trump views the equity market as a key barometer of his success, but he has been remarkably quiet about it lately. While Trump mentioned we might see 'a little disturbance' from the impact of tariffs, we expect that any significant downward moves in the equity market (greater than 10%) will prompt more favorable rhetoric from the White House.

CHART OF THE WEEK

Falling Yields Drive Mortgage Rates To A Five-Month Low

Falling interest rates have driven the 30-year mortgage rate to a five-month low of ~7%. While housing activity has been weak, this should provide some support in the months ahead.

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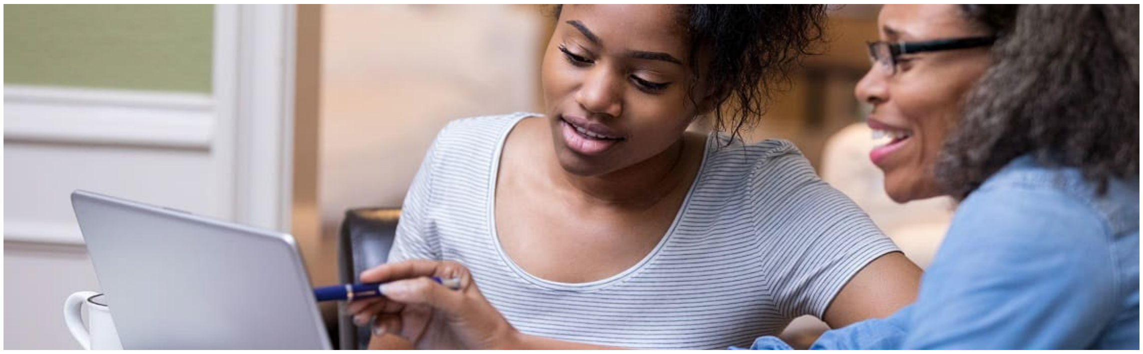
LAUNCHING A FINANCIAL FUTURE



We celebrate our lives in milestones. Ages and stages. Once we hit that thrilling number 18 signifying that we're officially adults, the amount of freedom we feel becomes commensurate with the responsibilities that our lives begin to take on – with financial literacy underlying many of those obligations.

Navigating the world of investing can feel daunting, but understanding key concepts and learning from essential lessons can guide the journey. Whether you have a family member turning 18, or someone in your life looking to build wealth from the bottom up, this primer provides a solid overview of the basic types of securities, investing strategies, and valuable lessons to help pave the path toward financial confidence.

UNDERSTANDING YOUR OPTIONS

Before launching into the world of investments, emerging investors need to know and understand what tools are at their disposal. Securities are essentially tradable assets that hold monetary value. Each type serves a distinct purpose and carries risks, rewards and trading costs.

- Stocks: Representing ownership in a company, stocks grant investors voting rights and potential dividends (a share of the company's profits). These can be volatile, offering high returns but also carrying the risk of capital loss.
- Bonds: Essentially loans made to companies or governments, bonds offer a fixed interest rate over a set period. While generally less volatile than stocks, they offer lower potential returns and are susceptible to interest rate fluctuations.
- Mutual Funds: These pool investors' money to purchase a diversified portfolio of assets (stocks, bonds, etc.). They offer lower risk and greater liquidity but come with management fees.
- Exchange-Traded Funds (ETFs): Similar to mutual funds, ETFs passively track a market index or sector, offering instant diversification and lower fees. They trade like stocks throughout the day, providing greater flexibility.

FINDING YOUR INVESTMENT STRATEGY

Once new investors understand the tools, it's time to provide clarity on how different investment strategies align with varying risk tolerances and goals. A vital point to make: your investment strategy can change as your needs and goals change.

Some investors focus on value investing, which seeks undervalued stocks with strong fundamentals (core elements of the company itself that make the stock attractive). To succeed with this strategy, it's important to be patient and interested in researching companies to find those hidden gems with potential for growth.

Another strategy focused on company fundamentals is growth investing. Instead of considering what the company looks like today, this style is mostly concerned with high growth potential. By prioritizing future earnings over current profitability, it carries higher risk but offers the chance for significant returns.

For those investors looking for less growth potential, but a steadier income and capital appreciation over time, dividend investing is a strategy to gravitate toward. It can provide regular income through investing in stocks that pay consistent dividends. It is important to note that dividends are not guaranteed and must be authorized by the company's board of directors.

Looking at the bigger picture, asset allocation zooms out beyond stocks and invites investors to diversify across different asset classes (think stocks, bonds, etc.). This approach helps mitigate risk and balances volatility while on the road to long-term growth.

EMBRACING TRIED-AND-TRUE LESSONS

Investing for beginners can feel daunting, but helping to understand key concepts like risk and return, diversification, and the power of time can set investors on the right path.
You've heard these sayings, and now it's time to pass them on. Stress the importance of not putting all their eggs in one basket – it helps to spread investments across different assets and sectors to manage risk. The earlier aspiring investors start and the longer they invest, the more their money grows thanks to compound interest. It's also prudent to help them become mindful of fees, do their research, and seek professional guidance when needed.

Remind them that investing is a marathon, not a sprint. Once they embark on their investing journey, they should strive to stay informed and adapt their approach as they work to build a secure financial future.

By sharing the learnings of experienced investors, you can help new investors avoid common pitfalls and succeed in building wealth from the bottom up. Here are some key lessons to impart:

- The power of compounding: When you start early, your money grows over time. Even small contributions invested consistently can snowball into significant sums thanks to compound interest. (A great example of this is a 401(k) retirement plan offered by employers where small amounts are allocated from your pay until you can increase your investment.)
- Risk and reward are inseparable: Higher potential returns come with higher risk. Understand your risk tolerance and invest accordingly.
- Discipline over emotions: Fear and greed are market enemies. Stick to your investment strategy and avoid impulsive decisions based on market fluctuations.
- Do your research: Know what you're investing in. Research companies, understand their financials, and critically evaluate investment advice.
- Embrace diversification: Don't put all your eggs in one basket. Spread your investments across different asset classes and sectors to help mitigate risk.
- Time is on your side: The market has historically trended up over the long term. Invest consistently and stay patient for your wealth to grow.

Becoming a lifelong learner benefits us in many aspects of our lives – and the financial realm is no different. The learning curve can feel more approachable when new investors have someone they trust to give them a head start. With dedication and perseverance, emerging investors can navigate the market with confidence and strive to build a secure and prosperous future.

NEXT STEPS

- Ask questions to help emerging investors uncover the best place for them to start with their investing journey.
- Consider including your adult-aged children in a call or meeting with your financial advisor.
- Remind early and often that investing is a journey and that our goals and needs change over time.

Sources:https://smartasset.com/investing/types-of-investment, https://www.investopedia.com/terms/i/investing.asp, https://www.finra.org/investors/investing/investing-basics Investing involves risk and you may incur a profit or loss regardless of strategy selected, including diversification and asset allocation.This article is educational in nature and every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

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