



April 2025 1<sup>st</sup> Quarter Concorde Investment Management

## General Update

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### A Message from Concorde

We have an app for your smartphone or tablet that allows you to view your entire portfolio and includes a vault where you can access your quarterly reports, billing summaries, and share documents with Concorde from a secure portal. If you are not yet set up with the app and would like to utilize this feature, please contact us for assistance.

Over the last few weeks volatility in the equity and bond markets have been elevated due to tariff announcements by the current administration. Given that volatility we wanted to bring to our client's attention a few thoughts and the actions that we have taken in the past as we were anticipating volatility, regardless of the cause, for some time. Uncertainty and anticipated impacts around the global trade order due to tariffs is the main cause of the current market behavior however, underlying structural issues around debt and deficits are a contributing factor as well. Actions we

have taken over the last few years include, but are not limited to, exiting international equity exposure, shortening bond duration in our portfolios, increased allocation towards gold and some gold miners, energy exposure across premier names, and avoiding momentum equity plays not supported by current free cash flow. In general, as of this writing, our balanced portfolios are overall flat on the year which compares favorably to broad index portfolios like the S&P 500 (down 7% +/- YTD) and the Nasdaq (down 11.5% YTD +/-).

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### The Concorde Team

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# Domestic Economy

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Our typical review is backwards looking at the previous quarter when we can analyze actual data and performance of the domestic economy. That data's obvious flaw is the potential tariffs and associated impacts were not known and had not altered consumer or company behavior that will show up in the data as of the end of Q1 2025.

Q1 GDP, which is typically lower than other quarters, came in negative at  $-0.3\%$ , driven mainly by net trade (much more exports than imports). Other items, like personal consumption, fixed investment, and other were strong. This follows 4<sup>th</sup> quarter of 2024 which had real GDP growth of  $2.3\%$  after  $3\%$  in Q3 and Q2, and  $1.5\%$  in Q1. Job openings are down from a high of 12.1mm in March of 2022 to 7.7mm as of January 2025. While a steep drop, the 7.7mm is still higher than any period prior to 2018, indicating a robust demand for employees. Household debt service as a percentage of disposable income was  $11.3\%$  at the end of the quarter, higher than the past few years post Covid, but below anytime since 1980. For reference, the debt

service number peaked at  $15.8\%$  in December of 2007. Given the economy runs on consumer spending, that data point would indicate consumers are still in good shape.

JP Morgan has a chart that tracks Consumer Confidence and subsequent returns of the S&P 500. As of March, the consumer sentiment index was 57, approaching lows touched in June of 2022, August 2011, November 2008, May of 1980, and February of 1975. Each one of the previous low periods show the next 12 month returns and they ranged from positive  $15.4\%$  to  $22.2\%$  (the reverse is also true; higher consumer sentiment has historically correlated with lower equity returns over the following 12 months). While past performance is not indicative of future returns, there is an old saying; 'low prices cure low prices, and high prices cure high prices'.

We continue to monitor 'soft data' and 'hard data' when evaluating the forward stance of the economy and it is currently too soon to tell what the outcomes will be.

# International Economy

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“Response from the international community regarding the tariffs will be ongoing and has the potential to escalate beyond what the new Treasury Secretary has anticipated”. We wrote that in January regarding the potential impact of tariffs. That was in response to Secretary Bessent discussing 2.5% tariffs (just a bit low). Equity markets, bond markets, and currency moves have been elevated over the past few weeks and we expect it to continue until there is tariff and associate trade barriers resolution. Renegotiating global trade with the US has various levels of potential impacts with countries across the globe. Global developed economies in various regions were already on the precipice of recession and the uncertainty around the US stance will only increase those odds.

Understanding tariffs and impacts can be difficult so we wanted to share some data on what other countries are charging the US for imported goods. As a note, for the

United States, exports to all countries account for 7% of GDP. For other major trading partners of the US, their export number as a percentage of their GDP is between 15% and 38%. Meaning other countries are much more heavily dependent on exporting goods than the United States. Specifically for Mexico and Canada, 27% and 20%, respectively, of their GDP is tied directly to exporting to the United States.

19% of China's GDP is driven by exports, slightly more than Japan and more than half of South Korea or the EU. Prior to the current environment, China charged the US approximately 17.5% weighted on imports whereas the US charged China just over 10%. Leaving out all the other barriers from the Chinese, a de-escalation on top line tariff numbers should be expected over the coming weeks to a more equalized level, assuming rationality by both countries.

# Fixed Income

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During the first quarter of 2025, Treasury Note market yields (2-year through 30-year maturities) dropped between 20 and 40 basis points as continued expectations of Fed easing policy and a tempered economic outlook supported quality fixed income demand. Corporate credit spreads widened modestly from very narrow historical levels. These changes helped to generate positive total return gains between 1.00% and 4.25% across most bond sectors, solid returns for one quarter. After some yield volatility that accompanied the significant stock market movement through the first 3 weeks of April, Treasury yields have not changed much and corporate spreads have widened more as balance of year economic uncertainty has increased. Municipal bond yields have risen for the year to date as supply has exceeded demand more than normal as a result of cyclical tax payment selling, tepid consumer buying during market volatility

and additional issuance related to some sector concerns over tax exempt status issues going forward. Mortgage back securities, as we have discussed before, have historically large yield spreads and continue to be attractive with the sector displaying low loan to value metrics. Higher quality municipals backed by specific asset or project revenue collateral are also attractive at current market yields. Although interest rates in general have reset to more normal levels (this began in 2022), we still believe that bond yields are likely to stay in the current range, with risk to modestly higher levels over the next several years. This outlook leads to a preference for generally shorter maturities. Higher coupons that are now prevalent do support a more defensive nature for bonds compared to the lengthy period prior to 2022.

## **Important Disclaimers**

This material is for informational purposes only and is an overview of the capital markets and is intended for educational and illustrative purposes only. It is not designed to cover every aspect of the markets and is not intended to be used as a general guide to investing or as a source of any specific investment recommendation. This document does not constitute an offer, solicitation or recommendation to sell or an offer to buy any securities, investment products or investment advisory services or to participate in any trading strategy.

# Equity Markets

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Total returns from widely followed global indices diverged significantly in early 2025, extending the trends that began to shift in 2025. Domestically, the only segment producing a positive return was the large cap value group as all other growth and smaller capitalization sectors generated negative returns ranging as high as -11%. This early 2025 trend is reversing the outperformance of large cap growth stocks for the last two years. The financial results of many of the largest growth stocks have been excellent over much of this period but the stock performance had outrun fundamentals. Subsequent to March 31, the increasing uncertainty regarding economic growth for the balance of the year spurred a more widespread selloff across essentially all size and style groups. The technology sector and related power generation stocks tied to the anticipated growth of artificial intelligence adoption by enterprise corporations have led this correction.

Based on prices as of April 22, earnings multiples on the largest 10 and the remaining 490 S&P 500 stocks are around

10% higher than the 30-year average. These multiple levels likely reflect a modest weakening from expectations early in the year. If actual economic results end up lower than this, further downside is certainly possible. Actual economic and corporate data continue to be relatively good with the current market weakness predicated on correcting some high valuations and anticipated weakening trends.

Global equity indices, which have generally lagged U.S. markets over the last 15 years just as the value sector has lagged growth domestically, have begun to generate good outperformance this year, producing low single to low double digit positive returns. Despite the risks to all economies from the potential extended trade war conflicts, we believe U.S. business still maintain many long-term advantages and would limit exposure to both developed and emerging equity markets from a U.S. investor viewpoint. Valuations are significantly cheaper outside the U.S., but returns on capital and cash flow margins are significantly lower.

<b>Large Cap Equities</b>			
	<u>2023</u>	<u>2024</u>	<u>Q1 2025</u>
<b>Growth</b>	42.7%	33.4%	-10.0%
<b>Blend</b>	26.3%	25.0%	-4.3%
<b>Value</b>	11.5%	14.4%	2.1%

Source: JPM Guide to the Market / March 31, 2025