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ADVISORY Notes

MARCH 2025

Spring Has Sprung!

The first quarter of 2025 wrapped up with abundant fireworks as the President and his committees' aggressive plans to reduce the government excess and protect American business with tariffs in the first one hundred days went into effect. The equity markets peaked mid-February as tariffs and DOGE cuts continued to hit the wire (see Market Table).

The markets responded with uncertainty and volatility to the shotgun approach the oval office adopted, especially after two straight 20% plus return years on the market. The excesses in the "Mag 7," the largest capital weighted stocks over the last two years, have waned and turned into the "Lag 7" during the first quarter of 2025. The rotation and broadening of the market has continued since the third quarter of 2024. Energy, healthcare, and utilities led the markets while consumer discretionary, information technology, and communications services performances are lagging. (See Sector Return chart on Page 3.)

Consumer sentiment has decreased in the last couple of months due to the lack of clarity out of the White House in combination with the Federal Reserve remaining data dependent on decisions involving adjusting interest rates and corresponding inflation. (See Consumer Sentiment graph on Page 3.) While we are certainly nowhere near the five year low we reached in 2022, the market has retracted in the first quarter of 2025.

As investors reach for safer assets like treasuries, bonds, and money market funds, yields have pushed lower and the 10-year Treasury is around 4% as of the publication date of this article, signaling potential rate reductions in the back half of the year.

We will continue to focus on buying opportunities and being patient while the effect of tariffs and counter tariff measures filter through the economy. We will focus on current earnings and future expectations based on corporations' spending levels and employment figures.

As always we manage your portfolios in line with your overall goals and objectives. We wish you a spring full of blooming flowers, plants, and trees, as the greenery becomes more prevalent!

Joseph M. Valicenti
President/CEO

MARKET TABLE	**VALICENTI ADVISORY SERVICES, INC.** Comparative Index Period Returns From 12-31-24 THROUGH 03-31-25								
	Dow Jones Industrial Average	S&P 500 Equal Weight Index	S&P 500 Index	NASDAQ	Russell 2000	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE USBIG Corporate Bond Index	US Treasury Bill Index (90 day)
12-31-24 to 01-31-25	4.78	3.50	2.78	1.66	2.62	0.53	0.54	0.56	-0.04
01-31-25 to 02-28-25	-1.39	-0.61	-1.30	-3.91	-5.35	2.20	1.07	2.09	0.00
02-28-25 to 03-31-25	-4.06	-3.38	-5.63	-8.14	-6.81	0.04	-1.83	-0.31	0.01
Cumulative Returns 12-31-23 to 12-31-24	-0.87	-0.61	-4.27	-10.26	-9.48	2.78	-0.24	2.34	-0.02

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Director's Chair

During 2023 and 2024, the stock market enjoyed a significant bull market experiencing total returns of 26.3% and 25%, respectively. Both years the returns were fueled by seven stocks that came to be known as the "Magnificent Seven." Last year alone, more than half of the return of the S&P 500 was driven by these seven names. The nickname for these stocks comes from the very successful 1960 film, which had a plethora of stars such as Yul Brynner, Steve McQueen, Charles Bronson, Robert Vaughn, and James Coburn to name a few.

As 2025 begins, the start of the year can be called a sequel and as is often the case sequels can be a disappointment. As of this writing on April 3rd the S&P 500 is down 8.2%, lead down by those same stocks that drove up the market for the past two years. Apple is down 19%, Amazon is down 19%, Alphabet (Google) is down 20%, NVidia is down 24%, Tesla is down 34%, and Meta (Facebook) is the star down 9%. In effect, this market is like the 1966 film *Return of the Seven*, the direct sequel to the original 1960 movie. The similarities between the *Return of the Seven* and the S&P 500 can be seen in that both have only one star Meta; played by Yul Brynner, the only true star in the follow-up, coupled with the fact that both the film and the stock market today "suck wind." That's what happens when you have only one star powering the stock market.

Much has been made in the press that the stock market has been put into a correction due to the potential trade war created by the current administration. The tariff dispute between the United States and its principal trade partners, Canada, Mexico, China, and the E.U., is causing downward pressure on the market. However, this may not be so true. If we look at the equal weighted S&P 500, that index is down 4.5% and if we look at what we call the S&P 493, this is the market cap weighted S&P 500 minus the Mag Seven names, it is actually down only 3.1% year-to-date (YTD).

What has happened is that the scare from a potential trade war has negatively impacted the high multiple Mag Seven stocks. The average Mag Seven P/E multiple declined from 30X at market peak to 25X at quarter's end. In the meantime, the equal weighted S&P 500 index had its multiple decline from 17X to 15X. Because the Mag Seven trade at such a premium to the overall market, it has been exposed to the volatility of disruptions in international trade. The Mag Seven also continue to make up a significant percentage of the overall market capitalization of the U.S. stock market.

For the remaining 493 stocks in the S&P 500, it's as if not much has occurred this year, down 3.1% YTD. A balanced portfolio with representation outside the Mag Seven augmented with Mag Seven exposure provides the diversification for long-term investing, which we strive to provide at Valicenti. It is important to remember that the trade dispute has only had a meaningful impact on seven names while the broader market is modestly down. Also remember don't bother to watch *Return of the Seven*, it's as big of a loser as Tesla stock has been this year.

Louis F. Ruize
Director of Research/Portfolio Manager

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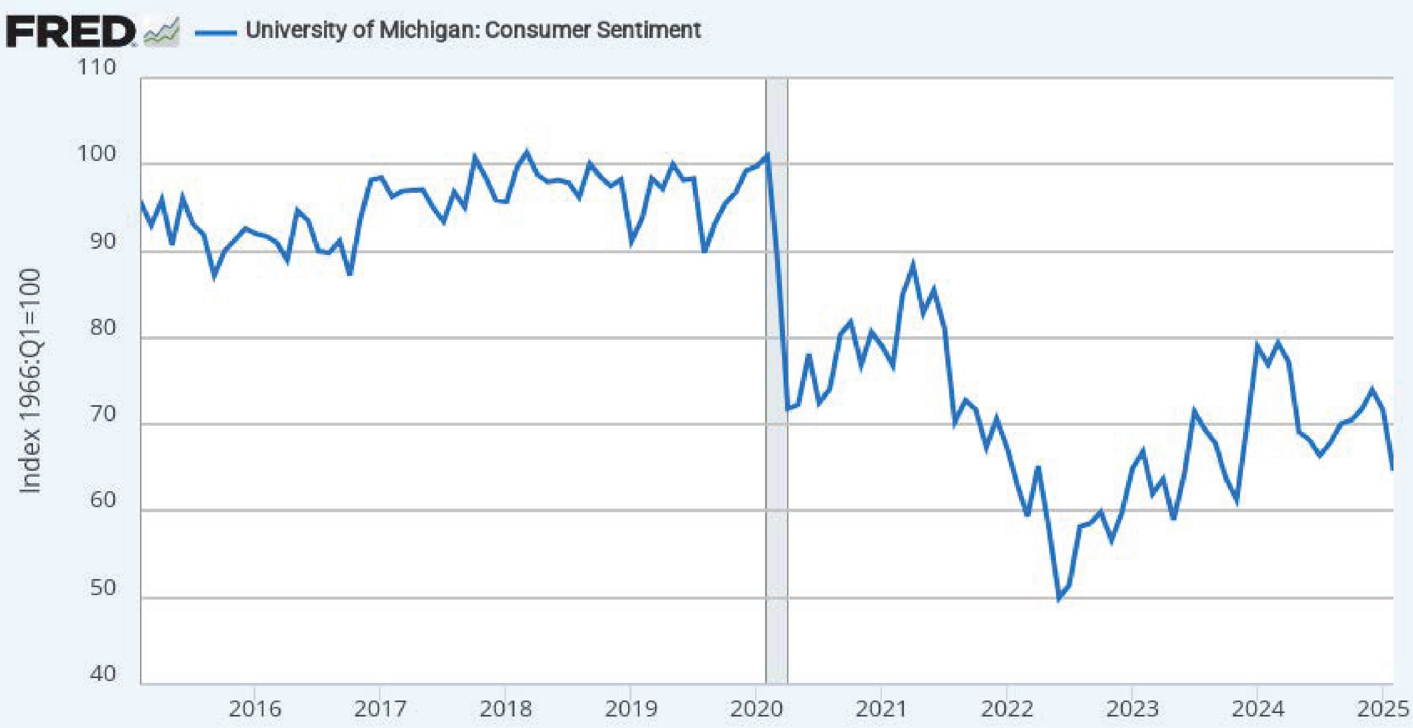
Sectors in the Market as of close 03/31/2025

		Performance			
Sector	Market Cap	1 Mo	3 Mo	6 Mo	12 Mo
S&P 500 Market	$47.3T	-5.80%	-4.60%	-2.60%	6.80%
Communication Services	$4.4T	-8.30%	-6.40%	1.50%	12.40%
Consumer Discretionary	$5.4T	-9.00%	-13.90%	-3.20%	3.50%
Consumer Staples	$3.0T	-2.70%	4.30%	0.70%	9.20%
Energy	$1.9T	3.40%	7.80%	5.60%	-1.90%
Financials	$7.6T	-4.40%	2.40%	9.00%	17.50%
Health Care	$5.7T	-2.10%	5.10%	-5.60%	-1.70%
Industrials	$4.8T	-4.30%	-2.20%	-4.50%	1.90%
Information Technology	$14.5T	-8.90%	-12.90%	-8.90%	4.60%
Materials	$1.2T	-3.30%	1.00%	-10.80%	-8.00%
Real Estate	$1.4T	-3.00%	1.90%	-6.80%	5.50%
Utilities	$1.3T	0.20%	4.50%	-1.60%	20.30%



Source: University of Michigan via FRED®

Shaded areas indicate U.S. recessions.

myf.red/g/1GYoG

Analyst Corner

Positive Market Influences	Negative Market Influences
Disinflation	Tariffs & Trade Rebalancing
Lower Long-Term Rates	Geopolitical Uncertainty
	Moderating Growth Expectations

The first quarter of 2025 has seen a fast moving news cycle as a new administration in Washington D.C. begins to move on its main priorities regarding foreign, fiscal, and trade policy. To date, this has coincided with an uptick in uncertainty regarding potential outcomes, some reduction in yields across the curve, and a moderate changing of circumstances in relation to the upward trend in equities. After coming out of the gate strong in the first half of the quarter, the S&P 500 ended up down -4.3% by quarter end and from the February high, the pullback was -8.5%. Three sectors led the index into negative territory. Consumer Discretionary, Information Technology, and Communication Services sectors were down -13.8%, -12.7%, and -6.2%, respectively. Energy was a standout performer on the upside rising, 10.2%.

The U.S. Treasury 10YR yield fell 36 basis points and finished the quarter at 4.21%. There are still concerns over the fiscal deficit and the scale of the resulting treasury issuance. This is creating some bearish narratives around longer-term rates; however, this is being somewhat countered by concerns about the near to intermediate term negative growth impacts of the current fiscal and trade policies. The next several quarters will likely provide more information and details regarding any potential legislation around tax policy.

Positive Market Influences

- **Disinflation** – Inflation is not at the Fed's target, though it is not elevated at extreme levels. A modest disinflation trend appears to be in place for now. January saw readings for PCE inflation register at 2.5% year over year versus 2.6% in the previous month. Similarly, the core measure, which strips out volatile food and energy prices, was 2.6% versus 2.8% in the prior month.
- **Lower Long-Term Rates** – While the Fed is on hold for now in regards to dropping the short-term rate, the intermediate part of the curve and longer rates to a degree have fallen modestly over the last three months. This has likely been due to a disinflation and fading growth drivers.

Negative Market Influences:

- **Tariffs & Trade Rebalancing** – The current tariffs being applied to trading partners is a disruption to global trade arrangements that have been in place for decades. This is likely being done for economic as well as security reasons, though the ultimate impacts of this attempted policy shift will not be known for some time, perhaps only years after, as there are multiple variables in play. As a result, there is a decent amount of uncertainty in investors minds over the matter.
- **Geopolitical Uncertainty** – Military action in Gaza has resumed, and negotiations and/or confrontation over Iran's weapons program seem to be newsworthy again. Rebels in Yemen are still disrupting international shipping. The Ukraine conflict is still raging with only a limited cease-fire in place at present. Policy goals in these areas appear to be ambitious, and it is likely to take several months to ascertain where some of these efforts are going.
- **Moderating Growth Expectations** – 2024 U.S. real GDP was 2.8%. Q4 2024 Annualized GDP was 2.3% and currently, the FOMC's projections for the 2025 year ahead sit at 2.1% as of December. The rate of growth appears to be winding down to a slower run rate.

Daniel P. Burchill
Security Analyst

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April is Financial Literacy Month

With April being Financial Literacy Month, there is no better time than the present to share current money related news and tips to be considered year-round.

Foremost, if you have a longer term timeline for your invested funds, stay invested no matter the headlines. If the last couple of months are any indication, 2025 is likely to be a turbulent year in the stock market. But decades of history show us that the market will go up over longer periods, so the smartest move a long-term investor can make is to keep investing and stay invested.

With rising inflation and uncertainty about the impact of potential tariffs, American consumers are becoming increasingly nervous. Regardless of economic results, everyone should evaluate their financial situations annually, if not a couple times a year, by reviewing their budget, especially when times seem a bit tight – tracking credit spending and those "small" extras that add up can be an unexpected reality shock. Then take steps to adjust spending when needed, pay down debt, and increase savings. If additional funds are found to continually be available, then consider increasing retirement contributions and create personal financial goals, such as paying off credit cards or investing an additional $100 a month in an investment account.

With teens' summer jobs starting soon and even more importantly, college students graduating and going out on their own, this is also a good time to discuss financial literacy with them. Rising tuition costs, student loans, credit card debt, and everyday expenses can quickly become overwhelming. Without a strong foundation in financial knowledge, students may find themselves struggling to manage their money, leading to long-term financial consequences.

As a family, discuss wants and needs, the basics of budgeting, and how bank accounts and loans work. Talking with children about how building credit and using it responsibly is so very important. A credit score is a crucial factor in determining so many financial pathways for our futures, so explain the importance of not using credit for unnecessary expenses and/or having too many credit accounts at once, the significance of scouting for the lowest interest rates and being aware of hidden fees and, most importantly, making payments on time.

Finally, in recent news is the fact that millions of borrowers remain in limbo on their student loans due to the ongoing forbearance associated with the SAVE plan's legal challenges. Because courts have blocked the SAVE plan, millions of borrowers have not had to make payments on their student loans and interest isn't accruing. But the time spent in the forbearance won't count toward student loan forgiveness for income-driven repayment plans, which also remain uncertain. Staying informed and current with student loan changes, requirements of income recertification, and payments is imperative to keeping good credit ratings and saving unnecessary additional interest expenses.

Understanding personal finance is no longer optional – it is essential. Managing student loans, building and maintaining good credit, creating and sticking to budgets, and developing positive, healthy financial habits can set us up for future long-term success.

Kelly S. Diehr, FPQP®
Administrative Assistant

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Investment Strategy

As we reflect on the first quarter of 2025, it's clear that it was a quarter that has been anything but predictable. The quarter was marked by heightened uncertainty, with a range of challenges affecting market sentiment. These challenges included ongoing trade tensions, inflation concerns, and rising fears of a potential recession.

One significant factor driving the volatility has been the ongoing trade wars, particularly between the U.S. and China. Tariffs and unresolved trade issues have created a cloud of uncertainty, weighing heavily on global market sentiment. Alongside this, inflation continues to be a pressing concern, despite the Federal Reserve's best efforts to bring it under control. Additionally, with economic growth slowing, there are growing concerns that the possibility of a recession is becoming more likely. These combined factors have contributed to market correction and increased volatility during the quarter.

However, not all of the news is negative. The fourth-quarter corporate earnings were better than expected, providing some relief to the market. Employment numbers have remained strong, and the overall economy has shown resilience despite these ongoing challenges.
We remain focused on companies with strong fundamentals, solid balance sheets, and competitive advantages—businesses that are well-positioned to weather periods of uncertainty. Companies that have pricing power, high margins, and consistent cash flows are likely to be better positioned to thrive in unpredictable conditions.

Our asset allocation continues to be flexible and responsive to both market conditions and client specific needs. Currently, we are maintaining 5-10% in money markets and short-term government securities, which provide stability and liquidity. Equities make up 40-60% of the portfolio. While the equity

See **Strategy** *on Page 7*

Long-Term Care Planning

The cost of long-term care is significant—and something most retirees will face. Here's what to consider when deciding between self-funding or purchasing long-term care insurance. Close to 70% of today's 65-year-olds will require long-term care—ranging from in-home health aides to full-fledged nursing homes—and the costs are staggering.

The median annual outlay in 2023 was $75,504 for an in-home health aide and $116,800 for a private room in a skilled nursing facility from a genworth.com study in 2023.

With the average American requiring three years of long-term services and support during their lifetime, that means budgeting anywhere from $226,512 for an in-home health aide to $350,400 for a private room in a nursing homebased on today's prices.

How, then, can you plan for the possibility of long-term care without upending your finances or your loved ones' lives? "It's best to talk openly and honestly about your options with everyone who might be affected," says Schwab's Center for Financial Research (SCFR). "For example, can you afford to pay out of pocket from savings—perhaps with some physical support from family to help keep costs down? Or would you rather have the peace of mind that long-term care insurance can provide, even if you don't end up needing the coverage?"

Deciding on an approach starts with understanding your options and considering how they might fit into your financial plan.

Paying out of pocket: "The appeal of self-funding is you'll pay only for the care you use, whereas with insurance you could pay premiums for years and never use the coverage," according to SCFR.

The key is to plan ahead and save in ways that are tax-efficient while maintaining your flexibility, including:

Contributing to a health savings account (HSA): Contributions to HSAs are federally tax-deductible, earnings are tax-free, and withdrawals are also tax-free if used for qualified medical expenses, including long-term care. "To maximize the value of your HSA, try to preserve its tax-free dollars for your long-term care needs by paying out of pocket for routine medical expenses you can afford to cover today," Rob says. You must be enrolled in an eligible high-deductible health plan to make contributions to an HSA.

Purchasing long-term care insurance: "Much of this decision comes down to not just your financial resources, but also how you feel about the risk of affording long-term care costs when needed," says SCFR. "Even if you can self-insure comfortably, long-term care insurance may still be worth considering, either as a supplement to or in lieu of paying out of pocket."

There are three main ways to access long-term care insurance:

Traditional policies: Whose premiums can increase over time and whose benefits are typically "use 'em or lose 'em"—unless you purchase a return-of-premium rider, which reimburses premiums to your heirs after your death if you never use the policy. Another option is to purchase a shared-care policy that transfers any unused benefits from one spouse to the other.

Hybrid policies: Which effectively use life insurance or an annuity to pay for any eventual long-term care expenses. "It's a way to plan for long-term care and potentially provide for a death benefit or cash value if you die without using the policy's coverage," SCFR says. Hybrid policies tend to be more expensive than traditional policies, but are typically paid for with either fixed premiums or a one-time payment, protecting you from future premium increases.

Permanent life insurance with a long-term care rider: Which essentially advances you all or a portion of the death benefit so you can use it for long-term care if you need it. Its primary purpose is to ensure a death benefit for survivors, with an optional rider that allows coverage of long-term care expenses, though this is typically less than what a

See **Planning** *on Page 7*

Planning

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hybrid policy would offer. It's generally most cost-effective to purchase long-term care insurance in your 50s or early 60s.

According to the American Association for Long-Term Care Insurance, average annual premiums for a traditional policy in 2024 were $1,750 for a 55-year-old man and $2,800 for a 55-year-old woman, assuming $165,000 in initial benefits that increase 2%, each year. The good news is that such premiums can either be paid from your HSA or deducted from your taxable income, up to the annual limit—assuming you itemize and your total medical expenses exceed 7.5% of your adjusted gross income. Hybrid policy premiums may be only partially deductible. Better with age, the older you are, the more of your long-term care insurance costs you can deduct.

Age at end of tax year	Deduction limit
40 or younger	$480
Older than 40 but no older than 50	$900
Older than 50 but no older than 60	$1,800
Older than 60 but no older than 70	$4,810
Older than 70	$6,020

Source:irs.gov. Limits are for 2025.

As with all insurance, long-term care policies come with caveats, including: Eligibility requirements, Elimination periods, Coverage limitations and Benefit caps: "If you're going to purchase a long-term care insurance policy, make sure you understand what you're buying—down to what kind of facilities it covers," according to SCFR.

The bigger picture,if, like many people, you find it hard to contemplate the possibility of your own diminished capacity, it can be helpful to work with an impartial third party, such as your wealth advisor or financial consultant, who can help you evaluate options within the context of your financial plan, estate-planning goals, and any concerns you may have about your long-term health.

Sources: Schwab Center for Financial Research, long-termcare.com, U.S. Department of Health and Human Services and the Urban Institute, American Association for Long-Term Care Insurance, genworth.com.

Strategy

(Continued from Page 5)

markets have faced some corrections, we continue to see opportunities for long-term growth. The remaining 30-40% of the portfolio is allocated to fixed income. This mix will be adjusted based on each client's goals, risk tolerance, and income requirements.

Thank you for your continued trust and partnership. We look forward to working with you as we navigate the challenges and opportunities ahead.

Jeffrey S. Naylor
Executive Vice President/CFO

Schwab Updates - Tax Time is Prime Time for Fraudsters

Tax time is one of the most active times of the year for fraud scams—in addition to the high volume of tax-related transactions, they also leverage taxpayers' fear of the IRS to pressure investors for money and information, pretending they work for the tax authorities. Even the most diligent and well-informed tax professionals can fall victim to these scams.

For those reasons, remaining calm, alert, and aware of common tax season scams is vital. Please review the facts below to help educate yourself about these threats.

Be sure you know these facts about the IRS:

- The IRS contacts taxpayers by mail first; it does not initiate contact via unexpected phone call, voicemail, text, email, or social media.
- The IRS does not request personal or financial information.
- You can look up the names of official notices and letters on the IRS website.
- The IRS cannot revoke driver's licenses, business licenses, or immigration status.
- The IRS cannot threaten to immediately bring in local law enforcement.

Avoid any mailing or online offers to help set up an IRS Online account, as well as transacting with fake charities, sites or groups offering misleading tax information or bogus tax forms and any tax preparers promising huge tax refunds, or especially those who will not provide their IRS PTIN. Carefully review misleading offers of fuel tax credit or Employee Retention Credit (ERC), as these programs are intended for limited groups and specific criteria must be met.

AI scams are on the rise—be on the lookout:

Artificial Intelligence (AI) is technology that enables machines to mimic certain human-like behaviors. Three types of AI are particularly useful to scammers:

- **Chatbots:** AI-powered bots can engage in realistic, long-term conversations, tricking victims in romance and phishing scams.
- **Voice Cloning:** AI can mimic real voices, making family emergency scams more believable.
- **Deepfakes:** AI-generated videos can impersonate real people, leading to fraud and misinformation.

Best practices for avoiding any scam:

- It's important to always verify the legitimacy of any communication; whether it is visiting a website, email, phone call or mailed letter.
- Avoid clicking on links offering you something for nothing, any messages asking for log in credentials, and hang up on calls asking for personal information, charitable donations or offering unsolicited tech support.
- If you receive a suspicious call, hang up, don't send them money, don't provide personal information.
- Hang up on gift card scams. And never use a gift card to pay for any money request, whether it's for the IRS, Social Security, a family member in trouble or any tech company.
- Scammers will insert urgency in the situation – take your time and speak with someone you trust if unsure of the validity of the caller.

Remember: Promptly report any fraud or suspicious activity to us at (607) 734-2665 or contact Schwab Alliance at 800-515-2157.

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