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MARKET UPDATE

Equity markets experienced much more volatility in March than what has been seen year to date, where the CBOE’s Volatility Index (VIX) spiked to 27.86, levels that were previously experienced in the middle of December last year. This volatility caused the S&P 500 to experience the largest month-over-month decline since December of 2022, where the index fell 5.63% on mixed messaging about tariffs from the new administration policies and their potential impacts on economic growth and inflation. Because of this, US investors are increasingly investing in European markets where the Stoxx Europe 600 has outperformed the S&P 500 by 9.8% year to date.

Fixed income markets relatively outperformed equites for the month, with the Bloomberg US Aggregate Bond Index ever so slightly up .04%. The yield curve had minimal movement with only the 2-year tenor have a double-digit basis points move, falling from 3.991% to 2.885%, and the 10-year experiencing negligible change and remains near 4.2%. Inflation still remains above the Federal Reserve’s 2% target, but several Fed officials have expressed views that inflation rates appear to be remaining stable at least.

However, in order to begin lowering interest rates, the US central bank would need to have confidence that inflation would continue moving downwards, where rates have remained the same since the most recent December meeting and markets are betting that the next cut may happen in the June meeting later this year. Overall, while economic uncertainty persists, the U.S. economy remains stable with a strong labor market. Many investors believe the economy can continue growing, conditioned on trade policies stabilizing and businesses gaining clarity needed for future planning and investment.

ADVISORS’ PERSPECTIVE

As 2025 unfolds, markets are adjusting to a new phase of economic and political dynamics. While the U.S. economy continues to show surprising strength, the landscape is shifting—with new tariff proposals, persistent inflation, and a Federal Reserve navigating a complex balancing act. So far, economic data continues to beat expectations. GDP growth is holding steady, unemployment remains low, and consumer spending, though starting to show signs of moderation, is still a major driver. The labor market remains tight, with wage growth staying firm, which is helping consumers but also complicating the Fed’s job on inflation.

Trade policy is once again front and center. President Trump has already proposed a fresh round of tariffs, targeting strategic imports from China and expanding duties on sectors like steel, semiconductors, and electric vehicles. These moves are aimed at protecting American industries and reducing reliance on foreign supply chains. However, they’re also raising concerns among global partners and multinational corporations, some of which are warning about potential retaliation and higher input costs. While these tariffs may benefit certain domestic industries in the short term, they add a layer of uncertainty to the broader economic outlook.

Inflation remains a stubborn issue. Though down from its 2022 peak, progress has slowed in recent months. Core inflation is proving sticky, with housing, healthcare, and services driving much of the pressure. The Fed has responded by keeping interest rates elevated, despite market hopes for cuts earlier in the year. Policy makers have made it clear they need more consistent signs of easing price pressures before taking action.

At the same time, recession fears that loomed large in past years have faded. There’s little sign of an imminent downturn, though risks remain. Higher rates are beginning to bite in pockets of the economy, particularly in commercial real estate and some credit markets. Household debt is climbing, and delinquencies in auto loans and credit cards have ticked up. Still, these pressures haven’t yet spilled over into broader economic weakness.

Investors are also positioning themselves for policy shifts under the Trump administration—ranging from deregulation to tax changes—that could impact profitability across industries. On the other hand, bond markets remain skeptical. Yields are still elevated, and the yield curve remains inverted, often a historical signal of future economic cooling, even if the timing remains uncertain.

Looking ahead, market sentiment will be shaped by inflation data, consumer confidence, and clarity from both the Fed and the White House. While the economy appears stable for now, geopolitical tensions, policy changes, and the timing of any rate cuts will all play a role in how the second half of the year unfolds.

In short, the economy is strong, but the road ahead is far from smooth. With the return of tariff-heavy policies and a data-dependent Fed, investors are navigating a landscape that blends solid fundamentals with a fair share of uncertainty.

We remain cautiously optimistic and continue to use a quantitative investing approach. In times of uncertainty, it is more important than ever to follow the data and not make decisions based on emotions. Hilltop’s partnership with Helios relies on facts and data which we use during our recalculations on a bi-weekly basis. Our models adjust appropriately to market conditions.

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