

MJM INVESTMENT ADVISORS, INC.

Second Quarter 2025 Investment Outlook

DOG(E) Years

“The market and the economy have become hooked, become addicted, to excessive government spending, and there’s going to be a detox period.”

“There are no guarantees there won’t be a recession. Like, who would have predicted Covid, right?”

“Corrections are healthy. They’re normal. What’s not healthy is straight up, that you get these euphoric markets. That’s how you get a financial crisis.”

“Wall Street’s done great, Wall Street can continue doing well, but this administration is about Main Street.”

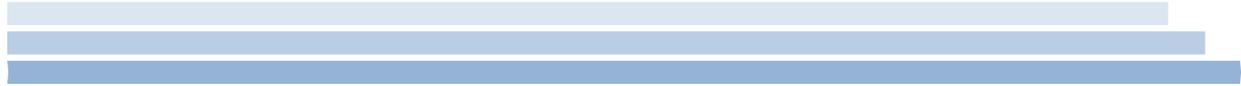
– Scott Bessent – U.S. Treasury Secretary

The exact origin of the even dog years to one human year ratio is unknown but probably originated from a simplified attempt to understand canine aging. It gained popularity in the mid-20th century as having dogs for family pets grew and as veterinarians and pet owners tried to approximate how a dog’s lifespan compared to a human. It’s cited to help people grasp that dogs age more quickly than humans. Most dogs live until the ages of 10-13 years, which would equate to the typical human reaching the age of 70-91 years. Sounds about right.

There is a need to determine a new formula for DOG(E) years. DOGE is the acronym for the Department of Government Expenditures, a non-agency team appointed by President Trump and currently headed by Elon Musk. DOGE is tasked with figuring out as quickly as possible how to cut Federal government expenditures including reducing the Federal workforce, eliminating bad contracts, reducing government leased real estate, eliminating Social Security and Medicare fraud, and cutting spending provided to non-governmental organizations. Any American can chip in and post a recommendation to eliminate wasteful spending on the DOGE website (doge.gov). Elon Musk has stated the primary goal of DOGE is to achieve \$1 trillion of cost reductions and he seems confident and determined to get there in an atypical timeframe for government, which would aptly be called DOG(E) years. Researchers may eventually settle on a formula for what one DOG(E) year equates to in human years but so far it is certainly faster than the 7:1 ratio for dog years. The DOGE savings tally is posted online for 100% transparency and tracking including a Wall of Receipts that lists the savings by department and/or contract and how much is being saved per U.S. taxpayer. It hasn’t been all fun and accolades for Elon. Members of Congress are hurling insults at him, organizations impacted by DOGE have tried to use district judges to issue injunctions, and there is an orchestrated effort to vandalize Tesla cars and showrooms across the country. It’s kind of odd behavior against someone who is doing all American taxpayers a great service to eliminate government waste and fraud with a team that is 100% volunteers.

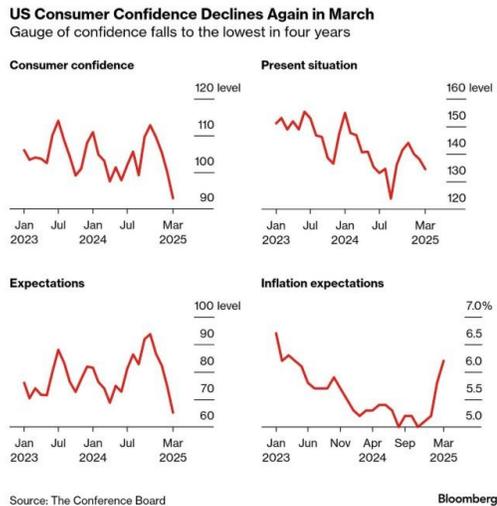
Since the Trump Administration took office on January 20th, many have been shocked by the pace of DOGE and other policy changes implemented by the Trump Administration. Let’s face it, almost no one expects anything related to government to move at a rapid pace but Trump’s 2nd term has hit the ground running and it has taken everyone by complete surprise in just two months. Besides DOGE related actions (\$155 billion of savings), tariffs are another major policy change that has upended the global economic order and unsettled global financial markets. The pace of these policy changes has never been seen before in any

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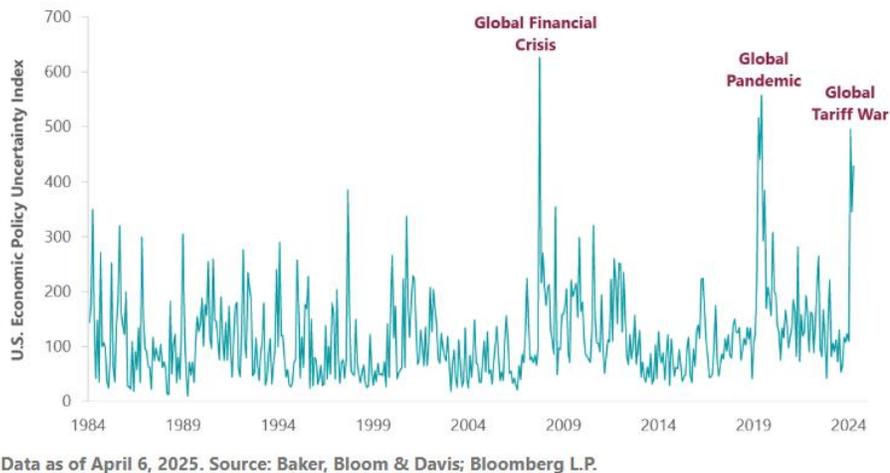


previous U.S. Administration and has shocked financial markets and led to a meaningful slowdown in the U.S. and global economic growth outlook. President Trump and Treasury Secretary Scott Bessent are clearly less focused on the short-term impact on financial markets (Wall Street) and the U.S. economy and more interested in reversing some the negative effects that globalization have had on American communities (Main Street) over the last 40 years.

Many people are uncomfortable with abrupt change, and these rapid policy shifts have been a major factor in recent sizable declines in consumer sentiment. As shown in the next four charts from the latest Conference Board survey from March, consumer sentiment is falling, people’s expectations for their present and future condition are getting worse, and inflation expectations are rising, none of which are positive.

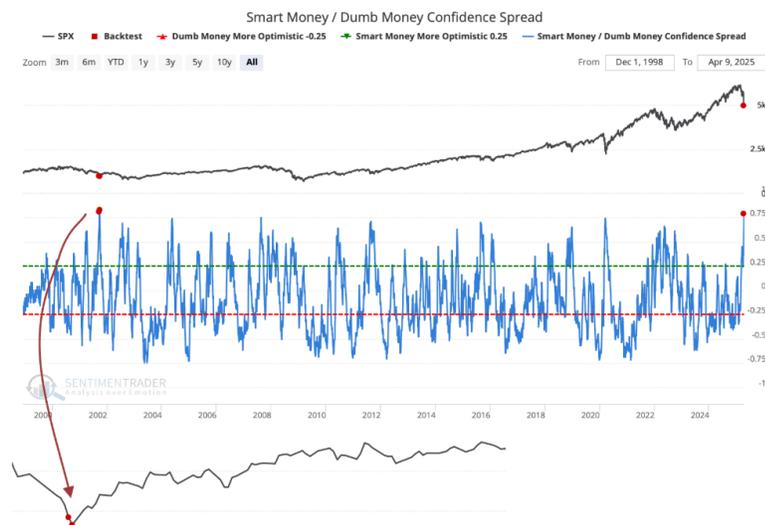


The pace of and aggressive nature of the policy changes implemented by the Trump Administration have caused economic policy uncertainty readings to soar. Going back 40 years, the only other times when uncertainty readings reached these extreme levels were two major negative economic events, the 2008 Global Financial Crisis and the 2020 Global Pandemic.

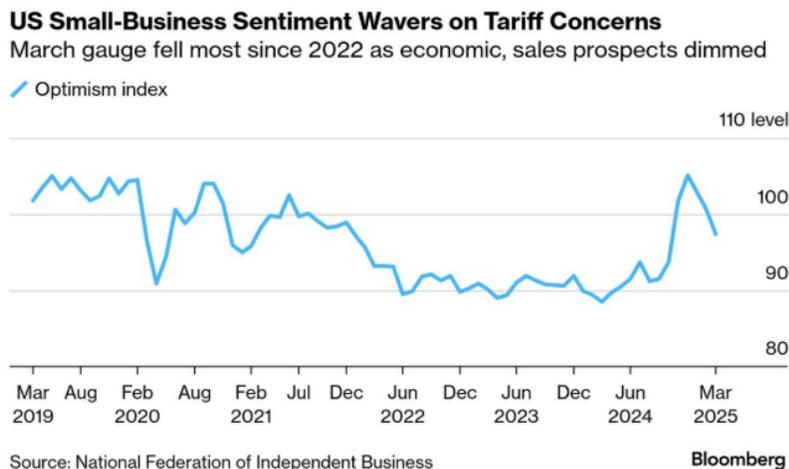


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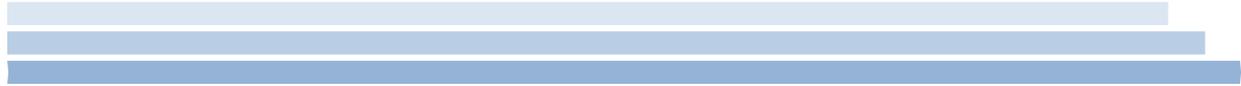
The one thing that investors and financial markets absolutely hate is uncertainty. Explain what the policy is, why you are doing it, what the new rules are, and companies and financial markets will adapt accordingly. However, when there is rapid change that is not well explained and shifts almost daily, that is a different matter and leads to increased market volatility, which is what investors experienced in February, March, and the first half of April. One way to measure the degree of investor angst is via the Smart Money / Dumb Money Confidence Spread produced by SentimentTrader. As shown in the next chart, investors quickly turned from being overly confident throughout 2024 (below the red/lower dashed line) to having extremely low levels of confidence (above the green/upper dashed line) by early April. The only other time the investor confidence spread was this negative was during the 2002 recession. However, as indicated in the lower part of the chart, the last time in 2002 when investor confidence was this low, it marked a bottom for the U.S. stock market. It remains to be seen if that will be the case this time around.



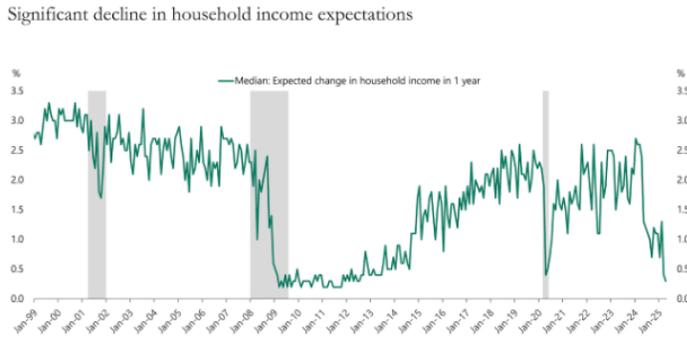
Small business sentiment is also getting worse. The March survey from the National Federation of Independent Business shows that small and medium sized businesses are less positive about the future and most certainly due to the negative and uncertain impact of tariff changes.



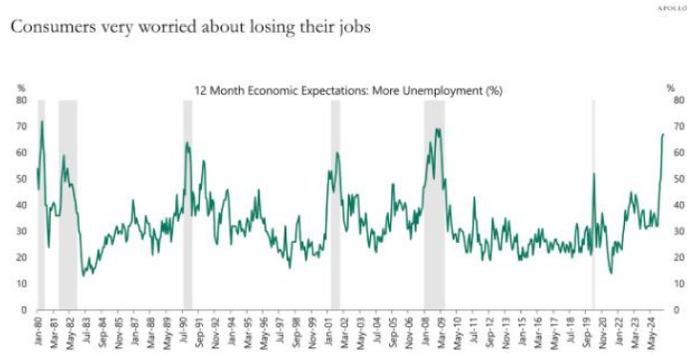
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The rapidly changing landscape is also reflected in the next two charts from the latest University of Michigan consumer survey. Income expectations are plummeting and job loss worries are soaring.

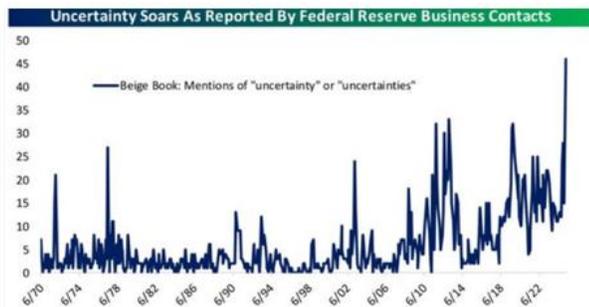


Sources: University of Michigan, Bloomberg, Apollo Chief Economist



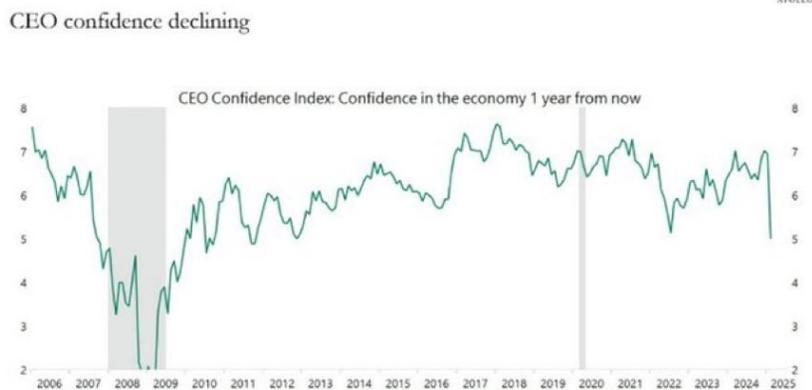
Sources: University of Michigan, Haver Analytics, Apollo Chief Economist

The significant and rapid deterioration of consumer and business confidence is related to the significant changes to tariffs that the Trump Administration has proposed and the rising uncertainty it is causing for both consumers and businesses. The next two charts from recent regional Federal Reserve Bank surveys shows that uncertainty readings have soared in just a few months.



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Rising uncertainties have negatively impacted CEO confidence in the economy on a one year forward basis, as reflected in this survey data from Chief Executive Magazine.



Sources: Chief Executive Magazine, Bloomberg, Macrobond, Apollo Chief Economist

A global trade war is now the overwhelmingly biggest risk that institutional investors fear based on the latest data from the April Global Fund manager survey conducted by BofA.



Source: BofA Global Fund Manager Survey.

BofA GLOBAL RESEARCH

Fund Manager Survey (BofA)

All the prior charts are sentiment readings of how investors, consumers, and businesses feel about the future but what are the potential implications for the U.S. stock market as measured by the S&P 500 Index? The next chart shows net earnings revisions for the S&P 500 Index from 1996 through the end of March. Positive earnings revisions occur when more analysts are increasing their future earnings estimates whereas negative earnings revisions are when more analysts are reducing their future earnings estimates. The shaded area going lower means there are more negative earnings revisions than positive earnings revisions and vice versa. The 2025 earnings outlook has worsened and the tariff policy changes made by the Trump Administration are the biggest factor. The largest prior drops in net earnings revisions occurred during the 2008 Global Financial Crisis and the 2020 Global Pandemic events. In both cases, you can see that earnings revisions went extremely negative. As of today, while earnings revisions have turned negative, the latest earnings revisions reading is comparable to other periodic economic slowdowns or mild recessions as

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opposed to more severe recession events like the GFC or GP when the U.S. stock market declined over 30%. To the extent the tariff negotiations take more time or the tariff levels end up being higher than expected, the earnings outlook has more downside risk as 2025 plays out.



The combination of deteriorating investor, consumer, and business sentiment combined with declining earnings forecasts has put a dreaded quadruple whammy on U.S. stocks starting in February and continuing into mid-April. The tariff situation is literally a day by day event and financial markets can move in a meaningful way depending on the latest headline. When new reciprocal tariffs were originally announced on April 2nd, the U.S. stock market plunged over the next four days with the S&P 500 Index losing 12% and the Russell 2000 Index dropping 14%. After significant blowback from U.S. CEOs and others, on April 9th the Trump Administration announced a 90-day moratorium on reciprocal tariffs to allow more time to negotiate with other countries who expressed interest in new trade deals. The stock market then soared 9%, one of its biggest one day gains in history. The one major exception to the reciprocal tariff moratorium was China, where Trump raised its tariff level to 125% and China responded in kind the following day. Clearly, we are now in a heightened price volatility environment that is being driven almost exclusively by the latest tariff headlines.

Policy uncertainty is not good for either the U.S. economy or corporate earnings but what does this uncertain environment potentially mean for the valuation of the S&P 500 Index? The next table on the left is from Goldman Sachs (GS) and uses three potential earnings estimates and forward price/earnings (PE) multiples to provide a fair value framework for the S&P 500 Index. The middle column shows GS's latest baseline estimate of \$253/share of earnings (+3% earnings growth vs. 2024) and what fair value for the S&P 500 Index would be using various PE multiples. As discussed in the 2025 Investment Outlook, coming into 2025, U.S. stocks were trading at the top end of their historical forward PE multiple range at 22X but had fallen to 20.2X by 3/31/25. Maintaining a 22X multiple to GS's latest \$253 baseline earnings estimate would mean a -1% return for the S&P 500 Index for the rest of 2025. GS shows other PE multiples based on the trailing 5-year, 10-year, and 30-year PE averages for the S&P 500 Index. In all cases, the PE multiples are lower and all show meaningful potential downside for U.S. stocks if the PE multiple reached any of those levels. In fact, there is only one scenario where GS believes U.S. stocks have upside and that would be maintaining the high 22X forward PE multiple and earnings staying strong at \$269/share (+9% earnings growth vs. 2024) to get a 5,900 price target for the S&P 500 Index (top right box). Even under the best case scenario, the S&P 500 Index only offers a mid-single digit return upside. The left side column

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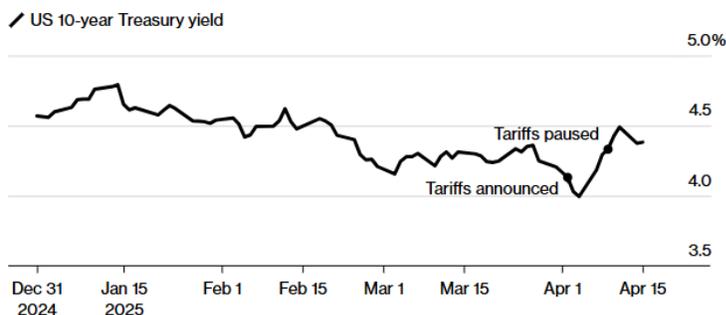
shows a recession scenario of -11% earnings growth or \$220/share and in every one of those cases the S&P 500 Index has significant downside risk. The table on the right presents data on seven previous U.S. recessions, illustrating the S&P 500 Index's performance from its market peak to trough during each period. The average decline was 35%. There is a very big difference in stock market performance between an economic slowdown and a recession.

		2025 EPS scenario		
		Recession scenario	GS baseline	Bottom-up consensus
		\$220	\$253	\$269
		(-11%)	(+3%)	(+9%)
Forward P/E	22x Jan. 2025	-13%	-1%	6%
		4850	5550	5900
	20x 5-year avg	-21%	-10%	-3%
		4400	5050	5400
	18x 10-year avg	-29%	-18%	-13%
	3950	4550	4850	
16x 30-year avg	-37%	-27%	-23%	
	3500	4050	4300	
MZ 2018 low	-44%	-36%	-33%	
	3100	3550	3750	

Recession start	Recession end	SPX				
		Peak trough (months)	Peak trough (perf)	Trl EPS peak to trough	Trl PE trough	PE de-rating% to trough
Nov-73	Feb-75	12	-44%	-15%	7.2	-42%
Jan-80	Jun-80	2	-15%	-5%	7.0	-9%
Jul-81	Oct-82	21	-27%	-19%	7.1	-15%
Jul-90	Feb-91	3	-20%	-37%	13.1	-19%
Mar-01	Oct-01	26	-49%	-54%	23.9	0%
Dec-07	May-09	17	-57%	-92%	11.6	-33%
Feb-20	Aug-20	1	-34%	-33%	18.0	-22%
Average		12	-35%	-29%	12.6	-20%
Median		12	-34%	-19%	11.6	-19%

Source: IBES, LSEG Data & Analytics, Barclays Research

The upheaval caused by the Trump Administration's policy changes is not isolated to the stock market. The bond market has shown signs of stress too as longer maturity U.S. Treasury bonds have seen yields surge higher over a short period of time. As the next chart shows, the 10-year U.S. Treasury yield moved almost 0.50% higher in about one week, a historic sized move over such a short time period. This type of reaction is not normal during economic slowdowns or a major global issue arises because U.S. Treasuries typically get a flight to quality bid. This time the opposite is happening and some believe it is because of over leveraged investors forced to sell more liquid assets like U.S Treasuries in order to reduce leverage and cover stock losses. It may also reflect foreign investors selling U.S. Treasuries because they have less confidence in U.S. assets and its economic policies.

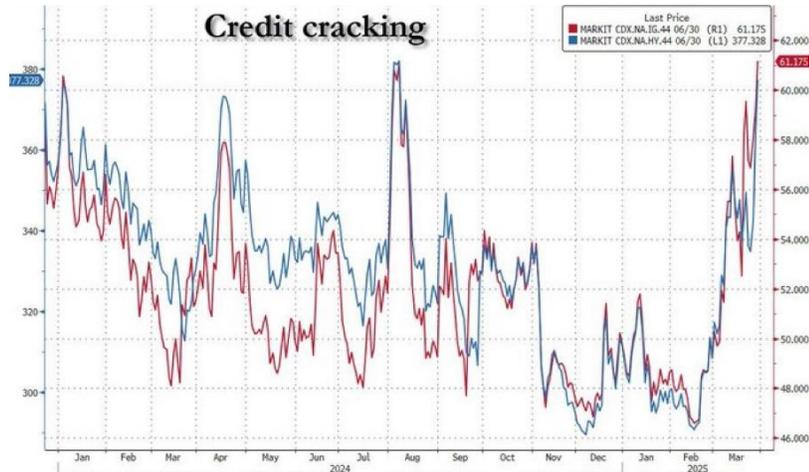


Source: Bloomberg

In addition, credit spreads on corporate bonds, both investment grade and high yield, are starting to widen from historically tight levels at the start of the year. Credit spreads are the extra yield an investor requires above a comparable maturity Treasury bond in order to assume credit risk. Credit default swaps are derivative securities that offer investors a means to hedge against credit defaults. As the next chart shows,

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the cost of protecting against credit defaults has surged higher, reflecting increased concerns about a deteriorating economic outlook and the elevated volatility experienced in the bond market the past several weeks.



The U.S. dollar has had significant weakness against major foreign currencies as shown in the next chart of the Euro/USD exchange rate. U.S. dollar weakness is another sign that foreigners are selling U.S. assets in response to the aggressive reciprocal tariffs announced by the Trump Administration. It should be noted that the strengthening of foreign currencies against the U.S. dollar has a positive impact on returns for U.S. investor owning international assets and has been a major contributor to the large outperformance of international stocks over U.S. stocks so far in 2025.



On the jobs front, the March payroll report and the last several weekly unemployment claims readings show the job market continues to hang in there. However, it is highly likely the monthly jobs reports over the next several months will start to weaken as the DOGE related federal government job layoffs take effect plus the flow through effect on private companies losing government funding and also layoffs associated with tariff uncertainties.

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Since the U.S. economy benefited from excessive federal spending the past four years, an abrupt pivot towards cutting government expenditures and higher tariffs is not going to occur without some degree of negative economic impact. This pivot will manifest in three ways. First, job losses from DOGE related actions will be a major overhang on the job market. Second, uncertainties brought about by new tariff policies will cause business spending to slow or pause until more clarity is known. Third, a weaker labor market will lead to more cautious consumer spending and lower economic growth. Even high end consumers will be negatively impacted because their confidence is more heavily influenced by the stock market. When it declines and the economic outlook worsens they also reign in discretionary spending.

Summary

Many investors probably feel like the past two months have felt like one dog year but in DOG(E) terms the aging process has accelerated even faster. Uncertainty levels have risen rapidly and consumer and business sentiment has deteriorated substantially in just a few months. The fate of financial markets for the remainder of 2025 now rests on how quickly the tariff negotiations are completed, whether any new tariff arrangements are eventually positive for U.S. businesses and consumers, and whether China and the U.S. will walk back from their draconian tit-for-tat tariff actions. Overall, the risks currently outweigh the rewards and elevated stock and bond market volatility will likely continue until the situation improves. Stock market valuations have improved from the start of the year, but the earnings outlook has worsened and a lower valuation profile for U.S. stocks is warranted.

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Chief Investment Officer
April 17, 2025

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