



Old Second
WEALTH MANAGEMENT



RIVERSTREET
ADVISORS, LLC

Monthly Mosaic | March 4, 2025



Perspective

Despite recent market performance and shifting policy initiatives in Washington, it is important to recall that market performance has shown no significant difference from any one party's control in Washington. Still, historically we have seen interesting nuances related to politics and research around "The Congressional Effect" which highlights that the majority of market gains (more than 90%) can be attributed to days when Congress is out of session. This appears to provide credence to the notion our elected officials don't know what they are doing! In retrospect this is as likely a result of investors' reaction to uncertainty surrounding government policy. This remains the case today with the current administration's shifts in policy. Markets take time to digest those shifts resulting an increase in uncertainty until the impact of those changes become clear. At the top of the list are Tariffs and possible government cutbacks associated with the Department of Government Efficiency (DOGE).

Tariffs which have already been announced on imports of steel and aluminum and schedule to go into effect March 12th and expected tariffs on our closest trading partners of Canada and Mexico of 25% are effective today, March 4th coinciding with tariffs increasing from 10% to 20% on China. The media has simplified the impact of tariffs as price increases and therefore inflationary, yet exchange rates and consumer choices are quite fluid. In fact, tariffs imposed during Trump's first administration only impacted the price of those affected goods while the U.S. PCE (the Feds' preferred inflation index) remained largely unchanged. While reciprocal tariffs have been threatened by trade partners it is important to note that U.S. goods are already tariffed at a rate of over 2.5 times that of goods imported into the U.S. This imbalance contributes to the current trade deficit of over \$1 Trillion. Furthermore, the World Trade Organization does not view Value Added Tax (VAT) in consideration of trade relations, but when included with tariffs, U.S. goods are "taxed" at a rate of 25% in the EU, 23% in Mexico and 19% in Canada. While free trade is indeed the optimal outcome, it must also be fair trade. Left unchecked dislocations occur resulting in inefficient markets and sub optimal outcomes.

Other policy shifts related to fiscal responsibility have also been under fire as many federal employees in their probationary period were released and DOGE continues to provide transparency on savings opportunities within the federal government. Interestingly, nobody appears too concerned about the beneficial impact federal cutbacks and reduced spending would have on inflation. With that in mind, it is important to step back and process ALL of the administration's policy initiatives in the context of the current market environment. The economic indicators are mixed as we have seen a slowdown in retail sales last month and a drop in housing starts. Yet, unemployment remains low and wage growth remains over 4%. The economic uncertainty combined with potential impact of the administration's initiatives has put U.S. markets on pause.

Year-to-date U.S. markets has softened as there has been a clear shift to risk-off assets. The S&P 500 Index is up 1.44% as the Tech and Consumer Discretionary Sectors both traded down -3.1% & -3.8% respectively. All other sectors are in the green but international stocks have taken leadership with a 7.3% return. It is too early to tell if there may finally be a transition toward and extended run among international stocks but it does appear the shifting initiatives abroad have opened up to a reduction in regulation both home and abroad. The pending ramp up of tariffs and negotiations over cross border agreements may be the offset to an otherwise favorable environment for stocks. In the current environment investors remain uncertain and the resulting stock prices reflect a discount. Diversified portfolios have benefited as bonds rallied in February providing opportunity to take advantage of froth in the market.



Monthly Recap

- Tariffs expected to be initiated in February were implemented on China while tariffs for Canada and Mexico were delayed one month as the countries progressed through negotiations on terms.
- President Trump announced a rollout of reciprocal tariffs is expected, as a study is being conducted. The reciprocal tariffs will need to be customized on a country-by-country basis starting with those countries with who the United States has the largest trade deficit.
- President Trump ordered the creation of a United States Sovereign Wealth Fund. A Sovereign Wealth Fund is a state-owned investment fund that invests in financial assets such as stocks, bonds, or other financial interests.
- Ukrainian President Zelenskyy met with President Trump in the Oval office in part to sign an economic agreement between the countries which would have provided the U.S. access Ukrainian rare earth medals. The televised meeting fell apart as Zelenskyy demanded U.S. assurance of security and recapped previous aggression by Putin which was largely unchecked by previous administrations.



Markets

Market Indices	Total Return as of: 2/28/2025		
	MTD %	YTD %	1-Year %
S&P 500 Index	-1.30%	1.44%	19.05%
NASDAQ Composite	-3.91%	-2.31%	19.02%
Russell 2000 Index	-5.35%	-2.87%	7.47%
MSCI EAFE Index	1.94%	7.30%	8.98%
MSCI Emerging Markets	0.48%	2.28%	10.32%
BBG US Aggregate Bond	2.20%	2.74%	5.96%
WTI Crude Oil	-3.82%	-2.73%	-11.18%
Gold	2.12%	8.89%	40.47%



Interest Rates

	Close 2/28	Prior Month	Year Ago
Fed Funds Target	4.50%	4.50%	5.50%
6-Month US Treasury	4.13%	4.16%	5.11%
2-Year US Treasury	3.99%	4.20%	4.63%
10-Year US Treasury	4.21%	4.54%	4.27%

The Month Ahead

MARCH 5TH

S&P Global - U.S. PMI

MARCH 7TH

Bureau of Labor Statistics - Jobs Report

MARCH 12TH

Consumer Price Index Report

MARCH 18TH

FOMC - Rate Decision

MARCH 22ND

S&P Global - U.S. PMI

MARCH 28TH

Personal Consumption Expenditure Price Index

Questions?

Your Wealth Management team is here to answer.

Richard Gartelmann, CFP®
(630) 844-5730
rgartelmann@oldsecond.com

Jacqueline Runnberg, CFP® CDFIA®
(630) 966-2462
jrunnberg@oldsecond.com

Steve Meves, CFA
(630) 801-2217
smeves@oldsecond.com

Brad Johnson, CFA, CFP®
(630) 906-5545
bjohnson@oldsecond.com

Chris LaPorta, AFIM, CTFA
(630) 264-3002
claporta@oldsecond.com

Mike Cava, CFA, CFP®
(630) 281-4522
mcava@oldsecond.com

Travis Buoy
(630) 906-5488
tbuoy@oldsecond.com

Yamilet Suarez
(630) 844-8633
ysuarez@oldsecond.com

Amy Lynch
(630) 906-5478
alynch@oldsecond.com

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