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## 1<sup>st</sup> Quarter 2025 Moreno Dye Cervantes Wealth Management Group of Wells Fargo Advisors Quarterly Newsletter

As we anticipated, the beginning of 2025 has been more volatile as the unrelenting flow of news out of the new Trump administration has unequivocally increased financial market volatility. President Trump is predictably unpredictable and as we have discussed with all of you in the past, the financial markets do not like unpredictability and will discount stock valuations as a result. In the 1<sup>st</sup> quarter, certain areas of the stock market have performed better with dividend paying stocks and international stocks outperforming the more expensive growth and technology sectors. Additionally, with increased uncertainty, bonds have become a safer haven to start the new year which you can see from the performance numbers below.

	1 <sup>st</sup> Quarter 2025	2024 Performance
Dow Jones Industrial Average	-0.90%	15.0%
S&P 500 Index	-4.30%	33.4%
S&P 500 Equal Weighted Index	-0.60%	13.0%
NASDAQ Composite Index	-10.30%	29.6%
Russell Mid Cap Index	-4.50%	15.3%
Russell 2000 Index (Small Cap)	-9.50%	11.5%
MSCI EAFE – International Index	7.00%	4.3%
Bloomberg Barclays US AGG Bond	2.80%	1.3%

\*Wells Fargo Investment Institute Capital Market Summary

As we write this letter, the latest news flow out of Washington, D.C. has revolved around the Trump Administration's announcement of global reciprocal tariffs ranging between 10% and 50% on all U.S. trade partners. The financial markets were anticipating a 10-15% average tariff rate and was shocked by an average tariff rate of close to 25%. Rightly or wrongly, the stock market abruptly sold off and very quickly priced in a high likelihood of an economic recession this year. This is going to take a little time to sort the "wheat from the chaff" as it relates to whether or not the newly implemented tariffs are going to be a permanent fixture moving forward or if they are just a very aggressive form of trade negotiations. We are of the mindset that President Trump's motives are to negotiate new trade deals for the United States, but the margin for error is not insignificant.

In many cases, it is fair to say that U.S. industries are taken advantage of in global trade. Partly from unfair trading practices like tariffs, trade barriers and currency manipulation, but also from American consumers desire for cheap goods from countries that have much lower costs of labor than the United States. We believe that the Trump Administration's ultimate goal is to have a reduction in trade barriers from other countries and increased investment in the United States. There are already reports that countries are offering to lower their tariffs on U.S. goods to 0%, but potentially one of our largest trading partners (China) is considering raising their tariffs to match ours. Needless to say, the news flow is going to continue to be fast and furious.

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The primary concern for the financial markets is that we could see additional inflation pressures from tariffs and a decline in economic growth, which could result in stagflation. Stagflation is the combination of three economic negatives: slower economic growth, higher prices and higher unemployment. This scenario places the Federal Reserve in a difficult position of having to wait and see how future economic data unfolds as opposed to trying to proactively adjust monetary policy. For the first time in a very long time, the FED is not the dominant force for the financial markets. We do not anticipate the FED will be able to lower interest rates to protect against a slowing economy until they see if there is a resurgence of inflation from the recent tariff news.

In addition to tariffs, the financial markets are also contending with the impacts of numerous potential economic cross currents. Congress is currently debating making the 2017 tax cuts permanent and adding additional tax cuts on tips, overtime pay and social security income, which would absolutely be considered an economic positive. Also, the new administration's cabinet heads are working on ways to reduce regulations on corporate America that if done correctly would also be considered positive for the economy. On the other hand, the anticipation of a significant reduction in federal government spending in the short-term would be an economic headwind as would the potential for federal workforce job cuts and immigration policy changes.

We would like to encourage you to focus on the administration's economic objectives as opposed to the daily twists and turns that will dominate the news. The tariff implications for the most part to us seem to be an effort to receive concessions from our trading partners, especially China in order to make the United States more competitive and to improve our economic growth with additional foreign investment in our country. When it comes to Mexico and Canada, the administration is aiming at slowing illegal immigration and the flow of deadly drugs like fentanyl into the country. At this point we believe that market volatility will most likely persist until we gain clarity on what policies will stick vs. the policies that will fade as the administration feels it receives the concessions they are seeking.

The bottom line is we don't want to overreact to financial market volatility. Last week's tariff announcement will dampen global economic activity, but we must stress that things can change very quickly. We anticipate both positive and negative news over the next quarter but impress upon you that as investors we must maintain our focus on the long-term. Market corrections are normal but not predictable and typically occur from something unexpected. In this case, the unexpected news was much larger than imagined global tariffs from the United States that created significant near-term uncertainty.

The most recent correction validates the importance of asset allocation and portfolio diversification in order to help minimize volatility. Bond performance over the last few months has helped to cushion the stock market decline as a safe haven trade. That said, sharp declines in the stock market historically have presented good long-term buying opportunities. We will be looking closely in the coming days and weeks for opportunities to rebalance portfolios in hopes of being able to take advantage of the short-term uncertainty for long-term benefit.

We do recognize and understand that abrupt declines in the financial markets increase anxiety and cause us to question our investment strategy. We will continue to keep in touch to discuss developments in the markets, but please reach out to us if you would like to talk and discuss your portfolio. As always, we greatly appreciate and thank you for the continued trust and confidence that you place in our team. We hope that even with the financial market jitters that your 2025 is off to a good start and we look forward to speaking with everyone soon.

Sincerely,



Jose A. Moreno, CFP®  
Managing Director – Investments



Michael B. Dye, CRPC®  
Managing Director – Investments



Oliver A. Cervantes, CFP®, CRPC®, RICP®  
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The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

The S&P 500/Barra Growth Index is an unmanaged capitalization-weighted index stocks in the Standard & Poor's 500 index having the highest price to book ratios. The Index consists of approximately half of the S&P 500 on a market capitalization basis.

The S&P 500/Barra Value Index is an unmanaged, market-capitalization-weighted index of the stocks in the Standard & Poor's 500 Index having the lowest price to book ratios. The index consists of approximately half of the S&P 500 on a market capitalization basis.

The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P Small Cap 600 Index in size: between \$1-4 billion.

The S&P Small Cap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock's weight in the index proportionate to its market value.

The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia, and the Far East, excluding the U.S. and Canada.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

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