NORTHWEST FINANCIAL GROUP LLC

Weekly Market Commentary

American companies did well in the first quarter.

During earnings season, publicly held companies tell investors how they performed during the previous quarter with a particular focus on earnings, which reflect company profits.

Currently, we're more than halfway through earnings season, and companies in the Standard & Poor's (S&P) 500 Index have reported solid performance results overall. "Both the percentage of S&P 500 companies reporting positive earnings surprises and the magnitude of earnings surprises are above their 10-year averages," reported John Butters of FactSet.

As of last Friday, 72 percent of S&P 500 companies had reported earnings, and the blended earnings growth rate was 12.8 percent. If earnings stay at this level, we will see a second consecutive quarter of double-digit earnings growth for the S&P 500, reported Butters.

While first quarter earnings were strong, it's unclear whether future earnings growth will be as robust. "During the month of April, analysts lowered EPS [earnings-per-share] estimates for the second quarter by a larger margin than average…Analysts also continued to lower EPS estimates for [calendar year] 2025," reported Butters.

The reasons for changing expectations may be related to two words that have been popping up more than usual on earnings calls: "tariffs" and "uncertainty".

"Several companies noted that the uncertainty surrounding tariffs is making businesses hesitant about investment decisions. That means they are delaying stocking up on inventory (or in some cases, overstocking), hiring, and dealmaking," reported Sabrina Escobar of Barron's. "All the uncertainty has made it hard for companies to make accurate projections for the year ahead."

Last week, major U.S. stock indexes rose. "As of Friday, the S&P 500 index had risen nine days in a row, its longest streak since 2004. It jumped 10.2% in that span – 2.9% of that in the past week – a remarkable performance given the cloud of uncertainty hanging over American businesses," reported Avi Salzman of Barron's.

Yields on most maturities of U.S. Treasuries moved higher over the week.

Data as of 5/2/25	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	2.9%	-3.3%	12.3%	11.0%	14.9%	10.4%

Dow Jones Global ex-U.S. Index	3.0	8.7	9.6	5.8	8.4	2.5
10-year Treasury Note (yield only)	4.3	N/A	4.6	3.0	0.6	2.1
Gold (per ounce)	-0.8	24.5	42.0	20.2	13.7	10.5
Bloomberg Commodity Index	-1.1	2.7	0.6	-7.7	10.7	-0.2

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

HONEY, I SHRUNK THE ECONOMY! Last week, there were a lot of headlines about the U.S. economy after the Commerce Department shared information showing the U.S. economic expansion stuttered in the first quarter of this year. From January to March, the U.S. economy contracted, -0.3 percent annualized, as measured by gross domestic product (GDP) adjusted for inflation.

The reasons for an economic contraction weren't obvious. Many companies were doing well, and business investment was solid. Consumer spending slowed but remained healthy. Government spending dropped a bit, but the fly in the economic ointment was imports from other countries.

"An enormous surge in imports was the big outlier in this GDP report. Normally, big increases in imports rarely coincide with outright declines in headline GDP because stronger imports usually mean more spending, not less," reported a source cited by Megan Leonhardt and Matt Peterson of Barron's.

Why are imports part of U.S. productivity?

You may be scratching your head, wondering why imports – goods produced in other countries – are included when determining the value of all goods and services produced in the United States. The short answer is: They're not.

Broadly, U.S. GDP is measured by adding up:

- Personal consumption expenditures (consumer spending)
- Investment (business expenditures, household purchases of homes)
- Government spending (mandatory and discretionary)
- Exports (goods made in the U.S. and shipped elsewhere)

The final step is subtracting imports, which are goods that were made elsewhere. Imports are deducted because they're in consumption, investment, and government spending numbers. To understand what was produced in the United States, imports must be subtracted. The St. Louis Federal Reserve offered an example of how that works.

"…if $10,000 in imported parts are used in the production of a car in a U.S. factory (an "American" car) and the car is sold in the United States for $30,000, then the $30,000 counts as personal consumption expenditures; but $10,000 is subtracted to account for the value of the imported parts, so the effect on U.S. GDP is $20,000."

The GDP report raised some interesting questions

The report about U.S. economic performance raised some questions that have yet to be answered. Why didn't U.S. GDP reflect the purchase of imports? What happened to the imported goods? It's possible the surge in imports was overestimated. It's also possible spending and investment were underestimated, opined the source cited by Leonhardt and Peterson.

We may have answers over the next two months. Last week's report was the first estimate of economic growth, and it may have included data that was incomplete or will be updated. We'll see two more estimates before the end of June.

For now, it may be enough to know that first quarter GDP appears to reflect "the anticipated impact of tariffs rather than an actual downturn," as Randall Forsyth of Barron's reported.

Weekly Focus – Think About It

"It's funny: I always imagined when I was a kid that adults had some kind of inner toolbox full of shiny tools: the saw of discernment, the hammer of wisdom, the sandpaper of patience. But then when I grew up I found that life handed you these rusty bent old tools - friendships, prayer, conscience, honesty - and said 'do the best you can with these, they will have to do'. And mostly, against all odds, they do."

– Anne Lamott, Author

Best regards,

Michael W. Gray, Kerry L. Dyer, C. Travis Gray, CFP®, Nathan P. Graff, Katy McLeod, Ron Cornelison

P.S. Please feel free to forward this commentary to family, friends or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
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* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.
* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
* Asset allocation does not ensure a profit or protect against a loss.
* Consult your financial professional before making any investment decision.

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