The Bottom Line – Q2 2025

THE BOTTOM LINE

SECOND QUARTER : 2025

BUFFALO FINANCIAL QUARTERLY NEWSLETTER

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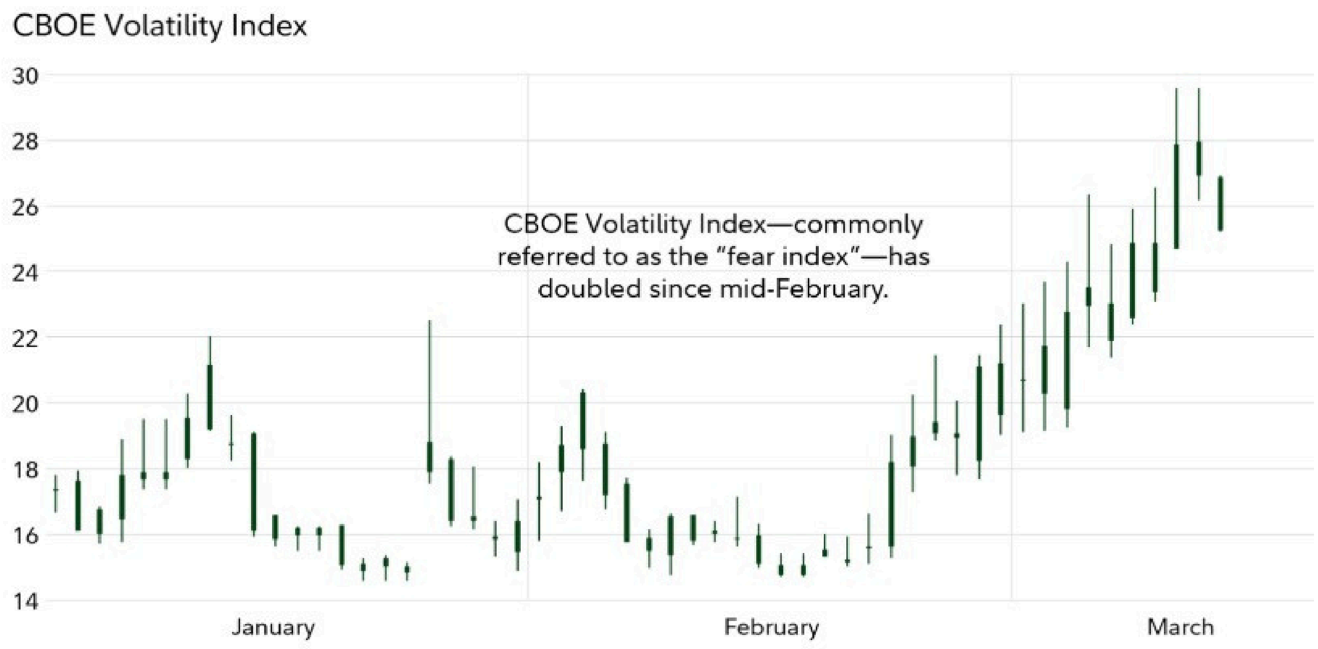
NAVIGATING MARKET TURBULENCE

BY JEREMY I. BECK

As I drafted the second-quarter 2025 edition of the Buffalo Financial Newsletter, one word stood out to describe the current state of the equity markets: turbulence. I deliberately chose this term over synonyms like frenzy or disorder because turbulence evokes the image of sudden shifts—much like an aircraft encountering unstable air.

In today's markets, it's not air movement causing instability but concerns over recession risks, tariffs, tech valuations, and inflation — all key drivers of recent volatility. Below is a chart of the CBOE Volatility Index (VIX), often referred to as the Fear Index, which measures expected market volatility through a portfolio of S&P 500 options.

NAVIGATING MARKET TURBULENCE - CONT'D

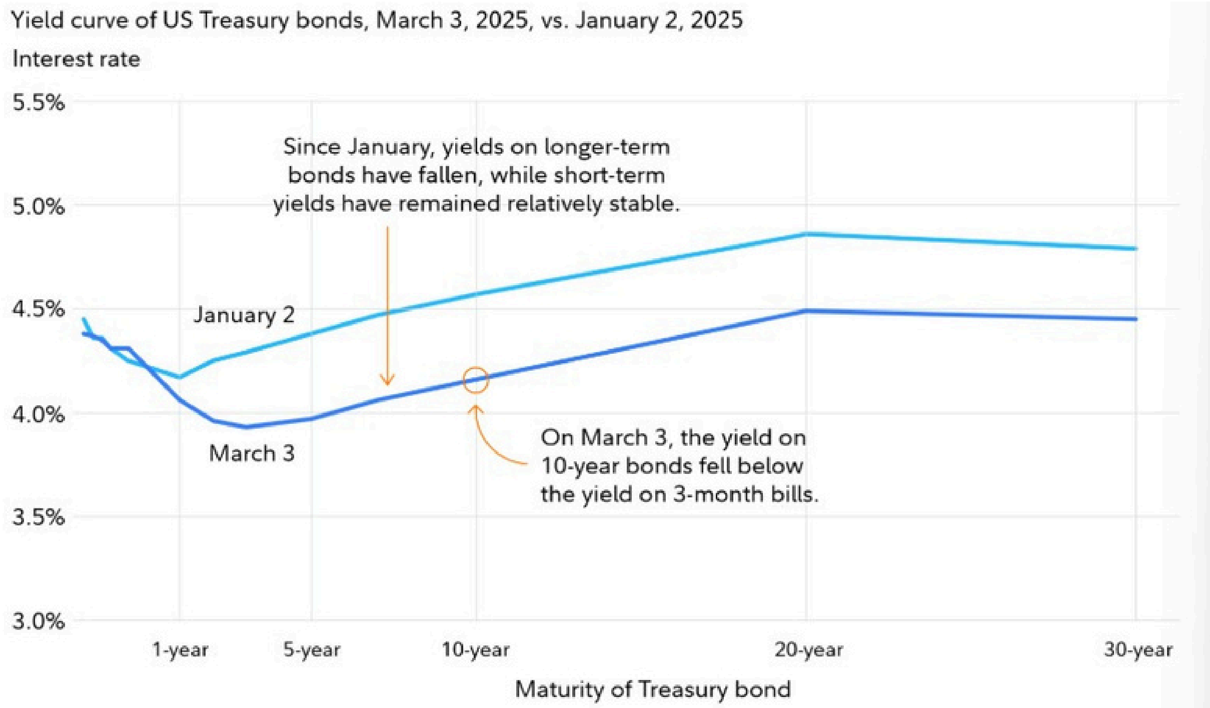


Source: FactSet, as of March 12, 2025.

Investor enthusiasm has faded over the past five weeks, with the S&P 500 down roughly 10% from its February 19th highs, while the VIX has nearly doubled in the same timeframe. This heightened volatility underscores the uncertainty investors are facing, making it more critical than ever to stay informed and strategic in navigating market fluctuations.

Recession Fears

Let's begin our discussion with the recent surfacing of recession fears. When looking for signs of a potential recession, we love to use the Federal Reserve's preferred recession indicator, which is the inverted yield curve. This indicator is widely used, as it is relatively accurate in signaling economic downturns over a 12 to 18 month period.



Source: Fidelity Investments, as of March 12, 2025.

NAVIGATING MARKET TURBULENCE - CONT'D

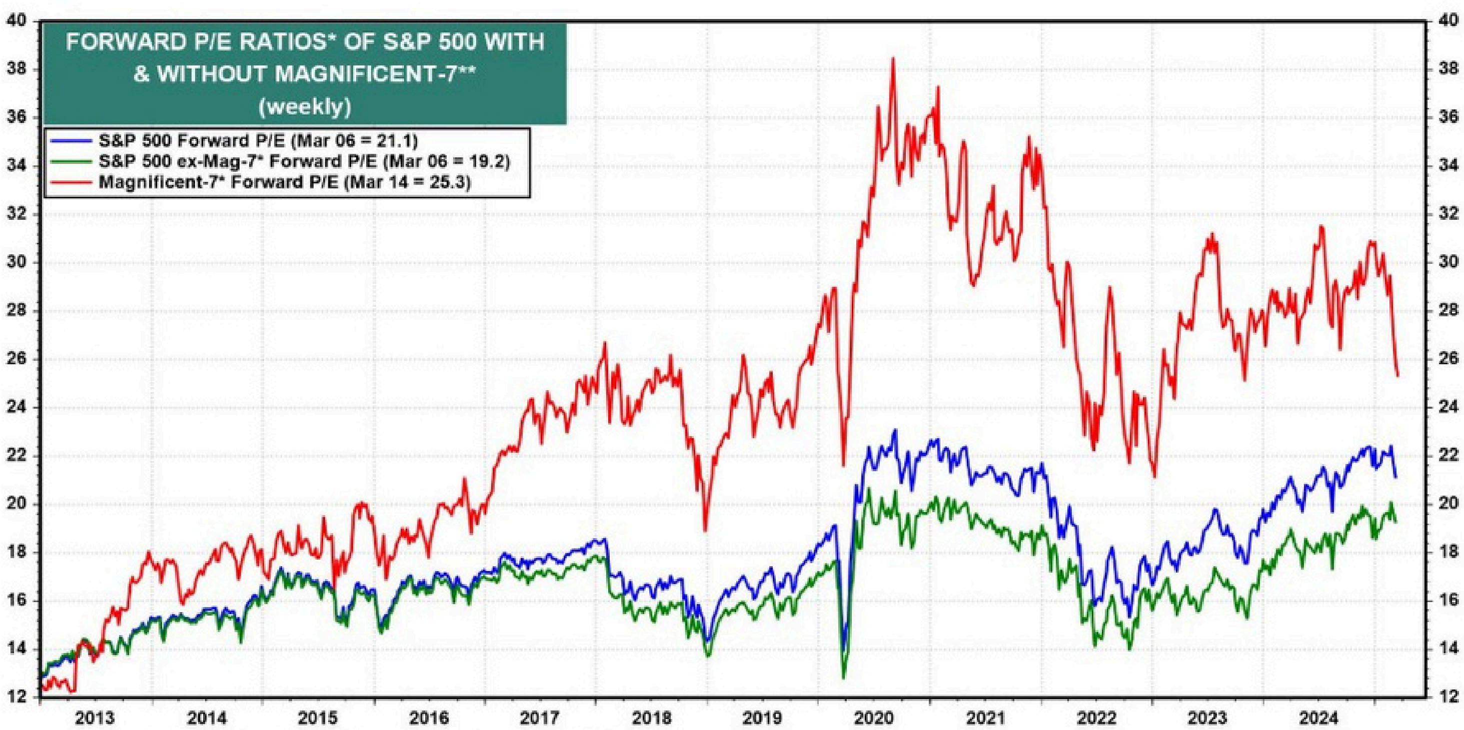
Additionally, there are fears of a Gross Domestic Product (GDP) contraction of just under 3.00%, which would be the first negative quarter for GDP since early 2022. As far as the chances of a recession, Goldman Sachs recently increased their risk of recession in the next 12 months from 15% to 20%. Former PIMCO CEO Mohamed El-Erian has increased the risk of recession to 25-30%, compared to 10% at the beginning of the year. Yardeni Research followed suit, raising their recessions odds from 20% to 35%.

The Impact of Tariff Wars on Consumer and Business Sentiment
The effects of the ongoing tariff wars are already visible in several key economic indicators, particularly in consumer and business sentiment surveys. In February, consumer sentiment experienced its largest month-over-month decline since mid-2021, signaling growing concerns about economic uncertainty. A sustained decline in confidence could lead to reduced consumer spending and hesitation among businesses to invest in growth.

While tariffs may cause short-term disruptions in specific industries and markets, not all proposed measures will necessarily be implemented, and those that are may have a limited impact on the long-term fundamentals of most businesses. Although tariffs are contributing to current market volatility, we anticipate that negotiations will lead to agreements that help stabilize the market over time.

Tech Valuations: A Look at the "Magnificent 7"
When evaluating technology stock valuations, I focus on the "Magnificent 7," a term coined by Bank of America analyst Michael Hartnett in 2023. This group includes Alphabet (Google), Apple, Amazon, Meta (Facebook), Microsoft, Tesla, and Nvidia—seven dominant tech companies that collectively drive nearly 45% of the Nasdaq 100's performance. Given their significant market influence, they serve as a strong starting point for tech sector analysis.

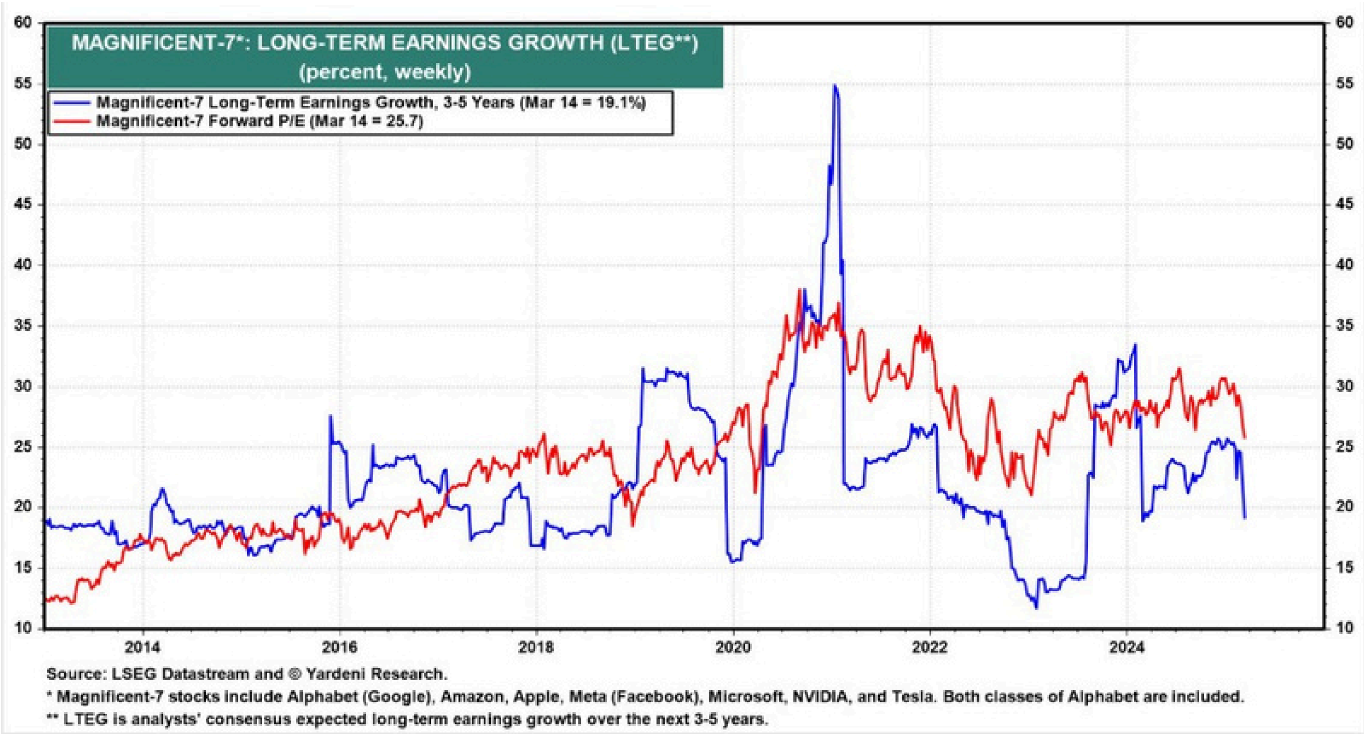
While valuations for the Magnificent 7 remain slightly elevated, forward price-to-earnings (P/E) ratios are currently lower than they were in 2020, 2021, and much of 2023 and 2024 (see chart below).



Source: LSEG Datastream, © Yardeni Research. LSEG I/B/E/S.
* Price divided by consensus forward earnings forecast
** Magnificent-7 stocks include Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, NVIDIA, and Tesla. Both classes of Alphabet are included.

NAVIGATING MARKET TURBULENCE - CONT'D

Another key metric to watch is the long-term earnings growth rate for these companies, which continues to hover around 20% annually—an impressive figure. By contrast, the remaining 493 stocks in the S&P 500 are projected to grow at approximately 6.7% over the next twelve months (see chart below). Understanding these valuation trends is essential for making informed investment decisions in today's evolving market.



Inflation and Its Impact on the Economy

The Federal Reserve targets an average inflation rate of 2.00% over the long term, using the price index for personal consumption expenditures (PCE) as its primary measure. Its dual mandate focuses on maximizing employment and ensuring price stability. However, inflation can quickly ripple through the economy, affecting business lending, new mortgages, and consumer sentiment—especially when it comes to financed purchases.

One key factor influencing inflation is tariffs. Higher tariffs can drive up costs for both businesses and consumers, contributing to inflationary pressures. If inflation remains elevated, the Federal Reserve may delay interest rate cuts, which could, in turn, act as a headwind for economic growth by slowing business investment and consumer spending.

Conclusion

Emotions can clearly run high when the market declines, and I have witnessed it many times over the course of my career. At this time, we are recommending that if your risk tolerance is that of an investor who should maintain a 65% equity exposure, we are comfortable with this allocation to equities. For clients that are more risk adverse, we have trimmed gains and allocated to the highest quality fixed income positions. Speaking of fixed income, we are focusing on many guaranteed securities (Certificates of Deposit, High Yield money market, U.S. Treasuries), which are providing a much healthier income stream compared to yields over the past decade.

Although the ride may be bumpy at times, I'm confident that crystal blue skies lie ahead as we approach our destination. Go Bills!

Jeremy I. Beck
Founder & CEO

2025 Q2 FIXED INCOME UPDATE:UNCERTAINTY

BY MATTHEW J. PITROLA

As we enter the second quarter of 2025, the macro and political landscape has become ripe with uncertainty yet again. This stems from the political policy changes imposed by the Trump administration, including tariffs & DOGE efforts. Investors are once again fearful of a resurgence in inflation & a mass deterioration in the labor markets, thus sending the US economy into recession.

This uncertainty has led to volatile moves on the equity side of investors allocations, while the fixed side has been quiet throughout the pullback. A recession for the US Economy in 2025 is not our base case, and I also feel that the fixed income markets are telling us this as well.

Figure 1: High Yield Credit Spreads

Given the excessive volatility for stocks, I would have certainly expected high yield bonds to take a hit with credit spreads widening. But ironically enough, High yield credit spreads are still down YTD and are also down since Trump's election in November. This is an odd phenomenon given the immense number of recessionary headlines we have received over the last few weeks.

As an example, high yield bond spreads rose from 2.46% in May of 2007 to 8.21% in March of 2008. An almost 6% increase in yield over those 9 months. The S&P 500 declined by roughly 11.80% during this period. Today we have seen the S&P 500 decline by 11% from all time highs, but credit spreads are still down from where they were 3 months ago.

2025 Q2 FIXED INCOME UPDATE:UNCERTAINTY

Why does this matter?

When investors begin to feel that a slowdown in the US economy or a recession will materialize, that usually means that company's ability to pay their debts will be strained. Especially companies that do not have stable balance sheets. This increased chance of default by any issuer usually causes investors to demand higher yields for holding these bonds.

How does the yield move higher?

Let's assume you are obtaining high yield exposure through an ETF like HYG - the iShares High Yield Corporate Bond ETF. When credit spreads widen, the fund manager does not go to each of the 1,270 individual bond issuers and demand a higher yield for owning their bonds. The price of the bonds within the fund fall and thus the price of HYG falls in order to accommodate the higher yield.

Example:

HYG Currently pays roughly .37 per month per one share owned or $4.44 annually.
HYG has a current price per share of $78.97
$4.44 / $78.79 = a real yield of 5.62%

Example continued - Spreads widen:

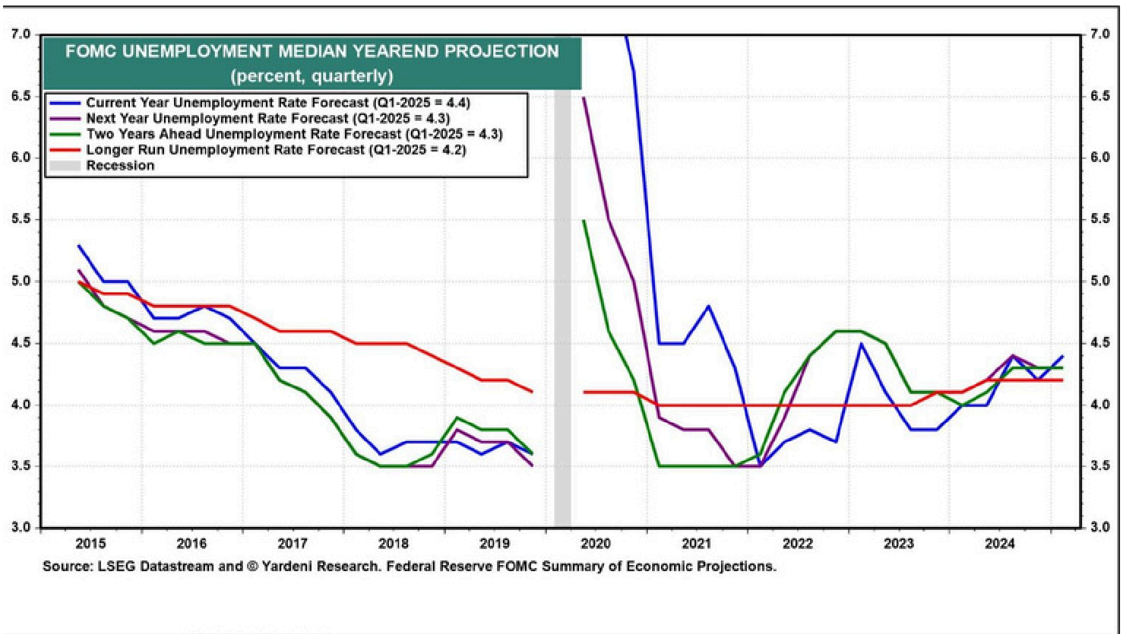
Now let's assume that high yield spreads continue to widen from their current state and the price of HYG falls to $70 per share.
Remember - the yield of $4.44 stays fixed but the yield for investors now is:
$4.44 / $70 = 6.34%

The Path of the Federal Reserve:

Federal Reserve Chairman Jerome Powell uttered the word "uncertainty" 16 times during the most recent FOMC meeting on March 19th. It is impossible to know what tariffs will be imposed on April 2nd, on which countries, and for how long. When this finally is declared on April 2nd, it will still be difficult to forecast the true effects of these tariffs and their impact on US economic growth and inflation.

No wonder the FOMC unanimously decided to leave the federal funds rate unchanged at this most recent meeting. The FOMC did feel comfortable enough to downgrade US economic growth projections for 2025, trimming GDP growth from 2.10% down to 1.70%. They also raised their unemployment and expectations for 2025, ending the year now at 4.40%. This is up from 4.30% at their December 2024 meeting.

Figure 2: FOMC Unemployment Median Projection

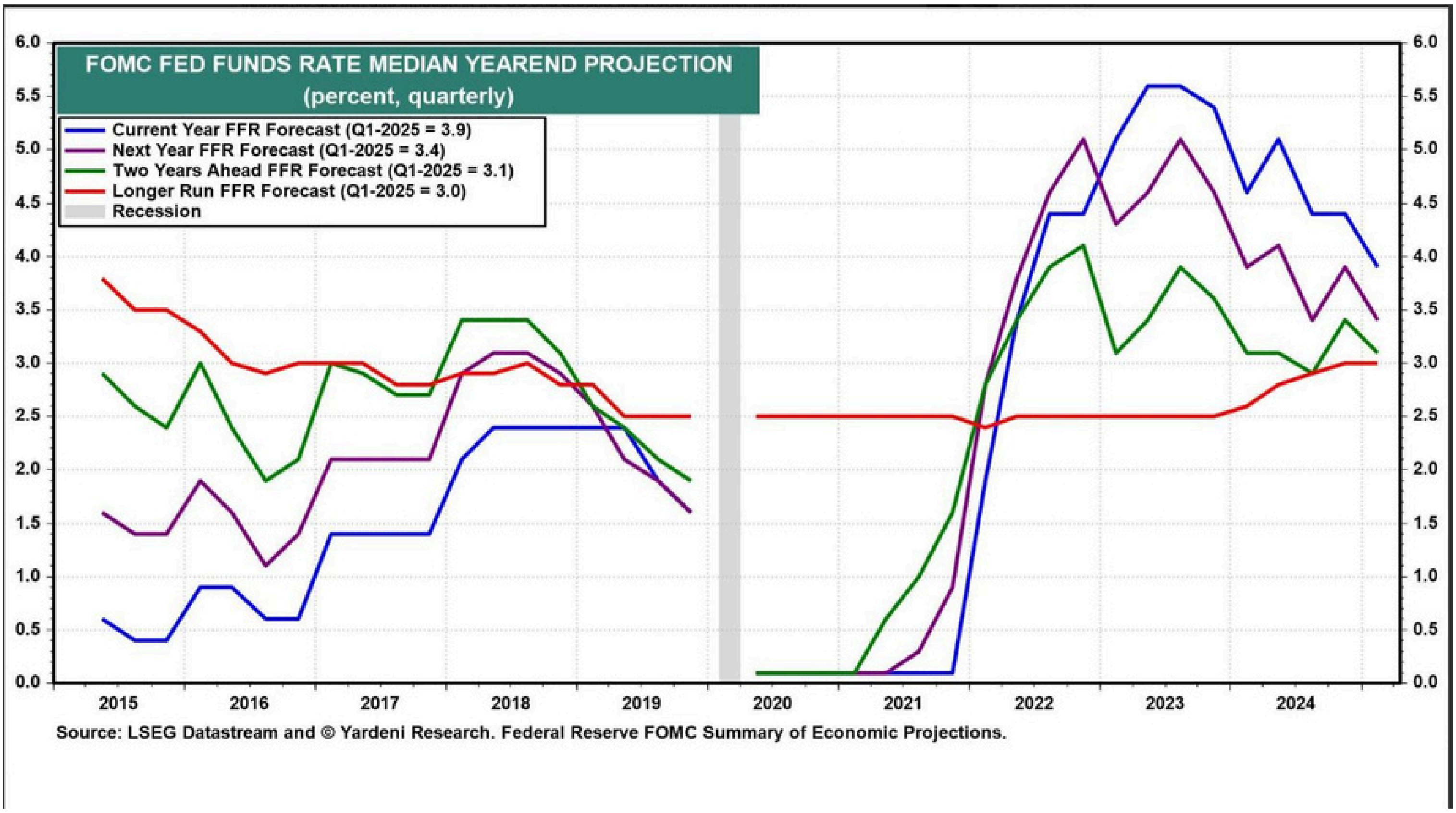


2025 Q2 FIXED INCOME UPDATE:UNCERTAINTY

The Path of the Federal Reserve (continued):

The FOMC ultimately still feels that two interest rate cuts over the course of 2025 is appropriate. This is due in part to the fact that they believe that tariffs will lead to one time price increases as opposed to sticky inflation.

Figure 3: FOMC Fed Funds Rate Median Year End Projections:



Conclusion:

Investors have yet to demand a higher yield from their credit sensitive investments even with the uncertainty over the last few weeks. This is an optimistic sign for the stock market and bond markets alike. I am sure that this will be tested over the coming months as we still have a few important political dates upcoming, like April 2nd when Trump will announce his reciprocal tariffs. This barrage of political headwinds has overshadowed several positives that we should be factoring in as we progress through the year:

1.) Interest rate cuts from the Federal Reserve - the Federal Reserve has built up ammunition to respond to a potential slowdown in the labor markets through the form of rate cuts. As of now, the market is currently pricing in the first interest rate cut in the summer of 2025.

2.) Lower Corporate Taxes - The new administration is still planning on reducing the corporate tax level and extending the TCJA in the summer. This should provide some much-needed assurance to corporate America that there will be tax savings as we head into 2026.

Have a great Spring!!!

SIMPLE IRA OR 401(K): WHAT'S RIGHT FOR YOU?

BY JACOB WOOD

The debate between 401(k) and Simple IRA plans has gained significant attention in recent years. Yet, many business owners are still unfamiliar with the Simple IRA option. The Simple IRA is a cost-effective alternative that serves the same purpose as a 401(k), helping employees save for retirement. The Simple IRA offers an easier administration process along with lower costs, making it an attractive choice for small businesses looking to provide retirement benefits to their employees.

Compliance Testing

The administration and compliance testing requirements differ significantly between 401(k) plans and SIMPLE IRAs. A 401(k) plan involves more complex administration, including annual compliance testing and the filing of form 5500. On the other hand, SIMPLE IRAs are much simpler to manage, as they don't require these compliance tests. These annual administration requirements can cost anywhere from $2,000 - $5,000, providing a significant saving of time and capital for businesses that elect to use the SIMPLE IRA.

Contribution Limits

For Simple IRA plans employees under 50 can defer up to $16,500 of taxable income ($17,600 for employers with 25 or fewer employees). Employees 50-59 or over 63 can defer up to $20,000 ($21,450 for smaller employers), including a $3,500 catch-up contribution. Employees aged 60-63 can defer up to $21,750 ($22,850 for smaller employers), including a $5,250 super catch-up contribution.

Within a 401k Plan employees under 50 can defer up to $23,500, with total employer and employee contributions capped at $70,000. Employees 50-59 or over 63 can defer up to $31,000 (including a $7,500 catch-up), with total employer and employee contributions capped at $77,500. Employees 60-63 can defer up to $34,750 (including an $11,250 super catch-up), with total employer and employee contributions capped at $81,250. See the chart below for clarity.

Age		401(k)	Simple IRA 1-25 employees	Simple IRA 26+ employees
<50		$23,500	$17,600	$16,500
50 - 59		$31,000	$21,450	$20,000
60 - 63		$34,750	$22,850	$21,750
>63		$31,000	$21,450	$20,000

SIMPLE IRA OR 401(K): WHAT'S RIGHT FOR YOU? - CONT'D

Higher earners may be concerned about the lower contribution limits of Simple IRA plans compared to 401k plans. However, this can be easily mitigated by utilizing options like Roth IRAs, Traditional IRAs, and non-qualified accounts.

Investment Options

Most 401k plans provide a limited selection of 20-30 mutual funds that participants are required to choose from. This restricted lineup can make it difficult to create an allocation that fits your specific needs or investment goals, as the available funds may not match what you're looking for in terms of asset classes, risk levels, or investment strategies.

Buffalo Financials' Simple IRA plans provide a much broader range of investment options. Participants have the flexibility to invest in any individual stock, ETF, or mutual fund available to the public, as well as products like Certificates of Deposit, Money Markets, and Bonds. This extensive selection makes it easier to tailor a portfolio to meet each participant's unique needs. If this seems overwhelming, there's no need to worry—every participant has access to our team of advisors, who are available to educate and assist with investment management.

Working with a Fiduciary

Buffalo Financial acts as a fiduciary for your Simple IRA, ensuring that all investment decisions are made in the best interest of the participants, rather than based on any external incentives or conflicts of interest. As a fiduciary asset manager, we are legally and ethically bound to prioritize your financial well-being and put your interests first. This means you can rely on us to offer transparent, unbiased advice and carefully selected investment options, tailored to your goals. The benefit of working with a fiduciary is that you have peace of mind knowing that our recommendations are solely focused on helping you achieve your financial objectives, without any hidden agendas. This approach is far superior to selecting investments on your own, as it ensures expert guidance, minimizes potential risks, and aligns your strategy with your long-term financial goals.

In conclusion, both Simple IRAs and 401k plans offer distinct advantages depending on your financial goals and the structure of your business. While a 401k plan may provide higher contribution limits and more complex features, a Simple IRA offers simplicity, lower administrative costs, and a wider range of investment options, especially when partnered with a fiduciary like Buffalo Financial. By choosing the right plan for your needs, you can maximize your retirement savings and enjoy peace of mind knowing that your investments are being managed with your best interests in mind. Whether you're a business owner or an individual employee, understanding the key differences between these plans will empower you to make informed decisions for a secure financial future.

For Further details on the differences between the two plans please contact our office and schedule an appointment to discuss which is right for your business.

Take care, and happy spring!

Jacob Wood - Wealth Manager

COMPLIMENTARY LIFE INSURANCE REVIEW

BY TYLER SACCO

When was the last time you had a review of your life insurance policy? At Buffalo Financial, we believe that just like your investment portfolio, you should be making sure that your life insurance policy is up to date for your current needs. As much as we all hope it does not have to be used, ensuring financial security for your loved ones, if something was to happen, can provide peace of mind for everyone.

SHOULD YOU CONSIDER LIFE INSURANCE?

Although no two situations are the same, there are some key things to consider when figuring out if a life insurance policy would be right for you. Does your household rely on one source of income? Are you a single parent with children? Do you have work partners that would suffer from your loss? If you answered yes to any of these questions, life insurance might be something you can benefit from.

In addition to replacing a source of income, life insurance proceeds are generally tax free to the beneficiary. These funds can be helpful when paying off any debts, expenses or other fees that are incurred when settling an estate. Unfortunately, even after the loss of a loved one, bills must continue to be paid. Finding a way to supplement this sole income without life insurance can become troublesome and drastically impact a household.

REAL WORLD EXAMPLE

Just this past month, a client brought in a statement for us to review. They had a policy that they had been contributing to for the past 25 years. Since they are more financially prepared for instability today, they no longer need to add additional funds to the policy.

We found them a new policy that had a higher death benefit at no additional cost and no more $200 monthly premiums. They now have an additional $2,400 per year to use as they please. While this may not directly apply to your situation, it is a great example as to why you should be having your life insurance policy reviewed regularly.

If you have a policy you have not checked in on in a while or you are just not sure if life insurance is beneficial for your situation, contact us at Buffalo Financial for a complimentary review of your current situation.

Happy Spring!

CHRIS FASCIANO MARKET COMMENTARY

The Market Has Corrected: What's Ahead?

As of the end of trading on Thursday, March 13, the S&P 500 closed down 10 percent from its all-time high, marking an official correction. It was the first correction since October 2023—17 months ago. From an investment horizon perspective, that isn't that long. While there wasn't an official correction in 2024, there was an 8 percent drawdown. Still, those two years ended with the S&P 500 up 24 percent and 23 percent, respectively.

No doubt this one happened quickly, covering only 16 trading days. In fact, it was the quickest correction since the early days of the global pandemic, when it took just 6 days for the market to decline. So, where do we go from here? Let's start by taking a look at history.

What Does History Say?

Sell-offs never feel good, and emotions run high during periods of turmoil. But the magnitude of this correction and the speed at which it happened weren't unprecedented. All things being equal, history tells us corrections are usually a good time to look for opportunities.

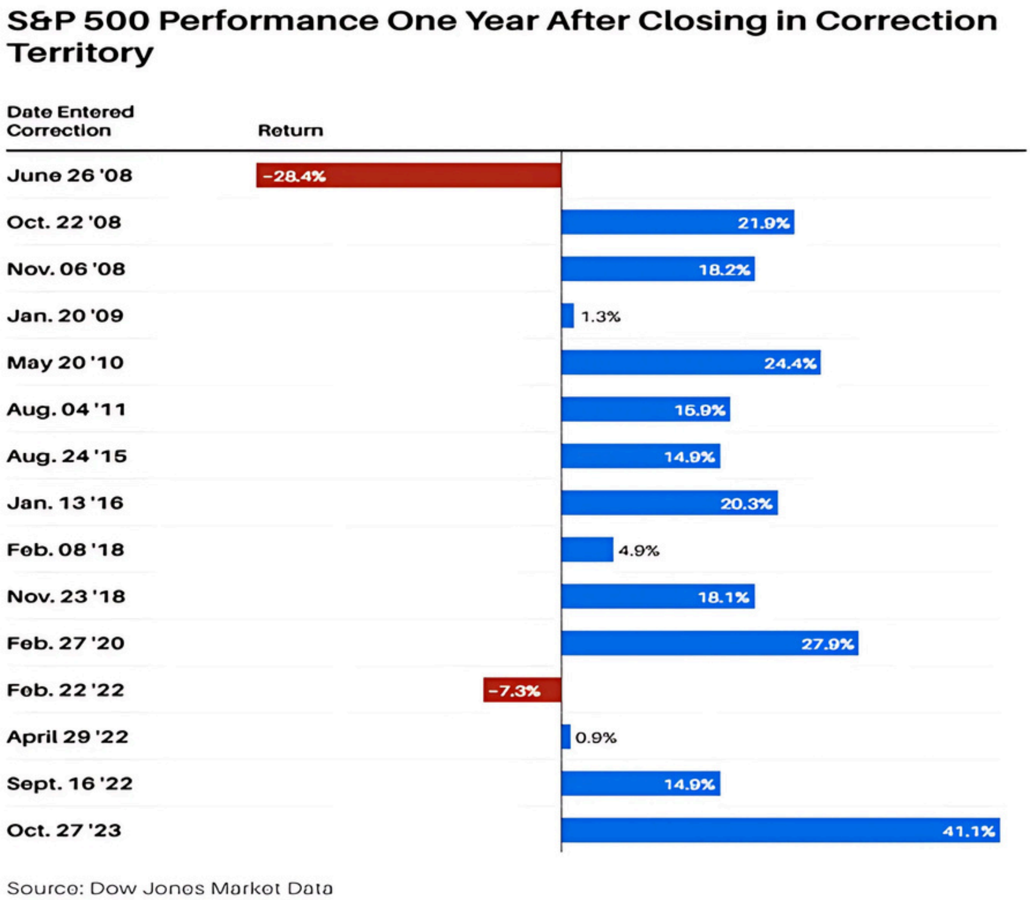
One year is a relatively short time horizon, as most long-term investors look out further than 12 months. But using a timeframe of one year, a correction could be a buying opportunity based on data from the past 15 corrections spanning 17 years.

In the chart below, the first four periods were within the great financial crisis bear market. This period remains the most challenging of my career, which has spanned more decades than I care to admit. The daily headlines were scary, and simply turning on the computer was a stressful experience. But even with a short window, only the first time period resulted in negative returns. In the following nine years, the market had positive returns in seven of those years, and the two years that were negative saw declines of less than 1 percent.

Similar action can be seen in 2022, when we had an inflation scare that saw Consumer Price Index readings rise to 9.1 percent in June. The same pattern holds during this period: returns after the first correction 12 months out were negative, albeit much smaller than the 2008 experience, and the others were positive. This was followed by the previously mentioned back-to-back +20 percent years.

Most of the other periods were corrections in an uptrend that continued. Even the 2020 pandemic bear market sell-off was short-lived.

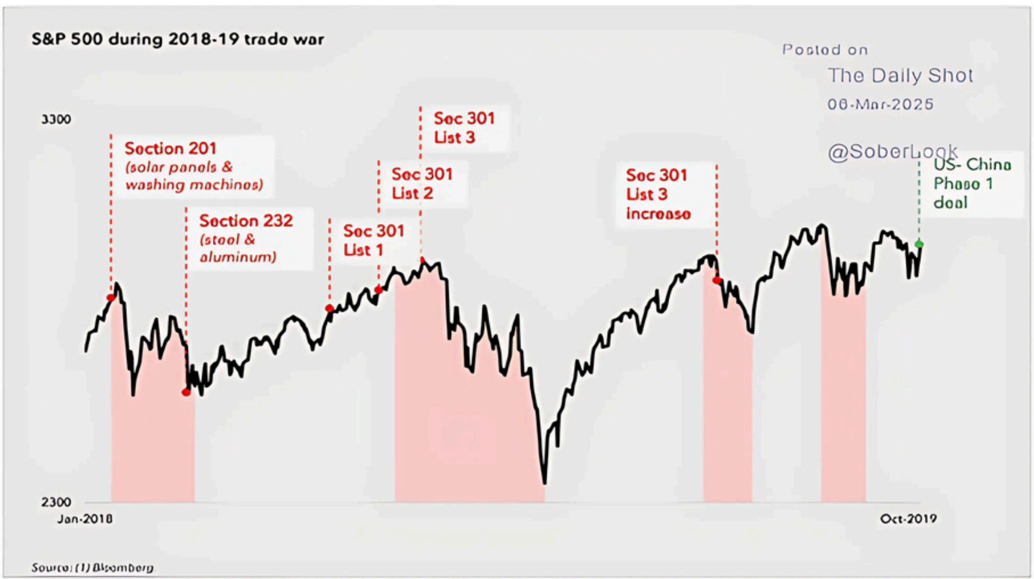
The Market Has Corrected: What's Ahead?



Are Things Different This Time?

During every market decline of my career, everyone has asked if it is different this time. And while the catalysts might be different, the market action usually isn't. Concerns about the future path of economic growth drive sell-offs. Investors believe we are now at one of those inflection points

As Mark Twain said, history doesn't repeat itself, but it does often rhyme. What if anything can we learn from 2018's trade war?



Source: MUFG Securities

2024 Midyear Outlook: Slower Growth Ahead for U.S. Economy? - Cont'd

We can see that the market experienced volatility around tariff announcements, with rallies in between. The largest drawdown resulted from the cumulative effect of multiple tariff implementation announcements. It also occurred when the Fed was raising interest rates—that element is not at play today.

The S&P 500 closed down 6.2 percent in 2018 after a sell-off in December that coincided with the final Fed rate increase of that cycle. And the market didn't truly stop worrying about tariffs until the Phase 1 Deal was announced with China in 2019. But the market had adjusted to tariffs by then and rallied 28.9 percent that year as the Fed cut rates. The takeaways that might apply to the current environment are that volatility is probably here to stay, deals take a while to negotiate, and the Fed matters.

What Does It Mean for Long-Term Investors?
Emotions run high during market declines. But it is impossible to time markets, and markets have never needed bad news to end before discounting better times. After all, how many people called a market bottom on March 9, 2009, in the throes of the great financial crisis or on March 23, 2020, when a global pandemic had us all housebound?

Rebalancing. Volatility can quickly result in portfolios being out of line with their investment objectives, causing unintended risks and making it challenging to achieve long-term goals. At a minimum, rebalancing back to targeted allocations will result in portfolios being aligned with the investment objectives needed to meet goals over a long-term time horizon.

Dollar-cost averaging. The best time to put capital to work is when it feels like the worst time to do so. Of course, this isn't easy. With dollar-cost averaging, setting a weekly, monthly, or quarterly schedule to invest money into the market can remove emotion from the decision, while avoiding trying to time the market.

Bucket strategy. Many investors have different timeframes for different pools of money. The bucket strategy includes having a short-term income need bucket, an intermediate-term bucket, and a long-term bucket. With each bucket including different asset allocations and risk profiles, this strategy could help weather short-term volatility while maintaining longer-term assets in the market to participate when stocks begin to rise again.

Balance Is Key
Staying balanced across asset classes, market caps, styles, geographies, credit quality, and duration can help navigate any further volatility due to a change in the consensus on the economic outlook. Diversification has been out of favor over the past several years, but I believe it remains a useful strategy. While the sell-off has been led by some of the winners of the last few years, other parts of the market like health care, energy, and real estate have had positive returns. International markets have also outperformed during the period, which hasn't happened in a while. Finally, fixed income is providing the ballast to portfolios that was missing during 2022. Over a longer time period, bonds have tended to perform well during periods of equity market volatility.

Chris Fasciano - Chief Market Strategist, Commonwealth Financial Network

Special Events in Western New York this Spring & Summer!

Signature Events

- **May 16 & 17: Hamburg Music Festival:** Memorial Park - Enjoy live music, food & drinks at over 15 different bars and restaurants in the village of Hamburg.

- **May 24 & 25: Totally Buffalo Festival 2025:** Buffalo Riverworks - The original shop-local large scale vendor fair with over 100 local artisans, food, and activities for the whole family.

- **June 14 & 15: Allentown Art Festival:** First held in 1958 when it was known as the "Buffalo Art Festival", this event has come to signal the coming of Buffalo's summers season.

- **June 28th: Ride for Roswell 2025:** Starting at UB North Campus (Over 9 routes to choose from, starting points 6 - 10:00 AM.) 2025 marks the Ride for Roswell's 39th year! All proceeds to benefit Roswell Park Cancer Institute.

- **July 12 & 13: Taste of Buffalo 2025:** The largest two-day food festival. Over 43 restaurants, 8 wineries, and live music and events for the whole family.

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