Market Perspectives

March 2025

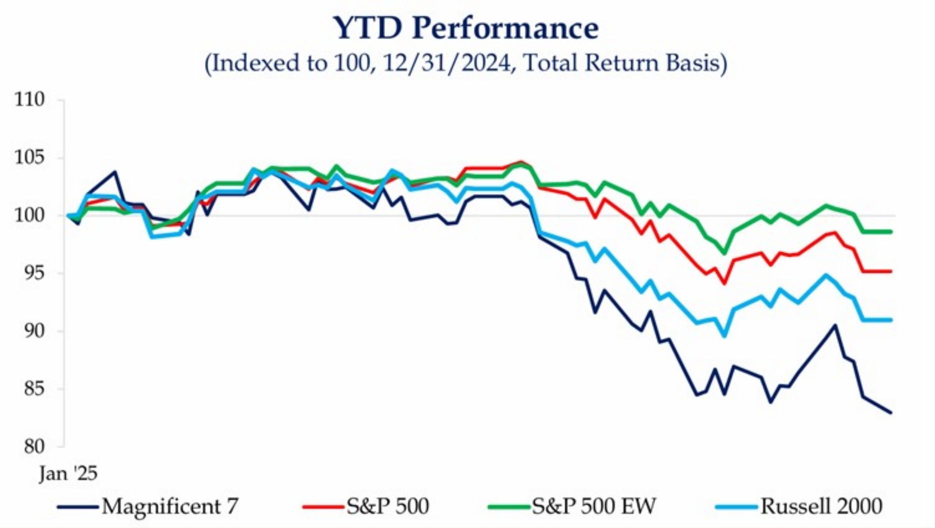
Uncertainty plagues markets again in March.

Index	MTD	YTD	2024	2023	2022
S&P 500	-5.63	-4.27	25.02	26.29	-18.11
Dow Jones Industrial Average	-4.06	-0.87	14.99	16.18	-6.86
Russell 2000	-6.81	-9.48	11.54	16.93	-20.44
NASDAQ Composite	-8.14	-10.26	29.57	44.64	-32.61
Europe, Australia, & Far East (EAFE)	-0.29	7.01	4.35	18.85	-14.05
MSCI Emerging Markets	0.67	3.01	8.05	10.27	-19.78
Bloomberg Barclays U.S. Aggregate Bond	0.04	2.78	1.25	5.53	-13.04

As of 4.1.25; Returns in percent

FINANCIAL MARKET PERFORMANCE

Uncertainty continued to plague markets in March. Whether it resulted from potential tariffs, slowing economic growth, or sticky inflation, investors remained in a "risk off" mode. The S&P 500 lost 5.6% while suffering its biggest monthly decline since December 2022. Importantly, the S&P 500 finally hit the much anticipated 10% correction level in March before bouncing somewhat by month end. The Nasdaq Composite and small cap Russell 2000 index fared even worse, losing 8.1% and 6.8% respectively. Notably, the Magnificent 7 group of companies was an outsized drag on the broad market, with the group now having fallen 16% since the beginning of the year. This has resulted in a much more balanced market, with a lower concentration in the largest stocks and better valuations for the market in general.



Source:Strategas; As of 4.1.25

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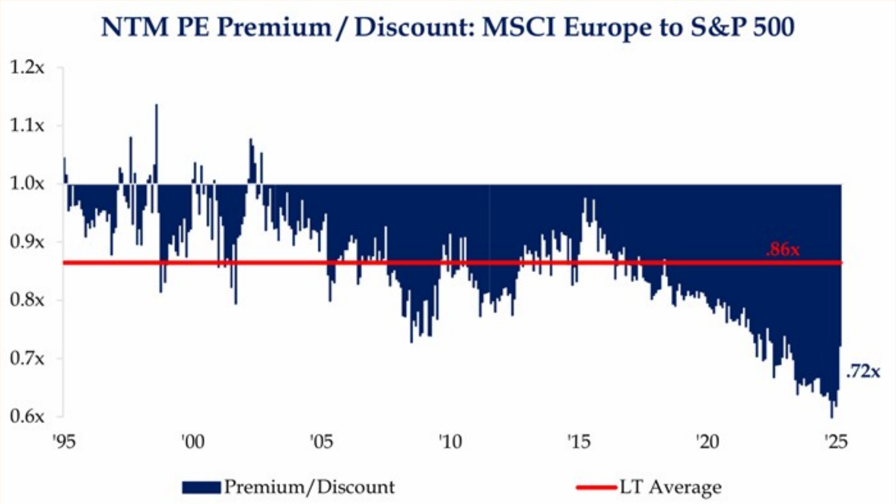
Foreign equities fared much better during the month, with the MSCI EAFE falling only 0.3% and the MSCI Emerging Markets Index gaining 0.7%. The decline in the US dollar combined with a lesser expected impact from Trump tariffs drove these markets higher. For the year-to-date period, foreign markets have outperformed US markets by as much as 11%. Interestingly, though, European stocks are still trading at a historically high 28% discount to the S&P 500.



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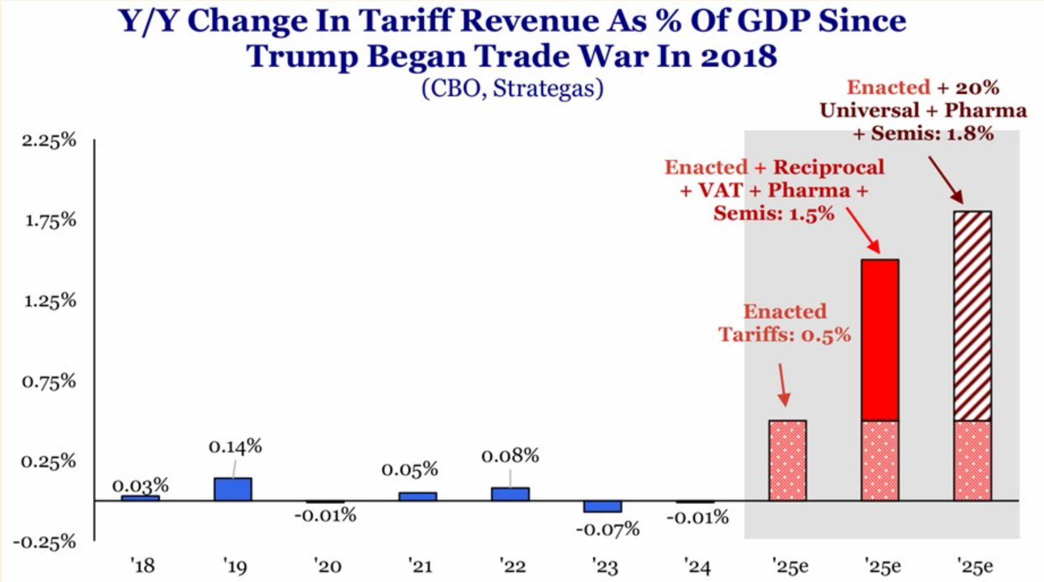
Bonds were flat during the month as interest rates fell slightly and remained well below the levels seen at the beginning of the year. Interest rates have been impacted by the same uncertainty felt by the stock market, as investors price in more Fed rate cuts (now expecting up to 3 cuts this year) and slower economic growth. The Bloomberg US Aggregate bond index was flat during the month but has gained 2.8% since the beginning of the year. The US dollar was down 3.2%, its third straight monthly decline and largest since November 2022. Gold rallied just over 10.5%, its biggest monthly gain since early 2012, while WTI crude gained 2.5% with help from a late-month bounce.

PERFORMANCE DRIVERS

Trump 2.0 policy uncertainty was the big factor behind the continued deterioration in investor sentiment, with the proposed tariffs fueling the pickup in inflation expectations seen in consumer surveys. Stagflation (i.e. high inflation with slow economic growth) was also the key takeaway from the Fed's recent meeting where the median 2025 GDP growth forecast fell to 1.7% and the median 2025 core PCE inflation forecast rose to 2.8%, vs. the Fed's goal of 2.0%. It was not just the soft data that put the Trump 2.0 policy uncertainty spillover theme in focus, as corporate updates also caused concern. Multiple retailers reduced expected earnings for the first quarter of 2025 (noting increased consumer caution), airlines negatively preannounced and saw dampened consumer and corporate confidence, and homebuilders flagged muted demand to start the spring travel season. These announcements cast doubts on the likelihood of the 10% corporate earnings growth expected this year.

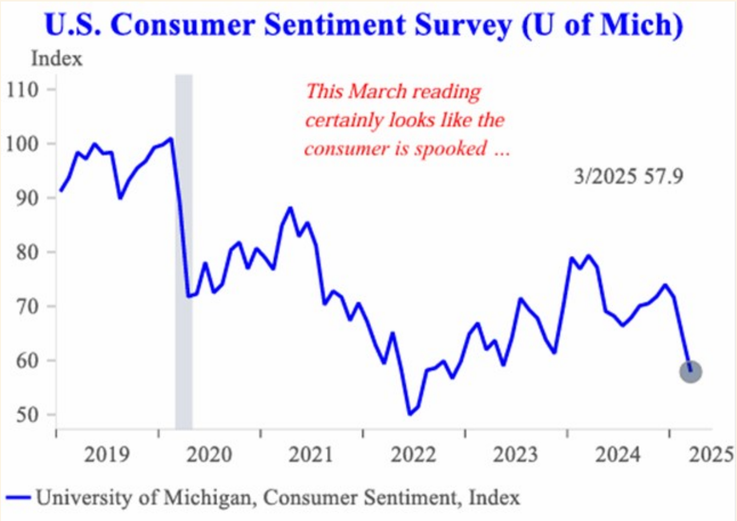
Ultimately, though, much of the focus was on trade. President Trump announced additional 25% tariffs on all cars not made in the US and declared auto parts levies as "permanent". While he added that the widely anticipated April 2nd reciprocal tariffs will be "very lenient", subsequent reports at the end of the month highlighted his preference for more onerous measures, including the renewed potential for a universal tariff, specifically a 20% rate. In addition, concerns about another rocky tariff rollout and the likelihood of subsequent negotiations played into skepticism about the ability of the April 2nd announcement to act as a clearing event which reduces uncertainty. Finally, it has been acknowledged that the proposed tariffs are likely to be much larger than those enacted in 2018 (see below), so the stock market may be more volatile in this cycle.



Source: Strategas; As of 4.1.25

Update as of 4/2 -The President has announced reciprocal tariffs on trading partners, which implies that the US will impose the same tariffs on our trading partners as they impose on us. However, he also announced that these tariffs will be discounted relative to what those nations impose on the US. In addition, he announced a baseline, or minimum, tariff of 10% on all goods imported into the US. These tariffs were much larger than expected, i.e. estimated at an additional $470 Bn on top of the $150 Bn in tariffs already enacted, and the markets have responded negatively to this announcement. There is likely more nuance to these tariffs and the rollout is yet to be fully disclosed, so there is more information to come.

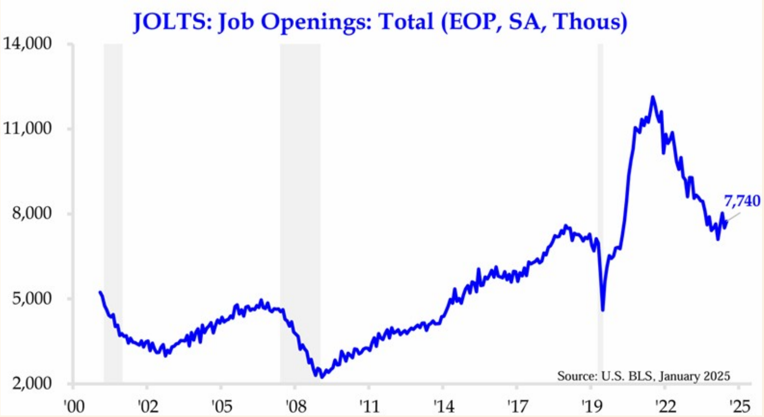
March also saw some doubts about the quality of the tailwind from more pro-growth measures expected down the road. This was particularly evident in some of the late-March reports about a possible increase in the top individual tax rate and capping corporations' ability to deduct state and local taxes to help fund Trump's campaign-trail promises. In addition, declining small business sentiment, comments from Trump antitrust officials and bank updates on capital markets all helped to dent the animal spirits/deregulation narrative that was a high-profile post-election bullish talking point. The animal spirits narrative was also not helped by the decreased potential for a "Trump put", as the president specifically said he is not paying attention to the stock market and Treasury Secretary Bessent discussed how the administration is focused on Main Street over Wall Street. All of this concerning news led to a sharp decline in consumer sentiment (see below).



Source: Strategas as of 4.1.25

BULL NARRATIVE

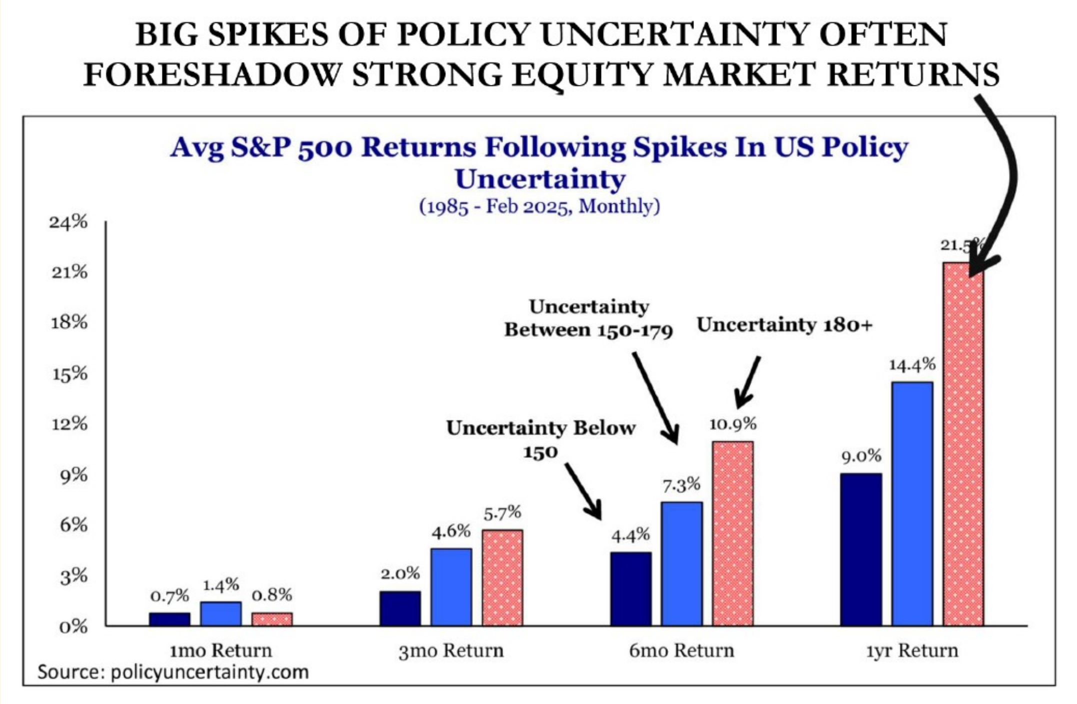
There were, though, reasons for optimism during March. Comments from Bank of America, as well as Visa and Mastercard, highlighted a still resilient consumer spending backdrop. There were also signs of resilience in some of the February data released during the month, including control group retail sales, industrial production, housing starts and existing home sales all beating expectations. In addition, core CPI came in cooler than expected and featured a deceleration in both rent and housing costs. Perhaps most importantly, low weekly initial jobless claims and rising job openings continued to highlight a solid labor market.



Source: Strategas as of 4.1.25

Dovish comments coming from the March Fed meeting were also well received. These included Chairman Powell's comments about the temporary impact of tariffs on inflation, along with the bigger-than-expected reduction in QT (Quantitative Tightening). The 3%+ downturn in the dollar came with some positive spin given the extent to which dollar strength had been flagged as an earnings headwind in recent months. In Washington, a government shutdown was averted while Congressional Republicans managed to speed up their work on approving an extension of the 2017 Trump tax cuts and seemingly reached a consensus on approving a debt ceiling raise. The big overseas development focused on Germany's "whatever it takes" moment with the passage of a $500B+ infrastructure fund and removal of caps on defense spending.

It’s also important to note that spikes in policy uncertainty such as we’ve seen this year tend to lead to strong stock market rallies (see below)



Source: Strategas as of 4.1.25

WHAT TO EXPECT & INVESTMENT PORTFOLIO IMPLICATIONS

Given the high potential for risk asset volatility over the near term, we believe portfolio diversification is extremely important for investors today. Note that the equity market on average experiences one 10%+ selloff each calendar year, and the last time this occurred was in October of 2023, so you could say we are due for a correction In fact, recent poor economic data and projections of negative 1Q25 US GDP growth are causing volatility in both stock and bond markets (as of this writing, the S&P 500 is down 6.5% from its recent high). Although such volatility is not totally unexpected, if the economy does weaken materially, we'd expect two things to potentially offset the weakness – A) President Trump could very well change course on tariffs and B) the Fed could begin cutting the Fed Funds rate at a much faster pace. Both of these would likely improve sentiment and result in a stock market bounce.

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