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MONTHLY MARKET PERSPECTIVE

MARCH 2025 REVIEW

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Overview

The U.S. economy came into 2025 with a fair amount of momentum. Corporate America generally boasts strong balance sheets, stable or growing profit margins, and select portions of the economy are seeing investments in expanded production. With the Q4 earnings season complete, 75% of firms had a positive earnings surprise while Q4 earnings growth for the index ended up at +18.2% YOY, which is the best quarterly earnings growth since Q4-2021.[1]

U.S. households are employed, wages are rising faster than inflation, and most consumers' balance sheets are in fine shape. However, some data pointed to a more skittish U.S. consumer. The University of Michigan Consumer Sentiment Index fell in March to 57.9, which was below expectations and -10.5% lower than in February (64.7), as consumers grew increasingly worried about tariffs and future inflation expectations jumped compared to last month.[2]

During the month the Trump administration began to announce a series of tariffs designed to bolster U.S. tax revenue as well as re-orient global supply chains toward reshoring productions towards America. The details of the tariffs came fast and furious, including frequent shifts in the tariff levels, which countries were targeted, and what goods were covered.

In this confusing and erratic environment, markets were whipsawed as investors priced in more supply-chain uncertainty, CEOs paused capital spending, and consumers braced for potentially higher prices. By month's end, U.S. equity and fixed income markets performed poorly while non-U.S. financial markets delivered positive returns.

[1] FactSet Earnings Insight 2/28/2025
[2] Bloomberg LP

U.S. EQUITIES

U.S. Equity Markets				
Index	**1 Month**	**Quarter-to-Date**	**Year-to-Date**	**1 Year**
DJIA	-4.1%	-0.9%	-0.9%	7.4%
S&P 500	-5.6%	-4.3%	-4.3%	8.2%
Russell 2000	-6.8%	-9.5%	-9.5%	-4.0%
Russell 1000 Growth	-8.4%	-10.0%	-10.0%	7.8%
Russell 1000 Value	-2.8%	2.1%	2.1%	7.2%

As of March 31, 2025

There was nowhere to hide in terms of US equities. The S&P 500 declined -5.6% for the month, while mid-caps (Russell Midcap Index) declined -4.6% and small caps (Russell 2000 Index) declined -6.8%. During the month, the S&P 500 formally corrected—falling more than -10% from its historic high reached on February 19th—and reached a low point year-to-date (YTD) on March 13th. Markets initially rebounded in the days after this YTD low, but ultimately the outlook for slower growth due to tariffs and the possibility of higher prices in the coming months left the S&P 500 to finish the month only +1.6 percentage-points higher than its mid-March low.

However, despite these broadly grim numbers for the month, there was a modest rotation out of more growth-oriented names (Russell 3000 Growth Index -8.4%) while more value-oriented names declined by less (Russel 3000 Value Index -2.9%). Even more stark was that the so-called Mag-7 stocks (Tesla, Microsoft, Apple, Amazon, Google/Alphabet, Facebook/Meta, and NVIDIA) were down by -10.2% in March alone while the S&P 500, excluding the Mag-7 names, was down -4.2% in the month.[2] Thus, just as these seven stocks powered much of the S&P 500's gains in 2024, they are responsible for disproportionate share of the index's decline in 2025. Sector-wise there was also a fair bit of dispersion, with more defensive sectors like Utilities (S&P Utilities -0.3%), Healthcare (S&P Healthcare -1.7%), and Consumer Staples (S&P Consumer Staples -2.4%). Energy stocks, driven mainly by some firming in the demand for oil and natural gas along with a more favorable regulatory environment, traded higher for the month. In contrast, IT and Communication Services sectors declined the most.

INTERNATIONAL EQUITIES

International Equity Markets				
Index	**1 Month**	**Quarter-to-Date**	**Year-to-Date**	**1 Year**
MSCI ACWI ex USA	-0.2%	5.2%	5.2%	6.1%
MSCI EAFE	-0.4%	6.9%	6.9%	4.9%
MSCI Emerging Markets	0.6%	2.9%	2.9%	8.1%
MSCI EAFE Small Cap	0.5%	3.7%	3.7%	3.1%

As of March 31, 2025

While US equities languished, non-US equities fared better in March. Emerging market equities (MSCI EM Index +0.6%) led global equity markets in March, while international developed equities (MSCI EAFE Index -0.4%) fell only modestly for the month. Chinese equities (MSCI China Index), buoyed by Beijing's latest announcements to bolster consumer spending and further support its beleaguered property markets, gained +2.0% in March. Like the US, value-oriented stocks (MSCI ACWI ex USA Value Index +1.2%) strongly outperformed their more growth-oriented counterparts (MSCI ACWI ex USA Growth Index -2.3%). However, unlike in the US, international small caps outperformed their large cap peers—MSCI ACWI ex USA Small Cap Index +0.4% vs. MSCI ACWI ex USA Index -0.2%).

FIXED INCOME

Fixed Income Markets				
Index	**1 Month**	**Quarter-to-Date**	**Year-to-Date**	**1 Year**
Bloomberg US Aggregate	0.0%	2.8%	2.8%	4.9%
Bloomberg Global Aggregate	0.6%	2.6%	2.6%	3.0%
Bloomberg US High Yield	-1.0%	1.0%	1.0%	7.7%
JPM Emerging Market Bond	-0.5%	2.3%	2.3%	6.7%
Bloomberg Muni	-1.7%	-0.2%	-0.2%	1.2%

As of March 31, 2025

In general, fixed income was of little comfort relative to stocks, unless one takes comfort in that you simply didn't lose money or as much money as your equity portfolio. Rising rates in 10+ year securities hurt longer duration indices such as the Bloomberg Aggregate index (+0.04%, price decline essentially negated coupon income), while high yield bonds reflected the woes of the equity markets and lost -1.02% (Bloomberg High Yield index).

The real loser in March was the municipal bond sector (Bloomberg Municipal Bond Index returned -1.69%). With supply being up and demand negative for three consecutive weeks, the Muni market is feeling the weight of these negative technicals. Munis are now cheap relative to U.S. Treasuries, absolute yields are high, the Bloomberg Municipal Bond Index yield is 3.85% (taxable equivalent is 6.50%)[3], and the demand picture should slightly improve as April 1 coupon payments are reinvested in the market. March's headwinds may have produced April's tailwinds.

CONCLUSION & OUTLOOK

The U.S. Federal Reserve met in March and made no changes to interest rates. The central bank noted that the Trump administration's emerging tariff policy had created heightened uncertainty for the remainder of the year in terms of the economic outlook. The Fed emphasized that the tariff policy had increased the likelihood of slowing economic growth and higher inflation, and that it would not adjust interest rates until it gained greater clarity on the fuller impact of these tariff policies. The Fed still left open the possibility of as many as two rate cuts later in the year if inflation continues to cool.[2]

A skittish U.S. consumer (consumption is about 70+% of U.S. GDP) does not necessarily translate into a negative economy. Yes, consumer surveys have been declining, and their outlook is poor, but if employment data remains solid (4.1% unemployment rate) they will eventually spend those hard-earned dollars.[2]

Markets will remain volatile as investors, like the Fed, seek clarity in the outlook before they commit to future activities.

[3] Taxable equivalent yield @ 40.8% tax rate