OBSERVATIONS

- Markets were mixed last week despite volatility remaining at elevated levels. The S&P 500 lost 1.5% while small caps (Russell 2000) gained 1.1% and the yield on the 10-year Treasury fell 16 basis points to 4.33%.[1]
- Retail sales jumped 1.4% month-over-month (MoM) in March as consumers hoped to front-run the impacts of the US's new tariff policies. Even excluding volatile auto and gas spending, retail sales gained 0.8% MoM, which was ahead of expectations.[1]
- Industrial production, in contrast, fell 0.3% MoM in March, but much of that decline was driven by less utility production as many parts of the US experienced milder temperatures in March. Capacity utilization also eased last month to 77.8% down from February's 78.2% level.[1]
- Housing starts also slumped in March, falling 11.4% MoM to 1.324 million (annualized rate) in March. Total Q1-2025 housing starts were 1.5% lower than in Q1-2024.[1]
- Initial unemployment claims continue to show no signs of a weakening labor market. Initial claims fell 9k to 215k last week and remain on-par with the number of claims filed from the same week last year.[1]

EXPECTATIONS

- Fed Chairman Jerome Powell laid out the looming challenges for the Fed last week in a speech where he noted that the Fed anticipated the US's evolving tariff policy was likely to place the Fed's twin mandates—full employment and stable prices—into tension with inflationary pressures building while the economy and employment weaken. At present, Powell underscored that the Fed was inclined to be patient and see if, indeed, this tension between growth and inflation emerges as he and other Fed members anticipate.[1]
- The European Central Bank cut its main policy rate by 25 basis points to 2.25% last week as it prepares for the consequences of the emerging global trade war and growing evidence of slowing European growth.[1]
- Only about 12% of the S&P 500 have reported earnings but, thus far Q1 is off to a mixed start. Only about 71% of reporting companies have beaten earnings estimates, which is below both the 5-year (77%) and 10-year (75%) averages for earnings beats. The blended estimate—actual results combined with analyst estimates for those yet to report—for earnings growth in Q1 now stands at 12% year-over-year.[2]

ONE MORE THOUGHT: Today's Parallels and Dissimilarities with the Dot-Com Bubble Unwind[1]

The so called "Magnificent Seven" (Mag-7)—Tesla, Alphabet (Google), Meta (Facebook), Microsoft, Amazon, Apple, and NVIDIA—gained 107% in 2023 and 67% in 2024, but the Mag-7 have become the Lag-7 as this year has unfolded. These seven stocks have been at the forefront of the AI-investment mania which began to take off in 2023 with the public release of Chat GPT-3.5 in November-2022. This fueled an AI-arms race leading to a surge of investment activity in data centers, semiconductor manufacturing, and new AI models. AI oriented stocks from semiconductor chipmakers, data centers, application developers, and other specialized equipment providers saw their share prices soar, but the investment hype may have peaked at the end of 2024. In early 2025, DeepSeek a Chinese AI model—created relatively cheaply and with older semiconductor chips—seemed to perform as well as the leading US-based AI models on a series of AI-oriented tests. After two incredible years, several major AI-oriented companies began to issue more cautious guidance going forward. For instance, Microsoft quietly began cancelling some of its announced investments in new data centers. Meanwhile, NVIDIA, the leading AI-chip designer—suggested a bit less robust sales in 2025 on its last earnings call. Given that the Mag-7 had propelled

[1] Bloomberg LP, 4/18/2025
[2] FactSet Earnings Insight 4/17/2025

much of the gains in the S&P 500 in 2023 and 2024, the migration from Mag-7 to the Lag-7—the Mag-7 are down 22.1% year-to-date (YTD) while the S&P 500 is down only 9.8% YTD—has caused many market analysts to suggest this reminiscent of the dot-com internet bubble bust in the early 2000s. There are several similarities. In the late 1990s, much of the S&P 500 gains were also driven by a small set of companies oriented around the adoption of the internet. The top-ten firms in the two years before the markets peaked in March-2000 represented 67% of the total market gains, where over the course of 2023-2024 the top-ten names accounted for about 53% of markets gains. However, there are some differences to note as well. The S&P 500 has returned about 11.75% annualized over the past 75 years. But during the period 1995-1999 the S&P 500 gained 28.5% annualized versus about 14.5% annualized return during the period 2020-2024. Similarly, the long-run forward 12-month price-to-earnings ratio ballooned to almost 25 at the end of 1999 compared to 21.6 at the end of 2024—the long-run average for this ratio is 17. By both measures the late 1990s were more euphoric than the recent past. The biggest difference between the dot-com bubble bursting and the current environment is that the fundamentals—earnings, debt levels, cash-on-hand, etc.—of the Mag-7 are far better than leading internet firms during the dot-com period. Nonetheless, it is worth noting to investors that the vast majority of firms that propelled 1990s dot-com market gains went on to have a lackluster decade in the 2000s—see Chart of the Week.

CHART OF THE WEEK

Top Contributor 1999 – S&P 500	1999 Return	Next 5-Years Annualized (2000-2004)	Next 10-Years Annualized (2000-2009)	Next 25-Years Annualized (2000-2024)
S&P 500	**+21.0%**	**-2.3%**	**-1.0%**	**+7.7%**
Microsoft	+68.4%	-12.4%	-4.4%	+10.4%
Cisco Systems	+131%	-18.4%	-7.7%	+2.0%
Oracle	+290%	-13.3%	-1.3%	+8.3%
Qualcomm	+2,619%	-13.4%	-5.5%	+4.1%
Sun Microsystems	+262%	-32.6%	-24.4%	No Longer Exists
Yahoo	+265%	-19.0%	-17.0%	No Longer Exists
Intel	+39.0%	-10.4%	-5.5%	-0.6%
EMC	+157%	-22.6%	-10.6%	No Longer Exists
AOL	+95.7%	-23.8%	-15.5%	No Longer Exists
Motorola	+142%	-16.2%	-15.0%	+5.3%

Source: Clearstead, Dimensional, Bloomberg LP, 4/18/2025

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