D|A|DAVIDSON WEALTH MANAGEMENT

The Weekly Market Update – 3/24/25: Fed Forecasts More Uncertainty

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,667.56	0.51%	-3.64%	-3.64%	11.21%	6,144.15	8.4%
Dow Jones Industrial Average	41,985.35	1.20%	-1.31%	-1.31%	7.66%	45,014.04	7.2%
NASDAQ Composite	17,784.05	0.17%	-7.91%	-7.91%	10.52%	20,173.89	13.4%
Russell 2000	2,056.98	0.63%	-7.77%	-7.77%	0.10%	2,442.74	18.8%
MSCI EAFE (USD)	2,484.98	0.75%	9.87%	9.87%	8.71%	2,511.97	1.1%
MSCI Emerging Markets (USD)	1,131.38	1.05%	5.20%	5.20%	10.82%	1,444.93	27.7%
Bloomberg Commodity Index	105.32	0.38%	6.64%	6.64%	8.91%	237.95	125.9%
Barclays U.S. Aggregate Bond	92.21	0.49%	1.96%	1.96%	2.62%	112.07	21.5%

Source: FactSet

Equities rallied following the Federal Reserve Bank's (Fed) March policy meeting, even as Jerome Powell (Fed Chair) delivered a message of maximum uncertainty. As expected, the Fed left its fed funds interest rate target range unchanged at 4.25% to 4.50% and said that the Fed will remain patient before resuming its preferred path of a lower rate target over time. The widely followed S&P 500 equity index increased +1.1% on 3/19/25, the day of the Fed announcement, enough for the index to post a modest weekly gain of +0.5%. The meeting release appeared to improve market sentiment (at least initially) driving the first weekly index increase in five weeks, despite Fed commentary acknowledging "heightened uncertainty about the economic outlook." At the post-meeting press conference, Chair Powell attributed the cloudy economic picture to policy uncertainty from Trump Administration changes to "trade, immigration, fiscal policy, and regulation." We believe that trade policy remains the most unsettled, as a tariff-driven trade war could both lift inflation and slow economic activity. Usually, the Fed can address slow growth by reducing interest rate targets, but inflation pressure makes that path more difficult. Powell also said that tariff-led inflation is often transitory (a one-time jolt of higher prices that is not repeated) and would not disrupt the long-term trends. Because of that, the Fed has closely monitored fed funds futures markets over the next 5 years, which have not increased during the tariff anticipation. This gave markets some comfort that the Fed will be willing and able to lower interest rate targets if needed to support the U.S. economy. Despite last week's S&P 500 gain, the index remained down -3.6% year-to-date (YTD) and down -7.7% from the mid-February high, heading to a first quarter decline (the first S&P 500 down quarter since 3Q23 a period of 6 quarters) with six trading days remaining in March.

The Fed sees slowing U.S. economic growth in 2025, but no recession. This concurs with our assessment that despite a recent drop in confidence and soft January consumer spending, U.S. economic growth, while slowing, is not as weak as some believe. We look for improving data in March and April, while acknowledging elevated risk due to tariff uncertainty and possible cuts in government spending. Consumer confidence is often volatile and spending levels can diverge from those readings. We are watching jobs data closely. Last week, in the Fed's March Summary of Economic Projections (SEP), the median estimate for 2025 U.S. economic growth (as measured by gross domestic product, or GDP) was +1.7%, below the December SEP median of +2.1%. In addition, the updated SEP estimate for PCE inflation was increased to 2.7% from 2.5% estimated in December. But the Fed's long-term outlook for both GDP and inflation were unchanged, suggesting that maximum near-term uncertainty is expected to abate in the months ahead. Despite easing 2025 economic growth expectations, earnings estimates have remained steady, with the FactSet consensus estimate reflecting +11.7% year-over-year growth this year vs. 2024.

Equity markets have rallied in early Monday trading following reports of the potential for less expansive tariff policy. On 4/2/25 the Trump Administration is expected to place "Reciprocal Tariffs" on all countries deemed to pursue "unfair trade practices" with the U.S. The potential complexity of such a plan has kept investors on edge, but over the weekend, reports connected to Treasury Secretary Scott Bessent, suggested a more limited plan. We still expect tariffs targeted at China, Mexico, Canada, and the European Union, the U.S.' four largest trading partners. We see potential volatility as the Reciprocal Tariffs are announced but also look for trade negotiations and deals that could replace tariffs and calm markets.

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The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm’s principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities. Sectors that are called “defensive,” are thought to be less exposed to economic cycles compared to “cyclical” sectors, and often attract investor interest during periods of economic weakness.

FactSet is a data aggregation software utilized by D.A. Davidson’s Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts’ estimates from firms that submit estimates to FactSet for a given financial metric.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country’s borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at https://www.bea.gov/data/gdp/gross-domestic-product. U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis (BEA).

The Federal Reserve Bank’s Open Market Committee (FOMC) consists of twelve members--the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and in this way alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Federal Reserve Summary of Economic Projections (SEP) is sourced from federalreserve.gov, as of 12/14/22. Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant’s projections are based on his or her assessment of appropriate monetary policy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The Summary of

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Economic Projections is compiled from Federal Reserve Board members and Federal Reserve Bank presidents. We have linked to the most current Summary of Economic Projections.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months;" and also looks at the depth, diffusion, and duration of the downturn.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). The index is published monthly by the U.S. Bureau of Economic Analysis.

S&P 500 earnings growth reflect the year over year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Conference Board conducts a monthly Consumer Confidence Survey design to reflect prevailing business conditions and potential outcomes in the months ahead. It surveys consumer attitudes, buying intent, and expectations stratified by age and income in nine U.S. regions.

The breakeven inflation rate represents a measure of expected inflation derived from 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation-Indexed Constant Maturity Securities. The latest value implies what market participants expect inflation to be in the next 5 years, on average. It is calculated by the Federal Reserve Bank of St. Louis.

The Trump Administration on 2/12/25 announced a framework for its Reciprocal Tariffs, with a link to the memorandum, "Fair and Reciprocal Plan." White House