First Quarter 2025 Market Commentary

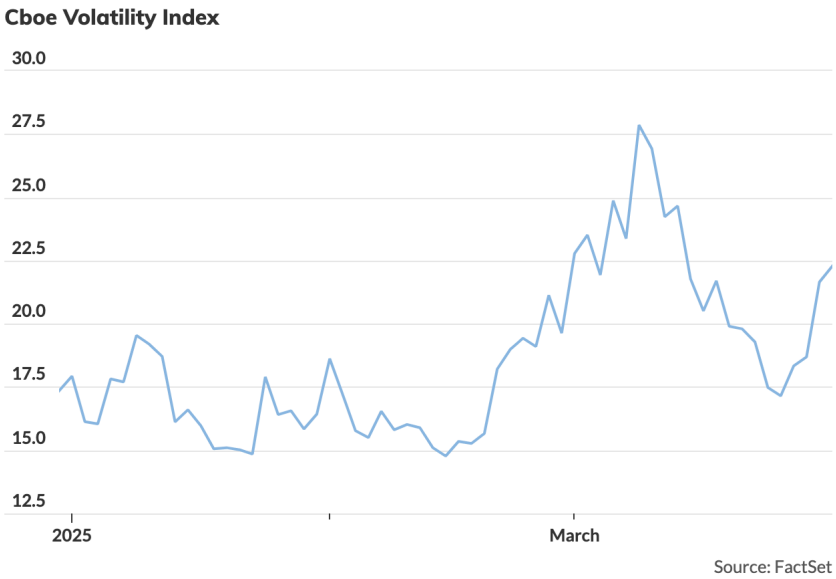
"Self-Inflicted Damage"

The benchmark S&P 500 index ended March with its steepest monthly decline in more than two years, driven by uncertainty about the scope of President Trump's tariffs, which investors fear could accelerate inflation, slow consumer spending and stall the US economy.

The S&P 500 index recorded a 5.8% decline in March, its worst month since December 2022, when the Federal Reserve embarked upon a series of sharp interest rate increases as it tried to tame inflation. The decline in March caps off the S&P 500's worst quarter at the start of a president's term since President Barack Obama took over in 2009 during the financial crisis.

The benchmark index is now down 8.7% from its mid-February peak, a downturn that is near a 10% "correction". The technology-heavy Nasdaq Composite index, which has already slipped into a correction, ended the month down 8.2%.

The stock market's "fear gauge" – the VIX index – has spiked along with the fears about tariffs and a slowing economy.

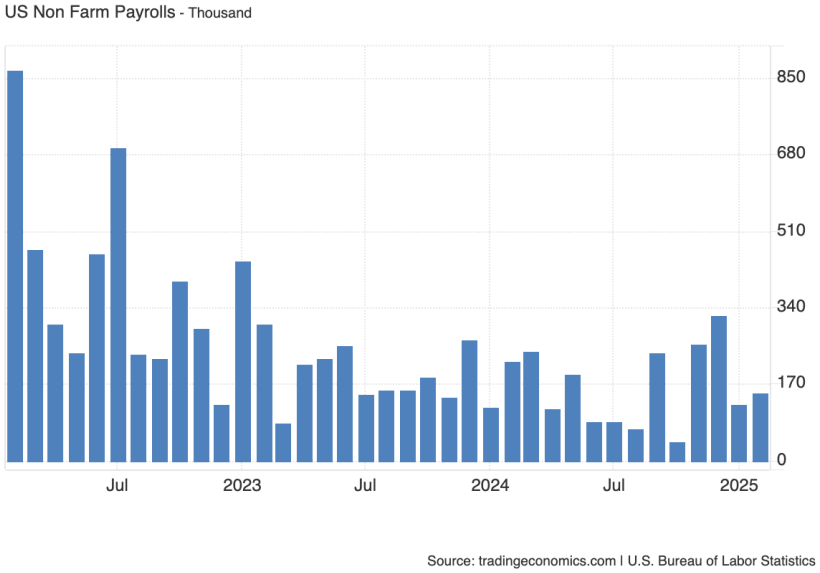


Source: MarketWatch

The Economy

The US economy added 151,000 jobs in February 2025, up from a downwardly revised 125,000 in January and compared to forecasts of 160,000. Federal government employment declined by 10,000, reflecting some of the impact of the DOGE layoffs, although the effects of federal spending cuts and tariffs are expected to weigh more on the labor market in the coming months.

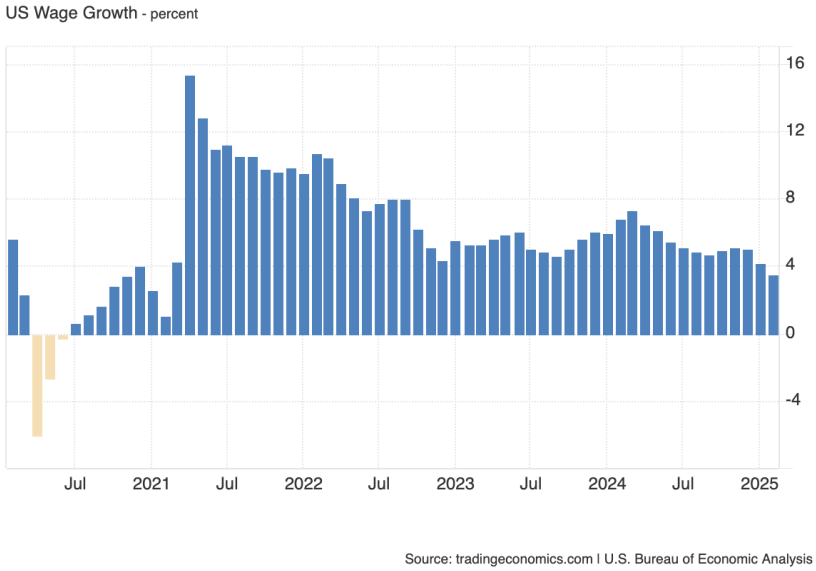
The chart below shows jobs added per month over the past three years.



Source: Trading Economics

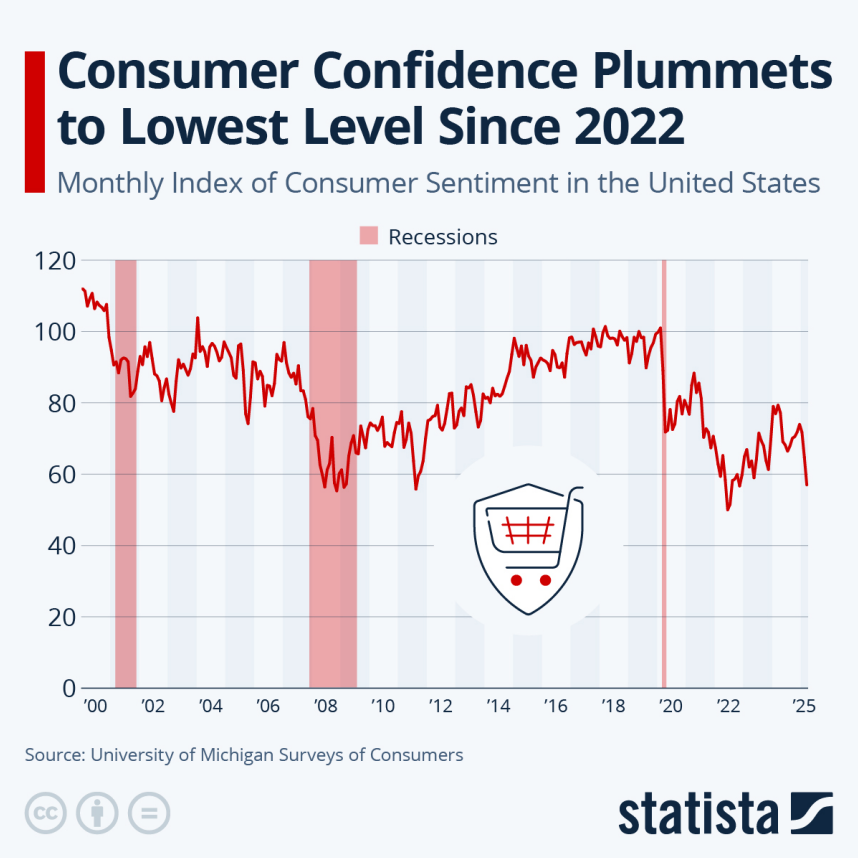
Wages in the US increased 3.54% in February 2025 over the same month in the previous year. Wage growth continues to outpace inflation, meaning real wages continue to rise.

The chart below shows annualized wage growth by month over the past five years.



Source: Trading Economics

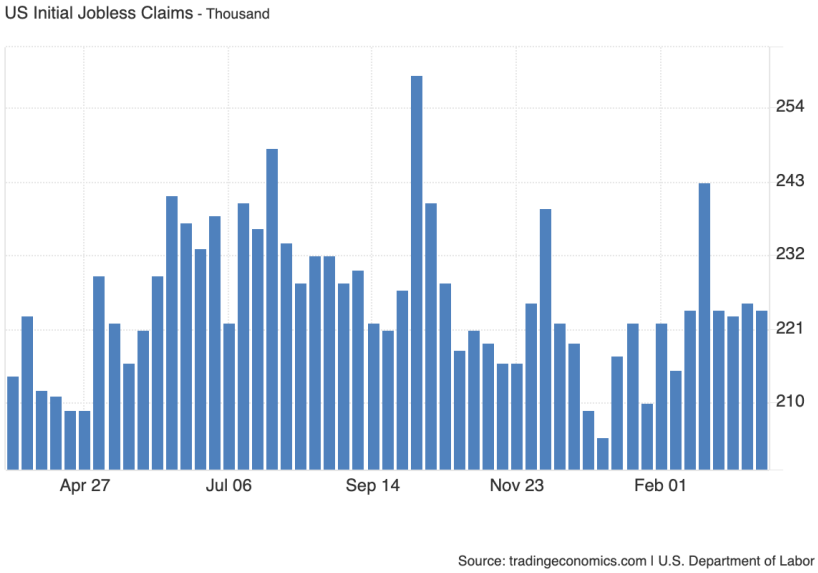
For the fourth straight month, American consumer confidence fell as inflation and worries over tariffs impacted their view of the economy, according to a report from The Conference Board. The confidence reading was the worst in over a decade and below the threshold which the Conference Board says could forecast an imminent recession. "Consumers' optimism about future income - which had held up quite strongly in the past few months - largely vanished," a Conference Board economist said.



Source: Statista

The Labor Market

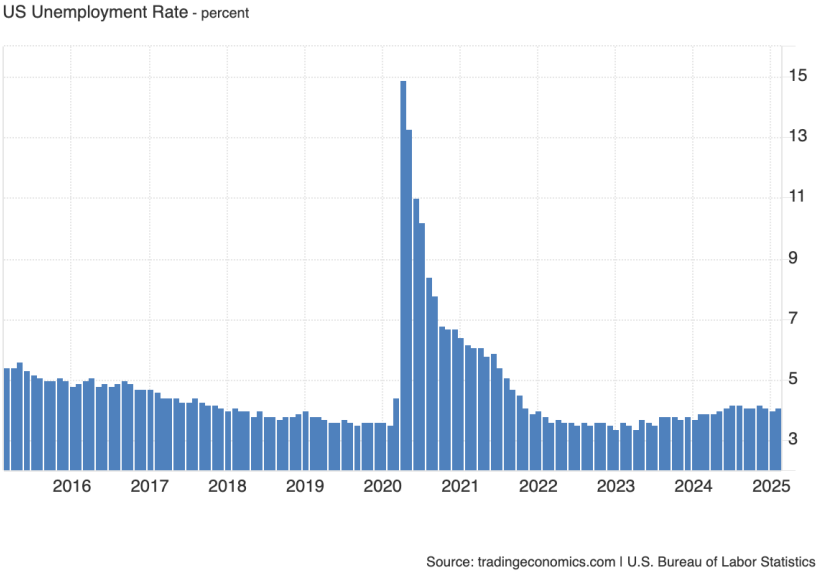
The number of people claiming unemployment benefits fell by 1,000 to 224,000 for the week ending March 22. This was slightly below the market's expectation of 225,000. The results remain at historically low levels, suggesting that the US labor market is still relatively robust.



Source: Trading Economics

The US unemployment rate rose to 4.1% in February 2025, up from 4.0% in January and slightly exceeding market expectations of 4.0%.

The chart below shows the unemployment rate over the past ten years.

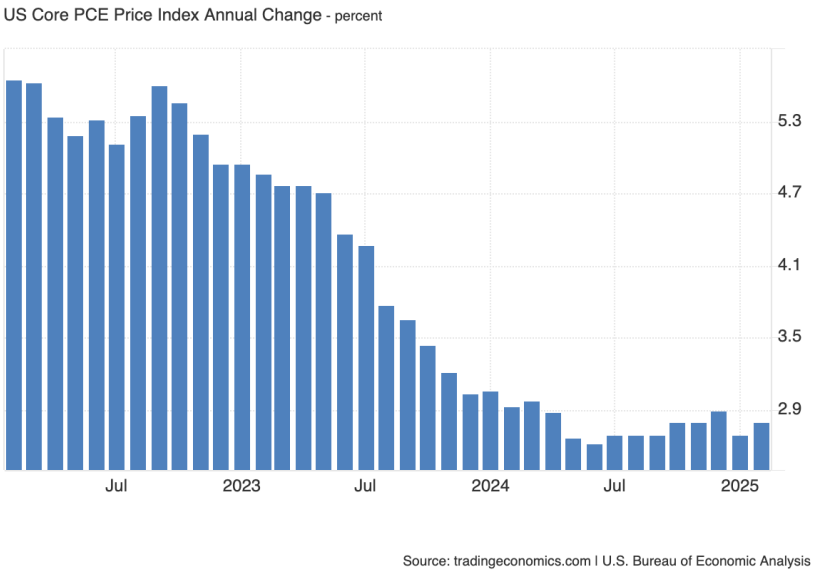


Source: Trading Economics

Inflation & Interest Rates

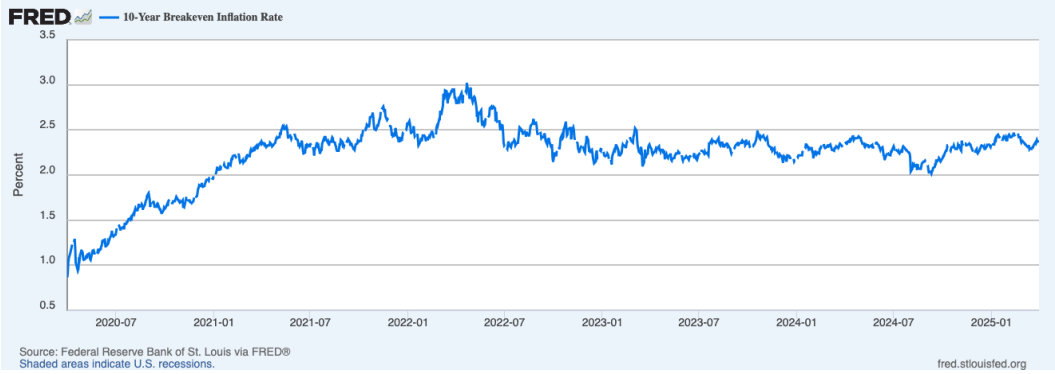
Core PCE, which is the Fed's preferred measure of inflation and which excludes volatile food and energy prices, rose by 2.8% annually in February 2025, up from 2.7% the prior month and above expectations of 2.7%.

The chart below shows the annualized Core PCE inflation rate over the past three years.



Source: Trading Economics

The markets remain confident that the Fed will succeed in keeping inflation down, with the 10-year breakeven inflation rate hovering just below the 2.4% level, where is has been for over two years.



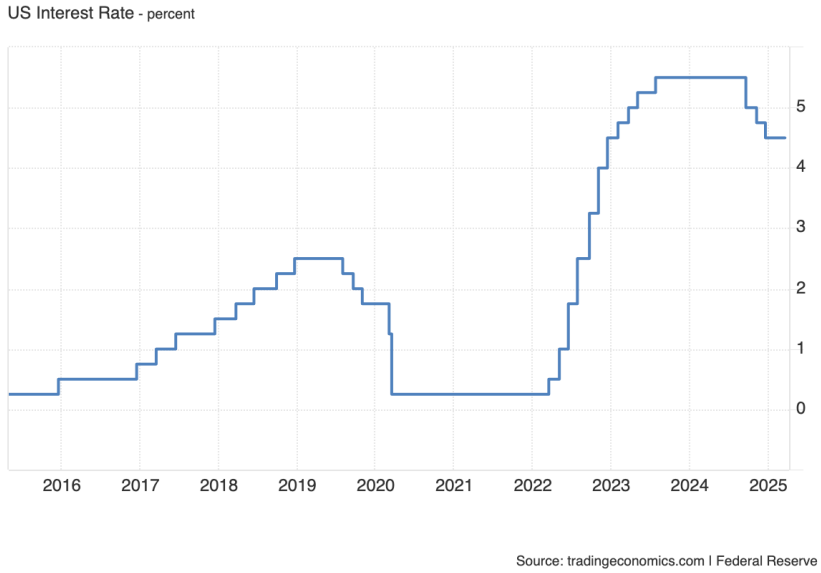
Source: Federal Reserve

The Federal Reserve kept the "federal funds" rate unchanged at 4.25 - 4.5% at its March meeting, extending the pause in its rate-cut cycle that began in January.

Policymakers noted that uncertainty around the economic outlook has increased, but that they still anticipate reducing interest rates by around 0.50% this year, the same as in their December projection.

Meanwhile, GDP growth forecasts were revised lower for this year to 1.7% (from 2.1% projected in December). Growth projections were also revised down for 2026 (1.8% vs 2.0%) and 2027 (1.8% vs 1.9%).

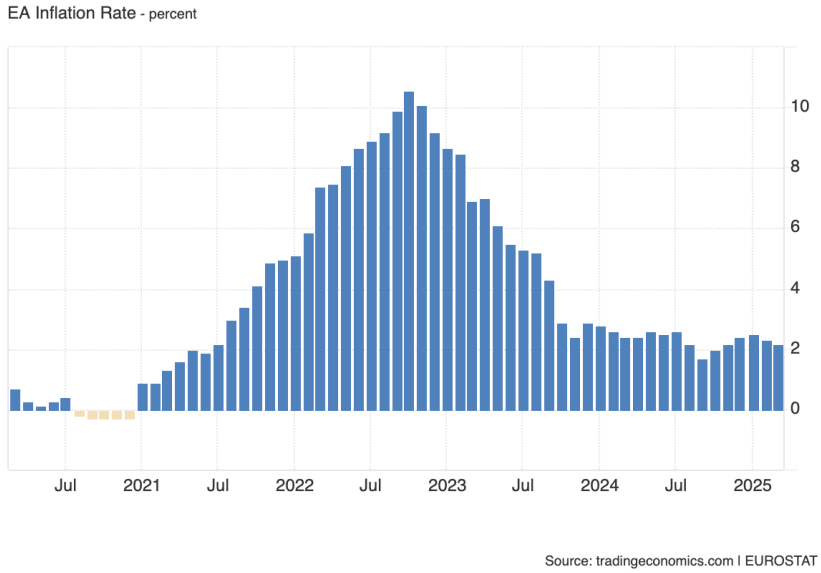
The chart below shows the Fed Funds rate over the past ten years.



Source: Trading Economics

Annual inflation in the Euro Area eased to 2.2% in March 2025, the lowest rate since November 2024 and slightly below market expectations of 2.3%, a preliminary estimate showed.

The chart below shows inflation in the Eurozone over the past five years.



Source: Trading Economics

The US Dollar

The Euro stabilized around the $1.08 level to close the first quarter, as investors assessed key inflation data while bracing for reciprocal U.S. tariffs set to take effect on April 2. The Euro strengthened dramatically over the past month as investors assessed the impact of Trump's current and planned tariffs on the prospects for US economic growth and inflation.

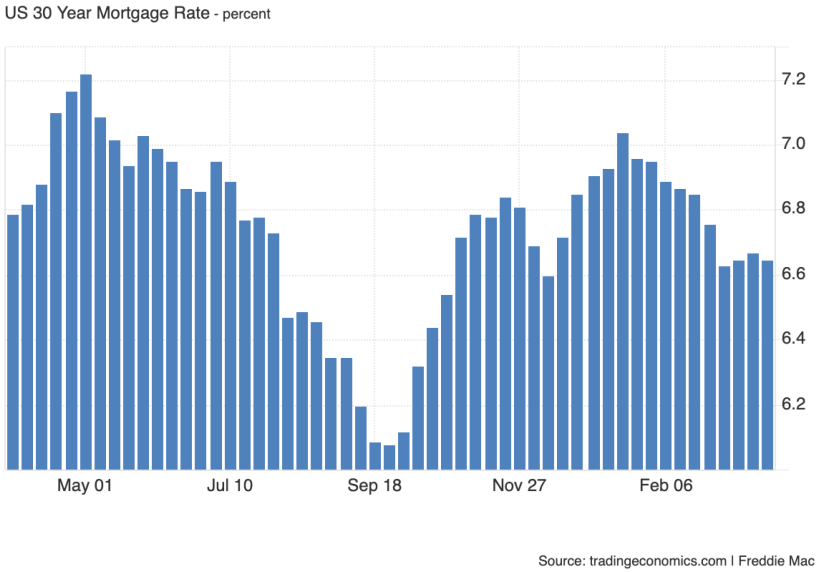
The chart below shows the USD/EUR exchange rate over the past year.

Source: Trading Economics

Mortgage Rates

The average rate on a 30-year fixed mortgage eased to 6.65% on March 27th, after rising for three consecutive weeks. A year ago, the rate was 6.79%.

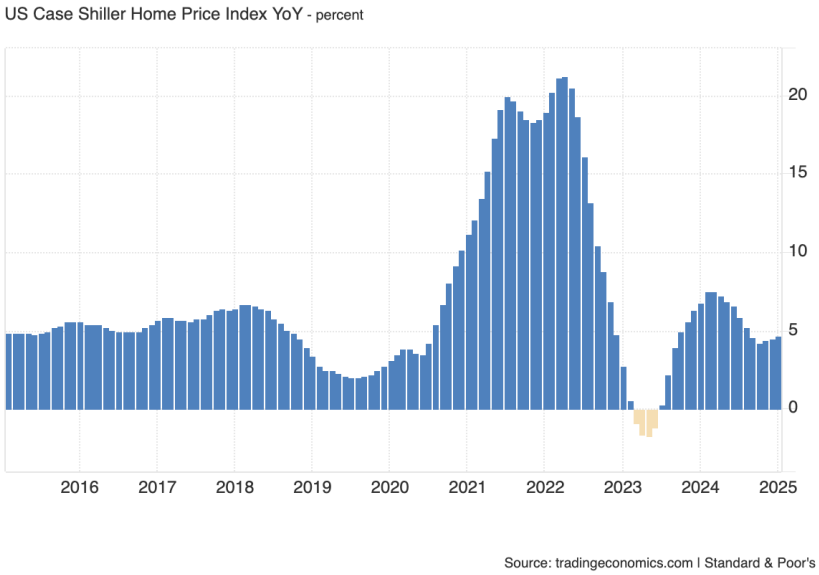
The chart below shows the benchmark 30-year fixed mortgage rate over the past year.



Source: Trading Economics

The Housing Market

The S&P CoreLogic Case-Shiller 20-city home price index in the US rose 4.7% year-on-year in January, up from 4.5% in December, but falling short of the expected 4.8% increase. This marked the fastest home price growth since last August, although a slowdown is expected in the coming months as high mortgage rates and affordability constraints continue to pressure buyer demand and market activity.



Source: Trading Economics

The Markets

US Stocks

US stocks closed the quarter's final trading day with mixed results, as investors brace themselves for the Trump administration's latest round of tariffs, planned for April 2.

The benchmark S&P 500 index - a proxy for large US companies – closed up 0.6% on the quarter's final trading day. Over the first quarter the index was down -4.6%, while over the past year it was up 6.8%.

The chart below shows the performance of the S&P 500 index over the twelve months to March 31, 2025.

Source: Trading Economics

The tech-heavy Nasdaq closed flat on the first quarter's final trading day. Over the first quarter the index was down -10.4%, while over the past year it was up 5.6%.

The chart below shows the performance of the Nasdaq index over the twelve months to March 31, 2025.

Source: Trading Economics

International Stocks

The EU Stoxx 600 - a proxy for large European companies - closed the first quarter's final trading day down 1.5%. Concerns about the impact of the Trump administration's planned tariffs drove automaker stocks down. For the full year it was up 5.9%.

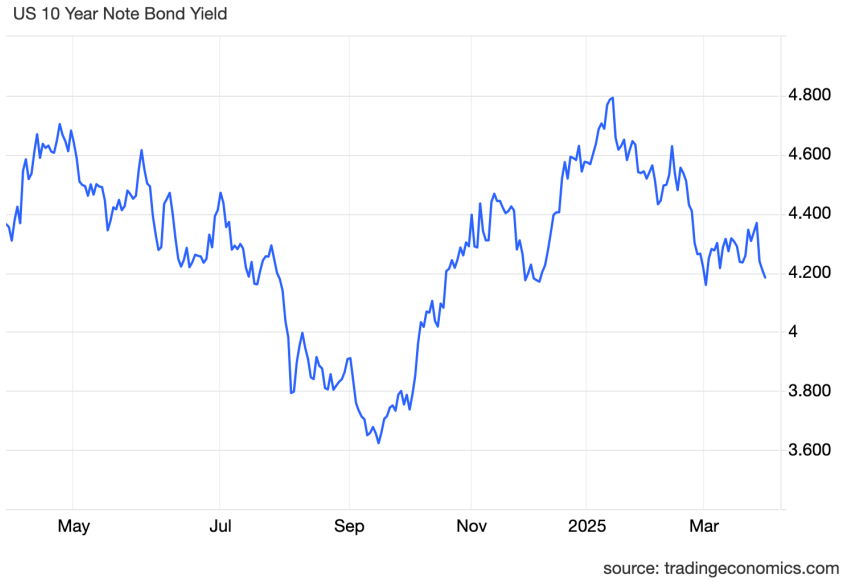
The chart below shows the performance of the Stoxx 600 index over the twelve months to March 31, 2025.

Source: Trading Economics

The Bond Market

The yield on the US 10-year Treasury note hovered around 4.2% on the final trading day of the quarter, after falling for two consecutive sessions, as President Trump's trade escalations clouded the economic outlook, boosting demand for "safe haven" assets. As noted above, Trump is set to impose reciprocal tariffs on "all countries" this week, raising fears of retaliatory measures from major trading partners and potential global economic fallout.

The chart below shows the yield on the benchmark 10-year US Treasury note over the twelve months to March 31, 2025.



Source: Trading Economics

Oil

Futures contracts for the benchmark West Texas Intermediate product closed at just over $71.20 per barrel on the final day of the first quarter. Traders are concerned that President Trump's widening trade war will reduce energy demand.

Trump said that reciprocal tariffs planned for April 2 would include all countries, not just those with the largest trade imbalances with the US. However, potential supply risks may cushion oil's decline, despite Trump's latest threats against Russia and Iran. The US president vowed to impose 25-50% secondary tariffs on buyers of Russian oil if he feels Moscow is hindering his efforts to end the war in Ukraine, putting key buyers such as India and China under pressure.

Over the past month WTI prices are up 4.6%, but over the past year they are down -16.0%.

The chart below shows the performance of the benchmark WTI contract over the twelve months to March 31, 2025.

Source: [Trading Economics]

Gasoline

US gasoline futures rose toward $2.30 per gallon on the final day of the first quarter, extending a rising trend as spring travel dovetails with tightening supply dynamics and elevated refinery input costs.

As the travel season kicks off, demand surges, evidenced by the national average creeping up. This seasonal uptick coincides with a marked decline in domestic gasoline inventories - down roughly 530,000 barrels in the second week of March - while production has contracted, further limiting available supply.

Prices rose 4.2% in March, but fell -17.5% for the year to March 31.

Source: Trading Economics

Benchmark Returns

For comparative purposes, the S&P 500 index (a proxy for large US stocks) rose 6.8% for the twelve months to March 31, but declined -4.6% in the first quarter.

The Russell 2000 (a proxy for small US stocks) fell -4.0% for the twelve months to March 31, and declined -9.5% in the first quarter.

The Wilshire 5000 index (a proxy for the broad US stock market) rose 7.1% for the twelve months to March 31, but fell -4.8% in the first quarter.

The MCSI EAFE index (a proxy for large international stocks) rose 2.2% for the twelve months to March 31, and rose 6.2% in the first quarter, as measured in USD. Because the USD weakened during the quarter versus the EUR, the picture was different when measured in the local currency, with the index gaining 2.2% for the 12 months to March 31, and rising 1.8% for the first quarter.

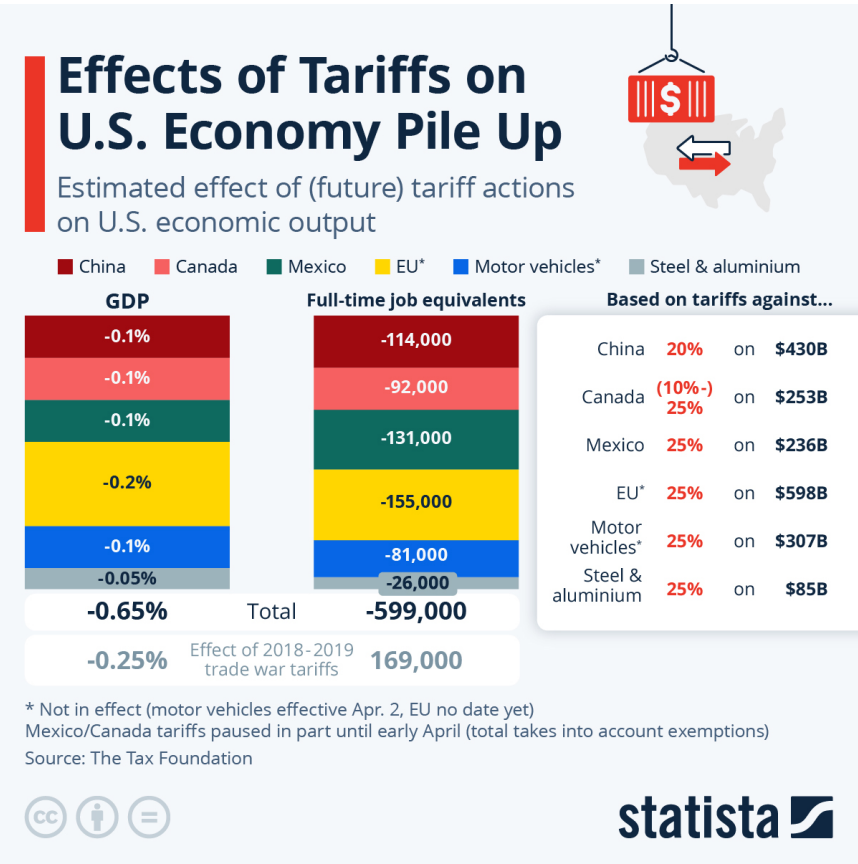
Finally, the MSCI Emerging Markets index rose 5.6% for the twelve months to March 31, and rose 2.4% in the first quarter.

In the fixed income segment, the Bloomberg Barclays US Aggregate Bond Index returned 5.7% for the twelve months to March 31.

Looking Forward

Citing "higher tariffs, weaker economic growth and greater inflation than we previously assumed", analysts at Goldman Sachs last week cut their forecast for the S&P 500. They expect the index to fall another 5% in the next three months. The downturn could be deeper if the US economy slips into recession, which the analysts give a roughly one-in-three probability.

The chart below shows the projected impact of future tariff actions on US economic growth.



Source: Statista

We would remind our clients and other interested readers that investing is a marathon rather than a sprint. Bouts of volatility – which sometimes drive down the price of stocks by 30%, 40% or even 50% in a short amount of time – are the price that one pays for growth of capital over time.

But a properly designed portfolio – one that is diversified within and across a broad range of asset classes – gives investors the best chance of earning appropriate risk-adjusted rerturns and, more importantly, meeting their long-term objectives.

The first quarter of 2025 has provided clear evidence of the benefits of broad diversification. While the US stock market has declined, international stocks (see the EU Stoxx 600 index above) and bonds have provided positive returns for the year to date.

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these days, and by using social media we can share with you our thoughts, observations and ideas in the least intrusive manner possible.

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