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Doll's Deliberations®

Weekly Investment Commentary

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Summary

U.S. equities were sharply lower for the week with the S&P 500 (-3.06%), NASDAQ (-3.43%), and Russell 2000 (-4.43%) extending their multi-week decline. The cause was another week of risk-off sentiment concerns around macro softening, punctuated by volatile tariff headlines. Best sectors were healthcare (0.18%) and materials (-1.08%); worst sectors were financials (-5.87%) and consumer discretionary (-5.36%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-2.33	0.91
S&P 500	-3.06	-1.66
NASDAQ	-3.43	-5.66
Russell 1000	-3.73	-2.40
Russell 1000 Growth	-3.94	-5.56
Russell 1000 Value	-2.40	2.53
Russell 2000	-4.43	-7.17

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-1.96	0.25
Consumer discretionary	-5.36	-10.45
Consumer staples	-1.37	6.37
Energy	-3.74	2.16
Financials	-5.87	1.73
Heathcare	0.18	8.58
Industrials	-1.55	1.92
Information technology	-3.38	-7.43
Materials	-1.08	4.44
Real estate	-1.60	4.44
Utilities	-2.40	2.16

Key takeaways

1. The U.S. non-farm payrolls rose +151,000 m/m in February. The unemployment rate rose to 4.1% and underemployment (U-6) surged to 8.0%.
2. Until recently, the U.S. job market has been slowing, but at a very gradual pace. With uncertainty up, tariffs announced, and the consumer slowing, labor market weakness is becoming more pronounced.
3. The February ISM Manufacturing index was weaker than expected, with new orders falling significantly. However, price pressures increased.
4. A month ago, the stock market was at an all-time high, Fed rate cuts were being pared back to one at most. Now, the market is pricing in three to four rate cuts.
5. The liquidity bazooka is driving down the U.S. dollar and temporarily helping non-U.S. stocks outperform.
6. While still historically tight, high yield spreads are at their highest level since October. It is possible that the growth of private credit markets is distorting the signals we can derive from spreads.
7. The Trump administration launched its biggest trade action last Tuesday, levying 25% tariffs on Canadian and Mexican goods, and an additional 10% to current tariffs on Chinese imports.
8. The federal government will shut down after March 14 if Congress does not pass a continuing resolution to keep the government open with spending at more or less current levels.
9. U.S. policy uncertainty is rising, driving global uncertainty higher. Tariff implementation is set to increase volatility and risk aversion. Meanwhile, U.S. tax policy remains uncertain, with budget negotiations likely to result in higher deficits. Also, geopolitical risks persist.
10. CONFIDENCE is key to a constructive view of risk assets. Tariff and budget uncertainties and frequent changes in the administration's policy path forward create a lowered confidence backdrop.

The dark clouds continue to multiply

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	-1.43	1.27
MSCI ACWI EX U.S.	3.00	8.64
MSCI EAFE	3.62	11.18
MSCI EM	3.12	5.47

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.46	2.27
Bloomberg U.S. Corp High Yield	-0.31	1.73
Bloomberg U.S. Gov/Credit	-0.45	2.19
Bloomberg U.S. T-Bill 1-3 Month	0.05	0.75

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-2.12	3.25
Commodities (DJ)	2.07	6.94
Global listed private equity (Red Rocks)	-3.32	-0.68
Currencies (DB Currency Future Harvest)	-1.41	-2.15

Aggressive shifts in U.S. economic policy are undermining investors' prior pro-growth expectations of the second Trump Administration. Foremost among the shifts is the application last week of U.S. tariffs on Canada, China, and Mexico that represent a huge share of U.S. imports, although their scope was later narrowed, at least temporarily. President Trump is also upending several of the foundations that have underpinned the global economic and capital markets backdrop in recent decades, many of which had helped buttress the U.S. exceptionalism theme. The flipside is that U.S. policy is catalyzing selective pro-growth policies in Europe that should offset some of the likely drag from the tariff war.

The U.S. economy has been moving forward over the past three years, fueled by robust consumer spending, a strong job market, and buoyant corporate profits, trends that would be expected to continue in the absence of disruptive policies. Yet tariffs are a self-inflicted stagflationary wound, and at least until the unfolding trade war eases, a risk-off climate will persist. The U.S. economy is sufficiently resilient to absorb some blows, but U.S. assets are still not priced for a downshift in growth, and valuation is reliant on continued support from foreign investors, which is at risk from the U.S.' increasingly isolationist shift. Some U.S. growth concerns had crept into the market prior to last week's tariffs, reflecting recent weak retail sales and consumer spending alongside a decline in consumer confidence, and the Atlanta Fed's GDP-Now showing a Q1 contraction.

Equity and bond volatility has increased recently in response to perceived disruptive U.S. policies. U.S. Treasury implied volatility has jumped significantly after touching a multi-year low last month, although it is not high by the standard of the past few years. The greater pressure is evident in the sharp rise in the VIX index with investors hedging equity risk after two years of strong gains. We expect equity volatility to remain elevated (a VIX index near or above 20) until there is less perceived danger to economic growth from U.S. tariffs.

As a result of higher volatility, a more tactical approach than normal will be appropriate until the policy outlook is clearer. Given the tariff threat to global growth expectations in the near term, and in conjunction with still-elevated U.S. equity valuations, we continue to recommend a cautious approach to equities (see our 10 Predictions released December 31). Sticky inflation and heavy debt issuance will limit bond yields from adjusting materially lower during risk-off phases, and will likely head higher if trade headwinds abate.

It is important to stress that although growth risks are rising, the global economic expansion would be sustained if the tariffs get progressively scaled back in bilateral negotiations, especially given prospective European fiscal stimulus. Any tariff relief would eventually support risk asset prices, as will the recent decline in U.S. Treasury yields. In short, we remain cautious about the destabilizing nature of Trump's policy choices coupled with valuation and earnings risk concerns.

Conclusion

Aggressive U.S. tariffs and broader policy uncertainty will keep stocks under pressure. The U.S. policy outlook is fluid and may require more frequent tactical shifts than normal.

Source: Bloomberg as of March 7, 2025

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