CROSSMARK GLOBAL INVESTMENTS

March 24, 2025 | Issue 5.13

Doll's Deliberations®

Weekly Investment Commentary

Bob Doll, CFA
PM/CIO/CEO

Summary

After four straight weeks of decline, stocks had a modest gain (S&P 500 0.53%). A quieting down of tariff talks and somewhat dovish takeaways from the Fed's meeting helped stabilize stocks. Best sectors were energy (3.20%) and financials (1.90%); worst sectors were materials (-0.22%) and utilities (-0.15%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	1.21	-0.91
S&P 500	0.53	-3.34
NASDAQ	0.18	-7.76
Russell 1000	0.56	-3.52
Russell 1000 Growth	0.30	-7.68
Russell 1000 Value	1.01	1.63
Russell 2000	1.21	-6.99

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-0.09	-3.31
Consumer discretionary	-0.03	-13.70
Consumer staples	-0.15	1.77
Energy	3.20	8.21
Financials	1.90	2.39
Heathcare	1.12	6.62
Industrials	0.85	0.42
Information technology	-0.05	-9.37
Materials	-0.22	2.05
Real estate	0.10	2.07
Utilities	-0.15	4.05

Key takeaways

1. The Fed decision was as expected, with no change in rates and two cuts projected in 2025. The downward move in yields and equity rally appears to be driven by the announcement that quantitative tightening will be reduced, coupled with Powell's generally dovish tone.
2. The Fed marked down their GDP forecasts from 2.1% to 1.7% for 2025 and inflation up to 2.8% from 2.5%.
3. We expect the employment outlook to become a more important factor for the Fed due to a weakening economy and weaker immigration trends.
4. Headline Fed retail sales missed expectations at +0.2% m/m versus consensus of 0.6%. This certainly doesn't suggest a robust consumer, as headwinds begin to mount related to policy uncertainty and tariffs related to inflation.
5. The March University of Michigan Consumer Sentiment Index missed estimates, falling to 57.9 from 64.7. Long-term inflation expectations jumped to 3.9%, the highest since the early 1990s.
6. Because of heightened policy uncertainty, many consumers and businesses may hesitate to spend, invest, and hire. This hesitation, along with the impact of tariffs, government spending cuts and lower immigration, is slowing economic growth.
7. Reciprocal tariffs are the least concerning as the threat of higher tariffs will force countries to negotiate. If countries lower their tariff rates to avoid reciprocal tariffs, that is positive for global growth.
8. As of Oct. 1, EPS estimates for the S&P 500 for 2025 were $277. Since then, the estimate has fallen by 3%. We expect it to fall by at least that much again, depending on how weak the economy becomes.
9. We think the trend for stocks is lower until there is more clarity on tariffs. Post April 2 (maybe not until May), things may become clearer and provide a more constructive investment environment as investors begin to shift their focus to potential tax cuts.
10. According to Strategas, there are more energy stocks in uptrends than in technology.

Slowing growth + stubborn inflation = defensive positioning

The volatile risk-off backdrop has continued. Economic concerns have surged with the U.S.-led trade war moving into high gear. The current turbulence may yet provide a good buying opportunity in risk asset markets but probably from lower than current levels.

Whether equity markets rebound or continue sinking hinges on the outcome of the trade war and whether the endpoint is: a) meaningful protectionism that soon undermines the global economic expansion, or perhaps continued high uncertainty that persists, or b) something more similar to the 2018-19 trade war episode, which slowed growth for a time, but was not lethal for the global economy.

The U.S. economy was in good shape heading into 2025, and the rest of the world was slowly firming. Thus, the global economy should be able to weather some trade headwinds and uncertainty. A full-blown and persistent trade war would be recessionary. Even just a prolonged period where there is lack of trade policy clarity will erode current positive economic momentum.

The equity market had priced in tax cuts and de-regulation following the Trump victory, but not the risks. Most investors were overconfident that they could predict how Trump's policies would evolve after he won his second term, and assumed something similar to his first-term behavior and policies. This has not panned out, and now economic tail risks have risen and are mostly negative. Uncertainty, tariffs, and overvaluation have combined to send risk assets lower. Thankfully, high-yield corporate bond spreads have only widened slightly and are not at historically worrisome levels, which is a reminder that monetary conditions have been supportive, not restrictive. A close monitoring of spreads is warranted during this period of heightened economic risk.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	0.90	0.52
MSCI ACWI EX U.S.	1.63	8.90
MSCI EAFE	1.39	10.93
MSCI EM	1.96	6.51

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	0.61	2.71
Bloomberg U.S. Corp High Yield	0.51	1.59
Bloomberg U.S. Gov/Credit	0.62	2.63
Bloomberg U.S. T-Bill 1-3 Month	0.05	0.91

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	1.05	2.66
Commodities (DJ)	0.47	7.64
Global listed private equity (Red Rocks)	2.40	-0.02
Currencies (DB Currency Future Harvest)	0.48	-0.31

The inflation backdrop remains a concern. It would take a lasting period of economic weakness, and most likely a full-blown recession, to fully unwind the stickiness of service sector inflation and labor market tightness. Meanwhile, any trade-driven boost to consumer goods' prices will only exacerbate both the near-run inflation picture and voters' anger about the higher cost of living resulting from this decade's surge in consumer price levels.

Conclusion

The next big tariff date is April 2, when retaliatory tariffs are supposed to arrive. Beyond that date, we suspect that Trump will drag out the trade war for a while longer, underscoring the need to stay defensive. Growing downside economic risks and sticky inflation invite stagflation.

Source: Bloomberg as of March 21, 2025