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RAYMOND JAMES

The Dow Group Newsletter

1st Quarter Summary - 2025

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March Market Review:

The equity market remained turbulent through March, with the S&P 500 dipping into correction territory – 10% off its February peak – largely spurred by tariff policy uncertainty and related fears of potentially rising inflation and dwindling growth. "The extreme optimism that was embedded in US equity valuations at the start of the year has reversed, with sentiment turning decidedly more negative following the recent correction," said Raymond James Chief Investment Officer Larry Adam. "However, with more attractive valuations and more reasonable expectations, equities are now better positioned to rise moving forward. The key catalyst is likely to be greater policy clarity, especially concerning tariffs, which remains elusive so far."

At its March meeting, the Federal Open Market Committee (FOMC) left target interest rates unchanged, raising inflation expectations for 2025 and lowering growth forecasts through 2027. Chairman Jerome Powell indicated that if growth falters, rate cuts would not be delayed.

Tariff concerns steered the ship: One common thread was observed across the major indices through March: Tariffs were a main driver of contraction. The combination of unknowns surrounding the tariffs themselves as well as their imminent impact could be similarly seen across industry data, such as the ISM Manufacturing Index and construction spending. Tariffs also contributed to the largest US trade deficit in traded goods since at least 1992, as producers pre-stocked inventories.

Positive signs beneath the surface: Despite the fog of policy uncertainty, there are still positive factors at play. With clarity, those factors may bubble to the surface. The economy is poised to remain resilient with a healthy earnings outlook, an expected easing of Fed policy, and evidence that inflation will not likely get out of control despite remaining sticky today.

Before we dive into more details, here's where the major indices stand:

	12/31/24 Close	3/31/25 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	42,544.22	42,001.76	-542.46	-1.28%
NASDAQ	19,310.79	17,299.29	-2,011.50	-10.42%
S&P 500	5,881.63	5,611.85	-269.78	-4.59%
MSCI EAFE	2,259.60	2,451.36	+191.76	+8.49%
Russell 2000	2,230.16	2,011.91	-218.25	-9.79%
Bloomberg Aggregate Bond	2,189.03	2,244.71	+55.68	+2.54%

***Performance reflects index values as of market close on March 31, 2025. Figures for the MSCI EAFE and Bloomberg Aggregate Bond reflect the market close on March 28, 2025.**

Bond rates flat as treasury nears debt limit deadline: Treasury yields were largely unmoved in March, with municipal yields edging closer to long-term averages. The larger story is the federal government's impending inability to pay back its bills as soon as August should the current debt limit remain intact. The Treasury has resorted to creative accounting maneuvers in order to avoid breaching the $36 trillion debt ceiling. Treasury Secretary Scott Bessent assured lawmakers that the US will not default on its debt under his watch.

Have we mentioned tariffs yet? While individual tariffs typically wouldn't have the widespread effects we're seeing, President Donald Trump's trade agenda comprises multiple types of tariffs across various sectors that combine to produce the levels of volatility we observed last month. Global reciprocal tariffs, sector-specific tariffs and the rollback of exemptions on USMCA-compliant goods from Mexico and Canada are all looming threats to economic growth in the short term. Timing continues to be a source of anxious uncertainty, but the Mexico and Canada tariffs could be resolved with a claimed "victory" over border issues surrounding immigration and fentanyl.

Oil prices touch six-month lows: Some of the more encouraging economic news for consumers to come out of the month of March has been the price of oil, which touched six-month lows before slightly bouncing. Cheaper oil is making its way to the fuel pump, with energy prices posting their sixth decline in the last seven months. US market weakness related to tariffs and record EV sales in China are likely contributors. Despite the drop in the oil market, energy stocks are doing well. Of the 11 economic sectors tracked by separate S&P 500 indices, only Energy finished March in positive territory.

(Continued)

A historic shift for German debt policy: The big news last month among international markets was Germany's sudden pivot away from a longstanding conservative approach to fiscal policy. The decision to reform the "debt brake," which capped the national deficit at 0.35% of gross domestic product, passed with a two-thirds supermajority, sending waves across European financial markets already in flux over the gradual and uncertain peace process in Ukraine.

The bottom line: Turbulence is expected to continue until the markets have a chance to adjust to policy changes, which will require clarity from the administration. Time will tell if tariffs will stand as indicated, or if they will be lessened or removed amid ongoing negotiations with the countries and industries affected. Equities may continue moving sideways as the market reacts to headlines and eventually settles at a historically normal bottom for pullbacks of this nature.

If you have any questions, please do not hesitate to reach out. As always, I wish you and your family well. Thank you for your continued trust in our guidance.

- Ken -