Market analysis | March 31, 2025

At a glance

Investor sentiment weakened last week amid tariff uncertainty ahead of this week's planned announcements.

Number of the week

4.6%

The savings rate among U.S. consumers in February, up from 4.3% in January.

Term of the week

Data center – A large group of networked computer servers typically used by organizations for the remote storage, processing, or distribution of large amounts of data.

Consumer sentiment surveys slipped further in March. The Conference Board's Consumer Confidence Index fell to its lowest level since January 2021 and the Michigan Consumer Sentiment Index fell to its lowest since November 2022, highlighted by rising inflation expectations. The reports highlighted worries about tariffs and trade policy along with inflation.

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Global economy

Quick take: Slowing inflation and solid domestic demand growth likely helps the U.S. economy achieve a soft landing in 2025.
Our view: Tariffs pose some risks to slow but improving growth in developed markets, including the eurozone, the United Kingdom (U.K.) and Japan. Emerging markets remain diverse as trade policies take center stage while China struggles to rekindle consumer demand.

- **Inflation remains elevated.** The core Personal Consumption Expenditure (PCE) Price Index, which excludes food and energy prices, rose 2.8% year-over-year in February, up from 2.7% in January. Services remain the primary driver, while goods costs contracted and shelter continued to slow from high levels. Personal incomes remain solid, rising 4.6%, supported by a jump in government transfer income. Consumers were conservative with their spending; the savings rate ticked up to 4.6% from 4.3% in January and spending growth slowed.
- **Consumer sentiment surveys slipped further in March.** The Conference Board's Consumer Confidence Index fell to its lowest level since January 2021 and the Michigan Consumer Sentiment Index fell to its lowest since November 2022, highlighted by rising inflation expectations. The reports highlighted worries about tariffs and trade policy along with inflation.
- **Preliminary March S&P Global Purchasing Manager Index data pointed to renewed softness in manufacturing activity** while service sector output rebounded. Both indicated concerns about trade and tariff uncertainty. Manufacturers were the most upbeat about prospects in three years on hopes for supportive trade policies and lower taxes.
- **Preliminary purchasing manager surveys indicate improvement in the eurozone and U.K.** while Japan slipped back into contraction. Eurozone data revealed a modest economic expansion for the third month; manufacturing activity returned to growth, joining a moderating expansion in services. While the U.K. composite index hit a six-month high, the moderate strength in services was countered by an 18-month low in manufacturing due to global uncertainty and weak international demand. Japan's service sector fell into contraction for the first time in five months amid cost pressures. Manufacturing fell to a one-year low, marking the ninth straight month of contraction.

Equity markets

Quick take: Tariff uncertainty, persistent inflation, waning consumer confidence and moderating earnings growth expectations are weighing on investor sentiment as the first quarter draws to a close.
Our view: Despite tariff-related headwinds, there remains much to like about equities. Broad market valuations are elevated yet short of extremes, interest rates are steady and earnings projections for 2025, despite recent downward revision trends, still reflect robust year-over-year growth.

- **First quarter performance reflects lackluster returns across both indices and sectors.** As of Friday's close, the S&P 500 is off 5.1% for the quarter, with the technology-heavy NASDAQ Composite down 10.3%. While seven of the 11 S&P 500 sectors are posting gains so far this year, perhaps most noteworthy is the performance of the Consumer Discretionary (-13.8%) and Information Technology (-12.8%) sectors, which are most negatively impacted by tariffs.
- **First quarter corporate results projections reflect moderate sales and earnings trends.** According to FactSet, first quarter sales and earnings expectations are for increases of 4.3% and 7.0% year-over-year, respectively, modestly below fourth quarter results. The first quarter reporting period unofficially begins on April 11 with releases from several money center banks.
- **Items of interest to us from first quarter releases include the potential implications of tariffs, forward guidance and consumer and business spending trends.** To date, companies offered reserved earnings guidance due to uncertainty surrounding tariffs. While ambiguity remains, we expect companies to clarify the impact of tariffs on their businesses. Early corporate comments indicate consumers across all income groups are increasingly cautious with their spending. Capital expenditures and returns on artificial intelligence-related investments will be of focus for the Technology sector.
- **Broad market valuations remain elevated, yet short of extremes**. Analysts forecast S&P 500 earnings of approximately $268 per share for 2025, according to Bloomberg, FactSet and S&P Cap IQ, reflecting 10% year-over-year growth. As of Friday's close, the S&P 500 trades at 21 times consensus 2025 earnings projections, above the 35-year historical average of 16.5 times.

Bond markets

Quick take: Treasury bond prices were roughly unchanged last week, with short-term Treasury yields rising and long-term Treasury yields falling slightly. Corporate and municipal bond prices fell as trade policy uncertainty weighed on investor risk appetite, although riskier high yield corporate bonds have still delivered positive returns year-to-date.

Our view: High-quality bonds continue to represent an important component of diversified portfolios. We see opportunities for incremental income and return potential in structured credit, such as non-agency mortgages and collateralized loan obligations, which have solid fundamentals and structural protection against credit losses.

- **Bond yields reflect three Federal Reserve (Fed) rate cuts in 2025.** During the March Fed meeting, Chairman Jerome Powell said tariffs would only temporarily impact inflation through one-time price increases. However, other Fed officials expressed differing views. On Monday, Atlanta Fed President Raphael Bostic said this time may be different because of recently high inflation. On Wednesday, St. Louis Fed President Alberto Musalem noted it remains unclear if tariff-induced inflation will prove temporary, and secondary effects could prompt the Fed to hold interest rates steady for longer. Fed officials are closely watching long-term inflation expectations to ensure inflation remains stable. Long-run inflation expectations priced into bond yields remain anchored near the Fed's 2% target, but inflation expectations spiked in consumer surveys. The Fed must balance its mandate for stable prices with supporting full employment.
- **Corporate and municipal bond issuers benefit from strong investor demand.** The extra yields on corporate bonds compared to Treasuries are on the low end of past norms, implying that investors are accepting less compensation for credit risk. Companies have capitalized on strong investor demand and issued high amounts of debt this year. Monthly issuance for investment-grade bonds, high yield bonds and risky loans in January, February and March all exceeded historical averages. Bond issuance can pose a temporary headwind for investors but ultimately bolster issuer fundamentals by reducing near-term refinancing needs. Modest allocations to bond categories that offer extra yield over core high-quality bond exposures can improve long-run return potential.

Real assets

Quick take: Publicly traded real estate investment trusts (REITs) delivered positive returns last week and outperformed the broader equity market year-to-date. Commodity prices broadly increased, with precious metals like gold and silver benefiting from geopolitical uncertainty, while copper and oil rose amid tariff uncertainty.

Our view: Publicly traded real estate investments can generate substantial income. Most property types exhibit constructive fundamentals with gradually expanding economic activity supporting rent growth.

- **Retail, health care and industrial properties gained last week.** These subsectors each account for more than 10% of broad publicly traded real estate exposures. Welltower, a large healthcare REIT, gained on Friday after a credit rating agency upgraded its assessment of the company's fundamentals. Data center REITs struggled on concern that data center demand may not satisfy high investor expectations. Microsoft expects its spending on data centers to slow as it shifts from new construction to fitting existing locations with equipment, and it recently cancelled leases in the U.S. and Europe.
- **Broad commodity exposures rose amid inflation concerns.** Gold prices hit a new all-time high last week, extending year-to-date price appreciation to more than 15%. Many investors view gold as a safe-haven asset, fueling demand and pushing prices higher. Copper prices also increased in the U.S. ahead of expected tariffs. Historically, copper prices in New York, London and Shanghai closely follow each other, but demand for copper in the U.S. before potential tariffs pushed prices higher. Oil prices rose last Monday on news of tariffs imposed on any nation purchasing oil from Venezuela. Tariffs constraining global commodity supplies can push prices higher, but many commodities such as copper and oil rely on global economic expansion to support demand. Commodities can help protect against inflation in portfolios, but commodity exposures lack the ability to generate income for investors like other real asset categories such as real estate.

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Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment. The **S&P 500 Index** consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market in general. The **NASDAQ Composite Index** is a market-capitalization weighted average of roughly 5,000 stocks that are electronically traded in the NASDAQ market. **The Personal Consumption Expenditures (PCE) Price Index** is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. It is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior. The **Conference Board** is a nonprofit research organization that distributes vital economic information to its peer-to-peer business members. The **S&P Global Purchasing Managers' Index** data are compiled by IHS Markit for more than 40 economies worldwide. The monthly data are derived from surveys of senior executives at private sector companies. The **Michigan Consumer Sentiment Index** is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan. The survey is based on telephone interviews that gather information on consumer expectations for the economy.

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