Convergence Commentary
March 2025 Market Recap

Quick Hits:

- Economic growth concerns grow
- Risk-off rotation continues
- Uncertainty reigns at the Federal Reserve

Market-Moving Highlights

Stock prices suffered their largest monthly selloff since the early stages of the current bull market, in late 2022. Traditional safe havens like gold and bonds, meanwhile, have started the year off on a decidedly positive note.

What is it that has traders selling stocks and buying safe-haven assets instead? Financial markets provide fodder for countless narratives, and some pundits have pointed to tariffs and the threat they pose to inflation as the reason for the equity selloff. Trade policy uncertainty is certainly a primary driver of the risk-off rotation we've seen, but right now, it's not inflation markets are concerned about. It's a broader economic slowdown.

Consider last Friday's selloff.

Bears started gaining traction about an hour before the market opened, right when the Bureau of Economic Analysis published a flurry of February data. At the forefront was the PCE Price Index, the Federal Reserve's preferred measure of inflation. Core PCE accelerated to a 2.8% year-over-year rate and was above consensus expectations - not exactly an encouraging sign for the Fed's price stability mandate.

In the not-so-distant past, such a release would have likely sent interest rates soaring as traders bet on tighter Fed policy. Instead, the yield on 10-Year US Treasurys fell 11 basis points on Friday, the largest one-day drop since mid-January.

Why? The most likely answer is because traders believe the risks to economic growth now outweigh the risk of higher prices. Along with the PCE report, the BEA revealed that real personal spending rebounded by just 0.1% in February after January's (downwardly-revised and weather-impacted) decline of 0.6%. No two-month stretch has been that weak since May 2020.

Tariff concerns, geopolitics, poor weather, rising debt loads... whatever the reason, consumers have tightened their collective belts over the past two months. And that has economists wondering whether a spending slowdown could snowball into something worse.

History has shown that investors tend to see better results when they maintain a long-term focus in spite of negative headlines and volatile day-to-day markets. Despite a weak start to 2025, stock prices are still higher than they were a year ago. And if the next 100 years look anything like the last, we'd expect equities to continue generating the bulk of investment returns over time.

Index Performance

Index	1 Month	1 Year	5 Year
S&P 500	-5.63%	8.25%	19.66%
Nasdaq Composite	-8.14%	6.37%	19.52%
Russell 2000	-6.81%	-4.01%	14.82%
MSCI ACWI ex US	-0.23%	6.24%	11.52%
Bloomberg US Aggregate Bond	0.04%	4.88%	-0.42%

Growth-sensitive stocks led the way lower in March, exhibited by an 8% decline for the tech-heavy NASDAQ Composite. The other major indexes weren't spared, though. The S&P 500 Index fell 5.6%, and the Russell 2000 index of small caps dropped nearly 7%. For the small caps, it's been a difficult stretch – they're now 4% lower over the past year. Outside of the US, investors haven't felt nearly as much pain. The MSCI ACWI Ex-US Index fell only 0.2% for the month, and on a quarterly basis, just turned in its best performance relative to US stocks in 20 years.

Bond investors haven't had much to be excited about over the past 5 years - the US Aggregate Bond index has generated negative returns over that stretch. The last few months, however, have been worth cheering. The benchmark bond index has gained almost 5% year-to-date.

One thing to note in the table above: we're now exactly 5 years removed from the COVID lows set back in March 2020. While the last few years have seen strong gains for markets, measuring from the low paints a picture that perhaps can create unrealistic expectations about market performance. Over the long-term, stocks have annualized at a gain of roughly 10% per year.

S&P 500 Sector Highlights & Commentary

Best-Performing Sectors		Worst-Performing Sectors	
Energy Sector	3.7%	Consumer Discretionary Sector	-9.0%
Utilities Sector	0.1%	Information Technology Sector	-8.9%
Health Care Sector	-1.8%	Communication Services Sector	-8.4%

All throughout 2023 and 2024, it was the growth-oriented areas of the market that led markets higher. Stocks whose futures were tied to cutting edge technologies like artificial intelligence and automation were rewarded by investors, while everything else was largely forgotten. In 2025, those trends have reversed. Consumer Discretionary, Information Technology, and Communication Services, homes to each of the so-called Magnificent 7, all dropped 8% or more in March. Those three also find themselves at the bottom of the year-to-date performance derby.

Not all sectors are feeling the pain. Energy stocks rose nearly 4% as oil prices rebounded from lows set in early March, and sectors less sensitive to economic cyclicality like Utilities and Health Care held their ground. In fact, 7 of the 11 S&P 500 sectors remain in positive territory year-to-date.

What to Watch in April

Click here to read our reference guide for economic indicators.

4/4 – BLS Jobs Report – March
The Federal Reserve began cutting interest rates last fall largely on concerns that the labor market was showing undue signs of weakness. That weakness didn't last. In January, the unemployment rate dropped to 4.0%, the lowest level since last spring as jobs growth continued to impress. To date, job cut announcements have yet to make their way into the monthly jobs report – but that could change this month.

4/9 – FOMC Meeting Minutes – March
By the time minutes are released from the latest meeting, Fed officials have usually made their opinions known. But given rapidly shifting data and a Fed that appears to be on hold until further notice, this release may give clearer insights into how monetary officials are balancing the risks to both inflation and economic growth.

4/10 – Consumer Price Index - March
Progress on price inflation stalled in the back half of 2024, and that's a big reason the Fed was forced to adjust their policy outlook for 2025. Price data has sent mixed messages so far in 2025, though traders have certainly started to worry less about inflation, and more about economic growth. Economists expect to see further progress towards the Fed's 2% inflation target this month.

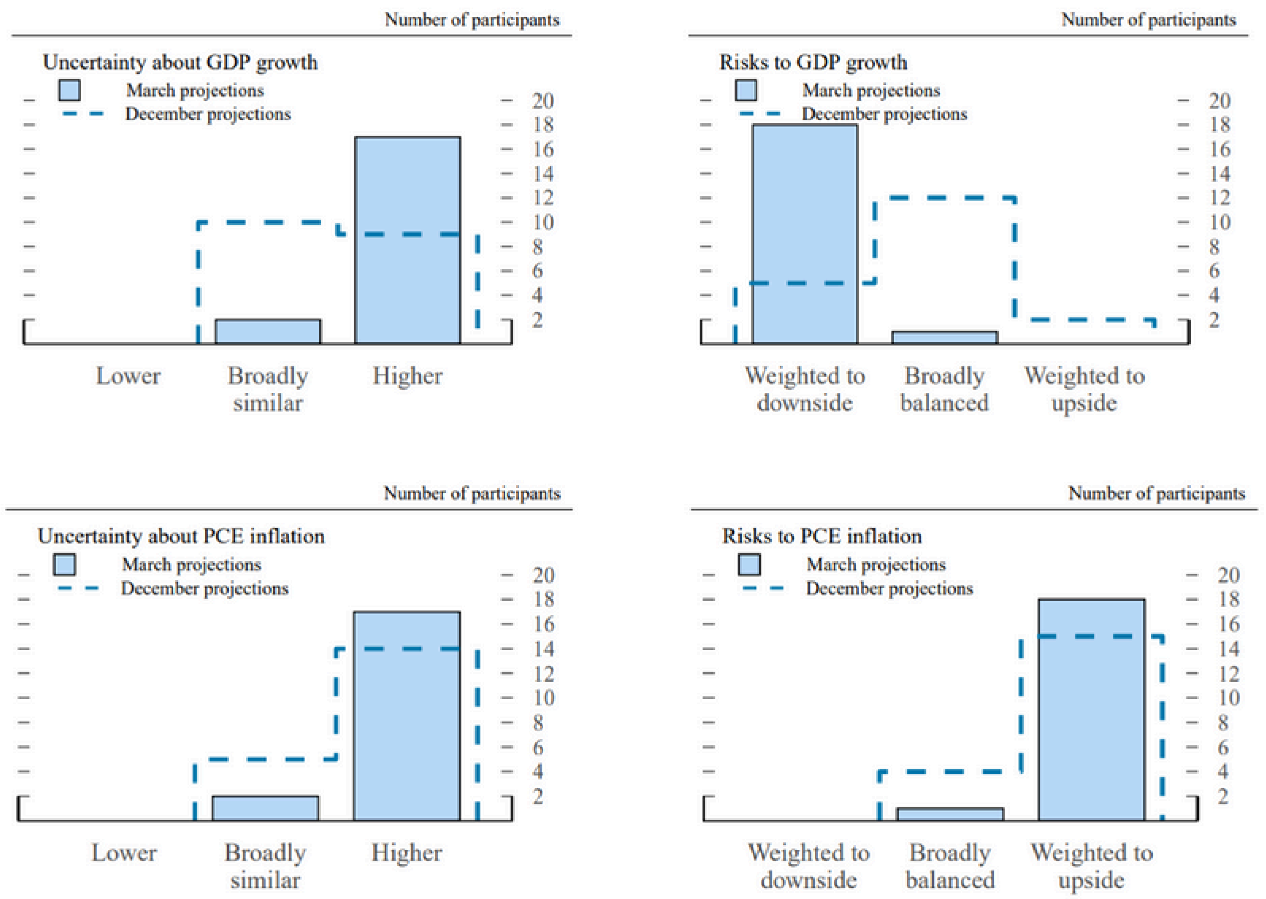
Mid-April – Earnings Season Begins – Q1
Publicly traded companies will begin releasing their financial results for the most recent quarter. Even more important than the results themselves will be management guidance for the rest of the year.

4/30 – GDP – Q1, First estimate
Preliminary estimates from Atlanta Fed's GDPNow indicate that US economic growth will be negative to start the year, following strong, consumer-led growth throughout 2024. Below the surface, however, Q1 GDP may not be as weak as it looks. Net imports, skewed by large imports of gold and by businesses trying to front-run potential tariff announcements, is dragging down the estimate by a whopping 4.75%. Excluding the impacts of the trade deficit, GDP is expected to be higher again in Q1.

Market Wrap

Safety is what investors tend to seek when the outlook is uncertain, and uncertainty was the dominant theme of last month's FOMC meeting. The Summary of Economic Projections showed that a growing number of participants are concerned about downside risks to the economic outlook and upside risks to inflation.

FOMC participants' assessments of uncertainty and risks around their economic projections



Risks and uncertainty alone weren't enough to alter the Fed's policy plans, though. The Federal Reserve made no adjustment to current rates and left unchanged their interest rate projections for each of the next 3 years. In justifying the monetary policy outlook, Powell resurrected the term 'transitory' to describe the anticipated effects of ongoing turmoil in global trade.

If he's right about the impacts, inflation may be higher than previously expected in 2025, but will continue to normalize toward 2% in 2026.

Sources

Bureau of Economic Analysis
Bureau of Labor Statistics
Federal Reserve Bank of Atlanta
Federal Reserve

Market performance data sourced from Bloomberg Finance L.P. and Optuma

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