SIGHT|LINES

# MARKET PULSE

March 6, 2025

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- Equities fell today, with the consumer discretionary and real estate sectors performing worst.
- The S&P 500 fell 1.8%, the Dow Jones Industrial Average (Dow) was down 1.0%, and the Nasdaq declined 2.6%.
- Non-U.S. markets rose. The DAX (Germany) was up 1.5%, and the Nikkei (Japan) rose 0.7%.
- The 2-year Treasury yield ended at 3.97%, and the 10-year Treasury rose 2 basis points to 4.29%.

## CATALYSTS

- Investor optimism has waned in recent days due to a soft patch of economic data, policy uncertainty – particularly surrounding tariffs – and weaker company guidance during earnings calls.
- Recent economic reports have raised concerns about a potential U.S. economic slowdown. The ISM Manufacturing Purchasing Managers Index reading was 50.3, just above the expansion threshold. A job survey reported the highest layoff rate since mid-2020, with the government sector accounting for over a third of the 172,000 job cuts. Additionally, last week's data indicated cooling consumer spending in January after a strong holiday season.
- The ongoing tariff discussions have created uncertainty, leading some companies to provide cautious guidance for the year ahead. Earlier this week, President Trump allowed tariffs on Mexico and Canada to take effect but announced today that Mexico will be exempt from the new 25% tariffs under the USMCA trade agreement. Consumer confidence dipped last month due to concerns about rising prices and the broader impact of tariffs.
- The release of a Chinese large language model (LLM) in late January has weighed on mega cap technology stocks, raising questions about the capital expenditure plans of major AI players. The Bloomberg Magnificent 7 index is down 13.0% since the end of January as investors rotate into more defensive stocks.

## INVESTMENT STRATEGY OUTLOOK

- As the economy slows, some negative data will surface. But against a backdrop of generally positive economic data, we see continued growth and no recession imminent. So, while some caution may be warranted, our view is panic would be an overreaction. Our base case outlook calls for U.S. GDP growth of 1.5% to 2.5%.
- Our Outlook 2025: Gravitational Shifts sees a return to better balance across markets, the economy, and policy. These shifts include a broader distribution of returns beyond mega cap tech stocks, a normalization of monetary policy toward a more predictable environment, and a shift back to business-friendly policies in Washington.
- We forecast a total return of approximately 7% for the S&P 500, assuming a modest contraction in P/E ratios and/or more tempered earnings growth, but anticipate increased volatility. According to FactSet, analysts still estimate earnings will grow a healthy 11.4% in 2025.
- In periods with the strong potential for market rotation, investors should seek to avoid recency bias, or the idea that things will just remain as they are going forward. Cash earmarked for a long-term strategy can be dollar-cost averaged, with the potential to accelerate the process on market weakness.
- For more insights and market commentary visit Stifel Insights.

Past performance does not indicate future results. Dollar-cost averaging does not assure a profit or protect against a loss. Investors should consider their ability to continue investing during periods of falling prices. The **Standard & Poor's 500 Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The **Dow Jones Industrial Average** is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. The **NASDAQ Composite Index** is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market, and Capital Market. The **Nikkei 225** consists of the shares of the 225 largest companies in Japan. The **DAX Index** consists of the 30 most actively traded German companies on the Frankfurt Stock Exchange. The **Bloomberg U.S. 1000 Value Total Return Index** provides exposure to companies with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth. The **Bloomberg U.S. 2000 Total Return Index** is a float market-cap-weighted benchmark of the lower 2,000 in capitalization of the **Bloomberg U.S. 3000 Index**. The **Bloomberg Magnificent 7 Total Return Index** is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by Bloomberg Industry Classification System (BICS).

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