

# Financial Market Commentary

March 2025

## Corporate Earnings: The Basis for a Solid Foundation

We are now well into 2025, yet investors are still faced with many questions on how the year will play out. Thus far optimism has been fueled by strong corporate earnings which will be a major theme of this publication. Once again, corporate earnings growth for companies within the S&P 500 remained strong in the fourth quarter of 2024. This underscored the impressive growth seen throughout last year, which we expect to continue throughout 2025, albeit at potentially a more modest rate. Another major focus for investors has been keeping up with the constant evolution of the Trump Administration's first weeks back in office. Therefore, in addition to fresh economic data, there has been plenty to keep investors busy throughout the shortest month of the year.

### Selected Market Returns: February 2025

Asset Class	Index	End of 2024 Value	Ending Value (Yield for Bonds)	Total Returns			
				Jan	Feb	1Q	YTD
<b>Stock Markets</b>							
U.S. Large Cap Stocks	S&P 500	5,881.63	5,954.50	2.8%	-1.3%	1.4%	<b>1.4%</b>
U.S. Large Cap Stocks	Dow Jones Industrial Average	42,544.22	43,840.91	4.8%	-1.4%	3.3%	<b>3.3%</b>
U.S. Large Cap Stocks (Tech. Focused)	NASDAQ Composite	19,310.79	18,847.28	1.7%	-3.9%	-2.3%	<b>-2.3%</b>
U.S. Small Cap Stocks	Russell 2000	2,230.16	2,163.07	2.6%	-5.3%	-2.9%	<b>-2.9%</b>
Int'l. Developed Markets Stocks	MSCI EAFE	2,261.81	2,422.66	5.3%	1.9%	7.3%	<b>7.3%</b>
European Stocks	MSCI Europe	169.88	187.06	6.9%	3.7%	10.8%	<b>10.8%</b>
Japanese Stocks	MSCI Japan	1,716.10	1,648.14	1.6%	-1.4%	0.2%	<b>0.2%</b>
Emerging Markets Stocks	MSCI Emerging Markets	1,075.48	1,097.25	1.8%	0.5%	2.3%	<b>2.3%</b>
Chinese Stocks	MSCI China	64.71	72.86	0.9%	11.8%	12.8%	<b>12.8%</b>
<b>Bond Markets</b>							
Broad Bond Market	Bloomberg U.S. Aggregate Bond	4.91%	4.58%	0.5%	2.2%	2.7%	<b>2.7%</b>
Government Bonds	Bloomberg U.S. Government Bond	4.46%	4.14%	0.5%	2.1%	2.7%	<b>2.7%</b>
Municipal Bonds	Bloomberg U.S. Municipal Bond	3.74%	3.55%	0.5%	1.0%	1.5%	<b>1.5%</b>
Corporate Bonds	Bloomberg U.S. Corporate Bond	5.33%	5.08%	0.6%	2.0%	2.6%	<b>2.6%</b>
High Yield Bonds	Bloomberg U.S. Corporate High Yield Bond	7.49%	7.15%	1.4%	0.7%	2.0%	<b>2.0%</b>
<b>Highlighted Commodities</b>							
Oil	Crude Oil (West Texas Intermediate/WTI)	71.72	69.76	1.1%	-3.8%	1.1%	<b>-2.7%</b>
Gold	Gold Spot Price (\$/oz)	2,624.50	2,857.83	6.6%	2.1%	6.6%	<b>8.9%</b>

Source: Bloomberg.

## A Murky Tariff Outlook

To start the year, investors seemed to take a step back from the initial post-election excitement where markets responded positively to prospects of a business-friendly environment for the next four years under the new Trump Administration. This included reignited hopes of lower interest rates. Now, from a political lens, market participants have clued in on what the further implementation of tariffs and a possible trade war would mean for portfolios as well as inflation's progress toward the Federal Reserve's or "Fed's" long-run 2% goal. Whether it is tariffs on allies, adversaries, or neighbors, the only clear plan that we have received from President Trump is that at the end of the month, in one way or another, there will be new tariffs imposed.

Although the vision is still quite murky, on February 27<sup>th</sup>, President Trump came out with a statement that he would officially be imposing 25% tariffs on Canada and Mexico on March 4<sup>th</sup> plus an additional 10% tax on Chinese imports. These moves will ultimately deepen his fight with some of the United States' largest trading partners. Prior to this surprise Thursday afternoon announcement, the initial plan was for these tariffs to be implemented at the start of April. However, President Trump has so far been displeased with continued border crossings and has decided to move ahead with his plans earlier than anticipated as of this publication. With this in mind, however, it is unclear if he is still just trying to use these tariffs as negotiating tactics or as a form of retaliation to what he states has been "years of mistreatment". Overall, though, we expect more clarity in the coming days and weeks, which should help to allay investor concerns.

Analyzing recent history can lend perspective to investors that the implementation of tariffs by a new administration is not novel. Even as recently as the previous administration, President Biden maintained many of the tariff policies previously implemented by President Trump and benefited from the boost in revenue for the country without materially impacting prices for consumers. An especially important takeaway here is that despite the uncertainty that exists surrounding tariffs and the fears of their effects on inflation, the U.S. economy appears to be in a strong, healthy position to potentially be able to absorb the hits that might result from the implementation of new tariffs. The current levels of inflation, labor market, and persistent economic growth, afford the U.S. economy some cushion against the impact of new tariffs.

## Macro Update

Outside of the conclusion of the fourth quarter of 2024's earnings season, economic releases remain a major catalyst for financial markets. Starting with inflation, the January Consumer Price Index or "CPI" report showed a higher-than-expected increase, rising 0.5% month-over-month and 3.0% year-over-year. The following day, the Producer Price Index or "PPI" which measures producer prices also known as wholesale inflation, also rose more than expected year-over-year at 3.5%. At the end of the month the report on Core Personal Consumption Expenditures or "Core PCE", the Fed's preferred inflation gauge, showed continued progress at 2.6% compared to 2.9% annual inflation. Ultimately, this sticky inflation data supports the Federal reserve's decision to hold their target rate steady at their January 28<sup>th</sup> & 29<sup>th</sup> Federal Open Market Committee or "FOMC" meeting. Nevertheless, inflation remains below the long-term historical average<sup>1</sup> of 3.7% for CPI and 3.3% for PCE. This helps put the Fed's 2% inflation target into perspective and shows that even though we haven't hit the long-term goal, inflation as measured by a number of metrics, remains below the long-term average. It is also important to consider that more inflation data is needed to establish a trend, and markets are already positioned for a longer Fed pause than initially anticipated. Shifting to the labor market, the U.S. unemployment rate has been very healthy for over two years now, remaining at or beyond full employment and well below the long-term average of 5.7% since 1978.

A couple areas of possible concern that arose over the month started with retail sales. Retail sales dropped by the largest amount in nearly two years, down 0.9% month-over month. Initially, this was quite a shock as investors had gotten acclimated to robust consumer spending, especially

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<sup>1</sup> Personal Consumption Expenditures (PCE) and the Consumer Price Index (CPI) both remain below their respective long-term averages using Bloomberg data going back to 1960.

coming off a red-hot 2024. While consumer spending is expected to cool slightly as the year progresses, we don't anticipate this significant decrease to develop into a lasting trend to the downside. The other area of possible concern that we are keeping a close eye to is consumer sentiment. U.S. consumer sentiment fell considerably toward the end of the month mainly due to concerns of tariffs leading to higher prices. This isn't too surprising though as our view here is that it isn't the tariffs themselves that lead to the drop in consumer confidence, but rather the uncertainty and "murkiness" surrounding their execution and scope of implementation. Once those loose ends are tied up, our view is that we will see a rebound in sentiment.

## Earnings Season

One of the other primary factors that supports the U.S. economy as well as the U.S. stock market is the health of corporate America. With the fourth quarter's earnings season more or less concluded, investors were given another great view into the prevailing strength of many public companies across the country. Looking at companies within the S&P 500 Index specifically, the vast majority saw strong earnings growth that once again exceeded analyst expectations. Additionally, being six quarters past the Index's most recent earnings recession, average earnings growth stands at approximately 13.4%. This is higher than the average earnings growth both four and eight quarters post an earnings recession when looking at the annualized EPS growth of the S&P 500 Index since 1953.

### S&P 500 Fourth Quarter 2024 Earnings Analysis

Sector	Percent Reported	Sales		Earnings	
		Growth	Surprise	Growth	Surprise
<b>Materials</b>	100%	-1.9%	0.0%	1.8%	6.4%
<b>Industrials</b>	100%	-2.5%	0.2%	-7.5%	-0.9%
<b>Consumer Staples</b>	84%	2.9%	0.6%	2.6%	3.5%
<b>Energy</b>	100%	-1.8%	3.6%	-26.1%	7.3%
<b>Technology</b>	96%	11.6%	1.1%	17.1%	4.0%
<b>Consumer Discretionary</b>	92%	6.0%	1.4%	26.5%	14.3%
<b>Communication Services</b>	100%	7.4%	0.5%	30.6%	7.9%
<b>Financials</b>	100%	8.2%	1.5%	21.7%	14.4%
<b>Health Care</b>	98%	9.0%	1.2%	13.4%	5.4%
<b>Utilities</b>	100%	0.2%	-8.3%	14.8%	1.2%
<b>Real Estate</b>	97%	9.2%	2.2%	14.9%	5.0%
<b>Total S&amp;P 500 Index</b>	<b>97%</b>	<b>5.4%</b>	<b>0.9%</b>	<b>13.4%</b>	<b>7.1%</b>

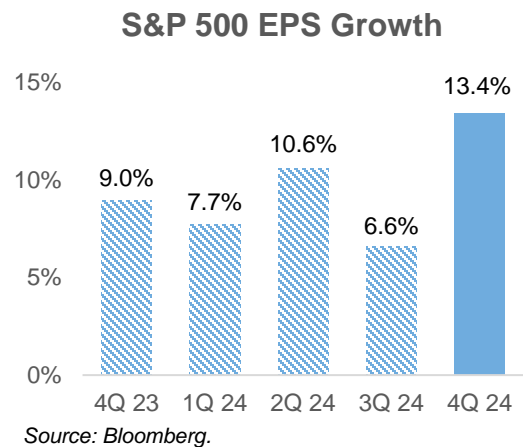
Source: Bloomberg

This earnings season helped to provide unique insight into the health of public corporations across all sectors in the U. S. as well as many areas of the world. These earnings reports also help us craft our view of the markets for 2025 and beyond. Digging into the details, growth for the fourth quarter was even more broad based compared to the prior season as nine of the eleven GICS sectors reported year-over-year growth. These nine sectors were led by the Communications, Consumer

Discretionary, and Financials sectors reporting impressive 30.6%, 26.5%, and 21.7% growth respectively. These three sectors were the largest contributors to the overall earnings growth of the S&P 500 index which is the highest it has been in years. Once, again it is no surprise that technology companies had a stellar quarter. Being in what many still think is the early stages of the artificial intelligence revolution, companies like Nvidia (NVDA), and its competitors remained some of the biggest contributors to this earnings season. That being said, investors have started to find that Nvidia's competitors are now offering similar quality products which has lessened the need for Nvidia's once blockbuster products and the premium associated with purchasing them.

While the company beat estimates for revenue and earnings, expectations for earnings beats have been so high that it wasn't enough to exceed the lofty projections of analysts. Nevertheless, the impressive earnings growth that Nvidia alone experienced, added roughly 1.5% to overall earnings growth for the S&P 500 Index. Now that Nvidia earnings are in the rear view, investors and strategists are left asking whether Nvidia's seemingly unshakeable run is coming to an end. Time will tell, but for now it remains a powerful force.

The one sector that put significant downward pressure on overall earnings growth in the fourth quarter was the Energy sector. Reporting an earnings decline of just over 26%, the vast majority of oil and gas companies continue to face a challenging environment. Similar issues were echoed this season as weaker oil prices stemmed from the combination of OPEC+ production cuts and record-high U.S. oil production. Nevertheless, this quarter's overall earnings growth supports the view that corporate America is relatively healthy and poised to support continued economic growth.



Sales growth for the S&P 500 Index also remained healthy at nearly 5.4%, which is just slightly above the sales growth the index experienced last quarter. As we prepare to get into the thick of 2025, both sales and earnings growth for the S&P 500 are expected to remain healthy. As inflationary pressures slowly ease, interest rates slowly tick down, and the current stock market rally broadens out to other areas.

## Earnings Season & The Consumer

Shifting our focus to consumer behavior, as we reflect on the holiday season that took center stage for the fourth quarter. Analyzing earnings reports of key retailers can provide valuable insights into consumer behavior and emerging trends. Using large retailers like Walmart (WMT) and Home Depot's (HD) earnings as proxies, we can evaluate consumer behavior and trends that emerged over the past quarter. Starting with Walmart, the company released its earnings on February 20<sup>th</sup> and spooked the market after it warned that inflation fatigue and overall uneasiness of shoppers could slow growth as the year progresses. Given that Walmart tends to be viewed as a bellwether for the American consumer, considering its diverse offerings both in-store and online, financial markets took this news to heart. However, fourth quarter earnings weren't the issue. Sales were up approximately 4.5% topping expectations, e-commerce sales grew, and it was noted that higher income shoppers kept spending on higher price items as well as household staples. The nerves instead were triggered by Walmart's somewhat dreary guidance for sales growth in the coming quarters. These expectations fell below what many analysts projected. Walmart executives pointed to both tariff concerns and the tangentially related sticky inflation as the main reasons for this unenthusiastic guidance.

Home Depot found itself in a similar situation. While they reported strong fourth quarter earnings and revenue figures, their outlook for 2025 fell short, citing cautious consumer sentiment regarding larger home projects and a shift of purchases to experiences and travel, away from

home improvement projects. However, despite economic challenges, Home Depot had a great fourth quarter as comparable sales turned positive for the first time in two years, growing 0.8%.

## Looking Ahead

With the fourth quarter's earnings season wrapped up, investors have gained useful insights into how public companies might perform as financial markets become accustomed to new tariffs. This process could certainly affect the trajectory of both the progress on inflation and the Fed's reduction of their target rate, however we don't anticipate those affects to be prolonged in nature. Once again, we saw earnings expectations, especially for the "Magnificent Seven", remain elevated and if reports were anything but stellar, the company's stock price would likely bear the brunt as we saw with Nvidia. Overall, we are pleased with this quarter's earnings season as corporate sales and earnings continue to build off last quarter's stellar results. Our team remains optimistic for 2025, as when looking through a number of lenses we see a healthy economy that is primed to resist the pain of possible short-term consequences stemming from new tariffs. Overall, we have chosen to position portfolios to capture the trends we see developing and are increasingly relying on actively managed strategies to help capitalize on shifts that take place as new opportunities arise. With this, we believe portfolios are well positioned to capture value and look forward to a busy year ahead.



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## Index definitions

**S&P 500 Index:** is a capitalization weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 500 of the leading large cap U.S. companies.

**Dow Jones Industrial Average Index:** is a price weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 30 blue-chip stocks that are generally regarded as the leaders in their industry.

**NASDAQ Composite Index:** is a capitalization weighted index that is generally considered representative of the U.S. Technology market. It consists of all three tiers of the NASDAQ: Global Select, Global Market, and Capital Market.

**Russell 2000 Index:** is a capitalization weighted index that is generally considered representative of the U.S. Small Cap market. It consists of 2,000 of the leading small cap U.S. companies.

**MSCI EAFE Index:** is a free float-adjusted market capitalization index that is designed to measure equity market performance of developed international markets. The EAFE region includes developed market countries in Europe, Australasia, the Far East, and Israel.

**MSCI Europe Index:** is a free float-adjusted market capitalization index that is designed to measure equity market performance of European developed markets.

**MSCI Japan Index:** is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Japanese market.

**MSCI Emerging Markets Index:** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

**MSCI China Index:** is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Chinese market.

**Bloomberg U.S. Aggregate Bond Index:** is a broad-based flagship benchmark that measures the investment grade U.S. dollar denominated, fixed-rate, taxable bond market. The index includes Treasuries, government-related and corporate securities, Mortgage-Backed Securities or "MBS" (agency fixed-rate pass-throughs), Asset-Backed Securities or "ABS", and Commercial Mortgage-Backed Securities or "CMBS" (agency and non-agency).

**Bloomberg U.S. Government Bond Index:** consists of the U.S. Treasury and U.S. Agency Indices. This index includes U.S. dollar denominated, fixed-rate, nominal U.S. Treasuries and U.S. agency debentures (securities issued the U.S. government owned or government sponsored entities, and debt explicitly guaranteed by the U.S. government).

**Bloomberg U.S. Municipal Bond Index:** covers the U.S. dollar denominated long-term tax-exempt bond market. The index includes four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.

**Bloomberg U.S. Corporate Bond Index:** measures the investment grade, fixed-rate, taxable corporate bond market. The index includes U.S. dollar denominated securities that are publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers.

**Bloomberg U.S. Corporate High Yield Bond Index:** measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating from the ratings agencies (Moody's, Fitch, and S&P) are Ba1/BB+/BB+ or below. Bonds issued from an emerging market country are excluded from the index.

**Crude Oil:** is represented by the generic front month futures contract for West Texas Intermediate (WTI) crude oil.

**Gold Spot Price:** is represented by the current spot price of one Troy Ounce of gold in U.S. dollars.

**Inflation:** is measured by the year-over-year change for the Consumer Price Index or "CPI". This index represents the changes in the prices of all goods and services purchased for consumption by urban households. User fees (such as water and sewer) and sales and excise taxes paid by consumers are also included.

**Fed Funds Rate:** is the target interest rate set by the U.S. Federal Reserve (Fed) or "Central Bank". This index reflects the Fed's efforts to influence short-term interest rates as part of its monetary policy strategy. The index value is calculated by using the midpoint of the Fed's rate policy when they target a rate range (i.e., 0.25% - 0.50%).

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