March 2025

osaic

MARKET VIEW MONTHLY

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ECONOMIC REVIEW[1]

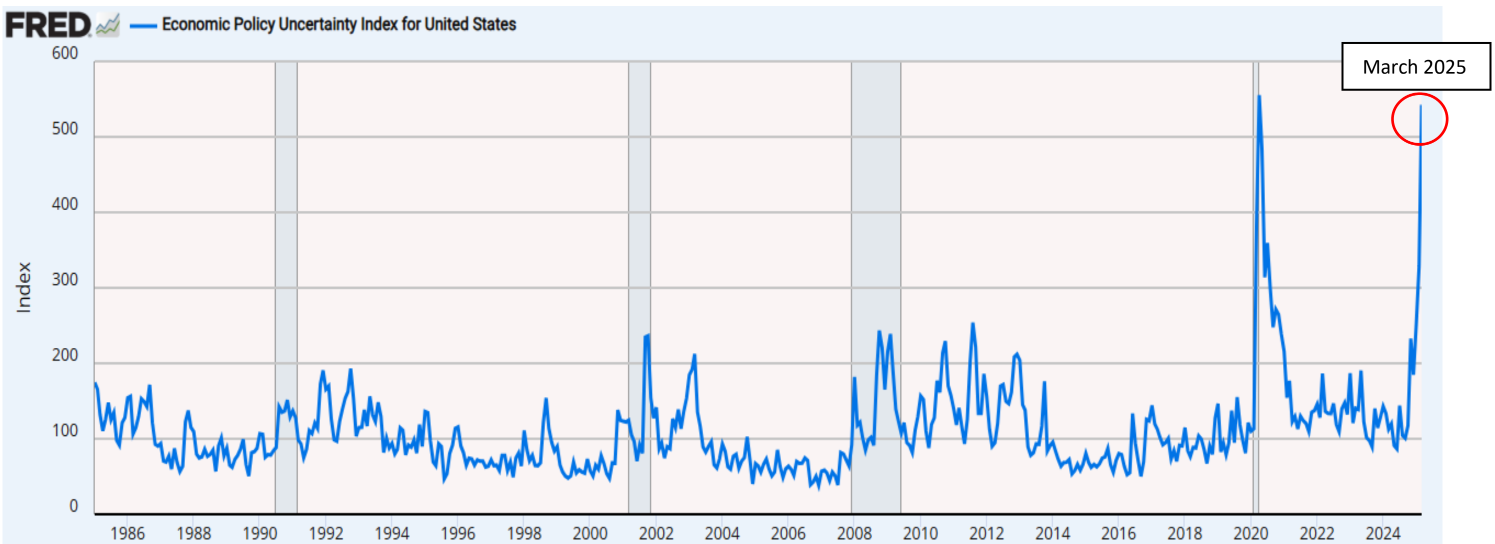
- The Institute for Supply Management's (ISM) services index, a key indicator of economic expansion or contraction, showed improvement in February, increasing above expectations and the previous month's reading from 52.8 to 53.5. A reading above 50 represents expansion, while a reading below 50 indicates contraction.
  - New orders and employment indexes saw the highest monthly gains, while prices paid also increased.
- The ISM manufacturing index for February fell slightly from the prior month to a reading of 50.3 but remained in expansion territory for the second consecutive month.
- The Producer Price Index (PPI) on a monthly basis was unchanged and came in below expectations. Year-over-year (YoY), the index was up 3.2%. Core PPI declined -0.1% month-over-month (MoM) and rose 3.4% over the last year.
- Headline Consumer Price Index (CPI) came in below expectations MoM and YoY rising 0.2% and 2.8%, respectively.
- Core CPI, which removes the volatile energy and food categories, came in below expectations of 0.3%, rising 0.2%.
  - Core prices YoY fell to 3.1% and recorded its lowest reading since 2021.
  - Contributing to lower core CPI was a decline in airfare prices and rent inflation.
- Nonfarm payrolls increased by 151,000 in February, slightly below the 160,000 expected.
  - The unemployment rate moved up to 4.1% from the previous month's reading of 4.0%.
  - Job openings in January rose above expectations to 7.74 million and quits rose to 3.266 million.
- February retail sales came in below expectations at 0.2%, and January sales were revised downward to -1.2%.
  - Core retail sales, which exclude autos, gas stations, and building materials, rose 0.5% in February.
- The Conference Board Consumer Confidence Index fell to 98.3, missing expectations as fiscal policy uncertainty weighed on consumer outlook.
- The final reading of real Q4 Gross Domestic Product (GDP) growth was 2.4%, which came in above the previous estimate of 2.3%.
- Personal Consumption Expenditures Price Index (PCE) matched expectations at 0.3% MoM and 2.5% YoY.
  - Core PCE came in above expectations, rising 0.4% MoM and 2.8% over the last year.

INSIGHT:

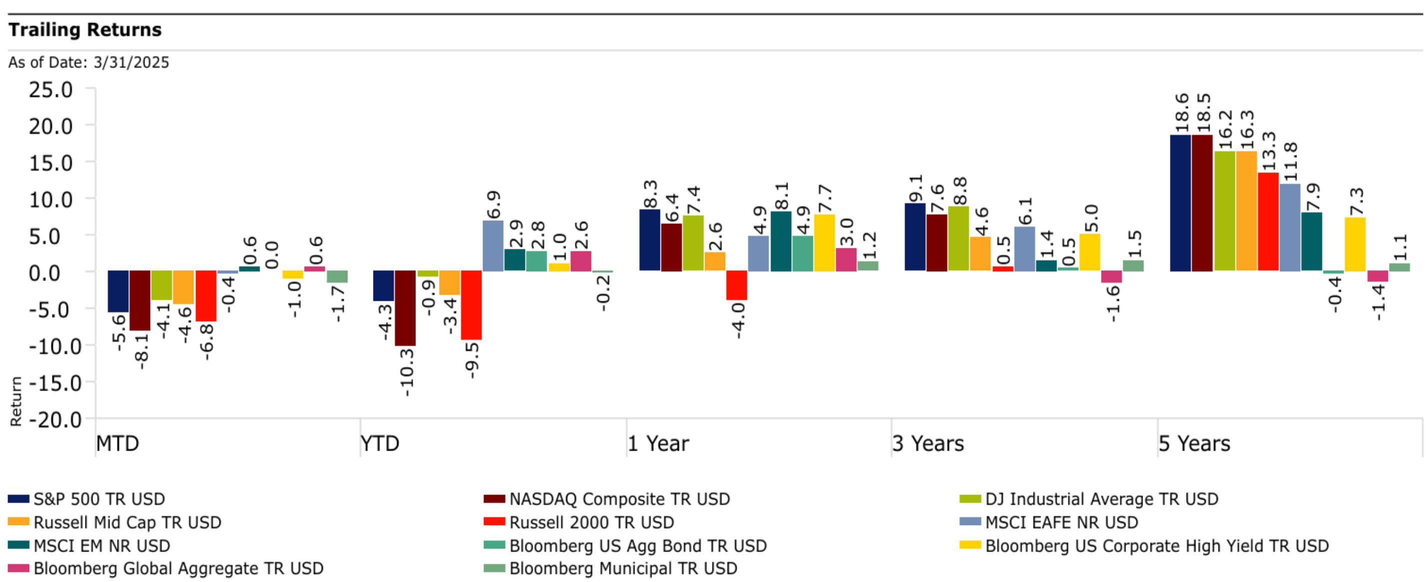
Economic policy uncertainty was the driving factor for financial markets in March. Tariff decisions and broader fiscal policy uncertainty weighed in on the outlook for business operating plans and consumer sentiment regarding personal finances. Despite uncertainty being reflected in the business outlook, job creation, (which has been the supportive force behind the economy), remained steady. Weekly initial and continuing jobless claims in March stayed in the same range they have been over the last year, and nonfarm job creation has been trending higher since the summer when there were initial concerns about job growth. Real wage growth also remained supportive as average hourly earnings grew by 4% YoY. Higher core PCE data overshadowed the better-than-expected CPI and PPI prints, highlighting that inflation has made little progress over the last few months and is likely to keep the Federal Reserve (Fed) on the sidelines. Negative impacts on economic growth from higher tariffs and potential budgetary cuts are expected in the short term but is not likely to be recessionary. As tariff and fiscal policy become clearer in the months ahead, consumer confidence and sentiment should improve again, along with business outlook.

Chart of the Month:[2]

The United States' economic policy uncertainty index is approaching levels not seen since the highs during the COVID-19 pandemic in 2020. The index measures the level of uncertainty surrounding U.S. economic policy based on coverage from leading newspapers and online website articles that mention terms associated with "economic uncertainty." The number of articles has far surpassed the levels during the trade tensions of President Trump's first term in office, indicating a heightened sense of hysteria surrounding the current economic environment. The hyper focus of the media in the short term may be perpetuating the severe decline in consumer sentiment surveys and misconstruing the actual economic data. Historically, following periods of temporary elevated uncertainty in economic policy, equity returns a year later have been favorable on average.



MARKET UPDATE[3]



Investments (as of 3/31/2025)	MTD	YTD	Trailing Returns 1 YR	3 YR	5 YR	Equity Evaluations P/E Ratio	P/B Ratio
S&P 500	-5.6%	-4.3%	8.3%	9.1%	18.6%	26.33	4.76
NASDAQ	-8.1%	-10.3%	6.4%	7.6%	18.5%	30.48	6.36
Dow Jones Industrial Average	-4.1%	-0.9%	7.4%	8.8%	16.2%	24.02	5.06
Russell Mid-Cap	-4.6%	-3.4%	2.6%	4.6%	16.3%	21.25	2.87
Russell 2000 (Small Cap)	-6.8%	-9.5%	-4.0%	0.5%	13.3%	17.16	1.90
MSCI EAFE (International)	-0.4%	6.9%	4.9%	6.1%	11.8%	16.74	1.87
MSCI Emerging Markets	0.6%	2.9%	8.1%	1.4%	7.9%	14.34	1.76
Bloomberg Barclays US Agg Bond	0.0%	2.8%	4.9%	0.5%	-0.4%	—	—
Bloomberg Barclays High Yield Corp.	-1.0%	1.0%	7.7%	5.0%	7.3%	—	—
Bloomberg Barclays Global Agg	0.6%	2.6%	3.0%	-1.6%	-1.4%	—	—
Bloomberg Barclays Municipal	-1.7%	-0.2%	1.2%	1.5%	1.1%	—	—

MARKET REVIEW[1]

Equities:

Domestic equity markets in March experienced a risk-off environment, with concerns about economic growth, uncertainty over tariff policy, and declining consumer sentiment driving a broad-based decline. The Nasdaq and S&P 500 both entered correction territory as investor fear outweighed earnings and hard economic data. Within the S&P 500, the only two sectors to finish the month positive were Energy and Utilities, while the Consumer Discretionary and Technology sectors led the index lower. Both sectors are down over -12% through the first three months of the year. Despite the S&P declining over 5% for the month, seven of the eleven sectors remained in positive territory year-to-date. The large concentration of the Mag-7 weighed on overall index performance, highlighting increased market breadth in other sectors and underscoring the importance of diversification. Defensive-oriented equities, such as Utilities and Healthcare, outperformed growth stocks as concerns about slower consumer spending dampened outlook. In the risk-off environment, large caps also outperformed their small-cap peers. Overseas, international developed equities continued to outperform the U.S. as a weaker dollar, fiscal policy uncertainty in the U.S., lower valuations, and increased government spending in the Eurozone shifted investor sentiment. Emerging markets also posted a monthly gain driven by strong performance in Chinese equities.

Fixed Income:

Fixed income provided mixed returns as equity volatility increased in March. Overall, yields were mostly unchanged as mounting economic growth concerns were partially offset by higher inflation expectations. At its latest FOMC meeting, the Federal Reserve left interest rates unchanged at the 4.25% - 4.50% range, citing only marginal progress towards their 2% target. Fed Chairman Jerome Powell reiterated that the Fed is in “no rush” to cut rates, and in turn the futures markets are expecting 2-3 rate cuts for the remainder of the year. Credit spreads for high yield and investment grade credit bonds widened from historically low levels over broader economic uncertainty and negatively impacted bond prices. The best performing sectors for fixed income for the month were short and intermediate duration treasuries along with agency MBS. A backdrop of higher starting yields, economic growth concerns, and elevated inflation should make higher quality fixed income an attractive opportunity within a diversified portfolio to help offset equity volatility and provide stable income.

Economic Definitions

Continuing Jobless Claims: Continuing claims are the number of people filing for unemployment benefits who have already filed an initial claim. To be included in continuing claims, the person must be covered by unemployment insurance and must be currently receiving benefits. They must have been unemployed for at least a week after filing the initial claim, per Department of Labor (DoL) specifications.

Conference Board Leading Economic Index: Leading indicators include economic variables that tend to move before changes in the overall economy. These indicators give a sense of the future state of an economy.

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

Initial Jobless Claims: Initial unemployment claims track the number of people who have filed jobless claims for the first time during the specified period with the appropriate government labor office. This number represents an inflow of people receiving unemployment benefits.

ISM Manufacturing Index: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

ISM Services Index: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Whereas per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Producer Prices – PPI (headline and core): Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e., prices received by domestic producers for their outputs either on the domestic or foreign market).

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: 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 index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

Disclosures

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[1] Data obtained from Bloomberg Terminal as of 3/31/2025.

[2] Economic Policy Uncertainty Index for United States (USEPUINDXD) | FRED | St. Louis Fed

[3] Returns obtained from Morningstar Direct as of 3/31/2025.