WEEKLY ECONOMIC UPDATE MARCH 24, 2025

Stocks notched a solid gain last week as upbeat comments from the Fed helped stocks snap their four-week losing streak.

The Standard & Poor's 500 Index rose 0.51 percent, while the Nasdaq Composite Index picked up 0.17 percent. The Dow Jones Industrial Average led, gaining 1.20 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, rose 0.75 percent.[1,2]

A Solid Week

Stocks opened the week higher despite weaker-than-expected retail sales. On Tuesday, stocks pulled back on disappointing economic data and renewed Middle East tensions.[3,4]

Stocks roared higher Wednesday as investors looked forward to the Federal Reserve's meeting. As widely expected, the Fed kept rates steady, but Fed Chair Powell's comments buoyed investors' spirits.[5]

Stocks dipped Thursday and opened lower Friday, but investors showed some confidence by pushing prices higher into Friday's close.[6]

MARKET INSIGHTS

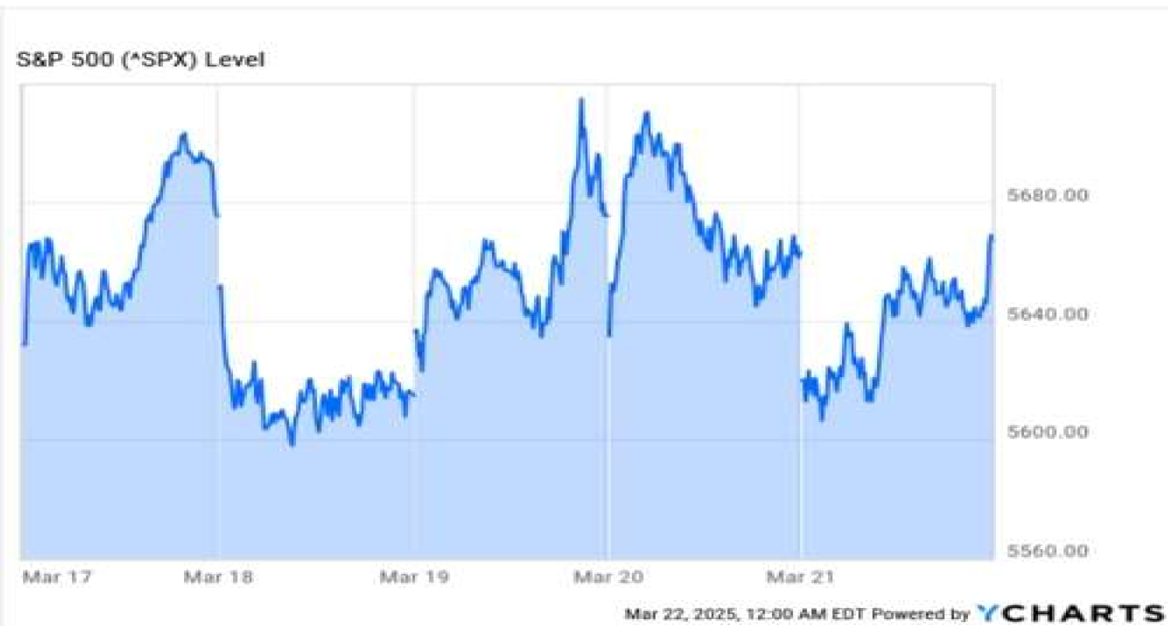
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	-4.84%	-0.99%	8.07%	141.9%
MSCI EAFE	2.75%	10.97%	10.72%	108.2%
Nasdaq Composite	-11.30%	-8.24%	8.85%	167.3%
S&P 500	-7.31%	-3.42%	9.86%	165.5%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 03/21/25	4.25%	4.42% 4.52% 4.27%	-3.85% -5.97% -0.47%

The Fed Stays Positive

Amid all the market turbulence of late, the Fed was a steadying influence.

At his post-meeting press conference, Fed Chair Powell stressed that the economy remained strong and suggested that any impact from tariffs on inflation would be short-term.

But the primary reason investors cheered came down to this: most Fed officials still penciled in two interest rate cuts for this year. In late January, Powell said the central bank was in no hurry to adjust its policy stance, which unsettled the markets.[7]

This Week: Key Economic Data

Monday: PMI Composite—Services and Manufacturing.

Tuesday: Case-Shiller Home Price Index. Consumer Confidence. New Home Sales.

Wednesday: Durable Goods Orders. St. Louis Fed President Alberto Musalem speaks.

Thursday: Gross Domestic Product (GDP). Trade Balance in Goods. Weekly Jobless Claims. Retail & Wholesale Inventories. Pending Home Sales. Richmond Fed President Tom Barkin speaks.

Friday: Personal Consumption & Expenditures (PCE) Index. Consumer Sentiment.

"I wish it were possible to obtain a single amendment to our Constitution. I would be willing to depend on that alone for the reduction of the administration of our government to the genuine principles of its Constitution; I mean an additional article, taking from the federal government the power of borrowing."

– Thomas Jefferson

Of Note

The key headlines in the recent Fed meeting were as expected with no change in rates, the Fed held the benchmark rate in the 4.25%-4.5% target range. But the economic projections were not pretty:

- Fed sharply reduces the 2025 growth projections and marks up inflation
- Fed cuts year-end GDP forecast from 2.1% to 1.7%
- Fed raises year-end core PCE (Personal Consumption Expenditures) forecast from 2.5% to 2.8%
- Fed raises year-end unemployment forecast from 4.3% to 4.4%

The big news was the downward revisions to growth forecasts and the upward revisions to inflation and unemployment projections (stagflationary). Policymakers now see much higher risks to their economic projections and also see higher uncertainty about the path of the economy.

In his press conference, Powell acknowledged that tariffs are already impacting the economy and have factored into economic forecasts. In fact, he said that the Fed has also factored in reciprocal tariffs! Notably, he said the base case remains for tariffs to have a transitory impact on inflation, but there's a lot of uncertainty about that. Powell repeatedly dismissed notions that long-term inflation expectations were rising and added that the Fed doesn't want to "get ahead" of surveys showing lower consumer sentiment. So far, he argued, the hard data is solid.

While the dot plot continued to show that policymakers expect two interest rate reductions this year, projections shifted to a significantly more hawkish stance compared with December's forecasts. Eight participants now see just one or no cuts at all this year, and only two see three cuts.

The Fed will slow the pace of runoff of its securities holdings (QT tapering) beginning next month by cutting the monthly cap on Treasury securities redemption to $5 billion from $25 billion. It was a decision with broad support, Powell said, noting that participants preferred doing that to stopping quantitative tightening altogether. In other words, most believe the liquidity picture is starting to get challenging. Governor Chris Waller was the only one who dissented from the balance-sheet decision but supported the decision to hold rates steady.

Stocks and Treasuries rallied amid some relief that while the Fed boosted its inflation forecast, policymakers retained an expectation for rate cuts later this year. The S&P 500 was up 1.3% as of 3:33 p.m. in New York, heading for the best Fed day since 2022. The two-year yields were down 6 basis points,

The Fed is firmly in wait-and-see mode. The statement was hawkish, economic projects were mixed, the QT taper dovish.

It’s interesting that the slowdown in QT was so sharp - from $25 billion down to $5 billion a month for the Fed’s Treasuries holdings. Remember that it was $60 billion a month before the first slowdown.
Why not just cut it to zero? Maybe the Fed wanted to send a signal that QT is still in place; it still wants to work down its balance sheet -- and perhaps ramp the pace back up after the federal debt-limit standoff is over.

UBS sees a glimpse of a Powell Put: Dare anyone say “Fed put”. Perhaps not quite, but the Fed’s message is consistent with its work from September 2018 – that reacting to the inflationary consequences of tariffs only makes the growth hit worse than it needs be. Since the last FOMC meeting, on Jan 29th, a lot has changed... From an economic perspective, growth expectations have plunged, and inflation prints have been wildly noisy.

Gold has been the dramatic winner since the last FOMC meeting while oil and stocks have declined. Bonds were bid but the dollar has been dumped. Interestingly, as stocks have tumbled in the last two weeks, so have rate-cut expectations, back more in line with where they were after the last FOMC meeting (just 56bps now, from almost 100bps two weeks ago!) On the bright side, mortgage rates have plunged since the last FOMC meeting.[8]

Footnotes and Sources

1. The Wall Street Journal, March 21, 2025
2. Investing.com, March 21, 2025
3. The Wall Street Journal, March 17, 2025
4. CNBC.com, March 18, 2025
5. The Wall Street Journal, March 19, 2025
6. The Wall Street Journal, March 21, 2025
7. CNBC.com, March 18, 2025
8. zerohedge.com/markets/fomc-26

The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results.

The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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