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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **March 12, 2025**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: -3.1%

Opportunity and implementation

Key takeaways

- Investor worries about the potential for a meaningful growth slowdown or even a recession have carried into this week.
- We see the current pullback as an opportunity to add exposure to equities.

Last week we talked about the market's fear that growth was set to slow noticeably due to any number of things, including headwinds from a potential global tariff war, a weakening labor market and the administration's attempts to curb government spending. In our view, at this point, we continue to see growth coming in at 2.5% this year, which for a $24 trillion dollar (real or inflation adjusted GDP) economy is adequate to keep the labor market strong and corporate profits moving ahead. We project another year of record corporate earnings for the S&P 500 (SPX) in 2025 after a likely temporary economic bump in the road that will not result in a recession.

Clearly, investor worries about the potential for a meaningful slowdown or even a recession have carried into this week. At the end of last week and over the weekend, both the President and Treasury Secretary Scott Bessent made statements basically saying that near-term markets are likely to be volatile as the economy adjusts from one supported by heavy government spending to one that is more driven by the private sector. They stated they are focused on the long term. The President said, "I am not even looking at the market." Those statements further fanned the flames of uncertainty for many investors.

But uncertainty surrounding the ultimate outcome and effects of tariff policies should not be extrapolated to suggest the economy will ultimately deteriorate into a recession. Growth in the second half of last year was robust so some slowdown to a more sustainable pace makes sense. Our outlook for this year attempts to take tariffs and their resulting price impacts into account but recognizes that both consumers and businesses will and have likely taken at least some steps to make changes that will help reduce any inflationary impact.

We have long recommended that investors needed to exercise patience and wait for opportunities to buy equities on pullbacks. We see the current pullback as an opportunity to add exposure to equities and suggest that clients bring their U.S. Mid-cap exposure up to a favorable (overweight) allocation relative to their strategic (long-term) target weighting. Our large capitalization (SPX-type) rating remains favorable. We are funding the increased equity allocation by moving money from fixed income. Specifically, we favor reallocating from U.S. Intermediate fixed income (downgraded to neutral from favorable) into U.S. Mid-cap equities (upgraded to favorable from neutral). We also favor reallocating from U.S. long-term fixed income (downgraded from neutral to unfavorable) into U.S. short-term fixed income (upgraded from most unfavorable to unfavorable).

The opportunity has arrived with the current pullback in the market that has taken the SPX 9.3% below the record high set just three weeks ago at the time of this writing. Large cap sectors of particular interest continue to be Industrials, Financials, Energy and Communication Services. It's time to act and put your investment plan to work.

Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. **Communication Services** companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the Communication Services sector may also be affected by rapid technology changes, pricing competition, large equipment upgrades, substantial capital requirements and government regulation and approval of products and services. In addition, companies within the industry may invest heavily in research and development which is not guaranteed to lead to successful implementation of the proposed product. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance.

Definitions

An index is unmanaged and not available for direct investment.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

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