The Weekly Market Update – 3/10/25: Risk on, RISK OFF

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,770.20	-3.10%	-1.89%	-1.89%	13.22%	6,144.15	6.5%
Dow Jones Industrial Average	42,801.72	-2.37%	0.61%	0.61%	9.76%	45,014.04	5.2%
NASDAQ Composite	18,196.22	-3.45%	-5.77%	-5.77%	13.08%	20,173.89	10.9%
Russell 2000	2,075.48	-4.05%	-6.94%	-6.94%	1.00%	2,442.74	17.7%
MSCI EAFE (USD)	2,495.73	3.02%	10.34%	10.34%	9.18%	2,507.99	0.5%
MSCI Emerging Markets (USD)	1,128.55	2.85%	4.94%	4.94%	10.54%	1,444.93	28.0%
Bloomberg Commodity Index	104.80	1.99%	6.11%	6.11%	8.37%	237.95	127.1%
Barclays U.S. Aggregate Bond	91.84	-0.72%	1.56%	1.56%	2.22%	112.07	22.0%

Source: FactSet

Barely two weeks removed from closing at an all-time high on 2/19/25, the S&P 500 equity index has declined more than -6.0%, its largest pullback in seven months. In late 2024, investor sentiment surged following the November presidential election, but pro-growth optimism now shares the stage with tariff uncertainty and moderating economic data, and sentiment has flipped negative. In our view, a "risk on" (November 2024 and January 2025), "risk off" (December 2024 and February/March 2025) environment is likely to continue in the weeks ahead. While we acknowledge the potential for further equity market weakness as index valuations remain elevated and tariff uncertainty limits the tolerance for risk, we believe that the growth outlook for corporate earnings and economic output are still positive and support market gains as the year progresses. The S&P 500 dropped -3.1% to begin March (through 3/7/25), with 10 of 11 macro sectors lower (as measured by MSCI's Global Industry Classification Standards, or GICS). The index declined for three consecutive weeks and after closing at 6,144 on 2/19/25 (an all-time closing high), just two weeks later, on 3/6/25, the S&P 500's closing price of 5,739 was down -6.6% from that high. This percentage decline was the largest since July and August of last year, which saw an -8.5% drop over three weeks. At that time, after making the low, the market rallied to establish a new high by the end of August. Despite the recent -6.6% pullback, the S&P 500 was down just -1.9% year-to-date (YTD) through 3/7/25 and 9 of the 11 sectors were positive (Consumer Discretionary and Technology were the two negative sectors in 2025). Leadership came from the Health Care and Consumer Staples sectors, an indication of more defensive positioning. The Equal Weight S&P 500 increased +0.6% YTD, reflecting a modest gain for the "average" S&P 500 stock. The "Magnificent 7" (Mag 7) stocks, after leading the markets in 2023 and 2024, have declined an average of -10.4% YTD (through 3/7/25), driving the broader index lower. We continue to recommend diversification across sectors and caution against being overly concentrated in growth- and technology-centric positions.

Foreign equities have rallied in early 2025, outperforming U.S. markets. European equity indices have surged in 2025 with YTD gains (through 3/7/25) for Germany's DAX up +15.6%, the Euro Stoxx 50 +11.7%, and London's FTSE 100 +6.2% (all in local currency). In addition, the U.S. dollar (as measured by the U.S. dollar index) was down more than -4% YTD against the basket of major trading partners. We see the potential for a tariff-driven trade war to create challenges for the European economy and perhaps a stronger U.S. dollar, but that has not been the case through the first nine weeks of 2025. In general, European equity indices trade at lower valuations vs. the U.S. and investors are likely attracted to perceived relative value in Europe after two years of underperformance as tariff uncertainty is not expected to diminish in the weeks ahead. In addition, last week's news that Germany has committed to deficit spending to bolster national defense and infrastructure investment drove interest rates higher in Germany and the U.S. This will lead to an increase in global bond issuance and more competition for investor funds.

Tariff uncertainty remains a headwind for equities over the near term as President Trump appears poised to use tariffs aggressively. While we believe that the Administration can still pursue trade deals designed to open export markets for U.S. producers and incentivize U.S.-based production, it also appears that some tariffs are likely to remain over the medium and long-term. The uncertainty comes as companies adjust supply chains and consumers and business customers step back to evaluate the impact.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today, the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

Germany's DAX index includes the 40 largest and most liquid stocks that trade on the Frankfurt Stock Exchange. The index market capitalization weighted and is maintained by the Deutsche Borse Group and is estimated to represent about 80% of the total market capitalization of the publicly traded German equity market. The Euro STOXX 50 index tracks the performance of Europe's 50 largest companies and is market capitalization weighted. As of 1/31/25, the largest company representations were: France, Germany, Netherlands, and Italy. The London Stock Exchange FTSE 100 index measures the performance of the 100 largest companies traded on the London Stock Exchange. The MSCI All Company world (ex-U.S.) Global Equity Indices (AWCI) are widely tracked global equity benchmarks and serve as the basis for over 500 exchanged traded funds throughout the world. This methodology allows for meaningful global views and cross-regional comparisons across all market capitalization size, sector and style segments and combinations. The MSCI Germany Index (which contains 56 constituents), the MSCI France Index (59 constituents), the MSCI United Kingdom Index (78 constituents), and the MSCI Japan Index (191 constituents) all measure the performance of the large and mid-cap segments of their respective markets. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

As of 3/7/25, the MSCI ACWI traded at 13.8x the market cap weighted earnings estimates over the next four quarters. This was at a discount to the S&P 500's P/E on estimated earnings of 21.4x (see below for a discussion of P/E ratios).

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities. Sectors that are called "defensive" are thought to be less exposed to economic cycles compared to "cyclical" sectors, and often attract investor interest during periods of economic weakness.

We define a "risk on" equity market environment as being characterized by broad equity index gains led by high growth stocks and high relative valuations. Conversely, a "risk off" environment often includes equity index declines, and better relative performance from defensive equity sectors and U.S. Treasury securities. In 2025 year-to-date (as of 3/7/25), the top performing S&P 500 sectors (using price returns, not including dividends) were Health Care +8.3% and Consumer Staples +6.0%. The two worst performing S&P 500 sectors were Consumer Discretionary (-10.6%) and Technology (-7.5%).

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet. Our commentary about equity valuations being "elevated" compares the S&P 500 current P/E (on NTM estimated earnings) of 21.4x (as of 3/7/25) to the average P/E over the past ten years of 18.5x.

According to data from FactSet, S&P 500 earnings increased +11% in 2024 vs. 2023, including +18% in 4Q24 vs. 4Q23. 4Q24 earnings growth exceeded the +11% FactSet consensus as revenue increased +5.3% and margins expanded. The FactSet consensus estimate for 2025 annual earnings growth as of 3/7/25 was +12%.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at https://www.bea.gov/data/gdp/gross-domestic-product. As of 3/7/25, the FactSet consensus estimate for 2025 real GDP growth was +2.2%, down modestly from 2024's full year growth of +2.8%.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The term "Magnificent 7" was first used in early 2023 by Bank of America. It referred to seven publicly traded stocks that at the time were the most highly valued companies in the S&P 500 index ranked by equity market value. The seven stocks were: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla. Using an equal weight average of price performance over the period, the average Mag 7 stock declined -10.4% from 12/31/24 to 3/7/25, but increased +60.2% in 2024 and +111% in 2023.

The U.S. Dollar Index measures the value of the U.S. dollar relative to the currencies of six trading partners (Euro, Swiss franc, Japanese yen, Canadian dollar, British pound, and Swedish krona).