D|A|DAVIDSON WEALTH MANAGEMENT

The Weekly Market Update – 3/17/25: Fed Meeting Looms as Equities Slip Into Correction

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,638.94	-2.27%	-4.13%	-4.13%	10.65%	6,144.15	9.0%
Dow Jones Industrial Average	41,488.19	-3.07%	-2.48%	-2.48%	6.39%	45,014.04	8.5%
NASDAQ Composite	17,754.09	-2.43%	-8.06%	-8.06%	10.33%	20,173.89	13.6%
Russell 2000	2,044.10	-1.51%	-8.34%	-8.34%	-0.52%	2,442.74	19.5%
MSCI EAFE (USD)	2,466.55	-1.17%	9.05%	9.05%	7.90%	2,507.99	1.7%
MSCI Emerging Markets (USD)	1,119.61	-0.79%	4.10%	4.10%	9.66%	1,444.93	29.1%
Bloomberg Commodity Index	104.91	0.11%	6.23%	6.23%	8.50%	237.95	126.8%
Barclays U.S. Aggregate Bond	91.76	-0.09%	1.47%	1.47%	2.13%	112.07	22.1%

Source: FactSet

The U.S. Federal Reserve Bank's (Fed) second policy meeting of 2025 is March 18th and 19th, and we expect no change to its interest rate targets. The Fed's overnight bank lending fed funds interest rate target range is 4.25% to 4.50%, a level in place since December 2024. At that time, the Fed had lowered the fed funds target at three consecutive meetings for a total of 100 basis points. After pausing (no rate change) in January, the Fed is on hold for now. In late 2024, the U.S. economy exceeded expectations, while inflation data remained elevated. This created perceived challenges for the Fed as a strong economy doesn't need rate cuts, which can drive more inflation. But the post-election pro-growth narrative has faded in early 2025. January consumer spending slowed, and February consumer inflation (consumer price index, or CPI) was +2.8%, its lowest level in five months. This likely eases the path for lower interest rates, but we still think the Fed will wait. Recent equity market declines indicate surging economic pessimism, primarily due to tariff uncertainty hurting consumer confidence and prompting spending concerns. But consumer confidence can reverse in a hurry and Fed Chair Jerome Powell, as recently as 3/7/25, said that the Fed will be patient to see the impact of Trump Administration actions on tariffs, immigration, government spending, and regulations. The Fed also believes that the U.S. economy is in a "good place," which allows their patient positioning. We agree with this assessment but also believe that negative investor sentiment creates challenges for Chair Powell, especially at the post-meeting press conference. Investors might be disappointed if the Fed reiterates its wait-and-see position and could want assurance that interest rate cuts are likely if economic data continues to deteriorate. We don't expect the Fed to lower interest rates due to equity market declines, but it is watching economic data. If it pauses and data is weak, stocks could fall, but if the Fed says it is prepared to cut on economic concerns, equities could rally.

The S&P 500 equity index, on 3/13/25, closed at 5,522, down -10.1% from its most recent all-time high on 2/19/25. Although the index then rallied more than +2% on Friday, it still ended the week down -2.3%. At the Thursday low, the S&P 500 entered "correction" territory, which we define as a market decline greater than -10% (a "bear market" would be a decline exceeding -20%). Equity market pullbacks (less than -10%) occur frequently, but corrections are common as well (since 1980, 45 years, the average intra-year S&P 500 peak-to-trough decline exceeded -14%). Since late 2009 (the end of the Financial Crisis), there were 13 other market declines greater than -7%, including bear markets in 2020 (-33.9%) and 2022 (-25.4%). Excluding those years, it took an average of 13 weeks (three months) to recover the decline. While equity corrections are normal, they still weigh on sentiment and stoke investor fear. The current environment is no different as tariff uncertainty remains high and consumer sentiment has deteriorated. However, we believe that underlying trends, at least for now, are better than many believe, and we look to stay on course with our established investment policy. Remain diversified with high-quality companies. While volatility is likely to continue, we see modest gains ahead for patient investors.

February retail sales data were mixed, but much better than January's weak report. According to the U.S. Census, retail sales increased +0.2% from January and +3.1% Y/Y. Excluding vehicles and gas, the Y/Y increase was +3.5%. January retail sales had declined from December, sparking some concern, but February suggests that spending growth, while slowing, remains positive.

James D. Ragan, CFA
Co-CIO, Director of Investment Management & Research
(206) 389-4070
jragan@dadco.com

Important Disclosure: The information contained herein has been obtained by sources we consider reliable but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of data available to us at the time of the original publication of the report. Assumptions, opinions, and estimates constitute our judgment as of the date of this report and are subject to change without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return and yield, as well as broader market and macroeconomic fluctuations and unforeseen changes in the fundamentals or business trends affecting the securities referred to in this report. Investors should also remember that past performance is not indicative of future performance and D.A. Davidson & Co. makes no guarantee, express or implied, as to future performance. The information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us, or an offer, or the solicitation of an offer, to sell or buy any security. Further, a security described in a report may not be eligible for solicitation in the states in which a client resides. D.A. Davidson & Co. does not provide tax advice and investors should consult with their tax professional before investing. Further information and elaboration is available upon request.

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.

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.

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 3/14/25, 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 Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members--the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and in this way alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

The U.S. Census reports Advance Monthly Sales for Retail and Food Services, commonly referred to as the retail sales report. It measures the nominal spending at retail establishments and food and beverage, adjusted for seasonal variation. Percentage change is reported for month-to-month and year-over-year spending.

We define a Bear Market as a peak-to-trough decline (using closing prices) for a specified index of 20% or more. We generally use the S&P 500 index as a proxy for the broad market for large, leading U.S. companies. Similarly, a Bull Market is declared following a 20% gain from a Bear Market low. A Market Correction is defined as a peak-to-trough decline greater than 10% but less than 20%. For calculations we used the closing price level of an index on a daily basis. From 1980 to 2024, the average intra-year (in a calendar year) peak-to-trough decline for the S&P 500 averaged -14.2%, with a range of -3% (1995, 2017) to -49% (2008). The S&P 500 declines above 7% referenced in the note ended 7/2/10 (-16.0%), 10/3/11 (-19.4%), 6/3/12 (-9.9%), 11/15/12 (-7.7%), 10/15/14 (-7.2%), 2/11/16 (-14.2%), 4/2/18 (-10.1%), 12/24/18 (-19.8%), 3/23/20 (-33.9%), 9/23/20 (-9.6%), 10/12/22 (-25.4%), 10/27/23 (-10.3%), and 8/5/24 (-8.5%).