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Market Commentary

Weekly perspective on current market sentiment **March 5, 2025**

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Last week's S&P 500 Index: -1.0%

Growth scare

Key takeaways

- The market is concerned that economic growth is set to slow.
- But we see a slowing economy as something of a temporary air pocket in the nearer term, and we continue to expect solid economic growth in 2025.

The yield on the 10-year Treasury note dropped from 4.8% in the middle of January to 4.18% at the time of this writing. That is a very big move down in a short period of time. Consumers shopping for homes and taking out mortgages have to be pleased. But why the big drop? The 10-year yield is sensitive to anticipated levels of economic growth and inflation. In recent quarters, growth has remained quite good while inflation has either crawled slightly higher or held steady at levels above the Federal Reserve's (Fed) long-term targeted average (2%). It wasn't that long ago when inflation fears created headwinds for stock and bond prices and the economy was humming along at a strong pace. In addition, fourth-quarter earnings grew at a strong 13.4% year-over-year pace.

But the market is concerned that economic growth is set to slow. Some of the economic data reported in February were noticeably weaker than expected. To add fuel to the fire, on Monday morning, the Atlanta Fed released its latest growth estimate, referred to as "GDPNow," for the first quarter of this year. Its model now estimates real GDP (gross domestic product adjusted for inflation) will fall 2.8%, largely due to much weaker than initially estimated personal consumption expenditures and weak private fixed-investment growth.

Consumer sentiment and the latest reading on consumer confidence in February tumbled relative to previous readings. A range of uncertainties were cited, including the effect of tariffs and potential weakness in the labor market. Many economists are also blaming some of the growth slowdown and dicey data this year on the many bad weather events that have occurred across most of the country at one point or another.

A key part of the slowdown is also likely due to what could be called a "pull forward" effect. By that we mean that companies and consumers have made purchases in advance of what they fear might be higher prices for those goods once tariffs proposed by the administration are implemented. One can point to the record higher trade deficit in January as one indicator as imports (also a record) far outpaced exports as spending was pulled forward to beat tariff implementation. Industrial supplies, a likely victim of imposed tariffs, were a huge component of overall imports.

But not all economic reports have been negative. Consumer spending for services (restaurants, vacations, etc.) during much of 2024 was robust and continues to show potential for expansion this year. In addition, as mortgage rates have fallen, applications for home purchases have improved. These factors represent meaningful support for the economy.

From our perspective, we see a slowing economy as something like a temporary air pocket in the nearer term, and we continue to expect solid economic growth in 2025. We see market uncertainties creating opportunities in both equities and fixed income as the year progresses. Be patient, but be ready to act.

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