WEEKLY MARKET COMMENTARY

March 17, 2025

WEEK IN REVIEW

Market indices continued to decline lower as markets continue to navigate the impact of tariffs and softening economic growth.

- The S&P 500 declined by **-2.27%**
- The Dow Jones Industrial Average declined by **-3.07%**
- The tech-heavy Nasdaq declined by **-2.43%**
- The 10-Year Treasury yield closed at **4.31%**

A major theme from last week's economic reports was inflation. Despite a tumultuous week for stock prices, February's inflation readings came in lower than expected. On Wednesday, the U.S. Bureau of Labor Statistics reported that both headline Consumer Price Index (CPI) and Core CPI rose by 0.2%, compared to the expected 0.3%. This report counterbalances the unexpectedly higher inflation report from last month, with year-over-year core CPI at 3.1% versus 3.3% previously. Additionally, Thursday's Core Producer Price Index (PPI) retreated by 0.1%, against an expected increase of 0.3%. This decline may result in wider profit margins for producers and lower prices for consumers. Reflecting these lower inflation numbers, yields on 3-, 10-, and 30-year Treasuries fell across all maturities compared to last month's auction.

However, there appears to be a disconnect between the actual inflation being transmitted through the economy and consumer sentiment regarding inflation. On Monday, consumer inflation expectations rose to 3.1%, higher than the previous couple of months' 3.0%. The report also noted that the share of households expecting a worse financial situation one year from now increased to 27.4%, its highest level since November 2023. On Friday, the preliminary University of Michigan Inflation Expectations report echoed this sentiment, with both 1- and 5-year expectations exceeding last month's readings (4.9 versus 4.3 and 3.9 versus 3.5, respectively). Despite these inflation concerns, consumers do not anticipate an increase in production, as the University of Michigan report revealed lower consumer sentiment and expectations, with both indexes dropping more than 10% month-over-month.

In other news, Tuesday's Job Openings and Labor Turnover Survey (JOLTS) report for January revealed higher-than-expected job openings, and Thursday's initial jobless claims and continuing jobless claims reports also came in better than expected. Continuing jobless claims have shown a positive trend, with fewer claims in five of the last seven weeks. Overall, the markets are grappling with the divergence between strong current data and uncertain future expectations.

WEEK AHEAD

The major announcement to watch this week is scheduled for Wednesday when the Federal Open Market Committee (FOMC) concludes its two-day meeting to decide the next steps for monetary policy. While the meeting itself is not expected to lead to any significant changes –current market predictions suggest a 99% probability that the Fed will maintain the current interest rates –Fed Chair Jerome Powell's reassurances could play a crucial role in calming investor anxieties amid the volatile markets we have been experiencing over the past couple of weeks. His economic outlook might offer the necessary comfort to the market.

In terms of economic data, the focus will shift to the real estate sector next week. On Monday, the home builder confidence index will be released, followed by housing starts and building permits on Tuesday. Thursday will bring the existing home sales and the regular initial jobless claims report. These indicators will offer valuable insights into the health of the housing market and broader economic conditions.

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