

# MONTH IN REVIEW

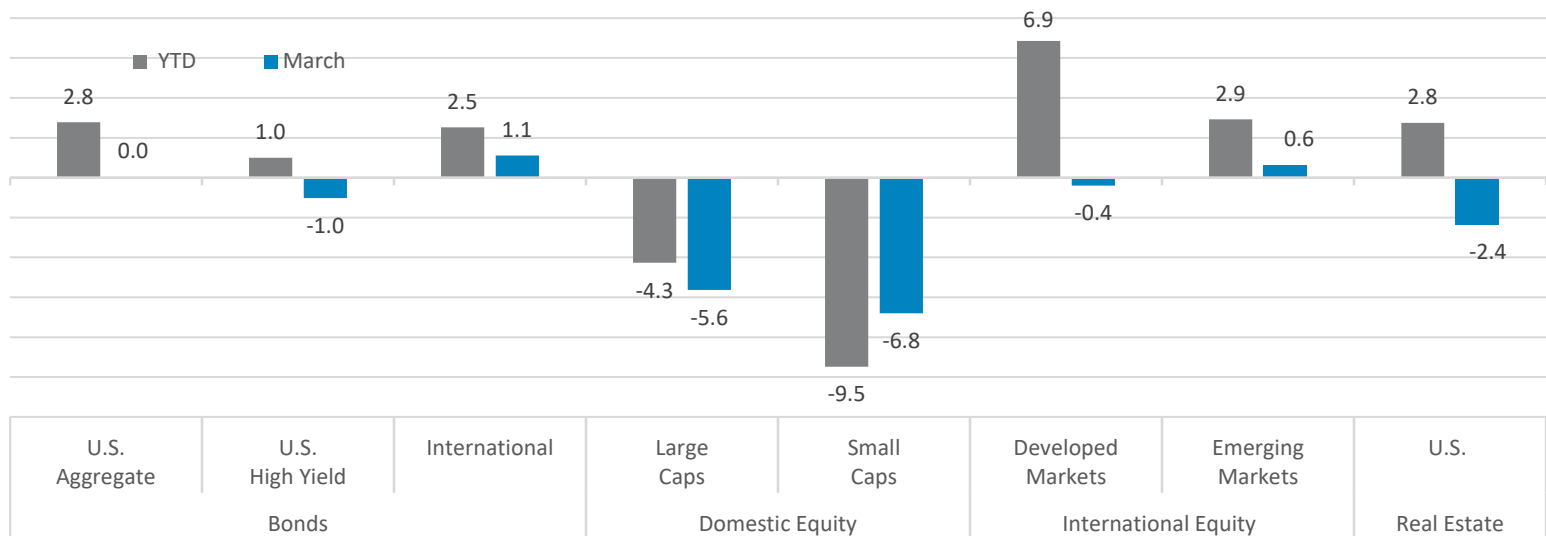


## Quick Takes

- **Volatile Stocks.** US equity indices fell again in March as weak consumer sentiment and tariff worries began to hit the market hard. The S&P 500 fell 5.75% and the Nasdaq 100 fell 7.7%. The Magnificent 7, which has driven the market over the last few years, fell 9.7%.
- **Inflation and Interest Rates.** The 10Y treasury yield remained flat in March at 4.2% as concerns over the federal budget and finances dominated headlines. Core PCE inflation for February came in above expectations at 2.8% while headline PCE inflation was 2.5%.
- **Tariff Unpredictability.** President Trump used tariffs on Canada, Mexico, and China in March. He also began to push for reciprocal tariffs on countries that have trade barriers including tariffs or other measures. One threat involved placing a 200% tariff on alcohol imports from Europe, although this never went into effect.
- **International Shift.** By the end of March, the S&P 500 had fallen 4.6% year-to-date while the STOXX Europe 600 index had risen 5% as investors increasingly began shifting to international assets. A looser fiscal policy in Germany is expected to be stimulative to the European economy.

## Asset Class Performance

Large caps outperformed small caps in March. US stocks underperformed international stocks, emerging and developed alike, as trade policy uncertainty, headline risks, and weakening consumer sentiment hurt US markets. International stocks were flat in March while international bonds rose and US stocks, bonds, and real estate fell.



Source: Bloomberg, as of February 4, 2025. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

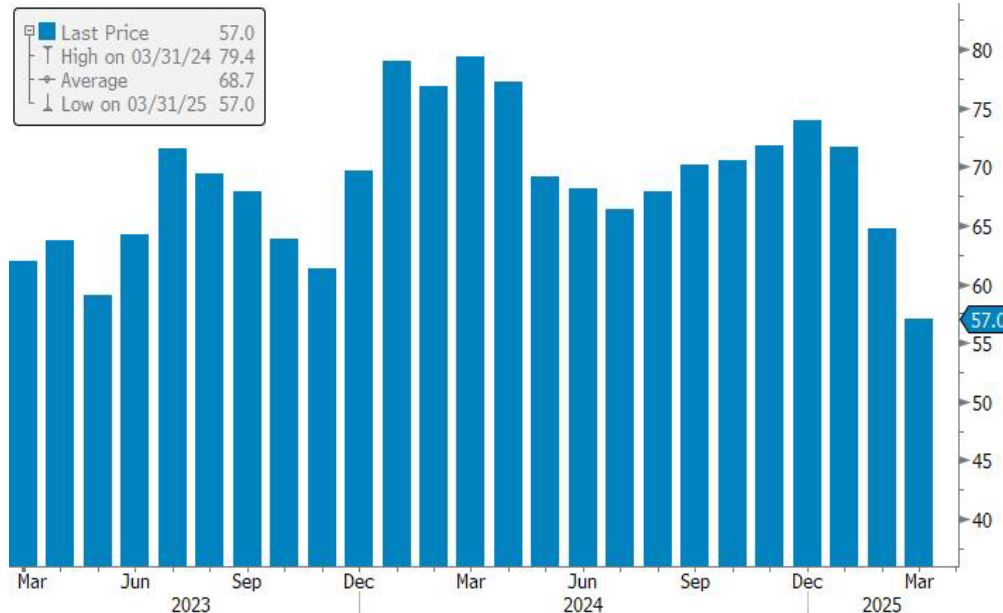
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## Markets & Macroeconomics

### Inflation Eases, the Fed Holds Rates, and Sentiment Weakens

#### University of Michigan Consumer Sentiment Index

Consumer Sentiment has now Fallen for Three Straight Months



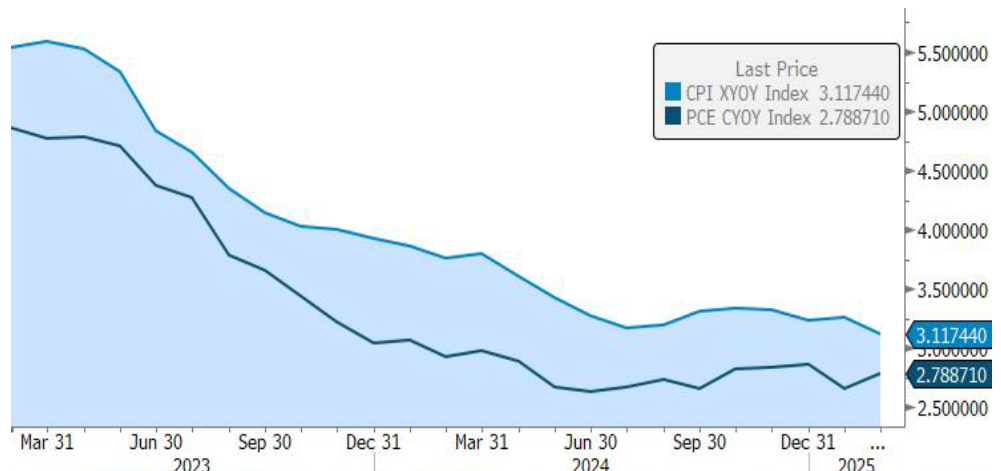
Source: Bloomberg, University of Michigan

During February, core PCE inflation accelerated from 2.6% to 2.8% while Core CPI inflation decelerated faster than economists were expecting from 3.3% to 3.1%. Headline PCE inflation was unchanged and in line with expectations for the month at 2.5% and headline CPI inflation. Core PPI inflation decelerated in February from 3.6% to 3.4%, a larger decline than economists had expected. Nonfarm payroll additions in February came in at 151K, below expectations, the unemployment rate increased from 4.0% to 4.1%, and the labor force participation rate fell from 62.6% to 62.4%. One bright spot was manufacturing job growth. The manufacturing sector added 10K jobs in February, much higher than the 3K expected by economists. Wage growth in February was lower than expected at 4.0% versus the forecasted 4.1%. The January jobs number was also revised down from 143K jobs to 111K jobs. Meanwhile, as the Trump administration has threatened some tariffs and put

others into effect, consumer sentiment as measured by both the Conference Board Consumer Confidence index and the University of Michigan Consumer Sentiment index has fallen for three straight months from its peak in December. Consumer inflation expectations have also come in higher than economists were expecting. Real

#### US Core Inflation

Consumer Inflation indicators were Mixed in March



personal spending has also grown at a slower-than-expected pace for the last two straight months growing by just 0.1% in February as spending has slowed on food and drinking services, clothes, furniture, and sports equipment. PMI data indicate that overall US economic activity is still expanding. Services activity remains strong with the S&P Global US Services PMI coming in at 51.6 for February versus the expected 49.7. Given the level of activity and still elevated inflation, the Fed maintained their policy rate range at 4.25% to 4.50%. 10Y treasury yields remained flat during the month at 4.2%. Interest rate markets are currently pricing in a 70% probability that the Fed will leave interest rates unchanged at its May 7 meeting and a 30% probability of a 25bps rate cut. Economists are also expecting further deceleration in core and headline CPI inflation for March to 3.0% and 2.6% respectively.

**Bottom Line:** Unemployment remains low and job creation remains at 100K-150K jobs per month despite a recent slowdown in the overall labor market. Tariffs and trade policy uncertainty have contributed to lower consumer sentiment and household spending growth seems to be slowing.

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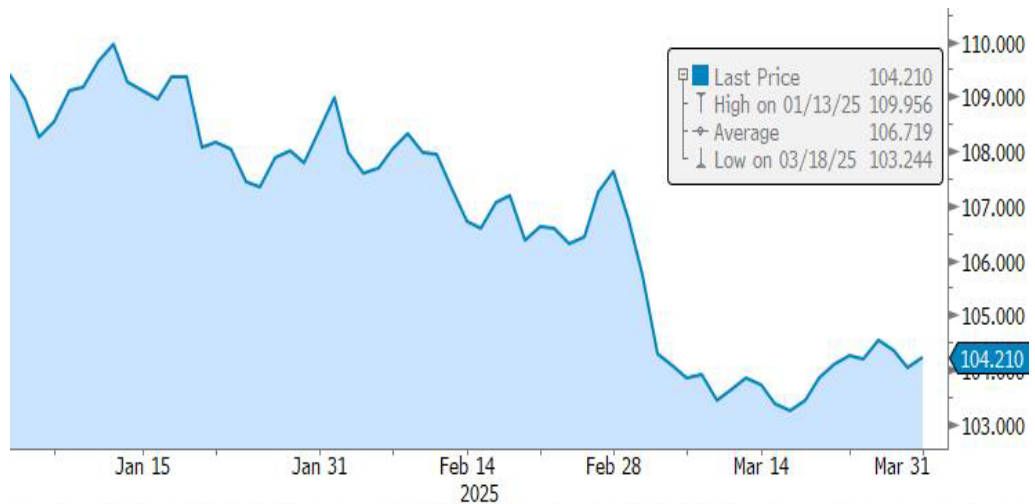
# What's Ahead

## The Global Reaction to Trump's Tariffs

President Trump has repeatedly indicated that he is committed to placing tariffs on imports from other nations into the US to reduce the US trade deficit, raise revenue for the federal government, and potentially encourage reshoring of production. Tariffs on imports from Mexico and Canada went into effect at the beginning of the month at 25% on both countries and 10% for Canadian energy products. The day after the tariffs went into effect, Trump decided to grant a one-month exemption for US automakers whose cars comply with USMCA, the trade deal negotiated by the previous Trump administration that went into effect in 2020. The administration has also raised tariffs on Chinese imports by 20% since taking office in January. A key consideration for investors trying to navigate trade policy uncertainties will be the reactions by US trade partners to the tariffs put in place by the new administration. Chinese manufacturers, auto manufacturers in North America, and many others have been, or could be, impacted by the new tariffs put in place. Chinese manufacturers have tried to shift production to other countries in southeast Asia in an effort to avoid

### US Dollar Index

The US Dollar has Fallen by Nearly 5% Year-to-Date largely on Trade Fears



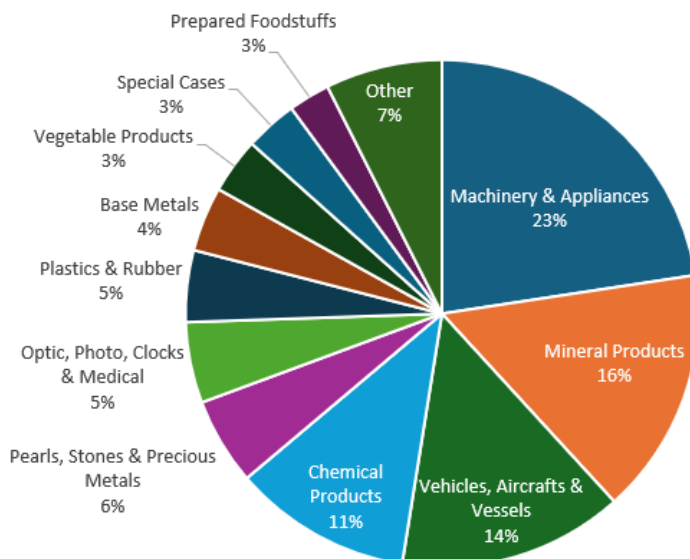
Source: Bloomberg

pressure from US tariffs. Some companies producing auto parts and consumer electronics components have looked to shift production to Malaysia, Thailand, and Vietnam. As Chinese manufacturers try to shift production, the Chinese government is trying to protect its industry and hit back at the US with its own tariffs and other actions. In early March when the additional 10% tariff

hike went into effect, the Chinese government added 15 US companies to an export control list and another 10 to an unreliable entity list to disallow or restrict trade between Chinese companies and American ones. The country also filed a lawsuit with the WTO against the US. Other countries are also responding with retaliatory measures. Canada placed a 25% tariff on imports from the US and the province of Ontario cancelled a \$100M contract with Elon Musk-owned Starlink. Canadians have also been cancelling vacations to the US. A 10% decline in Canadian travel to the US could cost \$2B in lost spending and 14,000 jobs in the US according to the US Travel Association. In late March, Trump placed a 25% tariff on all cars not made in the US and indicated the reciprocal tariffs were coming on April 2. These actions could result in further retaliation from US trade partners depending on their severity.

### February 2025 US Exports by Category

Most US Exports include Machinery, Minerals, Vehicles, and Airplanes



Source: Bloomberg

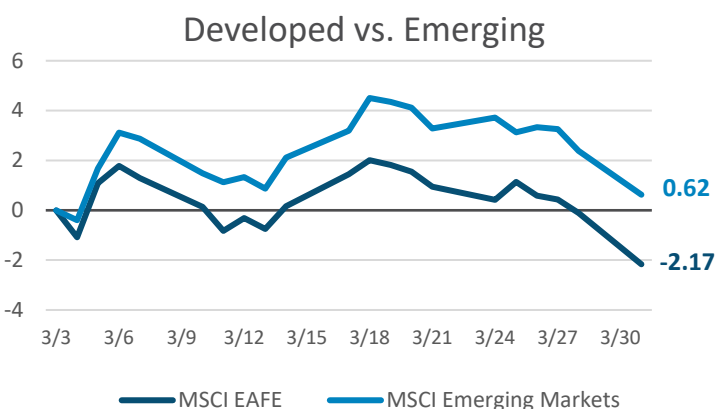
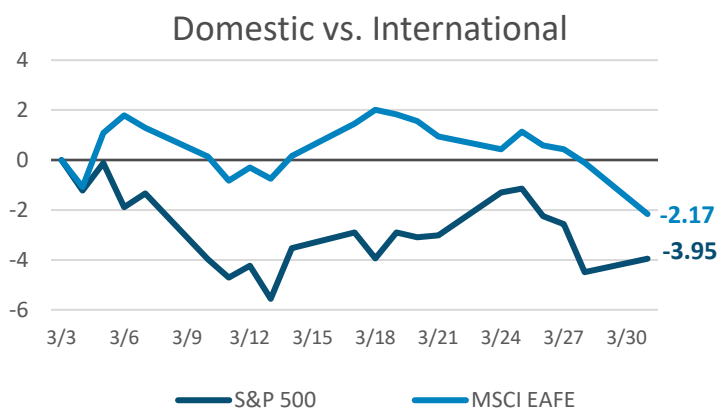
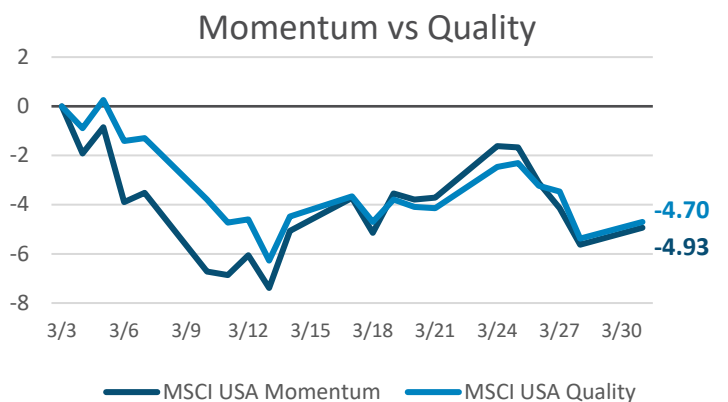
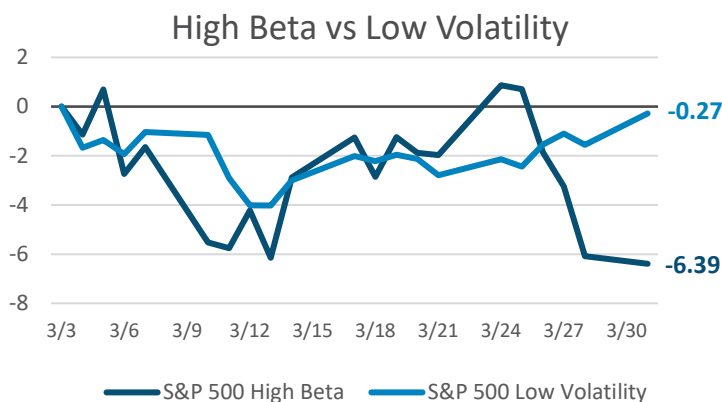
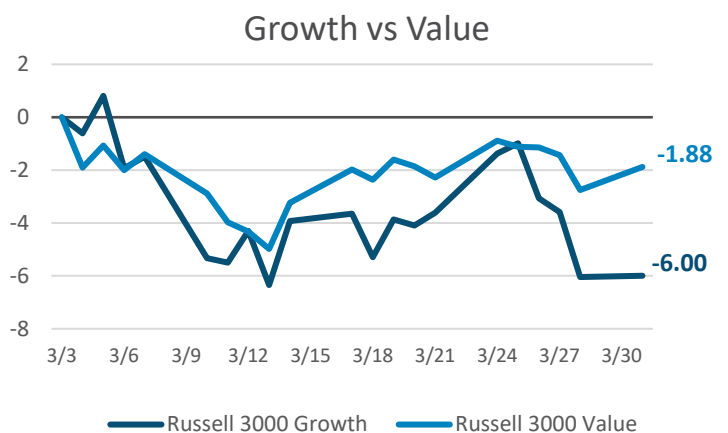
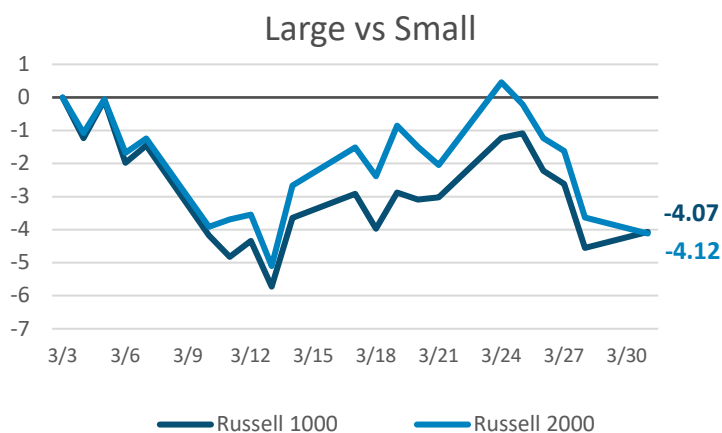
**Bottom Line:** As the Trump administration increases tariffs on a variety of imports from various trade partners, many nations are choosing to retaliate with their own trade measures. Consumers in other countries could also change their spending patterns in ways that impact the US economy.

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## Equity Themes

### What Worked, What Didn't

- **Large and Small were Near Even while Value Outperformed Growth.** Market participants moved more into value stocks in March than growth as investors continued to look for more defensive investments amid policy uncertainty and a weaker consumer.
- **Low Vol and Quality Outperform.** Low vol significantly outperformed high beta again in March and momentum narrowly outperformed quality in March.
- **International Over Domestic, Emerging Over Developed.** International equities outperformed domestic stocks in March for the third month in a row. Emerging markets outperformed developed markets during the month.



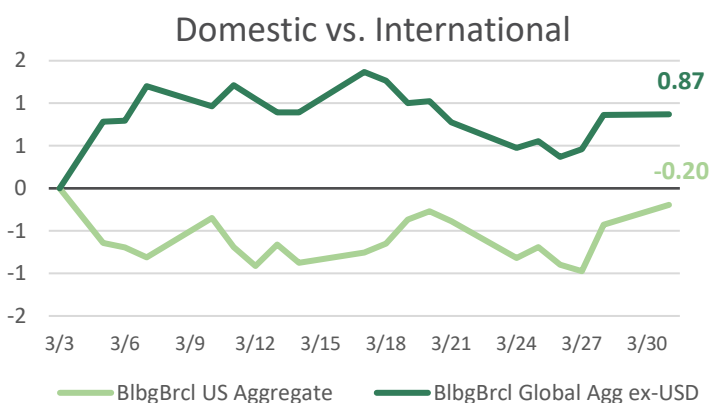
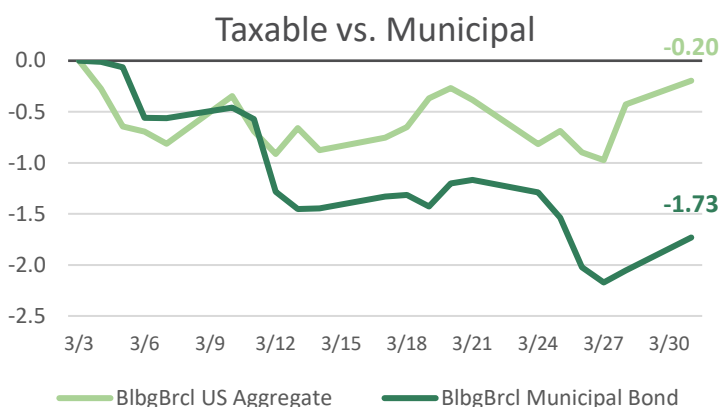
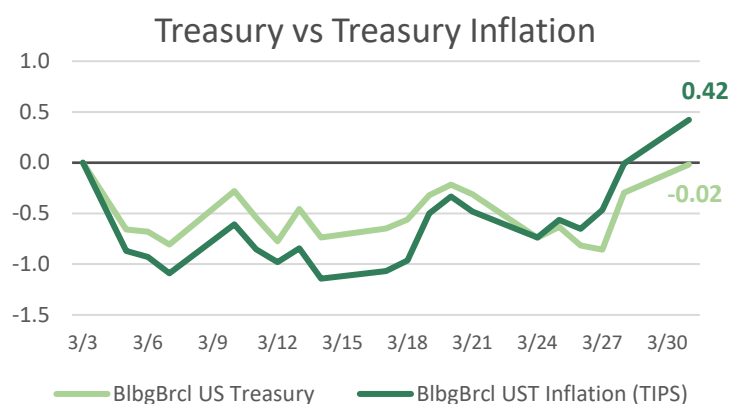
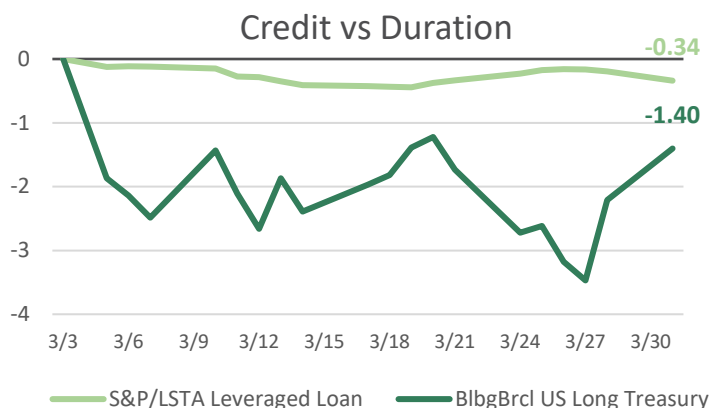
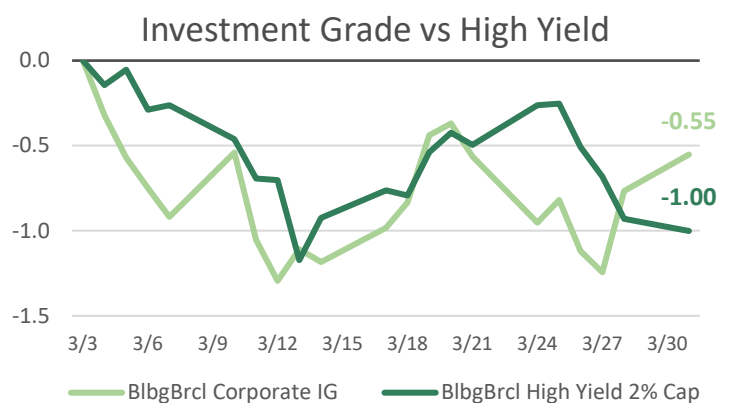
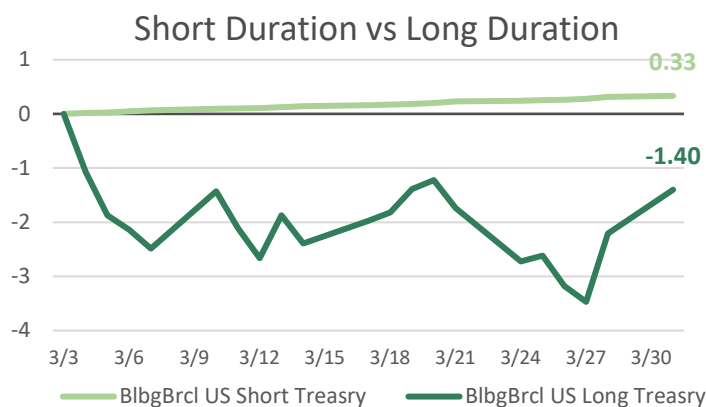
Source: Bloomberg.

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## Bond Themes

### What Worked, What Didn't

- **Short Duration and Investment Grade Outperform.** Short Duration Treasuries performed better in March significantly outperforming Long Duration. Investment Grade outperformed in March beating High Yield.
- **Credit Tops Duration while TIPS Beat Treasuries.** In March, Credit outperformed Duration while TIPS outperformed Treasuries.
- **Taxable Beat Munis and International Outperforms Domestic.** Taxable Municipal bonds underperformed Taxable Aggregate, while U.S. bonds underperformed their International peers in March.



Source: Bloomberg.



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Asset Class Performance

**The Importance of Diversification.** From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.



Legend

60/40 Allocation  
(60/40)

Large Growth  
(LCG)

Large Value  
(LCV)

Mid Growth  
(MCG)

Mid Value  
(MCV)

Small Growth  
(SCG)

Small Value  
(SCV)

Intl Equity  
(IEQ)

Emg Markets  
(EM)

U.S. Bonds  
(USB)

High Yield Bond  
(HYB)

Intl Bonds  
(IBD)

Real Estate  
(RE)

Source: Sources for this market commentary derived from Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Financial. The performance of those funds in February may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx \$ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate. 080223006 - MAH