



MARCH 2025
MARKET
COMMENTARY

David Homard, CFA

The first quarter broke a two-year trend for the market as the S&P 500 fell 4.5%. The NASDAQ 100, which is heavily invested in technology companies, fell 8.4%, while the Russell 2000, a measure of small-cap equities, fell 9.5%.

In Q4, the S&P 500 Value index rose by 0.1%, while growth stocks dropped 8.8%. What worked for stocks in the first quarter of 2025 were value, dividends, and big blue-chip names that had been left behind during the previous two years.

Energy stocks and health care led the way higher during the quarter, rising 9.8% and 6.5% respectively. Losers for the quarter included consumer discretionary and technology companies, which fell 12.0% and 11.3% respectively.

Oil prices rose slightly during the quarter, adding 2.4%, while natural gas prices jumped 28.6% due to increased demand for liquified natural gas (LNG) in Europe and Asia. Commodities were generally strong during the quarter, with gold and silver performing well.

International markets performed better than domestic ones. The MSCI EAFE index rose 8.1% in dollar terms, after rising only 3.5% for all of 2024. Emerging markets underperformed developed markets overall, with the MSCI Emerging Markets Index rising 4.5%.

The Federal Reserve held rates steady during the quarter. At the beginning of the year, the market expected the Fed to cut rates twice in 2025, but recent stock market weakness and economic growth concerns have led investors to expect three cuts before the end of the year. Inflation is expected to rise steadily, reaching the low- to mid-3% area by the end of the year, while economic growth slows mildly. This combination could tie the hands of the Federal Reserve, with inflation concerns potentially outweighing growth concerns.

Slower growth and expectations of more rate cuts pushed bond yields lower during the quarter. The 10-year Treasury yield ended the quarter at 4.21%, down 36 basis points from the previous quarter's close. The 2-year yield fell as well, dropping 35 basis points to 3.89%. The aggregate bond index was up 2.8% for the quarter.



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When the Federal Reserve is cutting rates, this typically means that the long end of the yield curve is heading lower as we write this during the first full week of the second quarter, tariff news has shaken the equity markets. While headlines of big equity drops are scary, most investors need to remember that they hold more than US equities. Even the most aggressive models hold more than domestic large-cap stocks. More conservative models include bonds, which have held up during the recent market volatility. In short, headlines can be very misleading when it comes to an individual's portfolio.