Week in Review

Equity Markets:

The S&P 500 finished the week down 3.06%, bringing the index's 2025 return into negative territory. The Dow Jones is the lone index still in the green for the year, up 0.91%. The NASDAQ is down 5.66% year-to-date, and the S&P 500 is down 1.66%. Investors have taken a more defensive stance thus far in 2025. The Russell 1000 Value Index is up 2.53% in 2025 relative to its growth counterpart's return of -5.56%[1]. The top performing sectors in the S&P 500 are Healthcare and Consumer Staples, with YTD returns of 8.6 and 6.4%, respectively. The laggards are Consumer Discretionary and Technology[1].

Less than a dozen S&P 500 companies have not reported earnings yet, and if the trend continues, this quarter's earnings results will mark the best quarter since Q4 2021[2]. Year-over-year earnings growth has been robust and sits at 17%. This is nearly double the 9.6% growth that was expected at the beginning of the quarter[2].

Fixed Income Markets:

The bond market was less volatile last week as investors focused on the equity market amidst economic growth concerns. The 10-year Treasury yield finished the week at 4.32%, marginally higher than the 4.24% it closed at the prior week. The yield curve saw some steepening as the short end of the curve remained put. The 2-year Treasury yield closed the week at 3.99%, the same level as the week prior.

Concerns of a slowing economy have increased the high yield bond spread over the last few weeks. This spread is often referenced when trying to assess investors' appetite for risk. In late January, high yield bonds were rewarding investors a mere 2.59% in yield for taking on a high level of credit risk. The spread currently sits at 2.97%[3].

Economic:

Last week, the ISM Purchasing Managers Index (PMI) reports showed that the manufacturing and services sectors remained in expansion territory. The Manufacturing PMI came in lower than expected at 50.3 vs an expected reading of 50.6. The Services PMI surprised to the upside with a reading of 53.5. Reports last week showed that the labor market continues to cool. The ADP Private Payroll reports showed modest job gains of 77,000 in February, which was well below the 148,000 consensus estimates. On Friday, the non-farm payroll report showed that the economy added 143,000 jobs for the month. Slightly below expectations, the unemployment rate nudged up to 4.1% from the previous month's 4%.

Looking Ahead

Equity Markets:

The recent volatility has caused sentiment to do an about-face in short order. We want to point out that the S&P 500 is only 6% below its all-time high of 6,147 from February 19. The average intra-year market decline over the last 20 years has been roughly 15%, and during that period, the index had a positive annual return 75% of the time[4]. In our opinion, the recent pullback has helped valuations, but accompanying downward earnings revisions have kept them elevated. The forward four quarter P/E for the S&P 500 sits at 20.7x. This is much better than the 22+ from earlier in the year, but we still see valuations as a headwind in the near term.

Earnings are predicted to remain positive, but this quarter's expected earnings growth has been cut by 25%[5]. Companies have shown extreme resiliency and continue to surprise analysts. A significant reason for this has been maintaining healthy profit margins. The S&P 500 had a net profit margin of 12.6% last quarter[5]. We believe investor sentiment has turned highly negative because of market concentration. Maintaining a diversified portfolio aligned with your strategic allocations is paramount for long-term investing success. The NASDAQ entered correction territory, closing down 10% from its all-time high last week. Investors over-allocated to this index are experiencing a more painful fall than those who maintained diversified exposures. We believe investing should be viewed from a multi-year lens. The market will ebb and flow with different sectors, styles, geographies, and/or market capitalizations going in and out of favor. These market shifts occur with little to no warning, and maintaining a diversified portfolio increases the probability of capturing the upside or reducing the downside when they do occur.

Fixed Income Market

Following a swift drop in yields, we believe the bond market will be in a holding pattern in the near term. Renewed inflation and growth concerns were major contributors. We see the 10-year yield in the 4.25-4.5% range in the near-to-intermediate term as more economic data comes in. Over the log-run, we could see a test above 4.5%, but we see that as short-lived if it occurs.

Our outlook remains positive for fixed-income investors. Real yields, which are the return an investor receives after accounting for inflation, remain attractive[6].

Economic:

The Job Openings and Labor Turnover Survey (JOLTS) will round out the major labor market reports for the month on Tuesday. As inflation concerns have risen again, investors will get more data points to review this week. The CPI report will be released on Wednesday, and the PPI report will be released on Thursday. Other notable reports for the week include the Small Business Optimism Index and the preliminary reading of the University of Michigan Consumer Sentiment Index.

**** *See Important Disclosures on following page*

Sources:

1)JP Morgan
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