U.S. Market & Economic Commentary

The Markets
The first quarter of 2025 experienced a drop in equity prices as concerns about the impact of the US President's widespread trade tariffs rippled through markets. In contrast, both US bonds and global bonds gained during the period as US treasury yields fell and credit spreads widened.

Market Indices	March 2025	Year-to-Date
Dow Jones Industrial Average	-4.2%	-1.3%
S&P 500 Index	-5.8%	-4.3%
NASDAQ Composite	-8.4%	-1.9%
MSCI World Index	-4.5%	-1.8%
Bloomberg US Aggregate Bond Index	0.4%	2.8%
Bloomberg Global Aggregate Bond Index	-0.4%	1.8%

The US economy appeared to contract in the first quarter of 2025, with preliminary GDP estimates showing a decline of 0.3%. The ISM Manufacturing Index slipped back into contraction territory at 49.0, reversing February's expansion, and highlighting persistent weakness in the industrial sector. Despite this setback, consumer spending rose 0.7%, providing a partial offset and suggesting underlying resilience in household demand. Meanwhile, core retail sales increased by 0.5%, indicating steady consumer activity even as economic momentum may have faltered.

Labor market conditions remained relatively stable but softened further. The economy added 185k jobs, up slightly from February's 117k gain, while the unemployment rate edged up to 4.2%. Wage growth moderated, with average hourly earnings rising 0.3% month-over-month and 3.8% year-over-year—down from 4.0% in February. The labor force participation rate ticked up to 62.5%, but job openings dropped to 7.19 million, the lowest level since mid-2021, suggesting cooling labor demand.

As for inflation, recent trends offered mixed signals. The Consumer Price Index (CPI) declined 0.1% month-over-month, while core CPI (excluding volatile components such as food and energy) rose a modest 0.1%. Notwithstanding the monthly variance, year-over-year data shows CPI falling from 2.8% to 2.4%, and Core CPI falling from 3.1% to 2.8%. The Core PCE Price Index, the US Federal Reserve's preferred gauge, was flat in March, and fell to 2.6% year-over-year, matching January levels. These figures reinforced market expectations that inflation is on a downward path, though the Fed held the Federal Funds Rate steady at 4.50% as they await clearer evidence before initiating interest rate cuts. Escalating trade tensions between the US and China have also contributed to an uncertain outlook, as the associated increase in import prices has raised inflation expectations.

Finally, the housing sector softened notably. Housing starts declined 11.4%, while existing home sales fell 5.9%, and building permits remained relatively flat. Although new home sales rose 7.4%, overall housing activity was weighed down by elevated mortgage rates, which sat at 6.71% at the end of March. Compounding the issue is low housing inventory, particularly in the existing home segment. Many homeowners with sub-4% mortgages remain reluctant to sell and take on higher-rate financing, leading to a "lock-in effect" that has kept resale inventory tight. This dynamic continues to support home prices in many regions despite cooling demand, creating affordability challenges.