

Summary

Economic data included a lackluster but positive ISM manufacturing report, while ISM services again improved further into expansion. The employment situation report for February came in decently, within expectations, although the unemployment rate also rose slightly.

Equities were mixed, with another week of declines in the U.S., while foreign stocks (especially Europe) rediscovering positive momentum. Bonds fell back as interest inched back upward. Commodities were mixed, with gains in metals offset by a decline in crude oil.

Economic Notes

(-/0) It's worth reporting on the **Atlanta GDPNow** release fell to -2.8% early in the week, before recovering to -2.4% by last Thursday. This led to some consternation that recession odds had risen dramatically. Under the hood, though, there are several nuances. Consumer spending has certainly fallen, from well over a 1% contribution to now down around 0.3%, while non-residential fixed investment remains positive, as are inventories and government spending. The total number was pulled down by a dramatic drop in net exports (which implies far larger recent imports). The trade deficit report for January came in at -\$131.4 bil.—the widest on record. This has been explained as a combination of front-loaded import volumes intended to circumvent possible tariffs in a variety of industries, such as industrial supplies, consumer and capital goods (much of this from Canada). To an even greater degree, it also included massive inflows of gold bullion (notably from Switzerland, a hub of gold trading), intended to avoid possible trade policy changes, although gold bars are not consumable items that really affect GDP, and seem likely to be excluded from the final GDP growth calculation. This is another example of how uncertainty about government policy can work its way into the behavior of corporate decision making, which can manifest as higher economic volatility, as financial markets have demonstrated.

(0/+) The **ISM manufacturing survey** for February fell by -0.6 of a point to 50.3, below the slight decline to 50.7 expected, but it remained in expansion. Under the hood, new orders fell by a more dramatic -6.5 points back down into contraction at 49, employment fell by -3 points also back into contraction (led by declines in public administration and health/social assistance—presumably affected by DOGE), while production fell -2 points but remained slightly in expansion. Lead times for production materials rose, as did inventories, and prices paid, the latter by nearly 8 points to 62—solidly in expansion and the highest pace since summer 2022. Perhaps unsurprisingly, tariffs were mentioned over two dozen times in the release, with respondents noting that the environment “has created uncertainty and volatility among customers,” and they were concerned about import price inflation, specifically. There were 20 mentions of tariffs in the press release, compared to 4 in January. Survey respondents noted that “the tariff environment...has created uncertainty and volatility among customers and increased [their] exposure to retaliatory measures” from other countries and said they were concerned that “the incoming tariffs are causing products to increase in price.” In a similar report, the **S&P Global US manufacturing PMI** final February report showed an expansionary reading of 52.7, about a point higher than the first release.

(+) The **ISM services/non-manufacturing survey** for February rose by 0.7 of a point to 53.5, above the slight decline to 52.5 expected. This pushes the services measure further into expansion, continuing a long stretch of economic strength. Within the report, new orders rose nearly a point to 52, as did employment, while business activity fell slightly but remained strongly expansionary. Supplier deliveries rose, implying slower performance, while prices paid rose another 2 points to 63. Despite the rise, though, “many” respondents highlighted the uncertainty around trade policy, which held back decisions about business activity. This was highlighted by a dozen mentions of tariffs in the release, twice that of the January report, specifically that these have “created chaos” in forecasting future purchases, not to mention expectations for “significant cost impact” on projects. In a similar report, the S&P Global US services PMI final report for February rose by 1.3 points back into expansion at 51.0.

(-) **Construction spending** fell by -0.2% in January, a tenth beyond the -0.1% expected, and reversed the prior month’s gain of 0.5%. While public non-residential construction saw a slight gain, declines in private and public residential pulled down the overall report. As construction costs rose by about a half-percent for the month, real spending fell by about -0.7%.

(0) **Initial jobless claims** for the Mar. 1 ending week fell by -21k to 221k, below the 233k median forecast. Continuing claims for the Feb. 22 week, on the other hand, rose by 42k to 1.897 mil., above the 1.874 mil. expected. On the initial claims side, a sharp decline in CA led the move downward, while federal worker claims (through separate data) have risen but still remain low overall for now. No doubt those will be closely watched as the DOGE announcements continue.

(0/+) The employment situation report for February came in largely on par with expectations, with less dramatic results than perhaps some had feared. **Nonfarm payrolls** rose by 151k, above the job gains of Jan. (which included a -18k revision downward to 125k, but offset by a 16k upward revision for Dec. to an even stronger 323k), but just below the median forecast calling for 160k. Per the BLS, it also remained at a slower pace than the 168k monthly average over the past year. Employment trended higher in health care (52k), financial (21k), construction (19k), transportation/warehousing (18k), and social assistance (11k). On the negative side, declines were seen in leisure/hospitality (-16k), federal government employment (-10k, as would be expected with the recent DOGE actions), and retail (-6k). Other segments changed in a less statistically-significant way.

The **unemployment rate** ticked up a tenth to 4.1%, versus expectations for no change, but remaining in a tight range of about a tenth in either direction since early 2024. (It ticked up by two-tenths to 4.4% on an unadjusted basis, so still within a lower range.) U-6 underemployment rose by 0.5% to 8.0%, although less dramatic when removing the seasonal adjustment factor. Both reflected weakness in the household survey, which showed a decline of -179k in household employment along with a -385k drop in the size of the labor force. This went along with fewer self-employed workers but far more holding multiple jobs. **Average hourly earnings** rose by 0.3% for the month, on par with expectations, but a tenth slower than the prior month. On a year-over-year basis, earnings rose by 4.0%. The **average workweek** length was unchanged at 34.1.

In an earlier report, the final nonfarm **productivity** report for Q4-2024 was revised up by 0.3% to a quarterly annualized rate of 1.5%. From Q4-2019, the last full quarter before the pandemic, productivity grew at 1.9% annualized. **Unit labor costs** were revised down by -0.8% for Q4 to a quarterly annualized rate of 2.2% growth, taking the year-over-year rate down by -0.7% to 2.0%.

Market Notes

| Period ending 3/7/2025 | 1 Week % | YTD % |
|--------------------------|----------|-------|
| DJIA | -2.33 | 0.91 |
| S&P 500 | -3.06 | -1.66 |
| NASDAQ | -3.43 | -5.66 |
| Russell 2000 | -4.01 | -6.76 |
| MSCI-EAFE | 3.11 | 10.64 |
| MSCI-EM | 2.89 | 5.23 |
| Bloomberg U.S. Aggregate | -0.58 | 2.15 |

| U.S. Treasury Yields | 3 Mo. | 2 Yr. | 5 Yr. | 10 Yr. | 30 Yr. |
|----------------------|-------|-------|-------|--------|--------|
| 12/31/2024 | 4.37 | 4.25 | 4.38 | 4.58 | 4.78 |
| 2/28/2025 | 4.32 | 3.99 | 4.03 | 4.24 | 4.51 |
| 3/7/2025 | 4.34 | 3.99 | 4.09 | 4.32 | 4.62 |

U.S. stocks suffered a third straight negative week, with negative sentiment driven by the uncertainty around the administration’s back-and-forth tariff policy announcements—the key theme that appears to be driving market movements as of late. By sector, only health care ended the week with a small gain, while all other sectors saw negative results—declines of several percent in financials (not helped by a flatter yield curve), consumer discretionary (Tesla, but also concern in other retailers about a weakening consumer), and energy (following weaker oil prices).

Early in the week, the formal implementation of tariffs on Canada, Mexico, and China pulled down equity sentiment, with concern over uncertain economic growth and inflation ramifications. By Wed., the President granted a one-month reprieve on tariffs for autos manufactured in those two countries (which are those of U.S. automakers), helping markets rebound and proving to be an example of the North American inter-country dependencies in several industries. This extension was allegedly per request of the U.S. ‘Big 3’—Stellantis, Ford, and GM—upon reports that car prices could rise by \$5-10k per vehicle due to the tariffs. By Friday, tariffs on both Canada and Mexico for goods were covered by the USMCA were postponed (again), but the back-and-forth risk has failed to generate a celebratory tone. The President and Commerce Secretary Lutnick have noted that several tariffs will be announced on Apr. 2, in what will be called “the big transaction.” One piece of good news is that the planned reciprocal tariffs may end up having a smaller-than-expected impact, perhaps raising overall tariff rates by only a few percent on a trade-weighted basis—based on some economic analysis. However, higher tariffs on autos and critical imports (pharma, semiconductors, electronics, metals) could raise the overall tariff rate

significantly higher. While it may seem strange to apply tariffs to critical imports, the goal is to incentivize domestic production and wean reliance on foreign producers. Though, this gets politically trickier, as it could inflict more short-term pain to achieve specific long-term goals.

While the S&P 500 fell as far as -7% from mid-Feb. highs, the growth-heavy NASDAQ fell into an official -10% correction during the week, and the Bloomberg Magnificent 7 Index fell further towards -15%, quickly approaching bear market status. Since there hasn't been a -10% market correction since mid-2023, the fact we're seeing one isn't too surprising, just from a normal cyclical standpoint. Of course it takes a catalyst, so with elevated valuations, there isn't much room for error when facing uncertain news on the economic/trade front.

Foreign stocks fell slightly in local terms, but moved in a positive direction when helped by the value of the U.S. dollar, which fell over -3% for the week. After that currency translation for U.S. investors, European stocks pulled away further into the lead, with gains of 4% (with strength in Germany) outpacing still-decent gains in Japan, and emerging markets. The ECB cut rates again by a quarter-percent to 2.50%, which also helped with sentiment. While the continued high uncertainty about U.S. trade and defense policy toward Europe kept tensions high, this seems to have also prompted a response of stronger European government cohesion—leading to a greater comfort with stimulus and debt. In response, long-term yields have risen, as increased fiscal spending (primarily in Germany) is assumed to raise economic growth and debt levels overall, and lessening the need for a long stretch of ECB cuts. However, the pressure of a trade ('phenomenal uncertainty' as the ECB put it) and geopolitical uncertainty nearby with Ukraine remains high. Elsewhere, the China's National People's Congress began their meetings last week, setting the country's GDP growth target at 5%, as expected, and announcing more forthcoming stimulus intended to boost consumption—one of their primary goals for the coming year.

Specifically in Germany, hopes for substantial fiscal easing have risen after their recent election. In fact, this was via a change in economic attitude thought to be one of the most significant policy shifts since West and East Germany were reunified in 1990. Proposed legislation would ease a conservative balanced budget approach over the last several decades by allowing more debt and spending upwards of up to €1 trillion over 10 years for infrastructure, in addition to more for defense, and allow states to run small deficits as well. Some of this was driven by the U.S. insistence on Europe contributing more funds to its own regional security, but also several years of economic stagnation compared to the rest of Europe, which has begun to the corner toward growth. This change in approach has led to an improvement in sentiment, with hopes of allowing the continent's largest economy to catch up a bit. (Ironically, equities in Spain and Italy, which suffered from structural, debt, and growth woes not that long ago, have outperformed the S&P 500 since year-end 2022. This is another reminder that current economic conditions and stock results don't always go together, with improvement more important than level.)

Bonds fell back overall as yields ticked higher. Contrary to the start of the year, the 10-year U.S. Treasury note has retreated from earlier highs, with the 10y-3m again slightly inverted (the 10y-2y segment remains positive). High yield and senior bank loans slightly outperformed investment grade debt in the U.S. Foreign bonds were mixed, with the decline in the dollar pushing unhedged local currency bonds

higher by a few percent over hedged, the latter of which fell back as German yields rose substantially (by nearly 0.5% in a few days) along with the earlier-mentioned news.

Commodities were mixed for the week, with gains in both industrial and precious metals, offset by declines in energy and agriculture. Crude oil fell by nearly -4% last week to \$67/barrel, as the OPEC+ group decided to gradually increase output starting in April, in addition to the tariff policy announcements that continued to create uncertainty about upcoming expectations for energy demand. Natural gas prices spiked again upon another bout of late-winter cold weather and summer supply concerns.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.