Summary

Economic data included consumer and producer price inflation that came in a bit cooler, and better than expected, although the trend remains above target. Jobless claims fell, despite stress about federal layoffs and carryover to the private sector. A low point was consumer sentiment, now showing bipartisan distress, along with heightened inflation expectations.

Equities fell again last week around the world, with continued tariff uncertainty. Bonds were little changed, with governments outperforming corporates. Commodities were mixed, with gains in metals and little change in crude oil.

Economic Notes

(0/+) The **Consumer Price Index** for February rose by 0.2% at a headline level, a tenth below expectations, as did core inflation, removing food and energy. Some of the inflation 'problems' in the January report, including new year price adjustments and other seasonal factors, appeared to fade a bit. Overall, energy commodity prices (including gasoline) fell nearly a percent in the month to pull down the headline number, although that was offset a bit by higher natural gas prices. Within the core segment, price gains came from used cars/trucks (0.9%), apparel (0.6%), appliances, and jewelry. On the other hand, rent and owners' equivalent rent continued to show more tempered results at just below 0.3%. Price declines were seen in airline fares (-4%) and new vehicles (-0.1%). The current mascot of the country's inflation problem, eggs, rose a seasonally-adjusted 10% for the month and 60% on a year-over-year basis, although that's more related to bird flu than the economic policy.

Year-over-year, headline CPI decelerated by two-tenths of a percent to 2.8%, as did core CPI to 3.1%. In interesting alternative measures that exclude housing costs (which rose nearly 4% for the year again), 'all items less shelter' rose at a 2.0% rate for the year, and 'all items less food, shelter, and energy' rose was a similar 2.2%. By segment, services prices rose 4%, offset a bit by non-durable goods up just over 1% and outright deflation in durable goods of -1%. This report was seen as showing decent progress, as progress continues, at a few tenths at a time. There are compositional differences between consumer price index data and that of the Fed's preferred measure of core PCE—core CPI has tended to run at a perpetual pace of roughly 0.25-0.50% higher. CPI remains too high for comfort, but further progress appeared to reassure investors and consumers, who have been skittish about the potential impacts of the administration's tariff policies on inflation.

(+) The **Producer Price Index** was unchanged at a headline level for February, while core PPI, ex-food and energy saw a decline of -0.1%—both were well below the 0.3% expected for each. Year-over-year, headline PPI decelerated by -0.5% to 3.2%, while core PPI increased 3.4%. Final demand goods prices rose by just under 2%, while services prices remained robust with a 4% increase. Despite the past month, PPI has risen in recent months, with a continued uncertain impact from tariff and trade policies, which affect producers (which have to choose to absorb these costs or pass them through) before they do consumers.

(-) The preliminary **Univ. of Michigan index of consumer sentiment** for March fell by -6.8 points (-11%) to 57.9, well below expectations calling for 63.0. Assessments of current conditions fell by only -2 points, while expectations for the future fell by nearly -10 points. Inflation expectations for the coming one year rose by 0.6% to 4.9%, versus expectations for no change. Those for the next 5-10 years also rose, by a sizeable 0.4% to 3.9%. If that latter inflation assumption holds through the final report, it would mark the strongest monthly increase since that measure was introduced the early 1990s. The overall sentiment index has seen a drop of -27% over the past year, and -22% from the end of December, as consumer moods continue to sour in the wake of uncertain government trade policies. This is especially the case as the pros and cons of tariffs have been hard to understand for many consumers, who appear to have assumed the worst. More specifically this month, the survey sponsors noted that a drop in sentiment was broad across a variety of economic indicators, as many noted “the high level of uncertainty around policy and other economic factors,” as well as a more recent change that those “from all three political affiliations are in agreement that the outlook has weakened since February.” Democrats were the dourest, but the outlook for Republicans and Independents has now fallen as well. While early in the new administration’s term, the political relevance for this type of data are the potential ramifications on 2026 mid-terms, which have often gone against incumbents if policies (and results) end up being too unpopular or recession-causing—but the latter is not the base case at this point.

(0) The **JOLTS** job openings report for January showed a gain of 232k to 7.740 mil., above the median forecast calling for 7.600 mil., although it featured a downward revision for the prior month. Job gains were highest in trade/transports/utilities (149k) and finance (122k), while declines were most pronounced in professional/business services (-122k) and leisure/hospitality (-46k). The job openings rate rose by 0.1% to 4.6%, while the hiring rate was flat at 3.4%. On the departure side, the layoff rate fell by -0.1% to 1.0%, and the quits rate rose by 0.2% to 2.1%. Those labor metrics all moved in a positive direction. Interestingly, the federal government hiring and layoff rates also improved, although recent DOGE activity wasn’t reflected in January data for the most part.

(+) **Initial jobless claims** for the Mar. 8 ending week fell by -2k to 220k, below the 225k median forecast. Continuing claims for the Mar. 1 week also fell, by -27k to 1.870 mil., below the 1.888 mil. expected. Claims rose a bit in CA, but were more than offset by declines in NY. Separately-reported federal worker claims appeared to decline a bit, and remained low overall, despite the headlines surrounding DOGE. Nothing in the report points to underlying layoff stress at this time.

Market Notes

Period ending 3/14/2025	1 Week %	YTD %
DJIA	-2.98	-2.10
S&P 500	-2.23	-3.85
NASDAQ	-2.40	-7.93
Russell 2000	-1.45	-8.11
MSCI-EAFE	-1.11	9.41
MSCI-EM	-0.74	4.46
Bloomberg U.S. Aggregate	-0.06	2.08

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
3/7/2025	4.34	3.99	4.09	4.32	4.62
3/14/2025	4.33	4.02	4.09	4.31	4.62

U.S. stocks were down for the fourth straight week, having started negatively out of the gate, with the S&P 500 down nearly -3% on Monday. This was as investors absorbed the possibility for additional and sustained tariffs, in addition to signs of a slowing economy (with a major investment bank lowering their 2025 estimate again, to just below-trend GDP) and Friday representing the debt ceiling deadline for 'extraordinary measures' (behind-the-scenes accounting shifts) after the debt limit was hit in January. Taken as a whole, the underlying worry is that the administration's policies are causing more harm than expected. In a media interview the prior weekend, the President referred to the current situation as "a period of transition" and refused to rule out a near-term recession, noting that the stock market isn't something that should be watched as a gauge of policy success, which was obviously not reassuring to many investors (who tend to watch the stock market). After some back and forth on Canadian steel and aluminum imports, a cooler-than-expected CPI report helped sentiment by mid-week, although volatility about the end game for tariffs continued. To end the week, it appeared the chances of a U.S. government shutdown had fallen, removing one element of uncertainty from investors' minds (although shutdowns have tended to be non-events for the stock market).

By sector, energy and utilities saw the only gains for the week, while declines were most pronounced in consumer discretionary (across the board, but especially Tesla, which has suffered some politically-driven pushback) and communications services. Real estate also fell a few percent, along with some concerns about the economy.

During the week, the S&P 500 reached official -10% market correction territory. Corrections can be a self-fulfilling prophecy at times, once negative momentum begins, but the magnitude and stopping point has been historically based on the severity of the underlying economic situation in most cases. As usual, it's divided the future path into two camps—recession or no recession. Many mainstream economists agree that current underlying conditions remain healthy, with recent market volatility a symptom of trade policy uncertainty (and high starting valuations for growth stocks) more than a problem of a weakening foundation. In fact, there have been 12 S&P 500 corrections of -10% since 1990 without a recession. This can be seen most directly in the bond market, where the lack of significant spread widening points to a similar lack of concern about fundamentals. Normally, in more dramatically deteriorating conditions, credit spreads have tended to widen in conjunction with stock market weakness.

Foreign stocks were also down for the week, albeit to a lesser degree than the U.S., with the sharpest drops in Europe of only about a percent. The negative components were related to possible trade effects with the U.S., although hopes for a Ukraine-Russia ceasefire persist, in addition to assumed positive effects from fiscal stimulus in Germany. However, the uncertainty yet also stronger growth cast doubt about another ECB rate cut in April.

Bonds were flattish last week, along with little change in U.S. Treasury yields. Corporates underperformed, with credit spreads widening, along with weakness in risk assets overall, more so in high yield. Foreign developed market bonds were also little changed, with more volatility in emerging market debt.

Commodities were mixed for the week, with gains in precious metals and industrial metals, while energy and agriculture fell back. Crude oil prices were little changed last week, remaining at $67/barrel. Gold rose above $3,000/oz. with strong buying due to political policy uncertainty, coupled with strong central bank buying (largely from the Far East, to some degree in efforts to diversify away from financial assets and systems that could be potentially subject to sanctions from the West).

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

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, Payden & Rygel, 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.