

Summary

Economic data included a slight upgrade to U.S. GDP for Q4, and positive news for durable goods orders and a variety of real estate sales and price data. However, consumer sentiment took another dip downward, due to high uncertainty about trade policy.

Equities fell around the world, with concern about upcoming trade policy and weakening consumer sentiment. Bonds were flattish with sticky inflation offsetting a usual risk-off response. Commodities were mixed, with energy prices a bit higher.

Economic Notes

(+) The final U.S. real **GDP** release for Q4-2024 was upgraded slightly, by a tenth of a percent to a final figure of 2.4%. This featured a small revision downward to consumption but upward revisions to residential investment and government spending. By sector, the strongest growth in the quarter originated from real estate rental/leasing, professional/scientific/technical services, health care/social assistance, and state/local governments—all of which provided a 1.3% contribution to the total figure. On the detracting side were 'other' services, trade, and durable goods manufacturing, which pulled a few tenths off of the total. The PCE inflation measures for the quarter were little changed from prior estimates. Nominal GDP growth, not reduced for inflation, came in at 4.8%, largely within range of the past two years. This is often a number used to track how closely the 10-year U.S. Treasury note is to its fair value, of sorts.

The Atlanta Fed's **GDPNow** measure for Q1-2025 has remained negative at -2.8%, after having improved slightly for a few weeks. As we've noted previously, the negative trajectory was due to both industrial supply hoarding by U.S. manufacturers in advance of possible tariffs, as well as sizable gold shipments (not huge in physical size, but no doubt expensive), resulting in a contribution of net exports of -4.8% (removing that piece, the other groups, such as consumer spending, government spending, investments, etc., sum to a positive 2.0% growth level). This has altered the usually-reliable measure as we come to the end of the 1st quarter, so the Fed provided a 'gold-adjusted' GDP figure, which they peg at -0.5% (net export impacts other than gold are still included). The second quarter estimates from Wall Street economists remain similar to the calculation excluding net exports, at around 1.5-2.0% or so. While recession odds have risen from anywhere from a quarter to even a third by some calculations, there remains a base of still-decent underlying fundamentals.

(0) **Personal income** rose by 0.8% in February, twice the expected 0.4%, with the primary gains in rental income and transfer receipts (the latter being government health insurance-related). **Personal spending** rose by 0.4%, a tenth below expected, led by gains in goods as opposed to most services, although the latter was led by higher spending on things like financial services/insurance and health care. However, for the full year, service growth continues to dominate. The personal saving rate rose by 0.3% to 4.6%. For the past year, income and spending each rose a rounded 5%. Headline **PCE** inflation rose 0.3%, while core PCE ex-food and energy increased 0.4%, each a tenth above expectations. Year-over-year,

headline and core PCE rose by 2.5% and 2.8% respectively. While inflation conditions didn't get worse, the lack of improvement was also a bit disappointing to investors.

(-) The preliminary **S&P Global US manufacturing PMI** release for March showed a drop of -2.9 points to 49.8, below the 51.7 expected, and taking the index back into contraction. The underlying data showed weakness as well, with output, employment, and new orders each down several points, although new orders remained slightly in expansion.

(+) The corresponding **S&P Global US services PMI**, however, rose by 3.3 points to 54.3, beating the expectations for no change at 51.0 and extending the index further into expansion. The underlying components included gains in new business and employment, which rose a few points. As with the manufacturing survey, input and output prices rose, which was attributed to the impact of tariff policies.

(+) **Durable goods orders** for February rose by 0.9%, exceeding the -1.0% decline expected, but a deceleration from the sharp gain in January. Removing transportation trimmed the gain slightly to 0.7%, as a decline in non-defense aircraft/parts of -5% was offset by growth in motor vehicles/parts (up 4%, the biggest month in several years), defense aircraft, and metals. Core capital goods orders fell by -0.3%, while core capital goods shipments rose by 0.9% for the month. Year-over-year, overall new orders were up 2.3%. Recent data was likely skewed by companies attempting to navigate governmental uncertainty coupled with a desire to pre-empt any possible higher tariffs (especially in autos, with a substantial Mexico and Canada cross-border impact).

(+) The **S&P Case-Shiller 20-city home price index** rose by 0.5% in January on a seasonally-adjusted basis, but 0.1% without seasonal adjustment. Year-over-year, the index re-accelerated by 0.2% to 4.7%. For the trailing year, New York, Chicago, and Boston recorded the strongest gains (of 6% to 8%), while prices in Tampa fell by over a percent.

(+) The **FHFA house price index** rose by 0.2% in January on a seasonally-adjusted basis, with West North Central (ND south to MO) up a percent, and South Atlantic (DE/MD south to FL) down around a percent. Year-over-year, the national index rose by 4.8%. Over that full year, gains were led by the Mid Atlantic (8%, NY/NJ/PA) and New England (7%, CT north), while the West South Central (-2%, OK/AR/TX/LA) was the laggard. While a broader national index, the tendencies were largely the same as seen in the Case-Shiller, with home prices exceeding the pace of inflation due to lack of supply still a key factor.

(0/+) **New home sales** rose 1.8% in February to a seasonally-adjusted annualized rate of 676k, partially reversing the sharp decline of the prior month (even after revisions) but still fell below the 3.5% median forecast. By region, the South and Midwest saw gains, while sales fell sharply in the West. The median new home price was down over -1% over the past year to \$414,500, and down -10% from the fall 2022 peak, but this has come along with smaller home sizes to accommodate still-low affordability. Months' supply fell to 8.9 for the month, as sales rose.

(-) The Conference Board's **index of consumer confidence** fell by -7.2 points in March to 92.9, below the 94.0 reading expected, and reaching the lowest levels since Jan. 2021. While assessments of the current situation fell by -4 points, expectations for the future fell an even more substantial -10 points. The labor differential ticked up slightly, pointing to a small change in jobs being easier to get than the prior month. Inflation expectations for the next 12 months rose by 0.4% to 6.2%, which was the highest in two years, with consumers specifically noting concern about the potential impact of tariffs. While consumer confidence surveys are considered 'soft' data, not 'hard' economic statistics, financial markets fear a change in potential consumer behavior from carefree easy spending to a more guarded pulling back, which is seen as risking a downward spiral even into recession if it continues for long enough.

(-) The final **Univ. of Michigan index of consumer sentiment** for March largely reiterated the earlier preliminary estimate of a -7.7 point drop to 57.0—the lowest level in three years. This represented a -12% drop for the month and year-over-year decline of -28%. While assessments of current conditions were less meaningfully changed, expectations for the future fell more substantively. Inflation expectations for the coming year stayed high at 5.0%, as did those for the next 5-10 years at 4.1%. The commentary from the survey sponsor noted the negative tone, with the deterioration not only emanating from Democrats and independents, but also apparently a greater number of Republicans, which is more of a recent change. All groups “continue to worry” about the “potential for pain amid ongoing economic policy developments.” It was noted that two-thirds of consumers expect rising unemployment in the next year, which was the poorest showing since 2009. The negative market reaction to this soft data was based on the continued potential for consumers pulling back from their strong spending, which has been one of the key pillars of economic growth in recent years. However, at the same time, Fed Chair Powell himself noted the frequent incongruence of sentiment with action in the last press conference, in that consumers are “saying very downbeat things...and then going out and buying a new car.”

(0/+) **Initial jobless claims** for the Mar. 22 ending week fell by -1k to 224, below expectations for an unchanged 225k. Continuing claims for the Mar. 15 week fell by -25k to 1.856 mil., below the expected rise to 1.886 mil. Claims rose by the largest amounts in the largest states, so there were few outliers for the period, with separately-reported Federal claims remaining contained. Overall, claims continue to point to a healthy labor market with no widespread private sector layoff activity.

Market Notes

Period ending 3/28/2025	1 Week %	YTD %
DJIA	-0.96	-1.85
S&P 500	-1.52	-4.81
NASDAQ	-2.59	-10.15
Russell 2000	-1.62	-9.02
MSCI-EAFE	-1.05	9.11
MSCI-EM	-0.87	4.73
Bloomberg U.S. Aggregate	-0.04	2.54

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
3/21/2025	4.33	3.94	4.00	4.25	4.59
3/28/2025	4.33	3.89	3.98	4.27	4.64

U.S. stocks began Monday positively, up nearly 2% upon hints that the President may back off the more extreme tariff measures on April 2, now only days away. However, by Wed., potential new tariffs on non-U.S. autos and auto parts soured the mood again, as did weakened consumer confidence as the result of policy uncertainty. Last week proved to be just another example of how closely financial markets are reacting to trade news above all else at this point, with some well-known firms issuing continued revisions upward for expected net tariff rates. By sector, stocks saw gains in more defensive consumer staples as well as energy, while technology and communications saw the sharpest declines. Real estate earned a small gain for the week.

Foreign stocks fell to a similar degree as U.S. stocks, with only the U.K. showing a minor gain, while Japan fared a bit worse than Europe. Concerns were largely as in the U.S.—the potential impact of the upcoming tariff deadline this coming week and still-clear implications on foreign trade changes in a variety of industries, including autos. However, as seen in the MSCI EAFE performance year-to-date, there have been rising signs of a more positive shift in sentiment for international stocks. This has come with moves toward more deficit spending that could act as a catalyst for economic growth, which has been sorely lacking in recent years, and explained foreign stock sub-par valuations to some degree.

Bonds were mixed for the week, with U.S. government outperforming corporate as spreads widened slightly. High yield lost a bit of ground, while floating rate gained. Foreign developed market bonds earned small gains, while emerging markets lost ground as investors inched away from risk.

Commodities were mixed, with gains in precious metals and energy, offset by declines in industrial metals and agriculture. Crude oil rose over a percent last week to \$69/barrel, with prices remaining within a trading range and a balance of supply and demand factors generally.

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, 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.