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Investment Institute

Market Commentary

Weekly perspective on current market sentiment March 19, 2025


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Last week's S&P 500 Index: -2.3%

Points to consider

Key takeaways

- **Clearly there is much uncertainty filtering through the financial markets, especially over the past three weeks of trading. The pullback in equities offers an opportunity.**
- **Our outlook is why we adjusted our investment guidance last week and moved funds out of bonds and into stocks.**

Clearly there is much uncertainty filtering though the financial markets, especially over the past three weeks of trading. Tariffs along with federal job cuts are creating a lot of the uncertainty, and the media headlines are mostly inflammatory. It makes sense that investors are worried. Our goal has been to publish a series of reports to help investors keep perspective.

The first point we make is that tariffs and Department of Government Efficiency (DOGE) job cuts have costs and benefits. We believe the costs are very unlikely to push the economy into recession. Tariffs bring price increases, and some U.S. firms are already raising prices to their domestic customers. But tariffs don't affect U.S. firms uniformly, mainly because U.S. firms depend on imported raw materials and components to very different degrees. Some firms that rely on overseas suppliers can dodge tariff impacts by turning to alternate suppliers. That means price increases to U.S. households and businesses are likely to be moderate and spread out into increments. The companies most exposed to tariffs are those that lack flexibility in their supply chains. Many of these are foreign companies that operate in the U.S. but depend on components that must come from the company's home country.

We never want to minimize the cost to an individual worker of being laid off, but the overall economic impact of federal layoffs is likely to be small. Our point on federal budget cuts is that these are a small part of the overall labor market as the domestic workforce stands at approximately. And, fortunately, other federal consolidations of similar size to today's occurred under Presidents Clinton and Obama. After these, 50% of those laid-off workers got private-sector jobs and most of the rest ended up either in state or local governments or elsewhere in the federal government (Oxford Economics, February 28, 2025).

Likewise, the benefits also look small. Our reports show historically that tariff revenue started strong but tended to fade quickly as firms and households found alternative goods to buy. It's human nature to adjust. Similarly, laying off federal workers doesn't necessarily change the funds available to agencies. That money is allocated by Congress, and any savings would have to be ratified by Congress.

Another important point is that we believe the apprehension about policy is very unlikely to create a recession. Our work reports that the labor market is in solid shape and that household income and credit are healthy enough to drive further spending. We think the economy will grow a little more slowly than in 2024, but the consumer and the labor market look more like their averages of the past 15 years than a prelude to a recession.

Finally, market sentiment is starting to look washed out. Friday's bounce was instructive too as greater than 90% of S&P 500 members advanced and Utilities, real estate investment trusts (REITS), and Financials were sector leaders, suggesting credit ions are in ok shape and the market isn't worried about rates getting too high.

These views are why we adjusted our investment guidance last week. We favor taking capital from intermediate-term fixed income into mid-cap equities. Second, we expect the upcoming budget negotiations to be difficult and that should create fixed-income volatility at the long end of the curve. So, to help preserve client assets, we favor moving capital out of long-term debt into short term.

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