

WEEKLY INSIGHT

March 21, 2025

Equities Bounce Back on Dovish Fed Comments

Equities bounced back slightly with gains of 1.4% on the S&P 500. The NASDAQ provided the smallest upside at just 0.6%. Domestic small caps, foreign developed, and emerging markets led the way with gains exceeding 2.0%. At the sector level, transports and consumer discretionary have been the weakest over the past 30 days. Energy and health care have fared the best with flat performance.

Economic data was a mixed bag on the week:

- Jobless claims remain low at 220,000.
- Retail sales came in better than expected.
- Building permits continue to languish in a weak housing market.
- University of Michigan Consumer Sentiment Index hit its lowest level since 2022.

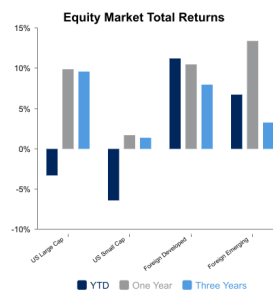
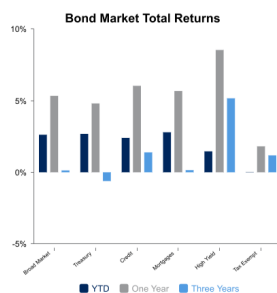
The Fed is Ready to Look Though Tariff-Related Inflation

The Federal Reserve left the Federal Funds rate unchanged at 4.5%. The committee lowered their 2025 growth forecast, increased their inflation forecast and maintained the expectation of two cuts in the calendar year. When asked about the higher inflation forecast, Fed Chair Powell did note they have it returning to 2.0% in 2027. This would be seven years after it was first deemed to be transitory. The Fed has never wavered in maintaining the 2.0% inflation target but has continually pushed out the year in which it will be achieved.

Some questioned whether the Fed was in a box this meeting given elevated inflation readings and tariff uncertainty, but Powell brought back “transitory.” He said they would look through tariff related inflation as a one-time event. He noted that even though they got the COVID inflation wrong, it is the correct policy to ignore transitory inflation. The Fed also reduced the amount of balance sheet run-off, which further helps liquidity at the margin. Everyone loves to debate whether it was a hawkish or dovish meeting, but we have a Fed that is seven years late on their inflation target and now plans to look through tariff related inflation. Equities have moved higher post meeting, and the 10-year Treasury is about 12 basis points lower.

Tariffs Ready to Take the Spotlight

Reciprocal tariffs start April 2 and have been continuously reinforced by various members of the administration. Over the weekend, the Treasury Secretary said each country will receive a tariff number that matches tariffs levied against the United States plus an add-on that reflects non-tariff barriers, currency manipulation, unfair funding, labor suppression, etc. Some will be high and some will be low. Their hope is to get countries to reduce these barriers immediately, but recent reaction functions have seen foreign leaders fight back with more tariffs, not less and they have been rewarded with higher poll numbers.



Interest Rates (%)	Current	12M Ago	3YR Ago
Fed Funds Rate (Upper b)	4.50	5.50	0.50
3-Month T-Bill	4.29	5.38	0.37
10-Year Treasury	4.24	4.27	2.15
30-Year Treasury	4.55	4.45	2.42
10-Year Corporate AA	5.10	5.16	2.09
10-Year High Yield Corp.	6.56	6.62	3.90
Commodity Prices (\$)	Current	12M Ago	3YR Ago
Gold (\$/oz)	3,048	2,185	1,922
Oil (WTI, \$/barrel)	67.16	81.68	104.70
Currencies	Current	12M Ago	3YR Ago
USD (Dollar Index Spot)	103.43	103.39	98.23
USD/EUR	0.92	0.92	0.90
USD/JPY	148.69	151.26	119.17

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