

WEEKLY INSIGHT

March 6, 2025

Equity Markets – A Rocky Road Despite Strong Fourth Quarter Earnings

Equity markets fell during the week as uncertainty over the impact of tariffs and lofty valuations caused investors to become more wary. The S&P 500 Index fell 1.9%, while the NASDAQ Composite dropped 2.7%. The Magnificent 7 fell 3.0%. Small caps dropped 3.1% for the week. Bond indices were essentially flat during the week. Year-to-date, value stocks are outperforming growth stocks, a reversal of 2023 and 2024.

GDP and Inflation Metrics in Line with Expectations

The second print of fourth quarter Gross Domestic Product (GDP) quarter over quarter (Q/Q) released this week was in line with expectations (+2.3%) as economic activity slowed from the prior quarters of 2024. Forecasts are calling for GDP growth for calendar 2024 of +2.8% and more moderate growth in 2025 of +2.3% and +2.0% in 2026.

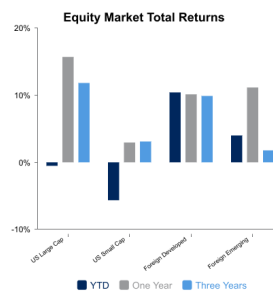
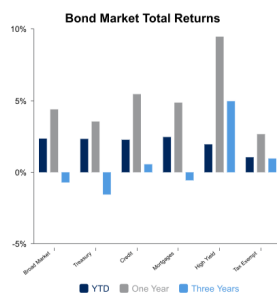
A key inflation metric used by the Federal Reserve, the core PCE deflator, which excludes the volatile food and energy categories, came in as expected at 2.6%, lower than the previous month of 2.9%. Personal income for January came in higher than expected, while personal spending for January came in lower than forecasted. The Federal Reserve has indicated more evidence of subdued inflation is needed before any rate cuts will be announced.

Manufacturing activity in the month of February, as measured by the ISM Manufacturing metric, declined slightly from the prior month, however, still maintaining its “expansion” mode status after being in “contraction” mode for 26 consecutive months. While it is a smaller part of the economy than the services segment, manufacturing remains a sizeable part of the economy. There remains uncertainty in the Manufacturing sector regarding the potential impact of the announced tariffs.

Very Strong Fourth Quarter Earnings Season

Fourth quarter earnings season has been generally very strong. With 96.0% of companies in the S&P 500 reporting earnings, almost 75% have beat analysts’ expectations. Year-over-year earnings growth in the S&P 500 for the fourth quarter is expected to be almost 17.0%, significantly higher than forecasted earlier in the year. The Financials and Communications sectors provided the highest earnings growth in the fourth quarter. Calendar year 2025 earnings growth is forecasted to be 10.8%, which is lower than earlier forecasts, as analysts have tempered their earnings growth forecasts, and a number of companies have lowered their earnings outlook for calendar year 2025.

Foreign developed equity markets have outperformed United States equity markets year-to-date. Upwards earnings revisions for the MSCI EAFE index for 2025, 2026 and 2027 have outpaced downwards revisions, a reversal from United States equity markets where downwards earnings revisions have outpaced upwards revisions, as analysts have become more conservative regarding earnings growth in domestic markets.



Interest Rates (%)	Current	12M Ago	3YR Ago
Fed Funds Rate (Upper)	4.50	5.50	0.25
3-Month T-Bill	4.30	5.39	0.31
10-Year Treasury	4.28	4.10	1.73
30-Year Treasury	4.57	4.24	2.16
10-Year Corporate AA	5.10	5.05	2.09
10-Year High Yield Corp	6.47	6.64	3.90
Commodity Prices (\$)	Current	12M Ago	3YR Ago
Gold (\$/oz)	2,919	2,748	1,971
Oil (WTI, \$/barrel)	66.31	79.13	115.68
Currencies	Current	12M Ago	3YR Ago
USD (Dollar Index Spot)	104.28	103.37	98.65
USD/EUR	0.93	0.92	0.91
USD/JPY	148.88	149.38	114.82

Keith Akre, CFA, CFP
Director of Trust &
Investment Services
(815) 748-1443

Mary Phelan, CTFA
Senior Trust Officer
(815) 748-1607

Carolyn Walsh, CTFA
Trust Officer
(815) 748-1640

Carrie Thompson, JD
Trust Officer &
Legal Counsel
(815) 748-5012

Stacia Little
Trust Officer
(815) 748-1609