CORRIGAN FINANCIAL, INC.

Market Update: March 2025

Domestic stock market values declined by nearly 6% in March, and ended down just shy of 5% for the quarter. In fact, all three major indexes – S&P 500, Dow Industrials, and Nasdaq Composite – were down in each of the past two months.

> **Entering 2025, investors once again sang the chorus of U.S. exceptionalism. Driven by optimism around AI innovation from mega-cap tech and hopes of pro-business policies, they wondered – why look anywhere else? Yet two risks quietly played in the background: extreme market concentration and stretched valuations … markets soared to new highs by mid-February, then the chorus changed. Policy uncertainty – from tariff whipsaws to fears of mass federal layoffs – triggered a rapid correction.**
>
> **J.P. Morgan Asset Management – Market Insights 3/24/25**

The S&P 500 actually entered "correction territory", defined as a 10% fall from a previous high, when the index declined 10.1% from February 19 to March 13. The fall, which happened over 16 trading days, was the fastest *correction* since the *Covid-collapse* in February 2020. Still, corrections happen quite a bit, as there have been four other corrections since then.

> **Corrections aren't uncommon, and they don't usually last all that long. The silver lining of any correction is that stocks go on sale, at least relative to what they cost before the selloff … Whether investors decide to go shopping will determine the direction of stocks from here.**
>
> **Alex Eule – Barron's 3/13/25**

With tech stocks faltering and the dollar on the decline, investors found relief from foreign stocks and global bonds, which were up 5.23% and 2.53%, respectively, during the past three months. For all the commotion, investors holding a diversified portfolio would have experienced only modest losses or possibly slight gains for the quarter.

The Federal Reserve elected to hold its benchmark federal-funds rate steady during its March policy meeting. Given the numerous policy changes by the Trump administration … trade, immigration, spending, and taxes … the Fed has adopted a *wait-and-see* mindset.

> **We think it's a good time for us to wait for further clarity.**
>
> **Fed Chair Jerome Powell – WSJ 3/19/25**

Recent economic data has been mixed, with household spending on the decline while the job market remained solid. Policymakers now expect U.S. GDP to expand at a rate of 1.7% in 2025, down from December's 2.1% projection. Although the Fed raised its inflation forecast in response to rising tariffs, it still is expected to cut rates twice this year.

> **The market will still have to deal with tariffs, the most likely source of recent volatility. Lingering worries that the Fed may be on the sidelines for longer haven't helped, though. If Powell decides to take the wheel and steer toward lower rates, there's still time to dodge the bear in the road.**
>
> **Paul R. La Monica – Barron's 3/28/25**

The University of Michigan's headline index for consumer confidence came in at the lowest level since 2022. The March survey reported that two-thirds of consumers expected higher unemployment in the next year … the highest reading since 2009. The survey found households and businesses worried about the effects of tariffs and federal layoffs.

The Conference Board's March headline survey also fell during the month, the fourth straight month of declines. The measure of future expectations actually dropped to the lowest level in 12 years. Overall, it's safe to say that the mood among consumers, investors, and businesses has deteriorated sharply over the past couple of months.

> **Analysts have been keeping a close eye on consumer surveys because of fears that a gloomy mood could presage a real economic downturn. So far, there has been scant sign of a downturn in backward-looking data, such as the unemployment rate and GDP figures, that show what has actually happened in the economy.**
>
> **Matt Grossman – WSJ 3/25/25**

It may not only be about tariffs and inflation … it could also be about dwindling levels of cash. According to Bank of America Institute data, checking and savings deposit balances across all income levels have declined over the twelve months ended February. Also, Americans' inflation-adjusted debt balances are now surpassing pre-pandemic levels. The average household's credit-card debt recently surpassed $10,000, adjusted for inflation, for the first time since 2009.

> **What this means is that consumers generally are less able to absorb shocks, just as uncertainty is soaring. It's hard to blame them for turning cautious, even if that means the economy suffers.**
>
> **Jinjoo Lee – WSJ 3/12/25**

The Labor Department reported that inflation cooled in February, with consumer prices up 2.8% from a month earlier, less than the 3% gain in January. Economists had expected a 2.9% gain. Core prices, which exclude food and energy categories, rose 3.1% … the lowest year-over-year reading since 2021. However, the Fed's preferred measure (the core personal consumption expenditures price index) came in higher than expected at 2.8% year-over-year … suggesting that inflation remains somewhat sticky.

> **While consumer fundamentals remain healthy, preemptive inflation anxiety appears to be weighing on consumer morale and their willingness to spend, with sentiment gauges plunging and inflation expectations rising.**
>
> **Lydia Boussour, EY Senior Economist – Barron's 3/28/25**

With inflation lower in Europe than in the U.S., the European Central Bank has cut rates twice this year. Meanwhile, countries across Europe have announced significant increases in military spending to counter Russian threats. Germany is leading the way with a massive trillion-dollar spending plan for civilian and defense investments.

> **The German spending plan marks a U-turn for Berlin, which for years preached fiscal discipline to its European neighbors while letting its military atrophy for lack of investment.**
>
> **Bertrand Benoit – WSJ 3/22/25**

China's economic results to start 2025 remain mixed at best. Retail sales, investment, and industrial production exceeded expectations, but unemployment rose to a two-year high. Consumer prices declined, reflecting China's struggle with deflationary pressures, while the real-estate sector continued to be a burden. Property investment fell 9.8% on an annual basis over the first two months of the year, and new construction starts declined by 30% compared to the prior year.

> **Many economists say a sustained recovery in China's property market is essential to repairing consumer sentiment and increasing spending, given how important real estate is to household wealth levels in the country.**
>
> **Hannah Miao – WSJ 3/16/25**

Tariffs and other trade barriers can do both economic and diplomatic damage. At the beginning of the month, there were a total of 4,650 import restrictions in force among the Group of 20 leading economies (a forum of 19 countries and the European Union). That is nearly 10 times the number of restrictions in force at the end of 2008.

> **For many rich nations, services are more important than goods, and central banks and governments have learned valuable lessons about stabilizing economies with stimulus. Still, widening trade conflict creates uncertainty for businesses and consumers, squeezing spending, investment and hiring.**

Douglas/Fairless – WSJ 3/24/25

Existing-home sales in the U.S. rose 4.2% in February from the prior month, according to the National Association of Realtors. Having more homes on the market helped, as inventory increased by 5.1% from January and 17% from February 2024.

From a year earlier, sales are down 1.2% … breaking a four-month streak of year-over-year increases. The national median existing-home price in February was $398,400, up 3.8% from a year earlier. It was the highest median price for any February on record.

> **Low affordability for home buyers has been keeping market activity slow for the third straight year. Buyers are turned off by high home prices, elevated mortgage rates and rising costs in many areas for home insurance and property taxes. Homeowners with low mortgage rates have also been reluctant to sell, keeping the inventory of homes lower than normal and pushing prices up.**

Nicole Friedman – WSJ 3/20/25

Economic and policy uncertainty around tariffs and immigration are impacting builders, as 70% of building materials are imported and a third of construction workers aren't born in the U.S. On the other hand, builders are hoping to see some regulatory relief on zoning rules and permit fees.

> **In the medium term, improvements in housing affordability will come from a declining trend toward 6% mortgage rates, additional housing supply, and wage gains. The combination of those factors should produce some gradual improvements in housing affordability over the next four to five years.**

Robert Dietz, Natl Assoc of Home Builders – Barron's 3/20/25

After two very strong years of returns, investors seemed poised for yet another banner year. As for domestic equities … up to this point that hasn't materialized.

What's interesting is that market performance does not necessarily coincide with investor sentiment. For example, the S&P 500 returned 18.9% on average following the 10 worst years for market sentiment. On the other hand, for 9 out of the past 10 best years for market sentiment, annualized returns were 0.4% on average.

> **When it comes to the stock market, measuring confidence is like looking at the rearview mirror. Stare too hard and you're liable to run into a pothole, or worse.**

Spencer Jakab – WSJ 3/17/25

In January, a Goldman Sachs survey found the share of investors expecting the U.S. market to be the world's best-performing region was the highest ever recorded. I suppose we shouldn't be surprised that foreign markets have outperformed domestic markets by about 10 full percentage points during the first quarter.

Daniel G. Corrigan, CPA/PFS, CFP®