

# Market Flash Report

March 2025

## Key Takeaways

- **Growth Struggles:** US Large Cap performance suffered due to growth stock weakness, with the Russell 1000 Growth Index down -10% and the Magnificent 7 falling -16% for the quarter. Energy stocks emerged as sector leaders with over 10% gains, while Technology and Consumer Discretionary sectors lagged significantly, each declining more than 10%.
- **International Strength:** International equities delivered exceptional performance relative to US markets, marking one of the best comparative quarters since the early 2000s. European equities achieved their strongest relative performance since the mid-1980s, rising 10.5%, while Chinese equities surged 15%. This outperformance was supported by a nearly 4% depreciation in the dollar index during Q1.
- **Small Cap Challenges:** US Small Caps endured another disappointing quarter, contributing to the worst month of combined performance with US Large Caps since September 2022. Meanwhile, implied market volatility stands nearly double than where it was at this point last year, reflecting ongoing investor uncertainty.
- **Real Asset Rally:** Commodities and other real assets delivered impressive returns in Q1, with broad commodities gaining nearly 9%, gold surging 18%, and copper jumping over 25%. REITs and infrastructure also performed well, rising 2.75% and 5% respectively, while TIPs outperformed non-inflation protected treasuries and were up 4.2% for the quarter as re-inflation fears rose.

## Index Performance (as of 3/31/2025)

ARIZONA  
 CALIFORNIA  
 COLORADO  
 D.C. METRO AREA  
 FLORIDA  
 GEORGIA  
 MASSACHUSETTS  
 NEW JERSEY  
 NEW YORK  
 RHODE ISLAND  
 TEXAS  
 WASHINGTON  
 WYOMING  
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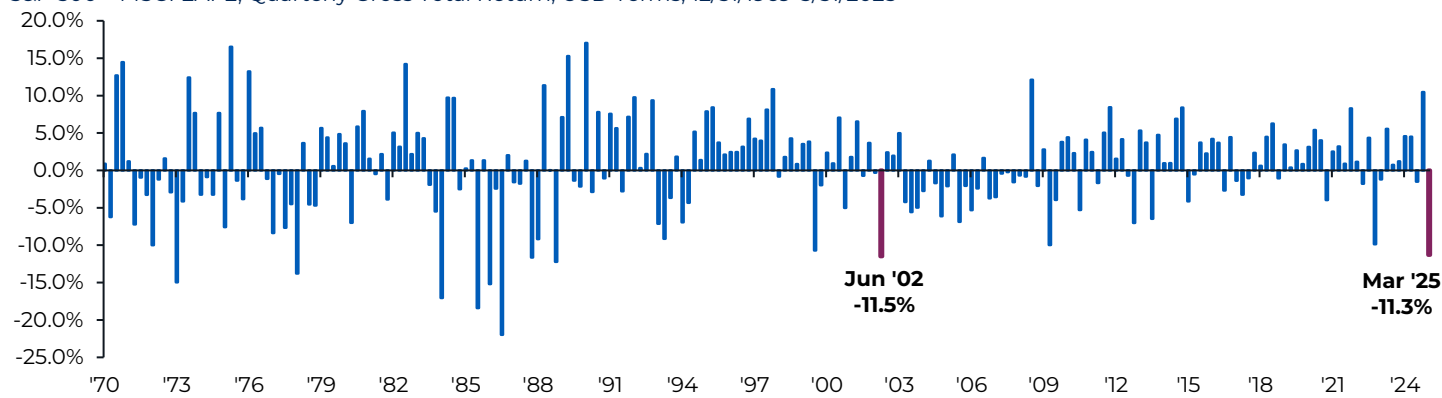
| Equity                 | Q1 2025 | One-Year | Three-Year |
|------------------------|---------|----------|------------|
| U.S. Large Cap         | -4.3%   | 8.3%     | 9.1%       |
| U.S. Small Cap         | -9.5%   | -4.0%    | 0.5%       |
| Developed Non-U.S.     | 7.0%    | 5.4%     | 6.6%       |
| Emerging Markets       | 3.0%    | 8.6%     | 1.9%       |
| Real Assets            |         |          |            |
| Real Estate            | 2.7%    | 9.2%     | -1.7%      |
| Infrastructure         | 5.0%    | 14.0%    | 3.3%       |
| Fixed Income           |         |          |            |
| <u>Core Plus</u>       |         |          |            |
| U.S. High Yield Debt   | 1.0%    | 7.7%     | 5.0%       |
| Emerging Market Debt   | 2.3%    | 7.4%     | 3.6%       |
| <u>Core Bonds</u>      |         |          |            |
| U.S. Aggregate Bonds   | 2.8%    | 4.9%     | 0.5%       |
| U.S. Treasuries        | 2.9%    | 4.5%     | 0.0%       |
| U.S. Municipal Bonds   | 0.7%    | 2.0%     | 2.0%       |
| Month-End Values/Yield |         |          |            |
| CBOE Volatility Index  | 22.3    | 19.6     | 13.0       |
| 10-Year Treasury Yield | 4.2%    | 4.2%     | 4.2%       |

## Quarterly Commentary

- **Fiscal Policy:** The first quarter of 2025 has been marked by significant fiscal turbulence under the Trump administration. Aggressive trade policies, including sweeping tariffs on major trading partners like Canada, Mexico, and China, have created an atmosphere of economic uncertainty. These tariffs have not only shifted the balance of international trade relations but also raised concerns about potential economic disruption. The administration's rapid policy shifts and executive orders have left businesses and investors on edge.
- **Monetary Policy:** Federal Reserve officials are treading carefully in this complex economic environment. Chair Jay Powell has repeatedly emphasized that the central bank is "not in a hurry" to cut interest rates, citing "unusually elevated" uncertainty. The Fed has adjusted its growth forecasts downward and lifted inflation outlooks, directly acknowledging the potential impact of the administration's trade policies. Their primary focus remains on maintaining economic stability while monitoring the potential inflationary pressures from new tariffs.
- **Labor Market:** The job market has shown remarkable resilience in the face of potential disruption. While job creation has slowed, the unemployment rate has remained relatively stable around 4.1%. However, there are warning signs, including federal government job cuts and rising unemployment fears among consumers. Increasing uncertainty puts the employment stability we have been enjoying in the U.S. at risk.
- **Consumer Sentiment and Spending:** Consumer confidence has taken a significant hit in Q1 2025. The University of Michigan's consumer sentiment index has dropped to its lowest level since 2022, with consumers expressing deep concerns about unemployment, inflation, and overall economic conditions. Retail sales have shown modest growth, but the underlying sentiment suggests consumers are becoming more cautious. The on-again, off-again nature of policy announcements has contributed to a growing sense of economic unpredictability.
- **Inflation:** Inflation remains a key watchpoint for economic observers. While the annual inflation rate has fallen to 2.8% in February, consumer expectations for future inflation have risen sharply. Consumers now anticipate prices to increase by nearly 5% in the next year, the highest level since 1993. The potential inflationary impact of new tariffs continues to loom large in economic discussions.
- **Outlook:** While the economic landscape of Q1 2025 presents significant challenges, there are reasons for moderate optimism. The underlying economic fundamentals remain resilient, with steady job creation and signs of adaptability. However, poor sentiment can be a strong driver of spending for individuals and companies. Investors and businesses must remain vigilant, carefully navigating the complex interplay of trade policies, monetary strategy, and global economic dynamics.

### US Markets Trail Global Peers in Q1 Amid Policy Uncertainty

S&P 500 – MSCI EAFE, Quarterly Gross Total Return, USD Terms, 12/31/1969-3/31/2025



Sources: Bloomberg, Pathstone, as of 3/31/2025

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You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved. Returns over one year have been annualized. Details of all indices reflected are described in the Disclosure page.

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