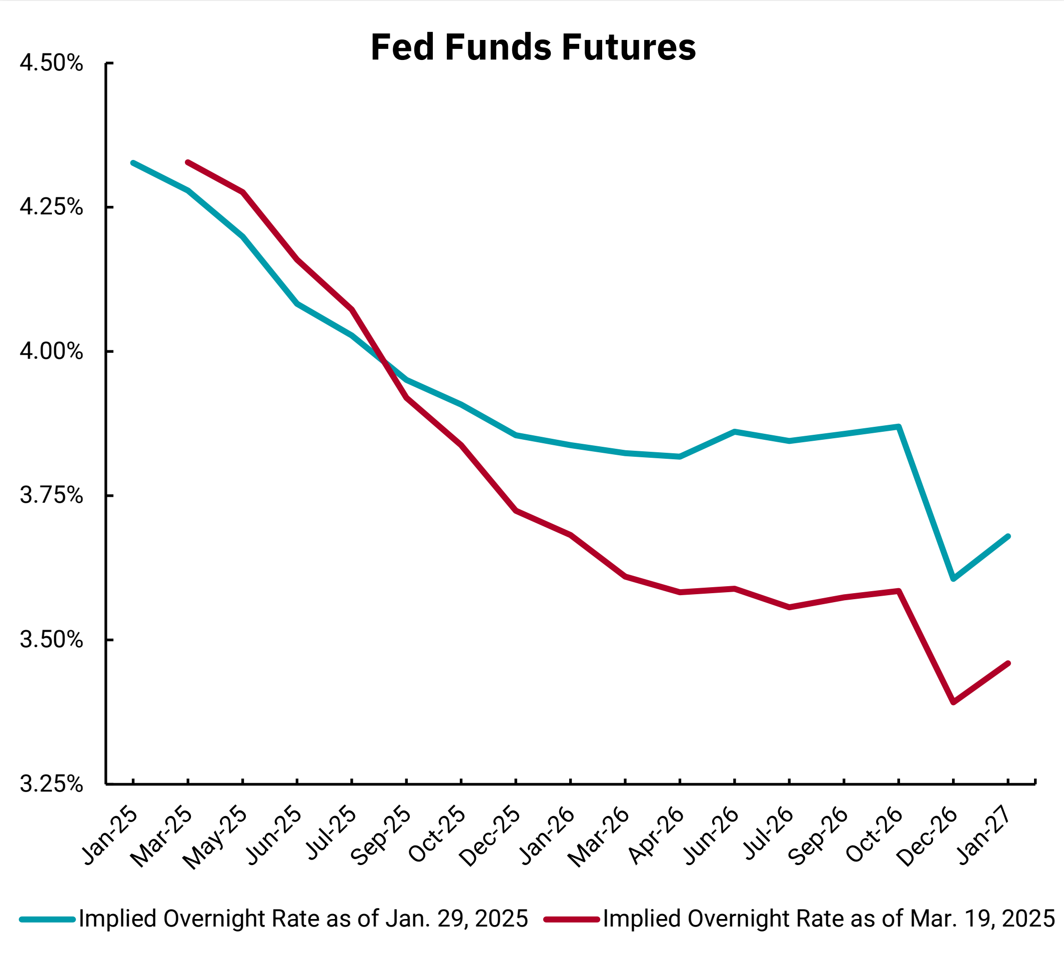
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (Mar. 21, 2025)



Based on the Federal Open Market Committee (FOMC), the part of the Federal Reserve that sets interest rates, it is clear the Fed is uncertain about the path of our economy and inflation. This uncertainty, a word the FOMC often used in their post-meeting statement and again by Fed Chair Jay Powell at his post-meeting press conference, was the primary reason they chose to take no action on rates. While this was expected, the mosaic of their forecast for gross domestic product (GDP) growth, unemployment and inflation seem to provide a sense that they are a bit more concerned about growth than inflation.

One might be somewhat surprised that inflation is taking a backseat for the Fed. After all, there are almost-daily headlines on tariffs and their potential impact on consumer prices, especially as we approach the Apr. 2 deadline for a robust implementation of tariffs across a broad swath of our imports. However, when asked about this topic, Fed Chair Powell chose to re-use a word with a bit checkered past: transitory.

While acknowledging tariffs' impact on prices, Chair Powell highlighted the "one-time" nature of price increases, which is not unlike a change in tax policy that increases price levels but not on an ongoing basis. It is ongoing price increases that define inflation, not a one-time price adjustment. We must admit that this is parsing the definition of inflation, as almost everyone else would define inflation as something that increases consumer prices, and tariffs fit that definition. Furthermore, in an environment where aggregate price increases continue to exceed aggregate wage increases, higher prices just mean more difficulties for those who can least afford the impacts of inflation.

Looking at market-based interest rate forecasts, we see a similar message to that of the Fed. This week's chart shows the outlook for rates based on Fed Funds Futures after the FOMC's January meeting compared to the day after the March meeting. While we see some agreement that rate cuts will start in June, the latest market forecast is for the Fed to cut more and to a lower long-term level than we were thinking in January. Put another way, the market seems to agree that, while tariffs pose a price-level issue initially, the bigger issue is their impact on demand going forward. Ultimately this means the Fed will be cutting rates as GDP growth slows, unemployment increases and overall consumer activity slows.

This, however, is NOT a forecast of a recession. From this lens, we hope we do not see the market, or the Fed, provide an outlook for even more rate cuts. If we see rate forecasts of more rate cuts and a lower terminal rate, this would be an outlook reflecting a more negative economic future than we anticipate. We remain more optimistic than pessimistic.

Source: Bloomberg.

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BOK FINANCIAL

Commentary (Mar. 21, 2025)

Domestic Equities

- U.S. stocks staged a late rally on Friday after a week of significant market swings. All three major indexes, the Dow Jones Industrial Average, S&P 500 and NASDAQ Composite, produced positive returns for the week, with the Dow Jones Industrial Average leading the way with the highest returns.
- Nvidia held its annual tech conference and unveiled its next generation of AI superchips. The stock fell on Tuesday after CEO Jensen Huang noted that computing power for AI advances will need to grow dramatically, at least 100 times what was expected a year ago.
- Stocks rose on Wednesday after the Federal Reserve held rates steady, as expected. Although fewer policymakers anticipate two rate cuts this year, compared to forecasts in December, the overall tone of the meeting was not as hawkish as investors feared.

Bonds

- The Federal Reserve kept policy rates unchanged for a second straight meeting. The updated Summary of Economic Projections showed that policymakers expect slower growth and higher inflation this year but continue to project two rate cuts in 2025. This news sent U.S. Treasury yields lower, with the belly of the curve leading the market lower.
- Returns across the broad investment-grade market were largely positive, as measured by the Bloomberg US Aggregate Bond Index, with the market benefitting from lower rates and narrowing spreads across both securitized and corporate bond sectors.
- The spread between SOFR and the Effective Fed Funds Rate moved further negative, indicating limited funding stress across capital markets.
- Internationally, the central banks of England and Japan kept rates unchanged following their policy meeting. The central bank of Brazil hiked its main policy rate by 1% to 14.25% to combat inflation.

International Equities

- The outlook for global economic growth is looking less encouraging. The Organization for Economic Cooperation and Development (OECD) cut its outlook for global growth to 3.1%, down 0.2% from its prior estimate. The forecast mentioned that the uncertainty related to tariff policies could curtail business investment and consumer spending.
- After some losses, foreign developed markets snapped back as Japan, Canada, and key markets across Europe moved higher. Central banks in Switzerland and Canada both cut policy rates by 0.25%. Meanwhile, Sweden and the Bank of England left policy rates unchanged.
- Emerging markets advanced during the week led by gains across markets in Asia and Latin America. Market volatility prompted the Indonesian central bank to intervene to support the country's currency. A political crisis caused Turkish stocks to plunge over 13%, motivating its central bank to raise its overnight lending rate by 2% to stabilize its currency.

Economics

- On Monday, retail sales month-over-month reportedly grew at 0.2%. This was below forecasts for 0.7% growth but above January's reading of -1.2%. The report showed a slight decrease in discretionary spending, likely driven by uncertainty around tariffs and recent government layoffs.
- On Thursday, jobless claims came in at 223,000. This was slightly below consensus estimates of 225,000 and slightly above last week's revised reading of 221,000. Despite all the recent volatility surrounding tariffs and economic growth, recent claims suggest the labor market remains stable.
- Consumer spending figures will be released on Friday. Economists continue to tout the strength and resilience of the consumer as investors worry about growth.

Weekly Market Update

For Week Ending March 21, 2025

Markets

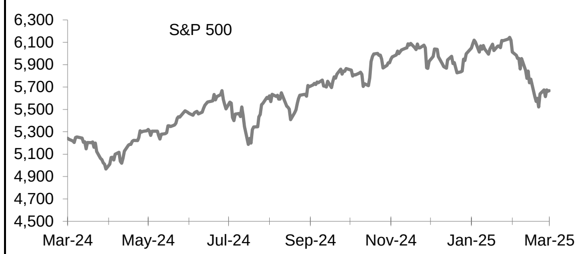
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	41,985.35	1.2%	-0.9%	7.4%
S&P 500 Index	5,667.56	0.5%	-3.3%	9.6%
NASDAQ Composite	17,784.05	0.2%	-7.8%	9.2%
S&P 400 Midcap Index	2,945.77	0.7%	-5.3%	-0.7%
S&P 600 Smallcap Index	1,287.57	0.6%	-8.3%	-1.3%
MSCI EAFE	8,910.95	0.8%	10.3%	8.2%
MSCI Emerging Markets	606.33	1.2%	5.7%	10.5%
Bloomberg US Agg	2,245.64	0.5%	2.6%	5.3%
Bloomberg Municipal 5 Yr	500.18	0.1%	1.1%	2.5%
Bloomberg US Corporate	3,365.03	0.6%	2.3%	5.5%
Bloomberg Glb Agg ex US Hdg	590.13	0.4%	-0.5%	4.3%
Bloomberg High Yield	2,723.89	0.4%	1.5%	8.4%
MSCI US REIT Index	2,288.16	-0.5%	-1.0%	8.1%
Bloomberg Commodity Index	256.86	0.5%	7.6%	11.2%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	4.50%	4.50%	4.50%	5.50%
3-Month Treasury	4.29%	4.29%	4.31%	5.38%
1-Year Treasury	4.03%	4.07%	4.14%	4.99%
2-Year Treasury	3.95%	4.02%	4.24%	4.64%
5-Year Treasury	4.00%	4.09%	4.38%	4.25%
7-Year Treasury	4.12%	4.20%	4.48%	4.27%
10-Year Treasury	4.25%	4.31%	4.57%	4.27%
30-Year Treasury	4.59%	4.62%	4.78%	4.43%
Consumer Rates				
30-Year Mortgage	6.73%	6.71%	7.28%	5.83%
Prime Rate	8.25%	8.25%	8.25%	9.25%
SOFR	4.30%	4.30%	4.49%	5.31%
Commodities				
Gold (spot)	3,022.15	2,984.16	2,624.50	2,181.33
Crude Oil WTI	68.28	67.18	71.72	81.07
Gasoline	3.13	3.08	3.06	3.53
Natural Gas	3.98	4.10	3.63	1.68
Copper	5.09	4.87	4.03	4.05

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	19.52	21.13	5.39	1.73
S&P 500	20.53	23.01	4.87	1.44
S&P 500 Value	17.63	19.27	3.34	2.14
S&P 500 Growth	24.43	28.51	8.85	0.75
NASDAQ	25.10	30.91	6.39	0.81
S&P Midcap 400	15.21	16.39	2.42	1.86
S&P Smallcap 600	14.79	15.54	1.76	2.55
MSCI EAFE	14.77	16.08	2.03	3.18
MSCI Emerging Markets	12.27	14.56	1.84	2.88

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	-2.97	-5.62	-8.11
Mid	-3.89	-4.85	-5.77
Small	-6.62	-6.43	-6.25

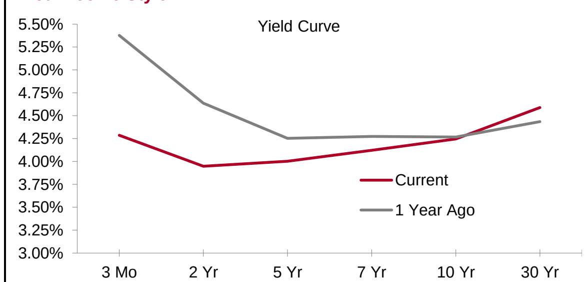
> 10% / 0% - 10% / <0%

Year to Date*

	Value	Core	Growth
Large	-0.11	-3.35	-6.33
Mid	-3.34	-5.31	-7.16
Small	-8.94	-8.26	-7.61

*S&P Indices

Fixed Income Style



1 Month*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	0.73	1.15	1.67
Corp	0.61	0.82	0.60
HY	0.21	-0.13	0.47

> 10% / 0% - 10% / <0%

Year to Date*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	1.44	2.19	4.31
Corp	1.46	2.11	2.68
HY	1.78	1.51	2.16

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	2.8%	3.2%
CPI Core Inflation	3.1%	3.8%
Personal Consumption Exp (PCE) Core	2.6%	3.1%
Jobs		
Unemployment Rate (U3)	4.1%	3.9%
Broader Unemployment Rate (U6)	8.0%	7.3%
JOLT Survey (in millions)	7.74	8.47
Jobless Claims (000's)	223	212
Change in Non-Farm Payroll (000's)	151	222
Average Hourly Earnings (Y/Y % Change)	4.0%	4.2%
Consumer & Spending		
Consumer Confidence (Conf Board)	98.3	104.8
Consumer Spending ($ Bil)	20,382	19,308
Consumer Credit ($ Bil)	5,007	5,039
Retail Sales ($ Bil)	723	701
Housing		
Housing Starts (000's)	1,501	1,546
Case-Shiller Home Price Index	323.22	311.02
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	23,536	22,961
Quarter over Quarter Change	2.3%	3.2%
Year Over Year Change	2.5%	3.2%
ISM Manufacturing	50.30	47.60
Capacity Utilization	78.19	78.07
Markit US Composite PMI	51.60	52.50
U.S. General		
Leading Economic Indicators	101.1	104.3
Trade Weighted Dollar Index	126.0	120.6
EUR / USD	1.08	1.09
JPY / USD	149.32	151.62
CAD / USD	0.70	0.74
AUD / USD	0.63	0.66

S&P 500 Sector Returns

	1 Month	YTD
Energy	2.13%	8.21%
Health Care	0.08%	6.62%
Utilities	-1.89%	4.05%
Financials	-2.58%	2.39%
Real Estate	-1.72%	2.07%
Materials	-2.56%	2.05%
Consumer Staples	-4.44%	1.77%
Industrials	-1.86%	0.42%
Communication Services	-7.84%	-3.31%
Information Technology	-9.20%	-9.37%
Consumer Discretionary	-10.71%	-13.69%

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