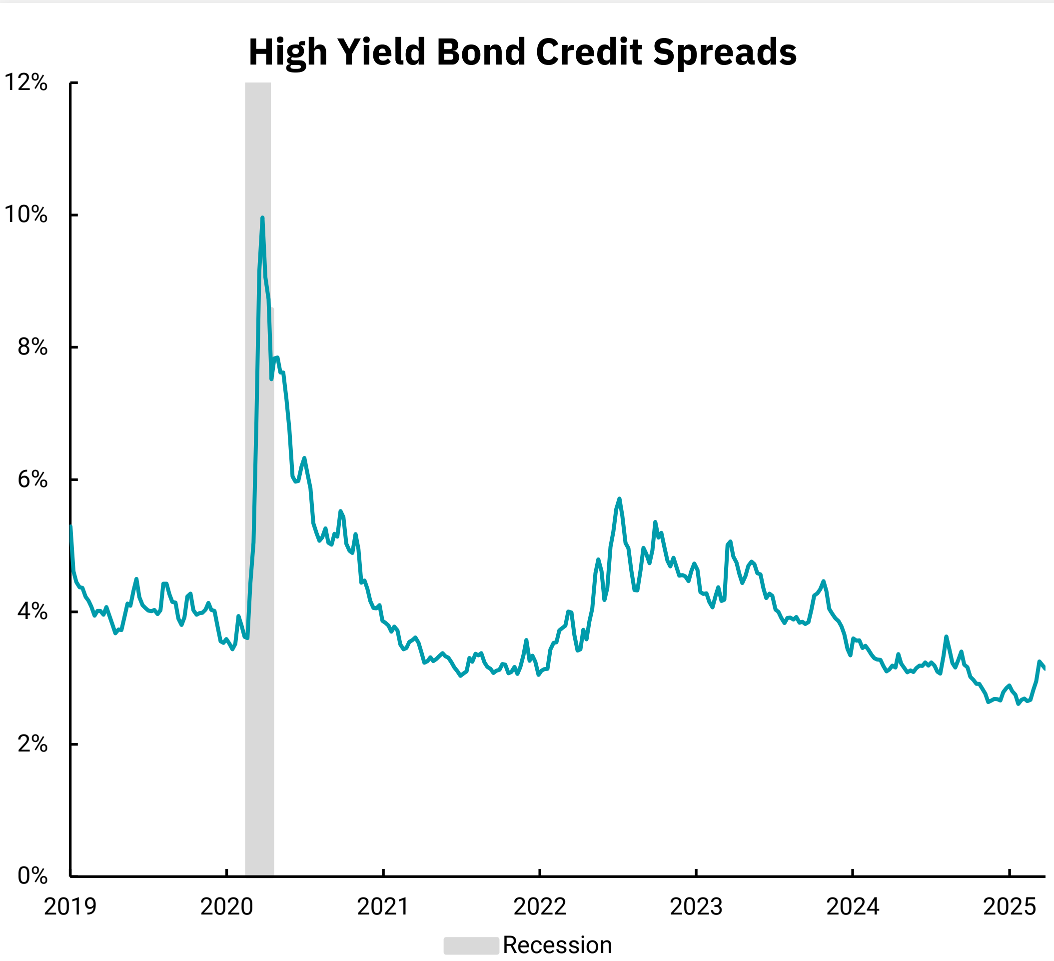
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (Mar. 28, 2025)



There are numerous indicators we watch to try and divine the future of the economy. The Government, the Federal Reserve and private sources all produce a myriad of hard data sets that will follow trends in economic activity like inflation, growth, corporate earnings, retail sales, transportation, electricity usage—honestly, the list is very long. We also see soft data—for instance, surveys of consumers and businesses that attempt to measure how they "feel" about present and future conditions, along with their views on items like stock prices and inflation expectations.

The idea, of course, is to be able to look at some of these indicators to make decisions that will produce better outcomes than if purely left to chance—and we are not talking about just stock market investing decisions. Companies and individuals consider the broad mosaic of this information when thinking about capital expenditures. For example, companies may consider this information when deciding to build a new manufacturing facility, or individuals may consider it when determining whether to buy a house or a car. If only the breadth of the information we get could produce a clear picture.

Our chart this week highlights one of the more important "market-related" indicators we follow: high-yield bond spreads. One of the biggest differences between bonds and stocks (and there are many of course) is the certainty of the growth rate on bonds. It is 0%. Simplistically, a bond is issued at par and, absent a credit event, matures at par, meaning the only way for a bond investor to make money is from the bond's stated coupon rate. This also means that, if bond investors want to make more money, they must demand a higher rate of interest. High-yield bonds should pay some additional interest rate over Treasuries to compensate a bond investor for the additional risk they are taking. Altogether, this means watching changes in the amount of spread demanded by investors can give us a strong idea of the bond market's view of the economy. If investors expect the economy to remain strong and companies to be able to service their debt, they will require a lower "spread" because the risk is less. If, however, investors expect a slower economy and the possibility of more defaults, they will require a higher spread because risk is deemed to be higher.

We can see this relationship between investors' economic expectations and credit spreads in this week's chart, as high-yield spreads widened dramatically during the pandemic-induced recession. When we consider that the National Bureau of Economic Research (NBER), the official arbiter of economic recessions, makes their assessment of whether a recession has occurred as they look back at their indicators, we can say the widening of credit spreads gave us a leading, or at least coincident, indicator of economic weakness. Thankfully, the chart shows that the credit markets are not forecasting significant economic weakness based on credit spreads today, but we are vigilant to see if recent stock market weakness spreads top the bond market.

Source: Federal Reserve Bank of St. Louis.

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BOK FINANCIAL

Commentary (Mar. 28, 2025)

Domestic Equities

- U.S. stocks edged down throughout the week, then fell sharply Friday as inflation worries added to tariff jitters. The S&P 500 Index fell over 2% for the week, while the Nasdaq Composite Index and the Russell 2000 Index were down over 3%. Investors are taking risk off before the U.S. is expected to implement major reciprocal and auto tariffs on Apr. 2.
- The Federal Reserve's preferred core inflation metric, Personal Consumption Expenditures (PCE), increased 2.5% over the past 12 months, an increase of 0.3% over the previous month; it remains above the 2% target.
- The University of Michigan's closely watched index of consumer sentiment fell 18% from last month to its lowest level since 2022. Consumers and businesses alike are concerned that tariffs and a gradual weakening in the labor market could slow the economy. Additionally, a key concern is that inflation will drive prices up 5% over the next year, up from 2.8% at the end of 2024.

Bonds

- U.S. Treasuries were mixed as investors continue to grapple over tariff uncertainty, sticky inflation and hawkish comments from several Federal Reserve officials. The five-year Treasury auction also experienced weak demand, with its first yield-tail since October 2024.
- The broad investment-grade market, as measured by the Bloomberg U.S. Aggregate Bond Index, was slightly negative for the week, with higher long-term rates and widening credit spreads weighing most heavily on returns.
- Inflation expectations continue to remain well anchored. In particular, the two-year U.S. Treasury breakeven inflation rate made a new high, with the series reaching its highest level since March 2023. This was also the case for two-year zero-coupon inflation swaps.
- Internationally, the central bank of Norway left rates unchanged following their policy meeting on Thursday, while the central bank of Mexico cuts it main policy rate by 0.50% to 9%.

International Equities

- Foreign stocks fell during the week as concerns about the economic impact of an escalating trade war weighed on investors' risk appetites.
- Higher stock market volatility dragged developed market indexes lower as weakness in Japan and European markets dampened returns. In European economic news, Norway's central bank left its key interest rate unchanged on Thursday, but policymakers continued to hint at the possibility of a reduction later this year. U.K. consumer prices rose 2.8% in February, lower than expected, which renewed optimism for further policy rate cuts.
- Emerging markets slipped this week as weakness across Asian markets weighed on returns. Mexico's central bank lowered its policy rate by 0.50% to 9% as policymakers highlighted progress on inflation amid a weakening economy grappling with the impacts of higher tariffs from the U.S. This was the sixth consecutive rate cut and second straight half percentage-point reduction.

Economics

- On Thursday, jobless claims were reported at 224,000, aligning closely with consensus estimates of 225,000 and aligning with the previous week's revised figure of 225,000. While there are concerns about a weakening labor market, recent claims figures continue to indicate stability.
- On Friday, the February core Personal Consumption Expenditures (PCE) price index rose by 2.8% year-over-year. The core index, which excludes food and energy prices, provides a clearer view of everyday goods inflation. This figure reflects price levels before President Trump's recent tariff-related announcements and suggests that inflation remains persistent. It also implies that the Federal Reserve may need to maintain elevated interest rates to prevent a potential second wave of inflation.
- Looking ahead, the employment report for March will be released on Friday. This report is expected to offer deeper insights into the labor market's health compared to the weekly jobless claims.

Weekly Market Update

For Week Ending March 28, 2025

Markets

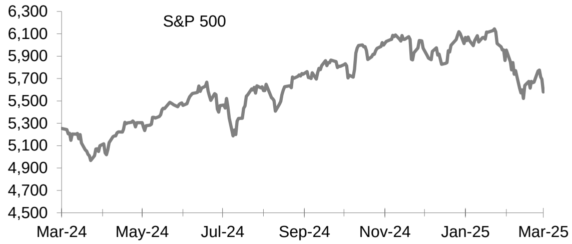
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	41,583.90	-1.0%	-1.9%	6.3%
S&P 500 Index	5,580.94	-1.5%	-4.8%	7.6%
NASDAQ Composite	17,322.99	-2.6%	-10.1%	6.5%
S&P 400 Midcap Index	2,915.07	-1.0%	-6.3%	-2.9%
S&P 600 Smallcap Index	1,271.75	-1.2%	-9.4%	-3.9%
MSCI EAFE	8,817.56	-1.0%	9.1%	7.2%
MSCI Emerging Markets	601.04	-0.9%	4.7%	10.3%
Bloomberg US Agg	2,244.71	0.0%	2.5%	4.6%
Bloomberg Municipal 5 Yr	498.08	-0.4%	0.7%	2.3%
Bloomberg US Corporate	3,358.13	-0.2%	2.1%	4.7%
Bloomberg Glb Agg ex US Hdg	591.33	0.2%	-0.3%	4.1%
Bloomberg High Yield	2,712.00	-0.4%	1.1%	7.8%
MSCI US REIT Index	2,306.74	0.8%	-0.2%	8.0%
Bloomberg Commodity Index	258.23	0.5%	8.2%	11.6%

	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%	5.36%
1-Year Treasury	4.03%	4.03%	4.14%	5.02%
2-Year Treasury	3.91%	3.95%	4.24%	4.62%
5-Year Treasury	3.98%	4.00%	4.38%	4.21%
7-Year Treasury	4.11%	4.12%	4.48%	4.21%
10-Year Treasury	4.25%	4.25%	4.57%	4.20%
30-Year Treasury	4.63%	4.59%	4.78%	4.34%
Consumer Rates				
30-Year Mortgage	6.75%	6.74%	7.28%	5.83%
Prime Rate	8.25%	8.25%	8.25%	9.25%
SOFR	4.34%	4.30%	4.49%	5.34%
Commodities				
Gold (spot)	3,085.12	3,022.15	2,624.50	2,229.87
Crude Oil WTI	69.36	68.28	71.72	83.17
Gasoline	3.16	3.13	3.06	3.54
Natural Gas	4.07	3.98	3.63	1.76
Copper	5.13	5.09	4.03	4.01

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	19.31	21.07	5.34	1.75
S&P 500	20.17	22.74	4.80	1.47
S&P 500 Value	17.53	19.22	3.33	2.16
S&P 500 Growth	23.77	27.90	8.63	0.77
NASDAQ	24.30	30.22	6.22	0.83
S&P Midcap 400	15.01	16.21	2.39	1.88
S&P Smallcap 600	14.40	15.40	1.74	2.58
MSCI EAFE	14.61	15.83	2.01	3.22
MSCI Emerging Markets	12.15	12.30	1.83	2.87

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	-3.82	-6.16	-8.40
Mid	-4.78	-5.65	-6.50
Small	-6.55	-6.60	-6.64

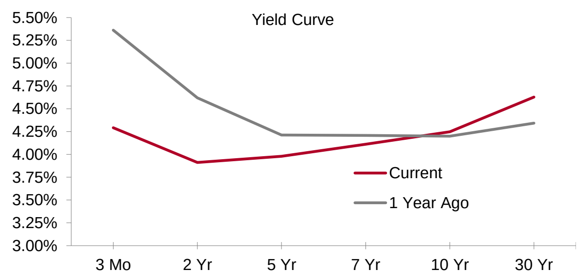
Legend: > 10% / 0% - 10% / <0%

Year to Date*

	Value	Core	Growth
Large	-0.62	-4.81	-8.68
Mid	-4.02	-6.28	-8.41
Small	-10.09	-9.37	-8.67

*S&P Indices

Fixed Income Style



1 Month*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	0.41	0.38	-1.70
Corp	0.37	0.17	-1.86
HY	-0.28	-0.96	-0.60

Legend: > 10% / 0% - 10% / <0%

Year to Date*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	1.56	2.34	3.81
Corp	1.57	2.17	1.91
HY	1.64	1.07	1.53

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	2.8%	2.9%
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)	224	214
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)	92.9	103.1
Consumer Spending ($ Bil)	20,439	19,413
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	323.54	310.86
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	23,542	22,961
Quarter over Quarter Change	2.4%	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	53.50	52.10
U.S. General		
Leading Economic Indicators	101.1	104.3
Trade Weighted Dollar Index	126.5	121.2
EUR / USD	1.08	1.08
JPY / USD	149.84	151.38
CAD / USD	0.70	0.74
AUD / USD	0.63	0.65

S&P 500 Sector Returns

	1 Month	YTD
Energy	2.75%	9.04%
Health Care	-2.58%	5.58%
Utilities	-0.80%	3.83%
Consumer Staples	-4.01%	3.52%
Real Estate	-3.39%	2.54%
Financials	-5.40%	2.23%
Materials	-3.66%	1.71%
Industrials	-4.22%	-0.85%
Communication Services	-8.50%	-6.43%
Information Technology	-8.86%	-12.68%
Consumer Discretionary	-8.74%	-13.65%

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