Global Market Commentary: First Quarter 2025

Markets Have Mixed 1st Quarter

After closing out 2024 at record highs, U.S. equity markets hit turbulence in the first quarter of 2025. The end-of-year rally lost steam as inflation proved more stubborn than expected, prompting the Federal Reserve to adopt a noticeably more hawkish stance. Hopes for multiple rate cuts dimmed, and renewed tariff threats only added fuel to the fire.

The tech-heavy NASDAQ and small-cap Russell 2000 both slipped into correction territory, as investor sentiment soured under the weight of persistent inflation, policy uncertainty, uneven corporate earnings, and disappointing economic data. GDP was revised downward, retail sales slowed, consumer confidence cratered, and the housing market showed mixed signs of strain.

Meanwhile, global and international equity markets held up relatively well, with many international indices posting gains – offering a rare bright spot in an otherwise volatile quarter.

Back home, the erratic tone of U.S. trade policy continued to rattle nerves. The back-and-forth on tariffs clouded the outlook for global commerce and underscored the one thing Wall Street loathes most: uncertainty.

For the first quarter of 2025:

- The DJIA lost 0.9%;
- The S&P 500 retreated 4.4%;
- NASDAQ declined 10.3%; and
- The Russell 2000 fell 9.9%.

Further, we saw that:

- Market volatility, as measured by the VIX, climbed steadily throughout the quarter, rising about 28% overall, with a sharp spike in early March that saw volatility double in just one month.
- West Texas Intermediate crude ended the quarter virtually flat, down just 17 cents per barrel. Prices briefly topped $78 before settling at $71.55, well below the $84 level seen at this time last year.

Market Performance Around the World

Investors found brighter spots overseas, as 26 of the 37 developed markets tracked by MSCI posted gains in Q1, with 22 of them rising more than 5%. Emerging markets fared even better: 40 of the 46 developing markets ended the quarter in positive territory, with 14 surging more than 10%.

Index Returns	1Q2025
MSCI EAFE	+6.15%
MSCI EURO	+11.63%
MSCI FAR EAST	+0.35%
MSCI G7 INDEX	-2.85%
MSCI NORTH AMERICA	-4.61%
MSCI PACIFIC	-0.57%
MSCI PACIFIC EX-JAPAN	-0.53%
MSCI WORLD	-2.14%
MSCI WORLD EX-USA	+5.50%

Source: MSCI. Past performance cannot guarantee future results

Sector Performance Rotated in Q42024

Sector performance in the first quarter of 2025 was uneven, with only 4 of the 11 S&P 500 sectors posting gains. Information Technology and Consumer Discretionary both fell into correction territory, underscoring the pressure on growth-oriented areas of the market.

This mirrored the prior quarter, where again only 4 sectors advanced, and Health Care and Materials slipped into correction territory. The contrast with Q3 2024 was stark – 10 of 11 sectors were positive then, with Energy (-3.12%) the lone laggard.

Notably, the dispersion in returns widened significantly this quarter. Energy surged more than 9%, while Consumer Discretionary tumbled over 16%, highlighting the growing divergence across sectors.

Here are the sector returns for Q1 2025 and Q4 2024:

S&P 500 Sector	4Q2024	1Q2025
Information Technology	+5.28%	-14.66%
Energy	-2.40%	+9.51%
Health Care	-10.13%	+4.10%
Real Estate	-8.05%	+2.14%
Consumer Staples	-3.76%	+1.80%
Consumer Discretionary	+13.74%	-16.02%
Industrials	-2.27%	-2.26%
Financials	+7.00%	+0.96%
Materials	-13.35%	+0.22%
Communication Services	+9.46%	-8.23%
Utilities	-5.78%	+2.50%

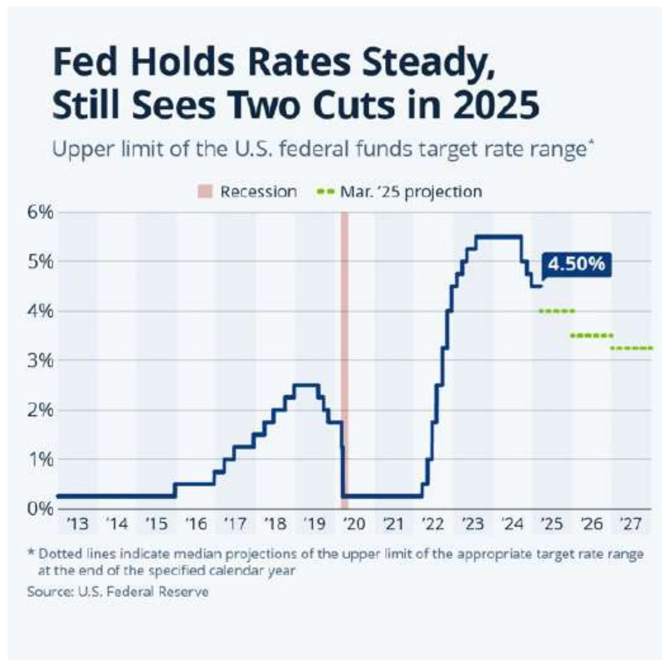
Source: FMR

Reviewing the sector returns for just the 1st quarter of 2024, we saw that:

- 7 of the 11 sectors were painted green and 4 were painted red, as there were some big swings from quarter to quarter;
- The tech-laden sectors – think Information Technology and Communication Services – underperformed relative to previous quarters.
- Consumer Discretionary saw a big swing from Q42024 to Q12025, which might not bode well for overall consumer spending.
- The differences between the best (+9%) performing and worst (-16%) performing sectors in the first quarter was exceptionally wide.

Fed Holds Rates Steady

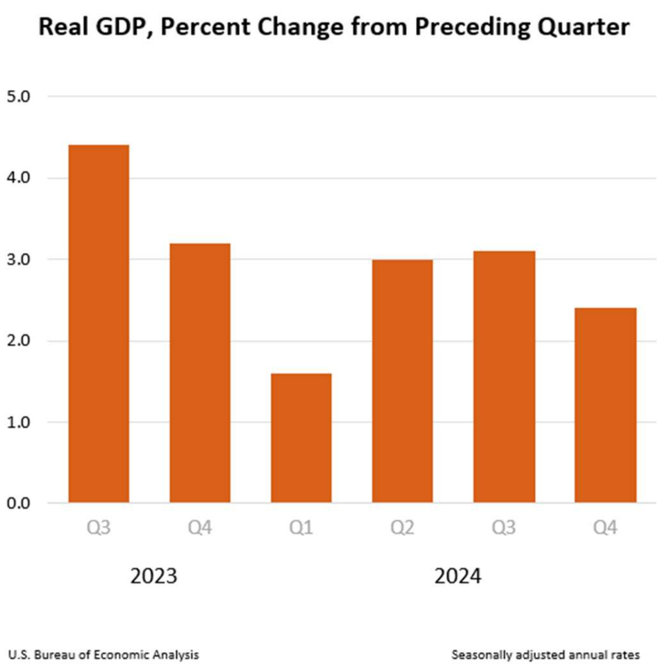
In the first quarter of 2025, the Federal Reserve's Federal Open Market Committee opted to maintain the target range for the federal funds rate at 4.25% to 4.50%. This decision followed three consecutive rate cuts beginning in September 2024, which had collectively reduced the rate from a peak of 5.5%. The FOMC cited solid economic activity and a stabilized, low unemployment rate as key factors in their decision. However, they also noted that inflation remained somewhat elevated and acknowledged increased uncertainty surrounding the economic outlook.



Federal Reserve Chair Jerome Powell elaborated on the decision during a press conference, emphasizing a cautious approach to future policy adjustments. He stated, "We think disinflation continues on a broad and bumpy path; that tells me we don't need to be in a hurry to adjust our policy stance." Powell highlighted that the economy was progressing steadily, with solid labor market conditions and moderated inflation compared to the previous year. He also noted that recent indicators pointed to a moderation in consumer spending and heightened uncertainty about the economic outlook, suggesting that the Fed would carefully assess incoming data before making further adjustments.

Real GDP Slows Down

Real gross domestic product (GDP) grew at an annual rate of 2.4% in the fourth quarter of 2024 – covering the months of October through December – according to the third estimate from the U.S. Bureau of Economic Analysis. This marks a slowdown from the 3.1% growth recorded in the third quarter.



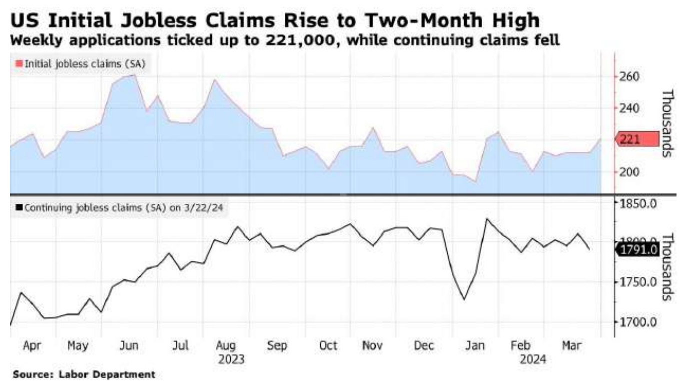
The fourth-quarter increase was driven primarily by gains in consumer and government spending. These were partly offset by a decline in investment. Imports, which are subtracted in the calculation of GDP, also decreased during the quarter. The latest estimate includes a slight upward revision of 0.1 percentage point from the previous estimate, mainly due to a downward adjustment to import figures.

The slowdown in GDP growth compared to the previous quarter was largely the result of declines in both investment and exports. However, this deceleration was partially cushioned by a pickup in consumer spending, while imports declined further.

Unemployment Edges Down to 4%

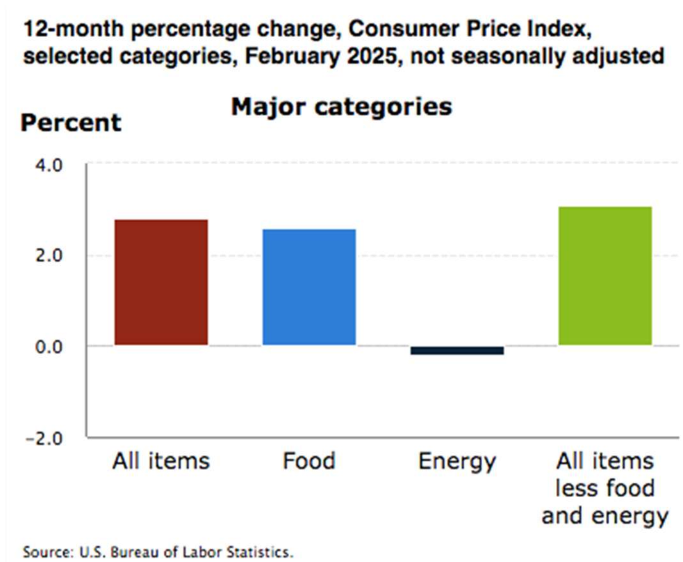
The U.S. labor market exhibited signs of cooling, with job growth decelerating and unemployment rates experiencing slight fluctuations. January saw the addition of 143,000 nonfarm payroll jobs, falling short of the anticipated 175,000, while the unemployment rate edged down to 4.0%. February's data indicated a marginal uptick in the unemployment rate to 4.1%.

In addition, initial jobless claims remained relatively stable, with 224,000 claims reported in the week ending March 22, 2025, a slight decrease from the previous week's 225,000.



Inflation Up 0.2% in February; Shelter Up, Gasoline Declines

The U.S. Bureau of Labor Statistics reported that the Consumer Price Index for All Urban Consumers rose 0.2% in February on a seasonally adjusted basis, following a 0.5% increase in January. Over the past 12 months, the all-items index increased by 2.8% before seasonal adjustment.



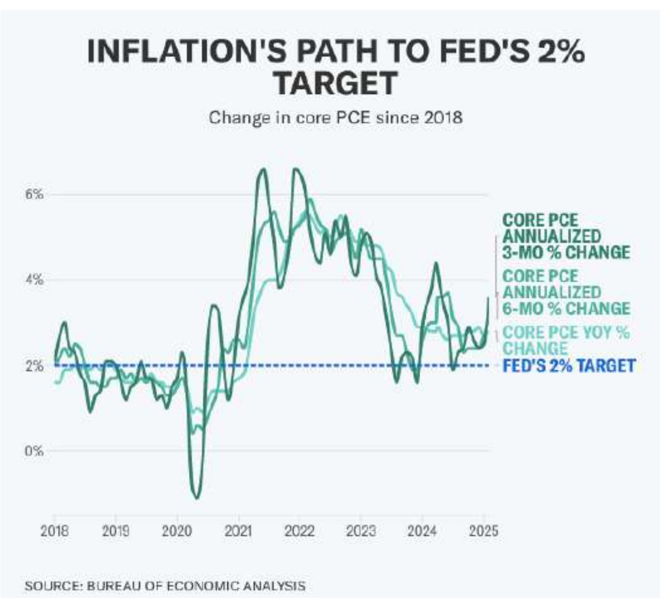
Shelter costs climbed 0.3% in February, contributing to nearly half of the overall monthly increase. This rise was partially offset by a 4.0% drop in airline fares and a 1.0% decline in gasoline prices. Despite the decrease in gasoline, the energy index edged up 0.2% for the month, driven by increases in electricity and natural gas prices. The food index also rose 0.2%, with the cost of food away from home increasing 0.4%.

Excluding food and energy, core CPI increased by 0.2% in February, following a 0.4% rise in January. Among the categories that saw price increases were medical care, used cars and trucks, household furnishings and operations, recreation, apparel, and personal care. Meanwhile, airline fares and new vehicles were among the few indexes that declined.

Inflation Over the Past Year

In addition, the Consumer Price Index rose 2.8% year-over-year – down from January's 3% annual increase and slightly below economists' expectations of 2.9%.

Core CPI, which excludes the more volatile categories of food and energy climbed 3.1% year-over-year, marking the lowest annual core inflation reading since April 2021. This decline from January's 3.3% core figure beat consensus estimates and marked the first time since July that both headline and core inflation moderated in the same month.



Retail Sales Increase Slightly

Retail sales edged up 0.2% month-over-month in February, coming in below consensus estimate of a 0.7% increase. This follows a downwardly revised 1.2% decline in January, which was previously reported as a 0.9% drop.

Excluding autos, retail sales rose 0.3% in February, slightly under the expected 0.4% gain, after falling a revised 0.6% in January (originally reported as a 0.4% decrease).

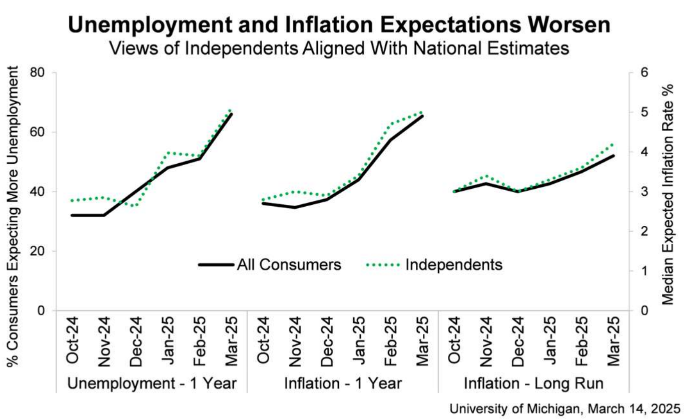
Among the key components:

- Motor vehicles and parts dealers slipped 0.4% after a sharp 3.7% drop in January.
- Gasoline stations declined 1.0%, reversing a 1.3% gain the month prior.
- Food and beverage stores rose 0.4%, bouncing back from a 0.1% decline in January.
- Building materials and garden equipment increased 0.2%, following a 1.9% decrease.
- Clothing and accessories were down 0.6%, on top of a 0.7% decline in January.
- Furniture and home furnishings were flat after falling 1.2% in the prior month.

- Nonstore retailers surged 2.4%, rebounding from an equal 2.4% drop in January.
- Food services and drinking places fell 1.5% after remaining unchanged the previous month.

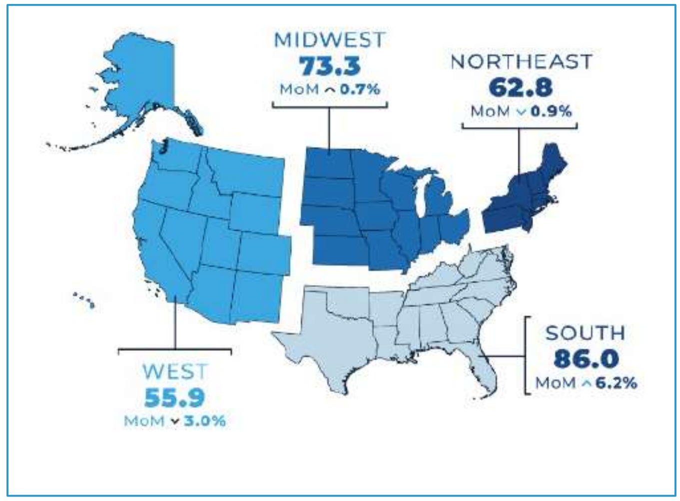
Consumer Sentiment Plummets

According to the University of Michigan: "Consumer sentiment slid another 11% this month, with declines seen consistently across all groups by age, education, income, wealth, political affiliations, and geographic regions. Sentiment has now fallen for three consecutive months and is currently down 22% from December 2024. While current economic conditions were little changed, expectations for the future deteriorated across multiple facets of the economy, including personal finances, labor markets, inflation, business conditions, and stock markets. Many consumers cited the high level of uncertainty around policy and other economic factors; frequent gyrations in economic policies make it very difficult for consumers to plan for the future, regardless of one's policy preferences."



Pending Home Sales Up 2%

Pending home sales improved 2.0% in February according to the National Association of Realtors. "The Northeast and West experienced month-over-month losses in transactions – with a larger decrease in the West – while the Midwest and South saw gains, which were greatest in the South. Year-over-year, contract signings dropped in all four U.S. regions, with the Midwest undergoing the greatest reduction."

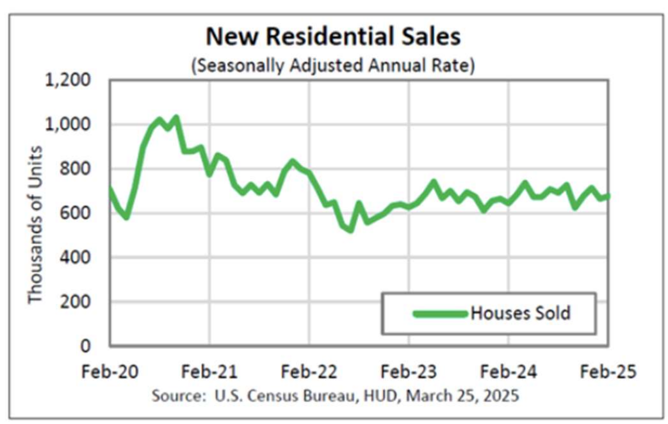


"The Pending Home Sales Index – a forward-looking indicator of home sales based on contract signings – grew 2.0% to 72.0 in February. Year-over-year, pending transactions declined 3.6%. An index of 100 is equal to the level of contract activity in 2001."

"Despite the modest monthly increase, contract signings remain well below normal historical levels," A meaningful decline in mortgage rates would help both demand and supply – demand by boosting affordability, and supply by lessening the power of the mortgage rate lock-in effect."

New Home Sales Up 1.8%

Sales of new single-family houses in February 2025 were at a seasonally adjusted annual rate of 676,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 1.8% above the revised January rate of 664,000 and is 5.1% above the February 2024 estimate of 643,000.



In addition:

- The median sales price of new houses sold in February 2025 was $414,500.
- The average sales price was $487,100.
- The seasonally-adjusted estimate of new houses for sale at the end of February was 500,000. This represents a supply of 8.9 months at the current sales rate.

Sources: *bea.gov; conference-board.org; census.gov; umich.edu; nar.realtor; bls.gov; msci.com; fidelity.com; nasdaq.com; wsj.com; morningstar.com; census.gov*

For questions or comments, contact Andres Guzman, MBA, CFP®, CPWA® | andres.guzman@legacywealthic.com | Legacy Wealth Investment Counsel, LLC