

# THE BIG PICTURE

March 2025

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## UNCERTAIN TIMES

- Stocks struggled over concerns that protectionist U.S. tariff policies would slow the economy and hamper corporate profits
- At month end, markets welcomed news that President Trump may be open to more targeted tariffs, helping the S&P 500 briefly regain its 200-day moving average
- While the White House may be moderating its tariff stance, uncertainty over trade, fiscal retrenchment, and long-standing security alliances is weighing on markets
- Value stocks enjoyed their best 3-month stretch of outperformance versus the S&P 500 since 2022 while technology is down 7+% on the year (source: Brown Technical)
- International indices like EAFE, which offer greater weighting to value and cyclicals, have benefitted from the rotation away from U.S. technology and discretionary stocks
- Looking ahead, April has historically been the second-best month for S&P 500 gains since 1950 (source: Almanac Trader)



## SLOWING ECONOMY

- Questions still abound about which tariffs on which countries ahead of the planned April 2 implementation date
- Companies have warned of rising prices and softening demand while U.S. consumer confidence sunk to its lowest level in four years (source: Conference Board)
- President Trump appears to remain convinced that tariffs will result in revenue windfall for the federal government
- While the on-again, off-again approach to tariffs has created an uncertain climate for U.S. businesses, aspects of the Trump economic playbook are coming into focus
- The Administration is trying to shift the composition of GDP away from government spending to private industry and more taxation on consumption rather than income
- Treasury Secretary Scott Bessent has prioritized rebalancing the labor market away from excess employment in the government sector in favor of the private sector as a mechanism for reducing inflation



## FED TENSION

- At its March meeting, the Federal Reserve kept its benchmark federal funds rate unchanged for a second consecutive month
- Markets initially responded favorably to the Fed's dovish forward guidance in the form of downgraded estimates for 2025 growth – thus increasing the likelihood of rate cuts
- In his press conference, Fed Chair Powell indicated that much of the downward revision to the growth forecast resulted from uncertainty around escalating trade tensions
- But Powell acknowledged that tariff pressure could also result in upward revisions to inflation forecasts, which would limit the Fed's ability to soften uncertainty with rate cuts as it did during the 2018-19 trade war
- President Trump reiterated that he would “like to see the Fed lower interest rates” as tariffs go into effect
- Chair Powell has, thus far, resisted stating that the Fed is prepared to respond in either direction (to slow inflation or reduce recession risks) depending on incoming data



## SURGING METALS

- Gold climbed to a record high during March on recession fears and strong demand from central bank purchasers such as China
- Gold continued to attract flows as a safe-haven and inflation hedge in response to trade conflicts and a resumption of Israeli airstrikes that ended a two-month ceasefire
- Gold prices also benefitted from a weaker dollar and falling real yields, which supports non-yielding assets like precious metals
- In addition, the price of copper surged to new all-time highs as traders rushed to import physical supply into the U.S. before tariffs are imposed
- Large quantities of copper will be needed to upgrade the U.S. and EU power grids as well as for use in the technology and renewable energy industries
- President Trump's tariffs also pushed U.S. steel prices to a near 12-month high, which benefits both domestic producers as well as overseas steel companies who maintain large American manufacturing operations



## GLOBAL AWAKENING

- Global stock markets, led by Germany, Japan, and China, have handily outperformed the U.S. thus far in 2025, reversing several years of underperformance
- Investors have been attracted to lower valuation multiples and improving earnings prospects for Europe and Japan
- A stronger euro and yen also enhance dollar-based returns for U.S. investors owning European and Japanese equities
- Europe is boosting its fiscal support for defense and infrastructure spending as the White House has reduced its support for Ukraine and questioned security alliances
- Germany, Europe's largest economy, is set to unleash its largest stimulus since the fall of the Berlin Wall after years of stagnation, under-investment and fiscal conservatism
- The ambitious government borrowing and spending plan unveiled by incoming chancellor, Friedrich Merz, caused German bond yields to experience their biggest one-day jump in 28 years (source: Bloomberg)

# Contact

Craig Columbus

[Craig@columbusmacro.com](mailto:Craig@columbusmacro.com)

Steve Comes

[Steve@columbusmacro.com](mailto:Steve@columbusmacro.com)

[www.columbusmacro.com](http://www.columbusmacro.com)



## Consumer Confidence

An economic indicator that measures the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. If the consumer has confidence in the immediate and near future economy and his/her personal finance, then the consumer will spend more than save.

## Dovish Fed

Doves tend to support low interest rates and an expansionary monetary policy because they value indicators like low unemployment over keeping inflation low. If an economist suggests that inflation has few negative effects or calls for quantitative easing, then they are called a dove or labeled as dovish.

## EAFE

EAFE stands for Europe, Australasia, and the Far East. It's a term used to describe the stock markets of these regions, which are the most developed outside of the United States and Canada.

## Fed Funds Rate (Benchmark Target Rate)

The target interest rate set by the Fed at which commercial banks borrow and lend their extra reserves to one other overnight.

## GDP

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health. Though GDP is typically calculated on an annual basis, it is sometimes calculated on a quarterly basis as well. In the U.S., for example, the government releases an annualized GDP estimate for each fiscal quarter and also for the calendar year.

## S&P 500

An index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

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