RAYMOND JAMES | INVESTMENT MANAGEMENT

MARKETS IN FOCUS

Macro Insights

Context is critical during this market meltdown

March 11, 2025

Key takeaways

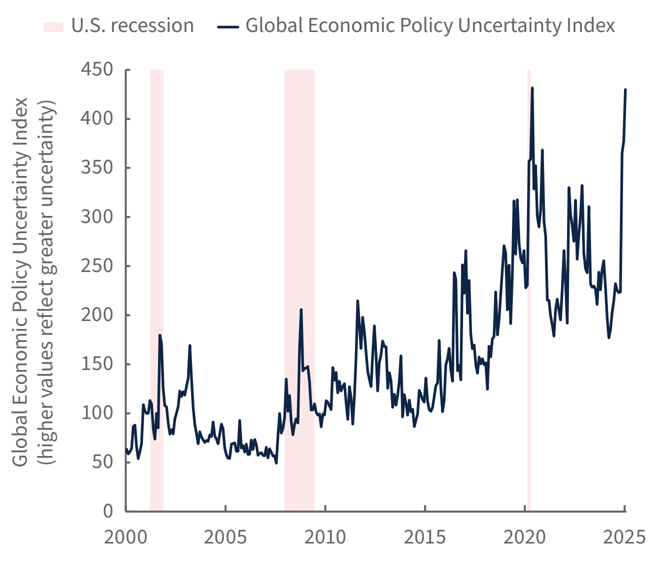
- The selloff has been jarring and painful, but orderly. Perspective is required.
- Underlying fundamentals remain strong: Corporate earnings have been robust. Recent bank data shows forward momentum in consumer spending. Wage data continues to accelerate for most households.
- This environment continues to underscore the importance of diversification.

Uncertainty abounds. It has been death by a thousand cuts for the market this year, from increasing policy uncertainty to slowing economic growth to exogenous shocks to the changes within the artificial intelligence (AI) trade. Retail investor sentiment has been washed out, and U.S. large caps – the engine of global equity appreciation for the past two years – seem to be faltering. The environment of elevated uncertainty can be seen in the recent price action, with the S&P 500 Index last week recording a rare six-day streak of close-to-close returns of more than plus-or-minus 1% as well as three consecutive weeks in the red.[1]

"That said, the selloff has been orderly," said Matt Orton, CFA, Chief Market Strategist at Raymond James Investment Management. "My biggest worry, a spike in correlation, hasn't materialized. Rather, correlation has risen off historic lows but remains far from 'sell everything' levels. While the recent selloff has been painful and has felt quite jarring given such elevated macroeconomic uncertainty, some perspective is required."

U.S. fiscal policy dominates the narrative

Global Economic Policy Uncertainty Index



Source: Bloomberg, as of 3/10/25.

[1] Unless otherwise indicated, all data cited is sourced from Bloomberg as of March 10, 2025.

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The S&P 500 is down 8.6% from the most recent all-time high on Feb. 19, 2025, but the losses have been concentrated. Higher beta stocks and momentum have rolled over, but higher-quality companies that lagged in the AI-driven rally last year are playing catch-up. In fact, 39% of S&P 500 constituents are positive since the start of the pullback, while 67% of constituents are beating the index drawdown and 19% are actually up more than 5%. Eight of the 11 sectors are also ahead of the index, with communication services, information technology, and consumer discretionary the only three in the red. We've also seen some encouraging earnings reports from a couple of AI beneficiaries amid the flurry of concern around the biggest players in the space.

"Underlying fundamentals remain strong – don't forget about fourth-quarter earnings – but that doesn't matter when everyone is looking to de-risk and pick up the pieces later," Orton said. "I remain cautious in the near term and wouldn't be surprised to see this selloff turn into a correction, but I believe we're nearing short-term 'washout' levels from a selling perspective. With uncertainty still sky-high and long-term winners taking a beating, it will likely take some time – and convincing price action – before we can call an end to this corrective phase."

What to make of weakening economic data?

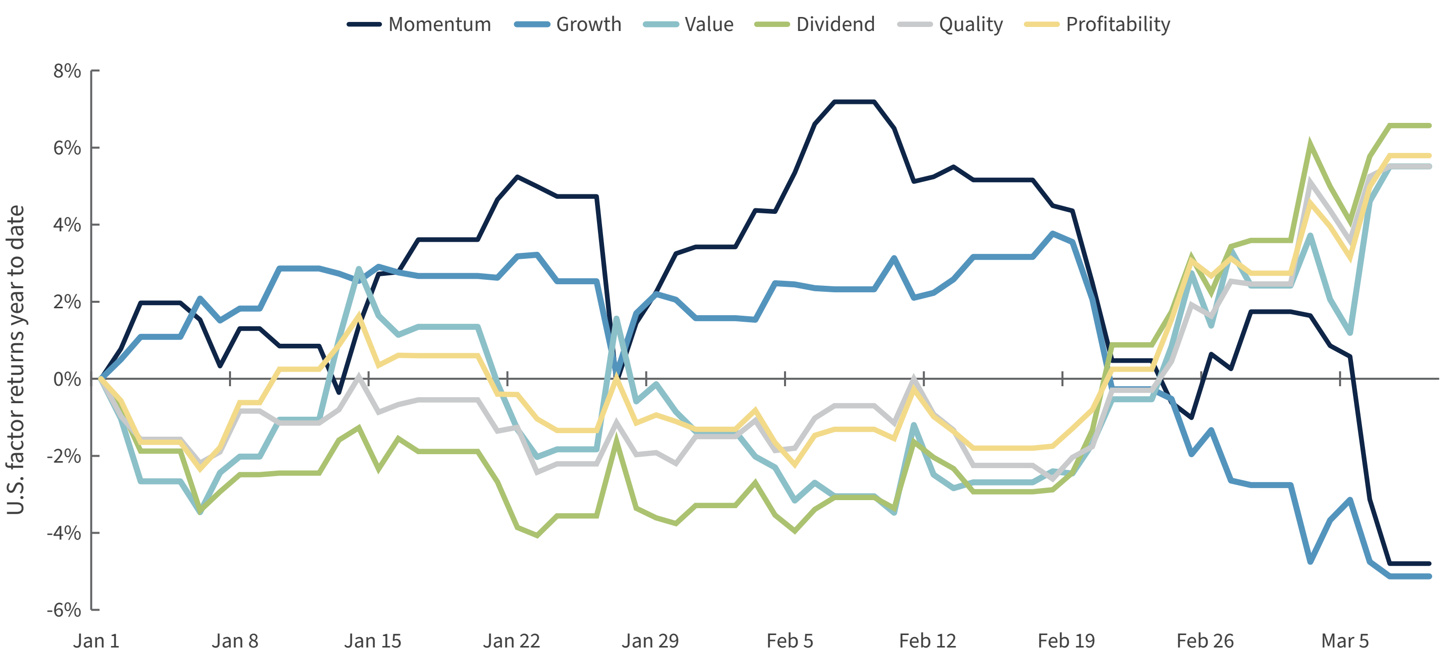
The biggest concern on Monday, March 10, was around recession. President Trump refused to rule out this possibility during a weekend interview, and with slowing economic growth already evident in the data before the full impact of tariffs have been felt, the market went into a tailspin. It's undeniable that the U.S. economy is slowing, Orton said, but that was expected given the rate at which it had been growing on fiscal largesse.

"The concern now is whether the self-inflicted pain from tariffs will tip the scales from slowdown to recession," he said. "I don't think so. The concerning signals from the Federal Reserve Bank of Atlanta's GDPNow™ model look overly pessimistic to me with large drags from tariff front-running and very large gold transfers."

While there are still factors that are indeed weakening in the forecast model, Orton noted that hard data has continued to hold up for now. Also, he said the consumer remains the most critical piece of the economic puzzle. Recent bank data shows forward momentum with respect to consumer spending, even if it's at a bit more of a measured pace. Wage data also continues to accelerate

The risk-off rotation continues

2025 year to date U.S. factor returns



Source: Bloomberg, as of 3/10/25. Factor returns cover all equities in the U.S. market tracked by Bloomberg and represent the top quintile of returns within each factor less the bottom quintile of returns for most households, which is critical to maintaining spending in a sticky inflation environment.

What is there to do?

The S&P 500's chart is technically broken, and Orton said he would refrain from buying the dip until the market finds some level ground.

"Nothing good happens under the 200-day moving average, and it will take some time to regain upward momentum," he said. "The broad market also still has some room to go before it looks like a washout."

Additionally, Orton said the rates market is a bit offsides right now, pricing in too aggressive of a U.S. Federal Reserve (Fed) interest rate cutting cycle. There will need to be some adjustments made that recognize the reality that the economy isn't rapidly deteriorating, he said.

"The bright side of this selloff, however, is that this environment is increasingly attractive for active management – selectivity can thrive," Orton said. Additionally, it has been a long time since there has been a meaningful pullback across equities, and he believes many high-quality companies "are now on clearance. I would be getting a shopping list ready but hold off on buying until there is a proper bottom established."

Orton's key theme heading into this year was increasing portfolio diversification. A great example of this, he said, is dividend growth: Companies that still have the capacity to maintain and grow their dividend payments can add income growth and a level of downside risk mitigation to portfolios because they typically are lower beta. For now, higher dividend-yielding companies have been outperforming dividend growers, which Orton said is likely due to both falling interest rates and the general flight to value. Orton also has been highlighting European banks and aerospace and defense, both of which have worked well.

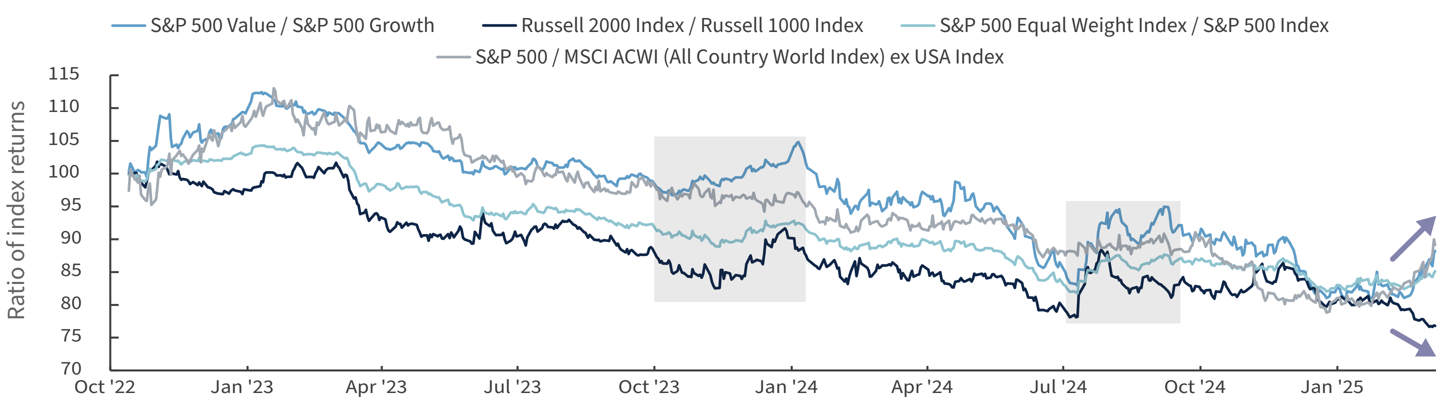
"I think these parts of the market are extended right now, but I would consider using downside opportunistically given the durable tailwinds to these industries in Europe," he said. More broadly, he noted that the MSCI ACWI ex-USA Index "has held up quite well" given strength in Europe, improved upward momentum in China, and resilience in Latin America. There are many areas of the global market that have seemed favorably priced with decent fundamentals, and investors are finally moving money, he said. Orton said he thinks there is durability to this, but selectivity is key. It also doesn't mean that U.S. stocks can't participate, but the flow of money is overseas right now, and he encourages investors to consider building some positioning to global equities if they haven't done so already.

"Small caps are dead money right now with economic concerns, but I wouldn't abandon the trade," Orton said. Any marginally better economic data could lead to a bounce, and he believes investors remain overly pessimistic.

"Overall, I believe investors should lean into what's working and consider investing at the intersection of growth and value," Orton said. "We're stuck in a macro-driven market for the next month, but if we head into earnings season at current levels, I expect that a refocus on strong corporate fundamentals can re-focus investor attention on things that are going right for the market."

This rotation looks real, but small caps can't catch a break

Ratios of index returns (normalized to 100 as of 10/12/2022—the start of the bull market)



Source: Bloomberg, as of 3/10/25.

For more market insights and analysis from Raymond James Investment Management, visit **Our Thinking**.

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Diversification does not ensure a profit or guarantee against loss.

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Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The prices of small company stocks may be subject to more volatility than those of large company stocks.

International investing presents specific risks, such as currency fluctuations, differences in financial accounting standards, and potential political and economic instability. These risks are further accentuated in emerging market countries where risks can also include possible economic dependency on revenues from particular commodities or on international aid or development assistance, currency transfer restrictions, and liquidity risks related to lower trading volumes.

Definitions

Beta is a measure of the volatility or systemic risk of a security, group of securities, or portfolio compared with another security, group of securities, portfolio, or the market as a whole.

Concentration is a term used to describe the extent to which investments in a portfolio, group of portfolios, industry, sector, index, or particular geography or clustered in groups that share specific factors or other characteristics.

A correction is a decline in the market price of a security or index of more than 10% from its recent highs but not more than 20%.

Correlation is a statistic that measures the degree to which two securities move in relation to each other.

Dead money in finance refers to investments with little yield or growth over time.

Dividend investing focuses on investing in companies that distribute a portion of their profits to shareholders in the form of a dividend.

A drawdown is a decline in the returns of a security or group of securities, as measured over a period from the peak of returns to their trough.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

Exogenous shocks are unexpected events that take place outside an industry, sector, or even an economy and that have sudden, negative impacts on countries, their populations, their economies, and their capital markets.

Factor investing is an approach to investing that selects securities based on characteristics associated with higher returns. These characteristics, or factors, can be macroeconomic factors or style factors. Macroeconomic factors are focused on broad risks across asset classes and include the rate of inflation: growth in gross domestic product; and the unemployment rate. Style factors include differences in growth versus value stocks; market capitalization, and industry sector. Factor performance refers to a focus on performance of securities within a particular factor or between groups of different kinds of factors.

Fiscal policy refers to the tax collection and spending a government uses to influence its country's economy.

Front-running is trading any financial asset based on knowledge of a future transaction or development that will substantially affect the price of the asset.

Federal Reserve GDPNow™ is a model estimate for real gross domestic product (GDP) growth (seasonally adjusted annual rate). It is produced by the Federal Reserve Bank of Atlanta, but it is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow™. The estimate is based solely on the mathematical results of the model.

The Global Economic Policy Uncertainty Index is a gross domestic product (GDP)-weighted average of national economic policy uncertainty indices for 20 countries: Australia, Brazil, Canada, Chile, China, France, Germany, Greece, India, Ireland, Italy, Japan, Mexico, the Netherlands, Russia, South Korea, Spain, Sweden, the United Kingdom, and the United States. An economic policy uncertainty index tracks the number of times that news articles in a particular country mention terms related to the economy, policy, and uncertainty in a single article.

Growth investing is a stock-buying strategy that focuses on companies expected to grow at an above-average rate compared to their industry or the market.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock.

Momentum investing is a strategy that aims to capitalize on the continuance of an existing market trend. It is a trading strategy in which investors buy securities that are already rising and look to sell them when they look to have peaked. It entails taking long positions on financial instruments with prices trending up and short positions on instruments with prices trending down.

A moving average (MA) is a technical analysis tool that smooths out stock price data by creating a constantly updated average price, often over a specified period of time, such as 15, 30, 50, 100, or 200 days.

Positioning refers to assessments of whether professional investors are, on the whole, bullish or bearish on a particular security, industry, sector, market capitalization or other area of the market, as reflected by the extent to which they are invested in the area of the market in question.

A pullback is a temporary pause or drop in the price of a security that previously had been rising.

A quintile is a statistical value representing 20% of a given set of data. The first, or lowest, quintile represents the lowest fifth of the data (1% to 20%), and the highest quintile represents the top fifth (81% to 100%).

A risk-off rotation is one where investors seek assets that are considered to be safe havens in bearish market environments.

Roll over, as it relates to investment returns, sector performance, or economic data, describes a widespread and unfavorable change in prices or data that begins slowly and picks up speed.

Rotation describes the movement of investments in securities from one industry, sector, factor, or asset class to another as market participants react to or try to anticipate the next stage of the economic cycle.

Sticky is a term used to describe measured data that is slow to change, in contrast to faster-changing or more variable data.

Tailwind is a term used to describe events or market forces that exert a positive influence on an investment's performance.

Technicals refers to technical indicators of historic market data, including price and volume statistics, to which analysts apply a wide variety of mathematical formulas in their study of larger market patterns.

Value investing is an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value.

Washed out is a term used in finance to describe a state where market sentiment displays no clear trend or enthusiasm for particular areas of the market.

Indices

The S&P 500 Index measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

The S&P 500® Equal Weight Index includes the same constituents as the capitalization-weighted S&P 500 Index, but each company in the S&P 500 EWI is allocated a fixed weight.

The S&P 500® Growth measures constituents from the S&P 500 that are classified as growth stocks based on three factors: sales growth, the ratio of earnings change to price, and momentum.

The S&P 500® Value measures constituents from the S&P 500 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price.

The MSCI ACWI (All Country World Index) ex USA Index captures large- and mid-cap representation across 22 of 23 developed markets countries (excluding the United States) and 24 emerging markets countries. With 2,056 constituents, the index covers approximately 85% of the global equity opportunity set outside the United States. Developed markets countries include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K. Emerging markets countries include Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 98% of investable U.S. equity market.

The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index and includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

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