

THE CAPITAL MARKETS

New Covenant Trust Company

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MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished February at 43,841, down -1.58% for the month and up +3.05% so far in 2025. The S&P 500 closed February at 5,954, down -1.42% for the month and up +1.24% year-to-date. The NASDAQ Composite lost -3.97% in February, down -2.40% for the year. Small-company stocks as measured by the Russell 2000 ended February down -5.45% for the month, down -3.01% so far for the year. Health care (+7.23%) has been the best-performing sector year-to-date.

AS TARIFF TALK RATTLES MARKETS, DIVERSIFICATION IS THE CLEAR WINNER

Between February 19 and March 13, the S&P 500 lost around -10.1%. Considering that 10% corrections have occurred on average every 1.5 years, with the last one being in October 2023, many observers were expecting that a pullback may be likely in 2025. With markets coming off their best two consecutive years since the 1990s, and with valuations stretched well above their long-term averages, in some ways a correction should not have been surprising at all.

For markets to shift momentum, however, there must be a catalyst — and the catalyst in this case was not just the announcement of increased tariffs on goods entering the United States, but also the on-again off-again nature of the announcements. In fact, the second time tariffs on goods from Mexico and Canada were put on pause — what was expected to be a positive for markets — markets sold off sharply, highlighting investors' deep aversion for uncertainty and unpredictability.

Entering 2025, most strategists expected that the incoming administration would provide more surprises than normal. As the first quarter comes to a close, however, markets are recalibrating their assumptions to account for a much wider level of unpredictability than was previously assumed.

Numerous issues remain unresolved, including global tariffs, the impact of DOGE on the federal workforce, how immigration policy might affect the labor market and economy, and how an anxious U.S. consumer might respond to the constant swirl of uncertainty coming from Washington.

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“The S&P 500 may have snapped a four-week losing streak, but the big worries dogging the market haven’t gone anywhere. Tariffs may be the biggest, as consumers, businesses and investors remain on tenterhooks about how policy will shake out.”

(Barron’s, The Trader, Teresa Rivas, March 21, 2025)

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Many Wall Street firms are decreasing their forecasts for GDP growth and corporate earnings, while business leaders across industries are referencing not just tariff uncertainty, but also policy and regulatory uncertainty, as headwinds for their businesses in 2025 and beyond.

Volatile markets often provide investors an opportunity to appreciate following the fundamentals in investing, exercises that may seem uninteresting in euphoric markets.

For example, diversification has been the big winner in 2025. At the time of this writing, the MSCI EAFE international index is up over +10% year to date, while the S&P 500 is down around -1.75%. The Russell 1000 Value Index has gained +2.27%, while the tech-heavy Growth Index has lost -5.31%. Regular rebalancing has also demonstrated its value, as the exercise would have likely taken profits from U.S. and Growth allocations heading

into 2025 and reallocated to Value and International.

At the time of this writing, markets are around levels first seen in November 2024. We still consider it an appropriate time to consider raising cash for any 2025 liquidity needs, and to ensure that exposure to equities is for assets with a long-term time horizon.

If we can help advise on this or any other investing fundamental, we are more than happy to during this time.



ECONOMIC UPDATE

An impactful piece of economic news in recent weeks has been the sudden decline in the Atlanta Federal Reserve's GDP forecast for the first quarter, known as the GDPNow forecast.

After hovering around what would be an on trend +2% or so GDP for Q1, in the midst of the tariff announcements, the forecast dropped to -2% GDP growth for the first quarter.

Digging into the numbers, it appears that much of the change is an expected one-time change in net exports, as importers pull forward inventory ahead of tariffs.

It's also worth noting that this forecast is known to be volatile intra-quarter, yet still it was news that did little to

calm the nerves of jittery markets grappling with tariff and policy uncertainty.

On the jobs front, the U.S. economy added 151,000 jobs in February, which was below expectations, but the unemployment rate remains historically low at 4.1%. Of note, a measure of announced layoffs published by Challenger, Gray & Christmas hit 172,000 planned job cuts in February, the highest level since July 2020 during the pandemic.

Markets are in wait-and-see mode for early April reports on the labor market and inflation. With markets nervous about recession risk, weak readings on these measures may spark additional volatility.

“But as [the administration] unleashed an on-one-day, off-the-next tariff fight with America’s largest trading partners, those gains unraveled. In just a few weeks, the S&P lost \$4 trillion in value driven by whipsaw trade policy, receding optimism about an artificial-intelligence boom and souring consumer sentiment caused by threats of higher prices and weaker growth.”

(The Wall Street Journal, Nick Timiraos, March 25, 2025)



Market Metrics

Index or Metric	Close as of 1/31/2025	Close as of 2/28/2025	Change Previous Month End	2025 YTD % Change
Dow Jones Industrial Average	44,544.66	43,840.91	-703.75	3.05%
S&P 500	6,040.53	5,954.50	-86.03	1.24%
NASDAQ Composite	19,627.44	18,847.28	-780.16	-2.40%
RUSSELL 2000	2,287.69	2,165.30	-122.39	-3.01%
Fed Funds Rate	4.25% - 4.50%	4.25% - 4.50%	UNCHANGED	
2-Year Treasury	4.22%	3.99%	-0.23%	
10-Year Treasury	4.58%	4.24%	-0.34%	
Crude Oil \$ per Barrel	\$72.53	\$69.76	-\$2.77	-2.73%
Gold \$ per Troy oz.	\$ 2,835.00	\$2,848.50	+\$13.50	7.86%
UK Point in U.S. \$	\$1.2426US=1£	\$1.2592US=1£	\$ WEAKER	0.54%
Euro in U.S. \$	\$1.0396US=1	\$1.04US=1	\$ WEAKER	0.43%
Canada \$ per U.S. \$	\$1.44825C=\$1.00US	\$1.44055C=\$1.00US	\$ WEAKER	0.16%
Japan Yen per U.S. \$	154.85¥=\$1.00US	150.695¥=\$1.00US	\$ WEAKER	-4.11%

