MARCH 2025

Market Review & Forward Outlook

Bulls, Bears, and Ostriches

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Key Takeaways

The equity markets continued the late February sell-off with another stick save on the last day of the month. Will this one hold?

The U.S. 10-year Treasury Yields rotated around 4.25%, but without much actual direction.

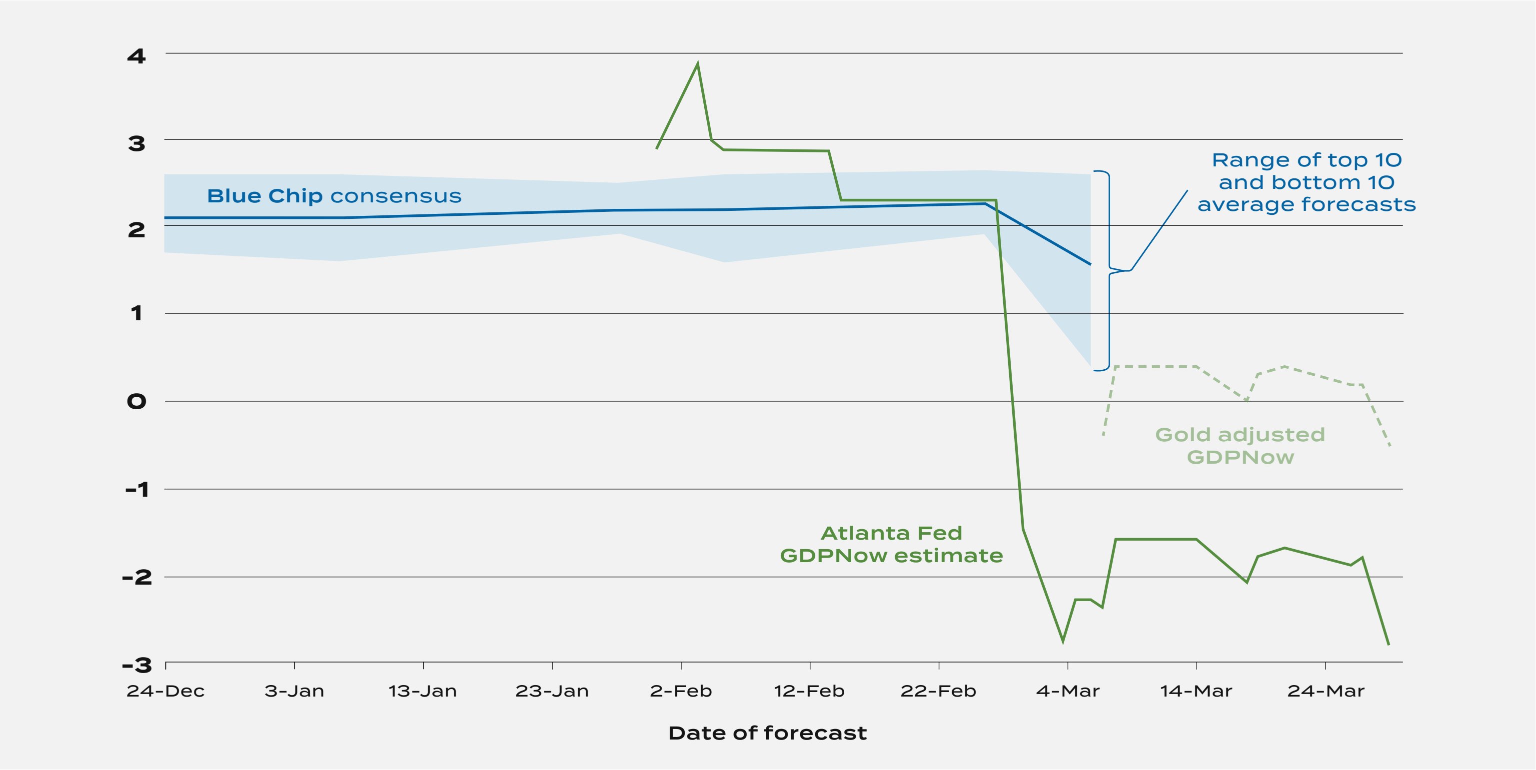
Crude oil almost hit the lower end of the range but found support at $66 and then had a steady climb back into the low $70's by month's end.

U.S. Economy

The final read for 4th quarter GDP came in up slightly at 2.4%, above expectations. Core PCE, the embedded inflation measure, moved lower to 2.6%, from 2.7%. The updated estimates for 1st quarter GDP, from GDPNow, are currently expecting -0.5% growth, have become very volatile with the likely culprit being a massive surge in imports to front-run tariffs which includes a large importation of gold, as shown in the chart on the next page, the Blue-Chip consensus forecast moved down to around 1.5%, as shown in the chart below. Economic reports and expectations have been weakening the last couple of months and the PCE deflator is perking up and remains above the Fed's sweet spot of "2%" inflation. Stagflation? Recession? The uncertainty has everyone in knots.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q1

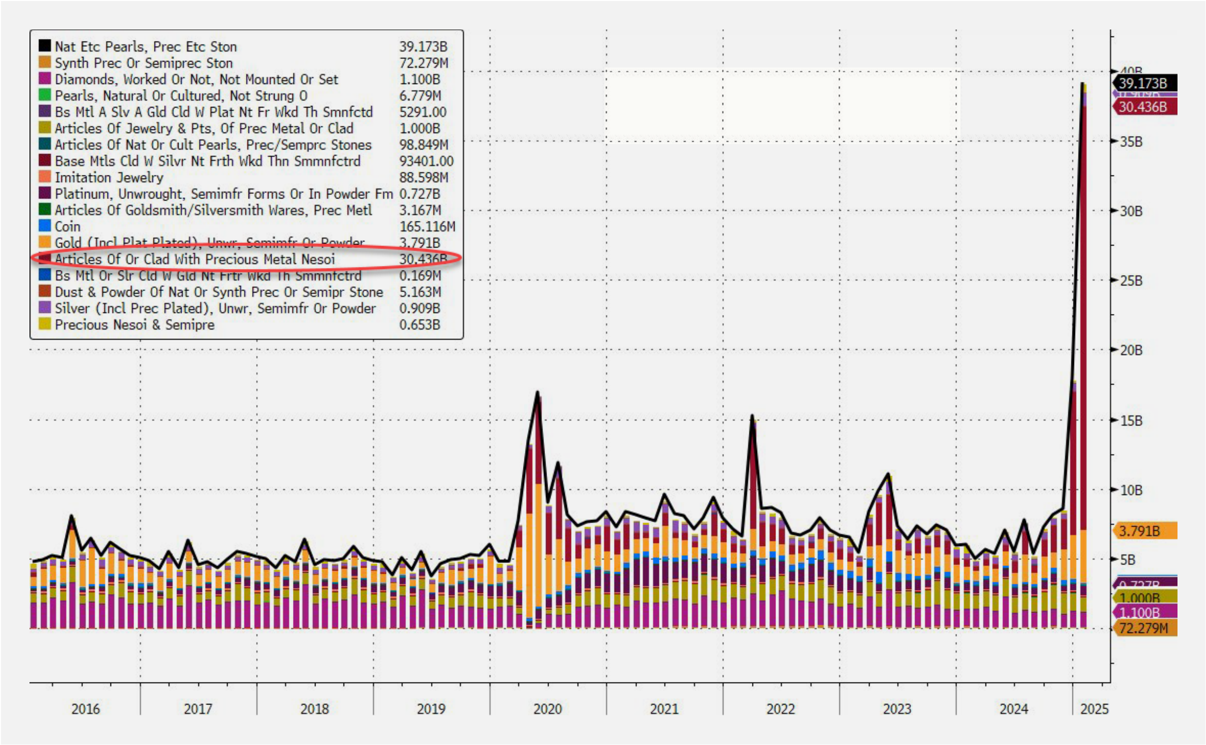
Quarterly percent change (SAAR)



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.
Link: https://www.frbatlanta.org/cqer/research/gdpnow

US Gold Imports

There has been an historic surge in Gold imports to the U.S. which is wreaking havoc on the estimates for 1st quarter GDP as the January, February surge shown below has persisted into March. Likely whatever number ends up getting reported is going to have a lot of caveats.



Link: https://www.zerohedge.com/precious-metals/us-trade-deficit-explodes-record-high-ahead-trump-tariffs-bullion-imports-soar

Stocks and Bonds

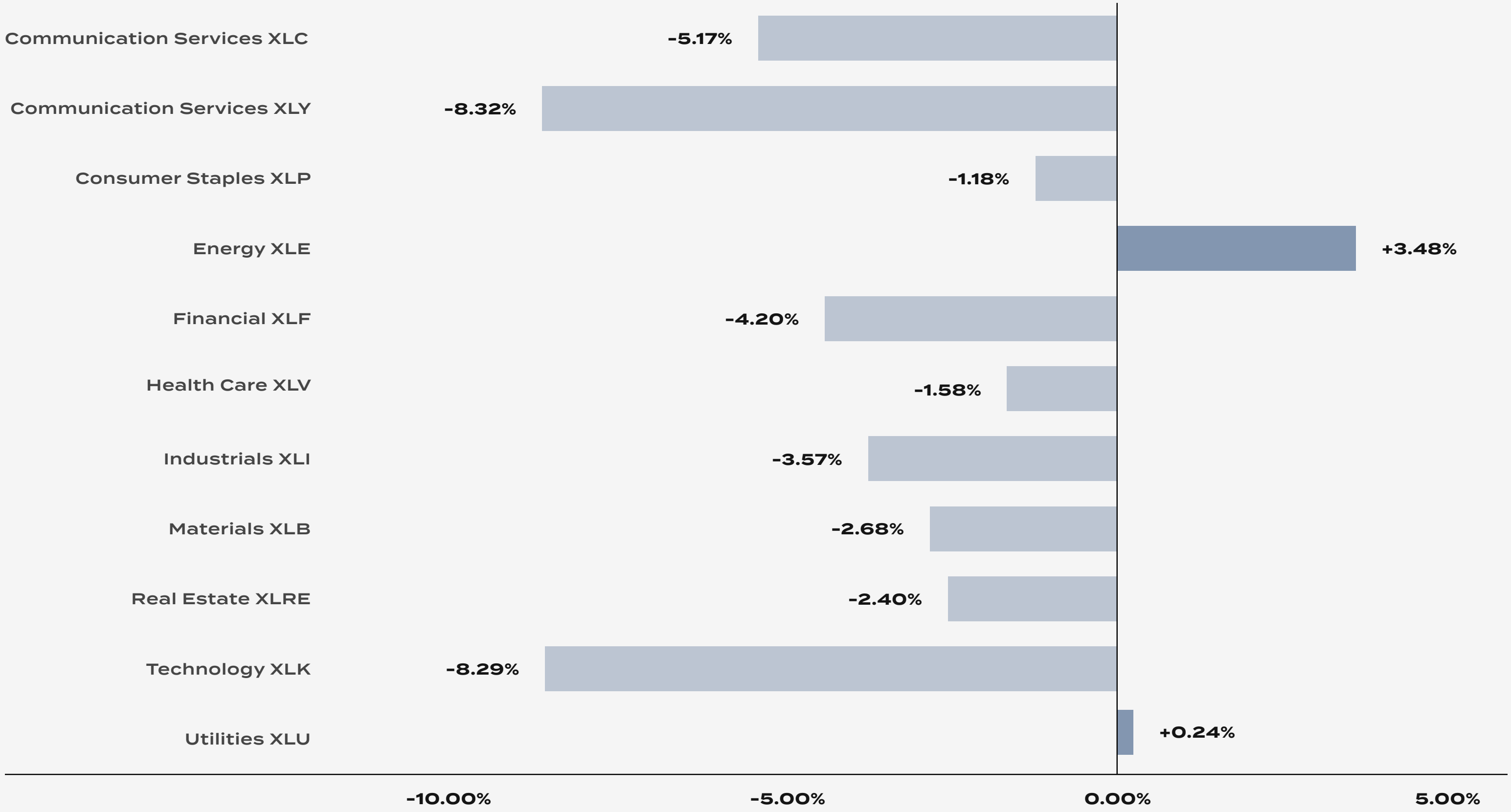
The U.S. 10-year Treasury yield started the month at 4.23% and traded within basically 10 basis points of that number throughout the month. Yields declined when the bond market was more focused on an incoming recession and rose when inflation data was stronger, i.e. stagflation. The Fed as expected left rates unchanged, though reduced the amount of quantitative tightening for treasury securities. The Fed remains on hold weighing the policy uncertainties, Tariffs, with softening economic data and firm inflation data. The likely wild card is employment or rather a meaningful rise in unemployment from government layoffs, which so far hasn't impacted reported data. If unemployment has a sharp climb, the odds of the Fed cutting rates increases dramatically. The uncertainty of Trump's potential new policies continued to generate volatility, but this time it just jumped around the same spot. The lack of movement in yields was neutral for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF increased +0.04% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.25%, up very modestly from February's close of 4.23%.

The Dow Jones Industrial Average fell -4.20%, the S&P 500 dropped -5.75%, and the small cap iShares Russell 2000 ETF plunged -6.81%. The international markets traded much better than the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index eased -0.03%, and the MSCI Emerging Markets iShares Core ETF Index rose +1.16%.

Sector Performance

March's sector performance was mostly red and very red. The best performers were Energy (+3.48%) and Utilities (+0.24%). The worst performers were Consumer Discretionary (-8.32%), Technology (-8.29%), and Communication Services (-5.17%).

Sector Performance



Source: https://www.morningstar.com

Oil Market

Crude Oil continued its way to the lower end of the range, but there was a strong bid at $66 that prevented the price from dropping to and through $65. As the month rolled on the prospect of the Ukraine/Russian conflict ending began to wane. Further, the threats to Iranian nuclear ambitions, along with sanctions on Venezuelan oil buyers and additional sanctions on Russian oil started a rally into the low $70's by month end. The current NYMEX WTI Crude Oil futures settled at $71.48, posting a gain of over 2% from the prior month's close of $69.95 a barrel. RBOB gasoline was again stronger than Crude for the month and gained just over 3% vs. February's close. The economy and geopolitics are likely to continue to hold center stage, but gas prices have come down. Last week, I paid less than $4 for gas in Kona, HI for the first time in… I can't even remember.

Other Economic Data

The February ISM Manufacturing Index eased to 50.3 from January's reading of 50.9, again holding above 50. The ISM Services Index increased to 53.5 in February, from January's print of 52.9. Any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing jumped into the elevated range and Services' prices firmed at elevated levels. Consumer confidence dumped to 92.9 in March, a 12-year low, which compared to a meaningfully upwardly revised 100.1 in February. The unemployment rate increased to 4.1%, while the number of jobs added came in at 151,000 in February, slightly missing expectations of 160,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) was up +0.2% in February, on a seasonally adjusted basis, finally breaking the previous month's streak. Over the last 12 months, the All-Items Index rate decreased to +2.8% on a non-seasonally adjusted basis. The CPI ex Food and Energy decreased to 3.1% over the last year. The economic data is sending mixed messages. I could show you economic, inflation and employment data that shows you the economy is imploding, inflation is soaring and employment is about to plummet. Or I could show you data from the same month that shows the economy is doing fine, inflation is moderating, and employment is stable. Confused? Join the club! With all that said, I will refer to the previous saying, "Nothing ever happens." It seems that the likely outcome is neither of the extremes I just painted. Inflation, the economy and employment will all probably remain relatively stable with a large increase in noise. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

The market continues to battle the uncertainty of the new administration and potential policy shifts. As mentioned in "The Rest of the Data" section regarding the economic news, the same statement can be made for the equity markets. We are either on the cusp of a crash or an economic renaissance. I have been doing this for nearly 30 years, and I can't remember a time where opinions were so bifurcated on so many levels. It may be the political divide or something else, but it sure makes predictions about the future very difficult and makes the foundation of our philosophy even more cogent today. In the meantime, we await Trump's "Liberation" Day Tariff announcements Wednesday afternoon. Will it be the end of the beginning or the beginning of the end?

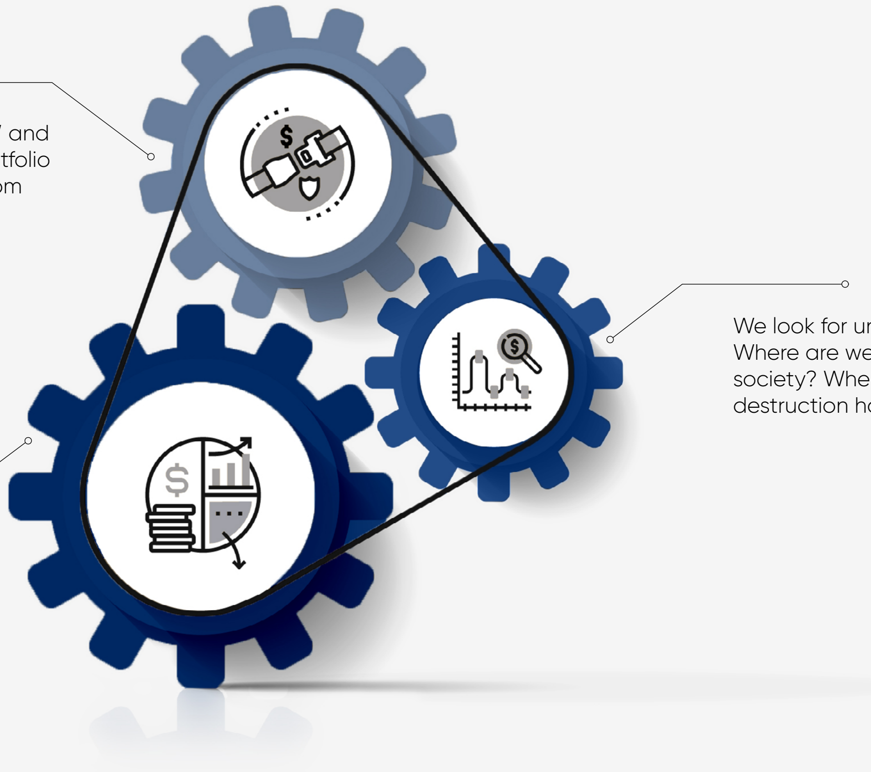
As always, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/tariffs vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities. Some of the defense mechanisms have kicked in with U.S. Large cap moving to 50% T-Bills, U.S. Mid cap has moved to 100% T-Bills and the High Yield has moved to 50% Intermediate Term T-Notes.

The 3Dx™ Investment Approach

We apply these 3 simple, powerful disciplines to bring the X-factor, better outcomes for clients, to every relationship

HEDGE

We incorporate "airbags" and a "seatbelt" into your portfolio to give you protection from the unexpected.



THEMATIC

We look for undeniable trends. Where are we going as a society? Where is creative destruction happening?

CORE

We own the market – Large, Mid, Small, Bonds, and International. Also commonly known as "asset allocation."

My Forefront Advisor Network Team

A Collection of Thinkers, Learners, and Problem Solvers

David Leone

CFP, CIMA

Wealth Advisor | Founder at Leone & Company Wealth Management

Kevin Churchill

CFA, CFP

Chief Investment Officer

Eric Negron

CEPA, AWMA

CEO | Wealth CFO | Exit Planner

Christopher Marrone

CFP

Tax Strategist | Wealth CFO

Michelle Fuccella

CDS

Divorce Analyst | Wealth CFO

Chad Rixse

CRPS

Director of Financial Planning | Wealth CFO