Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

The past week was full of twists and turns as investors digested a plethora of economic data while trying to understand the President's on again, off again tariff strategy, which, frankly, is becoming the norm. This week, he imposed 25% tariffs again on Canada and Mexico only to temporarily rescind them for any products and services under the North American trade agreement (USMCA). This reprieve is until April 2nd. China tariffs stand at 20% for the moment and steel and aluminum go into effect on the 12th. What we know is the tariff policy is meant to level the global playing field; what we don't know is the ultimate level of tariffs. Markets like clarity and currently we have none. Investor's reaction, volatility, rotation to more defensive areas and a shift to bonds, reflects the uncertainty that persists. However, this should not be alarming to long term investors as we experience it often; most recently, last July/August with equity returns ending strongly. This is not a prognostication but a recognition that markets can get a bit ahead of themselves, needing time to adjust. Markets did just that with the DJIA down 2.37%, the S&P declining 3.1% and the Nasdaq retreating 3.45% with the latter clearly in correction territory from its high. The US Treasury 10 year settled at 4.3% down almost half a percent since January. In short, we are seeing the good news of the past few years getting fully reflected in stock prices and a reset should be expected for further gains to materialize. Generally, this weakness is viewed opportunistically, and we will pick our spots to initiate or add to positions.

The week's economic announcements clearly indicate that "chinks in the armor" are developing but overall, there are reasons to be optimistic. On Monday, February ISM manufacturing fell to 50.3 from the prior month's 50.9 signaling cautiousness as demand eased, production stabilized and destaffing continued as companies got out in front of tariffs. The good news is it remains above 50% after hovering below for much of 2024. Later in the week, the services component of the ISM survey showed month over month improvement to 53.5 up from 52.8. Overall, companies acknowledged that federal spending cuts and tariff uncertainties are impacting their forecasts. This is being confirmed in the recently concluded earnings season where profitability increased 18% but guidance was tepid. Investment strategists are projecting 12% earnings growth in 2025 but in the case of Goldman Sachs they are a bit more conservative at 9%. Either way this remains constructive despite the rate of change and the current pullback. For some companies and sectors especially tech, the 2024 winner, valuations are adjusting to better reflect the environment. When this is achieved investor outflows may become inflows as no disruption in growth is confirmed.

Lack of clarity and company hesitancy was no more apparent than in the employment data released throughout the week starting with ADP on Wednesday. The private sector added 75,000 jobs in February far short of the estimate of 140,000 but January was revised up. Friday's non-farm payroll for February confirmed the softening coming in at 151,000 vs the estimate of 160,000. January was revised down to 125,000, unemployment ticked up to 4.1% and average hourly earnings rose 0.3% as expected. Thursday's jobless claims were 221,000 vs the 235,000 estimate and weekly continuing claims rose 42,000 to 1.90mil. Policy uncertainty and a slowdown in consumer spending probably led to the weaker reports. We should expect further employment gyrations in the coming months as the government continues its efficiency initiatives.

Despite confusing messaging coming from Washington and signs of fading economic resilience, we expect the Federal Reserve to keep rates unchanged while acknowledging deterioration in their comments. Unsurprisingly, the probability of future cuts rose to three, up from zero to 1 just a week ago.

The upcoming week could provide further fireworks as we near a possible government shutdown on March 14th. Congress is hastily trying to pass a stopgap measure through September 30th. Republicans, with a narrow margin, hope to buy themselves more time to enact more of the President's agenda. This script has been written repeatedly so expect it to go down to the wire with an eventual agreement because the cost of failure hurts both parties. Otherwise, earnings are few with Oracle and Adobe reporting, Consumer Prices on Wednesday and the Univ of Michigan Consumer Sentiment Index on Friday.

Market Scorecard:	3/7/2025	YTD Price Change
Dow Jones Industrial Average	42,801.72	0.61%
S&P 500 Index	5,770.20	-1.89%
NASDAQ Composite	18,552.20	-5.77%
Russell 1000 Growth Index	3,813.50	-5.66%
Russell 1000 Value Index	1,863.13	2.15%
Russell 2000 Small Cap Index	2,075.48	-6.94%
MSCI EAFE Index	2,495.73	9.22%
US 10 Year Treasury Yield	4.30%	-24 basis points
WTI Crude Oil	$67.04	-6.68%
Gold $/Oz.	$2,931.15	11.67%