M&K | LEGACY WEALTH

March 24, 2025

Economic Outlook Trumped By Trump

Last week's meeting of the FOMC (Federal Open Market Committee), which sets U.S. monetary policy, ended pretty much as expected. Fed watchers anticipated that the FOMC would leave interest rates where they were, and it did.

Fed watchers anticipated that the FOMC would reduce quantitative tightening (QT), and it did. The initial reaction was that the FOMC was being "hawkish," that is, that it was taking a hard line position on inflation. However, the subsequent press conference by Federal Reserve (Fed) Chair Powell convinced most investors that the Fed stands ready to support the markets if necessary – meaning that it is in fact "dovish," meaning it's more inclined to ease monetary policy. Following Powell's comments, the equity markets rallied, having been oversold from a -10% correction.

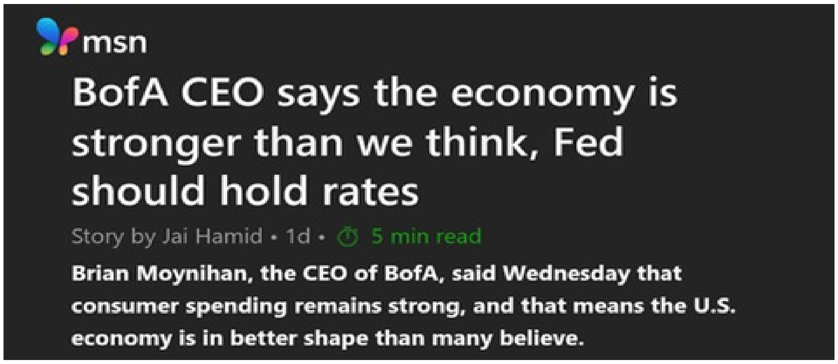
The Fed also updated its 2025 outlook by lowering its projection for economic growth for the full year from 2.1% to 1.7%, while raising its projection of core inflation (excluding food and energy) from 2.5% to 2.8%, and raising its projection of unemployment from 4.3% to 4.4%. The FOMC is also projecting another two interest rate cuts this year. So, in summary, the Fed is looking for slower growth, a modest weakening in the labor market, and a slight uptick in inflation. In his press conference, Chair Powell's word of the day was "uncertainty," which he applied to the economic outlook due to changes in policy, especially in regard to tariffs and international trade. Powell said current policy is appropriate, but the Fed is "well-positioned" to change policy if necessary.

Quantitative Tightening Eases

What markets may have liked most from the FOMC meeting was the Fed's plan to reduce its sales of Treasury securities, cutting them by $20 billion per month starting in April – a time when liquidity is usually strained by tax payments. These sales, a form of quantitative tightening (QT), draw liquidity from the banking system. By reducing sales from $25 billion to just $5 billion per month, the Fed is allowing more liquidity to remain in the system, making it available for other uses, such as loans or purchases of financial assets.

Bank of America CEO Says Consumers Still Spending – Bullish For the Economy

Last week, the CEO of Bank of America Brian Moynihan said the data that his company is seeing shows the consumer is still spending – up 6% in the first 2 ½ months of 2025 despite the consumer sentiment data pointing to a more concerned consumer. In our view, the spending uptick is positive for the economy. Consumer spending is linked to jobs, and as long as the consumer is employed, the economy can still grow and not slip into recession. So far, DOGE (Department of Government Efficiency) and tariffs have had a more negative impact on sentiment (confidence) than on economic data – which is what the Fed will be watching closely going forward.


msn

BofA CEO says the economy is stronger than we think, Fed should hold rates

Story by Jai Hamid • 1d • 5 min read

Brian Moynihan, the CEO of BofA, said Wednesday that consumer spending remains strong, and that means the U.S. economy is in better shape than many believe.

Source: MSN, March 19, 2025

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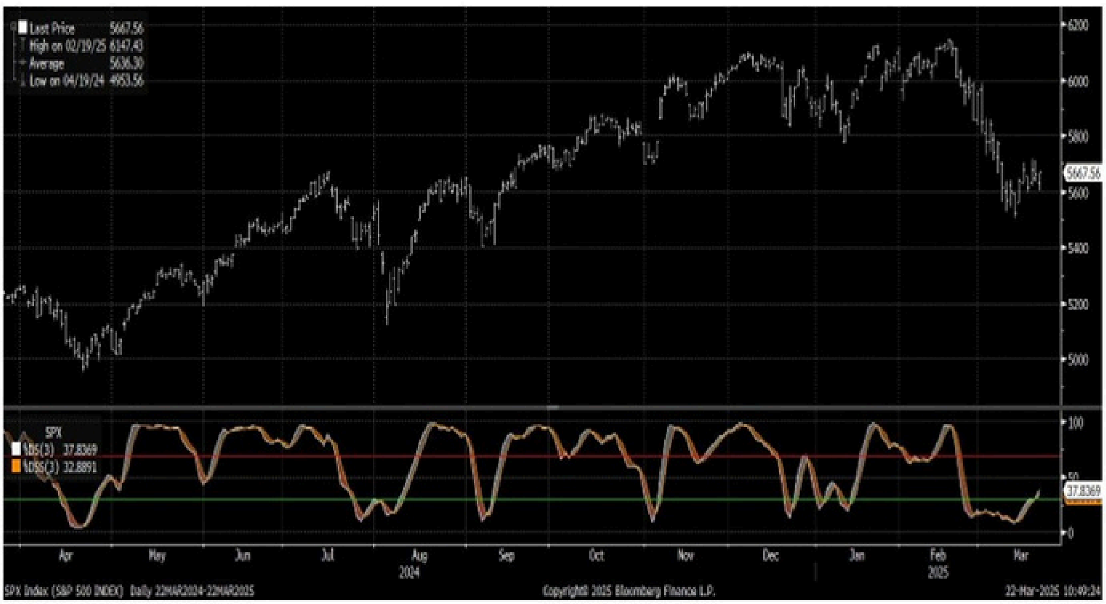
S&P 500 Has A Short-Term Buy Signal

We have been writing about the oversold condition of the equity market and expected a bottom after a 10% correction. We believe we are there. Most markets don’t bounce back in what is called a “V bottom” – a steep decline followed by a steep recovery. Markets often move sideways and retest recent lows—a process that can take up to a month. We expect choppy, somewhat volatile trading in the near term. Still, we believe current levels offer attractive entry points for long-term equity investors. We maintain that Technology and Tech-related are the leaders in this market.

S&P 500 With Daily 14-Day Stochastic With A Buy Signal



Are Yields Positioned To Fall? Possibly

The 10-Year Treasury yield appears to have what is called in technical analysis a “head-and-shoulders top” (shown in accompanying chart). A break of the support line, called the neckline, would indicate the yield can fall, targeting 3.6%-3.5%. When the Core Personal Consumption Expenditures (PCE) Price Index data is released on Friday, if the data comes in better than expected, watch yields very closely. If yields don’t move on the inflation news, the next big event could be Reciprocal tariffs set to take effect on April 2nd, targeting countries with higher trade barriers against U.S. exports.

10-Year Treasury Yield With Possible Head-And-Shoulders Top

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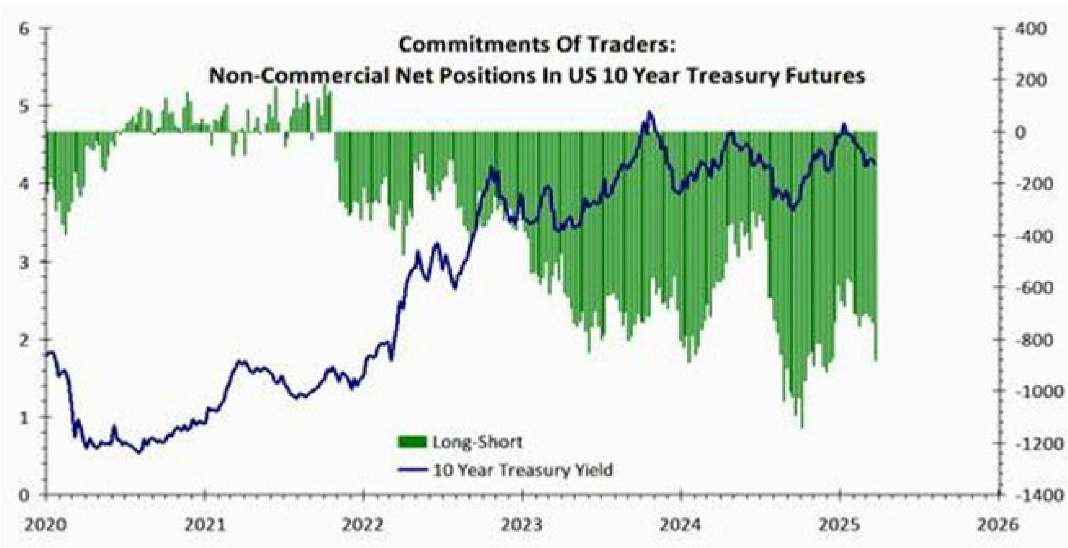
Fast Money Is Short 10-Year Treasury Yields

Last week, fast money (also known as hedge funds/CTAs) increased their short positions in 10-year Treasury yields. If interest rates do fall, we may get a short covering, further increasing the move to the downside in yields. Stay tuned.

Fast Money 10-Year Treasury Position: Very Short, Expecting Rates To Rise

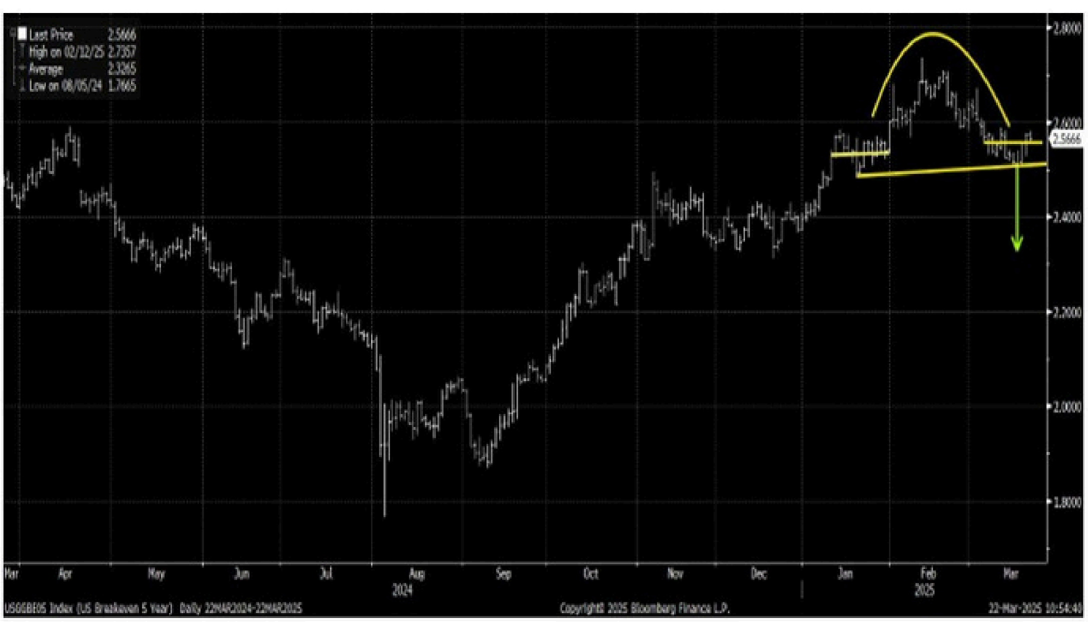


Source: CFTC, Sanctuary Wealth, March 21, 2025

5-Year Breakeven Yields Also Positioned To Fall

When we take a look at the Breakeven yields on the 5-year, which are a measure of inflation expectations, they too look to be forming a head-and-shoulders top. A break of the support (neckline) would signal lower yields and softer expectations for inflation. Could this give the Fed room to cut rates? We say yes.

5-Year Breakeven Yield With Possible Head-And-Shoulders Top



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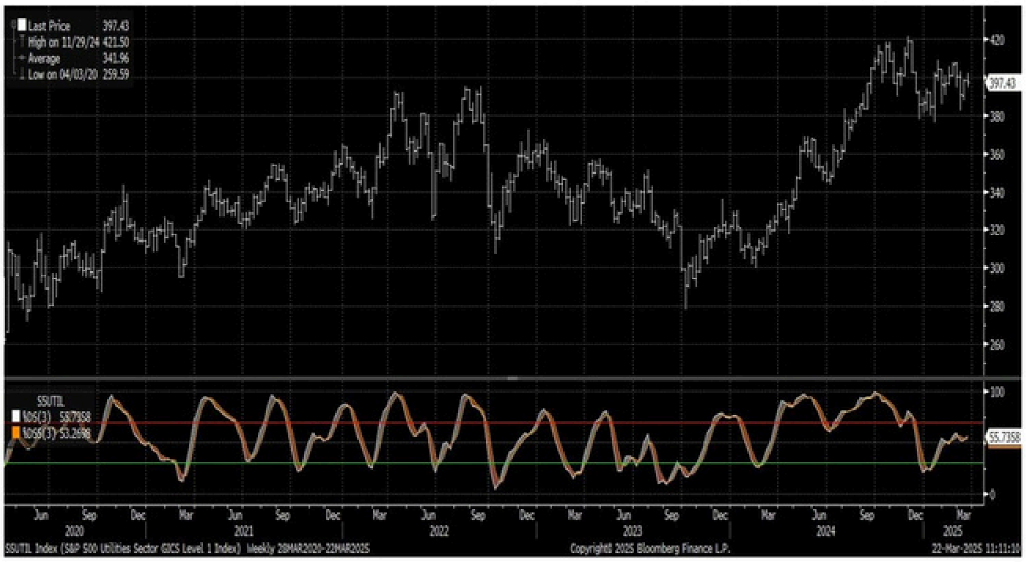
S&P 500 Utilities On A Buy Signal

Utilities look attractive as there's a buy signal on the 14-week stochastic on the S&P Utilities index. When interest rates fall, Utilities perform well because they are so capital intensive and have leverage on the balance sheet. If inflation data is positive this week, rates may fall, and utilities can perform well. We are buyers here regardless of the outcome on inflation.

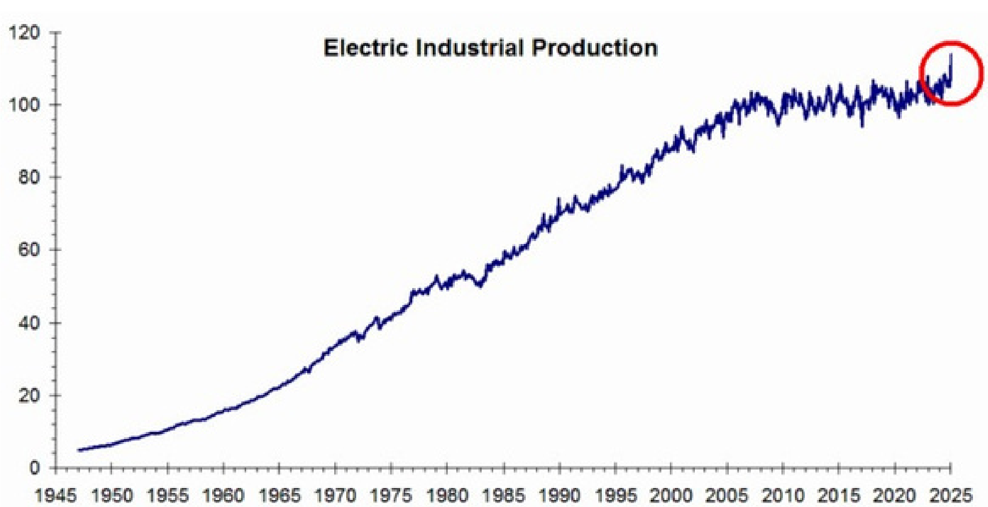
S&P 500 Utilities With 14-Week Stochastic On A Buy Signal



More AI-Driven Capital Investment In The U.S.

Last Wednesday, Nvidia CEO Jenson Huang spoke at the company's semiannual GPU Technology Conference, or GTC. The conference has become a who's who of artificial intelligence (AI). Huang announced a new version of Nvidia's Blackwell processor coming later this year, along with a roadmap for two even more powerful next-generation platforms: Vera Rubin, scheduled for release in the second half of 2026, and Feynman, expected in 2028. Huang introduced Spectrum-X and Quantum-X, silicon photonics networking switches that use light instead of electricity to transmit data, thereby cutting electricity demand, which can be redirected to computing instead. He also announced new business software deals with SAP, ServiceNow, and Salesforce; a partnership with General Motors focused on self-driving cars and robotic factories; and collaborations with T-Mobile, Cisco, and Cerberus ODC to build $100 billion worth of AI-enhanced telecommunications infrastructure.
SoundHound also presented at GTC, highlighting its use of Nvidia chips and Oracle cloud services to power its AI voice technology (used in over 10,000 drive-thru restaurants) and its new AI voice recognition for use in cars. The presence of AI in everyday life is quietly becoming ubiquitous. We believe ongoing adoption and proliferation of AI should drive productivity higher, leading to increased earnings growth and margin expansion.

A Jump In Electricity Production May Be The Result Of Data Center Electricity Demand Also Bullish For Utilities



Source: Federal Reserve Board, Sanctuary Wealth, March 18, 2025

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Tether Is Now The Seventh-Largest Buyer Of US Treasuries

Tether, the issuer of USDT, the world's largest stablecoin, was the world's seventh-largest US Treasury buyer, surpassing Canada, Taiwan, Mexico, Norway, Hong Kong, and numerous other countries. A stablecoin is a cryptocurrency whose value is pegged to another currency. USDT is pegged 1:1 to the U.S. dollar. Tether currently accounts for about 80% of cryptocurrency transactions, though it faces regulatory scrutiny in several countries over its user verification processes and practices to prevent illicit uses. The size of these holdings underscores the growing impact of cryptocurrencies in the financial markets.

ZeroHedge

Tether's US Treasury Holdings Surpass Canada, Taiwan; Rank 7th Globally

Authored by Zoltan Vardai via CoinTelegraph.com, THURSDAY, MAR 20, 2025 - 12:25 PM

Tether, the $143 billion stablecoin giant, was the world's seventh-largest buyer of United States Treasuries, surpassing some of the world's largest countries.

DISCLAIMER: Comments regarding Cryptocurrencies or Cryptocurrency-based securities are for informational purposes only. No part of this communication should be construed as investment advice and is not to be considered a solicitation with respect to the purchase or sale of any Cryptocurrency-related product.

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Market Performance

	Last 3/21/2025	Month End 2/28/2025	Month to Date	Quarter End 12/31/2024	Quarter to Date	Year End 12/31/2024	Year to Date	Year Ago 3/21/2024	Year To Year
S&P 500	5667.56	5954.50	-4.8%	5881.63	-3.6%	5881.63	-3.6%	5241.53	8.1%
NASDAQ Composite	17784.05	18847.28	-5.6%	19310.79	-7.9%	19310.79	-7.9%	16401.84	8.4%
NASDAQ 100	480.84	508.17	-5.4%	511.23	-5.9%	511.23	-5.9%	445.87	7.8%
Russell 2000	2056.98	2163.07	-4.9%	2230.16	-7.8%	2230.16	-7.8%	2098.56	-2.0%
S&P Consumer Discretionary Sector	1577.46	1731.52	-8.9%	1831.16	-13.9%	1831.16	-13.9%	1484.43	6.3%
S&P Consumer Staples Sector	864.15	918.34	-5.9%	853.65	1.2%	853.65	1.2%	811.31	6.5%
S&P Energy Sector	702.73	689.88	1.9%	654.85	7.3%	654.85	7.3%	707.12	-0.6%
S&P Financial Sector	820.54	866.84	-5.3%	804.44	2.0%	804.44	2.0%	697.98	17.6%
S&P Health Care Sector	1703.97	1734.28	-1.7%	1604.75	6.2%	1604.75	6.2%	1699.25	0.3%
S&P Industrials Sector	1116.78	1152.54	-3.1%	1115.65	0.1%	1115.65	0.1%	1063.94	5.0%
S&P Information Technology Sector	4171.05	4411.29	-5.4%	4609.52	-9.5%	4609.52	-9.5%	3852.51	8.3%
S&P Materials Sector	538.06	558.18	-3.6%	529.77	1.6%	529.77	1.6%	579.25	-7.1%
S&P Real Estate Sector	259.45	271.05	-4.3%	255.92	1.4%	255.92	1.4%	245.79	5.6%
S&P Communications Sector	329.64	348.89	-5.5%	341.66	-3.5%	341.66	-3.5%	284.03	16.1%
S&P Utilities Sector	397.43	400.57	-0.8%	384.95	3.2%	384.95	3.2%	323.87	22.7%
S&P 500 Total Return	12480.59	13098.22	-4.7%	12911.82	-3.3%	12911.82	-3.3%	11387.89	9.6%
3 month Treasury Bill Price	98.93	98.92	0.0%	98.92	0.0%	98.92	0.0%	98.66	0.3%
3 month Treasury Bill Total Return	259.42	258.78	0.2%	256.97	1.0%	256.97	1.0%	246.85	5.1%
10 Year Treasury Bond Future	111.09	111.09	0.0%	108.75	2.2%	108.75	2.2%	110.39	0.6%
10 Year Treasury Note Total Return	303.03	302.29	0.2%	293.94	3.1%	293.94	3.1%	289.72	4.6%
iShares 20+ Year Treasury Bond ETF	90.70	92.43	-1.9%	87.33	3.9%	87.33	3.9%	93.09	-2.6%
S&P Municipal Bond Total Return	279.30	281.95	-0.9%	278.14	0.4%	278.14	0.4%	272.93	2.3%
iShares S&P National Municipal Bond NAV	105.95	107.37	-1.3%	106.40	-0.4%	106.40	-0.4%	107.58	-1.5%
S&P 500 Investment Grade Corporate Bond Total Return	475.28	476.92	-0.3%	465.24	2.2%	465.24	2.2%	451.05	5.4%
S&P Investment Grade Corporate Bond	91.32	91.86	-0.6%	90.28	1.1%	90.28	1.1%	90.24	1.2%
S&P Investment Grade Corporate Bond Total Return	506.62	508.20	-0.3%	495.89	2.2%	495.89	2.2%	479.19	5.7%
SPDR Bloomberg High Yield Bond ETF	95.76	97.12	-1.4%	95.47	0.3%	95.47	0.3%	95.24	0.5%
iShares iBoxx High Yield Corporate Bond ETF	79.22	80.13	-1.1%	78.65	0.7%	78.65	0.7%	77.78	1.9%
Gold	3022.15	2857.83	5.7%	2624.50	15.2%	2624.50	15.2%	2181.33	38.5%
Bitcoin	84183.37	84212.07	0.0%	93714.04	-10.2%	93714.04	-10.2%	65466.78	28.6%

Source: Bloomberg, Sanctuary Wealth, March 21, 2025

The Fed's Favorite Inflation Data Released – Could Impact Direction Of Interest Rates

This week the Madness continues – hopefully only on college basketball courts.

This week is chock-full of economic data releases, but the big economic report will be the release of the Core PCE Price Index (personal consumption expenditures excluding food and energy), on Friday morning. Core PCE is the Fed's preferred measure of inflation. As the week begins, economists are expecting Core PCE to be 2.7% year-to-year. A lower-than-expected number would give the Fed more room to lower interest rates, while a higher-than-expected number reduces the chances of a near-term cut. The market is expecting between 2 and 3 rate cuts this year, targeting 3.6%. Reduced interest rates on lower inflation data should be bullish for equities. Despite ongoing uncertainty and expected volatility, spring is here – and the surprise few are expecting is a burst of green shoots in the markets before long.

Calendar

Mon.

9:45 am S&P flash U.S. services PMI, S&P flash U.S. manufacturing PMI
1:45 pm Atlanta Fed President Raphael Bostic speaks
3:10 pm Fed Governor Michael Barr speaks

Tue.

8:40 am Fed Governor Adriana Kugler speaks
9:00 am S&P Case-Shiller home price index (20 cities)
9:05 am New York Fed President John Williams opening remarks
10:00 am Consumer confidence, New home sales

Wed.

8:30 am Durable-goods orders, Durable-goods minus transportation
10:00 am Minneapolis Fed President Neel Kashkari speaks
1:10 pm St. Louis Fed President Alberto Musalem speaks
Earnings: Dollar Tree*

Thu.

8:30 am Initial jobless claims, GDP (second revision), Advanced U.S. trade balance in goods, Advanced retail inventories, Advanced wholesale inventories
10:00 am Pending home sales
4:30 pm Richmond Fed President Tom Barkin speaks
Earnings: Lululemon Athletica

Fri.

8:30 am PCE index, Core PCE index
10:00 am Consumer sentiment (final)
12:15 pm Fed Governor Michael Barr speaks
3:30 pm Atlanta Fed President Raphael Bostic speaks

*Earnings reflect highlights
Source: CNBC, Kiplinger's, MarketWatch

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