Market Commentary | March 2025

Benchmark Review & Monthly Recap

Stocks Hit Correction Territory in March as Q1 Ends Lower

Equity Markets

March was a challenging month for U.S. stocks across the board. However, quarterly returns are more nuanced when looking at the data. See Table 1 for March 2025, Q1 2025 and calendar year 2024 results.

Table 1 | Equity Markets

Index	March 2025	Q1 2025	2024
S&P 500	-5.63%	-4.27%	25.02%
S&P 500 Equal Weight	-3.38%	-0.61%	13.01%
DJIA	-4.06%	-0.87%	14.99%
Russell 3000	-5.83%	-4.72%	23.81%
NASDAQ Comp.	-8.14%	-10.26%	29.57%
Russell 2000	-6.81%	-9.48%	11.54%
MSCI ACWI ex U.S.	-0.23%	5.23%	5.53%
MSCI Emerging Mkts Net	0.63%	2.93%	7.50%

Source: Morningstar. For illustrative purposes only. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index. Past performance is not indicative of future results.

Different pockets of the equity markets had very different outcomes during the quarter. After years of lagging, international stocks had positive returns in Q1 while U.S. stocks were down. The large-cap growth leadership in U.S. markets reversed course to start the year, as the Nasdaq Composite had the worst results – down over 10% – for the major U.S. indices in the first quarter. Small caps, which had periods of strong performance in 2024, struggled in the first quarter of 2025, as well. Other areas of the U.S. markets were largely unchanged to start the year with the Dow Jones Industrial Average and the equal-weighted S&P 500 down less than -1% for the quarter. The results of the equal-weighted S&P 500 points to broadening occurring in the market outside of the narrow large-cap tech names, which have dominated in recent years. This quarter, diversification helped with international stocks offsetting some of the U.S. market weakness.

Highlights

- **Stocks:** The S&P 500 reached a new all-time high in February, but weakness developed from that point. In March, the S&P 500 fell to its lowest level since September. The first quarter of 2025 was the first down quarter for the S&P 500 since Q3 2023 – breaking the streak of five quarters of gains.
- **Bonds:** Bonds, which started the year off strongly, were mixed in March. The 10-year U.S. Treasury, which closed February at a 4.24% yield, ended March only modestly lower at 4.23%. Overall, bonds had a solid quarter and helped offset some of the equity market weakness seen late in Q1.
- **U.S. Economy:** Concerns about the U.S. economy accelerated in March. Tariff fears have weighed on consumer confidence, and many prognosticators have cut economic growth estimates for 2025.
- **Federal Reserve:** The FOMC has not changed policy rates in 2025. However, the Fed's Summary of Economic Projections (or SEPs) released in March showed the Fed is expecting lower economic growth and higher unemployment and inflation in 2025 than it did in its December release. The market is expecting three rate cuts this year. (Per CME FedWatch tool as of 3/31/25.)

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Fixed Income

The almost relentless rise in rates experienced during the fourth quarter of 2024 and into early January has reversed. The 10-year U.S. Treasury yield ended 2024 and January 2025 at 4.58%. However, that does not tell the whole story as rates rose to start the year and closed at a high of 4.79% on January 13. From that point, rates have fallen sharply, and they ended March at 4.23%. The decline in rates since those January highs has been a solid tailwind for bond returns. See Table 2 for bond index returns for March 2025, Q1 2025 and calendar year 2024.

Table 2 | Fixed Income Markets

Index	March 2025	Q1 2025	2024
Bloomberg U.S. Agg	0.04%	2.78%	1.25%
Bloomberg U.S. Credit	-0.24%	2.36%	2.03%
Bloomberg U.S. High Yld	-1.02%	1.00%	8.19%
Bloomberg Muni	-1.69%	-0.22%	1.05%
Bloomberg 30-year U.S. TSY	-1.39%	4.28%	-8.09%
Bloomberg U.S. TSY	0.23%	2.92%	0.58%

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March saw periods of bond strength and weakness at times amid a volatile stock market. High-yield bonds tracked equities with strong results in January, but weaker results in March as stocks declined. High-yield bonds gave up about half of their returns for the year in March. Munis and longer-dated U.S. Treasuries, some of the more rate sensitive areas of the bond market, struggled in March. However, for the quarter, all pockets of the bond market outside of munis showed positive results. We believe rates on the front end of the yield curve will be pressured lower as the Fed cuts rates and longer rates will remain more volatile, but with broader pressure as well to the downside. Overall, the decline in rates has set up a solid backdrop for bond returns to begin 2025.

We maintain our long-standing position favoring credit versus pure rate exposure in this interest rate environment. We also believe the role bonds play in a portfolio – to provide stable cash flow and to help offset the volatility of stocks in the long run – has not changed. Bonds indeed helped offset equity market volatility in the first quarter. Furthermore, we believe that bond yields remain attractive. In our opinion, having an active bond management approach makes sense in these volatile times.

Economic Data Highlights and Outlook

Jobs: Although below expectations, nonfarm payroll additions were still solid in February at 151,000 additions. Expectations had called for a gain of 160,000. The unemployment rate ticked modestly higher to 4.1%, when it was expected to remain at the prior month's level of 4.0%. Job openings improved in January from the end of 2024 with 7.74 million openings compared to estimates of 7.6 million. The ratio in the U.S. economy still favors job seekers with more jobs open than unemployed, but this data is lagged, and we will watch closely to see if hiring slows as concerns about the economy have ramped up amid recent tariff talk. Chart 1 shows the number of unemployed compared to the number of job openings in the U.S. Clearly, the number of unemployed has increased as the number of job openings has declined in recent years, but the U.S. economy is probably moving more toward an equilibrium state from an overly tight job market a couple of years ago.

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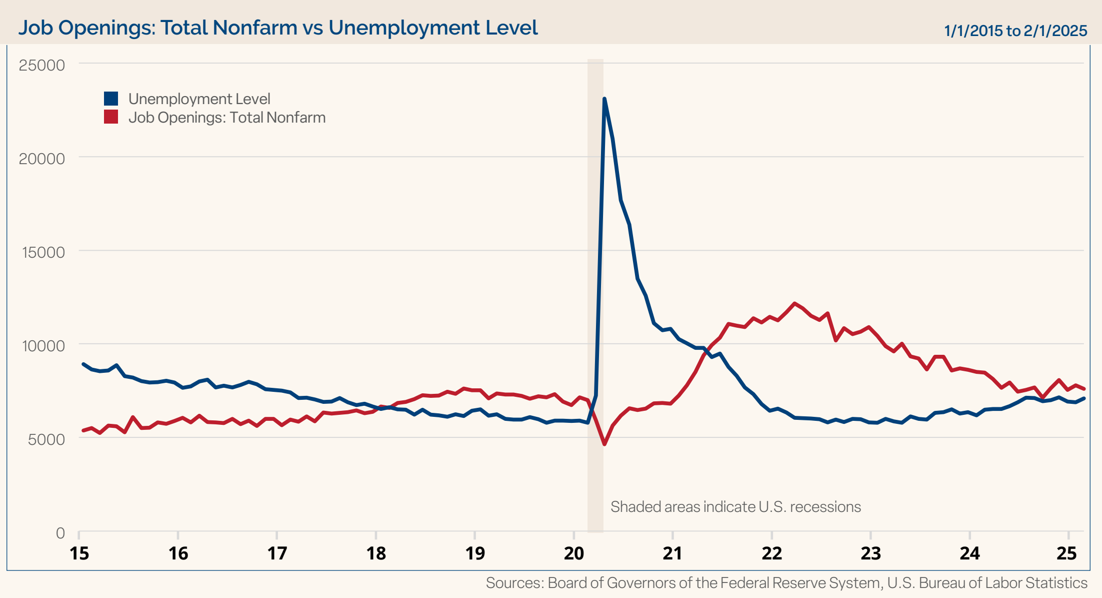
Chart 1



For illustrative purposes only. Past performance is not indicative of future results.

Inflation: Inflation data released in the first half of March was largely better (lower) than expected for February. After coming off some rather "hot" readings for January, the February data was welcome. The consumer price index (CPI) was lower than expected on both a headline and core basis for the month and annual readings for February. Both readings were also lower than January's year-over-year levels. The producer price index (PPI) was lower on a headline and core basis for the month and the year-over-year as well. However, January's data was revised higher for both the core and headline PPI readings. The Personal Consumption Expenditure (PCE) price index, released near the end of the month, was in line with expectations on a headline basis for both the annual and monthly readings for February. However, the core PCE price index was 0.1% higher than expected for the month and the year and the annual number rose to 2.8% for February, which was higher than the revised higher level of 2.7% for January. Recall, the core PCE price index is the preferred inflation measure of the Fed. (For more specific data, please refer to the end of this report.)

Overall, we believe inflation continues to make progress toward the Fed's ultimate stated goal of around 2% for the core PCE price index reading, but progress has stagnated in recent quarters. We expect this path to be bumpy, and tariff concerns have increased inflation fears and expectations, but we will wait to see if a real change in trend develops regarding inflation data. Chart 2 shows the core CPI and PCE price indices.

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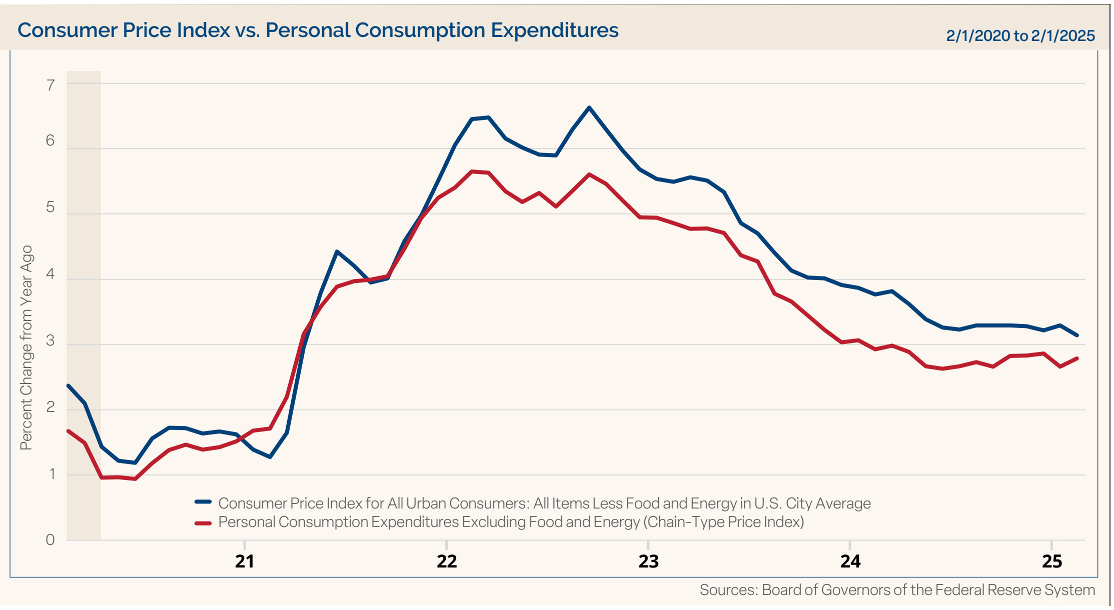
Chart 2



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GDP: The final reading of Q4 2024 GDP came in modestly above expectations at 2.4%. The Atlanta Fed GDP Now estimate for the first quarter 2025 reading stands at a -3.7% decline (as of 4/1/25). This reading has been very volatile to start the year driven in part by the negative impact of net exports on GDP amid the tariff concerns with imports rising meaningfully in the first quarter.

Consumer Confidence: One economic data point that has been heavily affected by the tariff discussions and resulting economic uncertainty has been consumer confidence. Consumers are clearly saying they are not as confident in 2025 and are concerned with inflation continuing to impact prices. The University of Michigan consumer sentiment reading has fallen dramatically in recent months, while inflation expectations have soared. This has created a challenging backdrop for consumers. It is important to monitor what consumers "say," in confidence surveys, however, we think it is more important to monitor what consumers "do." We will monitor to see whether this drop in consumer confidence translates into less spending by consumers, but that has yet to be seen. Chart 3 shows the consumer sentiment and inflation expectation readings from the University of Michigan.

This data is delayed by one month on the chart, and we know the sentiment reading has fallen further and inflation expectations have increased from their preliminary March numbers. Per final March numbers, consumer sentiment had fallen to 57.0 and one-year inflation expectations had risen to 5.0%.

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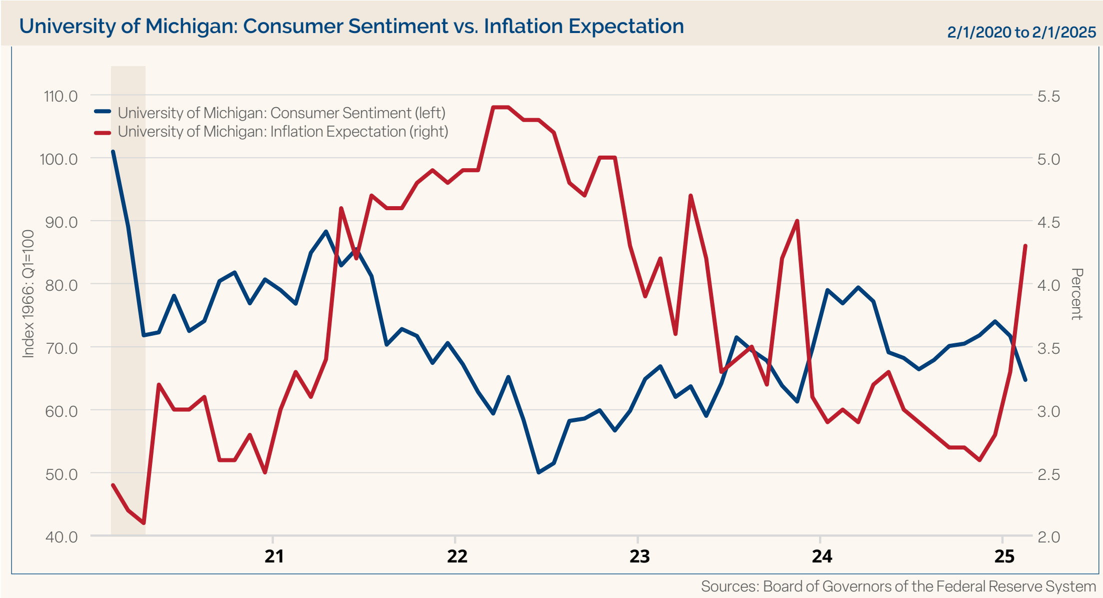
Chart 3



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Other Economic Data Points: The ISM Manufacturing reading for January was 50.9, surpassing estimates of 50.0 and moving into expansion territory for the first time in more than two years. As we often say, a month is not a trend, but it was a welcome sign to see this reading indicate the manufacturing sector was expanding. The ISM Manufacturing reading stayed above 50 at 50.3 for February, but that was below expectations of 50.7. (This reading did subsequently drop below 50 in March to 49.) The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, improved to 53.5, which exceeded expectations of 52.5. Recall, ISM readings above 50 reflect expansion and those below 50 indicate contraction.

Housing, which has faced a headwind from higher rates, seemed to improve somewhat with lower rates in February. Existing home sales, building permits and housing starts all exceeded expectations in February. Only new home sales fell short of expectations. Furthermore, housing starts, new and existing home sales all improved from their January marks with gains in February. Only building permits were lower than the previous month. Interest rates have dropped meaningfully since their 2025 highs from early January, but March saw rates choppier with only a modest decline in the 10-year U.S. Treasury.

After a couple of years of solid stock market gains with relatively little volatility, equity weakness in March and for the first quarter were unsettling for investors. However, on average, stocks have a 10% correction about every year, so the 10% peak to trough decline we experienced in the fourth quarter, while not pleasant, is a normal part of doing business in the stock market. Focusing on market fundamentals, we are seeing an economy that we believe will grow in 2025, a Fed that is cutting interest rates, a fairly reasonably valued stock market (especially after the recent drop in stock prices), and S&P 500 companies that are expected to grow their earnings in 2025 and 2026. We like that fundamental backdrop for 2025. Concerns about tariffs have ushered in volatility, and our analysts and portfolio managers will monitor industries and sectors that might be affected by tariffs as they are making portfolio decisions. However, we still want to see what actually gets implemented versus the headlines that are inundating investors all the time. As always, we believe it is imperative for investors to stay focused on their long-term goals and not let short-term swings in the market derail them from their longer-term objectives.

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Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Feb	50.7	50.3	50.9	—
ISM Services Index	Feb	52.5	53.5	52.8	—
Change in Nonfarm Payrolls	Feb	160k	151k	143k	125k
Unemployment Rate	Feb	4.0%	4.1%	4.0%	—
Average Hourly Earnings YoY	Feb	4.1%	4.0%	4.1%	3.9%
JOLTS Job Openings	Jan	7600k	7740k	7600k	7508k
PPI Final Demand MoM	Feb	0.3%	0.0%	0.4%	0.6%
PPI Final Demand YoY	Feb	3.3%	3.2%	3.5%	3.7%
PPI Ex Food and Energy MoM	Feb	0.3%	-0.1%	0.3%	0.5%
PPI Ex Food and Energy YoY	Feb	3.5%	3.4%	3.6%	3.8%
CPI MoM	Feb	0.3%	0.2%	0.5%	—
CPI YoY	Feb	2.9%	2.8%	3.0%	—
CPI Ex Food and Energy MoM	Feb	0.3%	0.2%	0.4%	—
CPI Ex Food and Energy YoY	Feb	3.2%	3.1%	3.3%	—
Retail Sales Ex Auto and Gas	Feb	0.4%	0.5%	-0.5%	-0.8%
Industrial Production MoM	Feb	0.2%	0.7%	0.5%	0.3%
Building Permits	Feb P	1453k	1456k	1473k	—
Housing Starts	Feb	1385k	1501k	1366k	1350k
New Home Sales	Feb	680k	676k	657k	664k
Existing Home Sales	Feb	3.95m	4.26m	4.08m	4.09m
Leading Index	Feb	-0.2%	-0.3%	-0.3%	-0.2%
Durable Goods Orders	Feb P	-1.0%	0.9%	3.2%	3.3%
GDP Annualized QoQ	4Q T	2.3%	2.4%	2.3%	—
U. of Mich. Sentiment	Mar P	63.0	57.9	64.7	—
Personal Income	Feb	0.4%	0.8%	0.9%	0.7%
Personal Spending	Feb	0.5%	0.4%	-0.2%	-0.3%
S&P CoreLogic CS 20-City YoY NSA	Jan	4.80%	4.67%	4.48%	4.52%

Source: Bloomberg; T=Third, P=Preliminary.

For illustrative purposes only. Past performance is not indicative of future results. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only projections and actual events or results may differ materially.

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Disclosures

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The manager utilizes a proprietary investment model to assist with the construction of the strategy and to assist the manager with making investment decisions. Investments selected using this process may perform differently than expected as a result of the factors used in the model, the weight placed on each factor, and changes from the factors' historical trends. There is no guarantee that Clark Capital's use of a model will result in effective investment decisions.

Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value or an investment), credit, prepayment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

The value of investments, and the income from them, can go down as well as up and you may get back less than the amount invested.

Equity securities are subject to price fluctuation and possible loss of principal. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). Strategies that concentrate their investments in limited sectors are more vulnerable to adverse market, economic, regulatory, political, or other developments affecting those sectors.

JOLTS is a monthly report by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor counting job vacancies and separations, including the number of workers voluntarily quitting employment.

The Core Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Core Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The PCE price index, released each month in the Personal Income and Outlays report, reflects changes in the prices of goods and services purchased by consumers in the United States.

The Producer Price Index (PPI) is a monthly report that measures the average change in prices received by domestic producers for their goods and services.

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Investors cannot invest directly in an index.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

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The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight or 0.2% of the index total at each quarterly rebalance.

The University of Michigan Consumer Sentiment Index rates the relative level of current and future economic conditions. There are two versions of this data released two weeks apart, preliminary and revised. The preliminary data tends to have a greater impact. The reading is compiled from a survey of around 500 consumers.

The Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index.

The Russell 2000 Index is a small-cap stock market index that represents the bottom 2,000 stocks in the Russell 3000.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Nonfarm payrolls (NFPs) are the measure of the number of workers in the United States excluding farm workers and workers in a handful of other job classifications.

A municipal bond, commonly known as a muni, is a bond issued by state or local governments, or entities they create such as authorities and special districts.

The CBOE Volatility Index (VIX) is a real-time index that measures the expected volatility of the S&P 500 over the next 30 days.

The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The 30 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 30 years.

The Bloomberg Barclays U.S. Corporate High-Yield Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The Bloomberg Barclays U.S. Credit Index measures the investment grade, U.S. dollar denominated, fixed-rate taxable corporate and government related bond markets.

The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

The Bloomberg US Trsy Bellwethers 30Y is a U.S. Treasury debt obligation that has a maturity of 30 years.

The ISM Non-Manufacturing Index is an index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys, that monitors economic conditions of the nation.

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ISM Manufacturing Index measures manufacturing activity based on a monthly survey, conducted by Institute for Supply Management (ISM), of purchasing managers at more than 300 manufacturing firms.

The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries*. With 2,359 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index seeks to measures the value of residential real estate in 20 major U.S. metropolitan areas. The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The Leading Economic Index provides an early indication of significant turning points in the business cycle and where the economy is heading in the near term.

In the United States, the Core Personal Consumption Expenditure Price (CPE) Index provides a measure of the prices paid by people for domestic purchases of goods and services, excluding the prices of food and energy.

The Conference Board's Leading Indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.