

WEBINAR

# March 2025 Market Update Webinar

## A Deep Dive into CNR's Economic and Investment Outlook

March 27, 2025

The March 2025 Market Update Webinar provides an in-depth analysis of recent financial market trends, economic indicators and investment strategies. This summary distills the key insights from the webinar, offering a comprehensive overview of the current market landscape shared by City National Rochdale’s investment strategy leaders.

Economic Overview

The webinar begins with a macroeconomic analysis, highlighting that the U.S. economy has experienced moderate growth over the past quarter. Gross Domestic Product (GDP) increased by 2.3%, driven primarily by consumer spending and a rebound in manufacturing. Inflation rates have stabilized at 2.1%, aligning with the Federal Reserve’s target, suggesting a balanced approach to monetary policy in the near term.

Economic Overview

- January changes include higher estimated ranges for 2025 GDP and interest rate forecasts.

|  |                                  |                       |                |                |                |
|--|----------------------------------|-----------------------|----------------|----------------|----------------|
| <ul style="list-style-type: none"><li>• GDP growth is expected to remain positive, but it may be weighed down by policy decisions.</li><li>• Corporate profits should be stable in 2025, rising above trend.</li><li>• Inflation pressures are likely to stay elevated based on the new administration's policy.</li><li>• The Fed may cut rates 1-2 times, which is supportive of continued growth.</li><li>• Structural pressure will likely keep 10-year Treasury yields over 4%.</li></ul> | City National Rochdale Forecasts |                       | 2024           | Current 2025e  | Tariff Drag    |
|  | Real Annual GDP Growth           |                       | 2.5%           | 2.0% to 2.5%   | -0.3% to -0.5% |
|  | Corporate Profit Growth          |                       | 9.6%           | 10.0% to 14.0% | -2.0% to -4.0% |
|  | Headline CPI Year End            |                       | 2.9%           | 2.50% to 2.75% | +0.4% to +0.8% |
|  | Interest Rates                   | Federal Funds Rate    | 4.25% to 4.50% | 3.75% to 4.25% | No Change      |
|  |                                  | Treasury Note, 10-Yr. | 4.57%          | 4.0% to 4.5%   | No Change      |

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country’s borders in a specific time period.

e: estimate. a: actual.

The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers.

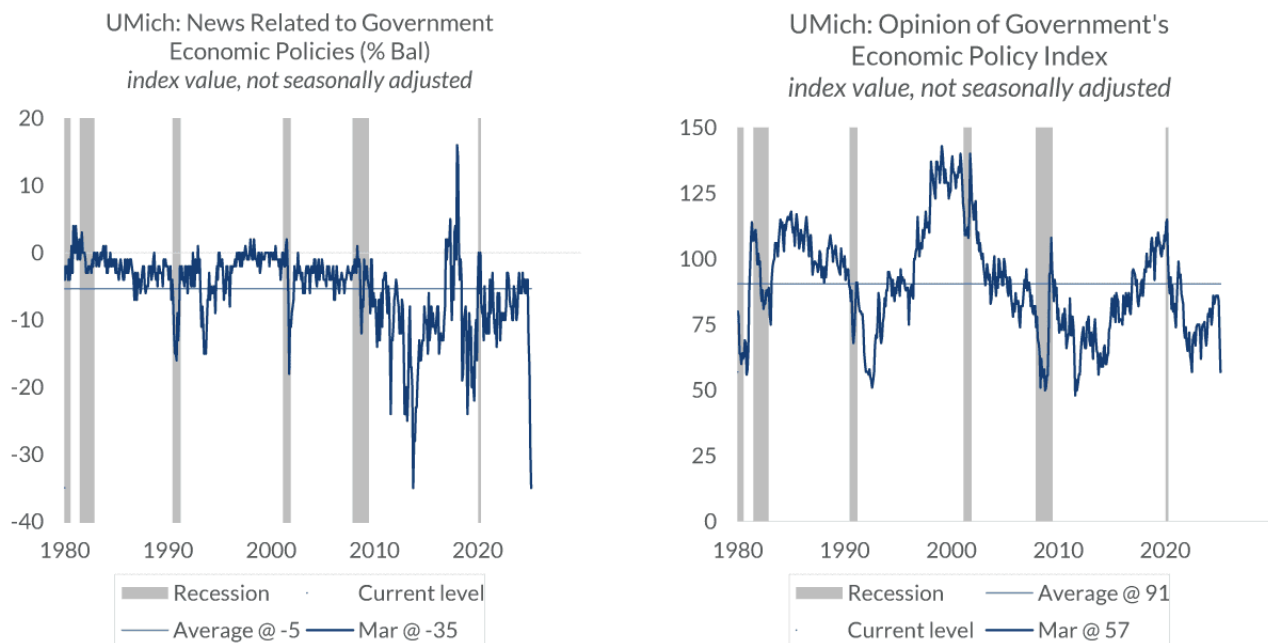
Sources: Bloomberg, FactSet, proprietary opinions based on CNR Research, as of February 2025. Information is subject to change and is not a guarantee of future results.

Labor Market Trends

The labor market remains robust, with the unemployment rate holding steady at 3.8%. Job creation has been particularly strong in the technology and healthcare sectors, while traditional manufacturing jobs have seen a slight decline. Wage growth continues to outpace inflation, indicating increased purchasing power for consumers.

## Inflation & Trade Policy Are Worrisome To Consumers

- Consumers have the great concern regarding implemented and planned economic policies.
- The Administration has not articulated the final goal, part of its negotiating tactics.
- The sudden change in policies has surprised and shocked many households.



**Data current as of March 25, 2025**

**Source: University of Michigan Surveys of Consumers**

**Information is subject to change and is not a guarantee of future results.**

## Equity Markets

Equity markets have shown resilience amid global uncertainties. The S&P 500 has gained 5% year-to-date, with notable performances in the technology and renewable energy sectors. However, concerns about overvaluation persist, particularly in high-growth stocks, prompting discussions about potential market corrections.

## Equity Market Backdrop

- U.S. economy appears resilient despite widespread expectations of weakness

- Growth slowing but still healthy
- Inflation cooling from high levels
- Two consecutive years of 25%+ equity market returns
- High equity market valuations
- Fed remains more likely to cut than hike
- EPS growth over multiple expansions likely drives 2025 returns

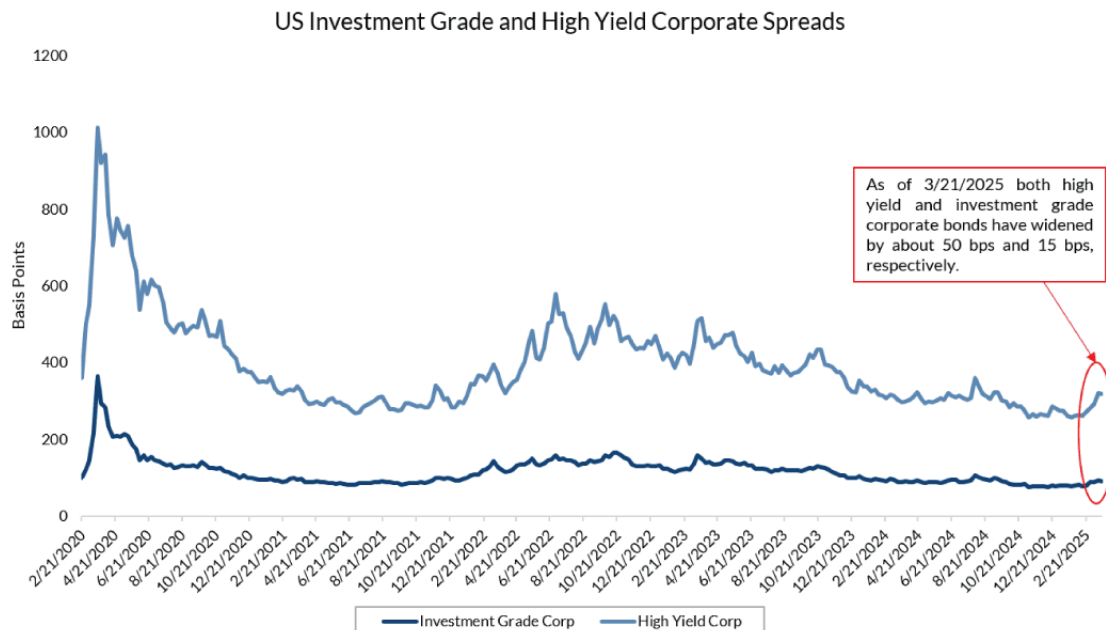
*Source: Bloomberg, CNR Research. Information is subject to change and is not a guarantee of future results. As of 2/21/2025.*

## Fixed Income Markets

In fixed income, the yield curve has remained relatively flat, with the 10-year Treasury yield at 2.5%. This suggests cautious investor sentiment and expectations of modest economic growth. Corporate bonds have maintained stable spreads, reflecting confidence in corporate credit quality.

## Corporate Spreads Are Wider in Recent Weeks

- US investment grade and high yield corporate bond spreads have recently ticked higher on volatility.
- The move in spreads has been more pronounced within high yield corporates with ~50 bps the past month.



**Source: Bloomberg US Aggregate Corporate Average OAS and Bloomberg US Corporate High Yield Average OAS as of 3/21/2025. Information is subject to change and is not a guarantee of future results.**

## Commodities and Energy

Commodity markets have experienced volatility, with oil prices fluctuating between \$60 and \$70 per barrel due to geopolitical tensions and varying demand forecasts. Gold has maintained its status as a safe-haven asset, with prices hovering around \$1,800 per ounce.

## How Should We Define Stagflation?

- Comparisons to the 1970s should be highly scrutinized as similar conditions are not present.
- Market shocks should not be equated to tariffs, but the degree of uncertainty and its influence on expectations should not be underestimated.

| Shock                           | 1970s  | Current  | Condition Present  |
|---------------------------------|--|--|--|
| Oil Shocks                      | <ul style="list-style-type: none"> <li>1973 OPEC embargo sparked quadrupling of energy costs</li> <li>Second oil shock in 1979 after Iranian Revolution</li> </ul> | <ul style="list-style-type: none"> <li>Oil price spike after Ukrainian invasion was not sustained</li> <li>Administration goal to lower energy prices</li> </ul>                         | NO   |
| Loose Monetary Policy           | <ul style="list-style-type: none"> <li>Deficits to finance Vietnam and Great Society programs</li> <li>Loose Federal Reserve policy kept rates low</li> </ul>      | <ul style="list-style-type: none"> <li>Long-term deficits to support benefit spending.</li> <li>Quantitative easing</li> <li>Federal Reserve strictly enforcing independence.</li> </ul> | Deficit spending is similar; Federal Reserve is more independent than in 1970. |
| Currency Devaluation            | <ul style="list-style-type: none"> <li>Bretton Woods gold exchange system eliminated</li> <li>Dollar depreciation</li> </ul>                                       | <ul style="list-style-type: none"> <li>U.S. dollar has been stable and remains heavily utilized as a reserve currency</li> </ul>   | NO   |
| Wage-Price Spirals & Regulation | <ul style="list-style-type: none"> <li>Automatic cost-of-living wage increases</li> <li>Strong labor unionization</li> </ul>                                       | <ul style="list-style-type: none"> <li>Potential wave of deregulation</li> <li>Less labor unionization</li> </ul>  | NO   |
| Productivity Slowdown           | <ul style="list-style-type: none"> <li>Productivity growth slowed</li> </ul>   | <ul style="list-style-type: none"> <li>Productivity growth is stable</li> <li>Technology advances may provide a tailwind</li> </ul>  | NO   |

*Data current as of March 21, 2025. Source: CNR Research*

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## Global Trade and Geopolitics

Global trade dynamics remain complex, with ongoing negotiations affecting tariffs and trade agreements. CNR emphasizes the importance of monitoring geopolitical developments, as they have significant implications for international markets and investment strategies.

## Investment Strategies

Given the current market environment, CNR suggests a diversified investment approach. Allocations to sectors with strong growth potential, such as technology and renewable energy, are recommended. Additionally, maintaining exposure to fixed income securities can provide potential stability amid equity market volatility.

## CNR's Desired Equity Sector Positioning

- Based on current macroeconomic outlook and sector valuations.

| Overweight   | Neutral   | Underweight  |
|--|---|--|
| <ul style="list-style-type: none"> <li>• Consumer Staples</li> <li>• Communication Services</li> <li>• Energy</li> <li>• Consumer Discretionary</li> </ul> | <ul style="list-style-type: none"> <li>• Materials</li> <li>• Information Technology</li> <li>• Health Care</li> <li>• Real Estate</li> </ul> | <ul style="list-style-type: none"> <li>• Utilities</li> <li>• Industrials</li> <li>• Financials</li> </ul> |

#### High conviction sector spreads

| Information Technology   | Industrials   | Consumer Staples   |
|--|---|--|
| <ul style="list-style-type: none"> <li>• +Software &amp; Services</li> <li>• -Semis &amp; Semiconductor Equipment</li> </ul> | <ul style="list-style-type: none"> <li>• +Commercial &amp; Professional Services</li> <li>• -Capital Goods</li> </ul> | <ul style="list-style-type: none"> <li>• +Food, Beverage &amp; Tobacco</li> <li>• Distribution &amp; Retail</li> </ul> |

*Source: CNR Research. As of 2/21/2025. The overweight and underweight are versus the corresponding industry group weights in a broad US equity benchmark. In this case, the S&P 500 Index or S&P 1500 indices. Information is subject to change and is not a guarantee of future results.*

## Conclusion

The March 2025 Market Update Webinar underscores the importance of staying informed and adaptable in a dynamic financial landscape. By understanding macroeconomic trends, market movements and geopolitical factors, investors can make informed decisions to navigate the complexities of the current economic environment.

## Review Your Portfolio with Your Financial Advisor Today

City National Rochdale encourages you to review your investment portfolio with your advisor. Contact our financial professionals today to get help with your wealth planning needs.

## **Index Definitions**

The Standard & Poor's 500 Index (S&P 500) is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity and industry group representation to represent U.S. equity performance.

## **Definitions**

A consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households. The CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

## **Important Information**

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