Published April 2025 | **Mullaney on the Markets**

Markets Acting “Tariffied”

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Uncertainty surrounding the Trump administration’s intended policies regarding trade and tariffs left investors to speculate which countries would be targeted, what products would be affected, what levels would be imposed, and the timing of when they would be enacted. The chaotic on again, off again nature of the threats throughout the month pushed U.S. stock investors to seek safer harbors, triggering a 5.62% loss for the S&P 500 Index, the benchmark’s worst monthly performance since December 2022 at the tail end of the COVID crisis and just after that year’s spike in inflation.

The consensus opinion of economists with regards to tariffs is that they will impede global trade and undermine gross domestic product (GDP) growth for the countries affected. For the United States, the risk of a near-term recession increased during the month of March, leading investors to gravitate towards the safety of U.S. Treasury Bonds which gained 0.23%, surpassing the 0.04% return of the Bloomberg U.S. Aggregate Bond Index.

For the first quarter, the S&P 500 fell by 4.28%, its worst quarterly performance since the third quarter of 2022, while the Bloomberg U.S. Aggregate Bond Index gained 2.78%. The return differential between the two benchmarks was also the widest since Q3 2022.

S&P 500 SECTOR RETURNS			
MARCH		YTD	
Energy	3.85%	Energy	10.21%
Utilities	0.26%	Health Care	6.54%
Health Care	-1.70%	Consumer Staples	5.23%
Real Estate	-2.41%	Utilities	4.94%
Consumer Staples	-2.43%	Real Estate	3.58%
Materials	-2.62%	Financials	3.48%
Industrials	-3.59%	Materials	2.81%
Financials	-4.20%	Industrials	-0.19%
Communication Services	-8.28%	Communication Services	-6.21%
Information Technology	-8.83%	Information Technology	-12.65%
Consumer Discretionary	-8.91%	Consumer Discretionary	-13.80%

Source: Bloomberg, as of March 31, 2025. Underlying security weights are proportional to their representation in the index. Past performance does not guarantee future results.

STYLE RETURNS ACROSS MARKET CAPS	MARCH	YTD
Russell 1000 Value	-2.78%	2.14%
Russell 1000 Growth	-8.42%	-9.97%
Russell Midcap Value	-3.68%	-2.11%
Russell Midcap Growth	-7.41%	-7.12%
Russell 2000 Value	-6.00%	-7.74%
Russell 2000 Growth	-7.58%	-11.12%

Source: Bloomberg, as of March 31, 2025. Past performance does not guarantee future results. It is not possible to invest directly in an index. See last page for index definitions.

RISK FACTOR RETURNS	MARCH	YTD
Quality		
S&P B+ or Better	-3.91%	-1.82%
S&P B or Lower	-7.67%	-8.49%
Beta		
S&P 500 Lowest Quintile	1.07%	9.31%
S&P 500 Highest Quintile	-10.10%	-14.91%
Size		
Russell 1000	-5.79%	-4.49%
Russell 2000	-6.81%	-9.48%

Source: BofA, Bloomberg, as of March 31, 2025. Underlying security weights are proportional to their representation in the index. Past performance does not guarantee future results. It is not possible to invest directly in an index. See last page for index definitions.

Not many places to hide during March

President Trump's threats of imposing secondary tariffs on countries that import oil from Russia if the Kremlin continues to stall in the negotiations to end the war in Ukraine and, separately, to bomb Iran if it fails to reach a peace deal in the Middle East led to a jump in Brent oil crude prices from $73.27 to $76.07 during March and for Energy to lead all S&P sectors for the month. Utilities, traditionally defensive by nature, was the only other sector to post a positive return in March.

With the Magnificent Seven dropping by 10.17% for the month, the three sectors where those stocks reside pulled up the rear in March, with each falling more than 8%.

For the quarter, Energy continued to lead but was followed by three defensive sectors: Health Care, Consumer Staples, and, once again, Utilities.

For the quarter, the Communication Services, Information Technology, and Consumer Discretionary sectors were the laggards, as the Mag 7 dropped by 15.98% over the period, while the S&P "493" (the S&P 500 ex-the Mag 7) actually gained 0.50%.

Value continued its lead over growth

Value beat growth across all three Russell market capitalization ranges (large, mid, small) for a second consecutive month with an average outperformance of 365 basis points over the three segments. The 564 basis point differential in the large-cap space was the largest spread of the three capitalization ranges, and while one might be inclined to believe it was due to the Communication Services, Technology, or the Consumer Discretionary sectors, it was actually the Health Care sector that contributed most to the better relative performance of the Russell 1000 Value Index: That sector gained 0.08% in the value index versus a loss of 5.28% in the Russell 1000 Growth Index, and accounted for 97 basis points of the 564 basis point differential between the two benchmarks.

INTERNATIONAL MARKET RETURNS

	MARCH	YTD
EAFE Index		
Local Currency	-2.66%	3.03%
U.S. Dollars	-0.29%	7.01%
Emerging markets		
Local Currency	0.34%	2.73%
U.S. Dollars	0.67%	3.01%
Currencies		
U.S. Dollar Index (DXY)	-1.84%	-2.70%
MSCI EM Currency Index	0.86%	1.74%
United States		
S&P 500 Index	-5.63%	-4.28%
S&P 500 Equal Weight Index	-3.38%	-0.61%

Source: MSCI, Bloomberg, as of March 31, 2025. International markets are represented by MSCI indexes. Past performance does not guarantee future results. It is not possible to invest directly in an index. See last page for index definitions.

For the quarter, value beat growth by an average of 683 basis points when averaged across the three Russell capitalization ranges, with the greatest differential once again occurring in the large-cap space, as the Russell 1000 Value Index outperformed its growth counterpart by over 12%. It was the best relative quarterly performance for large-cap value versus growth since Q1 2001. The Russell 1000 Growth Index was hurt by its exposure to the Mag 7 stocks, which represent 54% of that index and were responsible for 79% of the index's underperformance.

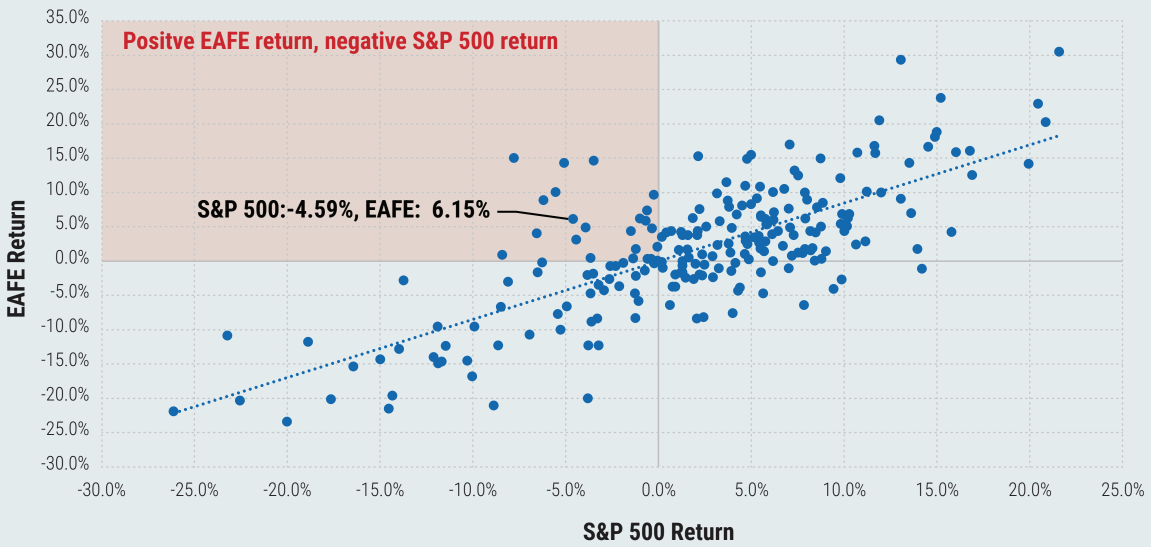
Risk off remained the dominant theme in 2025

Whether in terms of quality, beta, or size, risk off has been the most prevalent theme guiding returns for both the month of March and on a year-to-date basis; except for low-beta stocks, there has been no place to hide from negative returns.

Non-U.S. stocks continued to outperform

Returns for developed-market international stocks and emerging-market stocks continued to outpace both the capitalization-weighted and equal-weighted S&P 500 indexes in March, both in local currency terms and in U.S. dollar terms; the greenback (USD) continued to weaken during the month versus a basket of ten major foreign currencies, as well as against a basket of emerging-market currencies. The relative outperformance of developed-market international stocks (represented by the MSCI EAFE Index) versus the S&P 500 during the first quarter was the tenth largest margin on record dating back to 1969 and the biggest since Q2 2002. As was the case domestically, the less relative exposure to Big Tech the better, and that trend helped many non-U.S. stock markets avoid significant losses.

RAREFIED AIR: INTERNATIONAL STOCKS ONLY RARELY POST GAINS WHEN U.S. STOCKS DECLINE



Source: Bloomberg. Data 12/31/1969 to 3/31/2025. Dotted line is the trend line. Returns do not reflect any dividend payments. Past performance does not guarantee future results. See last page for definitions.

Economic uncertainty and the tariff tsunami

While it was widely anticipated that the Federal Open Market Committee (FOMC) would skip a rate cut at their March meeting (they skipped), what wasn't expected was the change to the Summary of Economic Projections, where the members increased their inflation expectations for 2025/2026 and cut their GDP growth forecasts.

ECONOMIC PROJECTIONS OF FEDERAL RESERVE BOARD MEMBERS AND FEDERAL RESERVE BANK PRESIDENTS

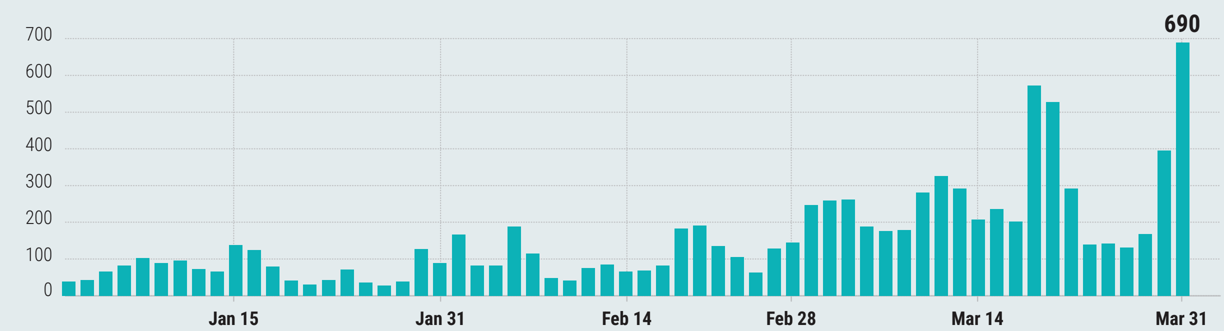
Individual assumptions of projected appropriate monetary policy, March 19, 2025 (%)

Variable	Median				Central tendency				Range			
	2025	2026	2027	Longer run	2025	2026	2027	Longer run	2025	2026	2027	Longer run
Change in real GDP	1.7	1.8	1.8	1.8	1.5–1.9	1.6–1.9	1.6–2.0	1.7–2.0	1.0–2.4	0.6–2.5	0.6–2.5	1.5–2.5
December projection	2.1	2.0	1.9	1.8	1.8–2.2	1.9–2.1	1.8–2.0	1.7–2.0	1.6–2.5	1.4–2.5	1.5–2.5	1.7–2.5
Unemployment rate	4.4	4.3	4.3	4.2	4.3–4.4	4.2–4.5	4.1–4.4	3.9–4.3	4.1–4.6	4.1–4.7	3.9–4.7	3.5–4.5
December projection	4.3	4.3	4.3	4.2	4.2–4.5	4.1–4.4	4.0–4.4	3.9–4.3	4.2–4.5	3.9–4.6	3.8–4.5	3.5–4.5
PCE inflation	2.7	2.2	2.0	2.0	2.6–2.9	2.1–2.3	2.0–2.1	2.0	2.5–3.4	2.0–3.1	1.9–2.8	2.0
December projection	2.5	2.1	2.0	2.0	2.3–2.6	2.0–2.2	2.0	2.0	2.1–2.9	2.0–2.6	2.0–2.4	2.0
Core PCE inflation	2.8	2.2	2.0		2.7–3.0	2.1–2.4	2.0–2.1		2.5–3.5	2.1–3.2	2.0–2.9	
December projection	2.5	2.2	2.0		2.5–2.7	2.0–2.3	2.0		2.1–3.2	2.0–2.7	2.0–2.6	

Source: Bloomberg, as of March 19, 2025. See last page for definitions.

With heightened prospects for lower growth and higher inflation, the term "stagflation" came to the forefront of many investors' minds. A news search on Bloomberg showed that media articles referencing stagflation skyrocketed after the Fed meeting, and then shot up again after figures for the Core Personal Consumption Price Index (Core PCE, the Fed's preferred inflation gauge) were released at the end of the month, where both the month-over-month and year-over-year results exceeded consensus expectations.

NEWS ARTICLES MENTIONING "STAGFLATION"



Source: Bloomberg, as of March 31, 2025.

While certainly important, these topics are playing second fiddle to the tariff proposals unveiled in the Rose Garden on April 3, dubbed "Liberation Day." There, President Trump announced a 10% tariff on all U.S. imports with additional reciprocal levies that differ on a country-by-country basis, targeting so-called bad actors, which are generally the 60 countries with the largest trade surpluses with the United States.

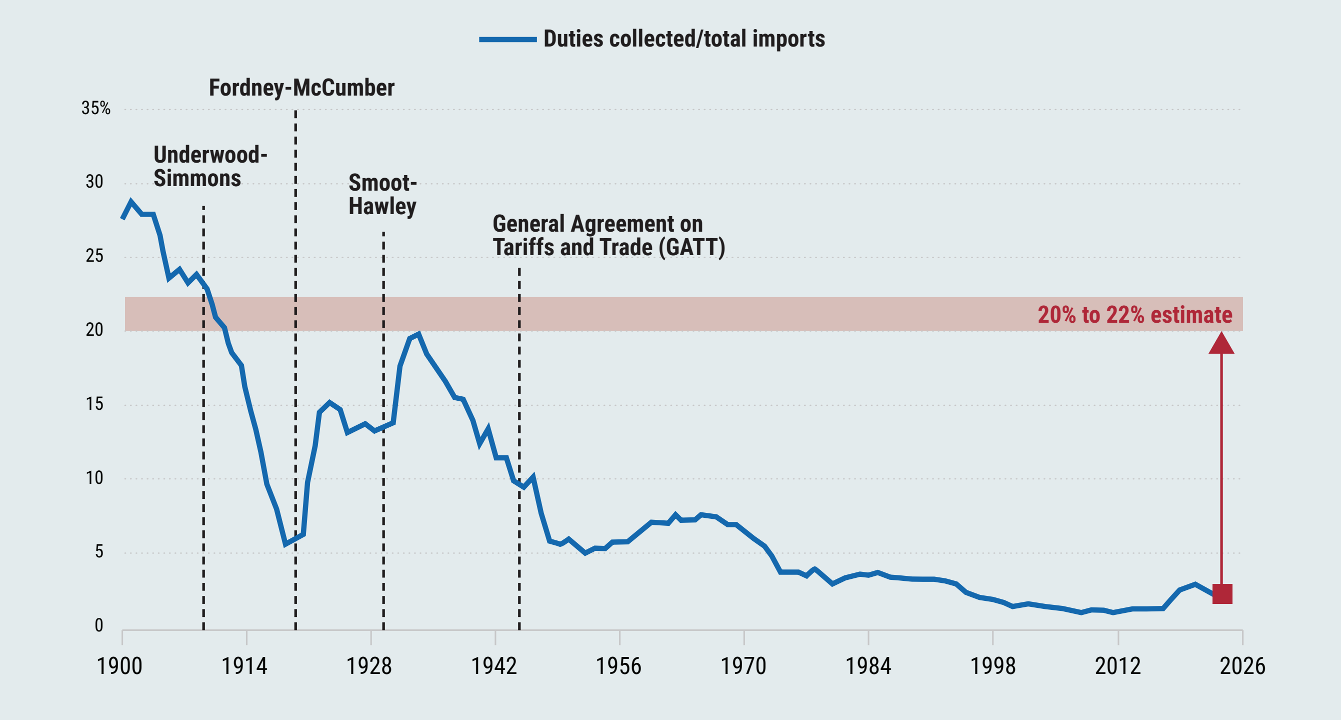
Of the 25 countries getting hit with tariffs that were highlighted during the president's speech, seven were slated to receive the baseline minimum tariff of 10%, while China will face a reciprocal tariff of 34%, which is in addition to the 20% across-the-board tariff Chinese are already subject to. The European Union will be hit with a levy of 20%, while Cambodia was hit with the highest reciprocal levy at 49%. Imported automobiles will face a 25% tariff; Mexico and Canada were spared any additional reciprocal tariffs.

The reciprocal tariffs will not apply to specific commodities or goods such as steel, copper, pharmaceuticals, semiconductors, lumber, gold, energy, and "certain minerals that are not available in the United States," according to a White House fact sheet. Several nations have said they would retaliate, raising the risk of a global trade war.

Overnight, S&P 500 futures fell by over 3%, European stock futures were down between 2% and 3%, and Asian markets were about 1.5% lower. The dollar also fell, dropping by 1.8% against a basket of ten foreign currencies, its biggest loss since November 2022. The Euro gained 2.7%, its biggest daily move since 2015.

Collectively, the effective rate for U.S. tariffs will increase from 2.5% currently, to an estimate range generally falling between 20% and 22%, a level that eclipses the Smoot-Hawley level of the 1930s.

U.S. EFFECTIVE TARIFF RATE 1900-2025 (%)



Source: UBS, Haver, as of April 4, 2025.

Historical accounts have generally implicated the May 28, 1929, passing of Smoot-Hawley tariff bill by the House of Representatives as the final trigger for the stock market crash of 1929 and a collapse in foreign trade that led to the Great Depression. While no one is currently predicting another depression, several research firms we follow were quick to update their economic forecasts as a result of the tariff announcement:

TARIFF IMPACT

	GDP growth	Inflation level	Unemployment rate	Recession probability
	Pre-tariff consensus level 1.9%	Pre-tariff consensus level 2.5%	Pre-tariff consensus level 4.3%	Pre-tariff consensus level 30.0%
	New target	New target	New target	New target
Strategas	0.0%	5.0%	5.0%	45.0%
TD Cowen	-0.8%	4.0%	4.5%	40.0%
UBS	0.1%	4.6%	5.1%	55.0%
Piper Sandler	0.0%	3.3%	5.0%	60.0%
Barclays	-0.1%	4.1%	4.6%	60.0%
Yardeni Research	1.5%	3.5%	4.5%	40.0%

Source: Boston Partners and firms cited; consensus figures are via Bloomberg. All data is as of April 4, 2025.

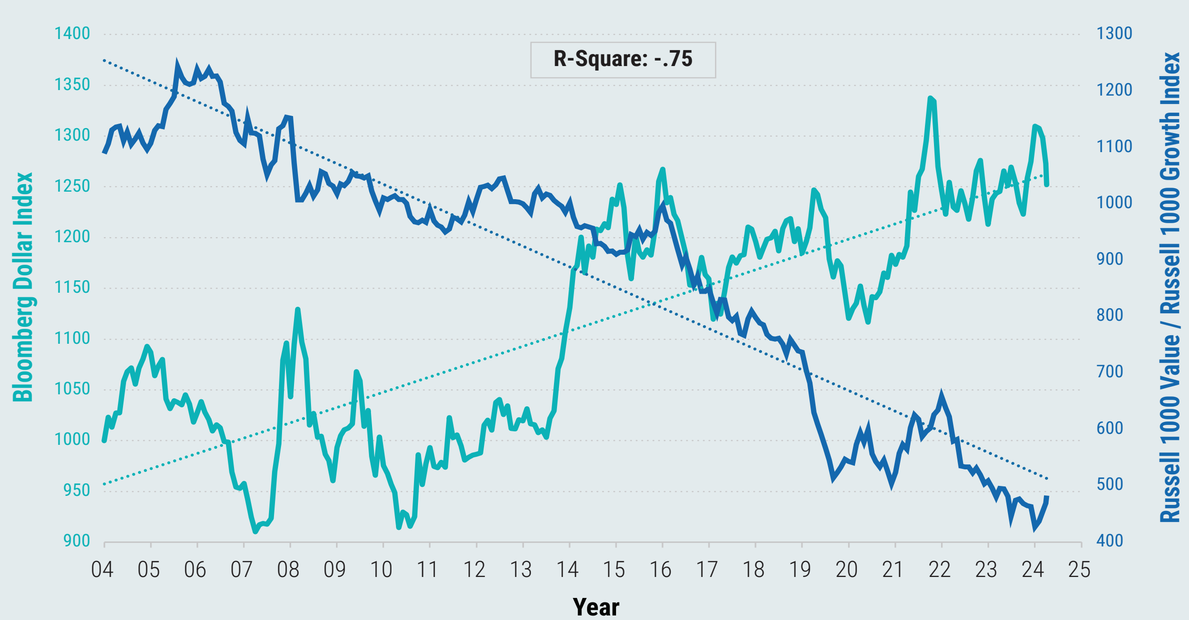
The takeaways: slower growth, higher inflation, increased unemployment, and a greater risk of recession in 2025.

A Goldman Sachs S&P 500 earnings model suggests that for every 5% increase in the U.S. tariff rate, one should expect S&P 500 earnings to fall between 1% and 2%. As of March 29, the consensus earnings-per-share (EPS) growth for the S&P 500 for calendar year 2025 was 11.5%. Applying Goldman's rule would reduce that EPS growth rate to between 3.5% and 7.5%, with a mid-point of 5.5% EPS growth.

Using 2024's S&P earnings per share of $243.02 and applying the 5.5% median growth estimate gets you to a 2025 earnings number of $256.38. Applying the current 20.5x forward price/earnings multiple to that number gives you a S&P 500 price target of 5,256 rounded. As of 12:05 pm on April 3rd the S&P 500 was trading at 5,443.

How the dollar reacts over the coming months is hard to predict, but there is a positive story for value investing if U.S. dollar weakness were to continue, at least on a relative basis versus growth:

DOLLAR HIGHER=VALUE LAGS; DOLLAR LOWER=VALUE LEADS



Source: Bloomberg, as of March 31, 2025. Past performance does not guarantee future results. Dotted lines represent trend lines. See the last page for index definitions.

Since its peak on January 13, 2025, the Bloomberg Dollar Index has fallen by 5.12% through April 3. Over that period, the Russell 1000 Value Index has outperformed the Russell 1000 Growth Index by 10.93% on a total return basis.

Looking ahead

There is plenty more uncertainty to come regarding the tariff situation, and what we've learned so far clearly wasn't the news that the stock market was hoping for; the level of tariff retaliation by the countries that the U.S. is targeted remains a substantial wildcard. Investors should not expect any significant reprieve from the heightened volatility that the markets are currently experiencing, at least on a short- to mid-term basis. Signs of any deterioration in economic activity (or not) will determine the next leg of both the global stock and bond markets.

Terms and definitions

Beta is a measure of a portfolio's market risk relative to its benchmark. In general, a beta higher than 1.00 indicates a more volatile portfolio and beta lower than 1.00 indicates a less volatile portfolio in relation to its benchmark. The **Bloomberg U.S. Aggregate Bond Index** tracks the performance of intermediate-term investment-grade bonds traded in the United States. The **Bloomberg U.S. Dollar Index (DXY)** is used to measure the value of the dollar against a basket of six foreign currencies. The value of the index is a fair indication of the dollar's value in global markets. The **Magnificent Seven stocks** are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla. The **MSCI Emerging Markets (EM) Currency Index** tracks the performance of emerging market currencies relative to the U.S. dollar where the weight of each currency is equal to its country weight in the MSCI Emerging Markets Index. The **MSCI EAFE Index** tracks the performance of large- and mid-cap equities traded across global developed markets, excluding the United States and Canada. The **MSCI Emerging Markets Index** tracks the performance of large- and mid-cap equities traded in global emerging markets. The **Personal Consumption Expenditures Price Index (PCE)** is a measure of inflation compiled by the U.S. Bureau of Economic Analysis. Core PCE excluded the more volatile segments of food and energy from its calculation. **R-Square** is a statistical measure used in the context of regression analysis. Essentially, it indicates the degree to which two independent data sets correlate over time. The **Russell 1000 Index** tracks the performance of the 1,000 largest companies traded in the United States. The **Russell 2000 Index** tracks the performance of the 2,000 smallest companies traded in the United States. The **Russell 1000 Growth and Value Indexes** track the performance of those large-cap U.S. equities in the Russell 1000 Index with growth and value style characteristics, respectively. The **Russell 2000 Growth and Value Indexes** track the performance of those small-cap U.S. equities in the Russell 2000 Index with growth and value style characteristics, respectively. The **Russell Midcap Growth and Value Indexes** track the performance of those mid-cap U.S. companies in the Russell 1000 Index with growth and value style characteristics, respectively. The **S&P 500 Index** tracks the performance of the 500 largest companies traded in the United States. The **S&P 500 Equal Weight Index** also tracks the performance of the 500 largest companies traded in the United States, but weights each company equally, rather than proportionally according to market cap. The **S&P 493** is not an official index, but reflects the performance of the S&P 500 excluding the Magnificent Seven. **S&P credit ratings**, which range from AAA (highest) to D (default), are assigned by S&P Global to individual companies to indicate their relative creditworthiness. It is not possible to invest directly in an index.

Market capitalization breakpoints

The breakpoints for capitalization ranges should be viewed only as guideposts and will change over time. In general, FTSE Russell (which maintains a number of stock-market indexes based on company size) considers small-cap stocks to have market caps of between $150 million and $7 billion, mid caps to have market caps between $7 billion and $150 billion, and large caps to be those companies with market caps above $150 billion.

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