

MONTHLY VIEWPOINT

OUR CURRENT VIEW ON MARKETS
AND THE ECONOMY

MARCH 2025



BIG THOUGHT

In a notable change this month, we are downgrading our assessment of the US economy and believe near-term slowing is likely. If reductions to fiscal spending and DOGE cuts are implemented as proposed, Consumption (C), Investment (I), Net Exports (X-M) will not be able to offset the loss in Government Spending (G) and the US economy will slow. March will bring tariff news and enforcement, Ukraine/geopolitical issues at an inflection point and a data-dependent Federal Reserve unlikely to change course. While the "Trump Bump" still has a hold on markets, its grip is loosening and investors are searching for better ideas away from US stocks (See: Chart of the Month). In a Bloomberg interview Friday, Treasury Secretary Bessent noted the economy wouldn't be Trump's for 6-12 months, paving the way for necessary adjustments and near-term pain.

DASHBOARD

-  Valuation
-  Trend
-  Economy
-  Inflation
-  Money Flow
-  Credit

BULLISH

- Credit markets are supportive of debt issuance
- Application of AI seen as pathway to increase productivity
- 3% Real GDP target accompanied with deficit reduction a societal net positive (long-term)
- Increasing domestic energy production will reduce inflationary pressures

BEARISH

- Near-term economic weakness & global trade restructuring risks negative feed-back loop
- Market valuation at levels last seen in 2000
- Big institutions selling (Negative Money Flow)
- US Debt levels unsustainably high. Low and stable interest rates needed for debt financing

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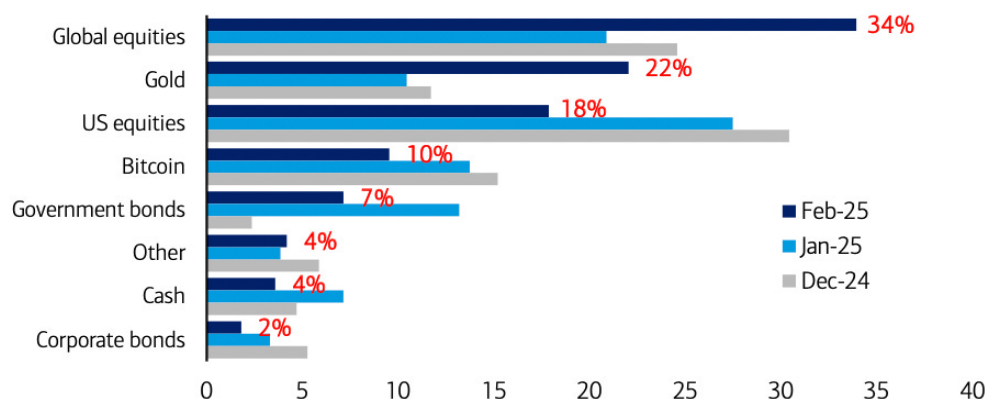
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CHART OF THE MONTH

Chart 14: Best performing asset class in '25: #1 global equities, #2 gold, #3 US equities

Which of the following do you expect to be the best performing asset class in 2025?



Source: BofA Global Fund Manager Survey.

Outperformance from the largest US stocks has been the dominant theme of the modern investment era. Given massive profitability, strong cash flows and dominant market positions from the Mag 7, it is tempting to believe American Exceptionalism will last indefinitely. However, when investors become too confident in market “certainties,” portfolios lack diversification for a time when outcomes don’t match expectations. Institutional investors know that for far too long, growth has outperformed value (Investment Factors), Large has outperformed Small (Market Capitalization) and US has outperformed Global (Region), but have been reticent to act, fearful of the consequences that come from underperformance. But surveys of this cohort point to a change in expectations, and perhaps a change in behavior in the months to come. BofA’s February Global Fund Manager Survey now lists Global equities their most favored asset for 2025 (Survey Chart, above).

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