

ECONOMIC OUTLOOK

Summary

March's labor data continued what has become a ten-month pattern of positive job growth one month followed by job losses the next. Nonfarm payrolls surged to 178,000, nearly tripling the consensus estimate of 65,000 and the unemployment rate unexpectedly ticked down to 4.3%. February's job losses of 133,000 had raised concern, but March's rebound lifted the three-month average to 68,000. While still modest in absolute terms, it is the strongest three-month pace of job creation since May of last year. Initial jobless claims have held steady in the low 200,000's throughout the quarter, reflecting a labor market where job losses remain contained.

Beneath those numbers, however, the employment landscape is changing. The technology sector in particular, has seen notable workforce reductions, with artificial intelligence (AI) increasingly cited as the catalyst rather than financial distress. Much of today's restructuring reflects a deliberate reallocation of capital, with fewer traditional employees required and more investment in AI infrastructure. So long as initial claims data remains steady, these announcements represent structural transformation rather than economic deterioration. The concern is less about what is happening in the technology sector today and more whether it proves to be a leading indicator for other sectors.

For now, the broader economy tells a more encouraging story. ISM Manufacturing registered 52.7 in March, its third consecutive month in expansionary territory after spending the vast majority of 2023–2025 in contraction. Retail sales rose 0.6% in February, matching the highest level since July 2025, and The Conference Board Consumer Confidence Index® reached 91.8, its third consecutive monthly increase. Against this backdrop, the Federal Reserve held rates steady at 3.75% to 4.00% in March, with its Summary of Economic Projections reflecting one rate cut in 2026, though the path to a rate cut appears to be narrowing due to the near closure of the Strait of Hormuz.

The conflict in Iran that rattled markets in late February has yet to resolve and its most tangible domestic impact is now beginning to appear in the price data. ISM Manufacturing Prices Paid Index surged from 70.5 to 78.3 in March, approaching levels last seen following the post-COVID inflation surge. Import prices rose 1.3% in February, the largest single-month move since March 2022. The disruption to global energy and shipping markets is just beginning to show in the aggregate data and higher prices will likely reach the consumer soon. The cost pressures now building in the pipeline will test both the Fed's patience and the economy's resilience in the months ahead.

Positives

ISM Services remained solidly expansionary in March (54.0)

Pending Home Sales Index snapped a two-month decline, beating estimates (1.8% vs. -0.6% est.)

Vehicle sales reached 16.34 million units in March, the strongest reading in six months

Negatives

Q4 GDP was revised lower to 0.7% annualized, from 1.4% on the advance release

Labor Force Participation Rate reached its lowest level since Nov. '21 (61.9%)

UofMich 1-Year Inflation Expectations moved higher to 3.8%

EQUITY OUTLOOK

Summary

Equity markets suffered a setback in March with market participants mostly focused on geopolitical tensions particularly the conflict in Iran and the closure of the Strait of Hormuz and resulting increase in oil prices. The S&P 500 Index fell 5.0% during the month, flipping the index negative for the year. Losses in domestic equities were fairly even across style and size. The Russell 1000 Growth Index and Russell 1000 Value Index declined 5.2% and 4.8%, respectively. The Russell Midcap Index lost 5.3% while the small-cap Russell 2000 index fell 5.0%. International economies are a larger consumer of the oil that flows through the strait and their markets endured greater losses. The developed MSCI EAFE Index dropped 10.3% in March and the MSCI Emerging Market Index lost 13.1%.

Given that approximately 20% of the world's oil production flows through the Strait of Hormuz, the immediate and long-term impact on global markets is considerable. The Trump administration has indicated they believe the operation in Iran will not last long, but the repercussions are likely to be longer lasting and the timetable for a complete resolution uncertain.

While capital markets were focused on Iran in March, other considerations are lingering. Global central banks, recognizing a greater concern for inflation, have shifted to a hawkish, less equity-friendly tone. From a labor market's perspective, hiring has slowed but firing has not picked up. The consumer appears to be in a stable position, less so than when the year began. Elevated tax refunds were expected to boost spending, instead much of those savings may be burned up by higher gasoline prices. In spite of all the noise, earnings expectations for the rest of the year have held up well.

After several years of strong performance for equity markets, investors are experiencing an overdue pullback. The media has hyped the current situation, but response by capital markets has been rather orderly to this point. Keen market observers would note key barometers that would indicate extreme levels of stress are not yet sounding alarm bells. However, we do expect increased levels of volatility as the markets sort through the uncertainty.

The outlook for equity markets appears to be mixed at the present time. The economic conditions and fundamentals are mostly favorable but stretch valuations and geopolitical tensions are likely to create near-term headwinds.

Positives

Equity fundamentals remain solid

Tax refunds, World Cup and America 250

Negatives

Higher oil prices

Midterm election years are often negative

Unknowns

Path of inflation

FIXED INCOME OUTLOOK

Summary

Entering March, Treasury yields were near multi-year lows. The 10-year yield stood at 3.94%, its lowest level since October 2024, while the 2-year yield was at 3.38%, last seen at that level in August 2022. A military build-up in February had driven a classic flight-to-safety trade, with investors rotating into low-risk assets like Treasury notes. That dynamic reversed sharply when conflict with Iran began in earnest. Markets quickly priced in the inflationary consequences of higher oil prices and trade disruption, unwinding expectations for rate cuts and raising the prospect of a rate hike. After months of below-average volatility, the bond market saw a dramatic sell-off: the 2-year yield surged 42 basis points (bps) to 3.79% and the 10-year yield rose 38 bps to 4.32%. Notably, 10-year Treasury Inflation-Protected Securities (TIPS) yields moved higher alongside nominal yields -suggesting markets do not view the inflation risk as structural or long-lasting.

Fueled by technology companies, issuance of new investment-grade corporate bonds remained extremely heavy with nearly \$235 billion issued. Fortunately demand for high-quality corporate bonds remained strong until the very end of the month. Credit spreads began increasing from historic tights in February and widened another 5 bps in March. Corporate bonds underperformed Treasury notes for the second consecutive month. Overall, with higher yields and wider spreads, the Bloomberg U.S. Aggregate Bond Index delivered a return of -1.76% for the month while the Bloomberg Intermediate Government/Credit Index returned -1.39%. These returns were in the bottom 5% of monthly returns over the past 50 years.

At the mid-March meeting of the Federal Open Market Committee (FOMC), the Fed elected to keep the overnight rate unchanged while acknowledging the conflict has further clouded an already uncertain outlook for both inflation and the labor market. With the long-term impact of the conflict still unknown, rate cuts should be put on hold. Historically, the Fed has looked through increases in oil prices and reacts only if it triggers a wage/price spiral or causes a sustained increase in long-term inflation expectations. Neither is evident

now. Also, demand destruction due to higher gas prices may slow economic activity enough to damage the labor market's delicate balance. A higher Fed Funds rate can alter demand but will do little to alter prices due to a supply-driven price shock. As such, we believe there is little reason to expect a rate increase this year and view short-maturity bonds as increasingly attractive. We are maintaining a neutral duration policy but looking at opportunities to extend positions out of the 6 to 12-month range and into the 2 to 3-year part of the curve. Regarding corporate bonds, we believe current levels are attractive and are selectively adding to credit exposure mostly through increasing the duration of new positions.

Positives

Yields moved sharply higher following attacks on Iran

Markets are now expecting a Fed rate hike which is unlikely

If the conflict is resolved, oil price and inflation concerns should ease

Negatives

Previously expected Fed rate cuts may be on hold

Labor market remains resilient with low unemployment even with slow rate of hiring

Corporate bond issuance continues to be heavy due to technology cap expenditures

Unknowns

Outcome/resolution to military conflict with Iran

Oil prices and their impact on inflation