

MARCH 2025

## OCIO Observes ... Our Thoughts On The Economy & Markets

Dear valued client,

We hope this note finds you well and that you find it of value. We are grateful for the trust and confidence you have placed in Orion OCIO. Please contact us if we can assist you in any way.

**Tim Holland**

### A look back ...

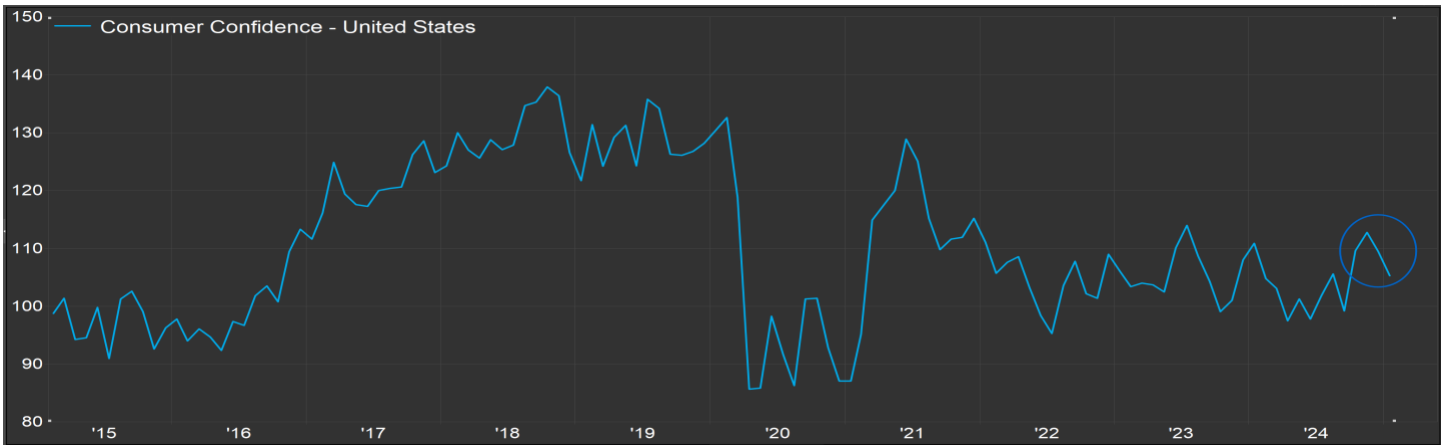
- US stocks fell sharply in February, with the S&P 500 and Russell 2000 off approximately 1.3% and 5.4%, while international stocks gained, with the MSCI EAFE and MSCI EM Indices up about 2.0% and 0.5%. Several factors, we think, pulled the world in opposite directions...
- Uncertainty around trade policy weighed on US consumer and corporate sentiment, and on Wall Street, as the US narrative shifted from an economy running too hot to one at risk of recession, while overseas, attractive valuations met a market friendly election outcome in Germany. Time will tell if the ex-US rally has legs (recent history has not been kind, and European markets struggled into month end on talk of 25% US tariffs).
- High quality fixed income offset equity market volatility last month as the Bloomberg Aggregate Index was up nearly 2.2% - bringing its year-to-date gain to about 2.7% - as bonds rallied sharply in the final week of February.

### A look ahead ...

- A too-hot January CPI print helped push the yield on the U.S. 10 Year Note to 4.65% last month (before concerns over the economy knocked it down to 4.25%). A hotter-than-expected February CPI print, due March 12th, could have investors uttering the dreaded "S-word" (*stagflation* — i.e., a slowing economy marked by sticky inflation).
- The Federal Reserve will see the February CPI print one week before it concludes its March meeting on the 19th. Going into the meeting, the Fed penciled in two rate cuts in 2025. Not only do we get a Fed meeting this month, but we get an updated Summary of Economic Projections, or "Dot Plot," from the Fed.
- Tariffs on Mexico, Canada, and now the EU loom, while the U.S. Senate takes up the House's legislation that bolsters defense spending and extends the 2017 tax cuts. Clarity on trade and taxes would be welcomed on Wall Street.

### A look at a datapoint worth discussing ...

- Sentiment is a powerful thing. When folks feel good, they spend, and when they don't, well, they don't. And sentiment can turn on a dime, which brings us to the February Consumer Confidence Index from the Conference Board, which showed the sharpest monthly drop in U.S. consumer confidence since August 2021 (*see chart*).
- After a post-election spike in confidence, the U.S. consumer is feeling down in the mouth, worried, it seems, over higher prices and the potential for even higher prices down the road. The U.S. economy is 70% consumption driven; if the consumer is okay, the economy should be okay; if the consumer struggles, the economy could too.

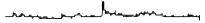











Source: FactSet, February 2025

### This Month's Dataset

Category	Index	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
Large Cap	S&P 500	-1.30	1.44	1.44	18.33	12.48	16.78	12.92
Large Cap	NASDAQ Composite	-3.91	-2.31	-2.31	17.86	11.90	17.91	14.71
Small Cap	Russell 2000	-5.35	-2.87	-2.87	6.67	3.32	9.35	7.21
Growth	Russell 3000 Growth	-3.73	-1.78	-1.78	19.01	14.17	18.95	15.38
Value	Russell 3000 Value	0.20	4.71	4.71	15.27	8.27	12.34	8.80
Developed	MSCI EAFE	1.95	7.32	7.32	9.28	6.93	9.19	5.76
Emerging	MSCI Emerging Markets	0.50	2.32	2.32	10.60	0.92	4.67	3.88
China	MSCI China	11.76	12.83	12.83	39.18	0.24	-0.14	2.72
Core Fixed Income	Bloomberg Barclays Aggregate	2.20	2.74	2.74	5.79	-0.43	-0.52	1.50
High Yield	Bloomberg Barclays High Yield	0.67	2.05	2.05	10.05	4.91	4.91	5.04
Commodities	Bloomberg Commodity	0.78	4.76	4.76	11.56	0.70	10.52	1.83
Commodities	Bloomberg Composite Crude Oil	-2.92	-0.43	-0.43	2.30	4.10	12.83	0.92
Commodities	Bloomberg Copper	5.61	12.64	12.64	19.74	2.54	13.13	5.26

Source: FactSet. Performance shown on an annualized basis (%) for trailing periods ending 2/28/2025.

Economic Indicator	Reference	LATEST	1Y Avg	3Y Avg	5Y Avg	10Y Avg	LT Trend	10Y History
Volatility	CBOE Volatility Index	19.6	16.1	19.0	21.4	18.3	Neutral	
Valuation	S&P 500 - P/E NTM	21.7	20.8	19.2	19.9	18.5	Increasing	
Earnings Growth	S&P 500 - EPS, YoY Growth (%)	11.5	12.5	8.0	10.5	8.6	Increasing	
Profit Margin	S&P 500 - Operating Margin (%)	22.4	22.2	21.4	21.1	20.5	Neutral	
Short-term Yields	2Y Treasury Yield (%)	4.0	4.5	3.9	2.5	2.0	Increasing	
Long-dated Yields	10Y Treasury Yield (%)	4.2	4.2	3.0	2.6	2.5	Increasing	
FI Yields	Bloomberg US Aggregate - YTW (%)	4.6	4.8	4.3	3.2	2.9	Increasing	
FI Duration	Bloomberg US Aggregate - Duration (years)	6.1	6.2	6.3	6.3	6.0	Neutral	
Credit Yields	Bloomberg US Corporate Credit - YTW (%)	7.2	7.7	7.8	6.8	6.7	Increasing	
Crude Oil Price	WTI Crude Oil - Spot Price (\$/bbl)	69.8	76.5	82.7	70.9	62.6	Neutral	
	52-Week High	87.7						
	52-Week Low	66.7						

Source: FactSet. All data as of 2/28/2025.

### Disclosure

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An index is an unmanaged group of assets considered to be representative of a select segment or segments of the market in general, as determined by the index manager for the purposes of managing a specific index. You cannot invest directly in an index.

The S&P 500 Index is an unmanaged composite of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks

The Nasdaq Composite Index is an index that follows approximately 5000 stocks that trade on the Nasdaq exchange. It is considered a good benchmark for smaller company stocks.

The Russell 2000 is an index comprised of the 2,000 smallest companies on the Russell 3000 Index and offers investors a benchmark for small-cap stocks.

The Russell 3000 Index is an unmanaged index considered representative of the U.S. stock market. The index is composed of the 3,000 largest U.S. stocks.

The MSCI EAFE Index is a composite index which tracks performance of international equity securities in 21 developed countries in Europe, Australia, Asia, and the Far East.

The MSCI Emerging Markets (or EM) Index is an index which tracks performance of international equity securities in developed countries in Europe, Australia, Asia, and the Far East, excluding the U.S. and Canada.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

The Bloomberg Barclays US Aggregate Bond Index measures the performance of the total United States investment-grade bond market.

The Bloomberg Barclays U.S. Corporate High Yield Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds.

The Bloomberg Commodity Index is made up of 22 exchange-traded futures on physical commodities and represents 20 commodities that are weighted to account for economic significance and market liquidity.

The Bloomberg Composite Crude Oil Index is composed of futures contracts on WTI and Brent Crude Oil.

The Bloomberg Copper Index is a commodity group subindex of the BCOM composed of futures contracts on Copper.

The CBOE Volatility (VIX) Index is a calculation designed to produce a measure of constant 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of the S&P 500 Index (SPX) call and put options.

The Bloomberg US Corporate Index measures the investment grade, fixed-rate, taxable corporate bond market.

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