MORNINGSTAR Wealth

Investment Insight

Weekly Market Roundup for Advisors: March 10

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March 2025

Dan Kemp
Global Chief Research and Investment Officer

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- Every Monday, we offer bite-sized updates on important financial matters for the week ahead.
- This can include news, data releases, company announcements, or other timely updates.
- If your clients expect you to have a view on these matters, we offer links to Morningstar research to help you guide them.

US Stocks Decline Amid Market Reassessment

US stocks ended the week down 3.2% despite a late rally on Friday and are now down 2% year to date. While some attributed the decline to slightly disappointing jobs numbers and ongoing trade uncertainty, these factors have not meaningfully changed the key drivers of returns at the market level. Instead, the pullback appears to reflect a reversion to fair value after a period of excess enthusiasm for some companies and indifference to others.

Growth vs. Value: A Shift in Market Leadership

One clear indicator of this reassessment is the movement in US growth and value stocks. After outperforming value stocks by over 40% in the past two years, growth stocks have underperformed by 10% so far this year. For deeper insights into this shift and its implications for investors, check out David Sekera's latest US Market Outlook. Additionally, for more analysis on the jobs report and economic impact, read the latest from Tom Lauricella and Sarah Hansen.

Sector-Specific Divergences

While the growth vs. value lens is useful, it's important to recognize the diversity within these groupings. Financial services, typically classified as value, led last week's decline—falling 5.9%, with banks down 8.4%, and asset managers down 8.2%. This highlights the importance of deeper research rather than relying on broad market categorizations. For an in-depth look at the asset manager industry, check out Morningstar's latest Asset Manager Industry Pulse.

The Consumer Cyclical sector, which had gained 75% over the last two years, dropped 9.6% this year—dragged down by Amazon (AMZN), Tesla (TSLA), and Home Depot (HD). While Amazon now appears undervalued and Tesla near fair value, Home Depot remains priced well above fair value despite not being part of the 'Mag 7' grouping.

Healthcare Holds Steady

Healthcare was the only sector to post positive returns last week—albeit just 0.05%! Still, it remains the highest-returning sector year to date, up 7.7%.

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Global Markets Outperform

As enthusiasm for US stocks wanes, international markets have continued to deliver higher returns. Developed markets ex-US gained 2.7% last week and are up 9% year to date, while emerging markets rose 2.8%, driven by China's strong 6.4% weekly gain (up 19.2% YTD). However, these returns were flattered by a 3.5% decline in the US dollar over the week. Despite the relative strength of non-US equities, Morningstar's Capital Markets team continues to see greater investment opportunities abroad compared to the US.

Inflation in Focus Ahead of Fed Meeting

Inflation will take center stage this week ahead of the Federal Reserve Open Market Committee meeting. The latest Consumer Price Index (CPI) reading, set for release Wednesday, is expected to show Core CPI (excluding food and energy) remaining stable at 3% over the last 12 months.

Long-Term Investing Perspective

Although sharp declines in index levels are always uncomfortable for investors due to our intrinsic aversion to losses, price changes that move assets closer to their fair value are a 'feature' rather than a 'bug' of capital markets as they ensure that more capital can be invested with the expectation of a reasonable return over the long-term. The challenge of these periods is that many investors focus on the near-term movement in prices and forget that investing is always a long-term endeavour. Capitulating to this investing myopia can have a damaging impact on the eventual success of our investing.

When adjusting portfolios in this environment, it's wise to follow the old carpenter's motto: *"Measure twice, cut once."*

Disclosures

Source: Returns: U.S. Large Cap—S&P 500, U.S. Small Cap—Russell 2000, Int'l Developed—MSCI EAFE, EM—MSCI EM, U.S. Agg—Bloomberg U.S. Agg, U.S. Corporates—Bloomberg Investment Grade Credit, High Yield—ICE BofA High Yield, Municipals—Bloomberg Municipal. Index Data: Morningstar Direct. Key Indicators: Morningstar Direct. 30-year Mortgage—FRED, Oil Price—West Texas Intermediate. Style Box Returns: Performance data based on Morningstar Indexes. Sector Returns: Standard & Poor's index data.

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For More Information

Phone: +1 800 866-1749
Email: wealth.us@morningstar.com
Online: www.mp.morningstar.com

MORNINGSTAR Wealth

22 West Washington Street
Chicago, IL 60602 USA

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