March 20, 2025
Commentary

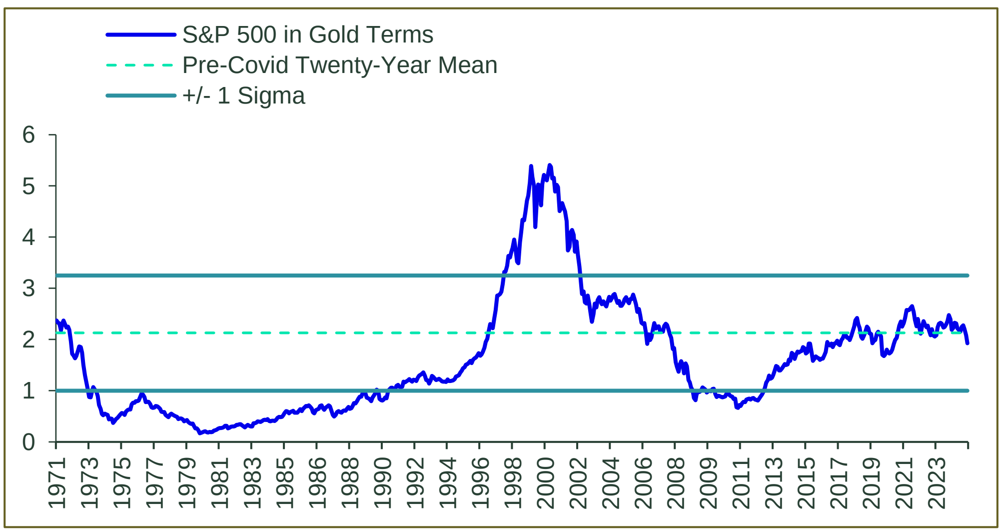
Weekly Market Update

Insight of the Week

Is the Gold Market Pricing-In US Recession Risks?

The S&P 500 in gold terms has plunged to its lowest levels since the 2020 pandemic. The mean ratio in March has dropped to around 1.9x versus 2.3x in December 2024 and a cyclical peak of 2.5x last February. During the peak Covid shock Mar-Sep 2020, the ratio hovered just above 1.7x. Weaker US economic data and heightened domestic and foreign policy uncertainty have prompted a strong bid for gold this year amid concerns about a US growth contraction, sticky inflation, and higher macro volatility premiums. These market concerns were echoed in the latest SEP coming out of the March FOMC.

Time will tell whether this recent move is a real warning sign for the US and global economy or a temporary positioning blip. Even after a 27.2% nominal spot price return and 21.4% real price return in 2024, we are still constructive in 2025, especially when large-cap US equities had not had a correction event since 2023 and stayed in a bull market through 2024.



Source: Bloomberg, State Street Global Advisors as of March 19, 2025.

To be clear, the 15% year-to-date rally in spot bullion markets to record levels north of $3,000/oz has been led by both physical and financial drivers. The continued recovery in China retail gold demand post-pandemic and ongoing EM central bank purchases have been critical in structurally supporting higher bullion prices. But the most important bullish factor in 2025 has likely been the surge in gold ETF inflows, with western investors reversing a 3.5 year de-stocking cycle and increasing physical consumption via gold ETFs for the first time since 2020. The ETF delta from 2023 to 2025 is a sizable aggregate demand shock, representing an over 400 tonne swing thus far or 11-12% of primary mine supply forecast this year. And for the first time post-Covid, US investors are leading the bullion buying binge. This evolving composition of gold demand towards US ETF buyers (amid what is likely to be a slight slowdown in EM CB and China retail demand from 2024 trend) and suggests a new narrative for the bullish gold trade, that may be questioning US exceptionalism in 2025 with fresh demand for equity portfolio overlays, drawdown hedges, and policy/geopolitical hedges.

Source: Bloomberg, State Street Global Advisors. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Equities

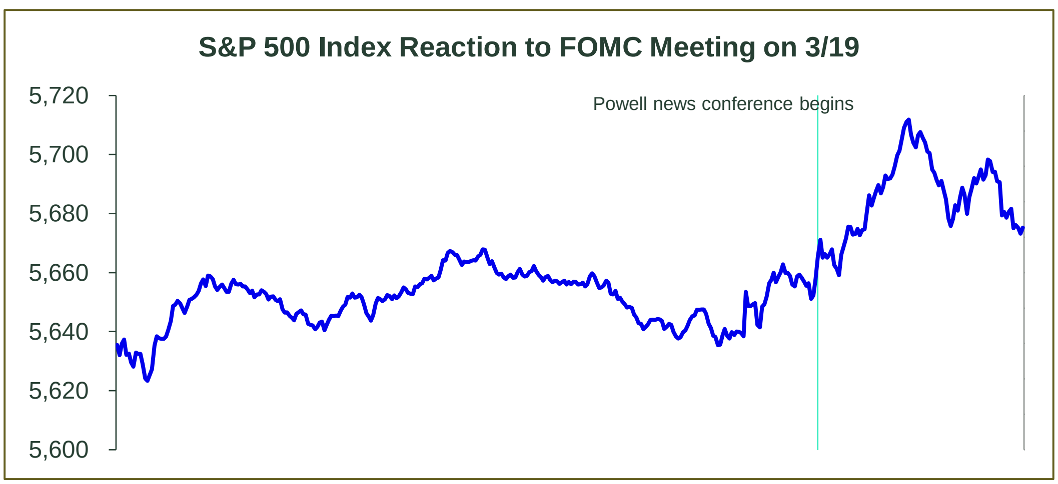
FOMC and Equities Markets Reaction

The FOMC convened on March 18-19, 2025, to assess the U.S. economic landscape and adjust monetary policy accordingly. In a unanimous decision, the Committee maintained the federal funds rate at its current target level of 4.25-4.5%.

The FOMC's updated projections indicate a subtly more subdued economic outlook:

1. GDP growth. The median forecast for 2025 growth has been lowered to 1.7% (vs previous estimate of 2.1%)
2. Inflation. The projection for PCE inflation for 2025 has been revised to 2.7% (vs previous estimate of 2.5%)
3. Unemployment rate. The rate is anticipated to hold steady at 4.4% through 2025 (vs previous estimate of 4.3%)

Following the FOMC's announcement, equity markets responded positively – S&P 500 rose by 1.1%, reflecting renewed investor confidence; the tech-heavy Nasdaq rose 1.4%, buoyed by gains in major technology stocks. This marked the best "Fed day" performance from the S&P 500 since July and the strongest post-Fed decision percentage gain for the Dow since March 2024.



Source: Tradingview. Data is for 1-minute intervals for March 19, 2025 from 9:30AM to 4:00PM EST.

More specifically, tech stocks surged as investors interpreted the Fed's rhetoric as a sign that rate hikes are unlikely in the near term. Consumer discretionary performed well, as Powell emphasized that the economy remains 'healthy'. Financials saw mixed performance, with banks benefitting from stable rates but concerns about slower growth weighing on some. From the tariffs perspective, “It is going to be very difficult to have a precise assessment of how much of inflation is coming from tariffs and from other,” Powell said.

While the equity market initially rose, driven by Powell’s nonchalant approach to economic risks and a belief that the Fed is unlikely to tighten monetary policy further without clearer signals, trading in Thursday’s session was much more mixed, with the US market lower in the afternoon hours on the East Coast, and showing a lack of conviction. He acknowledged that while recession probabilities have increased, they remain relatively low, again emphasizing the Fed’s focus on hard economic data over soft indicators like sentiment surveys.

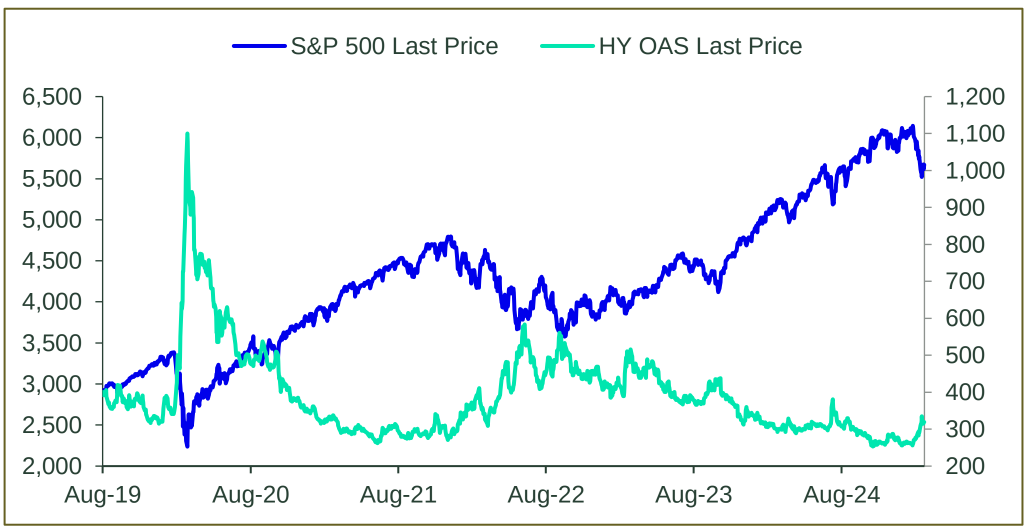
Source: Tradingview. Data as of 3/19/2025 unless otherwise stated. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Fixed Income

High Yield Spreads Remain Relatively Muted

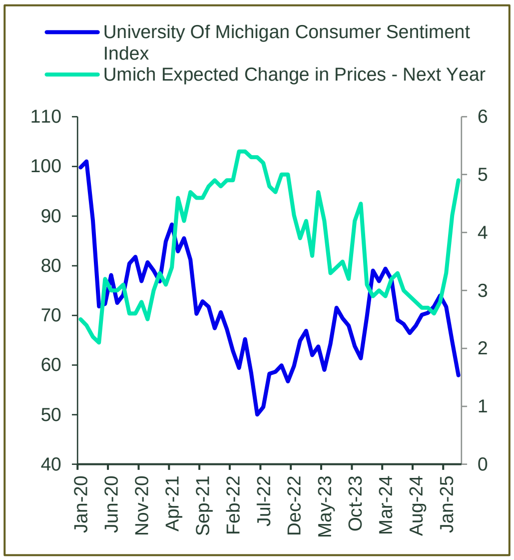
High yield spreads are measured simply as the excess yield over duration equivalent treasuries. They are often seen as a harbinger of economic distress; most recent examples include the Global Financial Crisis and the Covid-19 pandemic. However high yield spreads remain near historic lows as investors seem to downplay the rising risks of an economic downturn.

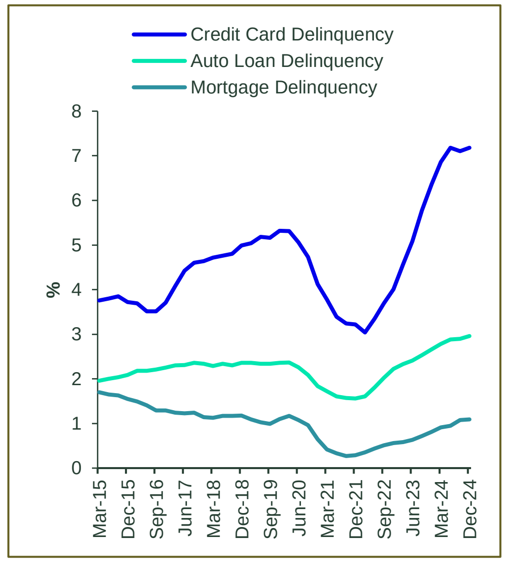
That’s not to say spreads haven’t moved. Recent economic uncertainty and emerging growth concerns have contributed to spreads widening by a notable sixty-three basis points since February 19, 2025 but remain below their long-term averages. During the same one-month period equity markets have experienced losses of around 9%, while high yield returns dipped by less than 1% (to -0.56%).



Source: Bloomberg as of March 19, 2025.

The uncertainty around economic policy, especially as it relates to tariffs, has led to a sharp decrease in consumer sentiment and an increase in short-term inflation expectations. Growth projections have been revised down and signs of consumer weakness have started to emerge.





Source: Bloomberg as of March 19, 2025.

Given still-tight spreads, this risk does not appear to be priced into high yield markets. For investors, caution is advised as the narrowness of spreads gives little cushion in a riskier environment.

Source: Bloomberg, State Street Global Advisors. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

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*Pensions & Investments Research Center, as of 12/31/23.
†This figure is presented as of December 31, 2024 and includes ETF AUM of $1,577.74 billion USD of which approximately $82.19 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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