



Market Update: March 2025

As we move further into the year, market volatility has been front and center, with sharp corrections and shifting sector trends catching investors' attention. While these fluctuations can be unsettling, they're not entirely unexpected given the current landscape. In this update, we'll break down what's driving the recent market movements, our thoughts on recession risks, the Fed's next moves, and how we're approaching these changes.

Market Volatility

The market's volatility this year hasn't been surprising. With a new administration, DOGE, trade tensions, and two strong years of equity returns behind us, it would be more surprising if we hadn't seen some turbulence. Both the Nasdaq and S&P 500 have experienced 10% corrections from their highs earlier this year.

As we mentioned last month, we expected a pullback and a shift away from technology stocks into other sectors, and that's exactly what's happened. Several of the MAG-7 stocks are down more than 20% from their all-time highs. In our last update, we predicted a 10% correction at some point this year—though, to be honest, we didn't expect it to happen before our next update. That said, valuations for many tech stocks are looking more attractive now, and we wouldn't be surprised to see some kind of relief rally. Meanwhile, sectors like energy, consumer staples, utilities, and healthcare are in positive territory for the year. The speed of this downturn has rattled investors, but history tells us that 10% corrections don't typically turn into 20% bear markets unless they coincide with an economic recession, an earnings recession, or a Fed hiking cycle. We are not predicting any of these.



Recession Talk

Lately, we've seen the word recession pop up more frequently. There's always some chance of a recession in any given year, and while that probability might be slightly higher now, we're not calling for one at this time. Yes, some economic data has softened, but overall, the indicators don't point to a recession. Unemployment remains low, consumer spending was solidly higher in February compared to last year, and both monthly employment data and the JOLTS report are still positive. One of the key areas we watch for economic warning signs is high-yield bond spreads. While they've ticked up a bit in recent weeks, they're still at historically low levels—another signal that the economy isn't flashing recessionary warning signs just yet.

The Fed & Interest Rates

As we discussed last month, we believe the Fed will cut rates more than the one or two times the market had predicted at the start of the year. A combination of market corrections and easing inflation could give them room to be more aggressive. February's CPI report just came out cooler than expected, and now CME Group's Fed Fund Futures are pricing in 3–4 rate cuts this year. While the Fed has signaled that it wants to assess the impact of tariffs and trade policies on prices and the economy, they ultimately follow the data—and right now, that data suggests they're getting closer to continuing the rate-cutting cycle.



Final Thoughts

No one can predict the market's short-term moves with certainty, but volatility like this reinforces our investment approach. In our view, liquidity is the biggest risk to portfolios. That's why we focus on ensuring our clients' liquidity needs for the next several years remain insulated from market swings. Corrections are never fun when they happen, but for long-term investors, they tend to look like mere blips in hindsight. And for those with the ability to buy during downturns, their future perspective—positive or negative—will likely depend on whether they took advantage of the opportunity or sat on the sidelines.



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