March Investment Perspectives

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INVESTMENT STRATEGY

In this issue, we compare the Mag 7 with the Nifty Fifty, discuss how much federal debt is too much, and how March may bring a chance to increase equity exposure.

A Lesson From the Nifty Fifty

Mark Luschini, Chief Investment Strategist

Over the last few years, investors have poured money into the shares of companies coined the Magnificent 7 (the "Mag 7"). This distinguished group includes, in no particular order, Meta (a.k.a. Facebook), Apple, Amazon, Alphabet (a.k.a. Google), Microsoft, Tesla, and NVIDIA. This collective was corralled because of their similarly outstanding performance and operating metrics, and because they shared the following characteristics: iconic brand, gigantic capitalization, industry dominance, rapid and somewhat predictable growth, copious cash flow, and lofty potential. To be sure, investors have been duly rewarded for their selection. After all, while the S&P 500 index produced returns north of 20% in both 2023 and 2024, something that has not taken place in a quarter century, the Mag 7 more than tripled the cumulative return of the S&P 500 index over those two years!

This year, however, the Mag 7 is off to a rough start and trails the S&P 500 index by a considerable sum. To be fair, not all have lost value since the beginning of the year (though most have), and the stock price of any publicly traded company, even the great ones, fluctuates sometimes wildly over periods of time. However, it does invite critique since so many investors have placed their faith in the Mag 7's continued outperformance as if ordained. Here, history may provide a valuable lesson, which is not intended to indict the Mag 7 or their prospects but rather to offer a sobering perspective.

Austerity, Debt-to-GDP, and Economic Growth: The Feedback Loop

Guy LeBas, Chief Fixed Income Strategist

One of the megatrends affecting interest rates in the U.S. is the amount of federal debt outstanding. Depending on how one measures it, the ratio of Treasury debt to the U.S. economy ("debt to GDP") is about 96%, up from 78% in 2019. Over that period, the U.S. government ran large annual deficits, which were partly a function of the COVID emergency and partly a structural mismatch between spending and taxes. A deficit means the U.S. borrows money by issuing Treasury bills, notes, and bonds. That issuance affects interest rates in two ways: one, deficit spending provides economic activity, and two, deficit spending increases the supply of bonds and, therefore, increases interest rates.

A Choppy March to Eventually Higher Levels

Gregory M. Drahuschak, Market Strategist

Last month, our hope was for a positive break from the currently mediocre earnings expectations trend. This did not happen. Technical factors suggested potential market weakness could be well contained, but they were not enough to avoid a late-month break that led the S&P 500 to its often-negative result for the month as the S&P and the Nasdaq Composite ended February with their worst weekly results since September of 2024. February was the worst month for the Dow, and the Nasdaq posted its worst month since April 2024.

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