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Richard de Chazal, CFA
rdechazal@williamblair.com
+44 20 7868 4489

Economics Weekly

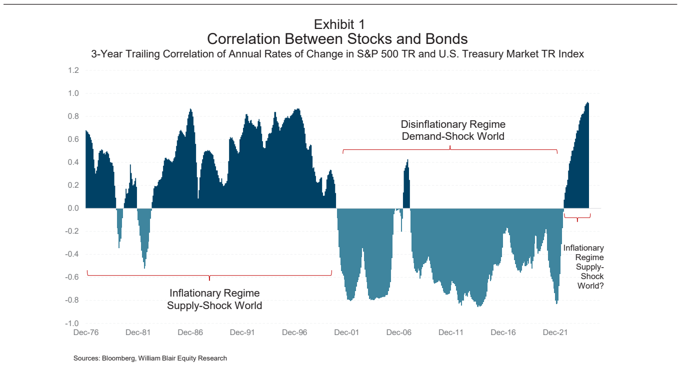
Making Active Great Again

Please refer to important disclosures on pages 14 and 15. Analyst certification is on page 14.

President Donald Trump is accelerating a number of structural regime changes that had been slowly but steadily taking place across the real economy for many years now. These changes include the shift from labor back to capital investment, as the U.S. moves away from a global supply glut of labor toward a structurally tighter labor market, and from an asset-lite financialized economy back toward a production-based economy (previously discussed here). In addition, the inflation regime is shifting from being driven by demand, where supply was virtually unconstrained, to being dominated once again by supply-side shocks (discussed here). Furthermore, we are shifting away from a monetary policy dominant world to one led by fiscal policy (discussed here), where the Fed is at the back of the bus and fiscal policymakers are in the driver's seat. President Trump's strategy of moving fast and breaking things is raising uncertainty and unsettling financial markets, although these types of changes were always going to result in increased volatility and a rotation within equity markets. While there may be more to come, it will be important for investors to get a sense of where the dust is likely to settle—once it finally does. **In this *Economics Weekly,* we discuss the regime changes currently underway, and what is likely to be one of the unintended consequences of "Make Active [portfolio management] Great Again."**

The Demand-Driven Inflation Regime and the Rise of Passive Investment

Like a moth to a flame, we continue to be drawn to the chart shown in exhibit 1, as we think it perfectly encapsulates the current economic and financial market landscape.



This chart once again shows that even though the correlation between stocks and bonds is not constant, it is very sticky over long periods—aka regimes. Those positive or negative correlation regimes are in turn defined and driven by the prevailing inflation regime.

In roughly the year 2000, just before China joined the WTO in 2001, the market signaled the start of a demand-driven disinflationary regime, in which supply was unconstrained. In this hyper-globalized world, supply chains were incredibly tight, inventories could be kept incredibly low, and any supply shortfalls could be quickly farmed out to a global supplier and resolved.

Labor was not a constraint on production due to the prevalence of the baby boomers, the opening up of the emerging markets, and innovation that allowed global outsourcing of manufacturing. In this disinflationary world of just-in-time inventories and frictionless trade, there were no real upside risks to inflation. Rather, the main risk came from demand shortfalls that could potentially plunge the economy into deflation. This was the world of secular stagnation.

The lack of any tangible upside risk to inflation meant that central bankers were heavily biased toward lowering rates preemptively at the first sign of any wobbles in the real economy or financial markets. It also gave them the freedom to maintain lower rates for longer and in turn made them the maestros of the financial world, with market participants parsing their every word or raised eyebrow for policy signals.

This suited fiscal policymakers just fine, because rates were kept low and inflation was stable. They could issue more debt and take credit for any economic successes, while similarly being able to pin the blame on the central bankers if things went horribly wrong.

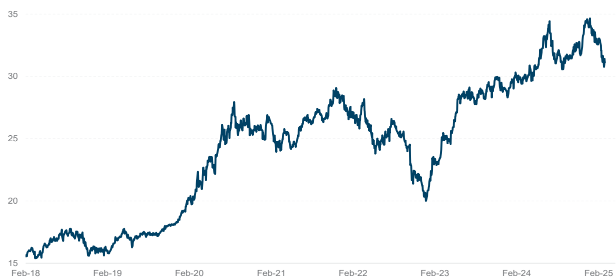
With inflation low, trade frictionless, and central bankers able to keep rates even lower, the natural equity allocation was for investors to push even further along the duration spectrum. Any emphasis on valuation as a predictor of return dissipated, fundamental value-driven investors disappeared, and momentum was the name of the game.

Bonds, meanwhile, with their negative correlation to equities, turned out to be all the diversification one needed. The result was the prevalence of the 60-40 portfolio.

This change also fit hand in glove with the growth of passive investment. Passive investment by definition is valuation agnostic. On the downside, passive investment momentum becomes self-perpetuating. Funds increasingly flow to stocks that perform well, and those stocks' expanded weighting within the index in turn encourages even more inflows to match the new higher index weightings, regardless of the valuation.

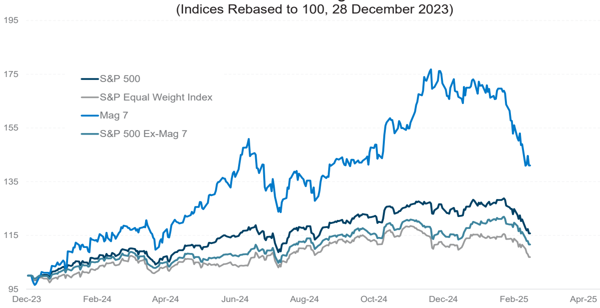
Unsurprisingly, this led to performance becoming increasingly concentrated into what ultimately turned out to be just an undiversified handful of stocks—the Mag 7. At their peak in December 2024, these seven stocks accounted for a whopping 35% of the entire S&P 500 (exhibits 2 & 3).

Exhibit 2
Mag 7 Share of S&P 500, %



Sources: Bloomberg, William Blair Equity Research

Exhibit 3
S&P 500 vs. Magnificent 7
(Indices Rebased to 100, 28 December 2023)



Sources: Bloomberg, William Blair Equity Research

Yet, as the inflation regime moves toward being supply driven and away from being driven by demand—which is what exhibit 1 and the financial markets are telling us is happening today—we believe it will be accompanied by a shift away from passive investment and back toward active investment and greater diversification across the equity market.

The Regime Shift Back to Supply-Shock Inflation

The COVID pandemic was the catalyst for a number of major regime changes. Most importantly for investors, it marked the transition from a demand-driven inflation regime to a supply-driven one and from monetary policy dominance to fiscal policy dominance. It also accelerated the transition from an asset-lite world toward one that is likely to return to being more capital heavy.

A supply-side driven inflation regime does *not* mean permanently high inflation. Rather, we believe it means that, on average, inflation will be a little higher than was the case over the previous two decades (likely around 2.5%), but also accompanied by more volatility around that mean.

The supply-side nature of the inflation is also likely to be defined by temporary bursts of inflation, which central bankers will no longer have the luxury of so easily being able to "look through." Instead, they may increasingly find themselves being forced to respond to such bursts, either by not lowering rates as quickly as they might have done previously, or even raising rates, to keep inflationary expectations in check.

The pandemic represented a wake-up call as to just how stretched and brittle supply chains have become. It exposed how reliant the U.S. had become on the production of foreign goods—in particular, strategically important goods, such as semiconductors and medical supplies. Companies have already been responding by moving from just-in-time to just-in-case inventory management.

Other factors have also been at play, including demographics. The labor force has become structurally tighter due to aging populations and slower birth rates, and companies are increasingly complaining about shortages of workers. Anti-immigration policies and deglobalization are only further exacerbating these supply-side issues.

The transition away from an asset-lite (e.g., unicorns with 3 employees in a garage) to more capital-heavy world (e.g., tech companies investing in SMRs) is being driven by a combination of factors. These include the aforementioned structural labor shortages; an outdated and aged capital stock; an ongoing innovation boom; and a government that is intentional in promoting this capital investment drive, either through incentives—the IRA, CHIPS, and IIJA under the Democrats—or through tariffs and other protectionist measures under the Republicans. This is a transition that will also likely result in the return of more cyclical growth.

China has been preparing for this transition for years, through the Belt and Road Initiatives, ownership of ports in Europe, and ownership of energy and mineral companies across the globe (notably in Canada). President Trump clearly understands this and finds the U.S. belatedly scrambling to secure control of assets for itself (minerals, canals, energy, etc.) across the globe, including in Greenland, Canada, Latin America, and Ukraine.

Lastly, Mother Nature is pushing us in the direction of greater inflation supply-side volatility via climate change and viruses. Volatile weather events—droughts, flooding, fires, ice storms, and hurricanes—are increasingly frequent and highly disruptive, raising volatility and ultimately aggregate prices to compensate for the production disruptions. Viruses, such as the pandemic and today's avian flu with its impact on egg production and distribution, are similarly disruptive.

Monetary Policy Dominance to Fiscal Dominance

Control of the direction of economic policy is also being wrested away from monetary policymakers and returned to fiscal policymakers.

This transition has been a slow burn, but it has been synonymous with the rise of populism. This was personified by Brexit's theme of "take back control," and the general feeling that low rates, quantitative easing, and hyperglobalization have not benefited all equally, with the gains overwhelmingly going to the owners of capital and not the workers (discussed here).

Effectively, it is the view that free trade has not been the free lunch that it was cracked up to be and that monetary policymakers were being given too much responsibility, including over areas they have very little capacity to control. Just how extreme this became is highlighted by the fact that politicians were increasingly pushing central banks to be the ones to resolve climate change(!).

The pandemic was once again the catalyst for change here, as fiscal policymakers rediscovered the power of the purse, and electorates increasingly demanded change.

The downside of this transition, however, is that the multiplier effects from fiscal policy are difficult to gauge. That is, when taxes are raised or lowered, or other changes made, it is not always clear when, where, how, and by how much those effects will take place. Similarly, the impact will also very much depend on the underlying economic fundamentals. For example, a tax cut when there is plenty of spare economic capacity will not have the same impact on growth and inflation as one made when there is very little capacity to spare.

There is also a very good reason the reins of economic policy control were handed over to monetary policymakers—they are independent technocrats. Their dominance worked well for financial market participants and most of the time for the real economy also. It made policy decisions more predictable, and even more so with forward guidance. Furthermore, these decisions could be easily hedged against the financial markets.

Monetary policymakers also tend to make decisions in economically rational ways and follow crude rules for making those policy decisions—e.g., the Taylor rule.

Fiscal policymakers, conversely, cannot always be relied on to make economically rational decisions for the country as a whole. Rather, they are elected to make policy decisions that are the most rational for their constituents (and/or their future election prospects). These fiscal decisions take time, are less predictable, are harder to hedge against, and unfortunately, are often more inflationary than monetary policy changes.

What we are seeing with the Trump administration today is a clear demonstration of fiscal dominance. That is, the Fed is finding its hands bound and it is unable to act until it has a clear idea of what will happen with regard to tariffs, deportations, and the DOGE. In effect, the Fed has been forced to the back of the bus and must wait and react to economic changes as they play out.

Investment Implications, and the Return of Active Management

While all of these changes were in process before President Trump took office, there is little doubt that he is now amplifying these changes by pouring gallons of highly flammable accelerant onto the fire, which is creating a huge amount of uncertainty in the process (exhibit 4).

Exhibit 4
U.S. Economic Uncertainty Index*

Source: Baker, Bloom & Davis; Economic Policy Uncertainty - *"To measure policy-related economic uncertainty, we construct an index from three types of underlying components. One component quantifies newspaper coverage of policy-related economic uncertainty. A second component reflects the number of federal tax code provisions set to expire in future years. The third component uses disagreement among economic forecasters as a proxy for uncertainty."

The old regime of low and stable inflation, lower and more predictable interest rates, and fewer supply chain issues was one that naturally pushed investors further and further along the equity duration timeline. This new world of slightly higher and more volatile inflation, slightly higher interest rates, and greater physical investment will likely result in a shortening of investment duration horizons, and the desire for greater diversification across both size and sector.

This demand for diversification will be further magnified by the renewed positive correlation between stocks and bonds, whereby investors can no longer rely purely on Treasurys to provide all the portfolio insurance they need. Rather, they will need to look across other equity market sectors, as well as move lower down the market cap spectrum to very much include small and midcap stocks.

Lastly, this transition is likely to result in a renewed focus on valuation as a tool of investment. Rather than simply ignoring valuations and purchasing momentum following broad index ETFs—which inevitably turned seemingly diversified portfolios into highly concentrated undiversified bets on large-cap long-duration tech stocks—investors will start to demand more of risk premium for the return of uncertainty. And assessing the size of this premium or the margin of safety will once again necessarily come down to good old-fashioned valuation techniques.

Conclusion

The current volatility in the financial markets is the result of President Trump accelerating the transition of a number of regime changes that were already underway. These include the transition from a demand-driven disinflationary regime to a supply-shock inflationary regime; the shift from a hyperglobalized asset-lite and financialized world to a capital-heavy and increased domestic-production-based world, and a shift in the policy driver from monetary policy to fiscal policy.

Transitions are always bumpy, particularly when changes are forced, as opposed to occurring more organically. For investors, this shift to a world of more volatile inflation, slightly higher interest rates, more reactive monetary policy and active fiscal policy, and more cyclical growth has already flipped the correlation between stocks and bonds back into positive territory, where bonds are no longer a reliable insurance policy against equity market volatility.

Unfortunately, these regime shifts are unsettling and uncertainty is high. This new economic environment is likely to cause investors to shorten their duration horizons, increasingly focus on valuation as a metric to gauge risk protection and compensation, and shift away from passive investment to take a renewed interest in active portfolio management across a wider variety of sectors and the market-cap spectrum.

Highlights in the Week Ahead

Date	Time (ET)	Indicator	Last	Consensus	WB Estimate	Actual
17 Mar	8:30 a.m.	Advance Retail Sales (Mar)	-0.9%	0.7%	1.2%	
		Sales Less-autos	-0.4%	0.4%	0.6%	
18 Mar	8:30 a.m.	Housing Starts (Feb)	-9.8%	1.0%	0.2%	
		Building Permits	-0.6%	-1.6%	0.5%	
18 Mar	9:15 a.m.	Industrial Production (Feb)	0.5%	0.2%	0.5%	
		Capacity Utilization	77.8%	77.8%	77.8%	
19 Mar	2:00 p.m.	FOMC Meeting	4.5%	4.5%	4.5%	
20 Mar	10:00 a.m.	Leading Economic Indicators (Feb)	-0.3%	-0.1%	-0.1%	
20 Mar	10:00 a.m.	Existing Home Sales (Feb)	-4.9%	-4.2%	-5.0%	

Sources: Bloomberg, William Blair Equity Research

Indicator of the Week: Advance Retail Sales

Housing Related* Retail Sales as % of Total Retail Sales

*Housing Related Sectors = Furniture & Home Furnishing, Building & Garden Equipment and Supply Stores
Sources: Census Bureau, William Blair Equity Research

Economic Scorecard

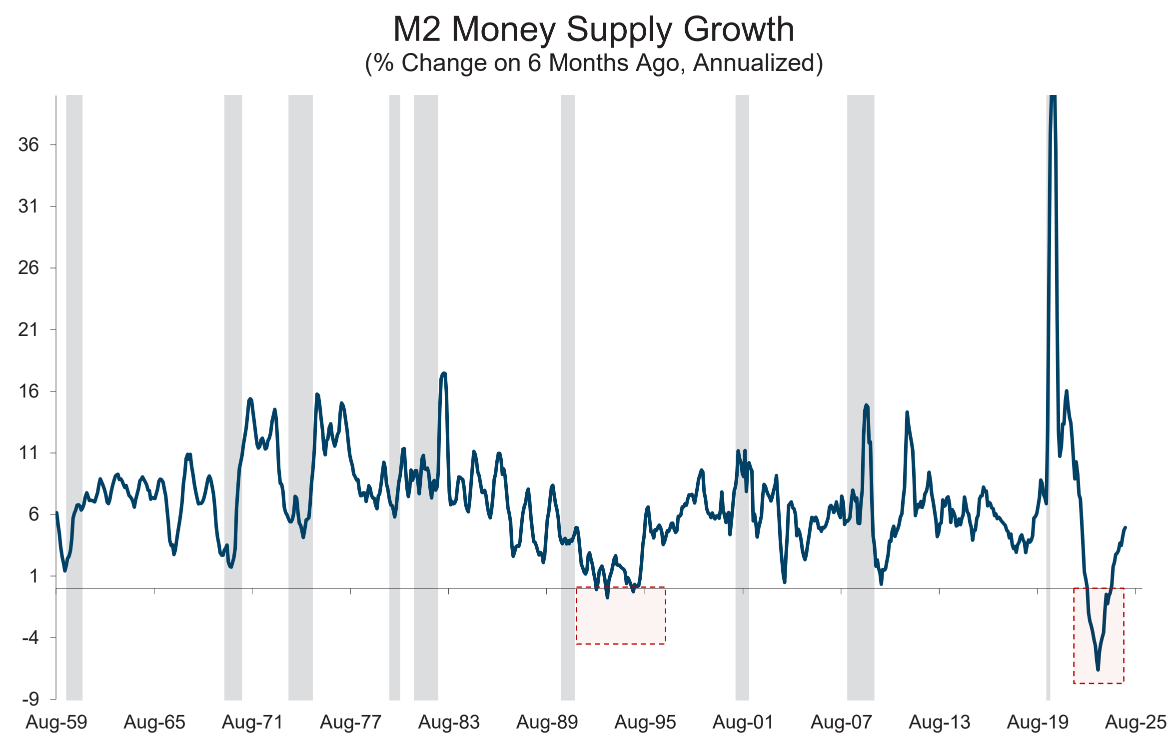
Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Growth																			
US Leading Indicators	-7.7	-8.0	-7.5	-6.8	-7.0	-6.5	-5.5	-5.4	-5.0	-4.5	-4.7	-4.6	-4.3	-3.7	-3.0	-2.8	-2.6		
US Coincident Indicators	1.7	1.6	2.2	2.4	1.6	2.0	2.1	1.7	1.9	2.1	1.7	1.7	1.6	1.6	1.4	1.5	1.9		
US Lagging Indicators	1.0	1.3	1.3	0.3	1.2	1.2	1.2	1.4	1.2	1.1	1.0	0.8	0.2	0.1	0.0	0.5	0.3		
Consumer																			
Total Retail Sales	4.3	2.6	3.5	5	0.1	2.1	3.6	2.8	2.6	2	2.9	2	2	3	4	4.4	4.2		
Personal Income	5.4	5	5.2	5.2	6	5.9	5.9	5.7	5.5	5.4	5.3	5	4.8	5.2	5.1	5.1	4.6		
Real Disposable Personal Income	4.5	4.4	4.8	4.7	3.7	3.3	3.1	2.8	2.8	2.7	2.6	2.4	2.4	2.5	2.3	2.2	1.8		
Real Personal Consumption	2.3	2.3	3.1	3.6	1.9	2.1	2.7	2.4	2.8	2.9	2.9	2.9	3.2	3.2	3.2	3.1	3		
Personal Saving Rate (%)	4.4	4.5	4.6	4.4	5.5	5.4	5.2	5.1	4.9	4.8	4.3	4.2	3.8	4	3.8	3.5	4.6		
Consumer Confidence (Conference Board)**	104.3	99.1	101	108	110.9	104.8	103.1	97.5	101.3	97.8	101.9	105.6	99.2	109.6	112.8	109.5	105.3	98.3	
Employment																			
Employment Growth	1.8	1.7	1.6	1.7	1.5	1.4	1.5	1.5	1.4	1.3	1.3	1.2	1.3	1.2	1.3	1.3	1.3	1.2	
ASA Temporary Staffing Index	-5.5	-7.5	-7.6	-5.5	-12.2	-9.4	-8.2	-9.3	-10.2	-9.9	-12.5	-12.2	-12.0	-9.5	-6.6	-21.0	-8.2	-7.5	
ISM Employment Index Manufacturing*	51.7	47.3	46.2	47.6	47.2	46.1	47.5	48.2	50.4	48.4	43.6	45.8	44.6	44.8	48.1	45.4	50.3	47.6	
ISM Employment Index Services*	52.4	49.8	50.1	43.7	50.2	48	48.5	46.6	47.5	46.7	51	49.6	48.2	52.2	50.9	51.3	52.3	53.9	
Unemployment Rate, %	3.8	3.9	3.7	3.8	3.7	3.9	3.9	3.9	4	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4	4.1	
Average Hourly Earnings	4.4	4.2	4.1	4.1	4.3	4.2	4.2	4	4.1	3.9	3.6	4	3.9	4.1	4.2	4	3.9	4	
Initial Jobless Claims (avg. wkly. chg. '000s)	217	211	218	206	210	209	215	210	222	239	238	230	224	237	219	223	217	225	
Jop Openings	-14.2	-18.5	-18.4	-21.1	-18.5	-14.2	-15.5	-23.7	-15.1	-19.4	-12.8	-17.6	-23.5	-10.9	-7.3	-12.5	-8.6	-8.3	
Layoff Announcements	58.2	8.8	-40.8	-20.2	-20	8.8	0.7	-3.3	-20.3	19.8	9.2	1	53.4	50.9	26.8	11.4	-39.5	103.2	
Housing Market																			
Housing Starts	-7.3	-5.2	6.3	17	1.1	10.1	-3.2	0.7	-16.9	-6.1	-14.3	5.7	-0.6	-1.5	-13.6	-3.4	-0.7		
New Home Sales	24.8	16.6	2.5	3.5	3.9	2.9	6.1	7.1	-9.3	0.9	1	6	4.6	-7.4	11.1	12.2	-1.1		
Existing Home Sales	-15.2	-13.1	-6.9	-5.6	-2.0	-3.4	-3.3	-2.6	-3.1	-5.1	-2.5	-3.7	-3.0	3.1	6.7	9.7	2.0		
Median House Price (Existing Homes)	-1.9	-9.3	0.4	-2.2	5.4	-2.9	-0.6	-0.5	-1.6	-0.9	-1.6	-8	-1.2	2.1	-7.7	-0.8	3.7		
Existing Homes Inventory (Mths' supply)	3.2	3.4	3.5	3.5	3.5	3.3	3.5	3.5	3.5	3.8	3.7	3.9	4	3.9	3.8	3.7	3.9		
New Homes Inventory (Mths' supply)	7.5	7.9	8.8	8.2	8.3	8.7	8.2	7.6	8.4	8.4	7.9	8.2	7.8	9.2	8.6	8	9		
NAHB Homebuilder Sentiment*	44	40	34	37	44	48	51	51	45	43	41	39	41	43	46	46	47	42	
Inflation																			
Consumer Price Index	3.7	3.2	3.1	3.4	3.1	3.2	3.5	3.4	3.3	3	2.9	2.5	2.4	2.6	2.7	2.9	3	2.8	
CPI Less-food & energy	4.1	4	4	3.9	3.9	3.8	3.8	3.6	3.4	3.3	3.2	3.2	3.3	3.3	3.3	3.2	3.3	3.1	
Producer Price Index	1.8	1.1	0.8	1.1	1	1.6	2	2.3	2.5	2.9	2.4	2.1	2.1	2.8	2.9	3.4	3.7	3.2	
PPI Less-food & energy	2.3	2.2	1.9	1.8	2	2.1	2.3	2.5	2.7	3.3	2.6	2.8	3.3	3.6	3.4	3.7	3.8	3.4	
PCE Price Index	3.4	3	2.7	2.7	2.6	2.6	2.8	2.7	2.6	2.4	2.5	2.3	2.1	2.3	2.5	2.6	2.5		
PCE Prices Less-food & energy	3.7	3.4	3.2	3.0	3.1	2.9	3.0	2.9	2.7	2.6	2.7	2.7	2.7	2.8	2.8	2.9	2.6		
Business Activity - US																			
Industrial Production	-0.2	-0.8	-0.2	0.8	-1.2	-0.1	-0.3	-0.8	0.0	0.9	-0.5	-0.1	-0.7	-0.4	-0.9	0.3	2.0		
New Cap Gds Orders less-aircraft & parts	0.5	0.8	1.4	0.8	-0.2	3.2	-0.9	2.8	-0.5	-2.2	2	-1.5	0.5	1.8	-0.4	2.9	2.2		
Business Inventories	0.4	0.7	0.2	-0.1	0.2	0.3	0.7	0.6	1	1.6	2	2.5	2.5	2.1	2.3	2.6	2		
ISM Manufacturing PMI*	48.9	47.3	46.9	46.9	48.9	47.6	49.8	48.8	48.5	48.3	47	47.5	47.5	46.9	48.4	49.2	50.9	50.3	
Markit US Manufacturing PMI*	49.8	50	49.4	47.9	50.7	52.2	51.9	50	51.3	51.6	49.6	47.9	47.3	48.5	49.7	49.4	51.2	52.7	
ISM Services Index*	53.3	51.8	52.6	50.6	53.2	52.2	51.3	49.6	53.5	49.2	51.4	51.6	54.5	55.8	52.5	54	52.8	53.5	
Markit US Services PMI*	50.1	50.6	50.8	51.4	52.5	52.3	51.7	51.3	54.8	55.3	55	55.7	55.2	55	56.1	56.8	52.9	51	
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	39.6	40.8	42.6	43.3	45.5	42.5	41.9	42.5	45.4	43.5	43.2	42.4	40.6	43	43	42.5	45	46.5	
Japan Manufacturing PMI Jibun Bank*	48.5	48.7	48.3	47.9	48	47.2	48.2	49.6	50.4	50	49.1	49.8	49.7	49.2	49	49.6	48.7	49	
Caixin China Manufacturing PMI*	50.6	49.5	50.7	50.8	50.8	50.9	51.1	51.4	51.7	51.8	49.8	50.4	49.3	50.3	51.5	50.5	50.1	50.8	
China Manufacturing PMI*	50.2	49.5	49.4	49	49.2	49.1	50.8	50.4	49.5	49.5	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2	
UK Manufacturing PMI Markit/CIPS*	44.3	44.8	47.2	46.2	47	47.5	50.3	49.1	51.2	50.9	52.1	52.5	51.5	49.9	48	47	48.3	46.9	
France Manufacturing PMI Markit*	44.2	42.8	42.9	42.1	43.1	47.1	46.2	45.3	46.4	45.4	44	43.9	44.6	44.5	43.1	41.9	45	45.8	
Currencies* **																			
Euro (EUR/USD)	7.9	7.0	4.6	3.1	-0.4	2.2	-0.5	-3.2	1.5	-1.8	-1.6	1.9	5.3	2.9	-2.9	-6.2	-4.2	-4.0	
Renmimbi (USD/CNY)	2.6	0.2	0.6	2.9	6.1	3.6	5.1	4.7	1.9	0.2	1.2	-2.3	-3.8	-2.7	1.6	2.8	1.1	1.2	
Yen (USD/Yen)	3.2	2.0	7.3	7.6	12.9	10.1	13.9	15.8	12.9	11.5	5.4	0.4	-3.8	0.2	1.1	11.5	5.6	0.4	
Sterling (GBP/USD)	9.2	6.0	4.7	5.4	3.0	5.0	2.3	-0.6	2.4	-0.5	0.2	3.6	9.6	6.1	0.9	-1.7	-2.3	-0.4	
Canadian $ (USD/CAD)	-1.8	1.8	1.1	-2.3	1.0	-0.5	0.2	1.7	0.4	3.3	4.7	-0.1	-0.4	0.4	3.3	8.6	8.2	6.5	
Mexican Peso (USD/MXN)	-13.5	-8.9	-9.8	-13.0	-8.6	-6.8	-8.2	-4.8	-3.8	7.0	11.2	15.8	13.0	11.0	17.2	22.7	20.1	20.5	
US Equities																			
S&P 500	19.6	8.3	12.0	24.2	18.9	28.4	27.9	20.8	26.3	22.7	20.3	25.3	34.4	36.0	32.1	23.3	24.7	16.8	
S&P 400 Midcap	13.6	-2.7	-0.5	14.4	3.0	11.1	21.3	14.9	23.9	11.7	13.5	16.9	24.8	30.9	31.3	12.2	18.6	7.1	
S&P 600 Smallcap	8.1	-9.3	-5.9	13.9	-0.1	4.5	13.8	10.4	18.1	6.6	12.0	15.1	23.5	27.6	30.9	6.8	14.5	4.5	
Russell 2000	7.2	-10.0	-4.1	15.1	0.8	8.3	17.9	11.6	18.3	8.4	12.5	16.7	24.9	32.1	34.6	10.0	17.5	5.3	

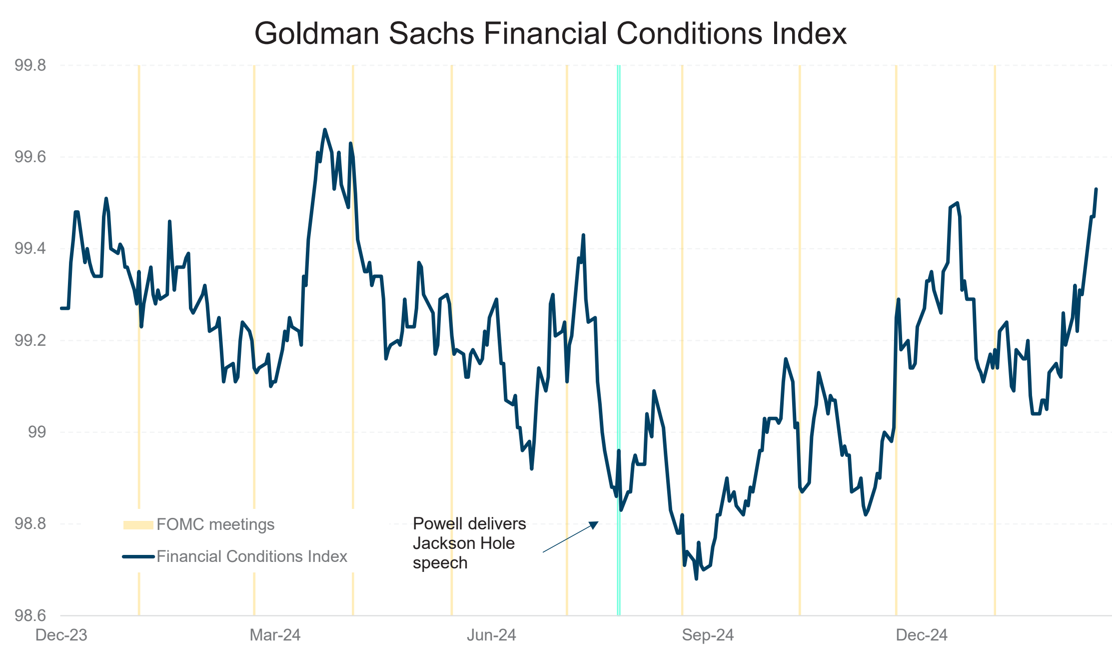
* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar

Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

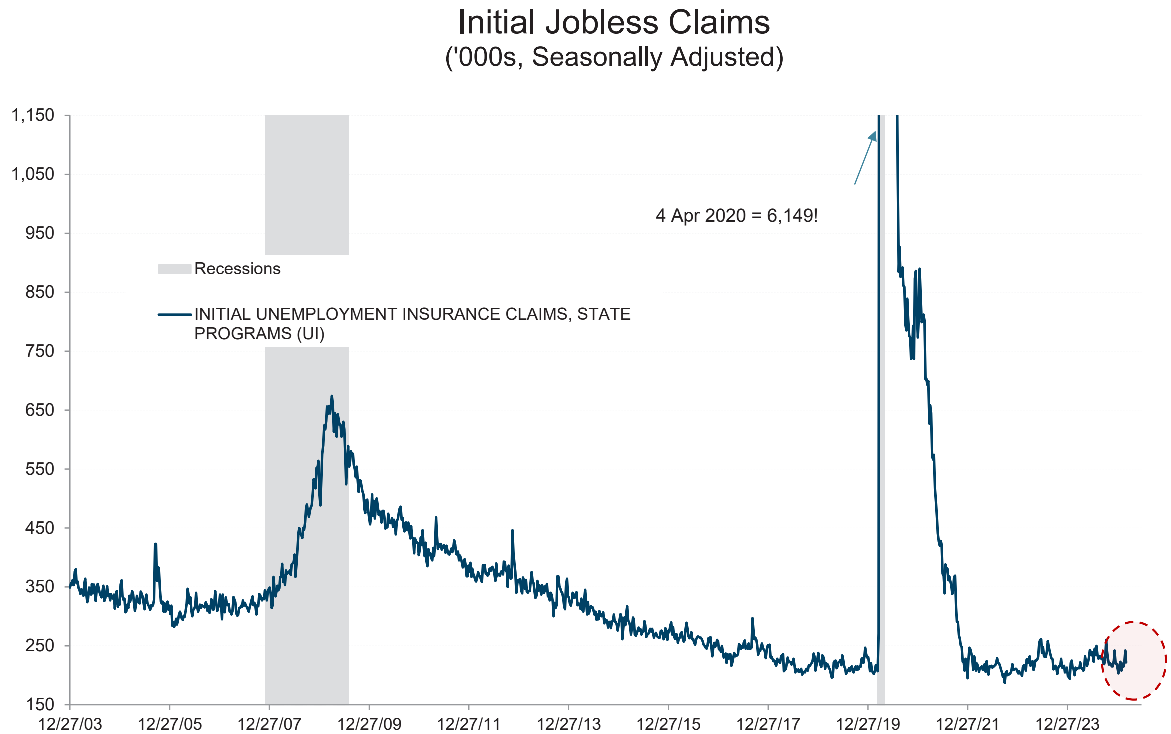
Other Economic Indicators



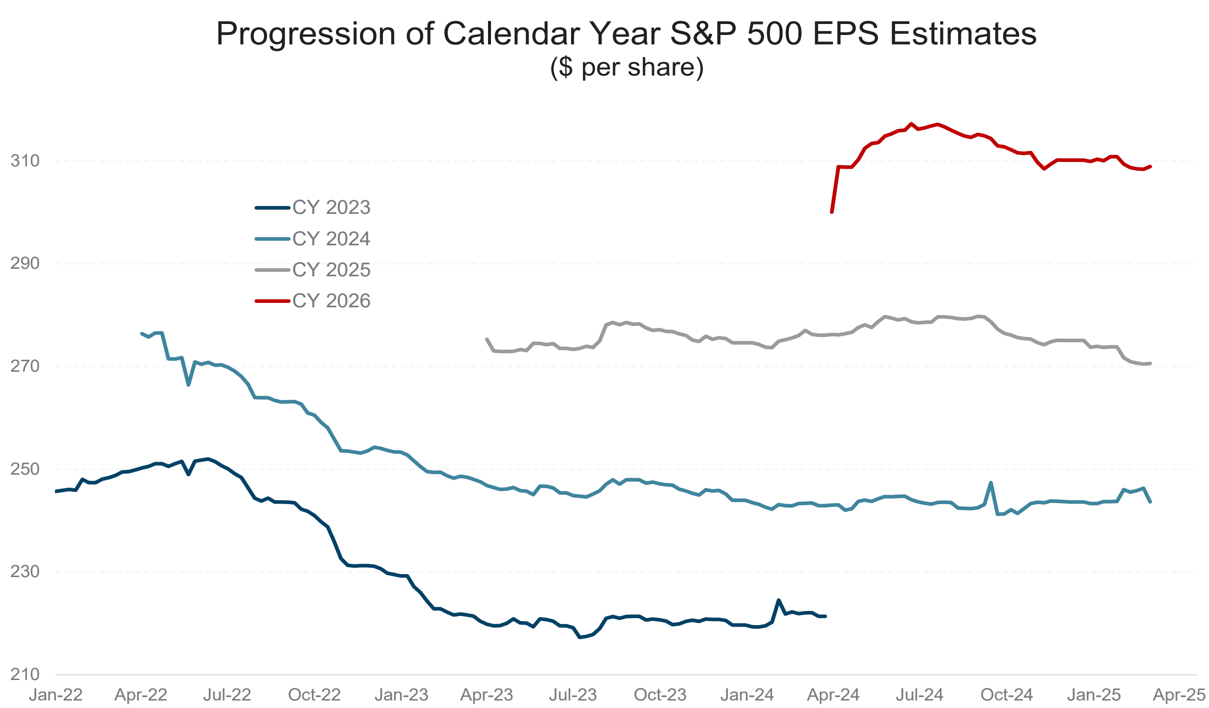
Sources: Federal Reserve, William Blair Equity Research



Sources: Bloomberg, William Blair Equity Research

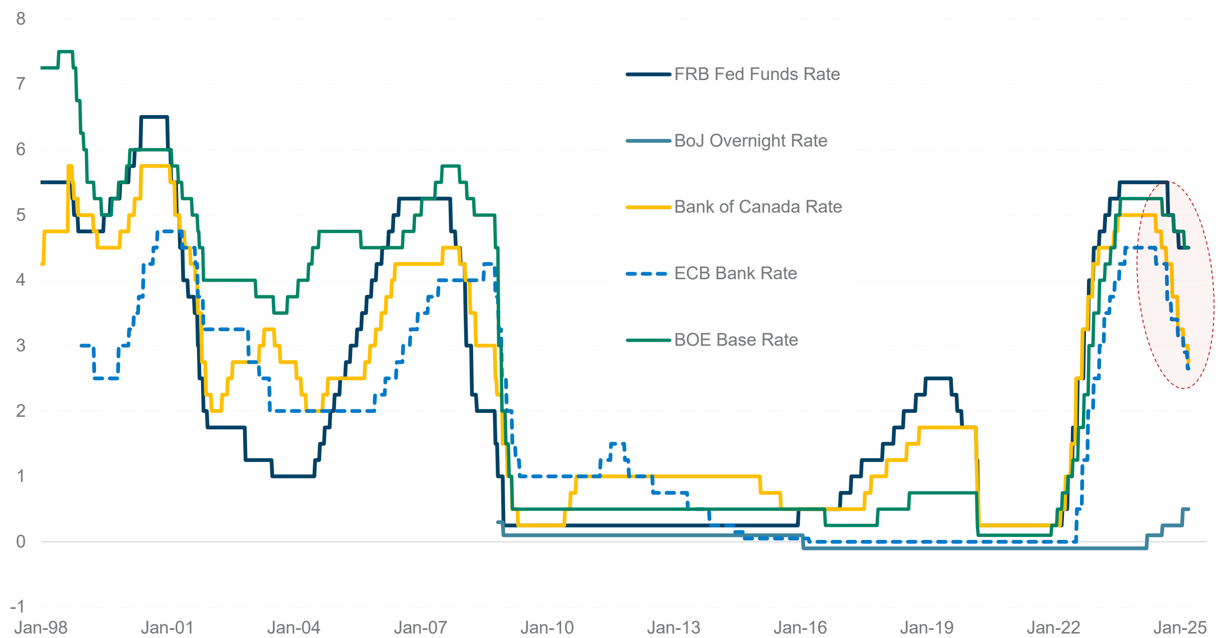


Source: Department of Labor, Bloomberg, William Blair Equity Research



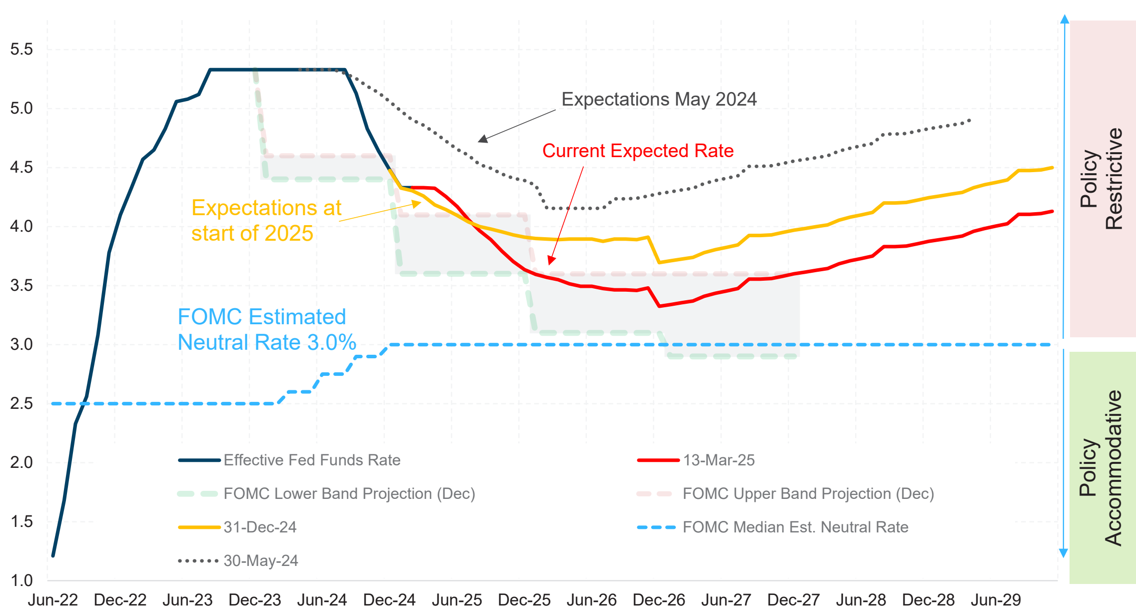
Sources: LSEG, I/B/E/S, William Blair Equity Research

Central Bank Target Short-Term Interest Rates, %



Sources: Bloomberg, William Blair Equity Research

Fed Funds Rate Futures Market Expectations & FOMC Projections, %



Sources: Bloomberg, William Blair Equity Research

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 13-Mar-25	Week Ago 06-Mar-25	Month Ago 13-Feb-25	Qtr-to-Date 31-Dec-24	Year-to-Date 31-Dec-24
S&P 500 Index	**100.00**	**-3.78**	**-9.71**	**-6.12**	**-6.12**
S&P 400 MidCap Index		**-3.68**	**-10.70**	**-8.41**	**-8.41**
S&P 600 SmallCap Index		**-4.51**	**-12.80**	**-11.31**	**-11.31**
Dow Jones Industrials		**-4.15**	**-8.72**	**-4.07**	**-4.07**
Nasdaq Composite		**-4.24**	**-13.25**	**-10.40**	**-10.40**
Communication Services	**9.84**	**-4.98**	**-12.63**	**-5.34**	**-5.34**
Advertising	0.05	-4.09	-3.09	-7.34	-7.34
Broadcasting	0.06	-6.17	-4.49	6.21	6.21
Cable & Satellite	0.37	-5.48	-2.40	-5.98	-5.98
Integrated Telecommunication Services	0.77	-1.79	4.08	11.91	11.91
Interactive Home Entertainment	0.15	-0.71	1.27	1.76	1.76
Interactive Media & Services	6.54	-5.69	-15.33	-8.10	-8.10
Movies & Entertainment	1.26	-4.27	-13.76	-4.85	-4.85
Publishing & Printing	0.03	-6.62	-11.25	-3.69	-3.69
Wireless Telecommunication Svcs	0.61	-1.46	-2.25	17.39	17.39
Consumer Discretionary	**10.58**	**-5.96**	**-16.64**	**-15.63**	**-15.63**
Apparel Retail	0.35	-7.53	-10.82	-9.82	-9.82
Apparel & Accessories & Luxury Goods	0.12	-10.54	-20.65	-11.47	-11.47
Auto Parts & Equipment	0.04	-4.81	-6.13	-2.27	-2.27
Automobile Manufacturers	1.78	-7.75	-29.73	-37.86	-37.86
Automobile Retail	0.30	-3.24	-2.83	7.29	7.29
Broadline Retail	4.32	-3.43	-15.70	-11.40	-11.40
Casinos & Gaming	0.11	-5.87	-11.28	-14.01	-14.01
Computer & Electronics Retail	0.03	-10.56	-21.16	-18.07	-18.07
Consumer Electronics	0.08	-5.65	-0.41	1.51	1.51
Distributors	0.08	-6.32	-1.93	2.02	2.02
Footwear	0.21	-7.37	-6.22	-13.79	-13.79
Home Furnishings	0.01	-6.14	-7.33	-6.90	-6.90
Home Improvement Retail	0.97	-8.91	-14.79	-10.48	-10.48
Homebuilding	0.22	-6.52	-4.25	-8.93	-8.93
Hotels, Resorts & Cruise Lines	0.87	-9.18	-17.54	-13.32	-13.32
Household Appliances	0.01	-5.66	-12.78	-22.62	-22.62
Leisure Products	0.02	-6.63	-1.58	6.06	6.06
Restaurants	0.97	-5.72	-8.41	0.03	0.03
Other Specialty Retail	0.09	-7.57	-10.57	-13.15	-13.15
Consumer Staples	**6.61**	**-5.11**	**-4.96**	**1.20**	**1.20**
Agricultural Products	0.07	-1.60	4.01	-6.13	-6.13
Brewers	0.02	-1.08	0.38	2.51	2.51
Hypermarkets	2.39	-11.43	-17.84	-5.80	-5.80
Distillers & Vintners	0.09	0.65	11.18	-16.27	-16.27
Drug Retail	0.02	6.22	15.48	20.68	20.68
Food Distributors	0.07	-3.24	1.10	-4.97	-4.97
Food Retail	0.10	3.64	0.72	8.10	8.10
Household Products	1.16	-3.06	-0.32	0.76	0.76
Packaged Foods & Meats	0.63	-2.55	3.34	0.74	0.74
Personal Products	0.12	-2.55	3.82	1.96	1.96
Soft Drinks	1.24	-2.36	1.94	4.94	4.94
Tobacco	0.69	-0.64	3.22	20.84	20.84
Energy	**3.40**	**1.40**	**-2.71**	**1.15**	**1.15**
Integrated Oil & Gas	1.62	0.73	-0.40	2.25	2.25
Oil & Gas Equipment & Services	0.24	-0.02	-7.11	0.38	0.38
Oil & Gas Exploration & Production	0.79	3.46	-3.81	-0.15	-0.15
Oil & Gas Refining & Marketing & Transportation	0.27	-0.26	-5.87	2.88	2.88
Oil & Gas Storage & Transportation	0.47	2.30	-4.26	-1.05	-1.05

Financials	**13.82**	**-4.03**	**-8.38**	**-2.14**	**-2.14**
Asset Management & Custody Banks	1.07	-6.24	-13.28	-15.07	-15.07
Consumer Finance	0.63	-6.58	-16.55	-11.83	-11.83
Diversified Banks	3.01	-6.81	-16.33	-6.98	-6.98
Financial Exchanges & Data	1.14	-3.26	-6.36	0.57	0.57
Insurance Brokers	0.72	-2.97	0.05	9.81	9.81
Investment Banking & Brokerage	1.05	-5.65	-16.18	-7.37	-7.37
Life & Health Insurance	0.36	-4.34	-3.63	-2.91	-2.91
Multi-line Insurance	0.10	0.33	6.74	12.02	12.02
Multi-Sector Holdings	1.40	1.29	4.95	11.25	11.25
Property & Casualty Insurance	1.14	0.00	5.18	7.21	7.21
Regional Banks	0.28	-5.59	-14.18	-9.92	-9.92
Reinsurance	0.03	-3.84	4.23	-3.55	-3.55
Transaction & Payment Processing	2.73	-4.68	-8.07	-0.92	-0.92
Health Care	**11.23**	**-3.67**	**-1.90**	**4.26**	**4.26**
Biotechnology	1.93	-0.39	7.08	16.57	16.57
Health Care Distributors	0.35	0.05	3.85	11.32	11.32
Health Care Equipment	2.33	-5.17	-7.76	2.72	2.72
Health Care Facilities	0.18	-2.81	-3.46	2.70	2.70
Health Care Services	0.45	-1.02	0.10	21.80	21.80
Health Care Supplies	0.08	-9.64	-15.17	-12.68	-12.68
Life Sciences Tools & Services	1.03	-4.31	-3.68	-7.53	-7.53
Managed Health Care	1.27	-0.89	-5.65	-1.84	-1.84
Pharmaceuticals	3.61	-5.83	-0.70	3.35	3.35
Industrials	**8.43**	**-2.99**	**-6.83**	**-2.54**	**-2.54**
Aerospace & Defense	2.02	0.09	-2.57	3.82	3.82
Agricultural & Farm Machinery	0.26	-3.26	0.19	10.24	10.24
Air Freight & Logistics	0.35	-3.84	-2.93	-9.31	-9.31
Building Products	0.52	-3.03	-7.46	-6.32	-6.32
Construction & Engineering	0.08	3.91	-13.95	-20.81	-20.81
Construction Machinery & Heavy Trucks	0.59	-4.28	-7.94	-7.85	-7.85
Data Processing & Outsourced Services	0.05	-5.16	-7.08	-0.23	-0.23
Diversified Support Svcs	0.26	-4.05	-9.66	-1.56	-1.56
Electrical Components & Equipment	0.55	-2.56	-10.26	-12.64	-12.64
Environmental & Facilities Services	0.43	-1.35	-1.17	8.67	8.67
Human Resource & Employment Services	0.39	-3.85	-6.35	-1.70	-1.70
Industrial Conglomerates	0.44	-1.58	-0.23	-1.48	-1.48
Industrial Machinery	0.76	-5.42	-8.97	-4.18	-4.18
Passenger Airlines	0.14	-14.24	-24.36	-23.27	-23.27
Railroads	0.51	-4.77	-8.92	-1.52	-1.52
Research & Consulting Svcs	0.21	-2.39	-3.46	-3.33	-3.33
Trading Companies & Distributors	0.26	-4.88	-9.39	-7.96	-7.96
Information Technology	**29.88**	**-3.57**	**-12.93**	**-12.11**	**-12.11**
Application Software	2.44	-5.67	-16.43	-10.89	-10.89
Communications Equipment	0.90	-5.02	-12.45	-8.33	-8.33
Electronic Components	0.24	-0.08	-11.60	-9.07	-9.07
Electronic Equipment & Instruments	0.16	-3.77	-12.01	-9.61	-9.61
Electronic Manufacturing Services	0.12	-4.51	-12.17	-3.45	-3.45
Internet Software & Services	0.12	-1.96	-13.23	-6.51	-6.51
IT Consulting & Services	1.06	-4.52	-12.57	-0.49	-0.49
Semiconductor Equipment	0.68	-2.24	-14.12	-2.27	-2.27
Semiconductors	9.66	3.56	-14.09	-13.01	-13.01
Systems Software	7.63	-4.46	-9.62	-10.44	-10.44
Technology Distributors	0.04	-2.24	-12.84	-6.05	-6.05
Technology Hardware, Storage & Peripherals	6.84	-10.61	-13.44	-16.13	-16.13
Materials	**2.02**	**-3.24**	**-6.17**	**0.50**	**0.50**
Commodity Chemicals	0.10	-3.71	-5.19	-6.67	-6.67
Construction Materials	0.12	-3.33	-14.58	-11.28	-11.28
Copper	0.11	-0.26	-6.56	-1.31	-1.31
Fertilizers & Agricultural Chemicals	0.14	-2.06	-5.29	-1.82	-1.82
Gold	0.11	3.93	-4.40	22.65	22.65
Industrial Gases	0.58	-3.49	-2.99	6.48	6.48

Metal & Glass Containers	0.03	-2.32	3.33	-7.55	-7.55
Paper Packaging	0.20	-4.71	-10.77	-10.21	-10.21
Specialty Chemicals	0.54	-4.94	-7.04	-1.03	-1.03
Steel	0.10	-1.75	-5.47	9.91	9.91
Real Estate	**2.22**	**-3.80**	**-3.96**	**-0.39**	**-0.39**
Data Center REITs	0.27	-3.40	-10.30	-13.88	-13.88
Health Care REITs	0.32	-2.01	-1.72	11.33	11.33
Hotel & Resort REITs	0.02	-8.10	-11.57	-17.12	-17.12
Industrial REITs	0.21	-8.27	-8.72	4.40	4.40
Multi-Family Residential REITs	0.00	-4.31	-2.46	-1.74	-1.74
Office REITs	0.02	-4.06	-10.24	-13.97	-13.97
Real Estate Service	0.14	-5.74	-7.62	-1.76	-1.76
Retail REITs	0.28	-5.75	-7.79	-4.32	-4.32
Self-Storage REITs	0.17	-5.75	-4.65	-2.68	-2.68
Single-Family Residential REITs	0.17	-5.75	-4.65	-2.68	-2.68
Telecom Tower REITs	0.33	-0.06	7.50	9.80	9.80
Timber REITs	0.04	-4.20	-2.53	2.84	2.84
Utilities	**2.45**	**1.86**	**-3.04**	**1.54**	**1.54**
Electric Utilities	1.59	2.01	-2.06	2.29	2.29
Gas Utilities	0.05	0.47	-0.64	5.57	5.57
Independent Power Producers & Energy Traders	0.10	4.77	-23.11	-12.81	-12.81
Water Utilities	0.06	3.15	12.35	14.50	14.50
Multi-Utilities	0.65	1.05	-2.80	1.05	1.05

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

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DOW JONES: 41350.90
S&P 500: 5599.30
NASDAQ: 17648.40

Additional information is available upon request.

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Market Perform (Hold)	29	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	0

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