

Key Takeaways:

- Economic data pointing toward a slowdown.
- It is important to remember recessions are a normal part of the business cycle.
- Manufacturing activity in expansion territory, but cracks emerging again.
- Consumer confidence deteriorating.
- Labor market resiliency showing signs of slowing.

Recession Indicator Shows Cracks Getting Bigger

Economic data has been showing signs of deteriorating and recession fears have accelerated as a result. In this weekly insights, we revisited our recession model that compares 15 different economic indicators and how they weakened leading up to prior recessions. We then compared them to the current period to see if a slowdown is ahead. We found that most of the data points are already at or below the levels seen in the months leading up to prior recessions.¹

Manufacturing activity as tracked by the ISM Manufacturing index was in contraction territory (a reading below 50) from November 2022 – December 2024. The previous two months of readings indicated modest expansion, but ISM officials believe the expansion has been attributed to customers getting ahead of tariffs.²

Another area of concern for us is consumer confidence as it can be a leading indicator for spending. Both consumers' confidence on present conditions and their

expectations for future conditions are deteriorating. Additionally, the most recent confidence reading (February 2025) indicated consumers are more pessimistic about the labor market as future employment prospects are sitting at a 10-month low.

While the labor market indicators are still strong compared to the month leading into past recessions, signs

are accelerating of a weaker labor market ahead.

We remain concerned about economic growth in 1H25. The consumer is the biggest threat as debt and higher prices are straining balance sheets. We expect this valuation correction in equities to continue as investors were complacent coming into 2025 about the economic and inflation risk.

Recession Indicator	Average Reading in 6 Mos Leading up to Recession	Average Trailing 6 Mo Reading	Current Reading	Recession Risk Gauge Current Trailing 6 Months Compared to 6 Mos Leading up to Recession
ISM Manufacturing	51	48.4	50.3	
ISM New Orders	51.6	49.6	48.6	
ISM Production	53.1	48.7	50.7	
ISM Services	54.2	53.5	53.5	
Building Permits	1484	1360	1366	
Unemployment Rate	4.60%	4.10%	4.10%	
Initial Jobless Claims	311	224	224	
Small Business Hiring Plans	11	16	18	
Leading Indicators (YoY %)	-0.25%	-3.50%	-2.60%	
Consumer Confidence (Present)	108	107	98	
Consumer Confidence (Expectations)	92	87	73	
Small Business Optimism	98	98	103	
Yield Curve (10YR -2YR)	-15	12	23	
Real 10YR Treasury Yield (using core PCE YoY%)	2.80%	1.40%	1.80%	
Personal Income (YoY%)	8.60%	5.00%	4.60%	
More than 10% Better than AVG Reading 6 Mos Before Recession				
5 to 10% Better than AVG Reading 6 Mos Before Recession				
0 to 5% Better than AVG Reading 6 Mos Before Recession				
0 to -5% Worse than AVG Reading 6 Mos Before Recession				
-5% to -10% Worse than AVG Reading 6 Mos Before Recession				
More than -10% Worse than AVG reading 6 Mos Before Recession				

Recession risk gauge compares the current average trailing 6 mos reading to the average reading 6 mos leading up to a recession.

Weekly Economic Recap –

Labor Market Starting to Crack

The ISM Manufacturing Index remained in expansion territory for the second consecutive month in February (a level above 50). Prices paid led the increase in the Index by jumping to the highest level since June 2022. Supplier deliveries increased to the highest level since August 2022. However, there was a steep drop in new orders, which fell at the fastest month over month pace since April 2020.

Activity in the services industry increased at a faster than expected pace in February, according to the ISM Services Index. The employment gauge increased to the highest level since December 2021. A measure of prices paid increased to one of its highest levels since early 2023.

U.S. employers cut jobs at the fastest pace since July 2020 (172K) and at a 103% year-over-year pace according to the Challenger Job Cuts announcements. The federal government was responsible for the largest share of job cuts at ~62k. The retail and technology sectors were the next largest contributors.

The U.S. trade deficit increased in January by ~\$131 billion as companies stocked up on goods from overseas ahead of Trump's tariffs. Imports of consumer goods increased, driven by pharmaceuticals and cell phones, specifically. Canada's trade surplus with the U.S. increased to a record in January amid a surge in exports of cars, auto parts, and oil.

The U.S. economy added slightly fewer jobs than expected in February (151k vs. 160k est.). Health care led the job creation, while federal government employment declined by 10,000. However, the unemployment rate ticked higher (to 4.1%) and Americans holding part-time jobs for economic reasons increased to the highest since October 2021 (8%).

Key Takeaways:

- ISM Manufacturing and Services readings show higher prices.
- U.S. employers cut jobs at fastest pace since July 2020.
- U.S. economy adds fewer jobs than expected.
- U.S. equities continue to be a drag on global performance.
- Longer duration bonds fall on inflation fears.
- Natural gas prices higher on increased demand.

Weekly Market Recap –

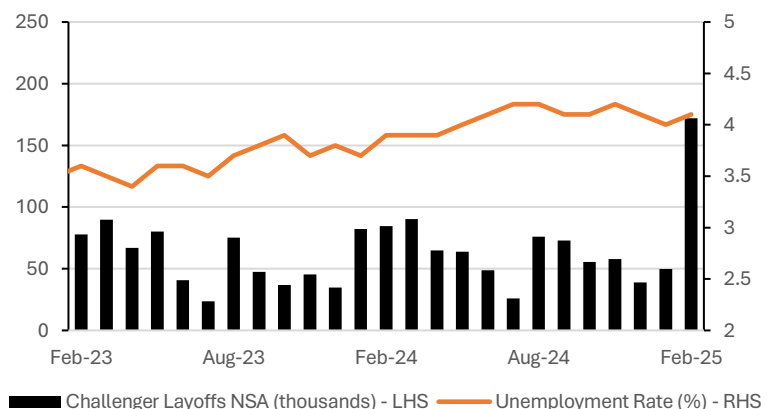
U.S. Equities Falter as Growth Concerns Arise

Equities: The MSCI AC World Index was lower for the third straight week. U.S. markets continued to underperform their global peers amid increased uncertainty about tariff policy raising economic growth concerns. The S&P 500 posted its worst weekly decline since September 2024. Eurozone equities were broadly higher driven by outperformance from Germany on the prospect of increased defense spending. China equities were higher after the country announced economic growth targets in line with consensus.

Fixed Income: The Bloomberg Aggregate Index was lower for the first time in eight weeks. Longer duration bonds led the weakness as investors remain concerned on the long term inflation implications from tariffs. Credit across investment grade, high yield and EM bonds also fell.

Commodities/FX: The Bloomberg Commodity Index was higher for the fourth time in five weeks. Natural gas prices were higher amid increased demand on colder weather. Crude oil fell on economic growth fears. Gold prices were higher on increased demand for safe-haven assets.

Layoffs Surge Bringing Unemployment Rate Higher



Footnotes: Data is as of February 2025.

Data Source: FactSet Research Systems, Verdence Capital Advisors.

U.S. Continues to Lag the Rest of the World

U.S. Equities								International Equities							
	Current	1WK	1MO	3MO	1YR	YTD		Current	1WK	1MO	3MO	1YR	YTD		
Dow Jones Industrial Average	42,802	-2.3%	-3.2%	-3.8%	12.3%	0.9%	MSCI AC World (USD)	852	-1.2%	-1.9%	-2.2%	11.9%	1.5%		
S&P 500	5,770	-3.1%	-4.1%	-5.0%	13.4%	-1.7%	MSCI EAFE (USD)	2,496	3.1%	4.9%	6.3%	9.2%	10.6%		
Russell 1000 Growth	3,814	-3.9%	-7.1%	-8.1%	14.0%	-5.6%	MSCI Europe ex UK (USD)	2,857	4.3%	8.0%	10.6%	10.3%	16.1%		
Russell 1000 Value	1,863	-2.4%	-1.8%	-2.7%	11.2%	2.5%	MSCI Japan (USD)	4,047	2.8%	1.1%	0.5%	0.8%	3.0%		
Russell 2500	3,643	-3.9%	-7.9%	-11.4%	1.7%	-5.2%	MSCI UK (USD)	1,335	1.6%	4.9%	7.1%	17.9%	10.6%		
Russell 2000	2,075	-4.0%	-8.8%	-13.6%	0.9%	-6.8%	MSCI EM (USD)	1,129	2.9%	2.0%	2.6%	12.2%	5.2%		
Nasdaq	18,196	-3.4%	-6.7%	-8.2%	12.6%	-5.7%	MSCI Asia ex Japan (USD)	737	3.0%	2.8%	2.5%	16.3%	4.9%		

Fixed Income								Commodities							
	Current Yield	1WK	1MO	3MO	1YR	YTD		Current	1WK	1MO	3MO	1YR	YTD		
U.S. Aggregate	4.7%	-0.6%	1.2%	0.0%	4.1%	2.1%	Bloomberg Commodity Index	255	2.1%	0.9%	8.7%	12.0%	6.9%		
U.S. Govt/Credit	4.6%	-0.6%	1.1%	-0.1%	3.9%	2.1%	Crude Oil (USD/bbl)	\$67.5	-1.2%	-4.8%	-1.1%	-10.5%	-4.2%		
U.S. 10 Year Treasury	4.3%	-0.8%	1.7%	-0.3%	2.3%	2.9%	Gold (\$/oz)	\$2,909.1	0.4%	-0.2%	7.8%	33.3%	10.6%		
U.S. TIPS (1-10YR)	4.3%	-0.5%	1.1%	1.4%	5.5%	2.5%	Copper	\$468.3	2.0%	-0.8%	10.5%	20.1%	15.9%		
U.S. High Yield	7.3%	-0.3%	0.4%	0.9%	9.1%	1.8%	Wheat	\$551.3	2.5%	-5.2%	-1.6%	-8.1%	-0.2%		
EM Bonds (USD)	6.5%	-0.3%	1.0%	0.7%	8.5%	2.4%	U.S. Dollar	104	-2.9%	-4.3%	-2.6%	0.9%	-4.4%		
Municipal Bonds	3.6%	-0.5%	0.0%	-0.8%	2.0%	1.0%	VIX Index	23.4	19.1%	41.3%	83.0%	61.8%	34.7%		

Footnotes: Data is as of March 7, 2025.

Data Source: Bloomberg Finance LP, Verdenance Capital Advisors.

1. All the economic data is measuring recessions since 1945 to present. The start data of each data series varies depending on when the data series is available. The current trailing six months is as of February 2025.
2. <https://www.bloomberg.com/news/articles/2025-03-03/us-manufacturing-activity-nears-stagnation-while-prices-jump>

Disclaimer:

© 2025 Authored by Megan Horneman, Chief Investment Officer, Verdense Capital Advisors, LLC. Reproduction without permission is not permitted. The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index.

This material was prepared by Verdense Capital Advisors, LLC ("VCA" or "we", "our", "us"). VCA believes the information and data in this document were obtained from sources considered reliable and correct and cannot guarantee either their accuracy or completeness. VCA has not independently verified third-party sourced information and data. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. This material is being provided for informational purposes only and is not intended to provide, and should not be relied upon for, investment, accounting, legal, or tax advice. Past performance is not a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in these materials will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. You should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from VCA. Alternative investments are designed only for sophisticated investors who are able to bear the risk of the loss of their entire investment. Investing in alternative investments should be viewed as illiquid and generally not readily marketable or transferable. Investors should be prepared to bear the financial risks of investing in an alternative investment for an indefinite period of time. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged, and you cannot invest directly in an index. Index returns do not include fees or expenses. Sector Watch Use of this website is intended for U.S. residents only. Any recommendation, opinion or advice regarding securities or markets contained in such material does not reflect the views of Verdense Capital, and Verdense Capital does not verify any information included in such material. Verdense Capital assumes no responsibility for any fact, recommendation, opinion, or advice contained in any such research material and expressly disclaims any responsibility for any decisions or for the suitability of any security or transaction based on it. Any decisions you may make to buy, sell, or hold a security based on this research will be entirely your own and not in any way deemed to be endorsed or influenced by or attributed to Verdense Capital. It is understood that, without exception, any order based on such research that is placed for execution is and will be treated as an UNRECOMMENDED AND UNSOLICITED ORDER. Further, Verdense Capital assumes no responsibility for the accuracy, completeness, or timeliness of any such research or for updating such research, which is subject to change without notice at any time. Verdense Capital does not provide tax, or legal advice. Under no circumstance is the information contained within this research to be used or considered as an offer to sell or a solicitation of an offer to buy any particular investment/security. Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower rated securities are subject to greater credit risk, default risk, and liquidity risk. Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Data is provided for information purposes only and is not intended for trading purposes. Verdense Capital shall not be liable for any errors or delay in the content, or for any action taken in reliance on any content.