

On the lookout for 'brown shoots' in the US economy

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Key takeaways



"Brown shoots"

Some signs that the economy is beginning to wilt, what I call brown shoots, have begun to appear.

Concern from companies

In recent earnings calls, Delta Airlines, Dollar General, Macy's, and Kontoor have expressed concerns about consumers.

Some good news

Improving consumer sentiment and stock performance in Europe is reflecting positive surprises and rising potential.

Back in the spring and summer of 2009, I remember spending much of my time looking for what we called "green shoots" — signs that the economy, which was in a deep recession, was beginning to recover. I desperately searched hoping to find them. (We did and a slow but lengthy recovery followed.) Now I'm looking for "brown shoots" — signs that the economy is beginning to wilt. This time it isn't a desperate search but rather a reluctant one, as I'm hoping not to find those brown shoots. We know, however, that recessions are caused by policy mistakes, so we must watch vigilantly for them.

Some brown shoots are appearing:

- The Federal Reserve Bank of Atlanta's (Fed) GDPNow barometer for first-quarter growth remains in negative territory, with an estimate of -2.4% GDP growth.¹ This could change significantly, however, since we'll have substantial data in the coming weeks which will cause revisions to the forecast.
- US consumer sentiment continues to drop. The preliminary reading of University of Michigan consumer sentiment for March fell to 57.9, a significant decline from February and the lowest level since November 2022. The expectations subindex fell to 54.2, a 15.3% decline from the previous month and a 30% drop from one year ago.² This is the lowest level since July 2022. This follows similar results from the most recent Conference Board Consumer Confidence Index.
- The NFIB Small Business Optimism Index has declined — although it's still above long-term historical levels.³
- US retail sales for February were lower than expected, and there was a substantial downward revision to US retail sales for January.⁴

Most concerning, perhaps, is what we're hearing from companies:

- Delta Airlines warned in a regulatory filing last week, "The outlook has been impacted by the recent reduction in consumer and corporate confidence caused by increased macro uncertainty, driving softness in domestic demand."⁵
- Kontoor Brands CEO Scott Baxter said about consumers in an earnings call, "If you just put yourself in their seat, they're worried about work. They're worried about the businesses that they're in. Are those going to be impacted by some of the layoffs, the tariffs, the current situation right now? Any time the consumer is feeling a little bit under attack like that, they get very conservative. And I think that we are in this country right now seeing that conservatism from the consumer because of their worry."⁶
- Dollar General, a large retail store chain whose customers are largely low income households, shared that its customer base is struggling because of high inflation and economic uncertainty: "Many of our customers report they only have enough money for basic essentials, with some noting that they have had to sacrifice even on the necessities."⁷
- Macy's CEO Tony Spring warned on his recent earnings call that it's not just lower income households that are coming under pressure: "I think the affluent customer that's shopping Macy's is just as uncertain and as

confused and concerned by what's transpiring."⁸ Affluent consumers in the US are likely to be reducing spending at least partially because of the substantial stock market drop, which has historically impacted perceptions of net worth (the "wealth effect") and negatively impacted consumer spending.

Market corrections

While all eyes have been on the S&P 500 Index, which briefly fell into correction territory last week, the Russell 2000 Index has quietly fallen much further from its peak. As of Friday, the Russell 2000 Index is down more than 16% from its peak in November 2024, getting dangerously close to bear market territory.⁹ Small-cap stocks are typically far more sensitive to the economic cycle than large-cap stocks, so we should be paying attention to this very significant drop and the message it's sending.

Rising recession probability

Recession is not a fait accompli, as I've said before. While the probability of a recession is rising every day and more brown shoots are appearing, we're far from a contraction becoming a reality. I don't see a sea of brown shoots right now — far from it. I think a recession can still be prevented by abandoning policies that are negative for the economy (as I've articulated in previous articles).

Some good news

The good news is that change can create opportunity, and sizeable change can create a sizeable opportunity. I've talked about the fiscal impulse getting stronger in Europe as countries ramp up defense spending. We're even seeing an improvement in consumer sentiment in Europe as the Eurozone Economic Sentiment Indicator rose to 96.3 in February, the highest level in five months.¹⁰ Investor expectations for the next six months rose substantially, which is very encouraging.¹¹ German economic sentiment is also getting better and is poised to improve further given the results of the federal election in February.¹² I would expect positive surprises and improving potential to continue to impact European stock performance. This is a valuable reminder of the importance of diversification.

Geopolitical and economic change may also be creating opportunities in other asset classes, such as gold. It crossed the critical \$3,000 per ounce level last week¹³ and appears poised to rise further, in my view, as uncertainty has become one of the few certainties in this environment.

Looking ahead

The most important release this week, from my perspective, will be the Federal Open Market Committee (FOMC) "dot plot," which will give us insight into FOMC members' expectations for the US economy and the fed funds rate. The Fed seems committed to sitting on its hands for the time being, but the dot plot will force them to "guesstimate" whether they'll cut rates this year and by how much. With so much up in the air, it'll be interesting to see their expectations. I'm sticking with my view that we'll get several rate cuts this year. This is important because, with such strong fiscal policy headwinds, it seems one of the few areas of hope for positive surprise in the US will come from a Fed that provides some easing this year.

The Bank of Japan (BOJ) meets this week, on the heels of shunto negotiations, which indicate 2025 will be another year of significant wage growth. Long-maturity government bond yields have risen, suggesting rising odds the BoJ will hike rates at this meeting. If it does raise rates, I think it'll be viewed positively as another vote of confidence in the Japanese economy. The Bank of England and the Swiss National Bank also meet this week, and it'll be helpful to get their assessments of their economies and the global economy.

Dates to watch

Date	Report	What it tells us
March 17	US retail sales	Indicates the health of the retail sector.
	NAHB Housing Market Index	Indicates the health of the US housing market.
March 18	Eurozone ZEW Economic Sentiment	Measures economic sentiment in the eurozone for the next six months.
	Canada Consumer Price Index	Tracks the path of inflation.
	Bank of Japan Monetary Policy Decision	Reveals the latest decision on the path of interest rates.
March 19	Eurozone Consumer Price Index	Tracks the path of inflation
	FOMC Monetary Policy Decision	Reveals the latest decision on the path of interest rates.
	Australia Unemployment Rate	Indicates the health of the job market.
March 20	UK Unemployment Rate	Indicates the health of the job market.
	Swiss National Bank Monetary Policy Decision	Reveals the latest decision on the path of interest rates.
	Bank of England Monetary Policy Decision	Reveals the latest decision on the path of interest rates.
	US Existing Home Sales	Indicates the health of the housing market.
	UK GfK Consumer Confidence	Measures the level of consumer confidence in economic activity in the UK.
March 21	Canada Retail Sales	Indicates the health of the retail sector.
	Brazil Federal Tax Revenue	Funds government programs and services.

Notes

¹Source: Atlanta Fed GDPNow, as of March 6, 2025.

²Source: University of Michigan Survey of Consumers, March 14, 2025.

³Source: NFIB Small Business Optimism Index, March 11, 2025.

⁴Source: US Census Bureau, March 17, 2025.

⁵Source: "Delta cuts its once-rosy outlook. Here's what's worrying the airline," Morningstar, March 10, 2025.

⁶Source: "Consumers 'Under Attack' Are Pulling Back, Lee Maker Says," Bloomberg L.P., February 25, 2025.

⁷Source: "Wildly popular US discount chain with 20,000 stores announces mass closures as retail apocalypse spreads," Daily Mail, March 14, 2025.

⁸Source: "Macy's sounds yet another alarm on consumer spending," TheStreet, March 7, 2025.

⁹Source: Bloomberg L.P., as of March 14, 2025.

¹⁰Source: European Commission, February 28, 2025.

¹¹Source: Sentix GmbH, as of March 10, 2025.

¹²Source: ZEW Indicator of Economic Sentiment, a sentiment indicator created out of the monthly ZEW Financial Market Survey, an aggregation of the sentiments of approximately 350 economists and analysts on the economic future of Germany in the medium term, February 18, 2025.

¹³Source: Bloomberg L.P., as of March 14, 2025

Important information

All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

Investments cannot be made directly in an index.

Diversification does not guarantee a profit or eliminate the risk of loss.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

A bear market is an environment in which stock prices are falling and widespread pessimism causes the stock market's downward spiral to be self-sustaining.

The Consumer Price Index (CPI) measures the change in consumer prices and is a commonly cited measure of inflation.

The Conference Board's Consumer Confidence Index® is published monthly, based on a survey of US consumers' buying attitudes and buying intentions.

NFIB Small Business Optimism Index is a composite of ten seasonally adjusted components calculated based on the answers of around 620 NFIB members.

The Eurozone Economic Sentiment Indicator (ESI) represents how businesses and consumers feel about the economic conditions in the eurozone.

A discount measures how much less one stock (or index) is trading compared with another stock (or index).

The Federal Reserve's "dot plot" is a chart that the central bank uses to illustrate its outlook for the path of interest rates.

Monetary easing refers to the lowering of interest rates and deposit ratios by central banks.

The federal funds rate is the rate at which banks lend balances to each other overnight.

The Federal Open Market Committee (FOMC) is a committee of the Federal Reserve Board that meets regularly to set monetary policy, including the interest rates that are charged to banks.

Fluctuations in the price of gold and precious metals may affect the profitability of companies in the gold and precious metals sector. Changes in the political or economic conditions of countries where companies in the gold and precious metals sector are located may have a direct effect on the price of gold and precious metals.

Gross domestic product (GDP) is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified period of time.

Inflation is the rate at which the general price level for goods and services is increasing.

The Russell 2000 Index measures the performance of small-capitalization stocks and is a trademark/service mark of the Frank Russell Co®.

The S&P 500® Index is an unmanaged index considered representative of the US stock market.

Shunto refers to the annual wage negotiations between unions and employers in Japan.

Stocks of small- and mid-sized companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale.

The Survey of Consumers is a monthly telephone survey conducted by the University of Michigan that provides indexes of consumer sentiment and inflation expectations.

The performance of an investment concentrated in issuers of a certain region or country, such as North America and Europe, is expected to be closely tied to conditions within that region and to be more volatile than more geographically diversified investments.

Many countries in the European Union are susceptible to high economic risks associated with high levels of debt, notably due to investments in sovereign debts of European countries such as Greece, Italy, and Spain.

The risks of investing in securities of foreign issuers can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues. The Federal Reserve Bank of Atlanta GDPNow forecasting model provides a "nowcast" of the official GDP estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the US Bureau of Economic Analysis. The Indicator seeks to forecast the growth rate of US real gross domestic product before the official estimates are released by the government.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

The opinions referenced above are those of the author as of **March 17, 2025**. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.