February 28, 2025

Monthly Recap

February was a busy month with markets digesting a slew of economic data, the continuation of earnings season, and the first full month of a new administration in the White House. The S&P 500 notched a new all-time high of $6,144.15 on February 19th off the heels of encouraging employment data and strong earnings from US large cap companies. The labor market remains resilient with the unemployment rate falling from 4.1% to 4.0%. The employment backdrop is encouraging given we are not seeing any major deterioration across the labor market but softness among a limited cohort. The Producer Price Index, excluding food and energy, came inline with expectations with a month-over-month increase of .3%. Of the 466 companies in the S&P 500 that have reported earnings to date, 74.5% reported above analyst expectations and with year-over-year earnings growth of around 16% for 2024. However, the S&P 500 has retreated from its record high in recent weeks following Consumer Confidence coming in at 98.3, falling short of economists' consensus estimates of 103. The 10-year Treasury has dropped by more than 25 bps over the course of this month dipping below 4.3%, the lowest level since December. The future of fiscal spending and the effects of tariffs are seen as the catalyst behind the recent drop in equity markets. The uncertainty surrounding tariffs, especially those levied against two of the largest US trading partners (Mexico & Canada), has markets questioning the potential growth of the US economy in the second half of this year. The preferred measure of inflation by the FOMC, personal consumption expenditure (PCE), came inline with expectations increasing 0.3% month-over-month and 2.6% year-over-year. This reading remains elevated above the Fed's target by 60 bps and tariffs have the potential to stall further improvement in the inflationary gauge. A wait and see approach will continue among market participants and the FOMC until we have clarity on how these policies from the current administration will impact the economy.

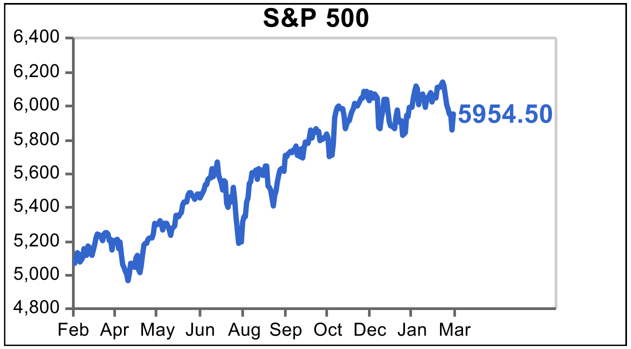
Key Thought

Equity markets were resilient last year buoyed by continued optimism regarding growth in spending on artificial intelligence (AI) and rosy expectations for earnings. Unfortunately, the performance of the equity market was extremely concentrated with a handful of mega-cap stocks driving the large cap indexes forward. While the Magnificent Seven companies (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla) were responsible for 55% of the S&P 500's +25.02% return in 2024, the first two months of 2025 have been somewhat different. It appears that 2025 could be the year of everything else. Market participants have begun to pivot-toward a wider variety of stocks in 2025 and equity investors have begun to rotate into previously neglected areas of the equity universe such as cyclical companies, developed international, and emerging markets. The Russell 1000 Value index has outperformed the Russell 1000 Growth index by 680 basis points and the MSCI EAFE is +7.7%. Investors anticipate that the lagged effects of monetary policy easing by the Federal Reserve's Open Markets Committee (FOMC) may begin to stimulate parts of the economy, that the torrid pace of earnings growth at large companies (including those benefitting from the buildout of AI) could slow, and that more attractive valuations do exist within other cohorts of the market which have been overlooked. The rotation thus far, however, has been somewhat different than those which investors have seen historically. The lack of participation from the stocks of smaller capitalization companies and the market's embrace of defensive stocks within the past week and a half, amidst a series of disappointing U.S. economic data, are noteworthy.

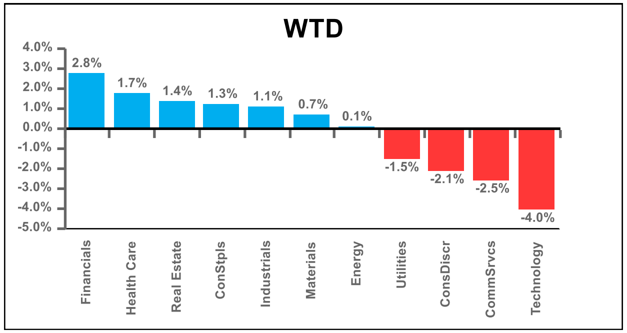
Stocks	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJII-USA	43,840.91	412.89	0.95	1.83	3.05	12.56
S&P 500	5,954.50	-58.63	-0.98	1.61	1.24	17.45
NASDAQ	18,847.28	-676.73	-3.47	1.07	-2.40	18.18
S&P MidCap 400	3,095.15	-6.75	-0.22	2.34	-0.83	7.96
EAFE	81.58	0.04	0.05	3.27	7.90	5.88
Emerging Markets	53.44	-2.08	-3.75	3.18	2.34	6.28

Treasuries	Current Yield	12/31/23 Yield
1 - Year	4.07	4.15
2 - Year	3.98	4.24
5 - Year	4.00	4.38
10 - Year	4.20	4.57
30 - Year	4.47	4.78

FOREX	Price	Wk % Change
EUR/USD	1.04	-0.82
USD/JPY	150.70	0.90
GBP/USD	1.26	-0.42
USD/CAD	1.44	1.70



Sector - Large Cap	Close	Wk Net Change	WTD	MTD	QTD	YTD
Defensive						
Staples	918.34	11.39	1.3%	5.5%	7.6%	7.6%
Health Care	1,734.28	29.59	1.7%	1.3%	8.1%	8.1%
CommServices	348.89	-9.12	(2.5%)	(6.3%)	2.1%	2.1%
Eco Sensitive						
Consumer Disc	1,731.52	-37.23	(2.1%)	(9.4%)	(5.4%)	(5.4%)
Energy	689.88	0.91	0.1%	3.2%	5.3%	5.3%
Industrials	1,152.54	12.75	1.1%	(1.6%)	3.3%	3.3%
Info Tech	4,411.29	-184.44	(4.0%)	(1.4%)	(4.3%)	(4.3%)
Materials	558.18	3.95	0.7%	(0.2%)	5.4%	5.4%
Interest Rate Sensitive						
Financials	866.84	23.59	2.8%	1.3%	7.8%	7.8%
Utilities	400.57	-6.06	(1.5%)	1.2%	4.1%	4.1%
REIT	267.06	3.63	1.4%	3.8%	5.0%	5.0%



COMING UP NEXT WEEK		Consensus	Prior
03/03 ISM Manufacturing SA	(Feb)	50.8	50.9
03/05 Factory Orders SA M/M	(Jan)	0.50%	-0.90%
03/05 ISM Services PMI SA	(Feb)	53.0	52.8
03/06 Unit Labor Costs SAAR Q/Q (Final)	(Q4)	3.0%	3.0%
03/06 Productivity SAAR Q/Q (Final)	(Q4)	1.2%	1.2%
03/07 Hourly Earnings Y/Y (Preliminary)	(Feb)	4.1%	4.1%
03/07 Nonfarm Payrolls SA	(Feb)	160.0K	143.0K
03/07 Unemployment Rate	(Feb)	4.0%	4.0%
03/07 Consumer Credit SA	(Jan)	$16.0B	$40.8B

Russell Style Return

WTD	Value	Blend	Growth
Large	0.90%	-1.01%	-2.54%
Medium	0.26%	-0.42%	-2.65%
Small	-0.70%	-1.46%	-2.26%

YTD	Value	Blend	Growth
Large	4.99%	1.31%	-1.74%
Medium	1.52%	1.24%	0.17%
Small	-1.87%	-2.87%	-3.83%

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