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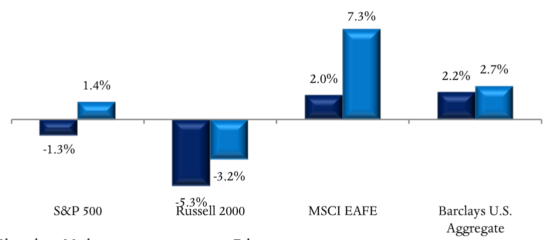
Markets

After a strong start to 2025, US equities reversed course. Uncertainty around the Trump administration's policies pertaining to trade, immigration, and tax, as well as its geopolitical agenda, let to concerns over growth and inflation. Trade developments played a significant role with President Trump announcing tariffs on China, Canada and Mexico, though the latter two were temporarily paused. The S&P 500 declined -1.3% during the month, but remained positive for the year-to-date period (+1.4%). Small capitalization stocks in the Russell 2000 index bore the brunt of the selling (-5.3% in February; -2.9% ytd). Similarly, the tech-heavy Nasdaq composite tumbled -3.9% during the month, swinging from a gain to a loss of -2.3% ytd. Underperforming sectors included Technology, Consumer Discretionary, Communications and Industrials, while Consumer Staples, Real Estate, Energy and Utilities performed well.

Overseas stocks in the MSCI EAFE index bucked the trend, rising +2.0% in February (+7.3% ytd), led by European stocks which added +3.4% (+10.0% ytd). Positive momentum in Chinese tech stocks, helped emerging markets outperform their developed market peers, returning +0.5% for the period (+2.3% ytd). Japan was the outlier in the Asian region as the Nikkei 225 index delivered a monthly loss of -6.0% (-6.8% ytd), affected by rising bond yields. The broad dollar DXY Index fell by -0.7% during the month (-0.8% ytd), providing a tailwind to foreign stock returns.

Fixed income proved defensive, benefitting from the uncertain environment. Investors bid the 10-year US Treasury Note yield from +4.54% to +4.21%. The Federal Reserve maintained a patient stance amid persistent inflation and broader macroeconomic uncertainty. This led the Bloomberg Barclays US Aggregate index higher by +2.2% during the month (+2.7% ytd).



Source: Bloomberg Markets

In commodity markets, cold weather combined with temporary supply shortages boosted US natural gas prices. Meanwhile, US-based WTI crude oil ($69.76/bbl) experienced its first monthly decline since November (-3.8% in February; -2.7% ytd) on higher future production expectations, both in the US and from OPEC+. Gold ($2,857.60/oz) continued to recover from its fourth quarter correction (+2.1% in February; +8.9% ytd). Overall, the S&P GSCI index declined -1.5% in February; +0.7% ytd. Digital assets also suffered in the risk-off environment. Bitcoin recorded its largest monthly loss since June 2022, dropping -21% while Ethereum and Solana fell -35% and -39% respectively.

Geopolitics

US President Donald Trump followed-through on his promise to take "swift and unrelenting" action. He signed a slew of executive orders targeting broad swaths of society. Border security was tightened and immigration restricted, with a large number of foreigners deported. Numerous diversity, equity and inclusion initiatives were abolished. The Department of Government Efficiency began looking for and cutting unnecessary spending, including mass firings of the federal workforce. Funds intended towards Biden-era infrastructure and inflation bills are being culled. An executive order was signed restricting funding for K-12 schools that "indoctrinate" students based on "gender and discriminatory equity ideologies." The US extricated itself from the Paris Climate Agreement and the President declared a "national energy emergency" broadly promoting oil and gas production and rolling-back renewable energy efforts. He also signed an executive order calling for the secretary of state to enact an America First foreign policy. Perhaps most economically sensitive, President Trump imposed 25% tariffs on imports from Canada and Mexico (which were subsequently temporarily taken off) and a 10% on all imports from China. With regard to the Russia Ukraine war, early signs of a peace deal were dashed after a tense meeting, at the White House, between Trump and Zelensky derailed the process.

In German elections, the Christian Democrats (CDU/CSU) led by Friedrich Merz claimed victory. Negotiations to form a governing coalition are underway, with a cooperation between the CDU and the Social Democrats (SPD) appearing most likely. Ongoing negotiations regarding the war in Ukraine indicate the need for greater EU defense spending, led by Germany.

US

Softer US economic data and worries over the potential impact of trade-related tariffs on the economy drove February's narrative. The Atlanta Fed's GDPNow is forecasting a -2.4% decline in economic output in the first quarter, a sudden and major downward revision from the prior range of +2-4%. Personal consumption expenditures fell -0.2% in January, the first negative reading in nearly two years, in the wake of cautious comments from US retailers. Further, consumer confidence saw its biggest decline since August 2021. Combined with persistent inflation, these data points increased fears of recession and stagflation.

The US economy generated 151,000 new jobs in February, offering reassurances that the labor market has resilience, with the caveat that the recent cuts to federal government jobs, that have come since Trump took office, weren't yet captured The unemployment rate ticked-up to 4.1% with average hourly earnings rising 4.0% above their year-earlier level.

February 2025 Economic Statistics

	Feb-25	Dec-23	Dec-22
Federal Funds Target Rate	4.25 - 4.50%	5.25 - 5.50%	4.25 - 4.50%
Consumer Confidence Index	98.3	110.7	108.3
Manufacturing PMI Index	50.3%	47.4%	48.4%
Unemployment Rate	4.1%	3.7%	3.5%
JPY/USD	150.60	141.06	131.11
USD/EUR	1.0375	1.1036	1.0702
Gold/oz.	$2,858.60	$2,062.59	$1,824.40
Oil (WTI)/bbl	$69.76	$71.65	$80.26

Sources: see disclosure *

Federal Reserve Chairman Powell's latest Congressional testimony emphasized patience regarding inflation and stated that President Trump's comments would not impact Fed policy decisions. Fed Fund Futures are pricing in a greater than 90% chance of inaction at the central bank's March 19th meeting and a year-end Fed Funds rate of 3.63% (75 bps below current levels).

Europe

Geopolitics was at the epicenter of European investor sentiment in February. President Trump threatened to impose 25% tariffs on imported goods from the EU and took a hardline stance with regard to Ukrainian concessions as a pre-condition to suing for peace. These actions spurred European politicians into actions, calling for greater regional unity and increased fiscal spending to stimulate economies and increase defense spending.

The current sedate economic environment was confirmed in the latest composite PMI reading of 50.2% (based on surveys of companies in the manufacturing and service sectors) which was flat from the prior month and modestly in expansionary mode. Euro zone inflation eased to 2.4% with the core reading moderating to 2.6%, while the closely followed services measure decelerated to 3.7%. Post month-end the ECB cut its key deposit facility rate to 2.5%, a meaningfully less restrictive level than that of the US.

The UK economy narrowly avoided a technical recession and forward prospects are uncertain. Consumer demand continues to weaken, driven by rising prices for basic necessities and a softening job market. CPI reversed its downward course, rising 3% annualized, the highest rate in 10 months. Weighing all of the aforementioned factors, the Bank of England cut interest rates 0.25% to 4.5%. In response to European security concerns Prime Minister Keir Starmer announced an unexpected increase in defense spending, to 2.5% of GDP by 2027.

Asia

Chinese government stimulus measures, including interest rate cuts, support for the country's troubled property sector, and liquidity injections, have helped to stabilize the economy and seemingly restore investor confidence. Following the revelation of DeepSeek's lower-cost open-source AI model, the prospect for further advances in artificial intelligence by Chinese companies led investors to reevaluate China as a leader in the technology sector with strong growth potential. High profile meetings between Xi Jinping and senior business leaders also hinted at an improved regulatory environment.

In Japan, data revealed that the economy grew at an annualized rate of +2.8% in the fourth quarter, significantly higher than the expected +1.1%. This stronger growth raised concerns about inflation and future interest rates, leading to a surge in Japanese 10-year government bond yields above 1.50% (a near doubling over the past year).

Outlook

President Trump's economic objectives are based on three tenets: reducing regulation (which act as a drag on growth), cutting government spending, and maintaining low tax rates. Given the massive $1.8 trillion federal government deficit spending (7% of GDP) the administration has set lofty goals of weeding-out $1 trillion of wasteful spending. Given the large amounts that are directed at social welfare, there is reason to believe that investigation of entitlement benefits has the potential to reach $400 billion in savings. The self verification of income thresholds currently in place, coupled with identification of fraud, are prime targets for the Department of Government Efficiency. With regard to trade and tariffs the Trump administration is seeking a rebalance of terms, focusing on strategic industries such as semiconductors and steel. Reciprocal tariffs, rising inflation, slower growth, and austerity measures are some of the potential risks that have spooked investors of late. From a financial market perspective the Trump Administrations actions-to-date have significantly increased uncertainty and upended consensus trades across stocks, bonds and currencies, as investors sharpened their focus on potential US growth risks.

While the US economy may need to endure a soft economic patch, corporations are in a healthy financial condition, having capped off a strong Q4 where S&P 500 EPS grew 18.2% versus the 11.9% expected, driven by a blended revenue growth rate of 5.3% and expanding profit margins. With "teens" earnings growth rates expected for each of 2025 and 2026, equites should be well supported when facing the inevitable bout of future volatility.

European equities and the Euro currency stand to benefit from a Sputnik moment, triggered by the US's stance on Ukraine and rebalancing of trade. This has led to the realization that greater political and economic unity, among member countries, is necessary to stay competitive in the current multi-polar geopolitical environment. Further, should the proposed US tariffs be enacted, Europe would stand advantaged in the global trading system. Lastly, it is important that Germany has seemingly awakened from its slumber and, rid of its debt brake, is poised to significantly increase spending on defense and infrastructure, acting as a galvanizing effect on the EU.

While credit investments continue to offer solid risk-adjusted prospects, select hedge funds and non-market correlated investments can serve as alpha generating volatility dampeners, while adding diversification. Further, our research indicates that precious metal miner investments, which have trailed the appreciation of gold and silver bullion, offer attractive potential with reduced correlation to equities. For capital appreciation oriented investors, select software equities, with an activist element, offer value after the recent pull-back. We have also identified innovative private equity funds with expertise in the cybersecurity, education and healthcare industries.

*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.