MONTHLY MARKET COMMENTARY

FEBRUARY 2025 Executive Summary

Benchmark Returns as of February 28, 2025

	For the Month	For the Year
S&P 500	-1.30%	1.44%
Dow Jones Industrial Average	-1.40%	3.32%
Nasdaq	-3.91%	-2.31%

	For the Month	For the Year
Developed International	1.94%	7.30%
Emerging Markets	0.48%	2.28%
Bloomberg Aggregate Bond Index	2.20%	2.74%

Clouded Confidence

The major US equity benchmarks registered losses for the month of February and large downside swings continue into the early trading days of March. Much of the selling has been attributed to a significant shift in investor confidence, driven by multiple economic, political, and financial market factors. The month saw increased volatility, leading to a more cautious and risk-averse stance among investors, particularly in the wake of trade policy changes, economic data surprises, and concerns about a potential economic slowdown.

TRADE POLICY AND TARIFF UNCERTAINTY One of the biggest catalysts for declining investor sentiment was President Donald Trump's announcement of new tariffs on Canadian, Mexican, and Chinese imports. The return to a protectionist trade stance rattled global markets, sparking fears of a renewed trade war that could disrupt supply chains and slow economic growth.

- Investors quickly reallocated their portfolios away from riskier assets like equities and into safe-haven assets such as U.S. Treasury bonds and gold.
- The tariffs particularly affected industrials, technology, and consumer goods companies reliant on international trade, leading to a sell-off in these sectors.
- Many companies issued warnings about higher input costs, lower profit margins, and potential job cuts in response to the tariffs, further fueling negative investor sentiment.

WEAK ECONOMIC DATA AND RECESSION FEARS Major economic reports released in February combined to show a more challenging macro environment for stocks. Two key reports particularly impacted investor sentiment:

- The Flash Services Purchasing Managers' Index (PMI) – considered a leading economic indicator -- dropped to 49.7 in February from 52.9 in January. A reading of 53.0 was expected. PMI values below 50 indicate a deteriorating economic climate. This was the first sub-50 reading in over two years. The services sector, which accounts for approximately 70% of the U.S. economy, is a critical gauge of economic health.
- The Conference Board's consumer confidence index plummeted from 105.3 in January to 98.3 in February, marking the largest monthly drop in over four years.

These figures indicated that businesses and consumers were feeling less optimistic about future economic conditions, causing investors to reassess their expectations for corporate earnings and economic expansion.

MARKET PERFORMANCE AND INCREASED VOLATILITY As noted above all three major US equity benchmarks suffered declines during February as investor confidence eroded. This led to a rise in volatility as measured by the VIX index, often called the "fear gauge," which spiked by more than 20% during the month.

BOND MARKET MOVEMENTS & SAFE-HAVEN DEMAND As equity markets declined, investors moved into U.S. Treasuries, pushing yields lower:

- The 10-year Treasury yield fell to ~4.2% after range-bound trading around 4.5% earlier in the month. Bond yields fall as prices rise, signaling strong demand for safer investments.
- The 30-year Treasury yield also declined, reflecting long-term concerns about economic stability.

The level and direction of interest rates is a major focus for investors. In testimony to Congress on February 11 – 12, Chair Jerome Powell stated that with "the economy remaining strong, we do not need to be in a hurry to adjust our policy stance." However, continued signs of a weakening economy may alter the view of the data-driven FOMC. Their next policy-setting meeting is March 18-19.

OUTLOOK MOVING FORWARD The extent of the market losses at this writing is normal and expected considering that there has not been a decline greater than 5% since September 2024. However, given the sharp shift in investor sentiment during February 2025, we will be closely watching:

- Future Fed policy moves – Will the Fed hint at rate cuts if economic data continues to weaken?
- Trade negotiations – Will Trump's administration ease tariffs, or could there be further escalation?
- Corporate earnings reports – How will companies adjust their guidance in response to weaker consumer sentiment and higher costs?

The recent headline-induced volatility in the markets underscores the importance of maintaining a balanced approach in our client portfolios. The shift away from high-flying tech names into more defensive sectors argues for CTC's well-diversified portfolio strategies.

CONCLUSION One month of weak economic numbers does not constitute a trend and the measurable effect of tariffs remains to be seen, but investors' early 2025 enthusiasm was definitely dampened in February.

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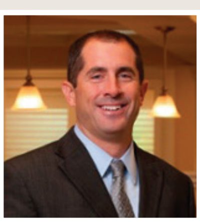

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