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Market Stats & Commentary

Market Vital Signs as of 2/28/2025

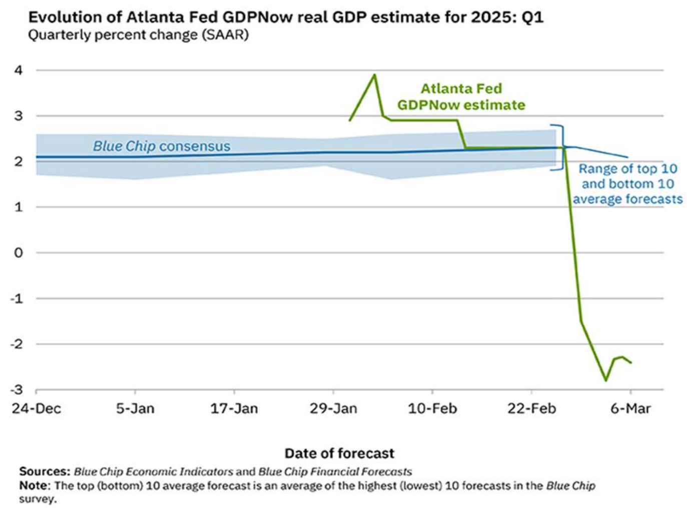
Stock Indexes	February	YTD	1 Year
S&P 500	-1.30%	1.44%	18.41%
Dow Jones Industrial Average	-1.39%	3.32%	14.41%
NASDAQ Composite	-3.97%	-2.40%	17.12%
Russell Mid Cap Index	-2.84%	1.29%	12.25%
Russell 2000 Small Cap Index	-5.35%	-2.87%	6.69%
MSCI EAFE Developed Int'l Index	1.94%	7.30%	8.77%
MSCI Emerging Markets Index	0.48%	2.28%	10.07%
Bond Indexes			
BBgBarc US Aggregate Bond Index	2.20%	2.74%	5.81%
BBgBarc US Corp High Yield Bond Index	0.67%	2.05%	10.01%
Interest Rates	2/28/25	12/31/24	2/29/24
Fed Funds Target Range	4.25%-4.50%	4.25%-4.50%	5.25%-5.50%
10 Yr U.S. Treasury Rate	4.19%	4.57%	4.24%

Data provided by Raymond James

February was a pretty ugly month for domestic stock indexes, with small caps taking the brunt of the pain. The 10 yr U.S. Treasury rate fell over a quarter point, pushing up bond indexes and reversing some money flow back out of the U.S.

The main driver of all this was concerns over the economic effects of government layoffs and steep tariffs. Personally, I don't think it was just the policies themselves but the blitzkrieg speed and hatchet rather than scalpel methods which spooked consumers and markets. As with anything, it's not just what you do – it's how you do it. I think in this case, the how is spooking the market more than the what. Markets typically don't like uncertainty, and the level of uncertainty has definitely risen over the last month.

Early Signs of Problems or Outlier Data Points?



Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q1
Quarterly percent change (SAAR)

Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

As most of you know, I keep an eye on the real time GDPNow forecast published by the Atlanta Fed. It is published as new data comes out and I check it frequently. The current chart is to the left and here is a link to the site https://www.atlantafed.org/cqer/research/gdpnow. You don't have to be a chart wizard to realize that the incoming data has changed suddenly and significantly.

For some context, the table to the right shows the data points as they have come in over the past 6 weeks and how they have affected the GDPNow number. As you can see, the manufacturing, personal income / outlays, and construction spending numbers are at the root of the sudden drop.

Date	Major Releases	GDPNow
31-Jan	Initial GDPNow 25:Q1 forecast	2.9
7-Feb	Wholesale trade, Emp. Situation	2.9
12-Feb	CPI, Monthly Treasury Statement	2.9
13-Feb	Producer Price Index	2.9
14-Feb	Import/Export Prices, Retail trade, Industrial production	2.3
19-Feb	Housing starts	2.3
21-Feb	Existing-home sales	2.3
26-Feb	New-home sales	2.3
28-Feb	Adv. Man. (M3-1) (2/27), Q4 GDP (2/27), Adv. Econ. Ind., Pers. Inc. & outlays	-1.5
3-Mar	ISM Manuf. Index, Constr. spending	-2.8
4-Mar	Auto sales	-2.3
5-Mar	M3-2 Manuf., ISM Services Index	-2.3
6-Mar	International trade, Wholesale trade	-2.4

Data Provided by the Federal Reserve Bank of Atlanta

Now for the big question – are these numbers anomalies or the beginning of something more worrisome? I have seen outlier data come through this forecasting model before, with numbers coming back toward trend on subsequent releases. However, the size and speed of these changes gives me a bit of pause. Also of note, the economists' forecasts for Q1 have started coming down in the same timeframe.

Both Walmart and Target lowered expectations for Q1 2025 when they reported earnings over the past couple weeks. Target specifically mentioned a noticeable slowdown in February. This would correspond with the downtick in the GDPNow number, though the severity of that drop reflects more weakness than the outlooks given by Walmart and Target.

I think it is too early to assume too much, but it is something I will be watching very closely over the next few weeks.

Uncertainty and Volatility

The Trump administration has been sprinting through major policy goals, almost exclusively by executive order, and it is a lot for markets to digest on a daily (and sometimes hourly) basis. Regardless of political direction, markets need policies to be *clear, understandable, and consistent*. On again / off again tariffs, federal layoffs followed by emails asking workers to come back, sudden freezing and unfreezing of funding – these things are not helpful to markets. As I mentioned earlier – it's not just the what, the how matters too. Hopefully policy implementation becomes more thoughtful and cohesive over the next few weeks.

As for the policies themselves, they create several competing forces pulling at the economy from different directions. Tariffs, federal worker layoffs, freezing federal aid and grant money – those all create headwinds. Less regulation and tax cuts – those create tailwinds. Then you throw in timing and implementation of all that. It's really a lot to put in the blender all at once.

It is still too early to forecast with any certainty at all what the end result of all this will be, but investors should expect continued excess volatility in the short term as the situation evolves.

Turns Out the Fed May Be Back in the Game After All…

Around election time last year, the market had been pricing in 4 rate cuts of a quarter point over the course of 2025. Post election, that dropped to 1 based on expectations of tax cuts and deregulation stimulating economic growth. Now, with the sudden drop in GDP data referenced earlier, the market is back to pricing in at least 3 quarter point cuts over the course of 2025.

But keep in mind, like Goldilocks, the market likes its porridge just right. The Fed needs the inflation data to give it enough room to cut, but no one wants the room to come because the economy is suddenly stalling out.

As for me, I'm going to Costco this weekend to see if they sell Pepcid by the gallon…

David

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Index Descriptions

S&P 500: Representing approximately 80% of the investable U.S. equity market, the S&P 500 measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested.

Dow Jones Industrial Average Total Return: The Dow Jones Industrial Average is a composite of 30 stocks spread among a wide variety of industries, such as financial services, industrials, consumer services, technology, health care, oil & gas, consumer goods, telecommunications, and basic materials. The index represents approximately 23.8% of the U.S. market, and is price weighted (component weightings are affected by changes in the stocks' prices). Maintained by the Averages Committee, components are added and deleted on an as-needed basis.

Russell Midcap: A subset of the Russell 1000 index, the Russell Midcap index measures the performance of the mid-cap segment of the U.S. equity universe. Based on a combination of their market cap and current index membership, includes approximately 800 of the smallest securities which represents approximately 31% of the total market capitalization of the Russell 1000 companies. The index is created to provide a full and unbiased indicator of the mid-cap segment.

Russell 2000: Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,000 of the smaller securities from the Russell 3000. Representing approximately 10% of the Russell 3000, the index is created to provide a full and unbiased indicator of the small cap segment.

NASDAQ: The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.

MSCI EAFE (Europe, Australasia, Far East) Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. As of June 2, 2014, the index consists of 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Market Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2, 2014, the index consists of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates.

Bloomberg Barclays U.S. Aggregate (BCAG): A representation of SEC-registered, taxable, and dollar denominated securities. The index covers the U.S. investment grade fixed rate bond market, with index components for asset-backed securities, government and corporate securities, and mortgage pass-through securities. Must be rated investment grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch; regardless of call features have at least one year to final maturity, and have an outstanding par value amount of at least $250 million.

Bloomberg Barclays U.S. Corporate High Yield: Covers the universe of fixed rate, non-investment grade debt which includes corporate (Industrial, Utility, and Finance both U.S. and non-U.S. corporations) and non-corporate sectors. The index also includes Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must publicly issue, dollar-denominated and non-convertible, fixed rate (may carry a coupon that steps up or changes according to a predetermined schedule), and be rated high-yield (Ba1 or BB+ or lower) by at least two of the following: Moody's, S&P, and Fitch. Also, must have an outstanding par value of at least $150 million and regardless of call features have at least one year to final maturity.

U.S. government bonds and Treasury notes are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. U.S. government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury notes are certificates reflecting intermediate term (2-10 years) obligations of the U.S. government. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

International investing involves special risk, including currency fluctuations, differing financial accounting standards, and possibly political and economic volatility.

Investing in emerging markets can be riskier than investing in well established foreign markets.