

Uncertainty around Trump administration policies began to pressure U.S. stocks and the USD in February while European banks and defense stocks led the way. Meanwhile, stimulus talks and some business friendly narratives from Beijing spurred a strong rally in Chinese equities. By month end, U.S. equity markets had given back half of the strong rally in January while international stocks added to their gains thanks, in part, to a weakening USD. Interest rates moved lower across the curve leaving 10yr and 2yr UST yields at 4.24% and 3.99% respectively.

For a second consecutive month, there were no significant surprises on the economic calendar. The labor market continued to show marginal deceleration with 151,000 new jobs and a slight uptick in the unemployment rate, from 4.0% to 4.1%. Inflation data was also generally in line with expectations as headline and core PCE inflation registered 2.5% and 2.6% respectively. Retail sales, sentiment, and confidence showed signs of slowing down with sales contracting 0.9% and sentiment/confidence measures declining from year end levels.

### Market Anecdotes

- Markets are in the process of absorbing material changes in trade policy and a rare attempt at addressing the size and scope of government, both resulting in a dense pack of policy fog.
- Germany's response to U.S. policies is gaining market attention with a lift of the debt brake and budget plans to spend \$500b on defense alone plus significant infrastructure spending.
- Fourth quarter earnings season highlights included very firm 17.8% earnings growth (led by financials), historically average beat rates and margins, more than usual downward guidance, and the runaway hot topic of tariff policies.
- U.S. debt/GDP, up from 76% in 2017 to 100% today, are projected to increase to 126% by 2034, highlighting a serious problem in need of serious solutions which the proposed budget seems to fall short, even with aggressive assumptions.

- BCA suggested recent leadership in European equities is driven primarily by near term economic surprises and cheap valuations rather than earnings or growth fundamentals but foreign policy developments and the debt that comes along with them may also be a factor.

### Economic Release Highlights

- Headline and core PCE grew 0.3% MoM with YoY readings of 2.5% and 2.6% respectively, both generally in line with estimates.
- Personal Income grew more than expected (0.9% vs 0.3%), following 0.4% growth, and MoM PCE contracted by 0.2%, more than the 0.2% growth expected.
- Headline and core CPI registered annual readings of 3.0% and 3.3% alongside MoM readings of 0.5% and 0.4%, above consensus expectations across the board.
- Headline and core PPI registered annual readings of 3.5% and 3.6% alongside MoM readings of 0.4% and 0.3%, above consensus expectations for all except the core MoM reading.
- The NFIB Small Business Optimism Index registered 102.8, down slightly from December's 105.1 and below the consensus expectation of 104.7.
- Retail Sales missed expectations for the headline (-0.9% vs -0.1% and ex-vehicles (-0.4% vs 0.3%) readings while ex-vehicles & gas fell 0.5%.
- The final UofM Consumer Sentiment reading was revised down from 67.8 to 64.7 and 1yr inflation expectation remained elevated at 4.3%.
- Consumer Confidence fell from 104.1 to 98.3 in February, below the spot consensus 103 and the forecast range of 100 to 104.5.
- New Home Sales in January of 657k was in line with the consensus range of 630k to 705k. Pending Home Sales Index fell 4.6%, below the forecast of -1.2% and consensus range of -3.3%

to 2.4%. Existing Home Sales (4.08M vs 4.16M) were in line with forecasts, falling 4.9%MoM and up 4.8% YoY.

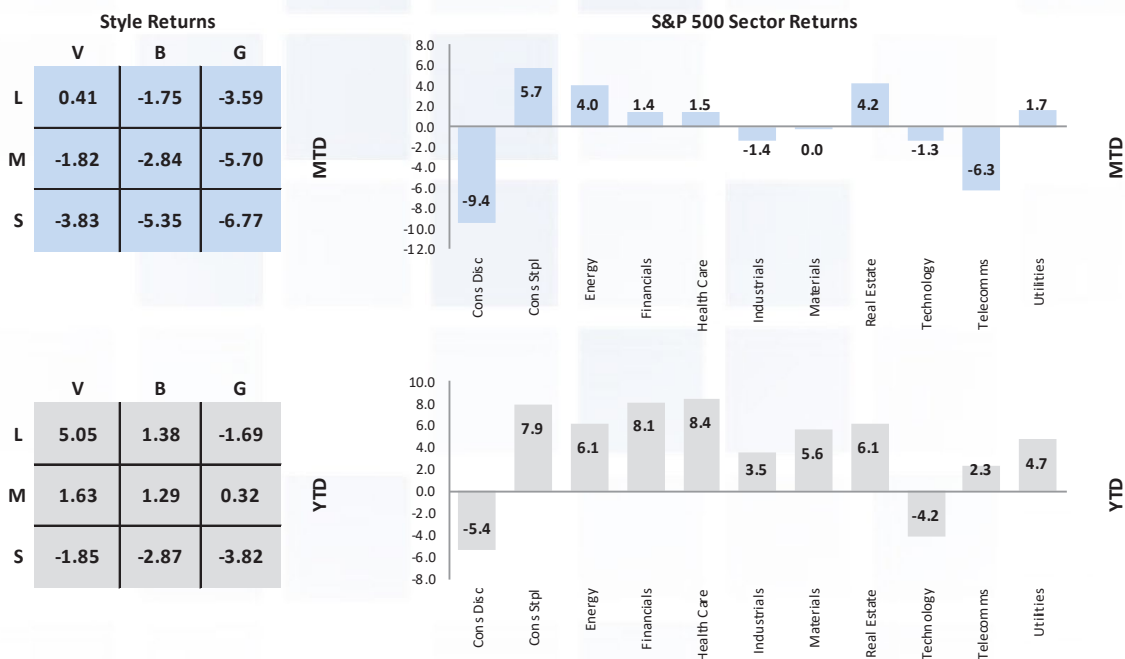
- Housing Starts (1.366M vs 1.397M) and Permits (1.483M vs 1.470M) were generally in line with expectations.
- The Housing Market Index declined from 47 to 42, missing the consensus estimate of 47 and coming in below the forecast range (45-48). The Case-Shiller Home Price Index came in at forecast, up 0.5% MoM and 4.5% YoY.

## Outlook

Markets in February began to show signs of 'policy fatigue' with respect to 'on again off again' tariff policy and a new regime emerging in geopolitics with respect to NATO and traditional U.S. alliances. The equity bull market is entering a risky phase as the new administration's pro-growth policies (tax cuts, deregulation) are being overshadowed by damaging tariff policies and a reshuffling of global geopolitics. Ultimately, a combination of policies (trade, fiscal, monetary, regulatory), consumption (jobs, real wages), and business investment will determine future growth/inflation dynamics and while trade policies are dominating market psyche today, we expect they will be regulated to the short term in nature and not to maintain headline status or tip the economy into recession over the intermediate/longer term.

We are maintaining a modestly constructive view on equity markets over our 12-24 month forecast horizon with a tilt toward value stocks relative to growth and U.S. and emerging markets relative to developed market international. From a duration standpoint, we are maintaining a neutral stance at this time due to potentially disruptive trade and foreign policies in the coming months.

| Equity              | Level       | 1 Mo        | 3 Mo       | YTD         | 1 Yr        | 3 Yr  | Commodities           | 2/28/25        | 12/31/24        | 9/30/24        | 6/30/24        |
|---------------------|-------------|-------------|------------|-------------|-------------|-------|-----------------------|----------------|-----------------|----------------|----------------|
| Dow Jones           | 43841       | (1.39)      | (1.98)     | 3.32        | 14.41       | 11.17 | Oil (WTI)             | 68.63          | 72.44           | 68.75          | 82.83          |
| NASDAQ              | 18847       | (3.91)      | (1.77)     | (2.31)      | 17.93       | 11.97 | Gold                  | 2834.60        | 2609.10         | 2630.00        | 2330.90        |
| S&P 500             | 5955        | (1.30)      | (0.97)     | 1.44        | 18.41       | 12.55 |                       |                |                 |                |                |
| Russell 1000 Growth |             | (3.59)      | (0.82)     | (1.69)      | 19.75       | 14.84 | <b>Currencies</b>     | <b>2/28/25</b> | <b>12/31/24</b> | <b>9/30/24</b> | <b>6/30/24</b> |
| Russell 1000 Value  |             | 0.41        | (2.13)     | 5.05        | 15.75       | 8.65  | USD/Euro (\$/€)       | 1.04           | 1.04            | 1.12           | 1.07           |
| Russell 2000        |             | (5.35)      | (10.89)    | (2.87)      | 6.69        | 3.34  | USD/GBP (\$/£)        | 1.26           | 1.25            | 1.34           | 1.26           |
| Russell 3000        |             | (1.92)      | (1.91)     | 1.18        | 17.53       | 11.59 | Yen/USD (¥/\$)        | 150.64         | 157.37          | 143.25         | 160.88         |
| MSCI EAFE           |             | 1.95        | 4.90       | 7.32        | 9.32        | 6.97  |                       |                |                 |                |                |
| MSCI Emg Mkts       |             | 0.50        | 2.23       | 2.32        | 10.65       | 0.92  | <b>Treasury Rates</b> | <b>2/28/25</b> | <b>12/31/24</b> | <b>9/30/24</b> | <b>6/30/24</b> |
| <b>Fixed Income</b> | <b>1 Mo</b> | <b>3 Mo</b> | <b>YTD</b> | <b>1 Yr</b> | <b>3 Yr</b> |       | 3 Month               | 4.32           | 4.37            | 4.73           | 5.48           |
| US Aggregate        | 2.20        | 1.06        | 2.74       | 5.81        | (0.44)      |       | 2 Year                | 3.99           | 4.25            | 3.66           | 4.71           |
| High Yield          | 0.65        | 1.60        | 2.04       | 10.06       | 4.89        |       | 5 Year                | 4.03           | 4.38            | 3.58           | 4.33           |
| Municipal           | 0.99        | 0.02        | 1.50       | 2.96        | 0.99        |       | 10 Year               | 4.24           | 4.58            | 3.81           | 4.36           |
|                     |             |             |            |             |             |       | 30 Year               | 4.51           | 4.78            | 4.14           | 4.51           |



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