Financial Market Commentary

February 2025

The Right Recipe

A lackluster start to January turned into quite an active month after the release of robust employment data, a decline in core inflation, and a strong start to the earnings season. After what may have felt like an extended holiday period due to how the holidays fell on the calendar in December, it wasn't just people who were slow to get back into gear as the new year began as markets were relatively quiet in the post end of year "glow". Investors were on the lookout for direction as catalysts tend to form in January that can help to set the tone for the year ahead. Ultimately, investors did not have to wait long as the second half of January turned into a very busy period with the presidential inauguration in the mix as well. Overall, there certainly is a lot to unpack for the first month of the new year.

Selected Market Returns: January 2025

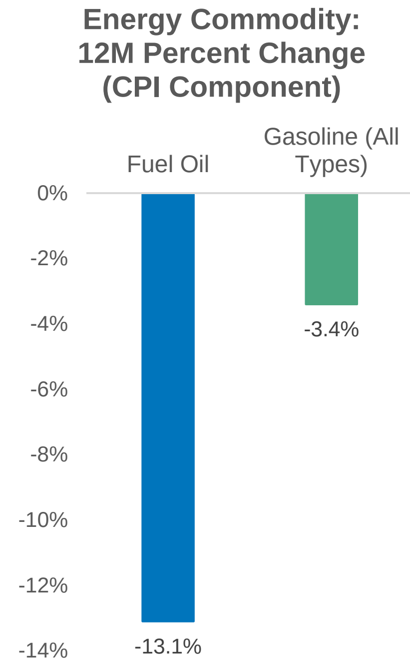
Asset Class	Index	End of 2024 Value	Ending Value (Yield for Bonds)	Total Returns Jan	1Q	YTD
Stock Markets						
U.S. Large Cap Stocks	S&P 500	5,881.63	6,040.53	2.8%	2.8%	**2.8%**
U.S. Large Cap Stocks	Dow Jones Industrial Average	42,544.22	44,544.66	4.8%	4.8%	**4.8%**
U.S. Large Cap Stocks (Tech. Focused)	NASDAQ Composite	19,310.79	19,627.44	1.7%	1.7%	**1.7%**
U.S. Small Cap Stocks	Russell 2000	2,230.16	2,287.69	2.6%	2.6%	**2.6%**
Int'l. Developed Markets Stocks	MSCI EAFE	2,261.81	2,379.76	5.3%	5.3%	**5.3%**
European Stocks	MSCI Europe	169.88	180.77	6.9%	6.9%	**6.9%**
Japanese Stocks	MSCI Japan	1,716.10	1,717.23	1.6%	1.6%	**1.6%**
Emerging Markets Stocks	MSCI Emerging Markets	1,075.48	1,093.37	1.8%	1.8%	**1.8%**
Chinese Stocks	MSCI China	64.71	65.32	0.9%	0.9%	**0.9%**
Bond Markets						
Broad Bond Market	Bloomberg U.S. Aggregate Bond	4.91%	4.86%	0.5%	0.5%	**0.5%**
Government Bonds	Bloomberg U.S. Government Bond	4.46%	4.42%	0.5%	0.5%	**0.5%**
Municipal Bonds	Bloomberg U.S. Municipal Bond	3.74%	3.68%	0.5%	0.5%	**0.5%**
Corporate Bonds	Bloomberg U.S. Corporate Bond	5.33%	5.30%	0.6%	0.6%	**0.6%**
High Yield Bonds	Bloomberg U.S. Corporate High Yield Bond	7.49%	7.20%	1.4%	1.4%	**1.4%**
Highlighted Commodities						
Oil	Crude Oil (West Texas Intermediate/WTI)	71.72	72.53	1.1%	1.1%	**1.1%**
Gold	Gold Spot Price ($/oz)	2,624.50	2,798.41	6.6%	6.6%	**6.6%**

Source: Bloomberg

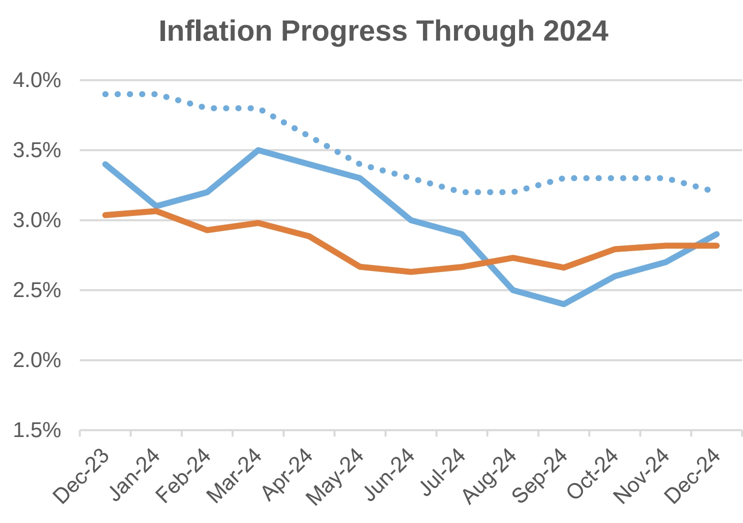
Strong Economic Data

While investors were indecisive at the start of the month, a cooler than expected unemployment rate of 4.1% gave financial markets the green light to rally higher. Employment data continued to surprise as well as initial jobless claims came in materially lower than economists expected. This signaled that the labor market may be stronger than many believe and further emphasized the Federal Reserve's or Fed's patient approach to cutting their target rate.

Good economic news didn't stop at employment data either. On the inflation front, both producer prices and consumer prices as measured by the Producer Price Index (PPI) and Consumer Price Index (CPI) respectively, came in cooler than expected. The core measure of PPI (excluding the more volatile components, food and energy) had no growth over the prior month compared to the expected rate of 0.3%. Looking at producer prices, sometimes referred to as wholesale prices, can often give investors an opportunity to clue in on the data that will inevitably trickle down to the end consumer. Seeing flat month over month growth shows that there has been a significant easing of wholesale inflationary pressure. Turning to consumer prices, core CPI, grew 0.2% month over month, which was slower than economists expected. This translated to core CPI coming in at 3.2%, again lower than the prior report and what economists expected. However, some of the previously sticky areas of inflation still remain just that. Rising shelter costs and food prices are the major contributors to the "sticky" inflation that consumers are experiencing. Energy prices, on the other hand, have declined significantly over the last 12 months. Gasoline has declined 3.4% and fuel oil has declined 13.1%, giving consumers' wallets a break at the pump and when heating homes during the winter.



Source: Bureau of Labor Statistics



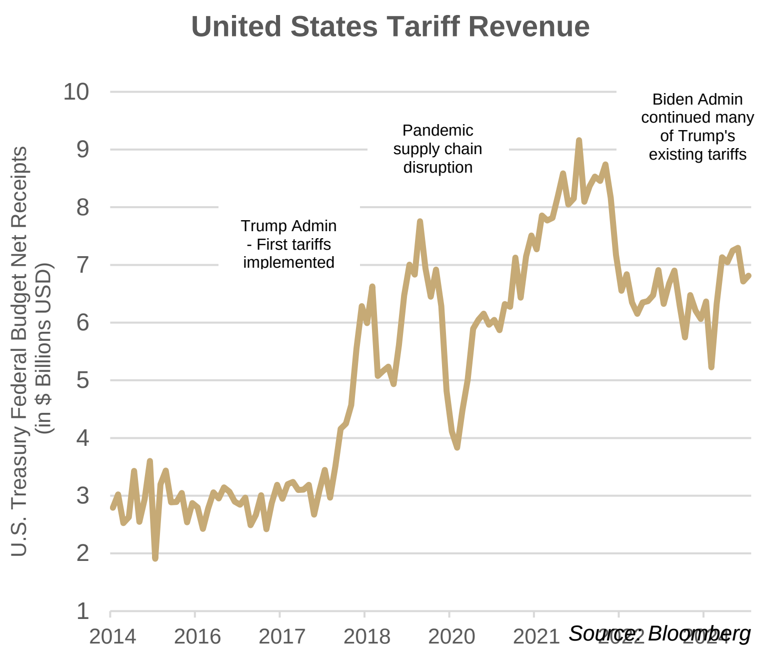
Source: Bloomberg

Personal Consumption Expenditures (PCE), the Fed's preferred inflation gauge, has also made progress towards the Fed's long-term goal of 2% but has experienced some of the expected bumps along the way. With fresh data coming in the final day of the month, this potentially market moving update came as no surprise to investors. As we gathered from Chairman Powell, the Fed appears to be content with their wait and see approach and the muted Core PCE report of 2.8% likely fortified that stance.

Pivoting to economic growth, as measured by GDP, this has been one of the more impressive economic metrics to follow throughout 2024. Now, as we move into 2025, this key metric still stands out. GDP has continued to remain surprisingly robust, thanks in most part to the strength and resiliency of the American consumer. For the fourth quarter, personal consumption grew at a pace of 4.2%, significantly higher than expectations, and marks the fastest pace of growth since the beginning of 2023. With GDP coming in at a 2.3% annualized growth rate for the fourth quarter, underscores a strong U.S. economy despite headwinds such as the labor strikes that took place at the end of 2024. Overall, this marks an extremely healthy place to invest for a developed economy, especially considering the contrasting environment across most of Europe.

Federal Reserve Autonomy and Tariffs

One of the other final developments investors were looking forward to at the end of the month was the Federal Open Markets Committee's (FOMC's) first meeting of the year. Although it was widely expected that the Fed would take a pause on making further interest rate cuts, investors were able to gain some perspective from Chairman Powell in the post meeting press conference. Reporters were quick to ask Chairman Powell in a multitude of ways if President Trump's comments on rates needing to come down drastically, the implementation of additional tariffs, and border issues, would impact the Fed's decision making. Chairman Powell was quick to respond that he and his team are planning to keep their heads down and use the tools they have at their disposal to serve the public to the best of their ability regardless of the President's comments.



On the subject of new tariffs, Chairman Powell did emphasize that the effects on consumers remain to be seen and stated that there are too many variables to say how they might impact inflation progress. The Fed will need to see what tariffs are implemented before they can comment on how they could affect the economy.

The outcome of a trade war, of course, remains to be seen too, but is one extreme example of the broad set of possibilities that the Fed is considering. Ultimately, looking back at history can lend perspective into what could happen as the implementation of tariffs by an incoming administration is not novel. Even as recently as during the Biden administration, where President Biden maintained many of the existing tariff policies implemented during President Trump's administration, benefited from the boost in revenue for the country, while not materially impacting prices for consumers.

A New Administration

Although the world has seen what the Trump administration was like from 2017 - 2021, this time around appears to be a bit different as leading up to the inauguration investors appeared to be optimistic about the business-friendly environment that President Trump promised to cultivate. On the other hand, many of President Trump's comments surrounding tariffs, immigration, and geopolitical relations stirred up emotions for investors. Markets rallied however upon announcement that the tariff proposals have been pushed out while simultaneously, President

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Trump has softened his stance on levies for China, at least for now. Therefore, the storm of executive orders, combined with some confusing comments and actions by the new administration, resulted in more questions than answers for some Americans.

One angle, regarding reactions to the tariffs that President Trump proposed, is that he is not only willing to impose tariffs on close allies but is also prepared to play hardball with countries like China. Again, time will tell what actually comes to fruition but President Trump playing hardball with these proposals is something we have seen before and could turn out to be a successful negotiating tactic.

Looking Ahead

With the first month of 2025 now in the rearview, investors were faced with an abundance of information to digest. From continued signs of a robust economy, giving the Fed more of a reason to pause interest rate cuts, the world getting a taste of what a second Trump presidency looks like, and a shakeup within the artificial intelligence space, investors certainly had a lot on their minds. Nevertheless, January's market performance does make us think of the common market colloquialism "as goes January, so goes the year." Though this adage doesn't always hold true, there is a reason it exists in the first place. January has set the stage for what we believe will be a busy, but productive year. As we look ahead to the rest of 2025, we have chosen to position portfolios to capture the trends we see developing and are increasingly relying on actively managed strategies to help capitalize on shifts that take place as new opportunities arise. With that being said, we believe portfolios are well positioned to capture value and look forward to the year ahead.

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Asset class risks

Bonds: are subject to market, interest rate and credit risk; and are subject to availability and market conditions. Generally, the higher the interest rate the greater the risk. Bond values will decline as interest rates rise. Government bonds are subject to federal taxes. Municipal bond interest may be subject to the alternative minimum tax; other state and local taxes may apply. High yield bonds, also known as "junk bonds," are subject to additional risks such as the increased risk of default. Debt securities may be subject to call features or other redemption features, such as sinking funds, and may be redeemed in whole or in part before maturity. These occurrences may affect yield. Like all bonds, corporate bonds tend to rise in value when interest rates fall, and they fall in value when interest rates rise. The longer the maturity of the bond, the greater the degree of price volatility. If you hold a bond until maturity, you may be less concerned about these price fluctuations (which are known as interest rate risk or market risk), because you will receive the par or face value of your bond at maturity.

Stocks of Large Growth and Value Companies: Portfolios that emphasize large and established U.S. companies may involve price fluctuations as stock market conditions change.

Stocks of Small- and Mid-Capitalization Companies: **T**end to involve more risk than stocks of larger companies. Investments in small- and mid-sized corporations are more vulnerable to financial risks and other risks than larger corporations and may involve a higher degree of price volatility than investments in the general equity markets.

International/Global/Emerging Markets Investments: International investing may not be suitable for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.

Commodities: Commodities are assets that have tangible properties, such as oil, metals, and agricultural products. An investment in commodities may not be suitable for all investors. Commodities may be affected by overall market movements and other factors that affect the value of a particular industry or commodity, such as weather, disease, embargoes, or political and regulatory developments. Commodities are volatile investments and should only form a small part of a diversified portfolio. Diversification does not ensure against loss. Consult your investment representative to help you determine whether a commodity investment is right for you. Market distortion and disruptions have an impact on commodity performance and may impact the performance and values of products linked to commodities or related commodity indices. The levels, values or prices of commodities can fluctuate widely due to supply and demand disruptions in major producing or consuming regions.

Index definitions

S&P 500 Index: is a capitalization weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 500 of the leading large cap U.S. companies.

Dow Jones Industrial Average Index: is a price weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 30 blue-chip stocks that are generally regarded as the leaders in their industry.

NASDAQ Composite Index: is a capitalization weighted index that is generally considered representative of the U.S. Technology market. It consists of all three tiers of the NASDAQ: Global Select, Global Market, and Capital Market.

Russell 2000 Index: is a capitalization weighted index that is generally considered representative of the U.S. Small Cap market. It consists of 2,000 of the leading small cap U.S. companies.

MSCI EAFE Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of developed international markets. The EAFE region includes developed market countries in Europe, Australasia, the Far East, and Israel.

MSCI Europe Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of European developed markets.

MSCI Japan Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Japanese market.

MSCI Emerging Markets Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

MSCI China Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Chinese market.

Bloomberg U.S. Aggregate Bond Index: is a broad-based flagship benchmark that measures the investment grade U.S. dollar denominated, fixed-rate, taxable bond market. The index includes Treasuries, government-related and corporate securities, Mortgage-Backed Securities or “MBS” (agency fixed-rate pass-throughs), Asset-Backed Securities or “ABS”, and Commercial Mortgage-Backed Securities or “CMBS” (agency and non-agency).

Bloomberg U.S. Government Bond Index: consists of the U.S. Treasury and U.S. Agency Indices. This index includes U.S. dollar denominated, fixed-rate, nominal U.S. Treasuries and U.S. agency debentures (securities issued the U.S. government owned or government sponsored entities, and debt explicitly guaranteed by the U.S. government).

Bloomberg U.S. Municipal Bond Index: covers the U.S. dollar denominated long-term tax-exempt bond market. The index includes four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.

Bloomberg U.S. Corporate Bond Index: measures the investment grade, fixed-rate, taxable corporate bond market. The index includes U.S. dollar denominated securities that are publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers.

Bloomberg U.S. Corporate High Yield Bond Index: measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating from the ratings agencies (Moody’s, Fitch, and S&P) are Ba1/BB+/BB+ or below. Bonds issued from an emerging market country are excluded from the index.

Crude Oil: is represented by the generic front month futures contract for West Texas Intermediate (WTI) crude oil.

Gold Spot Price: is represented by the current spot price of one Troy Ounce of gold in U.S. dollars.

Inflation: is measured by the year-over-year change for the Consumer Price Index or “CPI”. This index represents the changes in the prices of all goods and services purchased for consumption by urban households. User fees (such as water and sewer) and sales and excise taxes paid by consumers are also included.

Fed Funds Rate: is the target interest rate set by the U.S. Federal Reserve (Fed) or “Central Bank”. This index reflects the Fed’s efforts to influence short-term interest rates as part of its monetary policy strategy. The index value is calculated by using the midpoint of the Fed’s rate policy when they target a rate range (i.e., 0.25% - 0.50%).

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