

THE FEBRUARY '25 SHARPE REPORT: SENTIMENT SHIFTS

ECONOMY

Economic data for February came in weaker-than-expected. January's jobs data showed less-than-anticipated job growth, while December's figures were revised upward. Consumer confidence declined, and inflation remained stagnant. PMI Services fell into contraction for the first time in over two years, with firms citing worsening growth in new orders amid political uncertainty. Housing data also continued to show weakness.

Despite these negative indicators, the labor market remains tight, with the unemployment rate declining to 4.0%. Initial jobless claims remain well below recessionary levels of 350,000, and GDP growth of 2.3% exceeds the long-term trend of 1.5%, although the Atlanta Fed has been lowering its estimates. Short-term concerns over tariffs and political uncertainty emerged in February, but we remain confident that the economy will grow above trend in 2025

STOCK MARKET

Stocks began the month on a strong note, with the S&P 500 rising 1.8% through February 19. However, Walmart's earnings report on February 20 unsettled investors when the company projected full-year earnings of \$2.50 to \$2.60 per share, falling short of the expected \$2.76. The lowered guidance raised concerns about the health of the consumer, as disinflation stalled, and tariff-related uncertainty increased. Defensive sectors were the best performers during the month, with consumer staples up 5%, while consumer discretionary fell 7%. Value outperformed growth by 400 basis points, and international markets outpaced domestic ones. Notably, Chinese internet companies saw an 8% rise during the month.

BOND MARKET

Yields rallied across the curve in February, moving sharply lower in the second half of the month. The market faced numerous crosscurrents, including weakening consumer data, slowing economic growth, tariff uncertainty, inflation concerns, and a repricing of Federal Reserve expectations. Fed Chair Jerome Powell remarked that January's inflation data indicated policymakers still have work to do in addressing inflation. Following his comments, expectations for rate cuts increased amid growing fears of a slowdown in growth and a weakening consumer, with investors now anticipating three 25-basis-point cuts in 2025.

PUTTING IT ALL TOGETHER

Risk-on assets declined, while bonds rallied. Investors are awaiting further guidance from the Fed regarding their economic outlook, as many uncertainties remain. In times like these, we focus on quality companies with leading management teams and avoid allowing short-term impulses to dictate investment decisions. We continue to believe the economy will grow above trend in 2025, with corporate earnings expanding in the high single digits and margin expansion exceeding expectations. Furthermore, the consumer remains in a strong position, and the initial data points from March have been encouraging.

Stalling disinflation, declining consumer confidence, and weakening consumer data drove stocks lower and bonds higher in February. Nonetheless, GDP growth remains above trend, and the labor market remains balanced.



Economic Data	As of Feb-25	Last Period	Last Year
GDP	2.30%	2.30%	3.20%
CPI	3.00%	2.90%	3.10%
PCE	2.50%	2.60%	2.60%
Unemployment Rate	4.00%	4.10%	3.70%
Nonfarm Payrolls	143K	307K	119K
Consumer Confidence	98.3	105.3	103.40

Source: FactSet. As of February 28, 2025.

The S&P 500 declined by over 1%, with growth significantly underperforming. Defensive sectors outpaced cyclicals, while international markets outperformed domestic. In 2025, only two sectors are negative: technology and consumer discretionary.



Equities	Feb-25	QTD	YTD
S&P 500	-1.42%	1.24%	1.24%
DJIA	-1.58%	3.05%	3.05%
Nasdaq Composite	-3.97%	-2.40%	-2.40%
ACWI Ex-U.S.	2.48%	6.06%	6.06%
Russell 3000	-2.03%	0.98%	0.98%

Source: FactSet. As of February 28, 2025.

Bond yields fell across the curve during the equity selloff. Weaker-than-expected economic data has led investors to reassess their expectations regarding the Federal Reserve and economic growth.

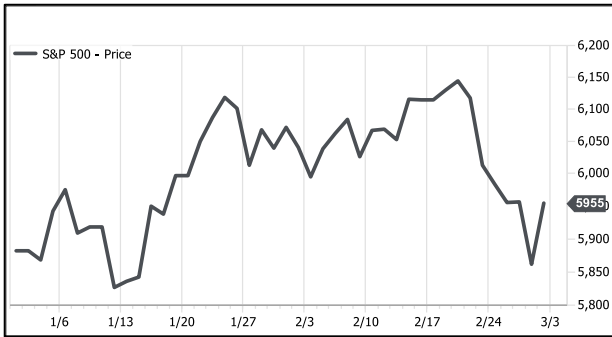


Fixed Income	As of Feb-25	As of Jan-25	As of Feb-24
Federal Funds Rate	4.25-4.50%	4.25-4.50%	5.25-5.50%
2-Year Treasury Yield	3.98%	4.20%	4.62%
10-Year Treasury Yield	4.20%	4.55%	4.25%
Investment Grade Spread	+121 bps	+117 bps	+129 bps
High Yield Spread	+332 bps	+300 bps	+368 bps
30-Year Fixed Mortgage Rate	6.88%	7.02%	7.04%

Source: FactSet. As of February 28, 2025.

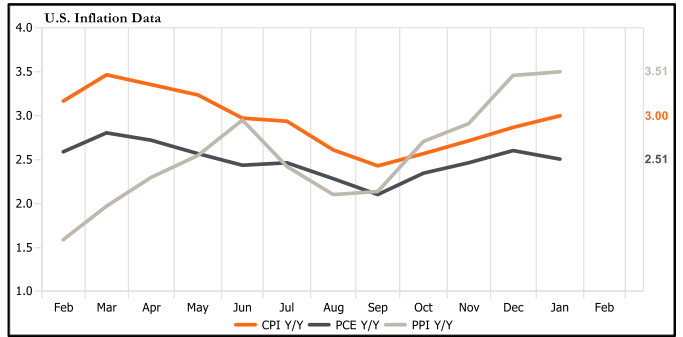
*Stars signify the strength of economic and market performance in the month.

S&P 500



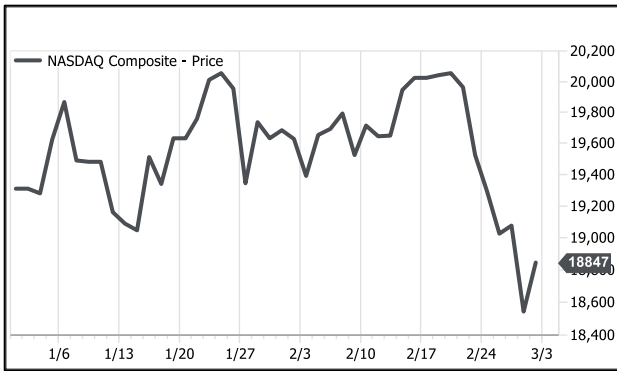
Source: FactSet. As of February 28, 2025.

U.S. Inflation Rates



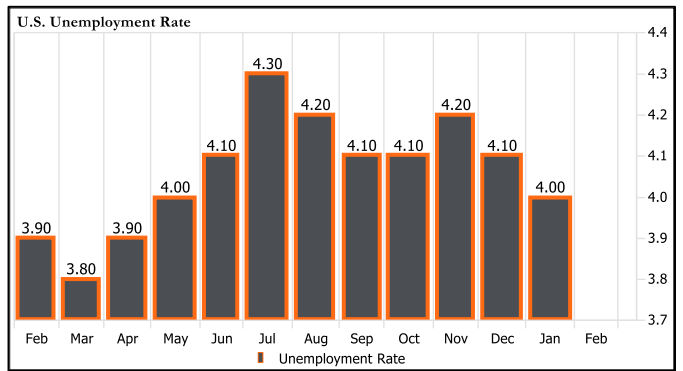
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NASDAQ Composite



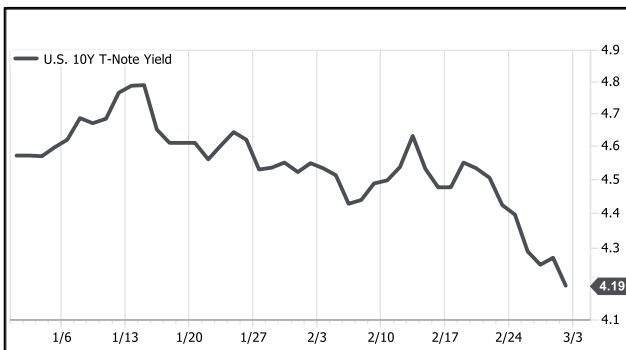
Source: FactSet. As of February 28, 2025.

U.S. Unemployment Rate



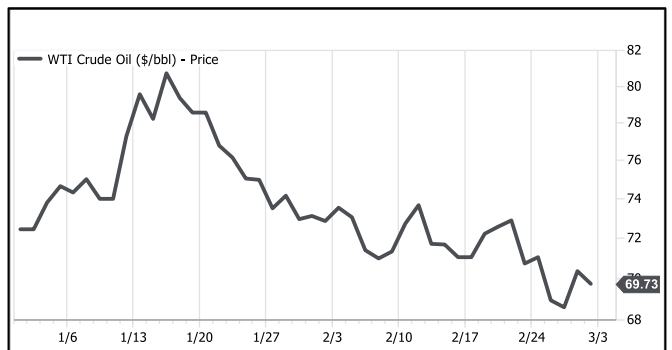
Source: FactSet. As of February 28, 2025.

10-Year Treasury Note Yield



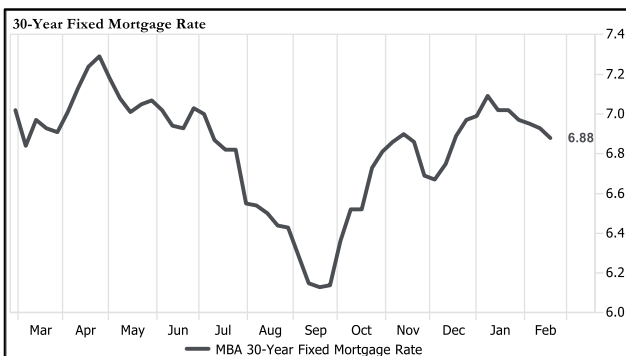
Source: FactSet. As of February 28, 2025.

WTI Crude Oil (\$/bbl)



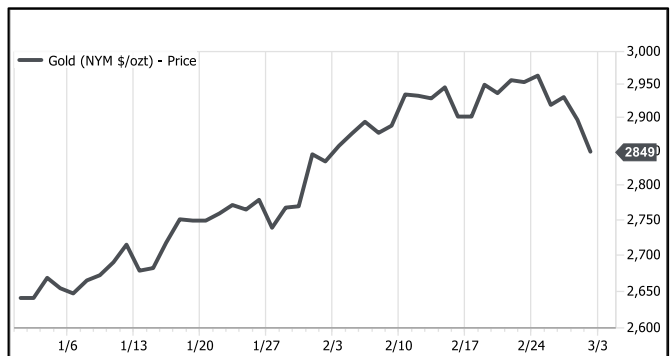
Source: FactSet. As of February 28, 2025.

30-Year Fixed Mortgage Rate



Source: FactSet. As of February 28, 2025.

Gold (NYM \$/ozt)



Source: FactSet. As of February 28, 2025.



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