WINTHROP WEALTH

# February 2025 Market Recap

Andrew Murphy, CFA
Co-Chief Investment Officer

FINANCIAL PLANNING

TOTAL NET WORTH APPROACH

INVESTMENT MANAGEMENT

At Winthrop Wealth, we follow a **Total Net Worth Approach** to wealth management that combines both comprehensive financial planning and investment management. The financial plan helps define cash flow needs, seeks to optimize account structures, considers tax mitigation strategies, and determines the appropriate asset allocation based on the client's willingness and ability to take risk. Based on the output of the financial plan, our investment management process designs a well-diversified portfolio constructed with a long-term methodology based on prudent risk management, asset allocation, and security selection. *For clients who receive both financial planning and investment advisory services under agreement. No strategy assures success or protects against loss. Investing involves risk, including loss of principle.*

The equity market took a breather in February as the S&P 500 fell by -1.3%, bringing the year-to-date performance to +1.4%. The market weakness was mainly caused by weaker-than-expected economic survey data, concerns over layoffs by the Department of Government Efficiency (DOGE), and fears over President Trump's tariff agenda. February also saw heightened volatility, including a stretch where the market fell in five of six trading days. Please see our Client Question: Principles for Long-Term Investing.

- **New All-Time High, followed by -4.5% Decline:** The S&P 500 reached a new all-time closing high of 6,144 on February 19th before declining by -4.6% over the next six trading days. The market bounced by +1.6% on the last day of the month to end February at 5,955.
- **More (?) Trump Tariffs:** As of now, the following tariffs are set to take effect on March 4th: Mexico (25%), Canada (25% on goods and 10% on energy resources), and China (10%). President Trump also plans to impose reciprocal tariffs on various countries starting April 2nd, though details remain unclear. The tariff situation remains fluid. President Trump has already postponed the implementation from February to March. Recently, Commerce Secretary Howard Lutnick indicated that the rates remain open to negotiation. We expect an agreement sooner rather than later, as these blanket tariffs will likely lead to higher prices, slower economic growth, and lower corporate earnings. Going forward, we further expect President Trump to continue using and threatening tariffs as a negotiating tactic to gain leverage over other countries. As we stated in our Post-Election commentary, President Trump used the threat of tariffs with some success during his first administration, although this did create market volatility and weigh on the economy. For investors, constant tariff threats and negotiations are now part of the new economic and market landscape.
- **Market Rotation Continues:** For most of the last two years, a narrow group of companies, known as the Magnificent 7, drove significant outperformance in U.S. large-cap growth stocks. Thus far in 2025, market leadership has reversed, with that trend continuing in February. During the month, Value (+0.4%), Developed International (+1.9%), and Emerging Markets (+0.5%) all produced positive results. Meanwhile, Growth (-3.6%), Technology (-1.3%), Communication Services (-6.3%), and Consumer Discretionary (-9.4%) stocks fared poorly, with five of the Magnificent 7 stocks declining, including Meta (-3.0%), Microsoft (-4.4%), Amazon (-10.7%), Alphabet (-16.2%), and Tesla (-27.6%). We construct diversified portfolios across regions, countries, market caps, factors, styles, sectors, and industries and tilt toward the areas we feel provide the most potential benefit. Our view remains that diversified portfolios can lead to more consistent and less volatile results than a single asset class. Please see our Client Question on Asset Allocation for our views on portfolio construction. *There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.*
- **Upcoming Catalysts:** BLS Employment Report (3/7), CPI Inflation (3/12), Government Funding Expiration (3/14), Retail Sales (3/17), Nvidia's GPU Technology Conference (3/17 – 3/21), FOMC Meeting (3/19), PCE Inflation (3/28).

**Short-Term Outlook:** We continue to expect heightened volatility this year as investors grapple with the constant news flow related to tariffs, tax policy, and government finances. Furthermore, as evidenced by DeepSeek, anything that challenges the AI-related dominance of the Magnificent 7 companies is likely to lead to market turbulence. Over the last several months, we have highlighted signs of froth, and while some abated during the month, many indications of investor exuberance remain. During these times, many investors are fooled into thinking that markets will continue to rise indefinitely, leading them to take on too much risk. Going forward, we know that market declines are common, and we want to remain prepared for increased volatility compared to that last few years. *No strategy assures success or protects against loss.*

**Long-term Investment Philosophy:** Markets have historically increased over time despite frequent drawdowns as successful corporations have been able to figure out ways to generate profits through advances in innovation and productivity. To capitalize on the power of compounding, we believe in the benefits of staying **D**isciplined, **O**pportunistic, and **D**iversified, while striving to **M**itigate fees, taxes, and expenses. In our opinion, adhering to a structured process and executing on all these components should help keep our clients on track toward pursuing their long-term objectives. *Historically, equity markets have recovered from recessions and downturns. Past performance is no guarantee of future returns. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.*

**All data sourced from Bloomberg as of 2/28/2025**

## Fixed Income Markets

### Interest Rates

Long-term Treasury yields declined in February while short-term rates were mostly flat. As a reminder, the Federal Reserve influences short-term interest rates by setting the Federal Funds rate, while the market determines long-term yields based on investor demand, which varies based on expectations of future inflation and economic growth.

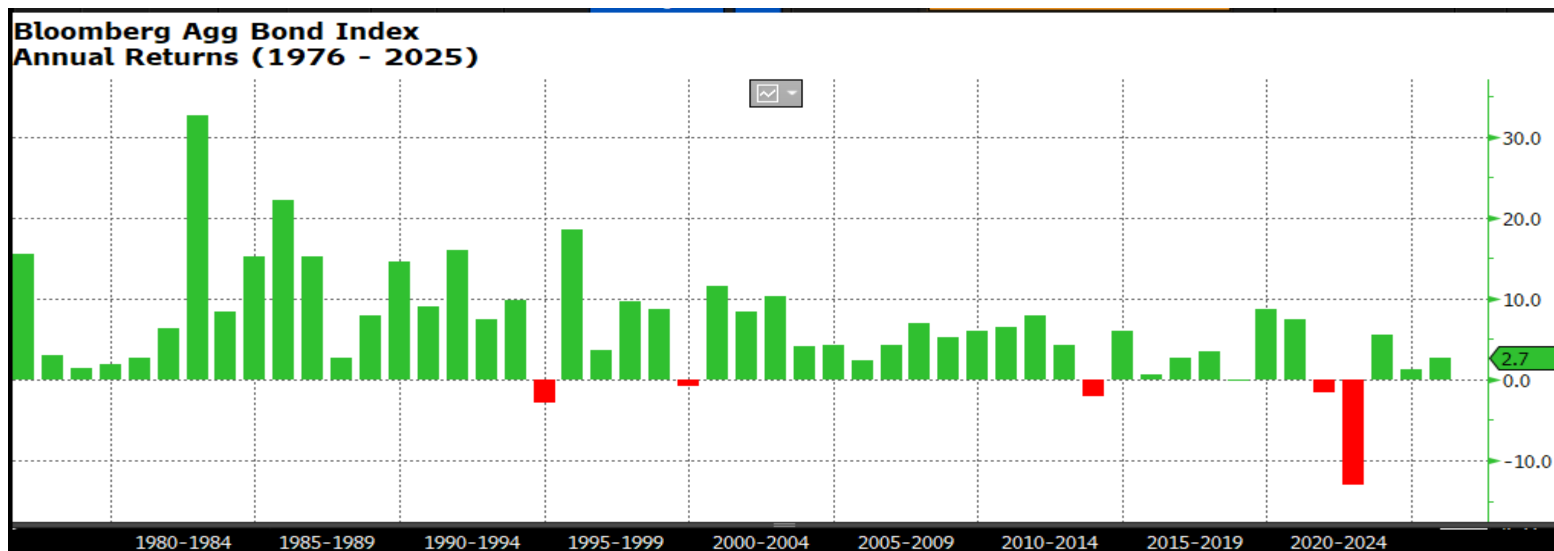
- **Short-Term Treasury Yields:** were above +5% for most of last year, but they started to decline once the Fed began to lower the Federal Funds rate in September.
  - Month-end levels: 3-Month: 4.29% (+0.0%), 6-Month: 4.27% (-0.0%), 12-Month: 4.08% (-0.1%).
  - Investing in short-term Treasuries with +5% yields was a great strategy over the past several quarters, but we believe that opportunity has passed, and investors now face reinvestment risk with lower rates at maturity. We suggest using short-term Treasuries to fund anticipated liabilities, and to invest any excess cash in longer maturities or in a diversified portfolio. *Investing involves risk including loss of principal. No strategy assures success or protects against loss.*
- **Long-Term Treasury Yields:** declined throughout the month due to fears of an economic slowdown caused by weaker than expected business and consumer survey data.
  - Month-end levels: 10-Year: 4.21% (-0.3%), 30-Year: 4.49% (-0.3%).
  - In our opinion, if the Trump administration can reduce the government deficit and moderate the increase in the federal debt, it would significantly help to stabilize long-term interest rates.

### Intermediate-Term Bonds

The Bloomberg US Aggregate Bond index (Agg), which acts as a proxy for the intermediate-term investment-grade bond market, increased by +2.2% as the 10-Year Treasury yield declined. Bond prices move inversely to interest rates and credit spreads.

After challenging years in 2021 and 2022 and tepid results in 2024, we continued to recommend a patient approach for intermediate term bonds. All else equal, we expect intermediate-term bonds to provide both ballast and positive returns once yields either stabilize or decline. We would like to highlight that bonds did provide ballast amid the recent bout of market volatility, with a +1.8% gain from February 19th to month-end, and have generated positive results as yields declined this year.

In our opinion, intermediate-term bonds remain an attractive investment opportunity, as the yield to maturity on the US Aggregate Bond Index ended February at 4.6%. Yield to maturity is defined as the estimated annualized rate of return an investor can expect on a bond if purchased today and held to maturity, assuming the issuer makes all their interest and principal payments (i.e., no defaults). In our view, patient investors should be optimistic about intermediate-term fixed income returns over the next several years. *Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.*




Source: Bloomberg.

## Monetary Policy

*With our policy stance now significantly less restrictive than it had been and the economy remaining strong, we do not need to be in a hurry to adjust our policy stance. We know that reducing policy restraint too fast or too much could hinder progress on inflation. At the same time, reducing policy restraint too slowly or too little could unduly weaken economic activity and employment.*

- Fed Chair Jerome Powell, Semiannual Monetary Policy Report to the Congress

- **Interest Rates:** The top end of the Federal Funds rate remains 4.50% as there was no FOMC meeting in February. The Fed lowered interest rates by 1.00% in 2024, with the latest 0.25% cut occurring in December. The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant expects they will lower rates to 3.9% in 2025 and to 3.4% in 2026. The next FOMC meeting is on March 19th.
- **Balance Sheet – Quantitative Tightening:** The Fed's Quantitative Tightening program has been ongoing since March 2022, with the balance sheet shrinking by about $60 billion per month. The Fed's balance sheet now stands at about $6.8 trillion, down from a peak of nearly $9 trillion in 2022. The Fed is currently considering pausing or altering the balance sheet runoff program.

Chair Powell has made it clear that the Fed does "not need to be in a hurry" to adjust monetary policy. According to Bloomberg, market pricing indicates two 0.25% rate cuts this year, with the first expected in June. Keeping policy steady for a few months will allow the market to absorb recent rate cuts and provide time to assess President Trump's tax, tariff, and deregulation policies. In February, markets and interest rates were whipsawed by a flurry of developments from the new administration. We expect the Fed to remain nimble in the face of uncertainty.

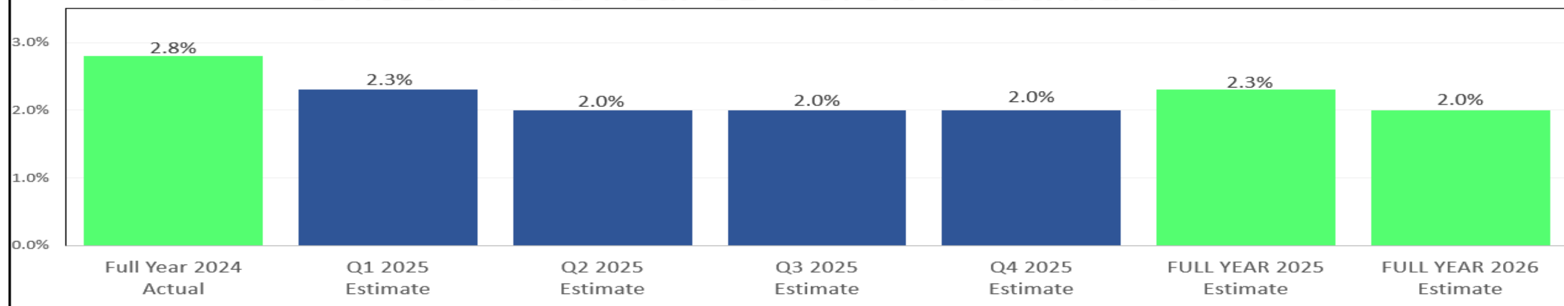
## US Economy

*The upbeat mood seen among US businesses at the start of the year has evaporated. Companies report widespread concerns about the impact of federal government policies, ranging from spending cuts to tariffs and geopolitical developments.*

- Chris Williamson, Chief Business Economist, S&P Global Flash US PMI (February 2025)

During February, we began to see the impact of government spending cuts and tariff uncertainty reflected in weaker business and consumer survey data. In the next few weeks, we will see whether hard economic statistics align with the downbeat survey data. While the US economy is currently on stable footing, the future trajectory will likely depend on the policies of the new administration.

- **Job Gains:** nonfarm payrolls increased by +143,000 in January. The February employment report, scheduled for release on March 7th, is expected to show an increase of 158,000 jobs and will be one of the most widely followed data points of the month. *Source: Bureau of Labor Statistics.*
- **Retail Sales:** +4.2% year-over-year in January. Consumer spending data is critical as consumption drives about 70% of GDP. *Source: US Census Bureau.*
- **Core PCE Inflation:** 2.6% year-over-year in January. This is the Fed's preferred inflation measure, which they target at an average of 2%. *Source: Bureau of Economic Analysis.*




Source: Bloomberg.

# FEBRUARY 2025 MARKET RETURNS

| US Equity | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Index** | **February** | **2025** | **2024** | **2023** | **2022** | **2021** | **2020** | **1-Year** | **3-Year** | **5-Year** | **10-Year** | **20-Year** |
| S&P 500 | -1.30% | 1.44% | 25.00% | 26.26% | -18.13% | 28.68% | 18.39% | 20.23% | 12.71% | 17.09% | 13.01% | 10.45% |
| Russell 3000 | -1.92% | 1.18% | 23.80% | 25.93% | -19.22% | 25.64% | 20.88% | 19.56% | 11.79% | 16.39% | 12.42% | 10.32% |
| Dow Jones Industrial Average | -1.39% | 3.32% | 14.99% | 16.18% | -6.86% | 20.95% | 9.72% | 12.93% | 10.55% | 13.50% | 11.50% | 9.78% |
| Nasdaq | -3.91% | -2.31% | 29.60% | 44.70% | -32.51% | 22.21% | 45.05% | 25.21% | 13.64% | 19.25% | 15.95% | 13.14% |
| S&P 400 | -4.35% | -0.67% | 13.89% | 16.39% | -13.10% | 24.73% | 13.65% | 11.30% | 7.49% | 13.58% | 9.39% | 9.71% |
| Russell 2000 | -5.35% | -2.87% | 11.52% | 16.88% | -20.46% | 14.78% | 19.93% | 11.84% | 4.56% | 10.34% | 7.64% | 7.97% |
| Russell 1000 Growth | -3.59% | -1.69% | 33.35% | 42.67% | -29.14% | 27.59% | 38.49% | 26.52% | 16.42% | 20.84% | 16.47% | 12.79% |
| Russell 1000 Value | 0.41% | 5.05% | 14.35% | 11.41% | -7.56% | 25.12% | 2.78% | 12.24% | 7.25% | 11.77% | 8.53% | 7.85% |

| International Equity | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **MSCI Index** | **February** | **2025** | **2024** | **2023** | **2022** | **2021** | **2020** | **1-Year** | **3-Year** | **5-Year** | **10-Year** | **20-Year** |
| EAFE | 1.94% | 7.30% | 3.82% | 18.24% | -14.45% | 11.26% | 7.82% | 1.64% | 4.18% | 7.43% | 4.61% | 4.73% |
| Europe | 3.50% | 11.45% | 2.64% | 22.94% | -17.86% | 13.54% | 7.89% | -0.89% | 4.96% | 7.73% | 4.60% | 4.14% |
| Japan | -1.36% | 0.19% | 8.31% | 20.32% | -16.65% | 1.71% | 14.48% | 0.61% | 5.27% | 7.38% | 5.47% | 4.30% |
| China | 11.76% | 12.79% | 19.42% | -11.20% | -21.93% | -21.72% | 29.49% | 28.32% | -4.11% | -2.76% | 1.35% | 7.10% |
| Emerging Markets | 0.48% | 2.28% | 7.50% | 9.83% | -20.09% | -2.54% | 18.31% | 9.15% | -0.31% | 3.92% | 3.31% | 5.59% |
| All Country World (ACWI) | -0.60% | 2.73% | 17.49% | 22.20% | -18.36% | 18.54% | 16.25% | 14.47% | 8.63% | 12.61% | 8.96% | 7.64% |
| ACWI ex US | 1.39% | 5.47% | 5.53% | 15.62% | -16.00% | 7.82% | 10.65% | 4.74% | 2.93% | 6.63% | 4.34% | 4.84% |

| US Fixed Income | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bloomberg Index** | **February** | **2025** | **2024** | **2023** | **2022** | **2021** | **2020** | **1-Year** | **3-Year** | **5-Year** | **10-Year** | **20-Year** |
| Aggregate | 2.20% | 2.74% | 1.25% | 5.53% | -13.01% | -1.54% | 7.51% | 3.57% | -1.40% | -1.09% | 1.25% | 3.04% |
| Treasury Bills | 0.33% | 0.70% | 5.32% | 5.14% | 1.52% | 0.04% | 0.54% | 5.30% | 4.20% | 2.52% | 1.78% | 1.61% |
| Corporates | 2.04% | 2.60% | 2.13% | 8.52% | -15.76% | -1.04% | 9.89% | 4.62% | -0.50% | -0.44% | 2.26% | 3.99% |
| Securitized MBS/ABS/CMBS | 2.47% | 3.00% | 1.45% | 5.08% | -11.67% | -1.04% | 4.18% | 4.13% | -1.24% | -1.00% | 0.94% | |
| High Yield | 0.67% | 2.05% | 8.19% | 13.45% | -11.19% | 5.28% | 7.11% | 9.47% | 4.47% | 4.66% | 4.93% | 6.42% |
| Munis | 0.99% | 1.50% | 1.05% | 6.40% | -8.53% | 1.52% | 5.21% | 1.72% | 0.52% | 0.39% | 2.21% | 3.48% |

| US Equity Sectors | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Index** | **February** | **2025** | **2024** | **2023** | **2022** | **2021** | **2020** | **1-Year** | **3-Year** | **5-Year** | **10-Year** | **20-Year** |
| Technology | -1.33% | -4.19% | 36.61% | 57.84% | -28.19% | 34.52% | 43.88% | 28.78% | 21.73% | 26.40% | 22.24% | 15.85% |
| Real Estate | 4.23% | 6.14% | 5.23% | 12.35% | -26.13% | 46.20% | -2.17% | 9.23% | 0.13% | 5.82% | 5.81% | |
| Industrials | -1.43% | 3.52% | 17.30% | 18.08% | -5.51% | 21.10% | 11.05% | 12.49% | 12.17% | 14.79% | 10.68% | 9.41% |
| Energy | 3.97% | 6.13% | 5.72% | -1.42% | 65.43% | 54.39% | -33.68% | 3.42% | 11.18% | 19.02% | 5.04% | 6.17% |
| Consumer Discretionary | -9.37% | -5.38% | 30.14% | 42.30% | -37.03% | 24.43% | 33.30% | 29.37% | 10.99% | 16.32% | 13.24% | 11.68% |
| Communication Services | -6.29% | 2.26% | 40.23% | 55.80% | -39.89% | 21.57% | 23.61% | 32.15% | 15.49% | 16.43% | 10.78% | 9.25% |
| Consumer Staples | 5.70% | 7.85% | 14.87% | 0.52% | -0.62% | 18.63% | 10.75% | 12.73% | 6.01% | 10.68% | 8.23% | 9.57% |
| Utilities | 1.69% | 4.67% | 23.43% | -7.08% | 1.56% | 17.67% | 0.52% | 31.56% | 7.47% | 7.72% | 9.05% | 8.88% |
| Materials | -0.01% | 5.58% | -0.04% | 12.55% | -12.28% | 27.28% | 20.73% | -2.72% | 2.50% | 12.44% | 7.36% | 7.54% |
| Financials | 1.41% | 8.02% | 30.50% | 12.10% | -10.57% | 34.87% | -1.76% | 26.27% | 10.43% | 15.45% | 11.73% | 5.78% |
| Health Care | 1.49% | 8.38% | 2.58% | 2.06% | -1.95% | 26.13% | 13.45% | -4.19% | 3.81% | 10.44% | 8.69% | 9.97% |
| | | | | Calendar Year Returns | | | | | | Annualized Returns | | |

Source: Bloomberg.

## DISCLOSURES

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies pro- moted will be successful.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures the performance of those Russell 3000 com- panies with lower price-to-book ratios and lower forecasted growth values.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks. The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The MSCI EAFE Index consists of the following developed 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 UK.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The MSCI US Broad Market Index captures broad US equity coverage. The index includes 3,204 constituents across large, mid, small and micro capitalizations, representing about 99% of the US equity universe.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

## DISCLOSURES

The Bloomberg Barclays US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated invest- ment grade, and have $300 million or more of outstanding face value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The market value of corporate bonds will fluctuate, and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield.

Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.