Economic & Market Commentary
February 2025

Market Recap – February: Volatility is the New Norm

The stock market had a turbulent February as tariff rhetoric and DOGE spending cuts induced uncertainty at the consumer, business, and investor levels. These policies are seen by many in the administration as short-term pain for long-term benefits. However, the one thing that the market does not like is uncertainty, hence the volatility. The S&P 500 hit a new all-time high on February 19th, only to decline 1.3% on the month. In fact, at the time of this writing (March 4th), the index has given up all of its year-to-date gains, down 1.6% for 2025[1].

Year-to-date, the Dow Jones Industrial Average is up 1.1% outperforming the S&P 500 (down 1.6%) and the Tech-heavy NASDAQ composite (down 5.2%). An index tracking the "Magnificent Seven"[2] names was down 9.9%, practically in correction territory. Value stocks are outperforming growth stocks, breaking a trend of long-term trend of relative underperformance. Note there have been many periods in the past 15 years of bouts of value outperformance, only for investors to revert to growth stocks[3].

This current episode of selling the winners and buying the laggards was catalyzed by the potential impacts of high tariffs on large U.S. trading partners. The market seems to like all of President Trump's policies (tax cuts, deregulation, lower oil prices), save for the potential tariffs.

On the sector front, defensives shined, while value struggled, and growth sold off significantly. Healthcare and consumer staples were up 8.2%, and 6.8%, respectively, year-to-March 4th. The laggards were consumer discretionary and information technology sectors, which were down 8.3% and 7.1%, respectively, as investors took profits in last year's winners[4].

Key Interest Rates[5]	02/28/25	12/31/24	02/29/24
Federal Funds Target Rate	4.50%	4.50%	5.50%
3 Month T-Bill	4.29%	4.31%	5.38%
2-Year T-Note	3.99%	4.24%	4.68%
5-Year T-Note	4.02%	4.38%	4.25%
10-Year T-Note	4.21%	4.57%	4.25%
30-Year T-Note	4.49%	4.78%	4.38%

In the bond market, investors flocked into Treasuries and high-quality bonds. Both Treasury and investment grade corporate bonds across the full spectrum of maturity and credit quality advanced in price year-to-date with longer bonds rallying the

most. Interest rates across the yield curve fell. For example, the 10-year U.S. Treasury has gone from 4.8% in the middle of January to 4.2% at the beginning of March, meaning prices rallied. Treasuries outperformed corporate bonds in this period. For example, the iShares 10-20 Year Treasury Bond ETF (per proxy ETF ticker: TLH) advanced 5.00%, while the iShares 10+ Year Investment Grade Corporate Bond ETF (per proxy ETF ticker: IGLB) rallied 3.84%[6].

Overall, the bond market is having a good start to the year with a resumption of the typical negative correlation between stocks and bonds continuing in February and March so far. This is a good development to see for portfolio hedging and diversification purposes as it displays a normalization of market behavior (i.e. bonds providing portfolio defense during periods of stock market turmoil).

The Economy

Market participants are questioning whether Trump 2.0 might depress the economy before stimulating it due to higher tariffs, deportations, and federal job cuts occurring before tax cuts, deregulation, and lower energy prices. It worth noting that Trump 1.0 started with tax cuts before tariffs and his first year in office (2017) was a great year for the economy and market, while his second year (2018) was lackluster. However, the U.S economy started the year with strong momentum which could take time to reverse.

Nonetheless, spending cuts and tariff policies this time around are having negative impacts on consumer and business confidence per a variety of established surveys. For example, the freeze on federal hiring and layoffs could result in weakness in the labor market. This is the case as government, state, and local hirings have been the key drivers of overall job growth in the economy post-COVID.

Undoubtedly, cuts in federal spending will bring efficiencies longer term. However, in the short term, they are negative for economic growth. Figure-1[7] to the right shows how much of recent job growth is attributed to governmental, education, and healthcare jobs. Roughly 85% of all jobs added in the last couple of years have been in these three sectors, which are major targets for cost-cutting.

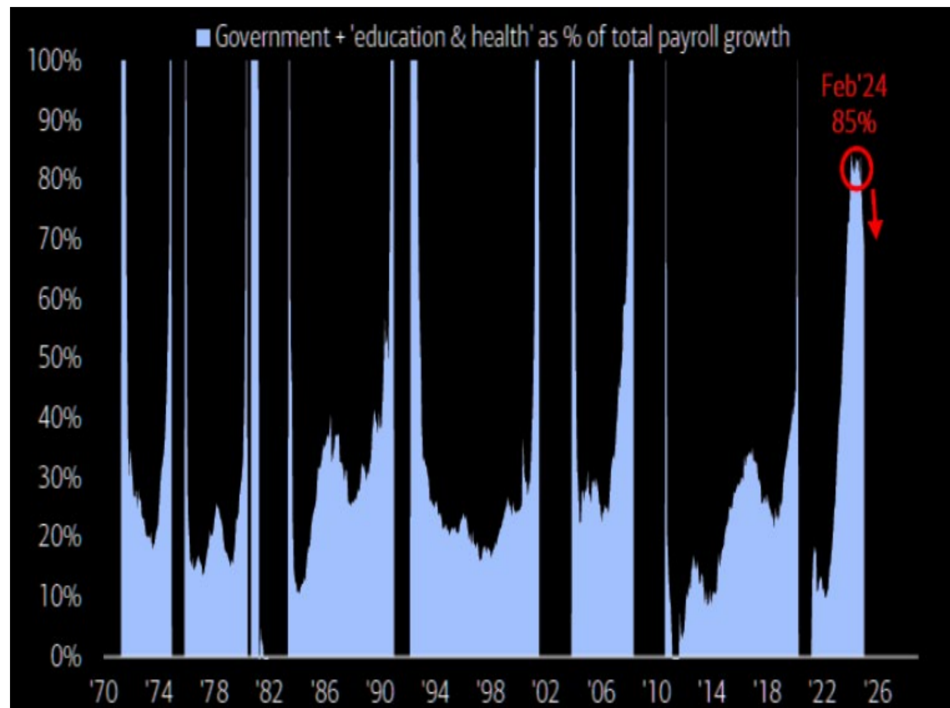

Figure 1 - Cutting Federal Spending Have Negative Impacts on the US Economy, at Least in the Short Term

On tariffs, there are costs associated with changing trade policy. The pressing question is how big the short-term pain will be, and the answer to this question is uncertain due to fluctuations in tariff policy. If they are removed tomorrow or later this month, then the impact could be small. If they continue for months, then the negative impacts on the economy could be more significant. The impact will be greatest on the U.S. auto sector as its supply chain is intertwined between many countries. This is why, at the time of writing, the President exempted automakers from tariffs for a month after pleas from industry leaders, thereby leaving the negotiating table open.

The biggest risk to the market is deteriorating consumer and business sentiments, which tend to be leading indicators for future economic growth. If policy uncertainty continues, consumer spending and business investment could decline, and the job market weaken. In fact, we are already seeing this in the economic data. Figure 2[8] below shows how many consumers expect fewer jobs available in the next six months. Higher values indicate fewer available jobs expectations. You can see the impacts of tariff rhetoric on consumer sentiment in the recent spike highlighted by the red oval.

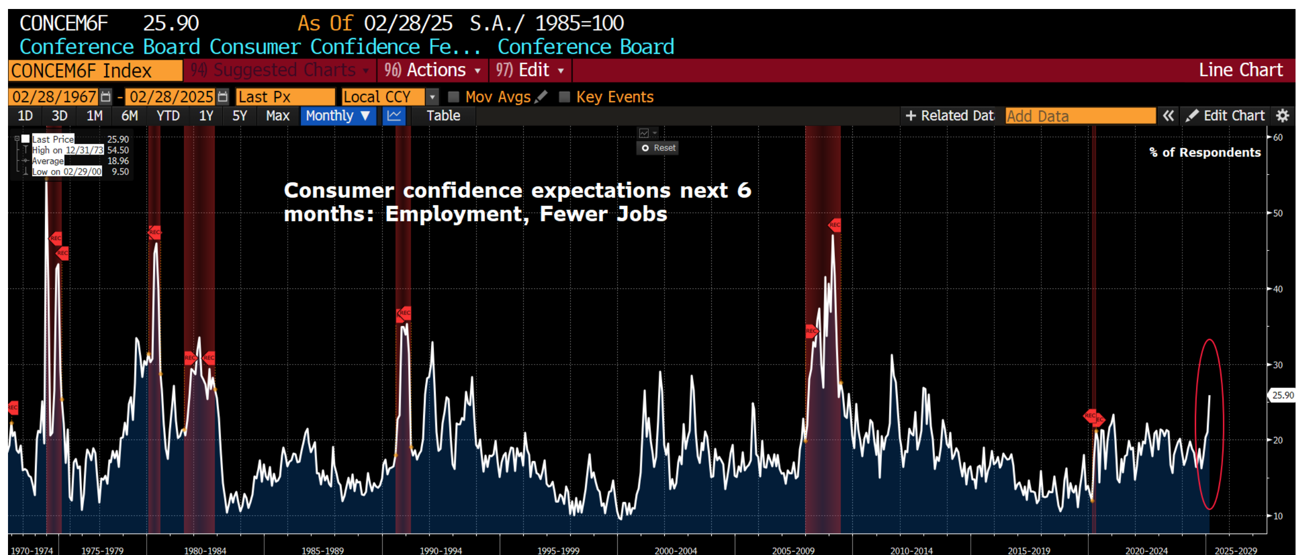

Figure 2 - Consumers expecting fewer jobs to be available going forward

Likewise, Figure 3[9] below shows how many consumers are planning vacations in the next 6 months. While only an additional data point, it clearly highlights the change in consumer expectations.

Nonetheless, in our assessment, the administration will reassess whether its policies appear to be leading us towards a major slowdown. In addition, the Fed is likely to be supportive if it sees unemployment deteriorating, increasing the pace of rate cuts.

Overall, while there are some weak spots in the economy, we still see the current worries as temporary. The U.S. economy sits on a solid foundation, with a strong labor market, resilient consumer, and excellent household and corporate balance sheets. Wage growth is still above inflation, boosting personal income. The prospects of deregulation and tax cuts are boosting CEO confidence, albeit tariffs are not. These factors are major tailwinds for the economic cycle to continue to expand.

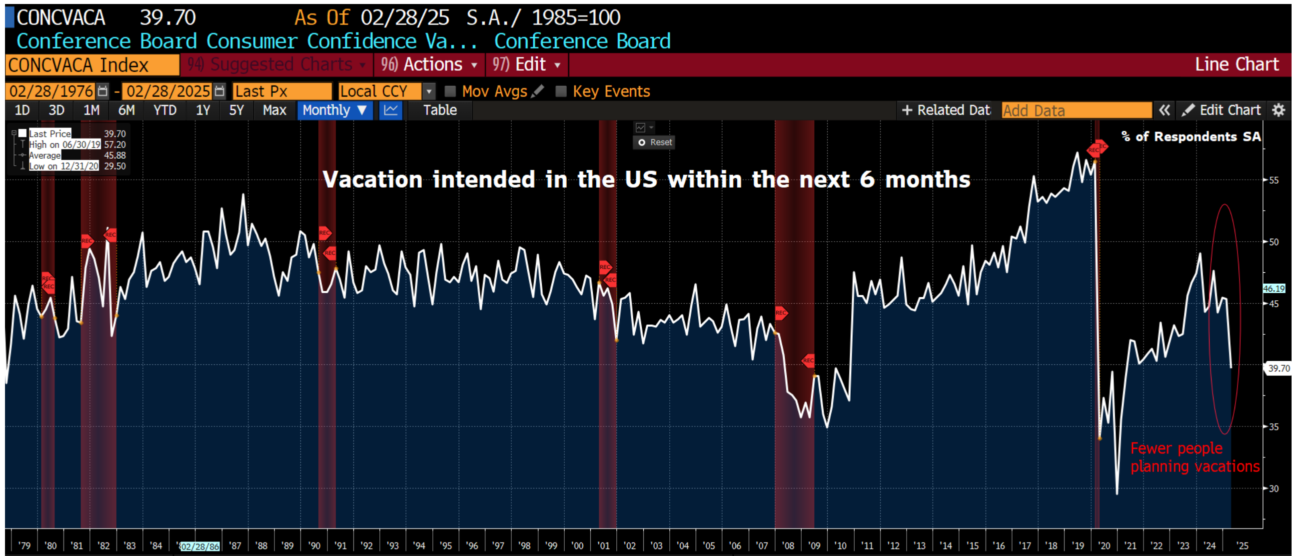

Figure 3 - Tarriff Headlines and DOGE layoffs are negatively impacting consumer sentiment

Equity Market

U.S. stocks prices have pulled back and valuations have declined to more reasonable levels. Table-1[10] below shows the extent of the current sell-off as of market's close on March 4th, 2025. Even though the indices are down only by a single digit, the average stock in the S&P 500 is actually in a correction (-12%), while the average stock in the NASDAQ (-29%) and Russell 2000 (22%) are in a bear market.

Table 1 - Index and Average Member Decline from High to Low

Major indexes and maximum drawdowns				
Index	YTD return	Index return from YTD low	Index maximum drawdown from YTD high	Average member maximum drawdown from YTD high
S&P 500	-2%	0%	-6%	-12%
NASDAQ	-5%	0%	-9%	-29%
Russell 2000	-7%	0%	-10%	-22%
Dow Jones	0%	1%	-5%	-10%

Source: Charles Schwab, Bloomberg, as of 3/4/2025. Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. Past performance is no guarantee of future results. Some members excluded from year-to-date return columns given additions to indices were after January 2025. "N/A" indicates index has fallen beneath either its YTD or 52w low.

Technicals:

Using technical indicators to guide asset allocation adds value. The following indicator looks at how much the price of a security is trading above or below the 50-day moving average of its prices and compares that to its history (blue line). This is an additional guide for assisting in determining the direction of the market. As you can see from the chart[11] below, the market is trading in oversold territory that is normally associated with a reversal higher in the next few months.

S&P 500 INDEX % from its 50 Day MA

Percentage Index is Trading from its 50-Day Moving Average

30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%

S&P 500 Price Level (Logarithmic Scale)

4000.00
2000.00
1000.00

Jan-20 Apr-20 Jul-20 Oct-20 Jan-21 Apr-21 Jul-21 Oct-21 Jan-22 Apr-22 Jul-22 Oct-22 Jan-23 Apr-23 Jul-23 Oct-23 Jan-24 Apr-24 Jul-24 Oct-24 Jan-25 Apr-25

% from 50-Day MA
Avg - 1.5* Std
Avg - 1* Std
Avg + 1* Std
Avg + 1.5* Std
Price (Right Axis)

Source: Westminster Financial Advisory
Raw Data Source: Standard & Poor's, Bloomberg
As of 03/05/2025

Figure 2 - Current Pullback Offers an Opportunity to Build Portfolios for Long-Term Time Horizon

Fundamentals:

S&P 500 profit growth is still expected to be above 10% in both 2025 and 2026 per the analyst community, with next three quarters delivering sequentially higher growth (Figure-5[12]). This is a major driver that should underpin the bull market. Both the "Magnificent Seven" and the rest of the market are expected to grow earnings at a healthy double-digit clip.

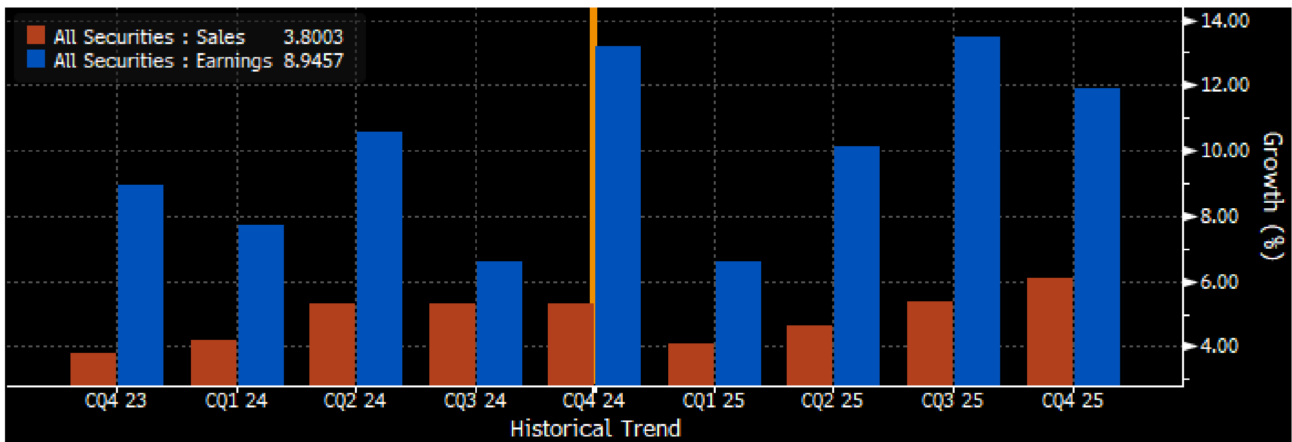

Figure 3 - Solid Earnings Growth Should Continue to Underpin the Bull Market in Stocks

Conclusion

Our base case, as highlighted above, is for the economy to grow despite the numerous headwinds. Hence, profits should increase. Stock prices follow profit growth, so the bull market should continue. Therefore, we see the current weakness in the market as a buying opportunity for long-term investors. However, elevated volatility will be with us until the tariff issues get resolved. In our assessment, the market is likely to remain volatile through mid-year before resuming its climb higher on better economic-data and profit growth during the second half of the year.

The major positive driver, once again, is profitability. S&P 500 companies' earnings growth beat analysts' expectations during all four quarters of 2024, and this is likely to continue in 2025. The fourth quarter of 2024 earnings reporting season is almost over, and at the start, analysts expected an 8% year-over-year gain. It is likely to be closer to 14%! Stay diversified with exposure to both defensive and cyclical sectors, while overweighting cyclicals in your portfolio, especially after the recent selloff. Take advantage of sell-offs in this consolidation phase.

As always, please contact us with any questions or needs.

The Westminster Financial Investment Policy Committee

Resources:

[1] Total return figures through Bloomberg
[2] Magnificent Seven: Apple, Microsoft, Alphabet, Meta, Nvidia, Amazon, and Tesla
[3] Total return figures through Bloomberg
[4] Total return figures through Bloomberg
[5] US Treasury Department and Bloomberg
[6] Total return figures through Bloomberg
[7] Bank of America
[8] Conference Board
[9] Conference Board
[10] Charles Schwab and Bloomberg
[11] Westminster Financial Advisory, Standard & Poor's, & Bloomberg
[12] Bloomberg Analyst Earnings Estimates

Past performance is no guarantee of future results. Historical performance figures for the indices are for illustrative purposes only and are not indicative of any actual investment. Indices are unmanaged and an investor cannot invest directly in an index. The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, Westminster Financial Companies, Inc. is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code, or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

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