

TALKING POINTS

Data through February 2025

Climate

Deteriorating economic data, persistent geopolitical tensions, and declining consumption were just a few of the major contributors to the overall investment climate in February. Inflation, as measured by the trailing 12-month rate of change in the Consumer Price Index (CPI) increased to 3.0% in January 2025, up from its recent low of 2.4% set in September 2024. Disinflation's reversal resulted in steep adjustments to implied year-end interest rates in 2025. At the close of February, the futures market implied that the federal funds rate would settle at 3.64% following the Federal Reserve's final meeting in 2025. For comparison, in September 2024 the same market had implied a year-end federal funds rate of 2.95%. This upward adjustment to implied interest rates posed significant headwinds to U.S. equities in February. Notably, each of the U.S. equity indices we track suffered declines during the month (see "Total Return Performance" to the right). Persistently high prices appear to be taking their toll on U.S. households. Data from the Bureau of Economic Analysis revealed that consumer spending, as measured by personal consumption expenditures, decreased by 0.2% in January 2025, the metric's largest monthly decline since February 2021. Transition rates into serious delinquency (90 days + past due) are also rising. Serious delinquencies increased among auto loans and credit cards in Q4'24, and now stand above their pre-pandemic levels.

Stock Market

The S&P 500 Index ("Index") closed at 5,954.50 on 2/28/25, representing a price-only decline of 3.09% from its all-time high of 6,144.15 set on 2/19/25, according to data from Bloomberg. The S&P MidCap 400 and S&P SmallCap 600 Indices stood 8.70% and 11.71%, respectively, below their all-time highs which were set on 11/25/24. In February, the Index posted a total return of -1.30%. Six of the 11 major sectors that comprise the Index registered positive total returns for the month. The top-performer was Consumer Staples, up 5.70% while the worst showing came from the Consumer Discretionary sector, which declined by 9.37%. The S&P MidCap 400 and S&P SmallCap 600 Indices decreased by 4.35% and 5.72% on a total return basis, respectively, in February. At month's end, 484 of the 503 companies (96.2%) that comprise the Index had reported earnings results for Q4'24, and the outcome has been favorable. Data from FactSet revealed that the Index's Q4'24 blended, year-over-year (y-o-y) earnings growth rate stood at 18.2% on 2/28/25, marking the highest observation for the metric since Q4'21. Estimates point to earnings increasing in the years to come as well. As of 2/28/25, analysts estimated that the Index's total earnings per share would increase from \$242.97 in 2024, to \$271.24 and \$309.09 in 2025 and 2026, respectively. That said, these are estimates and are subject to change as new information is made available. We opened this section by noting that the Large, Mid and Small Cap Indices each declined in February. As we see it, investors may be reacting to weaker than expected economic data at the start of the year. Will deteriorating economic sentiment impact analysts calculations? We intend to watch earnings estimates closely for adjustments in coming months.

Bond Market

The yield on the benchmark 10-year Treasury note (T-note) stood at 4.21% at the close of trading on 2/28/25, representing a decline of just four basis points (bps) from its 4.25% close on 2/29/24, according to data from Bloomberg. The 4.21% yield stood 169 bps above its 2.52% average for the 10-year period ended 2/28/25 and 78 bps below its most recent high of 4.99% set on 10/19/23. The yield on the 2-year T-note stood at 3.99% on 2/28/25, down 63 bps from when it stood at 4.62% on 2/29/24. February marks six months since the yield between the 10-year and 2-year T-notes disinverted. Each of the U.S. fixed income asset classes we track posted positive total returns last month (see "Bloomberg Fixed Income" to the right). Each asset class also posted positive total returns over the trailing 12-month period. As many investors are likely aware, bond yields (especially short-term bonds) are sensitive to changes in the federal funds target rate. Despite waning rate cut expectations (see "Climate" section), investors still anticipate that interest rates will decline throughout 2025. As we see it, bond buyers may be utilizing fixed income securities for a few reasons: first, they could be locking in higher yields while they are available. Second, fixed income is often seen as a haven during periods of heightened economic volatility and geopolitical tension, which both appear elevated today.

Takeaway

The market implied probability that the Fed will cut its benchmark rate in March fell to just 6.5% on 2/28/25, down from 46.3% on 12/31/24. We see a myriad of factors contributing to eroding rate cut expectations, with resurgent inflation being chief among them. Inflation, as measured by the 12-month rate of change in the CPI, increased by 3.0% in January 2025, up from its most recent low of 2.4% in September 2024. Additional hurdles investors must contend with include rising geopolitical tensions, wars, and the impact of recently implemented tariffs on domestic prices. These factors appear to be influencing investor behavior, with market breadth increasing substantially as stockholders diversify portfolios. Year-to-date thru February, 283 of the 503 companies that comprise the Index outperformed the broader benchmark on a price only basis. For comparison, just 188 constituents outperformed the Index over the same period last year. Declining consumer spending sent consumer discretionary stocks into a tailspin, with the sector shedding 9.37% (total return) in February. Forecasted gross domestic product for Q1'25 turned sharply negative on the news. The Federal Reserve Bank of Atlanta's "GDP Now" stood at -2.8% on 3/3/25, down from +2.3% on 2/19/25. As revealed in the "Key Interest Rates/Yields" section to the right, fixed income securities surged in February, with yields declining across the board.

Sources: Bloomberg and Investment Company Institute

Past performance is no guarantee of future results. Historical performance figures for the indices are for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and an investor cannot invest directly in an index.

Open-End Net Fund Flows (\$)

	1/25	12/24	YTD (Jan)
Equity	-61.5B	-93.9B	-61.5B
Taxable Bond	4.7B	8.6B	4.7B
Municipal Bond	3.7B	-2.0B	3.7B
Hybrid	-8.7B	-10.1B	-8.7B
Taxable Money Market	21.4B	126.4B	21.4B

Key Interest Rates/Yields

	2/28/25	1/31/25	2/29/24
Federal Funds Target Rate	4.50%	4.50%	5.50%
2-Year T-Note	3.99%	4.20%	4.62%
5-Year T-Note	4.02%	4.33%	4.25%
10-Year T-Note	4.21%	4.54%	4.25%
Bond Buyer 40	4.37%	4.45%	4.36%

Commodities/U.S. Dollar

	2/25	YTD	12 Mo.
U.S. Dollar Index (DXY)	-0.70%	-0.80%	3.32%
FTSE/CC CRB Excess Ret.	-1.02%	1.72%	9.73%
Crude Oil/WTI (per Barrel)	-3.82%	-2.73%	-10.86%
Natural Gas (per million BTUs)	25.95%	5.53%	106.13%
Gold Bullion (Ounce)	2.12%	8.89%	39.80%

S&P 500 Full-Year Earnings Estimates

	2024	2025	2026
2/28/25	242.97	271.24	309.09
1/31/25	240.38	272.65	309.94
12/31/24	240.24	274.12	311.10

Total Return Performance

U.S. Stock Indices	2/25	YTD	12 Mo.
S&P 500	-1.30%	1.44%	18.38%
DJIA	-1.39%	3.32%	14.41%
Nasdaq 100	-2.69%	-0.50%	16.63%
S&P MidCap 400	-4.35%	-0.67%	8.66%
Russell 2000	-5.35%	-2.87%	6.68%
Russell 3000	-1.92%	1.18%	17.52%

U.S. Styles/Market Caps

	2/25	YTD	12 Mo.
S&P 500 Growth	-2.91%	-0.31%	22.82%
S&P 500 Value	0.43%	3.33%	12.25%
S&P MidCap 400 Growth	-5.58%	-2.04%	3.89%
S&P MidCap 400 Value	-3.04%	0.79%	13.94%
Russell 2000 Growth	-6.77%	-3.82%	5.81%
Russell 2000 Value	-3.83%	-1.85%	7.56%

Foreign Stock Indices (USD)

	2/25	YTD	12 Mo.
MSCI World NET (Ex-U.S.)	1.76%	6.82%	9.49%
MSCI Emerging Markets NET	0.48%	2.28%	10.07%
MSCI Europe NET	3.67%	10.81%	11.20%
MSCI BRIC NET	3.07%	3.21%	14.21%
MSCI EM Latin America NET	-1.83%	7.51%	-16.73%
Nikkei 225	-3.30%	-2.60%	-3.71%

Bloomberg Fixed Income Indices

	2/25	YTD	12 Mo.
U.S. Treasury: Intermediate	1.41%	1.96%	5.32%
GNMA 30 Year	2.42%	3.00%	6.20%
Municipal Bond (22+)	0.98%	1.06%	3.24%
U.S. Aggregate	2.20%	2.74%	5.81%
Intermediate Corporate	1.37%	2.00%	7.05%
U.S. Corporate High Yield	0.67%	2.05%	10.09%
Global Aggregate	1.43%	2.01%	2.98%
EM Hard Currency Aggregate	1.55%	2.56%	8.87%

HIGH/LOW SNAPSHOT

Data through February 2025

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	6144.15	2/19/2025	1829.08	2/11/2016	5954.50	-3.09%	1.44%	1.27%
S&P 500 Growth	4303.17	2/19/2025	1035.44	2/11/2016	4078.81	-5.21%	-0.31%	0.65%
S&P 500 Value	2027.49	11/29/2024	788.67	2/11/2016	1942.92	-4.17%	3.33%	1.92%
S&P MidCap 400	3390.26	11/25/2024	1218.55	3/23/2020	3095.15	-8.70%	-0.67%	1.53%
S&P MidCap 400 Growth	1610.10	11/25/2024	574.06	2/11/2016	1444.50	-10.29%	-2.04%	0.89%
S&P MidCap 400 Value	1083.78	11/25/2024	373.28	3/23/2020	1007.67	-7.02%	0.79%	2.19%
S&P 100	3003.15	2/19/2025	819.58	8/25/2015	2901.77	-3.38%	0.60%	1.17%
DJIA	45014.04	12/4/2024	15660.18	2/11/2016	43840.91	-2.61%	3.32%	1.61%
Nasdaq 100	22175.60	2/19/2025	3947.80	2/9/2016	20884.41	-5.82%	-0.50%	0.75%
Russell 2000	2442.74	11/8/2021	953.72	2/11/2016	2163.07	-11.45%	-2.87%	1.43%
Russell 2000 Growth	1709.62	2/9/2021	573.10	2/11/2016	1412.91	-17.36%	-3.82%	0.63%
Russell 2000 Value	2715.42	11/25/2024	1067.63	3/23/2020	2415.46	-11.05%	-1.85%	2.27%
Russell 3000	3509.12	2/19/2025	1067.34	2/11/2016	3389.87	-3.40%	1.18%	1.27%
MSCI World Net (ex U.S.) (USD)	9022.32	9/27/2024	4189.62	2/11/2016	8800.98	-2.45%	6.82%	2.94%
MSCI Emerging Markets Net (USD)	699.23	2/17/2021	296.25	1/21/2016	586.97	-16.05%	2.28%	2.75%
Bovespa/Brazil (USD)	29488.46	1/2/2020	9077.09	1/21/2016	20996.68	-28.80%	8.09%	7.45%
RTS/Russia (USD)	1919.58	10/25/2021	628.41	1/20/2016	N/A	N/A	N/A	N/A
S&P BSE 500/India (USD)	461.76	9/26/2024	129.66	3/23/2020	358.01	-22.47%	-12.75%	1.31%
Shanghai Composite/China (USD)	832.07	6/12/2015	358.39	10/18/2018	456.42	-45.15%	-0.28%	3.03%
KOSPI/South Korea (USD)	2.93	6/16/2021	1.16	3/19/2020	1.74	-40.81%	6.99%	2.10%
Hang Seng (USD)	4241.01	1/26/2018	1871.10	10/31/2022	2949.70	-30.45%	14.64%	3.66%
MSCI Euro (USD)	1850.67	2/26/2025	865.50	3/18/2020	1814.13	-1.97%	11.89%	2.98%
S&P 500 Consumer Discretionary	1959.72	12/17/2024	543.54	2/11/2016	1731.52	-11.64%	-5.38%	0.68%
S&P 500 Consumer Staples	923.24	2/25/2025	467.66	8/25/2015	918.34	-0.53%	7.85%	2.33%
S&P 500 Energy	749.39	4/5/2024	179.94	3/18/2020	689.88	-7.94%	6.13%	3.26%
S&P 500 Utilities	419.01	11/26/2024	206.51	9/4/2015	400.57	-4.40%	4.67%	2.91%
S&P 500 Financials	867.06	2/18/2025	264.89	2/11/2016	866.84	-0.03%	8.02%	1.42%
S&P 500 Banks	529.64	2/6/2025	180.19	2/11/2016	508.95	-3.91%	8.44%	2.37%
FTSE NAREIT All Equity REITs	980.08	12/31/2021	483.48	3/23/2020	803.89	-17.98%	5.23%	3.77%
S&P 500 Health Care	1829.71	8/30/2024	732.99	2/11/2016	1734.28	-5.22%	8.38%	1.64%
S&P 500 Pharmaceuticals	1216.04	8/30/2024	539.37	9/28/2015	1147.12	-5.67%	10.28%	2.33%
NYSE Arca Biotechnology	6319.77	2/8/2021	2642.53	2/11/2016	6071.25	-3.93%	5.70%	0.24%
S&P 500 Information Technology	4780.84	12/26/2024	626.12	8/25/2015	4411.29	-7.73%	-4.19%	0.63%
Philadelphia Semiconductor	5904.54	7/10/2024	559.18	2/11/2016	4766.75	-19.27%	-4.19%	0.98%
S&P 500 Communication Services	377.61	2/4/2025	130.86	12/24/2018	348.89	-7.61%	2.26%	0.83%
S&P 500 Industrials	1214.04	11/29/2024	412.06	3/23/2020	1152.54	-5.07%	3.52%	1.46%
S&P 500 Materials	616.97	10/18/2024	234.97	1/25/2016	558.18	-9.53%	5.58%	1.91%
Philadelphia Gold & Silver	175.74	10/22/2024	38.84	1/19/2016	155.32	-11.62%	13.37%	1.36%
FTSE/CC CRB Excess Return	329.59	6/9/2022	106.29	4/21/2020	301.83	-8.42%	1.72%	N/A
ICE BofA Perpetual Preferred	331.82	10/16/2024	213.71	3/9/2015	326.94	-1.47%	1.70%	6.54%
ICE BofA U.S. High Yield Constrained	580.53	2/28/2025	313.74	2/11/2016	580.53	0.00%	2.04%	7.39%

Source: Bloomberg

Past performance is no guarantee of future results. Historical performance figures for the indices are for illustrative purposes only and 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, First Trust 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.