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Policy

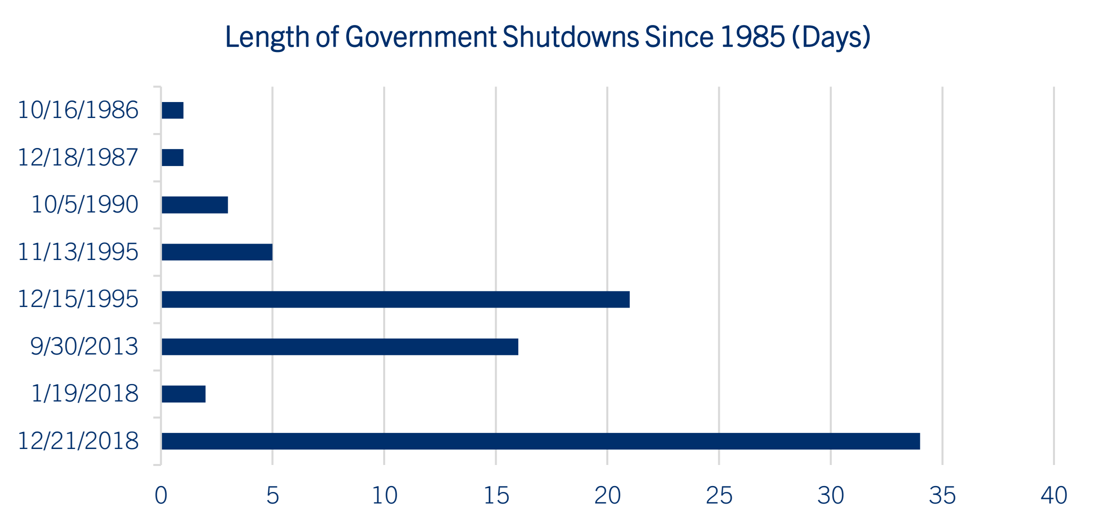
Tariff Whirlwinds

Tariffs on Mexico and Canada delayed another month.

- After a one-month delay, President Trump implemented 25% tariffs on Mexican and Canadian goods in early March but later granted exemptions for products complying with the USMCA until April 2. Mexico and Canada are some of the largest imports to the U.S. and represented nearly $1 trillion of goods in 2023.
- Trump also increased tariffs on Chinese goods from 10% to 20%, with no exemptions. This highlights a distinction between tariffs on China and those on other trading partners, as China did not follow through on the 2020 trade deal and Trump believes Chinese tariffs do not impact U.S. inflation.
- Congress has until March 15th to reach an agreement on spending or risk a federal government shutdown. The last government shutdown occurred in 2018 and lasted 34 days. A shutdown of a similar length would be projected to reduce first quarter GDP by 0.4% but may boost second quarter GDP by a similar amount.
- The U.S. hit the debt ceiling in January, preventing new debt issuance. As a result, the Treasury is now drawing down its Treasury General Account (TGA), which acts like quantitative easing, injecting funds held outside the banking system into the banking system until April tax revenues begin to refill the TGA. This liquidity leads to lower bond yields and a weaker dollar and provides a cushion for potential policy uncertainty.

Trading Partner	Imports ($Millions)
Mexico	475,607
China	427,229
Canada	421,096
Germany	159,720
Japan	147,340
South Korea	116,235
Vietnam	114,439
India	83,768
Ireland	82,290

Source: Bloomberg L.P.



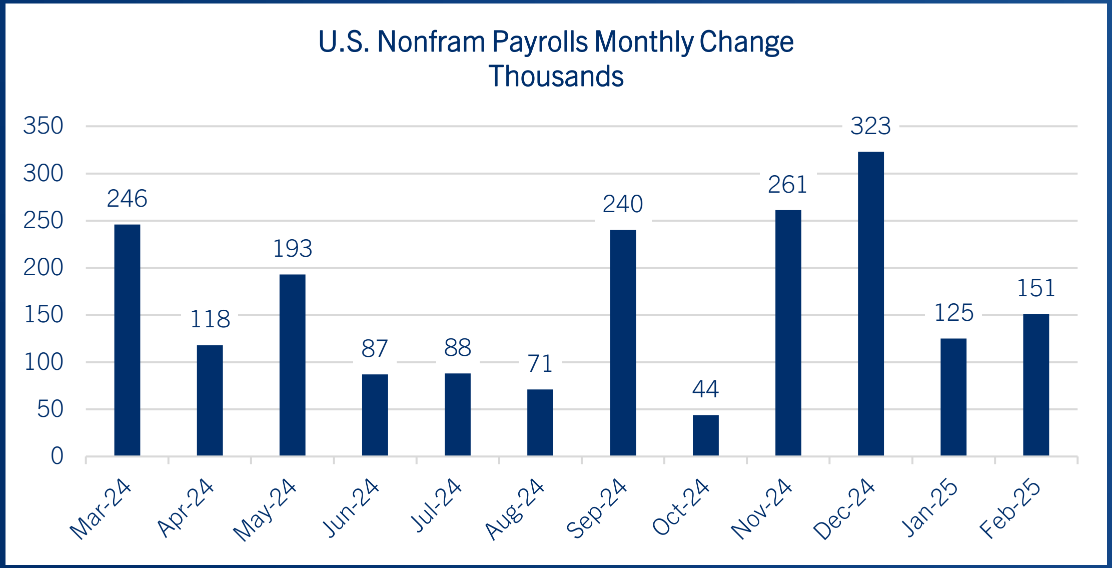
Source: U.S. House of Representatives

Economy

Softening Economic Data

U.S. economy likely entering late-cycle phase.

- Softer U.S. economic data has emerged in the past several weeks – manufacturing production, retail sales, housing, consumer sentiment and employment data. Coupled with a modest sell-off in U.S. equities, the data is suggesting that the U.S. economy has entered a late-cycle phase.
- The Labor Department reported that the U.S. economy added 151,000 jobs in February, coming in lower than the consensus estimate. The unemployment rate ticked up slightly to 4.1% from 4.0% in January.
- The FOMC meets later this month after keeping rates steady during their January meeting. Fed Chairman Jerome Powell signaled that they are in no hurry to make further cuts. Indeed, the Fed now appears focused on inflation risks from rising goods prices, both from tariffs and the avian flu affecting agricultural goods.
- Comerica Chief Economist Bill Adams expects the combination of tariff uncertainty, federal government jobs cuts and economic fallout from the L.A. wildfires and bad winter weather to slow the economy in the near term and has revised his GDP forecast lower to reflect these conditions.



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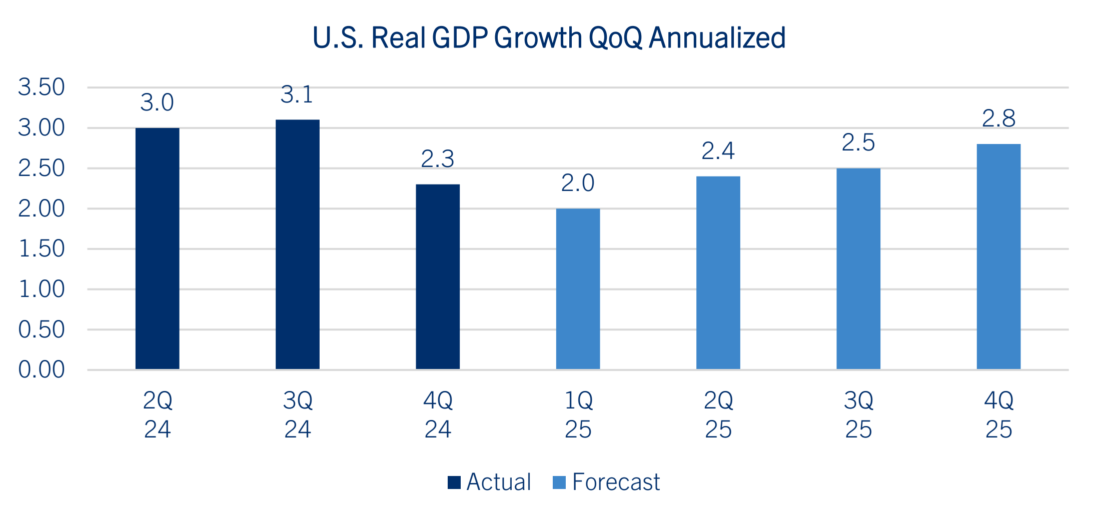


Source: Comerica Bank Economics

Fixed Income

Excess Liquidity Drives Yields Lower

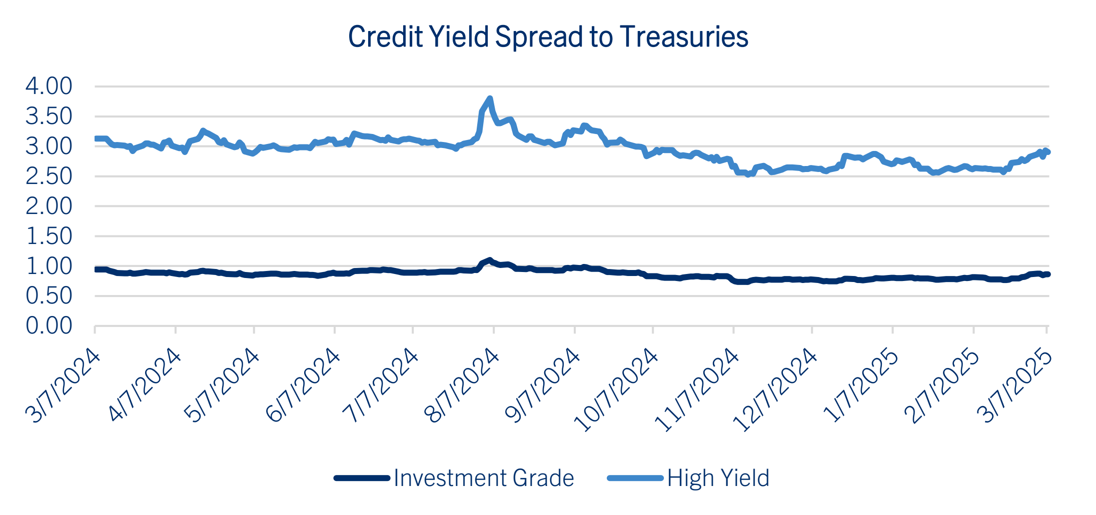
Market Returns as of 2/28/2025

- Excess liquidity flowed into the financial system in February, loosening financial conditions and driving bond yields lower. The excess liquidity resulted from the U.S. hitting its debt ceiling, meaning Treasury can issue no net debt until Congress raises the debt ceiling. To pay its bills, Treasury is moving money from its General Account (TGA), which sits outside the banking system, into the banking system.
- All major fixed income benchmarks produced positive total returns for the month, as falling yields buoyed bond markets. The Bloomberg U.S. Aggregate index returned 2.2% during the month.
- Long-dated U.S. Treasuries were the top performers in February, returning 5.2% for the month as duration was rewarded.
- Strong corporate fundamentals helped investment grade spreads remain contained and global investment grade credit markets also rose 2.0% over February. High-yield credit did not fare as well as its shorter duration and a sharp widening of high-yield spreads equated to a relative under-performance of 0.6% for the month.
- Indeed, high-yield spreads to Treasuries widened 40 basis points over the course of two weeks. The widening spreads reflect fears of a U.S. growth slowdown, nevertheless, high-yield spreads are still low by historical standards, at around 300 bps. This is a level that’s well below that which typically accelerates credit contraction, but spreads are now moving fast.

Fixed Income

	Yield	Feb %	QTD %	YTD %	1YR %
Aggregate Index	4.58	2.20	2.74	2.74	5.40
Treasuries (1-10 yrs)	4.04	1.41	1.96	1.96	4.99
Treasuries (10+ yrs)	4.53	5.18	5.61	5.61	2.79
Corp - Inv Grade	5.08	2.04	2.60	2.60	6.14
Corp - High Yield	7.15	0.67	2.05	2.05	9.89
MBS Pass-through	4.85	2.55	3.07	3.07	6.08
TIPS	4.28	2.18	3.50	3.50	5.96
Muni - Inv Grade	3.55	0.99	1.50	1.50	2.95
Muni - High Yield	5.43	1.25	2.02	2.02	8.05
USD Emg Mkts Debt	6.41	1.62	2.70	2.70	9.38

Source: Bloomberg L.P.



Source: Bloomberg L.P.

Equities

Sector Rotation Picks Up Steam

Market Performance as of 2/28/2025

- Concerns of sticky inflation, weakening consumer sentiment and uncertainty around U.S. political policies weighed on stocks in the month. The S&P 500 index fell 1.3% in February, while the tech-heavy Nasdaq Composite dropped 3.9%.
- Small cap (-5.4%) and growth (-3.7%) stocks were the hardest hit during the month, while value stocks (+0.2%) were able to eke out a gain in February.
- There was continued evidence of sector rotation as Consumer Staples (+5.7%), Real Estate (+4.2%) and Energy (+4.0%) were the top performers. While Consumer Discretionary (-9.4%), Communication Services (-6.3%) and Technology (-1.3%) were the laggards.
- International equities continue to outperform domestic stocks this year. The developed-market MSCI EAFE index produced a 2.0% return in February, while the MSCI Emerging Markets Index also produce a positive return of 0.5% for the month.
- International equities tend to outperform domestic peers when investors favor financials over tech stocks. While global tech has underperformed financials the last 12 months, the U.S. has maintained its lead, though this is typically unsustainable. Historically, sustained tech underperformance leads to U.S. underperformance, or a tech rebound that enables the U.S. to move back into pole position.

Equities

	Price	Feb %	QTD %	YTD %	1YR %
Dow Industrials	43,840.91	-1.39	3.32	3.32	14.14
S&P 500®	5,954.50	-1.30	1.44	1.44	17.43
Nasdaq Composite®	18,847.28	-3.91	-2.31	-2.31	16.63
Russell 2000®	2,163.07	-5.35	-2.87	-2.87	5.56
Russell 3000® Growth	3,102.48	-3.73	-1.79	-1.79	17.82
Russell 3000® Value	2,492.28	0.20	4.71	4.71	14.80
MSCI EAFE®	2,422.66	1.96	7.34	7.34	8.55
MSCI EM	1,097.25	0.50	2.31	2.31	10.18

Source: Bloomberg L.P.

S&P 500® Sectors

	Price	Feb %	QTD %	YTD %	1YR %
Communication Svcs.	348.89	-6.29	2.26	2.26	28.52
Cons Discretionary	1,731.52	-9.37	-5.38	-5.38	16.96
Cons Staples	918.34	5.70	7.85	7.85	19.29
Energy	689.88	3.97	6.13	6.13	7.85
Financial	866.84	1.41	8.02	8.02	31.62
Health Care	1,734.28	1.49	8.38	8.38	3.56
Industrials	1,152.54	-1.43	3.52	3.52	13.85
Info Tech	4,411.29	-1.33	-4.19	-4.19	16.37
Materials	558.18	-0.01	5.58	5.58	2.72
Real Estate	271.05	4.23	6.14	6.14	13.07
Utilities	400.57	1.69	4.67	4.67	32.63

Source: Bloomberg L.P.

Currencies & Commodities

Tariff Threats Create Price Dislocation

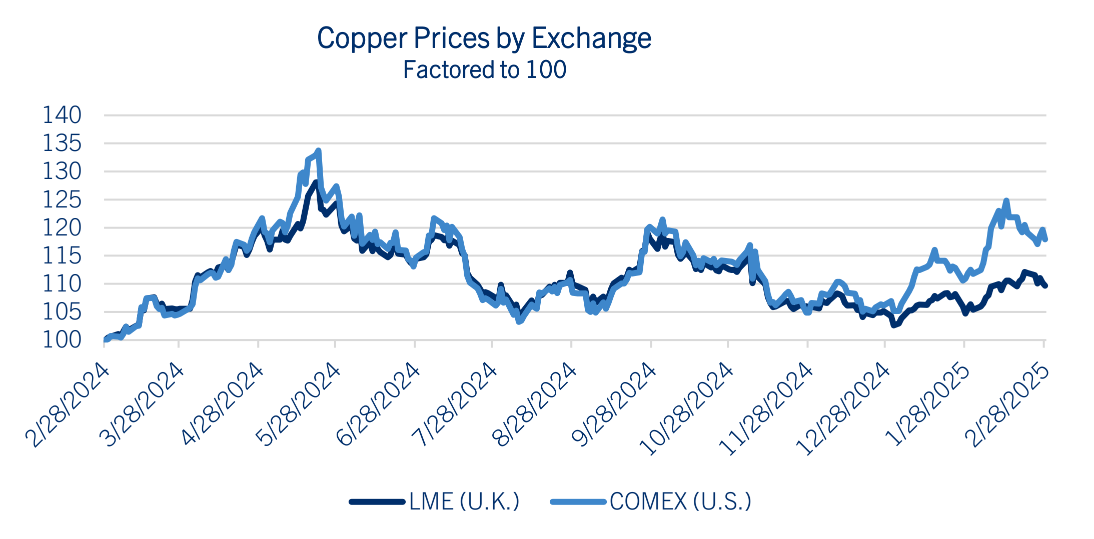
Market Performance as of 2/28/2025

- The broad dollar DXY Index fell by 0.7% over the month as lower yields reduced demand for dollar-denominated debt.
- Gold continued higher in February, rising 2.2% during the month. Gold demand from central banks remains strong. Despite record high gold prices, China continues to be a net buyer of gold increasing their gold reserves for the third consecutive month.
- Copper prices surged as traders priced in the impact of proposed tariffs on imports from Canada and Mexico. Copper has been trading notably higher on U.S. markets than on international exchanges reflecting the impact from President Trump's proposed tariffs. The U.S. imports a significant amount of copper from Canada and Mexico.
- West Texas Intermediate Crude Oil (WTI) fell 3.8% in February. Oil fundamentals remain weak. The U.S. Energy Information Administration (EIA) projects a global surplus of 800,000 barrels per day next year, more than twice as much as the 300,000 barrels per day the agency projected for this year, due to greater production from OPEC, the U.S., and Canada.

Currency and Commodities

	Price	Feb %	QTD %	YTD %	1YR %
USD	107.61	-0.70	-0.80	-0.80	3.61
Euro	1.04	0.13	0.20	0.20	-4.26
GB Pound	1.26	1.47	0.49	0.49	-0.62
Yen	150.63	3.03	4.37	4.37	-0.33
Gold	2,857.83	2.12	8.89	8.89	37.20
Copper	451.45	5.50	12.12	12.12	17.11
WTI	69.76	-3.82	-2.73	-2.73	-12.77

Source: Bloomberg L.P.



Source: Bloomberg L.P.

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