

Uncertainty among investors continued throughout February, primarily in response to continued economic doubts, difficulty in predicting the final tariff policies to be implemented, and the resurfacing of recession fears. Equity markets declined for the month across all market cap segments. Bonds and real estate, however, had a strong month as investors appear to have begun fleeing to safety, and declining yields have boosted returns in these two asset classes, which have become increasingly attractive amidst the turbulent start to 2025.

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The prevailing theme thus far in early 2025 has centered around President Trump's proposed tariffs, and the recent escalation we've seen with certain trade partners. The differing opinions on what the ultimate impact will be for the U.S. economy and domestic corporate earnings have created uncertainty among investors. We've previously written about the complexity of the multi-dimensional impacts of tariffs and how numerous offsetting inflationary and deflationary variables make it extremely difficult to accurately forecast the net outcome on inflation and Gross Domestic Product (GDP). As a brief recap, our view is that the overall long-term impact of Trump's trade policy could likely be less drastic than many are advocating as certain industries re-shore manufacturing and production and strengthen domestically. However, in the short-term, more severe tariffs could very well dampen near-term GDP growth and see a return of inflationary pressures.

A brief summary of U.S. tariff policy developments:

Canada & Mexico: a 25% blanket tariff went into effect on March 4th, however Trump confirmed a pause on all goods and services compliant with the United States-Mexico-Canada Agreement until April 2nd.¹

China: The initial 10% blanket tariff went into effect in February, with China responding with their own tariffs of 15% on US coal and natural gas, and 10% on crude oil, farm equipment, and automobiles. Trump countered by further increasing the rate on Chinese imports to 20% effective March 4th.^{2,3}

European Union: Trump has referenced the possibility of tariffs on the EU, which would significantly expand the scope of US trading partners impacted by US trade policy.³

Other: Trump announced a 25% tariff on all imports of steel and aluminum from all countries to go into effect on March 12th. Trump further announced on March 1st an executive order to investigate the effects of timber and lumber imports, which account for roughly 30% of the wood product used in U.S. housing construction. Trump further announced on Friday March 7th that reciprocal tariffs on Canadian lumber and dairy products may be coming soon.^{4,5}

While the markets can often move irrespective to economic data, the uncertainty from Trump's trade policy and where tariffs

will ultimately land has brought a resurgence of recession fears, driving down sentiment and leading to the recent flight to safety. Both Consumer and Investor Sentiment metrics have declined substantially for February, and a major concern is that a return of rising inflation could further dampen demand at a time when consumers are already feeling the impact of higher prices. Less demand for goods, coupled with the challenges from Trump's tariffs may put significant pressure on corporate earnings, and thus downward pressure on domestic equity valuations.

Many prominent commentators have begun sounding the alarm again for a potential recession as a result of the 10-year / 3-month yield curve inverting again on February 26th. While this leading indicator has in fact had a perfect track record for predicting U.S. recessions since 1968, we have been pointing to weak economic activity for quite some time already, noting that a major reason we have not experienced an official recession yet has been the fact that government spending has propped up U.S. GDP growth. From the end of 2020 through the end of 2024, annual nominal GDP grew by approximately \$7.83 Trillion, while US Government Debt grew by over \$8.47 Trillion. In 2024 alone, annual GDP estimates show growth of \$1.46 Trillion, while the total US Government Debt grew by over \$2.2 Trillion.^{6,7} With trade policies going into effect and the new Department of Government Efficiency (DOGE) committed to reforming government spending, the recessionary headwinds that many Americans have already been feeling may finally become more visible.

Turning back to developing market conditions, U.S. equities are seeing significant downward pressure, with many stock indices – including the NASDAQ Composite, NASDAQ 100, and S&P 600 Small Cap Indexes – declining below their 200-day moving averages, indicative of strong negative momentum. The S&P 500 Large Cap equity index declined -1.30% for the month, while mid caps dropped -4.35% and small caps retreated even further at -5.71% for the month. However, international equities have demonstrated resilience thus far in 2025, with the MSCI All World ex-US All Cap index returning 6.20% year-to-date, and a positive 1.46% return for the month of February. As uncertainty and volatility continues to grip headlines in U.S. domestic equity markets, now may be an opportunity to bolster portfolios with further diversification into international equity exposure.

1. <https://finance.yahoo.com/news/trump-delivers-on-new-tariffs-and-draws-retaliation-with-economic-toll-expected-to-be-heavy-152627780.html>

2. <https://finance.yahoo.com/news/chinas-finance-ministry-announces-tariffs-052845300.html>

3. https://finance.yahoo.com/news/live/trump-tariffs-live-updates-mexicos-sheinbaum-celebrates-reprieve-as-canada-liberals-pick-trudeau-successor-191201359.html?r=sycsrp_catchall

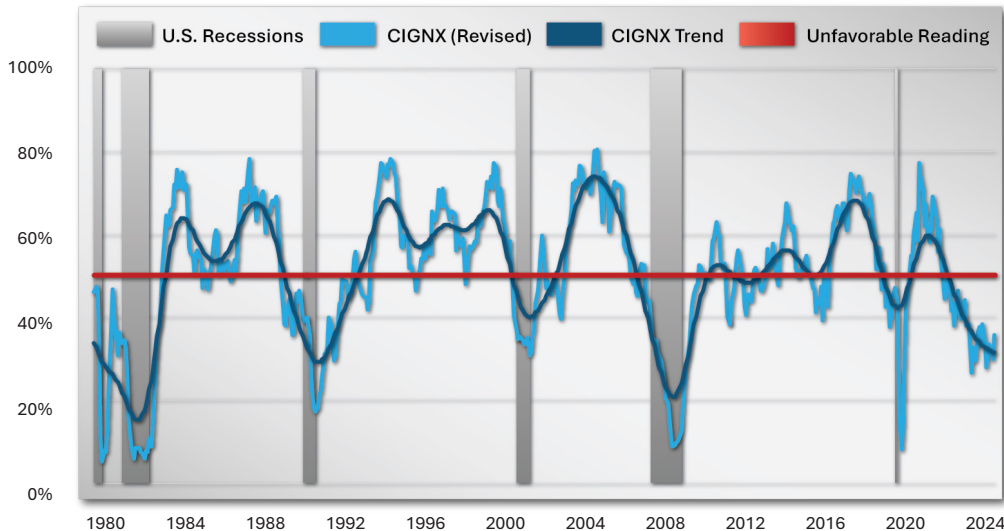
4. <https://www.whitehouse.gov/presidential-actions/2025/03/addressing-the-threat-to-national-security-from-imports-of-timber-lumber/>

5. <https://www.forbes.com/sites/saradorn/2025/03/07/trump-threatens-new-tariffs-on-canada-as-soon-as-today-after-halting-25-leaves/>

6. <https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny>

7. <https://www.bea.gov/data/gdp/gross-domestic-product>

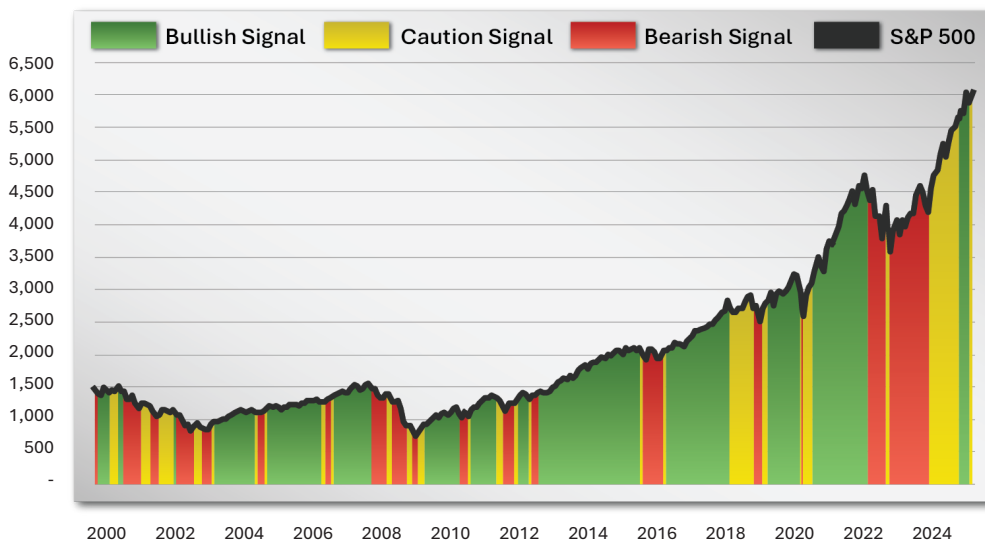
CIGNX = 35.0



Our **CIGNX** Economic Indicator has a reading of **35.0**, down from last month's revised reading of **35.7**. The reading is indicative of sluggish economic activity and a continued unfavorable trend in the economy. This remains well below our baseline threshold of **50.0**, indicative of unfavorable conditions, and below our secondary baseline reading of **40.0**, which we typically interpret as the economy experiencing recessionary conditions. **Our overall economic outlook remains negative.**

MONTH (2025)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
CIGNX (Revised)	35.7	35.0										
CIGNX Trendline	31.4	31.1										

ALPHA = Negative (Sell) OMEGA = Positive (Buy)



Our short-term signal (**Alpha**) remains **Negative** through February, while our intermediate-term signal (**Omega**) remained **Positive** during the month, indicating the near-term market outlook is bearish/unfavorable and the longer-term market trajectory is bullish/favorable. We remain in a "Cautious" positioning across each of our Dynamically and Tactically managed portfolios, with a neutral exposure to equities. **Our overall market sentiment outlook is Neutral.**

MONTH (2025)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ALPHA	SELL	SELL										
OMEGA	BUY	BUY										

U.S. Large Cap Stocks

S&P 500 Index

Monthly: -1.30%

Year to Date: 1.44%

The S&P 500 Index retreated from its previous gains to start the year, pulling back -1.30% for the month of February. Notably, several of the major technology names from the 'Magnificent 7' appeared to be driving most of the decline in the large cap index, with 5 of the 7 companies underperforming the index, and Tesla (TSLA), Alphabet Inc. (GOOGL), and Amazon.com Inc. (AMZN) declining substantially with returns of -27.59%, -16.54%, and -10.69% for the month of February, respectively. However, large caps as a whole remained positive for the year and showed greater resilience than mid and small caps.

U.S. Mid Cap Stocks

S&P 400 Index

Monthly: -4.35%

Year to Date: -0.66%

Mid cap equities, which led the broad US equity markets in January, gave back the positive gains in February, declining by -4.35%. This brings the total year-to-date returns into negative territory at -0.66%. As economic uncertainty and potential recession fears intensified during the month, mid cap equities demonstrated less resilience compared to their large cap counterparts. Although investors appeared to be attracted to the relative valuations to start the year, there is greater uncertainty regarding the ability of companies in this market segment to withstand trade war headwinds.

U.S. Small Cap Stocks

S&P 600 Index

Monthly: -5.71%

Year to Date: -2.97%

The S&P 600 Small Cap index saw the greatest decline among U.S. equities, dropping -5.71% and bringing year-to-date returns to -2.97% as of the end of February. Similar to mid cap equities, small caps exhibit a greater degree of sensitivity to economic conditions than the larger mid and large cap companies. The uncertainty surrounding tariffs, along with the growing recession fears has impacted this market segment the most, as dampened consumer demand and economic activity is likely to have a greater impact on corporate earnings of these smaller market cap stocks compared to mid and large caps.

U.S. Bonds

U.S. Agg Bond Index

Monthly: 2.20%

Year to Date: 2.74%

The U.S. Aggregate Bond Index posted a positive 2.20% return for the month of February as yields declined overall and investors appear to be fleeing from equities into safer asset classes. With the February jobs report coming in stable, with approximately 151,000 jobs added in the month (up from 125,000 in January), markets may now be pricing in additional interest rate cuts for the year. However, Powell indicated in a recent speech that the Fed is no hurry to continue rate cuts and can wait for further clarity. Despite the rate trajectory being unclear, investors rotating to fixed income have seen positive rewards thus far in 2025.

Alternative Assets

S&P GSCI Index

Monthly: -1.34%

Year to Date: 1.93%

The GSCI commodity index saw its first month of negative returns since September 2024, with a decline of -1.34% for February, and bringing its 2025 year-to-date return down to 1.93%. However, this remains above all U.S. equity market cap segments and highlights the diversification benefits of alternative assets classes during periods of market and economic uncertainty. The Brent crude oil spot price declined -3.05% for the month, however the broad commodities index did receive a boost from Silver, whose price rose 5.72%. Gold saw a modest increase of only 0.80% for February.

U.S. Real Estate

S&P 1500 Real Estate

Monthly: 3.73%

Year to Date: 5.36%

The S&P 1500 Real Estate Index outperformed the other major asset classes in February, boasting a gain of 3.73% for the month and bringing its year-to-date returns to 5.36%. Time will tell if certain tariff proposals on building materials, such as lumber, will have an impact on this sector, however, despite the recent pause from the Fed in its rate cutting cycle, thus far real estate has benefited from the apparent stability in interest rates. While there may be some uncertainty regarding if or when rate cuts will resume, there seems to be confidence that the trajectory has at least pivoted from further hikes, leading to strong returns in the real estate sector.

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