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Markets have been more *two-sided* over the past month. Early-February momentum gave way to bouts of volatility as investors weighed (1) mixed inflation signals, (2) shifting expectations for the timing of Fed cuts, and (3) a late-month rise in geopolitical risk that pushed energy prices higher and pressured both equities and bonds.

Even with the choppiness, market leadership remains broader than in prior years. Small caps have continued to hold up relatively well year-to-date, while mega-cap growth has faced periodic profit-taking as investors reassess the pace and profitability of AI-related spending.

Inflation readings have continued to *cool on the headline CPI measure*—the CPI was +2.4% year-over-year in January, down from December’s 2.7%. However, the Fed’s preferred inflation gauge has been firmer: core PCE (ex-food/energy) rose 3.0% year-over-year in December.

The Fed has held the target range for the federal funds rate at 3.50%–3.75%. Long-term yields moved higher into early March: the 10-year Treasury yield was ~3.97% on Feb 27 and ~4.06% on Mar 3, reflecting renewed inflation sensitivity and risk repricing.

### Key themes shaping markets

- **AI and corporate capital spending:** Earnings and guidance have reinforced that AI remains a powerful secular tailwind, but markets are more selective—rewarding clear monetization and disciplined capex, and penalizing “spend-first” narratives.
- **Geopolitics and energy-driven volatility:** Late-February/early-March geopolitical developments have increased volatility via oil-price shocks and inflation expectations.

### Risks on the horizon

- Valuations remain elevated, and even modest shifts in Fed communication could introduce volatility.
- A reacceleration in inflation or unexpected economic weakness could disrupt Fed policy.
- Geopolitical and trade uncertainties continue to add background risk.

### Key takeaways

- Review risk exposures - portfolios may have drifted to a higher risk profile after a strong year for equities.
- Fixed income, money markets, buffer ETFs and premium income funds can help mitigate volatility.
- Diversification is prudent.

As always, if you’d like a deeper dive into your personal portfolio’s alignment or a review of income-planning for the years ahead, we’d be happy to assist.

Key Statistics		
Consumer Price Index (January)		2.4%
Core PCE Deflator (December)		3.0%
Unemployment Rate (January)		4.3%
10-Year US Treasury Yield (2/28)		3.97%
Fed Funds Rate (2/28)		3.50% – 3.75%
Index Returns		
	February	YTD
S&P 500	-0.76%	0.68%
MSCI EAFE	4.63%	10.09%
Russell 2000	0.80%	6.20%
US Agg Bond	1.64%	1.75%