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Volatility continued into February, and we saw the month ending with mixed results. Large cap stocks in the S&P 500 Index were down -1.30% for the month and up 1.44% year-to-date. Small cap stocks in the Russell 2000 were down -5.35% in February and -2.87% year-to-date. The MSCI EAFE Index of developed market international stocks performed better, up 1.94% for the month and up 7.30% year-to-date. Emerging market stocks also outpaced domestic stocks, up 0.48% for the month and 2.28% so far this year. The yield on the 10-year Treasury bond dropped to 4.23% as money poured into bonds and bond prices rose. The Barclays US Aggregate Bond Index earned 2.20% for the month and is up 2.74% for the year.

The second estimate for GDP growth in the fourth quarter of 2024 was unchanged at 2.3% and GDP growth for third quarter also remained at 3.1%. Full year GDP growth was 2.8%. Concerns remain that growth in 2025 may be slowing and that a recession is possible. Recent market action seems to be hinting that a slowing economy is a real concern. Bond yields have fallen and stock prices have pulled back as investors are seeking less risk.

Ninety seven percent of companies in the S&P 500 have reported earnings for the 4th Quarter of 2024 and the results have been very strong. Of those S&P 500 companies that have reported, 75% have beaten their earnings estimates and 63% have beaten their revenue estimates. The total S&P 500 blended earnings growth rate is up 18.2% from the same period last year. If we finish the quarter at this level, it will be the best showing since the 4th quarter of 2021 when we were coming out of the pandemic induced recession.

Uncertainty related to potential new tariffs is contributing to a risk-off environment. Trade wars and deglobalization have historically not helped the economy improve or stock prices rise. In Trump's first term he used tariffs as a tool to gain cooperation from countries that were doing things detrimental to the United States. If he does the same now, the uncertainty will eventually fade away. Some are concerned that he is serious about using tariffs as a significant source of tax revenue. If so, that could be an impediment to international trade.

On the other hand, we have already seen significant investments in foreign owned manufacturing facilities being built in the US to avoid tariffs and for other reasons beneficial to the US. For example, Taiwan Semi-Conductor is the world's leading manufacturer of advanced microchips, and they are making an investment of over $165 billion in manufacturing facilities in Arizona. Having those plants located in the US will create thousands of very good jobs and give the US much better access to a secure source of a vital product. When making the announcement of their investment, the chairman indicated that avoiding tariffs was a contributing factor in their decision.

We continue to encourage investors not to try and time the market by trading in and out of the market and instead, invest according to risk tolerance. If you have questions about the strategy for your account, please contact your advisor.

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