



MONTH ENDING FEBRUARY 28, 2025

# Market Update

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## Quick Hits

### 1. Challenging Month for Markets

February was a challenging month for U.S. stocks.

### 2. Bonds Continue to Rise

Falling interest rates supported bond returns in February.

### 3. Solid Economic Backdrop

The economic updates showed signs of healthy growth for now.

### 4. Risks to Monitor

Markets face a variety of risks in the months ahead.

### 5. Cautiously Optimistic Outlook

We believe the most likely path forward is for continued market appreciation and economic growth.



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## Challenging Month for Markets

February was a challenging month for U.S. markets, as stocks sold off at the end of the month due to rising growth and geopolitical concerns. The S&P 500 lost 1.30 percent for the month while the Dow Jones Industrial Average was down 1.40 percent. The technology-heavy Nasdaq Composite saw the largest drop, falling 3.91 percent as technology companies were hit especially hard in the late-month sell-off.

Although it was a relatively disappointing month for U.S. investors, the fundamentals still show encouraging signs of positive momentum. We're currently wrapping up fourth-quarter earnings season, and the reports continue to show impressive results for U.S. companies. Per Bloomberg Intelligence, as of February 28 with 97 percent of companies having reported earnings, the average earnings growth rate for the S&P 500 in the fourth quarter was 14.1 percent. This is well above analyst estimates of 7.3 percent at the start of earnings season. Over the long run, fundamentals have driven performance, so the strong earnings growth for the quarter is a good sign for investors.

Technical factors were supportive as well in February. All three U.S. indices spent the entire month above their respective 200-day moving averages. (The 200-day moving average is a widely monitored technical signal, as prolonged breaks above or below this level can signal shifting investor sentiment for an index.) With that being said, the Nasdaq came close to its trendline toward the end of the month. While none of the major U.S. indices ended the month below trend, this will be an area worth keeping an eye on.

International stocks had a better month than their U.S. counterparts. The MSCI EAFE Index rose 1.94 percent in February while the MSCI Emerging Markets Index was up 0.50 percent. European defense and industrial sectors rallied during the month while Chinese stocks were also up notably in February. Rising investor expectations for increased government spending and stimulus in Europe and China helped drive the rallies for foreign stocks. Despite the positive performance in February, technical factors were mixed for international stocks. The MSCI EAFE Index finished the month above its 200-day moving average while the MSCI Emerging Markets Index ended the month below trend.

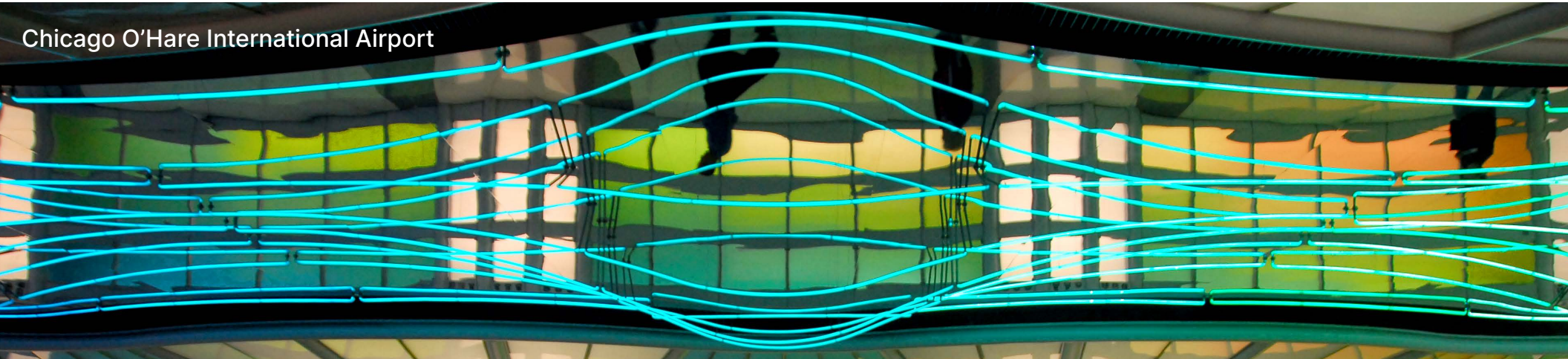
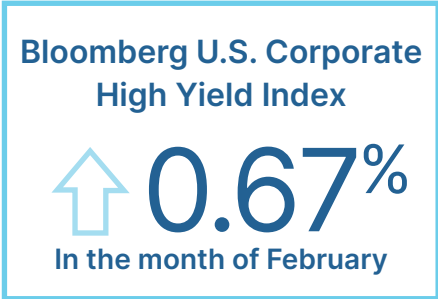
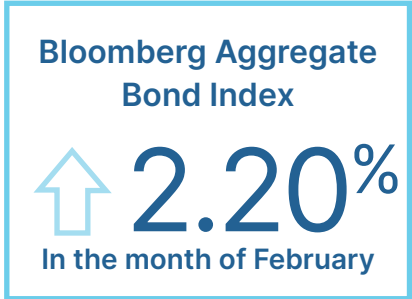
## Bonds Continue to Rise

While it was a mixed month for stocks, bonds fared much better in February. Falling long-term interest rates helped support bond prices during the month. The 10-year Treasury yield fell from 4.58 percent at the end of January to 4.24 percent at the end of February. The Bloomberg Aggregate Bond Index gained a solid 2.20 percent for the

month, marking the best monthly performance for the index since last July.

While the Federal Reserve did not meet in February, futures markets ended the month pricing in between two to three interest rate cuts by the end of the year. This is up marginally from the start of the month when futures markets were pricing in between one to two cuts by year-end.

High-yield bonds were also up in February, as the Bloomberg U.S. Corporate High Yield Index gained 0.67 percent. High-yield credit spreads rose modestly from 2.68 percent at the end of January up to 2.87 percent at the end of February. Wider credit spreads indicate falling investor interest for higher yielding bonds during the month.

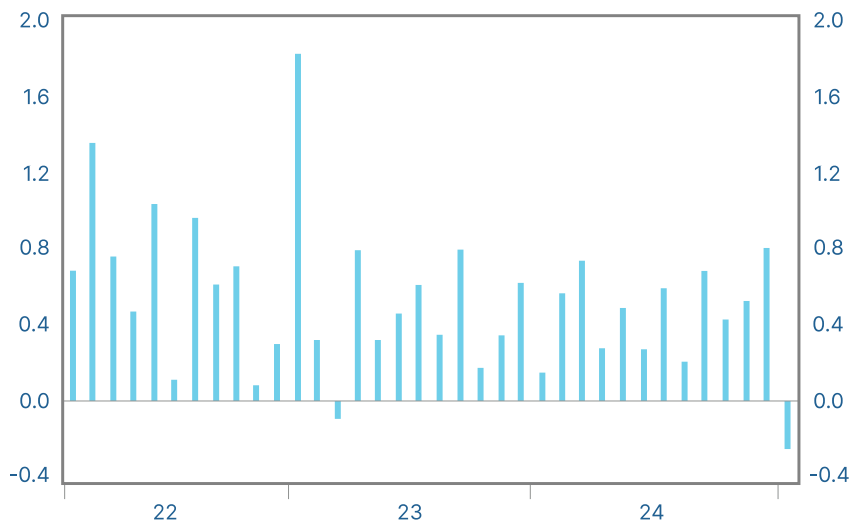


Chicago O'Hare International Airport

## Solid Economic Backdrop

While results were challenging for U.S. stocks during the month, the economic updates released in February showed signs of a solid economic backdrop. The January job report showed that 143,000 jobs were added during the month while previous months' reports were revised up. This brought the unemployment rate back down to 4 percent for the first time in eight months and signals still high levels of labor demand across the economy.

Figure 1: Personal Outlays, % Change  
January 2022–December 2024



Source: BEA/Haver, as of February 28, 2025.

While the job market remains healthy, there were signs of potential softening in other sectors of the economy. Consumer sentiment continued to slide in February, marking two straight months with souring sentiment. The worsening consumer confidence could be a headwind for spending growth, as historically higher levels of confidence has helped support spending.

We've already started to see the impact of lowered consumer confidence on spending. The January retail sales and personal spending reports showed that consumer spending fell more than expected to start the year. As seen in Figure 1, this marks the first drop in personal spending in nearly two years. Given that consumer spending drives the majority of economic activity in the country, this will be an important area to watch in the months ahead.

## Risks to Monitor

Aside from the economic fundamentals, markets face several risks. Domestically, policy uncertainty remains the most pressing challenge for investors. The planned rollout of tariffs on Canada, Mexico, and China at the start of the month is an example of the impact that policy decisions can have on markets. The late-month sell-off in February was partially attributed to the looming tariff deadline.

Another potential risk to keep an eye on is the debt ceiling and the upcoming deadline for a partial government shutdown later this month. While we'll likely see some sort of congressional compromise to avoid an extended shutdown, the possibility for a lengthy deadlock exists and shouldn't be ignored.

Of course, foreign risks remain as well, such as the continued conflicts in Ukraine and the Middle East. Additionally, the potential for retaliatory tariffs and a new global trade war exists given the recent rise in protectionist policy. Taken as a whole, there is certainly a lot for investors to pay attention to.

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### >> The Takeaway

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- Political risks remain for markets both domestically and abroad.
  - Trade and tariff policies will be important to monitor.
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## Cautiously Optimistic Outlook

Overall, however, we believe we remain in a relatively good place as we head into March. The economic and market fundamentals are still supportive for investors, which means the most likely path forward is for continued economic growth and market appreciation.

Risks certainly remain, especially in the short term due to policy and geopolitical uncertainty. It's quite possible that we'll see continued market turbulence as we gain further insight into the policy priorities from Washington. Given the potential for further short-term disruptions, portfolios should be structured to withstand potential periods of stress. If concerns remain, however, you should speak with your financial advisor to go over your financial plans in these uncertain times.



Urbana, Illinois



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and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba<sup>1</sup>/BB<sup>+</sup>/BB<sup>+</sup> or below. One basis point (bp) is equal to 1/100th of 1 percent, or 0.01 percent.

Authored by Chris Fasciano, chief market strategist, and Sam Millette, director, fixed income, at Commonwealth Financial Network<sup>®</sup>.

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BISDORF | PALMER  
PRIVATE WEALTH ADVISORS

Luke Palmer, AAMS<sup>®</sup>, CFP<sup>®</sup>, CRPS<sup>®</sup>, AWMA<sup>®</sup>

Bisdorf Palmer, LLC

201 American Concourse | Suite 310 | Fort Worth, TX 76106

682.224.4001 | [www.bisdorfpalmer.com](http://www.bisdorfpalmer.com) | [luke@bisdorfpalmer.com](mailto:luke@bisdorfpalmer.com)

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