

MARKET VIEW WEEKLY

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ECONOMIC REVIEW¹

- Minutes from the January Federal Reserve (Fed) meeting and housing data highlighted a short and otherwise quiet week for economic data domestically.
 - Abroad, however, a number of important geopolitical events – including a meeting between US and Russian officials in Saudi Arabia discussing a potential settlement in Ukraine, a consequential German election, and further tariff considerations – will undoubtedly impact global markets later this year.
- Fed minutes indicated no immediate change to the committee’s ‘wait-and-see’ stance on interest rate cuts.
 - “A majority of participants observed that the current high degree of uncertainty made it appropriate for the committee to take a careful approach in considering additional adjustments to the stance of monetary policy,” according to the minutes published on Wednesday.²
 - Futures markets suggest investors have taken the central bank at its word with prices indicating a high probability that rates will remain steady through the first half of the year.
- January housing starts declined sharply (-9.8%) after a surge in December, although, starts are down just -0.7% from a year ago.
 - Both single-family and multi-family construction contributed to the decline in January, which was most likely driven by unusually cold weather throughout the month.
- Existing home sales also declined in January (-4.9%) to a 4.080 million annual rate, although sales are up 2.0% from a year ago.
 - That 4.080 million pace last month is well below the 5.250 million annual pace that existed pre-COVID.
 - Widely anticipated improving affordability expected after the Fed began cutting interest rates has not materialized as 30-year fixed mortgage rates have risen back above 7%.

How do Fed minutes and housing data impact you?

- The broadly telegraphed and largely inconsequential Fed minutes had relatively little impact on financial markets.
 - Following the January meeting, Fed Chair Jerome Powell clearly established real progress on inflation and/or unexpected weakness in the labor market as prerequisites before considering further rate cuts.
- Affordability remains a major headwind for the US housing market, and mortgage rates ticking above the 7% threshold may continue to limit sales, although weather was the primary factor holding back starts last month.

A LOOK FORWARD¹



- Consumer confidence, the second GDP reading, and Personal Consumption Expenditures (PCE) – the core of which is the Fed’s preferred inflation gauge – headline next week’s economic data releases.

How does this week’s slate of economic data impact you?

- Consumer confidence, which has been wavering in recent readings, will be something to monitor closely next week, as will PCE, which is projected to decline in contrast to other major inflation measures.
- The GDP reading will provide the first revised look at early 2025 economic growth.



MARKET UPDATE³

Market Index Returns as of 2/21/2025	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-1.63%	2.42%	2.42%	19.81%	13.52%	14.26%
NASDAQ	-2.49%	1.18%	1.18%	22.56%	14.32%	16.20%
Dow Jones Industrial Average	-2.48%	2.29%	2.29%	13.17%	11.14%	10.62%
Russell Mid-Cap	-2.63%	1.74%	1.74%	14.28%	8.15%	9.68%
Russell 2000 (Small Cap)	-3.69%	-1.44%	-1.44%	10.50%	5.02%	6.93%
MSCI EAFE (International)	-0.12%	8.17%	8.17%	10.01%	6.34%	6.71%
MSCI Emerging Markets	2.00%	6.88%	6.88%	14.13%	0.95%	3.61%
Bloomberg Barclays US Agg Bond	0.35%	1.47%	1.47%	4.99%	-0.67%	-0.52%
Bloomberg Barclays High Yield Corp.	0.02%	1.64%	1.64%	9.82%	4.99%	4.30%
Bloomberg Barclays Global Agg	0.08%	1.59%	1.59%	2.95%	-2.97%	-1.76%



OBSERVATIONS

- Equity returns were negative across the board last week – domestically, internationally, and across the cap spectrum – with the exception of Emerging Markets.
 - EM stocks bucked the trend with a strong 2.0% week.
- Major domestic large-cap indices, the S&P 500 (-1.63%), the NASDAQ (-2.49%), and the Dow (-2.48%), all dropped substantially.
- But down-cap equities, the Russell Mid-Cap (-2.63%) and Russell 2000 (-3.69%), led markets lower.
- International developed stocks still declined but fared far better than domestic equities, falling just -0.12%
- Fixed income indices were positive domestically, internationally, and across the credit spectrum by a handful of basis points with the US Aggregate bond index leading the way higher (+0.35%).



BY THE NUMBERS

Warren Buffett Occasionally Writes to Shareholders About Overheated Markets. Not This Year: Warren Buffett spoke only obliquely about the stock market in his letter to shareholders Saturday. The Berkshire Hathaway chairman and CEO’s storied reputation as a stock picker leads many investors to study his annual missives. Buffett doesn’t always opine on markets, and in his latest letter he limited such commentary to a few thoughts on the general hunt for good investments. “Often, nothing looks compelling; very infrequently we find ourselves knee-deep in opportunities,” he said. With Berkshire’s stash of cash and Treasury bills surpassing \$320 billion—larger than the market values of most big U.S. companies—observers have been eager to hear how Buffett is thinking about opportunities to invest. One challenge for the price-conscious investor: The stock market is trading near records and at valuations that are elevated relative to historical averages. In his past notes to shareholders, Buffett occasionally weighed in on the perils of investing in overheated markets.⁴

Germany’s Merz vows “independence” from Trump’s America, warning NATO may soon be dead: Friedrich Merz did not even wait for the final results in Germany’s election before delivering what could well be a defining verdict on U.S. President Donald Trump, consigning Europe’s 80-year alliance with the United States to the past. The Trump administration does not care about Europe and is [aligning with Russia](#), said Merz, who is on course to become Germany’s new leader. The continent, he warned, must urgently strengthen its defenses and potentially even find a replacement for NATO — within months. Merz’s comments mark a historic watershed: They reveal how deeply Trump has shaken the political foundations of Europe, which has depended on American security guarantees since 1945. If he follows through on his rhetoric after assembling a new government in the coming weeks, Merz will steer Europe in a radical new direction at a critical time for the security of Ukraine and the wider region.⁵

Economic Definitions

Building Permits: This concept tracks the number of permits that have been issued for new construction, additions to pre-existing structures or major renovations. These statistics are based on the number of construction permits approved.

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Existing Home Sales: This concept tracks the sales of previously owned homes during the reference period. Total existing home sales include single-family homes, townhomes, condominiums and co-ops. All sales are based on closings from Multiple Listing Services.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

Federal Open Market Committee (FOMC): The Federal Open Market Committee (FOMC) is the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy in the United States by directing open market operations (OMOs). The committee is made up of 12 members, including seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four of the remaining 11 Reserve Bank presidents, who serve on a rotating basis.

Housing Starts: Housing (or building) starts track the number of new housing units (or buildings) that have been started during the reference period.

Gross Domestic Product (GDP): Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is

Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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¹ Data obtained from Bloomberg as of 2/21/2025.

² [Federal Reserve issues FOMC statement](#)

³ Data obtained from Morningstar as of 2/21/2025.

⁴ [Warren Buffett Occasionally Writes to Shareholders About Overheated Markets. Not This Year.](#)

⁵ [Germany’s Merz vows ‘independence’ from Trump’s America, warning NATO may soon be dead – POLITICO](#)