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February 2025 Recap

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PRELUDE

Every February, my wife and I host some of our closest college friends and their families for a weekend of "organized chaos" here in Dayton, Ohio. Typically, 15 to 20 people spend the weekend at our house, almost half of which are children under the age of four. As you might imagine, between travel logistics, sleep arrangements, food preparation, and attendance of a Dayton Flyers men's basketball game, the weekend is especially hectic at the Nitting household. However, without fail, the weekend concludes as one of our favorites of the entire year. Throughout the organized chaos, we get to spend precious time with some of the people closest to us, and we will continue hosting as long as our friends are willing and able to attend. Global markets experienced their own form of chaos during February, but it was far from organized or enjoyable for certain investors. The U.S. stock market fell amid concerns about tariffs and domestic economic weakness, while bonds generated positive returns. International equities moved higher for the second consecutive month, outperforming their U.S. peers.

GLOBAL EQUITY

U.S. stocks lost their positive early-year momentum in February as several major U.S. equity market indexes declined between -1.3% and -5.4%, cumulatively. Concerns about tariffs and their potential economic impact took centerstage during the month as the new U.S. administration unveiled its initial tariff plans against Canada, Mexico, and China. Investors also grew increasingly cautious about a softening U.S. economy, as multiple key economic datapoints came in weaker than expected. Amid such uncertainty, the Russell 2000 fell -5.4% and closed February in correction territory. As a reminder, investors define a correction as a 10% or greater decline from a prior peak (the Russell 2000 peaked on November 25, 2024). Large cap growth companies also moved lower during February as five of the Magnificent Seven companies declined amid weaker-than-expected operating results. Tesla was among the most significant laggards as the stock experienced its second-worst month ever, falling -27.6% amid concerns about fewer-than-expected non-U.S. vehicle deliveries.

TABLE 1: GLOBAL EQUITY	FEB	QTD	YTD	1 YR
Dow Jones Industrial Average	-1.39	3.32	3.32	14.41
S&P 500 Index	-1.30	1.44	1.44	18.41
Russell 2000	-5.35	-2.87	-2.87	6.69
Russell 1000 Growth	-3.59	-1.69	-1.69	19.75
Russell 1000 Value	0.41	5.05	5.05	15.75
MSCI ACWI USD	-0.60	2.73	2.73	15.06
MSCI EAFE USD	1.94	7.30	7.30	8.77
MSCI EM USD	0.48	2.28	2.28	10.07
MSCI ACWI ex US USD	1.39	5.47	5.47	9.65

Source: Bloomberg, as of 2/28/2025. Past performance does not guarantee future returns.

International markets generated positive returns in February as the U.S. Dollar continued to weaken versus other major currencies. Developed international markets, as represented by the MSCI EAFE Index, returned +1.9% for the month. U.K. equities moved higher as the Bank of England cut interest rates during the month, marking its third interest rate cut since last August. The U.K. economy also posted better-than-expected economic growth during Q4 2024, which investors found encouraging. Emerging markets underperformed their developed market counterparts again in February, but the MSCI EM Index still moved higher, returning +0.5%. Chinese stocks were among the top contributors to performance despite concerns about additional U.S. tariffs. Several Chinese technology companies, highlighted by Alibaba, posted better-than-expected earnings results and rose sharply, driving Chinese equities higher.

TABLE 2: FIXED INCOME	FEB	QTD	YTD	1 YR
Bloomberg US Aggregate	2.20	2.74	2.74	5.81
Bloomberg 1-3 Yr Gov/Credit	0.70	1.16	1.16	5.54
Bloomberg Treasury 5-7 Yr	2.16	2.82	2.82	5.40
Bloomberg Investment Grade Corp	2.03	2.61	2.61	6.41
Bloomberg High Yield Corp	0.67	2.05	2.05	10.09
JPMorgan EMBI Global Diversified	1.57	3.03	3.03	9.82

Source: Bloomberg, as of 2/28/2025. Past performance does not guarantee future returns.

FIXED INCOME

The U.S. Treasury yield curve shifted downward again during February, boosting fixed income returns as the Bloomberg U.S. Aggregate rose +2.2%. Treasury yields rose briefly to begin the month following hotter-than-expected inflation data. However, multiple datapoints related to business activity growth and consumer confidence came in below expectations later in the month, pushing yields broadly lower and driving positive results for the asset class. Investment grade and high yield corporate bonds also generated positive returns during February, benefiting from falling yields.

During February, we found it encouraging that fixed income markets, highlighted by U.S. Treasuries, served as a ballast to investor portfolios during the U.S. stock market decline. Consequently, we thought sharing a brief refresher on safe-haven assets would be helpful as investors navigate multiple economic and financial market uncertainties throughout the remainder of 2025. In general, investors view safe-haven assets as investments that may retain most of their value (or appreciate) during market downturns. Examples of commonly referenced safe-haven assets include precious metals, certain currencies, cash, and government bonds. In the case of U.S. Treasuries, investors perceive them to have minimal risk because U.S. Treasuries are backed by the full faith of the U.S. government, which many investors consider to be creditworthy institution. Thus, in periods of greater economic and financial market uncertainty, some investors sell investments they consider riskier (small cap stocks for example during February) in favor of investments they perceive to be safer (U.S. Treasuries). Throughout the remainder of 2025, we expect more market volatility, perhaps leading certain investors more toward such safe-haven assets.

POSTLUDE

We are just two months into 2025 and during that time, global economic and financial market highlights have included:

- The European Central Bank and Bank of England cutting interest rates, the Bank of Japan raising interest rates, and the Federal Reserve keeping interest rates unchanged.
- A Chinese AI startup company (DeepSeek) emerging as a viable competitor to high-profile U.S. AI companies like OpenAI, Anthropic, and others.
- The new U.S. administration proposing various new policies, including those related to tariffs and geopolitical conflicts abroad.
- The U.S. stock market rising in January and falling in February, partly due to mixed signals about U.S. economic health and corporate earnings expectations.

We think these first two months represent a microcosm of what the rest of 2025 may bring. However, in periods of such uncertainty, we believe making wholesale changes to our clients' portfolios is imprudent and could expose them more to unforeseen risks. So, you might ask what we plan to do in our clients' portfolios in the meantime. Our plan is to simply rebalance portfolios as we simultaneously assess newly available information and its potential market impact. While rebalancing is not the most exciting instrument in our portfolio management toolbox, we are confident that modestly trimming past leaders and adding to previous laggards can provide incremental value for our clients in periods of market volatility as they continue pursuing their goals.

Joe Nitting serves as the Director of Research for the Retirement & Investment Solutions practice of CBIZ, Inc. Joe leads the firm's research in both traditional and alternative asset classes, and he oversees the portfolio construction process for the firm's defined contribution, institutional advisory and wealth management businesses. Joe has a B.S. in Finance and Accounting from the University of Dayton. He began his career in investments at a boutique registered investment advisory firm in the greater Chicago area, focusing on traditional investments. He also served as an analyst for a registered investment advisory firm in the Cleveland area, where he specialized in alternative investments. Joe plays an important role in fostering a culture of collaboration and creativity within CBIZ while offering unique insights based on his experience across a wide spectrum of investment types.

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