



U.S. Market & Economic Commentary

The Markets

US equities underperformed their global counterparts amid trade tensions and the potential impact of the current administration's tariffs on the US economy. Concerns around economic growth and expected rate cuts lowered treasury yields and lifted bond returns.

Market Indices	February 2025	Year-to-Date
Dow Jones Industrial Average	-1.6%	3.1%
S&P 500 Index	-1.3%	1.4%
NASDAQ Composite	0.5%	7.1%
MSCI World Index	-0.7%	2.8%
Bloomberg US Aggregate Bond Index	2.2%	2.7%
Bloomberg Global Aggregate Bond Index	1.4%	1.8%

The US economy showed modest improvement in February, supported by a pickup in consumer activity and continued stability in the labor market. GDP growth for Q4 2024 was confirmed to 2.4%, slightly above the previous estimate of 2.3% and signaling that the economy continues to grow at a measured pace. Personal spending rose 0.4%, recovering from the slight decline in January, indicating that consumers remain engaged despite elevated borrowing costs and ongoing inflationary pressures. Retail activity also showed improvement, as core retail sales increased 0.3%, providing additional evidence of a consumer rebound after a sluggish January. Further, the manufacturing sector remained in expansionary territory for a second consecutive month, with the ISM Manufacturing Index registering 50.3. This suggests stabilization in industrial activity after a prolonged period of contraction in 2024.

Labor market conditions remained firm. Nonfarm payrolls rose by 151k, following January's upwardly revised gain of 125k. The unemployment rate held at 4.1%, while average hourly earnings rose 0.3% month-over-month and 4.0% year-over-year, reflecting consistent wage growth. While the labor force participation rate ticked down slightly to 62.4%, job openings remained strong at 7.57 million.

Inflation data showed signs of moderation. The headline Consumer Price Index (CPI) rose just 0.2% month-over-month, and the year-over-year rate declined to 2.8% from 3.0% in January. The Core PCE Price Index, the US Federal Reserve's preferred inflation gauge, rose 0.3% month-over-month and 2.8% over the year—within the Fed's target range. Although these figures have reinforced market expectations that the Federal Reserve will lower interest rates, the US President's latest tariffs and trade policies have raised concerns that inflation may remain elevated or move upward.

In the housing sector, activity showed signs of a recovery from the prior month. Housing starts rose 11.2% in February, reversing January's sharp decline. Existing home sales and new home sales increased 4.2% and 1.8%, respectively, alongside a decline in the MBA 30-Year Mortgage Rate to 6.88%. Building permits declined for a third consecutive month, falling by 1.0% and suggesting a cautious outlook among homebuilders.

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