The Weekly Market Update – 3/3/25: Equities Drop in February as Big Tech Leadership Fades

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,954.50	-0.98%	1.24%	1.24%	16.84%	6,144.15	3.2%
Dow Jones Industrial Average	43,840.91	0.95%	3.05%	3.05%	12.42%	45,014.04	2.7%
NASDAQ Composite	18,847.28	-3.47%	-2.40%	-2.40%	17.12%	20,173.89	7.0%
Russell 2000	2,163.07	-1.47%	-3.01%	-3.01%	5.27%	2,442.74	12.9%
MSCI EAFE (USD)	2,422.66	-0.84%	7.11%	7.11%	5.98%	2,506.69	3.5%
MSCI Emerging Markets (USD)	1,097.25	-4.36%	2.03%	2.03%	7.47%	1,444.93	31.7%
Bloomberg Commodity Index	102.75	-3.82%	4.04%	4.04%	6.26%	237.95	131.6%
Barclays U.S. Aggregate Bond	92.51	1.20%	2.29%	2.29%	2.95%	112.07	21.2%

Source: FactSet

U.S. equities moved lower in February as a 2025 rotation in sector leadership continued. The widely followed S&P 500 equity index dropped -1.4% (not including dividends) in February, chipping away at January's +2.7% increase. The S&P 500 year-to-date (YTD) gain (2 months through 2/28/25) remained positive, up +1.2%, but other indices such as the growth-centric Nasdaq Composite and Russell 2000 (small company) were both negative YTD through February, down -2.4% and -3.0%, respectively. Within the S&P 500, despite a down month, six of eleven macro sectors (GICS sectors) were positive, led by Consumer Staples, Real Estate, and Energy, while sectors that led equity market gains in 2024 (Consumer Discretionary, Technology, and Communications Services) were each lower in February. While we attribute no common theme driving the latest rotation in sector leadership, a few investor considerations may have emerged. Consumer Staples' strength could reflect economic slowdown concerns, driving heightened "defensive" positioning, and gains in Real Estate Investment Trusts were likely helped by lower interest rates as investors seek dividend yields (the U.S. 10-year Treasury yield was 4.19% on 2/28/25, down from 4.57% on 12/31/24). But the sectors that were lower in February and YTD (just two sectors, Consumer Discretionary and Technology, decreased over the two-month period) reflect a rotation out of the technology-centric "Magnificent 7," which outperformed the broader index (S&P 500) for the past two years (2023 and 2024). For the two-month YTD period, the average Mag 7 stock decreased -6.1%, including down -8.0% in February alone. In our view, the S&P 500 has held up relatively well, given broad underperformance of its largest constituents, but it does limit upside in the index. We continue to advocate for broad sector diversification in this environment.

U.S. imports surged in January, likely caused by companies sourcing product and supplies ahead of expected tariffs. These actions could blunt the potential inflationary impact of tariffs, at least initially (as companies have the accumulated inventory at pre-tariff costs), but imports are a drag on U.S. economic growth (as measured by gross domestic product, or GDP), which has caused 1Q25 GDP estimates to move lower. While the Trump Administration's goal with tariff policy is to reduce imports, create more domestic production, and increase exports, the initial corporate response has led to more imports. According to the Census Bureau, preliminary U.S. goods imports in January increased +12% to $325 billion (B), and exports rose +2% to $172B. The trade deficit (imports greater than exports) of $153B was a record high in one month, and increased +24% from $123B in December, itself the highest monthly trade deficit of 2024. We expect this to reverse somewhat in the months ahead, but the surge in imports has driven near-term GDP estimate models lower, particularly the Atlanta Federal Reserve Bank's GDPNow estimate for 1Q25 GDP, which tracks data as reported and gives a current quarter trend. As of 3/3/25, the GDPNow estimate dropped to -2.8% for 1Q25 GDP, including a -3.6% drag from the trade deficit. The model is only updated through January and is likely to improve as February and March data are reported.

With earnings season winding down, investor attention will turn to Friday's February jobs report. February nonfarm payrolls (as reported by the Bureau of Labor Statistics) are estimated (FactSet consensus) to have increased +158 thousand (K), modestly above January's +143K increase, but below the average monthly increase over the past three and six months. The unemployment rate is expected to remain steady at 4.0%, unchanged from January.

James D. Ragan, CFA
Co-CIO, Director of Investment Management & Research
(206) 389-4070
jragan@dadco.com

Important Disclosure: The information contained herein has been obtained by sources we consider reliable but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of data available to us at the time of the original publication of the report. Assumptions, opinions, and estimates constitute our judgment as of the date of this report and are subject to change without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return and yield, as well as broader market and macroeconomic fluctuations and unforeseen changes in the fundamentals or business trends affecting the securities referred to in this report. Investors should also remember that past performance is not indicative of future performance and D.A. Davidson & Co. makes no guarantee, express or implied, as to future performance. The information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us, or an offer, or the solicitation of an offer, to sell or buy any security. Further, a security described in a report may not be eligible for solicitation in the states in which a client resides. D.A. Davidson & Co. does not provide tax advice and investors should consult with their tax professional before investing. Further information and elaboration is available upon request.

Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today, the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities. Sectors that are called "defensive," are thought to be less exposed to economic cycles compared to "cyclical" sectors, and often attract investor interest during periods of economic weakness.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at https://www.bea.gov/data/gdp/gross-domestic-product.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics; the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey are drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The term "Magnificent 7" was first used in early 2023 by Bank of America. It referred to seven publicly traded stocks that at the time were the most highly valued companies in the S&P 500 index ranked by equity market value. The seven stocks were: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla.

The Federal Reserve Bank of Atlanta publishes a current quarter U.S. economic growth, to track real (inflation adjusted) gross domestic product, or GDP. GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow – the estimate is based solely on the mathematical results of the model. The most recent GDPNow update for 1Q25 GDP reflected growth tracking at -2.8% (as of 3/3/25) and is one source of our commentary about a spike in imports weighing on U.S. economic growth expectations.

U.S. trade data is reported monthly by the U.S. Census Bureau's Bureau of Economic Analysis (BEA). It shows monthly imports and exports for both goods and services n total and on a per country basis. When U.S. imports are greater than exports, it is called a trade deficit. Imports subtract from U.S. GDP as the products are not made in the U.S., while exports add to U.S. GDP. A week prior to releasing detailed trade data, the BEA also publishes a press release of the "advance" (preliminary) data.