FEBRUARY 2025

Capital Markets Commentary

MEEDER

Markets began February building on late 2024's strength, but by the month's end, growing signs of weakness emerged. Beneath the surface of large-cap resilience, divergences in market breadth and rising geopolitical pressures, particularly escalating trade tariffs, raised new questions about the sustainability of the rally and global growth.

Trade Tariffs Take Center Stage

Trade tariffs dominated the news headlines during the month of February. One of the President's campaign promises was to level the playing field of international trade by implementing tariffs on those countries and/or products he believes have implemented unfair trade practices with the U.S. This is an extremely fluid situation, but here is the latest update of the tariff disputes at the time of this writing.

Canada and Mexico: Beginning March 4, 2025, the U.S. implemented a 25% tariff on all imports from Canada and Mexico, except for Canadian energy products, which are 10%. President Trump originally announced these tariffs at the beginning of February but delayed implementation by a month after Canada agreed to enhance security at their U.S. border and to appoint a fentanyl czar responsible for stopping the distribution of the drug into the United States. Mexico also agreed to place 10,000 troops along its U.S. border to stop drug trafficking. Tariffs on imports from Canada and Mexico could be especially impactful to the auto industry as these countries are very reliant upon one another in the design, manufacturing, and assembly of automobiles and parts.

China: President Trump implemented a 10% tariff on all Chinese imports on February 4th, but they were increased to 20% on March 4, 2025. President Trump was not happy with China's progress in reducing the flow of narcotics from their country into the United States.

European Union: On February 26, 2025, President Trump announced plans to impose a 25% tariff on goods imported from the EU but has not announced an implementation date.

Global Tariffs on Steel and Aluminum Imports: The U.S. imposed a 25% tariff on all steel and aluminum imports beginning on March 12, 2025. This was designed to protect domestic industries but has raised concerns about potential increases in consumer prices and disruptions in global supply chains.

Market Performance Recap

As global trade tensions escalated, February delivered mixed results across asset classes for investors.

AS OF FEB. 28, 2025	FEB. 2025	YTD 2025
S&P 500 TR USD	-1.30%	1.44%
S&P MidCap 400 TR	-4.35%	-0.66%
Russell 2000 TR USD	-5.35%	-2.87%
MSCI EM NR USD	0.48%	2.28%
MSCI EAFE NR USD	1.94%	7.30%
Bloomberg U.S. Agg Bond TR USD	2.20%	2.74%

SOURCE: MORNINGSTAR

U.S. Large-cap stocks, as measured by the S&P 500 Index, reached an all-time high on February 19th but still finished the month in negative territory. Mid and small-cap stocks remain below the levels reached at their peak on November 29, 2024. U.S. Mid-cap stocks (S&P MidCap 400 Index) finished February -4.35% lower and are now in slightly negative territory this year. U.S. Small-cap stocks also struggled, as the Russell 2000 Index dropped -5.35% for the month and are down -2.87% in 2025. The growing disconnect between large-cap outperformance and broader-market weakness is a negative divergence. Historically, this technical warning sign is typically seen in the late stages of market cycles.

International equities offered some stability for investors. Developed international equities (MSCI EAFE Index) increased +1.94% for the month and are now up +7.30% year to date. Emerging market stocks (MSCI EM Index) climbed higher by 0.48%. Fixed income, as measured by the Bloomberg U.S. Aggregate Bond Index, gained 2.20% in February, bringing its YTD return to 2.74%.

Cracks In the Foundation?

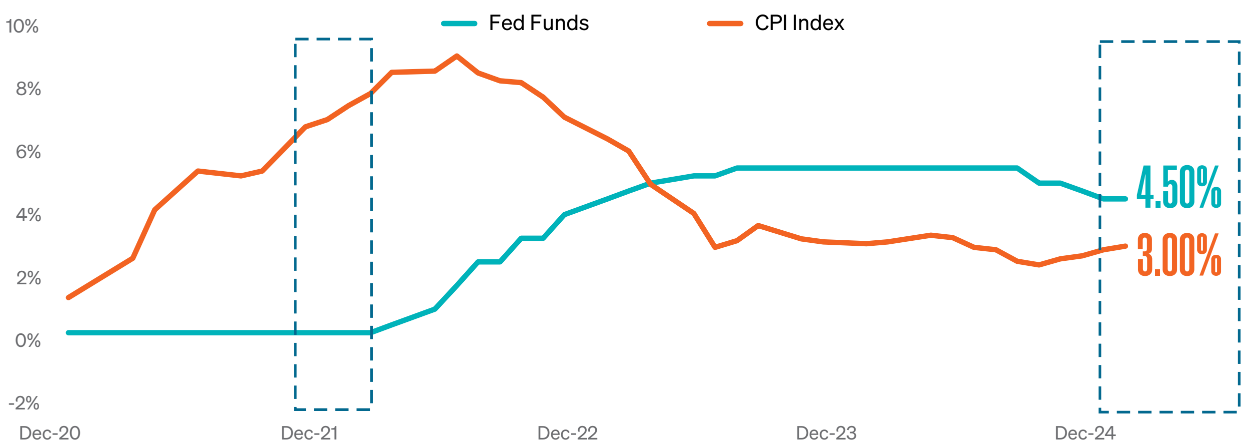
Other indicators that typically define a low-risk market environment have also weakened. For example, the NYSE Composite is an index tracking a broad basket of more than 3000 stocks and is now showing fewer making new 52-week highs. The number of new highs dropped sharply from a peak of 471 in late 2024 to just 78 by the middle of February. Additionally, the percentage of stocks trading above their 200-day moving average has fallen to just 55%, despite the S&P 500 sitting near its highs. The advance-decline line for the NYSE is now trending lower, which confirms that fewer stocks are contributing to the gains of the index.

Key Differences: Late 2021 and Today

Although many of these signs are eerily similar to those that occurred before the last bear market in early 2022, it is important to note that today's economic environment is different. Inflation is currently at 3% and substantially lower than the 7% level at the end of 2021. The Federal Reserve has shifted their monetary policy from aggressively raising interest rates to lowering them and are currently in a pause period. According to CME FedWatch, investors are expecting two or three additional 0.25% interest rate cuts this year.

INTEREST RATES & INFLATION

December 31, 2020–January 31, 2025

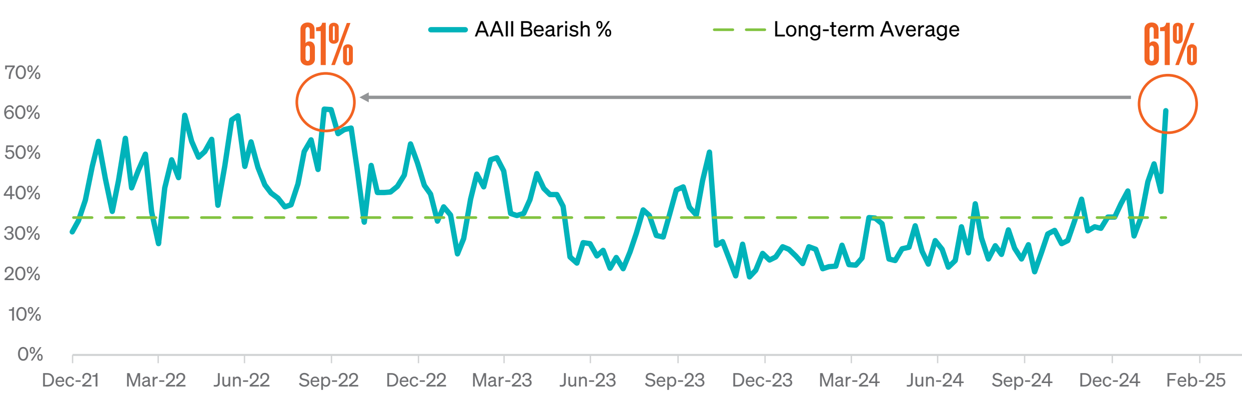


SOURCE: BLOOMBERG

One of the most remarkable developments in February was the spike in bearish investor sentiment. The American Association of Individual Investors conducts a weekly survey asking participants if they are bullish, bearish, or neutral on the stock market over the next six months. This survey provides insights into investor sentiment, which is often used as a contrarian indicator. The latest reading of 61% on February 26th, 2025, was the highest since September 2022 and well above the long-term average of 34%. Historically, bearish sentiment has spiked after prolonged market weakness, often signaling market bottoms, yet at the end of February the S&P 500 closed a little more than 3% lower than its all-time high.

INVESTOR SENTIMENT IS BEARISH

January 1, 2022–February 26, 2025



SOURCE: BLOOMBERG, AAII

Looking Forward

February served as a reminder that while no single data point signals an imminent downturn, the weight of the evidence—marked by conflicting trends and mixed signals requires ongoing vigilance. As we look ahead, we continue to emphasize a balanced and disciplined approach, guided by our models that assess technical trends, macroeconomic factors, and valuation metrics. While our outlook remains constructive, it is appropriately cautious given key risks, including persistent inflation pressures, signs of shifting investor sentiment, and weakening market breadth. Should conditions deteriorate, particularly with diminishing reward and rising risk, we are prepared to make adjustments accordingly. We will monitor these dynamics closely and keep you informed as the landscape evolves.

INDEX DESCRIPTIONS

S&P 500 Index: The Index tracks the stock performance of 500 of the largest companies listed on stock exchanges in the United States. It is one of the most followed equity indices and includes approximately 80% of the total market capitalization of U.S. public companies.

S&P 400 Index: The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

Russell 2000 Index: The Index is constructed to provide a comprehensive, unbiased barometer of the small-cap segment of the U.S. equity market. A subset of the Russell 3000 Index, it includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

MSCI EM Index: The Index captures large and mid-cap representation across 24 Emerging Markets (E.M.) countries. With 1,440 constituents, it covers approximately 85% of each country's free float-adjusted market capitalization.

MSCI EAFE Index: The Index is an equity index that captures large and mid-cap representation across 21 Developed Markets countries* worldwide, excluding the U.S. and Canada. With 783 constituents, the index covers approximately 85% of each country's free float-adjusted market capitalization. MSCI EM Index: The Index captures large and mid-cap representation across 24 Emerging Markets (E.M.) countries. With 1,440 constituents, it covers approximately 85% of each country's free float-adjusted market capitalization.

Bloomberg U.S. Aggregate Bond Index: The Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS, and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the U.S. Universal Index. The U.S. Aggregate Index was created in 1986, with history backfilled to January 1, 1976.

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0289-MAS-3/10/25-49400