Monthly Market Recap

February 4, 2025

Index	Asset Class	2025 Jan.	2025 YTD	2024
Equity Indexes		**Total Returns**		
NASDAQ 100	Mega Cap U.S. Growth Equity	2.3%	2.3%	25.9%
S&P 500	Large Cap U.S. Equity	2.8	2.8	25.0
S&P 400	Mid Cap U.S. Equity	3.9	3.9	13.9
S&P 600	Small Cap U.S. Equity	2.9	2.9	8.7
MSCI All Country World	Global Equity	3.4	3.4	18.0
MSCI All Country World (Ex U.S.)	International Equity	4.1	4.1	6.1
MSCI Europe, Asia & Far East (EAFE)	International Developed Market Equity	5.3	5.3	4.4
MSCI Emerging Markets (EM)	International Emerging Market Equity	1.8	1.8	8.1
Fixed Income Indexes				
Bloomberg U.S. Aggregate Bond	U.S. Investment Grade Bond	0.5	0.5	1.3
S&P National AMT-Free Municipal Bond	U.S. Investment Grade Muni Bond	0.2	0.2	1.3
S&P Municipal Bond High Yield	U.S. Muni Bonds (Below Investment Grade)	0.9	0.9	6.7
Bloomberg U.S. Corp. High Yield	U.S. Corp Bonds (Below Investment Grade)	1.4	1.4	8.2
Index Blends: Stock/Bond				
80%/20%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		2.8	2.8	14.5
60%/40%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		2.2	2.2	11.1
40%/60%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		1.7	1.7	7.7
20%/80%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		1.1	1.1	4.5
Data as of 1/31/2025. Source: Morningstar, and blended benchmark returns are based on monthly rebalancing.				

Please see important disclosures at end of this report.

Overview & Economy

According to the International Trade Administration (ITA), "***Tariffs***" are defined as "… a tax levied by governments on the value of… imported products." The ITA further clarifies that tariffs are collected at the time of customs clearance, and that tariffs typically increase the cost of the products to the buyers.[1]

Tariffs impact the competitiveness of affected products, and while the exporter can adjust their sales prices to offset some or all of a tariff, the buyer pays whatever portion of the tariff is not offset by the seller/exporter. Of note, applied tariffs are not just on final products, but may be applied to intermediate goods (e.g., component parts) which could impact products with final assemblies within the U.S. And, if we wanted to be really precise about the potential implications, we'd have to consider the resulting pricing leverage for products produced entirely domestically (e.g., steel and aluminum). Yes, this can get complicated – and some investment strategists have even applied the term "chaotic."

We offer this overview of "***Tariffs***" because on Feb. 1st, by executive order, President Trump announced the implementation of 25% tariffs on imports from Canada and Mexico (10% on Canadian energy products), and 10% on imports from China. These targeted countries rank as the three largest trading partners with the U.S. by a wide margin, and collectively represent just over 40% of all U.S. trade in goods.[2] Of note, since declaring these tariffs would be implemented Feb. 4, Trump since pushed out by a month the start date for tariffs on Canadian and Mexican imports, but the tariffs on Chinese imports have been implemented. China has responded with tactical trade retaliations, and both

Canada and Mexico have promised retaliatory tariffs if/when any U.S. tariffs are implemented. As far as the potential scope of implications, suffice it say that a trade war would be detrimental to all economies involved and peripherally to others – detrimental both in terms of reduced trade, obviously, but also in terms of impacts to GDP, and potentially also by reigniting inflation.

Interestingly, though, U.S. investment markets have so far not responded as if a trade war will actually occur – at least not in our opinion. U.S. markets didn't seem to convey any trepidation during Trump's campaign rhetoric, nor upon his election, and not much since his tariff executive order was announced. Basically, U.S. markets seem to be discounting that Trump is mostly just threatening tariffs as part of a negotiating ploy, and/or that any implemented tariffs would be short-lived. Only by slight degrees have international equities declined and currency exchange rates shifted since the latest tariff banter. Markets and currencies over the coming weeks may see higher volatility as the potential for tariffs and other prevailing political controversies unfold.

Equity Markets

Global equity markets started the year with a broadening advance within January, with International Developed equities leading, and U.S. Mid Caps outpacing U.S. Large and Mega Caps. This leadership within January was in contrast to the 2024 experience. Nevertheless, looking back beyond the calendar reset, U.S. Large Caps remained close to their recent highs (achieved in December or January, depending on the index), whereas the U.S. Mid and Small Cap Indexes remain materially below their late-November highs, and International equities remain well below their September highs.

Fixed Income Markets

The U.S. Bond indexes we track started the New Year on a positive note, with the same high yield leadership which prevailed for most of 2024. Unlike the final quarter of 2024, when intermediate to longer-term market yields rose, thereby promoting headwinds for bond valuations, market yields held about steady in January. And, by the way, the Fed, at the late-January FOMC meeting, maintained its Fed Funds rate target unchanged in the range of 4.25%-4.5%. Potential tariffs could certainly have implications on its future moves.

Reference(s):

1) International Trade Administration, U.S. Department of Commerce, Import Tariff Overview – *Link*
2) United States Census Bureau, Top Trading Partners Data – *Link*