

KEY TAKEAWAYS

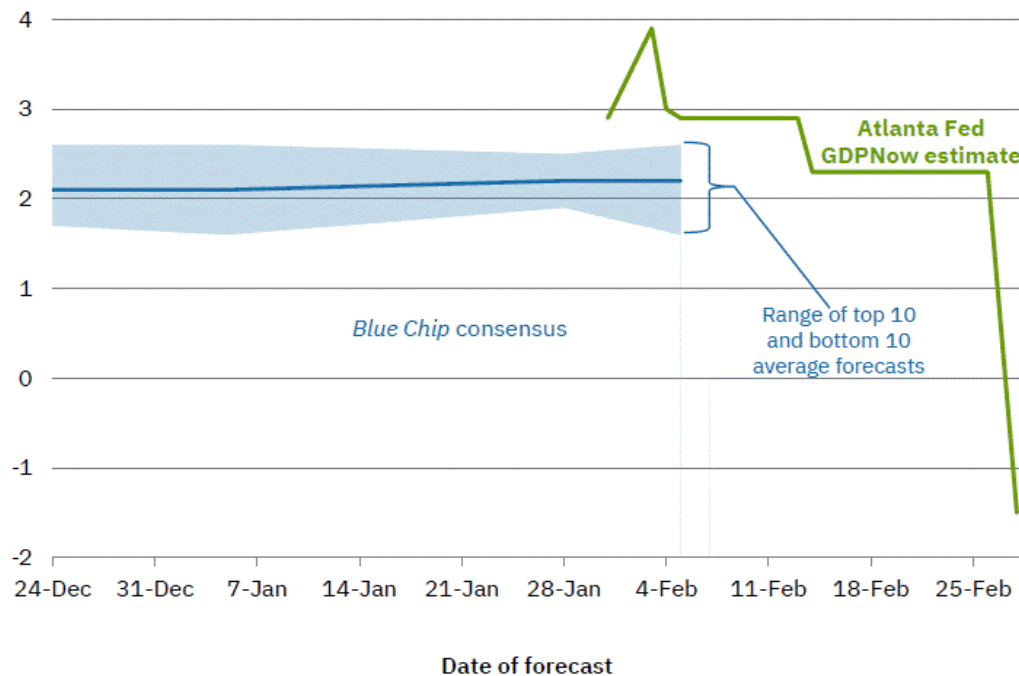
- The equity markets hit record highs mid-month but then rolled over hard before a last day stick save to finish the month with modest losses.
- The U.S. 10-year Treasury Yields gyrated for 3-weeks, but once 4.40% broke, yields declined dramatically the last week of the month.
- Crude oil continued working its way to the lower end of the range following the false breakout at \$80 in mid-January, ending the month below \$70.

The U.S. Economy

The second read for 4th quarter GDP came in unchanged at 2.3%, as expected. Core PCE, the imbedded inflation measure, again moved higher to 2.7%, from 2.5%. The updated estimates for 1st quarter GDP, from GDPNow, came with a shocking drop to end the month at -1.5%, driven by a large boost to Imports front-running tariffs, the Blue-Chip consensus forecast remains just above 2%, as shown in the chart below. Economic reports have been weakening the last couple of months and the PCE deflator is perking up and remaining above the Fed’s sweet spot of “2%” inflation. Stagflation? Recession? The bond and stock market, along with the rest of us, are uncertain, and that is the bane of markets.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q1

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source : <https://www.frbatlanta.org/cqer/research/gdpnow>

Stocks and Bonds

The U.S. 10-year Treasury yield started the month at 4.57%, dipped to 4.40% and then rallied to 4.65% and back. However, concerns about employment, i.e. laid off government workers, combined with weaker economic data, drove yields down 30 basis points the last 10 days of the month. Further, economic data out of China continues to be weak contributing to the economic uneasiness. The uncertainty of Trump's potential new policies continues to make last month comment, MVGA, "Make Volatility Great Again", relevant and seems to be here to stay for a while. The sharp drop in yields was a big tailwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF rallied +2.20% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.23%, down significantly from January's close of 4.57%.

The Dow Jones Industrial Average declined -1.58%, the S&P 500 eased -1.42%, and the small cap iShares Russell 2000 ETF dropped -5.33%. The international markets traded opposite the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index gained +2.74%, and the MSCI Emerging Markets iShares Core ETF Index increased +0.38%.

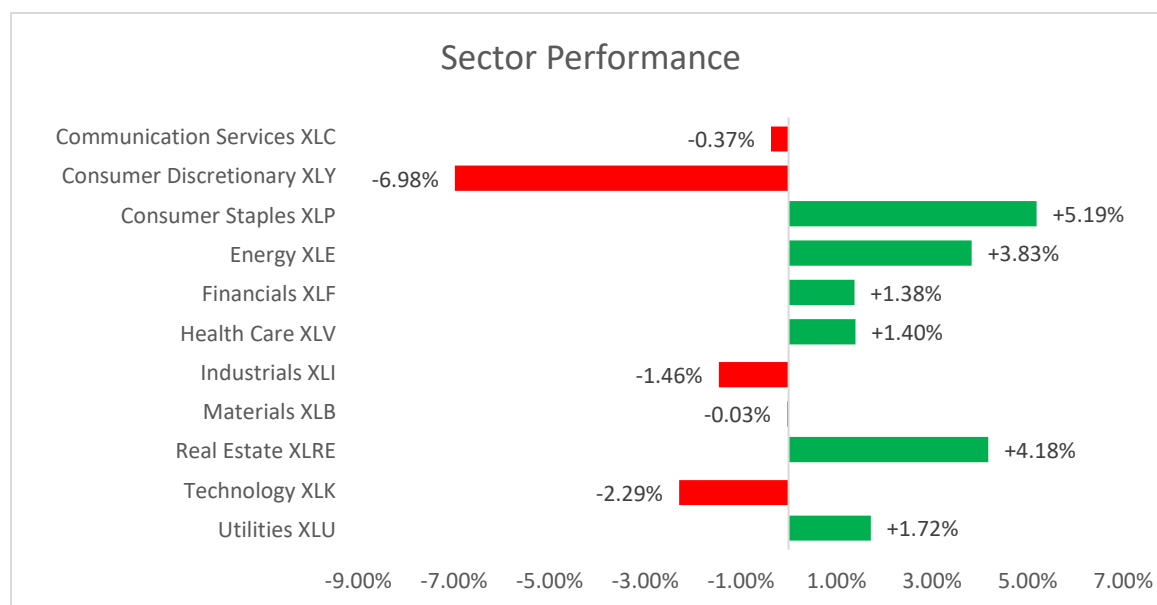
February's sector performance was a Value vs. Growth on winners and losers.

The best performers were...

- Consumer Staples: +5.19%
- Real Estate: +4.18%
- Energy: +3.83%

The worst performers were...

- Consumer Discretionary: -6.98%
- Technology: -2.29%
- Industrials: -1.46%



Source: <https://www.morningstar.com>

Oil Report

Crude Oil continued to roll over from the mid-January false breakout at \$80 to finish under \$70. A lot of the decline was the prospect that the Ukraine/Russian conflict was coming to an end. However, on the last day of the month, the final steps to an upcoming peace agreement were dismantled when Zelensky came to Washington D.C. to sign the mineral agreement. That was supposed to be the final step, instead Zelensky came to Washington with new demands and left DC with nothing. Interestingly, Crude Oil rallied some on the news, but not much. The huge drop in GDP expectations from GDPNow and likely waning demand for oil, vs. the likely continued restraint on supply from a lack of an end to the Ukraine/Russian conflict. There are also ongoing concerns about the weakness in China's economy and the lack of building demand for oil. The current NYMEX WTI Crude Oil futures settled at \$69.95, posting a loss of almost 4% from the prior month's close of \$72.53 a barrel. RBOB gasoline was much stronger than Crude for the month and gained over 8% vs. January's close. We remain in the seasonal lull for the Crude Oil complex, but the economy and geopolitics will likely hold center stage in the interim.

The Rest of the Data

The January ISM Manufacturing Index jumped to 50.9 from December's reading of 49.3, bumping above 50 for the first time in 26 months. The ISM Services Index decreased to 52.9 in January, from December's print of 54.1. Any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing firmed in the normal range and Services' prices moved down to only elevated levels. Consumer confidence dropped to 98.3 in February, which compared to a large upwardly revised 105.3 in January. The unemployment rate declined further to 4.0%, while the number of jobs added 143,000 in January, missing expectations of 175,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) was up +0.5% in January, on a seasonally adjusted basis, the 3rd time higher than the previous month. Over the last 12 months, the All-Items Index rate increased to +3.0% on a non-seasonally adjusted basis. The CPI ex Food and Energy increased modestly to 3.3% over the last year. The economic data is sending mixed messages, Manufacturing registered its' first greater than 50 print in over 2 years, but 1st quarter GDP is now forecast to be negative, and inflation is no longer showing signs of moderating and is even gathering steam in the wrong direction and over the Fed's target of 2%. The mixed signals, inflationary pressures and policy uncertainty are likely to keep the Fed at bay for another rate cut in the short term. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

The market is battling the uncertainty of the new administration and potential policy shifts. I think our current situation is a parallel to Fed Head Bernanke's statement, in 2010, that he could fix inflation in 15 minutes if he needed to, though today's may be a little more practical. It seems that Trump's plan is to reduce the size of government, hoping to spur more private sector growth. In a perfect world, the government would lay off 1 worker and the private sector would hire 1 worker. However, that is not going to happen in the real world. Layoffs in bulk are always faster than hiring in bulk. On the premise that this is in fact his plan; the argument being that the private sector is generally more productive, there will be at least a temporary drop in employment. The \$64,000 question, will the markets, and as

important, the public, see to the other side that in theory the economy should end up on better footing in the long term even if some pain is experienced in the short term? I, and probably nobody else, really knows the answer to the question. The potential result is that with less workers there is less pressure on prices, which would ease inflationary pressures. In contrast, that also likely leads to economic weakness, which is a combination that leads the Fed to reduce interest rates. Ok, that is a very complex way of saying, stay tuned, we just don't know.

As always, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/tariffs vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.



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