TRUST AND ASSET MANAGEMENT
MARKET OUTLOOK
FEBRUARY 2025

MARKET UPDATE

(all values as of 1.31.2025)

Stock Indices:

Dow Jones	44,544
S&P 500	6,040
Nasdaq	19,627

Bond Sector Yields:

2 Yr Treasury	4.22%
10 Yr Treasury	4.58%
10 Yr Municipal	3.06%
High Yield	6.95%

YTD Market Returns:

Dow Jones	4.70%
S&P 500	2.70%
Nasdaq	1.64%
MSCI-EAFE	5.00%
MSCI-Europe	6.60%
MSCI-Pacific	2.30%
MSCI-Emg Mkt	1.10%
US Agg Bond	0.53%
US Corp Bond	0.55%
US Gov't Bond	0.53%

Commodity Prices:

Gold	2,831
Silver	32.23
Oil (WTI)	73.81

Currencies:

Dollar / Euro	1.04
Dollar / Pound	1.24
Yen / Dollar	154.38
Canadian / Dollar	0.69

Macro Overview

Proposed tariffs by the administration led to elevated volatility and concern in the domestic and international markets. Markets globally are anxiously awaiting the implementation of new tariffs and what industries would be adversely affected. Many analysts and economists believe that the proposed tariffs are being used as a negotiation tool in order to prompt countries including Mexico, Canada and China to negotiate with the U.S. Should less than expected tariff implementations come to fruition, the long standing fears of heightened inflation are expected to dissipate.

The Core Consumer Price Index (CPI) which excludes volatile food and energy prices rose 0.2%, its smallest gain since July 2024 and less than the 0.3% increase expectedby economists.

U.S. corporations shifted their worries from inflation to tariffs as the administration's threat to impose tariffs on nearly every import altered plans for U.S. manufacturers and importers with operations overseas. More than 90% of North American manufacturing companies have relocated at least some production or supply chain activities overseas in the past five years.

Property insurance premiums are projected to rise across the country as claims on the California wildfires are expected to affect policy premiums nationwide. Insured losses from the California wildfires are estimated to be between $28 to $45 billion, making it one of the costliest fires in history. Hurricanes Helene and Milton in September and October of 2024 inflicted over $100 billion in losses.

Insurance companies are increasingly coming under scrutiny, following a study by the Federal Reserve which found that roughly 40 percent of affected households from fires in California over the past few years received insurance settlements lower than the estimated replacement costs. The underpayments amounted to an average of $200,000 to $300,000 per claim, less than the entitled amount under California law.

Newly elected Treasury Secretary Scott Bessent has made it clear that the administration's primary focus with Treasuries is to bring the yield lower on the benchmark 10-year Treasury bond. Since longer term bond yields are determined by the markets, not the Fed, fiscal and expenditure initiatives are focal objectives in lowering yields.

Seven counties in Illinois voted to consider to secede from the state and move to Indiana. Legislation was introduced in January to establish a commission that would actually redraw state lines in order to accommodate the seceding seven counties. The Indiana Illinois Boundary Adjustment Commission was created to accomplish the secession. County secessions have occurred for decades across the country affecting various state boundaries.

A Brookings Institute study found that Americans with a four year college degree are living longer and healthier lives than those without a four year degree. The gap between the two has been widening according to the data collected since 1992. Attributable distinguishing factors include education about health, income, financial duress, and life style choices.

(Sources: Brookings, Fed, Treasury Dept., Dept. of Commerce, BEA)

Rates Stabilize As Global Central Banks Cut Rates Further – Fixed Income Update

Yields on government and corporate bonds leveled off in January as fixed income markets awaited the proposed policies and agenda of newly installed Treasury Secretary Scott Bessent. Reducing federal debt and curtailing government expenditures is a primary objective for the Treasury Secretary. Lower rates that are expected to be enacted by the Fed actually benefit the U.S. government just as it benefits consumers, as the cost on the interest that the government pays declines as rates fall.

Central banks across Asia and Europe are on track to lower rates as global growth contracts. The European Central Bank (ECB) cut interest rates on January 30, 2025, making it the fifth rate cut since June 2024.

(Sources: Treasury Dept., EuroStat, Federal Reserve)

Equities Start Year Off With Hesitation – Stock Market Overview

Equity indices started the year off with cautious optimism regarding the returning administration's fiscal agenda, as proposed tariffs and inflationary pressures weighed on equities. The Dow Jones Industrial Index and the S&P 500 Index both experienced moderate gains in January, although the tech heavy Nasdaq index struggled to keep pace with the Dow and S&P 500.

Nearly all sectors of the S&P 500 Index are experiencing earnings growth, driving earnings estimates higher in 2025. Technology shares suffered enhanced volatility as development dilemmas tainted the rapid rise in many AI related stocks. Interestingly enough, four of the largest technology companies are expecting to spend a cumulative $325 billion in capital expenditures and investments in 2025 on the build out of artificial intelligence infrastructure.

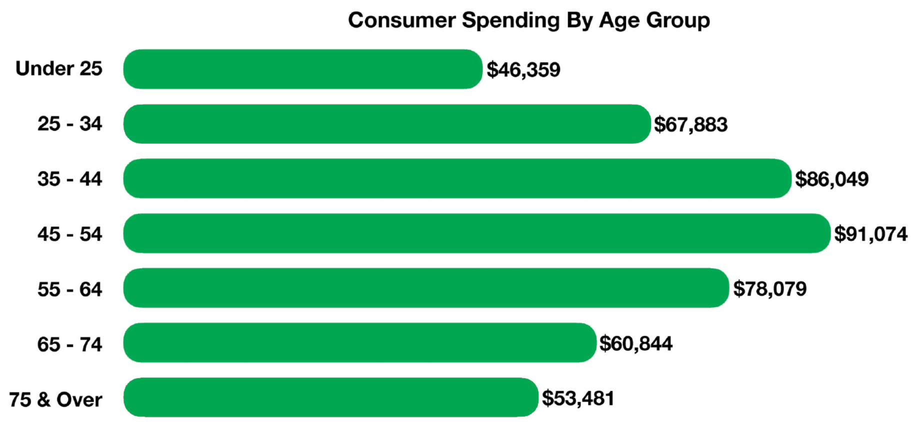
(Sources: S&P, Dow Jones, Nasdaq)

Percentage of Average Wage Going Towards Housing Highest Since 2007 – Housing Market Update

Consumer spending remains a critical component of U.S. economic growth, accounting for approximately 70% of the nation's Growth Domestic Product (GDP). Demographics play a crucial role in spending habits and where consumer funds are spent. Younger consumers spend more on education and sports equipment, while older consumers spend more on health and travel.

In 2022, the average American household spent nearly $73,000, with a significant portion dedicated to essential living expenses such as food, housing and energy. Consumers between the ages of 45 and 54 represent the peak spending years, with an average of $91,074 in annual expenditures. Consumers age 75 and older tend to spend an annual average of $53,481, while those under 25 years of age spend the least annually at $46,359.

(Sources: Federal Reserve)



How Wildfires In California Affect Insurance Premiums Nationwide – Insurance Industry Update

The recent wildfires in California and the destructive 2024 hurricane season in Florida and the East Coast have levied tremendous losses on insurance companies that cover properties across the country. Additional factors, including higher construction costs and extreme weather patterns, have elevated coverage costs even further.

With billions of dollars in insurance payouts, reinsurance companies eventually start paying one another in order to cover distributions on claims. As reinsurance payouts escalate, so do premiums on policies throughout the insurance industry in order to recoup distributed funds.

As insurance companies pay out claims on catastrophic losses in Florida and California, premium increases are imposed on nearly every policy holder in all 50 states. Insurance companies pool large amounts of funds collected from premiums as payable funds for payouts on claims. According to S&P Global, the average increase this past year for a homeowners insurance policy was 10.4% nationwide. Some states saw even larger increases, such as Nebraska with a 22.7% increase and Montana, Utah and Washington with more than a 20% increase. Nevada and Texas saw among the lowest premium increases. California policy holders experienced a 13.6% average premium increase, with another hike expected this year. Several variables contribute to premium increases including weather, number of policy holders, and number of claims.

(Sources: Philadelphia Federal Reserve)

Consumers Borrowing At Record Pace – Consumer Debt

U.S. consumer debt outstanding unexpectedly surged by the most on record in December 2024, reflecting massive increases in credit card balances and non-revolving credit. Total credit jumped $40.8 billion after a revised $5.4 billion decrease a month earlier, according to Federal Reserve data.

While steady hiring continues to drive consumer spending growth, stubborn inflationary pressures and high borrowing costs are challenging consumers. The average rate on a credit card account stood at 22.8% as of November 2024, close to the highest in Fed data back to 1995.

Americans are rolling over more credit card balances to other cards instead of paying off outstanding debt. The share of borrowers only making the minimum payments was the largest on record. Delinquency rates have also risen, with about 3.5% of card balances past due by 30 or more days and 1.8% of accounts delinquent. Both figures are more than double the post-pandemic lows recorded in 2021.

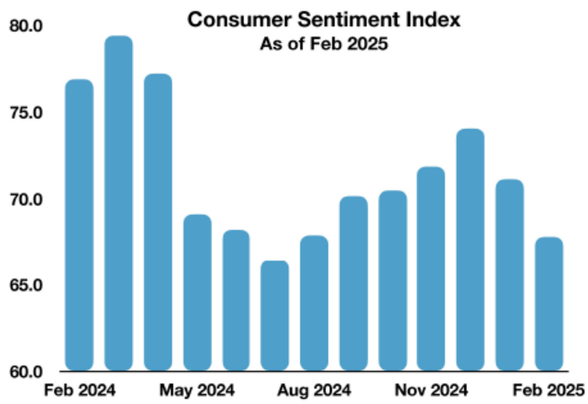
(Sources: Philadelphia Federal Reserve)

Consumer Sentiment Falls For The First Time In Six Months – Consumer Behavior

Sentiment among U.S. consumers fell in January for the first time in six months as concerns surrounding unemployment and proposed tariffs kept hindering consumers. Data from the University of Michigan's Sentient Index also revealed that lingering inflation concerns were also a factor in sentiment declines.

Unemployment has become more of an issue for consumers since it is taking longer for those unemployed to find a job. Credit card use and debt among consumers has increased over the past few months, indicating that consumers may be stretched in meeting monthly expenditures.

(Sources: Dept. of Labor, Univ. of Michigan)



Proposed Tariffs & Their Effects – International Trade

Proposed tariffs on imports from Canada, Mexico and China have stirred controversy as inflationary threats mount. Offering some reprieve, a 30 day hold on any new or additional tariffs was agreed upon with Mexico and Canada in late January.

The administration suspended the threat of steep tariffs on products from Mexico and Canada, agreeing to a 30-day pause in return for concessions on border and crime enforcement with the two neighboring countries. Increased tariffs on China were still scheduled to take effect.

Should manufacturers and importers not absorb new tariffs, then the cost of the tariffs would be passed along to U.S. consumers in the form of higher prices from food to televisions.

Many analysts and economists are trying to determine whether the latest tariff threats are viable or simply a negotiation tool.

(Sources: Dept. of Commerce, Bloomberg)

Food Prices On The Rise Again – Consumer Behavior

Bird flu and bad weather have contributed to the already elevated food prices across the country. The cost of groceries in the U.S. increased 2.5% in 2024. Higher food and energy prices tend to affect lower income families more since these expenditures are considered essential and make up a larger proportion of lower income consumers versus higher income consumers.

Specific factors over the past couple of months such as the Bird Flu has increased egg and poultry prices, while extreme dry weather in the world's coffee-growing regions has risen coffee prices. Egg prices alone have increased 37% in the past year, with beef, chicken and pork also seeing increases during the same period.

Cocoa and sugar costs have also risen, affecting the cost of raw ingredients for large food producers that eventually pass along the higher costs to consumers, thus adding to inflationary pressures.

(Sources: Bureau of Labor Statistics, USDA)

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