Independence | Asset Advisors

MONTHLY MARKET REVIEW – February 2025

	Feb 2025	YTD	1-Year	3-Years	5-Years	10-Years
U.S. Large Cap Equities S&P 500	-1.30%	1.44%	18.41%	12.55%	16.85%	12.98%
U.S. Small Cap Equities Russell 2000	-5.35%	-2.87%	6.69%	3.34%	9.39%	7.23%
Energy Infrastructure Equities Alerian U.S. Midstream	1.99%	7.12%	52.58%	28.81%	26.64%	8.94%
U.S. Real Estate Equities Dow Jones U.S. Select REIT	3.86%	5.12%	16.24%	2.04%	6.20%	5.11%
Global Equities MSCI All Country World Index	-0.60%	2.73%	15.06%	9.14%	12.79%	9.11%
Int'l Developed Equities MSCI EAFE	1.94%	7.30%	8.77%	6.42%	8.70%	5.28%
Emerging Market Equities MSCI Emerging Markets	0.48%	2.28%	10.07%	0.46%	4.26%	3.49%
U.S. Taxable Fixed Income Bloomberg U.S. Aggregate	2.20%	2.74%	5.81%	-0.44%	-0.52%	1.51%
U.S. Tax-Exempt Fixed Income Bloomberg Municipal Aggregate	0.99%	1.50%	2.96%	0.99%	0.67%	2.33%
High Yield Fixed Income Bloomberg U.S. Corp High Yield	0.67%	2.05%	10.09%	4.94%	4.93%	5.06%
Floating Rate Loans Morningstar LSTA U.S. Loan	0.11%	0.80%	8.10%	7.34%	6.19%	5.05%

- Uncertainty about the impact of the U.S. administration's policy agenda rattled markets.
- U.S. large and small cap stocks declined, while "value" outperformed "growth" by 3.3%.
  - "Mag 7" stocks declined 8.1%, pulling the cap-weighted S&P 500 Index down to 5,954.
  - U.S. small cap stocks fell 5.4%, as markets considered the impact of tariffs on small businesses.
- Fixed income returns were positive as yields fell and prices rose for the second consecutive month.
  - The yield curve spread between 2-year and 10-year Treasuries was 0.2%. Nominal 10-year treasury yields were 4.2%, with inflation at 2.6% (PCE), producing positive real yields. While positive real yields are attractive, duration risk was more attractive when the 10-year yield was 4.8%. We see some institutional investors cutting duration as the 10-year yield approaches 4%.
- High yield bond spreads were 288 basis points, or 44%, below average.
- Floating rate loans look less attractive on a risk adjusted basis, despite higher income, as loan fundamentals have deteriorated and recession risk appears to be rising. Securitized CLOs would be a safer floating rate option.

Sources: eVestment, JP Morgan, xe.com, Trading Economics, MacroTrends, StatisticsCanada, Bloomberg, Financial Post, bea.gov, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Morningstar, RBC.

Category	Comments
Growth	• U.S. economic growth expanded at 2.3% seasonally adjusted annual rate (saar) during Q4, with real economic growth coming in at 2.8% in 2024. • Consumer spending was the primary driver of growth, rising 4.2% q/q. • Inventories were a significant drag on economic activity, while economic momentum remains solid.
Profits	• The 4Q24 earnings season is underway with 98% of market cap reporting: o Current estimate for Earnings Per Share (EPS) of $65.40; would represent an increase of 18.3% y/y and 6.6% q/q. o Driven by Sales growth (5.7%), Margins (13.6%) and Shares count (-1.0%) o We note a continuing broadening out of earnings, with the S&P 500 ex-Magnificent 7 set to grow earnings per share by 14% y/y.
Jobs	• The January jobs report showed solid hiring momentum: o Nonfarm payrolls rose by 143,000. While weaker than expected, upward revisions to November and December showed positive year-end momentum. o Wage growth rose to 0.5% m/m and 4.1% y/y; unemployment fell to 4.0%.
Inflation	• January Personal Consumption Expenditures Index (PCE): o Headline (estimate): 2.5% y/y (0.1% decrease m/m). o Core (estimate): 2.6% y/y increase (0.2% decrease m/m).
Interest Rates	• The FOMC policy rate was unchanged in January at a range of 4.25%-4.50%: o The FOMC 2025 median year-end estimated policy rate is 3.9%. o Fed Funds futures are pricing in 3.7%.

CANADA:

- The U.S. dollar index (DXY) ***decreased*** 0.7% in February and ***increased*** 3.0% over the past year (see chart below), while the U.S. dollar ***strengthened*** 0.2% (YTD) against the Canadian dollar to end the month with an exchange rate of **1.44**.
- The Bank of Canada reduced its policy interest rate from 3.25% to 3.00% on January 29th.
- The next opportunity for the BoC to adjust its policy rate is March 12th.
- Inflation has not materially increased, with total CPI ending February at 1.9% (up 0.1% m/m). Core CPI, referred to as "CPI-trim," was 2.7% at month-end, a 0.2% increase from year-end.
- The Canadian economy grew at a strong-than-expected 2.6% annualized rate in the fourth quarter, an indication that interest rate cuts are working to fuel the economy, but U.S. imposed tariffs (and potential retaliatory tariffs) pose a significant headwind in 2025.

Sources: eVestment, JP Morgan, xe.com, Trading Economics, MacroTrends, StatisticsCanada, Bloomberg, Financial Post, bea.gov, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Morningstar, RBC.

OIL:

- **The price of crude oil was $69.95 per barrel (WTI).**
- Oil prices decreased $3.86 per barrel, or 5.2%, in February.
- The price decrease was directly attributable to OPEC+'s decision to proceed with a planned output increase in April. U.S. imposed tariffs on Canada, Mexico and China are expected to decelerate global growth and dampen oil demand.
- **Oil is forecasted to trade between $65 and $73 per barrel over the next 12 months.**

Year	Ave. Price	High	Low	% Change
2025	$73.11	$80.04	$68.30	-3%
2024	$75.83	$87.01	$66.37	1%
2023	$77.64	$93.84	$66.74	-11%
2022	$94.53	$123.70	$71.59	7%
2021	$68.17	$84.65	$47.62	55%
2020	$39.68	$63.27	$11.26	-21%
2019	$56.99	$66.24	$46.31	35%
2018	$65.23	$77.41	$44.48	-25%
2017	$50.80	$60.46	$42.48	12%
2016	$43.29	$54.01	$26.19	45%
2015	$48.66	$61.36	$34.55	-31%
2014	$93.17	$107.95	$53.45	-46%

COPPER:

- **The price of copper was $4.55 USD per pound.**
- Copper prices increased $0.27 per pound, or 6.3%, in February.
- Copper prices surged for a second consecutive month amid potential U.S. imposed tariffs on the metal. The tariffs will aim to boost U.S. production, which may tighten U.S. copper supplies due to limited domestic capacity (just two U.S. smelters).
- **Copper is forecasted to trade between $4.50 and $4.70 per pound over the next 12 months.**

Year	Ave. Price	High	Low	% Change
2025	$4.41	$4.78	$4.02	13%
2024	$4.23	$5.10	$3.68	3%
2023	$3.86	$4.28	$3.57	2%
2022	$4.00	$4.94	$3.23	-14%
2021	$4.24	$4.76	$3.52	27%
2020	$2.80	$3.63	$2.10	26%
2019	$2.72	$2.97	$2.53	6%
2018	$2.93	$3.30	$2.56	-20%
2017	$2.81	$3.30	$2.49	32%
2016	$2.20	$2.69	$1.94	17%
2015	$2.49	$2.94	$2.02	-25%
2014	$3.11	$3.38	$2.83	-17%

ALUMINUM:

- **The price of aluminum was $2,608USD per tonne.**
- Aluminum prices increased $12.75 per tonne, or 0.5%, in February.
- Aluminum prices fell sharply from the February 20th high as the U.S. considered easing Russian sanctions. China's record production has further saturated the aluminum market.
- **Aluminum is forecasted to trade between $2,500 USD/tonne and $2,700 over the next 12 months.**

Year	Ave. Price	High	Low	% Change
2025	$2,616	$2,729	$2,490	2%
2024	$2,458	$2,768	$2,159	7%
2023	$2,288	$2,662	$2,122	0%
2022	$2,711	$3,966	$2,103	-15%
2021	$2,486	$3,198	$1,954	42%
2020	$1,732	$2,068	$1,427	9%
2019	$1,811	$1,936	$1,706	-2%
2018	$2,115	$2,556	$1,817	-19%
2017	$1,979	$2,272	$1,686	34%
2016	$1,610	$1,784	$1,450	12%
2015	$1,679	$1,978	$1,436	-18%
2014	$1,984	$2,107	$1,840	0%

Sources: eVestment, JP Morgan, xe.com, Trading Economics, MacroTrends, StatisticsCanada, Bloomberg, Financial Post, bea.gov, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Morningstar, RBC.

Disclosures:

The views, opinions, and content presented are for informational purposes only. They are not intended to reflect a current or past recommendation; investment, legal, tax, or accounting advice of any kind; or a solicitation of an offer to buy or sell any securities or investment services. The advisor does not provide tax, accounting, or legal advice. Nothing presented should be considered to be an offer to provide any product or service in any jurisdiction that would be unlawful under the securities laws of that jurisdiction. The charts and/or graphs contained herein are for educational purposes only and should not be used to predict security prices or market levels.

The advisor has made every attempt to ensure the accuracy and reliability of the information provided, but it cannot be guaranteed. The information contained herein may be subject to change at any time without notice.

Sources: eVestment, JP Morgan, xe.com, Trading Economics, MacroTrends, StatisticsCanada, Bloomberg, Financial Post, bea.gov, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Morningstar, RBC.

MARKET UPDATE

February 28, 2025

By Thomas Grugan, Director & Senior Investment Strategist

High Level Summary

Global equity markets were unsettled in February, burdened by the uncertainties of the U.S. administration's policy agenda. During the month, U.S. large cap equities declined 1.3%, with "value" outperforming "growth" by more than 3.3%. U.S. small cap stocks were particularly affected by the uncertainties associated with the implementation of U.S. and retaliatory tariffs, with the Russell 2000 Index declining 5.4%. Tariffs were a major revenue source for many countries before the establishment of the federal income tax in 1913, but today, tariffs are primarily used as a trade policy tool to advance foreign policy goals and to encourage consumers to buy from domestic producers by raising the price of targeted foreign goods. The uncertain implications of tariffs directly impacted the U.S. small cap market in February, with investors concerned that smaller businesses may suffer most as input costs rise, economic growth slows, and unemployment increases, reducing demand. The Fed appears content to allow its policy interest rate to stay higher for longer until it sees rising unemployment and slower growth in the numbers.

As markets gradually begin to price in the future impacts of tariffs, investors may want to consider taking advantage of heightened volatility, which could present opportunities to add higher quality public equities that are priced more attractively. In this letter, we primarily focus on the current and future state of the U.S. equity market, while also considering other opportunities currently available for investors seeking lower volatility and less downside risk, and providing strong/consistent income and higher, more predictable long-term total returns.

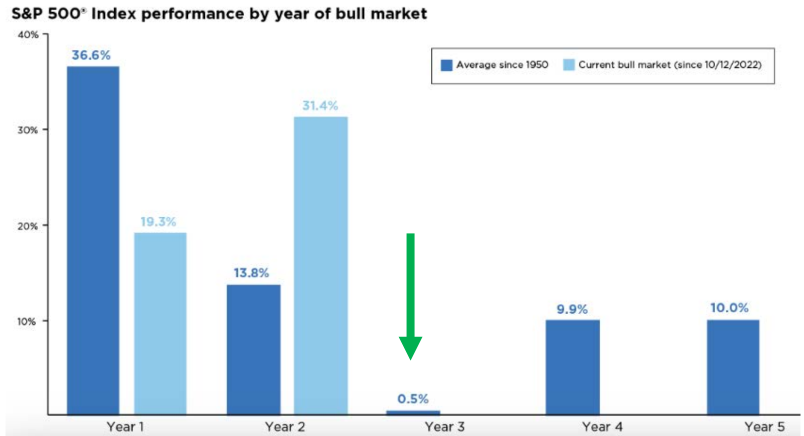
U.S. Equity Market

Investors have enjoyed favorable equity market returns, with the S&P 500 Index gaining +25% over each of the past two years. The returns have been supported by the emergence of generative AI, and the emergence of the "Magnificent 7". In 2023 and 2024, these stocks contributed 63% and 55% of the S&P 500 Index return, respectively, but sentiment has shifted this year and these seven companies, which comprised more than 35% of the Index, have been the greatest detractors of return. On a year-to-date basis (3/10), the "Magnificent 7" companies have declined 13.7%, compared to all other companies in the S&P 500 Index, which are flat. The year-to-date declines are attributable to a combination of factors, including projections for slowing earnings growth, high valuations and rising competition from emerging companies like DeepSeek and BYD. Against a backdrop of heightened volatility, concentration risk and overvaluations, what areas of equity markets still look attractive?

Before considering other areas of the U.S. equity market, it is important to consider where we are in the cycle and how investor sentiment can have a meaningful impact on the trajectory of returns.

Sir John Templeton once stated the "bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." In the current cycle, we appear to have passed through the first two stages, and while returns in the third year of a bull market run have typically been muted, they have often been positive.

In the chart to the right , we show the average historical annual return of the S&P 500 Index since the inception of bull markets going back to 1950. Over the long-term, markets have typically been driven by fundamentals, but over the short-term, narratives sway stock prices, as investors interpret complex economic and financial data and form expectations for future market returns.



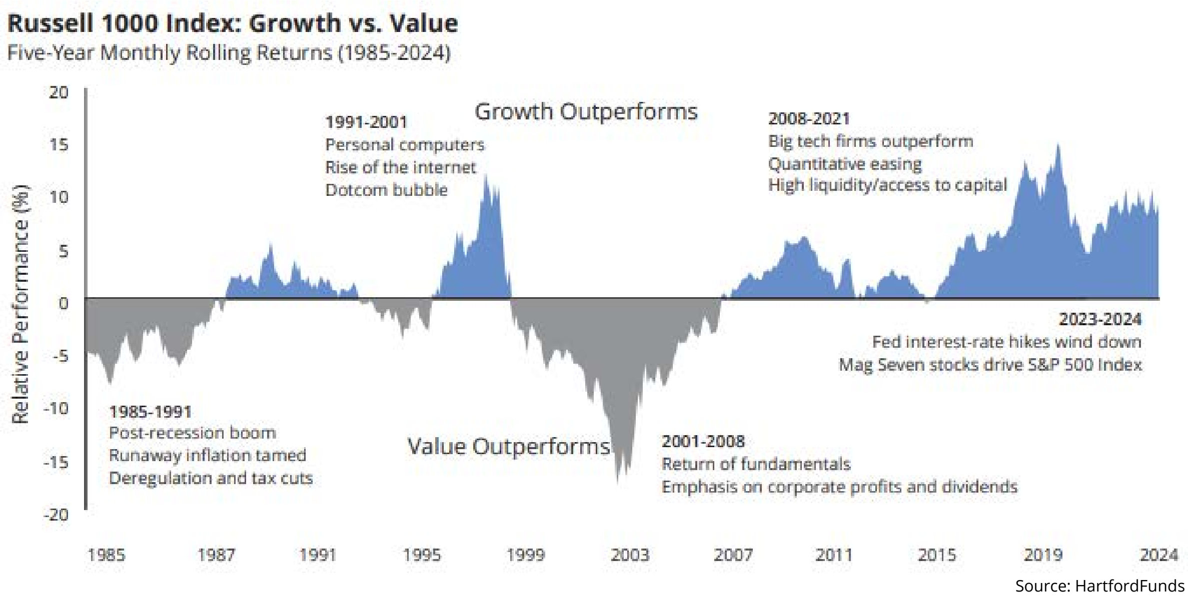
Source: Nationwide

With 2025 well underway, the U.S. equity market started the year well supported by a strong U.S. economy and enough momentum to extend the current bull market. However, U.S. policy uncertainty, a lower forward earnings growth projection and high valuations are causing heightened equity market volatility. Markets may be rational in the long term , but individual investors may not be in the short term. As Benjaman Graham observed, "In the short run, the market is a voting machine but in the long run, it is a weighing machine." And what it weighs are expected earnings and cashflow back to investors. With markets currently driven by macro uncertainty and investors voting on this uncertainty, we can expect more equity price volatility and potential opportunities for investors to capture more future market upside, while remaining diversified and fully invested through periods of sharp market declines. As John C. Bogle admonished, "stay the course." Time *in the market* is more important than *timing* the market.

Current Opportunities

The S&P 500 Index is currently bifurcated, with a small number of overvalued mega-cap companies driving the majority of returns (both positive and negative). Over the past few years, the return of the Technology sector has led to a steep relative underperformance of higher quality "value" oriented stocks. But market sectors are cyclical by nature, and we see better opportunities to rotate into unfavored segments of the U.S. equity market that offer more attractive valuations and higher forward-looking earning growth.

In the graph at the top of the next page, we show the cyclicality of growth stock and value stocks, represented by the Russell 1000 index. Growth stocks have performed better in the current market cycle, and historic market forces lead many strategists to expect a reversion in the years ahead, similar to the period from 2001-2008, when value stocks outperformed as investors placed a greater emphasis on the core building blocks of stock returns, including dividends, earnings growth and valuations.

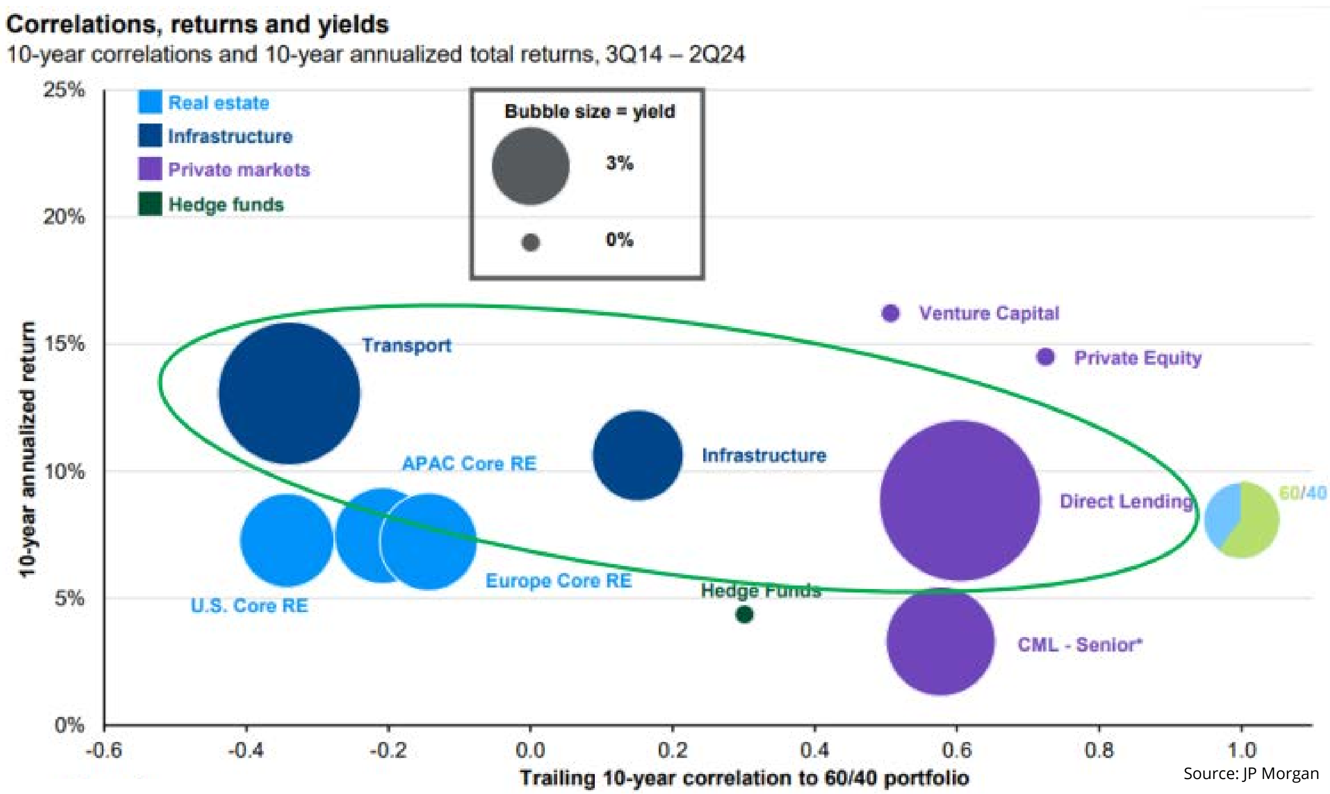


The cyclical nature of U.S. growth and value, market capitalization and U.S. and foreign equity divergences make it advisable to remain well diversified. While the "Magnificent 7" companies remain highly overvalued, there are many stocks that are attractively priced. With markets shifting based more on emotion than fundamentals, we advocate a preference to overweight higher quality companies with strong balance sheets, consistent earnings and reasonable valuations.

Furthermore, we believe it may be a good time, to the extent underweight, for investors to rotate out of fixed income and rebalance back into equities, including outside of the United States. We also strongly encourage investors to consider alternative investments, as many historically less-liquid strategies are now being offered in evergreen, or open-ended formats that are more investor friendly.

Alternative investments, including private credit, core infrastructure, real assets and private equity, have demonstrated the ability to deliver higher long-term stable cash flow throughout a varied market cycle, while lowering portfolio volatility and improving total return.

When integrated into portfolios comprised of public investments, alternatives have consistently stabilized and improved long-term returns at lower volatility and less risk to the loss of capital.



Tactical Positioning

The current market environment encourages unfavorable emotional decision making, which typically results in short-term periods of heightened volatility. Amid policy, fiscal and geopolitical uncertainty, and with consensus for higher tail risks that have increased recession risk from 10% to 25%, we believe the best course of action for investors is to remain well diversified, favoring higher quality equity and integrating open-ended private investments.

Please refer to the next page for our tactical positioning table.

Asset Class	Opportunity	UW	N	OW	Comments
Main Asset Classes	Equities				Concentration risk favors diversification; valuation favors value; corporate tax cuts and higher revenue growth; tariff uncertainty risk; lower business CapEx
	Duration				Lower duration; inflation risk
	Credit				Up-in-quality bias; bonds trading at discount to par; prioritize securitized credit
	Cash				4% yield; good source of short-term dry powder
Equities	U.S. Large Cap				Broadening earnings growth in non-tech sectors
	U.S. Small Cap				Support from possible corporate tax cuts; vulnerable to higher cost of financing
	U.S. Mid Cap				Favorable to U.S. small cap
	"Value"				Valuations below historical average (discount)
	"Growth"				Valuations above historical average (premium)
	Non-U.S.				Rate cuts anticipated to drive future growth; tariff uncertainty tail risk
	Emerging Mkts				Cheap valuations, but heightened China concentration risk; risk of tariffs and retaliation
Fixed Income	Treasuries				Attractive short-to-intermediate term yield; reinvestment risk in short-term
	Corporate IG				Higher quality attractive
	Corporate HY				Healthy balance sheets, but rising default risk
	Bank Loans				Floating rates remain attractive; debt coverage remains adequate, but higher default risk (favor investment grade CLOs)
Private	Credit				Structural/Strategic allocation
	Infrastructure				Structural/Strategic allocation
	Equity				M&A activity; IPO market reopening

Staying the course with strategic asset allocations, and remaining fully invested, has historically been beneficial over past market cycles. A market correction may be a good time to consider rebalancing back into equities or higher yielding risk assets.

Independence Asset Advisors Disclosures

The views, opinions, and content presented are for informational purposes only. They are not intended to reflect a current or past recommendation; investment, legal, tax, or accounting advice of any kind; or a solicitation of an offer to buy or sell any securities or investment services. The advisor does not provide tax, accounting, or legal advice. Nothing presented should be considered to be an offer to provide any product or service in any jurisdiction that would be unlawful under the securities laws of that jurisdiction. The charts and/or graphs contained herein are for educational purposes only and should not be used to predict security prices or market levels. The advisor has made every attempt to ensure the accuracy and reliability of the information provided, but it cannot be guaranteed. The information contained herein may be subject to change at any time without notice. Past performance does not guarantee future results.