March 2025

MONTHLY MARKET INSIGHTS

Key takeaways:

- The post-election, risk-on sentiment that fueled markets has faded, with growth stocks experiencing their worst month since April 2024. Investor focus has shifted from the benefits of deregulation and lower taxes to the uncertainties surrounding trade policy and government layoffs.
- With the S&P 500 earnings season nearly complete, US companies continue to demonstrate strong fundamentals, with robust top and bottom-line growth.
- In contrast to the past two years, the strongest equity returns to start 2025 have come from international markets, particularly Europe and China.

US stocks struggled in February, with all major indices posting losses. The S&P 500 declined -1.42%, the NASDAQ fell –3.97%, and the Russell 2000 dropped -5.49%. The downturn was particularly severe in the higher-beta segments of the market. The S&P 500 Growth Index, a sub-index of the broader S&P 500 that tracks companies with strong growth characteristics, lost –2.97%, marking its worst month since April 2024. Risk-off sentiment was even more pronounced in speculative assets, with Bitcoin plunging -23.30% during the month. High-flying tech and AI stocks, which had been the biggest beneficiaries of the post-election rally, underwent steep corrections following a mid-month blow-off top. Companies like Palantir and Tempus AI experienced peak-to-trough drawdowns of -37.17% and -44.78%, respectively. Beyond equities, risk aversion extended into the Treasury market, as investors sought safety in bonds. US government bonds rallied, pushing the 10-year Treasury yield down 33 basis points to end the month at 4.21%, its lowest monthly close since last year's election.[1]

Following President Trump's decisive election victory in November, market expectations had become stretched, with February bringing a reversal in sentiment. The shift in investor confidence was largely driven by increased uncertainty surrounding US government policy, particularly trade and federal workforce reductions. Coming into the month, the Trump administration had reached an agreement to postpone new tariffs on Canada and Mexico, initially calming market fears. However, the resolution was short-lived, with recent White House communications stating that 25% tariffs on imports from both countries are now scheduled to take effect on March 4th.[2] Beyond Canada and Mexico, tariff threats have continued broadly across the globe. In his cabinet meeting on February 26th, Trump said that tariffs on the EU would be announced soon and are the result of their continued policies that restrict imports of US automobiles and farm products.[3] It is difficult to distinguish which policy measures Trump believes are critical and which he intends to utilize as negotiation leverage. So far, last-minute resolutions have been reached and have resulted in concessions from other countries such as Mexico and Colombia. If the administration continues to pressure trading partners, negotiations may eventually collapse, creating uncertainty around the short-term effects on US markets and the economy. This persistent instability unsettles markets, and without clearer long-term policies, we believe volatility is likely to continue.

1. Bloomberg.
2. Bade, Gavin. "Trump's Tariff Onslaught Is Coming Faster than His Team Can Carry It Out." The Wall Street Journal, Dow Jones & Company, 28 Feb. 2025, www.wsj.com/economy/trade/trump-tariff-enforcement-system-d3b0719f?mod=hp_lead_pos1.
3. Ellyatt, Holly. "Trump Threatens to Slap 25% Tariffs on EU, Says Bloc Was Always Meant to Hurt the U.S." CNBC, CNBC, 27 Feb. 2025, www.cnbc.com/2025/02/27/trump-threatens-25percent-tariffs-on-eu-says-bloc-formed-to-screw-us.html.

Concerns have also grown over the short-term impact of the administration's push for government workforce reductions. The Department of Government Efficiency ("DOGE"), led by Elon Musk, has been rapidly implementing downsizing initiatives, with President Trump encouraging an accelerated pace of layoffs. Anxiety over the potential effects on the US labor market is beginning to build. The Office of Personnel Management announced that 75,000 federal employees agreed to resign voluntarily in exchange for substantial severance packages.[4] Additionally, CNN estimates that approximately 26,000 federal employees have been placed on administrative leave.[5] While the latest initial jobless claims figure of 242,000 may reflect some of these job losses, the overall number remains within the range of the past two years. It does, however, represent a notable uptick from the first few weeks of 2025. For now, the US labor market remains mostly stable, with unemployment figures holding steady at historically low levels over the past six months. Nonetheless, the impact of government layoffs will be an important factor to monitor in the months ahead.

Earnings season was another key focus in February, as the majority of S&P 500 companies reported their fourth-quarter results. By the end of the month, 97% of S&P 500 constituents had released earnings, with results generally strong, despite the deteriorating market sentiment. At an aggregate level, S&P 500 companies reported 5% year-over-year revenue growth, while earnings per share ("EPS") increased 18.2% compared to the prior year.[6] This marked 2024 as the strongest year for EPS growth since 2021. Sector performance varied, with Financials leading earnings growth at 55% year-over-year, while Energy was the only sector to record a decline, posting a -26.3% drop due to persistent weakness in oil and gas prices. Despite a strong year for corporate earnings, valuations remain elevated by historical standards. Of the twelve industry sectors in the S&P 500, nine are trading at forward price-to-earnings ("P/E") multiples higher than their five-year averages.[7] While valuation metrics are not a reliable predictor of short-term returns, higher multiples do introduce downside risk. A slowdown in growth could trigger multiple compression across equities, posing a potential headwind.

While US equities struggled, international markets posted strong gains in February. European equities rose 3.05%, supported by a rebound in sentiment after a prolonged period of depressed valuations.[8] As highlighted in our annual outlook, investor pessimism toward European markets entering 2025 set the stage for an upside surprise. The rally has been led by financial and defense stocks, as European governments increasingly acknowledge the need for expanded defense budgets and investment spending. Looking ahead, the most significant market driver for Europe remains the situation in Ukraine. At the start of the year, discussions around a potential ceasefire gained traction, but on February 28th, diplomatic tensions escalated following a contentious meeting between President Trump, Vice President Vance, and Ukrainian President Zelensky. The meeting intended to finalize a mineral extraction agreement critical to securing US support ended abruptly in a heated public exchange. President Trump later took to social media with a critical message about Zelensky via his official account on Truth Social.

> *"We had a very meaningful meeting in the White House today. Much was learned that could never be understood without conversation under such fire and pressure. It's amazing what comes out through emotion, and I have determined that President Zelenskyy is not ready for Peace if America is involved, because he feels our involvement gives him a big advantage in negotiations. I don't want advantage, I want PEACE. He disrespected the United States of America in its cherished Oval Office. He can come back when he is ready for Peace."*[9]

4. Patterson, Scott, et al. "Inside Doge's Clash with the Federal Workforce." The Wall Street Journal, Dow Jones & Company, 28 Feb. 2025, www.wsj.com/politics/policy/inside-doge-elon-musk-government-employees-b87fc17a?mod=politics_feat1_policy_pos1.
5. Choi, Annette, et al. "Visualizing Trump's Overhaul of the Federal Workforce | CNN Politics." CNN, Cable News Network, 28 Feb. 2025, www.cnn.com/politics/tracking-federal-workforce-firings-dg/index.html.
6. Butters, John. Earnings Insight, FactSet, 28 Feb. 2025, advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_101824.pdf.
7. Id.
8. STOXX 600, Bloomberg.
9. Trump, Donald (@realDonaldTrump). "A Statement from President Donalt J. Trump…He can come back when he is ready for Peace." 28 Feb. 2025. Truthsocial.

A resolution to the war would serve as a major economic tailwind for Europe, and more importantly, put an end to the death and destruction in the region. If the recent fallout between Trump and Zelensky were to escalate the conflict, fears of serious economic hardship across Europe would likely be rekindled.

China was another standout performer in February, with the MSCI China Index rising 11.75%. The rally was led by beaten-down Chinese technology stocks, which have struggled since peaking in early 2021. Alibaba surged 34.07% during the month, marking its best performance since November 2022. However, despite the recent strength, Alibaba remains well below its all-time high, closing February at $132.51 far from its 2020 peak of $319.32. This price action reflects broader challenges across the Chinese equity market, where most major companies continue to trade significantly below their historical peaks despite recent rebounds. Beyond improving fundamentals, international equities appear to be benefiting from capital rotation, particularly from hot-money and momentum investors. Following two exceptionally strong years for US markets, capital flows are shifting toward Europe and China. This rotation, combined with a weaker US dollar, which declined -0.85% in February, is likely to provide continued support for select international markets over the near term.[10]

While corporate earnings remain strong, shifting investor sentiment and rising policy uncertainties have increased market volatility. International equities have shown renewed strength, benefiting from capital rotation and low expectations. With US equity valuations still elevated, market participants will need to navigate a more uncertain backdrop in the months ahead. We believe diversification across asset classes and geographies remains key to managing risks as markets adjust to evolving macroeconomic and policy developments.

10. Bloomberg

Important Disclosures

This publication is provided by Element Pointe Family Office ("Element Pointe") for general information and educational purposes only. Any discussion of securities or investment strategies should not be construed as research or investment advice. This material should not be construed as an offer to buy, sell or hold a security or investment strategy, and is not provided in a fiduciary capacity.

This publication contains certain forward-looking statements that indicate future possibilities. Due to known and unknown risks, other uncertainties and factors, actual results may differ materially from the expectations portrayed in such forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of their dates.

Element Pointe does not make any representations as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party incorporated herein, and takes no responsibility therefore. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly.

Nothing herein should be construed to limit or otherwise restrict Element Pointe's investment decisions. Element Pointe customizes the portfolios it manages to suit the needs of each client. Investment advisory services are only provided to investors who become Element Pointe clients pursuant to a written account agreement, which investors are urged to read and carefully consider in determining whether such agreement is suitable for their individual facts and circumstances.

Investing in fixed income products is subject to certain risks, including interest rate, credit, inflation, call, prepayment, and reinvestment risk. Investments in alternative investment strategies is speculative, often involves a greater degree of risk than traditional investments including limited liquidity and limited transparency, among other factors and should only be considered by sophisticated investors with the financial capability to accept the loss of all or part of the assets devoted to such strategies. Investing in the stock market involves gains and losses and may not be suitable for all investors. The indexes mentioned are unmanaged and an investment cannot be made directly into them and do not include fees and charges, which would reduce an investor's return. Past performance is no guarantee of future results.

All expressions of opinion reflect the judgment of the authors as of the date of publication and are subject to change without prior notice. There is no guarantee that the views and opinions expressed herein will come to pass.

Element Pointe and its affiliates and employees may hold positions in the securities discussed. You may access Element Pointe's regulatory filings on the SEC's website for additional information about certain of the securities that the firm, its affiliates and its principals may hold. It is important that you do not base your investment decisions on our discussion of certain individual securities as one's overall investment portfolio and individual objectives should be considered when making such a decision.