



Monthly Market Commentary

February 2025

Global equity markets get in the mix amid volatility.

- Global equity markets, as measured by the MSCI ACWI Index, lost ground in February, though performance was mixed among regions due to divergent reactions to the threat of tariffs from the administration of U.S. President Donald Trump. Emerging markets outperformed developed markets.
- Global fixed-income assets finished in positive territory in February. Yields moved lower for all maturities greater than three months. (Prices move inversely to yields.)
- We think that the Trump administration's tariffs could send Mexico and Canada into a moderate recession in the months ahead.

Economic Backdrop

Global equity markets, as measured by the MSCI ACWI Index, lost ground in February, though performance was mixed among regions. Despite a decline towards the end of the month in response to President Trump's threat to impose tariffs on imported goods from the European Union (a political and economic union of 27 European countries), the European market generally benefited from investors' optimism that the region would avoid a trade war with the U.S. Uncertainty regarding the proposed tariffs and a downturn in the technology sector hampered the U.S. equity market.

Emerging markets garnered modestly positive returns and outperformed their developed-market counterparts in February. The Nordic countries were the strongest performers within the developed markets for the month, bolstered mainly by strength in Sweden and Denmark. The rally in Europe was attributable primarily to upturns in Ireland and Spain. Conversely, North America was hampered by a decline in the U.S. market. Chinese stocks listed on the Hong Kong Stock Exchange led the emerging markets in February. Additionally, Eastern Europe benefited from strong performance in Poland. In contrast, the Association of Southeast Asian Nations (ASEAN) region recorded a negative return due to weakness in Thailand and Indonesia.¹

On February 3, a day before 25% across-the-board tariffs on Mexico and Canada (with an exception for Canadian energy, which faces a 10% duty) were scheduled to be implemented, the Trump administration reached agreements with Canada and Mexico to delay the levies for 30 days. This was only after Mexico agreed to send 10,000 troops to the border to combat the flow of fentanyl into the U.S., and Canada pledged to appoint a fentanyl czar, list cartels as terrorists, and launch a joint strike force with the U.S. to combat organized crime, fentanyl trafficking, and money laundering. At the end of February, Trump announced that he was considering 25% tariffs on imports from the European Union. He also commented that the levies against Mexico and Canada were still scheduled to take effect in early March. The ongoing tariff dispute remains highly volatile and in constant flux.

Global fixed-income assets, as measured by the Bloomberg Global Aggregate Bond Index (USD), gained 1.4% in February. Mortgage-backed securities (MBS) were the strongest performers within the U.S. fixed-income market, followed by U.S. Treasury securities, investment-grade corporate bonds, and high-yield bonds. Yields moved lower for all maturities greater than three months. Yields on 2-, 3, 5, and 10-year Treasury notes fell by corresponding margins of 0.23% and 0.28%, 0.33%, and 0.24% to 3.99%, 3.99%, 4.03%, and 4.34%, respectively.² The decline in the yield on the 10-year Treasury resulted in an inverted yield curve (three-month yields exceeded 10-year yields), which historically has predicted economic recessions.

¹ All equity market performance statements are based on the MSCI ACWI Index.

² According to the U.S. Department of the Treasury. As of February 28, 2025.

Global commodity prices, as represented by the Bloomberg Commodity Index, rose 0.8% in February. The West Texas Intermediate (WTI) and Brent crude oil prices each fell by corresponding margins of 3.8% and 5.4% to \$69.76 and \$71.62, respectively, over the month due to concerns about geopolitical tensions between the U.S. and Ukraine, as well as a possible increase in oil production by the Organization of the Petroleum Exporting Countries (OPEC). (In early March, the oil cartel announced plans for a production increase in April.) The gold price rallied for most of the month as investors sought safe-haven assets amid concerns about the Trump administration's proposed tariffs. However, a sharp decline in the price in late February attributable to U.S. dollar strength—the gold price typically moves inversely to the greenback—trimmed the monthly gain to 0.5%. The New York Mercantile Exchange (NYMEX) natural gas price surged 26.0% during the month as cold winter weather in the U.S. spurred an increase in demand. Wheat prices dipped 0.7% in February, hampered by strong production from Australia and Argentina, as well as reduced imports from China. These offset the positive impact of a decrease in stockpiles in the U.S.

On the geopolitical front, the Trump administration sought to enter into negotiations to end the Russia-Ukraine conflict after the president spoke with Russian President Vladimir Putin. Trump subsequently extended an invitation to Ukrainian President Volodymyr Zelenskyy to participate in negotiations with Putin for a ceasefire in the war. Toward the end of February, Trump and Zelenskyy agreed to a deal that would give the U.S. access to deposits of Ukraine's rare earth minerals. The agreement included the establishment of an "investment fund" for Ukraine's reconstruction. However, the deal appeared to be in jeopardy after Trump cut short a meeting with Zelenskyy at the White House on February 28, following a heated discussion regarding a possible settlement of the Russia-Ukraine conflict.

Economic Data (unless otherwise noted, data sourced to Bloomberg)

- According to Statistics Canada, consumer prices (as measured by the change in the Consumer Price Index (CPI)) rose 0.1% in January as costs for energy accelerated. Year-over-year consumer prices were up 1.9%—a modest increase from the prior 12 months. Producer prices were notably stronger in January, as the Industrial Product Price Index (IPPI) increased 1.6% and the Raw Materials Price Index (RMPI) climbed 3.7%. Year-over-year prices were up 5.8% and 11.8%, respectively, for the IPPI and RMPI. Prices for energy, petroleum, and especially metals have generally been rising rapidly. The Canadian labour market was nearly unchanged in February as it added just 1,100 jobs and the unemployment rate held firm at 6.6%.
- The Department of Labor announced that the consumer-price index (CPI) posted a greater-than-expected advance of 0.5% in January, slightly higher than the 0.4% increase in December. Housing costs comprised more than 30% of the upturn in inflation, gaining 0.4% during the month. Food costs also were up 0.4% in January, led by a 15.2% surge in egg prices. The 3.0% year-over-year advance in the CPI was up marginally from the 2.9% annual rise in December. Costs for transportation services and housing climbed 8.0% and 4.4%, respectively, over the previous 12-month period, while commodity prices dipped 0.1%. Core inflation, as measured by the CPI for all items less food and energy, rose 3.3% year-over-year in January, an uptick from the 3.2% annual increase in December. According to the second estimate from the Department of Commerce, U.S. gross domestic product (GDP) grew at an annualized rate of 2.3% in the fourth quarter of 2024—unchanged from the initial estimate and down from the 3.1% increase in the third quarter. The U.S. economy expanded by 2.5% for the 2024 calendar year, lagging the 3.2% annual gain in 2023. The largest contributors to GDP growth for the fourth quarter included consumer spending and federal government spending. This was partially offset by a decline in nonresidential fixed investment (purchases of both nonresidential structures and equipment and software).
- The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, dipped 0.1% in January, sharply lower than the 0.3% rise in December. The CPI advanced at an annual rate of 3.0% in January, up significantly from the 2.5% increase for the previous month. Costs for education and alcohol and tobacco posted the largest gains in January, while clothing and footwear, and furniture and household goods prices declined. Education, communication, and health care costs rose 7.5%, 5.9%, and 5.0% respectively, year-over-year. Core inflation, which excludes volatile food, energy, and alcohol and tobacco prices, rose by an annual rate of 3.7% in January, exceeding the 3.2% year-over-year increase in December.³ The ONS also announced that U.K. GDP grew 0.4% in December, and edged up 0.1% over previous three months (the most recent reporting periods). The increase in GDP for December was an improvement from the 0.1% uptick in November. Output in the construction and services sectors rose 0.5% and 0.2%, respectively, for the three-month period ending December 31, while production output fell 0.8%.⁴

³ According to the ONS. February 19, 2025.

⁴ According to the ONS. February 13, 2025.

- Eurostat pegged the inflation rate for the eurozone at 2.5% for the 12-month period ending in January, marginally higher than the 2.4% annual upturn in December. Costs in the services sector rose at an annual rate of 3.9%, slightly below the 4.0% increase in December. Prices for food, alcohol and tobacco increased 2.3% year-over-year in January, down from the 2.6% annual rate for the previous month. Core inflation, which excludes volatile energy and food prices, increased at an annual rate of 2.7% for the fifth consecutive month in January.⁵ Eurostat also reported that eurozone GDP edged up 0.1% the fourth quarter of 2024, weakening from the 0.4% increase in the third quarter. The eurozone economy expanded by 0.7% year-over-year—down modestly from the 0.9% annual growth rate for the previous quarter. The economies of Portugal, Poland, and Lithuania were the strongest performers for the fourth quarter, growing 1.5%, 1.3%, and 0.9%, respectively. In contrast, GDP in Ireland and Germany saw corresponding declines of 1.3% and 0.2% during the quarter.⁶

Index Data (February 2025)

- The S&P/TSX Composite Index slipped 0.40%.
- The FTSE Canada Universe Bond Index rose 1.10%.
- The S&P 500 Index, which measures the performance of U.S. equities, returned -1.83%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, fell 1.13%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 0.53% (currency hedged) and 0.11% (unhedged).
- The Chicago Board Options Exchange Volatility Index—a measure of implied volatility in the S&P 500 Index that is also known as the “fear index”—jumped from 16.43 at the end of January to 19.63 to end February.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—fell from US\$72.53 to US\$69.76 a barrel during February.
- The Canadian dollar strengthened to C\$1.44 per U.S. dollar. The U.S. dollar was generally weaker against the world’s other major currencies, ending February at US\$1.04 versus the euro, US\$1.26 against sterling, and at 150.70 yen.

⁵ According to Eurostat. February 24, 2025.

⁶ According to Eurostat. February 14, 2025.

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