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An Oxford Harriman & Company Market Commentary

Markets Navigate Economic and Policy Uncertainty in February - Stocks and Bonds Move in Opposite Directions Amid Market Rotation.

Even though six of the eleven S&P 500 sectors traded higher, led by defensive sectors, the S&P 500 declined approximately 1.3% in February. Smaller cap stocks fared worse, falling approximately 5.2% in February. Conversely, bonds traded higher, with the U.S. Bond Aggregate delivering a +2.2% total return. Additionally, investment-grade corporate bonds gained 2.4% as Treasury yields declined.

In a rare occurrence as of late, international stocks traded higher and outperformed the S&P 500, with developed Markets gaining +3.0%, and emerging markets returning +1.1%.

Stocks traded lower in a late-month sell-off as sentiment weakened. The S&P 500's decline erased most of its post-election gains, which had been driven by expectations for stronger growth and deregulation under the new administration. Smaller companies underperformed, with the Russell 2000 ending the month more than -10% below its late November peak.

The January market rotation continued as last year's outperformers lagged. The Magnificent 7, a group of mega-cap tech stocks that drove most of 2024's gains, fell by -8% and dragged down the Nasdaq 100, the Large Cap Growth factor, and the S&P 500. In contrast, defensive sectors and international stocks traded higher, while gold set a new all-time high.

In the bond market, Treasury yields declined, with the 10-year yield falling to its lowest level since early December. The decline in interest rates caused bonds to rise, partially offsetting the stock market sell-off.

Economic Growth Holds Steady, but Market Reacts to High Expectations

The sell-off wasn't triggered by a single event but by a combination of interconnected factors. Economic reports underperformed expectations and revealed a cooling U.S. economy as the services sector contracted and consumer confidence deteriorated. The combination signaled slowing consumer demand, a key pillar of economic growth during recent years.

In Washington, policy uncertainty remained high, with renewed tariff threats against key trading partners and DOGE spending cuts. The market's primary concern: imposing tariffs and reducing government spending could slow economic growth. In the stock market, large AI companies' earnings reports failed to reignite enthusiasm for the companies, leading to a broader sell-off in technology stocks.

Market Sentiment Shifts from Growth to Caution in February

Following the election, the market initially focused on the incoming administration's pro-growth policies. Expectations for tax cuts, deregulation, and increased energy production fueled hopes for stronger U.S. economic growth.

At the start of 2025, investors were optimistic about a "Goldilocks" scenario— moderate growth, cooling inflation, and lower interest rates. The optimism propelled stocks to new record highs this year, but with economic and policy uncertainty building, investor sentiment has become more cautious.

The focus has now shifted from solid earnings growth and a robust labor market to concerns about slowing economic growth and uncertain government policy.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.
The NASDAQ 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ Composite Index. The list is updated quarterly and companies on this Index are typically representative of technology-re¬lated industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.
The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.
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