

## Growth Concerns, Tariff Talks, Geopolitics Fuel Corrective Action

The final week of February was marked by some corrective action in the major indices.



The Nasdaq Composite slumped 3.5%, turning negative for the year, and the S&P 500 logged a 1.0% decline. The Dow Jones Industrial Average ultimately registered a 1.0% gain this week after some recovery buying on Friday. The Dow was also negative heading into Friday.

Increased selling in the mega cap space led to the disproportionate price action in the Nasdaq Composite versus other major indices.

NVIDIA was a big drag in that respect after earnings failed to live up to high expectations. Shares dropped 7.1% this week.

Buy-the-dip approaches, which proved successful earlier in the month, stalled out this week. This fueled the unwinding of momentum trades, which was another

contributing factor driving selling in NVDA. The initial trigger for the negative bias was inflation worries and growth concerns rooted in tariff proposals and efforts to cut government spending, along with soft economic data.

This week data includes the February Consumer Confidence Index, which featured a drop in the index from 105.3 to 98.3 (the largest monthly decline since August 2021) and a surge in average 12-month inflation expectations from 5.2% to 6.0%.

New home sales declined 10.5% month-over-month in January to a seasonally adjusted annual rate of 657,000, there was a jump in weekly initial jobless claims and the pending home sales index hit a record low in January.

Also, the Personal Income and Spending report for January showed welcome disinflation on a year-over-year basis in the core-PCE Price Index (the Fed's preferred inflation measure), yet there was a noticeable 0.5% month-over-month decline in real personal spending, which is going to be a big drag on Q1 GDP forecasts.

As a result, the Atlanta Fed GDPNow forecast for Q1 GDP was revised to a 1.5% contraction from 2.3% growth in the last estimate.

On the tariff front, President Trump announced that tariffs for Canada and Mexico will start March 4; and that an additional 10% tariff for China will go into effect the same day. That followed an indication that a 25% tariff for the EU will be announced soon.

There was also new developments on the geopolitical front that market participants were responding to. President Trump and Ukraine's President Zelenskyy had a heated meeting in the White House, leading Mr. Trump to tell Mr. Zelenskyy he is "gambling with World War III." Market participants were hopeful President Zelenskyy would sign a rare earths deal when he visited the White House, but that did not materialize.

Treasuries settled sharply higher in response to the growth concerns and tariff worries. The 10-yr yield sank 19 basis points this week, and 34 basis points in February, to 4.23%. The 2-yr yield settled 19 basis points lower this week, and 24 basis points lower this month, to 4.00%.

Crude oil fell back below \$70/bbl, widening its February loss to \$2.75, or 3.8%, in another manifestation of growth concerns that could impact demand.

- Dow Jones Industrial Average: +1.0% for the week / +3.1% YTD
- S&P 500: -1.0% for the week / +1.2% YTD
- S&P Midcap 400: -0.2% for the week / -0.8% YTD
- Nasdaq Composite: -3.5% for the week / -2.4% YTD
- Russell 2000: -1.5% for the week / -3.0% YTD

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