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Highland ReCAP

A Review of Capital Markets

February 2025

Summary

Markets were mixed in February, as U.S. investors shunned equities for the safety of bonds. Outside of the U.S., markets shrugged off the uncertainty surrounding potential U.S. tariffs to generate modest gains. January CPI came in slightly above expectations, and geopolitics moved to the forefront again with questions on U.S. policy shifts in Ukraine and Gaza contributing to investor reticence. Shifting risk postures were positive for Treasuries, leading to outperformance for high quality fixed income for the month.

Equities

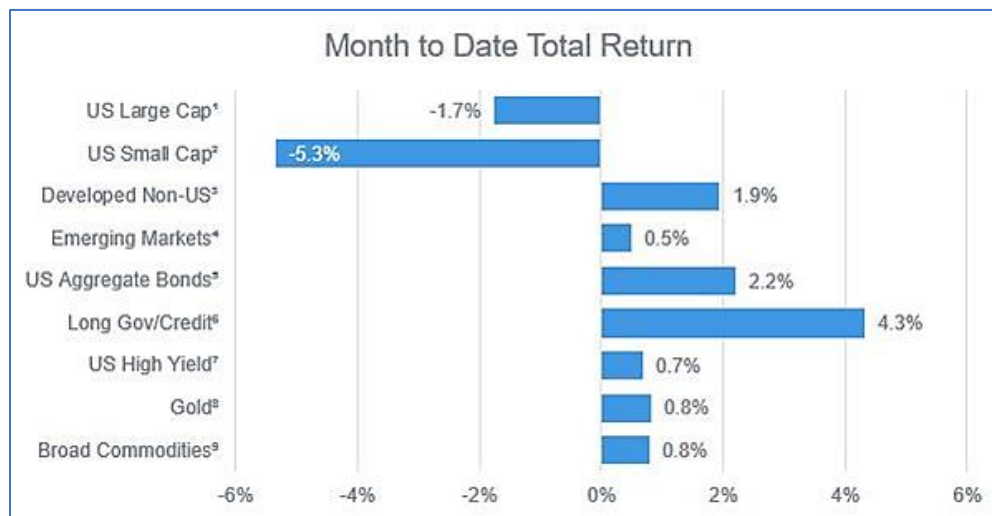
U.S. equities took a step back from all-time highs, finishing lower for February. Small cap stocks took the biggest hit, as a general risk-off sentiment hit markets. This decline was fueled by sour macroeconomic data on inflation and jobs. Stocks could not find steady footing during the month, as uncertainty was looming on global economic policy regarding the scope and timing of President Trump's tariffs and the emphasis on spending cuts. Outside of the U.S., equities managed to generate positive gains, with developed markets outperforming emerging country stocks.

Fixed Income

Treasury yields fell for the month, as investors sought safety from volatile equity markets. The 10-year yield finished just below 4.25%, pushing bond prices higher and generating excess returns for fixed income investors. The Federal Reserve struck a hawkish tone in commentary from January's meeting, re-enforcing the "higher for longer" trade, which was further buoyed by January CPI data coming in higher than expectations. Against this backdrop, duration paid in February, with long-term bonds returning 4.3%, topping other major markets.

Market Trends

As of February 28, 2025



| | 1M | 3M | YTD | 1Y | 3Y | 5Y | 10Y |
|---------------------------------|-------|--------|-------|-------|-------|-------|-------|
| US Large Cap ¹ | -1.7% | -1.4% | 1.4% | 18.1% | 12.1% | 16.5% | 12.7% |
| US Small Cap ² | -5.3% | -10.9% | -2.9% | 6.7% | 3.3% | 9.4% | 7.2% |
| Developed Non-US ³ | 1.9% | 4.9% | 7.3% | 8.8% | 6.4% | 8.7% | 5.3% |
| Emerging Markets ⁴ | 0.5% | 2.1% | 2.3% | 10.1% | 0.5% | 4.3% | 3.5% |
| US Aggregate Bonds ⁵ | 2.2% | 1.1% | 2.7% | 5.8% | -0.4% | -0.5% | 1.5% |
| Long Gov/Credit ⁶ | 4.3% | -0.3% | 4.8% | 4.5% | -5.4% | -4.1% | 1.2% |
| US High Yield ⁷ | 0.7% | 1.6% | 2.0% | 10.1% | 4.9% | 4.9% | 5.1% |
| Gold ⁸ | 0.8% | 6.3% | 7.5% | 37.4% | 13.7% | 11.4% | 7.9% |
| Broad Commodities ⁹ | 0.8% | 5.8% | 4.8% | 11.6% | 0.7% | 10.6% | 1.8% |

1 – Russell 1000, 2 – Russell 2000, 3 – MSCI EAFE, 4 – MSCI Emerging Markets, 5 – Bloomberg US Agg, 6 – Bloomberg US Long Gov/Credit
7 – Bloomberg US Corporate High Yield, 8 – Bloomberg Gold Subindex, 9 – Bloomberg Commodity

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Disclosure Statements

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