

US Equities Stumble as Trade Tensions and Inflation Weigh on Sentiment

S&P 500 Declines in February, Below Prior Month All-time high

Markets faced headwinds last month due to escalating trade tensions and weakening consumer confidence. The S&P 500 Index declined 1.4%, closing below its all-time high in January. Developed international equities showed resilience (+2.3%) with another month among the best performers, followed by US Value (+0.5%) and Emerging Markets (+0.3%). Bonds generally led as US 7-10 Year Treasuries increased 2.8%, Treasury inflation protected notes gained 2.4%, and the US Aggregate Bond Index rose 2.2%. Commodities were mixed, with Gold up 1.8%, Silver fell 0.7%, broad-based commodities posted +0.8%, and Crude Oil was down 3.6%.

Exhibit 1: Trailing Returns as of February 28, 2025

	Index/ETF	1-Mo	YTD	1-Y	3-Y	5-Y
Equities	International Developed Equities (SPDW)	2.25%	6.74%	8.79%	5.40%	8.35%
	US Value (SPYV)	0.46%	3.32%	12.39%	11.47%	14.02%
	Broad-based Emerging Markets (SPEM)	0.34%	1.28%	13.11%	2.16%	5.56%
	US Large-Caps (SPY)	-1.27%	1.38%	18.83%	12.45%	16.69%
	US Growth (SPYG)	-2.89%	-0.35%	23.77%	12.41%	18.13%
	US Mid-Caps (SPMD)	-4.21%	-0.66%	9.56%	6.87%	12.96%
	US Small-Caps (SPSM)	-5.64%	-2.87%	7.01%	2.98%	10.74%
US Fixed Income	US Treasury 7-10 Year (IEF)	2.80%	3.43%	5.09%	-2.53%	-2.04%
	Treasury Inflation Protected Notes (SPIP)	2.38%	3.67%	6.47%	-1.12%	1.71%
	US Aggregate Bond Index (SPAB)	2.23%	2.88%	6.03%	-0.45%	-0.52%
	Investment Grade Corporate Bonds (SPBO)	2.15%	2.69%	7.09%	0.56%	0.36%
	Municipal Bonds (MUB)	1.33%	1.32%	2.88%	1.11%	0.75%
Commodities	High Yield Credit (JNK)	0.93%	2.30%	9.81%	4.09%	3.89%
	Gold (GLD)	1.82%	8.73%	39.69%	13.85%	12.15%
	Broad-based Commodities (BCI)	0.78%	4.66%	11.50%	0.13%	9.97%
	Silver (SLV)	-0.70%	7.52%	37.67%	7.76%	12.75%
	Crude Oil (USO)	-3.59%	-0.44%	2.17%	3.68%	-0.10%

Source: FactSet. Data as of February 28, 2025. 1Y, 3Y, and 5Y numbers are annualized.

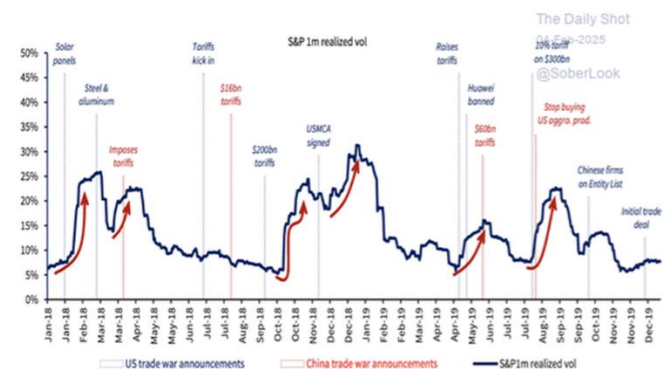
CPI Kills Hopes for Multiple 2025 Rate Cuts

The latest Consumer Price Index (CPI) report for January 2025 showed higher-than-expected inflation, with core CPI rising 3.3% year-over-year, up from 3.2% in December. This data has led the Federal Reserve to reassess its monetary policy outlook. Markets had anticipated multiple rate cuts this year, but persistent inflation suggests the Fed may hold off on easing longer than initially expected. Many analysts now predict that if a rate cut occurs, it will likely be postponed until late in the year, possibly in the fourth quarter. In response, Stock markets faced headwinds as concerns over sustained higher rates weighed corporate earnings expectations. Major indices, such as the S&P 500 and Nasdaq, declined by roughly 1.3% and 2.7%, respectively, as investors reassessed risk and valuation in a prolonged high-rate environment. According to the CME FedWatch Tool, markets now price in a 92.0% chance of no rate change at the Fed's March meeting.

Trade War Volatility

Brace yourself for volatility. In Trump's first term as President, equity volatility saw sharp moves regarding trade war announcements. Considering what we've seen and heard so far, it seems this may be a continuing trend.

Exhibit 2: S&P 1M Realized Vol: Trump 1.0

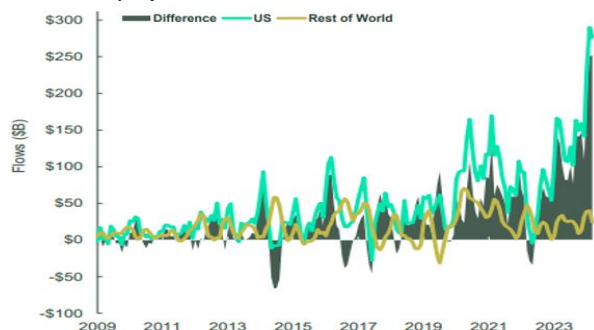


Source: Source: Bloomberg, Barclays Derivatives Research, The Daily Shot.

Despite relative underperformance vs. Non-US, Flows into US Equities Remain Outsized

US equity ETFs continue to see significantly outsized flows versus non-US equity.

Exhibit 3: Rolling 3-Month Flow Differences - US Equity vs. Non-US Equity, \$ Billions

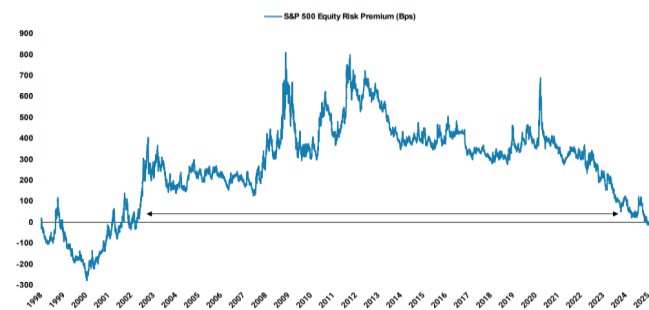


Source: SSGA, Bloomberg Finance, L.P., as of January 31, 2025.

Equity Risk Premiums Higher Elsewhere

The US large-cap equity risk premium is near 20-year lows, implying little premium for taking equity risk given high valuations and high rates.

Exhibit 4: Next 12 Months S&P 500 Equity Risk Premium



Source: FactSet, Bloomberg, Morgan Stanley Research as of Jan. 31, 2025. Note: ERP based on forward earnings yield and 10-year Treasury Yield.

Exhibit 5: Next 12 Months Global Equity Risk Premiums



Source: FactSet, Bloomberg, Morgan Stanley Research as of Jan. 31, 2025. Note: ERP based on forward earnings yield and 10-year Treasury Yield.

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Astoria's High Conviction Views

Why do investors keep pouring money into equity ETFs despite record-high valuations, Mag 7 concentration, and increasing asymmetric risks (i.e., deficit, tariffs, fewer rate cuts)? The US large-cap equity risk premium is near 20-year lows, implying little premium for taking equity risk given high valuations and high rates.

January ISM Manufacturing PMI is back in expansionary territory with new orders, production, and employment components all stronger than the previous reading. All January CPI measures came in hotter than expected, with the core annualized measure ticking up to 3.3%. Headline PPI prints also came in above consensus. It may be worth looking to real assets to hedge investment portfolios.

Less tight Senior Loan Officer Survey data points to a rebound in loan growth in 2025. The relative valuation level of the financial sector is below average on a 20-year look-back.

S&P 500 earnings revisions breadth has remained in negative territory for the last 6 months and continues to fall.

The spread between earnings growth for Mag 7 vs. the S&P 493 is projected to *notably* decline in 2025. The Mag 7 is expected to see 20% EPS growth, while the S&P 493 is expected to see 12% EPS growth (a spread of 800bps). In 2024, this spread was 33%.

Be careful with equal-weighted indices. Most are underweight technology relative to the benchmark. Analysts see high growth in the technology sector continuing. We believe that technology should not be underweight.

For more information about Astoria's latest macro insights, economic outlook, and investment ideas, refer to [Astoria's ETF Macro Insights – February 2025](#)