Before the Bell

An Ameriprise Investment Research Group Publication

February 26, 2025

Starting the Day

- U.S. futures are pointing to a solidly higher open.
- European markets up over 1% at midday.
- Asian markets ended mixed; Hang Seng +3%.
- House of Representatives passed budget framework.
- Copper prices moving +3.5% on tariff headlines.
- 10-year U.S. Treasury yield at 4.31%.
- West Texas Intermediate (WTI) oil is trading at ~$69/bbl.
- Gold is trading near record levels at $2.927.40

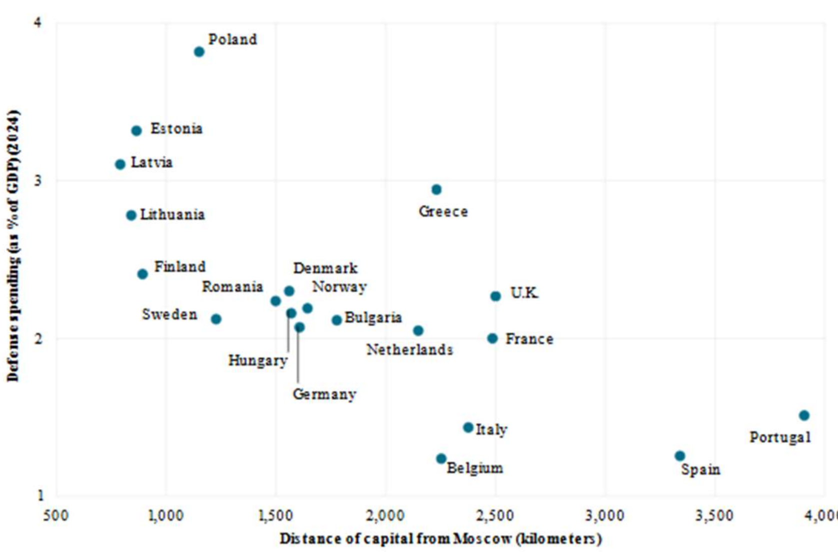
Market Perspectives

Frederick M. Schultz, Senior Director Industrials and Materials

It's a Mad, Mad, Mad, Mad World. While this has nothing to do with the 1963 comedy movie by the same name, it does reflect how mixed messaging at present is creating confusion within the global Defense sector. The Defense sector carries the highest constituent weighting within the S&P 500 Industrials and has an impact on directional performance. After the U.S. elections last fall, we lowered our investment rating on the Defense sector to HOLD based on the outlook for austerity. In recent weeks, President Trump has talked about ~8% across the board reductions in the U.S. defense budget, while at the same time asking NATO members to potentially boost annual defense spending to levels above the historic ~2% of GDP range in Europe. For perspective, the North Atlantic Treaty Organization (NATO) is a long-standing agreement that the U.S., Canada, and thirty member nations in Europe, requires members to spend at least ~2% of annual GDP on national defense.

The U.S. Secretary of Defense recently noted (*November 2024)* that the current U.S. Pentagon budget is both "out of date," implying we are building to old standards that are less effective in a digital world, and likely underfunded for what the new defense of the homeland requires. This view has bi-partisan support, in our view. In Europe, over the weekend, the outcome of the elections in Germany left Friedrich Merz as the next potential chancellor. Mr. Merz quickly stated, "*My absolute priority will be to strengthen Europe as quickly as possible so that, step by step, we can really achieve independence from the USA*." This potentially includes dissolving the NATO treaty and setting Europe on a path to independence for national defense spending, or as Mr. Merz is quoted, "*to establish an independent European defense capability much more quickly*." We expect to hear more on this in June when NATO meets next.

Defense spending rises as proximity to Russia increases



Sources: NATO, S&P Global Ratings.
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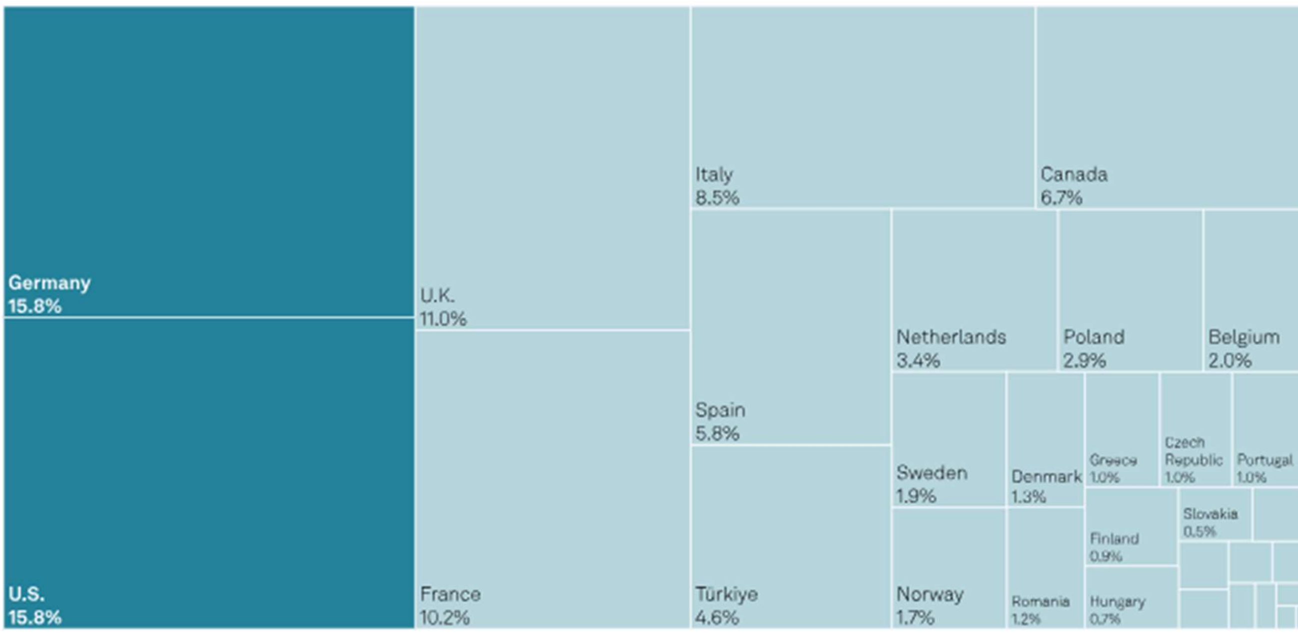
Current Situation – Sizing up the global situation –

- The conflict in Ukraine and Russia has been going on for three years but appears close to winding down.
- Military leaders in the U.S. have testified to Congress that the U.S. defense budget is getting dated and likely underfunded to current standards (*Iron Dome for example*).
- The Department of Government Efficiency (DOGE) is looking to cut government spending, including defense.
- Newly elected leaders in Germany, the EU's leader and largest economy, have immediately taken a stance of NATO independence and the potential creation of a new "EU only" consortium focused on defense spending.
- The U.S. President asking for higher overall levels of NATO member spending (*graphic below states the current sizing by member state).*

The U.S. and Germany contribute equally to the $4.6 billion direct NATO funding



Countries not labeled: Bulgaria (0.4%); Croatia (0.3%); Lithuania, Slovenia, Luxembourg, and Latvia (0.2% each); Estonia, North Macedonia, and Iceland (0.1% each); and Montenegro (0.03%). Sources: NATO, S&P Global Ratings.
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Now you understand the mad, mad world part. While there is a lot going on at present, the reality is, the final changes are likely to be modest, in our view.

While Germany is a heavyweight economically in Europe, we do not expect widespread approval to "give up" U.S. military protection in exchange for a stand-alone EU defense spending model. At least in the near-term. We do expect austerity to be meaningful for U.S. government spending, however. The Pentagon, like most government agencies, is likely bloated with too many levels of oversight and inefficiencies and could be restructured to save costs, which is probably more meaningful than absolute budget cuts (*i.e., reprioritize spending versus outright budget cuts*). Modernization of armed forces and homeland protection priorities could also be a very positive outcome for the sector.

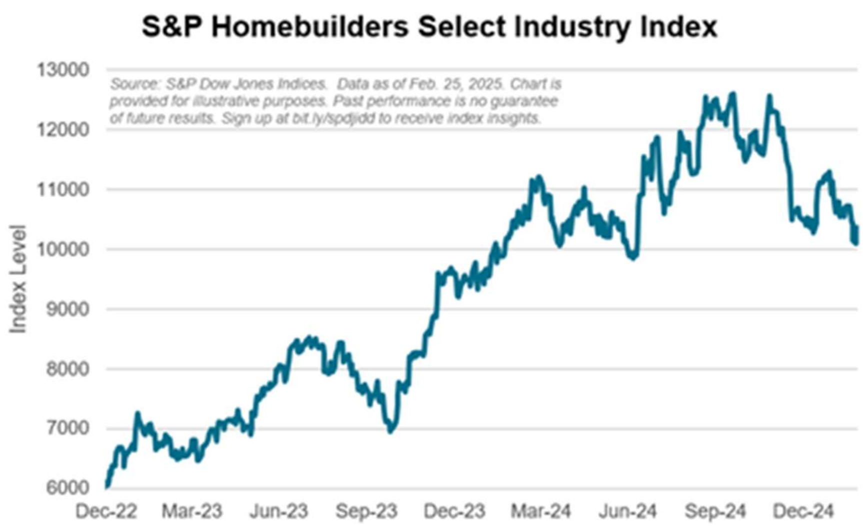
We believe most of these changes and talking points are late 2025, or early 2026 before we begin to see any actual changes. This means Industrial sector performance is stuck in neutral for now, in our view. While a potential recovery in U.S. manufacturing could be a bright spot for early 2025 Industrial sector views, the overhang of the defense sector 'stew" is emerging as a modest headwind. However, we believe that once these military cross currents get straightened out, the outlook for Industrials could meaningfully improve. Foreign policy, defense policy, and economic policy used to be thought of as three separate silos. The reality is, they are now intertwined. These issues are too big to not come to logical conclusions, in our view.

U.S. Premarket Indicators / Overnight International Market Activity

United States:

Here is a quick news rundown to start your morning:

- **Stocks are looking at a solidly higher open.** Following early morning action overseas, U.S. stock futures are pointing to a solid open after a mixed performance on Tuesday. The U.S. dollar index is 0.15% higher after President Trump ordered an investigation into copper imports and threatened new tariffs on the base metal. Meanwhile, the U.S. House of Representatives passed (217-215 vote) a reconciliation blueprint, which features a $1.5 trillion target for budget cuts, a $4.5 trillion impact for extending the TCJA tax cuts, $300 billion for border resources, and a $4.0 trillion increase to the debt ceiling.
- **The U.S. Consumer Confidence** reading dropped 7 points, the sharpest drop in 3 ½ years to 98.3 (consensus 102.5). The Conference Board, which conducts the survey, noted Americans' apprehension about tariffs, taxes, and new policy mandates.
- **The S&P CoreLogic Case-Shiller** data was released yesterday showing U.S. home prices dropped 0.1% m/m in January, but prices were still up 3.9% y/y, according to the data. New York posted the highest national gains, offset by Tampa, which posted the largest declines. Despite the stable home pricing environment, home builders as a group have not participated of late. Interest rates staying higher for longer have been a headwind for builders since October 2024.



Europe:

The bourses in Europe are broadly higher following a solid showing for tech stocks in Asia overnight. Press reports are suggesting the leaders in Ukraine have agreed to a mineral rights deal, paving the way for a potential settlement between Ukraine and Russia. The U.K. prime Minister has agreed in principle ahead of a meeting with U.S. President Trump to boost spending on national defense. Germany is debating a similar boost but wants to use debt as the tool for paying for greater defense spending, which has wrangled fiscal hawks in parliament.

Asia-Pacific:

Stocks finished mixed across the region with the Hang Seng Index lifting 3% to new highs as internet and IT stocks led the outperformance. Lower crude oil prices (both Brent Sea and WTI) seem like potential stimulus boosts for productivity for emerging markets in Asia. *Bloomberg* previewed the National People's Congress platform ahead of March 5th annual meetings. Nothing new from a tariff policy perspective but a noted focus on consumer spending. The growth for GDP target in 2025 is ~5% with inflation dropping to 2% for the first time in over two decades according to FactSet data, as property deflation is beginning to have an impact. The consumer spending boost could be driven by consumer goods trade-in policies and enhanced or early pension payoffs.

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WORLD CAPITAL MARKETS

2/26/2025 As of: 8:30 AM ET

Americas	% chg.	% YTD	Value
S&P 500	-0.5%	1.4%	5,955.3
Dow Jones	0.4%	2.7%	43,621.2
NASDAQ Composite	-1.4%	-1.4%	19,026.4
Russell 2000	-0.4%	-2.6%	2,170.1
Brazil Bovespa	0.5%	4.7%	125,980
S&P/TSX Comp. (Canada)	0.2%	2.2%	25,204.0
Russell 3000	-0.5%	1.2%	3,389.5

Europe (Intra-day)	% chg.	%YTD	Value
DJSTOXX 50 (Europe)	1.5%	13.2%	5,528.2
FTSE 100 (U.K.)	0.7%	7.2%	8,728.3
DAX Index (Germany)	1.7%	14.5%	22,798.8
CAC 40 (France)	1.4%	10.8%	8,166.8
FTSE MIB (Italy)	1.2%	14.6%	39,188.5
IBEX 35 (Spain)	1.3%	15.1%	13,281.4
MOEX Index (Russia)	#VALUE!	#VALUE!	#N/A N/A

Asia/Pacific (Last Night)	% chg.	%YTD	Value
Nikkei 225 (Japan)	-0.2%	-4.4%	38,142.4
Hang Seng (Hong Kong)	3.3%	19.0%	23,787.9
Korea Kospi 100	0.4%	10.1%	2,641.1
Singapore STI	-0.2%	3.4%	3,908.1
Shanghai Comp. (China)	1.0%	0.8%	3,380.2
Bombay Sensex (India)	0.2%	-4.3%	74,602.1
S&P/ASX 200 (Australia)	-0.1%	1.6%	8,240.7

Global	% chg.	% YTD	Value
MSCI All-Country World Idx	-0.4%	3.2%	866.7

Developed International	% chg.	%YTD	Value
MSCI EAFE	0.1%	8.4%	2,448.0

Emerging International	% chg.	%YTD	Value
MSCI Emerging Mkts	-1.2%	4.6%	1,122.4

Note: International market returns shown on a local currency basis. *The equity index data shown above is on a total return basis, inclusive of dividends.*

S&P 500 Sectors	% chg.	% YTD	Value
Communication Services	-1.5%	2.7%	350.3
Consumer Discretionary	-0.8%	-5.0%	1,738.6
Consumer Staples	1.7%	8.4%	923.2
Energy	-1.5%	4.5%	679.5
Financials	-0.1%	5.4%	846.2
Health Care	0.9%	8.2%	1,732.2
Industrials	0.5%	2.4%	1,140.8
Materials	0.8%	5.4%	557.7
Real Estate	1.1%	5.5%	269.4
Technology	-1.4%	-3.0%	4,468.2
Utilities	-0.5%	5.0%	402.5

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	-0.6%	8.5%	319.5
FTSE NAREIT Comp. TR	1.2%	4.3%	26,192.9
DJ US Select Dividend	0.1%	4.5%	3,658.8
DJ Global Select Dividend	0.3%	6.4%	237.2
S&P Div. Aristocrats	0.8%	4.0%	4,759.2

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	0.6%	2.2%	2,238.3
Barclays HY Bond	0.1%	1.9%	2,733.0

Commodities Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	-0.4%	4.2%	563.8
NYMEX WTI Crude (p/bbl.)	-0.2%	-4.1%	68.8
ICE Brent Crude (p/bbl.)	-0.3%	-2.5%	72.8
NYMEX Nat Gas (mmBtu)	-1.7%	13.0%	4.1
Spot Gold (troy oz.)	-0.1%	11.0%	2,912.9
Spot Silver (troy oz.)	0.2%	10.0%	31.8
LME Copper (per ton)	-1.3%	8.2%	9,363.9
LME Aluminum (per ton)	-0.5%	5.0%	2,654.1
CBOT Corn (cents p/bushel)	0.0%	6.1%	494.3
CBOT Wheat (cents p/bushel)	-0.3%	4.2%	586.3

Foreign Exchange (Intra-day)	% chg.	% YTD	Value
Euro (€/$)	-0.3%	1.2%	1.05
British Pound (£/$)	-0.2%	1.0%	1.26
Japanese Yen ($/¥)	-0.4%	5.0%	149.65
Australian Dollar (A$/$)	-0.6%	1.9%	0.63
Canadian Dollar ($/C$)	-0.3%	0.2%	1.44
Swiss Franc ($/CHF)	-0.4%	1.2%	0.90

Data/Price Source: Bloomberg. Equity Index data is total return, inclusive of dividends, where applicable.

Ameriprise Global Asset Allocation Committee (GAAC)

U.S. Equity Sector - Tactical Views

	S&P 500 Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
Financials	13.5%	Overweight	2.0%	15.5%
Consumer Staples	5.5%	Equalweight	-	5.5%
Information Technology	32.8%	Equalweight	-	32.8%
Industrials	8.1%	Equalweight	-	8.1%
Communication Services	9.4%	Equalweight	-	9.4%
Energy	3.0%	Equalweight	-	3.0%
Utilities	2.3%	Equalweight	-	2.3%
Materials	1.9%	Equalweight	-	1.9%
Real Estate	2.0%	Equalweight	-	2.0%
Consumer Discretionary	11.5%	Equalweight	-	11.5%
Health Care	10.0%	Underweight	-2.0%	8.0%

As of: January 2, 2025

Index weightings represent the respective market capitalization of each sector in the S&P 500 as of 12/19/2024. The GAAC Tactical Overlay, as well as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC).Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.

Global Equity Regions - Tactical Views

	MSCI All-Country World Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
United States	66.1%	Overweight	3.2%	69.3%
Europe ex U.K.	11.3%	Equalweight	-	11.3%
Latin America	0.8%	Equalweight	-	0.8%
Japan	4.7%	Equalweight	-	4.7%
United Kingdom	3.0%	Equalweight	-	3.0%
Asia-Pacific ex Japan	10.2%	Underweight	-1.0%	9.2%
Canada	2.7%	Underweight	-1.0%	1.7%
Middle East / Africa	1.2%	Underweight	-1.2%	0.0%

as of: January 2, 2025

Index weightings are based on the regional market capitalizations of the MSCI All-Country World Index as of 12/26/2024. The GAAC Tactical Overlay, as well as the Recommended Tactical Weights, are derived from the Ameriprise Global Asset Allocation Committee (GAAC). Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.

Economic News and Views:

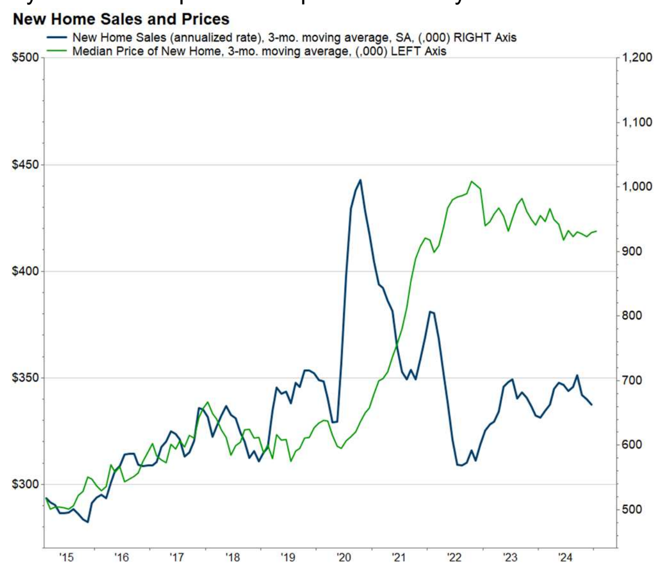
Russell T. Price, CFA – Chief Economist

Releases for Wednesday, February 26, 2025 | **All times Eastern. Consensus estimates via Bloomberg**

Time	Period	Release	Consensus Est.	**Actual**	Prior	Revised to
10:00 AM	JAN	New Home Sales (annualized)	680k		698k	
10:00 AM	JAN	New Home Sales (MoM)	-2.7%		+3.6%	

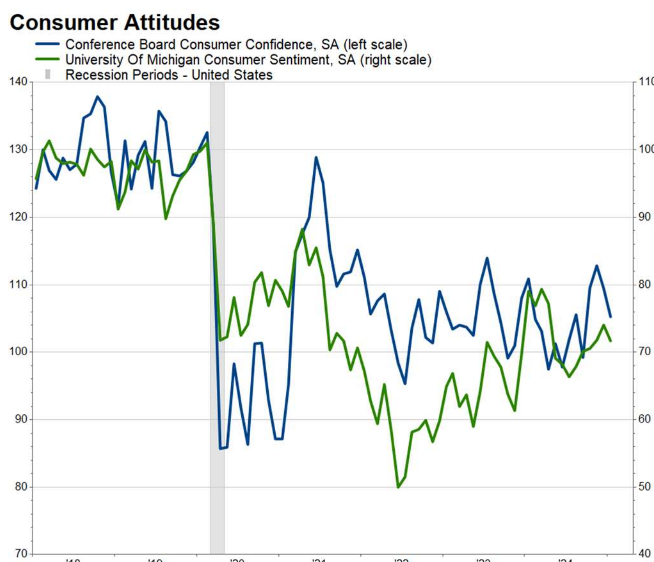
Commentary:

- **New home sales due out at 10 AM.** Forecasters expect today's Census Department report on January New Home Sales to show a y/y increase of about +1.5%. On a month-over-month basis, sales are expected to be down about 3% after having risen by nearly 4% m/m in December.



- The seasonally adjusted, annualized sales pace is expected to be about 680,000 units, for a m/m decline of about 2.7%. Like last week's Existing Home Sales report (which showed a 4.9% m/m decline in January), new home sales are also expected to have seen some pressure from bad weather conditions across much of the country – particularly the South, and the significant wildfires experienced in heavily populated areas of California. Often times, new home sales can be less volatile than existing home transactions as builders have greater flexibility in offering mortgage rate buy-downs or other incentives.

- **Consumer attitudes dim under tariff-related inflation concerns.** The Conference Board's Consumer Confidence Index for February came in at 98.3 yesterday, down a sharp 7 points from its January level (105.3) and well below forecast expectations (102.5). As was the case with Friday's U. of M. Consumer Sentiment survey (which dropped 3.1 points), much of the downward pressure emanated from a jump in inflation concerns, concerns most likely related to the Trump administration's tariff proposals.
- At times, consumer inflation expectations can be just as important as the level of inflation itself. If consumers <u>expect</u> higher prices, it often means they will <u>accept</u> higher prices, and businesses are generally happy to oblige. For these reasons, expectations are closely watched by the Fed, and these reports will likely solidify the position of most FOMC voting members as to maintain policy on hold until the tariff threat clears.
- In presenting the administration's tariff proposals over the last few months, officials have talked down their potential impact on consumer prices. Regardless, full implementation likely would have a material impact in pushing inflation higher, in our view. Of course, the magnitude and longevity of the tariffs would be key to their impact. To this end, we still believe most non-China-focused tariff proposals are likely negotiation tactics rather than planned permanent changes. Some of the highest-profile tariffs (such as the 25% proposed for Canada and Mexico), however, are likely to be implemented at least temporarily, in our view, to maximize their leverage in negotiations. *The chart below is sourced from FactSet and has NOT been updated to reflect the data releases for February.*



Ameriprise Economic Projections

Forecast:	Full-year				Quarterly						
	Actual **2023**	Actual **2024**	**Est. 2025**	**Est. 2026**	Actual Q1-2024	Actual Q2-2024	Actual Q3-2024	Actual Q4-2024	Est. Q1-2025	Est. Q2-2025	Est. Q3-2025
Real GDP (annualized)	2.9%	2.8%	2.4%	2.1%	1.6%	3.0%	2.8%	2.3%	2.8%	2.3%	2.5%
Unemployment Rate	3.7%	4.1%	4.2%	4.2%	3.8%	4.1%	4.1%	4.1%	4.2%	4.2%	4.2%
CPI (YoY)	3.4%	2.9%	2.5%	2.2%	3.5%	3.0%	2.4%	2.9%	2.4%	2.4%	2.4%
Core PCE (YoY)	2.9%	2.8%	2.3%	2.1%	2.8%	2.6%	2.7%	2.8%	2.5%	2.3%	2.2%

Sources: Historical data via FactSet. Estimates (Est.) via American Enterprise Investment Services Inc.

YoY = Year-over-year, Unemployment numbers are period ending. GDP: Gross Domestic Product; CPI: Consumer Price Index

PCE: Personal Consumption Expenditures Price Index. Core excludes food and energy.

All estimates other than GDP are period ending. **Last Updated: February 18, 2025**

Ameriprise Global Asset Allocation Committee Targets and Views

Targets

2025 Year-end Targets:	**Favorable Scenario**	**Base-Case Scenario**	**Adverse Scenario**
S&P 500 Index:	7,000	6,500	5,500
10-Year U.S. Treasury Yield:	5.00%	4.25%	3.00%
Fed Funds Target Range:	4.25% to 4.50%	3.75% to 4.00%	3.25% to 3.50%

Estimates (Est.) via American Enterprise Investment Services Inc.

Please see latest *Quarterly Capital Market Digest* for more information. **Last Updated: January 2, 2025**

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Global Asset Allocation Committee Views

AMERIPRISE GLOBAL ASSET ALLOCATION COMMITTEE TACTICAL ASSET CLASS VIEWS

2025 Year-end S&P 500 Target: 6,500
2025 Year-End 10-year Treasury Target: 4.25%

as of 12/30/2024

	Overweight	Equalweight	Underweight
Equity	• U.S. Large Cap Growth • U.S. Large Cap Value	• U.S. Mid Cap Value • U.S. Mid Cap Growth • U.S. Small Cap Value • U.S. Small Cap Growth	• Developed Foreign Equity • Emerging Foreign Equity
S&P 500 Sectors	• Financials	• Communication Services • Consumer Discretionary • Consumer Staples • Energy • Industrials • Information Technology • Materials • Real Estate • Utilities	• Health Care
Global Equity Regions	• United States	• Europe ex U.K. • Japan • Latin America • United Kingdom	• Middle East/Africa • Asia-Pacific ex Japan • Canada
Fixed Income	• U.S. High Yield Bonds	• U.S. Government • U.S. Inv. Grade Corporates • Developed Foreign Bonds	• Emerging Foreign Bonds • Municipal Bonds
Alternatives		• Real Assets • Alternative Strategies	
Cash		• Cash • Cash Investments	

Note: Our Tactical Allocations are designed to augment a Strategic portfolio over a 6-12-month time horizon. **Asset Allocation and diversification do not ensure or guarantee better performance and do not eliminate the risk of investment losses. Investors should note that rising interest rates could have a detrimental effect on bond prices. Please consult with your financial advisor.** Cash generally refers to assets, securities and/or products low in risk and highly liquid. For asset allocation purposes, instruments can include Treasury bills, certificates of deposit, money market funds and high quality bonds whose maturities are less than 3 months. Outside of asset allocation purposes, cash investments can also include illiquid cash held in a mutual fund or pledged as collateral for derivatives. You can only access this cash by redeeming the fund using it, subject to fees or time constraints associated with redemptions.

As of December 31, 2024	Rolling Returns			
Major Market Indices	**QTD**	**1-year**	**3-years**	**5-years**
Russell 3000® Index (U.S. Equity)	2.63%	23.81%	8.01%	13.86%
MSCI ACWI Ex USA Index – net (Foreign Equity)	-7.60%	5.53%	0.82%	4.10%
Bloomberg U.S. Universal Bond Index (Fixed Income)	-2.73%	2.04%	-1.95%	0.06%
Wilshire Liquid Alternative Index (Alternatives)	-1.87%	4.33%	1.50%	2.48%
FTSE Three-Month Treasury Bill Index (Cash)	1.23%	5.45%	4.05%	2.54%

Past performance is not a guarantee of future performance. Performance calculations use FactSet data and are as of Date.

The Ameriprise Investment Research Group

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As of December 31, 2024

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Risk Factors

Alternative investments involve substantial risks and are more volatile than traditional investments, making them more suitable for investors with an above-average tolerance for risk.

Corporate Bonds are debt instruments issued by a private corporation. Non-Investment grade securities, commonly known as “high-yield” or “junk” bonds, are historically subject to greater risk of default, including the loss of principal and interest, than higher-rated bonds, which may result in greater price volatility than experienced with a higher-rated issue.

Investing in **derivatives** is a specialized activity that involves special risks that subject the fund to significant loss potential, including when used as leverage, and may result in greater fluctuation in fund value.

Diversification and **Asset Allocation** do not assure a profit or protect against loss.

Dividend and interest payments are not guaranteed. The amount of dividend payment, if any, can vary over time and issuers may reduce or eliminate dividends paid on securities in the event of a recession or adverse event affecting a specific industry or issuer. Should a company be unable to pay interest on a timely basis a default may occur and interruption or reduction of interest and principal occur. Investments in a narrowly focused sector may exhibit higher volatility than investments with broader objectives and is subject to market risk and economic risk.

There are risks associated with **fixed-income investments**, including bond funds, such as credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities.

Growth securities, at times, may not perform as well as value securities or the stock market in general and may be out of favor with investors.

Income Risk: We note that dividends are declared solely at the discretion of the companies' boards of directors. Dividend cuts or eliminations will likely negatively impact underlying company valuations. Published dividend yields are calculated before fees and taxes. Dividends paid by foreign companies to ADR holders may be subject to a withholding tax which could adversely affect the realized dividend yield. In certain circumstances, investors in ADR shares have the option to receive dividends in the form of cash payments, rights shares or ADR shares. Each form of dividend payment will have different tax consequences and therefore generate a different yield. In some instances, ADR holders are eligible to reclaim a portion of the withholding tax.

International investing involves certain risks and volatility due to potential political, economic currency instabilities and different financial and accounting standards. Risks are enhanced for **emerging market** issuers.

Interest payments on **inflation-protected securities** may be more volatile than interest payments on ordinary bonds. In periods of deflation, these securities may provide no income.

Market Risk: Model portfolios and markets in general could sustain significant volatility due to several factors. As we have seen recently, both economic and geopolitical issues could have a material impact on this model portfolio and the equity market as a whole.

The **mutual funds** and **ETFs** included in this report are subject to specific risk factors, generally the same as those of the underlying securities and may result in a loss of the principal amount invested.

Non-investment-grade (high-yield or junk) securities present greater price volatility and more risk to principal and income than higher rated securities.

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The benchmark index returns are taken from Bloomberg Financial Markets and reflect dividends reinvested. Additionally, there is no fee or cost assumption in the index comparison return.

Investments in **small- and mid-capitalization companies** involve greater risks and volatility than investments in larger, more established companies.

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Disclaimer section

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