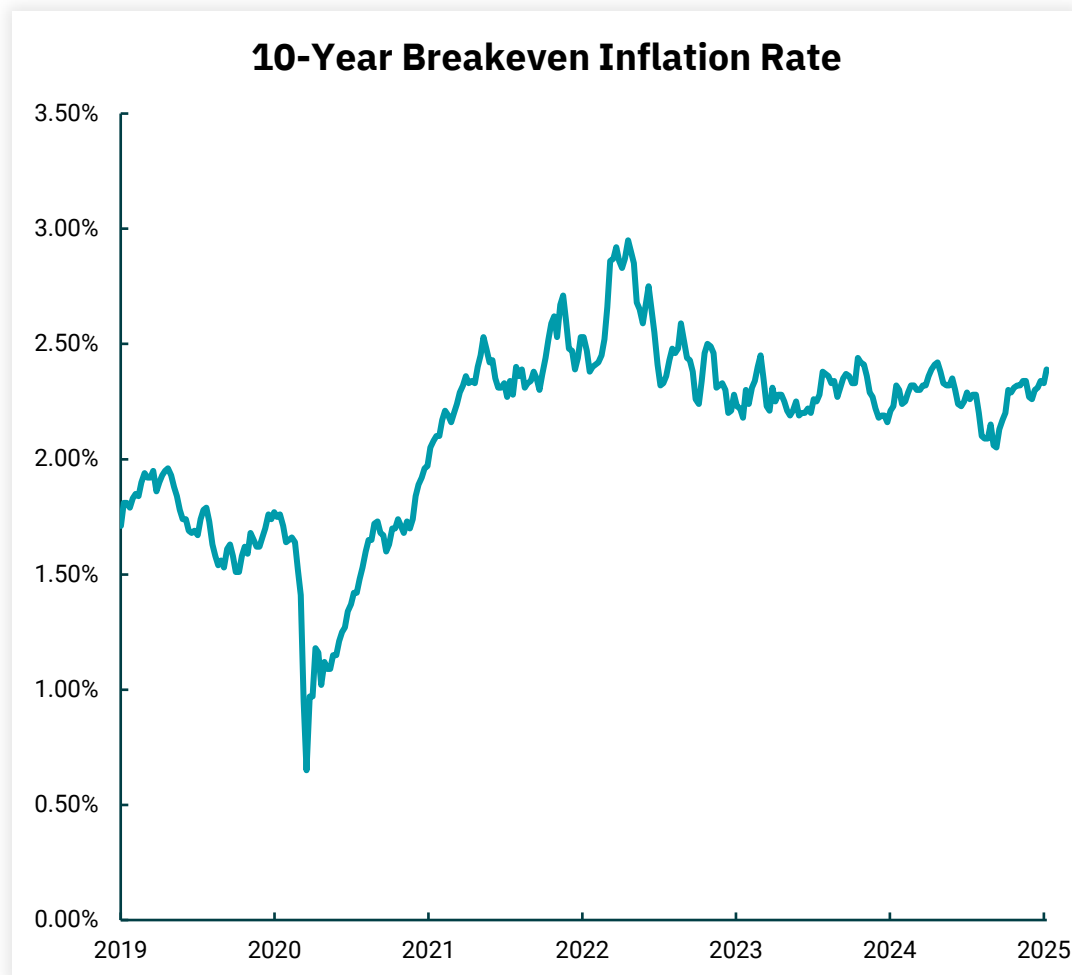


Weekly market update



Chart of the week (Jan. 17, 2025)



The stock and bond markets got a bit of a reprieve this week as measures of inflation came in a bit softer than expected. Since the Federal Reserve began lowering the target on overnight Fed Funds in September 2024, longer-term rates have been floating a bit higher. To date, while the Fed Funds target has been reduced by 1%, 10-year treasury notes have increased by a nearly identical amount of 1%.

This combination of moves in the short-end and long-end of the yield curve has resulted in the un-inversion of rates to a more "normal"-shaped yield curve. However, long rates going higher while the Fed reduces short-term rates is not a "normal" path for rate movements, and some questions have been raised as to why this is happening.

We know that the short end of the curve is where the Fed has the most direct influence on rates, so the move lower in short-term Treasuries, with maturities out to about two years, is expected and has occurred. The longer end of the yield curve, however, is influenced by several factors, including inflation expectations, growth expectations, fiscal policy and the level of uncertainty around any or all of these factors.

This week, we look at inflation expectations as a possible reason. The Fed often cites inflation expectations from consumer and business sentiment surveys as they consider the stability of future inflation. On this front, we have seen recent moves higher in sentiment-related inflation expectations. However, our chart this week looks at a market-based measure of future inflation, the breakeven rate demanded by investors in 10-year inflation-protected securities (TIPS).

The chart reveals inflation expectations are variable, with a big drop during the pandemic followed by a big rise as inflation roared in 2022 and 2023. Yet, remembering that the [Consumer Price Index](#) (CPI) peaked at just over 9%, we can also see inflation expectations peaked at only about 3%. So, even at the worst of inflation, investors had some level of confidence that, over the next 10 years, inflation would average much lower. This measure of "confidence" is why the Fed pays such close attention to inflation expectations. And so, as we look at the far-right portion of the chart and see a rise in inflation expectations as the Fed is lowering rates, it warrants some level of concern. We also can see that inflation expectations have not moved up as much as the 10-year Treasury, so there are other factors at play. However, a move higher in inflation expectations is not a welcome development.

Weekly market update



Commentary (Jan. 17, 2025)

Domestic Equities

- U.S. stocks rallied during the week on muted inflation data, strong earnings reports and positive gross domestic product (GDP) growth projections. The S&P 500 and NASDAQ Composite indices gained over 3.5% for the week, and the Russell 2000 Index was up over 5%.
- December core CPI saw its smallest gain since July, suggesting underlying price pressure is easing. Investors cheered the better-than-feared news on inflation even though the data was not significant enough to change expectations that the Fed will hold interest rates steady in the near-term.
- The International Monetary Fund (IMF) raised its forecast for annual U.S. GDP growth to 2.7%, which is higher than the GDP growth forecast for any other big Western country.
- Several big banks reported blockbuster earnings this week, well ahead of expectations. For example, Goldman Sachs' earnings were about 50% above expectations and up over 100% from the previous year.

Bonds

- U.S. Treasury bond yields were lower for the week on softer economic data, with core CPI rising less in December than in the previous month, while retail sales and jobless claims failed to meet expectations. On Wednesday, Treasuries also benefited from dovish comments by Christopher Waller, with the Fed governor indicating that the FOMC could still cut rates multiple times this year if inflation continues to ease as he is expecting.
- Short-term inflation breakevens made new highs this week, with the one-year U.S. Treasury breakeven inflation rate exceeding 3.2%.
- S&P Global Ratings warned of a 50% chance of Los Angeles' credit rating being downgraded within three months due to the recent fires. S&P Global Ratings has already downgraded the municipal bonds sold by the Los Angeles Department of Water and Power, with the utility's power system bonds being cut two notches to A from AA- on Tuesday.

International Equities

- Stocks outside the U.S. rallied despite mixed economic data, ongoing concerns about the interest-rate outlook and anxiety surrounding the new incoming U.S. administration.
- After a sluggish start to the year, foreign developed markets moved higher during the week due to gains throughout most of Europe. In European economic news, eurozone inflation rose to 2.4% from a year ago. Meanwhile, Germany's economy shrank for the second straight year and fell by 0.2% in 2024. It is only the second time since 1950 that the country's GDP has contracted for two consecutive years.
- Emerging markets found some strength during the week, snapping a two-week losing streak helped by gains across key Asian and Latin American markets. China reported that its GDP rose 5.0% in 2024. Much of the growth came from China's manufacturing and a surge in exports, which may not be sustainable if the U.S. imposes higher tariffs on Chinese goods.

Economics

- The December CPI report showed year-over-year inflation increased by 2.9%, slightly higher than last month's reading of 2.7% but within expectations. The increase was largely driven by gas and grocery prices.
- Core CPI, which excludes food and energy, rose 3.2% year-over-year. This was lower than the consensus forecast of 3.3% and marked the first decline in this reading in three months. Core CPI has been one of the stickier parts of inflation, and investors were pleased to see it decline.
- On Thursday, jobless claims showed an increase of 217,000 for the week. This was slightly higher than the forecast of 212,000, and slightly higher than the previous week's revised figure of 203,000. Despite the increase, the amount remained consistent with a healthy labor market.
- This week is a quiet one for economic reports. Thursday will feature jobless claims, and Friday will have existing home sales and consumer sentiment.

Weekly Market Update

For Week Ending January 17, 2025

Markets

	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	43,487.83	3.7%	2.3%	18.9%
S&P 500 Index	5,996.66	2.9%	2.0%	28.3%
NASDAQ Composite	19,630.20	2.4%	1.7%	33.1%
S&P 400 Midcap Index	3,239.76	4.5%	3.9%	22.2%
S&P 600 Smallcap Index	1,441.99	4.4%	2.4%	17.8%
MSCI EAFE	8,179.42	1.9%	1.2%	8.6%
MSCI Emerging Markets	571.64	1.3%	-0.4%	14.4%
Bloomberg US Agg	2,188.51	1.0%	0.0%	2.5%
Bloomberg Municipal 5 Yr	494.66	0.1%	0.0%	1.7%
Bloomberg US Corporate	3,288.19	1.1%	0.0%	3.3%
Bloomberg Glb Agg ex US Hdg	591.20	0.5%	-0.3%	5.5%
Bloomberg High Yield	2,705.57	0.8%	0.8%	9.9%
MSCI US REIT Index	2,308.42	3.7%	-0.1%	10.6%
Bloomberg Commodity Index	251.04	1.3%	5.2%	12.9%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	4.50%	4.50%	4.50%	5.50%
3-Month Treasury	4.30%	4.32%	4.31%	5.37%
1-Year Treasury	4.20%	4.21%	4.14%	4.82%
2-Year Treasury	4.28%	4.38%	4.24%	4.36%
5-Year Treasury	4.43%	4.57%	4.38%	4.03%
7-Year Treasury	4.53%	4.67%	4.48%	4.08%
10-Year Treasury	4.63%	4.76%	4.57%	4.10%
30-Year Treasury	4.86%	4.95%	4.78%	4.31%

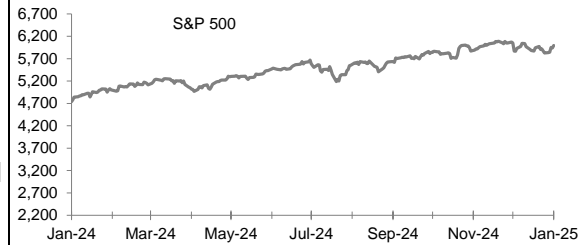
	Last Price/Yield	Prior Week	Year End	Year Ago
Consumer Rates				
30-Year Mortgage	7.10%	7.08%	7.28%	5.83%
Prime Rate	8.25%	8.25%	8.25%	9.25%
SOFR	4.29%	4.30%	4.49%	5.32%

	Last Price	Prior Week	Year End	Year Ago
Commodities				
Gold (spot)	2,703.25	2,689.76	2,624.50	2,006.25
Crude Oil WTI	77.88	76.57	71.72	72.56
Gasoline	3.12	3.06	3.06	3.09
Natural Gas	3.95	3.99	3.63	2.87
Copper	4.37	4.30	4.03	3.73

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	20.14	22.23	5.29	1.61
S&P 500	21.92	25.16	5.21	1.29
S&P 500 Value	18.04	18.17	2.85	1.99
S&P 500 Growth	27.38	34.18	12.03	0.65
NASDAQ	28.73	37.15	7.22	0.67
S&P Midcap 400	16.82	18.11	2.66	1.64
S&P Smallcap 600	16.31	17.78	1.94	2.30
MSCI EAFE	14.35	13.87	1.78	3.17
MSCI Emerging Markets	11.80	13.45	1.68	2.84

Source: Bloomberg

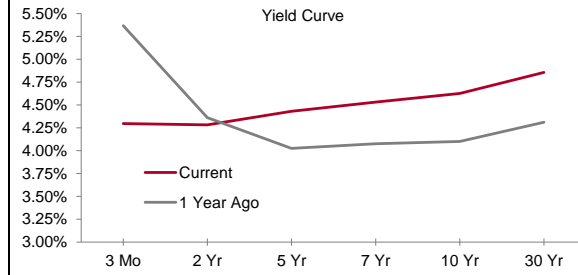
Equity Style



1 Month*			Year to Date*		
Value	Core	Growth	Value	Core	Growth
Large					
-0.34	-0.81	-1.13	1.72	2.01	2.44
Mid					
0.67	0.20	-0.24	3.47	3.85	4.23
Small					
-2.18	-1.98	-1.80	1.76	2.45	3.11

*S&P Indices

Fixed Income Style



1 Month*			Year to Date*		
Short	Interm.	Long	Short	Interm.	Long
Govt					
0.29	-0.13	-3.08	0.15	0.09	-0.53
Corp					
0.25	-0.39	-2.65	0.19	0.08	-0.29
HY					
0.72	0.38	-0.77	0.77	0.83	1.01

1-3 Yrs 1-10 Yrs +10 Yrs

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	2.9%	3.4%
CPI Core Inflation	3.2%	3.9%
Personal Consumption Exp (PCE) Core	2.8%	3.2%

	Last Release	Year Ago
Jobs		
Unemployment Rate (U3)	4.1%	3.8%
Broader Unemployment Rate (U6)	7.5%	7.2%
JOLT Survey (in millions)	8.10	8.93
Jobless Claims (000's)	217	194
Change in Non-Farm Payroll (000's)	256	290
Average Hourly Earnings (Y/Y % Change)	3.9%	4.3%

	Last Release	Year Ago
Consumer & Spending		
Consumer Confidence (Conf Board)	104.7	108.0
Consumer Spending (\$ Bil)	20,195	19,151
Consumer Credit (\$ Bil)	5,102	5,017
Retail Sales (\$ Bil)	729	702

	Last Release	Year Ago
Housing		
Housing Starts (000's)	1,499	1,568
Case-Shiller Home Price Index	324.22	312.96

	Last Release	Year Ago
U.S. Productivity		
Real Gross Domestic Product (\$ Bil)	23,400	22,781
Quarter over Quarter Change	3.1%	4.4%
Year Over Year Change	2.7%	3.2%
ISM Manufacturing	49.30	47.10
Capacity Utilization	77.63	78.14
Markit US Composite PMI	55.40	50.90

	Last Release	Year Ago
U.S. General		
Leading Economic Indicators	99.7	103.3
Trade Weighted Dollar Index	130.1	120.1
EUR / USD	1.03	1.09
JPY / USD	156.30	148.16
CAD / USD	0.69	0.74
AUD / USD	0.62	0.66

S&P 500 Sector Returns

	1 Month	YTD
Energy	8.88%	9.21%
Materials	0.93%	5.05%
Industrials	1.57%	4.54%
Utilities	3.63%	4.16%
Financials	2.69%	3.95%
Consumer Discretionary	-4.02%	2.71%
Communication Services	-1.50%	2.18%
Health Care	1.15%	1.94%
Real Estate	-2.11%	0.98%
Information Technology	-2.72%	-0.16%
Materials	-4.18%	-0.97%

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