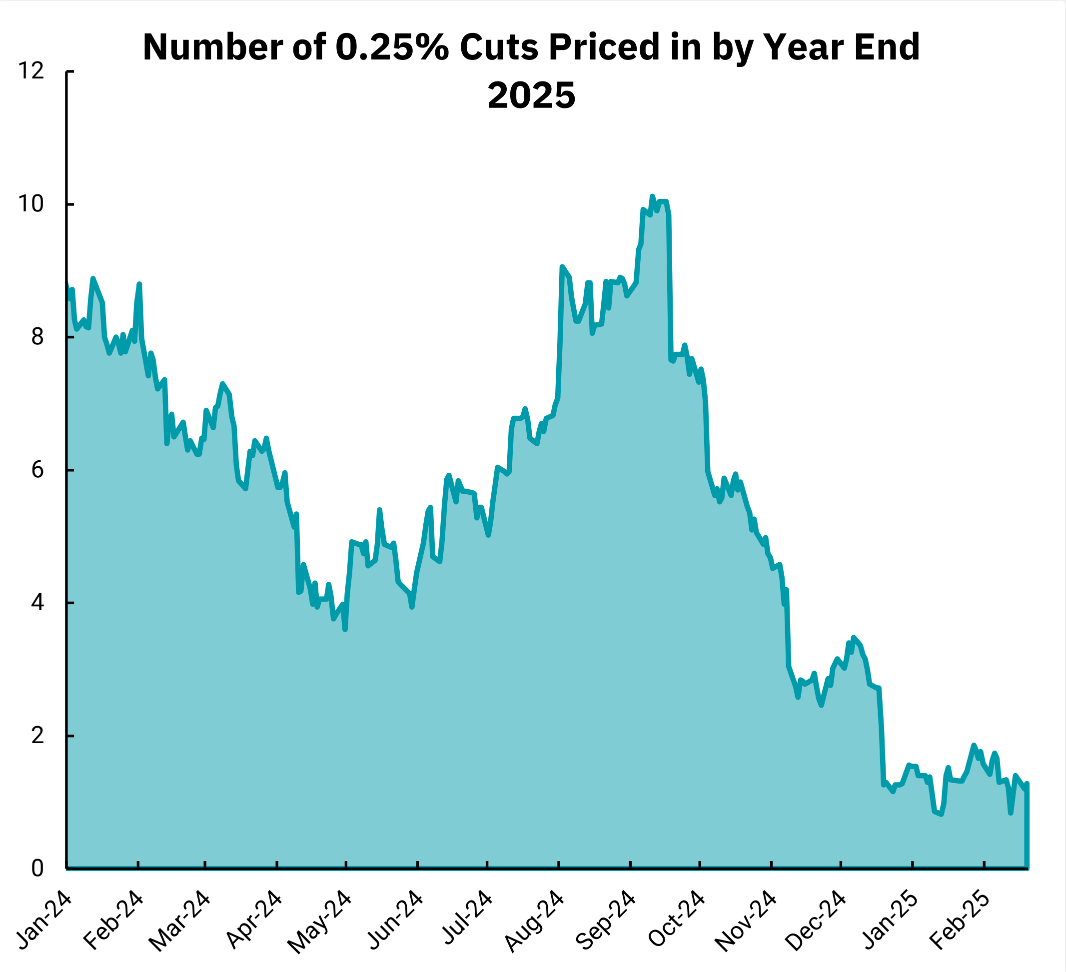
INVESTMENT MANAGEMENT

Weekly market update

BOK FINANCIAL

Chart of the week (Feb. 21, 2025)



Our chart this week shows a clear decline in the number of rate cuts expected out of the Federal Reserve by the end of this year. A "rate cut" is defined as a move lower by 0.25%, or 25 basis points. This means we must acknowledge that part of the drop is because the Fed has already reduced rates by 1%, or four cuts in "rate cut" parlance. In fact, their first move to start lowering rates back in September 2024 amounted to two rate cuts, as they lowered rates by 0.5%, or 50 basis points, at that meeting. They followed that action with additional rate cuts of 25 basis points at their November and December meetings.

We arrive at the total number of expected rate cuts by considering how many times the Fed has lowered rates and the ultimate rate at which we think they will stop lowering rates. This means that if we had the same expectations of where rates would end up today as we did back in September 2024, we would still be expecting six more rate cuts (10-4=6). The fact that we are now expecting only between one and two more rate cuts means there has been a significant shift upward in where we expect the Fed to stop raising rates. We call this stopping point the terminal rate, or you might have heard the term "r star" (r*). This terminal rate, r*, is defined as the interest rate where the Fed is neither restrictive nor stimulative in monetary policy. It is also called the "neutral rate."

One might reasonably ask what that neutral rate actually is. Is it 2%, 3%, 4%? The movement in this chart indicates the market is shifting its definition of this neutral rate. Economic growth has remained extremely resilient, with unemployment at 4% and more open jobs than unemployed people, despite the Fed aggressively raising rates to 5.25-5.5% before beginning their current rate-cutting cycle. And so, while the Fed may feel that rates are restrictive above 5%, economic data might indicate they are not as restrictive as they thought; hence, they don't need to cut rates nearly as much to be "neutral."

This concept might feel esoteric and hard to understand, but it is vitally important as we consider the path of interest rates, growth and inflation moving forward. If the Fed is not going to lower rates as much as we thought, then borrowing costs will remain higher for companies and mortgage rates will remain high for individual borrowers. At the same time, investors can enjoy higher rates on investments for longer than we thought. Meanwhile, inflation might take longer to reach the Fed's 2% target.

Interest rates also play an important part in the valuation process for stocks. In general, higher rates are a headwind to higher stock prices. To a degree, rates staying higher because business is good is positive, but this could be offset by a lower current value of future earnings. It seems much of monetary policy remains an "art," as opposed to a "science."

Source: Strategas, FactSet, Cut Pricing = Current Effective Fed Funds Rate - Dec'25 SOFR Contract.
Data as of 2/19/25.

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Commentary (Feb. 21, 2025)

Domestic Equities

- The S&P 500 Index reached a new all-time high on Wednesday, but U.S. stocks fell from there, ending the week in the red. Earnings remain in the spotlight, and while they have been largely positive, with 76% of companies beating expectations so far, some forward guidance is weighing on lofty stock prices.
- Walmart reported earnings for last year that met lofty expectations. Revenue has risen sharply as consumers, pressured by inflation, seek lower prices. However, the company's outlook for next year was cautious and fell short of analyst estimates, driving the stock price down and weighing on retailers in general as investors worry about consumer health.
- On Friday, reports that the Department of Justice is investigating UnitedHealth for billing practices and record-keeping weighed heavily on the stock and the Dow Jones Industrial Average Index.

Bonds

- U.S. Treasury yields were lower for the week on rising unemployment claims and weaker consumer sentiment data. The long end of the curve also benefitted from U.S. Treasury Secretary Bessent's comments that any move to boost the share of long-term debt issuance is a long way off.
- Shorter-term inflation expectation continued to move higher as indicated by breakevens, with the yield on the two-year U.S. breakeven inflation rate reaching a new high during the week.
- In international markets, Japanese Government Bond (JGB) yields made multi-decade new highs, with the yield on the 10-year JGB closing at 1.45% on Thursday. The Royal Bank of Australia also cut its main policy rate by 0.25% to 4.10% for the first time in two years. The central bank cited progress on inflation for the cut but tempered expectations for further cuts. This was followed by a 0.50% cut by the Royal Bank of New Zealand, with the cash rate falling to 3.75%.

International Equities

- Foreign stocks struggled to gain traction this week as the relentless threats of expanding tariffs hurt investor sentiment due to the uncertain impact on global economies.
- Developed markets faltered as many European markets struggled to gain upward momentum. New inflation data revealed prices in the U.K. increased by 3% over the last year as food costs continue to rise. Canada's inflation advanced 1.9% over the previous twelve months. Meanwhile, Japan's inflation climbed 4%, hitting its highest level since January 2023, further strengthening the case for rate hikes by the country's central bank.
- Emerging market stocks advanced as strength in Asian technology stocks drove returns. Chinese stocks rose after a meeting between President Xi Jinping and prominent entrepreneurs signaled Beijing's endorsement of the private sector. This support and optimism over DeepSeek's AI capabilities have improved investor sentiment.

Economics

- Jobless claims came in at 219,000 for the week. This figure was slightly higher than consensus estimates of 215,000 and higher than the previous week's revised figure of 214,000. Ultimately, the number of claims still suggests that the labor market remains solid.
- On Wednesday, the Federal Reserve released the minutes from its last policy meeting. The minutes showed that the central bankers agreed there had not been enough progress on inflation to warrant additional rate cuts. Additionally, some concerns were expressed over President Trump's planned tariffs and the potential impact on inflation.
- On Friday, Consumer Sentiment came in lower than anticipated. The index measures survey response data on the assessment of current economic conditions and expectations for the future. This month's reading of 64.7 was below consensus estimates of 68.0 and last month's reading of 67.8.

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Weekly Market Update

For Week Ending February 21, 2025

Markets

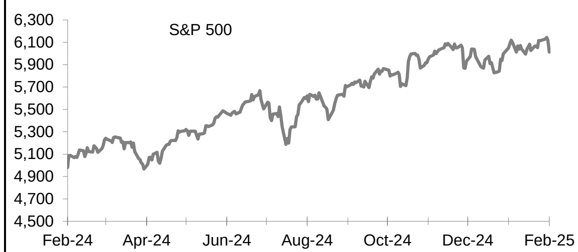
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	43,428.02	-2.5%	2.3%	14.5%
S&P 500 Index	6,013.13	-1.6%	2.4%	22.3%
NASDAQ Composite	19,524.01	-2.5%	1.2%	26.2%
S&P 400 Midcap Index	3,101.90	-3.0%	-0.5%	11.9%
S&P 600 Smallcap Index	1,378.64	-3.6%	-2.0%	8.9%
MSCI EAFE	8,742.26	-0.1%	8.2%	11.0%
MSCI Emerging Markets	613.39	2.0%	6.9%	15.1%
Bloomberg US Agg	2,221.17	0.3%	1.5%	5.0%
Bloomberg Municipal 5 Yr	499.91	0.2%	1.1%	2.7%
Bloomberg US Corporate	3,340.13	0.3%	1.5%	5.7%
Bloomberg Glb Agg ex US Hdg	594.05	-0.2%	0.2%	5.8%
Bloomberg High Yield	2,727.23	0.0%	1.6%	10.1%
MSCI US REIT Index	2,368.94	0.1%	2.5%	13.2%
Bloomberg Commodity Index	259.70	1.0%	8.8%	16.3%

	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%	4.31%	4.31%	5.39%
1-Year Treasury	4.15%	4.21%	4.14%	4.98%
2-Year Treasury	4.20%	4.26%	4.24%	4.67%
5-Year Treasury	4.27%	4.33%	4.38%	4.30%
7-Year Treasury	4.35%	4.40%	4.48%	4.33%
10-Year Treasury	4.43%	4.48%	4.57%	4.32%
30-Year Treasury	4.68%	4.70%	4.78%	4.48%
Consumer Rates				
30-Year Mortgage	7.13%	7.20%	7.28%	5.83%
Prime Rate	8.25%	8.25%	8.25%	9.25%
SOFR	4.34%	4.33%	4.49%	5.30%
Commodities				
Gold (spot)	2,936.05	2,882.53	2,624.50	2,025.99
Crude Oil WTI	70.40	70.74	71.72	77.91
Gasoline	3.15	3.16	3.06	3.27
Natural Gas	4.23	3.73	3.63	1.77
Copper	4.56	4.66	4.03	3.88

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	20.25	22.87	5.73	1.67
S&P 500	21.93	25.37	5.22	1.25
S&P 500 Value	18.25	18.35	2.91	1.92
S&P 500 Growth	27.60	35.34	12.27	0.60
NASDAQ	27.51	37.20	7.18	0.66
S&P Midcap 400	16.13	17.35	2.55	1.61
S&P Smallcap 600	16.16	17.46	1.90	1.96
MSCI EAFE	14.88	14.81	1.90	3.01
MSCI Emerging Markets	12.30	14.35	1.78	2.64

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	0.47	-0.48	-1.34
Mid	-4.14	-5.71	-7.19
Small	-5.58	-5.80	-6.02

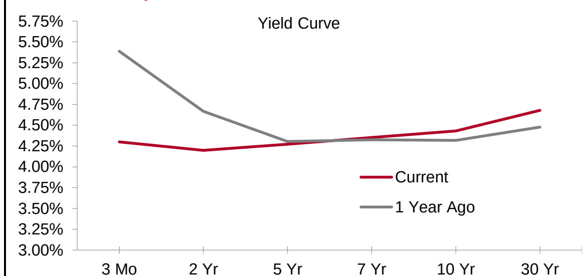
Year to Date*

	Value	Core	Growth
Large	2.95	2.42	1.93
Mid	0.58	-0.48	-1.48
Small	-2.49	-1.95	-1.44

> 10% | 0% - 10% | <0%

*S&P Indices

Fixed Income Style



1 Month*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	0.51	0.78	2.29
Corp	0.59	0.98	1.49
HY	0.61	0.55	0.45

Year to Date*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	0.71	1.03	2.60
Corp	0.85	1.28	2.06
HY	1.57	1.64	1.69

> 10% | 0% - 10% | <0%

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.0%	3.1%
CPI Core Inflation	3.3%	3.9%
Personal Consumption Exp (PCE) Core	2.8%	3.0%
Jobs		
Unemployment Rate (U3)	4.0%	3.7%
Broader Unemployment Rate (U6)	7.5%	7.2%
JOLT Survey (in millions)	7.60	8.89
Jobless Claims (000's)	219	200
Change in Non-Farm Payroll (000's)	143	119
Average Hourly Earnings (Y/Y % Change)	4.1%	4.3%
Consumer & Spending		
Consumer Confidence (Conf Board)	104.1	110.9
Consumer Spending ($ Bil)	20,387	19,290
Consumer Credit ($ Bil)	5,146	5,024
Retail Sales ($ Bil)	724	695
Housing		
Housing Starts (000's)	1,366	1,376
Case-Shiller Home Price Index	323.91	312.20
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	23,531	22,961
Quarter over Quarter Change	2.3%	3.2%
Year Over Year Change	2.5%	3.2%
ISM Manufacturing	50.90	48.90
Capacity Utilization	77.77	77.19
Markit US Composite PMI	50.40	52.50
U.S. General		
Leading Economic Indicators	101.5	104.2
Trade Weighted Dollar Index	127.4	121.7
EUR / USD	1.05	1.08
JPY / USD	149.27	150.30
CAD / USD	0.70	0.74
AUD / USD	0.64	0.66

S&P 500 Sector Returns

	1 Month	YTD
Health Care	6.53%	2.40%
Consumer Staples	6.50%	18.07%
Utilities	6.06%	33.76%
Energy	5.96%	8.61%
Financials	5.10%	30.24%
Communication Services	4.92%	33.31%
Materials	4.73%	4.85%
Real Estate	3.85%	13.47%
Industrials	2.32%	15.91%
Information Technology	-0.19%	29.33%
Consumer Discretionary	-3.35%	24.20%

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