Summary

Economic data included consumer price inflation rising, but at a similar pace to the prior month, while producer price inflation ticked up at a faster pace.

Equities were mixed to down globally, with some positivity in U.S. growth and emerging markets. Bonds were down as yields rose for the week. Commodities gained on the heels of a spike in crude oil prices.

Economic Notes

(0) The **Consumer Price Index** for November rose 0.3% on a headline basis, based on the normally-quoted seasonally-adjusted formula. However, it's worthwhile to note that prices fell -0.1% on an unadjusted basis. Core CPI, removing food and energy, also rose at a 0.3% rate, but only 0.1% on an unadjusted basis. Both were in line with expectations. Under the hood, gains in food prices (0.4%) and energy commodities (0.5%) contributed to the headline increase. Other gains in lodging (3.2%) and used cars (2.0%) were additive to core prices. On the other hand, rent and owners' equivalent rent decelerated by nearly half to 0.2%, with the latter at the slowest monthly rate in three years.

Year-over-year, headline CPI ticked up over a tenth on the month to a rounded 2.7%, while core CPI was steady at 3.3%. More troublesome is the increase in the 'supercore' measure the Fed keeps close tabs on (CPI ex-food, energy, other goods, and housing rents), which has reaccelerated higher to 4.3%, although CPI less food, shelter, and energy was up only 2.2% on the year. On the positive side, in a separate report, the Atlanta Fed's wage growth tracker showed continued deceleration—in fact, to a three-year low. This inflation report was mixed news for many, with continued stickiness in certain pieces in the inflation basket, but no movement upward that could cause the Federal Reserve to reconsider their easing path this coming week. However, the amount of easing in 2025 is another matter, with the number of assumed rate cuts shrinking along with persistent inflation, strong economic growth, and balanced labor markets. Generally good conditions keep the need for extensive cutting at bay.

(-) The **Producer Price Index** rose 0.4% in November on a headline basis, twice the 0.2% increase expected. For the month, goods rose 0.7% and services were up 0.2%, while core ex-food and energy rose 0.2%, both on a seasonally-adjusted basis. Gains in food prices appeared to be concentrated in eggs, which were affected by the bird flu. Year-over-year, headline PPI re-accelerated by nearly a half-percent to 3.0%, while core PPI came in at 3.4%. By segment, goods prices rose a tempered 1% over the year (2% when food/energy were removed), while services rose a substantive 4%.

(-) **Initial jobless claims** for the Dec. 7 ending week rose by 17k to 242k, above the 220k expected. Continuing claims for the Nov. 30 week similarly rose by 15k to 1.886 mil., above the 1.877 mil. median forecast. Despite the rise, which was fairly consistent with the largest states accounting for the largest gains, it appears the bulk was due to seasonal adjustments around Thanksgiving weekend.

(0/+) The updated report of **nonfarm productivity** for Q3 was unchanged at 2.2%, as was the year-over-year reading of 2.0%. **Unit labor costs**, however, were revised down substantially by over a percent to an annualized 0.8% for Q3, with the year-over-year rate similarly reduced to 2.2%.

Market Notes

Period ending 12/13/2024	1 Week %	YTD %
DJIA	-1.78	18.43
S&P 500	-0.61	28.55
NASDAQ	0.36	33.67
Russell 2000	-2.55	17.27
MSCI-EAFE	-1.52	6.41
MSCI-EM	0.25	10.57
Bloomberg U.S. Aggregate	-1.38	1.97

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2023	5.40	4.23	3.84	3.88	4.03
12/6/2024	4.42	4.10	4.03	4.15	4.34
12/13/2024	4.34	4.25	4.25	4.40	4.61

U.S. stocks were mixed last week, with growth stocks eking out a small gain, while value fell back—all along with reports showing persistent consumer and producer inflation that could keep the Federal Reserve from cutting rates as far as earlier hoped. Large caps outperformed small caps, in contrast to recent trends. By sector, communications gained several percent (led by Alphabet/Google up 9%, with AI-related product news) and consumer discretionary stocks gained over a percent (led entirely by Tesla's 12% gain) as the sole winners for the week, while materials, utilities, health care, and industrials suffered the largest declines, from -2% to -3%. Real estate also fell by several percent as yields ticked higher.

The NASDAQ composite index touched a level of 20,000 for the first time. As with most round number milestones, these can generate a greater degree of retail investor news interest, in addition to the intense advertising focus on that index. While the NASDAQ has outperformed the S&P 500 over the past 20 years by a few percent annualized, many aren't aware of its high sector concentration, with 50% in information technology alone, and 80% combined in tech, communications, and consumer discretionary (the latter of which is dominated by quasi-tech firms Amazon and Tesla).

Foreign stocks lagged domestic in developed markets, not helped by a 1% rise in the value of the U.S. dollar. Europe and the U.K. outperformed with declines of only half the magnitude of Japan, as investors digested the likelihood of a quarter-point rate hike in the latter in the new year. Emerging markets fared best, with minor gains overall, led by gains in China, Mexico, South Africa, and South Korea—all for different reasons. As expected, the ECB decided on a -0.25% rate cut to 3.00%, as did Canada by -0.50% to 3.25%, both to stem weaker economic growth. On the surprise side, the Swiss central bank cut rates by -0.50% (the largest cut in a decade, back to a low 0.50%, in efforts to stem a strong franc to some extent), while the Brazilian central bank raised rates by 1.00% (to 12.25%), going in the opposite direction the rest of the world, in efforts to combat still-strong inflation and inflation expectations. The Brazilian real rate has long been one of the highest among the larger emerging markets, absent a period during the pandemic, due to this persistent threat that results in investors demanding more compensation. Chinese equities were fueled to some degree by news of increasingly accommodative measures (although little detail) after the 2025 Central Economic Work Conference, with monetary policy language updated from 'prudent' to 'moderately loose.' The challenging job in China is both encouraging consumer spending, which has been lackluster, in addition to helping swap high levels of local/regional debt under the national debt umbrella, as well as a strategic focus on specific technology and higher-level manufacturing.

Bonds fared negatively last week, as U.S. Treasury yields ticked up across the curve, notably in the 5-year area and longer, up 0.20-0.25%. Sticky recent inflation reports and continued concerns over government deficits for the next several years remain a key focus for fixed income. Governments and investment-grade corporates performed

similarly, with floating rate bank loans outperforming with a small gain. Foreign bonds were held back by the sharp move upward in the dollar.

Commodities rose across the board, led by energy up several percent, and mixed results in metals. Crude oil prices rose nearly 6% last week to $71/barrel, due to a variety of geopolitical factors, including a dramatic change in regime in Syria, potentially affecting regional power dynamics, and possibilities of new sanctions on Russia's shadow fleet of oil tankers.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.