Summary

In a shortened quiet week for economic releases, data included gains in existing home sales, while the leading index of economic indicators declined, as did consumer sentiment.

Equities gained, especially abroad along with a weaker U.S. dollar as fears of tariffs were dampened a bit after the inauguration. Bonds were little changed domestically, but some foreign bonds fared well with a weaker dollar. Commodities were mixed, with declines in oil.

Economic Notes

(+) The preliminary **S&P Global US manufacturing PMI** for January rose by 0.7 of a point to 50.1, back into expansion slightly, and exceeding the 49.8 forecast. In that report, output, new orders, and employment all saw progress back into expansion. However, input and output prices also increased, remaining in the expansionary mid-50s and alluding to continued goods price pressures. Sentiment from survey participants appeared to improve from a business standpoint as the new government was set to take office.

(-) The January preliminary **S&P Global US services PMI**, on the other hand, fell by -4.0 points to 52.8, below the 56.5 level expected. Under the hood, employment gained a few points back into solid expansion, while new business fell by over a point, but also remained in solid expansion. Input and output prices rose here as well, remaining inflationary. This appears to have cooled off a bit, but services remain solidly in expansion by this measure.

(+) **Existing home sales** rose 2.2% to an annualized seasonally-adjusted rate of 4.24 mil. Single-family home sales rose 2%, with condos/co-ops up 5%. Results were relatively similar for the month by region, other than the Midwest, which saw a slight decline. Year-over-year, sales rose 9%, at the strongest pace since the summer of 2021, with single-family sales up 10% and condos/co-ops up over 2%. However, the full-year sales number was the slowest in three decades, with sales led by homes priced over $250k. The median existing home price rose 6% for the year to $404,400, representing the 18th consecutive month of year-over-year price gains. Inventories fell by -13% for the month, corresponding to 3.3 months' supply, pointing to a continued tight sales market. Per the Federal Reserve, the average 30-year fixed rate mortgage rate ended the week at just under 7%, after reaching a trough of 6% last fall, when the downward progress ended. The interest rate spread between mortgage rates and the 10-year U.S. Treasury (historically 1.5-2.0%) has remained wider as well.

(-) The final **Univ. of Michigan index of consumer sentiment** for January was revised down by -2.1 points to 71.1, below the 73.2 expected. This included a drop of -4 points in current economic conditions, while expectations for the future dropped by a point. Inflation expectations for the coming year were unchanged from the first report at 3.3%, while expectations for the next 5-10 years were revised down a tenth to 3.2%. Within the report, sentiment surrounding personal finances was fine, but there was some apparent anxiety about expected higher unemployment in the year ahead. There was also anxiety about

inflation, tied to uncertainty about tariff policies, the advance effects of which are not well-understood by consumers (or even economists, in many cases).

(-) **Initial jobless claims** for the Jan. 18 ending week rose 6k to 223k, above the 220k median forecast. Continuing claims for the Jan. 11 week rose by a substantial 46k to 1.899 mil., above the 1.866 mil. expected. As expected, claims were largely impacted from wildfires in Southern California, with far less impact elsewhere.

(0) The Conference Board's **Index of Leading Economic Indicators** fell by -0.1% in December, following an upwardly revised gain of 0.4% for November. Individual components were little changed as well, with gains in credit, the S&P stock index, and average weekly hours, offset by declines in consumer sentiment, ISM new orders, jobless claims, and building permits. Over the trailing six months ending in December, the LEI fell by -1.3%, an improvement compared to the -1.7% decrease for the first half of 2024. Over the second half of the year, a similar pattern included gains in credit and stock prices offset by negative ISM manufacturing new orders and the inverted yield curve (which has since un-inverted). The Conference Board's monthly commentary noted the mixed results over the month, but positive trajectory over the past six and twelve months, "signaling fewer headwinds to US economic activity ahead." The Conference Board continues to see positive growth momentum into the new year, estimating real GDP growth of 2.3% for 2025.

Market Notes

Period ending 1/24/2025	**1 Week %**	**YTD %**
DJIA	2.19	4.50
S&P 500	1.76	3.81
NASDAQ	1.65	3.35
Russell 2000	1.40	3.51
MSCI-EAFE	3.17	4.42
MSCI-EM	1.87	1.47
Bloomberg U.S. Aggregate	0.11	0.09

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2024	4.37	4.25	4.38	4.58	4.78
1/17/2025	4.34	4.27	4.42	4.61	4.84
1/24/2025	4.35	4.27	4.43	4.63	4.85

U.S. stocks fared positively, to more record highs for the S&P 500, on a market week shortened by the MLK holiday and also included the U.S. Presidential inauguration. By sector, leaders included gains of 4% for communications services and 3% for health care, followed by technology and industrials, while energy ended up as the only down sector, with a decline around -3%. Real estate gained over a percent, despite slightly higher interest rates. Per FactSet, 16% of S&P 500 companies have reported earnings,

with blended (actual plus expected) 4th quarter year-over-year earnings growth at 12.7%, about a percent higher than it was at year-end and a few tenths higher than the prior week. There is much more to come on the earnings front over the next few weeks.

In the President's opening inaugural remarks, and later executive orders, a key focus on the financial side was the speed and severity of any applied tariffs; however, markets were pleased that a measured approach is being taken, with reports that the administration is taking a deeper dive into tariff effects before action is taken. Early comments were less hawkish than feared (even about China), leaving the door open for more nuanced negotiations as opposed to broader 'universal' tariffs immediately. Tariff rates of 25% on Canada and Mexico were alluded to, although the same were threatened in 2019, but not ultimately imposed. Also notable and expected were restrictions on energy, including oil/gas drilling being lifted. Mid-week, markets were also enthused by project 'Stargate,' a $500 bil. artificial intelligence-focused initiative (positive AI-related news has been an easy jumpstart for markets in recent quarters).

Foreign stocks experienced one of their best weeks in some time, outperforming domestic stocks by several percent, along with a sharp decline in the value of the U.S. dollar. Japan and Europe outperformed the U.K. and emerging markets. Sentiment was directly related to the lack of immediate tariff announcements, in favor of more measured assessments, slight economic growth improvements in Europe, as well as strong hints of ECB interest rate easing, in that "a gradual move is certainly something that comes to mind at the moment." This offset some labor weakness and continued inflation pressures in the U.K. The Bank of Japan hiked policy interest rates by 0.25% to around 0.50%, the highest level since 2008. While hikes are expected to continue slowly, overall rates remain low, yet through a yield curve that also appears more normal than it's looked in some time.

Bonds in the U.S. markets were little-changed, along with minimal change across the U.S. Treasury yield curve, which is now positively-sloped and relatively normal looking. High yield slightly performed investment-grade corporates and Treasuries. Foreign unhedged/local currency bonds fared best, along with a sharp decline in the value of the U.S. dollar index for the week, while hedged bonds were little changed.

Commodities were mixed for the week, with gains in agriculture and precious metals offset by weaker energy and industrial metals. Crude oil prices fell over -3% last week to $75/barrel, following a proclamation by the new President that oil prices (along with interest rates) "must come down." He obviously doesn't have the power to do that unilaterally but could indirectly incent other policies to make it happen, such as easing the way for more production. The implications of the President's loosening of energy drilling restrictions add more complexity to an already complex global oil market, but adding more potential supply to an already high-producing and well-supplied U.S. oil market could be read as potentially bearish for pricing. (Lower oil prices have tended to be positive for the economy and consumers as a whole, but less welcome for the specific energy and commodity sectors.) However, this doesn't include any offsetting global supply factors, such as production from Iran and Russia, or changes in demand.

Have a good week.

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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.