Summary

In a New Year holiday-abbreviated week, economic data included an improved (but still contractionary) ISM manufacturing report, minimally-changed construction spending, and continued movement higher for residential home prices.

Equities fell globally last week, in contrast to a positive year (to say the least, in the U.S.). Bonds gained a bit as interest rates settled from recent volatility. Commodities gained along with rising prices for crude oil and gold.

Economic Notes

(0/-) The **ISM manufacturing index** rose by 0.9 of a point to 49.3 in December, above the expected slight decline to 48.2. This remained in contraction but inched a bit closer to the 50 'neutral' level. Under the hood, new orders rose by 2 points further into expansion at over 52, along with a 4 point increase for production back to just above neutral, while employment fell by nearly -3 points further into contraction. Prices paid also rose by another 2 points back into solid expansion. In a separate release, the final December **S&P Global US manufacturing PMI** report was revised up by 1.1 points to 49.4. These reports continued to show a lack of upward movement in the manufacturing sector, as they have for much of the past two years, but to an improved degree recently, at least appearing a bit more balanced towards the neutral level. Seasonal effects could also have played a role, as anecdotal commentary from survey participants into the new year still hints at weakness.

(0/-) **Construction spending** was unchanged in November, in contrast to the 0.3% increase expected. Public residential spending rose by nearly 2%, followed by private residential spending by a tenth, which offset non-residential spending. Construction costs also fell by -0.1% for the month, which translated into a 0.1% real rise in spending.

(0/+) The **S&P Case-Shiller 20-city home price index** rose 0.3% in October on a seasonally-adjusted basis, a tenth higher than expected. Year-over-year, the index rose 4.2%, a deceleration of -0.4% from the prior month. By city, New York, Chicago, and Las Vegas saw the strongest gains of 5-7%, while prices in Tampa were just positive by a few tenths of a percent over the past year.

(0/+) The **FHFA house price index** for October saw an increase of 0.4%, a tenth below expectations, and a few tenths below the prior month's pace. Year-over-year, house prices were up 4.5%, with the largest gains in the Middle Atlantic (NY/NJ/PA) and East North Central (Great Lakes states) regions, upwards of 7%, while the West South Central (OK/AR/TX/LA) and Pacific lagged with gains of over 2%. These indexes continue to show upward progress, albeit at a slower rate than in recent years after the spike during the pandemic. Going into 2025, housing affordability obviously remains a nationwide problem, exacerbated along the two coasts. On one end, the Fed's easing has not alleviated any pressures, as mortgage rates have stayed high (along with the 10-year U.S. Treasury yield, which has risen over the past quarter). In addition, weak homebuilding activity (or existing homeowners interested in selling) has kept new supply at bay, that could help alleviate some of these pressures. Some of this is related to restrictive zoning, which tends to be a locally-controlled domain rather than national, so it's difficult to see any easy fixes on the horizon.

(-) **Initial jobless claims** for the Dec. 28 ending week fell by -9k to 211k, below the 221k median forecast. Continuing claims for the Dec. 21 week fell by a substantial -52k to 1.844 mil., below the expected smaller decline to 1.890 mil. Being the holidays, seasonal factors and adjustments can skew some of these numbers back and forth more dramatically than at other times of the year, so should be taken with more of a grain of salt than usual.

Market Notes

Period ending 1/3/2025	1 Week %	2024 %	2025 YTD %
DJIA	-0.59	14.99	0.46
S&P 500	-0.45	25.02	1.05
NASDAQ	-0.49	29.57	1.62
Russell 2000	1.13	11.54	1.72
MSCI-EAFE	-0.88	3.82	-0.30
MSCI-EM	-0.82	7.50	-0.14
Bloomberg U.S. Aggregate	0.18	1.25	-0.13

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
12/27/2024	4.31	4.31	4.45	4.62	4.82
12/31/2024	4.37	4.25	4.38	4.58	4.78
1/3/2025	4.34	4.28	4.41	4.60	4.82

U.S. stocks finished 2024 strongly, with the S&P up over 25%, representing the second straight year of gains of 20%+. Though, the full short week ended negatively, with what appeared to be some profit-taking, late seasonal adjustments, and a downgrade of Q4 U.S. economic growth as measured by the Atlanta Fed GDPNow (down from 3.1% to 2.6%). Small caps, on the other hand, had a solidly positive week. In the S&P 500 by sector, energy led with gains of over 3%, followed by utilities. The largest declines were experienced by materials, consumer discretionary (primarily volatility with Tesla), and consumer staples, each down at least a percent.

Some investors nervously await the outcome of various forms of the 'January effect,' whether it be the stock market performance for the entire month, or only the first 5 or 10 days. Obviously, this sample is too short to get a handle on 2025's fundamentals and likely surprises to come, but from a behavioral standpoint, it can begin to set a tone for market sentiment.

Foreign stocks were down as well, with flattish results in the U.K. tempering sharper declines in Europe and Japan, as well as emerging markets. These were not helped by an approximate one percent rise in the value of the U.S. dollar for the week. Higher inflation, notably in Spain, led to hawkish rhetoric and chances of fewer than expected ECB rate cuts over the coming year. Chinese stocks were led downward by weaker manufacturing data, which came in just above the neutral 50 level and continues to frustrate investors looking for a growth catalyst.

Bonds fared positively for the week, as interest rates fell back a bit. High yield and floating rate bank loans outperformed government bonds slightly, while unhedged foreign bonds were held back by a stronger U.S. dollar last week.

Commodities rose as a whole, led by gains in energy and precious metals, offsetting declines in industrial metals. Crude oil prices rose nearly 5% last week to $74/barrel, with hopes for higher demand this coming year were coupled with concerns over increased sanctions on Iran, which would reduce market inventories.

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.

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