



**The Weekly Market Update – 1/13/25: Good News is Bad News as Rates Rise**

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,827.04	-1.94%	-0.93%	-0.93%	22.16%	6,090.27	4.5%
Dow Jones Industrial Average	41,938.45	-1.86%	-1.42%	-1.42%	11.27%	45,014.04	7.3%
NASDAQ Composite	19,161.63	-2.34%	-0.77%	-0.77%	27.65%	20,173.89	5.3%
Russell 2000	2,189.23	-3.49%	-1.84%	-1.84%	8.00%	2,442.74	11.6%
MSCI EAFE (USD)	2,244.94	-0.44%	-0.75%	-0.75%	0.39%	2,506.69	11.7%
MSCI Emerging Markets (USD)	1,057.10	-1.50%	-1.71%	-1.71%	3.26%	1,444.93	36.7%
Bloomberg Commodity Index	102.49	4.06%	3.78%	3.78%	3.90%	237.95	132.2%
Barclays U.S. Aggregate Bond	89.38	-0.92%	-1.17%	-1.17%	-2.53%	112.07	25.4%

Source: FactSet

**U.S. equities dropped following a strong December jobs report as long-term interest rates spiked to multi-month highs.** According to the Bureau of Labor Statistics (BLS), the U.S. created 256 thousand (K) nonfarm payrolls (jobs) in December, well above the 165K FactSet consensus estimate. This was the best monthly jobs gain since March 2024, and the highest 3-month average monthly gain since May 2024. In addition, the unemployment rate moderated to 4.1% vs. 4.2% in November. Long-term interest rates surged as bond prices fell, and the U.S. 10-year Treasury yield closed at 4.77% on 1/10/25, its highest level in nearly 15 months (since October 2023). In our view, the higher yields, along with the strong jobs report, suggest that the Federal Reserve Bank (Fed) is less likely to further reduce its short-term fed funds interest rate targets as current U.S. interest rate levels do not appear restrictive to economic growth. With interest rates rising and perhaps remaining higher for longer, equity investors were cautious after the jobs report, causing a -1.5% decline in the widely followed S&P 500 equity index on Friday, 1/10/25. Friday's S&P 500 level of 5,827 was its lowest closing price since Election Day on 11/5/24. While the S&P 500 was down just -0.9% in January through 1/10/25, the index has given back most of its post-election gain and was down -4.2% from its all-time closing high set on 12/8/24. Over the past couple of years, 10-year Treasury yields above 4.50% have created headwinds for equity prices. On one hand, higher long-term interest rates reflect above-trend economic growth that is expected to remain resilient. But rising interest rates can create challenges, especially for consumer spending as interest rates on mortgages, car loans, and credit cards rise. In addition, sustained higher Treasury rates will continue to pressure the federal budget as interest expense on government debt trends higher. With earnings expectations remaining high (fourth quarter 2024 S&P 500 year-over-year earnings growth estimates are +11.5%), we believe that companies that deliver solid results and provide positive 2025 visibility can perform well. We continue to like diversified exposure across sectors.

**We see potential market volatility from Washington D.C. as presidential cabinet confirmation hearings begin this week, ahead of Inauguration Day on 1/20/25.** The U.S. Senate begins a multi-week process of interviewing presidential nominees and ultimately voting to confirm (or not) cabinet positions and other senior White House officers. High-profile nominees scheduled to appear this week include Pete Hegseth (Defense Secretary), Pam Bondi (Attorney General), Kristi Noem (Secretary of Homeland Security), Marco Rubio (Secretary of State), Scott Bessent (Treasury Secretary), and Lee Zeldin (Environmental Protection Agency). A majority of Senate votes is required for confirmation, and the Republican Senate majority is expected to affirm most nominees, but a few candidates are likely to face a more difficult path.

**We are watching several key December economic reports this week, closing 2024 as we assess the early 2025 economic outlook.** The BLS' measure of consumer inflation (CPI) is expected to be relatively flat in December, reflecting inflation that remains closer to +3% than to +2%. Other key data this week includes December reports on retail sales, wage growth (average hourly earnings), housing starts, and industrial production. As of 1/10/25, the FactSet consensus for 4Q24 U.S. GDP (gross domestic product) growth is +2.2% (the estimate was +1.6% in late October), which would bring the full-year GDP growth to +2.7%. The consensus for 2025 GDP growth is +2.1%.

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**Market Indices:** The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today, the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at <https://www.bea.gov/data/gdp/gross-domestic-product>.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members--the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and in this way alters the federal funds rate.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics; the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey are drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

Housing Starts: the number of housing units started in the U.S.; excluded are hotels, motels, group residential structures such as nursing homes and college dormitories, and manufactured (mobile) homes; seasonally adjusted; reported by the U.S. Census Bureau.

Industrial Production: measures the change in the total inflation-adjusted value of output produced by our nation's industrial facilities, defined as factories (manufacturing), mines, and electric/gas utilities; reported by the Federal Reserve.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. The BLS also reports average hourly earnings, a measure wages reported month-to-month and year-over-year.