



The Weekly Market Update – 1/27/25: President Trump’s Wish For Lower Rates on Hold

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	6,101.24	1.74%	3.73%	3.73%	27.91%	6,118.71	0.3%
Dow Jones Industrial Average	44,424.25	2.15%	4.42%	4.42%	17.87%	45,014.04	1.3%
NASDAQ Composite	19,954.30	1.65%	3.33%	3.33%	32.93%	20,173.89	1.1%
Russell 2000	2,307.74	1.40%	3.48%	3.48%	13.85%	2,442.74	5.9%
MSCI EAFE (USD)	2,360.81	3.16%	4.38%	4.38%	5.57%	2,506.69	6.2%
MSCI Emerging Markets (USD)	1,090.02	1.86%	1.35%	1.35%	6.47%	1,444.93	32.6%
Bloomberg Commodity Index	103.43	-0.26%	4.73%	4.73%	4.85%	237.95	130.1%
Barclays U.S. Aggregate Bond	90.35	0.12%	-0.09%	-0.09%	-1.47%	112.07	24.0%

Source: FactSet

President Trump wants lower interest rates, but what will the Fed do? The president made headlines last week when confirming to a World Economic Forum audience that pushing for lower interest rates will be part of his economic platform. The comments come just ahead of this week’s (on Wednesday) U.S. Federal Reserve Bank (Fed) policy meeting, its first scheduled meeting of 2025. We expect the Fed to announce no change to its overnight bank lending fed funds interest rate target, leaving the range at 4.25% to 4.50%. Last year, from September to December, the Fed reduced the fed funds target by a full percentage point, or 1.0% (over three policy meetings). After the December meeting, Fed Chair Jerome Powell said that its interest rate policy “is now significantly less restrictive,” and that the Fed can “be more cautious as we consider further adjustments to our policy rate.” This set expectations for a pause at this week’s meeting as the fed funds rate is now closer to what the Fed views as a “neutral” level. The neutral interest rate is a theoretical level of rates that is neither restrictive (higher rates) nor stimulative (lower rates) and exists in an economy operating with stable interest rates and growth in employment. We believe that President Trump’s desire for lower interest rates reflects his view that this can stimulate economic growth, with a secondary benefit that lower rates could weaken the U.S. dollar, and thus, boost demand for U.S. exports. However, while the Fed manages the overnight fed funds rates, U.S. Treasury yields are market-traded and not controlled by Fed monetary policies (especially at the longer maturities). Since the start of the decline in the fed funds target (September 2024), both the U.S. 2-year and 10-year Treasury yields have moved higher, an indication, in our view, that bond investors see future interest rate cuts less likely. The president’s wish for lower interest rates may be on hold, at least until we see more data on inflation trends (which have become more stubborn in recent months), especially given the still uncertain path of global tariffs under consideration by the new Administration.

The S&P 500’s relatively high valuation makes the index vulnerable to pullbacks if investors question the earnings growth trajectory. The index dropped more than -2% in morning trading on Monday, 1/27/25, following news that China has developed a high-performing generative artificial intelligence (GenAI) model (DeepSeek) that uses a fraction of the hardware cost (semiconductors and data centers). This has placed into question the sustainability of continued growth in large GenAI investment that is expected in 2025 (if cheaper alternatives develop), and also accelerates (in our view) the payback period that investors will demand from GenAI investments that have already been made. The S&P 500’s largest sector by market capitalization, Information Technology (32% of the index, as of 1/24/25), was down more than -5% early Monday, representing most of the index decline (along with weakness in Utilities as fewer data centers would lead to lower power demand). We continue to advocate for diversified exposure across sectors and look for positive earnings results as reporting season continues this week.

The U.S. will report data for fourth quarter (4Q24) economic growth this week on 1/30/25. The Bureau of Economic Analysis will report its first estimate of 4Q24 gross domestic product, or GDP. The FactSet consensus estimate looks for real (inflation-adjusted) GDP growth of +2.4% (sequential growth annualized). With consumer data still robust (retail sales and jobs), we believe that growth could exceed the estimate, but perhaps not as strong as +3.1% in 3Q24. The FactSet consensus for 2025 full-year GDP was +2.1%, as of 1/24/25, an estimate that appears achievable.

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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 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. Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

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.

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 Summary of Economic Projections (SEP) is sourced from [federalreserve.gov](https://www.federalreserve.gov), as of 12/18/24. Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The Summary of Economic Projections is compiled from Federal Reserve Board members and Federal Reserve Bank presidents.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. 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 federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

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 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.

U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis (BEA). Part of consumer spending is outlays made at retail stores and the U.S. Census Bureau reports monthly data on Advance Monthly Sales for Retail and Food Services.

2024 election day was 11/5/24. On the national level, voters selected the next president of the U.S. and state elections determined the party control (Democratic or Republican) of Congress, both the U.S. House of Representatives and the U.S. Senate. Inauguration day is 1/20/25, and the Republican party will control the Presidency and both chambers of Congress. On the campaign trail President-elect Trump had promised the use of widespread (global) tariffs to counter tariffs on U.S., goods in other countries as well as to incentivize more U.S. manufacturing. In addition, Trump intends to limit illegal immigration and asylum seekers and to deport immigration that did not use proper channels. The impact this may have on the U.S. labor market is uncertain.

Generative artificial intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem-solving and decision-making. While still predictive models, generative AI can give detailed responses much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities.

DeepSeek is a China-based artificial intelligence company that developed a GenAI large language model was made available to U.S. users in late January. Information on the company's products and be found at www.deepseek.com.