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Market Watch

January 6, 2025

Primary Market Drivers

Economic Data

In the first full trading week of 2025, we will see a decent amount of impactful economic data. Labor market data highlights the batch this week with JOLTS (1/7), ADP Emplyment (1/8), and Nonfarm Payrolls (1/10) all on tap. Investors will be closely monitoring the final 2024 Nonfarm Payrolls report as well as the accompanying Unemployment Rate release to see how the labor market fared in the final month of the year. Elsewhere, we get ISM Non-Manufacturing (1/7), Consumer Credit (1/8), and Michigan Consumer Sentiment (1/10). Expect the market to react to this week's data as 2025 officially gets rolling.

Fed Policy

At its last meeting, the Fed cut interest rates by 25bps to a target rate of 4.25% - 4.50%, as expected. The updated dot plot showed that the committee expects two rate cuts in 2025, instead of the previously projected three. Given the fact that the Fed has reiterated time and again that its policy path is "data dependent," the updated dot plot didn't come as much of a surprise given the rebound in economic data and inflation over the last quarter. The committee also noted a slight uptick in inflation expectations moving forward. Traders used the "surprise" as an excuse to reintroduce volatility during the light volume period. The Fed's next meeting is on January 29th, where current odds (via CME's FedWatch Tool) are 89.3% for the Fed to leave rates unchanged. Expect this week's labor market data to shift these odds.

Earnings

Earnings are back this week with three announcements from S&P 500 companies on Friday morning. While the season starts in earnest next Wednesday with big banks on tap, we will see earnings announcements this week from Constellation Brands (STZ), Delta Air Lines (DAL), and Walgreens Boots Alliance (WBA). All three are consumer proxies, though in very different areas. We doubt the announcements will have a major market impact, though results from STZ and WBA should be interesting following dismal performances from both stocks in 2024.

All referenced market information, statistics, and economic data were gathered from StreetAccount, a paid subscription data service provided by FactSet Research Systems Inc.

Market Returns 1/3/2025

Category	*Ticker*	*YTD%*
Domestic Equity		
S&P 500	SPY	1.00%
Dow Jones	DIA	0.39%
Large-Cap Growth	QQQ	1.44%
Large-Cap Value	IVE	0.30%
Mid Caps	MDY	0.97%
Small Caps	IWM	1.57%
International Equity		
Developed Intl	EFA	0.09%
Emerging Markets	EEM	0.79%
Fixed Income		
Core Bonds	AGG	-0.09%
Corporate Bonds	LQD	-0.22%
High Yield Bonds	HYG	0.39%
ST Treasuries	IEI	-0.12%
LT Treasuries	TLT	-0.05%
International Bonds	BNDX	-0.18%

Performance data and stock chart were gathered from eSignal, a paid market screening application provided by Intercontinental Exchange, Inc.

Current Environment Summary

What's Working	What's Not	What's Next
Inflation Subdued	Economy Slowing Modestly	**December Nonfarm Payrolls (1/10)**
Fed Easing Cycle	Interest Rates Remain Elevated	JOLTS (1/7) & ADP Employment (1/8)
Strong Earnings Growth	Light Earnings Guidance	Fed Minutes (1/8)
Long-Term Bull Market; All Time Highs	International Equities	Earnings season begins Friday
Positive Seasonality	Fed Dot Plot Hawkish	Watching action after Jan 3's big bounce
Post-Election Themes Rally		Positive Seasonality

Portfolio Manager Commentary

Ken Hartley, CFA

Happy New Year! I hope your holidays were filled with good times and good people. Now it's time to get back at it. It's customary to dig out the old crystal ball and look into the future for what may or may not happen in 2025. I don't really have a crystal ball.

The equity markets in the US are coming from two years in a row with outsized gains. History would tell us to expect market returns to track closer to historical performance in the high single-digit range of equity returns. With the economy continuing to produce increases of 2.5 – 3.0% annually, if interest rates are behaved, market participants should expect a "normal" return for 2025. That doesn't mean there won't be an increase in volatility, I expect the VIX to awaken from its trading range of 15-18 and provide us with some gut checks in 2025. Look for the media to use words like "tank, and crash". Consider these as indicators that it may be time to add risk.

With the new administration set to take over in two weeks, there are many changes coming to global governments and economies. Just this morning the Prime Minister of Canada announced his resignation. France, Germany and the UK have announced elections being called to change the direction of those countries as well. Is this a global return to conservative principles or just "spring cleaning" on a global scale?

The Chinese government's10-year bond yield is falling to levels not seen since people started keeping track of this stuff. Clearly the markets are telling the Chinese government that the massive stimulus put in place during 4Q 2024 is not enough. The Chinese real estate market has lost 2X the value the US market lost in the Great Financial Crisis of 2007-2008. Staggering when you think of the size of the Chinese economy versus the US, the deflationary effects are starting to call for stronger measures.

The hope for 2025 is that markets can process information in an orderly fashion and that the "Black Swans" stay out to sea for another year.

Don Moenning

Welcome to the first full trading week of 2025! There is a lot happening this week – labor market data (JOLTS, ADP Employment, Nonfarm Payrolls, Unemployment Rate), earnings season begins (Friday: Delta Air Lines, Constellation Brands, Walgreens Boots Alliance), the Fed Minutes release (1/8) from its last meeting, and the market extending Friday's big bounce after volatility hit late December. Stocks are pushing higher in early trading, though I wanted to spend this week's commentary by taking a step back.

I get asked a lot about my outlook for 2025. While nobody has a crystal ball, I tend to be a glass-is-half-full type of person, so my straight answer is "bullish" based on what I see. However, it's important to always understand both sides of the aisle, so I wanted to lay out what I observe as the bull and bear cases for this year:

Bull Case

- Fed easing cycle
- Inflation subdued
- Economic soft landing (or no landing), resilient consumer
- GOP victory tailwinds (tax cuts, less regulation)
- 2025 expected earnings growth in double digits
- Secular growth theme in AI, theme expansion (energy, manufacturing, software)
- M&A buyback activity
- Favorable seasonality (for now)

Bear Case

- Interest rates remain elevated, inflation above target and stubborn
- Economy slowing modestly
- Valuations stretched
- GOP victory headwinds (tariffs, inflation)
- Earnings guidance light, EPS growth rate declining
- Federal debt
- Geopolitical risks

Both camps have valid cases, so the answer to 2025 is not cut and dry. Currently, I favor the bull case as I believe the impacts of tax cuts, the AI growth theme, earnings growth, and the Fed easing cycle will outweigh the headaches presented by rates, stubborn inflation, and tariffs. That said, I expect a bumpy ride with plenty of volatility throughout the year, especially if valuations become even more stretched. For now, at least, the glass remains half full!

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