CLARUS WEALTH ADVISORS

Market Watch

February 10, 2025

Primary Market Drivers

Economic Data

Fiscal Policy and the Trade War 2.0 have been moving the market more often and to a greater degree than economic reports have in recent weeks, though this week the focus returns to the data. Headlining a busy economic calendar is January CPI (2/12) and PPI (2/13). Expectations are for +0.3% and +0.2% m/m, respectively. With inflation at something of a tenuous and sticky (albeit relatively low) point, investors will be watching this data closely and reacting accordingly. As a reminder, inflation data will be a key driver of future Fed policy, so the market wants lower inflation readings to facilitate the Fed's easing cycle. Other important economic releases this week include the NFIB Small Business Index (2/11), Treasury Monthly Budget (2/12), Imports & Exports (2/14), Retail Sales (2/14), Industrial Production & Capacity Utilization (2/14), and Business Inventories (2/14). Expect some focus on the Retail Sales figure as that report has been rather impactful in recent months as we gauge the ongoing resilience of the consumer.

Fed Policy

No change from last week aside from probability updates. At its meeting last week, the Fed left rates unchanged (4.25% - 4.50%), as expected. A lack of meaningful progress on inflation over the past few months, fiscal policy uncertainty, and decent economic data were the primary reasons for the pause. We expect the pause to continue, potentially for some time, as the Fed remains steadfastly data-dependent. Powell's press conference wasn't particularly noteworthy, though it was mentioned that the Committee does not need to see any more weakening in the labor market to resume cutting rates. The Fed's next policy decision is March 19th. Current odds (via CME's FedWatch Tool) have a pause at 92% and a 25bps cut at 8%. Expect these odds to shift as we see labor market data, inflation data, and more fiscal policy measures.

Earnings

Last week's earnings were mostly positive, kicking off the week with a smash announcement from Palantir. Google and Amazon put out solid quarterly results later in the week, though in-line guidances didn't meet investors' high expectations. Mega caps will take a bit of a breather this week, setting up for Walmart (2/19), Nvidia (2/26), Salesforce (2/26), and Broadcom (3/6) in the weeks to come. This week, 81 S&P 500 companies report, with some major announcements from McDonalds (MCD 2/10), Loews (LOW 2/10), Coca-Cola (KO 2/11), Humana (HUM 2/11), S&P Global (SPGI 2/11), Gilead Sciences (GILD 2/11), Super Micro Computer (2/11), CVS Health (CVS 2/12), Cisco Systems (CSCO 2/13), Deere & Co (DE 2/13), Airbnb (ABNB 2/13), Applied Materials (AMAT 2/13), Palo Alto Networks (PANW 2/13), Moderna (MRNA 2/14), and AutoZone (AZO 2/14), among many others. For a recap of how earnings season is going thus far, please refer to this week's portfolio manager commentary.

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 2/7/2025

Category	Ticker	YTD%
Domestic Equity		
S&P 500	SPY	2.54%
Dow Jones	DIA	4.20%
Large-Cap Growth	QQQ	2.30%
Large-Cap Value	IVE	1.86%
Mid Caps	MDY	2.78%
Small Caps	IWM	2.28%
International Equity		
Developed Intl	EFA	5.29%
Emerging Markets	EEM	3.30%
Fixed Income		
Core Bonds	AGG	0.90%
Corporate Bonds	LQD	1.01%
High Yield Bonds	HYG	1.35%
ST Treasuries	IEI	0.62%
LT Treasuries	TLT	2.43%
International Bonds	BNDX	0.74%

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	**Earnings: MCD, KO, CSCO, DE, PANW**
Fed Easing Cycle	Interest Rates Remain Elevated	**January CPI (2/12) & PPI (2/13)**
Strong Earnings Growth	International Outlook	January Retail Sales (2/14)
Long-Term Bull Market	Fed Dot Plot Hawkish, Fewer Cuts	Fiscal Policy & DOGE Updates
Despite Volatility, Equities Holding Up	Vol from Trade War 2.0 Headlines	Tariff / Trade War Developments
		February typically a negative month

Portfolio Manager Commentary

Ken Hartley, CFA

The tariff wars have begun in earnest as the Trump administration sets their sights on reducing America's twin deficits. The battle to bring the fiscal deficit has been joined by the courts now, with disclosures of boondoggle spending and a new definition of waste, fraud and abuse. The American people voted for change. Make sure your seat belt is fastened, and your tray tables are in the upright and locked position. Here comes the turbulence!

We have gotten several inquiries about the effect of tariffs on the US economy. To date, the threats of tariffs have resolved several issues that will not affect the economy as directly (think Panama Canal). The deportation of criminal illegal aliens to their country of origin has had some success with countries that depend on the US for trade. These could be described as the "low hanging fruit" and provide momentum for the tougher discussions ahead.

In the last several days, the US has slapped tariffs on Canadian energy (oil and natural gas). The effect on the US economy should be minimal as the US energy companies begin to bring more supply online, buying US energy makes economic as well as patriotic sense. Canada will feel the sting of reduced demand on a very important industry. Meanwhile, American drinkers can substitute for Canadian Whisky quite easily.

This morning, the US slapped a 25% tariff on steel and aluminum coming in from other countries. This move may prove to be more problematic. While in theory, this tariff should increase demand for steel and aluminum from the US. The unanswered question is whether US steel producers keep their prices where they currently are or raise prices up to the level of the tariffed products. If US companies can restrain the urge to raise prices, US inflation should be impacted in a small way if at all. History shows us that these companies and their unionized workers will not be able to resist the temptation.

The 800-pound gorilla in the room is China. With its export-driven economy, the effect of tariffs will be immediate. Many experts believe the Chinese will begin to sell US treasuries and cause rates to rise in the US. Here's a secret: China's central bank has been selling US treasuries since 2014. However, with the Chinese economy in a near depression, the Chinese government needs to hold US treasuries because of the higher coupon verses the Chinese government's bonds. It's a game of chicken. With the US economy in better shape than China's, the US may have some leverage in this battle.

Don Moenning

We are a little more than halfway through Q4 earnings season, so I thought it would be a good time to look at how corporate America is faring at this juncture. Expectations were elevated and the bar was high, but I'm happy to report that despite these relatively lofty expectations, earnings have been good.

With 62% of S&P 500 companies reporting, 77% have reported EPS above estimates, in line with the 5-year average and above the 10-year average of 75%. Overall, companies are reporting earnings that are 7.5% above estimates, exceeding the 10-year average of 6.7%.

The blended y/y earnings growth rate for the S&P 500 is 16.4%, the highest since Q4 2021 and well above the 11.8% at the end of last quarter. This marks the sixth consecutive quarter of y/y earnings growth for the index.

63% of companies have reported revenues above estimates, just shy of the 10-year average of 64%. While not a stellar statistic, elevated expectations and an incomplete data set paint this as stable.

There has been a lot of scrutiny over the past couple of years regarding Technology driving earnings growth and becoming extremely concentrated in the major indices. While the concentration remains, this quarter we're seeing the largest overall revenue growth rates from companies in Health Care, Financials, and Consumer Discretionary. Furthermore, eight of eleven sectors are reporting y/y earnings growth for the quarter, while six of these sectors are reporting double digit growth (Financials, Communications, Consumer Discretionary, Technology, Health Care, and Utilities). In sum, earnings growth is strong and broad-based.

The negatives this season are centered on guidance and valuation. Uncertainty surrounding fiscal policy, particularly tariffs, has put a damper on guidance. Valuations are relatively expensive, with the S&P 500 at a forward P/E of 22.1 vs. 5-year average of 19.8%. Neither of these points are particularly surprising or materially concerning (yet), but certainly something to keep an eye on moving forward.

Overall, we're halfway home and I think I'd call it "so far, so good" for Q4 earnings. We still have a few busy weeks of announcements, including important results from Walmart (2/19), Nvidia (2/19), Salesforce (2/26), and Broadcom (3/6) in the coming weeks.

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