January 6, 2025

Weekly Viewpoint

Stocks Deliver Another Solid Year of Gains

Performance for Week Ending 1/3/2025

The Dow Jones Industrial Average (Dow) fell 0.6%, the Standard & Poor’s 500 Index (S&P 500) lost 0.5% and the Nasdaq Composite Index (NASDAQ) slipped 0.5%. Sector breadth was negative with 7 of the 11 S&P sector groups closing lower. The Energy sector (+3.2%) was the best performer while Materials (-2.1%) was the weakest.

Index*	Closing Price 1/3/2025	Percentage Change for Week Ending 1/3/2025	Year-to-Date Percentage Change Through 1/3/2025
Dow	4273213	-0.6%	+0.4%
S&P 500	5942.47	-0.5%	+1.0%
Nasdaq	19621.68	-0.5%	+1.6%

Market Observations: 12/27/2024 – 1/3/2025

The S&P 500 finished the holiday interrupted week lower as holiday thinned attendance and uncertainty heading into the new year kept many investors on the sidelines. Despite some wobbly price action during the last couple weeks of 2024, the S&P 500 delivered an annual gain of 23.3%, its second consecutive year of 20%-plus returns and its best back-to-back performance since 1997 and 1998. The main catalysts for the strong gains over the course of the year were the Fed easing interest rates for the first time in four years, investor excitement around artificial intelligence, and expectations of companies potentially benefiting from President-elect Donald Trump's policies. Investor focus will now shift to the start of the fourth quarter earnings season later this month, as well as the December jobs data this Friday that could help fill in the gaps on the Fed's more cautious outlook on interest rates. With inflation still hovering above the Fed’s 2% target, the market expects the central bank to leave interest rates unchanged at its meeting later this month and to reduce borrowing costs by a total of 50 basis points by year-end, according to the CME Group's FedWatch Tool.

Economic Roundup: It was generally a quiet week of economic releases with Institute for Supply Management's (ISM) Manufacturing report on Friday being the focal point. According to the ISM the U.S. manufacturing sector contracted again in December for the ninth consecutive month (and 25th time in the last 26 months) with the Manufacturing Purchasing Managers Index (PMI) registering a reading of 49.3 compared to 48.4 in November and the consensus forecast of 48.2. The slightly better than forecast results was primarily due to broad-based improvement across production, strengthening new orders, and contracting backlogs, which helped offset a weaker view on employment. Meanwhile, initial jobless claims fell to an eight-month low, reflecting the relatively muted levels of job cuts in a labor market that has remained surprisingly resilient. New claims fell by 9,000 to 211,000 in the week ended Dec. 28. Meanwhile continuing applications, a proxy for the number of people receiving benefits, also fell to a three-month low of 1.84 million in the week ended Dec. 21. In housing news, mortgage rates climbed to an almost six-month high during the Christmas holiday week, suppressing applications for home purchases and severely undercutting refinancing activity. The contract rate on a 30-year mortgage advanced 8 basis points to 6.97% in the period ended Dec. 27 after rising 14 basis points the previous week, according to Mortgage Bankers Association data.

2025 Outlook: Over the intermediate- to longer-term, fundamentals—the economy, earnings, and interest rates—drive stock prices. The good news is that the macro environment should remain supportive in the coming quarters. The U.S. economy remains on firm footing, with minimal risk of a near-term recession. The Fed is easing and, while the path forward could prove uneven, rates are likely to drift lower over the next year. Importantly, the earnings growth outlook remains strong. Consensus expectations from Bloomberg for S&P 500 earnings growth are 12.5% and 13.7% in 2025 and 2026, respectively. The combination of Fed easing and brisk earnings growth creates a favorable backdrop for risk assets and should continue to drive the bull market. Still, with valuations elevated, earnings growth will likely drive performance, meaning that gains in the year ahead may be more modest compared to the past two years.

The Week Ahead: The focal point of the data calendar will be the payroll report for December that's due out on Friday. According to Bloomberg, nonfarm payrolls are expected to come in at 153,000, down from 227,000 in November, while the unemployment rate is expected to hold steady at 4.2%. The growth in average hourly earnings is seen slowing to 0.3% month over month from 0.4% in November. Ahead of the release, other labor market indicators due include the Job Openings and Labor Turnover Survey (JOLTS) data on Tuesday and the ADP National Employment Report on Wednesday. Apart from the employment data, other notable economic releases include the ISM services index on Tuesday as well as the University of Michigan consumer sentiment on Friday. On the Fed front, the FOMC meeting minutes from December are due out on Wednesday. The Fed speaking calendar will be busy with nine different speaking engagements on the docket including Fed Governor Waller on Wednesday. The earnings calendar will be quiet with just three members of the S&P 500 expected to release results.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three Nasdaq tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of Feb. 5, 1971.