January 10, 2025

Weekly Viewpoint

Stocks Fall as Rate Cut Probabilities Fade

Performance for Week Ending 1/10/2025

The Dow Jones Industrial Average (Dow) fell 1.9%, the Standard & Poor's 500 Index (S&P 500) lost 1.9% and the Nasdaq Composite Index (NASDAQ) slipped 2.3%. Sector breadth was negative with 8 of the 11 S&P sector groups closing lower. The Real Estate sector (-4.1%) was the weakest performer while Energy (+0.9%) was the best.

Index*	Closing Price 1/10/2025	Percentage Change for Week Ending 1/10/2025	Year-to-Date Percentage Change Through 1/10/2025
Dow	41938.45	-1.9%	-1.4%
S&P 500	5827.04	-1.9%	-0.9%
Nasdaq	19161.63	-2.3%	-0.8%

Market Observations: 1/6/2025 – 1/10/2025

The S&P 500 finished the week lower as upbeat data stoked inflation concerns and reinforced expectations that the Federal Reserve will be cautious in cutting interest rates this year. On Friday, the Labor Department reported a 256,000 increase in nonfarm payrolls in December and a 0.1% decrease in the unemployment rate to 4.1%. The reading easily surpassed economists' forecasts for a 165,000 gain in nonfarm payrolls and a flat 4.2% unemployment rate. The data reinforced expectations that the Fed will likely pause its easing cycle consistent with recent messaging from Fed officials. Futures markets are now pricing in a 97% chance for no rate cut at the January meeting, with only 30 basis points of easing by the end of 2025, according to Bloomberg's World Interest Rate Probability tool. On Friday, Chicago Fed President Austan Goolsbee noted that the labor market is stabilizing at full employment and overheating. He reiterated his call that interest rates will be a "fair bit lower" over the next 12 to 18 months, provide inflation doesn't rise, with the pace of reductions depending on economic conditions.

Economic Roundup: Growth at U.S. service providers accelerated in December, reflecting stronger business activity that helped push a price measure to its highest level since early 2023. The Institute for Supply Management's (ISM) index of services rose 2 points to 54.1, where readings above 50 indicate expansion. The U.S. trade deficit widened in November, driven by the biggest jump in imports since March 2022, as companies rushed shipments ahead of a possible dockworkers' strike and possible tariffs by the Trump administration. U.S. job openings rose to a six-month high in November, boosted by a jump in business services, while worker demand was more mixed in other industries. Available positions increased to 8.1 million from an upwardly revised 7.8 million in October, the Job Openings and Labor Turnover Survey (JOLTS) report showed. The advance was led almost entirely by openings in professional and business services—at an almost two-year high—and in finance and insurance. Initial filings for unemployment insurance fell to 201,000 in the week through Jan. 4, the lowest since February. Meanwhile, mortgage rates edged up to just below 7%, with the contract rate on a 30-year mortgage rising to a six-month high of 6.99%, according to Mortgage Bankers Association data.

Fed Speak: Ahead of the release of the payroll data, Fed officials were telegraphing a slower pace of rate cuts. Fed Governor Michelle Bowman cited lingering inflation risks and stressed that policymakers should proceed cautiously with further interest-rate cuts. Boston Fed President Susan Collins argued for a slower approach noting "considerable uncertainty" in the U.S. economic outlook. While she noted that the economy was in a "good place," she warned that progress on inflation will likely be slower this year than anticipated. Philly Fed President Patrick Harker said officials are on track to lower interest rates this year, but timing will depend on the economic developments. He acknowledged that bringing inflation to the Fed's 2% target is taking longer than expected, with progress proving uneven. Kansas City Fed President Jeff Schmid expressed support for slowing interest-rate cuts, but only if economic data shows a persistent shift. Schmid also noted that rates are now close to a level where they neither restrict nor stimulate the economy.

Market Viewpoint: Despite a wobbly start to the new year, we believe that the path of least resistance over the year will be higher. 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 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 an accommodative Fed 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: With inflation concerns back in focus, the main event in the week ahead will be the U.S. Consumer Price Index (CPI) release on Wednesday. Economists expect month-over-month growth in both headline and core measures slowing to 0.2% from 0.3% in November, according to Bloomberg. Ahead of the CPI, the Producer Price Index (PPI), a measure of inflation at the producer level, be released on Tuesday. Beyond inflation, attention will also turn to December retail sales data on Thursday to assess the state of the U.S.

consumer. On the Fed front, the Beige Book report will be released on Wednesday, and the Fed's speaking calendar will be busy, with six engagements scheduled. Earnings season picks up with 21 members of the S&P 500 expected to release results, including banking giants Wells Fargo, JP Morgan, Goldman Sachs, Bank of America, and Morgan Stanley. In politics, the focus will be on the Senate confirmation hearings for Trump's cabinet nominees, including Secretary of Defense, Secretary of State and Attorney General, among others.

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.