January 24, 2025

Weekly Viewpoint

As January Goes, So Goes the Year?

Performance for Week Ending 1.24.2025

The Dow Jones Industrial Average (Dow) gained 2.2%, the Standard & Poor's 500 Index (S&P 500) added 1.7% and the Nasdaq Composite Index (NASDAQ) tacked on 1.7%. Sector breadth was positive with 10 of the 11 S&P sector groups closing higher. The Communication Services sector (+4.0%) paced the gains followed by Healthcare (+2.9%) and Industrials (+2.4%).

Index*	Closing Price 1/24/2025	Percentage Change for Week Ending 1/24/2025	Year-to-Date Percentage Change Through 1/24/2025
Dow	44424.25	+2.2%	+4.4%
S&P 500	6101.24	+1.7%	+3.7%
Nasdaq	19954.30	+1.7%	+3.3%

Market Observations: 1/20/25 – 1/24/25

The S&P 500 Index finished the holiday week higher, reflecting a solid start to fourth quarter earnings season and an uptick in investor sentiment after President Trump talked up policies to boost the economy and lower taxes. In a virtual appearance at the World Economic Summit in Davos, Switzerland, Trump told the world's financial elite that "America is back and open for business" — saying he will "demand" that interest rates "drop immediately" while lowering energy costs and slashing corporate tax rates and regulations. Trump added that he's also pressuring foreign countries to increase oil exports and working to boost domestic energy production to lower costs. Trump also urged companies to "make your product in America and we will give you among the lowest taxes of any nation on Earth." In an interview with Fox News, Trump also seemed to soften his stance on imposing tariffs on China. Trump stated that he would "rather not" impose tariffs on China-made goods and allowed for the possibility of a trade deal following a "friendly' conversation with President Xi Jinping.

Economic Roundup: Initial claims increased by 6,000 to 223,000 last week, slightly above expectations for 220,000. The four-week moving average, which helps smooth out the week-to-week bumpiness, rose by less than 1,000 to 213,500. While overall jobless claims remain low by historical standards, continuing claims—a proxy for individuals who are already collecting benefits—climbed to a more than three-year high of 1.9 million. Meanwhile, Freddie Mac reported that mortgage rates declined for the first time since the middle of December, with the average for 30-year loans coming in at 6.96%, down from 7.04% in the prior week. On the housing front, existing home sales—which typically account for approximately 90% of total sales—increased by 2.2% month-over-month to 4.24 million homes during December, as volumes rebounded to their highest level since February of 2024. The reading came in above the consensus forecast, which called for a sequential increase of 1.2% to 4.20 million units. On a year-over-year basis, existing home sales volumes increased 9.3%, marking the third consecutive month of positive gains after a run of 38 straight months of year-over-year declines.

Q4 Earnings Off to a Solid Start: While it's still early, fourth quarter earnings season is tracking at a better-than-forecast pace. Through Friday, 78 members of the S&P 500 have released fiscal quarter results with 79% beating expectations. Aggregate earnings for this group are up over 16%, well ahead of the 7.5% projected growth rate forecast at the start of earnings season for the overall quarter. On the sector level, the strongest growth is coming from the Technology sector (+40.9%) while the weakest has been the Materials sector (-19.4%). Earnings season will shift into high gear over the next two weeks when 231 members of the S&P are scheduled to report.

Market Viewpoint – As January Goes, So Goes the Year? The markets have started the New Year strong, with the S&P 500 Index up about 370 basis points—well above the 30-year average full-month January gain of just 34 basis points. According to the Stock Trader's Almanac (STA), January performance is often a strong indicator of how the market will perform for the year. Since 1950, positive January performance has led to full year gains 84% of the time. While the market appears to have some near-term momentum, over the intermediate- to longer-term, fundamentals—the economy, earnings, and interest rates—are what drive stock prices. Fortunately, 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 12.4% and 13.8% 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: The focal point this week will be the Fed's rate decision on Wednesday, following a series of strong data releases that have seen markets lower the odds for further cuts this year. Bloomberg's World Interest Rate Probability tool suggests the Fed will stay on hold at this meeting and is unlikely to reduce rates until at least the June FOMC meeting. On the data front, highlights include the advance reading of fourth-quarter GDP on Thursday as well as December PCE inflation—the Fed's preferred metric on inflation—on Friday. Other notable economic indicators include durable goods orders and the Conference Board's consumer confidence report on Tuesday. Earnings season ramps up this week, with over 100 members of the S&P 500 scheduled to report, including 8 members of the Dow Jones Average, notably tech heavyweights Apple and Microsoft. Outside of the

FOMC meeting only one Fed member will speak: Fed Governor Michelle Bowman, who will give an economic briefing on Friday.

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 February 5, 1971.