Richard Rose Wealth Management December 30, 2024

WEEKLY COMMENTARY **Richard Rose AIF®**

Good morning,

What's in this week's Report:

- A Higher Bar for the Bulls in 2025
- Weekly Market Preview: Focus on Politics (Does Johnson Get Re-elected as Speaker?)
- Weekly Economic Cheat Sheet: Another Slow Week But Important Reports Thursday and Friday

Futures are weaker following a mostly quiet weekend of news and ahead of another holiday-shortened trading week.

Economically, the only notable report was Spanish CPI, which came in hotter than expected at 2.8% y/y vs. (E) 2.6% y/y, reinforcing some fears of sticky inflation.

Politically, the first major event for the new U.S. Congress comes this Friday via the Speaker of the House election (markets will want to see current Speaker Johson re-elected).

Given the mid-week holiday, this week is another relatively quiet one on the data front but there are some notable reports to watch today including Chicago PMI (E: 42.7), and Pending Home Sales (E: 0.7%). As is the case for the foreseeable future, anything Goldilocks (so in-line to slightly softer) is the preferred outcome for markets.

Market	Level	Change	% Change
S&P 500 Futures	5,973.00	-54.00	-0.90%
U.S. Dollar (DXY)	107.80	-0.20	-0.18%
Gold	2,633.59	1.69	0.06%
WTI	70.74	0.14	0.20%
10 Year	4.574%	-0.045	-0.97%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks quietly extended the post-Fed relief rally through the holiday amid quiet newswires and limited catalysts before volatility picked up and stocks turned lower again on Friday. The S&P 500 gained 0.67% on the week.

Equities initially traded lower to start the holiday-shortened trading week last Monday as a rise in Treasury yields in reaction to strong details of the November Durable Goods report poured some cold water on the post-Fed relief rally. Yields leveled off in the wake of a much-softer-than-anticipated Consumer Confidence report, and the S&P 500 turned higher to close up 0.73% with mega-cap tech leading the way.

Stocks traded methodically higher in thin holiday trade on Tuesday as China announced plans to increase bond issuance from 1T to 3T yuan next year to achieve its 5% GDP growth target for 2025. The latest stimulus chatter was well received by Wall Street and risk-on-money flows persisted through the early NYSE close (1 p.m.) with the S&P 500 notching a solid 1.10% gain.

Markets were closed for Christmas on Wednesday but reopened for a normal, full session on Thursday which started with early weakness as bond yields extended the week's gains on a lower-than-expected initial jobless claims print. A three-year high in continuing claims capped the rise in yields and the S&P 500 reversed off the 6,000 mark in early trade before drifting sideways for the balance of the session, leaving the S&P 500 down a slight 0.04%.

The loss of bullish momentum in the relief rally on Thursday set the market up for renewed weakness on Friday and soft Chinese economic data served as the catalyst that saw stocks gap lower at the open. The S&P 500 quickly fell below the 6,000 support level in the opening minutes, which proved to have a destabilizing effect on the broader market, and stocks sold off steadily throughout the morning amid Treasury yields hitting the highest levels since early May. The S&P 500 found support at the crowded options strike of 5,950 and bounced modestly into the close, but still fell 1.11% on the day.

A Higher Bar for the Bulls in 2025

Stocks were more volatile last week, highlighted by Friday's tech-driven market selloff. But importantly, there wasn't any legitimate reason for the uptick in volatility, and most of last week's price action, including Friday's declines, can be attributed to thin liquidity combined with year-end positioning. Put more directly, the tech sector's outperformance over the past month was unsustainable and it needed to cool off and that's part of what happened Friday.

But while last week's volatility can be chalked up to year-end positioning and thin liquidity, the last two weeks in the market have been more volatile and unpredictable than what we've become accustomed to in 2024, and I do believe they serve as a clear signal that the bar for more gains in 2025 will be substantially higher than it was in 2024.

Put another way, the market has pulled forward a lot of future positives so just fulfilling those expectations won't push stocks materially higher. Here's what I mean:

· The Fed got rate cuts in 2024 and now expects more of them, so the Fed cutting two times won't propel markets higher from here (it'll have to be more than that).

· The market hoped for a "Red Sweep" in the election and it got it, but now the new Congress and administration have to pass pro-growth policies and keep trade war headwinds and distractions low.

· Finally, investors priced in a soft landing in 2024 and it materialized, but now it needs to stay there and any undo slowing of the economy will spark hard landing fears while any surprise acceleration will reduce the likelihood of any further rate cuts.

Now, higher expectations don't mean stocks can't rally in 2025. They absolutely can. But it's going to take new, additional positive surprises to make that occur, for instance, 1) Actual tax cuts and deregulation that's quicker and more effective than expected, 2) The Fed cutting more than twice because inflation falls quicker than expected, 3) Actual resolution of the ongoing wars in Ukraine and the Middle East and 4) Proof that AI is starting to boost profitability and productivity for end-user companies (and not just making chip companies earnings explode higher).

If some (or all) of those things happen, then stocks should move higher in 2025. However, if we spend the first few months of 2025 wondering if the Fed will cut once, twice, or at all, while the Republican agenda gets delayed (or derailed) by political infighting, tariff and trade threats are more than expected, and there's no actual progress on resolving the war in Ukraine (or the conflicts in the Middle East) then we should expect a continued chop sideways punctuated by pullbacks.

Bottom line, the market outlook is positive as we start a new year because of 1) Ongoing soft landing, 2) the Fed rate cut cycle that's still in place, 3) Reasonable optimism on future pro-growth policies 4) Still-falling inflation, and 5) AI optimism. However, we'll need to see new and better headlines regarding all these events to push stocks higher in 2025 and if they don't come early, expect more near-term volatility.

Economic Data (What You Need to Know in Plain English)

Last Week

Given the Fed's hawkish cut from two weeks ago, economic data needs to be viewed, at least in the near term, through the lens of whether it makes a Fed pause more or less likely (if the data is "hot" and a pause is more likely, they will hit stocks near term. If the data is in-line soft, that makes a pause less likely and that'll be positive for stocks near term).

Last week, there were two notable economic reports and neither of them made a pause more likely, but they didn't reduce the risk, either (as a result, the data wasn't positive for stocks).

Weekly jobless claims last Thursday declined back below 220k to 219k, slightly beating expectations and reminding investors that the labor market remains healthy. That said, Continuing Claims (so claims for people who have been previously laid off and are trying to find a new job) rose to 1.91 million, above the 1.88 million estimate and the highest level in three years. Bottom line, the data continues to show that the labor market is stable and while employers aren't aggressively hiring, they aren't actively laying off, either. That said, it does appear to be getting incrementally harder for laid-off people to find a new job and that can be a leading indicator of labor market weakness (and this will remain something we'll keep an eye on in early 2025).

The other notable report last week was November Durable Goods and this report might have made a pause slightly more likely (and that weighed on stocks last Monday). The headline was weak as Durable Goods fell -1.1% vs. (E) -0.2%, but that headline was skewed by aircraft orders (as it often is) and the more important New Orders for Non-Defense Capital Goods ex-Aircraft (NDCGXA) comfortably beat estimates at 0.7% vs. (E) 0.1% and saw positive revisions to the October data. It's just one number but it looks like the election results have given some clarity to corporations and they may be upping investment and spending as a result (if that's the case, it'll increase pause chances).

Bottom line, the two reports from last week implied the economy remains on solid footing (so no hard landing) but it didn't reduce the Fed's desire to potentially pause rate cuts, and as such, the data was neutral for stocks.

Important Economic Data This Week

This week is likely to be quiet again given the midweek holiday (many global markets are closed on Tuesday and Wednesday), although there are two notable reports to watch. Again, anything that makes a Fed pause more likely will be a near-term negative for stocks.

Friday brings the first of the big monthly economic reports via the ISM Manufacturing PMI, and investors will want to see that number stay near expectations (and not jump solidly back above 50). Bottom line, a PMI just below 50 (say 49/48) will be welcomed by investors near term, as it doesn't imply a dramatic slowing but will keep the doves at the Fed pushing for rate cuts.

Additionally, jobless claims will remain in focus to see if they stay low, although a drop back towards 200k will be seen as the labor market tightening and that will increase pause expectations (and hit stocks). The bottom line, the labor market reflects the reality where employers aren't laying off, but they aren't hiring either. That's characteristic of a soft landing and as long as that's the case, pause chances won't rise dramatically (assuming we don't get a strange spike in inflation).

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