

Good morning,

What's in this week's Report:

- Is the Tariff Decision a Bullish Catalyst?
- Weekly Market Preview: All About AI (Key AI Earnings This Week)
- Weekly Economic Cheat Sheet: More Inflation and Labor Market Insights

Futures are slightly lower as markets digest the SCOTUS tariff decision and, despite reports of some de-escalation between the U.S. and Iran, await further developments.

Fears of an imminent U.S. strike on Iran eased this weekend, as the U.S. and Iran announced they would hold further negotiations this Thursday.

Economically, German Ifo Business Conditions slightly missed estimates (89.6 vs. (E) 90.5).

This week is a potentially important one with a lot of critical tech earnings reports. Still, it starts slowly as there is just one economic report today, the Chicago Fed (E: -0.04), and one Fed speaker, Waller (8:00 a.m.), and neither is likely to move markets.

Market	Level	Change	% Change
S&P 500 Futures	6,890.75	-32.50	-0.47%
U.S. Dollar (DXY)	97.76	-0.04	-0.04%
Gold	5,172.81	91.91	1.81%
WTI	66.67	0.19	0.29%
10 Year	4.078%	-0.011	-0.27%

Stocks

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

Stocks recovered from YTD lows reached at the start of the holiday-shortened trading week Tuesday, and ended Friday with a modest weekly gain thanks to easing AI disruption fears, Goldilocks economic data, and no material geopolitical escalations. The S&P 500 rebounded 1.11% on the week.

Markets were volatile to start the President's Day trading week last Tuesday, thanks to a soft UK labor market report that showed the unemployment rate hit a five-year high. At the same time, news that SoftBank had sold its stake in NVDA sent the S&P 500 to a fresh YTD low in morning trade. However, an as-expected Empire State Manufacturing Survey and news that NVDA and META had struck a sizeable chip deal helped stabilize stocks, and the S&P 500 closed with a modest 0.10% gain as dip buyers began to step in.

The tentative early-week rally gained momentum on Wednesday as traders looked past disappointing earnings guidance from PANW and focused on favorable "cool" inflation data from the EU and better-than-expected U.S. economic data, which eased recession fears without yields spiking higher. Stocks pulled back into the close thanks to a weak 20-Yr T-Bond auction and hawkish undertones in the January FOMC minutes release, which saw the S&P 500 give back much of the morning's gains but still close with a gain of 0.56%.

Geopolitical tensions between the U.S. and Iran intensified late Wednesday and early Thursday, which weighed on investor sentiment before news that Blue Owl Capital had suspended redemptions, a "buzz phrase" that always tends to unnerve the investment world. Positive comments from President Trump on U.S.-Iran talks and mostly better-than-expected economic data saw the S&P 500 come off session lows but still end down 0.28%.

Equities opened little changed Friday as investors digested a whiff of stagflation between a headline miss to the advanced Q4 GDP report and a "warm" Core PCE print. Volatility picked up in morning trade after news broke that the Supreme Court ruled against Trump's tariff policies, prompting the President to quickly and harshly respond with pledges to use other avenues to keep tariffs in place. That resulted in a significant repricing of global macroeconomic fundamentals. Ultimately, markets absorbed the political news and even took some hawkish Fed speak in stride as February options expiration loomed. Derivatives money flows drove the S&P 500 up to 6,900 in early trade before the index closed near the highs, up 0.69%.

What the SCOTUS Tariff Decision Means for Markets

On Friday, the Supreme Court met market expectations and invalidated the tariff imposed under IEEPA, which is practically all of the tariffs announced by the administration since Trump took office. On the surface, this decision seems like a market positive, but in reality, it likely will not be a bullish catalyst, and here's why.

First, this decision was widely expected (prediction markets had the probability at 80% or higher), and it was largely priced in.

Second, the tariff burden has been moving lower ever since "Liberation Day" last April, and most importantly, the repeated "backing off" of the most intense tariff threats by Trump (known as TACO) has led investors to believe that Trump will not implement tariff policy that negatively impacts the economy—and that belief has helped investors to largely ignore tariff headlines since April.

Third, tariffs are not going away. President Trump has already announced 15% global tariffs under Section 232. Those tariffs can remain in place for 150 days, but they must be renewed continuously and will be challenged legally. Additionally, the administration is launching various investigations that could lead to the reimposition of tariffs, but they will take time. Point being, the SCOTUS decision doesn't remove tariffs, and we can expect continued headlines.

Fourth, the decision does eliminate lingering trade uncertainty. Yes, worst-case scenarios have been avoided, but businesses will have to contend with shifting trade policies likely for the remainder of the administration. Bottom line, the decision certainly isn't a negative for markets. Still, it is, if anything, only a slight positive, and it won't end current market volatility, which is really rooted in AI anxiety, not tariff concerns.

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

Last Week

Data last week mostly pointed to a run-hot economy as we saw solid growth metrics and elevated inflation and this data does reinforce that growth is solid (which is good), but also that inflation may be bouncing and that did reduce rate-cut expectations (although the debate is still between June/July, which isn't bad for the markets, as it'd take a push out towards December or legitimate talk of a rate hike to really become a headwind).

The two most important reports last week came on Friday morning via the flash composite PMIs and the Core PCE Price Index. Starting with the flash PMI, both the manufacturing and service PMIs missed estimates, but they stayed above 50 and signaled continued expansion. The flash manufacturing PMI slipped to 51.2 vs. (E) 52.4, while the Services PMI declined to 52.3 vs. (E) 53.0. Both of those numbers were soft and the worst readings since July and April, respectively. However, they both were comfortably above 50, and while disappointing, they still point towards expansion and growth in both the manufacturing and service sectors.

Looking at inflation, the Core PCE Price Index is the Fed's preferred measure, and it posted a poor reading on Friday. Core PCE Price Index rose 0.4% m/m vs. (E) 0.3% and 3.0% y/y vs. (E) 2.9%, a 0.2% jump from November. The jump in prices was driven by goods inflation, as durable goods (think appliances, large machinery) jumped 2.1% vs. (E) 1.0%. However, some of that could be attributable to businesses "front-loading" expenses to take advantage of the bonus depreciation in the OBBBA. Regardless, inflation across the report was elevated, driven by goods (1.7% overall y/y) and services (3.4% y/y). Bottom line, this report won't make the Fed more hawkish, but last week wasn't a good one for people hoping inflation would return to 2% and that more rate cuts might come sooner than later.

The first look at February economic data was solid, as both the Empire and Philly manufacturing surveys beat estimates and remained solidly positive, suggesting expansion. Empire slipped to 7.1 vs. (E) 7.0 with New Orders decreasing but staying in positive territory at 5.8 vs. (E) 6.86. Philly, meanwhile, rose sharply to 16.3 from 7.7, while New Orders eased but stayed strong at 11.7 vs. (E) 14.4. Bottom line: these are volatile metrics, so they need to be taken in that context. Both pointed to continued solid expansion, and neither offered any signs that manufacturing activity was suddenly deteriorating (which is why people watch these numbers).

Other economic data last week confirmed solid activity, as January Durable Goods declined on the headline. Still, the important details (New Orders for Non-Defense Capital Goods ex-Aircraft) rose solidly, jumping 0.6% and seeing positive revisions to the December data. Bottom line, there is no indication that businesses are "tightening their belts," as NDCGXA, our best measure of business spending and investment, remains solid, which is positive for the broader economy.

Last week's data pointed to a run-hot economy, suggesting solid growth and elevated inflation. And while that will keep pressure high on affordability concerns, it is also generally supportive for stocks (especially cyclicals and small caps).

Important Economic Data This Week

Investor focus this week will be much more on the microeconomic than the macroeconomic, as we get key tech earnings and the economic calendar is very light. However, we will still get some notable updates on housing prices/inflation and the labor market.

The first notable report this week comes tomorrow via home price indices. The Case-Shiller Home Price Index and the FHFA Home Price Index will be released tomorrow, and investors will want to see year-over-year increases in line with or lower than expectations, as that will reinforce downward pressure on CPI.

Housing costs (called "shelter costs" in the CPI report) are acting as a downward force on the index and helping to offset higher goods and services prices. Investors will want to see benign increases in the home price indices to reinforce that the trend is continuing. If it does not, and the home price index data comes in higher than expected, it'll add incremental worry that inflation may be rebounding, which matters to markets because it could lead to either no rate cuts or (worse) talk of a rate hike (which we got a hint of in last week's Fed minutes).

Bottom line, home price indices don't usually move markets, but they are important right now, especially as they relate to continued downward pressure on CPI. Investors will welcome an in-line or slightly lower year-over-year increase.

The other notable economic report this week comes on Thursday via weekly jobless claims. Claims fell back to the lows of the recent range last week and continue to signal a stable labor market that is "no hire/no fire," and that points to a Goldilocks economy. Investors will want to see stable, low claims this week to reinforce that the labor market is stable and not a source of weakness for the broader economy.

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