

KEY TAKEAWAYS

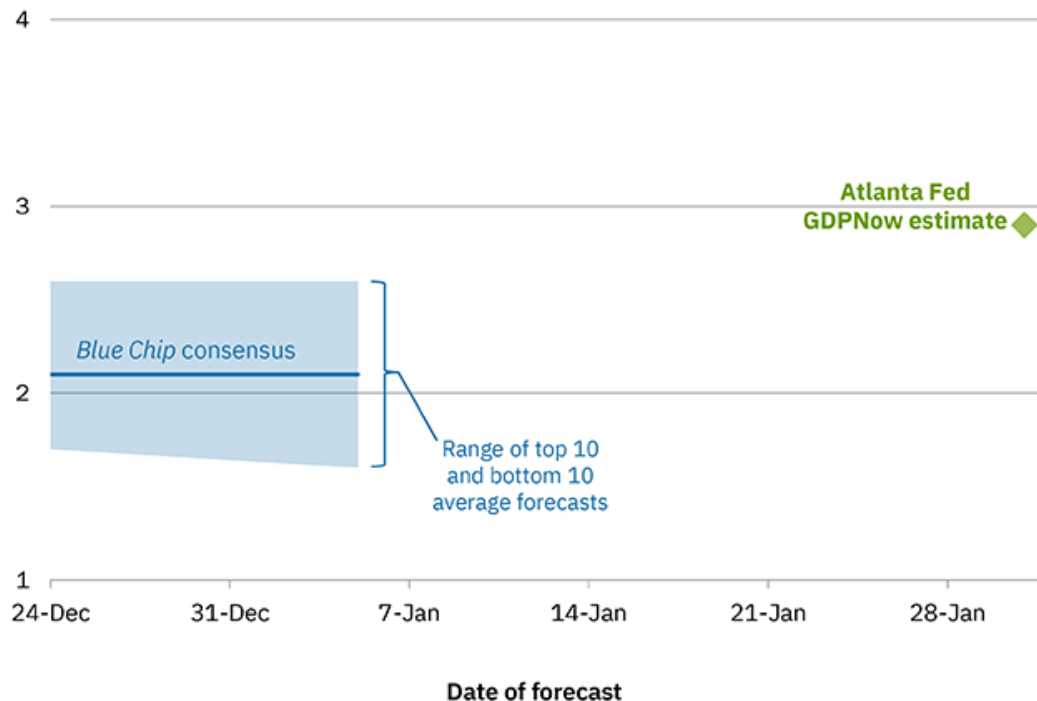
- The equity markets gyrated wildly, hitting all-time highs and finishing the month with gains.
- The U.S. 10-year Treasury Yields climbed a steep mountain but made it back down by the end of the month returning to the 4.5% area.
- Crude oil climbed its' own mountain reaching an elevation of \$80 before coming back down to the low \$70's at month end.

The U.S. Economy

The first reading for 4th quarter GDP came in at 2.3%, missing expectations of 2.6%. Core PCE, the imbedded inflation measure, moved higher to 2.5%, marking only the second quarter of acceleration since late 2022. Now we turn to the first estimates for 1st quarter GDP, from GDPNow, which is forecast a little better than the reported 4th quarter GDP at just under 3% with the Blue-Chip consensus forecast again just above 2%, as shown in the chart below. Economic activity remains steady, but the PCE deflator is resilient above the Fed's sweet spot of "2%" inflation. It continues to look like a soft-landing, goldilocks scenario, and the market continues pricing in fewer Fed rate cuts for 2025.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q1

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source : <https://www.frbatlanta.org/cqer/research/gdpnow>

Stocks and Bonds

The U.S. 10-year Treasury yield started the month at 4.57% and finished at 4.57% but that masks a lot of movement in yields. Trumps' motto is MAGA, whether that happens or not is to be seen. What he has definitely achieved is MVGA, "Make Volatility Great Again", I think I need to trademark that phrase! 🤪 Rates ramped higher on fears that his tariff policy would cause a spike in inflation, which led rates to climb over 4.8%. However, as some of the incoming data showed moderation of inflation, rates returned to where they started. The Fed paused rate cuts at the end of the month and stated that part of the reason for the pause was uncertainty of the new administrations' policies. There remains a lot of uncertainty regarding the economy, both in the U.S. and globally exacerbated by the start of Trump's term and the various policies he is or might implement. Now more than ever, well at least since Trump's last term, we will continue to monitor incoming news to ascertain what might be coming next. The big round trip in yields was neutral for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF gained +0.51% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.57%, flat compared to December's close of 4.57%.

The Dow Jones Industrial Average rallied +4.70%, the S&P 500 climbed +2.70%, and the small cap iShares Russell 2000 ETF gained +2.60%. The international markets traded in line with the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index jumped +4.71%, and the MSCI Emerging Markets iShares Core ETF Index increased +1.29%.

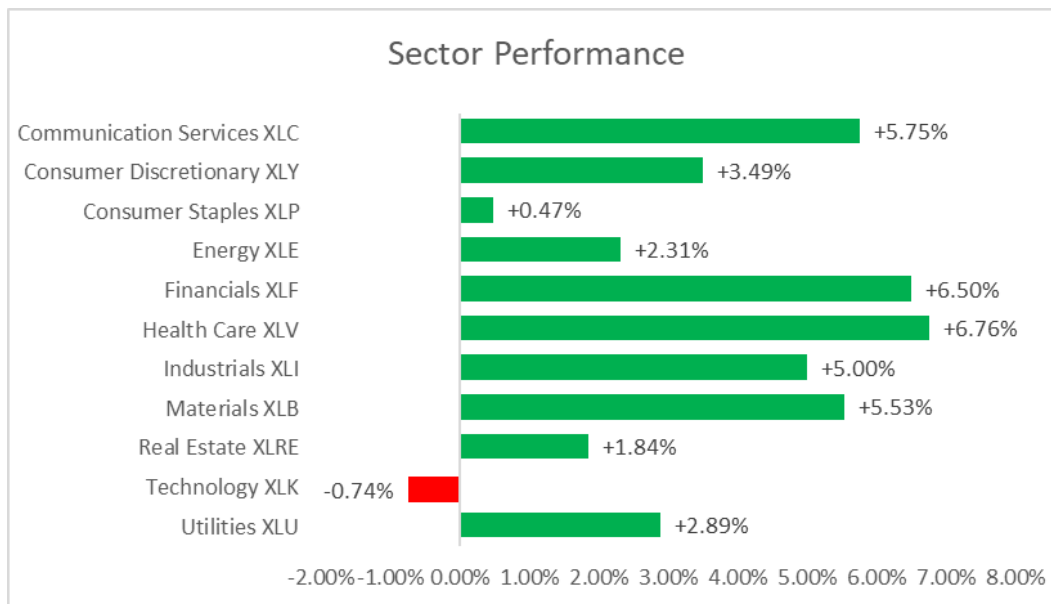
January's sector performance was a mirror of last month and back to mostly green.

The best performers were...

- Health Care: +6.76%
- Financials: +6.50%
- Communication Services: +5.75%

The "worst" relative performers were...

- Technology: -0.74%
- Consumer Staples: +0.47%
- Real Estate: +1.84%



Source: <https://www.morningstar.com>

Oil Report

Crude Oil rallied to within 2 cents of the August high at \$80.04 on inflation fears but, like the 10-year Treasury, rolled over into month end. Though crude did not complete the roundtrip as in the 11th hour Trump announced tariffs on Canada, Mexico and China, near Friday's close, including on oil products, gave crude a nice bump to close the session and month. The themes are shifting to tariffs, drill baby drill and potentially reduced geopolitical conflicts. As in the other markets, the result is a lot of volatility. It will probably take months if not quarters to get a clearer picture on where all of this settles out. Well, this comment last month didn't pan out, "A push and hold of \$75 likely is the start of a larger rally." Price held \$75 for 8 days, touching \$80 but currently looks like a false breakout, which usually means a move to the other side, i.e. \$65. The current NYMEX WTI Crude Oil futures settled at \$73.81, posting a gain of almost 3% from the prior month's close of \$71.87 a barrel. RBOB gasoline was again stronger than Crude, and less volatile, for the month and gained almost 4% vs. December's close. We remain in the seasonal lull for the Crude Oil complex for another couple of months.

The Rest of the Data

The December ISM Manufacturing Index increased to 49.3 from November's reading of 48.4, remaining below 50. The ISM Services Index increased to 54.1 in December, from November's print of 52.1. Any reading below 50 generally indicates deteriorating conditions, whereas a reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing held in the normal range and Services' prices moved to very elevated levels. Consumer confidence declined to 104.1 in January, which compared to a large upwardly revised 109.5 in December. The unemployment rate declined to 4.1%, while the number of jobs added jumped by 256,000 in December, handily beating expectations of 165,000 jobs. The past two employment reports with really good months seems to safely put the horrendous October report in the rear-view mirror. The Consumer Price Index for All Urban Consumers (CPI-U) was up +0.4% in December, on a seasonally adjusted basis, once again higher than the previous month. Over the last 12 months, the All-Items Index rate increased to +2.9% on a non-seasonally adjusted basis. The CPI ex Food and Energy declined modestly to 3.2% over the last year. The economic data remains good with the fly in the ointment continuing to be inflation holding steady over the Fed's target of 2%. The economic reports continue to suggest the economy remains in reasonable shape. The solid jobs report likely keeps the Fed at bay for another rate cut in the short term. We will continue to monitor economic activity, and inflation reports for potential shifts.

Summary

The market seems to want to continue moving higher, but the reintroduction of Trump tweet's have reintroduced a level of volatility that we haven't seen since, well his last administration. If that 4-year period is any indication, we can expect the volatility and unexpected headlines to be the norm for the next 4 years. The big questions, will Trump do what he said he would? So far, the answer is it looks that way. So, the next question, what will be the net effect of less regulation, smaller government and more tariffs? As the saying goes, "Nothing ever happens.". That is not to say change won't and can't happen, but that the net result is probably not going to be nearly as big as some fear and not nearly as big as some hope. More than ever, this statement resonates with me, "this is why we focus on understanding

your risk tolerance and building an allocation to match that rather than guessing based only on market outlook.”.

As always, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients’ portfolio in concert with the clients’ risk tolerance and long-term goals. The markets will always face different “worries”, today it is inflation/tariffs vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.



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