



The Weekly Market Update – 1/6/25: January 2025 Market Drivers

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,942.47	-0.48%	1.03%	1.03%	24.58%	6,090.27	2.5%
Dow Jones Industrial Average	42,732.13	-0.60%	0.44%	0.44%	13.38%	45,014.04	5.3%
NASDAQ Composite	19,621.68	-0.51%	1.61%	1.61%	30.71%	20,173.89	2.8%
Russell 2000	2,268.47	1.06%	1.72%	1.72%	11.91%	2,442.74	7.7%
MSCI EAFE (USD)	2,254.82	-0.90%	-0.31%	-0.31%	0.83%	2,506.69	11.2%
MSCI Emerging Markets (USD)	1,073.21	-0.89%	-0.21%	-0.21%	4.83%	1,444.93	34.6%
Bloomberg Commodity Index	98.49	0.29%	-0.27%	-0.27%	-0.16%	237.95	141.6%
Barclays U.S. Aggregate Bond	90.21	0.03%	-0.25%	-0.25%	-1.63%	112.07	24.2%

Source: FactSet

No Santa Claus rally, but a strong year for equity investors. Equity indices were mostly lower in December, losing momentum as post-election euphoria encountered headwinds from higher interest rates, profit taking, and valuation concerns. However, fourth quarter (4Q24) returns remained largely positive and contributed to solid full-year gains, including for the S&P 500 index which was up +25.0% (total return including dividends). Several second-half 2024 factors drove an upswing in investor sentiment entering 2025, including solid U.S. economic growth, strong corporate earnings, lower Federal Reserve Bank (Fed) interest rate targets, and a pro-growth policy agenda promised by President-elect Trump. In our view, these investor-friendly factors remain in place, but the December weakness was a reminder that investors should consider risks, and that market pullbacks are expected. With January 2025 underway (and posting gains over the first few trading days), important topics on our radar include the presidential transition, early 2025 interest rates that are higher than expected, U.S. economic trends, and the market response to 4Q24 earnings reports. The new Congress was seated on 1/3/25, and with election results certified on 1/6/25, the Senate will move to confirm (or not) Cabinet nominees. Pushback on some nominees could delay the Trump agenda, but markets could react to tariff and immigration announcements, and Inauguration Day is 1/20/25. The U.S. 10-year Treasury yield closed 2024 at 4.57%, up from 3.79% at the end of September. The surge in long-term yields continued even as the Fed (since 9/18/24) reduced its short-term overnight fed funds interest rate target by -1.00% to a new range of 4.25% to 4.50%. Continued upward pressure in long-term rates could signal renewed inflation fears, posing a risk for equity valuations. When the Fed next meets from 1/28/25 to 1/29/25, we expect no change to its target. The FactSet consensus for 4Q24 annualized U.S. economic growth is +2.2%, below the +3.1% posted in 3Q24. A key driver of economic growth in 2025 will be sustained jobs creation. The first 2025 jobs report (from the Bureau of Labor Statistics, BLS), for December 2024, is scheduled this week on 1/10/25. Nonfarm payrolls are expected to show +165 thousand (K) net new jobs, lower than one year ago, but above the average monthly increase of +143K over the past six months.

Earnings growth is expected to accelerate in 4Q24 and into 2025. While final quarter earnings reports will not begin in earnest for a couple of weeks, this will be watched closely by investors as S&P 500 earnings, after growing nearly +10% (expected) in 2024, are estimated to increase more than +14% in 2025. Confidence in those estimates can be boosted, in our view, if 4Q24 earnings meet or exceed estimates. Consensus estimates reflect nearly +12% year-over-year (Y/Y) growth in S&P 500 earnings in 4Q24, representing an acceleration from +6% growth in 3Q24. Double-digit percentage earnings growth is expected from Financials, Communication Services, Technology, and Health Care, providing a diversified mix of expected earnings strength. At the same time, companies will begin to discuss 2025 outlooks.

Investors' focus to begin 2025 will be on economic data, albeit with an equity market closure of Thursday, 1/9/25, to honor the life of former President Jimmy Carter. The labor market is front and center this week. Included in Friday's December jobs data will be data on the unemployment rate (expected 4.2%), and wage growth (average hourly earnings expected +4.0% Y/Y). The BLS will also report November job openings (JOLTS report) with openings expected lower from the prior month at 7.7 million.

James D. Ragan, CFA
Co-CIO, Director of Investment Management & Research
(206) 389-4070
jragan@dadco.com

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today, the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at <https://www.bea.gov/data/gdp/gross-domestic-product>.

2024 Election Day was 11/5/24. On the national level, voters selected the next president of the U.S. and state elections determined the party control (Democratic or Republican) of Congress, both the U.S. House of Representatives and the U.S. Senate. Inauguration Day is 1/20/25, and the Republican party will control the Presidency and both chambers of Congress. On the campaign trail, President-elect Trump had promised the use of widespread (global) tariffs to counter tariffs on U.S. goods in other countries, as well as to incentivize more U.S. manufacturing. In addition, Trump intends to limit illegal immigration and asylum seekers and to deport immigrants that did not use proper channels. The impact this may have on the U.S. labor market is uncertain.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys: the household survey measures labor force status by demographics; the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work. The BLS also publishes the Job Openings and Labor Turnover Survey (JOLTS) which measures job openings, hires, and separations from a monthly survey of U.S. business establishments.

A "Santa Claus rally" is not an official term. We use it to describe movements in the equity markets (generally, the S&P 500 index) starting a few days prior to the Christmas holiday and extending to the end of the year. A market that trades higher over that period would be a Santa Claus rally.

On 12/30/24, the New York Stock Exchange announced that it will close all equity and options markets on Thursday, 1/9/25, in observance of the National Day of Mourning following the passing of former President Jimmy Carter. The U.S. Treasury market (bond market) will remain open but will close early at 2:00pm EST.