



The Weekly Market Update – 2/18/25: Earnings Upside Keeps the Rally Going

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	6,114.63	1.47%	3.96%	3.96%	26.19%	6,118.71	0.1%
Dow Jones Industrial Average	44,546.08	0.55%	4.71%	4.71%	16.76%	45,014.04	1.1%
NASDAQ Composite	20,026.77	2.58%	3.71%	3.71%	32.07%	20,173.89	0.7%
Russell 2000	2,279.98	0.01%	2.23%	2.23%	17.08%	2,442.74	7.1%
MSCI EAFE (USD)	2,447.68	2.61%	8.22%	8.22%	8.87%	2,506.69	2.4%
MSCI Emerging Markets (USD)	1,125.23	1.51%	4.63%	4.63%	15.31%	1,444.93	28.4%
Bloomberg Commodity Index	105.88	1.59%	7.21%	7.21%	7.43%	237.95	124.7%
Barclays U.S. Aggregate Bond	91.08	0.16%	0.72%	0.72%	-0.25%	112.07	23.0%

Source: FactSet

The S&P 500 index is flirting with new highs as markets rank strong earnings results above tariff uncertainty and stubborn inflation.

On 2/14/25, the S&P 500 equity index closed at 6,115, up +4.0% year-to-date (YTD) and very close to the 6,119 all-time closing high set in mid-January. YTD gains (with both January and February-to-date higher) were achieved despite the Trump Administration’s increasing tariff rhetoric (reciprocal tariffs could be a big deal) and consumer inflation trends (as measured by the consumer price index, or CPI) that surged higher in January. While the fourth quarter (4Q24) earnings season remains incomplete, more than 75% of S&P 500 companies have reported 4Q24-equivalent financial results, as of 2/14/25. S&P 500 year-over-year (Y/Y) earnings growth was running at +16.7%, well above the pre-reporting estimate of +11.4% and representing the strongest earnings growth quarter in three years. Although two sectors, Energy and Materials, have reported a Y/Y earnings decline, the other nine sectors posted earnings growth, led by double-digit percentage growth from Financials, Consumer Discretionary, Communications Services, Health Care, Real Estate (REITs), and Technology. One month ago, on 1/21/25, our Weekly Market Update discussed our view that investors’ focus on the presidential inauguration would shift to earnings reports, and we believe that has been the case. Since 1/21/25, the S&P 500 has gained +2.0%, and we argued that a strong earnings season in the final quarter of 2024 was important to drive momentum into 2025, where earnings estimates remained optimistic. As of mid-February, the FactSet consensus estimate for 2025 full-year earnings growth was +12.5%. We believe that earnings growth erosion would be the largest impediment to equity market performance in 2025, and that the upside surprise reflected in 4Q24 results improves the chances for earnings growth to continue in 2025.

The January surge higher in CPI makes the Federal Reserve Bank’s (Fed) job more difficult, but bond investors were not surprised.

January CPI (from the Bureau of Labor Statistics) increased +3.0% Y/Y, above the +2.9% consensus estimate and the highest monthly level since June 2024. Core CPI, excluding food and energy prices, was up +3.3%, unchanged for the past five months. While several non-recurring factors may have contributed to the January surge (Florida hurricanes, California wildfires, and egg prices), inflation progress has stalled near +3.0% since mid-2024, remaining above the Fed’s +2.0% target. Fed Chair Jerome Powell, in a report to Congress last week, said that after reducing its overnight bank lending fed funds target range by -100 basis points in late 2024 (to its current range of 4.25% to 4.50%), the Fed does “not need to be in a hurry” to lower rates further. The Fed sees the U.S. economy expanding at a solid pace with a stable labor market and interest rates less restrictive than levels several months ago. Despite the inflation uptick and hawkish (higher rates for longer) Fed comments, U.S. Treasury yields (TY), which are market-traded, were relatively unchanged. As of 2/14/25, the 2-year and 10-year TY were 4.26% and 4.48%, respectively, relatively unchanged from year-end 2024.

We expect investors to pay close attention to tariff proposals in the weeks ahead as negotiations are underway. The President’s recent reciprocal tariff memorandum indicates that each country will be evaluated independently to incentivize fair trade, including analyzing the impact of local tax rates and other trade restrictions. This appears to be complicated and could disrupt supply chains. However, we expect progress on trade deals that could open some foreign markets and include investment in the U.S. as well.

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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 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 estimates are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by 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>.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). The index is published monthly by the U.S. Bureau of Economic Analysis.

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 term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. 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 federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

Volatility is how much and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

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.

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. Since Inauguration Day on 1/20/25, President Trump has proposed 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.