Weekly Market Insights

January 6, 2025

Ending With Concern, But Opening With A Smile

Financial Markets

United States equity markets ended 2024 on a down note but rebounded to close out the first week of the year, closing only slightly in the red.

	Total Return (%)				
Index	**Prior Week**	**Year-to-Date**	**1-Year**	**2023**	**2024**
S&P 500	-0.45	1.05	28.06	26.29	25.02
S&P 500 Equal Weighted	-0.18	0.65	15.44	13.87	13.01
Dow Jones Industrial Average	-0.60	0.46	14.16	16.18	14.99
NASDAQ Composite	-0.49	1.62	35.44	44.64	29.57

As of market close Friday, 1/3/2025, Factset

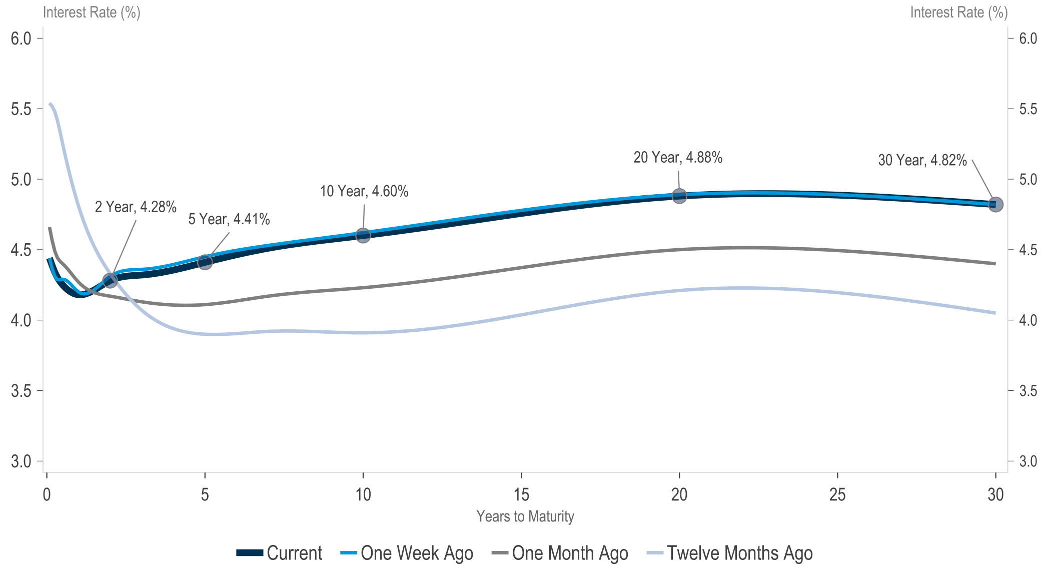
Looking back on 2024, it was quite a remarkable year. In fact, it has been a remarkable two years for equity markets. Investors have faced many obstacles over the course of the last couple of years, particularly in the world of politics. However, a strong economy can cure a multitude of sins!

For much of the year, the most significant questions revolved around inflation, interest rates, and the Federal Reserve. Chairman Powell and the Fed deserve a lot of credit for maintaining their calm and professional control.

Markets were helped by the election of a Speaker of the House on the first round of ballots. Speaker Mike Johnson is not universally liked, but it was encouraging to see the vote conducted in a civil manner. We are hopeful that last week's vote signals a civil path for the year.

Yield Curve

Interest Rates for U.S. Treasury Securities by Maturity Date



U.S. Department of Treasury, Daily Treasury Bill Rates Data
Data as of 1/3/2025

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Economics

At the risk of sounding like a broken record, the economically developed Western economies are mostly doing fine. As we have written recently, Germany is mired in an industrial malaise. This is a real problem because it is the industrial hub of the European Union. So, as long as Germany is struggling, all of the E.U. will be held back. England is also suffering from an economic slowdown, which is being compounded by political divisions. The United States continues to be the leader of the global economy.

Tomorrow, the Bureau of Labor Statistics releases its Job Openings and Labor Turnover Survey (JOLTS), and on Friday, they report on payrolls and the unemployment rate. Economists expect openings to decline slightly, payroll growth to slow, and the unemployment rate to hold steady at 4.2%.

China is the poster child for a mismanaged economy. Interestingly, not too long ago, it was being hailed by some as the poster child for the economy of the future! China has modernized by spending significant energy and resources to develop a substantial industrial export base. Unfortunately, it largely ignored its domestic economy. China now stands with a weak and indebted domestic population and a powerful export-oriented industrial base that must sell below cost to clear the books, violating all of the trade rules it agreed to follow. Time will not heal all wounds for China because of the rapid rise of other Asian competitors. The most obvious example is India, but there are also several highly sophisticated small countries such as Vietnam and Malaysia.

We will have more to say about the potential for the United States as the incoming administration moves in.

Conclusion

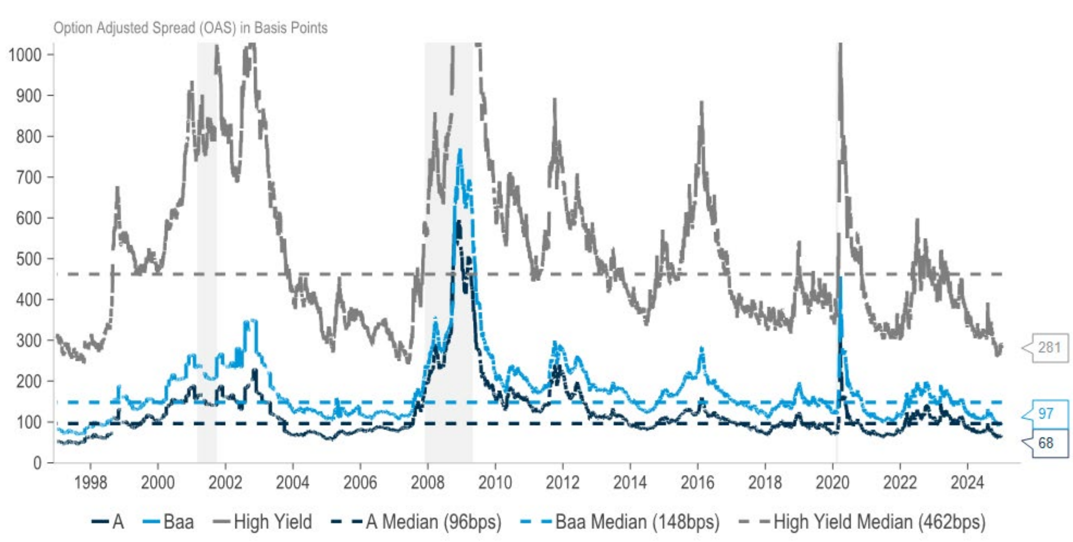
While there will be many open questions until the new administration settles in, there are certain things we do feel confident about. The United States remains the strongest economy in the economically developed world. We believe there is a 0% probability that the U.S. dollar will lose its place as the world's dominant currency. Both points argue that the United States remains the place to be for investors.

China's fate is not so sanguine. It will likely be a long and slow process before China recovers. China is complicated to analyze because accurate information is not at the ready, and one questions motives.

Early indicators point to another positive year. While the year is unlikely to be as strong as 2023 or 2024, expectations are for another positive year.

Credit Spreads

Investment Grade and High Yield Bond Yields Compared to Treasury Yields



Recessions indicated by shaded area
Bloomberg, FactSet, ICE BofA
Monthly data available beginning January 1997 to 1/3/2025
Vertical axis truncated to improve scaling so outlier values may not be visible on chart

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