

January 27, 2025

## Into the Unknown!

### Financial Markets

In a remarkable atmosphere of relief, investors greeted equity markets with surprising enthusiasm, pushing the S&P 500 to new record highs. Last week's economic releases were fine, and corporate earnings reports have been solid. Perhaps the most encouraging news for markets was the benign tariff commentary from the White House during President Trump's first week in office. Of course, we will spend more time on this in the economics section. The market was moved by both institutional and retail investors, which is unusual. And although concerns remain over the Federal Reserve and interest rates, they did not dominate the conversation. The gains were impressive across the board.

Index	Total Return (%)		
	Prior Week	Year-to-Date	1-Year
<b>S&amp;P 500</b>	1.76	3.81	27.06
<b>S&amp;P 500 Equal Weighted</b>	1.21	4.04	18.99
<b>Dow Jones Industrial Average</b>	2.15	4.50	19.69
<b>NASDAQ Composite</b>	1.65	3.35	29.82

*As of market close Friday, 1/24/2025, FactSet*

### Economics

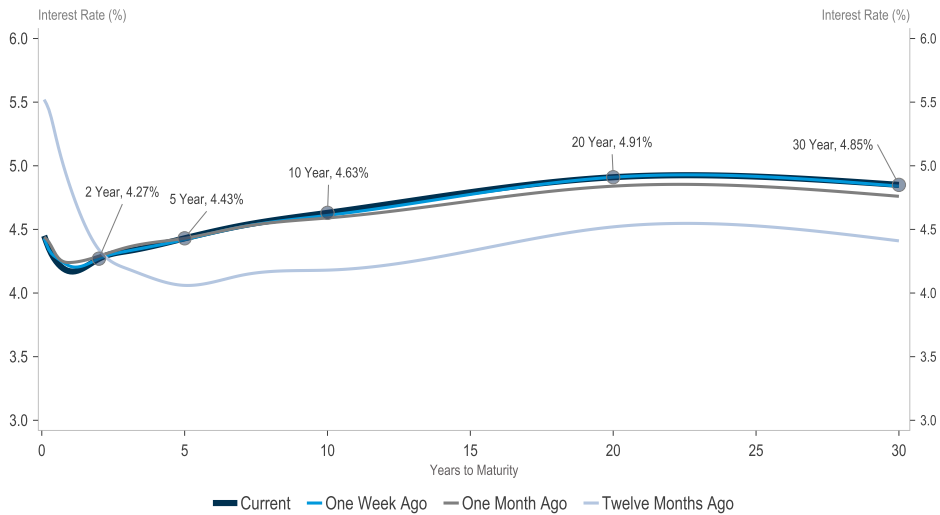
One would surely be impressed if one were to look at a snapshot of the United States economy. Economic statistics look quite good, but we live in a rapidly changing world, so becoming complacent is never a good idea. To this point, this past week, President Trump posed one very good idea and another that is, perhaps, quite dangerous. With some fanfare, President Trump announced a government-supported Stargate Project that could result in investments of up to \$500 billion for AI infrastructure—an excellent use of a public/private partnership. The second relates to the President's focus on using tariffs to balance trade and even the federal budget. Tariffs are a bit of an unknown now—a lot of talk but nothing concrete. Tax cuts and tariffs are somewhat replicas of Trump's priorities in his first term but are in reverse order. Both will make life more difficult for the Federal Reserve.

China continues to sink into the economic abyss. The country has repeatedly tried applying monetary and financial remedies to its economic plights, but none seem to help. Many analysts believe the programs are just not large enough. Economists and political scientists who study how emerging market countries transform into advanced economies argue that China neglected to develop its domestic economy adequately. In other words, the lack of strong domestic demand is the problem. We, of course, will continue to follow the situation closely.

# Weekly Market Insights

## 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 1/24/2025

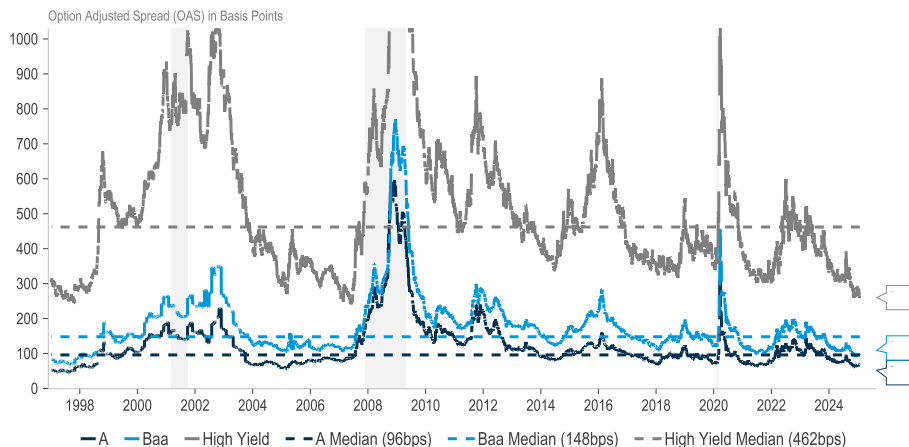
## Conclusion

The United States economy continues leading the developed world and shows no signs of retreating from that position. Just as in the President's first term, we must see how tariffs and tax policy play out before coming to any conclusions. As we wrote earlier, we are pleased and optimistic about technology in general and artificial intelligence in particular.

We may see increased volatility as United States equity markets hover around all-time highs and tariff and other policy details emerge. Still, valuation is a poor near-term performance indicator, as markets can stay highly valued for some time. Corporate and consumer fundamentals appear to be on solid ground. A reminder—what we find fascinating about markets is often what makes them so difficult. Markets reflect all the investing community's hopes, fears, and emotions, and they are not always rational.

## 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 1/24/2025  
Vertical axis truncated to improve scaling so outlier values may not be visible on chart

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