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The new year has already had some bumps but markets ended higher in January. Large cap stocks in the S&P 500 Index were up 2.78% bringing the index to new highs. Small cap stocks in the Russell 2000 were up 2.62%. The MSCI EAFE Index of developed market international stocks gained 5.26% outperforming domestic stocks. Meanwhile, emerging market stocks were up 1.79%. The yield on the 10-year Treasury bond was flat at 4.6%. The Barclays US Aggregate Bond Index earned 0.53% for the month.

Initial estimates for GDP growth in the fourth quarter of 2024 came in at 2.3% and GDP for third quarter was revised up to 3.1%. Full year GDP growth was 2.8%. With the new administration, the outlook is mixed since there are still many unknowns. Some analysts like Brian Wesbury of First Trust are upping their recession odds. Strategas identifies what they are calling a "liquidity bazooka" which will occur when the debt ceiling is reached. When this happens, the Treasury will spend from its general fund and won't be able to issue new debt resulting in money flooding into the system until a new debt ceiling agreement is reached. In the past when this has happened, stock prices have responded positively – regardless of whatever was happening in the economy.

Companies have begun reporting earnings for the fourth quarter and so far so good. Of those S&P 500 companies that have reported, 80% have beaten their earnings estimates and 69% have beaten their revenue estimates. Total S&P 500 earnings are expected to be up 10.8% from the same period last year and revenues are expected to be 5.5% higher. Full year earnings growth is projected to be 7.8%. Looking forward, consensus projections show 2025 earnings growth of 13.9%.

DeepSeek emerged at the end of the month as a threat to AI spending causing a selloff in Nvidia's stock. The Magnificent 7 has been dominating the markets the past several years, especially with AI spending. However, in January, the Technology sector was actually down -2.9%. Healthcare was up 6.8%. We are beginning to see some rotation in sector performance.

Inflation and unemployment have held steady. The Fed has cut rates 100 basis points from September 2024 to December 2024. The Fed has indicated that they are on a pause and are not in a rush to cut rates again. They had projected two cuts in 2025. However, with tariffs, immigration and other policy changes creating uncertainty, analysts are unsure if the Fed will cut this year.

Money market and short-term rates have declined while longer term yields have held up so the yield curve is upward sloping. With the "liquidity bazooka" we may see longer term yields fall in the short term, but once the debt ceiling is raised, they could return to higher levels.

We continue to encourage investors not to try and time the market by trading in and out of the market and instead, invest according to risk tolerance. If you have questions about the strategy for your account, please contact your advisor.

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