



Monthly Market Commentary

Summary

1. Growth is expected to slow but should remain above trend in 2025.
2. Post another uptick in headline inflation for January, expect a slight tick down in February.
3. Fed held rates steady in its latest meeting after 100 bps of rate cuts.
4. Earnings growth remains healthy while both expectations and valuations remain elevated.
5. Policy uncertainty remains elevated which markets don't like and should expect some volatility.

We hope that you are off to a great start in 2025! For those residing in the Midwest, we have one more month of winter before some warmer weather comes around. With the football season behind us, we look forward to warmer weather where we can attend a ball game, have a cookout, or get some fresh air with a nice walk outside. As always, we wish you continued health and happiness in 2025!

Equity markets finished January on a positive note despite some volatility along the way while treasuries remained weak in the month. After a long spell of concentrated performance in the mega caps in the US, we are starting to see some broad participation with breadth improving across sectors and styles. It remains to be seen if it sustains or is short lived. Yields may have finally reached more reasonable levels with respect to the underlying growth and inflation dynamics. The FED held rates steady at its latest policy meeting, consistent with the fact that inflation ticked up and remained above their target. We expect the FED to cut rates a couple of times this year while they try to balance the risks between being too tight, impacting growth meaningfully on the downside, and being too accommodative which defeats their goal to fight inflation.

Fundamentally, the latest manufacturing PMI was 50.9 and has finally moved into expansion territory after almost two years in contraction which is below 50. Conversely, services PMI ticked down to 52.8 vs 54 in the last month but remains in expansionary territory. We are halfway through the earnings season for the fourth quarter of 2024 with 50% of companies reporting an aggregate revenue and earnings growth of 4.2% YoY and 13.3% YoY, respectively. Overall, there is a healthy backdrop but no margin for error both on the economy and earnings with a lot of optimism priced into asset markets as evidenced from lofty valuations. Fiscal policy remains uncertain with respect to tariffs and their impacts. Government spending is also being scrutinized aggressively to cut deficit spending, both of which may have some negative impact in the short term but should be a long term positive.

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