

Monthly Market Commentary

Summary

1. US economic growth remains above trend
2. Inflation has bottomed and has started to reaccelerate
3. Fed cut rates by 1% from September and markets expect another couple of rate cuts in 2025
4. Europe remains in a stagflation environment despite a dovish policy
5. Valuations remain elevated at the index level in the US with high concentration risk

A new year can be a great time for you to reassess what is important to you and what you want to achieve over the next 12 months or longer. Maybe your goal is to lose some weight, get healthier, or create a savings plan for that new car you've been dreaming about. Whatever your goal or outcome is, we hope that you reach your destination in 2025! Here is to a healthy and happy 2025! Cheers!

After a strong run for equity markets in the US over the last year, December saw some consolidation and a potential shift in leadership going into the new year. On the flipside, international equity markets remain mixed with their respective economies struggling to find momentum more broadly. Fixed income markets continue to remain under pressure with longer-term yields higher by around 100 bps despite FED cutting rates by a similar magnitude bringing the short-term borrowing rates lower. This dynamic is reminiscent that the broader economy continues to be resilient above trend despite a slowdown in specific areas of the economy while inflation continues to remain sticky and above the FED's target. After a steady decline from a peak rate of 9.1%, inflation has bottomed around 2.4% and has started to reaccelerate concurrently with the FED rate cuts. This has the fixed income markets concerned about another policy mistake as inflation expectations reset. On the other hand, deficits and government debt remain a major concern as rates remain high and costs to service this debt have increased rapidly.

On the economy, the latest PMI data shows an uptick on both the manufacturing and services data coming in at 49.3 and 54.1, respectively. Manufacturing PMIs are still in contractionary territory, but the new orders component had the first back-to-back expansionary print going back to June of 2022. The services side of the economy continues to be resilient and strong despite weakness in the industrial economy.

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Finally, valuations in the US are stretched at the index levels, which poses a risk as earnings expectations remain elevated and any surprises on that front can be meaningful. Also, concentration at the index level is also elevated with just 10 companies making up around 40% of the index.

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