MONTHLY MARKET UPDATE
January 2025

OPAL WEALTH ADVISORS

Risk markets in January rebounded from a choppy December, starting the year off with healthy gains across global equity markets. Interest rates closed the month exactly where they began, with 10yr UST yields at 4.58%. There were no significant economic surprises last month. Payrolls grew 143,000 and unemployment ticked back down to 4% while core PCE inflation (2.8%) remained above target but within the range markets were expecting. Sources of volatility during the month included DeepSeek, a Chinese technology company, unveiling cheap and effective AI technology to challenge their U.S. counterparts. Lastly, markets wrestled with a daily diet of uncertainty from the new Trump administration with respect to fiscal priorities, immigration policy, and global trade wars which will take time and patience for markets and investors to navigate.

U.S. equity markets were up approximately 3% with value stocks outperforming growth stocks during the month. Developed market international stocks were strong, returning 5.3% in January with the Eurozone leading the way (+8%), while Japan returned only 1.6%. Emerging markets managed a 1.8% return due to underwhelming returns from both China (0.92%) and India (-3.6%). The USD was mixed against most major currencies, weakening against the Yen and Euro but strengthening against the Franc and CAD.

Interest rates were relatively quiet in January with both short and long rates rising mid-month but falling back to near year-end levels by month-end. While interest rates remained calm, both survey and market-based inflation expectations grew during the month where the UofM survey saw one-year expectations jump from 3.3% to 4.3% and 5-year TIPS breakeven inflation rates moved up from 2.38% to 2.54%. Credit spreads tightened in sympathy with the risk-on rally, where high yield spreads fell from 2.92% to 2.68%, well below the long-term average of 5.28% and approaching the 2007 low of 2.41%.

Market Anecdotes

- Equity market valuations, which feed into long-term expected returns and drive the equity risk premium, are lofty by most measures with the S&P 500 at 22x, even when excluding several big technology names or looking at other domestic equity indices.
- A one-year look back at large caps versus small caps shows the post-election surge in small caps faltered during December's spike in interest rates while growth stocks' dominance over value stocks, a consistent trend over the past 10yrs (ex/2022), has stayed firmly intact.
- An additional valuation note last week by Alpine Macro highlighted the U.S. equity risk premium currently near a 23 year low which speaks to the relative attractiveness of the S&P 500 to U.S. Treasury bonds.
- Markets are hopeful that fiscal policy takes the shape described by incoming Treasury secretary Scott Bessent where he noted tax policy being in line with historical averages and spending policy well above historical averages.
- The quarterly KC Fed Energy Survey responses are a good reminder that market prices, not regulatory red tape, is the primary driver of oil production where respondents noted average profitability breakeven of $64 but a price of $89 to substantially increase production.
- Forces underpinning the strong USD include relative global growth dynamics, a less aggressive Fed easing cycle, rising USD market-based bond yields, geopolitical risks, and overall bullish sentiment surrounding the USD.
- Elevated interest rates and have pushed corporate bankruptcies to their highest level (by issuer number) since the GFC despite nearly twice as many credit situations being addressed out of court, according to Fitch.
- Leuthold noted, thanks to a top-heavy December, year-end 2024 marked the only instance on record where 5 companies had 4% or greater weights in the S&P 500. It had been 2 or 3 for most of the past 5 years, including a peak of three way back in the tech bubble.

Economic Release Highlights

- January Payrolls (143,000 vs 168,000) were slightly below forecast but within the consensus range of 125,000-225,000. The Unemployment Rate fell one tick to 4.0%. Average Hourly Earnings were above forecast for both MoM (0.5% vs 0.3%) and YoY (4.1% vs 3.8%) readings.

- PCE inflation was in line with consensus for both headline MoM (0.4%) and YoY (2.6%) as well as core MoM (0.2%) and YoY (2.8%). PCE (0.7% vs 0.5%) was stronger than forecast while Personal Income of 0.4% was right in line.

- Headline (2.9% vs 2.9%) and core (3.2% vs 3.3%) CPI on a YoY basis came in at or around expectations alongside MoM readings of headline (0.4% vs 0.3%) and core (0.2% vs 0.3%).

- PPI came in slightly softer than forecast with headline and core MoM readings of 0.2% and 0% respectively. YoY readings of 3.3% and 3.5% were in line with expectations.

- The Employment Cost Index for 4Q was in line with consensus expectation at 0.9% QoQ with an annual growth rate of 3.8%.

- The first estimate of 4Q U.S. GDP came in slightly short of forecast (2.3% vs 2.6%), slowing down from the final 3Q reading of 3.1%. PCE was strong and beat the spot forecast (4.2% vs 3.1%).

- January's U.S. PMI (M,S) registered 50.1, 52.8 with manufacturing coming in above consensus and services below and overall composite cooling from 55.4 to 52.4.

- The January PMI release from the Eurozone and UK (C,M,S) came in slightly above consensus expectations at (50.2, 46.1, 51.4) and (50.9, 48.2, 51.2) respectively. China's CFLP PMI for January of (50.1, 49.1, 50.2) softened versus the prior month and fell short of the spot forecast.

- NFIB Small Business Optimism Index improved to 105.1, a notable move higher from the prior 101.7 reading and above the spot consensus.

- The JOLT Survey reported 8.098M job openings, well ahead of the forecasted 7.650M and above the range of estimates (7.585M-7.800M).

- Retail Sales were slightly weaker than expected (0.4% vs 0.6%).

- UofM Consumer Sentiment reading for January registered 73.2, slightly below the forecast of 74.5 and one-year inflation expectations increased notably from 2.8% to 3.3%. Long-term inflation expectations also jump 0.3% to 3.3%.

- January's Consumer Confidence did not recover as forecasted (104.1 vs 106.3) from November and December readings of 112.8 and 109.5, respectively.

- New Home Sales of 698k were slightly above the 672k forecast while Pending Home Sales fell 5.5%, well below the prior month (2.2%), spot forecast (0.4%), and forecast range. Existing Home Sales of 4.24M were up 2.2% MoM and are up 9.3% YoY, slightly more than consensus expectations.

- Housing Starts (+16% MoM) and Permits (-1% MoM) both beat expectations, offering a slightly more upbeat tone to housing market dynamics.

- The NAHB Housing Market Index came in higher than expected (47 vs 45) and improved from the prior month. The Case-Shiller Home Price Index increased 0.4% MoM and 4.3% YoY, both slightly ahead of the spot consensus but within the forecast range.

Outlook

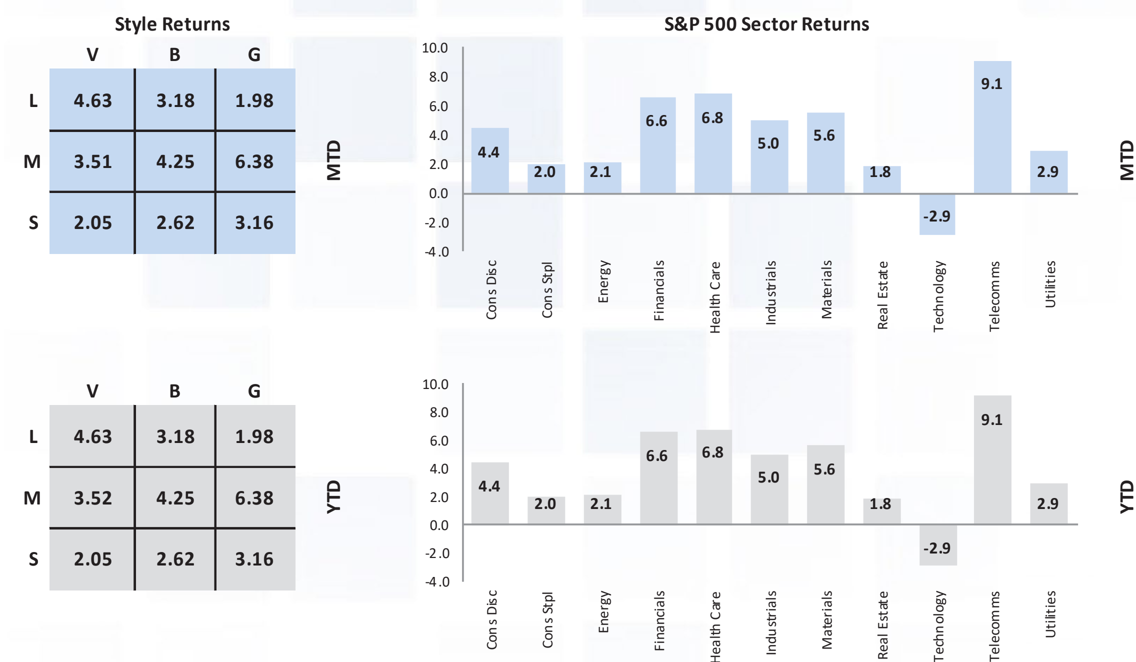
We maintained our constructive view on equity markets through the consolidation toward year-end with a tilt toward U.S. and value stocks with a neutral view toward growth and emerging markets. While market participants are closely watching policy developments, particularly tariff taxes and trade wars from the incoming U.S. administration, we expect it to ultimately be more noise and political theater and unlikely to impact actual inflation or economic growth. Expectations for a pro-growth fiscal policy and deregulation efforts should be supportive for risk assets in the intermediate term with the biggest risk to our constructive outlook likely fiscal in nature with bond markets likely to press for spending offsets to fiscal stimulus measures. Risks still remain for labor market disruptions whether through the supply side of the equation or by a continued slowdown of hiring.

From a duration standpoint, while acknowledging an upside bias on rates due to the improved growth outlook and potential inflationary pressures, we are maintaining a neutral duration stance at this time due to potentially disruptive trade and foreign policies in

the coming months. Our view on corporate credit risk has marginally improved in sympathy with our view on the overall growth backdrop.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	44545	4.78	7.10	4.78	18.93	10.45
NASDAQ	19627	1.66	8.65	1.66	30.37	12.18
S&P 500	6041	2.78	6.22	2.78	26.38	11.91
Russell 1000 Growth		1.98	9.55	1.98	32.68	14.57
Russell 1000 Value		4.63	3.70	4.63	19.54	8.08
Russell 2000		2.62	4.47	2.62	19.09	5.62
Russell 3000		3.16	6.66	3.16	26.32	11.36
MSCI EAFE		5.26	2.33	5.26	9.20	5.66
MSCI Emg Mkts		1.81	(1.93)	1.81	15.35	(0.26)
Fixed Income		**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate		0.53	(0.07)	0.53	2.07	(1.52)
High Yield		1.38	2.10	1.38	9.67	4.35
Municipal		0.50	0.75	0.50	2.08	0.54

Commodities	1/31/25	11/30/24	8/31/24	5/31/24
Oil (WTI)	73.52	68.26	74.52	77.97
Gold	2812.10	2651.10	2513.40	2348.30
Currencies	**1/31/25**	**11/30/24**	**8/31/24**	**5/31/24**
USD/Euro ($/€)	1.04	1.06	1.11	1.09
USD/GBP ($/£)	1.24	1.27	1.31	1.27
Yen/USD (¥/$)	154.91	150.41	145.95	157.19
Treasury Rates	**1/31/25**	**11/30/24**	**8/31/24**	**5/31/24**
3 Month	4.31	4.58	5.21	5.46
2 Year	4.22	4.13	3.91	4.89
5 Year	4.36	4.05	3.71	4.52
10 Year	4.58	4.18	3.91	4.51
30 Year	4.83	4.36	4.20	4.65



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