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## ECONOMIC REVIEW<sup>1</sup>

- The Institute of Supply Management (ISM) Services Index in December beat consensus expectations and rebounded from November to 54.1, highlighting the strength in the services sector that continues to drive overall growth in the economy.
  - The services index has been in expansion for 22 of the last 24 months.<sup>2</sup>
  - The prices paid index, while volatile, increased to its highest level in two years, potentially indicating that the fight against inflation is not over.
- Federal Open Market Committee (FOMC) meeting minutes for December revealed that many members see a need for a more careful approach to policy over the near term after cutting rates by 100 basis points in the last four months of 2024.
  - Strong economic data, elevated inflation, and potential inflationary impacts from the new Trump administration's economic policies were added to their outlook.
  - Futures markets are currently anticipating a 97% chance the Federal Reserve (Fed) does not cut rates in January.
- Non-farm payrolls easily beat expectations in December and increased by 256,000, above the 165,000 jobs expected.
  - October and November's non-farm payrolls were revised lower by 8,000 jobs.
  - The unemployment rate fell slightly in December from 4.2% to 4.1%, and the labor force participation rate was unchanged.
  - Job openings in November continued their rebound and rose to a six-month high to 8.098 million. Job quits fell to their lowest level since August 2020 to 3.326 million with the quits rate falling from 2.1% to 1.9%.

### How does this most recent economic data impact you?

- The last labor market report of 2024 showed that while job growth slowed in the second half of the year from the first half, it still remained strong and supported economic growth throughout the year. Further, three of the last four months of the year saw payrolls increase by at least 200k a month. With a low unemployment rate and the six-month average of job growth trending higher again, along with the potential for elevated price pressures as indicated by the ISM Services Index, the Fed's ability to cut rates is likely to be limited in the near-term resulting in interest rates remaining elevated.



## A LOOK FORWARD<sup>1</sup>

- Investors this week will be primarily focused on December's Consumer Price Index (CPI) and Producer Price Index (PPI) reports along with retail sales.

### How does this week's slate of economic data impact you?

- With the labor market seemingly on better footing than during the summer, investor focus is back on inflation. A higher-than-expected inflation print next week could result in markets concerned about a policy mistake by the Fed and see interest rates move higher.
- Holiday spending reached new all-time highs, and a strong retail sales report is expected, adding to the already strong December economic data.



## MARKET UPDATE<sup>3</sup>

Market Index Returns as of 1/10/2025	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-1.91%	-0.89%	-0.89%	23.59%	9.01%	14.06%
NASDAQ	-2.34%	-0.76%	-0.76%	28.92%	9.01%	16.77%
Dow Jones Industrial Average	-1.83%	-1.38%	-1.38%	13.28%	7.13%	10.01%
Russell Mid-Cap	-2.04%	-0.83%	-0.83%	15.96%	4.22%	9.63%
Russell 2000 (Small Cap)	-3.49%	-1.82%	-1.82%	13.49%	1.40%	7.14%
MSCI EAFE (International)	-0.43%	-0.73%	-0.73%	4.56%	1.68%	4.53%
MSCI Emerging Markets	-1.50%	-1.63%	-1.63%	8.80%	-2.75%	1.02%
Bloomberg Barclays US Agg Bond	-0.87%	-1.00%	-1.00%	0.74%	-2.26%	-0.62%
Bloomberg Barclays High Yield Corp.	-0.28%	0.04%	0.04%	8.60%	3.21%	4.13%
Bloomberg Barclays Global Agg	-0.96%	-1.30%	-1.30%	-1.61%	-4.58%	-2.19%



## OBSERVATIONS

- All three major U.S. large-cap stock indices were down last week. The Nasdaq led the decline and fell -2.34%. The S&P 500 posted a -1.91% return, and the Dow Jones fared the best on the week, down only -1.83%.
- Small-cap stocks were the worst performer for the week with a -3.49% return, underperforming their large-cap counterparts. Mid-cap stocks also posted a negative return and fell -2.04% on the week.
- Despite returning negative figures, international stocks posted were the leaders in the equity space as the dollar weakened. Developed markets fell -1.43%, and emerging markets posted a return of -1.50%. Fixed income indices fell last week as bond yields moved up. High yield bonds were the best performer of all the asset classes, falling only -0.28%. U.S. and international bonds fell -0.87%, and -0.96% respectively.



## BY THE NUMBERS

- **California Wildfires Rage in L.A. County, At Least 10 Deceased and Thousands of Homes Destroyed:** The two largest wildfires raging across Los Angeles County have killed at least 10 people and burned more than 10,000 homes and buildings to the ground, according to local officials. Authorities have urged residents to heed evacuation orders after a new blaze, the Kenneth Fire, started late Thursday afternoon in the San Fernando Valley, about 2 miles from a school serving as shelter for evacuees from another fire, the Associated Press reported. Firefighters were able to stop the flames from spreading. Hours earlier, officials had said they were encouraged as calmer winds and help from out of state gave the first signs of beating back the region's two most devastating wildfires. The Eaton Fire near Pasadena that started Tuesday night has burned more than 5,000 structures, a term that includes homes, apartment buildings, businesses, outbuildings and vehicles. Firefighters were able to establish the first bit of containment Thursday. To the west in Pacific Palisades, the largest of the fires burning in the LA area has destroyed over 5,300 structures and firefighters had no containment.<sup>4</sup>
- **2024 was a Historic Year in Global Elections-and a Bad One for Those in Power:** In this historic year of elections, the world gave its rulers a shellacking. Most notable for Americans, of course, was the defeat of Vice President Kamala Harris to President-elect Donald Trump. But zoom out and that is just one data point in a pattern that stretches from India to Austria, Botswana to South Korea, and Britain to Uruguay. 2024 saw more elections than any other year on record, with more than 70 nations covering 4 billion people going to the polls. This was the first year since records began in 1905 that every incumbent party lost vote share in developed countries holding elections, according to data from ParlGov, an independent database run by the University of Bremen in Germany and first analyzed by the Financial Times newspaper.<sup>5</sup>

## *Economic Definitions*

**CPI (headline and core):** Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

**Federal Reserve (Fed):** The Federal Reserve System is the central banking system of the United States of America.

**Federal Open Market Committee (FOMC):** The Federal Open Market Committee (FOMC) is the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy in the United States by directing open market operations (OMOs). The committee is made up of 12 members, including seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four of the remaining 11 Reserve Bank presidents, who serve on a rotating basis

**Job Openings and Labor Turnover Survey – JOLTS:** This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

**ISM Services Index:** PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Whereas per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

**Nonfarm Payrolls:** This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

**Producer Prices - PPI (headline and core):** Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

**Retail Sales:** Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

**Unemployment Rate:** The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

## *Index Definitions*

**S&P 500:** The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

**NASDAQ:** The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

**Dow Jones Industrial Average:** The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

**Russell Mid-Cap:** Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

**Russell 2000:** The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

**MSCI EAFE:** The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

**MSCI EM:** The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**Bloomberg Barclays US Agg Bond:** The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

**Bloomberg Barclays High Yield Corp:** The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

**Bloomberg Barclays Global Agg:** The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

**Bloomberg Barclays Municipal Bond Index:** The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

### *Disclosures*

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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<sup>1</sup> Data obtained from Bloomberg as of 1/10/2025.

<sup>2</sup> [ISM Report on Business](#)

<sup>3</sup> Data obtained from Morningstar as of 1/10/2025.

<sup>4</sup> [California wildfires rage in LA County, killing at least 10 and destroying thousands of homes | Live Updates from Fox News Digital](#)

<sup>5</sup> [2024 was a historic year in global elections — and a bad one for those in power](#)

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