

TALKING POINTS

Data through January 2025

Climate

While many of the themes that influenced last year's investment climate persist, the new year has brought a fresh set of challenges for investors. Inflation continues to strain global financial markets, with five of the eleven countries that comprise the so-called "Group of Ten" reporting headline inflation rates in excess of central bank targets. Inflation in the U.S., as measured by the 12-month rate of change on the Consumer Price Index (CPI), stood at 2.9% in December 2024, increasing 0.5 percentage points from its most recent low of 2.4% set in September 2024. The CPI's acceleration was a main contributor to the Federal Reserve's ("Fed") decision to hold its policy rate steady in January 2025. Just prior to the Fed's January pause, it was reported that a Chinese artificial intelligence (AI) company had developed a significantly more efficient AI model than what was previously available. While questions remain regarding the validity of these claims, initial reports suggest that efficiency gains were achieved with substantially less capital expenditure than competitors. The news sent global equity markets into a tailspin, with the tech-heavy Nasdaq Composite Index declining by 3.07% on 1/27/25.

Stock Market

The S&P 500 Index ("Index") closed at 6,040.53 on 1/31/25, representing a price-only decline of 1.28% from its all-time high of 6,118.71 set on 1/23/25, according to data from Bloomberg. The S&P MidCap 400 and S&P SmallCap 600 Indices stood 4.46% and 6.24%, respectively, below their all-time highs which were set on 11/25/24. In January, the Index posted a total return of 2.78%. Ten of the 11 major sectors that comprise the Index registered positive total returns for the month. The top-performer was Communication Services, up 9.12%, while the worst showing came from Information Technology, which declined by 2.90%. The S&P MidCap 400 and S&P SmallCap 600 Indices increased by 3.85% and 2.91% on a total return basis, respectively, in January. While there are various ways for investors to determine the fair price of equities, one of the more common valuation metrics is the price to earnings (P/E) ratio. Many pundits have pointed out that the S&P 500's P/E ratio (27.23 on 1/31/25) stands well above its 20 year average of 18.74. In our view, the current P/E fails to tell the whole story. Data sourced from Capital IQ revealed that as of 12/31/24, the 12-month forward P/E ratio of the bottom 450 stocks in the Index (by market capitalization) was estimated to be 18.4, well below the 12-month forward P/E of the largest 10 stocks, which was estimated to be 30.7 as of the same date. This disparity can also be viewed through the lens of market breadth. Just 27% and 28% of S&P 500 members outperformed the Index in the 2023 and 2024 calendar years, respectively. For comparison, the last time the Index's market breadth was this narrow was in 1998, when just 29% of members outperformed the broader index.

Bond Market

The yield on the benchmark 10-year Treasury note (T-note) stood at 4.54% at the close of trading on 1/31/25, representing a decline of just three bps from its 4.57% close on 1/31/24, according to data from Bloomberg. The 4.54% yield stood 204 bps above its 2.50% average for the 10-year period ended 1/31/25 and 45 bps below its most recent high of 4.99% set on 10/19/23. The yield on the 2-year T-note stood at 4.20% on 1/31/25, down four bps from when it stood at 4.24% on 12/31/24. Each of the U.S. fixed income asset classes we track posted positive total returns last month (see "Bloomberg Fixed Income" section to the right). Notably, each asset class also posted positive total returns over the trailing 12-month period. As many investors are likely aware, bond yields (especially short-term bonds) are sensitive to changes in the federal funds target rate. As such, investors have been watching the Fed's actions closely for indications of their next move. Futures data reveals they do not expect the Fed to deviate significantly from January's pause. As of 1/31/25, the federal funds rate futures market was pricing in fewer than two cuts for all of 2025, down from greater than seven cuts as recently as 9/30/24.

Takeaway

We have previously asserted that earnings growth often forms a solid foundation for rising equity prices. While it is still relatively early in the fourth quarter earnings season (36% of S&P 500 Index companies reporting as of 1/31/24), 77% of reporting companies have posted a positive EPS surprise, above the 10-year average of 75%, according to FactSet. Additionally, the Index's fourth quarter blended year-over-year (y-o-y) earnings growth rate stood at 13.2% at the end of January, marking the highest y-o-y earnings growth rate reported by the Index since Q4'21. In short, things look very good from an earnings perspective. That said, estimates for strong earnings growth have not been sufficient to buoy the recent returns of technology stocks. Of the eleven sectors that comprise the broader S&P 500 Index, the S&P 500 Technology Index boasts the second-highest y-o-y earnings growth estimate for 2025 (18.59% as of 1/31/25). Even so, the sector is the sixth-best performer over the past six months, posting a total return of 5.63%. For comparison, the S&P 500 Consumer Discretionary and Communication Services Indices saw total returns of 26.50% and 25.84%, over the same period. We see two healthy phenomena at play here. First, looser monetary policy may have increased the attractiveness of technology's peers. Additionally, burgeoning competition among technology companies, especially with regards to AI, likely compelled investors to cast a wider net in their search for price appreciation during the period.

Sources: Bloomberg and Investment Company Institute

Past performance is no guarantee of future results. Historical performance figures for the indices are for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and an investor cannot invest directly in an index.

Open-End Net Fund Flows (\$)	12/24	11/24	YTD (Dec)
Equity	-93.9B	-55.7B	-654.7B
Taxable Bond	8.6B	11.4B	163.4B
Municipal Bond	-2.0B	2.9B	29.5B
Hybrid	-10.1B	-12.2B	-114.3B
Taxable Money Market	126.4B	155.1B	701.3B

Key Interest Rates/Yields	1/31/25	12/31/24	1/31/24
Federal Funds Target Rate	4.50%	4.50%	5.50%
2-Year T-Note	4.20%	4.24%	4.21%
5-Year T-Note	4.33%	4.38%	3.84%
10-Year T-Note	4.54%	4.57%	3.91%
Bond Buyer 40	4.45%	4.41%	4.71%

Commodities/U.S. Dollar	1/25	YTD	12 Mo.
U.S. Dollar Index (DXY)	-0.11%	-0.11%	4.93%
FTSE/CC CRB Excess Ret.	2.77%	2.77%	11.95%
Crude Oil/WTI (per Barrel)	1.13%	1.13%	-4.38%
Natural Gas (per million BTUs)	-16.21%	-16.21%	44.95%
Gold Bullion (Ounce)	6.63%	6.63%	37.21%

Total Return Performance

U.S. Stock Indices	1/25	YTD	12 Mo.
S&P 500	2.78%	2.78%	26.35%
DJIA	4.78%	4.78%	18.93%
Nasdaq 100	2.25%	2.25%	26.33%
S&P MidCap 400	3.85%	3.85%	20.34%
Russell 2000	2.62%	2.62%	19.08%
Russell 3000	3.15%	3.15%	26.30%

U.S. Styles/Market Caps	1/25	YTD	12 Mo.
S&P 500 Growth	2.67%	2.67%	35.73%
S&P 500 Value	2.89%	2.89%	15.18%
S&P MidCap 400 Growth	3.75%	3.75%	20.72%
S&P MidCap 400 Value	3.95%	3.95%	19.77%
Russell 2000 Growth	3.16%	3.16%	22.71%
Russell 2000 Value	2.05%	2.05%	15.50%

Foreign Stock Indices (USD)	1/25	YTD	12 Mo.
MSCI World NET (Ex-U.S.)	4.97%	4.97%	9.44%
MSCI Emerging Markets NET	1.79%	1.79%	14.75%
MSCI Europe NET	6.89%	6.89%	8.92%
MSCI BRIC NET	0.13%	0.13%	16.72%
MSCI EM Latin America NET	9.51%	9.51%	-15.31%
Nikkei 225	0.73%	0.73%	4.92%

Bloomberg Fixed Income Indices	1/25	YTD	12 Mo.
U.S. Treasury: Intermediate	0.54%	0.54%	2.75%
GNMA 30 Year	0.56%	0.56%	2.02%
Municipal Bond (22+)	0.08%	0.08%	2.40%
U.S. Aggregate	0.53%	0.53%	2.07%
Intermediate Corporate	0.62%	0.62%	4.67%
U.S. Corporate High Yield	1.37%	1.37%	9.68%
Global Aggregate	0.57%	0.57%	0.25%
EM Hard Currency Aggregate	1.00%	1.00%	7.55%

HIGH/LOW SNAPSHOT

Data through January 2025

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	6118.71	1/23/2025	1829.08	2/11/2016	6040.53	-1.28%	2.78%	1.24%
S&P 500 Growth	4302.90	1/23/2025	1035.44	2/11/2016	4203.54	-2.31%	2.67%	0.62%
S&P 500 Value	2027.49	11/29/2024	788.67	2/11/2016	1938.31	-4.40%	2.89%	1.91%
S&P MidCap 400	3390.26	11/25/2024	1218.55	3/23/2020	3239.04	-4.46%	3.85%	1.46%
S&P MidCap 400 Growth	1610.10	11/25/2024	574.06	2/11/2016	1530.94	-4.92%	3.75%	0.84%
S&P MidCap 400 Value	1083.78	11/25/2024	373.28	3/23/2020	1040.71	-3.97%	3.95%	2.12%
S&P 100	2989.86	1/23/2025	819.58	8/25/2015	2951.07	-1.30%	2.19%	1.15%
DJIA	45014.04	12/4/2024	15660.18	2/11/2016	44544.66	-1.04%	4.78%	1.59%
Nasdaq 100	22096.66	12/16/2024	3947.80	2/9/2016	21478.05	-2.80%	2.25%	0.72%
Russell 2000	2442.74	11/8/2021	953.72	2/11/2016	2287.69	-6.35%	2.62%	1.37%
Russell 2000 Growth	1709.62	2/9/2021	573.10	2/11/2016	1516.34	-11.31%	3.16%	0.59%
Russell 2000 Value	2715.42	11/25/2024	1067.63	3/23/2020	2515.54	-7.36%	2.05%	2.21%
Russell 3000	3500.46	1/23/2025	1067.34	2/11/2016	3460.15	-1.15%	3.15%	1.24%
MSCI World Net (ex U.S.) (USD)	9022.32	9/27/2024	4189.62	2/11/2016	8649.08	-4.14%	4.97%	2.96%
MSCI Emerging Markets Net (USD)	699.23	2/17/2021	296.25	1/21/2016	584.14	-16.46%	1.79%	2.74%
Bovespa/Brazil (USD)	29488.46	1/2/2020	9077.09	1/21/2016	21636.24	-26.63%	11.38%	6.96%
RTS/Russia (USD)	1919.58	10/25/2021	628.41	1/20/2016	N/A	N/A	N/A	N/A
S&P BSE 500/India (USD)	461.76	9/26/2024	129.66	3/23/2020	392.50	-15.00%	-4.45%	1.20%
Shanghai Composite/China (USD)	832.07	6/12/2015	358.39	10/18/2018	448.69	-46.08%	-1.98%	3.10%
KOSPI/South Korea (USD)	2.93	6/16/2021	1.16	3/19/2020	1.73	-40.84%	6.50%	2.05%
Hang Seng (USD)	4241.01	1/26/2018	1871.10	10/31/2022	2596.76	-38.77%	0.92%	4.15%
MSCI Euro (USD)	1821.78	9/27/2024	865.50	3/18/2020	1759.62	-3.41%	8.40%	3.07%
S&P 500 Consumer Discretionary	1959.72	12/17/2024	543.54	2/11/2016	1911.57	-2.46%	4.41%	0.60%
S&P 500 Consumer Staples	900.88	11/29/2024	467.66	8/25/2015	869.70	-3.46%	2.04%	2.46%
S&P 500 Energy	749.39	4/5/2024	179.94	3/18/2020	667.95	-10.87%	2.07%	3.34%
S&P 500 Utilities	419.01	11/26/2024	206.51	9/4/2015	395.93	-5.51%	2.93%	2.92%
S&P 500 Financials	861.29	1/30/2025	264.89	2/11/2016	855.91	-0.62%	6.52%	1.42%
S&P 500 Banks	518.46	1/30/2025	180.19	2/11/2016	516.04	-0.47%	9.77%	2.32%
FTSE NAREIT All Equity REITs	980.08	12/31/2021	483.48	3/23/2020	772.78	-21.15%	1.03%	3.92%
S&P 500 Health Care	1829.71	8/30/2024	732.99	2/11/2016	1710.76	-6.50%	6.79%	1.66%
S&P 500 Pharmaceuticals	1216.04	8/30/2024	539.37	9/28/2015	1081.88	-11.03%	3.73%	2.46%
NYSE Arca Biotechnology	6319.77	2/8/2021	2642.53	2/11/2016	6267.04	-0.83%	9.07%	0.23%
S&P 500 Information Technology	4780.84	12/26/2024	626.12	8/25/2015	4474.24	-6.41%	-2.90%	0.62%
Philadelphia Semiconductor	5904.54	7/10/2024	559.18	2/11/2016	5015.85	-15.05%	0.75%	0.93%
S&P 500 Communication Services	372.33	1/31/2025	130.86	12/24/2018	372.33	0.00%	9.12%	0.78%
S&P 500 Industrials	1214.04	11/29/2024	412.06	3/23/2020	1171.34	-3.52%	5.03%	1.44%
S&P 500 Materials	616.97	10/18/2024	234.97	1/25/2016	559.03	-9.39%	5.59%	1.89%
Philadelphia Gold & Silver	175.74	10/22/2024	38.84	1/19/2016	153.99	-12.38%	12.30%	1.38%
FTSE/CC CRB Excess Return	329.59	6/9/2022	106.29	4/21/2020	304.95	-7.48%	2.77%	N/A
ICE BofA Perpetual Preferred	331.82	10/16/2024	213.04	2/18/2015	323.02	-2.65%	0.49%	6.64%
ICE BofA U.S. High Yield Constrained	576.78	1/31/2025	313.74	2/11/2016	576.78	0.00%	1.38%	7.42%

Source: Bloomberg

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