Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

Despite the abbreviated trading week due to President Jimmy Carter's Day of Mourning there was plenty of market moving data that will, most likely, impact future rate decisions from the Federal Reserve. All in all, the releases continued to show strength in the economy both in employment and manufacturing. This bodes well for corporate earnings despite the lofty expectations currently reflected by strategists of approximately 15% in 2025. These projections may be aggressive but, for the market to continue its rise, earnings must keep pace. Financials will kick off the 4Q earnings season with gusto next week giving us an indication of things to come.

As noted, all the employment data this week showed continued firmness. On Wednesday, the JOLT's report showed 8.1mil openings vs. the prior 7.7mil. This equates to 1.13 job openings for every unemployed worker up from 1.12 in October. ADP, on Wednesday, came in at 122,000 vs. the estimate of 140,000 and 146,000 previously. Initial jobless claims were 201,000 versus an expected 215,000 with continuing claims at 33,000 or 1.87mil. Finally on Friday, non-farm payrolls came in very hot at 256,000 v the estimate of 165,000. Subsequently, the unemployment rate dropped to 4.1% down from 4.2% the prior month. Hourly wages ticked down slightly to 0.3% month over month and 3.9% year over year. There was strength in retail(seasonal), leisure & hospitality and healthcare while manufacturing saw a bit of contraction. Overall, hiring seems to be softening a bit as workers are reluctant to quit, suggesting the labor market continued to slow at a pace that probably does not require the Fed to rush to cut rates. There being no signal of a collapse in the labor market or imminent recession data implies the economy is nearing full employment, not moving away from it.

The data on the manufacturing front also shows improvement. Both the ISM Manufacturing & Services were stronger in December. Though manufacturing remains below 50% at 49.2% it has risen significantly off the October lows. Services troughed in June and now stands at 54.1% clearly in expansion mode. If incoming President Trump successfully navigates Congress with his pro-growth agenda one would expect these numbers to continue to improve.

The impact of this week's data had a sobering effect on the capital markets as the US 10-year Treasury briefly breached 5% on Friday before settling at 4.77%; a level not seen since November of 2023. The equity markets followed suit declining broadly. The Dow and S&P declined 1.9% while the NASDAQ cratered 2.3%. Clearly, both are expecting future rate decisions to be adjusted considering the positive economic data. Previously, investors were expecting one to two more rate declines in 2025 however that appears unlikely and if strength persists possibly an increase if inflation ticks up. Current probabilities of a pause in January is 97.3%, no cuts through June and only one quarter point by year end.

The reality is that yields could be headed higher near-term if higher real economic growth and inflation remain robust. Given the current lofty equity valuations, the double-digit earnings growth needs to occur. Adding to those concerns are the fiscal and trade policies proposed by President-elect Trump. This could potentially create the perfect storm for a meaningful correction. In this were to occur we would view it constructively for the bull market. Let's not forget we have enjoyed back to back 20+% returns in equities so some retracement would be healthy.

The upcoming week will see many of the financial firms report including J.P. Morgan, Blackrock, Citigroup, Goldman Sachs, Bank of America and Morgan Stanley. Economic releases include December CPI and retail sales.

Market Scorecard:	1/10/2025	YTD Price Change
Dow Jones Industrial Average	41,938.45	-1.42%
S&P 500 Index	5,827.04	-0.93%
NASDAQ Composite	19,161.63	-0.77%
Russell 1000 Growth Index	4,009.78	-0.80%
Russell 1000 Value Index	1,808.69	-0.84%
Russell 2000 Small Cap Index	2,189.23	-1.84%
MSCI EAFE Index	2,244.94	0.40%
US 10 Year Treasury Yield	4.77%	-10 basis points
WTI Crude Oil	$75.70	5.50
Gold $/Oz.	$2,687.45	1.54%

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