# MONTH IN REVIEW

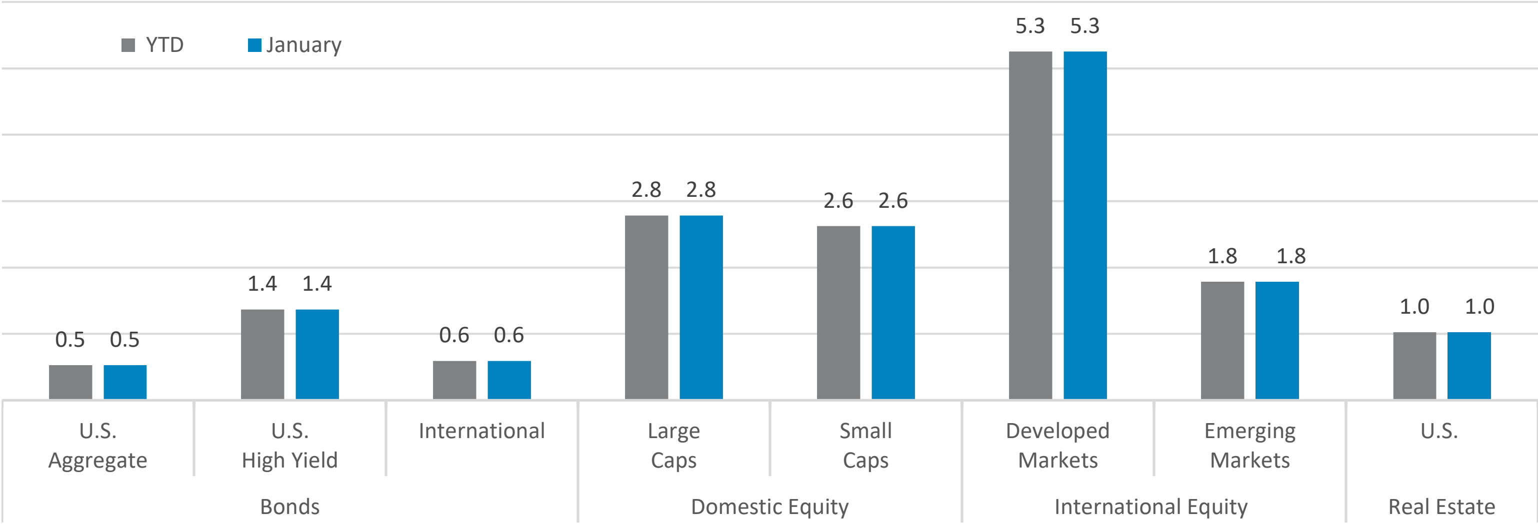
Prime Capital FINANCIAL

## Quick Takes

- **Mag 7 Lags Stocks.** Equity indices rose in January as the S&P 500 index increased 2.7%, the Dow rose 4.7%, and the Russell 2000 was up 2.6%. Despite a strong overall month, the Magnificent 7, which has driven stock gains over the last two years, lagged the broader indices falling 0.3% on the month.
- **Inflation and Interest Rates.** The 10Y treasury yield rose in the first half of January only to fall back to where it was to start the month at 4.5%. Inflation rose in December as the PCE index rose 2.6% year-over-year. Despite the higher headline number, core inflation remained flat at 2.8%.
- **AI Spending Continues.** Big technology companies will continue to spend on AI capital investment in 2025. Meta Platforms indicated that it would spend $60-65B on capital investment in 2025. Microsoft indicated that it would invest $80B in 2025 to continue its own data center capacity expansion.
- **Trump's Executive Orders.** President Trump signed 45 executive orders by the end of January after taking office on January 20th. The executive orders made policy changes related to tariffs, immigration, energy, regulation, DEI, and the military.

## Asset Class Performance

Large caps and small caps were nearly even in January. US stocks outperformed emerging markets, but lagged developed markets as tariff concerns, policy uncertainty, mixed earnings and inflation data drove markets. Domestic and international assets alike ended the month slightly higher including both fixed-income and equities.




Source: Bloomberg, as of February 4, 2025. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

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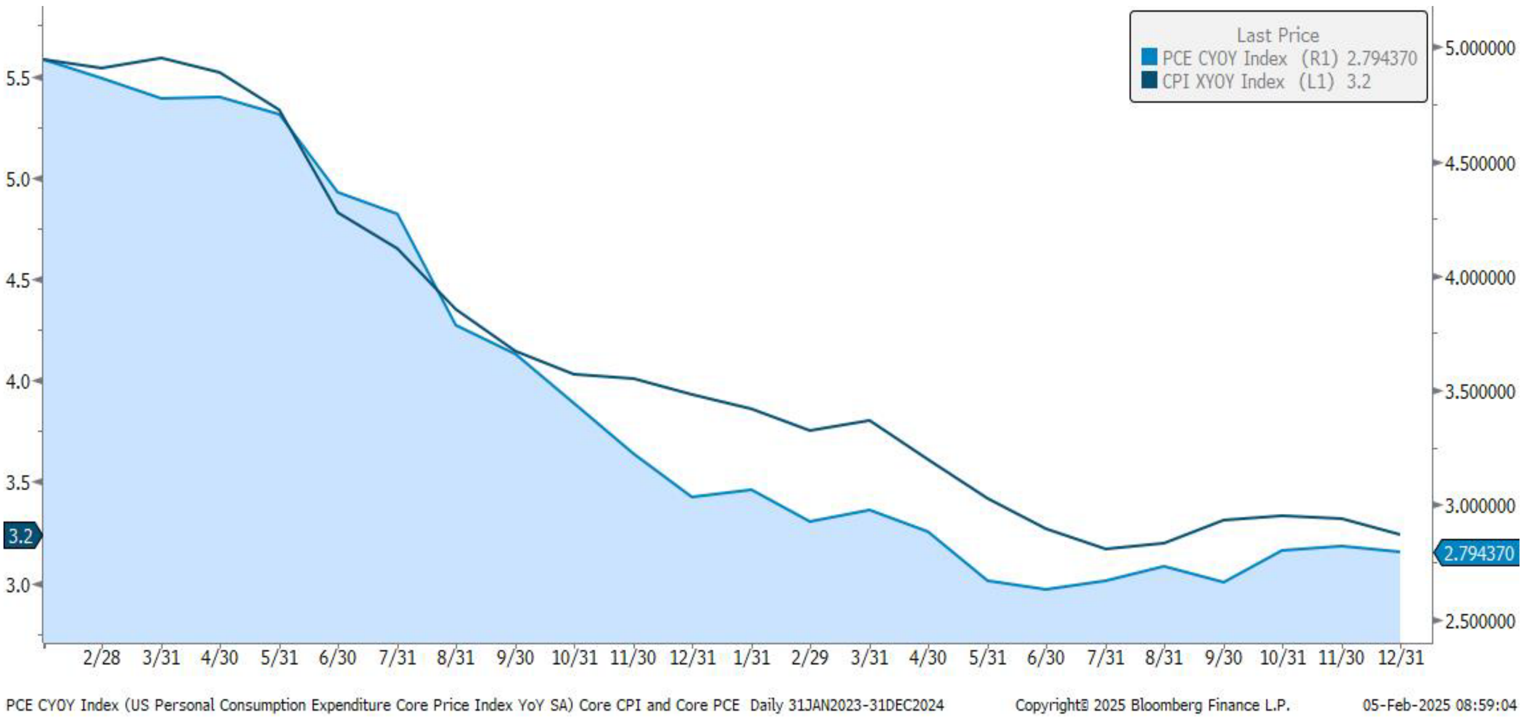
January 2025

# Markets & Macroeconomics

## Inflation Softens, Unemployment Falls as Rates are Held Flat

### Core CPI and Core PCE Inflation Continue to Show Progress




Source: Bloomberg

Economic data indicated that the economy remained strong in December as job growth accelerated and some inflation measures came in below expectations. In the labor market, the US economy added 256K jobs in December, much better than the forecasted 165K that economists were anticipating. Private payroll growth was particularly strong with companies adding 223K jobs versus the 140K forecast for the month. One sore spot for job growth continued to be the manufacturing sector, which saw a decline in employment of 13K jobs during the month versus the projected addition of 5K jobs. Average hourly wages grew at a historically strong rate, but slightly below forecasted at 3.9% in December versus expectations of 4% growth. The labor force participation rate (LFPR) remained steady at 62.5% and the unemployment rate fell from 4.2% to 4.1%. In terms of inflation, all the major price indices changed as expected or increased less than forecasted. The Producer Price Index (PPI) came in 3.3% higher in December versus a year prior, below expectations of a 3.5% increase. Core PPI also came in below expectations at 3.5% versus the 3.8% forecast. CPI and PCE inflation showed similar easing as CPI inflation came in at 2.9% in December and PCE inflation came in at 2.6%, both in line with expectations. Core CPI and Core PCE showed even more inflation progress with Core CPI inflation coming in at 3.2% versus expectations of 3.3% and Core PCE inflation came in at 2.8%, in-line with expectations. Retail sales, meanwhile, lagged expectations in December, rising just 0.4% during the month versus the forecasted 0.6%, but grew faster than expected when excluding auto and gas sales. GDP growth in Q4 2024 was weaker than forecasted as well with the economy growing at an annualized rate of 2.3% versus the expected 2.6%. Fed Chairman Jerome Powell indicated that risks to inflation and unemployment are roughly in balance and that the Fed would not change its 2% inflation target when it reviewed policy in the summer. The FOMC held rates constant in January at 4.25-4.5%. Uncertainty around tariffs and other policy changes under the new administration has clouded the Fed's outlook for the economy and rates and Powell and other Fed officials will need to consider these policy changes and their impacts before adjusting rates further.

**Bottom Line: Inflation remaining elevated and policy uncertainty around immigration and tariffs continue to be barriers to interest rate cuts by the Fed. Meanwhile, the economy continues to see strong job growth, but retail sales and GDP growth were behind expectations to close out 2024. Manufacturing job growth continues to be weak and lag expectations despite strong growth elsewhere.**

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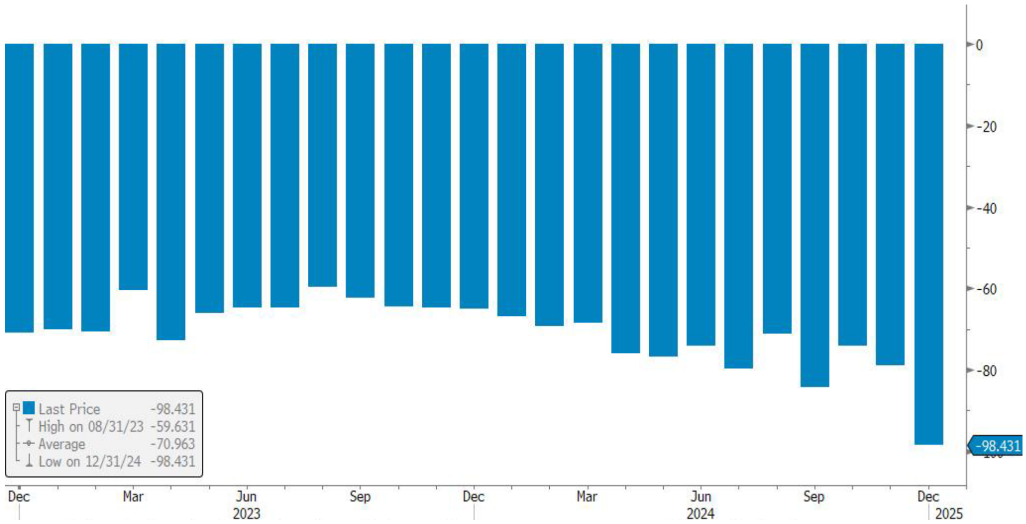
# What's Ahead

## Investors and companies digest Trump's tariff diplomacy

### US Trade Balance of Goods and Services

The US trade deficit increased in December in anticipation of tariffs

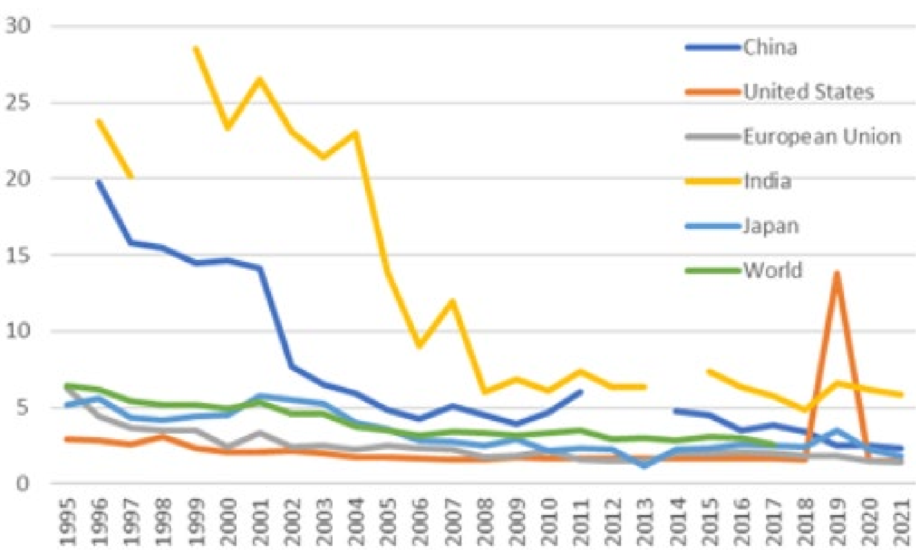



Source: US Census Bureau, Bloomberg

President Trump indicated throughout his presidential campaign that he intended to place tariffs on foreign imports coming into the US. In his first 11 days in office, investors began to get a glimpse of what Trump's approach on trade will look like and how he will use tariffs, although there remains some uncertainty about Trump's goals with tariffs. On January 26th, less than a week after Trump's inauguration, the President imposed 25% tariffs on Colombia after the country refused to accept deported migrants that Trump attempted to send back to the country. Colombia's president, Gustavo Petro, indicated that he would hit the US with 50% tariffs US in retaliation before agreeing to accept the migrants and backing down. The Trump administration also signaled that it would look to use tariffs on large US trading partners like Canada and Mexico, which have had tariff-free trade with the US for decades under first NAFTA and then under its successor agreement negotiated under the first Trump administration USMCA, which took effect in 2020. By the end of January, Trump and his aides began pushing for 25% tariffs to be placed on all imports from Canada and Mexico and an additional 10% tariff on Chinese imports. Trump claims that these countries need to do more to prevent illegal migration and smuggling of drugs, especially fentanyl, into the US. These signals that tariffs will be used on a wide variety of countries have concerned investors and fostered uncertainty around how the tariffs would be used and what the goals of their use are. In some instances, Trump and his aides have indicated that the tariffs are intended to be a bargaining chip to use for the purpose of gaining leverage over countries in negotiations around economic and non-economic issues alike. In other settings, Trump has indicated that the tariffs are intended to be used to raise tax revenue for the federal government. At still other times, Trump has said that tariffs need to be used to protect US industry and boost domestic production. Because of these different potential uses, which would imply different lengths of time of tariffs being in place, it is difficult to assess their full impact. If tariffs stay in place for longer periods of time, economists warn, they are likely to contribute to higher prices and costs of doing business. Otherwise, the impacts could be less costly, but more difficult to determine. Changes in trade policy in February and through the rest of 2025 will likely be a key driver of markets.

### Weighted Average Applied Tariff Rates of Major Economies

Tariff rates have been falling internationally since the mid-1990s




Source: Congressional Research Service, World Bank

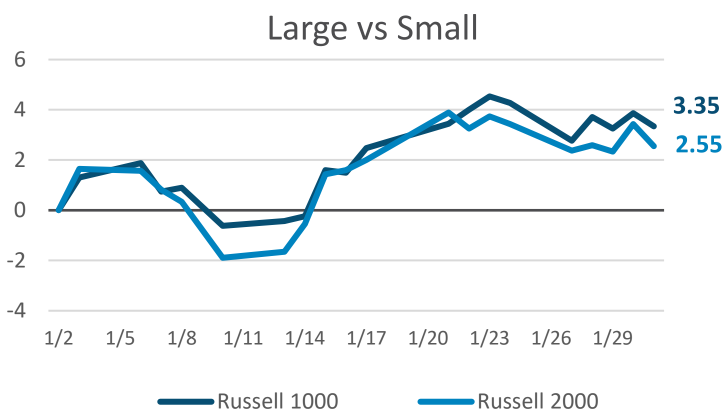
**<u>Bottom Line</u>: January saw the first signs of what Trump's tariff policies could look like, but significant uncertainty still remains around how high tariffs will be, on which countries they will be imposed, and for how long they will stay in place.**

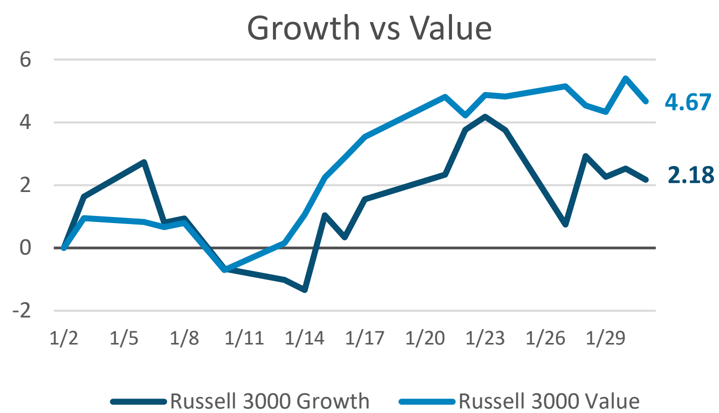
# January 2025

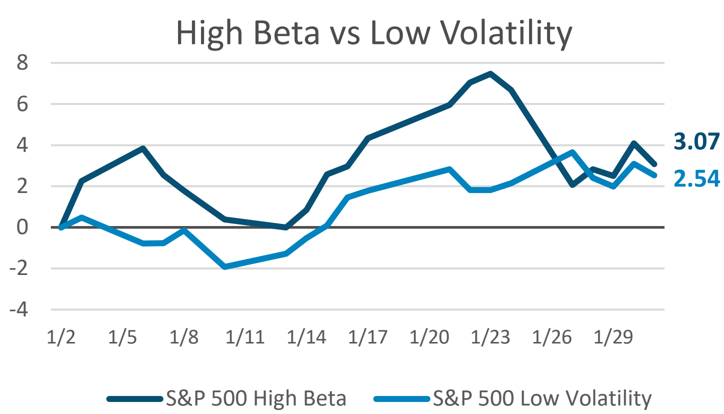
# Equity Themes

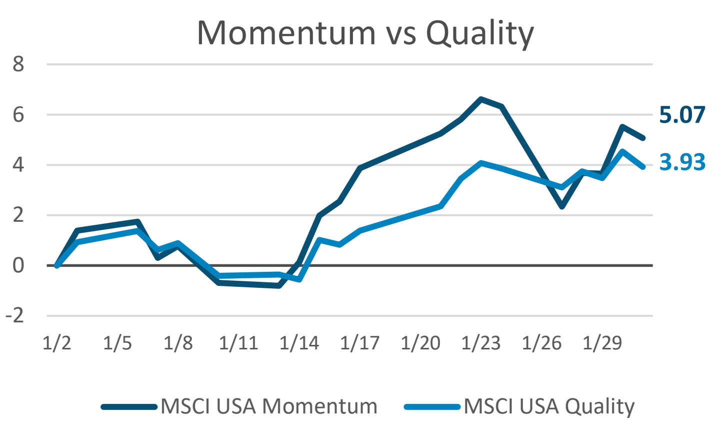
## What Worked, What Didn’t

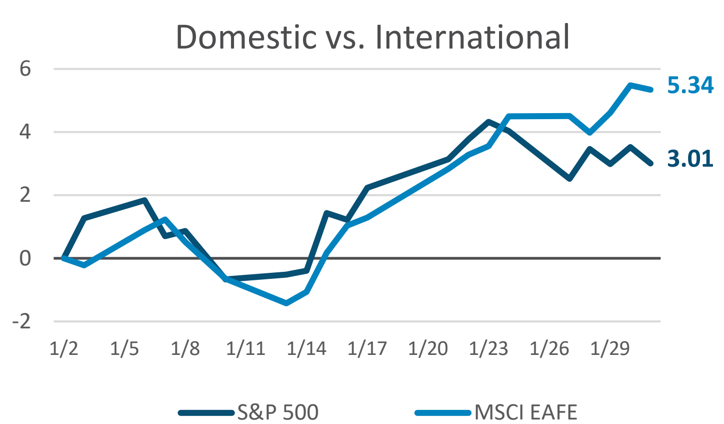
- **Large Outperformed Small while Value Outperformed Growth.** Market participants moved significantly more into large-cap value stocks in January more so than small-cap or growth, a reversal of December’s outperformance by growth stocks.
- **High Beta and Momentum Outperform.** High Beta outperformed Low Vol in January, but only by a margin of 53 bps. Momentum outperformed quality in January, mirroring December’s dynamics.
- **International Over Domestic, Developed Over Emerging.** International equities outperformed domestic stocks in January. Developed markets outperformed emerging markets by 159 bps during the month.

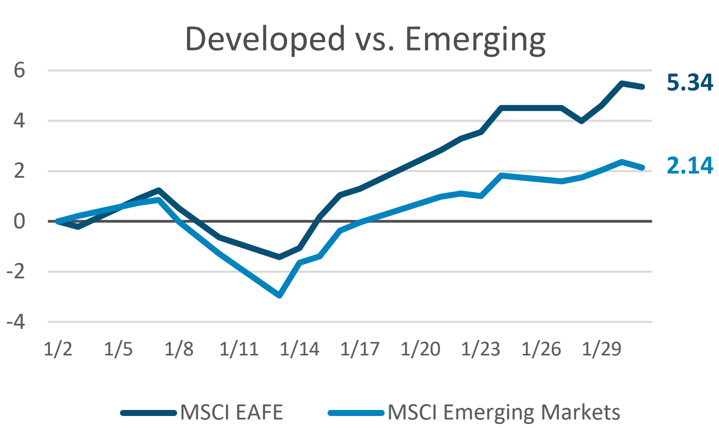


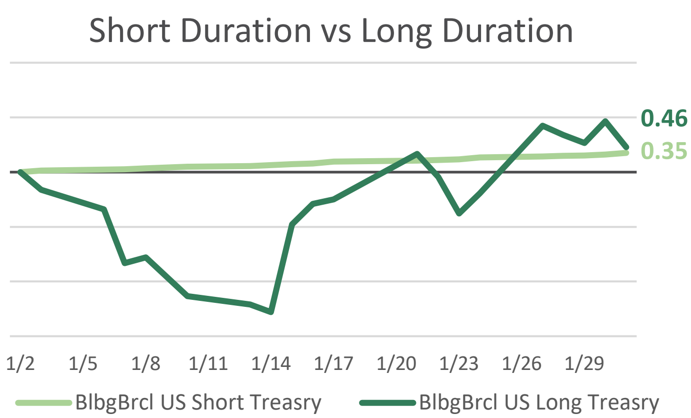

Source: Bloomberg.

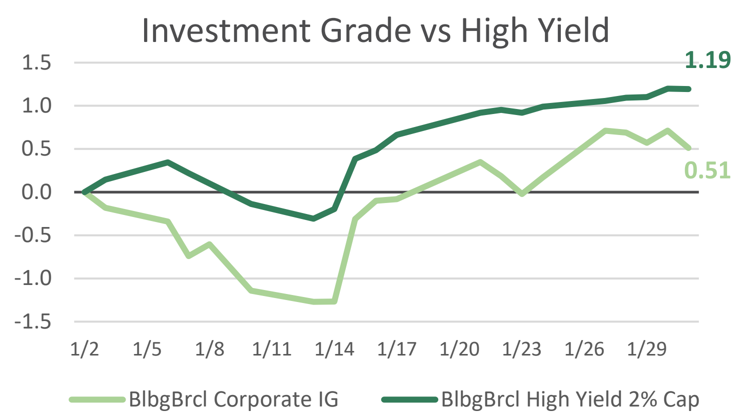
# January 2025

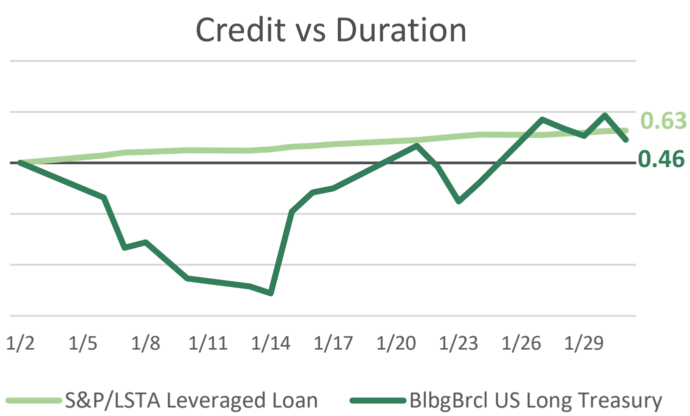
# Bond Themes

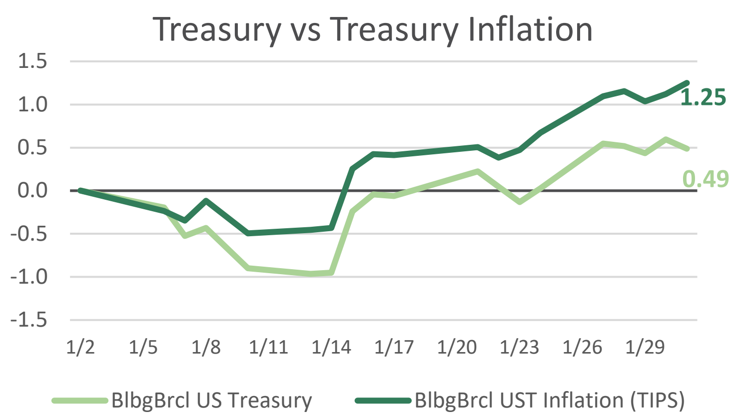
## What Worked, What Didn't

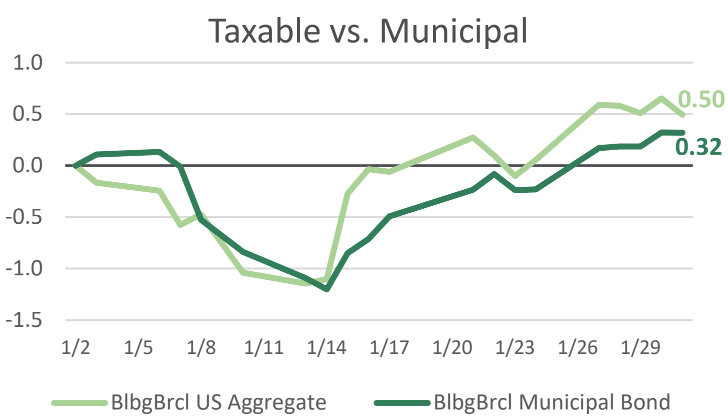
- **Long Duration and High Yield Outperform.** Long Duration Treasuries performed better in January outperforming Short Duration by 11 bps. Investment Grade lagged in January losing to High Yield by 68 bps.
- **Credit Tops Duration while TIPs Beat Treasuries.** In January, Credit narrowly outperformed Duration while TIPS outperformed Treasuries by 76 bps.
- **Taxable Beat Munis and International Outperforms Domestic.** Taxable Municipal bonds underperformed Taxable Aggregate, while U.S. bonds outperformed their International peers in January.

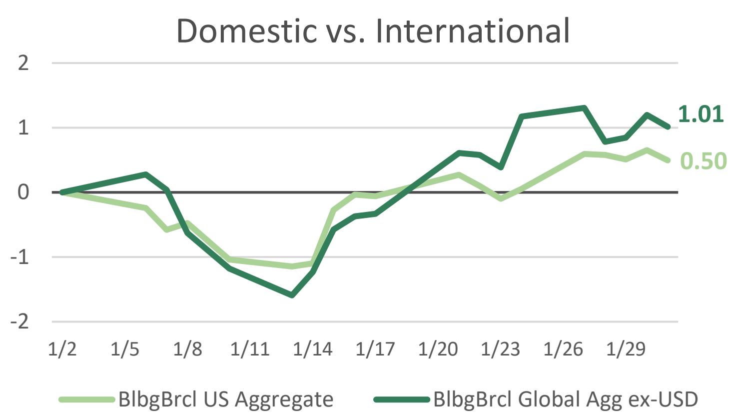



Source: Bloomberg.

# January 2025

# Asset Class Performance

**The Importance of Diversification**. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

| | Jan-02 | Jan-03 | Jan-06 | Jan-07 | Jan-08 | Jan-10 | Jan-13 | Jan-14 | Jan-15 | Jan-16 | Jan-17 | Jan-21 | Jan-22 | Jan-23 | Jan-24 | Jan-27 | Jan-28 | Jan-29 | Jan-30 | Jan-31 | Jan | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High | MCG 0.57 | SCG 2.07 | LCG 1.17 | IEQ -0.08 | MCG 0.32 | HYB -0.52 | RE 1.25 | SCV 1.53 | LCG 2.43 | RE 2.31 | LCG 1.23 | SCG 2.42 | LCG 1.43 | IEQ 0.82 | IBD 0.67 | RE 1.16 | LCG 2.19 | EM 0.02 | EM 1.69 | IBD -0.13 | MCG 5.65 | MCG 5.65 |
| | SCG 0.34 | MCG 1.90 | IEQ 0.95 | LCV -0.15 | RE 0.26 | USB -0.56 | MCV 0.99 | EM 1.13 | SCG 2.06 | MCG 0.99 | EM 0.79 | IEQ 2.02 | MCG 0.51 | RE 0.72 | EM 0.66 | USB 0.56 | MCG 1.70 | IEQ -0.01 | RE 1.33 | HYB -0.20 | IEQ 5.16 | IEQ 5.16 |
| | HYB 0.24 | LCG 1.63 | IBD 0.50 | IBD -0.32 | LCG 0.15 | IBD -1.07 | LCV 0.90 | MCV 1.08 | SCV 1.94 | MCV 0.86 | LCV 0.71 | RE 1.91 | EM 0.07 | LCV 0.67 | IEQ 0.56 | LCV 0.34 | EM 0.74 | USB -0.06 | MCG 1.22 | USB -0.20 | LCV 4.75 | LCV 4.75 |
| | USB 0.01 | RE 1.24 | EM 0.36 | HYB -0.33 | HYB 0.13 | 60/40 -1.21 | SCV 0.50 | MCG 1.00 | MCG 1.54 | LCV 0.62 | MCG 0.65 | IBD 1.71 | 60/40 -0.12 | SCG 0.64 | RE 0.27 | SCV 0.21 | SCG 0.61 | HYB -0.06 | SCG 1.18 | RE -0.22 | MCV 3.74 | MCV 3.74 |
| | EM -0.14 | SCV 1.09 | MCG 0.28 | USB -0.35 | USB 0.11 | MCG -1.36 | 60/40 0.00 | RE 0.94 | EM 1.31 | IEQ 0.51 | MCV 0.54 | MCG 1.67 | HYB -0.14 | MCG 0.53 | 60/40 0.17 | HYB 0.08 | 60/40 0.17 | SCG -0.13 | MCV 1.12 | LCG -0.35 | SCG 2.81 | SCG 2.81 |
| | SCV -0.15 | MCV 1.05 | 60/40 0.28 | MCV -0.44 | LCV 0.11 | LCV -1.43 | HYB -0.03 | LCV 0.86 | IEQ 1.28 | 60/40 0.29 | SCG 0.43 | SCV 1.47 | IBD -0.14 | LCG 0.40 | USB 0.17 | IBD 0.03 | USB -0.03 | LCV -0.16 | IEQ 1.10 | 60/40 -0.54 | RE 2.74 | 60/40 2.74 |
| | 60/40 -0.16 | LCV 0.95 | HYB 0.18 | 60/40 -0.55 | MCV 0.04 | IEQ -1.52 | MCG -0.03 | SCG 0.82 | 60/40 1.20 | SCG 0.27 | IEQ 0.41 | LCV 1.20 | IEQ -0.23 | 60/40 0.30 | HYB 0.11 | IEQ 0.00 | HYB -0.04 | 60/40 -0.20 | SCV 1.05 | LCV -0.68 | 60/40 2.62 | EM 2.62 |
| | LCV -0.20 | EM 0.93 | SCG 0.13 | SCV -0.66 | 60/40 -0.02 | LCG -1.54 | USB -0.09 | IBD 0.56 | LCV 1.15 | USB 0.22 | SCV 0.40 | MCV 1.20 | USB -0.24 | SCV 0.26 | SCV 0.05 | MCV -0.12 | IEQ -0.13 | IBD -0.25 | LCV 1.01 | MCV -0.77 | EM 2.30 | SCV 2.30 |
| | LCG -0.23 | 60/40 0.62 | MCV 0.00 | EM -0.71 | IEQ -0.16 | MCV -1.54 | SCG -0.17 | 60/40 0.40 | MCV 1.09 | HYB 0.11 | 60/40 0.39 | 60/40 1.07 | SCG -0.27 | EM 0.23 | MCV -0.02 | 60/40 -0.30 | SCV -0.40 | MCV -0.35 | 60/40 0.70 | MCG -0.91 | SCV 2.17 | LCG 2.17 |
| | IEQ -0.34 | IEQ 0.44 | USB -0.10 | SCG -0.73 | SCV -0.38 | EM -1.70 | IBD -0.25 | IEQ 0.36 | HYB 0.88 | IBD 0.00 | HYB 0.09 | EM 1.07 | LCV -0.58 | HYB 0.13 | LCV -0.08 | EM -1.82 | MCV -0.42 | SCV -0.40 | IBD 0.45 | SCG -0.92 | LCG 2.16 | RE 2.16 |
| | MCV -0.36 | IBD 0.39 | LCV -0.11 | RE -0.86 | EM -0.48 | SCG -2.20 | IEQ -0.28 | HYB 0.13 | USB 0.87 | SCV -0.05 | USB 0.00 | LCG 0.68 | MCV -0.64 | IBD 0.11 | MCG -0.16 | SCG -1.98 | IBD -0.56 | MCG -0.44 | LCG 0.29 | SCV -0.92 | IBD 1.54 | HYB 1.54 |
| | RE -0.83 | HYB 0.15 | SCV -0.25 | MCG -1.51 | IBD -0.60 | SCV -2.23 | LCG -0.37 | USB 0.03 | IBD 0.48 | EM -0.12 | IBD -0.04 | USB 0.33 | SCV -0.97 | MCV 0.07 | LCG -0.42 | MCG -2.28 | LCV -0.62 | LCG -0.71 | HYB 0.19 | IEQ -0.94 | HYB 1.12 | IBD 1.12 |
| Low | IBD -0.92 | USB -0.10 | RE -1.24 | LCG -1.98 | SCG -0.60 | RE -2.43 | EM -0.68 | LCG -0.35 | RE 0.42 | LCG -0.70 | RE -0.11 | HYB 0.26 | RE -1.73 | USB -0.16 | SCG -0.72 | LCG -2.85 | RE -1.05 | RE -1.32 | USB 0.14 | EM -1.13 | USB 0.51 | USB 0.51 |

## Legend

- 60/40 Allocation (60/40)
- Large Growth (LCG)
- Large Value (LCV)
- Mid Growth (MCG)
- Mid Value (MCV)
- Small Growth (SCG)
- Small Value (SCV)
- Intl Equity (IEQ)
- Emg Markets (EM)
- U.S. Bonds (USB)
- High Yield Bond (HYB)
- Intl Bonds (IBD)
- Real Estate (RE)

Source: Sources for this market commentary derived from Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Financial. The performance of those funds in January may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate. 080223006 - MAH