

## **Summary**

Economic data for the week included strength in broad manufacturing measures, while services decelerated but remained strong. Other releases were mixed, with construction spending up, while consumer sentiment declined. The January employment situation report showed slower job growth but upward revisions for prior months, while the unemployment rate fell.

Equities were mixed globally, with declines in the U.S. offset by gains overseas, as tariff news turned out more benign than feared. Bonds saw gains along with falling long-term interest rates. Commodities were mixed, with higher prices for metals and lower for crude oil.

## **Economic Notes**

(+) The **ISM manufacturing** index for January rose by 1.7 points to 50.9 in January, moving from contraction to expansion, and exceeding the neutral 50.0 reading expected. Under the hood, new orders rose by three points to over 55, indicating solid expansion, while employment rose sharply to just over 50. Prices paid rose by over two points to just under 55, showing continued inflationary pressures. The final January reading of the **S&P Global US manufacturing PMI** came in was revised up by 1.1 to 51.2, with gains in several major categories, including new orders up to 52. These reports were positive developments on the manufacturing side, which had been lagging for over two years compared to services. No doubt, some firms had been in wait-and-see mode during election season to get a better sense of the incoming administration's policies, which look more favorable from a business and tax standpoint. However, concerns over the impact of possible tariff activity remain.

(0/+) The **ISM services/non-manufacturing** index for January fell by -1.2 points to 52.8, below expectations for an unchanged 54.0 reading. This remained solidly in expansion, although to a slightly lesser degree, with 14 of 18 industries showing growth. New orders and business activity each declined by over -3 points but stayed in expansion, while employment and deliveries ticked up a bit, further into expansion. Prices paid decreased by -4 points but remained at a solidly expansionary 60 level. Per the ISM, it appeared that poor weather during the month had a negative impact on levels of activity, as did some concern over potential impacts from tariffs, although impacts are more nuanced relative to goods. The **S&P Global US services PMI** ticked up a tenth to a similar 52.9 for the final January release, on par with expectations. All-in-all, the larger services part of the economy continues to hum along in good shape.

(+) **Construction spending** rose 0.5% in December, exceeding the 0.2% median forecast. Private residential spending was solely responsible, gaining 1.5% for the month, while private non-residential was virtually unchanged, and public spending of both types fell by a half-percent. As construction costs fell by several tenths on a seasonally-adjusted basis, spending rose even more in 'real' terms.

(-) The preliminary **Univ. of Michigan index of consumer sentiment** for February fell by -3.3 points to 67.8, in contrast to an expected increase to 71.8. Assessments of current conditions fell by over -5

points, while expectations for the future fell by a slightly smaller -2 points. Inflation expectations for the coming 1 year rose a dramatic 1.0% to 4.3%, while those for the next 5-10 years ticked up by just a tenth to 3.3%. Per the index sponsor, “many consumers appear worried that high inflation will return within the next year,” as well as the thinking that “it may be too late to avoid the negative impact of tariff policy.” Consumer sentiment has been quite poor over the past few years, often along political lines, but it hasn’t appeared to slow overall consumer spending.

(-) **Initial jobless claims** rose by 11k to 219k in the Feb. 1 ending week, a bit above the 213k median forecast. Continuing claims for the Jan. 25 week rose by 36k to 1.886 mil., above the 1.870 mil. consensus estimate. Claims were mixed by state, with a larger gain in NY offset by a decline in CA, with few outliers elsewhere.

(-) The government’s **JOLTS** openings report for December fell by -556k to a level of 7.600 mil., well below the 8.000 mil. expected. Sectors seeing gains included leisure/hospitality (67k) and trade/transport/utilities (58k); declines were more widespread and led by professional/business services (-225k), private education/health (-194k), and financial activities (-166k). The job opening rate fell sharply by -0.4% to 4.5%, while the hiring rate was unchanged at 3.4%. On the departure side, after revisions, the layoff and quits rates were unchanged, at 1.1% and 2.0%, respectively. The ratio of job openings-to-unemployed has been inching back near the level of 1:1, showing labor market balance, where it stood just before the pandemic.

(0/+) The employment situation for January came in slower on the surface, but prior-month revisions altered things a bit. **Nonfarm payrolls** rose 143k, short of the average monthly gain of 166k in 2024 and the 175k increase expected. However, employment in the prior months of Nov. and Dec. were revised up by 49k to 261k, and 51k to 307k, respectively, which were substantial. In January, job gains were present in health care (44k), trade/transport/utilities (38k), retail (34k), government (32k), and social assistance (22k), as well as manufacturing (3k, a mix of gains and losses by segment). On the more negative side were job declines in professional/business services (-11k), and mining/quarrying/oil/gas (-8k). The BLS mentioned that the Southern California wildfires and severe winter weather elsewhere in the country occurred during the measurement period, but did not significantly impact the data. Interestingly, a little-watched diffusion index turned positive (over 50) in manufacturing, showing a trend toward increasing jobs rather than decreasing.

The **unemployment rate** fell back a tenth to 4.0%, with an uptick in labor force participation and a 234k gain in household employment. The U-6 underemployment rate was steady at 7.5%. **Average hourly earnings** rose by 0.5%, above the 0.3% expected. Over the past year, earnings rose by 4.1%. The **average workweek length** fell back a tenth to 34.1 hours, which was assumed to be weather-related. Additional benchmark revisions occurred that pulled over -600k jobs from payrolls in Dec. 2024, but was unrelated to their business formation model, with unauthorized immigrants likely excluded from the data. On the other hand, the household survey saw a population increase by nearly 3 mil. and household employment by 2 mil., which did better reflect immigration trends. These serve again as a reminder of the difficulties in measuring employment in such a large economy, using sampling methods.

(0/-) In a separate earlier report, the preliminary Q4 report, **nonfarm productivity** rose at an annualized rate of 1.2%, about half the rate of the prior quarter, and just short of the 1.4% expected. Since the just-prior-to-pandemic Q4-2029 quarter, productivity has growth at an annualized pace of 1.8%. **Unit labor costs** rose at an annualized pace of 3.0% for Q4, well above the 0.5% of Q3 and below the 3.4% of consensus. Year-over-year, the labor cost pace reaccelerated upward by 0.5% to 2.7%.

(0) The Federal Reserve’s January **Senior Loan Officer Opinion Survey** for Q4-2024 showed little change from the prior quarter. Overall, credit standards were little changed, with loan demand picking up, and some increased willingness by banks to lend. In the commercial/industrial loan segment, demand strengthened, while banks tightened standards a bit for large firms, but loosened them for smaller firms, at least relative to the prior quarter. Banks noted the primary reason for tightening being a less favorable/more uncertain economic outlook, as well as a perceived worsening of industry-specific issues. In commercial real estate, fewer banks reported tighter standards on both construction/land development and multi-family residential loans, while demand for these loans strengthened. Residential mortgage credit standards eased slightly for most GSE-eligible loans, although they tightened a bit at the edges for non-qualified jumbo and subprime. Consumer installment loan standards fell in the quarter overall, with weaker standards and higher demand for auto loans, coupled with weaker demand for credit cards. This is a unique survey, in that the data is measured based on the percentage of bankers who feel certain ways about particular lending conditions and customer types, so there is an element of qualitative and quantitative input to this. As such it’s best looked at on a relative basis, in how the environment is potentially evolving over time.

**Market Notes**

<b>Period ending 2/7/2025</b>	<b>1 Week %</b>	<b>YTD %</b>
DJIA	-0.54	4.22
S&P 500	-0.23	2.55
NASDAQ	-0.53	1.13
Russell 2000	-0.33	2.28
MSCI-EAFE	0.24	5.50
MSCI-EM	1.40	3.21
Bloomberg U.S. Aggregate	0.39	0.92

<b>U.S. Treasury Yields</b>	<b>3 Mo.</b>	<b>2 Yr.</b>	<b>5 Yr.</b>	<b>10 Yr.</b>	<b>30 Yr.</b>
12/31/2024	4.37	4.25	4.38	4.58	4.78
1/31/2025	4.31	4.22	4.36	4.58	4.83
2/7/2025	4.35	4.29	4.34	4.49	4.69

U.S. stocks started down Monday morning with the imposition of 25% tariffs on Canada and Mexico (10% on Canadian energy and China). However, markets reversed a bit when tentative agreements (with

conditions largely symbolic) were made with both countries to delay tariffs by a month or more. It's assumed that these extensions may continue until the review of the USMCA trade agreement in 2026. The Chinese tariffs of 10% were kept, although far below the 60% advertised during the election campaign, with retaliation from China far less dramatic than feared. Now, focus has turned to potential tariffs on European goods, which are assumed to be focused on the auto industry, among a few critical goods there and elsewhere. Some economists have been reticent about assigning odds of dramatic tariffs happening, but the odds of at least some degree of broader tariff increase have risen.

Sector results were mixed, with gains of over a percent in consumer staples and energy, followed by technology; these were offset by sharper declines of several percent in consumer discretionary (largely Tesla and Nike) and communications (Alphabet). Real estate gained over a percent, along with a fall in interest rates.

Earnings results for Q4 continue to plod along, with nearly two-thirds of the S&P 500 companies having now reported. Over three-quarters have reported a positive earnings surprise, and over 60% on the revenue side. The updated blended year-over-year earnings growth rate has ticked up to an impressive 16.4%, which would remain the strongest in three years. By sector, gains have been strongest in financials, communications, and consumer discretionary; on the other end, energy and materials have lagged with challenged commodities prices over the earnings period. Interestingly, earnings growth has been strongest for firms with over half of revenues derived internationally. Tariffs have been mentioned by at least half of companies in earnings calls so far, although not always in the context of forward guidance.

Foreign stocks gained last week, counter to U.S. markets. U.K. equities fared positively, as the Bank of England cut the policy rate by -0.25% to 4.50%, the third cut since last summer, upon expectations for slower (sub-1%) economic growth expected this year. Their votes hardly ever seem unanimous, with a few members wanting a half-percent cut. European inflation ticked up a bit, to around 2.5%, although economic growth there also keeps the ECB in more of a dovish mindset than not. Emerging markets also fared positively, with gains in China and Mexico. In China, a shortened Lunar New Year trading week was highlighted by stronger consumer spending, and perhaps some relief of U.S. tariffs not being more punitive, with Mexican stocks faring well for the same reason—the tariff postponement.

Bonds experienced a positive week, as the U.S. Treasury yield curve flattened, with higher short-term rates offset by lower long-term rates. The administration, via comments from U.S. Treasury Secretary Bessent, shared its goals of seeing lower 10-year yields as a way of easing policy (as opposed to pressuring the Fed to lower short-term policy rates), despite higher Treasury issuance. U.S. Treasuries and investment-grade corporates fared similarly, outperforming the flattish results of floating rate and high yield. Foreign bonds performed positively along with a weaker U.S. dollar.

Commodities generally rose, led by industrial metals, precious metals, and agriculture, while energy prices pulled back. Crude oil fell over -2% last week to \$71/barrel, as Treasury Secretary Bessent also shared the administration's policy objective of bringing oil prices down further (via additional drilling). On the other hand, natural gas spot prices rose nearly 9%, in reaction to continued cold weather across

most of the nation, at a time of year when inventories traditionally begin to draw down as winter nears an end.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Backstagehistory.substack.com, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.