Summary

On a week shortened by President's Day, economic data included mixed results for regional manufacturing, while leading economic indicators fell back from the prior month, as did consumer sentiment and home starts and sales.

Equities fell back in the U.S. with investors cautiously looking at future policy and consumer impact, while international stocks performed better, as recent trends have moved in their direction. Bonds ticked up slightly and commodities were mixed, with little change oil prices.

Economic Notes

(+) The preliminary **S&P Global US manufacturing PMI** for February saw a rise of 0.5 of a point to 51.6, just above expectations of 51.4. This included gains in output of several points, while new orders and employment each fell a bit, but all remained in expansion. Input and output prices both rose by several points, further into expansion, and pointed to continued inflationary pressures.

(-) The **S&P Global US services PMI** for the same period fell by -3.2 points to 49.7, below expectations for a slight rise, to 53.0, and now in sub-50 contractionary territory. New business and employment both fell by several points, within a point of neutral, while input and output prices were also mixed. Services measures have fallen back from stronger levels in recent months, offset somewhat by stronger manufacturing results.

(+) The **Empire manufacturing index** rose by 18.3 points back to an expansionary 5.7 level in February, above expectations for a neutral 0 level. The details of the report included a gain of 20 points in new orders, and nearly that much in shipments, both back into expansion. On the other hand, employment fell by a few points back into contraction. Prices paid also rose by over 11 points more solidly into expansion (40). Expected business conditions for six months out fell by -15 points but stayed expansionary at 22. This index has been especially volatile, rendering it somewhat less useful than it used to be.

(-/0) The **Philadelphia Fed manufacturing index** fell by -26.2 points to a still-expansionary 18.1 for February, above the expected decline to 14.3. This represented a sharp reversal downward from the prior month's increase, which was one of the largest monthly gains in the index's history, although the result is still at its highest level in nearly three years. Under the hood, new orders, shipments, and employment all fell back sharply, but stayed in expansion. Prices paid also reaccelerated by nearly 9 points to a strong 40+ level. Expected business conditions for 6-months out fell by -19 points to a still quite-strong 28. As with the Empire index, which moved in the opposite direction, these regional surveys remain more volatile recently,

(-) **Existing home sales** fell by -4.9% in January to a seasonally-adjusted rate of 4.08 mil. units, below the -2.6% decline expected, and reversing the gain of around 3% the prior month. Single-family sales fell by -5%, while condos/co-ops fell -2%. While sales in the Midwest were unchanged, they fell in all other regions by -5% to -8%. On a year-over-year basis, sales were up 2% nationally. The median existing home sales price came in at $396,900, up 4.8% from a year ago. The months' supply of homes ticked up to 3.5, following a 4% rise in inventories, but this still remains well below the long-term desired averages.

(-) **Housing starts** fell by -9.8% in January to a seasonally-adjusted annualized rate of 1.366 mil., well below the 1.515 mil. expected. Single-family starts fell -8%, while multi-family were down 11%. Overall starts were down -0.7% over the trailing 12 months, which muted the split between single-family starts being down -2% and multi-family up 2%. Regionally, the West saw gains in starts, while they fell elsewhere, all of which pointed to a weather-related disruption, not uncommon for winter months. **Building permits** rose by 0.1% to a rate of 1.483 mil., just above expectations, but down -1.7% over the past year. Starts remain below the estimated 1.5-2.0 mil. units that are roughly estimated as the need for housing to keep pace with demographic growth, natural disasters/teardowns, etc., which has continued to exacerbate the nationwide problems with housing affordability, in addition to financing. Per Freddie Mac, the 30-year fixed mortgage rate came in last week at 6.85%, down from the Oct. 2023 high of 7.79%, but persistently at the wide end of the historical spread to the 10-year U.S. Treasury rate.

(-) The final February report for the **Univ. of Michigan index of consumer sentiment** saw a revision down by -3.1 points to 64.7, below the 67.8 expected. Both assessments of current conditions and expectations for the future were down similarly, due to negative expected impacts from trade policy and "fears that tariff-induced price increases are imminent." Inflation expectations for the coming year remained higher than the recent trend at 4.3%, while those for the next 5-10 years ticked up by a few tenths to 3.5%. The latter was the highest reading for long-term inflation since April 1995. As has been the case for some time, inflation expectations rose and sentiment fell for Democrats and Independents, while it was unchanged for Republican respondents, pointing to the continued bifurcation of how the environment appears through political lenses. Perhaps most importantly, the Fed has noted inflation expectations are an important input into their thinking, perhaps as much as actual inflation readings.

(-) **Initial jobless claims** for the Feb. 15 ending week rose by 5k to 219k, above the 215k median forecast. Continuing claims for the Feb. 8 week rose by 24k to 1.869 mil., just over the consensus estimate of 1.868 mil., in a reversal of a sharp decline the prior week. The largest results were in the largest states, with no apparent layoff trends.

(-) The Conference Board's **Index of Leading Economic Indicators** fell by -0.3% in January, a turn downward from the December 0.1% increase (a revision upward from the original -0.1% decline). The decline for January was due to negative results for average weekly hours and consumer expectations for business conditions, which were just partially offset by positive results for jobless claims, interest rate spread (Treasury curve no longer inverted), and credit. Over the past six month period ending in January, the LEI fell by -0.9%, which was an improvement over the -1.7% over the prior six-month period ending in July 2024. There, positive results from positive stock prices, credit, building permits, and jobless claims

were more than offset by declines in ISM new orders and business confidence. Per the Conference Board, “the LEI’s six-month and annual growth rates continued to trend upward, signaling milder obstacles to US economic activity ahead. We currently forecast that real GDP for the US will expand by 2.3% in 2025, with stronger growth in the first half of the year.”

(0) The **FOMC minutes** from the January meeting pointed to a continued “careful approach” being favored by a “majority” of members, with the Fed’s dual mandate goals being “roughly in balance.” As current economic growth is humming along fine, the cautious approach is in response to heightened uncertainty about the economic outlook and potential government policy changes—a not so indirect reference to tariff and immigration policies and an easier regulatory environment that could propel growth even further upward. The “vast majority” of participants felt the Fed funds rate remained restrictive (which would normally point to a bias towards more cuts), but they still wanted to see “further progress on inflation,” an issue they can’t seem to shake. Several participants also noted that it might be appropriate for the committee to pause/slow the runoff of the balance sheet (assumed to be sometime in the Spring) until the debt ceiling is lifted by Congress, with a nod to avoid disrupting liquidity and rate stability in money markets. The overall minutes were seen as a bit hawkish, which is not surprising considering the stickiness in recent inflation numbers. No doubt, the historical example of the 1970s is top of mind, when inflation peaked at the end of 1974, then saw downward improvement by 1976 (although it still ran at just under 5%), before rising to the hard-to-imagine higher peak of almost 15% in 1980—requiring the dramatic inflation-fighting actions and rate-hiking actions of Fed Chair Volcker. While probably no one expects such an extreme case this time, the Fed is acutely aware of “taking the foot off the pedal,” as Chair Powell has called it.

Market Notes

Period ending 2/21/2025	**1 Week %**	**YTD %**
DJIA	-2.48	2.29
S&P 500	-1.63	2.42
NASDAQ	-2.49	1.18
Russell 2000	-3.69	-1.44
MSCI-EAFE	-0.12	8.17
MSCI-EM	2.00	6.88
Bloomberg U.S. Aggregate	0.35	1.47

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2024	4.37	4.25	4.38	4.58	4.78
2/14/2025	4.34	4.26	4.33	4.47	4.69
2/21/2025	4.32	4.19	4.26	4.42	4.67

After a promising start earlier in the week, U.S. stock fell back into the negative with uncertainty about tariffs after several comments from the administration, although light on detail. Thursday and Friday were soured by weaker consumer confidence and cautious guidance from Walmart, despite above-consensus earnings results, concerning anticipated weaker results in the year ahead due to persistent inflation and tariff uncertainty.

Overall, value was little changed, while growth fell back by several percent. Leaders included small gains of about a percent or more in more defensive areas such as utilities, health care, and consumer staples, in addition to energy. Worst off were -4% declines in consumer discretionary and communications services, which were impacted by the fears of a pullback in consumer spending.

Foreign stocks fared better than U.S. last week, with mixed net results after being translated back in U.S. dollar terms, with Japan faring better and Europe worse. News in the European region was somewhat mixed, with U.K. core inflation back up to 3.7%, offset by rising hopes for a Ukraine-Russia peace deal of some sort in the months ahead. Emerging markets gained a few percent, led by strength in China, which was helped by stronger earnings results from the technology sector. The elections in Germany over this past weekend had been closely-awaited for weeks, due to Germany's large sway within the EU and role of manufacturing workhorse, but with the unfortunate status of being in a recession for the past several years (in contrast to most other countries in Europe), not helped by their reliance on trade. Over the weekend, the German center coalition appeared to hold, although the far-right saw gains in response to an immigration backlash—not an uncommon reaction in a variety of countries in recent months. A key area of focus has been how much the fiscal purse strings can be loosened in efforts to spark better growth, as the economy has been in contraction for about two years. Over that time, European markets have been wrestling with a potential structural evolution toward higher defense spending (less aid from the U.S.) and higher energy costs (moving away from abundant Russian gas).

Bonds saw slight gains, as interest rates pulled back by the week's end, with U.S. government and investment-grade corporates outperforming high yield and bank loans.

Commodities were mixed overall, with gains in industrial and precious metals offset by declines in agriculture, and little change overall in energy. Crude oil prices fell back by roughly a half-percent to just over $70/barrel, while natural gas spot prices rallied by 11%, with continued cold winter weather across much of the U.S., although forecasts have started to turn warmer.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, 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.