

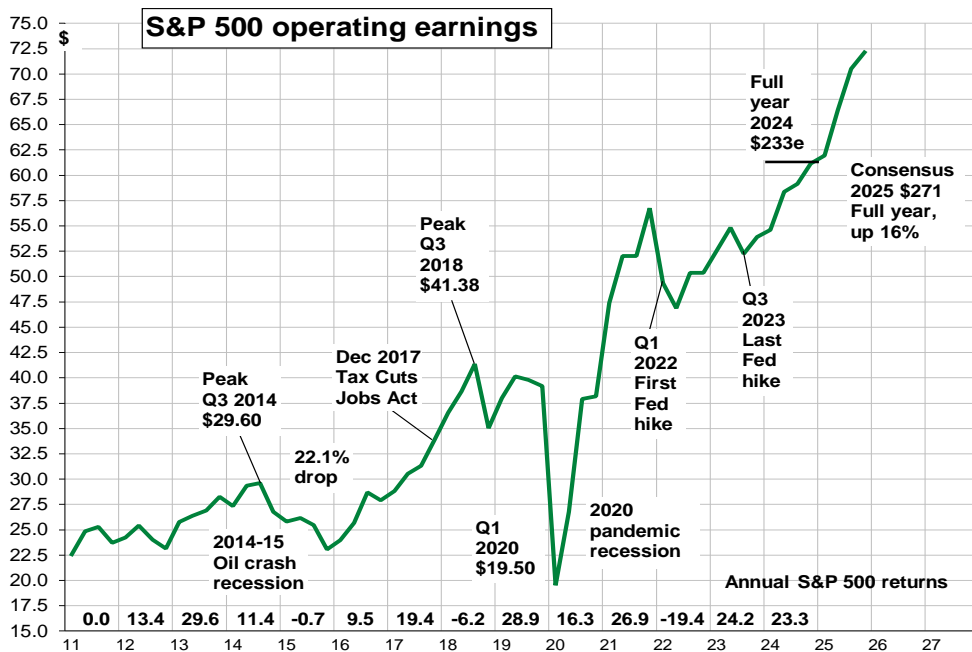
Financial Markets This Week

24 JANUARY 2025

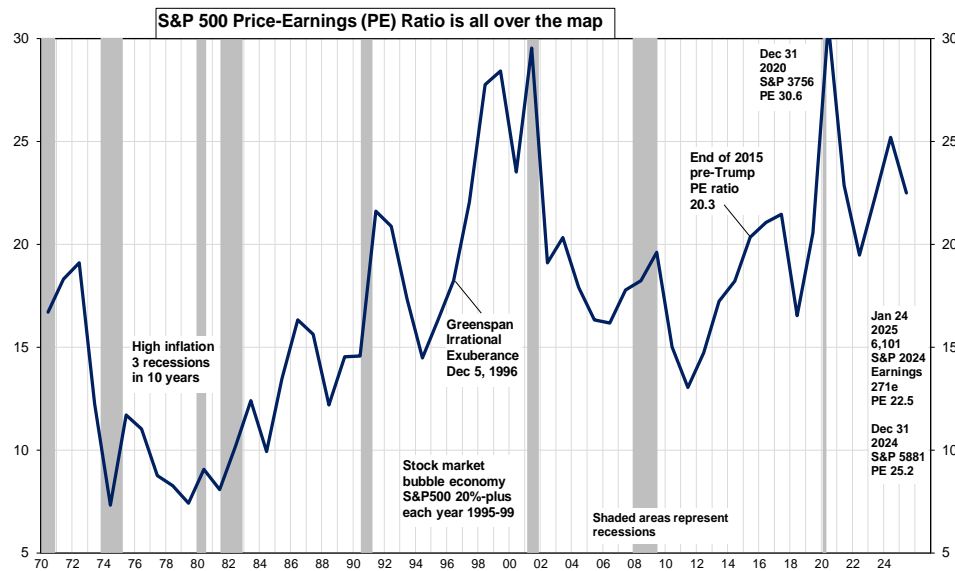
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STOCK MARKET RECORD

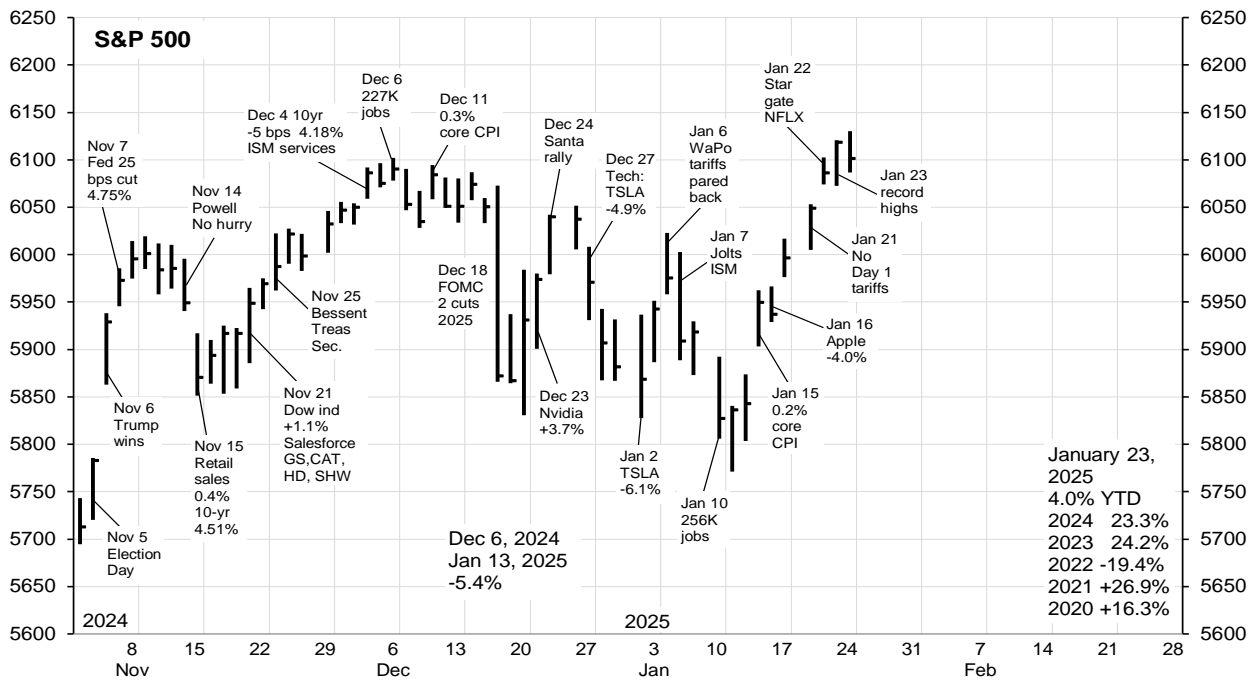
It is just the first week for the President, but the market seems to be weathering the “trade tariff tweets” better than in his first term. The Trump tweet “I am a Tariff Man” 10am December 4, 2018 was a factor in the S&P 500 loss of 3.2% for the day, on its way down to a total loss of 20.2% on December 26 for that financial market crisis. The stock market seems to be resilient over time no matter what news gets thrown at the wall, although this was written before Friday’s loss. The record high close on Thursday, January 23 of 6,118.71 was up 4.0% YTD.



S&P earnings estimates for full year 2025, after we get through all the Q4 2024 upcoming company reports, are starting out strong again this year. Full year 2024 earnings are estimated to increase 9.3%, partially backing up the 23.3% gain in the S&P 500. Full year 2025 earnings are expected to rise 16%. Companies are doing great again already apparently, and perhaps 3% real GDP growth plays a small part. PE ratio ended 2024 at 25.2. If the PE ratio is 25.2 again at the end of 2025, the S&P 500 would have a gain of 16.2% following on last year’s 23.3% gain.



INTEREST RATES



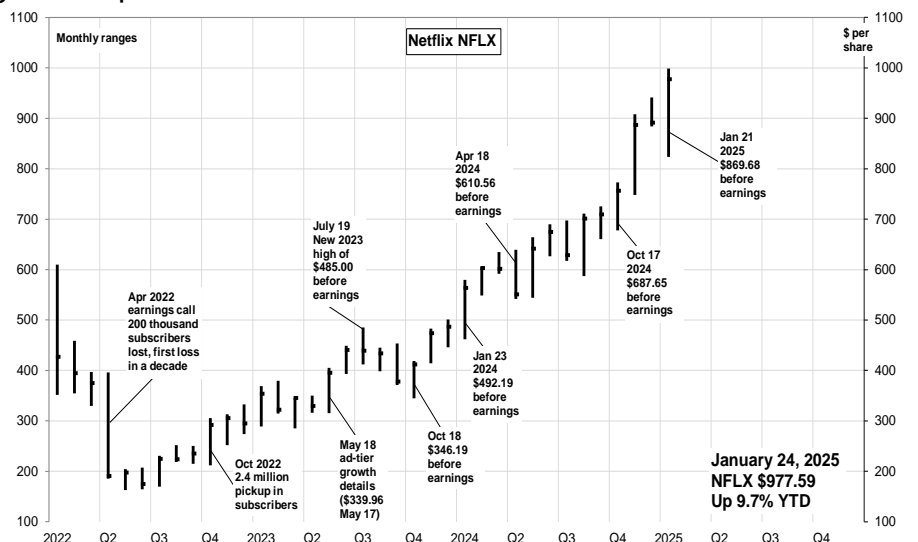
New high for the stock market on Thursday this week as we predicted in last week’s award-winning newsletter. It was hard to keep up with the market’s thinking this week after being closed Monday for the changeover in Presidents and Martin Luther King Day. Tariffs of 25% for Canada and Mexico still seem to be coming on February 1, perhaps 10% for China at some point later, it is hard to know. The President spoke to Davos at 11am ET Thursday, and it is still hard to know. He demands that interest rates drop immediately and asked Saudi Arabia and OPEC to bring down the cost of crude oil. The S&P 500 went to a record high on Thursday, but this was really in the last 10 minutes of trading before the 4pm close. Bond yields closed the week at 4.63%, exactly where they were the week before at the Friday, January 17 close. The Fed meeting, PCE inflation and Q4 2024 GDP are ahead.

Netflix (NFLX) up 9.7% YTD

The stock closed \$869.68 on Tuesday, January 21 before earnings and moved up to just short of \$1,000 on Wednesday. The net membership increase of 18.9 million was all that mattered. U.S./Canada has 89.6 of the 301.6 million membership count. Starting in April with Q1 2025 earnings, the membership numbers will no longer be reported.

Netflix results

Quarter	Operating Income	Member ships Paid	Net Additions
12.31.24	2,272,766	301.63	18.91
9.30.24	2,909,477	282.72	5.07
6.30.2024	2,602,837	277.65	8.05
3.31.2024	2,632,534	269.60	9.33
12.31.2023	1,496,109	260.28	13.12
9.30.2023	1,916,394	247.15	8.76
6.30.2023	1,827,183	238.39	5.89
3.31.2023	1,714,317	232.50	1.75
Oper. Income 000s, Membership millions			

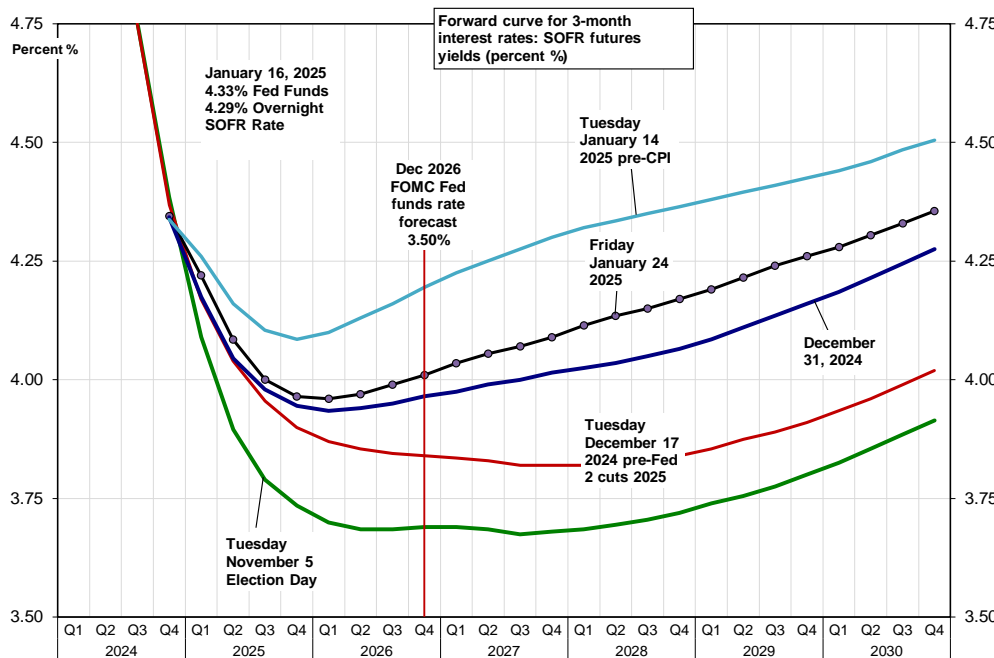


FEDERAL RESERVE POLICY

The Fed meets January 28-29, 2025 to consider its monetary policy. There will be a Powell press conference starting Wednesday January 29 at 230pm ET, and we think we can anticipate at least one question. The President took office Monday and has already started calling for lower interest rates. The President took office Monday and has already started calling for lower interest rates. For the record, the Fed funds rate is 4.5% down 100 bps from the 5.5% peak made at the July 25-26, 2023 meeting. Various FOMC members are talking tough on no more interest rate cuts without more progress on the Fed's 2.0 inflation goal (November core PCE inflation is 2.8% and December data are due Friday, January 31), but the President can be persuasive. Powell found reasons to cut rates three times in 2019 after being criticized by Trump. Trump said Thursday he thought he knew interest rates better than Fed officials, certainly much better than Powell does. If he disagrees he will let them know and expects the Fed will listen.

Selected Fed assets and liabilities						Change from 3/11/20 to Jan 22
Fed H.4.1 statistical release billions, Wednesday data	22-Jan	15-Jan	8-Jan	1-Jan	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4274.563	4274.615	4291.067	4291.106	2523.031	1751.532
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2229.838	2233.205	2233.262	2233.262	1371.846	857.992
Repurchase agreements	0.001	0.000	0.000	0.000	242.375	-242.374
Primary credit (Discount Window)	3.092	2.665	2.405	3.227	0.011	3.081
Factors draining reserves						
Bank Term Funding Program	0.247	1.333	3.351	4.412		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.940	1.949	1.955	1.962		
Main Street Lending Program	7.641	7.649	8.275	8.260		
Municipal Liquidity Facility	0.000	0.000	0.000	0.000		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.105	0.098	1.120	1.120	0.058	0.047
Federal Reserve Total Assets	6882.9	6885.3	6904.7	6902.9	4360.0	2522.864
3-month-Liber-% SOFR %	4.30	4.28	4.29	4.49	1.15	3.150
Factors draining reserves						
Currency in circulation	2352.459	2356.047	2366.173	2373.847	1818.957	533.502
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	665.485	651.187	620.531	721.892	372.337	293.148
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	123.981	119.977	185.144	473.460	1.325	122.656
Federal Reserve Liabilities	3551.694	3526.263	3572.214	4010.579	2580.036	971.658
Reserve Balances (Net Liquidity)	3331.196	3359.041	3332.435	2892.359	1779.990	1551.206
Treasuries within 15 days	62.262	36.997	72.540	61.662	21.427	40.835
Treasuries 16 to 90 days	219.145	241.106	225.590	236.055	221.961	-2.816
Treasuries 91 days to 1 year	449.828	453.140	442.049	442.471	378.403	71.425
Treasuries over 1-yr to 5 years	1456.811	1456.834	1465.828	1465.857	915.101	541.710
Treasuries over 5-yrs to 10 years	545.665	545.670	549.009	548.993	327.906	217.759
Treasuries over 10-years	1540.851	1540.868	1536.050	1536.069	658.232	882.619
Note: QT starts June 1, 2022	Change	1/22/2025	6/1/2022			
U.S. Treasury securities	-1496.216	4274.563	5770.779			
Mortgage-backed securities (MBS)	-477.608	2229.838	2707.446			

Fed Policy-key variables	December 2024 median Fed forecasts				Long Term
	2024	2025	2026	2027	
Fed funds	4.4	3.9	3.4	3.1	3.0
PCE inflation	2.4	2.5	2.1	2.0	2.0
Core inflation	2.8	2.5	2.2	2.0	
Unemployed	4.2	4.3	4.3	4.3	4.2
GDP	2.5	2.1	2.0	1.9	1.8



A 25 bps rate cut is forecast in June 2025.

Fed funds futures call Fed policy	
Current target: January 24 -- 4.50%	
Rate+0.17	Contract Fed decision dates
4.500	Feb 2025 Jan 29
4.430	Apr 2025 Adds Mar 19
4.250	Jul 2025 Adds May 7, Jun 18*
Last trade, not settlement price	
* Not strictly true, Jul 2025 has Jul 30 Fed date, so 1 day could be a new interest rate	

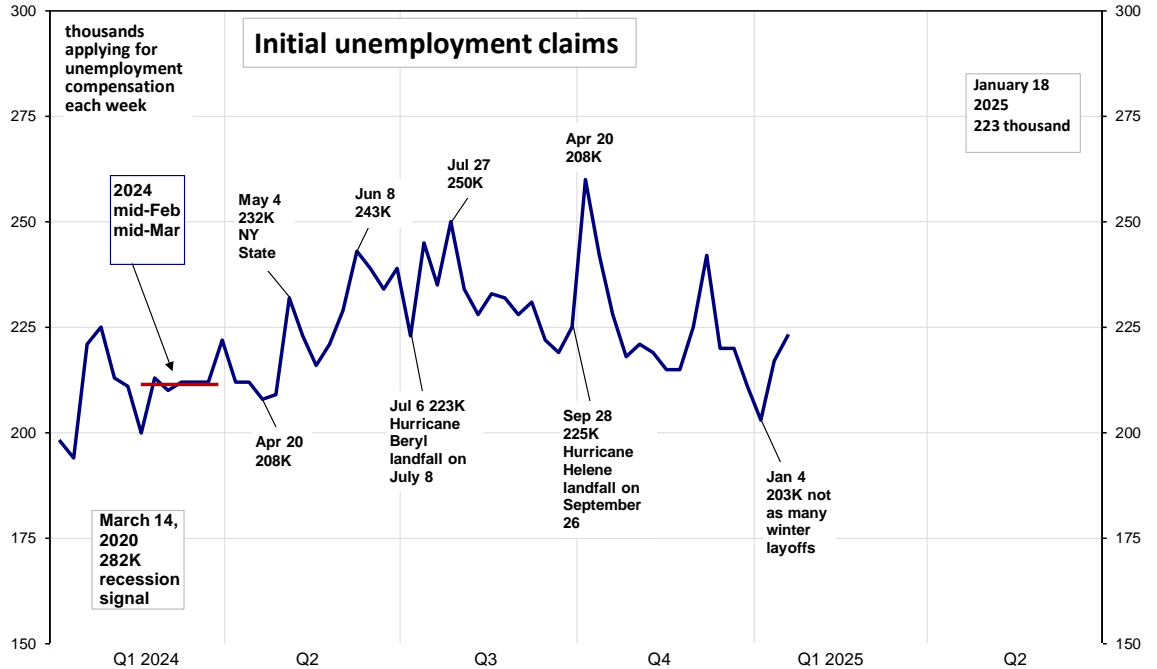
Next up: December PCE inflation report Friday, January 31

Monthly % Changes	2024											2023		2023	
	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct
Core CPI inflation	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.2
Core PCE inflation	0.2e	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1	0.1
Core PCE YOY	2.8e	2.8	2.8	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1	3.0	3.2	3.4	
Core CPI YOY	3.2	3.3	3.3	3.3	3.2	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0

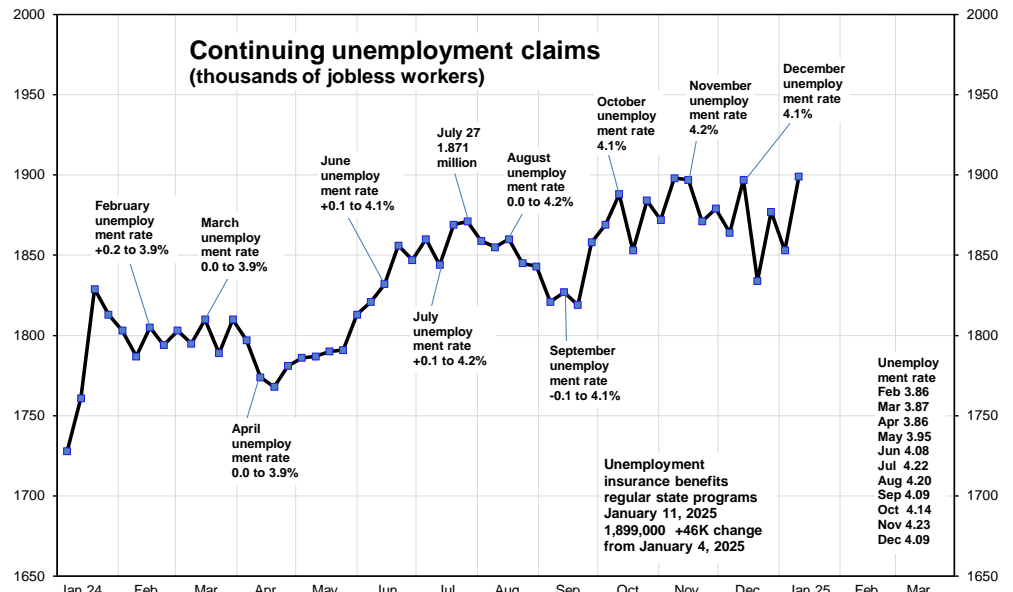
OTHER ECONOMIC NEWS

Americans receiving unemployment claims at new high (Thursday)

Breaking economy news. The weekly jobless claims statistics. First-time applications for unemployment benefits rose 6K to 223K in the January 18, 2025 week, but still no recession alarms will be ringing.

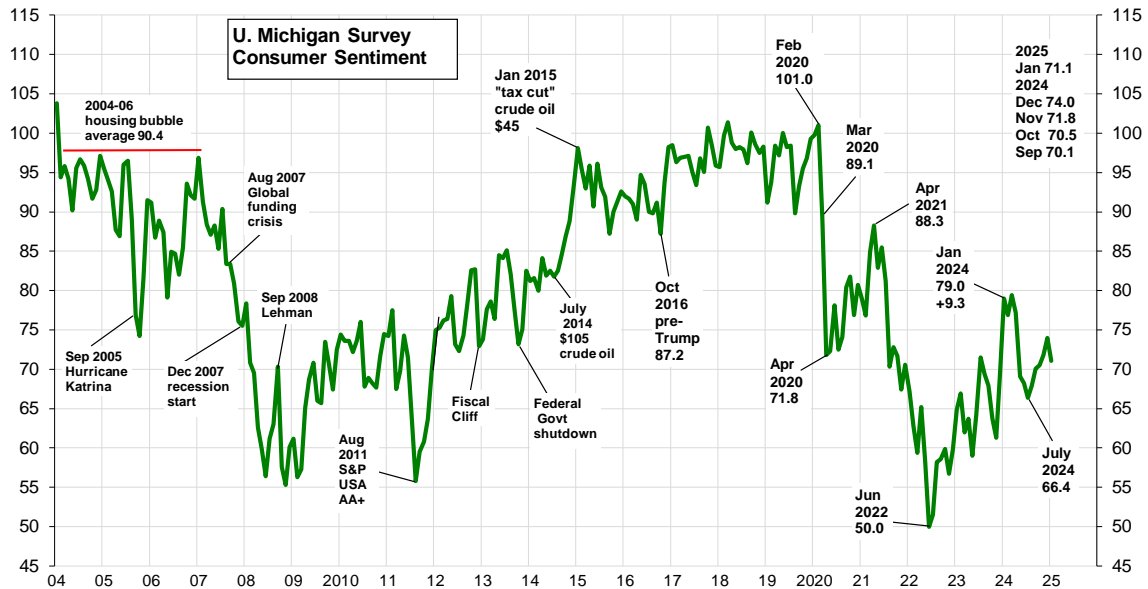


It sounds dramatic, the 46K jump in continuing unemployment claims to 1.899 million in the January 11, 2025 week, the highest level of Americans collecting jobless benefits since xxxx. But it just barely made it as continuing jobless claims were 1.898 million in the November 9 week. The January 11 week is the survey week for the January unemployment rate to be released Friday, February 7, so maybe the unemployment rate rises back a tenth to 4.2%. But there are other more important things going on in the report which will include updated population controls. Last year the Federal government said the population estimate in the U.S. went up to 341 million from the earlier 337 million estimate due to migration. Not sure how this will change with Trump 2.0.

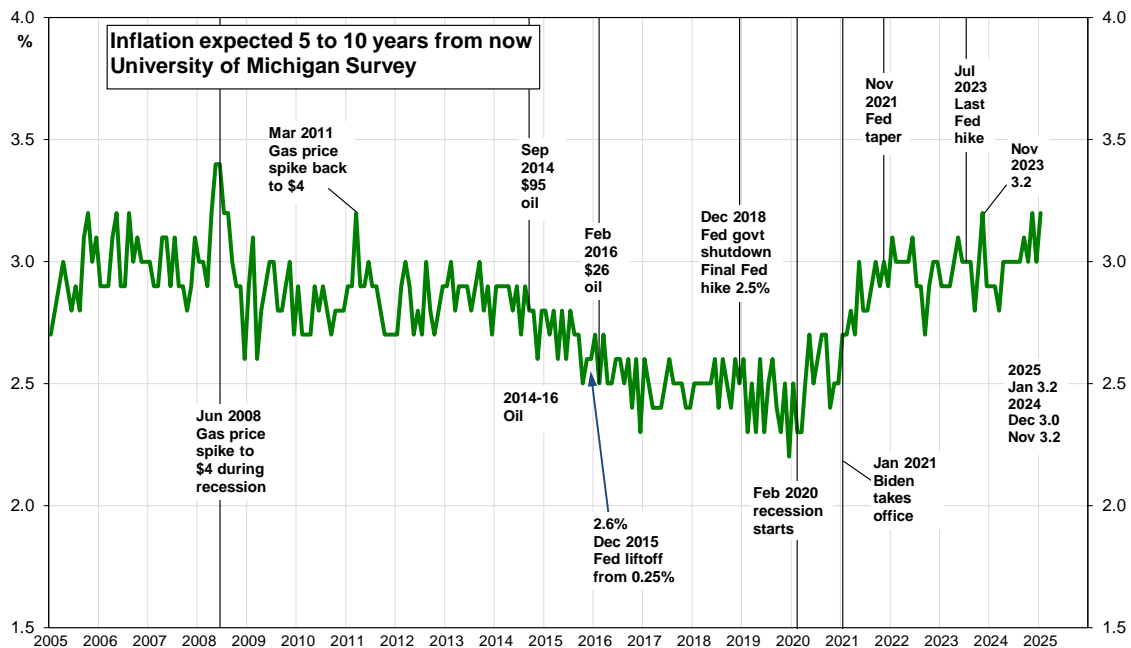


Michigan survey of the consumer (Friday)

Breaking economy news. The Michigan Index of Consumer Sentiment fell back to 71.1 in January from the bump in December to 74.0. Consumers are spending like the index is at 100.0. It is still hard to explain the collapse in sentiment in May 2024 of 8.1 points to 69.1.

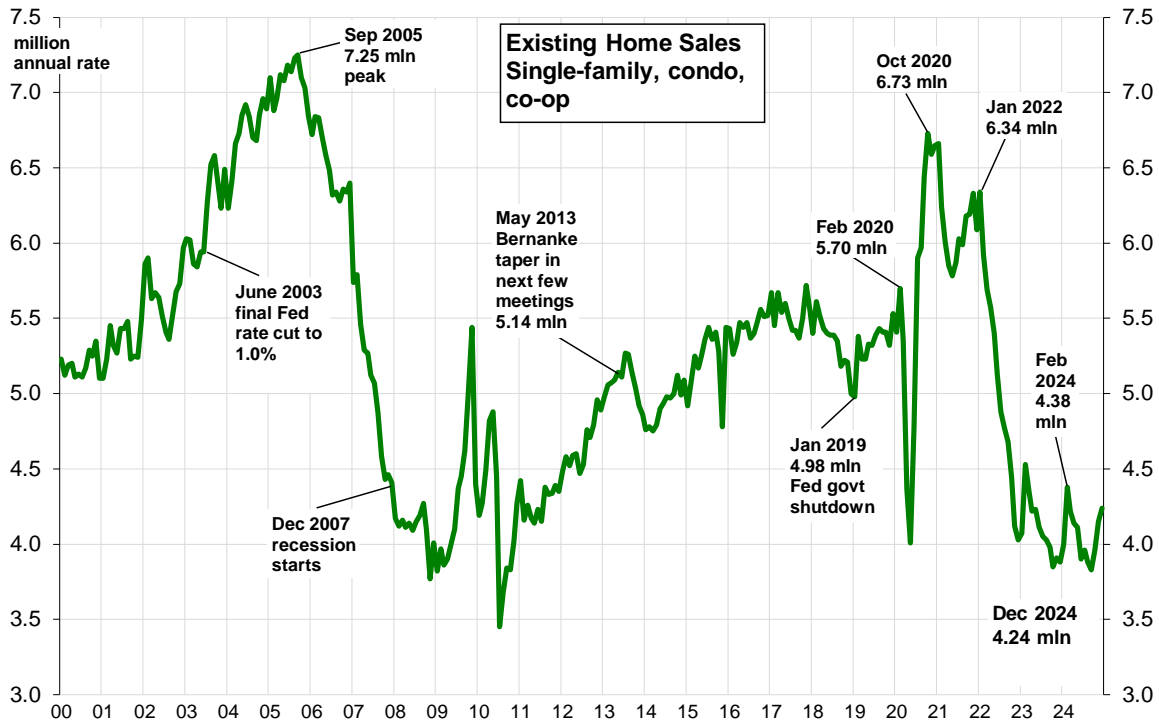


The consumer's read on the long-run inflation trend has been used by Fed officials over the years to justify their interest rate moves. 3.2 in November, 3.0 in December, and now 3.2 in January. The President's pro-growth agenda and tariffs on imported goods perhaps. All of this needs to be seen, and 3.0 to 3.2 is not that great of course. But then we are not a Fed policymaker.

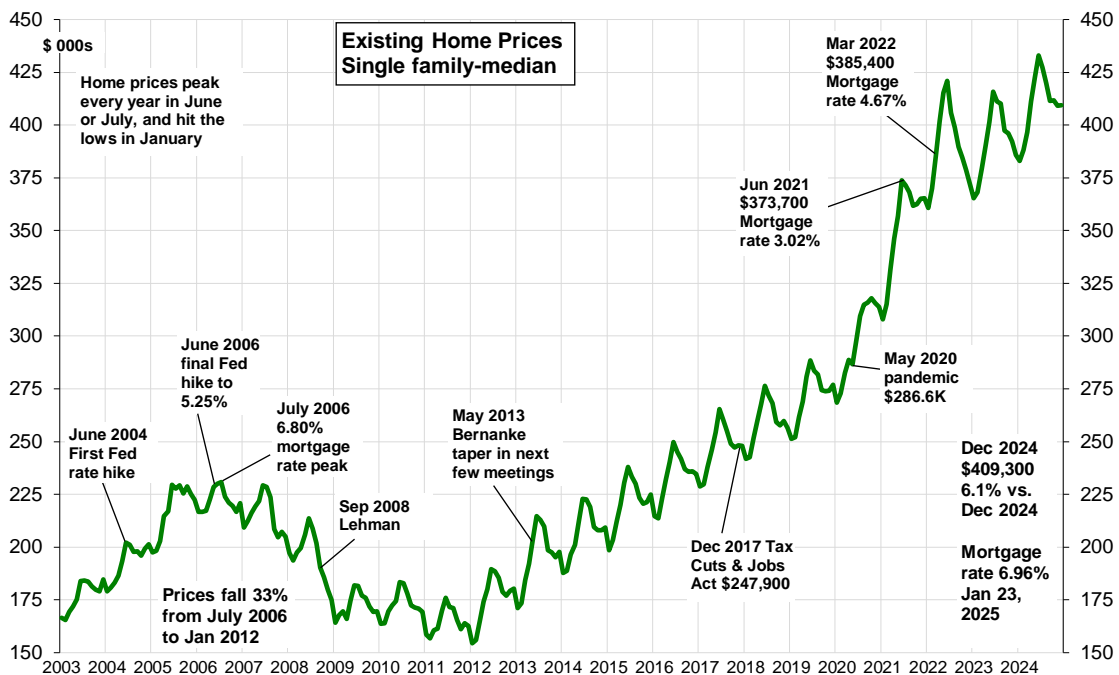


Existing home sales (Friday)

Breaking economy news. Existing home sales including condos increased 2.2% last month to 4.24 million at an annual rate. The sales rate is up from 3.96 million in October ahead of the elections. News headlines focused on the weak results for the entire year, but there has been improvement in the final two months of 2024.



Single-family existing home prices rose a little in December 2024 to \$409,300, it is 6.1% higher than a year ago where the high level of mortgage rates is not stopping the price bubble from expanding. Prices were steady mostly in 2023, but a new high was reached of \$432,900 during the summer peak selling season in June 2024. Prices normally drop in December, and the fact they did not could mean prices will set new records again in the summer of 2025.



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