

January 2025

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 01/31/2025

Global Overview

U.S. equities rebounded in January, as the S&P 500 reached another record high, largely led by strong economic data, resilient labor markets, and manufacturing expansion. The Federal Reserve reinforced their cautious approach to rate cutting in 2025, as rates were unchanged at 4.25%-4.50%, and analysts believe a March rate cut to be unlikely. Internationally, the MSCI EAFE posted the strongest returns in January, as a rate cut from the ECB and improved economic data proved to be a catalyst. Meanwhile, concerns over baby boomer generation retirements and target-date fund reallocations continue to influence asset flows, with \$84 trillion expected to shift generations by 2045.

U.S. Markets & Economy

Equities reversed their negative momentum in December and started the year strong with the S&P 500 reaching a new high in late January. Despite a late-month selloff to Nvidia, triggered by the launch of DeepSeek's competitive AI model, the broader large cap market was bolstered by performance within defensive sectors such as healthcare, and financials. The Conference Board Consumer Confidence index fell again this month, decreasing to 104.1 from an upwardly revised 109.5. The manufacturing sector expanded after 26 consecutive months in contraction (below 50%), as ISM Manufacturing PMI rose from 49.3 to 50.9, largely due to managers ramping up production to meet improved demand. Additionally, initial jobless claims fell to a seasonally adjusted 207,000 in late January, beating economist expectations of 220,000. The unemployment rate decreased from 4.2% to 4.1% as the U.S. added 143,000 jobs during the month of January. Positive performance to begin 2025 wasn't just limited to large caps as the Russell 2000, Russell 2000 Growth, and Russell 2000 Value all posted positive returns. Although some of this positive performance may be attributed to the, "January Effect" when historically small-cap stocks have performed well to start the year after year-end tax loss harvesting, positive performance was primarily attributed to economic resilience due to strong economic growth and attractive valuations. In the small cap space Growth outperformed Value as the Russell 2000 Growth's 3.2% return outpaced the Russell 2000 Value's 2.1% return.

After three consecutive rate cuts to end 2024, the Federal Reserve kept its target rate unchanged at 4.25%-4.50% in January. As inflation has remained persistent, economists believe Powell's comments about a slower approach to rate cuts in 2025 last month to have credence as the CME FedWatch tool indicates a low probability of rate cuts during the Fed's next meeting in March. Corporate spreads remained stable at 82 bps, while high yield spreads further narrowed from 292 to 268 bps. Treasury yields remained relatively stable during the month, as the 10-year and 30-year yields ended the month where they began at 4.6% and 4.8%, respectively. Similar to the improved investor sentiment seen in positive equity performance, domestic bond indices posted slight gains in January. This was amplified in the high yield space as the BofA ML High Yield Index posted a gain of 1.4%, compared to the Bloomberg Aggregate's 0.5% return for the month.

International Markets & Economy

The ECB cut interest rates by 25 bps to 2.75% in January, marking the fifth rate cut in six meetings. Markets are pricing in two to three more cuts this year amid concerns over potential U.S. tariffs against the European Union. EU GDP grew 0.9% in 2024, slightly higher than 0.8% in 2023. European Manufacturing PMI in January increased to 45.0 from last month's 41.9. German Manufacturing PMI rose to 45 in January from 42.5 in December. The Bank of Japan hiked rates by 25 bps to 0.5% in January, reaching the highest level since 2008. The MSCI EAFE index recorded a 5.3% return in January, largely due to rate cuts within the Euro area. The White House announced that the U.S. will impose a 25% levy on imports from Canada and Mexico, a 10% tariff on energy products from Canada, and an additional 10% tariff

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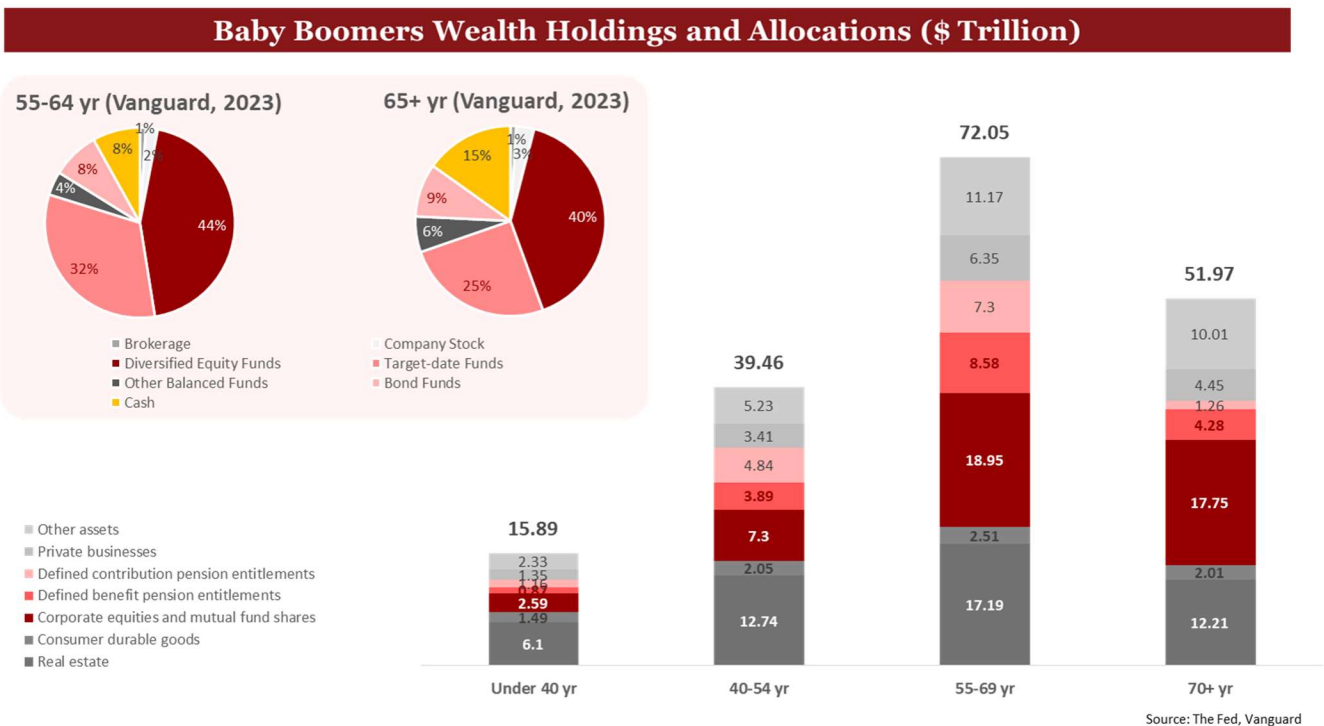
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on China. As a result of ongoing negotiations between Canada, Mexico, and the U.S., the proposed Tariffs were delayed until early March in exchange for agreed commitments from Canada and Mexico to help enhance border security. The Bank of Canada estimates the 25% tariff could hinder Canadian growth by as much as 2.5 percentage points in 2025, which would place the country in detraction. The MSCI Emerging Markets Index increased by 1.8% in January. Consensus estimates within the EM space anticipate earnings growth in excess of 10% in 2025. Prolonged underperformance within Emerging Markets over the past decade has contributed to the widening valuation gap in terms of traditional price-to-earnings and price-to-book ratios of Emerging Markets indices compared to their Developed market counterparts, potentially providing an attractive entry point.

In the News

The youngest baby boomers (the generation born between 1946 and 1964) will be over 60 this year. The baby boomer generation is the first U.S. generation to retire with significantly less emphasis on Defined Benefit plans as 75% of retirees do not have a pension plan. This shift, marks a major change in retirement planning, as previous generations relied heavily on employer-sponsored pensions for retirement income. The U.S. Population over the age of 55 have \$124tn assets in total, which is close to 70% of the nation's household wealth by end of 3Q24, according to the Fed. Market concerns over asset pricing discrepancy within the age demographic emerged a decade ago when the boomer generation, who accounted for 21% of the population at the time, began withdrawing from their 401ks or switching from equities into more conservative assets. Despite Gen X (19.6%) and millennials (21.7%) beginning to save six and ten years earlier in their careers on average than boomers, their contributions are still far from enough to offset the outflows resulting from retirement of the baby boomer generation. Market observers believe the proliferation of Target Dated Funds has increased equity selloff among boomers as typical glide paths gradually shift assets into bonds from equities. As of year-end 2023, target-date strategies recorded \$3.5tn of AUM, which accounted for 24% of total DC plan assets. Longer life expectancy, later retirement age, high inflation, and increasing volatility in capital markets also push TDF managers to delay their participants' reallocations. Additionally, it is anticipated that around \$84tn will change hands through 2045 during the *Great Wealth Transfer*, of which 63% will come from the baby boomer generation.

Chart of the Month



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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	3.53	5.46	3.53	21.40	9.54	12.08	10.53
	Bloomberg US Agg Bond TR USD	0.53	(0.07)	0.53	2.07	(1.52)	(0.60)	1.19
	Russell 3000 TR USD	3.16	6.66	3.16	26.32	11.36	14.60	13.21
	DJ Industrial Average TR USD	4.78	7.10	4.78	18.93	10.45	11.79	12.50
	NASDAQ Composite PR USD	1.64	8.47	1.64	29.43	11.29	16.49	15.53
	MSCI EAFE NR USD	5.26	2.28	5.26	8.65	5.12	6.25	5.69
	FTSE Treasury Bill 3 Mon USD	0.38	1.18	0.38	5.36	4.18	2.59	1.83
	Bloomberg Commodity TR USD	3.95	5.44	3.95	9.11	2.49	9.25	2.02
Domestic Equities	S&P 500 TR USD	2.78	6.22	2.78	26.38	11.91	15.17	13.76
	S&P MidCap 400 TR	3.85	4.95	3.85	20.37	8.88	11.76	10.22
	S&P SmallCap 600 TR USD	2.91	5.09	2.91	16.46	5.51	9.87	9.66
	Russell 1000 TR USD	3.18	6.76	3.18	26.71	11.69	14.97	13.54
	Russell 1000 Growth TR USD	1.98	9.55	1.98	32.68	14.57	18.90	17.18
	Russell 1000 Value TR USD	4.63	3.70	4.63	19.54	8.08	10.15	9.42
	Russell Mid Cap TR USD	4.25	5.47	4.25	21.99	7.96	11.02	10.26
	Russell Mid Cap Growth TR USD	6.38	13.07	6.38	30.60	11.21	12.65	12.42
	Russell Mid Cap Value TR USD	3.51	3.00	3.51	19.18	6.63	9.78	8.63
	Russell 2000 TR USD	2.62	4.47	2.62	19.09	5.62	8.67	8.45
	Russell 2000 Growth TR USD	3.16	6.33	3.16	22.73	6.23	7.76	8.68
	Russell 2000 Value TR USD	2.05	2.57	2.05	15.52	4.71	8.93	7.82
International Equities	MSCI ACWI Ex USA NR USD	4.03	1.08	4.03	10.89	3.45	5.50	5.23
	MSCI EAFE NR USD	5.26	2.28	5.26	8.65	5.12	6.25	5.69
	MSCI EAFE Growth NR USD	5.41	2.13	5.41	6.31	2.88	5.22	6.27
	MSCI EAFE Value NR USD	5.10	2.43	5.10	11.15	7.28	6.92	4.86
	MSCI Japan NR USD	1.56	1.88	1.56	5.15	5.14	5.42	6.17
	MSCI AC Asia Ex Japan NR USD	0.74	(2.42)	0.74	19.30	(0.30)	3.66	4.36
	MSCI Europe NR USD	6.89	2.52	6.89	8.92	5.10	6.85	5.68
	MSCI United Kingdom NR USD	5.21	3.73	5.21	14.68	6.78	6.26	4.45
	MSCI EAFE Small Cap NR USD	3.45	1.14	3.45	7.09	0.36	3.60	5.87
MSCI EM NR USD	1.79	(2.00)	1.79	14.75	(0.71)	3.04	3.76	
Fixed Income	Bloomberg US Govt/Credit TR USD	0.53	(0.18)	0.53	1.95	(1.61)	(0.58)	1.29
	Bloomberg US Govt/Credit Interm TR USD	0.57	0.57	0.57	3.37	0.51	0.69	1.60
	Bloomberg US Govt/Credit Long TR USD	0.42	(2.46)	0.42	(2.25)	(7.53)	(4.16)	0.40
	ICE BofA US High Yield TR USD	1.38	2.10	1.38	9.67	4.35	4.33	5.15
	Credit Suisse HY USD	1.38	2.16	1.38	9.20	4.47	4.31	5.13
	Morningstar LSTA US LL Index TR USD	0.69	2.10	0.69	8.97	7.12	5.88	5.19
	FTSE WGBI NonUS USD	0.44	(2.55)	0.44	(2.49)	(7.06)	(4.94)	(1.33)
	Bloomberg Gbl Agg Ex USD TR USD	0.59	(2.26)	0.59	(1.40)	(5.47)	(3.40)	(0.66)
REITs	FTSE Nareit All REITs TR	1.17	(3.57)	1.17	10.91	(1.53)	2.73	5.13
	Wilshire US REIT TR USD	1.02	(1.61)	1.02	14.55	0.24	4.60	5.14

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

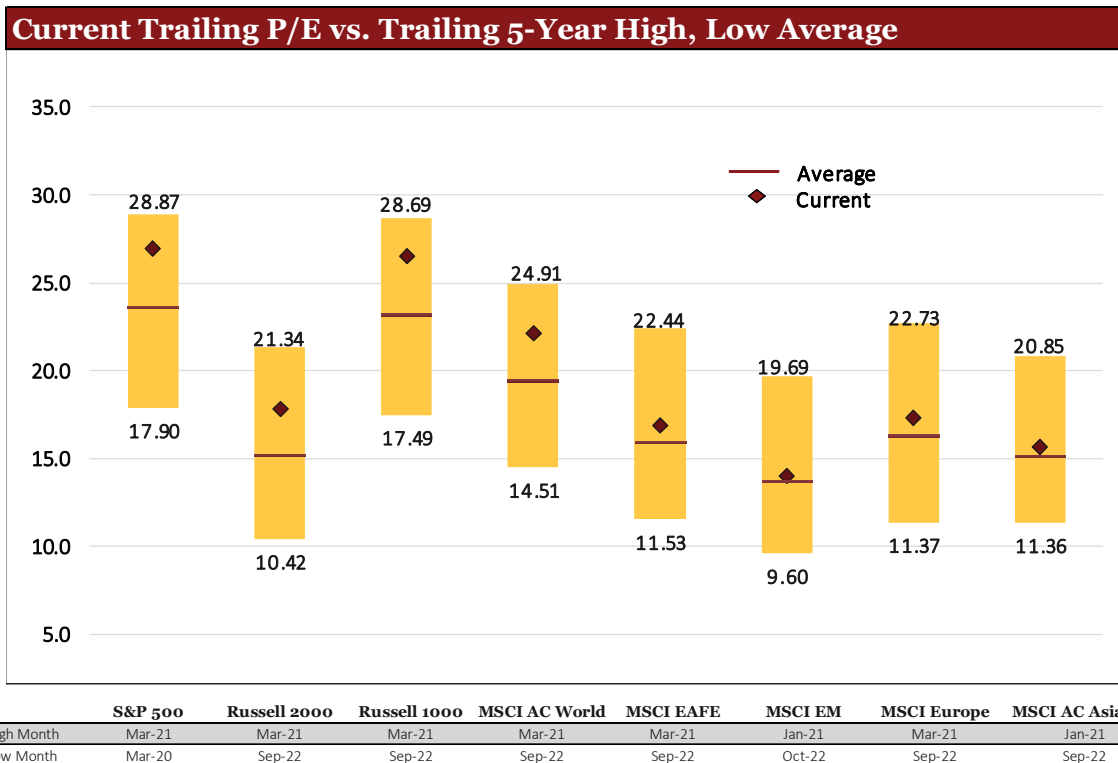
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Source: Morningstar; Data as of 01/31/2025

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2025 ¹	2026 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	2.30	2.40	2.10	4.10	4.58	-	-	2.90
China	1.60	4.70	4.40	5.10	1.64	7.24	7.17	0.10
Japan	0.30	1.50	0.60	2.40	1.25	154.91	146.26	3.60
United Kingdom	0.00	1.70	1.30	4.40	4.49	1.24	1.27	2.50
Euro Area	0.00	1.30	1.50	6.30	3.00	1.04	1.09	2.50
Germany	-0.20	0.70	1.20	6.20	2.41	1.04	1.09	2.30
France	-0.10	0.90	1.00	7.40	3.13	1.04	1.09	1.40
Italy	0.00	0.90	1.20	6.20	3.50	1.04	1.09	1.50
Canada	0.30	2.00	2.00	6.70	3.03	1.45	1.34	1.80
India	1.10	6.90	6.80	8.30	6.73	86.27	83.11	5.22
Mexico	-0.60	1.20	1.60	2.40	9.96	20.63	17.18	4.21
Brazil	0.90	2.30	1.90	6.20	14.77	5.84	4.94	4.83

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

4. Germany, France, and Italy currency exchange rates are taken at the Euro Area exchange rate

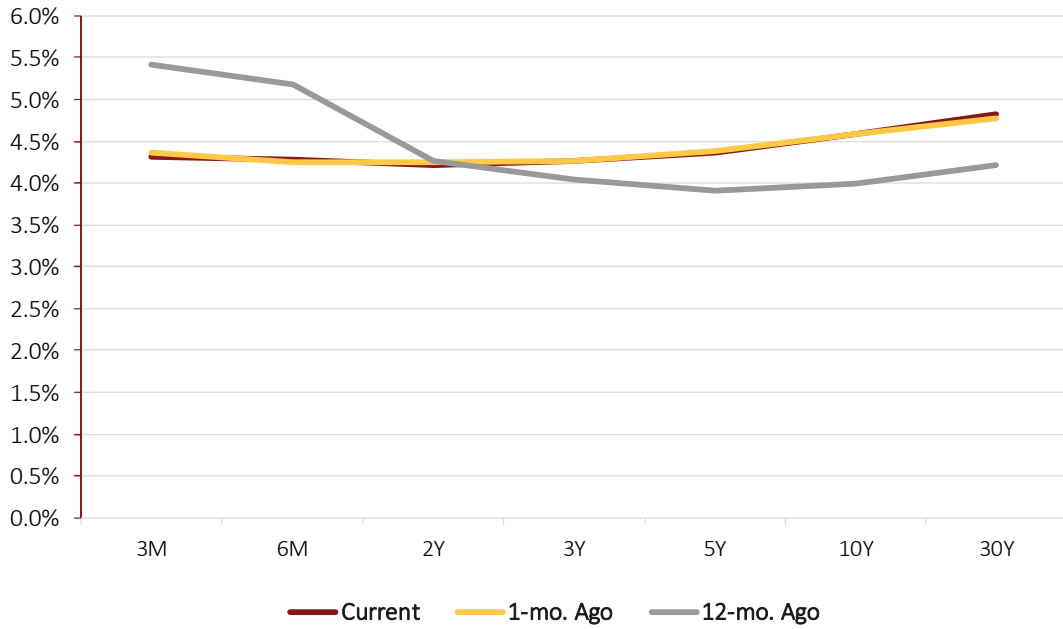
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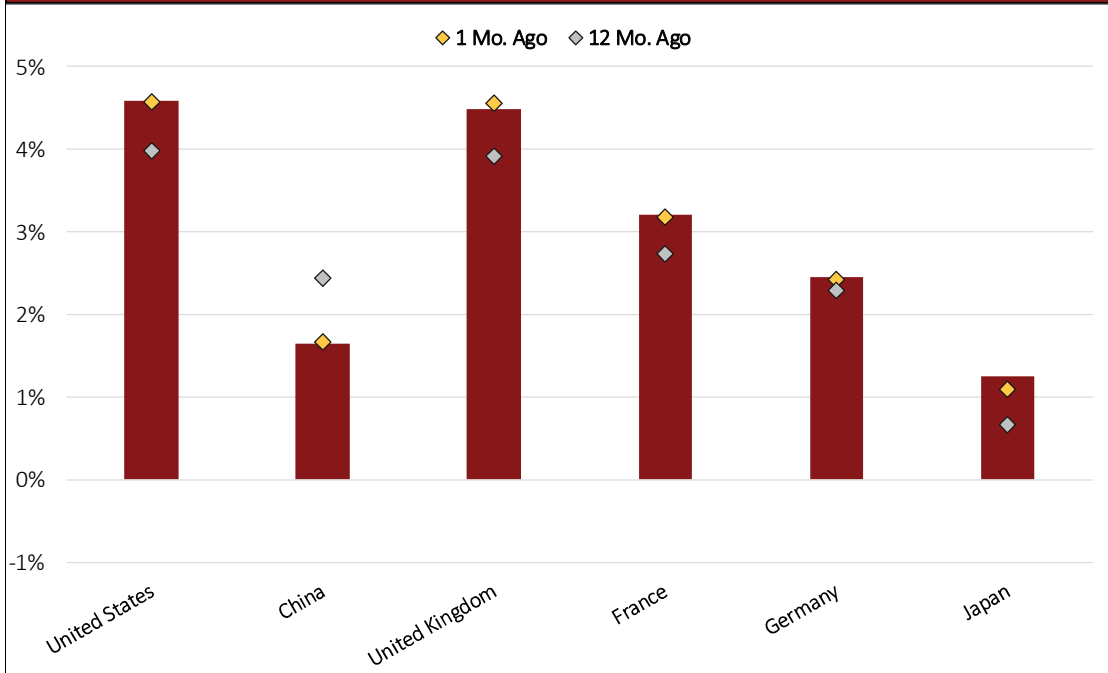
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U.S. Treasury Yield Curves



Source: Federal Reserve Bank; Data as of 01/31/2025

10-Year Sovereign Yields



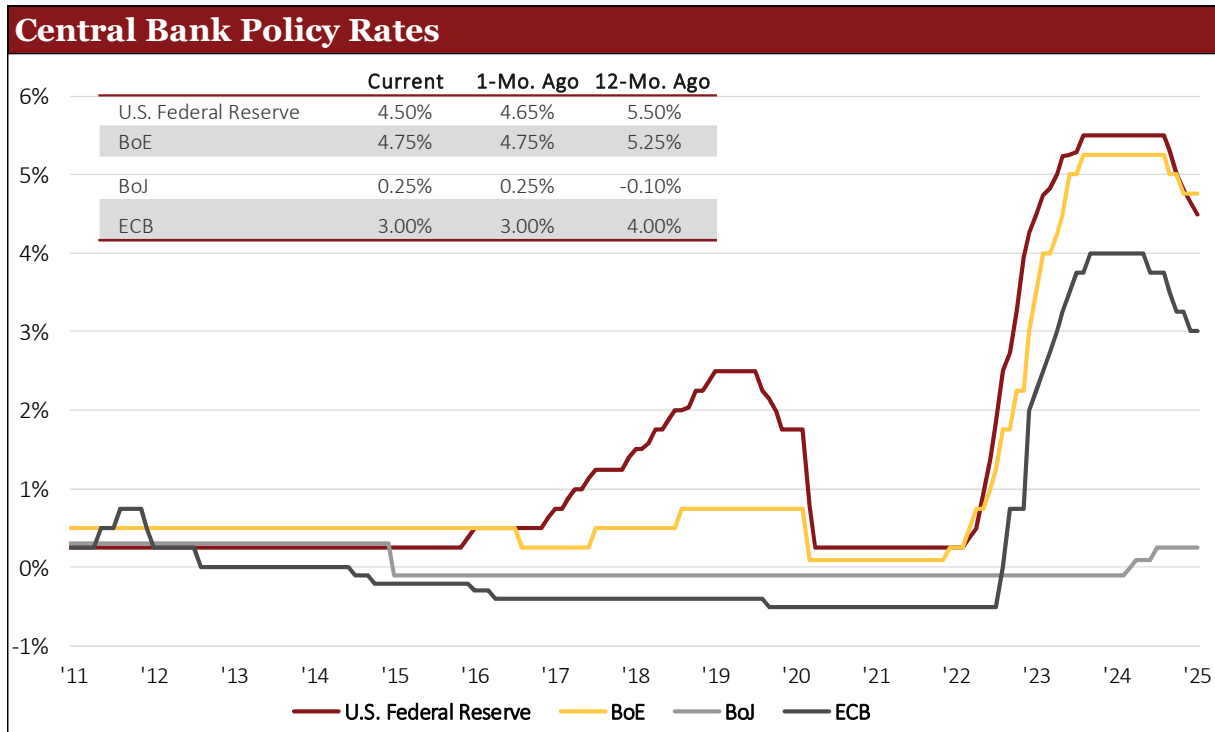
Source: Trading Economics; Data as of 01/31/2025

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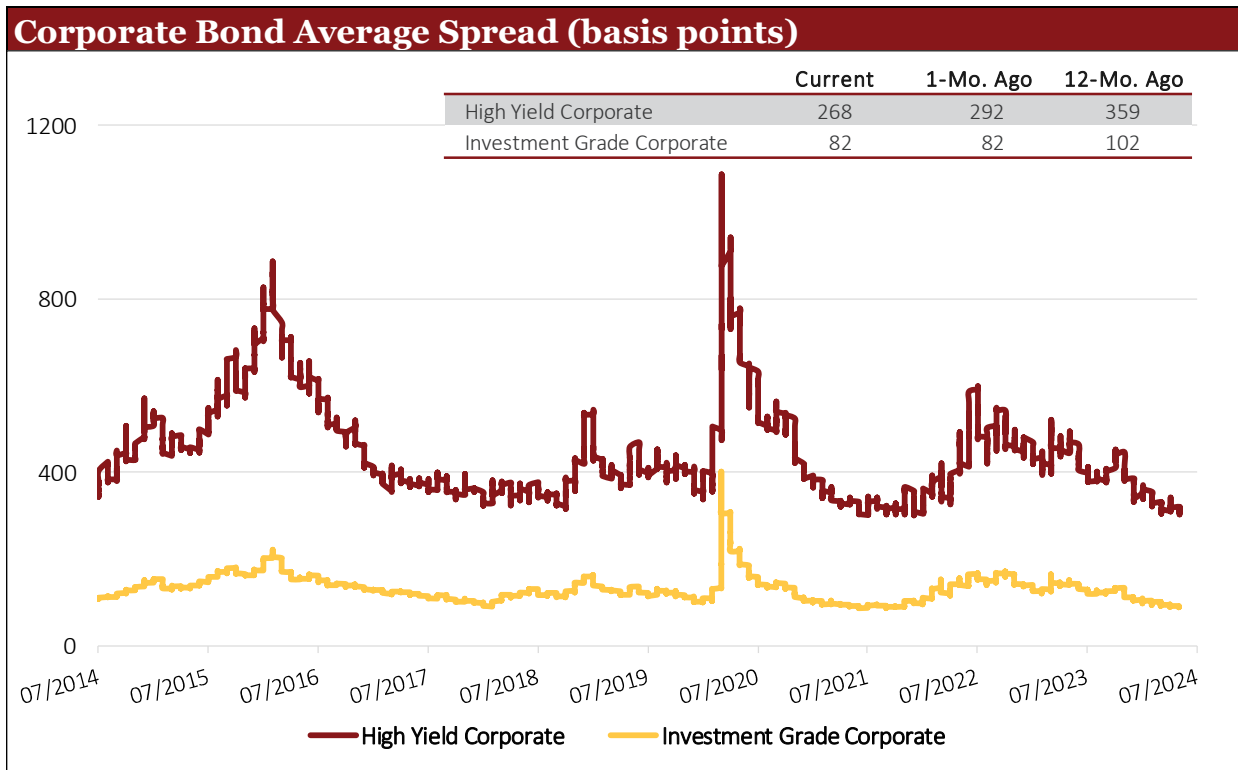
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Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics; Data as of 01/01/2025



Source: Federal Reserve Bank, Bank of America; Data as of 01/31/2025