

PERSPECTIVES AND POSITIONS

By James Dykstal, CFA, Portfolio Manager, February 2025

This is a summary of our views on the economy and markets based on data through January 2025.

Economy

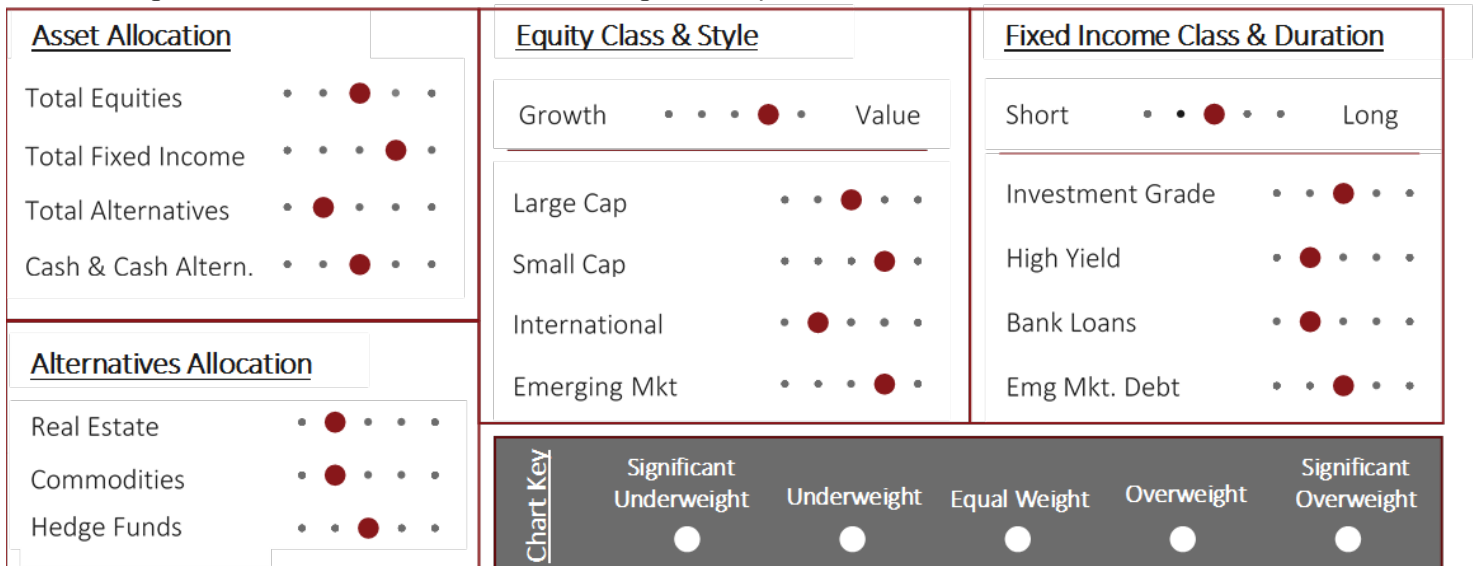
- U.S. GDP Growth – Our expectation that economic growth would slow is coming to fruition as preliminary fourth quarter GDP posted at 2.3%. But data suggest that inflation is not slowing as fast as expected, as evidenced by the 10-year Treasury opening October at 3.80 and ending the year at 4.57%. Yields remained stable through January with the 10-year finishing the month again at 4.57%.
- Inflation – Headline inflation (including food and energy) has proven to be stubborn. The latest print in December was 2.9% (September was 2.4%), due primarily to rising energy costs. Core inflation (excluding food and energy) was 3.2% in December versus 3.3% in September, driven by continued high shelter costs.
- Employment/Wages –The unemployment rate has remained steady but job creation has been slowing in 2024. The December print for unemployment was 4.1%, equal to the September rate.
- Interest rates – The Fed cut rates 50 basis points in September, and then by 25 basis points two more times in 2024. At their meeting this January, the Fed passed on making a rate cut and maintained the status quo. The futures market is now pricing in the possibility of two more rates cuts by the end of 2025.

Markets

- Fixed Income – Interest rates increasing during the fourth quarter was a negative for bonds as higher rates are a headwind to bond prices. Conversely, coupons available on investment grade bonds look attractive.
- Equities – Equity markets have been somewhat volatile in the fourth quarter and into January. The so-called “mega” cap stocks have been volatile in January and it looks like smaller “unloved” stocks have benefitted from investor rotation.
- Alternatives – We continue to see valuations in real estate struggle as higher rates impact valuations of real estate properties. At some point in 2025 or later, opportunities for investment will present themselves.

TACTICAL POSITIONS

The following is our current Model Portfolio Positioning Summary:



¹ Provided by our affiliate, Discretionary Management Services (DMS), LLC