



Weekly Market Commentary January 13, 2025

The Markets

Bond yields are rising—and they have investors' attention.

Last year, the United States Federal Reserve (Fed) lowered the federal funds rate by one percent. (The federal funds rate is the interest rate the Fed charges banks. It influences other interest rates.) This shift in Fed policy made a lot of people happy.

- Companies, business owners, and consumers cheered because Fed rate cuts typically lower borrowing costs. As a result, rates on business loans, home equity loans, auto loans and credit cards tend to move lower.
- Stock investors were enthusiastic because lower borrowing costs can reduce companies' expenses and increase profits, and that can lift stock prices higher. Since the stock market moves in anticipation of future events, rate cut expectations are already reflected in many companies' stock prices.
- Prospective homebuyers were optimistic. Fixed mortgage rates are linked to the yield of the 10-year U.S. Treasury note, and they hoped it might also move lower.

Bondholders were more skeptical. Even as the Fed was cutting the federal funds rate, yields on longer maturities of U.S. government bonds were moving higher—not lower. One reason is that economic data—including last week's strong jobs report—continue to confirm that economic growth and inflation are exceeding expectations. As a result, the Fed may be inclined toward fewer rate cuts in 2025.

"For stocks, higher bond yields imply no increase in price/earnings ratios and possibly some contraction from current levels," reported Randall W. Forsyth of *Barron's*. Changing expectations for Fed actions and company performance is likely to shift analysts' outlook for stock market performance.

There is a second reason for the divergence in Fed actions and government bond yields, according to economist Mohamed El-Erian, a columnist for *Bloomberg*. He explained that key

government bond yields in advanced economies “are widely regarded as the most accurate gauge of the economic outlook, including growth, inflation and central bank policies.” In his opinion, “Yield increases show that investors are closely watching whether advanced economies have the ability to deal with high debt and rising borrowing costs.”

Last week, major U.S. stock indices moved lower, and yields on longer maturities of U.S. Treasuries continued to rise.

Data as of 1/10/25	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	-1.9%	0.9%	21.8%	7.7%	12.3%	11.1%
Dow Jones Global ex-U.S. Index	-1.1	-1.3	3.5	-2.0	1.3	2.5
10-year Treasury Note (yield only)	4.8	N/A	4.0	1.8	1.8	1.9
Gold (per ounce)	1.5	2.9	32.4	14.4	11.6	8.2
Bloomberg Commodity Index	4.1	3.8	5.1	0.5	4.9	0.1

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

HOW MUCH DO YOU KNOW? Last year, Pew Research asked adults across the United States how much they knew about personal finance, a topic that includes “managing your money as well as saving and investing. It encompasses budgeting, banking, insurance, mortgages, investments, and retirement, tax, and estate planning,” reported Will Kenton of Investopedia.

More than half (54 percent) of those who participated in the survey said they knew a great deal or a fair amount about personal finance. However, the results varied widely depending on the demographic attributes considered. For example, knowledge about money appears to increase with age, reported Khadijah Edwards of Pew Research Center. For example:

Ages 18 to 29:	41 percent know at least a fair amount
Ages 30 to 49:	47 percent know at least a fair amount
Ages 50 to 64:	60 percent know at least a fair amount
Ages 65 and older:	67 percent know at least a fair amount

Extrapolating that result suggests that about two-thirds of Americans may know a fair amount about personal finance as they approach retirement. Many survey participants learned what they knew about money from family and friends. Others said they relied on:

- The internet,
- A college or university course,
- Media (news, documentaries, and books), and
- Elementary or high school classes.

When asked about various issues related to finances, respondents were more confident in their ability to accomplish some tasks than others. For example, participants were confident they could:

- Find their credit report 75 percent
- Make a monthly budget 59 percent
- Develop a plan to pay off debt 57 percent
- Create a plan to save money 56 percent
- Build an investment plan to grow wealth 27 percent

If you have friends or family members who would benefit from knowing more about how to manage, save, and invest money, gifting a subscription to a personal finance publication could make a difference. You're also welcome to share our contact information. We help people pursue their financial goals.

Weekly Focus – Think About It

“One martini is all right. Two are too many, and three are not enough.”

—James Thurber, *American cartoonist, writer, humorist, journalist, and playwright.*

Best regards,

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.

* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.

- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- * The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
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