



Summary

Both the DJIA and NASDAQ decreased 0.5% and the S&P 500 dropped 0.2% last week. Economic data last week indicated continued issues with high inflation, further cementing the market's belief that the FOMC will not be cutting interest rates soon. The ISM Manufacturing Index rose to 50.9%, making January the first time in 26 months that the sector has shown expansionary activity. The ISM Services Index fell to 52.8%. This sector is experiencing expansionary conditions,

although its growth has decelerated recently. Despite high interest rates, construction spending increased 0.5% in December (higher than expected) leaving total construction spending up 4.3% year-over-year. Factory orders decreased 0.9% month-over-month in December, following a 0.8% decline in November. Job openings decreased to 7.6 million in December and were down 1.3 million year-over-year, as reported by the JOLTS survey. The Trade Deficit widened to -\$98.4 billion due to large

import increases in December. This jump in imports is likely an attempt to avoid potential tariffs in 2025. The January Employment Report was strong overall, showing a dip in the unemployment rate to 4.0%. Nonfarm payrolls increased by 143,000, and average hourly earnings were up 0.5%. Consumer credit increased \$40.8 billion in December, following a -\$5.4 billion decline in November, despite high interest rates.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
ISM Manufacturing Index (Jan – Sun 10:00)	50.9%	49.1%	
Construction Spending (Dec – Sun 10:00)	+0.5%	+0.2%	
Factory Orders (Dec – Mon 10:00)	-0.9%	-0.3%	
JOLTS - Job Openings (Dec – Mon 10:00)	7.600M	NA	
Trade Balance (Dec – Tue 08:30)	-\$98.4B	-\$98.0B	
ISM Services (Jan – Tue 10:00)	52.8%	53.9%	
Productivity-Prel (Q4 – Wed 08:30)	+1.2%	+0.8%	
Unit Labor Costs-Prel (Q4 – Wed 08:30)	+3.0%	+2.6%	
Initial Claims (02/01 – Wed 08:30)	219K	213K	
Continuing Claims (01/25 – Wed 08:30)	1,886K	NA	
Nonfarm Payrolls (Jan – Thu 08:30)	143K	155K	
Nonfarm Private Payrolls (Jan – Thu 08:30)	111K	163K	
Avg. Hourly Earnings (Jan – Thu 08:30)	+0.5%	+0.3%	
Unemployment Rate (Jan – Thu 08:30)	4.0%	4.1%	
Average Workweek (Jan – Thu 08:30)	34.1	34.3	
U of Michigan Consumer Sentiment - Prelim (Feb – Thu 10:00)	67.8	71.3	
Consumer Credit (Dec – Thu 15:00)	-\$40.8B	\$13.4B	
Next Week: Indicator	Consensus Expectation*	Prior	Comment
CPI (Jan – Tue 08:30)	+0.3%	+0.4%	
Core CPI (Jan – Tue 08:30)	+0.3%	+0.2%	
Treasury Budget (Jan – Tue 14:00)	NA	-\$87.0B	
PPI (Jan – Wed 08:30)	+0.2%	+0.2%	
Core PPI (Jan – Wed 08:30)	+0.3%	+0.0%	
Initial Claims (02/08 – Wed 08:30)	217K	219K	
Continuing Claims (02/01 – Wed 08:30)	NA	1,886K	
Retail Sales (Jan – Thu 08:30)	+0.0%	+0.4%	Retail Sales ex-auto: +0.3%
Export Prices (Jan – Thu 08:30)	NA	+0.3%	Export Prices ex-ag: NA
Import Prices (Jan – Thu 08:30)	NA	+0.1%	Import Prices ex-oil: NA
Industrial Production (Jan – Thu 09:15)	+0.3%	+0.9%	
Capacity Utilization (Jan – Thu 09:15)	77.7%	77.6%	
Business Inventories (Dec – Thu 10:00)	+0.1%	+0.1%	

*Sources: www.briefing.com and www.federalreserve.gov



Economic Review

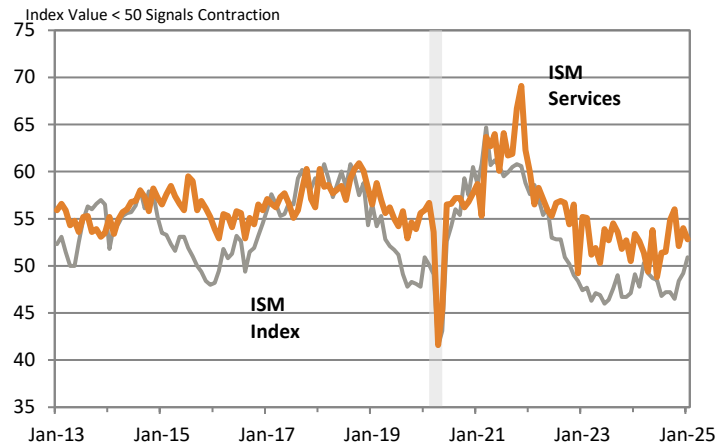
The ISM MANUFACTURING INDEX rose to 50.9% in January, from 49.2% in December. Readings above 50% indicate the sector is in an expansionary period rather than a contractionary period, and January represents the first expansionary period after 26 months of contraction. All indexes except for Backlog of Orders were expansionary in January, with the Production Index and the Employment Index newly rising above the 50% threshold. If this measure remains above 50% in the coming months, this may indicate a much needed rebound for the sector. The ISM NON-MANUFACTURING INDEX fell to 52.8% in January, following a downwardly revised 54.0% reading in December. The sector is still showing expansionary activity but is slowing down. The Business Activity/Production Index fell to 54.5, and the New Orders Index fell to 51.3, both slowing down expansion from December.

The December TRADE BALANCE indicated the deficit widened from -\$78.2 billion to -\$98.4 billion in December. This change was driven primarily by a large increase in imports in December, up \$12.4 billion from November. All exports, including automotive goods

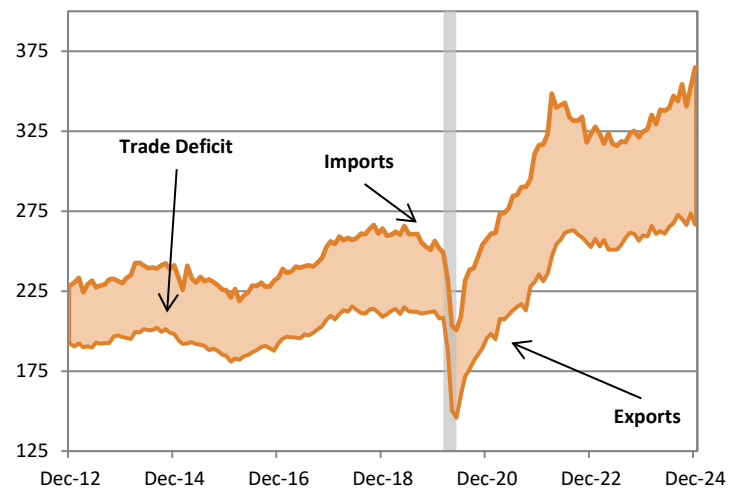
and capital goods, fell in December; while all imports, except automotive goods, increased. This jump in imports may have occurred to preempt future tariff actions that are expected as the Trump administration re-enters office.

The UNEMPLOYMENT RATE fell to 4.0% in January, slightly less than December's reading of 4.1%. Persons unemployed for 27 weeks or more made up 21.1% of those unemployed, compared to 22.4% in December, and the labor force participation rate increased by 0.1 percentage point to 62.6%. This indicates that the unemployment rate, the number of people unemployed, and the duration of unemployment fell in January. January non-farm payrolls rose by 143,000, increasing the 3-month average to 237,000 from 204,000. Private sector payrolls increased 111,000 following a 273,000 increase in December. Average hourly earnings increased 0.5% in January, up from December. Average hourly earnings rose 4.1% in the 12-month period ending in January 2025. Overall, the January Employment Report indicates a healthy labor market with fewer people becoming unemployed or staying unemployed.

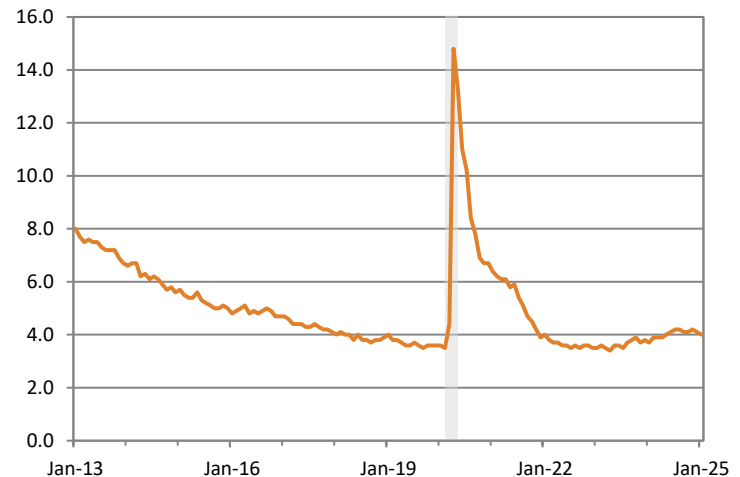
ISM Index and ISM Services



U.S. Trade Balance \$ Billions



Unemployment Rate





Fed Speeches

Following the January FOMC meeting, the federal funds rate target was left unchanged in order to maintain downward pressure on inflation. Vice Chair Philip Jefferson spoke at Lafayette College to share his outlook on the U.S. economy and his views on appropriate monetary policy.

Vice Chair Jefferson indicates that he believes the economy is starting the year in a strong position with expectations that inflation will continue to slowly fall. He notes that labor market conditions remain solid, consumer spending has remained resilient, and household spending is growing at rates higher than anticipated. Vice Chair Jefferson, despite currently stable economic conditions, reaffirmed

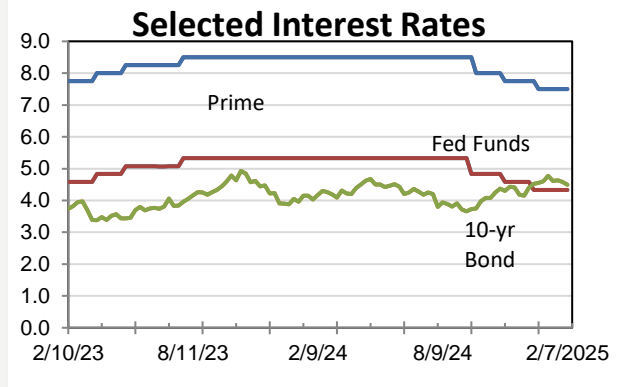
the importance of a cautious policy approach.

"As long as the economy and labor market remain strong, I see it as appropriate for the Committee to be cautious in making further adjustments."

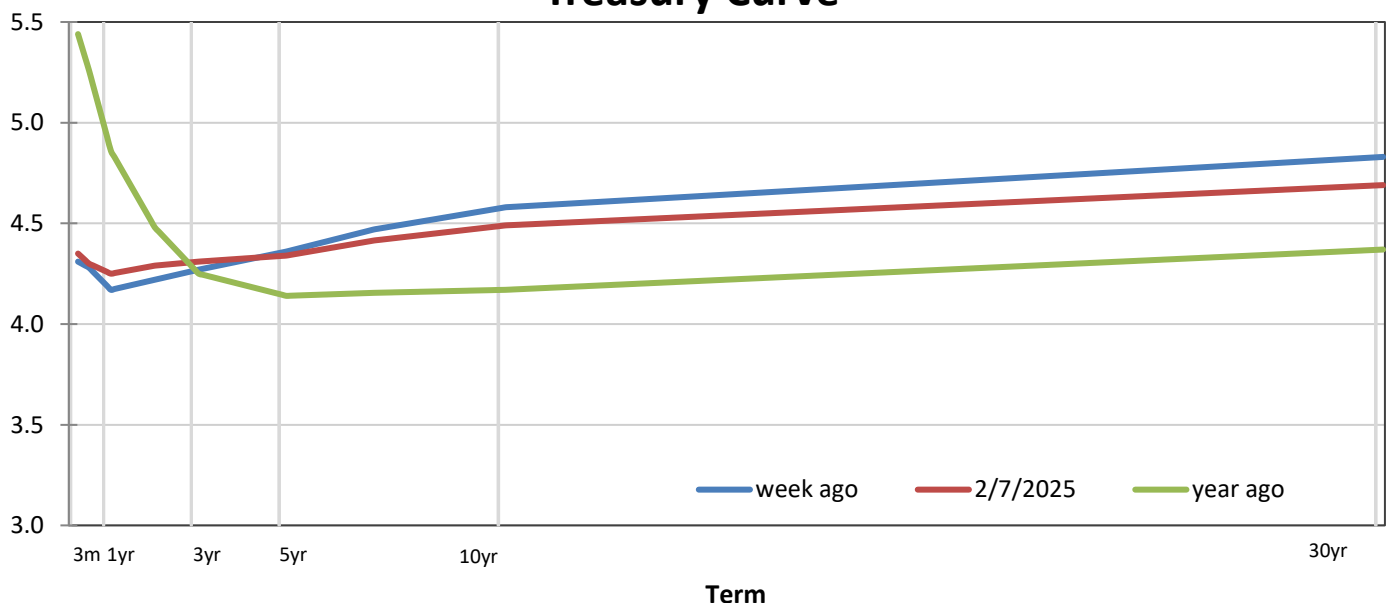
Vice Chair Jefferson concluded by stressing the need to carefully monitor economic conditions to ensure inflation continues to fall while maintaining a stable labor market.

Financial Markets

The stock markets did poorly this week, reacting to the threat of potential tariffs and persistently high inflation. The Dow Jones Industrial Average fell 0.5%, the S&P 500 fell 0.2%, and the NASDAQ decreased 0.5%. Long-term treasury yields steadily decreased this week due to continued uncertainties about a potential trade war, and small fluctuations occurred in short-term treasury rates but they remained depressed overall. The 30-year Conventional Mortgage rate decreased slightly to 6.89%. The price of oil fell slightly to \$71.00/barrel. Gold prices increased 2.2%, replacing last week's price with a new all-time high.



Treasury Curve





Interest Rate Forecast*

During the Fed's January policy meeting, the Federal Open Market Committee (FOMC) left the federal funds target rate unchanged at 4.25% to 4.50% while continuing to reduce its holding of Treasury securities. In the statement released following the meeting, the FOMC said, "Recent indicators suggest that economic activity has

continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and

labor market conditions remain solid. Inflation remains somewhat elevated." The description of the inflation

assessment was changed to indicate that additional disinflationary progress has not been made.

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
1 st Qtr '25	7.50	4.36	4.34	4.29	4.29	4.65	4.86	6.94
2 nd Qtr	7.50	4.38	4.36	4.34	4.31	4.61	4.79	6.75
3 rd Qtr	7.25	4.13	4.11	4.19	4.22	4.48	4.67	6.49
4 th Qtr	7.18	4.04	4.03	4.11	4.13	4.33	4.53	6.27
1 st Qtr '26	7.00	3.88	3.86	4.01	4.00	4.21	4.31	6.06

February 2024

FINANCIAL MARKET SUMMARY

	As of 2/7/2025	As of 1/31/2025	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	7.50	7.50	0	0	(25)
Secured Overnight Financing Rate (SOFR)	4.36	4.36	0	6	(24)
Fed Funds (Wed close)	4.33	4.33	0	0	(25)
TREASURIES (BE) (Changes in BPs)					
3 Months	4.35	4.31	4	(1)	(28)
6 Months	4.30	4.28	2	3	(12)
1 Year	4.25	4.17	8	0	(7)
2 Years	4.29	4.22	7	(11)	3
5 Years	4.34	4.36	(2)	(25)	14
10 Years	4.49	4.58	(9)	(28)	19
30 Years	4.69	4.83	(14)	(27)	22
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.63	2.71	(8)	(22)	(3)
5-Year Muni	2.74	2.83	(9)	(24)	3
10-Year Muni	2.97	3.06	(9)	(1)	(2)
30-Year Muni	3.93	3.96	(3)	(17)	16
30-Year Conventional Mortgage	6.89	6.95	(6)	(4)	10
MARKET INDICATORS (Changes in %)					
DJIA	44,303.40	44,544.66	(0.5)	5.6	0.7
S&P 500	6,025.99	6,040.53	(0.2)	3.4	0.5
NASDAQ	19,523.40	19,627.44	(0.5)	1.9	1.2
CRB Futures	371.44	368.05	0.9	0.8	10.4
Oil (WTI Crude)	71.00	72.53	(2.1)	(4.0)	2.2
Gold	2,861.07	2,798.41	2.2	6.4	6.6
Yen / Dollar	151.41	155.19	(2.4)	(3.7)	(1.0)
Dollar / Euro	1.03	1.04	(0.3)	0.8	(3.7)



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