



December 20, 2024 Web Comments

	WEEKLY CLOSE	% CHANGE YTD
DOW JONES IND	42,840.26	13.67%
S&P 500	5,930.85	24.34%
NASDAQ	19,572.60	30.39%

2025 Uncertainty

The equity market appears to have fully priced in the quarter point cut to 4.25%-4.5% by the Fed on Wednesday, and investors are now turning their attention to the Fed's outlook for 2025. Several factors add to the uncertainty. Inflation has decelerated at a slower pace than previously anticipated, while the economy has remained strong. The possible inflationary impact of key policies under President-elect Donald Trump's incoming administration could also complicate future matters for the Fed and expected investor returns. Gaming out the Trump administration with its promised sweeping changes to trade, immigration, energy, and taxation, will be among the biggest talking points in the coming 12 months.

Although the prospects of higher tariffs, mass deportation, and more tax cuts would suggest at least some increase in inflation, economists are divided on what the ultimate impact will be. Much will depend on the breadth and scale of any new tariffs imposed on imported goods and on the numbers of undocumented migrants who are deported.

The Fed does not appear to be overly concerned with the latest uptick in inflation data that could signal a sustained "pause" in rate cuts. We would note, however, that while the Fed's dot plot had projected a full percentage point of rate cuts for 2025, following a similar magnitude of easing this year, the money markets are now pricing in less than two 25 basis point reductions for 2025.

Risks to the Stock Market?

The reality is that downside risks to employment and even inflation are more pressing than the upside risks heading into 2025, despite the stock market hitting new records. All it would take is one soft jobs report to push the unemployment rate to a new cycle high, and convince investors that the labor market remains an area of concern.

The unemployment level resumed its ascent in October and November, indicating that an unexpected decline at the end of the third quarter had been a “head fake”. It has now risen in seven of 11 months this year, but with the manufacturing sector the only area of notable weakness. Presently, at 4.2% the jobless rate is just shy of the year high reached in July, according to the Bureau of Labor Statistics.

With all of the unknowns digested, Windward still expects the stock market to grind higher in 2025.

Have a nice weekend.

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