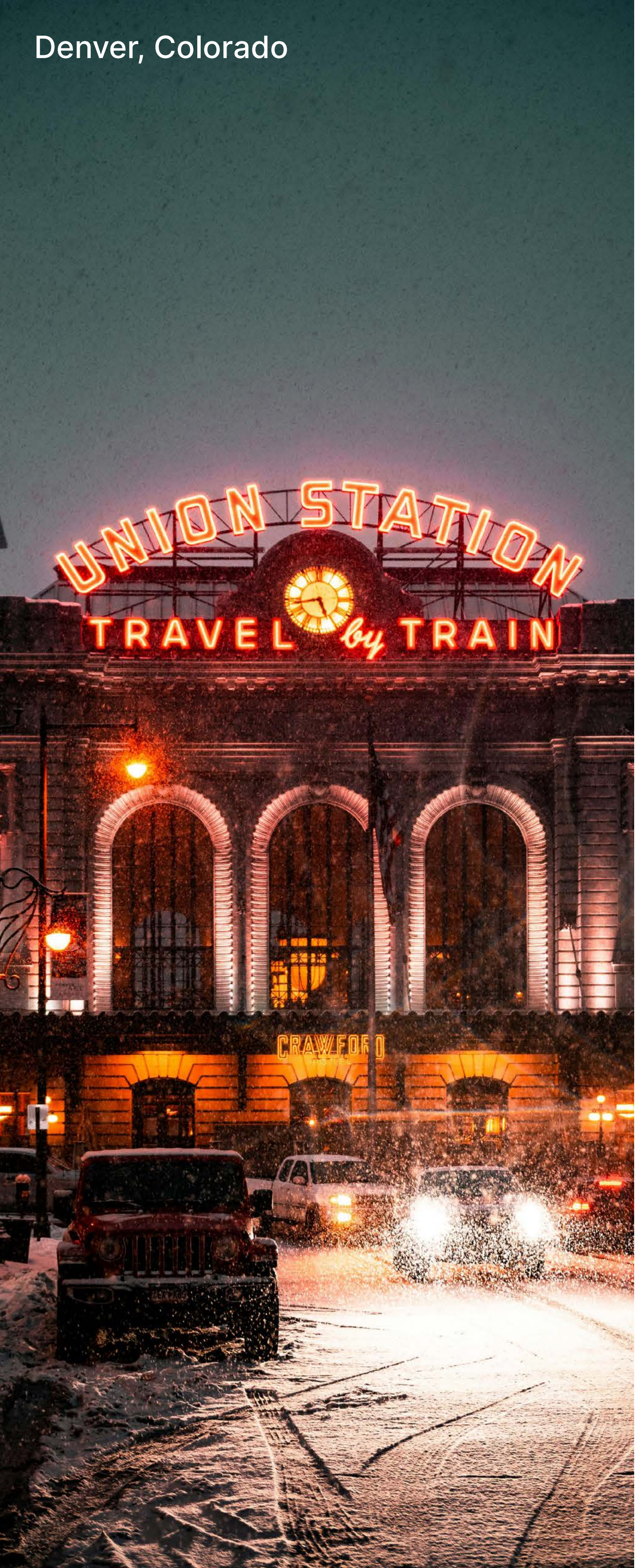


Denver, Colorado

MONTH ENDING JANUARY 31, 2025

Market Update

Quick Hits

1. **Markets Rally in January**
   Markets rebounded in January after mixed results in December.
2. **Bonds Rise as Interest Rates Fall**
   Falling long-term interest rates caused bonds to rise.
3. **Healthy Economic Backdrop**
   The economic updates released in January showed continued healthy economic growth.
4. **Risks Ahead**
   Investors should prepare for potential risks ahead.
5. **Solid Outlook Despite Policy Uncertainty**
   We believe the most likely path forward is for continued market appreciation and economic growth.

GRAZIANO BUDNY WEALTH MANAGEMENT EST 1987

Markets Rally in January

Markets rallied in January, as improving fundamentals and a solid economic backdrop helped support stocks to start the year. The S&P 500 gained 2.78 percent for the month while the Dow Jones Industrial Average rose 4.78 percent. Technology stocks faced headwinds during the month; however, the Nasdaq Composite still managed to notch a 1.66 percent gain in January.

The solid results were supported by improving fundamentals. We're in the middle of fourth-quarter earnings season and the results have been impressive so far. Per Bloomberg Intelligence, the average earnings growth rate for the S&P 500 in the fourth quarter as of February 3 was 10.1 percent. This is well above analyst estimates at the start of earnings season for a more modest 7.3 percent increase. Over the long run, fundamentals drive performance, so the strong earnings growth for the quarter is a good sign for investors.

Technical factors were supportive as well to start the year. All three U.S. indices spent the entire month well above their respective 200-day moving averages. (The 200-day moving average is a widely monitored technical signal, as prolonged breaks above or below this level can signal shifting investor sentiment for an index.)

The story was similar for international stocks during the month. The MSCI EAFE Index rose 5.26 percent in January while the MSCI Emerging Markets Index was up 1.81 percent. Both developed and emerging markets were supported by a weakening dollar in January. Technical factors were mixed for international stocks, as the MSCI EAFE Index finished the month above its 200-day moving average while the emerging markets index ended the month slightly below trend.

Bonds Rise as Interest Rates Fall

The bond market also rebounded to start the year, with falling rates supporting bond prices. The 10-year U.S. Treasury yield fell from a high of 4.79 percent mid-month down to 4.58 percent at month-end. The Bloomberg Aggregate Bond Index gained 0.53 percent for the month.

Bloomberg Aggregate Bond Index

0.53%

In the month of January

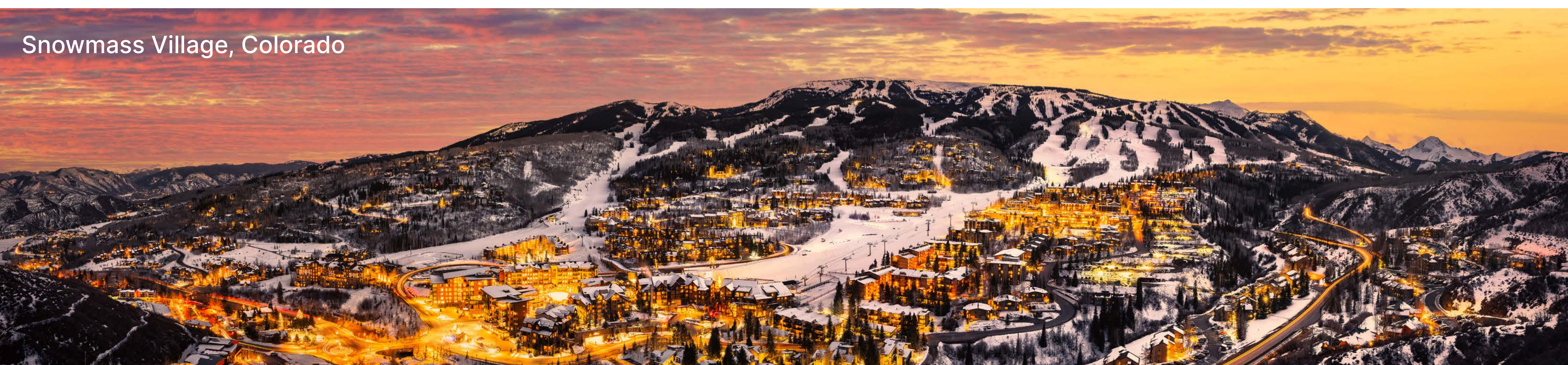
Bloomberg U.S. Corporate High-Yield Index

1.37%

In the month of January

The Federal Reserve met in January and decided to keep short-term interest rates unchanged at the conclusion of its meeting. This decision was widely expected by investors and economists following three consecutive meetings with rate cuts. The pause in January is a sign that the Fed is likely to be more patient when making rate changes at future meetings. Futures markets are not pricing in any rate changes until July at the earliest.

High-yield bonds were also up in January, as the Bloomberg U.S. Corporate High-Yield Index gained 1.37 percent to start the year. High-yield credit spreads fell from 2.94 percent at the end of 2024 to 2.68 percent at the end of January. Tighter credit spreads indicate rising investor interest for higher-yielding bonds during the month.

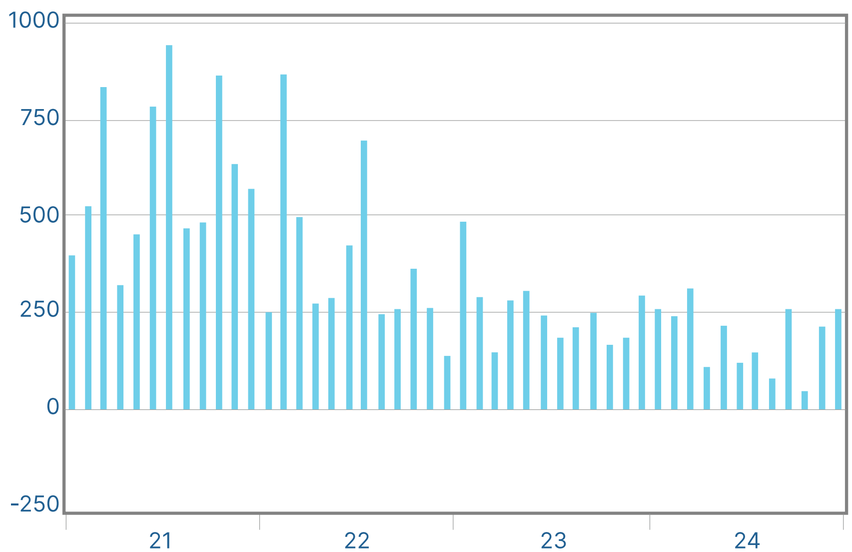


Snowmass Village, Colorado

Healthy Economic Backdrop

The solid start to the year for markets was echoed by the economic updates that were released during the month. The strong December jobs report showed that 256,000 jobs were added during the month, well above economist estimates for a more modest 165,000 jobs. The unemployment rate also unexpectedly fell to 4.1 percent, further signaling a healthy level of labor demand across the economy. As seen in Figure 1, this now marks two consecutive months with strong hiring growth following a weather-driven slowdown in October.

Figure 1: Change in Total Nonfarm Employment, January 2021–December 2024



Source: BLS/Haver, as of January 10, 2025

The strong job market helped support consumer confidence and spending growth to end the year. Consumer spending was impressively resilient throughout 2024, and we finished the year with strong retail sales and personal spending growth in December. Personal spending was especially strong, as the 0.7 percent increase in December was the strongest month for spending growth since March.

We also got a first look at GDP growth in the fourth quarter, which showed slowing but still solid growth for the economy. The pace of annualized GDP growth fell from 3.1 percent in the third quarter to 2.3 percent in the fourth quarter. Despite the slowdown in headline GDP growth to end the year, the underlying data was more encouraging.

Personal consumption expenditures, which make up the majority of economic activity in the country, grew at an annualized rate of 4.2 percent in the fourth quarter. This marks the best quarter for personal consumption growth since the first quarter of 2023 and highlights the economic momentum at the end of 2024 that has carried over into the new year.

Risks Ahead

While the market rally and positive economic updates to start the year were certainly welcome, investors face a variety of risks ahead that should be acknowledged. Domestically, the primary risk remains political uncertainty, as shown by the threatened rollout of tariffs on Canada, Mexico, and China at the start of February that briefly spooked markets. Looking forward, further uncertainty is expected as the new Trump administration continues to outline its policy goals and priorities.

Of course, foreign risks remain as well, as demonstrated by the ongoing conflicts in Ukraine and the Middle East. Additionally, the potential for retaliatory tariffs and a global trade war should not be ignored given recent protectionist rhetoric. While the direct market impact of many foreign risks has been limited so far for U.S. investors, we need to keep an eye on these potential sources of risk as we look to navigate the months ahead.

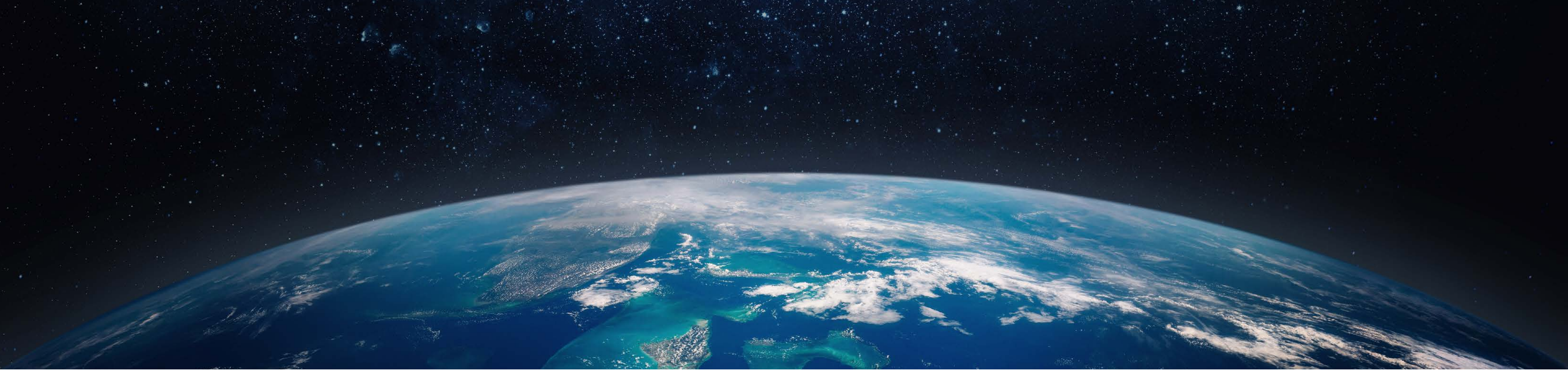
>> The Takeaway

- Political risks remain for markets both domestically and abroad.
- Trade and tariff policies will be important to monitor.

Solid Outlook Despite Policy Uncertainty

On the whole, we remain in a good place as we head into February. Market fundamentals continue to show signs of impressive growth for U.S. companies, supported by a healthy economic backdrop and a resilient consumer. Over the long run, these fundamental factors are the primary drivers for market performance, so the supportive backdrop is a good sign for investors.

Risks certainly remain, especially in the short term due to policy-driven uncertainty. Investors tend to dislike uncertainty, so we may be faced with short-term market turbulence as we gain more clarity from the new administration in Washington. Given the potential for further short-term disruptions, a well-diversified portfolio that matches investor goals and timelines remains the best path forward for most. If concerns remain, however, you should speak with your financial advisor to go over your financial plans in these uncertain times.



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Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. One basis point (bp) is equal to 1/100th of 1 percent, or 0.01 percent.

Authored by Chris Fasciano, chief market strategist, and Sam Millette, director, fixed income, at Commonwealth Financial Network®.

Mike Graziano, CMT®, CRPC®, CFP®, Chief Investment Officer
Graziano Budny Wealth Management Group, LLC
6143 S Willow Drive | Suite 310 | Greenwood Village, CO 80111
720.583.6363 | 720.458.0773 fax | www.grazianobudny.com | mgraziano@grazianobudny.com