



JANUARY 2025

U.S. Market Update

After a strong upward move post-election, the S&P 500 Total Return Index was down -2.38% in December. Sector breadth deteriorated sharply — eight of 11 S&P 500 sectors had negative returns in December. Communication Services, Consumer Discretionary, and Tech (led by the Magnificent 7) posted positive returns (chart below).

The S&P 500 posted back-to-back 20% gains

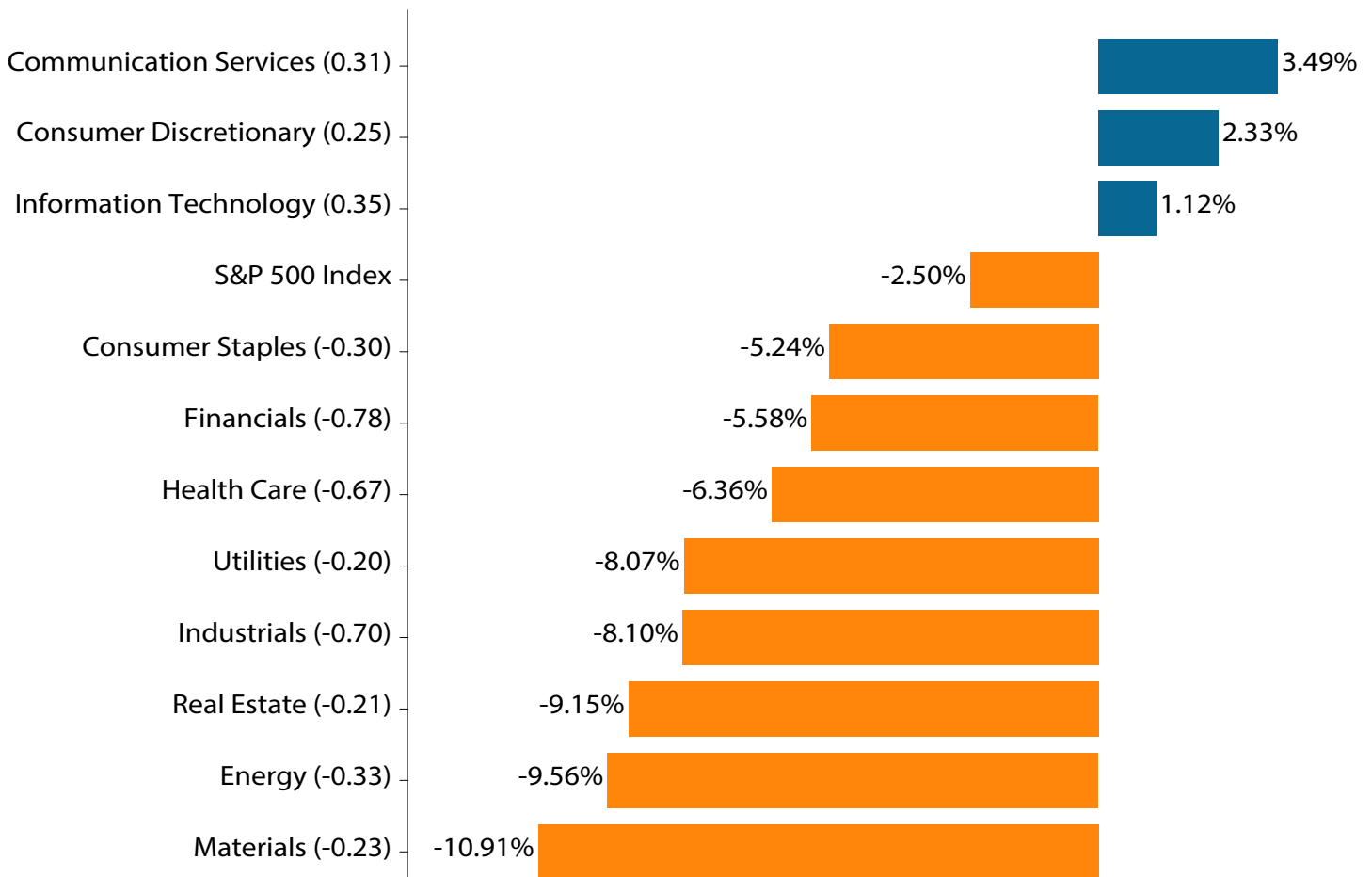
for the fifth time on record while logging 57 record highs. While most asset classes gained, relative strength in large-cap Growth meant U.S. stocks outperformed bonds, cash, commodities, and international equities.

However, studies show that S&P 500 returns the year after at least 50 record highs have been weak, dropping a median -6.2%. There are plenty of reasons for concern in 2025, including the potential for earnings growth

to slow, inflation to stop declining, and policy uncertainty to weigh on markets.

For now, the sector model maintained mixed leadership this month. Entering January, Financials, Information Technology, Communication Services, Consumer Discretionary, and Utilities are above benchmark weight. Real Estate, Materials, Energy, and Consumer Staples are below benchmark weight.

S&P 500 GICS Sector Monthly Performance (11/30/2024 - 12/31/2024)



Number in parenthesis after sector name indicates % point contribution to S&P 500 return

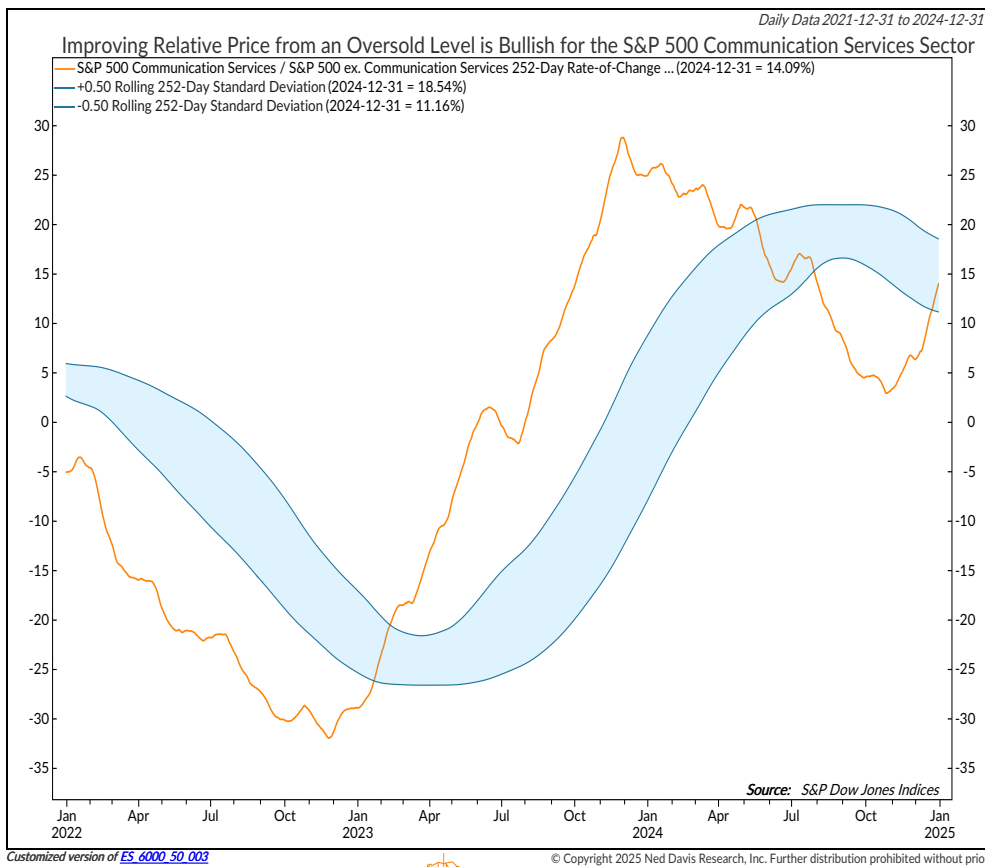
Source: S&P Dow Jones Indices

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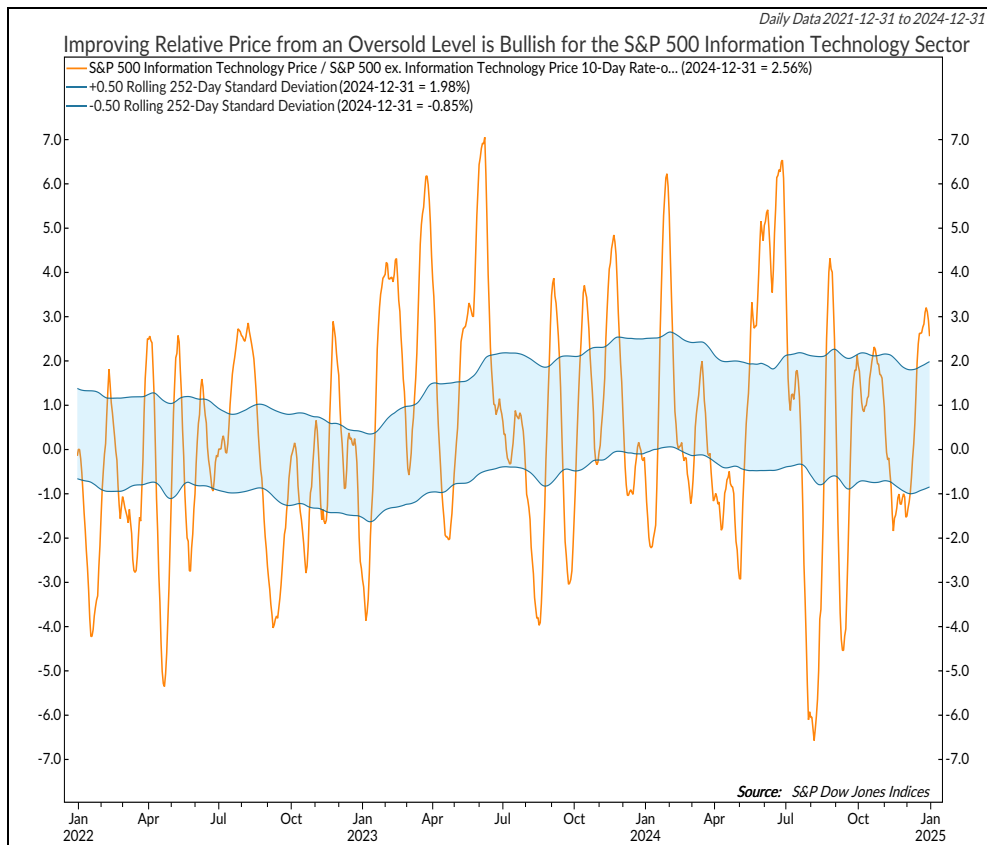


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The Communication Services sector's allocation is above benchmark weight. On a fundamental basis, indicators are mixed. The 10-2 yield curve, earnings revision breadth, and option-adjusted spreads for Communication Services are bullish for the sector. However, the sector's relative earnings yield, relative sales growth trends, and internet vs. retail sales trends remain bearish. Technicals are also mixed with three of six indicators at positive readings for the sector. During the month, changes in two different overbought/oversold measures offset one another (chart right).



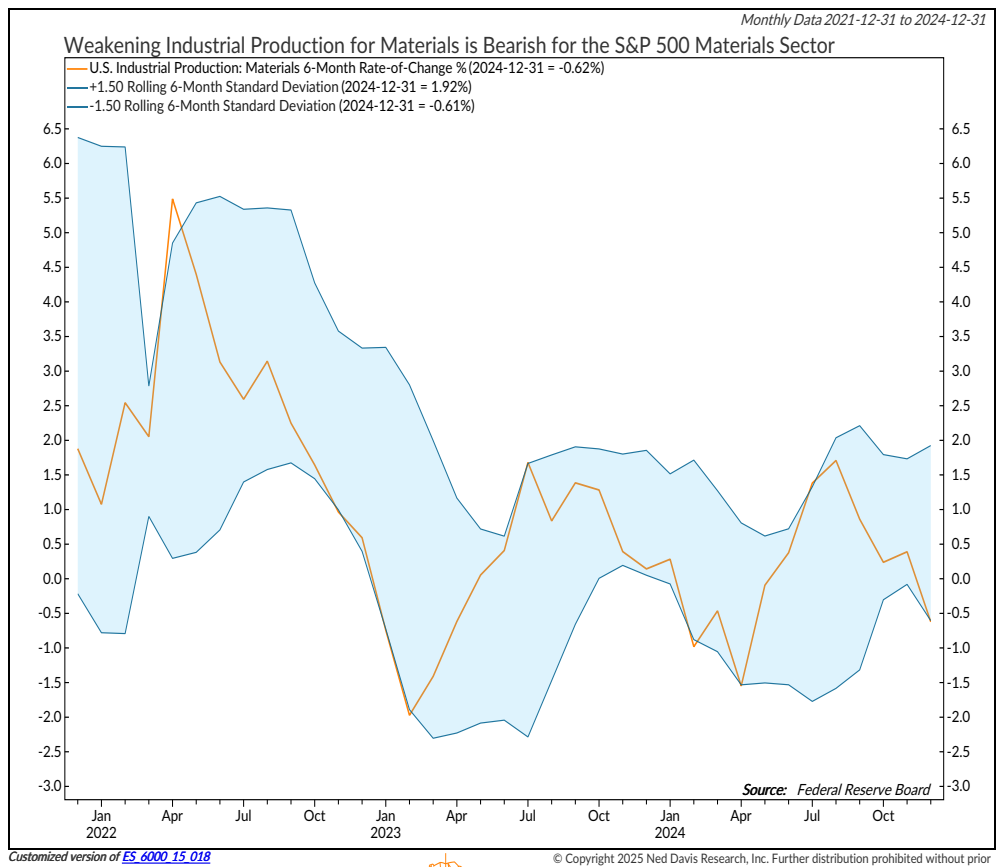
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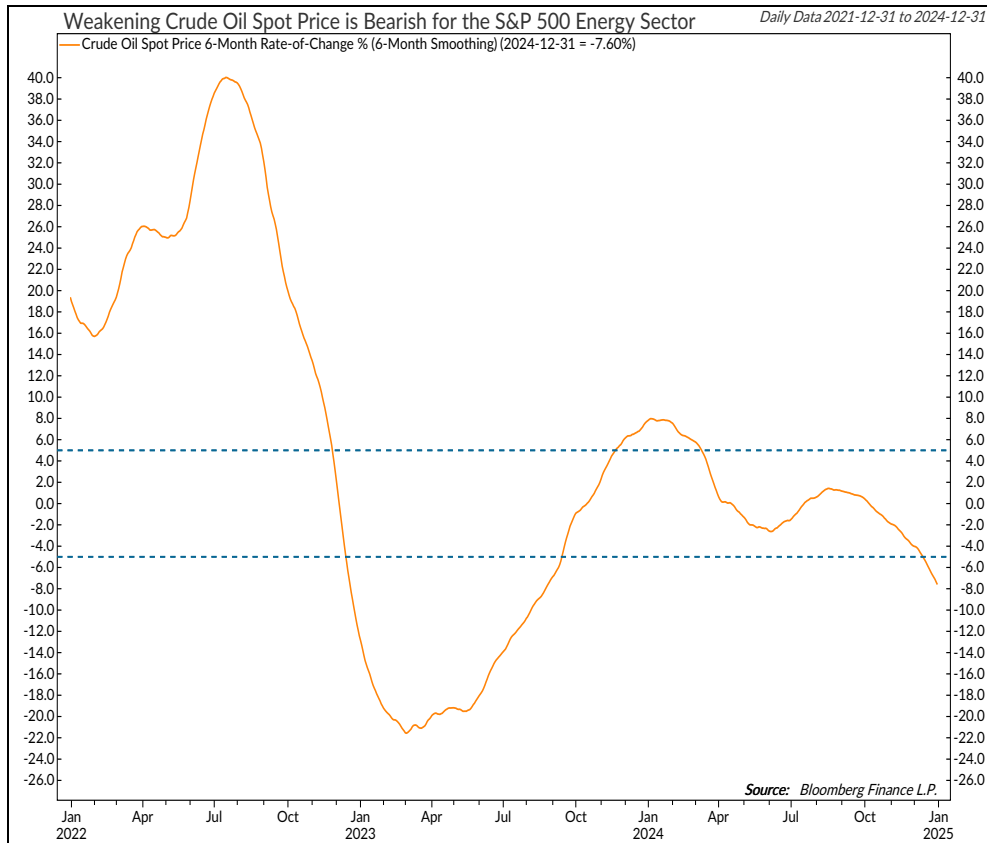
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The Information Technology sector's allocation is above benchmark weight. Fundamentals lean bullish with three out of five measures at bullish levels. Earnings revision breadth and emerging Asia equities remain bullish for the sector. During the month, market inflation expectations moved bearish, but was offset by the median sales yield which moved to a bullish level. However, technicals are mixed. During the month, an overbought/oversold measure flipped bullish (chart left), but short-term breadth weakened to a bearish level, joining bearish readings from longer-term breadth and relative price momentum.

The Materials sector's allocation is well below benchmark weight. On a fundamental basis, indicators are bearish. During the month, silver and gold price momentum, as well as industrial production for materials, weakened to bearish levels (chart right), joining negative readings from emerging vs. developed equity momentum, natural gas futures mean reversion, and valuation (based on median earnings yield and median sales yield). Price-based measures are bearish with only one of the six measures at a neutral level for the sector.



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The Energy sector's allocation is below benchmark weight. On a fundamental basis, indicators lean bearish. Two of six indicators are bullish including sentiment on crude oil futures and worldwide rig count. However, during the month, the spot price for crude oil weakened (chart left), joining bearish readings from crude oil days of supply, the U.S. Dollar Index, and the sector's median cash flow yield. Price-based measures are confirming with all five indicators at bearish levels.

Summary

The sector model maintained mixed leadership this month. Entering January, Financials, Information Technology, Communication Services, Consumer Discretionary, and Utilities are above benchmark weight. Real Estate, Materials, Energy, and Consumer Staples are below benchmark weight.



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Sector Allocation Strategy

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