

## WEEKLY ECONOMIC UPDATE FEB. 3, 2025

Stocks were mixed last week as investors parsed market-moving news nearly every trading day—from an unsettling AI update to White House news to Q4 corporate reports.

The Standard & Poor’s 500 Index fell 1.00 percent while the Nasdaq Composite Index slid 1.64 percent. Meanwhile, the Dow Jones Industrial Average rose, picking up 0.27 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, added 0.75 percent.<sup>1,2</sup>

### **A Choppy End to January**

The week started on a down note with news that a Chinese artificial intelligence (AI) startup had made a breakthrough, which put pressure on a wide range of tech stocks. The tech-heavy Nasdaq fell 3 percent for the day, but the Dow Industrials ended the trading session slightly higher.<sup>3</sup>

Stocks were under pressure again mid-week as investors waited on news from the Federal Reserve. The Fed voted to hold firm on short-term interest rates. Even though the decision was widely expected, markets were under pressure again after the Wednesday afternoon announcement.<sup>4</sup>

Stocks rallied Thursday but reversed course Friday afternoon as traders adopted a more “risk-averse” position going into the weekend. There was a bit of anxiety knowing that the new administration’s tariffs on Mexico and Canada were scheduled to take effect on Saturday.

Interestingly, it was the Dow Industrial’s fourth-straight week outperforming both the S&P and the Nasdaq.<sup>5</sup>

# MARKET INSIGHTS



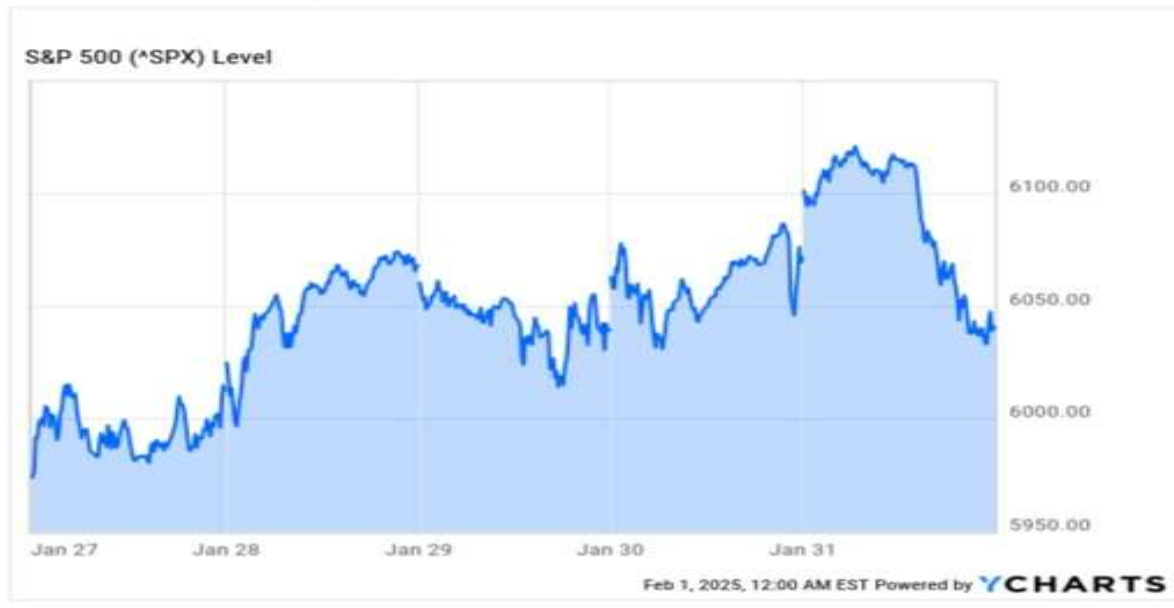
## YCHARTS

### Weekly Market Insights (WMI)

#### Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
<b><u>Dow Jones Industrial Average</u></b>	5.50%	5.58%	18.84%	72.21%
<b><u>MSCI EAFE</u></b>	5.51%	5.41%	10.15%	38.56%
<b><u>Nasdaq Composite</u></b>	1.02%	1.94%	27.81%	120.1%
<b><u>S&amp;P 500</u></b>	2.87%	3.30%	24.97%	100.0%

#### S&P 500 Daily Close



#### 10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
<b><u>10 Year Treasury Rate</u></b> 01/31/25	<b>4.58%</b>	4.58% 4.28% 3.99%	0.00% — 7.01% ▲ 14.79% ▲

## Black Swan Event

It's hard to overstate how much the markets were caught off guard by Monday's news related to the success of a new AI startup based in China.<sup>6</sup>

What unsettled investors was the company's claim that it developed a competitive AI model that performs as well as its Western counterparts at a fraction of the cost. As the week progressed, markets started to process the news and began to evaluate whether it was truly a "black swan" event or just another development in the fast-moving world of AI.<sup>6</sup>

## This Week: Key Economic Data

**Monday:** ISM Manufacturing. Construction Spending.

**Tuesday:** Motor Vehicle Sales.

**Wednesday:** ADP Employment Report. Factory Orders. ISM Services Index. Beige Book.

**Thursday:** Jobless Claims. International Trade in Goods and Services. Productivity and Costs.

**Friday:** Employment Situation.

## Quote of the Week



*“Condemnation without investigation is the height of ignorance”*

– **Albert Einstein**

# Of Note



Even if one assumes that there was nothing abnormal about this week's Q4 GDP, the context in which it was derived was astounding. Here's why.

As the Bureau of Economic Analysis (BEA) reported, in Q4 US GDP grew at a seasonally adjusted rate of 2.3%, below the 2.6% estimate and down from the 3.1% growth pace in Q3. More specifically, the number represented the annualized increase in the 131 billion change between what the BEA calculated was chained Q3 GDP of \$23.4 trillion (refers to the fact that the calculation is linked (or chained) to multiple base years, rather than just one) and Q4 GDP of \$23.531 trillion. In other words, to keep it simpler, in Q4 the US economy actually grew some \$130.6 billion chained dollars.

So far so good. The only problem is what funded this growth, in the US the source of all growth is - and for the past 100 years - has been debt, and boy was Q4 a doozy.

While the US generated \$131 billion in chained GDP growth in Q4, this was the result of a \$711 billion increase in the US budget deficit, which in turn was funded with a \$754 billion increase in debt which, as of Dec 31, 2024, stood at a record 36.218 trillion.

And it's not just Q4. Extending this analysis to all of 2024 we find an almost identical pattern: in the full year 2024, US GDP grew by \$570 billion from \$22.961 trillion to \$23.531 trillion, growth which was made possible by a near record \$2.034 trillion

increase in the budget deficit, which in turn was funded by a mammoth \$2.2 trillion increase in debt.

The bottom line: in Q4 it took \$5.8 dollars of debt to create \$1 dollar of growth, an increase from \$3.5 in Q3 and from \$1.5 in Q2, which is to be expected: as we revealed in the summer of 2023, US growth was one giant illusion and was entirely the result of the administration's massive debt creation spree.

Taking a bigger picture look, for the full year 2024, it took \$3.9 dollars in debt to generate \$1 in growth, an increase from the \$3.6 in 2023.

What this means is that the only hope the US ever has to grow is to issue debt or rather issue lots and lots of debt. So good luck to Trump and Elon and DOGE if they hope to slow down the firehose of US debt issuance. They may be successful, but they better have a plan for how to deal with the deep recession that will be immediately triggered as a result.<sup>7</sup>

## Footnotes and Sources

1. The Wall Street Journal, January 31, 2025
2. Investing.com, January 31, 2025
3. CNBC.com, January 27, 2025
4. The Wall Street Journal, January 29, 2025
5. CNBC.com, January 30, 2025
6. CNBC.com, January 30, 2025
7. [zerohedge.com/markets/it-took-58-debt-generate-1-growth-q4](https://www.zerohedge.com/markets/it-took-58-debt-generate-1-growth-q4)

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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