WEEKLY ECONOMIC UPDATE JAN. 27, 2025

Stocks rallied last week as investors reacted positively to a handful of better-than-expected corporate earnings reports and developments out of Washington, D.C.

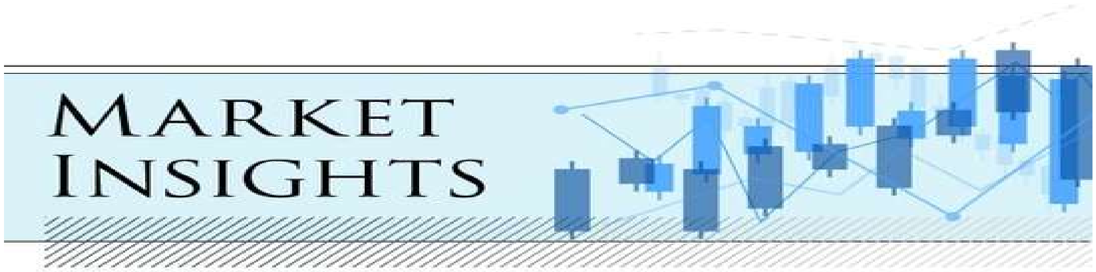
The Standard & Poor's 500 Index gained 1.74 percent, while the Nasdaq Composite Index added 1.65 percent. The Dow Jones Industrial Average rose 2.15 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, added 3.03 percent.[1,2]

Flurry of News

Markets surged over the first three trading days as investors cheered a flurry of new policy announcements and executive orders following Monday's inauguration. For example, investors responded to news that the White House trade team is considering taking a softer stance on tariffs.[3]

It was also a good week for Q4 company reports and other upbeat corporate news.[4]

Markets leveled off Friday as investors were disappointed that existing home sales fell to a 30-year low. But for the week, the Nasdaq had closed above 20,000 on two of the four trading days, and the S&P 500 closed above 6,000 at every session.[5]



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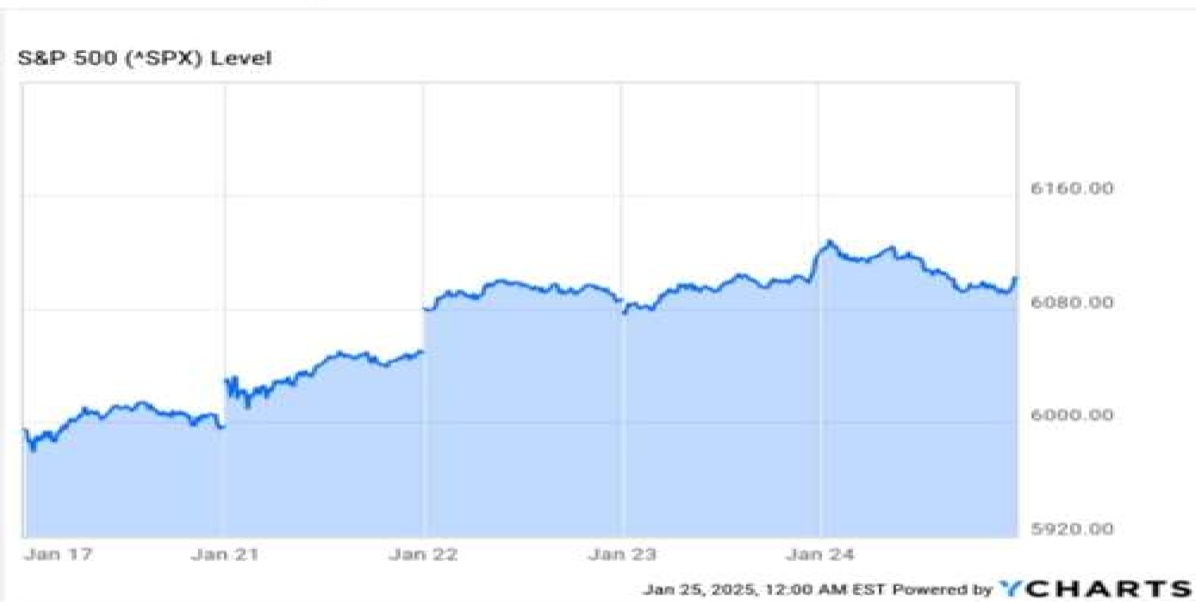
Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	3.93%	4.82%	19.74%	69.23%
MSCI EAFE	4.38%	3.48%	10.37%	33.54%
Nasdaq Composite	1.49%	3.86%	30.94%	121.8%
S&P 500	2.51%	4.10%	27.52%	99.06%

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
10 Year Treasury Rate 01/24/25	4.63%	4.59% 4.21% 4.18%	0.87% ▲ 9.98% ▲ 10.77% ▲

A Look Forward

The stock market is a discounting mechanism, meaning today's stock prices reflect all available information, including present and potential future events. And for the most part, the markets reacted positively to the news coming out of Washington last week. Some news spurred broad-based market moves, while other news had more sector-specific impacts.[6]

For example, on Thursday, markets reacted positively to news that the White House believes interest rates were too high and want to see rates trend lower. The Fed's first scheduled two-day policy meeting ends on Wednesday, so investors may be looking to see if Fed Chair Jerome Powell addresses the new administration's concerns.

This Week: Key Economic Data

Monday: New Home Sales.

Tuesday: Durable Goods. Consumer Confidence. Case-Shiller Home Price Index. Federal Open Market Committee (FOMC) meeting—Day 1.

Wednesday: FOMC meeting—Day 2. U.S. Trade Balance in Goods. Retail and Wholesale Inventories. FOMC announcement and Fed Chair Powell press conference.

Thursday: Gross Domestic Product (GDP). Pending Home Sales. Weekly Jobless Claims.

Friday: Personal Consumption & Expenditures (PCE) Index. Employment Cost Index. Fed Governor Michelle Bowman speaks.

Quote of the Week

"While less intelligent people are more easily misled by others, more intelligent people are more easily misled by themselves"

– Rebekah Barnett

Of Note

Navigating new paradigms in finance, geopolitics, and energy will be crucial for investors. Of particular importance today is the US government's financial situation, which has been gradually deteriorating for decades. It's not surprising that many people are complacent. They've long heard about the debt problem, but nothing has happened.

There's an excellent chance that 2025 could be the year we see a paradigm shift, shattering conventional mental and financial models for the federal debt. A crucial tipping point was reached in 2024 when the interest expense on the federal debt exceeded the defense budget for the first time. It's on track to exceed Social Security and become the biggest item in the federal budget.

Historian Niall Ferguson summed it up nicely: "Any great power that spends more on debt service (interest payments on the national debt) than on defense will not stay great for very long. True of Habsburg Spain, true of ancien régime France, true of the Ottoman Empire, true of the British Empire, this law is about to be put to the test by the US beginning this very year."

The US government will soon have to choose to:

1. Cut defense spending amid the most chaotic geopolitical period since WW2.
2. Default on its promises regarding Social Security, Medicare, Veterans' Benefits, and welfare generally.

Though it may try, the US government cannot continue to pay for entitlements and defense even if their current levels stay flat into the future. But they won't stay flat. Both are set to grow significantly in the years ahead.

Tens of millions of Baby Boomers—about 22% of the population—will enter retirement in the coming years. Cutting Social Security and Medicare is a sure way to lose an election.

With the most precarious geopolitical situation since World War II, defense spending is unlikely to be cut. Instead, defense spending is all but certain to increase.

Former Secretary of Defense Robert Gates recently said: "Barely staying even with inflation or worse is wholly inadequate. Significant additional resources for defense are necessary and urgent."
In short, efforts to reduce expenditures will be meaningless unless it becomes politically acceptable to make chainsaw-like cuts to entitlements, national defense, and welfare while reducing the national debt to lower the interest cost.

In other words, the US would need a leader who—at a minimum—returns the federal government to a limited Constitutional Republic, closes the 128 military bases abroad, ends entitlements, kills the welfare state, and repays a large portion of the national debt.

However, that's a completely unrealistic fantasy. It would be foolish to bet on that happening. That's why Elon Musk and DOGE are being set up for failure. The government cannot even slow the spending growth rate, let alone cut it. Expenditures have nowhere to go but up—way up. The most likely outcome is that the US will try to have its cake and eat it too by paying for both growing defense and domestic obligations via currency debasement.

That's why ever-increasing currency debasement is the inevitable outcome of the US government's debt spiral. It's a self-perpetuating doom loop from which they cannot escape. It's like being on a runaway train with no brakes. 2025 will likely be the year this becomes evident as previous mainstream conceptions about the national debt collapse.

- "We owe it to ourselves."
- "Deficits don't matter."
- "Treasuries are risk-free return."
- "The national debt is sustainable as long as we can print money."
- "The US will never default."

These have long been ridiculous tropes that many investors believe. 2025 could be the year the people who believe this nonsense receive a harsh reality check. As this trend unfolds, the rate of debasement will far exceed the nominal yield that Treasuries and most other bonds will offer. That means people will look for alternatives to park their savings to preserve their purchasing power.

Instead of parking their savings in Treasuries, people, companies, and countries will increasingly park their savings in precious metals, alternative investments, cryptocurrencies and other non-correlated assets. It's already happening in a big way.[7]

Footnotes and Sources

1. The Wall Street Journal, January 24, 2025
2. Investing.com, January 24, 2025
3. MarketWatch.com, January 21, 2025
4. CNBC.com, January 22, 2025
5. CNBC.com, January 24, 2025
6. The Wall Street Journal, January 21, 2025
7. zerohedge.com/economics/2025-year-federal-debt-bubble-bursts