CPI numbers inflate rate-cut expectations.

The economy

- Major U.S. equity market indexes moved higher during the week ending January 17. Investors were buoyed by softer-than-expected inflation data, which rekindled hopes of more interest-rate cuts from the Federal Reserve (Fed), as well as surprisingly strong quarterly results from several large banks.
- According to the Department of Labor, the consumer-price index (CPI) advanced 0.4% in December, slightly higher than the 0.3% increase in November. The uptick in inflation was not broad-based, however, as energy costs comprised more than 40% of the increase, rising 2.6% during the month, as gasoline and fuel oil prices each surged 4.4%. The 2.9% year-over-year advance in the index was up from the 2.7% annual rise in November and was in line with expectations. Costs for transportation services and housing climbed 7.3% and 4.6%, respectively, over the previous 12-month period, while energy and commodity prices each fell 0.5%. Core inflation, as measured by the CPI for all items less food and energy, rose at a lower-than-expected rate of 3.2% year-over-year in December, down marginally from the 3.3% annual increase in November.
- Regarding inflation at the wholesale level, the Department of Labor announced that the producer-price index (PPI), which tracks the average change over time in selling prices received by domestic producers of goods and service providers posted a smaller-than-expected advance of 0.2% in December, down from the 0.4% rise in November. The PPI for goods increased 0.6% in December due mainly to a 3.5% jump in energy prices. Services costs were flat as a rise in transportation and warehousing prices was offset by declines in prices for services less trade, transportation, and warehousing, and trade services, respectively. The PPI's 3.3% advance over the previous 12-month period was higher than the 3.0% annual gain in November. Core wholesale inflation, as measured by the PPI less food, energy, and trade services, was flat in December, marginally lower than the 0.1% uptick for the previous month. The index advanced 3.3% year-over-year, down from the 3.5% annual rise in November.
- During an appearance on CNBC on Thursday, Fed Governor Christopher Waller indicated that the central bank could reduce the federal-fund rate again in the near future. Waller noted, "The inflation data we got [on Wednesday] was very good. If we continue getting numbers like this, it's reasonable to think rate cuts could happen in the first half of the year." Waller also noted that the Fed may implement more rate cuts than investors currently are expecting. "I'm optimistic that this disinflationary trend will continue and we'll get back closer to 2% a little quicker than maybe others are thinking," he commented. Nonetheless, at the end of the week, CME's FedWatch Tool, which provides a gauge of the market's expectations of potential changes to the federal-funds target rate while assessing potential Fed monetary policy actions at Federal Open Market Committee (FOMC) meetings, implied a 99% chance that the central bank will leave its benchmark rate unchanged in a range of 4.25% to 4.50% following its meeting on January 28-29.
- According to the Census Bureau, U.S. retail and food services sales—a gauge of consumer spending, which comprises more than two-thirds of the nation's gross domestic product (GDP)—rose 0.4% in December, slightly below expectations and down from the 0.8% upturn in November. Sales increased 3.9% over the previous 12-month period. Motor vehicle and parts dealers, and furniture and home furnishing stores each posted a year-over-year sales gain of 8.4%, while sales for nonstore retailers climbed 6.0%. Conversely, building material and garden equipment and supplies dealers experienced a 1.8% decline in sales over the 12-month period.

Stocks

- Global equities posted gains for the week. Developed markets outperformed emerging markets.
- U.S. stocks rose during the week. Energy and financials were the top-performing sectors, while health care and consumer staples were the primary market laggards.
- Value stocks led growth, while small caps outperformed large caps.

Bonds

- The 10-year U.S. Treasury note yield fell to 4.62% over the week.
- Global bond markets recorded positive returns for the week.
- Corporate bonds led the markets, followed by government bonds and high-yield bonds.

The Numbers as of January 17, 2025	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	1.8%	0.9%	18.4%	848.6
MSCI EAFE ($)	1.7%	0.9%	5.1%	2282.9
MSCI Emerging Mkts ($)	0.9%	-0.8%	11.0%	1066.7
US & Canadian Equities				
Dow Jones Industrials ($)	3.7%	2.2%	16.1%	43487.8
S&P 500 ($)	2.9%	2.0%	25.4%	5996.7
NASDAQ ($)	2.4%	1.7%	30.4%	19630.2
S&P/ TSX Composite (C$)	1.2%	1.4%	20.8%	25067.9
UK & European Equities				
FTSE All-Share (£)	3.2%	3.4%	13.3%	4621.7
MSCI Europe ex UK (€)	1.8%	3.2%	9.3%	1821.1
Asian Equities				
Topix (¥)	-1.3%	-3.8%	7.5%	2679.4
Hong Kong Hang Seng ($)	2.7%	-2.4%	27.2%	19584.1
MSCI Asia Pac. Ex-Japan ($)	0.8%	-0.9%	14.5%	564.0
Latin American Equities				
MSCI EMF Latin America ($)	2.6%	3.1%	-23.3%	1910.0
Mexican Bolsa (peso)	0.7%	0.8%	-8.7%	49931.1
Brazilian Bovespa (real)	2.8%	1.6%	-4.0%	122234.0
Commodities ($)				
West Texas Intermediate Spot	2.8%	9.7%	6.2%	78.7
Gold Spot Price	0.6%	3.4%	34.5%	2712.7
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	0.9%	-0.4%	0.4%	461.5
JPMorgan Emerging Mkt Bond	0.7%	0.1%	7.9%	898.4
10-Year Yield Change (basis points*)				
US Treasury	-14	5	48	4.62%
UK Gilt	-18	9	73	4.66%
German Bund	-6	17	19	2.53%
Japan Govt Bond	0	10	55	1.20%
Canada Govt Bond	-14	7	-19	3.30%
Currency Returns**				
US$ per euro	0.3%	-0.8%	-5.6%	1.027
Yen per US$	-1.0%	-0.6%	5.4%	156.22
US$ per £	-0.3%	-2.8%	-4.2%	1.217
C$ per US$	0.3%	0.6%	7.3%	1.447

Source: Bloomberg. Equity-index returns are price only, others are total returns.
*100 basis points = 1 percentage point.
**Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

Important information

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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