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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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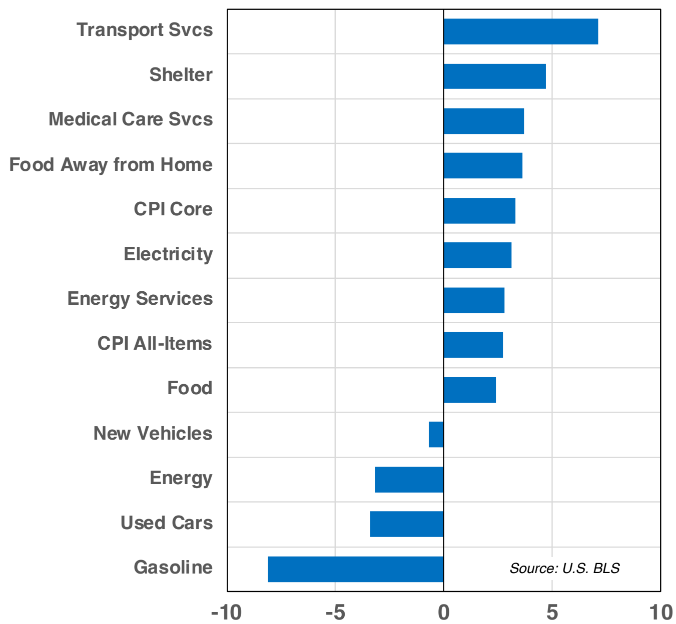
INFLATION STAYS STUBBORN

Two important inflation reports were released recently. Both indicated that overall pricing pressures remain well below the peak rates in 2022. But both also confirmed that inflation remains above the Fed's target of 2.0%. Let's first take a deeper dive into the Consumer Price Index. There were some positive results here, even though the annualized headline number ticked higher from the previous month (2.7% versus 2.6%). According to the latest report, the core inflation rate (ex-food and energy) was steady at 3.3%. That good news was accompanied by monthly pricing slowdowns in important categories such as Transportation Services and Shelter. If these two categories continue to slow, the overall rate should turn lower as well. The other report was the Producer Price Index, which measures pricing trends farther up the supply chain, at the manufacturing level. Here, we saw mixed trends. The PPI final demand annual rate through November was 3.0%, compared to 2.4% in October and 1.9% in September. But the PPI intermediate demand rates for both processed and unprocessed goods were outright negative. We expect pricing pressures to continue to ease as the housing market cools, supplies of new vehicles are replenished, and the price of oil stays below $90 per barrel. The Fed lifted the feds fund rate from 0.0% to above 5.25% in 2022-2023, and those hikes evidently did their part in reducing inflationary pressures.

INFLATION FACTORS (% CHANGE Y/Y)



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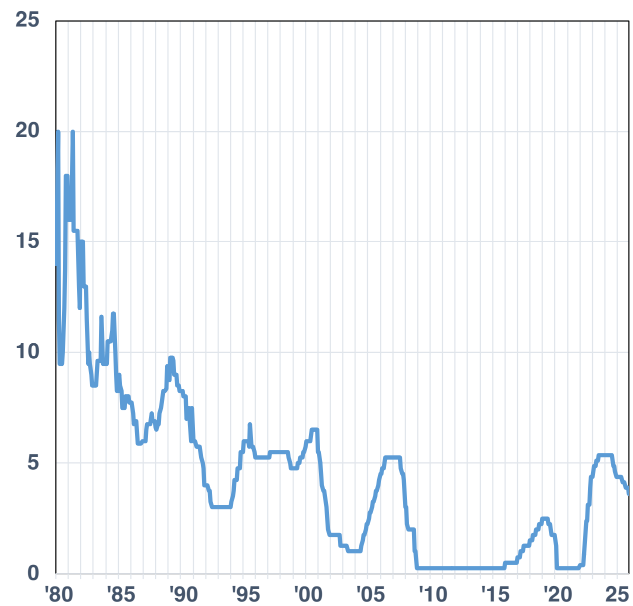
FED LIKELY TO SLOW RATE CUT PACE

The Fed wrapped up its Open Market Committee meeting and, as expected, lowered the federal funds rate by another 25 basis points. But based on forecasts released along with the rate decision, it looks like the Fed will refrain from lowering rates aggressively in the months ahead. While the Fed has shifted its emphasis from solely fighting inflation, it is not yet able to completely focus on stimulating the economy. Indeed, the economy is not in dire need of lower rates. Yet. The market's reaction to the Fed's signals indicates that investors and traders are more concerned that the current level of high rates will push the economy closer to recession. In our opinion, that doesn't have to happen. Going into the meeting, our forecast for 2025 was that the Fed would cut rates three times. We are holding to that forecast, but now think the Fed will space out those cuts over the full year instead of the first half. The cuts would bring the fed funds rate down toward 3.5%, which, assuming inflation resumes its trek toward 2.0%, will return real, inflation-adjusted rates toward historical averages.

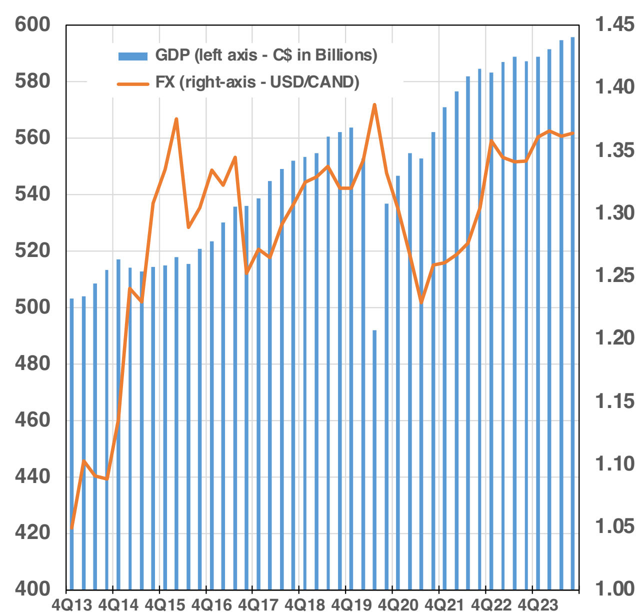
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



BANK OF CANADA LOWERS TARGET RATE AGAIN

In late October, Canada's Minister of Immigration, Refugees and Citizenship announced a 2025-2027 plan that was forecast to result in a marginal population decline of 0.2% in both 2025 and 2026 due to restrictions on temporary residents, international students, and foreign workers. Above-trend population growth in Canada of 3% in 2024 and 2025 put pressure on housing, infrastructure, and social services, as well as unemployment, which is running at about 6.8%. The new policies should ease the unemployment rate. In a positive development, the country has made progress bringing down inflation, allowing the Bank of Canada to reduce its target for overnight interest rates by another 50 basis points to 3.25%. Lower rates should help on a number of fronts, and already appear to be boosting housing activity and consumer spending. The Canadian economy could use the help, after growing by a less-than-expected 1% in 3Q. One wildcard is that the incoming Trump administration is considering tariffs on Canadian exports to the U.S., complicating Canada's central bank forecasting. Among our Canadian coverage, we believe the Financial sector remains among the better opportunities for Canadian stocks, as a rebound in loan growth from lower rates and an expected improvement in capital markets activity helps revenues.

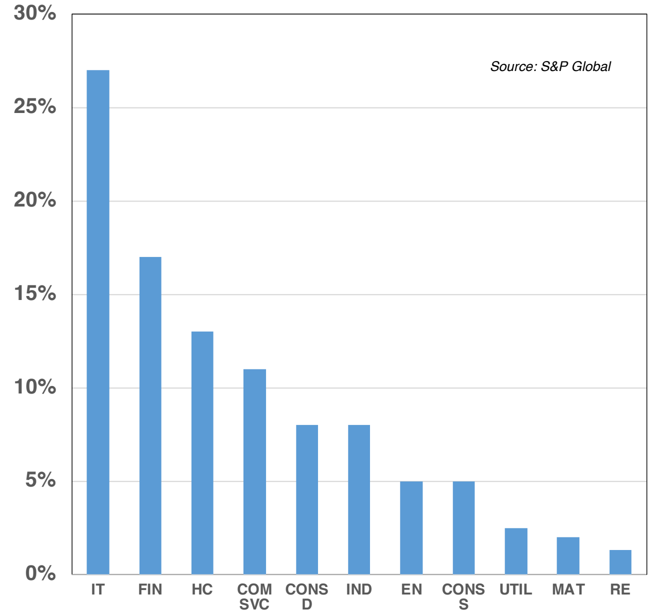
CANADIAN ECONOMIC TRENDS



NOT ALL SECTORS ARE EQUAL

When it comes to investing in sectors of the S&P 500, we think it makes sense to focus on a few key groups that can actually make a difference in terms of earnings and portfolio performance. The Real Estate sector which for about 2% of S&P 500 capitalization, but is expected to contribute only 1% of S&P 500 EPS during the during the upcoming earnings period. Materials is another 2% market weight that generates a thin 2% of total earnings. We don't think clients should be spending a lot of time getting these sectors exactly right. The groups that really make a difference are likely to be Information Technology, which is expected to account for 27% of S&P 500 earnings (and grow at a low double-digit rate year over year); and Financial and Healthcare, which are expected to account for 17% and 13%, respectively. Perhaps not surprisingly, these are three economic sectors in which the U.S. enjoys competitive advantages versus other nations. At the next tier, the Industrial, Consumer Discretionary, and Communication Services all appear in line, with market-cap weights and earnings contributions in the 9%-10% range. Energy punches above its weight, accounting for less than 4% of total market capitalization but generating 5% of S&P 500 profits.

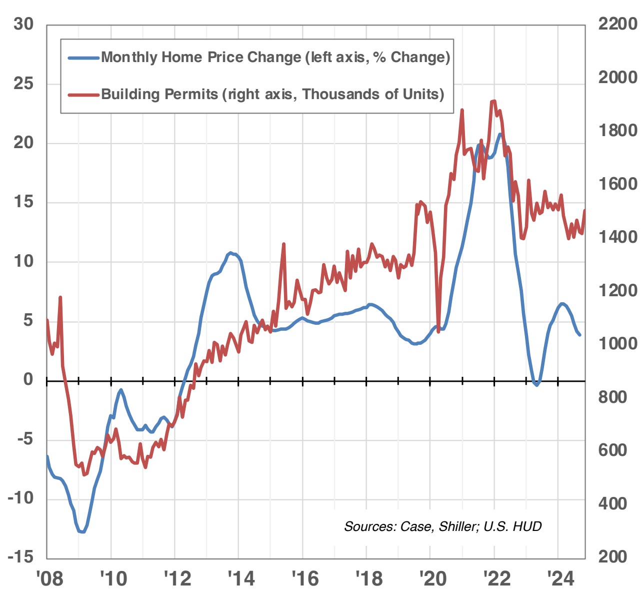
SECTOR OPERATING EARNINGS CONTRIBUTION



HOPEFUL ON HOUSING

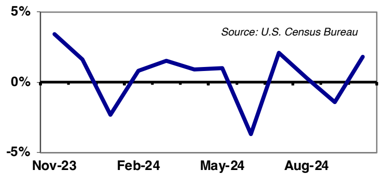
The expectations from homebuilders for future sales climbed to a nearly three-year high in December, according to the National Association of Homebuilders. This bullish outlook kept the NAHB/Wells Fargo Housing Market Index at 46, unchanged from November. Expectations for the next six months rose to 66 in December from 63 in November. A reading below 50 indicates that more builders see conditions as poor than good. The current conditions component of the index held steady at 48, while traffic from prospective buyers ticked down to 31. Traffic may be a useful indicator as the spring selling season approaches. We believe it will take a decline in the 30-year mortgage rate to about 6% to stimulate a significant improvement in traffic. The Fannie Mae Home Purchase Sentiment Index has risen by 10.7 points over the last year to 75.0 in November. The percentage of respondents who say it is a good time to buy a home increased last month, but sentiment remains very low at 23%. Two other findings from Fannie's survey are that consumers expect their personal financial situation to improve over the next 12 months and they expect the pace of home price growth to slow. We remain upbeat on home builders because demographics point to strong demand amid a decades-long shortage of affordable homes.

HOUSING MARKET TRENDS

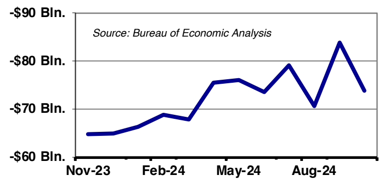


ECONOMIC TRADING CHARTS & CALENDAR

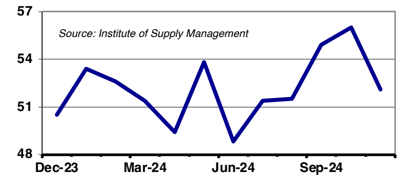
Release: **Factory Orders**
Date: 1/6/2025
Month: November
Previous Report: 1.8%
Argus Estimate: -1.9%
Street Estimate: NA



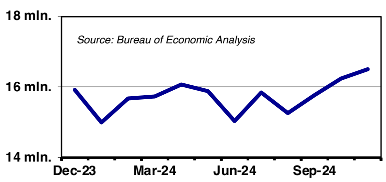
Release: **Trade Balance**
Date: 1/7/2025
Month: November
Previous Report: -$73.8 Bln.
Argus Estimate: -$76.8 Bln.
Street Estimate: -$78.5 Bln.



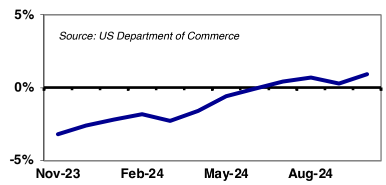
Release: **ISM Services Index**
Date: 1/7/2025
Month: December
Previous Report: 52.1
Argus Estimate: 54.0
Street Estimate: 53.3



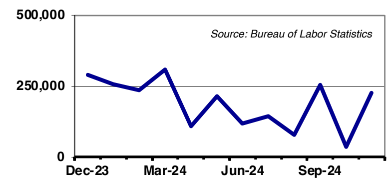
Release: **Total Vehicle Sales**
Date: 1/8/2024
Month: December
Previous Report: 16.50 mln.
Argus Estimate: 16.50 mln.
Street Estimate: 16.50 mln.



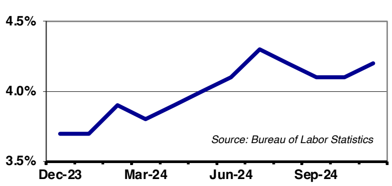
Release: **Wholesale Inventories**
Date: 1/9/2025
Month: November
Previous Report: 0.9%
Argus Estimate: 1.0%
Street Estimate: NA



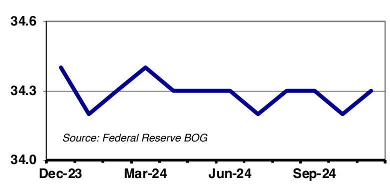
Release: **Nonfarm Payrolls**
Date: 1/10/2025
Month: December
Previous Report: 227000
Argus Estimate: 125000
Street Estimate: 153000



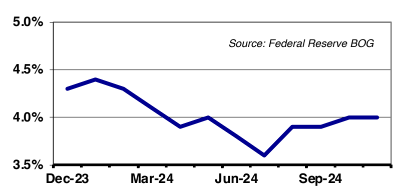
Release: **Unemployment Rate**
Date: 1/10/2025
Month: December
Previous Report: 4.2%
Argus Estimate: 4.2%
Street Estimate: 4.2%



Release: **Average Weekly Hours**
Date: 1/10/2025
Month: December
Previous Report: 34.3
Argus Estimate: 34.3
Street Estimate: 34.3

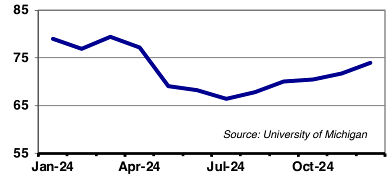


Release: **Average Hourly Earnings**
Date: 1/10/2025
Month: December
Previous Report: 4.0%
Argus Estimate: 4.0%
Street Estimate: 4.0%



Previous Week's Releases and Next Week's Releases on next page.

Release:	U. of Michigan Sentiment
Date:	1/10/2025
Month:	January
Previous Report:	74.0
Argus Estimate:	72.0
Street Estimate:	NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
2-Jan	Construction Spending	November	5.0	4.4	NA	NA
3-Jan	ISM Manufacturing	December	48.4	48.6	NA	NA
	ISM New Orders	December	50.4	50.5	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
14-Jan	PPI Final Demand	December	3.0%	NA	NA	NA
	PPI ex-Food & Energy	December	3.4%	NA	NA	NA
15-Jan	Consumer Price Index	December	2.7%	NA	NA	NA
	CPI ex-Food & Energy	December	3.3%	NA	NA	NA
16-Jan	Retail Sales	December	3.8%	NA	NA	NA
	Retail Sales ex-autos	December	3.2%	NA	NA	NA
	Import Price Index	December	1.3%	NA	NA	NA
	Business Inventories	November	2.4%	NA	NA	NA
17-Jan	Industrial Production	December	-0.9%	NA	NA	NA
	Capacity Utilization	December	76.8%	NA	NA	NA
	Housing Starts	December	1,289K	NA	NA	NA