



# PRECISION

## Financial Services, Inc.

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## February Market Update

### Month at a Glance

If the first month of the year is any indication of what 2025 will bring, we can expect resilience with some volatility sprinkled in across financial markets.

The surface narrative for January was to “see what the president does,” and there was plenty of action via executive orders and policy changes for political junkies to analyze.

After the inauguration early in the month, attention quickly turned to economic data while the action from Washington continued to dominate headlines. Sprinkle in earnings season and a Fed meeting at the end of the month, and we had quite an eventful month.

Overall, for the month of January, the S&P 500 (\$SPX) increased by [2.70%](#), the Nasdaq 100 (\$NDX) rose by [2.22%](#), and the Dow Jones Industrial Average (\$DJI) was higher by [4.70%](#).

### Q4 Earnings Season

Let's start with earnings since they are among the core fundamental drivers of equity pricing. Q4 earnings season is off to a promising start, and activity shifted into high gear in the last week of the month with some big tech showing their results.

During the final week of January, Meta, Microsoft, and Tesla all reported earnings after the bell on the same day, and all three stocks came into and out of the earnings results nearly unscathed on somewhat mixed results.

Stocks reacted positively and ended higher on the session with these results, as investors eagerly awaited results from Apple after the bell.

Apple did not disappoint. While sales of iPhones missed the mark, services revenue more than made up for it in Q4, and Chief Executive Officer (CEO) Tim Cook mentioned that sales were hotter in countries where Apple

Intelligence is available, supporting the iPhone theme. Shares of Apple rose after the results.

## Monthly Inflation Update

Producer Price Index (PPI): Producer Price Index (PPI) data showed that December prices rose by only 0.2%, lower than the 0.4% expected. This most recent data puts PPI at a [3.3%](#) annual growth rate. We will take the small win!

Core PPI (which removes more volatile food and energy prices) stayed the same in December. This reading was below the expected 0.3% increase, which is also a positive sign. Core PPI now shows a year-over-year increase of 3.5%.

Central bankers watch Core PPI closely to assess price stability. This lower reading set a positive tone for the important Consumer Price Index (CPI) data that was released the next day.

Consumer Price Index (CPI): CPI data showed a monthly increase of 0.4%, slightly above what was expected. This results in a 2.9% inflation rate compared to last year, up from 2.7% in November. The [increase was driven](#) by higher prices for energy, food, vehicles, car insurance, and airfare.

While this might seem concerning, the overall data contained encouraging details that markets loved to see. Core CPI (excludes food and energy) increased by just 0.2%, below the expected 0.3%. It is now at a 3.2% annual rate, which the markets reacted positively to.

Another point of interest was shelter pricing. For December, shelter prices rose by 0.3% from the previous month and saw a 4.6% increase compared to last year. This gain is the smallest yearly gain since January 2022 — three years ago. Since housing prices are among the most stubborn in inflation trends, this news was a positive sign for the markets, and major U.S. stock market indexes rallied hard on the day of the data release.

## Scorching Hot Payrolls

December payroll data (January data release) showed that [256,000 jobs](#) were created for the month, significantly higher than the expected 155,000. Typically, this would indicate a robust U.S. job market and suggest that a recession is not on the horizon, which would please investors.

However, this time, the market response was less favorable. The strong economic data led to decreased expectations for a Federal Reserve rate cut at the January meeting, and unchanged rates is what we got.

In addition, the unemployment rate fell by one-tenth of a percentage point to 4.1%, down from the previously reported 4.2% in November.

Recent commentary coming out of the January Fed meeting included the labor market is "in balance," despite the smoking hot payroll number we saw

for December.

We get our next look at the labor market on Friday, February 7th, with 154,000 jobs expected to have been created in January.

## January Fed Meeting

During the final week of January, the Fed left rates unchanged as expected, keeping the federal funds rate at 4.25% - 4.50%.

The Fed statement included: "The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid," the new statement read.

The statement also indicated that "inflation remains somewhat elevated." and that the economy "has continued to expand at a solid pace."

Notably, the Fed removed any mention of "progress on inflation" from the statement. So, the Fed is taking a less confident view on inflation.

The Fed decision day resulted in many investors not being in the buying mood, as major U.S. stock indexes fell during the session.

## Interest Rates

Fortunately, interest rates chilled out a bit in January post-inauguration. The white-hot rise pre-inauguration caught a breather and to end the month. The 10-year yield settled near [4.569%](#), just about unchanged for the month as a whole (lower by 4/10 of a single basis point).

Investors seemed happy to take the other side of the pre-inauguration runup in rates by buying bonds after the event, taking 10-year yields from the near 4.80% level back down under 4.6%.

[Bond vigilantes](#) were the talk of the town during the runup in interest rates, and they have since been on the quiet side. Perhaps the emotionally charged fear of sharply higher rates under the new president was overdone, and investors found opportunity on the other side of the trade. Ah, fear and greed!

This leaves the average 30-year fixed mortgage rate near [7.05%](#) on the last day of January according to Mortgage News Daily.

2-year yields ended January near [4.207%](#), down three and a half basis points on the month.

## Deepseek AI Rattles Big Earnings Week

With markets already digesting plenty of change out of Washington and looking ahead to the biggest week of earnings in the final week of January, markets reacted to news of Deepseek before Monday's market open.

The news of China's Deepseek AI being produced for a fraction of the cost of OpenAI's ChatGPT sent futures markets reeling overnight ahead of the opening bell for the final week of January.

Markets lost ground heavily that Monday, but many sectors recovered nicely for the most part as the week progressed via earnings and economic data. Chipmakers (notably NVIDIA) took a hit on the news.

## Putting it Together

Yes, it has been a whirlwind of a month headline-wise — primarily via the transition of power in Washington — but looking at the monthly charts of major indexes, it just looks like a pedestrian bull market month.

That's what is nice about charts and data; they remove emotions and noise.

## What To Do?

So, here we are, in the present moment, with plenty of changes coming out of Washington as markets kick off the fresh year. So far, earnings season has been on the solid side, the labor market commentary from the Fed was constructive, and recent inflation data showed stickiness, resulting in pausing Fed navigating the unknown policies from the new administration.

As long-term investors, when the unknown or unexpected occurs (like Deepseek), these are the moments to remember the long-term plan. Volatility is always going to present itself in these markets, and it is crucial to remember the plan when volatility spikes.

## Volatility Spikes?

On that note, volatility spikes in recent days and months have been mostly short-lived, and it seems that markets have gotten accustomed to that type of volatility digestion. That will not always be the case, and as investors we are mentally prepared for that.

Precision Financial Services, Inc.  
350 US Highway 46  
Mine Hill, NJ 07803

Tel: 973-927-6300  
Fax: 973-927-7190  
[www.precisionfinancial.com](http://www.precisionfinancial.com)

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