

## Inflation Data, Bank Earnings Spell Relief

It was a good week for the stock market.



In fact, it was the best week for the S&P 500 since the election, which is notable given that Donald J. Trump will be inaugurated Monday as the 47th President of the United States of America.

This week, however, wasn't so much about politics as it was about other factors, namely the market's perception of inflation trends and its excitement over the earnings results from many of the nation's largest financial institutions. Politics did play a part though.

There was an exhale on the news that Israel and Hamas reached a ceasefire agreement; and there was some speculative energy related to the impending arrival of a new administration to the

White House that is pushing deregulation and lower tax rates.

That push was reiterated by Treasury Secretary nominee Scott Bessent in his confirmation hearing on Thursday along with the view that the U.S. needs to get its fiscal house in order. On a related note, the Congressional Budget Office (CBO) issued a report on Friday in which it projected a \$1.9 trillion budget deficit for fiscal 2025.

The stock market did not wallow in the CBO's report. Rather, it was still basking in the glow of the December PPI and CPI reports from earlier in the week that were better than feared, helping to temper some of the market's inflation angst. That applied to the Treasury market as well, which saw yields drop sharply in the wake of the CPI report, which featured a dip in the year-over-year rate for core-CPI to 3.2% from 3.3%.

The 2-yr note yield fell 13 basis points this week to 4.27% while the 10-yr note yield dropped 17 basis points to 4.61%.

The lower Treasury yields ignited a stock market rally that saw the Dow, Nasdaq, and S&P 500 log their biggest daily gains on Wednesday since the day after the election. The stock market was also enjoying a slate of earnings news that day from the likes of JPMorgan Chase (JPM), Goldman Sachs (GS), BlackRock (BLK), Wells Fargo (WFC), and Citigroup (C) that was much better than expected.

Those reports fueled a 6.1% gain for the financial sector in a week filled with big returns. The energy sector was also up 6.1%; the materials sector jumped 6.0%; the industrials sector increased 4.8%; the utilities sector added 4.3%; and the consumer discretionary sector rose 4.0%, making it a week that predominately had a cyclical charge to it.

It was also a week that saw value outperform growth, small caps outperform large caps (and mega caps), and the equal-weighted S&P 500 (+3.9%) outperform the market cap-weighted S&P 500 (+2.9%), which on Friday reclaimed a posture above its 50-day moving average.

- S&P Midcap 400: +4.5% for the week / +3.8% YTD
- Russell 2000: +4.0% for the week / +2.1% YTD
- S&P 500: +2.9% for the week / +2.0% YTD
- Dow Jones Industrial Average: +3.7% for the week / +2.2% YTD
- Nasdaq Composite: +2.4% for the week / +1.7% YTD

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