

WEEKLY MARKET COMMENTARY

February 10, 2025

WEEK IN REVIEW

Major market indices ended the week lower due to mixed economic data. For the week ending February 7, 2025:

- The S&P 500 closed down **-0.24%**.
- The Dow Jones Industrial Average was lower, down **-0.54%**
- The tech-heavy Nasdaq fell to **-0.53%**
- The 10-Year Treasury yield closed at **4.49%**.

Major market indices concluded the week on a lower note amidst concerns over rising inflation. The S&P 500 ended with a decline of 0.24%, while the Dow Jones Industrial Average saw a decrease of 0.54%. The Nasdaq, known for its tech stocks, fell by 0.53%. Meanwhile, the 10-Year Treasury yield settled at 4.49%.

Last week offered a mixed bag of signals for market watchers, particularly regarding the health of the labor market. Conflicting data points left investors parsing through a complex landscape of potential strengths and weaknesses.

The labor market data painted an unclear picture this week. The December Job Openings and Labor Turnover Survey (JOLTS) showed a decrease in job openings to 7.6 million, a drop of 556,000 from the previous month. Initial and continuing jobless claims, along with Nonfarm Productivity, all fell short of expectations, with initial claims being higher than expected for three out of the last four weeks. The January Nonfarm Payroll report indicated moderate growth with 143,000 jobs added, which was below the forecast of 170,000 but in line with the average monthly gain of 166,000 in 2024. This suggests a resilient labor market despite a slight slowdown from December's impressive figures.

In January, the unemployment rate dipped to 4.0%, highlighting the ongoing strength of employment conditions. This unexpected decrease from December's 4.1% further underscores the labor market's resilience. Although the rise in wages could raise inflation concerns, the lower-than-expected Unit Labor Cost reading provided comfort. Notably, significant revisions to 2024 employment data revealed that 589,000 fewer jobs were added last year than initially reported. This adjustment offers a more accurate picture of recent labor market trends, indicating a more gradual growth pattern than previously anticipated.

Beyond labor, other key reports warrant attention. The ISM Manufacturing Prices report indicated higher input costs, potentially foreshadowing future inflation. The December trade deficit widened to \$98.4 billion, a figure that will likely be scrutinized given the current focus on trade policy. Finally, crude oil inventories surged, continuing a six-week trend of weaker-than-expected oil demand. Overall, the week presented a wealth of often contradictory data, leaving markets with the challenging task of discerning the true underlying trends.

SPOTLIGHT

Tariffs in America: A Historical Perspective

Throughout American history, tariffs have been a controversial topic. From the nation's early days, the struggle to find consensus on this issue set the stage for a long-standing debate in American trade policy. As one historian noted, "Except for slavery, tariffs became the most contentious federal policy issue of the 19th century and remained a source of continuous discord until the Great Depression."

This enduring debate has shaped both domestic and international economic landscapes for over two centuries, reflecting broader tensions between protectionist and free trade ideologies, regional economic interests, and perspectives on national economic development. The ongoing nature of this debate underscores the complexity of balancing domestic industry protection with international trade benefits, highlighting how economic policies are intrinsically linked to political ideologies, regional interests, and changing global economic conditions.

Historical Background

Tariffs have been a contentious issue in American history since the nation's inception. This became evident in 1789 when James Madison proposed tariffs and tonnage duties to fund the new government's operations and debt payments. Sectional interests quickly emerged, with Northern manufacturers advocating for high protective tariffs and Southern planters favoring low tariffs. Despite reaching a compromise, tariffs remained controversial, plagued by conflicting regional interests.

Protectionism

Over time, protecting regional interests evolved into safeguarding American interests, leading to the rise of protectionism. Alexander Hamilton articulated the "infant industry" argument in his 1791 Report on Manufactures, suggesting that nascent American industries needed protection from foreign competition. His proposals for differentiated tariff rates laid the foundation for protectionist policies. Henry Clay further advanced these policies through his "American System," which aimed to protect American industry, foster commerce with a national bank, and develop agricultural markets through federal subsidies. Clay's protectionist stance met substantial opposition and led to decades of political crises.

Opposition to Protectionism

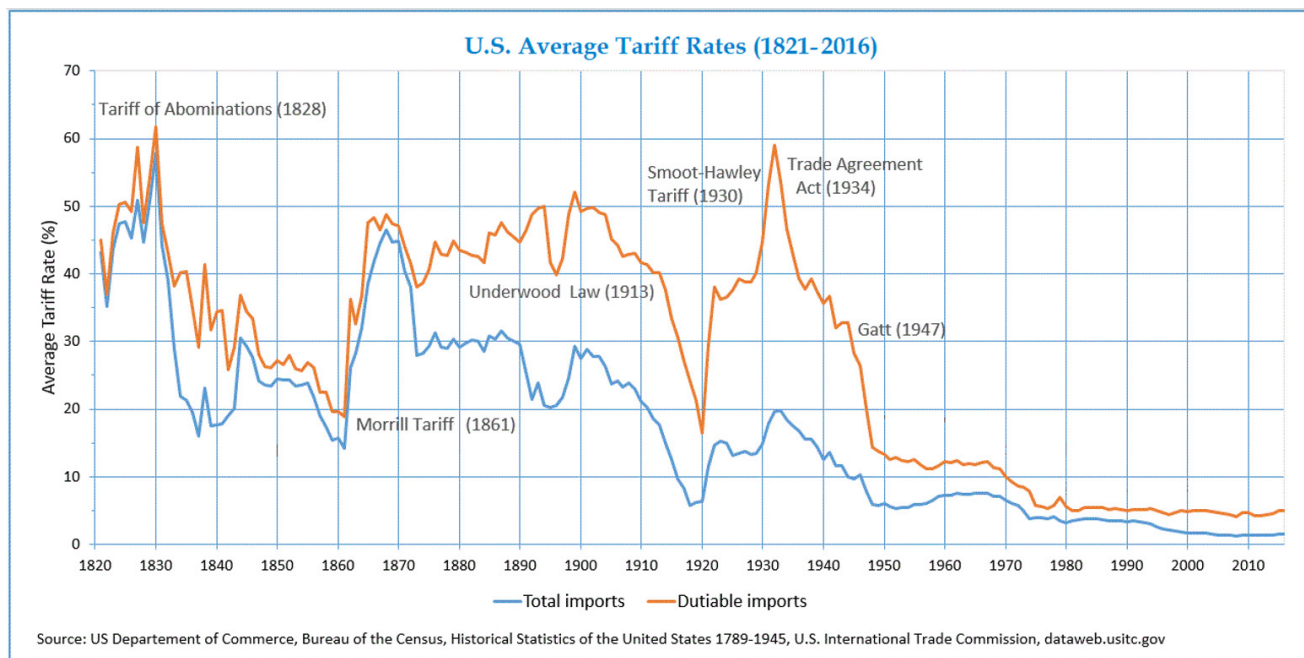
Opposition to protectionism in the 19th century was significant. Many believed high tariffs would harm consumers and foster corruption through rent-seeking behavior. This opposition was evident in events like the Nullification Crisis of 1832.

Free traders achieved notable victories, such as the Walker Tariff of 1846, which reduced rates and established standardized ad valorem rates. British imports tripled between 1846 and 1857, and tariff revenues increased significantly. The Underwood Tariff of 1913 further reduced tariff rates and introduced the federal income tax as an alternative revenue source.

Early 20th Century

Protectionists enjoyed success with the Fordney-McCumber Tariff of 1922, which restored rates to pre-Underwood levels. This period of high tariff protectionism saw strong domestic economic performance.

However, the Smoot-Hawley Tariff Act of 1930, which raised average tariff rates to nearly 60 percent, proved disastrous. It precipitated a global trade war and exacerbated the Great Depression, leading to a significant decline in world trade and further economic downturn.



Today's Realities

Tariffs remain a contentious issue, influencing domestic market prices and resource allocation. While history serves as a guide, the contemporary tariff debate has evolved to reflect new realities that have taken center stage. These include China's economic dominance and trade practices, shifting power balances among major economies, the growing influence of emerging markets, developing nations' roles in global trade, technological advancements impacting international commerce, environmental concerns, sustainable trade practices, and the complexities of global supply chains.

This ongoing debate highlights the intricate and lasting impact of tariff policies on both economic and political landscapes. Reflecting on the wisdom of the past, one historian observed that trade policy remains a hotly debated topic because, "dollars and jobs are at stake whenever import duties are adjusted."

WEEK AHEAD

The economic spotlight will intensify mid-week, as a series of significant reports provide a snapshot of the current economic landscape. These reports, covering inflation, the labor market, consumer spending, and industrial production, will offer a comprehensive view of the economy and influence future policy decisions.

On Wednesday, February 12, the Bureau of Labor Statistics will release the Consumer Price Index (CPI) for January 2025. The previous CPI reading for December 2024 showed a 0.4% increase month-over-month and a 2.9% increase year-over-year. This report is crucial for assessing inflationary pressures on consumers, as it measures changes in the prices they pay for goods and services. The following day, Thursday, February 13, the Producer Price Index (PPI) for January 2025 will be published. The previous PPI reading for December 2024 showed a 0.2% increase month-over-month, below the expected 0.4%. The PPI tracks changes in selling prices received by domestic producers, offering early insights into wholesale inflation trends that may eventually impact consumer prices.

Next week, the Department of Labor will release the weekly initial and continuing jobless claims. The most recent data showed 219,000 initial claims for the week ending February 1, and 1,858,000 continuing claims for the week ending January 18. Economists will be monitoring these figures to see if the trends continue, as low jobless claims may signal a resilient labor market.

Closing out the week on Friday, the retail sales report will be released, measuring total receipts of retail stores, indicating consumer spending levels. Retail sales are a key indicator of consumer spending, which drives a significant portion of economic activity. Strong retail sales suggest robust consumer demand which can support economic growth. Concurrently, the U.S. Baker Hughes Oil Rig Count, a leading indicator of oil production activity, will be released, signaling future oil production levels.

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The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange.

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