Welcome to Transition Insights!

Firm Announcements

We want to share that Ashley Hopkins is no longer with the firm. We appreciate the contributions she made during her time with us and wish her all the best in her future endeavors.

Secondly, we are thrilled to announce a wonderful addition to the firm and ask that you join us in welcoming our new Client Service Associate, Meredith Dulak!

Meredith's enthusiasm is already making waves here at The Wealth Transition Collective, and we are confident that her contributions will help us continue to exceed our client's expectations. Please feel free to reach out for a more personal introduction or if you have any questions about how Meredith can assist you more effectively.

Growing up in Belchertown, MA, my passion for dance flourished, leading me to become a certified acrobatics instructor after high school. Recently I completed my academic study for a bachelor's in business management from Elms College and have taken on the role of client service associate at The Wealth Transition Collective. A transformative internship at The Wealth Transition Collective is what ignited my interest in financial services, prompting me to pursue a master's in financial planning at Elms College. Outside of work, I enjoy hiking, golfing, reading, and traveling—having a goal of visiting all 50 U.S. states!

Tariffs & Your Wallet - What You Need to Know

First, Some Helpful Background

In case you are unaware of the specifics: On February 1, 2025, President Donald Trump signed three executive orders imposing tariffs on Mexico, Canada, and China.

Under these executive orders, all imports from China would see a 10% tariff, with all imports from Mexico set to receive a 25% tariff. All imports from Canada would be hit with a 25% tariff, with the exception of energy/energy resources, which would see a 10% tariff.

Both Canada and Mexico negotiated deals with President Trump before the tariffs were to go into effect on February 4, 2025. In each case, the tariffs were pushed back at least 30 days.

China, however, did not strike a deal as of the deadline, making its tariffs effective as of February 4, 2025. This order will not apply to goods that were already in final transit prior to 12:01 a.m. on February 1, 2025.

A Recent History of Chinese Tariffs

Keep in mind that most imported goods already face a tariff, but this tariff is usually low, with an average of 2.5%. China is an exception to this, as both the Biden and the prior Trump administrations imposed tariffs on goods in recent years.

Because these new tariffs will be added to the existing tariffs, the average tariff for Chinese goods will be around 30%, up from 20%.

Why Are Tariffs Happening?

Tariffs were a major campaign promise from President Trump, who even floated the idea of 10%-20% tariffs on all imported goods during his campaign. The president cited fentanyl coming from China as the reason for the country’s tariffs.

According to recent polls, Americans remain divided over whether tariffs should be imposed. 52% of registered voters approve of tariffs on China.

That tells us what we may already have seen on our TVs: Some Americans are likely to argue that any financial impacts are worth it, and others are likely to vehemently disagree. But regardless of personal belief, there is little question that we all are likely to feel an impact on our wallets.

At least it seems so at this stage — and certainly in the short term. Higher prices haven't gone away in recent months and years, and the full effects on tariffs are obviously yet to be seen, as they were just enacted.

Impact on Consumers, U.S. Manufacturers

Tariffs on Chinese goods are very likely to be felt directly by consumers. So many goods come from China — think clothing, electronics, and toys, to name a few. For example, China provides 40% of overall footwear imports.

At least in the short-term, some U.S. manufacturers may actually feel positive effects, as there will be less competition. That is the crux of an argument from those who support tariffs: that domestic manufacturing could benefit (big tech included). Other manufacturers could move operations away from China, potentially increasing American jobs.

All of this depends, however, on how long Chinese tariffs stay in place. President Trump is likely to speak with Chinese President Xi Jinping this week, and it is possible the two leaders will come to an agreement, as happened with both Canada and Mexico. Let's not forget that the U.S. is the wheel that keeps the global economy turning.

What Has China's Response Been?

In addition to promising a case in front of the World Trade Organization, China announced potential sanctions of U.S. companies and limited tariffs in response to the Trump administration's action. Overall, this was a subdued, steady response to the tariffs that suggests a deal may be possible.

Regardless, these tariffs are unlikely to be the last ones we see, with President Trump mentioning tariffs on the European Union quite recently. President Trump may continue to use tariffs as a negotiation tactic, which could lead to some market volatility.

With that said, while the headlines may scream uh-oh this week, let's remember that these actions are not surprises and were well broadcasted ahead of time. Emotional decisions are not usually the friend of the long-term investor.

ITS THAT TIME OF THE YEAR!

THE WEALTH TRANSITION
COLLECTIVE

Invites you to our annual

SHRED DAY

to benefit Cooley Dickinson Hospital
Saturday, April 19, 2025
9am – 11am
15 Atwood Place, Northampton, MA
$5 donation per paper box
Only paper will be accepted
First come, first served
until truck is full or 11am, whichever is first

February Update: S&P 500 Rises, AI, Politics

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.