

The Range of Possible Economic Outcomes is Wide. Diversification is Key

Equities Post Another Record Month

Despite tariff concerns and an AI scare driving the bid for safe haven assets towards the end of the month, strong earnings and consumer spending drove another positive month of equity returns in January. The S&P 500 Index closed the month at another all-time high despite volatility. International developed equities (+4.4%) were among the best performers, followed by US mid-caps (+3.7%) and US small-caps (+2.9%). Bonds were mostly up as high yield credits increased 1.4%, Treasury inflation protected notes gained 1.3%, and the US Aggregate Bond Index rose 0.6%. Commodities were among the best performers, with silver and gold at 8.28% and 6.79% respectively, with broad-based commodities (+3.85%) and crude oil (+3.27%) also producing notable returns.

Exhibit 1: Trailing Returns as of January 31, 2025

Index/ETF	YTD	3-Mo	1-Y	3-Y	5-Y
Equities					
International Developed Equities (SPDW)	4.39%	1.24%	9.15%	3.71%	6.15%
US Mid-Caps (SPMD)	3.71%	4.89%	20.16%	8.81%	11.71%
US Small-Caps (SPSM)	2.94%	4.96%	16.33%	5.51%	9.84%
US Value (SPYV)	2.85%	1.41%	15.08%	10.80%	11.69%
US Large-Caps (SPY)	2.69%	6.19%	26.17%	11.81%	15.08%
US Growth (SPYG)	2.62%	9.71%	35.56%	11.83%	17.13%
Broad-based Emerging Markets (SPEM)	0.94%	-2.15%	16.66%	0.46%	4.74%
US Fixed Income					
High Yield Credit (JNK)	1.35%	2.14%	8.98%	3.48%	3.39%
Treasury Inflation Protected Notes (SPIP)	1.26%	-0.12%	2.63%	-1.62%	1.41%
US Aggregate Bond Index (SPAB)	0.64%	0.02%	2.17%	-1.54%	-0.67%
US Treasury 7-10 Year (IEF)	0.62%	-0.65%	-0.10%	-3.52%	-2.01%
Investment Grade Corporate Bonds (SPBO)	0.52%	0.06%	3.18%	-0.82%	0.12%
Municipal Bonds (MUB)	-0.01%	0.30%	1.20%	0.49%	0.68%
Commodities					
Silver (SLV)	8.28%	-4.36%	36.26%	11.08%	11.13%
Gold (GLD)	6.79%	1.99%	37.11%	15.43%	11.60%
Broad-based Commodities (BCI)	3.85%	5.12%	9.10%	1.97%	8.77%
Crude Oil (USO)	3.27%	6.76%	9.99%	7.68%	-2.09%

Source: FactSet. Data as of January 31, 2025. 1Y, 3Y, and 5Y numbers are annualized.

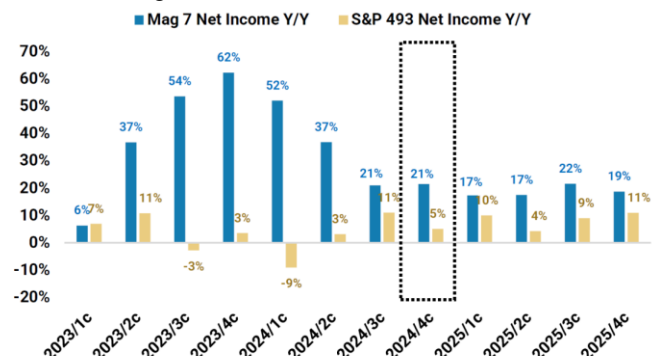
Fed Pauses, Proceeds with Caution

At the January FOMC meeting, the Federal Reserve chose to pause rate cuts, keeping the fed funds rate at the 4.25–4.50% range. This marks a shift from easing over the last few months. The Fed's decision reflects its more cautious stance amid ongoing, though decreasing, inflation pressures and a still-strong economy. While inflation has come down from its peak, it remains above the Fed's 2% target, and the central bank emphasized its commitment to monitoring economic conditions closely. However, policymakers indicated they foresee fewer rate cuts ahead, signaling that the era of aggressive easing may be over for now. The updated Summary of Economic Projections reflected this more measured approach, with the Fed now forecasting fewer rate cuts in 2025 than previously expected. The dot plot showed the potential for one or two cuts, down from earlier expectations for more substantial easing. Currently, an 86% chance of no change in March is priced in per the CME FedWatch Tool.

Mag 7 vs. S&P 493 Net Income Growth

In prior years, the Mag 7 outperformance was justifiable from an earnings standpoint. However, the rate of change in earnings has declined while the 493 is expected to marginally increase. Diversification will be paramount this year. NVDA lost nearly \$600 billion in market cap in one day. Investors may want to think about capping the weights in their portfolios.

Exhibit 2: Mag 7 and S&P 493 Net Income Growth



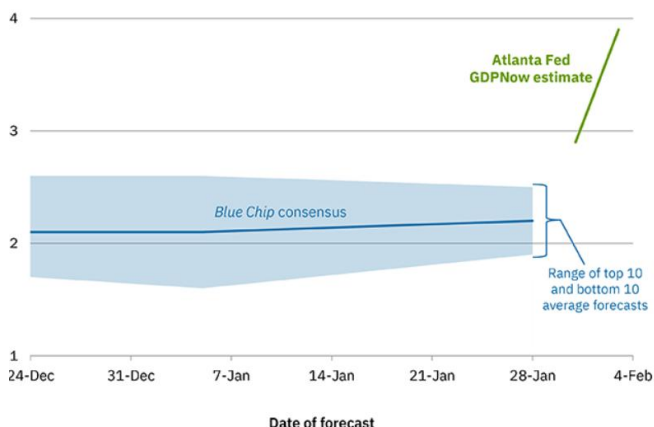
Source: FactSet, Morgan Stanley Research. Data as of January 21, 2025.

GDP Estimates Revised Higher

As of February 3, the GDPNow model projects real GDP growth at an annualized, seasonally adjusted rate of 3.9% for the first quarter of 2025, an increase from 2.9% on January 31. Following recent data from the Institute for Supply Management and the US Census Bureau, the forecasts for first-quarter growth in real personal consumption expenditures and real gross private domestic investment rose from 3.0% and 4.8% to 4.1% and 6.5%, respectively.

Exhibit 3: Evolution of Atlanta Fed GDPNow real GDP Estimate for 2025: Q1

Quarterly percent change (SAAR)



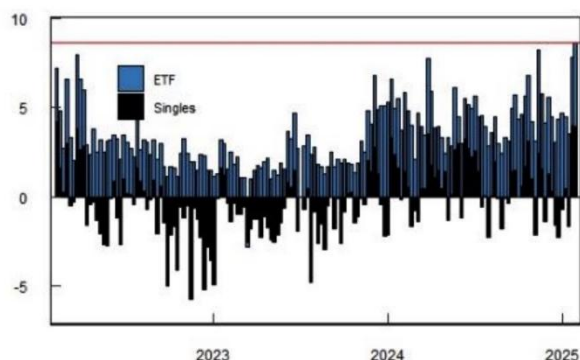
Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts. Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

US Retail Investor Shows Strength

Per JPMorgan, in the past week, retail traders net bought over \$8 billion in equities, the largest weekly inflow in two years.

Exhibit 4: Last Weekly Inflow is the Largest in 2 Years

\$B



Source: Twitter @WallStJesús, J.P. Morgan.

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The Range of Possible Economic Outcomes is Quite Wide. Diversification is Key

The economic recovery has been stronger and longer than most expected. We have conviction in pockets of the market, but concentration risk and high multiples remain an issue for large caps, and there are looming risks such as geopolitical tensions, and inflation concerns centered around policies such as tariffs. The distribution of outcomes is wide in 2025, and diversification will be key. Astoria prefers to invest in areas of the market we believe are more undervalued, as opposed to large-cap index funds, especially with bond yields at risk of moving higher.

In our 10 ETFs for 2025, we wrote this is a once-in-a-decade opportunity for US small caps. Using a median multiple, small-caps trade in the bottom 35th percentile, while large-caps trade in the top decile. As previously mentioned, the S&P 493 earnings are projected to steadily increase by year-end.

We like idiosyncratic investments like US banks, data centers, powerplays, and equal weighted strategies. Additionally, real assets, which historically have been effective inflation hedges, are trading at approximately half of the S&P 500 valuation.

On the fixed income side, US rates continue to be range-bound; keeping duration short is advisable. With credit spreads tight investors should look to be selective with bonds. We think the long-term debt cycle poses a systemic risk for 60/40 portfolios. Mortgage-backed securities look attractive with spreads of ~129bps and in the 79th percentile, whereas the US investment grade spreads are 88bps and in the 7th percentile.

For more information about Astoria Portfolio Advisors' latest macro insights, economic outlook and investment ideas, refer to [Astoria's ETF Macro Insights – February 2025](#)