Portfolio Manager Insights

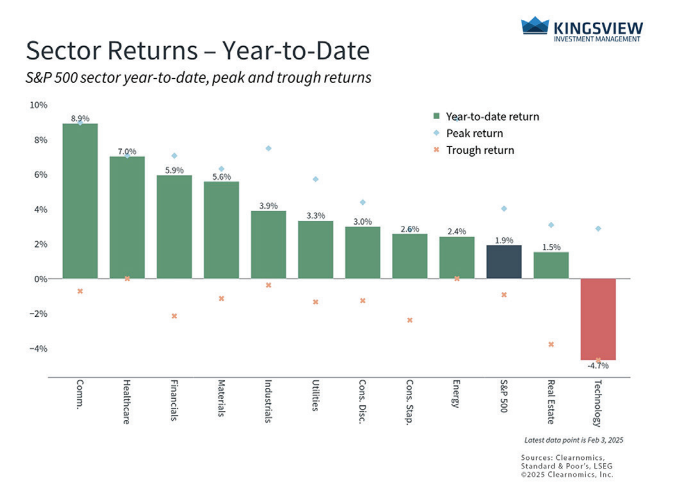
Monthly Market Update - January 2025
Weekly Investor Commentary | February 5, 2025
Investment Committee

January marked a positive but volatile start to the year for investors amid market shifts and policy concerns. President Trump returned to the White House and signed dozens of executive orders, the Chinese artificial intelligence company DeepSeek shook the tech industry, and the Fed hit pause on rate cuts. Looking forward, investors are focused on the latest round of tariffs and the impact on the global economy and inflation.

Key Market and Economic Drivers

- The S&P 500 gained 2.7% in January, the Nasdaq 1.6%, and the Dow Jones Industrial Average 4.7%.
- The 10-year Treasury yield ended the month at 4.5% but reached as high as 4.8% mid-month.
- The Federal Reserve held its key policy rate at 4.25 to 4.50% following three consecutive rate cuts.
- U.S. GDP grew 2.3% in Q4, or 2.8% across 2024.
- Inflation remained stubborn with the Consumer Price Index rising 2.9% year-over-year and the Personal Consumption Expenditures Index climbing 2.6%.

INFORMATION TECHNOLOGY STOCKS WERE IMPACTED BY RECENT AI NEWS



AI, Tariffs, and the Fed Pause

In January, financial markets were driven by technological disruption and policy transitions. A reported AI breakthrough by the Chinese company DeepSeek led to declines in some technology stocks, notably Nvidia. DeepSeek has purportedly built cutting-edge models that require 95-97% fewer resources to train than those created by OpenAI and other leading companies. While this is still being validated – OpenAI alleges that DeepSeek utilized its models – the possibility that the industry requires far fewer computing resources and energy has rippled across financial markets.

Technological developments matter for all investors, not just those who are focused on technology stocks, because these sectors have grown in importance in the past several years. Technology and artificial intelligence now represent a significant portion of major market indices, including the S&P 500 and Nasdaq, and are increasingly used by every sector of the economy.

Another important development is in Washington, where the Trump administration implemented new tariffs, including a 10% tariff on China and a 25% tariff on Canada. A 25% tariff on goods from Mexico has been paused for a month after reaching a deal with the Mexican president.

Tariffs have created uncertainty around global trade relationships, inflation, and economic growth. Canada has already responded with their own tariffs on U.S. goods. The exact economic impacts are not yet clear and will take time to unfold. While tariffs imposed during President Trump's first administration were primarily focused on specific industries and China, the new measures cast a wider net.

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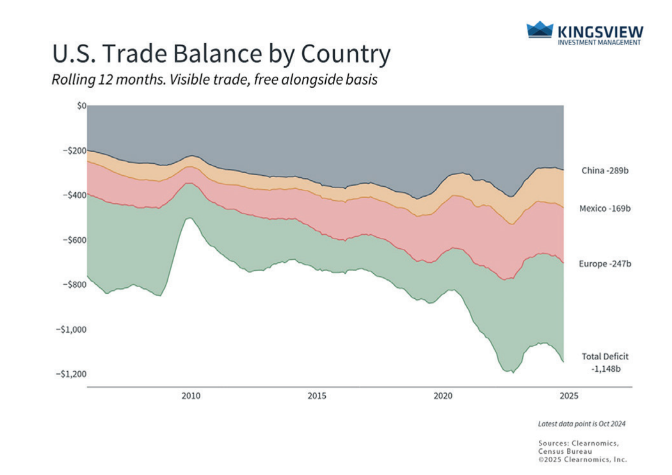
The stated purpose of these tariffs is to generate additional government revenue, to negotiate on border security, and to protect domestic industries. It's important to keep in mind that markets also feared escalating trade wars from 2017 to 2019. Despite many uncertainties, markets generally performed well over that period and businesses adapted by diversifying their supply chains. Ultimately, tariffs were a means of negotiating new trade deals such as the United States-Mexico-Canada Agreement (USMCA) and the Phase 1 trade deal with China.

Economists and market analysts project these measures could have economic implications for consumers and businesses, including the possibility of higher inflation. Various sectors face distinct challenges - the automotive industry must navigate complex cross-border supply chains, agricultural importers are grappling with potential price increases on fresh produce, and energy markets must adjust to new costs on Canadian oil imports, albeit at a lower 10% rate. Despite the market's immediate reaction, this will take time to play out.

Finally, the Federal Reserve decided to keep rates steady at 4.25 to 4.50% at its January meeting. This represents a pause in rate cuts after it lowered rates at the previous three meetings. Current market-based measures suggest that the Fed may cut rates only twice in 2025, although these expectations can change quickly.

The Fed made this decision because the economy is growing steadily, the job market is strong, and inflation remains stubborn. Recent data shows that inflation accelerated slightly on a year-over-year basis due to factors such as energy costs. Long-term interest rates have remained elevated as well, which suggests that investors also believe that monetary policy will need to remain restrictive for an extended period to ensure price stability.

NEW TARIFFS IMPACT OUR CLOSEST TRADING PARTNERS



Staying disciplined will only grow in importance with investor attention focused on the implementation of new administration policies, Federal Reserve decisions, and ongoing technological developments. With these factors continuing to influence markets, those who can maintain a broader perspective will be better positioned to achieve their financial goals.

The bottom line? Market moves in January reinforce the need to stay focused on the long run. Markets generally rose over the month despite day-to-day swings due to headlines and policy announcements. It's important to stick to an appropriately constructed portfolio to manage volatility, ideally with the support of a trusted advisor.