

THE DASHBOARD

February 2025



Economy

- ⊖ Growth
- ⊕ Employment
- ⊖ Households



Financial Conditions

- ⊖ Monetary Policy
- ⊗ Interest Rates
- ⊖ Inflation



Market

- ⊖ Valuations
- ⊕ Earnings
- ⊖ Trend

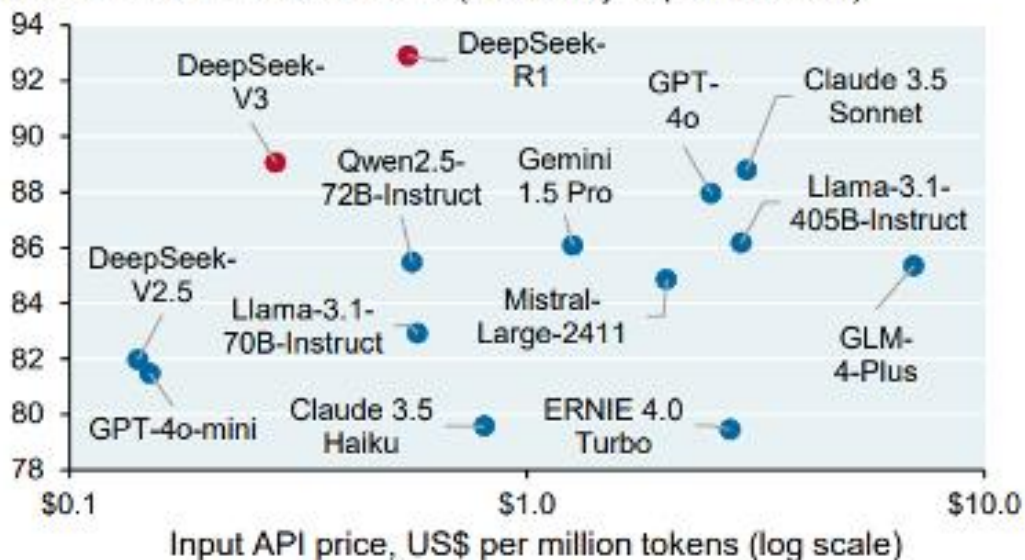
Markets started off the year on a positive note, with many major stock indices rising in January. The gains are likely attributable to the expectation for continued economic growth in 2025 driven by the potential for tax cuts and a lighter regulatory touch expected from the Trump administration. Notably, stock indexes like the Dow Jones Industrial Average (up nearly 5%) outpaced technology-heavy indexes like the Nasdaq Composite (up less than 2%) for the month, reversing a trend which saw large tech companies lead the market higher that has largely been in place since the end of 2022.¹

However, market volatility heightened later in the month as news that Chinese firm DeepSeek released a new R1 version of their open-sourced large language model (LLM). The model not only performed well on benchmark tests versus US peers like OpenAI (ChatGPT), Google (Gemini), Anthropic (Claude), and Meta (LLaMA), the model was supposedly trained at a fraction of the cost of other LLMs and without the benefit of the most advanced semiconductors from firms like Nvidia (see below).

¹ Source: YCharts

Cost vs performance of select AI models

MMLU Redux ZeroEval Score (multi-subject performance)



Source: DeepSeek, JPMAM, January 2025

The DeepSeek release rattled markets in late January by challenging the prevailing narrative that only by spending billions of dollars in training and incorporating the most advanced semiconductors can a company create advanced AI solutions. It also brought into question how effective the US policy to ban advanced chips being delivered to China has been. As a result, several of the large US technology companies fell when the news broke. For example, Nvidia lost \$600 billion in market value in just one day, the single largest event of its kind in history. For context, Nvidia lost more value in one day than the entire value of major companies such as Starbucks, Nike, and Exxon.²

In addition to the DeepSeek drama, President Donald Trump began his opening salvo in a series of potential trade wars with major US trading partners, China, Mexico and Canada in January. Shortly after their announcement, proposed tariffs on Canada and Mexico were paused for 30 days to allow for negotiations, a potential sign that the tariff threat had its intended effect of bringing those two countries to the negotiating table.

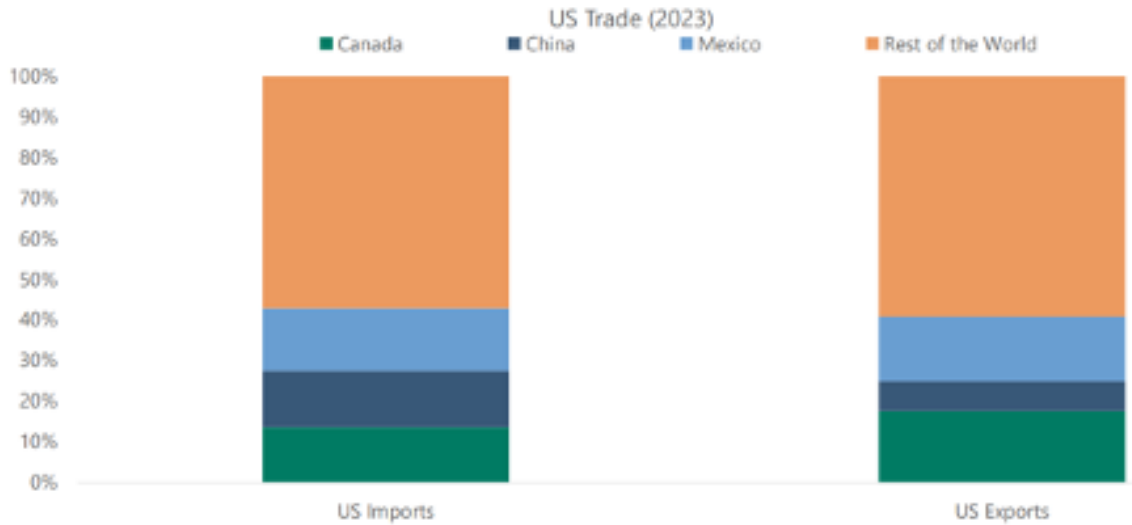
However, a 10% tariff on China imports is now in effect. We will be watching developments related to tariffs closely throughout February and beyond, as trade

² Source: FactSet

ABUNDANCE

WEALTH COUNSELORS

wars have the potential to reaccelerate inflation going forward (see US trade partners below).³



Turning to corporate earnings, we are about midway through earnings season and off to a good start, with companies reporting fourth quarter earnings growth of about 12% year over year, on average. This is on track to be the highest growth rate reported since the end of 2021. Communications, health care, and financial sectors are leading the way while energy, materials, and industrials companies are the laggards once again.⁴

While economic policy uncertainty has increased in 2025, we remain optimistic that growth will continue, aided by supportive fiscal policies, easing monetary policy conditions, technological innovation, a robust jobs market, and healthy household finances.

From a portfolio perspective, January was a good reminder of the benefits of diversification. Both the DeepSeek and tariff issues dominated headlines and caused concern for some parts of the equity market. However, we saw formerly unloved parts of the market, such as value and foreign stocks, step in to lead the way. As always, we appreciate your trust as we navigate the investment landscape on your behalf.

Past performance may not be representative of future results. All investments are subject to loss. Forecasts regarding the market or economy are subject to a wide range of possible outcomes. The views presented in this market update may prove to be inaccurate for a variety of factors. These views are as of the date listed above and are subject to change based on changes in fundamental economic or market-related data. Please contact your Advisor in order to complete an updated risk assessment to ensure that your investment allocation is appropriate.

³ Source: https://www.apolloacademy.com/wp-content/uploads/2025/02/TradeWar_020525.pdf

⁴ Bloomberg as of February 6, 2025