



Monthly Recap

On balance, January was another solid advance for all major equity indices, with the S&P hitting all-time highs. However, U.S. equities opened the week lower as news regarding Chinese startup DeepSeek's R1 AI chatbot made waves throughout the market. The AI chatbot was developed in China, despite U.S. chip bans and other restrictions, using less powerful Nvidia chips with costs being seemingly less than the AI solutions developed by U.S. tech firms. Initial reactions negatively impacted the tech sector causing significant loss of market capitalizations among the Magnificent 7. The development added scrutiny to the capex figures announced by U.S. tech companies allotted to AI infrastructure like data centers. However, some analysts believe that the market may have overreacted, and investors bought the dip as more details emerged surrounding the costs of DeepSeek's AI technology. Midweek, Federal Reserve officials voted unanimously to leave rates at their current levels and take time to review more data to determine the path of inflation throughout 2025. Fed Chair Jerome Powell noted that a few developing themes that could impact rate cuts in 2025 include tariffs, immigration, federal spending, and regulatory policy. The pause in rates decision by the Fed is supported by the most recent Personal Consumption Expenditures (PCE) report, the Fed's preferred inflation measure, coming in at 0.2% month-over-month and 2.8% year-over-year. U.S. equities ended the month higher as the S&P 500 ended the month up 2.7%, the Dow up 4.7%, and the Nasdaq up 1.64%. Communication Services was the best performing sector this month and Technology was the worst performing sector.

Key Thought

The Federal Reserve decided to keep the fed funds rate in the 4.25-4.5% range at its January meeting. Although the Fed remains in a rate cutting cycle and anticipates additional cuts later this year, they want to assess economic data over the next few months. The Fed believes that current policy rates are still "meaningfully restrictive" and are waiting for more progress on inflation or signs of labor market weakness before making further adjustments. The Fed's inflation target remains at 2%, and they are considering a 1% real rate as a possible longer-term target. The markets are pricing the next rate cut in June and 50 basis points of cuts for the year. Regardless of the current fundamentals and the fact that the fed funds rate remains above the long-term neutral rate, many members of the Fed's FOMC want to hold off policy adjustments due to the uncertainties surrounding the new U.S. administration's policies on tariffs, immigration, and fiscal spending. In contrast, the European Central Bank cut rates by 25 basis points again this week, bringing the total cuts this cycle to 125 basis points. The ECB has noted that despite some economic recovery, Europe continues to face soft economic conditions and downside risks to economic activity. Germany, which is Europe's largest economy, just completed two consecutive years of shrinking output. The European economy is being affected by trade disruptions and political turmoil that is creating uncertainty for businesses and consumers. The Fed and the ECB are taking different approaches to address their respective economic challenges. The Fed's pause reflects a strong U.S. economy and a cautious approach to further easing, while the ECB's more aggressive rate cutting aims to stimulate a softer European economy. Both central banks are navigating uncertainties related to new policies and economic conditions, with the Fed focused on inflation and the health of the labor market, and the ECB is focused on strengthening the economy and wage growth.

Stocks	Close	Net Change	Wk % Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIH-USA	44,544.66	120.41	0.27	1.67	4.70	16.76	
S&P 500	6,040.53	-60.71	-1.00	1.29	2.70	24.66	
NASDAQ	19,627.44	-326.86	-1.64	0.71	1.64	29.43	
S&P MidCap 400	3,239.04	-36.60	-1.12	1.47	3.78	18.55	
EAFE	79.24	0.01	0.01	3.22	4.80	5.64	
Emerging Markets	52.99	-0.36	-0.67	2.90	1.47	9.37	

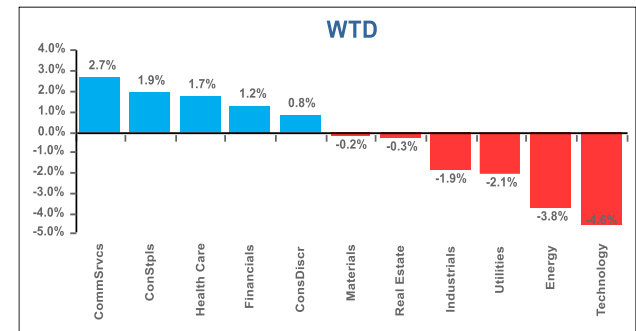
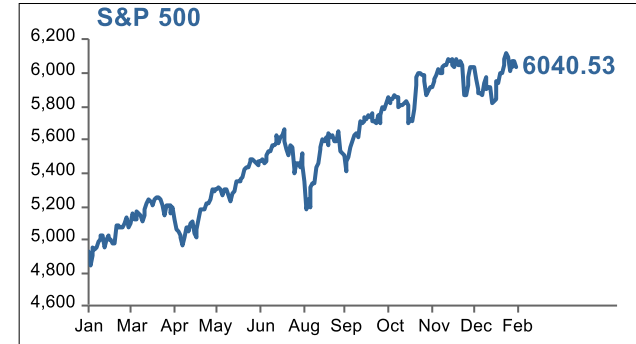
Treasuries	Current Yield	12/31/23 Yield	FOREX	Price	Wk % Change
1 - Year	4.15	4.15	EUR/USD	1.04	-1.33
2 - Year	4.20	4.24	USD/JPY	154.85	-0.52
5 - Year	4.33	4.38	GBP/USD	1.24	-0.67
10 - Year	4.54	4.57	USD/CAD	1.45	1.37
30 - Year	4.80	4.78			

Sector - Large Cap	Close	Net Change	Wk WTD	MTD	QTD	YTD
Defensive						
Staples	869.70	16.37	1.9%	1.9%	1.9%	1.9%
Health Care	1,710.76	29.26	1.7%	6.6%	6.6%	6.6%
CommServices	372.33	9.67	2.7%	9.0%	9.0%	9.0%

Eco Sensitive	Close	Net Change	Wk WTD	MTD	QTD	YTD
Consumer Disc	1,911.57	15.80	0.8%	4.4%	4.4%	4.4%
Energy	667.95	-26.28	(3.8%)	2.0%	2.0%	2.0%
Industrials	1,171.34	-22.81	(1.9%)	5.0%	5.0%	5.0%
Info Tech	4,474.24	-213.42	(4.6%)	(2.9%)	(2.9%)	(2.9%)
Materials	559.03	-1.22	(0.2%)	5.5%	5.5%	5.5%

Interest Rate Sensitive	Close	Net Change	Wk WTD	MTD	QTD	YTD
Financials	855.91	10.33	1.2%	6.4%	6.4%	6.4%
Utilities	395.93	-8.30	(2.1%)	2.9%	2.9%	2.9%
REIT	258.01	-0.81	(0.3%)	1.5%	1.5%	1.5%

COMING UP NEXT WEEK		Consensus	Prior
02/03 Markit PMI Manufacturing SA (Final)	(Jan)	49.8	50.1
02/03 ISM Manufacturing SA	(Jan)	48.8	49.2
02/04 Durable Orders SA M/M (Final)	(Dec)	-2.2%	-2.2%
02/04 Factory Orders SA M/M	(Dec)	0.10%	-0.40%
02/04 JOLTS Job Openings	(Dec)	8,140K	8,098K
02/05 Markit PMI Services SA (Final)	(Jan)	53.0	52.8
02/05 ISM Services PMI SA	(Jan)	54.0	54.0
02/07 Nonfarm Payrolls SA	(Jan)	165.0K	256.0K
02/07 Unemployment Rate	(Jan)	4.1%	4.1%
02/07 Michigan Sentiment NSA (Preliminary)	(Feb)	72.0	71.1



Russell Style Return

WTD	Value	Blend	Growth	YTD	Value	Blend	Growth
Large	-0.13%	-0.90%	-1.49%	4.54%	3.10%	1.92%	
Medium	-0.55%	-0.60%	-0.76%	3.37%	4.15%	6.25%	
Small	-0.48%	-0.97%	-1.27%	2.01%	2.50%	3.16%	