February 3, 2025

January Market Review

Despite uncertainty surrounding inflation, interest rates, the political landscape and a new disruptor in the artificial intelligence (AI) race, domestic equities ended the first month of 2025 broadly positive, reflecting a continuing optimism for the U.S. economy.

AI-themed stocks, which have pulled headline indices upward for the past two years, were shaken by a new entrant into the space, China's DeepSeek, which claims to be more efficient in various ways, especially power consumption, than key competitor OpenAI's ChatGPT. DeepSeek's unveiling also took a toll on energy and utility sector stocks, which were benefiting from an expectation that growth in power-hungry AI would spike electricity demand.

"With mega-cap tech valuations stretched, those companies were vulnerable to a pullback," said Raymond James Chief Investment Officer Larry Adam. "While the NASDAQ took most of the hit, the performance of the equal-weight S&P 500 versus the capitalization weighted index shows signs of the market broadening beyond tech that we hope will continue."

Amid the many changes that greeted the new year, including the inauguration of President Donald Trump, the Federal Reserve held interest rates constant, as expected, as the Federal Open Market Committee (FOMC) awaits clear signs that inflation will continue to slide toward target levels and insight into the federal government's trade and fiscal priorities.

Before we dive into the details, let's see how we started 2025:

	12/31/24 Close	1/31/25 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	42,544.22	44,544.66	+2,000.44	+4.70%
NASDAQ	19,310.79	19,627.44	+316.65	+1.64%
S&P 500	5,881.63	6,040.53	+158.90	+2.70%
MSCI EAFE	2,259.60	2,382.95	+123.35	+5.46%
Russell 2000	2,230.16	2,287.69	+57.53	+2.58%
Bloomberg Aggregate Bond	2,189.03	2,204.09	+15.06	+0.69%

*Performance reflects index values as of market close on Jan.31, 2025. Bloomberg Aggregate Bond and MSCI EAFE reflect Jan. 30, 2025, closing values.

Employment strong as price pressures continue

December saw higher-than-expected employment growth, but overall contraction. The rate of unemployment decreased modestly as total employment increased strongly. Although we expect the total job creation number for 2024 to be shaved down once the benchmarks come in later this year, growth was still significant.

Short-term volatility may dampen overabundant enthusiasm

Consistent with the amount of uncertainty in the market regarding inflation, interest rates, fiscal and trade policy, and the potential disruption to domestic AI dominance from China, market volatility increased throughout December and January. A period of anxiety can be beneficial, however, as a market free of pessimism can unbalance risk and reward expectations, pushing investors toward untenable positions.

Treasury yields end up flat despite turbulence

Producer Price Index and Consumer Price Index data, used to gauge inflation, came out mostly on target, pushing Treasury yields back down. They ended the month with minimal net change despite having bounced around significantly in January. The one-month Treasury Bill increased five basis points, the largest rate move of any point on the Treasury curve last month. The January 28-29 FOMC meeting decided to leave the fed funds rate unchanged as expected.

The new administration previews key themes

The initial days of the second Trump administration revealed several important things to watch for. The flurry of executive orders included actions ranging from symbolic gestures to unilateral policy decisions. Time will tell how many make it past legal challenges and Congressional authorization. The executive order on trade policy lays out a roadmap including tariffs – ranging from universal to sector-specific – and ramps up restrictions on the flow of tech to China.

Energy policy changes may be sidelined by producers' strategies

The oil and gas industry rarely exceeds its predetermined budget when it comes to investing in new drilling and infrastructure, which could dampen the effect of the new U.S. administration's pro-production priorities. Despite goals to lower energy prices by increasing domestic oil and gas production, the slowing demand for oil on a global scale over the past two decades is reflected in the restriction of preplanned expenditure among producers in an effort to return more capital to shareholders.

Global markets uncertain as the US pivots toward domestic priorities

A period of ambiguity for international economies now looms as the U.S. shifts its economic priorities inward. The UK had a rough start to the year with sovereign bond yields plummeting to their lowest since 1998 as the economy flatlined. A weak fiscal position drove sterling down against the dollar on the foreign exchange. China faced continued headwinds and Japan raised interest rates by 25 basis points to 0.50% as efforts to move sustainably toward its 2% inflation target bear fruit.

The bottom line

The year started off strong, but time will tell whether that trend will hold. Uncertainty remains a familiar theme moving forward as inflation remains sticky and the policy decisions of a new administration begin to take shape. Expect volatility and emotional reactions in the markets in the coming months, but with a positive overall trend throughout the year.

I remain committed to the pursuit of your financial goals and thank you for your continued trust in my guidance, and I look forward to the exciting opportunities the new year will bring. If you have any questions about this report, or need help with anything at all, please don't hesitate to reach out.

Jeff