Wealth Enhancement®

Executive Summary

Despite splashy headlines, equity markets again hit an all-time high in January and finished the month with positive returns. Looking ahead, markets now face a fluid backdrop, where new uncertainties introduce added complexity and volatility.

What Piqued our Interest

As we look back on January, it feels like the market has maneuvered a year's worth of news in the span of 31 days. Although investors expected a higher degree of uncertainty related to the start of the second Trump administration, many were caught off guard by the emergence and rapid rise of a new AI platform out of China, as well as the potential tariffs on allies such as Canada and Mexico. However, it is noteworthy that despite the headlines, the S&P 500 Index hit another new all-time high, and most markets saw positive returns for the month.

One of the most powerful themes in the market for the last few years has been the promise and power of artificial intelligence. The new Trump administration even announced project Stargate, a proposal where the U.S. government would spend up to $500 billion on AI infrastructure for AI model development and deployment. However, just a few days later, equity markets were rattled by the emergence of DeepSeek, an AI company out of China. DeepSeek touted its cost efficiency in creating its app, causing investors to question the capital spending trajectory needed to build out AI. Over the last 18 months, major U.S. tech companies have increased their capital spending budgets to buy the necessary chips and build out the data centers needed to support the computing power for AI and keep the U.S. in pole position. With DeepSeek's claim that they were able to build their chatbot with a fraction of the cost that it took OpenAI to create ChatGPT, investors wondered if they had overestimated the demand for AI hardware.

All of this came alongside a less surprising pause from the Fed, which had telegraphed its stance at its December meeting and reiterated that they were not in a hurry to cut rates, despite the fact that they believe that current interest rate policy is "meaningfully restrictive." Markets took this pause in stride as the Fed indicated that the current pause in rate policy did not mean that they were done cutting. Fed Chair Jerome Powell also noted at his press conference that they are "very much in the mode of waiting to see what policies are enacted" by the new administration. Timing for the next rate cut remains uncertain, but the fact remains that the next action is still likely a cut to interest rates, which would be beneficial for both the economy and equity markets.

The Fed's stance was justified as the U.S. economy continues to grow, posting fourth quarter 2024 GDP growth of 2.3%. Inflation is still a bit of a concern as we saw core CPI and core PCE readings hover near 3%. Additionally, the Trump administration announced plans to impose tariffs on Canada, Mexico, and China on February 1, but as of February 3, the planned tariffs on Canada and Mexico have been temporarily put on hold. These tariffs may introduce upward pressure on inflation and moderate global economic growth, adding additional uncertainty to an already noisy market.

Closing Thoughts

With a new year comes a new market backdrop, highlighting potential risks. Even though we continue to expect another year of moderate economic growth, disruptions, both expected and unexpected, will occur. The recent developments of potential tariffs are somewhat concerning and will continue to garner headlines in the weeks to come.

Regardless of how this plays out, it's important to make informed decisions as new information can be aggregated and evaluated. At this time, we do not believe the impact of new tariffs will be a catalyst for a marked deterioration to the current economic situation, but we will closely monitor how these policies affect key leading indicators for short-, medium-, and longer-term trends. If a trade war does escalate, there could be negative impacts to both the economy and financial markets. Even so, having a solid financial plan that aligns with your goals can help investors weather the volatility in any market environment.



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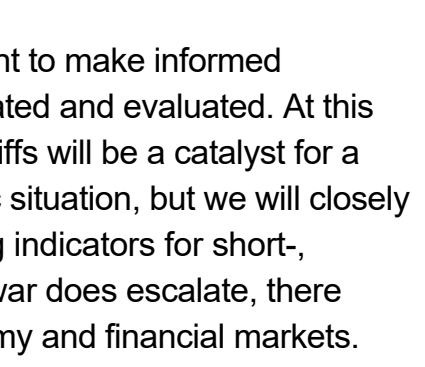
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