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# Monthly Market Dashboard

February 2025

| ELEMENT | TREND | COMMENTS |
|---|---|---|
| VALUATION | Negative | Valuations are higher, certainly for the largest companies. |
| INTEREST RATES | Negative | Though stabilizing, interest rates have risen meaningfully. |
| INFLATION | Neutral | Inflation is much lower, but still slightly above benign levels. |
| VOLATILITY | Positive | Price volatility has been creeping lower. |
| MONETARY POLICY | Positive | The Fed will likely continue cutting rates, but the pace is debatable. |
| DOMESTIC POLICY | Positive | Domestic economic policy now seen as decidedly pro-business. |
| GEOPOLITICAL | Negative | Tariffs likely to impact global trade; China economy faltering. |

## A Solid Start

January was a solid month for equity markets, with all major indices posting solid gains. The animal spirits that began stirring in November have continued to propel markets, and valuations, higher. A new, overtly business-friendly and pro-growth administration is seen to fuel this optimism. Of particular note, interest rates, which had moved up significantly in the fourth quarter, have begun to stabilize. This moderation is helping support this early-year rally.

The S&P 500 turned in a strong 2.8% total return for January, outpacing the tech-heavy NASDAQ, which returned a still quite healthy 1.7%. The stodgy old Dow Jones actually had the best performance among the domestic indices, returning 4.8%. This was indicative of a global leadership shift during the month toward value stocks and away from pricier growth stocks. The Russell 3000 Value Index returned a powerful 4.5%, and international stocks outperformed their domestic counterparts.

While one month does not a trend make, the outperformance of value and international (relatively rare in recent years!) is of interest to us, as we have observed for some time the large gap between valuations among megacap tech companies and the rest of the domestic market and also the historically large gap in valuation between domestic and international. While we have historically maintained a bias toward the U.S., the bargains to be found internationally are difficult to ignore.

| | 2023 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 2024 | January |
|---|---|---|---|---|---|---|---|
| MSCI All Country World | 22.2 | 8.2 | 2.9 | 6.6 | -1.0 | 17.5 | 3.4 |
| S&P 500 | 26.3 | 10.6 | 4.3 | 5.9 | 2.4 | 25.0 | 2.8 |
| DJIA | 16.2 | 6.1 | -1.3 | 8.7 | 0.9 | 15.0 | 4.8 |
| NASDAQ | 44.7 | 9.3 | 8.5 | 2.8 | 6.4 | 29.6 | 1.7 |
| Russell 2000 | 16.9 | 5.2 | -3.3 | 9.3 | 0.3 | 11.5 | 2.6 |
| Russell 2000 Value | 14.6 | 2.6 | -3.7 | 10.1 | -1.1 | 7.6 | 2.0 |
| Russell 2000 Growth | 18.5 | 7.5 | -2.9 | 8.4 | 1.7 | 15.0 | 3.2 |
| Russell 3000 | 25.9 | 10.0 | 3.2 | 6.2 | 2.6 | 23.8 | 3.2 |
| Russell 3000 Value | 11.6 | 8.6 | -2.3 | 9.5 | -2.0 | 14.0 | 4.5 |
| Russell 3000 Growth | 41.2 | 11.2 | 7.8 | 3.4 | 6.8 | 32.4 | 2.0 |
| International* | 15.6 | 4.7 | 1.0 | 8.1 | -7.6 | 5.5 | 4.0 |

Source: Bloomberg
*MSCI ACWI ex USA Net Total Return USD Index

## A Bump In The Road For Tech?

So, what contributed to the underperformance of tech last month? Well, we would say capitalism at work. A competitor to American AI giants may have emerged in DeepSeek, a Chinese company whose AI app rocketed to #1 on the Apple app store, ahead of ChatGPT and the other incumbents. The kicker was that DeepSeek evidently was able to produce a highly competitive AI product without having to use anywhere near the amount of microprocessing power that has made companies such as NVIDIA so important.

As the DeepSeek news spread, NVIDIA shares, which had been bid up in the AI frenzy, slumped. In just a matter of hours, NVIDIA shares fell 17%, erasing almost $600 billion in market capitalization, the largest such evaporation in history.

Ironically, just a few weeks earlier, it had been NVIDIA that had torpedoed another tech sector, the quantum computing companies. After a handful of those stocks went parabolic in November and December, soaring more than 1000% in some cases amid speculation that quantum computing might provide an alternative to expensive AI-capable chips, NVIDIA CEO Jensen Huang poured cold water on the rally when he proclaimed that “very useful” quantum computers were likely decades away.

While this does not necessarily signify the popping of a bubble in tech, it does illustrate what happens when questions arise about earnings growth and hefty prices have already been paid for it. Capitalism will always drive investment toward profitable areas and threaten dominant players, and AI is no exception.

## There’s A New Tariff In Town

Meanwhile, in Washington, stocks seem to have another macro risk with which to contend. The new administration is using tariff threats to extract concessions from its largest trading partners, Mexico and Canada, and is also poised to enact tariffs on China and potentially Europe. Whether these threats are merely being used as negotiating leverage or not, businesses are being forced to prepare for them and also for potential retaliatory tariffs imposed by other countries. Those costs are real. Also, regardless of politics, it is a fact that tariffs are a tax on somebody, and taxes go to governments and not to consumers or shareholders. Let’s hope this season subsides without serious incident. Markets have been volatile during this soap opera but have not been meaningfully impacted at this time.

Stock prices remain relatively lofty, certainly among the largest companies, and there are risks to playing with matches in a market that has performed amazingly well for two years. However, there are still plenty of reasons to be optimistic about economic growth and earnings growth in this environment.

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