

## Beacon Weekly Investment Insights

Volatility was apparent throughout financial markets as we closed out the first month of 2025. We had expected a higher amount as we transitioned Presidential Administrations, but the main culprit was the announcement by Chinese AI company, DeepSeek, which proclaims to have built similar models to rivals Open AI, at a fraction of the capital cost. The entrant of a potential low-cost competitor sent shivers through US tech giants like Nvidia, Microsoft, Google, and others. By mid-week, some positions regained some confidence, but the volatility within the sector most likely will remain for the intermediate term. Overall performance for the major equity indices ended mixed with the tech heavy NASDAQ Composite falling by 1.64%, the S&P 500 index falling 1.0%, and the Dow Jones Industrials squeaking out a 0.26% gain. Fixed income yields generally fell for the week with the benchmark 10-year falling 8 basis points to 4.54%.

Broadening the focus away from technology and AI, there were a host of important data points from last week. The Federal Reserve Open Market Committee met and decided to keep short term (fed funds) interest rates at their current range of 4.25 – 4.50%. Chairman Jay Powell stated with optimism that inflation would continue to moderate in the months ahead, but officials wanted to see cooling prices before moving rates down. As far as the labor market, Chair Powell commented that the unemployment rate has stabilized at a low level and that market conditions remain solid. Analysts and traders have now moved their predictions to July for the first rate cut of the year from June. On Friday, the personal consumption expenditures index (PCE) for December showed a month over month increase of 0.3%, with full year indicated at 2.6%. Core PCE, which excludes food and energy costs rose month over month by 0.1% and year over year at 2.8%. This was the third consecutive month of an annualized 2.8% core PCE, illustrating the Fed's patient approach to lowering rates because inflation levels are stable.

The initial read on Q4 2024 GDP was also released last week and showed a solid 2.3% annualized growth rate. Within the number the component measuring consumer expenditures rose by 4.2% versus previous quarter 3.7%. Consumer strength also showed up in the separate personal income data which grew 0.4% in December (5.3% annually) and personal consumption data which grew 0.7% in December (5.7% annually). Commentary suggested that much of the consumption demand was driven by imports ahead of potential future tariffs. We are seeing this play out in real time as Friday it was announced that President Trump will impose tariffs of as much as 25% on trading partners Mexico and Canada, along with at least 10% on China. This created some downside pressure on equities as we enter Monday's trading day.

Earnings season is underway and as of the end of last week about a third of the S&P components have reported. Top line growth is about 4.5% while earnings have risen 7.4%. We will continue to report on the progress as we finish up 2024 reports.

For the week ahead, we are on watch for indicators for the labor market. Tuesday the job openings survey (JOLTS) will be released, ADP private sector employment on Wednesday, jobless claims on Thursday, and the full unemployment report on Friday. Broader indicators are also in view such as the ISM surveys for both manufacturing and services industries. We have noted how manufacturing data has been trending close to expansionary territory in previous surveys and we will see on Tuesday the factory orders and durable goods reports. We will have earnings reports from over 130 S&P components in a variety of industries ranging from technology, communications, discretionary and energy.

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<b>Market Scorecard:</b>	<b>1/31/2025</b>	<b>YTD Price Change</b>
Dow Jones Industrial Average	44,544.66	4.70%
S&P 500 Index	6,040.534	2.70%
NASDAQ Composite	19,627.44	1.64%
Russell 1000 Growth Index	4,009.78	-0.80%
Russell 1000 Value Index	1,808.69	-0.84%
Russell 2000 Small Cap Index	2,287.69	2.58%
MSCI EAFE Index	2,379.76	5.21%
US 10 Year Treasury Yield	4.54%	-32 basis points
WTI Crude Oil	\$72.53	1.13
Gold \$/Oz.	\$2,798.41	6.63%



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