

MONTHLY RECAP

JANUARY 2025

MONTHLY OBSERVATIONS

"January Effect" Starts 2025 on Solid Foot

Markets started the month on the weaker side as strong payrolls upended expectations of further Fed rate cuts, sending bond yields higher and putting pressure on equities. However, a mid-month, dovish inflation report presented markets with hope that the current easing cycle may not be over. Alongside robust bank earnings and falling rates, US equities entered a risk-on rally. As the month came to a close, the rally in large cap was interrupted as DeepSeek made its presence known, upending expectations on recent winners from the boom in artificial intelligence. Nvidia's market value fell by nearly \$600 billion on January 27th, the largest one-day wipeout in US stock market history. In the end, all markets finished on the positive side with non-US developed market equities leading as Europe ex USA posted a 7.1% return. Emerging markets, while positive, were more subdued, though, with China up marginally and India down -3.5%. Fixed income finished positive after 10-year Treasury rates fell from a peak of 4.79% during the month to finish at 4.58%, essentially unchanged for the month.

Fed in No Hurry

The Fed left the Federal Funds Rate at its current range around 4.3%. Chairman Powell indicated he remained optimistic that inflation would continue to slow in the months ahead, but said officials wanted to see their forecast for a continued cooling of price pressures play out before cutting rates further.

DeepSeek Disruption

In late January, Chinese startup, DeepSeek, reportedly built an AI app for a paltry \$6 million (estimated) using inferior chips and apparently doing more with less than competitors such as OpenAI. This news triggered a selloff in AI/Tech/Semis before recovering some of the negative performance as the month ended.

ASSET MANAGER COMMENTARY

Large Cap Growth

The DeepSeek announcement is unlikely to have a major impact on the Magnificent 7 earnings in 2025 but could start to impact rates of growth in 2026. NVIDIA has a 2-3-year order backlog for their chips, which should keep prices sticky for a time.

Mid Cap Growth

The Russell Midcap Growth Index, which ended 2024 up 22.1%, is the most concentrated it has ever been in its 40+ year history, with the number of names at an all-time low, and weight in the top 25 names in the index at levels not seen since the tech bubble (38%, tied with February 2000). Indeed, just two names in the index, Palantir and AppLovin, were responsible for more than 30% of the Index return in 2024.

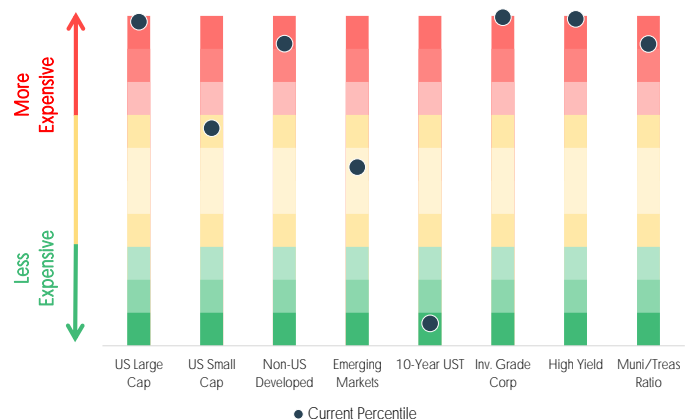
Municipal Fixed Income Manager

There are unlikely to be municipal defaults from the Los Angeles wildfires based on previous disasters such as Hurricane Katrina or the 2021 Polar Vortex that hit Texas. It will take time, but houses will be rebuilt given the prime real estate location.

MARKET RETURNS - 1.31.2025

	1-Mo	QTD	YTD	2024	2023	2022
Equity						
S&P 500	2.8%	2.8%	2.8%	25.0%	26.3%	-18.1%
Nasdaq Composite	1.7%	1.7%	1.7%	29.6%	44.6%	-32.5%
Russell 1000 Growth	2.0%	2.0%	2.0%	33.4%	42.7%	-29.1%
Russell 1000 Value	4.6%	4.6%	4.6%	14.4%	11.5%	-7.5%
Russell 2000	2.6%	2.6%	2.6%	11.5%	16.9%	-20.4%
MSCI EAFE	5.3%	5.3%	5.3%	3.8%	18.2%	-14.5%
MSCI Emerging Markets	1.8%	1.8%	1.8%	7.5%	9.8%	-20.1%
Fixed Income						
Treasury	0.5%	0.5%	0.5%	0.6%	4.1%	-12.5%
Municipal	0.5%	0.5%	0.5%	1.1%	6.4%	-8.5%
Aggregate	0.5%	0.5%	0.5%	1.3%	5.5%	-13.0%
Investment Grade Corporate	0.6%	0.6%	0.6%	2.1%	8.5%	-15.8%
High Yield Corporate	1.4%	1.4%	1.4%	8.2%	13.4%	-11.2%
FX						
US Dollar Index	-0.1%	-0.1%	-0.1%	7.1%	-2.1%	7.9%
Real						
Real Estate	1.2%	1.2%	1.2%	4.3%	11.5%	-25.1%
Infrastructure	2.3%	2.3%	2.3%	14.0%	5.8%	-1.0%
Oil	3.6%	3.6%	3.6%	-4.2%	-10.3%	10.5%
Gold	6.7%	6.7%	6.7%	26.6%	12.8%	-0.7%

ASSET CLASS VALUATIONS - 1.31.2025



Asset class valuations are a percentile ranking based on monthly data going back to a common inception of 9/1/2006.

Magnificent 7 Capital Expenditures



The release of ChatGPT 3.5 in 2022 set off a spending spree by the largest tech names as they sought to invest in artificial intelligence (AI) capabilities and infrastructure. The apparent success of DeepSeek being able to build language learning models that could compete with the likes of OpenAI, with only \$6.2 million and using inferior chips, sent shockwaves through the industry on concerns that the anticipated demand for high end chips might be too high.

Source: Morningstar Direct, Bloomberg. See important information in the disclosures.



DISCLOSURES

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SOURCES

Morningstar Direct as of 1.31.2025

Bloomberg as of 1.31.2025

Manager comments come from discussions with various asset managers and are broad commentary on sectors and not be considered recommendations by any asset manager. These comments do not necessarily reflect strategy allocations or the view or opinion of MGIA or Moneta Group.

DEFINITIONS

The S&P 500 Index is a free-float capitalization-weighted index of the prices of approximately 500 large-cap common stocks actively traded in the United States.

The NASDAQ Composite Index is a market capitalization weighted index with more than 3000 common equities listed on the NASDAQ Stock Market.

The NASDAQ 100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ.

The Russell 1000® Index is an index of 1000 issues representative of the U.S. large capitalization securities market.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000® Value Index measures the performance of those Russell 1000 Index securities with lower price-to-book ratios and lower forecasted growth values, representative of U.S. Securities exhibiting value characteristics.

The Russell 2000® Index is an index of 2000 issues representative of the U.S. small capitalization securities market.

The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI Emerging Markets Index is a float-adjusted market capitalization index that consists of indices in 21 emerging economies.

Bloomberg U.S. Treasury Bond Index includes public obligations of the US Treasury, i.e. US government bonds. Certain Treasury bills are excluded by a maturity constraint. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded.

The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. It includes general obligation and revenue bonds, which both can be pre-refunded years later and get reclassified as such.

The Bloomberg U.S. Aggregate Bond Index is an index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities and mortgage-backed securities.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded.

The US Dollar Index measures the US dollar against six global currencies: the euro, Swiss franc, Japanese yen, Canadian dollar, British pound, and Swedish krona.

The FTSE Nareit All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

The S&P Global Listed Infrastructure index measures the performance of global companies that are engaged in infrastructure and related operations. It provides liquid and tradable exposure to 75 companies from around the world that represent the listed infrastructure universe. To create diversified exposure, the index includes three distinct infrastructure clusters: utilities, transportation and energy.

Brent crude is the most traded of all of the oil benchmarks, and is defined as crude mostly drilled from the North Sea oilfields: Brent, Forties, Oseberg and Ekofisk (collectively known as BFOE).

The Dow Jones Commodity Index Gold is designed to track the gold market through futures contracts.

The ICE BofA Option-Adjusted Spreads (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond's OAS, weighted by market capitalization. The Corporate Master OAS uses an index of bonds that are considered investment grade (those rated BBB or better). When the last calendar day of the month takes place on the weekend, weekend observations will occur as a result of month ending accrued interest adjustments.

The ICE BofA Option-Adjusted Spreads (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond's OAS, weighted by market capitalization. The ICE BofA High Yield Master II OAS uses an index of bonds that are below investment grade (those rated BB or below).

Asset class valuations are a percentile ranking based on monthly data going back to common inception of 9/1/2006. The US Large Cap percentile is the average percentile ranking of the trailing P/E, P/B, P/S, and P/C ratio of the S&P 500 Index. The US Small Cap percentile is the average percentile ranking of the trailing P/E, P/B, P/S, and P/C ratio of the Russell 2000 Index. The International Developed percentile is the average percentile ranking of the trailing P/E, P/B, P/S, and P/C ratio of the MSCI EAFE NR Index. The Emerging Market percentile is the average percentile ranking of the trailing P/E, P/B, P/S, and P/C ratio of the MSCI Emerging Markets NR Index. The 10-Year US Treasury percentile is the percentile ranking of the 10-Year US Treasury yield. The Investment Grade percentile is the percentile ranking of the ICE BofA US Corporate option adjusted spread. The High Yield Corporate percentile is the percentile ranking of the ICE BofA US High Yield corporate option adjusted spread. The Municipal/Treasury percentile is the percentile ranking of the Bloomberg Municipal Index yield divided by the 10-Year US Treasury Yield.

The Magnificent 7 refers to the following seven stocks: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla