

# Convergence Commentary

## January 2025 Market Recap

### Quick Hits:

- Interest rate expectations fluctuate on inflation news
- Tariff talk begins
- Tech stocks struggle on AI competition concerns

### Market-Moving Highlights

January was a month filled with headlines competing for attention. December's Fed-induced asset selloff continued through the first 2 weeks of the year, culminating with stock prices hitting a 2-month low and bond yields reaching their highest levels since 2023 on the 13th. Just a few days later, the bulls were brought out of hibernation by a better-than-expected inflation report that renewed hopes for easier monetary policy in the coming year. Stock prices rose to record highs by the end of the next week.

Next to take center stage was news out of China that a locally developed AI model could compete with those created by U.S. based behemoths – and do so at a fraction of the cost. A story like that might have captured investors' attention for several weeks - instead, the final hours of January trading were all about one thing: tariff talk.

Over the weekend, the Trump Administration unveiled the first phase of their plan to levy higher taxes on imports. Goods coming to the U.S. from either Canada or Mexico may be subject to an additional 25% tariff, while goods from China may face a 10% duty. How those countries respond – and how the executive branch handles future trade negotiations – may have significant implications for global trade in the coming months and years.

## Index Performance

Index	1 Month	1 Year	5 Year
S&P 500	2.78%	26.38%	14.98%
Nasdaq Composite	1.66%	30.37%	17.07%
Russell 2000	2.62%	19.09%	8.42%
MSCI ACWI ex US	4.03%	10.89%	5.56%
Bloomberg US Aggregate Bond	0.53%	2.07%	-0.60%

Market performance data sourced from Bloomberg Finance LP

Despite a weak start and a volatile finish, stocks turned in a solid performance in January. Leading the way were international equities, which rose more than 4% during the month as European stocks rebounded from sharp Q4 selloffs. Within US markets, value-oriented indexes showed relative strength after a rather dismal performance in December. The Russell 2000 index of small cap stocks, with larger allocations to Financials and Industrials, has outperformed the tech-heavy NASDAQ Composite to start 2025.

Bond investors haven't had much to be excited about over the past 5 years - the US Aggregate Bond index has generated negative returns over that stretch. The last two weeks, however, were worth cheering, as prices reversed higher in the latter half of the month.

## S&P 500 Sector Highlights & Commentary

Best-Performing Sectors		Worst-Performing Sectors	
Communication Services	9.0%	Information Technology	-2.9%
Health Care	6.6%	Real Estate	1.7%
Financials	6.4%	Consumer Staples	1.9%

Market performance data sourced from Bloomberg Finance LP

Led by some blockbuster earnings reports, the Communication Services sector surged 9% to start the year. That's the best 1-month performance for the group in nearly two years. Health Care stocks experienced a similar renaissance, jumping by the most since equities found their bear market bottom in October 2022.

On the flip side, Information Technology stocks were hampered by negative headlines that called into question the sustainability of AI investment spending. Of the 11 S&P 500 sectors, only Tech ended the month in negative territory. That sector has earned the right to take a breather, though – over the past 5 years, no other sector has come close to keeping pace.

## What to Watch in February

[Click here to read our reference guide for economic indicators.](#)

### 2/7 – BLS Jobs Report - January

December's blowout jobs report helped fuel concerns that the Federal Reserve would be forced to hold off on further interest rate cuts until the fall. This update will help determine whether the previous report was fueled solely by strong seasonal hiring, or whether the labor market's ongoing recovery still has room to run.

### 2/12 – Consumer Price Index - December

Progress on price inflation stalled in the back half of 2024, and that's a big reason the Fed was forced to adjust their policy outlook for 2025. December's better-than-expected report soothed some of those reflation fears, but at 2.9%, inflation is still well above target.

### 2/13 – Quarterly Report on Household Debt and Credit – Q4

This report details the health of US consumer balance sheets. Debt servicing costs are on the rise, but overall delinquency rates have remained low. Beneath the surface, we're looking for updates on some concerning trends in auto and credit card debt.

### 2/27 – GDP – Q4, Second Estimate

The first estimate of Q4 GDP came in slightly below expectations, but that weak headline number masked strength below the surface. Personal consumption – the largest and most important component of GDP – advanced at an annualized rate of more than 4% in the quarter.

## Market Wrap

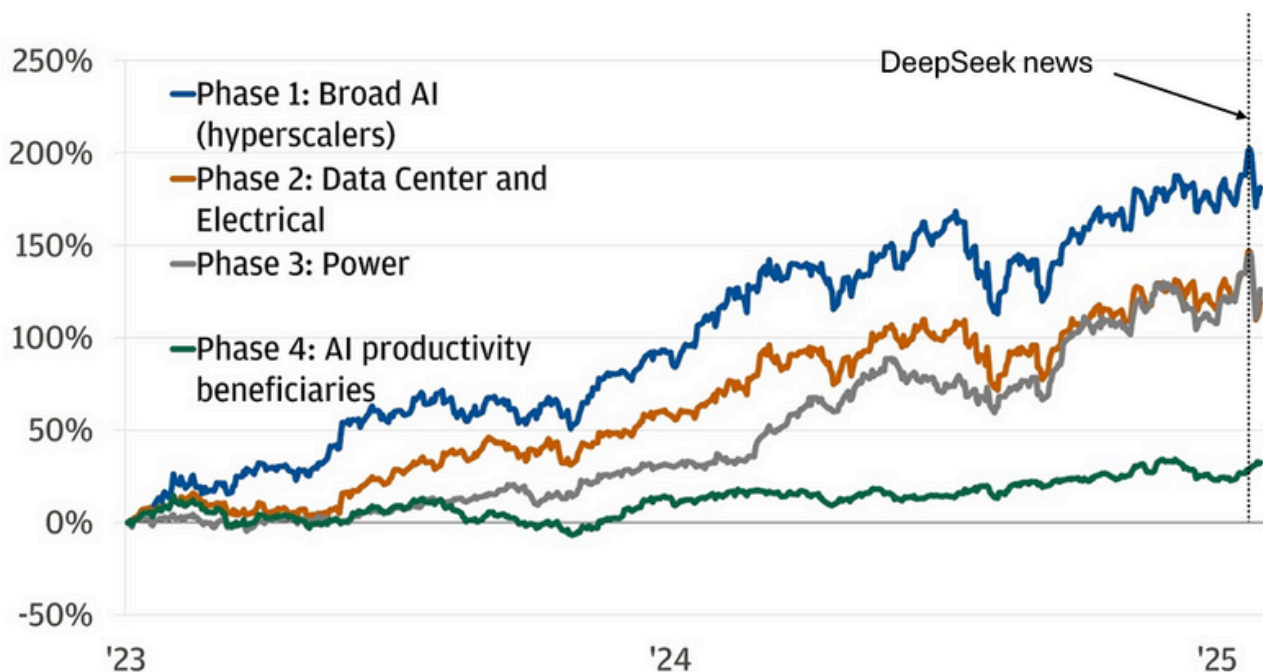
News about an advanced Chinese artificial intelligence model, DeepSeek AI, shook up the tech and investment worlds in late January. Despite U.S. trade restrictions on high end chips, which have limited China's access to the most powerful AI hardware, DeepSeek claims to have achieved significant breakthroughs on accuracy and efficiency. Unlike traditional intelligence models that rely heavily on vast amounts of data and high-performance chips, the new model's architecture combines transfer learning and a process called few-shot training to reduce the amount of data and energy needed for training and computation.

If DeepSeek's widely disputed claims have merit, it could expand the use case and speed up the rollout of artificial intelligence capabilities in a wide variety of sectors and industries. For the economy as a whole, streamlined and enhanced decision-making based on these new technologies could drive productivity improvements and lead to faster growth.

Still, the headlines sent shockwaves through the market, with the tech-oriented NASDAQ Composite Index falling sharply on the news. Chief among investor concerns are the potential impacts on chipmaker sales and investment spending across broader technology and energy landscape. Whether those fears come to fruition, or if recent developments simply change how investment dollars are spent, only time will tell.

## Rotating through the phases of AI

Price return, %



Source: Bloomberg Finance L.P.; GS Investment Research. Data as of January 30, 2025. Note: phase 1 = GS TMT AI Basket, phase 2 = AI Data Centers & Electrical Equipment, phase 3 = GS Power Up America, phase 4 = LT AI Beneficiaries. Outlooks and past performance are no guarantee of future results. It is not possible to invest directly in an index

## Sources

[Bureau of Economic Analysis](#)

[Bureau of Labor Statistics](#)

[Census Bureau](#)

[Federal Reserve Bank of New York](#)

[Adobe Analytics](#)

[Is Deep Seek Drama a Game Changer for the AI Trade?](#)

Market performance data sourced from Bloomberg Finance L.P.

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## Your Investment and Research Team

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