

Stocks Rally as Market Leadership Shifts in Early 2025

Mike Minter, CFP®, CFS®

Chief Investment Officer

Monthly Market Summary

- The S&P 500 Index returned +2.7%, marginally outperforming the Russell 2000 Index's +2.5% return. Seven of the eleven S&P 500 sectors outperformed the index, as AI-related news led to a sell-off in Technology stocks.
- Corporate investment-grade bonds produced a +0.6% total return as Treasury yields edged lower but underperformed corporate high-yield's +1.4% total return as corporate credit spreads tightened further.
- International stock returns were mixed. The MSCI EAFE developed market stock index returned +4.8% and outperformed the S&P 500 due to strength in Europe, while the MSCI Emerging Market Index returned +2.2%.

Stocks Trade Higher as Market Leadership Rotates After 2024's Gains

Stocks traded higher to start 2025, but there was a change in market leadership as the rally broadened. Large Cap Value, which underperformed over the past 12 months, outperformed Large Cap Growth by over +2.5% in January. Likewise, the Dow Jones Index traded back toward its all-time high from early December after finishing the year in a downtrend. In contrast, the Growth factor, Nasdaq 100, and Technology sector each underperformed the S&P 500 after propelling the index higher throughout most of 2024. The catalyst: AI-related (DeepSeek) news from China, which raised concerns about U.S. AI-leadership and could have implications for broad U.S. stock market indices.

Technology Stocks Sell-Off After Chinese Startup Unveils Lower Cost AI Model

In January, there was a major artificial intelligence (AI) development that has potential implications for both the industry and the U.S. stock market. Chinese startup DeepSeek unveiled an AI model it claims can compete with top U.S. models, such as ChatGPT, but at a fraction of the cost. The model was developed using cheaper, less advanced chips, challenging the view that cutting-edge AI requires significant investment in high-performance, expensive hardware. If other companies follow suit and develop lower-cost models, it could influence the AI technology landscape and impact U.S. leadership.

DeepSeek's AI model release triggered a sell-off in U.S. tech stocks that had been boosted by AI growth prospects. The model's lower development cost raised questions about the risk of reduced demand for the high-end chips used to train AI models. The news was especially relevant for companies like Nvidia, a key supplier of the high-end, high-cost hardware favored by AI firms. The company lost nearly \$600 billion in market capitalization, one of the largest single-day losses for a U.S. company. The selling pressure also extended to Microsoft, Alphabet, and Meta, reflecting broader concerns over the expensive valuations of AI-related stocks. While the news impacted a small subset of companies, the high weights of AI-related companies in the S&P 500 caused the index to trade lower on the announcement. Given the S&P 500's high exposure to AI stocks, the market will be closely monitoring developments in the AI industry in the coming months.

THIS MONTH IN NUMBERS

FIGURE 1
U.S. Style Returns (January in %)

	Value	Blend	Growth
Large	4.5	2.7	1.9
Mid	3.4	4.2	6.2
Small	2.0	2.5	3.2

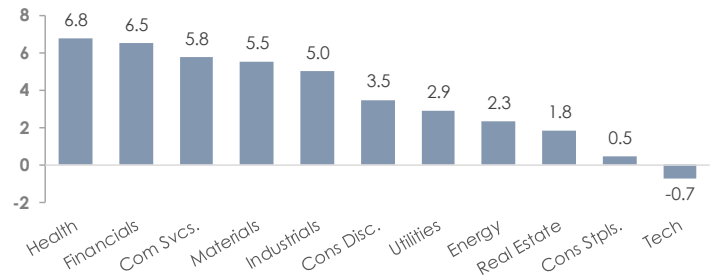
Data Reflects Most Recently Available As of 1/31/2025

FIGURE 3
U.S. Style Returns (YTD in %)

	Value	Blend	Growth
Large	4.5	2.7	1.9
Mid	3.4	4.2	6.2
Small	2.0	2.5	3.2

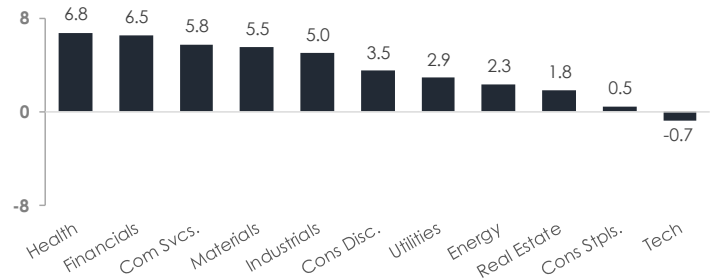
Data Reflects Most Recently Available As of 1/31/2025

FIGURE 2
U.S. Sector Returns (January in %)



Data Reflects Most Recently Available As of 1/31/2025

FIGURE 4
U.S. Sector Returns (YTD in %)



Data Reflects Most Recently Available As of 1/31/2025

FIGURE 5
Market Data Center

Stocks	1 month	3 months	6 months	YTD	1 year	3 years
S&P 500	2.7%	6.2%	9.9%	2.7%	26.1%	38.2%
Dow Jones	4.7%	7.0%	9.9%	4.7%	18.6%	32.5%
Russell 2000	2.5%	4.3%	1.8%	2.5%	18.7%	16.4%
Russell 1000 Growth	1.9%	9.6%	14.5%	1.9%	32.4%	48.8%
Russell 1000 Value	4.5%	3.6%	6.6%	4.5%	19.1%	24.2%
MSCI EAFE	4.8%	1.4%	-0.1%	4.8%	8.9%	13.0%
MSCI EM	2.2%	-2.3%	1.2%	2.2%	13.9%	-6.3%
NASDAQ 100	2.2%	8.1%	11.2%	2.2%	25.9%	45.9%

	Dividend Yield	NTM P/E	P/B
S&P 500	1.17%	21.9x	5.1x
Dow Jones	1.51%	20.3x	5.7x
Russell 2000	1.11%	24.8x	2.0x
Russell 1000 Growth	0.45%	29.3x	13.0x
Russell 1000 Value	1.78%	16.9x	2.8x
MSCI EAFE	3.06%	14.2x	1.9x
MSCI EM	2.35%	12.0x	1.7x
NASDAQ 100	0.54%	27.0x	8.0x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	4.86%	0.5%	-0.1%	0.5%	1.9%	-4.8%
U.S. Corporates	5.31%	0.6%	-0.3%	0.6%	1.9%	-6.0%
Municipal Bonds	3.98%	0.0%	0.3%	0.0%	1.2%	1.2%
High Yield Bonds	7.38%	1.4%	2.2%	1.4%	9.0%	9.6%

Commodities	Level	1 month	YTD
Oil (WTI)	73.81	2.9%	2.9%
Gasoline	2.03	1.0%	1.0%
Natural Gas	3.07	-0.8%	-0.8%
Propane	0.90	16.1%	16.1%
Ethanol	1.55	5.4%	5.4%
Gold	2,832	7.2%	7.2%
Silver	32.24	10.2%	10.2%
Copper	4.29	7.6%	7.6%
Steel	781	10.2%	10.2%
Corn	4.83	5.3%	5.3%
Soybeans	10.32	2.3%	2.3%

Key Rates	1/31/2025	12/31/2024	10/31/2024	7/31/2024	1/31/2024	1/31/2022
2 yr Treasury	4.20%	4.24%	4.16%	4.26%	4.22%	1.16%
10 yr Treasury	4.55%	4.57%	4.28%	4.05%	3.95%	1.78%
30 yr Treasury	4.80%	4.78%	4.48%	4.34%	4.19%	2.10%
30 yr Mortgage	7.26%	7.28%	7.28%	7.04%	6.96%	3.78%
Prime Rate	8.50%	7.50%	8.00%	8.50%	8.50%	3.25%

Data Reflects Most Recently Available As of 1/31/2025

Disclosures

Past performance does not guarantee future results. The performance information shown herein is based on total returns with dividends reinvested and does not reflect the deduction of advisory and/or other fees normally incurred in the management of a portfolio.

Stock performance and fundamental data is based on the following instruments: SPDR S&P 500 ETF (SPY), SPDR Dow Jones ETF (DIA), iShares Russell 2000 ETF (IWM), iShares Russell 1000 Growth ETF (IWF), iShares Russell 1000 Value ETF (IWD), iShares MSCI EAFE ETF (EFA), iShares MSCI Emerging Markets ETF (EEM), Invesco QQQ Trust (QQQ).

Fixed Income performance is based on the following instruments: iShares Core U.S. Aggregate Bond ETF (AGG), iShares Investment Grade Corporate ETF (LQD), iShares National Muni Bond ETF (MUB), iShares High Yield Corporate ETF (HYG).

Fixed Income yields and key rates are based on the following instruments: Bloomberg US Aggregate, ICE BofA US Corporate, ICE BofA US Municipal Securities, ICE BofA US High Yield, 2 Year US Benchmark Bond, 10 Year US Benchmark Bond, 30 Year US Benchmark Bond, 30 Year US Fixed Mortgage Rate, US Prime Rate.

Commodity prices are based on the following instruments: Crude Oil WTI (NYM \$/bbl), Gasoline Regular U.S. Gulf Coast (\$/gal), Natural Gas (NYM \$/mmbtu), Propane (NYM \$/gal), Ethanol (CRB \$/gallon), Gold (NYM \$/ozt), Silver (NYM \$/ozt), Copper NYMEX (\$/lb), U.S. Midwest Domestic Hot-Rolled Coil Steel (NYM \$/st), Corn (CBT \$/bu), Soybeans (Chicago \$/bu).

U.S. Style performance is based on the following instruments: iShares Russell 1000 Value ETF (IWD), SPDR S&P 500 ETF Trust (SPY), iShares Russell 1000 Growth ETF (IWF), iShares Russell Mid-Cap Value ETF (IWS), iShares Russell Midcap ETF (IWR), iShares Russell Mid-Cap Growth ETF (IWP), iShares Russell 2000 Value ETF (IWN), iShares Russell 2000 ETF (IWM), iShares Russell 2000 Growth ETF (IWO).

U.S. Sector performance is based on the following instruments: Consumer Discretionary Sector SPDR ETF (XLY), Consumer Staples Sector SPDR ETF (XLP), Energy Sector SPDR ETF (XLE), Financial Sector SPDR ETF (XLF), Health Care Sector SPDR ETF (XLV), Industrial Sector SPDR ETF (XLI), Materials Sector SPDR ETF (XLB), Technology Sector SPDR ETF (XLK), Communication Services Sector SPDR ETF (XLC), Utilities Sector SPDR ETF (XLU), Real Estate Sector SPDR ETF (XLRE).