

Advancements in the AI industry sent shockwaves through equity markets. However, despite the turbulence, markets recovered from their pull back in December as we saw broad positive performance across all major asset classes to close out January. Strong earnings from major tech companies, the announcement of significant AI infrastructure investments and moderate inflation data appear to have fueled investor optimism.

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The Personal Consumption Expenditures (PCE) report, the Federal Reserve’s preferred measure of inflation, indicated continued stability. Year-over-year, Headline PCE edged up only slightly from 2.45% to 2.55%, while Core PCE, which excludes volatile food and energy prices, saw a modest decline from 2.82% to 2.79%. A closer look at the three-month annualized Core PCE, which provides a more recent trend in prices, showed a reading of 2.17%, suggesting inflation remains on a gradual downward trajectory.

The tech market initially saw an uptick following the announcement of the Stargate Project by President Trump—a \$500 billion initiative aimed at enhancing AI infrastructure in partnership with tech leaders like OpenAI, Oracle, and SoftBank. This news sparked optimism about the future of AI in the U.S., driving early gains in tech stocks as investors anticipated the economic and technological benefits of such a massive investment. However, the broader market reaction remained mixed as investors weighed other key developments, particularly the release of DeepSeek.

DeepSeek, an AI application from a Chinese startup, was launched shortly thereafter, claiming to match or even surpass the performance of leading AI models like those from OpenAI but at a fraction of the cost and computational resources. This development sent shockwaves through the market, especially impacting Nvidia (NVDA), whose stock plummeted nearly 17% due to fears that DeepSeek could lessen the demand for Nvidia’s high-end AI chips. The tech sector at large experienced a sizeable sell-off, with the Nasdaq index dropping by about 3% as the market grappled with the implications of DeepSeek’s efficiency and open-source model.¹

While the Stargate Project reinforced U.S. commitment to AI leadership, DeepSeek’s emergence highlighted a potential shift in AI development paradigms, emphasizing cost-effectiveness and accessibility. This combination of events led to a nuanced market response—enthusiasm for domestic AI investment was counterbalanced by concerns over intensifying global competition and evolving technological trends.

Corporate earnings also played a crucial role in shaping market sentiment. As the month ended, several major companies reported stronger-than-expected earnings, with Apple (AAPL), Meta (META), and Visa (V) exceeding analyst estimates. This provided a stabilizing force for markets, as investors looked beyond short-term volatility toward corporate profitability.

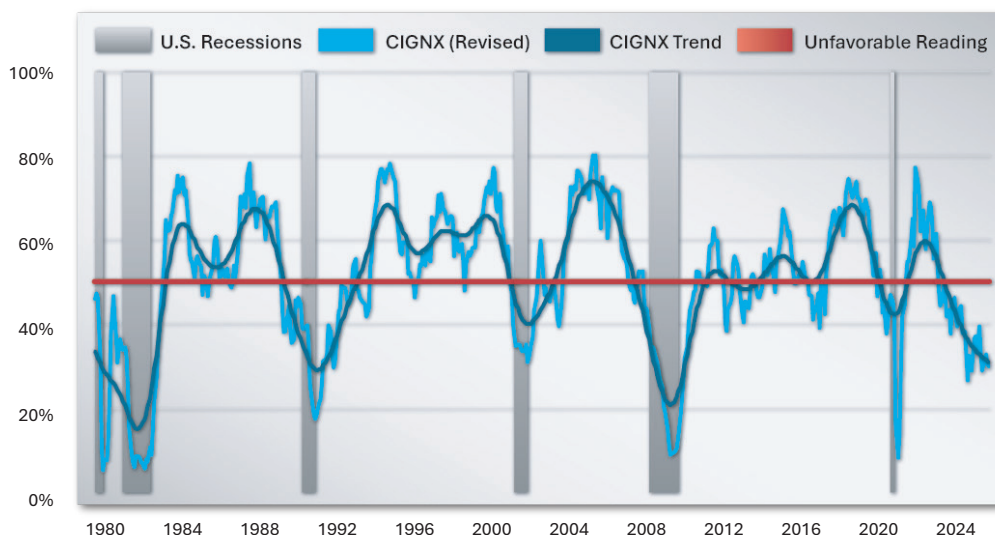
Overall, the broader market demonstrated resilience, with the S&P 500 Index rising 2.8% in January. Notably, ten out of eleven sectors posted positive returns, underscoring widespread investor confidence after December’s weakness. The market’s strength was not limited to tech, as other sectors, including financials, industrials, and energy, posted solid gains. However, January’s broad positive performance was not without volatility. Markets initially reacted negatively to newly imposed tariffs, which fueled uncertainty over global trade and corporate margins. This weighed on sentiment, particularly in sectors with significant international exposure, as investors reassessed growth prospects.

Meanwhile, the Federal Reserve held interest rates steady as expected but struck a cautious tone on inflation. The removal of language acknowledging prior progress on inflation introduced some uncertainty regarding the timing of future rate cuts, leading to speculation about how long the Fed might maintain its restrictive policy stance.²

Ultimately, January ended on a stable and positive note, as strong corporate earnings and manageable inflation data helped offset concerns surrounding AI competition, tariffs, and Federal Reserve policy uncertainty, leading to a resilient broader market performance. Investors will now look ahead to key economic data releases and corporate guidance for signs of whether the positive momentum can be sustained into February.

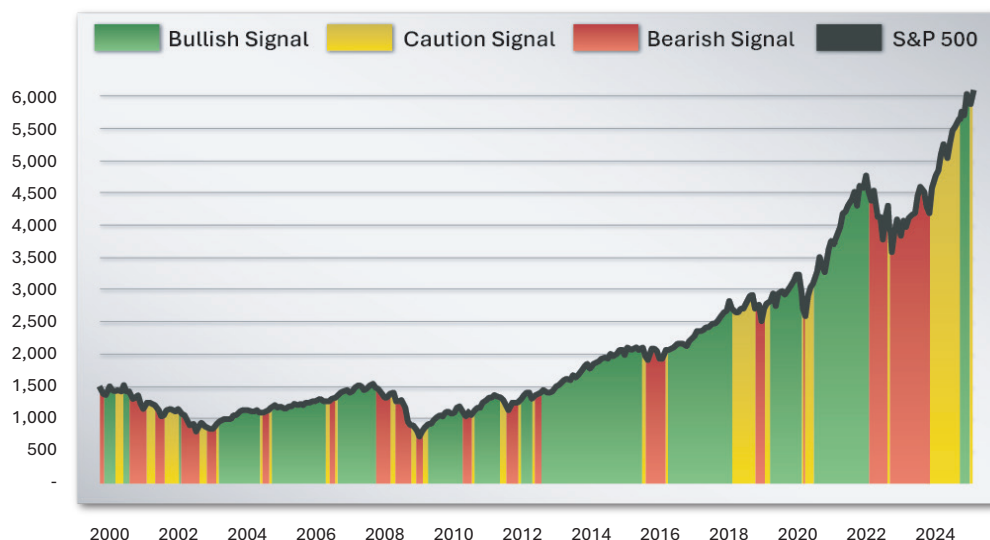
¹ <https://www.weforum.org/stories/2025/02/open-source-ai-innovation-deepseek/>

² <https://www.federalreserve.gov/newsevents/pressreleases/monetary20250129a.htm>

CIGNX = 36.5


Our **CIGNX** Economic Indicator has a reading of **36.5**, up from last month's revised reading of **29.9**. The reading is indicative of sluggish economic activity and a continued unfavorable trend in the economy. This remains well below our baseline threshold of **50.0**, indicative of unfavorable conditions, and below our secondary baseline reading of **40.0**, which we typically interpret as the economy experiencing recessionary conditions. **Our overall economic outlook remains negative.**

MONTH (2025)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
CIGNX (Revised)	36.5											
CIGNX Trendline	30.5											

ALPHA = Negative (Sell) OMEGA = Positive (Buy)


Our short-term signal (**Alpha**) flipped **Negative** in January 2025 while our intermediate-term signal (**Omega**) remained **Positive** during the month, indicating the near-term market outlook is bearish/unfavorable and the longer-term market trajectory is bullish/favorable. We have moved into a "Cautious" positioning across each of our Dynamically and Tactically managed portfolios, with a neutral exposure to equities. **Our overall market sentiment outlook is Neutral.**

MONTH (2025)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ALPHA	SELL											
OMEGA	BUY											

U.S. Large Cap Stocks

S&P 500 Index

Monthly: 2.78%

Year to Date: 2.78%

The S&P 500 Index advanced by 2.78% in January, setting a positive tone for the year. This month's growth reflects a strong start for large-cap equities, bouncing back from the cautious retreat seen in December of last year. January's performance suggests a renewed confidence among most investors, possibly buoyed by strong corporate earnings from some major technology companies. Despite ongoing geopolitical tensions and economic uncertainties, the market's resilience indicates a robust investor sentiment towards the potential opportunities in 2025.

U.S. Mid Cap Stocks

S&P 400 Index

Monthly: 3.85%

Year to Date: 3.85%

The S&P MidCap 400 climbed 3.85% in January, outpacing large-cap stocks, and benefiting from improved economic sentiment and resilient earnings. Additionally, the attractive relative valuations of mid-caps made them an appealing alternative for investors looking beyond traditional large-cap stocks, especially as expectations for stable economic growth in 2025 took hold. The rotation into mid-caps suggests a broadening of market participation, with investors seeking opportunities in segments that may offer higher growth potential and reduced concentration risk compared to mega-cap tech names.

U.S. Small Cap Stocks

S&P 600 Index

Monthly: 2.91%

Year to Date: 2.91%

The S&P 600 Index gained 2.91% in January. Small caps benefitted from an uptick in "risk-on" sentiment. While small-cap stocks are typically more sensitive to economic changes, investor confidence in the potential for higher growth in this segment supported the rally. The S&P 600's performance was bolstered by solid earnings from smaller companies, as well as their attractive valuations relative to large-cap stocks. This positive start highlights small-cap equities' potential to outperform in an environment where investors are seeking growth opportunities beyond the larger, more established names.

U.S. Bonds

U.S. Agg Bond Index

Monthly: 0.53%

Year to Date: 0.53%

The U.S. Aggregate Bond Index rose 0.53% in January, as bond markets navigated shifting interest rate expectations. Treasury yields remained volatile, with investors weighing economic data and the Federal Reserve's policy outlook. Investment-grade credit performed well, supported by stable corporate fundamentals, while government bonds saw modest gains. Despite lingering inflation concerns, expectations of potential rate cuts later in the year helped sustain positive returns for fixed income.

Alternative Assets

S&P GSCI Index

Monthly: 3.32%

Year to Date: 3.32%

The GSCI Commodity Index climbed 3.32% in January, marking a strong start to the year for commodities. Gains were primarily driven by strength in energy as well as industrial and precious metals, with the GSCI Precious Metals Index returning 7% for the month and the GSCI Energy Index up 2.6%. These sectors led the rally, buoyed by ongoing supply constraints and escalating geopolitical tensions, particularly in key energy-producing regions. This broad-based rally across various commodities underscores a positive outlook for the sector as investor sentiment strengthens heading into 2025.

U.S. Real Estate

S&P 1500 Real Estate

Monthly: 1.57%

Year to Date: 1.57%

The S&P 1500 Real Estate Index advanced 1.57% in January, benefiting modestly from a stable interest rate environment, as the 10-year Treasury yields remained flat throughout the month. The real estate sector showed resilience, supported by strong fundamentals and steady demand across different property types. Despite some mixed performance in certain segments due to uncertainty around economic growth and consumer spending, the sector overall experienced positive momentum. Investors continued to view real estate as a stable asset class, seeking consistent returns in a period of broader market volatility.

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