

Monthly Commentary

Press Pause | Steve Henderly, CFA

Life seems to move at such a fast pace! Wouldn't it be great if there was a button to just stop everything for a moment or two? The ability to pause was first invented in the 1960s for reel-to-reel tape decks, but it wasn't until the advent of VCRs and DVRs when consumers became more familiar with it.

"Press Pause" seems a fitting theme for January from multiple perspectives. The Fed *paused* its recent interest rate cutting campaign and Mag-7 ascent paused following Chinese competition emergence in the red-hot Artificial Intelligence space. The news cycle was also dizzying, including the inauguration of a new President and a whirlwind of executive orders affecting various policies. Tariffs, although widely anticipated with the new administration, became reality at month-end and introduce one more uncertainty as we enter February (tariffs on both Canada and Mexico were unveiled, but quickly paused as well - more on that topic later).

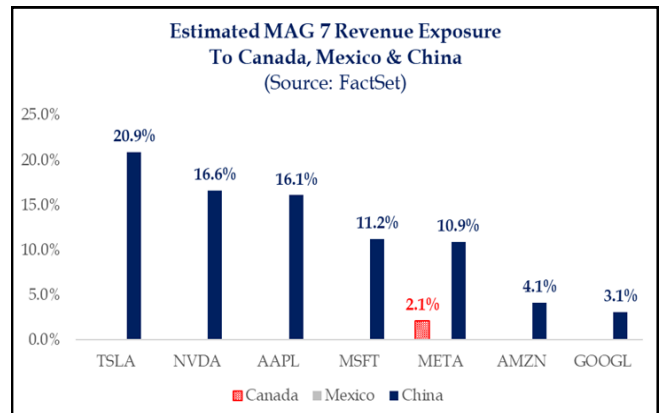
The furious pace of developments created a bi-polar experience for the markets. Pessimism displayed in December continued for the first half of January as bond yields continued their rise well above 4.5% and weighed on stocks. Tame inflation-related data arrived mid-month and inauguration day seemed to restore the "animal spirits" (optimism for the economy and stock market) which we enjoyed in November. The result was a gain of 2.8% for the S&P500. That's encouraging - historically, a positive January is supportive for the following 6 months. **Press Pause** - February is historically choppy; especially so following inauguration of a new President.

Every January our email inboxes are stuffed with market outlooks for the year ahead from seemingly every manager and strategist. Often, much of the "crystal ball" thinking is strikingly similar. Sure, there are small differences or focal points, but many themes emerge highly consensus and 2025 is no exception. It can seem comforting to observe so much agreement among different sources, after all there can be wisdom in crowds, but it's well documented that the consensus is often wrong.

So what consensus themes merit "pause" or additional consideration as we move further into 2025? If market behavior in January is any indication, there's already credence to the idea that at least a few themes may miss the mark.

- US "exceptionalism" is unlimited:** Most forecasts again favor US financial markets vs. foreign. There's an idea in the last few years that no other market will ever match the USA. Amid a strong US currency, tariff concerns, and geopolitical uncertainty, it seems rational to remain skeptical toward foreign investing. But there's a TON of bad news already priced in over recent years, and just a few things going right could provide a positive spark. One indication of consensus thought is that the number of investors bullish on the US dollar is in the 95th percentile despite historic strength in recent years. Historically a strong US currency is a headwind to investing foreign, but foreign currency rates ebb and flow over time. **Press Pause** - Despite the consensus viewpoint favoring domestic, international stocks delivered dramatically stronger performance than domestic during January.
- Mega-Cap technology stocks (Mag-7) remain "magnificent":** After two years of eye-popping returns and dramatic outperformance vs. the broader market, few seem willing to openly suggest their recent success might slow. Yet the group basically contributed 0% to January's advance. Investors received a reminder of how quickly high-priced assets can correct when a key assumption propelling valuation is brought into question. Nvidia's cutting edge computer chips, which are widely considered to be the best in the world, demand corresponding high prices of up to \$30,000 each! However, Chinese software developer, DeepSeek, shocked the world with news on January 27th that it was able to deliver similar AI performance as US competitors (ex. Chat GPT) while using older, less sophisticated, and *much less expensive* computer chips. Following this news, Nvidia, the poster child of the AI-frenzy, suffered a -17% drop in a single day. **Press Pause** - Assets priced to perfection often bring corresponding risk & volatility.

Style	January
Foreign Stocks	+4.3%
Mid-Cap Stocks	+4.1%
Avg US Stock Fund	+3.5%
Large-Cap Stocks	+3.4%
Small-Cap Stocks	+3.0%
S&P 500	+2.8%
Bloomberg Bond Idx	+0.5%



nvest
WEALTH STRATEGIES
Delivering financial
peace of mind.



9757 Fairway Drive
Powell, Ohio 43065
614.389.4646

www.nvestwealth.com
info@nvestwealth.com

Monthly Commentary

- **Passive investing always wins:** Both the S&P500 and Nasdaq were under pressure in January due to concentration of the Mag-7 (33% and 40% market cap, respectively). But **Cap-weighted technology made an 8-month low in recent days**. While technology stocks widely suffered during the recent AI-led decline, the broader market actually climbed in value. An easy observation is that **equal-weight S&P500** (symbol RSP) fared better than the standard cap-weighted S&P500 during the full month of January. **Press Pause** - investors may be starting to care about valuations and pivoting toward cheaper sectors of the market.
- **Interest rates will remain sticky in 2025:** Coming into calendar year 2024, the consensus predicted an aggressive rate cutting campaign by the Fed and many believed bond prices would benefit substantially (recall that bond prices increase as interest rates fall). Despite consensus, the Fed delivered only 1% of rate cuts in 2024 and longer term interest rates actually drifted higher. This left many investors disappointed (again) by the total returns generated from bonds. Fast forward to 2025 and the market consensus is projecting a meager 0.5% of additional cuts from the Fed, suggesting muted returns from bond portfolios. **Press Pause** - In reality, interest rate predictions are notoriously challenging, with longer-term interest rates fluctuating roughly 1% per year. Fixed income remains an important risk-reducer and source of income to client portfolios over time.

It's ill-advised to be contrarian just for the sake of being different, but it's worth taking "pause" when everyone is thinking the same to consider what might not go as expected. History is ripe with examples where being contrarian either generated big profits, or helped avoid big trouble. January offers a glimpse of this reality. Stay vigilant to your investment process and be disciplined; when one-direction thinking dominates for an extended period of time; be cautious. Crowded trades and weak hands (late to invest) are an easy way to observe where the highest risk probably exists. The next time you feel yourself desiring to join the latest investment parade, we encourage you to **press pause**.

nvest

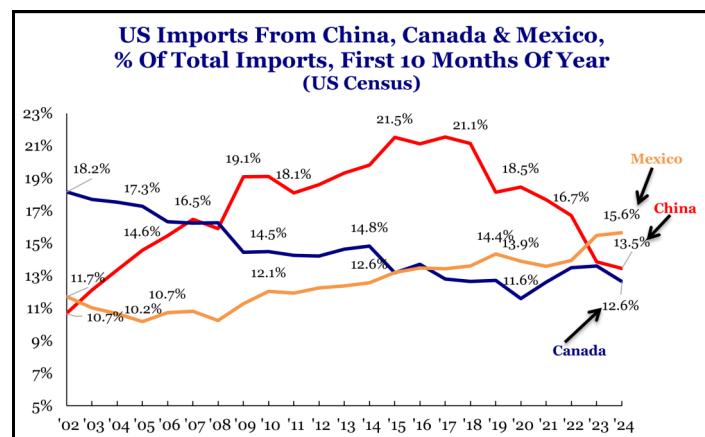
WEALTH STRATEGIES

Delivering financial
peace of mind.

Comments on Tariffs:

The first trading day of February (2/3) restored concern about new tariffs. Agreements were quickly reached with Mexico and Canada to pause until March. Regardless of this delay, old norms around trade appear out. Judging from the market's initial negative reaction, it seems many were surprised and believed tariffs on neighbors like Canada and Mexico would not transpire.

Press Pause - Additional study and understanding is required for this highly complex issue. Truth is, no one really knows exactly how the situation plays out and the far-reaching implications for trade, profits, and domestic vs. foreign investing. What we do know is that uncertainty surrounding major factors like trade will heighten volatility, making short-term market appreciation more challenging. Again, stay vigilant and pause around areas of consensus thinking.



Nvest Engagement: Delivering financial peace of mind is our ultimate goal. A quick summary below of the content our team shared over the past month via LinkedIn and Facebook. We hope you find these updates useful and informative. Please take a moment to follow us to receive on-going updates:

[Like us on Facebook](#) | [Follow us on LinkedIn](#)

- A great way to start 2025! Congrats to The Ohio State Buckeyes!
- December's core Consumer Price Index (CPI) came in below the consensus estimate, which is welcome news as we enter 2025.



Nest
Value
Excellence
Stewardship
Team

9757 Fairway Drive
Powell, Ohio 43065
614.389.4646

www.nvestwealth.com
info@nvestwealth.com