

# THE JANUARY '25 SHARPE REPORT: THE AI RACE HEATS UP

## ECONOMY

The U.S. economy continued its hot streak in January. The month began with December's nonfarm payroll report, which well exceeded expectations at 223K versus estimates of 136K. The unemployment rate ticked down to 4.1% and hourly earnings remained elevated, growing 3.9% y/y. Following the labor market data, markets sold off on fears that an expanding economy would reignite inflation, but those fears subsided after December inflation data came in line with expectations. Initial jobless claims averaged 212.5K in the month, well below the 10-year weekly average of 369K. The month ended with concern regarding a possible trade war, with Trump enacting tariffs on Canada, Mexico, and China. As we have learned, those have been postponed one month, but investors remain attentive.

## STOCK MARKET

The news of the month surrounded DeepSeek, a Chinese AI development start-up whose new large language model showed impressive feats and rose to #1 on the App Store. AI and AI-companies fell on rumors that DeepSeek's newest model required less than \$6 million in development costs, sparking fear in U.S. hyperscalers which are investing hundreds of billions into the AI race. Technology was the only sector down in January, with healthcare and financials leading all sectors, both up 6%. Value outperformed growth by nearly 300 basis points, and the equal-weight S&P 500 outperformed the cap-weighted as performance broadened beyond technology.

## BOND MARKET

In January, treasury yields hit their highest level since late 2023 following the release of expansionary economic data coupled with the incoming pro-growth Trump administration. The 10-year yield briefly hit 4.80% before rallying to 4.53% in just a matter of four trading days. The Federal Reserve held interest rates steady during its January meeting, and Chair, Jerome Powell noted that the Fed is in no hurry to cut rates. Credit spreads remain tight and high yield spreads hit their tightest level in history, at nearly +290 bps. Volatility remains in fixed income markets as markets digest the policies of the new administration.

## PUTTING IT ALL TOGETHER

January was a volatile month for investors. Fears of inflation returning, presidential executive orders, and new thinking around AI and capital expenditures had markets fluctuating. Overall, economic data continues to be robust with a healthy labor market, disinflation, and a spending consumer. The Atlanta Fed GDP tracker for the current quarter is at 3.9% due to recent economic strength and strong four quarter earnings, currently up 11% y/y. We believe that the current economic and market conditions favor further expansion and above trend growth, with corporate margin expansion to be a bright spot in 2025.

**Economic data came in better than expected and inflation remained muted. GDP growth is above its long-term trend and labor market data is well balanced.**



Economic Data	As of Jan-25	Last Period	Last Year
Q4 GDP	2.30%	3.10%	3.20%
CPI	2.90%	2.70%	3.40%
PCE	2.60%	2.40%	2.70%
Unemployment Rate	4.10%	4.20%	3.80%
Nonfarm Payrolls	223K	182K	214K
Consumer Confidence	104.1	109.5	110.9

Source: FactSet. As of January 31, 2025.

**Markets performed well in January, rising just shy of 3%. Every sector other than technology was in the green and performance broadened away large cap growth.**



Equities	Jan-25	QTD	YTD
S&P 500	2.70%	2.70%	2.70%
DJIA	4.70%	4.70%	4.70%
Nasdaq Composite	2.22%	2.22%	2.22%
ACWI Ex-U.S.	3.49%	3.49%	3.49%
Russell 3000	3.08%	3.08%	3.08%

Source: FactSet. As of January 31, 2025.

**Treasury yields were relatively unchanged in January with investment grade and high yield spreads tightening further, indicating positive investor sentiment in corporate America.**

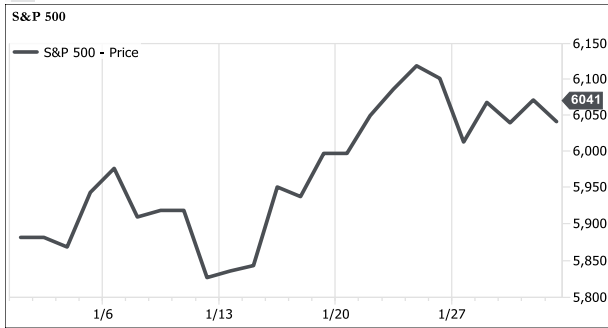


Fixed Income	As of Jan-25	As of Dec-24	As of Jan-24
Federal Funds Rate	4.25-4.50%	4.25-4.50%	5.25-5.50%
2-Year Treasury Yield	4.20%	4.24%	4.21%
10-Year Treasury Yield	4.55%	4.56%	3.91%
Investment Grade Spread	+117 bps	+119 bps	+130 bps
High Yield Spread	+300 bps	+328 bps	+397 bps
30-Year Fixed Mortgage Rate	7.02%	6.97%	6.78%

Source: FactSet. As of January 31, 2025.

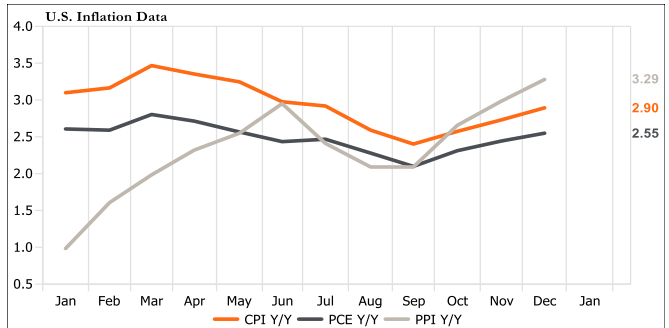
*\*Stars signify the strength of economic and market performance in the month.*

### S&P 500



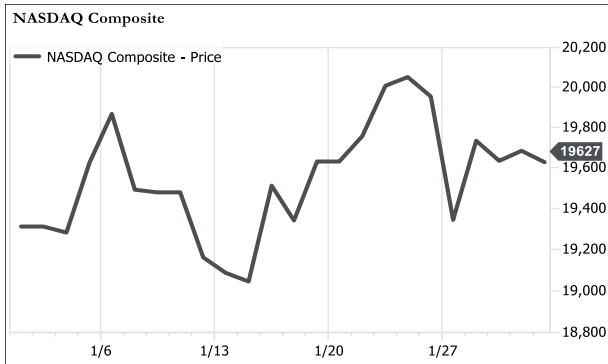
Source: FactSet. As of January 31, 2025.

### U.S. Inflation Rates



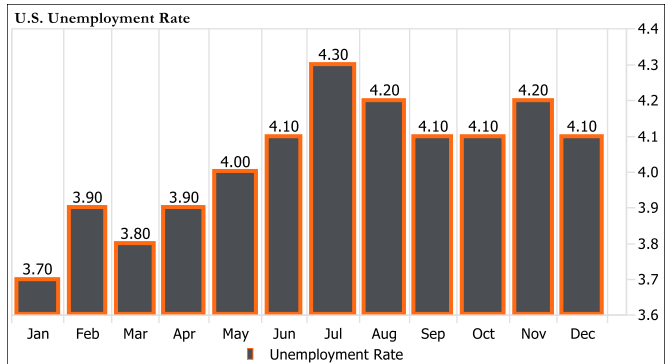
Source: FactSet. As of January 31, 2025.

### NASDAQ Composite



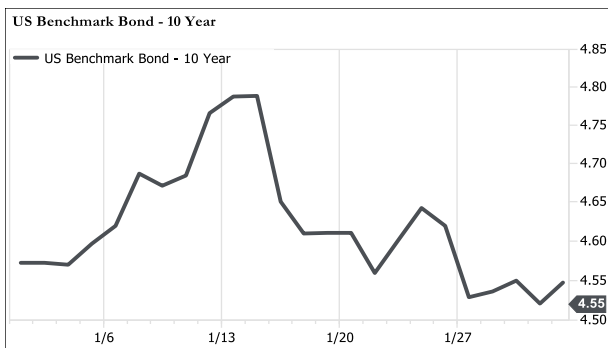
Source: FactSet. As of January 31, 2025.

### U.S. Unemployment Rate



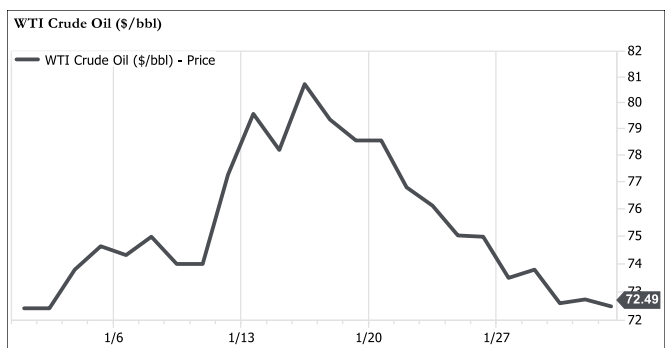
Source: FactSet. As of January 31, 2025.

### U.S. Benchmark Bond - 10 Year



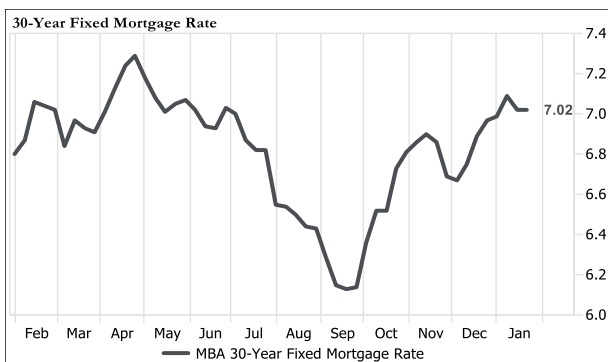
Source: FactSet. As of January 31, 2025.

### WTI Crude Oil (\$/bbl)



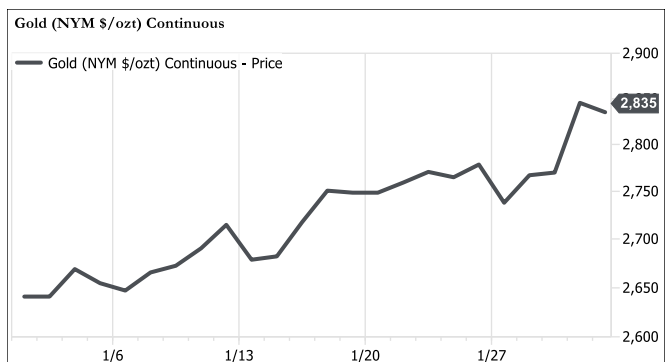
Source: FactSet. As of January 31, 2025.

### 30-Year Fixed Mortgage Rate



Source: FactSet. As of January 31, 2025.

### Gold (NYM \$/ozt) Continuous



Source: FactSet. As of January 31, 2025.



# HIGHTOWER

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