

Market Update – February 3, 2025

The Weekly Briefing

Markets were shaken last week after the launch of DeepSeek's new R1 artificial intelligence model. Major indexes opened sharply lower on Monday with the S&P 500 down more than 2% and the Nasdaq 100 off more than 3.5% at the start of trading. Markets rebounded slightly throughout the week but still closed lower. An additional headwind emerged late Friday afternoon after President Trump announced tariffs on key US trading partners China, Canada and Mexico.

Regarding tariffs, the Trump administration declared additional tariffs of 25% on imports from Canada and Mexico and 10% on imports from China. Trump and his administration have often espoused their belief that tariffs are a useful tool in getting foreign nations to comply with US demands. This most recent round of import duties is designed to force the three countries to invest resources in stemming the supply of illicit drugs, most notably fentanyl, into the United States. In the case of Canada and Mexico, the penalty is also designed to limit the flow of illegal immigrants into the US. The impact of this imposition is uncertain, and tariffs may be placed on additional countries and economic blocs, including the EU. Retaliatory measures are already being enacted - Canada responded to the Friday announcement by placing tariffs of 25% on certain US goods.

Moving to the AI space, DeepSeek, a quant division of a Chinese hedge fund, created an AI model that performs comparably to leading AI models such as OpenAI's ChatGPT and Anthropic's Claude. However, DeepSeek purports to have developed and trained this model using a fraction of the computing power, and therefore at a much lower cost than its peers. As this method requires less computing power, the model can supposedly be trained using less advanced chips. This apparent breakthrough led to a sharp sell-off in certain AI and energy stocks. On Monday Nvidia fell -17%. The other stocks that fell precipitously include Constellation Energy (-21%), Quanta Services (-18%), Broadcom (-17%), Eaton (-16%), Oracle (-14%) and Micron (-12%).

Interestingly, despite the sharp sell off in direct AI plays, market breadth – meaning the number of advancing stocks less those declining – was significantly positive on the day. 350 of the S&P 500's constituents rose on Monday. While lower compute costs and the need for less advanced technology is bad news for the leading-edge chip manufacturers, this breakthrough is positive for the economy on aggregate. The advent of a cheaper method to develop a sophisticated AI model means that technological advancement will likely occur more quickly as model development becomes accessible to companies that lack a multi-billion-dollar capex budget. And as advanced models proliferate, the cost to implement these AI tools will fall, and more firms will be able to realize the productivity benefits enabled by AI. As productivity increases, so do profit margins and corporate earnings – a positive for stocks and the economy.

To caveat the above, industry experts have expressed skepticism about the claims made by DeepSeek, and data from China is notoriously unreliable. Cautious optimism may be the best approach for navigating these uncharted waters. However, one thing is certain – enthusiasm in the AI space continues unabated.

The Week Ahead

Monday	Tuesday	Wednesday	Thursday	Friday
ISM Manufacturing PMI	JOLTS Job Openings	ISM Services	Initial Jobless Claims	Nonfarm Payrolls
	AMD	DIS	Continuing Claims	CBOE
PLTR	GOOG	FI		FTV
TSN	PEP	QCOM	AMZN	
	PFE	UBER	LLY	

Market Snapshot

	Last Week	YTD	1yr
S&P 500	-1.0%	2.8%	23.5%
DJIA	0.3%	3.3%	15.8%
Nasdaq 100	-1.4%	0.3%	20.3%
Russell 2000	-0.9%	2.6%	18.1%
S&P 500 E/W	-0.5%	3.5%	16.6%
2yr Yield	4.20%	-0.04%	-0.17%
10yr Yield	4.54%	-0.03%	0.52%
VIX	19.2	1.9	5.4
WTI Crude	\$ 72.5	1.1%	0.3%
Gold	\$ 2,798	6.6%	38.2%
Bitcoin	\$ 102,110	9.0%	137.3%

Economic Summary

	Actual	Expected	Prior (r)
Q4 GDP	2.6%	2.3%	3.1%
Initial Jobless Claims	225k	207k	223k
Continuing Claims	1,902k	1,858k	1,900k
Personal Income	0.4%	0.4%	0.3%
Personal Spending	0.5%	0.7%	0.6%
PCE Inflation - m/m	0.3%	0.3%	0.1%
PCE Inflation - y/y	2.6%	2.6%	2.4%
Core PCE - m/m	0.2%	0.2%	0.1%
Core PCE - y/y	2.8%	2.8%	2.8%

John Sawyer, CFA
Chief Investment Officer
John.Sawyer@sunflowerbank.com | 303.962.0140

Matt Henderson, CFA
Director of Portfolio Management
MHenderson@logiapm.com | 480.676.6382

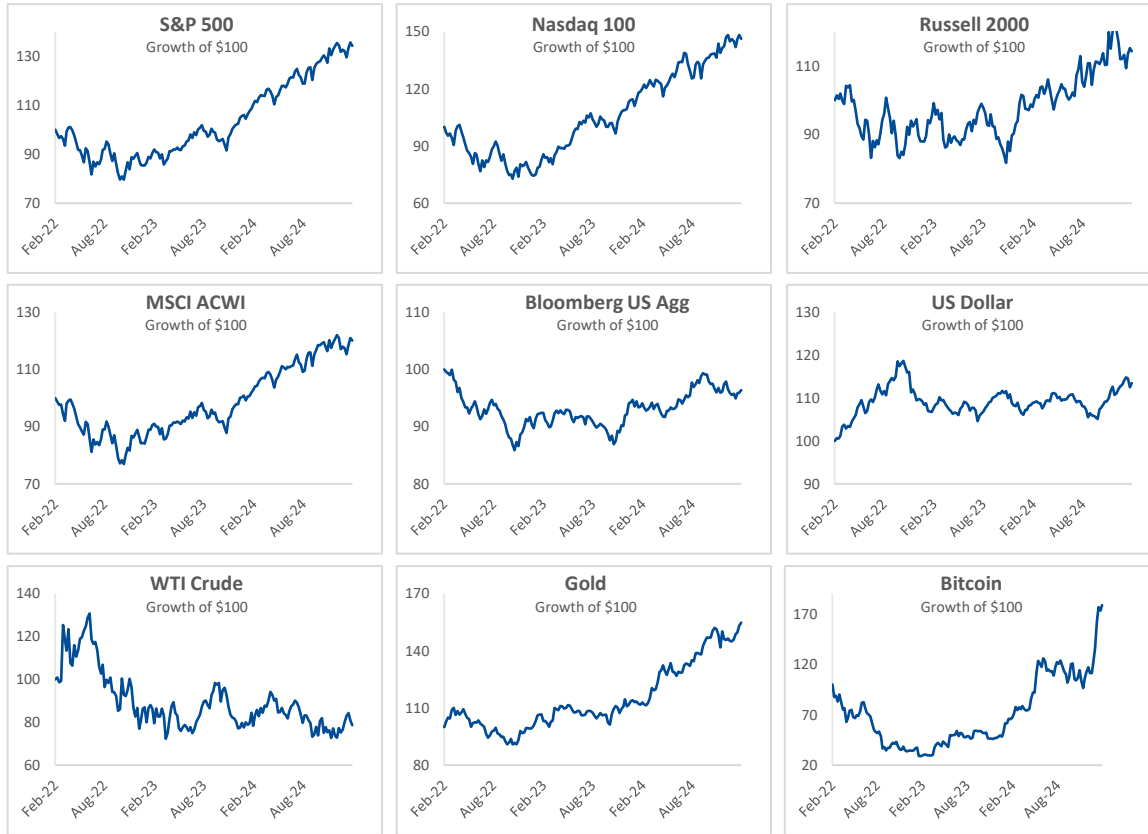
Michael Berens, CFA
Portfolio Manager
MBerens@logiapm.com | 303.962.0146

Eric Micheli, CFA
Portfolio Manager
EMicheli@logiapm.com | 303.615.2705



WEALTH MANAGEMENT

Markets Monitor



S&P 500 Sector Heatmap Total Return YTD

S&P 500	Comm. Services	Cons. Discretionary	Cons. Staples
2.8%	5.8%	3.5%	0.5%
Energy	Financials	Healthcare	Industrials
2.3%	6.5%	6.8%	5.0%
Materials	Real Estate	Technology	Utilities
5.5%	1.8%	-0.7%	2.9%

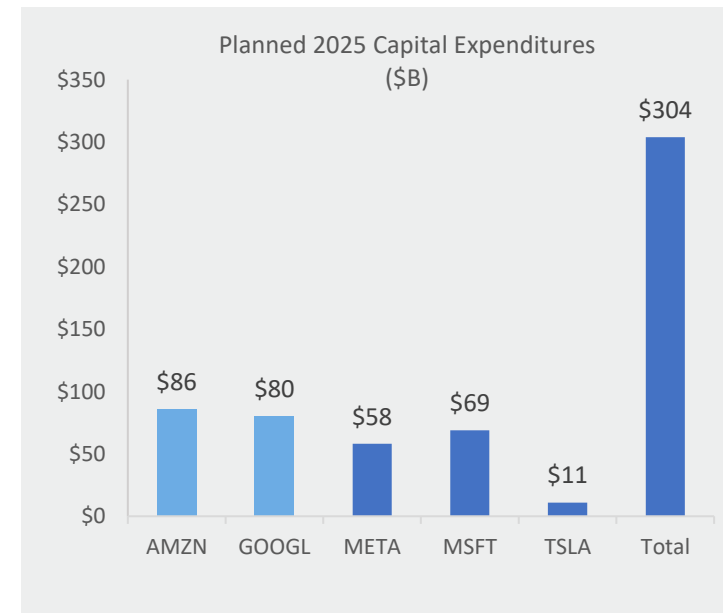
Last Week in Earnings

Date	Ticker	EPS	Revenue	Price chg
28-Jan	SBUX	Beat	Beat	8.1%
29-Jan	META	Beat	Beat	1.6%
	MSFT	Beat	Beat	-6.2%
	NOW	Miss	Beat	-11.4%
	TSLA	Miss	Miss	2.9%
30-Jan	AAPL	Beat	Beat	0.2%
31-Jan	CVX	Miss	Beat	-4.6%
	XOM	Beat	Miss	-2.5%

World Watch

	Last Week	YTD	1yr
MSCI ACWI	-0.4%	3.4%	19.2%
MSCI Europe	0.6%	6.9%	9.9%
MSCI APAC	0.7%	1.4%	13.1%
DXY Index	109.3	0.8%	5.2%
EUR / USD	\$1.03	-1.1%	-6.5%
GBP / USD	\$1.23	-1.4%	-1.5%
USD / JPY	154.5	-1.7%	3.9%
USD / CNY	7.24	-0.7%	0.9%

Tech Giants Plan to Invest Significantly in AI in 2025



WEALTH MANAGEMENT

Light blue shading denotes stated or estimated amount.
Sources: Bloomberg, Logia Portfolio Management, Sunflower Bank.

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