JANUARY 2025 Executive Summary

Benchmark Returns as of January 31, 2025

	For the Month	For the Year
S&P 500	2.78%	2.78%
Dow Jones Industrial Average	4.78%	4.78%
Nasdaq	1.66%	1.66%
Developed International	5.26%	5.26%
Emerging Markets	1.79%	1.79%
Bloomberg Aggregate Bond Index	0.53%	0.53%

Out of the Starting Gate

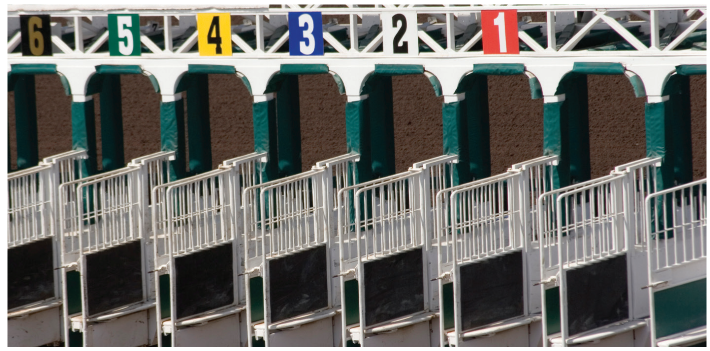
Investors had no time to lament the lack of a Santa Claus rally (technically, the final five trading days of the old year and the first two trading days of January) as 2025 burst from the starting gate with issues both expected and unexpected moving the markets. The headlines were relentless as a centenarian former president was laid to rest, and a resolute new president was sworn in. Wildfires devastated homes and businesses in Southern California, and a long-awaited ceasefire took hold between Israel and Hamas. A new AI language model surprised the markets, and the Fed surprised no one by holding interest rates steady. All the while, largely positive earnings news and economic reports contributed to equities' gains for the month.

There was increased volatility this month. The S&P 500 notched another all-time closing high on January 23rd before encountering month-end headwinds. Still, the benchmark ended January with a 2.8% gain. Even greater gains were logged by the Dow Jones Industrial Average (+4.8%) and developed international stocks (+5.3%). Interest rates -- as measured by the 10-year Treasury yield -- traded in a wide range, at one point flirting with 5% before ending the month virtually unchanged from their 2024 closing level of 4.58%.

The most dramatic stock-specific story of the month was the news that DeepSeek, a Chinese Artificial Intelligence startup, was able to nearly replicate the performance of top-end US AI models at a fraction of the cost. The January 26th headlines focused on Nvidia's record-breaking single day dollar decline, but there were losses across the AI ecosystem. Technology and communication names, natural gas, and utility stocks were all under selling pressure.

The event was significant because the majority of US equity gains over the last two years have been attributed to the AI theme and its potential to transform tasks and provide lasting productivity gains across industries. This potential justified the vast capital expenditures by the "Magnificent Seven" as an investment in future profits. The DeepSeek announcement disrupted this premise and shifted perspectives on the future course of AI. As investors processed the news, a sanguine view has taken shape that lower-cost efficiency gains will allow more companies to use AI, providing a path to more AI-based products and wider acceptance.

The DeepSeek news hit as the fourth quarter earnings season was underway displaying solid profits for most US companies. Thirty-six percent of S&P 500 companies had reported 4Q earnings as of January 31st. According to FactSet, the blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) growth rate was an encouraging 13.2%. We will be watching for a more complete picture of 4Q earnings to emerge in the weeks ahead.



The major economic reports released in January illustrated that the new administration in Washington inherited an overall healthy economy, albeit one with slowed progress on inflation and a pause in the interest rate easing cycle.

The labor market continues to underpin consumers' ability to spend. The US economy generated 256,000 new jobs in December 2024, much stronger than the consensus expectation of 160,000. The monthly average increase for all of 2024 was 186,000, reflecting a strong but not overheated labor market. The unemployment rate ticked down to 4.1%.

Major inflation indicators did not show further progress towards the Fed's stated 2% target. However, both the Consumer Price Index (+2.9% year-over-year for December) and the Fed-preferred Personal Consumption Expenditures index (+2.6%) came in near expected levels. The markets took the reports in stride and even rallied on release days.

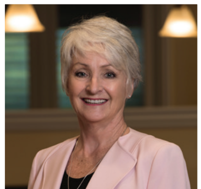
The January FOMC meeting concluded on January 29th with the fed funds rate unchanged at 4.25% - 4.50%. Given the healthy labor market and the stalled inflation picture, the Fed is currently expected to stay on pause through the early months of 2025. The next FOMC meeting takes place March 18th – 19th.

The broadest measure of the US economy – GDP – came in below expectations at an annualized growth rate of 2.3% for the 4Q24 preliminary reading. On a year-over-year basis, real GDP was up 2.5%. This solid rate going into 2025 should provide economic resilience to withstand threats that may emerge in the months ahead.

Finally, heightened volatility continues in the first trading days of February as investors monitor the effects of executive orders imposing tariffs on goods entering the US from Canada, Mexico, and China. At this writing, it is a very fluid situation. Further evidence of global trade strategies' longer-term fiscal and economic implications is needed to fully assess their investment impacts, both positive and negative. As always, we will be managing client portfolios for diversification and a balance between risk and reward.

– YOUR CALDWELL TRUST INVESTMENT TEAM –

Scott Antritt
Director of Investments
941-202-6507



Gail Neujahr, CFA
Senior Portfolio Manager
941-202-6507

Kendall Peacock, CFA, CAIA
Senior Portfolio Manager
941-202-6507