STONEBRIDGE
Capital Advisors

Monthly Market Commentary

January 2025 Review

MARKET COMMENTARY

Equity Review

January started off strong, with markets broadly in the green. Earnings season has been solid so far, inflation data remains on track, and fourth-quarter GDP exceeded expectations. However, two major developments last week disrupted the status quo: DeepSeek and tariffs.

DeepSeek: A Game Changer in AI?

The biggest news in tech last week came from a Chinese AI company called DeepSeek. Reports indicate that DeepSeek has developed an AI model that rivals those of major U.S. firms—despite operating on a fraction of the budget and without the most advanced Nvidia chips.

This sent a shockwave through the AI sector, negatively impacting Nvidia's stock price and several high-valuation infrastructure and electricity providers that had been buoyed by expectations of massive future data center growth.

The immediate concern: If DeepSeek's AI can achieve such impressive results with fewer resources, will the anticipated surge in data center and electricity demand still materialize?

While there are claims that DeepSeek used older Nvidia chips exempt from sanctions (a detail that remains somewhat unclear), the model has still impressed industry leaders like OpenAI's CEO - Sam Altman and Microsoft's CEO - Satya Nadella. Despite the short-term market disruption, we view this as a positive development for AI innovation. As my colleague Ryan Medhaug, CFA, who specializes in AI investment research, put it:

> “Affordability increases the total addressable market.”

Lower costs mean broader adoption, and the creative and economic potential of AI is still in its early stages. We remain optimistic about the industry's long-term trajectory.

That said, the protection of intellectual property and the effectiveness of sanctions remain critical to national security, privacy, and economic stability. However, we'll leave the policy debates to the political experts for now.

Tariffs: Uncertainty Returns

The other major development last week was the announcement of new tariffs. For months, we refrained from making firm predictions about their economic impact, given uncertainty over how much of the rhetoric was negotiation posturing versus actual policy action.Over the weekend, President Trump signed an order that imposed immediate 25% tariffs on all goods from Canada and Mexico, along with an additional 10% tariff on Chinese imports; as of yesterday, the U.S., Mexico and Canada have agreed to delay the new tariffs by one month.[1]

Since these three countries are the U.S.'s largest trading partners, markets reacted negatively to concerns that higher costs could pressure corporate profits or push consumer prices higher, potentially reversing some of the progress on inflation. Of course, it's too early for these tariffs to be reflected in macroeconomic data or corporate earnings, but history suggests that trade wars tend to slow economic activity.

There remains hope that these tariffs will be temporary or that new trade agreements will emerge. At the same time, the supply chain disruptions caused by the COVID-19 Pandemic have strengthened the case for reshoring critical U.S. manufacturing. Ideally, trade policy will strike a balance—bringing some production back home without causing significant economic turbulence.

Regardless of political cycles, we avoid selling quality investments based on short-term policy shifts. We continue to maintain a domestic overweight in our portfolios and are confident that company leadership teams will successfully navigate these challenges while offering their expertise to policymakers.

As always, we remain focused on long-term value creation.

[1] *Data as of February 4, 2025*

MARKET COMMENTARY

Fixed Income Review

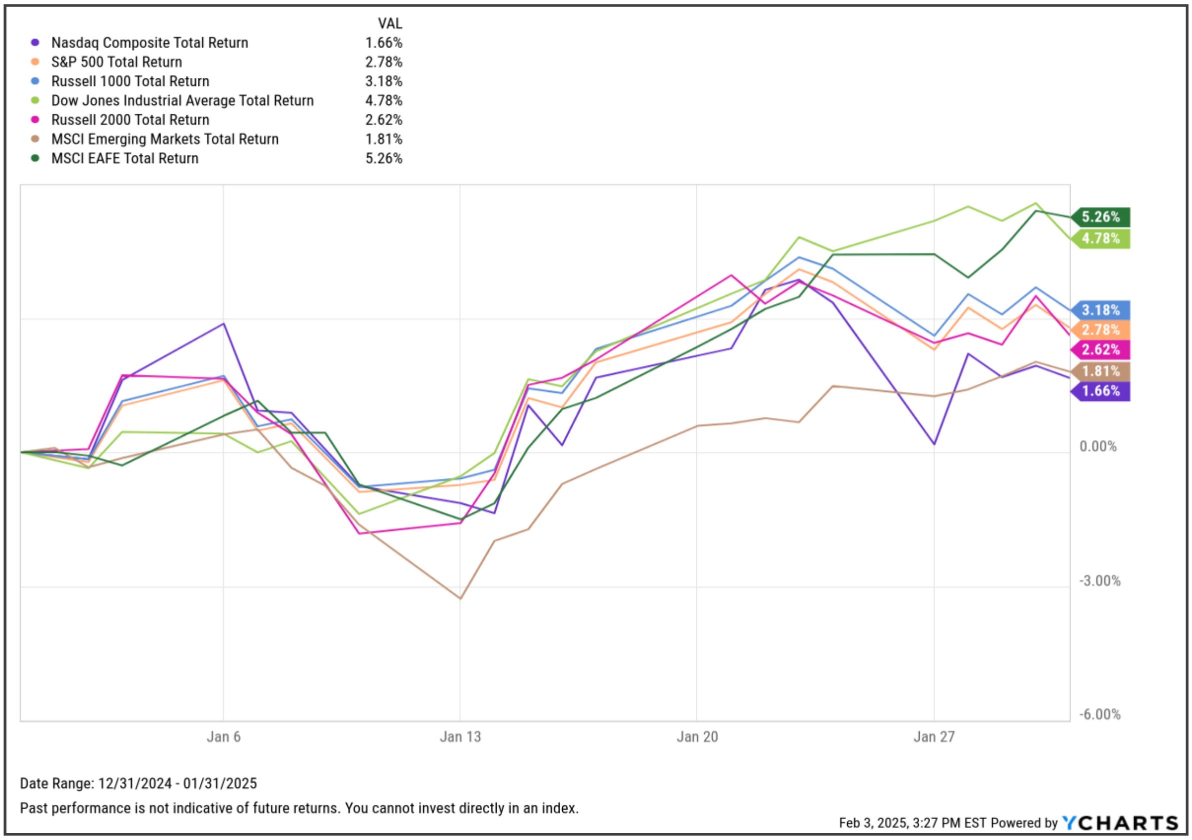
Interest rates largely peaked mid-month, then drifted lower, leading to positive performance across sectors. For much of last year, the market was anticipating more aggressive Fed easing into 2025. So far in this cycle, we have seen three cuts, however, the Fed skipped making an additional cut after its meeting last month.

There is some uncertainty around the direction of our future inflationary path, particularly with the new administration's tariff fixation. A new round was just announced over the weekend against our largest trading partners. If left in place longer term, there is more of a concern that higher inflation reemerges.

The bond market has reflected those fears with higher intermediate to longer term rates. The 10-year Treasury yield dipped to 3.63% toward the end of the 3rd quarter of 2024.

We are almost a full point above that level now, though off highs touched in mid-January. We continue to view elevated rates as an opportunity to lock in attractive longer-term income levels in bonds. It should remain so if high tariffs are just used as a negotiating tool rather than longer-term policy. Given yesterday's announcement of a one-month delay for those on Mexico and Canada, there is reason to be optimistic that it is the former.

YTD | Major Index Returns



OVERVIEW

Key Moves

Equity Market Moves

12/31/2024 - 01/31/2025

S&P 500:
5881.63 to 6040.53 (up 158.90)

Dow Jones:
42544.22 to 44544.66 (up 2000.44)

NASDAQ:
19310.79 to 19627.44 (up 316.65)

Fixed Income Market Moves

12/31/2024 - 01/31/2025

2-Year Treasury:
4.25% to 4.22% (down 3 bps)

10-Year Treasury:
4.58% to 4.58% (flat)

10-Year A-rated Corporate:
5.28% to 4.92% (down 36 bps)

10-Year AAA-rated Municipal:
3.06% to 2.91% (down 15 bps)

Equities

Stonebridge's equity investment style provides a method for growth and income generation. Within this style, we utilize three equity strategies to invest in industry-leading, domestic companies with solid fundamentals. Principally, we focus on large-cap equities because they are more mature companies who offer attractive growth potential and generally experience lower volatility.

Our equity strategies are designed to achieve varying client investment goals and risk tolerances.

LARGE CAP GROWTH
est. January 2001

GROWTH & INCOME
est. March 2015

DIVIDEND INCOME
est. March 2011

Fixed Income

Stonebridge's approach to fixed income seeks to provide principal protection, asset liquidity and income generation. We manage two fixed income strategies - taxable bond and tax-exempt municipal bond - that both utilize individual securities, and are broadly diversified across sectors and issuers. We maintain a conservative risk profile, focusing on investment-grade credit. Individual security selection is made through a bottom-up approach that identifies relative value among issuers within each sector.

Our fixed income strategies are custom tailored to meet each individual client's unique investment goals and income requirements.

TAXABLE
est. December 1998

TAX-EXEMPT
est. June 1997

The intelligent investor should recognize that market panics can create great prices for good companies and good prices for great companies.

- Benjamin Graham

ABOUT THE AUTHORS

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Michael Dashner is the Director of Equity of Stonebridge's Investment Team, heading the management, analysis, allocation, and trading of the firm's Equity Large Cap. Growth, Equity Dividend Income, and Equity Growth & Income strategies.

As a CFA® charterholder and portfolio manager, he works directly with clients and advisors to establish customized investment portfolios for high-net-worth individuals and families and instituions.

Jon Lynn

Director of Fixed Income, Portfolio Manager

Jon Lynn is the Director of Fixed Income of Stonebridge's Investment Team, leading the trading, credit analysis, and portfolio manager of the firm's Taxable Fixed Income and Tax-Exempt Fixed Income strategies.

As a fellow member of the Stonebridge Investment Review Committee and Research Committee, Jon oversees all aspects of the firm's bond trades in separately managed portfolios.

Important Disclosure Information
All information herein is as of February 4, 2025, unless otherwise indicated.

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Additional information may be available upon request.