Riverview TRUST COMPANY

January 2025

MARKET RECAP

CHANGE IN LEADERSHIP

January marks political and market shifts in leadership

KEY OBSERVATIONS

- **Markets Adapt to Policy Shifts** – President Trump's executive orders kept investors on edge, but his position on tariffs provided a tailwind for international markets.
- **NVIDIA's Wake-Up Call** – A 17% drop in NVIDIA shares, triggered by AI competition from China, highlights the risks of market concentration and stocks priced for perfection.
- **The Fed Holds Steady** – With solid GDP growth and low unemployment, the Fed left rates unchanged, signaling caution rather than a rush to ease policy.
- **Tariffs are an Inflation Wild Card** – While tariffs could push prices higher, history also shows they are just one piece of a larger economic puzzle.

RECAP

January marks both symbolic and literal new beginnings. President Trump took office on January 20, swiftly issuing a flurry of executive orders that kept investors scrambling to assess their implications. The notable absence of tariffs—our deep dive topic for the month—helped propel international markets higher. Markets, as forward-looking discounting mechanisms, had already priced in much of the tariff-related rhetoric during the fourth quarter. The absence of new developments acted as a relief valve for investors with acute concerns.

ASSET CLASS	INDEX	JANUARY
Global Equity	MSCI ACWI All Cap Index	3.26%
US Large Cap	S&P 500 Index	2.78%
US Mid Cap	Russell Mid Cap Index	4.25%
US Small Cap	Russell Small Cap Index	2.62%
Us Real Estate	FTSE NAREIT REITs Index	1.03%
Non-US Large Cap	MSCI EAFE Index	5.62%
Non-US Small Cap	MSCI EAFE SC Index	3.45%
Emerging Markets	MSCI EM Index	1.79%
Cash Equivalent	US 90 Day T-Bills	0.35%
US Bonds	Bloomberg Agg. Index	0.53%
US Municipal Bonds	Bloomberg Muni Index	0.50%
US High Yield Bonds	Bloomberg HY Bond Index	1.37%

Source: Morningstar as of January 31, 2025

RECAP cont.

Another key driver of U.S. versus international market performance in January was NVIDIA. Shares of NVIDIA fell nearly 17% on January 27, accounting for 79% of the S&P 500's one-day decline (-1.15% of the index's -1.45% drop). The sell-off was triggered by news that Chinese startup DeepSeek had developed an AI model with quality comparable to U.S. models but with significantly lower capital investment and reduced need for advanced computing power—an implicit challenge to demand for NVIDIA products. For years, investors have grown accustomed to market concentration fueling U.S. equity returns. However, concentration also carries risks. Whether DeepSeek represents a "Minsky moment" for AI is beyond our remit, but this episode underscores the theme of fragility we noted in our outlook.

On the economic front, the Federal Reserve left interest rates unchanged in January and notably removed its standard language on improving inflation dynamics. With unemployment hovering around 4% and fourth quarter 2024 GDP reported in January at 2.3%, the economy has little slack to absorb pro-growth policies without adding inflationary pressures. As a result, the Fed lacks both the motivation (a weakening economy) and the visibility (policy clarity) to pursue further easing at this time.

Historical Fed minutes, released with a five-year lag, reveal that policymakers in 2018 and 2019 prospectively discussed the economic impact from the Trump tariff policies when considering monetary policy. This latest decision aligns with our view that inflation risks remain elevated, reinforcing our portfolio positioning for 2025 and beyond.

LOOKING AHEAD

The start of the year has offered many opportunities to shift our investment focus from the long term to the short term, reacting to market fluctuations and headlines. However, our investment strategy remains the same—looking beyond headline-driven noise to allocate capital where we see the most compelling long-term returns.