

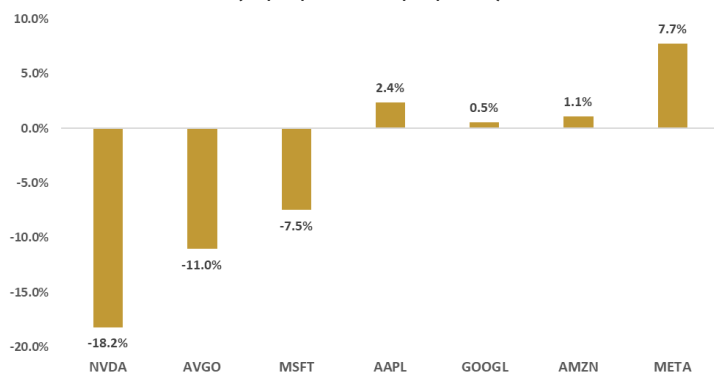
Seeking Deeper in the Equity Market

The Deepseek issue has stirred domestic equity markets over the past couple of weeks. A Chinese AI app demonstrated results comparable to—or in some cases, better than—large language models (LLMs) developed by OpenAI, Meta, and Google. Deepseek’s ability to achieve this at a fraction of the cost has raised concerns about whether the billions spent by major U.S. tech firms on AI chips will yield meaningful returns.

What should we make of this? In the short term, the implications may be limited. A couple of key considerations: (1) Cheaper AI models could accelerate AI adoption, potentially expanding opportunities across the AI value chain, including software firms and cloud service providers. (2) The specifics of Deepseek’s model remain unclear. The notion that it represents a truly disruptive, low-cost alternative is still unproven. The market may have reacted first, saving the details for later.

More broadly, the sharp reaction in stocks like Nvidia (NVDA) highlights the risks of a concentrated market. The volatility spikes caused by perceived threats to dominant growth themes like AI underscore the fragility of concentrated leadership. While the Deepseek episode may not alter the trajectory of mega-cap AI strategies in the short term, it serves as a reminder to balance an appreciation for U.S. tech’s strong earnings power with opportunities elsewhere in the broader market.

Returns to U.S. Tech Stocks Since Deepseek News (%)
(01/24/2025 - 02/03/2025)



Source: Bloomberg, total returns, as of February 3, 2024.

Economy

Last Week	This Week
-Conf. Board Consumer Confidence (Jan.): Unexpectedly fell to a four-month low on job-market and inflation concerns.	-ISM Manufacturing PMI (Jan.): 2/3
-FOMC Rate Decision: No changes to target rate. Press conference indicated caution on the pace of additional cuts.	-JOLTS (Dec.): 2/4
-U.S. GDP (4Q '24): An deeping trade deficit in December pushed GDP lower to 2.3% last quarter.	-ISM Services PMI (Jan.): 2/5
-Personal Income, Spending, and PCE Inflation (Dec.): Incomes and spending remain strong. PCE inflation as expected.	-Payrolls & Unemployment (Jan.): 2/7

Equities

Index	Level	Returns (%)					
		1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
S&P 500	5995	-0.28	2.00	2.00	22.53	11.97	14.61
Russell 1000 Growth	4078	0.39	0.91	0.91	26.90	14.98	18.14
Russell 1000 Value	1897	-0.87	4.19	4.19	18.01	7.84	9.76
FTSE High Dividend Yield*	469	-0.64	3.37	3.37	19.98	8.88	10.78
S&P Small and Mid Cap	17788	-1.34	2.21	2.21	16.33	7.57	10.34
MSCI EAFE	2335	-1.08	3.31	3.31	8.46	4.69	6.33
MSCI EM	1074	-1.26	-0.02	-0.02	11.80	-1.27	2.59

Index	NTM P/E	NTM P/E (20Y med)	Div Yield	S&P Sector Returns YTD												
				Comm. Serv.	Health Care	Financials	Materials	Industrials	Utilities	Cons. Discr.	Staples	Energy	Real Estate	IT		
S&P 500	22.2	15.3	1.3	10												
Russell 1000 Growth	29.4	17.7	0.6	5												
Russell 1000 Value	17.1	13.4	2.2	0												
FTSE High Dividend Yield*	12.9	13.1	4.2	-5												
S&P Small and Mid Cap	15.9	15.5	1.8	-10												
MSCI EAFE	14.7	13.4	3.1													
MSCI EM	11.9	11.1	2.8													

* Bloomberg U.S. Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income

Index	Yield	Returns (%)					
		1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
U.S. Aggregate	4.87	-0.02	0.61	0.61	2.54	-1.19	-0.51
U.S. Int. Gov/Credit	4.59	-0.02	0.53	0.53	3.72	0.70	0.74
U.S. Corporates	5.32	-0.11	0.64	0.64	3.30	-0.54	0.04
High Yield	7.28	-0.05	1.18	1.18	9.43	4.40	4.39
Municipals (1-10)	3.23	0.26	0.78	0.78	1.85	1.07	0.94

Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	Levels (%)		
					1 Yr Ago	3 Yrs Ago	5 Yrs Ago
2-yr Treasury	4.25	4.20	4.24	4.24	4.41	1.31	1.44
10-yr Treasury	4.56	4.53	4.57	4.57	4.10	1.91	1.65
30-yr Treasury	4.79	4.78	4.78	4.78	4.30	2.21	2.14
SOFR	4.35	4.35	4.49	4.49	5.31	0.05	1.59
6-mo. CD rate	4.36	4.30	4.33	4.33	5.36	0.59	1.75
Prime Rate	7.50	7.50	7.50	7.50	8.50	3.25	4.75
30-yr fixed mortgage	6.96	7.27	7.28	7.28	7.10	3.95	3.62