February 2025

We hope your 2025 is off to a great start!

The markets have gotten off on the right foot to start the year. This is despite our first hiccup of the year when markets pulled back due to some AI (artificial intelligence) issues. Essentially a Chinese AI firm announced that it had released an open-source AI model that only took two months to build and less than $6 million to create (source: Invesco). The reason this was a problem for the markets, is these claims are far less than the hundreds of billions of dollars that American tech giants have spent developing their own models and could disrupt the dominance of the existing AI landscape. This has now become a hotly debated topic and something that we believe needs to be followed and monitored.

We could see volatility in the markets moving forward given some of the unknowns as to what the impact of the new administration policies could have on the economy, including potential tariffs and a new immigration policy. On a positive note, you have the potential for less regulation, a smaller government, and a possible reduction in taxes. To put volatility in perspective though, in the last 40 years, the S&P 500 average intra-year drawdown was -14%. However, even with those pullbacks, the index finished higher in 31 of those 40 years (source: JPMorgan). So, while it is never fun to experience, it is part of investing and having a financial plan and investment strategy that can help navigate these markets.

The Federal Reserve is watching inflation very closely. At their meeting on the 29th, they voted to keep interest rates steady and said that while the unemployment rate has stabilized at a lower level in recent months and labor market conditions remain solid, inflation remains somewhat elevated (source: CNBC). The new indications are possibly only two rate cuts this year.

We also got news that the US Economy grew by 2.5% last year, slower than 2023, but still at a solid pace and many business executives are voicing optimism (source: WSJ). Consumer confidence slipped to start the year but is still on positive footing (source: AP). The Commerce Department just reported that inflation for the month of December came in at 2.6%, in line with expectations but an increase from the prior month, showing that inflation remains sticky. They also reported that consumer spending grew a solid 0.7% in December, helping to propel the economy. (source: Reuters).

As we head into tax season, Morgan Stanley will be sending tax documents in waves again. You should have received a notice indicating which wave you are a part of. Most clients should see their tax documents towards the end of February. As a value-added service our team is more than happy to send your documents directly to your accountant. Please let us know if this is something you might be interested in.

If you have any questions or need anything, don’t hesitate to contact the team.

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