

Market Commentary 1/7/25

An Oxford Harriman & Company Market Commentary

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Both stocks and bonds produced positive returns in January; however, there was a change in market leadership as the rally broadened. Large Cap Value, which underperformed over the past 12 months, outperformed Large Cap Growth by over 2.5% during the month. Additionally, the Dow Jones Index returned to its all-time high in early December after finishing the year in a downtrend. In contrast, the Nasdaq 100, and the Technology sector in particular, each underperformed the S&P 500 after leading the index higher throughout most of 2024. This was in part due to artificial intelligence (“AI”)-related news from China, which raised concerns about U.S. AI leadership. Recall the AI theme drove many large-cap growth stocks to index-beating performances in 2024.

In January, there was a major AI development that could have implications for both the industry and the U.S. stock market. Chinese startup DeepSeek unveiled an AI model it claims can compete with top U.S. models, such as ChatGPT, but at a fraction of the cost. The model was initially claimed to be developed using cheaper, less advanced chips, challenging the view that cutting-edge AI requires significant investment in high-performance, expensive hardware. If other companies follow suit and develop lower-cost models, it could influence the AI technology landscape and impact U.S. leadership. There are still unanswered questions regarding how DeepSeek was actually developed, and the origins of the technology remain uncertain.

Nevertheless, the release of DeepSeek’s AI model triggered a sell-off in U.S. tech stocks on the Monday of the month’s final week. The news was especially relevant for a large US-based chip manufacturer. This company lost nearly \$600 billion in market capitalization, one of the largest single-day losses for a U.S. company. The selling pressure also extended to other large-cap tech companies, reflecting broader concerns over the expensive valuations of AI-related stocks. While the news impacted a small subset of companies, the high weights of

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AI-related companies in the S&P 500 caused the index to trade lower on the announcement. As the last week of the month unfolded, the markets rebounded and recovered all of the early week's sell-off before tariff-related news Friday afternoon caused markets to decline into the close. With the new policies of the Trump presidency, we believe it's looking like it's going to be a dynamic investing market. We will continue to keep you updated on significant matters and provide our interpretation of how they impact your portfolios.

Have a good week,

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The NASDAQ 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ Composite Index. The list is updated quarterly and companies on this Index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

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