February 2025

Alexis Investment Partners

Practical | Tactical

Summary

January marked a positive but volatile start to the year for investors amid market shifts and policy concerns. President Trump returned to the White House and signed dozens of executive orders, the Chinese artificial intelligence company DeepSeek shook the tech industry, and the Fed hit pause on rate cuts.

Looking forward, investors are focused on the latest round of tariffs and the impact on the global economy and inflation. **Our portfolios fared well, generally outpacing benchmarks for the month and trailing year.** (see charts Page 2).

1099r forms are available now. 1099 composite forms (for taxable accounts) will be available late February. If you need help accessing your documents, we're happy to retrieve them for you.

Key Market and Economic Data

- The S&P 500 gained +2.7% in January, the Nasdaq +1.6%, and the Dow Jones Industrials +4.7%.
- The 10-year Treasury yield ended the month at 4.5% but reached as high as 4.8% mid-month.
- The Federal Reserve held its key policy rate at 4.25 to 4.50%.
- U.S. GDP grew 2.3% in Q4; 2.8% across 2024.
- CPI rose +2.9% year-over-year while the Fed's preferred inflation gauge (PCE) climbed +2.6%.

As investors, **our goal is to increase purchasing power over time.** We invest for both asset appreciation and interest income, seeking the most efficient way to outpace inflation within the context of each client's goals, resources, risk preferences and time horizon.

We welcome any updates, questions or concerns. Open and frequent communication is our best defense against losses in volatile times.

What to Expect in Portfolios

Last month we wrote: "It's premature to call a bottom, but we expect stocks to remain resilient in 2025."

So far, so good. **January was volatile at times but stocks and bonds ultimately delivered good results.**

The rebound was encouraging but most stocks have yet to breach new highs. The good news is that consolidation patterns like we see today typically resolve in the direction of the trend (in this case, further gains). **We were modest dip buyers in the pullback and remain cautiously optimistic.**

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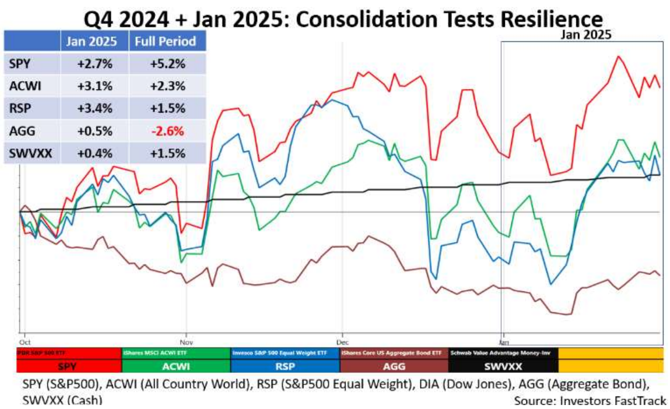
2025 is off to a strong start. Stocks and bonds rebounded after a weak Q4 2024.
Tech was weak and investors rebalanced into other sectors. It will be interesting to see if leadership changes prove sustainable.
Bonds have been terrible for years. That may be changing as the yield curve is no longer inverted.

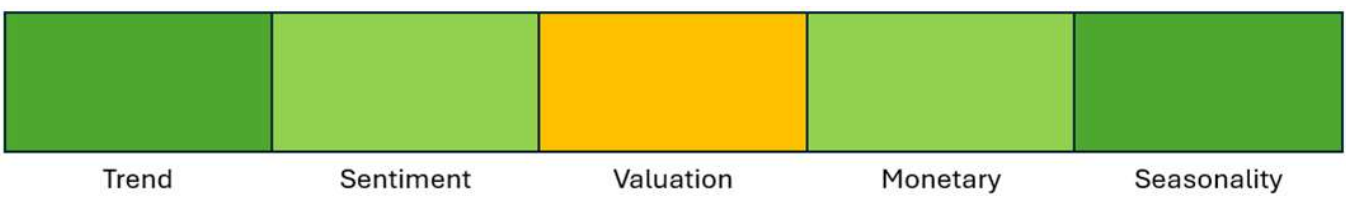


The chart below shows the net performance of our **most popular composite** since inception (120 accounts – see disclosures on page 4). The 5+ years shown have been volatile including COVID and the 2022 Bear market. **Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.**

Insights and Commentary

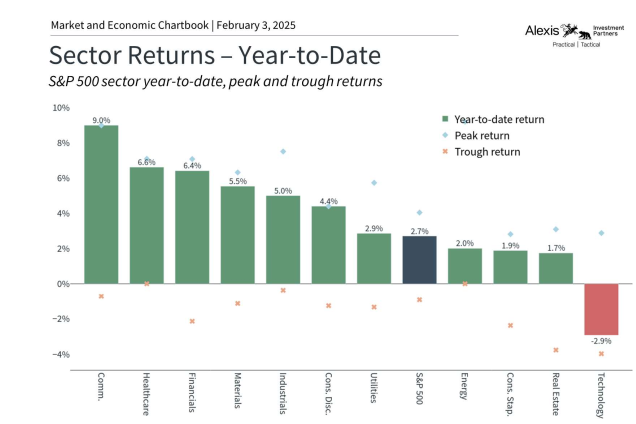
Investing can be an emotional roller coaster, leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants,

(Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) The tiles below summarize current conditions:



AI, Tariffs, and the Fed

In January, markets were driven by tech disruption and policy transitions. A reported AI breakthrough by Chinese company DeepSeek sparked declines in many tech stocks, notably Nvidia. DeepSeek launched an AI model claiming to require 95-97% fewer resources than those created by OpenAI and other leading companies. **The possibility that the industry requires far fewer computing resources rippled across financial markets.**



Technological developments matter for all investors, not just those who are focused on tech stocks. Technology and AI now represent a significant portion of popular indices, including the S&P 500 and Nasdaq, and are increasingly used by every sector of the economy. **Cheaper access to AI may challenge innovation but may also help with adoption and broaden access.**

February brought a key development in Washington: **Trump's new tariffs** intended to generate additional government revenue, to negotiate on border security, and to protect domestic industries. A 10% tariff was implemented on China. A 25% tariff on Canada and Mexico were paused for a month after their respective leaders agreed to boost border support and further negotiation.

The Fed's pause was widely expected but balanced comments raised concerns of a longer hold or possible rate hike. We believe this was simply a pause to allow recent cuts to work through the system and **expect lower rates later this year.**

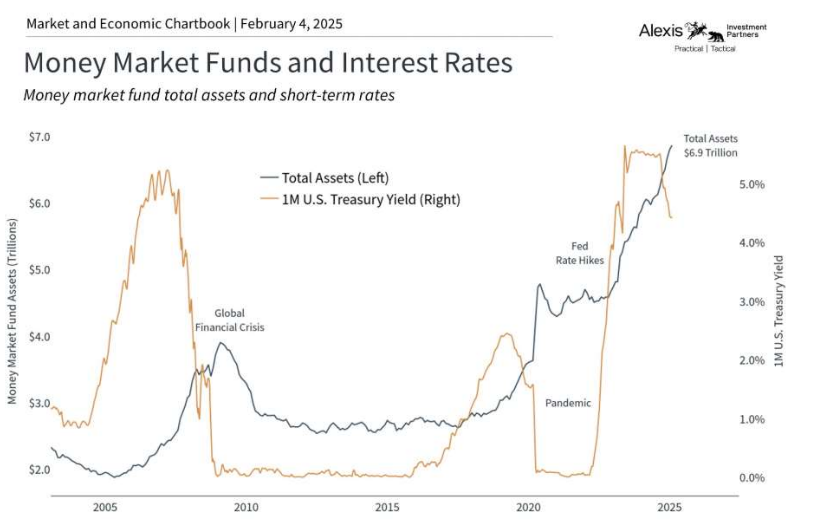
Update, Observations, Indicators and Outlook:

In terms of our current Market Pulse (right), the Bull Market remains intact. January's resilience continues to suggest that the recent correction will resolve as a consolidation leading to higher highs before significant new lows. That said, we can't know for sure until it runs it course (leading to new highs or a fresh breakdown).

We appreciate concerns over headline risks, especially as tariffs and trade wars escalate, are highly controversial and have implications domestically and globally. It helps to note that there are lots of moving parts. When facing uncertainty people tend to fear the worst. It doesn't help that politicians, media and pundits tend to oversimplify analysis and amplify extreme soundbites. Ironically, policy clarification may yield a positive market response to the extent it helps define a path forward or comes in less extreme or more balanced than feared.

Interest rates appear to have stabilized after the 10y US Treasury yield reached nearly 5%. This may disappoint some as mortgage rates settle around 7%, for example, leaving affordability stretched. History suggests variable loans may provide some relief, but this will take time as the Fed slows the pace of continued cuts that directly impact short-term borrowing.

February is a historically weak month – rising about 56% of the time. We are also mindful of high valuations as a headwind. Strong earnings growth and economic data are potentially positive catalysts. In short, we expect volatility but also respect market resilience, especially considering nearly $7 Trillion in Money Market Cash (see below). Money market funds were very attractive at 5.5% but may be less so at 4%. As the Fed continues to cut rates later this year, some investors may shift to stocks and bonds.



Source: Clearnomics

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3- 6 months.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18- 24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

AIP acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.

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