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February 5, 2025

Dear Valued Investor,

The new month brings two major market-moving stories to digest. First is the advances in artificial intelligence (AI) by Chinese startup DeepSeek. It has caused some investors to question America's lead in the AI race and American Exceptionalism more broadly. To answer that question, it's important to look at this idea holistically. U.S. advantages in research and development spending, capital markets depth, the dollar's privilege as the global reserve currency, and more suggest U.S. exceptionalism will remain intact.

Impending tariffs on our three biggest trading partners are also among the news ushered in with the new month. As you digest this news and markets react, we would like you to keep several things in mind. First, we believe the Trump administration is using tariffs mostly as a negotiation tactic with Canada and Mexico, creating leverage for working on issues like border security and drug trafficking.

Any tariffs implemented in these countries will likely not persist, especially since President Trump does not want higher inflation or sharp stock market declines. While the size and duration of tariffs remains uncertain, feedback from inflation data and market fluctuations should help mitigate potential negative impact. Lasting and higher tariffs are more likely in China, making the path forward for the Chinese economy and the China-heavy emerging market indexes potentially bumpy.

The economic impact of tariffs on consumer prices for most products will likely be manageable, as some costs are absorbed by currency fluctuations, our trading partners, and the companies themselves. Meanwhile, consumers will find substitutes for some products, lessening the blow. So, while inflation readings may tick higher in the short term and companies will experience some margin pressures, the economy should cool enough to keep Federal Reserve (Fed) rate increases off the table and bond yields in check.

As the AI and tariff headlines swirl, don't forget that stock market fundamentals remain healthy. Steady economic growth, double-digit increases in S&P 500 profits, contained inflation, and likely additional rate cuts by the Fed later this year are a good mix for higher stock prices. The S&P 500 rose in January, which history suggests is an effective barometer for stock prices over the balance of the year. Expect a profitable year for stock investors in 2025 but be ready for some more ups and downs.

As always, please reach out to your financial advisor with questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Buchbinder'.

Jeffrey Buchbinder, CFA  
Chief Equity Strategist  
LPL Research

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All index data from FactSet.

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