

Markets Surge to Start 2025

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The U.S. financial markets began 2025 impressively with the S&P 500 up 3.4%, the Nasdaq over 1.2%, and the Dow nearly 5%. Investors are optimistic about President Trump's actions and are enthusiastic about emerging economic opportunities that they believe he is creating.

Artificial Intelligence (AI) continues to be a primary market driver. JPMorgan estimates the "Magnificent Seven" tech companies will invest \$500 billion in AI research, with total corporate AI spending exceeding \$1 trillion—surpassing the national defense budget.

The World Economic Forum in Davos underscored economic optimism. New York Stock Exchange

highlighted deregulation as a key confidence driver. The perception of strong support for American businesses has attracted both domestic and international investment.

Not surprisingly, investor sentiment has also dramatically improved. The American Association of Individual Investors who are bullish and expect stock prices to rise over the next six months jumped from 25.4% to 43.4% the week of President Trump's inauguration. American exceptionalism has convinced investors around the world that the U.S. is the place to put their money. They rightly point to rising U.S. productivity since the pandemic and the dominance of innovative U.S. technology companies.

Still, unexpected events can jolt markets. Given the strong driver that AI has been for US stocks, Chinese artificial-intelligence company, DeepSeek, attracted a lot of attention when its models zoomed to the global

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President Lynn Martin noted "tremendous optimism" about business growth and regulatory environments. The IPO market, previously frozen under Biden, has thawed.

President Trump's clear support for American businesses and economic growth marks a stark contrast to the previous administration. Business leaders are particularly optimistic. Katie Koch, CEO of TCW Group,

top 10 in performance according to a popular ranking. The Chinese artificial intelligence upstart shot to prominence after saying it had trained its high-performing AI models cheaply, without the most advanced chips.

With the release of the model rankings and the claims of how they did it, US tech stocks sank as investors fretted about the implications. The hiccup wiped some \$1

trillion from the stock market's value when the news surfaced on Monday, January 27th, yet even this barely dented the gains of the past year. Nvidia, which makes the chips at the heart of the AI boom, closed down a whopping 17% before partially recovering.

In addition, another warning sign materialized from something a bit more esoteric – the equity risk premium. This metric, which compares the S&P 500's earnings yield to 10-year Treasury yields, turned negative in late December for the first time since 2002. The negative premium results from a combination of higher Treasury yields and soaring equity valuations. A negative premium suggests that stocks may not be providing adequate compensation for their additional risk compared to government bonds. Traditionally, stocks need to promise higher rewards than bonds to compensate for their increased risk.

Yet, despite potential challenges from DeepSeek's breakthrough and the negative equity risk premium arising from highly valued stocks, individual investors remain bullish after two years of substantial gains. Stock values are high, but they can always go higher, and market sentiment suggests continued optimism in the short term.

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