



Concenture

Week Ahead

Robert Gilliland
Managing Director

 **February 3, 2025**

Stocks Sputter On “Sputnik” Surprise

Last week began with a surprise when Chinese startup DeepSeek demonstrated that its new artificial intelligence (AI) system could perform as well as expensive American systems – and apparently 100x cheaper and by using domestic Chinese technology.

This generated immediate fear that America’s dominance in AI would rapidly diminish, and that AI investment to-date might be “sunk capital.” But then cracks started to show in the DeepSeek story. First, it came out that DeepSeek used many thousands of Nvidia chips to achieve its breakthrough. Then allegations began flying that China had engaged in industrial espionage and theft of intellectual property. These accusations were repeated by David Sacks, Trump’s new AI and Crypto Czar, and echoed by leading AI firm OpenAI and its biggest backer, Microsoft.

The shock to the industry (and the market) has been compared to the Soviet launch of Sputnik, the first man-made satellite, in 1957 – and the extreme stress it caused the U.S. and our allies. Fearing Soviet superiority in space technology and missile capabilities, the U.S. barreled full speed into the Space Race. We agree with the DeepSeek::Sputnik analogy, but quickly point out that as a result, NASA was created. With funding that eventually grew to \$10.5 billion a year, the U.S. won the Race when Neil Armstrong stepped on the moon in 1969.

Another angle to the DeepSeek story is called the “Jevons Effect” or “Jevons Paradox.” In the mid-1800s, English economist William Stanley Jevons observed that technological advancements of the industrial revolution improved the efficient use of coal but did not lead to a decrease in the usage of coal. Because the cost of using coal was driven down, it led to greater consumption of coal, not less. We’ve seen this paradoxical pattern repeated in history with personal computers in the ‘80s and ‘90s, as well as with telephones and the internet. We believe this DeepSeek event will actually increase demand for AI and hasten its distribution and use throughout society. We believe AI development and implementation are in the early stages, with many new technologies expected to emerge in the coming years.

Tech Cycle: Time To Move From Semiconductors To Software

Technology follows a cycle: First, new chips and hardware are developed and marketed, then software is developed to operate on that equipment. We believe the chip/hardware cycle is transitioning to the software cycle, which we highlighted in our 2025 Year Ahead report in December. Investment capital follows this cycle, too. That was evident in the early 1960s when Ross Perot left IBM to found Electronic Data Systems (EDS), a pioneer in outsourced IT services, computer systems management, and data processing – they wrote the software for business computers. As noted above, we’ve seen the cycle in personal computers, telephones and the internet as well. We believe it has now begun in AI, too, presaging wider adoption across society and around the world.



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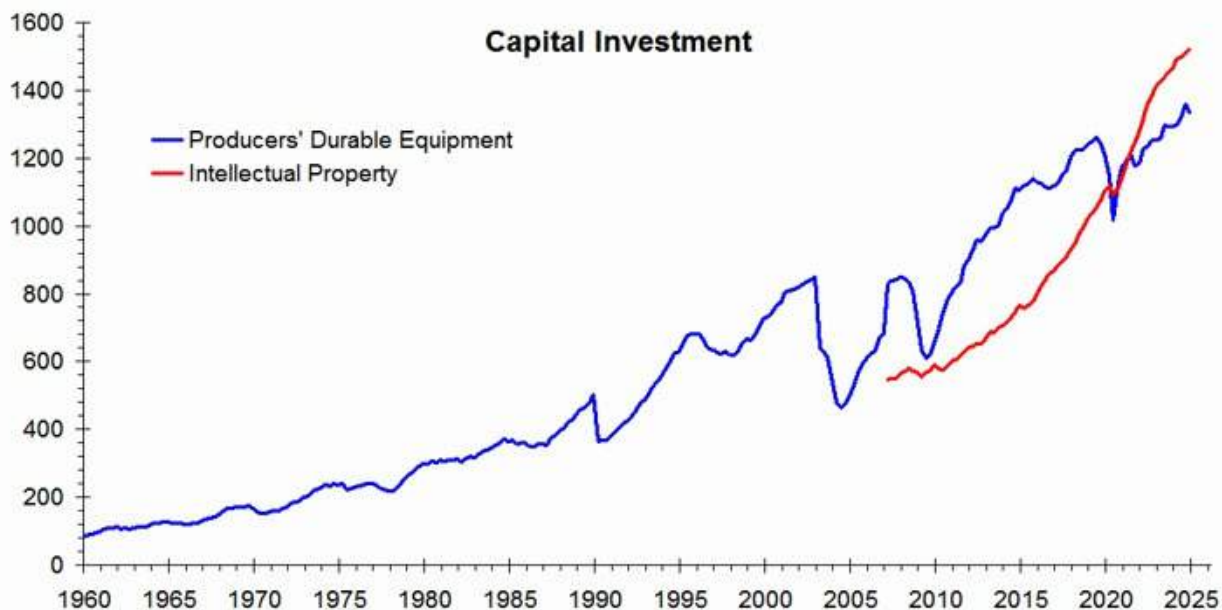
iShares Expanded Tech-Software Sector ETF (IGV) Vs. VanEck Semiconductor ETF (SMH)



Cybersecurity Is A Growing Concern

The theft of intellectual property, coupled with the risk of losing customer and personal data, requires businesses to invest in software to prevent hackers and malicious actors from penetrating their computer networks and systems. We expect Cybersecurity to become an increasingly important component of business infrastructure. CrowdStrike is a leader in this industry, having recently broken out to an all-time high.

Intellectual Property Now A Bigger Capital Investment Than Producers' Durable Equipment

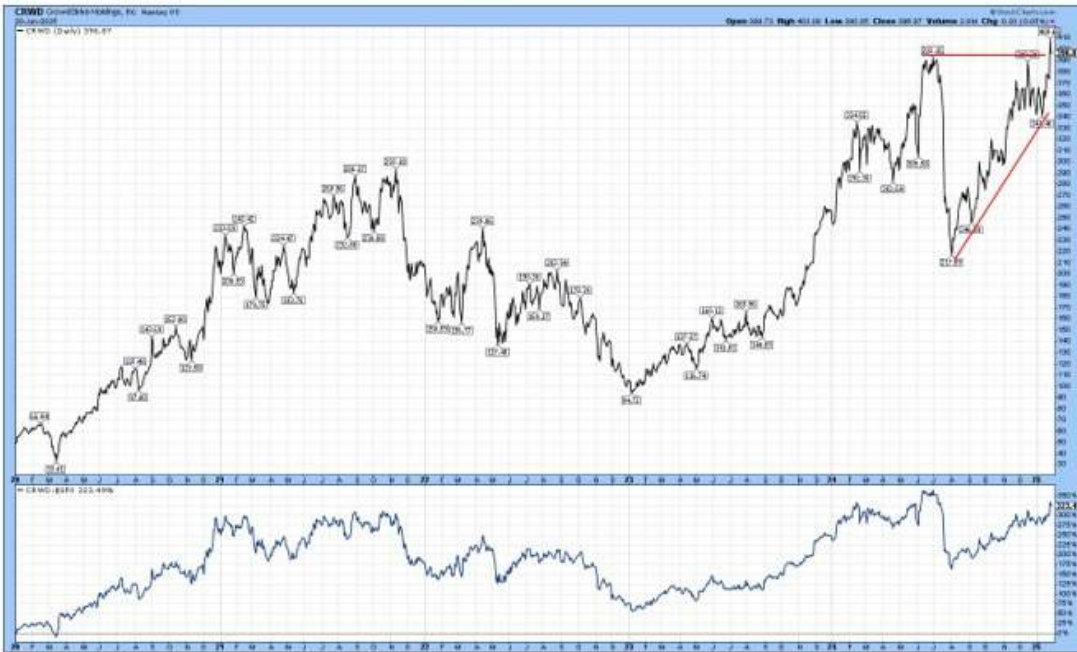


Source: Bureau of Economic Analysis, Sanctuary Wealth, January 30, 2025



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CrowdStrike (CRWD) (Top) With Relative Price To S&P 500 (Bottom)



Global X Cybersecurity ETF (BUG) (Top) With Relative Price To S&P 500 (Bottom)



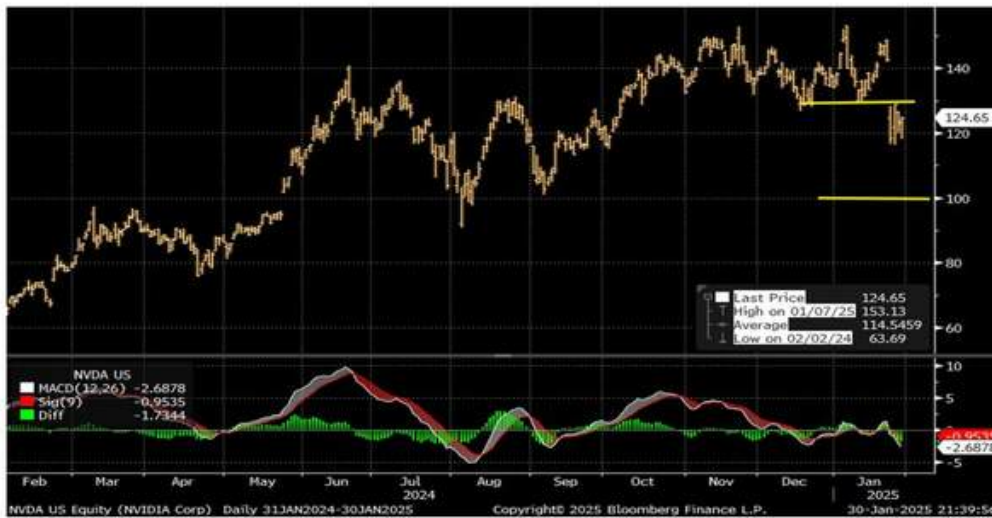


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Nvidia, Affected By The Semis To Software Transition, May Pass Into Quiet Period

The semiconductor space overall seems stable, in our view. But Nvidia (NVDA), after reaching its price objective technically, has not been able to break and hold to new highs. The company has already told Wall Street its profit margins would decline for a few quarters, then move back up. This is when the stock stalled, revealing, in our view, that the stock needed to consolidate. Last Monday's sell-off on large volume confirmed this consolidation phase. If the stock price fails to hold here, the downside is \$100. We believe that, longer-term, NVDA remains in a bull trend. We see 2025 as a time for the stock to consolidate its huge gains (it's up over 800% over the past two years); after that, NVDA should resume its bull trade as it remains a leader in the sector, in our opinion. This consolidation can take 6-12 months, though any major news could change this – which is why everyone (and I mean everyone) will be listening to Nvidia's CEO Jensen Huang's keynote at the firm's annual GTC (GPU Technology Conference) on March 18. The DeepSeek surprise is just another sign we are in the next phase of the digital era, and this cycle should play out to the end of the decade.

Nvidia (NVDA) (Top) With Moving Average Convergence-Divergence (MACD) (Bottom)



IBM: A Familiar Technology Manufacturer Returning To Prominence

IBM has been a mainstay technology company for decades. The company dominates the mainframe business, whose role in the infrastructure of the internet and the economy remains as important as ever. Mainframes are the computers that respond when you call your bank or when you go online to contact your airline, your hospital or insurance company, many online retailers, many government organizations, and, importantly, all types of data centers. IBM recently broke out from a 12-year trading range, indicating it's become a leader in this new digital era.

Super Cycle Bullish Break From IBM: 12-Year Base Breakout! IBM (IBM) (Top) With Moving Average Convergence-Divergence (Bottom)





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Earnings Season Off To A Good Start

According to FactSet (on 1/30), 79% of companies that have reported have exceeded analysts' earnings estimates, and with a median beat of 6%. For the 20% odd missing analysts' earnings estimates, they missed by a median of -3%. FactSet reports that profit margins for fourth quarter so far are 12.1%. We regard this as a good start to earnings season. Remember: earnings power the direction of the S&P 500. We maintain our forecast of the S&P 500 to reach 7200-7400 this year.

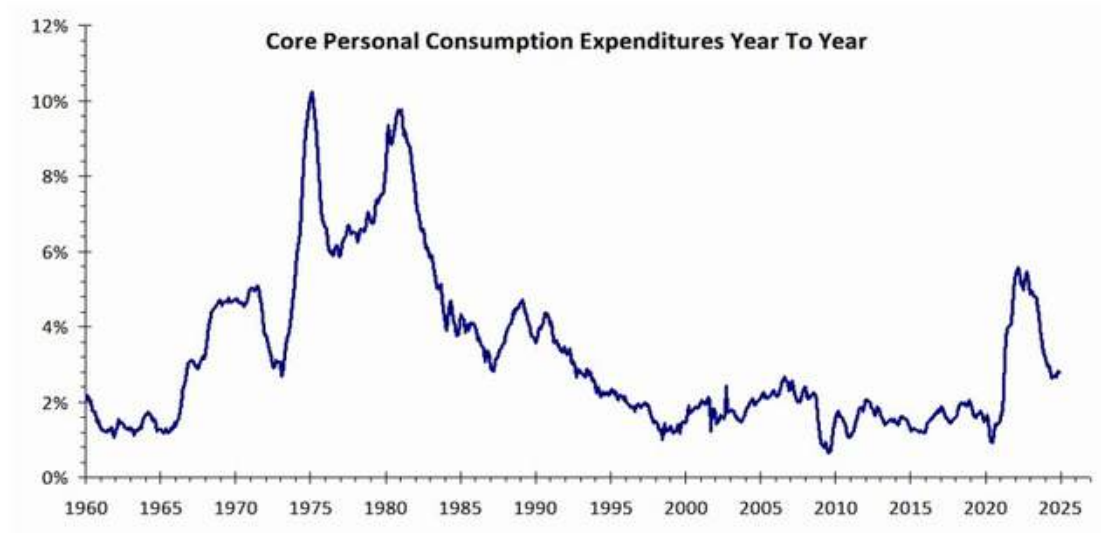
Federal Reserve Seems Hawkish, Then Almost Accommodative

Last Wednesday, the FOMC (Federal Reserve Open Market Committee) concluded its first meeting of 2025 and released a statement that appeared to be rather hawkish, but they made no change in interest rates or in the Fed's balance sheet policy, the quantitative tightening (QT) that it uses to reduce the money supply. But since then, they took the unusual step of editing their original statement, removing a phrase ("Inflation has made progress toward the Committee's 2 percent objective") that indicated an improvement in inflation. As a result, Wall Street is rethinking its expected two rate cuts in 2025 to possibly only one in the fall of this year. Some are even positing the risk of a rate rise. There was widespread speculation that the Fed expected potential tariffs from the new Trump administration to be inflationary. So, the Fed's actions and words are seen as a hedging and protecting of its monetary policy.

Core Personal Consumption Expenditures Indicate No Fed Action

Core Personal Consumption Expenditures (Core PCE) is the Fed's favorite measure of inflation. The market expected Core PCE to be reported as 2.8% year-to-year, and that's exactly what we saw on Friday. This gives the market confidence that inflation remains on course to improve, just as Fed Chair Powell suggested at his news conference Wednesday.

Core PCE Was Reported In Line With Market Expectations



Source: Bureau of Economic Analysis, Sanctuary Wealth, January 31, 2025

Long Interest Rates Positioned To Fall

The 10-Year Treasury yield is positioned to fall with a pattern known as a head and shoulders top. If support is broken, the rate can fall to 4.2%. The implementation of tariffs can lead to equity market volatility, causing low risk assets such as Treasury to fall. We maintain our view that the 10-Year should trade in range of 4%-5% this year.



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A Possible Head-And-Shoulders In 10-Year Treasury Note With MACD A Break Would Target A Measured Move To 4.2%



Drill Baby Drill Should Lower Oil Prices

One of President Trump's policies is to encourage crude oil production in the U.S. in order to lower oil prices to reduce inflationary pressure, and to improve the economy through lower input costs (the oil, and the energy it provides). We believe that he is likely to get the lower oil prices he desires. Technically, WTI Crude Oil is below the 200-day moving average and a test of support at \$65 per barrel should be expected. A break of this level would indicate oil can move to \$50. This will dampen many Energy stocks, but not all: The Trump Administration is also encouraging liquid natural gas (LNG) exports. If oil does fall sharply, it should positively impact inflation. We favor pipelines and natural gas stocks in this sector.

Crude Oil Slid Below Its 200-Day Moving Average And Could Be Poised To Decline





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WSJ

Trump Aides Hunt for 11th-Hour Deal to Dial Back Canada-Mexico Tariffs

President says he will decide tonight whether oil will be included in levies

Updated Jan. 30, 2025 9:40 pm ET

Source: Wall Street Journal, January 30, 2025

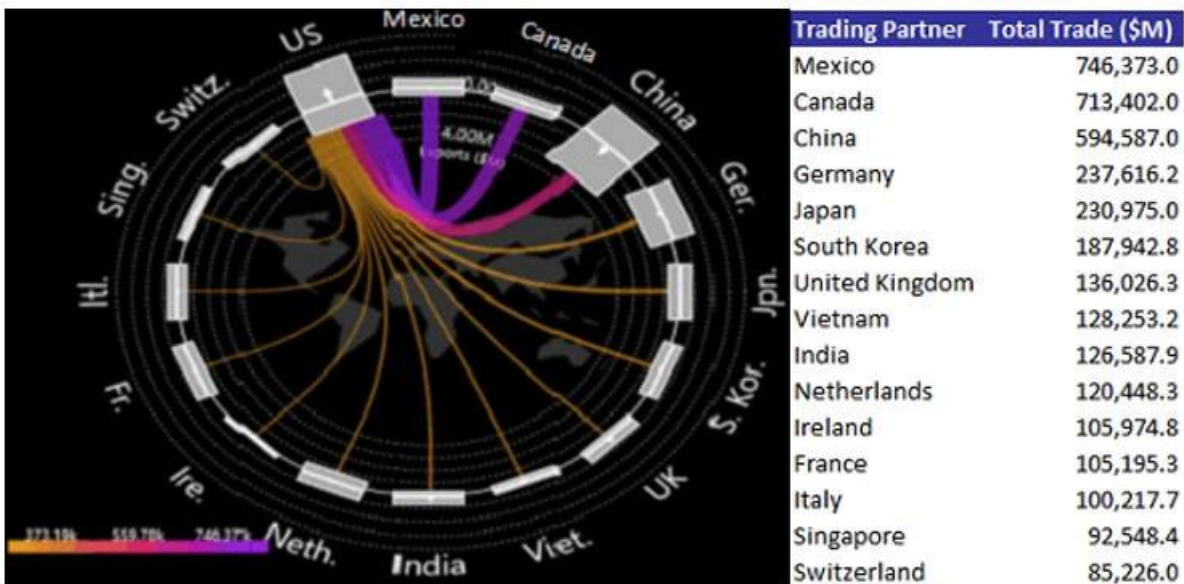
Tariffs: Trump's Big Stick

Teddy Roosevelt's foreign policy was "Speak softly and carry a big stick." Donald Trump's foreign policy seems to be "Speak loudly and carry a big stick." These two presidents from New York seem to agree about wielding a stick.

President Trump's big stick is his threat to impose 25% tariffs on Mexico and Canada, not for trade purposes, but to incentivize them to restrict illegal immigration into the U.S. from their countries, and to crack down on the illegal export of fentanyl into America from their territories.

There is also risk of 10% tariffs on China. The tariff talks are likely to cause equity market volatility like we had last Friday. But we don't expect them to derail the bull trend.

40% Of US Trade Is With Mexico And Canada



Source: Bloomberg, January 30, 2025



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Meanwhile, Europe May Be Waking Up

European stocks have been in the doldrums for quite some time, underperforming the rest of the developed world. In January, however, these stocks outperformed the rest of the world, and so far, Europe has been the best performing region year-to-date. We are still of the belief the U.S. markets can outperform in U.S. dollar terms this year. But this breakout is on our radar.

EURO STOXX 50 Index Has Broken Out To Record All-Time High

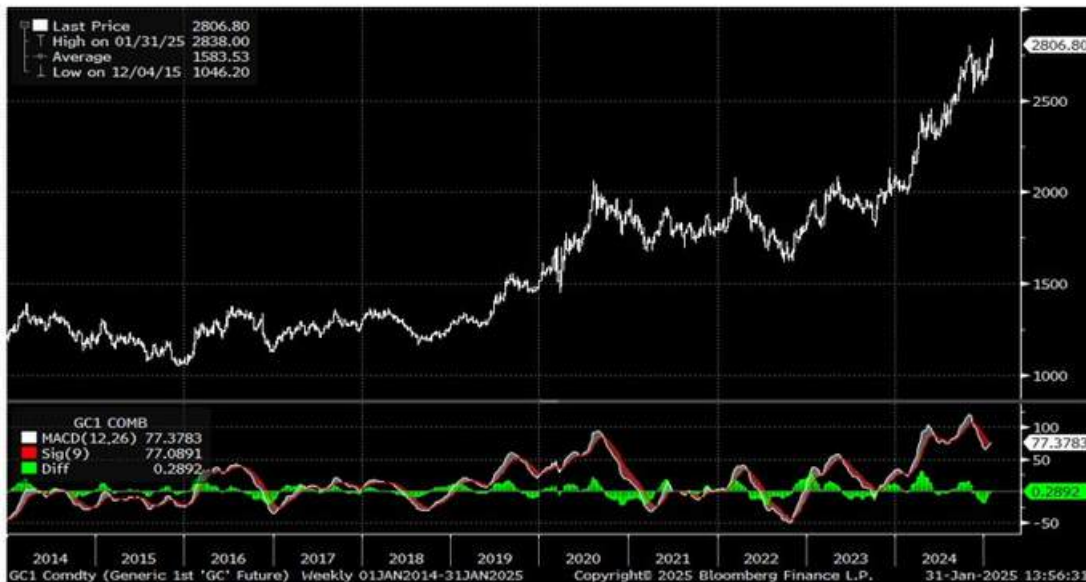
EURO STOXX 50 Index (Top) With Moving Average Convergence-Divergence (Bottom)



Gold Price Hits A Record High

Gold has reached an all-time high near \$2800 per ounce. Our target for gold remains \$4000 per ounce. Gold historically has been used as a hedge in portfolios.

Gold (Top) With Moving Average Convergence-Divergence (Bottom)





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Market Performance

	Last 1/31/2025	Month End 12/31/2024	Month to Date	Quarter End 12/31/2024	Quarter to Date	Year End 12/31/2024	Year to Date	Year Ago 2/1/2024	Year To Year
S&P 500	6040.53	5881.63	2.7%	5881.63	2.7%	5881.63	2.7%	4906.19	23.1%
NASDAQ Composite	19627.44	19310.79	1.6%	19310.79	1.6%	19310.79	1.6%	15361.64	27.8%
NASDAQ 100	522.29	511.23	2.2%	511.23	2.2%	511.23	2.2%	421.88	23.8%
Russell 2000	2287.69	2230.16	2.6%	2230.16	2.6%	2230.16	2.6%	1974.42	15.9%
S&P Consumer Discretionary Sector	1911.57	1831.16	4.4%	1831.16	4.4%	1831.16	4.4%	1394.73	37.1%
S&P Consumer Staples Sector	869.70	853.65	1.9%	853.65	1.9%	853.65	1.9%	788.04	10.4%
S&P Energy Sector	667.95	654.85	2.0%	654.85	2.0%	654.85	2.0%	636.32	5.0%
S&P Financial Sector	855.91	804.44	6.4%	804.44	6.4%	804.44	6.4%	645.13	32.7%
S&P Health Care Sector	1710.76	1604.75	6.6%	1604.75	6.6%	1604.75	6.6%	1656.30	3.3%
S&P Industrials Sector	1171.34	1115.65	5.0%	1115.65	5.0%	1115.65	5.0%	972.12	20.5%
S&P Information Technology Sector	4474.24	4609.52	-2.9%	4609.52	-2.9%	4609.52	-2.9%	3578.75	25.0%
S&P Materials Sector	559.03	529.77	5.5%	529.77	5.5%	529.77	5.5%	527.02	6.1%
S&P Real Estate Sector	260.37	255.92	1.7%	255.92	1.7%	255.92	1.7%	243.73	6.8%
S&P Communications Sector	372.33	341.66	9.0%	341.66	9.0%	341.66	9.0%	260.17	43.1%
S&P Utilities Sector	395.93	384.95	2.9%	384.95	2.9%	384.95	2.9%	317.95	24.5%
S&P 500 Total Return	13271.38	12911.82	2.8%	12911.82	2.8%	12911.82	2.8%	10633.14	24.8%
3 month Treasury Bill Price	98.93	98.92	0.0%	98.92	0.0%	98.92	0.0%	98.66	0.3%
3 month Treasury Bill Total Return	257.93	256.97	0.4%	256.97	0.4%	256.97	0.4%	245.09	5.2%
10 Year Treasury Bond Future	108.84	108.75	0.1%	108.75	0.1%	108.75	0.1%	112.89	-3.6%
10 Year Treasury Note Total Return	295.27	293.94	0.5%	293.94	0.5%	293.94	0.5%	295.59	-0.1%
iShares 20+ Year Treasury Bond ETF	87.76	87.33	0.5%	87.33	0.5%	87.33	0.5%	98.24	-10.7%
S&P Municipal Bond Total Return	279.15	278.14	0.4%	278.14	0.4%	278.14	0.4%	273.61	2.0%
iShares S&P National Municipal Bond NAV	106.67	106.40	0.3%	106.40	0.3%	106.40	0.3%	108.34	-1.5%
S&P 500 Investment Grade Corporate Bond Total Return	467.57	465.24	0.5%	465.24	0.5%	465.24	0.5%	457.84	2.1%
S&P Investment Grade Corporate Bond	90.44	90.28	0.2%	90.28	0.2%	90.28	0.2%	91.91	-1.6%
S&P Investment Grade Corporate Bond Total Return	498.63	495.89	0.6%	495.89	0.6%	495.89	0.6%	485.15	2.8%
SPDR Bloomberg High Yield Bond ETF	96.76	95.47	1.4%	95.47	1.4%	95.47	1.4%	94.82	2.0%
iShares iBoxx High Yield Corporate Bond ETF	79.72	78.65	1.4%	78.65	1.4%	78.65	1.4%	77.54	2.8%
Gold	2798.41	2624.50	6.6%	2624.50	6.6%	2624.50	6.6%	2054.99	36.2%
Bitcoin	102110.01	93714.04	9.0%	93714.04	9.0%	93714.04	9.0%	43085.26	137.0%

Source: Bloomberg, Sanctuary Wealth, January 31, 2025

New Month, Old Story: Fed Watches Jobs, Market Watches Earnings

This is a week marked by jobs data, earnings calls, and perhaps more headlines about the T-words: tariffs and technology.

This week brings a wave of key economic data and corporate earnings. As the first Friday of the month, the Bureau of Labor Statistics will release January's Nonfarm Payrolls and unemployment data – important to watch because Fed Chair Powell described the labor market as “solid.” We’ll also get December’s JOLTS report (Tuesday), ADP’s January payroll data (Wednesday), and Challenger Gray & Christmas’ job loss report (Thursday).

It’s also the busiest week of Q1 earnings season, with 100 S&P 500 companies reporting, including Amazon, Alphabet (Google), Eli Lilly, and Merck. While it’s a packed week for markets, there are two more things to keep in mind:

The January Barometer is the market belief that as January goes, so goes the rest of the year—meaning a positive January for the S&P 500 historically signals a strong full-year performance. This January had a positive return! First introduced by Yale Hirsch in the Stock Trader’s Almanac, the pattern is based on the idea that investor sentiment and economic conditions set early in the year often carry through. The barometer has held true in over 80% of years when January finished positive, making it a closely watched seasonal indicator.

And speaking of the seasons, be aware that February tends to be one of the weaker months for stocks compared to January and March. February often serves as a transition month, setting the tone for the market’s direction heading into the spring. Tariffs may just be the catalyst for some continued consolidation in the U.S. equity market.



Calendar

Mon.

9:15 am S&P final U.S. manufacturing PMI
 10:00am Construction spending, ISM manufacturing
 12:00 pm Atlanta Fed President Raphael Bostic speaks
 TBA Auto sales
 Earnings: Tyson Foods, Capital Southwest, Woodward *

Tue.

10:00am Job openings, Factory orders
 11:00am Atlanta Fed President Raphael Bostic speaks on housing
 2:00pm San Francisco Fed President Daly speaks
 7:30 pm Federal Reserve Vice Chairman Philip Jefferson speaks
 Earnings: Aramark, Estee Lauder, Marathon Petroleum, Merck, PayPal Holdings, Pfizer, UBS, Alphabet, Allegiant Travel, Prudential, Unum Group, Voya Financial

Wed.

8:15am ADP employment
 8:30 am U.S. trade deficit
 9:00 am Richmond Fed President Tom Barkin speaks
 9:45 am S&P final U.S. services PMI
 10:00am ISM services
 1:00pm Chicago Fed President Goolsbee speaks
 3:00 pm Fed Governor Michelle Bowman speaks
 7:30 pm Fed Vice Chairman Philip Jefferson speaks
 Earnings: Walt Disney, Ares Capital, Ares Management, Boston Scientific, T. Rowe Price, Uber Technologies, Aflac, MetLife

Thu.

8:30 am U.S. productivity, Initial jobless claims 2:30pm Fed Governor Christopher Waller speaks
 5:10 pm Dallas Fed President Lorie Logan speaks
 Earnings: AllianceBernstein, AstraZeneca, Hilton, Amazon.com, Expedia Group, Principal Financial Group

Fri.

8:30am U.S. employment report, U.S. unemployment rate
 9:25 am Fed Governor Michelle Bowman speaks
 10:00am Wholesale inventories, Consumer sentiment (prelim)
 3:00 pm Consumer credit
 Earnings: Cboe Global Markets, Newell Brands

*Earnings reflect highlights
 Source: CNBC, Kiplinger's, MarketWatch

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15377 Memorial Dr Suite 340,
 Houston, TX 77079