



February 5, 2025

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.

**Securities and advisory services are offered through LPL Financial (LPL), a registered investment advisor and broker/dealer (member FINRA/SIPC).** Insurance products are offered through LPL or its licensed affiliates. Salem Five Bank and Salem Five Wealth Advisors **are not** registered as a broker/dealer or investment advisor. Registered representatives of LPL offer products and services using the name Salem Five Wealth Advisors and may also be employees of Salem Five Bank. These products and services are being offered through LPL or its affiliates, which are separate entities from and not affiliates of Salem Five Bank or Salem Five Wealth Advisors. Securities and insurance offered through LPL or its affiliates are:

<b>Not Insured by FDIC or Any Other Government Agency</b>	<b>Not Bank Guaranteed</b>	<b>Not Bank Deposits or Obligations</b>	<b>May Lose Value</b>
---	----------------------------	---	-----------------------



## Important Information

This material is for general information only and is not intended to provide specific advice or recommendations for any individual. There is no assurance that the views or strategies discussed are suitable for all investors or will yield positive outcomes. Investing involves risks including possible loss of principal. Any economic forecasts set forth may not develop as predicted and are subject to change.

References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and do not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

All data is provided as of February 4, 2025.

Any company names noted herein are for educational purposes only and not an indication of trading intent or a solicitation of their products or services. LPL Financial doesn't provide research on individual equities.

All index data from FactSet.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Past performance does not guarantee future results.

Asset allocation does not ensure a profit or protect against a loss.

This research material was prepared by LPL Financial, LLC.

<b>Not Insured by FDIC/NCUA or Any Other Government Agency</b>	<b>Not Bank/Credit Union Guaranteed</b>	<b>Not Bank/Credit Union Deposits or Obligations</b>	<b>May Lose Value</b>
--	---	--	-----------------------