

Trade Offs

Concerns about Chinese AI competition, a Federal Reserve policy meeting, a mix of earnings reports, and news on tariffs led to a volatile week. For the week, the S&P 500 Index was -1.0%, the Dow Jones Industrials +0.3%, and the NASDAQ -1.2%. The S&P 500 Index was led by the Communication Services, Consumer Staples, and Health Care sectors, while the Technology, Energy, Utility sectors lagged. The 10-year U.S. Treasury note yield decreased to 4.546% at Friday’s close versus 4.621% the previous week.

Chinese AI competitor DeepSeek rattled markets last Monday by introducing an AI model it claimed was developed cheaper and with less powerful processing. While there is much skepticism, especially on the cost claim, it did highlight the economic “space race” between the U.S. and China that has been underway in AI and other technologies.

The Federal Reserve held rates steady at its policy meeting. They cited a healthy labor market, elevated inflation, and need to see the economic impact of the new administration’s policies for its decision. Based on CME Fed funds futures, the Fed is seen on hold until its June meeting.

President Trump will impose 25% tariffs on Canada and Mexico, and 10% tariff on China beginning February 4th. The reasons cited for the tariffs include immigration, trade deficits, and fentanyl. Retaliatory actions from Canada and Mexico are underway and China is raising the matter to the World Trade Organization.

Outside of news on tariffs, the key economic data point this week should be the January Employment Situation Report scheduled for Friday.

The fourth quarter earnings reporting period peaks this week with 131 companies in the S&P 500 Index scheduled to report earnings. Fourth quarter earnings growth is currently forecast at 13.2% year-over-year with revenue growth of 5.0%. Full-year 2024 earnings for the S&P 500 Index are expected to grow by 9.4% with revenue growth of 5.1%. Full-year 2025 earnings are expected to grow by 14.3% with revenue growth of 5.7%.

In our *Dissecting Headlines* section, we look at the current tariff issues.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	-1.0%	2.8%	Aggregate Bond Index	0.4%	0.5%
Dow Jones Industrial Average	0.3%	4.8%	U.S. Dollar Index	0.9%	-0.1%
NASDAQ 100	-1.2%	2.4%	WTI Crude Oil	-2.9%	1.1%
Russell 2000 (Small Cap Index)	-0.9%	2.6%	Gold	1.1%	6.7%
International Stocks (MSCI ex-US)	0.6%	4.0%	Real Estate (US REIT Index)	-0.5%	1.1%

Sources: S&P Global, FactSet

Dissecting Headlines: Tariffs

Using tariffs to level the playing field for U.S. trade and cooperation on issues such as illegal immigration and the fentanyl crisis was a major talking point during President Trump’s campaign. The tariffs are an economic tool that are likely being used here for negotiating leverage.

Canada and Mexico are extremely reliant on the United States as an export market. Nearly 80% of the exports of both countries go to the United States whereas the two countries only account for 33% of U.S. exports (approx. 17% Canada and 16% Mexico). A 25% tariff is enough to cause significant economic stress to both countries, so we don’t see this as a prolonged trade war.

The 10% tariff on China is a more measured move and likely designed to open a round of trade negotiations without fueling a significant trade war. The Chinese case is more complex given the growing economic and military rivalry.

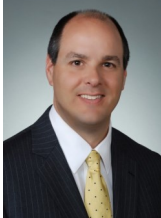
Both situations are highly fluid currently and we are likely to initially see a high degree of dialogue between the U.S., Canada and Mexico to abate the situation.

The NovaPoint Team



Joseph Sroka, CFA, CMT / Chief Investment Officer / jsroka@novapointgroup.com

Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



Alan J. Conner / President and Chief Compliance Officer / aconner@novapointgroup.com

Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



Frederick Wright, CFA / Managing Director & Portfolio Manager / fwright@novapointgroup.com

Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



Larry Dixon, EA / Tax Managing Partner / ldixon@novapointgroup.com

Larry leads NovaPoint's accounting, tax and outsourced CFO business. He built his previous company, Atlas Solutions, as a solo entrepreneur before merging into NovaPoint CFO. Larry began his career as a Field Artillery officer in the United States Army. Larry earned his Bachelor of Science degree from the U.S. Military Academy at West Point, where he was a four-year letterman on the football team. Larry is a certified Enrolled Agent, recognized by the U.S. Department of the Treasury to represent taxpayers before the Internal Revenue Service.

NovaPoint Capital LLC (referred to herein as "NovaPoint" or "the Company") is registered with the SEC as an investment adviser, but registration does not imply any certain level of skill or training. The information contained in this document has not been filed with, reviewed by or approved by any regulatory or self-regulatory authority.

Not an offer of advisory services or securities: This document is limited to the dissemination of general information about the services provided by the Company and is provided for informational purposes only. This document is intended for residents of the United States only and the information contained herein does not constitute and should not be construed as an offering of advisory services or an offer to sell or solicitation to buy any securities or other financial instruments in any jurisdiction in which such offer or solicitation, purchase or sale would be unlawful under the securities, or other applicable laws of such jurisdiction. Nothing contained in this document constitutes tax, legal or investment advice. Responses to any inquiry which may involve the rendering of personalized investment advice for compensation or effecting or attempting to effect transactions in securities will not be made absent compliance with state broker-dealer, investment adviser, broker-dealer agent or investment adviser representative registration requirements, or applicable exemptions or exclusions from such requirements.

Investment risk: The Company makes no representation, and it should not be assumed, that past investment performance is any indication of future results. Moreover, wherever there is the potential for profit there also is the possibility of loss. Certain of the Company's strategies may involve investments that are illiquid, are subject to a substantial risk of loss and are not suitable for certain investors.

Limitation of liability: While the Company uses reasonable efforts to include accurate and up-to-date information in this document, errors or omissions sometimes occur. The Company makes no warranties or representations as to the accuracy of this document. Opinions expressed herein are subject to change without notice. Under no circumstances shall the Company or any party involved in creating, producing, or delivering this document be liable for any direct, incidental, consequential, indirect, or punitive damages that result from the use of the information contained in this document, even if the Company's authorized representative has been advised of the possibility of such damages. Applicable law may not allow the limitation or exclusion of liability or incidental or consequential damages, so the above limitation or exclusion may not apply to you.

Trademarks and copyrights: All trademarks, service marks, trade names, logos, and icons are proprietary to the Company. Nothing contained in this document should be construed as granting, by implication, estoppel, or otherwise, any license or right to use any trademark displayed in this document without the prior written permission of the Company or such third party that may own the trademarks displayed in this document. Your use of the trademarks displayed in this document, or any other content in this document, except as provided herein, is strictly prohibited.