Independence Asset Advisors

MONTHLY MARKET REVIEW – January 2025

	Jan 2025	1-Year	3-Years	5-Years	10-Years
U.S. Large Cap Equities S&P 500	2.78%	26.38%	11.91%	15.17%	13.76%
U.S. Small Cap Equities Russell 2000	2.62%	19.09%	5.62%	8.67%	8.45%
Energy Infrastructure Equities Alerian U.S. Midstream	5.03%	57.50%	30.49%	22.97%	9.14%
U.S. Real Estate Equities Dow Jones U.S. Select REIT	1.21%	14.01%	-0.44%	3.56%	4.34%
Global Equities MSCI All Country World Index	3.36%	20.72%	8.41%	11.04%	9.77%
International Developed Equities MSCI EAFE	5.26%	8.65%	5.12%	6.25%	5.69%
Emerging Market Equities MSCI Emerging Markets	1.79%	14.75%	-0.71%	3.04%	3.76%
U.S. Taxable Fixed Income Bloomberg U.S. Aggregate	0.53%	2.07%	-1.52%	-0.60%	1.19%
U.S. Tax-Exempt Fixed Income Bloomberg Municipal Aggregate	0.50%	2.08%	0.54%	0.73%	2.12%
High Yield Fixed Income Bloomberg U.S. Corporate High Yield	1.37%	9.68%	4.34%	4.49%	5.24%
Floating Rate Loans Morningstar LSTA U.S. Leveraged Loan	0.69%	8.97%	7.12%	5.88%	5.19%

MARKET UPDATE

- Markets recovered in January, with both equities and bonds reporting solid gains.
- Equity market returns inverted, with international outperforming U.S., and "value" outperforming "growth."
  - U.S. large cap stocks gained 2.8%, with the S&P 500 Index ending the month at 6,040.
  - U.S. small cap stocks gained 2.6%, supported by the new Administration's "America First" policy agenda.
    - The Nasdaq Index was especially volatile during the month, falling 4.1% and 3.3%, before recovering to end the month up 1.6%. The volatility was attributable to the emergence of Chinese AI company DeepSeek, which called into question the durability of U.S. technology sector's AI preeminence .
- Fixed income returns were broadly positive in January as yields fell and prices rose.
- Investment grade and high yield bond yields decreased to 4.6% and 7.1%, respectively. Bond yields remained elevated compared to the prior 10-year median rates of 3.4% and 6.4%, respectively.
- The yield curve spread between 2-year and 10-year Treasuries narrowed but remained positive.

Sources: eVestment, JP Morgan, xe.com, Trading Economics, MacroTrends, StatisticsCanada, Bloomberg, Financial Post, bea.gov, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Morningstar, RBC.

IAA's WATCH LIST:

Category	Comments
Growth	• U.S. economic growth expanded at 2.3% seasonally adjusted annual rate (saar) during Q4, with real economic growth coming in at 2.8% in 2024. • Consumer spending was the primary driver of growth, rising 4.2% q/q. • Residential investment rose and government spending moderated.
Profits	• The 4Q24 earnings season is underway with 75% of market cap reporting: ○ Current estimate for Earnings Per Share (EPS) of $64.15; would represent an increase of 16.3% y/y and 4.8% q/q. ○ Driven by Sales growth (5.4%), Margins (11.9%) and Shares count (-0.9%) ○ We note a continuing broadening out of earnings, with the S&P 500 ex-Magnificent 7 set to grow earnings per share by 12% y/y vs. 30% for the Mag 7.
Jobs	• The January jobs report showed solid hiring momentum: ○ Nonfarm payrolls rose by 143,000. While weaker than expected, upward revisions to November and December showed positive year-end momentum. ○ Wage growth increased to 0.5% m/m and 4.1% y/y; unemployment fell to 4.0%.
Inflation	• December Personal Consumption Expenditures Index (PCE): ○ Headline (estimate): 2.6% y/y (0.3% increase m/m). ○ Core (estimate): 2.8% y/y increase (0.2% increase m/m).
Interest Rates	• The FOMC policy rate was unchanged in January at a range of 4.25%-4.50%: ○ The FOMC 2025 median year-end estimated policy rate is 3.4%. ○ Fed Funds futures are pricing in 3.9%.

CANADA:

- The U.S. dollar index (DXY) ***decreased*** 0.1% in January and ***increased 4.3***% over the past year (see chart below), while the U.S. dollar ***strengthened*** 0.4% (YTD) against the Canadian dollar to end the month with an exchange rate of **1.44**.
- The Bank of Canada reduced its policy interest rate from 3.25% to 3.00% on January 29th.
- The central bank has lowered its policy rate by 2.00% over the past 12 months.
- Canada's labor market is predicted to contract in January, demonstrating a pronounced deterioration compared to the U.S. job market.
- Canadian GDP contracted in November, as expected, but initial estimates suggest a modest output increase in December.
- Economists at RBC believe the Bank of Canada will need to cut interest rates further to support growth, with potential tariffs representing a significant downside economic growth risk.

Sources: eVestment, JP Morgan, xe.com, Trading Economics, MacroTrends, StatisticsCanada, Bloomberg, Financial Post, bea.gov, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Morningstar, RBC.

COMMODITIES:

OIL:

- **The price of crude oil was $73.81 per barrel (WTI).**
- Oil prices increased $1.94 per barrel, or 2.7%, in January.
- Crude traded higher in January amid expectations that the U.S. would tighten sanctions on Iran. Prices were also affected by escalating U.S.-China trade tensions.
- **Oil is forecasted to trade between $70 and $80 per barrel over the next 12 months.**

Year	Ave. Price	High	Low	% Change
2025	$74.94	$80.04	$71.72	3%
2024	$75.83	$87.01	$66.37	1%
2023	$77.64	$93.84	$66.74	-11%
2022	$94.53	$123.70	$71.59	7%
2021	$68.17	$84.65	$47.62	55%
2020	$39.68	$63.27	$11.26	-21%
2019	$56.99	$66.24	$46.31	35%
2018	$65.23	$77.41	$44.48	-25%
2017	$50.80	$60.46	$42.48	12%
2016	$43.29	$54.01	$26.19	45%
2015	$48.66	$61.36	$34.55	-31%
2014	$93.17	$107.95	$53.45	-46%

COPPER:

- **The price of copper was $4.28 USD per pound.**
- Copper prices increased $0.26 per pound, or 6.5%, in January.
- Copper prices surged in January as U.S. factory activity underwent its first expansion in more than two years; Chinese factory activity also expanded to meet higher expected demand.
- **Copper is forecasted to trade between $4.20 and $4.60 per pound over the next 12 months.**

Year	Ave. Price	High	Low	% Change
2025	$4.27	$4.43	$4.02	6%
2024	$4.23	$5.10	$3.68	3%
2023	$3.86	$4.28	$3.57	2%
2022	$4.00	$4.94	$3.23	-14%
2021	$4.24	$4.76	$3.52	27%
2020	$2.80	$3.63	$2.10	26%
2019	$2.72	$2.97	$2.53	6%
2018	$2.93	$3.30	$2.56	-20%
2017	$2.81	$3.30	$2.49	32%
2016	$2.20	$2.69	$1.94	17%
2015	$2.49	$2.94	$2.02	-25%
2014	$3.11	$3.38	$2.83	-17%

ALUMINUM:

- **The price of aluminum was $2,595 USD per tonne.**
- Aluminum prices increased $38.80 per tonne, or 1.5%, in January.
- Aluminum prices rose in January despite an unfavorable balance of lower demand and higher supply. The price increase and higher outlook is attributable to U.S.-China trade tensions.
- **Aluminum is forecasted to trade between $2,550 USD/tonne and $2,775 over the next 12 months.**

Year	Ave. Price	High	Low	% Change
2025	$2,589	$2,691	$2,490	2%
2024	$2,458	$2,768	$2,159	7%
2023	$2,288	$2,662	$2,122	0%
2022	$2,711	$3,966	$2,103	-15%
2021	$2,486	$3,198	$1,954	42%
2020	$1,732	$2,068	$1,427	9%
2019	$1,811	$1,936	$1,706	-2%
2018	$2,115	$2,556	$1,817	-19%
2017	$1,979	$2,272	$1,686	34%
2016	$1,610	$1,784	$1,450	12%
2015	$1,679	$1,978	$1,436	-18%
2014	$1,984	$2,107	$1,840	0%

Sources: eVestment, JP Morgan, xe.com, Trading Economics, MacroTrends, StatisticsCanada, Bloomberg, Financial Post, bea.gov, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Morningstar, RBC.

Disclosures:

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MARKET UPDATE

Independence | Asset Advisors

January 31, 2025

By Thomas Grugan, Director & Senior Investment Strategist

High Level Summary

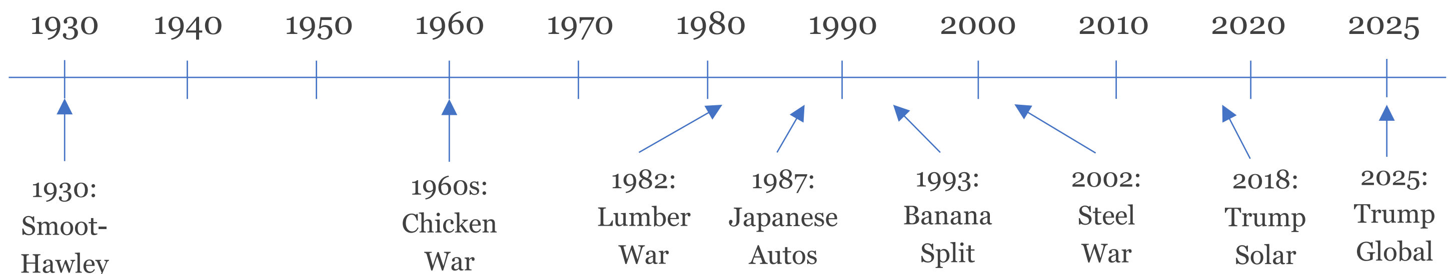
Global equity and fixed income markets recovered in January after declining in December. However, volatility increased with the emergence of Chinese artificial intelligence (AI) company DeepSeek's R1 model, which sent the Nasdaq Index down more than 3% on two separate occasions. Volatility was more subdued outside of the Technology sector, and returns were higher, supported by the new U.S. administration's "America First" policy agenda, which seeks to benefit U.S. companies over the long-term through corporate tax cuts, deregulation and tariffs. The announcement of tariffs created considerable headline risk in early February, reigniting market volatility and underscoring the importance of maintaining a broad investment allocation, while avoiding market/sector concentrations and highly overvalued equities. In this memo we discuss tariffs, their implications for the global economy and how investors may consider positioning their portfolios to best balance downside protection and upmarket participation.

What are tariffs?

Simply stated, tariffs are taxes imposed on goods imported from other countries. The most common form of tariff charges a percentage tax on a product's value, meaning a product with a value of $10 would cost $11 to import with an enforced tariff of 10%. Another type of tariff imposes a fixed figure on products regardless of their value. Companies that import goods from another country pay tariffs to the U.S. government. The new administration has suggested it views tariffs as an alternative revenue source to offset income tax cuts.

Are tariffs effective?

The concept of imposing tariffs is not new, and in fact the U.S. has engaged in numerous tariff wars throughout its history. The timeline below highlights their relative frequency, though tariffs have not always accomplished their intended purpose.



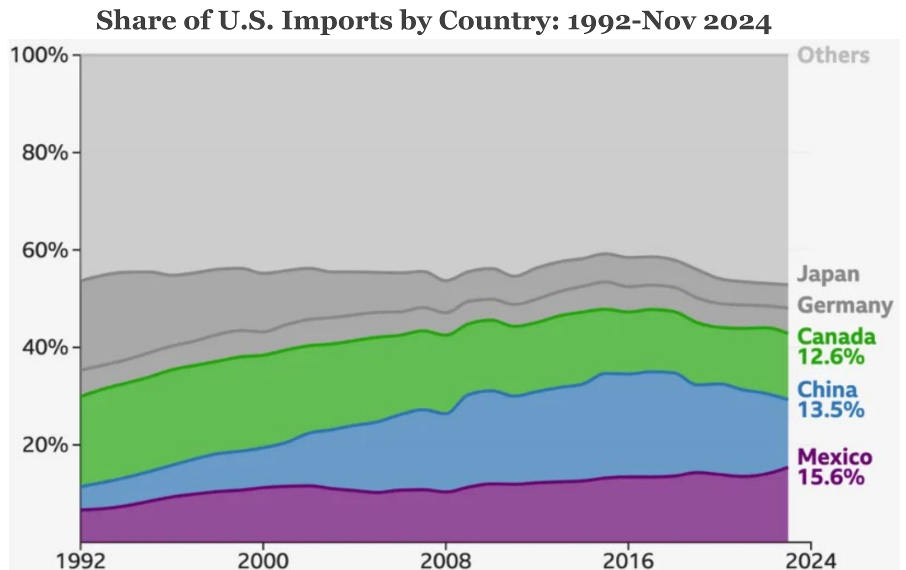
Tariffs have been imposed for a variety of reasons throughout U.S. history- notably as a revenue source and a tool for shaping industrial policy and international relations. But tariffs have frequently resulted in negative consequences for companies and consumers, with higher costs resulting in lower profit margins, slower growth, and higher inflation on affected products.

Sources: eVestment, BBC, UVA (Darden), JP Morgan, Morgan Stanley

What do we know so far?

Negotiations are ongoing, but as of this writing, President Trump has postured to levy tariffs against Canada and Mexico, while initiating an additional 10% tariff on Chineese imports. These three countries represent approximately 42% of all goods brought into the U.S. annually (right chart).

There is currently a 30-day pause on 25% tariffs proposed for Canada and Mexico. The additional 10% tariff on all imports from China took effect on February 4th.



The 30-day postponement for Canadian and Mexican tariffs emerged following commitments from both countries to bolster their borders with the U.S. to diminish the flow of unauthorized immigrants and contraband drugs into the country.

How may U.S.-levied tariffs affect the national economy?

Historically, U.S.-levied tariffs were used primarily as a source of federal revenue. But this tactic changed following the introduction of the federal income tax in 1913, and tariffs are now largely used as a tool to restrict technology transfers and influence trade policy. Among the most common results of U.S.-levied tariffs have been higher prices for domestic consumers. Tariffs may also increase production costs for domestic companies, as the cost of imported materials used by U.S. manufacturers increases. A primary example is the U.S. auto industry, which relies heavily on Canadian car parts in the manufacturing process. Here are a few of the risks bank economists and investment strategists are considering if the tariffs on Mexico and Canada are imposed:

(1) Lowered expectations for U.S. economic growth by 0.5%-1.0%;
(2) Increased expectations for inflation by 0.5%-1.0% (the January survey of consumer inflation expectations hit 4.5%!);
(3) Elevated stock market volatility amid premium valuations for U.S. stocks;
(4) Continued trend of U.S. dollar strength, which is a headwind for U.S. exporters;
(5) Economic risk to Canada and Mexico, whose economies rely heavily on exports to the U.S.

What happens next?

The tariffs proposed or implemented are very broad in scope, more so than any U.S-levied tariffs in modern history. The current proposals for a 25% tax on all imports from Canada and Mexico, excluding Canadian energy products (10% tariff), and 10% on all goods from China, are unprecedented and could have considerable unfavorable consequences, as referenced above.

It is highly likely U.S.-levied tariffs will be met with retaliatory tariffs, or other measures imposed by trading partners. This could result in lower U.S. exports and would have a negative impact on U.S. and global economic growth, adding friction to supply chains and resulting in potentially higher U.S. unemployment.

With this uncertainty, the best course of action for investors is to remain broadly diversified.

Sources: eVestment, BBC, UVA (Darden), JP Morgan, Morgan Stanley

Equities, especially U.S. equities, have performed very well for the better part of two years. The proposal and implementation of U.S.-levied tariffs have been met with heightened volatility and brief periods where markets went "risk-off." We anticipate more of the same until the final negotiations with Canada and Mexico have concluded.

Bond markets were similarly affected by the tariff announcements, compounding the uncertainty surrounding the U.S. debt ceiling, corporate tax cuts and immigration curbs reducing the U.S. workforce. The resulting risk of higher U.S. inflation pushed bond yields higher in January, while tighter credit spreads and a softer December inflation print preserved a positive result for the Bloomberg U.S. Aggregate Bond Index, which gained 0.6%. We expect this short-term volatility to continue until markets gain more clarity on tariffs and fiscal policy.

With the uncertainty flooding markets, heightened volatility, and a strong U.S. dollar, equity market concentration/stock premiums and tight credit spreads, our advice to investors is to minimize downside risk by broadly diversifying portfolios across market categories that have demonstrated historically lower correlations to the U.S. large cap stock market. While we advocate for broader diversification, we also encourage investors to remain fully invested to participate in compounding market gains over time. In this context we offer our current tactical asset allocation positioning below.

Tactical Asset Allocation Positioning

Asset Class	Opportunity	UW	N	OW	Comments
Main Asset Classes	Equities		■		Concentration risk favors diversification; valuation favors value; corporate tax cuts and higher revenue growth; tariff uncertainty risk
	Duration		■		Intermediate offers attractive yield amid lower inflation
	Credit		■		Up-in-quality bias; bonds trading at discount to par; better opportunity at short-end of curve
	Cash		■		4% yield; good source of short-term dry powder
Equities	U.S. Large Cap		■		Broadening earnings growth in non-tech sectors
	U.S. Small Cap	■			Support from possible corporate tax cuts; vulnerable to higher cost of financing
	"Value"			■	Valuations below historical average (discount)
	"Growth"		■		Valuations above historical average (premium)
	Non-U.S.		■		Rate cuts anticipated to drive future growth
	Emerging Mkts	■			Cheap valuations, but heightened China concentration risk; risk of tariffs and retaliation
Fixed Income	Treasuries		■		Attractive short-to-intermediate term yield; reinvestment risk in short-term
	Corporate IG			■	Higher quality attractive
	Corporate HY			■	Healthy balance sheets, but rising default risk
	Bank Loans		■		Floating rates remain attractive; debt coverage remains adequate, but higher default risk
Private	Credit			■	Structural/Strategic Weights
	Infrastructure			■	Structural/Strategic Weights
	Equity		■		M&A activity; IPO market reopening

Staying the course with strategic asset allocations has historically been beneficial over past market cycles.

Sources: eVestment, BBC, UVA (Darden), JP Morgan, Morgan Stanley

Independence Asset Advisors Disclosures

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