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MARKET  
COMMENTARY

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To Our Valued Clients,

An emerging AI firm out of China that very few had heard of before this week sent shockwaves through U.S. markets on Monday. The rollout of DeepSeek's AI platform caught investors off guard as its new technology, which rivals that of the ever-popular ChatGPT, is claimed to have been developed at a fraction of the cost. This immediately triggered a selloff in some of the market's favorite AI-related stocks.

Monday played host to some historic market activity as companies spanning AI, datacenter, and utility sectors shed hundreds of billions in market value. The catalyst was a product release from DeepSeek who claims its new generative AI tool can achieve comparable performance to other popular platforms while using less powerful and fewer chips. This claim immediately raised concerns about future demand for semiconductor products and in turn, cast doubt on the previously robust forecasts for corporate America's AI-related capital expenditures, questions that remain and will undoubtedly stay in focus in the coming weeks.

There are a couple of notable takeaways from this evolving situation. First, Monday's price action underscores the idea that stocks associated with AI expansion are priced for perfection—meaning that much of their anticipated earnings growth and positive news is already reflected in their stock price, leaving little to no room for error. Nvidia is a prime example, a company that has become synonymous with AI and a favorite of investors for the last couple of years, but a single negative development caused the stock to close 17% lower and set a record by shedding \$590B in market cap in a single day. Second, Monday served as a stark reminder as to why portfolio diversification is paramount, illustrating the risks of having all your capital tied up into a single theme or sector. While tech stocks were taking a bath, the Dow rose to its highest level this year, bonds caught a bid, and despite the S&P 500 closing about 1.5% lower, more than 300 of its constituents actually closed the day in the green.

There is still much to digest from these latest AI developments, especially as they unfold against a backdrop of Q4 earnings reports and a slew of economic data releases. All this reaffirms why diversification is key for long-term investors. You only need a roof when it's raining. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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This index covers 30 major NYSE industrial companies. The Dow represents about 25% of the NYSE market capitalization and less than 2% of NYSE issues. It is a priced-weighted arithmetic average, with the divisor adjusted for stock splits. This Index includes the effects of reinvested dividends. The companies engaged in the communications and technology industries are subject to fierce competition and their products and services may be subject to rapid obsolescence.