

# Before the Bell

*An Ameriprise Investment Research Group Publication*

January 29, 2025

## Starting the Day

- U.S. equity Index futures look for a generally higher open.
- European markets are mostly higher at midday.
- Markets in Asia were mixed to higher overnight.
- Concerns over AI model leadership ease (slightly).
- Fed policy decision on deck @ 2 PM ET.
- 10-year Treasury yield at 4.53%.
- West Texas Intermediate (WTI) oil is trading at \$73.20.
- Gold is trading at \$2,795.80

## Market Perspectives

**Andrew R. Heaney, CFA Director – Technology and Communication Services**

*In addition to comments related to overnight activity and pre-market conditions, each Wednesday, we feature commentary from members of the Ameriprise Global Asset Allocation Committee discussing investment considerations targeting their specific area of expertise. The comments are intended to provide additional insight into Committee allocation recommendations.*

**CapEx Uncertainty Looms as Big Tech Earnings Season Gets Underway** For the better part of the last two years, enthusiasm around data center and artificial intelligence infrastructure spending has gone nearly undisturbed, buoyed by the relentless growth in demand for cloud services, AI applications, and hyperscaler infrastructure. As the table below highlights, mega-caps including Alphabet, Amazon, and Microsoft have consistently announced increasing capital expenditures tied to data center development, while projects like the Stargate Initiative, involving OpenAI and Oracle, reflect massive private investment and government cooperation to fast-track infrastructure development.

Company	CapEx Plans	Major Initiatives
Alphabet	\$57 billion estimated for 2025, up from \$50 billion in 2024	Two new data center campuses in South Carolina
Amazon	\$86 billion estimated for 2025, up from \$75 billion in 2024	Project Helios; a 2 million GPU data center
Meta Platforms	Guided to between \$60 billion and \$65 billion in 2025	New Data Center featuring 1.3 million GPUs
Microsoft	Guided to \$80 billion in 2025	Partnership with OpenAI, Contributor to Stargate
Oracle	Guided to \$10 billion in CapEx for 2025	Headlining the Stargate project
Tesla	Guided to \$8 - \$10 billion in 2025 and 2026 (not all AI related)	Autonomous driving technologies
X.ai	Raised \$6 billion in its Series C financing round	Colossus, a 100k GPU AI Supercomputer

Recent advancements in AI model training have led some to suggest a potential inflection point for data center infrastructure. While we disagree with this perspective and remain skeptical of several claims made by the China-based startup and hedge fund DeepSeek, it has indeed introduced a new model that is reportedly comparable to those from Google and OpenAI. This model was allegedly developed using only a fraction of the compute power and funding employed by competing frontier developers, thus challenging the prevailing belief that expanding infrastructure is essential for AI development.

As we wrote in Monday's *After the Close*, the release of the R1 model from DeepSeek raises more questions than answers. Many initial reports essentially declared the end of rapid growth of data center CapEx, sending key infrastructure providers, from chip makers and networking equipment companies to cloud service providers and energy producers, sharply lower this week.

NOTE: FOR IMPORTANT DISCLOSURES, INCLUDING POSSIBLE CONFLICTS, PLEASE SEE THE DISCLOSURE PAGES AT THE END OF THIS DOCUMENT.

In our view, the knee-jerk reaction has exposed the fragility of market assumptions and a significant layer of speculation within the current investment landscape. It has also prompted more steadfast investors to pose critical questions, including: *Does this efficiency indicate a broader shift in the data center industry? Will demand for compute begin to plateau if companies can achieve more with less?*

Fortunately, investors will not need to wait long for insights, if not answers, to these questions. While we remain confident that data center CapEx is likely to remain on an upward trajectory, the reality of the situation will be better articulated by those firms placing the orders for the advanced GPUs, high-bandwidth memory, efficient thermal systems, and reliable power sources required to operate a modern data center. After all, the trajectory of data center investments fundamentally hinges on demand for accelerated compute. And demand for compute is a function of the growth in AI applications, digital transformation initiatives, and overall cloud adoption.

Following today's market close, earnings reports from Meta, Microsoft, and Tesla will be released, with Amazon and Alphabet set to follow next week. These results are, in our view, poised to deliver crucial insights into how these leading tech companies are navigating the current market landscape and adapting their strategies accordingly.

In light of the heightened volatility experienced this week, we expect that the commentary from executives during these earnings calls will undergo intense scrutiny. Clear confirmations regarding capital expenditure plans and reassurances about ongoing infrastructure projects could play a significant role in alleviating investor anxieties surrounding a potential turning point in the market. Conversely, if executives adopt a more cautious tone or indicate a preference for a wait-and-see approach, it could signal a shift in sentiment that might unsettle investors and lead to market turbulence.

For additional insights on the potential market impact of increasingly efficient AI model training, please see our recently published Equity Perspectives; *Challenging Industry Standards: The Rise of a New AI Model*

## U.S. Premarket Indicators / Overnight International Market Activity

### United States:

Here is a quick news rundown to start your morning:

- **Stocks are looking at a mixed open but with an upside bias.** U.S. stock Index futures are currently mixed with the Dow Jones Industrial Average indicated slightly lower, yet the tech-heavy NASDAQ Composite shown likely to open moderately higher. NASDAQ Composite futures point to a 0.4% gain at the open as the Index further looks to recover from the downside pressure experienced earlier in the week as related to the emergence of a much cheaper AI tool from the Chinese company DeepSeek. An evaluation of what this development means for the broader AI space continues.
- **Fed Watch:** The Federal Reserve's monetary policy setting Committee, the Federal Open Market Committee (FOMC) is due to announce its latest interest rate decision at 2 PM ET today. The release will be followed by a press conference with Fed Chair Jerome Powell at 2:30 ET.
- **No change in interest rates is expected out of today's meeting.** As a reminder, Fed officials lowered their overnight lending rate, the fed funds rate, by a full percentage point in the second half last year, taking the target range down to 4.25%-4.50% from 5.25%-5.50%.
- At the time of the Committee's December rate cut (of 25 basis points), policy makers indicated that they would likely pause further cuts over the near-term at least given evidence of solid economic activity and slow-moving progress on inflation. Indeed, market participants seem to have low confidence in the policy outlook. Currently, fed fund futures as traded on the CME put weak 30% odds of a ¼ point cut at the Committee's March meeting and 25% to 45% odds of a cut at the next four meetings that follow. We look for a discussion of quantitative tightening (the Fed's balance sheet roll-off) to grow as a topic of policy.
- **Earnings Update:** With 22% of S&P 500 fourth quarter reports complete, blended earnings per share (EPS) growth is higher by +12.1% year-over-year on revenue growth of +4.7%.

### Europe:

European markets are solidly higher at mid-day. Most major bourses in the region are currently trading +0.5% to +1.0% higher. France's CAC 40, however, is the outlier to this backdrop as it is off 0.2%. Unimpressive financial results from one of the country's largest companies, fine retailer LVMH, are weighing on the Index. Across the rest of the region, Bloomberg reports that traders are getting more optimistic about pending European Central Bank (ECP) interest rate cuts.

**Asia-Pacific:**

Equity markets in the Asia /Pacific were generally higher overnight. Many of the region's major markets, however, remained closed this week in celebration of the Chinese Lunar New Year. Still, Japan's Nikkei 225 saw a strong 1.0% gain on the session as many of the market's technology-related shares rebounded from the AI tech sell-off at this week's open.

**WORLD CAPITAL MARKETS**

1/29/2025

As of: 8:30 AM ET

Americas	% chg.	% YTD	Value	Europe (Intra-day)	% chg.	%YTD	Value	Asia/Pacific (Last Night)	% chg.	%YTD	Value
<b>S&amp;P 500</b>	0.9%	3.2%	6,067.7	<b>DJSTOXX 50 (Europe)</b>	0.8%	7.2%	5,239.5	<b>Nikkei 225 (Japan)</b>	1.0%	-1.2%	39,414.8
<b>Dow Jones</b>	0.3%	5.5%	44,850.4	<b>FTSE 100 (U.K.)</b>	0.3%	4.8%	8,559.6	<b>Hang Seng (Hong Kong)</b>	closed	1.2%	20,225.1
<b>NASDAQ Composite</b>	2.0%	2.2%	19,733.6	<b>DAX Index (Germany)</b>	0.8%	8.5%	21,610.3	<b>Korea Kospi 100</b>	closed	5.7%	2,536.8
<b>Russell 2000</b>	0.2%	2.7%	2,288.9	<b>CAC 40 (France)</b>	-0.2%	7.0%	7,884.6	<b>Singapore STI</b>	0.0%	0.4%	3,801.1
<b>Brazil Bovespa</b>	-0.6%	3.1%	124,056	<b>FTSE MIB (Italy)</b>	0.5%	6.3%	36,339.0	<b>Shanghai Comp. (China)</b>	closed	-3.0%	3,250.6
<b>S&amp;P/TSX Comp. (Canada)</b>	0.5%	3.0%	25,419.5	<b>IBEX 35 (Spain)</b>	1.0%	6.3%	12,270.3	<b>Bombay Sensex (India)</b>	0.8%	-1.9%	76,533.0
<b>Russell 3000</b>	0.9%	3.5%	3,472.0	<b>MOEX Index (Russia)</b>	#VALUE!	#VALUE!	#N/A N/A	<b>S&amp;P/ASX 200 (Australia)</b>	0.6%	3.5%	8,447.0

Global	% chg.	% YTD	Value	Developed International	% chg.	%YTD	Value	Emerging International	% chg.	%YTD	Value
<b>MSCI All-Country World Idx</b>	0.6%	3.3%	868.7	<b>MSCI EAFE</b>	-0.5%	3.9%	2,349.1	<b>MSCI Emerging Mkts</b>	0.1%	1.4%	1,089.1

Note: International market returns shown on a local currency basis. The equity Index data shown above is on a **total return** basis, inclusive of dividends.

S&P 500 Sectors	% chg.	% YTD	Value	Equity Income Indices	% chg.	% YTD	Value	Commodities	% chg.	% YTD	Value
<b>Communication Services</b>	1.3%	6.8%	364.3	<b>JPM Alerian MLP Index</b>	1.7%	8.9%	320.6	<b>CRB Raw Industrials</b>	0.1%	1.1%	547.4
<b>Consumer Discretionary</b>	0.3%	4.2%	1,907.7	<b>FTSE NAREIT Comp. TR</b>	-1.3%	1.3%	25,418.8	<b>NYMEX WTI Crude (p/bbl.)</b>	-0.4%	2.4%	73.5
<b>Consumer Staples</b>	-1.5%	1.4%	864.4	<b>DJ US Select Dividend</b>	-0.8%	2.9%	3,603.5	<b>ICE Brent Crude</b>	-0.5%	3.3%	77.1
<b>Energy</b>	-1.0%	4.2%	682.0	<b>DJ Global Select Dividend</b>	0.1%	2.5%	229.1	<b>NYMEX Nat Gas (mmBtu)</b>	-1.3%	-5.7%	3.4
<b>Financials</b>	-0.2%	6.2%	853.5	<b>S&amp;P Div. Aristocrats</b>	-1.1%	3.0%	4,713.6	<b>Spot Gold (troy oz.)</b>	-0.3%	5.0%	2,756.2
<b>Health Care</b>	-0.7%	6.6%	1,706.9					<b>Spot Silver (troy oz.)</b>	0.8%	6.0%	30.6
<b>Industrials</b>	-0.6%	5.0%	1,170.9					<b>LME Copper (per ton)</b>	-1.2%	2.4%	8,861.3
<b>Materials</b>	-0.4%	5.5%	558.7	<b>Bond Indices</b>	% chg.	% YTD	Value	<b>LME Aluminum (per ton)</b>	-1.1%	1.5%	2,564.7
<b>Real Estate</b>	-1.2%	1.9%	260.5	<b>Barclays US Agg. Bond</b>	0.0%	0.6%	2,202.5	<b>CBOT Corn (cents p/bushel)</b>	1.3%	7.2%	491.5
<b>Technology</b>	3.6%	-0.5%	4,585.0	<b>Barclays HY Bond</b>	0.0%	1.3%	2,717.1	<b>CBOT Wheat (cents p/bushel)</b>	0.8%	-0.4%	549.5
<b>Utilities</b>	-1.4%	1.2%	389.4								

Foreign Exchange (Intra-day)	% chg.	% YTD	Value		% chg.	% YTD	Value		% chg.	% YTD	Value
<b>Euro (€/\$)</b>	-0.3%	0.4%	1.04	<b>Japanese Yen (\$/¥)</b>	0.1%	1.2%	155.33	<b>Canadian Dollar (\$/C\$)</b>	-0.3%	-0.4%	1.44
<b>British Pound (£/\$)</b>	-0.2%	-0.8%	1.24	<b>Australian Dollar (A\$/S)</b>	-0.5%	0.5%	0.62	<b>Swiss Franc (\$/CHF)</b>	-0.3%	0.1%	0.91

Data/Price Source: Bloomberg. Equity Index data is total return, inclusive of dividends, where applicable.

**Ameriprise Global Asset Allocation Committee (GAAC)**

**U.S. Equity Sector - Tactical Views**

S&P 500 Index	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight	S&P 500 Index	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
<b>Financials</b>	13.5%	Overweight	2.0%	<b>Energy</b>	3.0%	Equalweight	-
<b>Consumer Staples</b>	5.5%	Equalweight	-	<b>Utilities</b>	2.3%	Equalweight	-
<b>Information Technology</b>	32.8%	Equalweight	-	<b>Materials</b>	1.9%	Equalweight	-
<b>Industrials</b>	8.1%	Equalweight	-	<b>Real Estate</b>	2.0%	Equalweight	-
<b>Communication Services</b>	9.4%	Equalweight	-	<b>Consumer Discretionary</b>	11.5%	Equalweight	-
				<b>Health Care</b>	10.0%	Underweight	-2.0%

As of: January 2, 2025

Index weightings represent the respective market capitalization of each sector in the S&P 500 as of 12/19/2024. The GAAC Tactical Overlay, as well as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC). Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.

**Global Equity Regions - Tactical Views**

MSCI All-Country World Index	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight	MSCI All-Country World Index	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
<b>United States</b>	66.1%	Overweight	3.2%	<b>United Kingdom</b>	3.0%	Equalweight	-
<b>Europe ex U.K.</b>	11.3%	Equalweight	-	<b>Asia-Pacific ex Japan</b>	10.2%	Underweight	-1.0%
<b>Latin America</b>	0.8%	Equalweight	-	<b>Canada</b>	2.7%	Underweight	-1.0%
<b>Japan</b>	4.7%	Equalweight	-	<b>Middle East / Africa</b>	1.2%	Underweight	-1.2%

as of: January 2, 2025

Index weightings are based on the regional market capitalizations of the MSCI All-Country World Index as of 12/26/2024. The GAAC Tactical Overlay, as well as the Recommended Tactical Weights, are derived from the Ameriprise Global Asset Allocation Committee (GAAC). Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.

## Economic News and Views:

Russell T. Price, CFA – Chief Economist

Releases for Wednesday, January 29, 2025

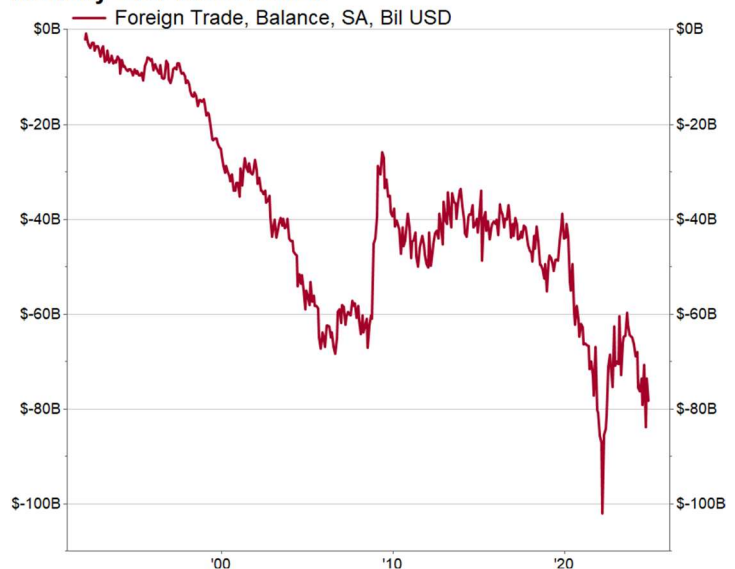
All times Eastern. Consensus estimates via Bloomberg

Time	Period	Release	Consensus Est.	Actual	Prior	Revised to
8:30 AM	DEC	Advance goods Trade Balance	-\$105.0B	<b>-\$122.1B</b>	-\$102.9	
2:00 PM	na	FOMC Rate Decision (Upper Bound)	+4.50%		+4.50%	
2:00 PM	na	FOMC Rate Decision (Lower Bound)	+4.25%		+4.25%	

### Commentary:

- **A very sharp expansion of the trade deficit.** The Commerce Department's Advance report on the trade in goods, showed a much larger than expected deficit in the month of December. The expansion follows broad reports that many businesses across a wide spectrum of industries have accelerating imports as to try and stay ahead of any tariffs that may come.
- The report, for the final month of Q4, should be expected to weigh materially on expectations for tomorrow's first look at real Gross Domestic Product (GDP) growth from the Commerce Department.
- Exports were also down in the month after seeing a fairly solid performance in November.
- Overall, imports were up 3.9% month-over-month (m/m) while exports were down 4.5%. On a y/y basis, imports were a very sharp 12.4% higher and exports were down 1.6%.
- Bloomberg consensus expectations for tomorrow's first real GDP estimate were looking for a sound 2.7% quarter-over-quarter, annualized gain. We believe this morning's report could take consensus estimates down to the low 2.0% range.
- It should be noted, however, that any pull-forward of imports into Q4 or Q1 should eventually reverse, thus to the benefit of real GDP performance.
- *Note that the chart at right, as sourced from FactSet, depicts the full trade deficit, not just that covering goods, as was released today.*

### Monthly U.S. Trade Deficit



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Ameriprise Economic Projections											
Forecast:	Full-year				Quarterly						
	Actual	Actual	Est.	Est.	Actual	Actual	Actual	Actual	Est.	Est.	Est.
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Q4-2023</u>	<u>Q1-2024</u>	<u>Q2-2024</u>	<u>Q3-2024</u>	<u>Q4-2024</u>	<u>Q1-2025</u>	<u>Q2-2025</u>
<b>Real GDP (annualized)</b>	2.5%	2.9%	2.8%	2.0%	3.2%	1.6%	3.0%	2.8%	2.7%	1.8%	2.3%
<b>Unemployment Rate</b>	3.6%	3.7%	4.1%	4.2%	3.7%	3.8%	4.1%	4.1%	4.1%	4.2%	4.2%
<b>CPI (YoY)</b>	8.0%	3.4%	2.5%	2.0%	3.4%	3.5%	3.0%	2.4%	2.9%	2.4%	2.2%
<b>Core PCE (YoY)</b>	5.2%	2.9%	2.7%	2.0%	2.9%	2.8%	2.6%	2.7%	2.7%	2.3%	2.2%

Sources: Historical data via FactSet. Estimates (Est.) via American Enterprise Investment Services Inc.

YoY = Year-over-year, Unemployment numbers are period ending. GDP: Gross Domestic Product; CPI: Consumer Price Index

PCE: Personal Consumption Expenditures Price Index. Core excludes food and energy.

All estimates other than GDP are period ending.

Last Updated: January 15, 2025

## Ameriprise Global Asset Allocation Committee Targets and Views

### Targets

<b>2025 Year-end Targets:</b>	<b>Favorable Scenario</b>	<b>Base-Case Scenario</b>	<b>Adverse Scenario</b>
<b>S&amp;P 500 Index:</b>	7,000	6,500	5,500
<b>10-Year U.S. Treasury Yield:</b>	5.00%	4.25%	3.00%
<b>Fed Funds Target Range:</b>	4.25% to 4.50%	3.75% to 4.00%	3.25% to 3.50%

Estimates (Est.) via American Enterprise Investment Services Inc.

Please see latest *Quarterly Capital Market Digest* for more information.

Last Updated: January 2, 2025

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## Global Asset Allocation Committee Views

### AMERIPRISE GLOBAL ASSET ALLOCATION COMMITTEE TACTICAL ASSET CLASS VIEWS

2025 Year-end S&P 500 Target: 6,500  
2025 Year-End 10-year Treasury Target: 4.25%

as of 12/30/2024

	Overweight	Equalweight	Underweight
<b>Equity</b>	<ul style="list-style-type: none"> <li>U.S. Large Cap Growth</li> <li>U.S. Large Cap Value</li> </ul>	<ul style="list-style-type: none"> <li>U.S. Mid Cap Value</li> <li>U.S. Mid Cap Growth</li> <li>U.S. Small Cap Value</li> <li>U.S. Small Cap Growth</li> </ul>	<ul style="list-style-type: none"> <li>Developed Foreign Equity</li> <li>Emerging Foreign Equity</li> </ul>
<b>S&amp;P 500 Sectors</b>	<ul style="list-style-type: none"> <li>Financials</li> </ul>	<ul style="list-style-type: none"> <li>Communication Services</li> <li>Consumer Discretionary</li> <li>Consumer Staples</li> <li>Energy</li> <li>Industrials</li> <li>Information Technology</li> <li>Materials</li> <li>Real Estate</li> <li>Utilities</li> </ul>	<ul style="list-style-type: none"> <li>Health Care</li> </ul>
<b>Global Equity Regions</b>	<ul style="list-style-type: none"> <li>United States</li> </ul>	<ul style="list-style-type: none"> <li>Europe ex U.K.</li> <li>Japan</li> <li>Latin America</li> <li>United Kingdom</li> </ul>	<ul style="list-style-type: none"> <li>Middle East/Africa</li> <li>Asia-Pacific ex Japan</li> <li>Canada</li> </ul>
<b>Fixed Income</b>	<ul style="list-style-type: none"> <li>U.S. High Yield Bonds</li> </ul>	<ul style="list-style-type: none"> <li>U.S. Government</li> <li>U.S. Inv. Grade Corporates</li> <li>Developed Foreign Bonds</li> </ul>	<ul style="list-style-type: none"> <li>Emerging Foreign Bonds</li> <li>Municipal Bonds</li> </ul>
<b>Alternatives</b>		<ul style="list-style-type: none"> <li>Real Assets</li> <li>Alternative Strategies</li> </ul>	
<b>Cash</b>		<ul style="list-style-type: none"> <li>Cash</li> <li>Cash Investments</li> </ul>	

Note: Our Tactical Allocations are designed to augment a Strategic portfolio over a 6-12-month time horizon. **Asset Allocation and diversification do not ensure or guarantee better performance and do not eliminate the risk of investment losses. Investors should note that rising interest rates could have a detrimental effect on bond prices. Please consult with your financial advisor.** Cash generally refers to assets, securities and/or products low in risk and highly liquid. For asset allocation purposes, instruments can include Treasury bills, certificates of deposit, money market funds and high quality bonds whose maturities are less than 3 months. Outside of asset allocation purposes, cash investments can also include illiquid cash held in a mutual fund or pledged as collateral for derivatives. You can only access this cash by redeeming the fund using it, subject to fees or time constraints associated with redemptions.

As of December 31, 2024

Major Market Indices	Rolling Returns			
	QTD	1-year	3-years	5-years
Russell 3000 <sup>®</sup> Index (U.S. Equity)	2.63%	23.81%	8.01%	13.86%
MSCI ACWI Ex USA Index – net (Foreign Equity)	-7.60%	5.53%	0.82%	4.10%
Bloomberg U.S. Universal Bond Index (Fixed Income)	-2.73%	2.04%	-1.95%	0.06%
Wilshire Liquid Alternative Index (Alternatives)	-1.87%	4.33%	1.50%	2.48%
FTSE Three-Month Treasury Bill Index (Cash)	1.23%	5.45%	4.05%	2.54%

Past performance is not a guarantee of future performance. Performance calculations use FactSet data and are as of Date.

# The Ameriprise Investment Research Group

With Ameriprise Financial, you can benefit from our dedicated team of experienced investment research and due diligence professionals. Our objective market insight, strategies and guidance are designed to provide you with insight into investment strategies and solutions to help you feel more confident about your financial future. It's the higher level of sophistication and service you've come to expect from Ameriprise.

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