FORT SHERIDAN ADVISORS

Super Bowl Weekend

While the country turns its focus to the Super Bowl this weekend between the Kansas City Chiefs and Philadelphia Eagles, the markets are also fixating on TDs. No, not the six point variety, but the impact of **tariffs** and **DeepSeek**. Developments over the last two weeks have jolted markets, forcing investors to revisit consensus assumptions, including: 1) U.S. firms will dominate the artificial intelligence (or, AI) landscape; 2) demand for semiconductors, data centers and power will rapidly grow to support the buildout of AI; and 3) President Trump's approach to tariffs will mimic that of his first term: more bark than bite.

Investors must reassess their outlooks and account for a far wider variance in potential outcomes, which could lead to lower valuations, especially among assets that are sensitive to the assumptions above.

First: Will the U.S. dominate the AI landscape? The consensus had been "yes" given we are home to firms on the frontier of AI research (OpenAI, Google, Anthropic, Meta). The unexpected emergence of DeepSeek from China – a firm whose lead models are competitive with U.S. leaders – questions that narrative. If an obscure Chinese AI lab can release a leading model, that calls into question the moat around U.S. AI technology. We still think firms will continue investing billions into new models, but markets now need to discount the possibility of capital spending for AI topping out if firms conclude all their work is likely to become commoditized over time.

This leads to the second assumption on demand for AI-related infrastructure. Right now, spending on AI data centers is expected to double from 2023's $128 billion to $252 billion this year.[1] Analysts expect this growth to continue in the years ahead, along with an up to 25% increase in power generation investment through the end of the decade.[2] So far, actual chip and power equipment capital expenditure figures justify these expectations – and that has propelled related stocks to new heights. Understandably, though, any change to this outlook will have a dramatic effect on stock prices. Last week's commentary from Microsoft and Meta suggests that AI investment spending is still increasing (as each company raised their capital expenditure guidance).

Lastly, will President Trump cause an economic downturn via trade wars? Markets sold off sharply Monday morning in response to Sunday's news that Trump would impose tariffs on Mexico, Canada and China. Bloomberg's economics team calculated that such tariffs would lower GDP by 1.2% and add 0.7% to inflation.[3] Stocks have recovered part of this morning's losses as Mexico, Canada and the U.S. have reached short-term reprieves. Markets and investors need to account for a higher probability that the U.S. imposes a much stricter tariff regime than investors had initially predicted.

Over the coming weeks, we plan to assess the implications and highlight potential winners and losers. Briefly, one winner may be natural gas. As we have previously noted, increased LNG exports would reduce our trade deficit with Europe, improve European energy security and help Trump achieve increased U.S. energy production. Additionally, gas stands to benefit from increasing AI-driven power demand.

As always, we are here to help you think and plan through all this market volatility. Hopefully the only TDs we are talking about next week will be from an entertaining Super Bowl Sunday.

Sincerely,

The Team At Fort Sheridan Advisors

February 3, 2025

Citations and Disclosures

[1] UBS (1.27.25).
[2] Bloomberg (Sept. 2024).
[3] Bloomberg (2.2.25).

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