Tariff-Eyeing Market Moves

COMMENTARY
February 2025

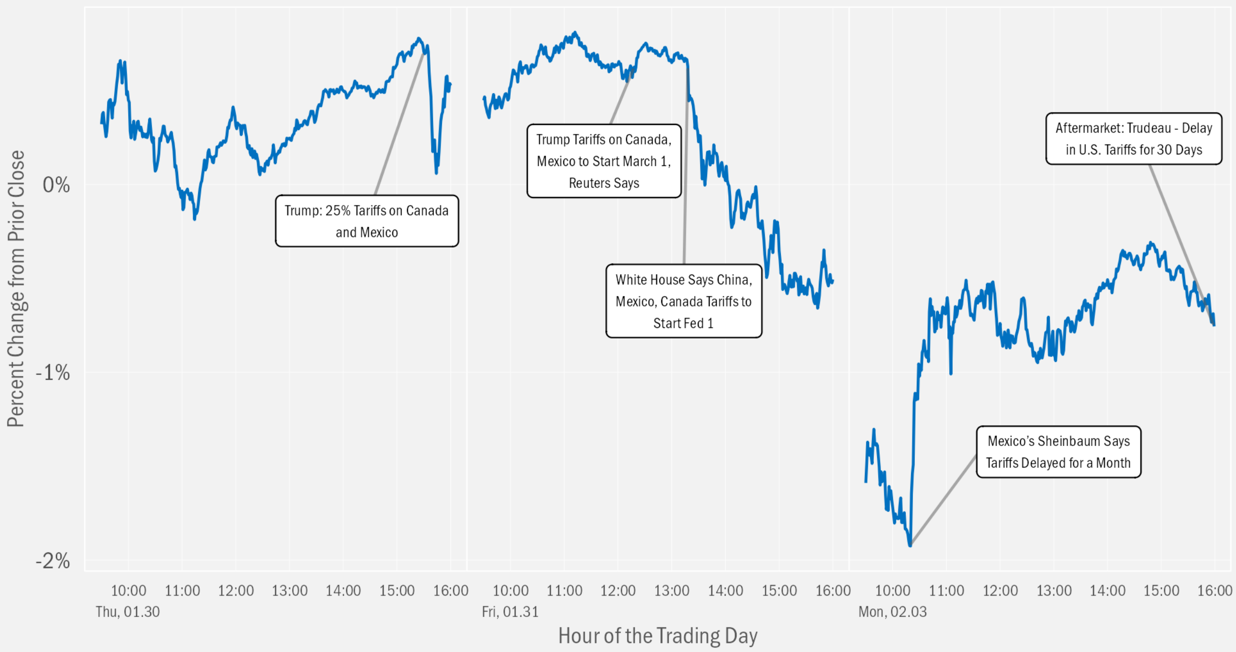
With the new U.S. presidential administration comes a range of distinct methods of governing. Among that list is a seemingly blunt-force approach to trade management that over the past few days has resulted in more than a few market gyrations. We could discuss the specifics, but as soon as we might, they're likely to change. Instead, we'll offer the reminder that stocks are volatile and likely will forever remain so. And stocks sometimes are more volatile than other times. These may be among those more volatile times. That warning in mind, we offer the following reminders:

- Intraday volatility normally goes unobserved by the average investor, but we think actions during the early months of this administration will keep the spotlight on market shifts during the day
- As the past few days demonstrate, though, one can argue the gyrations leave investors back where they might otherwise have been
- Which is the sort of pattern we tend to see over longer-term time horizons, such that we think the better approach is to limit attention to market moves as the administration's intentions become clearer and, more importantly, its policies are more durably implemented

Shaking Things Up

As the headlines bounced between suggestion, expectation, revelation, refutation, implementation and suspension of the Trump administration's tariff-oriented trade policies, so, too, did the U.S. equity market and those of the tariff-target countries, along with their respective currencies. We'd argue that the on-balance interpretation is that the market is probably unhappy with the approach, which broadly has resulted in expanded market volatility, while remaining skeptical of the likelihood of implementation at the more extreme ends of the potential policy spectrum. That is, the market is off earlier peaks, but not by too much, in the meantime having bounced around on each fresh headline. Investors may dislike the rapid-fire nature of it all, but the volatility shouldn't be interpreted as anything abnormal.

Figure1: S&P 500 Index Intraday Performance From Prior Close



From 01.29.25 to 02.03.25Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. . SRCM using data from Bloomberg

In Context, Within Bounds

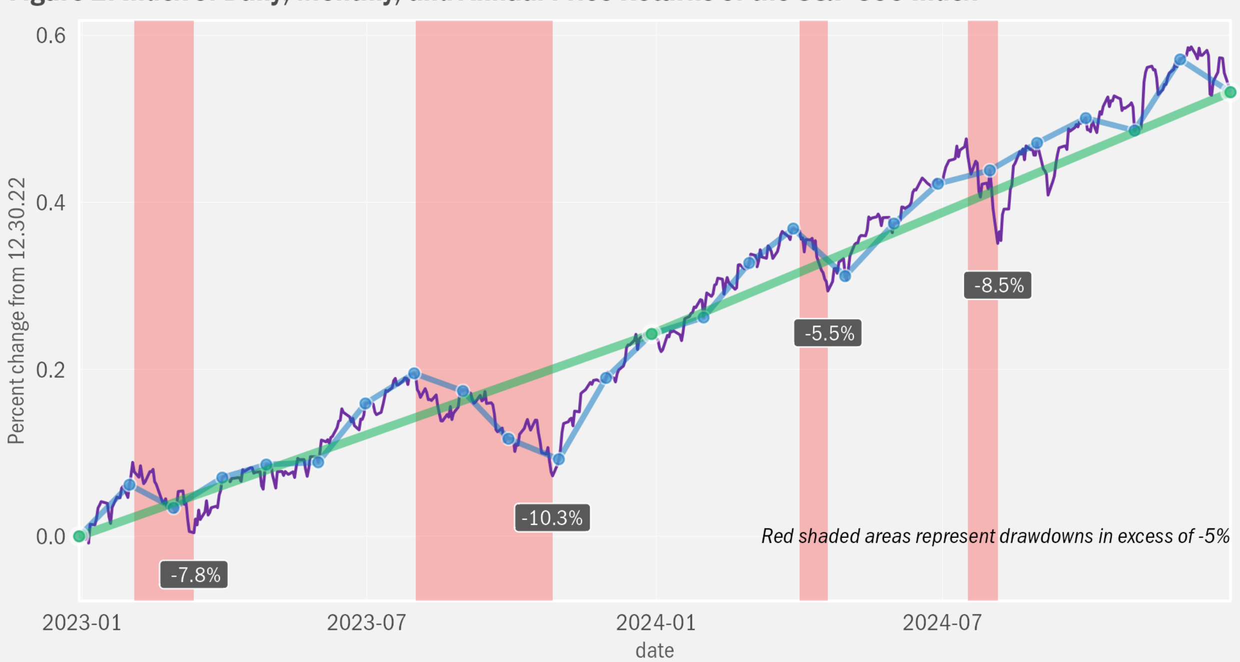
Generally not as abrupt as those we've experienced over the past few days, intra-year market moves can be rather large, even during a time frame over which the market generally rose. Take the last two-year period for example. In Figure 2 we show the performance of the S&P 500 since the end of 2022, over which time the index has gained 54%. But the index saw four drawdowns—interim losses from a prior peak—that exceeded 5%. U.S. large-cap stocks, which the index is built to represent, even saw a "correction" over the second half of 2023, loosely defined as a drawdown of 10% or more. For the historically above-average return of the past two years, investors have had to endure no small amount of volatility.

Right Frame of Mind

Zooming out on market history, as we do in Figure 3, one can see that the U.S. stock market has experienced a wide range of interim results over most years. Take 2016, the year prior to Donald Trump's first term. Off a bit before the year began, not including dividends, the S&P 500 was down more than 10% by mid-February but closed the year 9.5% higher than its level at the end of 2015, up more than 22% from the February 11 bottom. And in 2018, the market was flattish on a price basis through April, up 9.6% year-to-date by late September, down on the year by more than 12% on Christmas Eve, but finished the year down only 6.2%.

We don't suggest anyone should expect to find the next few months comfortable. But that recommendation has little to do with the sitting president. Daily, weekly, monthly and yearly ups and downs have always been part of the give-and-take of the risk-for-potential-reward trade. And we think it's unlikely that 2025 will prove any different. Even so, we understand that investor comfort with market risk may have changed after the inauguration. While some may fear what's to come, others may be excited by the potential policies being discussed. That in mind, we welcome discussions covering methods to adapt portfolio exposures to personal views on and individual comfort with future market risk, whatever those expectations may be.

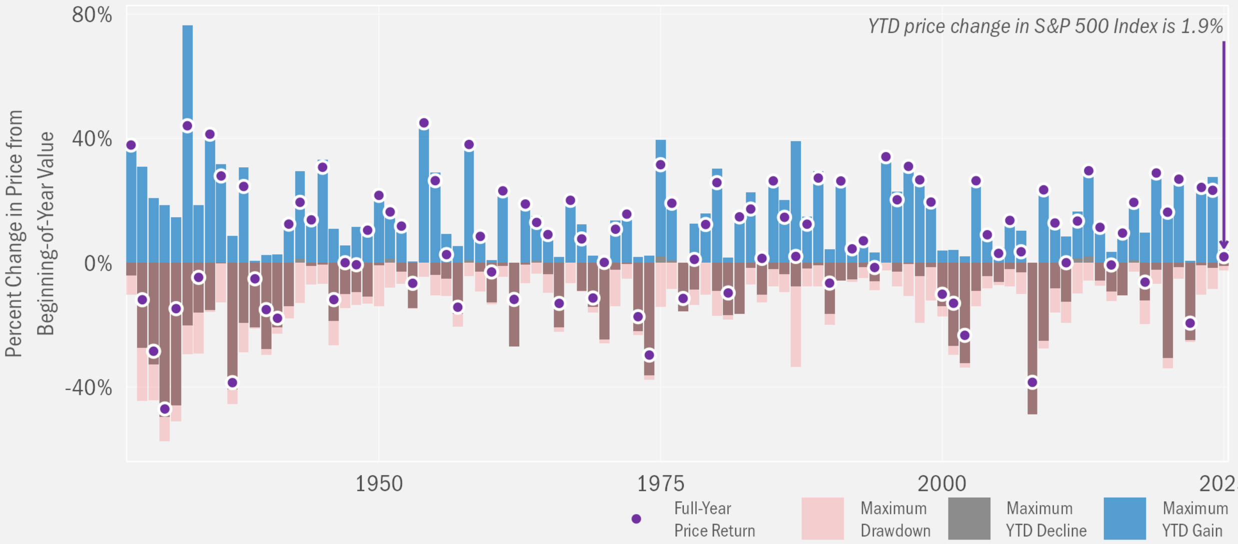
Figure 2: Index of Daily, Monthly, and Annual Price Returns of the S&P 500 Index



From 12.30.22 to 12.31.24. Price returns, excluding the effects of dividends. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Figure 3: Interim Price Gains and Declines of the S&P 500 Index by Year

Across 67 positive and 31 negative full-year performances (year-to-date for 2025), the average maximum drawdown was -16.1%, the average maximum year-to-date decline was -10.7%, the average full-year price return was 7.9%, and the average maximum year-to-date gain was 16.6%



From 12.30.27 to 02.03.25. Price returns, excluding the effects of dividends. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

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The S&P 500 Index measures the performance of the large-cap segment of the U.S. equity market.

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