

It Eventually Rains

COMMENTARY
June 2025

The S&P 500 set an intraday peak on the penultimate trading day in June. The day’s gains evaporated on news of a breakdown in tariff discussions with Canada, however. By the end of trading, though, most of the about-face had been regained. The gain/news/plunge/rebound cycle exemplifies how fickle the stock market can be. Similarly, zoom out to the beginning of the year and we see that U.S. stocks have fully rebounded from a near 20% decline from a prior peak that arguably came primarily as a result of tariff concerns and are now up more than 14% over the prior twelve months. Not only that, non-U.S. stocks are up 17.5% and our preferred benchmark for U.S. bonds is up 6.2% over that time frame (all total returns, including reinvestment of dividends), offering the reminders that:

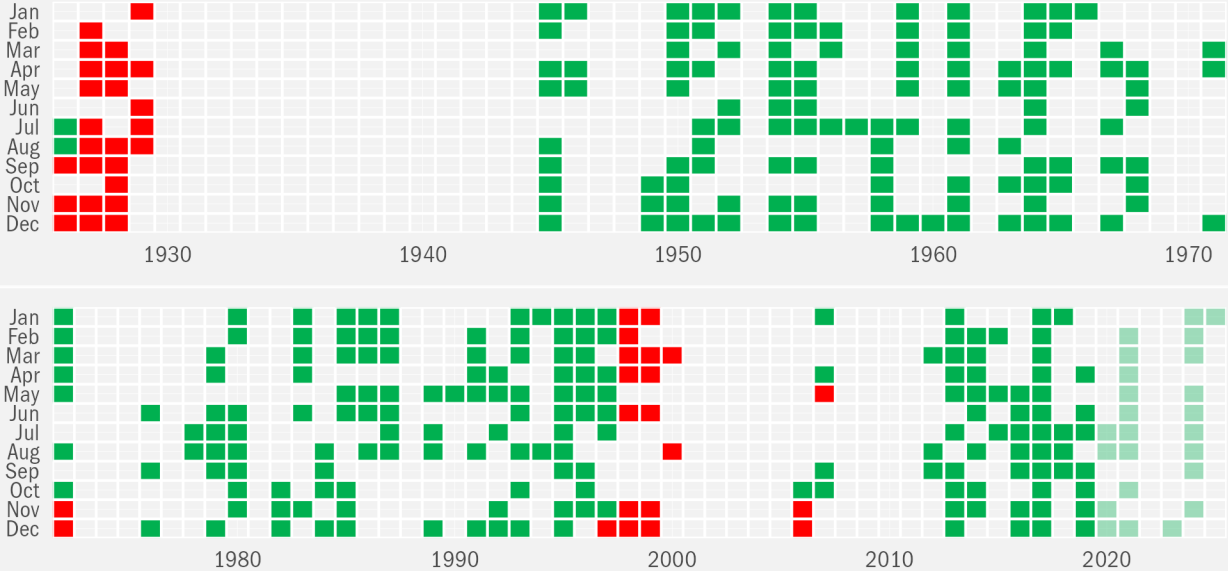
- One can lean on diversification—across stocks and across asset classes—seeking to tune short-, medium and long-term outcomes to investor tolerance for investment risk
- Markets have tended to heal over time, regardless the starting point
- Better to modulate portfolio exposure to investment risk when markets are ebullient, rather than when sentiment has soured

Mostly Has Worked Out

During market drawdowns, we tend not to field too many calls from stressed out investors wanting to know when the tumult will end. Not that folks aren’t asking questions when stocks drop that we’re happy to answer regardless the reason. But we tend to think that the lack of broader client concern during market declines stems from the fact that we regularly offer reminders such as this one that it’s better to gauge tolerance for investment risk when times are good, rather than when market action stinks. While it may seem more...ehem...taxing to reduce equity exposure when markets are peaky, we often only need remind folks how they felt during March 2020 and March 2025 and suggest that an easing off the risk pedal might make for a more comfortable experience next go-round. Otherwise, when stocks are down, market history shows that decisions to “lock in loss” tends to lead to less-favorable longer-term outcomes.

Figure 1: Five-Year Return Subsequent to S&P 500 Month-End Peak

Green (red) represents positive (negative) subsequent five-year total return. Light green represents prior new peaks with not-yet-available subsequent five-year returns



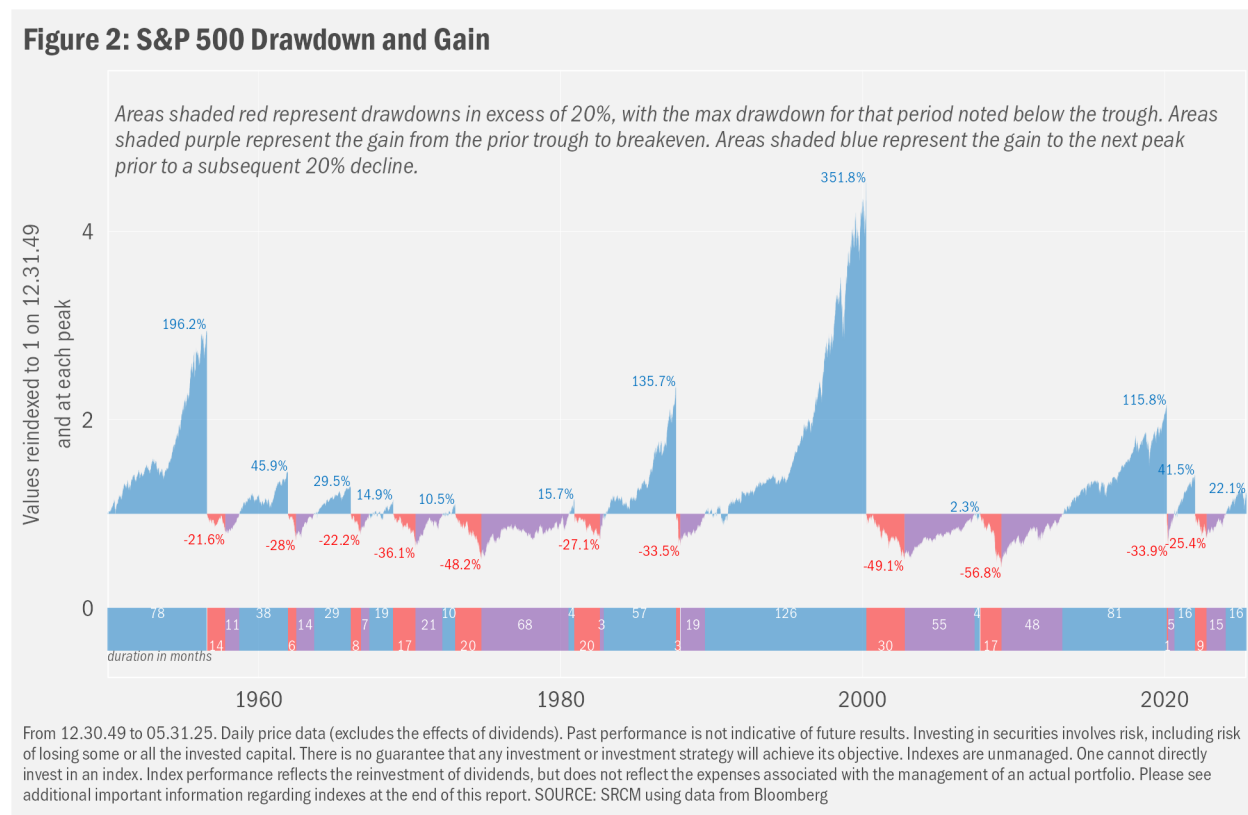
From 12.31.25 to 05.31.25. New-high months with positive 5-year total returns total 296 of 342, or 87%. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. Total return data, which includes the reinvestment of dividends. Considers the total return of the 60 months subsequent to the month of the new peak. SOURCE: SRCM using data from Bloomberg

Early Cycle or Long in Tooth?

The new S&P 500 record notwithstanding, there are a number of potential sources of shocks to the stock market narrative. As today’s back-forth demonstrates, domestic tariff policies remain undecided, their potential implications still wide-ranging. Medium-term domestic tax/spend policies, too, are yet uncertain. With the balance of proposed policies broadly set to increase the federal deficit, though, the potential impact on interest rates remains an open question. Meantime, inflation is within range of the Federal Reserve’s desired level, but progress toward that goal is halting. Tariffs may reverse that progress, perhaps only on a one-time basis, but perhaps not. Domestic macroeconomic growth remains healthy, but any of the above might curtail that strength. And we cannot forget that the wars in Ukraine, Gaza and Iran remain without visible ends or even meaningful progress toward such.

But all of these factors have been with us for more than a bit. And all have proved qualitatively volatile—meaning the potential range of answers to, “who knows where this will end up” has been in constant states of flux—and therefore prone to inducing bouts of angst and euphoria. One could argue, then, that the market has been climbing the proverbial Wall of Worry for some time now. But in many ways that’s always the case, as worries exist whether the drivers are known or unknown, existing or potential, expressed or held in silence.

Seeking to offset any concerns the above may have engendered, we offer the data in Figure 2, which show all the 20%+ drawdowns in the S&P 500 since 1949. Upon first glance, the chart seems pretty ugly. But those data are just a different way of expressing the more than 35,100% gain (8.08% annualized) in the index over that time frame through the end of May, it’s near 400% gain (8.3% annualized) over the past two decades and its 180% (10.8% annualized) gain since May 2015. Said differently, the reason we might fairly expect such generous long-term returns is that we must endure the range of risks and the market tumult those risks can create over time. The challenge is determining how much of that risk we are willing to take on such that we remain invested long enough to earn commensurate reward. Those interested in exploring potential answers to that task should reach out to an advisor.



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"U.S. stocks" are represented by the S&P 500 Index measures the performance of the large-cap segment of the U.S. equity market.

"Non-U.S. stocks" are represented by the Bloomberg World ex US Large, Mid & Small Cap Price Return Index, which is a float market-cap-weighted equity benchmark that covers the top 99% of market cap of the measured market.

"Our preferred fixed income benchmark" is the is the Bloomberg U.S. 1-5 Year Government/Credit Bond Index, which includes investment grade, U.S. dollar-denominated fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years.

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