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Market Musings

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Over the past thirty years, the S&P 500, a broad gauge of the US stock market, has risen six-fold. Over those thirty years, the market has had some serious declines driven by economic and political factors. Each of these events, once corrected, provided buying opportunities.
(chart source: Macrotrends)

The Politics of Change: A New World Order

The world economy is experiencing the vicissitudes of a Trump presidency for a little over a month and that experience has been earth shaking. Decisions to reduce or eliminate whole federal government departments, mass deportation of illegal immigrants, proposals to dramatically reduce taxes and the intended implementation of major tariffs on virtually all countries that export to the United States has turned traditional economic policy on its head. The President promised to do these things and a lot more to change the way in which the country is managed. Little did anyone expect to see these changes take place in the first few weeks of the new Administration. As many of these decisions are being challenged in court, the judiciary will be making history that will guide the management of the country for many years to come.

For investors, these policies could have important implications especially as they affect economic conditions. For example, the firing of many government workers as well as the closing of USAID will increase claims for unemployment. Uncertainty over the impact of tariffs raising the price of imports that will, in turn, lower economic activity could be reflected in lower stock prices. The rise in inflation due to a surge in prices could quickly turn to reduced buying that leads to lower economic activity and fears of a recession or worse. So far, we have not seen any signs of the impacts from these dramatic changes in government policy, but they could be coming soon.

On the international front, a policy change regarding support for Ukraine has turned dramatically. Europe is being forced to step in and play a greater role in supporting that country as the US appears to be pulling back from providing weapons and support to counteract the Russian invasion. President Trump is writing a new narrative for the conduct of international policy when it comes to picking winners and losers in an ever-changing political environment. In all these policies, the strategy is to put America first and to recognize that the goal may require some near term dislocations.

Over the next few months there will be further surprises that may trigger additional bond and stock market volatility. We have never seen so many critical decisions that can change the direction of the domestic and international markets. As these changes are implemented, financial markets are likely to reflect the long-term implications of these changes.

"Investing is a virtuous habit best started as early as possible."

- John C. Bogle

Market Commentary

February was a cold month for domestic equities, yet the S&P 500 did hit a new high during the month but other market indicators, especially in the high-tech sector, were decidedly negative. Several headwinds including potential impending tariffs, geopolitical tensions, economic weakness and a decline in consumer confidence led the S&P 500 down 1%. Mid-cap and small caps fared worse with the S&P MidCap 400 and S&P SmallCap 600 falling 4% and 6%, respectively. The bond market experienced a surprising rally with the ten-year yield falling from 4.6% to 4.2%. February was also a strong month for European equities, with the large-cap S&P Europe 350 gaining 4% on the back of a surge in financials while Asian markets as measured by the Pan-Asia index fell by less than 1%. Two outliers that were buoyed by optimism surrounding DeepSeek, were the S&P China 500 and S&P Hong Kong surging 7% and 6%, respectively.

Over the next ten years, 38% of all US financial advisors (110K) are expected to retire. Based on the 0.3% annual growth in the number of advisors over the last decade and projected trends in population and wealth creation, the industry faces an advisor shortfall of between 90K and 110K by 2034.
(source: McKinsey)