CORBETT ROAD
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# MARKET MUSINGS

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## Animal Spirits in Hibernation

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# SUMMARY

- Investors anticipated tax cuts and deregulation after the election but overlooked the full impact of tariffs, which are now unsettling business planning and sentiment. While uncertainty can slow economic growth, history shows that geopolitical events rarely cause recessions—thus the risk of a major bear market is low.
- Despite stock market volatility, real-time economic indicators as measured by the Federal Reserve's Weekly Leading Index remain positive, suggesting continued economic resilience and a divergence between market sentiment and underlying economic fundamentals.
- The S&P 500 has broken below its 200-day moving average for the first time in 336 trading days—one of the longest streaks in history. While notable, past instances suggest this isn't a clear bearish signal, as returns over the following year have generally aligned with historical averages.
- While our tactical risk models have not signaled a major rise in risk, **we remain vigilant and ready to adapt as conditions evolve.** The **macro**cast™ score for March stands at +3, down two points from last month. Our **micro**cast™ signal remains neutral, unchanged since its downgrade from aggressive back in November.

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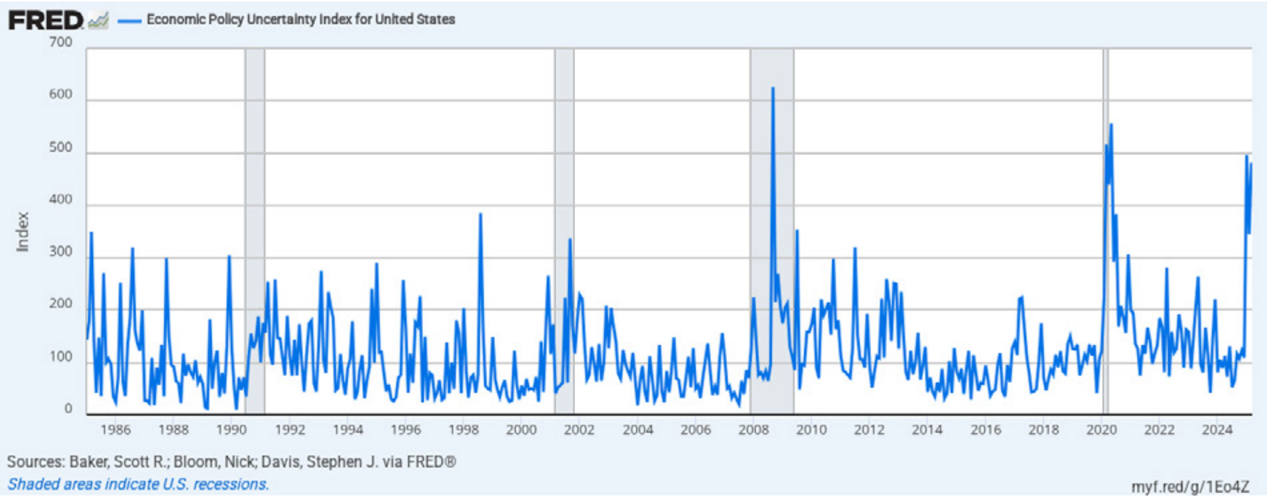
*See content within for additional information on the summary items discussed above*

# A MARKET DECLINE **DRIVEN BY "UNCERTAINTY"**

"Uncertainty" is an overused and somewhat lazy explanation for market volatility. The future is always uncertain, making the term redundant. **That said, there are times when uncertainty truly rises above normal levels.** After the election, the market rallied on hopes of tax cuts and deregulation, but investors largely underestimated the potential impact of tariffs on businesses. Despite making it a major campaign issue, the recent tariff announcements by the administration caught many market participants by surprise, and the uncertainty surrounding their scope and enforcement is weighing on sentiment. Indeed, measures of policy uncertainty are at levels rarely seen in history (chart from St. Louis Fed):




A lack of clarity is often more damaging than the policy itself. Businesses can adapt to higher costs—if they can anticipate them. Clear policies allow companies to plan and adjust. However, when firms face unpredictable policies and unclear timelines, capital allocation becomes far more difficult. As a result, businesses often delay investment and hiring. If uncertainty persists, economic activity can slow, impacting growth and market stability.

We believe this is the challenge the market is facing right now. The good news? Geopolitical events, which is how we view the tariff situation, rarely trigger recessions, and without a recession, a major bear market is less likely.

While bear markets can happen without a recession, as seen in 2022, today's conditions seem less severe. We share the view of Nick Colas from DataTrek Research—despite the policy uncertainty, the market backdrop is not as dire as it was three years ago:

> *2022 came with a European land war, high oil prices, and hyper-aggressive Fed rate hikes, it is difficult to compare current DC policy uncertainty, however off-putting, to that backdrop. US stocks should start to stabilize soon if that interpretation is correct.*

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# MARKET SELL OFF NOT REFLECTED **IN ECONOMIC DATA**

The stock market and the economy often diverge, and recent data highlights that contrast. The Federal Reserve's Weekly Economic Index (WEI)—which tracks real-time indicators like unemployment claims, rail traffic, steel production, and tax withholdings—remains positive. This suggests that despite market volatility, the broader economy remains resilient.

Historically, the steepest market declines coincide with weakening economic fundamentals. So far, that deterioration hasn't materialized. While financial markets adjust to shifting conditions, the underlying economic data does not yet signal a broader downturn (chart from MarketDesk):

**FIGURE 3 – Weekly Economic Index (Last 5 Years)**


*Source: Federal Reserve. The Weekly Economic Index (WEI) is composed of ten high-frequency indicators, including unemployment insurance claims, fuel sales, electricity output, retail sales, rail traffic, tax withholding, steel production, consumer sentiment, and two weekly economic surveys. Time Period: January 3, 2020 to February 28, 2025 (latest available data as of March 11, 2025).*

# The S&P 500 BREAKS **ITS LONG-TERM MOVING AVERAGE**

The market decline has pushed the S&P 500 below its 200-day moving average—an indicator widely used to assess the market's long-term trend. Prior to the recent breakdown, the index had been trading above this long-term trendline for 336 trading days, one of the longest streaks in history. Historically, crossing below the moving average after trading above it for a prolonged period has not signaled poor returns (table from Bespoke):

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**S&P 500 Steaks of a Year or More of Closing Above 200-DMA**

| Date | Trading Days Above 200-DMA (%) | S&P 500 Performance After Streak Ends (%) | | | | | |
|---|---|---|---|---|---|---|---|
| | | Day of | One Week | One Month | Three Months | Six Months | One Year |
| 5/22/56 | 630 | -0.53 | 0.20 | 3.49 | 6.62 | 0.27 | 4.73 |
| 9/14/59 | 356 | -0.54 | -2.72 | 0.34 | 3.92 | -3.42 | -2.58 |
| 4/3/62 | 333 | -0.47 | -0.12 | -3.29 | -17.52 | -17.21 | -0.93 |
| 11/21/63 | 252 | -2.81 | 5.20 | 6.71 | 11.51 | 15.97 | 23.95 |
| 6/8/65 | 387 | -1.04 | 0.19 | 0.79 | 4.53 | 7.67 | 0.54 |
| 12/13/83 | 333 | -0.97 | 0.14 | 2.26 | -4.02 | -7.92 | -0.39 |
| 9/16/85 | 283 | -0.83 | 0.69 | 3.47 | 16.15 | 29.39 | 27.75 |
| 1/19/90 | 293 | -2.59 | -1.57 | -1.42 | 1.43 | 9.45 | -0.63 |
| 3/24/94 | 363 | -0.81 | -3.22 | -1.71 | -3.86 | -0.20 | 8.77 |
| 7/12/96 | 394 | -2.54 | 0.63 | 5.16 | 11.55 | 21.82 | 46.99 |
| 8/26/98 | 525 | -3.84 | -5.79 | 0.21 | 14.36 | 18.77 | 29.32 |
| 7/15/04 | 313 | -0.48 | -1.38 | -2.00 | 0.62 | 7.55 | 11.49 |
| 10/10/14 | 477 | -1.65 | 1.56 | 8.78 | 7.91 | 11.61 | 6.88 |
| 3/29/18 | 442 | -2.23 | 1.21 | 2.08 | 5.61 | 13.23 | 11.05 |
| 1/20/22 | 395 | -1.89 | 0.77 | -1.12 | -0.10 | -9.07 | -9.67 |
| 3/10/25 | 336 | -2.70 | ? | ? | ? | ? | ? |
| **Average** | | **-1.55** | **-0.28** | **1.58** | **3.91** | **6.53** | **10.48** |
| **Median** | | **-1.04** | **0.19** | **0.79** | **4.53** | **7.67** | **6.88** |
| **% of Time Positive** | | | **60.0** | **66.7** | **73.3** | **66.7** | **66.7** |
| **All Periods Since 1953** | | | | | | | |
| **Average** | | | **0.17** | **0.69** | **2.08** | **4.44** | **9.19** |
| **Median** | | | **0.29** | **1.04** | **2.52** | **5.00** | **10.33** |
| **% of Time Positive** | | | **56.5** | **61.3** | **66.1** | **69.4** | **73.7** |

Returns after the streak ended aligned with typical market behavior. Over the next year, the market rose two-thirds of the time—just below the historical average for a 12-month period. Four of the five declines were minor, with only 2022 seeing a meaningful drop. Meanwhile, in four cases, returns exceeded 20%.

# PREPARING FOR **ANY OUTCOME**

This isn't the first market correction driven by uncertainty, and it won't be the last. Market declines of 10% or more are common, occurring once, on average, every two years since the Global Financial Crisis (GFC). In fact, we haven't seen a drop of that magnitude since October 2023.

Looking deeper, Michael Batnick recently highlighted how the stock market has behaved since the end of the GFC:

- **Fourteen** pullbacks of 5–10%
- **Six** corrections of 10–20%
- **Two** bear markets with declines over 20%

History shows that volatility isn't an anomaly—it's a feature of the market.

Like every correction before it, this one will pass. In the meantime, we stand ready to adjust our tactical strategies—increasing or decreasing risk exposure as conditions demand. In times of volatility and uncertainty, strong portfolio construction is essential, and any risk adjustments must follow a disciplined, systematic approach.

Thank you for reading. Next month, Market Musings will feature a full review of asset class performance for Q1.

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