



CORBETT ROAD
WEALTH MANAGEMENT

MARKET MUSINGS

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**Trade Tensions Rise,
But Economic Strength Persists**

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SUMMARY

- Trade tensions have escalated significantly with new US tariffs imposed on imports from Canada, China, and potentially, the EU. While the longer-term impact is uncertain, the administration's goals appear to be increasing tariff revenue and reducing the trade deficit. Despite some concerns from companies, the broader economic effect will likely be limited if US economic growth remains strong.
- Key economic indicators like PMIs and corporate investment trends suggest continued expansion. Strong capital expenditures, particularly in AI and tech, support the view that the economy can withstand headwinds.
- A positive January historically signals strong stock market performance for the rest of the year, with an 87% success rate since 1950. Past declines following a strong January were tied to aggressive Fed tightening, recessions, or financial crises. These are the key risks to monitor moving forward.
- The **macrocast**[™] score is +5 for February, one-point above last month's reading. Our current **microcast**[™] signal sits at a neutral allocation, unchanged from last month's stance. Overall, our tactical risk models continue to reflect a constructive outlook for equity markets.

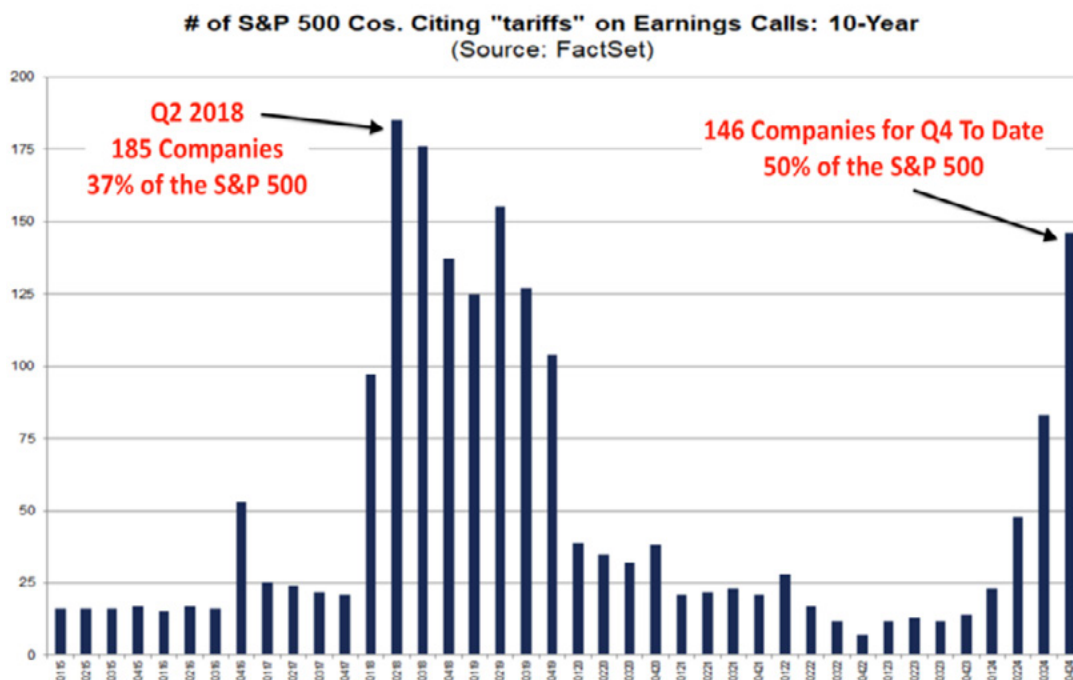
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TARIFF TENSIONS: **WEIGHING THE IMPACT ON THE STOCK MARKET**

The United States is experiencing a significant escalation in trade tensions following President Trump’s recent announcement of new tariffs on imports from Canada, Mexico, and China. Effective February 4, 2025, an additional 10% tariff has been imposed on Chinese imports. Additional tariffs of 25% on Canadian and Mexican goods were announced before being put on a temporary pause until at least March 1st. However, just this week, the administration announced a 25% tariff on Canadian steel and aluminum. Tariffs on the European Union are also likely.

How this all plays out remains to be seen. While some of it may be a **negotiating tactic**, it’s also clear that the administration aims to **increase tariff revenues**—both to **reduce the trade deficit** and to help **offset the planned tax cut extension** that Congress is set to debate in the coming weeks and months.

There’s no doubt that tariffs are a **major concern for companies**. So far this quarter, half of all S&P 500 companies that have reported earnings have mentioned tariffs, surpassing the previous peak seen in 2018 (chart from FactSet via DataTrek):



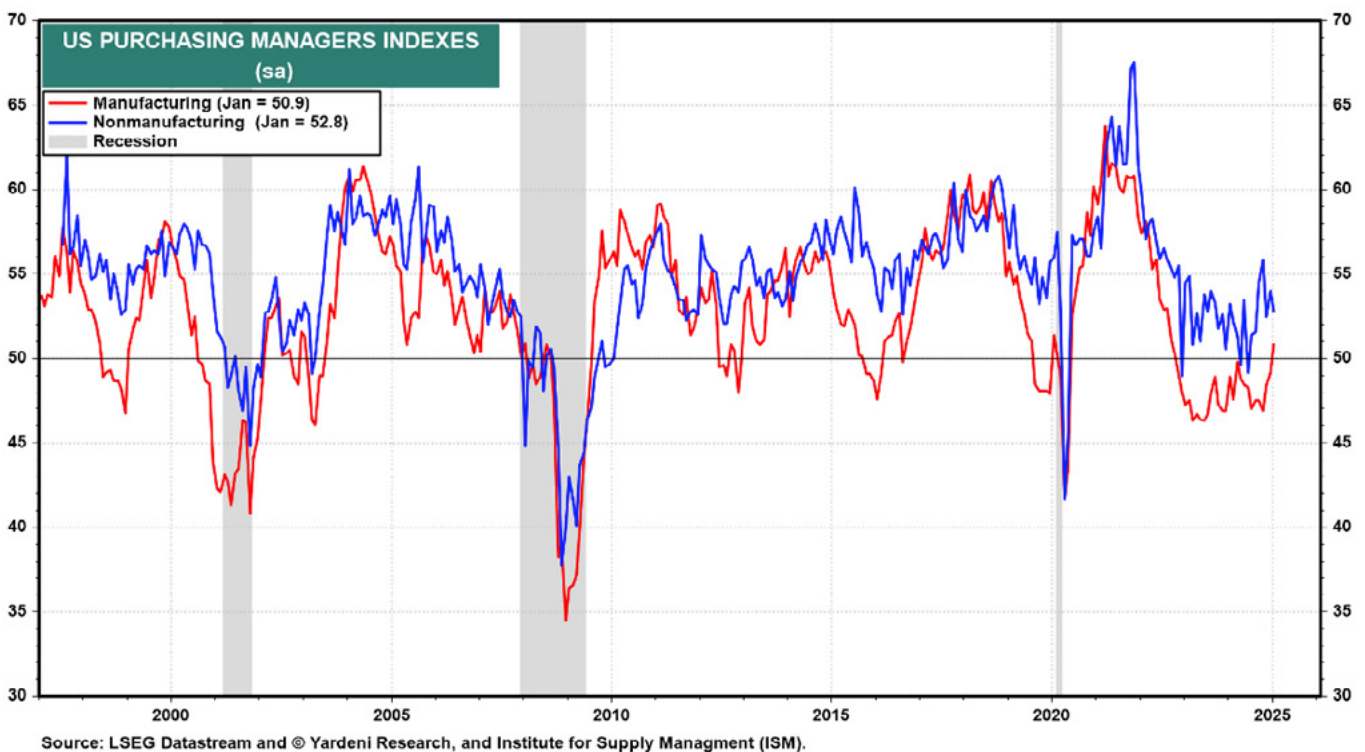
While the new trade policies will undoubtedly impact industries with direct exposure to tariffed goods, the broader economic effect remains uncertain. **Ultimately, market outcomes are driven by the overall trajectory of the U.S. economy.**

If growth remains strong, the impact of these changes on S&P 500 earnings will likely be limited. Certain sectors, such as automotives, steel, and electronics will likely face headwinds from higher prices, but as long as the economy continues expanding, the market as a whole should be able to absorb the shock.

THE ECONOMY IS POISED TO WITHSTAND HEADWINDS FROM TARIFFS

While uncertainty around trade policy persists, there are encouraging signs that the U.S. economy is strong enough to withstand it.

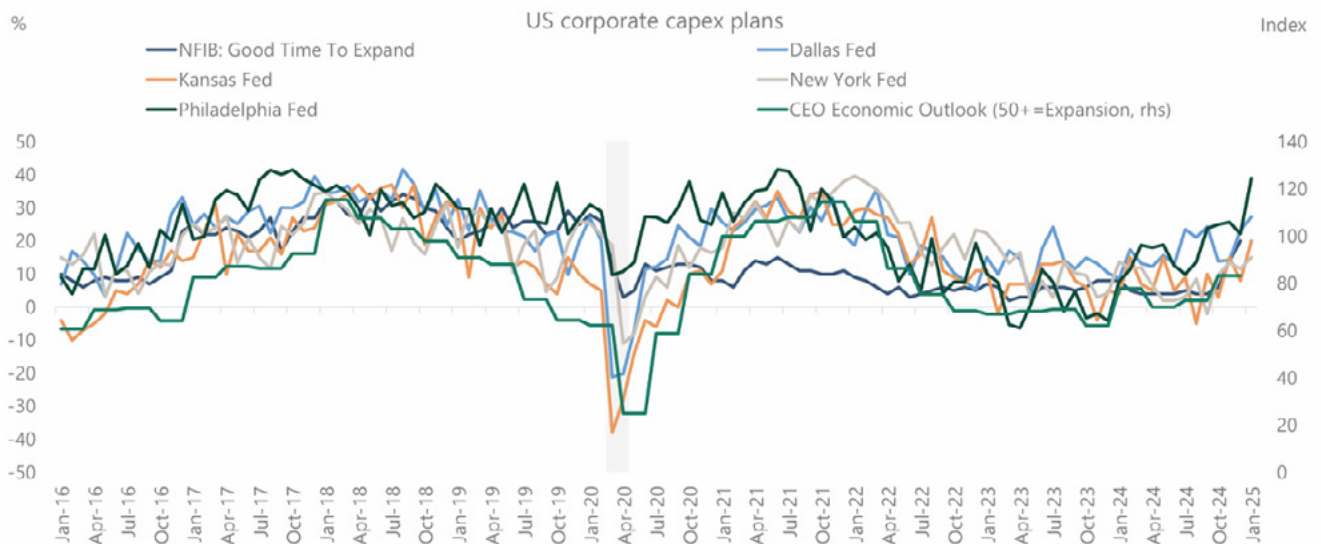
The latest **Purchasing Managers Indexes (PMIs)**—a widely used economic indicator derived from monthly surveys of purchasing managers in various industries—show both manufacturing and non-manufacturing sectors in expansion territory (above 50). In January, manufacturing rose to **50.9**, moving into expansion territory for the first time in over two years. Meanwhile, the service sector—**which drives the bulk of the U.S. economy**—remains firmly in expansion (Chart from Yardeni Research):



Beyond the PMI surveys, recent corporate survey data suggests that **capital expenditures are set to accelerate**. While a significant portion of this is driven by Big Tech’s investments in **artificial intelligence**, the planned spending increase is substantial (chart from Apollo):

APOLLO

Corporate capex spending plans



Source: Business Roundtable, NFIB, Federal Reserve Bank of Philadelphia, Dallas, New York, Kansas and Richmond, Apollo Chief Economist.

This planned increase comes at a time when core capital expenditures are already at an all-time high. (chart from St. Louis Fed):



The latest data shows the economy remains on solid footing, which should help it withstand any temporary setback from tariffs and sustain the expansion.

JANUARY BAROMETER

POINTS TO POSITIVE YEAR FOR STOCKS

The January Barometer is a stock market theory that suggests January’s performance can predict the market’s direction for the rest of the year. The phrase “As goes January, so goes the year” sums up this idea.

The exact numbers vary depending on the starting year, but there is strong evidence that a positive January has been a reliable market indicator.

Since 1950, the market has been positive from February to December **76% of the time with a median gain of nearly 10%**. However, when the market finishes January in positive territory—as it did this year—the S&P 500 has gone on to post positive returns for the rest of the year **87% of the time, with a median gain of 13.5%** (table from Carson Group):

So Goes January, Goes The Year

The January Barometer Says A Positive January For Stocks Is A Good Sign

	S&P 500 Index Return Rest Of Year (Final 11 Months)				
	Positive January	>2% January	>3% January	Negative January	All Years
Average	12.2%	12.3%	12.3%	2.1%	8.1%
Median	13.5%	13.4%	14.2%	3.5%	9.7%
% Higher	86.7%	84.4%	85.7%	60.0%	76.0%
Count	45	32	28	30	75

Source: Carson Investment Research, FactSet 01/31/2025 (1950 - Current)
 The January Barometer Looks At S&P 500 Returns Based On January Returns
 @ryandetrick



Like all market studies, this one isn’t foolproof. There have been five instances where the market declined from February through December despite a strong January (up at least 2%):

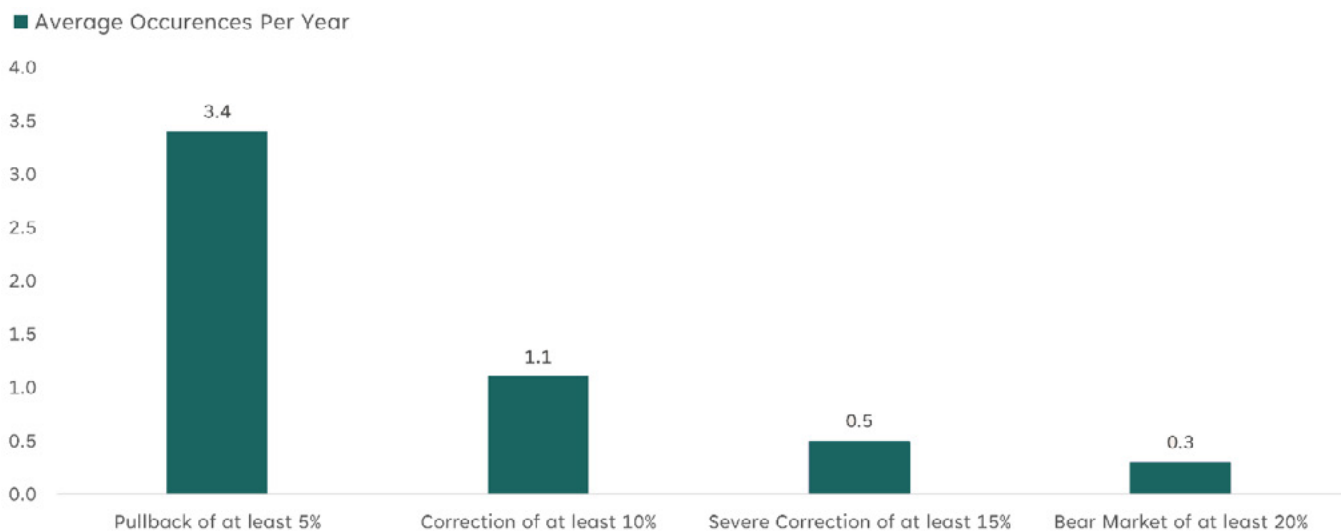
- **1987:** The market surged 20% from February through August before plummeting in the October crash (Black Monday). The Fed had been raising interest rates for most of the year as Paul Volcker’s term was ending and Alan Greenspan took over in August.
- **1994:** The market fell 4.6% due to unexpected rate hikes by the Greenspan-led Federal Reserve.
- **2001:** A recession began in March following the dot-com bubble burst, with additional losses just after the 9/11 attacks.

- **2011:** The US debt ceiling standoff and Greek debt crisis triggered a major sell-off in late summer.
- **2018:** The Fed continued raising rates despite clear signs of a global slowdown, leading to a 20% sell-off through Christmas Eve. Stocks rebounded in the last week but still ended 11% lower than January 31st levels.

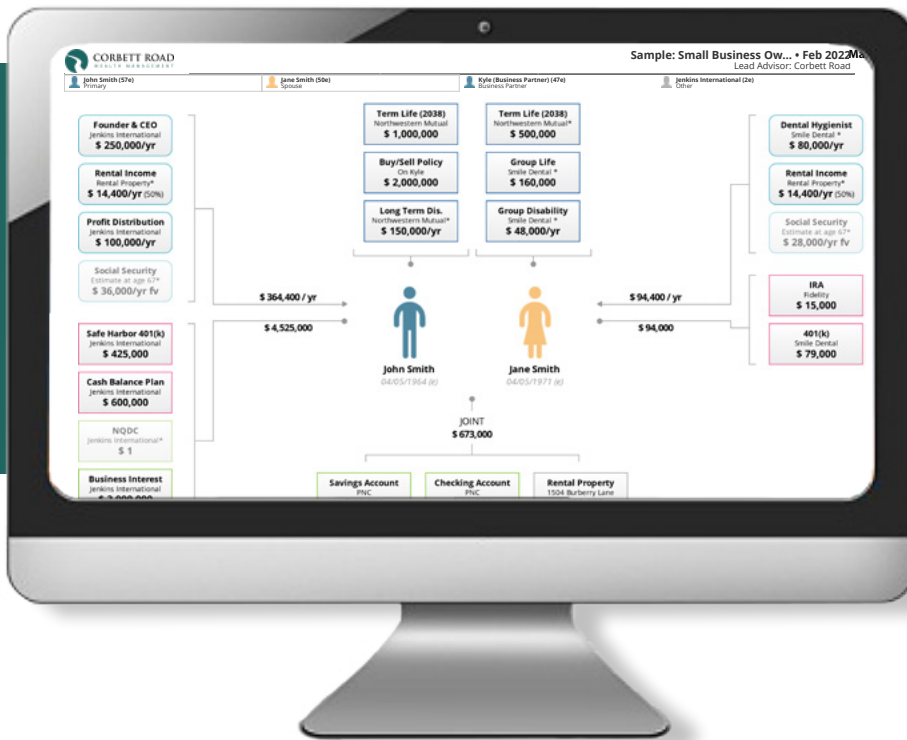
In each case, market declines occurred during periods of **an aggressive Fed (1987, 1994, 2018), a recession (2001), or financial system stress (2011)**. These are the key risks we will be monitoring to assess the likelihood of a major sell-off after a strong start to the year.

Despite these exceptions, **history shows that stocks tend to perform better for the rest of the year when they start off positive rather than negative**. And of the five instances where stocks declined, all but one (2001) saw a strong recovery the following year.

Regardless of how the rest of the year unfolds, market corrections are inevitable. On average, the market experiences **three declines of at least 5% per year**. While bear markets are less frequent, they still occur **roughly once every three years**. (Chart from LPL):



In summary, trade tensions have escalated, with new tariffs creating uncertainty. However, the broader economy continues to show resilience with PMIs indicating expansion while capital expenditures are expected to accelerate from record-high levels. The January Barometer, a historical indicator of annual stock market performance, suggests a strong year, though past instances show that Federal Reserve policy, recessions, and financial stress can disrupt positive trends. It's important to keep in mind that market corrections are normal, but history strongly supports a positive outlook when economic growth is steady.



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