Market Commentary 3/19/25

An Oxford Harriman & Company Market Commentary

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Comments on the Recent Market Selloff

Stocks started 2025 trading higher but have since pulled back, with the S&P 500 entering “correction” territory with a 10% decline from its all-time high on February 19. As of the market close on Friday, March 14, 2025, the S&P 500 was down approximately 4% year to date, with the Nasdaq 100, an index of technology and growth stocks, and the small-cap-focused Russell 2000 down approximately 8% each. The Magnificent 7, a group of technology stocks that led much of 2024’s market gains, has declined nearly 15%.

Given the recent volatility, we wanted to discuss the current environment and provide perspective on past declines.

We believe several factors have contributed to the current market selloff. First, momentum stocks that led the 2024 rally are now experiencing a sharp reversal. 2024’s top performers have become 2025’s underperformers. Technology stocks led last year’s gains, fueled by enthusiasm for the artificial intelligence industry. However, the concentrated rally led to stretched valuations and crowded positioning, particularly among the biggest companies. As those stocks lose momentum, it’s triggering a rapid unwind, with a large amount of capital rotating at the same time.

Second, investor exposure to the stock market was high entering 2025. Households’ allocation to stocks reached a record level, and institutional investors, such as pension funds, endowments, and insurance companies, increased their leverage and equity exposure last year as stocks traded higher. Recently, institutional investors and hedge funds have been deleveraging, adding to the selling pressure.

Third, optimism around the Trump administration's pro-growth policies has given way to concern, with worries that spending cuts and tariff uncertainty may slow economic growth. And often, selling begets more selling, especially over short time periods.

Market Volatility vs. Economic Reality

It's important to remember that the stock market is not the economy, with recent data signaling a different economic reality.

It's important to remember that the stock market is not the economy, with recent data signaling a different economic reality. The Federal Reserve's Weekly Economic Index (WEI), which tracks real-time activity using data such as unemployment claims, rail traffic, steel production, and tax withholdings, remains positive.

Despite recent stock market volatility, the WEI suggests the broader economy hasn't felt a significant impact. In the bond market, high-yield credit spreads, which measure the difference in yield between riskier corporate bonds and U.S. Treasuries, remain near all-time lows. We believe the stability of credit spreads indicates that, so far, the selloff has been largely confined to the stock market.

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Historical Analysis of Equity Declines Within a Calendar Year

The financial markets, and especially the stock market, are subject to periods of increased volatility.

The financial markets, and especially the stock market, are subject to periods of increased volatility. While moves in the stock market can seem random or unnerving, a closer look at historical data can highlight patterns and provide valuable perspectives. We analyzed the average decline in equity prices from their high to low points within a calendar year over the last 50 years to provide a guide for understanding the nature of short-term market fluctuations.

The S&P 500 index has historically experienced an average annual peak-to-trough decline of approximately 15% per calendar year. This statistic has remained remarkably consistent throughout the past five decades, regardless of bull or bear market cycles.

The S&P 500 index has historically experienced an average annual peak-to-trough decline of approximately 15% per calendar year. This statistic has remained remarkably consistent throughout the past five decades, regardless of bull or bear market cycles. Despite this level of volatility, the market has delivered positive annual returns in 38 of the last 50 years (76%), demonstrating that short-term fluctuations do not typically disrupt long-term upward trends.

While the average intra-year decline is ~15%, there have been years in which downturns were far deeper. Below are three critical historical points that highlight these declines and their recovery:

- **The Dot-Com Bubble:** From 2000 to 2002, the S&P 500 experienced three consecutive years of negative returns, with peak-to-trough declines exceeding 49% during this period. The crash was driven by overvalued tech companies and the bursting of speculative stock bubbles.

- **The Global Financial Crisis:** The financial crisis that gripped global markets in 2008 resulted in a 57% peak-to-trough decline in the S&P 500, the most significant decline since the Great Depression. Investor sentiment turned overwhelmingly negative before strength finally returned to equities.

- **The COVID-19 Market Crash:** During the early weeks of the pandemic in February 2020, uncertainty surrounding the global economy caused markets to plunge 34% in just 33 days, followed by one of the strongest bull market recoveries in history.

Lessons Learned from Market Fluctuations

1. Market Pullbacks Are Normal

Short-term declines in equity prices are a natural occurrence.

Short-term declines in equity prices are a natural occurrence. These pullbacks often reflect reactions to economic developments, corporate earnings reports, geopolitical events, or Federal Reserve policy changes.

For example, in 2020, the global pandemic prompted sharp equity market declines, with the S&P 500 experiencing a rapid 34% decline within a matter of weeks. However, the market rebound was equally striking, illustrating the importance of patience during turbulent times.

2. The Case for Long-Term Investing

Perhaps the most significant takeaway from historical data is that markets tend to recover strongly after periods of volatility.

Perhaps the most significant takeaway from historical data is that markets tend to recover strongly after periods of volatility. Over the decades, despite intra-year declines, equity markets have shown resilience and have rewarded disciplined, long-term investors. Indeed, the average annual return in the S&P 500 over the past 50 years exceeds 10%.

Therefore, resisting the urge to act emotionally during short-term declines can often contribute more to long-term success than attempting to time the market, or panic when uncertainty and fear is prevalent.

3. The Role of Diversification

Diversified portfolios can help manage risk in that declines in one segment of the portfolio are offset by gains elsewhere, helping investors achieve more consistent returns.

History underscores the importance of not relying solely on one market or asset class. Diversified portfolios can help manage risk in that declines in one segment of the portfolio are offset by gains elsewhere, helping investors achieve more consistent returns. The early declines this year of the Magnificent 7 and large cap growth stocks is a reminder of concentration risk.

Why Understanding Historical Averages Matters

Having an understanding about historical downturns provides perspective needed to weather similar events in the future. In our opinion, it reinforces the importance of staying invested, emphasizing that market declines are not only common but also relatively temporary occurrences within the context of multi-decade upward trends.

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From a planning perspective, historical averages like these play a critical role in anticipating potential risks and setting realistic expectations for portfolio performance. While no one can predict precisely how or when markets will fluctuate, understanding historical trends puts uncertainty in a more manageable context.

Looking Ahead

We believe the lessons of the past 50 years highlight the value of staying invested even during tumultuous times. Market declines, while uncomfortable, create opportunities to rebalance, reinvest, and focus on long-term goals. Maintaining a disciplined, diversified investment approach has consistently proven effective in weathering volatility.

We understand that the recent uncertainty and political polarization is stressful. We are here to guide you through this to help you stay committed to your long-term goals. For personalized insights into navigating market volatility and equity trends, please reach out to us.

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Sources:

1. J.P. Morgan Asset Management - “Guide to the Markets” (2023 Edition)
2. Standard & Poor’s S&P 500 Historical Performance Data
3. Morningstar’s U.S. Market Analysis Reports (1973-2023)
4. Federal Reserve Bank of St. Louis Economic Research Database

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The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock’s weight in the Index proportionate to its market value.

The NASDAQ 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ Composite Index. The list is updated quarterly and companies on this Index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.

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