



Following a strong start to the year, February 2025 was a month of increased volatility and deteriorating investor sentiment, driven by a blend of economic news and geopolitical developments. U.S. equity markets experienced their steepest declines since April 2024, with the S&P 500 down 3%, the Dow Jones Industrial Average falling 2.9%, and the technology-heavy Nasdaq Composite sliding by 4%.

Investor optimism faced significant headwinds as economic data raised fresh concerns about growth and inflation. Consumer confidence dipped sharply, reaching its lowest level since late 2023, with expectations for higher prices increasing substantially. Additionally, U.S. services sector activity and small business investment intentions unexpectedly fell, adding to worries about the economy's overall health.

The market was also unsettled by the return of geopolitical tensions and the torrid pace of market-moving headlines. Tariffs imposed by President Trump on imports from Canada, Mexico, and China reignited fears of a broader trade conflict, prompting retaliatory measures and adding uncertainty to global markets. Stocks exposed to trade uncertainty and DOGE initiatives were punished irrespective of immediate business impacts.

Investors responded by seeking safety, pushing yields lower as they rotated towards less risky assets like U.S. Treasury bonds. The consumer staples sector rose by more than 5%, leading the gains, along with other traditionally defensive industries. It is a typical course of action when negative sentiment takes hold. It is essential to note it is uncertainty more than data driving current stock market positioning. Violent stock price movement is a feature of a sentiment-driven environment.

Lost in the shuffle was a solid corporate earnings season, with 13% growth, well ahead of the 5% Wall Street expected. Still, following back-to-back years with 20% returns, stock market valuations hovered at 22 times forward earnings, significantly above average. There was little margin for error.

Case in point was the mega-cap technology stocks that led the gains over the last two years. While earnings were roundly positive and strength in areas such as artificial intelligence was affirmed, investors retreated from the high-growth leaders. Technology stocks declined and the “Magnificent 7” (Apple, Amazon, Google, Meta, Microsoft, Nvidia, and Tesla) were down 8% collectively through the first two months of the year.

As we move forward, volatility will likely remain elevated while investors weigh mixed economic signals, corporate outlooks, and policy shifts with a newly elected administration. The stock market routinely experiences a corrective phase, and it has been a longer-than-usual stretch since the last one occurred. Yet periods of uncertainty also create opportunities, especially for long-term investors focused on resilient, high-quality companies positioned to navigate these challenging times.

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Sincerely,

A handwritten signature in blue ink that reads "Ward Brown".

Ward Brown, Director of Portfolio Engagement (wbrown@argencapital.com)

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