Ridgetop Wealth Management

Market Update – March 2025

It Really Is OK…

In 2024 the S&P 500 returned over 20% with an intra-year decline of only -10%. In 2023 the S&P 500 returned over 20% with an intra-year decline of only -8%. Volatility over the last two years has been low relative to the longer term norm. Since 1980, calendar year returns have been positive in 34 of 45 years, with an average intra-year decline of over -14%[1]. As I write this, the S&P is down only about -3% since the start of the year with a decline of about -9% from the peak.

As humans, it is our nature to overweight our most recent experience, and our most recent experience has been nearly nothing but blue skies and smooth sailing in the market. Unfortunately, when it comes to investing, volatility is the norm not the exception.

What The Data Says

Financial markets are as news dependent as ever. Over the last several weeks, markets are trading almost solely on policy expectations and their impact on the economy, and not so much on the actual data. While we recognize the ample risks in the economy and geopolitical environment we do not speculate. If and when the objective indicators we follow call for defensive positioning we will respond. Despite an emotional roller coaster of news and opinions over the last several weeks, the current data driven backdrop remains Bullish. There are underlying cracks developing but this has occurred ad nauseum as the Bull has surged higher over the last sixteen years.

The "T" Word

At face value, the magnitude of today's proposed tariffs is scary – especially at a time when inflation is already stubbornly elevated. However, history and recent developments indicate the reality will not be as dire as markets are currently pricing in. The United States has a long and varied history of utilizing tariffs. The resulting trade wars have brought some

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[1] JPMorgan Chase

initial uncertainty and market high volatility, though more often than not been temporary[2]. In Trump's first term he made numerous tariff threats taking aim at the entire globe, but only some came to fruition. At least on his first go-around, his tariffs were only mildly disruptive in the long run and did not meaningfully raise inflation. We are mindful of what is happening here, but we won't let politics overshadow the investment process.

Seasonality: History Does Not Repeat Itself, But It Does Rhyme

While the rapid news flow feels unprecedented, choppiness early in most post-election years is not. When looking at a composite of the market in the first year in the four year election cycle, February is weak and has been followed by a sideways March, then a Q2 rally[3]. One could argue this is currently playing out in textbook fashion. Short term market sentiment would echo this theme. The market is oversold here. When looking at put-call ratios and other data concerning investor sentiment you will see that just 20% of investors are bullish over the short term. Historically, when short term sentiment has gotten this bearish, one month later the S&P 500 has risen 80% of the time thereafter[4].

The Economy: No Rose Colored Glasses Here

It is slowing. Economic data so far this year suggests that growth is slowing. Where we previously thought GDP growth for 2025 might be 2.5-2.0%, in our opinion it's much more likely to come in at 1.5%-1.0%. The S&P Global U.S. Composite Purchasing Managers Index (PMI) landed at 51.6% in February, a ten-month low[5]. When the index worsens on a three-month basis, as it has now, it indicates a less favorable economic environment is emerging. Amid high policy uncertainty, unfortunately more economic data has been surprising to the downside. Although we do not expect a recession materializing at this point, current data is likely to weigh on stocks in the near term which coincides with the seasonality thesis we outlined above.

The Longer Term Outlook

We reemphasize: there is nowhere near enough evidence to say it's time to run for the proverbial hills. We have had dozens and dozens of "head fakes" in this long term Bull

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[2] InvesTech Research
[3] Ned Davis Research
[4] Ned Davis Research
[5] Ned Davis Research

market which started in Q1 of 2009. Sticking with stocks and growth assets over the last sixteen years has paid off in spades for long term, prudent investors. Despite the turmoil since February this giant Bull remains intact. Before we state our concerns we want to quote John Maynard Keynes who famously said, “ Markets can remain irrational longer than you can remain solvent.” Said otherwise…overvalued, over owned, over believed, and overbought markets can go on for a very long time!

That said, the S&P 500 is way above its long-term trend regression line. It is stretched relative to its 100-year price trend after adjusting for inflation by the most in history except during the stock market peak in 1929[6]. We are currently in conditions consistent with past secular (long term) market tops like the tech bubble and global financial crisis including: high investor exposure to stocks as well as highs in market cap ratios which are significantly out of whack. We could spend paragraphs here but the short of it is this is absolutely not a low risk environment for the stock market. It’s not going to end well for the stock market once the tides turn. Selling will beget further selling and dropping confidence in economic data will start confirming conditions are worse than expected and a Bear will become a self-fulfilling prophecy.

In Conclusion

Despite the daunting, but unfortunately factual missives directly above, the economic fundamentals remain strong. Low unemployment, solid income growth, manageable household debt, and favorable credit conditions continue to support demand. While growth is likely to slow, recession risk remains low. Seasonal tendencies point to the fact that the “fun” we have experienced in the stock market in February and March thus far is very much par for the course, and historically the outcome of these tariff shenanigans have not resulted in conditions as bad as anticipated.

There is so much to be mindful of right now but the weight of the data (both economic and technical) does not confirm that a meaningful change in trend is yet underway. If earnings, macroeconomic, and technical conditions deteriorate in the coming weeks and months we will pivot and take meaningful action reducing exposure to risk assets. If that becomes the case you will be the first one to know.

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[6] Ned Davis Research

All the best. Thank you for your friendship and trust.

Sincerely,

Brian Pollak, CRPC	Loran Ansberry, AWMA
Private Wealth Advisor	Private Wealth Advisor

[1] JPMorgan Chase

[2] InvesTech Research

[3] Ned Davis Research

[4] Ned Davis Research

[5] Ned Davis Research

[6] Ned Davis Research

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