

Uncertainty & Comparisons to 2022

There has been no shortage of uncertainty to start the year. This includes financial uncertainty ranging from the tech selloff amid AI worries to private credit concerns. We have long noted that uncertainty matters for the markets in the short term, but less so when the global economy has been thriving.

Some on Wall Street have been making comparisons to 2022, when we saw a tech sell-off and oil price shock (i.e., Russia's invasion of Ukraine). In 2022 we ended up with a global economic slowdown and a corresponding bear market for the year. However, at that time we were seeing economic indicators giving ominous signals, and this is not the case today.

Another key difference from 2022 was global inflation was at 7.7%,^[1] more than double where it's at today and central banks across the globe were headed towards tightening. Today, 85% of central banks are in an easing cycle (i.e. the last rate move was a cut).^[2] For now, long-term (though maybe not short term) inflation expectations remain relatively muted and therefore it's likely the Fed will avoid tightening this year.

Iran

The impact of this crisis is all about its longevity. The bottom line is that barring an overly prolonged disruption to global oil, the conflict is unlikely to end the 3.5 year cyclical bull market by itself. Ned Davis Research has been tracking crisis events for decades, logging 59 since 1907.^[3] The market has tended to decline during the event itself, by an average of 7%. Once the crisis has passed, the market has on average recovered within a few months.

Bigger Picture

The conflict in the Middle East has been the primary catalyst for downward market pressure so far this year, but as we mentioned in our 2026 Market Outlook we anticipated a market facing some headwinds. As we have been discussing with you over the last several months, we believe Q2 and Q3 will likely be challenging for the equity markets. Mid-term

^[1] Ned Davis Research

^[2] Ned Davis Research

^[3] Ned Davis Research

election years (this year) have tended to be the weakest of the four year election cycle. In addition to mid-terms its likely we find ourselves with a new Fed chair this May. The market hates uncertainty, and a new Fed chair generates plenty of additional uncertainty.

So, I guess the good news is twofold: #1 we were anticipating the weakness we are currently seeing in the market. #2 It is quite possible that the conflict in the Middle East has just “pulled forward” some of the volatility we were expecting during Q2 and Q3.

The bad news: This sideways and relatively volatile market is looks currently unlikely to bounce straight up in a long term / sustained fashion.

Risk Management and a Word of Caution

There are some negative trend reversals underway. For instance, in Q4 of last year 73% of S&P 500 companies produced positive earnings surprises. On the surface this is good, but while Q4 gave us a 73% beat rate, Q2 delivered an 81% beat rate, and Q3 83%.^[4] Earnings remain solid but if Q1 2026 reports fail to beat still lofty expectations over the coming weeks, its highly likely the markets get spooked further.

Over the short term, the markets will likely be driven by events in and around Iran. Looking longer term, we currently see ourselves in a mature market as the stocks as a whole look fully valued. As we seek to mitigate risk, we want to be prepared should things turn down. A real resolution to the conflict in the Middle East could trigger a quick turnaround, but we do not see this as a time to throw caution to the wind.

The S&P 500 is oversold on a short-term momentum basis, but breadth gauges are less so. On an intermediate-term basis, the market has not fallen to oversold levels. Bottom line, there has been enough deterioration in our indicators to make us skeptical about the so called “buying the dip” strategy here.

^[4] Ned Davis Research

It's quite possible volatility subsides in both stocks and bonds, which would support the prospects for yields to remain contained and breadth could improve to such an extent that we would feel more bullish. For now, we are cautious...not overly bullish or bearish. Please stay tuned and call if you would like to discuss.

Sincerely,

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