MARSHALL & SULLIVAN
WEALTH MANAGEMENT
viewpoint
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Market Volatility: Policy Shifts or Overdue Pullback?

Recent market turbulence has prompted many to attribute investor uncertainty to the new administration's evolving policies. While inconsistent statements have certainly added to market jitters, in our view, they served primarily as a catalyst for an overdue U.S. stock market correction. Markets were already primed for a pullback, as investors grappled with mounting concerns over slowing economic growth, rising inflation, elevated Price-to-Earnings (P/E) ratios, and geopolitical instability

Though the long-term impact of the administration's policies remains unclear, we feel the current downturn is more likely to be a typical market correction rather than a deeper structural issue.

Rich Valuations and a Reality Check

The US equity market was running hot, well before recent political uncertainty. Historically stretched stock valuations were fueled largely by investor enthusiasm around artificial intelligence (AI). Excitement over AI's potential pushed stock prices to significantly elevated P/E ratios, particularly among a select group of high-flying tech stocks. While the S&P 500's steady climb was impressive, it was largely concentrated in these few companies rather than reflecting broad market participation. When market leadership narrows like this, it often signals vulnerability to corrections.

Investors had been buying with little regard for valuations, driven by momentum and AI optimism. Now, many are selling for similar emotional reasons, reacting to uncertainty rather than fundamentals. While policy shifts have contributed to volatility, they are not the root cause. Instead, the market is undergoing a natural recalibration after an extended rally. In richly valued markets, any economic or political development that threatens future earnings projections can trigger waves of selling.

Market Pullbacks: A Normal Part of Investing

It's easy to get caught up in the headlines, but context is crucial. Despite the recent volatility of US markets, the S&P 500 is only down a little over 4% this year – far from the dire picture painted by the media. Market pullbacks of 5-10% often happen multiple times a year, and corrections of 10-20% occur about once annually. These declines are a normal and healthy part of investing, allowing valuations to reset and new opportunities to emerge.

This recent sell-off was overdue, regardless of who was in office. The rapid rise in equities, driven by a concentrated group of stocks, was unsustainable. Now, investors are recalibrating expectations, and while sentiment has weakened, the underlying economic fundamentals remain strong.

Buying Opportunities in a Strong Economy

While uncertainty can rattle investors, the broader economic picture remains constructive. Unemployment is low and economic growth continues. Historically it has been difficult to enter a recession with unemployment hovering around 4%. While policy shifts could slow economic expansion, they are unlikely to derail it entirely. If anything, market pullbacks create favorable conditions for buying.

Experienced investors understand that volatility creates opportunity. As certain stocks become oversold, long-term investors can take advantage of better entry points. The key is to remain focused on fundamentals rather than headlines. Markets move in cycles and staying disciplined through downturns has historically rewarded patient investors.

Conclusion

Blaming the administration for the market's turbulence misses the bigger picture. The pullback in the US stock market was inevitable, given extended valuations and narrowing leadership. While policy uncertainty can exacerbate short-term volatility, the economy remains on solid footing. Marshall & Sullivan understands the cyclical nature of markets and recognizes this moment for what it is - not a sign of economic collapse, but a natural and necessary reset that could create new opportunities. We expect continued volatility and will use this time to deploy client cash thoughtfully.

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