Understanding the Current Market Selloff

Services
Investment Management

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Recap of Year-to-Date Market Performance

Stocks started 2025 trading higher but have since pulled back. The S&P 500 has declined more than -8% from its all-time high on February 19th, lowering its year-to-date return to -5% (Figure 1). The Nasdaq 100, an index of technology and growth stocks, is down -7% year-to-date, while the small-cap-focused Russell 2000 has fallen -9%. The Magnificent 7, a group that includes Microsoft, Apple, Meta, Alphabet, Amazon, Nvidia, and Tesla, has declined nearly -15%. Given the recent volatility, our team wanted to discuss the current environment and provide a market update.

What's Behind the Market Selloff?

Several factors are contributing to the current market selloff. First, momentum stocks that led the 2024 rally are now experiencing a sharp reversal. Figure 2 shows 2024's top performers have become 2025's underperformers. Technology stocks, the Magnificent 7, and Large Cap Growth powered 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 once. Second, investor exposure to the stock market was high entering 2025. Households' allocation to stocks reached a record high, and institutional investors, such as pension funds, endowments, and insurance companies, increased their leverage and equity exposure last year as stocks traded higher. Now, institutional investors and hedge funds are 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 the uncertainty created by tariffs will slow economic growth.

Market Volatility vs. Economic Reality

It's important to remember that the stock market isn't the economy, with some data points 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 (Figure 3). 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

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corporate bonds and U.S. Treasuries, remain near all-time lows (Figure 4). The stability of credit spreads indicates that, so far, the selloff has been largely confined to the stock market. Together, these two data points suggest the recent volatility may be a market-specific adjustment rather than a systemic issue or sign of broader financial strain.

Is This Normal and Can the Market Selloff Continue?

Market volatility can be unsettling, but it's a normal part of investing. Periods of enthusiasm often lead to recalibration. It's natural to feel uncertain, but history shows that staying invested through volatility and maintaining a longer-term view is a prudent approach. Since 1928, the S&P 500 has experienced a decline of -5% or more in 91 of the past 98 years. Yet, markets have demonstrated an ability to recover and rewarded patience. By maintaining a diversified portfolio aligned with your long-term goals, we're positioned to weather the market's swings.

FIGURE 1 – S&P 500 Performance (Last 5 Years)



Source: S&P Global. Price returns from 12/31/2019 to 3/11/2025. You cannot invest directly in an index. Past performance does not guarantee future results.

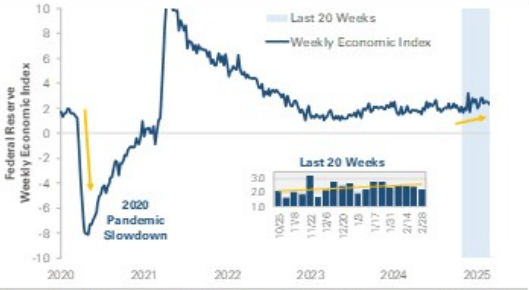
FIGURE 2 – Performance Comparison (2024 vs 2025)

Market Area	2024	YTD 2025
S&P 500 Growth Stocks (IVW)	+35%	-8%
S&P 500 Top 50 (XLG)	+32%	-7%
Financial Sector (XLF)	+29%	-1%
Nasdaq 100 (QQQ)	+25%	-7%
S&P 500 (SPY)	+23%	-5%
Technology Sector (XLK)	+21%	-10%
S&P 500 Equal Weight (RSP)	+11%	-1%
Russell 2000 (IWM)	+10%	-9%
S&P 500 Value Stocks (IVE)	+10%	-1%
Consumer Staples Sector (XLP)	+9%	+4%
Health Care Sector (XLV)	+1%	+7%

Ranked by 2024 Return

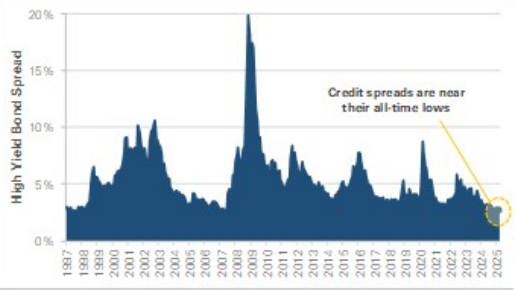
Source: Based on price returns from 12/31/2023 to 12/31/2024 and 12/31/2024 to 3/11/2025 (10:30am ET). Past performance does not guarantee future results.

FIGURE 3 – Weekly Economic Index (Last 5 Years)



Source: Federal Reserve. The Weekly Economic Index (WEI) is composed of ten high-frequency indicators, including unemployment insurance claims, fuel sales, electricity output, retail sales, rail traffic, tax withholding, steel production, consumer sentiment, and two weekly economic surveys. Time Period: January 3, 2020 to February 28, 2025 (latest available data as of March 11, 2025).

FIGURE 4 – High Yield Bond Spreads (Since 1997)



Source: Federal Reserve, ICE BofA Indices. The ICE BofA Option-Adjusted Spreads (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. Time Period: January 1, 1997 to March 11, 2025.

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The S&P 500 Index or Standard & Poor's 500 Index is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

The Russell 2000 index measures the performance of approximately 2,000 small-cap US equities.

The Nasdaq 100 Index is a stock index of the 100 largest companies by modified market capitalization trading on Nasdaq exchanges.

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