The market resumed its march higher last week, and stocks are now just 3% away from the all-time high reached in February. The catalyst for last week's move was driven by a reduction in trade tensions between the U.S. and China, which culminated with negotiations in Switzerland. The end result was a sharp reduction in tariff duties assessed on Chinese imports compared to the 145% rate that went into effect last month. Given the magnitude of goods that American companies import from China and the economic implications of a complete stand-off, progress regarding trade negotiations and a now significantly reduced tariff rate was a welcome relief for investors.

Since mid-February, we have effectively witnessed a complete market cycle. Stocks peaked on February 19, only to briefly enter bear market territory less than seven weeks later, and are now approaching a new all-time high. All within a span of three months. This highly volatile period is a helpful reminder that, while the specific catalysts that drive market behavior will vary, markets are ultimately future discounting mechanisms. Essentially, investors look for clues regarding the future health of companies and the broader economy and quickly price securities accordingly. In investment parlance, this is referred to as the "mosaic," which includes incorporating all relevant pieces of information and forming an investment view about what the future holds.

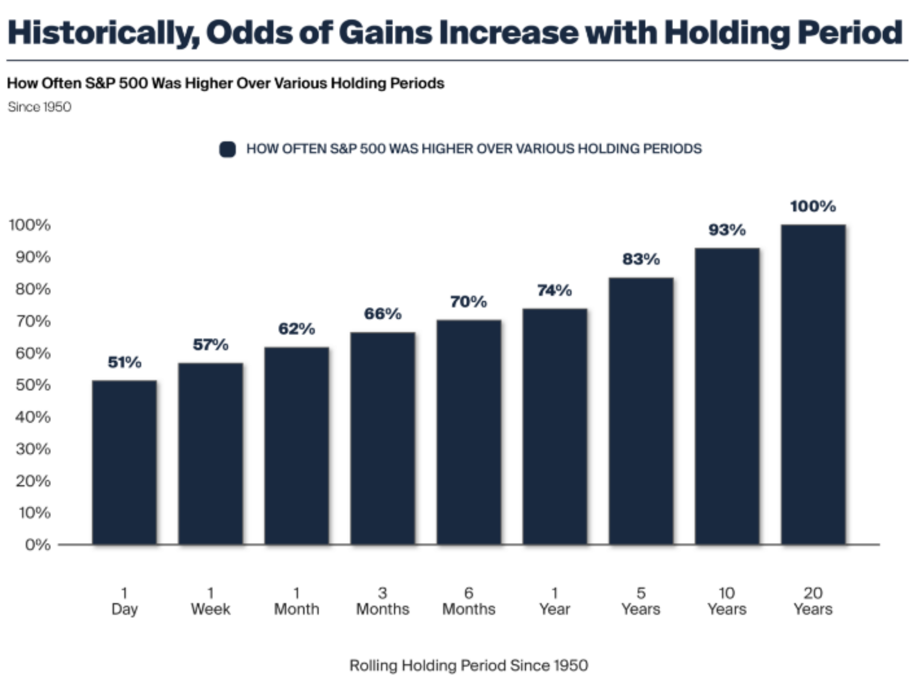
When there is a murkier mosaic and a greater likelihood of negative future outcomes, investors generally price risk assets (like stocks) lower and vice versa. As the mosaic shifts, markets react quickly, which drives volatility. Heading into the year, investors were anticipating tax cuts, deregulation, and the continued dominance of the largest technology companies to drive further economic strength and earnings growth. Once tariff concerns really took hold, investor focus shifted to the potentially negative impact of higher costs for American consumers and businesses as well as significant supply chain disruptions and began to price in a higher likelihood of a recession. This is an example of the mosaic quickly shifting towards the negative. Now, with trade tensions easing, the likelihood of these negative outcomes is lower and the outlook has become both clearer and more optimistic. Furthermore, many of the largest companies have indicated more robust growth expectations compared to what the market had previously assumed. Thus, the mosaic again quickly shifted, this time in a positive direction.

As investors, it's easy to get caught up in the multitude of concerns that dominate the financial press every day. External shocks are also not uncommon, although the source of the shock itself may be relatively unusual. Examples over the past five years alone include a pandemic, the fastest rate hiking cycle in four decades, and an effective tariff rate not seen since the early 1900s. In short, there's virtually always a reason to be spooked as investors. In fact, on Friday, Moody's announced a one notch credit downgrade for U.S.

debt, which sent stock futures sharply lower after the close. While this pales in comparison to the three major thematic events which have occurred since 2020 (mentioned above), it’s just another reminder that there’s always something to keep investors on their toes.

Source: Standard & Poor’s, Ritholtz Wealth Management

However, what should not be lost in the daily barrage of headlines is that, over the long term, the U.S. economy has always grown, along with corporate earnings and stock prices. Since 1929 (just before the start of the Great Depression) the S&P 500 has generated annualized gains of 10.1%, with positive returns 73% of the time.



Source: Standard & Poor’s, Ritholtz Wealth Management

While it's easy to get caught up in the theme of the day, it's also paramount to keep the bigger picture in mind, balancing being tactical in response to a changing investment landscape while not losing sight of the longer-term game plan.

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