GVA Economic & Market Report
with Eric Parnell, CFA

The Bright Side

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"Some things in life are bad, they can really make you mad

Other things just make you swear and curse.

When you're chewing on life's gristle, don't grumble, give a whistle

And this'll help things turn out for the best"

-Always Look on the Bright Side of Life, Monty Python, 1979

The U.S stock market has certainly been bad lately. Since setting a new all-time high on February 19, the S&P 500 has fallen by more than -10% peak to trough in the fifteen trading days since. In the process, this headline index is now lower by more than -5% for the year-to-date and has fallen below its long-term 200-day moving average trendline for the first time since October 2023. Amid the economic gristle of potentially slowing economic growth and the looming threat of tariffs, many investors are understandably unsettled. But the good news is that markets are providing many reasons to whistle, including important reminders about the virtues of broad portfolio diversification and maintaining a long-term view.

The Gristle: S&P 500 Down As Much As -10% Since Feb. 19

The gristle. Indeed, the market has been moving relentlessly lower over the last few weeks. So where has the downside been particularly acute? For many investors, the exact places they might expect.

Tech. Leading the plunge to the downside is the Information Technology sector. Now this is an area of the market that has been relentlessly leading the charge to the upside for nearly a decade now. So even a brief interlude of weakness for this steaming sector is arguably long overdue.

The Grumble: Tech Lower By -16% Since Christmas

What is notable is that this tech weakness has been simmering for a few months now. After peaking the day after Christmas at the end of 2024, the tech sector as a whole has dropped by as much as -16%. In the process, it is now pressing toward its ultra long-term 400-day moving average support (pink line in chart above), which is still another -5% lower from where the sector is collectively trading today. As a result, while the underlying earnings growth fundamentals remain strong for this long leading sector, we should not be surprised to see further weakness ahead in the immediate term.

Consumer Cyclicals. Joining tech to the downside recently are the usual suspects. Leading (or should I say lagging) among these is the Consumer Discretionary sector in general and the tech adjacent highflyers of Amazon and Tesla in particular that make up one-third of the weighting to the entire sector.

More Gristle: Consumer Cyclicals Lower By -21% Since Mid-December

After peaking the week before Christmas on December 18, the Consumer Discretionary sector has dropped into its own bear market territory, down more than -21% to date. And much like tech, this cyclical sector may have further to go to the downside still hovering more than 3% above its ultra long-term 400-day moving average support.

Sounds dramatic, right? It should be noted that in the case of both sectors, these recent declines have done nothing more than bring them back to levels where they were trading a few short months ago in September and October of last year. Not so much to swear and curse about in this context.

The whistle. So now that the bad stuff that's currently making investors mad is out of the way, let's talk about the bright side of the market. For right underneath the surface of the declining market headlines are a lot of reasons to be constructive.

Broadening. Let's lead with some particularly good stuff. Remember all of the hand wringing in 2023 and 2024 about market concentration where only a select few stocks were responsible for driving the stock market higher (cough, NVIDIA, cough, Mag 7, cough, ahem), with a remarkable only 19% of stocks within the S&P 500 outperforming the Index last year (the historical average is right around half at 49%, which is what one would reasonably expect)? Well, if the first few months of 2025 are any indication, this is no longer a problem and then some. Year-to-date, more than 57% of stocks in the S&P 500 are outperforming the Index. Moreover, while the S&P 500 is down more than -5% so far in 2025, more than 41% of the 503 stocks in the S&P 500 are trading higher year-to-date (yes, there are 503 stocks in the S&P 500, you can thank Google and two other companies with two share classes in the Index for this anomaly). In short, the U.S. stock market despite all of its headline turbulence as of late is experiencing some healthy broadening and solid returns performance beneath the surface.

Shining sectors. Let's now dig further by breaking the U.S. stock market into its component parts. Yes, the Information Technology and Consumer Discretionary sectors have been getting drubbed so far in 2025. But once you get past these two lagging sectors, the rest of the market is not only

holding up much better but is performing quite well. Consider that six of the eleven major sectors within the S&P 500 – health care, energy, consumer staples, utilities, real estate, and materials - are trading higher for the year to date. And for three of the five sectors trading lower that are not tech and consumer discretionary in industrials, financials, and communication services, these are all only down by just over -1%. In short, what we're seeing play out in the U.S. stock market right now is not a crash or even a broad-based decline. Instead, it is effectively a correction in tech and friends, with the money spreading its way across the rest of the market. This is a positive development for long-term investors in the view of this Chief Market Strategist, not a negative.

Leading Among The Leaders: Health Care and Energy

Focusing more on the winners so far for 2025, leading the charge to the upside is the health care sector, which is higher by more than 4.5% this year. The fact that health care had the second-best earnings growth fundamentals across all sectors coming into the year (tech is still number one in this regard) coupled with its most deeply discounted valuations in more than a decade (unlike tech that was trading at its highest multiples in more than twenty years toward the end of last year) help justify such strong performance so far in 2025.

Another notable leader to the upside this year has been the energy sector. Having long occupied the bottom of the sector return table over the past decade since the exploration and production crash from the mid-2010s, energy suddenly finds itself rising to the top of the stack in 2025. Notably, the two years when the energy sector blew away its sector peers were 2021 and 2022 when we were amid the big inflation wave at the start of the decade. With all the concerns about tariffs and the potential inflation associated with these measures (not to mention the increasing focus on global mineral rights), energy remains a worthwhile sector to monitor from a macroeconomic perspective going forward. And with sector valuations (both absolute and relative to the S&P 500) still at their lowest levels in at least the last few decades outside of the depths of the Great Financial Crisis, it will be interesting to see whether recent outperformance is part of a more sustainable trend going forward.

"Always look on the bright side of life

Always look on the light side of life"

-Always Look on the Bright Side of Life, Monty Python, 1979

Bottom line. It is easy to get caught up in the news flow associated with financial markets, particularly when the headline indices are declining. Regardless of the market environment whether good or bad, it is always important to take a deeper look underneath the surface to broaden our perspectives. While the recent stock market headlines so far this year have been jarring, much of the market outside of the previously high-flying sectors is performing quite well in 2025.

This highlights once again the importance of broad diversification within an investment portfolio strategy. Not only will such diversification more often than not provide a more consistent and less volatile returns experience over time with less risk, but it also helps ensure that you are participating in the potential upside that different segments of the market have to offer at any given point in time.

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