Deja Vu

March 20, 2025

"And I feel like I've been here before"

-Deja Vu, Crosby, Stills, Nash & Young, 1970

It's been a tough time for the U.S. stock market as of late. Over the last four weeks, the headline benchmark S&P 500 Index has fallen by just over -10% peak to trough. And the bounce that has emerged over the past five trading days has been weak at best. With words like "crash" and "panic" being thrown around both in the financial media and around the watercooler as the ticker tape rolls across the screen all day long, it's reasonable for investors to ponder "I should do something". But when it comes to investing, often the best solution is to resist the urge to take action. We have all been here before with financial markets, and a properly constructed long-term investment strategy should be ready to weather these short-term pullbacks on the path to long-term prosperity.

The S&P 500 Index Has Fallen By -10% Over The Last Four Weeks

"It's like Déjà vu all over again"

-Deja Vu, John Fogerty, 2004

Seen. Yes, the S&P 500 has fallen by -10% in just over four weeks. But it is important to put the current decline into context. Prior to the recent drop, the S&P 500 had rallied by more than +50% since the Halloween before last. Along the way, the U.S. stock market did virtually nothing other than go straight up. If anything, it's not the fact that the S&P 500 has fallen by just over -10% in recent weeks that is all that unusual. Instead, it's the fact that it took nearly a year and a half before we saw a -10% drop in the S&P 500, particularly following such a phenomenal run. After all, the stock market historically does not go up or down in a straight line. Instead, it typically moves in a "three steps forward, one step back" oscillating pattern to the upside (and the opposite to the downside unless it's a full blown crisis). What have we seen since late 2023? A stock market that's effectively taken 15 steps forward and virtually no steps back until about a month ago. In short, this pullback is loooooong overdue.

"I swear we been here before"

-Deja Vu, Post Malone featuring Justin Bieber, 2016

Already seen. As alluded to above, history is a useful guide in understanding what to expect from the stock market going forward. Of course, this is not the first time we have been confronted with potential bad news and raging financial newsflow on a daily if not hourly (if not continuous) basis. Let's reflect back only a few years ago when we had similar executive leadership in the United States. The chart below shows the S&P 500 Index over the period from 2017 to 2019.

We've All Been Here Before: S&P 500 2017-2019

During this time period, the S&P 500 went virtually straight up outside of an interlude during the first quarter of 2018 from Election Day in 2016 below 2300 (brief aside: the S&P 500 is trading over 5600 today – 2x!) through early October 2018 approaching 3000 (four steps forward, one step back, two steps forward – still very good). Yet following this very strong run, U.S. stocks suddenly started careening to the downside. Over the next 12 weeks, the S&P 500 Index dropped by more than -20%, which is the technical definition of a bear market in some investment circles.

"And it feels like deja vu"

-Deja Vu, Roger Waters, 2017

I remember the impulse at the time was the same as it is today. "We need to do something!" Despite the fact that the U.S. economy was still growing at the time with corporate earnings growth surging at a +20% rate with inflationary pressures completely subdued, so called financial market experts were pounding the table for the Fed to abandon hiking interest rates and turn to rate cuts instead as the financial media trumpeted "Markets In Turmoil" headlines across our screens. Sigh.

So what took place starting around Christmas 2018? What would have been reasonably expected given the fundamental backdrop. Stock prices bottomed and proceeded to rally to new all-time highs by the end of April 2019 only a few short months later.

What was the right move in that 2018 market environment? The same move that was right in the summer of 2011, the spring of 2013, mid-2015 to early 2016, the COVID crisis of 2020, and the 2022 bear market – resist the impulse to react, stay the course, and remain committed to your long-term discipline. For if a broadly diversified asset allocations strategy is constructed properly, it is prepared to withstand these types of inevitable market episodes that surface almost every year.

Could today's market go down more sustainably like we saw during the Great Financial Crisis of 2007-09 (I'm not including the bursting of the tech bubble from 2000-02 here, as many market segments performed really well outside of TMT – technology, media, and telecom (FWIW today's tech, consumer discretionary, and communications services sectors)? Anything is possible. But we do not have the rumblings of a financial crisis today like we had back in the mid-2000s. And while we've seen some weakening on the economic outlook in recent weeks, the corporate earnings growth outlook remains robust in +15% to +20% range for 2025 with inflationary outlook still in check despite all of the tariff worries. Continue to monitor the situation closely as always (I have no shortage of things that I'm concerned about and monitoring about with the markets every single day), but stay the course in remaining committed to your long-term plan.

Dream comfort memory to spare. This is also not the first time that the headline S&P 500 Index has been falling to the downside at the same time when many other areas of financial markets are performing well. After all, this is the whole principle of broad diversification and managing correlation risk within a portfolio at work.

Perspectives: While US Stocks Lag, Many Other Asset Classes Lead

"Solamente un déjà vu que nunca llega a su final"

(Only a déjà vu that never comes to an end)

-Deja Vu, Prince Royce & Shakira, 2017

Consider the current market environment. While the U.S. stock market is lower so far in 2025 following its recent -10% decline over the last four weeks, long forgotten developed international stocks are *higher* by more than +10% year to date. Precious metals? Gold is higher by +15%. Bonds? Treasuries are higher by +3% on price alone not counting the yield. All good stuff in a market where U.S. stocks are falling for the first time in a long while.

Perspectives: Health Care, Energy & Consumer Staples Lead Within Stocks

What about within the stock market itself? Similar to what we saw a quarter of a century ago, today's TMT in general and the Magnificent 7 in particular are leading to the downside. But outside of two trailing sectors that had done so remarkably well over the past eighteen months previously, we see that many other major market sectors are doing well. This includes health care, energy, and consumer staples, each of which are solidly higher so far in 2025.

"Do you get déjà vu, huh?"

-Deja Vu, Olivia Rodrigo, 2021

Bottom line. Stock market declines can be scary, and market risks should certainly been heeded at all times. But it is important to remember that market corrections like the one we are experiencing right now are part of a long-term experience going all the way back to the buttonwood tree in 1792. We've seen declines like this before, and we'll see them again in the future. Continue to monitor risks as always and make adjustments at the margins when warranted while staying the course with your long-term investment plan.

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