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Understanding Market Corrections and the Impact of Trade Policy

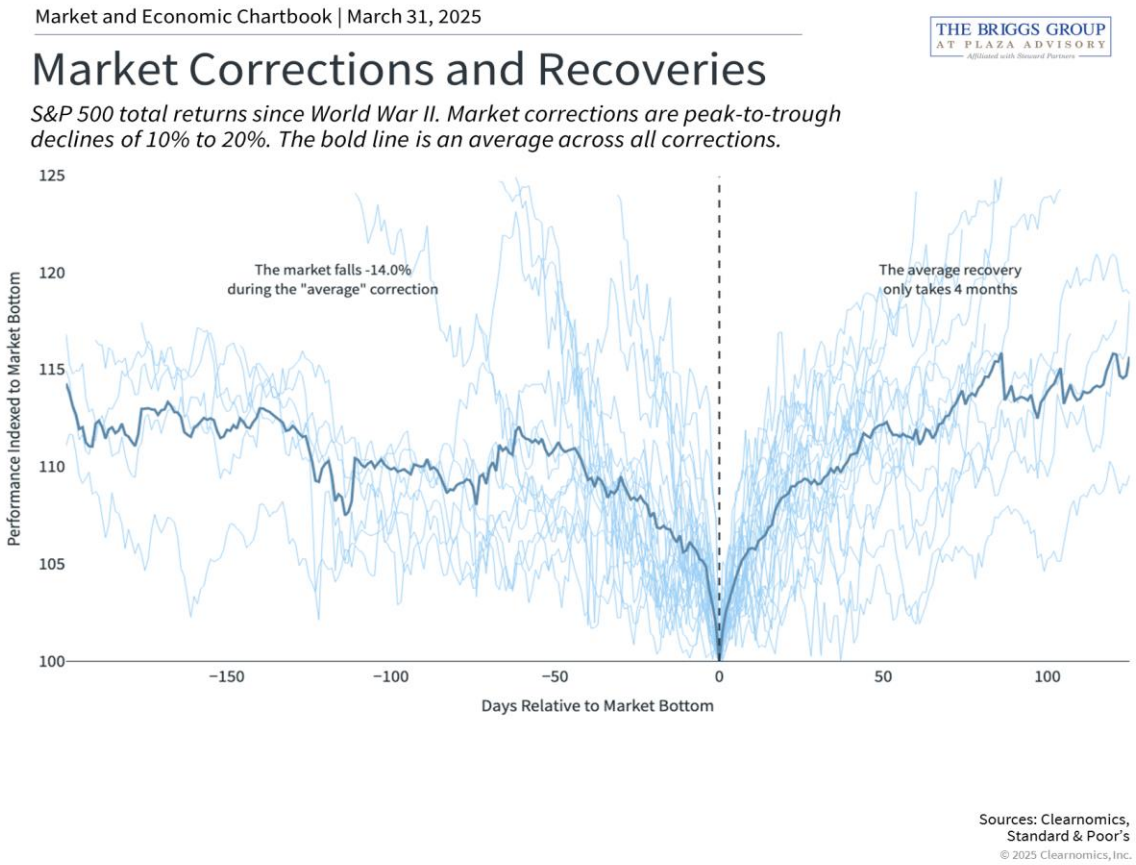
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Andrew Briggs, CFA®, CPWA®
Director of Portfolio Management| Wealth Manager

Recent market turbulence driven by trade policy concerns has pushed major indices toward correction territory, leaving many investors searching for clarity. The technology sector's decline has been particularly notable, creating an environment that may feel like a recurring cycle of uncertainty. However, maintaining a broader perspective is crucial for long-term investment success.

Market cycles, much like natural seasons, include both periods of growth and decline. While market corrections can feel endless - similar to a long winter - history demonstrates that these challenging periods eventually transition into more favorable conditions. Though current trade policy uncertainties present unique challenges, past experience suggests markets typically stabilize once clarity emerges.

Historical data shows market recoveries often follow periods of decline



Currently, the S&P 500 is approaching correction levels, traditionally defined as a 10% decline from recent highs, while the Nasdaq has remained in correction territory for approximately four weeks.[1] Recent weeks have witnessed significant market fluctuations, with major indices frequently experiencing daily movements of one to two percentage points.

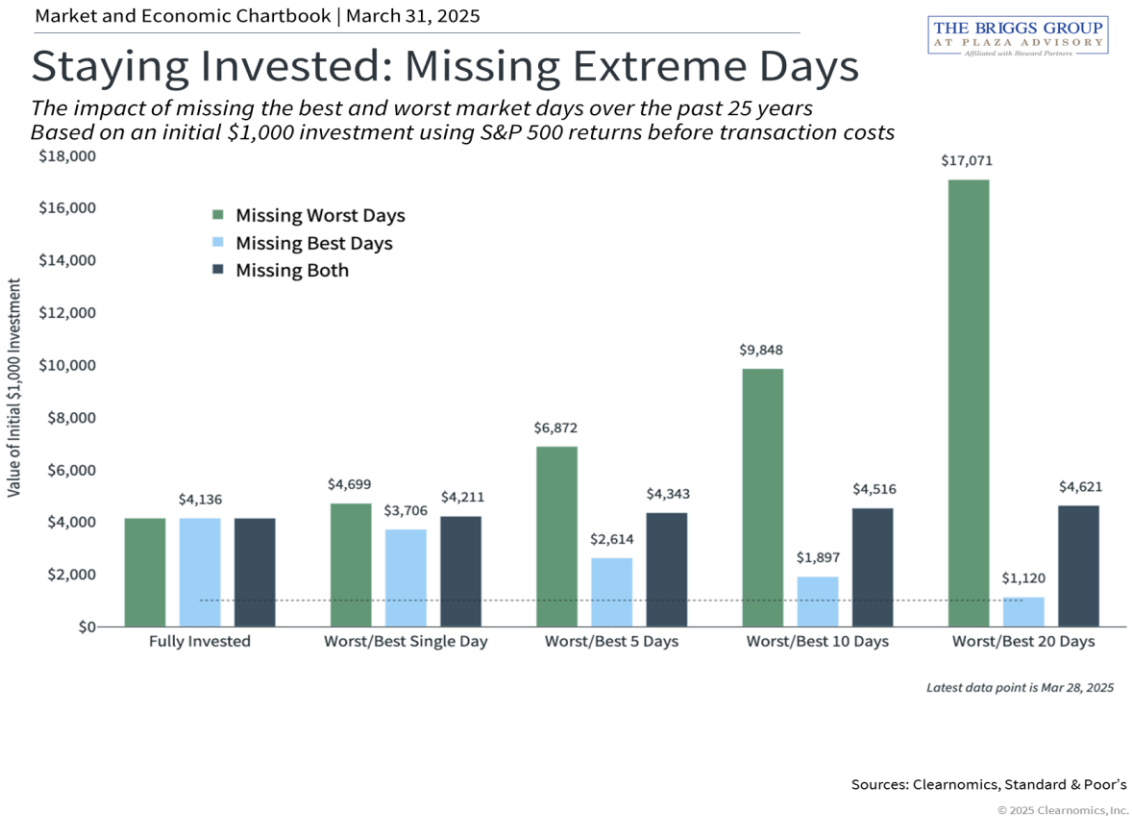
A common market observation notes that prices tend to rise gradually but fall rapidly - similar to taking stairs up and an elevator down. While recoveries typically occur through steady appreciation over time, events triggering market fears often create sudden declines, as witnessed this year. However, it's worth noting that even after corrections, market levels tend to remain above previous cycle peaks, suggesting a pattern of higher lows over time.

This context is particularly relevant today, as the current S&P 500 correction references February's all-time high. Taking a broader view, current market levels approximate those from September of last year, highlighting the importance of maintaining perspective during volatile periods.

The chart illustrates that market corrections are regular occurrences, with an average decline of 14.3% since World War II. Despite these periodic setbacks, markets have historically recovered within months, often rebounding when least anticipated, as demonstrated during the pandemic in mid-

2020, following the 2022 tech-driven bear market, after the 2023 banking crisis, and numerous other instances.

Market timing strategies often prove ineffective



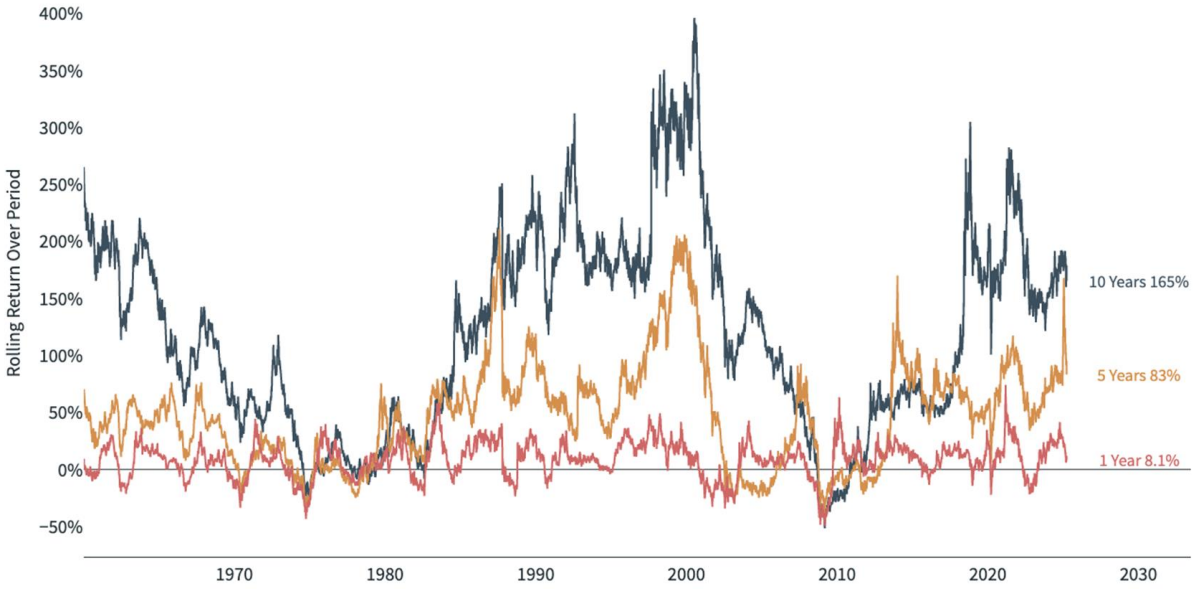
The cyclical nature of market movements sometimes tempts investors to attempt market timing, particularly during volatile periods. However, this approach frequently proves counterproductive, as investors often miss the initial stages of recovery periods. Similarly, waiting for clear signs of market improvement before reinvesting can significantly impact long-term returns. The accompanying chart demonstrates these effects by showing the impact of missing both extreme up and down days over a 25-year period.

While avoiding market declines may seem appealing, accurately predicting market movements consistently proves nearly impossible. Even with perfect timing - an unrealistic assumption - the benefits only marginally exceed those of maintaining a consistent investment approach. This historical pattern reinforces the importance of maintaining a long-term perspective rather than reacting to short-term market fluctuations. As we have frequently reminded our clients, Equity markets tend to perform positively over longer-term timeframes as exhibited in the below chart.

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Stock Market Rolling Returns

S&P 500 Index over 1, 5 and 10-year rolling returns

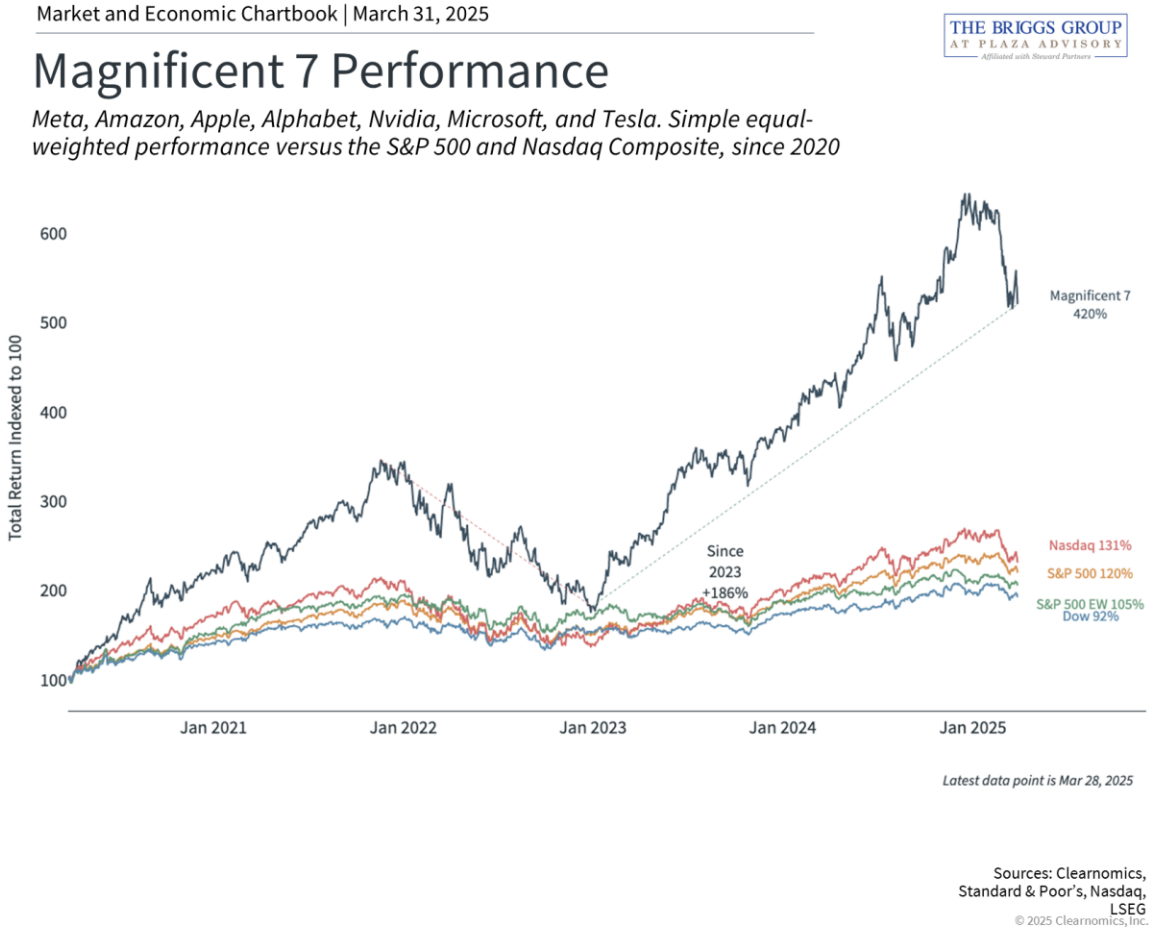


Latest data point is Mar 28, 2025

Sources: Clearnomics, Standard & Poor's

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Understanding the impact of trade policy and technology sector performance



Market participants continue to assess various potential outcomes from current trade policies. These policies, often employed as negotiating tools on broader issues including immigration, have already influenced consumer sentiment and inflation expectations. A significant escalation, potentially including reciprocal measures from trading partners, could impact global economic growth.

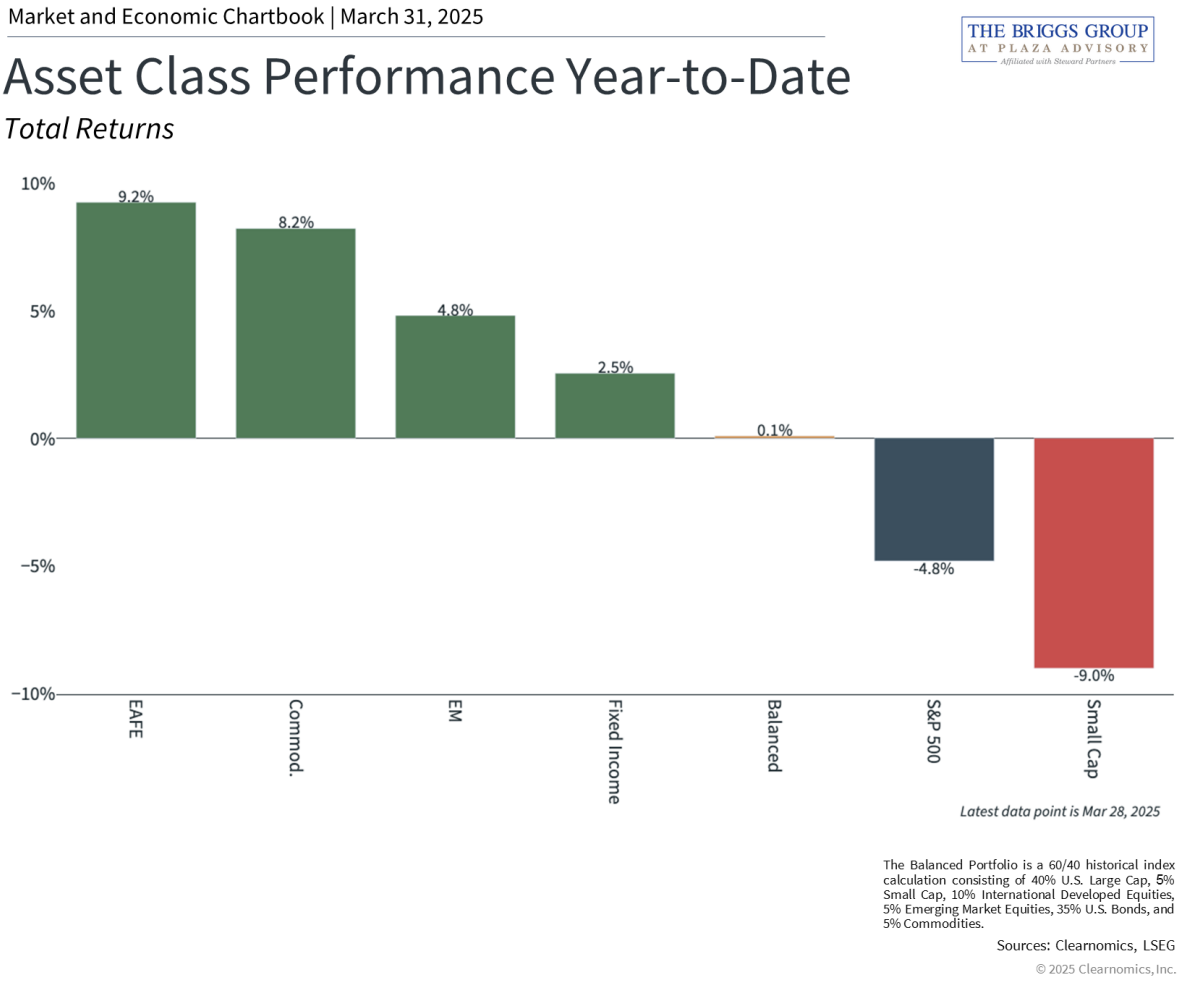
While current trade policy uncertainty creates market anxiety, the full economic implications typically emerge gradually. Understanding the complete impact requires time to evaluate how businesses adjust supply chains, whether higher costs affect consumer prices, and how international partners respond.

The chart shows how technology stocks, previous market leaders, have led recent declines. These movements should be considered within the broader context, as Magnificent 7 stocks have delivered substantial gains over the full market cycle. Despite these stocks representing a significant portion of the upside returns in the market in years past, this year serves as a reminder of the negative side effects of concentrated markets. Year to date the Magnificent 7 is accountable for ~90% of S&P 500 losses. In fact, after removing the Magnificent 7 stocks from the index, the S&P 493 Total Return YTD

is almost flat thru March 28th vs the S&P 500 being down ~5%[2]. These significant price swings exemplify why certain market segments are considered more volatile than others.

Notably, several market sectors have demonstrated resilience, including Energy, Healthcare, Utilities, and Financials. Despite recent volatility, eight of eleven S&P 500 sectors maintain positive performance over the past year, highlighting the benefits of diversification across market segments and maintaining balanced portfolios aligned with long-term financial objectives.

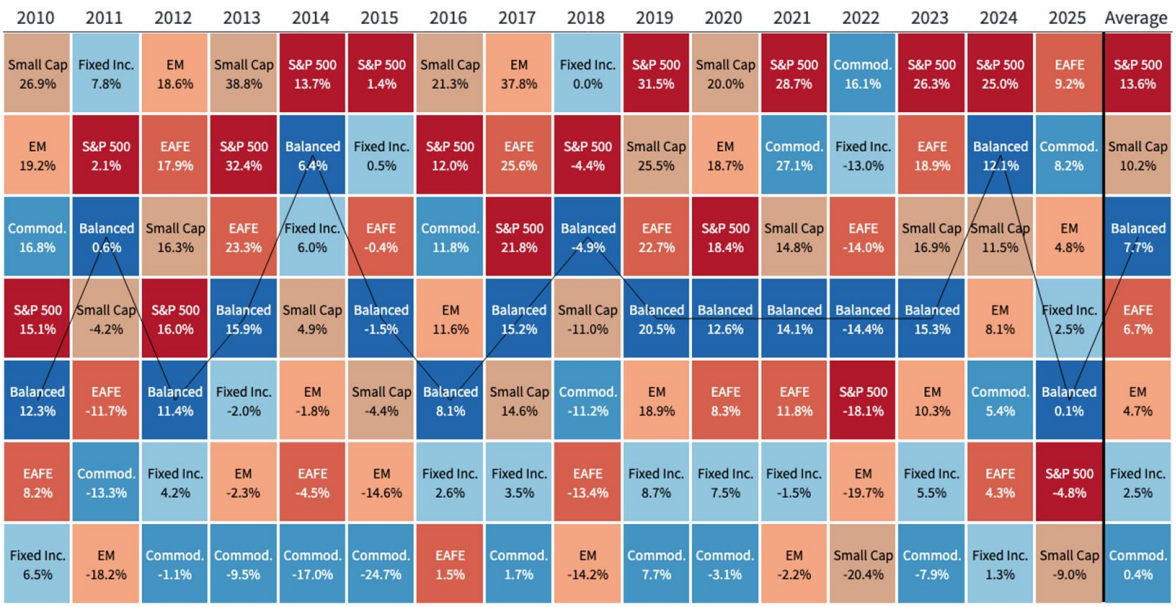
Finally, when analyzing the markets to include additional investable asset classes (Fixed Income and Alternatives), the benefits of diversification have further shined this year. Unlike the last severe equity drawdown in 2022 where Fixed Income collapsed as well, the asset class has held up much better this year to date given higher levels of income and the perceived "flight to safety".



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Asset Class Performance

Total returns and annual averages over the period shown



2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Average
Small Cap 26.9%	Fixed Inc. 7.8%	EM 18.6%	Small Cap 38.8%	S&P 500 13.7%	S&P 500 1.4%	Small Cap 21.3%	EM 37.8%	Fixed Inc. 0.0%	S&P 500 31.5%	Small Cap 20.0%	S&P 500 28.7%	Commod. 16.1%	S&P 500 26.3%	S&P 500 25.0%	EAFE 9.2%	S&P 500 13.6%
EM 19.2%	S&P 500 2.1%	EAFE 17.9%	S&P 500 32.4%	Balanced 6.4%	Fixed Inc. 0.5%	S&P 500 12.0%	EAFE 25.6%	S&P 500 -4.4%	Small Cap 25.5%	EM 18.7%	Commod. 27.1%	Fixed Inc. -13.0%	EAFE 18.9%	Balanced 12.1%	Commod. 8.2%	Small Cap 10.2%
Commod. 16.8%	Balanced 0.6%	Small Cap 16.3%	EAFE 23.3%	Fixed Inc. 6.0%	EAFE -0.4%	Commod. 11.8%	S&P 500 21.8%	Balanced -4.9%	EAFE 22.7%	S&P 500 18.4%	Small Cap 14.8%	EAFE -14.0%	Small Cap 16.9%	Small Cap 11.5%	EM 4.8%	Balanced 7.7%
S&P 500 15.1%	Small Cap -4.2%	S&P 500 16.0%	Balanced 15.9%	Small Cap 4.9%	Balanced -1.5%	EM 11.6%	Balanced 15.2%	Small Cap -11.0%	Balanced 20.5%	Balanced 12.6%	Balanced 14.1%	Balanced -14.4%	Balanced 15.3%	EM 8.1%	Fixed Inc. 2.5%	EAFE 6.7%
Balanced 12.3%	EAFE -11.7%	Balanced 11.4%	Fixed Inc. -2.0%	EM -1.8%	Small Cap -4.4%	Balanced 8.1%	Small Cap 14.6%	Commod. -11.2%	EM 18.9%	EAFE 8.3%	EAFE 11.8%	S&P 500 -18.1%	EM 10.3%	Commod. 5.4%	Balanced 0.1%	EM 4.7%
EAFE 8.2%	Commod. -13.3%	Fixed Inc. 4.2%	EM -2.3%	EAFE -4.5%	EM -14.6%	Fixed Inc. 2.6%	Fixed Inc. 3.5%	EAFE -13.4%	Fixed Inc. 8.7%	Fixed Inc. 7.5%	Fixed Inc. -1.5%	EM -19.7%	Fixed Inc. 5.5%	EAFE 4.3%	S&P 500 -4.8%	Fixed Inc. 2.5%
Fixed Inc. 6.5%	EM -18.2%	Commod. -1.1%	Commod. -9.5%	Commod. -17.0%	Commod. -24.7%	EAFE 1.5%	Commod. 1.7%	EM -14.2%	Commod. 7.7%	Commod. -3.1%	EM -2.2%	Small Cap -20.4%	Commod. -7.9%	Fixed Inc. 1.3%	Small Cap -9.0%	Commod. 0.4%

Latest data point is Mar 28, 2025

The Balanced Portfolio is a 60/40 historical index calculation consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities.

Sources: Clearnomics, LSEG

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The bottom line? While trade policy uncertainty has increased market volatility, particularly affecting technology stocks, historical evidence supports maintaining a long-term investment approach for achieving financial objectives. As we have outlined in our conversations, we believe we have various "levers" to adjust within our portfolios in order to continue to pursue diversification with the goal of keeping our clients invested long-term.

1

S&P 500 declined 9.2% between February 19, 2025 and March 28, 2025. The Nasdaq fell 14.1%, between December 16, 2024 and March 28, 2025

2

Bloomberg Terminal Data

Plaza Advisory Group Affiliated with Steward Partners

101 S. Hanley Rd. Suite #1350

Saint Louis, MO 63105

314-726-0600

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For index definitions click here

Diversification does not assure a profit or protect against loss in a declining market.

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