



Mitchell Byrum, CFP®



## Market Volatility: What's Going On?

### Key Takeaways:

- The **S&P 500 is down ~5% year to date**, led mainly by the “Magnificent Seven” technology stocks<sup>1</sup> which have lost ~14.6% year to date. The remaining stocks in the benchmark are actually flat year to date. Because we have been concerned over the last 2 years of the significant concentration of the S&P 500 in these seven stocks, most of our portfolios are more diversified than the S&P 500 so we are weathering this storm better.
- The average intra-year decline of the S&P 500 is 14.1% over the last 45 years, so the volatility we have seen thus far this year (even at its most extreme point), is **still less than this historical norm**. It is important to realize that volatility is normal in the stock market, and the portion of your funds that we have invested in the stock market are for your long-term goals.
- **Volatility could continue for a while** this year, but the bonds in our portfolios are doing their job to reduce downside risk in the portfolios.
- **Stick to the plan** – this is why we regularly revisit your risk tolerance and goals to balance your short-term needs with your long-term goals.

If you're wondering what's behind the recent volatility, and how to make sense of it all, you're not alone. Our goal in sending this out is to walk you through:

1. **What's causing market turbulence right now.**
2. **What's Next.** What we're hearing from the White House and Treasury Secretary Scott Bessant, and how to interpret the administration's economic game plan.
3. **Our outlook moving forward.** What this all means for portfolios, and how smart investor behavior makes the biggest difference in times like these.

### What's causing market turbulence right now.

We believed the market was overly optimistic in 2024 given the uncertainty that prevailed throughout the year. We view the recent decline as a reversion to a more realistic view of the headwinds and tailwinds that lie ahead. Here are some of the key reasons the market has pulled back this year:

- **Trade Tensions Are Back**  
The White House has proposed new tariffs, essentially taxes on imports. These changes have made global trade less predictable. When companies have to consider possible tariffs, forecasting becomes more difficult. It is important to note however that in Trump's first administration, increased tariffs did not lead to a material change in inflation.
- **Slower Growth, Less Confidence**  
The Federal Reserve Bank of Atlanta estimates the economy shrank by nearly 3% in the first quarter. Consumer confidence is down, and the uncertainty of tariffs and potential of government workers losing their jobs has contributed to this.
- **Interest Rate Uncertainty**  
The Federal Reserve (our central bank) is stuck in a tough spot. The Federal Reserve has indicated that they want lower interest rates to support the economy but can't move too quickly due to uncertainty around tariffs and inflation.



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INNOVATIVE STRATEGIES + PERSONAL FOCUS

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**What's Next.** *What we're hearing from the White House and Treasury Secretary Scott Bessant, and how to interpret the administration's economic game plan.*

While the markets are trying to figure out what's next, we've been listening closely to the latest messages coming from the White House, especially Treasury Secretary Scott Bessant. His recent comments give us a clearer picture of how this administration is thinking. Here are the major themes to watch:

- **New Trade Policy Kicks Off April 2**

The administration has labeled April 2 "Liberation Day" to mark the rollout of new trade tariffs. Secretary Bessant has acknowledged these changes may lead to higher prices in the short term but framed them as part of a broader plan to create a fairer, more self-reliant U.S. economy. We interpret the administration's strategy to be one of balancing trade agreements with our trade partners. Many countries have historically imposed larger tariffs on us than we do on them, and the current administration views this as unfair. For example, for many years the EU has imposed a 10% tariff on imported automobiles from the United States and the United States has only imposed a 2.5% tariff on imported automobiles.

- **A Plan to Reduce the National Deficit**

Bessant has laid out a strategy to shrink the federal budget deficit (the gap between what the government spends and earns) to about 3% of the economy (GDP) over the next few years. Instead of sweeping cuts or tax hikes, the plan focuses on smarter spending and encouraging private-sector growth, without triggering a recession. Even prior to Bessant, many economists believe that 3% of GDP is a healthy and sustainable level for a government spending deficit.

- **Putting Main Street First**

Bessant has made it clear the administration wants to focus more on everyday Americans, not just Wall Street. That includes efforts to lower costs in areas like housing, healthcare, energy, and education and reduce regulations to allow small businesses to flourish. He believes inflation has hit families hardest, and that's where they plan to focus their efforts.

- **A Bold New Idea for Social Security**

One of the most surprising proposals: turning Social Security into a national investment fund. Instead of just collecting payroll taxes and paying benefits, this fund would invest in U.S. assets to help grow long-term wealth for retirees. It's still just an idea, but one worth watching, and one that has had bi-partisan support in the past (Clinton Administration 1999, Bush Administration 2005, Bipartisan support since 2010).

- **Energy Policy and the Fight to Bring Interest Rates Down**

Secretary Bessant has emphasized that one of the administration's key goals is to bring interest rates down over time, but rather than pushing the Federal Reserve directly, he's focused on laying the groundwork for lower rates by attacking the root causes of inflation: high energy costs, government overspending, and supply chain inefficiencies.



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## Our outlook moving forward

Volatility like we are seeing is more normal than what we have become accustomed to in recent years. 2023 and 2024 delivered below average volatility for the S&P 500 relative to history, and despite the noise in 2025, we have still not reached an average intra-year decline in the S&P 500. Due to these factors, we may see additional volatility in the short term, and we remain slightly defensive in most of our portfolios. Secretary Bessent's focus on bringing interest rates down has us optimistic that there is still some upside potential for bonds, in addition to them typically being a hedge against stock market volatility (which has been the case in 2025).

Many Americans, regardless of politics, agree that something has gone wrong with the U.S. economy over the past few decades. Growth has slowed, the wealth gap has widened, and housing is more expensive. The current administration believes they know what has caused this: the massive growth of government. For some perspective, in the 1950s, non-military government spending was about 7% of the economy. Today, it's over 23%. When you add in regulations and state and local spending, it's quite possible that the government now influences more than half of all economic activity. Secretary Bessant has argued that it leaves less room for businesses and individuals to grow. His view is that downsizing government, not more taxes or spending, is the key to fixing America's economic challenges.

We continue to believe in the strength of the U.S. and the unmatched entrepreneurial spirit that drives it. Historically, this spirit has enabled U.S. companies to stay agile, adapt during uncertain times, and often turn challenges into opportunities for innovation. Because of this resilience, we remain confident in the long-term outlook for U.S. stocks.

In times like these, investor behavior matters more than predictions. Rather than chasing fads or reacting emotionally, we always encourage our clients to focus on avoiding common mistakes:

- **Don't try to time the market**, you'll likely miss the rebound.
- **Don't let emotion dictate your investment decisions.** "The most important quality for an investor is temperament, and not intellect." - Warren Buffet. Beware of the "water-cooler" talk from individuals who are keen on jumping in and out of the market. Similar to the stories about successful gambling trips to Vegas, there are usually key details left out of the story.
- **Don't forget the purpose of your portfolio.** Investing is about the long-term, not making a quick buck and we have structured your portfolios accordingly. If you believe you will need more cash in the next year than we currently have on the sidelines, please let us know so we can adjust your portfolio.

We are always available if you'd like to talk through your plan or get perspective on how we're navigating all of this. Please do not hesitate to reach out. Thank you for your continued trust.

Sincerely,

## The S. Harris Financial Group

<sup>1</sup> The Magnificent 7 includes AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA, and TSLA.

The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

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