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Market Overview

March arrived quickly, and despite notable volatility in February, markets showed resilience. February closed with the S&P 500 down approximately 1.3%, yet beneath the surface, sector rotations and international strength created divergence. Key themes included tariff discussions, a shift in market leadership, policy implications, and evolving expectations around growth. While macroeconomic uncertainty remains, pullbacks have largely been within normal ranges, reinforcing the importance of maintaining a long-term perspective.

Market Volatility: Emotional vs. Fundamental Drivers

Despite the perception of a "wild" February, the actual market pullback was relatively modest. The S&P 500 remains just 5.1% off recent highs, and historical trends suggest these types of corrections are both healthy and natural. However, significant shifts are occurring beneath the surface. Defensive sectors have meaningfully outperformed cyclicals, a reversal of what is typically expected when Treasury yields decline. This indicates growing market concerns around future earnings growth, despite strong Q4 earnings results. Furthermore, historical market patterns are repeating. Stocks that led post-election through year-end have seen their momentum shift, much like what occurred during the early months of Trump’s first term in 2017. International markets, supported by a weaker dollar, posted gains of 7-8%, further diversifying performance drivers.

Interest Rates & Growth Expectations

Bond yields dropped significantly over the month, reflecting market concerns around future growth. While some fear a broader slowdown, much of the GDP decline can be attributed to inventory adjustments rather than fundamental economic weakness. The Atlanta Fed GDPNow estimate saw a sharp decline, but underlying trends suggest this is likely to normalize in the coming months. On the policy front, expectations for rate cuts remain a focal point. The next Fed meeting on March 19th will provide additional clarity, though current market pricing suggests the first rate cut is most likely in June. While near-term data exhibits volatility, the Fed appears committed to a measured approach, smoothing out temporary fluctuations rather than reacting to individual data points.

Tariffs & Policy Uncertainty: Staying Focused on Fundamentals

Tariffs continue to dominate headlines, but their impact remains largely overstated in the short term. A proposed $300 billion consumption tax could present challenges, but historical analysis suggests that long-term market performance is driven by earnings growth rather than policy shifts. Investors must remain disciplined, recognizing that economic fundamentals, not political rhetoric, dictate long-term returns. A look at past administrations reinforces this point. Despite vastly different policies, sector leadership remained remarkably consistent across both the

Obama and Trump 1.0 eras. The top-performing sectors—technology, consumer discretionary, and healthcare—were the same in both periods, while energy, real estate, and consumer staples lagged. This serves as a critical reminder that markets adapt to policy environments rather than being dictated by them.

Market Breadth: A Healthier Rally?

Market participation is broadening beyond the Magnificent 7, a shift that could provide more sustainable support for equities. While large-cap leadership has dominated recent years, 2025 has seen stronger performance from the broader S&P 500. The valuation gap between the Magnificent 7 and the rest of the market is beginning to narrow, creating new opportunities for diversification. However, small caps have yet to fully participate in this broadening rally. Factors such as rate sensitivity, policy uncertainty, and sector composition have contributed to their relative underperformance. Despite this, small-cap valuations remain attractive, and potential benefits from deregulation and tax reform could provide a tailwind in the medium to long term.

Looking Ahead

Key themes to monitor in the coming weeks include tariff developments and market reactions, Federal Reserve policy and the March 19th meeting, market leadership trends, and earnings season slowdown as Q1 results take shape. While these short-term factors can drive volatility, historical context suggests that long-term market resilience will persist. Earnings reports have largely been positive, and buyback windows opening post-earnings season should provide a liquidity boost for equities.

Final Thoughts

While short-term noise can be distracting, historical context reinforces the value of maintaining a disciplined, long-term investment strategy. Volatility and policy uncertainty are constants, but markets have historically rewarded patient investors. Aptus remains committed to helping clients navigate these complexities, balancing risk and opportunity to ensure long-term compounding remains the priority.

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