

On Recent Market Volatility:

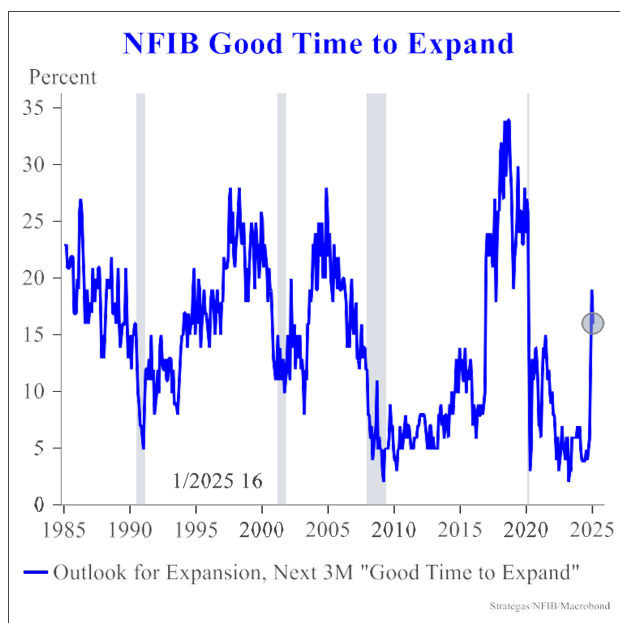
## It's a Supertanker, Not a Jet-Ski

The title of this Insight is a nod to Abby Joseph Cohen, the venerable and respected Goldman Sachs strategist who more than two decades ago referred to the U.S. economy as a supertanker: "This U.S. supertanker," she observed, "is not easily set off course, and it's the sort of ship you want to be on when the seas get rough." We think those words still ring true.

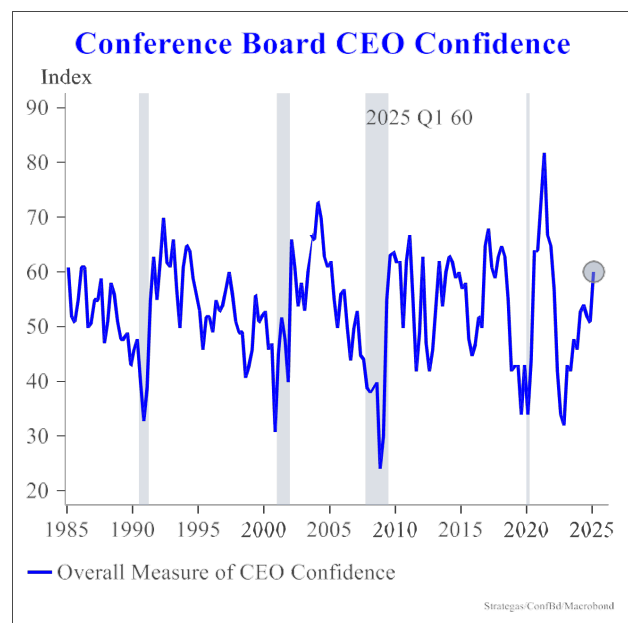
Last week, the Atlanta Fed GDP tracker plunged from +2.3% to -2.8%, a rate and level of change not previously seen in the data series' history. Are we to believe that the largest economy in the world has pivoted on a dime from decent expansion to contraction? The volatility in the financial markets certainly lends credence to the decline. The S&P 500 is off by 5% from a high set two weeks ago. The Nasdaq even more so. Bond yields have plunged, and the Fed Funds Futures market has gone from pricing in one cut in 2025 to three, with the first starting in June.

At Cerity Partners, the investment office still believes in the "supertanker" analogy. The economy doesn't suddenly plummet. At this moment, the more bearish prognosticators can certainly find food to satisfy their growling: consumer sentiment indicators have declined recently, and the ISM Manufacturing Survey, while above 50, is only barely so. The new orders subcomponent is in contraction. DOGE and tariffs are adding to the malaise.

We remain focused on what we think is the most essential part of the economy: employment. When consumers are employed, they consume. Consumption is 68% of U.S. GDP, so this matters. While consumers might feel hesitant, their job prospects still look bright. Business sentiment surveys like those shown below do not indicate imminent layoffs.



Source: Strategas



Of course, businesses are uncertain about tariffs, but those effects may lessen as they are enacted and businesses adjust to them. In fact, the biggest cause of the Atlanta Fed's GDP tracker decline was net imports, a negative component to GDP. Net imports surged recently—likely due to businesses stockpiling raw materials in advance of tariffs. Do businesses increase working capital by increasing inventories if they see declining demand? No, and the Fed's beige book points to steady demand. A final point on tariffs: they aren't set in stone. The administration may be willing to tolerate some short-term pain from tariffs as a negotiating tactic. To keep with the analogy, the U.S. economic supertanker likely gets the right of way as it seeks beneficial concessions from its smaller trading partners.

We can never predict the course of events with 100% clarity. Economic releases will surprise. The consumer may retrench amidst the market volatility and negative headlines. The markets' reaction in the short run may be capricious. However, in the fourth quarter of 2024, profits showed 16% year-over-year growth. There are reasons why companies want to expand. Markets will follow profits over time.

An analog to the current situation may be last August. The Fed refrained from cutting interest rates on July 31, 2024. Two days later, a soft jobs report caused a quick one-month stock market correction. As may be the case now, the economy didn't suddenly start a recession. It may also be worth recalling the clamor for an emergency rate cut last August.

The markets and market commentators are prone to panic when bad news hits. We advise our clients that corrections are routine and, when they happen, they always feel like something worse. Going back to 1990, the S&P 500 has experienced an average annual correction of -14%. Each of those drawdowns had its justification. Zoom out, however, and it becomes clear that each occasion would have been a bad time to panic. In the investment office, we will continue to monitor events. For now, we recommend staying the course, as a substantial sea-going vessel does, even when the waters get a little storm-tossed.

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