MV CAPITAL MANAGEMENT

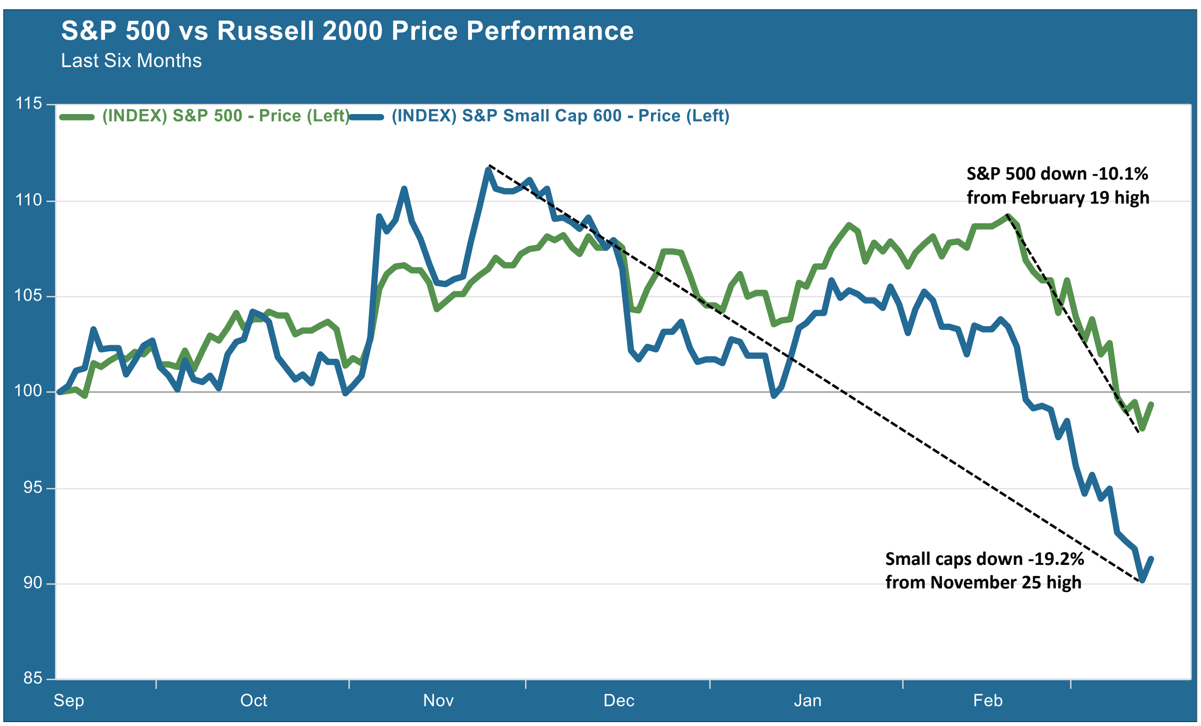
# Weekly Market Flash

## Correction for Large, Near-Bear for Small

***March 14, 2025***

The economic uncertainty we talked about in last week's commentary has led to a turn for the worse in financial markets this week, and for one asset class, in particular. Small cap US stocks last set a record high in late November last year, as unbridled optimism among small businesses in the immediate post-election environment led to a burst of outperformance against their large cap counterparts.

But the optimism quickly dissipated in the waning days of 2024, and never recovered. As of Thursday's close, the S&P Small Cap 600 index was down -19.2 percent from the November 25 high, just shy of the technical bear market threshold of minus 20 percent (the index is up slightly this morning as US equities once again attempt a bounce). By comparison, the S&P 500 index of large-cap stocks was down a bit over ten percent yesterday from its last record high of February 19. In Wall Street parlance, a ten percent drop constitutes a technical correction (again, equity markets are up as we write this on Friday morning, but whether the bounce is sustainable through the end of the day is anybody's guess).




*Source: MVF Research, FactSet*

### Negative Vibes All Around

The Trump administration is getting a cold blast of the negative vibes that weighed heavily on the Democrats during last year's election. An influential consumer sentiment index published by the University of Michigan came out twenty minutes ago and showed confidence levels plummeting over the course of the last month. The preliminary March number for the Michigan sentiment indicator was 57.9, well below the 74.0 figure registered at the end of last year, below economists' March consensus forecast of 64.0, and in fact the lowest reading since November 2022. Consumers increasingly expect inflation to increase, with the year-ahead expectation now at 4.9 percent, up from 4.3 percent last month (and well above the actual current Consumer Price Index figure of 2.8 percent).

The relatively poor performance of small cap stocks in this environment is perhaps unsurprising. Small businesses, as a rule, do not have the same arsenal of defenses against the negative effects of increased tariffs that larger companies do. Nor do they have the same clout in obtaining carve-outs from the government as, say, the major auto manufacturers showed last week when they got a reprieve from the 25 percent tariffs threatened against Mexico and Canada. In past market cycles, a pronounced downturn in small cap stocks has been seen as a harbinger of growth concerns. Indeed, a JPMorgan Chase economic report published this week opined a 40 percent chance of a US recession sometime this year, consistent with recent downgrades of the economic outlook by other major financial firms including Citi and Goldman, Sachs.

## Large Cap Signals Less Clear

The growth concerns pushing small caps towards a bear market are not yet evident in a meaningful way among large caps. Much of the downward direction in the S&P 500 thus far can be attributed less to general growth concerns and more to the specific performance of the so-called Mag Seven – the AI-themed megacap tech stocks that have been responsible for much of the upside over the past two years and which collectively make up more than 30 percent of the S&P 500's total market cap. The S&P 500 equal weight index, which evens out the influence of the market cap heavyweights, is only down 3.3 percent year-to-date, so not yet close to correction territory.

As with everything else in this upside-down environment, it all comes back to the need for clarity, for getting rid of the frenetic on-off approach to major economic policy questions, and for de-escalating the trade war. That would likely go a long way towards improving those morose sentiment vibes among consumers and businesses. This week's inflation numbers showed that, left to their own devices (i.e., without the implied or actual threat of those ill-advised tariffs), consumer prices should continue to trend towards the Fed's two percent target. That won't happen, though, if the environment is such that nobody can make rational decisions around spending, saving or investing.

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