CORDA

TOGETHER WE'RE INVESTED

Jittery Sentiment Weighs In

March 31, 2025

Five years post-pandemic, the pre-COVID world remains elusive. We now navigate a landscape of overwhelming information, both accurate and misleading, making it increasingly difficult to filter out the noise. This deluge of information significantly impacts market sentiment and decision-making.

This reflection is prompted by the influx of economic data since the new administration took office. Notably, the upcoming April 2nd tariff announcement presents a critical inflection point, with the potential to either stabilize or destabilize markets.

The University of Michigan Consumer Sentiment Index reflects this anxiety, hovering just above pandemic-era lows and near levels seen during the 2009 financial crisis. This sentiment, driven by policy and economic uncertainty, warrants close monitoring, though it doesn't always directly correlate with spending. Given the sharp decline in sentiment, it's plausible that the President's advisors might urge restraint.

The S&P 500 entered correction territory earlier this year, declining by over 10% - led by the drawdown in the Magnificent 7 companies by an average of 20%. While the market has since stabilized, and the CORDA portfolio has performed extremely well - future market performance hinges on the tariff situation and the potential for a U.S. recession. These factors will also impact inflation, unemployment, the U.S. dollar, and Treasury debt management.

Long term investors should stay the course. After the recent correction, valuations are now more reasonable, and unlike the internet bubble year of 2000 when tech stocks traded at 100 times earnings, today's leaders (excluding Tesla), are in the mid to high 20's. Alphabet (GOOGL) is the cheapest of the biggest technology companies with a forward PE of 19.

On March 19th, the Federal Reserve portrayed a dovish tone. Despite an uptick to inflation projections and a notable downgrade to GDP growth, Fed Chair Jay Powell emphasized flexibility, dismissing long term inflation fears tied to tariffs, and citing evidence from the markets muted long term inflation expectations. The market seems to like that combination from Powell, but sentiment is still jittery.

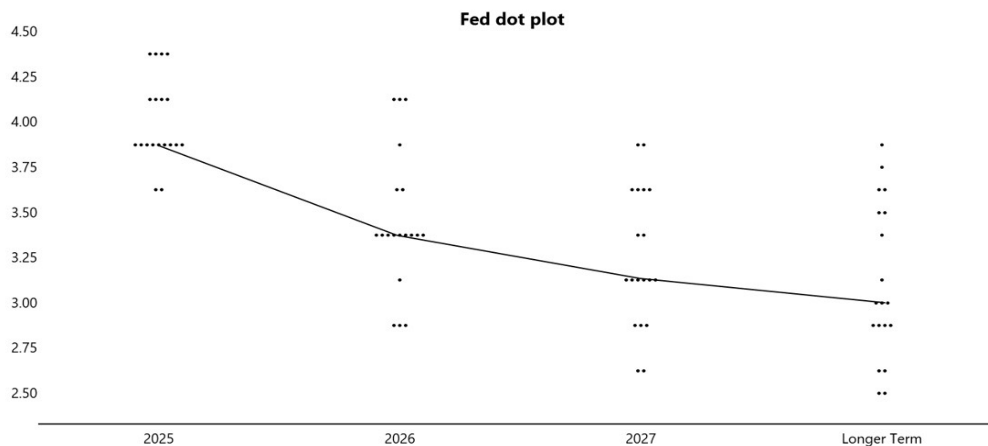
One key update from the Fed's latest official get together was how they reduced the amount of monthly Quantitative Tightening (QT), cutting monthly Treasury runoff from $25B to $5B starting in April. Powell described this as a soft-landing approach to liquidity management, indirectly easing financial conditions without a rate cut. All this suggests the Fed sees the recent economic softening as real, but not recessionary. He noted jobless claims and broader labor market data remain firm.

The key question for all of us is how much of the downward GDP revision - from 2.1% to 1.7% - is temporary. A softer first quarter seems likely, with real growth tracking just 1 to 1.5% at the present time, well below prior projections.

Another takeaway from the Fed Meeting was an analysis of the interest rate projections from the Fed members, also called the Dot Plot. According to Dr. Torsten Slok, the renowned Chief Economist at Apollo Global Management, his interpretation of the Fed dot plot pictured below was the following:

The chart below shows individual FOMC members' forecast of where they think interest rates will be over the coming years. The degree of disagreement on the committee is remarkable, with one FOMC member saying that in 2026, the Fed funds rate will be almost 4%, and other FOMC members saying that they think interest rates in 2026 will be just above 2.5%.

The dot plot also shows that there is debate about where the Fed funds rate will be in the long run, also with a range between 2.5% and 4%. Perhaps most importantly, none of the FOMC members are predicting a sharp decline in the Fed funds rate to zero, telling the market that nobody on the FOMC is expecting a recession.



We have long argued that it is almost an impossibility for anyone to accurately predict interest rates, the S&P, economic growth rates, etc. The fact of the matter is that the members of the FOMC are all over the map on what to expect in the years ahead.   Did you know the Federal Reserve Board employs more than 500 researchers, including more than 400 Ph. D. economists?! Bottom line, it's best to stay nimble and to thoroughly understand what businesses and other fixed income you might own and to maintain a level of diversification with fundamentally sound companies.

Switching gears back to the global scene, the tariff issues loom large. April 2 is shaping up to be a major inflection point for markets. The sharp 10% decline in equities from the December highs reflects deep investor anxiety around erratic tariff announcements and their cascading effect on global sentiment. Clarity, in our view, is essential. A clear and measured plan, particularly if it avoids broad retaliation, could trigger a relief rally.

One final thought; markets have an uncanny way to surprise even the most seasoned investors, and with so many participants circling the April 2nd date as a critical moment in time, one could expect the market to be offsides in some way. The least expected reaction is probably where the market moves higher given the ***clearing of a key event in time.***

Despite the challenges, it's crucial to remember the potential consequences of economic downturns. While slower near-term growth is likely, Fed-induced rate cuts, though with a lag, could ease financial conditions and drive market gains, even amidst perceived economic weakness.

Historically, annual intra-year market drawdowns average around 16%; thus, the recent 10% decline was within typical ranges. Should a recession occur, deeper temporary losses are possible. However, Federal Reserve stimulus could trigger a rapid recovery. Given the impossibility of precise market timing, maintaining discipline, diversification, and a comprehensive investment strategy is essential.

Rest assured; we'll be watching things closely as the year unfolds. The first three months of the year have come and gone in a blink, and before you know it, we'll be enjoying summer activities! Enjoy the transition to spring and lean into the pleasant weather.

Kind regards from the CORDA team.

CORDA Investment Management, LLC is a registered investment advisor, and the content of this message should not be considered a complete analysis of any subject. All information is based on sources deemed to be reliable, and it should not be construed as recommendations by the adviser to buy or sell any specific security.