CORBETT ROAD
CAPITAL MANAGEMENT

MARKET MUSINGS

February 13, 2025

Trade Tensions Rise, But Economic Strength Persists

Rush Zarrabian, CFA®
Corbett Road
Managing Partner, Portfolio Manager

CORBETT ROAD
CAPITAL MANAGEMENT

SUMMARY

- Trade tensions have escalated significantly with new US tariffs imposed on imports from Canada, China, and potentially, the EU. While the longer-term impact is uncertain, the administration's goals appear to be increasing tariff revenue and reducing the trade deficit. Despite some concerns from companies, the broader economic effect will likely be limited if US economic growth remains strong.
- Key economic indicators like PMIs and corporate investment trends suggest continued expansion. Strong capital expenditures, particularly in AI and tech, support the view that the economy can withstand headwinds.
- A positive January historically signals strong stock market performance for the rest of the year, with an 87% success rate since 1950. Past declines following a strong January were tied to aggressive Fed tightening, recessions, or financial crises. These are the key risks to monitor moving forward.
- Our current **micro**cast™ signal sits at a neutral allocation, unchanged from last month's stance. Overall, our tactical risk models continue to reflect a constructive outlook for equity markets.

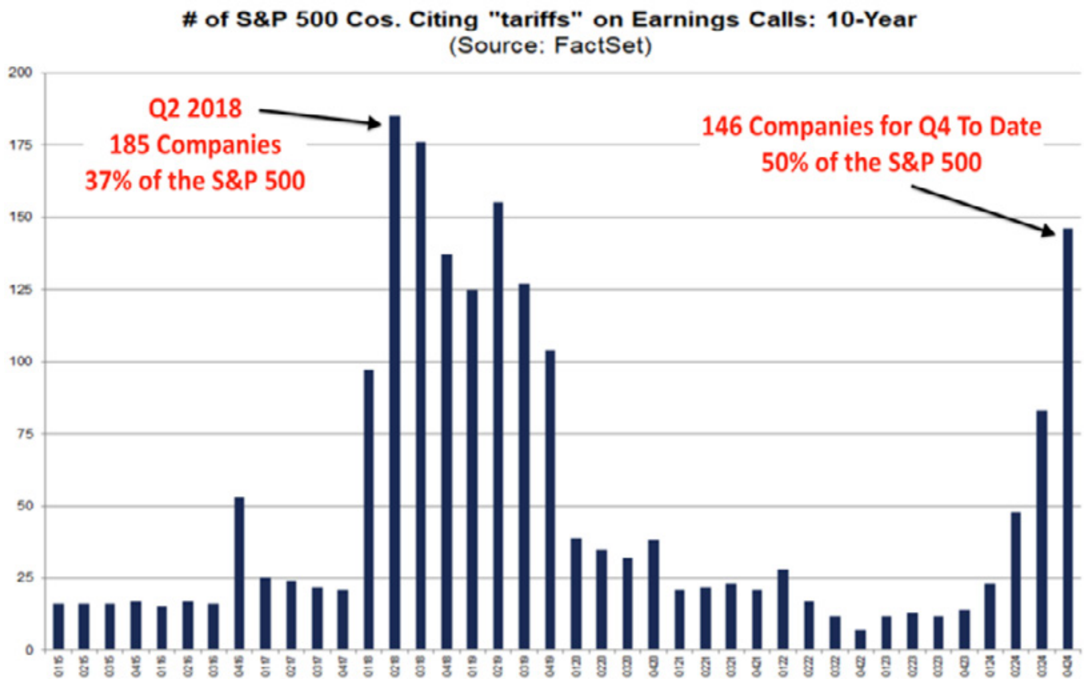
See content within for additional information on the summary items discussed above

TARIFF TENSIONS: **WEIGHING THE IMPACT ON THE STOCK MARKET**

The United States is experiencing a significant escalation in trade tensions following President Trump's recent announcement of new tariffs on imports from Canada, Mexico, and China. Effective February 4, 2025, an additional 10% tariff has been imposed on Chinese imports. Additional tariffs of 25% on Canadian and Mexican goods were announced before being put on a temporary pause until at least March 1st. However, just this week, the administration announced a 25% tariff on Canadian steel and aluminum. Tariffs on the European Union are also likely.

How this all plays out remains to be seen. While some of it may be a **negotiating tactic**, it's also clear that the administration aims to **increase tariff revenues**—both to **reduce the trade deficit** and to help **offset the planned tax cut extension** that Congress is set to debate in the coming weeks and months.

There's no doubt that tariffs are a **major concern for companies**. So far this quarter, half of all S&P 500 companies that have reported earnings have mentioned tariffs, surpassing the previous peak seen in 2018 (chart from FactSet via DataTrek):



While the new trade policies will undoubtedly impact industries with direct exposure to tariffed goods, the broader economic effect remains uncertain. **Ultimately, market outcomes are driven by the overall trajectory of the U.S. economy.**

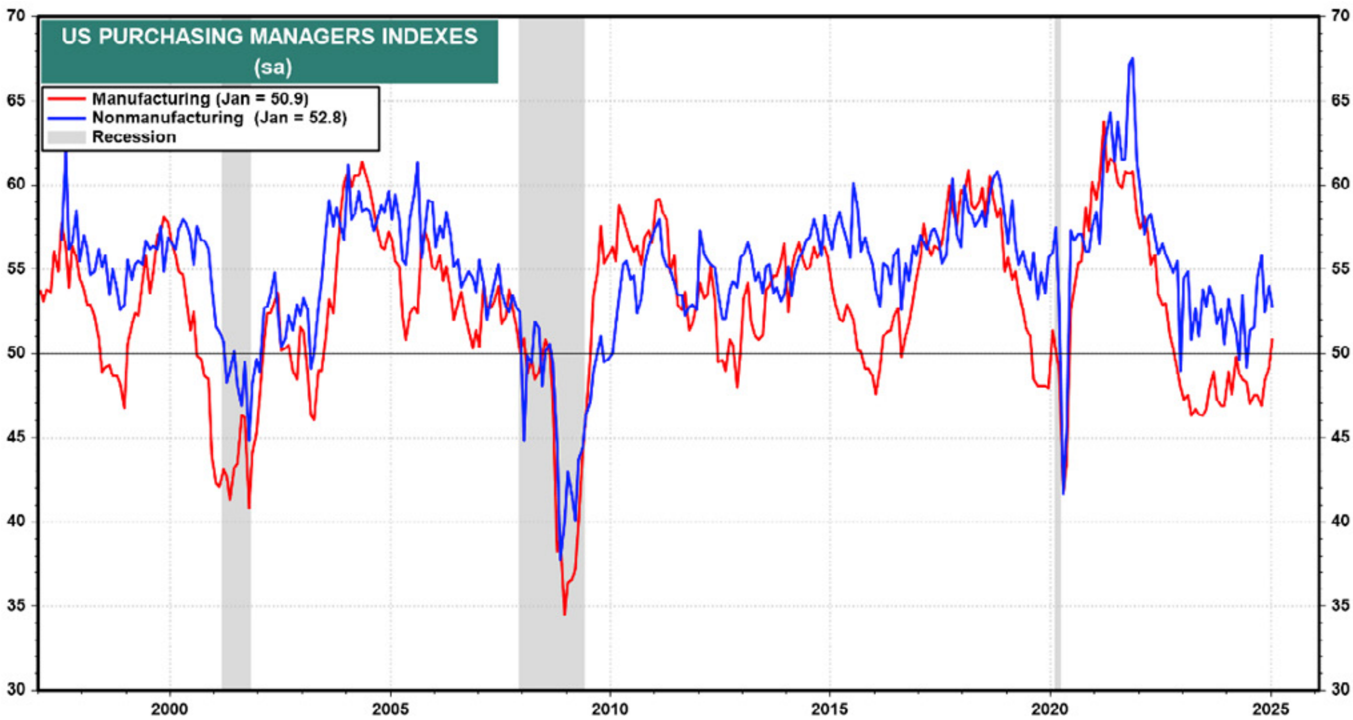
Please see important disclosures at the end of this article

If growth remains strong, the impact of these changes on S&P 500 earnings will likely be limited. Certain sectors, such as automotives, steel, and electronics will likely face headwinds from higher prices, but as long as the economy continues expanding, the market as a whole should be able to absorb the shock.

THE ECONOMY IS POISED **TO WITHSTAND HEADWINDS FROM TARIFFS**

While uncertainty around trade policy persists, there are encouraging signs that the U.S. economy is strong enough to withstand it.

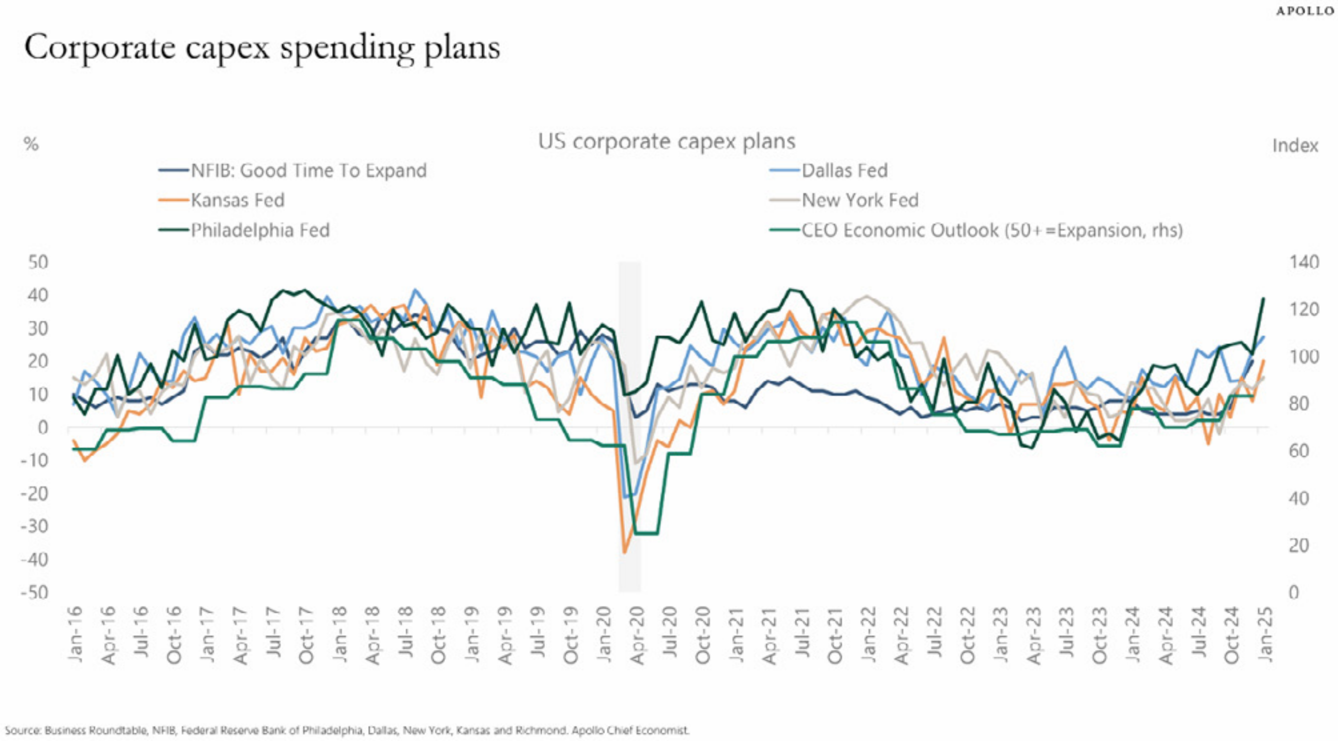
The latest **Purchasing Managers Indexes (PMIs)**—a widely used economic indicator derived from monthly surveys of purchasing managers in various industries—show both manufacturing and non-manufacturing sectors in expansion territory (above 50). In January, manufacturing rose to **50.9**, moving into expansion territory for the first time in over two years. Meanwhile, the service sector—**which drives the bulk of the U.S. economy**—remains firmly in expansion (Chart from Yardeni Research):



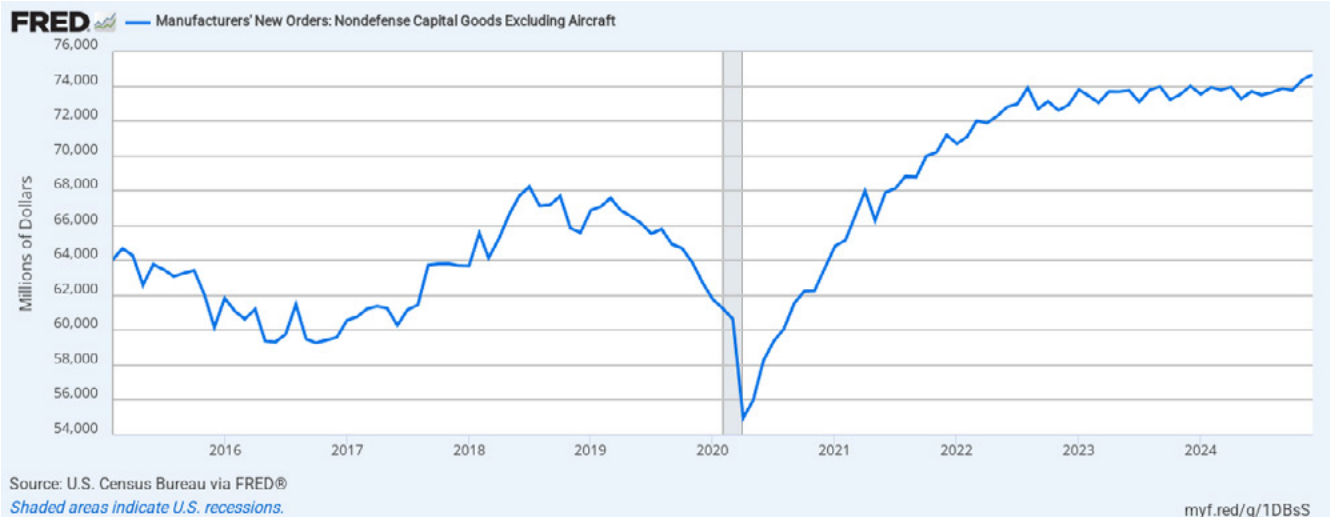
Source: LSEG Datastream and © Yardeni Research, and Institute for Supply Managment (ISM).

Please see important disclosures at the end of this article

Beyond the PMI surveys, recent corporate survey data suggests that **capital expenditures are set to accelerate**. While a significant portion of this is driven by Big Tech's investments in **artificial intelligence**, the planned spending increase is substantial (chart from Apollo):



This planned increase comes at a time when core capital expenditures are already at an all-time high. (chart from St. Louis Fed):



The latest data shows the economy remains on solid footing, which should help it withstand any temporary setback from tariffs and sustain the expansion.

JANUARY BAROMETER
POINTS TO POSITIVE YEAR FOR STOCKS

The January Barometer is a stock market theory that suggests January's performance can predict the market's direction for the rest of the year. The phrase "As goes January, so goes the year" sums up this idea.

The exact numbers vary depending on the starting year, but there is strong evidence that a positive January has been a reliable market indicator.

Since 1950, the market has been positive from February to December **76% of the time with a median gain of nearly 10%.** However, when the market finishes January in positive territory—**as it did this year**—the S&P 500 has gone on to post positive returns for the rest of the year **87% of the time, with a median gain of 13.5%** (table from Carson Group):

So Goes January, Goes The Year

The January Barometer Says A Positive January For Stocks Is A Good Sign

	S&P 500 Index Return Rest Of Year (Final 11 Months)				
	Positive January	>2% January	>3% January	Negative January	All Years
Average	12.2%	12.3%	12.3%	2.1%	8.1%
Median	13.5%	13.4%	14.2%	3.5%	9.7%
% Higher	86.7%	84.4%	85.7%	60.0%	76.0%
Count	45	32	28	30	75

Source: Carson Investment Research, FactSet 01/31/2025 (1950 - Current)
The January Barometer Looks At S&P 500 Returns Based On January Returns
@ryandetrick

CARSON

Like all market studies, this one isn't foolproof. There have been five instances where the market declined from February through December despite a strong January (up at least 2%):

- **1987:** The market surged 20% from February through August before plummeting in the October crash (Black Monday). The Fed had been raising interest rates for most of the year as Paul Volcker's term was ending and Alan Greenspan took over in August.
- **1994:** The market fell 4.6% due to unexpected rate hikes by the Greenspan-led Federal Reserve.
- **2001:** A recession began in March following the dot-com bubble burst, with additional losses just after the 9/11 attacks.

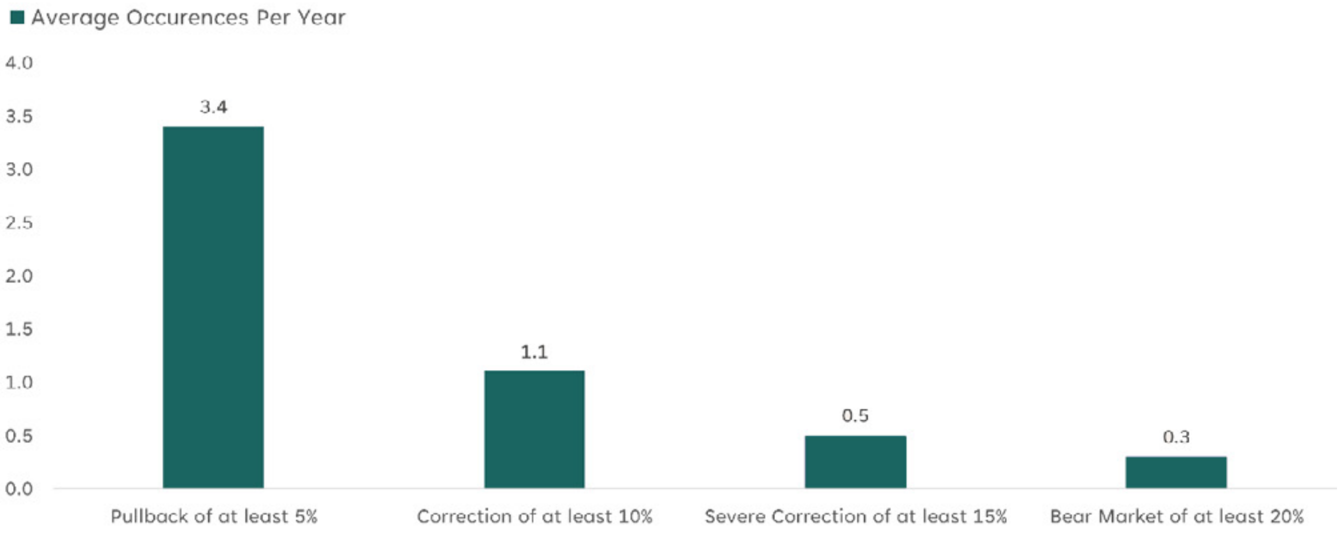
Please see important disclosures at the end of this article

- **2011:** The US debt ceiling standoff and Greek debt crisis triggered a major sell-off in late summer.
- **2018:** The Fed continued raising rates despite clear signs of a global slowdown, leading to a 20% sell-off through Christmas Eve. Stocks rebounded in the last week but still ended 11% lower than January 31st levels.

In each case, market declines occurred during periods of **an aggressive Fed (1987, 1994, 2018), a recession (2001), or financial system stress (2011)**. These are the key risks we will be monitoring to assess the likelihood of a major sell-off after a strong start to the year.

Despite these exceptions, **history shows that stocks tend to perform better for the rest of the year when they start off positive rather than negative**. And of the five instances where stocks declined, all but one (2001) saw a strong recovery the following year.

Regardless of how the rest of the year unfolds, market corrections are inevitable. On average, the market experiences **three declines of at least 5% per year**. While bear markets are less frequent, they still occur **roughly once every three years.** (Chart from LPL):



In summary, trade tensions have escalated, with new tariffs creating uncertainty. However, the broader economy continues to show resilience with PMIs indicating expansion while capital expenditures are expected to accelerate from record-high levels. The January Barometer, a historical indicator of annual stock market performance, suggests a strong year, though past instances show that Federal Reserve policy, recessions, and financial stress can disrupt positive trends. It's important to keep in mind that market corrections are normal, but history strongly supports a positive outlook when economic growth is steady.

Please see important disclosures at the end of this article

IMPORTANT DISCLOSURES

Corbett Road Capital Management, LLC ("Corbett Road") is a federally registered investment advisor with the Securities Exchange Commission ("SEC") and has been in business since 2019. Registration with the SEC does not imply their approval or endorsement of any service provided by Corbett Road. This presentation contains information based on the views of Corbett Road. Other organizations or persons may analyze investments and the approach to investing from a different perspective than that reflected in this presentation. Nothing included herein is intended to infer that the approach to investing discussed in this presentation will assure any particular investment results.

Nothing in this presentation is to be considered investment advice and should not be relied upon as the basis for entering any transaction or advisory relationship or making any investment decision. All investments involve the risk of loss, including the loss of principal. Performance information included on this presentation is solely to demonstrate the potential benefits historically associated, with commercial asset classes. Past performance is not an indicator of future results.

Charts and graph depicted in this presentation are for educational purposes only. Investors cannot invest in a market index directly, and the performance of an index does not represent any actual transactions. The performance of an index does not include the deduction of various fees and expenses which would lower returns. Advisory fees charged to Corbett Road clients, whether directly or indirectly through an ETF, are described in Corbett Road's Form ADV Part 2A and Form CRS, available at https://adviserinfo.sec.gov/firm/summary/305063. Past performance is no guarantee of future results.

The presentation includes data, graphs, charts, or other material reflecting the performance of a security, an index, an investment vehicle, a composite or other instrument over time ("Performance Material"). Past performance, and any performance reflected in Performance Material, is not an indication of future results.

All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. **macro***cast™ and* **micro***cast™ are proprietary indexes used by Corbett Road Capital Management to help assist in the investment decision-making process. Neither the information provided by* **macro***cast™ or* **micro***cast™ nor any opinion expressed herein considers any investor's individual circumstances nor should it be treated as personalized advice. Individual investors should consult with a financial professional before engaging in any transaction or strategy. The phrase "the market" refers to the S&P 500 Total Return Index unless otherwise stated. The phrase "risk assets" refers to equities, REITs, high yield bonds, and other high volatility securities.*

Use of Indicators

Corbett Road's quantitative models utilize a variety of factors to analyze trends in economic conditions and the stock market to determine asset and sector allocations that help us gauge market movements in the short- and intermediate term. There is no guarantee that these models or any of the factors used by these models will result in favorable performance returns.

Individual stocks are shown to illustrate market trends and are not included as securities owned by CRCM. Any names held by CRCM is coincidental. To be considered for investment by CRCM, a security must pass the Firm's fundamental review process, meet certain internal guidelines, and fit within the parameters of the Firm's quantitative models.

CORBETT ROAD
CAPITAL MANAGEMENT

McLean, VA
7901 Jones Branch Dr, Suite 800
McLean, VA 22102

Toll Free: 844.878.4897
info@croadcap.com
www.corbettroadcapital.com

CRCM_MM_02.13.2025