



CORBETT ROAD
CAPITAL MANAGEMENT

MARKET MUSINGS

November 18, 2025

EASIER MONETARY CONDITIONS INTO YEAR END

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SUMMARY

- The Fed cut rates for the second consecutive meeting, and although another cut this year remains uncertain, history suggests that easing policy amid strong markets often supports further gains.
- With the government reopening underway, the Treasury's cash balance should start to decline, releasing liquidity back into the financial system and offering a modest tailwind into year-end. As delayed spending resumes, a key headwind that has quietly tightened financial conditions should ease.
- The timing of market returns can have an outsized impact on retirement outcomes. Even small differences in when downturns occur can lead to drastically different long-term results for otherwise identical investors.
- **macrocast**[™] continues to suggest low risk of a recessionary bear market. Our current **microcast**[™] signal remains at an aggressive allocation. Both models continue to suggest a positive outlook for risk assets.

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YET ANOTHER RATE CUT NEAR AN ALL TIME HIGH —A HISTORICALLY BULLISH EVENT

On October 29th, the Federal Reserve lowered interest rates by 0.25%, bringing the target range to between 3.75% and 4.00%. This is the second rate cut in a row, following a 0.25% cut in September. While inflation remains above target, the Fed is clearly more worried about the implications of a weakening job market.

Recent volatility in futures markets underscores the debate over another rate cut in December. The dearth of new economic data during the government shutdown, along with hawkish commentary from Fed Chair Jerome Powell, has left investors divided over the Fed's next move. As of today, Fed funds futures markets reflect a 43% probability of another rate cut before year-end, down from a 62% probability just last week.

Regardless, a rate cut with equities near record highs has historically been a bullish signal. The same pattern unfolded last year, and stocks have risen double digits since, even after a near 20% pullback during the April tariff turmoil. Looking back further, this setup has occurred more than 20 times since 1980, and in every instance, the market was higher a year later, with an average gain of about 14% (chart from Bluekurtic Market Insights):

All Instances Of Fed Rate Cuts Within 2% of All-Time Highs For S&P 500

Date of Cut	% Away From ATH (Day Before Fed Cut)	1M % Change	3M % Change	6M % Change	12M % Change
7/25/80	-0.59%	3.60%	7.20%	7.50%	7.60%
1/1/83	0.00%	-0.50%	6.90%	13.50%	15.20%
2/28/83	0.00%	2.40%	11.10%	9.50%	7.60%
1/15/85	-1.24%	7.30%	6.10%	14.00%	21.90%
5/20/85	0.00%	-1.60%	-1.80%	4.70%	24.50%
3/7/86	-0.78%	3.50%	8.90%	11.00%	28.90%
4/21/86	-0.26%	-3.50%	-3.50%	-2.40%	16.90%
8/26/86	-1.94%	-8.30%	-2.10%	12.30%	33.20%
7/31/89	0.00%	1.10%	-3.20%	-6.00%	2.60%
7/13/90	-0.65%	-8.10%	-19.80%	-14.20%	3.50%
3/8/91	-0.41%	-0.30%	1.30%	4.10%	8.10%
8/6/91	-1.23%	-0.10%	0.20%	6.10%	8.80%
10/31/91	-1.01%	-2.80%	4.30%	5.20%	7.40%
7/2/92	-1.88%	3.20%	1.10%	5.80%	9.00%
9/4/92	-1.67%	-2.40%	3.60%	9.00%	10.60%
7/6/95	-0.69%	0.90%	5.00%	11.50%	21.40%
1/31/96	0.00%	1.30%	2.90%	0.60%	21.50%
7/31/19	-0.42%	-1.90%	1.90%	10.20%	8.90%
9/18/19	-0.67%	-0.30%	6.20%	-19.90%	11.60%
10/30/19	-0.08%	3.10%	5.90%	-7.10%	8.60%
9/18/24	-0.58%	4.00%	7.70%	0.90%	21.50%
11/7/24	0.00%	1.30%	1.60%	-1.40%	12.50%
12/18/24	-0.65%	3.60%	-1.80%	3.70%	???
9/17/25	-0.13%	0.44%	???	???	???
10/29/25	0.00%	???	???	???	???
Average		0.25%	2.16%	3.42%	14.17%
Median		0.67%	2.90%	5.20%	11.10%
% Positive		52.17%	78.26%	73.91%	100.00%

The evidence is clear: when monetary policy turns supportive while markets are already strong, further gains often follow.

MARKET LIQUIDITY SHOULD IMPROVE **NOW THAT THE SHUTDOWN IS OVER**

The longest government shutdown in history has finally ended, which should help improve market liquidity as we move towards year-end.

How exactly does the federal government closure affect financial markets? It has to do with the Treasury General Account (TGA)—the government’s “checking account” at the Fed.

When the government closed, tax payments and withholdings kept coming in, but many forms of spending slowed or stopped. Federal workers missed paychecks, agencies halted procurement, contractors went unpaid, and discretionary programs went quiet. With money still flowing in but far less going out, the TGA climbed steadily.

That climb was unusually steep. The TGA jumped by about \$650 billion in under four months, rising from the low \$300 billions to nearly \$1 trillion (chart from Duality Research):



The move began even before the shutdown, driven by routine activities such as quarterly tax receipts, bill issuance, and the building of a precautionary cash buffer due to fiscal uncertainty. But once the shutdown began, the rise accelerated as government spending dropped sharply.

Why does this matter for markets? When the TGA rises, liquidity is drained from the banking system because those dollars shift from private bank reserves into the Treasury’s account at the Fed.

Now that the government has reopened, that process should reverse. Agencies are

restarting operations, backpay is going out, and delayed reimbursements will hit the system. As the TGA declines, liquidity increases and provides a subtle but helpful tailwind for risk assets.

The shutdown's end won't reshape the broader macro picture. The Fed's rate path and the strength of the labor market are far more important. But it does remove a meaningful liquidity headwind that many investors were unaware of. And if the TGA retraces even part of its earlier surge, it should provide a boost to the market.

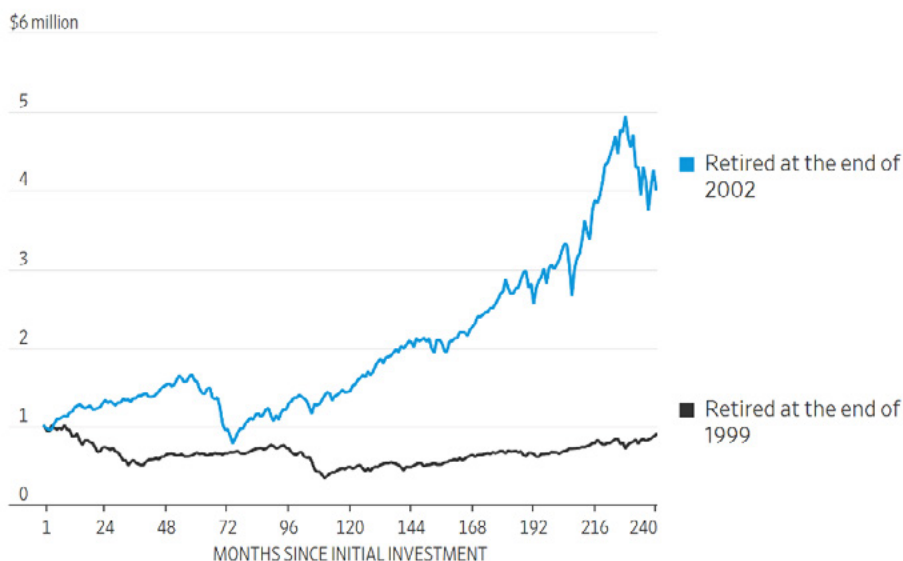
WHY THE ORDER OF RETURNS CAN MAKE OR BREAK RETIREMENT

Sequence-of-returns risk is one of the most overlooked forces in financial planning. The order of market returns during retirement can sharply alter long-term outcomes.

Consider an extreme example that shows just how powerful (and unfair) this risk can be. The chart below compares two retirees: one who stopped working at the end of 1999, just before the dot-com crash, and another who retired three years later, after the S&P 500 had already dropped 49%. Everything else was the same. The only difference was timing, and that alone sent their portfolio balances in opposite directions (chart from the Wall Street Journal):

The Luck of the Draw

Two investors each had \$1 million in the S&P 500 when they retired, one at year-end 1999, the other at year-end 2002. After 20 years, although they started with the same sum and made the same withdrawals, their results diverged drastically.



Sources: S&P Dow Jones Indices; Wealth Logic

In this example, both retirees began with \$1 million invested in the S&P 500 and withdrew the same amount each year. Yet after 20 years, the retiree who retired in 2002 ended up

with nearly four times the wealth of the one who retired in 1999. The lesson is clear: the sequence of returns can matter even more than the average return itself.

So, what can investors do? No one controls the market, and most people have only modest control over when they retire. That leaves one lever that truly matters: building an investment strategy that can stand firm when markets falter. A blend of traditional asset allocation and tactical management helps guard against sequence-of-returns risk and keeps portfolios resilient.

First, few retirees invest every dollar they have in stocks. Bonds remain the most common source of diversification, providing income and helping steady a portfolio, often meaningfully reducing volatility during turbulent markets.

Second, the example makes clear that even a classic buy-and-hold approach—effective over long stretches—can stumble when the timing is poor. Adding exposure to tactical strategies that respond to shifting market conditions can play a key role in reducing drawdowns during downturns.

Finally, innovative tools such as defined outcome ETFs offer another way to limit downside risk. While they take a different approach than tactical strategies, the goal is the same: protecting wealth when it matters most.

In summary, the Fed has continued easing monetary policy with two consecutive rate cuts. While investors remain conflicted over the timing of the next cut, history shows that rate cuts introduced while stocks were already strong has often supported further gains. At the same time, the end of the government shutdown should help restore liquidity as federal spending restarts and the Treasury's cash balance comes back down—a quiet but meaningful tailwind for markets heading into year-end. Separately, the sequence of returns study is a useful reminder that the timing of market gains and losses can shape retirement outcomes far more than most people realize, highlighting the need for a thoughtful investment approach. Blending traditional asset allocation with tactical risk management and adding tools like defined outcome ETFs when appropriate, can help soften downturns and protect wealth when timing works against you.

Thank you for reading and for your continued support and trust in Corbett Road. Be sure to check out next month's Market Musings, where we will share our 2026 economic and market outlook.

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