MARKET MINUTE
With McGAREL

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Momentum Unwind?

The S&P 500 Index hit an all time closing high of 6,144 on February 19th, 2025, up 4.6% year-to-date (YTD) at that point, seemingly on an easy route to another blockbuster year for stocks. Just like most of 2024, momentum was the top factor in January and early February as the market did show some broadening outside the Magnificent 7. The same high-beta stocks, particularly those related to artificial intelligence (AI), continued to defy gravity. In fact, the AI trade broadened even more with names like Palantir (up 48% YTD through 2/19/25) and AppLovin (up 53% YTD through 2/19/25) soaring to start the year. Apparently no end in sight. Until… the last seven trading days of February. A brutal selloff in that narrow trade ensued.

The market dubbed those last seven days a "momentum unwind" and, almost immediately pondered how many days until it was complete. Investors have been conditioned to expect every selloff in the momentum trade to snap back and lead the way again. As if it's always a temporary blip and momentum stocks will always be the "trade du jour". After the last two years, it's not hard to see why that attitude prevails (see Chart 1). We don't profess to know if this is the case this time. What we do know is that when you break stride it's hard to win the race. We would be surprised if the selloff at the end of February in high beta stocks didn't signal that unadulterated momentum and speculation were not the best way forward to generate equity returns this year. When health care and consumer staples (both up 8% through the end of February) are among the top sectors in the S&P 500 Index two months into the year (see Chart 2), and information technology down 4% through the end of February, it's an indication that risk is being considered more fully by investors, in our opinion.

In the January 2025 *Market Minute*, we wrote "in the last two years, quality, along with **momentum**, have dominated the factor returns" yet…"threepeats are indeed rare". And in the February 2025 *Market Minute*, we published a chart showing the unusual lack of volatility in 2023 and 2024 and noted "higher volatility is almost certain to show up this year." There is still plenty of time to derisk and diversify equity portfolios for the different return profile that we expect to show up in the equity markets this year.

Chart 1: S&P 500 Index Sector Returns (12/31/22-12/31/24)

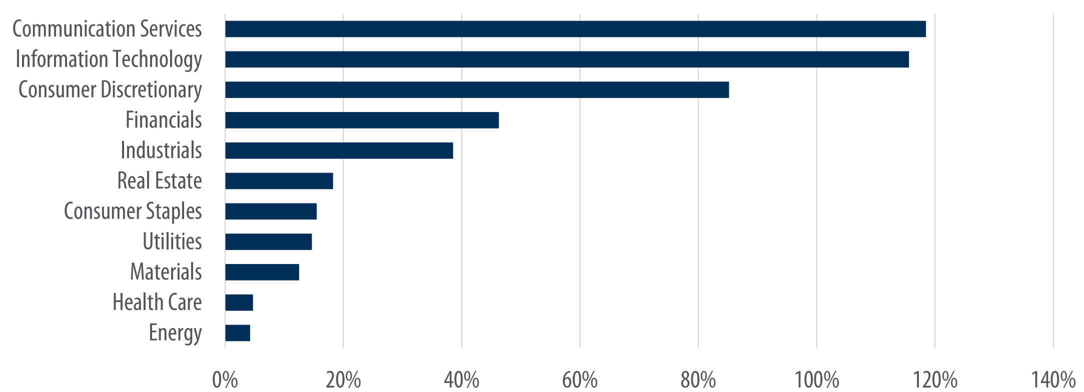
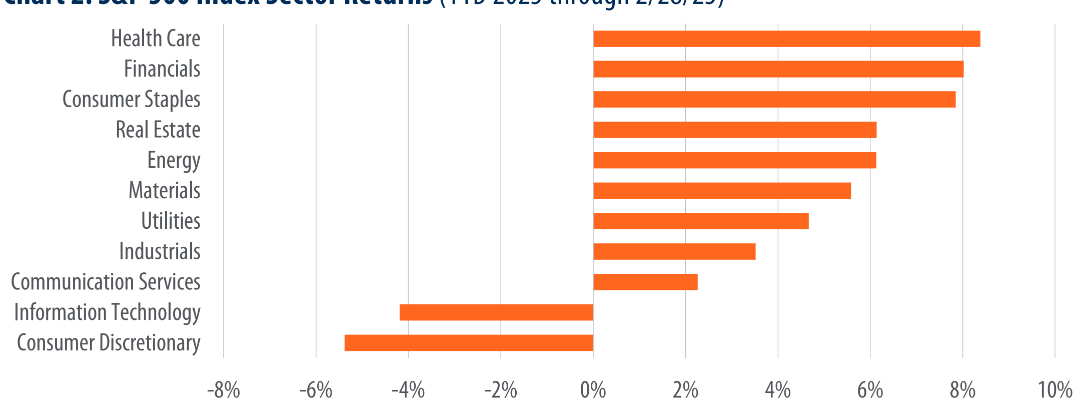


Chart 2: S&P 500 Index Sector Returns (YTD 2025 through 2/28/25)



Source for charts: Bloomberg.

Past performance is no guarantee of future results.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

Magnificent 7 (Mag 7): AAPL: Apple Inc. MSFT: Microsoft Corporation. NVDA: NVIDIA Corporation. GOOGL: Alphabet Inc. AMZN: Amazon.com, Inc. META: Meta. TSLA: Tesla, Inc.

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