The Ups and Downs That Have No Meaning

We've now experienced four months of a very bumpy ride in market returns. In February, the S&P 500 fell 1.4% and the Nasdaq Composite declined 3.9%. March: down 5.6% and 7.6%, respectively. April: down 0.8% for the S&P 500 but a small (0.88%) gain for Nasdaq. May: the S&P 500 jumped up 6.29% while the Nasdaq Composite surged 9.6%.

Of course, daily surges and declines were even bumpier, and even the intra-day trading showed some wild swings, as the markets tried to communicate with the President over the tariff policies, and each time the President listened and (in general) relented.

But there must be underlying drivers other than Presidential tariff announcements that impact whether the markets are generous or alarming. The prospect of a recession is somewhat alarming; the fact that the Federal Reserve (rather than market pundits looking for attention) is taking the possibility of a recession seriously should give us all something to think about.

At the same time, one of the indicators that the markets could leap ahead is the amount of money sitting on the sidelines, presumably waiting to get back into what market analysts call 'risk assets.' At the moment, according to the Investment Company Institute, investors have set aside a total of $6.948 trillion in money market funds, up from $6.066 trillion a year ago. And the economy, to the surprise of some economists, grew at a 1.0% rate in April, in part due to a rise in consumer spending.

All of this is interesting to watch, but ultimately, the markets will do whatever they want, driven more by emotion than logic or underlying fundamentals—in the short term. In the long term, millions of people go to work every day to make their companies incrementally more valuable, day by day, week by week, year by year, and eventually, if the past is any indicator, those increasing values will be reflected in market valuations. And we'll probably all forget how bumpy the ride was in the meantime.