Market Chronicles

Navigating 2025's Volatility, Liquidity Shifts, and Structural Inflection Points

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As we settle into 2025, markets are navigating a complex landscape of policy shifts, macroeconomic surprises, and evolving liquidity dynamics. The transition in the US presidency has been accompanied by explosive volatility, with traders adapting to unexpected catalysts—from DeepSeek's AI disruption to aggressive tariff rhetoric.

Institutional liquidity flows, retail participation trends, and dark trading volumes are all undergoing shifts that will shape the market's trajectory for the rest of the year. Investment bank volumes, often viewed as a proxy for institutional engagement, are showing notable fluctuations—further emphasizing the fragile balance between conviction and uncertainty.

A case of the Mondays: How the market's reacted to tariffs, DeepSeek, and more

While not wholly unexpected going into the presidential transition, so far, 2025 has delivered on the fireworks. Rather than policy shifts alone driving the narrative, some macroeconomic indicators—like the hot December payrolls, a cool CPI, and the DeepSeek-fueled shake-up of the bullish secular AI theme— have contributed to the light show . Each week has introduced its own curveball, and now, we get it in the form of President Trump's tariff announcement as the week unfolds. The implied volatility going into this earnings season was at extreme levels to start with, but throw in tariff-related threats to profit forecasts and the growing rumblings of a valuation reset, the return of sustained volatility may be upon us.

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Most economists and strategists agree: aggressive tariffs will ultimately hit US consumers in the form of inflation. The precise impact on corporate earnings expectations—and by extension individual sectors and sub-sectors—is difficult to pinpoint precisely but it is fair to say that assumptions will be coming down when/if tariffs take effect. Monday's market action underscored just how fluid the situation is, and by the end of the day seemed more like a play for diplomatic leverage (more so in some regions than others).

The market will continue grappling with the actual size and timing of Trump's tariff agenda, keeping it a persistent overhang. Meanwhile, despite the dollar becoming a crowded trade, the prospect of stronger domestic supply chains, reduced reliance on imports and an economy growing better than most, could sustain the dollar's strength. While inflation concerns bring growth fears with high shock value (as seen this past weekend when policy promises become reality…or almost), the US economic growth proposition remains elevated in a non-rate cutting environment, ultimately supporting the dollar trade.

Health report: 2025 liquidity

The latest Bank of America Global Fund Manager Survey demonstrates just how quickly dollar exposure is ramping up. With a bit of imagination, one could start to see the workings of a future head-and-shoulders pattern on the S&P 500—a historic topping manifest. While it is uncertain if this will unfold, the market's decisive shift since the December 18 FOMC rate cut, which, despite delivering a reduction, carried a distinctly hawkish undertone.

Given real price volatility over the course of 2024 was so low, a 1.7 standard deviation move in the S&P 500 these days is around a 1.5% move in either direction, and occurring roughly 6-10 times per year. Although a rare event, since December 2018, we have had four such occurrences. These included three downward moves, one up, with market volumes 20% higher when the market was falling - indicating where the conviction lies. The volume surge and institutional trader interest that dominated the early November election seems to be long gone from the rearview mirror at this point. So far in 2025, traditional institutional activity has been spotty but market breadth dynamics have been shifting noticeably, likely an overall healthy signal. The extreme concentration in mega-cap tech has hit remarkable levels. You've either been exposed to big technology and outperformed or you've not been exposed and underperformed. The growing institutional caution is set to reshape the sources of liquidity in the marketplace. Trading conditions in 2024—in terms of spreads, depth, and execution costs—were some of the best we'd seen in the past 10 years. Given the obvious headwinds, along with heavy cash deployment and over-allocation into US equities, it seems likely that 2025 won't be as "healthy" as 2024 from a liquidity standpoint.

Still, breadth has already shifted considerably. December brought 14 consecutive days of negative breadth, the longest streak since the 1970s, as market-cap-weighted indexes far outpaced equal-weighted versions. Yet, and particularly in January, a telling reversal emerged: even on the most aggressive "risk-off" days, breadth turned positive, and at times, the equal-weighted S&P 500 outperformed market-weighted indexes by over 100 bps. For instance, last week's DeepSeek-driven volatility burst saw the widest equal-weighted S&P outperformance versus market-weighted since July 2024.

Regardless of market direction, there is plenty of room for broadening participation, lower correlation and a more balanced trading landscape, keeping both traders and portfolio managers content.

FINRA TRF: The inflection point

Recent headlines lately have underscored a significant shift in FINRA TRF (off exchange) reported volumes, which have consistently reached 50% of total consolidated volume since early November, marking a critical inflection in market structure.

Remember, the FINRA TRF dataset comprises five key components:

- Retail/wholesale
- Alternative Trading Systems (ATSs)
- Capital Commitment (upstairs blocks)
- Single Dealer Platforms (SDPs)
- Closing Auction Mechanisms (guaranteed close algos that execute at the auction price but report bilaterally on the tape)

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As seen in 2024, an environment characterized by low correlations, low real price volatility, and a stable macro backdrop provides fertile ground for dark trading to flourish. When risk variance in trading is minimal and traditional institutional involvement is balanced on both sides, block appetite, from either upstairs or downstairs, tends to strengthen as it did last year.

Also keep in mind, retail participation will always follow equity performance. When the market is reeling, retail as a percentage of the total consolidated volume will be in the low teens. But when the market is outperforming, it will move closer to 20%. While retail options activity seems resilient regardless of direction, its equities counterpart remains closely tied to performance trends.

In 2023, elevated macro uncertainty brought institutional cash levels to generational highs. The market was still performing, the retail interest was high, and this set up greatly affects the quality of liquidity along with expected trading impact. With the improving macro backdrop of 2024 where continuous institutional volume came roaring back, the two-sided sizeable liquidity brought a much-needed health to trading conditions.

However, several factors suggest a decline in institutional flows in 2024 compared to 2023, not the least of which is valuation, growth concerns, policy uncertainty, and real price volatility.

2024 Off Exchange Components: Share of FINRA TRF reported (approximates):

1. Retail/Wholesaler – 37%
2. ATS's – 25.5%
3. Capital Commitment/Upstairs Blocks – 23.5%
4. Single Dealer Platforms – 10.4%
5. Closing Auction – 3.6%

2024 Off Exchange Components: Share of the Total Consolidated Volume (approximates):

1. Retail/Wholesaler – 17.2%
2. ATS's – 12%
3. Capital Commitment/Upstairs Blocks – 9.5%
4. Single Dealer Platforms – 4.5%
5. Closing Auction – 1.8%

It's worth noting that there is no way to know where wholesale volumes are executing. These trades could be could be executed within a wholesalers' own SDP as a liquidity provider, routed to exchanges, traded in ATSs, executed via guaranteed close mechanisms, etc. So any breakdown will have its imperfections, but generally, the above can be helpful.

What investment banks can tell us about volumes

To conclude, let's take a look at the investment bank reported volumes. While they may not be a perfect measure of executable institutional volumes, the trends here are worth following since the vast majority of institutional executions occur through these firms.

Heading into Monday's session, news flow around tariffs had the same feel and power as the prior Monday, when DeepSeek rattled investor attention. In the case of "DeepSeek Monday," 17.3 billion shares exchanged hands, and the absolute level of investment bank reported volumes was the highest since the end of November 2024. This is the type of power and liquidity mix to catch the attention of quants and systematic traders looking for heavy volume to accompany certitude of direction.

"Tariff Monday" initially hinted at similar intensity, but as the day progressed and headlines evolved, the momentum faded. Still, 16.5 billion shares were exchanged, albeit with less directional certainty. More notably, investment bank-reported volumes from that day were 25% below the prior Monday, in a category that doesn't shift all that much. This is a clear signal that consistent, continuous, institutional volumes can see wild swings in this environment. As 2025 unfolds, macro forces, liquidity shifts, and institutional positioning will continue to shape market conditions. The structural changes in trading behavior—particularly the surge in off-exchange volumes and the shift in institutional sentiment—are reshaping the liquidity landscape.

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