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Understanding the Causes Behind the Recent Market Pullback

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Over the past several weeks, both the crypto market and major stock indexes have experienced notable declines. To many long-term investors and retirees, it may appear unusual that two very different markets would move lower at the same time. But in today's financial environment, technology, liquidity, and investor behavior have created connections that did not exist a decade ago.

One of the biggest drivers of the recent pullback has been forced selling linked to leverage inside the crypto market, which can spill over into stocks, especially large, highly liquid technology and AI names that have seen significant gains this year. Understanding how this dynamic works can help investors make sense of short-term volatility without losing sight of long-term strategy.

Why Crypto Matters More to Markets Today

Crypto is no longer an isolated corner of the investing world. The growth of digital asset ETFs, institutional trading desks, and derivatives markets has brought crypto more firmly into the global financial ecosystem.

As a result, when volatility rises in crypto, the effects can show up in traditional markets for several reasons. Many investors now participate in both markets. Some institutions hold crypto alongside equities in multi-asset portfolios. Crypto liquidity is often connected to broader risk-taking behavior. This does not mean crypto determines what stocks do, but stress in one area can influence the other, especially in the short term.

The Key Factor: Leverage and Forced Selling

One of the most important, and least understood, forces behind the recent pullback is the role of leverage inside the crypto market.

Crypto trading platforms allow far more leverage than traditional brokerages. When prices fall quickly, leveraged positions can be automatically liquidated. Traders who wish to maintain their positions may need to add collateral quickly, which often requires raising cash elsewhere.

This can lead to selling in areas of the stock market that are highly liquid, widely held, and experiencing large unrealized gains. In recent weeks, this included many technology and AI-related stocks. This type of selling is not driven by fundamentals. It is mechanical and liquidity-based, a byproduct of margin pressure inside crypto markets.

Why Tech and AI Names Are Often the First to Be Sold

When investors face margin calls, they typically do not sell the assets they believe are weakest. Instead, they sell what is most liquid and what has performed the best.

Large technology companies, AI leaders, and popular growth stocks meet both conditions. They trade in high volumes, making them easy to sell quickly, and many have produced strong gains over the past year, providing a source of available profit.

This is why, during periods of crypto-driven stress, stock selling often concentrates in the same high-quality names that have led market performance. It is less about their prospects and more about their liquidity.

How This Differs from Fundamentals-Driven Declines, and Why That Matters Now

It is helpful to separate the two types of market declines. The first is fundamental, where changes in earnings, revenue, or macroeconomic trends justify price adjustments. The second is liquidity-driven, where mechanical forces such as leveraged unwinds and margin calls create temporary selling pressure across asset classes.

This earnings season provides useful context. Company results through the third quarter have generally been constructive. FactSet's Q3 2025 earnings insight reports blended year-over-year earnings growth for the S&P 500 in the low to mid-teens, with meaningful contributions from information technology industries, including semiconductors and software. FactSet also noted that S&P 500 revenue growth reached multi-year highs for the quarter.

Independent coverage and market reporting support this general strength. Reuters and other outlets observed that a high share of S&P 500 companies have beaten expectations this season, and several large banks and industrial firms reported solid results that helped support broader market sentiment.

Put simply, many companies delivered strong earnings and revenue growth this quarter. That pattern helps distinguish the recent price weakness, which appears more closely linked to liquidity and margin mechanics, from a widespread deterioration in corporate profitability. Market-wide fundamentals, as captured by earnings season, remained generally supportive even as forced selling amplified near-term volatility.

What Long-Term Investors Should Take Away

For long-term savers and retirees, the main lesson is that not all volatility carries the same meaning. Some declines reflect changes in company fundamentals, while others reflect short-term liquidity dynamics or broad risk reduction.

Periods like the past few weeks can feel uncomfortable, but they do not necessarily signal structural weakness in the businesses affected. Many of the names that saw selling pressure remain leaders in innovation, AI, and technology.

This is why having money positioned across growth assets, minimal risk assets, and no risk assets helps protect retirement portfolios during sudden downturns. It ensures investors can draw income or ride out volatility without needing to sell growth positions during temporary stress.

Putting It All Together

The recent market pullback is a reminder that today's financial markets are more connected than ever. Crypto volatility, particularly when leverage is involved, can spill into stocks through liquidity effects even when fundamentals remain intact.

Understanding these mechanics helps investors separate temporary market noise from long-term opportunity. For retirement savers, staying diversified across different risk levels, maintaining liquidity, and avoiding emotional reactions remain essential components of long-term financial confidence.

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Avery Hayes is a dedicated Financial Advisor at Hayes Advisory Group with a focus on strategic planning and education. With a passion for helping clients navigate the complexities of financial management, Avery specializes in creating and implementing comprehensive plans that encompass investment management, financial planning, and tax planning. Avery's approach is rooted in a deep understanding of the financial landscape and a commitment to educating clients, empowering them to make informed decisions about their financial future. Avery also helps with educational courses taught through employer classes, classes taught for Federal employees, and The Prepare Institute, a 501©3 non-profit educational institution.

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