Portfolio Manager Insights

Navigating Tariff Uncertainty and Ongoing Market Volatility

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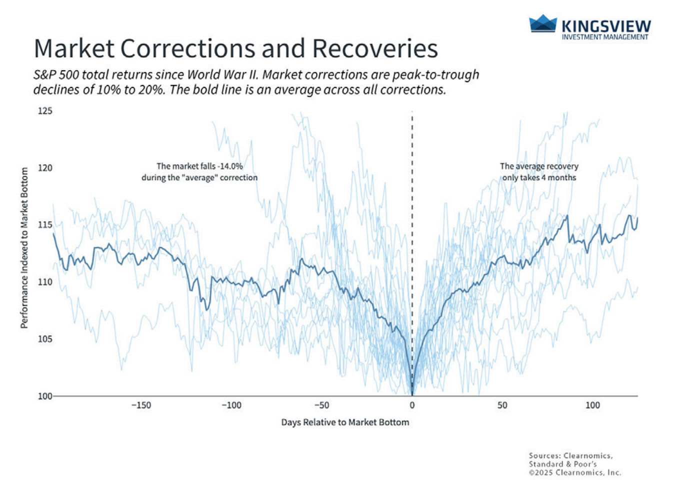
Investment Committee

MARKET PULLBACKS ARE NORMAL, AND RECOVERIES OFTEN OCCUR WHEN THEY'RE LEAST EXPECTED



With the stock market back near correction territory due to tariff concerns, some investors may feel as if the market is stuck in a "Groundhog Day" loop. Fears of a trade war have kept markets choppy all year, with the technology sector leading the downturn. After months of uncertainty, some investors may feel as if financial markets will never stabilize. **How can long-term investors maintain perspective in this challenging environment?**

Like the seasons, booms and busts are natural parts of the market cycle. Although the winter months may be unpleasant and can seem endless, they eventually give way to warmer weather. So too have market pullbacks historically stabilized, paving the way for expansions and bull markets. While worries over an escalating trade war make this market correction unique, recent history suggests that it too could eventually turn around once there is greater clarity.

The S&P 500 is near correction territory, defined as a decline of 10% from the prior peak, and the Nasdaq has been in a correction for nearly a month.[1] Economic uncertainty has led to many sizable market swings over the past several weeks, including days where major stock market indices decline by one or two percentage points.

It's often said that markets take the stairs up and the elevator down. This is because market recoveries tend to be slow moving and compound over time, whereas the events that create short-term fear tend to be sudden, just as they have been this year. At the same time, history shows that even new market lows tend to be higher than previous peaks. In other words, markets often take the stairs up several floors before riding the elevator down one or two levels in a correction.

This is relevant in today's market since the correction in the S&P 500 is relative to its recent February all-time high. When zooming out, the stock market is only back to where it was last September. So, while unpleasant, it's important to keep these recent moves in perspective.

As the chart above shows, stock market corrections occur on a regular basis and average 14.3% since World War II. Despite this, major indices have historically recovered in a few months with rebounds often occurring when they're least expected. Recent examples include the stock market rebounds in mid-2020 during the pandemic, in late 2022 following the tech-led bear market, and in early 2023 after the banking crisis.

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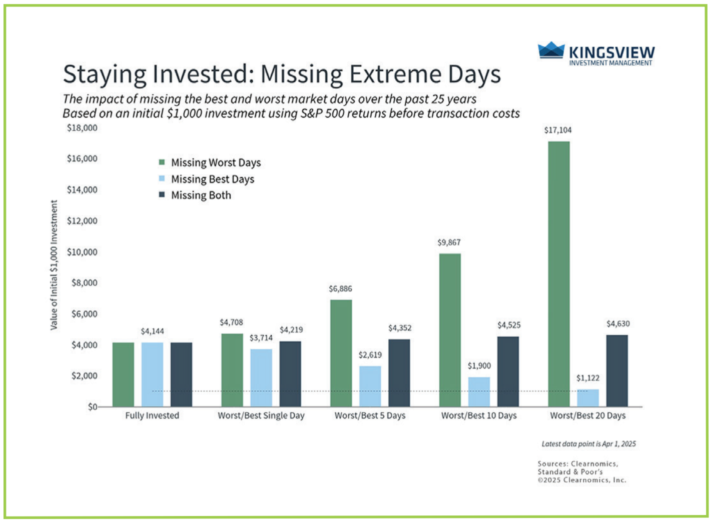
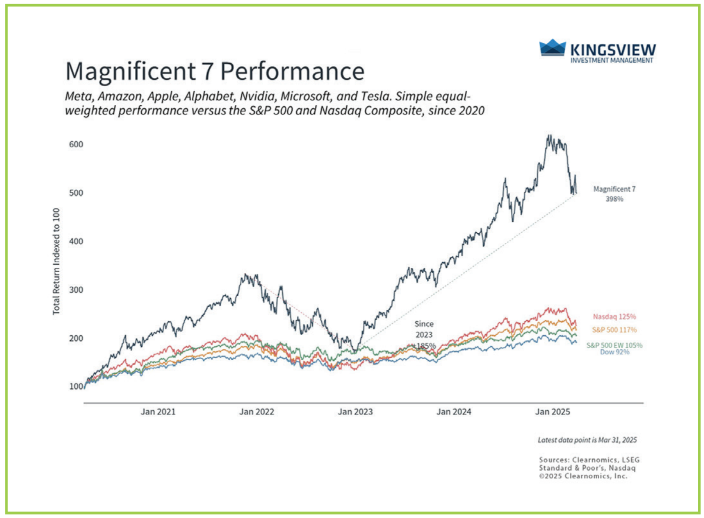
Instinctively, the nature of up and down periods can lead some investors to try to time the market, seeking safety during down days. Trying to time upswings often backfires, since investors often miss the early parts of a recovery. Similarly, waiting until markets are already recovering can hurt long-run returns as well. These patterns are highlighted by the accompanying chart which shows the effect of missing the best and worst market days over the past 25 years, and their net effect.

TRYING TO TIME THE MARKET IS OFTEN COUNTERPRODUCTIVE



TARIFFS AND TECHNOLOGY STOCKS



While all investors would like to think they can avoid the worst market days, the truth is that getting this right is difficult, if not impossible. Even in the case when investors can avoid all extreme days, the final outcome is only marginally better than simply staying invested through downturns. This assumes perfect foresight - in reality, investors are often reacting to events that have already occurred. So, while the past is no guarantee of the future, this is a reminder for investors to stay focused on the long run and not get caught up in short-term market movements.

Investors have grappled with the wide-range of potential outcomes from the administration's use of tariffs. In many cases, these tariffs are used as a negotiating tactic to bolster positions on other issues such as immigration. In the short run, the fear of higher prices has already impacted consumer sentiment and inflation concerns. In theory, significant escalation, including retaliatory tariffs from trade partners, could slow the global economy in the medium term.

While there is significant uncertainty today as to how tariffs will take shape, the true economic impact of trade unfolds over a longer timeframe. It takes many quarters to fully understand how companies will adjust their sourcing strategies, whether costs are absorbed or passed on to consumers, and how trading partners respond with potential retaliatory measures.

In the meantime, the technology stocks which drove markets higher in the last several years have led market declines, as shown in the accompanying chart. It's important to view these recent moves in the context of the full cycle, with Magnificent 7 stocks having risen significantly over this period. When investors say that some stocks and sectors are more volatile, these significant ups-and-downs are exactly what they mean.

At the same time, many other sectors have performed better over the past several months including Energy, Healthcare, Utilities, Financials, and others. Over the past year, eight of the eleven S&P 500 sectors are in

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positive territory, despite recent swings. This underscores the importance of investing across many parts of the market, in balanced portfolios that are aligned with financial plans.

The bottom line? Market volatility has increased on tariff news, with technology stocks experiencing a challenging period. There have been difficult market days recently, but history shows that focusing on the long run is still the best way to achieve financial goals.

[1]S&P 500 declined 9.2% between February 19, 2025 and March 28, 2025. The Nasdaq fell 14.1%, between December 16, 2024 and March 28, 2025