# Navigating Market Downturns: Staying the Course Amid Uncertainty

**March 11, 2025**

**The Trouble with Tariffs**

Recent weeks have seen significant volatility in financial markets, primarily driven by escalating trade tensions and growing fears of a potential U.S. recession. These downturns are largely attributed to ongoing trade disputes, particularly the implementation of tariffs, which have disrupted global supply chains and heightened economic uncertainty.

The problem with tariffs is that they are stagflationary – they raise prices while slowing economic growth. In addition, they disrupt supply chains, reduce profits, push up unemployment, worsen income inequality, diminish economic productivity and increase global tensions – all of which negatively impact consumer and business confidence. Other than that, they're fine!

Historically, tariffs have been used like worker strikes - as a temporary mechanism to pressure foreign nations into opening their markets to US exports or achieving specific policy goals (i.e. tighter border control enforcement to curb fentanyl and illegal alien migration) - with the understanding that once the desired outcome is achieved, they will be removed. However, they can be very harmful if the administration plans to use them to permanently fund tax cuts, rather than as a negotiating tool, embedding them into the annual Federal Budget without consideration of achieving these objectives. This is the fear markets have been grappling with since President Trump announced tariffs on Canada, Mexico and China on February 1, 2025.

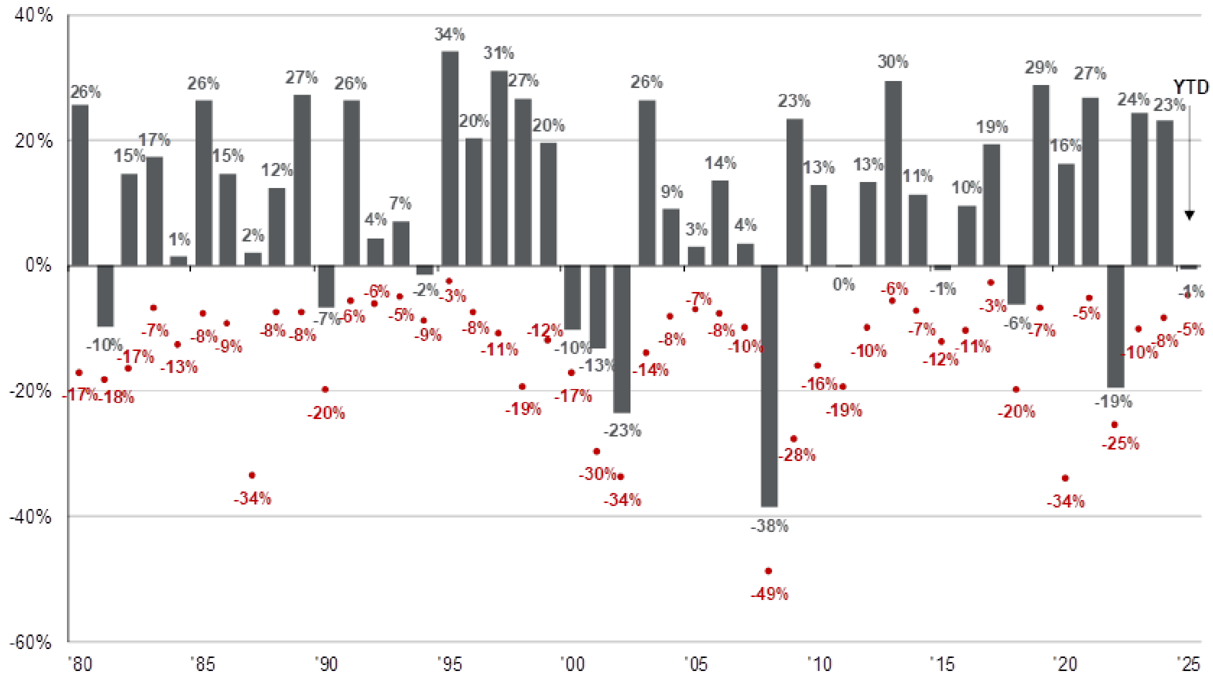
**Markets, Uncertainty, and Volatility**

In response to these challenges, investors are understandably concerned about the stability of their portfolios and the broader economic outlook. The potential for a recession, exacerbated by protectionist trade policies, has only intensified market anxiety.

Markets dislike uncertainty, and periods of heightened uncertainty—like the one we are experiencing today—tend to be accompanied by heightened volatility. Given elevated domestic large cap equity valuations, markets are particularly sensitive, with both earnings growth and valuations playing a significant role in driving returns. While we remain optimistic that we will experience positive expected returns for the year, a correction at some point this year would not be out of character. In fact, as you can see from the chart below, double-digit intra-year declines are typical, and yet more often than not, the market still finishes the year in positive territory, encouraging investors to stay the course. By definition, we don't know how long this uncertainty (and thus volatility) will persist, but given the current environment, it is reasonable to expect it to continue for many more months ahead.

**S&P intra-year declines vs. calendar year returns**

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years




Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2024, over which time period the average annual return was 10.6%. *U.S.* Data are as of March 3, 2025.

**Weathering Periods of Volatility**

While markets should ultimately trend higher over the long run, periods like this can be frustrating in the short term, with gains one day being erased the next. This is why maintaining discipline and focusing on the broader strategy remains key.

Amid such turbulence, it's essential to focus on strategies that promote financial resilience and long-term growth. Here are four key approaches to consider:

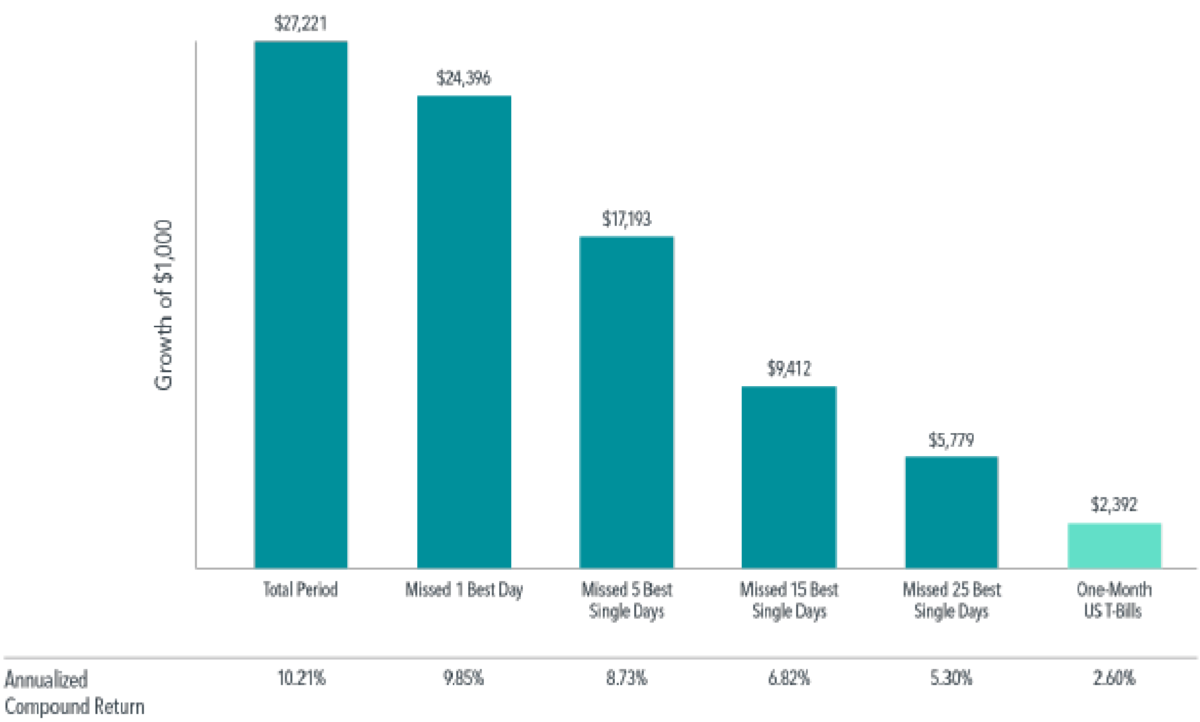
**1. Keep Your Eye on the Horizon**

Market downturns, while unsettling, are a natural part of the economic cycle. Historical data shows that despite average annual intra-year declines of 14% since 1979, the U.S. stock market has ended with positive returns in 37 of the past 45 years. This underscores the importance of maintaining a long-term perspective, rather than reacting impulsively to short-term market movements.

**2. Stay in Your Seat**

Resisting the temptation to exit the market during downturns is crucial. Attempting to time the market can lead to missing periods of significant gains, which are often clustered around volatile times. For instance, an investor who remained invested in the S&P 500 from 1990 to 2023 would have seen substantial growth. However, missing just the five best-performing days during that period could have resulted in significantly lower returns.

**S&P500 Index Performance Based on Time in the Market (1990-2023)**




Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. In USD. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualized returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. One-Month US T-Bills is the IA SBBI US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values.

**3. Know Your Risk Tolerance**
Understanding your comfort level with market volatility is essential for maintaining investment discipline. Aligning your portfolio with your risk tolerance and financial goals can help you stay the course during turbulent times, reducing the likelihood of making impulsive decisions that could harm your long-term financial health.

**4. Maintain Global Diversification**
Asset allocation decisions extend beyond the broad split between equity and fixed income. Investors must consider how to allocate across countries and regions, the degree of emphasis on higher expected returns across stocks and bonds (i.e. size, value, and profitability factor weightings), and their approach to hedging currency risk.

We continue to advocate overweighting international equities, primarily due to historically low relative valuations. While we are still in the early innings of this investment thesis, year-to-date outperformance of international developed and emerging market indices relative to U.S. equities is beginning to play out. When combined with fixed income, this approach provides a valuable ballast to investor portfolios.

**Final Thoughts**
While market downturns and economic uncertainties can be challenging, maintaining a disciplined, long-term investment strategy is often the most effective approach. By keeping a steady focus on your financial goals, staying invested, and aligning your portfolio with your risk tolerance, you can navigate market volatility with greater confidence.

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