

Change, Uncertainty, Anxiety and Volatility



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These days, financial markets appear to be having a bit of an anxiety attack. There's been a flurry of activity by the new administration as they implement significant changes to trade policy, immigration, fiscal policy, and regulation. Markets have become increasingly volatile, particularly U.S. equity markets, in reaction to the uncertainty created by the sheer volume of rapid change.

Much of this uncertainty has been driven by a combination of tariffs, changes in fiscal policy- especially those centered around changes made by the Department of Government Efficiency (DOGE) — and changes to U.S. foreign policy and the resultant impact on geopolitical risks. Currently, many questions remain unanswered, including the duration of tariffs, the details of their implementation, and the implications from potential retaliation by other countries.

As of this writing, the news about tariff policy has centered on Mexico, Canada and China. Concerns around further restrictions of technology exports to China have also increased in tandem, creating more worries of slowing economic growth. DOGE has begun the process of cutting government spending by eliminating government jobs and canceling government contracts with outside entities. The DOGE cuts have raised concerns about their impact on labor markets and economic growth. As well, shifting U.S. priorities overseas have further increased uncertainty as to the future of the global power structure.

Despite the volatility that has recently plagued investment markets, to this point the economy has remained in a relatively good place, despite some signs of cooling. Unemployment in the U.S., while edging higher, is still at only 4.1%. GDP grew 2.3% in the fourth quarter of 2024, although there may be some early signs that growth is slowing in the first quarter of 2025. And unlike in periods where market volatility threatens the health of financial institutions, there were only two bank failures in the U.S. in 2024, and one thus far in 2025. Yet, despite the relatively benign economic backdrop that we've had thus far in the first quarter, the rising tide of change and uncertainty can still evoke anxiety, especially on the heels of a couple of years of relative calm for investment markets.

The Election is Over, Now the Hard Part Begins

As investors, we need to remember that markets are, by their nature, forward looking. Periods of change and uncertainty may lead to heightened market volatility as market participants attempt to recalibrate their expectations and adapt to a changing environment. Right now there's plenty of change, and also plenty of uncertainty, for markets to digest. These policy changes may have significant impacts on businesses, consumers, inflation and interest rates, all of which directly affect investment markets. The details of these policy changes continue to evolve at a rapid pace, making it difficult for investors to develop a consistent narrative. This lack of

confidence in a future path often produces anxiety, which itself may lead to market volatility. For long-term investors, the playbook for these types of environments should be familiar:

- **Turn down the volume of the noise.** In our world of 24-7 news and social media, the sheer amount of "noise" makes it very difficult to discern any signal that may be embedded in the cacophony of news with which we are constantly bombarded. Making decisions based on news that has a significant likelihood of changing (sometimes overnight) may prove to be counterproductive.

- **Diversification may provide protection against uncertain outcomes, and its value has been on full display thus far in 2025.** It's unlikely that the impacts of these policy changes will be the same across all asset classes. Many of the asset classes that have lagged during the strong markets of the past few years are the same asset classes that are helping buffer portfolios from this year's volatility. As an example, in the face of ever- evolving U.S. trade policy, international equities have significantly outperformed the U.S. market year-to-date. International stocks, as measured by the MSCI ACWI ex-US Index were up 6.16% year-to-date through March 10, 2025, versus a loss of -4.30% for the S&P 500 Index. High-quality bonds have also been a haven from the recent selloff, with the Bloomberg Aggregate US Bond Index up 2.62% over the same time frame. Developing an appropriate asset allocation, and diversifying across multiple strategies, may help mitigate volatility in areas most exposed to policy risk. In this current bout of market turmoil, portfolio diversification has thus far proven to be highly effective.
- **Periods of volatility are the norm.** Volatility is the price we pay for the potential upside of attractive returns in equity markets. Market corrections and sell offs may provide opportunities for investors to actively book losses that can offset current or future capital gain tax liabilities in taxable accounts. Active tax management of portfolios is often a way for investors to increase how much capital gains they ultimately keep. In addition, market volatility may lead to more attractive entry points in areas that had become expensive, such as large-cap high-quality U.S. stocks, for example.
- **Alternative investments may help you navigate volatile markets.** If appropriate, consider an allocation to alternative investments, especially those that have exhibited lower historical correlations to public markets. Many of these strategies are not subject to daily re-pricing, thus providing ballast to a portfolio that is subject to the current heightened daily volatility of public markets.
- **Focus on the long term and the things you can control.** As tempting as it may be to just do something in the current environment, resist the urge to act rashly. By establishing a sound investment plan specific to your situation and following the outline of that plan, you've already done the heavy lifting. Now is the time to let your plan work, by rebalancing your portfolio as needed, actively managing your tax liabilities, and updating your plan with any new information about your personal situation that may necessitate plan revisions.
- **Use this as an opportunity to check in with your Corient Wealth Advisor.** This may be a good time to review your investment plan to ensure you remain on track to reach your long-term goals and objectives. Your Corient Wealth Advisor can also offer support and guidance on how to ignore short-term market volatility, so you can minimize the uncertainty and anxiety that may arise during this highly challenging time.

INDEX DEFINITIONS

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 24 Emerging Markets countries. The index covers approximately 85% of the global equity opportunity set outside the US.

The S&P 500 Index measures the performance of the large cap segment of the market. The index is considered to be a proxy of the US equity market.

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