

Introduction from our CIO

In brief: what history teaches us about market volatility

History teaches us that stock market falls are not unusual. In fact, they are the norm. The key lesson is that trying to time the market by selling out and reinvesting later can prove a costly mistake. Investors tend to be rewarded if they remain calm, avoid knee-jerk reactions and think long term. In the meantime, many investors with a long-term horizon will see this a buying opportunity.

Analysis by our Chief Investment Officer, Sheldon MacDonald

Economic overview

Tariffs are a tax on trade that will reduce the efficiency of economies around the world and, in doing so, are likely to act as a further brake on what was already an anaemic global growth outlook.

These levies are likely to push up the prices consumers pay for everything from vegetables to vehicles. In isolation, this would be likely to drive up inflation. However, we believe lower growth will outweigh this upward pressure on inflation and leave central banks with scope to cut interest rates to stimulate economies and help them navigate this period of uncertainty.



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Equity markets

The stock market valuations of many US companies were looking high and the tariffs imposed by Donald Trump, and the responses of trading partners, have provided a catalyst for investors to reassess these share prices.

Falls by other stock markets have been in reaction to the uncertainty created by tariffs, and what they might mean for companies doing business with the US. It is too early for investors to have a clear picture of what these levies will mean for companies' profit margins and earnings.

It would be unwise to make a firm prediction about how this will all play out. But we do not think it would be unreasonable to expect that the final level of tariffs will be lower than those emblazoned across Trump's board last week. His style seems to be to lead with the 'big bazooka' to instil shock and awe, then roll back.

Bonds

Bonds that are likely to benefit more as interest rates are cut have been performing well. This is what we would expect because of the weaker growth picture, which has led to investors' increasing the number of interest rate cuts they expect this year. In addition, bonds have benefited as investors seek shelter from the falls in equity markets.

Investment-grade* corporate bonds have been weaker because of concerns about the outlook for businesses, but this has been partially offset because they are expected to benefit if interest rates are cut. Lower bank rates make the interest available on bonds look more attractive. High yield** corporate bonds have underperformed because of the uncertain outlook.

**Investment-grade corporate bonds are assessed as lower risk by credit ratings agencies.*

***High yield bonds are those rated as higher risk.*

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Key points for investors

It is important to remember that multi-asset investing is all about diversification and, alongside equities, clients in all but the highest risk-levels will have significant exposure to fixed income, which has been doing its job of helping to protect against market volatility.

Equity market dips are normal. The uncertainty caused by tariffs will cause volatility in markets, but history teaches us that stocks bounce back from these periods and that the positive periods significantly outweigh the negative ones.

It is also worth pointing out that we have had a strong period of stock market performance and this setback only takes us back to where the S&P 500 index of US shares was 12 months ago.

The MSCI World Total Return index is still 45% ahead of the low point reached after Russia's invasion of Ukraine.

The key lesson history teaches us is that trying to time the market is seldom a good idea, particularly during periods when share prices are moving sharply.

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Four charts that show the value of staying invested

Chart one

This shows that over more than 40 years the average maximum fall by global equities (represented by the MSCI World index) in any given year has been 14.6%. However, in 33 out of 44 years (74% of the time), the market then bounced back to finish the year with a positive return. In 2020, the market was down 26% at one stage, only to finish the year up more than 13%.

Chart two

This shows us that market falls are normal. Since 1972, US equities (represented by the S&P 500 index) have had a peak-to-trough fall of more than 5% at some stage in 94% of the years. This is referred to as the maximum annual drawdown. They have fallen by more than 20% in 24% of years. This shows that while recent falls may be unsettling, historically they are far from unusual.

Chart three

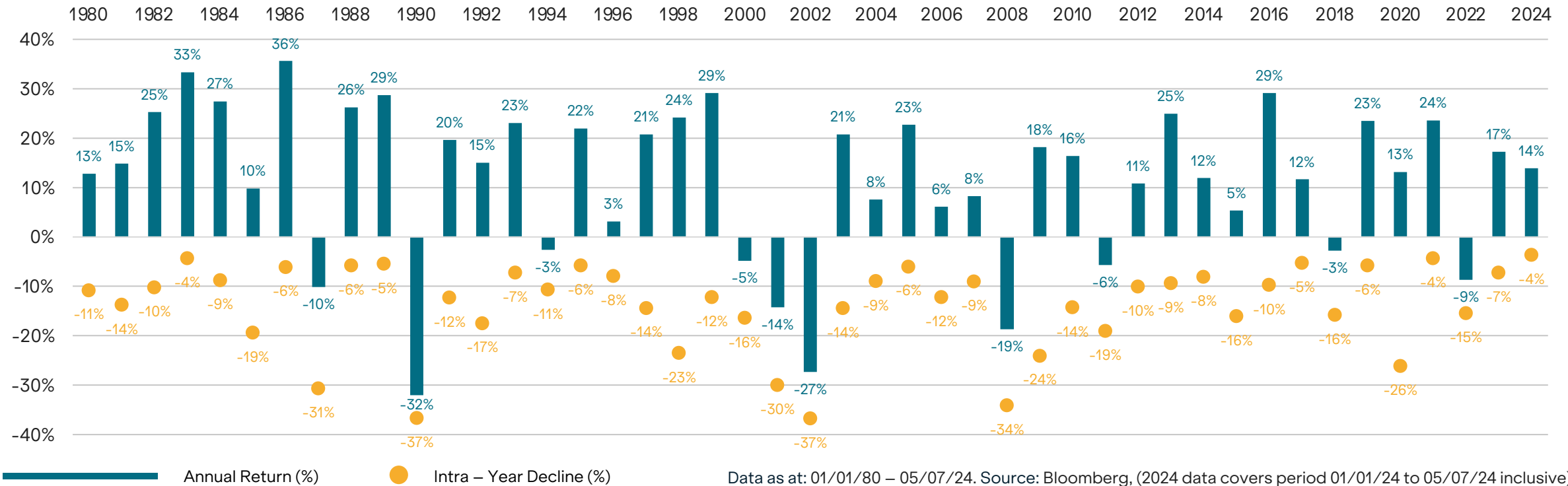
This shows that historically, bull markets (periods when equity prices rise and investor sentiment is positive) have last significantly longer than bear markets (periods when equity prices fall and investor sentiment is negative). And the returns they have produced have far outweighed falls during periods when markets have pulled back.

Chart four

This shows how costly trying to time the market can prove for investors. It compares the returns achieved by simply buying and holding global equities for 20 years with the returns an investor would have received if they had missed the best days in the market because they were trying to time their investment.

Chart one: Intra year declines

The maximum intra-year drawdown in a calendar year for the MSCI World Index (GBP) versus the actual calendar year return



What is the chart telling us?

- ▀ The performance of the MSCI World Index every year for the last 44 years.
- ▀ The Index tracks the performance of 1500 large companies across the globe.
- ▀ The chart also shows the performance of the maximum intra-year declines we have had in every calendar year going back over 44 years.

Key takeaways:

- ▀ Volatility is not a recent phenomenon .
- ▀ The market has had the potential to experience a significant correction of 14.6% on average each year.

Chart two: Stock market maximum drawdowns: 1972 - 2024

Drawdown greater than	% of years MSCI World (GBP)	% of years S&P 500 (GBP)
5% or worse	94%	94%
10% or worse	57%	69%
20% or worse	19%	24%
30% or worse	9%	9%
40% or worse	0%	4%

Data as at: 04/04/25 Source: Marlborough, Bloomberg.

What is the table telling us?

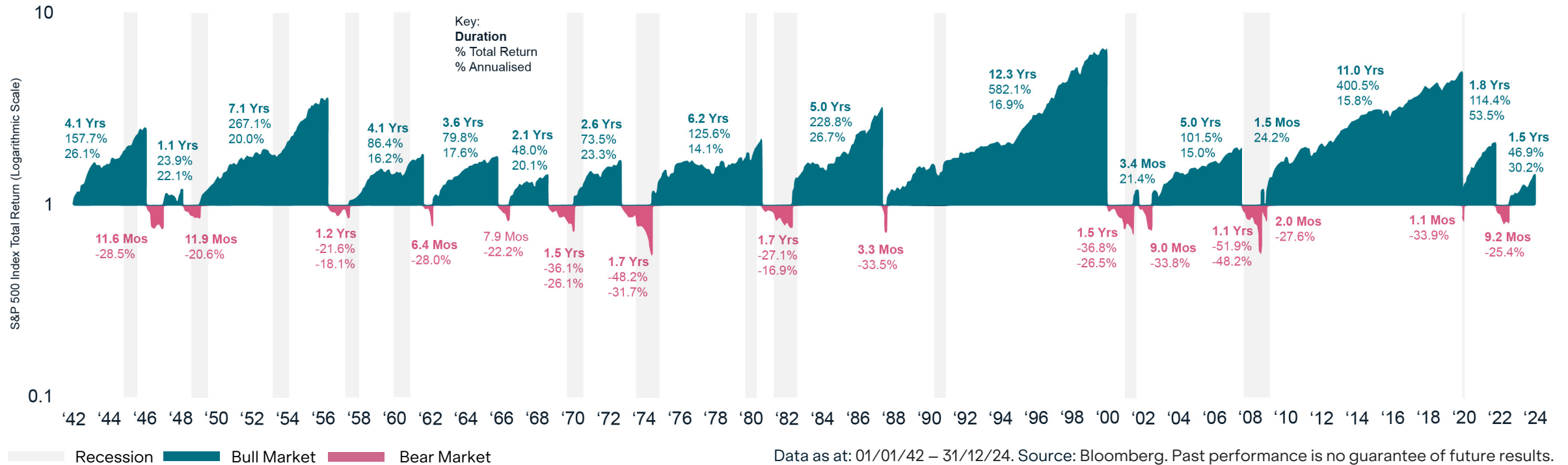
- ▀ The table shows the maximum drawdown (the greatest 'peak to trough' decline) each year since 1972.
- ▀ In 94% of years since 1972, markets have pulled back by 5% or more during the calendar year.

Key takeaways:

- ▀ Volatility is not the exception; it is the norm.
- ▀ While recent market falls may be unsettling, historically they are far from unusual.

Chart three: Bull and Bear markets: the benefits of long-term investing

Understanding Bull and Bear markets



What is the chart telling us?

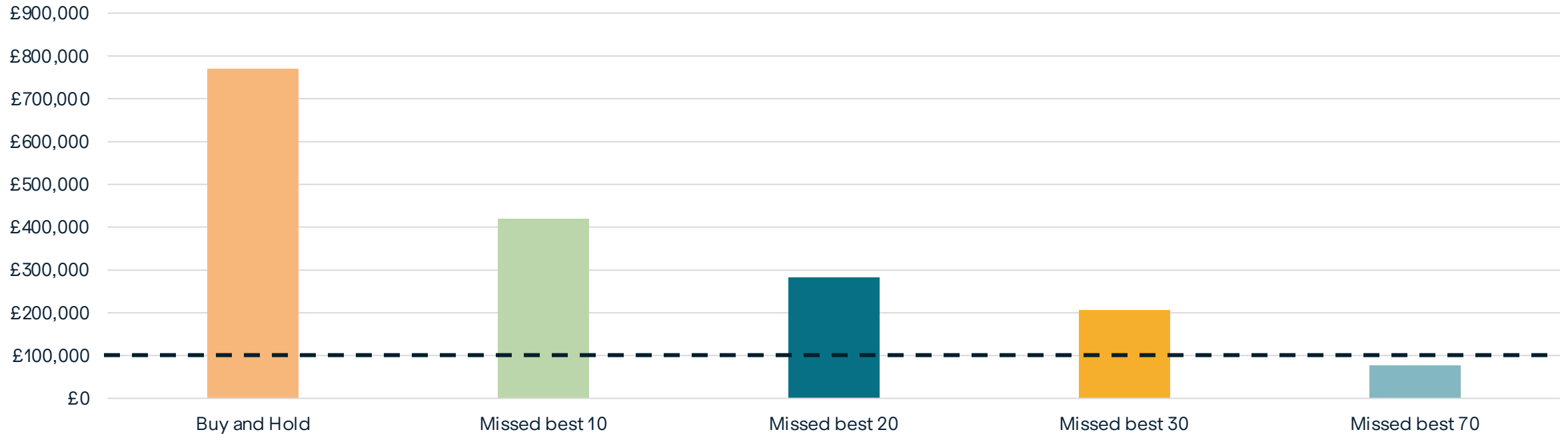
- ▶ This chart shows daily historical performance of the S&P 500 index throughout US 'Bull & Bear' markets since 1942.
- ▶ The average 'Bull market' period lasted 4.2 years with an average cumulative return of 148.8% whilst the average 'Bear market' lasted 11.1 months with an average cumulative loss of -31.1%.

Key takeaways:

- ▶ Embracing a long-term investment horizon allows investors to navigate the inherent volatility of markets.
- ▶ By staying invested through both bull and bear markets, one can capitalise on any overall upward trajectory of market performance.

Chart four: Timing the market

Returns from investing in the MSCI World Index (GBP) – effect of missing the best days in the market during 20 year period



--- Initial Investment £100,000

Data as at: 03/01/05 – 28/06/24. Source: Bloomberg

What is the chart telling us?

- ▶ This chart shows the returns from investing £100k for 20 years in the MSCI World Index (GBP), which tracks the performance of the 1,500 largest global companies.

Key takeaways:

- ▶ Time in the market is usually more successful than trying to time the market.
- ▶ Missing just a few good days can significantly reduce the growth of your investment.
- ▶ Keeping your money invested means you can benefit from any potential market bounce.

How we are positioned for an uncertain world

In our multi-asset portfolios, we have maintained a positive stance on government bonds for some time, primarily expressing this through long-duration* UK bonds. One of the key unknowns surrounding the new tariffs is their impact on US inflation, which in turn leaves the US Federal Reserve's next move open to debate. Given this uncertainty, we have chosen to hold our long-duration position in UK government bonds rather than their US counterparts.

In the corporate bond arena, we remain underweight in high yield bonds. Companies at the riskier end of the spectrum are likely to struggle if growth slows or if cost pressures intensify – and that is before factoring in any specific tariff-related impacts.

In equities, we adjusted our US holdings at the start of the year to reduce exposure to the technology giants that dominate the US stock market. We felt the level of concentration in a limited number of companies posed a risk and that their valuations looked high. One of the ways we reduced exposure was by investing in an equal-weight US fund, which gives each stock in the S&P 500 index an equal weighting (rather than reflecting their stock market value). This helped us diversify away from the tech giants, which have been particularly hard hit in the sell off.

Our portfolios, which favour a globally diversified asset allocation, are moderately overweight UK (when comparing the UK market's relative weight). With a 10% tariff hit, the UK has emerged relatively unscathed, and the door remains open for negotiations that could see some of these tariffs rolled back. Historically, UK equities have also demonstrated resilience in periods of uncertainty.

We have also been increasing exposure to infrastructure, a sector that tends to perform well in more uncertain environments due to its defensive qualities and inflation-linked revenues. Additionally, our diversified portfolios have equity exposure in Europe and Asia, which have delivered stronger performance this year compared to the US market.

We considered adjusting the balance of assets in our Managed Portfolios in response to the tariffs and the market volatility they have triggered. However, we decided against it. Given the lack of clarity in markets, we believe a measured approach is required. On this basis, we are conducting a huge amount of analysis and scenario testing, and will consider rebalancing when the picture is clearer.

The power of diversification

This period of heightened uncertainty shows why diversification remains key. By spreading exposure across asset classes, geographies and sectors, we position portfolios to navigate shifting market dynamics. While tariffs introduce new uncertainties, a well-diversified portfolio helps to mitigate risk and capture opportunities across global markets.

*Duration is a measure of how sensitive a bond's price is to interest rate changes. Longer duration bonds tend to benefit more as interest rates are reduced.

Risk Warnings

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