Uncertainty has U.S. stocks on the defensive.

Uncertainty in capital markets is running rampant and putting U.S. stocks on the defensive. While it never feels good to see declines, they are actually a frequent occurrence. As always—but especially in turbulent times—we believe diversification is the best defense against volatility.

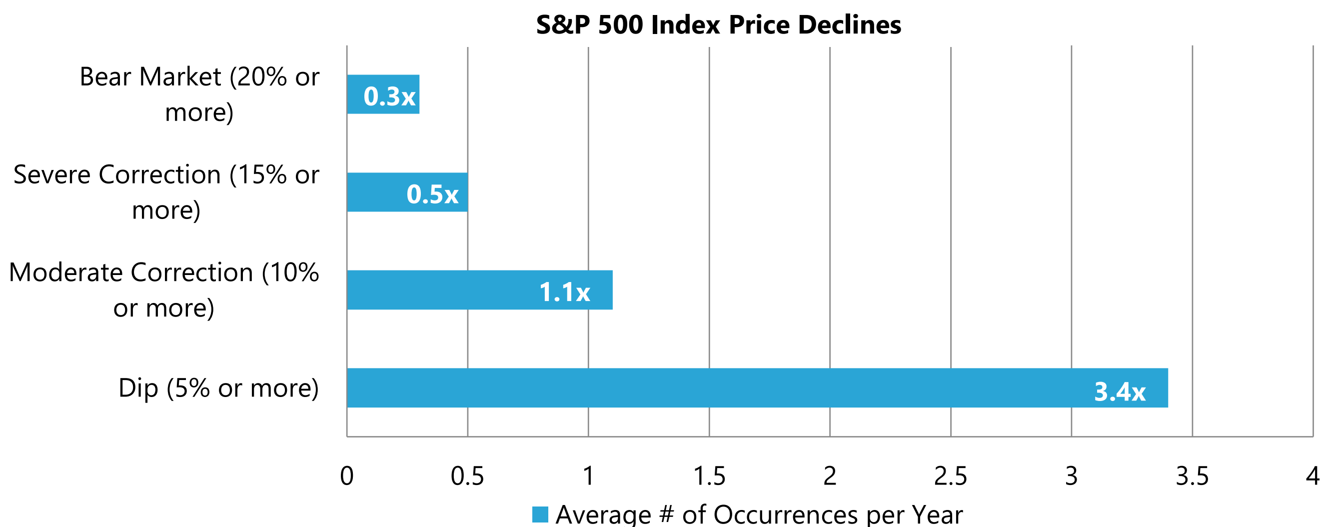
Stay the course

Fully diversify your portfolio, maintain it in line with your risk tolerance, stay invested, and don't panic—these are some the core investing principles that we always come back to in turbulent times. While this advice has served long-term investors well, it's also human nature to question it when markets decline. Although the exact reasons for market downturns are always different, the core principles of sound advice remain the same for any market environment, including today.

Market dips happen often

Uncertainty currently abounds in capital markets; we review the major concerns in the blue call-out box on the next page. When uncertainty rises to this level, there are typically some declines to follow. U.S. stocks have borne the brunt of them thus far. U.S. equities, as measured by the broad-market S&P 500 Index, were hovering near a 10% decline (the level of losses that technically define a market correction) at the time of this writing. Losses of 5%-10% are actually a fairly common occurrence (as shown in Exhibit 1) despite being unsettling to many investors.

Exhibit 1: Stock market dips and corrections are more common than you think.



Source: Ned Davis Research, Standard & Poor's, SEI. January 1, 1928, to March 10, 2025. S&P 500 Index inception is March 4, 1957, prior to inception the S&P 90 Index was used.

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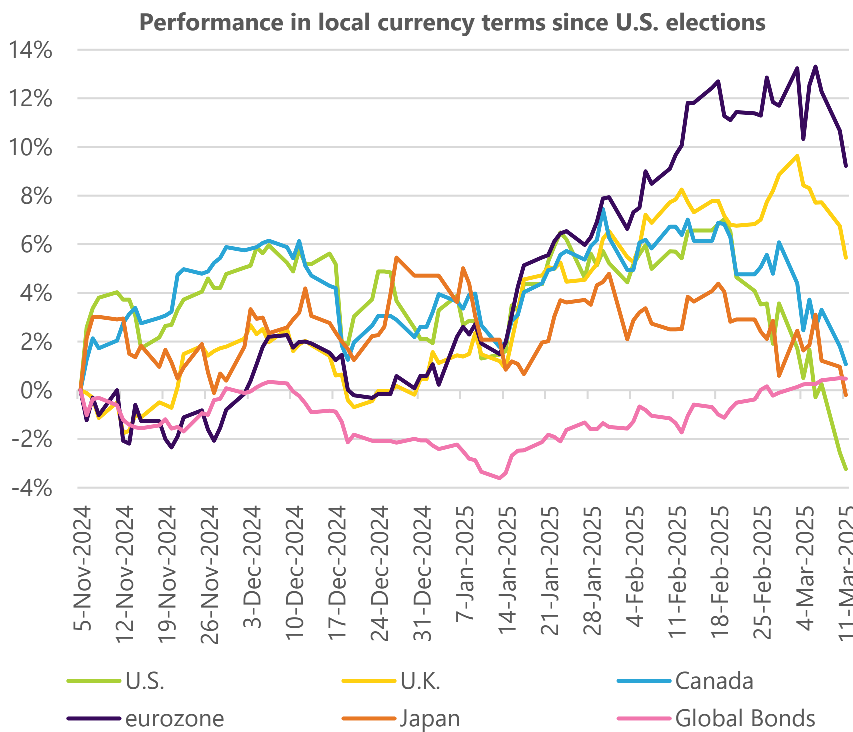
As seen in Exhibit 1, market losses in the 5%-10% range occur on average more than three times a year. It's actually common (about once a year) to see declines of 10% or more. Obviously, more significant downturns can and do occur, but with much less frequency. It's important to remember that when looking at long-term market returns, those returns include staying invested during the dips, corrections, and even bear markets—this is a critical component as to why SEI preaches staying invested.

Diversification can help

Diversification does not eliminate the risk of loses, but it can help produce a smoother ride by investing in assets with lower correlations to each other. Shortly after the U.S. elections on November 5, 2024, U.S. stocks, as measured by the S&P 500 Index, hit all-time highs as investors generally viewed the incoming Trump administration's policy as pro-growth and business—tariffs aside, of course. After taking office on January 20, 2025, Trump moved swiftly to enact policies and soon started a trade war. The tariff tiff that this has sparked is a significant reason for uncertainty in markets and U.S. equity losses. Still, not all markets and asset classes are losing ground.

Exhibit 2: U.S. stocks are down, but not everything is.



Source: FactSet, SEI. November 5, 2024, to March 11, 2025. Indexes: U.S. = MSCI USA, U.K. = MSCI United Kingdom, Canada = MSCI Canada, eurozone = MSCI EMU, Japan = MSCI Japan, Global Bonds = Bloomberg Global Aggregate. Past performance does not guarantee future results.

Uncertainty abounds

Tariffs top the list

- Tariff news is changing daily.
- The Trump administration has greatly expanded tariffs, and some countries have hit back with retaliatory tariffs.
- April 2 looms as the date for Trump's promised reciprocal tariffs on all nations trading with the U.S.

Inflation is sticky

- The consumer-price Index (CPI) showed improvement as the data for February came in below both expectations and the prior readings—however, inflation persists around 3%, well above the Federal Reserve's (Fed) 2% target.
- Companies are still struggling with supply chain disruptions and the bird flu has caused soaring egg prices, while the impact of tariffs has yet to really be felt—they can only increase prices.

Growth scare

- The U.S. economy has been robust, but recent economic data point to slower growth ahead.

Valuations

- U.S. stocks had valuations near all-time highs and were essentially priced for a perfect economic environment moving forward.

AI and Magnificent 7 unwind

- The AI boom has not materialized as quickly as many investors had hoped (Nvidia lost nearly 30% from its peak).
- Other high-growth stocks have also suffered (Tesla fell nearly 50% from its peak).

Geopolitics

- Russia/Ukraine, Israel/Hamas, Iran, and concerns over possible NATO fractures have added to the uncertainty.

Source: SEI, Bloomberg, as of March 11, 2025.

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What is SEI doing?

We believe the market conditions have been favorable for active management for some time now. This doesn't mean making changes to our asset allocations, but to invest where we see opportunities. One opportunity is the theme of "sticky inflation"—in our dynamic portfolios, we are positioned for inflation to continue above the Fed's 2% target for longer than markets are anticipating. We also emphasize value stocks—those that trade below their perceived fair market value—which has resulted in a corresponding underweight to the high-flying growth stocks that have characterized the AI and Magnificent 7 trades.

As always, remain diversified in your portfolios. If you have not reviewed your risk tolerance and goals recently, now may be a good time to do so to ensure that your investments are aligned with them.

Index definitions

The **Bloomberg Global Aggregate Bond Index** is a market capitalization-weighted index that tracks the performance of investment-grade (rated BBB- or higher by S&P Global Ratings/Fitch Ratings or Baa3 or higher by Moody's Investors Service) fixed-income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.

The **MSCI Canada Index** tracks the performance of the large- and mid-cap segments of the Canada equity market.

The **MSCI EMU Index** (European Economic and Monetary Union) captures large and mid-cap representation across the 10 Developed Markets countries in the EMU. With 221 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of the EMU.

The **MSCI Japan Index** tracks the performance of the large- and mid-cap segment of the Japanese equity market. The index's 237 constituents comprise approximately 85% of the free float-adjusted (i.e., including only shares that are available for public trading) market capitalization in Japan.

The **MSCI United Kingdom Index** is designed to measure the performance of the large and mid-cap segments of the U.K. market. With 78 constituents, the index covers approximately 85%of the free float-adjusted market capitalization in the U.K.

The **MSCI USA Index** tracks the performance of the large- and mid-cap segments of the U.S. equity market. The index's 624 constituents comprise approximately 85% of the free float-adjusted (i.e., including only shares that are available for public trading) market capitalization in the U.S.

The **S&P 90 Index** is a market-weighted index that tracks the performance of the 90 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market. The index is no longer actively tracked and is used to provide data prior to the inception of the S&P 500.

The **S&P 500 Index** is a market-weighted index that tracks the performance of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

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