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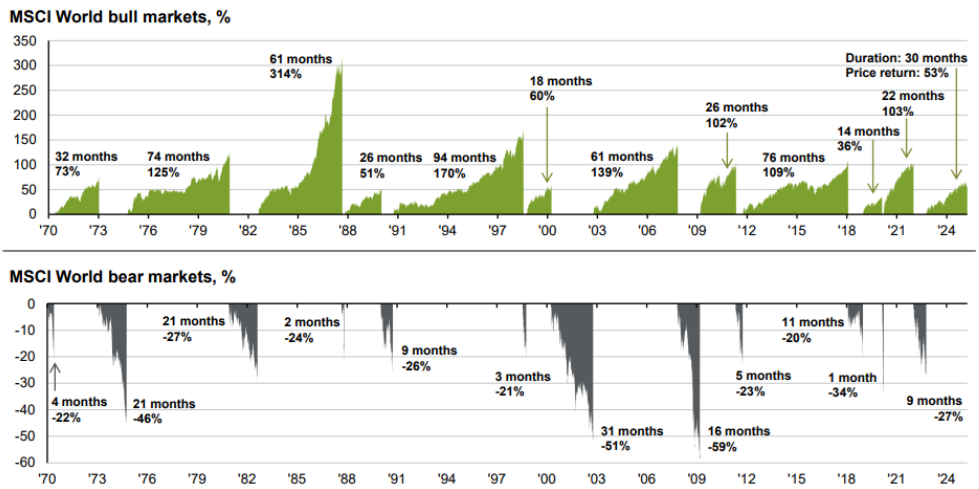
Market Movements Should Be Seen In Context

FOR FINANCIAL ADVISERS AND THEIR RETAIL CLIENTS

Investors are naturally worried about financial markets, but recent moves need to be seen in context. The recent falls in markets are concerning as they've been quite sharp. A lot of news about Trump and the press reporting has naturally made some investors anxious.

Looking past recent market movements and using a longer-term perspective sheds a different light on 'risk assets'. Reviewing long-term equity market performance, we can see strong 'bull' runs charging upward, punctuated by grizzling 'bear markets' when investments fall sharply, and sometimes for prolonged periods.

Chart 1 - Comparison of bull and bear markets shows bulls markets have lasted longer and prodiced greater change



Source: JP Morgan Guide to the Markets, March 2025

Equities have largely enjoyed a run of strong returns, so it seems natural that there is some sort of reversion. Calling these is very difficult which is why we say 'time in the market beats timing the market'.

One thing we would point out is that markets were 'frothy' as their valuation - or their expensiveness – was elevated. We can see this in the chart below where the valuation of the top 10 largest stocks on the S&P 500 index ran at an elevated level for some time.

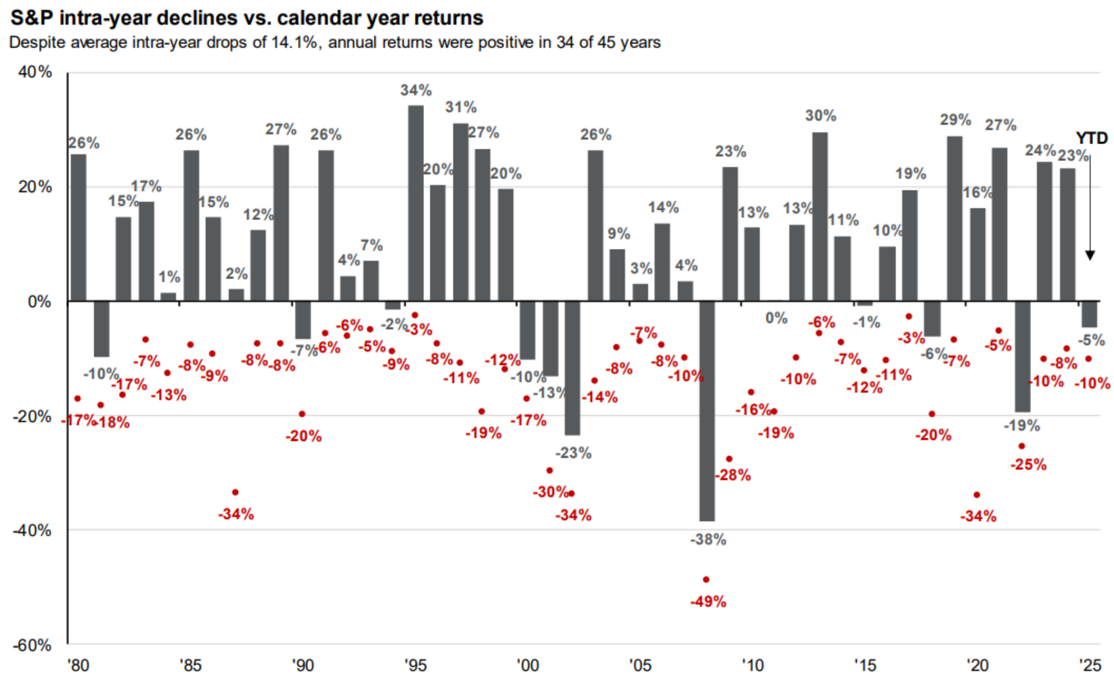
Chart 2 - Evidence of froth in the US equity markets

Source - JP Morgan, 31 March 2025

During times of equity market stress the chart below can be a useful tool to put market volatility into context. Looking at the US S&P500 stock index, we can see numerous good years and some weak years. There are far more good years as annual returns were positive in 34 of the last 45 years. The grey bars show yearly performance totals, the red number shows the peak to trough drawdown within each year.

What we can conclude is that in riskier equity investments sharp falls are normal. Since 1980, the average intra-year drop is 14%, so falls of the magnitude seen recently can and do occur regularly.

Chart 3 - Relatively large declines are normal even in positive years

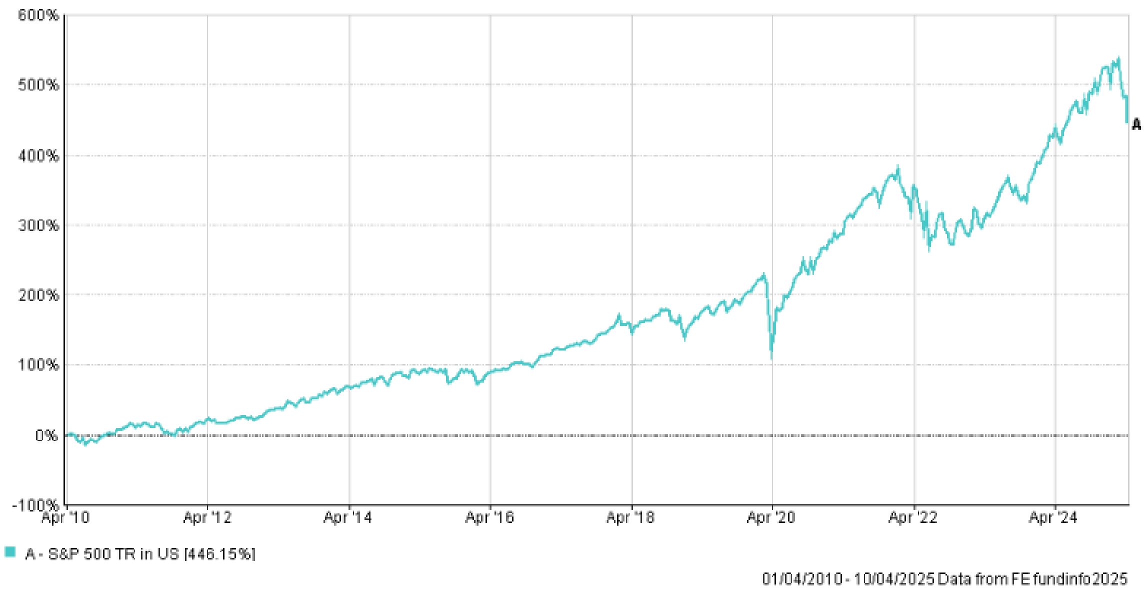


Source - JP Morgan, 31 March 2025

What can we conclude from the above?

Context as always paints a better picture about sharp falls in markets and negative news. The S&P 500 has been through a troublesome patch, and markets worldwide are suffering too by varying degrees, however, we have enjoyed a good run over a prolonged period of time. Markets are experience very difficult conditions, Trump will be Trump, but time and diversification are the bedrock of an investment strategy designed to run over many years, so the good times offset and outweigh the weak times.

Chart 4 - The US S&P 500 index has produced very strong long-term performance



Source: FE Analytics. Total return, bid to bid, 1/4/2010 to 10/4/2025