

The Art of Weathering Market Turbulence

18 March 2025

As seasoned investors know, share prices can move up and down a lot. It's what investment professionals refer to as 'volatility'. Sometimes price volatility may be relatively low, but over the last 3-4 weeks volatility has spiked and global shares, especially those in the US, have fallen rather sharply.

When share markets experience sizable price falls, there is often a combination of different reasons. Some of the main ones currently include -

- Concerns about further tariffs being imposed by the Trump Administration, leading to potential retaliation from nations being targeted by the new tariffs, and an escalating trade war.
- The release of DeepSeek's AI reasoning model in January, casting some doubt on the leadership position (and valuation) of large US technology firms.
- Unease about the public breakdown in the relationship between US and Ukraine, sparking fears that the conflict in Ukraine might worsen.

For many, these events are highly unsettling. The tariff issue on its own has raised fears that many companies might soon face unexpected cost pressures which would erode revenues from sales, resulting in reduced profits and weaker economic growth.

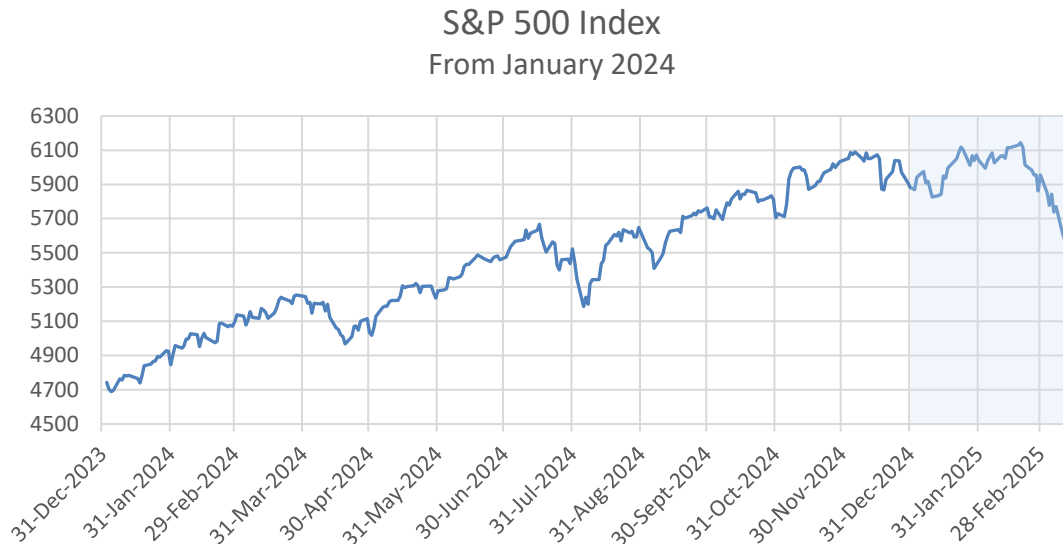
When uncertainty spikes, markets react

As we know from experience, investment markets dislike uncertainty. And when that uncertainty is reinforced daily by the news media and focused on significant themes like trade wars, actual wars, or competing technologies, then share prices can often tend to become more volatile.

That's exactly what has been happening recently.

Global share markets started the year quite strongly. The main US share market (S&P500 in local US Dollar terms) was up +4.5% between the start of the year and 19 February, but over the last four weeks has given back those gains and more. In mid-March at time of writing, the index was down -6.1% year to date.

The following chart shows the cumulative performance of the S&P500 since the beginning of 2024, with the performance so far in 2025 shaded in light blue.



After US shares enjoyed very strong average gains throughout 2024, the recent decline appears a little more noticeable.

While the US share market has been faltering recently, other major share markets have been mixed, but certainly not all have been weaker. Year to date in local currency terms, the NZ share market (NZX50) is down -6.9% the Australian share market (ASX200) is down -5.0% while the UK share market (FTSE100) is up +4.5% and the German share market (DAX) is up +13.3%.

The benefits of global diversification – not having all ‘eggs’ in a single country basket – is demonstrated very clearly in times like this.

Emotion is the enemy of a good strategy

Some of the major news stories about war or tariffs will have global implications and may contribute to a general increase in uncertainty.

However, while it’s a natural human response to feel uneasy in times of uncertainty, it’s almost never a good idea to allow such feelings to influence an investment strategy.

A couple of relatively recent time periods serve as outstanding examples -

- From 4 to 24 December 2018, the US share market (S&P500) fell -15.7% in three weeks. Ironically, it was at least partially attributed to fears over slowing economic growth and reduced earnings expectations that were fuelled by concerns about the impact of new US-China trade tariffs. Sound familiar? It should, this was when Donald Trump occupied the White House the first time around.

What happened next?

In the five weeks from Christmas Eve 2018 to the end of January 2019, the US share market recovered +15.0%, effectively wiping out the prior falls.

- From 20 February to 23 March 2020, the US share market fell -33.9% in four weeks. This was a record fall within such a short period and was due to the global arrival of Covid which shrouded markets with a level of fear and uncertainty not previously seen in our investing lifetime.

What happened next?

In the five weeks from 24 March to 30 April 2020, the US share market recovered +30.2%, again wiping away the prior falls.

In both above examples (and in many others over the years), the worst thing any investor could have done would have been to sell out at the wrong time thinking they should just wait for the market to stabilise. What frequently happens to those that attempt that, is to entirely miss the recovery in valuations which can occur just as unexpectedly - in a matter of days or weeks.

Reading the market tea leaves (spoiler – it's tricky)

When big market events occur, like the sudden imposition of significant trade tariffs, there will almost certainly be winners and losers that emerge. But the challenge facing investors in this case are three-fold.

Firstly, downstream effects can be almost impossible to identify (i.e. some apparent winners might turn out to be losers due to unidentified supply chain or market complexities, while some predicted losers might turn out to be winners).

Secondly, it could be a mistake to think that policy statements from the US today are necessarily reliable. A number of policy initiatives are currently being litigated, and the implementation of others may yet be delayed or deferred indefinitely. In other words, the environment in which securities are being priced will continue to change. This means the prices the market assesses as fair today could change significantly if new (and different) policy intentions do emerge.

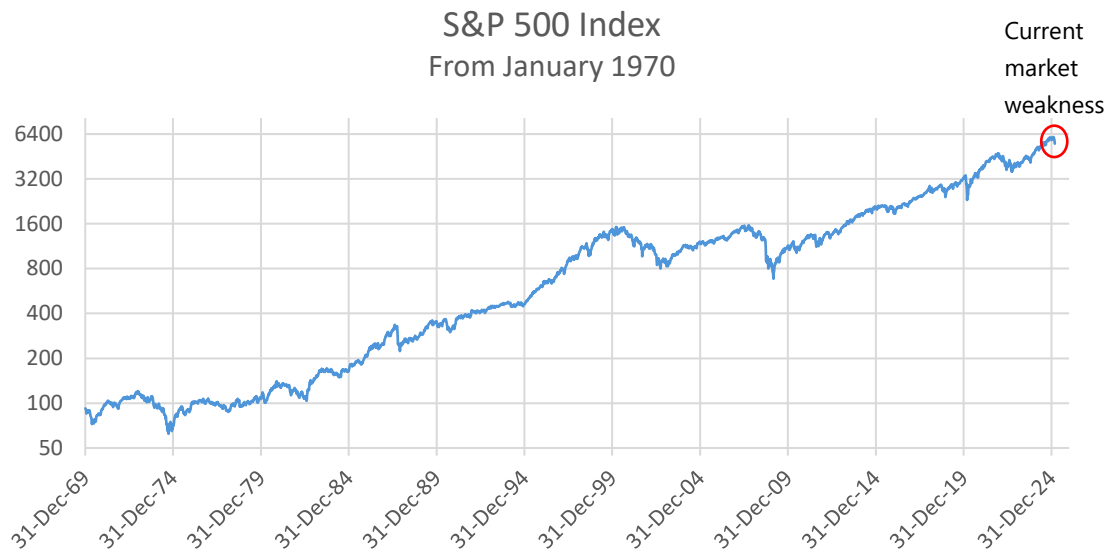
Thirdly, the markets are generally efficient at pricing in all aspects of news that potentially affect security prices, including the reported intentions of policy makers. Even if you correctly predict what the Trump Administration may do in the future, if the market has already priced in that outcome, then taking an active position based on your prediction is unlikely to be rewarded.

Don't be distracted by short term media 'noise'

A key takeout is not to try and second guess an unknowable future.

Trying to pick winners (or avoid losers) is always an extremely difficult undertaking. Equally, acting on fear and exiting the market at the wrong time can lead to much worse long term investment outcomes than enduring the prevailing uncertainty.

As the long-term chart of US share market returns (below) highlights very clearly, staying invested through uncertainty is a tried and tested pathway to long term investment gains.



This chart also highlights that, on a proportional basis, the current correction is very hard to discern from the many that have preceded it. This reinforces the merit of maintaining a longer term perspective, rather than being overly focused on shorter term market movements.

Forget the crystal ball, focus on the controllables

One final point to always remember is that share markets go down.

Even strong share markets experience many losing days, or even sequences of days when prices fall.

In 2024, the US share market gained +23.3%; by any measure a great year to own shares. But even in that great year, US shares fell on at least 43% of the trading days. Just think about that for a minute. The market overall went up by over 20% and yet on nearly half the trading days that year price changes were negative. Anyone who couldn't withstand the discomfort of seeing temporary price declines would have missed out on an outstanding return.

Although a number of share markets have been weak so far in 2025, it doesn't really tell us anything informative about what lies ahead. The only thing we know is that when prices decline, the expected long term future returns of the underlying companies usually go up.

And, as history has repeated time and time again, at some point in the future those higher expected returns get delivered. Most often, all that's required to receive them is having a well-diversified investment plan in place, and remaining patient.

As always, it's better to focus on the actions you can control - working with your adviser to ensure you are saving enough to reach your financial goals, planning appropriately for future expenditure needs and taking a level of risk consistent with your personal circumstances.

With an adviser, and time on your side, having a well-diversified investment plan means it shouldn't matter what the headlines say.