Tariffs and trade wars and bears, oh my!

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There's an old adage that one should never yell "Fire!" in a crowded movie theater. It would be wonderful if similar advice could be applied to financial markets— never yell "bear!" in a crowded market. Unfortunately, that seems highly unlikely given the occasionally outsized role played by human behavioral biases in determining the prices of financial assets, as well as the contagious nature of investor panic.

Recent weeks have clearly reminded us that we always face the risk of (sometimes severe) market turbulence. When challenging conditions actually materialize, we continue to preach patience and diversification.

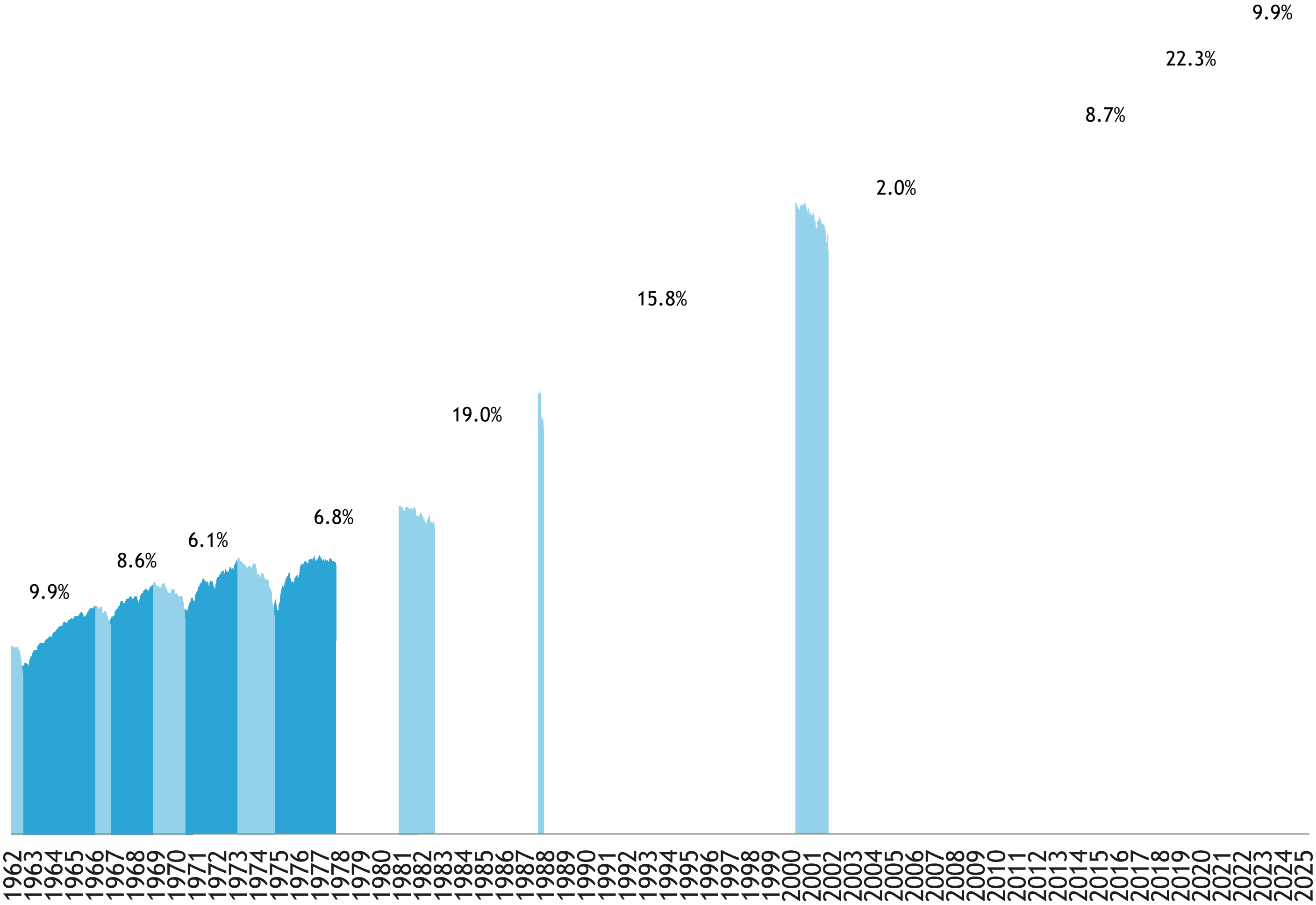
Patience is a virtue...

When periods of heightened volatility unfold, all investors experience negative—sometimes viscerally negative—emotions, and those emotions tend to push us into a fight-or-flight mindset. Should we make portfolio changes to protect ourselves from further downside? Should we rush for the exits? As strong as the impulse to "just do something" can be, it's important to take a step back and keep market behavior and strategic asset allocation principles in perspective.

If we look at historic equity market performance and assume a hypothetical investment made at any of the worst starting points—a market peak preceding a down market—we can take some reassurance in the fact that annualized returns between the initial investment and the next market peak were, for the most part, in line with what we typically expect from an equity-market allocation if not better, as shown in Exhibit 1. (The period between the market low in spring 2003 and market peak in late 2007 is an outlier in terms of poor performance, though returns were still positive.)

Performance in USD—Past performance does not guarantee future results.

Exhibit 1: Bears aren't so scary



Daily S&P 500 total returns from the market peak on December 12, 1961, through April 15, 2025. Peak to peak returns are annualized performance. Sources: Bloomberg, Standard & Poor's, SEI.

...And so is diversification.

If an investor holds a thoughtfully designed portfolio that is well-tailored to their financial objectives, risk tolerance, and any relevant constraints, they should trust that they are well-positioned to navigate and survive a wide range of economic and market environments.

Understanding this core principle of strategic asset allocation, along with historic market tendencies should give investors the confidence needed to stand up to bears when they appear.

Index definitions

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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