SUMMIT FINANCIAL

(Another) Test in Staying the Course

Quick take:

- Recent market volatility is yet another painful reminder of what happens to risk assets during challenging times for the world and economy, this time revolving around a political regime change and again escalating trade tensions.
- Market volatility is a natural aspect of investing, and the S&P 500 has had an average intra-year max drawdown of 13.9% over the past 40+ years.
- Over periods of market stress, it's essential to stay focused on long-term goals. These times reaffirm the need to maintain diversified portfolios aligned with individual risk tolerances.
- Uncertainty is likely to remain high in the coming months – or even years – but the best path is often to stay the course, assuming all near- and medium-term liquidity needs are met. There may also be opportunities to take advantage of as market dislocations occur.

Volatility has crept back into markets over the past few weeks, leading to equity market swings, rate volatility, and wider spreads. Uncertainty surrounding tariffs and a potentially extended trade war, along with renewed concerns of a U.S. recession driven by signs of a weakening U.S. consumer, have driven a sell-off in risk assets. Tensions also remain high in Eastern Europe and the Middle East, adding another layer of complexity to global markets. With many major equity indexes crossing into correction or bear market territory, it's easy to get anxious seeing your account balance dramatically rise and fall each day.

Although the combination of factors we face today is unique (tariffs, U.S. recessionary concerns, geopolitical instability in Eastern Europe and the Middle East) and always will be, the current risk-off market environment playbook is not. We take comfort in knowing that we've been here before and that these bumpy periods eventually pass. For well-prepared, long-term investors, now is a time to stay the course while evaluating potential opportunities as assets become oversold. Below we offer a series of charts detailing historical parallels that support the case for diversified portfolios and staying focused on remaining invested.

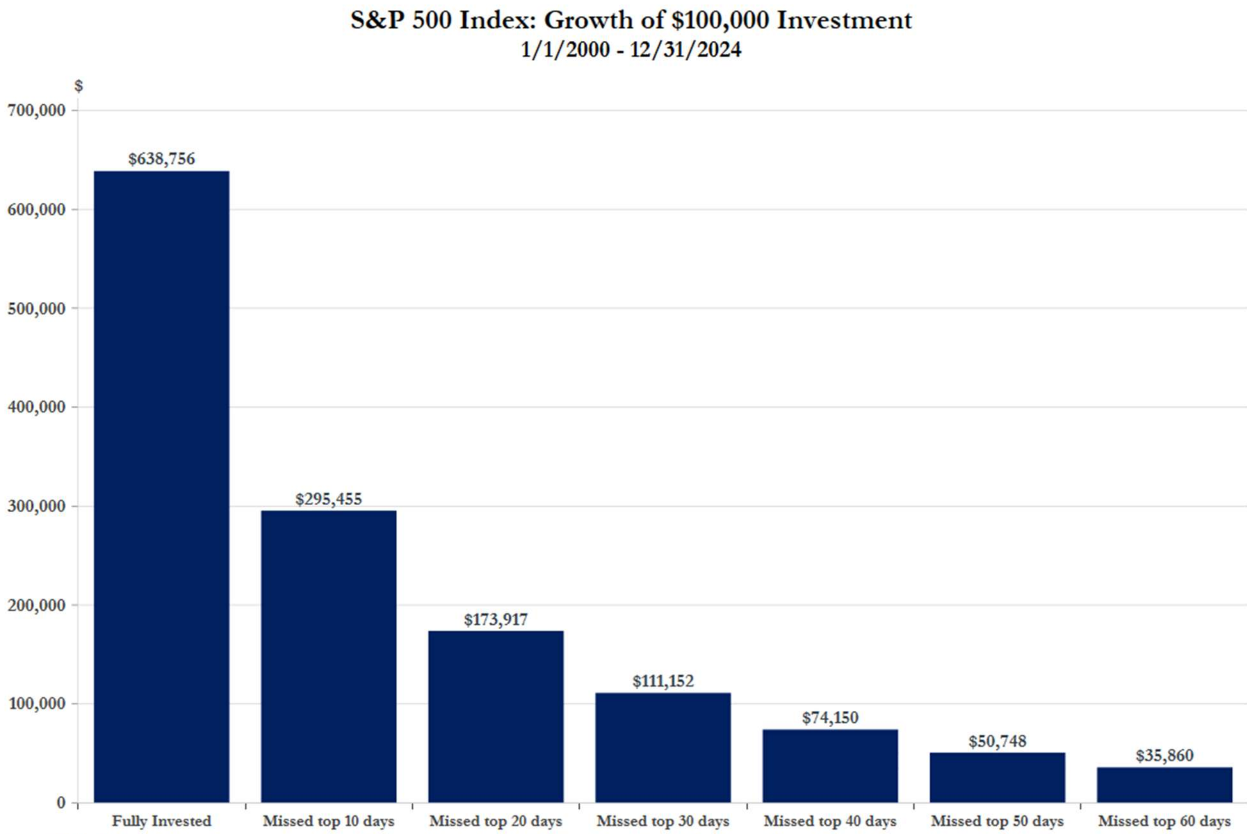
With countless fear-invoking headlines, it's important to keep things in perspective. The table below details the last several bear (or close to it) market drawdowns dating back to Black Monday in 1987. While you often hear about the magnitude of the drawdown, what's less discussed is the results over the next 12-months. This was particularly true for the period following the coronavirus pandemic. Many of the best all-time trading days come within a month of the worst trading days and sitting out from these best days can have a material impact on long-term performance.

S&P 500 Biggest Declines and Following 12-Month Performance

Dates of the S&P 500's biggest declines	Black Monday	Gulf War	Asia Monetary Crisis	Tech Bubble	Financial Crisis	U.S. Credit Downgrade	Trade War	COVID-19 Pandemic	Restrictive Fed Policy
Start Date	8/25/1987	7/16/1990	7/17/1998	3/27/2000	10/9/2007	3/10/2011	10/3/2018	2/19/2020	1/3/2022
End Date	12/6/1987	10/11/1990	8/31/1998	10/9/2002	3/9/2009	10/3/2011	12/24/2018	3/23/2020	10/12/2022
Next 12 Months	12/31/1988	10/31/1991	8/31/1999	10/31/2003	3/31/2010	10/31/2012	12/31/2019	3/23/2021	10/12/2023
U.S. Stocks	-32.8%	-19.2%	-19.2%	-47.3%	-55.2%	-14.2%	-19.3%	-33.8%	-24.5%
Next 12 Months	29.1%	37.5%	39.8%	37.8%	76.8%	31.5%	40.2%	77.8%	23.6%

Source: Source: Bloomberg, S&P Global, as of 12/31/2024. The returns shown are total returns and assume dividends are reinvested into the index. These returns were the result of certain market factors and events for the time period noted and may not be repeated in the future.

With this in mind, it may be tempting to try to time the market. The problem is that this is a notoriously challenging exercise that requires two important decisions – when to sell and when to buy. A few small miscalculations of either move can have a significant impact on results. As seen below, missing out on the 40 best days over the past 25 years would have converted a positive annualized return of ~7.7% to a negative return. Missing out on just the 10 best days would more than cut your return in half.



Source: S&P Global. Returns shown are total returns and assume dividends are reinvested into the index. There returns are the result of certain market factors and events for the time period noted and may not be repeated in the future.

Looking back over the past decade, or century for that matter, there have been plenty of excuses to sell risk assets. Just over the past bull market, we've had a U.S. credit downgrade, a global trade war, the worst global pandemic in over a century, and a prolonged period of restrictive Fed Policy – just to name a few. Amongst all of this, stock markets have still managed to produce impressive gains.

Growth of $100,000 Over the Cycle
1/1/2009 - 3/13/2025

Source: Macrobond, Summit Financial, S&P Global. Returns shown are total returns and assume dividends are reinvested into the index. These returns were the result of certain market factors and events for the time-period noted and may not be repeated in the future.

Many will offer opinions, but our view is that it's nearly impossible to predict how recent events will unfold. What's perhaps more likely is that volatility will remain elevated in the coming months and maybe even years. Given this framework, our conviction in diversified portfolios remains. While this approach can often result in remorse of some form (I lost money, I didn't make as much, etc.), the result is winning by not losing. The below 60/40 stock/bond mix has produced a better return than a globally diversified, all equity portfolio with dramatically less volatility.

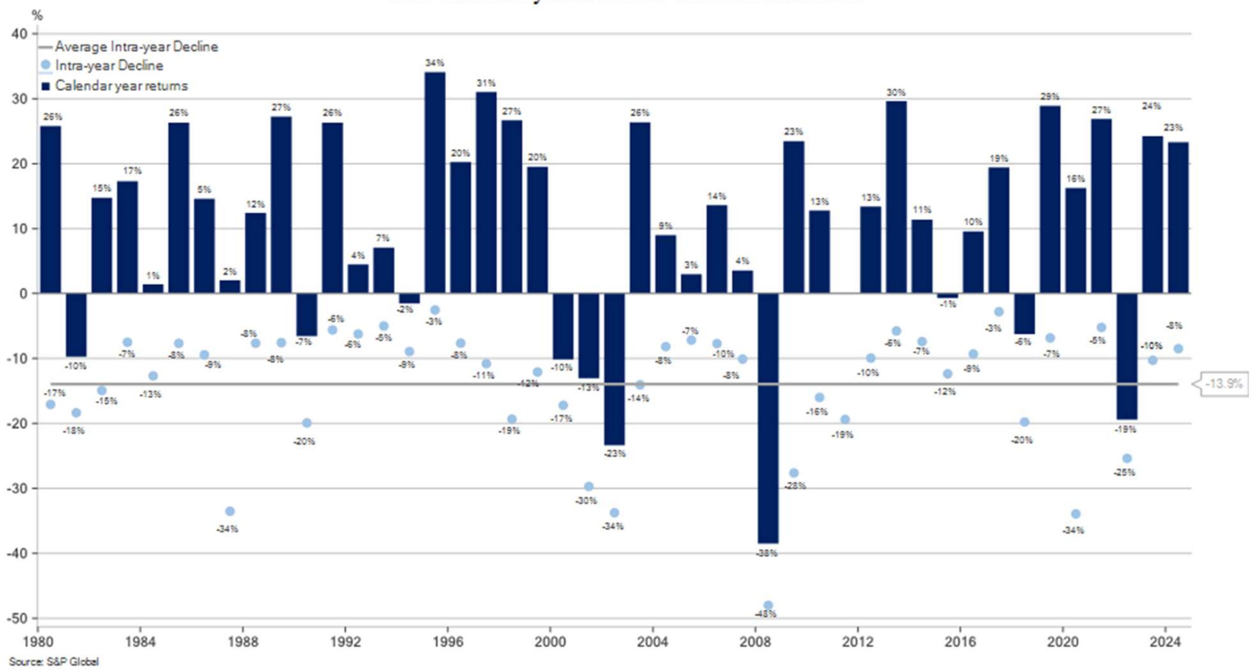
The Case for Diversification: MSCI All-Country World Index vs. Diversified 60/40 Stock/Bond Portfolio

			MSCI ACWI		Diversified Portfolio		
Start Date	End Date	Period	Return	Standard Deviation	Return	Standard Deviation	Sentiment
1/1/2000	12/31/2002	2000 - 2002	-41.4%	17.1%	-17.0%	10.9%	→ "I lost money"
1/1/2003	12/31/2007	2003 - 2007	136.6%	9.5%	81.3%	6.0%	→ "I didn't make as much"
1/1/2008	12/31/2008	2008	-41.8%	25.1%	-26.9%	17.3%	→ "I lost money"
1/1/2009	12/31/2019	2009 - 2019	231.6%	14.5%	184.9%	9.1%	→ "I didn't make as much"
1/1/2020	3/13/2025	2020 - YTD 2025	62.0%	17.2%	38.4%	12.6%	→ "I didn't make as much"
1/1/2000	3/13/2025	2000 - YTD 2025	333.4%	15.7%	333.6%	10.3%	→ "I generated a higher return with less risk"
		Growth of $100,000	$ 433,361		$ 433,635		

Source: Morningstar as of 3/13/2025. The Diversified Portfolio consists of 40% Russell 3000 Index, 20% MSCI ACWI ex. USA Index, 30% Bloomberg U.S. Aggregate Bond Index, and 10% Bloomberg U.S. Corporate High Yield Index.

Volatility will always be an inevitable part of equity market investing. While this period may feel unique, the S&P 500 Index had an average intra-year max drawdown of 13.9% since 1980 despite generating a positive annualized return of ~11.9% during the same period. With index declines nearing 10% at their recent trough, the decline has been near the historical average.

S&P 500 Intra-year Declines vs. Annual Returns



Living through these periods of market uncertainty is rarely an enjoyable exercise but they are likely to occur every few years. It's important to remain calm and stay focused on the long-term. While it can feel like you're missing out on better opportunities, staying the course, and maintaining a diversified portfolio often wins over extended periods. There also may be opportunities to use volatility to your advantage. This can include investing excess cash in compelling opportunities that arise and harvesting losses to offset future gains or to facilitate repositioning your portfolio.

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