While tariffs have roiled capital markets, investors are best served by staying the course.

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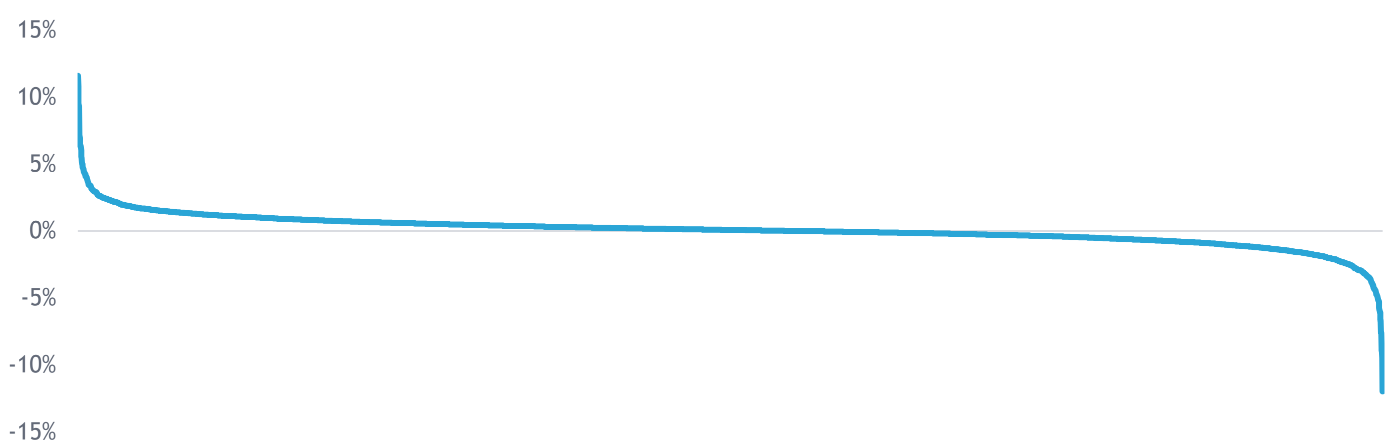
With the advent of the Trump 2.0 tariffs, it's fair to say that the global economy is now in the midst of a widespread and potentially brutal trade war. Market volatility has roiled markets and risen accordingly. These types of environments inevitably test investors' nerves, and it's completely natural to wonder what changes, if any, should be made to a strategic portfolio. While these worries are certainly understandable, it's important to step back and assess them rationally.

Large market swings are not the norm, but they happen somewhat regularly

There are a few important things to keep in mind. First, as Exhibit 1 shows, while daily stock market returns are usually pretty modest, they have "long tails," or occasionally extreme outcomes that do not fit neatly into what statisticians refer to as a standard normal distribution or "bell curve."

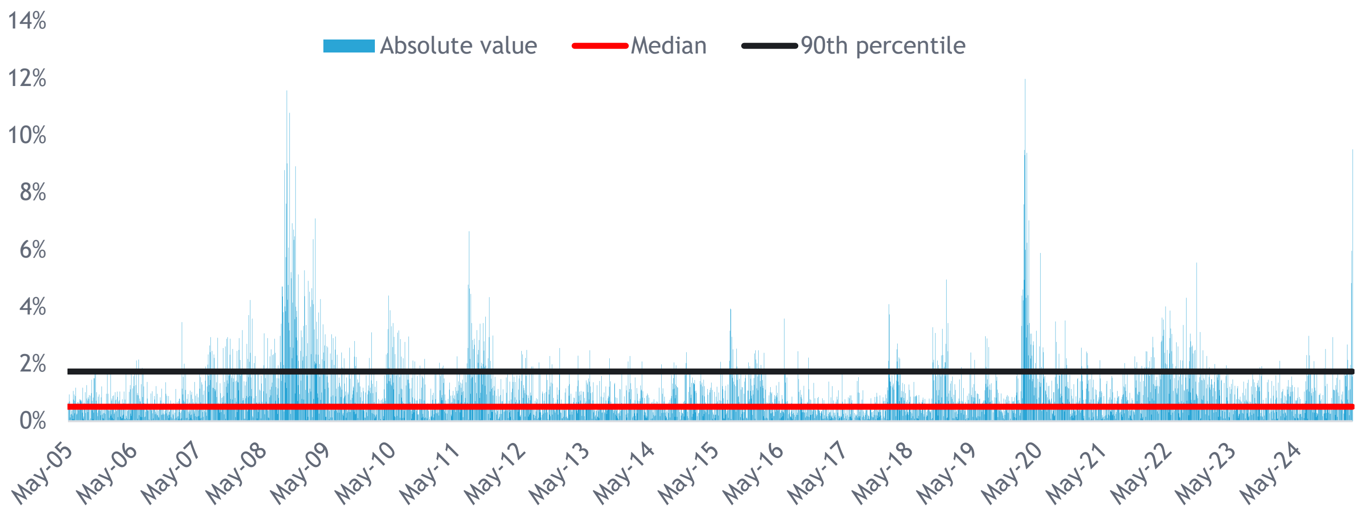
Exhibit 1: Beware the tails



Daily total returns of the S&P 500 Index from May 26, 2005, through April 9, 2025, ordered from largest to smallest. The near-vertical ends of the graph show how significant the largest daily gains and losses have been relative to typical daily returns.
Sources: Bloomberg, SEI.

Second, as depicted in Exhibit 2, extremely volatile trading days tend to “cluster” or occur in bunches. What do these two observations imply? They tell us that when markets are experiencing wide daily swings and significant down days, they also tend to experience similarly volatile upside days. As a result, shifting to a lower-risk posture after markets have already experienced large declines can prove costly in the long term.

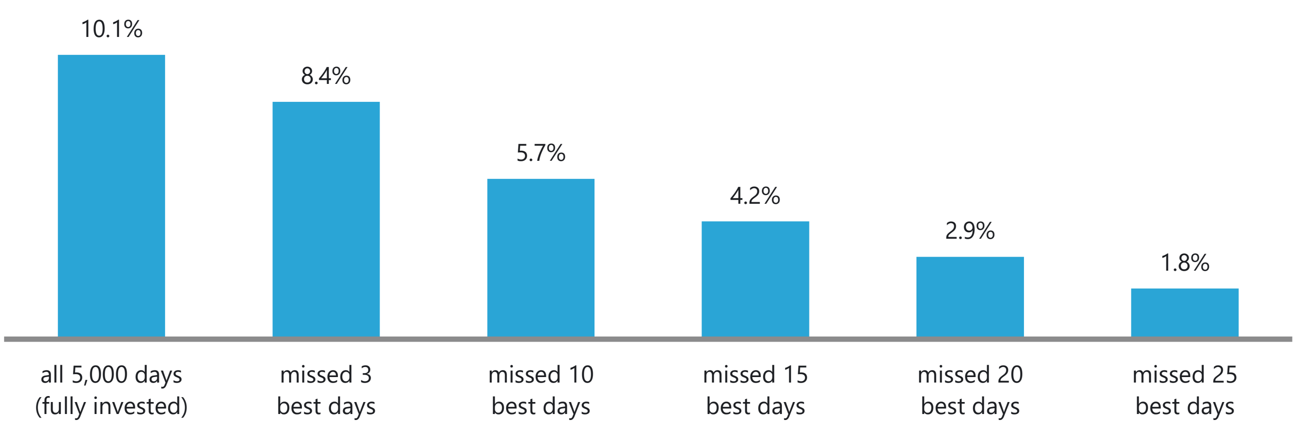
Exhibit 2: Big moves “cluster” in bunches



Absolute value (negative signs removed) of daily total returns of the S&P 500 Index from May 26, 2005 through April 9, 2025. Half of all observations lie below the median line and half above. The largest ten percent of daily moves lie above the 90th percentile line
Sources: Bloomberg, SEI.

We can demonstrate this by looking at historic stock market returns, progressively removing the best-performing days, and seeing what impact that would have had on overall returns. Exhibit 3 shows the results of this exercise using the 5,000 most recent daily total returns of the S&P 500 Index through April 9. Missing just the three best days over that period would have meaningfully lowered annualized returns, and that cost would naturally become greater the more of those large upside days an investor were to miss. If an investor had sat out the best 15-to-20 return days, they would have earned a return similar to what we tend to expect from bond holdings. And if we extended this thought experiment to the 25 best days (just 0.5% of the 5,000 trading days studied), annualized returns would have fallen below 2%.

Exhibit 3: Annualized returns of S&P 500 Index last 5,000 trading days



Sources: Bloomberg, SEI, May 26, 2005 to April 9, 2025 (5,000 trading days).

Of course, this demonstration is what economists would call “highly stylized,” as it’s unlikely than an investor would only miss the very best days in the market. However, it’s still a valuable thought exercise. In periods of elevated stock market volatility, it’s important to remember that wide daily swings have historically tended to cluster and to move in both directions. Thus, giving in to the temptation to abandon a strategic asset allocation in response to heightened market volatility will likely result in poorly timed decisions, both in terms of de-risking and re-risking. As long as an investor holds a strategic portfolio appropriate to their return objectives and risk tolerance, they should stay committed, *even when the going gets rough*. After all, these are the kinds of risks that investors are compensated for taking over full market cycles.

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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