Markets Reacting on Fear or Fact

17 March 2025

Published: 2025/03/27

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> *"There are decades where nothing happens, and weeks where decades happen"*
>
> **Vladimir Lenin**, *Russian revolutionary and politician*

Demo caption

MARKET JITTERS HAVE RISEN OVER THE RECENT FEW WEEKS, AND IN THE WORLD OF "FEAR and greed," fear seems to be on the uptick. That said, headline index levels, such as the MSCI World Index, are not yet in correction territory (down 8% since the 18 February 2025 peak), while the S&P500 has now fallen 10%. This raises the question –why does this latest bout of market volatility feel worse than the numbers suggest?

The answer lies in concentrated areas of the market, where prices have retraced to a much greater degree than any headline index. For example, Mag 7 peaked on 24 December 2024 and has since fallen 18%, with 14% of this decline occurring in 2025 alone. Simply put, the stocks that benefited from momentum on the way up have significant overlap with those now under the most pressure on the way down.

WHAT WE DO KNOW IS THAT MANY ACTIVELY MANAGED FUNDS HAVE BEEN UNDERWEIGHT these concentrated stocks. Therefore, while we are never pleased with a selloff, we are confident that your portfolios are well positioned to weather the storm. At this point, markets do not appear to have capitulated, nor are we in widespread freefall. However, when there is active rotation in markets, it creates opportunities for active managers to enter stocks at potentially more attractive valuations.

Why do markets have the jitters?

As Trump began his second term in the Oval Office, markets accepted that policy-driven uncertainty would increase, leading to heightened volatility. Unfortunately, the degree of uncertainty has exceeded most market participants' expectations, resulting in softening long-term capital sentiment, consumer confidence, and even employment data. Consequently, company earnings are being reviewed with a downside risk.

Tariffs are broadly accepted as inflationary, but markets have yet to establish the expected impact, given that Trump appears to be using tariffs as a negotiating tool. Inflation expectations have a substantial influence on the Fed's interest rate path, growth expectations and the labour market. The stop-and-go nature of the tariff announcements is causing significant market uncertainty. Ideally, the market needs clarity on tariffs and the inflation trajectory, but unfortunately, this does not appear to be forthcoming in the near future.

Staying the course in volatile markets

As always, timing the market is a skill that very few - if any - possess. During market corrections, staying true to your objectives and embracing diversification are most important. Attempting to actively shift between risk-off and risk-on positions is not a productive strategy. Typically, volatility in markets is clustered, and therefore down-days tend to be followed by up-days. Most importantly, growth assets remain the primary driver of long-term investor returns.

While general markets may create a sense of unease, we remain focused on what you are invested in - and for these exposures, we maintain strong conviction.

Simply put, what mistake can you not afford to make? In our view, it's failing to remain invested.

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