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Investment Insight

Overreaction is Never the Right Reaction

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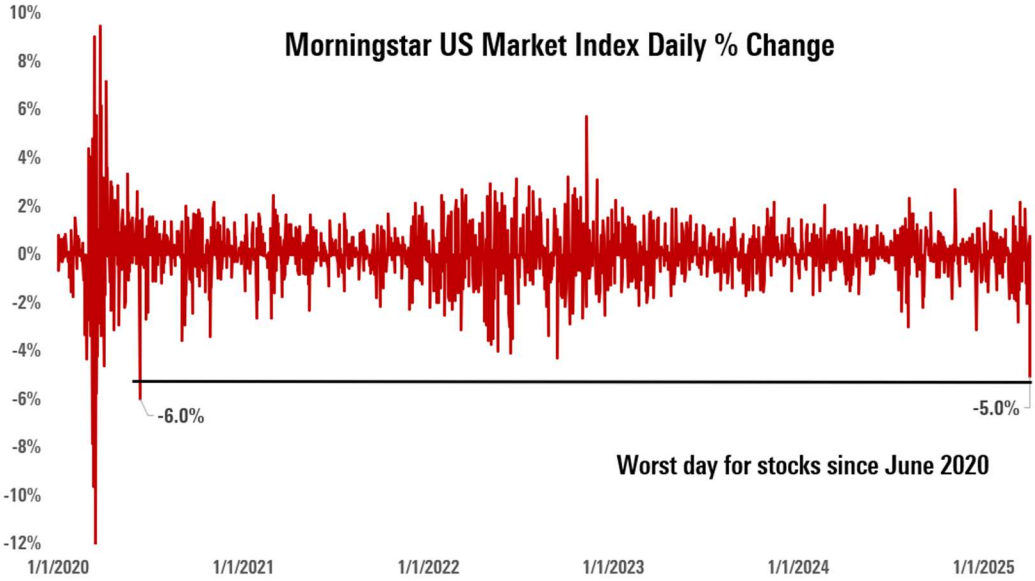
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April 3 was tariff day, and if you're reading this, you already know how it went—it was one of the worst days for markets since COVID.

The Morningstar US Market Index fell 5%, its worst single day since June 2020.

Stocks Worst Day Since COVID



Source: Morningstar Direct. January 2020—April 3, 2025. Stocks represented by the Morningstar US Market Index. Past performance no guarantee of future results. Indexes are not directly investable.

And the reality is, it could continue to get worse. In the words of Morningstar's Chief Economist:

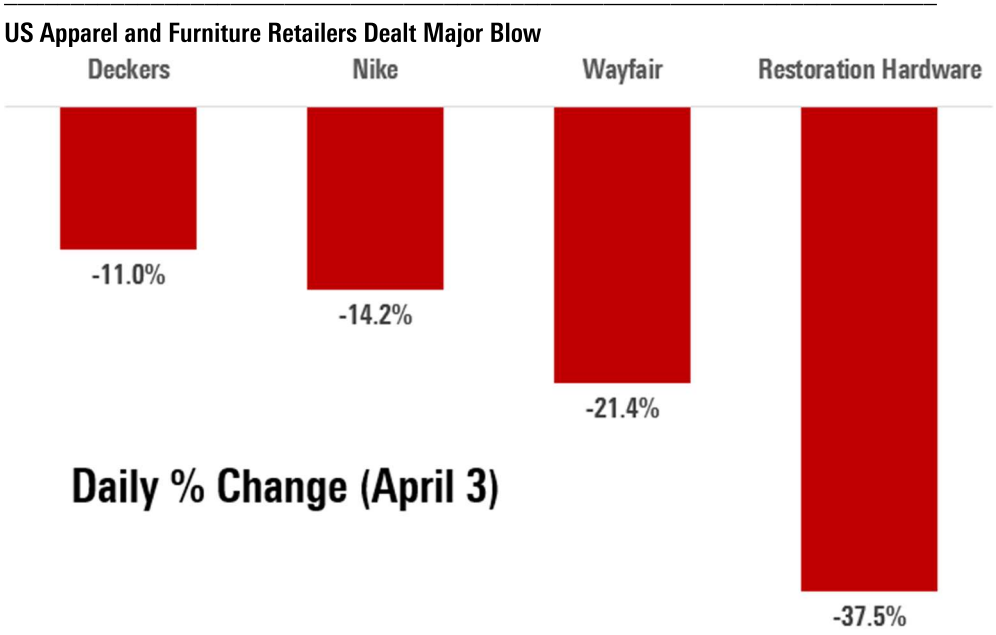
"This kind of regime shift is so unprecedented the historical data and models derived therefrom are only a best guess."

When you put up trade walls between multiple countries, you hurt the efficiency of all of them. And in doing so, there will likely be cascading effects.

We don't exactly know what those cascading effects will be, but if you're a business that's unsure about things, you might pause hiring because you're questioning your profitability—which has downstream effects that can hurt employment and ultimately flow through into less consumer spending.

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Take some of the largest US apparel retailers and furniture companies. Most of their supply chains are overseas. Nike, for example, does nearly 50% of its manufacturing in Vietnam. Because of that, their stocks came under significant fire because of tariffs.



Source: Morningstar Direct. Reflects 1-day stock price performance on April 3, 2025. References to specific securities not an offer to buy or sell. Past performance no guarantee of future results.

These companies are a microcosm of a bigger issue—companies scrambling to figure out what to do next and how to invest. Imagine the conversations happening at the highest levels of these companies: if they move manufacturing out to other locations, it could take years to build and get production ramped up to the required levels.

In short, there are so many unanswerable questions at this point, and markets never wait around for the answers to develop—they start pricing in an unknowable future immediately.

That's what's being observed in stock prices right now. Markets and businesses can remain resilient through a lot, but they hate uncertainty. Uncertainty removes predictability and confidence.

Right now, that's where things sit.

If you're advising clients, it's important to understand what's happening—but it's almost equally important to shun the macro-analysis. As Caldwell alluded to, a lot of it is a *"best guess."*

A more productive conversation is making sure clients know who they are in this market. They're not options traders. They're not swing traders. They're most likely people investing for a happy retirement. For that reason, it's important to provide context on what it means down the road if they want to overreact in the moment. And many will want to—because overreacting always feels like the comfortable thing to do.

Ready-fire-aim, so to speak.

However, we should be mindful not to become prisoners of the moment. April 3 was a bad day, but it barely cracked the top 20 worst single days for markets since 2002, coming in at number 19.

20 Largest 1-Day % Moves

Morningstar US Market Index (July 2002—April 3, 2025)					
Rank	Date	% Change	Rank	Date	% Change
1	3/16/2020	-12.3%	11	10/22/2008	-6.1%
2	3/12/2020	-9.6%	12	6/11/2020	-6.0%
3	12/1/2008	-9.2%	13	10/7/2008	-5.7%
4	10/15/2008	-9.1%	14	3/18/2020	-5.7%
5	9/29/2008	-8.6%	15	1/20/2009	-5.4%
6	3/9/2020	-7.8%	16	11/5/2008	-5.2%
7	10/9/2008	-7.5%	17	11/12/2008	-5.2%
8	8/8/2011	-6.9%	18	3/11/2020	-5.1%
9	11/20/2008	-6.8%	19	4/3/2025	-5.0%
10	11/19/2008	-6.3%	20	8/4/2011	-5.0%

Source: Morningstar Direct. July 2002—April 3, 2025. Data represented by the Morningstar US Market Index. Past performance no guarantee of future results. Indexes are not directly investable.

This list is littered with times when overreacting felt right: COVID, the financial cris, the European debt crisis, and so on. Each of these dates represents a point in time where some portion of investors likely overreacted, and the long-term consequences were severe in terms of opportunity cost.

However, the severity is only ever obvious in hindsight.

People often need to be reminded: you're taking risk, and there's a reason why. It's so you can earn returns that will fund your future lifestyle. There's a purpose—it's not random.

If you want to dial back an equity allocation now because you can't emotionally handle this volatility, that's fine. But understand what the trade-off is: it means you likely have to start removing things from the lifestyle checklist you planned to do with the gains in the future.

Returns come with risk and this market environment is a reminder of that—and it may continue to be. Most people understand that intellectually, but reminders are helpful.

Much of this can read like *"just white knuckle the portfolio and everything will be fine."* Advisors shouldn't have to ask clients to suspend belief.

As Morningstar Chief Multi-Asset Strategist mentioned, opportunities may arise to rebalance out of asset classes that are performing well and into those that are underperforming. This kind of rational investor behavior won't make Page 1 of The Wall Street Journal, but it goes a long way toward potentially increasing future returns.

As Burton Malkiel once said, *"Rebalancing is the closest thing we have to market timing."*

Put simply, the tariffs saga is messy—and that will likely remain so. A full implementation of tariffs could have severe economic consequences, and we acknowledge that. However, like every other period on the list of the 20 worst days for markets, we eventually recovered to new all-time highs.

Optimism should remain that the same will ring true here as well, though we won't venture a guess as to when.

But just remember: overreaction is never the right reaction.

Our team is ready to discuss how our portfolios might fit into your practice and help address your clients' goals. Call 800 886-1749 to schedule a meeting or contact your regional sales representative.

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