Investment Insight
Think Twice

Morningstar Wealth
EMEA

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For Professionals Clients only

- Knee-jerk responses detract value
- Anchor decision making on research
- Stay diversified

Big policy announcements and market gyrations are challenging investors to make sense of what is happening and decide what to do about it.

In April this reached a crescendo with 100%+ tariff rates and threats to remove the Fed chairman. The mounting sell-off at the start of the month proved a golden opportunity to buy discounted stocks, as we did for our clients. The ensuing market rebound was fuelled by a dialling down of some of the more provocative statements and extreme negotiating ploys.

In this environment, it pays to think twice and hold off from immediate reactions because big policy changes have become erratic, since the return of Donald Trump as US President.

Previously, big policy shifts evolved in a slower and more consistent way, as parties followed agreed rules and sought change via group-based decision making. This has given way to power based, one on one, deal making that is less predictable by design. You are hence more likely to be surprised by the twists and turns along the path to finalising policy changes. Big policy changes are also being communicated in a more theatrical way that makes it harder to understand what is really being proposed.

The risk here is that investors feel compelled to respond to dramatic news that is delivered in a very memorable way, by taking immediate action, selling assets to hold cash or switching to a different market.

April showed how you can be whipsawed when you do this, selling at lower prices after bad news has already caused a sell-off, only to then buy at higher prices after better news sparks a rally. The net effect is to reduce your own investment returns and your chance of reaching your financial goals. It's an ugly truth that investors earn less by switching than if they stayed put, as Morningstar's Mind the Gap study clearly shows.

A better approach is to use three simple principles to deal with shocking news and high uncertainty. First, double check the impact of the news on the value of the asset, how much more or less should you pay and how certain can you be, if policy flip-flops are likely? When our research team crunched the numbers in April they found the impact of the news much smaller than the move in asset prices.

Second compare prices with fair values to flag the biggest mispricings – what is the most undervalued and overvalued? Has this really changed enough to justify changing your portfolio, given transactions costs and taxes? This time around we found our ranking of markets did not change dramatically, so a rebalance rather than big portfolio change was the right action to take.

Third stay humble about your ability to forecast and stay broadly diversified across countries, industries and asset classes. Doing this requires a different approach to following conventional market capitalisation indices, because today these have very large exposures to US equities and the IT sector.

In the deafening roar of news about US tariffs, it's easy to forget everything else. Our global research team continues to remind us that there are other opportunities out there worth pursuing. One example is UK equities, as per Morningstar's Equity Research report[1]. Others include Latin America and China, the latter continues to perform well, despite gloomy expectations about the impact of tariffs and trade. Fixed income also remains a bulwark asset amidst uncertainty, with the UK looking more attractive than most other government bond markets, at current yields.

So, our best advice to investors grappling with today's shocks and uncertainty is to diversify, favour markets that reflect too much pessimism and adjust portfolios when your research shows things have changed far more than is priced in.

[1]As at 30 April 2025. Morningstar's fund research and rating activities are not undertaken by Morningstar Investment Management Europe Ltd and in the UK are not regulated by the Financial Conduct Authority. Please contact your local Morningstar office if you require further information.

Important Information

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