Investment Insight
What can you rely upon?

Morningstar Wealth
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For Professionals Clients only

- Economy driven by range of factors not just tariffs
- Diversification and valuation paying off
- Great opportunities come in times of change

Today economic and market conditions call for calm, patience and staying focused on the known and important.

President Trump's policies are **a big change from the post WWII norms of open trade, collaboration, the rule of law and US-led liberal military alliances.** The full economic effects of global tariff negotiations are unknown, but we expect lower global economic growth and higher US inflation in the short term.

So what can investors rely upon if things are changing?

Well, as big as the policy changes are, **there is no change in how economies or markets behave.** The high tariffs of the 1930s did not result in high inflation and they did not cause the 1930's great depression. Its root case was the epic banking crisis that followed the speculative boom of the 1920s. Too much money and acute long lasting supply shocks are the real drivers of a step change in inflation, not tariffs.

While tariff changes matter, they are not the only or the most important driver of economic growth and inflation. **Current economic conditions reflect the effect of fiscal and monetary policy action of the past and the separate business cycles of each industry.** Figuring out what is changing due to tariff changes will require a close analysis of how companies are adapting as well as macro data on how consumers are adjusting. The intertwining of supply chains means there is no simple conclusion to be drawn and a broader view is needed to assess potential economic outcomes and gauge how likely they are.

The good news is that investors can continue to benefit from 3 evergreen strategies.

The first strategy is **diversification**. This is still the best "free lunch" in investing, as the gains from government bonds and shares in defensive industries have shown. Spreading assets globally has also helped reduced the impact, even more so given the weakness of the US dollar. Diversification gives investors staying power to remain invested as it reduces the impact of any single shock or scenario.

The second strategy is **valuation led investing**. This means using fundamental company and economic research to flag when asset prices reflect highly unlikely scenarios and hence the investment opportunity or risk is very high. Valuation explains why many of 2025's biggest losers were 2024's biggest winners: they had simply become priced for perfection, as reflected in our underweight to US IT companies. In my 40 years of investing, environments like today's throw up great buying opportunities because investors trap themselves by focusing only on how bad it could get, ignoring other scenarios. Great opportunities are coming up.

The third strategy is **patience**. In public markets there is less competition for buying investments that might take longer to pay off than 12 months. That's because incentives drive behaviour and in most cases it's the next 12 months that moves the needle on compensation. Morningstar's alignment is to a much longer payoff period as this rewards patience and encourages buying when the opportunity is greatest rather than most likely to occur soon.

This month we are taking profits on winners and recycling capital to where we see better value emerging. We remain broadly diversified to navigate the evolving tariff negotiations, economic conditions and market reactions.

Important Information

About Morningstar Wealth