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Beyond market sentiment: Spotting new investment opportunities in the midst of volatility

In the near term, uncertainty is abnormally high

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It has been an eventful first quarter in global economies and markets, to say the least. The quarter began with widespread investor optimism, primarily about U.S. economic and corporate earnings growth. But as the quarter wore on, optimism quickly gave way to concern that policy changes might negatively impact both growth and inflation.

Markets have been volatile as a result, though not uniformly across regions. After a long period of underperformance, European equity markets began to outperform on the possibility that fiscal policy stimulus might become a reality—and as the likelihood increased, negative investor sentiment turned positive.

In our view, sentiment matters, and we need to consider it, but sentiment is fickle and difficult to predict—economic and market fundamentals are more analyzable and enduring. Against a backdrop of shifting policy risks and geopolitical tensions, we are closely focused on careful and thorough analysis of fundamental economic and market data.

In the near term, uncertainty is abnormally high, and volatility is likely to remain elevated as long as it lasts. Even as news headlines come and go, we are focused on strong risk management—while simultaneously looking to take advantage of any volatility-driven market dislocations as they appear. Our goal is to navigate a potentially turbulent short-term outlook as we make progress toward what could be a more constructive environment for the longer term.

Here, we recap key events, interpret the risks and lay out our plan for navigating current market dynamics.

Putting market volatility in context: Where have we been?

Whenever markets undergo a bout of significant volatility, it is often the result of new information challenging a widespread and firmly held assumption. In 2022, for example, the consensus view held that inflation would be "transitory" based on the deflationary pressures that had been driving the global economy since the global financial crisis (GFC).

When inflation proved to be more persistent, markets responded by pricing in some of the sharpest increases in interest rates on record. With that assumption came an expectation that economies would not be able to withstand such sharp rate rises, and recession would surely follow—a belief that drove down equity markets and bond markets simultaneously.

While painful, that downdraft proved temporary because—once again—the prevailing view was wrong. As macro data proved more resilient than expected (and actually accelerated to quite robust levels), equity markets rallied and recession fears faded away.

By the end of 2024, U.S. equities—buoyed by the growth of U.S.-based tech stocks—led the advance, trading at historic valuations. Other markets, left behind, traded much more cheaply. From a fundamental perspective, this dynamic appeared broadly reasonable, but risks were elevated given the uniformity of opinion in markets.

Current events force a reassessment: Where are we now?

When 2025 began, markets held a view that growth would remain strong despite higher interest rates, but that assumption is now being challenged—and markets are contending with the potential effects of changing global trade policies.

This shift is impacting investors' collective willingness to take risk, hence the surge in equity market volatility. No one yet knows which regions will be most affected. The widely held belief that U.S. equities—especially mega-cap tech stocks—would perpetually top the performance tables is also coming under intense scrutiny.

Lately, trade policy has been making global headlines. From a markets perspective, the key takeaway is this: At the start of 2025, many investors assumed that trade tariffs would be used primarily as a bargaining chip to secure various concessions—and then quickly reversed. That assumption has fallen away. Now, markets are pricing a higher probability that tariffs will be used to alter global terms of trade more fundamentally.

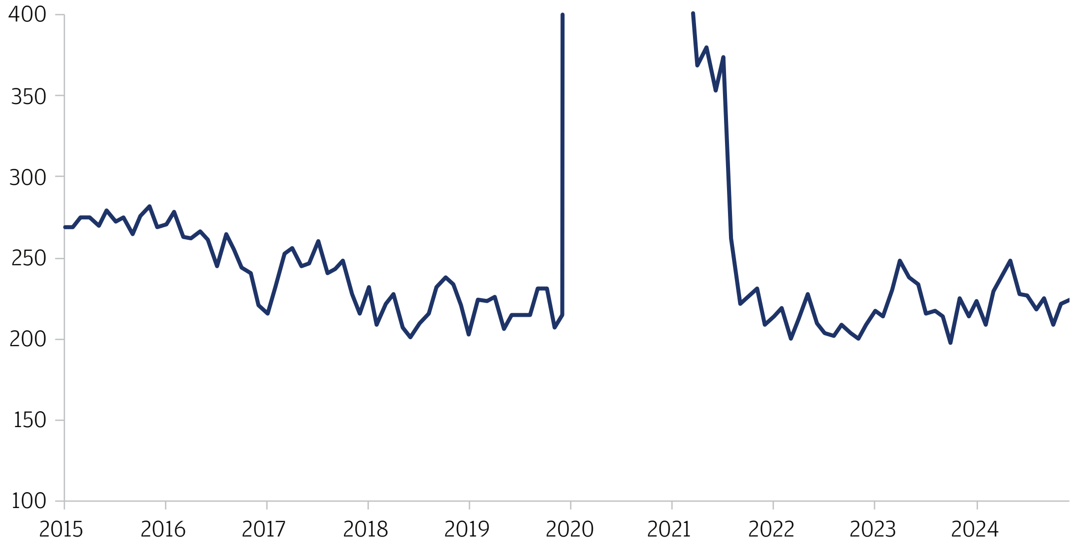
Without clarity about the potential size, scope and duration of future tariffs, however, uncertainty reigns. In the short term, companies may find it more difficult to plan ahead, which can impact hiring and investment decisions. We have already seen consumer confidence being affected, as people question their employment prospects and the future cost of goods. At the same time, small business uncertainty is rising, as companies watch and wait for more policy clarity, potentially delaying investments in capital and labor.

We entered this period of turbulence with healthy fundamentals in some segments, such as the U.S. labor market. Initial unemployment claims were in line with pre-COVID levels and wage growth was higher—and in the United States, where GDP is primarily driven by consumption, these two economic indicators are vitally important (**Exhibits 1A** and **1B**).

[1] University of Michigan, "Surveys of Consumers." Data as of March 21, 2025.

Initial U.S. unemployment claims remain contained; the data is not signaling labor market stress

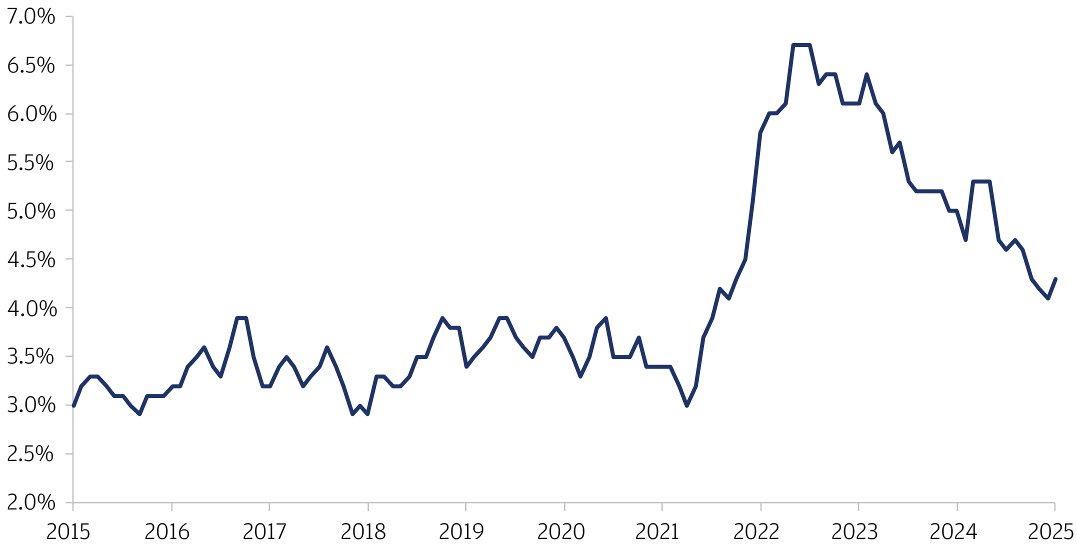
EXHIBIT 1A: U.S. INITIAL JOBLESS CLAIMS (IN THOUSANDS)



Source: Bloomberg Finance L.P. Data as of February 28, 2025.

U.S. wage growth has retreated but remains above pre-pandemic levels

EXHIBIT 1B: U.S. WAGE GROWTH* (OVERALL THREE-MONTH MOVING AVERAGE)



Source: Bloomberg Finance L.P., Federal Reserve Bank of Atlanta. Data as of February 28, 2025.

*Based on the Atlanta Federal Reserve's Wage Growth Tracker.

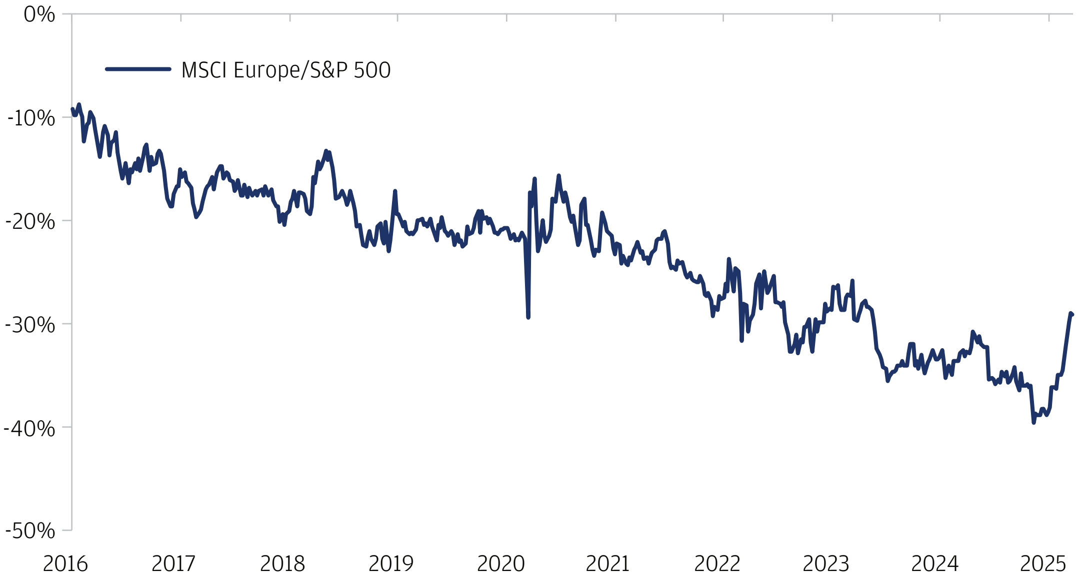
That said, the impact of trade uncertainty could quickly change the economic outlook if companies become more cautious about hiring, or if consumers pull back spending out of concern for the future. So far, the tariffs have been more of a Wall Street than a Main Street event, but the longer uncertainty persists, the more likely this is to change.

Regional differences abound

We should not limit our focus to U.S. markets. Although emphasizing U.S. equities in global portfolios has been a rewarding strategy for years, thanks to strong economic growth in the United States (and exceptionally strong earnings growth for U.S.-based technology companies), that outperformance produced an extreme valuation gap. At end the of 2024, the 12-month forward P/E ratio was 21.6x for U.S. equities versus 13.5x for European equities, among the widest disparities since the GFC (**Exhibit 2**).

At year-end 2024, European equities were trading at the largest discount to U.S. equities in more than a decade

EXHIBIT 2: P/E RATIO (NEXT 12 MONTHS) MSCI EUROPE INDEX RELATIVE TO THE S&P 500



Source: Bloomberg Finance L.P. Data as of March 21, 2025. Past performance is no guarantee of future results. It is not possible to invest directly in an index. ource: Bloomberg Finance L.P. Data as of March 21, 2025.

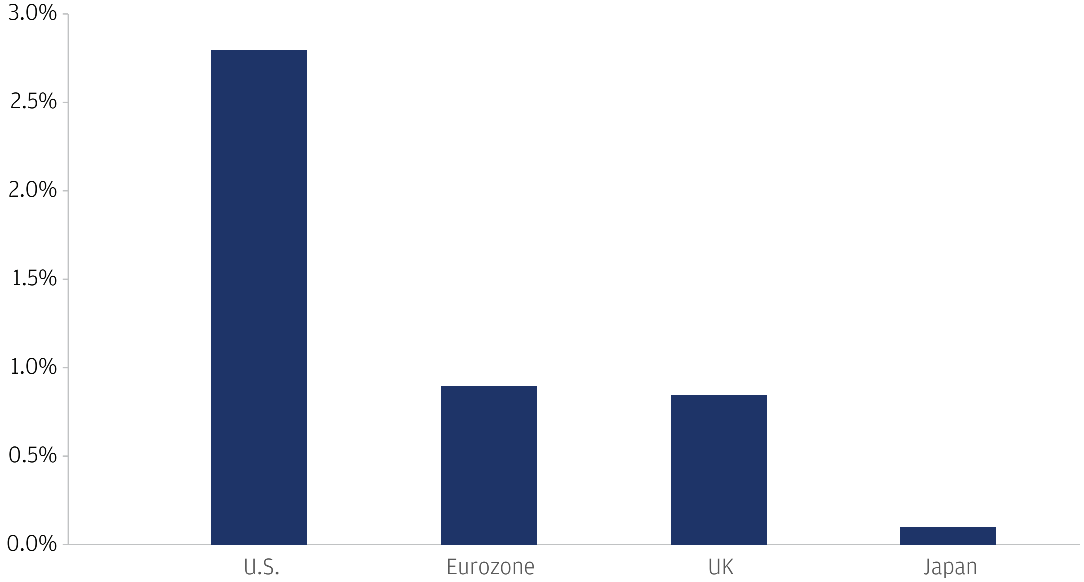
A valuation gap of this magnitude creates potential for sudden change, much like a coiled spring. Perhaps nothing happens to relieve the pressure, but if a catalyst emerges that changes investors' perceptions, the resulting relative price movement can be dramatic. Moreover, even a small change in the relative valuation can have a big impact on relative returns—as we saw in Q1, when European equity markets substantially outperformed those in other regions, including the United States.

Navigating uncertain markets: Our core positions

Coming into 2025, growth was especially strong in the United States against a generally healthy global macro backdrop (**Exhibit 3**). European growth was flat to slightly positive with high recession risk in Germany, but stronger growth in other countries like Italy and Spain.

Coming into 2025, the United States had a clear growth advantage relative to its developed-market peers

EXHIBIT 3: 2024 CALENDAR YEAR REAL GDP GROWTH



Source: Bloomberg Finance L.P. Data as of March 31, 2025.

From a sector perspective we saw continued strength in semiconductor orders, validated by strong order growth from the so-called "hyperscalers," companies for whom large investments in AI-related technology are central to their businesses. Fundamentals for financial companies were also positive, as seen in improving trends in net interest income for banks. We also saw continued support for gold, primarily driven by strong demand from emerging market central banks shoring up their reserves.

These fundamentals led us to establish some core positions relative to our strategic allocations as the year began. Entering 2025, we were overweight equities versus bonds, underweight Europe, overweight semiconductors, gold miners, oil service companies and financials. Within fixed income we were near benchmark weights in government bonds and overweight high yield corporates, reflecting a benign default environment.

Drawing on the power of risk management

While comfortable with market fundamentals, we recognized in Q1 that some risks were elevated. When we looked at semiconductors, for example, we saw risks to valuations, a deceleration in the investment cycle, and the potential for AI innovators, such as China's DeepSeek, to shift demand to lower-end chips. We trimmed our position in semiconductors in early February and shored up our allocations to other potential beneficiaries in the technology sector.

Gold mining stocks, as represented by the GDX ETF, have done exceptionally well over the past year and were up approximately 15% in January, which made profit taking prudent.[2] We also shifted our European equity position from underweight to a small overweight in mid-February. This proved to be a prescient move, as market sentiment turned positive quickly when investors reassessed risks to U.S. equities and the potential for greater fiscal spending in Europe to support domestic growth.

We also added a small position in utilities, as it is always important to have some defensive exposures in a portfolio even when the economic skies look clear. Beyond their usefulness as defensive holdings, utilities also interest us because they may benefit from potential growth drivers, such as rising incremental demand driven by data center expansion.

[2] Bloomberg Finance L.P. Data as of March 31, 2025.

Preparing for a volatile year: Now what?

Volatility will likely remain elevated, as long as policy uncertainties—which hold the potential to impact the macro environment and corporate earnings—persist. In the short term, we are focused on maintaining strong risk management. We see no need to have outsized positions in an environment like this to produce alpha, but we do see a need to be very deliberate about the positions we take.

The upside of volatility is that it presents opportunity, and the way to judge the durability of an opportunity is to stay laser-focused on the underlying fundamentals. Our portfolio reflects an appropriate degree of caution, while also permitting us to stake out positions that reflect our key views (**Exhibit 4**). We remain vigilant about potential shifts in underlying market fundamentals, and to any opportunities that high volatility might present.

Our portfolios are positioned for normalizing, average growth and maintain their hedges against tail risk

EXHIBIT 4: ASSET CLASS OUTLOOK

	CAUTIOUS[1]		NEUTRAL[2]		CONSTRUCTIVE[3]
EQUITY	○	○	○	●	○
United States	○	○	○	●	○
Europe	○	○	○	●	○
Japan	○	○	○	●	○
Emerging Markets	○	○	●	○	○
ALTERNATIVES	○	○	●	○	○
Hedge Funds	○	○	●	○	○
REITs	○	○	●	○	○
Commodities	○	○	●	○	○
FIXED INCOME	○	●	○	○	○
Core	○	●	○	○	○
TIPS	○	○	●	○	○
Corporate IG	○	○	●	○	○
Extended Cash[4]	○	○	○	●	○
Cash	○	○	●	○	○

Source: J.P. Morgan Endowments & Foundations CIO Team. Data as of March 31, 2025.
[1] Performance is expected to be below average and/or portfolios have below average allocation and/or cautious execution.
[2] Performance is expected to be in line with other asset classes, no major execution bias.
[3] Performance is expected to be above average and/or portfolios have above average allocation and/or aggressive execution.
[4] We do not have an allocation to credit across most portfolios but may consider adding exposure.

For illustrative purposes only. This does not reflect the performance of any specific investment scenario and does not consider various other factors which may impact actual performance. Estimates, forecasts and comparisons are as of the dates stated in the material.

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All index performance information has been obtained from third parties and could not be relied upon as being complete or accurate. Indices are not investment products available for purchase. Indices are unmanaged and generally do not take into account fees or expenses. Furthermore, while some alternative investment indices may provide useful indications of the general performance of the alternative investment industry or particular alternative investment strategies, all alternative investment indices are subject to selection, valuation, survivorship and entry biases, and lack transparency with respect to their proprietary computations. A Benchmark is a standard against which the performance of a security, mutual fund or investment manager can be measured. Generally, broad market and market segment stock and bond indices are used for this purpose.

VanEck Gold Miners ETF (GDX) is a modified market-capitalization weighted index primarily compromised of publicly traded companies involved in mining gold and silver.

MSCI Eurozone Index ("EUR LC") is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. As of June 2007, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. (Source: MSCI Barra)

S&P 500 Index ("United States LC"), widely regarded as the best single gauge of the United States equities market, includes a representative sample of 500 leading companies in leading industries of the United States economy. Although the S&P 500 focuses on the large-cap segment of the market, with 75% coverage (based on total stock market capitalization) of United States equities, it is also an ideal proxy for the total market. (Source: Standard & Poor's)

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