

Although Markets Are Volatile, It's Not Time to Panic

Extreme volatility feels uncomfortable—but what we're seeing, from our perspective, is actually healthy. In times like this, we believe the best course of action is to stay invested.

Authors

Ann Miletta

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Topic

Market Events

Key takeaways

- The latest events do not mean a recession, mild or otherwise, is imminent—just that it's one potential outcome now on the table.
- In times like this, we believe the best course of action is to stay invested through corrections.
- It's also important to remember that volatility often leads to future opportunities. When seeking companies, we believe that it's critical to focus on quality.

Fear has gripped the markets as investors react to recent data indicating the U.S. economy is slowing.

Extreme volatility definitely feels uncomfortable, but stepping back to view the “big picture” reminds us that what we're seeing—from my perspective—is actually healthy. The market had been priced for a perfect landing, which historically has been nearly impossible to achieve. If a correction hadn't occurred and markets had continued on as they were—priced for a best-case scenario—the odds for experiencing a more dramatic disappointment later would have climbed much higher.

With the correction we are experiencing now, the markets are at least pricing in the *possibility* that the ultimate landing could be a bit rocky. The latest events, though, do not mean a recession, mild or otherwise, is imminent—just that it's one potential outcome now on the table. No one knows for certain what lies ahead.

In times like this, we believe the best course of action is to stay invested through corrections because it is almost impossible to sell at the top and then buy back at the bottom—not to mention the tax consequences that could be incurred. We are closely monitoring data trends, looking for signs of stress, and paying attention to companies' fundamentals to help us discern what could lie ahead and adjust as needed.

Once the initial shock of a correction subsides a bit, it is important to remember that volatility often leads to future opportunities. As we spoke about in our 2024 Investment Outlook, we believed that focusing on **quality** would be a key to success in 2024. Below are key characteristics we look for to identify quality companies:

- **Fluid cash flow:** Sustainable cash generation through all parts of the economic cycle
- **Well-structured balance sheet:** Modest financial leverage, elongated maturity profile, margin of safety versus debt covenants
- **Competitive advantage:** A differentiated product or service with strong customer demand

- **Proven management team:** Skilled capital allocators who have experience navigating through an economic cycle

When seeking quality companies, it's also critical to evaluate whether it's an appropriate holding for a portfolio. This is especially important during periods of heightened volatility, like today.

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