Navigating Volatility: Staying the Course

A steady stroke through rough water

Rowing Together Through Rough Water

Markets have been choppy this month, and we want you to hear from us directly: your plan was built for moments like this. In rowing, the crews that win aren't the ones that never hit rough water. They're the ones that keep a steady rhythm, trust the boat, and pull in the same direction.

That is how we approach volatility at Monarch Capital Advisors. Your portfolio was designed around your goals: stable income for essentials, investments for lifestyle goals, protection for the unexpected, and a legacy that reflects your values. None of those goals changed this week, and neither has our commitment to keeping your best interests at the center of every decision.

What's Driving the Volatility

This is mostly a reset in AI and semiconductor stocks, not a broad collapse. Global chip stocks fell nearly 30% from their peak by November 6, yet the S&P 500 dipped only about 6%, because other parts of the market held up (State Street).

Three forces are behind the swings:

- **An unwind of crowded AI trades.** After the midterm elections, investors began questioning how fast data-center spending can grow amid possible regulatory and political limits. Heavy positioning made the selling sharper.
- **Rate worries.** Some Fed officials have signaled further rate increases may be needed, and the 10-year Treasury yield has approached 5% (Trading & Investment News).
- **Stock-specific headlines.** A short-seller report on a major chipmaker added pressure this week, and the VIX, Wall Street's "fear gauge," topped 30 on November 20 for the first time since March.

For context, this is the S&P 500's fourth pullback of more than 3% in 2026. The deepest, earlier this year, was 8.9%, and the market recovered from each of the earlier three.

Why We Stay the Course

The biggest risk in volatile markets is usually not the drop itself. It's reacting to it. Here's why we encourage discipline:

- **The best days hide next to the worst ones.** Over the past 20 years, the S&P 500 returned 11.3% a year for fully invested investors. Missing just the 10 best days would have cut that return by more than half (J.P. Morgan Asset Management). Many of those best days arrived within weeks of the worst.
- **Sharp chip selloffs have reversed quickly before.** The 2025 semiconductor drawdown, of similar size, recovered in 65 days.
- **Diversification is doing its job.** During this pullback, consumer staples, health care, real estate and financials posted gains, and bonds and infrastructure cushioned losses.
- **Your plan already accounts for this.** Money you need in the near term is set aside in stable income strategies, so market swings don't force you to sell at the wrong time.

> *Like a crew in rough water, the goal is to hold a steady stroke rather than stop rowing.*

Where We See Value and Opportunity

Volatility tends to create entry points for patient investors. We believe market leadership is broadening beyond a handful of large tech names, and several areas offer reasonable valuations with improving fundamentals.

AREA	VALUATION SIGNAL	WHY IT'S COMPELLING
Health Care	Relative forward P/E in the bottom fifth of the past 15 years	Earnings growth expected to rebound to about 19% in 2027; strong biopharma innovation; defensive in downturns
Financials	Relative multiples near multi-year lows	Easing credit and growth risks; potential regulatory relief
Small & mid-caps, equal-weight	Small caps near 18x forward earnings vs. 24x for the S&P 500	Quality smaller companies were left behind in the AI rally and may benefit as returns broaden
Industrials & Materials	Materials near the middle of its five-year valuation range	Infrastructure, AI build-out and manufacturing demand; Materials earnings estimated up 40% in 2026
Quality technology, selectively	Prices reset after a ~30% chip drawdown	Long-term AI demand remains intact; we favor businesses with clear paths to monetization

Sources: State Street Sector Market Perspectives Q3 2026; Oppenheimer 2026 Market Outlook. Valuation figures are as of each source's publication date.

We'll add to these areas thoughtfully, through rebalancing and independent due diligence, rather than chase short-term moves.

Our Approach From Here

We're watching three things closely: the Fed's December 9 decision, Treasury yields, and whether AI spending plans hold up into earnings season. In the meantime, we are:

- Rebalancing where volatility has pulled allocations off target
- Reviewing tax-loss harvesting opportunities before year-end
- Confirming each household's near-term cash and income needs are fully covered

Our team is here for you. If the headlines have you uneasy, or your circumstances have changed, please call us. A conversation is always better than a reaction, and we'd welcome the chance to walk through your plan together.

Matthew Roberts and Robert Warnock, Managing Partners

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