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Keeping Perspective During A Volatile Market

Over the past few weeks, markets have experienced a noticeable increase in volatility, particularly across technology and AI-related investments. We wanted to provide some perspective on what is driving the recent declines, what they may mean for investors, and how we are thinking about the environment.

WHAT IS CAUSING THE VOLATILITY?

There is not one single issue driving markets lower. Instead, several concerns have come together:

- **AI expectations are being reset.** Investors are increasingly questioning whether the significant amount of money being spent on AI will generate profits quickly enough to justify the valuations of many technology companies.
- **Inflation and interest rates remain a concern.** Persistent inflation and higher energy prices have increased expectations that interest rates could remain elevated, or potentially move higher.
- **Some of the market's biggest winners became crowded.** When a large amount of investor money is concentrated in the same companies and themes, a change in sentiment can lead to sharper declines.
- **Investors have become more cautious.** As uncertainty has increased, money has moved toward areas viewed as safer, including U.S. Treasuries and cash.

WHAT DOES THIS MEAN FOR INVESTORS?

First, volatility does not automatically mean something is fundamentally wrong with the financial system or that investors should abandon their long-term plans. Markets periodically reprice risk, and uncomfortable periods like this are part of long-term investing.

The more important question is whether anything has changed in your financial plan. Money you expect to need in the near term should not depend on a quick market recovery. For longer-term assets, however, reacting to a short-term decline by selling can turn temporary volatility into a permanent loss.

WHERE COULD THERE BE OPPORTUNITIES?

Periods of market stress can also create opportunities. This may be a good time to rebalance portfolios, add to investments that have fallen below their intended allocations, improve diversification outside of concentrated technology positions, evaluate attractive yields in high-quality fixed income, and consider tax-loss harvesting where appropriate.

WHAT ARE WE WATCHING?

The primary risks remain inflation and interest rates, further declines in highly valued AI-related investments, geopolitical and energy-related disruptions, and whether weaker financial markets begin to meaningfully affect consumers, businesses or overall economic growth.

The bottom line: A few difficult weeks in the market should not rewrite a well-built financial plan. Make sure near-term cash needs are protected, stay appropriately diversified, rebalance when warranted, and resist the temptation to make long-term decisions based on short-term headlines.

If your goals, cash needs or comfort with risk have changed, we welcome you to reach out to BridgePort at any time. If they have not, patience and discipline remain important parts of the investment process. We look forward to connecting with you.

Warmest regards,
Your BridgePort Financial Solutions Team
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