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AI Uncertainty and Market Volatility: Keeping a Long-Term Perspective



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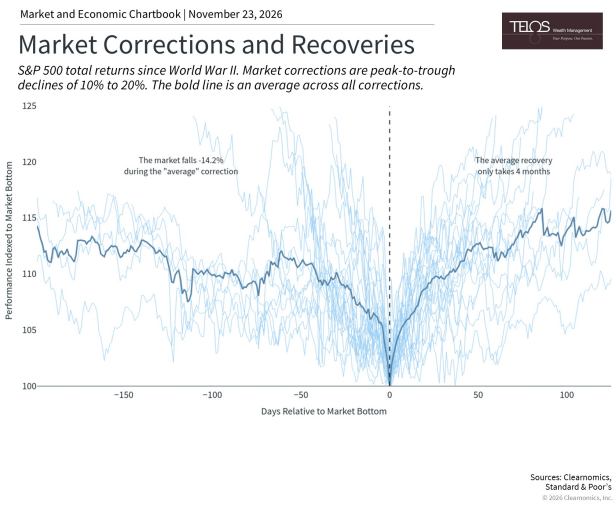
Market volatility is rarely the product of a single factor, and recent swings across major indices reflect this complexity. A series of notable developments, including leadership changes at Nvidia and the initial public offering (IPO) of Anthropic, rippled beyond AI stocks and pushed the S&P 500 and Dow Jones Industrial Average into correction territory, while the Nasdaq briefly gave back all of its year-to-date gains.[1]

Since those declines, many areas of the market have recovered and recouped a portion of those losses. The reinstatement of Jensen Huang as Nvidia's CEO, with the reported involvement of the White House, played a notable role in that rebound.[2] This sequence of events serves as a reminder of how rapidly markets can respond to new information and underscores the importance of maintaining a long-term perspective. As these events continue to develop, the central question remains whether the hundreds of billions of dollars flowing into AI infrastructure will ultimately deliver sufficient returns.

It is worth noting that even as markets absorbed these moves, meaningful scientific progress was being made. A mathematician at Anthropic, working alongside AI, developed a proof of the Riemann Hypothesis, a problem that had remained unsolved for 167 years and sits at the foundation of many areas of mathematics.[3] While this breakthrough will not immediately affect the daily lives of most people, its significance for science and technology is difficult to overstate.

Despite the pace of these developments, the tangible benefits of AI for companies and investors can still feel abstract, even as the costs tied to AI infrastructure investment show up directly in free cash flows. Many investors will naturally draw comparisons to the dot-com bust of the early 2000s. While there are surface-level similarities, perhaps the more instructive lesson from that period is that the infrastructure built during the boom powered decades of innovation that followed. Understanding how to stay balanced amid this backdrop is one of the central challenges investors face today.

Corrections are a normal part of investing



At their most severe point, the S&P 500 and Dow fell into correction territory, defined as a decline of between 10% and 20% from recent peaks, while the Nasdaq erased its year-to-date gains and approached bear market levels, defined as a fall of 20% or more.[4] These broad declines were concentrated in technology stocks, particularly semiconductor companies that supply the hardware powering AI systems. Between October 6 and November 20, Nvidia shares declined approximately 48%, contributing to pullbacks of roughly 18% for the Nasdaq and 12% for the S&P 500.[5]

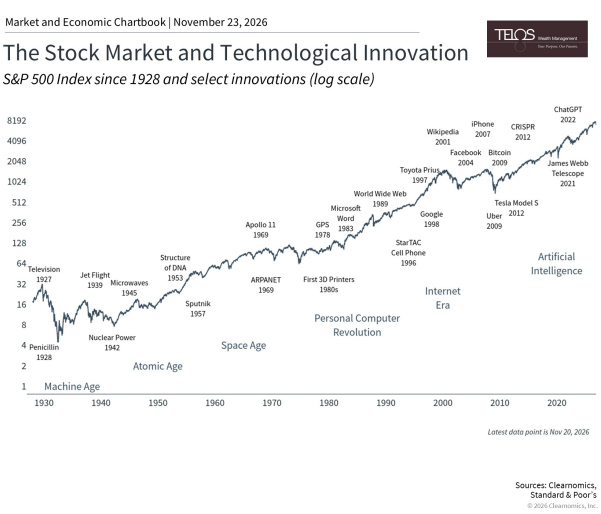
Technology stocks have an established history of short-term volatility, so swings of this magnitude are not unprecedented. Even setting aside the most recent moves, the Nasdaq experienced several notable fluctuations in the past year alone. From early June to the end of July, the Nasdaq fell 9.8% from its peak, driven by many of the same AI-related concerns weighing on markets today.[6] That pullback was followed by a sharp recovery of 13.0%, with the index reaching a new all-time high in early October.[7] From October 2025 to the start of the Iran war in March, the Nasdaq declined 12.6% before rebounding into the summer.[8]

Recent volatility has also moved in both directions. While the full story continues to unfold, the news of Jensen Huang's reinstatement as CEO contributed to sharp recoveries across the Nasdaq, S&P 500, and Dow. Moves like these are characteristic of event-driven markets, where prices adjust rapidly as new information becomes available. They are also precisely the kind of environment that balanced portfolios are constructed to help investors navigate.

The accompanying chart offers a broader perspective on market corrections. Since World War II, the S&P 500 has declined approximately 14% on average during corrections and has typically recovered within roughly four months.[9] No two corrections are identical, and the depth and duration of any given decline depend on its underlying causes. More modest pullbacks, including several that occurred since the start of 2025 such as the market's reaction to the "Liberation Day" tariffs, rebounded relatively quickly, supported by solid corporate profits and economic growth.

Strong fundamentals do not eliminate the risk of corrections, and historical recoveries offer no guarantee that markets will always rebound quickly or that further declines cannot occur. Even so, these examples illustrate that a healthy economic foundation can provide meaningful support to portfolios over the long run.

Innovation has historically driven long-term market gains



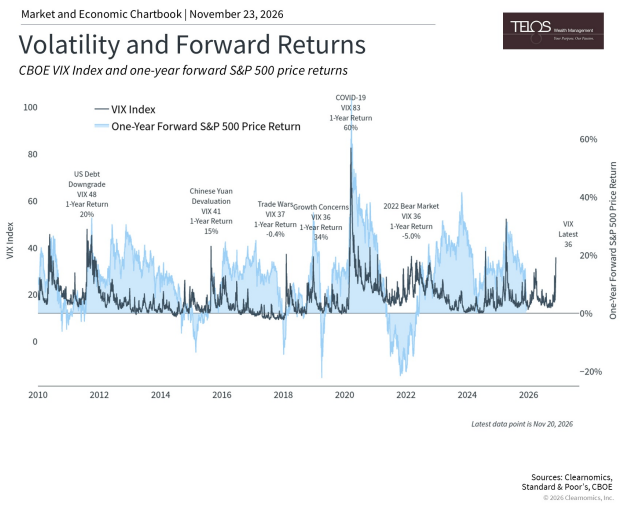
The chart above illustrates that each major wave of innovation over the past century brought both enthusiasm and uncertainty, yet the stock market has trended upward over time as new technologies were adopted across the broader economy. What ultimately mattered was not which companies commanded the most attention in their early stages, but whether new technologies genuinely transformed how businesses operated and how people lived.

The dot-com era offers a useful point of comparison. While many investors recall the large number of unprofitable companies founded during that period, the era also produced a substantial build-out of physical infrastructure. Beginning in the late 1990s, telecommunications companies laid millions of miles of fiber optic cable in anticipation of surging internet demand. Much of that capacity went unused initially, and some companies that overexpanded ultimately failed, in part because they never achieved profitability. Nevertheless, that network became the foundation for technologies that became central to daily life in the decades that followed, including streaming video, cloud computing, smartphones, and the always-connected economy that underpins many industries today.

Whether today's AI investments will follow a similar trajectory remains the open question fueling market uncertainty. While activity surrounding data centers and chips has contributed to economic growth and corporate profits, it may take time before the full benefits and costs to consumers and businesses become clear, beyond straightforward applications such as chatbots and web search. Similarly, the long-term effects on employment, productivity, inflation, and other factors relevant to everyday individuals will take time to emerge.

For long-term investors, Anthropic's recent IPO signals that the market for AI companies is reaching a stage of greater maturity. One benefit of companies going public is that they broaden access for a wider group of investors over time. For instance, companies listed on the Nasdaq exchange are added to the Nasdaq Composite Index, and may eventually be included in broad market indices like the S&P 500, subject to specific eligibility rules. This means that diversified investors can gain natural exposure to these companies as they grow.

Periods of volatility can present long-term opportunities



During bull market cycles, investors often wish they had the opportunity to invest at lower prices and more attractive valuations. Yet when that opportunity does arise, it typically coincides with elevated uncertainty that makes it difficult to act. This is why it is valuable to think about market swings not through the lens of market timing, but rather in terms of portfolio balance and alignment with long-term financial planning goals.

As the accompanying chart demonstrates, periods when the CBOE Volatility Index (VIX), a measure of stock market volatility, has historically been elevated tend to correspond with healthy returns over the following year.[10] This pattern holds even though these are precisely the moments when some investors grow concerned and may seek the relative safety of cash. This dynamic has played out across many examples in just the past several years.

Periods of volatility can also create meaningful financial planning opportunities. With year-end approaching, for example, tax-loss harvesting allows investors with taxable accounts to realize losses that can offset gains elsewhere, subject to rules such as the wash-sale rule, which prevents investors from acquiring the same or a "substantially identical" security within 30 days before or after the sale.[11] Strategies like these can add value regardless of near-term market performance. Viewing market movements through this planning-focused lens can be far more impactful than focusing on the near-term direction of individual stocks.

The bottom line? AI-related volatility has introduced short-term uncertainty, but corrections and recoveries are a normal part of investing. The long-term potential of AI, already visible in recent mathematical breakthroughs, reinforces the value of a patient and balanced portfolio aligned with long-term financial goals.

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Index Descriptions

S&P 500

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

NASDAQ

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

Dow Jones

The Dow Jones Industrial Average consists of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

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