PACIFIC GLOBAL
Investment Management Company

Summer*Update*

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PORTFOLIO MANAGER Q&A: George Henning **Managing Through Market Volatility**

A conversation with Senior Portfolio Manager, George Henning, about the current market environment, how Pacific Global manages volatility, and the importance of maintaining a long-term perspective.

Q: What is driving current market volatility?

GH: In one way or another, tariff uncertainty continues to drive the market. It remains difficult to anticipate which tariffs will be implemented and at what levels. Although, there is growing sentiment that they will not be as onerous as suggested when first announced.

The more important questions, however, are: *How will the tariffs impact inflation?* and *How will the Federal Reserve look to manage inflation through interest rates?* (*i.e.,* by lowering or holding rates steady). Market volatility reflects the difficulty companies and investors face in gauging the economic outlook.

Q: How do you navigate daily volatility while managing to longer-term trends?

GH: The most important factor is cultivating an in-depth understanding of the companies we invest in *so that I can understand how short- and long-term variables impact them*. It's also important to understand - and be ready and willing to adapt to - changes in the investment climate. The longer-term picture can be skewed by the constant barrage of computer algorithmic trading which increases market volatility and often masks positive or negative factors in individual stock prices. Understanding this reality and individual companies is key to identifying buy and sell opportunities.

In my experience, unexpected events often produce some of the best investment opportunities. Companies that struggle to adapt to unforeseen challenges often cling to what used to be successful rather than capitalizing on new opportunities. Well-managed companies have a broad range of tools to deal with short- and long-term changes. Once executives understand a situation, they can adapt as needed. Some well-run companies will prosper, but others may lag due to external factors beyond their control. **Having extensive knowledge of a company, makes it easier to assess the potential risks and opportunities resulting from market volatility.**

Q: What is the prevailing risk for fixed income investments?

GH: People tend to think of fixed income as "safer" investments, but interest rate risk is a real threat. When investors *hold a bond to maturity*, they receive the full principal value of the bond. For various reasons, however, many investors do not hold bonds – especially longer-term bonds - to maturity which makes them vulnerable to interest rate risk. Fixed income mutual funds and ETFs face the same risk.

As a rule of thumb, a 1% rise in interest rates may result in as much as a 10% loss in a bond's value. Longer-term bonds typically experience the greatest decline in value. Investors or funds that want, or need, to sell bonds before they mature can realize significant losses.

Q: What factors are influencing interest rates in the fixed income markets?

GH: The fixed income markets largely respond to inflation signals and government debt levels. It is important to recognize that the market, not the government, determines interest rates. Certainly, Fed policy influences interest rates. Ultimately, however, the market's assessment of risk will determine interest rates and valuations for fixed income securities. For the past three months, we've seen the variables impacting interest rates and the bond market change from week-to-week.

Q: How do you manage interest rate risk?

GH: Given the ongoing interest rate uncertainty, active management of fixed income portfolios is key. We typically use a conservative strategy to maximize investment flexibility while mitigating risk. We buy bonds with varying shorter durations, hold them to maturity, and then reinvest. Holding shorter-term bonds decreases the risk of having to sell at loss before maturity. Additionally, we're utilizing money market funds which offer shorter-term flexibility as the outlook for interest rates and Fed monetary policy evolves.

Q: What should clients focus on in this market environment?

GH: The key to long-term success is remaining focused on the long-term goals. That can be difficult when we're inundated with headline news and confronted with market volatility. I encourage clients to remember:

- **You have an active investment management strategy tailored to your needs and goals.** We like to meet with clients regularly, so we have a good understanding of their objectives. We can adapt the investment strategy when a client's goals change or as market conditions warrant. In addition, we encourage clients to work with our financial planners to identify goals and priorities and maintain a plan to meet their objectives.
- **You have direct access to your portfolio manager.** There is a lot of information available for investors to consider, but much of it is cursory or provides incomplete evaluations. We invite clients to reach out to us whenever they have questions or concerns. We always welcome the opportunity to hear from clients, to review their portfolios with them and to discuss their investment strategy in light of their goals and market conditions.

George A. Henning
Chairman, President and Senior Portfolio Manager

George founded Pacific Global in 1991 with a vision for a company that would provide clients with actively managed, value-oriented investing options and highly responsive, personalized service. The company originally served as investment manager for the Pacific Advisors family of mutual funds (PAF). From 1993 to PAF's dissolution in 2020, George served as Chairman and President of PAF and was portfolio manager of the PAF Small Cap Value Fund, Mid-Cap Value Fund and the equity portion of the Balanced Fund. Since 2001, George has also served as Portfolio Manager for various value-oriented Separately Managed Account (SMA) equity and balanced investment strategies.

George has over 40 years of experience in the financial world. **From his diverse and wide-ranging experience as a high-level corporate executive George brings a unique, in-depth understanding of the intricacies of business management and operations to investment analysis and stock selection.** His sharp and extensive insights into the companies he evaluates, including his thorough understanding of their businesses and industries, go beyond mere financials. George received a B.S. degree from Geneva College and a M.S. degree from Indiana University.

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