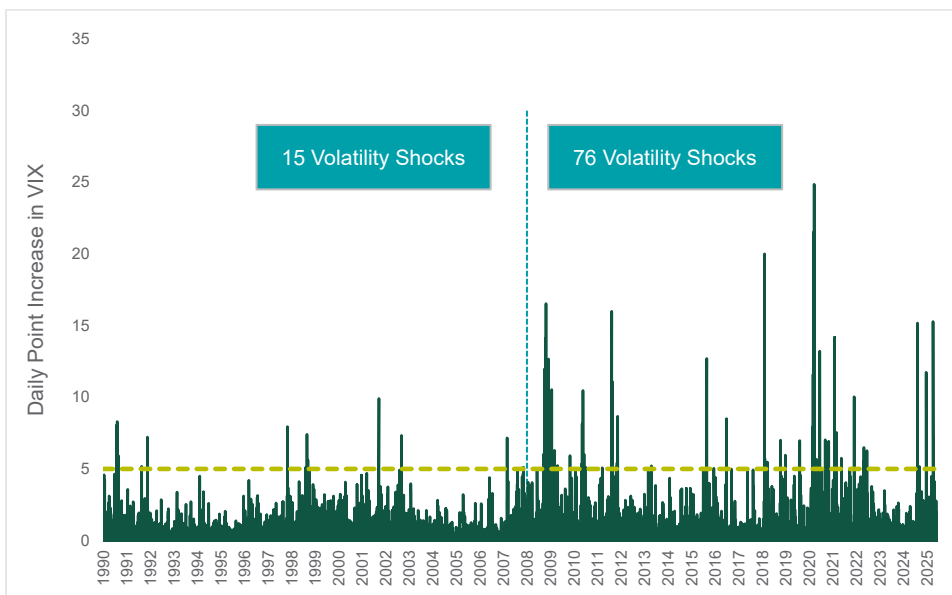


ARE YOUR CLIENTS POSITIONED TO TAKE ADVANTAGE OF THE NEXT BOUT OF MARKET VOLATILITY?

Last April, the equity market experienced a significant spike in volatility in the wake of the “Liberation Day” tariffs. Investors were surprised by the scope and magnitude of the announced tariffs, triggering uncertainty and repricing in the market. The policy change sparked a sharp market decline, with the S&P 500 falling around 12% over the next four trading days. From its peak in February, the index declined 19%, narrowly avoiding bear market territory. The period was marked by extreme market volatility, with the Chicago Board Options Exchange’s (CBOE’s) Volatility Index (VIX) – the market’s “fear gauge” – rising from an average of 22 in March to a peak of over 50 on April 8. To take advantage of this volatility bout, investors needed to be quite nimble.

Since the great financial crisis in 2008, these type of volatility shocks have been increasingly more common as illustrated in the chart below. Prior to 2008, just 15 volatility shocks were recorded from the time the VIX was inception. (Volatility shocks are defined by a rise of at least five points in the index.) Post-2008, the VIX has seen 76 volatility shocks, an increase of more than 400%.



Source: Northern Trust Asset Management Research. Data as of 4/30/25. Historical trends are not predictive of future results.

KEN LASSNER, CFA

Lead Direct Indexing
Product Strategist

LUIS ESCOBAR, CFA

Portfolio Manager, Global Equity

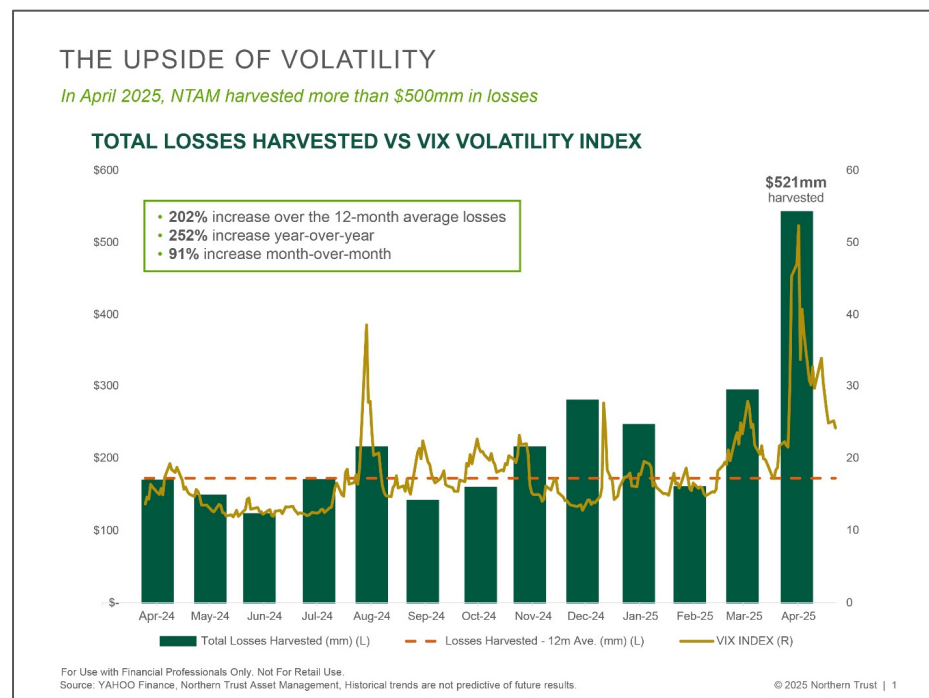
ARE YOUR CLIENTS POSITIONED TO TAKE ADVANTAGE OF THE NEXT BOUT OF MARKET VOLATILITY?

Northern Trust Asset Management (NTAM) has been effectively helping clients navigate market volatility and generate tax alpha for more than 35 years. Our expertise can be especially valuable during periods of elevated volatility. Tax-managed strategies such as NTAM's customizable Direct Indexing (DI) and Tax-Advantaged Equity (TAE) are designed to help investors transform volatility into tax alpha and can provide tax benefits from loss realization during down markets. NTAM's tax-managed equity strategies seek to achieve benchmark-like returns and generate tax alpha through active tax management. Capital losses harvested can be used to offset capital gains elsewhere in clients' investment portfolios, creating valuable tax alpha.

During periods of volatility, the amount of losses available to harvest tends to increase. NTAM's tax-managed equity strategies help transform volatility into opportunity, by dialing up loss harvesting to generate a valuable tax asset, reshape exposure, and increase after-tax returns. **Our portfolio managers monitor client accounts daily**, looking for opportunities to maximize after-tax value and take action to capture losses as appropriate.

After Liberation Day rocked the markets last April, our portfolio managers harvested more than \$500MM in capital losses during the month, nearly doubling the after-tax value added to portfolios compared to historical averages.¹ In fact, compared with the same month the year before, losses were over 250% higher and 91% higher than the previous month of March 2025.

The chart below displays the VIX with a trading activity overlay illustrating the losses NTAM TAE generated each month for the preceding year, including April 2025. This graph highlights the importance of being nimble during volatile times, as this flexibility can provide substantial tax benefits.



Source: Northern Trust Asset Management Tax-Advantaged Equity. Data as of 4/30/25. Historical trends are not predictive of future results.

More generally, Northern Trust **trades opportunistically** and our trade decisions are based on sophisticated analysis and expert judgment. Typically, this means we are trading approximately 10 – 15 times a year. Alternative approaches that use trigger-based rules to drive trading decisions tend to trade less frequently. We have found this approach **results in more opportunities to realize losses, reduce levels of cash, and lower long-term tracking error to the benchmark.**²

After the downturn, the equity market quickly rebounded from the April 8 low, resulting in a loss of just 0.8% for the full month of April. This underscores the importance of monitoring accounts daily and maintaining a robust, flexible investment process that can capitalize on temporary opportunities – even within the wash sale period when it can be easy to ignore the potential to generate real value. Our portfolio management team maintains a flexible trading approach and continually assesses the balance between trading within the wash sale period and capturing tax alpha opportunities while also being mindful of the portfolio's overall target risk level.

Here are some additional considerations to help your clients capitalize on the next bout of volatility:

- **Portfolio reallocations:** Do your clients have investments that they wish to move to a customizable tax-managed separately managed account (SMA)? Transitioning may be easier during market downturns as the tax hit likely will be lower.

Example portfolio reallocation opportunities may include:

- **ETFs or mutual funds** that are no longer wanted with the proceeds potentially better served by a customized separately managed account.
- **Existing active SMAs** - During volatile periods, these accounts can be transitioned more tax-efficiently to a tax-managed strategy, following a thorough transition analysis that illustrates various implementation options as well as the balance between taxes versus tracking error.
- **Managing concentration in portfolios:** Do any of your clients have outsized concentrated positions with significant unrealized gains? If so, now may be a good time to begin the diversification process so the portfolio can be positioned to take advantage of the next downturn. The increased amount of harvested losses generated during a downturn could potentially help reduce the tax burden and speed up the desired path towards diversification.
- **Control tracking error:** Volatile periods can potentially increase trading activity. For accounts that might have higher-than-desired tracking error, this more frequent rebalancing can present an opportunity to reduce tracking error by decreasing overweights and filling in underweights, thus aligning the portfolio more closely to the intended exposures.

ARE YOUR CLIENTS POSITIONED TO TAKE ADVANTAGE OF THE NEXT BOUT OF MARKET VOLATILITY?

- **Introduce customizations:** Clients who seek greater portfolio customization can incorporate their preferences more cost-efficiently during periods of increased loss generation. Customizations can include restricting individual stocks, industries or sectors, ESG screens and/or introducing factor tilts in the portfolio.
- **Reduce future liabilities:** Harvested capital losses can be used to offset capital gains from other investments in the current tax year – or in the future. This is because losses can be carried forward indefinitely, and they maintain their short- or long-term status. In addition to being used to neutralize capital gains in the current year, losses can be applied to offset up to \$3,000 in ordinary income per year.

Market volatility and associated drawdowns can be quite disorienting. However, with an intentional approach to managing through these turbulent times, investors can capture real value through the generation of tax alpha with tax-aware portfolios aligned to their investment goals and objectives.

Contact your relationship manager or ntam_direct_indexing_sales@ntrs.com to discuss how you can help your clients benefit from market volatility.

¹ Northern Trust Asset Management Research. Data as of 4/30/25. Historical trends are not predictive of future results.

² Northern Trust Asset Management Research.

ARE YOUR CLIENTS POSITIONED TO TAKE ADVANTAGE OF THE NEXT BOUT OF MARKET VOLATILITY?

IMPORTANT INFORMATION

This document may not be edited, altered, revised, paraphrased, or otherwise modified without the prior written permission of Northern Trust Asset Management (NTAM). The information contained herein is intended for use with current or prospective clients of Northern Trust Investments, Inc. (NTI) or its affiliates. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. NTAM and its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, its accuracy and completeness are not guaranteed, and is subject to change. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor.

This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. Indices and trademarks are the property of their respective owners. Information is subject to change based on market or other conditions.

All securities investing and trading activities risk the loss of capital. Each portfolio is subject to substantial risks including market risks, strategy risks, advisor risk, and risks with respect to its investment in other structures. There can be no assurance that any portfolio investment objectives will be achieved, or that any investment will achieve profits or avoid incurring substantial losses. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Risk controls and models do not promise any level of performance or guarantee against loss of principal. Any discussion of risk management is intended to describe NTAM's efforts to monitor and manage risk but does not imply low risk.

Past performance is not a guarantee of future results. Performance returns and the principal value of an investment will fluctuate. Performance returns contained herein are subject to revision by NTAM. Comparative indices shown are provided as an indication of the performance of a particular segment of the capital markets and/or alternative strategies in general. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. Net performance returns are reduced by investment management fees and other expenses relating to the management of the account. Gross performance returns contained herein include reinvestment of dividends and other earnings, transaction costs, and all fees and expenses other than investment management fees, unless indicated otherwise. For additional information on fees, please refer to Part 2A of the Form ADV or consult an NTI representative.

Forward-looking statements and assumptions are NTAM's current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

The information is confidential and may not be duplicated in any form or disseminated without the prior consent of NTAM. This information is intended for purposes of NTI and/or its affiliates marketing as providers of the products and services described herein and not to provide any fiduciary investment advice within the meaning of Section 3(21) of the Employee Retirement Income Security Act of 1974, as amended (ERISA). NTI and/or its affiliates are not undertaking to provide a recommendation or give investment advice in a fiduciary capacity to the recipient of these materials, which are for marketing purposes and are not intended to serve as a primary basis for investment decisions. NTI and/or its affiliates may receive fees and other compensation in connection with the products and services described herein as well as for custody, fund administration, transfer agent, investment operations outsourcing, and other services rendered to various proprietary and third-party investment products and firms that may be the subject of or become associated with the services described herein.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc., Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K., NT Global Advisors, Inc., 50 South Capital Advisors, LLC, Northern Trust Asset Management Australia Pty Ltd, and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

© 2025 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.