

# Mid-year portfolio stress test:

## Understanding how your investments may respond to changing markets

As we approach mid-year 2026, markets continue to remind investors that uncertainty is a normal part of investing. Recent fluctuations and ongoing market volatility reflect a landscape shaped by shifting **economic conditions and global events**, reinforcing the importance of maintaining a long-term perspective.



Periods of market uncertainty can also create a natural opportunity to revisit your financial plan and evaluate how your portfolio may respond across a range of market conditions. One way you and your advisor may approach this analysis is through portfolio stress testing.

The goal isn't to chase performance or try to time the market, but to better understand how your investments could respond across different scenarios and whether they continue to align with your risk tolerance, risk capacity, time horizon and life goals.

A stress test is designed to evaluate how your portfolio could behave under different economic and market scenarios. Rather than attempting to predict short-term market movements, stress testing can help investors better understand portfolio risks, diversification characteristics, liquidity needs and potential areas of vulnerability.

It can also provide a useful framework for conversations about whether your plan remains positioned for both current conditions and your longer-term objectives.

### Reviewing your financial goals and risk profile

A portfolio stress test may begin with a review of your financial goals, investment time horizon and overall financial circumstances. Major life events, such as retirement, education expenses, employment changes, inheritance events or evolving health care needs, may affect your investment objectives and tolerance for risk.

It may also be worth asking what has changed since your financial plan was first established or last revised. Has your lifestyle changed? Have you adjusted your retirement timeline, had a child start college, received an inheritance, experienced a health event or started a new job?

Reviewing your short- and midterm cash flow needs can also help determine whether your portfolio remains aligned with your financial plan and liquidity requirements. Funds needed in the near term may call for a different level of market exposure than assets intended to support goals many years in the future.

Stress testing may also help distinguish between an investor's emotional comfort with market volatility and the level of risk their financial plan may reasonably be able to withstand over time. In some cases, that analysis may provide context for whether the portfolio is taking enough, or too much, risk to support long-term goals.

This type of review can also be useful when **market volatility** makes you feel like action is needed. If your goals, time horizon and risk profile haven't changed, stress testing may help you step back and evaluate whether a potential portfolio change is tied to your long-term plan or to short-term emotion.

### Evaluating portfolio diversification and concentration risk

Stress testing can also help investors evaluate how different parts of a portfolio may behave during changing market conditions. That includes looking beyond overall performance to understand what each major holding, asset class or strategy is intended to contribute to the broader plan.

Performance is most useful when measured in context. Reviewing each major part of the portfolio against an appropriate benchmark or index can help clarify whether results reflect a temporary factor, a structural issue or the intended role of that holding within the overall strategy.

For equity allocations, investors may review whether **concentration** in a particular company, sector or geographic region has become disproportionately large relative to the rest of the portfolio. A position that has grown significantly can change the portfolio's risk profile, even when that growth reflects strong performance.

Within fixed income portfolios, areas of review may include duration, credit quality, yield, maturity structure and liquidity characteristics. For example, longer-duration bonds may be more sensitive to interest-rate changes, while lower-credit-quality bonds may face increased pressure during periods of economic weakness. These characteristics can influence how fixed income holdings behave when rates move, credit spreads widen or liquidity becomes more constrained.

Investors may also evaluate correlation risk, or how different investments behave relative to one another during periods of market stress. Asset classes that appear diversified during normal market environments may become more correlated during downturns, potentially reducing diversification benefits when they are needed most.

### Modeling different market environments

Stress testing often involves evaluating how a portfolio could respond under a range of hypothetical market conditions. Advisors may use portfolio analytics and financial planning software to model various economic scenarios and estimate the potential impact on portfolio values, income needs and overall risk exposure. The scenarios used should reflect the investor's circumstances, goals and portfolio composition rather than a one-size-fits-all assumption.

Examples of stress-testing scenarios may include:

- **A mild recession:** How might the portfolio respond if equities decline, unemployment rises and interest rates move lower?
- **Persistent inflation:** What could happen if consumer prices remain elevated while economic growth slows?
- **A geopolitical shock:** How could a disruption in energy supply, a spike in oil prices or broader geopolitical instability affect portfolio volatility?

While no analysis can predict future market outcomes with certainty, stress testing can help investors better understand how different risks may affect their portfolios under changing conditions.



## Liquidity, taxes and portfolio costs

Stress testing may also help identify whether a portfolio maintains sufficient liquidity for anticipated withdrawals, emergency reserves or planned spending needs during periods of market disruption. This is especially important for investors who are approaching retirement, taking regular distributions or expecting major expenses in the next few years.

Investors may additionally evaluate the potential tax implications and transaction costs associated with future portfolio changes. In taxable accounts, portfolio adjustments may create capital gains or losses, while investment expenses and advisory fees can affect long-term net returns over time.

A tax-aware review may also consider whether **losses could be harvested**, whether appreciated securities could be gifted as part of a charitable plan or whether certain changes may be better suited for tax-deferred or tax-exempt accounts. Investors should consult their tax professional before implementing tax-driven strategies.

Costs also matter. Even modest differences in fund expenses, advisory fees or platform charges can affect net performance over time, so potential portfolio changes should be evaluated in light of both their expected benefit and their cost.

## Using stress testing as part of ongoing portfolio review

Stress testing isn't intended to predict markets or eliminate investment risk. Instead, it can serve as one component of an ongoing portfolio review process designed to help investors better understand potential portfolio behavior across different economic environments. Used thoughtfully, it can help translate uncertainty into a more practical discussion about goals, trade-offs and preparedness.

By periodically reviewing financial goals, risk exposures, diversification characteristics and liquidity needs, you and your advisor can gain useful context for decisions tied to your broader financial plan.

If it's been some time since your portfolio was last reviewed, consider speaking with your advisor about whether additional portfolio analysis or stress testing may be appropriate given your financial circumstances and long-term objectives.

For more information visit: [mariner.com](https://www.mariner.com)

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