The current U.S. economic expansion officially began in June of 2009 and is now the second longest on record. Similarly, the equity market is in its second-longest post-WWII bull run, extending more than nine years. As the economic and equity market expansions stretch toward record territory, investors face many uncertainties. Some of these uncertainties are run-of-the-mill and experienced investors are accustomed to them. However, there are new uncertainties that may create significant challenges for both business operators and investors over time. Traditional investment allocations may not address the risks associated with these new types of uncertainty and investors may need to modify their allocation approaches.

Currently, high equity market valuations create uncertainty. But high valuations are not new. In fact, the 10-year cyclically adjusted price-to-earnings ratio on the S&P 500® Index has been above its long-term average for most of the last 20 years.

Some economic indicators have shown signs of deterioration. The Global Manufacturing Purchasing Managers Index has trended down over the course of 2018 after trending upward since early 2016. But it is still above the threshold of 50, typically associated with economic expansion—and the uncertainty caused by fluctuating economic indicators is a constant in both expansions and contractions. Nothing new there.

Significant troubles in foreign markets is another kind of uncertainty that investors have learned to deal with, whether it be Latin American market trouble in the early Nineties, Asian market troubles in the late Nineties, or the European debt crisis more recently. Several emerging economies' stock markets fell into bear market territory during the most recent quarter, including China's. It remains to be seen how emerging market woes will affect U.S. investors. Twenty-five years ago, when globalization was a new phenomenon, the uncertainty over whether credit, currency and other challenges faced by emerging economies would impact more developed markets was a new kind of uncertainty, but today this kind of uncertainty is commonplace.

These types of run-of-the-mill uncertainties are tied together by the fact that they are not new and they are not the types of occurrences that should cause investors who have a sound long-term plan to alter their course. Over the long-term, markets will have ups and downs and investors should be prepared to stick to their plan through even steep or extended equity market losses. However, are there new sources of uncertainty that should give long-term investors pause? Yes—inflation, changes in trade policy, and the connection between the two, create risks that most investors today may not have had to manage before.

Certain aspects of trade actions taken by the Trump administration and the ongoing machinations of Brexit are purely political. The intensity of the current political environment, both at home and abroad, feels new to a lot of people, and some aspects of it certainly are—a U.S. President has never used social media the way President Trump has, for example. However, analysis suggests that political tension alone typically doesn't create the kind of uncertainty that expresses itself in the capital markets. Even full-blown political crises like Watergate, Iran-Contra during the Reagan administration and the Clinton-Lewinsky affair did not appear to spur a measurable increase in equity market volatility or downside risk. Moreover, the 1960s, a time period many point to as more politically contentious than the current environment, was the lowest volatility decade in post-WWII history, even lower than the 1990s, the only decade that did not witness a bear market.

Though pure political tension tends to not have much impact on the equity market, the way the political process shapes actual policy outcomes certainly has an impact on the business operating environment, as well as investors' resultant gains and losses. Recent examples include financial crisis legislation like the Troubled Asset Relief Program (TARP), major initiatives like the Affordable Care Act, the tax cuts passed in 2017, and more mundane ongoing squabbles such as periodic Congressional votes to raise the U.S. debt ceiling.

In fact, actual policy outcomes stemming from the developing trade policies of the Trump administration are currently having an impact on the market. Specifically, the proposal and implementation of tariffs on several items with multiple trading partners was a key driver of market fluctuations throughout the second quarter of 2018. President Trump campaigned on a promise to renegotiate or terminate trade deals he perceived as unfair to American workers. This campaign pledge included NAFTA, a trade deal negotiated in the 1980s and early 1990s by the Regan and Bush administrations and signed into law by President Bill Clinton in 1993. NAFTA is seen by many as a landmark multi-lateral trade deal that ushered in an era of increasing economic integration and globalization.

After decades of increasing integration, the current direction of U.S. trade policy and events like Brexit could spur a long-term reversal of the globalization phenomenon—the specific effects of which could create new and difficult uncertainties. Because there are multiple examples of new markets opening up to companies, investors have decades of information to help model the potential impact of similar future events. Such models do not remove uncertainty, but they can help manage it. Since there is no precedent for a period of widespread economic dis-integration, investors may lack the tools to model it and manage the associated uncertainty.

Inflation is another potential source of uncertainty to which investors may be unaccustomed. For nearly 40 years, the U.S. has had several dis-inflationary periods (periods of declining rates of inflation) that have resulted in very low inflation and contributed to downward trending intermediate- and long-term interest rates since the early 1980s. Inflation has been on the uptick recently, finally rising above the Fed's 2% target. Moreover, tight labor markets and large accumulations of both public and private debt—key ingredients for a potential sustained inflationary environment—are present. If there is in fact a retrenchment in globalization, another source of inflationary pressure could be added to the list.

While the merits of globalization can be debated, one aspect of its impact is clear: it lowered prices, particularly on manufactured goods. Globalization and free trade lowered prices in many ways. Developed market producers gained access to low-cost labor. Global markets allowed producers in a wide range of industries to achieve cost-lowering economies of scale that were unavailable in their home markets. Global integration facilitated global supply chains and efficient sourcing of low cost providers. Actively decreasing global economic integration could risk undoing these price-lowering phenomena, thus adding to inflationary pressure.

Uncertainty has always presented risks for investors, but risks associated with trade policy and inflation are changing the landscape of uncertainty and investors may have to adapt. In particular, the downside risks of the equity market may have increased and the potential for inflation and rising interest rates makes investment grade bonds possibly a less effective tool for managing those risks. Low volatility strategies that combine equity exposure with cash flow from index option writing may limit equity risk while offering investors the possibility of greater participation in equity market returns over the long-term than traditional portfolios of stocks combined with high-quality bonds.