



## IMpact: An investment management podcast series

### Episode 14: Complex markets, clear insights: A VUCA perspective

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**Reese Blair:** *Hello, everyone. I'm Reese Blair, your host of IMpact, the investment management podcast series from Deloitte. In every episode, we come together to explore the issue shaping the industry, whether it's regulation, recession, or resiliency. By diving deep into the latest news, trends, and challenges, we'll discover how collaboration and shared insights can drive progress for professionals across investment management. So, tune in, learn something new, and walk away with insights that can help you make an impact on the IM industry and the world around you.*

Today, IMpact listeners, I am honored to welcome our guest, Michael Wolf, senior manager and global economist at Deloitte Services LP. Mike is a leading specialist quoted by major media outlets and a top contributor to Deloitte Insights Magazine. We'll be exploring market dynamics and macroeconomic insights through the lens of the VUCA framework. You know, I'm good for a good analogy and acronym here, but this VUCA is actually well-known, and it stands for volatility, uncertainty, complexity, and ambiguity. Again, VUCA framework. Mike, welcome to IMpact. It is fantastic to have you here with us today.

**Michael Wolf:** Thank you, Reese. I'm excited to be here and share some insights with your audience.

**Reese Blair:** Alright, with that, let's dive in here. Economic cycles and variables play a major role in the investment management industry. I'm curious, Mike, from your perspective, what are some of the major economic drivers that are shaping the industry today?

**Michael Wolf:** Well, I think we're dealing with many different economic levers, and I'd say inflation and interest rates are sort of the foundational variables that everything else builds upon. Those drivers are really shaping asset allocation, risk appetite, and return expectations for our investment managers.

**Reese Blair:** Got it. Those foundational variables certainly set the stage for everything else. Now, I'm going to try to frame (as I teed up a little bit earlier) the conversation under the VUCA framework. Again, volatility, uncertainty, complexity, and ambiguity. Hopefully, it'll help us analyze the present day economic environment in a more digestible format for our listeners. So, let's dive in here. First, volatility. Mike, I'm curious, what do you see as the key contributors to economic volatility?

**Michael Wolf:** I think there are a number of contributors here, Reese. First, we have macroeconomic or exogenous shocks, and COVID is really a perfect example of how these can completely reshape the economic landscape overnight. I'd say second, policy changes really create significant volatility as markets try to both anticipate them, and then react to new regulations or fiscal measures. Third, I'd say technological disruption continues to be just a major source of volatility as we have industries being completely transformed rapidly. And then finally, financial market dynamics and behavioral factors—that human element in markets—can really amplify volatility from sentiment swings and herd behavior.

**Reese Blair:** That's fantastic, Mike, and I appreciate that comprehensive breakdown. I think those are significant sources of volatility, all three of those that you laid out, even financial markets dynamics and behavioral factors. That's really important. Now, let's move on to the U in VUCA or uncertainty. Policy shifts seem to be creating particularly acute uncertainty right now, especially in the US context. Maybe wondering if you could provide some of your observations on the current state of fiscal and trade policy.

**Michael Wolf:** Yeah, that's absolutely right. The US policy environment is a major source of uncertainty. There's a perceived lack of fed independence, which creates uncertainty about monetary policy and its effectiveness. Interest rates are still a critical factor with our trajectory affecting everything from bond valuations to equity multiples. Tariffs are also still a critical source of uncertainty in international trade relationships, and some of this is still being decided by the judiciary, which is just adding to that uncertainty. There are also challenges with the fiscal deficit and its impact on bond markets, which really affects the longer end of the yield curve in particular. And then there's what economists call the "austerity trap," where fiscal constraints can limit fiscal stimulus when it might be needed the most.

**Reese Blair:** Limiting fiscal stimulus. Those are some heavy headwinds. Mike, I'm sure many of our listeners are probably wondering how do you even operate in this type of environment? Given all these challenges, Mike, I'd be curious to get how you would recommend we navigate all of these headwinds and this period of uncertain policy shifts. Maybe put it especially in the investment management context. After all, we are in the IMpact podcast, so let's maybe think about how do we navigate these periods of uncertain policy shifts in the context of investment management?

**Michael Wolf:** Well, I think investment managers really need to potentially shift their mindset overall. So, they need to be comfortable with incomplete information and adapt quickly. So, waiting for perfect clarity often means missing opportunities or failing to manage risks effectively. Second, I think it's important to balance those long-term investment goals with the short-term uncertainty. This often requires maintaining strategic vision while remaining tactically flexible. And then third, I would say is practical strategies are still essential—hedging, diversification, making thoughtful decisions about fixed versus variable interest rates. All those tools help manage that downside risk while still maintaining some upside potential.

**Reese Blair:** I love that, Mike. The idea of being comfortable with the discomfort of incomplete information is something that I know I can resonate with, but I'm hoping everyone else can relate to, especially in today's environment. Now, I want to move on to complexity. We're on the "C" and the VUCA framework here, and when you really think about the investment management landscape, it is increasingly complex, especially when you factor in the interconnected global markets. But before we get too deep into this, I want to take a step back and broaden our lens to global market trends. What are some of the global economic factors that you're focused on right now?

**Michael Wolf:** I think globally, I'd say technology and AI. They're fundamentally reshaping how we think about productivity, labor markets, competitive advantages across industries. It's just driving huge, huge sums of investments even before we have much evidence of productivity growth at all.

**Reese Blair:** I'm noodling on that for a second, Mike, a lot to chew on right there. And I just want to maybe think about that for a second. I mean, look, AI comes up, I feel in every conversation that we have on this podcast. And certainly, technology is changing the game for investors and quite frankly, entire economies. Given that reality, curious to get your take on how you think investment managers instead of being reactive, how can they proactively address some of these macroeconomic trends?

**Michael Wolf:** Yeah, I'd say several proactive steps can probably be taken here. One is managing international exposures. So, using foreign exchange hedges for example. It's going to help mitigate that currency risk in your global portfolio. Obviously, diversification remains essential both across geographies and sectors, and then staying informed about disruptive technologies and policies and really understanding their potential impact on various industries and geographies can really help to identify those new opportunities and risks. Demographics can often be seen as destiny. So, from a macroeconomic perspective, geographies with the weakest demographics or the ones pushing back hardest against immigration are really the ones that are most likely to have some of the weakest growth prospects. And then plus you have building and leveraging a global workforce can also provide competitive advantages. So, diverse teams bring different perspectives and can help firms adapt to changing market conditions more effectively.

**Reese Blair:** That global perspective can't be understated, Mike, and I appreciate you just double clicking on that for us and for our listeners. At the end of the day though, the reality is that even with that broad global view, we're still dealing with economic signals that don't always align. I mean, it's just a lot of ambiguity to navigate, and I promise you that was no shameless plug or lead in. Why don't we move into the A in our VUCA framework. Let's talk about economic indicators and how they can sometimes really be ambiguous or even contradictory in some cases. How should some of these economic indicators be interpreted in light of a sort of ambiguity context?

**Michael Wolf:** It's tough. When indicators are contradictory, I think you really need a deep understanding of the surveys that they're coming from. I think that really helps you to choose an indicator that best represents this current moment. Another way, I think, is scenario analysis and modeling. It can really be invaluable when you have these ambiguous indicators. Exploring a range of possible outcomes can help better understand those risks and opportunities associated with each of those scenarios. And then you can incrementally adjust your inputs and assumptions as new information becomes available. That refines your forecast and may reduce the risk of overreacting to some of the short-term volatility and ambiguity. And then I think most importantly, emotional decision-making should be avoided at all costs. Maintaining a nice disciplined and structured approach can really help ensure that investment decisions remain grounded in data and analysis rather than that sentiment. And don't over index on one indicator or ignore conflicting information. That's all very valuable.

**Reese Blair:** It's so easy to get caught up in headlines or react versus respond. People react emotionally to market swings instead of responding. I love that concept of having a disciplined, data-driven process to really help keep that focus on long-term objectives, even when the short-term picture is murky. A lot of times some people, when they're describing the whole VUCA framework, they describe it as the "foggy road" ahead of you. And so, I think what you just laid out was incredibly, incredibly helpful. Before we wrap this thing up, I want to kind of do a quick recap of today's points and make sure that I'm tracking and your tracking and our listeners are tracking on some of the things that we thought were some key takeaways from the conversation today. When you think about it, economic cycles and variables are ultimately interconnected and quite frankly, constantly evolving. And I think the VUCA framework can absolutely help analyze and respond to volatility, uncertainty, complexity, and ambiguity. And then again, that last point, a structured disciplined approach can really be essential for navigating all of this uncertainty and ambiguity. But Mike, before we close here, I wanted to just do a completeness check with you. Is there anything additional that we haven't covered already that you think our listeners would want to know?

**Michael Wolf:** I think we've covered the major elements of the VUCA framework pretty comprehensively. I'd say there's one additional insight I'd add, is that these four elements—volatility, uncertainty, complexity, and ambiguity—don't operate in isolation. They interact with each other, which is sort of what makes this current environment so challenging, but also just so full of opportunity for those who can really navigate it effectively.

**Reese Blair:** That's a great point. That interconnectedness is a crucial point. Michael, wow, I'm going to push you a little bit more. Is there anything else that you think our listeners will want to take away from this discussion? Because that was a really good *vuja de'* day moment that I hadn't thought about because I was looking at the VUCA framework, sort of breaking it down into its respective pillars—volatility, uncertainty, complexity, and ambiguity. And you sort of really spoke to them how they're being interconnected. I'm curious, was there anything else you want to double click on or anything else you want our listeners to take away?

**Michael Wolf:** I'd say in addition, uncertainty is a constant in the macro environment, in investment management—sort of in the world today. By remaining disciplined, flexible, proactive, whether that's through diversification, risk management, staying abreast of global trends—I think investment managers can really better navigate those challenges and seize the opportunities in this evolving market.

**Reese Blair:** Mike, thank you for that. I think for me (and I'll just speak for me), this has been incredibly insightful. Love the conversation. Thank you for walking us through that VUCA framework and providing considerations for our listeners on how to navigate some of these complex market dynamics and macroeconomic forces.

**Michael Wolf:** Well, thank you, Reese. I've really enjoyed this conversation.

**Reese Blair:** Thank you. I appreciate it. And look, I think that's an excellent way to wrap up our conversation. To our listeners, I just want to thank you for joining us today as we explored market dynamics and macroeconomic insights, again, through that VUCA framework. Whether you're a seasoned investment professional, or perhaps expanding your understanding of these complex topics – we've discussed volatility, uncertainty, complexity, and ambiguity in today's economic environment. And Mike, I really want to thank you for sharing your knowledge on everything from policy shifts to global economic trends. Your insights on navigating uncertain policy environments and interpreting contradictory economic indicators have certainly provided valuable perspectives for our audience. I'm an avid reader, and I think Ben Franklin once said, "An investment in knowledge pays the best interest." So, listeners, I want you to continue applying these insights, stay curious about emerging trends, and maintain that analytical rigor that we discussed today.

*I'd like you to join us next time on Impact, where we'll continue bringing you hot takes and fresh perspectives from specialists like Mike in the industry. Until then, this is Reese Blair signing off.*

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