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Investment Perspectives

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Fast and Furious versus Slow and Calm: Recent Market Volatility and How We Think Investors Should Respond

> Running for the exits during a market rout often means missing out on the opportunity for significant returns when things turn around.

"Fast and furious" seems like a reasonable way to describe the onslaught of economic policy actions, plans, postponements, and reversals announced by the Trump administration over the past few weeks. In recent days, the market has been responding in kind—quickly and with a certain fury. Against this backdrop, we firmly believe investors should take the opposite approach by reacting slowly and calmly. That's a tall order, as sharp declines in stock prices and surges in volatility are unnerving. But *panic is a long-term investor's worst enemy.*

It is impossible to know when and at what level the U.S. equity sell-off will end, but history shows it is almost always a mistake to sell when the market is declining as it has been for the past week or so. Running for the exits during a market rout often means missing out on the opportunity for significant returns when things turn around—and no one knows when that will happen. Giving into panic means selling when prices are dropping, then buying at a higher price point—the exact opposite of what investors want. As Figure 1 shows, big market declines—over a day, a month, or a quarter—are almost always followed by gains.

FIGURE 1: WORST DAYS, MONTHS AND 3 MONTHS FOR THE S&P 500® INDEX SINCE 1950

Day	S&P 500® Decline*	Return 1 Year Later
10/19/87	(20.5%)	23.1%
3/16/20	(12.0%)	69.0%
3/12/20	(9.5%)	61.8%
10/15/08	(9.0%)	20.8%
12/1/08	(8.9%)	35.9%
9/29/08	(8.8%)	(4.1%)
10/26/87	(8.3%)	23.5%
10/9/08	(7.6%)	17.8%
3/9/20	(7.6%)	43.6%
10/27/97	(6.9%)	21.5%
8/31/98	(6.8%)	38.0%
1/8/88	(6.8%)	15.3%
11/20/08	(6.7%)	45.1%
5/28/62	(6.7%)	26.7%
8/8/11	(6.7%)	25.2%
Average	**(8.9%)**	**30.9%**

Month	S&P 500® Decline	Return 1 Year Later
Oct-87	(21.5%)	14.8%
Oct-08	(16.8%)	9.8%
Aug-98	(14.5%)	39.8%
Mar-20	(12.4%)	56.4%
Sep-74	(11.5%)	38.1%
Nov-73	(11.1%)	(23.8%)
Sep-02	(10.9%)	24.4%
Feb-09	(10.7%)	53.6%
Mar-80	(9.7%)	40.1%
Sep-22	(9.2%)	21.6%
Feb-01	(9.1%)	(9.5%)
Aug-90	(9.0%)	26.9%
Dec-18	(9.0%)	31.5%
Sep-08	(8.9%)	(6.9%)
Apr-70	(8.8%)	32.1%
Average	**(11.5%)**	**23.4%**

3-Month Period	S&P 500® Decline	Return 1 Year Later
Sep-08 - Nov-08	(29.7%)	25.4%
Sep-87 - Nov-87	(29.6%)	23.3%
Jul-74 - Sep-74	(25.2%)	38.1%
Aug-08 - Oct-08	(23.1%)	9.8%
Oct-87 - Dec-87	(22.5%)	16.6%
Oct-08 - Dec-08	(21.9%)	26.4%
Apr-62 - Jun-62	(20.6%)	31.2%
Aug-87 - Oct-87	(20.4%)	14.8%
Jan-20 - Mar-20	(19.6%)	56.4%
Apr-70 - Jun-70	(18.0%)	41.8%
Dec-08 - Feb-09	(17.3%)	53.6%
Jul-02 - Sep-02	(17.3%)	24.4%
Jun-74 - Aug-74	(16.4%)	26.2%
Apr-22 - Jun-22	(16.1%)	19.6%
May-02 - Jul-02	(15.0%)	10.6%
Average	**(20.8%)**	**28.5%**

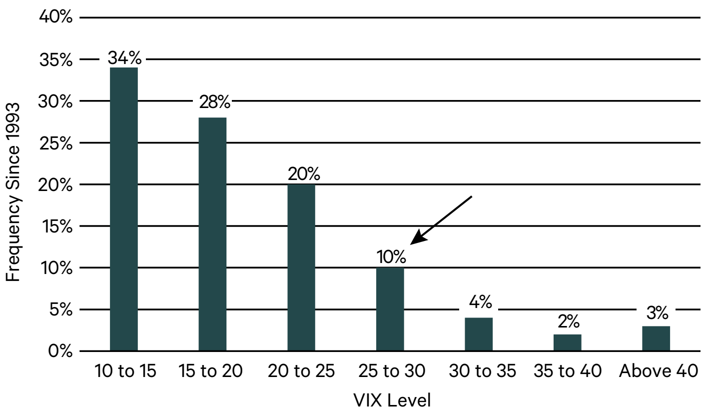
*Sources: BlackRock, Morningstar as of December 31, 2024. U.S. stocks are represented by the S&P 500 Index from March 4, 1957 to December 31, 2024 and the IA SBBI U.S. Large Cap Index from January 1, 1950 to March 4, 1957 for all monthly periods, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. *Daily returns are represented by the S&P 500 PR Index from March 4, 1957 to December 31, 2024 and the IA SBBI U.S. Large Cap PR Index from January 1, 1950 to March 4, 1957. Index performance is for illustrative purposes only. It is not possible to invest directly in an index.* ***Past performance is no guarantee of future results.***

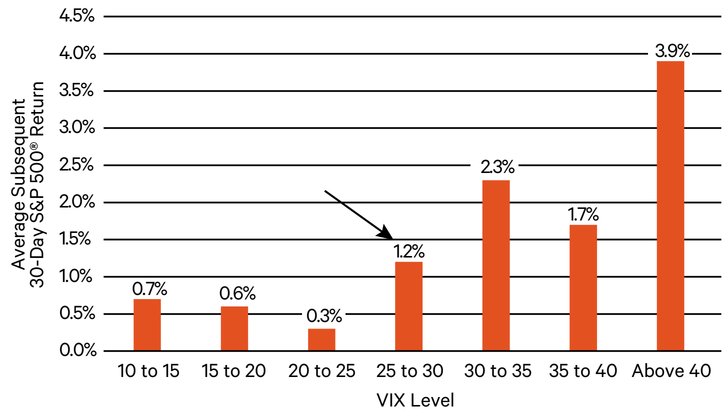
Increased Volatility and Future Returns

While the noise in the market has been, and may continue to be, loud, the movements severe, and the declines painful, history has shown there can be a positive relationship between increased market volatility, measured by the VIX (the "fear index") and equity returns. Over the past few days, the VIX has reached the 25-30 range, after languishing at or below its long-term average of 18-20 since President Trump was re-elected.

Looking back over more than three decades, Figure 2 shows that when the VIX has risen to that 25-30 range, the return for the S&P 500 the subsequent 30 days has averaged 1.2%, well above the average 30-day return when volatility is lower.

FIGURE 2: VIX HISTORICAL LEVELS





Data presented is as of March 10, 2025. Data is obtained from S&P Dow Jones Indices and CBOE and is assumed to be reliable. Based on daily closing data from April 13, 1993 to March 10, 2025. ***Past performance is no guarantee of future results.***

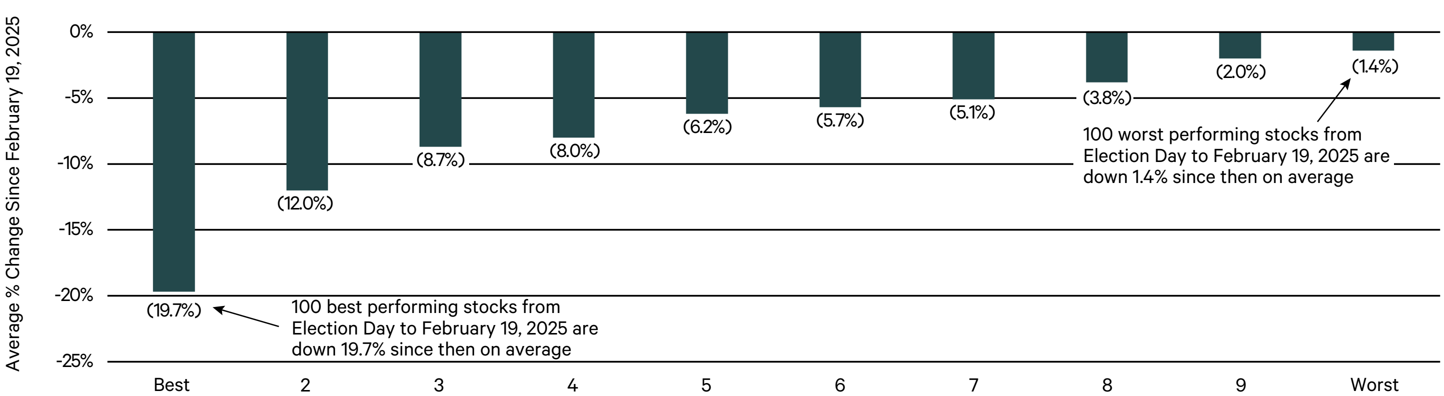
The Downturn Has Not Been Felt Evenly Across Stocks

While the increase in market volatility is quite apparent, a less obvious but important aspect of the recent downturn is that *not all stocks are declining*; in fact, on March 10th, as the S&P fell 2.7%, 155 stocks (over 30%) *rose*. We also note the best-performing stock that day was up 5.3%, while the worst performer was down 15.4%. That's a difference of 20.7 percentage points—quite a wide dispersion.

In fact, Figure 2 shows that across the large cap stocks in the Russell 1000 index, those that have fallen the most from the market's high point on February 19, 2025, were the ones that saw the biggest run-up between Election Day and that February 19th high point. In other words, the stocks that soared the highest have dropped the furthest, while those that did not experience a big post-election run-up have lost far less in this pullback.

FIGURE 3: RUSSELL 1000 DECILE PERFORMANCE SINCE FEBRUARY 19, 2025

Based on Performance from November 5, 2024 through February 19, 2025



Data presented is as of March 10, 2025. Data is obtained from Bespoke Investment Group and is assumed to be reliable. ***Past performance is no guarantee of future results.***

The Current Decline is "Par for the Course"

We also note that while declines like what we have seen this past week are disconcerting, they are not unusual. As of the time of this writing, the drawdown from the recent high on February 19th is roughly 8.2%. That is certainly attention-grabbing, but the median intra-year maximum drawdown since 1985 is about 10%.

It is also helpful to put this in context by observing that the S&P 500 is down by less than 2% from where it was the day before the election in November 2024. Remember, the S&P 500 hit record highs in the past two calendar years, returning roughly 23% in 2023, and 25% in 2024. Giving up some of those gains could be seen as an opportunity for some investors who have been holding onto large amounts of cash to begin to step back in.

In our view, fundamentals matter. As we turn our attention to earnings for Q1 2025, it will be important to monitor revisions in earnings estimates, and we will wait to see what actually happens instead of reacting from fear. As always, we emphasize quality, rather than chasing "hot" stocks, and on a relative basis we believe our strategies have been performing as we would expect and providing protection when things get rough. It is impossible to know where the bottom is, but this could turn out to be an opportunity for some investors who keep a calm head when those around them are running scared.

__Index Definitions__: The S&P 500 Index is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. The Russell 1000 Index is a subset of the Russell 3000 Index which is designed to represent approximately 98% of the investable U.S. equity market. It includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The index is calculated on a total return basis with dividends reinvested. The VIX Index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500 Index (SPX^{SM}) call and put options. On a global basis, it is one of the most recognized measures of volatility—widely reported by financial media and closely followed by a variety of market participants as a daily market indicator. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.