



Guide to Market Volatility

Investing amid economic
and market uncertainty





Chris Buchbinder

is an equity portfolio manager with 29 years of investment industry experience.* He is a manager for The Growth Fund of America® and Capital Group Dividend Value ETF.



Chitrang Purani

is a fixed income portfolio manager with 21 years of investment industry experience.* He is a manager for The Bond Fund of America® and Capital Group Core Bond ETF.

*Years of experience for all investment professionals are as of December 31, 2024.

Recent market turmoil underscores the complexity of the economic and investment landscape. Rapidly changing news events can quickly alter the narrative from one day to the next.

Rising tariffs are threatening to upend global trading systems and geopolitical alliances. Many investors expect more turbulence ahead as trade disputes and other policy initiatives play out.

Given the uncertain environment, investors may have doubts about their investment approach. It's natural to seek calmer shores when markets are choppy. But it's equally important to step back, gain perspective and look toward the horizon.

History shows the S&P 500 Index has always recovered from previous declines, though there are no guarantees. For long-term investors, market volatility may present some selective opportunities. Here are five insights that can help you regain confidence and stay invested for the long haul.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

1 | When in doubt, zoom out

Market downturns are painful, but history shows they happen more often than you might think. In recent years, COVID-era lockdowns, Russia's invasion of Ukraine and the Federal Reserve's rate hiking spree disrupted markets for days, weeks or months at a time.

In 2018, during President Trump's first term in office, a series of new tariffs launched against China sparked a trade war that panicked markets and dominated the news, much like today. What's more, two U.S. government shutdowns, challenging Brexit negotiations and a contentious midterm election further stoked market pessimism.

How did stocks react? Fears that a trade war between the two largest economies would lead to a global slowdown sent the S&P 500 Index down 4.4% in 2018,

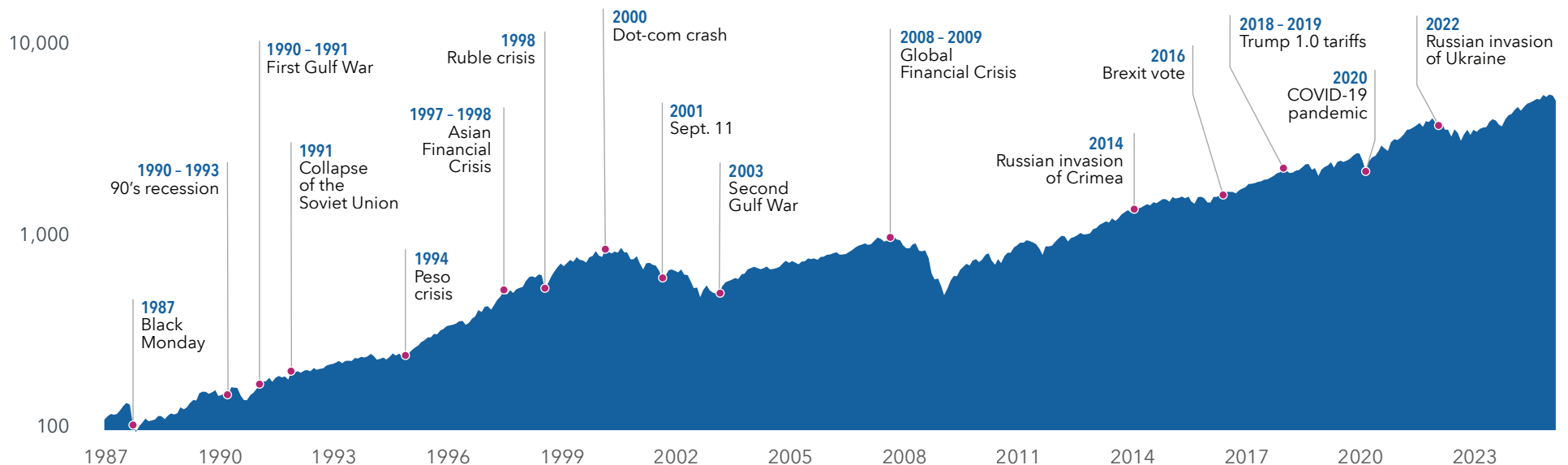
falling as much as 19.4% from September 20 to December 24 that year. But the Index recovered sharply in 2019, up 31.1%, as trade deals were announced and consumer spending steadied.

Will market choppiness in 2025 give way to smoother sailing in 2026? There's no way to tell, but next year's midterm elections could shift the Trump administration's focus to more bread-and-butter issues that fuel economic optimism rather than uncertainty.

While these experiences can be nerve-racking, they show that the U.S. stock market has been resilient. Zooming out to view recent market volatility in the context of historical trends can help ease doubts about your long-term investment strategy.

The stock market overcame crises on its long-term path to growth

Cumulative total return for the S&P 500 Index



Sources: Capital Group, Standard & Poor's. As of March 31, 2025. Data is indexed to 100 as of January 1, 1987, based on cumulative total returns for the S&P 500 Index. Shown on a logarithmic scale. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

2 | Markets typically have recovered quickly

While markets can be treacherous during periods of heightened volatility, they have often bounced back quickly. Indeed, stock market returns have typically been strongest after sharp declines. The average 12-month return immediately following a 15% or greater decline is 52%. That's why it's often best to remain calm and stay invested.

How often do market corrections of 10% or more turn into entrenched bear markets? Turns out, not often. More common are short pullbacks ranging between 5% to 10%. While these may feel unsettling, on average, a drop of 5% occurred twice per year while corrections of 10% or more happened every 18 months from 1954 to 2024. And while intra-year declines are common, the good news is 37 of the last 49 calendar years have finished with positive returns.

What's more, a selloff can create investment opportunities. For example, during the pandemic, investors punished a broad swath of travel and leisure companies – including Royal Caribbean, which fell 83% from January 20, 2020 to March 18, 2020 – as lockdowns brought air travel, cruises and hotel bookings to a halt.

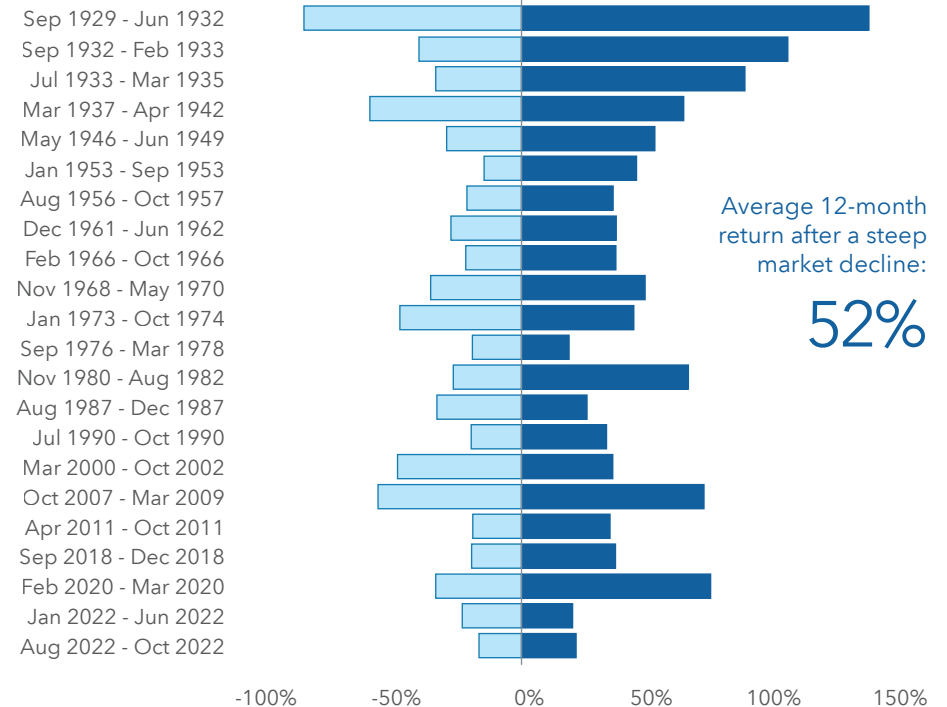
Certain travel and leisure stocks have since staged a dramatic recovery. Royal Caribbean returned 339.8% from the low reached on March 18, 2020 to its peak price on June 2, 2021, as national vaccination rates and confidence grew. Identifying investment opportunities requires skill and experience, especially when markets are volatile. Bottom-up fundamental analysis may help investors balance short-term volatility with a longer term perspective.

Stock market returns have been strong after steep declines

S&P 500 total return

■ Market decline of at least 15% ■ Subsequent 12-month return

Market downturns



Sources: Capital Group, Standard & Poor's. Each market decline reflects a decline of at least 15% in the S&P 500's index value, without dividends reinvested. Results over the various time periods are from September 7, 1929 through October 12, 2022. As of December 31, 2024.

3 | Bear markets have been relatively short-lived

A long-term focus can help investors put bear markets in perspective. Since 1949, there were 11 periods of 20%-or-greater declines in the S&P 500. And while the average bear market decline of 33% might have been miserable to experience, missing out on the average bull market's 265% return may have been far worse.

Bear markets are also typically much shorter than bull markets. Bear periods have averaged 12 months, which can feel like an eternity, but pale in comparison with the 67 months of average bull markets – another reason why trying to time investment decisions is ill-advised.

Most bear markets coincide with recessions, which are also relatively infrequent. In the absence of a recession, a growing economy can still spur positive corporate

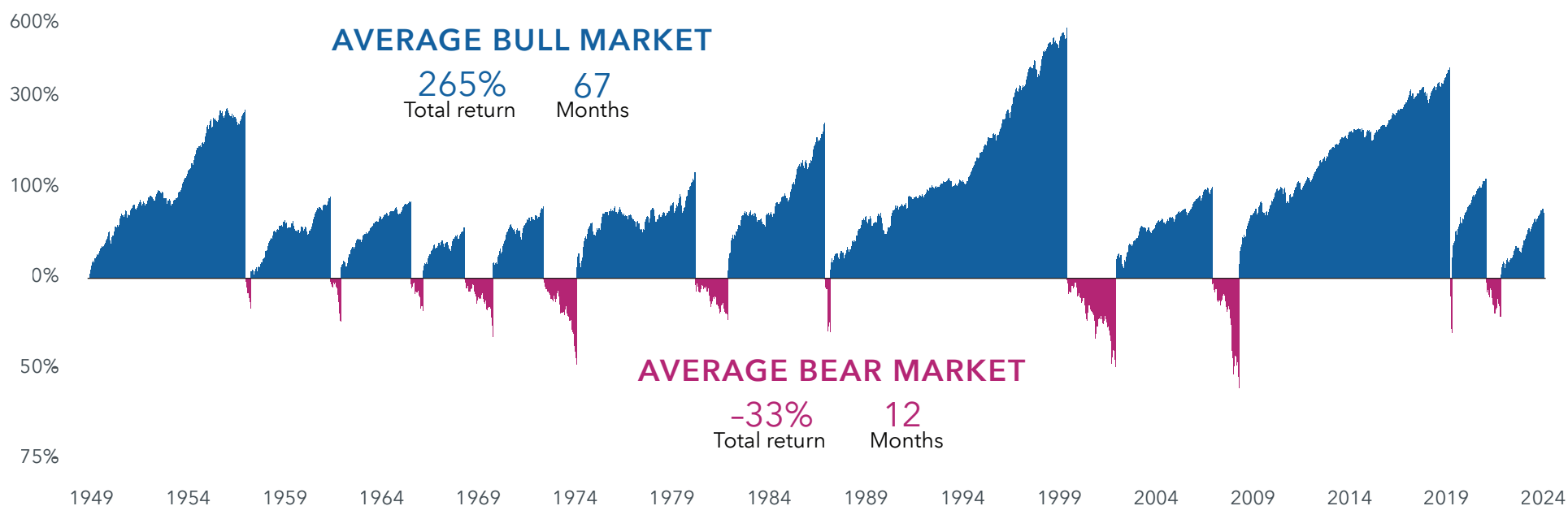
earnings growth, which supports equity prices. Market declines outside of a recession have tended to be shorter than those during a recession.

Forecasting the start of the next recession is difficult. Many investors, for example, were bracing for a recession when the Federal Reserve raised rates in 2022 to combat sky-high inflation. Instead, the U.S. economy grew, and the S&P 500 Index posted double-digit gains in 2023 and 2024.

In the current environment, steep tariffs elevate the risk of a recession. Policy uncertainty is causing companies to pause investments and hiring while prompting consumers to reduce spending. But the economy has surprised to the upside before, and it's too early to tell if widespread job losses, the hallmark of a recession, will occur.

A long-term focus helps provide perspective

Cumulative price return for each S&P 500 bull and bear market (%)



Sources: Capital Group, RIMES, Standard & Poor's. Periods shown reflect the completed bear and bull market cycles from June 13, 1949 to December 31, 2024. The bull market that began in 2022 is considered current as of 12/31/24 and is not included in the "average bull market" calculations. Bear markets are peak-to-trough price declines of 20% or more in the S&P 500. Bull markets are all other periods. Returns shown on a logarithmic scale.

4 | Bonds can offer balance when it is needed most

In periods of slowing economic growth, bonds often shine brightest. In fact, it's the reason why high-quality core bond funds are often the foundation of a classic 60% equities and 40% bonds portfolio. While the exact allocation may shift, a diversified portfolio is intended to generate attractive returns while minimizing risk.

Bonds tend to zig when equity markets zag, and so far this year that pattern is holding when viewed through the lens of a diversified portfolio of bonds. One exception was 2022 when stocks and bonds both fell significantly in the face of rising inflation and rapid interest rate hikes by the Fed.

Markets are penciling in rate cuts this year in anticipation of a tariff-induced economic slowdown. Fed officials face a challenging backdrop when it comes to determining an appropriate policy response. They need to balance labor market and growth concerns with potential inflationary pressures.

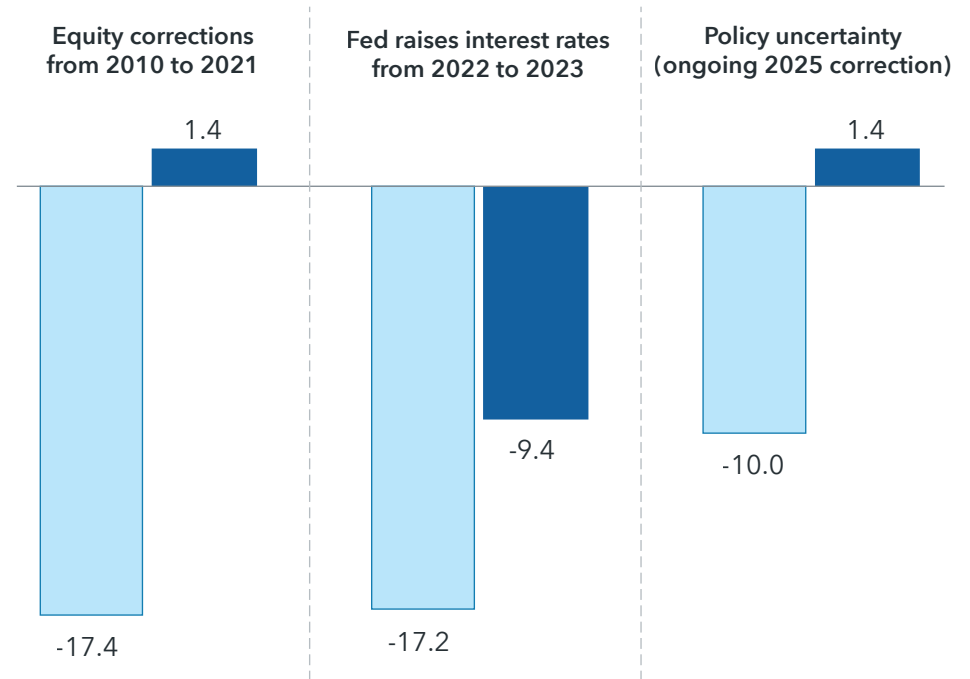
Still, significant economic downturns have typically been met with rate cuts, which would have helped boost returns for core bond funds during these periods, as represented by the Bloomberg U.S. Aggregate Bond Index. Bonds should offer diversification in equity market downturns as their prices normally rise as yields fall.

Moreover, with bonds offering compelling income potential today, investors may be able to take on less risk with high-quality bonds while still meeting their return expectations.

Bonds may again provide diversification during equity selloffs

S&P 500 total return (%)

■ S&P 500 Index ■ Bloomberg U.S. Aggregate Index



Sources: Capital Group, Morningstar, Bloomberg. Data as of 3/31/25. For equity correction periods in 2010-2023, figures were calculated by using the average cumulative returns of the indices during the nine equity market correction periods since 2010. Corrections are based on price declines of 10% or more (without dividends reinvested) in the S&P 500 with at least 75% recovery. The cumulative returns are based on total returns. Ranges of returns for the equity corrections measured: S&P 500 Index: -34% to -10%; Bloomberg U.S. Aggregate Index: -14% to 5%. The most recent correction shown began on 2/19/25 and remains ongoing.

5 | Staying the course has paid off for long-term investors

When markets are volatile, it's hard to resist the urge to do something. Suggestions to stay the course offer little comfort when markets and emotions are spiraling. But in many cases, doing nothing has been the best course of action.

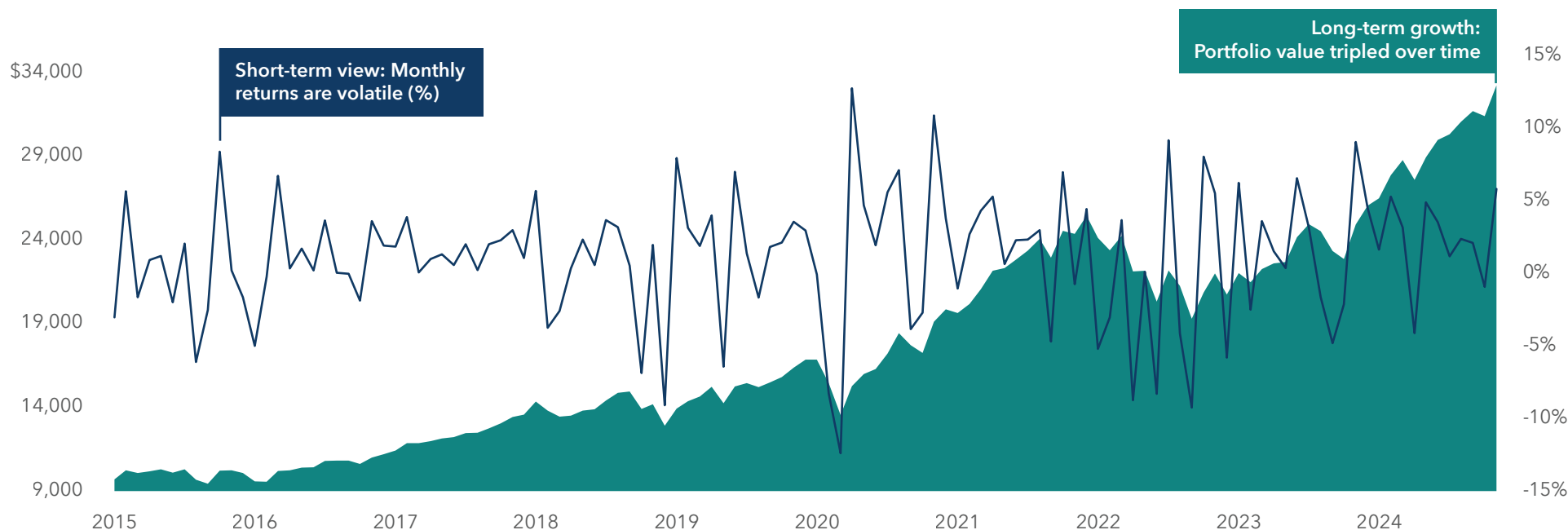
Consider two contrasting perspectives of the same 10-year period ending in 2024. The short-term view shows monthly swings in the market, the most dramatic being the 12% decline in March 2020 as COVID gripped the world and froze the global economy.

The long-term view shows a hypothetical \$10,000 investment over the same time frame. Staying invested through the entire decade, including riding out the ups and downs of the pandemic, would have more than tripled the investment to \$34,254.

The lesson? Market declines can be painful to endure, but rather than trying to time the market, investors would be wise to stay true to their objectives. To weather market volatility, they should seek diversification across stocks and bonds, while periodically examining their risk tolerance for elevated volatility. Though it may feel like this time is different, markets have shown resilience throughout history when confronted by wars, pandemics and other crises.

Two views of the same investment tell a very different story

Change in value of initial \$10k investment in the S&P 500 Index



Sources: Capital Group, Standard & Poor's. Figures reflect total returns in USD. As of December 31, 2024. Past results are not predictive of future returns.

Key takeaways

- **When in doubt, zoom out**

Market volatility can be painful, but the U.S. stock market has shown resilience over time.

- **Markets typically have recovered quickly**

The 12-month return immediately following a 15%-or-more decline in the S&P 500 Index is 52%.

- **Bear markets have been relatively short-lived**

The average bear market decline of 33% pales in comparison to the average bull market return of 265%.

- **Bonds can offer balance when you need it most**

So far this year, bonds have held up during periods of equity market volatility and offer strong income potential.

- **Staying the course has paid off for long-term investors**

A hypothetical \$10,000 investment in the S&P 500 Index held for 10 years through 2024 would have more than tripled to \$34,254.



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for thought leadership by advisors since 2019*

2019

2020

2021

2023

2024

*Source: Marketing Support: The Advisor View, June 2024, May 2023, July 2021, June 2020; Fund Intelligence, February 2020. FUSE Research surveys of 500-1,000 advisors identifying the "most-read thought leaders." Survey was not conducted in 2022.

The **S&P 500 Index** is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

Bloomberg U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market.

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