Markets Look Forward. So Should Investors.

Key Takeaways

- With a stark shift in US tariff policy announced on April 2 and ongoing responses worldwide, investors are on edge.
- Pain that investors may be feeling from current volatility reflects markets setting prices such that expected returns are always positive.
- While drops in stock prices can be nerve-racking, markets have historically bounced back from downturns.

With a stark shift in US tariff policy announced on April 2 and ongoing responses worldwide, many investors are on edge. Volatility as measured by the VIX index has spiked to levels not seen in nearly five years.[1] But when there is real economic uncertainty and information is quickly changing, volatility is a sign that markets are functioning.

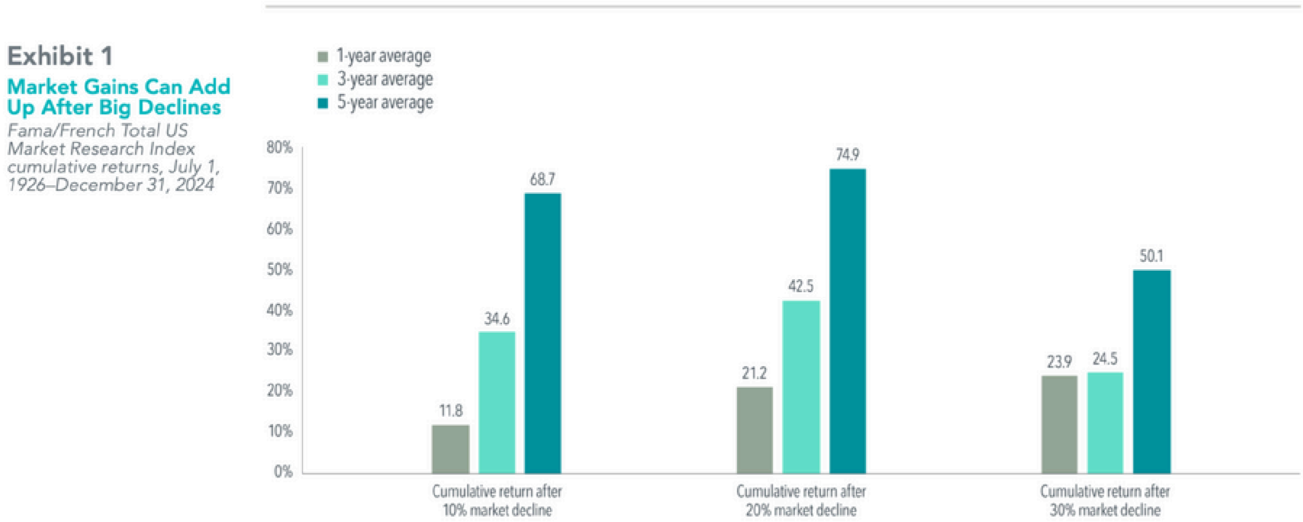
Sudden drops in the market and heightened volatility can be unnerving, as can rapidly changing economic policies. The market's job is to process uncertainty in real time. When trade policies change swiftly, markets are incorporating a vast amount of information and expectations about how these shifts may shape the global economy. Markets do this on a forward-looking basis, continuously incorporating new information and setting prices so that expected returns are positive.

Economic policies, such as those related to international trade, have financial impacts across the economy beyond market returns. The economic implications that markets almost instantaneously price into securities play out over a longer period in the real economy. This difference in velocity is important to underscore, because it points to a difference in how we experience potentially negative (or positive) economic developments as investors versus as participants in the real economy. Even if you are worried about ongoing economic challenges, you shouldn't necessarily expect a negative investment experience going forward, because markets have already factored in known information.

Pain you may feel now reflects markets setting prices such that expected returns are always positive. **Exhibit 1** below illustrates that market returns following downturns generally have been positive.

When we examine US equity returns following downturns of 10%, 20%, or even 30%, we see one-, three-, and five-year cumulative returns that are positive on average. Viewed in annualized terms across five years, returns after a 20% decline have been close to the US market's historical average of approximately 10%.[2]

When your portfolio experiences a sudden drop, generally the most important thing an investor can do is to stay invested and look forward to better days ahead.



Past performance is no guarantee of future results. Actual returns may be lower. Short-term performance results should be considered in connection with longer-term performance results.

In USD. The Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Total returns are calculated for the one-, three-, and five-year periods beginning the day after a downturn of 10%, 20%, or 30% from a new all-time high for the market. The bar chart shows the average total returns for the one-, three-, and five-year periods following the 10%, 20%, and 30% thresholds. For the 10% threshold, there are 30, 29, and 28 observations for the one-, three-, and five-year periods, respectively. For the 20% threshold, there are 16, 15, and 14 observations for the one-, three-, and five-year periods, respectively. For the 30% threshold, there are seven, seven, and six observations for one-, three-, and five-year periods, respectively. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP. Fama/French Total US Market Research Index: July 1926–present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: Ken French website.

Results shown during periods prior to each index's inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains.

Source: Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

End Notes

1 Source: Cboe.
2 The average annualized return for the Fama/French Total US Market Research Index for the period July 1, 1926–December 31, 2024, was 10.23%. The average annualized returns for the five-year period after 10% declines were 9.59%; after 20% declines, 10.15%; and after 30% declines, 7.18%.

The Cboe Volatility Index, or VIX, is a real-time market index representing the market's expectations for volatility over the coming 30 days.

RISKS
Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.