

ABOVE THE FRAY

The Volatility Will Pass

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Investor uncertainty continues to escalate amid ongoing developments with tariffs and the largest two-day US stock tumble since the onset of COVID in 2020. Many investors remain concerned about where this situation is headed and what the market's response will be.

While we can't predict the direction of stocks, investors can take solace in the fact that high volatility has tended to have a relatively short shelf life. There have been 12 previous instances since January 1990 when the VIX index closed above 40.0 (the mark it surpassed on April 4). The level was down by about 10% on average 21 days later and around 30% within 100 days. In other words, market turbulence historically has eventually subsided.

It's important to note that market volatility is a sign of a well-functioning market. Market prices are continuously responding to changes in expectations and new information. So, even while the news headlines may be concerning, investors have good reasons to stay invested because prices are always set to provide positive expected returns.

This article originally appeared in Above the Fray, a weekly newsletter for Dimensional clients.

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