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Monthly Commentary **Apr** 2025

Equities in Focus

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Volatility Food for Thought

Volatility has not been in short supply this year, and when volatility spikes, it has a habit of sticking around for a while. But investors should not always equate erratic equity markets with downside moves, as they can also lead to sharp upturns. While the causes for such choppy markets in the past have always been different, the payoff for investor resolve has offset the rough ride.

Key Takeaways

1. **But this sell-off is different…again.**
   Trade and policy issues remain a sticking point for equity markets, and are the culprits *du jour*.
2. **Volatility is not a one-way street.**
   Volatile markets can lead to downside and upside investor experiences.
3. **Even in tough markets, stay committed to your plan.**
   Choppy stock markets leading to sell-offs are never pleasant; neither is abandoning a sound portfolio at the wrong time.

Equity markets certainly have their moments of rockiness, at some times more than others, and this year has been a prime example of the latter. A popular measure of volatility is the CBOE Volatility Index (VIX),* often referred to as the “fear gauge.” The higher the VIX, the more investors are fearful, and vice versa. Its long-term average reading is around 20, but in notable instances, when volatility jumps, it tends to persist above average for a meaningful period before heading lower to its familiar mark (*Display 1*).

Volatility Has a North and South

However, higher market volatility is not a nonstop ticket to lower stock prices. In fact, as *Display 2* reveals, on April 9 of this year—following President Trump’s announcement of a 90-day pause on reciprocal tariffs—the VIX made its largest-ever move downward. That intraday market news led to the S&P 500 surging to a positive close that day of over 9.5%!

Our View

Given the current market backdrop, and leaning on history as a guide, we do not expect today’s volatile markets to quickly become a sea of tranquility. While negative returns are no picnic, stock prices are more attractively priced now versus the start of the year, and several market cycles have proven the hazards of trying to “outsmart” the market. *Display 3* not only proves that by looking back but also shows that trying to time the market this year hasn’t worked either. In fact, peak market volatility in past crises often gave way to powerful equity market returns in the subsequent 12 months (see our blog “Gauging the Fear Factor”). The punchline: Do not let short-term market volatility derail an appropriate plan designed to meet long-term investment goals, even in the today’s environment.

*The CBOE Volatility Index (VIX) measures the market's expectation of volatility over the next 30 days, based on the prices of options on the S&P 500.

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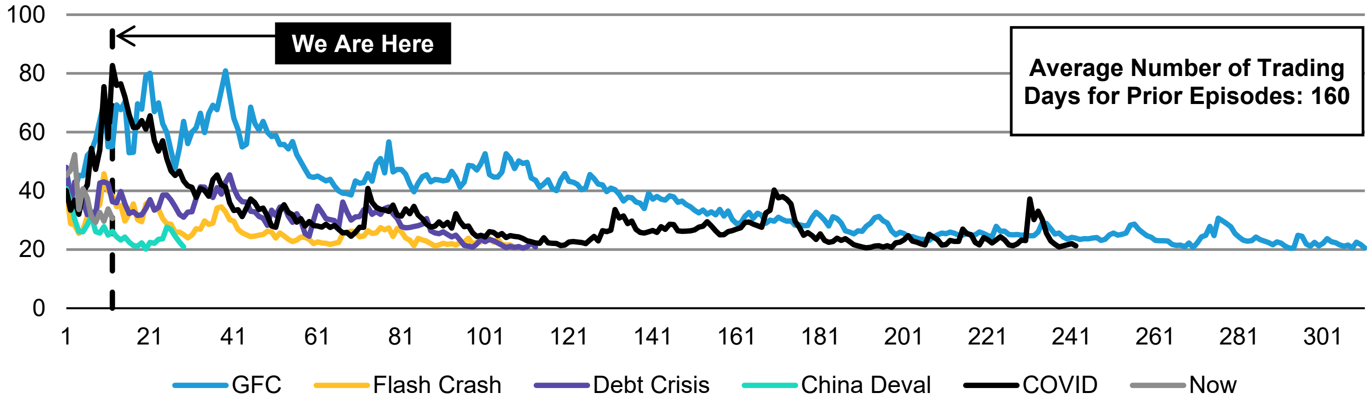
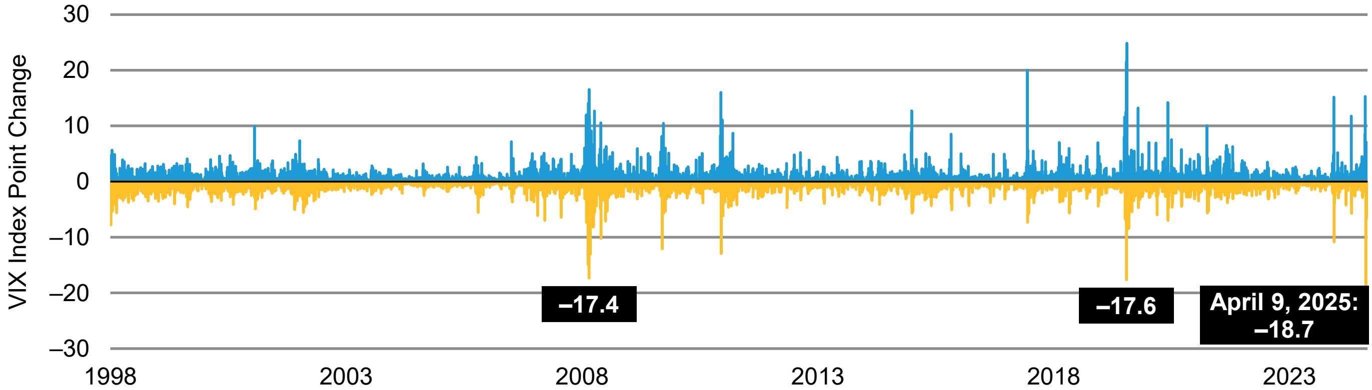
Display 1: Volatility Spikes Can Linger…
The VIX* Has Not Quickly Dropped Back to 20 When It Has Risen Above 40…We Are Now at Day Twelve



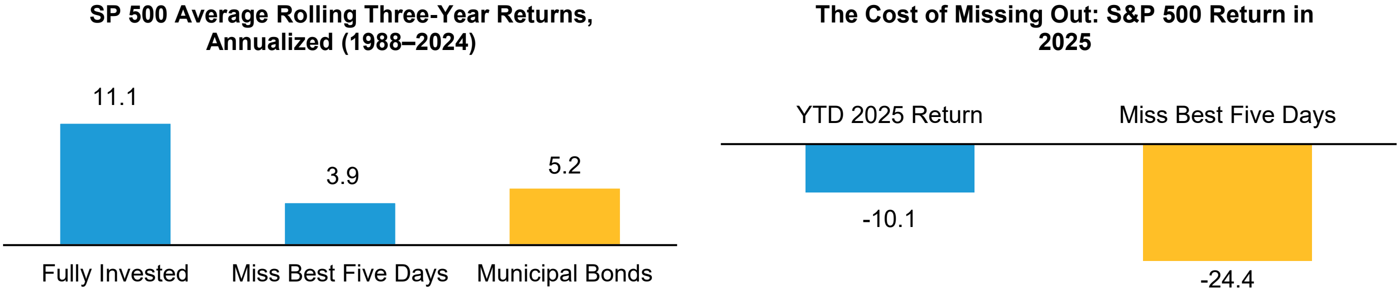
*The CBOE Volatility Index (VIX) measures the market's expectation of volatility over the next 30 days, based on the prices of options on the S&P 500. GFC: global financial crisis; flash crash: the severe market crash that occurred in May 2010; debt crisis: the S&P's downgrade of the US government's credit rating in August 2011 and the severe budget deficits of European countries such as Greece and Portugal; China deval: China's devaluation of the yuan in August 2015; COVID: COVID pandemic period beginning in February 2020
As of April 22, 2025
Source: Bloomberg

Display 2: …but Volatility Can Also Mean Markets Rise When the VIX Drops
April 9's Melt-Up Rally Saw the Largest One-Day Drop in the VIX on Record



Through April 22, 2025
Source: Bloomberg and AB

Display 3: Timing the Market Means Getting Out and Getting Back In
Trying to Outguess the Market Is Not a Wise Game Plan…Even This Year (Percent)



Past performance is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.
Municipal bonds represented by annualized three-year rolling return of Bloomberg Municipal Bond Index
Left display from January 1988 through December 2024. Right display from January 2025 through April 22, 2025
Source: Bloomberg, S&P and AB