

# NAVIGATING MARKET VOLATILITY

A comprehensive guide

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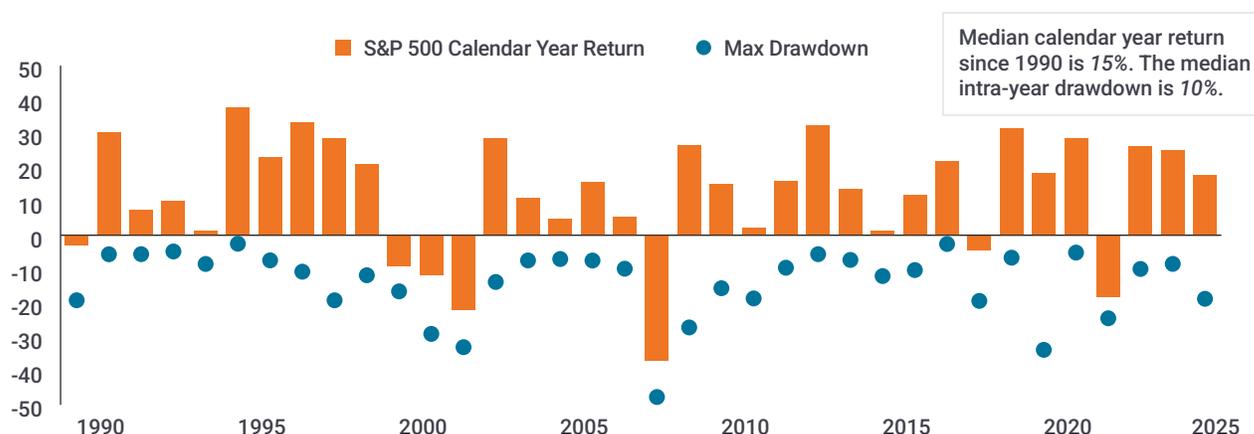
# MARKET VOLATILITY: AN INESCAPABLE FACT OF INVESTING

Volatility is one of the few constants in investing. Markets rise and fall, often without warning, and those swings can feel unsettling – even though they’re perfectly normal. Every downturn can feel like *this time is different*, but history reminds us that, despite inevitable dips, markets have grown over time.

One of the most striking realities of investing is how frequently markets experience meaningful pullbacks – even in years that end up solidly positive. The chart below highlights how common it is for markets to face temporary setbacks on the way to longer-term gains.

## Volatility is the price of admission

S&P 500 calendar year returns and intra-year max drawdown



Source: Janus Henderson Factset.

## Why we care about recessions

While most investors understand that markets normally go up over the long term, acknowledging the regularity of downturns is crucial to learning how to navigate through them.

### S&P 500 Drawdowns since 1928

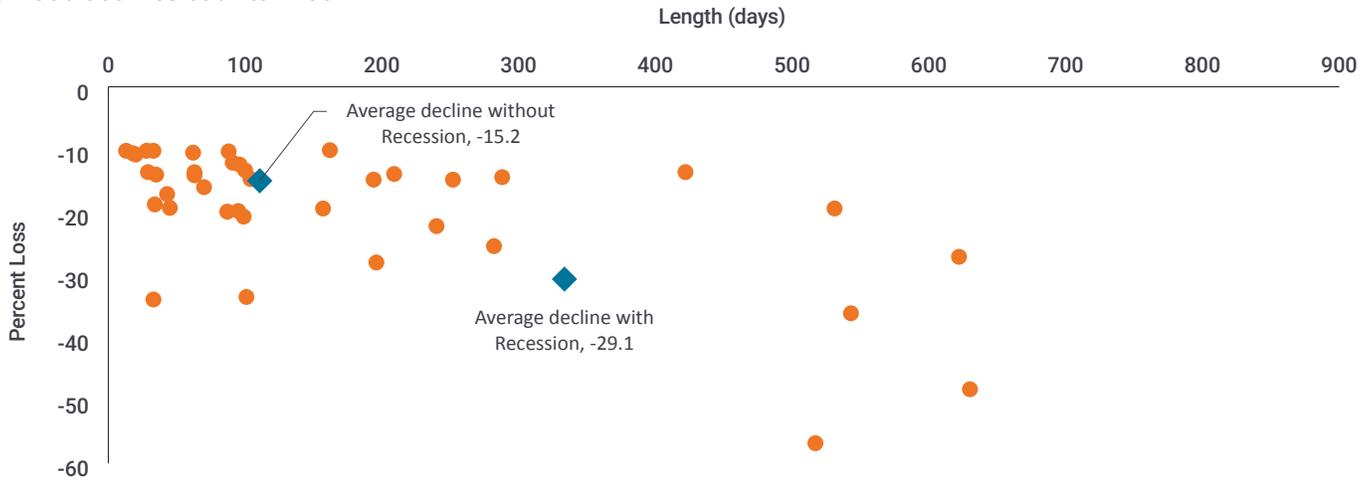
	Market Corrections (10% or greater drawdown)	Bear Market (20% or greater drawdown)
No. of occurrences	34	22
No. of recessions	5	12
Percent ending in recessions	15%	55%

Market corrections, defined as a drawdown of 10% or more, have occurred frequently, as shown in the chart below. There have been 56 periods since 1928 where the market has declined by 10% or more. Bear markets, which are defined by a drop of 20% or more, have occurred about once every 4.3 years. Put another way, if you invest over a 5-year period, it’s likely you will experience at least one bear market. Not every market drop signals a recession, but deeper declines have often coincided with economic slowdowns.

When recessions do occur, the pain is more severe. Recessions extend both the severity and duration of market declines, which is why so much attention is paid to predicting when one might arrive.

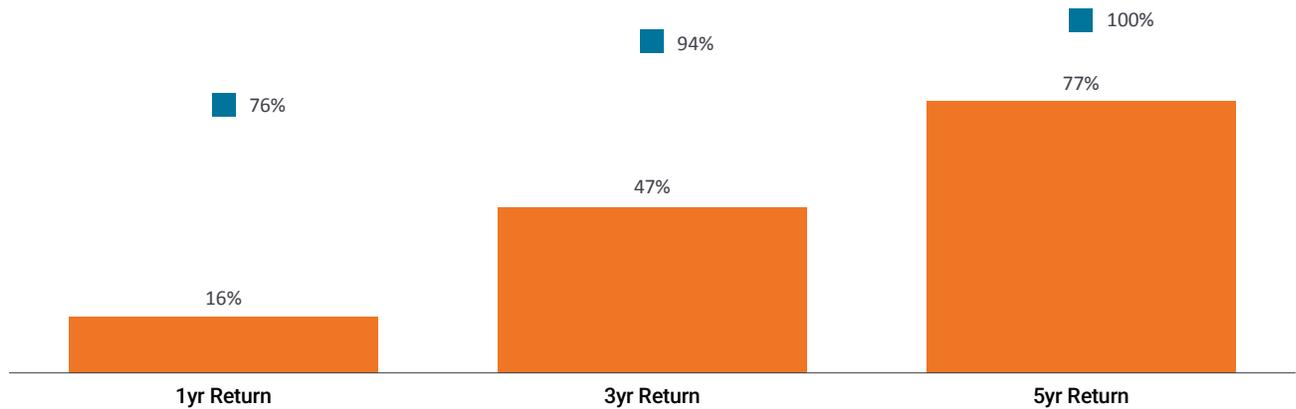
## Recession declines hit harder and last longer

S&P 500 declines back to 1950



### Downturns create opportunity

Forward returns following historical 15% drawdowns in the S&P 500 and percent time positive



Source: Bloomberg, Janus Henderson.

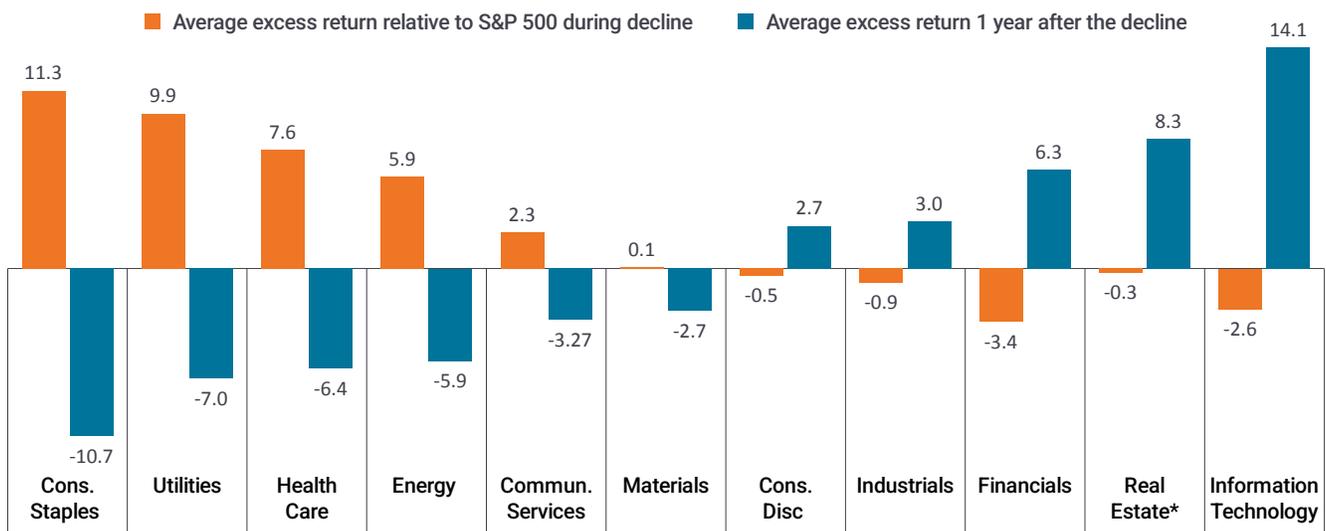
### What happens during and after market drawdowns

How should investors think about market drawdowns? While staying invested through volatility is often the smartest long-term move, that doesn't always mean doing nothing. Strategically managing around a market decline can help cushion the ride and make it easier to stay the course. Understanding what happens during a market decline is only half the picture; what happens after can be just as important.

First, investors should consider equity sector diversification as various parts of the market respond differently at various stages of a cycle. Defensive sectors like healthcare, consumer staples, and utilities have historically held up best during downturns, offering stability when markets are under stress. But as the tide turns, leadership tends to shift. More cyclical areas like financials, real estate, and technology often drive the rebound, benefiting from improving sentiment and economic momentum.

### Sector leadership shifts through the cycle

Average relative performance during and after a market decline of 15% or greater for sectors in the S&P 500



Source: Factset, Standard & Poor's. Analysis period begins 1/1/1990. \*Real Estate sector performance data begins 10/9/2001.

## Small and mid-caps lead out of declines

Cumulative return over a 1-year period following a market drawdown of 15% or greater



Another consideration is market capitalization. Oftentimes, investors are wary of small- and mid-cap stocks because they tend to be more volatile and can underperform during downturns. This is because smaller cap companies, which have more domestic exposure, less access to capital, and narrower business models, are generally more directly tied to the economic cycle. But that economic sensitivity often positions them for stronger rebounds once the recovery begins.

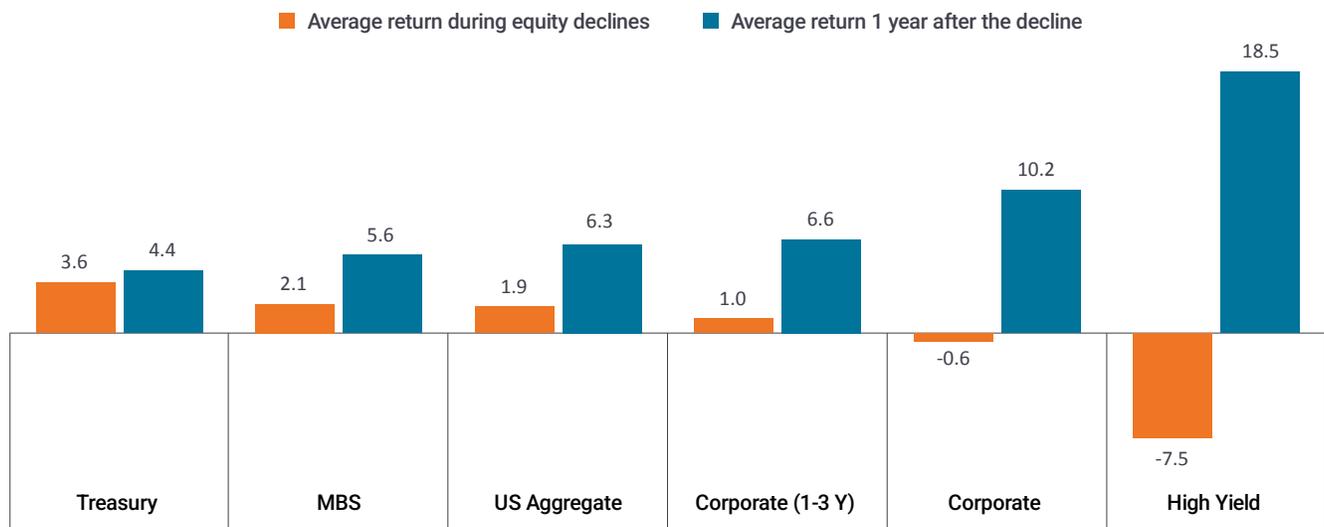
Source: Factset, Large = S&P 500, Mid = S&P Mid Cap 400, Small = Russell 2000. Analysis period starts in 1990 in which there have been 9 market declines of 15% or more. Mid cap data begins in 1997 which contains 8 market declines.

Finally, much attention should be paid to fixed income. Bonds can play a critical role in a portfolio by providing ballast during equity market drawdowns and offering a more stable source of return when volatility spikes. While not immune to losses, bonds – especially those with higher credit quality – have historically held up better than equities during downturns.

Diversifying across assets into bonds is not the only consideration, however; diversifying within fixed income also matters. During the sell-off phase, government bonds and higher-quality credit tend to offer the most protection. But as the cycle turns, riskier segments like corporate credit often lead the way, alongside equities. Managing through volatility with a clear framework can improve outcomes – but perhaps more importantly, it can help investors stay invested.

## Bonds help cushion the fall and contribute to the recovery

Average returns during and after S&P 500 declines of 15% or more



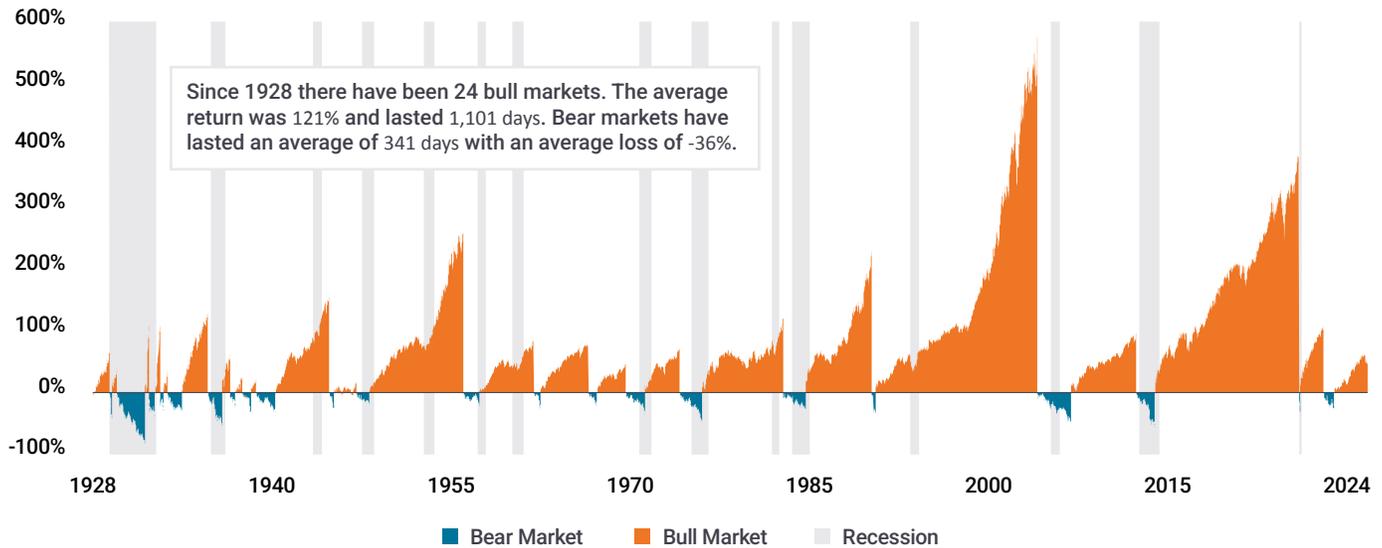
Source: FactSet. Treasury = ICE BofA US Treasury, MBS = Bloomberg US Aggregate Securitized – MBS, US Aggregate = Bloomberg US Aggregate, Corporate (1-3 Y) = ICE BofA US Corporate (1-3 Y), Corporate = ICE BofA US Corporate, High Yield = ICE BofA US High Yield.

## The benefits of staying invested

What ultimately shapes investor outcomes are the cycles of gains and losses that play out over time. And when you look at history, one fact becomes clear: Bull markets last longer and deliver far more than bear markets take away. The risk of incurring losses during a downturn is real, but the risk of missing out on the recovery is far greater.

### The market's long-term story is bullish

Cumulative returns of S&P 500 during bull and bear markets



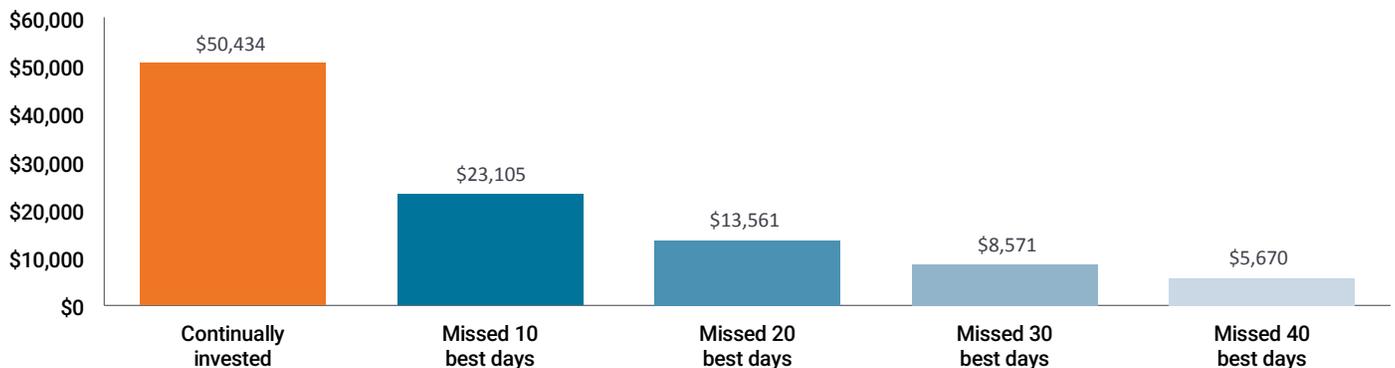
Source: Bloomberg, NBER National Bureau of Economic Research. Bull markets shown are the gains between bear markets defined as declines of 20% or more.

Market cycles don't just test portfolios – they test emotions. Fear, doubt, relief, and optimism tend to rise and fall in sync with the market. And while the journey may trend upward over time, it rarely feels smooth along the way.

While market downturns can feel painful in the moment, missing the best days can be extremely damaging to long-term returns. The challenge is that those best days often occur right after the worst ones – when fear is at its highest and many investors are on the sidelines. This makes market timing not only difficult, but dangerous.

### Time in the market, not timing the market

Value off a hypothetical \$10,000 investment in the S&P 500® Index from 1999 – 2024

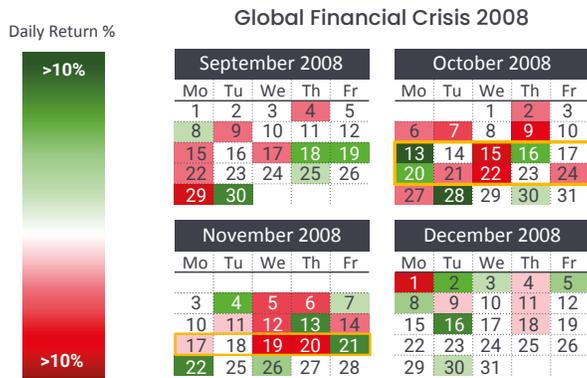


Note: Past performance is no guarantee of future results.

Investing involves risk, including the possible loss of principal and fluctuation of value.

S&P 500® Index reflects U.S. large cap equity performance and represents broad U.S. equity market performance. Index performance does not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

Source: FastSet Research Systems, Inc. from 1/1/99 - 12/31/24. The example is hypothetical and used for illustration purposes only. It does not represent the returns of any particular investment.



Note: S&P 500 Total Return Index, daily returns.  
**Past performance is no guarantee of future results.**  
 Source: Bloomberg, as of 2nd May 2025.

## Avoid “action bias” and stick to a plan

In 2007, a study was performed on the decision-making process of goalkeepers during penalty kicks. The findings suggested that the probability of stopping the ball was highest when the goalkeeper stayed in the center (33.3%) compared to jumping right (12.6%) or left (14.2%).<sup>1</sup> However, goalkeepers stayed in the center only about 6.3% of the time. This “action bias” is rooted in the goalkeeper’s desire to be seen as actively attempting to stop the shot, even if the most effective strategy might be to do nothing at all.

This psychological insight serves as a powerful analogy for investors, particularly during periods of market volatility. Much like goalkeepers during penalty kicks, investors might feel a compulsion to make frequent adjustments to their portfolios or to react immediately to market movements. However, often the best course of action is to trust in the long-term strategy that has been carefully mapped out based on thorough research and planning.

Sticking to a well-considered financial plan can sometimes mean resisting the urge to make unnecessary moves, understanding that inactivity can be a strategic decision in pursuit of achieving one’s investment goals.

Reach out to Janus Henderson’s Portfolio Construction & Strategy team to discuss how to apply these insights to your portfolio.

## Meet the specialists



**Matthew Bullock**  
 Head of Portfolio Construction and Strategy, EMEA & APAC



**Mario Aguilar De Irmay, CFA**  
 Senior Portfolio Strategist

<sup>1</sup> Bar-Eli, M., Azar, O. H., Ritov, I., Keidar-Levin, Y., & Schein, G. (2007). Action bias among elite soccer goalkeepers: The case of penalty kicks. *Journal of Economic Psychology*, 28(5), 606-621. <https://doi.org/10.1016/j.joep.2006.12.001>

## Appendix

Recession Start	Recession Finish	S&P Decline Surrounding Recession	S&P Decline During Recession	Months from Recession Start to S&P Trough	Recession Length
August 1929	March 1933	-86%	-81%	33	43
May 1937	June 1938	-54%	-29%	10	13
February 1948	October 1945	-7%	16%	<1	8
November 1948	October 1949	-21%	9%	6	11
July 1953	May 1954	-15%	18%	1	10
August 1957	April 1958	-21%	-4%	1	8
April 1960	February 1961	-14%	17%	4	10
December 1969	November 1970	-36%	-5%	4	11
November 1973	March 1975	-48%	-13%	10	16
January 1980	July 1980	-17%	7%	1	6
July 1981	November 1982	-27%	6%	12	16
July 1990	March 1991	-20%	5%	2	8
March 2001	November 2001	-49%	-2%	18	8
December 2007	June 2009	-57%	-37%	14	18
February 2020	April 2020	-34%	-20%	<1	2

Source: Bloomberg

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### Important information

**Alpha** compares risk-adjusted performance relative to an index. Positive alpha means outperformance on a risk-adjusted basis.

**Diversification** neither assures a profit nor eliminates the risk of experiencing investment losses.

**Duration** measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

**Excess return** indicates the extent to which an investment out- or underperformed an index.

**Smaller capitalization securities** may be less stable and more susceptible to adverse developments, and may be more volatile and less liquid than larger capitalization securities.

**Tranches** are segments of a pool of securities that are divided up by credit rating, maturity, or other characteristics.

**Volatility** measures risk using the dispersion of returns for a given investment.

**Yield curve** plots the yields (interest rate) of bonds with equal credit quality but differing maturity dates. Typically bonds with longer maturities have higher yields.

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