HARTFORDFUNDS
Our benchmark is the investor.®

Stay Calm, Stick to Your Plans, and Be Open to Opportunities

Falling markets are not new, but using a data-driven mindset can help ease the sense of panic that often grips investors.

When markets are tumbling and all you can see across trading screens, investing apps, and the mainstream news is red, your heart starts to pound. “This is my pension, my house deposit, my children’s savings, my client’s savings.” Even though we’ve been here before, it always manages to feel different this time.

It’s easy to forget that crises happen. The stock market falls 20% once every four years, on average, 10% most years. It’s easy to forget this. Even if you’re a seasoned investor, how much comfort does that give you when you’re in the thick of it?

The simple reality is that the stock market has tremendous power to help grow wealth in the long run, but short-term volatility and risk of losses are the price of entry.

It’s easy to forget that the global stock market would have more than doubled your savings in the last five years, despite recent volatility. If you’d invested in cash, you’d only be up 14%. A $10,000 investment in the stock market would be worth $20,700 vs. only $11,400 for an investment in cash.[1]

It takes incredible self-control to remain objective and emotionally detached. It’s easy to say “don’t worry”—but that’s not how most of us are wired.

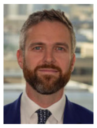
But what we can do is turn to objective, data-driven analysis to help temper that emotional response. To shift from a knee-jerk reaction to a more logical and reasoned one. For most investors, the best course of action will be to stay calm, stick to your plan, and, rather than be scared by volatility, to be aware of the opportunities that it may present.

1. 10%+ Falls Happen in More Years than Not; 20% Falls Happen Once Every Four Years

An analysis of world stock markets (as represented by the MSCI World Index) shows that 10% drawdowns occurred in 30 of the 53 calendar years prior to 2025. In the past decade, this includes 2015, 2016, 2018, 2020, 2022, and 2023.

More substantial drawdowns of 20% occurred in 13 of the last 52 years—once every four years, on average. But, if it happens this year, that will be four times in the past eight years, in 2018, 2020, 2022, and 2025.

Insight from sub-adviser Schroders Investment Management



Duncan Lamont
Head of Strategic Research

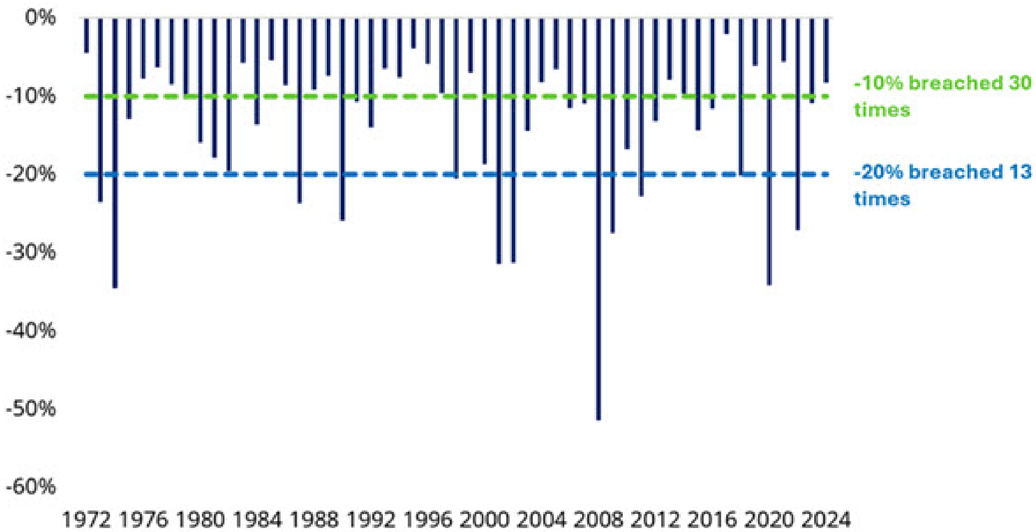
Key Points

- The simple reality is that the stock market has tremendous power to help grow wealth in the long run, but short-term volatility is the price of entry.
- While cash may seem safer, the chances of its value being eroded by inflation are much higher.
- Given the market’s declines and cheapened valuations, it’s possible that any cash invested now could go further.

FIGURE 1

Biggest Stock Market Losses in Each of the Past 53 Calendar Years

MSCI World Index Performance, 1972-2024 (USD)



As of 12/31/24 for MSCI World Index in USD terms. **Past performance does not guarantee future results.** Investors cannot invest directly in indices. Source: LSEG DataStream, MSCI, and Schroders.

Despite these regular bumps along the way, the US market has delivered strong average annual returns over this 52-year period overall.

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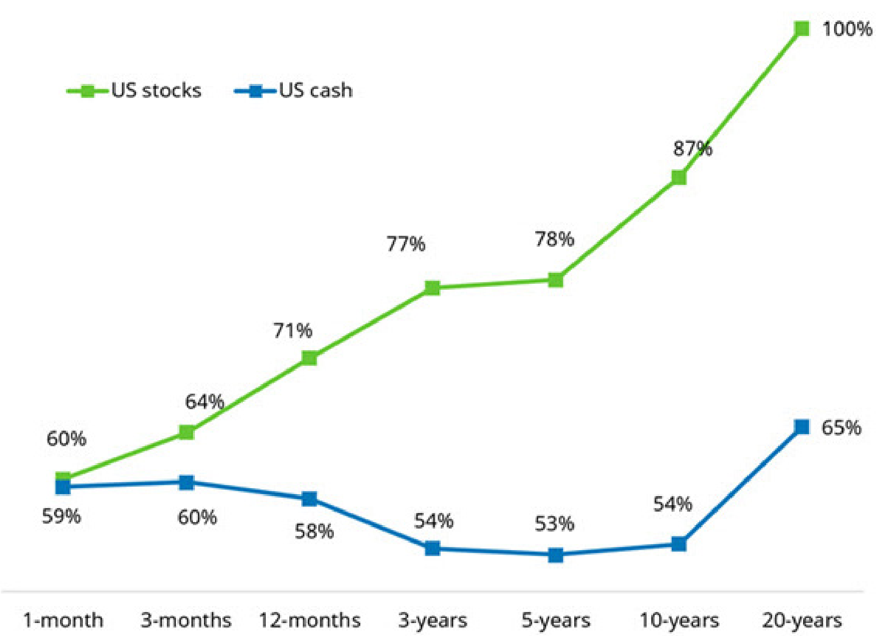
2. Stock-Market Investing Is Very Risky in the Short Run but Less So in the Long Run—Unlike Cash

Using almost 100 years of data on the US stock market, we found that, if you invested for a month, you would have beaten inflation 60% of the time but fallen short of it 40% of the time. This is a similar success rate to cash.

FIGURE 2

Time Periods Where US Stocks Have Beaten Inflation vs. Cash, 1926-2024 (%)



As of 12/31/24. **Past performance does not guarantee future results.** Investors cannot invest directly in indices. Source: Stocks represented by Ibbotson® SBBI® US Large-Cap Stocks, Cash by Ibbotson® US (30-day) Treasury Bills.[2] Sources: Morningstar Direct, accessed via CFA Institute and Schroders.

But, if you had invested for longer—i.e., 12 months—the odds would shift dramatically in your favor. On a 12-month basis, the stock market has beaten inflation 70% of the time. Importantly, 12 months is still the short-run when it comes to the stock market. You've got to be in it for longer to receive the largest potential benefit.

On a five-year horizon, that success rate rises to nearly 80%. At 10 years, the success rate would approach 90%. And there have been no historical 20-year periods in our analysis when stocks have failed to beat inflation.

Losing money over the long run can never be ruled out entirely and would clearly be painful if it happened to you. However, it's also a very rare occurrence.

In contrast, while cash may seem safer, the chances of its value being eroded by inflation are much higher. The last time cash beat inflation in any five-year period was February 2006 to February 2011, a distant memory.

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3. Being Spooked by Volatility Could Cost You in the Long Run

The stock market's so-called "fear gauge," the VIX Index,[3] has spiked in recent days. The VIX is a measure of the amount of volatility traders expect for the S&P 500 Index[4] in the next 30 days. On Monday, April 8, it closed at a level above 45, well above the long-term average of 19.

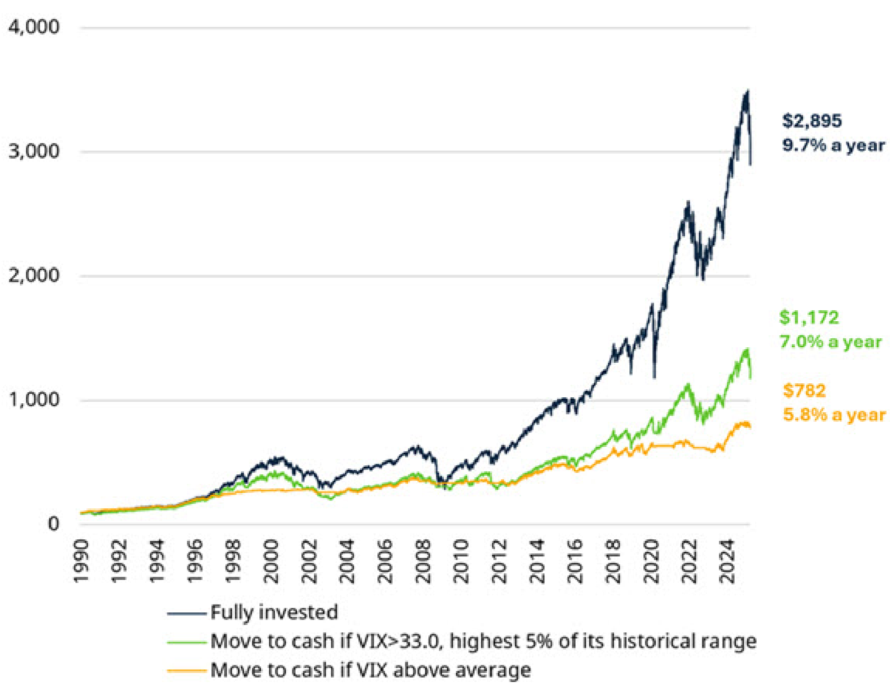
However, historically, it would have been a bad idea for investors to sell out during periods of heightened fear.

We looked at a switching strategy, which sold out of stocks (the S&P 500 Index) and went into cash on a daily basis whenever the VIX was above 33, then shifted back into stocks whenever it dipped back below 33. That's a level it's only been above 5% of the time, so I've used it to represent a "high" reading.

This approach would have returned 7.0% a year (ignoring any costs), significantly underperforming a strategy of remaining continually invested in stocks, which would have returned 9.7% a year—again, excluding costs.

If you are someone who gets nervous quickly and are tempted to sell whenever the VIX goes above average, you'd have fared even worse.

FIGURE 3
Growth of $100 Fully Invested in Stocks vs. Switch to Cash When VIX Is High



As of 4/4/25. **Past performance does not guarantee future results.** Investors cannot invest directly in indices. Levels in excess of 33.0 represent the top 5% of experience for the VIX. Portfolio is rebalanced on a daily basis depending on the level of the VIX at the previous close. Equity index is the S&P 500 Index, cash is 30-day cash. Figures do not take account of any costs, including transaction costs. Sources: CBOE, LSEG Datastream, Schroders.

What to Bear in Mind Now

This gets personal, and only you know what's right for you and/or your clients. No two individuals or circumstances will be identical.

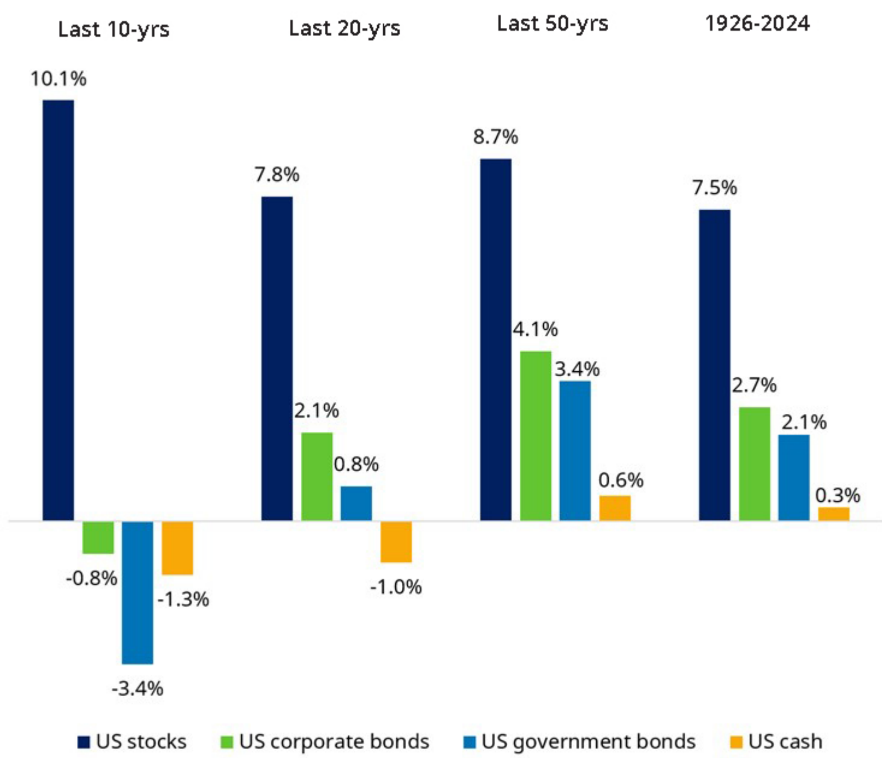
But, in many cases, the right response may be to stay calm and stick to your plan. As with all investments, the past is not necessarily a guide to the future, but history suggests that investors would have lost out considerably if they'd responded to stock-market risk by making knee-jerk reactions in the heat of the moment.

> For long-term investors with cash on the sidelines, opportunities are emerging. A policy U-turn could see a rapid recovery in markets.

FIGURE 4

In the Long Run, Stocks Have Beaten Bonds, Which Have Beaten Cash

US Asset Returns in Excess of Inflation (1926-2024)



As of December 2024. **Past performance does not guarantee future results.** Investors cannot invest directly in indices. For 1926-2023, stocks are represented by Ibbotson® SBBI® US Large-Cap Stocks; corporate bonds are represented by Ibbotson® SBBI® US Long-term Corporate Bonds; government bonds are represented by Ibbotson® SBBI® US Long-Term Government Bonds; cash by Ibbotson® US (30-day) Treasury Bills.[2] For 2024, an alternative index was used for government bonds as Morningstar has halted data updates and production for the SBBI Indices. The ICE BofA 10+ Year US Treasury Index has been chosen for consistency. Sources: Morningstar Direct, accessed via CFA Institute, LSEG Datastream, ICE Data Indices, and Schroders.

Opportunity Amidst the Carnage?

One silver lining for equity investors is that the market declines may mean that any cash you're considering investing may now go further. Valuations have cheapened and are now, for non-US markets, cheap compared with history. Not overly so, but bargains can be found. Even the US, long an expensive outlier, is fast converging on more neutral valuations vs. history.

There are more unknowns than usual, given the policy uncertainty and President Trump's use of tariffs as a negotiating tool. But, for long-term investors with cash on the sidelines, opportunities are emerging. A policy U-turn could see a rapid recovery in markets.

Talk to your financial professional to help you stay focused on your long-term goals despite volatility.

[1] Data for the five-year period ended 4/4/25; stocks proxied by the MSCI World Index in US dollar terms. The index captures large- and mid-cap representation across Developed Markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country.

[2] The IA SBBI® US Large Cap Stocks Index, part of the Ibbotson Associates Stocks, Bonds, Bills and Inflation Series (SBBI®), represents the performance of large-cap stocks in the US. Cash is measured by the IA SBBI® US 30-Day T-Bill Index, which measures the performance of short-term US Treasury bills with maturities of 30 days. This index is often used as a benchmark for cash equivalents and represents the returns on cash investments over a short-term period. Corporate bonds are represented by the IA SBBI® US Long-term Corporate Bonds Index, which measures the performance of long-term corporate bonds with maturities of 10 years or more and are issued by corporations with high credit ratings; government bonds are represented by IA SBBI® US Long-Term Government Bonds Index, which tracks the performance of long-term US government bonds, typically with maturities of 10 years or more, and are backed by the full faith and credit of the US government. The CFA Institute Research Foundation provides access to the SBBI® dataset, which includes historical performance data for various asset classes.

[3] VIX, commonly referred to as the "Fear Index," is the ticker symbol for the Chicago Board Options Exchange (Cboe) Volatility Index and measures the market's expectation of 30-day volatility. VIX levels below 20 reflect complacency, while levels of 40 or higher reflect extremely high levels of volatility.

[4] S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.

Important Risks: Investing involves risk, including the possible loss of principal. • Foreign investments may be more volatile and less liquid than U.S. investments and are subject to the risk of currency fluctuations and adverse political, economic and regulatory developments. • Fixed income security risks include credit, liquidity, call, duration, event and interest-rate risk. As interest rates rise, bond prices generally fall.

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