Market volatility often triggers fear-driven selloffs, but history shows that staying disciplined and invested in value stocks has led to strong long-term returns after the turmoil subsides.

MARKET VOLATILITY: LESSONS FROM HISTORY AND IMPLICATIONS FOR LONG-TERM INVESTORS

The second quarter was a wild ride for global equity markets. Stocks dropped sharply at the beginning of the quarter on trade-war fears, only to reverse course and rally strongly, as those fears subsided. Turmoil returned toward the end of the quarter, as the conflict in the Middle East heated up. It was a stark reminder that heightened market volatility is driven by fear and uncertainty, which often moves markets. In this essay we discuss

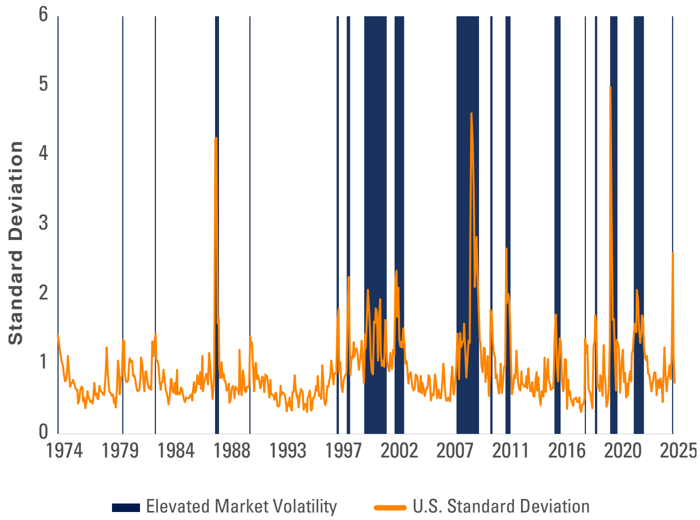
- Market volatility patterns over the past 50 years
- Market and style performance as uncertainty rises and falls

VOLATILITY, UNDERPERFORMANCE, RECOVERY

The turbulence in the quarter naturally raised questions among clients and investors about what to expect next and how best to navigate such environments. It turns out that periods like this, while unsettling, are not unprecedented. To better understand these dynamics, we studied 17 past episodes of elevated market volatility, examining the causes, the short-term performance, and what happened afterward. The findings shed light on the persistent behavioral and structural patterns that tend to emerge in turbulent times—and what investors might do (or avoid doing) as a result (Exhibit 1).

Exhibit 1: Periods of Elevated Market Volatility

30-Day U.S. Market Volatility

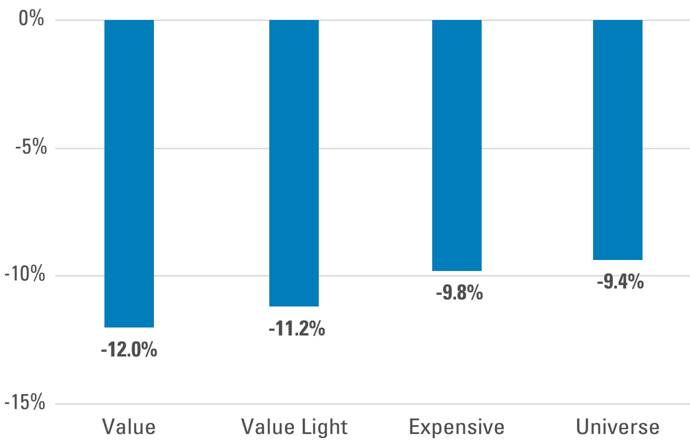


Source: Kenneth R. French, Pzena analysis
The orange line displays the 30-day trailing standard deviation of the U.S. market.
The U.S. market is all NYSE, AMEX, and NASDAQ stocks defined by Kenneth R. French data library.
The blue bars represent periods when volatility reached the top 10th percentile of observations.
Data from January 1, 1975 – June 30, 2025.
Past performance is not indicative of future returns.

One clear, unsurprising takeaway is that markets generally do not like uncertainty. During high volatility periods (defined as the most extreme 10% of observations), equities tend to perform poorly, with stocks broadly lower in 15 of the 17 occurrences, and only up slightly in the other two. This behavior makes intuitive sense: volatility is often triggered by shocks—be they economic, geopolitical, or financial—that cause investors to reassess the risk environment and future earnings potential.

Value stocks usually underperform the market, trailing in about two thirds of periods. When fear dominates, investors seek safety or perceived visibility, selling value more so than expensive growth stocks or companies with more defensive business models. Value stocks also tend to get punished worse, especially when the economic outlook is in question (Exhibit 2).

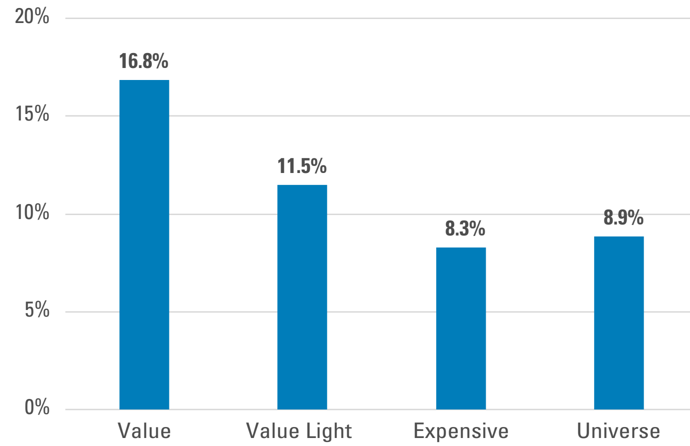
Exhibit 2: Value Underperforms in Volatile Periods
ACWI Average Performance in Volatile Periods* Since 1975



Source: Kenneth R. French, Sanford C. Bernstein & Co., Pzena analysis
**We analyzed the trailing 30-day standard deviation of the US market since 1975. Volatile periods were defined as those when volatility reached the top 10th percentile of observations. We then calculated the average performance of ACWI stocks from the start of each of the 17 volatile periods to its respective volatility peak.*
Value = stocks within the cheapest quintile based on price/book of the MSCI ACWI universe. Value Light = 2nd cheapest quintile. Expensive = most expensive quintile. The quintiles are measured on an equally weighted basis. Universe = cap-weighted returns of MSCI ACWI universe.
Total return US dollar data from January 1, 1975 – June 30, 2025.
Does not represent any specific Pzena product or service.
Past performance is not indicative of future returns.

The market decline due to a rapid rise in volatility is a good starting point for long-term, disciplined value investors, as value has historically significantly outperformed all styles and the overall market over the subsequent five-year periods (Exhibit 3). It is interesting to note that the longer-term performance of the universe and expensive stocks from the start of a high volatility period is below their long-term historical performance, while value stocks more than double that performance. This is the cost of seeking safety in volatile periods.

Exhibit 3: Value Outperforms Following Volatile Periods
ACWI Average Annualized 5-Year Forward Returns
Following the Start of a High Volatility Period*



Source: Kenneth R. French, Sanford C. Bernstein & Co., Pzena analysis
**We analyzed the trailing 30-day standard deviation of the US market since 1975. Volatile periods were defined as those when volatility reached the top 10th percentile of observations. We then calculated the average forward 5-year performance of ACWI stocks from the start of the 17 volatile periods.*
Value = stocks within the cheapest quintile based on price/book of the MSCI ACWI universe. Value Light = 2nd cheapest quintile. Expensive = most expensive quintile. The quintiles are measured on an equally weighted basis. Universe = cap-weighted returns of MSCI ACWI universe.
Total return US dollar data from January 1, 1975 – June 30, 2025.
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TIMING VOLATILITY IS DIFFICULT

One of the clearest insights from the history shown in Exhibit 1 is that volatility arrives swiftly. Rarely do markets ease into panic, as there is no advance warning, and the causes can be varied, ranging from geopolitical shocks (e.g., the invasion of Ukraine) to financial dislocations (e.g., Long Term Capital Management or the Global Financial Crisis), or even global health crises (e.g., COVID-19). However, waiting for "calm" or "clarity" can backfire, as markets do not ring a bell at the bottom. Rebounds often begin while uncertainty still feels high.

Historical analysis shows that just as volatility escalates suddenly, it also fades unexpectedly, and often quickly. Once volatility breached the threshold for extreme volatility in our study (again, the top 10%), it reached a peak within two-and-half months.

This indicates that investors who wait for the all-clear—expecting clarity or a clear turning point—are usually too late. The market rebound often begins while uncertainty still dominates the headlines.

This paradox—where recovery begins before confidence returns—can be a test to the investor attempting to time market entry and explains why emotional decision-making during volatility can be so damaging. Investors tend to sell into weakness and wait on the sidelines for "calmer waters." But history shows that by the time things feel safe again, a good deal of the upside has already passed. Looking at value stocks as an example, the first 12 months after volatility reaches extreme levels tend to be particularly profitable, with value stocks outperforming all styles by more than 1,000 basis points, while the market performance is in line with its long-term history and higher than it was before the breach in all but three cases.

CONSISTENT PATTERNS

This pattern holds across most of the 17 episodes we examined for global stocks and was consistent across other geographies. Additionally, areas of the market with higher perceived inherent risk, such as emerging markets, performed worse as volatility and uncertainty rose, and outperformed in the five-year period after volatility first reached extreme levels. This performance makes intuitive sense, as uncertainty causes investor panic, leading to indiscriminate selling of assets with the highest perceived risk, only to stage the strongest recovery once the uncertainty subsides.

FINAL THOUGHTS: RESILIENCE REQUIRES DISCIPLINE

Volatile markets test investor patience and discipline. The natural impulse is to seek safety, avoid losses, and wait for better visibility. But history shows that this impulse often leads to missed opportunity. The most dramatic gains frequently follow the worst declines, and the market rarely gives the all-clear before turning higher.

Our study of past volatility episodes confirms that market shocks are part of the investing landscape. They are unpredictable, often severe in the moment, but ultimately transitory. For long-term investors, the best course is not to avoid volatility, but to navigate it with perspective and patience.

When a crisis hits, many stare into the dark and scary abyss and see only more, or even total gloom, underestimating the resilience of markets and the human spirit that ultimately drives rational investment decision making. Staying invested, maintaining a valuation discipline, resisting the urge to react to headlines, and sifting through the hardest-hit stocks remain the best recipe for compounding capital over time. Consistent with the study presented, we have found that periods of high volatility are particularly good times to invest in undervalued stocks that have been summarily sold off due to market fears for long-term returns. Although the ultimate impact of current trade policies remains uncertain, our investment approach ensures that we assess each company's ability to withstand and adapt to evolving conditions. This disciplined, research-driven methodology enables us to capitalize on opportunities that arise from market fears while attempting to safeguard against permanent capital impairment.

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