Looking for an “All Clear” Sign? 
EXAMINING TODAY’S VOLATILITY THROUGH A HISTORICAL LENS

1. The Downturn in Today’s Market

The recent decline in the stock market, illustrated in the S&P 500 Index, was historically swift and severe. Putting things in perspective, the gains in the index achieved since the inauguration of President Trump have largely been erased, and many investors are rightfully concerned about further market drops and continued volatility.

![S&P 500 Index Levels Over Time](source)

Source: Yahoo Finance as of March 27, 2020. The information provided is used to demonstrate market trends and is provided for illustrative purposes and is not indicative of the past or future performance of any BNY Mellon Product.

2. Volatility Strikes Back

In addition to the large drop in the markets, we’ve also seen large swings in prices, occurring on both up and down market days. One way to measure volatility is through the CBOE Volatility Index (VIX Index), which is composed of options around the S&P 500 Index. Options represent future trading, so the VIX is designed to project expected volatility. Currently, we are seeing the VIX at near record levels.

![Volatility Levels (VIX Index), 2015-Present](source)

Source: Yahoo Finance as of March 27, 2020. The information provided is used to demonstrate market trends and is provided for illustrative purposes and is not indicative of the past or future performance of any BNY Mellon Product.
Experiencing market volatility can be a nerve-wracking experience. The market swings are precipitous and seem to have no pattern.

However, one thing we have observed about volatility, as seen on the far left side of this chart, is that particular levels of it tend to lead to similar levels of volatility the next month. In other words, high levels of volatility (circled, and like current levels today), tend to predict subsequently high levels of volatility the next month.

This suggests that it may be likely that this volatility will be with us in the near term.

As the right chart demonstrates, the VIX may imply the dispersion of market returns as well. The VIX suggests that at higher level of volatility, as the circled portion indicates, the S&P 500 may move at a higher magnitude, both higher and lower. Based on this, the fluctuations in S&P 500 prices may continue.

While data can assist in perspective, it's unlikely there will be a flashing ‘all clear’ sign in midst of volatility to signal the bottom of the market. In fact, stock market performance may continue to be volatile, and we believe the best option is to remain invested during periods of near term market volatility. With a long-term view, investors should be well positioned when the market recovers.
Market history has experienced many periods of market downturns and subsequent recoveries. Recoveries from the bottom of a market have taken anywhere from three months to eighteen months in this group, as seen in each gold bar. While this at first may seem like a long time, it historically implies that staying invested has helped to ride out market downturns when they arrive.

Source: Morningstar Direct and Yahoo Finance as of 3/27/2020. The information provided is used to demonstrate market trends and is provided for illustrative purposes and is not indicative of the past or future performance of any BNY Mellon Product.

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.
4. Looking Out

The decline in stock market prices in 2020 have been severe and can challenge the wits of even the most seasoned stock market veteran. Where some historical market declines were slower and more gradual, the suddenness of the Coronavirus market decline is nearly unprecedented.

All the while, 2020 has experienced spikes of high volatility with large dispersions of returns day-by-day. Historically, volatility can suggest a few things about the current market environment, namely that in the near-term high volatility may continue as well as a higher dispersion of S&P 500 returns — both high and low.

With this knowledge, it is still impossible to call the exact bottom of a market. We do know, that historically, markets recover and eventually exceed their pre-downturn levels.

BNY Mellon Investment Management, one of the world’s leading investment management organizations, has decades of experience and has been through these downturns — and recoveries — before. Look to BNY Mellon Investment Management for quarterly market updates like Vantage Point, our guide to the global economic and markets outlook, as well as timely updates on asset classes and solutions on our website, im.bnymellon.com.