



Coping mechanisms for equity market volatility

Kelly Bogdanova – San Francisco

Stock markets' erratic movement of late can certainly be jarring, but it's important to remember that volatility is a normal part of investing. We look at how investors should think about portfolio allocations so that they can act as an anchor during periods of extreme volatility.

When external events hit the stock market and stoke uncertainty or fear, such as the current Middle East crisis, volatility usually works in both directions—downward *and* upward.

The S&P 500 declined 7.8 percent from when the U.S. and Israeli strikes on Iran began on February 28 through March 30. Stocks representing the rest of the world, measured by the MSCI ACWI ex USA Index, dropped 11.2 percent during the same period.

Then amid some verbal signs that the U.S. is eyeing an offramp, stock markets reversed course with each of these indexes jumping about 3.7 percent in total on Tuesday and Wednesday of this week.

We think there could be more twists and turns in the Middle East crisis in the near term, along with additional stock, bond, and energy market volatility.

Our advice to long-term investors is to take some deep breaths and count to 100, so to speak, before making big asset allocation and sector changes.

Par for the course

Rule of thumb when it comes to stock investing: Pullbacks and corrections are more common than one might think.

- In the modern era since 1980, the S&P 500 has experienced 25 peak-to-trough declines of 10 percent or more at some point during the year, as the chart on the next page shows, in the yellow data. The average decline was 14 percent.
- Nevertheless, since 1980, the S&P 500 traded higher for the full year in 35 of the 46 years, reflected in the chart's blue bars. In 28 of those instances, gains were 10 percent or more.
- There was only one stretch when the market delivered negative returns in consecutive calendar years: 2000, 2001, and 2002.
- During this lengthy period from 1980 to 2025, the S&P 500 surged from the 108 level to 6,845. This occurred despite the fact that the time frame included six recessions, four separate bouts of consumer inflation above five percent, Washington and Federal Reserve policy errors, wars, and some other rather challenging external events that were thrust upon the market.

Each pullback or correction usually has its own unique catalysts—whether it's moderate, substantial, or something in between, and whether it is sharp or something that unfolds at a slower pace.

For perspectives on the week from our regional analysts, please see [pages 3–4](#).

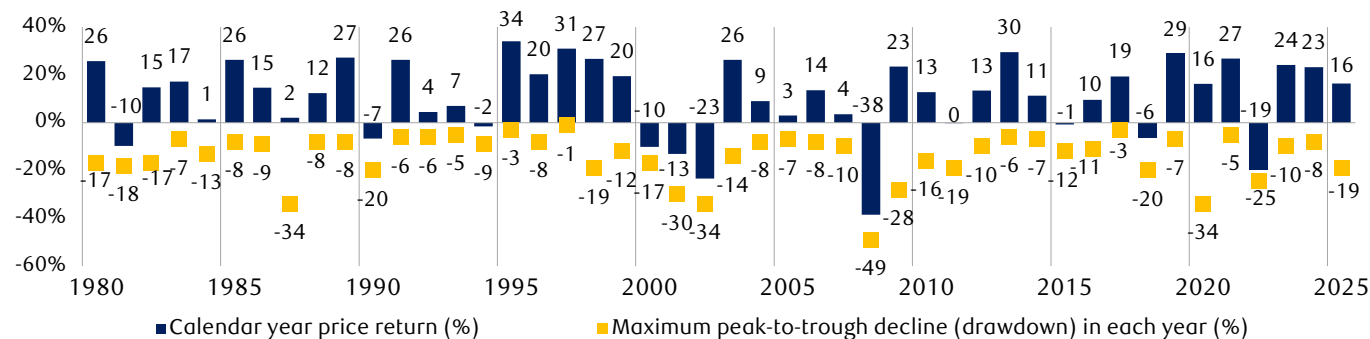
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Priced (in USD) as of 4/1/26 market close (unless otherwise stated). Produced: 4/2/26, 14:29 ET; Disseminated: 4/2/26, 14:35 ET

Pullbacks and corrections are normal

S&P 500 performance and maximum drawdowns by year (average annual maximum drawdown: 14%)



Source - RBC Global Asset Management, RBC Wealth Management, Bloomberg; price return data (not including dividends)

One has to only recall the four most notable corrections of this century when the catalysts were rather dissimilar, and durations differed:

- The ultrahigh tariff scare in April 2025,
- The global COVID-19 pandemic selloff in 2020,
- The global financial crisis and U.S. housing crisis in 2008–2009, and
- The bursting of the U.S. technology bubble in 2000–2002.

But there were some [patterns associated with military interventions](#) and other geopolitical risks that are relevant to consider today.

In 20 such events since World War II, the S&P 500 fell six percent, on average, from the initial market impact to the trough level. In 19 of the 20 events, the market took an average of only 28 days to return to where it had been prior to the military interventions and geopolitical events.

There were some anomalies, however. When military actions resulted in Middle East oil supply constraints in 1973 and 1990, the S&P 500 declined more, about 16 percent during each episode, and the corrections lasted longer than those associated with other military events.

Back to basics

For investors who have been jarred by the recent volatility and/or the specific circumstances and risks associated with the Middle East crisis, we think now is a good time to weigh the following:

- **Is your long-term strategic broad asset allocation where it should be given your investment time horizon, stage of life, risk tolerance, financial goals, and other factors?** Meaning, is your targeted allocation for stocks, bonds, and cash (and other relevant asset classes) appropriate? We often find that some of the stress associated with extreme market moves is because this long-term strategic allocation is misaligned with either risk tolerance, stage of life, or some other personal factor.

- **Is your current allocation roughly in line with your long-term strategic allocation?** If not, is there a good reason that it's offside?

- **Is the mix of U.S. versus non-U.S. equity exposure in your portfolio where it should be given your long-term financial goals?** U.S. stocks have outperformed somewhat during this correction, and we think that could continue if the Middle East crisis persists. This is largely because a number of European and Asian (excluding China) economies are far more dependent on crude oil and natural gas imports and therefore seem more vulnerable to energy supply shocks. However, if the crisis gets resolved soon or Strait of Hormuz tanker shipments increase meaningfully, European and Asian equity markets could come back into favor as they were last year, especially given their discounted valuations relative to the U.S.

- **Are the types of equity holdings in your portfolio aligned with your broader financial goals?** Meaning, is the proportion of dividend-paying stocks, growth and value stocks, and sector and industry exposures in line with your objectives?

If you're unsure about some of these questions, we highly recommend contacting your RBC advisor.

A portfolio's long-term strategic asset allocation between stocks, bonds, and cash, and the specific sub-asset class allocations that flow underneath are put in place for times like this. They are intended to be an anchor during periods of extreme volatility.

We think financial markets will continue to be volatile in the weeks and months ahead. It's important to have your long-term investment strategy nailed down, and allocations that correspond to it.

For additional thoughts about equity and fixed income positioning amid the Middle East crisis, including views of regional markets as well as commodities and currencies, see the recently published [April Global Insight](#) report.

UNITED STATES

Michael Roedl – Minneapolis

■ **U.S. fixed income markets are caught in a tug-of-war between inflation and growth as the ongoing Middle East crisis drives turbulent swings in Treasury yields and energy prices.** In March, concerns that inflation could intensify fueled the largest monthly increase in 10-year Treasury yields since late 2024. While rising energy prices risk stoking inflation, we also believe it could threaten global growth, further complicating the outlook for monetary policy. Fed fund futures, which track the probability of changes to the effective federal funds rate, project the Federal Reserve to hold rates steady in a 3.50% to 3.75% range this year, a proportionate shift from January and February when markets had priced in over 50 basis points of cuts by the end of 2026. With the Fed’s current stance on policy being close to neutral, we see little room for cuts in 2026, especially if higher energy prices create pass-through to core inflation and pressure wages.

■ **A wave of redemption requests is pressuring private credit markets as spooked investors sought to pull about \$13 billion from over a dozen funds during the first quarter of 2026.** Given the “semi-liquid” nature of private credit investments, many of these funds are capping withdrawals at 5% to 7% of net asset value each quarter, creating anxiety for investors who fear private credit’s exposure to software companies vulnerable to AI disruption and lending standards. Apollo Global Management and Ares Management are the latest firms to impose limits on redemptions, joining a list that includes BlackRock, Morgan Stanley, and the industry heavyweight Blue Owl Capital.

The 10-year Treasury yield surged in March as rising oil prices fueled inflation risk



Source - RBC Wealth Management, Bloomberg; data through 3/31/26

CANADA

Nguyen Dang, CFA & Claudia Humbert, CFA – Toronto

■ **Canada’s economy grew a modest 0.1% m/m in January, slightly exceeding Bloomberg consensus expectations but marking a slower pace than December; growth was concentrated in goods-producing sectors, particularly mining, construction, and oil and gas extraction.** However, this strength was partly offset by a sharp 1.4% decline in manufacturing, partly reflective of ongoing tariff-related pressures, while the typically resilient services sector—including real estate, finance, and health care—was broadly flat. Only nine of 20 industries recorded growth for the month, though Statistics Canada’s preliminary estimate for February points to a 0.2% increase, suggesting to us a mild pickup in activity. Despite the modest improvement, the broader backdrop remains fragile, coming on the heels of a contraction in Q4 activity and ongoing trade uncertainty linked to U.S. policy. At the same time, rising crude oil prices linked to the Middle East crisis are adding to inflation risks, potentially weighing on consumer demand and complicating the policy outlook. Overall, the data reinforces a picture of subdued growth with uneven sectoral momentum as the economy navigates external headwinds and lingering price pressures.

■ **Canada’s manufacturing sector showed flat activity in March, with the S&P Global Purchasing Managers’ Index for the sector slipping to 50.0, a step down from modest expansion in February.** Output declined for the first time in 2026, while new orders and employment both edged lower. Export demand remains a key drag, with new export orders falling for a 14th straight month, reflecting ongoing tariff frictions and still-soft U.S. demand. **The March data also provides an early look at how the Middle East conflict is feeding into the Canadian economy. Higher oil prices and supply chain disruptions pushed input costs higher and lengthened delivery times, though the impact has been more subdued than in regions with a greater reliance on imported energy.** While companies continued to pass through some higher costs, the pace of output price increases eased, suggesting to us a growing resistance from customers. Business confidence also weakened and remains below historical norms, with firms citing elevated uncertainty tied to trade policy and the global growth outlook. **The data is consistent with firms taking a cautious approach to capacity and inventory management as they await clearer signals on the demand environment.**

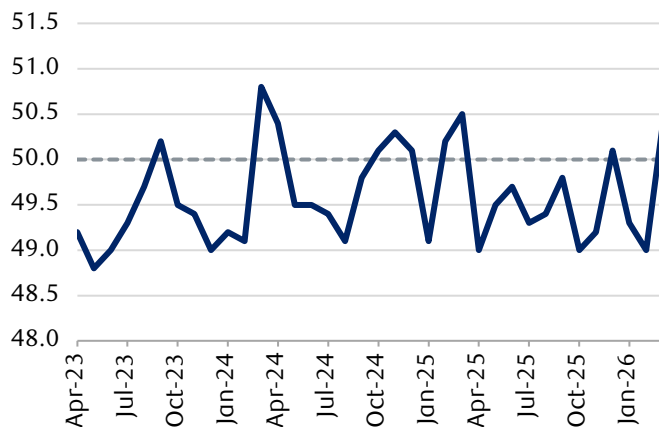
UK & EUROPE

Frédérique Carrier & Thomas McGarrity, CFA – London

- **The STOXX Europe 600 Index ended the week over 3% higher, as hopes grew that the U.S. was seeking to end the war in Iran,** as reported by the Wall Street Journal and indicated by President Donald Trump's comments. However, the index remains around 6% below its peak at the end of February prior to war's outbreak. Rate-sensitive sectors and cyclicals led the bounce, having recently sold off the most sharply—reflecting, in our view, the shift in interest rate expectations and the economic uncertainty brought by higher energy prices.
- **European defence stocks were also among the region's best performers during the week, buoyed by comments from President Trump and U.S. Secretary of State Marco Rubio that the U.S. will re-examine its relations with NATO,** including the possibility of withdrawing from the alliance in response to European nations' refusal to become directly involved in military attacks against Iran. We believe an allocation to the European defence industry remains warranted, with a bias to air defence and defence electronics. This would reflect the prospect of a long upcycle of defence spending ahead, as well as the likelihood of geopolitical risks remaining elevated, in our opinion.
- **Given the damage to Middle East energy infrastructure already inflicted, oil and natural gas prices will likely remain elevated for some time, in our view.** A stable oil price at \$100/bbl and a 50% increase in natural gas prices compared to pre-war levels would likely reduce European GDP growth by 0.8 percentage point while adding 1.5 percentage point to inflation, according to RBC Global Asset Management economists. Such a

Official data suggests Chinese manufacturing activity held up in March

China Manufacturing Purchasing Managers' Index



Source - RBC Wealth Management, Bloomberg

scenario would also reduce corporate earnings growth to zero this year, from the market consensus of 12% expected at the beginning of the year.

- **The damage to the UK economy would likely be less, in their view, with GDP reduced by 0.55 percentage point and inflation pushed up by 1.25%.** If markets start to price in stagflation risks, we expect UK equities to outperform European equities marginally thanks to their higher exposure to defensive sectors.

ASIA-PACIFIC

Jasmine Duan – Hong Kong

- **Asian equities remain volatile amid the escalating Middle East crisis.** March was the worst month for Asian stocks since 2008, with the MSCI Asia Pacific Index declining 13%. We believe that dependence on imported energy from the Middle East has been the primary driver affecting relative performance in the region. Equity market valuations at the start of the year also played a role.
- **Among Asian countries, Malaysia, Singapore, and China/Hong Kong have demonstrated relative resilience.** Other major markets, including South Korea, Japan, Taiwan, and India are among the worst performers and experienced double-digit declines across the board.
- **For South Korea, concerns about stretched valuations and memory chip pricing added to the selling pressure,** making it the worst-performing market in March, down by almost 25%. However, it remains the best-performing market in Asia year to date, as it rallied significantly in January and February.
- **In China, the official manufacturing Purchasing Managers' Index (PMI) rose to 50.4 in March from 49.0 in February.** Surveyed enterprises reported that raw materials input costs for oil and chemicals rose sharply in March, which points to a significant rise in manufacturing price pressures. The input price component surged to 63.9 from 54.8.
- **While firms appear to be absorbing some of this pressure in their profit margins, the March PMI results suggest to us that China's economic activities have been holding up and have not yet been derailed by the Middle East crisis.** We expect the Iran war's economic impact to intensify in coming months, and we believe the impact on Chinese export and manufacturers' margins should be closely monitored. Given China's export-dependent growth model, prolonged energy supply disruptions could weigh on both global demand and Chinese corporates' profitability. Imported inflation could have some negative impact on the economic recovery, in our view.

MARKET Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,575.32	0.7%	-3.9%	16.7%	25.4%
Dow Industrials (DJIA)	46,565.74	0.5%	-3.1%	10.9%	17.7%
Nasdaq	21,840.95	1.2%	-6.0%	25.2%	33.2%
Russell 2000	2,512.37	0.6%	1.2%	24.9%	19.5%
S&P/TSX Comp	32,957.95	0.6%	3.9%	31.7%	48.6%
FTSE All-Share	5,533.60	1.9%	3.4%	19.0%	27.6%
STOXX Europe 600	597.69	2.5%	0.9%	10.8%	16.6%
EURO STOXX 50	5,732.71	2.9%	-1.0%	7.8%	12.8%
Hang Seng	25,294.03	2.0%	-1.3%	9.0%	52.9%
Shanghai Comp	3,948.55	1.5%	-0.5%	17.9%	28.3%
Nikkei 225	53,739.68	5.2%	6.8%	50.9%	35.0%
India Sensex	73,134.32	1.6%	-14.2%	-3.8%	-1.2%
Singapore Straits Times	4,975.83	1.8%	7.1%	25.4%	53.8%
Brazil Ibovespa	187,952.91	0.3%	16.7%	43.3%	48.0%
Mexican Bolsa IPC	69,522.60	1.3%	8.1%	30.3%	20.6%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.323%	0.6	15.6	15.4	1.3
Canada 10-Yr	3.501%	2.8	6.8	57.3	-8.5
UK 10-Yr	4.830%	-8.6	35.1	19.6	89.7
Germany 10-Yr	2.986%	-1.8	13.1	29.9	68.8
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.57%	0.0%	0.0%	4.1%	10.3%
U.S. Investment-Grade Corp	5.14%	0.0%	-0.5%	4.5%	10.8%
U.S. High-Yield Corp	7.40%	0.0%	-0.5%	6.9%	15.5%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	4,761.08	2.0%	10.2%	52.9%	111.5%
Silver (spot \$/oz)	75.21	0.1%	5.0%	123.2%	199.8%
Copper (\$/metric ton)	12,256.76	0.0%	-1.6%	27.0%	39.8%
Oil (WTI spot \$/bbl)	99.33	-2.0%	73.0%	39.5%	18.7%
Oil (Brent spot \$/bbl)	100.60	-15.0%	65.3%	35.1%	15.1%
Natural Gas (\$/mmBtu)	2.81	-2.4%	-23.7%	-28.8%	53.2%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	99.5940	-0.4%	1.3%	-4.5%	-5.2%
CAD/USD	0.7207	0.3%	-1.1%	3.1%	-2.2%
USD/CAD	1.3876	-0.3%	1.1%	-3.0%	2.3%
EUR/USD	1.1588	0.3%	-1.3%	7.4%	7.9%
GBP/USD	1.3303	0.6%	-1.3%	2.9%	6.0%
AUD/USD	0.6927	0.4%	3.8%	10.3%	6.7%
USD/JPY	158.8100	0.1%	1.3%	6.1%	4.7%
EUR/JPY	183.9600	0.3%	0.0%	13.9%	12.9%
EUR/GBP	0.8711	-0.3%	-0.1%	4.3%	1.8%
EUR/CHF	0.9205	-0.3%	-1.1%	-3.5%	-5.2%
USD/SGD	1.2833	-0.3%	-0.2%	-4.5%	-5.1%
USD/CNY	6.8755	-0.3%	-1.6%	-5.4%	-4.9%
USD/MXN	17.8293	-0.6%	-1.0%	-12.4%	7.3%
USD/BRL	5.1539	-0.5%	-5.9%	-9.3%	2.0%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.72 means 1 Canadian dollar will buy 0.72 U.S. dollar. CAD/USD -1.1% return means the Canadian dollar has fallen 1.1% vs. the U.S. dollar year to date. USD/JPY 158.81 means 1 U.S. dollar will buy 158.81 yen. USD/JPY 1.3% return means the U.S. dollar has risen 1.3% vs. the yen year to date.

Source - Bloomberg; data as of 4/1/26

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			Count	Percent
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