

The importance of staying invested as markets decline

|||| MAY 2026

The market environment has shifted repeatedly over the past year, driven by a combination of policy uncertainty, geopolitical developments, and changing financial conditions.

Beginning in April 2025, amid heightened trade tensions, markets experienced notable volatility before settling into relatively calmer conditions after the U.S. Supreme Court overturned key elements of the administration's tariff framework. While this uncertainty left investors uneasy during the initial weeks of Trump's second administration, sentiment gradually improved as markets stabilized through the first two months of 2026.

That calm was tested on February 28, when renewed conflict in the Middle East reintroduced geopolitical risk and reignited market volatility. As is often the case during periods of heightened uncertainty, these developments prompted concerns about inflation, economic growth, and the durability of the expansion.

History suggests that while such episodes can be unsettling, they are rarely rewarded by abandoning long term investment plans. Periods of volatility have consistently tested investor discipline—but they have also reinforced the value of staying invested.

Navigating the current economic landscape

Assessing the economic impact of renewed conflict in the Middle East remains challenging, particularly given its implications for global supply chains and energy markets. As long as the Strait of Hormuz remains closed, oil prices are likely to remain elevated. Beyond energy, other commodities critical to global growth move through the strait, including roughly 60% of global limestone flux used in construction, cement, and infrastructure, 50% of sulfur, 23% of nitrogenous fertilizer, and 30% of global helium supply.

The latter is especially noteworthy, as helium is a key component of semiconductor manufacturing, an industry that represents a meaningful concentration within major equity indices.

Despite these pressures, the U.S. economy remains on a solid macro foundation. However, the path ahead now likely hinges on the duration of the Middle East conflict and how long energy and other important input prices remain elevated. Tighter financial conditions may pose additional challenges, as higher gasoline prices offset most, if not all, of the household benefits of the One Big Beautiful Bill Act tax refund.

History shows that sustained shocks can seep into economic fundamentals, potentially influencing the Fed's policy trajectory and heightening downside risks. In response to the outbreak of hostilities, equity markets tumbled, with the S&P 500 falling nearly 8% to an 8-month low, while the 10-year Treasury yield surged to a 9-month high of 4.44% amid worries of energy-fueled inflationary pressures.

During periods like this, it is not uncommon for investors to feel compelled to retreat from markets. However, while downturns can be challenging, historical—and even recent—data suggest they are often shorter-lived than bull markets, and that investors who choose to exit the market during times of stress can severely impair their long-term portfolio goals.

Stock market bull and bear cycles

Bear markets, characterized by a 20% decline from prior peaks, have historically been far shorter in duration than bull markets, which often last longer and yield higher returns. Since 1956, the average bear market has lasted approximately 13 months and resulted in an average decline of about 35%. In contrast, bull markets typically persist for around 64 months, delivering impressive average cumulative returns of 184%.

This contrast underscores the resilience and potential of bullish trends in the economic and financial landscape. While past performance is no guarantee of future results, and the exact length of any current pullback is difficult to predict, there are reasons to believe that staying invested in a diversified portfolio is still the best approach for most investors.

In fact, equity markets have already demonstrated this resilience in the current cycle. After reaching an eight-month low in late March, the S&P 500 recovered rapidly, returning to new all-time highs just a month later.

Stock market bull and bear cycles

S&P 500 price index, recessions are shaded, 1956–present



Note: Bear markets are defined as 20% declines from prior peaks. Bull markets begin at each market bottom.

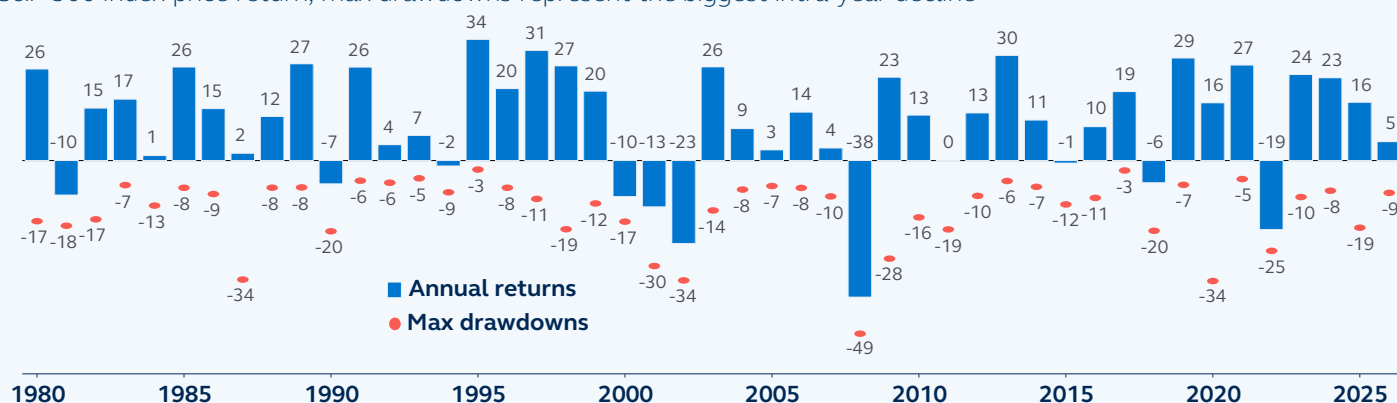
Source: Cleonomics, Standard & Poor's, Principal Asset Management. Data as of April 30, 2026.

Volatility is a feature, not a flaw

Market pullbacks are a regular occurrence. On average since 1980, the U.S. stock market experiences an intra-year decline of approximately 14.1%, yet most calendar years still end with positive returns, averaging 10.5%. This volatility is a natural aspect of investing and reflects the market's ongoing process of pricing risk and uncertainty. Investors who maintain discipline during drawdowns are often rewarded over time, as recoveries tend to follow periods of stress.

Annual returns and pullbacks

S&P 500 Index price return, max drawdowns represent the biggest intra-year decline



Note: This chart shows the annual return and largest intra-year decline for the S&P 500 index. The largest intra-year decline is measured as the steepest peak-to-trough decline for the index during the calendar year.

Source: Cleonomics, Standard & Poor's, Principal Asset Management. Data as of April 30, 2026.

Positioning portfolios for challenging market environments

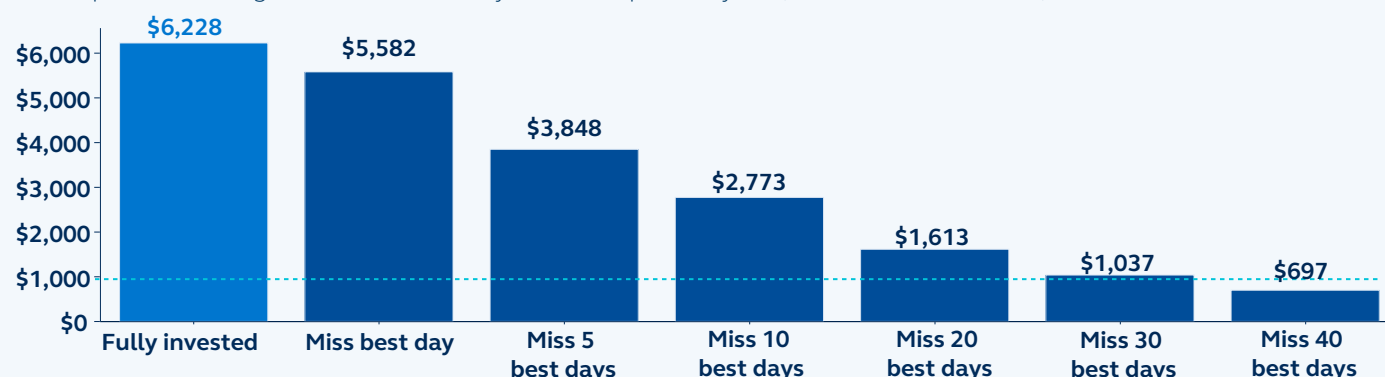
There are no foolproof strategies for managing market crises. Since volatility occurs more frequently than investors would prefer, developing a framework to navigate it is essential. Historical cycles highlight several key investment principles:

Stick to a well-crafted financial plan

A personalized financial plan that reflects an investor's unique situation, goals, and risk tolerance can help distinguish between necessary adjustments and the potentially costly decision to exit the market during pullbacks. For long-term investors, lower prices can enhance the attractiveness of investment valuations and future return potential. Staying invested through market fluctuations—both highs and lows—has historically proven more effective than attempting to time market movements.

Staying invested: Missing the best days

The impact of missing the best market days over the past 25 years, based on an initial \$1,000 investment



Note: This chart shows the value of an initial \$1000 investment using S&P 500 price returns before transaction costs across varying scenarios. Each scenario assumes \$1000 was invested 25 years ago and remained fully invested or was moved to cash during the best market days. Date range: 25 years ago to present. Source: Cleonomics, Standard & Poor's, Principal Asset Management. Data as of April 30, 2026.

Maintain a properly diversified portfolio

Asset class performance varies significantly across market environments. For instance, during the 2008 Global Financial Crisis, fixed income returned 5.2%, while large-cap stocks plummeted 37%. In 2020, despite a brief selloff during COVID, large-caps rebounded to end the year up 18.4%. A diversified portfolio can help mitigate volatility, particularly in challenging markets.

Asset class performance

Total returns and annual averages over the period shown

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Average
7.8% Fixed Inc.	18.6% EM	38.8% Small Cap	13.7% S&P 500	1.4% S&P 500	21.3% Small Cap	37.8% EM	0.0% Fixed Inc.	31.5% S&P 500	20.0% Small Cap	28.7% S&P 500	16.1% Commod.	26.3% S&P 500	25.0% S&P 500	34.4% EM	29.6% Commod.	14.4% S&P 500
2.1% S&P 500	17.9% EAFE	32.4% S&P 500	6.4% Balanced	0.5% Fixed Inc.	12.0% S&P 500	25.6% EAFE	-4.4% S&P 500	25.5% Small Cap	18.7% EM	27.1% Commod.	-13.0% Fixed Inc.	18.9% EAFE	12.1% Balanced	31.9% EAFE	14.6% EM	10.7% Small Cap
0.6% Balanced	16.3% Small Cap	23.3% EAFE	-6.0% Fixed Inc.	-0.4% EAFE	11.8% Commod.	21.8% S&P 500	-4.9% S&P 500	22.7% EAFE	18.4% S&P 500	14.8% Small Cap	-14.0% EAFE	16.9% Small Cap	11.5% Small Cap	17.9% S&P 500	13.2% Small Cap	8.3% Balanced
-4.2% Small Cap	16.0% S&P 500	15.9% Balanced	4.9% Small Cap	-1.5% Balanced	11.6% EM	15.2% Balanced	-11.0% Small Cap	20.5% Balanced	12.6% Balanced	14.1% Balanced	-14.4% Balanced	15.7% Balanced	8.1% EM	17.0% Balanced	6.4% EAFE	8.0% EAFE
-11.7% EAFE	11.4% Balanced	-2.0% Fixed Inc.	-1.8% EM	-4.4% Small Cap	8.1% Balanced	14.6% Small Cap	-11.2% Commod.	18.9% EM	8.3% EAFE	11.8% EAFE	-18.1% S&P 500	10.3% EM	5.4% Commod.	15.8% Commod.	5.8% Balanced	6.2% EM
-13.3% Commod.	4.2% Fixed Inc.	-2.3% EM	-4.5% EAFE	-14.6% EM	2.6% Fixed Inc.	3.5% Fixed Inc.	-13.4% EAFE	8.7% Fixed Inc.	7.5% Fixed Inc.	-1.5% Fixed Inc.	-19.7% EM	5.5% Fixed Inc.	4.3% EAFE	12.8% Small Cap	5.7% S&P 500	2.4% Fixed Inc.
-18.2% EM	-1.1% Commod.	-9.5% Commod.	-17.0% Commod.	-24.7% Commod.	1.5% EAFE	1.7% Commod.	-14.2% EM	7.7% Commod.	-3.1% Commod.	-2.2% EM	-20.4% Small Cap	-7.9% Commod.	1.3% Fixed Inc.	7.3% Fixed Inc.	0.1% Fixed Inc.	1.7% Commod.

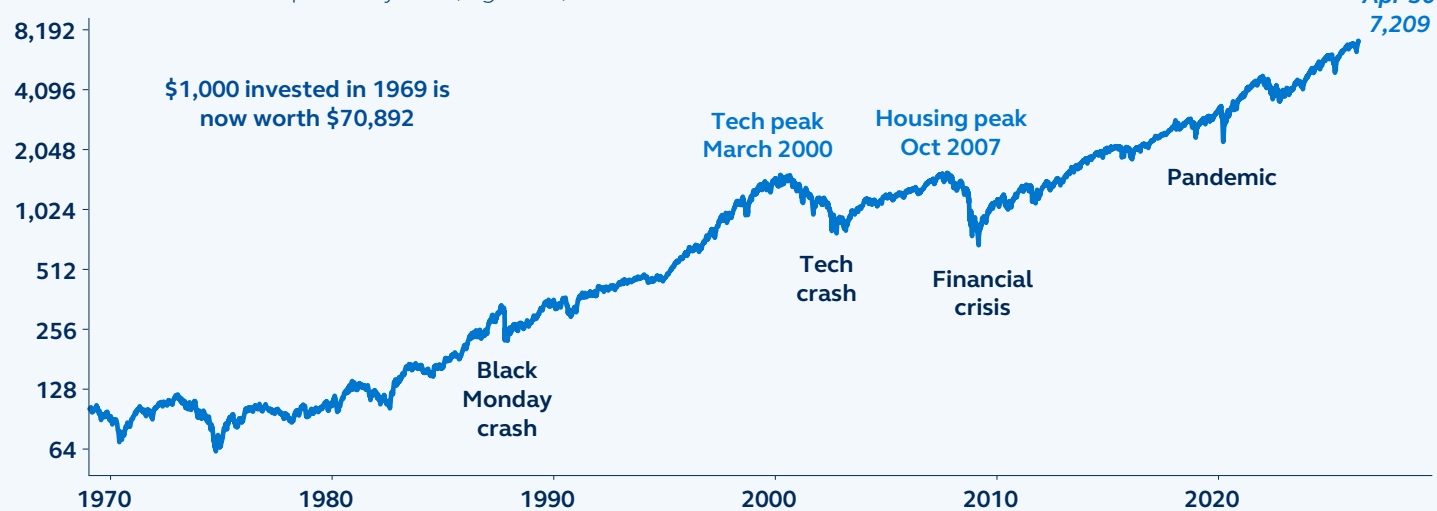
Source: Cleonomics, Bloomberg, Principal Asset Management. Data as of April 30, 2026. All sectors are represented by the Bloomberg Barclays bond indices, except for Preferreds, EMD USD, and Local, which are the S&P Preferred Stock Index, JP Morgan EMBIG Diversified Index, and JPMorgan GBI-EM Core Index, respectively. The Balanced Portfolio is a hypothetical 60/40 portfolio consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities.

Focus on the big picture

Maintaining a long-term perspective can help investors stay on course. The stock market has historically risen alongside economic growth, enabling many investors to achieve long-term financial goals. By zooming out and considering broader trends, investors are often better able to stay committed to their long-term investment strategies.

Stock market cycles

S&P 500 Index over the past 50 years (log scale)



Source: Cleareconomics, Standard & Poor's, Principal Asset Management. Data as of April 30, 2026.

Staying the course

Navigating today's market environment is undeniably daunting, particularly amid geopolitical uncertainty and elevated energy costs. Yet the lessons from prior cycles remain instructive: adhere to a financial plan, maintain diversification, and preserve a long-term horizon.

This disciplined approach not only helps manage risk during market downturns but also positions investors to benefit from eventual market recoveries—an opportunity that those who exited the market during recent volatility may have missed.

Risk considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. Equity investments involve greater risk, including higher volatility, than fixed-income investments. Fixed-income investments are subject to interest rate risk; as interest rates rise their value will decline. International investing involves greater risks such as currency fluctuations, political/social instability, and differing accounting standards.

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