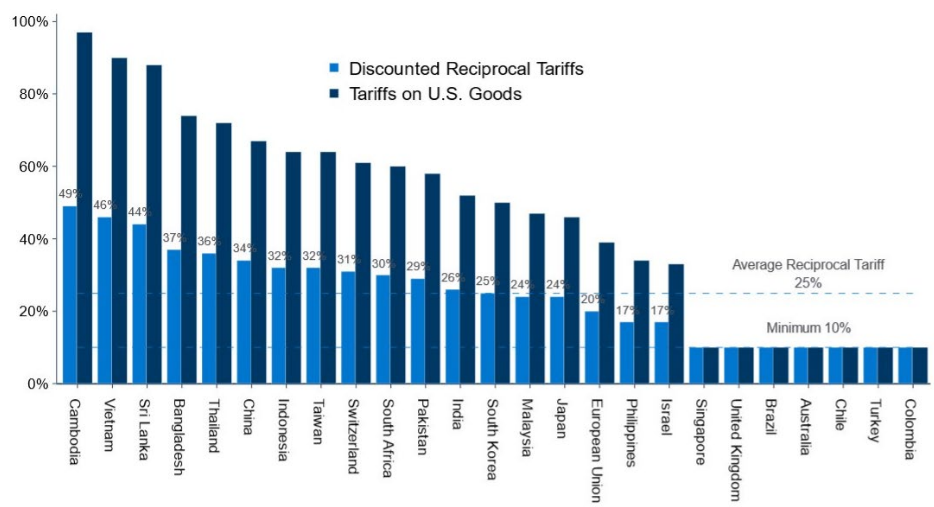
THE IMPORTANCE OF STAYING INVESTED

Coping with market downturns

The market environment has shifted dramatically since the beginning of 2025. The combination of erratic policymaking, particularly concerning tariffs, has left investors uneasy during the initial weeks of the Trump Administration. The latest wave of trade policy uncertainty culminated on April 2, when President Trump announced a minimum 10% tariff on all exports to the U.S., with some countries facing additional tariffs exceeding 40%. Several of the countries have responded – or are expected to respond – with tariffs of their own on U.S. goods, compounding the economic impact.

April 2 discounted reciprocal tariffs

Announced reciprocal tariffs and tariffs on U.S. goods by other countries



Note: Tariffs on U.S. Goods numbers are what the White House is communicating.
Source: Clearnomics, White House, Principal Asset Management. Data as of April 2, 2025.

Navigating the current economic landscape

Predicting the severity of the current economic downturn is challenging. However, there are reasons to believe that growth will remain resilient, albeit weaker, and that any recession may be shallow. Key factors to monitor include:

- Potential reductions in tariff rates as negotiations progress
- The Federal Reserve's possible resumption of policy rate cuts to mitigate or shorten a recession
- The introduction of growth-friendly measures, such as tax cuts and deregulation

Nevertheless, in the wake of the announcement, equity markets tumbled, with the S&P 500 reaching an 11-month low. The 10-year Treasury yield fell below 4.0% for the first time in six months, as the looming possibility of recession became a pressing concern for investors.

With these growing economic concerns and increased market volatility, some investors may feel compelled to sell their assets, withdrawing from this seemingly bleak environment. However, while downturns can be challenging, historical data suggests they are often shorter-lived than bull markets, and that investors who choose to exit the market during these periods often severely impact their portfolio goals.

Stock market bull and bear cycles

Bear markets, characterized by a 20% decline from prior peaks, are significantly shorter in duration compared to their bullish counterparts, which often extend over longer periods and yield higher returns. Since 1956, the average bear market has lasted approximately 14 months, resulting in an average decline of about 36%. In contrast, bull markets typically persist for around 69 months, delivering impressive average returns of 192%. This contrast underscores the resilience and potential of bullish trends in the economic and financial landscape. While the past is no guarantee of what's to come, and the exact length of the 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.

Stock market bull and bear cycles

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

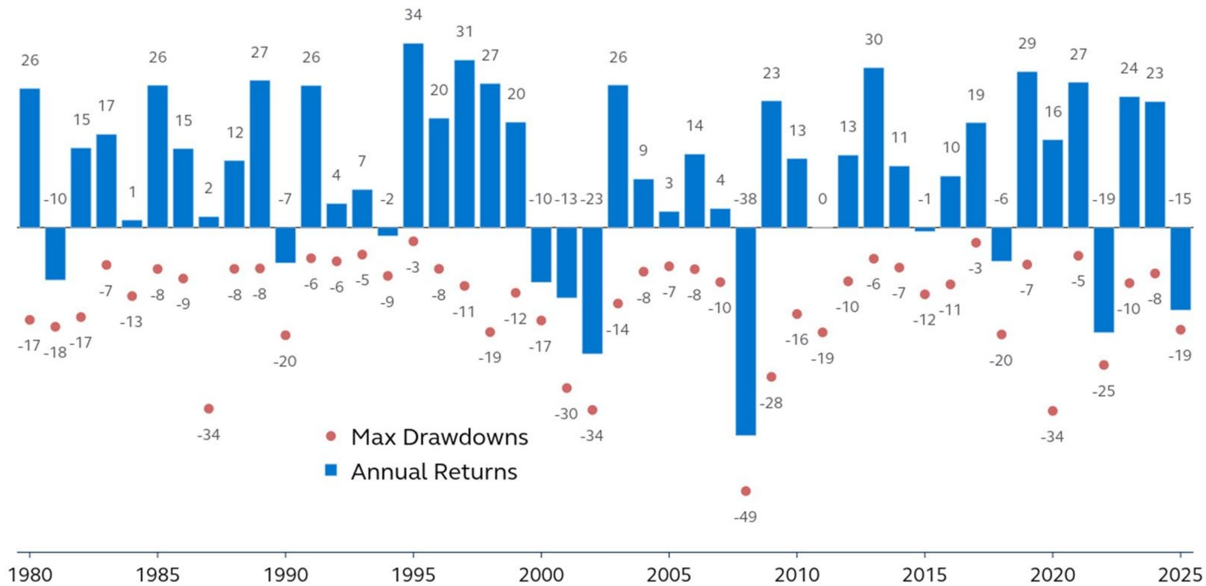
Note: Bear markets are 20% declines in price from prior peaks. Bull markets begin at each market bottom.

Source: Clearnomics, Standard & Poor's, Principal Asset Management. Data as of April 2, 2025.

Moreover, the market experiences several substantial pullbacks each year. On average, the U.S. stock market sees a decline of -13.5%, yet most years still conclude with positive returns, averaging 9%. As of April 3, the S&P 500 has declined 12.2% from its February all-time high. This volatility is a natural aspect of investing, and investors are often rewarded for maintaining discipline through short-term fluctuations.

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: Clearnomics, Standard & Poor's, Principal Asset Management. Data as of April 8, 2025.

Positioning portfolios for challenging market environments

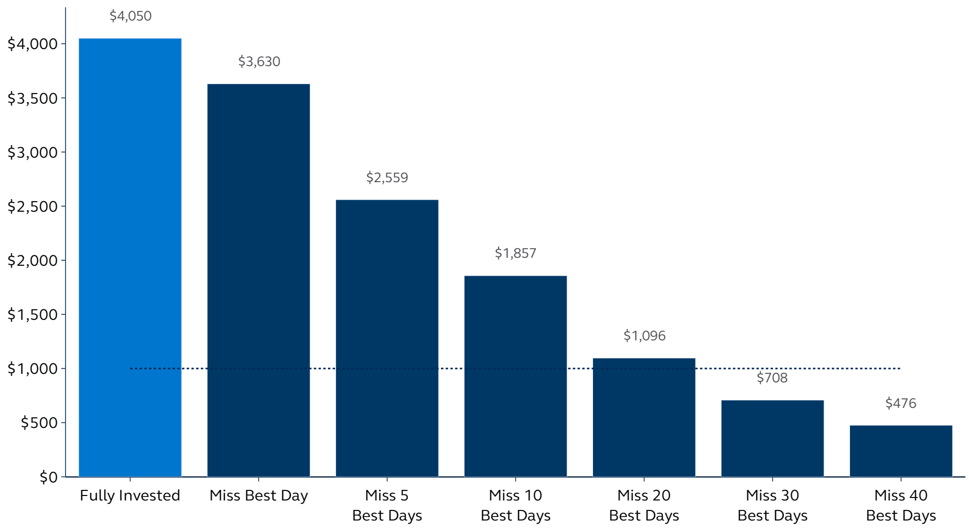
There are no foolproof strategies for managing market crises. Since downturns occur more frequently than investors would prefer, learning to navigate these challenging periods is crucial. Historical cycles highlight several key investment principles:

Stick to a well-crafted financial plan

A personalized financial plan that reflects an investor's unique situation and goals 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. Consistently maintaining one's investment through the inevitable fluctuations—both the highs and the lows—can lead to more favorable final outcomes. This underscores the value of steadfastness in investment strategy, emphasizing that timing the market often proves less effective than enduring its cycles.

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 investment of $1000 using S&P 500 price returns before transaction costs under 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: Clearnomics, Standard & Poor's, Principal Asset Management. Data as of April 3, 2025.

Maintain a properly diversified portfolio

Asset performance varies significantly during changing market conditions. For instance, during the 2008 Global Financial Crisis, fixed income returned 5.2%, while large-cap stocks plummeted 37%. In 2020, despite initial drops during COVID-19, large caps rebounded to end the year up 18.4%. Maintaining diversification can mitigate volatility, particularly in challenging markets.

Asset class performance

Total returns and annual averages over the period shown

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Average
Small Cap 26.9%	Fixed Inc. 7.8%	EM 18.6%	Small Cap 38.8%	S&P 500 13.7%	S&P 500 1.4%	Small Cap 21.3%	EM 37.8%	Fixed Inc. 0.0%	S&P 500 31.5%	Small Cap 20.0%	S&P 500 28.7%	Commod. 16.1%	S&P 500 26.3%	S&P 500 25.0%	EAFE 7.6%	S&P 500 13.4%
EM 19.2%	S&P 500 2.1%	EAFE 17.9%	S&P 500 32.4%	Balanced 6.4%	Fixed Inc. 0.5%	S&P 500 12.0%	EAFE 25.6%	S&P 500 -4.4%	Small Cap 25.5%	EM 18.7%	Commod. 27.1%	Fixed Inc. -13.0%	EAFE 18.9%	Balanced 12.1%	Commod. 6.8%	Small Cap 9.8%
Commod. 16.8%	Balanced 0.6%	Small Cap 16.3%	EAFE 23.3%	Fixed Inc. 6.0%	EAFE -0.4%	Commod. 11.8%	S&P 500 21.8%	Balanced -4.9%	EAFE 22.7%	S&P 500 18.4%	Small Cap 14.8%	EAFE -14.0%	Small Cap 16.9%	Small Cap 11.5%	Fixed Inc. 3.6%	Balanced 7.7%
S&P 500 15.1%	Small Cap -4.2%	S&P 500 16.0%	Balanced 15.9%	Small Cap 4.9%	Balanced -1.5%	EM 11.6%	Balanced 15.2%	Small Cap -11.0%	Balanced 20.5%	Balanced 12.6%	Balanced 14.1%	Balanced -14.4%	Balanced 15.3%	EM 8.1%	EM 3.2%	EAFE 6.6%
Balanced 12.3%	EAFE -11.7%	Balanced 11.4%	Fixed Inc. -2.0%	EM -1.8%	Small Cap -4.4%	Balanced 8.1%	Small Cap 14.6%	Commod. -11.2%	EM 18.9%	EAFE 8.3%	EAFE 11.8%	S&P 500 -18.1%	EM 10.3%	Commod. 5.4%	Balanced -1.4%	EM 4.6%
EAFE 8.2%	Commod. -13.3%	Fixed Inc. 4.2%	EM -2.3%	EAFE -4.5%	EM -14.6%	Fixed Inc. 2.6%	Fixed Inc. 3.5%	EAFE -13.4%	Fixed Inc. 8.7%	Fixed Inc. 7.5%	Fixed Inc. -1.5%	EM -19.7%	Fixed Inc. 5.5%	EAFE 4.3%	S&P 500 -7.9%	Fixed Inc. 2.6%
Fixed Inc. 6.5%	EM -18.2%	Commod. -1.1%	Commod. -9.5%	Commod. -17.0%	Commod. -24.7%	EAFE 1.5%	Commod. 1.7%	EM -14.2%	Commod. 7.7%	Commod. -3.1%	EM -2.2%	Small Cap -20.4%	Commod. -7.9%	Fixed Inc. 1.3%	Small Cap -14.0%	Commod. 0.3%

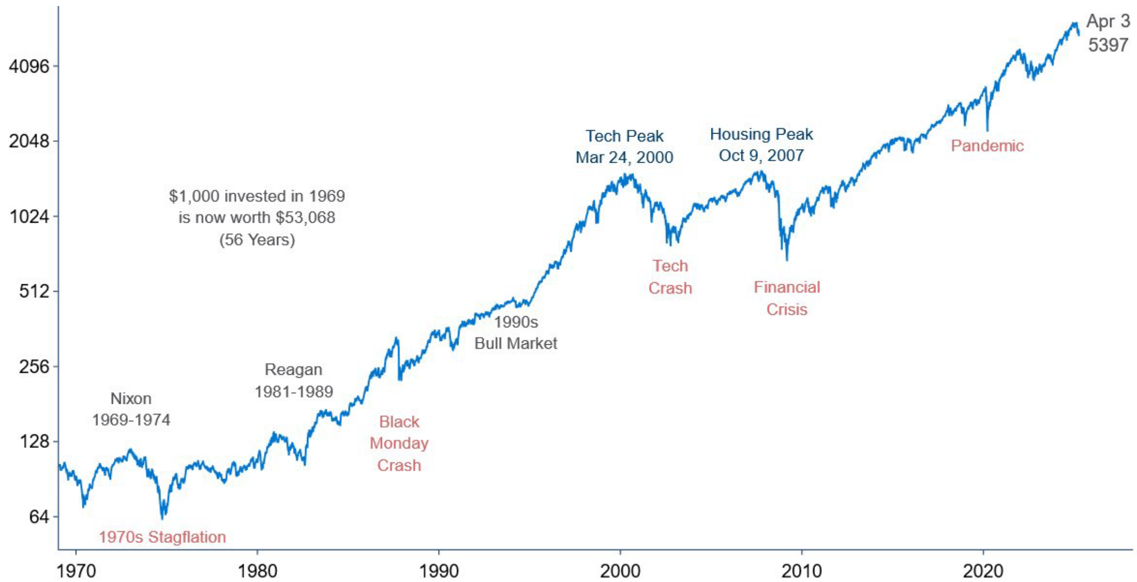
Source: Clearnomics, Bloomberg, Principal Asset Management. Data as of April 3, 2025. All sectors are represented by the Bloomberg Barclays bond indices except for Preferreds, EMD USD and Local which are the S&P Preferred Stock Index, JP Morgan EMBIG Diversified Index and JPMorgan GBI-EM Core Index, 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

Keeping a long-term perspective helps investors stay on course. The stock market has historically risen alongside economic growth, and many investors have retired comfortably due to market appreciation over time. By zooming out and considering longer timeframes, investors can discern larger trends.

Stock market cycles

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



Source: Clearnomics, Standard & Poor's, Principal Asset Management. Data as of April 3, 2025.

Staying the course

Navigating today's market can be particularly daunting. Investors should apply lessons from previous cycles: adhere to a financial plan, stay diversified, and maintain a long-term horizon. This approach not only minimizes risks during downturns but also positions investors to benefit from eventual market recoveries.

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