The final three months of 2014 were marked by global volatility, as plunging oil prices and Europe's continuing economic struggles combined to offset growth in the United States.

Oil Takes a Dive

The main driver of volatility in the fourth quarter was a plunge in oil prices that few anticipated. U.S. crude oil started the quarter north of $90 per barrel, but strong supply and weak demand combined to drive it below $53—a 40% drop.

While oil crashed, commodities in general had their worst three months of the year in the fourth quarter. Commodities are an inherently volatile asset class, and significant quarter-to-quarter swings are not unusual.

The effects quickly spilled over into investment markets around the globe. Particularly hard hit were fixed-income sectors with heavy exposure to oil- and gas-related industries. Those sectors included U.S. high yield bonds and emerging-market debt.

Oil's collapse also hurt stocks in several areas around the globe. Latin American stocks absorbed much of the damage. In Colombia, where crude oil is the country's top export, stocks fell almost 23% and the government lowered its growth expectations for 2015. Brazilian stocks, meanwhile, fell nearly 15%, and Mexican stocks surrendered about 12% of their value.

Emerging markets fell in the fourth quarter, thanks not only to plunging oil prices but also due to a currency crisis in Russia. Oil exports are a critical part of Russia's economy, and the plunge in prices—combined with the effects of international economic sanctions—sparked a currency crisis. For the year, the Russian ruble lost 45% of its value compared with the U.S. dollar.

The bad news drove the MSCI Emerging Markets Index to its lowest level in a year and a half. It ended 2014 down nearly 2%, with eight of its 10 sectors falling.

Europe Struggles

With signs of economic weakness everywhere, the euro fell 4%, reaching a two-year low against the dollar. Europe's high unemployment, feeble GDP growth and concerns about the possibility of deflation stoked fears that the region could slip into a recession.

In response, the European Central Bank plans a vast stimulus program intended to spur economic activity.

Impact on U.S. Markets

Although the United States' economy remains relatively strong, crashing oil and other global concerns led to sharp bouts of market volatility in the fourth quarter. Investors were clearly concerned about Europe, a major export partner for U.S. companies; the market reacted to data showing that Italy had re-entered recession, and to indications that even stronger countries in the region could be next.

Meanwhile, and manufacturing data revealed slowing growth in China. And Japan's recovery stumbled, with a consumption-tax hike continuing to be felt as the world's third largest economy struggled to emerge from another recession.

Other factors played into U.S. volatility as well: News that U.S. healthcare professionals had contracted the Ebola virus contributed to a brief sell-off early in the quarter. However, by the end of the year, and anticipation of economic stimulus measures in Europe, Japan, and China had helped to buoy the U.S. market.

Overall, the U.S. recovery appeared to hold up in the fourth quarter. Lower fuel prices hurt the country's energy stocks, which fell by 7.8% for the year. But they also appeared to be translate into more consumer spending. The was good news on the employment front as well, with employers adding 252,000 jobs in December to drive the unemployment rate down to 5.6%.

Meanwhile, the Federal Reserve concluded its quantitative-easing program in October. The program is widely credited with boosting stocks. But the Fed also pleased the market by hinting that it will not start raising interest rates for the next few months. The S&P 500 Index rose 4.93% in the fourth quarter.

Bond Markets Mixed

Geopolitical tensions, economic struggles and other factors resulted in a mixed picture for bonds. The Barclays U.S. Aggregate Bond Index returned nearly 6% for the year, for example, but the Barclays Global Aggregate Government Bond Index, which does not include the U.S. dollar, fell 3% for the year.

Looking Ahead

The final quarter of 2014 presented a challenge for U.S. investors, particularly those with conservative, globally diversified portfolios. However, long-term investing success is not defined by one quarter. Today's global markets and economies are interconnected in a way that has helped to fuel increasing short-term volatility. These short-term swings, however, must be seen as distinct from long-term results.

Likewise, commodity losses weighed on many long-term portfolios in the fourth quarter. However, commodities are an inherently volatile asset class and should be used as one component of a carefully designed, long-term strategy.

Looking ahead, we continue to believe strongly in well-diversified, global portfolios that can harness the rewards of long-term economic and market growth. We continue to be encouraged by macro trends playing out around the world. One example: the rising consumption and growing middle class in Asia and emerging markets. We believe this secular trend, along with growth in real wages, holds significant growth potential.

We remain cautiously optimistic about Europe's long-term prospects as well. The European Central Bank's aggressive stimulus efforts may well prove the key to bolstering the region's economies and markets.

And of course, the strengthening U.S. recovery is a major positive. Many economists expect the decline in oil prices to help boost consumers' discretionary spending, which will provide a further tailwind to the recovery. And the Federal Reserve has indicated that it will remain patient in terms of raising interest rates; part of the reason may be the fact that inflation remains in check.

While no investment expert has a crystal ball, we can say with near-certainty that investors will see more short-term volatility in the months and years. Such swings are a fixture of the investment markets. And often, they yield opportunity. Case in point: The economic difficulties around the globe have helped to make current valuations on stocks and other investments compelling for certain long-term investors. As has been the case throughout history, investors who exercise patience and discipline will be best positioned to enjoy the market's long-term rewards.