



Wartime Market Impact in Perspective

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The recent events in the Ukraine are tremendously upsetting, unsettling, and causing some understandable concern about how the markets are behaving and will behave during these uncertain times. The concerns are real, but more as a citizen than as a long-term investor. The human tragedy is real, and the geopolitical implications will evolve over decades. In terms of market history, we are not in unfamiliar circumstances. Although every engagement is different, in general, we’ve been here before. As you can see in these examples provided below of historic events and market response over time, there has generally been short-lived downside followed by recovery. And while we can’t predict the future, much of what we know to be true of market trends is based on studying the past. I’ll also provide a few examples of what we’re doing proactively for clients to keep their objectives, goals, and cash flow needs in focus while navigating current volatility.

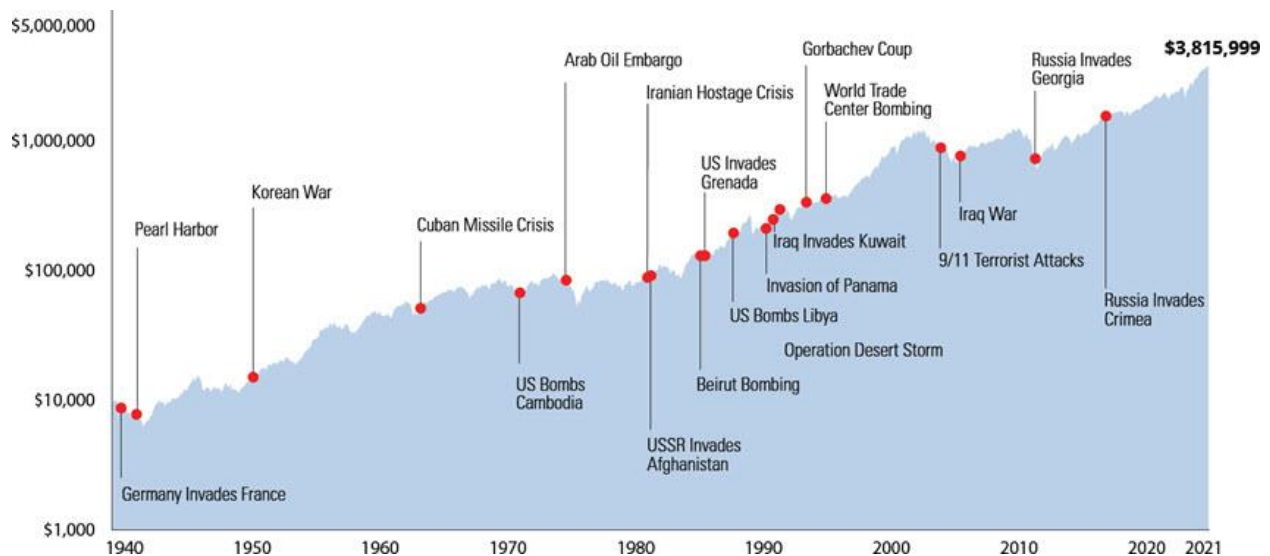
Resource data provided by Hartford Funds

Geopolitical/Military Events	S&P 500 Index Price Return (%)				
	3 Months Later	Annualized			
		1 Year Later	3 Years Later	5 Years Later	10 Years Later
Germany Invades France (May 1940)	-15.3	-22.0	-0.9	4.1	4.2
Pearl Harbor Attack (December 1941)	-12.4	0.4	11.7	9.5	9.6
Korean War (June 1950)	1.5	11.2	8.1	16.4	11.7
Cuban Missile Crisis (October 1962)	17.4	32.0	18.3	11.4	7.0
US Bombs Cambodia (April 1970)	-4.6	27.1	9.4	0.9	2.6
Arab Oil Embargo (October 1973)	-13.2	-36.2	-2.9	-1.4	4.4
Iranian Hostage Crisis (November 1979)	11.6	25.9	11.4	10.3	12.7

USSR Invades Afghanistan (December 1979)	-8.8	26.2	9.1	9.0	12.4
Beirut Bombing (October 1983)	-0.7	0.7	13.0	11.3	10.8
US Invades Grenada (November 1983)	-1.1	0.7	12.8	11.2	10.8
US Bombs Libya (April 1986)	-0.5	19.9	8.3	9.9	10.5
Invasion of Panama (December 1989)	-2.9	-6.9	7.5	5.6	15.0
Iraq Invades Kuwait (August 1990)	-10.5	10.2	8.6	9.7	15.1
Operation Desert Storm (January 1991)	21.5	32.3	14.5	14.0	15.4
Gorbachev Coup (August 1991)	-1.8	9.3	6.3	11.5	11.9
World Trade Center Bombing (February 1993)	1.5	5.4	13.7	18.7	6.5
9/11 Terrorist Attacks (September 2001)	2.5	-16.7	0.9	3.5	0.6
Iraq War (March 2003)	15.6	27.0	14.3	8.2	5.9
Russia Invades Georgia (August 2008)	-34.3	-22.3	-4.7	5.5	8.1
Russia Invades Crimea (March 2014)	3.9	10.7	8.0	7.9	---
Median	-0.9	9.7	8.8	9.6	10.5
% Positive	40%	75%	85%	95%	100%

Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. Data shown is for the S&P 500 Price Index, a market capitalization-weighted price index composed of 500 widely held common stocks, and does not include the reinvestment of dividend payments. Data Sources: Morningstar, Ned Davis Research, and Hartford Funds, 2/22

Geopolitical Conflicts Have Had Minimal Impact on Long-Term Equity Performance Growth of \$10,000 in the S&P 500 Price Index (1940–2021)



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Now that we're almost a month into the Russian invasion of Ukraine, some of the dust is starting to clear around the financial markets. Since the invasion on February 24, markets first rallied, then dropped, and (as of this writing on the afternoon of March 17) now are slightly higher as they were before the invasion. In other words, for all the headlines and the tragic damage in Ukraine itself, markets have so far largely shrugged off the impact. Not at all what you would expect.

Part of the reason for the lack of impact has been the continuing strong economic data we have seen this year. Hiring is extremely strong and, despite everything, consumer confidence is still healthy. Businesses also remain confident and investing, and there are no signs so far that the recovery is at risk. This has no doubt kept markets from pulling back more than they have.

While the past data was strong, that doesn't mean the invasion will have no effects going forward. But we can draw some clues about what those effects might be from how the economy and markets have reacted so far.

First, the Fed

Looking back to the start of the year, markets are down—but that decline came in January and February, before the invasion. The decline was primarily caused by the fear of rising interest rates, as the Federal Reserve (the Fed) had signaled strongly that it planned to start raising

rates at its next meeting and in fact started to at their most recent meeting. That fear, and the higher rates that were already showing up in the market, hit stock valuations hard. The Fed is charged with the challenging task of raising rates just enough to curb inflation (more on that later), while keeping a balance of healthy employment and other economic fundamentals.

The Cost of Living

For example, we are already seeing a significant impact on gas prices. Multi-year highs in oil prices have pushed U.S. gasoline prices to similar levels. That has and will continue to hit consumer confidence and spending power directly. Over the next several months, we will see similar hikes in food prices, driven by the removal of Russia and Ukraine—major grain producers—from the global economy. People have to eat and they have to drive, and that will be a headwind for the economy.

It could also drive inflation higher, as food and energy are both significant components of what people spend their money on. While there were signs that inflation was peaking, the war will keep it higher, potentially much higher, and for longer. That will keep the Fed on a tightening path and may result in higher rates, faster, than what the market had expected. Just as we saw at the start of the year, this could well result in more turbulence.

So what, if anything, should we do with our investments?

No Panic Needed

Normal market volatility. First, let's not panic. So far, the volatility we have seen in markets, including the drop in January and February, is perfectly normal behavior. Similar drops have happened roughly every year or so over recent decades. Second, the increase in rates that has driven these drops is simply taking rates back to normal levels, after the extreme lows of the pandemic. In other words, what we have seen so far looks more like a return to normal than anything to worry about. Here, too, the Fed's proposed tightening of policy is intended to move back to normal. So far, nothing really to worry about.

What We are Doing Now and Always for Clients

Since we are constantly evaluating tax and investment strategies for clients, we've done everything possible to stay ahead of this, and were as prepared as we could be. Here are a few steps our team takes to keep it all in perspective.

Monitoring - We evaluate the economic data points daily and are building trendlines. Information is changing fast and furious and we want to remain nimble to respond.

Tax Positioning – With the markets (both stock and bonds) trading off sharply in the first couple of months, we are actively taking short term tax losses (via tax loss harvesting) in taxable portfolios to use for future offsets of capital gains. The key with this technique is to stay invested in a lateral move rather than selling and going to cash.

Reaffirming Cash Flow Goals - We continue to ensure that we are ahead of major cash flow needs for our clients. Standard income and cash flows are well prepared for with approximately 3-6 months of liquidity or more in most cases.

Stress Testing Portfolios - As a part of our ongoing process, we continue to stress test client portfolios with a variety of different economic and market scenarios to ensure that financial goals and outcomes remain within a desired zone of confidence.

The Real Takeaway

While there are no guarantees and many mixed emotions at times like this, we have done all the research and positioning to help clients ride out inflation and volatility. Talk with us today about how comfortable you are with the risks you have seen so far. Let's focus on how your portfolio is set to achieve your goals. That, rather than short-term volatility, is what really matters.

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