Russia Invades Ukraine: What Does It Mean Regarding the Market

With Russian president Vladimir Putin authorizing the invasion of Ukraine, the long-simmering stand-off between Putin and much of the international community is boiling over into what may become the largest armed conflict in Europe since World War II.

For your investments, this has already proved damaging as stocks continue a significant decline, with the S&P 500 closing in on correction territory (greater than 10% decline).

Given that the Ukraine crisis is Topic A, as well as B, C, D, and E (Topic F is the Federal Reserve, and G is inflation, which are also spooking investors), there is a famous quote attributed to financier Nathan Mayer Rothschild during the Napoleonic Wars: “Buy at the sound of cannons.”

According to a paper titled “War and the World Economy,” the initial stock-market reaction to invasions is negative yet recovers quickly (within the year).

What can we learn from past conflicts?

- While the reactions of other national indices are typically mixed, the US market tends to systematically react positively to the onset of conflicts rather than negatively.

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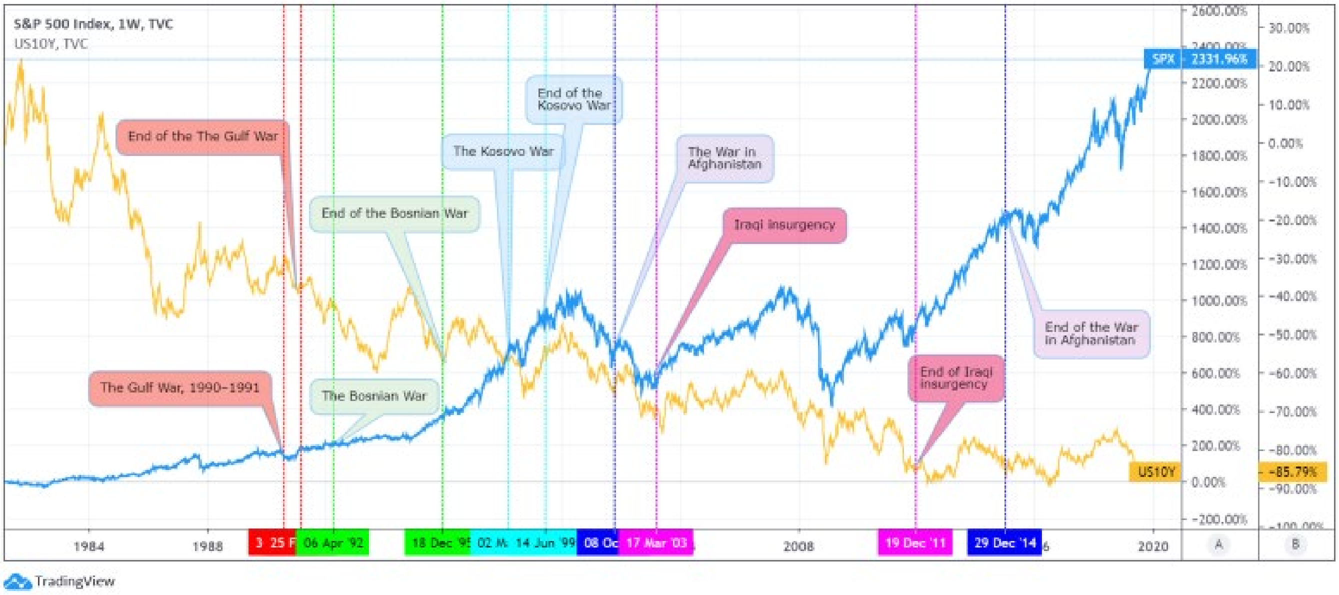
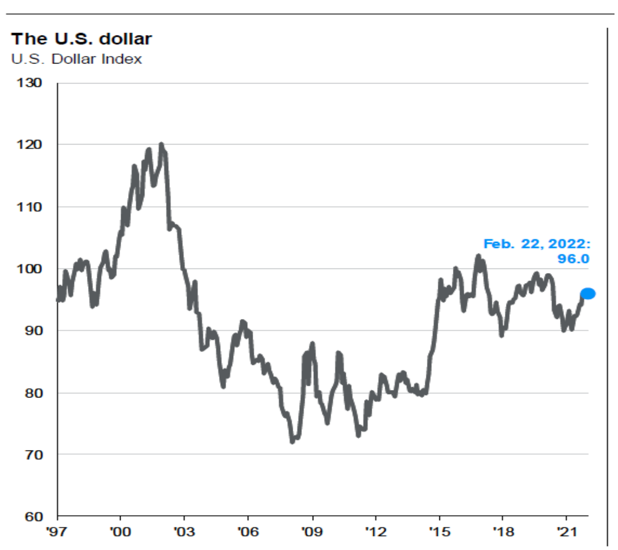


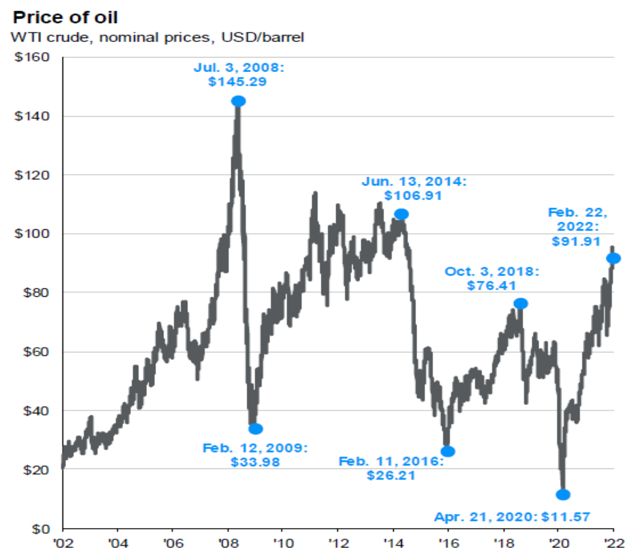
- International conflicts tend to have a stronger short-term impact on stock market indices than internal conflicts do. US internal struggles tend to be longer term. In addition, findings suggest that short wars tend to increase the quarterly returns from markets.

Event	Date	One Day return	Total Drawdown	Days to the Bottom	Days to Recovery
Pandemic	1/4/2020	-4.5%	-20%	79	150
9/11 Terrorism	9/11/2001	-4.9%	-11.6%	11	31
Iraq invades Kuwait	8/2/1990	-1.1%	-16.9%	71	189
N Korea invades S Korea	6/25/1950	-5.4%	-12.9%	23	82

- Wars generally trigger a depreciation of the US dollar against other currencies. The dollar's demand plays a safe-haven role of short-term assets denominated in the US currency.



With oil prices currently at $100 a barrel, we forget when it was at $145 a barrel in July 2008 before falling to $34 a barrel in December 2008.



As disastrous and disorienting as the impact of Europe's largest military conflict since World War II might be, the best course of action for most investors is to keep calm and carry on. Don't panic.

1. For one thing, selling into a falling market is the opposite of what successful investors do. The idea is to buy low, after all.
2. Equally important is the fact that no one knows what Russia's invasion of Ukraine ultimately means for everything from energy prices to monetary policy.
3. And then there's the case that, historically speaking, stocks tend to recover quickly after being derailed by international turmoil.
4. In the last 6 years we have had 4 years of corrections greater than 10% (2015 -12%; 2016 -11%; 2018 -20% and 2020 -34%)
5. Most importantly, history shows that 12 months after events such as our current crisis, the market edges higher.
6. Bottom line is if there isn't a recession, stocks, bonds and the economy tend to take most events stride.

We are paying attention to what is going on in the world, with the Federal Reserve and Inflation. If you have any questions, concerns or would like more information. Please reach out to us.

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